ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

OECD ECONOMIC OUTLOOK

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

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DECEMBER 1981

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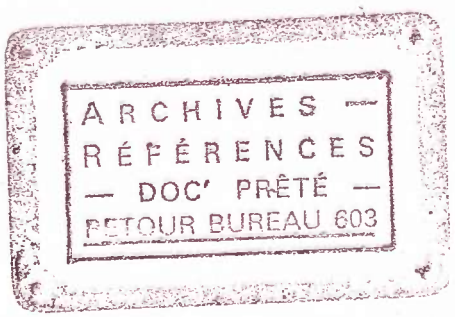

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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CONVENTIONAL SIGNS

$	US dollar		Irrelevant
c	US cent	.	Decimal point
£	Pound sterling	I, II	Calendar half-years
mbd	Millions barrels per day	Q1, Q4	Calendar quarters
..	Data not available	Billion	Thousand million
0	Nil or negligible	Trillion	Thousand billion

s.a.a.r Seasonally adjusted annual rates

Historical numbers are presented as integers and decimals; estimates and forecasts are presented as integers and fractions.

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Summary of the projections[a]

Seasonally adjusted at annual rates

	1981	1982	1981 II	1982 I	1982 II	1983 I
	Percentage changes from previous period					
Growth of real GNP						
United States	1¾	−½	−1½	−2	4	3
Japan	3¾	3¾	3¼	3¾	4½	4¾
OECD Europe	−¼	1½	0	1¾	2½	2¾
Total OECD	1¼	1¼	0	¾	3¼	3
Inflation (private consumption deflator)						
United States	8¼	7½	8	7¼	7	7½
Japan	4¾	4½	3½	5	4½	4½
Germany	5¾	4¼	6¼	4	3	3
France, United Kingdom, Italy	14	13¼	14¼	13½	12¼	11¾
High inflation smaller countries[b]	15½	13¾	14½	14	13	13½
Lower inflation smaller countries[c]	7	6	7	5¾	5¼	5¼
	$ billion					
Current balances						
United States	9	3	9	11	−5	−15
Japan	6	17	8	15	20	23
Germany	−9	2	−3	1	2	3
Smaller deficit countries[d]	−39	−38	−39	−38	−38	−36
Total OECD	−35	−27	−33	−21	−32	−34
	Per cent of labour force					
Unemployment						
United States	7½	9	7¾	9¼	9	8½
OECD Europe	8¾	9¾	9	9½	9¾	10
Total OECD	7¼	8	7½	8	8	8

a) Assumptions underlying the projections include:
- no change in actual and announced policies;
- unchanged exchange rates from their average of the four weeks ended 6th November1981;
- unchanged dollar price for internationally traded oil to December 1982, and an unchanged real price thereafter.

b) Australia, New Zealand, Denmark, Finland, Greece, Iceland, Ireland, Norway, Portugal, Spain, Sweden, Turkey.
c) Austria, Belgium, Luxembourg, Netherlands, Switzerland.
d) Total OECD less major seven countries, Netherlands, Norway and Switzerland.

The cut-off date for information used in the compilation of the projections was 20th November 1981.

Slow Road to Recovery

Recent Trends and Prospects

The demand-depressing effects of the 1979/80 oil price rise now seem largely to have worked themselves through. The main forces acting on OECD demand continue to be on the one hand the positive influences of underlying real income growth and the swing in the OECD area's real foreign balance, and on the other hand the influence of tight monetary policy and a restrictive swing in fiscal policy in most countries. There having been little change in the magnitude of these forces, the outlook for Europe and Japan appears to be much the same as it was six months ago, but GNP in the United States seems likely to exhibit a more pronounced "V" shape.

After modest growth in the first half of 1981, fuelled by unexpectedly strong exports to the non-OECD area, principally OPEC, GNP in the OECD area seems likely to have shown little change in level in the latter part of 1981. A decline in the United States and other major countries was partially offset by growth in Japan, France and most of the smaller economies. OECD activity is expected to pick up progressively in the course of 1982, to growth of around 3 per cent (see Table). There will be some variation in performance between the major country groupings. In the United States GNP seems likely to have fallen in the final quarter of 1981, and to fall further during the first half of 1982. Thereafter there may be a pickup to growth rates in the 3 to 4 per cent range. Because of interaction between overall demand and tight monetary policy, interest rates, while generally high, may fluctuate, perhaps accompanied by continuing significant and hard-to-forecast swings in United States quarter-by-quarter GNP growth. There seems likely to be a moderate GNP upturn in Europe, and a steady acceleration in Japan.

Under the key assumption of unchanged nominal oil prices until end-1982, inflation seems likely to slow down in most countries. For the OECD area as a whole, inflation may decelerate over the next 18 months by about a percentage point from the present 9½ per cent rate. The OECD area current account deficit, influenced importantly by oil destocking, increased economy in the use of oil, and switching to alternative fuels, may be in the $20 to $35 billion range throughout the next eighteen months. Under the assumption of unchanged exchange rates, the distribution will become somewhat uneven, with Japan likely to swing into substantial surplus, while the United States may move into deficit towards the end of 1982. The current balance of the smaller deficit countries taken as a group may show little change. Unemployment, which is among the more uncertain elements in any forecast, seems likely to rise in Europe, at a decelerating rate, throughout the next year and a half to around 10 per cent of the labour force. In the United States the unemployment rate may rise sharply early in 1982, and then ease. Total OECD unemployment may level out at perhaps 8 per cent of the OECD labour force, some 28½ million people, in the course of 1982.

Assessing the effects of policy

This being an outlook in which the effects of policy are playing a predominant role, it is perhaps appropriate to consider how this was expected to function in theory, and to examine how well it appears to have worked in practice. Neither task is straightforward. On the one hand, numerous and diverse arguments underlie the stance of policy: in the light of a generally unsatisfactory recent performance and a troubled outlook following the 1979/80 oil price rise, a number of different views gained prominence. On the other hand, twelve to eighteen months is a fairly short span over which to assess the consequences of policy.

Governments almost unanimously met the second large oil price rise of 1979/80 with a tightening of aggregate-demand policies. The purpose was two-fold. It was judged important to prevent

- the external price impulse from becoming built in to the domestic wage-price spiral, and
- a squeeze on profit margins of the sort seen in 1974/75.

Even where reasonably good progress had been made in containing inflation, some governments had to continue with tight policy in order to protect their exchange rates so as to avoid higher imported inflation.

Overlaying this policy prescription has been a fairly widespread view that many of the present economic ills can be attributed to expansionary fiscal and monetary policies of previous decades. It is considered in some cases that fiscal fine tuning, instead of being stabilising, has frequently had the opposite effect, and that in the process the public sector has got too big. An essential element in the policy of many governments has been an attempted reduction in public sector deficits, as well as in the size and obtrusiveness of government. In some countries there has also been a reduction of direct tax rates to increase incentives. On the evidence of cyclically-adjusted budget balances, it would seem that so-called discretionary policy may have swung by around 1 per cent of GNP in 1981 for the major seven countries considered as a group. A further swing of similar magnitude is in prospect for 1982[1]. Furthermore, in many countries monetary targets are set so as not to accomodate the expected growth of nominal GNP. Real interest rates are still generally high in most countries, a virtually unprecedented situation, especially with the OECD economy in recession.

Tight policy and inflation. There are at least three main ways in which, according to current academic thinking, tight policy can work to moderate inflation. First, low demand and high unemployment, whether resulting from restrictive fiscal or monetary policy, can be expected to moderate the rate of growth of nominal incomes through a Phillips-curve effect. Second, the announcement of tight monetary targets might be sufficient to lower the expected rate of inflation, wage settlements and hence the actual rate of inflation. If wage bargainers are not initially convinced, resulting rising unemployment may serve to moderate inflation both through increasing labour market slack, and by convincing the sceptical that the authorities will stick to their targets.

A third way in which tight monetary policy, and resulting increased interest rates, can affect inflation is through its effect in inducing capital inflows, appreciating the

1. See Monetary and Fiscal Policy Section, especially Table 11.

exchange rate, and hence depressing the price of imports. While this mechanism is feasible for an individual country, it has at least two limitations. First, partner countries may not wish to see the counterpart inflationary depreciation of their currencies, and so may raise their interest rates to match. At the limit, when all countries raise their interest rates, no currency appreciates and no country gets import-price-induced disinflation. Secondly, even if a country does succeed in initially reducing inflation through capital-flow-induced currency appreciation, this may not last. Resulting loss of competitiveness can lead, after a period, to a current account problem and downward pressure on the exchange rate. If this is not resisted by yet higher interest rates, the currency depreciates, and import prices rise, rekindling inflation.

Tight policy and output. There is fairly general agreement that tight policy, monetary and fiscal, does depress output, but there is considerable uncertainty over how long the effect lasts. Keynesian analysis, concentrating on the influences on the post-tax income of the main spending groups, usually considers that the negative effects last for several years at least, although much of the total effect is seen in the first two. Monetarist analysis also concerns itself with the spending behaviour of various groupings of consumers and investors, but considers that there will be no long-term effects on output, while price inflation is permanently reduced. Fiscal policy is thought to have only a transient effect on demand and output.

Tight policy and the share of profits. A number of OECD countries saw a trend decline in their profit shares in the 1960s and early 1970s. The first oil crisis then led to a dramatic rise in energy and unit labour costs, with profits initially absorbing much of the real income loss of worsened terms of trade, and investment falling sharply. An important aim of tight policies in the face of the second oil shock, in 1979/80, was to ensure that profit margins would be better protected by making it clear to employers and employees alike that inflationary settlements would not be financed. Furthermore, from previous experience, it was felt necessary that households and firms should recognize, the second time around, that higher energy prices were likely to persist. Hence it was considered important that firms should resist inflationary wage claims which sought to recoup the real income loss to OPEC, while they and households were encouraged to shift away from energy, and particularly oil, consumption.

Tight policy and public sector deficits. It is widely recognised that a fall in activity will tend to increase a public sector deficit, or reduce a surplus, because of reduced taxation receipts and, in a welfare society, of payments to an increased number of unemployed. Hence a decrease in government expenditure or an increase in taxation both initially reduce a public sector deficit, but the effect will later be partially offset if the tighter fiscal policy has the effect of reducing output.

Whether it will do so, however, depends upon the response of the private sector. Tighter fiscal policy releases real resources in goods and labour markets, and loanable funds in the financial markets. If these released resources and funds are willingly taken up by the private sector, output need not fall overall, while the size of the public sector may be reduced. This is a possible outcome where private sector demand is basically buoyant, whether domestically or through a prospective strong growth of exports. Sometimes the argument is put even more strongly. If the size of the public sector deficit *per se* worries the private sector, a reduction in the government sector's claims on resources could result in a more than equal increase in the private sector's willingness to

borrow, spend and produce, with a substantial positive effect on total output, and with a doubly-reduced public sector deficit. The response of the private sector is thus all-important in determining the ultimate output and budget effects of a change in the stance of fiscal policy. The achievement of a better economic performance depends importantly upon the ability and the willingness of the private sector both to invest and to produce at a higher level.

The mechanism whereby the higher nominal interest rates resulting from higher inflation or tighter policy adversely affect the public sector deficit is well known, although the phenomenon has come more into prominence with the high nominal rates of the last few years. But other consequences are less well recognized. Because an increase in inflation reduces the real value of paper assets, this tends to redistribute wealth from lenders to borrowers. If this redistribution is offset by high nominal interest rates, the repayment of capital is accelerated. With the government a large net debtor in most countries accelerated capital repayments imply a tendency towards an increased public sector deficit, or a reduced surplus. But to the extent that increased private sector interest income is compensating for the inflation-reduced value of paper assets, private sector wealth, and hence spending, may be little affected. An important question therefore is the extent to which, when assessing the stance of aggregate demand policy, public sector deficit figures, which include the effects of sharply-increased interest rates, should be taken as an appropriate guide[2].

What have the effects of tight policy been in practice? It is never possible to be certain what effects policy has had, because it is impossible to know what the course of the economy would have been had policy been otherwise. This is especially so in the present circumstances, where there is deep disagreement about the effects of policy mechanisms and their timing. Furthermore, the underlying situation is far from stable, with the OECD economy being subject since 1979 to the direct and induced effects of a substantial increase in the price of internationally-traded oil. It can however be instructive to look at successive projections, and see how well they accord with what actually happened. Where there is divergence between forecast and out-turn, this may provide a clue as to where assumptions about the functioning of the economy have been falsified.

In the event, inflation has slowed down at much the rate predicted by eclectic analysis. Important influences were the passing-through of the energy price impulse, moderate food prices following good harvests, and softer commodity prices as a result of slack demand. With unemployment high, and perhaps a better understanding that the real income loss resulting from higher oil prices has to be absorbed, wage demands were moderate in 1980, and in some countries this moderation appears to have continued in 1981.

So far at least the record lends little support to the notion that tight monetary policy can reduce inflation without a significant deflation of demand and output, the performance of which has also been much as expected. Analysing in a conventional way the probable effects on demand and output of the 1979/80 oil price rise, the fiscal and monetary policies adopted to meet it, and the effects of exchange rate changes, the OECD Secretariat has for the last year been forecasting recession followed by a hesitant

2. For a further discussion, see Automatic Budgetary Responses and the Stance of Fiscal Policy, Monetary and Fiscal Policies section.

upturn. The expected date of the upturn for the OECD economy was postponed in the projections presented in the last *Economic Outlook,* partly because of the tightening of monetary policy in most countries in the early months of 1981, and because the effects of 1980's tightness had earlier been underestimated. The expected distribution of demand as between countries was also modified as a result of exchange rate changes.

Public sector deficits too have proved no easier to reduce than conventional analysis suggested would be the case. Sluggish activity and rising unemployment have had the customary effects, supplemented by the consequences of high interest rates for government debt payments.

The profit share in most OECD economies has generally fallen since 1979, but as a result of real-wage moderation it has fallen no more than can be explained by the normal cyclical downswing in productivity. The decline has been much less marked than during the recession after the 1973/74 oil shock; in a number of major countries the share of profits is near the 1972 value[3]. The behaviour of private non-residential investment, while cyclically depressed, has not fallen precipitately in the way seen after the first oil shock.

International uncertainties

In addition to the risks and uncertainties attaching to the projections for individual countries[4] there are also potentially important uncertainties resulting from the international interaction of countries' domestic policies and the functioning of the foreign exchange market. The past year or so has seen sharp exchange rate movements. Exchange rate changes are never easy to explain, but important influences almost certainly are the cumulative effects of differential inflation-rate movements as between countries, interest rate changes and the differential evolution of current account positions. At times during the past year, however, markets do not appear to have distinguished sufficiently between transient and more fundamental elements.

If the present exchange rates were to be maintained – the assumption underlying the projections – net exports would grow rapidly in some countries, notably Germany and Japan. Furthermore, significant divergences of current account positions could emerge, particularly involving the United States and Japan. These could result in heightened trade friction and increase pressures for protection.

On the other hand, recent exchange rate movements have tended to reverse the changes seen in 1980 and the first part of 1981 and this process could continue. Should there be upward pressure on some European currencies, the countries involved might, through a combination of initially-stronger real income and relaxation of pressure on policies, achieve a somewhat higher rate of growth than the projections suggest. A higher exchange rate for the yen would also change the pattern of growth leading, after a period of adjustment, to a smaller current account surplus for Japan. The United States, with a relatively small foreign sector in relation to GNP, might be proportionally less affected. Nevertheless, there could be a significant, if lagged, boost to net exports. Perhaps more importantly, rising import prices could give an unwelcome impetus to inflation, particularly if, as in the past, domestic producers were to take the opportunity of the easier market conditions to raise their prices.

3. See Wages Costs and Prices section.
4. See pp. 15 to 17.

However, if significant exchange rate pressures were to develop, there is always some risk that they might be disproportionate in relation to the required adjustment of uneven current positions. If this were so it would seem, not only on the basis of the experience of recent years, but also looking further ahead, that the interaction of national policies may be causing a measure of instability in the international trading system, reflecting itself in exchange rate pressures, domestic monetary policy responses and trade friction. It is becoming increasingly evident that devising a truly satisfactory domestic economic policy necessarily also involves an important additional dimension of assessing its likely international interaction with the policies of other countries.

Issues

While it is too soon to reach a final judgement, the evidence of the last two years is that policy has reduced inflation somewhat, and the share of profit has been relatively well maintained. Such success has not, however, been obtained without a cost, at least in the short run, in terms of lost output and rising unemployment.

A key question is the extent to which there might be an attempted wage "catch-up" once activity picks up, or whether there is some improvement of a more lasting kind in price and wage behaviour. The evidence on this is still very mixed. The more there is evidence that expectations and real income aspirations have become, or are becoming, firmly changed, the sooner it might be possible to achieve a rate of growth sufficient to start making in roads on unemployment. The more it is felt that the progress made so far is likely to be quickly reversed when demand picks up, and tighter labour market conditions begin to emerge in a number of sectors, the longer it may be judged necessary to continue with the present policy stance. There are differing views on this and, equally, there are important differences between countries.

The behaviour of commodity prices could prove a complicating factor. If commodity supply proves insufficiently elastic, perhaps as a result of a number of years of weak investment, prices could rise quite early in the upswing, partially reversing early inflation gains, and with some risk of initiating a new wage/price spiral.

Particularly important in determining the ultimate outcome will be the progress made in improving the supply potential of OECD economies. It is not clear what reduction in economically-viable production capacity has resulted from the change in relative prices following the second major oil price shock. Nor is it certain how responsive supply will prove to be when demand starts to pick up. But considerable improvement almost certainly needs to be made in this area. The last *Economic Outlook* laid particular stress on the need to ensure a satisfactory supply side potential of OECD economies. A wide range of areas in which it might prove possible to improve output and inflation performance, encompassing both product and labour markets, was discussed, and the importance of resisting protectionist or market-weakening measures was emphasized. Improving supply potential is not easy to achieve, and might well necessitate different action in different countries, in some instances outside the conventional frame of reference of economic policy making and even policy-making institutions. But it looks increasingly as if that challenge will have to be met. Only if supply can be made more responsive, and inflation further reduced, will it be possible to have the more rapid growth that is required to start bringing unemployment down.

9th December 1981.

DOMESTIC DEVELOPMENTS

DEMAND, OUTPUT AND EMPLOYMENT

CURRENT INFLUENCES ON DEMAND

The OECD economy is still in recession, although the trough is now believed to have been reached and a modest recovery is foreseen for 1982. The forecast for 1982 remains broadly as it was in June for Europe and Japan, but the profile for the United States has been revised to a sharper "V" shape. Changes in the main economic forces acting on the OECD area as a whole over the last six months have been small. Among the most important forces continuing to shape developments is the restrictive swing in fiscal policy following the second oil shock of 1978-1979[1].

OECD governments acted with impressive uniformity to restrain demand in order to prevent the oil shock entering wages and so leading to an increase in underlying inflation. In many countries there was also a determination to try to reduce inflation from the existing underlying rate which had generally persisted since the first years of the 1970s. When these policies were implemented the adverse terms-of-trade shock was already depressing demand, although less so than the similar-sized shock of 1973-1974, because of steadier behaviour of private fixed and inventory investment. A recession was inevitable, and policy was probably responsible for perpetuating slowdown or decline of GDP in European countries through most of this year. In the United States it has probably been responsible for the economy going into a second dip after a strong, if brief, recovery in the first half of 1981.

Fiscal policy remains tight

The constant employment budget balance moved towards surplus by an estimated 1 per cent of OECD GDP in 1981. Actual budget balances are not expected to have declined (as a proportion of GDP) owing to the working of automatic stabilisers which reduce tax receipts and boost social security payments in recession. The stance of fiscal policy is further disguised in many countries by the large and increasing scale of interest payments on government debt. This problem has been exacerbated by a period of high nominal interest rates owing both to tight monetary policy and higher inflation following the second oil shock. These high interest payments in part compensate government's creditors for a rapid inflation-induced decline in the real value of their securities. They may not therefore represent an increase in purchasing power of the private sector.

It is now doubly difficult to assess the macroeconomic significance of government deficits by inspecting unadjusted current statistics. The situation is a superficially paradoxical one in which observed budget deficits are large, sufficiently so as to call forth unfavourable comment, yet when the effect of recession itself and the effect of inflation on debt servicing are subtracted, fiscal policy is seen to be restrictive of demand.

On the basis of discretionary measures already announced and because of fiscal drag, fiscal policy in 1982 is expected to swing further towards restriction—by some half per cent of OECD GNP. (See Monetary and Fiscal Policy Section.) Changes in the past few months have been slight for the OECD area as a whole, with expansion in France only partly offsetting further moves to restriction in Germany and (compared with the assumption in the previous *Economic Outlook*) the United States.

Monetary policy[2]

This is rather harder to calibrate but is undoubtedly tight in a number of large countries. In the United States (M1-B) and Germany (CBM) monetary growth has been near the bottom of target ranges. Interest rates rose nearly everywhere until the late summer of 1981, but more recently there has been some stabilisation or reversal. The net effect of these policies has been that real interest rates reached unprecedented levels for a business cycle downswing, while the growth of the real money supply for the OECD area as a whole has become

1. See *Economic Outlook*, No. 29, Table 1, page 13.
2. For further discussion of monetary policy and definitions, see section on Monetary and Fiscal Policy.

negative in each quarter since mid-1980. This is an unprecedently long period, exceeding in length, though not intensity, that of 1974-1975. Real money growth was positive at the equivalent stage of that cycle.

Forces making for recovery

Certain inherent forces in OECD economies are nonetheless making for recovery:

— real income and consumption growth which should recover as inflation declines in response to the fading out of the oil price pulse;
— the end of a period of de-stocking, which had been triggered by tight monetary policy and the slowing of demand after the oil shock;
— buoyant demand from outside the OECD area.

This last factor is already proving important. As a consequence of enhanced revenues following 1979-1980, OPEC's demand is higher than it would otherwise have been. OPEC import growth was particularly rapid in the first half of 1981. This helped to sustain GDP and has probably provided a further fillip in the second half of 1981.

While the growth of exports and the natural swing of the consumption and stock cycle are all making for recovery, there is some doubt whether fixed investment, especially in housing, will also contribute. Having been depressed in a number of countries housing investment is due for an upswing in several, being low relative to the underlying demographic demand. Yet it is unclear whether a construction upswing will occur given the high level of interest rates. Business fixed investment too is likely to be at least damped by high interest rates. In general, it seems unlikely that the recovery foreseen for next year can be rapid in view of the continuing tightness of policy.

Exchange rates

At the time of the mid-1981 OECD forecast, large exchange rate changes in the first half of the year were considered to be altering the distribution of demand within the OECD area, raising demand in the short-run in the United States and lowering it in Europe owing to terms-of-trade effects. In 1982, as volume flows of trade increasingly respond to changed competitive position, those effects should be reversed. After mid-year the effective exchange rate of the dollar continued to increase, peaking in early August, and then reverted.

RECENT TRENDS

The first half of 1981

Economic activity was buoyant in North America and Japan, but output in European economies was stagnant. For the OECD area as a whole the annual rate of real GDP growth was 2.4 per cent, after a slight fall in the second half of 1980. Slightly weaker domestic demand was offset by stronger exports to non-OECD areas, particularly OPEC. Weakening private consumption growth reflected the lower

Table 1
Growth of real GNP in the OECD area[a]
Percentage changes from previous period, seasonally adjusted at annual rates

	1980 Share in total	Average 1969 to 1979	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
United States	34.6	3.0	−0.2	1¾	−½	4.7	−1½	−2	4	3
Japan	13.7	5.4	4.2	3¾	3¾	4.0	3¼	3¾	4½	4¾
Germany	10.8	3.2	1.8	−1	1¼	−0.4	−1	1¾	3	3¼
France[b]	8.6	4.1	1.2	½	2½	0.2	2¼	2½	3	3
United Kingdom[b]	6.9	2.2	−1.8	−2	¼	−1.2	−1½	½	1½	2
Italy[b]	5.2	3.3	4.0	0	1	2.4	−½	1¼	2¼	3
Canada	3.3	4.3	0	3	1	5.6	−½	1	2¼	2
Total of above countries	83.1	3.5	1.0	1¼	1	2.9	0	½	3½	3¼
Other OECD countries[c]	16.9	3.5	2.0	¾	1¾	0.3	¾	2¼	2¼	2½
Total OECD	100.0	3.5	1.2	1¼	1¼	2.4	0	¾	3¼	3
Major four European countries	31.5	3.2	1.1	−½	1½	0	0	1½	2½	2¾
Total OECD *less* the United States	65.4	3.8	1.9	¾	2	1.2	¾	2¼	3	3
Industrial production:										
Major seven countries	–	3.4	−1.2	¾	2¼	4.0	¾	1¾	4½	5
Total OECD	–	3.4	−0.8	¾	2¼	3.5	1	2	4½	4¾

a) Aggregates were computed on the basis of 1980 GNP/GDP values expressed in 1980 US dollars.
b) GDP.
c) Half-yearly data must be interpreted with care since for ten of these countries, amounting to nearly 50 per cent of the total GDP of the smaller countries, half-yearly growth rates were obtained by a purely mechanical interpolation. For details on a yearly basis, see Table 2.

Table 2
Growth of real GDP in other OECD countries[a]
Percentage changes from previous year

	1980 Share in total OECD	Average 1969 to 1979	1980	1981	1982
Austria	1.0	4.1	3.1	0	1¾
Belgium	1.5	3.6	2.5	−1¼	1
Denmark	0.9	2.5	−0.2	−½	3¼
Finland	0.7	3.8	5.0	1¾	1¼
Greece	0.5	5.3	1.7	−¼	1½
Iceland[b]	0	5.5	2.5	1¼	1
Ireland	0.2	3.9	1.9	2	2½
Luxembourg	0.1	3.1	0.6	−3¼	¼
Netherlands	2.2	3.5	0.5	−2	½
Norway	0.8	4.5	3.8	1½	0
Portugal	0.3	5.1	5.5	2½	2¾
Spain	2.8	4.1	1.5	1½	2½
Sweden	1.6	2.4	1.4	0	1½
Switzerland	1.3	1.4	4.4	1¼	¼
Turkey	0.7	5.7	−0.7	4	5¼
Total smaller European countries	14.7	3.5	2.0	½	1½
Australia	1.8	3.5	2.5	3	3¼
New Zealand	0.3	2.5	0.8	2½	1¼
Total of above countries	16.9	3.5	2.0	¾	1¾
OECD Europe	46.3	3.3	1.4	−¼	1½
EEC	37.0	3.3	1.1	−¾	1½

a) Aggregates were computed on the basis of 1980 GNP/GDP values expressed in 1980 US dollars.
b) GNP.

growth of wage earnings in some countries. Inflation was also somewhat slower than expected, mainly because of lower nominal wages and import prices from non-oil primary-producing countries.

The second half of 1981

Recent indicators suggest divergent developments among the main OECD regions. In the United States, buoyancy in early 1981 seems to have given way to a decline of activity. Domestic demand, particularly private residential investment, has weakened markedly, reflecting continuing high interest rates. In Europe, the consequences of the higher oil prices of 1979-1980 and of generally restrictive policies are still affecting domestic demand, but net exports are expected to contribute positively, so that real GDP may have been almost flat in the second half of 1981. In Japan the moderate recovery seems to be continuing, helped by buoyant exports and a pick-up in private domestic demand.

PROSPECTS

The OECD area

Recovery from the recession seems likely to be moderate for the OECD area considered as a whole. The projected restrictive swing of fiscal policy in most countries will be reflected as a meagre rise in public expenditure. The main source of demand growth is expected to be private consumption, albeit at a modest rate, as real income reverts to more normal growth. Business fixed investment is likely to grow much more slowly than after the first oil shock, having fallen much less. Accordingly, final domestic demand growth in the OECD area may accelerate moderately to around 2½ per cent in the second half of 1982. Total domestic demand is likely to grow faster, because of a positive contribution from the change in stockbuilding, to reach around 3¼ per cent growth in the second half of 1982, possibly with a slight deceleration thereafter (see Table 3). Net exports are expected to contribute positively to demand, during 1981 and the first part of 1982, with the growth of real GDP reaching around 3 per cent after mid-1982.

Immediate prospects

The OECD Secretariat's leading indicators[3]—which have proved to be a relatively reliable guide to the immediate outlook (up to about six months ahead)—suggest different cyclical developments in North America, Europe, and Japan. The leading indicator for North America, which correctly predicted that the upturn in the first half of 1981 would be short-lived, suggests that there is no immediate prospect of sustained recovery. Leading indicators for France and Germany have stopped declining, which would imply a trough in late 1981, but no trough has yet been identified for Italy. Japan's longer leading indicator turned positive in August 1980, which seems consistent with a recovery in the second half of 1981, but the shorter leading indicator does not suggest it is imminent (see Chart A).

The patterns of the recovery are forecast to differ somewhat between the United States, Japan and Europe in 1982. In the United States, after a 1½ per cent decline in the second half of 1981, real GDP is expected to decline further in the first half of 1982, but to increase thereafter. The four major European countries as a group are expected to

3. For further details of the leading indicators developed by the OECD, see *OECD Observer*, No. 112, September 1981, pp. 18-21, and *Economic Outlook*, No. 29, July 1981, page 18.

CHART A

LEADING INDICATORS FOR INDUSTRIAL PRODUCTION

Monthly indices of seasonally adjusted detrended series

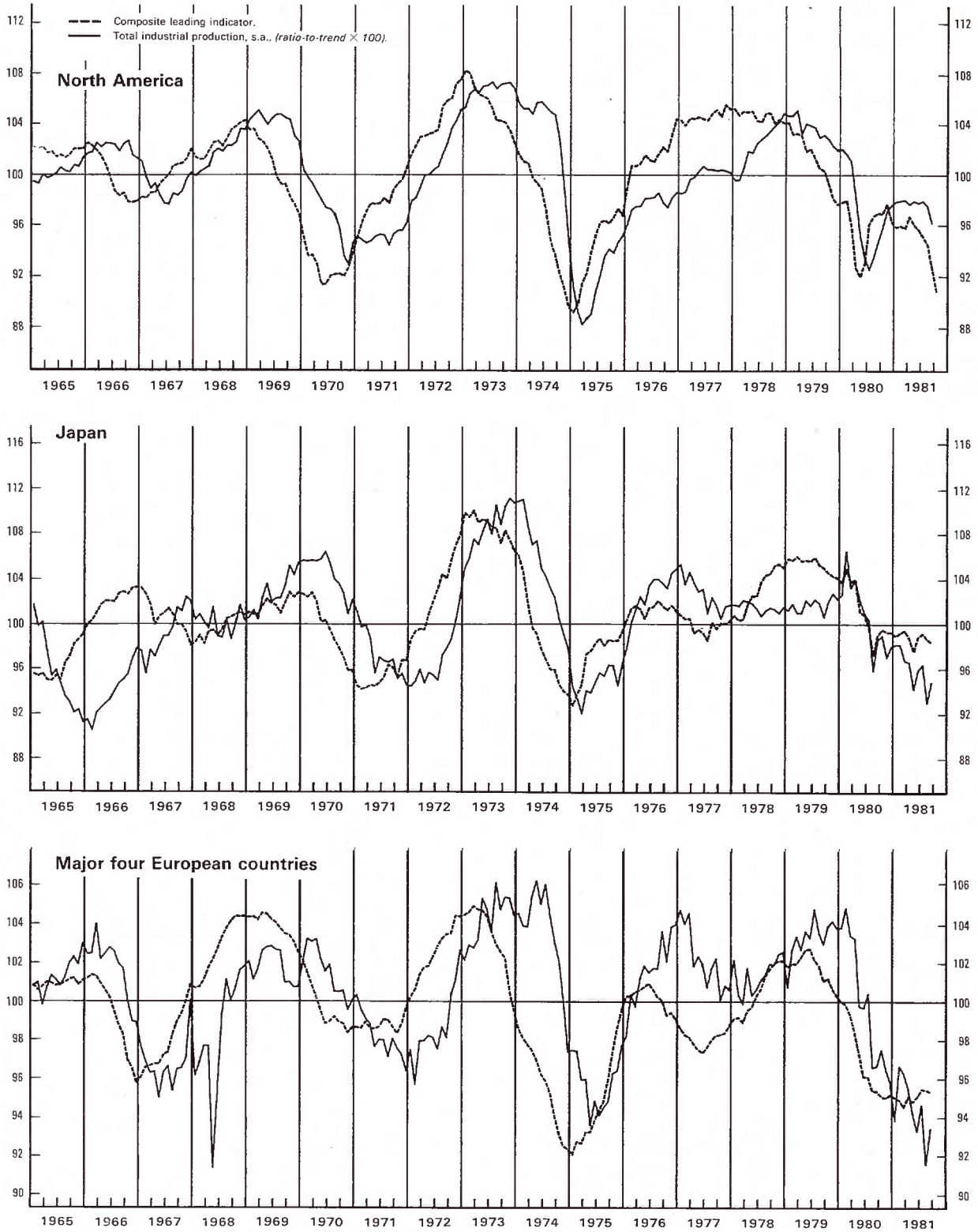


Table 3
Development of real total domestic demand in the OECD area[a]

Percentage changes from previous period, seasonaly adjusted at annual rates

	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
United States	−1.1	2½	0	5.6	−½	−2	5	3½
Japan	0.6	1½	2½	2.7	¼	3¼	3½	3½
Germany	1.7	−3	−½	−3.1	−4½	¼	2	2¾
France	1.8	−½	2½	−2.2	1¾	2¾	3¼	3½
United Kingdom	−3.0	−2¾	1½	−2.6	1¼	1¼	1¾	2¼
Italy	7.4	−2½	½	−2.6	−2	1	2	3
Canada	−0.6	4¼	1¼	9.2	0	1¼	2½	3
Total of above countries	0.2	½	1	2.0	−½	¼	3¾	3¼
Other OECD countries[b]	1.6	−½	1¼	−1.8	½	1¼	1¾	1¾
Total OECD	0.4	½	1	1.4	−¼	½	3½	3
Major four European countries	1.5	−2	1	−2.7	−1	1¼	2½	3
Total OECD *less* the United States	1.2	−¾	1½	−0.8	−¼	1¾	2½	2¾

a) Aggregates were computed on the basis of 1980 values expressed in 1980 US dollars.
b) Half-yearly data must be interpreted with care since for ten of these countries, amounting to nearly 50 per cent of the total GDP of the smaller countries, half-yearly growth rates were obtained by a purely mechanical interpolation.

recover in 1982 to growth rates of around 2½ per cent (annual rate) by the second half. Some decline in European interest rates is projected over the next eighteen months. Together with the lagged export-volume effect of depreciation vis-à-vis the dollar, this is likely to help support investment and hence domestic demand. Only two components of demand, private consumption and stockbuilding, are likely to grow significantly. In Japan, after slight deceleration in the second half of 1981 due mainly to the decline in public expenditure, a steady recovery seems likely, with real GDP growth accelerating to around 4½ per cent in the second half of 1982.

UNCERTAINTIES

There seem to be two principal uncertainties over the course of real output in the OECD area:

— the effects, both in the United States and the rest of the OECD economy, of continuing high real interest rates in many countries; and
— the course of trade with OPEC.

Continued high interest rates

The interest rate projections take expected developments in the United States as the point of departure. The current weakness of United States demand and output has led to lower interest rates, particularly at the shorter end of the market. After mid-1982, however, fiscal concessions and a cyclical recovery are expected to bring renewed interest rate strains. While rates might not return to the peak nominal levels experienced recently during the recovery, they are expected to remain high by historical standards, always at two digit levels and substantially in excess of the inflation rate. It is expected that this will tend to keep up interest rates in the rest of the OECD area although, in the light of the forecast improvement of the German current account, a fall in short-term rates in Germany about in line with inflation is projected over the next 18 months.

If these interest rate projections are realised, real interest rates by mid-1983 will have been high in virtually all countries for around three years; already they have been high for 18 months, an unprecedented experience in the last several decades. It is also unusual for rates to remain so high at a stage of the cycle when activity is weak. Because the experience is novel, the effects are unknowable in advance. Conventionally, high interest rates are believed to weaken demand, especially for capital goods. If high rates are sustained, it is not clear whether this effect decays or cumulates. *A priori* arguments can be made for either proposition. It may be that firms would increasingly adapt to expensive credit and cease to postpone profitable ventures in expectation of interest rate declines. Or it may be that, having attempted to weather a "temporary" period of stringency by borrowing, they will seek in the longer term to liquidate this debt.

Trade with OPEC

The forecasts of oil imports are based on past relationships between energy consumption, activity and relative energy prices. The rate of decline of oil consumption observed in 1981 is, however, faster than these relationships can explain. For 1982 and early 1983, the forecasts assume a return to what is presumed to be normal behaviour, but it cannot be excluded that oil consumption and hence imports may be significantly different from the projections. They could be lower if the fall was owing to permanent advances in conservation, higher if it was due to

Table 4
Contributions to changes in real GNP/GDP
As a per cent of GNP/GDP in the previous period seasonally adjusted at annual rates

	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
United States								
Private consumption	0.3	1¾	¾	2.5	1	0	2½	2
Public expenditure	0.5	0	−½	0.3	−¼	−¼	0	−¼
Private residential construction	−0.7	−¼	−¼	0.2	−1	−¼	¾	¼
Other private investment	−0.3	¼	0	0.7	0	0	¼	¼
Stockbuilding	−0.9	½	−¼	1.5	¼	−1¼	1¼	¾
Exports	1.0	0	−½	0.4	−¾	−½	−¼	¼
Imports	0	−¼	0	−1.0	−¼	¼	−¼	−¼
GNP	−0.2	1¾	−½	4.7	−1½	−2	4	3
Japan								
Private consumption	0.7	¼	1¾	0.4	1¼	2	2	2
Public expenditure	−0.2	¼	−¼	1.2	−1¼	−¼	0	0
Private residential construction	−0.6	0	0	0.5	−½	¼	¼	¼
Other private investment	1.1	¼	1	0.1	½	1	1	¾
Stockbuilding	−0.3	−¼	¼	0.4	0	¼	¼	¼
Exports	3.0	3	1¾	3.5	3	1	1¾	2
Imports	0.6	−¼	−¼	−2.0	0	−¼	−¾	−¾
GNP	4.2	3¾	3¾	4.0	3¼	3¾	4½	4¾
Germany								
Private consumption	1.0	−1	0	−1.6	−1	¼	1	1¼
Public expenditure	0.6	0	0	0.8	−1	0	¼	¼
Private residential construction	0.2	−¼	−¼	−0.5	−¼	−¼	0	0
Other private investment	0.6	−¼	−¼	−0.5	−1	0	¼	¼
Stockbuilding	−0.6	−1¼	0	−1.3	−1	¼	¼	¼
Exports	1.7	1¾	2¾	3.6	2	3	3	2¾
Imports	−1.6	0	−1	−0.9	1¼	−1¾	−2¼	−2¼
GNP	1.8	−1	1¼	−0.4	−1	1¾	3	3¼
France								
Private consumption	1.1	1¼	1¾	1.0	2	1¾	1¼	2
Public expenditure[a]	0.7	½	½	0.2	½	½	¾	½
Residential construction[a]	−0.3	0	0	0.1	0	0	0	¼
Other private investment	0.2	−¼	0	−0.5	−¼	0	¼	¼
Stockbuilding	0.2	−1¾	¼	−3.1	−¼	½	¾	¼
Exports	0.7	1	1	1.8	1¼	1	1	1¼
Imports	−1.4	0	−1¼	0.7	−¾	−1¼	−1½	−1½
GDP	1.2	½	2½	0.2	2¼	2½	3	3
United Kingdom								
Private consumption	0	0	−¼	0.8	−1½	0	¼	½
Public expenditure	0.2	−¾	−½	−1.0	−½	−½	−¼	0
Private residential construction	−0.2	−¼	0	−0.2	0	0	¼	0
Other private investment	0.4	−¼	−¼	−0.7	−¼	−¼	0	0
Stockbuilding	−3.0	−¼	1¾	−0.6	3¼	1½	1	1¼
Compromise adjustment	−0.5	−1	½	−1.0	½	½	¼	¼
Exports	0.2	−1	¾	−1.7	1½	½	½	1
Imports	1.0	1¾	−1¾	3.1	−4¼	−1	−1	−1¼
GDP	−1.8	−2	¼	−1.2	−1½	½	1½	2
Italy								
Private consumption	3.0	0	¾	0	¼	1	1	1½
Public consumption	0.3	¼	¼	0.3	¼	¼	¼	¼
Residential construction	0.2	0	0	0.1	0	0	0	0
Other investment	1.5	0	−½	0.5	−1½	−½	¼	¼
Stockbuilding	1.9	−3	0	−3.5	−1	¼	¼	¼
Exports	−1.3	1	1¼	2.8	¾	1½	1½	1½
Imports	−1.7	1½	−½	2.1	¼	−1	−1	−1½
GDP	4.0	0	1	2.4	−½	1¼	2¼	3
Canada								
Private consumption	0.6	1	¼	1.7	−1	1	1¼	1¼
Public expenditure	−0.1	½	½	0.3	¾	½	¾	¼
Private residential construction	−0.5	¼	−¼	0.9	−¼	−¼	0	¼
Other private investment	1.3	1¼	¼	1.8	½	¼	¼	¾
Stockbuilding	−2.0	1¼	0	4.4	0	−1¼	¼	¼
Exports	0.2	¼	¼	−0.6	0	½	¾	½
Imports	0.6	−1¼	−¾	−3.0	−½	−½	−1	−1½
Error of estimate	−0.2	0	0	−0.1	0	0	0	0
GNP	0	3	1	5.6	−½	1	2¼	2
Major seven countries[b]								
Private consumption	0.7	1	1	1.1	½	½	1¾	1¾
Public expenditure[a,c]	0.4	0	0	0.4	−¼	0	¼	0
Private residential construction[a,c]	−0.4	0	0	0.2	−¼	0	¼	¼
Other private investment[c]	0.3	0	0	0.3	−¼	0	¼	¼
Stockbuilding	−0.7	−¼	0	0	¼	−¼	¾	½
Exports	1.1	¾	¾	1.4	¾	½	1	1
Imports	−0.2	0	−½	−0.5	−¼	−½	−1	−1
GNP/GDP	1.0	1¼	1	2.9	0	½	3½	3¼

a) Public expenditure on housing in France is included under "Residential construction".
b) Computed on the basis of 1980 values expressed in 1980 US dollars.
c) Government fixed asset formation for Italy is included in private investment.

temporary, even speculative, oil destocking. There are also considerable uncertainties about OPEC spending behaviour. There was a very large rise in OPEC imports in the first half of 1981, to rates that would be unsustainably high, given the fall in demand for oil and the unlikelihood of major oil price rises in the near future. A gradual correction in order to return to a sustainable current account position has been projected for those OPEC countries that were most affected. It is possible that the correction will be sharper. Another uncertainty concerns the response of non-oil developing countries to their high current deficits incurred during 1980. Cost and availability of finance considerations may induce a bigger and faster correction of these deficits than projected, slowing OECD export market growth.

Inflation

The risks and uncertainties attached to the inflation outlook appear smaller and more evenly balanced than during the last two years. The main uncertainties here appear to be:

— The effect of sluggish demand on oil prices. The assumption is that OECD oil import prices are unchanged in dollar terms in 1982 (in line with announced OPEC policy) and rise at the same rate as manufactured export prices in the first half of 1983. However, pressures on OPEC pricing structures could arise as the outlook for a continued drop in OECD energy demand implies that OPEC production will be only some two-thirds of rated capacity. This would be well below desired levels, particularly for the high-absorbing countries. A similar uncertainty affects the non-oil commodity situation where most markets are characterised by excess supply.

— Future wage behaviour. The nominal wage projection for most of the larger countries supposes continuation of the moderation seen in 1981. Should nominal wages revert to historical trends, price inflation would decelerate much less. On the other hand, the response to high and protracted unemployment could prove larger than suggested from past experience, in which case wage growth could moderate more quickly than projected.

Apart from those factors of general importance bearing on overall output and price developments in the OECD area, another factor of considerable uncer-

tainty bears on the distribution of real demand growth and inflation among countries. That is the behaviour of exchange rates.

Exchange rates are notoriously difficult to forecast. Yet large swings in the exchange value of key currencies, such as have been seen in 1981, affect inflation and trade competitiveness of OECD countries, substantially influencing economic events. The projections are based on the customary technical assumption of unchanged nominal exchange rates. If this assumption is not borne out the outcome could be materially affected. It is difficult to indicate any particular risk in this connection as the uncertainty is so general. As a purely illustrative indication of the order of magnitude of the effects involved, it has been calculated that if the United States dollar were to depreciate by 10 per cent in one half year against other OECD currencies, that could lead to GDP in North America being some $\frac{1}{4}$ per cent higher after two years than it would otherwise have been. This derives from the net interaction of weaker domestic demand, resulting from incrementally higher import prices, and stronger net exports, as a result of enhanced international competitiveness. Inflation, as measured by the growth of consumption deflators, could be about 1 per cent higher than it would otherwise have been. In Europe these effects would be roughly reversed[4]. In Japan the adverse output effects might be slightly stronger than in Europe, but the price effects somewhat weaker.

In the case of the yen, it may be that the uncertainty is slightly more focused and the balance of risk lies on the side of appreciation. If that were to happen, there would probably be a moderately rapid reaction of trade volumes tending to reduce the projected Japanese trade surplus at constant prices. The current balance would, however, probably be slower to adjust because of possible "J"-curve effects whereby an appreciation improves the terms of trade.

LABOUR MARKETS

Recent developments

OECD *employment,* after stagnating in the second half of 1980, grew by $\frac{1}{2}$ a per cent (s.a.a.r.) in the first half of 1981 (Table 5). This slight pick-up was entirely accounted for by the United States, where a sharp acceleration in industrial employment growth outweighed a fall in construction employment. In Europe, on the other hand, employment fell, markedly in some countries.

OECD area *productivity* growth picked up much as estimated in *Economic Outlook* No. 29, by over 2 percentage points between the second half of 1980 and the first half of 1981. This was basically a cyclical phenomenon stemming from a slowing down or reversal in the fall of output in a number of countries, while employment reacted more slowly.

Civilian labour force growth is estimated to have accelerated to around $1\frac{1}{2}$ percent in the six months to mid-1981, with the largest increases taking place in North America and Austria. Given employment growth, the *unemployment rate* increased to 7 per cent of the OECD labour force in the first half of 1981. The rise was strongest in Europe, where the rate jumped by slightly less than a point to 8.3 per cent (Table 6). The countries most affected were the United Kingdom, Belgium, Denmark, and Spain.

An important consequence of higher unemployment rates is that spells of unemployment get longer, as reported in *Economic Outlook* No. 28. The statistics on duration often do not fully reflect the true situation in an internationally - comparable way because of institutional factors and because of drop-outs from the labour force when unemployment is rising. In most countries, furthermore, the latest figures on duration of unemployment refer to 1980, thereby pre-dating the most recent increases. In those countries where the unemployment rate had increased rapidly between 1979 and 1980, such as the United States and the United Kingdom, the proportion of the unemployed who had been out of work for six months or longer also increased. The proportion went up from $8\frac{3}{4}$ per cent to $10\frac{3}{4}$ per cent in the United States, and from 39 per cent to 40 per cent in the United Kingdom. In other countries where overall unemployment was falling in 1980 (Sweden), flat (Germany and Canada), or even increasing but very slowly (France and the Netherlands), the proportion of longer-term unemployment fell.

In a number of countries, figures are available for part of 1981. By end-April, the proportion of unemployed in the Netherlands out of work for six months or more was up to 49 per cent, from $45\frac{1}{2}$ per cent a year previously. In the United Kingdom, however, while unemployment again increased markedly in early 1981[5], the proportion of longer-term unemployment in the total actually fell compared with 1980 for older men, probably owing to labour force withdrawal of "discouraged" workers; duration of youth unemployment, however, rose further. According to preliminary estimates for the United States, the proportion of longer-term unemployment

4. Further details of these sensitivity analyses and a description of the methods used are given in the Technical Annex: "Sensitivity Analyses, the effects of hypothetical exchange rate changes".

5. Figures apply to end of January.

Table 5
Employment and productivity
Total economy, percentage changes from previous period, seasonally adjusted at annual rates

	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
United States								
Employment	0.3	1	−½	2.6	−¾	−2	2½	2½
GNP/Employment	−0.5	¾	¼	2.1	−¾	0	1¾	½
Japan								
Employment	1.0	¾	1	0.8	½	1	1	1
GNP/Employment	3.2	3	3	3.2	2¾	2¾	3½	3½
Germany								
Employment	0.9	−1	−1	−1.1	−1¾	−1	−¼	¼
GNP/Employment	0.9	0	2½	0.7	1	2¾	3¼	3
France								
Employment	0.2	−1	−¼	−1.3	−1	0	¼	½
GDP/Employment	0.9	1½	2¾	1.5	3½	2½	2½	2½
United Kingdom								
Employment	−2.3	−4¾	−2	−5.3	−3¼	−2	−1	−¼
GDP/Employment	0.5	2¾	2¼	4.2	1¾	2½	2½	2¼
Italy								
Employment	1.5	¼	−½	0.4	−1½	−¼	½	1
GDP/Employment	2.5	−½	1½	2.0	1	1½	1¾	1¾
Canada								
Employment	2.8	3	1½	4.3	¾	1½	2	1¾
GNP/Employment	−2.7	0	−½	1.2	−1¼	−½	½	½
Austria								
Employment	0.4	0	−½	1.9	−2¼	−¼	½	½
GDP/Employment	2.7	0	2½	−1.4	1¾	2½	2¾	3
Netherlands								
Employment	0.4	−2	−1¼	−2.0	−1¾	−1¼	−½	0
GDP/Employment	0.2	0	1½	−0.6	0	1¾	2¾	2¾
Sweden								
Employment	1.4	−½	¾	−0.1	−¾	1	2	1¼
GDP/Employment	0	¼	½	1.0	−2½	3	−¾	1
Major seven countries								
Employment	0.4	0	−¼	0.6	−¾	−¾	1¼	1½
GDP (GNP)/Employment	0.6	1¼	1½	2.2	¾	1¼	2¼	1¾
OECD Europe								
Employment	0	−1¼	−½	−1.4	−1½	−½	0	½
GDP (GNP)/Employment	1.4	1	2	1.5	1½	2¼	2¼	2¼
Total OECD								
Employment	0.4	0	−¼	0.5	−¾	−½	1	1¼
GDP (GNP)/Employment	0.8	1	1½	2.0	¾	1¼	2¼	1¾

is expected to reach 17¼ per cent of total unemployment on averge in 1981, one point below its previous highest level, in 1976. In Canada, where the unemployment rate stabilised at 7½ per cent of the labour force in both 1980 and 1981, the share of long term unemployed in total unemployment fell marginally, influenced mainly by developments in the adult women group.

In all countries, as longer-term unemployment rises, the proportion accounted for by youths and prime-age workers also rises. However, older workers are still more-than-proportionately represented among the longer-term unemployed, and the share of longer-term unemployed in total older workers' unemployment increased in 1980 in most European countries and Canada and in 1981 in all countries where statistics are available. Governments increasingly suspected during the 1970s that the duration of unemployment was tending to lengthen due to more generous unemployment benefits. In response, a number of governments including Australia and the big three continental European countries, have recently adjusted the unemployment insurance system. It is doubtful whether the benefit system should be regarded as having contributed substantially to the duration and levels of unemployment recorded in recent years.

Table 6
Unemployment in the OECD area
National definitions[a], historical statistics and forecasts

	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Unemployment rates								
United States	7.2	7½	9	7.4	7¾	9¼	9	8½
Japan	2.0	2¼	2¼	2.2	2¼	2¼	2¼	2
Germany	3.4	5	6	4.4	5½	6	6¼	6½
France	6.3	7½	8½	7.2	8	8¼	8½	8½
United Kingdom	7.0	10½	12	9.9	11	12	12¼	12¼
Italy	7.6	8¼	9	8.1	8½	9	9	9
Canada	7.5	7½	8¼	7.2	8	8¼	8¼	8¼
Total of above countries	5.7	6½	7½	6.3	6¾	7½	7½	7¼
Other OECD countries	8.3	9¾	10½	9.3	10	10¼	10½	10¾
OECD Europe	7.0	8¾	9¾	8.3	9	9½	9¾	10
Total OECD	6.2	7¼	8	6.9	7½	8	8	8
Unemployment levels (millions)								
North America	8.4	9	10¾	8.7	9¼	10¾	10½	10½
OECD Europe	11.4	14¼	16	13.6	15	15¾	16¼	16½
Major four European countries	5.9	7¾	8¾	7.3	8	8½	9	9
Total OECD	21.4	25	28¼	24.0	25¾	28¼	28½	28½

a) For unemployment rates standardized by OECD facilitating cross country comparisons, see Table R12 in Reference Statistics.

Prospects

Employment growth is expected to resume in the latter part of 1982, reaching an annual rate of perhaps 1¼ per cent in the first half of 1983. Outside the United States where, owing to an untypical path of expected output, half-yearly developments are markedly different, employment is expected to stabilise in the first half of 1982, after falling for three consecutive half-years, and start growing again in the two half-years to end-1983 at an annual rate of perhaps ½ per cent. In Belgium, Spain and the United Kingdom, the fall in employment is expected to continue into the first half of 1983, albeit at a slower pace. *Productivity* growth for the OECD area is expected to have decelerated markedly in the second half of 1981 (by 1¼ point to ¾ per cent) chiefly owing to developments in the United States, where employment has fallen much less than output. In Japan there was probably a minor deceleration, while in Europe productivity growth has probably continued steadily through the year. Productivity in the OECD area as a whole is projected to pick up during 1982, following the recovery of activity, to an annual rate of perhaps 2¼ per cent in the second part of 1982, but to decelerate in the first half of 1983, influenced by the likely slowdown of GNP growth in the United States.

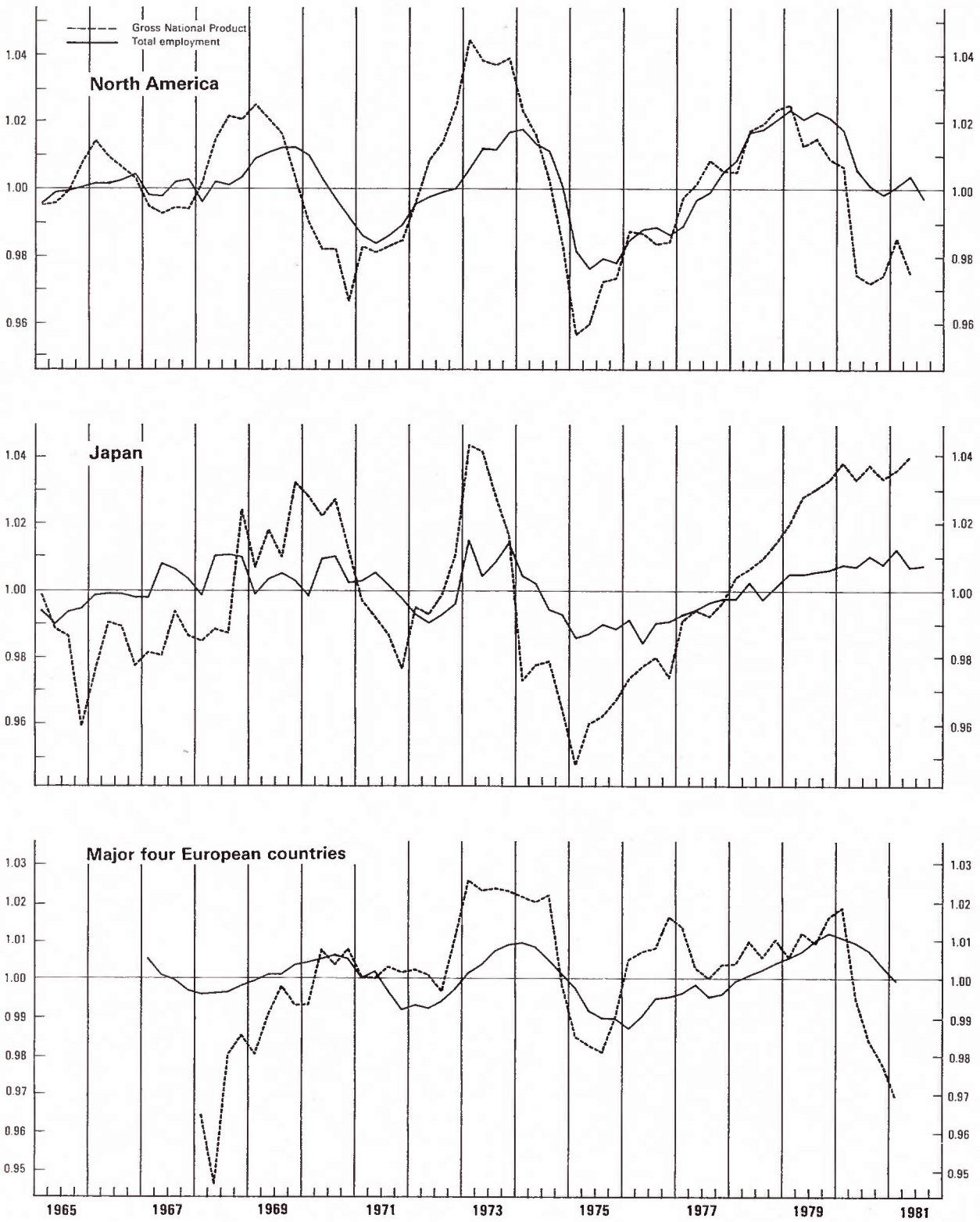
The *labour force* is expected to grow over the next 18 months at an annual rate of about 1 per cent in the OECD area, and at just under ¾ per cent in Europe. This, coupled with the weaker employment prospects in the first part of 1982, will probably result in a higher OECD unemployment rate of just above 8 per cent of the labour force. The rate is expected to remain at that level until mid-1983. Numbers unemployed are now expected to reach 28½ million in the second half of 1982—2½ million more than predicted in *Economic Outlook* No. 29—with half of the stronger increase to be found in North America (where GDP is projected to be significantly lower), and most of the rest in the now traditionally high unemployment countries (the United Kingdom, Belgium, the Netherlands, Spain, and Turkey). Unemployment is projected to peak towards mid-1982 in the United States, before declining marginally in response to a buoyant pick-up in GDP after a sharp recession. The unemployment rate in Europe is expected to grow throughout the projection period and to reach 10 per cent in the first half of 1983.

The effect of these further increases in unemployment is likely to fall unevenly on the labour force. Much of the brunt has been, and will probably continue to be, borne by young people. Youth unemployment rates are expected to rise sharply in 1982 in the major European countries and the United States (Table 7). Throughout the next eighteen months, the under-25s could account for over 41 per cent of total unemployment in the seven largest countries taken as a group. This figure compares with their proportion in the labour force of just under 20 per cent.

CHART B

GROWTH CYCLES IN GROSS DOMESTIC PRODUCT AND TOTAL EMPLOYMENT

Quarterly indices of seasonally adjusted detrended series



These projections are derived from the expected increase in total unemployment rates, which depend upon projections of productivity and labour force growth, themselves very uncertain. For some years, participation rates have shown less sensitivity to changes in labour demand than might have been predicted from earlier patterns. There is also some, weaker, evidence that the usual lag between output growth and the employment response has shortened in Europe and North America (see Chart B). These factors make for uncertainty, but not sufficient to make rising unemployment particularly doubtful. On present labour force growth projections for Europe, and if trend productivity were to average the $2\frac{1}{4}$ per cent annual growth seen over the last complete cycle, 1973-1979, it would be necessary for European GDP to grow at an average rate of some 3 per cent over the next eighteen months to stabilize the unemployment rate at its 1981 second half level. If the apparent faster adjustment of employment mainly reflects a temporary reaction to an extended period of slack, and if in a future upswing employment were to react to output changes with its historical lag, so that productivity would exhibit its typical pro-cyclical behaviour, a rate even higher then 3 per cent would probably be needed. In North America, where labour force growth is more rapid, GNP growth slightly higher than in Europe might be necessary.

Table 7
Youth unemployment
Per cent of youth labour force[a]

	Actual		Forecast	
	1979	1980	1981	1982
United States	11.2	13.2	14	$16\frac{1}{4}$
Japan	3.5	3.6	$4\frac{1}{4}$	$4\frac{1}{4}$
Germany	3.7	4.3	7	9
France[b]	13.3	15.0	17.0	$20\frac{1}{2}$
United Kingdom[c]	11.3	15.1	19.6	$20\frac{1}{2}$
Italy	25.6	25.0	27	$29\frac{1}{2}$
Canada[d]	13.0	13.2	$12\frac{3}{4}$	$13\frac{1}{2}$
Total of above countries	10.8	12.4	14	$15\frac{1}{2}$

a) Aged up to 24.
b) Data refer to March of each year. The 1981 figure is an actual rate, *not* a forecast. Conscripts are included in the labour force aged 15-24.
c) Data refer to July of each year and include school-leavers. The 1981 figure is an actual rate *not* a forecast. Youth unemployment rates for July, excluding school-leavers, for the years 1979, 1980 and 1981 are 7.5, 10.0 and 14.8 per cent respectively. Forecasts for 1982 allow for the major expansions announced in the Youth Opportunities Programme and the introduction of the Youth Workers Schemes.
d) The armed forces are not included in the labour force aged 15-24.

FISCAL AND MONETARY POLICIES

Summary

Budgetary policies in nearly all OECD countries continue to be dominated by efforts to achieve public expenditure restraint. Large budget deficits persist, however, because the recession, inflation and debt servicing costs have increased transfer expenditures. The non-monetary financing of these deficits, together with the fear of rekindling inflation through currency depreciation, has continued to exert upward pressures on interest rates. However, with monetary targets broadly being achieved, the recent alleviation of exchange rate pressures has led to some softening of short-term interest rates. On the other hand, long-term rates are still unprecedentedly high for this stage of the business cycle, reflecting both the scale of public sector borrowing and, perhaps, the persistence of inflationary expectations. Where prospective current balance of payments and price trends appear favourable, some further room to reduce interest rates may emerge, although marked interest rate reductions still seem unlikely.

FISCAL POLICY

With the majority of OECD countries pursuing the long-run objective of reducing government deficits, the commitment to fiscal restriction remains firm. The case for public expenditure cuts has continued to dominate recent policy pronouncements, although France has now adopted an economic programme which entails an increased budget deficit and an expansion of the public sector. However, the signals provided by current budgetary trends are not as unambiguous as the general tenor of budget announcements might imply. Most countries are experiencing some difficulty in meeting spending and

Table 8
Latest fiscal policy announcements in OECD countries

	Policy action		Policy Measures		Change in budget balance[c]
	Announced	With effect from	Public expenditure[a]	Taxation[b]	
United States	March 1981 (B)	October 1981	−[d]	−	+
Japan	December 1980 (B)	April 1981	−	+	+
Germany	September 1981 (PB)	January 1982	−	+	+
France	September 1981 (PB)	January 1982	+	+	−
United Kingdom	March 1981 (B)	April 1981	−	+	+
Italy	September 1981 (PB)	January 1982	−	=	=
Canada	November 1981 (B)	April 1982	−	+	+
Australia	August 1981 (B)	July 1981	−	+	+
Austria	October 1981 (PB)	January 1982	−	−	+
Belgium	August 1981 (PB)	January 1982	−	+	+
Denmark	October 1981 (PB)	January 1982	−	+	−
Finland	September 1981 (B)	January 1982	+	=	−
Greece	November 1980 (B)	January 1981	+	=	−
Iceland	January 1981	January 1981	−	−	=
Ireland	July 1981 (RB)	July 1981	−	+	+
Netherlands	September 1981 (PB)	January 1982	−	−	+
New Zealand	July 1981 (B)	April 1981	+	+	−
Norway	October 1981 (PB)	January 1982	−	=	=
Portugal	March 1981 (B)	April 1981	+	=	−
Spain	September 1981 (PB)	January 1982	+	+	−
Sweden	September 1981 (RB)	November 1981	−	−	=
Switzerland	October 1981 (PB)	January 1982	=	=	=

a) Change from previous plan.
b) Legislated change (excluding indexation commitments).
c) Planned change from previous year as a ratio of nominal GNP/GDP. The precise concept of balance used to define budgetary targets varies between countries; most usually the reference is to central government budget balances. The direction of change depends upon previous policies, and automatic influences, as well as the policy adjustments in columns 1 and 2.
d) Further expenditure cuts were proposed in September.
Note: PB: Proposed Budget; B: Budget adopted; RB: Revised or Supplementary Budget; +: increase; −: decrease; =: no change. Positive sign for the budget balance indicates a move towards surplus (restriction).

borrowing targets, given continuing high interest rates on government debt, indexation commitments and unemployment-related expenditures. (See box.) Public spending is projected to increase, on average, as a proportion of GDP in 1982, as it did in 1981, while any progress in reducing deficits will be achieved mainly through increased tax revenues. The impact of current policies on the size and composition of public sector revenues and expenditures is discussed below.

Budgetary stance

For many OECD countries the commitment to lower the government deficit pre-dates the second oil shock, having been built into the aggregate stance of budgetary policy since the mid-seventies[1]. This goal has, however, become both more general and more imperative since the second oil shock. It also appears harder to achieve. On the one hand, the attainment of monetary targets below the rate of growth of nominal GDP has required, in general, a non-accommodating fiscal stance. On the other hand, inflation, recession, and restrictive monetary policy itself, have made some expenditure items—and hence budget deficits—more difficult to control in the short run. Thus, while continuing to follow medium-term budgetary strategies aimed at an eventual reduction of the public sector's claims on GDP, the more limited short-term aim appears to be a consolidation of the present overall levels of deficits relative to GDP.

This consolidation will result from a series of longer-run public expenditure cuts and personal sector tax increases, already made in the budgets for 1980 and 1981[2]. Budgetary plans for 1982 have tended to reaffirm this stance, with further downward revisions to public spending plans, although France, Spain and New Zealand are notable exceptions. About two-thirds of the fiscal policy announcements

Table 9
General government financial balances in the major seven OECD countries 1978 - 1982[a]

Surplus (+) or deficit (−) as percentage of nominal GNP/GDP

	1978	1979	1980	1981[b]	1982[b]
United States	0	+0.5	−1.2	−0.7	−1.3
Japan	−5.5	−4.7	−4.1	−3.6	−2.0
Germany	−2.7	−2.9	−3.4	−4.4	−4.0
France	−1.8	−0.6	+0.4	−2.4	−2.7
United Kingdom	−4.3	−3.2	−3.5	−2.3	−1.4
Italy	−9.7	−9.4	−7.8	−9.4	−9.7
Canada	−3.1	−1.9	−2.1	−0.1	−0.2
Total of above countries[c]	−2.5	−1.9	−2.5	−2.5	−2.4

a) On an SNA basis except for the United States, the United Kingdom and Italy which are on national income account basis.
b) OECD estimates and forecasts.
c) 1980 GNP/GDP weighted.

listed in Table 8 imply stable or reduced budgets deficits relative to GDP[3].

These budgetary intentions do not translate, for the major seven countries taken as a group, into any marked decrease in the ratio of general government deficits—which include local and state budgets—to GDP (Table 9). For both 1980 and 1981 the figure was about 2½ per cent, as it is likely to be in 1982. National trends differ, however. The United States deficit is based on a Federal Government deficit for fiscal 1982[4] which will exceed the Administration's target of $42½ billion by perhaps $30 billion, highlighting the importance of government expenditure overruns in appraising the significance of announced cuts[5]. The reflationary measures taken by France in mid-1981 and in the subsequent September Budget, together with programme overruns, may increase the general government deficit to almost 3 per cent of GDP in 1982 (FF 95 billion)[6], while the fiscal restraint announced in the Italian budget will still leave the general government deficit at about 9½ per cent of GDP in the coming year. The stance of German budgetary policy, however, is restrictive —the 1982 budget aims to reduce central government borrowing by about ½ per cent of GDP from its 1981 level—and policies in Japan, the United Kingdom and Canada too are generally tight.

In terms of changes in the real weighted budget balances of the major seven countries shown in Table 10 (which weight tax and expenditure changes according to their immediate demand impact)[7], these *ex post* developments imply a virtually unchanged fiscal leverage, with the general government sector adding little to aggregate demand through the years 1980 to 1982.

1. Germany and Japan were exceptions, as were Sweden and Denmark.
2. See *Economic Outlook*, No. 28, Table 15, and *Economic Outlook*, No. 29, Table 13.
3. The concept defined as a target differs from country to country—from the central or federal government deficit, for instance, to the Public Sector Borrowing Requirement.
4. October 1981-September 1982.
5. A deficit of about $70 billion for the Federal Government in calendar 1982, which corresponds to 2 per cent of GDP. The general government deficit will be $40 in absolute terms, state and local budgets being in surplus.
6. National accounts basis. The 1982 budget also projects a central government deficit of 95 billion francs.
7. The weights applied are derived directly from the respective marginal savings and import propensities, without taking account of multiplier consequences.

Table 10

Changes in real weighted budget balances in the major seven OECD countries, 1978-1982

As percentage of previous year's real GNP/GDP

	1978	1979	1980	1981	1982
UNITED STATES					
Total net	0.9	0	−1.5	0.5	−0.6
Expenditures	−0.3	−0.6	−0.5	−0.1	−0.1
Taxes	1.2	0.6	−1.0	0.6	−0.5
GERMANY					
Total net	−0.3	−0.2	−0.2	−0.4	0.2
Expenditures	−0.7	−0.6	−0.4	0.1	0.1
Taxes	0.5	0.4	0.2	−0.5	0.1
UNITED KINGDOM					
Total net	−0.5	0.6	0.6	0.8	0.1
Expenditures	0	−0.2	−0.2	0.5	0.3
Taxes	−0.5	0.8	0.8	0.3	−0.2
CANADA					
Total net	−0.2	0.6	0.0	1.5	0.2
Expenditures	−0.1	0.0	0.0	−0.2	−0.3
Taxes	−0.1	0.6	0.0	1.7	0.5
JAPAN					
Total net	−1.6	0.5	0.4	0.1	0.9
Expenditures	−1.4	−0.6	0.1	−0.4	0.3
Taxes	−0.2	1.1	0.3	0.5	0.6
FRANCE					
Total net	−0.7	0.8	0.5	−1.8	−0.1
Expenditures	−0.6	−0.2	−0.4	−0.4	−0.5
Taxes	−0.1	1.0	0.9	−1.4	0.4
ITALY					
Total net	−1.1	0.1	0.8	−0.5	−0.3
Expenditures	−0.6	−0.4	−0.3	−0.3	−0.3
Taxes[a]	−0.5	0.5	1.1	−0.2	0.0
TOTAL OF ABOVE COUNTRIES					
Total net[b]	−0.1	0.2	−0.4	0.1	0.0
Expenditures	−0.6	−0.5	−0.3	−0.1	0.0
Taxes	0.5	0.7	−0.1	0.2	0.0

a) Excluding changes in capital transfers.
b) Impact aggregation excludes trade effects and is based on 1980 GNP/GDP weights.
Note: Fiscal indicators in this table show the extent to which changes in the budget deficit may be expected to support (or subtract from) the level of domestic demand from one year to the next, after allowing for savings and import leakages, but before multiplier consequences. A *negative* change indicates a supportive influence, implying a movement towards weighted deficit. (A negative sign therefore corresponds to expenditure *increases* and tax *decreases*.) For the method employed in calculating the indicators see annex «Sources and Methods».

For the smaller countries too, taken as a whole, the aggregate public sector deficit will probably be little changed, with fiscal restraint translating into noticeable gains in terms of relatively balanced budgets only in Australia and Switzerland. Government deficit targets are proving difficult to meet in other countries, and in several (Spain, Portugal, New Zealand) budget deficits are being actively used to support demand.

Because budget deficits have responded automatically to increased unemployment, through the operation of so-called "built-in stabilizers", as well as to unexpectedly high public sector costs and interest rates, the unchanged ratio of government deficits to GDP (an apparently neutral policy stance) disguises the extent to which governments are currently exercising discretionary fiscal restraint. For the major seven countries taken as a group it is estimated that higher unemployment would have automatically increased budget deficits by about 2½ per cent of GDP between 1980 and 1982. Keeping the ratio of public deficits to GDP constant in the face of this automatic tendency has entailed deliberate action to curb existing spending plans and increase tax rates. The change in the cyclically-adjusted budget deficit, which is derived by netting out the estimated effects of built-in stabilizers from observed budget balances, provides an estimate of this "discretionary" fiscal restraint (Table 11). Although such an indicator must be interpreted with caution[8], it shows that on a constant employment basis the budget balance of the major seven countries has moved towards surplus (indicating ex ante restraint) by nearly 1¼ per cent of (cyclically-adjusted) GDP in 1980 and 1981. On present policies, this stance will be reinforced in 1982 (the cyclically-adjusted budget balance being expected to move towards surplus by about ¾ per cent of GDP)[9].

8. The cyclically-adjusted budget balance is an indicator of "discretionary" fiscal stance in the sense that changes in public sector savings at a constant level of employment may be seen as exerting a deliberate "fiscal leverage" towards (if the movement is towards deficit) or away from (if towards surplus) the designated level of employment. In interpreting this indicator it is important to note that:

i) the definition of "discretionary" includes structural budget changes, deliberate short-term action, fiscal drag, and (for the past) estimating revisions arising from unanticipated price and interest rate increases, etc.;
ii) the measure is sensitive to the growth rate of productive potential, to which some uncertainty is attached;
iii) whether fiscal tightness also indicates fiscal deflation depends on developments in the rest of the economy; increased public savings may make room for lower private savings so that an increase in the constant employment surplus may still be compatible with the same level of activity.

More generally, the measure does not purport to estimate the *ex post* effect of budget changes on output.

9. Budgetary restriction in the form of *ex ante* spending cuts will, where aggregate demand and activity is reduced, lead to compensatory reductions in tax revenues and increased transfer expenditures. These will partly offset the initial budget savings and will be picked up in the "built-in stabilizers" column of Table 11.

Again, the global indicators disguise a variety of national trends. The discretionary tightening of fiscal policy seems to have been most pronounced in the United Kingdom, Japan, and Canada, while the proposals contained in the draft budget for 1982 would also entail a discretionary tightening of the German fiscal stance by about 1 per cent of GDP. Fiscal policy in the United States has been exerting a similar degree of *ex ante* restraint this year (despite a nominal budget balance of over $50 billion on federal government account), although tending towards a more neutral stance in 1982. The projection of a fairly stable high employment budget balance rests, however, on the assumption of matching tax and expenditure cuts in fiscal-year 1983; without these the constant employment budget balance would move towards deficit near the end of 1982. By contrast, policies in France, which were intended to be restrictive under the terms of the original 1981 Budget, have become expansionary, the constant employment budget balance moving towards deficit by over 1 per cent of GDP in 1981-1982[10].

Revenue and expenditure trends

The objective of cutting deficits has generally been associated with the additional aims of reducing the longer-run share of public spending and taxation in national income. In several countries there has also been concern to alleviate the disincentive effects of taxation on investment and labour supply. However, on neither the expenditure nor the revenue side has there been consistent progress. The combination of recession and a tight budgetary stance have made, in general, for higher effective tax rates and unbalanced growth of public spending. Both on an actual

10. Policy announcements by the new Government accounted for about ¼ per cent of the 1½ per cent "discretionary" change in the stance of French budgetary policy in 1981, while revised estimates for the 1981 Budget outturn (increased expenditures and lower than expected revenues) account for the remainder.

Table 11
Discretionary and automatic changes in general government financial balances in the major seven OECD countries, 1980-1982
As a percentage of nominal GNP/GDP

		Change in actual balance[a]	Built-in stabilizers[a, b]	Cyclically-adjusted budget change[a, b]
United States	1980	−1.7	−1.3	−0.4
	1981	+0.5	−0.7	+1.2
	1982	−0.6	−0.8	+0.2
Japan	1980	+0.5	−0.1	+0.6
	1981	+0.5	−0.5	+1.0
	1982	+1.6	−0.3	+1.9
Germany	1980	−0.5	−0.1	−0.4
	1981	−1.0	−1.7	+0.7
	1982	+0.4	−0.7	+1.1
France	1980	+1.0	−0.6	+1.6
	1981	−2.8	−1.3	−1.5
	1982	−0.3	−0.6	+0.3
United Kingdom	1980	−0.3	−1.4	+1.1
	1981	+1.2	−1.9	+3.1
	1982	+0.9	−0.8	+1.7
Italy	1980	+1.6	0.0	+1.6
	1981	−1.6	−1.3	−0.3
	1982	−0.3	−0.8	+0.5
Canada	1980	−0.2	−0.7	+0.5
	1981	+2.0	−0.5	+2.5
	1982	−0.1	−0.6	+0.5
Average of above countries[c]	1980	−0.6	−0.8	+0.2
	1981	0.0	−1.0	+1.0
	1982	+0.1	−0.7	+0.8

a) A positive sign indicates a move towards restriction (surplus); a negative sign indicates expansion (deficit). A plus sign therefore indicates public expenditure cuts and tax increases. Column 1 corresponds to the year-to-year changes in financial balances shown in Table 9.
b) "Built-in stabilizers" are estimated as the reaction of the budget to variations in real economic activity, not to variations in the rate of inflation. Changes in the cyclically-adjusted budget balance therefore include announced policy changes, net fiscal drag and estimating revisions.
c) 1980 GNP/GDP weighted.
Note: The figures shown in this table are OECD estimates and forecasts. For a description of the methodology used, see annex "Sources and Methods".

Table 12
General government expenditure and taxation trends in the major seven OECD countries, 1978-1982[a]

Per cent of nominal GNP/GDP at market prices

	1978	1979	1980	1981[b]	1982[b]
Receipts					
Direct taxes	13.0	13.1	13.4	13.5	13.5
of which: on households	9.7	10.0	10.5	10.8	10.9
on companies	3.2	3.1	3.0	2.7	2.6
Social security contributions	9.7	10.0	10.1	10.5	10.8
Indirect taxes	10.0	10.0	10.3	10.7	10.7
Property and entrepreneurial income*	2.7	2.8	2.8	2.8	2.8
Current receipts, total	34.2	34.7	35.4	36.4	36.7
Disbursements					
Government consumption	17.6	17.4	17.9	18.1	17.9
of which: wages and salaries	10.5	10.2	10.3	10.3	10.2
Property income payable (interest on public debt)	2.2	2.3	2.5	2.9	3.1
Subsidies	1.1	1.1	1.1	1.1	1.1
Social security outlays and other current transfers paid	13.1	13.1	13.6	14.2	14.5
Current disbursements, total	34.1	33.9	35.2	36.3	36.6
Gross investment*	3.8	3.9	3.9	3.7	3.5
Net capital transfers received*	−1.0	−0.9	−0.9	−0.9	−0.9
Financial balance	−2.5	−1.9	−2.5	−2.5	−2.4

a) 1980 GNP/GDP weighted. Items marked by an asterisk (*) are weighted averages of the six major economies excluding the United States; the components will not, therefore, add to the totals.
b) OECD estimates and forecasts.

and a cyclically-adjusted basis, public sector revenues are expected to have increased as a proportion of GDP between 1979 and 1982.

Two "supply-side" characteristics have stood out with respect to the household tax burden. It has been a widespread aim, most notably in the United States, to reduce the incidence of direct taxes, and the new Administration's programme will entail a reduction in the effective tax on personal income by about 1 per cent of GDP by 1982. Secondly, there has been some tendency to switch from direct to indirect taxation, either by the explicit substitution of one for the other (the United Kingdom and Australia) or by relying on excise taxes to raise revenues[11]. Expenditure taxes for the major seven countries as a group are forecast to increase by almost ¾ per cent of GDP between 1979 and 1982 (Table 12). Because of the need for income taxes to contribute towards reducing budget deficits, however, the effective rate of income tax has also risen in most countries, either through the lack of indexation provisions to offset fiscal drag (Italy and Japan), or through the waiving of statutory indexation commitments (United Kingdom). The ratio of total government revenues to GDP has thereby increased significantly, providing an important deflationary thrust to OECD demand.

Against this, a widespread aim has been to improve the financial position of companies, to encourage investment. Investment incentives have been introduced in the United States, France, the Netherlands, Spain and Sweden, while, partly because of the recession, the share of company taxes in total revenues has declined.

The squeeze on government spending is most clearly seen in the small real growth of government direct spending. For the seven major countries as a group the growth of real public expenditure on goods and services is expected to contribute about 0.1 per cent per annum to the growth of real GDP between 1979 and 1982, with a zero contribution in 1981 and 1982 (Table 4). However, because of difficulties in containing the growth of current expenditures on goods and services, the value share of this component in GDP will still be about ½ per cent higher in 1982 than in 1979[12]. Capital spending has been more restricted. Government investment has declined relative to GDP, although in some countries budgetary policy is now actively promoting capital spending for conjunctural purposes (Spain, Portugal).

Because of increased transfer expenditures the share of total government current spending in GDP may increase by 2½ per cent by 1982 compared with the end of the last decade, principally as a result of built-in stabilizers (Table 11). Debt interest payments have also been increasing as inflation and/or

11. The rationale for greater reliance on expenditure taxation lies in the supposedly greater incentives that this gives to both savings and labour supply, compared with taxes on income. In addition, increased indirect taxes have been associated with energy conservation; taxes on energy have been widely used to raise its price relative to other goods and factors of production.

12. The causes of this include:

i) difficulty in reducing general government manpower;
ii) the increasing relative cost of government services;
iii) policy priorities, especially the commitment to increases in defence expenditures (United States).

strict monetary policies have raised debt servicing costs, and this item is forecast to increase by more than twice the rate of growth of nominal GDP between 1979 and 1982: see "Automatic budgetary responses in the current recession" below.

MONETARY POLICY

Monetary policy has been restrictive in most Member countries for an unusually long time. Real monetary growth has, for the OECD area as a whole, slowed significantly, and even become negative over the past two years. Interest rates, both nominal and real, have reached unprecedented levels for a business cycle downswing. This has given rise to concerns as to:

i) the adverse effects of continuing high interest rates on the potential recovery in 1982;

ii) the implications for financial markets of persistently high public sector borrowing requirements in a context of non-accommodating monetary policy, and

iii) the difficulty of interpreting developments in monetary aggregates as a result of continuing financial innovations, deregulation of credit markets and influences from external transactions, although this may have been of lesser importance than in 1980.

Policy developments

In general, the stance of policy has continued to be dominated by efforts to keep the expansion of money and credit aggregates under tight control (Table 13 and Chart C), although exchange rate considerations have also been important in shaping interest rate policies, especially in Europe[13]. In the United States, despite discrepancies in the observed rates of growth of the targeted monetary aggregates, overall monetary expansion has been considered to be largely on track. Recently short term interest rates have been allowed to come down progressively, in response to signs of slowing inflation and economic activity[14]. However, the authorities seem to be seeking to avoid a replay of the wide variability observed during 1980 in money expansion and in interest rates, which had adverse consequences for expectations and corporate debt structure.

13. For a more detailed discussion of monetary policy and exchange rates, see below.

14. The supply of reserves has recently expanded rapidly, and the surcharge on excessive borrowing at the discount window was, after successive reductions, abolished in November, when the discount rate was reduced from 14 to 13 per cent.

Table 13
Monetary aggregates[a]: recent trends and targets in the major seven OECD countries
Percentage changes, seasonally adjusted at annual rates

		Last observation	Last 12 months[b]	Last 6 months[b]	Last 3 months[b]	Average of last three -monthly changes[c]	From target base period[d]	Official target[e,f]
United States	M1B	Oct.	5.1	2.7	2.3	2.8	4.2	6- 8½
	M2	Oct.	8.8	8.4	8.7	9.5	9.0	6- 9
	NBR	Oct.	6.3	5.5	15.8	13.3		
Japan	M1	Oct.	7.5	11.7	9.1	9.2		
	M2 + CD	Oct.	10.2	11.1	12.1	12.8	9.1	10
Germany	M1	Oct.	−0.6	−1.6	−1.9	−3.9		
	M3	Oct.	7.0	5.2	3.3	0.2		
	CBM	Oct.	4.5	3.2	2.2	1.2	3.9	4- 7
France	M1	Aug.	12.5	13.6	14.1	11.1		
	M2	Aug.	14.1	15.5	16.2	16.4	16.7	10
United Kingdom	M1	Oct.	10.7	10.2	1.8	−4.4		
	£M3	Oct.	15.9	18.7	19.1	20.2	18.9	6-10
Italy	M2	Jul.	11.1	7.2	4.9	5.5	5.9	11-12
	M3	Jul.	17.0	15.7	14.2	15.0		
Canada	M1	Oct.	−0.8	−8.4	−17.5	−28.1	−2.6	4- 8
	M2	Oct.	14.1	14.7	15.6	12.2		

a) M1 is the narrowly defined money supply, i.e. currency plus domestic demand deposits. M2, Sterling M3 for the United Kingdom, and M3 for Germany are money stocks broadly defined, which add to M1 domestic savings deposits (and, in the case of Japan, certificates of deposit). For Italy, M3 is M2 plus outstanding Treasury bills held by private and foreign sector. German CBM is "central bank money". NBR for the United States measures non-borrowed commercial bank reserves, adjusted for changes in reserve requirements.

b) Most recent 3-month average relative to the 3-month average ending 3, 6, and 12 months earlier.

c) Average of monthly increases (at an annual rate) in the most recent three months.

