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II

(Acts whose publication is not obligatory)

COUNCIL

COUNCIL DECISION

of 21 November 1977

adopting the annual report on the economic situation in the Community and laying down the economic policy guidelines for 1978

(77/778/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Decision 74/120/EEC of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community ⁽¹⁾, as amended by Council Decision 75/787/EEC ⁽²⁾, and in particular Article 4 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament ⁽³⁾,

Having regard to the opinion of the Economic and Social Committee ⁽⁴⁾,

Whereas, in adopting Decision 77/492/EEC ⁽⁵⁾, the Council approved the analysis of the economic situation set out in the Commission communication of 7 July 1977 concerning in particular the preparation of the public budgets for 1978; whereas, in accordance with that Decision, the Member States shall pursue economic policies in conformity with the guidelines on the preparation of the public

budgets for 1978, which are specified in the Annex to the said Decision,

HAS ADOPTED THIS DECISION:

Article 1

The Council hereby adopts the annual report on the economic situation in the Community as contained in Sections I and II of the Annex and lays down the guidelines to be followed by each Member State in its economic policy for 1978, as contained in Sections III and IV of the Annex.

Article 2

This Decision is addressed to the Member States.

Done at Brussels, 21 November 1977.

For the Council

The President

G. GEENS

⁽¹⁾ OJ No L 63, 5. 3. 1974, p. 16.

⁽²⁾ OJ No L 330, 24. 12. 1975, p. 52.

⁽³⁾ OJ No C 299, 12. 12. 1977, p. 36.

⁽⁴⁾ Opinion delivered on 27 October 1977 (not yet published in the Official Journal).

⁽⁵⁾ OJ No L 204, 10. 8. 1977, p. 6.

ANNEX

ANNUAL REPORT

ON THE ECONOMIC SITUATION IN THE COMMUNITY AND ECONOMIC
POLICY GUIDELINES FOR 1978

FOREWORD

Under Article 4 of its Decision 74/120/EEC of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community, as amended by its Decision 75/787/EEC of 18 December 1975, the Council, acting on a proposal from the Commission and after consulting Parliament and the Economic and Social Committee, is required, during the fourth quarter, to adopt an annual report on the economic situation in the Community and to set the economic policy guidelines to be followed by each Member State in the following year. Once the report has been adopted by the Council, the respective governments must bring it to the attention of their national parliaments so that it may be taken into account in budget debates.

The guidelines contained in this report may have to be adjusted to take account of economic developments when the Council carries out its annual examination of the economic situation in the future.

I. THE ECONOMIC SITUATION IN THE COMMUNITY

1.1 In terms of the objectives fixed, developments so far in 1977 have been both positive and negative. Whilst growth has been slack and conditions on the labour market have deteriorated, significant gains have been made with regard to balances of payments and prices.

1.2. During the summer, industrial production in the Community barely exceeded the peak reached in 1974. The growth in the Community's real gross domestic product amounted in fact only to about 8% between the third quarter of 1975 — when the recovery began to get under way — and the same period of 1977. This rate is slightly lower than that normally recorded two years after the trough of a business cycle has been passed, although activity had never previously declined by so much as in 1974/75.

In the past recoveries have always engendered an improvement in the employment situation. This time, the number of persons in paid employment has in fact fallen a little, and the unemployment rate has gone on increasing in most Member States. This development has been assessed bearing in mind that large productivity reserves are available and the working population is increasing. For the Community as a whole, the rate was 5.6% in the third quarter of 1977, compared with 4.8% two years earlier.

1.3. This disappointing performance is attributable to the inadequacy of the self-propagating effect and growth diffusion which were features of earlier cyclical recovery phases. The accelerator effects on the demand for fixed investment, resulting initially from the need to rebuild depleted stocks and from the recovery in consumer demand, and subsequently from the consolidation of foreign demand, have proved insufficient.

The spontaneous factors which normally animate economic activity will remain weak in the second half of the year. However, a number of developments should combine to produce more favourable conditions; these include the effects of support measures adopted earlier and the relaxation of monetary policy since early 1977 which, though only moderate, has been fairly general.

In most Member States the stimuli emanating from private consumer demand and public expenditure will most likely be greater than in the first half of 1977.

The recovery in industrial investment should continue at an appreciable rate in the United Kingdom and Ireland. On the other hand, in certain Member States (Italy, Denmark) economic activity will be more influenced by restrictions introduced previously.

1.4. With regard to external payments throughout the year, the Community's deficit countries (United Kingdom, Italy, France, Ireland and Denmark) taken together should reduce by more than half their total current account deficit ⁽¹⁾. France's current account deficit should be a good deal lower in 1977 than in 1976 (\$ 5 800 million). The United Kingdom will probably move into surplus on current account. Italy's current account should come near to equilibrium, in contrast with its deficit in 1976 (\$ 2 800 million). The surplus countries (the Federal Republic of Germany and the Netherlands) will see only a slight drop in their aggregate surplus as compared with 1976. The 1977 current balance of the Community taken as a whole should close with a deficit of less than \$ 1 000 million.

1.5. With regard to price and income trends, the upward movement in wholesale prices, consumer prices and earnings has gradually slowed down in most of the countries ⁽²⁾. As compared with 1976, the consumer price level in the Community will have further increased by approximately 9.5%; however, the rate of inflation in the second half of the year will doubtless be lower than this. The United Kingdom, Italy and Ireland, in particular, have achieved considerable success in their efforts to stem the upward price movement.

1.6. In 1977, the rate of economic growth for the Community as a whole will probably be only about 2.5%, compared with about 4.7% in 1976 ⁽¹⁾.

This disappointing performance is largely a result of the need to combat inflation and restore external payments situations which have led the deficit States to continue following restrictive monetary and budgetary policies. At the same time, the overall effect of policies which the deficit countries conducted in order to restore their economies to a sound footing have not been offset by a more expansionary approach on the part of the 'strong currency' countries. In the Federal Republic of Germany, public-sector deficits have been scaled down at a rate which can be regarded as very fast, given current needs.

⁽¹⁾ See Table 1.

⁽²⁾ See Tables 5 and 7.

Consequently, to achieve the growth objective set for the period 1976 to 1980 — needed to bring unemployment in the next few years below the present rate of 5.5 % — the volume of the Community's gross domestic product would have to expand in the coming three years at an annual rate of about 5 to 6 %. However, the present outlook suggests a growth rate between only 3.5 % and 4 % for the full period of 1976 to 1980, unless there is a substantial change in economic policy and an improvement in relations between both sides of industry.

The share of gross fixed investment in the gross domestic product will probably fall short of 21 % in 1977, although the fourth programme calls for 23 % in 1980. To obtain this rate, the expansion in terms of volume of fixed investment should, in the coming three years, be running at not less than 7 %; in fact, it was only 3 % in 1976 and will probably be down to 1 % in 1977.

In the next few years additional apprenticeships and jobs for an annual increment of 600 000 to 800 000 persons will have to be created. In view of population trends the annual accrual of employable persons

will rise steadily to more than a million in the eighties.

1.7. The impact of structural difficulties on the economy, particularly on unemployment, has increased. Admittedly, structural problems had been building up in all the Member States well before the economic crisis. But mounting prices for raw materials, the sudden leap in oil prices, the effects of persistent inflation, the marked changes in exchange rate relationships over the last few years, the general recession in 1974 and 1975, and the increase, in many developing countries, in export-orientated production capacity, have all contributed to make the need for structural adaptation a matter of much greater urgency.

All the Member States, without exception, are now in a transitional phase during which demand, production, employment and income structures are undergoing extensive change. Economic and psychological obstacles are also hampering their efforts to reduce dependence on outside energy sources. Many structural problems have not been resolved, and as a result uncertainty and cyclical weaknesses have generally become more severe.

II. ECONOMIC OUTLOOK AND OBJECTIVES FOR 1978

2.1. This report outlines the economic prospects for 1978, taking into account economic policy initiatives already known⁽¹⁾. It also establishes a normative scenario which, if followed, could well restore economic trends to a normal course and bring actual developments closer to those which are desirable in order to meet the objectives set out in the fourth medium-term economic policy programme.

2.2. The development of world business activity foreseen for 1978 will probably be hesitant. The difficulties hampering the main industrialized third countries in their efforts to maintain (United States) or restore (Japan and Canada) sufficient vigour in domestic demand are being compounded by those which a fairly large number of small industrialized countries have to contend with in their efforts to improve external accounts without unduly impairing economic activity at home. The moderating influence which this situation is bound to have on trade

trends will be all the greater if, as is likely, the growth of purchases by the OPEC countries slows down. With regard to the developing countries taken as a whole, the volume of their sales is unlikely to rise sharply given the sluggish economic growth in the industrialized countries, and the foreseeable upward movement of export prices for raw materials will be a good deal less rapid than was the case until April 1977⁽²⁾. All in all, if the Community fails to restore imports in terms of volume to a sufficient level, it must be assumed that the slowdown in world trade which began in 1976 will continue in 1978. Leaving aside Community purchases, the volume of world imports will probably grow by only 6 to 6.5 % in 1978, against 7.5 % in 1977 and 9 % in 1976⁽³⁾.

2.3. Given the foreseeable international climate and the measures announced or already taken, and assuming that autonomous demand forces now emerging in the Community undergo no radical change:

⁽¹⁾ Such initiatives include the measures taken in France at the end of August and those which the German Federal authorities decided upon in March and in September.

⁽²⁾ See Chart A.

⁽³⁾ See Table 2.

