

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES

ROOM C-120

01

SM/86/209

CONTAINS CONFIDENTIAL  
INFORMATION

August 20, 1986

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: European Monetary System - Realignment of Exchange Rates

There is attached for the information of the Executive Directors a paper on the recent realignment of exchange rates within the European Monetary System (EMS).

Mr. Hadjimichael (ext. 8794) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:  
Department Heads



INTERNATIONAL MONETARY FUND

European Monetary System--Realignment of Exchange Rates

Prepared by the European Department

(In consultation with other Departments and  
the Office in Europe)

Approved by P. de Fontenay

August 19, 1986

Introduction

On August 2, 1986, the Ministers and Central Bank Governors of the EC member countries decided on an adjustment of central rates within the European Monetary System (EMS), which became effective on August 4, 1986. Notifications to the Fund of this adjustment by the countries participating in the exchange rate mechanism of the EMS have been distributed to the Board. The communiqué issued by the Monetary Committee of the European Communities following the realignment is presented in Appendix I. It sets out new central rates which entail a downward adjustment of 8 percent in the bilateral central rates of the Irish pound vis-à-vis the currencies of the other countries that participate in the exchange rate mechanism of the EMS. All other bilateral central rates remained unchanged from the levels set in the realignment of April 6, 1986. The notional ECU central rates for the pound sterling and the Greek drachma were lowered by 7.2 percent and 1 percent, respectively, to reflect developments in the market rates of these currencies since the realignment of April 1986. As a result of these adjustments, the central rate of the Irish pound in terms of the ECU declined by 6.8 percent while the central rates of the other currencies in the exchange rate mechanism of the EMS increased by about 1.3 percent in terms of the ECU.

Table 1 compares this realignment with the nine preceding ones and sets out the new ECU central rates. The new bilateral central rates and intervention limits, which came into effect on August 4, 1986, are shown in Table 2. The realignment was carried out at the request of the Irish authorities who had viewed with concern the decline in external competitiveness stemming from the recent sizable appreciation of the Irish pound against the currencies of the United Kingdom and the United States, which together account for about 50 percent of Ireland's total external trade. Section II of this paper discusses the background to the realignment, while Section III presents the staff appraisal.

## II. Background

The external position of Ireland has strengthened considerably over the last few years, with the deficit on current account transactions falling from 14.7 percent of GNP in 1981 to an estimated 3.5 percent of GNP in 1985 (Table 3). Export performance has been strong over this period, reflecting for the most part an expansion of capacity in a few high-technology industries. The growth in domestic demand has been subdued, thus restraining the growth in the volume of imports, but also contributing--together with other factors--to a persistent rise in unemployment which by 1985 reached 17 1/2 percent of the labor force (Table 4).

Throughout this period Ireland has experienced a relatively high rate of increase in hourly labor earnings, especially by comparison with the average rate of increase in the other countries participating in the exchange rate mechanism of the EMS (Chart 1). However, until about the middle of 1985, the nominal effective exchange rate (trade-weighted) of the Irish pound tended to decline, mainly on account of the strength of the U.S. dollar. Consequently, Ireland's external competitiveness vis-à-vis the 16 major trading partners remained broadly stable in terms of relative hourly earnings in manufacturing, adjusted for exchange rate changes, and showed some improvement in terms of relative unit labor costs (Charts 1 and 2).

Subsequently, the Irish pound began to appreciate in nominal effective terms, largely as a result of the weakening of the U.S. dollar and the pound sterling, leading to some erosion of the earlier gains in competitiveness. Nevertheless, for 1985 as a whole, relative hourly earnings, expressed in common currency terms, were only slightly higher than in 1981. Moreover, relative unit labor costs in manufacturing remained considerably lower than in 1981, reflecting Ireland's comparatively strong productivity performance which, however, was due in large part to labor shedding and a shift in the structure of production toward industries that make limited use of labor inputs. <sup>1/</sup> Exports of manufactures in 1985 grew by about 7 percent, broadly in line with the estimated growth in export markets. This compared with gains in market shares averaging about 7 percent per annum during 1981-1984.