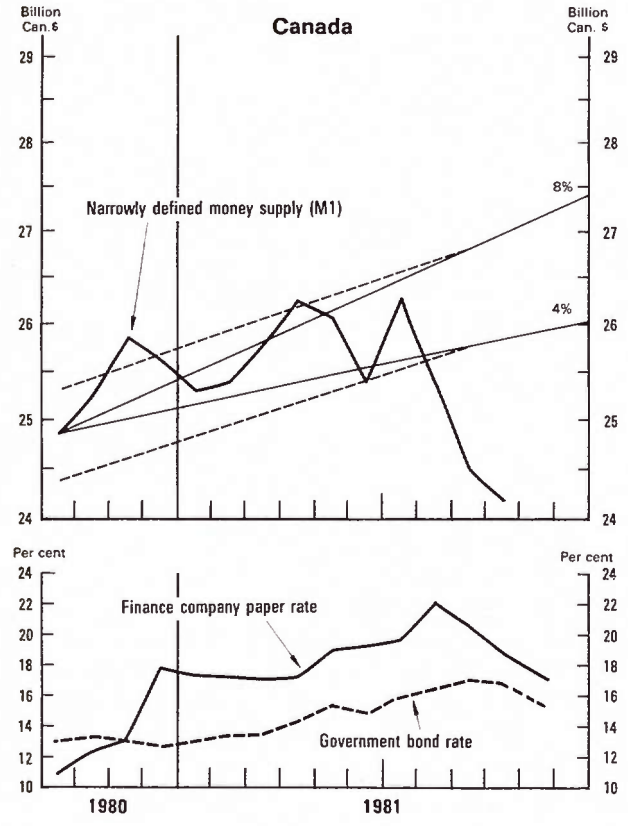
d) Most recent monthly observation relative to target base period, annualised.

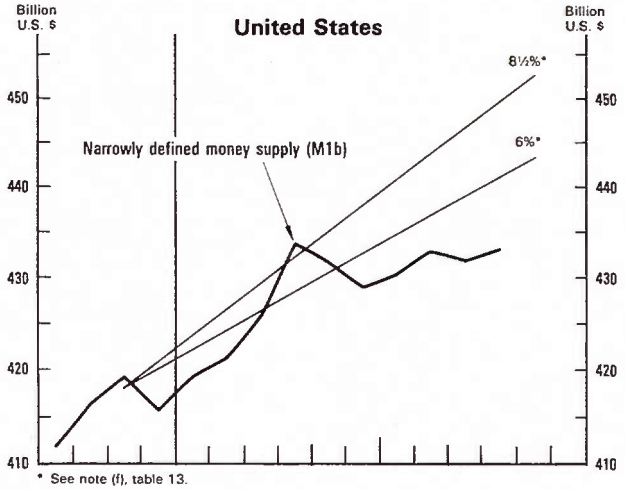
e) For the United States and Germany targets are for 1981 Q4/1980 Q4. For France the target is for December 1981/December 1980; for the United Kingdom, April 1982/February 1981 (annual rate); for Canada, annualised growth based in September 1980; for Japan, projection for 1981 Q4/1980 Q4; for Italy the target is a projection consistent with the ceiling for total domestic credit expansion in 1981.

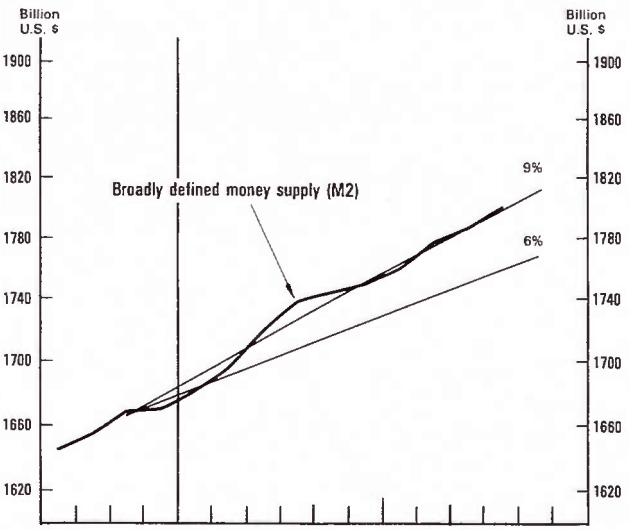
f) The United States target for M1B, adjusted for movements of deposits into NOW and ATS accounts, is 3.5 to 6 per cent.

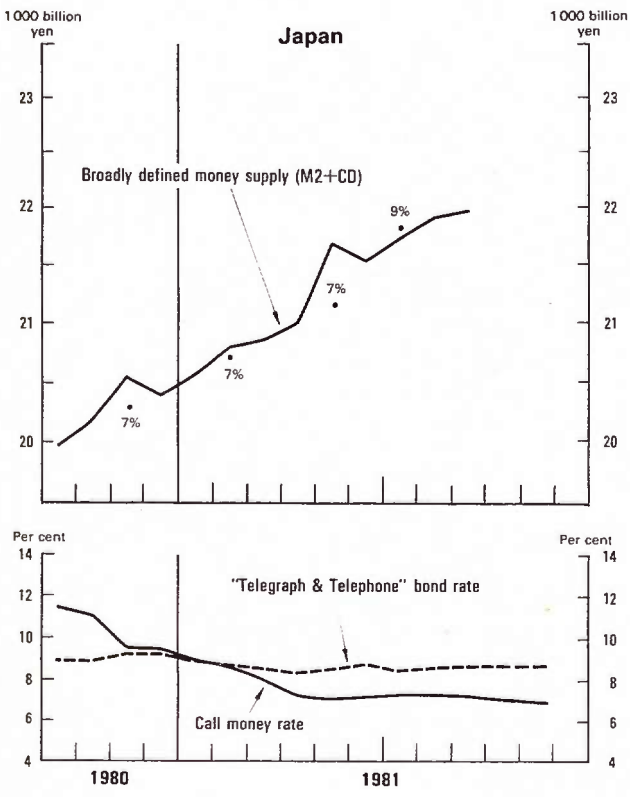
CHART C

MONETARY MANAGEMENT AND INTEREST RATE TRENDS









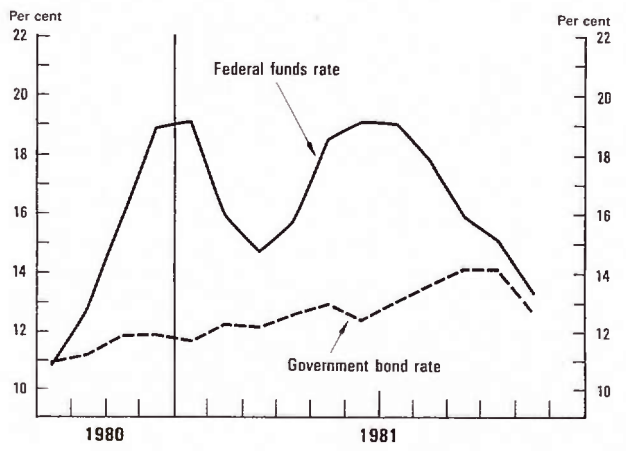
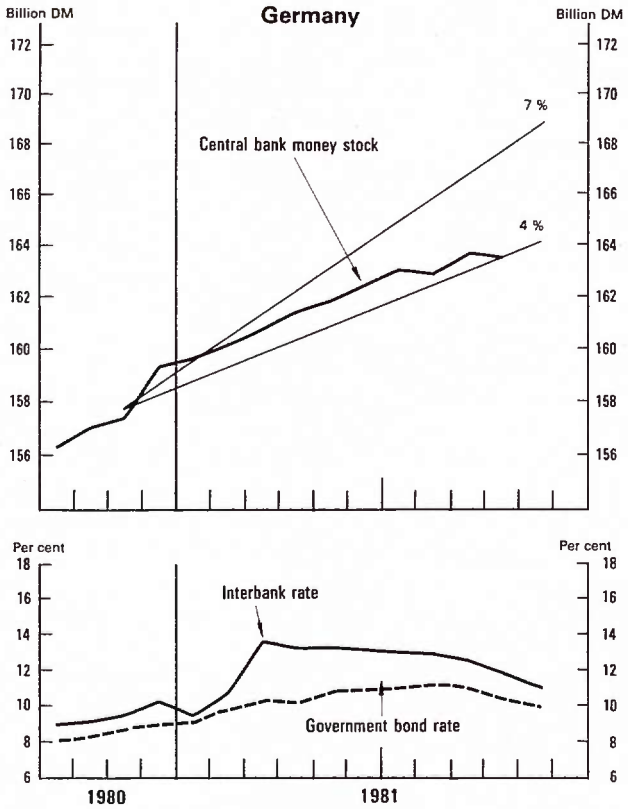
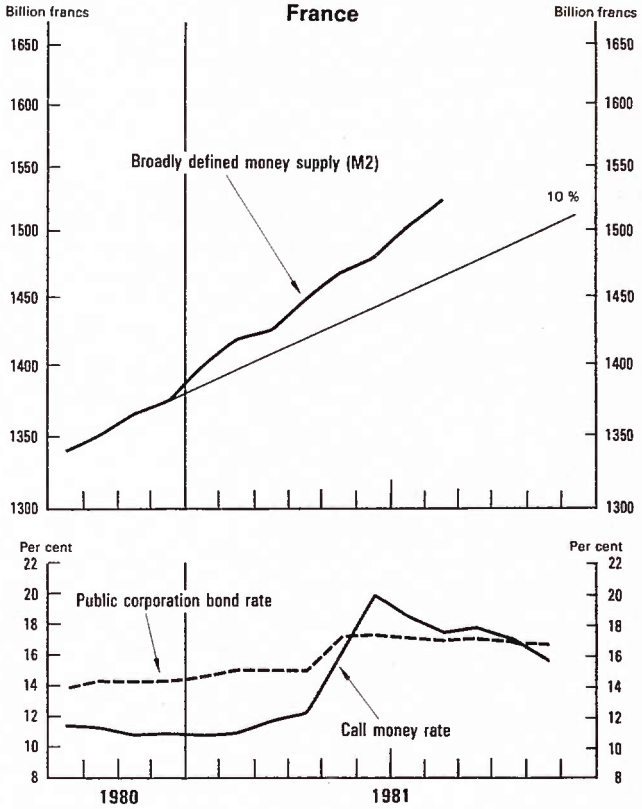
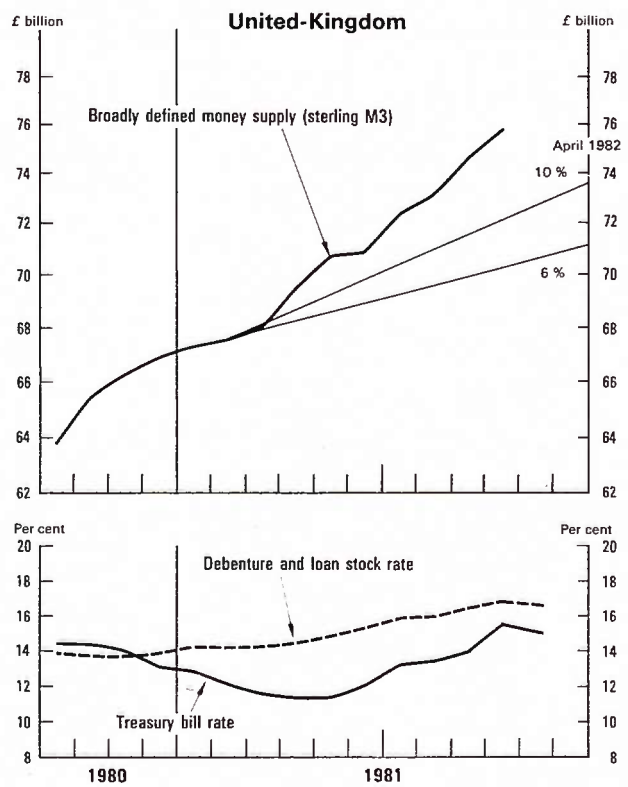


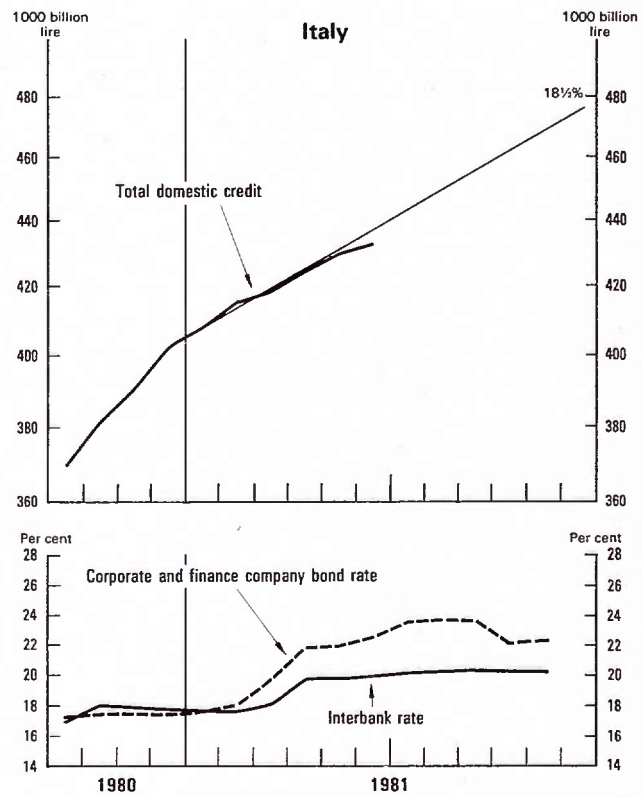
CHART C (cont.)

MONETARY MANAGEMENT AND INTEREST RATE TRENDS









Until the early autumn a key factor behind policy actions elsewhere in the OECD area continued to be exchange rate weakness against the dollar. In Germany this led the Bundesbank to aim at a growth rate of the central bank money stock at the lower end of the target range to keep money market conditions tight. In the United Kingdom, the authorities were constrained to depart temporarily from their two-year policy of non-intervention in exchange markets, and prompted a sharp rise in money market rates and in banks' base lending rates. Canada and Switzerland responded by steep increases in interest rates and accepted tendencies to undershoot targeted monetary aggregates.

As the exchange rate constraint eased somewhat in the late autumn, some countries found scope to lower policy-controlled interest rates in support of weakening economic activity. This was principally the case in Germany, where, after the EMS realignment[15], the special Lombard rate was lowered with "ripple effects" on policy-controlled interest rates elsewhere in Europe. Only in a few of the larger OECD countries, however, has monetary policy become, or remained, largely accommodating. The new French Administration began to follow a less restrictive stance of credit policy from the early summer, acquiescing in an overshooting of the monetary target in line with the more rapid growth expected for nominal GDP[16]. In Japan, a better inflation picture has allowed the authorities to maintain a monetary policy stance designed to support the recovery of economic activity[17].

Policy outlook

Among the larger OECD countries, the monetary stance is likely to remain non-accommodating vis-à-vis inflation as policies strive to create a stable monetary environment in the medium-term[18]. With United States interest rates forecast to remain relatively high through 1982, reflecting the conflict between tight monetary growth targets and a high Government budget deficit, there would seem to be only limited room for the authorities elsewhere to ease monetary conditions in response to weaker economic developments, without risking exchange rate and inflationary pressures. However, a softening of monetary conditions may occur in some countries, where constraints on policies ease over the coming twelve to eighteen months. In particular, expected current account developments in Germany and Japan should reduce the external constraint on domestic monetary policies.

Policy concerns

Short-term interest rates have declined only slowly from their autumn peaks. Moreover, the upward trend in long-term interest rates has, until very recently, continued in practically all countries, with real long-term interest rates reaching unprecedented levels (Chart D). This may, inter alia, reflect:

i) persistent inflationary expectations, the high and volatile rates of inflation in recent years requiring a larger risk premium in long-term interest rates;

ii) continuing high government borrowing, with investors now apparently demanding a higher real return to induce them to absorb large amounts of fixed-interest government debt in their portfolios (discussed below).

There is uncertainty about the restrictive effects of high nominal and real interest rates on the economy, tight monetary conditions apparently having very uneven sectoral impacts. On the one hand, dearer credit undoubtedly put severe strains on traditional credit-dependent sectors such as housing, automobiles and small businesses. Moreover, wealth and liquidity effects, generated by the decline in bond prices and depressed share markets, may also have reduced spending. On the other hand, developments in financial markets have increasingly tended to diminish the degree of restraint achieved by high real interest rates. Indeed, the growth of variable interest rate instruments (in both domestic and international financial markets, to which corporations in many countries have unrestricted access) has meant that a given interest rate may not be "locked-in" and hence may not reduce expenditure as much as in the past. It may also be that high real interest rates are less of a deterrent to investment in the

15. The Deutschemark and the Dutch guilder were revalued on the 4th of October by 5½ per cent, while the French franc and the Italian lira were devalued by 3 per cent.

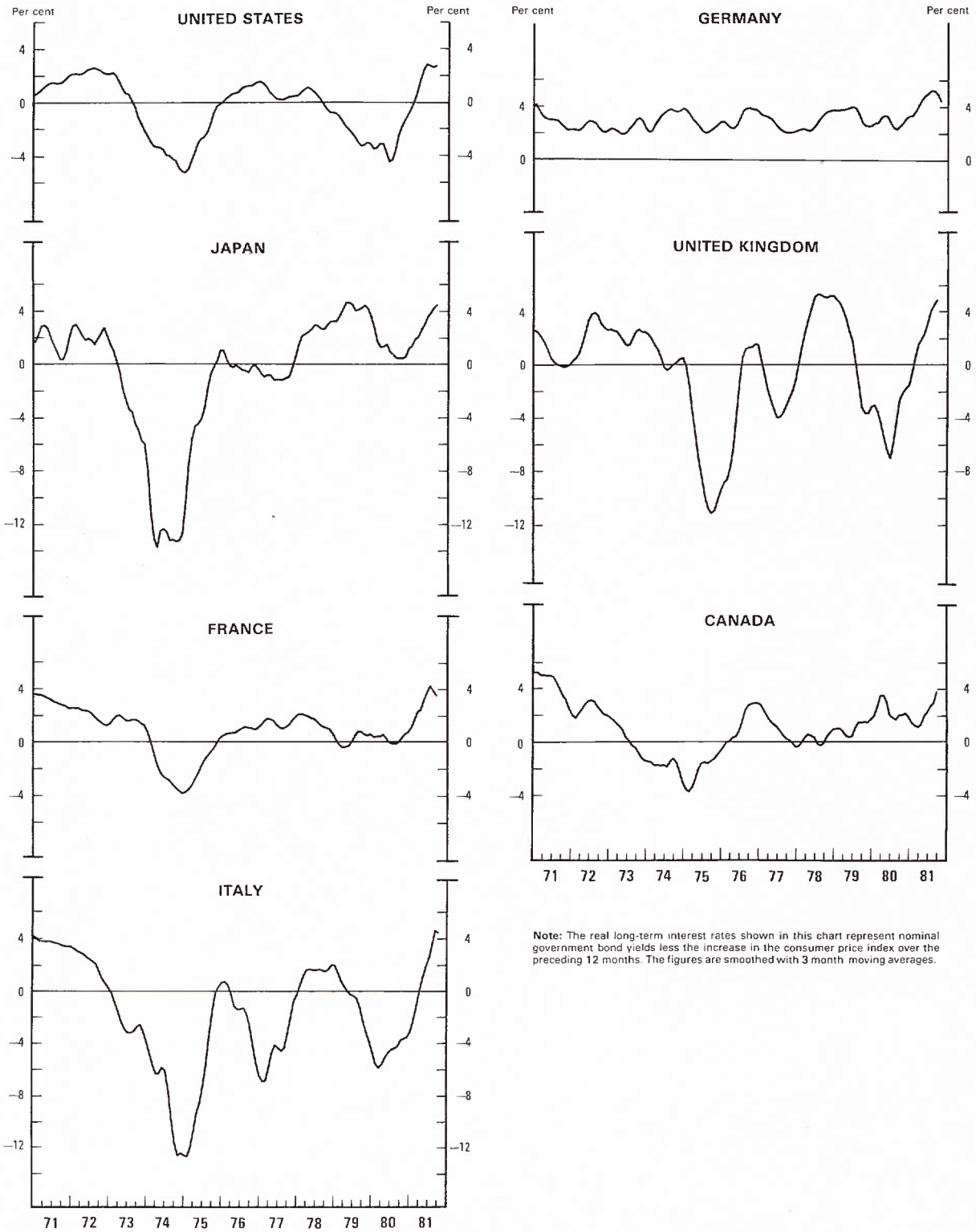
16. The broad money stock (M2) has been growing above target since the beginning of 1981.

17. Credit ceilings have been significantly relaxed. This, together with balance of payments improvement and financial institutions' purchase of large government bond issues contribued to acceleration of the monetary expansion in recent months.

18. Three major countries have announced targets for 1982. In the United States, the Federal Reserve has lowered its preliminary target for M1B to 2½-5½ per cent. The ranges for M2 and M3 are kept unchanged at 6 to 9 and 6½ to 9½ per cent, respectively, but the Fed. will aim for the mid-points of these ranges, whereas in 1981 it has been hoping to stay within the upper limits. The United Kingdom Medium-Term Financial Strategy foresees a further one-percentage point reduction of the current 10 to 6 per cent target range. In Germany, the target range for the central bank money stock has been maintained at 4 to 7 per cent.

CHART D

REAL LONG-TERM INTEREST RATES



Note: The real long-term interest rates shown in this chart represent nominal government bond yields less the increase in the consumer price index over the preceding 12 months. The figures are smoothed with 3 month moving averages.

Table 14

Public sector indebtedness in some major OECD countries[a]

Per cent

	1973	1974	1975	1976	1977	1978	1979	1980
United States								
1. Public sector borrowing requirement[b]	1.9	2.2	6.8	5.6	4.5	4.1	2.6	4.4
of which: Central Government[b]	0.8	1.0	5.9	4.7	3.4	2.9	1.9	3.4
2. Public sector share of total credit market funds raised by non financial sectors	12.3	15.9	52.1	36.6	25.3	21.9	15.9	32.1
of which: Central Government	5.5	7.6	45.3	30.7	19.2	15.9	11.9	25.4
3. Central Government debt outstanding held by the private sector[b]	20.0	19.2	22.8	24.1	24.3	24.0	22.8	23.4
4. Non-bank private sector holdings of Central Government debt[c]	10.7	10.7	12.3	12.5	12.0	11.6	12.7	13.4
Japan								
1. Public sector borrowing requirement[b]	5.1	6.7	9.5	10.5	10.4	13.8	10.6	10.8
of which: Central Government[b]	0.8	2.1	4.4	5.9	6.6	9.6	6.4	6.9
2. Public sector share of total credit market funds raised by non financial sectors	18.6	28.8	36.9	40.4	47.3	55.1	48.1	46.8
of which: Central Government	3.1	9.1	17.5	22.7	29.9	38.2	29.1	30.2
3. Central Government debt outstanding held by the private sector[b]	2.7	2.4	4.9	7.6	11.2	15.0	17.7	. .
4. Non-bank private sector holdings of Central Government debt[c]	0.1	0.1	0.4	0.6	0.9	1.6	4.9	. .
Germany								
1. Public sector borrowing requirement[b]	1.8	2.4	6.3	4.2	3.1	3.5	3.1	3.7
of which: Central Government[b]	. .	. .	. .	. .	. .	. .	. .	. .
2. Public sector share of total credit market funds raised by non financial sectors	12.9	23.8	46.4	31.2	25.0	23.0	22.7	31.9
of which: Central Government	. .	. .	. .	. .	. .	. .	. .	. .
3. Central Government debt outstanding held by the private sector[b]	16.4	17.9	23.5	25.4	26.5	27.8	28.7	30.4
4. Non-bank private sector holdings of General Government debt[c]	10.0	10.5	11.6	11.9	11.9	11.1	11.8	12.0
France								
1. Public sector borrowing requirement[b]	2.9	3.4	6.2	4.9	4.7	5.8	4.3	. .
of which: Central Government[b]	0.4	0.5	2.9	1.9	1.9	2.8	1.8	1.1
2. Public sector share of total credit market funds raised by non financial sectors	9.9	16.7	33.8	25.6	20.9	31.5	21.4	. .
of which: Central Government	−5.2	−1.8	14.5	3.6	3.6	13.8	6.8	3.6
3. Central Government debt outstanding held by the private sector[b]	6.3	6.3	7.0	6.2	6.1	6.6	6.9	7.1
4. Non-bank private sector holdings of Central Government debt[c]	10.8	10.8	8.4	7.4	7.7	7.9	8.7	10.4
United Kingdom								
1. Public sector borrowing requirement[b]	6.5	8.6	11.2	8.2	4.8	5.8	7.7	6.5
of which: Central Government[b]	3.6	4.7	8.9	6.1	3.5	5.8	6.3	5.8
2. Public sector share of total credit market funds raised by non financial sectors	19.0	33.8	60.3	31.9	49.0	23.2	25.4	44.6
of which: Central Government	18.6	32.0	60.8	44.3	32.2	42.3	35.2	. .
3. Central Government debt outstanding held by the private sector[b]	36.1	33.4	30.4	32.5	34.4	34.7	34.5	31.5
4. Non-bank private sector holdings of Central Government debt[c]	37.8	37.6	38.6	41.8	46.1	46.7	49.1	45.3

a) For definitions see annex «Sources and Methods».
b) In per cent of nominal GNP/GDP.
c) In per cent of a proxy «private financial wealth» measured as the sum of the broad money stock (as shown in Table 13) and non-bank private holdings of Central Government debt.

short run when they are expected to be more permanent. Furthermore, certain key sectors, such as energy and high technology, may promise real returns on investment which make current levels of real interest rates non-prohibitive. Finally, the freer determination of interest rates on deposits, and the development of alternative high yielding financial investment opportunities, are likely to have increased the availability of credit, which in some countries may be more important than the impact of interest rates.

The attempt to achieve more non-monetary financing of persistently high government deficits, associated with greater emphasis on controlling the growth

of monetary aggregates, has been considered an important factor behind the high level of interest rates in the recent period. While temporarily large public deficits might be manageable, continuous deficits mean that the higher proportion of Government debt outstanding in private wealth requires a higher real return in order for it to be held willingly. The evidence in this respect varies among countries (Table 14). The public sector share of credit market funds raised by non-financial sectors, after declining for some years, rose steeply in 1980, notably in the United States, Germany and the United Kingdom. Although there has everywhere been a rapid increase in central government debt outstanding, the ratio of privately-held central government debt to nominal GNP has exhibited quite divergent behaviour among countries. In Japan and Germany, where public sector borrowing requirements have been important, and to a lesser extent France, the trend has been rising, while remaining flat in both the United States and the United Kingdom. The ratio of non-bank private holdings of central government debt to a proxy for private financial wealth provides some indication of the changes in the composition of private portfolios. This ratio has tended to rise in recent years, which may partly explain the abnormal structures of short and long term interest rates in most of the countries considered.

Although funds provided by the non-bank sector have recently become more important, the banking system has continued to be the most significant source of finance, especially in countries with relatively narrow capital markets, such as Japan, Germany and France. The immediate implications for monetary expansion of the higher financing of government deficits through the banking system depend, to some extent, on the institutional framework in which monetary policy is conducted. In some major countries, such as Japan, France and the United Kingdom, monetary growth is regulated mainly by the authorities' discretionary actions aimed at influencing credit demand of the domestic non-financial sectors. In such systems of monetary control, unexpectedly heavy recourse by the government sector to the banking system will tend to be accommodated in the short run, affecting the growth of the monetary aggregates[19].

Against this background of high interest rates and increasing government borrowing requirements, the authorities, in many countries, have continued to face the problems induced by financial innovations, which tend to make established relationships between monetary aggregates and certain key macroeconomic variables inherently unstable[20]. Recent decelerations in important monetary aggregates to below-target rates of growth must therefore be interpreted with caution. Most pronounced in North America, this is beginning to be important also in other countries. In the United States the slow growth of the narrow aggregate (M1B) has prompted calls for an easing of monetary policy. However, in view of the substitution from demand deposits to other high interest-bearing financial assets with an unknown transactions element[21], the Federal Reserve has placed more emphasis on the behaviour of the broader aggregates, which have grown at or above upper target limits. In Germany, there has been a similar, but less marked, substitution from traditional long-term deposits (included in M3) into non-deposit liabilities. As the public's demand for currency has also stagnated the growth of the central bank money stock has tended to understate the underlying rate of monetary expansion. In both cases, the response of the authorities has been to lower, within established target ranges, the rate of monetary growth aimed at in the second half of the year[22].

In other countries, interpretation of the monetary aggregates has been disturbed by external factors. Where an economy has a current deficit on its balance of payments, domestic credit rather than the money supply may be the appropriate indicator to monitor. This would seem to be the case for both France and Italy, where total domestic credit has expanded relatively fast (in part due to monetary financing of the public sector borrowing requirement), while capital outflows exerted a contractionary impact on the money supply.

MONETARY POLICY AND EXCHANGE RATES

A major policy dilemma has arisen at various times in the last two years as countries have attempted simultaneously to adhere to monetary targets and to avoid exchange rate developments considered damaging to domestic output and inflation. Resistance to increased domestic interest rates while foreign rates are rising is liable to require intervention to support the exchange rate, which can put heavy pressure on even quite high foreign exchange reserves. Conversely,

19. This question is examined in detail in "Budget Financing and Monetary Control", Monetary Studies Series, OECD, 1981 (forthcoming).

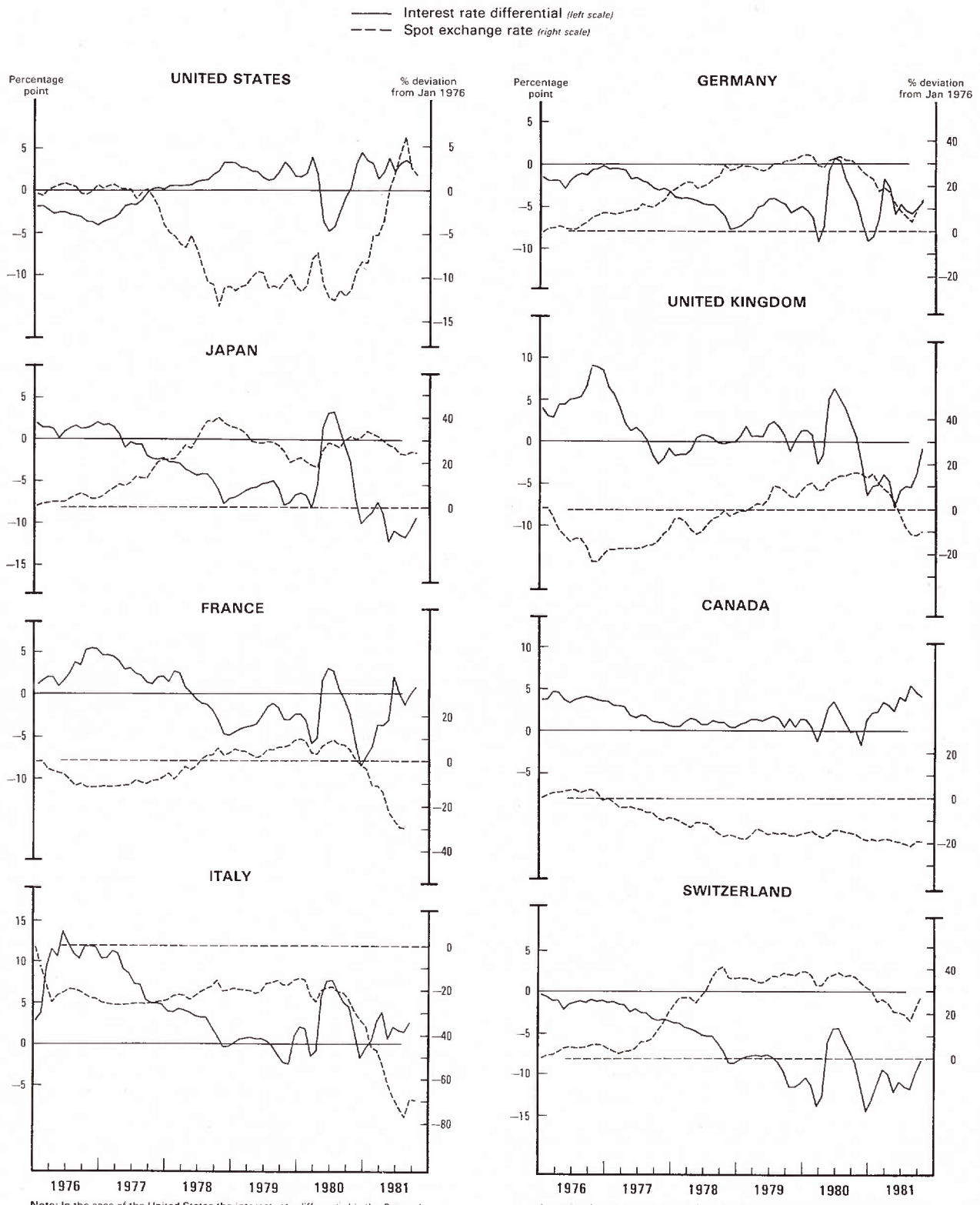
20. For a detailed discussion see *Economic Outlook*, No. 28, December 1980, pp. 34-35.

21. In particular, the growth of Money Market Mutual Fund Shares and more recently of "All Savers Certificates" have been distorting M1B.

22. The Federal Reserve is now seeking to achieve M1-B growth at the lower end of the target range, as is the Bundesbank for the CBM. Earlier, the authorities aimed at the mid-points of the ranges.

CHART E

INTEREST RATE DIFFERENTIALS AND EXCHANGE RATES



Note: In the case of the United States the interest rate differential is the 3-month commercial paper rate minus a weighted average of short-term rates in the other 6 major OECD economies; the exchange rate is an effective rate for the external value of the dollar. For the other countries interest rate differentials refer to market-determined short-term rates vis-à-vis the Eurodollar rate, and exchange rates are bilateral spot rates against the dollar. All figures are on a monthly average basis; exchange rates are indices based on January 1976.

if domestic interest rates are held too high in relation to foreign rates, capital inflows may induce excessive monetary expansion[23]. Exchange market intervention has often been substantial over the past two years (Table 15), as a consequence of smoothing operations and/or institutional arrangements such as the EMS mechanism of limited exchange rate fluctuations, but sustained external pressures have led eventually to shifts in domestic monetary policies and/or changes in exchange rates.

Interest rate developments in the United States have constituted an important external constraint on the conduct of monetary policies in other countries. Their extreme variability throughout 1980, given the more independent development of interest rates in major OECD economies other than Canada, led to sharp fluctuations in international yield differentials. These contributed, at times, to important movements in bilateral spot exchange rates against the dollar. However, no regular relationships between yield differentials and bilateral exchange rates may be observed from the data (see Chart E), suggesting that other factors have also been important. For example, the appreciation of sterling throughout 1980 first coincided with the sharp rise in the interest rate differential in favour of the United Kingdom until the middle of the year. Subsequently, sterling continued to rise despite a reversal in the yield differential, presumably as a consequence of the strengthening of the current account associated with the increase in the price of oil. Similarly, the exchange rate for the yen seems to have been influenced importantly by current account developments during 1980, as can be seen from Chart F.

By the early months of 1981 the main focus of attention had shifted away from the variability of United States interest rates and international yield differentials. The appreciation of the dollar became more generalised, in spite of a narrowing of the yield differential in its favour, suggesting an overriding shift in exchange rate expectations. In part, this may have been related to a favourable reaction of the international business and financial communities to the orientation of economic policies by the new US Administration. More recently, however, the effective exchange rate for the dollar has weakened, possibly reflecting some changes in market expectations, downward pressure on U.S. interest rates and the prospects of a deteriorating current account in 1982.

During 1981 factors other than interest rates have also been important in determining the external values of the Deutschemark and the Swiss franc. Interest rates were raised in both Germany and Switzerland early in the year. In the case of Switzerland, this was accompanied by an improved current account, and the effective exchange rate for the Swiss franc rose. In Germany, however, the J-curve effects of earlier depreciation on the current account probably contributed to the continued weakness of the Deutschemark in the first half of 1981. Subsequently, the turnaround of the German current account in the third quarter helped to reverse the pressure, so that the external constraints on domestic monetary policy were substantially reduced. The strengthening of the Deutschemark may allow interest rates to be reduced somewhat, which could prove to be important for demand in Europe.

The recovery of the yen associated with the current account improvement since the spring of 1980 was reversed in early 1981, when market attention appeared to shift towards the persistence of wide interest rate differentials against Japan. This was associated with a significant decline in short term market rates as a result of a further reduction in the official discount rate in March. More recently, however, the yen has started to rise again, presumably reflecting the prospects for further substantial improvements of the current account as well as downward pressure on United States interest rates.

23. While "sterilisation" operations can in principle be used to nullify any undesired monetary impact of capital flows where exchange rates are fixed, the scope in practice is often limited.

Table 15
Summary balance of payments of the major seven OECD Countries

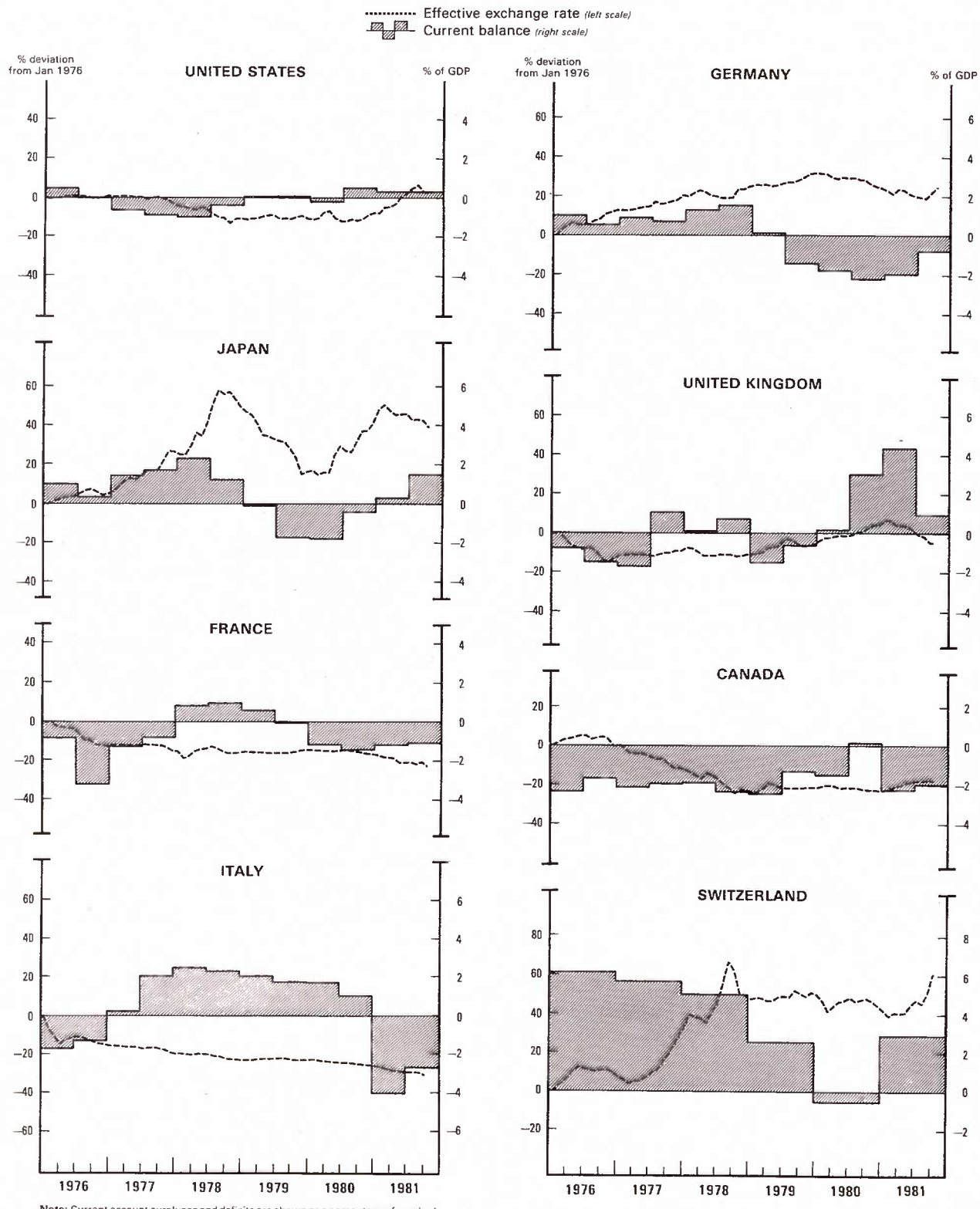
$ billion, not seasonally adjusted, actual rates

	1980[b]			1981 Sum of first 3 quarters [a,b]		
	Current balance	Capital balance	Net transactions of monetary authorities	Current balance	Capital balance	Net transactions of monetary authorities
United States	3.7	−10.5	−6.8	1.4	6.6	8.0
Germany	−16.4	1.1	−15.3	−11.7	15.4	3.5
Japan	−10.7	15.4	4.7	2.8[c]	0.3	3.1
France	−7.4	14.1	6.7	−3.8	−3.7	−7.5
Italy	−9.8	11.7	1.9	−11.0	10.0	−1.0
United Kingdom	7.4	−9.7	−2.3	8.5[d]	−13.5[d]	−5.0
Canada	−1.6	1.0	−0.6	−4.8	4.0	−0.8

a) Partly estimated.
b) Including errors and omissions.
c) Actual provisional figure.
d) Rough estimates.

CHART F

EFFECTIVE EXCHANGE RATES AND CURRENT ACCOUNT BALANCES



Note: Current account surpluses and deficits are shown as a percentage of nominal GNP/GDP (seasonally adjusted data); figures for 1981 are OECD estimates and forecasts.

The depreciations of the French franc and the Italian lira during 1981, in spite of sharp increases in the yield differentials in favour of both currencies (Chart D), have mainly been related to capital outflows as market expectations of their respective exchange rate have been revised downwards. The resulting strains within the EMS, particularly with respect to the Deutschemark/franc parity, were largely responsible for the realignment in early October. This has left major European countries more room for manoeuvre with respect to domestic monetary policy in the short-term.

The rise in United States interest rates towards the end of 1980, the subsequent reduction of United Kingdom rates in early 1981, and the depressed state of the oil market, have contributed to the depreciation of sterling since the turn of the year. This could retard efforts to reduce inflation, and has already led to increased interest rates. With the recent decline in US interest rates, the yield differential has shifted in favour of the United Kingdom and there has been a partial recovery of sterling. However, external constraints on domestic monetary policy seem likely to continue to be important.

AUTOMATIC BUDGETARY RESPONSES AND THE STANCE OF FISCAL POLICY

Persistently large budget deficits seem inconsistent with the tax rate increases and announced expenditure cuts which have characterised fiscal policies since the second oil shock. Likewise, the description of budgetary policy stance as tight when government deficits have not moved towards balance also appears contradictory. The resolution of these seeming paradoxes lies in the fact that budget deficits—although occupying a prominent instrumental role in the achievement of economic objectives—respond automatically to economic activity, perhaps putting the deficit beyond effective short-term governmental control[1]. Three factors have recently tended to offset the initial stance of fiscal policy:

i) the effects of "built-in stabilizers";
ii) the impact of inflation and fiscal indexation; and
iii) the increase in government debt interest payments.

1. This proposition need not conflict with the aim of reducing deficits in the longer run. The objective here is to identify those factors which may lead to unexpected, underestimated or unavoidable changes in budget deficits which may or may not be correctable by subsequent discretionary action.

2. The share of government direct spending in GDP in 1979 was approximately 20 per cent (adjusting the investment ratio in Table 12 for the fact that it does not include the United States). A realistic estimate of the aggregate potential growth of the major seven countries considered as a group may be 3 per cent per annum (a weighted average of the growth rates underlying the calculation of the cyclically adjusted budget balances shown in Table 11). If real public spending had itself been programmed to grow at this rate, and had this been maintained, it would have been higher as a share of GDP by about 1 percentage point. Between 1979 and 1982 real GDP growth is projected at 1¼ per cent per year on average.

3. In practice the planned growth of public spending for this period is not known. A rate of increase in direct expenditures equal to that of productive potential is, however, a neutral and perhaps fairly reasonable benchmark, because the relative cost of providing public services tends to increase, maintaining the value share of such spending in GDP even when the volume increase is restrained. Because public spending on transfers has proved difficult to reduce, ¾ per cent is also the estimate of the discretionary fiscal restraint applied by public spending as a whole during the 1980-1982 period.

i) *"Built-in stabilizers" and automatic budget responses to the recession*

The term "built-in stabilizers" conventionally refers to the automatic responses of taxes and social security benefits to changes in output and unemployment, relative to a pre-set growth path of public consumption and investment. Their unconstrained operation would mean revenues remaining at least constant as a proportion of GDP as tax receipts decline with reduced activity. Government expenditures, however,—both direct and indirect—increase as a ratio of GDP, the more so in the case of transfers because social security payments rise with unemployment. The effectiveness of automatic stabilizers in maintaining aggregate demand during a downswing thus depends, principally, on continuing to finance existing government spending, plus increased social security payments, through increased borrowing. Their neutralisation, in turn, relies primarily on governments' spending plans being revised down at the same time as private spending is reduced.

The beneficial consequences of automatic budgetary changes relate, in this context, only to the stabilisation of aggregate demand, not to inflation. But it may be that price expectations are conditioned by the size of the budget deficit and the public sector relative to GDP. Believing this to be so, various governments have tried to offset the operation of automatic stabilizers by reducing their spending. If budget plans, as framed before the last oil shock, had aimed at maintaining the share of public direct spending relative to *potential* (constant employment) GDP in the major seven countries, the share of government direct spending in *actual* GDP would have risen by 1 per cent in the years 1980-1982, rather than by the ¼ per cent now expected (see Table 12)[2]. The ¾ point difference gives a tentative indication of the discretionary fiscal restraint being applied to government spending on goods and services[3].

The degree of discretionary fiscal restraint necessary to offset fully the budget consequences of built-in stabilizers

Box continued on next page

Box continued

(including social security outlays) may be large, because initial cuts in public sector demand set in train offsetting built-in budgetary responses. For a single country, the ratio of the realised budgetary gain to the "first-round" cut is probably in the region of 40 per cent if accompanied by "accommodating" monetary restriction[4]. For all OECD countries deflating collectively, however, the eventual gain may be much smaller, because the overseas sector (the rest of the OECD) does not, in this case, absorb the increase in government savings[5]. The possible over-estimation of budget savings accruing to domestic deflation when all countries are deflating simultaneously may be a factor in the present overshooting of budget deficit targets.

If, however, the effect on economic activity of the initial expenditure cut were small—as would be the case if ensuing interest rate cuts reduced or eliminated existing crowding-out of private expenditures—the realised budget savings would be larger, whether under individual or collective action. The belief that this might be the case, at least in the longer run, has underlain the present strategy towards cutting public sector deficits. But budget deficits have to be reduced *before* interest rate reductions can proceed. In a recession the initial budget cut may, therefore, have a deflationary demand impact not immediately alleviated by the process of interest rate "crowding-in". Realised budget savings may then be small in the short run, relative to the initial expenditure cuts.

Because the ratio of realised budget savings to the first-round expenditure cut may be quite modest, the observed budget balance—where policy is actively deflationary—may be a misleading guide to variations in the stance of policy. Hence the necessity to identify the initial (or discretionary) change in the deficit, by adding back the component of budgetary change which represents the automatic budgetary response to reduced GDP. This is the principle underlying the cyclically-adjusted budget balances (Table 11), which represent an attempt to reveal the underlying stance of fiscal policy. This is seen to be restrictive, despite little change in observed deficits[6].

ii) *The impact of inflation and fiscal indexation*

While the failure to realise a marked improvement in deficits may be due to over-estimation of the likely budgetary gains when most economies are following similarly deflationary policies, there has also been a tendency to over-estimate the *ex ante* expenditure cuts which may be achieved, given the institutional rigidities attaching to public spending. These relate, particularly, to the responses of public spending to inflation.

On the one hand, a progressive income tax system implies, for an inflation-induced increase in nominal GDP, a degree of "fiscal drag" which will move the (*ex ante*) budget deficit towards surplus. As an illustration of the

4. See "Fiscal Policy Simulations with the OECD International Linkage Model", *OECD Economic Outlook, Occasional Studies*, July 1980, p. 25.

5. This is a property of the OECD INTERLINK model, used in "linked" mode; see *ibid.* p. 26. In an open economy, under fixed exchange rates, the current balance of payments improves as a result of budget cuts, representing a tendency of the overseas sector (other OECD economies) to dissave in response to increased government savings. However, the multiplier attaching to collective OECD spending cuts approximates to that in a closed economy (with no import, and therefore no overseas (dis)saving leakages), which is much higher. Given "accommodating" monetary restriction, this implies a larger loss in tax revenue consequent upon spending cuts, so that the *ex post* improvement in the budget deficit is much smaller.

6. The built-in stabilizing component includes both the automatic response to private sector demand fluctuations and to *ex ante* budget cuts. The *ex post* deficit is most misleading as a fiscal indicator when the automatic changes in response to discretionary budget actions are large.

Table 16

Simulated effects of changes in prices and wages on the shares of government spending, revenues and financial balances in nominal GDP

Percentages of GDP; changes from baseline levels in the second year

Simulated[a] effect of a 1 per cent increase in OECD prices and gross factor incomes in:	Public expenditures indexed; taxes not indexed				Cash limits on government expenditures on goods and services; taxes indexed				
	GDP level	Receipts	Expenditures	Financial balance	GDP level	Receipts	Expenditures	Financial Balance *ex post*	Financial Balance *ex ante*[b]
North America	−0.1	0.09	0.04	0.05	−0.5	0.05	0	0.05	0.15
Japan	−0.1	0.02	0.04	−0.02	−0.6	0.01	0	0.01	0.15
Major four European countries	−0.1	0.03	0.03	0	−0.6	0.02	0	0.02	0.18
Major seven countries	−0.1	0.06	0.04	0.02	−0.5	0.03	0	0.03	0.16
Smaller countries	−0.1	0.05	0.04	0.01	−0.6	0.02	0	0.02	0.18
Total OECD	−0.1	0.06	0.04	0.02	−0.5	0.03	0	0.03	0.16

a) Calculations performed using the OECD INTERLINK system.
b) Implied cuts in real direct public spending associated with the imposition of cash limits, less the offsetting of fiscal drag.

possibe order of magnitude involved, fiscal drag in the Secretariat's INTERLINK System implies an average increase in the share of government receipts in GDP of about 0.5 per cent for every 10 per cent increase in prices and incomes (see Table 16). This reduces activity, however, which then increases the ratio of public spending to GDP. The net reduction in the budget deficit is simulated at about 0.2 per cent of GDP, on average, if public spending is fully indexed to private sector wages and prices.

In practice, however, public spending may be more than fully indexed, either because transfers may be linked to a price index which increases faster than the GDP deflator (as is the case with certain transfers in the United States)[7], or because government sector wages and salaries respond with a lag to wage movements in the private sector; the government wage bill might then be expanding relatively fast when overall wage increases are slowing. Indexation provisions may, therefore, contribute to difficulties in controlling overall public expenditure.

Cash limits (as used, for instance, in the United Kingdom) in principle operate to offset the tendency for increases in the relative cost of public expenditure to raise the share of such spending in nominal GDP. Cuts in the volume of spending may be required to compensate, although these may be difficult to achieve given contractual obligations. As an illustration, the second part of Table 16 describes the results of a simulation in which all OECD countries respond uniformly to a one per cent price increase by imposing cash limits on their direct spending, plus direct tax indexation. In this case there would be real cuts in government spending on goods and services of approximately 0.2 per cent of GDP, although the collective reduction in budget deficits might still be negligible because of the extremely small ratio of realised to initial budget savings, in the manner described in (i) above.

iii) *Government debt interest payments*

A special case of the indexation dilemma is provided by government debt interest payments in an inflationary environment. To the extent that nominal interest rates rise with inflation (thereby holding real interest rates constant) government debt interest payments are increased more than proportionately with the increase in prices. The interest charge on existing debt (insofar as it needs to be re-financed) will increase with the *proportional* rather than the absolute change in the interest rate, which, in turn, will tend to increase one-for-one with the rate of inflation. The fact that only a fraction of the debt matures from year to year will, in practice, reduce this elasticity, but it may still be large; in the case of the United States, for instance, the sensitivity of debt interest payments to nominal interest rate increases may have been as high as 4½ in the 1980-1981 period. The figure may be lower for other economies; in Germany, for instance, the lower proportion of short term debt would imply an elasticity of perhaps 2¾. For the major seven OECD economies taken as a group, general government debt interest payments increased from about 2¼ to 3 per cent of GDP in the past two years: an implied rate of growth of more than twice that of nominal GDP[8].

Where increased interest payments are associated with increased *real* interest rates, they may be the result of tight monetary policies, representing real transfers of spending power from borrowers to lenders. However, insofar as they arise from inflation, they may be seen as advanced repayments of capital to lenders, because the real value of capital held as government debt is reduced by the same amount. It may be argued, in this case, that the deficit is mis-measured, and that the debt interest payment does not increase the spending power of the private sector (where this is a function of real wealth). If debt interest payments are discounted, the general government appropriation account of the major seven OECD economies considered as a group would be about in balance (Table 17)[9]. Moreover, where debt payments form an increasing proportion of the *ex ante* deficit, their effectiveness in sustaining demand might be over-estimated: the *ex post* deficit, via automatic stabilizers, might then be under-estimated.

Table 17
General government financial balances excluding debt interest payments in the major seven OECD countries 1978-1981[a]

As per cent of nominal GDP/GNP

	1978	1979	1980	1981
United States	+1.3	+1.8	+0.4	+1.2
Japan	−3.2	−2.0	−1.3	−0.6
Germany	−1.0	−1.1	−1.5	−2.1
France	−0.4	+0.9	+2.0	−0.4
United Kingdom	0.0	+1.5	+1.5	+3.0
Italy	−3.8	−3.6	−1.6	−2.6
Canada	+1.8	+3.3	+3.3	+5.9
Average of above countries[b]	−0.3	+0.3	0	+0.4

a) The financial balances, including debt interest payments are shown in Table 9.
b) 1980 GNP/GDP weighted.

7. The inflation sensitivity (elasticity) of federal indexed programmes has been estimated at 1.04 in aggregate (Congress of the United States, "The Effect of Inflation on Federal Expenditure", Background Paper, No. 9, June 18, 1976.

8. Ignoring new borrowing, the elasticity of debt interest payments with respect to interest rate changes will depend on the proportion of the debt maturing in the current year, only the interest paid on this element being increased in line with the higher rate of interest, In the United States this is relatively high, at 47½ per cent of marketable debt, implying an elasticity of 4.75 for an existing interest rate of 10 per cent. In the case of Germany, the proportion of debt maturing in 1981 is 15 per cent; for an existing rate of just over 5 per cent on existing debt, this would imply an elasticity in the region of 2¾. These estimates being on a full year basis, the impact in the current year, assuming that debt matures evenly throughout the year, would be approximately half this figure. This partly accounts for the fact that the observed elasticity for the major seven countries taken as a group is nearer to 2 in the 1979-1982 period. For a description of the method involved in making these sensitivity calculations, see the Annex on "Sources and Methods".

9. Interest paid on government debt is subject to income tax, which is not taken into account here. A more rigorous presentation of the problem would be provided by calculating the real decrease in the value of government debt outstanding, and netting this from the observed budget deficit.

WAGES, COSTS AND PRICES

Introduction

Recent producer and consumer price developments indicate a somewhat better immediate inflation outlook than had earlier seemed likely. Part of the improvement is due to favourable, although perhaps transitory, factors such as ample world food supplies and weakness in international energy and raw materials markets. Further, the effects of a higher dollar exchange rate on foreign trade and domestic prices (especially in Europe) have been relatively moderate. This could reflect unexpectedly long adjustment lags, making an assessment of the underlying inflation rate somewhat uncertain. Finally, growth of nominal wages and unit labour costs in manufacturing has decelerated in many countries. The factors contributing to this are particularly critical for an assessment of inflation prospects. If lower wage gains are no more than a normal short-run response to a better inflation performance and weaker labour markets, little change in underlying wage behaviour or in the longer-run trade-off between inflation and unemployment would be suggested. But if recent wage developments indicate a more pronounced response to slack labour market conditions and the restrictive stance of policies, as well as a possible easing of the wage/price nexus, a more sustained moderation of wages would be implied.

Recent non-oil commodity price developments and prospects

Non-oil commodity prices (measured in United States dollars) have declined steeply since the summer, apparently reflecting rapid adjustment of spot market prices to changes in the exchange rate of the numéraire currency[1] (Chart H). In addition, price declines reflected a further weakening in the underlying market balance of many commodities. Most markets for basic foodstuffs and industrial materials (an exception being tin) are now characterised by excess supplies or a relatively comfortable inventory situation. In a number of cases, however, (cereals, base metals) producers' stock/consumption ratios are somewhat low compared with long-term trend values. If this reflects a cutback in production to reduce stock accumulation while interest rates are high, this constitutes an upside risk to future prices, which would be amplified if consumers have reduced inventories for similar reasons. However, if lower producer stock levels largely reflect a continuing trend towards more efficient inventory management, this might offer a larger cushion in the event of a stronger recovery in industrial demand and/or unexpected supply disruptions.

Given the modest expected pick-up in OECD GNP, non-oil commodity prices (in dollars) might fall slightly in 1982 from their year-earlier level, bringing the cumulative decline from 1980 to some 15 points[2]. OECD manufactured export prices are likely to have fallen by about 6 per cent in dollar terms in 1981; hence, an important improvement in the OECD area terms of trade vis-à-vis non-oil primary producers is expected for 1981. Further, in view of the modest forecast upturn in OECD GNP and the technical assumption about oil prices, a steady but comparatively small deterioration in non-oil primary producing countries' terms of trade is projected to mid-1983 (see Summary Table 27 in the International Developments Section).

Recent oil market developments

Starting with a sharp decline in late 1980, spot crude oil prices fell below official selling prices in mid-1981 and continued weak, resulting in a modest reduction of quality premia and in official discounts. This development reflects both an unexpectedly strong decline in OECD oil demand (discussed further below) and a stock draw-down probably linked to high interest rates. The OECD import price of oil is likely to have averaged some $36.50 per barrel in 1981, some 11 per cent higher than in 1980. Expressed in an average of local currencies, however, this rise may have amounted to 21-23 per cent which, combined with sympathetic price adjustments for non-oil energy prices, will have represented a marked increase in *real* energy prices. This was most apparent at the wholesale price level, where the

1. As a consequence, earlier apprehensions of sticky dollar prices, resulting in higher real commodity prices measured in a basket of currencies, seem to have proved unfounded.

2. The 1982 figure would be 11-12 points lower than forecast in *Economic Outlook* No. 29. Of this revision slightly more than half is a direct reflection of the further appreciation of the dollar, while the remainder largely reflects a better supply and inventory situation, particularly the near-collapse of free-market sugar prices.

CHART G

MEASURES OF RELATIVE COMPETITIVE POSITION

Indices in US $ terms; 1975 = 100

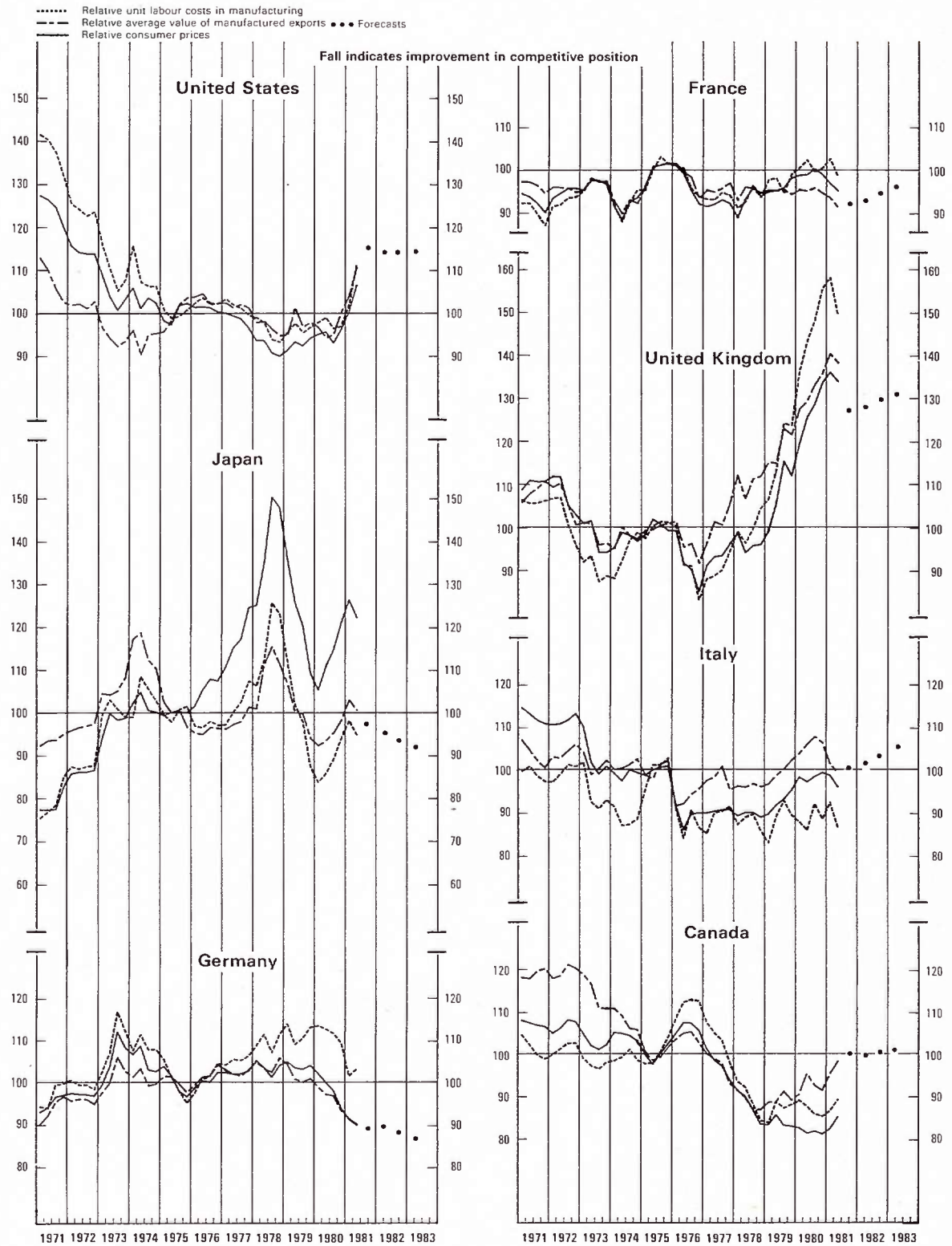


CHART G (cont.)

MEASURES OF RELATIVE COMPETITIVE POSITION

Indices in US $ terms; 1975 = 100

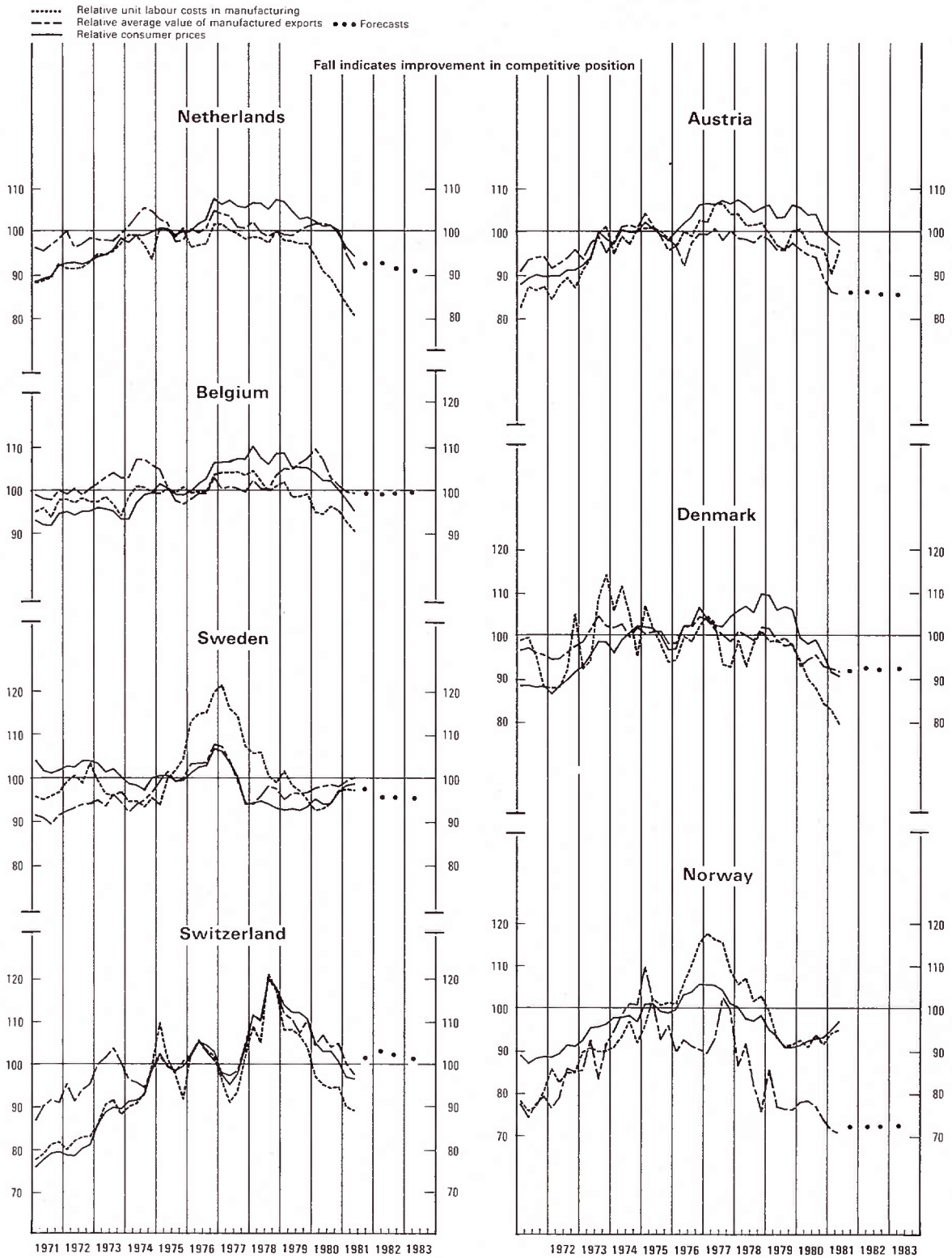
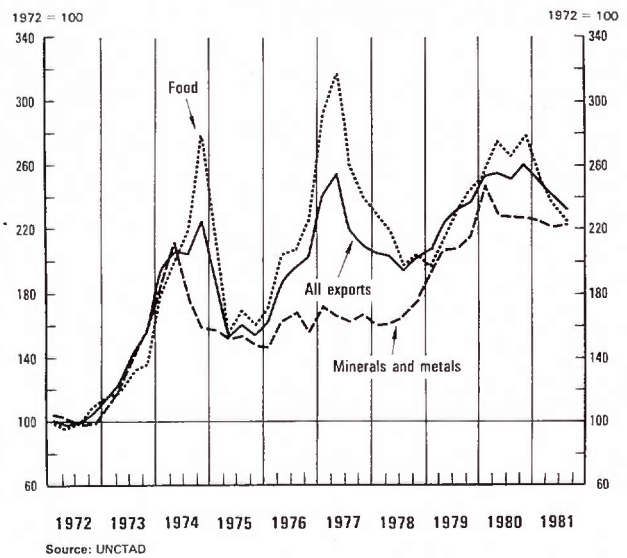


CHART H

INDEX OF NON-OIL COMMODITY PRICES IN TERMS OF SDRs



Source: UNCTAD

real price rose by some 11-12 percentage points. At the retail price level, however, real prices may have risen only 4-5 per cent owing to depressed product-market conditions and the sharp squeeze on refinery and marketing margins.

A further small fall in OECD oil demand is foreseen for 1982. Despite a cut-back in OPEC production the tendency towards excess supplies seems likely to continue, owing to a rise in alternative energy sources and non-OPEC oil supplies. The projections make the customary technical assumption that imported oil prices will follow announced policy, in this case unchanged dollar prices until end-1982, after which it is assumed that they will rise in line with manufactured export prices. Non-oil energy prices seem likely to continue to narrow the wide gap with oil prices. However, energy prices at the retail level in 1982 may reverse most of the *real* price rise experienced in the previous year.

Current wage developments and unit labour cost prospects

Recent trends indicate that in 1981 hourly earnings in manufacturing may have risen some ½ to 1 point less than in 1980, with a similar improvement in unit labour cost performance (Tables 18 and 19). In some countries lower price increases may largely explain this better-than-expected outcome. In other countries the weak gains in hourly earnings compared with negotiated basic wage rate increases may be linked to unfavourable labour market conditions and an associated reduction in overtime, regular

Table 18
Hourly earnings in manufacturing
Percentage changes

	Average 1969 to 1979	From previous year					
		1980	1981	1982	1981 Q1	1981 Q2	Latest month available
United States	7.7	8.7	9	8¼	10.6	11.0	9.8 Sept.
Japan[a]	14.1	8.1	6	7	6.1	5.4	8.4 July
Germany	8.7	6.2	5	4¼	6.9	3.8	..
France[b]	13.7	15.1	14½	16	14.8	13.7	..
United Kingdom[c]	14.9	17.8	12½	11¼	15.4	11.5	13.3 Aug.
Italy[b]	20.2	22.5	22	18¼	23.1	24.8	24.1 Aug.
Canada	10.3	10.1	12¼	12½	11.2	12.6	11.8 July
Austria[a]	10.5	7.9	7½	7	5.0	8.4	5.6 June
Belgium	12.9	9.3	9	7½	10.3	10.6	..
Denmark	14.1	11.2	10	12	8.9	8.6	9.1 July
Finland	14.2	12.8	11	10	14.5	12.7	..
Greece	18.2	27.2	25	23	26.2	26.2	..
Ireland	17.6	21.1	18	17	16.1	16.3	..
Netherlands[b]	10.6	4.6	4	5	2.0	2.0	3.4 Sept.
Norway	11.8	9.4	9¾	10	13.8	12.0	..
Spain	22.8	18.5	16	14	21.9	18.5	18.4 June
Sweden	11.0	8.9	9¾	7¾	11.2	12.1	10.6 Aug.
Switzerland[a]	6.3	5.1	6¼	4¾	5.3	5.2	..
Australia[b]	12.4	11.0	11½	12	9.6	11.8	8.1 Aug.
Total OECD[d]	11.4	10.7	10	9½	11.1	10.5	..
OECD Europe[d]	13.5	13.0	11½	10¾	13.0	11.5	..

a) Monthly earnings.
b) Hourly rates.
c) Weekly earnings.
d) 1980 GNP/GDP weights and exchange rates.

Table 19
Unit labour costs in manufacturing
Percentage changes

	Average 1969 to 1979	From previous year					
		1980	1981	1982	1981 Q1	1981 Q2	Latest month available
United States	5.1	10.9	8½	7½	10.3	6.7	7.5 Sept.
Japan	7.4	1.0	4	2	4.9	5.6	1.5 August
Germany[a]	5.6	8.2	4	1½	7.1	5.1	5.9 July
France[b]	8.6	14.5	14	12	20.4	..	..
United Kingdom	12.8	23.2	8¾	5¼	16.4	9.1	6.0 July
Italy[c]	14.4	13.7	21	14	..	..	..
Canada	7.1	11.1	9	9¾	9.8	..	7.7 May
Total of above countries[d]	7.2	10.5	8½	6½	11.2	..	..

a) Mining and manufacturing.
b) Industry.
c) The data include the effects of reduced employers' social security charges from July 1980.
d) 1980 GNP/GDP weights and exchange rates.

hours worked and bonus payments. In a few smaller European countries, price freezes and/or the suspension or modification of indexation compensation have also contributed. In other countries, however, notably the United States, Japan and Germany, price trends and labour market developments do not fully explain the recent easing in nominal wage increases.

Discussions for 1982 wage rounds have in most countries only just begun, so that it is difficult to judge whether recent developments represent an aberration[3] or re-emergence of 1979/1980-style wage moderation. A number of general and special factors will be at work, leading either to a difficult negotiations climate, or entailing a risk of higher wage gains:

i) In some European countries real wage gains probably fell below expectations because contract negotiations were concluded before the sharp summer rise in the dollar. Where contracts excluded indexation clauses, there may be pressures for a catch-up, or at least strong resistance to a further erosion of real wages[4]. In addition, negative wage drift may cease or

3. Particularly because of the tendency for wage equations to overpredict actual wage increases in 1981 first half.

4. In Germany, for instance, the current wage round may be difficult in view of this year's decline in real wages, although a further modest deceleration in basic wages may be realised in response to labour market slack and weak profits.

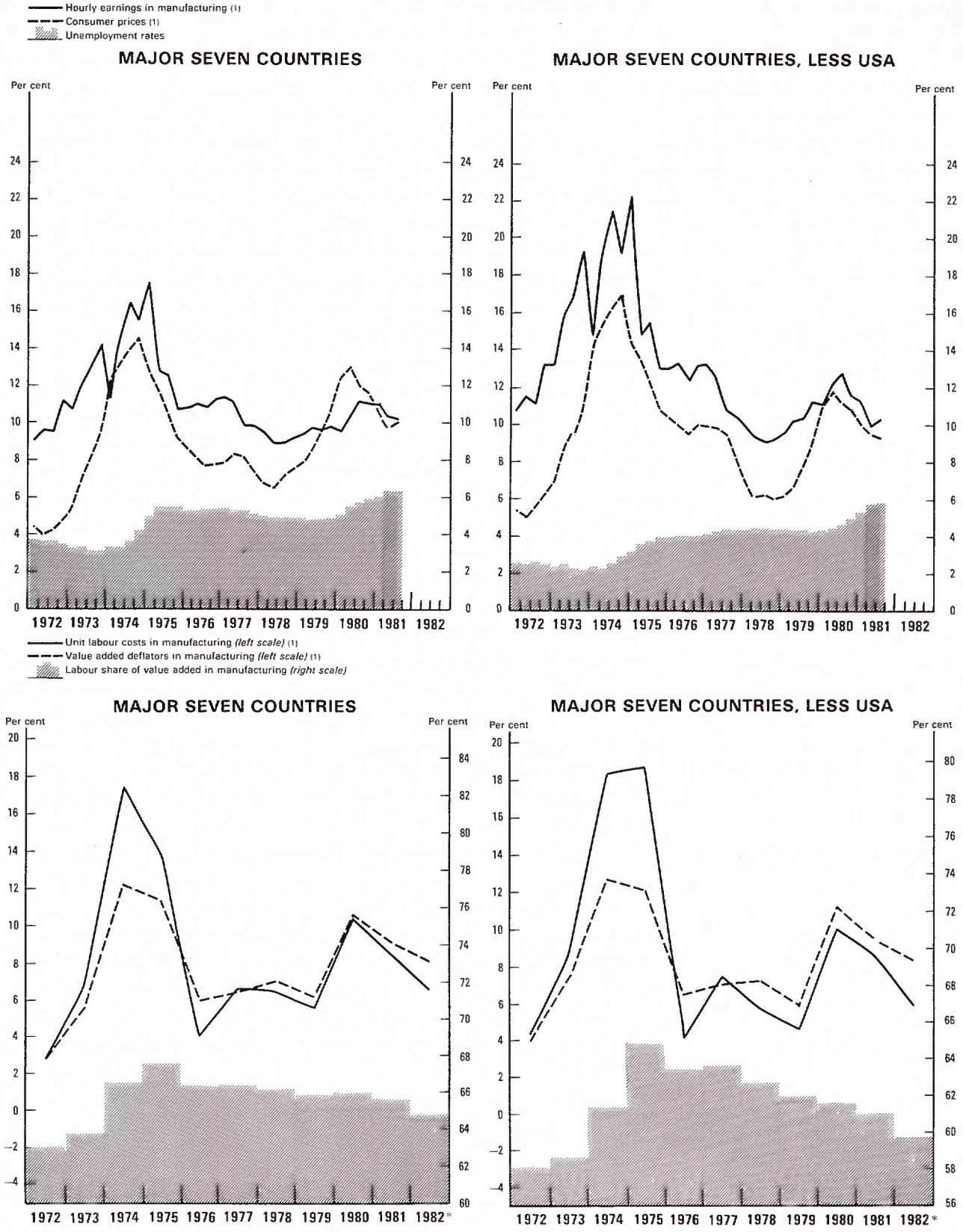
Table 20
Real earnings and labour costs
Percentage changes

	Real earnings[a]			Real labour costs[b]			Productivity[c]		
	1980	1981	1982	1980	1981	1982	1980	1981	1982
United States	−1.2	1	¾	0	¼	¼	−0.5	¾	¼
Japan	0.6	2¼	3½	4.5	3¾	3¾	3.2	3	3
Germany	1.1	−¾	0	1.6	1	¾	0.9	0	2½
France	1.8	1¼	2¼	3.7	2½	2	0.9	1½	2¾
United Kingdom	5.2	2¾	−¼	2.6	1½	1	0.5	2¾	2¼
Italy	0.3	2¼	1¾	0.3	3¾	1¾	2.5	−½	1½
Canada	−1.5	−1½	−¼	−1.6	0	0	−2.7	0	−½
Major seven countries[d]	0.4	1¼	1¼	1.5	1½	1¼	0.6	1¼	1½
Austria	0.7	1	¾	2.2	2½	1¼	2.7	0	2½
Belgium	1.0	¾	1½	3.4	2¼	1	2.6	¼	1½
Denmark	−2.1	−1¼	¾	1.0	¼	0	−0.3	¾	1¾
Finland	1.1	0	1½	2.6	½	1	1.5	½	1¾
Ireland	3.6	−1½	−¾	7.3	1	−¼	0.3	3	2¼
Netherlands	−0.4	−1¾	¼	0	−½	−¼	0.2	0	1½
Norway	−1.0	−3	¼	−5.2	−1½	¾	1.5	¼	−1¼
Spain	2.1	1¼	1¾	3.9	2½	2¾	4.8	5	4¼
Sweden	−0.3	−¾	−1¾	0.2	¼	−1	0	¼	½
Switzerland	3.8	¾	1	5.2	2	1¼	2.4	1	0
Australia	0.6	4	2½	−0.5	3	2¾	−0.4	½	1¼
New-Zealand	−0.2	1	1¾	1.8	1	1¾	1.8	1¼	½
Other OECD Countries[d e]	0.8	¼	1	1.7	1¼	1	1.7	1¼	1¾
Total OECD[d e]	0.4	1	1¼	1.5	1½	1¼	0.8	1¼	1½

a) Wages and salaries per employee deflated by private consumption deflator.
b) Total compensation per employee deflated by GDP deflator.
c) GNP/GDP per employed person.
d) 1980 GNP/GDP weights and exchange rates.
e) Excluding Greece, Iceland, Luxembourg, Portugal and Turkey.

CHART I

WAGES, PRICES AND PROFITS



1. Changes from preceding year.
* Forecast.

Table 21
Real wages, productivity and the terms of trade

Average annual percentage changes

		Productivity[a] (1)	Terms of trade[b] (2)	Warranted real wage[c] (3) = (1)+(2)	Actual real wage[d] (4)	Real wage gap[e] (5) = (4)−(3)	Level of (5) in 1980-82 (1972 = 100) (6)
United States	1972-75	−0.1	−0.4	−0.5	−1.0	−0.6	..
	1979-80	−0.5	−0.7	−1.2	−1.2	0	97¾
	1980-81	0.8	0.6	1.4	1.1	−0.3	97½
	1981-82	0.3	0.2	0.4	0.7	0.2	97½
Japan	1972-75	3.0	−1.4	1.6	6.0	4.4	..
	1979-80	3.2	−2.7	0.5	0.6	0.1	104¾
	1980-81	2.9	−0.2	2.6	2.3	−0.4	104½
	1981-82	2.9	−0.2	2.8	3.5	0.7	105
Germany	1972-75	2.9	−0.3	2.6	3.3	0.7	..
	1979-80	0.9	−1.1	−0.2	1.1	1.3	97½
	1980-81	0	−1.3	−1.2	−0.7	0.6	98¼
	1981-82	2.5	−0.2	2.2	−0.1	−2.3	96
France	1972-75	2.6	−0.5	2.1	4.6	2.5	..
	1979-80	0.9	−1.7	−0.8	1.8	2.6	106¾
	1980-81	1.5	−1.3	0.2	1.2	1.0	107¾
	1981-82	2.8	0.6	3.4	2.3	−1.2	106½
United Kingdom	1972-75	1.1	−1.3	−0.2	3.2	3.4	..
	1979-80	0.5	1.1	1.6	5.2	3.6	102½
	1980-81	2.8	−0.3	2.6	2.7	0.1	102½
	1981-82	2.3	−0.6	1.7	−0.2	−1.9	100¾
Italy	1972-75	1.4	−1.2	0.2	2.2	2.0	..
	1979-80	2.5	−1.0	1.5	0.3	−1.2	101¼
	1980-81	−0.4	−2.0	−2.4	2.2	4.6	106
	1981-82	1.5	0.7	2.1	1.8	−0.3	105½
Canada	1972-75	0.5	0.8	1.2	2.7	1.5	..
	1979-80	−2.7	0.1	−2.6	−1.5	1.1	104½
	1980-81	0.1	−0.7	−0.6	−1.4	−0.9	103½
	1981-82	−0.5	−0.3	−0.7	−0.4	0.4	104

a) Productivity is defined as real GDP per head of total employment.
b) Income effect of changes in the terms of trade (National accounts data).
c) Calculated as productivity per head corrected for terms of trade or the growth of real wages consistent with initial factor shares.
d) Wages and salaries (deflated by the private consumption deflator) per head of dependent employment.
e) A negative (positive) sign indicates a shift to non-wage (wage) incomes.
Note: The productivity data in this and the previous table may, in some countries, be distorted by large swings in agricultural output. Also, detail may not add due to rounding.
Source: OECD, *National Accounts* and OECD forecasts.

reverse in 1982 despite higher unemployment[5]. Thirdly, in some countries, the tendency to base wage claims on recent high rates of inflation would imply continued upward pressures on nominal wages in the coming wage rounds;

ii) However, negotiations will take place in many countries against the background of relatively poor corporate profits and weak prospects for output and employment. Unemployment rates are generally projected to remain high or rise further[6], and in some instances an uneven distribution of slack may also exert a dampening effect[7]. Trade-union membership has fallen over the past several years in a large number of countries, as employment in sectors with high union membership has stagnated or even declined.

The projections assume that the continuing weakness of labour markets will restrain pressures for a wage catch-up (Tables 20 and 21). In these circumstances, wage negotiations may concentrate on non-wage issues (working hours, vacation time, early retirement, job security and job creation). Hourly manufacturing earnings in the OECD area may decelerate by almost a point in 1982 to a rate of perhaps 9 per cent. This would be some 2 points

5. The lower than expected rise in wages in Japan in 1981 was partly accounted for by a slower rise in the small-enterprise sector. For 1982 a reversal of this compositional factor and higher bonus payments could lead to a slight acceleration in the growth of compensations.

6. In Europe, this trend will also be affected by demographic shifts, resulting in faster growth of the population of working age.

7. In the United States, 1982 is a heavy bargaining year, but many of the major industries entering contract negotiations are facing relatively depressed economic conditions. Some moderation in these high-wage sectors is expected, although their likely influence on developments in other sectors is uncertain.

below the average over the previous ten years, and be close to that prevailing in mid-1978, prior to the second oil price shock. It is assumed that the tendency for nominal wages to rise in 1981 at a rate below the trend suggested by historical determinants will continue, particularly in the three largest countries[8] (Chart I). Nonetheless, even allowing for some pick-up in productivity growth, unit labour cost increases in manufacturing could still be close to 7 per cent in 1982, with trends in the economy as a whole perhaps ½ to 1 percentage point higher.

8. Against this background, the labour share of national income may fall slightly in 1982, while higher real earnings combined with the deterioration in the OECD area's terms of trade and a cyclical fall in productivity in the second half of 1981 may have produced a small widening in real wage gaps in 1981. For 1982 a swing in the OECD area's terms of trade and a pick-up in productivity performance should boost the "warranted" growth of real wages. Hence, in many of the larger countries non-wage income shares in 1982 might be close to their 1972 levels. The profit positions of non-financial enterprises, however, may be weaker than suggested by these measures, owing to the above-average rise in interest incomes and the forecast continuation of high real interest rates.