- the rate of growth of the Community's gross domestic product in real terms could, in the most favourable circumstances, reach 3.5 % in 1978, or about one percentage point more than in 1977 (2.5 %),
- the number of the wholly unemployed (about 5.9 million in 1977) may be expected to go on increasing overall; given the volume of available capacity, the expansion of production will entail hardly any increase in the number of employed; the number of employable persons will increase in 1978 by 500 000 to 600 000 but not all of these will in fact join the labour force,
- the inflation rate at consumer level may be put at about 8 to 8.5 % (Community average). Declining raw materials prices, generally adequate harvests, and the slowdown in the upward movement of wholesale prices and industrial prices which got under way in the second half of 1977, are all factors contributing to what may well be a more substantial improvement, which nevertheless remains subject to further progress in curbing wage costs,
- the Community's balance of payments on current account will probably show a surplus, partly because of the moderate trend in domestic demand in the deficit countries and partly because of the growing contribution of North Sea oil. Given the moderate expansion of production, there is little reason to expect any substantial change in the overall situation of the surplus countries' total balance of payments as compared with 1977.

2.4. The GDP growth of about 3.5 % in real terms, which can now be forecast for 1978 on the assumption that the Member States do not change their economic policies, would not be enough to remedy the under-utilization of productive capacity. In these circumstances, the labour market would continue to deteriorate. In most Member States no stabilization, much less an improvement, in unemployment trends can be expected unless a moderate cost trend and a 4 to 4.5 % GDP growth in terms of volume are achieved, and full employment cannot be restored without a much higher medium-term growth rate.

The persistent weakness of demand and pronounced under-utilization of production capacity in most sectors could well compound the ageing of plant and equipment and weaken the Community's ability to compete on world markets. Inadequate investment would render the creation of new jobs more difficult in coming years; and unduly slow expansion of production capacity would further delay the structural adaptation processes which are indispensable.

2.5. Since the end of 1976 the development of economic activity has fallen well short of forecasts and objectives set, particularly in those countries in which overall disequilibria have been least severe. What is therefore needed now is a normative scenario for growth.

This normative economic scenario for 1978 should include, for the Member States and the Community, a combination of realistic objectives compatible as between themselves and between the various countries. The scenario should provide a policy basis for lasting and sufficient growth and for higher employment as provided for in the fourth medium-term economic policy programme.

It will entail a co-ordinated economic policy pursued by the Member States which, as the year progresses, reinforces not only the tendency for inflation rates to fall but also adds vigour to growth forces in the Community.

These objectives should be the following:

- a 4 to 4.5 % GDP growth in real terms for the Community taken as a whole,
- a halt to the spreading of unemployment and an improvement in the situation on the labour market,
- narrower disparities between the payments balance positions of the various Member States, and an overall Community payments position either in balance or even in deficit,
- a rate of inflation down to 7 to 8 % for the Community average (compared with about 9.5 % in 1977) and a narrower spread between the extremes, down to a range of under 4 % to 10 % (4 to 18 % in 1977).

III. ECONOMIC POLICY GUIDELINES FOR 1978

(a) General guidelines

3.1. Despite the prevailing uncertainty, these objectives are by no means out of reach in 1978

if all the Member States pool their efforts. Demand is now slack all over the world, and no country, however important its contribution to world trade, can hope to revive economic activity by itself. On

the other hand, if the Member States co-ordinate their approach and work together with the other industrialized countries, they can mutually strengthen the multiplier effects of the measures they take, instil new confidence in managements and consumers on a lasting basis and thus achieve the growth objectives set without jeopardizing fundamental equilibria.

Responsibility for supporting internal demand at an appropriate level lies first and foremost with the Member States whose balances of payments are relatively strong. However, as the adjustment processes gradually evolve, other Community countries will be able to use the resultant room for manoeuvre in order to make their contribution to the strengthening of business activity.

3.2. Council Decision 77/492/EEC of 25 July 1977 on the preparation of public budgets for 1978 ⁽¹⁾, provides for fuller use of budgetary policy as an instrument of growth.

The deterioration of economic prospects for next year in relation to those forecast at the end of the spring of 1977 means that this Decision must be implemented more vigorously.

This is clearly necessary in the Member States still running current account surpluses and whose price trends are still relatively favourable. In the other Community countries, it will be necessary to examine how far the restrictions applied to encourage the restoration of macro-economic equilibria can be relaxed without departing from the target pursued to date.

3.3. In view of the shortfall in overall demand, promotion of private and public investment is no longer a sufficient counter-measure; household consumption must also be stimulated, but care must be taken to avoid boosting wage costs. In this connection, adaptation of personal income tax would be a particularly useful tool in several Member States, especially if low- and medium-income groups were to be given priority, so as to avoid increasing saving.

3.4. A large number of legal and administrative obstacles (including hold-ups in consultation procedures of various kinds) are delaying the implementation of public investment schemes. This is a highly dangerous development: paralysis of an instrument which has traditionally played an important part in times of economic difficulties is liable not only to slow down activity but also to generate disequilibria in a later phase of the cycle,

when the planned expenditure is in fact disbursed. To avoid this danger, Member States and the Community bodies should pool their efforts to convince the public of the need for an investment policy, particularly in the energy sector, and to induce all the responsible authorities, particularly the local authorities, to adopt patterns of behaviour more closely in line with current economic needs.

3.5. Generally speaking, the increase in the net borrowing requirement of the central Government engendered by the implementation of these recommendations can be largely covered by non-monetary means: in view of the weakness of business investment and ample household saving, it is safe to assume that the scope for long-term financing will gradually improve in most of the Member States and that the situation on the financial markets will remain relaxed.

The present situation is in fact apparently sound: in general the monetary financing of the Treasury has contributed, so far this year, only to a limited extent to the increase in the money supply (M₂).

3.6. Monetary policy will have to be geared to growth and price targets. Smooth progress of the main monetary aggregates at the right tempo is a prerequisite for a healthy and lasting recovery. Changes in the aggregates should be properly related to the specific situation of each Member State, especially with regard to its balance of payments. If monetary norms were fixed and published, inflationary expectations would be tempered. The need to facilitate the recovery is not, therefore, an argument against monetary norms, but rather an argument for them.

3.7. The task of reviving the economy and of restoring confidence cannot be discharged by the authorities alone: the success of efforts to achieve the growth goals set and to improve the employment situation will depend on active co-operation and support on the part of both sides of industry. Shouldering their responsibilities together, these must face up to the hazards of current economic trends and the difficulties resulting from the need for medium-term structural change. Wage claims should be properly related to productivity gains and should allow for tax concessions and stability requirements. Only in this way can the upward cost movement be slowed down, and can the profits and propensity to invest of firms, and the competitiveness of the Member States be improved.

⁽¹⁾ OJ No L 204, 10. 8. 1977, p. 6.

3.8. Co-operation by both sides of industry will be particularly relevant to the implementation of a specific employment policy. An expansion of only moderate proportions, on the scale envisaged for 1978, will not immediately have a favourable impact on unemployment. With so many firms working well short of capacity, a large part of the increase in demand will initially entail only increased productivity gains, an increase in capacity utilization rates, and an improvement in profits, and only later incite firms to take on more workers.

Therefore, further specific action must be taken in the area of employment.

First of all, greater emphasis must be placed on the development of vocational training and retraining and on the improvement of the effectiveness of labour exchanges.

All the Member States have taken steps to promote the creation of jobs, especially for young people. These measures should be followed carefully and their results examined, particularly as regards their effectiveness for those concerned, but also with a view to Community co-operation.

Things being as they are, any steps taken to reduce working hours should be as flexible as possible, free from any form of administrative constraint and restricted to particularly arduous jobs.

The Community instruments (Social Fund, Regional Fund and EIB) should give more support to such action, and the Community institutions must also ensure that the implementation of national instruments is properly co-ordinated, and that account is taken of their effect on employment.

3.9. Structural measures are needed to make output more flexible and to facilitate structural change. These should include:

- a more vigorous drive to achieve energy savings and to develop alternative forms of energy,
- encouraging research into and the application of new technologies,
- gradual elimination of the large number of administrative obstacles which hamper investment by complicating licensing procedures,
- elimination of taxes which discriminate against the investment of risk capital.

3.10. Various general measures to encourage investment have been taken or are envisaged at national level. Although they are in line with the needs of the economy, they may nevertheless entail the risk of outbidding between Member States or of sectoral distortions. This problem should be tackled by improving the co-ordination of aid measures at Community level and rendering them more transparent.

3.11. The danger of a slowdown in economic activity in the Community can be avoided only if the growth of world trade makes a sufficient contribution to economic activity in the Member States. This presupposes further economic growth in the United States, a recovery in domestic demand in Japan and the elimination of the difficulties besetting the small industrialized countries and the non-oil-producing developing countries. These latter's propensity to import must be encouraged by an improvement in development aid. Last but not least, everything must be done to combat protectionist behaviour patterns.

(b) *Guidelines country by country*

3.12. In *Denmark*, the economic situation in mid-summer was marked by a relatively low level of activity, a persistent, upward trend in unemployment (6 % of the working population), some increase in the rate of inflation and a still quite substantial current account deficit (equal to almost 4 % of gross national product). The authorities, anxious to reduce unemployment, have had to take account of external constraints, which ruled out any effort at general reflation. The programme approved by the Danish Parliament at the end of the summer fills this need, since it calls for tighter management of domestic demand in order to curb imports and scale down the payments deficit. At the same time, selective measures have been taken to stimulate employment by stepping up public-sector investment and creating public-service jobs as well as providing general incentives for private investors through the tax system. These incentives, coupled with the recent adjustment in the exchange rate of the krone following the devaluation of the Swedish krone, are now strengthening the competitive position of Danish industry.

