

MONETARY COMMITTEE  
OF THE EUROPEAN COMMUNITIES

**TWENTY-FOURTH REPORT  
ON THE ACTIVITIES**

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## I – INTRODUCTION

1. The main features of the world economic situation in 1982 were persistent recession and continuing disinflation. In fact the expansion which had been expected for the second half of the year did not materialize; it was only in late 1982 and early 1983 that the first signs of an improvement in activity began to appear in a number of industrial countries.

The weakness in activity in 1982 was due to several factors, including the adjustment measures taken by many countries to restore better internal and external equilibrium; high interest rates — particularly in real terms — and their depressing effects on world trade; and the serious debt-servicing problems that suddenly confronted some developing countries in the summer. In total, the volume of world trade contracted by almost 1% in relation to 1981. A pronounced drop in the imports of some larger industrialized countries and all the non-oil developing countries coincided with a slight decline in demand from the oil-producing countries in contrast to the vigorous expansion observed during earlier years, including 1981.

2. GDP growth in the Community was much weaker than expected, and did not exceed 0.3% in real terms for the whole of 1982. There was even a slight contraction in the Benelux group, Germany and Italy. This trend was due to a further decline in exports associated with the contraction of world trade, and to a decline in domestic demand resulting from adjustment measures and weak investment demand. While activity thus practically stagnated, unemployment climbed steadily to an average of 9.8% of the Community labour force in 1982. Nevertheless, there were some encouraging developments in 1982:

- (i) inflation slowed down in nearly all the Member States, to 8.8% on average in the Community compared with 10.1% in 1981, although the improvement in most countries was not so marked as that observed in the United States and Japan, and differentials between Member States remained large;
- (ii) the trend of wage costs was moderated, although not to the same extent in all Member States, and not enough in some to lead to any substantial improvement in competitiveness;
- (iii) the deficit on the Community's balance of payments on current account stabilized at the 1981 level of 0.6% of GDP, although this fairly favourable development conceals divergences between Member States that are still large and far from satisfactory.

3. In view of weak economic activity and high unemployment, it was desirable for monetary policy to be relaxed, as far as compatible with domestic and external,

economic and financial, conditions. The room for manoeuvre available for this relaxation has varied widely from one country to another, mainly because of differences in economic performance, in financial conditions, in the stance of policies other than monetary policy and in the relative significance attached to these considerations. Nominal interest rates have come down in all the countries to a greater or lesser extent. However, short-term rates have fallen further than long-term rates, which are still fairly high in most countries. Budget policies have been affected by general economic trends: the economic situation has kept tax revenue down, while public expenditure has been in line with initial estimates and the burden of debt servicing has increased. Despite efforts on the part of the budgetary authorities, fiscal deficits rose as a percentage of GDP. But the divergences between Member States on this front, which had widened considerably in 1981, narrowed somewhat in 1982.

4. The divergences between economic developments in the Community countries and in particular between the rates of inflation, could not be overcome by domestic correcting measures. In 1982 the tensions which therefore emerged led to two realignments in the European Monetary System: the first, on 21 February, involved the Belgian and Luxembourg francs and the Danish krone; the second, on 12 June, changed the parities of the German mark, the Dutch guilder, the Italian lira and the French franc.

## II – COMMUNITY ACTIONS AND THE ACTIVITIES OF THE COMMITTEE

5. In view of the economic conditions prevalent in the world and in the Community in 1982, and of the necessity to ensure the smooth functioning of the EMS, the Committee organized its work around the following main themes: the analysis of general economic conditions and the examination of monetary and financial policy in the Community; the analysis of the international environment and the effects of the policies implemented by the Community's main partners; international monetary and financial relations. The Committee also did a certain amount of technical work on the operation of the European Monetary System.

