Commission of the
European
Communities

Directorate-
General
for Economic
and Financial
Affairs

3
1977

The economic situation in the Community

Quarterly survey

This publication appears quarterly. Numbers 2 (June) and 4 (December) are surveys by the Commission of the European Communities of recent developments in and the outlook for the economic situation in the Community as a whole and in each of the Member States. They do not contain economic policy recommendations or guidelines, but are limited in this area to a statement of the conjunctural policy problems arising at Community level and in the various Member States. Number 3 (October) reproduces the Commission proposal for the annual report on the economic situation in the Community. This report, which the Council adopts in the fourth quarter of each year, establishes the economic policy guidelines to be followed by the Member States in the year that follows. Number 1 (March) reproduces the text of a communication by the Commission to the Council concerning the adjustment of these guidelines for the current year. It contains in addition a summary account of the economic policies pursued in the previous year, and a report on the application of the Council decision on the attainment of a high degree of convergence of the economic policies of the Member States and on the conformity of the policies pursued with the objectives set.

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Rue de la Loi 200, 1049 Brussels

Com(77) 494
18 october 1977

Commission of the
European Communities

Annual report
on
the economic situation in the Community

(Commission proposal to the Council)

OCTOBER 1977

CONTENTS

Brussels, 18 October 1977.

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 draft 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, there have at the same time been significant gains with regard to the balances of payments, and also on the prices front.

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 was in fact only about 3% between the third quarter of 1975 — the time when the recovery began to get under way — and the same quarter of 1977. This rate is rather lower than the rate normally recorded two years after the lower turning point 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 — sooner or later — 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 of the Member States, this being mainly owing to higher productivity reserves and the increase in the size of the labour force. For the Community as a whole, the rate was 5.6% in the third quarter of 1977, compared with 4.8% two years previously.

1.3. This *disappointing performance* is accounted for by the inadequacy of the feedback effect and growth diffusion which were features of preceding cyclical recovery phases. The booster effects on fixed investment demand stemming initially from the need to rebuild depleted stocks and from the recovery in consumption demand, and subsequently from the consolidation of export demand, have fallen short of needs.

The *spontaneous factors* which normally drive forward 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 measures adopted earlier and the relaxation of monetary policy since early 1977, which, though only moderate, has been fairly general.

In most of the member countries, the two demand components most likely to provide more support for the economy in the second half than in the first half of 1977 are private consumption and public expenditure.

The recovery in industrial investment should continue at an appreciable rate in the United Kingdom and Ireland. In certain Member States (Italy, Denmark), the economy will be more influenced than in the past by restrictions introduced previously.

1.4. With regard to *external payments*, 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 for the full year. [1] France's current account deficit should be a good deal lower in 1977 than in 1976 ($ 5 800 million). The United Kingdom and Italy will probably achieve or come near to equilibrium on their current accounts, contrasting with their deficits in 1976 ($ 2 500 million for the United Kingdom and $2 800 million for Italy). The surplus countries (Federal Republic of Germany and the Netherlands) will see only a slight drop in their aggregate surplus as compared with 1976. The current balance of the Community taken as a whole should show a deficit of about $2 000 million in 1977.

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] In 1977, the consumer price level in the Community will have increased by approximately 9½%; the rate of inflation will probably be lower than this for the second half-year taken as a whole. 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 considered as a whole will probably be only about 2½%, 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 maintain

[1] Cf. Table 1.
[2] Cf. Tables 5 and 7.

restrictive monetary and budgetary policies. At the same time, the overall effect of policies to restore their economies to a sound footing conducted by the deficit countries have not been offset by more expansionary policies in 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.

Consequently, to achieve the growth objective set for the *1976-80* period — which would be needed to reduce unemployment from the rate of 5.4 % now expected for 1977 to a rate of 3-4 % by 1980 — the volume of the Community's gross domestic product would have to expand in the coming three years at an annual rate of some 5-6 %. But the present outlook suggests a growth rate of something between only 3½ % and 4 % for the full period 1976-80, unless there is a substantial change in economic policy and an improvement in the social consensus.

The share of gross fixed investment in gross domestic product will probably fall short of 21 % in 1977, although the fourth programme calls for a figure of 23 % in 1980. To obtain this last figure, the expansion in terms of volume of fixed investment should, in the coming three years, be running at at least 7 %; in fact, it was only 3 % in 1976 and will probably be down to 1 % in 1977.

In coming 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. It is true that structural problems had been building up in all the Member States well before the economic crisis. But mounting prices for raw materials, the unexpected 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 helped 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. In many areas, no solution has been found to the wide range of structural problems, 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 then 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 if the objectives set out in the fourth medium-term economic policy programme are to be met.

2.2. The development of *world business activity foreseen* for 1978 will probably be rather hesitant. The difficulties hampering the main industrialized non-member 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 own efforts to improve their external accounts without impairing unduly 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 imports made 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 raw materials' export prices will be a good deal less rapid than was the case until April last year. [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 slow-down 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 6½ % in 1978, against 7½ % in 1977 and 9 % in 1976. [3]

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

(i) *the rate of growth of the gross domestic product in real terms* of the Community could well reach 3½ % in 1978, or about one percentage point more than in 1977 (2½ %);

(ii) *the number of the wholly unemployed* (1977, about 5.9 million) in the Community may be expected to go on increasing; with so many firms working well below capacity, the expansion of production will entail hardly any increase in the number of persons employed; the number of employable persons will increase in 1978 by 500 000 to 600 000 persons but not all of these will in fact join the labour force;

(iii) *the inflation rate* at consumer level may be put at about 8 to 8½ % (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 favouring what may well be a more substantial improvement, but this can be secured only if further progress is made in curbing the upward movement of wage costs;

(iv) *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

[1] Such initiatives include the measures announced in France at the end of August, and those which the Federal German authorities implemented in March and others which they announced in September.