The action which has been taken is not expected to have any appreciable impact on the general profile of economic activity, and growth will probably remain sluggish. There is expected to be only a moderate improvement on the investment front, and private consumption may well decline

temporarily. All in all, the increase in gross domestic product for 1978 as a whole will probably barely amount to 2 % in real terms. Thanks to both the shift in resources away from consumption to exports and the slower pace of imports, the current account deficit is expected to decrease appreciably. Success of this strategy will, however, hinge on more buoyant growth in the world economy. The combined impact of the new measures and of the devaluation will add more than 4 % to the upward movement of consumer prices on an annual basis. As a result, prices are expected to climb by some 10.5 % as in 1977. Apart from the effect of changes in indirect taxation and in the exchange rate the underlying rate of price inflation is expected to lose some of its momentum in the course of the year.

Recent budgetary policy measures include, as part of a medium-term programme, an increase in indirect taxation through a higher VAT rate (18 % instead of 15 %), an increase in specific taxes on a number of goods and services, and an increase in some public-service charges and registration duties. They also provide for more generous depreciation arrangements and for additional budget resources earmarked for expenditure on transfers and public investment schemes. Together, these measures should make it possible to keep the central government deficit to Dkr 10 000 million in the 1978/79 financial year, a lower figure than initially forecast. Taking into account the substantial surpluses of the local authorities, the supplementary pensions scheme and the National Bank, the improvement of the public sector position from 1977 to 1978 is expected to reduce the overall public sector deficit to a level below 1 % of gross domestic product.

In order to achieve the priority target of a gradual return to external equilibrium, incomes policy should comply strictly with the settlement on incomes reached this spring. Thus, there would be no need for further restrictive measures. The upward movement of costs and prices must be stemmed if full advantage is to be taken of the competitive edge gained by the three krone devaluations which occurred since October 1976.

As for monetary policy, it would be advisable to maintain the tight controls on domestic credit so as to encourage capital inflow, with domestic credit being channelled towards export industries. The aim of financing the central government deficit by non-monetary means should be maintained, with the growth in the money supply being held down to that of gross domestic product in money

terms, so that the success of the adjustment measures undertaken would not be jeopardized by excess liquidity.

3.13. In the *Federal Republic of Germany* economic expansion has continued to falter over the past few months. The expansion of export demand has lost much of its momentum and the firms' propensity to invest — suffering from the deterioration in the general economic climate and from the upward surge of wage costs — is still relatively weak. Implementation of the budgets of the central, 'Land' and local authorities made no net contribution to economic activity in the first half of 1977, mainly because tax revenue rose faster than expected, but also partly because developments in expenditure were hesitant. Faced with a slowdown in demand, managements were reluctant to step up output. This meant that no further progress could be made in eliminating unemployment either. Overall, the growth in gross domestic product in real terms will probably be about 3 % in the current year, a figure a good deal lower than the target fixed at the beginning of the year. The balance of payments on current account should close with a surplus of about DM 8 000 million. But the upward movement in consumer prices has slowed down further, and the average rate for the year will be less than 4 %.

If progress is to be made in eliminating unemployment, a GDP growth rate of at least 4.5 % would have to be aimed for in 1978. In November 1977, the Bundestag adopted a number of additional measures to strengthen growth and employment. These include, for households, certain wage and income tax concessions, while for firms, the rules on degressive depreciation will be relaxed, aid towards investment in research and development will be doubled, credit facilities will be made available for the establishment of new firms and grants will be provided for energy-saving investment projects. The Federal authorities must fully disburse the 1977 budget appropriations and continue to follow a very expansionary budget policy (increase in expenditure of more than 10 %), which is to be supported by the 'Länder' and the local authorities. This means that the overall expenditure of the central and other authorities could well increase by a good deal more in 1978 (9 to 9.5 %) than in 1977 (5.5 to 6 %). The combined net borrowing requirement of the Federal, 'Länder' and local authorities will probably increase in 1978 by about DM 15 000 million, to DM 50 000 million.

All in all, the set of measures, which is expected to produce multiplier effects particularly with regard to investment aid, covers a total of about DM 15 000 million, to which should be added, for 1978, the amount (about DM 5 000 million) corresponding to the tax decisions already adopted in the spring. Overall, this will represent 1.25 % of gross domestic product in 1978. Whether these measures will suffice to generate a growth of about 4.5 % is not, however, certain. In this connection, it is of particular importance that planned 'Länder' and municipality expenditure be disbursed more quickly than in the past. In addition to overall measures to boost demand, selective measures to assist the labour market will also be needed to achieve a better adaptation of supply and demand on the labour market.

Those responsible for monetary policy should take account of the more dynamic performance of the economy, and take as working hypothesis an accelerated real growth.

Any improvement in growth and employment will depend largely on the outcome of the next round of wage negotiations. The tax reliefs approved by the authorities should make it easier for both sides of industry to adjust wage claims and pricing policies to the requirements of the economy. Individual firms should also swiftly take advantage of investment incentives introduced. A matter of particular importance to future growth is that administrative and other obstacles to investment, which at present are not only holding up investments totalling DM 10 000 million to 15 000 million in the construction of power stations, but are delaying other projects as well, including road building, should be eliminated as quickly as possible.

3.14. In *France*, exports were the only component of aggregate demand to make any substantial contribution to increased activity in 1977. Investment has been affected by the weakness of demand. Admittedly, the measures taken to sustain the rate of activity during the years have not yet produced their full impact. In response to the weakness of economic activity unemployment continued to worsen until the middle of the year.

The low growth in demand has meant that the volume of imports has been modest while exports continue to increase so that, despite some worsening in the terms of trade, essentially due to the fall in the franc in 1976, and the rapid rise in the prices of tropical foods, the trade deficit has narrowed considerably.

While the rate of growth of both real and money wages greatly fell in 1977 and the prices set by

public authorities had some moderating impact, the overall consumer price index suffered, particularly in the first half of the year, from rapid increases in food prices, although the norm has been barely exceeded in the case of manufactured goods. In the latter months of this year inflationary pressures should diminish, but also next year the lagged effects of the moderation in current wage settlements, the slight fall in the cost of credit, the strength of the franc and the falls in prices of imported raw materials in 1977 as well as improved productivity, should be reflected in lower rates of price increase. This continuing slowdown should permit a further restraint in next year's wage settlements.

Both the early success obtained in reducing the inflation rate and in moving towards external equilibrium would be compromised by too much stimulatory action. But the authorities could find some room for manoeuvre with the balance of trade moving towards equilibrium and the expected budget deficit for 1977 at less than 1 % of gross domestic product. Moreover, the French economy possesses large productivity reserves which must be used in the struggle against inflation.

The government budget for 1978, which has recently been tabled, provides for a target of a 4.5 % growth in the volume of the gross domestic product. Should the economy not move in line with this forecast, additional measures might have to be taken during the year to sustain the recovery, subject to the international context and progress towards reducing the rate of inflation. These measures should include particularly aid to firms to develop their training programmes and to increase recruitment of young people who have previously not had a job. It would be also useful if public retraining programmes were stepped up.

The general stance of monetary policy should be maintained. However, to prevent the selective credit policy producing lasting distortions in the productive system, the system of credit controls might in the event have to be revised. Moreover interest rates are now at a level compatible with the objectives for the balance of payments and the exchange rate of the franc.

3.15. In *Ireland*, growth should continue at an appreciable rate during the months ahead under the combined impact of a rapid expansion of industrial and agricultural exports and a further sharp increase in investment. In addition, private consumers' expenditure is likely to accelerate at the beginning

of 1978 owing to the effect on incomes of measures planned by the Irish Government, which will also stimulate public consumption. For 1978 as a whole, real gross domestic product should grow at a rate sufficient to reduce unemployment, taking account of the prospective increase in the labour force. The sharp expansion of overall demand will entail a substantial increase in imports, and despite an improvement in the terms of trade, the balance of payments will move further into deficit.

Under these conditions, economic policy will have to be based primarily on a careful regulation of domestic demand so as to avoid the dangers inherent in over-stimulation of consumption demand. Although it would bring about a temporary improvement in the employment situation, such a development would ultimately necessitate undesirable measures to curb activity.

Incomes policy should aim to achieve moderation in future wage agreements. Nominal pay increases should, in 1978, be kept within the limits envisaged by the Government. Linked with tax concessions as already proposed this would allow real increases in take-home pay.

Within this context budgetary policy should be framed in such a manner as to give maximum effect to Government policy aimed at employment stimulation, which implies, in particular, a very tight management of non-priority expenditure. Given the appreciable reduction in the net borrowing requirement of central Government in 1976 and again in 1977, which has brought this figure to below 11 % of gross national product (as against 16.8 % in 1975), some increase could be envisaged for 1978. On the receipts side, if income taxation reliefs are such as to favour a moderate development of gross incomes, while at the same time improving disposable income, further progress should be made towards widening the basis of tax assessment.

With regard to monetary policy, bank lending to the private sector should increase roughly in line with gross domestic product in value so as to keep pace with the upturn in the economy. However, this aggregate would have to be restricted if too much liquidity were created as a result of Treasury borrowing. Owing to the substantial loss of liquidity as a result of the balance of payments deficit, the rate of growth of the money supply should, as in 1976 and 1977, be lower than that of gross domestic product in value.

