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SM/83/57
Correction 1

CONTAINS CONFIDENTIAL INFORMATION

April 14, 1983

To: Members of the Executive Board

From: The Secretary

Subject: European Monetary System - Realignment of Exchange Rates

The following corrections have been made in SM/83/57 (4/1/83):

Page 11, Table 5, Unit labor costs in manufacturing: new figures for Denmark, France, Germany, Ireland, and Italy.

Page 13: Table 7 revised.

Page 14: Table 8 revised.

Page 15: Table 9 revised.

Corrected pages are attached.

Att: (4)

Other Distribution:
Department Heads

Table 5. Cost and Price Developments in EMS Countries, 1978-83

(In per cent at annual rates)

	1978	1979	1980	1981	1982	1983 1/
GNP/GDP deflators						
Belgium	4.2	4.1	4.1	5.2	8.0	7.2
Denmark	9.5	7.5	8.7	10.8	10.4	8.0
France	9.5	10.3	11.8	12.0	12.2	9.0
Germany	4.2	4.0	4.5	4.2	4.8	4.0
Ireland	10.7	13.2	14.0	17.7	17.9	11.6
Italy	13.9	15.9	20.7	18.4	17.5	15.1
Netherlands	5.2	4.0	5.1	5.4	6.1	2.0
Consumer prices						
Belgium	4.5	4.5	6.6	7.6	8.7	7.2
Denmark	10.1	9.6	12.3	11.7	10.0	8.0
France	9.1	10.8	13.3	13.3	11.8	8.8
Germany	2.7	4.1	5.5	5.9	5.3	3.8
Ireland	7.6	13.2	18.2	20.4	17.1	11.5
Italy	12.1	14.7	21.2	17.8	16.5	14.5
Netherlands	4.1	4.2	6.5	6.7	5.9	2.5
Unit labor costs in manufacturing						
Belgium	1.2	2.4	5.5	4.1	-1.1	1.1
Denmark	5.7	8.3	6.6	2.5	8.2	5.4
France	8.2	7.6	12.1	11.3	10.1	7.7
Germany	4.6	1.6	7.3	4.3	3.3	2.1
Ireland	9.4	12.7	18.4	9.0	9.8	6.9
Italy	11.0	10.1	12.3	16.0	16.2	14.7
Netherlands	2.7	3.8	4.5	2.1	4.1	-0.4

Sources: IMF, International Financial Statistics; and IMF staff estimates.

1/ Staff projections excluding realignment effects.

Table 6. Changes in Consumer Prices Adjusted for Exchange Rate Developments in the EMS Countries from 1979-I to 1982-IV 1/

(In percentage points)

	Belgium	Denmark	France	Germany	Ireland	Italy	Netherlands
Belgium	-	-10.0	-14.7	-11.4	-43.3	-30.7	-12.3
Denmark 2/	10.0	-	-4.7	-1.4	-33.3	-20.7	-2.3
France	14.7	4.7	-	3.3	-28.6	-16.0	2.4
Germany	11.4	1.4	-3.3	-	-31.9	-19.3	-0.9
Ireland	43.3	33.3	28.6	31.9	-	12.6	31.0
Italy	30.7	20.7	16.0	19.3	-12.6	-	18.4
Netherlands	12.3	2.3	-2.4	0.9	-31.0	-18.4	-

Source: IMF, International Financial Statistics.

1/ The figures indicate the difference of consumer price inflation rates adjusted for exchange rate changes between the row and the column country. A positive number thus indicates a greater rate of price increase in a common currency in the row country than in respective column country. A devaluation would lower all figures in the row of the devaluing country.

2/ November 1982 figure for the consumer price index used.

Table 7. Movements in Relative Costs and Exchange Rates
Since the Inception of the EMS

(In per cent)