[2] Cf. Graph A.

[3] Cf. Table 2.

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 real GDP growth of about 3½% in 1978 now foreseeable, assuming that the Member States' economic policies are not changed, would not be enough to bring many firms back to capacity working. In these circumstances, conditions on the labour market would continue to deteriorate. In most of the Member States no stabilization, much less an improvement, in the underlying employment situation can be expected unless a moderate cost trend and lasting GDP growth in terms of volume of at least 4-4½% are achieved, and full employment cannot be restored without a much higher medium-term growth rate.

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

2.5. Since the end of 1976, the development of economic activity in the Community has fallen well short of forecasts and objectives set, expansion having failed to achieve sufficient buoyancy in those countries in which overall disequilibria have been least severe. What is therefore now needed 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 coordinated economic policy pursued by the Member States which will not only reinforce the tendency for inflation rates to fall but will also add vigour to growth forces in the Community as the year progress.

These *objectives* should be the following:

(i) a real GDP growth rate for the Community taken as a whole of 4-4½%;

(ii) a halt to the spreading of unemployment and an improvement in the situation on the labour market;

(iii) 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;

(iv) a rate of inflation down to 7-8% for the Community average (compared with about 9½% in 1977) and a narrower spread between the extremes, down to a range of under 4-10% (4-18% in 1977).

III — Economic policy guidelines

(a) General guidelines

3.1. These objectives are by no means out of reach in 1978 if all the Member States pool their efforts. At the present time demand is 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 *coordinate among themselves* 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 progress, other Community countries will be able to use the room for manœuvre becoming available to contribute to reinforcing business activity.

3.2. Council Decision 77/492/EEC of 27 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, the question that must be considered is how far the restrictions applied to encourage the restoration of macro-economic equilibria can be relaxed without departing from the present target.

3.3. In view of the shortfall in overall demand, promotion of private and public investment is no longer a sufficient counter-measure; personal consumption must also be stimulated, but care must be taken to avoid boosting wage costs. In this connection, the adaptation of personal income tax would in several Member States, be a useful tool, particularly if low- and medium-income groups are given priority, so as to avoid merely 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 dangerous development: the paralysis of an instrument which has traditionally played an important role during times of economic difficulties is liable not only to slow down activity but also to generate disequilibria in a subsequent phase of the cycle, when the planned expenditure is in fact disbursed. To combat 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 agencies, particularly the local authorities, to adopt

[1] OJ L 204 of 10.8.1977, p. 6.

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 be gradually improving 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 this needs of the Treasury has contributed, so far this year, only to a limited extent to the increase in the money supply (M_2).

3.6. *Monetary policy* will have to be geared to growth and price targets. Smooth progress at the right tempo of the main monetary aggregates is an essential condition for a healthy and lasting recovery. Changes in the aggregates should be properly related to specific situations in each Member State, especially the balance of payments situation. If monetary norms were fixed and published, the two sides of industry would have a useful point of reference for determining wages and prices, and 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.

Early in 1978, such norms should be adopted, in quantitative form, at Community level after consultation of the Committee of Governors of the Central Banks, and of the Monetary Committee. This is an important aspect of the establishment of a Community strategy designed to improve the *convergence of the economies.*[1]

3.7. The task of getting the economy moving again and of restoring confidence cannot be discharged by the authorities working alone: the success of efforts to achieve the growth goals set and to improve the employment situation will depend on the active participation and support of the *social partners.* shouldering their responsibilities together, the social partners must face up to the hazards of the current economic trend 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 firms' profits, the propensity to invest, and the competitiveness of the Member States be improved.

3.8. The cooperation of the social partners will be particularly relevant to the implementation of a *specific employment policy.* An expansion of only moderate proportions, on the scale expected for 1978, will have no immediate 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 improvement in profits, and only later actually compel firms to take on more workers.

This means that new measures in the area of employment policy are needed. These should be of three kinds.

There must first of all be greater emphasis on developing vocational training and retraining and on improving the effectiveness of employment exchanges.

All the member countries have taken measures to boost job creation, especially for young people. These measures should be followed carefully and their results examined, particularly from the point of view of their effectiveness for those concerned, but also with a view to Community cooperation.

Finally, in the present situation, any measures taken to reduce working hours should be as flexible as possible, should avoid all forms of administrative constraint and should be restricted to particularly arduous jobs.

The Community instruments (Social Fund and Regional Fund and EIB) should make a substantial contribution to this action, and the Community institutions must also ensure that the implementation of national instruments is properly coordinated, taking account of their effect on employment.

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

(i) the implementation of an investment policy based, *inter alia,* on the Community financing instrument for improving structures, proposed by the Commission;

(ii) a more vigorous drive to achieve energy savings and to develop replacement forms of energy;

(iii) encouraging research into and the application of new technologies;

(iv) gradual elimination of the large number of administrative obstacles which hamper investment by complicating licensing procedures;

(v) elimination of discrimination on the financial markets, provision of tax facilities for small and medium-sized firms, and measures to encourage the establishment of new firms.