The improvement in Ireland's external current account position, which continued in the first half of 1986 mainly on account of a strengthening in the terms of trade, has not been matched by significant progress in reducing the serious domestic imbalances. In particular,

---

<sup>1/</sup> As the growth in labor productivity was exceptionally large in 1983-1984 (Table 4), movements in relative unit labor costs in that period may overstate the underlying improvement in competitiveness. For this reason, in assessing developments in competitiveness, it is important to also take into account developments in relative hourly earnings.

the Exchequer borrowing requirement has been lowered only modestly since 1981, and in 1985 it was still equivalent to 12.9 percent of GNP while the total public sector borrowing requirement was 15.7 percent of GNP. While the proportion of the public sector borrowing requirement that is met from domestic nonmonetary resources has tended to rise (Table 5), recourse to foreign borrowing has remained sizable and the external public debt has risen to the equivalent of 67 percent of GNP by the end of 1985.

Developments in the Irish economy in 1985 and early 1986 were reviewed in some detail in the staff report for the 1986 Article IV consultation with Ireland (SM/86/163, 7/3/86), which was considered by the Executive Board on July 25, 1986. At that meeting Directors stressed that the public finances remained a cause of serious concern. Directors also underscored the importance of improvements in competitiveness as a means of strengthening the external account and creating employment opportunities for the rapidly growing labor force. While generally agreeing with the emphasis placed by the Irish authorities on domestic adjustment, reduction of costs, and disinflation as the appropriate strategy to improve competitiveness, several Directors emphasized that this approach is preconditioned on greater wage and fiscal restraint and increased efficiency of the economy. Some Directors, noting the continued vulnerability of the external current account, encouraged the Irish authorities to keep the adequacy of the exchange rate under scrutiny.

Meanwhile, the appreciation of the Irish pound vis-à-vis the pound sterling and the U.S. dollar has continued, reflecting the general weakness of these currencies in foreign exchange markets (Chart 3). The exchange rate against the pound sterling moved up from £Ir = £0.864 at the end of 1985 and about £Ir 1 = £0.87 on the eve of the EMS realignment of April 1986 to £Ir 1 = £0.95 on August 1, 1986, bringing the cumulative appreciation of the Irish pound vis-à-vis the pound sterling since the middle of 1985 to 21 percent. The cumulative appreciation vis-à-vis the U.S. dollar from mid-1985 had been on the order of 37 percent. Although the Irish pound weakened within the EMS, moving from the upper half of the EMS band in April-June 1986 to well into the lower half of the band in late July, its trade-weighted effective exchange rate continued to rise and by August 1, 1986 it was 5 percent higher than at the time of the EMS realignment of April 1986 and about 12.5 percent higher than in mid-1985. Data for the various indicators of competitiveness in the manufacturing sector are available only up to the first quarter of 1986 (Table 6). These data show that in the year to the first quarter of 1986 Ireland's competitive position relative to all the main trading partners deteriorated by 6.5 percent both in terms of hourly earnings and in terms of unit labor costs. Ireland's competitive position is likely to have worsened further during the second quarter of 1986.

In the period preceding the realignment of April 1986 Ireland had experienced a large outflow of capital by the nonbank private sector, which had been offset by net external borrowing by the Exchequer and net