		Belgium	Denmark	France	Germany	Ireland	Italy	Netherlands	EMS 1/	World 1/
Belgium	(a)	--	3.5	1.0	-19.7	-7.6	5.8	-17.2	-10.1	-13.3
	(b)	--	-7.5	-22.3	-4.2	-30.2	-32.1	...	-12.1	-12.3
Denmark	(a)	-3.4	--	-2.4	-22.4	-10.7	2.3	-20.0	-13.5	-17.5
	(b)	8.2	--	-16.0	3.6	-24.5	-26.6	8.1	-3.8	-4.8
France	(a)	-1.0	2.4	--	-20.5	-8.5	4.7	-18.1	-12.2	-18.9
	(b)	28.7	19.0	--	23.3	-10.1	-12.7	28.7	15.4	14.4
Germany	(a)	24.5	28.9	25.8	--	15.1	31.8	3.1	23.6	8.5
	(b)	4.4	-3.5	-18.9	--	-27.1	-29.2	4.4	-13.8	-10.9
Ireland	(a)	8.2	12.0	9.3	-13.1	--	14.5	-10.4	1.0	-12.5
	(b)	43.2	32.4	11.2	37.1	--	-2.8	43.1	24.9	22.2
Italy	(a)	-5.5	-2.2	-4.5	-24.1	-12.7	--	-21.8	-18.1	-23.6
	(b)	47.4	36.3	14.5	41.2	2.9	--	47.3	36.9	33.9
Netherlands	(a)	20.8	25.0	22.0	-3.0	11.6	27.8	--	9.2	2.8
	(b)	...	-7.5	-22.3	-4.2	-30.1	-32.1	--	-10.1	-11.1

Source: IMF staff estimates.

1/ Weights used in EMS and world calculations for all countries other than Ireland correspond to those used in calculating relative unit labor costs (IFS). Trade-related weights were used in the calculations for Ireland.

Note: (a) Changes in spot rates or effective rates based on weights used in the calculation of relative unit labor costs between March 13, 1979, and March 18, 1983. A negative number indicates a depreciation of the row country vis-à-vis the country (or country group) in the column heading. (b) Changes in unit labor costs in domestic currency in country listed in row by comparison with developments in unit labor costs in domestic currencies in countries (or country groups) listed in headings between 1979-I and 1982-IV. A negative figure indicates a gain in "competitiveness" unadjusted for exchange rate changes.

SM/83/57
Corrected: 4/13/83

Table 8. Indicators of Competitiveness in Manufacturing as Measured by Unit Labor Costs Adjusted for Exchange Rate Changes in Relation to EMS Partner Countries 1/

(1979 I = 100)

		Belgium	Denmark	France	Germany	Ireland	Italy	Netherlands
1975		100.4	104.1	108.1	86.8	108.6	122.8	98.5
1976		102.4	106.9	108.2	91.2	99.1	109.3	97.4
1977		105.1	105.0	99.9	95.1	98.5	108.5	99.4
1978		102.0	101.7	98.5	98.8	100.7	105.2	97.6
1979		98.3	102.1	101.6	98.3	106.7	104.8	96.6
1980		94.5	93.0	107.2	97.4	115.7	104.7	93.2
1981		92.3	89.1	109.8	96.0	117.4	109.0	89.5
1982		81.7	85.9	105.3	99.3	121.8	111.8	94.6
1983	2/	76.8	85.7	104.3	98.1	122.6	122.1	92.1
1978	IV	100.1	102.2	99.8	100.2	101.2	102.1	96.2
1979	I	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	II	98.7	105.5	103.0	97.0	102.9	106.1	95.7
	III	97.8	103.7	100.7	97.8	112.1	109.2	94.6
	IV	96.9	99.4	102.7	98.5	112.0	103.9	96.3
1980	I	94.6	93.6	104.1	98.8	112.6	105.7	93.5
	II	95.2	93.7	107.7	98.3	113.1	101.6	92.5
	III	93.6	93.8	107.7	96.5	114.9	105.3	94.8
	IV	94.6	90.7	109.3	95.9	122.1	106.2	91.8
1981	I	93.8	90.9	112.6	92.7	114.1	111.9	90.1
	II	92.3	87.9	108.8	97.0	115.4	109.2	88.6
	III	91.0	90.0	109.7	95.6	117.6	111.6	88.8
	IV	92.2	87.7	108.1	98.9	123.9	103.3	90.7
1982	I	89.7	89.6	110.4	94.8	115.4	110.0	93.5
	II	79.4	87.7	109.3	98.3	121.6	110.2	93.6
	III	80.0	84.3	101.2	102.0	122.6	113.1	94.2
	IV	77.5	82.1	100.3	102.2	127.4	114.0	96.9

Sources: IMF Data Fund; and staff estimates.

1/ Weighted by EMS country weights used in calculating IFS relative unit labor costs for 14 industrial countries. The weights for Ireland are estimated on the basis of trade weights; as it measures unit wage costs the series for Ireland is therefore not fully comparable with those of other countries. Data for Italy are based on national figures not yet included in the Data Fund.