3.10. Various measures of a general nature designed to encourage investment have been taken or are envisaged at national level. While they are in line with the needs of the economy, they may nevertheless entail the risk of Member States seeking to outbid each other in this field or that the inter-industry cost pattern will be distorted. The right way to tackle this problem is to improve *coordination of aid measures at Community level and to ensure that more information is available.*

3.11. The danger that the business trend may slacken 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 continuing 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. Imports by the latter countries must be encouraged by an improvement in development aid. Last but not least, everything must be done to combat protectionist behaviour patterns.

(b) Guidelines for the individual countries

3.12. In *Denmark,* the economic situation in mid-

[1] Improving coordination of the national economic policies (Commission communication to the Council, 5 October 1977, COM 77/443 final).

summer was marked by a relatively low level of activity, a persistent, upward trend in unemployment (6% of the labour force), some increase in the rate of inflation and a still quite substantial current account deficit (equal to almost 4% of GDP). The authorities, naturally anxious to reduce unemployment, have had to take account of the external constraints, which has ruled out any across-the-board reflation. The programme approved by the Danish Parliament in late summer complies with this necessity since it calls for tighter domestic demand management 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 krona, are strengthening the competitive position of Danish industry.

The action 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 actually decline for a short while. All in all, gross domestic product will probably increase by barely 2% in real terms in 1978 as a whole. Thanks to both the shift in resources away from consumption to exports and the less rapid pace of imports, the current account deficit is expected to narrow 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 10½% as in 1977. Apart from the influence of the changes of indirect taxation and the exchange rate it is reckoned that the underlying rate of price inflation will lose some momentum during the year.

The recent budgetary policy measures outlined within the framework of a medium-term programme feature an increase in indirect taxation stemming from a higher VAT rate (18% instead of 15%), from a greater burden of specific taxes on certain goods and services, and from an increase in some public-service charges and registration duties. The measures also include more generous depreciation arrangements and additional funds earmarked in the budget for expenditure on transfers and public investments 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, it is expected that the improvement of the public sector position from 1977 to 1978 should reduce the overall public sector deficit to a level below 1% of GDP.

For the purpose of achieving the priority target of a gradual return to external equilibrium, incomes policy should comply strictly with the settlement on incomes this spring. In this way, there will be no need to take 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 made since October 1976.

As for monetary policy, it would be advisable to maintain the tight controls on domestic credit so as to encourage capital inflows, 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, to prevent the success of the adjustment measures undertaken being jeopardized by excess liquidity.

3.13. In the *Federal Republic of Germany* the rate of growth has continued to falter. The expansion of export demand has lost momentum and the propensity to invest — suffering from the deterioration in the general economic climate and from the spurt in the upward wage cost movement — is also tending to weaken. Implementation of the budgets of the central, *land* and local authorities made no net contribution to economic activity in the first six months of 1977, mainly because tax revenues rose faster than expected, but also partly because developments on the expenditure side were hesitant. With demand sluggish, managements were reluctant to step up output. This meant that no further progress was made in eliminating unemployment either. Overall, gross domestic product in real terms will probably grow by 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 will probably 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 4½% would have to be aimed for in 1978. The Federal Government agreed in September 1977 on additional measures to strengthen growth and employment. These include, for private consumers, wage and income tax concessions and, for firms, the depreciation rules will be relaxed, assistance for 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 authorities plan not only full disbursement of budget appropriations for 1977 but, at Federal level, for 1978, an expansionary budget is being prepared (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 (9-9½%) than in 1977 (5½-6%). The net borrowing requirement of the Federal and *Länder* authorities alone will probably increase in 1978 by about DM 10 000 million, to DM 45 000 million.

All in all, the set of measures, which is expected to produce multiplier effects particularly with regard to the promotion of investment, covers a total of about DM 11 000 million, to which should be added, for 1978, the volume (about DM 5 000 million) of expenditure generated by tax and budgetary positions already adopted in the spring. Whether these measures will suffice to generate growth of about 4½% is not, however, certain. In this connection, it is of particular importance that planned *Länder* and municipality expenditure should 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 mutual 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 a working hypothesis accelerated real growth of at least 4½ %.

Any improvement in growth and employment will depend largely on the outcome of the next round of wage negotiations. The tax reliefs approved should make it easier for the two sides of industry to adjust wage claims and pricing policies to the requirements of the economy. Individual firms should also take advantage without delay of investment incentives introduced. A matter of particular importance for future growth is that administrative and other obstacles to investment, which at the present time are not only holding up investments totalling DM 10-15 000 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* the only component of aggregate demand to make any substantial contribution to increased activity in 1977 was exports. Investment has been affected by the weakness of demand. Admittedly the measures taken to sustain the rate of activity during the year 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, 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 has greatly moderated in 1977 and the prices set by public authorities have had some moderating impact the overall consumer price index has suffered, particularly in the first half of the year, from rapid price increases in food, 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 slow-down should permit a further restrain 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 % GDP. Moreover the French economy possesses large reserves of productivity which must be used in the struggle against inflation.

The government budget for 1978, which has recently been tabled, incorporates a target of 4.5% growth in the volume of the gross domestic product. Should the economy not move in line with this forecast, additional measures might prove justified during the year to sustain 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 expand their policies of hiring young people who have previously not had a job. It would also be valuable to develop the public retraining programmes.

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, GDP 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 overstimulation 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 greater moderation in 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 reliefs in income taxation 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 GDP 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 GDP 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, mainly owing to a marked fall-off in consumption and stockbuilding. 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 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 goals agreed for 1977 with the Community as regards consumer prices and the current account.

If the progress made to restoring equilibrium is to be consolidated, 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 (a surplus on current account of at least Lit 1 000 000 million in 1978 and consumer price rises limited to 8 % between December 1977 and December 1978).[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.