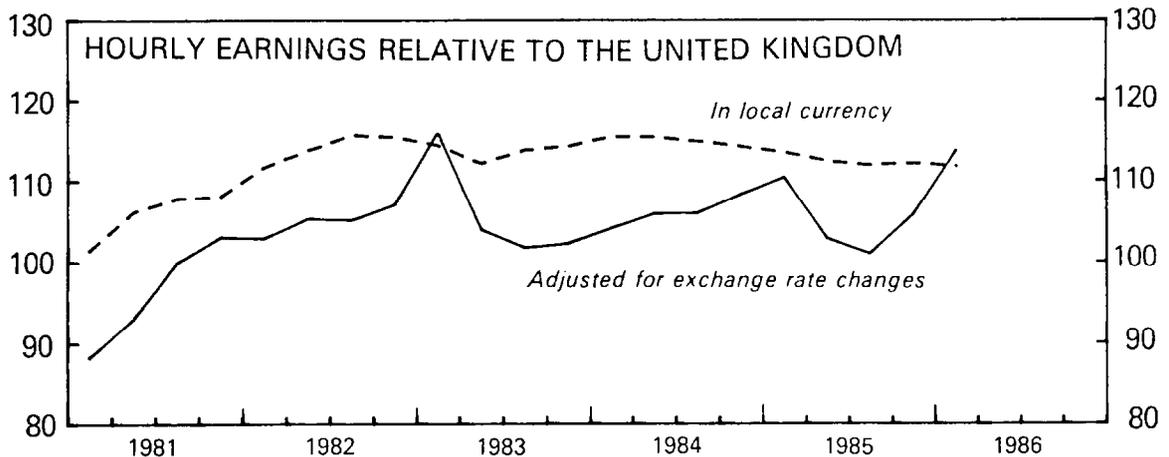
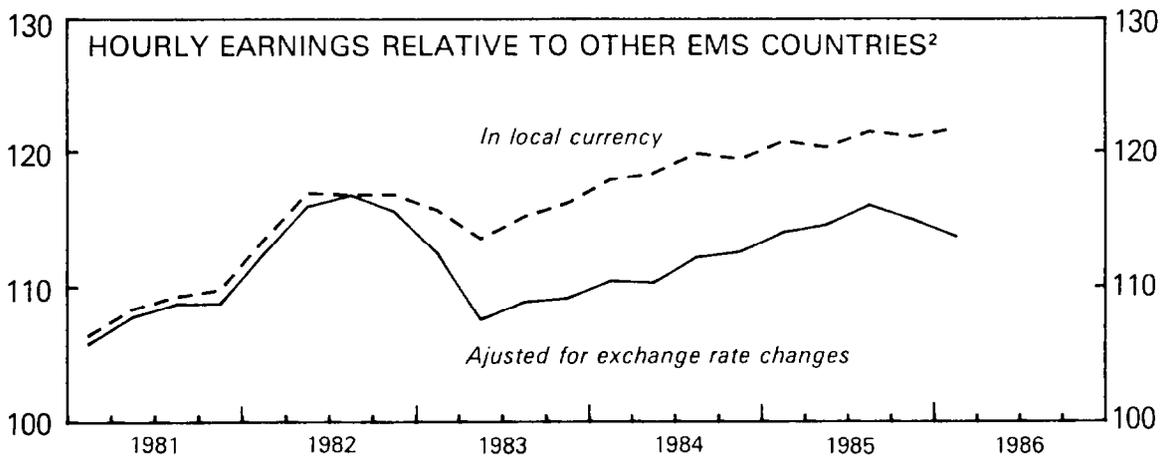
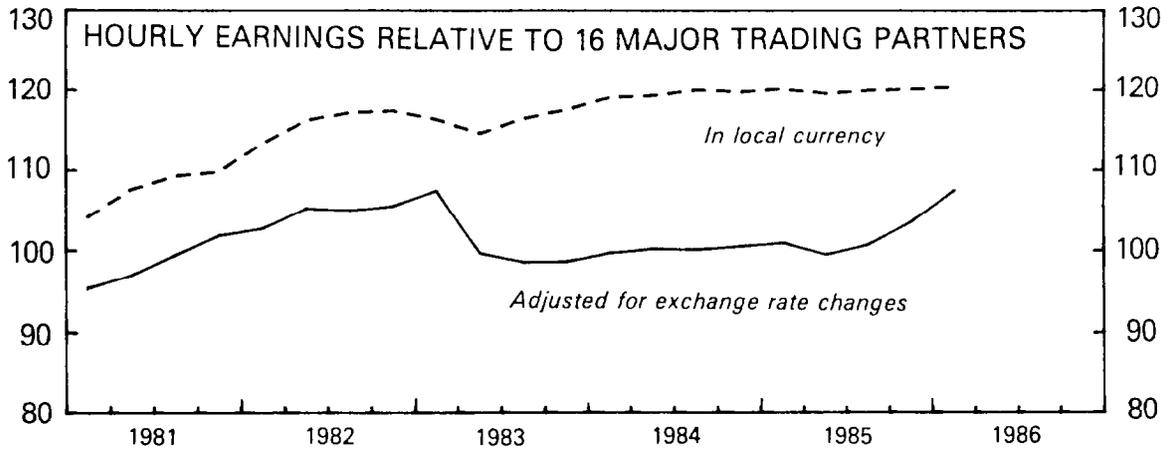
inflows through financial institutions. Gross official external reserves rose by SDR 106 million during the first half of 1986 to SDR 2,795 million. Significant outflows of funds occurred again from late June onwards and gross official external reserves declined by SDR 142 million in July, notwithstanding official capital inflows of about SDR 120 million. Conditions in financial markets were somewhat unsettled in the period immediately preceding the realignment and money market interest rates, which had fallen considerably between April and June, tended to firm (Chart 4). In the first sixteen days following the realignment, the Irish pound moved to the upper half of the EMS band and its exchange rate fell by 5.8 percent against the pound sterling, 5.2 percent against the U.S. dollar and 5.0 percent in effective trade-weighted terms.