Price trends and prospects

The rise in OECD private consumption deflators in calendar year 1981 may, at 9½ per cent, have been 1½ points lower than in 1980. There are various reasons for this. Non-oil commodity prices appear to have adjusted relatively rapidly to the appreciation of the dollar, while the effects of a higher oil price have been partly offset at the retail

Table 22
Consumer prices
Percentage changes from previous period, not seasonally adjusted

	At average annual rate					At actual rate					
	Average 1961-70	Average 1971-77	1978	1979	1980	12 months to Sept. 1981	6 months to Sept. 1981	June	July	August	Sept.
United States	2.8	6.6	7.7	11.3	13.5	11.0	5.4	0.9	1.1	0.8	1.0
Japan	5.8	10.7	3.8	3.6	8.0	3.9	2.3	0.0	−0.3	−0.6	1.6
Germany	2.7	5.6	2.7	4.1	5.5	6.5	2.8	0.5	0.4	0.3	0.5
France	4.0	9.0	9.1	10.8	13.6	13.9	7.6	1.0	1.7	1.2	1.1
United Kingdom	4.1	13.9	8.3	13.4	18.0	11.4	6.0	0.6	0.4	0.7	0.6
Italy	3.9	13.1	12.1	14.8	21.2	18.6	7.2	1.1	0.6	0.9	1.4
Canada	2.7	7.5	9.0	9.1	10.1	12.5	5.7	1.5	0.9	0.7	0.7
Major seven countries[a]	3.2	8.1	7.0	9.3	12.2	10.1	5.0	0.7	0.8	0.5	1.0
Austria	3.6	7.0	3.6	3.7	6.4	6.9	2.6	0.6	0.6	0.5	0.2
Belgium[b]	3.0	8.3	4.5	4.5	6.6	8.4	3.5	0.6	1.6	0.5	0.9
Denmark	5.9	9.5	10.0	9.6	12.3	12.0	5.9	1.0	0.7	0.4	0.9
Finland	5.0	12.2	7.8	7.5	11.6	11.4	5.3	0.6	0.3	0.3	1.3
Greece	2.1	12.4	12.6	19.0	24.9	25.4	8.1	1.8	−0.5	−0.8	4.3
Iceland	11.9	26.5	44.9	44.1	57.5	49.7[c]	17.6[c]	→	←	2.9[d]	→
Ireland	4.8	14.0	7.6	13.3	18.2	20.1[c]	9.8[c]	→	←	1.8[d]	→
Luxembourg[e]	2.6	7.5	3.1	4.5	6.3	9.4	4.2	1.0	0.5	0.4	0.9
Netherlands	4.0	8.3	4.1	4.2	6.5	6.8	3.6	0.1	0.8	0.3	1.1
Norway	4.5	8.6	8.1	4.8	10.9	13.5	4.8	1.3	1.4	0.0	0.9
Portugal[e/f]	3.9	17.6	22.5	23.9	16.6	23.6	11.8	0.7	2.9	2.7	1.7
Spain	6.0	14.6	19.8	15.7	15.5	14.1	5.7	0.1	1.9	1.3	0.8
Sweden	4.0	8.8	10.0	7.2	13.7	11.3	4.0	0.4	0.9	0.8	0.7
Switzerland	3.3	5.9	1.1	3.6	4.0	7.5	3.6	0.7	0.5	1.6	0.1
Turkey	5.9	19.5	61.9	63.5	94.3	34.3	15.0	3.9	1.4	0.8	4.8
Australia	2.5	11.0	7.9	9.1	10.2	9.0[c]	4.3[c]	→	←	0.7[d]	→
New Zealand	3.8	11.7	12.0	13.8	17.1	15.4[c]	8.1[c]	→	←	1.3[d]	→
Total OECD[a]	3.3	8.5	8.0	9.8	12.9	10.8	5.2	0.7	0.8	0.6	1.1
OECD Europe[a]	3.8	10.0	9.3	10.6	14.2	12.6	5.8	0.7	0.9	0.8	1.0
EEC[a]	3.6	9.6	7.1	9.1	12.3	11.7	5.5	0.7	0.8	0.7	0.9

a) The country weights used in the aggregate indices are based on the private consumption and exchange rates of the preceding year.
b) Prior to 1976, excluding rent.
c) Since consumer prices are available only on a quarterly basis, the figures shown for the rates of change over 12 and 6 months are calculated as the rates of change over 4 and 2 quarters respectively, to the latest quarter available.
d) The monthly rate is calculated as the change between the two most recent quarterly indices, expressed at a monthly rate and centred at the mid-month of the quarter.
e) Excluding rent.
f) Prior to 1977, Lisbon area only.

CHART J

CHANGES IN CONSUMER PRICES

Percentage changes, at annual rates, seasonally adjusted

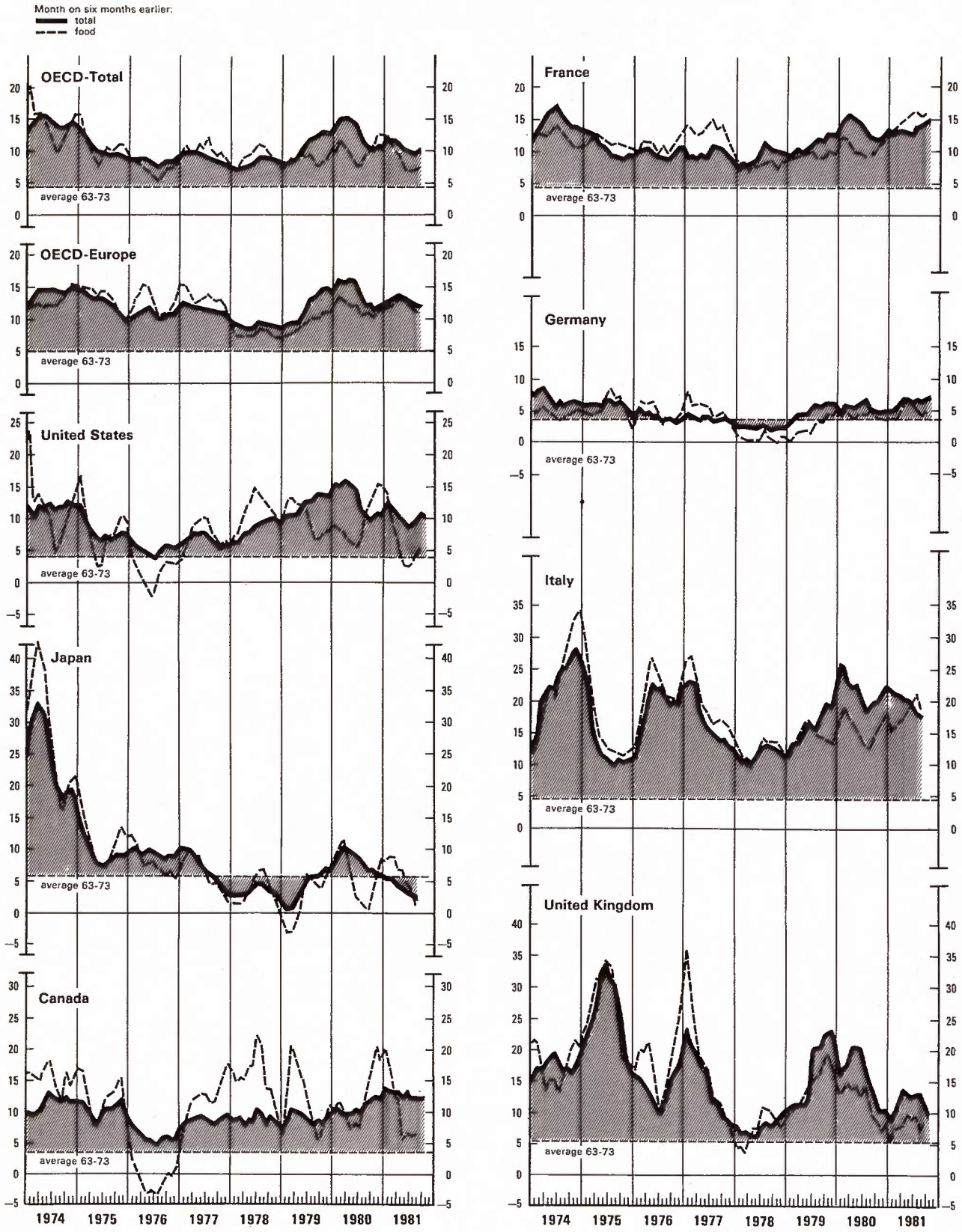


Table 23
Private consumption deflators in the OECD area[a]

Percentage changes from previous period, seasonally adjusted at annual rates

	Average 1969 to 1979	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
United States	6.3	10.2	8¼	7½	8.0	8	7¼	7	7½
Japan	8.6	7.1	4¾	4½	4.2	3½	5	4½	4½
Germany	4.9	5.4	5¾	4¼	5.7	6¼	4	3	3
France[b]	8.5	13.5	13½	13¾	12.6	15½	13¼	13	12¾
United Kingdom	12.2	16.0	11	10¼	10.7	10¾	10½	9	7¾
Italy	13.1	20.4	19¼	16	21.6	16	17	14½	14½
Canada	7.0	10.5	11½	11½	10.8	12½	11½	10½	10
Total of above countries	7.4	10.6	9	8½	8.9	9	8½	7¾	7¾
Other OECD countries[c]	9.1	13.0	12½	11¼	12.5	11¾	11¼	10½	11
Total OECD	7.7	11.0	9½	8¾	9.5	9½	9	8¼	8¼
Major four European countries	8.4	12.4	11½	10¾	11.5	11¾	10¾	9½	9¼
Total OECD *less* the United States	8.6	11.4	10½	9¾	10.3	10¼	9¾	9	9

a) Aggregates were computed on the basis of 1980 values expressed in 1980 US dollars.
b) Consumer price index not seasonally adjusted.
c) See footnote b of Table 3.

level by a squeeze on refinery and marketing margins. The redistributive and asymmetric effects on the OECD area's inflation rate of a high dollar exchange rate apparently did not materialise[9], because nominal wage growth moderated relatively quickly in the United States and Japan, and a decelerating trend in prices is evident, particularly in Japan (see Table 22 and Chart J). Finally, judging from recent trends in producer and consumer prices, the deterioration in European terms of trade was smaller than expected (see Technical Annex) and the pass-through of price increases associated with the dollar's appreciation appears to have peaked.

9. The fear that a dollar revaluation would raise the average OECD rate of inflation was based on simulation results reflecting the larger proportion of imports in final expenditures in Europe, and a quick pass-through to final prices. In addition, wages tend to respond to price changes with a relatively long lag in the United States, so the benefit of lower import prices is attenuated. By contrast, in Europe, where annual wage rounds or indexation practices are more common, wages typically react to prices more quickly.

A further deceleration is projected for the first half of 1982 but the rate may level out at about 8 per cent by the second half of the year and early 1983 (Table 23). The projected time profile is dominated by the expected drop in dollar import price increases (from some 22 to 3 per cent between 1980 and 1982) and is based on the further assumptions that a real wage catch-up will be averted, and that profit margins will be maintained in the coming year and a half. In addition, consumer food and particularly retail energy prices may rise somewhat below overall price trends in view of favourable supply prospects and the temporary freeze on OPEC prices. The growth of the GDP deflator, which largely reflects domestic sources of inflation, is expected to decelerate less markedly, and start from a lower initial level (Tables 24 and 32). By early 1983, however, when swings in the OECD area's terms of trade will probably have been largely absorbed, the two price indices might both be rising at about 8 per cent, close to the underlying trend in unit labour costs for the total economy.

Table 24
GNP deflators in the OECD area[a]

Percentage changes from previous period, seasonally adjusted at annual rates

	Average 1969 to 1979	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
United States	6.5	8.9	9	8	9.1	8½	8	7¼	7¾
Japan	7.6	3.2	3¼	4¼	2.2	3	5	4	3¼
Germany	5.5	4.8	4	3½	2.9	5	3	2¾	3
France[b]	8.8	11.5	12	14	10.9	14¼	14	13¾	14
United Kingdom[b]	12.7	18.9	12¼	9	11.3	10½	8¾	8	7½
Italy[b]	13.3	20.4	17¾	16	19.5	16	16½	15½	15½
Canada	8.1	10.6	10	11	9.3	12	11	10	10
Total of above countries	7.5	9.1	8½	8¼	8.2	8½	8¼	7½	7¾
Other OECD countries[c]	9.1	11.3	11	10¾	10.9	11	11	10¼	10½
Total OECD	7.8	9.5	9	8½	8.6	9	8¾	8	8¼
Major four European countries	8.7	12.0	10¼	10	9.7	10¾	9¾	9½	9½
Total OECD *less* the United States	8.6	9.8	9	9	8.3	9	9	8½	8½

a) Aggregates were computed on the basis of 1980 GNP/GDP values expressed in 1980 US dollars.
b) GDP deflator.
c) See footnote b of Table 3.

OIL AND ENERGY DEMAND IN TWO ADJUSTMENT PERIODS

Due to a further decline in the level of primary energy demand in 1981, the cumulative fall in energy intensity of production[1] for the seven major countries reached 8 per cent in the 1978-1981 period (Table 25). This compares with a cumulative decline of only 4 per cent in the three-year period following the first oil price shock (1973-1976). For oil, the disparity in performance during the two periods is even more striking: oil intensity of production[2] fell 3 per cent in 1973-1976 but by as much as 23 per cent in 1978-1981. Hence, the speed with which energy use has been cut in the production process has doubled, and the speed with which oil has been replaced by other fuels has risen dramatically. This achievement is partly due to favourable weather, but the most important factors are:

i) a moderately larger rise in real energy prices to final users combined with continuing lagged responses to the 1974 price rise;
ii) the cumulative response to non-price measures introduced since 1974 (and subsequently strengthened) to promote energy demand restraint, especially in the case of oil;
iii) apparently changed expectations, with energy and oil prices expected to stay high for some considerable time.

Some indication of the importance of the lagged demand responses and the altered state of expectations is provided by a comparison of "price effectiveness" in both adjustment periods: in 1973-1976, a 1 per cent rise in real energy prices to final users supported by non-price measures was apparently associated with a decline in energy intensity of production of 0.1 per cent. For the 1978-1981 period, the corresponding ratio was twice as high.

This does not imply that the price elasticity of energy demand has risen. Abstracting from the notions of lagged price effects and non-price measures, the concept of "price effectiveness" is identical to the price elasticity of energy demand only if the income elasticity is equal to unity[3]. The income elasticity may vary, for example with the cycle, biasing a comparison of "price effectiveness". Moreover, income and price elasticities differ between countries and sectors, complicating the assessment of area and country averages when there are shifts in the overall distribution of energy demand.

While an accelerated shift from oil has been seen in all major countries other than France and Italy, the pattern of a quickening fall in energy intensity of production appeared only in the United States and Japan, and to some limited degree, in Germany and Italy (Chart K). In contrast, the fall in energy intensity of production diminished in France, the United Kingdom and Canada, this development taking place amid an accelerated substitution of non-oil energy for oil. In France, the smaller decline in energy intensity in 1978-1981 was associated both with smaller increases in real energy prices and a rapid shift to nuclear energy[4]. In the United Kingdom, it reflected a combination of falling GNP and an income elasticity apparently far below unity[5].

Data for the period 1973-1981 as a whole reveal Japan as the country with far the sharpest decline in energy intensity of production, 19 per cent, due mainly

1. Energy intensity of production is defined as the index of primary energy demand divided by the index of real GDP.
2. Oil intensity of production is defined as the index of primary oil demand divided by the index of real GDP.
3. Estimates for the OECD area suggest an income elasticity of close to unity, but with important differences for individual countries.
4. Nuclear and hydro energy are valued in primary energy terms on the basis of average fossil fuel equivalents. A shift to nuclear energy can therefore have the effect of maintaining the measured ratio of primary energy demand to real GDP at a high level.
5. GDP rose in the United Kingdom between 1973 and 1976 but fell between 1978 and 1981. An income elasticity below unity would have implied a fall in the energy intensity of production in the first period but a rise in the second, for constant real energy prices. Most studies for the United Kingdom suggest an income elasticity far below unity.

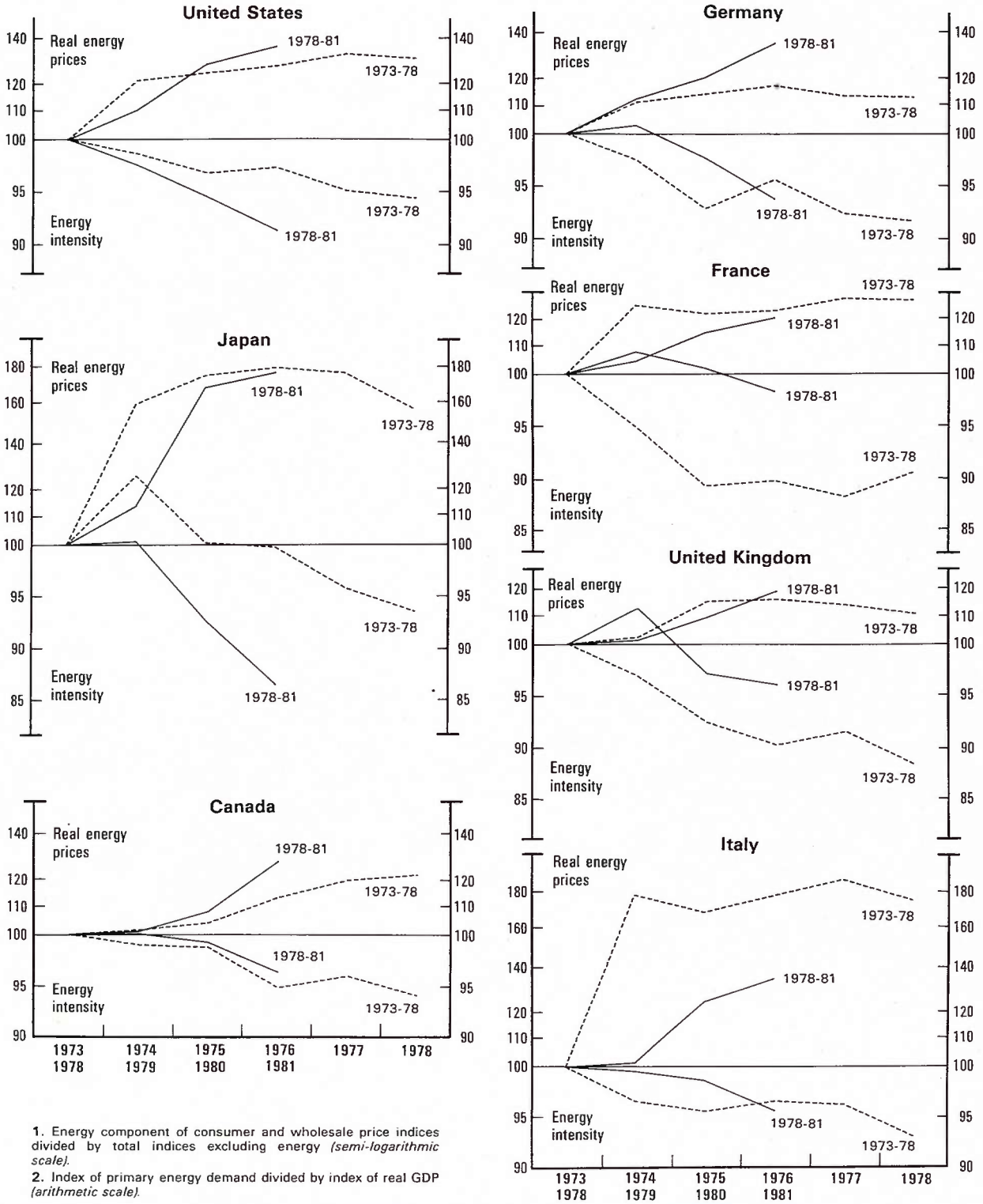
Table 25
Oil and energy intensity in two adjustment periods
Percentage changes

	Energy intensity[a]			Oil intensity[b]		
	1973-76	1978-81[c]	1973-81[c]	1973-76	1978-81[c]	1973-81[c]
United States	−2.7	−8.8	−14.0	2.7	−25.2	−23.8
Japan	−0.3	−13.5	−19.1	−9.7	−25.6	−36.4
Germany	−4.4	−6.3	−14.1	−7.8	−28.0	−37.5
France	−10.3	−1.7	−11.0	−14.9	−14.8	−31.5
United Kingdom	−9.7	−3.9	−15.1	−19.3	−21.1	−37.5
Italy	−3.4	−4.3	−11.0	−10.5	−7.8	−21.7
Canada	−5.1	−3.6	−9.3	−6.6	−12.1	−20.9
Total of above countries	−3.7	−7.9	−14.0	−3.2	−23.4	−27.6

a) Index of primary energy demand divided by index of real GDP.
b) Index of primary oil demand divided by index of real GDP.
c) Estimate.
Source: OECD Energy Balances.

CHART K

REAL ENERGY PRICES (1) AND ENERGY INTENSITY (2)



1. Energy component of consumer and wholesale price indices divided by total indices excluding energy *(semi-logarithmic scale)*.
2. Index of primary energy demand divided by index of real GDP *(arithmetic scale)*.

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to exceptionally large increases in real energy prices to final users (Table 26). Given the large weight of industry in total energy demand, the fall in energy intensity has probably in part taken the form of inter-factor substitution. A marked decrease in energy intensity also occurred in the United States, Germany, and the United Kingdom. In the latter two countries, the rise in real energy prices has been small, pointing to a high measure of price responsiveness. Alternatively, the fall in energy intensity could reflect a stronger cyclical sensitivity or changes in the composition of energy demand.

The fall in the oil intensity of production over the entire period has ranged from 32 to 38 per cent (Japan, Germany, France and the United Kingdom), with considerably lower reductions being recorded for the United States, Canada and Italy. In the former two countries, this is largely a reflection of oil pricing policies.

Table 26
Real energy prices to final users and « Price effectiveness »

	Percentage changes in real energy prices[a]			«Price effectiveness»[b]		
	1973-76	1978-81[c]	1973-81[c]	1973-76	1978-81[c]	1973-81[c]
United States	27.2	35.7	76.7	0.10	0.25	0.18
Japan	79.6	76.7	176.1	0	0.18	0.11
Germany	17.1	34.7	52.0	0.26	0.18	0.27
France	23.2	20.2	53.2	0.44	0.09	0.21
United Kingdom	16.0	19.3	32.0	0.61	0.20	0.47
Italy	77.4	34.5	134.9	0.04	0.13	0.08
Canada	13.2	27.7	55.9	0.39	0.13	0.17
Total of above countries	32.7	37.7	82.4	0.11	0.21	0.17

a) Energy component of consumer and wholesale price indices divided by total indices excluding energy. Relative energy prices at the wholesale level have been weighted by the share of industry in total final energy demand.
b) Change in absolute value of primary energy intensity divided by change in absolute value real energy prices to final users.
c) Estimate.

The projected 8 per cent rate of inflation by the second half of 1982 would still be high by historical standards. However, the speed and deceleration of inflation would compare favourably with the events following 1973-1974, when there was a more favourable swing in the terms of trade and a sharper rise in unemployment and labour productivity. This better adjustment of inflation to the second oil shock would reflect more flexible wage behaviour and a major improvement in energy efficiency and inter-fuel substitution. A further important feature of the adjustment is that price trends in the United States are several percentage points below the average rate of other countries, and while still above those of Japan and Germany, the gap is expected to narrow. As a consequence, the risk of an upward bias in the OECD area's rate of inflation[10] may be reduced for the projection period.

10. Wider dispersions of inflation have in the past often been associated with a higher OECD area average inflation rate. The risk of an upward bias is particularly marked in countries with above-average inflation rates, where the gap becomes built in through successive rounds of currency depreciation and the ratification of high wage and price increases.

INTERNATIONAL DEVELOPMENTS

FOREIGN TRADE AND CURRENT BALANCES[1]

Introduction

OECD trade with the rest of the world is expected to continue to make a positive contribution to the growth of the area's real demand, although at a declining rate, and international trade price developments may exert a slight dampening effect on inflation in OECD countries. Trade between OECD countries, which fell steeply late in 1980, and recovered only slowly during 1981, is expected to gather momentum in 1982, and rise at 5-6 per cent rates by mid-1983. The OECD aggregate current account deficit is now projected to be much lower in 1981 and 1982 than previously seemed likely. Within this lower total, the pattern of current balances among individual countries may be markedly uneven.

Trade volumes[2]

Export volumes to non-OECD countries, especially OPEC, rose very quickly in the first half of 1981 and oil import volumes fell. Oil imports continued to decline in the second half of 1981, reflecting the influence of higher real prices on consumption as well as destocking in consuming countries. The resulting decline in OPEC production was concentrated in "high absorber" countries, who could now be running unsustainable current account deficits. The projections assume that, in consequence, those countries will in aggregate reduce their imports during 1982. At the same time, net oil imports in the OECD area are likely to increase again as the rate of destocking declines and activity picks up. However, OECD exports to OPEC are likely to rise faster than imports from OPEC in 1982. Among non-oil developing countries import growth is likely to vary substantially: very buoyant for those that are self-sufficient in energy requirements, decelerating, but still strong for newly industrializing countries (NICs), and virtually stagnant for other non-oil developing countries. Overall, OECD exports to non-oil developing countries may grow at a rate broadly in line with trade among OECD countries[3]. OECD imports from this group of countries are expected to increase only slowly up to the end of 1982, accelerating thereafter. Weak demand in the OECD area in 1981 permitted only a sluggish recovery in trade between OECD countries after the decline registered in 1980. As activity picks up and the stock cycle reverses itself, intra-trade may accelerate markedly in the latter part of 1982. By mid-1983, such trade is projected to rise at 5-6 per cent annual rates.

Trade prices[4]

Trade price increases may be more moderate than in the recent past, and the OECD terms of trade started to improve from mid-1981 onwards. This expected moderation reflects the passing of the oil price rise bulge that started in 1979. The possible terms-of-trade improvement stems from past and projected depressed demand for non-oil commodities, and from the freezing of the official OPEC export price of crude oil in dollar terms until end-1982. By mid-1982, both export and import prices are expected to be increasing at 7-8 per cent rates.

Trade and current balances

The forecast volumes and price movements imply a major reduction in the aggregate deficit of OECD countries in 1981. The fall could be of the order

1. The projections are based on the OECD's customary technical assumption of unchanged nominal exchange rates (except where stated policy is otherwise), in this case from the average of the four weeks ending 6th November. It is further assumed that the nominal dollar price of imported crude oil will not have changed further in the second half of 1981, and that the official dollar price of exported oil will remain at $35 per barrel until end-1982, rising thereafter at the same rate as that of manufactured goods exported by OECD countries.

2. See Table 27, first bank of figures, for a summary of the volume projections. Further detail is to be found in Tables 35-37, and 40-46.

3. For more detail on non-oil developing countries, see Technical Note B.

4. See Table 27, second bank of figures, for a summary of the trade price forecasts. Further detail is to be found in Tables 38-46, 53, 54, 57, 58 and 60.

Table 27

OECD output, trade volumes, trade prices and current balances

Seasonally adjusted data at annual rates; percentage changes from the previous period for volumes and prices; $ billion for current balances

	1980	1981	1982	1980 II	1981 I	1981 II	1982 I	1982 II	1983 I
A. Output and merchandise trade volumes									
GDP (Import weighted)	1½	½	1¼	−¼	1½	0	1	3	3
Total exports	4	3	4	−3	5¾	3¾	3¾	5¼	6½
Total imports	−1¼	−2½	3½	−6¾	−2	½	3½	6½	6¼
Intra-OECD trade: Exports	2¼	−½	2¾	−6¼	1½	1½	2	5	6
Exports to non-OECD	7¾	10½	7	6	14½	8	5	5½	7½
Imports from non-OECD	−3	−5¾	1	−10	−1	−9	5½	4	4
Memorandum items									
Exports to:									
OPEC	12	24	9	9	34	20	6	5	7
Other developing countries	9½	7½	5½	7	5	5	4	4	6
Other non-OECD countries	3	6½	8	6	6	8	8	8	9
Imports from:									
OPEC	−13	−16½	−5¼	−24	−8	−25	6	−1	0
Other developing countries	7	5½	5½	8	6	4	6	7	7
Other non-OECD countries	−1¼	1¼	5½	−5	1	8	5	6	6
B. Domestic deflators and trade prices (Average values)									
GNP deflator (Export weighted)	9¼	8¾	8½	9½	8¼	9	8¾	8	8¼
Trade prices, in local currency									
Total exports	12½	9½	7	7¼	10¾	8¾	6½	6	6¾
of which: Manufactures	10	9¼	8	7	10	9½	8¼	6¾	7
Total imports	22	12¼	5¾	6¾	16¼	9¾	4¼	5	6¾
Trade prices in dollars									
Total exports	12¾	−4¼	4½	7½	−9	−6	9¼	5¾	6¾
of which: Manufactures	10½	−5	4¾	7¾	−10	−6½	10	6¾	7
Total imports	22	−2½	3	6½	−5¼	−6	7	4¾	6¾
Imports of oil	70	11¼	−½	20	14½	−2	0	0	4½
Imports of non-oil commodities	12	−3½	0	2½	−6	−7½	1½	4½	7½
of which: Food	8½	−4½	−3	0	−5½	−10½	0	3	7
Raw materials	16	−3	3	5	−7	−5	3	6	8
Memorandum item									
OECD terms-of-trade with rest of world	−19	−5	4¼	3	−11½	0	6¼	2¾	0
C. World current balances									
OECD[a]	−75	−35	−25	−50	−35	−35	−20	−30	−35
OPEC[a]	110	60	35	95	90	30	40	30	25
Other developing countries	−60	−68	−71	−63	−67	−68	−71	−70	−70
Other non-OECD countries	−1	−5	−8	−6	−6	−4	−6	−9	−11
TOTAL[a]	−25	−45	−70	−25	−20	−75	−60	−80	−90

a) Rounded to nearest $ 5 billion.

of $40 billion, equivalent to ½ of a point of OECD GNP. This improvement does not merely—or even mainly—reflect a normal cyclical phenomenon consequent upon the present depressed level of economic activity in OECD countries. Rather, it represents a quickening of the international adjustment process on the part of both OPEC and the OECD in response to higher real oil prices. OPEC is increasing its imports of manufactured goods and the OECD area is reducing its consumption—and even more its net imports—of oil.

The speed of this adjustment process may fall during 1982 and into 1983. Oil imports will probably rise slightly as the depressing effect of higher real oil prices on consumption wanes, the rate of oil destocking declines and activity picks up in OECD countries. And even if the resulting increase in OPEC production is concentrated entirely on the

"high absorber" group of countries, their exports could still be 40 per cent lower in real terms than before the 1979-1980 oil price increases. In such circumstances, these countries almost certainly could not finance an increasing volume of imports. Indeed, some reduction of imports in 1982 and 1983 is projected on the assumption that these countries will adjust their external accounts to a more sustainable position, as they did in 1978. Given likely price developments, this would result in a slightly smaller OECD current account deficit of $25-30 billion in 1982, with some deterioration in the early part of 1983.

Within this picture of a much lower and rather stable current account deficit for the OECD as a whole, the experience of individual countries may differ widely. (See Tables 30, 31, 50: Current balances of OECD countries.) The United States and the United Kingdom are expected to move against the trend. Their substantial 1981 surpluses may be rapidly eroded. The Canadian deficit is also expected to widen considerably over the period. Against this, the external positions of Japan, Germany, the Netherlands and Switzerland are projected to improve over the next 18 months and, on the important assumption of no change in nominal exchange rates, very rapidly. The combined deficit of smaller OECD countries, excluding the Netherlands and Switzerland, may hardly change between 1980 and mid-1983.

A decomposition of the changes in the current balances of major OECD countries into their more important components is given in Table 29. The most important single factor influencing current balance developments in 1980 was the unfavourable shift in the terms of trade resulting from higher oil prices. The impact has also been significant in 1981. This is due partly to a carryover effect from the previous year, but in European countries it also reflects the stronger dollar in combination with dollar-denominated oil prices. The trade balances of Europe and Japan, which improved markedly in 1981, are expected to continue to improve in real terms in 1982 and the first half of 1983, at the expense of the real trade balance of the United States.

Table 28
Competitive positions
Indices based on calculations in a common currency. 1970 = 100

	1977	1978	1979	1980	1981	1982	1980	1981		1982		1983
							II	I	II	I	II	I
A. *Relative unit labour costs in manufacturing*												
United States	67	63	64	65	74	76	64	71	77	76	77	77
Canada	102	88	85	85	88	91	84	86	90	91	92	93
Japan	141	162	138	122	130	120	127	134	125	121	118	116
France	100	99	103	107	107	111	106	107	107	110	113	117
Germany	113	118	120	120	110	107	119	110	110	109	105	102
Italy	94	92	93	93	94	98	95	94	94	96	100	105
United Kingdom	89	98	115	144	142	131	150	151	133	131	131	131
Belgium	110	107	105	100	96	96	101	97	95	96	96	96
Netherlands	112	110	109	101	90	88	98	92	89	89	88	86
Denmark	96	96	97	87	80	84	84	80	80	83	85	86
Norway	141	128	115	113	118	123	114	116	120	121	125	122
Sweden	120	107	102	98	99	91	100	101	96	92	91	91
Austria	130	127	122	121	117	117	119	115	118	118	117	117
Switzerland	124	146	138	123	119	127	122	116	123	128	126	124
B. *Relative export prices of manufactures*												
United States	90	86	87	86	99	101	86	95	102	101	101	101
Canada	83	76	76	79	84	85	79	83	85	85	86	86
Japan	106	118	108	102	107	102	104	109	105	103	101	99
France	100	99	99	99	97	99	99	97	96	98	99	101
Germany	115	116	114	108	101	99	107	102	100	100	99	97
Italy	95	93	96	103	97	99	104	97	97	98	100	102
United Kingdom	97	106	114	126	128	123	129	134	121	123	124	125
Belgium	97	98	102	101	96	96	98	96	96	96	96	96
Netherlands	100	98	98	99	91	90	99	91	91	91	90	89
Denmark	104	104	102	97	95	95	97	95	95	95	95	95
Norway	120	105	98	96	89	90	94	89	90	90	90	90
Sweden	113	107	107	109	110	106	110	111	108	106	107	106
Austria	110	108	107	103	95	94	101	95	95	95	94	94
Switzerland	115	133	127	122	116	119	121	115	117	119	118	117

Table 29

Changes in OECD current balances by major components[a]

Changes in current balances in billions of US dollars due to changes in:

	(1) Total trade volumes	(2) *of which:* Net oil import volumes	(3) *of which:* Trade in manufactures	(4) Total terms-of trade effects	(5) *of which:* Oil price effect	(6) Other influences on trade balance[b]	(7) Total trade balance change (1) + (4) + (6)	(8) Net invisibles	(9) Total current balance change (7) + (8)	(10) Memo item: change in trade volumes arising from competitive positions[c]
United States										
1980-1981	−5	14	−12	7	−7½	−¾	1¼	4	5	−17¾
1981-1982	−16	8	−21½	12	½	−1	−5½	−¼	−5¾	−25¼
1982-1983I	−17½	2	−14¼	1½	−1¾	−1½	−17½	−¾	−18	−15½
Japan										
1980-1981	19	5	14½	1	−5½	−¾	19	−2¾	16¼	6
1981-1982	11¼	1½	7½	2¼	½	−¼	13½	−2	11½	1
1982-1983I	5½	−1	9¼	−1	−1½	2½	7	−½	6	2¾
Germany										
1980-1981	19¾	6½	11½	−7	−3	−5¾	6¾	1¼	8	6¾
1981-1982	13½	−1	16½	¼	¼	−½	13¼	−3	10	13
1982-1983I	4¼	−2½	8¼	−1	−1	2¼	5½	−3½	1¾	6¼
France										
1980-1981	9¼	5	2½	−5½	−2½	½	4	−3¼	¾	0
1981-1982	−1¾	−1	0	1	¼	¼	−½	¼	−¼	0
1982-1983I	−1½	−½	−½	1½	−¾	−1	−1	1½	−¾	−½
United Kingdom										
1980-1981	3	4	−¼	−½	0	3¼	6	¾	6¾	−11
1981-1982	−5¼	3	−10½	−2¾	0	−1½	−9½	−2¼	−12	−12
1982-1983I	−3	½	1½	−½	−¼	½	−3	−¼	−3½	0
Italy										
1980-1981	11¼	1¼	1¼	−8	−2¼	1	4½	−4¼	0	−3¼
1981-1982	2	½	1½	1¾	¼	0	4	½	4½	1¼
1982-1983I	1	−½	−¼	2	−¾	−1½	1½	¼	1¾	−2
Canada										
1980-1981	−1¼	¾	−1	−1¾	0	0	−3	−2¾	−5¾	½
1981-1982	−1	1¼	−1¾	−¾	0	−¼	−2	−1¼	−3¼	−3¼
1982-1983I	0	1½	−1½	½	0	−¾	−¼	−1½	−1½	−3
Other OECD										
1980-1981	12	8	6¼	−9¾	−6	7¼	9½	−2¾	6¾	12½
1981-1982	4¾	2	5	½	½	−1¼	4	−1	3¼	15¼
1982-1983I	3½	−2	0	−1	−1½	½	3	2	5	0
Total OECD										
1980-1981	67¾	45	23	−25	−27	4¾	47½	−9¾	37¾	−6
1981-1982	6½	14	3½	14¾	1½	−4¼	17	−8¾	8¼	−10
1982-1983I	−8	−2	2½	−2	−7	5½	−4½	−3	−7¾	−12

Note: Detail may not add due to rounding.

a) The detailed figures presented here may not be wholly consistent because of statistical problems and recording asymmetries. They should be interpreted as approximate orders of magnitude only: they have been heavily rounded.

b) Residual difference between (7), (1) and (4) arising from second order terms and initial imbalances.

c) The figures in this column are the difference between those in column (3) and the change in the real trade balance in manufactures that would occur if exports grow at the same rate as markets, and imports at the normal rate relative to GDP.

The most important influence behind these projected divergent movements is the effect of past and projected changes in competitiveness on trade volumes of manufactures (see column 10 of Table 29). Three major developments can be discerned. First, the position of North America *vis-à-vis* the rest of the world resulting from changes in the effective exchange rate of the dollar (Chart N); second, developments within Europe resulting from differential inflation rates, and third, the special case of the United Kingdom. The rise of the dollar until the summer of 1981 has more than reversed the improvement in the United States' competitive position that occurred during the 1970s. The lagged effect of this change is expected to have a large unfavourable impact on the trade balance of that country up until mid-1983. Other OECD countries as a group can be expected to benefit accordingly, but by no means equally. Prolonged exchange rate stability in EMS countries up to September 1981,

Table 30
Current balances of major OECD countries and country groups
$ billion; seasonally adjusted, at annual rates

	1978	1979	1980	1981	1982	1980 II	1981 I	1981 II	1982 I	1982 II	1983 I
United States	−14.1	1.4	3.7	8¾	3	12.7	8.7	9	10¾	−4¾	−15
Canada	−4.3	−4.2	−1.6	−7½	−10¾	0.4	−6.1	−8¾	−10¼	−11½	−12¼
Japan	16.5	−8.8	−10.7	5½	17	−4.5	2.8	8½	14½	19½	23¼
France	3.3	1.2	−7.4	−6½	−6¾	−8.4	−6.0	−7¼	−7½	−6¼	−6
Germany	9.2	−5.3	−16.4	−8½	1¾	−18.1	−14.0	−3¼	1¼	2	3½
Italy	6.2	5.5	−9.6	−9½	−5	−9.9	−13.2	−6	−6	−4¼	−3½
United Kingdom	1.8	−1.8	7.5	14¼	2¼	14.2	20.7	7½	4½	¼	−1¼
Seven major countries	18.6	12.0	−34.6	−3½	1½	−13.5	−7.1	0	7¾	−5	−11½
Other OECD countries	−9.1	19.0	−38.1	−31¼	−28	−38.6	−30.0	−32½	−28½	−27½	−23
Total OECD	9.5	−31.0	−72.7	−35	−26¾	−52.2	−37.1	−32½	−21	−32½	−34½
Memorandum item											
EEC	15.3	−11.9	−39.9	−20¾	−16¼	−35.2	−22.5	−19¼	−15	−17½	−15½

together with their divergent inflation trends, has resulted in more marked gains in competitiveness for Germany and Benelux than for other countries. The large effective appreciation of sterling from 1979 to early 1981, and the high rates of domestic inflation in the United Kingdom, have led to an unprecedented loss of international competitiveness. Between 1978 and early 1981 this may have been as high as 20 per cent as measured by relative export prices of manufactures, and as much as 50 per cent when measured by relative unit labour costs. For this reason the large 1981 current surplus of the United Kingdom is expected to shrink very quickly, despite self-sufficiency in oil, and the economy being in deep recession. For Japan, tapering-off of the volume effect of the yen appreciation against the dollar and European currencies up to early 1981, and the growing impact of its subsequent decline against the dollar, are projected to lead to increasing market gains over the next eighteen months.

The combined current position of the seven largest OECD countries may be near to balance in 1981 and 1982 after a deficit of $35 billion in 1980. That of smaller OECD economies may shrink by only $5-10 billion. Some smaller countries may even experience a widening of their deficits. The reasons for this lie essentially in a different commodity and geographical structure of trade, and a different starting position. World demand and trade prices in 1981 favoured net exporters of manufactures and net importers of non-oil commodities, and countries which trade extensively with non-OECD countries, OPEC especially. This may continue in 1982. Smaller OECD countries are on average net importers of manufactured goods and net exporters of non-oil commodities, and a comparatively high proportion of their trade is with other OECD countries. In 1980, the current deficit of the seven largest OECD economies was equivalent to 3 per cent of the gross flows involved, whereas that of smaller countries represented 8 per cent. The value of exports of smaller countries must therefore grow considerably faster than that of bigger countries for their deficit to narrow at the same rate.

The declines in the OECD's current deficit and in OPEC's current surplus are the most important movements in terms of world zones. The projections

Table 31
Current balances of other OECD countries
$ billion

	1978	1979	1980	1981	1982
Belgium-Luxembourg	−1.0	−3.0	−5.2	−6½	−6¼
Netherlands	−1.4	−2.2	−2.7	2¾	5
Ireland	−0.3	−1.5	−1.4	−2	−2
Greece	−1.0	−1.9	−2.2	−2½	−2¾
Denmark	−1.5	−2.9	−2.4	−2	−2½
Norway	−2.1	−1.0	1.0	2	½
Sweden	−0.3	−2.7	−5.3	−3½	−3¼
Finland	0.6	−0.2	−1.4	−¼	0
Iceland	−0.03	−0.02	−0.07	−0.02	0.01
Austria	−1.4	−1.9	−3.6	−2¾	−2¾
Switzerland	4.4	2.4	−0.6	2½	4½
Spain	1.6	1.1	−5.0	−5¾	−4½
Portugal	−0.8	0	−1.0	−1¾	−1¾
Turkey	−1.4	−1.7	−3.0	−2½	−2½
Australia	−4.0	−2.9	−4.3	−8½	−9
New Zealand	−0.5	−0.6	−0.9	−1	−1¼
Total	−9.1	−19.0	−38.1	−31¼	−28

assume that individual non-oil developing countries will adjust their import volumes so as to run the maximum sustainable deficit, important determinants being the cost and availability of finance. Countries which are at least self-sufficient in energy are projected to move back by 1982 to a deficit of a size similar to that registered in 1979. It is assumed that newly industrializing countries, whose deficits increased rather rapidly between 1979 and late 1980, will be obliged because of financing difficulties to contain them at about this level through a slowdown in import growth. Other non-oil developing countries are projected to run deficits of about the same absolute size as recorded in 1980 (and therefore declining as a proportion of their GDP) by severe restraint on imports. This would imply a stable aggregate deficit for non-oil developing countries of about $65-70 billion. It has been assumed that other non-OECD countries (chiefly Sino-Soviet countries), will be willing to expand their import volumes at a rate which will eventually lead to a group deficit of similar size to that of the late 1970s.

The global sum of current balances, which in theory should sum to zero, in practice recorded a deficit of $25 billion in 1980, a figure which is expected to increase to around $90 billion (annual rate) in the first half of 1983. Much of this movement is to be expected. To see this it is convenient to distinguish between goods and invisibles.

Invisibles

Historically, balance-of-payments statistics have consistently under-recorded net invisibles. The world invisibles deficit in the projections increases from $75 billion in 1980 to $90 billion (annual rate) in the first half of 1983. In both cases this amounts to some 5 per cent of the gross flows involved, an unchanged proportionate margin of error from that recorded in the 1970s.

Goods

Any exported good is recorded as an import only when it arrives at its destination. Largely because of this transportation lag (on average 5-6 weeks), the recorded world trade account tends to show a surplus which increases or decreases in line with an acceleration or deceleration in the expansion of world trade. The world trade surplus in the projections falls from some $50 billion in 1980 to zero in the first half of 1983. Some decline is to be expected on the basis of the projected marked deceleration of trade price increases. The movement assumed in the projections is at the outer limit of the expected order of magnitude of the decline. Even so, the inconsistency which this could introduce into the forecasts is at most ½ per cent of the gross flows involved.

CAPITAL MOVEMENTS, OFFICIAL INTERVENTION, AND NET TRANSACTIONS OF MONETARY AUTHORITIES

After the strengthening of the dollar vis-à-vis practically all major currencies in the first half of 1981, exchange market developments were less uniform over the summer (Chart N)[1]. The dollar continued to appreciate in July but fell in August-September, and was little changed over the quarter as a whole. Sharp downward pressure developed on sterling and, within the European Monetary System, on the French franc (and to a lesser extent on the Belgian franc), resulting in substantial sales of offical dollars by these countries. On the other side, the Deutschemark and other continental currencies—in particular the Swiss franc—rebounded somewhat after several quarters on a downward trend. Several central banks which had intervened significantly when their currencies were under downward pressure, bought only small amounts of dollars when pressure reversed, allowing incipient (*ex ante*) capital reflows from the United States to be absorbed largely by exchange rate variations.

Foreign borrowing in United States capital markets to finance oil deficits, as well as the investment of official OPEC funds in the United States[2] seem to have slowed down considerably over the summer months. As a result, the sharp fall of the dollar in August and September was accompanied by *ex-post* inflows of non-monetary capital into the United States, a large decrease in US liabilities to foreign official institutions, and a small but positive change in United States gross official reserves. For the third quarter as a whole, the United States recorded net capital inflows of $9½ billion[3], and a surplus in net transactions of monetary authorities of some $6½ billion.

Pressure within the European Monetary System (EMS), evident for some months, was aggravated in August-September, as the Deutschemark profited more than other member currencies from the incipient reflow of funds from the United States and the United Kingdom. For the third quarter, along with the appreciation of the DM, Germany recorded sufficient capital inflows[4] to finance its large current account deficit (not seasonally adjusted), and its net reserve position was basically unchanged. On the other hand, France recorded a substantial deterioration of its net reserve position as the deficit on current account was compounded by large net capital outflows. Italy improved its net reserve position by some $3 billion as a result of both a sharply-reduced current account deficit—owing to strong seasonal factors but also to the impact of the import deposit scheme—and continuing large capital inflows, which reflected Italy's heavy foreign borrowing.

Following the re-alignment of EMS central rates in early October, the French franc moved to the top of the new band and the DM to the bottom, requiring intervention and resulting in a significant loss of net reserves in Germany and gains in France in October. Throughout this period, the lira has remained well within its special (±6 per cent) EMS fluctuations limits[5].

The United Kingdom current account may have been in moderate surplus in the third quarter but pressure on the exchange rate stemming from incipient capital outflows increased sharply. Official market intervention, while considerably more important than in previous periods, was largely insufficient to absorb this pressure and over the quarter sterling fell by nearly 10 per cent in effective terms[6]. It rebounded somewhat in October-November. In

1. See also the Monetary and Fiscal Policies section for analysis of the interaction between domestic monetary developments and exchange rates.
2. Recorded in the United States balance of payments as a net transactions of monetary authorities.
3. While data on the composition of the United States capital account are still unavailable for the third quarter, provisional figures show that the strong outflows related to United States banks' foreign lending recorded in the first half of the year were reversed in July-August.
4. These inflows were essentially of a non-monetary kind, because banking transactions resulted in a net outflow of $1¾ billion.
5. Nonetheless, the lira, like the French franc, was devalued by 3 per cent in the EMS realignment in early October (the DM and the Dutch guilder were revalued by 5.5 per cent).
6. Direct foreign exchange market intervention in the third quarter was probably considerably less than the $2 billion estimated deficit in net transactions of monetary authorities because some $0.8 billion of the decline in gross official reserves were accounted for by repayments of foreign borrowing by the public sector.

Japan, the current account surplus widened significantly and net official reserves improved somewhat during the summer. The deficit on capital account was accompanied by a 4 per cent depreciation of the yen in effective terms, pointing to even larger incipient capital outflows. More recently, however, these outflows seem to have abated or even reversed, and the yen has more than recovered its earlier loss.

DEVELOPMENTS IN INDIVIDUAL COUNTRIES

UNITED STATES

The economy has weakened somewhat more than suggested by the mid-year projection. GNP stagnated in the second and third quarters of 1981, but seems to have fallen sharply in the closing three months. Monetary policy has been the principal restraining influence, with high interest rates throughout much of the year easing only recently in response to declining real activity and increased provision of bank reserves. Unemployment has risen as output turned down. Inflation has moderated, owing mainly to energy, food and import prices, but the underlying trend of unit labour costs has shown little deceleration, still running in the 8½-9 per cent range. The rapid appreciation of the dollar in late 1980 and the first half of 1981 gave way to a more stable exchange rate in the second half of the year. Recession in western markets and the weakened competitive position have blunted exports.

The broader monetary aggregates have grown fairly steadily at the upper end of the target ranges (M2) or beyond (M3). Yet attention has centered on M1B (adjusted for the shift into NOW accounts)[1] which has grown at below target rates. The changed relationship between the narrower and broader aggregates is largely attributable to the interaction of institutional change and high interest rates[2]. The broad judgement is probably that monetary policy has been about as expansionary as is consistent with announced targets. Continuing monetary restraint is evident in the mid-year announcements for 1982 targets. Fiscal policy prospects were clarified by the passage of the Administration's expenditure and tax programmes over the summer. The initial stages of personal tax reductions were reined back by Congress, which also made tax changes which will make the

1. Negotiated order of withdrawal accounts, which are effectively interest-bearing current accounts. These were authorised throughout the United States from the beginning of 1981. The figures for "adjusted M1B" used in this note are for M1B less an allowance for shifts into these new accounts from other interest bearing instruments, and should give a better indication of underlying trends.

2. This has been particularly noticeable in the rapid expansion of the new money market certificates which form part of the non-transactions component of M2; these have offered a very attractive combination of high yield and liquidity.

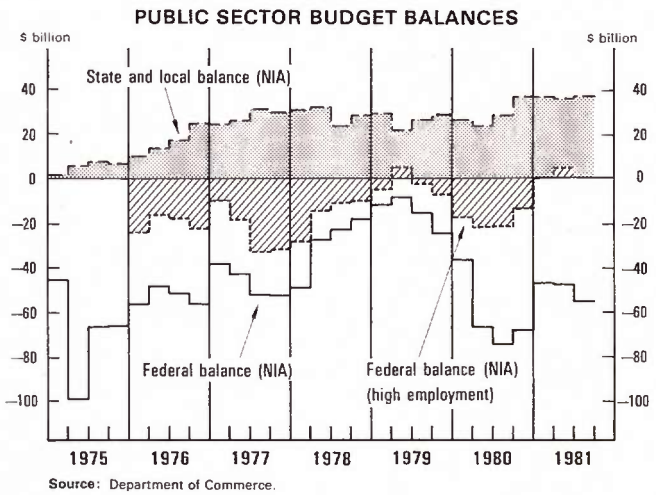
Demand, output and prices
UNITED STATES
Percentage changes from previous period, seasonally adjusted at annual rates
Volume (1972 prices)

	1980 current prices billion $	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Private consumption	1672.7	0.5	2¾	1¼	4.1	1½	0	4	3¼
Government expenditure	534.7	2.9	–¼	–1½	1.8	–3	–1½	¾	–1½
Private fixed investment	401.2	–7.1	½	–1	7.0	–6¼	–2½	7¾	7
Residential	105.3	–18.6	–4¾	–6	7.5	–26½	–8¾	27½	17
Non-residential	295.9	–3.0	2	½	6.9	½	–¾	3	4
Final domestic demand	2608.6	–0.2	1¾	½	4.0	–½	–¾	3¾	2¾
* plus change in stockbuilding	–5.9[a]	–0.9	½	–¼	1.5	¼	–1¼	1¼	¾
Exports of goods and services	339.8	9.6	–1	–4¼	3.9	–6½	–4	–2½	1¾
Imports of goods and services	316.5	–0.1	5	0	15.0	3¾	–5¼	7	8½
* plus change in foreign balance	23.3[a]	1.0	–½	–½	–0.6	–1	0	–¾	–½
GNP at market prices	2626.0	–0.2	1¾	–½	4.7	–1½	–2	4	3
GNP implicit price deflator	–	8.9	9	8	9.1	8½	8	7¼	7¾
Memorandum items									
Consumer prices[b]	–	10.2	8¼	7½	8.0	8	7¼	7	7½
Industrial production	–	–3.6	3½	1¼	9.5	0	–¼	5¼	5½

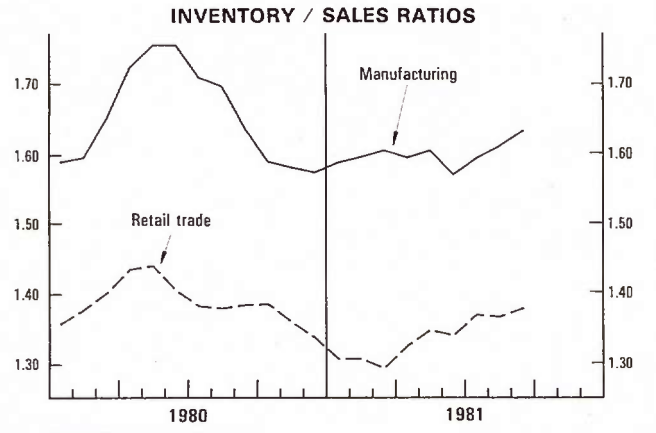
* As a percentage of GNP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

longer-term effects more expansionary than proposed or previously expected. Cuts to overall expenditure plans were in line with Administration recommendations. But important cuts at programme level remain to be made in order to bring the sum of the parts into line with the totals, further cuts have been proposed to offset subsequent upward revisions of likely expenditure outturns (mainly social security and interest payments), and further policy measures will be required to bring the prospective federal deficit closer to the original targets for FY 1983-1984.

Six months ago the central forecasting issue was the likely conflict between the path of nominal GNP suggested by underlying growth and the fiscal stance on the one hand, and the path implied by the targets for the monetary aggregates on the other. The weakness of demand through 1981 and the inventory correction now going on show that the short-term tensions proved even greater than expected. The inventory adjustment is expected to hold down output growth and interest rates into the first half of 1982, but by the second half of the year the response to the lower rates and tax cuts could bring a strong recovery of demand and output. Despite this more pronounced near-term downturn in activity, therefore, demand and output are expected to be close to previously-projected levels by the second half of 1982 and early 1983. Renewed tension between monetary developments and nominal incomes is likely, with a return to rates of interest which would be high by historical and international standards, and would once again restrain demand and output.



Source: Department of Commerce.



Source: Department of Commerce.

Policies

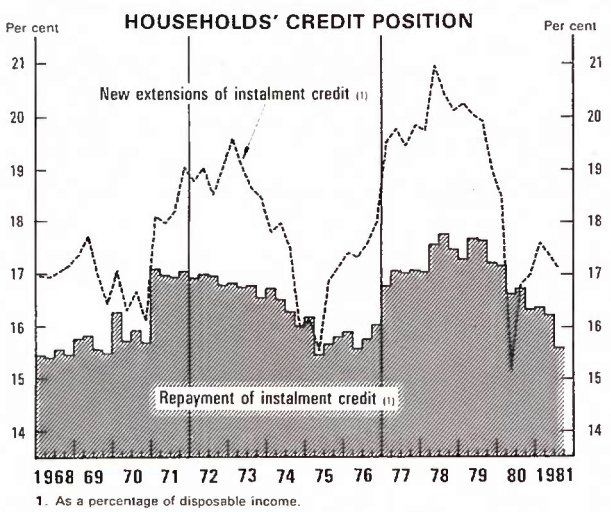
The Administration's tax proposals were passed (after some modification) in August. Personal income tax rates were cut by 5 per cent on 1st October 1981 and will be cut by 10 per cent on 1st July 1982 and 1st July 1983. Thereafter the personal income tax system will be indexed to the previous year's change in the consumer price index. The changes will bring marginal personal income tax rates down from a 14-70 per cent range to about 11-52 per cent. They will also lead to a first-round revenue cost of about 13 per cent of unchanged policy estimates of total federal revenue by FY 1984. Increased depreciation write-offs against business taxes were introduced with retroactive application from the beginning of 1981, but with a five-year phase-in period providing progressively shorter write-offs for long-lived machinery and buildings. Once this period is completed, the first-round revenue costs are expected to become substantial, rising from 3 per cent of unchanged policy revenue estimates in FY 1984 to 5 per cent by FY 1990. Congress also eased the oil windfall profits tax and the taxation of married couples, and introduced personal tax exemptions for some forms of saving (tax-exempt savings bonds).

The proposed changes in expenditure were also adopted by Congress over the summer—again with some modification. Nevertheless further budgetary action was required in the autumn, with the President sending additional expenditure-cutting proposals ($80 billion over three years) to Congress. This renewed action was the result of deteriorating prospects for the federal deficit. Pressures on the federal budget came partly from less-than-complete adoption of the Administration programme by Congress: the tax cuts were more prudent in the initial stages but more generous thereafter; several social security changes were not accepted and further consideration was deferred; and, more generally, while the legislated expenditure changes conformed to Administration totals, identification of a portion of the expenditure cuts (just under a third in FY 1982, for example)

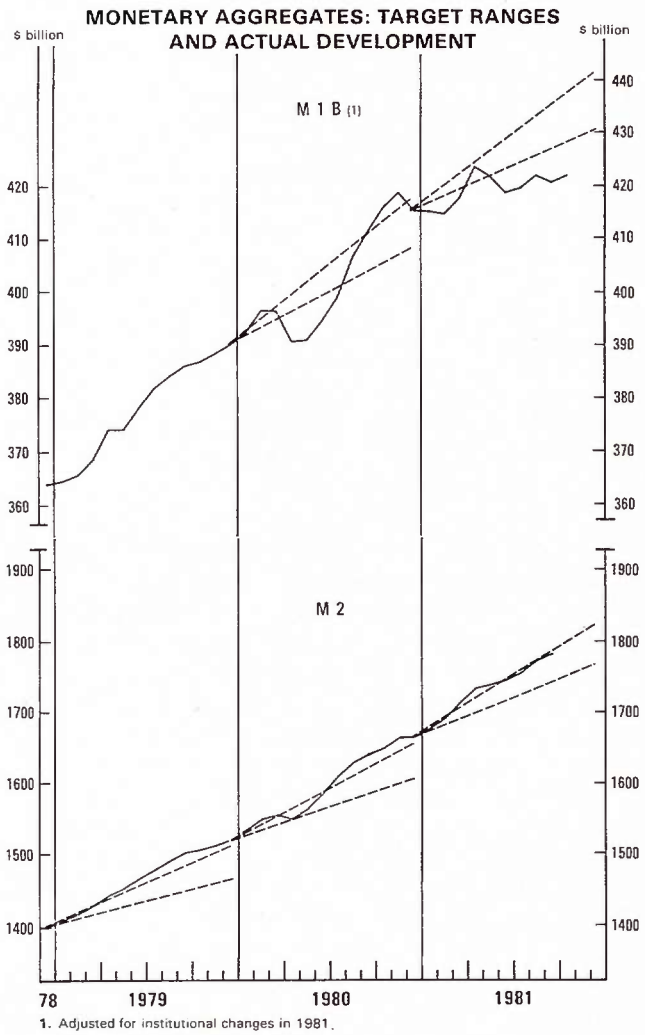
was postponed. Another reason was much less satisfactory economic developments during 1981 than had been outlined in the Administration's original background economic projections. Higher-than-expected interest payments and social security claims accounted for much of the revision to budget prospects. Financial market sentiment also posed a problem, the market being adversely affected by the sentiment that there was insufficient evidence of an emerging budget balance. Subsequent review of budget prospects has confirmed these misgivings, and the Administration has now recognised that further policy measures (in addition to those still before Congress) will be required to bring the deficit down towards previous target levels.

The growth of the broader monetary aggregates during the first three quarters of 1981 was at the upper end of the 1981 target ranges (M2) or above (M3). Although capital market yields were high, corporate bond and stock market issues were stronger through most of the summer, suggesting either a stabilisation of high inflation expectations[3] or balance sheet pressure to cut back on short-term debt. Meanwhile money market mutual funds grew extremely rapidly through 1981, accounting for well over half the increase in the non-transactions component of M2 (M2 excluding M1B). Much of the expansion seems to have been at the expense of the expected shift from demand and savings deposits into NOW accounts, the level of interest rates presumably encouraging savers to look over a wider range of available opportunities. There may also have been some shift from the open market (outside M2 and M3) into money market funds. The major part of the inflow into money market funds was placed in commercial paper and other non-bank instruments,

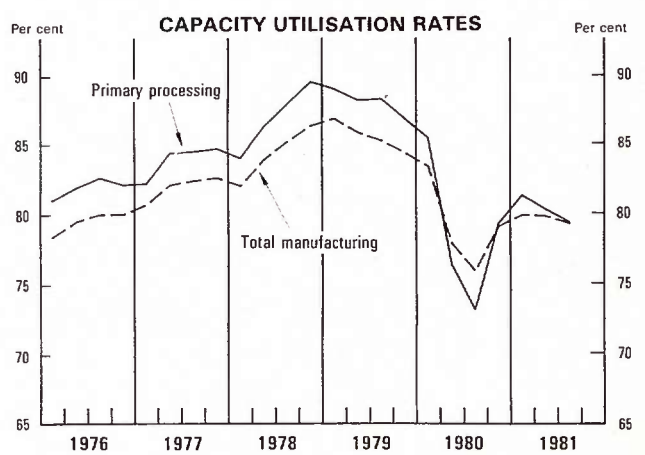
3. Over the last few years periods of high capital market yields have coincided with recessionary fears and expectations of lower inflation and yields. The incentive has been to postpone long-term financing requirements and substitute short-term credit.



1. As a percentage of disposable income.



1. Adjusted for institutional changes in 1981.



Monetary growth and interest rates

	Actual	Forecast					Targets	
	1980	1981	1982	1983 I	1981 Q4	1982 Q4	1981 Q4	1982 Q4
Money growth								
Percentage changes from year ago								
M1B	6¼	6¾	4½	4¼	4¼	4¼	6 -8½	2½-5½
M1B adjusted	..	4½	..	..	1½	..	3½-6	..
M2	9	9½	8½	8	9¼	8½	6 -9	6 -9
Velocity growth								
Percentage changes from year ago								
M1B	2½	4	3	6	5	5½		
M2	0	1½	−1	2½	0	1		
Interest rates (per cent)								
3 month treasury bills	11½	14¼	12¾	13¾				
New corporate bonds	12½	14½	13¼	13				

Note: The 1981 adjustments to M1B remove the effects of shifts into NOW accounts; the adjusted figures give a better indication of underlying trends.

Velocity is nominal GNP divided by the relevant monetary aggregate.

taking potential pressure on bank credit. Hence, despite continuing stringency in reserve supplies, banks were able to ease squeezed liquidity by attracting deposits into categories with lower reserve requirements.

The Federal Reserve Board decided in mid-year not to change its published 1981 targets for the aggregates. However, because the shift into NOW accounts had not been as great as expected, the M1B target now overstated the desired outturn. It was decided that policy would aim at an M1B outturn at the lower end of the range. As the second half unfolded, it appeared that M1B was growing even more slowly than the adjusted target implied, and there seems to have been some acceleration in the provision of reserves relative to requirements. Discount-window borrowing fell away, as did the Federal funds rate, the surcharge on the discount rate was reduced, then removed completely. The lower rates spread over the shorter end of the interest rate range, the prime rate began to fall in October, and towards end-November was under 16 per cent (nearly 5 points lower than the July-September peak). In the third quarter adjusted M1B was only 1½ per cent higher (an annual rate) than in 1980 Q4; corresponding figures for M2 and M3 were 9 and 11½ per cent.

The preliminary targets for the aggregates in 1982 show a further ½ percentage point reduction in the M1B range and no change for more broadly-defined money. If the development of the various measures were to follow this year's pattern, the constraint on economic activity would come via the broader aggregates. However, the experience of Spring 1981 suggests that the recent fall in short-term rates may bring more rapid growth in M1B relative to M2 in late 1981 and early 1982. Furthermore, previous shifts in demand for narrowly-defined money suggest a once-and-for-all effect following a period of high interest rates; if the 1979-1981 shift has now run its course, this would also indicate a return to more normal M1/M2 relationships. The more usual yield curve of recent months might also point this way. It is assumed that the broader aggregates will be allowed to grow in the upper half of their target ranges, but that this will be consistent with lesser pressure on the M1B target. The stringency of such monetary provisions relative to nominal incomes suggests continuing tightness on reserves and, as activity recovers, renewed pressure on interest rates.

Prospects

The net effect of the tax and expenditure changes proposed over the summer, plus the further expenditure reductions proposed by the Administration, suggests a broadly unchanged fiscal stance between calendar 1981 and 1982. The weaker outlook for oil and other commodity prices will probably exert a continuing, although relatively small, positive influence over the same period. It is only in the second half of 1982 that the sum of fiscal and quasi-fiscal influences on activity is likely to begin to give significant support to demand. But if monetary policy is conducted as assumed, it will offset these influences, to a degree. Other expected exogenous influences are weak export markets in the OECD area and an adverse impact of a weak competitive position on export market shares.

Incomes, costs and prices

Primary product price inflation moderated through 1981. Food and raw material prices were restrained by the appreciation of the dollar, increased beef supplies and prospects of a record grain harvest in the United States. Energy prices reflected world conditions and the end of the effects of domestic

oil price decontrol early in the year. With interest rates no longer pushing up the index, the deceleration became particularly marked at the retail level towards the end of 1981. Wage rates have also moderated, average hourly earnings[4] decelerating from close to a 10 per cent rate in the first quarter to about 8½ per cent in the second half of this year. Productivity growth has shown the usual cyclical pattern, the exceptional growth of the early months giving way to stagnation or reduction as output declined later in the year. Nevertheless, after allowing for these cyclical swings, labour productivity has improved on the poor results of the previous few years.

This is a much more optimistic background for the inflation projection than for some time. Although the transitory elements in the recent improvement in price performance cannot be expected to continue (the exchange rate is assumed to stabilise, while the need to rebuild cattle stocks will put upward pressure on food prices over the projection period), there are grounds for suggesting further deceleration in the trend of wage rates and labour costs. Discounting some of the mid-1981 pay deceleration, staying reasonably close to historic relationships between wages and past prices, and allowing for easier labour market conditions and some further improvement in productivity, suggests annual rates of wage and price increase (average hourly earnings and the GNP deflator) coming down to 8½ and 7½ per cent, respectively, in the year to mid-1983. These projections also include the expected effects of restraint on government pay, and continuing (though less severe) increases in social security taxes under old legislation.

These projections for prices and pay imply little change in real wages. Most of the fluctuations in households' disposable incomes are related to employment and taxation. After fairly strong gains in the third quarter of 1981, when employment gains coincided with a surge in transfer payments, real disposable incomes may show little change up to mid-1982. The effects of the first, 5 per cent, cut in personal tax rates seems to have been largely offset by weaker employment. The 10 per cent cut in mid-1982 could well have a more obvious effect, with real disposable incomes increasing at perhaps a 5 per cent (annual rate) in the second half 1982, before falling back to below 2 per cent growth in the first half of 1983.

4. Private non-farm economy, adjusted for overtime and inter-industry shifts.

Appropriation account for households
Percentage changes from previous year

	1980 billion $	1980	1981	1982
Compensation of employees	1 596.5	9.3	10½	7½
Income from property and others	474.7	12.5	13	8½
Current transfers received	294.3	18.0	13¼	9½
Less: interest on consumer debt	46.4	6.2	7	8¾
Total income	2 319.1	11.0	11½	8
Less: direct taxes	338.5	12.1	13¾	3½
current transfers paid	204.8	8.9	16¾	8½
Disposable income	1 775.7	11.1	10½	8¾
Consumers' expenditure	1 672.7	10.7	11¼	8¾
Savings ratio (as a percentage of disposable income)	–	5.8	5	5

Residential investment and private consumption

Residential investment has been particularly affected by recent high interest rates. New starts have fallen from a rate of 1½ million units at the beginning of the year to well below 1 million in the last few months. Demographic trends, by contrast, suggest underlying demand for housing of 2-2½ million units a year. Large outflows from the thrift

Summary cost, price and private consumption forecasts

Percentage changes from previous period, seasonally adjusted at annual rates

	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Hourly earnings[a,b]	9.0	9¼	8½	9.5	8½	8½	8½	8½
Hourly compensation[a,c]	9.9	10	9¼	10.6	9¼	9½	9	9
Productivity[a]	−0.3	1¼	½	2.4	−¾	½	1½	1
Unit labor costs[a]	10.3	8¾	8¾	7.9	10¼	8¾	7½	7¾
GNP deflator	8.9	9	8	9.1	8½	8	7¼	7¾
Private consumption deflator	10.2	8¼	7½	8.0	8	7¼	7	7½
Real disposable income	0.7	2	1¼	2.5	1¼	−¾	5¼	2
Personal savings ratio[d]	5.6	5	5	5.0	5	4½	5¼	4¾
Real private consumption	0.5	2¾	1¼	4.1	1½	0	4	3¼

a) Non-farm business sector.
b) Production workers only, adjusted for inter-industry shifts and overtime in manufacturing.
c) Including employer's social security contributions.
d) Savings as per cent of disposable income; US definitions.

Balance of payments
UNITED STATES

Value, $ million

	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Seasonally adjusted								
Exports	223 966	239 000	240 750	121 575	117 250	119 000	121 750	127 250
Imports	249 308	263 000	270 500	133 166	130 000	130 500	140 000	150 750
Trade balance	–25 342	–24 250	–29 750	–11 591	–12 500	–11 500	–18 250	–23 500
Services and private transfers, net	35 029	39 000	40 500	18 548	20 500	20 500	19 750	20 250
Official transfers, net	–5 962	–6 000	–7 750	–2 621	–3 500	–3 750	–4 000	–4 250
Current balance	3 725	8 750	3 000	4 336	4 500	5 500	–2 500	–7 500
Unadjusted								
Current balance	3 725			5 915				
Long-term capital	–6 817			2 207				
Short-term capital and unrecorded	32 538			14 218				
Balance on non-monetary transactions	29 446			22 340				
Net transactions of monetary authorities[a]	–6 758			1 938				
Memorandum items (seasonally adjusted)								
Per cent change in volume[b]								
Exports	7.9	–¾	–5½	6.7	–12½	–3½	–2¼	1½
Imports	–7.1	1¼	1¼	13.1	–1	–2½	11	9

Note: Detail may not add, due to rounding.

a) Previously "Balance on official settlements".

b) Over previous period at annual rates. Derived from values and units values on a Bureau of the Census basis. Certain adjustments to balance of payments basis are therefore excluded, the most important being the omission of foreign trade of the Virgin Islands.

institutions over the summer kept up mortgage rates as other interest rates began to fall, while issues of new permits suggest that the current weakness will remain for some months. In the course of 1982, however, demand is expected to pick up as mortgage rates ease slightly, the recovery becoming more substantial as the personal tax cuts assist real disposable incomes. A further source of stimulus will be the All Savers Certificates which were introduced by tax legislation this summer, although these special effects may be offset by reduced federal loan guarantees in 1982, announced at the time of the autumn expenditure reduction proposals and of particular importance to housing. In the year to mid-1983 starts are projected to average about 1¼ million.

Consumers extended their debt positions somewhat during 1981. Liquidity positions are still better than in 1978-1980, but higher interest rates have brought debt service payments to historic heights. The personal saving rate has fallen, averaging somewhat over 5 per cent in the first three quarters of 1981, against 5¾ per cent in 1980. The extension of debt and the falling savings ratio have helped to overcome the expenditure effects of sluggish real income growth since the autumn of 1980. In 1981 Q3 real private consumption was 3½ per cent higher than a year earlier. The quarterly pattern was erratic, particularly because of car-price discounting in the first and third quarters. The final three months of 1981 probably saw a jump in personal savings as the car discounts ended, employment prospects deteriorated and taxes were lowered. Sluggish disposable incomes in the near future, but with the prospect of further tax cuts in mid-1982, suggest a return to declining personal savings rates over the next six months. Lower bank lending rates, an initial housing recovery, and the introduction of new, energy-efficient car models may be sufficient to bring a return to modest expansion of private consumption. The mid-1982 tax boost to real disposable incomes should raise both personal savings and consumption, although the split must be uncertain. The projection suggests that the personal savings rate will rise from 4½ to 5¼ per cent between the first and second halves of 1982, but that it will fall thereafter as real disposable incomes decelerates. The corresponding figures for real consumption are for a flat first half of 1982, giving way to 4 per cent growth in the second half, falling back to under 3 per cent as mid-1983 approaches.

Corporate investment

Business fixed investment has remained relatively strong, with the upswing concentrated early in the year; intentions surveys have so far shown only a modest reaction to the recent declines in aggregate demand. Energy-related investment and the general

reduction in the cyclical sensitivity of business fixed investment over recent cycles seem to account for this strength. The shortening of the tax lives of investment goods under the 1981 tax changes, and associated changes in leasing laws will encourage additional investment. The changes in tax lifetime for machinery and equipment are equivalent to the cumulative reductions from the post-war era up to the last change in 1971; for structures they are even larger. The gradual phasing-in of the new tax regime and the orders of magnitude involved makes the size and timing of its effects over an eighteen month horizon very uncertain. The projections assume that the new incentives will gradually overcome current slackness and the discouraging effects of recent and prospective interest rates, bringing growth rate of 4 to 5 per cent by early 1983. After a correction of undesired stock accumulation in the middle quarters of 1981, some modest stockbuilding seems likely, implying a positive contribution to GNP, despite continuing declines in stock/sales ratios.

Labour market and balance of payments

With demand and output falling well short of potential rates in the first part of the projection period, and with productivity responding to the new incentives to save and invest, some easing of labour market conditions seems likely. The unemployment rate is projected to rise from its 1981 average of 7½ per cent, to peak at perhaps 9 per cent during 1982, before falling back to 8½ per cent in the first half of 1983. The sizeable appreciation of the dollar (about 14 per cent in effective terms in the year to October) is expected to lead to a major deterioration in the external balance. Imports of manufactured goods are projected to rise in real terms by 7 per cent in 1982 while the volume of exports may decline by 7½ per cent—implying a loss of export market shares of some 14 points. The $9 billion current external surplus (annual rate) in the first half of 1981 may give way to a $15 billion deficit (annual rate) in the first half of 1983.

JAPAN

Recent trends

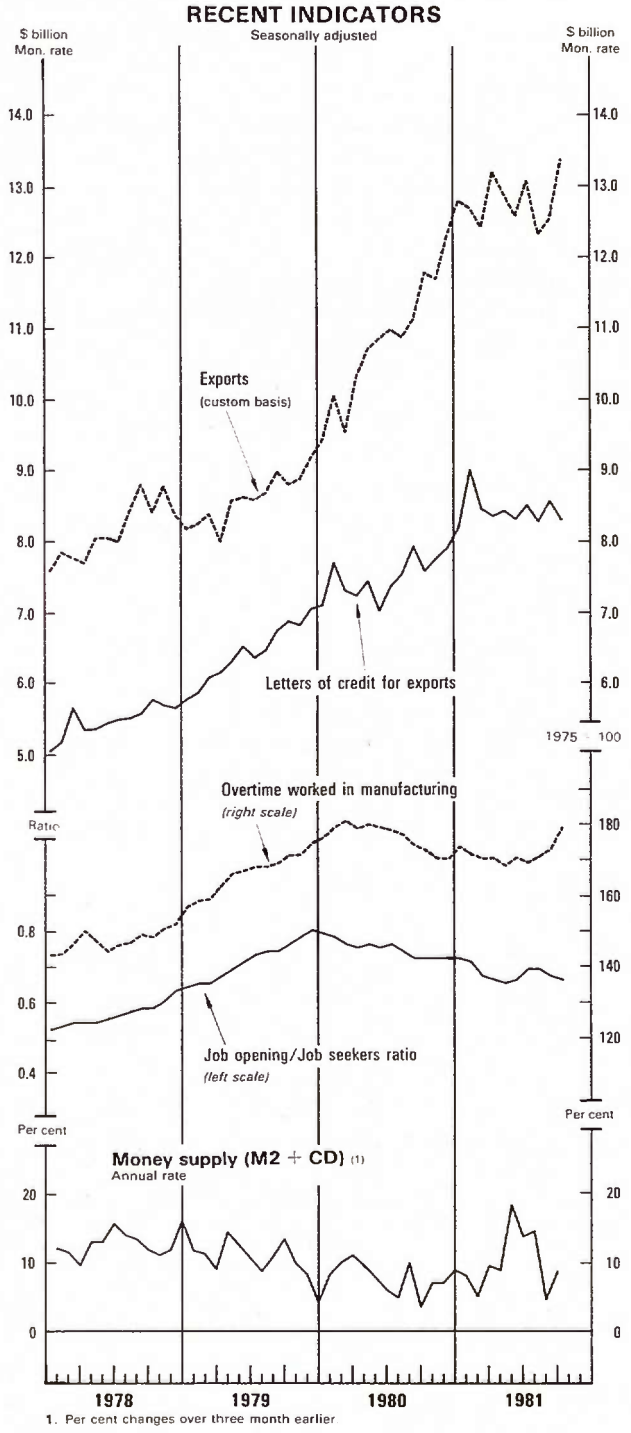
Economic growth picked up only moderately in the first half of 1981, the stimulus provided by rising public spending and buoyant exports being largely offset by sluggish private consumption growth. The latter reflected moderate wage increases, a poor profit performance of small unincorporated businesses and a large increase in the tax burden, including social security contributions. The stepping-up of government-financed housebuilding in the second quarter and a bunching of starts prior to the enforcement of new construction standards in June caused a temporary pick-up in residential investment. But business fixed investment slackened, resilience in large companies' capital outlays being more than

Demand, output and prices
JAPAN
Percentage changes from previous period, seasonally adjusted at annual rates
Volume (1975 prices)

	1980 current prices trillion yen	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Private consumption	138.0	1.3	1	3½	0.7	2¾	3¾	3¾	4
Government consumption	23.5	2.1	2½	½	5.2	–1½	1¼	1	–¼
Fixed investment	74.9	0.1	2¼	1¼	4.0	–2¾	2½	3¼	3¼
Public[a]	22.5	–4.3	4½	–6¼	7.2	–10½	–6¼	–1¼	–1
Private residential	15.3	–9.0	–1¾	2	8.3	–7½	5½	4½	5
Private non-residential	37.0	6.5	2½	5¼	0.8	3½	6¼	5¼	5
Final domestic demand	236.4	0.9	1½	2½	2.2	½	3	3¼	3½
* plus change in stockbuilding	1.6[b]	–0.3	–¼	¼	0.4	0	¼	¼	¼
Exports of goods and services	35.7	19.3	16¼	8½	20.1	15½	5	9	9½
Imports of goods and services	37.9	–3.9	4	2½	15.8	–¾	2¾	5¼	5½
* plus change in foreign balance	–2.2[b]	3.6	2½	1½	1.5	3	½	1	1¼
GNP at market prices	235.8	4.2	3¾	3¾	4.0	3¼	3¾	4½	4¾
GNP implicit price deflator	–	3.2	3¼	4¼	2.2	3	5	4	3¼
Memorandum items									
Consumer prices[c]	–	7.1	4¾	4½	4.2	3½	5	4½	4½
Industrial production[d]	–	7.0	2½	5	4.3	3	5¼	6¼	6½

* As a percentage of GNP in the previous period.
a) Including public corporations.
b) Actual amount of stockbuilding and foreign balance.
c) Implicit private consumption deflator.
d) Mining and manufacturing.

offset by the weakening of real investment spending by smaller companies, which were particularly affected by the slow recovery of private consumption. With the contribution of the external balance more than halved as a result of the sharp turnaround in imports of goods and services, real GNP growth accelerated slightly from 3½ per cent in the second half of 1980 to 4 per cent in the first half of 1981 (s.a.a.r.). Most recent indicators suggest that activity continued to expand moderately in the third quarter with industrial production rising by around 5 per cent (s.a.a.r.) and inventory adjustment proceeding further. After some deterioration in the first half of 1981, labour market conditions then improved somewhat.



1. Per cent changes over three month earlier

The relatively weak demand pressure has also been reflected in moderate price and cost developments. Thus, although the yen's depreciation has given rise to an upturn of wholesale prices since April, the rate of increase to August was rather modest (around 6 per cent at annual rate), and was followed by stabilisation in September. Consumer price increases also abated to a year-to-year rate of a little under 4 per cent in September (the lowest in the OECD area), while the advance in actual cash earnings has remained lower than the rise in basic wages agreed in the last spring settlement.

Merchandise export volumes continued to expand rapidly in the first half of 1981 (12.4 per cent on customs basis, s.a.a.r.) despite the lagged adverse effect of the earlier appreciation of the yen. This buoyancy was largely accounted for by the strong recovery of export markets and relatively weak domestic demand, but may also have been influenced by increasing non-price competitiveness. Goods import volumes, on the other hand, continued to stagnate, due mainly to reduced purchases by raw material-processing industries. As a result, the trade surplus nearly doubled to $17¾ billion (s.a.a.r.) while the current account turned to a surplus of $2¾ billion (s.a.a.r.). These trends continued in more recent months, with the surplus on trade and current accounts recording around $25 billion and $9 billion (s.a.a.r.) respectively in the third quarter. After having depreciated to over 240 yen per US dollar in early August, the exchange rate has hovered around 230 yen per dollar until mid-November. Subsequently the yen has tended to appreciate, probably influenced by the rising current account surplus and a reduction in interest rate differentials.

Policies

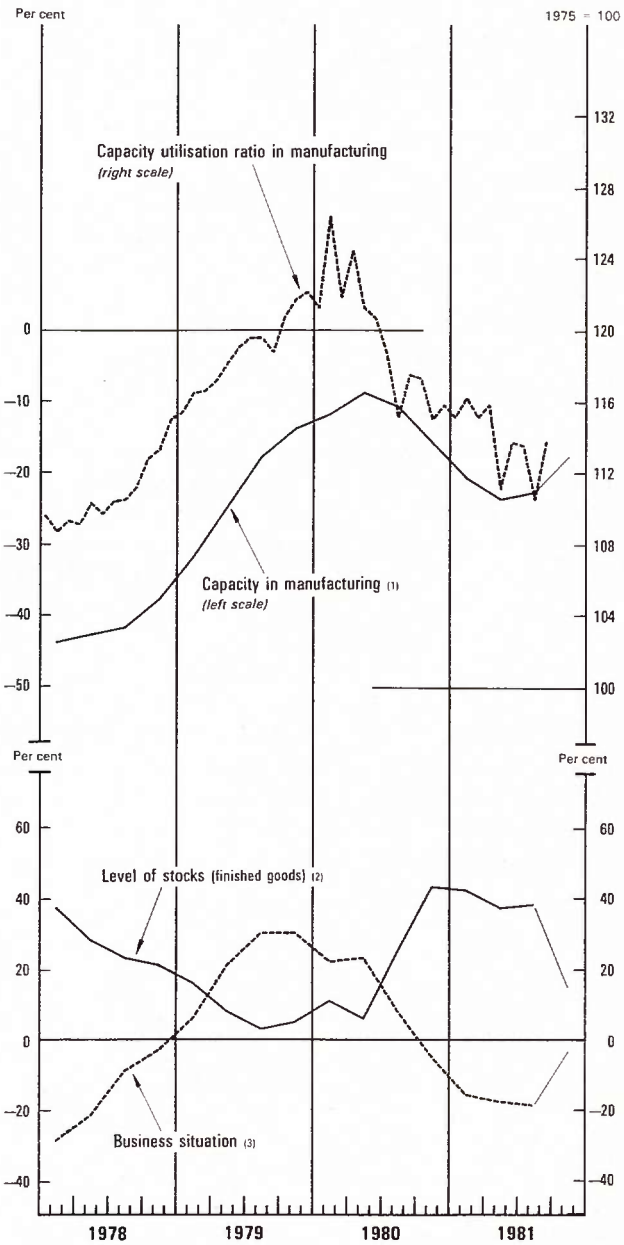
Given the successful containment of inflationary pressures in the wake of the second oil shock, and the rapid improvement in the external balance, the stance of policy has shifted since the autumn of 1980 towards supporting domestic demand. Monetary policy has been relaxed considerably, while measures were taken to stimulate housebuilding and to temporarily step up public works. But the deflationary effects of higher oil prices and the earlier tightening

of policy proved somewhat greater than expected. Up to the summer of 1981 inflation abated more rapidly than expected, and the recovery of domestic demand and inventory adjustment was slower than previously envisaged. On the other hand, the external contribution to real GNP growth was larger and the current account surplus correspondingly greater. In view of these developments, a new policy package was announced in October.