Structural measures designed to improve the external balance and the competitive position should be undertaken, particularly in agriculture, in the energy field and in industries whose products must be adapted to the changing pattern of demand. Specific action to bolster investment in the building and construction industry would be appropriate, since this would provide employment for appreciable numbers without increasing imports to any marked degree.

These 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.

The credit policy to be pursued in 1978 must follow its present 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. In the event that further progress is made in reducing inflation, the absolute level of interest rates could be noticeably reduced.

Under the likely assumption that, largely due 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 2½ % 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 4.6 % of the active 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 a slow-down 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. This support might take the form of a lessening of the income-tax burden and a reduction in social security contributions, to the extent that such measures can be coupled with further moderation in the rise in nominal incomes, so as to improve the medium-term prospects for employment and productive investment. Taking into account the increased VAT on energy products proposed in the 1978 draft budget, which is designed to bring about structural adaptation, the central government net borrowing requirement will thus increase from Fl 7 500 million in 1977 to Fl 12 000 million in 1978 (4.2 % of GDP).

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 Dutch 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 2½ %, a rate well below the original forecasts. The trend of activity holds out little

[1] See Council Decision 77/359/EEC of 17 May 1977, OJ L 132 of 27.5.1977.

hope of any marked spontaneous acceleration in the rate of expansion in 1978. Economic policy should, therefore, seek to establish an environment 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; the current account will be in balance in 1977 and could show a surplus in 1978. The upward movement of prices has slowed down: the year-to-year rate of increase had fallen to approximately 6.5% in September 1977. The existence of a heavy budget deficit, of which the rapid increase 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 FB 185 000 million (or 5.9% of GDP, compared with 6½% in 1977). As a result, largely, of expansionary measures taken nationally and within the Community, such a deficit is compatible with a growth of GDP in real terms of 3½% 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. A rate of increase of credit granted by financial intermediaries to households and undertakings of the same order as that of the value of gross domestic product would reserve a sufficient margin for the financing of investment.

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 1½% 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 measures 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 Flux 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, a rapid fall in interest rates, 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 ½%. 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 deficit of about £ 500 million, an improvement of about £ 1 000 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 have been twice that recorded in the UK'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 record a rate of growth of GDP of about 2½% whilst inflation could be reduced to about 10%. There could be a large surplus on the current account of the balance of payments of some £ 1 000 million. In such circumstances, there would be sufficient room for manoeuvre to enable 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; the Government might even need to consider cancelling the automatic adjustment of tax allowances.

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. This would imply that the rate of growth in the money supply as broadly defined (sterling M3), through the fiscal year 1978/79, should remain below that of GDP in value terms.

In any event, unemployment must continue to be tackled in the short term by improving 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, self-supporting 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 a Community strategy to be implemented to give support to economic activity.

Efforts should continue to place primary reliance on private and public investment. In several member countries, however, having regard to the low level of capacity utilization, it is also necessary to support private consumption. In order to prevent the resurgence of inflationary pressures this action should be reversible and inplemented 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.

TABLE 1

Development of the principal macro-economic aggregates in the Community

Country	Gross domestic product in volume, in %[1]				Number of 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
FR Germany	3.6	− 2.6	5.7	3	1.1	4.1	4.1	4.0
France	5.1	0.1	5.2	$2\frac{3}{4}$	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	$6\frac{3}{4}$
Netherlands	4.7	− 1.1	4.4	$2\frac{1}{2}$	2.1	4.0	4.3	4.3
Belgium	5.2	− 2.0	3.0	$2\frac{3}{4}$	2.3	4.5	6.1	6.9
Luxembourg	4.1	− 8.4	2.7	$1\frac{1}{4}$	0	0.2	0.4	0.5
United Kingdom	2.5	− 1.7	1.6	$\frac{1}{2}$	2.8	3.9	5.2	5.9
Community	4.0	− 1.8	4.7	$2\frac{1}{2}$	2.8	4.4	4.9	5.5

Country	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	$10\frac{1}{2}$	− 0.5	− 0.6	− 2.0	− 1.6
FR 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	$18\frac{1}{2}$	− 1.0	− 0.6	− 2.8	− 0.3
Netherlands	8.0	10.3	9.2	$7\frac{1}{4}$	1.0	1.7	2.5	1.2
Belgium	6.3	12.1	9.0	$7\frac{1}{4}$	1.0	0.3	− 0.4	− 0.1
Luxembourg	6	10.7	9.8	7				
United Kingdom	7.5	23.6	15.3	$15\frac{1}{4}$	− 1.2	− 3.8	− 2.5	− 0.9
Community	7.8	12.8	9.9	$9\frac{1}{2}$	1.1	1.4	− 8.0	− 2.1

1 Over the previous year.
2 For Italy the figures used are those of the Ministry of Labour rather than those of ISTAT.
Source: Departments of the Commission.