6. The Committee's work concentrated, as a matter of priority, on the trends of the basic factors of the Member States' economies. 1982 was marked by the emergence of major pressures within the EMS due to divergences, which *ex-ante* coordination policies were insufficient to attenuate. In February, the Belgian and Luxembourg francs as well as the Danish krone were devalued. Following an economic policy recommendation to Belgium made in July 1981 by the Commission, which was examined at length by the Monetary Committee, the devaluation was accompanied, as is in principle desirable, by a programme of economic recovery measures. In June, the need for a general EMS realignment became apparent. The agreement reached at that time took account of the major programme the French Government intended to implement to

speed up disinflation in the economy by controlling public and social budgets, and to restrain prices and incomes.

7. In 1982 the Committee again devoted much of its time to examining the economic and financial situations in the Member States. One form of concertation of national policies is an *ex-ante* exchange of views on the targets adopted by the monetary authorities of the Member States. The Committee examined, as it does every year, the actual development of monetary aggregates.

Monetary policy was once again central to the definition of the Member States' economic policies, given that budget policy contributed little to restoring the main equilibria in most countries. The Committee noted that the stance of monetary policy in most Community countries was less restrictive than in 1981. This accords with initial aims in some countries, notably Germany and the Netherlands. In other countries, the more relaxed monetary policy contrasted with the authorities' initial objective of maintaining tight monetary conditions, largely in order to further the adjustment process. The less restrictive stance reflects the attitude of the monetary authorities, who were more reluctant to pursue restrictive policies in a situation of deepening recession and larger-than-expected public sector financing needs. Most countries met their intermediate monetary objectives, which had generally been set to provide little scope for easier monetary conditions. However liquidity ratios often increased more (or decreased less) than projected as a result of short-falls in nominal GDP. Monetary authorities did not react to this development by revising their targets downwards. The rise in the liquidity ratio originated in part from lower-than-expected real growth; thus monetary policy adjusted to the cyclical increase in demand for money.

8. In its report to the Council and the Commission on recycling (June 1980), the Committee suggested that a procedure of information and mutual surveillance should be introduced to review balance-of-payments and external indebtedness positions of all the Member States, and corresponding policies. During 1982, the Committee set up a framework for this procedure and examined in detail the Member States' positions. The adjustment process, which started in several member countries in 1980, now seems to be confirmed and to be generalized throughout the Community. There was a steady improvement in goods and services balances in 1982 in most deficit member countries, while the others increased their surpluses or maintained positions close to equilibrium.

In many member countries the improved trend in the goods and services balance was only partially passed on to the balance of autonomous capital transactions, which continued to show substantial deficits in 1982. In fact, owing to the cost of servicing the accumulated external debt, and to foreign borrowing to replenish exchange reserves, balances of payments continued to be adversely affected by deteriorating factor income accounts. Thus, in most member countries, external indebtedness continued to grow at a sustained rate. The rise in the dollar and high long-term interest rates have laid a heavy burden of interest charges on the countries that had previously accumulated a large external debt.

9. As the Community is the world's biggest exporter, sustained, non-inflationary growth depends partly on maintaining a system of open multilateral trade. As last year, the problem of exchange relations with the US dollar was a central concern and theme for discussion. For example, the Committee fears that where exchange rates are unstable, or where they do not reflect fundamental factors, this may have adverse effects on trade flows and may even provoke protectionist reactions.

10. The Committee's work on the Community's economic environment during 1982 therefore concentrated on the repercussions on international financial relations of the policies of the Community's main partners. The trends of exchange rates and interest rates were closely linked, in 1982, to the decisions of the US authorities on domestic budget and monetary policy, and on techniques of monetary control. As in 1981, the Committee welcomed the success of the US authorities in reducing inflation thus helping to generate the basis for economic recovery. It also observed that this approach was beginning to achieve results. It expressed concern, however, over the large budget deficits expected during the next few years in the US and the failure of the authorities to agree on ways to significantly reduce the deficit. In view of the responsibility the United States bears in the world, the US authorities are duty bound, when implementing their policy, to consider the impact it can have on the monetary and financial situation of other countries.