Within the framework of an overall restrictive budget, fiscal policy has been formulated with a view to supporting demand by concentrating public works in the second half of FY 1980 (6 months to March 1981) and the first half of the present fiscal year (April to September 1981). Public investment did constitute a source of strength during this period. Furthermore, the October measures aimed at promoting imports and at shoring up demand by assisting particularly depressed industries and re-allocating public works in favour of depressed regions. In addition, as in 1978, the electric power industry was asked to step up its investment. Neither the supplementary budget for the present fiscal year nor the FY 1982 budget has yet been presented. Preliminary indications are that the supplementary budget will probably be limited to the usual salary adjustments for government employees. The FY 1982 budget is very likely to be restrictive. The increase in total requests submitted to the Ministry of Finance during the summer, which customarily set an upper limit, amounted to 5.7 per cent for general account expenditure over the initial FY 1981 budget. Moreover, no personal income tax cut is envisaged to offset fiscal drag on household income. The technical assumption adopted in the projections is zero nominal growth in public investment in FY 1982, with a normal time-pattern of execution, and a nominal increase in public consumption of around 4 per cent, the same order as in FY 1981.

While both the official discount rate and reserve requirements have remained unchanged at the low levels reached in March 1981, the overall stance of monetary policy has continued to be eased gradually, with "window-guidance" ceilings on bank lending nearly doubled in the third quarter compared with a year earlier. As a result, the expansion of money stock has steadily accelerated, with the rate of increase of M2+CD (s.a.a.r.) rising from 4.5 per cent in the third quarter of 1980 to 10.7 per cent in the second quarter of 1981 and to a little over 11 per cent in the third quarter. Interest rates, after falling in line with the discount rate, moved in different directions from March. While call money market rates fluctuated in the 7-7½ per cent range, average bank lending rates have steadily decreased to 7.64 per cent in September. Long-term rates, on the other hand, have trended upwards, reflecting a continued large supply of government bonds in the context of high bond yields abroad. The issuing rate of national bonds was raised in September with the corresponding adjustments of the long-term prime lending rate and the issuing rate of bank debentures

BUSINESS SURVEYS



1. % of firms with insufficient capacity *minus* % of firms with excessive capacity.
2. % of replies "too high" *minus* % of replies "too low".
3. % of replies "good" *minus* % of replies "bad".

Sources: Bank of Japan, *Short-Term Economic Survey of Principal Enterprises* in Japan. M.I.T.I., *Industrial Statistics Monthly*, EPA *Japanese Economic Indicators*.

—— Forecasts — values referring to the expected situation are attributed to the end of the 4-month period.

taking place in November. Given another large increase in credit ceilings in the fourth quarter (ranging from 43 per cent for city banks to 94 per cent for long-term credit banks), general financial conditions are expected to remain easy in the near future. The projections assume a stance of monetary policy which would allow, in broad terms, a continuation of the present financial conditions.

Prospects

Given the restrictive fiscal stance, the projection is for a moderate, albeit steady, recovery of activity, driven essentially by an autonomous strengthening of private domestic demand. With real GNP growth accelerating progressively to around 4¾ per cent (s.a.a.r.) in the first half of 1983, the unemployment rate may decline somewhat. Although the external contribution to real GNP growth is projected to be significantly reduced in 1982, the current account surplus may rise to $17 billion under the technical assumption of no change in the nominal exchange rate[1]. The effect on prices of the yen's depreciation from early 1981 to August is expected to be short-lived and inflation to subside.

Real private consumption is likely to have picked up slightly in the second half of 1981, helped by a further slowdown in inflation. In view of the rising tax burden, however, it may grow only moderately thereafter. The increase in regular wages, already somewhat below that implied by the last spring settlements, is likely to remain modest in 1982 (around 6 per cent), given the projected small increase in consumer prices in the early part of 1982. Nevertheless, and despite some slowdown in the growth of dependent employment, compensation of employees is expected to rise by around 9 per cent in 1982, with an improvement in both bonus payments and overtime worked. Non-wage household income, stagnant in the first half of 1981 due to poor results of unincorporated businesses, is expected to recover thereafter. Total household income is thus projected to grow by a little over 9 per cent in 1982. However, given the rapidly increasing tax burden resulting from fiscal drag, household disposable income is projected to rise by 7½ per cent. Assuming a slight decline in the saving ratio, real private consumption is forecast to grow at an annual rate of around 3¾ per cent throughout 1982, before accelerating somewhat in the first half of 1983.

With the disappearance of special factors, private residential investment is expected to have declined in the second half of 1981. However, given the present extremely low levels of starts, the steady increase in household real disposable income, and a trend towards quality improvement, private housing investment is projected to recover gradually over the next year and a half.

As indicated by the recent upward revisions of planned capital appropriations, investment intentions remain strong, at least among the large companies which are striving to rationalise their production process and develop new products. Overall, given the policy-induced stepping up of capital outlays by the power industry, business fixed investment is expected to have strengthened somewhat in the second half of 1981 with the recovery gathering momentum over the projection period in line with the improvement in profits.

Given the fiscal policy assumptions, a marked decline is expected to have taken place in the volume of public spending in the second half of 1981. Public consumption is projected to rise marginally in the first half of 1982, but a large fall is projected for public investment, followed by virtual stagnation thereafter. On balance, final domestic demand growth is expected to pick up steadily from ½ per cent in the second half of 1981 to 3½ per cent in the first half of 1983 (s.a.a.r.).

On present trends, inventory adjustment may have been completed by the end of 1981. The contribution of stockbuilding to GNP growth is, however, expected to remain limited in view of the moderate recovery of demand and the more cautious business attitude toward inventory investment prevalent since mid-1970s.

Under the customary technical assumption of unchanged exchange rates, the external surplus is projected to increase rapidly over the coming 18 months. Due to the lagged impact of the deteriora-

Appropriation account for households
Percentage changes from previous year

	1980 trillion yen	1980	1981	1982
Compensation of employees	128.5	8.9	8	9
Income from property and others	49.0	9.9	4¾	8½
Current transfers received	38.8	12.0	11¼	10¼
Total income	216.3	9.7	7¾	9¼
Less: direct taxes	15.4	24.1	16¾	19
current transfers paid	33.0	10.1	13	12¼
Disposable income	167.8	8.4	6	7½
Consumers' expenditure	137.1	8.4	6	8
Savings ratio (as a percentage of disposable income)	–	18.3	18½	18

1. The projection assumes 230 Yen per US dollar.

tion in external competitiveness until the first half of 1981, and a slowdown of foreign market growth, export volume growth (customs basis) is expected to decelerate in the first half of 1982, but re-accelerate thereafter in line with a reversal of these factors. In contrast, import volume is projected to grow moderately, because energy and raw materials imports are likely to stagnate, reflecting energy saving and the weak recovery of raw-material-intensive sectors. With the terms-of-trade little changed, the trade surplus is projected to widen. The projection of the trade surplus makes some allowance, necessarily approximate, for the effects of export restraint on certain commodities. Although partly offset by a steady rise in the deficit on invisibles, the current account surplus may rise from $2¾ billion in the first half of 1981 to $23 billion in the first half of 1983 (s.a.a.r.).

As the pass-through of higher import prices resulting from the yen's depreciation until early August is expected to have been completed by the end of 1981, wholesale price increases are projected to abate progressively during the period to mid-1983. Consumer prices may, with the usual lag, show a small acceleration in the first half of 1982, but should decelerate subsequently due to moderate wage growth. With the terms of trade assumed to remain approximately unchanged, the implicit GNP deflator is expected to behave similarly.

Following some deterioration in the first half of 1981, labour market conditions are expected to have improved marginally in the second half, with the number of unemployed changing little. Owing to a steady increase in employment in the tertiary sector, in line with the projected recovery of private consumption, total employment is projected to grow slightly more than the labour force over the period to mid-1983.

Balance of payments
JAPAN
Value, $ million

	1980	1981	1982	1981 I	1981 II	1982 I	1982 I	1983 I
Seasonally adjusted								
Exports	126 736	149 250	160 000	75 035	74 250	77 250	82 750	88 750
Imports	124 611	128 000	125 500	66 165	61 750	61 500	64 000	68 000
Trade balance	2 125	21 250	34 750	8 870	12 500	16 000	18 750	20 750
Services and private transfers, net	–11 584	–14 000	–15 500	–6 710	–7 250	–7 750	–7 750	–8 000
Official transfers, net	–1 288	–1 750	–2 000	–775	–1 000	–1 000	–1 000	–1 250
Current balance	–10 747	5 500	17 000	1 385	4 250	7 250	9 750	11 500
Unadjusted								
Current balance	–10 747			–621				
Long-term capital	2 394			–3 117				
Short-term capital and unrecorded	–43			1 593				
Balance on non-monetary transactions	–8 396			–2 145				
Net transactions of monetary authorities[a]	4 748			1 825				
Memorandum items (seasonally adjusted)								
Per cent change in volume[b]								
Exports	18.4	13	7¼	12.4	14½	2	11	11¼
Imports	–6.3	–3¾	1¼	–1.0	–6	3¼	5	5½

Note: Detail may not add, due to rounding.
a) Previously "Balance on official settlements".
b) Over previous period at annual rates, customs basis.

GERMANY

Recent trends

Economic developments in the first half of 1981 were characterised by weak domestic demand and vigorous export growth. Total domestic demand fell by 3 per cent (s.a.a.r.) as both final domestic demand and stockbuilding declined but this was largely offset by the positive contribution of the foreign balance, so that real GNP was about flat (—0.4 per cent, s.a.a.r.). According to preliminary official statistics, industrial production, after rising in the first quarter, stagnated in the second, and then fell again in the third. The decline in capacity utilisation in manufacturing, which started in spring 1980, has continued; last summer the rate was about 3½ percentage points below the average of the 1970s. Together with weak overall demand, high credit costs, and depressed profits, this has caused business investment in plant and equipment to fall. Residential construction has been adversely affected by exceptionally high mortgage rates and unabated strong price increases for building and allotments, falling by 7½ per cent (s.a.a.r.) in the first half of 1981. The authorities' efforts to contain the public sector's financial deficit was mirrored in a decline in public construction of 4 per cent (s.a.a.r.) in the same period. Government consumption expenditure, however, rose sharply (5¼ per cent, s.a.a.r.) due to increased outlays on military equipment, financial assistance to unemployment insurance and interest payments[1].

Reflecting declining employment, reduced overtime work and delays in this year's wage round, the gross wage and salary bill declined in the first quarter of 1981 but then recovered to show a rise of 2½ per cent (s.a.a.r.) for the first half of the year. Increases in the contributions to the social security system led to a reduction of net wages and salaries of ¾ per cent, but because of buoyant transfers to private households and capital income, disposable income increased by 6 per cent (s.a.a.r.), implying stagnant real disposable income. But with the saving ratio rising by nearly 1½ percentage points in the first half of 1981 over the second half of 1980—influenced by increased unemployment, persistent inflationary expectations and deteriorating consumer confidence—private consumption dropped by about 3 per cent (s.a.a.r.) in the first half of 1981. Retail sales picked up, however, in the third quarter.

While export markets grew in volume by about 4¼ per cent (s.a.a.r.) in the first half of the year, export orders increased at an annual rate of 32 per cent in volume. In the third quarter of 1981 real orders from abroad continued to rise (13 per cent,

1. Further details are set out below.

Demand, output and prices
GERMANY

Percentage changes from previous period, seasonally adjusted at annual rates
Volume (1970 prices)

	1980 current prices billion DM	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Private consumption	821.6	1.7	–1¾	¼	–2.9	–2	½	2	2¼
Government consumption	303.5	2.6	2	½	5.3	–3½	1¾	2	1¾
Fixed investment	351.0	3.7	–4½	–3	–4.4	–7¼	–3	1¼	2¾
Public[a]	58.1	3.3	–7	–6	–4.0	–8¼	–6¼	–2¾	–½
Private residential	101.9	3.4	–6	–4½	–7.5	–5¾	–6½	½	2¾
Private non-residential	190.9	3.9	–3¼	–1¾	–3.4	–7¾	–¾	2¼	3½
Final domestic demand	1476.1	2.4	–1¾	–½	–1.8	–3½	–¼	1¾	2¼
* plus change in stockbuilding	18.9[b]	–0.6	–1¼	0	–1.3	–1	½	¼	½
Exports of goods and services	430.6	5.9	6	8½	12.1	6	9¼	9¼	8
Imports of goods and services	433.7	5.8	0	3½	3.1	–5¼	6	7½	7½
* plus change in foreign balance	–3.1[b]	0.1	2	1¾	2.7	3½	1½	1	½
GNP at market prices	1491.9	1.8	–1	1¼	–0.4	–1	1¾	3	3¼
GNP implicit price deflator	–	4.8	4	3½	2.9	5	3	2¾	3
Memorandum items									
Consumer prices[c]	–	5.4	5¾	4¼	5.7	6¼	4	3	3
Industrial production	–	0.2	–¾	1¾	1.9	–½	2	3¼	3½

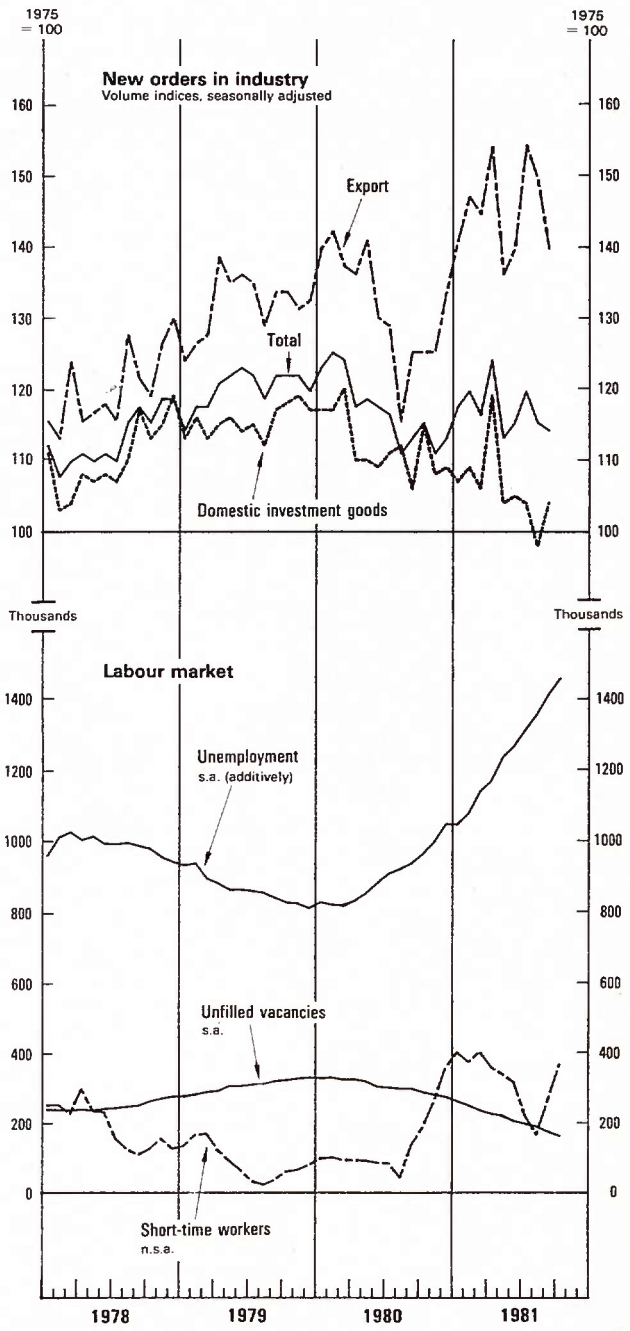
* As a percentage of GNP in the previous period.
a) Excluding nationalised industries and public corporations.
b) Actual amount of stockbuilding and foreign balance.
c) National accounts implicit private consumption deflator.

s.a.a.r.). This reflected the increase in price competitiveness resulting from the effective real depreciation of the Deutschemark (10 per cent in the first half of 1981, year-on-year, on the basis of unit labour costs); it may also have been influenced by early placing of orders in anticipation of an appreciation of the Deutschemark. Exports to OPEC countries were particularly buoyant, rising by 75 per cent (s.a.a.r.) in nominal terms. Domestic producers benefited from increased competitiveness in domestic markets so that, with sluggish domestic demand, the inflow of merchandise imports stagnated in real terms. Imports of services rose somewhat. The improvement in the real foreign balance (goods and services) represented 2.7 per cent of GNP. Despite the marked increase in import prices, the deficit on the current external account declined in the second quarter to an annual rate of DM 21 billion which compares with a first-quarter rate of about DM 39 billion, and the 1980 rate of about DM 30 billion.

The volume of manufacturing orders, after increasing strongly in the first quarter of 1981 (16½ per cent, s.a.a.r.) stagnated in the second quarter and declined in the third at about 3½ per cent (annual rate). But foreign orders were offsettingly buoyant. In July and August, manufacturers' export expectations were positive for the first time in the year, and during the summer the business climate indicator improved. Orders in construction industries dropped sharply in volume terms in the first half of the year (17¾ per cent) and the fall continued in the summer. The business climate indicator pointed to further deterioration. Orders in consumer goods industries remained flat in the first half of 1981 but picked up in the third quarter.

With demand and production sluggish, the labour market situation has continued to deteriorate. Total dependent employment decreased by ¾ per cent (s.a.a.r.) in the first half of the year. The labour force grew, due partly to demographic factors and partly to the inflow of foreign labourers, so that unemployment rose steadily reaching 5.0 per cent (s.a.) of the total labour force in the third quarter, compared with an average of 3.4 per cent in 1980. The number of unfilled vacancies dropped to below 200 000 (s.a.) in the summer which was about 100 000 lower than a year before. Short-time work has declined, suggesting that employers expect the weakness in demand to last longer than assumed earlier.

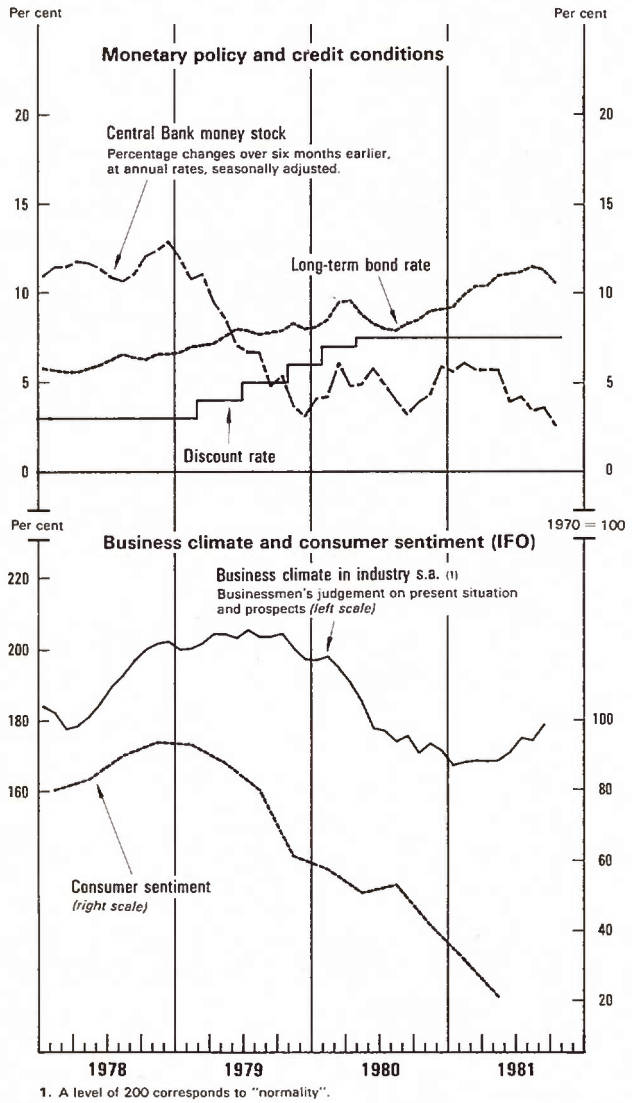
Reflecting weak profits and moderate wage increases, GNP deflator growth decelerated from 6 per cent (s.a.a.r.) in the second half of 1980 to 3 per cent in the first half of 1981. As productivity recovered and compensation per employee grew more slowly, unit labour costs increased by only 3½ per cent (annual rate), 6 percentage points less than in the previous half-year. Higher inflation in trading partner countries and the weakness of the DM exchange rate resulted in strong import price rises (13¾ per cent, s.a.a.r.), so that the widely-expected deceleration of consumer price inflation has not yet taken place. However, with a year-on-year increase of 6¾ per cent in the CPI in October, and



a 7 per cent increase (s.a.a.r.) between the second and third quarters, inflation may have reached its peak; a slowdown, assisted by recent exchange rate developments, is now likely.

Policies

With activity weaker than expected, automatic stabilisers supported demand significantly, but there was also some overshooting of expenditure targets. To compensate for direct tax cuts, public expenditure growth in 1981 was originally planned to be limited to a nominal 4 per cent. The outcome is now likely to be about 6 per cent. Unemployment benefits and payments for short-time workers have been higher than expected, as have some other items, notably defence expenditure and, to a lesser extent, interest payments. Public investment, however, is likely to fall short of official target projections[2], reflecting markedly slower expenditure growth by the municipalities (from about 12 per cent in 1980 to probably 4 per cent this year). Central government disbursements, up by 7 per cent, may increase more than in 1980 (6 per cent). Public revenue is expected to increase by about 4 per cent because of tax cuts[3] and the downturn of the economy. The slower rise in revenue was particularly marked in the case of local authorities, which explains the procyclical development of public investment outlays[4]. The federal government budget deficit could rise from DM 27½ billion (1.9 per cent of GNP) in 1980 to DM 35 billion (2¼ per cent of GNP) in 1981. The general government borrowing requirement (NA definition) is estimated to increase from DM 51½ billion (3.4 per cent of GNP) to DM 67 billion (4½ per cent of GNP).



1. A level of 200 corresponds to "normality".

In line with the Financial Planning Council's recommendation to bring the deficit back to the 1980 level, the Federal Government has decided to limit nominal expenditure growth in 1982 to 4 per cent and to raise tax receipts by abolishing tax exemptions and increasing indirect taxes. Nevertheless, the planned reduction of the deficit to DM 26½ billion (1½ per cent of GNP) is made possible only because of a substantial increase of DM 8 billion in Bundesbank profit payments and a reallocation of funds from old-age to unemployment insurance (DM 3 billion)[5]. It also depends upon a stabilisation of labour market conditions at the present level. Some of the proposed measures—including cuts in family allowances, public sector wages and employment, employment subsidies and tax increases on spirits and tobacco—need the approval of the Second Chamber of Parliament, where the opposition has a majority. Depreciation allowances (especially for residential investment) are to be improved, however. Unemployment insurance contributions are to be raised in 1982 and 1983, but contributions for old-age pensions are to be reduced.

The net effect of the budget consolidation measures in 1982 is officially estimated at DM 16 billion

2. In the first half of 1981 real public investment was 8 per cent lower than a year before, compared with a 3 per cent increase of real public consumption.

3. The direct tax cuts as from January 1981 were only partly compensated by higher indirect taxes (on spirits and petrol) as from April 1981.

4. Revenues of municipalities are estimated to have risen by only 2 per cent in 1981, compared with nearly 12 per cent in 1980.

5. Government contributions to unemployment insurance are thereby reduced, but the financial position of old-age insurance (which is outside the Federal Budget and in surplus after consolidation measures) is weakened.

(of which DM 13 billion is on the expenditure side). The uncertainties about the assumptions underlying the budget projections make evaluation of the fiscal impact on the economy in 1982 difficult. The authorities are aiming at a reduction of the public sector deficit by 1 percentage point of GNP, but given the further rise in unemployment and the likelihood that some of the proposed measures will not be adopted by the Second Chamber, this may be too optimistic. In the projections it is assumed that the government borrowing requirement will be reduced from 4½ per cent in 1981 to about 4 per cent in 1982, implying a slowdown of public expenditure growth to about 5 per cent, and representing only a marginal increase in real government consumption in volume and a further fall in real public investment. This would be broadly in line with the medium-term budget plan up to 1985, which is for a gradual reduction of deficits.

In February, the Bundesbank tightened its policy considerably in response to high interest rates abroad, a rising deficit in the current external account and a sharp decline in the DM/US dollar exchange rate. Lombard credits at the Lombard rate of 9 per cent were suspended, and a special Lombard loan at a rate of 12 per cent subject to short-dated changes in conditions was introduced. Money market rates rose strongly, generating an overall upsurge of lending rates. Since the special Lombard loan was in fact permanently offered to commercial banks from March 1981 to early October, the 12 per cent rate established an upper limit for the call money rate, which generally remained only marginally below this mark. The three-month money rate was about 1 percentage point higher. The average bond rate rose steadily from about 10 per cent in February 1981 to a post-war record level of 11½ per cent in the late summer, with a similar movement of mortgage rates. The upsurge of interest rates was particularly pronounced for overdraft loans[6], which rose from 12½ per cent at the beginning of 1981 to about 15½ per cent in August and September. Given the moderate acceleration of the inflation rate, real rates also reached unusually high levels. Deflated by the twelve months' rise in the consumer price index, the real yield on bonds moved from 3½ per cent in early 1981 to 5½ per cent in the summer.

High credit costs and weak economic activity have damped private credit demand. After expanding by nearly 14½ per cent (s.a.a.r.) in the first quarter of 1981, commercial banks' lending to the domestic private sector decelerated[7] to an annual rate of 7½ per cent in the third quarter, implying virtual stagnation in real terms, and suggesting that the growth of the Central Bank Money stock (CBM) could be held within the 4 to 7 per cent target range from the fourth quarter of 1980 to the fourth quarter of 1981 without major policy changes. In the first half of 1981, CBM moved along near the middle of the target corridor. In July, the Central Bank Council of the Bundesbank reaffirmed the 1981 target for money supply growth, but stated that the unexpected acceleration of inflation and the external constraint required CBM growth in the lower half of the range. Indeed, during the three months to September, CBM rose by only 4.3 per cent at an annual rate over the fourth quarter of 1980. The expansion of CBM in 1981 has resulted largely from movements in the reserve component, currency in circulation having more or less stagnated (s.a.) since the end of 1980. Hence, CBM probably understates money supply growth, given the large weight of currency in circulation relative to the reserve component of CBM[8]. The movement of money in the broadest sense (M3) also points to a tightening of monetary conditions, but to a lesser extent than suggested by the change in CBM. In the third quarter of 1981, M3 rose by 5.2 per cent (s.a.a.r.), compared with 9.6 per cent in the first quarter of the year[9]. The strongest expansion was in M2 (13.0 per cent s.a.a.r.) in the third quarter of 1981, due to a boost in highly profitable time deposits at the cost of absolute declines in sight and savings deposits. The projections assume that CBM growth will be much as in 1981, with interest rates edging down.

The downward trend of the DM exchange rate against the US dollar continued until August, when a trough of $1 = DM2.57 was reached. With the improvement in the current external account, however, there was a turnaround in exchange rate expectations and the DM strengthened markedly from early September. The October 4 realignment within the European Monetary System resulted in a further effective revaluation of the Deutschemark. In view of these developments, with long-term interest rates already declining, and influenced by lower

6. Loans under DM 1 million.
7. The development of domestic banks' lending somewhat overstates the slump in credit demand, however, because entrepreneurs raised important Euromarket loans.
8. CBM can be interpreted as a weighted M3 with the weights of 1 for currency in circulation, 0.17 for sight deposits, 0.12 for time deposits and 0.08 for savings deposits. The weights of the deposits represent the minimum reserve ratios of January 1974.
9. Even this may understate monetary expansion, because demand for short-term bank bonds was extraordinarily strong in the latter months of 1981. Short-term bank bonds are captured neither by CBM nor by M3, but may to a certain extent have the character of surrogate money (quasi-money) having a relatively high degree of liquidity.

short-term rates in the United States, the Bundesbank decided on October 8 to lower the special Lombard rate by 1 percentage point to 11 per cent. Money market rates dropped simultaneously by the same amount, accompanied by equi-proportionate movements in capital and other credit market rates.

Prospects

Domestic demand is likely to remain weak, so the projected recovery in 1982 depends largely on export demand. The expansion of German export markets (in volume) which resumed in the first half of this year is expected to accelerate slightly over the next eighteen months. Given the improvement of competitive position over the last two years, as a result of good price performance and exchange rate depreciation, German exporters are expected to increase substantially their share of world markets.

Basic wage increases are assumed to remain in a range of 4 to 5 per cent. Negative wage-drift, due to shorter working time and deteriorating labour market conditions, could lead to a slowdown in the rise of effective earnings per employee from 5 per cent in 1981 to just above 4 per cent in 1982. With employment falling, this implies an increase in compensation of employees of 4 per cent in 1981 and 3½ per cent in 1982. Distributed income from property and entrepreneurship is likely to rise only modestly this year, but may well pick up in 1982 and into 1983. With the increase in public transfers to households slowing down due to budget consolidation measures, the expansion of gross household income is likely, despite rising unemployment payments, to remain relatively slow (4½ and 5 per cent in 1981 and 1982, respectively). The effect of tax cuts at the beginning of 1981 is likely to be more than offset by higher social security contributions, so that net disposable income of households in 1981 may increase by only slightly more than 4 per cent. In 1982, a rise of 4¾ per cent is projected, implying a small (½ per cent) increase in real terms after a decline this year (1½ per cent). A further small rise is expected in the first half of 1983. Depressed consumer confidence points to a continued increase in the saving ratio, so that a sharp fall in real private consumption is expected to have been realised this year (1¾ per cent), and there may be only a marginal rise in 1982. A recovery of real private consumer demand is expected, however, as real income growth resumes in line with falling inflation.

Business fixed investment in volume is forecast to decline up to mid-1982 but then to recover slowly to mid-1983. Contrary to earlier expectations, the reduction of fixed capital formation, while smaller than in 1974-1975, is likely to be sizeable (4½ per cent in 1981 and 3 per cent in 1982), and the share of investment in GNP may fall back to the low level of the mid-1970s. High interest rates have increasingly affected investment, particularly in the building sector. In contrast to the last recession,

Balance of payments
GERMANY
Value, $ million

	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Seasonally adjusted								
Exports	186 703	170 000	197 000	84 568	85 500	95 250	101 750	109 000
Imports	176 316	153 000	166 750	78 837	74 250	81 000	85 750	91 250
Trade balance	10 387	17 000	30 250	5 731	11 250	14 250	16 250	17 750
Services and private transfers, net	–19 358	–19 000	–21 500	–9 391	–9 500	–10 000	–11 500	–12 250
Official transfers, net	–7 442	–6 750	–7 250	–3 344	–3 250	–3 500	–3 750	–4 000
Current balance	–16 413	–8 500	1 750	–7 004	–1 500	750	1 000	1 750
Unadjusted								
Current balance	–16 413			–6 704				
Long-term capital	3 775			3 545				
Short-term capital and unrecorded	2 432			5 365				
Balance on non-monetary transactions	–10 206			2 206				
Net transactions of monetary authorities[a]	–15 350			3 238				
Memorandum items (seasonally adjusted)								
Per cent change in volume[b]								
Exports	3.9	6¾	11	13.8	11½	11	10½	10½
Imports	2.1	–4	3½	0.7	–8	7½	7¾	7¾

Note: Detail may not add, due to rounding.
a) Previously "Balance on official settlements".
b) Over previous period at annual rates, customs basis.

construction investment has been depressed by the procyclical spending behaviour of public authorities. Despite modest wage increases, profits have fallen, and capacity utilisation is declining. The resulting deterioration of business confidence is reflected in the latest investment intention surveys, which suggest a further reduction of real investment in 1982. Given the high stock/output ratio, despite the downward adjustment which started in the first half of this year, inventory investment seems likely to remain sluggish.

After a sharp fall of 4½ per cent in the course of 1981, total real domestic demand is expected to pick up very gradually during 1982 and into 1983. A significant improvement in the real foreign balance (nearly 2 per cent of GNP in both 1981 and 1982) is likely to be the main dynamic element limiting the decline of activity in 1981 and enabling a progressive recovery of real GNP growth to an annual rate of perhaps 3 per cent by the first half of 1983. With productivity growth picking up, there may well be a further decline in employment in 1982 and a rise in the unemployment rate to above 6 per cent of the labour force by mid-1983.

Despite the slowdown of wage increases, the rise in unit labour costs this year is likely to have remained relatively high (about 5 per cent) but should come down considerably in 1982 owing to accelerating productivity growth. Import price increases, too, are likely to decelerate markedly (from 10 per cent in 1981 to about half that rate in 1982). This could lead to a slowdown of consumer price increases from 5¾ per cent in 1981 towards an annual rate of 3 per cent from the second half of 1982 onwards. Although the terms of trade are likely to continue to deteriorate over the next eighteen months, the improvement in the real foreign balance will probably swing the current external account into balance or small surplus in the course of 1982.

Appropriation account for households
Percentage changes from previous year

	1980 billion DM	1980	1981	1982
Compensation of employees	830.0	7.9	4	3½
Income from property and others[a]	314.0	9.1	3	8½
Current transfers received[b]	281.5	6.8	7¼	5½
Less: interest on consumer debt	13.1	34.2	18	–3¼
Total income	1 412.4	7.7	4½	5
Less: direct taxes	161.3	9.2	1¾	6¾
current transfers paid	303.1	8.0	6½	5
Disposable income	948.0	7.4	4	4¾
Consumers' expenditure	821.6	7.2	4	4½
Savings ratio (as a percentage of disposable income)	–	13.3	13½	13¾

a) Excluding retained earnings of unincorporated business.
b) Public and private.

FRANCE

Recent trends

GDP started to pick up in the second quarter of 1981, the recession which began in the second quarter of 1980 having lasted about a year. Private consumption, stagnant in the first quarter of 1981, grew by a little over 3 per cent in volume terms (annual rate) during the following two quarters and maintained its recovery in October[1]. Private non-residential investment was affected by a combination of adverse factors—a decline in real gross operating surpluses in 1980 and the first half of 1981, negative demand expectations, rising interest rates, and political uncertainties. The decline was particularly marked in the first half of 1981, when it reached 5.5 per cent in volume at an annual rate, and there was apparently no upturn in the third quarter. Residential investment stabilized at a low level from the beginning of 1981, while public investment, hitherto a mainstay of demand, also declined in volume terms during

1. On the base fourth quarter 1980 = 100, the INSEE index of consumption of industrial products (seasonally adjusted) has moved as follows:

1981			
Q1	Q2	Q3	October
99.5	101.7	103.6	107.9

Demand, output and prices
FRANCE

Percentage changes from previous period, seasonally adjusted at annual rates
Volume (1980 prices)

	1980 current prices billion francs	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Private consumption	1754.1	1.7	2	2¾	1.5	3¼	2¾	2½	3
Government consumption	421.1	2.8	2¾	3½	2.0	3½	3½	3¾	3
Fixed investment	593.8	0.8	–2¼	–¼	–2.2	–2½	0	1½	3
Public[a]	153.2	4.3	–½	¾	–2.0	0	¾	1¾	2½
Private residential[b]	188.7	–3.8	–1½	½	1.9	–1	½	1½	3
Private non-residential	251.9	2.4	–4	–1½	–5.2	–5	–1	1½	3
Final domestic demand	2769.0	1.7	1¼	2¼	0.8	2	2¼	2½	3
* plus change in stockbuilding	41.7[c]	0.2	–1¾	¼	–3.1	–¼	½	¾	½
Exports of goods and services	580.8	3.4	5	5	8.6	5½	4¾	5	5¼
Imports of goods and services	636.6	6.3	–¼	5	–3.0	3	5½	6½	6½
* plus change in foreign balance	–55.8[c]	–0.7	1	0	2.5	½	–¼	–½	–½
GDP at market prices	2754.9	1.2	½	2½	0.2	2¼	2½	3	3
GDP implicit price deflator	–	11.5	12	14	10.9	14¼	14	13¾	14
Memorandum items									
Consumer prices[d]	–	13.5	13½	13¾	12.6	15½	13¼	13	12¾
Industrial production[e]	–	–0.4	–3¾	4¼	–8.0	4	4½	4	4

* As a percentage of GDP in the previous period.
a) General government and public enterprises excluding residential construction.
b) Including public housing.
c) Actual amount of stockbuilding and foreign balance.
d) Consumer price index, not seasonally adjusted.
e) Quarterly index.

the first half of the year. Destocking has been particularly heavy since the fourth quarter of 1980, influenced by the fall in industrial production and the rise in interest rates. In all, the contribution of the change in stockbuilding to GDP growth was negative to the extent of about 3 percentage points (annual rate) in the first half of 1981. Foreign trade, however, exerted a positive impact from the beginning of 1981 as a result of the steep growth of exports and the decline in imports, largely due to destocking. The impact seems to have weakened since September, with imports up again.

With the recovery that began in the second quarter, GDP growth advanced very slightly in the first half of the year; however, the decline in industrial production became much more marked, reaching 8 per cent at an annual rate. The trend was reversed in the third quarter, during which the monthly index showed an increase of about 2½ per cent on the three previous months (actual rate). A sharp drop in employment (down 1.3 per cent at an annual rate) was recorded in the first half-year, which caused a rise in the number of registered jobless until June, when the unemployment rate reached 7.8 per cent, compared with 6.4 per cent in the fourth quarter of 1980. Since June the number of jobless, seasonally adjusted, has stabilized[2] under the impact of the employment support measures. In October 1981 the jobless total was 26 per cent higher than its October 1980 level. Unfilled vacancies declined by 21 per cent over the same period.

The rise in consumer prices accelerated appreciably in the third quarter, when it was running at 17.5 per cent, compared with 13.5 per cent during the first half of the year. This acceleration is attributable largely to higher energy prices and public utility charges during the summer, but it continued in October (up 1.2 per cent) even though these special factors no longer applied. Consumer prices for private-sector manufactures have so far not shown any marked acceleration, and their average rate of increase since the beginning of 1981 has been running at 10 per cent. By contrast, prices of private-sector services have risen at an annual rate of over 18 per cent, and food prices, at a rate of over 16 per cent, compared with about 10 per cent in 1980. Following the 10 per cent upward adjustment of the minimum wage (SMIC) on 1st June 1981, the growth of hourly wage rates accelerated to an annual rate of 19½ per cent between 1st April and 1st July, compared with 15.6 per cent between January and April.

The trade deficit narrowed by some $2.8 billion between the second half of 1980 and the first half of 1981. This was due to a fall in import volumes, down 7.7 per cent on a customs basis, which was

2. The stabilization of the unemployment rate in the second half-year is consistent with the trend since 1977 following the implementation of the employment pacts, which are not considered seasonal factors even though they are brought into operation during the third quarter of each year.

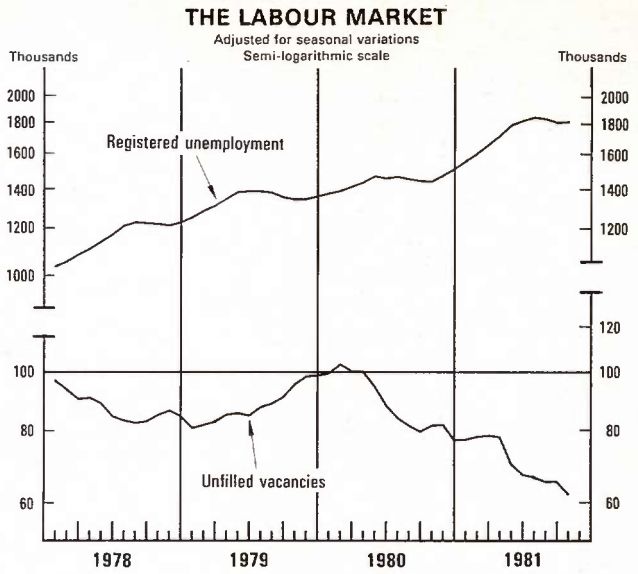
particularly steep in the case of energy imports[3], and to a marked acceleration in export volume growth. These trends in foreign trade volume more than offset the terms-of-trade deterioration caused by the dollar's appreciation against the franc. In the third quarter franc import prices again accelerated sharply, largely because of the steep appreciation of the dollar, reaching a level 23½ per cent higher than in the third quarter of 1980. The foreign trade deficit on a customs basis, fob/fob, amounted to F 44.7 billion for the first ten months of the year, compared with F 54.8 billion for the same period of 1980. For the first nine months of 1981 the current account deficit was about the same as for the same period last year ($4.9 billion, against $5.3 billion), the improvement in visible trade having been cancelled out by a worsening in performance on the invisibles account.

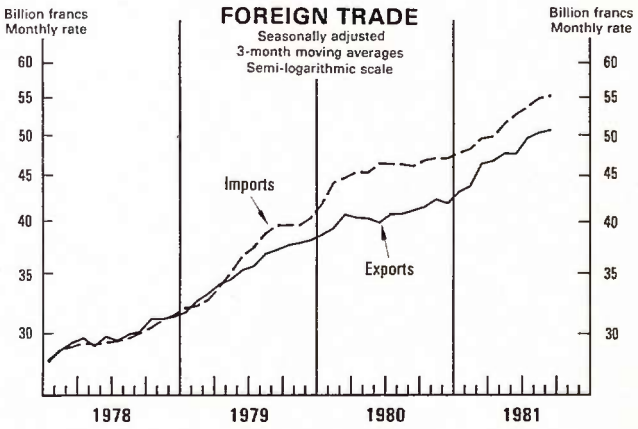
Policies

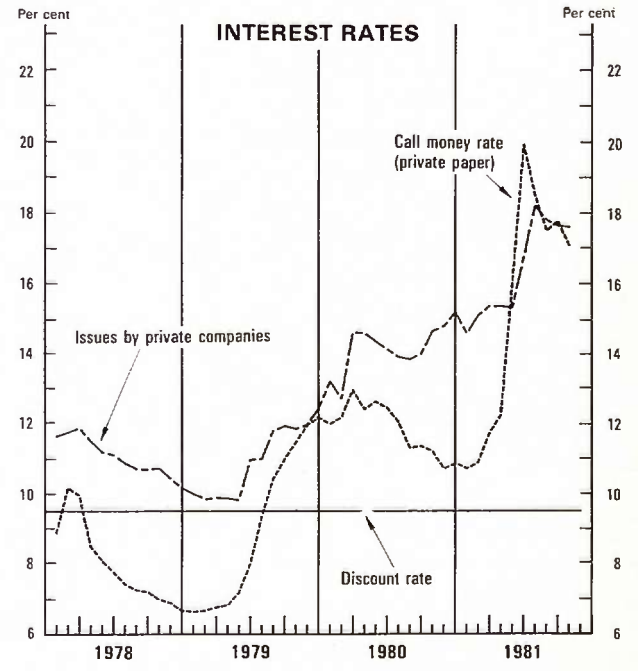
Economic policy has changed importantly since the new government took office in May. The stated priority objective of the previous government's policy had been to control inflation as a means of restoring competitiveness, considered the prerequisite for an improvement in longer-run employment. The primary objective of present policy is to reduce unemployment by reactivating economic growth and by introducing specific employment support measures. During the past few months measures have been taken to raise the lowest incomes and social benefits, revive public and private investment, increase employment in the public sector and encourage it in the private sector. The 1981 budget was extensively amended both to take account of developments during the first half of the year and to finance the recovery measures already taken for 1981. Pressure on the franc led the authorities to tighten exchange controls and raise interest rates. After the realignment of EMS parities at the beginning of October, measures to contain inflation were announced, consisting essentially of temporary and partial price controls or freezes, and a wage-agreement policy aimed at stabilizing real wages is being worked out for 1982. In addition, it was planned to cut back and temporarily freeze part of the public expenditure budgeted for 1982. The main aim of economic policy as defined in the Plan for 1982 and 1983 is still to improve the employment situation.

Upward adjustment of the lowest wage incomes and social benefits figured among the first economic

3. At an annual rate, imports of crude oil (seasonally adjusted) declined by 20 per cent in volume and remained flat in franc terms between the second half of 1980 and the first half of 1981.

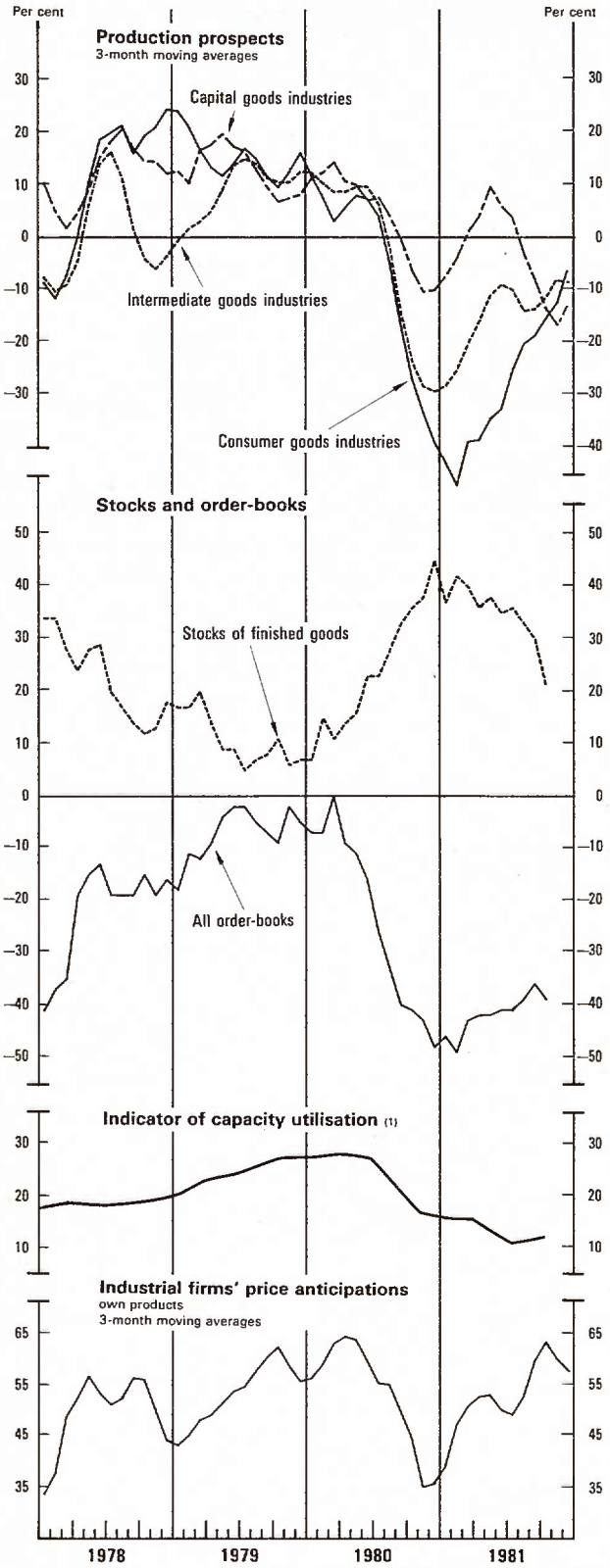






BUSINESS SURVEYS IN INDUSTRY

Balance between businessmen's optimistic (+) and pessimistic (—) answers



1. This series gives the percentage of firms currently unable to increase production for various reasons (shortage of materials, insufficient equipment or shortage of labour).

Source: I.N.S.E.E., *Tendances de la conjoncture.*

policy measures taken by the new government[4]. On the other hand, in order to reduce the social security deficit, which, if trends were allowed to continue, would widen from F 7 billion in 1981 to about F 40 billion in 1982, it was decided to raise employers' contributions by 3 percentage points and employees' contributions by 1 percentage point in 1982. Compared with the assumptions originally made for 1981 and 1982 in *Economic Outlook* No. 29, the net effect of the adjustments to social security contributions and benefits will probably represent about ½ per cent of households' income in 1981 and in 1982. As regards employment policy, a first set of measures taken in June expands the provisions of the employment pacts of recent years. These measures, which are especially designed to promote recruitment of young people and to develop training courses or apprenticeships, could affect 615 000 people, compared with 535 000 under the last pact. It was also decided to increase employment in the public sector by creating 125 000 jobs in 1981-1982, which represents about 3.2 per cent of general government employment. Lastly, after negotiations during the summer between management and employees, it was agreed that the statutory working week would be reduced by one hour in 1982 (to 39 hours), that all workers would be entitled to a fifth week of paid leave, and that certain public holidays would no longer have to be made up. In addition, it was decided to introduce various measures in the context of "solidarity contracts" to help those firms that reduced work time substantially or to promote early retirement and the recruitment of unemployed young people. The reduction in work time which might result from these measures is estimated at about 2.5 per cent in 1982, but it is proving difficult to quantify the job creation which might follow; according to first estimates, this could be a little less than 1 per cent of total employment.

The sluggishness of economic activity during the first half of 1981 weighed heavily on tax revenue, particularly VAT, and faster than expected increases in expenditure caused the budget deficit to widen

4. On 1st June the minimum wage (SMIC) increased by 10 per cent, or 5.5 per cent more than it would have simply through indexation on consumer prices. In order to prevent this rise in the SMIC from cutting too heavily into firms' profits, the authorities undertook to pay 50 per cent of the relevant employers' social security contributions. The minimum wage was again raised as a result of indexation, first by 3 per cent on 1st September and then by some 2½ per cent on 1st November. Social transfer payments (family allowances, old-age pensions, housing-related allowances, etc.) were also raised, by about 25 to 50 per cent according to category, either outright on 1st July, or in two stages, the second scheduled for 1st December. Some benefits are to be raised in 1982.

rapidly, to F 62 billion in June compared with F 44 billion a year earlier. A finance act amendment was passed early in August to take account of developments since the beginning of the year and to finance the employment support measures and aid to firms in difficulty. The cost of the latter, estimated at F 6.8 billion, was covered by heavier taxes on high incomes, bank deposits and oil companies' profits. All told, the budget deficit, which was estimated at F 29.4 billion in the initial 1981 budget, was increased to F 56.8 billion in the amended budget[5]. On a national accounts basis, the central government borrowing requirement is put at F 53 billion for 1981 as a whole. The social security account, which showed a surplus of over F 27 billion in 1980, largely as a result of the corrective measures taken in 1979, is expected to be in deficit by F 5 to 6 billion in 1981. This is due to the rise in unemployment, the steep upward adjustment of allowances and the rapid growth of sickness benefits. Allowing for the slight worsening of the local authorities account, the total general government borrowing requirement is estimated at F 74.5 billion for 1981, or 2.5 per cent of GDP, whereas in 1980 the general government account showed a surplus of F 10.4 billion. The deterioration is due mainly to faster growth of general government consolidated expenditure, which is expected to increase by 19 per cent in 1981, compared with 12.7 per cent for nominal GDP. Tax and quasi-tax revenues will probably stabilize at 42½ per cent of GDP because of the dampening effects of sluggish economic activity on tax revenue and social security receipts.

The draft 1982 budget reflects the expansionary stance of economic policy. Compared with the initial 1981 budget, tax revenue is expected to grow by almost 19 per cent, and expenditure by 27.6 per cent. Compared with the August revised budget, revenue and expenditure should rise by 18 and 21 per cent. The overall balance of the central government budget is expected to show a shortfall of F 95.4 billion, or 3 per cent of GDP. A major part of the increase in spending will be the result of public sector job creation and incentives for private sector employment. Capital expenditure should also advance rapidly (by nearly 20 per cent), particularly in residential construction (34 per cent). As for revenue, tax scales have been revised by 13.5 per cent to take account of inflation. The introduction of a wealth tax, a special "solidarity" tax to help finance unemployment insurance and a ceiling on family deductions for those in high-income brackets is also proposed. Finally, it is planned to raise the rates of a number of indirect and other taxes. The foreseeable persistence of a high unemployment rate in 1982 and the raising of benefits would with no change in legislation have brought about a considerable widening of the social security borrowing requirement. The official forecasts of a lending capacity of F 19 billion therefore implicity allowed for corrective measures on a scale similar to those taken in November. The local authorities are expected to have a larger borrowing requirement in 1982 than in 1981, the estimate being F 25 billion. In total, on the official assumptions, the general government borrowing requirement (national accounts basis) is forecast at F 83 billion in 1982 or about 2.7 per cent of GDP, which is comparable with the outcome in 1981. The stimulatory effects of fiscal policy on GDP growth could be of the order of ¼ to ½ per cent in 1981 and 1 per cent in 1982.

Monetary policy had to meet the to some extent conflicting objectives of stimulating domestic demand and of defending the franc in recent months. The money supply growth target, which was set at 10 per cent for 1981, was overshot early on in the year, largely because of the Treasury's major contribution to money creation in order to finance the budget deficit. By the end of June, in spite of a marked contraction of gold and foreign-exchange holdings, M2 showed an increase of about 16 per cent at an annual rate on December 1980 and 13 per cent on June 1980, owing to a rapid expansion of bank credit to the private sector. The upward trend continued and by end-August, M2 should have increased 17.5 per cent at an annual rate on the previous December and 14.5 per cent on August 1980. With the easing of credit growth norms since June and given the weakness of demand, credit restrictions do not seem to have had an inhibiting effect since the end of the first half-year[6]. The stance of monetary policy and the target growth of M2 are not yet known for 1982, but the authorities will probably wish to reduce the liquidity of the economy[7].

The rise in short-term interest rates between January and April 1981 accelerated considerably thereafter, owing to pressure on the franc. The call money rate rose from an average of 12.2 per cent in April to 16 per cent in May, climbing to almost 20 per cent in June. It eased slightly in July and early

5. A further amended finance bill will probably be put before Parliament in December; it budgets for a deficit of the order of F 70 billion for 1981.

6. The ceilings on credit growth were raised by 1 point at the end of June and by 0.5 point in each succeeding month over and above the norms originally set for 1981.

7. It is specified in the Economic and Financial Report accompanying the 1982 draft budget, however, that for a forecast 17 per cent nominal growth of GDP money supply growth should not exceed 13 per cent in 1982.

August but thereafter surged several times and in September stood at an average 17.8 per cent. Following the currency realignment of 5th October the call money rate again eased slightly from mid-October on, and during November fell to about 16 per cent. In order to cushion the business impact of the rise in money market rates, the banks' compulsory reserve ratio was lowered and regulation of the interest payable on time deposits was strengthened[8], making it possible for the banks' base rate to come down from an average of 17 per cent in June to 14½ per cent in September and 14 per cent at end-October.

The effective exchange rate of the franc, which fell by about 4½ per cent between January and June, subsequently fluctuated fairly widely in response both to the movements of the dollar and to specific pressures on the franc. Following the EMS parity realignment of 5th October, the franc exchange rate stabilized. In October the exchange rate of the franc against the dollar stood on average at 23¼ per cent below its October 1980 level. The fall in the franc against the Deutschemark was 7½ per cent during the same period, whereas the effective rate was down 7¾ per cent.

Prospects

The expected sharp slowdown in import prices, the temporary price freezes introduced in early October and the policy of wage restraint planned for 1982 could help to slow the pace of inflation at the end of 1981 and during the first half of 1982. The rise in consumer prices could slow from 15½ per cent (annual rate) in the second half of 1981 to 13½ per cent in the first half of 1982. But several factors could contribute to keeping inflation more or less unchanged over the next twelve months. First, the slowdown in import prices (on the assumption of unchanged exchange rates) will probably be less marked. Second, the 1981 acceleration of wage costs may continue to feed through to prices in general. Lastly, if price policy is eased gradually, it seems unlikely that catch-up effects will be entirely avoided. For 1982 as a whole, the 12-month rise in consumer prices could slow slightly while increasing slightly in annual average terms. On the other hand, the GDP deflator will probably reflect stronger domestic inflation factors, and its rate of increase may accelerate from 12 per cent in 1981 to about 14 per cent in 1982. Growth of total wage payments could be stimulated in 1982 by the delayed effects of accelerating inflation in 1981 on nominal wage rates, and by the upward adjustment of social security contributions. Conversely, the present stance of economic policy and the continuing high rate unemployment will have a damping effect. All told, the purchasing power of the hourly wage rate will probably accelerate only moderately between 1981 and 1982. Social security benefits will grow at a rate similar to that in 1981, or 20 per cent. On the tax pressure assumptions used in the draft 1982 budget and given the increase in social security contributions, households' real disposable income could advance at about 2½ per cent, the same rate as in 1981.

Private consumption could be given a short term boost by the rise in social benefits. However, projected real disposable income, and, assuming that the savings ratio stabilizes in 1982 at its relatively low end-1981 level, about 14 per cent, real household consumption could slow gradually during the year, falling to an annual average rate of around 2½ per cent in the second half. With the increase in budget appropriations for housing[9], residential construction could start to pick up in 1982. According to the official programmes, the same might apply to public investment. In view of the worsening financial positions of enterprises in 1981, low capacity utilization, business uncertainty and continuing high interest rates, real private non-residential investment could decrease further in the first half of 1982. It seems unlikely that the financial or fiscal support measures introduced in 1981 and planned for 1982 will be able to offset investors' immediate negative expectations; not until the first half of 1983 can private investment be expected to impart any significant momentum to the growth of domestic demand. The heavy rundown of stocks since the second half of 1980 might be over by the end of 1981 or in early 1982 and stock rebuilding, although probably modest, could have a positive influence on GDP growth in 1982.

Growth of domestic demand could therefore accelerate gradually, led by private and public consumption, stockbuilding and ultimately investment from an annual 1¾ per cent in the second half of 1981 to 3½ per cent in the first half of 1983. On

8. Since 3rd September 1981, the ceiling above which interest payable on time deposits is not subject to restriction has been raised from F 100 000 to F 500 000, and the period for which interest is frozen has been extended from one to six months.

9. Budget appropriations for housing increase by 34 per cent in the 1982 budget, implying a 21 per cent growth of new housing construction from the previous year. In addition, credits allocated to renovating old buildings are expected to increase by more than 70 per cent between 1981 and 1982.

the other hand, the contribution of the balance of payments might become negative, if imports pick up again. GDP growth is likely to accelerate only slightly after the recovery at end-1981, reaching just under 3 per cent at an annual rate in the second half of 1982. Initially, the upturn in production may have a slight positive impact on employment, because of a cyclical increase in productivity. Not until the second half of 1982 might the combined effects of output growth, shorter working hours and recruitment incentives cause employment to pick up slightly, and the unemployment rate to stabilise at about 8½ per cent of the labour force.

The deterioration in volume trade which occurred during the second half of 1981, with imports of manufactures picking up as a result of firmer final demand and slower destocking, could become more marked in 1982. Export volume growth is likely to be less than in the first half of 1981, as a result of slower market growth. Import price growth is likely to slow down in 1982, on the basis of the assumptions for exchange rates and oil prices. Export unit values will probably have risen steeply in the second half of 1981, and continue to reflect domestic costs increases. However, this will in part be offset by the depreciation of the franc against the dollar and certain European currencies. The visibles account might show a deficit of the order of $8¼ billion, compared with $7¾ billion in 1981, while the invisibles surplus might improve slightly, which would imply a current account deficit in 1982 close to the 1981 value of some $6¾ billion.

Appropriation account for households
Percentage changes from previous year

	1980 billion francs	1980	1981	1982
Compensation of employees	1 518.9	15.0	14	16
Income from property and others	608.7	10.4	14	14
Current transfers received	687.5	15.1	20	20½
Total income	2 815.1	14.0	15½	16¾
Less: direct taxes	167.2	18.8	16	18½
current transfers paid	624.2	17.0	14	17
Disposable income	2 023.7	12.7	15¾	16½
Consumers' expenditure	1 737.7	15.1	15½	16¾
Savings ratio (as a percentage of disposable income)	–	14.1	14¼	14

The short-term prospects for the French economy are clouded by many uncertainties because of the extent of the changes in economic policy and because of what economic agents' reactions will be to those changes. It is difficult to gauge the probable effects of employment policy, particularly the shorter working hours on labour force participation, unemployment, productivity and costs. The level of wage compensation for the shorter working hours will be decisive. There are also major uncertainties about how effective government policy will be in controlling nominal trends in prices and incomes and the inter-

Balance of payments
FRANCE
Value, $ million

	1980[a]	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Seasonally adjusted								
Exports	107 521	99 750	110 000	50 750	49 000	53 250	57 000	60 750
Imports	119 289	107 500	118 250	54 670	52 750	57 000	61 250	65 250
Trade balance	–11 768	–7 750	–8 250	–3 920	–3 750	–4 000	–4 250	–4 500
Services and private transfers, net	6 045	2 250	2 750	1 550	750	1 000	1 750	2 250
Official transfers, net	–1 716	–1 250	–1 250	–610	–500	–750	–750	–750
Current balance	–7 439	–6 500	–6 750	–2 980	–3 500	–3 750	–3 000	–3 000
Unadjusted								
Current balance	–7 439			–2 607				
Long-term capital	–9 249			–3 435				
Short-term capital and unrecorded	9 101			–2 278				
Balance on non-monetary transactions	–7 587			–8 320				
Net transactions of monetary authorities[b]	6 662			–4 739				
Memorandum items (seasonally adjusted)								
Per cent change in volume[c]								
Exports	1.6	4½	4½	8.6	5	3¾	5	5½
Imports	5.3	–3½	5¾	–7.6	2½	7	6¾	6

Note: Detail may not add, due to rounding.
a) These data do not reflect the latest revision which results in a trade deficit of 12 billion and a current deficit of 7.8 billion.
b) Previously "Balance on official settlements".
c) Over previous period at annual rates, customs basis.

actions between the two. Investment will depend largely on firms' expectations. The upturn in domestic demand, the pressures of international competitiveness and the scale of the support measures are conducive to a recovery but, on the other hand, low profits and the continuing high interest rates may tend to prolong the present phase of negative expectations beyond the first half of 1982. The macroeconomic effects of public finance trends are also fairly uncertain, and if the revival of activity is not consolidated in 1982 there is a danger that the general government borrowing requirement will widen, perhaps considerably. Finally, it is difficult to assess the effects on the current balance of payments of the projected earlier recovery of domestic demand in France than in its major trading partners.

UNITED KINGDOM

Recent trends

The steep decline in GDP, which began in the second half of 1979, continued into the second quarter of 1981. Partial indicators suggest that output was roughly stable in the third quarter, with manufacturing production rising a little, although only to a level about one-sixth below that of two years earlier. A slowdown in destocking and the associated positive contribution to GDP seems to be the principal factor behind the better output trend. Reflecting a steep fall in real take-home pay since early 1981, the volume of retail sales continued to decline—albeit at a moderate pace—in the third quarter. Unemployment continued to rise, reaching 11½ per cent[1] at the end of November compared with 8½ per cent a year earlier, but the monthly increase has slowed down since July 1981 to about 40 000.

The growth of average earnings decelerated appreciably to 12 per cent in the pay round which ended last summer (from 22 per cent in the previous round). The impact of this deceleration on consumer prices was broadly offset by the swing from a small decline

1. United Kingdom, and excluding school leavers as a per cent of total employees.

Demand, output and prices
UNITED KINGDOM

Percentage changes from previous period, seasonally adjusted at annual rates
Volume (1975 prices)

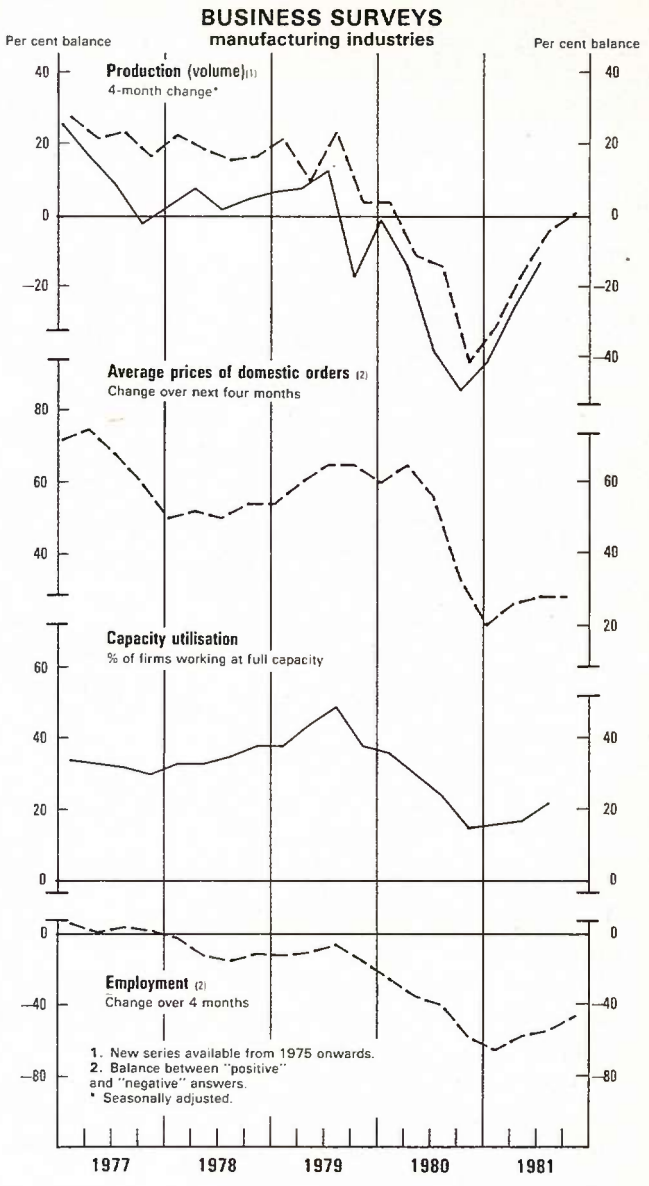
	1980 current prices billion £	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Private consumption	135.4	0.1	–¼	–½	1.3	–2½	0	½	1
Government consumption	48.3	2.3	0	–¾	–1.2	–¼	–1	–1	–1
Fixed investment	40.1	–0.7	–7½	–2¼	–8.8	–5	–2¾	1½	1¾
Public[a]	12.3	–5.0	–11¾	–3½	–13.7	–7¾	–3½	¾	1½
Private residential	3.5	–13.4	–11	9	–11.1	10¾	7¾	10	9½
Private non-residential	24.2	3.8	–4½	–3	–6.1	–5¾	–3¾	1	1
Final domestic demand	223.8	0.4	–1½	–1	–1.0	–2½	–¾	½	¾
* plus change in stockbuilding	–3.6[b]	–3.0	–¼	1¾	–0.6	3½	1½	1	1½
* plus compromise adjustment	–	–0.5	–1	½	–1.0	½	½	½	¼
Exports of goods and services	63.2	0.9	–3¼	2½	–5.7	5¾	1	2	3
Imports of goods and services	57.8	–3.3	–5½	6½	–10.3	17	3	3	4¼
* plus change in foreign balance	5.4[b]	1.3	¾	–1	1.4	–3	–½	–½	–½
GDP at market prices[c]	226.2	–1.8	–2	¼	–1.2	–1½	½	1½	2
GDP implicit price deflator	–	18.9	12¼	9	11.3	10½	8¾	8	7½
Memorandum items									
Consumer prices[d]	–	16.0	11	10¼	10.7	10¾	10½	9	7¾
Manufacturing production	–	–9.4	–7½	¾	–6.8	1	¼	1½	2½

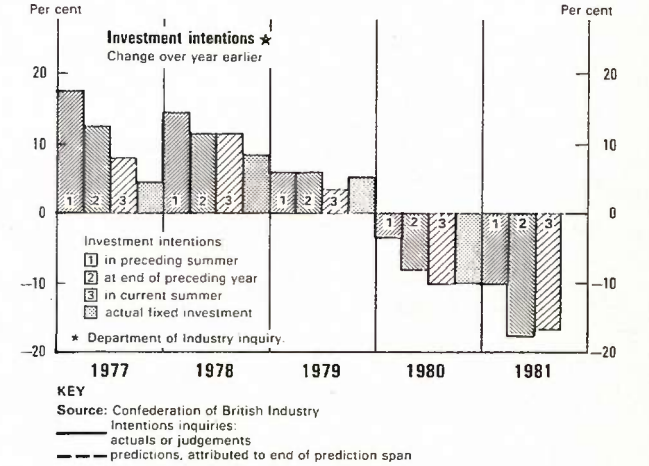
* As a percentage of GDP in the previous period.
a) Including nationalised industries and public corporations.
b) Actual amount of stockbuilding and foreign balance.
c) Data for GDP in the past are based on a compromise estimate which is a weighted average of the expenditure, output and income estimates of GDP. The compromise adjustment is the difference between compromise GDP and the expenditure estimate of GDP.
d) National accounts implicit private consumption deflator.

in import prices up to the end of 1980 to a steep rise thereafter so that the rate of inflation, excluding the effects of changes in indirect tax rates, has remained broadly unchanged at a little over 10 per cent during the last sixteen months. The movements in import prices were dominated by the 30 percentage point turnaround in the effective sterling rate, from an appreciation of 15 per cent in the twelve months to early 1981 to a depreciation of 15 per cent in the nine months to October. Continuing sluggish demand at home and the need to remain competitive abroad (despite the sizeable deterioration in relative unit labour costs) caused profits of industrial and commercial companies to fall slightly further to historically low levels in the first half of 1981, thereby moderating the rise in prices. An upsurge in import volumes, together with the deterioration in the terms of trade, led to a marked contraction of the trade surplus between the first two months of 1981 and the most recent period[2]. The surplus on invisibles also declined sharply[3]. Official reserves fell by almost $5¼ billion after February to reach $23¼ billion at the end of October reflecting capital outflows and the smaller current account surplus.

Policies

Policies have remained restrictive. However, assessment is difficult because the civil service dispute[4] caused big delays in tax collections, which have not only distorted the fiscal and monetary aggregates since last March, but also contributed to important overruns of sterling M3 (the monetary target variable) and of the PSBR (Public Sector Borrowing Requirement) in the first half of FY 1981-1982 (the financial year runs from 1st April to 31st March). Excluding the effects of the dispute[5] on tax revenues, the CGBR (Central Government Borrowing Requirement) in the first half of 1981-1982 was



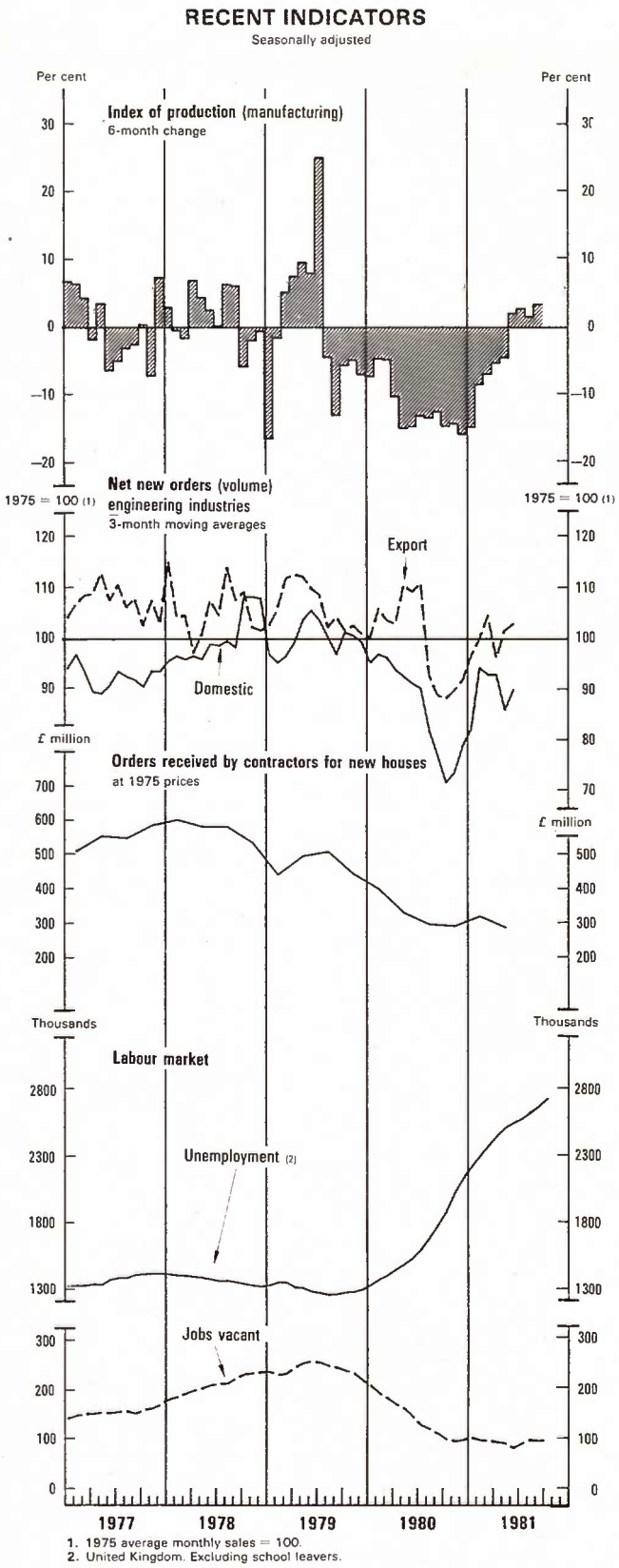


2. Because of the civil service dispute, publication of the trade figures was interrupted between May and August 1981, and for March and April import data only were published.

3. Largely owing to EEC refunds there was an upsurge in the invisible surplus ($12.0 billion, annual rate) in the first quarter of 1981, followed by a smaller invisible surplus in the seven months to October 1981 ($3.3 billion, annual rate).

4. The civil service dispute lasted five months to July 1981, and caused a temporary shortfall in net tax receipts of about £6 billion, compared with a planned PSBR of £10½ billion for 1980-1981 as a whole. This shortfall benefited mainly the corporate sector which accordingly improved its liquidity position considerably over the same period.

5. The CGBR was $10 billion during the first six months of 1981-1982 and £5¾ billion excluding the effects of the civil service dispute, compared with a budget forecast of £11½ billion for 1981-1982 as a whole.



1. 1975 average monthly sales = 100.
2. United Kingdom. Excluding school leavers.

running close to the Budget forecast of £11½ billion for 1981-1982 as a whole, or 4½ per cent of GDP, compared with 5½ per cent in 1980-1981. Adjusted for the effects of automatic stabilisers, the CGBR may have fallen to about 3 per cent of GDP, implying a fiscal tightening equivalent to about 2½ per cent of GDP.

The projections assume that fiscal policy will be tightened further in 1982-1983. It is assumed that personal income tax allowances and thresholds will be adjusted in 1982-1983, approximately in line with inflation. However, after rising for more than three years, the volume of government consumption is expected to decline at an annual rate of about 1 per cent over the forthcoming year and a half. Government fixed investment is also expected to decline, but at a considerably slower pace than the 20 per cent fall (annual rate) for the two years to mid-1981. The restrictive impact will be reinforced by a price effect in line with the authorities' objective of reducing the rise in average pay in the public sector below that of private sector employees and below the rate of inflation.

The high PSBR caused by the Civil Service dispute helps to explain the acceleration in the annual rate of growth of sterling M3 to 19½ per cent in the eight months to October 1981 (13 per cent over the previous six months)[6]. Delayed tax payments improved the liquidity position of the company sector, thereby contributing to the slow credit expansion to the domestic private sector between March and August 1981. However, excluding the estimated effects of the dispute, the underlying rate of growth of sterling M3 seems to have been above the upper limit of the target range of 6-10 per cent. Interest rate policy has also been influenced by external considerations. To ease pressure on sterling, the Bank of England[7] supported a rise in short-term interest rates in July and again in September/October. In mid-November short-term interest rates were around 15 per cent, or 3 percentage points higher than at Budget time. The projections assume that while nominal interest rates may decline during the next 18 months real rates will remain positive, but probably less than current levels. Second, given the persistence of strong inflationary pressures, it is assumed that the growth of sterling M3 will some-

6. February 1981 is the base of the new monetary period covering the fourteen months to April 1982 and for which a 6-10 per cent target annual rate of growth of sterling M3 has been fixed.

7. The Bank ended the practice of posting the MLR (Minimum Lending Rate) in August. Interest rates are no longer announced but the Bank, through open-market operations, intends to keep short-term interest rates within an (unannounced) narrow range.

what exceed the target range of 6-10 per cent in 1981-1982 and of 5-9 per cent in 1982-1983. This would nevertheless imply relatively tight monetary conditions.

Prospects

The restrictive public sector pay policy[8], rising unemployment and continuing tight conditions in the corporate sector suggest that the growth of average earnings will decelerate by about 4 percentage points to 8 per cent in the pay round ending in the summer of 1983. This deceleration, combined with continuing growth in productivity is expected to lead to an equally strong deceleration in the annual rate of growth of unit labour costs, from some 10½ per cent in 1981 to almost 6 per cent by mid-1983. However, the lagged effects from the strong rise in import prices during 1981 (caused by the sharp effective depreciation of sterling) is projected largely to offset the slower growth of unit labour costs, so that the annual rate of inflation (consumption deflator) is expected to remain around 10 per cent for a considerable time before falling to about 8 per cent during the first half of 1983. Furthermore, because of depressed domestic market prospects, profitability on domestic sales is likely to remain low at least to late 1982. This projection is also based on the technical assumptions of a stable effective exchange rate as from early November 1981 and no further significant increase in indirect tax rates.

Because of the rise in unemployment, transfers to households may be the only component of personal income to increase in real terms. The other components, and especially the real wage and salary bill (also reflecting the fall in employment), are projected to fall. In total, real personal disposable income is expected to decline by 2½ per cent in 1981 and a further 1¼ per cent in 1982[9], but as activity picks up there may be a small rise in the first half of 1983. The forecast slowdown in inflation, together with a recovery in demand, could strengthen consumer confidence somewhat, leading to a fall in the personal savings ratio. Hence, after a small decline up to the first half of 1982, private consumption is expected to recover, but to a level at the end of the projection period somewhat below that in the first half of 1981.

Appropriation account for households
Percentage changes from previous year

	1980 billion £	1980	1981	1982
Compensation of employees	137.1	18.9	8¼	7¾
Income from property and others	38.4	13.2	6¾	10¾
Current transfers received	25.5	21.4	19½	13½
Total income	201.0	18.0	9¼	9
Less: direct taxes	25.9	19.6	12½	10¼
current transfers paid	14.3	21.3	16¾	10½
Disposable income	160.8	17.5	8¼	8¾
Consumers' expenditure	135.4	16.0	10¾	9¾
Savings ratio (as a percentage of disposable income)	–	15.8	13¾	13

The projected declines in government consumption and government fixed investment are based largely on official projections. Their effect on demand is expected to be mitigated by a recovery in public corporations' investment in the course of 1982. Business surveys suggest that after the sharp drop in 1981, manufacturing fixed investment may stabilise in 1982. This may be optimistic given the continuing severe squeeze on profits, high interest rates, a number of plant closures and the associated smaller demand for replacement investment and modest output prospects. The projections assume a small recovery in 1983 with investment almost one-fourth below the 1979 peak[10]. High real interest rates and weak demand prospects may also lead to a moderate decline in fixed investment in distribution and services up to early 1983. Private residential investment is the only private investment component expected to grow strongly over the projection period. The substantial increase in the earnings/house-price ratio following the stability in new house prices since mid-1980, the improvement in building societies' liquidity position and the sizeable reduction in the local authority housing programme[11] are the main factors behind the forecast recovery in private residential investment. In total, both private and public sector fixed investment are expected to decline in 1981 and 1982 to be followed by a weak recovery in 1983.

After two years of decline, final domestic demand is projected to begin to rise again by mid-1982, but in mid-1983 the level may still be 3 per cent below

8. The Government set a 4 per cent target growth of average earnings for most public sector employees in 1982. Certain categories of employees are exempt which, coupled with the usual wage-drift, suggests that the growth of average earnings in the public sector may reach about 7 per cent in 1982.

9. It is assumed that fiscal drag on personal incomes will not increase significantly in 1982-1983.

10. The data used here classify investment by use rather than by ownership, which is the practice in the United Kingdom. Accordingly the OECD figures for manufacturing investment include leasing by financial institutions, and are deducted from investment in distribution and services.

11. The Government's policy of reducing local authority house building has led to demand being switched to the private sector.

Balance of payments
UNITED KINGDOM

Value, $ million

	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Seasonally adjusted								
Exports	110 155	99 500	101 250	52 000	47 500	49 750	51 750	54 500
Imports	107 417	91 000	102 250	45 500	45 500	49 250	53 000	56 500
Trade balance	2 738	8 750	–1 000	6 500	2 250	250	–1 250	–2 250
Services and private transfers, net	8 972	9 250	8 000	5 288	4 000	3 750	4 000	3 750
Official transfers, net	–4 260	–3 750	–4 500	–1 430	–2 500	–1 750	–2 750	–2 250
Current balance	7 450	14 250	2 250	10 358	3 750	2 250	0	–750
Unadjusted								
Current balance	7 450			7 565				
Long-term capital	–12 915			–8 602				
Short-term capital and unrecorded	–1 802			2 162				
Balance on non-monetary transactions	–7 267			1 125				
Net transactions of monetary authorities[a]	–2 313			–3 056				
Memorandum items (seasonally adjusted)								
Per cent change in volume[b]								
Exports	1.7	–3	2¾	–6.7	8¾	½	1¾	3¼
Imports	–4.2	–5¾	9	–11.5	20	5½	6	7

Note: Detail may not add, due to rounding.

a) Previously "Balance on official settlements". Foreign borrowing by the public sector is included in the capital account while changes in official sterling balances are included below the line as a financing item.

b) Over previous period at annual rates, customs basis.

the peak of early-1980. The present cycle is dominated by stock changes. As the decline in GDP up to the first half of 1981 was more than fully accounted for by the rundown of stocks, so is the upturn; the change in stockbuilding between the first half of 1981 and the first half of 1983 is estimated to add about 1¾ per cent, annual rate, to GDP and to more than offset the contractionary effect of all other demand components. Despite this turnaround, the stock-output ratio in mid-1983 is projected to decline by 10 per cent from the peak of 1980 to below the longer-run average. On this basis, total domestic demand is expected to be on a moderate upward trend throughout the next one and a half years. Stronger growth of world trade, and the lagged effects of the substantial improvement in competitiveness since early 1981 (associated with the effective depreciation of sterling) and continuous slow growth in manufacturing unit labour costs (5¼ per cent annual rate) during the two years to mid-1983 are expected to lead to a recovery in the volume of exports, thereby reversing the trend over the last two years[12]. Import volumes, which are importantly influenced by the stockbuilding cycle, began to rise again from the second half of 1981, and may outpace the rise in exports during 1982 and into 1983. Accordingly, and despite rising net oil exports, the real foreign balance is expected to impart a negative contribution to GDP up to mid-1983.

The upturn is projected to occur in the course of 1982, with the annual rate of growth of real GDP reaching 2 per cent in the first half of 1983. As usual, manufacturing production is expected to rise faster than GDP in the upturn, but its level in mid-1983 may nevertheless be 13 per cent or so below the cyclical peak at the end of 1979, and almost 20 per cent below the record peak of 1973. Two years—1980 and 1981—of a 4 per cent cumulative decline in GDP and the severe financial squeeze on companies will continue to bear importantly on labour market developments. Although the decline in employment is expected to moderate from an annual rate of 4 per cent in the two years to mid-1981 to one of 1½ per cent in the next two years[13], it will remain substantial. On this basis, the annual rate of growth of productivity (GDP per employee) is forecast to reach 2¼ per cent in the two and a half years to mid-1983, compared with 1½ per cent on average during the 1970s. Because of continuing lay-offs and plant closures, the decline in manufacturing employment (8¼ per cent, annual rate, during the two years to mid-1981) is expected to remain

12. The decline in non-oil merchandise exports in real terms between early 1980 and early 1981 is estimated to be 10 per cent.

13. Given a projected further small decline in the total labour force, unemployment (including school leavers) is projected to rise from 10¾ per cent of the total labour force in mid-1981 to 12¾ per cent in mid-1983.

high (4¼ per cent annual rate) in the two years to mid-1983. Therefore, following the moderate fall in 1980, productivity in manufacturing is projected to rise at a historically high annual rate of about 5 per cent over the two and a half years to mid-1983 (the longer-run rate over the last twenty years was 2½ per cent).

Despite the effective depreciation of sterling, export prices are expected to rise only moderately in order to make good some of the previous loss of competitiveness. Reflecting the deterioration in the terms of trade, the worsening real foreign trade balance and the projected moderate increase in North Sea oil production from now on (compared with a five-fold increase in the previous four years) the trade account is projected to swing back into deficit in 1982. The current external account may move into deficit in 1983.