TABLE 2

Production and trade in the World Economy

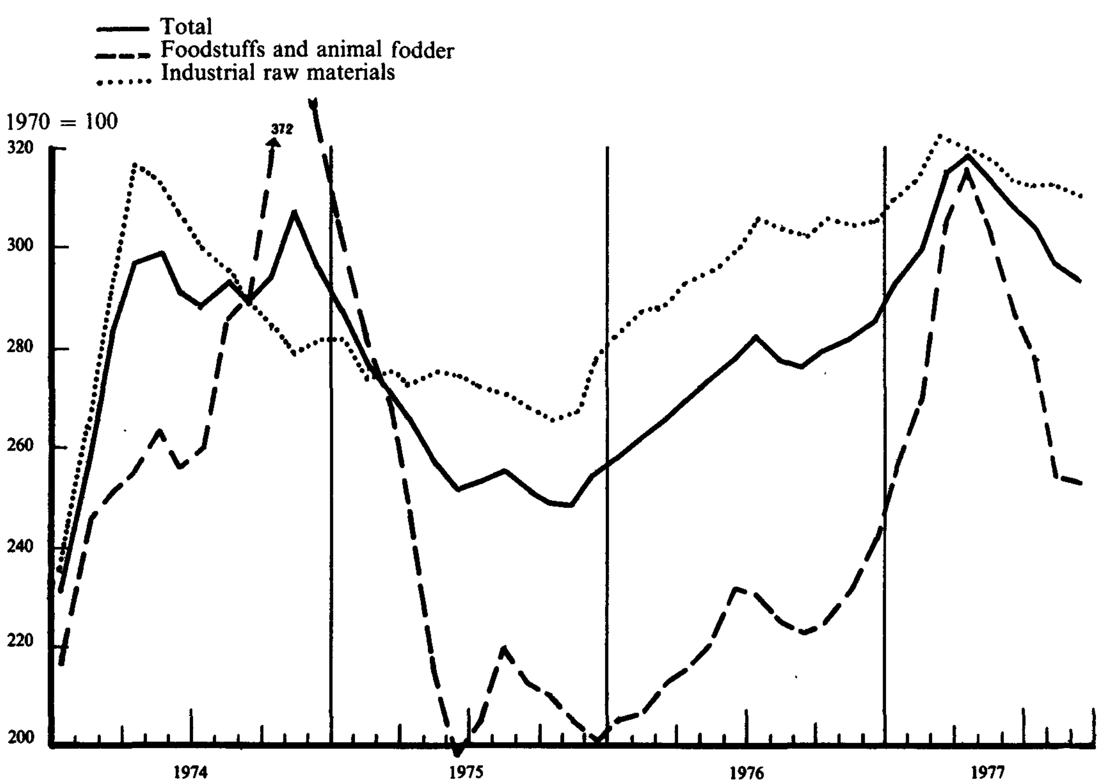
(% change on preceding year)

	Gross domestic product in real terms [1]						Volume of imports of goods					
	1969-1973 on average [2]	1974	1975	1976	1977	1978	1969-1973 on average [2]	1974	1975	1976	1977	1978
USA	3.3	– 1.7	– 1.6	6.3	5	4½	6.9	– 3.4	– 11.1	21.4	13	6
Canada	5.3	3.2	0.5	4.7	3	4½	10.0	10.0	– 5.4	6.4	4	6½
Japan	9.6	– 1.3	2.4	6.0	5½	6	14.9	– 0.7	– 13.5	11.5	6½	9
Other developed countries (excluding the Community)	6.0	3.7	0.6	2.4	2½	3½	8.9	11	– 8	6½	4	4½
All developed countries (excluding the Community)	4.6	– 0.4	– 0.3	5.4	4½	4½	9.2	3½	– 9½	12½	7½	6
Community	4.8	1.7	– 1.8	4.7	2½	3½	10.3	– 1½	– 5	14	3	5½
All developed countries (including the Community)	4.7	0.3	– 0.9	5.1	4	4	9.8	1	7	13½	5½	5½
OPEC countries							7.4	38	43	18	15½	13
Developing countries								13	– 4	3	8	6
Centrally planned economies							8.4	10	6	3	3½	4
World (excluding the Community)							8.6	9	– 3½	9	7½	6½
World (including the Community)							9.2	5	– 4	11	6	6

1 Gross national product in real terms for the United States, Canada and Japan
2 Mean annual variation between 1968 and 1973.