3.16. In *Italy*, the upturn which began in 1975 first decelerated sharply and then gave way to recessive tendencies during the first half of 1977. While unemployment tended to rise, inflation slackened. During the first half of the year, Italian exports grew rapidly whereas imports slowed sharply owing to the slackening of domestic activity. The current account therefore improved appreciably and the lira remained remarkably stable.

The improvement in internal and external equilibrium was caused mainly by the austerity policy pursued by the Italian Government since last autumn. It is already anticipated that the fall-off in domestic demand during this year will make it possible to achieve the main targets agreed for 1977 with the Community as regards consumer prices and the current account.

If the progress made to restoring equilibrium is not to be compromised, however, a cautious approach to short-term economic policy will be needed in the remainder of 1977 and in 1978.

Short-term economic policy must aim for the objectives fixed last May in connection with the new Community loan to Italy ⁽¹⁾. Policy should therefore aim to limit the growth of internal demand while at the same time encouraging productive investment and tempering the growth of unit costs.

These economic objectives can hardly be achieved in 1978 without a major contribution from public finance policy. The aim should be, among other things, to limit the State budget deficit to the order of Lit 10 000 000 millions, which implies further substantial efforts to increase public revenue. But above all it is necessary to obtain a marked reduction in the rate of growth of expenditure, both at the level of the State and other public authorities and success here will depend on a series of fundamental measures to improve certain management operations, or even on the reconsideration of certain priorities. A policy of generally curbing the growth of expenditure will nevertheless have to be reconciled with the need for new measures to facilitate necessary reorganization, particularly in the industrial sector. A better equilibrium in the public companies'

⁽¹⁾ See Council Decision 77/359/EEC of 17 May 1977, OJ No L 132, 27. 5. 1977, p. 34.

accounts would also contribute to this. For this purpose, public expenditure should be put to better use, by re-allocating funds from non-priority sectors of consumption to sectors (such as building) in which it would be possible to promote investment which can absorb substantial manpower but does not require additional imports.

Structural measures should be taken to improve the external balance and competitive position, particularly in agriculture, in the energy field and in industries whose products must be adapted to the changing pattern of demand.

The credit policy to be pursued in 1978 must follow its restrictive line. In order to avoid undesirable outflows of short- and long-term capital, interest rates will have to be kept at an appreciably higher level than in Italy's principal partner countries, particularly in view of the heavy short-term external indebtedness of the banks. If further progress is made in reducing inflation, the absolute level of interest rates could be noticeably reduced.

Under the likely assumption that, largely owing to the continued strength of exports, the economic situation will tend to improve after the end of 1977, these policies as a whole should allow a real growth of gross domestic product of more than 2 % in 1978.

3.17. In the *Netherlands*, the forecasts, based on downwardly-revised assumptions in respect of world trade, hold out little hope of any spontaneous improvement in the economic situation during the 18 months ahead. Real gross domestic product is likely to grow by 2.5 % in 1977, a much lower rate than originally forecast. As far as the prospects for 1978 are concerned, everything indicates that, in the absence of additional measures to bolster activity in the Community as a whole, the rate of growth will again fall well below the minimum required to prevent a further increase in unemployment, the rate of which, for 1977, will probably be about 4.3 % of the working population.

The Netherlands appear to be well placed to give a stronger impetus to demand. In point of fact, the rise in consumer prices has remained fairly modest (due, in part, to the appreciation of the guilder since autumn 1976, but also to a slowdown in the growth of wage costs) and the balance of payments will probably remain in surplus in 1977 despite the fact that exports marked time in the first half of the year. The general government net

borrowing requirement in 1977 should not exceed approximately 3 % of gross domestic product, a relatively low figure given the economic context.

Accordingly, economic policy should do more within the framework of joint action in a certain number of Member States, to stimulate activity in 1978. Since, however, it is important to avoid a situation in which the rise in public expenditure assumes a permanent character, the action of the authorities should be reversible. Moreover, since the possibility of expanding private investment seems limited in the short term, it will be necessary to encourage private consumption. To this end, the Government formulated at the end of October new proposals to reduce unemployment, slow down the rise in costs and inflation and maintain purchasing power. The proposed measures provide in particular for greater expenditure on employment schemes and a reduction of social security contributions. The cost to the budget amounts to 1 % of gross domestic product.

These measures as a whole will cause the Government net borrowing requirement to rise from Fl 7 500 million in 1977 to Fl 13 000 million in 1978 (4.6 % of gross domestic product).

The financing of such an increase in the public sector deficit is consistent with the monetary policy pursued since the spring of 1977, which is tending to reduce the liquidity of the Netherlands economy. This policy must, however, be administered flexibly so as not to impede economic recovery.

Finally, it is essential that the effort which has been made, through the budget, to bolster activity should be accompanied by moderation in the rise of wage costs.

3.18. In *Belgium*, economic activity has tended to level off since the beginning of the year, while unemployment has continued to increase. In 1977 real gross domestic product should grow by some 2.5 %, a rate well below the original forecasts. The trend of activity holds out little hope of any marked spontaneous acceleration in the rate of expansion in 1978. Economic policy should, therefore, seek to establish a climate more favourable to economic activity and to restore the confidence of firms and households.

Belgium is one of a group of countries whose balance of payments has remained favourable; as in 1977, the current account will be in balance in 1978. The upward movement of prices has slowed down: the

year-to-year rate of increase had fallen to approximately 6.5 % by September 1977. The existence of a heavy budget deficit — the rapid increase of which in recent years is largely due to the effects of built-in budget stabilizers and of measures designed to sustain activity through public investment and aids to expansion — limits the possibilities for the authorities to take further action to stimulate the economy. The draft budget for 1978 foresees an expansion of public investment programmes and includes a scheme for the absorption of unemployment (which will affect about 80 000 people), as well as a partial and regressive indexation of income taxes. Other fiscal measures are proposed, with the objective of limiting the net borrowing requirement of the central Government to 5.6 % of gross domestic product, compared with 6.2 % in 1977. As a result, largely, of expansionary measures taken nationally and within the Community, such a deficit is compatible with a growth of gross domestic product in real terms of 3 to 3.5 % in 1978. If such a growth rate were not to be attained, the deficit must be expected to deteriorate, given the particularly marked influence of the automatic stabilizers.

A deficit even of the above size might still be financed by monetary means if the economic situation were to emerge as less favourable than is hoped at present. The financing of company and household investment should also not present any problems in 1978.

3.19. Economic developments in *Luxembourg* in 1977 give no indications of recovery, so far, and there is nothing to suggest an appreciable upswing between now and the end of the year. While domestic demand should remain relatively buoyant, mainly owing to the healthy performance of investment (primarily rationalization investment in the iron and steel industry), exports will probably increase at only a moderate pace. The growth of real gross domestic product should be around 1.5 % in 1977 and the present outlook suggests only a weak acceleration in 1978. The fall in the total number employed and the increase in unemployment may continue, and the difficulties which certain firms have to contend with are likely to persist.

In these conditions, selective measure to assist employment will probably be necessary for some time to come. Since, moreover, a heavier tax burden must be avoided in the short term, some increase in the central Government borrowing requirement, not exceeding Lfrs 1 900 million, must be accepted.

3.20. Since the end of 1976, there has been a substantial improvement in overseas confidence in the *United Kingdom* economy which has transformed its financial situation. This followed the approval by the International Monetary Fund (IMF) of the tightening of monetary and budgetary policy for the following two years announced by the UK Government in the second half of 1976. As a result there has been a strong demand for sterling, a massive increase in official reserves culminating in the Government's decision to allow the pound to float. Interest rates fell rapidly, and present indications are that the Public Sector Borrowing Requirement (PSBR) and the expansion of domestic credit for the financial year 1977/78 will be well within the limits agreed with the IMF. In contrast to the continued improvements in financial indicators, the level of output contracted somewhat in the first half of the year, when private consumption and both private and public investment fell sharply, before recovering significantly in the second half-year. Between 1976 and 1977, the rate of growth in gross domestic product (GDP) is likely to be only about 0.5 %. This increase will be entirely due to a sustained movement of resources into the balance of payments, largely the result of increased North Sea oil production and the strong growth of manufacturing exports. The current account for 1977 is expected to show a surplus of about £250 million, an improvement of about £1 750 million over the previous year. Against the background of low economic growth, unemployment has continued to increase and the rate of price inflation, although falling markedly in the second half of the year, is likely, for 1977 as a whole, to be twice that recorded in the *United Kingdom's* principal competitor countries.

The outlook for 1978 is largely dependent on the growth of earnings during the coming months. If the rate of increase in earnings between July 1977 and July 1978 is not significantly different from the Government's target of 10 %, the British economy could, given the measures recently announced, record a rate of growth of GDP of about 3.5 % whilst inflation could be reduced to below 10 %. There could be a large surplus of some £1 000 million on the current account of the balance of payments. In such circumstances, there would be sufficient room for manoeuvre to enable further reflationary measures to be introduced without jeopardizing the economic policy objectives agreed with the IMF and without aggravating inflationary pressures.

However, at present, such a forecast should be treated with caution. If the growth of earnings does not remain within the limit indicated by the authorities, the still fragile success obtained in the fight against inflation would be threatened once

again. With such an outlook, the economy would be stimulated by consumption-led growth and the introduction of reflationary fiscal measures would no longer be appropriate.

Until such time as it becomes clear that more moderate trends in wage and price inflation have become firmly established, the authorities should

continue to follow the monetary and fiscal policies outlined in the Letter of Intent to the IMF which have made such an important contribution towards restoring overseas confidence.

In any event, unemployment must continue to be tackled in the short term by means of employment support schemes.