ITALY

Recent trends

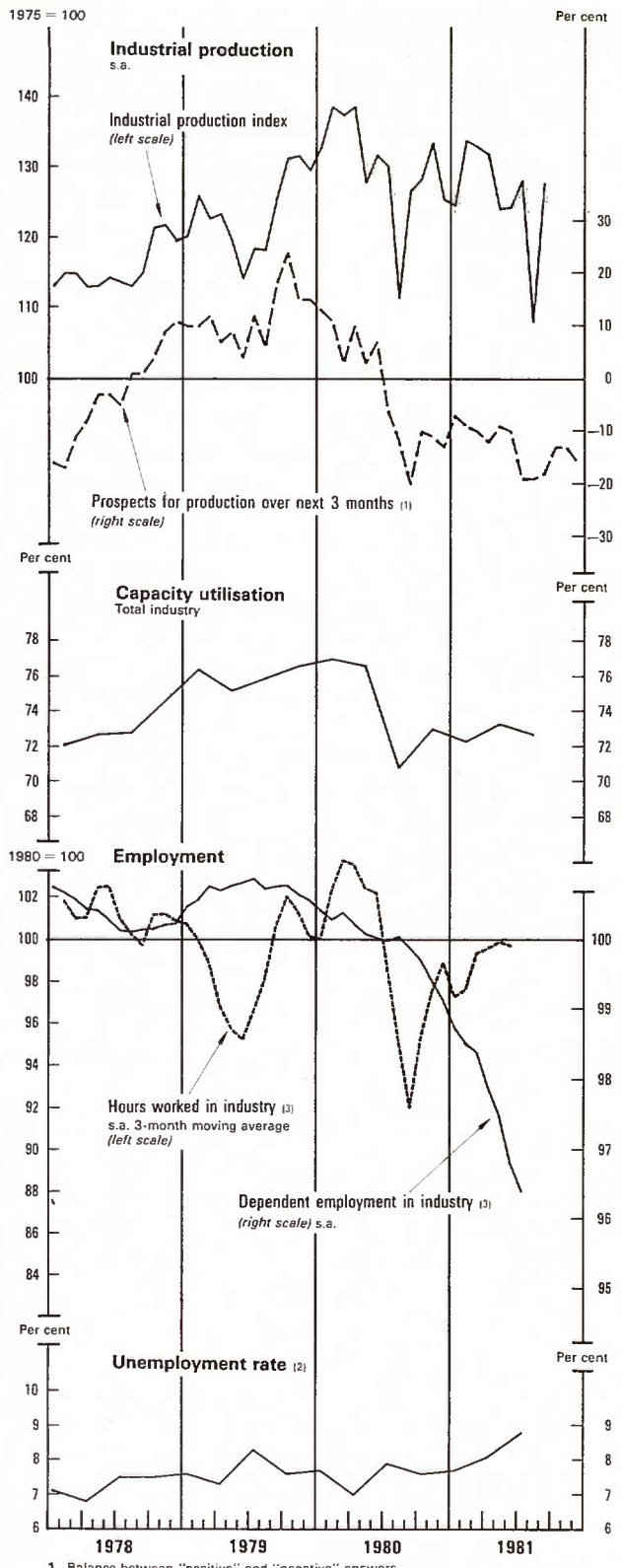
The fall in domestic demand that began in the second half of 1980 continued into 1981 and may well have amounted to 2½ per cent for the whole year. Much of this fall is attributable to stock movements, which, in contrast to the experience in many OECD countries, were almost as pronounced as during the 1975 recession. Conversely, although the quarterly figures show a fairly erratic pattern, final demand continued to increase, albeit very slowly, up to the middle of 1981. Until the spring, investment showed greater resistance to continuing restrictive monetary conditions than in preceding cycles, but all the indicators suggest that a pronounced change is likely to have taken place in the second half of 1981. The impact on activity of the lower level of domestic demand was more than offset in the first half by a shift towards net exports, equivalent to 5 per cent of GDP (annual rate). In the summer, industrial production again fell back. Nevertheless, order-books and business surveys for industrial production indicate that a largely technical recovery in production was expected towards the end of the year, implying zero real GDP growth for 1981 year-on-year.

Labour market conditions worsened far more quickly than in previous recessions. Compensated partial unemployment doubled in the first half, compared with the corresponding period of 1980, to reach a record level, while industrial employment declined steadily (—3½ per cent between July 1980

Demand, output and prices
ITALY
Percentage changes from previous period, seasonally adjusted at annual rates
Volume (1970 prices)

	1980 current prices trillion lire	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Private consumption[a]	206.8	4.9	¼	1¼	0	½	1½	1½	2½
Government consumption	56.1	2.0	2	2	2.0	2	2	2	2
Fixed investment	67.4	10.0	–¼	–3½	3.4	–7¾	–3¾	1	3¾
Public[b]	17.7	9.1	1¾	1	..	..	..	..	..
Private residential	16.8	6.7	½	–¾	1.5	–2	–1	1	2
Private non-residential	32.9	11.9	–1½	–7¾	..	..	..	..	..
Final domestic demand	330.3	5.4	½	½	1.0	–1	½	1½	2¾
* plus change in stockbuilding	16.5[c]	1.9	–3	0	–3.5	–1	¼	½	¼
Exports of goods and services	85.2	–4.6	3½	5	11.7	3	5½	5½	5½
Imports of goods and services	94.6	7.9	–7¼	3	–9.5	–3	5	5½	7
* plus change in foreign balance	–9.4[c]	–2.9	2½	½	5.0	1½	½	¼	0
GDP at market prices[c]	337.4	4.0	0	1	2.4	–½	1¼	2¼	3
GDP implicit price deflator	–	20.4	17¾	16	19.5	16	16½	15½	15½
Memorandum items									
Consumer prices[d]	–	20.4	19¼	16	21.6	16	17	14½	14½
Industrial production	–	5.6	–2½	1¼	3.6	–3½	2½	3½	5
Investment in machinery and equipment	29.6	17.3	–1½	–7¾	4.2	–15	–8	1	6

* As a percentage of GDP in the previous period.
a) Private national consumption as defined in the standardized system of national accounts.
b) Including nationalised industries and public corporations.
c) Actual amount of stockbuilding and foreign balance.
d) National accounts implicit private consumption deflator.



1. Balance between "positive" and "negative" answers.
2. As per cent of labour force, not s.a.
3. In large enterprises.

and July 1981). This raised the number of unemployed to over two million or 8.8 per cent of the labour force, in July, nearly a point higher than 12 months previously. The increase in unemployment did not prevent wages from accelerating more sharply than the automatic increase from indexation, and in spite of no major collective agreements being renewed outside the public sector. Flagging domestic demand and the keenness of international competition nevertheless apparently limited the extent to which the continuing rapid growth in unit labour costs and dearer imports were passed into prices. The narrowing of profit margins could well have been particularly severe.

During the first nine months of 1981, the foreign trade deficit stabilized, at an annual rate of some 20 000 billion lire (cif-fob), practically the same as in 1980. Although the trend in volumes was very favourable (exports, particularly outside Europe, picked up, and imports fell steeply), this was offset by a pronounced deterioration in the terms of trade. The invisibles surplus worsened appreciably, in lire, because of the considerable increase in interest payments on foreign debt. Because of the change in exchange rates, the current account deficit in dollars was about the same as in 1980. It was more than covered by increasing recourse to public and private loans and not, as in 1980, by increasing the commitments of banks, whose net external position changed little. The balance on non-monetary transactions therefore showed a surplus of over $1 billion for the first nine months of the year, compared with a deficit of over $5 billion for the same period in 1980. Nevertheless, the evolution during the period of this balance was erratic, putting pressure on the lira several times, leading the authorities to impose an import deposit scheme and to devalue twice the central EMS rate of the lira. The lira depreciated especially against the dollar (26 per cent in October 1981 compared with October 1980); in effective terms, it fell over the same period by a more modest 11½ per cent.

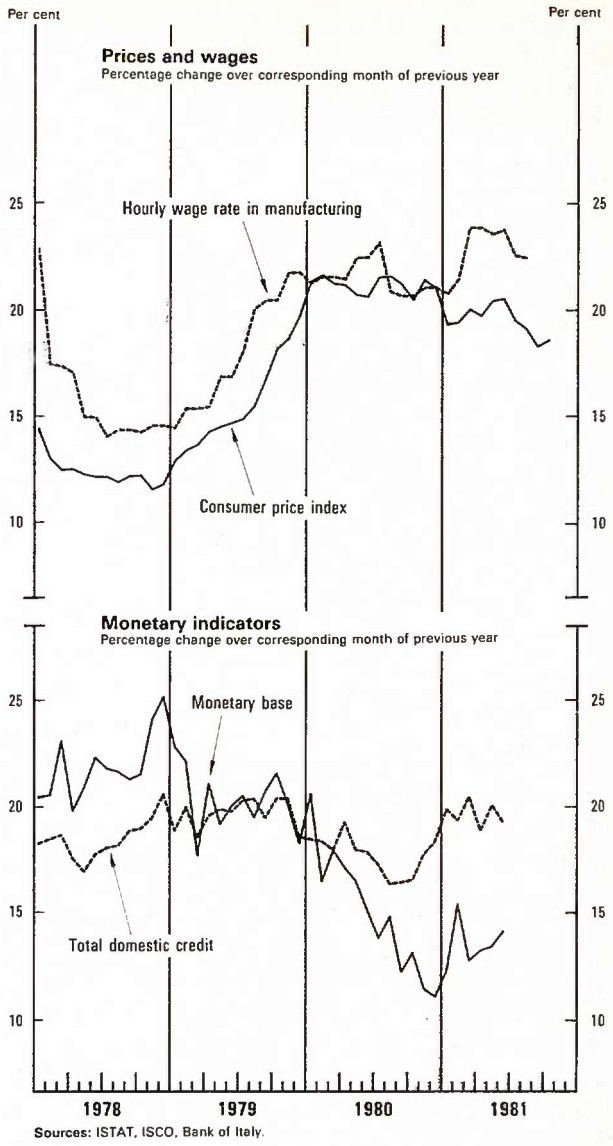
Policies

While fiscal policy was officially to have been neutral in 1981, public sector transactions probably made a significant contribution to sustaining demand in the first half of the year. The Treasury's deficit mounted rapidly, partly because of the deferred effect of measures taken in 1980 (increases in civil service salaries and in pensions) and an increase in interest payments on public debt, climbing to 28 000 billion lire for the first eight months of the year, compared with 18 000 billion a year earlier. Various measures to postpone expenditures amounting to 8 000

billion lire were decided in July. In spite of these measures, the deficit may well have been as much as 47 000 billion lire for the whole year compared with 40 000 billion projected in the 1981 draft budget. The general government borrowing requirement, on a national accounts basis, may have been about 9½ per cent of GDP, some 1½ points up on the 1980 value. This would represent a return to the average 1978-1979 level, after the exceptional decline in 1980.

The effect of public sector transactions, expansionary in 1981, is planned in the draft Budget to become restrictive in 1982. Reducing expenditure by some 10 000 billion lire (2 per cent of GDP) from the level estimated on spontaneous trends would allow a reduction in fiscal drag[1] and a substantial reduction in the current deficit (from 5.7 per cent of GDP in 1981 to 3.7 per cent in 1982 for the central government on an administrative basis) in order to finance additional capital expenditure. For the enlarged public sector, the objective is to stabilize the total domestic borrowing requirement in nominal terms. But as usual, it is difficult to glean from the budget documents what the trend in public sector transactions will be. New measures specifically laid down in the Budget are limited and most of the effort to contain the overall deficit is left to the local authorities and welfare agencies, over which it is difficult to exercise strict control. Moreover, the recent rapid increase in unspent commitments prompts great uncertainty about the effective level that expenditures will reach. The projections incorporate a slight increase in the general government borrowing requirement as a percentage of GDP, but the possibility of a more pronounced rise cannot be ruled out.

In view of the problems presented by the control of the public sector, the generally restrictive stance of monetary policy has been maintained. Bank credit control was reinforced in August by an increase in banks' portfolio requirements, and the import deposit system, originally brought in for four months in May 1981, was extended, at a decreasing rate, to February 1982. To keep money creation within bounds, the central bank ceased its systematic purchase of Treasury bills not sold on the market. Although less pronounced than in the second quarter, the trend in interest rates is still upward, at over 20 per cent for short-term and 22 per cent for medium and long-term, thereby becoming positive again in real terms as a result of the slowdown in inflation. All in all,



however, financing conditions were probably not as restrictive as the trend in the money supply, negative in real terms since mid-1980, would suggest. Growth in total domestic credit quickened since the end of 1980, and will probably have been about 17 per cent for the whole year (after deducting liquidity sterilised by the import deposits), which is much the same as nominal GDP growth. In addition, recourse to external borrowing has accelerated, and the importance of new financial instruments not included in total domestic credit seems to have increased. No major change in the overall stance of monetary policy is expected in the next few months, and the authorities have taken as their target for 1982 a growth rate in total domestic credit similar to that for 1981. Even so, if the public sector borrowing requirement

1. Personal income taxes of dependent employees, were lowered in December 1981, and this measure is to be extended to other personal incomes in May 1982. The cost of the measure is nearly ½ a per cent of GDP.

necessitates the maintenance of high interest rates to prevent increasing money creation, real interest rates could continue to increase in the context of a slowdown in inflation.

Lastly, the authorities, on the eve of negotiations for the renewal of the main collective agreements, are striving to lay the foundations of a prices and incomes policy. The target is to reduce inflation to 16 per cent in 1982, year on year, and to 10 per cent in three years' time. Discussions between the social partners, however, which employers feel should relate to aggregate labour costs including indexation, have not yet reached agreement. The only measure to have been taken so far is a voluntary price moderation for the main food products: this began in mid-September for two months and has now been prolonged until early January 1982.

Prospects

After cushioning the extent of the recession in 1981, net exports are likely to play a less pronounced role in 1982, and there seems little likelihood of an autonomous recovery in domestic demand before the middle of the year, in spite of the positive effects of the expected improvement in the terms of trade. Therefore, GDP growth will probably continue to be very modest. The main area of uncertainty concerns developments in prices and wages, because there is no information yet about likely negotiated wage increases, which will affect over two-thirds of wage-earners in industry[2]. Even though wages rose sharply, claims will probably be tempered by the considerable worsening in labour market conditions. Real wage growth per employee in 1982 is projected to be a little lower than in 1981. At the same time, on the customary technical assumption of unchanged exchange rates and given the outlook for world trade prices, a pronounced slowdown of import prices is expected. In this context, inflation should gradually decelerate, and it should be broadly possible to attain the official target for consumer price growth.

Appropriation account for households
Percentage changes from previous year

	1980 trillion lire	1980	1981	1982
Compensation of employees	184.4	22.9	22	17¾
Income from property and others	111.9	24.3	17	19
Current transfers received	57.6	24.8	27½	21
Total income	353.8	23.7	21½	18¾
Less: direct taxes	31.7	47.2	35½	24¾
current transfers paid	57.0	22.6	20	18
Disposable income	265.2	21.6	20	18
Consumers' expenditure	206.8	26.2	19½	17½
Savings ratio (as a percentage of disposable income)	–	22.0	22¼	22½

After little increase in 1981, household real disposable income could show moderate growth. With an upturn, albeit moderate, in domestic demand, and with fairly high real interest rates, household income from property and enterprise may be expected to recover slowly, partly offsetting the deceleration in wages and transfers to households. Moreover, the new direct tax scales should check the mounting tax pressure on households, which more than doubled over the last six years. Contrary influences may be acting on household saving behaviour in 1982. On the one hand, lower inflation should help to increase the average propensity to consume, because the real value of households' financial resources will be eroded less; on the other hand, an alleviation of tax pressure and the reversal of the phase of rapid replacement of household durables in 1980 and early 1981, could well have the opposite effect. Overall, the saving ratio could increase slightly although remaining, for the third consecutive year, at a relatively low level compared with the medium-term trend[3].

In a context of high interest rates and a large proportion of spare capacity, private non-residential investment may be expected to fall throughout most of 1982. Public enterprises' investment could be a little less depressed, largely because of the National Electricity Corporation development programmes, which have taken on new momentum since 1980 and should be reinforced by the implementation of the Energy Plan. In spite of the ambitious aims of the three-year programme presented in March 1981, real growth in general government investment is likely to be modest because of the budgetary constraint and the usual administrative rigidities. In aggregate, investment in machinery and plant is expected to fall steeply, while construction as a whole could remain flat despite a slight fall in housebuilding, where institutional problems are aggravated by the high level of interest rates. After the adjustment phase in early 1981, stock levels may be quite low, even for finished products. Nevertheless, as long as

2. Most public service contracts are also coming up for renewal, but in view of habitual delay, the negotiations do not seem likely to be concluded in 1982.

3. In comparison with other OECD countries, however, the saving ratio in Italy is exceptionally high. One principal reason for this is the large number of small and medium-sized enterprises classified as "households".

financing costs remain high and the demand outlook is uncertain, it is unlikely that stockbuilding will give any significant impetus to growth.

Export volumes seem likely to follow general market growth in 1982. Although the price competitiveness of Italian exports apparently improved in 1981, a further deterioration—given unchanged exchange rates— is expected in Italy's relative position. But in view of the usual time lags, any loss in market shares in the first half of 1983 is likely to be small. Imports can be expected to follow the recovery in total demand without, however, offsetting the exceptional drop in 1981. The import/GDP ratio in volume terms in the first half of 1983 is likely to be somewhat lower than three years earlier, prior to the recession, largely because of the strong fall in the oil import propensity. The contribution of the real foreign balance to GDP growth should thereby remain slightly positive over the next 18 months. Given the expected deceleration of international prices and particularly the price of oil, the terms of trade could improve significantly. Invisibles will continue to be adversely affected by increased interest payments on foreign debt. Nevertheless, the current account deficit could well narrow gradually over the next year and a half, with the 1982 value perhaps around 5 billion dollars (less than 1½ per cent of GDP).

Balance of payments
ITALY
Value, $ million

	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Seasonally adjusted								
Exports	76 859	73 500	83 250	37 204	36 500	40 250	43 250	46 750
Imports	92 990	85 250	91 250	44 677	40 750	44 500	46 750	50 000
Trade balance	–16 131	–11 750	–7 750	–7 473	–4 250	–4 250	–3 500	–3 250
Services and private transfers, net	6 909	3 250	3 500	1 569	1 750	1 750	2 000	2 000
Official transfers, net	–419	–1 000	–750	–708	–250	–500	–500	–500
Current balance	–9 641	–9 500	–5 000	–6 612	–3 000	–3 000	–2 000	–1 750
Unadjusted								
Current balance	–9 641			–8 036				
Long-term capital	5 512							
Short-term capital and unrecorded	–3 330							
Balance on non-monetary transactions	–7 4590							
Net transactions of monetary authorities[a]	1 908							
Memorandum items (seasonally adjusted)								
Per cent change in volume[b]								
Exports	–7.8	3¾	6	8.5	8	5½	5½	6¼
Imports	3.1	–9	3	–20.0	–4	5½	5	6½

Note: Detail may not add, due to rounding.
a) Previously "Balance on official settlements".
b) Over previous period at annual rates, customs basis.

CANADA

Recent trends

Real GNP rose at 5½ per cent (s.a.a.r.) in the first half of 1981. Despite the increase in mortgage interest rates, residential construction surged to meet the demand implied by the earlier decline in vacancy rates and possibly stimulated by government incentives. Non-residential business fixed investment also proved extremely buoyant, particularly in energy-related fields, while private consumption was maintained by fiscal incentives[1], rising employment, and purchases associated with the housing boom. There was a marked turnaround from decumulation to accumulation of inventories, the change representing 4½ per cent of GNP. The strength of business fixed investment was reflected in an upsurge in merchandise imports, which contributed to a sharp deterioration in the real foreign balance.

Construction industry output rose by around 13½ per cent (s.a.a.r.) and manufacturing output by some 8½ per cent. An increase in capacity utilization[2] went hand in hand with strong employment growth and—for the first time since the second half of 1978—an increase in overall productivity. However, a distinct slowing down in recruitment occurred in the summer months; the unemployment rate remained initially around the 7 per cent mark as demographic factors led to slower labour force growth, but September saw a marked increase to 8.2 per cent, the highest figure for almost three years. In October the rate remained at this higher level (8.3 per cent).

The year-on-year increase in consumer prices accelerated from 11.2 per cent at end-1980 to 12.5 per cent by September 1981, compared with 10.8 per cent for the OECD as a whole. Domestic food and fuel price developments accounted for a major part of this difference. Despite some acceleration in major wage settlements, average compensation growth decelerated somewhat to an annual rate of 9½ per cent during the first half of 1981, reflecting *inter alia* the continuing shift toward female employment, and again failed to match the increase in consumer prices. The rise in unit labour costs, influenced also by the better productivity performance, slowed down. Nevertheless, taking into account exchange rate movements, manufacturing

1. Temporary sales tax concessions in Ontario expired at end-July.

2. According to Statcan estimates, the rate still remained clearly below its longer-term trend level, while the Bank of Canada, using different methods, shows a recovery to its trend level by the second quarter of 1981.

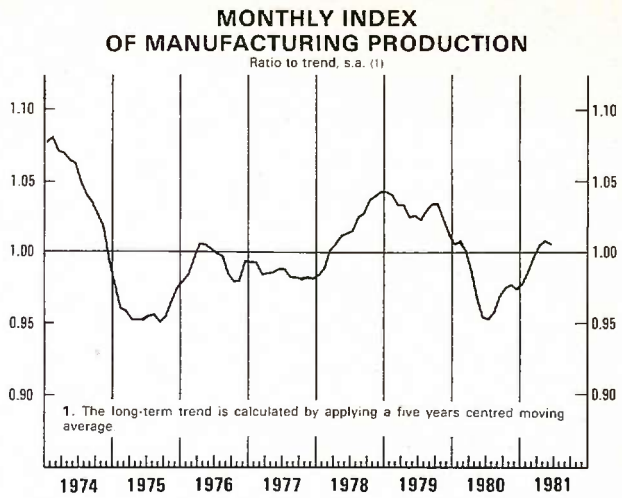
Demand, output and prices
CANADA
Percentage changes from previous period, seasonally adjusted at annual rates
Volume (1971 prices)

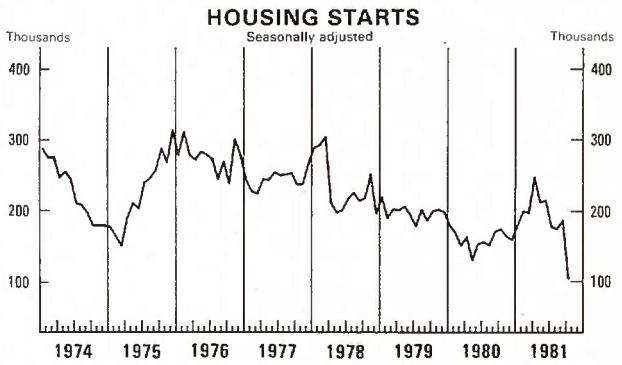
	1979 current prices billion Can.$	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Private consumption	168.1	1.0	1¾	1	2.8	–1½	1¾	2	2
Government consumption	57.9	–0.5	2½	3	2.0	3½	2¼	4	1¾
Fixed investment	68.5	3.8	7	½	12.1	1½	0	1	4½
Public[a]	8.0	–0.4	0	1¼	–0.7	2¾	1	0	1½
Private residential	13.8	–10.6	8	–4½	26.6	–8	–5	0	6
Private non-residential	46.7	8.6	7¾	1¾	11.1	3¾	1	1¼	4½
Final domestic demand	294.6	1.4	3	1¼	4.7	0	1½	2	2½
* plus change in stockbuilding	–1.2[b]	–2.0	1¼	0	4.4	0	–¼	½	½
Exports of goods and services	90.3	1.0	½	1½	–2.5	–½	1½	3¼	2
Imports of goods and services	93.4	–2.2	4¾	2½	11.4	1½	2	4	5
* plus change in foreign balance	–3.2[b]	0.9	–1	–¼	–3.6	–½	–¼	–¼	–1
* plus error of estimate	–0.3[b]	–0.2	0	0	–0.1	0	0	0	0
GNP at market prices	289.9	0	3	1	5.6	–½	1	2¼	2
GNP implicit price deflator	–	10.6	10	11	9.3	12	11	10	10
Memorandum items									
Consumer prices[c]	–	10.5	11½	11½	10.8	12½	11½	10½	10
Industrial production	–	–1.8	3	1½	7.1	0	1	4	3½

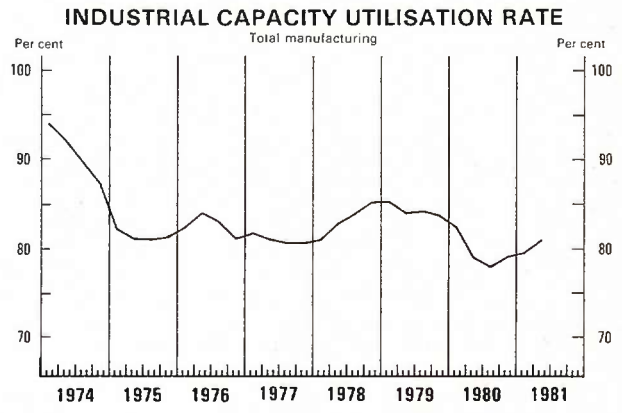
* As a percentage of GDP in the previous period.
a) Excluding nationalised industries and public corporations.
b) Actual amount of stockbuilding, foreign balance and error of estimate.
c) National accounts implicit private consumption deflator.

suffered some deterioration in overall price/cost competitiveness despite an improvement vis-à-vis the United States. Pre-tax profits, which on a national accounts basis rose by some 6 per cent (s.a.a.r.), saw their share of national income slip further. However, appreciable gains were registered in the energy and manufacturing sectors, and balance sheets were strengthened by a reduction in the debt/equity ratio.

The current external balance, which had shifted into surplus by late 1980, deteriorated sharply in 1981. Export volumes have been negatively influenced by the contraction in United States demand for such interest-rate-sensitive items as housing and automobiles, while more generally sales may have been adversely affected by movements in relative prices. Furthermore, while unexpectedly strong OPEC import demand provided a boost for OECD exports during the first half of 1981, this market accounts for a relatively insignificant share of Canadian exports. While fuel exports continued to be pruned, the cut in Alberta crude oil production did not apparently lead to any significant increase in oil imports. Import prices rose more slowly in Canada than on average in the OECD and the terms of trade deterioration was somewhat less pronounced. An unfavourable movement in the travel balance, which tends to be sensitive to relative price movements, accentuated the continued weakening in the invisibles account. Pursuit of "Canadianization" policies, involving purchases by residents of foreign-owned businesses operating domestically, contributed importantly to a substantial long-term capital outflow. Foreign exchange reserves, after having fallen by some US$ 1 billion during the six months to mid-1981, declined on balance by a further $\$\frac{1}{4}$ billion during the period to end-October. The exchange rate, during a period of turbulence in international financial markets, has on occasion come under stress against the United States dollar, particularly in late July. By mid-November, however, the spot rate vis-à-vis the US dollar had largely returned to its end-1980 level, while the effective rate had strengthened by some 7 per cent.



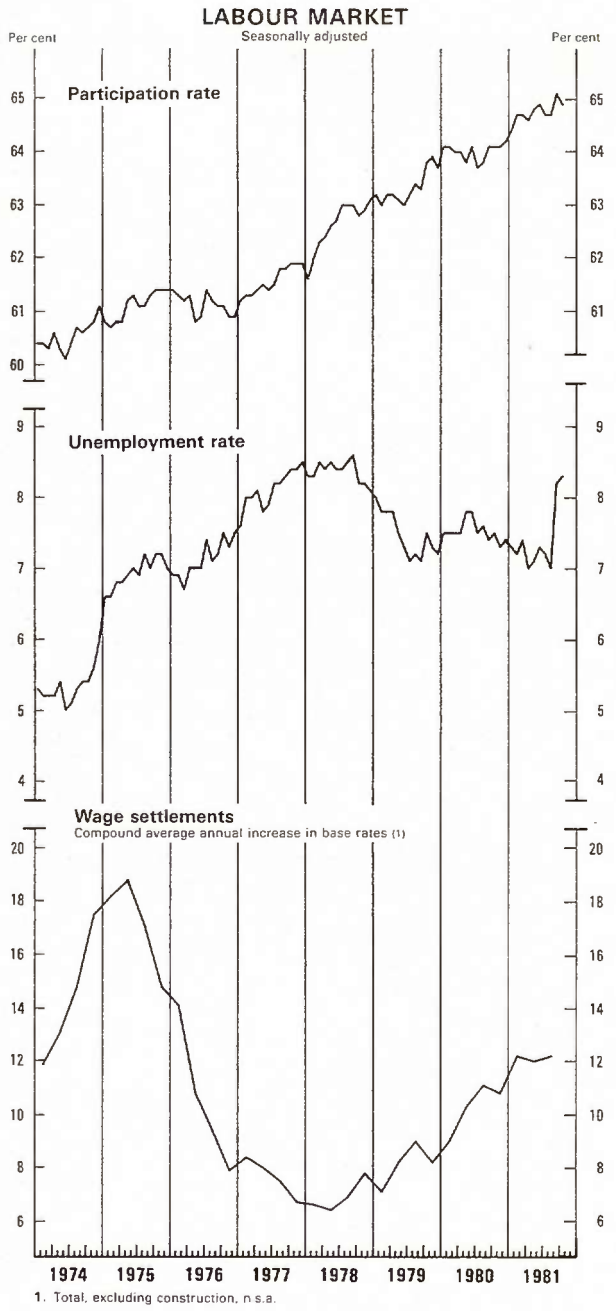




Policies

Fiscal policy, as evidenced by both the October 1980 and November 1981 federal budgets as well as Provincial 1980-1981 budgets, has shifted to a more restrictive stance. OECD Secretariat estimates suggest a discretionary tightening between 1980 and 1981 equivalent to over 2 per cent of GNP. The general government balance (net lending) moved—for the first time since 1974—into small surplus in the first half of 1981, equivalent to some 0.3 per cent of GNP, which compares with a deficit of 2.4 per cent in the preceding six months. This substantial swing resulted primarily from the impact on Federal receipts of National Energy Program measures[3] and a sharp rise in personal direct tax receipts on the one hand and a tightening in provincial outlays (particularly transfers) on the other. At the beginning

3. Under the Program, presented with the October 1980 Budget, a Petroleum and Gas Revenue Tax as well as a Natural Gas and Gas Liquids Tax were introduced.



of September the Ottawa and Alberta governments reached an energy pricing agreement which implies a further strengthening of public finances[4]. The Federal budget presented in November provides for a continued growth in revenues of some 19½ per cent in fiscal 1982-1983, while the growth of outlays is projected to drop to 11½ per cent, providing for a further reduction in the deficit to around 2¾ per cent of GNP from a projected 4 per cent in 1981-1982. While the net effect of discretionary tax measures is estimated to boost revenue by around $1½ billion (0.4 per cent of GNP) in 1982-1983, the direct impact will fall entirely on the corporate sector as some easing in the personal tax burden is envisaged.

While the narrowly-defined money supply had generally remained within the range implied by the 4-8 per cent annual growth target, a sharp three-month fall then brought the money stock to well below (about 8 per cent) its target floor by October. The growth rates of the more broadly-defined aggregates, on the other hand, have continued to exceed that of nominal GNP. In conformity with the policy of responding to external influences through a combination of exchange rate and domestic interest rate adjustments, interest rates have broadly followed movements in United States rates while seeking to maintain a positive differential and to limit the amplitude of fluctuations. Short-term rates reached a record peak around end-July, and have since declined by some 6 percentage points, but remain clearly positive in "real" terms. Long-term rates have also begun to ease. The authorities have on occasion intervened in the foreign exchange markets, primarily to support the Canadian dollar, and stand-by credit facilities have been augmented.

Prospects

United States interest rates are projected to be relatively high on average over the next 18 months, implying a corresponding restriction on the freedom of Canadian monetary policy management. OECD Secretariat estimates of the impact of the recent energy agreement and Federal budget suggest a further tightening in the effect of general government fiscal operations. On this basis the outlook for domestic demand is necessarily rather weak. Given the expected development of United States import demand, export market growth is likely to be minimal during early 1982, but should pick up subsequently, although a deterioration in competitiveness could jeopardise export performance.

4. The agreement provides for the more rapid adjustment of domestic oil prices than under the National Energy Program. Two main categories of oil are distinguished: conventional old oil (produced from sources discovered prior to January 1, 1981) and new oil. The conventional old oil price was raised on October 1 and as from January 1, 1982 increases are scheduled every six months for both old and new oil, taking the per-barrel price to C$ 57:75 and C$ 77:48 respectively by mid-1986 subject, however, to not exceeding 75 and 100 per cent respectively of the world price. The natural gas price is to be approximately 65 per cent of oil price parity. Of total officially-estimated energy revenues of $212.8 billion during 1981-1986, some 25.5 per cent ($54.3 billion) accrues to the federal government, 30.2 per cent to Alberta and the balance to the industry. Pricing agreements were also reached subsequently with Saskatchewan and British Columbia.

Activity may have reached a cyclical peak toward mid-1981, an assessment which is supported by the Statcan composite leading indicator. Indeed, the uncertainties evidenced by both business and household sentiment surveys suggest a weakening in domestic demand. Investment intention surveys and the relative sluggishness of profits point to a prospective slowdown in business non-residential fixed capital formation, although the recent energy-pricing agreement should provide a boost to certain longer-term projects. Despite the recent easing in interest rates, weak housing activity is likely to continue at least into the early part of 1982.

Reduction of manning levels in line with the projected slower growth of activity to clearly below potential could be relatively rapid. Hence labour market conditions may restrain the growth of wage rates, despite the potential scope for catch-up implied by a protracted period of declining "real" wages. Continued energy price adjustment will maintain pressure on consumer prices in spite of the easing in external price influences (on both the import and export sides). Under these conditions, households' real disposable income would be squeezed and, although consumers may adjust their saving behaviour, private consumption growth seems likely to decelerate somewhat.

On the external side, manufacturing export growth is not expected to pick up before the second half of 1982. Oil shipments will continue to be cut back and it is assumed that natural gas price deregulation in the United States will not be achieved in time to affect Canadian exports over the next 18 months or so. The prospects for food shipments appear brighter, however, and raw materials should benefit from any upturn in world industrial activity. Although import demand is expected to ease in line with the sluggishness of domestic demand, particularly investment, real trade flows are unlikely to provide any boost to output growth, while the terms of trade may continue to deteriorate. On balance, the current external account could be in deficit by around 3½ per cent of GNP in 1982.

Appropriation account for households

Percentage changes from previous year

	1980 billion Can.$	1980	1981	1982
Compensation of employees	164.0	11.9	13	12¼
Income from property and others	41.5	11.3	22¾	13
Transfers received	31.7	15.4	11½	11¾
Less: interest on consumer debt	4.7	29.8	33	13½
Total income	232.6	11.9	14	12¼
Less: direct taxes	32.1	16.1	18	15
other transfers paid	12.9	10.0	18	10
Disposable income	187.6	11.4	13¼	12
Consumers' expenditure	168.1	11.6	13½	12½
Savings ratio (as a percentage of disposable income)	–	10.4	10¼	9¾

Balance of payments
CANADA

Value, U.S. $ million

	1980	1981	1982	1981 I	1981 II	1982 I	1982 II	1983 I
Seasonally adjusted								
Exports	66 982	71 250	75 250	35 594	35 750	36 750	38 500	40 500
Imports	59 923	67 500	73 500	33 126	34 250	35 750	37 500	39 500
Trade balance	7 059	4 000	1 750	2 468	1 500	1 000	750	1 000
Services and private transfers, net	–8 108	–10 750	–11 750	–5 243	–5 500	–5 750	–6 250	–6 750
Official transfers, net	–581	–750	–750	–282	–250	–250	–500	–500
Current balance	–1 630	–7 500	–10 750	– 3057	–4 500	–5 000	–5 750	–6 250
Unadjusted								
Current balance	–1 630			–3 798				
Long-term capital	1 747			–3 257				
Short-term capital and unrecorded	–1 986			–5 866				
Balance on non-monetary transactions	–1 869			–12 920				
Net transactions of monetary authorities[a]	–622			–991				
Memorandum items (seasonally adjusted)								
Per cent change in volume[b]								
Exports	–0.8	2¼	1¼	2.3	–1	1¾	3	3
Imports	–5.3	5	3	10.8	2	3	4	3

Note: Detail may not add, due to rounding.

a) Previously "Balance on official settlements".

b) Over previous period at annual rates, customs basis.

AUSTRALIA

Final domestic demand continued to grow quite rapidly in the first half of 1981 (3½ per cent, annual rate), although slower than in the previous half-year. Business investment, particularly in the resource-related industries, was again the main driving-force, although private consumption continued to grow steadily. While rural exports recovered somewhat, other exports were relatively flat and with import volumes continuing to grow, the contribution of the change in the real foreign balance was again negative. The deterioration in the real foreign balance, with little change in the terms-of-trade, resulted in a marked increase in the current external deficit, which in the year to June 1981 was equivalent to about 4½ per cent of GDP. Output broadly reflected these influences; non-farm GDP growth slowed to an annual rate of 1½ per cent from 6 per cent in the previous half-year. While domestic inflationary pressures increased somewhat, the moderation of external prices, due in part to the appreciation of the Australian dollar, maintained the rise in the consumption deflator at about 8½ per cent (annual rate). Employment growth continued, though slowing a little, and unemployment has recently fallen, partly because of a decline in participation rates.

Policy in the current fiscal year (ending June 1982) will be appreciably tighter than in 1980-1981. The Commonwealth Budget for 1981-1982, presented in August, envisaged a $1.1 billion increase in the *surplus* on domestic transactions (a rise of almost 1 per cent of GDP). For 1982-1983, it is assumed that total public expenditure will be tightly controlled and that no further changes in income taxation will be introduced, implying a further significant reduction in the public sector deficit (including State and local authorities). Monetary conditions are assumed to be tight, with the growth of M3 being in or even below the projected range of 10-11 per cent. Recent changes in the wage-fixing system may hold back the acceleration in earnings associated with the improvement in labour market conditions, but some large settlements could generate a "flow-on" as other groups emulate them, and earnings growth could pick up again from early 1982.

Strong growth in private consumption is likely in the second half of 1981, reflecting the rebound in real disposable income due to lower fiscal drag and stronger farm incomes. A weaker trend in purchasing power is expected throughout 1982 but private consumption may, nonetheless, expand at about the average rate of recent years. The survey of investment expectations indicates an increase in the value of fixed capital expenditure of almost one-third in the fiscal year ending June 1982, but capacity constraints seem likely to limit the implied rapid growth in construction activity. The projected deceleration in the volume of business investment (from 19 per cent in 1981 to 7 per cent in 1982) is however an inevitable consequence of the very sharp rise experienced earlier. Tighter financial conditions are the main factor in the expected slackening of dwelling construction. The effect of last year's drought will constrain rural exports for much of the 1981-1982 season, but, given normal seasonal conditions, moderate growth could resume in 1982. Non-rural exports, other than coal, will continue to be limited by external market conditions in the immediate future, but could strengthen appreciably through the projection period as world trade picks up. The sharp rise in import volumes in the latter part of 1981, while associated with sustained buoyancy in final demand, suggests a rebuilding of non-farm inventories. A reaction to this is expected in the first half of 1982. Thereafter import volumes should recover, although at a slower pace in line with the slowing-down of domestic demand growth. The real foreign balance may therefore contribute to growth in 1982, following its markedly negative contribution in 1981. While the terms-of-trade could improve slightly in the latter part of 1982, the full-year will probably be less favourable, and the current external deficit, which could widen to close to 5½ per cent of GDP in 1981 (compared with 3 per cent in 1980), may be of the order of 5 per cent in 1982.

Inflation will probably remain moderate in the latter part of 1981, reflecting the earlier slowdown in import prices, but with these quickening and wage-cost pressures rising, the underlying rate of inflation

AUSTRALIA
Demand, output and prices
Percentage changes, volume (1974-75 prices)

	1980 current prices billion Aus. $	1980	1981	1982
Private consumption	74.4	3.1	3¼	3
Government consumption	20.5	3.7	2½	–¼
Gross fixed capital formation	28.0	4.2	9	4
Final domestic demand	122.9	3.4	4½	2¾
* plus change in stockbuilding	0.9[a]	–0.4	–½	½
* plus change in foreign balance	–0.8[a]	–0.4	–2½	¼
GDP at market prices[b]	123.0	2.5	3	3¼
GDP implicit price deflator	–	10.8	9¾	10¼
Memorandum items				
Consumer prices[c]	–	9.6	8¾	10¾
Industrial production	–	3.1	5	4¼

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) Includes statistical discrepancy not included in the components.
c) National accounts implicit private consumption deflator.

may accelerate somewhat thereafter. Taxation changes introduced in the Budget will have their main impact in the first half of 1982, when the rise in the consumption deflator may peak. The underlying rate of inflation is expected to be about 10½ per cent through 1982, a little higher than 1981. Labour market conditions should continue to improve. Even with employment growth of about 2 per cent (annual rate), however, a parallel recovery in participation rates could prevent unemployment from falling.

AUSTRIA

After the decline in the second half of 1980, real GDP picked up slightly in the first half of 1981, reflecting buoyant exports and relatively strong private consumption. Consumer demand benefited from an acceleration of wage increases. The reduction in investment demand continued, the fall in machinery and equipment investment being partly offset by a revival of construction activity. Total domestic demand continued to decline markedly, due to a strong reduction in stockbuilding. The export-induced improvement of the real foreign balance, however, more than outweighed the weakening of domestic demand. Due to the deterioration in the terms-of-trade the reduction in the current external deficit was modest. Inflation was among the lowest in the OECD area. Unemployment, while rising a little, has nevertheless remained low, averaging 2½ per cent of total labour force in 1981.

Fiscal policy continued to be moderately restrictive in 1981, but direct tax cuts at the beginning of 1982 should result in a broadly neutral stance of policy. Monetary policy too has remained restrictive, the exchange rate vis-a-vis the Deutschemark being held constant with interest rates at about the German level. With competitiveness improved by exchange rate developments over the last year, export demand should continue to rise strongly, but the current account deficit will remain sizeable in relation to GNP. A moderate recovery of domestic demand is projected for 1982. Unemployment is likely to continue to rise and inflation to decelerate only moderately.

BELGIUM

Composite indicators suggest that the trough of activity was reached around the beginning of 1981. Industrial production, excluding construction, grew slightly in the first half of 1981, but the sharp fall in construction has continued. Unemployment continued to worsen, reaching 10 per cent of the labour force in 1981 compared with 8 per cent a year earlier. Following the trend which began in mid-1980, the rise in real wages has remained very weak. Consumer prices have recently accelerated, under the influence of strong import price increases, the July VAT increases (which were compensated by a reduction in social security charges), and the gradual ending of the freeze on retail prices. The rise to November 1981 (compared with November 1980) was, however, less than 8 per cent. Although the volume movements of exports and imports have been quite similar (with falls of 3½ and 4¾ per cent respectively, in the first eight months of 1981 compared with the same period of 1980), the deterioration in the terms of trade of nearly seven points brought about a rise of around 50 per cent in the local-currency trade deficit of BLEU.

AUSTRIA
Demand, output and prices
Percentage changes, volume (1976 prices)

	1980 current prices billion schillings	1980	1981	1982
Private consumption	548.7	1.5	¼	1
Government consumption	177.5	1.6	2	2
Gross fixed capital formation	252.3	2.2	–1	–1¼
Final domestic demand	978.5	1.7	¼	¾
* plus change in stockbuilding	34.4[a]	1.1	–3½	½
* plus change in foreign balance	–16.9[a]	0.4	3¼	¾
GDP at market prices	995.9	3.1	0	1¾
GDP implicit price deflator	–	4.6	5¼	5½
Memorandum items				
Consumer prices[b]	–	6.2	6¾	6
Industrial production	–	2.7	–¾	2¾

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

BELGIUM
Demand, output and prices
Percentage changes, volume (1975 prices)

	1980 current prices billion B.F.	1980	1981	1982
Private consumption	2 173.2	1.8	–1½	0
Government consumption	617.0	1.6	½	½
Gross fixed capital formation	728.4	5.6	–6½	–2
Final domestic demand	3 518.6	2.6	–2¼	–¼
* plus change in stockbuilding	5.4[a]	–0.7	–¼	0
* plus change in foreign balance	–117.9[a]	0.6	1¼	1¼
GDP at market prices	3 406.1	2.5	–1¼	1
GDP implicit price deflator	–	4.3	6	7¾
Memorandum items				
Consumer prices[b]	–	6.7	7¾	7¼
Industrial production	–	–0.3	–1	2½

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) Consumer price index.

Monetary policy is tight, directed towards supporting the franc. Despite high real interest rates, the monetary authorities spent some $7 billion on intervention in support of the currency during the first nine months of 1981. In the absence of a government, the franc was not devalued against its central ECU rate in the early-October currency realignment which, however, implied an effective devaluation of 4 per cent in the year to early-October. Fiscal policy in 1982 has yet to be determined, because a new government is to be formed after the elections held on 8th November. It will face growing disequilibrium of public finances, with a deficit, on a national accounts basis, probably reaching around 12 per cent of GDP in 1981. Hence the projections for 1982 assume an increased tax burden. In this situation domestic demand will probably recover little in 1982, entailing a further rise in unemployment. With slowing import price growth and expected wage moderation in line with the March 1981 agreement, consumer prices are likely to decelerate through 1982. Partly due to improved cost competitiveness and the effective devaluation, exports may grow broadly in line with markets. Nonetheless, despite an expected improvement in the terms of trade, the current account deficit, as a percentage of GDP, may not be reduced much below 6 per cent.

DENMARK

Denmark continued in recession in the early part of 1981, with fixed investment falling in most sectors and unemployment approaching 9 per cent of the labour force. The sharp decline in domestic demand and imports over the last eighteen months or so contrasts with the steady growth of exports generated by the considerable improvement in the country's competitive position, brought about by the exchange rate adjustments in late 1979 and the subsequent appreciation of the dollar. Whereas a significant deterioration of the current account has thus been avoided after the second oil shock, the deficit has remained high (some 3½ per cent of GDP) due to rising interest costs on the foreign debt.

With early elections scheduled for 8th December the stance of economic policy in 1982 is extremely uncertain. However, on the basis of budget proposals presented by the outgoing government, economic policy has been assumed to become gradually less restrictive, implying some strengthening of domestic demand. Private consumption is projected to pick up, reflecting renewed growth of real disposable income. The recovery of residential construction and business investment is expected to be very modest,

DENMARK
Demand, output and prices
Percentage changes, volume (1975 prices)

	1980 current prices billion D. Kr.	1980	1981	1982
Private consumption	209.9	–4.1	–1½	2½
Government consumption	100.4	5.2	4	2½
Gross fixed capital formation	68.3	–13.7	–15½	3½
Final domestic demand	378.7	–3.7	–2½	2½
* plus change in stockbuilding	–0.3[a]	–0.8	0	½
* plus change in foreign balance	–4.3[a]	4.4	2	¼
GDP at market prices	374.1	–0.2	–½	3¼
GDP implicit price deflator	–	8.4	8¾	9½
Memorandum items				
Consumer prices[b]	–	11.9	10½	8½
Industrial production	–	0	0	4½

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

due to continuing high interest rates and low profits. However, the construction of a gas pipeline network should add substantially to demand and activity. Together with rising oil production from the North Sea, this may contribute some 1 percentage point to the growth of real GDP, which may thereby prove somewhat stronger than in other European OECD countries. As a result of wage indexation—the projection assumes that four index "portions" will be released in 1982—hourly wage costs may increase by some 12 per cent (10 per cent in 1981). Due to a pick-up in imports, the current deficit is expected to increase somewhat (despite continuing gains of export market shares). The rate of unemployment could stabilize at around 9 per cent.

FINLAND

Activity slowed down markedly during 1981 after two-years of rapid expansion. The growth rate of final domestic demand halved and there was a marked inventory adjustment in the first half of the year. For the year as a whole the trade balance made a positive contribution but deteriorated markedly in the second half. Exports had earlier remained buoyant despite a weakening in competitive position and a continued decline in shipments to Western markets as volume shipments to the Soviet Union rose by no less than two-thirds (s.a.a.r.) in the first six months. With relatively rapid growth of the labour force, unemployment started to increase. Although the growth of consumer prices has slowed to below the average for other smaller countries, it still exceeds the average OECD figure. The current external

balance has improved markedly despite a deterioration in the terms of trade.

While the central government fiscal stance has continued to tighten, this has been countered by the effect of local government operations, leaving the overall general government position approximately neutral. A relaxation in monetary policy stance through reductions in the banks' cash reserve deposits, together with weaker demand for credit, has led to easier monetary conditions, although the call-money market interest rate has remained relatively steady. Despite the recent Swedish devaluation, the effective exchange rate of the Markka has been held stable.

The central government budget for 1982 implies an easing in fiscal stance, with overall general government operations officially expected to boost GDP by around 1 per cent. Various counter-cyclical stabilisation funds are also to be released. Foreign market growth may pick up, but the recent deterioration in competitiveness could harm exports, while shipments to the Soviet Union are expected to fall. A volume decrease is foreseen for private fixed investment, while consumption will languish in view of a continued weak growth of household real disposable income. The outlook is thus for relatively sluggish growth, although some pick-up should occur in the latter part of 1982. Unemployment is expected to rise further, but not to approach the 1978-1979 peak, while an easing in external price pressures should contribute to some reduction in domestic inflation. With falling imports and some terms of trade improvement, the current account is likely to strengthen further, to reach approximate balance in 1982.

GREECE

Activity continued to weaken in 1981, with industrial production in the first eight months being slightly below the level of a year earlier. Retail sales fell by 3½ per cent over the same period, indicating a further decline in private consumption. Residential construction and business fixed investment also have declined further. Inflation was stable at about 25 per cent in the first ten months of 1981, with the effects of accelerating import prices being approximately offset by the freezing of some administered prices. The trade deficit remained at the same level as a year earlier. Coupled with a fall in emigrant's remittances and rising interest payments, this resulted in a rise in the current account deficit, which may have reached $2½ billion for 1981 as a whole.

Monetary conditions are assumed to remain accommodating throughout the projection period. Fiscal policy, after being strongly expansionary (the public sector deficit rose to an estimated 15 per cent of GDP, compared with 10 per cent in 1980) is assumed to be less so in 1982. Nevertheless rising government consumption together with private consumption are projected to be the principal sources of domestic demand growth in 1982. Reflecting the rebound in imports, the real foreign balance (after two years of strong positive contributions) is expected to have a neutral impact on real GDP growth in 1982. On the technical assumption of a constant exchange rate, inflation is projected to moderate but the competitive position will deteriorate, leading to a further increase in the current external deficit, which could reach $2¾ billion in 1982.

FINLAND
Demand, output and prices
Percentage changes, volume (1975 prices)

	1980 current prices billion Mk	1980	1981	1982
Private consumption	101.9	2.5	¾	½
Government consumption	34.5	4.2	3½	3½
Gross fixed capital formation	45.8	9.6	3½	–2½
Final domestic demand	182.2	4.5	2	¼
* plus change in stockbuilding[a]	5.4[b]	1.0	–2	0
* plus change in foreign balance	–1.5[b]	–0.3	2	1
GDP at market prices	186.1	5.0	1¾	1¼
GDP implicit price deflator	–	9.2	11¼	10¼
Memorandum items				
Consumer prices[c]	–	10.9	12	9¾
Industrial production	–	6.8	2¾	1½

* As a percentage of GDP in the previous period.
a) Including statistical discrepancy.
b) Actual amount of stockbuilding (including discrepancy) and foreign balance.
c) Consumer price index.

GREECE
Demand, output and prices
Percentage changes, volume (1970 prices)

	1980 current prices billion Dr.	1980	1981	1982
Private consumption	1 125.1	–0.2	0	1½
Government consumption	275.7	–0.4	4	2½
Gross fixed capital formation[a]	404.0	–8.3	–10	¾
Final domestic demand	1 804.8	–1.9	–1¼	1½
* plus change in stockbuilding	78.7[b]	0.1	0	0
* plus change in foreign balance	–143.8[b]	1.6	1	0
* plus error of estimate	–17.5[b]	1.9	0	0
GDP at market prices	1 722.1	1.7	–¼	1½
GDP implicit price deflator	–	18.4	24	24
Memorandum items				
Consumer prices[c]	–	24.9	25½	23
Manufacturing production	–	0.9	–¾	2

* As a percentage of GDP in the previous period.
a) Excluding ships operating overseas.
b) Actual amount of stockbuilding, foreign balance and error of estimate.
c) Consumer price index.

ICELAND

Economic growth in 1981 has been stronger than expected, mainly owing to higher private consumption and a stronger export performance. After the high rate of private and public investment in 1980, gross fixed capital formation may have decreased by 4 per cent. Policy measures implemented at the beginning of the year, in combination with the strengthening of the United States dollar, has led to some reduction in inflation. Despite less than full wage compensation for price increases, real disposable income may have risen, due to increased transfers, interest income and slightly lower direct income taxes. The current account has improved markedly, reducing the deficit to around ½ per cent of GNP, owing to favourable terms of trade, sustained growth of exports by the fishing and energy-intensive industries and a decline in imports in the face of stagnant domestic demand.

Output is projected to continue to grow sluggishly in 1982. While private consumption may hold up, private investment is likely to fall further and the public sector is also expected to cut back on capital outlays. Prospects for bringing down inflation will depend importantly on the authorities' success in checking domestic demand. Export volumes are projected to grow somewhat faster than import demand, and official estimates suggest a surplus on the trade account but approximate balance on the overall current external account.

IRELAND

The stance of fiscal policy has changed considerably since the January 1981 Budget. Indications in the first half of the year were of an Exchequer Borrowing Requirement appreciably larger than the 13 per cent of GNP originally envisaged, but in July the new Administration revised expenditure plans and increased indirect taxes to reduce the budgetary and external deficits. Even after these changes, there has nevertheless been a larger degree of fiscal stimulus in 1981 than in the previous year; the resulting estimate of the Exchequer Borrowing Requirement was 16½ per cent of GNP, compared with 14½ per cent in 1980. On the other hand, monetary conditions have tightened, interest rates having increased significantly. For 1982, it is assumed that the tax reform in the Government's programme—in particular direct tax reliefs and compensatory increases in indirect taxation—will be introduced in the next Budget, and that outlays will be restrained in line with the aim of reducing the current budget deficit. Monetary policy is also assumed to remain relatively tight.

With a strong recovery in manufactured exports and a decline in imports, the real foreign balance contributed substantially to non-agricultural output growth in the first half of 1981, though there was probably some destocking. Manufactured exports probably continued to expand in the second half of 1981, but imports are likely to have recovered strongly as fixed investment and stockbuilding picked up. With consumer demand expected to be weak, real GDP may show a rise of about 2 per cent for 1981 as a whole. In 1982 real GDP could rise by about 2½ per cent, the main stimulus coming from the real foreign balance while domestic demand remains sluggish. Despite the improvement in the real foreign balance in 1981, the current external deficit (national definition) will widen substantially, to over 13 per cent of GDP, but stronger export volumes, notably a re-

ICELAND
Demand, output and prices
Percentage changes, volume (1978 prices)

	1980 current prices billion I. Kr.	1980	1981	1982
Private consumption	830.0	0	2	2
Government consumption	159.0	2.0	2	1
Gross fixed capital formation	358.5	8.0	–4	–7
Final domestic demand	1 347.5	2.3	½	–½
* plus change in stockbuilding	8.5[a]	0.5	–¼	¼
* plus change in foreign balance	–31.8[a]	–0.2	1	1
GNP at market prices	1 324.2	2.5	1¼	1
GNP implicit price deflator	–	53.0	50	33
Memorandum item				
Consumer prices[b]	–	57.3	55	40

* As a percentage of GNP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) Consumer price index.

IRELAND
Demand, output and prices
Percentage changes, volume (1975 prices)

	1980 current prices million Ir. £	1980	1981	1982
Private consumption	5 522	–0.6	–¼	–½
Government consumption	1 834	4.0	½	–½
Gross fixed capital formation	2 552	–7.7	5¼	3¼
Final domestic demand	9 908	–1.7	1¼	½
* plus change in stockbuilding	–100[a]	–2.8	1¾	¼
* plus change in foreign balance	–1 131[a]	6.6	–1¼	1½
GDP at market prices	8 677	1.9	2	2½
GDP implicit price deflator	–	14.1	17¼	18¼
Memorandum items				
Consumer prices[b]	–	18.3	20	18¾
Industrial production	–	–2.0	4¼	5

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

covery in farm exports, and a better terms-of-trade outlook indicate an improvement, to about 11 per cent of GDP, in 1982. The effects of past and assumed fiscal measures, together with continued large wage increases, will keep consumer price increases high (21 per cent in the year to August 1981) but, with external pressures easing, the rate of increase should decelerate in the latter part of 1982. Employment may soon stop falling, but unemployment is likely to continue rising over the next year.

LUXEMBOURG

Weak foreign demand is now being accompanied by a widespread deceleration of domestic demand. Industrial production in the first eight months of 1981 fell by 9½ per cent from the same period in 1980 (—20 per cent for steel). The tertiary sector is still expanding, although at a diminishing rate, so that overall employment is now stagnating. Inflation accelerated to 8¾ per cent in the twelve months to October, and the real wage stagnation is in part due to the July modification of indexation, which slowed the pass-through of price increases into wages. The trade deficit, aggravated by a marked deterioration in the terms of trade, widened significantly in the first half of 1981, despite a fall of around 12 per cent (from the first half of 1980) in oil consumption. Nonetheless, the current account surplus remains above 20 per cent of GDP due to the substantial invisibles surplus.

With foreign demand expected to remain weak for Luxembourg's products, and the draft Budget deficit falling in nominal terms, GDP growth in 1982 is likely to be very limited. Nonetheless, unemployment will probably remain low by international standards. Industrial restructuring policies are being continued. Weakening import prices and further wage moderation should result in decelerating domestic prices. Following a deterioration in both the trade deficit and the services surplus (including investment income) in 1981, there could be an improvement in 1982, due in part to better volume developments.

LUXEMBOURG
Demand, output and prices
Percentage changes, volume (1975 prices)

	1980 current prices billion L.F.	1980	1981	1982
Private consumption	79.1	3.2	¾	0
Government consumption	22.2	1.6	1½	1¼
Gross fixed capital formation	33.9	0.1	–1½	0
Final domestic demand	135.2	2.1	¼	¼
* plus change in stockbuilding	2.7[a]	1.4	0	0
* plus change in foreign balance	–4.1[a]	–3.0	–3½	¼
GDP at market prices	133.8	0.6	–3¼	¼
GDP implicit price deflator	–	6.9	5¾	6½
Memorandum items				
Consumer prices[b]	–	7.7	8	7
Industrial production	–	–2.5	–8	–2

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) Consumer price index.

NETHERLANDS
Demand, output and prices
Percentage changes, volume (1977 prices)

	1980 current prices billion glds	1980	1981	1982
Private consumption	202.5	–0.9	–3¼	–2
Government consumption	60.4	1.4	¾	0
Gross fixed capital formation	69.8	–2.7	–7¾	–1¾
Final domestic demand	332.7	–0.9	–3½	–1¾
* plus change in stockbuilding	1.7[a]	0.2	–1¼	1
* plus change in foreign balance	–1.2[a]	1.2	2¾	1
GDP at market prices	333.3	0.5	–2	½
GDP implicit price deflator	–	5.3	5¾	6½
Memorandum items				
Consumer prices[b]	–	5.7	7	5¾
Industrial production	–	–0.4	–2¼	1

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) Cost of living index.

NETHERLANDS

The Dutch economy, one of the most open and least oil-dependent economies of the OECD, was severely hit by the 1980-1981 recession. Exports and industrial output fell sharply in the second half of 1980, and then stabilised at a depressed level in 1981. Policies had projected some fall in living standards, but this tendency was sharply accentuated by the appreciation of the dollar, that maintained import price increases close to 20 per cent—as well as inducing record interest rates at a time of decreasing demand. Real per capita disposable income and private consumption fell by 3½ per cent. Wage restraint and dollar appreciation also made for further increased competitiveness; during 1981 non-energy exports seem to have gained market shares. The adjustment of natural gas prices to previous oil price developments was another important influence contributing to the marked recovery of the current balance, which swung from a 1980 deficit equivalent to 1¾ per cent of GDP into a surplus of probably 1 per cent.

Domestic policies are designed to prevent another price wage spiral, to continue to improve external

competitiveness and to contain the public deficit. Direct income-policy intervention together with fiscal restraint in the social security area have been typical instruments both in 1980 and 1981. Further cuts in government expenditure plans and substantial increases in employees' social security contributions are foreseen for 1982. It is, however, intended to leave wage determination to free negotiation and to previously-suspended indexation. Given the 10 per cent unemployment rate and decelerating import price pressure, any marked acceleration of wage growth seems unlikely. The projection assumes a 7 per cent increase of compensation per employee in 1982, after some 5 per cent in 1981. In these circumstances, domestic demand is expected to continue to decrease through 1982, giving way to a moderate recovery only in the first half of 1983. Export prospects are, however, fairly buoyant. The projection takes a cautious view of the link between the competitive gains that have been built up over the last three years, and future export performance, but nevertheless a real growth of non-energy exports is projected at about double the rate of foreign market growth. Year-on-year, aggregate output may increase by half a per cent in 1982, reaching a rate of about 2 per cent in the second half of the year.

The current account is likely to return to the record high of the period 1972-1976, when the surplus was around 3 per cent of GDP. Natural gas prices are again a contributing factor, although much less so than in 1981. Consumer price increases are projected to decelerate to a rate of 5½ per cent in the first half of 1983, 2 percentage points below current inflation. Unemployment, having risen from 5¼ per cent of the dependent labour force at end-1979 to about 9½ per cent at end-1981, is expected to deteriorate further, with labour supply growth approaching a demographic peak. Hence, the intended reduction in the general government deficit, now running at 7 per cent of GDP, appears particularly difficult to achieve.

NEW ZEALAND

GDP in 1980 probably increased by about ¾ per cent but appears to have accelerated in the first half of 1981 and is expected to have shown continued moderate strength in the second half of the year. Final domestic demand in 1980 probably increased at the same rate as GDP, by about ¾ per cent, but was offset by a large reduction in stocks (a negative contribution of almost 2½ per cent of GDP) so that total domestic demand fell by 1¾ per cent. The fall, however, was almost entirely offset by a large positive

NEW ZEALAND
Demand, output and prices
Percentage changes, volume (1977 prices)

	1980[a] current prices million NZ $	1980	1981	1982
Private consumption	14 190	0.3	1½	1
Government consumption	4 240	0.1	1¼	0
Gross fixed capital formation	4 420	2.5	9½	3
Final domestic demand	22 850	0.7	3	1¼
* plus change in stockbuilding	–20[b]	–2.4	¾	¾
* plus change in foreign balance	–240[b]	2.6	–1	–¾
GDP at market prices[c]	22 590	0.8	2½	1¼
GDP implicit price deflator	–	14.9	15¼	16½
Memorandum item				
Consumer prices[d]	–	17.2	15¼	16½

* As a percentage of GDP in the previous period.
a) The values shown in current prices for 1980 refer to the 1980/81 financial year. The growth rates are for calendar years.
b) Actual amount of stockbuilding and foreign balance.
c) Includes statistical discrepancy not included in the components. For forecasting purposes, the statistical discrepancy is assumed to remain at its 1980 value throughout the forecasting period.
d) Consumer price index.

contribution from the real foreign balance. Import volumes fell sharply in response to weak domestic demand. Export volumes grew by 5 per cent as the result of a favourable agricultural season, a build-up of livestock numbers and strong growth in manufactured exports. In spite of this substantial improvement in trade volumes, however, an 11 per cent deterioration in the terms-of-trade prevented any improvement in the current external balance. Employment remained weak, unemployment increased sharply and inflation, although decelerating through the year, remained high with consumer prices increasing by 17 per cent between 1979 and 1980.

The prospects for 1981 and into 1982 are for a recovery in the growth of both total real domestic demand and output, originating from strong growth in private and public fixed investment, from an end to the rundown of stocks and from the consumption consequences, both private and public, of an expanded fiscal deficit. The expected recovery is partly associated with investment in dwellings but mainly reflects the beginning of the construction phase of a number of large-scale development projects in petrochemicals, aluminium, steel and forestry. The expansion is expected to lead to a deterioration of the current external balance to 14 per cent of GDP in 1981 and 4½ per cent in 1982, but to be accompanied by an improvement in employment growth and a stabilisation of the unemployment rate. The increase in the fiscal deficit, from 4.9 per cent of GDP in 1979-1980 to 7½ per cent in 1981-1982 (fiscal years ending March), together with a considerably easier stance of monetary policy, is expected

to lead to M3 growth of over 20 per cent in the year to March 1982 and, in spite of some deceleration in import prices, to domestic inflation in 1982 of around 16½ per cent.

NORWAY

Domestic demand and exports grew moderately in 1981. Private consumption may have increased by around 2 per cent, despite some weakening through the year due to a marked tightening of consumer credit conditions. Business fixed investment continued to be dominated by buoyant activity in the oil sector, whereas investment in other sectors increased only slightly. In spite of sluggish market growth, export volumes have held up rather well, due to earlier improvements in competitiveness. Over the last 18 months or so, however, unit labour costs have again tended to increase faster than those of main competitors. The rise in consumer prices—some 3 to 4 percentage points above the OECD average—has to an increasing extent been due to domestic rather than external factors. In August, the Government introduced a price freeze (effective until end-year), suspended the price clause in the current wage contracts and announced temporary cuts in income taxes. The rate of unemployment has edged slightly upwards since 1980, but remains among the lowest in the OECD area. The current external surplus has increased further, boosted by terms-of-trade gains and important sales of ships.

The National Budget for 1982 presented by the previous Government implied a slightly less expansionary fiscal stance than in recent years, and continued tight credit policies in the wake of a persistently high budget deficit (excluding oil revenues). Amendments announced by the new Government formed after the September general election include tax cuts financed by reductions in public consumption and transfers. Nominal income and price developments will depend on the Spring 1982 wage settlement. The outcome of that is uncertain, because it will take place in the re-entry phase after a price freeze. Moreover, the effects on wage claims of the direct tax cuts are also difficult to assess. Investment in the oil sector will be markedly less buoyant in 1982 whereas more traditional sectors are planning for investment somewhat below 1981 levels. Exports should pick up as foreign demand recovers, but may be hampered by the most recent loss in competitiveness which is expected to continue in 1982. On the basis of a cautious estimate of oil production next year, the current account surplus may be significantly reduced, assuming roughly unchanged terms of trade and some restocking of import goods.

PORTUGAL

Domestic demand growth probably slowed down in 1981 after the acceleration of the previous year. Households' consumption growth is likely to have weakened because of a slower increase in real wages following the strong gains in 1980. The growth of real private investment has probably decelerated because of a squeeze on profit margins in 1980 and mediocre demand prospects.

Because of some loss of competitiveness due to the slowing down of the depreciation of the escudo

NORWAY
Demand, output and prices
Percentage changes, volume (1975 prices)

	1980 current prices billion N.Kr.	1980	1981	1982
Private consumption	133.2	1.7	2	1¼
Government consumption	53.6	4.1	4	3¼
Gross fixed capital formation	70.9	1.9	12¼	–2¼
Final domestic demand	257.6	2.3	5¼	½
* plus change in stockbuilding	8.7[a]	2.6	–3½	1¾
* plus change in foreign balance	16.6[a]	–1.0	0	–2¼
GDP at market prices[b]	283.0	3.8	1½	0
GDP implicit price deflator	–	15.4	12	9½
Memorandum items				
Consumer prices[c]	–	10.5	13¾	10¼
Industrial production[d]	–	1.2	–1	1½

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) GDP excluding oil and shipping: 1980:1.7; 1981:2½; 1982:¾.
c) National accounts implicit private consumption deflator.
d) Excluding oil sector.

PORTUGAL
Demand, output and prices
Percentage changes, volume (1979 prices)

	1980 current prices billion escudos	1980	1981	1982
Private consumption	889.4	4.5	3	2
Government consumption	186.2	5.6	4	4
Gross fixed capital formation	252.5	9.0	6	3
Final domestic demand	1 328.1	5.5	3¾	2½
* plus change in stockbuilding	50.0[a]	1.0	¼	0
* plus change in foreign balance	–172.8[a]	–1.3	–2	0
GDP at market prices	1 205.3	5.5	2½	2¾
GDP implicit price deflator	–	14.9	18	19¼
Memorandum items				
Consumer prices[b]	–	16.6	18½	18½
Industrial production	–	5.7	4	4

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

in 1980 and very weak export market growth, exports may not have increased at all in 1981. And given the strong increase in food imports following a serious drought, the contribution of the foreign balance is likely to be substantially negative. GDP growth in 1981 is therefore expected to be 2½ per cent, compared with 5½ per cent in 1980. The current account should register a $1¾ billion deficit, or nearly 7½ per cent of GDP, owing to a 3 per cent deterioration of the terms of trade, the upsurge in food imports and the effect on emigrants' remittances of the appreciation of the dollar against the currencies of host countries. Price controls were relaxed considerably in 1981, and public utility tariffs were raised during the summer, so that the rate of inflation should attain 18½ per cent on average in 1981, with a much stronger rise through the year.

Faced with a resurgence of inflationary pressure and a widening current account deficit, the stance of monetary policy became more restrictive in July 1981. Credit ceilings were tightened, reserve requirements revised upwards and lending interest rates increased. This should have a negative effect on domestic demand in 1982, particularly private investment. The foreign balance should make a fractionally positive contribution to growth, unlike in the previous two years, but the rate of increase of GDP may not be more than 2¾ per cent. Despite a slight improvement in the terms of trade, stronger growth of exports than of imports and an assumed normal trend of services and transfers, the current balance deficit should only stabilise at the previous year's level in dollars, some 6¾ per cent of GDP, because of the large initial imbalance. Given the present stance of policy and the projected moderate increase in import prices, inflation might slow down in the course of 1982, but the average rate of increase should not differ from that observed in 1981.

SPAIN

Activity remained stagnant in the first half of 1981, a recovery in investment (notably in machinery and equipment) being offset by a fall in exports and private consumption. Unemployment continued to edge upward, albeit more slowly, to 14 per cent of the labour force in the second quarter. Despite accelerating food prices, consumer price inflation continued to abate due to a marked deceleration in non-food elements, which reflected weak demand conditions, further moderation in wage increases and higher productivity. The trade deficit in the first half of 1981 was of the same order as that of a year earlier, but the current account deficit widened

SPAIN
Demand, output and prices
Percentage changes, volume (1970 prices)

	1980 current prices billion pesetas	1980	1981	1982
Private consumption	10 621.0	1.0	–½	½
Government consumption	1 696.0	3.2	3	3
Gross fixed capital formation	3 049.2	1.0	2¼	3¾
Final domestic demand	15 366.2	1.2	½	1½
* plus change in stockbuilding	165.9[a]	0.3	–¼	¼
* plus change in foreign balance	–316.4[a]	0.1	1¼	1
GDP at market prices	15 215.7	1.5	1½	2½
GDP implicit price deflator	–	13.5	13¼	11
Memorandum items				
Consumer prices[b]	–	15.5	14¾	12
Industrial production[c]	–	1.1	1½	2¾

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) Consumer price index.
c) Value added.

by $¾ billion to $4.1 billion (settlement basis, actual rate), due mainly to a fall in tourism receipts (in dollars) and rising payments on investment income.

The fiscal policy stance has remained expansionary, with the actual budget deficit in 1981 likely to be substantially greater than initially expected. As in 1981, the 1982 budget aims at providing stimulus through a large increase in capital spending as part of the medium-term public investment programme, and a reduction in social security costs to companies. In the budget proposal, the State borrowing requirement is to rise to around 900 billion pesetas in 1982, more than double that of the 1981 budget. The growth of M3 has so far remained at the lower end of the target range, reflecting more the weakening of real demand and the moderation of inflation than a tightening of policy. The stance of monetary policy is assumed to remain neutral in 1982. The present projection also assumes that the important tripartite agreement on employment and wages (ANE) signed last June will be adhered to by the social partners.

Conjunctural indicators point to some pick-up in activity in the second half of 1981, led by a continued strengthening of investment and a revival of exports (including tourism). On present policies and the customary technical assumptions, this recovery may gather some momentum in the course of 1982, leading to a smaller decline in total employment including the self-employed. Given the marginal increase in real wages, little expansion of private consumption seems likely. With a moderation in increases of both wages and import prices, inflation may slow down. Buoyant exports and a moderate recovery of imports are likely to result in some improvement in the current external balance.

SWEDEN

Activity growth slowed down sharply in the first half of 1981, with domestic as well as foreign demand falling considerably. Only public consumption growth and stock-building of finished goods were positive. The fall in private consumption—more than 5 per cent (s.a.a.r.)—exceeded that of households' real disposable income, partly due to tight consumer credit conditions. The downturn in business fixed investment coincided with continuing sluggishness of residential construction and a decline in public investment. Despite some growth of foreign markets, export volumes dropped markedly, the loss of market shares reflecting a weaker competitive position in some key European markets. Employment declined, but the rise in unemployment was dampened by a slower increase in the labour force. The current account deficit was significantly reduced, as import volumes fell by some 15 per cent (s.a.a.r.) in response to the weakening of final demand and a considerable destocking of oil and oil products. Inflation, as measured by the consumer price index, remained well above the OECD average.

The policy measures adopted during the autumn (devaluation of the krona by some 10 per cent, price freeze until end-1981, reduction in the VAT rate by 1½ percentage points as from 16th November, certain cutbacks in public expenditure and a cut in the discount rate) should help to generate an export-led upswing in early 1982. On the assumption that the threshold clause in the current wage contracts is not triggered in 1981, household real disposable income may fall also in 1982, and private consumption may thereby remain weak. While a further deceleration in the growth of public consumption is planned, business fixed capital formation should be favourably affected by the devaluation and the improved outlook for capacity utilization and external demand. Exports of manufactures could increase by some 8 per cent, well above the growth of foreign markets. Due to a terms-of-trade loss, the deficit on current account could nevertheless remain at some 3 per cent of GDP. Although the rise in consumer prices may be expected to decelerate somewhat—with the cut in VAT partly offsetting the effects of the devaluation—the price clause in the wage settlement could well be triggered in 1982, affecting wage costs in 1983. After reaching a peak of some 3 per cent in early 1982, the rate of unemployment is expected to fall somewhat during the year. An important uncertainty concerns the future development of wages, as the improvement in profits in exposed sectors in the wake of the devaluation may affect both wage drift in 1982 and wage claims in the spring 1983 settlement.

SWITZERLAND

After exceptional growth in 1980, economic activity remained buoyant in the first half of 1981, but a slowdown in domestic demand probably started in the middle of the year as the result of a virtual standstill in real wages and the impact of rising mortgage rates on construction. Exports appear to have increased less than expected given market growth and the improvement in competitiveness that took place in 1979 and 1980, but imports have grown very sluggishly so that the foreign balance made a

SWEDEN
Demand, output and prices
Percentage changes, volume (1975 prices)

	1980 current prices billion S.Kr.	1980	1981	1982
Private consumption	267.0	–0.2	–2½	–½
Government consumption	154.5	2.6	2½	1¼
Gross fixed capital formation	101.3	2.8	–4¼	–3¼
Final domestic demand	522.9	1.2	–1½	–½
* plus change in stockbuilding	7.7[a]	1.4	–¾	1
* plus change in foreign balance	–11.8[a]	–1.2	2	1
GDP at market prices	518.8	1.4	0	1½
GDP implicit price deflator	–	11.6	10	9½
Memorandum items				
Consumer prices[b]	–	12.1	11	10
Industrial production	–	0.2	–1½	3

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

SWITZERLAND
Demand, output and prices
Percentage changes, volume (1970 prices)

	1980 current prices billion S.F.	1980	1981	1982
Private consumption	107.7	2.5	¾	½
Government consumption	22.0	1.6	1	1½
Gross fixed capital formation	40.5	9.9	4	–2½
Final domestic demand	170.2	4.3	1½	–¼
* plus change in stockbuilding	5.2[a]	1.3	–1	–¾
* plus change in foreign balance	–6.0[a]	–1.2	½	1¼
GDP at market prices	169.4	4.4	1¼	¼
GDP implicit price deflator	–	2.7	5	4½
Memorandum items				
Consumer prices[b]	–	4.0	6½	4¾
Industrial production	–	5.3	1¼	2¼

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) Consumer price index.

positive contribution to growth in 1981. Even so, GDP growth decelerated from 4.4 per cent in 1980 to perhaps 1¼ per cent in 1981. With an improvement in the terms-of-trade and a marked increase in the invisibles surplus, the current balance should swing from a deficit of $0.5 billion in 1980 to a surplus of around $2.5 billion in 1981. The recent acceleration in inflation, largely attributable to the rise in import prices, could continue to be fuelled by the effect of the higher mortgage rates on rents and might attain 6.5 per cent year-on-year.

Monetary policy, already restrictive in 1980, was tightened in 1981 to counter inflation, showing up in zero growth of the monetary base and M1 during the first half-year and rising interest rates (the discount rate was raised in stages to 6 per cent in September 1981 from 3 per cent at end-1980). The budget deficit as a percentage of GDP, approximately ½ per cent, should be about the same in 1982 as in the previous two years. Domestic demand may decline in 1982, with a particularly steep fall in investment and a negative contribution of stock changes. Even though the foreign balance is likely to make a stronger contribution than in 1981, GDP may show little or no growth. A further improvement in the terms of trade, stronger export than import volume growth and rising net invisibles receipts should cause the current account surplus to widen, to perhaps $4½ billion dollars in 1982. Inflationary pressures should ease during 1982, but the expected slowdown in consumer price increases will be gradual and, year-on-year, the index could rise by a little under 5 per cent.

TURKEY

Owing to the effect of the Turkish recovery programme and an inflow of foreign aid, economic performance improved considerably in 1981; GDP growth for the year as a whole has probably increased by 4 per cent, or slightly more, while inflation fell from a year-on-year rate of over 100 per cent to around 35 per cent. Expansion of domestic consumption was kept tightly in check by policy, while exports grew rapidly. Investment demand grew somewhat. Although imports and interest payments on the foreign debt rose, better export performance and growth in invisible receipts (notably workers' remittances), led to a small improvement in the current account deficit, which fell from around $3 billion to some $2½ billion.

TURKEY
Demand, output and prices
Percentage changes, volume (1968 prices)

	1980 current prices billion T.Liras	1980	1981	1982
Private consumption	3 062.5	0.9	2	3¼
Government consumption	713.8	6.7	3½	5¼
Gross fixed capital formation	751.8	–6.1	6¼	7½
Final domestic demand	4 528.1	0.5	3	4¼
* plus change in stockbuilding	129.3[a]	–0.3	–½	½
* plus change in foreign balance	–332.0[a]	–0.9	1½	½
GDP at market prices	4 325.5	–0.7	4	5¼
GDP implicit price deflator	–	84.9	35¼	25¼
Memorandum items				
Consumer prices[b]	–	95.9	36	26¼
Manufacturing production	–	–5.2	8¼	8¼

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

Improvement should continue in 1982, with GDP rising by perhaps a little over 5 per cent. Assuming that current fiscal and monetary policy is pursued, exports should increase further, albeit not as strongly as in 1981. Investment demand could accelerate further in the light of the improved business outlook and the expected upturn in domestic savings. This would leave room for an increase in real consumption of around 3 per cent, taking the recent improvement in real disposable wages and salaries into account. The underlying rate of inflation should decelerate further, although the planned introduction of VAT may retard this.

The growth projected for 1982 is likely to be accompanied by an increase in import volumes, so that the current balance deficit will probably not fall below $2½ billion, despite further expected export growth.

TECHNICAL ANNEX

Detailed Supporting Tables

Table 32
Comparison of private consumption deflators and GNP/GDP deflators
Percentage changes from previous year

	Average 1969 to 1979		1980		1981		1982	
	Private consumption deflator	GNP/GDP deflator	Private consumption deflator	GNP/GDP deflator	Private consumption deflator	GNP/GDP deflator	Private consumption deflator	GNP/GDP deflator
United States	6.3	6.5	10.2	8.9	8½	9	7½	8
Japan	8.6	7.6	7.1	3.2	4¾	3¼	4¼	4¼
Germany	4.9	5.5	5.4	4.8	5¾	4	4½	3½
France[b]	8.5	8.8	13.5	11.5	13½	12	13¾	14
United Kingdom	12.2	12.7	16.0	18.9	11	12¼	10¼	9
Italy	13.1	13.3	20.4	20.4	19¼	17¾	16	16
Canada	7.0	8.1	10.5	10.6	11½	10	11¼	11
Major seven countries	7.4	7.5	10.6	9.1	9	8½	8¼	8¼
Austria	6.1	6.3	6.2	4.6	6¾	5½	6	5½
Belgium[b]	6.6	7.1	6.7	4.3	7¾	6	7¼	7¾
Denmark	9.7	9.7	11.9	8.4	10¼	8¾	8¼	9¼
Finland[b]	10.5	10.8	10.9	9.2	12	11¼	9¾	10¼
Greece[b]	11.4	12.3	24.9	18.4	25¼	24	23	24
Iceland[b]	29.6	30.8	57.3	53.0	55	50	40	33
Ireland	12.7	13.1	18.3	14.1	20	17¼	18¾	18¼
Luxembourg[b]	6.3	6.7	7.7	6.9	8	5¾	7	6¼
Netherland[c]	7.5	7.7	5.7	5.3	7	5¾	5¾	6¼
Norway	8.2	8.2	10.5	15.4	13¾	12	10¼	9¾
Portugal	15.0	14.2	16.6	14.9	18¼	18	18¼	19¾
Spain[b]	14.3	14.3	15.5	13.5	14¾	13¼	12	11
Sweden	8.8	9.0	12.1	11.6	11	10	10	9½
Swizerland[b]	5.2	5.4	4.0	2.7	6¼	5	4¾	4¼
Turkey	26.0	25.7	95.9	84.9	36	35¼	26¼	25¼
Total smaller European countries	9.0	8.9	13.3	11.3	12¾	11	11	10¾
Australia	10.1	10.3	9.6	10.8	8¾	9¾	10¾	10¼
New Zealand[b]	11.8	12.3	17.2	14.9	15¼	15¼	16¼	16¼
Total (excluding major seven)	9.1	9.1	13.0	11.3	12¼	11	11¼	10¾
Total OECD	7.7	7.8	11.0	9.5	9½	9	8¾	8½
OECD Europe	8.6	8.8	12.7	11.8	12	10½	10¾	10
EEC	8.3	8.6	11.9	11.2	11¼	10	10½	10

a) Aggregates were computed on the basis of 1980 values expressed in 1980 US dollars.
b) Consumer price index instead of national accounts implicit private consumption deflator.
c) Cost of living index.

Table 33
Exchange rates of OECD countries
Spot rates in terms of units of national currency per US $

	1978	1979	1980	1981[a]	1980 I	1980 II	1981 I	1981 II[a]	Average exchange rate 12 October-6 November 1981
United States	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Canada	1.1406	1.1710	1.1693	1.2015	1.1672	1.1714	1.1961	1.2069	1.2019
Japan	210.4384	219.1975	226.6964	222.2531	238.0550	215.3378	212.8251	231.6812	231.3706
France	4.5118	4.2546	4.2261	5.4297	4.1807	4.2715	5.1384	5.7211	5.6384
Germany	2.0086	1.8328	1.8172	2.2602	1.7917	1.8427	2.1818	2.3386	2.2427
Italy	848.7261	830.9240	856.4388	1135.8330	838.2402	874.6374	1067.3450	1204.3220	1194.2720
United Kingdom	0.5214	0.4720	0.4302	0.5005	0.4409	0.4195	0.4576	0.5435	0.5422
Belgium-Luxembourg	31.5001	29.3130	29.2526	37.0956	28.9285	29.5767	35.4912	38.7001	37.5983
Netherlands	2.1639	2.0059	1.9876	2.4987	1.9716	2.0037	2.4059	2.5915	2.4771
Ireland	0.5214	0.4866	0.4866	0.6219	0.4823	0.4910	0.5936	0.6503	0.6335
Greece	36.7330	37.0384	42.6393	55.3369	41.1634	44.1152	52.6251	58.0488	56.6297
Denmark	5.5110	5.2605	5.6357	7.1169	5.5877	5.6838	6.8140	7.4197	7.2047
Norway	5.2414	5.0628	4.9368	5.7538	4.9419	4.9317	5.5120	5.9957	5.9146
Sweden	4.5168	4.2867	4.2292	5.0644	4.2331	4.2253	4.7143	5.4145	5.5287
Finland	4.1066	3.8871	3.7196	4.3137	3.7332	3.7060	4.1505	4.4770	4.4009
Iceland	270.7815	353.3413	479.9110	13.3024	426.3303	533.4916	660.8366	765.7682	768.5550
Austria	14.5302	13.3688	12.9403	15.9218	12.8205	13.0601	15.4278	16.4159	15.7142
Switzerland	1.7882	1.6631	1.6761	1.9736	1.6747	1.6774	1.9663	1.9810	1.8549
Spain	76.6973	67.1510	71.7216	92.2483	69.1224	74.3209	87.5679	96.9287	95.9710
Portugal	43.9247	48.8981	49.9936	61.9482	49.3954	50.5917	58.0565	65.8400	64.5148
Turkey	24.0416	37.5336	76.0361	109.4420	69.4468	82.6255	97.8341	121.0500	126.5702
Australia	0.8725	0.8946	0.8771	0.8693	0.8981	0.8560	0.8636	0.8749	0.8758
New-Zealand	0.9608	0.9783	1.0271	1.1548	1.0289	1.0254	1.0992	1.2104	1.2149

a) On the technical assumption that exchange rates remain at their average level of the four weeks 12th October - 6th November 1981 except for Portugal and Turkey where exchange rates vary according to official exchange rate policy.