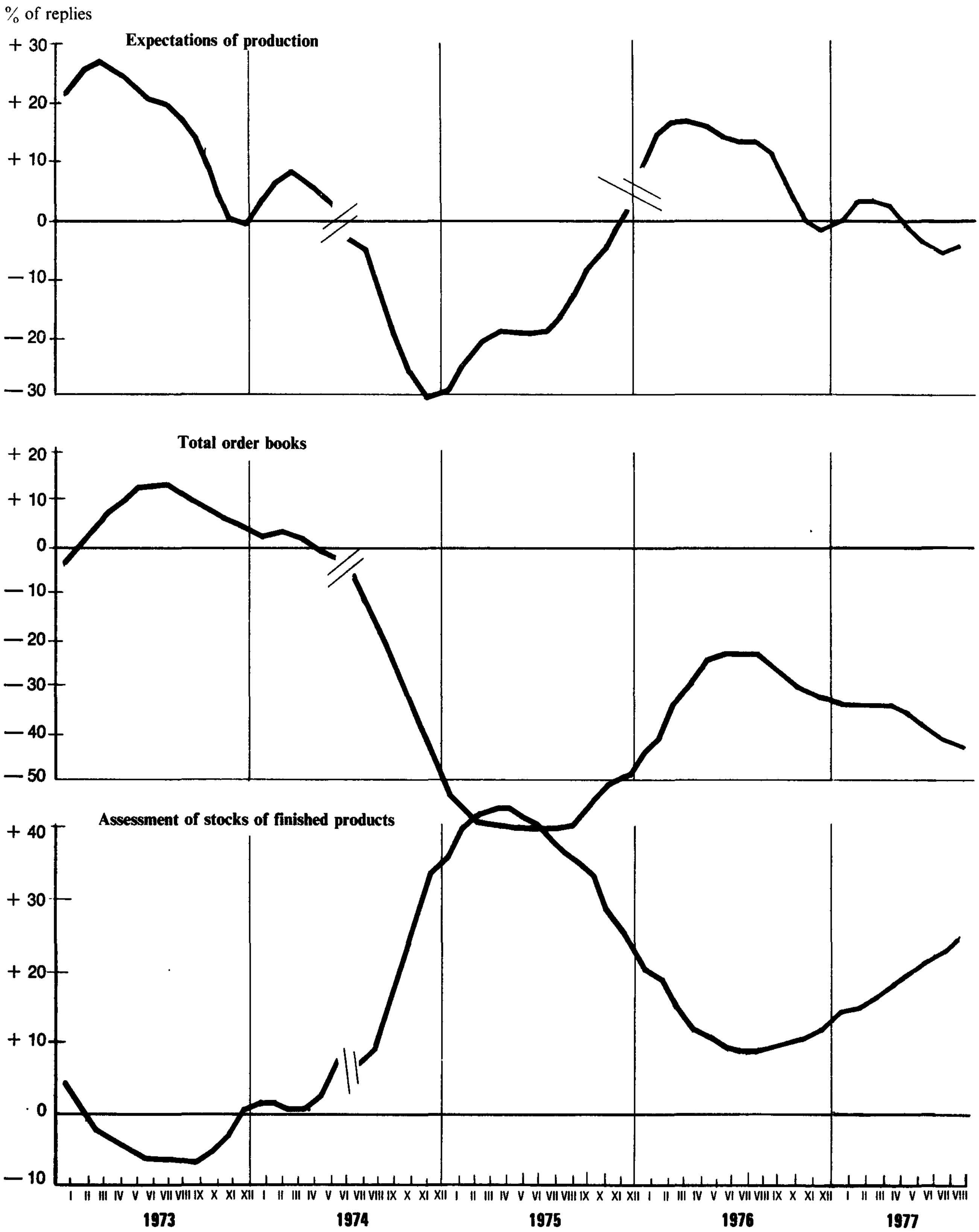
GRAPH A

World prices of raw materials (in dollars)



Source: HWWA - Institut für Wirtschaftsforschung - Hamburg.

Results of the business survey of Community industry[1]



[1] Excluding construction, food, beverages and tobacco.

TABLE 3

Development of industrial production in the Community

(% change on preceding period)

Seasonally-adjusted figures

Country	1973	1974	1975	1976	1975		1976				1977					July 1976-July 1977
					III	IV	I	II	III	IV	I	II	May	June	July	
Denmark		:	– 5 8	10 9	2.2	4.9	3 7	2 3	0.4	– 0 2	2.1	– 5 6	2 4	9.9	– 9.1	3 0
FR Germany	7.9	– 1 1	– 7.2	7.9	0 3	4 3	2 8	2.4	0.4	1.6	2 1	0.0	– 2.5	0 0	1.2	5.5
France	7.3	3.3	– 8 1	8.6	– 1.0	3 7	4 8	1 5	0.6	0.6	3.3	– 2.0	– 1.8	2.3		3.2[1]
Ireland	10 3	3 0	– 6 7	10 1	– 0.6	1.5	4 8	3 0	3.4	1.5	0 5	:	·	.		·
Italy	10 0	4 3	– 9.8	12 2	– 0 3	3 7	4.9	4.8	0 3	6 7	1.4	– 5.7	0 3	– 5.3	– 0.6	2.9
Netherlands	6 1	3.4	– 5.0	7.9	– 2 0	8.4	1.9	1.0	1 3	1.1	0 5	– 0.0	– 3 4	– 1.5	0.1	1.7
Belgium	6.3	4.0	– 10.4	8.7	– 1 0	1 5	4.9	5.3	0.1	1.7	– 0 4	0.5	0.8	– 1 5	– 4.4	2.8
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	5 6	+ 0.1	5.5	6 1
United Kingdom	8.8	– 3.1	– 4 8	1.7	– 0 6	0.8	2.6	0 2	0 0	1.8	2.9	– 2.0	0 3	– 2 8	1.2	1.7
Community	7 7	0.6	– 7.3	7 7	– 0.5	3.9	3.4	2.2	0 5	2.0	2.0	– 1.8	– 1 4	– 0 7	0.3	2.7

[1] . June 76 - June 77

· Data not available

Source: EUROSTAT.