IV. CONCLUSIONS

The main danger of the present situation is that demand will mark time at a level at which the economy's built-in adjustment mechanisms, and the propensity to consume and to invest, are no longer sufficient to ensure lasting growth and to stop the spread of unemployment. The tendency towards protectionism and towards stop-gap defensive measures is gaining strength both within firms and at national and international level. The ability to make structural adjustments is gradually disappearing. Consequently, in the long term, an ever-larger mass of structurally unemployed could well be added to the cyclical unemployment resulting from an under-utilization of capacities. Problems which originally appeared to be mainly short-term are liable increasingly to assume a more permanent nature.

The difficulties, internal and external in origin, which are confronting the Member States as a whole, call for the implementation of a Community strategy to give support to economic activity.

Efforts should continue to place primary reliance on private and public investment. In several Member States, however, it will also be necessary to support private consumption because of the low level of capacity utilization. In order to prevent the resurgence of inflationary pressures this action should be reversible and implemented in a manner which does not accentuate the wage and salary cost push. Measures in the employment and training areas should complement demand management policy. A return to protectionism would only serve as a useless palliative and would create in its wake even more serious difficulties.

The measures to support economic development, which will be graduated according to the particular positions of the various Member States, should facilitate a return to a sustained and stable growth path bolstered up by a greater degree of convergence of the economies within the Community.

ANNEX

TABLE 1

DEVELOPMENT OF THE PRINCIPAL MACRO-ECONOMIC AGGREGATES IN THE COMMUNITY

	Gross domestic product in volume, in % ⁽¹⁾				Unemployed as % of the civilian labour force ⁽²⁾			
	1970—1974	1975	1976	1977	1970—1974	1975	1976	1977
Denmark	2.9	— 1.1	4.8	1	1.3	5.0	5.1	6.2
Germany	3.6	— 2.6	5.7	3	1.1	4.1	4.1	4.0
France	5.1	0.1	5.2	2 3/4	2.7	4.0	4.4	5.1
Ireland	3.6	0.4	3.2	5	5.9	7.9	9.4	9.6
Italy	4.1	— 3.5	5.6	2	(5.2)	(5.6)	(5.9)	(6 3/4)
Netherlands	4.7	— 1.1	4.4	2 1/2	2.1	4.0	4.3	4.3
Belgium	5.2	— 2.0	3.0	2 3/4	2.3	4.5	6.1	6.9
Luxembourg	4.1	— 8.4	2.7	1 1/4	0	0.2	0.4	0.5
United Kingdom	2.5	— 1.7	1.6	1/2	2.8	3.9	5.2	5.9
Community	4.0	— 1.8	4.7	2 1/2	(2.8)	(4.4)	(4.9)	(5.5)

	Implicit prices of private consumption, in % ⁽¹⁾				Balance of payments on current account (1 000 million \$)			
	1970—1974	1975	1976	1977	1970—1974	1975	1976	1977
Denmark	7.9	8.8	8.5	10 1/2	— 0.5	— 0.6	— 2.0	— 1.6
Germany	5.8	6.3	4.4	4	3.3	4.3	3.2	3.4
France	8.3	11.6	9.9	9	— 1.1	— 0.1	— 5.8	— 3.3
Ireland	10.8	21.8	17.0	14	— 0.3	0	— 0.3	— 0.5
Italy	8.7	17.6	17.5	18 1/2	— 1.0	— 0.6	— 2.8	— 0.3
Netherlands	8.0	10.3	9.2	7 1/4	1.0	1.7	2.5	1.2
Belgium	6.3	12.1	9.0	7 1/4	1.0	0.3	— 0.4	— 0.1
Luxembourg	6	10.7	9.8	7				
United Kingdom	7.5	23.6	15.3	15 1/4	— 1.2	— 3.8	— 2.5	+ 0.4
Community	7.8	12.8	9.9	9 1/2	1.1	1.4	— 8.0	— 0.8

⁽¹⁾ Over the previous year.⁽²⁾ The rate of unemployment indicated in parenthesis is that obtained by adopting for Italy data prepared by the Ministry of Labour instead of ISTAT. 1977: estimates.

Source: Department of the Commission.

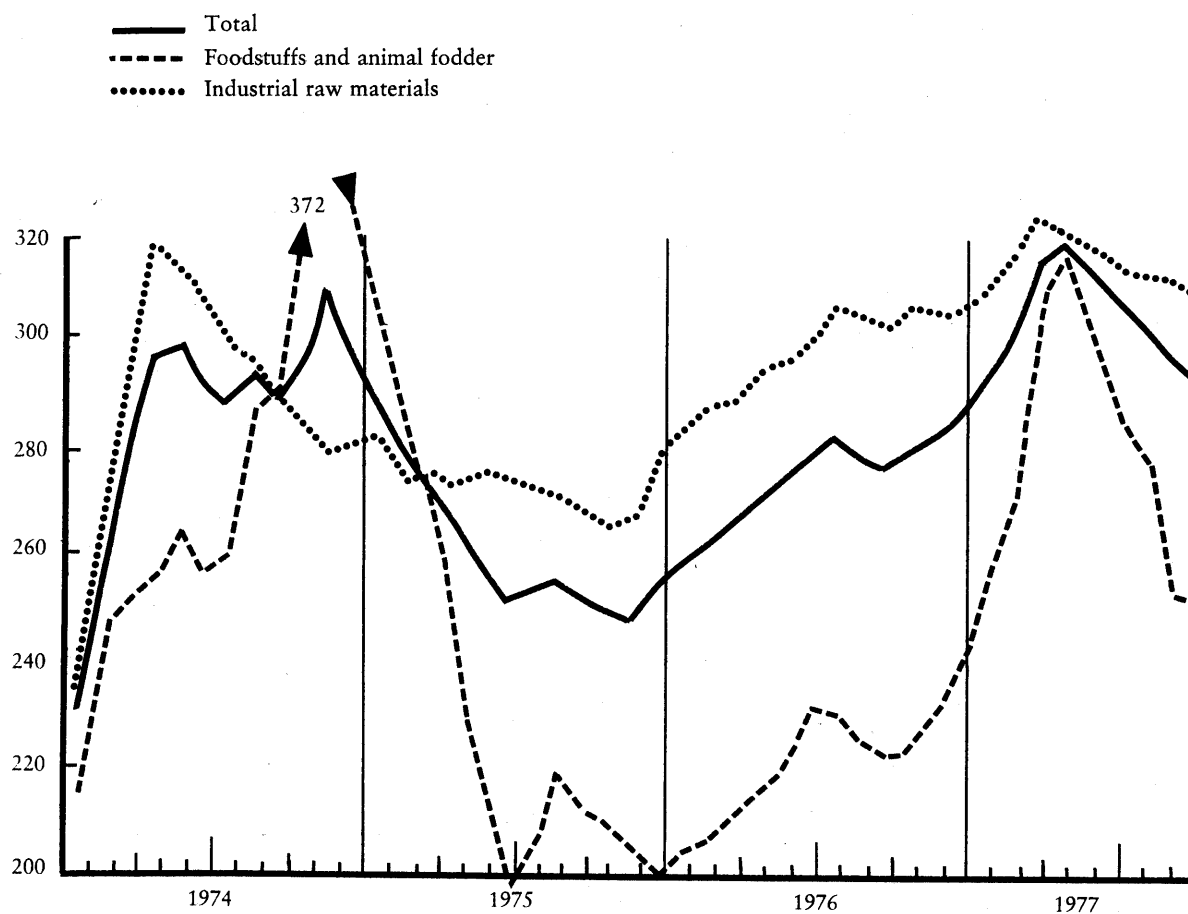
TABLE 2
PRODUCTION AND TRADE IN THE WORLD ECONOMY

	Gross domestic product in real terms ⁽¹⁾						Volume of imports of goods					
	1969 to 1973 on average ⁽²⁾	1974	1975	1976	1977	1978	1969 to 1973 on average ⁽²⁾	1974	1975	1976	1977	1978
USA	3.3	-1.7	-1.6	6.3	5	4 1/2	6.9	-3.4	-11.1	21.4	13	6
Canada	5.3	3.2	0.5	4.7	3	4 1/2	10.0	10.0	-5.4	6.4	4	6 1/2
Japan	9.6	-1.3	2.4	6.0	5 1/2	6	14.9	-0.7	-13.5	11.5	6 1/2	9
Other developed countries (excluding the Community)	6.0	3.7	0.6	2.4	2 1/2	3 1/2	8.9	11	-8	6 1/2	4	4 1/2
All developed countries (excluding the Community)	4.6	-0.4	-0.3	5.4	4 1/2	4 1/2	9.2	3 1/2	-9 1/2	12 1/2	7 1/2	6
Community	4.8	1.7	-1.8	4.7	2 1/2	3 1/2	10.3	-1 1/2	-5	14	3	5 1/2
All developed countries (including the Community)	4.7	0.3	-0.9	5.1	4	4	9.8	1	7	13 1/2	5 1/2	5 1/2
OPEC countries							7.4	38	43	18	15 1/2	13
Developing countries								13	-4	3	8	6
Centrally planned economies							8.4	10	6	3	3 1/2	4
World (excluding the Community)							8.6	9	-3 1/2	9	7 1/2	6 1/2
World (including the Community)							9.2	5	-4	11	6	6

⁽¹⁾ GNP in real terms for USA, Canada and Japan.

⁽²⁾ Mean annual variation between 1968 and 1973.

GRAPH A
WORLD PRICES OF RAW MATERIALS
(in dollars)



Source: HWWA.