Table 34
Effective exchange rate changes of OECD countries[a]

Percentage changes from 1st quarter 1970

	1978		1979		1980		1981		Average 12 October - 6 November 1981
	I	II	I	II	I	II	I	II[b]	
United States	−18.3	−23.4	−22.8	−23.2	−22.5	−23.3	−15.8	− 9.6	−11.2
Canada	−13.9	−20.6	−20.8	−20.7	−20.1	−21.4	−19.6	−17.1	−17.3
Japan	40.1	62.4	47.5	32.4	27.7	41.8	55.5	49.3	47.5
France	−12.6	−11.8	−12.6	−12.4	−11.8	−12.5	−16.1	−19.2	−20.4
Germany	42.0	42.4	46.6	50.1	50.9	47.6	42.7	43.2	45.8
Italy	−47.3	−49.1	−50.2	−50.2	−51.0	−52.6	−55.3	−57.6	−58.5
United Kingdom	−37.9	−39.3	−36.6	−33.2	−30.3	−26.4	−24.0	−32.2	−33.4
Belgium-Luxembourg[c]	12.1	11.2	12.3	12.3	12.3	11.5	8.1	6.9	6.8
Netherlands	19.5	18.4	20.3	19.5	20.3	20.2	16.5	17.0	19.1
Ireland	−24.7	−25.6	−25.1	−25.1	−26.2	−28.5	−34.3	−33.4	−32.6
Greece	−37.9	−41.4	−42.4	−44.4	−49.4	−52.3	−54.3	−55.4	−55.5
Denmark	9.2	9.1	9.7	6.1	−0.1	−1.7	− 7.4	− 7.4	− 6.3
Norway	12.3	9.6	8.6	8.0	10.0	10.6	12.3	12.9	12.4
Sweden	−10.5	−11.3	−11.7	−10.9	−11.0	−10.5	− 8.7	−13.9	−17.8
Finland	−17.3	−19.9	−19.6	−18.3	−16.6	−15.9	−14.9	−13.7	−13.7
Iceland	−69.6	−75.6	−78.5	−81.6	−83.6	−86.8	−88.3	−89.2	−89.5
Austria	27.5	25.3	27.3	31.1	33.7	32.4	29.0	29.8	31.4
Switzerland	80.1	97.8	90.4	92.8	88.6	89.6	84.0	98.0	106.4
Spain	−29.3	−26.5	−21.8	−21.4	−24.4	−29.3	−32.3	−34.4	−35.2
Portugal	−42.8	−50.2	−53.5	−55.9	−55.8	−56.8	−57.7	−58.5	−58.7
Turkey[d]	−51.9	−59.3	−62.5	−79.1	−85.5	−87.9	−88.3	−89.4	−89.5
Australia	−17.8	−24.1	−24.2	−23.1	−22.2	−21.1	−17.4	−12.1	−13.0
New-Zealand	−17.7	−20.3	−20.4	−25.3	−26.9	−28.5	−28.3	−29.3	−30.3

a) Using 1972 trade weights with allowance for third market effects along the lines of the IMF Multilateral Exchange Rate Model.
b) On the technical assumption that exchange rates remain at their average level of the four weeks 12th October - 6th November 1981.
c) Commercial rate.
d) Measured from 9th August 1970 official parity.

Table 35
Volume of imports of major OECD countries and country groups

Customs basis; percentage changes from previous period, seasonally adjusted at annual rates[a]

	1978	1979	1980	1981	1982	1980	1981		1982		1983
						II	I	II	I	II	I
United States[b]	7.1	2.3	−7.1	1¼	1¼	−16.6	13.1	−1	−2½	11	9
Canada	3.8	9.7	−5.3	5	3	−3.4	10.8	2	3	4	3
Japan	6.3	11.3	−6.3	−3¾	1¼	−6.5	−1.0	−6	3¼	5	5½
France	6.1	11.5	5.3	−3½	5¾	−1.3	−7.6	2½	7	6¾	6
Germany	7.9	9.2	2.1	−4	3½	−9.1	0.7	−8	7½	7½	7½
Italy	8.7	14.2	3.1	−9	3	11.2	−20.0	−4	5½	5	6½
United Kingdom	7.6	9.8	−4.2	−5¾	9	−16.4	−11.5	20	5½	6	7
Major seven countries	7.0	8.2	−2.4	−2¾	3½	−8.6	−0.6	−½	3¼	7½	7
Other OECD countries	0.4	7.6	2.1	−2¼	3½	−2.1	−5.1	3	3½	4½	4
Total OECD	5.0	8.1	−1.2	−2½	3½	−6.8	−1.9	½	3½	6½	6¼
Memorandum item											
EEC	6.5	9.6	0.8	−5	4½	−6.1	−7.3	¾	5¼	6¼	6¼

a) Seasonally adjusted data are used for calculating semiannual as well as annual changes. The latter may therefore differ from changes based on unadjusted or annual data.
b) Derived from values and unit values on a Bureau of the Census basis.

Table 36
Volume of exports of major OECD countries and country groups

Customs basis; percentage changes from previous period, seasonally adjusted at annual rates[a]

	1978	1979	1980	1981	1982	1980	1981		1982		1983
						II	I	II	I	II	I
United States[b]	9.9	11.2	7.9	−¾	−5½	−3.0	6.7	−12½	−3½	−2¼	1½
Canada	9.3	2.0	−0.8	2¼	1¼	5.3	2.3	−1	1¾	3	3
Japan	−1.1	−0.5	18.4	13	7¼	12.1	12.4	14½	2	11	11¼
France	6.6	9.9	1.6	4½	4½	−3.3	8.6	5	3¾	5	5½
Germany	4.5	7.4	3.9	6¾	11	−10.2	13.8	11½	11	10½	10½
Italy	11.0	7.8	−7.8	3¾	6	−9.1	8.5	8	5½	5¾	6¼
United Kingdom	4.5	2.1	1.7	−3	2¾	−5.9	−6.7	8¾	½	1¾	3¼
Major seven countries	5.9	6.4	4.6	3¾	3½	−2.9	7.3	3½	3	5	6½
Other OECD countries	5.2	7.4	2.6	1	5½	−3.0	1.3	4½	6	6	6½
Total OECD	5.7	6.7	4.0	3	4	−2.9	5.7	3¾	3¾	5¼	6½
Memorandum item											
EEC	4.4	6.9	1.2	2¾	6½	−7.1	5.4	7¾	6	6¼	7

a) Seasonally adjusted data are used for calculating semiannual as well as annual changes. The latter may therefore differ from changes based on unadjusted or annual data.
b) Derived from values and unit values on a Bureau of the Census basis. A series-break adjustment has been made to the unit value index for 1979.

Table 37
Foreign trade volumes of selected other OECD countries

Customs basis: percentage changes

	Exports					Imports				
	1978	1979	1980	1981	1982	1978	1979	1980	1981	1982
Belgium-Luxembourg	3.3	5.1	1.5	−2¼	5	4.3	6.4	1.2	−6	3
Netherlands	2.7	8.6	1.3	1	4½	5.2	6.5	−1.1	−4¾	2¼
Ireland	10.7	7.8	6.6	2½	9½	14.6	13.6	−5.0	3½	4¾
Denmark	6.5	10.1	6.3	2¼	5½	2.6	7.5	−8.0	−4	5¾
Norway	16.2	2.7	1.8	−¼	2½	−17.2	3.0	4.6	1¼	7¼
Sweden	9.8	8.0	−2.6	−1	7½	−7.0	14.0	1.1	−8	3¾
Finland	7.0	9.4	10.7	3¾	1½	−4.5	17.9	12.1	−3½	−1¾
Austria	10.1	13.0	5.4	4¾	9	−1.5	10.6	7.8	−4½	5
Switzerland	4.8	3.2	1.8	3¼	5½	10.5	8.3	2.8	2¼	3
Spain	24.4	8.0	3.0	2¾	8½	−3.8	12.0	3.3	−5¾	3½
Australia	−0.9	9.5	2.4	−4¼	4¼	5.5	−1.0	4.3	10¾	3¼
New Zealand	2.0	9.4	3.2	4	3¼	−9.5	9.6	−1.3	8	6
Memorandum item										
Norwegian traditional trade[a]	6.6	8.1	0.7	3	4	−9.8	4.7	9.0	−3	3

a) Excluding ships, drilling platforms, and exports of oil and gas.

Table 38
Foreign trade prices (average values) of major OECD countries and country groups

Percentage changes; national currency terms

	Exports					Imports				
	1978	1979	1980	1981	1982	1978	1979	1980	1981	1982
United States	7.7	16.1	10.6	9½	6½	8.7	17.3	27.4	5½	¾
Canada	8.5	20.8	16.9	7¼	4	13.6	14.2	16.2	10¾	5¼
Japan	3.9	9.9	10.9	2	4¾	−17.7	30.4	40.5	1¼	4
France	5.7	8.6	13.0	12¾	11	1.8	10.4	19.1	18½	9
Germany	0	3.1	7.0	6	4	−3.6	9.9	14.5	12½	4½
Italy	7.0	17.7	21.2	21¾	12¾	4.5	18.5	30.2	33½	9
United Kingdom	7.3	11.9	14.7	6½	8¼	3.0	7.7	10.9	8	11¼
Major seven countries	3.7	11.2	11.9	8¼	7	0.9	14.7	22.6	11¼	5½
Other OECD countries	2.7	10.8	14.2	11¾	7¼	2.3	11.7	20.2	14½	6¾
Total OECD	3.4	11.1	12.5	9½	7	1.3	13.8	21.9	12¼	5¾
Memorandum item										
EEC	2.8	8.6	12.5	10¾	7½	0.1	11.0	17.4	16¾	7

Table 39
Foreign trade prices (average values) of selected other OECD countries

Percentage changes; national currency terms

	Exports					Imports				
	1978	1979	1980	1981	1982	1978	1979	1980	1981	1982
Belgium-Luxembourg	0.9	11.5	12.0	7	6¼	1.8	9.9	15.9	14	5¼
Netherlands	−1.8	8.8	13.3	15½	4½	−1.8	10.7	15.5	15¾	2¼
Ireland	7.0	9.3	11.2	14¼	10	5.0	14.3	18.6	18¾	9
Denmark	3.5	8.5	14.4	14½	6¼	1.0	13.7	22.4	18¾	4¾
Norway	2.2	17.6	30.1	12¼	5	3.9	10.3	14.6	7	6½
Sweden	8.5	12.6	13.2	11¼	11½	9.8	16.4	18.7	13½	13½
Finland	5.9	12.5	10.6	11¼	6¾	11.3	15.2	19.2	12½	5¼
Austria	0	3.3	4.4	7	3¾	0	5.2	8.9	13	2½
Switzerland	−4.9	3.3	10.6	4½	8	−10.9	5.8	21.6	−1	5½
Spain	2.0	10.8	19.6	16	9¾	10.1	3.1	39.6	28¼	7½
Australia	3.3	21.3	13.2	5	5	6.0	21.4	15.9	2¾	5¼
New Zealand	9.0	17.0	17.1	14½	12½	4.0	21.4	27.5	12½	11½
Memorandum item										
Norwegian traditional trade[a]	1.2	14.8	12.4	7	7	4.9	11.4	14.6	5	6

a) Excluding ships, drilling platforms, and exports of oil and gas.

Table 40
Commodity trade forecasts: UNITED STATES

Percentage changes from previous period, at annual rates

	Exports						Imports					
	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I
Average values														
Food	304	9	1	−14	5	8	10	186	−2	3	−8	6	8	8
Raw materials	257	2	3	−5	5	8	9	110	17	6	1	7	8	8
Energy	80	8	−1	−4	0	0	6	829	12	−2	−9	0	0	5
Manufactures	1523	12	8	11	8	6	7	1323	4	2	−5	5	5	6
Total		9½	6¼	4½	7	6¾	7½		5½	¾	−7	3½	3½	6¼
Volumes														
Food	304	−1	7	−3	11	9	7	186	6	1	0	−1	7	6
Raw materials	257	−7	0	−4	0	5	5	110	−4	1	0	−2	10	10
Energy	80	−17	−2	−3	−2	−2	−1	829	−16	−10	−26	−7	5	−2
Manufactures	1523	0	−9	−16	−7	−5	−1	1323	8	6	14	−1	12	11
Total		−¾	−5½	−12½	−3½	−2¼	1½		1¼	1¼	−1	−2½	11	9

Note: For notes on this table see the annex "Technical Notes on Foreign Trade Forecasts". The forecasts for commodity components have been rounded to the nearest integer.

Table 41
Commodity trade forecasts: JAPAN

Percentage changes from previous period, at annual rates

	Exports							Imports						
	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I
Average values														
Food	16	−2	1	6	−2	4	8	146	3	2	9	−2	5	8
Raw materials	15	−7	2	3	0	6	8	238	−7	4	7	3	6	8
Energy	5	10	3	15	0	0	6	699	12	4	17	0	0	5
Manufactures	1255	4	5	3	6	3	4	320	−1	9	14	8	7	8
Total		2	4¾	3	6¼	3	3½		1¼	4	9½	2	3	7
Volumes														
Food	16	15	2	2	2	3	3	146	3	4	2	4	6	6
Raw materials	15	5	5	4	5	5	5	238	−13	0	−9	1	7	6
Energy	5	8	−2	−3	−2	−2	−1	699	−7	−3	−11	−1	3	5
Manufactures	1255	13	7	15	2	11	11	320	5	5	0	8	5	5
Total		13	7¼	14½	2	11	11¼		−3¾	1¼	−6	3¼	5	5½
Memorandum item														
Exchange rate ($ per unit of local currency)		1¾	−4¼	−15¾	¼	0	0							

Note: For notes on this table see the annex "Technical Notes on Foreign Trade Forecasts". The forecasts for commodity components have been rounded to the nearest integer. Average values are given in local currency, but are derived from estimated dollar indices.

Table 42
Commodity trade forecasts: GERMANY

Percentage changes from previous period, at annual rates

	Exports							Imports						
	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I
Average values														
Food	93	12	7	7	7	9	9	202	10	3	5	1	6	8
Raw materials	48	4	0	3	−5	6	8	154	12	0	4	−5	6	8
Energy	73	25	−1	11	−7	0	6	419	38	0	20	−8	0	5
Manufactures	1702	5	4	5	4	4	5	1083	7	5	5	4	8	9
Total		6	4	6¼	3	3½	4		12½	4½	12½	1	4	6
Volumes														
Food	93	4	2	2	2	3	3	202	0	0	−3	1	3	3
Raw materials	48	2	5	4	5	5	5	154	−4	3	−1	4	5	6
Energy	73	−12	−2	−3	−2	−2	−1	419	−17	1	−23	13	8	9
Manufactures	1702	6	13	11	14	14	13	1083	−1	6	−4	9	10	10
Total		6¾	11	11½	11	10½	10½		−4	3½	−8	7½	7¾	7¾
Memorandum item														
Exchange rate ($ per unit of local currency)		−19½	½	−13¼	8¼	0	0							

Note: For notes on this table see the annex "Technical Notes on Foreign Trade Forecasts". The forecasts for commodity components have been rounded to the nearest integer. Average values are given in local currency.

Table 43
Commodity trade forecasts: FRANCE

Percentage changes from previous period, at annual rates

	Exports							Imports						
	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I
Average values														
Food	172	13	8	9	7	9	9	126	13	7	11	6	6	8
Raw materials	46	21	4	12	0	6	8	87	21	4	10	0	6	8
Energy	46	26	3	21	−2	0	6	358	43	4	23	−3	0	5
Manufactures	849	11	14	17	13	11	10	777	10	13	20	12	7	8
Total		12¾	11	15	10	9½	8¾		18½	9	17	7	6	6¾
Volumes														
Food	172	6	2	2	2	3	3	126	3	4	5	4	5	6
Raw materials	46	−4	5	4	5	5	5	87	−5	3	1	4	4	5
Energy	46	25	−2	−3	−2	−2	−1	358	−15	5	−8	13	3	3
Manufactures	849	4	5	4	5	6	6	777	1	6	4	6	7	7
Total		4½	4½	5	3¾	5	5½		−3½	5¾	2½	7	6¼	6
Memorandum item														
Exchange rate ($ per unit of local currency)		−21¾	−4½	−20	3	0	0							

Note: For notes on this table see the annex "Technical Notes on Foreign Trade Forecasts". The forecasts for commodity components have been rounded to the nearest integer. Average values are given in local currency.

Table 44
Commodity trade forecasts: UNITED KINGDOM
Percentage changes from previous period, at annual rates

	Exports						Imports					
	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I
Average values														
Food	76	10	11	18	9	9	8	144	5	12	20	10	9	8
Raw materials	34	4	9	26	2	6	8	90	6	8	20	3	8	8
Energy	149	24	4	20	0	0	6	160	26	7	32	0	0	5
Manufactures	893	6	9	8	10	7	8	809	6	13	19	12	10	8
Total		6½	8¼	11½	7½	6½	7½		8	11½	20¾	8¼	8¼	7
Volumes														
Food	76	4	2	2	2	3	3	144	−5	4	15	0	2	0
Raw materials	34	−8	4	0	5	5	5	90	−10	10	30	4	5	4
Energy	149	17	−1	0	−2	−2	−1	160	−22	0	8	0	−7	3
Manufactures	893	−5	3	11	−1	3	3	809	−6	10	20	7	8	9
Total		−3	2¾	8¾	½	1¾	3¼		−5¾	9	20	5½	6	7
Memorandum item														
Exchange rate ($ per unit of local currency)		−13½	−8½	−30	½	0	0							

Note: For notes on this table see the annex "Technical Notes on Foreign Trade Forecasts". The forecasts for commodity components have been rounded to the nearest integer. Average values are given in local currency.

Table 45
Commodity trade forecasts: ITALY
Percentage changes from previous period, at annual rates

	Exports						Imports					
	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I
Average values														
Food	53	14	9	12	8	9	8	118	14	9	17	7	6	8
Raw materials	14	24	6	15	1	6	8	109	22	6	16	1	6	8
Energy	44	45	5	24	−1	0	6	275	51	5	26	−2	0	5
Manufactures	668	23	15	21	14	11	11	495	24	14	26	13	8	8
Total		21¾	12¾	19½	11	9¾	10		33½	9	21½	5½	5½	7
Volumes														
Food	53	2	2	2	2	3	3	118	−3	2	2	2	3	4
Raw materials	14	0	5	4	5	5	5	109	−6	2	−1	3	4	6
Energy	44	3	−2	−3	−2	−2	−1	275	−2	−2	−16	5	0	1
Manufactures	668	1	7	6	7	7	8	495	−1	6	1	7	8	8
Total		3¾	6	8	5½	5½	6½		−9	3	−4	5½	5	6½
Memorandum item														
Exchange rate ($ per unit of local currency)		−24¼	−5½	−22¼	1½	0	0							

Note: For notes on this table see the annex "Technical Notes on Foreign Trade Forecasts". The forecasts for commodity components have been rounded to the nearest integer. Average values are given in local currency.

Table 46
Commodity trade forecasts: CANADA
Percentage changes from previous period, at annual rates

	Exports						Imports					
	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I	Weights	1981	1982	1981 II	1982 I	1982 II	1983 I
Average values														
Food	69	−10	−3	−9	−3	4	8	40	5	−2	−7	−2	5	8
Raw materials	127	−3	0	−9	2	6	8	36	−4	0	−8	2	6	8
Energy	93	20	3	14	0	0	6	72	17	1	7	−1	0	5
Manufactures	341	11	8	9	7	8	8	440	10	7	7	7	7	7
Total		7¼	4	2	4	5¾	8		10¾	5¼	5	5½	5¼	7
Volumes														
Food	69	4	4	0	7	4	3	40	3	0	−3	1	2	2
Raw materials	127	−6	3	−2	5	5	5	36	0	1	−6	3	3	4
Energy	93	−16	−3	−8	−2	−2	−1	72	−6	−30	−33	−32	−25	−21
Manufactures	341	0	1	1	1	4	2	440	3	5	−3	8	8	6
Total		2¼	1¼	−1	1¾	3	3		5	3	2	3	4	3
Memorandum item														
Exchange rate ($ per unit of local currency)		−2¾	0	−1¾	¾	0	0							

Note: For notes on this table see the annex "Technical Notes on Foreign Trade Forecasts". The forecasts for commodity components have been rounded to the nearest integer. Average values are given in local currency.

Table 47
Trade balances of major OECD countries and country groups

Seasonally adjusted,
$ billion

	1979	1980	1981	1982	1980 II	1981 I	1981 II	1982 I	1982 II	1983 I
United States	−27.3	−25.3	−24¼	−29¾	−8.5	−11.6	−12½	−11½	−18½	−23½
Canada	4.0	7.1	4	1¾	4.5	2.5	1½	1	1	1
Japan	1.8	2.1	21¼	34¾	4.6	8.9	12½	16	18¾	20¾
France	−1.4	−11.8	−7¾	−8¼	−6.8	−3.9	−3¾	−4	−4¼	−4½
Germany	17.5	10.4	17	30½	4.2	5.7	11½	14¾	16	17¾
Italy	−1.0	−16.0	−11¾	−7¾	−8.1	−7.5	−4½	−4¾	−3½	−3¼
United Kingdom	−7.4	2.7	8¾	−1	4.4	6.5	2	½	−1¼	−2
Major seven countries	−13.9	−30.8	7¼	20	−5.5	0.6	6¾	11¾	8½	6¼
Other OECD countries	−25.5	−41.6	−32	−28	−21.2	−15.6	−16½	−14½	−13½	−12½
Total OECD	−39.4	−72.5	−25	−8	−26.7	−15.0	−10	−2¾	−5¼	−6¼
Memorandum item										
EEC	−6.3	−29.2	−3¼	7¼	−13.3	−4.2	1	3¼	4	5

Note: Detail may not add, due to rounding.

Table 48
Trade balances of other OECD countries

$ billion

	1978	1979	1980	1981	1982
Belgium-Luxembourg	−1.2	−2.5	−3.8	−4	−2½
Netherlands	−1.4	−1.5	−1.3	3¼	5¼
Ireland	−0.8	−2.0	−1.8	−2	−2
Greece	−3.6	−5.0	−5.6	−5¼	−5¾
Denmark	−2.3	−3.1	−2.0	−1¼	−1¼
Norway	−0.6	0.2	2.0	3	1¾
Sweden	2.6	0.8	−0.3	1½	2
Finland	1.2	0.5	−0.4	¾	1¼
Iceland	0.03	0.03	0.03	0	0
Austria	−3.0	−3.9	−6.0	−4¾	−5
Switzerland	0.7	−1.5	−4.8	−2¾	−1½
Spain	−4.0	−5.6	−11.5	−11¼	−10½
Portugal	−2.4	−2.6	−4.1	−4½	−4¼
Turkey	−1.8	−2.3	−3.9	−3¾	−3¾
Australia	0.1	2.4	1.5	−2	−1¾
New Zealand	0.5	0.5	0.3	½	¼

Table 49
Current invisible transactions of major OECD countries and country groups[a]

$ billion

	1979	1980	1981	1982	1980 II	1981 I	1981 II	1982 I	1982 II	1983 I
United States	28.0	29.1	33	32¾	14.8	15.9	17	16¾	16	16
Canada	−8.1	−8.7	−11½	−12½	−4.3	−5.5	−6	−6	−6½	−7¼
Japan	−10.6	−12.9	−15¾	−17½	−6.8	−7.5	−8¼	−8¾	−9	−9
France	2.6	4.3	1	1½	2.6	0.9	¼	¼	1	1½
Germany	−22.7	−26.8	−25½	−28½	−13.3	−12.7	−13	−13½	−15	−16
Italy	6.5	6.5	2½	2¾	3.1	0.9	1¼	1¼	1¼	1¼
United Kingdom	4.0	4.7	5½	3½	2.7	3.9	1¾	2	1¼	1½
Major seven countries	0.3	−3.8	−11	−18¾	−1.3	−4.2	−6¾	−8	−10¾	−12
Other OECD countries	6.5	3.6	1	0	1.9	0.6	¼	0	−¼	1
Total OECD	6.8	−0.2	−10	−18¾	½	−3½	−6½	−7¾	−11	−11
Memorandum item										
EEC	−7.2	−10.7	−17	−23	−4.3	−7.0	−10½	−10½	−12½	−12½

a) Balance on services (including factor incomés) and total transfers (both private and official).

Table 50
Current balances of OECD countries

(Percentage of GNP/GDP)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983I
United States	0.2	−0.1	−0.5	0.5	0.3	1.2	0.3	−0.7	−0.6	0.1	0.1	0.3	0.1	0.4
Canada	1.3	0.5	−0.4	0.1	−1.0	−2.9	−2.0	−2.0	−2.3	−1.9	−0.7	−2.7	−3.5	−3.7
Japan	1.0	2.5	2.2	0	−1.0	−0.1	0.7	1.6	1.7	−0.9	−1.0	0.5	1.4	1.9
France	0	0.3	0.1	−0.3	−2.3	0	−1.7	−0.9	0.8	0.2	−1.1	−1.2	−1.1	−0.8
Germany	0.5	0.4	0.3	1.3	2.6	0.8	0.8	0.8	1.4	−0.7	−2.0	−1.3	0.2	0.4
Italy	1.1	1.7	1.6	−1.7	−4.7	−0.4	−1.5	1.1	2.4	1.7	−2.4	−2.7	−1.3	−0.8
United Kingdom	1.5	2.0	0.3	−1.3	−4.1	−1.6	−1.0	−0.2	0.6	−0.8	1.4	2.9	0.5	−0.2
Belgium-Luxembourg	2.8	2.4	3.7	2.6	1.2	0.4	−0.1	−0.9	−0.9	−2.8	−4.4	−6.7	−6.1	
Netherlands	−1.6	−0.5	2.8	3.9	3.1	2.4	3.0	0.6	−1.0	−1.4	−1.6	2.1	3.4	
Ireland	−4.9	−4.2	−2.5	−3.5	−10.0	−0.3	−3.7	−3.1	−2.5	−9.7	−7.7	−12.6	−10.0	
Greece	−4.2	−3.1	−3.0	−7.3	−6.6	−5.1	−4.8	−4.9	−4.0	−4.9	−5.5	−6.4	−5.8	
Denmark	−3.4	−2.4	−0.3	−1.6	−2.8	−1.4	−4.6	−3.7	−2.6	−4.4	−3.7	−3.6	−3.8	
Norway	−2.2	−4.1	−0.4	−1.8	−4.7	−8.5	−11.9	−14.1	−5.1	−2.2	1.8	3.7	0.9	
Sweden	−0.8	0.6	0.6	2.4	−1.7	−2.3	−2.8	−2.3	−0.3	−2.5	−4.3	−3.1	−2.9	
Finland	−2.2	−2.9	−0.8	−2.1	−5.2	−7.8	−3.9	−0.5	1.8	−0.5	−2.8	−0.7	0.1	
Iceland	1.6	−7.1	−2.5	−1.2	−10.8	−11.2	−1.6	−2.5	1.4	−1.0	−2.6	−0.6	0.2	
Austria	−0.1	−0.6	−0.9	−1.3	−1.4	−0.9	−3.7	−6.2	−2.6	−2.8	−4.7	−4.1	−3.9	
Switzerland	0.3	0.3	0.7	0.7	0.4	4.8	6.2	5.7	5.0	2.6	−0.5	2.9	4.5	
Spain	0.2	2.0	1.1	0.8	−3.7	−3.3	−4.0	−1.8	1.1	0.6	−2.3	−3.0	−2.1	
Portugal	1.9	2.5	4.1	3.1	−6.2	−5.6	−8.1	−9.2	−2.8	−0.2	−4.3	−7.0	−6.4	
Turkey	−0.5	0.2	0.8	2.9	−2.2	−5.1	−5.3	−7.2	−2.5	−2.6	−5.2	−4.3	−3.8	
Australia	−2.3	−2.0	1.2	0.7	−3.2	−0.7	−1.5	−2.7	−3.6	−2.4	−3.1	−5.3	−5.0	
New-Zealand	−0.4	0.6	2.6	1.7	−8.0	−10.0	−5.4	−5.8	−2.5	−2.9	−4.0	−3.9	−4.4	
Total OECD	0.3	0.4	0.3	0.3	−0.7	0	−0.4	−0.5	0.2	−0.5	−1.0	−0.4	−0.3	−0.4
Memorandum items														
Major seven countries	0.5	0.5	0.2	0.2	−0.4	0.4	−0.1	−0.1	0.4	−0.2	−0.5	0	0	−0.2
Other OECD countries	−0.9	−0.3	1.0	0.9	−2.1	−1.7	−2.1	−2.5	−0.9	−1.6	−3.0	−2.7	−2.2	−1.6
EEC	0.5	0.8	0.7	0	−1.0	0	−0.5	0	0.8	−0.6	−1.4	−0.9	−0.6	−0.5

Note: Figures for 1981 are estimates and for 1982 and 1983 are forecasts. The figures for 1983 (major seven OECD countries only) refer to the first half of that year, and are at an annual rate.

Table 51
OECD countries' exports to OPEC[a]

Data based on $ values of exports

	Value in $ billion		Percentage change				Exports to OPEC as a percentage of total exports				Share of OPEC market[b]			
	Annual average 1972-73	1980	At annual rates		1979 to 1980	1980I to 1981I	1972-73	1974-79	1980	1981I	1972-73	1974-79	1980	1981I
			1972-75	1975-79										
United States	3.2	17.8	57.4	8.7	18.0	28.0	5.3	9.9	8.0	8.9	22.8	21.4	17.7	19.4
Canada	0.3	1.9	45.7	18.0	38.1	20.7	1.2	2.5	2.9	2.7	1.9	1.8	1.9	1.8
Japan	2.3	18.5	65.5	12.0	37.8	20.0	7.0	13.6	14.3	14.3	16.4	17.7	18.5	19.1
France	1.5	9.9	61.4	11.6	29.8	9.5	4.9	8.4	8.9	10.1	10.7	9.3	9.8	9.7
Germany	1.9	12.5	66.7	11.5	19.8	10.8	3.3	7.4	6.5	7.8	13.3	14.9	12.5	12.2
Italy	1.1	9.9	57.7	20.2	27.2	27.3	5.3	11.2	12.7	16.5	7.7	8.7	9.8	10.5
United Kingdom	1.6	10.6	47.3	12.4	46.1	..	5.8	10.0	9.2	..	11.4	9.8	10.6	9.5
Belgium-Luxembourg	0.4	3.0	58.7	18.2	30.3	−0.5	2.0	4.1	4.6	5.1	2.7	2.7	3.0	2.6
Netherlands	0.5	4.0	51.8	21.5	37.0	−7.7	2.4	4.3	5.4	5.3	3.4	3.2	4.0	3.3
Ireland	0	0.4	81.7	37.8	41.5	37.7	0.6	3.2	4.4	6.3	0.1	0.2	0.4	0.4
Greece	0	0.8	100.0	19.1	39.4	6.4	3.6	13.4	15.4	17.6	0.3	0.6	0.8	0.6
Denmark	0.1	0.7	60.6	11.9	24.7	52.2	2.0	4.1	4.2	5.6	0.7	0.7	0.7	0.8
Norway	0	0.4	54.2	16.9	63.2	7.2	1.1	2.0	2.2	1.8	0.3	0.3	0.4	0.3
Sweden	0.2	1.6	68.3	16.3	15.3	38.8	1.8	4.7	5.2	6.5	1.3	1.6	1.6	1.8
Finland	0	0.6	54.2	30.8	56.4	13.6	1.4	3.3	4.4	4.6	0.3	0.4	0.6	0.6
Iceland	0	0	0	27.0	505.9	22.2	0	2.2	7.3	5.7	0	0	0	0
Austria	0.1	1.0	64.2	14.1	57.1	26.0	2.3	4.9	5.6	6.6	0.7	0.8	1.0	0.9
Switzerland	0.3	2.1	55.2	19.2	23.0	−3.5	3.6	7.2	7.1	7.2	2.1	2.2	2.1	1.7
Spain	0.3	2.7	55.7	25.9	32.8	7.1	6.2	10.8	13.1	13.7	2.0	2.0	2.7	2.4
Portugal	0	0.1	44.2	11.6	47.5	87.2	0.8	1.6	2.0	3.9	0.1	0.1	0.1	0.2
Turkey	0	0.3	40.1	16.6	17.3	..	3.8	8.1	12.6	..	0.3	0.3	0.3	0.5
Australia	0.2	1.5	54.2	11.1	46.4	0.1	2.8	5.1	6.7	7.2	1.6	1.2	1.5	1.5
Total OECD[c]	14.0	100.2	59.2	13.2	29.8	17.6	4.1	8.1	8.5	9.0	100	100	100	100
Memorandum item														
Major seven countries	11.8	81.0	59.3	12.0	28.8	18.0	4.7	9.2	8.9	9.9	84.2	83.7	80.8	82.2

a) See table 52 in *Economic Outlook*, No. 23, for historical data year by year 1973-1977.
b) Percentage of total OECD exports to OPEC.
c) Excluding exports of New Zealand for which figures are not available.

Table 52

OECD countries' exports to Eastern Europe, the Soviet Union, China and selected other Asian countries

Data based on values in US $

	Value in 1980 ($ million)		USSR and Eastern Europe						China and selected other Asian countries					
	USSR and Eastern Europe	China and sel. other Asian countries	Exports as a percentage of total exports			Share of market[a]			Exports as a percentage of total exports			Share of market[a]		
			1979	1980	1981 I	1979	1980	1981 I	1979	1980	1981 I	1979	1980	1981 I
United States	3853	3789	3.1	1.7	1.9	14.7	9.1	11.2	0.9	1.7	1.6	15.6	26.2	25.1
Canada	1751	742	1.8	2.7	2.1	2.6	4.2	3.5	0.9	1.2	1.2	4.8	5.1	5.5
Japan	3589	5617	3.2	2.8	2.9	8.4	8.5	10.3	4.0	4.3	4.1	36.9	38.9	40.4
France	4636	383	4.1	4.2	4.1	10.4	11.0	10.4	0.5	0.3	0.5	4.0	2.7	3.8
Germany	9444	1228	5.1	4.9	4.5	22.5	22.4	18.7	0.9	0.6	0.7	14.3	8.5	7.7
Italy	2724	337	3.7	3.5	3.4	6.8	6.5	5.7	0.5	0.4	0.5	3.1	2.3	2.5
United Kingdom	2626	438	2.3	2.3	..	5.3	6.2	4.8	0.5	0.4	..	4.2	3.0	3.9
Belgium-Luxembourg	1294	120	1.9	2.0	2.2	2.7	3.1	2.9	0.3	0.2	0.2	1.5	0.8	0.7
Netherlands	1418	169	1.8	1.9	2.4	3.0	3.4	4.0	0.3	0.2	0.2	1.6	1.2	0.7
Ireland	87	3	1.0	1.0	1.2	0.2	0.2	0.2	0.1	0	0	0	0	0
Greece	434	33	9.3	10.5	9.3	0.9	1.0	0.9	0.9	0.8	1.0	0.3	0.2	0.3
Denmark	395	57	2.6	2.4	2.0	1.0	0.9	0.8	0.2	0.3	0.2	0.3	0.4	0.2
Norway	266	90	1.8	1.5	1.4	0.6	0.6	0.6	0.3	0.5	0.1	0.4	0.6	0.1
Sweden	1183	145	4.3	3.9	4.3	3.0	2.8	3.0	0.6	0.5	0.4	1.6	1.0	0.9
Finland	2810	83	16.2	19.8	26.3	4.7	6.7	9.1	0.4	0.6	0.3	0.4	0.6	0.3
Iceland	83	0	8.1	9.1	12.7	0.2	0.2	0.3	0	0	0	0	0	0
Austria	2109	104	12.9	12.0	11.6	5.2	5.0	4.3	0.7	0.6	0.5	1.0	0.7	0.5
Switzerland	1066	154	4.0	3.6	3.1	2.8	2.5	2.0	0.5	0.5	0.5	1.2	1.1	0.9
Spain	541	69	3.0	2.6	5.5	1.4	1.3	2.5	0.8	0.3	0.3	1.3	0.5	0.4
Portugal	97	2	2.9	2.1	2.2	0.3	0.2	0.2	0	0	0.1	0	0	0
Turkey	430	1	14.7	15.6	..	0.9	1.0	1.5	0.4	0	..	0.1	0	0
Australia	1328	888	4.2	6.0	5.8	2.0	3.1	3.1	4.4	4.0	4.0	7.4	6.1	6.0
New Zealand	..	..	4.4	..	..	0.5	..	..	..	..	..	..	..	..
Total OECD	42164	14452	3.7	3.4	3.4	100	100	100	1.0	1.1	1.2	100	100	100
Memorandum items														
Major seven OECD countries	28623	12534	3.5	3.1	3.0	70.8	67.9	64.4	1.2	1.4	1.5	83.0	86.7	88.9
OECD Europe	31643	3416	4.0	4.0	4.0	71.8	75.0	71.9	0.5	0.4	0.6	35.3	23.6	22.9
EEC	23058	2768	3.5	3.4	3.4	53.1	54.7	48.2	0.6	0.4	0.5	29.7	19.2	19.8

a) Percentage of total OECD exports to indicated country groups.

Table 53

Market prices of selected primary commodities exported by developing countries[a]

Indices, 1980 = 100: $ terms.

	1978	1979	1980	1981	1982	1980 II	1981 I	1981 II	1982 I	1982 II	1983 I
Food and tropical beverages	76	82	100	79	78	101	85	74	76	80	84
of which:											
Food	53	61	100	79	75	110	86	71	74	77	80
Tropical beverages	103	106	100	82	82	91	83	78	80	84	88
Vegetable oilseeds and oils	102	117	100	99	102	100	102	97	101	104	108
Agricultural raw materials	73	90	100	88	87	100	92	83	85	88	91
Minerals, ores and metals	69	88	100	87	90	98	89	85	88	92	97
Total	75	87	100	84	84	100	88	80	82	86	89

a) Indices through 1981 I are based on data compiled by UNCTAD.

Table 54

OPEC's balance of payments on current account[a]

$ billion

		1974	1975	1976	1977	1978	1979	1980	1981	1982
OPEC	Exports	115¾	107¼	132¾	145¼	146	212	302	273	267
	Imports	38½	58	67¾	83¾	103½	105	134	160	182
	Trade balance	77	49¼	65	61½	42½	107	167	113	85
	Services and private transfers, net	−15	−19¼	−26	−30	−36½	−43	−54	−49	−46
	Official transfers, net	−2¼	−3	−2½	−2¾	−1½	−3	−3	−4	−5
	Current balance	59½	27¼	36½	29	4½	62	110	60	35
"Low absorbers"	Exports	55	52	67¼	73¼	70½	111	177	178	160
	Imports	11¼	16½	24¼	31½	39½	45	55	68	85
	Trade balance	43¼	35½	43	42	31	66	122	110	75
	Services and private transfers, net	−5½	−7½	−11½	−12½	−14½	−21	−30	−22	−18
	Official transfers, net	−2½	−2½	−2	−2	−2	−3	−3	−3	−4
	Current balance	35½	25¼	29¼	27½	15½	42	89	85	53
"High absorbers"	Exports	61	55½	65½	72	75½	101	125	95	107
	Imports	27½	41½	43½	52½	64½	60	79	92	97
	Trade balance	33½	14	22	19¾	11	41	45	3	10
	Services and private transfers, net	−9½	−12	−14	−17½	−22	−22	−25	−27	−28
	Official transfers, net	−¼	−¼	−½	−½	−½	0	0	−1	−1
	Current balance	23¾	1¾	7½	1½	−11	19	20	−25	−18
Memorandum items										
Percentage changes in volume of OPEC trade										
Exports		0	−9	13	2	−2½	½	−14	−19	−2
Imports		40	36	15	14½	4	−13	13	25	9
of which: "Low absorbers"		36	44	45	19	5½	6	29	5½	20
"High absorbers"		42	34	3	12	3	−25	20	21	½

a) A change in recording methods for figures after 1977 introduces a discontinuity to the series.

Table 55

Summary of balance of payments on current account of the OECD area and other major world groupings[a]

$ billion

	1975	1976	1977	1978	1979	1980	1981	1982
Trade balance								
OECD	5	−17	−23	6	−39	−73	−25	−8
OPEC	49	65	61	42	107	167	113	85
Non-oil developing countries	−28	−15	−12	−21	−33	−48	−54	−57
Other non-OECD countries	−18	−13	−8	−8	−1	3	−1	−5
Total[b]	8	19	18	19	34	50	33	15
Services and private transfers, net								
OECD	7	12	13	22	29	25	15	10
OPEC	−19	−26	−30	−37	−43	−54	−49	−46
Non-oil developing countries	−9	−9	−7	−9	−15	−23	−26	−28
Other non-OECD countries	0	0	0	−1	−4	−5	−4	−3
Total[b]	−21	−23	−24	−25	−33	−57	−64	−67
Balance on goods, services and private transfers								
OECD	12	−5	−10	28	−10	−48	−10	2
OPEC	30	39	31	5	64	113	64	39
Non-oil developing countries	−37	−24	−19	−30	−48	−71	−80	−85
Other non-OECD countries	−18	−13	−8	−9	−5	−2	−5	−8
Total[b]	−13	−4	−6	−7	1	−7	−37	−52
Official transfers, net								
OECD	−12	−12	−14	−18	−22	−25	−25	−28
OPEC	−3	−2	−2	−1	−3	−3	−4	−4
Non-oil developing countries	7	7	7	7	10	11	13	15
Other non-OECD countries	0	0	0	0	0	0	0	0
Total[b]	−8	−8	−10	−12	−14	−17	−16	−18
Current balance								
OECD	0	−18	−24	10	−33	−73	−35	−27
OPEC	27	36	29	4	62	110	60	35
Non-oil developing countries	−30	−17	−12	−23	−38	−60	−68	−71
Other non-OECD countries	−18	−13	−8	−9	−4	−1	−5	−8
Total[b]	−20	−12	−16	−18	−13	−24	−48	−69

a) Historical data for the OECD area are aggregates of reported balance of payments data by each individual country. For non-OECD groupings the data are estimated: in particular, for the derivation of trade balance of these country groups use is being made of trade statistics reported by OECD countries, one important advantage being that such data are reported with much shorter time lag than non-OECD countries' own trade statistics. Because of various statistical problems as well as a large number of non-reporters among non-OECD countries, trade and current balances estimated on the basis of these countries' own balance of payments records may differ from corresponding estimates shown in this table.

b) Reflects statistical errors and asymmetries. Given the very large gross flows of world balance of payments transactions, statistical errors and asymmetries easily give rise to world totals (balances) that are significantly different from zero.

Technical Notes on Foreign Trade Forecasts

This section provides background detail on the forecasts of foreign trade and current balance developments. It covers:

A. Foreign trade of OECD countries

- *a)* Goods: volumes
  - *i)* Manufactures
  - *ii)* Energy
  - *iii)* Food and raw materials
- *b)* Goods: unit values
  - *i)* Manufactures
  - *ii)* Energy
  - *iii)* Food and raw materials
- *c)* Services

B. Non-oil developing countries

C. Oil market developments

D. OPEC current account

E. Detail of country classification

A. FOREIGN TRADE OF OECD COUNTRIES

The forecasts for total goods trade are based on a four-commodity split (SITC sections in parentheses):

- food (0+1)
- raw materials (2+4)
- energy (3)
- manufactures (5+6+7+8+9)

Forecasts for these components for each of the major OECD economies are shown in Tables 40-46. The weights used (shown in the left-hand columns of the tables in hundreds of millions of US dollars) are based on 1980 trade flows. These are approximately comparable to figures published in the OECD's monthly *Statistics of Foreign Trade* (Series "A"). The paragraphs below summarize how the forecasts of these components were prepared. In some cases, however, changes to forecasts of totals were made without corresponding changes to components; this was particularly so for the current half-year, for which aggregate data are usually available well in advance of the more disaggregated detail. Large differences for historical data sometimes exist for those countries using a base year other than 1980 to calculate aggregate indices.

a) *Goods: volumes*

i) *Manufactures*

The projections of import and export volume growth for manufactured goods are derived from equations (in percentage change form) in which the main explanatory variables are activity (demand) and lagged competitive position. The activity variable in the import equations is an import-weighted expenditure term (i.e. the individual components

Table 56
Trade in manufactured goods: export market growth and relative export performance
Percentage changes from previous year

	(1) Import volumes				(2) Export market growth[a]				(3) Export volumes				(4) = (3) − (2) Relative export performance			
	1979	1980	1981	1982	1979	1980	1981	1982	1979	1980	1981	1982	1979	1980	1981	1982
United States	0.4	−2.0	7¾	5¾	9.4	3.6	6	6½	9.8	9.3	−½	−9	0.4	5.7	−6¾	−15½
Canada	9.4	−6.1	2½	5½	1.8	−0.3	7½	6	10.2	0.1	½	1½	8.4	0.4	−7	−4½
Japan	19.1	−5.9	4¾	5½	4.7	4.6	8½	6¼	−1.0	18.2	13	7¼	−5.7	13.6	4½	1
France	15.4	10.2	¾	5¾	8.3	5.8	3½	5	9.9	2.7	3½	5	1.6	−3.1	¼	0
Germany	11.7	4.4	−1	5¾	9.1	5.5	2¾	4¾	6.8	4.3	6	13½	−2.3	−1.2	3½	8½
Italy	21.2	15.5	−¾	5½	8.5	5.7	4¾	6	7.1	−4.4	1¼	6½	−1.4	−10.1	−3½	½
United Kingdom	13.1	−0.9	−5¾	10½	8.2	4.6	4¾	5	0.1	0.4	−5½	3	−8.1	−4.2	−10¼	−2
Belgium-Luxembourg	4.0	5.3	−5½	1½	10.7	5.1	1	5½	3.2	2.1	−1	4¾	−7.5	−3.0	−2	−½
Netherlands	8.1	−1.4	−5½	2¾	9.5	5.6	1¼	5¾	7.8	1.5	½	5½	−1.7	−4.1	−¾	¾
Ireland	13.2	−4.4	3¾	4	10.9	2.0	−1	7½	12.6	6.0	4½	6½	1.7	3.9	5½	−1
Denmark	6.5	−6.8	−3	5	10.4	4.7	1½	5	9.9	8.0	4	6½	−0.5	3.3	2½	1½
Norway[b]	2.1	14.2	2¼	4½	10.7	2.5	¾	5¼	6.3	1.4	1½	4	−4.4	−1.1	¾	−1¼
Sweden	18.9	0.1	−3¾	3	9.0	5.0	2¾	5¾	9.6	1.2	−¾	8¼	0.6	−3.7	−3½	3
Finland	25.8	14.5	−2	−1	10.3	2.0	2¾	4½	6.4	5.4	6½	1½	−3.9	3.4	3½	−3½
Austria	10.8	9.4	−4½	5	10.1	4.4	3	4¼	11.9	5.4	4¾	7¼	1.8	1.0	2	3
Switzerland	8.7	3.0	0	−1½	9.9	5.5	3½	5¾	1.7	3.0	4¼	6½	−8.2	−2.5	1	½
Spain	15.0	6.0	6	3	8.1	7.6	5½	5¾	8.1	3.2	4½	9¾	0	−4.3	−1	4
Australia	−2.0	−9.2	13¾	14½	8.9	5.1	5½	5½	8.0	4.9	4	1½	−0.9	−0.2	−1½	−4½
New Zealand	13.4	3.8	6½	5¼	5.4	−1.6	8	8½	9.5	2.9	10¼	8¼	4.1	4.5	2	−½
Total OECD	9.3	2.3	¾	5½	8.2	4.7	4½	5½	5.8	5.1	3	4¾	−2.4	0.4	−1½	−¾
Total non-OECD	2.9	8.2	12½	6¾	7.6	3.3	5¼	6¼	0	5.2	4	4¾	−7.6	1.9	−1	−1½
of which:																
OPEC	−12.9	13.4	25¼	10¼	9.3	9.8	10¼	7	0	1.9	2½	3½	−9.3	−7.8	−7¾	−3½
Developing areas	10.3	7.9	7	5¾	6.5	2.4	6	6¼	0	5.7	6½	5½	−6.5	3.3	½	−¾
Centrally planned economies	10.6	2.9	8½	3	9.4	3.9	3	6½	0	4.7	0	3½	−9.4	0.8	−2¾	−3

a) The calculation of market growth is based on the growth of import volume (panel (1) above) in each exporting country's markets, with weights based on manufacturing trade flows in 1979 (*Source*: OECD, *Commodity Trade Statistics*, Series C).
b) Norwegian imports exclude ships; Norwegian exports exclude ships and platforms.

of demand, weighted according to their different import contents). The activity variable in the export equations is export market growth, derived as weighted averages of the forecasts for imports of manufactured goods (Table 56). Competitive position is represented by relative prices. However, in cases of divergent movements between relative prices and relative unit labour costs, an *ad hoc* adjustment is sometimes made to the equation forecasts. Relative export performance (Table 50) is measured as the difference between the growth rates of export markets and export volumes.

The coefficients and specification of the equations used for each country are given in the autumn 1981 version of the OECD's manual *The Interlink System* which is available upon request. These parameter values are based partly on the OECD's own econometric estimation and partly on the work of other researchers. In general, expenditure elasticities for imports lie in the range 1.5 to 2, while export market growth elasticities for most countries are close to unity. Price elasticities average about 1¼ for exports, and a little less than unity for imports, with lags such that the full price effect takes more than two years to come through.

ii) *Energy*

International trade in energy is concentrated in oil, and the forecasting effort is focussed accordingly. At the inter-regional level, it is assumed that OPEC is the marginal supplier—with other producers setting prices relative to those of OPEC such that they are always able to sell their full capacity output. Thus the forecast demand for oil is not allocated through a matrix share approach. International consistency is obtained by summing net imports and exports of the main regions.

The demand for oil is projected, in collaboration with the International Energy Agency, directly from estimated relationships which link oil consumption to real wholesale prices of petroleum products (inclusive of tax), average temperature and income. The real wholesale price of petroleum products is projected by assuming that domestic costs are given and that crude oil costs increase in line with those of imported oil. These two cost series are then weighted together using the proportions of domestic costs and crude oil costs in the total value of wholesale products. The pass-through ratio is thereby determined endogenously.

With oil demand determined, net oil imports are obtained by subtracting expected domestic production and adjusting for any expected change in stocks. The movement in oil imports is then added to the forecast movements of imports of other forms of energy.

iii) *Food and raw materials*

Import volumes of food are assumed to follow projected movements in real private consumption and imports of raw materials to follow industrial production. Some allowances are made for large changes in competitiveness. Initially, common assumptions are made for all countries about food and raw material exports; more specific projections are made only when these goods are an important part of a country's total exports.

b) *Goods: unit values*

i) *Manufactures*

Projections for unit values of exports of manufactured goods are based initially on export price equations (with import prices, unit labour costs, and competitors' export prices as independent variables, the first two being subject to lags of up to 1 year). Some allowance has been made for the dampening effect of current low rates of industrial capacity utilization on export prices during 1981. In addition, the impact of recent exchange rate changes on export prices is thought likely to be somewhat less in some cases than the OECD's usual forecasting equations would suggest.

Initial forecasts of import unit values are derived as weighted averages of the forecast export unit values of supplying countries. The resulting import price forecasts are then modified to reflect time lags in the translation of exchange rate changes into import prices. In those countries where competitiveness improved sharply in the first half of 1981 (especially Germany), foreign suppliers apparently shaded their price increases to prevent too sharp a loss in market shares. The assumed effects of such price discrimination between markets are partly reversed in the second half of 1981 and the first half of 1982.

ii) *Energy*

The customary technical assumption is that oil prices move in line with known OPEC decisions (in this case, unchanged dollar price until the end of 1982) and thereafter follow prices of OECD exports of manufactured goods. In the calculation of unit values, a price series for imported crude was combined with a price series for petroleum products, with weights reflecting the importance of crude and product imports to a given country. An important adjustment has been made to Dutch and Norwegian energy export prices, to reflect natural gas contracts and thereby allow for the lag between the movements of natural gas and oil prices.

iii) *Food and raw materials*

In general, food and raw material unit values (in dollars) are derived from projected movements of spot commodity prices (Table 53). Current OECD estimates suggest that about three-quarters of the change in spot industrial materials prices is passed through into OECD import unit values of raw materials within about six months. However, the projections for food unit values embody specific projections for EEC and US food export prices as well as spot price projections.

c) *Services*

The empirical basis of the OECD projections of trade in services has been developed substantially recently, and further improvements are planned. At present, investment income is still forecast judgementally, taking account of interest rates on external debt, the movement of net external assets and the profitability of domestic industry. Forecasts of non-factor services are based on equations of broadly similar specification to those used for manufactured trade. Volumes of non-factor service debits (some two-thirds of total service flows) depend both on the movements in forecast total real expenditure and the price of imports of services relative to domestic prices. Non-factor service credits depend on market growth and each country's export prices relative to those of its competitors. A service trade share matrix is used to calculate market growth and competitors' prices. Export prices of services for each country are assumed to move in line with its total expenditure price deflator. Service export prices for non-OECD areas are assumed to move with the average for the OECD area. Import prices are then calculated from export prices using the service trade share matrix. Price elasticities are generally below unity, while demand elasticities are about 1.2 for imports and around unity for market growth.

B. NON-OIL DEVELOPING COUNTRIES

OECD projections of the outlook for non-oil developing countries (Tables 57 and 58) are built up from an assessment of the position of the main sub-groupings of these countries (see Note E). However, these assessments are set in the context of the global external forces facing non-oil developing countries as a group. Particularly important are terms-of-trade developments, OECD demand and the overall level of available external financing. This section first

Table 57
Trade of non-oil developing countries (NODCs)

Trade volumes and prices, percentage changes

	1975	1976	1977	1978	1979	1980	1981	1982	1983[a] I
Oil Producers									
Export volumes	2	10	9	10	10	10	9	5	8
Import volumes	5	1	4	1	20	19	15	8	6
Export prices	−6	8	15	5	25	21	0	1	7
Import prices	9	1	9	13	15	14	−3	4	7
Newly-industrializing NODCs									
Export volumes	−2	20	12	7	11	11	7	8	10
Import volumes	−6	9	5	10	9	5	4	5	8
Export prices	5	10	9	13	14	14	−3	4	7
Import prices	6	6	8	13	22	21	0	3	7
Other NODCs									
Export volumes	3	5	3	3	7	5	2	2	5
Import volumes	−6	−2	8	6	5	4	1	1	4
Export prices	−7	9	16	3	16	13	−5	2	8
Import prices	11	2	9	12	20	21	1	2	7
Total NODCs									
Export volumes	1	12	8	7	9	9	6	5	8
Import volumes	−3	4	8	5	10	8	6	4	6
Export prices	−2	9	13	8	18	16	−3	2	7
Import prices	9	3	9	14	19	19	−1	3	7
Trade Balances ($ billion)									
Oil Producers	−6	−3	0	1	1	−1	−2	−8	−8
Newly-industrializing NODCs	−8	−4	−1	−4	−10	−13	−14	−10	−9
Other NODCs	−14	−9	−10	−17	−24	−34	−38	−39	−40
Total NODCs	−28	−15	−12	−21	−33	−48	−54	−57	−57

a) Annual rates.

reviews the OECD assumption on available financing, which, it is assumed, will allow the overall current deficit of non-oil developing countries to increase from some $60 billion in 1980 to some $70 billion in 1982 (no further deterioration is projected for the first half of 1983). The main features of the (very different) prospects of the main sub-groupings of these countries are then summarized.

Global external financing

Financing the sharp increase in the 1980 overall current deficit of non-oil developing countries reflected certain strains. Reserve build-up (which had taken place at a rate of over $10 billion per year in the 1976-1979 period) then virtually ceased. Short-term borrowing (reflected in the "other capital" item of Table 58) increased substantially while longer-term private finance (direct investment and banking flows) increased only modestly. The financing mix appears to have changed somewhat in 1981 with short-term finance playing a smaller role and an apparent increase in direct investment and banking flows. OPEC finance is of considerable importance, and shows up increasingly in the form of "direct recycling": bank lending from OPEC countries to non-oil developing countries. The IMF has disbursed significantly larger sums in 1981 (reflected in the "other official financing" item in Table 58) and this growth is expected to continue. A modest reserve build-up is projected, although some further deterioration of the reserves/trade ratio is implied.

However, persistently high nominal and real interest rates, or more cautious lending policies by the international financial community, may crucially affect the ability and/or willingness of non-oil developing countries to incur current deficits on the scale expected. This would further reduce the growth in non-oil developing countries' imports, which is already severely constrained by slow growth of export revenues associated with weak demand and falling prices for many commodities.

Position of sub-groups

Some twenty countries included in the non-oil developing countries group are either net oil exporters, or have a level of oil production which meets most of their domestic needs. Many of these countries, such as Mexico, are currently undertaking large investments in order to increase future oil production and develop and diversify their economies. As a result, their imports are growing rapidly. However, a substantial slowdown is expected in 1982, mainly because of less buoyant export revenues. The terms-of-trade of these oil producers, after a strong improvement up to the first half of 1981, are expected to deteriorate

Table 58
Balance of payments of non-oil developing countries

$ billion

	1975	1976	1977	1978	1979	1980	1981	1982	1983 I[a]
Exports, fob	88	108	130	149	192	241	248	268	297
Imports, fob	117	123	142	170	225	289	303	325	354
Trade balance	−28	−15	−12	−21	−33	−48	−54	−57	−57
Services and private transfers, net	−9	−9	−7	−9	−15	−23	−26	−28	−28
Official transfers, net (ODA, grants)	7	7	7	7	10	11	13	15	16
Current balance	−30	−17	−12	−23	−38	−60	−68	−70	−69
Capital balance	27.0	27.0	25.0	38.7	48.0	57.5	65	66	67
Direct investment	4.3	4.5	4.2	5.9	7.5	7.5	9	10	11
Aid (ODA, loans)	7.1	6.8	6.5	7.8	8.0	10.5	12	14	15
Other official flows (OOF)	4.6	4.6	4.4	4.7	5.5	6.0	8	9	9
Portfolio and banking flows	9.5	9.8	9.2	14.7	15.0	16.5	19	21	22
Private export credits	2.2	3.4	4.2	4.2	5.5	9.0	11	12	12
Other capital, including errors and omissions	−1.0	−2.0	−3.5	1.4	6.5	8.0	6	0	−2
Net transactions of monetary authorities	−2.9	9.6	12.4	15.2	10.2	−2.5	−3	−4	−2
Other official financing	1.8	2.0	−0.4	−0.2	1.4	4.3	5	7	7
Changes in official reserves	−1.1	11.6	12.0	15.0	11.6	1.8	2	3	5

a) Annual rates.

during 1982 and then remain unchanged. Many of these countries are likely to face increasingly severe external financial constraints, because their balance of payments is weakened by a growing trade balance deficit as well as by sharply rising debt service payments.

The newly-industrializing countries (Brazil, South Korea, Taiwan, Hong Kong and Singapore) account for most of the exports of manufactured goods of the non-oil developing countries, but their market shares are mostly small relative to the main industrial countries. By maintaining competitiveness, and with a rapid growth of manufacturing capacity, these countries have generally been able to sustain buoyant growth of exports and imports. In 1981-1982, the growth of their foreign trade may be modest by recent standards—although it is still likely to expand faster than overall world trade:

— the volume of exports of newly-industrializing countries may grow more slowly due to weak demand in export markets, and
— the expansion of imports could be constrained both by domestic factors and by external financing considerations.

In 1980 the GNP growth of the group as a whole slowed markedly, reflecting the need to adjust both to external and domestic (inflation) constraints. In Brazil, in particular, restrictive monetary policies and devaluations currently aim to curb the large current account deficit. As a result of the adjustment policies pursued by these countries and because of the slightly more favourable past and projected price developments (due to the assumption of unchanged import price of oil during 1982), the increase in the current account deficit from 1980 to 1981 is likely to be substantially smaller than the increase from 1979 to 1980 (when it went up from some $16 to some $22 billion). In 1982 the deficit may diminish.

Foreign exchange availability is an even more serious constraint for "other" non-oil developing countries (middle- and low-income countries exporting mainly primary products), which mostly have only limited access to commercial financing. Export revenues of this group of countries are forecast to have fallen in 1981 (in dollar terms) because of weak demand for primary commodities and the strength of the dollar. The terms of trade, already low by historical standards, are projected to deteriorate somewhat further until the end of 1982. As a consequence, the currently stagnant import volumes of these countries seem likely at best to grow slightly over the next year or so.

In contrast to the "oil-producing" and "newly-industrializing" countries, this grouping has a less unfavourable current account deficit as compared with the trade deficit. The sizeable and growing surplus on the invisibles account (some $7 billion in 1980) reflects such factors as rapidly-growing workers' remittances into these countries, foreign aid and the relatively low interest rates on much of their foreign debt. The weak price and volume growth forecast for commodity exports will, if realized, mean that growth of imports of low income countries is increasingly dependent on foreign aid developments.

C. OIL MARKET DEVELOPMENTS

Demand for oil

OPEC crude oil production, 30.9 mbd in 1979, could fall to some 22 mbd in 1982 and the first part of 1983. Detail of this projection is presented in Table 60. The two main features OECD consumption and stockbuilding are discussed briefly.

In response to the oil price increases in 1979-1980, OECD oil consumption has been falling since 1979, despite some growth in real GNP. If real oil prices remain at about their present level, this trend is likely to persist over the next year or so; by the first half of 1983 OECD oil consumption may be 15 per cent below its 1979 level (Table 60) while OECD real GNP may be close to 7 per cent higher.

Over the past year there have been sharp swings in OECD oil stockbuilding. Between the fourth quarter of 1980 and the first quarter of 1981 the level of demand for oil was increased by 2½ mbd helped by the swing in stockbuilding. This may in part have reflected an unanticipated sudden drop in consumption. Although consumption increased again in the second quarter, companies started to

Table 59
Oil market indicators

	Crude oil production		Demand for oil, OECD area (seasonally adjusted)			Prices			International trade (seasonally adjusted)	
	OPEC mbd	Non-OPEC mbd	Consumption mbd	Stocks mbd	Net imports mbd	Exported crude (official price) $ per bl	Refined products (spot market) $ per bl	Wholesale products 13 countries 1975=100 deflated by CPI	Net energy imports 13 countries $ billion per year	OPEC imports from OECD $ billion per year
1970	23.4	14.5	32.9	0.6	20.2	1.73	..	66.8	12.6	7.7
1971	25.3	14.6	34.2	0.6	21.5	2.14	..	68.5	16.5	9.4
1972	27.1	14.9	36.9	−0.1	23.1	2.45	..	65.7	19.0	11.5
1973	31.0	14.9	39.2	0.5	26.5	3.37	..	68.4	28.7	16.1
1974	30.7	14.6	37.3	1.3	25.4	11.25	..	98.6	83.5	27.2
1975	27.2	14.4	36.5	−0.1	23.7	11.02	..	100.0	82.6	46.8
1976	30.7	14.6	38.9	0.2	26.3	11.89	..	102.5	98.4	53.0
1977	31.3	15.4	37.7	0.8	27.3	12.95	..	104.5	111.7	66.0
1978	29.8	16.7	40.8	−0.3	26.2	12.95	14.65	98.3	109.1	79.7
1979	30.9	18.1	40.9	0.8	26.8	19.00	31.20	115.7	156.7	77.1
1980	26.8	18.3	37.7	0.6	23.3	31.43	33.72	148.6	224.6	99.0
1980 Q2	27.5	18.3	38.3	0.7	24.2	30.98	33.75	152.3	234.4	99.0
Q3	26.4	18.2	37.5	−0.3	22.2	32.27	31.26	152.8	218.2	102.6
Q4	24.0	18.2	36.8	−0.7	21.3	33.07	35.79	153.0	220.3	101.9
1981 Q1	24.9	18.8	34.9	1.3	21.2	35.46	35.85	162.6	..	109.4
Q2	23.1	19.0	35.9	−0.2	20.6	35.44	32.71	168.4	..	109.4
Q3	..	..	..	..	..	34.78	..	..	..	..
1981 April	24.0	19.1	..	..	..	35.45	34.46	168.9	..	115.9
May	23.0	19.0	..	..	..	35.44	32.13	168.4	..	123.1
June	22.6	18.9	..	..	..	35.42	31.56	167.9	..	118.9
July	21.5	18.6	..	..	..	34.91	32.89	166.4	..	118.8
August	20.7	18.5	..	..	..	34.91	32.91	..	..	123.6
September	20.5	..	..	..	..	34.54	..	..	..	..
October						35.07				
November						34.97				

Table 60
Oil Market conditions[a]
Million barrels per day (mbd)

	1978	1979	1980	1981	1982	1980 I	1980 II	1981 I	1981 II	1982 I	1982 II	1983 I
OECD Supply and Demand												
Consumption	40.8	40.9	37.7	35.3	34.5	38.3	37.1	35.4	35.1	34.7	34.3	34.1
Stockbuilding	−0.3	0.8	0.6	−0.7	−0.6	1.9	−0.6	0.6	−1.9	−0.9	−0.4	0.0
Production	14.2	14.9	15.0	15.0	15.1	15.1	14.9	15.0	15.0	15.0	15.2	15.3
Net imports	26.2	26.8	23.3	19.6	18.8	24.9	21.7	20.9	18.2	18.8	18.7	18.8
Stock/consumption ratio		86.7	100.6	100.9	94.2	101.4	101.7	110.4	101.5	97.9	94.8	95.3
Stock level, million barrels		3545	3793	3561	3251	3885	3773	3909	3561	3397	3251	3251
Non-OECD, non-OPEC, Supply and Demand												
LDC oil exporters production	−3.7	−4.1	−4.7	−5.4	−5.6	−4.4	−5.0	−5.4	−5.4	−5.5	−5.7	−5.8
Other LDC production	−0.5	−0.6	−0.6	−0.6	−0.6	−0.6	−0.6	−0.6	−0.6	−0.6	−0.6	−0.6
Centrally planned economies net exports	−1.1	−1.1	−1.1	−0.8	−0.7	−1.1	−1.1	−0.8	−0.8	−0.7	−0.7	−0.7
LDC oil exporters consumption	2.4	2.6	2.6	2.6	2.7	2.6	2.6	2.6	2.6	2.7	2.7	2.8
Other LDC consumption	5.1	5.3	5.1	5.0	5.0	5.1	5.1	5.0	5.0	5.0	5.0	5.1
Other countries consumption	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net imports above areas	2.5	2.4	1.6	1.1	1.1	1.9	1.3	1.1	1.1	1.2	1.0	1.1
Overall demand and supply												
Net imports OECD	26.2	26.8	23.3	19.6	18.8	24.9	21.7	20.9	18.2	18.8	18.7	18.8
Net imports non-OECD, non-OPEC	2.5	2.4	1.6	1.1	1.1	1.9	1.3	1.1	1.1	1.2	1.0	1.1
Discrepancy	0.1	0.5	0.4	−0.2	0.0	0.1	0.6	0.2	−0.5	0.0	0.0	0.0
Net exports OPEC and Oman	28.8	29.7	25.3	20.5	19.9	26.9	23.6	22.2	18.8	20.0	19.7	19.9
less exports by Oman	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
plus OPEC consumption	2.0	2.2	2.5	2.8	3.1	2.4	2.6	2.8	2.9	3.0	3.2	3.3
equals OPEC production	30.5	31.6	27.5	23.0	22.7	29.0	25.9	24.7	21.4	22.7	22.6	22.9
Memorandum item												
OPEC crude oil production	29.8	30.9	26.8	22.3	22.0	28.3	25.2	24.0	20.7	22.0	21.9	22.2
Prices												
Crude oil export prices (fob)			32.3	35.3	35.0	31.0	33.3	35.8	34.9	35.0	35.0	36.0
OECD import price (cif)			32.8	36.5	36.3	31.3	34.3	36.7	36.3	36.3	36.3	37.1

a) All data are seasonally adjusted where possible. All data include natural gas liquids.

reduce their stock levels, perhaps reflecting a view that the likely rate of oil price increase had fallen below interest rates. Indirect evidence suggests that stocks have fallen further in recent months: OPEC output has declined by more than would be implied by the likely drop in OECD consumption and the increase in non-OECD production. It is therefore estimated that OECD oil destocking could average some 2 mbd in the second half of this year. Further oil destocking—but at a declining rate—is envisaged in 1982, reflecting the pressures on oil companies to release working capital, the soft state of oil markets, high forecast interest rates, and the current high levels of stocks in relation to consumption.

In recent months retailers and wholesalers of oil products also appear to have reduced stocks significantly. This development is reflected in statistics on OECD oil consumption (first line in Table 60), which, in fact, measure deliveries by oil refiners and importers and not actual consumption. Taking account of this destocking the fall in measured oil consumption—as opposed to actual consumption—may have been particularly sharp in 1981, but be more modest from 1981 to 1982 (when retailer and wholesaler destocking may be negligible).

Oil pricing

There have been marked differences in the pricing strategy followed by oil producers since January 1981. The non-OPEC countries reacted very quickly to the low demand for oil by lowering their prices—from over $39 per barrel at the beginning of the year to $35 by the late summer. At first, the members of OPEC with high relative prices did not follow and as Saudi Arabian and non-OPEC oil was available at competitive prices, the fall in demand was concentrated on those countries, with severe financial implications. Nigeria lost 25 per cent of its foreign exchange reserves and was the first OPEC country to reduce its price. By september, oil prices were about $1 below their January level. This downward trend was reversed in October and November when Saudi Arabia increased its price, more than offseting further reductions by the countries with high relative prices. Prices at year-end were some 50 cents lower than in January (at just under $35 per barrel—when weighted by the structure of OECD imports) but still over $1.50 (5 per cent) higher than a year ago. This, moreover, in a period when the dollar had appreciated 9 per cent against the SDR. The OPEC meeting in November agreed to leave the marker price of crude oil unchanged until December 1982. This decision has been interpreted for the projections as meaning constant nominal oil prices throughout 1982. In 1983 prices are assumed once again to remain constant in real terms. (For details of the recent evolution of oil prices see Table 59; details for the forecast period are given in Table 60.)

D. OPEC CURRENT ACCOUNT

The OPEC current surplus is likely to fall from $110 billion in 1980 to $60 billion this year and $35 billion in 1982 (Table 54).

In the first half of 1981 the drop in the OPEC surplus was moderate: a significant fall in the volume of OPEC exports and an unexpected surge in imports (particularly by Libya, Saudi Arabia and other Gulf states) was cushioned by the continuing pronounced improvement in the terms of trade, probably coupled with an increase in investment income. In the latter half of 1981, however, the OPEC current account surplus is likely to have fallen, reflecting the significant worldwide destocking of crude oil.

The fall in oil exports has been concentrated on the high absorbers because their prices had become significantly high relative to those of Saudi Arabia. As a result the current account of high absorbers could have deteriorated to a deficit of perhaps $40 billion (annual rate) in the second half of 1981 year. A current deficit of this size can be financed for a short while out of reserves accumulated

since the 1979-1980 oil price rise, but in the slightly longer term adjustment is necessary. High absorbers have already reduced their export prices. This reduction in price may enable them to benefit from an increase in demand stemming from a moderation in destocking and the fall in the rate of Saudi Arabia output. At the same time, pressures to adjust are likely to result in a decline in the volume of high absorbers' imports during 1982, even allowing for the considerable amount of off-market finance being made available to Iraq from other Arab states.

The evolution of the low absorbers' current account over the coming eighteen months is expected to be much more stable, with the surplus falling by perhaps some $10 billion (seasonally-adjusted annual rates) per half-year.

E. COUNTRY CLASSIFICATION

	OECD
Seven major OECD countries	Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.
Other OECD	All other OECD.
	NON-OECD
OPEC	
Less absorptive OPEC countries	Kuwait, the Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
More absorptive OPEC countries	Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Nigeria and Venezuela.
Non-oil developing countries (NODCs)	
Oil-producing	Angola, Argentina, Bahrein, Bolivia, Brunei, Burma, Cameroons, Colombia, Congo, Egypt, Guatamala, Malaysia, Mexico, Peru, Syria, Trinidad and Tobago, Tunisia, Zaïre.
Newly-Industrializing	Brazil, Hong Kong, South Korea, Singapore, Taiwan.
Middle-Income	Anguilla, Antigua, Bahamas, Barbados, Belize, Bermuda, Botswana, Cayman Islands, Chile, Costa Rica, Cyprus, Dominican Republic, El Salvador, Falkland Islands, Fiji, Gilbert Islands, Grenada, Guyana, Honduras, Israel, Ivory Coast, Jamaica, Jordan, Lebanon, Liberia, Macao, Mauritius, Montserrat, Morocco, Nauru, Netherlands Antilles, Nicaragua, Panama, Papua New Guinea, Paraguay, Philippines, Seychelles, Surinam, Uruguay, Vanuatu (New Hebrides), Yemen, Zambia, Zimbabwe.
Low-Income	All other NODCs.
Other non-OECD countries	
USSR and Eastern European countries	Albania, Bulgaria, Czechoslovakia, Germany (Dem. Rep.), Hungary, Poland, Rumania, and the Union of Soviet Socialist Republics.
Other non-OECD countries cont'd.	
China and selected other Asian countries	China, Dem. Kampuchea, Lao People's Dem. Rep., Mongolia, North Korea and the Socialist Republic of Vietnam.
Other	Gibraltar, Malta, South Africa, and Yugoslavia (also includes trade not specified in terms of origin or destination).

Sensitivity Analysis: Effects of Hypothetical Exchange Rate Changes

The projections assume fixed nominal exchange rates. But the volatility of exchange rates over recent months may well continue; this contributes to the uncertainty of the projections. An assessment of their sensitivity to an alternative exchange rate assumption—a hypothetical 10 per cent depreciation of the United States dollar against other OECD countries' currencies—is shown in the tables below.

The calculations were performed on the INTERLINK system of the OECD, which has country sub-models with simulation properties broadly in line with those of national models. The chief forces at work are the following. The terms-of-trade changes resulting from the assumed exchange rate movement induce changes in simulated real income and hence changes in domestic demand with multiplier effects. Simulated net foreign demand responds to changes in international price competitiveness, brought about by exchange rate movements. Domestic prices change because of changed import prices and because compensation per employee then responds to price expectations, indexing schemes and changes in labour market conditions. For each non-OECD region, it is assumed that any change in real foreign exchange receipts—whether due to changes in export volumes, the terms of trade, or some combination of the two—will ultimately be reflected in corresponding increments to import volumes, after a lag of one to two years.

The simulation results involve the assumption that public sector spending is held fixed in real terms. Other assumptions underlying these simulation results are set out below. Table 61 shows simulated volume effects, and simulated price effects are shown in Table 62. In each case, results are shown as incremental changes to annual growth rates, with the dollar depreciation assumed to take place in the first half-year.

The main features of the simulation results are as follows. In the *European countries,* the hypothetical depreciation of the United States dollar gives rise, through terms of trade effects, to a simulated increase in real income, which stimulates domestic demand and imports. The simulated incremental increase in intra-European trade initially outweighs the effects on exports of a deterioration in relative competitiveness of European countries. The simulated net real foreign balance is, however, incrementally lower from the outset. As a result, over a two year period, simulated real GDP falls below baseline by ¼-½ per cent. Over this two-year period, lower import and export prices (down 3 per cent and 2¼ per cent respectively) induce, directly as well as through wage-price spiral effects, an incremental fall in the simulated GDP deflator (by about 1 per cent) and in the total domestic demand deflator (by about 1½ per cent).

In *North America,* the picture is reversed. Simulated real GDP is incrementally higher, with the simulated increase in net foreign demand (adjusting with a lag to improved competitive position) more than offsetting the effects of real income loss resulting from the deterioration in the terms of trade. For North America, the depreciation of the United States dollar leads, over a two year period, to an increase in activity, as measured by GNP, of ¼ per cent, and to a 1 per cent increase in the domestic price level.

Table 61
Simulated effects on real demand and output of 10 per cent depreciation of the US dollar against other OECD currencies

Increments to volume growth rates, percentage points

Note: The figures for North America, Europe and Total OECD include intra-group trade.

Mnemonics:
XGSV: Exports of goods and services, real
MGSV: Imports of goods and services, real
TDDV: Total domestic demand, real
GDPV: Gross domestic product, real

	1st half-year	2nd half-year	3rd half-year	4th half-year
North America				
XGSV	1.4	1.6	1.2	0.7
MGSV	−0.8	−0.9	−0.5	−0.4
TDDV	−0.4	−0.1	0.2	0.2
GDPV	−0.2	0.1	0.4	0.3
Europe				
XGSV	0.4	0	−0.5	−0.5
MGSV	1.1	0.6	−0.2	−0.4
TDDV	0.3	0	−0.3	−0.3
GDPV	0	−0.2	−0.4	−0.3
Total OECD				
XGSV	0.5	0.2	−0.2	−0.4
MGSV	0.8	0.3	−0.2	−0.4
TDDV	0	−0.1	−0.1	−0.1
GDPV	−0.1	−0.1	−0.1	−0.1

Table 62
Simulated effects on inflation of 10 per cent depreciation of the US dollar against other OECD currencies

Increments to inflation, percentage points

Note: The figures for North America, Europe and Total OECD include intra-group trade.

Mnemonics:
PXGS: Exports of goods and services, price deflator
PMGS: Imports of goods and services, price deflator
PTDD: Total domestic demand deflator
PGDP: GDP deflator

	1st half-year	2nd half-year	3rd half-year	4th half-year
North America				
PXGS	2.1	1.3	0.6	0.1
PMGS	6.7	0.6	0	−0.1
PTDD	1.2	0.5	0.2	0.1
PGDP	0.4	0.7	0.3	0.1
Europe				
PXGS	−2.9	−0.9	−0.5	−0.4
PMGS	−5.9	−0.1	−0.3	−0.3
PTDD	−1.3	−0.8	−0.6	−0.3
PGDP	−0.5	−1.0	−0.6	−0.3
Total OECD				
PXGS	−1.9	−0.3	−0.2	−0.3
PMGS	−3.8	0	−0.2	−0.2
PTDD	−0.4	−0.2	−0.2	−0.1
PGDP	−0.1	−0.3	−0.2	−0.1

The features most critical to the simulation results are:

i) the magnitude and lag profile of import and export price elasticities for the five categories of trade distinguished in the system;
ii) the rapidity with which import prices are passed through into domestic deflators and export prices; and the rapidity with which wages adjust in turn to changing domestic prices;
iii) the extent to which oil and non-oil commodity prices adjust in response to the US dollar depreciation;
iv) the response of public sector spending to changed import and domestic prices.

The first set of assumptions is of primary importance in determining the impact on countries' net foreign demand following the exchange rate changes. The second set of assumptions is important in determining the simulated impact of terms-of-trade changes on real income and hence domestic demand, and also the inflationary response associated with the exchange rate changes. The third set of assumptions is important primarily in determining the simulated magnitude of the net price and spending impulses coming from non-OECD regions.

The following assumptions were made about import and export price elasticities:

a) for import volumes, price elasticities (import prices relative to domestic prices):

—	manufactures	−0.7 to −1.3, the response lagged over two to three years;
—	food	−0.4 for all countries, lagged over 1½ years;
—	energy	−0.5 for all countries, lagged over six to seven years;
—	raw materials	−0.2 for all countries (except for the United States and Canada where the value is −1.0), lagged over one year;
—	non-factor services	−0.7 to −0.8, lagged over 1½ years.

b) for export volumes, price elasticities (export prices relative to competitors' prices) are typically:

—	manufactures	−1.2 to −1.8, lagged over three years;
—	non-factor services	−0.5 for all countries, lagged over 1½ years.

Exports of energy, food and raw materials are assumed to be price inelastic over the relatively short period being simulated.

For each of the five trade components, simulated import price adjustments for each country are calculated as a trade-weighted average of changes in partner-country export prices, with two additional adjustments:

i) for trade in manufactures and services, there is an allowance for export price discrimination among market countries, on the basis of changes in the price competitiveness of domestic producers in that market, relative to that of exporting countries; and
ii) following the research of Hemphill, for all trade components, a "timing asymmetry" between recording of import and export prices of 2½ weeks is assumed (see Hemphill, V.L., "Estimation of the Timing Asymmetry in International Trade", IMF Staff Papers, March 1980).

An important consequence of (*i*) above is that export prices of a given exporting country will tend to be shaded downwards, relative to its average export price, in markets where the home country's currency has depreciated, reflecting a postulated attempt on the part of exporters to reduce loss of relative competitiveness in those markets. Conversely, export prices to a country whose currency has appreciated will tend to be shaded upwards, relative to the average export price.

On the domestic price side, changes in import prices are assumed to be shifted into domestic and export prices within a year or so, with the greater part of the adjustment taking place in the half-year in which the import price change occurs. Wages are typically assumed to adjust fully, or nearly so, to changes in domestic prices (as measured by the private consumption deflator), within a year for most countries although more slowly in the United States and Canada. Alternative assumptions concerning the lags involved have relatively little effect on simulated end-period price and activity effects over a two-year period.

The simulation results involve the following assumptions concerning oil and non-oil commodity prices. For oil exports, prices were assumed to move in line with average OECD export prices of manufactures—this results in a simulated incremental rise in dollar oil prices of over 6 per cent. For exports of food, EEC export prices were, as noted above, held fixed in local currency terms; for other OECD countries and non-OECD regions, dollar-denominated food export prices were assumed to respond over one year to the average price level for the OECD area, with some allowance for activity-level effects. For exports of raw materials, dollar-denominated export prices are assumed to adjust over a one year period, for all countries and regions, to the average price level of the OECD area, also with some allowance for activity-level effects. Simulated non-oil dollar commodity prices rise incrementally by 6½ percentage points over the two-year period, with the exception of intra-EEC trade in food.

The International Transmission of Price Changes : Industrial Materials and Fuels

One area of uncertainty concerning the inflation outlook is the possible effects of recent sharp exchange rate movements on foreign trade prices and their consequences for domestic inflation. An analysis of the international transmission of inflation is complex. To simplify the analysis only two linkages are examined in the following:

i) the link between world prices and import prices in particular countries; and
ii) the adjustment of prices of similar domestically-produced tradeable goods to import prices.

Reactions of export prices and wages are excluded, because these adjustments take longer and are subject to factors other than world prices.

A common assumption underlying the adjustment mechanism is the "law of one price"[1]. The first stage is illustrated in the left panel of Chart P for two medium-sized European countries, France and Germany, and a small open economy, Finland. The comparison is restricted to a limited relatively homogeneous basket of commodities (industrial materials and fuels) because price discrimination between markets for finished manufactured goods is well documented[2]. The left-hand panel of the chart illustrates changes in world prices converted at bilateral rates against the dollar compared with the relevant wholesale price series of imports in Germany and France (both series in local currencies). Apart from small divergences in 1974, actual import prices track world prices relatively closely until early 1979 in France and late 1979 in Germany. The gap between the two indices widened through 1980, but narrowed in the first half of 1981. A similar development appears evident in Finland (for industrial materials and producer goods) over the same period.

Generally, the chart suggests that the adjustment lag between world and import prices may differ depending on the origins of the world price rise. In 1973-1974, when the dominant factor influencing world prices was the sharp rise in real commodity and oil prices, the lag between world and import prices appeared quite short. By contrast, the increases in import prices faced by European countries over the past 9-12 months are largely related to the rising dollar exchange rate, and such adjustments appear to have been subject to longer adjustment lags.

The second stage of the adjustment process is more complex because specific local market factors may delay a smooth arbitrage of domestic producers' prices to import prices. To illustrate the process changes in the ratio between domestic wholesale to imported prices (industrial materials and fuels) are shown in the right-hand panel for France and Germany, together with a measure of competitiveness. A comparison for Denmark covering a wider range of goods (all consumer and producer goods)[3] is also made. Positive (negative) observations indicate an increase (decrease) in domestic prices compared with import prices, and the relatively symmetrical distribution of the series suggests a tendency for price parities to be re-established over longer periods. In the short run, however, there are substantial barriers to price equalisation, and in all three countries domestic prices in recent years have risen substantially less than import prices.

The lack of a quick establishment of world import price parities, or rapid adjustment of domestic to import prices, raises a number of questions concerning the transmission mechanism. As regards import prices, it is not possible to say whether experience over the past year and a half constitutes a change in behaviour or a temporary change in the lag structure. For example, a lengthening of lags when the source of the disturbance originates in exchange-rate movements, rather than in product markets, might be partially explained by invoicing patterns. To the extent that imports into individual countries are invoiced in currencies other than dollars, such prices would tend to diverge from world prices when exchange rates change, but such divergences would be likely to be only transitory, prices ultimately being determined by real supply and demand[4].

A second and more fundamental question concerns the determination of domestic prices compared with prices of competing import goods. The possible influence of relative unit labour costs on the adjustment of domestic to import prices is illustrated in the right-hand panel of the chart, and simple regression analysis provides further support to these general conclusions. For all three countries relative unit labour cost positions appear to influence the speed of pass-through. Thus a strong (weak) competitive position, arising from relatively low (high) domestic inflation, dampens (accelerates) domestic price changes relative to those of imported goods. This may explain, for example, why German import prices in the first half of 1981 rose much less than export prices from their main foreign suppliers, whereas French import prices were closely in line with trading partners' export prices.

Another feature is that in none of the three countries do domestic prices fully adjust to import prices within one quarter. This supports the earlier observation that the ratio of domestic to import prices is subject to short-run lags and, as illustrated in the chart, these are relatively long in Germany and Denmark. For France, on the other hand, import prices appear to have a quicker and more pronounced influence on domestic prices[5].