Similarly, Japan's role in international trade in general, and trade in manufactures in particular, means that it should be more aware of its external economic responsibilities when implementing its economic policies, including exchange-rate policy.

Following the major devaluation decided by the Swedish authorities in the autumn of 1982, the Monetary Committee investigated the question of parity changes decided by non-Community countries and their repercussions for the Community. It agreed to keep the situation of the 'peripheral currencies' under review.

11. As usual, the Committee made preparations for the spring and autumn meetings of the Interim Committee of the International Monetary Fund and for the annual meeting of the Fund and the World Bank. When preparing the statements to be made at these meetings on behalf of the Community, the Monetary Committee pointed out that the maintenance of free world trade was of fundamental importance both for the industrialized countries and for the developing countries. It was encouraging that the protectionist tendencies accompanying the recent slow rate of growth had, by and large, been resisted. In order to avoid the risk of a gradual undermining of free world trade, however, it is vitally important that international coordination of economic policy should be strengthened.

In this regard the International Monetary Fund should continue to play an important role both in the difficult process of adjusting underlying economic imbalances and in the surveillance of exchange-rate policies. Also the Committee especially urged all the IMF members to comply with the requirements relative to coordination in the IMF articles of

agreement and to take full account of the international repercussions of their domestic economic policies.

With this in mind, the Committee supported a substantial increase in the resources at the Fund's disposal. In the framework of the eighth review of quotas the Committee felt that the quotas of the member countries must remain the main source of financing available to the Fund, and that this review of quotas must provide the Fund with sufficient usable resources both to ensure the liquidity of its liabilities and to provide financial support for the appropriate adjustment programmes adopted by members.

12. In the same field, the Committee also discussed some of the monetary and financial aspects of relations between industrialized and developing countries. It believes these aspects should be dealt with mainly by the IMF, the World Bank and the other multilateral development banks. In 1982, the IMF clearly demonstrated in a variety of circumstances — often of the utmost difficulty — its ability to deal flexibly and effectively with international monetary problems, always emphasizing consensus in its decision-making process. The Fund should continue to be a promoter of adjustment, a source of temporary financing and a catalyst of complementary financial flows from other official sources and from private sources. It has an established role not only as an executant of existing arrangements, but also as an organ with major responsibility for the efficiency of the international monetary system.

The World Bank, for its part, has set up a programme of loans for structural adjustment, and a special aid programme that made it possible to speed up the paying out of loans. The Committee reiterates its support for the World Bank and the other multilateral development banks.

Finally, the Committee stressed the importance of an adequate transfer of resources to less-developed countries. The member countries have provided substantial official development aid, which was largely maintained in 1982 despite the recession. In some cases it was even increased, notwithstanding budget problems, in particular to support the poorest countries.

## LIST OF MEMBERS AND ALTERNATES OF THE MONETARY COMMITTEE

### *Chairman*

Dr H. Schulmann                      Staatssekretär, Bundesministerium der Finanzen (Bonn)  
(until 31.10.1982)

### *Vice-Chairmen*

Sir Kenneth Couzens                  Second Permanent Secretary, HM Treasury (London)  
Dott. L. Dini                              Direttore Generale, Banca d'Italia (Rome)  
M. Horgan                                  Second Secretary, Department of Finance (Dublin)  
(until 28.4.1982)  
J.-M. Camdessus                        Directeur du Trésor (Paris)