TABLE 3
DEVELOPMENT OF INDUSTRIAL PRODUCTION IN THE COMMUNITY
% change on preceding period (annual, quarterly or monthly)
(Seasonally-adjusted figures)

	1973	1974	1975	1976	1975		1976				1977				August 1976 August 1977	
					III	IV	I	II	III	IV	I	II	June	July		August
Denmark	:	:	— 5.7	10.4	2.4	4.2	3.9	2.3	0.1	— 0.5	2.1	— 5.6	9.9	— 9.8	11.0	1.7
Germany	7.9	— 1.1	— 7.2	7.9	0.3	4.3	2.8	2.4	0.4	1.6	2.0	— 0.1	0.2	0.4	— 0.8	2.2
France	7.3	3.0	— 8.2	8.8	— 0.9	4.0	4.7	1.3	0.6	1.6	2.6	— 2.0	2.3	— 3.9	1.3	2.3
Ireland	10.3	3.0	— 6.7	10.1	— 0.6	1.5	4.8	3.0	3.4	1.5	0.5	:	:	:	:	:
Italy	9.6	4.7	— 10.2	12.7	— 0.6	4.2	5.1	4.8	0.5	6.5	2.2	— 6.4	— 5.3	— 0.6	— 0.2	2.3
Netherlands	6.1	3.4	— 5.0	8.0	— 2.0	8.4	1.9	1.0	1.5	1.0	0.2	0.3	— 1.5	0.4	— 1.7	— 1.6
Belgium	6.3	4.0	— 10.4	8.4	— 1.0	1.5	4.9	4.8	0.1	2.3	— 0.4	0.3	— 1.4	— 4.3	4.3	2.1
Luxembourg	12.0	3.8	— 22.9	6.6	— 10.0	9.9	3.7	8.2	— 3.5	0.4	2.3	2.8	0.1	— 5.5	— 1.7	4.7
United Kingdom	9.1	— 2.2	— 4.8	1.1	— 1.0	0.6	2.4	0.2	0.1	1.4	3.2	— 2.5	— 3.1	2.0	0.1	2.7
Community	7.6	0.9	— 7.5	7.8	— 0.6	3.8	3.6	2.2	0.6	2.2	2.2	— 1.9	— 0.7	— 1.1	0.3	1.8

: = Data not available.
Source: EUROSTAT.

: = Data not available.
Source: EUROSTAT.

GRAPH B

RESULTS OF THE BUSINESS SURVEY OF COMMUNITY INDUSTRY ⁽¹⁾

Three-months moving average

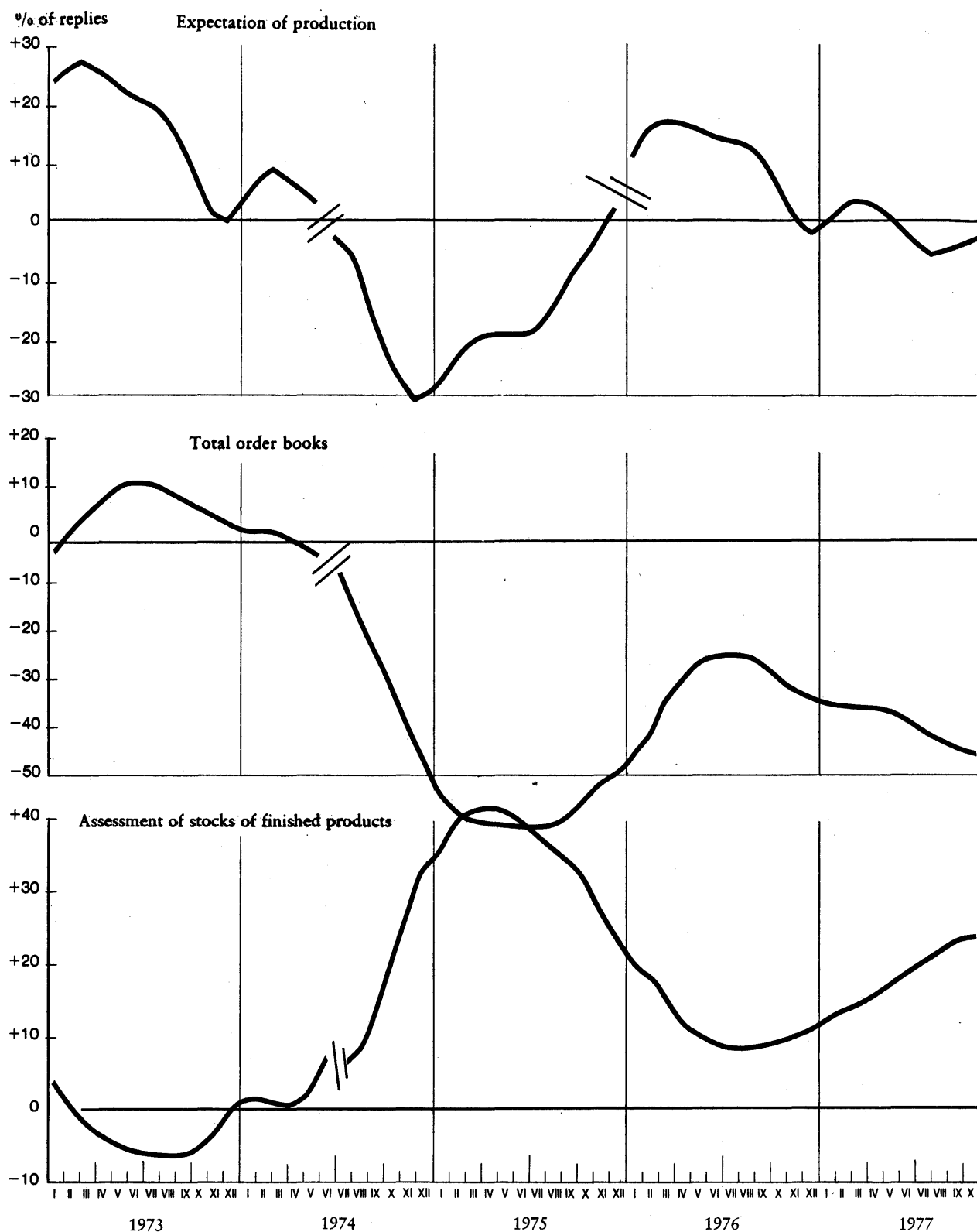
⁽¹⁾ Excluding construction, food, beverages and tobacco.

TABLE 4

DEVELOPMENT OF UNEMPLOYMENT IN THE COMMUNITY

Unemployment rates ⁽¹⁾ since 1974 (annual or quarterly averages)

	1974	1975	1976	1976				1977									
				1975				I	II	III	IV	I	II	III	July	August	September
				IV													
Denmark	1.9	4.7	4.8	5.0	4.9	4.6	4.7	4.8	5.5	5.8	6.0	5.9	6.0	6.0	5.9	6.0	6.0
Germany	2.2	4.2	4.1	4.5	4.6	4.1	4.0	3.8	3.8	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0
France	2.3	3.9	4.4	4.5	4.4	4.4	4.3	4.3	4.5	4.8	5.2	5.0	5.2	5.2	5.0	5.2	5.3
Ireland	6.2	8.7	9.9	9.6	9.6	9.9	10.1	9.9	9.7	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.5
Italy	5.1	5.7	6.0	6.0	5.9	6.0	6.1	6.1	6.2	6.5	7.3	7.1	7.3	7.2	7.1	7.2	7.7
Netherlands	2.8	4.2	4.5	4.5	4.5	4.4	4.7	4.4	4.1	4.1	4.4	4.3	4.4	4.4	4.3	4.4	4.4
Belgium	3.1	5.3	6.8	6.4	6.4	6.6	7.0	7.1	7.2	7.4	7.9	7.7	7.9	7.9	7.7	7.9	8.0
Luxembourg	0.0	0.2	0.4	0.3	0.3	0.4	0.3	0.4	0.5	0.5	0.6	0.5	0.6	0.6	0.5	0.6	0.6
United Kingdom	2.4	3.8	5.4	4.7	5.0	5.3	5.7	5.5	5.5	5.6	6.1	6.1	6.1	6.1	6.1	6.0	6.1
Community	2.9	4.3	5.0	4.9	5.0	5.0	5.1	5.0	5.1	5.1	5.6	5.6	5.6	5.6	5.6	5.6	5.7

⁽¹⁾ Number of registered unemployed as % of civilian labour force. Seasonally adjusted. As definitions are not uniform, unemployment rates are not comparable from country to country.

Source: EUROSTAT and departments of the Commission.