2/ Illustrative projection based on exchange rates for the remainder of 1983 frozen at the level for the first three weeks of February 1983 and staff projections of unit labor costs (in national currencies) in 1983, as given in Table 5.

Table 9. Indicators of Competitiveness in Manufacturing as Measured by Unit Labor Costs Adjusted for Exchange Rate Changes in Relation 14 Industrial Partner Countries 1/

(1979 I = 100)

		Belgium	Denmark	France	Germany	Ireland	Italy	Netherlands
1975		99.5	101.9	105.5	87.7	107.5	118.3	96.6
1976		100.8	101.3	103.3	89.0	97.2	104.2	94.5
1977		104.0	100.8	97.3	93.2	97.9	105.0	97.3
1978		101.0	99.3	96.8	96.8	100.0	102.8	96.1
1979		98.0	101.8	101.4	98.6	103.7	104.4	96.5
1980		92.6	90.1	104.3	95.9	103.6	102.5	91.4
1981		86.5	79.1	97.9	86.5	96.1	97.9	82.2
1982		76.5	76.3	92.7	86.9	97.6	98.6	85.4
1983	2/	72.9	78.7	93.7	87.6	103.1	108.5	84.1
1978	IV	99.3	101.1	98.5	98.6	101.0	100.5	95.3
1979	I	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	II	98.0	104.3	101.8	96.6	100.3	104.7	94.9
	III	96.9	102.6	100.0	97.5	106.5	107.9	93.8
	IV	97.1	100.3	103.8	100.2	108.1	105.0	97.2
1980	I	94.3	93.8	104.4	99.7	105.2	106.1	93.7
	II	93.7	91.0	105.2	96.9	102.5	100.0	91.3
	III	91.7	90.8	104.7	95.2	102.6	103.0	92.9
	IV	90.9	85.0	103.1	91.8	104.2	100.8	87.9
1981	I	87.8	80.7	101.1	85.1	92.6	101.1	83.1
	II	86.1	77.4	96.7	86.6	93.0	97.7	81.1
	III	85.0	79.0	96.8	85.1	95.7	99.0	80.8
	IV	87.2	79.4	97.2	89.1	102.9	93.7	83.9
1982	I	83.8	79.0	96.8	84.1	93.6	97.0	84.7
	II	74.3	77.4	95.5	85.8	97.6	96.7	84.3
	III	74.8	74.5	89.4	88.3	97.0	99.6	84.9
	IV	72.9	74.3	89.3	89.3	102.2	100.9	87.8

Sources: IMF Data Fund; and staff estimates.

1/ Weighted by the country weights used in calculating IFS relative unit labor costs for 14 industrial countries. The weights for Ireland are estimated on the basis of trade weights; as it measures unit wage costs the series for Ireland is therefore not strictly comparable with those of other countries. Data for Italy are based on national figures not yet included in the Data Fund.

2/ Projections based on exchange rates for the remainder of 1983 frozen at the level of the first three weeks of February 1983; unit labor costs in national currencies for EMS countries are assumed to develop as in Table 5; for other countries according to staff projections as of March 1983.

Table 10. Unemployment Rate and GNP/GDP Growth Rate in EMS Countries

(In per cent at annual rates)

	1978	1979	1980	1981	1982
Unemployment rate 1/					
Belgium	8.4	8.7	9.4	11.6	13.7
Denmark	7.3	6.1	7.0	9.2	9.7
France	5.2	5.9	6.3	7.3	8.6
Germany	3.8	3.3	3.4	4.9	6.8
Ireland 2/	8.3	7.4	8.2	10.0	11.6
Italy	7.2	7.7	7.6	8.4	9.1
Netherlands	4.2	4.2	4.9	7.3	10.5
Growth rate of real GNP/GDP					
Belgium	3.0	2.0	2.4	-1.2	-0.7
Denmark	1.9	3.7	-1.1	0.1	2.6
France	3.8	3.3	1.1	0.4	1.5
Germany	3.6	4.0	1.8	-0.2	-1.2
Ireland	5.1	2.1	2.3	0.3	-0.5
Italy	2.7	4.9	3.9	0.1	-0.3
Netherlands	2.4	2.3	0.9	-1.1	-0.9

Sources: National sources; and staff estimates.

1/ These figures are not strictly comparable across countries.
2/ End of April figures; by the end of 1982 the unemployment rate was estimated to be 14 per cent.