1. According to this law, prices of identical goods or substitutes converge quite quickly through market arbitrage and competition, and this convergence is expected to be strongest when world prices are set at market clearing levels and the importance of individual countries is small compared with total world demand or supply. The law may be more diffuse in the case of product specialisation and when non-price barriers cushion domestic producers from the immediate effects of import competition. However, a realignment of domestic to import product prices should occur with only reasonably short delay, possibly under one year. On the other hand, the law of one price should hold most strongly for homogeneous primary goods (where price discrimination is more difficult) and in small open economies (even for a wider range of products) because the domestic tradeable goods sector is small relative to total world trade.
2. This comparison is nevertheless subject to unavoidable problems of coverage and compositional differences, and to biases arising from index comparisons when relative prices change.
3. Differences in commodity composition between domestic production and imports are important, although the weights of the two categories are approximately equal. In addition, the inclusion of a small open economy allows a comparison where the direction of causation is expected to run exclusively from world to domestic price levels, with a quick response of the latter.
4. Approximately 40 per cent of *total* British imports are sterling-denominated, while another 30 per cent are denominated in currencies other than the United States dollar. The share of imports denominated in currencies other than the dollar are quite similar for other European countries and were in 1976-1977: Denmark 77; France 71; Germany 69; Italy 57. For the smaller European countries the figure is in excess of 75 per cent. Unfortunately, a breakdown into specific categories is not available. See also "Sterling and Inflation", Bank of England Quartely, September 1981.
5. According to the estimates, around one-third of a change in import prices is reflected in domestic prices within the first quarter, while for France the corresponding "pass-through" is two-thirds.

Finally, the failure to observe full domestic pass-through may point to "reverse causality" whereby domestic prices influence import prices[6]. This would be in contrast to the usual view of a unique causality running from world (or import) prices to domestic pricing decisions. However, current experience suggests that importers are not pure price takers on the world market, and that active price discrimination and the influence of domestic market conditions are more prevalent than generally allowed for.

All in all, the existence of several causal relationships as well as institutional differences in invoicing practices may partly explain both the smaller-than-forecast rise in import prices and domestic inflation, and the extent to which deviations between predicted and actual trends have recently varied across countries.

6. It cannot be excluded that this merely reflects different commodity composition and a higher degree of value added in the domestic competing sector.

Reference Statistics

This Annex contains statistics on national accounts and related data covering, where possible, the last 20 years. They are intended to provide an historical background to the recent economic developments in the OECD area described in the main body of this report.

The tables of national accounts statistics, with the exception of Table R2, are taken from the annual publication *National Accounts of OECD Countries, (Volumes I and II);* Table R2 which shows half-yearly growth rates is taken from the *Quarterly National Accounts Bulletin.* The data on consumer prices are contained in the *Main Economic Indicators.* The table on standardized unemployment rates is based on the quarterly supplement to *Labour Force Statistics.* These publications contain fuller information about the statistics than can be given in the table notes, and users should consult these sources for more detailed descriptions of the concepts, definitions, and coverage of the various series.

Balance of payments data (tables R13 and R14) are derived from OECD countries' submissions and publications which are based on the concepts and definitions of the IMF *Balance of Payments Manual.* They are published, at irregular intervals, in the OECD publication *Balances of Payments of OECD Countries.*

Table R1. **Growth of real GDP at market prices in the OECD area**
Percentage changes

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
United States	2.6	5.8	3.9	5.2	6.2	6.0	2.6	4.7	2.8	–0.2	3.4	5.5	5.4	–0.6	–0.9	5.4	5.4	4.4	2.8	–0.1
Japan	14.6	7.1	10.5	13.2	5.1	10.6	10.8	12.8	12.3	9.8	4.6	8.8	8.8	–1.0	2.3	5.3	5.3	5.0	5.5	4.4
Germany	5.1	4.4	3.0	6.7	5.6	2.5	–0.2	6.3	7.8	6.0	3.2	3.7	4.9	0.5	–1.8	5.2	3.0	3.2	4.5	1.9
France	5.5	6.7	5.3	6.5	4.8	5.2	4.7	4.3	7.0	5.7	5.4	5.9	5.4	3.2	0.2	5.2	3.1	3.7	3.5	1.2
United Kingdom	3.3	1.0	3.9	5.2	2.3	2.0	2.6	4.1	1.5	2.2	2.7	2.2	7.5	–1.0	–0.6	3.6	1.3	3.3	1.4	–1.4
Italy	8.2	6.2	5.6	2.8	3.3	6.0	7.2	6.5	6.1	5.3	1.6	3.2	7.0	4.1	–3.6	5.9	1.9	2.7	4.9	4.0
Canada	3.1	6.8	5.5	6.4	6.8	7.0	3.4	5.6	5.2	2.6	7.0	5.8	7.5	3.5	1.1	5.8	2.4	4.0	3.2	–0.1
Total of above countries	4.7	5.3	4.7	6.2	5.3	5.6	3.6	5.9	5.2	3.2	3.7	5.3	6.2	0.3	–0.5	5.2	4.1	4.0	3.5	1.2
Austria	5.6	2.6	4.2	6.2	2.9	5.6	3.0	4.5	6.3	7.1	5.1	6.2	4.9	3.9	–0.4	4.6	4.4	0.5	4.9	3.1
Belgium	5.0	5.2	4.4	7.0	3.6	3.2	3.9	4.2	6.6	6.4	3.9	5.3	6.2	4.5	–1.9	5.3	1.0	3.2	2.3	2.5
Denmark	6.4	5.7	0.6	9.3	4.6	2.7	3.7	3.8	6.5	2.3	2.4	5.4	3.8	–0.7	–1.0	6.9	1.9	1.3	3.0	–0.2
Finland	7.6	2.7	3.3	5.3	5.3	2.1	2.3	2.5	9.6	7.9	1.8	7.5	6.5	3.2	0.6	0.3	0.4	2.3	7.6	5.0
Greece	11.1	1.5	10.1	8.3	9.4	6.1	5.5	6.7	9.9	8.0	7.1	8.9	7.3	–3.6	6.1	6.4	3.4	6.7	3.8	1.7
Iceland	0.7	7.5	9.4	8.5	6.6	8.5	–1.7	–5.7	3.1	7.8	12.7	6.5	7.9	4.0	–0.5	3.5	5.8	5.2	2.6	1.7
Ireland	4.7	3.7	4.8	4.2	2.0	1.0	5.1	8.1	6.1	3.5	3.4	5.9	4.1	3.7	2.2	2.0	5.8	6.3	2.1	0.5
Luxembourg	4.4	1.4	2.6	7.5	1.7	1.7	1.6	4.2	8.9	2.2	4.3	6.3	10.7	3.6	–6.1	1.6	0.8	4.6	4.2	0.6
Netherlands	3.1	4.0	3.6	8.3	5.2	2.7	5.3	6.4	6.4	6.7	4.3	3.4	5.7	3.5	–1.0	5.3	2.4	2.7	1.8	0.6
Norway	6.3	2.8	3.8	5.0	5.3	3.8	6.3	2.3	4.5	2.0	4.6	5.2	4.1	5.2	4.2	6.8	3.6	4.5	4.5	3.8
Portugal	5.5	6.7	5.9	6.6	7.5	4.1	7.5	8.9	2.1	9.1	6.6	8.0	11.2	1.1	–4.3	6.9	5.6	3.4	4.5	5.5
Spain	11.8	9.3	8.8	6.2	6.3	7.1	4.3	6.8	8.9	4.1	5.0	8.1	7.9	5.7	1.1	3.0	3.3	2.7	0.6	1.2
Sweden	5.7	4.3	5.2	6.8	3.8	2.1	3.4	3.6	5.0	6.5	0.8	2.2	3.9	4.3	2.2	1.2	–2.0	1.3	4.1	1.4
Switzerland	8.1	4.8	4.9	5.3	3.2	2.5	3.1	3.6	5.6	6.4	4.1	3.2	3.0	1.5	–7.3	–1.4	2.4	0.4	2.5	4.4
Turkey	1.7	6.1	9.4	4.1	2.6	11.7	4.5	6.7	5.3	4.9	9.1	6.6	4.4	8.5	8.9	8.5	4.4	2.9	–0.9	–0.6
Total smaller European countries	6.5	5.0	5.1	6.6	4.6	4.0	4.1	5.0	6.6	5.6	4.1	5.3	5.6	3.6	0	3.8	2.2	2.5	2.6	1.9
Australia	–0.2	6.5	6.5	6.3	5.6	2.7	6.9	6.1	6.5	6.1	5.4	2.9	5.3	2.5	2.2	3.5	0.8	2.1	4.6	1.8
New Zealand	3.3	3.1	6.1	6.2	6.0	3.8	–0.9	2.2	5.0	3.7	2.5	4.4	7.2	4.0	1.7	0.1	–2.7	3.0	1.0	2.5
Total smaller countries	5.7	5.1	5.3	6.6	4.7	3.9	4.3	5.0	6.6	5.6	4.2	5.0	5.6	3.5	0.2	3.7	2.0	2.4	2.8	1.9
Total OECD	4.8	5.3	4.8	6.3	5.2	5.3	3.7	5.8	5.4	3.6	3.8	5.3	6.1	0.9	–0.4	4.9	3.7	3.8	3.4	1.3
Memorandum items																				
OECD Europe	5.5	4.5	4.5	6.0	4.3	3.7	3.2	5.2	6.0	5.1	3.6	4.3	5.8	2.1	–0.9	4.5	2.4	3.0	3.2	1.5
EEC	5.1	4.3	4.1	6.0	4.3	3.5	3.1	5.3	5.9	5.0	3.5	4.0	5.9	1.6	–1.2	5.0	2.4	3.3	3.4	1.3
Total OECD *less* U.S.	6.3	4.9	5.4	7.0	4.6	4.8	4.5	6.4	7.0	5.8	4.0	5.1	6.5	1.6	–0.1	4.7	2.9	3.4	3.7	2.0

Source: National Accounts of OECD Countries (annual publication). The data in this table are measured according to the standard definitions of the OECD – United Nations system of accounts. (See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968.)

Growth rates for country groups. These are obtained by applying growth rates for each country to their 1980 values expressed in 1980 US dollars.

Table R2. **Growth of real GNP/GDP – Seven major OECD Countries**

Percentage changes from previous half year, seasonally adjusted at annual rates

	1964	1965		1966		1967		1968		1969		1970		1971		1972		1973		1974		1975		1976		1977		1978		1979		1980		1981
	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I
United States	3.6	6.3	7.3	6.6	3.3	1.8	4.0	5.7	4.6	3.1	0.4	–1.2	1.3	4.7	3.0	6.7	6.3	7.5	2.2	–1.0	–2.4	–4.3	6.8	6.1	2.8	7.0	5.1	4.2	5.5	2.8	1.7	–0.9	–0.5	4.7
Japan	7.7	3.2	6.5	13.4	10.3	9.7	13.1	11.2	15.3	11.2	11.6	10.3	7.6	3.0	5.4	10.6	8.9	13.2	0.8	–4.6	3.7	0.1	5.8	5.8	3.8	6.8	3.9	5.8	4.9	6.0	5.1	4.3	3.4	4.0
Germany	5.6	6.4	3.9	4.2	–2.1	–1.1	4.1	5.8	10.3	5.7	9.9	3.9	5.9	2.7	2.0	4.5	3.6	7.6	1.1	1.5	–2.6	–3.8	3.5	7.5	2.7	3.3	2.1	3.7	4.8	4.2	4.5	2.6	–2.3	–0.4
France	3.9	4.1	6.9	4.9	4.2	5.2	4.2	–0.4	14.2	4.4	5.5	6.2	5.1	5.3	6.0	6.1	5.4	6.6	2.9	4.6	0.8	–1.7	3.4	6.4	4.6	3.2	1.4	5.3	3.0	2.8	5.2	0.7	–0.1	–0.8
United Kingdom	2.4	2.2	2.6	1.8	2.1	4.7	–0.9	6.9	3.8	–1.1	4.2	0.2	4.4	0.4	5.8	0.3	2.8	15.5	–2.8	–2.2	2.6	–2.7	0	6.8	3.4	–1.8	4.2	4.7	0.8	2.3	0.3	–1.9	–1.8	..
Italy	–1.8	4.3	6.3	4.9	7.7	6.8	7.4	4.6	9.6	7.5	0.2	9.5	2.3	0.6	3.2	2.4	4.8	5.2	13.0	4.4	–4.3	–6.1	2.1	8.1	5.3	2.0	–1.7	3.9	4.7	4.5	5.8	7.4	–4.3	2.4
Canada	5.1	7.4	6.7	9.3	2.6	4.2	2.4	6.3	8.4	4.4	4.3	1.9	2.0	8.2	9.2	4.9	5.7	9.8	5.0	5.0	–0.6	0.7	3.9	8.7	1.0	2.4	2.7	3.9	4.3	2.3	3.1	–2.2	1.5	5.6
Total	3.9	5.3	6.1	6.3	3.5	3.3	4.7	5.8	7.9	4.5	4.1	2.6	3.6	3.7	4.0	5.9	5.8	8.9	2.2	–0.2	–0.8	–3.1	4.8	6.5	3.3	4.8	3.5	4.5	4.6	3.5	3.1	0.9	–0.3	..

Sources: Half-yearly national accounts are not available according to the standard definitions of the OECD-United Nations system of accounts. The data in this table are based on the following national publications:

United States: Gross National Product at market prices. *Source: Survey of Current Business*, Department of Commerce, Washington, D.C.

Japan: Gross National Product at market prices. *Source: Economic Statistics Monthly*, Bank of Japan, Tokyo.

Germany: Gross National Product at market prices. *Source: Statistical Supplements to the Monthly Reports of the Deutsche Bundesbank*, Frankfurt.

France: Gross Domestic Product at market prices. *Source: Institut National de la Statistique et des Etudes Economiques (INSEE)*, Paris.

United Kingdom: Gross Domestic Product at market prices. *Source: Monthly Digest of Statistics*, Central Statistical Office, London.

Italy: Gross Domestic Product at market prices. *Source: Istituto Nazionale per lo Studio della Congiuntura (ISCO)*, Rome.

Canada: Gross Domestic Product at market prices. *Source: National Income and Expenditure Accounts*, Statistics Canada, Ottawa.

Growth rate for the total: See note to Table R1.

Table R3. **Gross fixed capital formation as percentage of GDP**

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
United States	17.9	17.4	17.6	17.9	18.1	18.8	18.6	17.9	18.1	18.3	17.6	18.1	18.7	19.1	18.4	17.0	17.2	18.4	19.3	19.4	18.2
Japan	29.5	32.6	32.9	31.5	31.7	29.9	30.4	32.1	33.2	34.5	35.5	34.3	34.2	36.4	34.8	32.4	31.3	30.5	30.8	32.0	31.7
Germany	24.3	25.2	25.7	25.5	26.6	26.1	25.4	23.1	22.5	23.4	25.6	26.4	25.9	24.5	21.9	20.7	20.7	20.7	21.2	22.6	23.6
France	20.1	21.2	21.4	22.1	22.9	23.3	23.7	23.8	23.3	23.4	23.4	23.6	23.7	23.8	24.3	23.3	23.3	22.3	21.4	21.4	21.6
United Kingdom	16.4	17.3	16.9	16.7	18.3	18.3	18.3	18.8	18.9	18.5	18.6	18.4	18.3	19.5	20.3	19.5	19.0	17.9	18.1	17.8	17.8
Italy	22.6	23.2	23.7	24.0	22.2	19.3	18.8	19.5	20.3	21.0	21.4	20.4	19.8	20.8	22.4	20.6	20.0	19.6	18.7	18.9	20.0
Canada	21.9	20.9	20.5	20.5	22.0	23.5	24.5	23.2	21.5	21.4	20.8	21.8	21.7	22.4	23.0	24.0	23.3	22.7	22.3	22.6	23.1
Total of above countries	19.5	19.8	20.0	20.2	20.7	20.9	20.8	20.5	20.7	21.1	21.3	21.6	22.1	23.0	22.4	21.1	20.9	21.3	22.0	22.2	21.8
Austria	25.0	26.3	25.8	26.1	26.4	27.4	27.9	26.6	25.7	25.1	25.9	27.9	30.2	28.5	28.4	26.6	26.0	26.7	25.5	25.1	25.3
Belgium	19.3	20.7	21.3	20.7	22.4	22.4	22.9	22.9	21.5	21.3	22.7	22.1	21.3	21.4	22.7	22.5	22.1	21.7	21.6	20.6	21.4
Denmark	21.6	23.2	23.1	22.0	24.5	24.1	24.1	24.2	23.4	24.6	24.7	24.2	24.6	24.8	24.0	21.1	23.0	21.9	21.5	20.5	18.3
Finland	27.3	27.0	26.7	24.8	24.6	26.0	26.0	24.6	22.6	23.4	25.9	27.3	27.7	28.7	29.6	31.0	27.7	26.6	23.4	22.8	24.6
Greece	19.0	18.2	20.1	19.2	21.0	21.6	21.7	20.3	23.2	24.6	23.6	25.2	27.8	28.0	22.2	20.8	21.2	23.0	23.9	25.6	23.5
Iceland	29.7	22.7	24.0	27.5	28.3	25.9	27.2	30.6	31.2	24.5	23.8	29.2	27.8	29.4	31.6	32.1	28.6	28.0	25.4	24.5	26.3
Ireland	14.4	16.3	17.9	19.5	20.5	21.4	19.8	20.1	20.9	23.3	22.7	23.6	23.8	25.5	25.0	22.9	24.5	25.5	28.3	32.6	27.9
Luxembourg	21.0	23.2	26.1	29.9	33.5	28.0	26.6	23.3	21.4	21.7	23.5	28.5	28.2	27.4	24.7	27.7	24.5	25.3	25.7	25.0	25.3
Netherlands	24.1	24.8	24.5	23.8	25.5	25.1	26.2	26.3	26.9	24.6	25.8	25.9	23.7	23.1	21.8	20.9	19.3	21.1	21.3	21.1	21.0
Norway	29.0	30.0	29.2	29.5	27.9	28.2	28.7	29.7	26.9	24.3	26.5	29.7	27.7	29.3	30.5	34.2	36.3	37.1	31.8	27.8	25.0
Portugal	17.6	17.6	17.0	18.0	17.3	17.3	19.0	20.2	16.8	17.1	17.6	18.8	20.6	20.3	19.7	19.7	19.0	20.1	20.1	19.1	20.9
Spain	17.9	18.8	19.2	19.4	20.7	21.7	22.0	22.3	22.8	23.2	23.2	21.2	22.2	23.6	24.7	23.3	21.8	21.0	19.9	18.9	19.6
Sweden	22.1	22.6	23.1	24.2	24.6	24.7	24.8	24.8	23.9	23.2	22.5	22.1	22.3	21.9	21.5	21.0	21.2	21.2	19.4	19.8	20.3
Switzerland	24.8	27.4	28.8	30.0	30.7	28.7	27.4	26.0	25.6	25.8	27.5	29.2	29.7	29.4	27.6	24.0	20.6	20.7	21.4	21.8	23.8
Turkey	16.0	15.7	15.1	14.4	14.6	14.6	15.9	16.4	17.3	17.4	18.6	17.0	17.4	17.9	18.6	19.6	23.2	23.2	21.0	19.4	18.0
Total smaller European countries	21.8	22.7	23.0	22.9	23.8	23.9	24.1	23.9	23.5	23.2	23.9	24.1	24.2	24.4	24.1	23.2	22.7	22.9	22.0	21.4	21.5
Australia	25.4	25.0	24.4	24.6	25.9	27.4	27.0	26.2	26.5	26.2	26.0	26.2	24.3	22.9	22.8	23.2	23.1	22.8	22.8	22.1	22.8
New Zealand	20.9	21.4	20.1	20.3	21.3	22.1	22.3	19.5	20.4	20.9	21.1	20.6	22.3	22.6	25.7	27.2	25.0	22.0	20.3	17.8	17.8
Total smaller countries	22.3	23.0	23.1	23.0	24.0	24.3	24.4	24.1	23.8	23.5	24.1	24.3	24.2	24.1	24.0	23.3	22.8	22.8	22.0	21.4	21.6
Total OECD	19.8	20.2	20.3	20.6	21.1	21.3	21.3	20.9	21.1	21.4	21.7	22.0	22.4	23.2	22.7	21.5	21.2	21.5	22.0	22.1	21.7
Memorandum items																					
OECD Europe	21.0	21.9	22.2	22.3	23.0	22.7	22.6	22.3	22.1	22.3	23.1	23.2	23.1	23.3	22.9	21.9	21.6	21.3	20.9	20.9	21.3
EEC	20.7	21.7	21.9	22.0	22.8	22.4	22.2	21.9	21.8	22.1	22.9	23.1	22.8	22.9	22.4	21.2	21.0	20.7	20.6	20.9	21.2
Total OECD *less* U.S.	22.1	23.1	23.3	23.3	24.1	23.8	23.9	23.9	24.0	24.5	25.3	25.2	25.2	26.0	25.4	24.2	23.8	23.5	23.5	23.5	23.6

Source: National Accounts of OECD Countries (annual publication). The data in this table are measured according to the standard definitions of the OECD – United Nations system of accounts. (See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968.)

Growth rates for country groups. The percentages for each group of countries are calculated from the total GDP and gross fixed capital formation for the group, with both aggregates expressed in US dollars at current exchange rates.

Table R4. **Gross saving as percentage of GDP**

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
United States	19.6	18.5	18.9	19.3	19.9	21.0	20.3	19.4	19.5	19.8	18.1	18.4	18.7	20.7	19.3	17.5	17.9	18.7	19.6	19.9	18.3
Japan	33.4	34.8	34.8	33.3	31.9	31.9	32.6	34.9	36.2	37.0	40.2	38.0	38.3	39.2	36.3	32.2	32.6	31.9	32.3	31.2	30.7
Germany	28.8	28.1	27.2	26.4	28.2	27.1	26.6	25.1	26.8	27.4	28.4	27.3	26.7	26.6	25.1	21.6	22.7	22.7	23.4	23.8	23.1
France	24.5	24.0	24.6	23.9	25.0	25.7	25.8	25.7	24.6	25.0	26.2	25.6	26.0	26.0	24.5	23.0	23.0	22.7	22.7	22.8	21.7
United Kingdom	18.1	17.7	17.0	17.4	18.7	19.6	18.9	17.8	18.4	21.1	21.7	19.7	19.8	21.1	16.9	15.4	16.6	18.9	19.6	20.3	19.2
Italy	25.5	26.7	26.0	23.7	23.8	23.6	22.8	22.8	23.6	24.4	24.2	22.7	22.0	22.4	21.9	20.1	22.1	22.6	22.4	22.9	22.3
Canada	19.0	18.4	20.8	21.1	22.1	23.0	23.9	22.6	22.1	23.0	21.2	20.5	21.3	23.5	24.8	21.1	21.5	19.8	20.0	22.3	21.5
Total of above countries	21.6	21.1	21.4	21.4	22.2	22.9	22.5	22.0	22.4	23.2	23.0	22.6	23.1	24.9	23.3	20.9	21.6	22.0	23.0	23.0	21.8
Austria	28.6	29.4	28.0	26.4	28.0	27.5	28.5	26.9	27.0	28.3	30.3	30.2	30.8	30.6	30.2	26.0	25.0	24.3	25.2	26.2	26.2
Belgium	19.4	21.1	21.9	20.5	24.0	23.7	23.6	24.2	23.3	24.4	27.1	25.6	25.5	24.6	25.3	21.8	21.9	20.5	20.2	18.4	16.3
Denmark	24.9	23.4	22.9	22.9	24.0	24.6	23.0	21.8	22.3	23.0	21.8	22.4	24.4	24.4	22.1	19.3	19.1	18.7	19.1	16.7	14.4
Finland	26.6	28.0	25.1	23.4	22.6	22.6	22.3	21.9	24.3	25.5	26.6	26.6	26.1	27.5	29.5	25.2	23.5	22.9	22.9	24.4	24.8
Greece	15.7	17.8	19.6	19.2	21.4	20.5	20.3	20.1	19.5	21.9	25.0	26.4	28.3	32.0	26.0	22.8	24.1	24.7	25.4	27.0	25.6
Iceland	23.4	26.4	26.4	25.0	26.5	28.8	26.2	22.1	21.1	26.1	24.6	24.8	23.7	26.3	22.5	23.1	26.3	27.2	26.0	24.2	24.5
Ireland	16.3	17.9	17.7	17.7	18.2	19.4	19.0	21.0	20.7	20.9	20.4	20.2	23.0	24.0	19.4	22.0	21.2	24.6	26.1	23.2	..
Luxembourg	35.7	35.9	32.2	30.9	32.3	31.3	31.5	32.9	34.8	38.8	39.3	37.1	40.1	49.9	54.1	46.1	48.9	47.3	50.3	52.7	50.1
Netherlands	30.4	28.9	26.9	25.5	27.4	27.1	26.5	26.8	27.7	27.2	26.8	26.8	27.4	28.9	27.9	23.0	23.7	22.4	21.1	20.4	20.1
Norway	27.5	27.5	26.3	26.2	26.7	28.0	27.9	27.7	27.3	25.8	28.3	27.5	27.3	28.4	28.9	26.7	25.2	22.3	23.4	25.2	29.9
Portugal	15.0	11.5	15.4	16.7	20.6	21.3	21.6	24.4	21.5	22.5	25.5	24.5	29.6	29.3	18.7	10.8	12.8	16.1	18.9	22.1	20.5
Spain	22.4	23.5	23.6	22.0	23.5	22.6	22.8	22.1	22.8	24.6	24.6	24.7	24.9	25.4	24.6	23.5	21.4	20.8	21.8	20.5	18.9
Sweden	24.1	24.7	24.5	24.7	26.9	26.3	25.2	24.9	23.8	23.8	24.8	24.1	23.5	24.2	23.0	23.7	21.3	17.6	17.5	17.7	17.3
Switzerland	30.1	30.2	29.0	29.1	30.0	29.9	30.2	30.6	31.3	31.1	32.6	32.9	32.6	32.1	31.7	27.8	26.8	26.5	27.0	26.6	26.7
Turkey	14.7	14.3	12.6	12.0	13.6	14.1	16.8	16.9	16.7	16.5	19.2	17.6	17.7	21.5	17.6	17.8	19.2	18.4	20.4	20.4	16.6
Total smaller European countries	24.2	24.5	23.9	23.1	24.8	24.6	24.4	24.3	24.4	24.9	26.1	25.9	26.3	27.1	25.8	23.2	22.5	21.4	21.9	21.5	20.7
Australia	23.6	22.4	23.1	24.6	25.3	24.9	24.1	23.7	24.2	25.5	25.4	26.0	26.4	27.1	26.5	23.3	22.7	21.4	19.9	21.4	21.4
New Zealand	18.7	18.3	20.1	22.5	23.6	21.9	22.7	21.4	24.5	25.2	23.3	25.2	26.6	27.7	22.9	21.3	23.5	20.8	20.8	22.9	19.3
Total smaller countries	23.9	24.0	23.6	23.3	24.9	24.6	24.3	24.1	24.4	25.0	25.9	25.9	26.3	27.1	25.8	23.2	22.5	21.4	21.7	21.5	20.8
Total OECD	21.9	21.5	21.7	21.7	22.5	23.1	22.7	22.3	22.7	23.4	23.4	23.0	23.6	25.3	23.7	21.3	21.7	21.9	22.8	22.7	21.6
Memorandum items																					
OECD Europe	24.1	24.1	23.6	22.9	24.3	24.3	23.9	23.4	23.9	24.8	25.7	24.8	24.8	25.5	23.8	21.4	21.9	21.8	22.2	22.3	21.4
EEC	24.0	23.9	23.5	22.8	24.2	24.2	23.8	23.1	23.7	24.8	25.6	24.5	24.5	25.1	23.3	20.8	21.7	21.9	22.2	22.3	21.3
Total OECD *less* U.S.	24.5	24.7	24.6	24.1	25.1	25.2	25.1	25.0	25.8	26.8	28.0	27.0	27.3	28.3	26.6	23.6	24.1	23.9	24.5	24.3	23.4

Source: National Accounts of OECD Countries (annual publication). The data in this table are measured according to the standard definitions of the OECD – United Nations system of accounts. (See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968.)

Percentages for country groups. The percentages for each group of countries are calculated from the total GDP and gross saving for the group, with both aggregates expressed in US dollars at current exchange rates. Percentages for country groups exclude countries for which no data are shown in the table.

Gross Saving is the sum of national disposable income and consumption of fixed capital less consumption expenditure of households and government. It is the surplus available from current transactions to finance gross capital formation and capital transactions with the rest of the world. It is the sum of lines 35 and 36 in Table I of *National Accounts of OECD Countries*, Volume II, 1962-1979.

Table R5. **Surplus on current transactions with the rest of the world as percentage of GDP**

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
United States	0.6	0.7	0.6	0.7	1.1	0.8	0.4	0.3	0.1	0	0.2	–0.1	–0.5	0.5	0.3	1.2	0.3	–0.7	–0.6	–0.1	0.2
Japan	0.3	–1.8	–0.1	–1.1	–0.5	1.1	1.3	0	0.8	1.3	1.0	2.5	2.3	0	–1.0	–0.1	0.7	1.6	1.7	–0.9	–0.9
Germany	1.6	1.0	–0.1	0.2	0.2	–1.3	0.2	2.2	2.3	1.4	0.6	0.4	0.4	1.3	2.6	0.9	0.8	0.9	1.4	–0.6	–1.8
France	1.5	1.1	1.0	0.3	–0.3	0.8	0.1	0	–0.5	–1.1	0.1	0.6	0.5	–0.2	–2.3	0	–1.5	–0.7	0.6	–0.1	–1.3
United Kingdom	–1.0	0	0.4	0.3	–1.3	–0.2	0.1	–0.9	–0.8	0.7	1.3	1.8	0.2	–2.0	–4.6	–2.0	–1.7	–0.1	0.4	0	2.1
Italy	0.8	1.2	0.6	–1.4	1.1	3.6	3.2	2.2	3.3	2.7	1.2	1.8	1.6	–1.8	–4.7	–0.2	–1.5	1.1	2.4	1.6	–2.5
Canada	–3.0	–2.1	–1.8	–1.0	–0.8	–2.0	–2.0	–0.9	–0.4	–1.3	1.1	0.2	–0.6	–0.2	–1.3	–3.1	–2.3	–2.2	–2.3	–2.0	–0.9
Total of above countries	0.4	0.5	0.4	0.3	0.5	0.6	0.4	0.4	0.4	0.3	0.5	0.5	0.2	0.2	–0.5	0.3	–0.1	–0.1	0.4	–0.3	–0.5
Austria	0.2	1.2	2.0	0.6	0.1	–0.5	–1.2	–0.7	–0.4	1.2	0.6	0.5	0.1	–0.3	–1.0	–0.1	–2.3	–3.6	–0.7	–1.3	–2.6
Belgium	0.1	–0.1	0.6	–0.5	0.2	0.6	–0.3	0.8	0.9	1.2	2.8	2.1	3.6	2.0	0.4	–0.1	–0.5	–1.5	–1.6	–2.9	–5.2
Denmark	–1.1	–1.7	–3.2	0.1	–2.2	–1.8	–1.9	–2.4	–1.7	–2.8	–3.9	–2.4	–0.3	–1.7	–3.1	–1.5	–4.9	–4.0	–2.7	–4.5	–3.8
Finland	–0.9	–1.2	–1.5	–0.4	–2.5	–2.3	–2.3	–1.7	0.7	0	–2.2	–2.9	–1.0	–2.1	–5.3	–7.8	–3.9	–0.5	1.9	–0.4	–2.8
Greece	–2.9	–2.2	–1.6	–2.2	–4.3	–5.8	–2.0	–2.2	–3.6	–4.0	–3.1	–1.5	–1.2	–3.8	–3.3	–4.2	–2.6	–2.7	–2.3	–2.9	–2.4
Iceland	–4.9	2.2	3.1	–1.5	–1.9	1.1	–1.3	–8.8	–9.2	1.1	1.4	–7.0	–2.6	–2.8	–10.9	–10.9	–1.7	–2.5	1.3	–0.9	–2.4
Ireland	–0.1	0.2	–1.8	–2.8	–3.5	–4.4	–1.6	1.4	–1.3	–4.8	–4.0	–3.8	–2.2	–3.1	–9.5	–0.2	–3.5	–2.9	–2.4	–10.1	. .
Luxembourg	13.7	7.4	2.1	1.1	0.7	2.2	4.3	11.3	13.6	17.2	13.7	6.1	10.7	21.6	31.6	21.6	24.5	25.2	23.3	28.1	22.7
Netherlands	2.8	1.4	1.0	0.7	–1.0	0.1	–0.9	–0.3	0.3	0.2	–1.4	–0.3	2.8	3.8	3.0	2.3	3.0	0.7	–0.8	–1.2	–1.4
Norway	–2.3	–3.6	–3.2	–3.1	–1.1	–1.9	–2.6	–2.9	1.0	1.3	–1.9	–3.9	–0.2	–1.8	–4.8	–8.5	–11.9	–14.0	–5.2	–2.2	1.8
Portugal	–4.0	–10.0	–3.4	–3.3	0	–0.4	0.8	3.7	1.5	3.6	1.9	2.5	5.5	3.0	–6.2	–5.5	–8.0	–9.2	–4.5	–0.2	–4.6
Spain	4.3	2.4	0.4	–1.1	0.1	–2.1	–2.1	–1.5	–0.8	–1.1	0.2	2.2	1.2	0.6	–3.5	–3.0	–3.5	–1.8	1.0	0.2	–2.4
Sweden	–0.6	0.5	0.4	0.3	0.4	–0.8	–0.7	–0.1	–0.4	–0.7	–0.8	1.0	1.3	2.8	–1.0	–0.5	–2.1	–2.6	0	–2.5	–4.3
Switzerland	1.1	–2.2	–3.1	–3.0	–3.1	–0.5	0.8	1.5	3.2	2.8	0.4	0.4	0.8	0.8	0.5	4.9	6.0	5.8	5.3	2.7	–0.4
Turkey	–1.3	–1.5	–2.6	–3.4	–1.7	–0.8	–1.0	–0.5	–1.3	–1.0	–0.6	–0.2	0.1	2.8	–2.3	–5.3	–4.9	–7.1	–2.7	–2.0	–5.2
Total smaller European countries	0.5	–0.3	–0.6	–0.9	–1.0	–1.1	–1.1	–0.5	0	–0.1	–0.5	0.2	1.3	1.1	–1.3	–1.2	–1.7	–2.1	–0.3	–1.2	–2.6
Australia	–4.7	–0.8	–1.6	–0.4	–1.6	–4.5	–2.4	–2.9	–3.9	–2.1	–1.7	–1.6	1.4	–1.2	–3.0	–0.7	–1.4	–2.6	–3.5	–1.7	–2.2
New Zealand	–3.4	–3.5	–0.9	–0.4	–0.4	–4.0	–3.2	–1.4	1.8	1.4	–2.8	0.2	2.5	0	–13.4	–8.3	–5.1	–4.0	–1.8	–3.6	–2.8
Total smaller countries	–0.4	–0.5	–0.8	–0.8	–1.1	–1.6	–1.3	–0.8	–0.4	–0.3	–0.7	0	1.3	1.1	–1.9	–1.3	–1.7	–2.2	–0.7	–1.3	–2.5
Total OECD	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.3	0.2	0.3	0.5	0.4	0.3	–0.7	0.1	–0.4	–0.4	0.2	–0.5	–0.8
Memorandum items																					
OECD Europe	0.6	0.5	0.1	–0.3	–0.4	–0.1	0.1	0.4	0.7	0.5	0.4	0.8	0.8	0.2	–1.3	–0.5	–1.0	–0.5	0.7	–0.4	–1.4
EEC	0.7	0.7	0.4	0	–0.3	0.2	0.4	0.7	0.8	0.6	0.5	0.8	0.8	0	–1.0	0	–0.5	0.1	0.8	–0.4	–1.2
Total OECD *less* U.S.	0	–0.1	–0.1	–0.4	–0.5	–0.2	0	0.1	0.5	0.4	0.4	1.0	1.0	0.2	–1.4	–0.6	–0.8	–0.3	0.7	–0.6	–1.3

Source: National Accounts of OECD Countries (annual publication). The data in this table are measured according to the standard definitions of the OECD – United Nations system of accounts. (See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968.)

Percentages for country groups. The percentages for each group of countries are calculated from the total GDP and surplus on current transactions for the group, with both aggregates expressed in US dollars at current exchange rates. Percentages for country groups exclude countries for which no data are shown in the table.

Current transactions with the rest of the world include merchandise trade, trade in services such as transport, insurance, tourism and business services, payments and receipts of property income, and other current transfers. The surplus on these transactions is given in line 11 of Table 15 of *National Accounts of OECD Countries*, Volume II, 1962–1979.

Table R6. **Government final consumption expenditure as percentage of GDP**

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
United States	16.9	17.8	17.9	17.7	17.5	17.0	18.0	19.3	19.2	18.8	19.2	18.4	18.4	17.7	18.3	18.9	18.5	18.0	17.4	17.4	18.1
Japan	8.0	7.5	7.8	8.0	7.9	8.2	8.0	7.7	7.4	7.3	7.4	8.0	8.2	8.3	9.1	10.1	9.9	9.9	9.7	9.8	10.0
Germany	13.5	13.9	14.7	15.6	14.9	15.3	15.6	16.3	15.6	15.8	15.9	17.1	17.4	18.1	19.7	20.8	20.2	19.9	20.0	20.0	20.4
France	13.0	13.1	13.3	13.4	13.3	13.1	13.0	13.0	13.5	13.3	13.4	13.4	13.2	13.2	13.6	14.4	14.6	14.7	15.0	14.9	15.3
United Kingdom	16.6	16.7	17.1	17.0	16.5	16.9	17.2	18.0	17.7	17.2	17.7	18.0	18.5	18.4	20.1	22.0	21.6	20.4	20.1	20.0	21.5
Italy	12.8	12.7	13.1	13.9	14.3	15.1	14.9	14.4	14.5	14.2	13.8	15.5	16.1	15.5	15.1	15.4	14.8	15.3	15.9	16.1	16.1
Canada	13.6	15.4	15.2	14.9	14.9	14.9	15.5	16.5	17.3	17.6	19.2	19.2	19.1	18.5	18.6	20.0	19.8	20.4	20.3	19.4	19.5
Total of above countries	15.5	16.0	16.2	16.1	15.8	15.7	16.3	17.0	16.8	16.5	16.7	16.6	16.4	15.9	16.6	17.5	17.1	16.7	16.2	16.3	17.0
Austria	12.8	12.5	12.8	13.3	13.3	13.4	13.7	14.6	14.8	15.1	14.7	14.8	14.6	15.1	15.8	17.2	17.6	17.4	18.3	18.0	17.8
Belgium	12.4	11.9	12.3	13.0	12.5	12.8	13.1	13.5	13.6	13.6	13.4	14.1	14.5	14.5	14.7	16.4	16.5	16.9	17.5	17.7	18.1
Denmark	13.3	14.4	15.2	15.4	15.6	16.3	17.1	17.8	18.6	18.9	20.0	21.3	21.3	21.3	23.4	24.6	24.1	24.1	24.5	25.2	26.8
Finland	11.9	11.8	12.6	13.5	13.6	13.8	14.5	15.1	15.5	14.7	14.7	15.5	15.6	15.3	15.5	17.5	18.5	18.9	18.8	18.4	18.6
Greece	11.7	11.3	11.6	11.3	11.7	11.7	11.8	13.0	12.9	12.7	12.6	12.5	12.2	11.5	13.8	15.2	15.1	16.0	15.9	16.3	16.0
Iceland	8.5	8.2	8.2	8.8	8.7	8.7	8.8	9.6	10.0	9.5	9.7	10.0	10.4	10.1	11.0	11.1	11.0	11.0	11.5	11.7	11.7
Ireland	12.5	12.4	12.5	12.7	13.3	13.6	13.6	13.4	13.4	13.5	14.6	15.2	15.4	15.7	17.2	18.7	18.6	18.3	18.0	20.0	21.7
Luxembourg	9.8	9.5	10.9	12.2	10.8	10.9	11.4	11.9	11.8	10.9	10.7	11.7	11.9	11.3	11.5	14.9	14.8	16.0	15.7	15.9	16.6
Netherlands	12.8	13.4	13.9	14.7	14.8	14.8	15.2	15.5	15.2	15.3	15.6	16.0	15.9	15.6	16.3	17.4	17.2	17.4	17.7	18.1	18.1
Norway	12.9	12.8	14.0	14.3	14.5	15.0	15.5	16.1	16.6	16.8	16.9	17.9	18.2	18.2	18.3	19.3	20.0	20.2	20.4	19.7	18.9
Portugal	10.9	12.8	13.2	12.7	12.6	12.3	12.5	13.5	13.5	13.3	14.2	13.9	13.8	13.2	14.5	15.4	14.1	14.4	14.7	14.8	15.4
Spain	7.4	7.3	7.2	7.5	7.3	7.4	7.7	8.4	8.2	8.3	8.5	8.6	8.6	8.6	8.8	9.2	9.8	10.0	10.3	10.8	11.5
Sweden	15.8	15.9	16.7	17.3	17.2	17.8	18.9	19.6	20.6	20.8	21.6	22.5	22.8	22.7	23.2	23.8	25.0	27.6	28.0	28.4	29.2
Switzerland	8.8	9.7	10.1	10.5	10.4	10.5	10.4	10.3	10.4	10.5	10.5	10.9	10.9	11.2	11.6	12.6	13.2	13.0	12.9	12.9	12.8
Turkey	10.5	12.1	11.1	11.0	12.1	12.4	12.1	12.3	12.6	12.4	12.9	13.4	13.8	14.4	11.3	12.2	12.8	13.9	13.5	13.7	13.0
Total smaller European countries	11.9	12.1	12.5	12.8	12.9	13.1	13.4	13.9	14.2	14.2	14.5	15.0	15.0	14.9	15.2	16.3	16.7	17.2	17.3	17.4	17.8
Australia	9.4	10.1	10.0	9.7	10.3	11.0	11.6	12.3	12.5	12.1	12.2	12.5	12.6	13.0	13.9	15.5	16.0	16.4	16.9	16.2	16.6
New Zealand	10.6	10.7	10.8	10.5	10.5	11.0	11.5	11.8	12.1	12.1	12.6	13.1	12.9	12.9	14.5	15.1	14.2	15.6	16.6	16.0	17.5
Total smaller countries	11.5	11.8	12.1	12.4	12.5	12.8	13.1	13.7	13.9	13.9	14.2	14.6	14.6	14.6	15.0	16.2	16.6	17.1	17.2	17.2	17.7
Total OECD	15.0	15.5	15.7	15.7	15.4	15.3	15.9	16.6	16.5	16.2	16.3	16.3	16.2	15.7	16.4	17.2	17.0	16.8	16.4	16.5	17.1
Memorandum items																					
OECD Europe	13.5	13.7	14.1	14.5	14.3	14.5	14.7	15.0	15.0	14.9	15.1	15.8	15.9	15.9	16.6	17.7	17.5	17.6	17.7	17.7	18.3
EEC	14.0	14.1	14.6	15.0	14.7	15.0	15.1	15.4	15.3	15.1	15.3	16.1	16.3	16.3	17.3	18.3	18.0	17.9	18.1	18.1	18.7
Total OECD *less* U.S.	12.8	13.0	13.3	13.5	13.3	13.6	13.7	13.9	13.8	13.7	13.9	14.5	14.5	14.4	15.1	16.2	16.1	16.0	15.8	16.0	16.6

Source: National Accounts of OECD Countries (annual publication). The data in this table are measured according to the standard definitions of the OECD – United Nations system of accounts. (See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968.)

Percentages for country groups. The percentages for each group of countries are calculated from the total GDP and Government final consumption expenditure for the group, with both aggregates expressed in US dollars at current exchange rates.

Government final consumption expenditure mainly consists of current purchases of goods and services for public administration, defence, health and education. It excludes all transfer payments. It is given on line 2 of Table 1 of *National Accounts of OECD Countries*, Vol. II, 1962-1979.

Table R7. **Current disbursements of government as percentage of GDP**

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
United States	25.5	26.8	26.7	26.4	25.8	25.3	26.5	28.5	28.9	28.6	30.1	30.2	30.2	29.7	31.2	33.5	33.0	32.3	31.8	31.5
Japan	13.6	12.9	13.4	13.9	13.8	14.2	14.2	13.8	13.8	13.6	14.0	14.8	15.5	15.7	18.1	20.9	21.6	22.5	23.3	24.2
Germany	27.7	28.2	29.1	30.1	29.4	30.4	31.0	33.1	32.6	32.2	31.6	32.8	34.0	35.1	37.5	41.5	41.0	41.2	41.3	40.9
France	30.9	31.9	32.9	33.5	33.4	33.7	33.6	34.0	35.4	35.1	34.7	34.3	34.2	34.8	35.9	39.2	39.7	40.7	41.8	42.1
United Kingdom	29.9	30.6	31.1	31.1	30.1	30.9	31.4	33.3	33.7	33.0	33.2	32.9	34.5	34.5	39.0	41.1	40.9	39.7	39.8	40.0
Italy	26.2	25.5	26.5	27.5	28.2	30.6	30.7	30.0	31.0	30.6	30.2	33.1	35.0	34.4	34.4	38.3	38.0	38.5	41.7	41.1
Canada	25.4	26.1	25.9	25.5	25.2	25.0	25.8	27.8	29.1	29.8	32.2	32.7	33.5	32.4	33.6	36.8	36.1	37.2	37.4	35.8
Total of above countries	25.9	26.7	26.9	26.9	26.3	26.4	27.1	28.5	28.7	28.4	29.1	29.5	29.7	29.4	31.2	34.2	33.8	33.6	33.6	33.9
Austria	25.5	25.8	27.3	28.4	31.2	31.4	31.9	33.3	33.8	34.1	33.1	33.4	32.9	33.3	34.6	37.9	39.5	39.6	. .	. .
Belgium	28.4	27.7	28.2	28.9	27.8	29.8	30.6	31.4	32.9	32.9	33.0	34.0	34.8	35.8	36.4	41.2	41.8	43.4	44.9	46.2
Denmark	21.3	23.2	24.0	24.7	24.3	25.5	27.1	29.0	30.7	30.6	34.1	36.0	35.6	34.2	37.8	40.4	39.7	. .	. .	. .
Finland	21.8	21.6	22.8	24.4	25.2	25.8	27.2	28.1	28.4	27.4	27.3	28.6	28.8	27.6	28.9	32.2	34.1	35.2	35.2	34.6
Greece	17.4	17.4	18.4	18.7	19.8	20.6	21.5	23.6	23.5	22.5	22.4	22.8	22.0	21.1	25.0	26.7	27.4	29.0	29.9	29.7
Iceland	23.3	19.9	19.3	20.5	21.6	20.7	20.8	24.3	24.9	21.8	21.7	24.2	24.8	27.3	26.7	28.3	25.2	25.0	. .	. .
Ireland	26.7	27.6	27.0	27.4	28.2	29.3	30.2	30.9	31.3	32.2	34.2	34.8	34.1	34.5	37.8	42.0	42.5	41.7	41.7	. .
Luxembourg	25.5	25.7	27.3	28.6	28.0	29.6	31.1	33.6	32.8	30.3	28.6	30.9	31.5	29.6	29.2	40.3	41.4	44.9	. .	. .
Netherlands	28.6	29.3	30.1	32.3	32.4	33.5	35.3	36.9	37.3	38.2	39.7	41.6	42.8	43.7	46.1	50.3	50.7	51.8	53.4	55.1
Norway	28.0	28.1	28.0	29.2	29.0	30.3	30.8	32.0	33.6	35.2	36.5	38.3	39.6	39.9	40.0	41.8	43.8	45.3	47.2	47.1
Portugal	15.2	17.6	18.0	17.5	17.5	17.7	17.8	18.6	18.6	18.2	19.5	19.1	19.9	19.5	22.7	27.2	30.9	. .	. .	. .
Spain	13.7	13.0	12.8	13.0	15.0	15.8	15.8	17.1	17.8	18.0	18.8	19.7	19.7	19.7	19.8	21.2	22.8	23.7	25.9	. .
Sweden	26.9	26.9	27.9	29.2	29.0	30.2	32.0	33.5	35.7	36.4	37.4	39.4	40.4	39.9	43.4	44.8	47.8	53.3	55.0	56.8
Switzerland	17.2	18.0	18.5	18.6	19.3	19.7	20.1	20.4	20.7	21.8	21.3	21.9	21.9	24.2	25.5	28.7	30.3	30.4	30.1	29.9
Turkey	. .	. .	13.8	13.9	15.3	15.5	15.1	15.4	15.5	16.9	16.4	17.4	18.0	. .	. .	. .	. .	. .	. .	. .
Total smaller European countries	23.3	23.4	23.3	24.0	24.5	25.4	26.1	27.2	28.3	28.6	29.5	30.8	31.1	31.9	33.4	36.4	37.9	39.7	40.7	. .
Australia	18.9	20.1	19.8	19.7	19.9	21.3	21.6	22.2	21.3	21.5	21.8	22.4	22.7	23.2	25.6	27.7	28.8	30.3	30.0	29.6
New Zealand	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .
Total smaller countries	22.6	22.9	22.8	23.4	23.8	24.8	25.5	26.6	27.3	27.7	28.4	29.6	29.9	30.5	32.2	35.1	36.6	38.3	39.1	. .
Total OECD	25.5	26.3	26.4	26.5	26.0	26.2	26.9	28.3	28.6	28.3	29.0	29.5	29.8	29.6	31.4	34.3	34.2	34.3	34.3	. .
Memorandum items																				
OECD Europe	27.5	27.8	28.3	28.9	28.7	29.7	30.1	31.2	31.8	31.6	31.6	32.5	33.4	33.9	35.8	39.0	39.4	40.1	41.1	. .
EEC	28.6	29.0	29.8	30.5	30.1	31.2	31.6	32.8	33.3	32.9	32.8	33.6	34.7	35.1	37.2	40.7	40.7	41.1	42.0	. .
Total OECD *less* U.S.	25.5	25.7	26.1	26.6	26.3	27.0	27.3	28.0	28.2	27.9	28.1	28.9	29.4	29.5	31.5	34.8	35.0	35.5	35.8	. .

Source: National Accounts of OECD Countries (annual publication). The data in this table are measured according to the standard definitions of the OECD – United Nations system of accounts. (See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968).

Percentages for country groups. The percentages for each group of countries are calculated from the total GDP and current disbursements of government for the group, with both aggregates expressed in US dollars at current exchange rates. Percentages for country groups exclude countries for which no data are shown in the table.

Current disbursements of government mainly consist of final consumption expenditures, interest on the public debt, subsidies, and social security transfers to households. It is given on line 23 of Table 9 of *National Accounts of OECD Countries*, Volume II, 1962-1979.

Table R8. **Total outlays of government as percentage of GDP**

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
United States	27.8	29.2	29.0	29.0	28.4	28.0	29.2	31.2	31.3	30.8	32.2	32.2	31.9	31.2	32.9	35.4	34.4	33.5	33.1	. .
Japan	18.3	17.4	19.0	19.3	19.1	18.6	18.9	18.1	18.2	17.9	19.3	20.8	21.8	22.1	24.5	27.3	27.9	29.0	31.1	31.5
Germany	32.0	33.4	35.2	35.9	35.7	36.3	36.5	38.2	37.6	37.6	37.6	38.9	39.7	40.5	43.4	47.1	46.4	46.5	46.5	46.4
France	34.6	35.7	37.0	37.8	38.0	38.4	38.5	39.0	40.3	39.6	38.9	38.3	38.3	38.5	39.7	43.5	44.0	44.2	45.1	45.3
United Kingdom	32.6	33.4	34.2	35.6	33.9	36.4	35.6	38.5	39.6	41.5	39.3	38.4	40.0	41.1	45.2	46.9	46.1	44.1	43.7	43.5
Italy	30.1	29.4	30.5	31.1	31.8	34.3	34.3	33.7	34.7	34.2	34.2	36.6	38.6	37.8	37.9	43.2	42.2	42.5	46.1	45.5
Canada	28.9	30.0	30.0	29.5	28.9	29.1	30.1	32.1	33.0	33.5	35.7	36.6	37.2	36.0	37.4	40.8	39.6	40.6	40.8	39.0
Total of above countries	28.7	29.8	30.1	30.4	29.9	30.0	30.6	32.0	32.1	31.8	32.6	33.0	33.1	32.9	34.8	38.0	37.2	36.8	37.3	. .
Austria	32.1	32.3	33.6	34.7	38.2	37.9	38.3	40.5	40.6	40.3	39.2	39.8	39.9	41.4	42.1	45.6	46.7	46.9	. .	. .
Belgium	30.3	29.8	30.5	31.5	30.8	32.3	33.5	34.5	36.3	36.1	36.5	38.0	38.8	39.1	39.5	44.5	45.1	46.7	47.9	49.7
Denmark	24.6	26.9	27.8	28.3	28.2	29.6	31.4	33.9	35.6	35.7	39.5	41.5	40.4	38.4	42.0	44.8	44.1	. .	. .	. .
Finland	26.7	26.0	27.4	29.2	30.5	31.3	32.5	33.4	33.4	31.8	31.3	32.8	33.2	31.9	32.9	37.1	38.3	39.5	39.1	38.5
Greece[a]	17.4	17.4	18.4	18.7	19.8	20.6	21.5	23.6	23.5	22.5	22.4	22.8	22.0	21.1	25.0	26.7	27.4	29.0	29.9	29.7
Iceland	28.2	24.0	23.9	26.0	27.6	28.4	28.4	32.2	33.8	30.2	29.6	32.6	33.6	35.5	36.6	38.7	33.9	34.0	. .	. .
Ireland	29.5	30.9	30.6	31.5	32.7	34.0	34.7	36.0	36.4	37.8	39.6	40.5	39.0	39.3	43.7	47.8	47.4	46.5	47.2	. .
Luxembourg	30.5	30.3	32.2	32.1	32.3	33.3	35.0	37.5	37.3	34.1	33.1	36.3	37.0	35.7	35.3	47.9	48.6	52.6	. .	. .
Netherlands	33.7	35.4	35.6	37.6	37.8	38.7	40.7	42.5	43.5	43.9	45.5	47.5	48.1	48.7	50.8	55.9	55.9	56.0	57.5	59.5
Norway	32.0	31.8	31.5	33.1	33.1	34.2	34.8	36.4	37.9	39.9	41.0	43.0	44.6	44.6	44.6	46.6	48.5	50.2	52.3	51.4
Portugal	17.0	19.3	18.8	20.3	20.4	20.1	20.3	20.9	20.9	20.9	21.6	21.3	22.7	21.3	24.7	30.3	35.1	. .	. .	. .
Spain	13.7	13.0	12.8	13.0	18.7	19.6	19.5	21.1	21.3	21.7	22.2	23.6	23.2	23.0	23.1	24.7	26.0	27.5	29.0	. .
Sweden	31.1	31.0	32.4	34.6	34.8	36.0	38.1	40.0	42.6	42.8	43.8	45.4	46.3	44.8	48.1	49.0	51.9	57.8	59.7	61.3
Switzerland[a]	17.2	18.0	18.5	18.6	19.3	19.7	20.1	20.4	20.7	21.8	21.3	21.9	21.9	24.2	25.5	28.7	30.3	30.4	30.1	29.9
Turkey	. .	. .	18.0	19.1	20.5	20.6	20.6	21.0	21.9	23.1	21.9	22.1	22.5	. .	. .	. .	. .	. .	. .	. .
Total smaller European countries	26.2	26.5	26.4	27.3	28.5	29.3	30.2	31.6	32.7	33.0	33.7	35.1	35.2	35.7	37.1	40.3	41.7	43.4	43.9	. .
Australia	22.1	23.7	23.5	23.3	23.7	25.6	25.6	26.3	25.1	25.1	25.5	26.2	26.3	26.8	30.4	32.4	32.9	34.3	33.7	. .
New Zealand	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .
Total smaller countries	25.6	26.0	26.0	26.7	27.9	28.8	29.6	30.9	31.6	31.9	32.6	33.8	34.0	34.3	36.0	39.2	40.4	42.1	42.4	. .
Total OECD	28.4	29.4	29.7	30.0	29.6	29.8	30.5	31.9	32.1	31.8	32.6	33.1	33.3	33.1	35.0	38.2	37.7	37.6	37.9	. .
Memorandum items																				
OECD Europe	30.9	31.5	32.4	33.3	33.3	34.5	34.6	35.9	36.6	36.8	36.5	37.3	38.0	38.4	40.3	43.8	43.9	44.4	45.1	. .
EEC	32.1	32.9	34.1	35.0	34.7	36.1	36.1	37.5	38.2	38.3	37.9	38.6	39.4	39.8	42.0	45.7	45.4	45.4	46.2	
Total OECD *less* U.S.	29.1	29.5	30.3	31.0	30.8	31.7	31.8	32.6	32.8	32.8	32.9	33.8	34.3	34.4	36.4	39.9	39.8	40.2	40.8	. .

Source: National Accounts of OECD Countries (annual publication). The data in this table are measured according to the standard definitions of the OECD – United Nations system of accounts. (See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968).

Percentages for country groups. The percentages for each group of countries are calculated from the total GDP and total outlays of government for the group, with both aggregates expressed in US dollars at current exchange rates. Percentages for country groups exclude countries for which no data are shown in the table.

Total outlays of government mainly consist of current disbursements plus gross capital formation. It is the sum of lines 23, 28, 29 and 30 *less* line 26 in Table 9 of *National Accounts of OECD Countries*, Volume II, 1962-1979.

a) Only current disbursements.

Table R9. Current receipts of government as percentage of GDP

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
United States	27.4	27.4	27.5	28.0	27.0	27.0	27.9	28.4	30.0	31.2	30.3	29.6	30.7	30.9	31.9	30.4	31.5	31.8	32.3	32.5
Japan	20.7	20.9	21.6	21.4	20.5	19.5	19.1	19.2	19.5	19.5	20.7	21.6	21.5	22.4	24.4	24.0	23.6	24.8	24.6	26.6
Germany	34.8	35.9	36.2	36.5	36.0	35.3	35.9	36.3	36.3	38.3	37.5	38.3	38.7	41.2	41.5	40.8	42.3	43.5	43.3	42.9
France	34.9	36.2	36.3	37.1	38.0	38.4	38.4	38.2	38.8	39.8	39.0	38.3	38.2	38.6	39.4	40.3	42.5	42.4	42.2	43.4
United Kingdom	30.3	31.5	33.1	31.7	31.7	33.4	34.5	36.5	38.0	39.8	40.7	38.6	37.0	36.3	40.1	40.7	39.8	39.4	38.2	39.0
Italy	28.8	28.2	29.1	29.5	30.6	30.1	30.1	31.0	31.6	30.7	30.4	31.1	30.9	30.4	30.6	31.2	32.9	34.3	36.0	35.7
Canada	26.0	26.6	27.0	26.8	27.8	28.1	29.4	31.0	32.4	34.5	35.2	35.3	35.9	35.6	37.8	36.9	36.5	36.6	36.2	35.8
Total of above countries	28.5	28.8	29.2	29.4	28.9	28.9	29.5	30.0	31.0	32.0	31.5	31.3	31.7	32.2	33.4	32.8	33.5	33.9	33.9	34.7
Austria	31.0	33.1	34.0	33.6	37.8	38.5	39.3	39.1	38.9	39.5	39.5	40.4	40.6	40.8	41.8	42.0	42.3	42.8	. .	. .
Belgium	27.5	28.4	29.2	29.4	30.0	30.7	32.4	33.2	33.8	34.3	35.2	35.7	35.5	36.4	37.7	40.4	40.3	41.7	42.5	43.2
Denmark	27.1	26.4	27.9	29.6	29.5	30.9	33.2	33.7	36.1	36.6	41.0	43.9	43.5	43.6	45.9	42.7	43.1	. .	. .	. .
Finland	30.0	28.9	30.1	29.5	31.2	32.1	33.4	35.3	35.5	34.5	34.9	36.5	36.3	36.9	36.7	38.7	42.3	41.6	39.5	38.2
Greece	21.1	22.0	23.2	23.2	24.0	23.7	25.3	26.2	27.3	27.2	26.8	26.6	26.6	25.4	27.0	27.4	29.5	29.9	30.1	30.6
Iceland	36.4	27.3	27.5	28.7	28.4	29.3	31.0	33.6	33.5	30.3	31.8	34.0	34.5	36.4	34.2	35.6	35.4	34.0	. .	. .
Ireland	25.9	27.1	26.6	27.7	28.4	29.5	31.8	32.6	33.2	33.8	35.3	36.3	35.0	34.7	35.7	35.7	39.0	38.5	37.8	. .
Luxembourg	32.5	34.1	33.5	33.6	33.5	35.2	35.8	35.7	34.5	34.3	35.0	37.7	38.2	38.3	39.5	48.0	49.2	53.6	. .	. .
Netherlands	33.9	34.9	34.4	35.6	35.7	37.3	39.2	40.6	41.9	42.7	44.0	46.3	47.4	49.2	50.0	52.5	52.8	53.9	54.6	55.8
Norway	34.5	35.6	35.5	35.5	36.0	36.8	38.3	40.5	41.1	43.3	43.5	46.6	48.4	49.6	48.5	49.6	50.9	51.0	52.0	52.2
Portugal	17.6	18.4	19.3	19.0	19.3	20.4	20.8	21.0	21.5	22.5	24.3	23.5	23.4	22.7	23.0	24.8	28.1	. .	. .	. .
Spain	18.1	17.6	17.5	16.8	18.8	19.3	19.4	21.4	21.2	21.9	22.5	22.6	23.0	23.7	22.8	24.3	25.3	26.5	26.8	. .
Sweden	32.2	33.6	35.5	36.5	36.7	39.6	41.2	42.6	45.5	46.3	46.9	49.5	49.6	47.8	48.8	50.6	55.3	58.3	58.0	57.4
Switzerland	23.3	23.2	23.9	23.1	23.6	23.2	24.1	24.2	25.3	26.4	26.5	26.2	26.4	28.8	29.7	32.1	33.9	33.7	33.8	33.2
Turkey	. .	. .	19.1	19.1	19.4	19.9	19.9	22.1	21.8	23.8	23.7	23.7	27.1	. .	. .	. .	. .	. .	. .	. .
Total smaller European countries	27.7	28.3	28.3	28.3	29.1	30.1	31.1	32.3	33.3	34.0	35.0	36.2	36.5	37.4	37.8	39.4	41.1	42.4	42.2	. .
Australia	25.4	25.1	24.2	24.4	25.8	27.0	26.2	27.0	26.8	27.6	27.7	28.4	27.2	28.4	30.0	31.0	31.9	32.2	31.3	32.5
New Zealand	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .
Total smaller countries	27.4	27.8	27.7	27.7	28.6	29.6	30.5	31.6	32.4	33.1	34.0	35.1	35.2	36.0	36.5	38.2	39.7	40.9	40.5	. .
Total OECD	28.3	28.7	29.0	29.2	28.9	29.0	29.6	30.2	31.2	32.1	31.9	31.8	32.2	32.7	33.9	33.7	34.5	34.9	34.8	. .
Memorandum items																				
OECD Europe	31.3	32.1	32.6	32.6	33.0	33.4	34.0	34.8	35.5	36.6	36.6	36.8	36.8	37.7	38.5	39.2	40.7	41.4	41.3	
EEC	32.1	33.0	33.7	33.8	34.1	34.4	35.1	35.8	36.5	37.5	37.5	37.5	37.4	38.3	39.4	39.9	41.1	41.7	41.7	
Total OECD *less* U.S.	29.5	30.1	30.6	30.5	30.8	31.0	31.3	31.9	32.3	33.1	33.3	33.6	33.3	33.9	35.1	35.7	36.4	36.9	36.3	. .

Source: National Accounts of OECD Countries (annual publication). The data in this table are measured according to the standard definitions of the OECD – United Nations system of accounts. (See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968).

Percentages for country groups. The percentages for each group of countries are calculated from the total GDP and current receipts of government for the group, with both aggregates expressed in US dollars at current exchange rates. Percentages for country groups exclude countries for which no data are shown in the table.

Current receipts of government consist mainly of direct and indirect taxes, and social security contributions paid by employers and employees. It is given on line 12 of Table 9 of *National Accounts of OECD Countries*, Volume II, 1962–1979.

Table R10. **Consumer prices**
Percentage changes from previous year

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
United States	1.3	1.7	2.9	2.8	4.2	5.4	5.9	4.3	3.3	6.2	11.0	9.1	5.8	6.5	7.7	11.3	13.5
Japan	3.9	6.6	5.1	4.0	5.3	5.2	7.7	6.1	4.5	11.7	24.5	11.8	9.3	8.1	3.8	3.6	8.0
Germany	2.3	3.4	3.5	1.4	2.9	1.9	3.4	5.3	5.5	6.9	7.0	6.0	4.5	3.7	2.7	4.1	5.5
France	3.4	2.5	2.7	2.7	4.5	6.4	5.2	5.5	6.2	7.3	13.7	11.8	9.6	9.4	9.1	10.8	13.6
United Kingdom	3.3	4.8	3.9	2.5	4.7	5.4	6.4	9.4	7.1	9.2	16.0	24.2	16.5	15.8	8.3	13.4	18.0
Italy	5.9	4.6	2.3	3.7	1.4	2.6	5.0	4.8	5.7	10.8	19.1	17.0	16.8	18.4	12.1	14.8	21.2
Canada	1.8	2.4	3.7	3.6	4.0	4.6	3.3	2.9	4.8	7.6	10.8	10.8	7.5	8.0	9.0	9.1	10.1
Total of above countries[a]	2.1	2.6	3.2	2.7	4.1	5.0	5.7	5.0	4.3	7.5	13.3	11.0	8.0	8.1	7.0	9.3	12.2
Australia	2.3	4.0	2.9	3.2	2.7	2.9	3.9	6.1	5.8	9.5	15.1	15.1	13.5	12.3	7.9	9.1	10.2
New Zealand	4.1	2.8	2.8	6.0	4.3	4.9	6.5	10.4	6.9	8.2	11.1	14.7	16.9	14.3	12.0	13.8	17.1
Austria	3.8	5.0	2.2	4.0	2.8	3.1	4.4	4.7	6.3	7.6	9.5	8.4	7.3	5.5	3.6	3.7	6.4
Belgium	4.2	4.1	4.2	2.9	2.7	3.8	3.9	4.3	5.5	7.0	12.7	12.8	9.2	7.1	4.5	4.5	6.6
Denmark	3.6	6.5	6.7	6.9	8.6	4.2	5.8	5.8	6.6	9.3	15.3	9.6	9.0	11.1	10.0	9.6	12.3
Finland	9.9	5.3	3.6	5.5	9.2	2.2	2.8	6.5	7.1	10.7	16.9	17.9	14.4	12.2	7.8	7.5	11.6
Greece	0.8	3.0	5.0	1.7	0.3	2.4	3.2	3.0	4.3	15.5	26.9	13.4	13.3	12.1	12.6	19.0	24.9
Iceland	19.5	7.2	10.7	3.4	15.3	21.9	13.6	6.6	9.7	20.6	42.9	49.1	33.0	29.9	44.9	44.1	57.5
Ireland	6.7	5.0	3.0	3.2	4.7	7.4	8.2	8.9	8.7	11.4	17.0	20.9	18.0	13.6	7.6	13.3	18.2
Luxembourg	3.1	3.3	3.3	2.2	2.6	2.3	4.6	4.7	5.2	6.1	9.5	10.7	9.8	6.7	3.1	4.5	6.3
Netherlands	5.5	4.0	5.8	3.5	3.7	7.5	3.6	7.5	7.8	8.0	9.6	10.2	8.8	6.4	4.1	4.2	6.5
Norway	5.7	4.3	3.3	4.4	3.5	3.1	10.6	6.2	7.2	7.5	9.4	11.7	9.1	9.1	8.1	4.8	10.9
Portugal	4.3	3.4	5.7	3.8	4.6	7.0	6.3	8.3	8.9	11.5	29.2	20.4	19.3	27.2	22.5	23.9	16.6
Spain	7.0	13.2	6.2	6.4	4.9	2.2	5.7	8.3	8.3	11.4	15.7	16.9	17.7	24.5	19.8	15.7	15.5
Sweden	3.4	5.0	6.4	4.3	1.9	2.7	7.0	7.4	6.0	6.7	9.9	9.8	10.3	11.4	10.0	7.2	13.7
Switzerland	3.1	3.4	4.7	4.0	2.4	2.5	3.6	6.6	6.7	8.7	9.8	6.7	1.7	1.3	1.1	3.6	4.0
Turkey	0.8	4.6	8.7	14.0	5.3	4.8	7.9	19.0	15.4	14.0	23.9	21.2	17.4	26.0	61.9	63.5	94.3
Total OECD[a]	2.4	3.0	3.5	3.1	4.1	4.8	5.6	5.3	4.7	7.8	13.4	11.3	8.6	8.9	8.0	9.8	12.9

a) The country weights used in the aggregate indices are based on the private consumption and exchange rates of the preceding year.

Table R11. **Consumer prices**

Percentage changes from previous period, annual rates, not seasonally adjusted

	1964		1965		1966		1967		1968		1969		1970		1971		1972		1973		1974		1975		1976		1977		1978		1979		1980		1981
	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I
United States	1.0	1.3	1.5	2.0	3.1	3.7	1.8	3.7	4.1	4.9	5.3	6.1	6.1	5.3	4.0	3.7	3.0	3.6	6.0	9.2	11.2	12.4	8.3	7.6	4.8	5.7	7.0	6.3	7.3	9.7	10.9	13.6	15.1	10.4	10.6
Japan	3.1	5.4	8.7	3.9	6.9	2.4	4.8	4.0	6.8	3.7	4.8	7.7	9.3	4.4	7.6	5.0	3.9	5.1	12.7	16.7	32.2	17.6	11.5	7.3	11.0	8.1	10.0	4.1	3.8	3.7	2.1	6.4	9.5	6.8	4.8
Germany	3.8	1.7	3.9	4.0	4.4	1.2	2.4	–0.3	5.8	0.3	3.3	0.7	5.4	2.2	7.5	3.9	6.3	5.5	8.3	5.9	8.6	4.9	7.2	4.4	5.8	2.3	5.2	2.1	3.8	1.1	5.3	4.8	6.6	4.1	7.1
France	2.7	2.4	3.2	2.0	2.9	2.5	2.7	3.1	4.9	5.1	6.9	5.2	6.1	4.5	5.6	5.9	5.4	7.6	6.0	9.9	15.0	14.5	11.6	9.3	9.7	9.8	9.0	10.1	8.1	10.7	9.6	12.7	14.3	12.9	12.6
United Kingdom	4.5	4.4	5.3	4.1	4.1	3.4	2.8	1.0	6.6	4.6	7.0	3.3	7.7	6.9	11.6	7.7	6.4	7.8	9.5	10.0	19.0	16.3	28.7	23.2	15.1	13.5	20.5	9.3	7.8	8.1	12.1	21.3	19.4	12.4	12.0
Italy	6.5	6.0	4.5	3.2	2.3	1.6	5.4	2.5	1.2	0.3	3.0	4.4	5.5	4.5	5.1	4.4	5.4	7.8	12.1	11.2	19.9	25.5	16.8	9.8	18.8	19.5	21.0	12.8	12.2	11.3	15.2	17.3	24.3	19.0	21.7
Canada	1.5	1.9	2.5	2.9	4.3	3.5	2.9	5.0	3.6	4.2	4.4	5.0	3.4	1.7	2.3	5.1	4.0	6.0	7.1	10.1	10.3	12.6	9.6	11.5	6.4	6.0	8.4	9.1	8.6	9.4	9.0	9.1	9.9	11.8	13.0
Total of above countries[a]	2.1	2.3	2.9	2.6	3.6	3.1	2.3	3.1	4.5	4.2	5.2	5.4	6.3	4.8	5.3	4.4	4.0	4.9	7.6	10.0	14.8	13.7	10.8	8.8	7.8	7.4	9.2	6.6	6.8	7.8	8.9	11.7	13.7	9.9	10.3
Australia	2.1	4.6	3.5	4.4	2.5	2.6	2.9	4.3	1.9	2.6	3.2	2.7	4.2	4.5	5.8	8.1	5.3	4.9	9.0	14.9	13.1	19.3	15.2	11.0	14.7	13.6	13.4	8.9	7.2	8.5	8.6	10.7	10.6	8.9	9.4
New Zealand	2.7	5.7	2.2	3.5	2.7	2.3	8.5	5.1	3.5	5.2	5.5	3.6	6.4	9.6	11.7	8.5	7.3	4.6	9.0	10.1	10.2	13.9	14.2	16.3	18.6	14.2	13.5	16.3	10.7	10.6	12.2	19.6	16.7	15.8	14.5
Austria	6.0	2.7	5.9	5.2	1.0	1.8	5.5	3.1	2.2	3.5	2.7	3.4	4.6	4.9	3.9	6.2	5.6	8.0	7.6	6.9	11.6	8.2	9.7	6.3	8.7	5.6	6.5	3.5	4.0	2.8	4.0	4.1	7.7	5.8	8.0
Belgium	4.4	5.0	3.6	4.1	5.4	1.8	3.2	3.4	2.4	2.6	4.2	3.9	4.5	2.8	4.7	5.3	4.9	6.6	7.5	6.2	13.9	16.7	12.1	10.5	9.3	7.6	7.5	5.9	4.2	3.7	4.3	5.6	7.1	6.8	7.7
Denmark	4.5	5.2	5.8	8.5	7.0	4.8	4.7	16.7	6.1	3.9	2.5	5.0	6.1	8.8	4.0	6.7	6.1	7.4	8.7	12.3	16.3	16.1	8.9	5.1	9.8	11.4	9.6	14.0	9.6	7.1	7.6	16.2	11.0	11.2	12.0
Finland	15.2	5.4	5.0	4.4	3.1	4.9	5.7	6.0	12.9	4.0	1.5	1.9	3.3	2.4	7.1	9.3	5.4	8.3	9.0	16.6	16.6	18.0	18.6	16.2	14.7	11.9	13.1	10.9	7.0	6.5	7.8	7.8	12.8	13.0	12.8
Greece	1.9	0.2	3.5	4.7	6.0	3.4	3.6	–3.4	1.8	1.3	3.7	1.2	4.9	1.5	5.1	0.6	6.7	3.3	15.0	29.4	35.7	9.6	16.5	11.1	17.3	8.0	15.0	10.8	15.9	7.9	25.0	18.9	30.8	19.5	30.6
Iceland	27.4	7.1	7.1	8.0	12.1	10.5	–0.5	4.3	22.9	10.0	31.1	17.0	10.1	17.2	4.7	1.3	11.3	15.2	19.7	28.9	48.3	44.8	56.0	41.7	27.6	35.7	27.8	29.2	52.0	46.4	31.2	68.3	56.0	52.1	57.2
Ireland	8.3	7.7	5.1	2.5	2.0	5.5	2.3	2.5	6.5	3.5	10.2	5.8	8.5	10.0	8.5	9.0	8.3	8.8	13.0	10.9	19.0	19.0	29.6	7.2	25.8	14.0	16.5	7.8	6.5	9.7	13.6	15.9	19.9	17.2	20.7
Luxembourg	2.1	3.6	2.7	4.4	4.2	0.5	2.1	3.8	2.5	1.8	2.7	2.0	6.7	3.3	5.5	4.4	4.9	6.8	6.3	5.0	11.8	9.7	11.4	10.4	10.8	7.4	8.1	3.4	3.0	3.1	4.7	5.7	6.9	5.8	9.3
Netherlands	10.7	3.2	3.7	4.9	8.2	1.8	4.0	4.0	3.8	3.4	12.5	1.8	3.8	5.2	8.9	6.9	8.9	6.6	9.2	7.0	10.6	10.2	10.7	9.3	9.3	7.4	6.7	4.9	3.2	5.1	3.3	5.1	7.2	6.6	6.6
Norway	8.4	6.2	4.4	2.0	3.1	5.1	3.7	5.2	2.9	3.0	2.9	3.5	15.7	7.9	6.0	5.3	7.9	7.7	7.5	6.9	10.9	8.9	13.8	10.3	9.5	7.5	10.3	8.2	8.6	7.3	3.1	5.6	12.6	12.7	16.0
Portugal	7.1	3.3	3.2	3.9	8.0	2.6	3.3	6.2	4.5	3.4	9.3	5.9	6.7	5.5	8.7	10.7	10.4	4.0	13.0	16.4	34.7	31.0	20.6	11.0	22.4	21.5	34.7	18.5	23.8	24.2	23.6	23.1	16.7	10.8	22.4
Spain	4.1	16.1	15.5	6.3	6.8	5.0	7.4	5.8	6.7	0.8	2.4	3.1	5.2	9.3	7.9	7.8	7.9	9.4	9.6	16.9	13.9	18.1	17.8	14.3	18.9	18.3	25.1	29.1	16.7	17.3	14.7	16.3	15.9	14.1	15.6
Sweden	3.4	4.2	3.8	8.1	7.1	3.5	5.5	2.8	1.8	1.5	2.9	3.6	9.2	6.2	9.3	4.8	6.9	5.5	7.2	7.0	11.6	9.4	9.3	11.1	11.0	7.9	12.2	13.3	11.2	4.7	7.3	9.6	17.0	11.3	14.6
Switzerland	3.1	2.4	2.9	5.5	5.0	3.6	4.1	4.2	1.9	1.8	3.2	1.8	3.4	5.7	7.3	5.9	7.1	6.5	9.4	9.6	10.2	9.1	7.3	3.2	1.4	1.0	1.4	1.4	1.1	0.5	4.6	4.9	3.3	4.6	7.2
Turkey	1.9	–0.1	6.6	5.3	14.3	0.6	25.9	5.8	4.7	6.1	4.7	4.2	9.6	8.3	18.6	30.6	9.3	14.5	9.5	22.4	24.7	23.8	25.9	10.6	22.5	14.5	20.4	49.0	71.6	55.7	47.1	104.2	118.1	52.8	35.4
Total OECD[a]	2.5	2.7	3.2	3.0	3.9	3.2	2.9	3.3	4.5	3.9	5.1	5.1	6.2	4.9	5.6	4.9	4.4	5.2	7.9	10.3	14.8	13.7	11.4	9.0	8.8	8.0	9.9	7.8	7.8	8.4	9.2	12.3	14.3	10.6	11.0

a) The country weights used in the aggregate indices are based on the private consumption and exchange rates of the preceding year.

Table R12. **Standardized unemployment rates in fifteen OECD countries**
Per cent of total labour force

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 Q1	1981 Q2	1981 Q3
United States	4.4	3.6	3.7	3.4	3.4	4.8	5.7	5.4	4.7	5.4	8.3	7.5	6.9	5.9	5.7	7.0	7.2	7.3	7.1
Japan	1.2	1.3	1.3	1.2	1.1	1.1	1.2	1.4	1.3	1.4	1.9	2.0	2.0	2.2	2.1	2.0	2.1	2.4	2.2
Germany	0.3*	0.2*	1.3*	1.5*	0.9*	0.8*	0.9*	0.8*	0.9*	1.6*	3.7*	3.7*	3.7*	3.5*	3.2*	3.1*	3.8*	4.3*	4.8*
France	1.5*	1.8*	1.9*	2.6*	2.3*	2.4	2.6	2.7	2.6	2.8	4.1	4.4	4.7	5.2	5.9	6.3	7.0*	7.5*	7.8*
United Kingdom	2.3*	2.3*	3.4*	3.4*	3.1*	3.1*	3.7*	4.1*	3.0*	2.9*	3.9*	5.5*	6.2*	6.1*	5.7*	7.4*	10.3*	11.0*	11.4*
Italy	5.3	5.7	5.3	5.6	5.6	5.3	5.3	6.3	6.2	5.3	5.8	6.6	7.0	7.1	7.5	7.4	7.6	8.5	8.2
Canada	3.6	3.3	3.8	4.4	4.4	5.6	6.1	6.2	5.5	5.3	6.9	7.1	8.0	8.3	7.4	7.5	7.2	7.1	7.4
Major seven countries	2.8*	2.6*	2.9*	2.9*	2.7*	3.2*	3.7*	3.8*	3.4*	3.7*	5.4*	5.4*	5.4*	5.1*	4.9*	5.6*	6.1*	6.4*	6.4*
Australia	1.5*	1.7*	1.9	1.8	1.8	1.6	1.9	2.6	2.3	2.6	4.8	4.7	5.6	6.2*	6.2	6.0	5.5	5.4	5.7
Austria	1.9*	1.8	1.9	2.0	2.0	1.4	1.3	1.2	1.1	1.4	1.7	1.8	1.6	2.1	2.1	1.9	2.1	2.7	. .
Belgium	1.8	2.0	2.6	3.1	2.3	2.1	2.2	2.7	2.8	3.1	5.1	6.6	7.5	8.1	8.4	9.0	10.2*	10.9*	11.1*
Finland	1.4	1.5	2.9	3.8	2.8	1.9	2.2	2.5	2.3	1.7	2.2	4.0	6.0	7.4	6.0	4.7	4.6	5.1	5.6
Netherlands	0.5*	0.8*	1.6*	1.5*	1.0*	0.9*	1.3*	2.2*	2.3*	2.8*	4.0*	4.3*	4.2	4.2	4.2	4.9	6.3*	7.3*	7.8*
Norway	1.8*	1.6*	1.5*	2.1*	2.0*	1.6*	1.5*	1.7	1.5	1.5	2.3	1.8	1.5	1.8	2.0	1.7	2.0	2.0	2.1
Spain	2.5*	2.1*	2.5*	3.0*	2.6*	2.4*	3.1*	3.1*	2.5*	2.6*	3.7*	4.7*	5.2*	6.9*	8.5	11.2	13.2	13.6	. .
Sweden	1.2	1.6	2.1	2.2	1.9	1.5	2.5	2.7	2.5	2.0	1.6	1.6	1.8	2.2	2.1	2.0	2.2	2.2	2.5
Total of above countries	2.6*	2.5*	2.8*	2.8*	2.6*	3.0*	3.5*	3.6*	3.2*	3.5*	5.1*	5.2*	5.3*	5.1*	5.1*	5.8*	6.3*	6.7*	6.7*
Memorandum item																			
EEC[a]	2.1*	2.3*	2.8*	3.1*	2.7*	2.7*	2.9*	3.3*	3.0*	3.0*	4.3*	5.1*	5.4*	5.5*	5.6*	6.1*	7.2*	7.9*	8.1*

a) EEC: countries shown: Germany, France, United Kingdom, Italy, Belgium and Netherlands.

Note: Data have been adjusted (as far as possible) both to preserve comparability over time and to conform with the definitions drawn up by the International Labour Organisation. The adjustments mainly affect countries that base their unemployment statistics on registration records maintained by employment offices. Where necessary the OECD has tried to adjust "registered" unemployment with a view to including unemployed persons not covered on the register and to excluding employed persons still carried on the register. For several countries the adjustment procedure used is similar to that of the U.S. Department of Labor. Minor differences may appear mainly because the rates published by the U.S. Department of Labor refer to the *civilian* labour force instead of the total labour force. Series adjusted by the OECD are marked by an asterisk (*).

The data above are averages of quarterly or monthly figures.

Table R13. **Current balances**[a]

$ million

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
United States	6 822	5 431	3 029	2 584	611	399	2 330	–1 434	–5 795	7 141	4 862[b]	18 280	4 384	–14 110	–14 075	1 414
Japan	–480	932	1 254	–190	1 048	2 119	1 970	5 797	6 624	–136	–4 693	–682	3 680	10 918	16 534	–8 754
Germany	131	–1 556	122	2 502	2 964	1 913	870	830	795	4 604	10 276	4 037	3 937	4 090	9 170	–5 262
France	–760	353	–255	205	–855	–1 475	68	525	284	–967	–6 202	–240	–5 715	–3 100	3 291	1 249
United Kingdom	–996	–72	316	–792	–655	1 126	1 972	2 690	617	–2 403	–7 656	–3 367	–1 583	–72	1 800	–1 828
Italy	620	2 209	2 117	1 599	2 627	2 340	1 133	1 902	2 043	–2 662	–8 017	–751	–2 816	2 465	6 198	5 549
Canada	–394	–1 050	–1 079	–463	–91	–850	1 059	427	–389	108	–1 493	–4 677	–3 897	–4 043	–4 327	–4 179
Australia	–474	–1 139	–681	–936	–1 304	–901	–826	–799	545	482	–2 597	–628	–1 456	–2 552	–3 970	–2 902
New Zealand[c]	2	–134	–120	–116	4	37	–142	–66	55	147	–1 590	–1 342	–989	–858	–469	–623
Austria	45	–39	–190	–115	–96	89	–21	–109	–194	–359	–471	–322	–1 470	–2 976	–1 400	–1 937
Belgium-Luxembourg[d]	11	399	62	300	396	427	741	709	1 380	1 242	647	250	–41	–725	–978	–3 013
Denmark	–198	–189	–210	–294	–216	–410	–546	–422	–66	–478	–947	–552	–1 991	–1 782	–1 493	–2 911
Finland	–182	–188	–196	–148	66	21	–239	–338	–113	–388	–1 229	–2 167	–1 155	–144	634	–196
Greece	–200	–268	–236	–186	–234	–352	–414	–341	–374	–1 189	–1 136	–953	–929	–1 076	–954	–1 882
Iceland	–8	5	–9	–54	–48	3	8	–45	–20	–13	–155	–144	–24	–49	30	–24
Ireland	–111	–127	–73	26	–57	–195	–191	–190	–136	–233	–683	–28	–300	–294	–256	–1 284
Netherlands	–154	48	–214	–80	65	31	–519	–170	1 278	2 353	2 214	1 987	2 709	613	–1 445	–2 247
Norway	–73	–133	–195	–243	93	128	–242	–516	–58	–349	–1 103	–2 408	–3 733	–5 036	–2 099	–1 034
Portugal	0	6	51	165	78	202	117	174	350	351	–829	–819	–1 289	–1 495	–800	–32
Spain	33	–485	–564	–456	–242	–394	79	856	571	557	–3 245	–3 488	–4 294	–2 450	1 632	1 125
Sweden	71	–171	–167	–36	–108	–196	–264	351	561	1 435	–551	–354	–1 630	–2 125	–253	2 680
Switzerland	411	–69	123	240	544	526	70	83	220	281	171	2 587	3 497	3 441	4 401	2 444
Turkey	–66	–9	–82	–58	–158	–133	–70	24	124	615	–634	–1 832	–2 166	–3 420	–1 363	–1 650
Total	3 228	3 754	2 803	3 454	4 432	4 455	6 943	9 938	8 302	10 139	–25 061	2 387	–17 271	–24 780	9 808	–30 657

a) Goods, services and all transfer payments.
b) Excluding cancellation of Indian debt (–1993) and extraordinary grants (–746).
c) Data for the period 1964-1966 are on a settlements basis.
d) Trade data for the period 1964-1969 are OECD estimates.