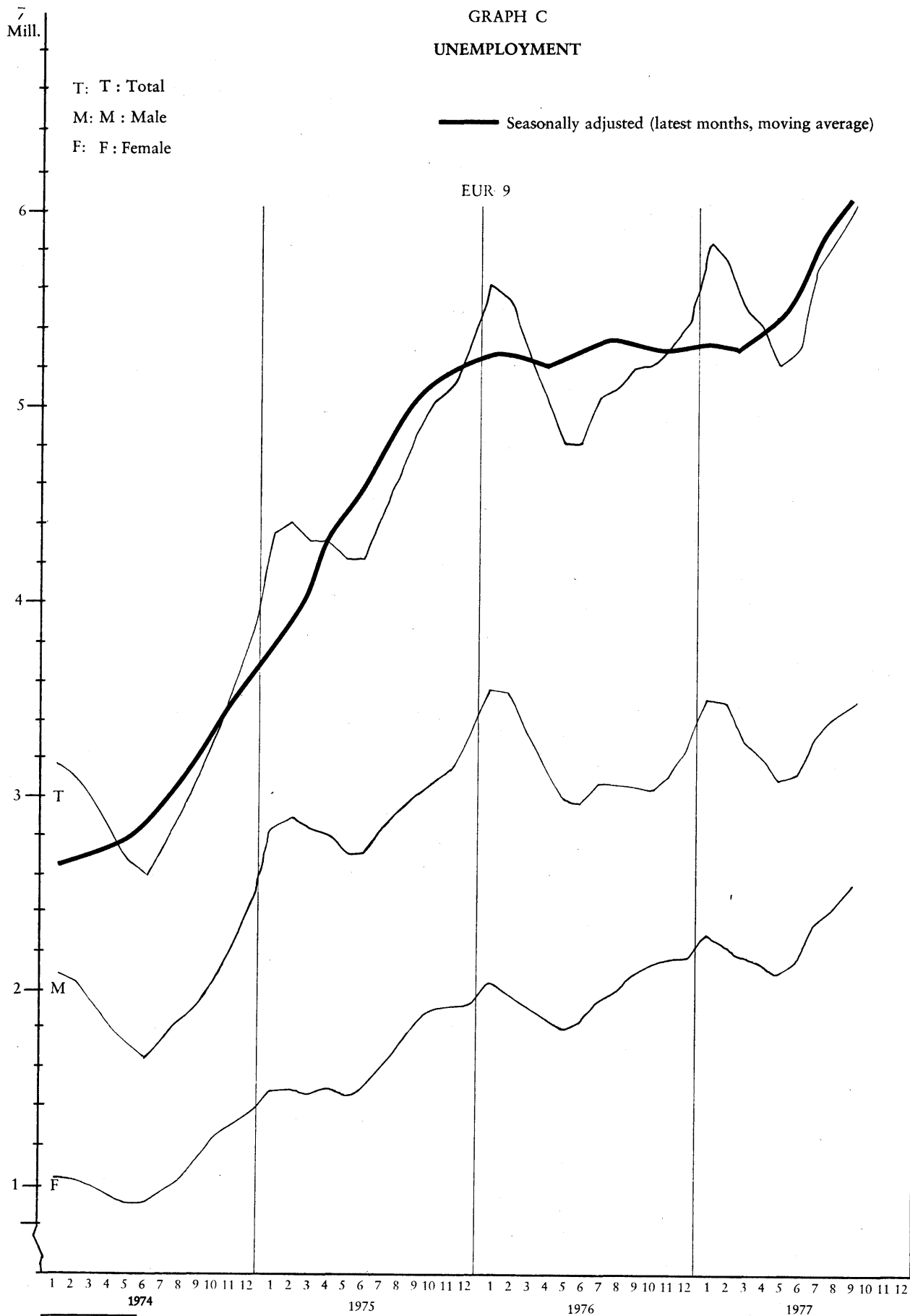
GRAPH C
UNEMPLOYMENT

TABLE 5
DEVELOPMENT OF CONSUMER PRICES IN THE COMMUNITY

	% change on preceding period										Variation, expressed at an annual rate during the			
	1973	1974	1975	1976	1976				1977			twelve	six	three
					III	IV	I	II	June	July	August			
												latest months ⁽²⁾		
Denmark	9.3	15.3	9.6	9.0	1.5	3.9	2.3	3.2	0.5	0.7	0.9	11.6	12.7	8.4
Germany	7.0	7.0	5.9	4.6	0.1	0.5	1.9	1.4	0.5	— 0.1	— 0.1	3.9	3.1	1.1
France	7.3	13.6	11.7	9.6	2.3	2.6	1.6	3.0	0.8	0.9	0.5	9.9	11.2	9.4
Ireland ⁽¹⁾	11.4	17.0	20.9	17.9	1.5	4.2	3.8	3.8	:	:	1.1 ⁽²⁾	13.5	10.0	4.5
Italy	10.8	19.2	17.0	16.7	2.8	6.4	4.7	3.6	0.9	0.6	0.9	18.6	12.6	9.1
Netherlands	8.1	9.8	9.9	8.9	0.7	2.5	0.7	2.9	0.2	— 0.2	0.4	6.9	6.9	1.6
Belgium	6.1	12.7	12.8	9.2	1.9	1.7	2.0	1.6	0.6	0.3	0.3	7.1	5.6	5.2
Luxembourg	6.1	9.5	10.8	9.8	1.6	1.8	2.3	1.6	0.5	0.5	— 0.3	6.1	4.2	2.4
United Kingdom	9.2	16.0	24.2	16.5	2.3	4.6	5.0	4.4	1.0	0.1	0.5	16.4	12.5	6.8
Community	8.2	13.0	13.4	11.0	1.6	3.0	2.9	3.0	0.7	0.3	0.4	11.6	9.6	5.9

⁽¹⁾ Quarterly indices.

⁽²⁾ Quarterly variations.

⁽³⁾ Up to August.

Source: EUROSTAT.

TABLE 6
DEVELOPMENT OF THE MAIN COMPONENTS OF CONSUMER PRICES IN THE COMMUNITY
(Percentage change on corresponding period of previous year)

	Total				Foodstuffs				Non-Foodstuffs				Services								
	1974		1975	1976	1977		1974	1975	1976	1977		1974	1975	1976	1977		1974	1975	1976	1977	
	1974	1975	1976	January	July	1974	1975	1976	January	July	1974	1975	1976	January	July	1974	1975	1976	January	July	
Denmark	15.3	9.6	9.0	10.6	11.4	12.1	10.0	11.1	14.6	17.5	19.1	7.8	7.3	7.9	7.4	14.8	12.7	7.9	10.3	11.2	
Germany	7.0	5.9	4.6	4.0	4.3	5.0	5.4	5.4	4.5	5.5	8.7	5.9	3.8	3.4	3.6	7.5	6.5	4.8	4.7	4.8	
France	13.6	11.7	9.6	9.5	10.1	12.3	11.2	10.7	12.9	15.3	16.0	11.5	7.8	7.1	7.5	12.5	13.2	12.0	10.2	9.8	
Ireland	17.0	20.9	17.9	15.3	14.0	14.5	20.9	16.8	16.2	15.1	23.0	21.4	15.3	15.2	15.2	14.1	22.9	24.6	14.7	12.1	
Italy	19.2	17.0	16.7	20.0	18.8	18.7	18.5	17.5	20.9	21.1	25.5	14.3	16.9	22.6	19.8	14.2	20.1	16.6	17.0	15.7	
Netherlands	9.8	9.9	8.9	7.3	7.4	6.0	7.7	9.6	7.9	8.9	10.8	10.1	8.3	5.9	5.6	9.1	12.7	10.3	8.9	8.8	
Belgium	12.7	12.8	9.2	7.5	7.2	9.3	11.4	12.5	7.5	7.0	14.0	11.3	5.8	5.6	5.7	14.3	15.0	10.3	11.2	11.0	
Luxembourg	9.5	10.8	9.8	7.7	7.2	9.1	10.5	17.6	7.9	7.8	10.0	10.7	5.8	5.6	5.3	9.9	12.5	11.9	10.7	9.1	
United Kingdom	16.0	24.2	16.5	17.0	17.5	16.5	25.1	19.4	20.7	22.0	:	:	:	:	:	:	:	:	:	:	
Community	13.0	13.8	11.3	11.9	12.1	11.9	14.0	12.9	14.2	15.4	15.1	10.1	8.7	9.7	9.3	11.0	12.5	10.5	10.1	9.7	

: = data not available.
Source: EUROSTAT.

TABLE 7

EVOLUTION OF WAGE COSTS IN THE COMMUNITY (1974 to 1977)

(Percentage change on preceding year)

	Compensation of employees per wage and salary earner				Compensation of employees per unit of output in economy as a whole			
	1974	1975	1976	1977	1974	1975	1976	1977
Denmark	18.5	15.0	11.7	8.0	17.0	13.7	8.8	6
Germany	12.1	7.7	8.0	6.9	9.5	7.0	1.7	4.0
France	17.2	17.7	14.7	11.8	13.4	17.6	9.7	9.1
Ireland	17.9	24.6	20.8	13.5	18.2	29.2	14.3	10.0
Italy	23.0	19.7	21.3	22	20.7	25.6	16.1	20.3
Netherlands	15.8	13.4	10.8	7.7	11.5	14.3	6.0	5.5
Belgium	16.2	15.4	12.1	10.0	14.6	16.2	6.9	6.3
Luxembourg	22	12.5	10.0	10.3	21.8	23.7	5.6	8.2
United Kingdom	21.3	30.8	14.8	10.5	21.6	32.9	12.1	10.0
Community	17.1	16.7	12.8	11.0	15.5	17.4	7.6	8.5

Source: Commission.