TABLE 4

Development of unemployment in the Community

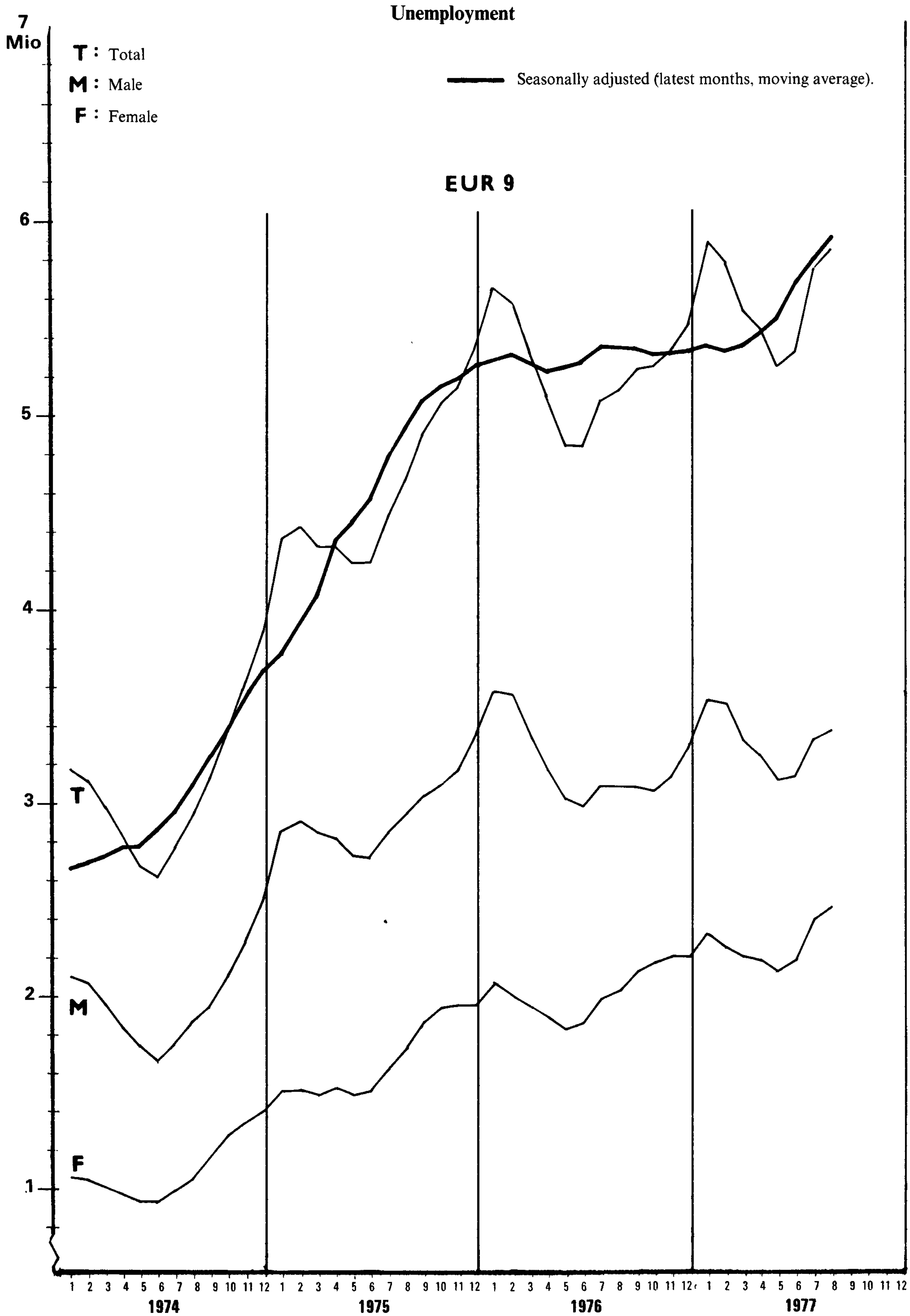
(Unemployment rates [1] since 1974)

Country	1974	1975	1976	1975	1976				1977					
				IV	I	II	III	IV	I	II	III	July	Aug	Sept
Denmark	1.9	4.7	4.8	5.0	4.9	4.6	4.7	4.8	5.5	5.8	:	5.9	6.0	:
FR 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
France	2.3	3.9	4.4	4.5	4.4	4.4	4.3	4.3	4.5	4.8	:	5.0	5.2	:
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	:
Italy	5.1	5.7	6.0	6.0	5.9	6.0	6.1	6.1	6.2	6.5	:	7.1	7.2	:
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
Belgium	3.1	5.3	6.8	6.4	6.4	6.6	7.0	7.1	7.2	7.4	:	7.7	7.9	:
Luxembourg	0.0	0.2	0.4	0.3	0.3	0.4	0.3	0.4	0.5	0.5	:	0.5	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	6.0	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	:

[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.

: Data not available

Source. EUROSTAT and departments of the Commission



Source: EUROSTAT.

TABLE 5

Development of consumer prices in the Community

Country	% 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	Aug.	latest months [3]		
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
FR of 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
: Data not available
Source: Eurostat

TABLE 6

Development of the main components of consumer prices in the Community

(Percentage change on corresponding period of previous year)

Country	Total					Foodstuffs					Non-foodstuffs					Services				
	1974	1975	1976	1977		1974	1975	1976	1977		1974	1975	1976	1977		1974	1975	1976	1977	
				Jan.-July	July				Jan.-July	July				Jan.-July	July				Jan.-July	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
FR of 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 - 1977)

(Percentage change on preceding year)

Country	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
FR of 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 Departments of the Commission

TABLE 8

Development of imports and exports in value terms (intra- and extra-EEC)

(Annual rate of change [1])

	Imports												Exports											
	% share of total intra or extra [2]		1974		1975		1976		1977 [3]				% share of total intra or extra [2]		1974		1975		1976		1977 [3]			
									I		II										I		II	
	Int	Ext	Int	Ext	Int	Ext	Int.	Ext	Int	Ext.	Int	Ext	Int	Ext	Int	Ext	Int	Ext	Int	Ext	Int	Ext	Int	Ext.
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	2.4	3.2	17.9	30.8	17.7	8.8	6.5	3.5	16.1	36.0	–15.4	–18.5
FR of 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	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	18.2	17.7	22.8	67.9	4.8	–0.1	21.3	17.9	2.4	2.4	1.6	–1.6	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	1.9	0.8	30.5	53.6	0.0	–3.9	12.1	10.9	108.0	–2.8	10.4	7.0	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	12.6	15.1	28.2	66.2	–5.4	–7.4	15.6	12.8	–9.3	–0.8	26.7	25.8	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	13.8	9.1	27.9	48.7	4.4	6.6	11.1	18.8	–22.3	44.3	28.6	–28.6	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	14.3	6.5	26.8	56.8	3.3	–0.7	18.1	15.1	18.8	37.6	10.0	–7.4	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	11.7	24.2	27.8	45.2	6.1	–5.2	4.8	6.1	84.8	–3.9	21.6	23.4	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	24.3	50.7	5.2	–0.4	14.6	14.7	10.0	4.1	7.0	–2.8	100	100	26.2	37.5	4.8	10.3	15.4	4.9	11.7	9.1	3.2	18.8
% of total			46.9	53.1	48.0	52.0	48.2	51.8	48.5	51.5	48.9	51.1			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