Table R14. **Current balances**[a]

$ million

	1972		1973		1974		1975		1976		1977		1978		1979		1980	
	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II
United States	–3 386	–2 595	626	6 257	3 736	719	8 447	9 996	4 246	137	–5 650	–8 460	–10 058	–4 020	549	863	–2 640	6 369
Japan	2 977	3 642	1 189	–1 522	–4 085	–608	516	–1 198	2 674	1 012	4 605	6 315	9 978	6 556	–401	–8 353	–8 511	–2 235
Germany	137	631	1 493	2 814	5 172	4 679	2 938	525	2 178	1 255	2 219	2 001	3 950	5 220	411	–5 673	–7 377	–9 039
France	121	165	112	–788	–3 416	–2 564	2 884	–3 089	4 342	–10 035	–2 873	–215	473	2 815	5 491	–4 241	–1 870	–5 910
United Kingdom	575	–291	–792	–1 611	–3 715	–3 941	–1 842	–1 525	–335	–1 248	–1 260	1 190	546	1 254	–1 169	–659	341	7 112
Italy	1 314	731	–1 356	–1 309	–4 530	–3 270	102	–652	–1 545	–1 274	232	2 236	3 028	3 171	4 800	749	–4 672	–4 969
Canada	–332	–327	220	–201	–369	–1 152	–2 416	–2 282	–2 231	–1 667	–2 107	–1 930	–1 904	–2 423	–2 658	–1 521	–1 812	184

a) Goods, services and all transfer payments; actual data, seasonally adjusted.

Table R15. **Exchange rates, national curencies against the United States Dollar**
Average of daily rates

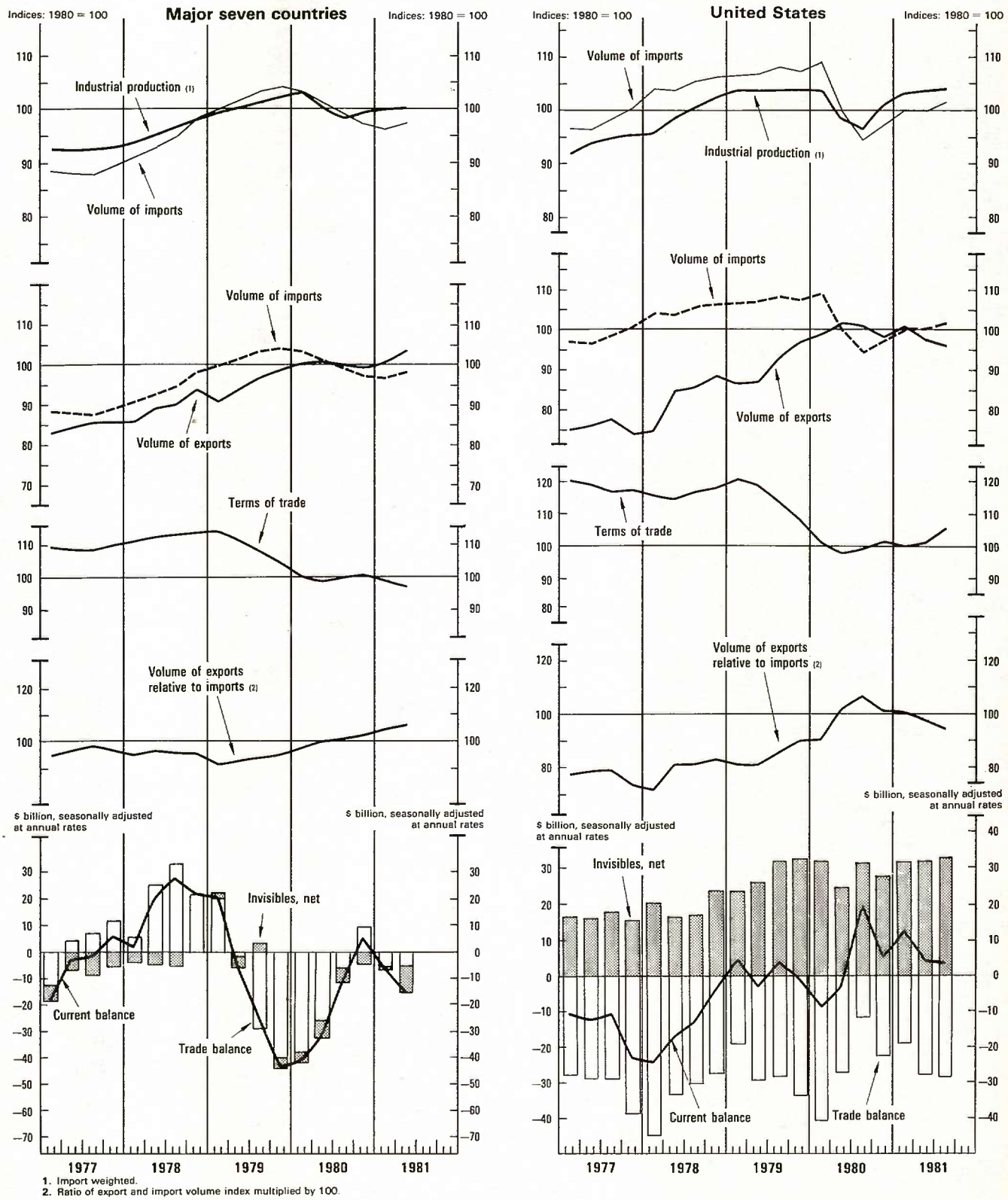
	Monetary Unit	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
United States	Dollar	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Japan	Yen	361	361	361	362	361	362	362	361	358	358	349	308	271	292	297	297	268	210	219	227
Germany	Deutschemark	4.02	4.00	3.99	3.98	4.00	4.00	3.99	3.99	3.93	3.65	3.48	3.19	2.67	2.59	2.46	2.52	2.32	2.01	1.83	1.82
France	Franc	4.91	4.90	4.90	4.90	4.90	4.91	4.92	4.95	5.20	5.53	5.51	5.04	4.45	4.81	4.29	4.78	4.91	4.51	4.25	4.23
United Kingdom	Pound	0.36	0.36	0.36	0.36	0.36	0.36	0.36	0.42	0.42	0.42	0.41	0.40	0.41	0.43	0.45	0.56	0.57	0.52	0.47	0.43
Canada	Dollar	1.01	1.07	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.04	1.01	1.00	1.00	0.98	1.02	0.99	1.06	1.14	1.17	1.17
Italy	Lira	621	621	622	624	625	624	624	623	627	627	618	583	582	650	653	832	882	849	831	856
Australia	Dollar	0.90	0.67	0.67	0.67	0.67	0.88	0.90	0.90	0.90	0.90	0.88	0.84	0.70	0.69	0.76	0.82	0.90	0.87	0.89	0.88
New Zealand	Dollar	0.72	0.72	0.72	0.72	0.72	0.72	0.74	0.90	0.90	0.90	0.88	0.84	0.73	0.71	0.83	1.00	1.03	0.96	0.98	1.03
Austria	Schilling	25.99	25.85	25.85	25.84	25.84	25.85	25.85	25.86	25.87	25.87	24.91	23.12	19.59	18.69	17.42	17.94	16.52	14.53	13.37	12.94
Belgium-Luxembourg	Franc	49.87	49.77	49.87	49.75	49.64	49.83	49.69	49.94	50.14	49.66	48.59	44.01	38.96	38.96	36.79	38.61	35.84	31.50	29.31	29.25
Denmark	Krone	6.91	6.90	6.90	6.92	6.92	6.91	6.99	7.48	7.52	7.50	7.41	6.98	6.03	6.09	5.74	6.04	6.00	5.51	5.26	5.64
Finland	Markka	3.20	3.20	3.22	3.22	3.22	3.22	3.43	4.21	4.21	4.21	4.21	4.16	3.82	3.76	3.67	3.86	4.02	4.11	3.89	3.72
Greece	Drachma	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	29.64	30.00	32.02	36.52	36.83	36.73	37.04	42.64
Iceland	Krona	40.16	43.05	43.05	43.05	43.05	43.05	44.22	60.94	88.09	88.09	87.85	87.72	92.39	99.23	153.33	181.92	198.79	270.78	353.34	479.91
Ireland	Pound	0.36	0.36	0.36	0.36	0.36	0.36	0.36	0.42	0.42	0.42	0.41	0.40	0.41	0.43	0.45	0.56	0.57	0.52	0.49	0.49
Netherlands	Guilder	3.63	3.60	3.60	3.61	3.60	3.62	3.60	3.62	3.62	3.62	3.50	3.21	2.79	2.69	2.53	2.64	2.45	2.16	2.01	1.99
Norway	Krone	7.14	7.14	7.15	7.16	7.15	7.15	7.15	7.14	7.14	7.15	7.04	6.59	5.74	5.52	5.22	5.46	5.32	5.24	5.06	4.94
Portugal	Escudo	28.65	28.58	28.66	28.74	28.71	28.72	28.75	28.68	28.56	28.59	28.21	27.01	24.37	25.24	25.48	30.15	38.23	43.92	48.90	50.00
Spain	Peseta	60.08	60.04	60.01	60.01	60.03	60.06	61.21	70.07	70.10	70.03	69.53	64.29	58.16	57.64	57.40	66.93	76.01	76.70	67.15	71.72
Sweden	Krona	5.17	5.16	5.19	5.15	5.16	5.19	5.16	5.17	5.17	5.19	5.11	4.76	4.35	4.43	4.15	4.36	4.48	4.52	4.29	4.23
Switzerland	Franc	4.32	4.32	4.32	4.32	4.33	4.33	4.33	4.32	4.31	4.31	4.12	3.82	3.17	2.98	2.58	2.50	2.40	1.79	1.66	1.68
Turkey	Lira	9.02	9.02	9.02	9.04	9.04	9.04	9.04	9.04	9.04	11.49	14.86	14.15	14.00	14.00	14.30	15.78	17.83	24.04	37.53	76.04

Table R16. **Effective exchange rates**
Indices 1970 Q1 = 100, average of daily rates

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
United States	98.1	100.3	100.4	99.2	96.7	90.8	83.6	84.6	84.0	87.6	87.0	79.2	77.1	77.1
Japan	97.1	99.4	100.2	99.6	101.0	110.6	118.5	110.4	107.5	112.0	124.1	151.3	140.0	134.7
Germany	88.7	90.6	93.1	100.9	104.1	106.6	116.4	121.6	122.3	127.6	136.4	142.2	148.3	149.3
France	112.7	114.2	108.8	100.1	97.9	99.9	101.8	94.4	102.3	97.3	91.0	87.8	87.5	87.9
United Kingdom	111.8	99.5	99.7	99.5	99.6	96.1	85.2	81.8	75.4	64.4	61.3	61.4	65.5	71.3
Canada	98.2	99.8	99.9	102.8	105.2	104.0	98.6	102.1	97.7	103.9	94.9	82.8	79.2	79.2
Italy	99.2	101.1	100.9	100.1	99.3	98.4	87.6	78.5	74.6	61.6	56.0	51.8	49.8	48.2
Australia	96.8	99.9	99.7	99.5	99.6	97.9	107.4	112.2	102.5	100.2	87.4	79.1	76.3	78.4
New Zealand	115.4	99.6	99.7	99.6	100.0	99.8	106.8	113.0	98.4	86.8	83.9	81.0	77.1	72.3
Austria	98.8	101.1	101.1	99.7	101.0	102.0	108.5	113.8	116.8	119.7	126.4	126.4	129.2	133.1
Belgium-Luxembourg	98.0	99.0	99.3	99.7	99.5	102.2	102.6	103.3	104.0	105.2	109.7	111.7	112.3	111.9
Denmark	103.5	100.5	100.4	99.8	99.0	99.3	105.4	105.3	108.4	110.0	109.2	109.1	107.9	99.1
Finland	120.0	100.4	100.7	99.9	97.8	93.2	92.6	94.9	94.3	96.0	90.8	81.4	81.1	83.7
Greece	99.1	100.5	100.8	99.7	97.5	91.2	83.1	83.0	75.1	69.8	67.1	60.4	56.6	49.1
Iceland	195.5	147.9	100.6	99.9	98.5	94.2	83.1	79.3	49.6	43.8	40.0	27.4	19.9	14.8
Ireland	106.1	99.7	99.8	99.6	99.6	97.7	91.6	89.5	85.1	77.1	74.6	74.9	74.9	72.6
Netherlands	99.8	101.4	101.6	100.2	101.1	102.4	104.9	109.8	111.6	113.4	117.8	119.0	119.9	120.3
Norway	96.0	100.4	100.7	99.9	99.4	100.4	105.8	111.2	114.5	117.5	119.0	110.9	108.3	110.3
Portugal	94.8	99.4	100.1	99.5	98.4	97.9	101.0	98.7	95.4	86.7	67.8	53.5	45.3	43.7
Spain	112.0	99.7	100.2	100.0	98.9	100.9	101.7	104.1	101.2	92.4	80.8	72.1	78.4	73.1
Sweden	96.0	100.5	100.8	99.7	99.3	100.6	99.9	98.6	102.0	103.5	99.2	89.1	88.7	89.2
Switzerland	97.2	99.9	100.3	99.7	102.5	103.6	113.3	122.4	136.6	151.0	154.1	189.0	191.6	189.1
Turkey	99.2	100.8	100.9	83.3	59.1	58.2	87.7	88.1	82.6	78.7	67.6	44.4	29.2	13.3

CHART L

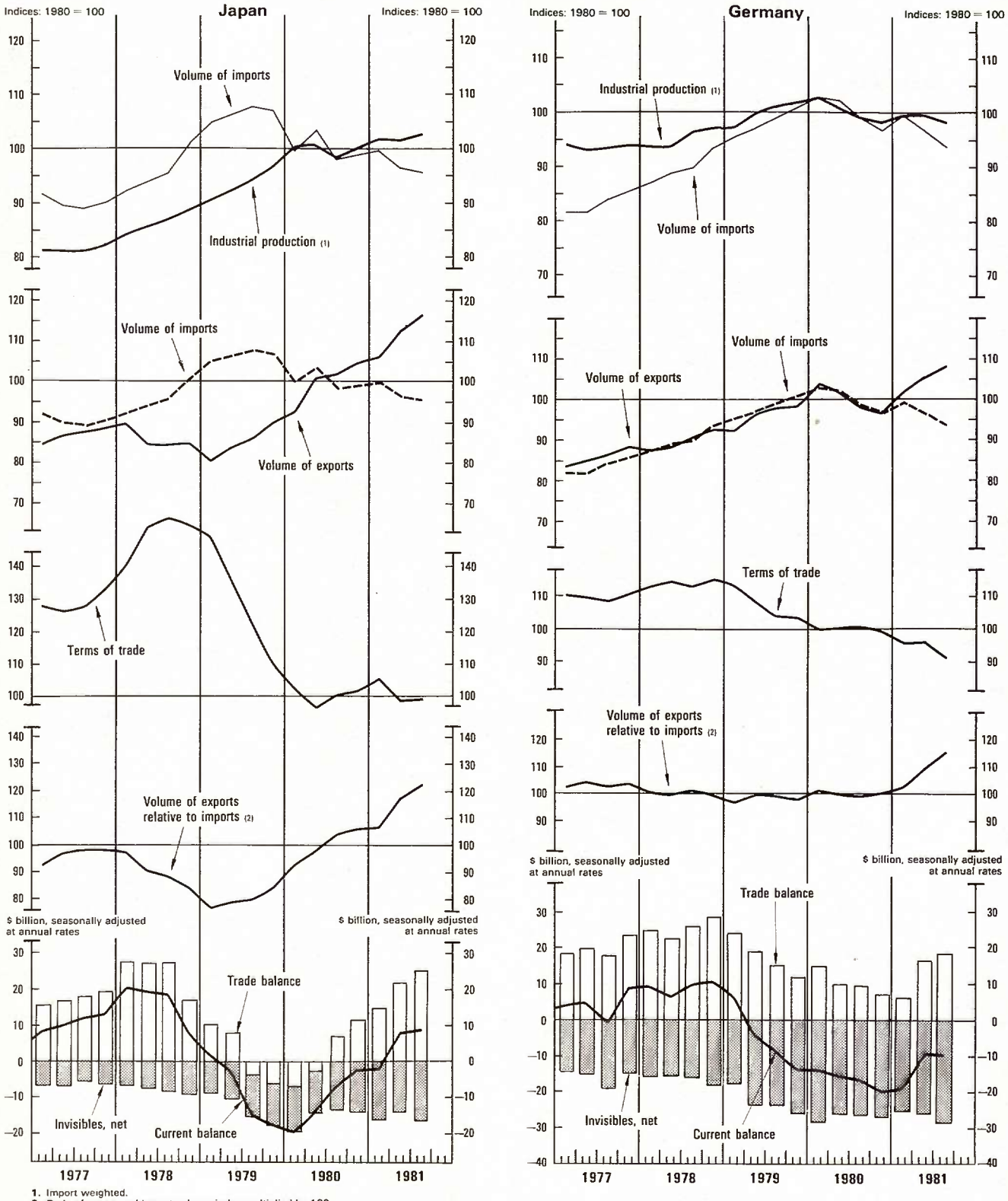
INDUSTRIAL OUTPUT, FOREIGN TRADE AND CURRENT BALANCE IN THE MAJOR SEVEN OECD COUNTRIES



1. Import weighted.
2. Ratio of export and import volume index multiplied by 100.

CHART L (cont.)

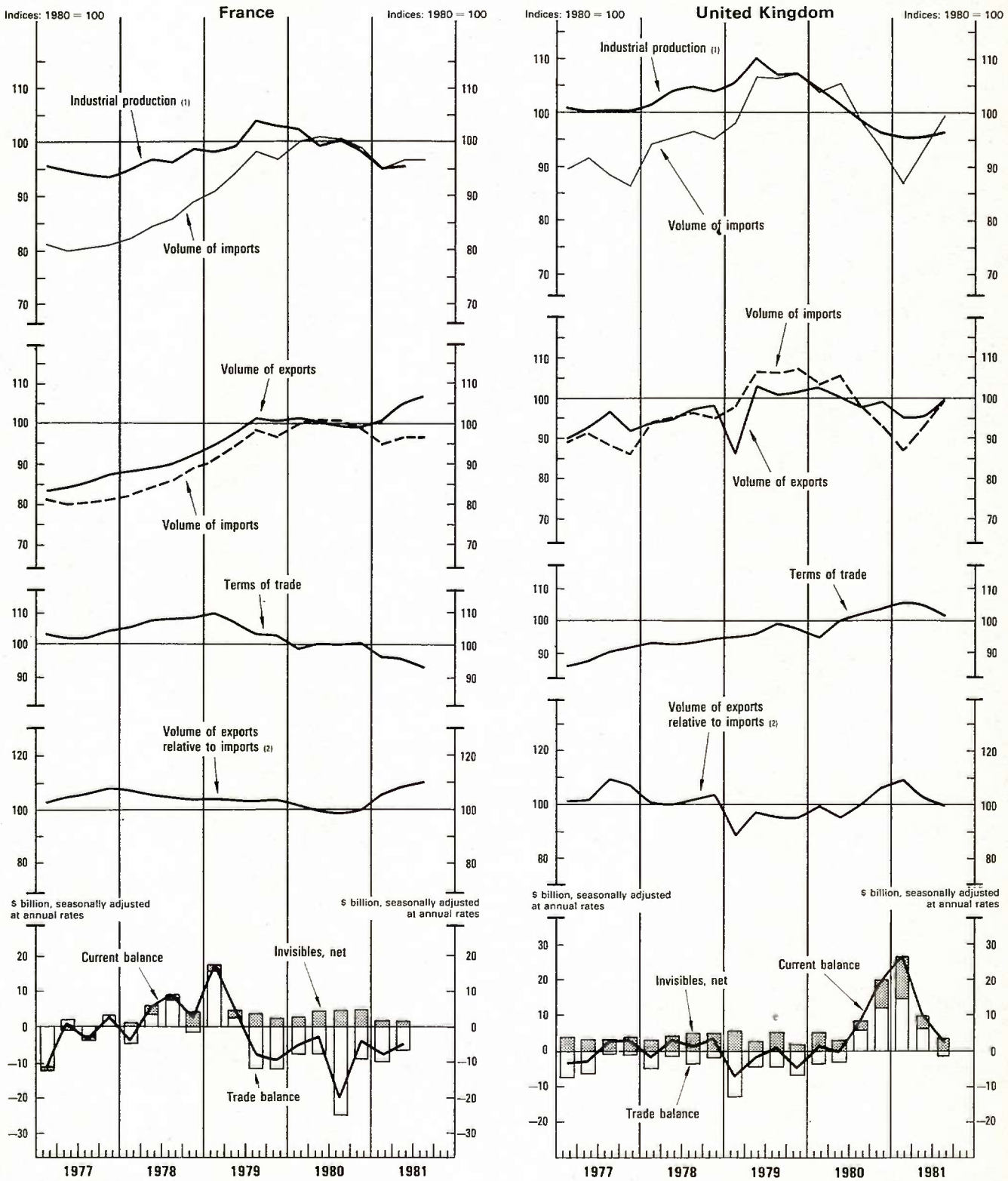
INDUSTRIAL OUTPUT, FOREIGN TRADE AND CURRENT BALANCE IN THE MAJOR SEVEN OECD COUNTRIES



1. Import weighted.
2. Ratio of export and import volume index multiplied by 100.

CHART L (cont.)

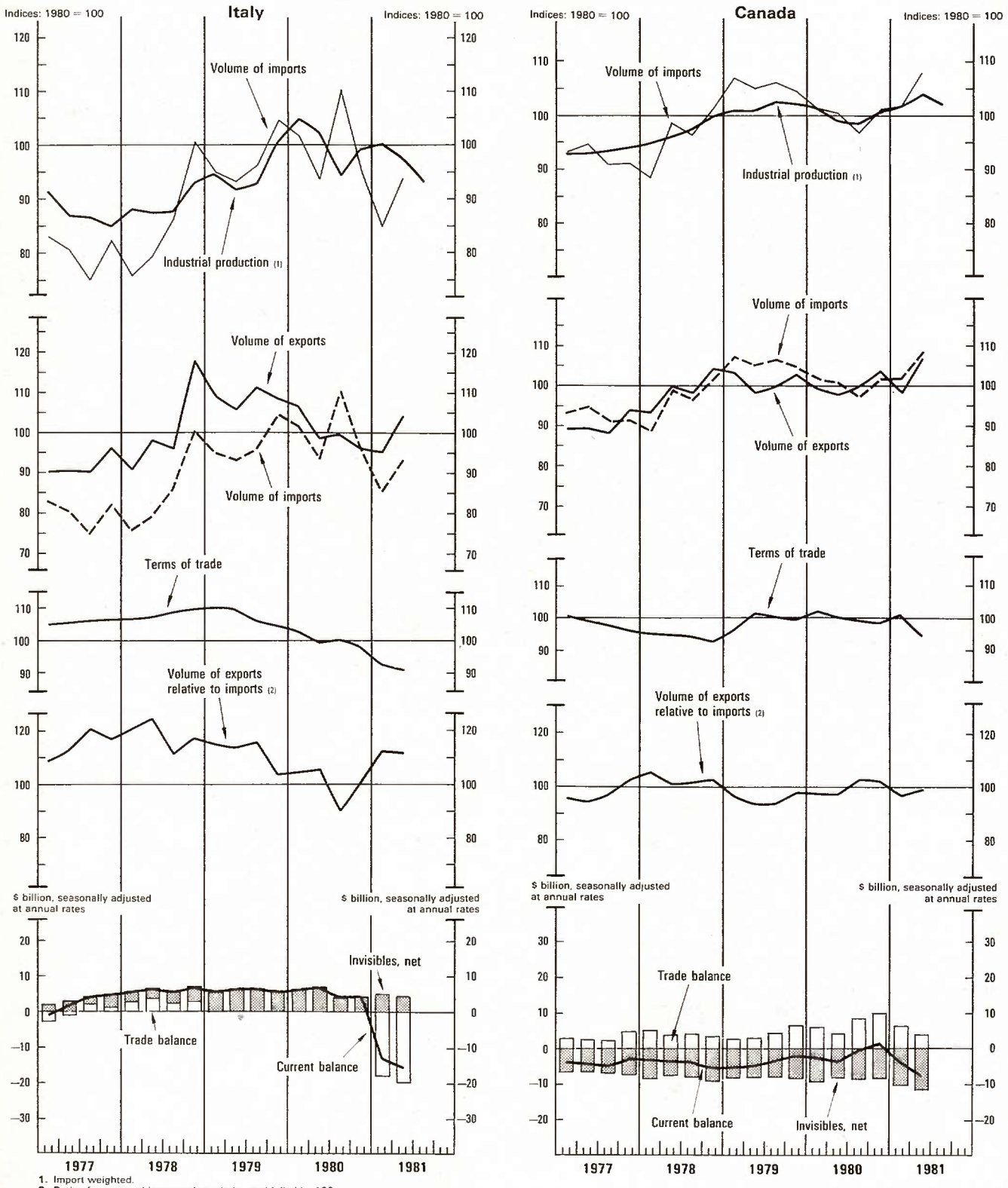
INDUSTRIAL OUTPUT, FOREIGN TRADE AND CURRENT BALANCE IN THE MAJOR SEVEN OECD COUNTRIES



1. Import weighted.
2. Ratio of export and import volume index multiplied by 100.

CHART L (cont.)

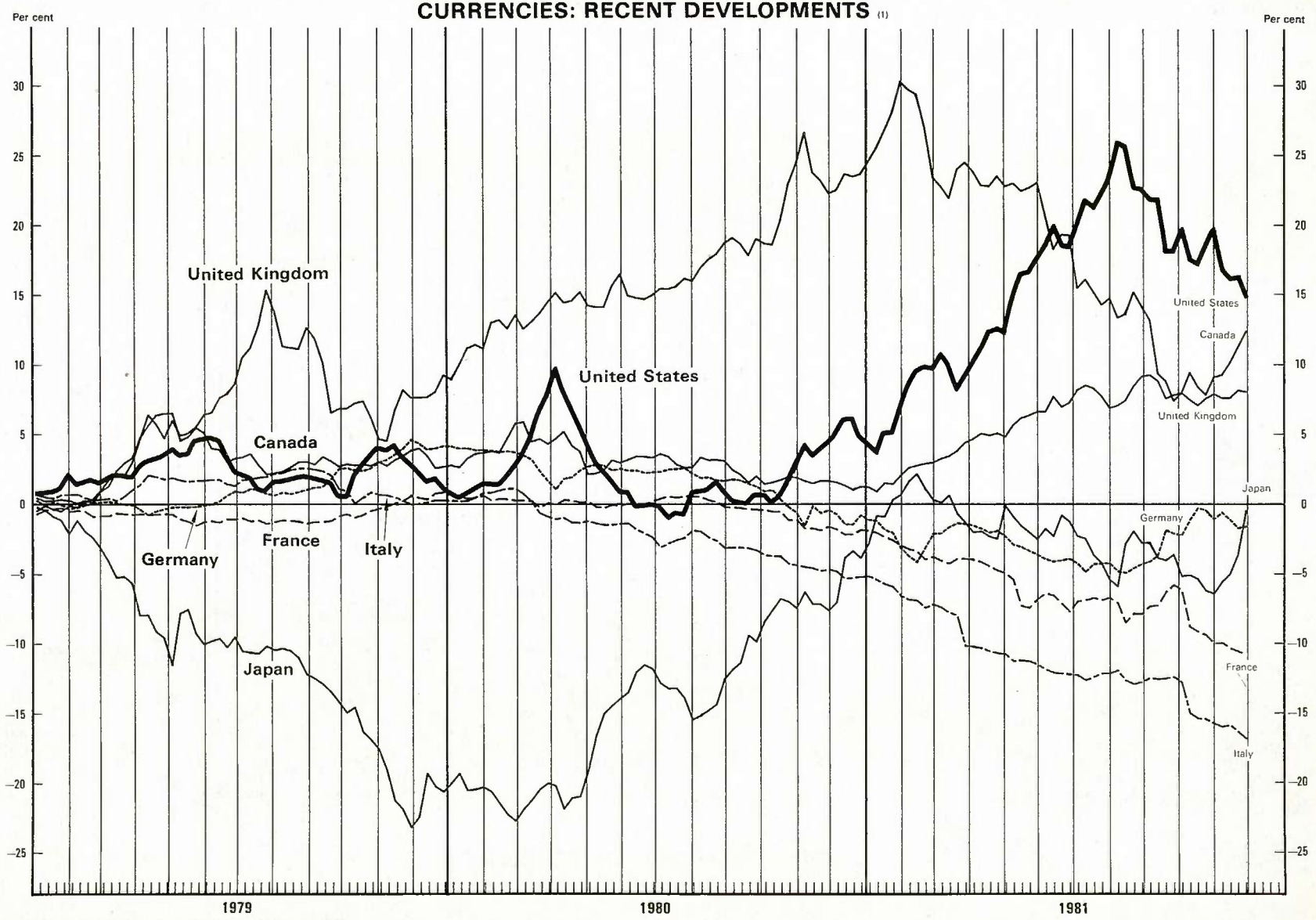
INDUSTRIAL OUTPUT, FOREIGN TRADE AND CURRENT BALANCE IN THE MAJOR SEVEN OECD COUNTRIES



1. Import weighted.
2. Ratio of export and import volume index multiplied by 100.

CHART M

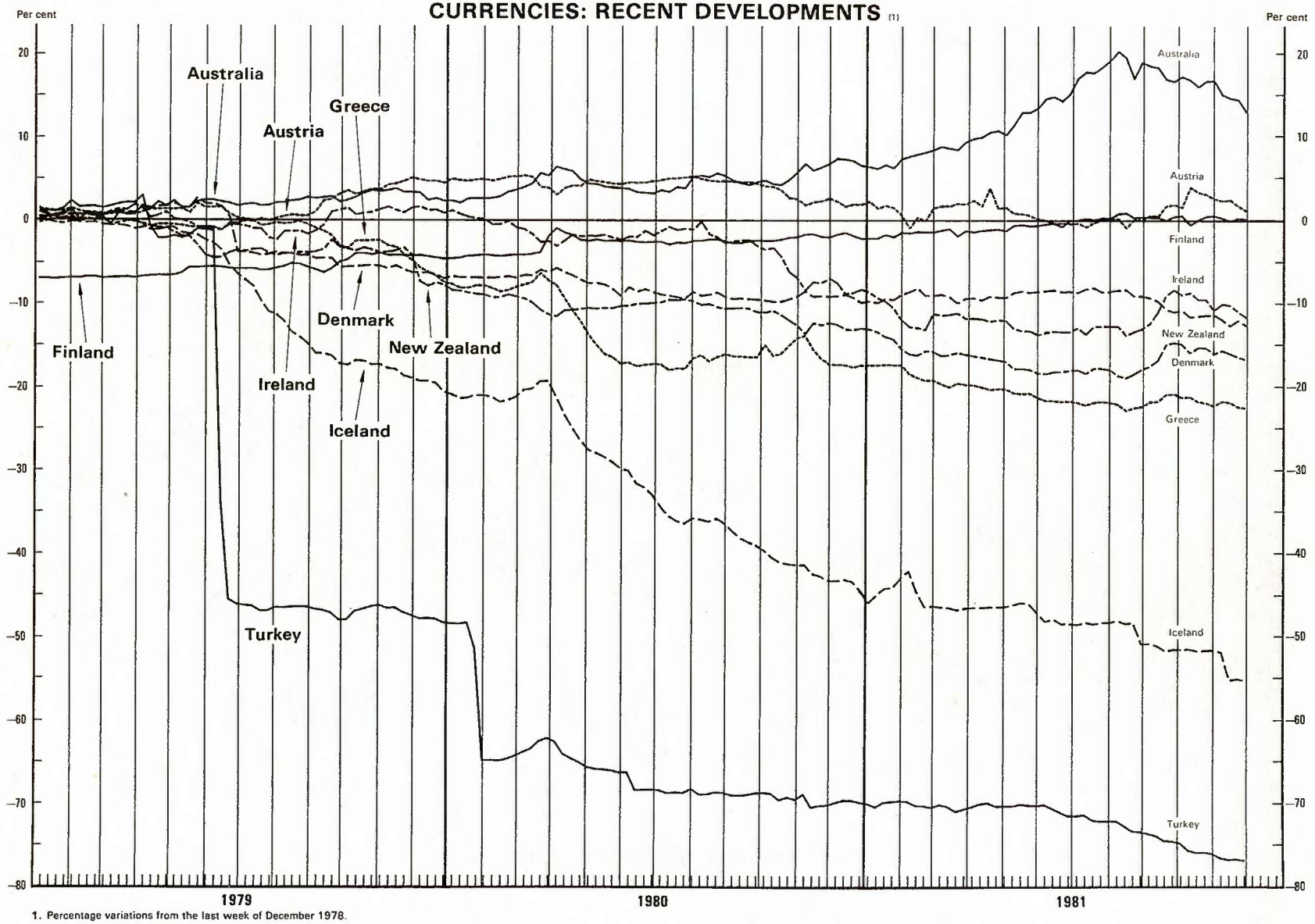
EFFECTIVE EXCHANGE RATES OF OECD CURRENCIES: RECENT DEVELOPMENTS (1)



1. Percentage variations from the last week of December 1978.

CHART M (cont.)

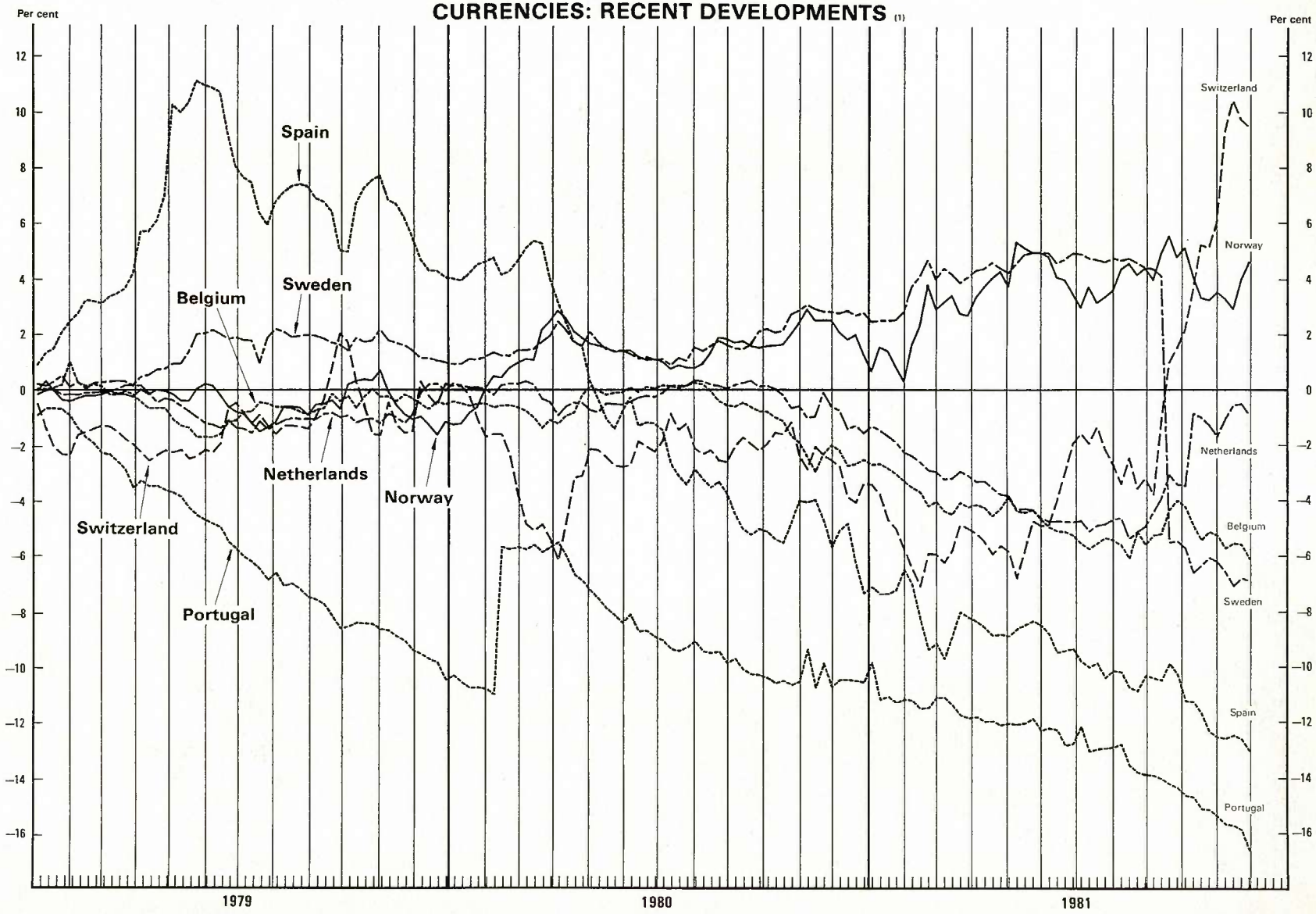
EFFECTIVE EXCHANGE RATES OF OECD CURRENCIES: RECENT DEVELOPMENTS (1)



1. Percentage variations from the last week of December 1978.

CHART M (cont.)

EFFECTIVE EXCHANGE RATES OF OECD CURRENCIES: RECENT DEVELOPMENTS (1)



1. Percentage variations from the last week of December 1978.

CHART N

EXCHANGE RATES OF MAJOR CURRENCIES AGAINST THE DOLLAR

Percentage deviations with respect to dollar parities of October 1967
end of month figures*

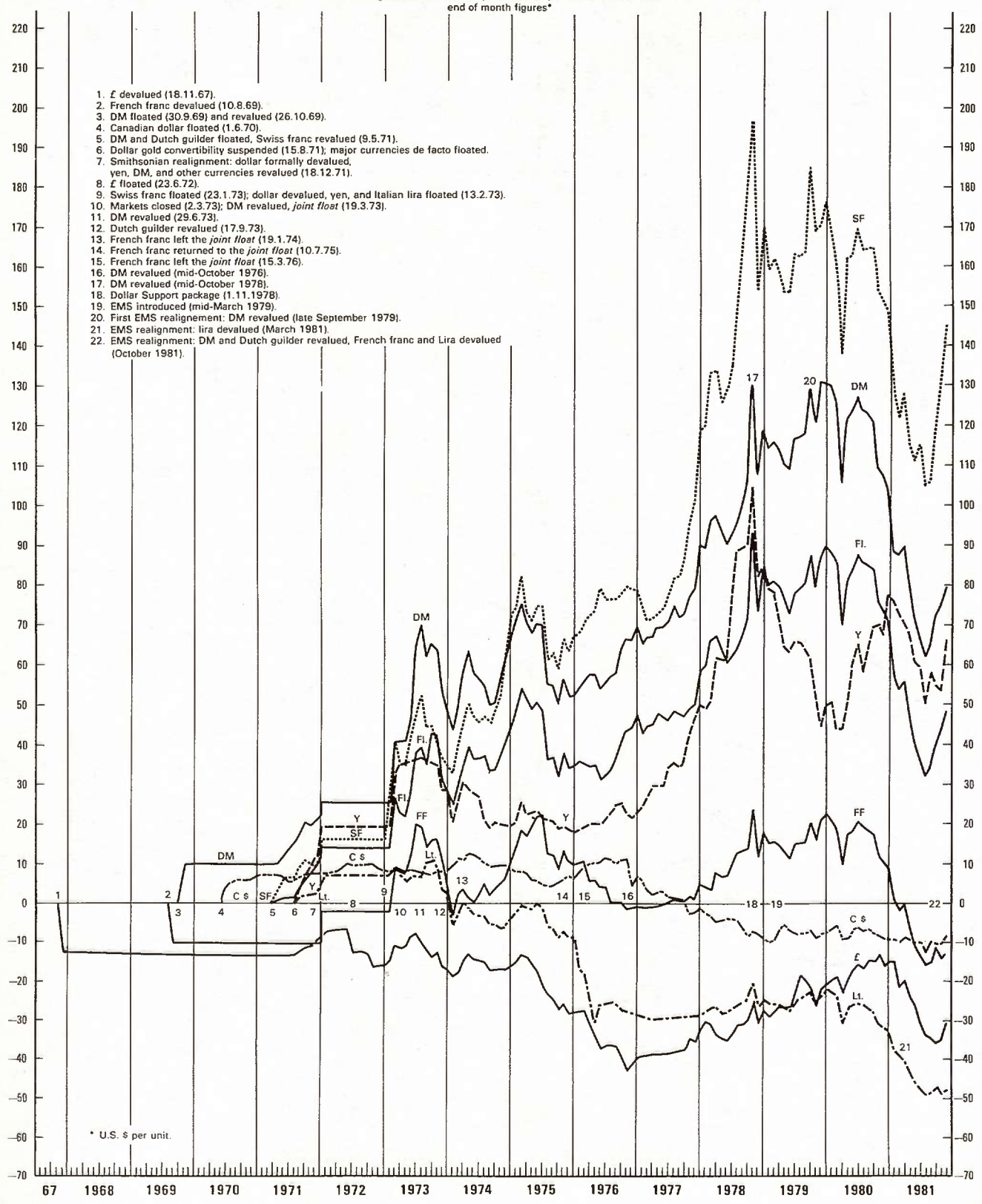


CHART O

UNCOVERED INTEREST RATE DIFFERENTIALS

Domestic rates *minus* Euro-dollar rates. Wednesday figures

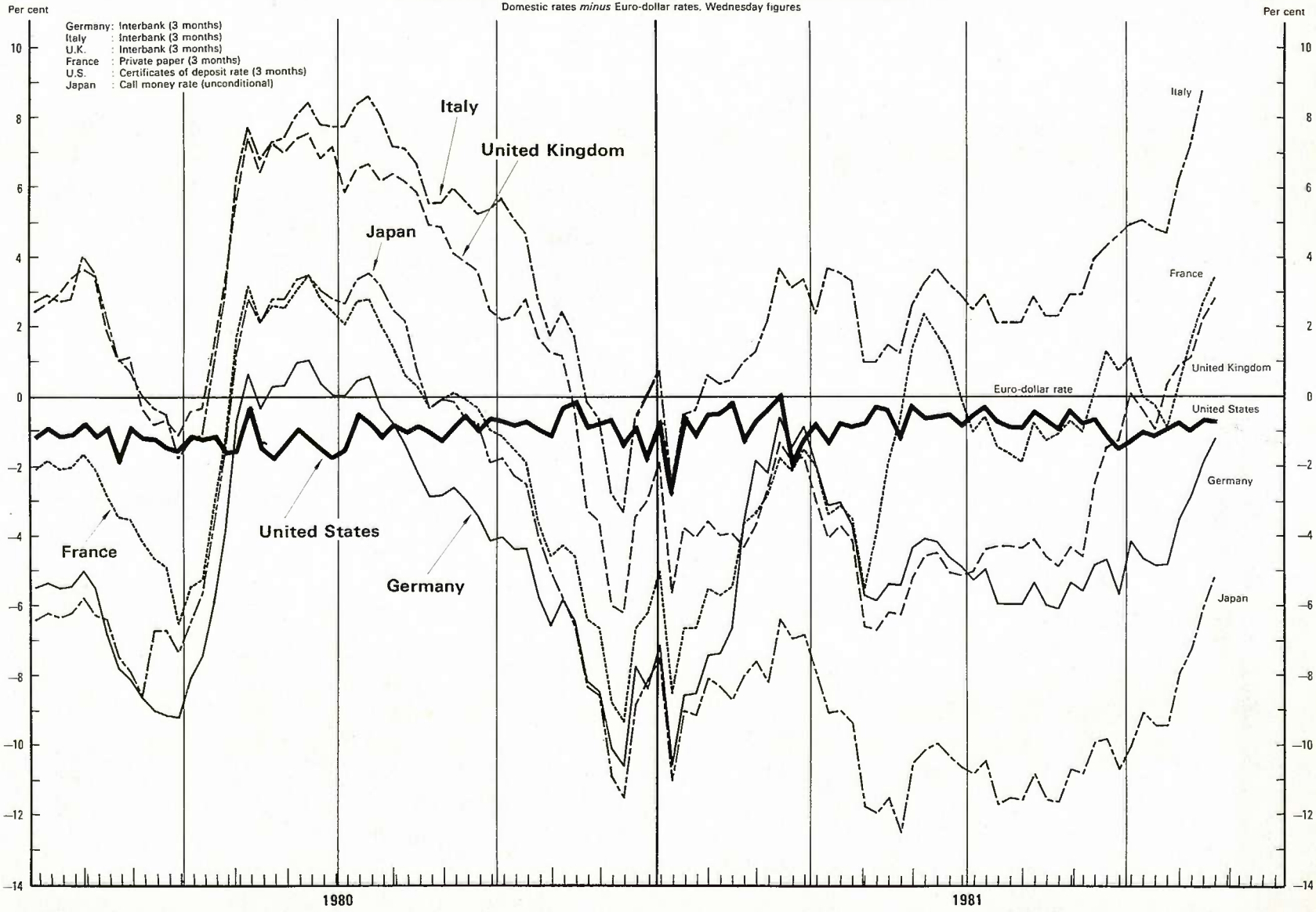


CHART P

US-GERMANY: INTEREST RATE DIFFERENTIAL AND BILATERAL EXCHANGE RATE

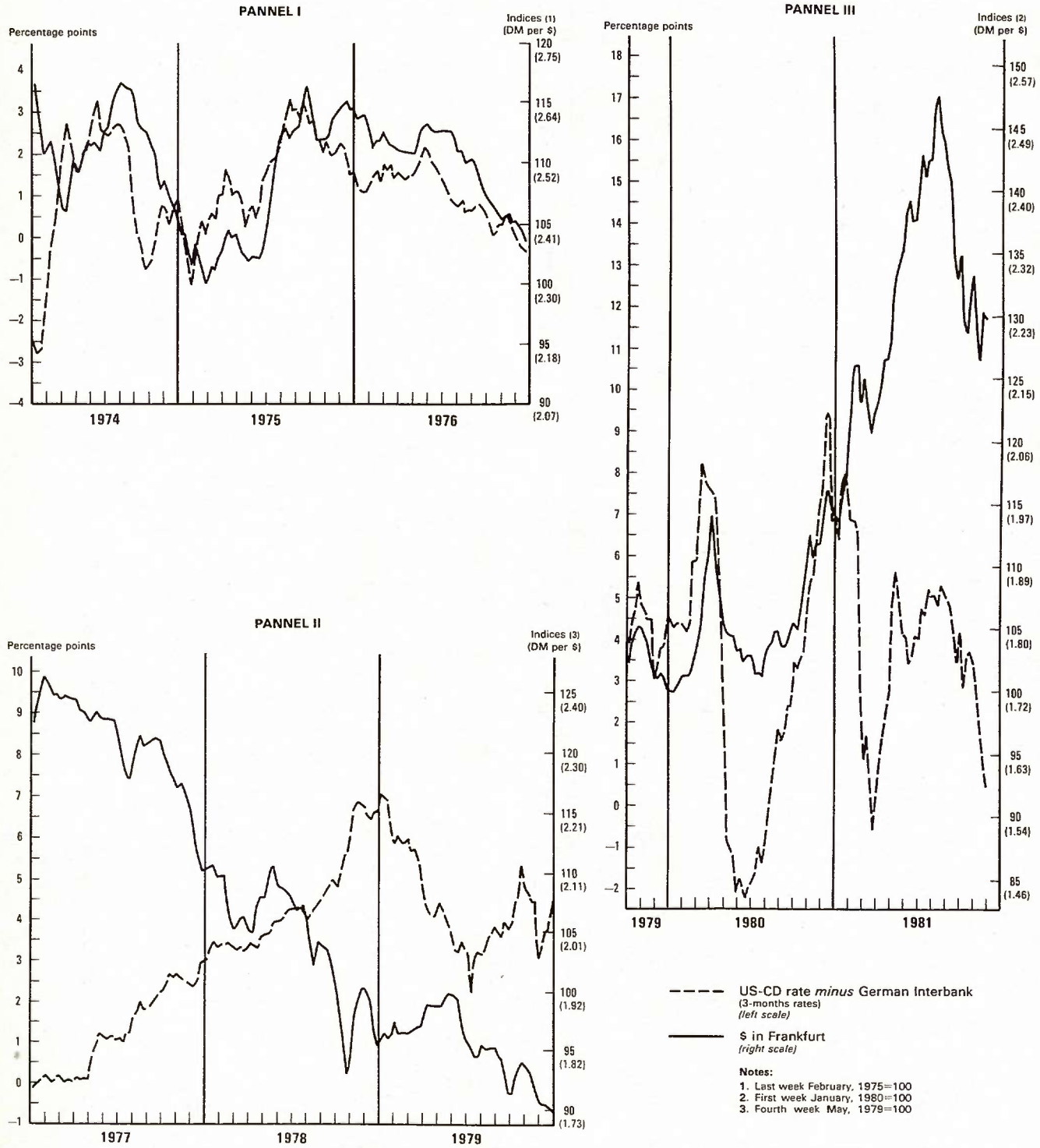
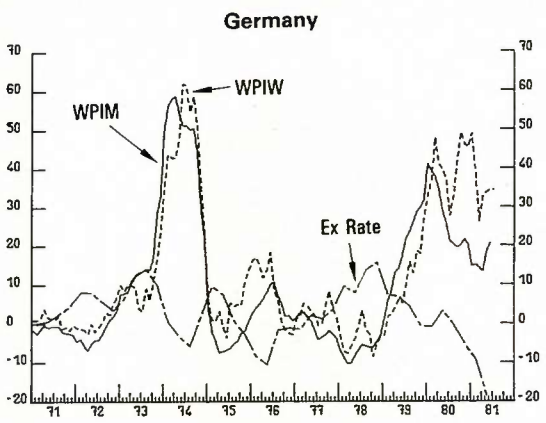
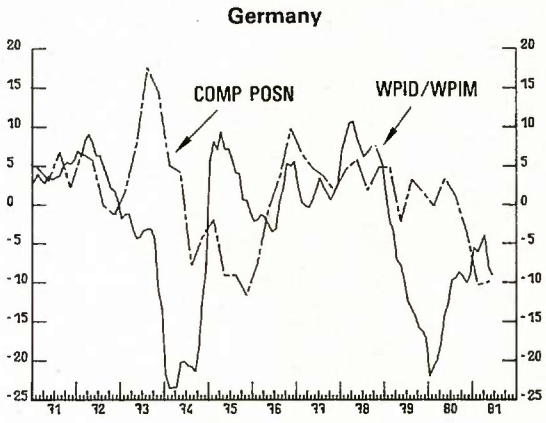


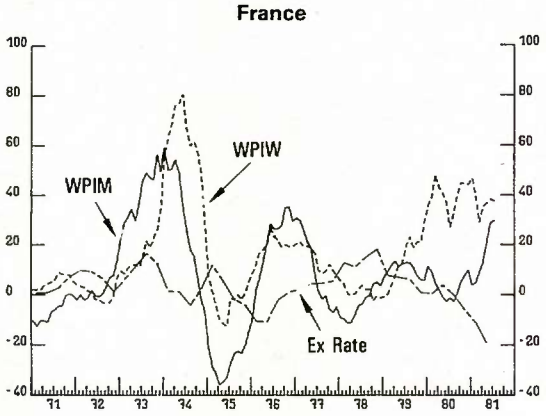
CHART Q

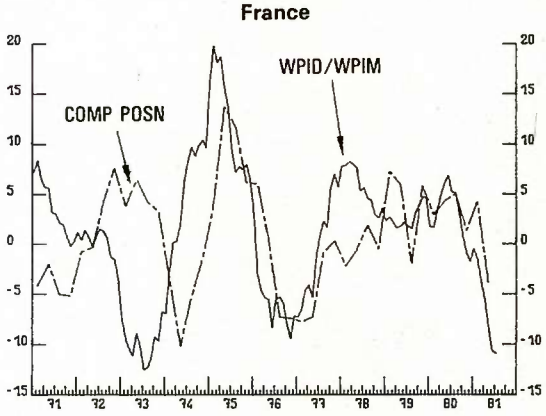
FOREIGN TRADE PRICES AND EXCHANGE RATES

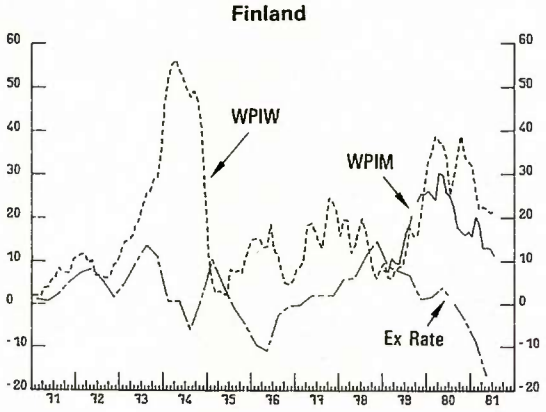
12 months, or 4 quarters rates of change

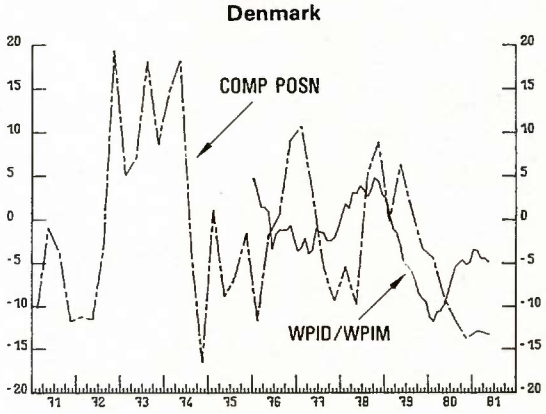












Key:
WPIW: world price for industrial materials and fuels expressed in local currency, using spot exchange rates.
WPIM and WPID: wholesale prices for imported and domestic products for the same categories as for WPIW.
COMP POSN: relative competitive position measured by unit labour costs in manufacturing.
Ex Rate: ratio of spot to effective exchange rate.

Sources and Methods

The OECD *Economic Outlook* draws largely on the work of the Department of Economics and Statistics. The following notes describe briefly the forecasting techniques used and the statistical concepts and sources.

FORECASTING TECHNIQUES

A key feature of the OECD semi-annual forecasting cycle is that it produces forecasts for the Member countries which aim at being consistent externally as well as internally. Emphasis is placed on international trade influences involving a set of successive iterations between domestic and external projections. The purpose is to take into account as fully and consistently as possible, for each country, both domestic impulses and the export demand generated by the import needs of the other countries. While account is taken of national forecasts, both official and unofficial, OECD forecasts are entirely the responsibility of the OECD Department of Economics and Statistics.

Relatively detailed forecasts are prepared for the seven largest OECD countries (the United States, Japan, Germany, France, the United Kingdom, Italy and Canada) which account for around 74% of total OECD trade and 83% of total OECD GNP (1980 weights and exchange rates). Within this group, the forecasts are prepared on a quarterly basis for the United States, Germany, and the United Kingdom, although the *Economic Outlook* presents only half-yearly and yearly forecasts. For some small countries, however, where only yearly data are available from national sources, the OECD Secretariat prepares its own half-yearly estimates, by interpolation or on the basis of short-term economic indicators. All half-yearly demand and output figures are seasonally adjusted and percentage changes are presented at annual rates.

The basic forecasting methods employed, particularly for the major countries, have been described in the OECD report, *Techniques of Economic Forecasting*, Paris, 1965. In addition, use is made of econometric models, developed by the Secretariat as well as other organisations, for individual countries and for trade flows among Member countries.

In particular, the forecasting "round" begins with a simulation of the INTERLINK system, to provide an initial update of the previous set of forecasts, in light of changes of exogeneous factors, such as fiscal policy assumptions, exchange rates, oil and non-oil commodity prices, assumptions concerning the non-OECD regions, etc[1]. This, together with an assessment of special factors affecting each economy, provides a basis for preliminary assessments of the level of demand for the individual countries, which permit consistent initial estimates of import and export demand[2] to be derived. Exchange rates and the real price of oil are assumed to remain unchanged over the forecast period. Fiscal and monetary policy assumptions are generally based upon existing stated policies (the individual country notes discuss the assumptions made in particular cases). For public consumption and public investment, as much use as possible is made of budgetary statements.

Private investment components are forecast separately, the minimum disaggregation for the major countries being the distinction between residential and non-residential investment. Residential investment is usually forecast on the basis of demographic trends, real incomes, financial conditions and cyclical construction indicators such as building starts or permits, mortgages, availability and changes in housing and land prices. Non-residential investment is often derived from a function involving both financial variables (such as cash flow and interest rates) and non-financial variables (capacity utilisation, movements of sales and output). The results of investment intentions surveys carried out among businessmen are frequently used in adjusting the short-term forecast of business fixed investment.

Private consumption forecasts, for all countries, are determined principally as a function of personal disposable income. The seven major OECD countries and some smaller countries forecast the appropriation account of households. The initial change in the level of demand, together with the extrapolation of demographic trends, leads to forecasts for employment and unemployment. The pressure of demand, information on the pattern of wage settlements and an element of judgement regarding productivity give an estimate of the likely development of compensation of employees and other incomes accruing to households. The resulting forecasts of income are then adjusted for direct taxes and current transfers to derive personal disposable income. Savings are treated as a residual if a consumption function is used. The implied saving ratio, compared with its past behaviour and expected development, is used for checking the consumption forecast. Real consumption is obtained by deflating the forecast nominal consumption with a consumer price forecast (see below). The stockbuilding forecast is often based upon developments of the ratio of stocks to output in the past few years.

The forecast of demand and foreign trade prices as well as an assessment of supply potential, provides a basis for an evaluation of the possible development of domestic prices. The expected evolution of wages, employment and productivity growth gives the contribution of unit labour costs to change in prices. Special factors which may affect food prices are taken into account and an estimate is finally reached for the implicit price deflator for private consumption. Deflators for the other demand components are usually separately estimated in order to obtain the deflator for total output. Finally, the various components of demand, particularly investment, are reviewed in the light of the overall level of aggregate demand and adjustments are made to allow for feedbacks where the level of consumer expenditure was markedly different from the level implicitly or explicitly assumed in the initial stages of the forecasting exercise.

NATIONAL ACCOUNTS

The figures shown in the country tables on Demand and Output follow, in general, the *OECD Standardized System*[3] definitions, which need not be summarised here. One important deviation from the *Standardized System* is the line public investment which includes, whenever possible, fixed capital formation by both general government and governmend-owned and controlled enterprises. The latter's definition and coverage may vary as between countries.

a) *United States*

Official quarterly national accounts, published in the Survey of Current Business by the Bureau of Economic Analysis of the US Department of Commerce, are available through the third quarter of 1981. The Appropriation Account for households is on OECD definitions and differs slightly from official US figures. Briefly, OECD disposable income equals US disposable income minus consumer interest payments. OECD estimates of the saving rate may thus differ by one or two tenths of a percentage point from estimates based on the official US definition. Government fixed investment expenditures (including those of government enterprises) are included in "government expenditure" and no allowance is made for depreciation of government fixed capital. The investment figures, therefore, refer to the private sector only.

1. Details on the OECD's INTERLINK system are available in the INTERLINK Technical Handbook, Autumn 1981.
2. For details of foreign trade forecast procedures, see "Technical notes on Foreign Trade", p. 118.
3. United Nations, *A System of National Accounts*. New York, 1968.

b) *Japan*

Quarterly national accounts are published in the *Annual Reports on National Income Statistics and National Accounts Statistics Quarterly* of the Economic Planning Agency. Partial national accounts' data are also published by the Economic Planning Agency in Japanese Economic Indicators. Figures for the second quarter of 1980 through to the third quarter of 1981 are preliminary estimates published by the Research Institute of the Economic Planning Agency.

c) *Germany*

The historical figures up to and including the first half of 1981 are based on official data published in *Wirtschaft und Statistik* and special national accounts (Fachserie 18, Reihe 1) of the Statistisches Bundesamt. Historical seasonally adjusted quarterly components of demand and GNP, available through the fourth quarter of 1980, are estimated by the Deutsche Bundesbank and published in the Statistical Supplement, Reihe 4, of the Bank's Monthly Report.

d) *France*

Annual accounts based on the *Enlarged System of National Accounts* (ESNA) are available for the period 1970-80. Partial quarterly ESNA figures are available until the second quarter of 1981. Industrial production figures refer to the official quarterly index of industrial production and not to the value added in the industrial sector as calculated each year for the purpose of national accounts.

e) *United Kingdom*

Because of the dispute in the Civil Service, figures have not been available since February. The forecast is based upon balance of payments data up to February 1981 as published in Press Release, Department of Trade, March 1981.

National accounts data up to the second quarter of 1981 were taken from *Press and Information Service,* CSO. The three official estimates of GDP, output, expenditure and income were weighted to yield a "compromise" GDP estimate. The difference between the compromise and expenditure estimates of GDP (the compromise adjustment) is included in total domestic demand. The forecast assumes that around one half of output from oil from the North Sea will be exported, while the rest will be used domestically, as import substitute.

f) *Italy*

The definitions used are those of the OECD System of National Accounts. Past half-yearly developments, up to mid-1981, are partly based on quarterly national accounts estimated by *Instituto Centrale di Statistica* (ISTAT) and *Instituto Nazionale per lo Studio della Congiuntura* (ISCO). The line public investment includes investment by general government, public enterprises and "autonomous bodies" (e.g. railways).

g) *Canada*

Official quarterly national accounts through the second quarter of 1981 are from *National Income and Expenditure Accounts* of Statistics Canada. The Canadian national accounting convention includes a separate entry for the "residual error of estimate". This item is included in the OECD figures for GNP, which are therefore not the sum of the expenditure components. Over the forecast period, the residual error has been assumed to remain unchanged from the level of the second half of 1980.

FISCAL AND MONETARY POLICIES

a) *Monetary Aggregates* (Table 13 and Chart C)

Additional information, where necessary, beyond note to Table 13:

United States: M1B is currency held by the public plus demand deposits at commercial banks plus other cheque accounts. M2 is M1B plus savings and time deposits at all deposit-taking institutions, overnight instruments issued by commercial banks, overnight Eurodollar deposits held by US nonbank residents at Caribbean branches of US banks, and money market mutual fund shares.

Italy: Domestic credit includes bank loans, loans of special credit institutions, bonds issued by local authorities, public corporations and business companies, plus net indebtedness of the State sector.

b) *Interest rates* (Chart C)

Short-term interest rates largely reflect the authorities short-run strategy in the money market which, together with official limits on credit expansion in certain countries, is geared to the achievement of intermediate monetary targets and ultimate policy goals. For the countries indicated, the sources are the following:

United States: Federal Funds and Government bonds – *Federal Reserve Bulletin.*

Japan: Call money – OECD, *Main Economic Indicators;* Telegraph and Telephone bonds – Bank of Japan, *Economic Statistics monthly.*

Germany: Interbank Money – *Monthly Report of the Deutsche Bundesbank;* Government bonds – OECD, *Main Economic Indicators.*

France: Call Money – OECD, *Main Economic Indicators;* Public corporation bonds – *Conseil National du Crédit.*

United Kingdom: Treasury bills – OECD, *Main Economic Indicators:* debentures – *Financial Statistics.*

Italy: Interbank money – Banca d'Italia, *Bollettino;* Bonds of corporation and financial institutions – *Mediobanca.*

Canada: Finance Company Paper and Government Bonds – *Bank of Canada Review.*

c) *Public sector indebtedeness* (Table 14)

Public sector

The sector definitions adopted correspond to national flow of funds statistics except for the United States. The United States public sector has been defined as Federal government, and state and local governments, while the latter are treated as part of the non-financial private sector in national flow of funds. In Germany, the public sector includes the Federal government, Lander governements, local authorities and the social security system. In Japan, France, and the United Kingdom, the public sector covers the central government, local authorities and public corporations (social security is also included in the case of France),

Public sector borrowing requirement

This item corresponds to the increase (+) in liabilities in the flow of funds account of the public sector. It can also be defined as the sum of financial surplus (–) or deficit (+) and financial asset formation (+) by the public sector (i.e. all transactions which require financing through net borrowing).

Credit market funds raised by non-financial sectors

Funds borrowed by public sector (as defined above), corporate sector, household and foreign sectors, which correspond to the following categories of liabilities in flow of funds accounts.

United States: Treasury issues, corporate equities, bonds, mortgages, consumer credit, bank loans, United States Government loans, open market paper, other debt instruments.

Japan: Securities (bonds, bills and stocks), loans by private financial institutions and by government.

Germany: Money market paper, bonds, shares, bank loans, loans by building and loan associations and by insurance companies.

France: Bonds, stocks and other ownership rights (excluding those corresponding to capital grants by central governement), short, medium and long-term loans (excluding trade credit).

United Kingdom: Bank lending, hire purchase and other instalment debt, loans for house purchase, loans by the United Kindgom

Government, other loans, marketable government debt, other local authority debt, United Kingdom company capital issues.

Central government debt held by the private sector

United States: Total privately held public debt securities less holdings of state and local governments and foreigners.

Japan: Total internal Government bonds held by Financial Institutions and "others". All non-registered issues are included as well.

Germany: Central Government debt outstanding less holdings by the Bundesbank and foreigners.

France: Domestic public debt less holdings by the Caisse des Dépôts et Consignations and liabilities vis-à-vis the Bank of France.

United Kingdom: Total market holdings of National debt less holdings of public and foreign sectors.

Non-bank sector holdings of central government debt

These are defined as debt held by the private sector (as defined above) less holdings of the banking system. In *Japan* holdings by all financial institutions are excluded.

d) *Weighted budget balances* (Table 10)

The method employed in calculating these indicators is a slightly revised version of that described in "Budget Indicators", *OECD Economic Outlook – Occasional Studies*, July 1978: weighting coefficients are derived from an income/expenditure model and are applied to total changes in components of the budget to standardize each of them in terms of GNP/GDP equivalents. Adding these weighted measures provides an estimate of the aggregate influence of budget changes in a given year. The weighting scheme applied takes account of "first round" spending leakages, so that the aggregate measures (discretionary plus automatic) are an overall fiscal "impact" before the secondary multiplier/accelerator process begins. Consequently, the indicators should not be interpreted as a "forecast" of the effect of the budget on actual GNP/GDP.

e) *Cyclically corrected budget balances* (Table 11)

Changes in budget balances (B) can be decomposed into discretionary and automatic responses:

$$B_t - B_o = \underbrace{(e\frac{T_o}{Y_o} - g\frac{G_o}{Y_o})rY_o + \Delta T - \Delta G}_{\text{"discretionary" change}} + \underbrace{m(a-r)Y_o}_{\text{built-in stabilizers}}$$

Here, the *"discretionary" change* is made up of two components:

i) the effect of previous policies, reflected in the elasticity of taxes (e) and expenditures (g) relative to the secular growth of nominal GDP (r) (when e is greater than unity, the result is "fiscal drag");

ii) short-term policy changes in tax yields, ΔT, and expenditures, ΔG.

Built-in stabilizers operate as a result of the marginal tax/benefit rate (m) with respect to the difference between actual growth (a) and productive potential (r).

Expressing budget balances as ratios of GDP, b(=B/Y), Table 11 dichotomizes the year-to-year changes in such balances in an identical manner to that above:

$$b_t - b_o = \underbrace{[s^r_o(e-1) - s^g_o(g-1)]\frac{r}{1+r} + (\Delta T - \Delta G)/[Y_o(1+r)]}_{\text{"discretionary" change}} + \underbrace{\frac{m(a-r) + b_t(r-a)}{1+r}}_{\text{built-in stabilizers}}$$

Again, the *"discretionary" change* is defined to include both *announced policy changes* and *net fiscal drag* resulting from changes in the shares of revenue ($s^r = T/Y$) and expenditures ($s^g = G/Y$) in GDP. The built-in stabilizer effect arbitrarily incorporates the impact of lower GDP in the denominator.

Using 1979 as the base year, potential GDP was extrapolated, and the effects on tax yields and benefits of changes in the GDP gap were simulated through the OECD's INTERLINK model, to give estimates of built-in stabilizers. These were subtracted from the actual budget balance to give a "cyclically corrected" budget balance, changes in which may be interpreted as discretionary policy adjustments in the sense defined above: i.e. they incorporate both announced policy changes and the impact of real and inflation-induced fiscal drag (including that arising from the oil price shock).

f) *The sensitivity of government debt interest payments to changes in the rate of interest*

Debt interest paid in the current year (DI_t) is a function of debt interest paid in the previous year on debt outstanding (D_{t-1}), of new borrowing (ΔD_t) and of the interest rate in year t (r):

$$DI_t = \bar{r}_{t-1}D_{t-1} + (r-\bar{r}_{t-1})kD_{t-1} + r\Delta D_t \qquad ...1$$

where $\bar{r}_{t-1}$ = the *average* rate of interest on outstanding debt (i.e. (DI_{t-1}/D_{t-1});
r = the *marginal* rate of interest (on new debt);
k = the proportion of old debt maturing – and hence needing re-financing – in year t.

The change in debt interest paid as a result of a change marginal rate, dr, is then:

$$dDI_t = dr.k.D_{t-1} + dr.\Delta D_t \qquad ...2$$

on a full year basis (i.e. if the interest rate change, and all new borrowing took place at the very beginning of the year).

This means that the proportional change in debt interest resulting from a sustained change in interest rates is:

$$\frac{dDI_t}{DI_t} = \frac{dr.\underline{k}.D_{t-1} + dr.\Delta D_t}{DI_{t-1} + (r-\bar{r}_{t-1})\underline{k}D_{t-1} + r\Delta D_t} = \frac{dr}{\bar{r}_t} \cdot \frac{(k.D_{t-1} + \Delta D_t)}{(D_{t-1} + \Delta D_t)} \qquad ...3$$

where $r_t = r_{t-1} + \Delta r = DI_t/D_t = DI_t/(D_{t-1} + \Delta D_t)$

If there is no new borrowing this reduces to $(dr.k)/r_t$, which means that the proportional change in debt interest arising from a unit change in the rate of interest is $1/r$ if all existing debt has to be re-financed. In this case, it is interesting to note that a change in r equal to a change in the rate of inflation ($dr = dp$) will imply an elasticity of debt interest payments with respect to the price change of:

$$(dDI_t/DI_t)/p = (dDI/DI_t)/dr = k/r_t \qquad ...4$$

Again, this assumes that the rate of interest is changed over a full year period. If the debt matures, and new borrowing takes place, evenly through the year the effect in year t will approximate to: $\frac{1}{2}.k/r$.

COST AND PRICE DATA

In order to facilitate the interpretation of current cost and price trends, the OECD Secretariat has compiled indicators on wage costs and consumer and producer prices from various sources. In spite of the efforts made to derive reasonably comparable series there are considerable divergences in definitions and statistical methods and intercountry comparisons can only be made with great caution.

Price indices

The coverage and calculation methods of consumer price indices vary greatly from country to country[4]. In some countries, the weights used to calculate the index are revised fairly frequently on the basis of family expenditure surveys using large samples, and in such cases the index moves about in line with the deflator for private consumption. In some countries, however, the weighting system relates only to low income groups, and/or, is seriously out of date. In such cases, the weight of food is generally higher and that given to services lower, compared with the pattern of expenditure for private consumption as a whole and the consumer price index can diverge substantially from the consumption deflator.

Wages (Table 21)

Wage indices are not comparable between countries, not only because of the variety of sources and methods of calculations, but also because of important differences in definitions (e.g. hourly rates, hourly earnings, monthly earnings, inclusion or exclusion of fringe benefits, etc.).

The different series used in Table 18 and their sources for the largest countries are:

United States: Average gross hourly earnings of wage earners: *MEI* (i.e. OECD Main Economic Indicators).

Canada: Average gross hourly earnings of hourly-rated wage earners in firms employing 20 workers and over; last payroll of the month: *MEI.*

Japan: Average gross monthly earnings (including bonuses) of "regular" wage and salary earners in firms employing 30 workers and over: *MEI.*

France: Average gross hourly wage rates of time-rated wage earners aged 18 years and over in firms employing 10 workers and over: *MEI.*

Germany: Average gross hourly earnings of wage earners in firms employing 10 workers and over: *MEI.*

Italy: Minimum gross hourly wage rates of time-rated wage earners aged 20 years and over: *MEI.*

United Kingdom: Average gross weekly earnings of wage and salary earners in firms employing 25 workers and over (G.B.): *MEI.*

Unit labour costs in manufacturing (Table 19)

In principle, unit labour costs are derived from total labour costs per worker to the employer (including fringe benefits and social charges) divided by indices of output per man-hour. The data shown are, by and large, unit wage costs, except for the United States, where fringe benefits and employers' social security contributions are included. There are also differences in definitions and coverage in all the component series (earnings, employment, hours worked and output).

For Canada, the data are taken from the *Canadian Statistical Review.* This series is calculated as the ratio of wages and salaries divided by real domestic product in manufacturing. The United States series is from the monthly *Business Conditions Digest* and measures the ratio of labour costs in manufacturing to industrial production. The comparable Japanese data are taken from the *Japanese Economic Indicators.* German data are taken from the *Statistische Beihefte zu den Monatsberichten der Deutschen Bundesbank,* while data for the United Kingdom come from the *Monthly Digest of Statistics.* For the countries above, the series are currently reproduced in the MEI. Data for France are supplied by INSEE. For Italy, the data are taken from the Bureau of Labour Statistics.

The real wage gap (Table 21)

Estimates of the real wage gap are based on standard national accounts data and OECD forecasts. "Real wages" are defined as wages and salaries per dependent employee deflated by the private consumption deflator. The warranted real wage is defined as productivity in the broadest sense, i.e. real GDP per employed person, adjusted for the effect of changes in the terms of trade on total income.

There is, at present, no single method generally accepted as the best for measuring the effects of changes in the terms of trade on real national income (y). The following formula was used:

$$y_t = \left[\frac{X_t}{\dot{P}_i} - \frac{X_t}{\dot{P}_x}\right] + \left[\frac{M_t}{\dot{P}_m} - \frac{M_t}{\dot{P}_i}\right]$$

where: $\dot{P}_x$ and $\dot{P}_m$ = changes in the deflators for exports and imports of goods and services from the previous year; X_t and M_t = current year export and import values; and $\dot{P}_i = \frac{\dot{P}_x + \dot{P}_m}{2}$. The terms of trade effect on total income has been calculated as a percentage of the current year's GDP.

The data for labour share of value-added in manufacturing shown in Chart I are based on standard national accounts. The labour share is defined as the proportion of compensation of employees (including social security contributions and non-wage labour costs) in manufacturing value-added. The evolution of profit shares during the current and forecast periods is derived from the relationship between value-added deflators and unit labour costs and may be subject to some uncertainty.

BALANCE OF PAYMENTS DATA

A. *Sources*

Annual balance of payments statistics in *Economic Outlook* are derived from OECD countries' annual submissions to the Organisation, on the basis of a reporting system common to OECD and the IMF. The concepts and definitions underlying this system are, with few exceptions, those described in the IMF *Balance of Payments Manual* (fourth edition 1977).

Up-to-date information and figures for periods of less than one year are normally derived from national sources and adjusted by the Department of Economics and Statistics to internationally comparable definitions. Seasonally adjusted series are taken from national sources for Canada, Germany, the United Kingdom, the United States, Australia, the Netherlands, Finland, and, for some data, Japan and France, and estimated by the Department of Economics and Statistics for other countries.

B. *Presentation*

For analytical purposes, the *Economic Outlook* makes use of a uniform presentation of the balance of payments data for all OECD countries. The analytical groupings adopted are the following[5]:

a) *Trade balance.* This is defined as merchandise exports less imports fob frontier. It is recorded on a transactions basis, i.e. derived from customs records of merchandise trade, with valuation and coverage adjustments required:

i) to put the figures on a fob frontier basis.

ii) to ensure that the data reflect as closely as possible the net transfer of ownership of goods to and from abroad by the residents of a country.

b) *Current balance.* This is the sum of the trade balance, net services and private and official transfers.

c) *Balance on non-monetary transactions.* This covers all current and long-term capital transactions, as well as the short-term capital transactions of the non-monetary sector of the economy (including the balance of unrecorded transactions). It excludes, however, official transactions undertaken for specific balance of payments reasons: such "special transactions" relate, in particular, to the anticipation or postponement of public debt servicing, and changes in official long-term assets and liabilities, such as the extension of special credits to international lending institutions.

d) *Net transactions of monetary authorities* (formerly balance on official settlements). This is the sum of the following transactions:

i) Changes in official holdings of gold and currency assets.

4. For a detailed survey, see C. Vannereau, "Comparability of Consumer Price Indices in OECD Countries", OECD, *Economic Outlook – Occasional Studies,* July 1975.

5. For details, see E. Veil, "Surpluses and Deficits in the Balance of Payments: Definition and Significance of Alternative Concepts", OECD, *Economic Outlook – Occasional Studies,* July 1975.

ii) Changes in holdings of SDRs, whether resulting from allocations or transfers.
iii) A counterpart item for the allocation of SDRs.
iv) Changes in the net IMF position.
v) Changes in official liabilities to foreign official monetary institutions, and in official short-term assets other than gold and currency. (For the United States, changes in private liabilities to foreign monetary institutions are also included).
vi) Special transactions, as described above.

C. *Relation to national concepts*

In a number of cases, the uniform concepts and definitions used by the Department of Economics and Statistics to ensure intercountry comparability differ from those most commonly found in national presentations of balance of payments statistics. The main deviations are listed below:

a) *Trade balance.* While the trade balance concept appears in all national publications, its definition may differ from that adopted in *Economic Outlook:*

i) In Canada, the trade balance as usually defined excludes inland freight on both imports and exports.
ii) In Germany, the trade balance concept which appears most frequently in public discussion is based on the customs figures. It includes, therefore, all freight on imports and excludes the coverage adjustments of customs data to a balance of payments basis.

b) *Current balance.* Aggregates corresponding to the current balance concept appear in all national presentations under various denominations. They are identical with the data appearing in *Economic Outlook* except Dutch data (which exclude certain transfer payments).

c) *Overall balance.* Most national presentations emphasize some form of overall balance which either takes the form of a balance of monetary movements (akin to the balance on non-monetary transactions) or a balance on official reserve transaction (akin to net transaction of monetary authorities). The concepts used in major OECD countries are related to those shown in *Economic Outlook* as follows:

i) The overall balance as defined under various denomination in France, Italy and Japan corresponds fairly closely to the balance on "non-monetary transactions", except insofar as special transactions are generally not shown below the line.
ii) The United States "official reserve transactions balance", which was dropped by the US authorities in 1976, corresponds to net transactions of monetary authorities with non-scheduled repayment of US Government assets (including sales of foreign obligations to foreigners) and the allocations of Special Drawing Rights recorded above the line.
iii) The overall balance as defined in the United Kingdom, Canada and Germany approximates the concept of "net transactions of monetary authorities" except insofar as special transactions are included above the line.

D. *Inconsistencies in balance of payments recording*

A uniform accounting framework does not by itself ensure consistent recording of each transaction by the two participating countries. In fact, transactions of the same type among OECD countries do not sum to zero as theoretically they should. The sum of any particular balance for all OECD countries should therefore not be taken to be the balance of the OECD area with the rest of the world, and developments in this type of aggregate should be interpreted with due regard to the possibility that the net effect of inconsistent recording may vary over time.

a) On current account, inconsistencies arise in connection with the classification, coverage and timing of transactions. In particular, the border-line between merchandise and service transactions tends to be blurred in the case of government purchases, while the distinction between services and transfers may be interpreted differently by the two partner countries in the case of workers' remittances. A cross-classification problem also arises from official indemnification payments to private recipients. Discrepancies occur in the estimation of freight on imports (which tends to exceed the corresponding receipts) and in the recording of foreign travel (where receipts tend to exceed payments). Further discrepancies result from the inclusion in some countries' data of re-invested earnings of foreign subsidiaries, which are not covered in most countries' statistics and the existence of flags of convenience (transportation receipts of ships sailing under such flags are normally omitted). The expansion of services such as engineering and construction, which are difficult to identify statistically, has added considerably to the world discrepancy of recorded invisibles. Timing discrepancies are due to the fact that the recording of countries' imports of goods by receiving countries occurs much later than the recording of corresponding exports by the supplying countries. Some, but by no means all, of these inconsistencies cancel out at the current balance level. For a more detailed discussion of the various problems arising out of the inconsistent recording of invisible transactions, see the Technical Notes at the end of "OECD Invisibles in 1960's", *Economic Outlook – Occasional Studies,* July 1970.

b) On capital account asymmetries result in the first place from the inconsistent recording of current transactions (the net effect of which produces an offsetting entry under unrecorded transactions). Further asymmetries result from the principle of allocating changes in assets and liabilities according to the domestic sector involved, which implies that international transactions between two different sectors (e.g. banks on one side and non-banks on the other) will be reported under different headings by the two partner countries. Inconsistent recording of official settlements will also be reflected in the capital account.

c) On net transactions of monetary authorities, the sum of all OECD countries' balances will not reflect the change in the area's net official positions *vis-à-vis* the rest of the world, due to:

i) Changes in total official gold holdings resulting from the incorporation of newly mined gold or sales to private users.
ii) The inclusion in official reserve assets of the dollar holdings in the Eurodollar market or of claims in currencies the counterpart of which is not reported as a liability to monetary authorities.

USE OF CURRENT NATIONAL STATISTICS

Unless otherwise stated, all the national statistics quoted in the *Economic Outlook* are taken from the *Main Economic Indicators* published monthly by the OECD *(MEI).* Starting in September 1967, supplements to *MEI* have been published describing in detail the sources and methods of these statistics. The following notes are therefore confined to some methodological points of special importance for the understanding of the text.

Index of industrial production (Country tables and charts)

The figures shown include, as far as possible, mining, manufacturing and public utilities (electricity, gas and water), but exclude construction. The exact coverage, the weighting system and the methods of calculation vary from country to country but the divergences are less important than in the case of the price and wage indices[6]. With the exception of certain smaller countries, the indices are seasonally adjusted by national statistical offices using different methods usually derived from the US Bureau of the Census Method II.

Merchandise trade

As a general rule, data on merchandise exports and imports are taken from OECD foreign trade statistics as published in MEI and the OECD *Statistics of Foreign Trade Bulletin*[7]. Except where indicated in the

6. A quarterly supplement to *Main Economic Indicators* provides an internationally comparable selection of industrial output indices for branches and a number of categories.
7. The OECD publishes three sets of foreign trade bulletins. *Series A* – Monthly Bulletin of Foreign Trade; *Series B* – Trade by commodities (in values only), analysis by main trading areas and individual OECD Member countries; and *Series C* – Trade by commodities (in quantities and values), detailed analysis in the form of trade matrices.

country notes to these publications, exports are recorded fob frontier and imports cif frontier. United States exports exclude Department of Defence shipments. Seasonally adjusted data are calculated by the Department of Economics and Statistics, except for the United States, Japan, Germany, France, the United Kingdom and Canada, where national estimates are used[8].

Data for total OECD trade by areas differ from the aggregates published in *Statistics of Foreign Trade*, Series A, on account of adjustments for inconsistent recording of intra-OECD trade from the import and export sides respectively, arising from differences in timing, coverage and valuations, and inconsistencies in the seasonal adjustment of individual series. These adjustments could only be applied to major aggregates of OECD trade: where relevant, they are signalled by a footnote.

Seasonal adjustment

As noted above, some of the series used have been seasonally adjusted by the Department of Economics and Statistics, notably in the area of foreign trade but also in some cases for industrial production, unemployment and consumer prices. The method used is the X-11 variant of the US Bureau of the Census Method II as programmed for computer use by that Agency. (Further details may be found in Technical Paper No. 15 of the Bureau of the Census). Where appropriate, series are also corrected for calendar variations.

8. For the United States, Canada, France and Germany, data seasonally adjusted by the Department of Economics and Statistics are published in *Statistics of Foreign Trade*.

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For OECD Sales Agents see inside back cover page

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