TABLE 8

DEVELOPMENT OF IMPORTS AND EXPORTS IN VALUE TERMS (INTRA AND EXTRA EEC)

(Annual rate of change) ⁽¹⁾

	% of total intra or extra ⁽²⁾		Imports									
			1974		1975		1976		1977 ⁽³⁾			
									1st Quarter		2nd Quarter	
	Intra	Extra	Intra	Extra	Intra	Extra	Intra	Extra	Intra	Extra	Intra	Extra
Denmark	3.3	3.5	27.8	29.5	4.8	3.1	23.7	17.2	-8.5	13.4	-4.3	-15.1
Germany	24.2	23.1	17.9	39.1	12.1	5.8	13.2	19.4	19.7	-5.1	-2.0	0.4
France	18.2	17.7	22.8	67.9	4.8	-0.1	21.3	17.9	2.4	2.4	1.6	-1.6
Ireland	1.9	0.8	30.5	53.6	0.0	-3.9	12.1	10.9	108.0	-2.8	10.4	7.0
Italy	12.6	15.1	28.2	66.2	-5.4	-7.4	15.6	12.8	-9.3	-0.8	26.7	25.8
Netherlands	13.8	9.1	27.9	48.7	4.4	6.6	11.1	18.8	-22.3	44.3	28.6	-28.6
BLEU	14.3	6.5	26.8	56.8	3.3	-0.7	18.1	15.1	18.8	37.6	10.0	-7.4
United Kingdom	11.7	24.2	27.8	45.2	6.1	-5.2	4.8	6.1	84.8	-3.9	21.6	23.4
Community	100	100	24.3	50.7	5.2	-0.4	14.6	14.7	10.0	4.1	7.0	-2.8
			46.9	53.1	48.0	52.0	48.2	51.8	48.5	51.5	48.9	51.1

	% of total intra or extra ⁽²⁾		Exports									
			1974		1975		1976		1977 ⁽³⁾			
									1st Quarter		2nd Quarter	
	Intra	Extra	Intra	Extra	Intra	Extra	Intra	Extra	Intra	Extra	Intra	Extra
Denmark	2.4	3.2	17.9	30.8	17.7	8.8	6.5	3.5	16.1	36.0	-15.4	-18.5
Germany	28.8	36.1	27.4	39.3	-1.5	4.0	17.4	7.6	10.8	-1.6	0.8	17.0
France	17.4	15.8	22.2	37.6	4.6	22.7	7.3	4.7	20.2	12.6	-0.4	23.9
Ireland	1.4	0.5	22.0	35.5	28.6	-4.4	0.1	23.2	13.4	45.3	34.5	63.0
Italy	9.9	12.2	24.1	50.1	13.4	14.9	13.6	1.5	11.2	15.2	45.9	64.2
Netherlands	16.8	7.1	34.3	46.2	6.6	5.5	16.3	10.4	5.7	-29.1	-0.4	-3.2
BLEU	14.1	6.2	20.8	41.5	2.4	-0.6	20.3	2.8	10.0	17.9	-2.8	40.6
United Kingdom	9.2	18.9	30.7	24.9	9.5	14.9	16.9	1.0	45.3	41.7	32.6	34.5
Community	100	100	26.2	37.5	4.8	10.3	15.4	4.9	11.7	9.1	3.2	18.8
			50.7	49.3	49.1	50.9	51.6	48.4	51.9	48.1	51.0	49.0

⁽¹⁾ Calculated on the basis of data expressed in US dollars.⁽²⁾ Relative parts in 1974.⁽³⁾ Seasonally adjusted data; quarterly variation expressed at an annual rate.

Sources: EUROSTAT and Departments of the Commission.

TABLE 9
DEVELOPMENT OF TRADE BALANCE IN THE COMMUNITY
(In million \$, seasonally adjusted figures)

	1973	1974	1975	1976	1975		1976			
					III	IV	I	II	III	IV
Denmark	— 1 584	— 2 306	— 1 348	— 3 188	— 371	— 555	— 663	— 726	— 819	— 981
Germany	12 976	20 260	15 448	12 994	3 302	3 131	3 075	3 131	3 314	3 473
France	— 1 428	— 7 141	— 1 894	— 8 291	— 174	— 1 202	— 1 460	— 1 480	— 2 400	— 2 951
Ireland	— 684	— 1 211	— 609	— 857	— 88	— 132	— 274	— 163	— 207	— 214
Italy	— 5 661	— 11 042	— 3 161	— 6 216	— 509	— 1 266	— 1 370	— 1 747	— 1 179	— 1 920
Netherlands	— 431	— 145	— 745	— 1 170	— 190	— 61	122	— 598	— 241	— 453
BLEU	362	— 1 631	— 894	— 717	— 449	— 355	— 212	— 243	— 209	— 52
United Kingdom	— 8 555	— 15 985	— 9 642	— 9 370	— 2 623	— 1 895	— 1 617	— 2 395	— 2 635	— 2 723
Community ⁽¹⁾	— 4 592	— 20 549	— 4 504	19 476	— 1 344	— 2 784	— 3 321	— 4 784	— 5 071	— 6 299

	1977							
	I			II			July	August
	Intra	Extra	Total	Intra	Extra	Total	Total expressed at a quarterly rate	
Denmark	— 443	— 392	— 835	— 472	— 387	— 857	— 790	— 909
Germany	971	2 480	3 451	993	3 113	4 106	2 586	4 463
France	— 860	— 1 658	— 2 518	— 904	— 1 217	— 2 121	— 1 797	— 1 647
Ireland	— 211	— 122	— 333	— 179	— 97	— 276	— 164	— 210
Italy	— 189	— 1 322	— 1 511	— 13	— 932	— 945	— 232	198
Netherlands	1 769	— 2 441	— 672	1 387	— 2 176	— 689	— 480	:
BLEU	469	— 814	— 345	268	— 573	— 305	279	:
United Kingdom	— 752	— 1 579	— 2 331	— 681	— 1 443	— 2 124	— 1 400	— 673
Community ⁽¹⁾	836	— 5 483	— 4 647	426	— 3 545	— 3 121	— 1 583	:

⁽¹⁾ Community: extra-community trade.

Source: EUROSTAT and departments of the Commission.

TABLE 10

**DEVELOPMENT OF EXPENDITURE, REVENUE AND THE NET BORROWING
REQUIREMENT OF CENTRAL GOVERNMENT**

	Expenditure		Revenue		Net borrowing requirement			
	Percentage growth				National currency ⁽¹⁾		As a percentage of GDP	
	1976	1977	1976	1977	1976	1977	1976	1977
Denmark ⁽²⁾	11 1/2	11	18	10	— 6.7	— 8.0	— 2.8	— 3.1
Germany	5	6	10 1/2	10 1/2	— 44.0	— 34.5	— 3.9	— 2.9
France	12	11	20	13 1/2	— 17.2	— 17.0	— 1.0	— 0.9
Ireland	17	19	35	20.6	— 490	— 560	— 11.0	— 10.5
Italy	31 1/2	34	32	46 1/2	— 13 988	— 10 100	— 9.8	— 5.8
Netherlands	16	11	17 1/2	12	— 7.5	— 7.7	— 3.2	— 3.0
Belgium	16	15 1/2	13 1/2	15 1/2	— 151.5	— 175.0	— 5.9	— 6.2
Luxembourg	19	14	15	10	— 0.1	— 1.3	— 0.1	— 1.4
United Kingdom ⁽²⁾	8	13 1/2	18	13	— 5 800	— 6 700	— 4.8	— 4.8

⁽¹⁾ In thousand million Dkr, DM, FF, Lit, Fl, Bfrs and Lfrs and million £.

⁽²⁾ Fiscal years.

Source: Departments of the Commission.

TABLE 11
DEVELOPMENT OF MONEY SUPPLY AND INTEREST RATES IN THE COMMUNITY

	Money supply ⁽¹⁾				Short term interest rates ⁽²⁾				Long term interest rates ⁽²⁾			
	December 1975	December 1976	March 1977	Latest month known	December 1975	December 1976	December 1977	Latest month known	December 1975	December 1976	December 1977	Latest month known
Denmark	25.1	11.5	9.0	10.0 ⁽⁷⁾	8.0	13.5	13.5	18.0 ⁽⁷⁾	13.2	15.2	15.5	15.8 ⁽⁷⁾
Germany	8.6	8.4	9.3	9.4 ⁽⁷⁾	3.9	5.0	4.5	4.0 ⁽⁷⁾	8.6	7.4	7.0	6.1 ⁽⁷⁾
France	15.9	12.8	12.3	11.3 ⁽⁴⁾	6.5	10.4	9.7	8.3 ⁽⁷⁾	10.2	11.0	10.9	11.0 ⁽⁷⁾
Ireland	20.7	14.3	15.3	15.4 ⁽⁵⁾	10.9	14.8	10.8	7.6 ⁽⁶⁾	14.6	15.5	12.7	13.6 ⁽⁶⁾
Italy	23.5	22.3	21.7	23.4 ⁽⁴⁾	8.3	16.8	16.5	13.4 ⁽⁴⁾	10.5	14.2	14.8	14.4 ⁽⁷⁾
Netherlands	5.7	22.7	24.4	14.8 ⁽⁶⁾	4.4	6.4	5.5	3.2 ⁽⁷⁾	7.7	7.5	7.6	6.7 ⁽⁷⁾
Belgium	17.2	13.4	12.4	11.2 ⁽⁶⁾	3.9	7.4	5.5	4.9 ⁽⁷⁾	8.5	9.3	9.1	8.7 ⁽⁷⁾
United Kingdom	7.9	11.9	6.4	7.0 ⁽⁷⁾	10.2	13.8	9.7	5.8 ⁽⁷⁾	14.8	15.5	13.3	11.9 ⁽⁷⁾

⁽¹⁾ M2; United Kingdom, Ireland and Germany: M3; percentage change on corresponding month of previous year.

⁽²⁾ Day to day money rates; monthly average; Denmark: last day of month.

⁽³⁾ Yield on bonds.

⁽⁴⁾ July.

⁽⁵⁾ May.

⁽⁶⁾ June.

⁽⁷⁾ September.

Source: Departments of the Commission.

GRAPH D

EXCHANGE RATES

(weighted change in % since 1st Quarter 1972; weighting according to structure of exports)