### *Members*

S. Andersen                              Member of the Board of Governors, Danmarks  
(until 28.3.1982)                          Nationalbank (Copenhagen)  
M.J. Balfour                                Assistant Director, Bank of England (London)  
D. Chalikias                                Vice-Governor, Bank of Greece (Athens)  
Prof. T. Dimopoulos                      Special Adviser, Ministry of Coordination (Athens)  
(since 4.3.1982)  
Dr L. Gleske                                Mitglied des Direktoriums der Deutschen Bundesbank  
(Frankfurt-am-Main)  
Prof. L. Izzo                                Consigliere, Ministero del Tesoro (Rome)  
(until 30.6.1982)  
P. Jaans                                      Commissaire au contrôle des banques (Luxembourg)  
G. Janson                                  Directeur à la Banque nationale de Belgique (Brussels)  
R. Kirsch                                    Conseiller de gouvernement, ministère des finances  
(Luxembourg)  
Prof. Dr P. Korteweg                      Thesaurier-generaal bij het Ministerie van Financiën  
(The Hague)  
D. McCutcheon                            Department of Finance (Dublin)  
(since 29.4.1982)  
Dr P. McGowan                            Central Bank of Ireland (Dublin)  
(since 21.4.1982)  
C. Mavraganis                              Deputy Director-General, Ministry of Coordination  
(Athens)

R. Mikkelsen (since 1.4.1982)	Member of the Board of Governors, Danmarks Nationalbank (Copenhagen)
J.-P. Mingasson	Directeur à la direction générale des affaires économiques et financières, Commission des Communautés européennes (Brussels)
T. Padoa-Schioppa	Directeur Général des affaires économiques et financières, Commission des Communautés européennes (Brussels)
A. Prate	Premier sous-gouverneur de la Banque de France (Paris)
Dott. M. Sarcinelli (since 1.7.1982)	Direttore Generale, Ministero del Tesoro (Rome)
Dr A. Szasz	Directeur, De Nederlandsche Bank NV (Amsterdam)
Dr H. Tietmeyer (since 1.11.1982)	Staatssekretär, Bundesministerium der Finanzen (Bonn)
N. Ussing	Kommitteret, Det økonomiske Sekretariat (Copenhagen)
J. van Ypersele de Strihou	Chef de Cabinet du Premier ministre (Brussels)
K. Wesselkock (until 31.10.1982)	Ministerialdirektor, Bundesministerium der Finanzen (Bonn)

*Chairman of the alternates*

J.-J. Rey	Sous-Directeur, Banque nationale de Belgique (Brussels)
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*Alternates*

Dr D.H. Boot	De Nederlandsche Bank NV (Amsterdam)
S. Boyer-Søgaard (until 29.3.1982)	Danmarks Nationalbank (Copenhagen)
P.J. Bull	Bank of England (London)
A. Chalkiadis (until 26.5.1982)	Ministry of Coordination (Athens)
Dr F.A. Engering	Ministerie van Financiën (The Hague)
R. Floc'h	Banque de France (Paris)
Dr W. Flandorffer	Bundesministerium für Wirtschaft (Bonn)
Mrs M. Hedley-Miller	HM Treasury (London)
Ph. Jurgensen	Ministère de l'économie (Paris)
G. Kasmaš (since 3.2.1982)	Ministry of Coordination (Athens)
G. Malakis (since 27.5.1982)	Ministry of Coordination (Athens)
J. Ovi (since 1.4.1982)	Head of Department, Danmarks Nationalbank (Copenhagen)
P. Papageorgiou (until 2.2.1982)	Bank of Greece (Athens)
D. Quigley	Department of Finance (Dublin)
G. Reynolds	Central Bank of Ireland (Dublin)
Dr W. Rieke	Deutsche Bundesbank (Frankfurt am Main)

Dott. F. Saccomanni  
M. Schmit  
J. Thomsen  
J. Vanormelingen  
P. Zimmer  
Dott. A. Zodda

Banca d'Italia (Rome)  
Ministère des Finances (Luxembourg)  
Det økonomiske Sekretariat (Copenhagen)  
Ministère des Finances (Brussels)  
Commissariat au contrôle des banques (Luxembourg)  
Ministero del Tesoro (Rome)

*Secretariat*

Dr A. Kees  
R. Barthélemy  
A. Leipold  
(until 10.9.1982)

Secretary of the Committee (Brussels)

Monetary Committee of the European Communities

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