### III. Staff Appraisal

In the four months following the EMS realignment of April 1986, the Irish pound appreciated markedly in average trade-weighted terms, reflecting the general weakening of the U.S. dollar and the pound sterling. This development, coming on top of the earlier modest appreciation of the Irish pound since mid-1985, worsened the competitive position of the Irish traded goods sector and threatened to undermine Ireland's ability to maintain market shares at home and abroad and to exacerbate the already high level of unemployment. To redress the situation, the Irish authorities have decided, with the consent of their partners in the European Communities, to devalue the Irish pound by 8 percent in the context of the EMS. This realignment is welcome. However, if it is to have a lasting effect in restoring competitiveness, it needs to be complemented by intensified efforts to contain the growth in domestic costs and eliminate the adverse differential between the rate of pay increases in Ireland and that in her main trading partners. Moreover, it remains essential for Ireland to take decisive action to strengthen the public finances and to alleviate structural rigidities in the labor market and in the economy in general. In the absence of such action, the outlook for job creation and for the resumption of balanced economic growth will remain unsatisfactory.

### CHART 1 IRELAND INDICATORS OF RELATIVE HOURLY EARNINGS<sup>1</sup>

(In the manufacturing sector, 1980=100)

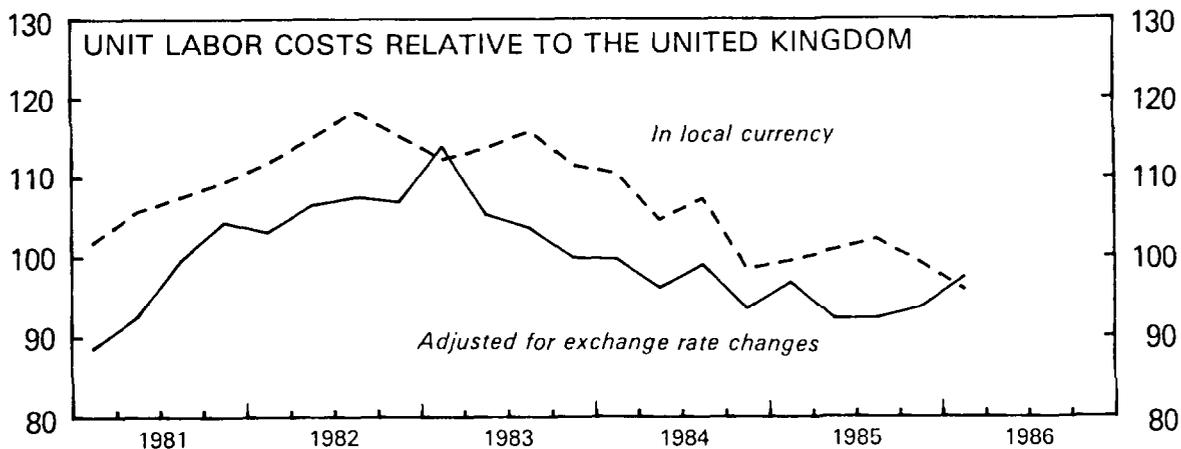
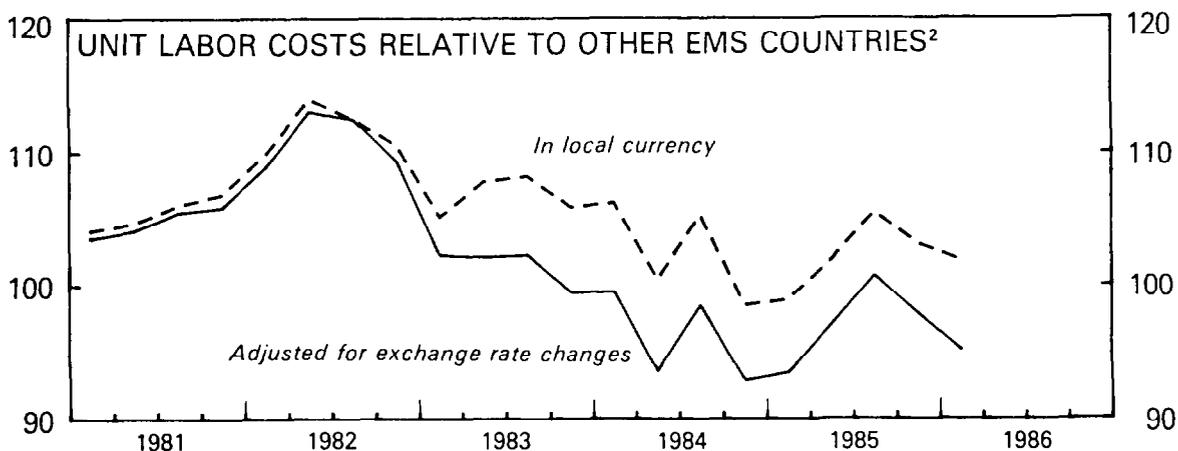
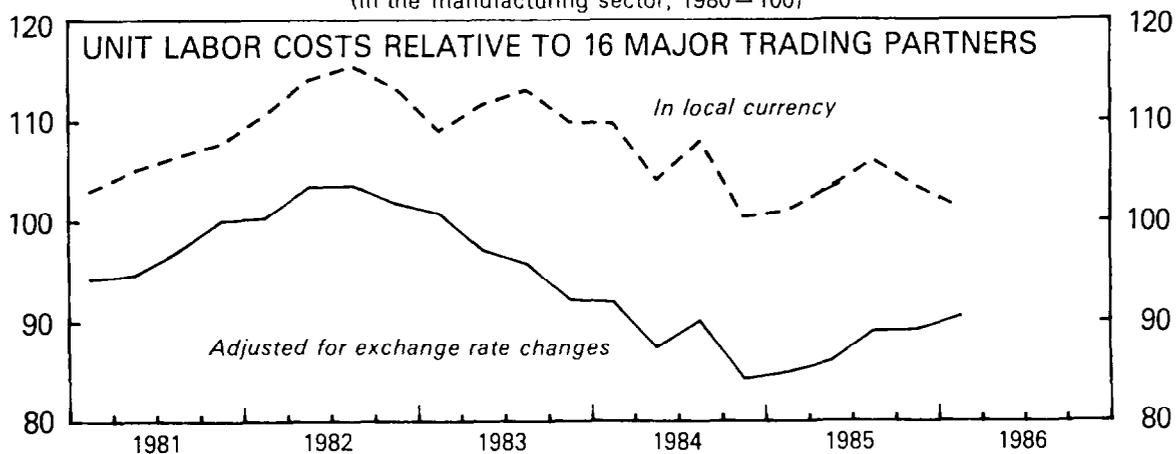