Source 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				1977							
					III	IV	I	II	III	IV	I			II			July	Aug.
											Int.	Ext	Total	Int.	Ext	Total	Total expressed at a quarterly rate	
Denmark	−1 584	− 2 306	−1 348	−3 188	− 371	− 555	− 663	− 726	− 819	− 981	−443	− 392	− 835	−472	− 387	− 857	− 790	− 909
FR of Germany	12 976	20 260	15 448	12 994	3 302	3 131	3 075	3 131	3 314	3 473	971	2 480	3 451	993	3 113	4 106	2 586	4 463
France	−1 428	− 7 141	−1 894	−8 291	− 174	−1 202	−1 460	−1 480	−2 400	−2 951	−860	−1 658	−2 518	−904	−1 217	−2 121	−1 797	−1 647
Ireland	− 684	− 1 211	− 609	− 857	− 88	− 132	− 274	− 163	− 207	− 214	−211	− 122	− 333	−179	− 97	− 276	− 164	− 210
Italy	−5 661	−11 042	−3 161	−6 216	− 509	−1 266	−1 370	−1 747	−1 179	−1 920	−189	−1 322	−1 511	− 13	− 932	− 945	− 232	198
Netherlands	− 431	− 145	− 745	−1 170	− 190	− 61	122	− 598	− 241	− 453	1 769	−2 441	− 672	1 387	−2 176	− 689	− 480	:
BLEU	362	− 1 631	− 894	− 717	− 449	− 355	− 212	− 243	− 209	− 52	469	− 814	− 345	268	− 573	− 305	279	:
United Kingdom	−8 555	−15 985	−9 642	−9 370	−2 623	−1 895	−1 617	−2 395	−2 635	−2 723	−752	−1 579	−2 331	−681	−1 443	−2 124	−1 400	− 673
Community [1]	−4 592	−20 549	−4 504	19 476	−1 344	−2 784	−3 321	−4 784	−5 071	−6 299	836	−5 483	−4 647	426	−3 545	−3 121	−1 583	:

[1] Community: extra-Community trade

: Data not available.

Sources: Eurostat and departments of the Commission.

TABLE 10

Development of expenditure, revenue and the net borrowing requirement of central government

Year	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]	11½	11	18	10	– 6.7	– 8.0	– 2.8	– 3.1
FR of Germany	5	6	10½	10½	– 44.0	– 34.5	– 3.9	– 2.9
France	12	11	20	13½	– 17.2	– 17.0	– 1.0	– 0.9
Ireland	17	19	35	20.6	– 490	– 560	– 11.0	– 10.5
Italy	31½	34	32	46½	– 13 988	– 10 100	– 9.8	– 5.8
Netherlands	16	11	17½	12	– 7.5	– 7.7	– 3.2	– 3.0
Belgium	16	16	13½	15	– 151.5	– 183.5	– 5.9	– 6.5
Luxembourg	19	14	15	10	– 0.1	– 1.3	– 0.1	– 1.4
United Kingdom [2]	8	13½	18	13	– 5 800	– 6 700	– 4.8	– 4.8

[1] Mrd DKr, DM, FF, million £ Irl, Mrd. Lit, Fl, FB, Flux, million £.
[2] Fiscal years.
Source: Departments of the Commission.

TABLE 11

Development of money supply and interest rates in the Community

Year	Money supply [1]				Short-term interest rates [2]				Long-term interest rates [3]			
	Dec. 1975	Dec. 1976	March 1977	Latest month known	Dec. 1975	Dec. 1976	Dec 1977	Latest month known	Dec. 1975	Dec. 1976	Dec. 1977	Latest month known
Denmark	25.1	11.5	9.0	8.5[5]	8.0	13.50	13.5	18.0[9]	13.2	15.2	15.5	15.8[9]
FR of Germany	8.6	8.4	9.3	9.9[5]	3.9	5.0	4.5	4.0[5]	8.6	7.4	7.0	6.1[5]
France	15.9	12.8	12.3	8.7[4]	6.5	10.4	9.7	8.6[5]	10.2	11.0	10.9	11.0[9]
Ireland	20.7	14.3	15.3	15.4[6]	10.9	14.8	10.8	7.6[8]	14.6	15.5	12.7	13.6[8]
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[9]
Netherlands	5.7	22.7	24.4	14.8[8]	4.4	6.4	5.5	2.7[5]	7.7	7.5	7.6	6.7[5]
Belgium	17.2	13.4	12.4	12.4[7]	3.9	7.4	5.5	5.0[5]	8.5	9.3	9.1	8.6[5]
United Kingdom	7.9	11.9	6.4	6.4[5]	10.2	13.8	9.7	6.7[4]	14.8	15.5	13.3	13.1[5]

[1] M2, United Kingdom, Ireland and FR of 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] August [6] May. [7] March. [8] June. [9] September.
Source. Departments of the Commission.

GRAPH D

Exchange rates

(weighted change in % since first quarter 1972; weighting according to structure of exports)