Sources: IMF, *International Financial Statistics*, and Research Department; data provided by the Irish authorities; and staff estimates.  
<sup>1</sup> Irish index relative to the weighted average (based on total competitiveness weights) of the corresponding index of Ireland's trading partners.  
<sup>2</sup> Excluding the United Kingdom and Greece, which do not participate in the exchange rate mechanism of the EMS.



### CHART 2 IRELAND INDICATORS OF RELATIVE UNIT LABOR COSTS<sup>1</sup>

(In the manufacturing sector, 1980=100)



Sources: IMF, *International Financial Statistics*, and Research Department; data provided by the Irish authorities; and staff estimates.

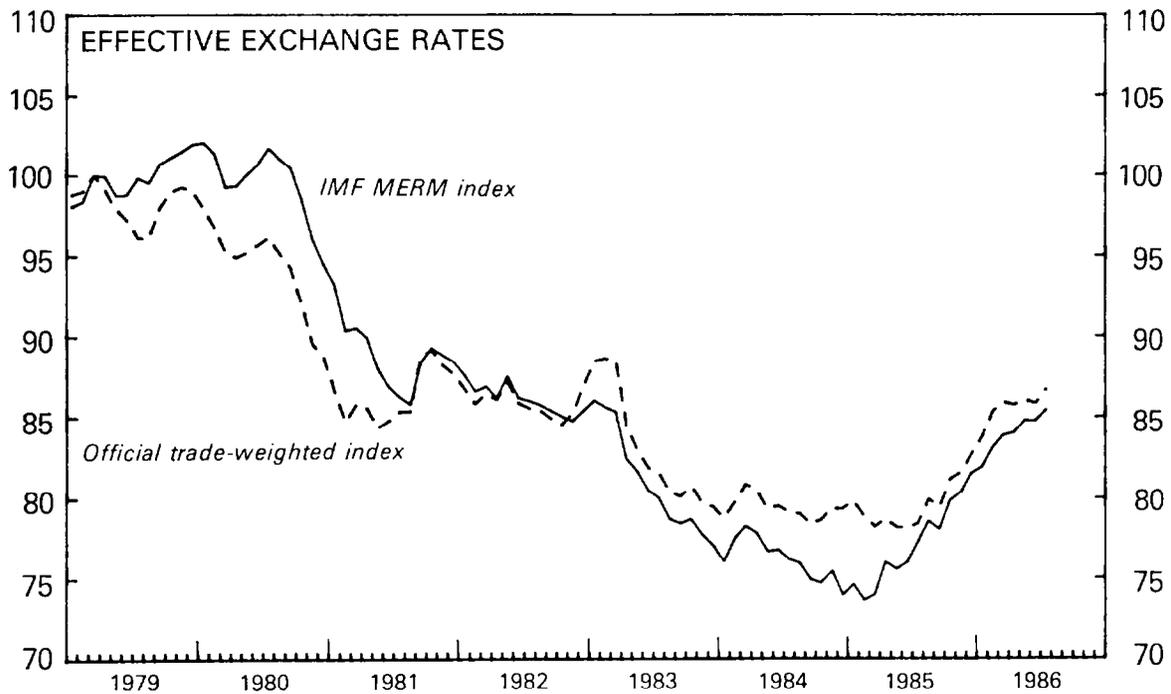
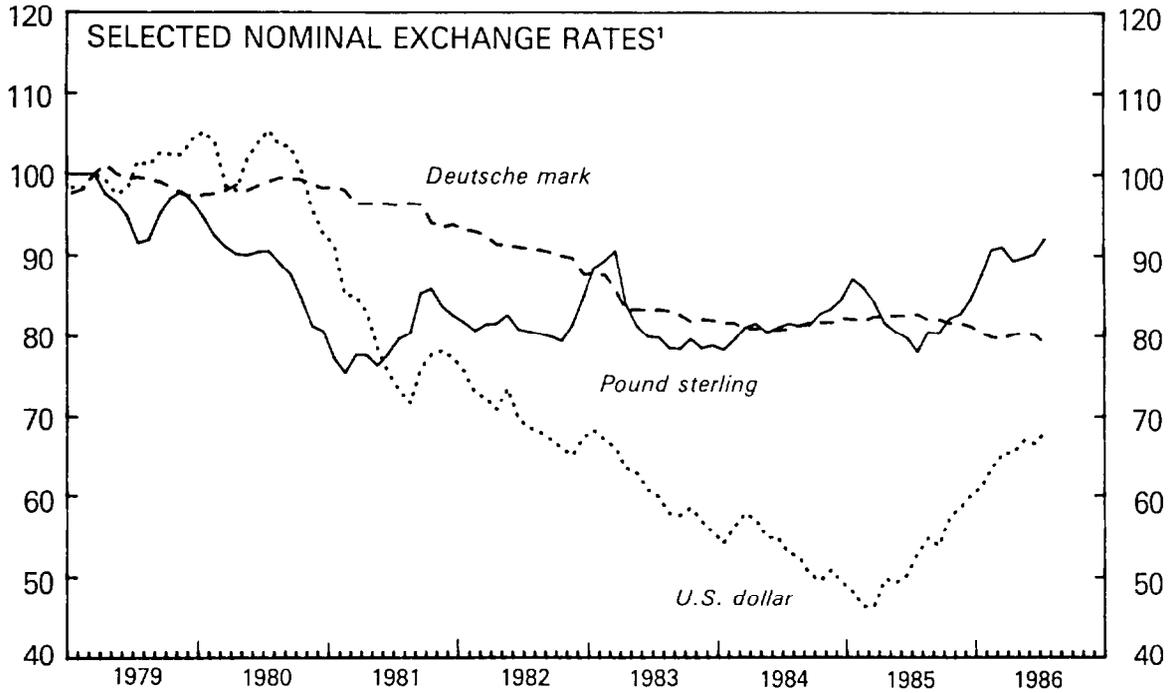
<sup>1</sup> Irish index relative to the weighted average (based on total competitiveness weights) of the corresponding index of Ireland's trading partners.

<sup>2</sup> Excluding the United Kingdom and Greece, which do not participate in the exchange rate mechanism of the EMS.



### CHART 3 IRELAND EXCHANGE RATE DEVELOPMENTS

(March 1979 = 100)

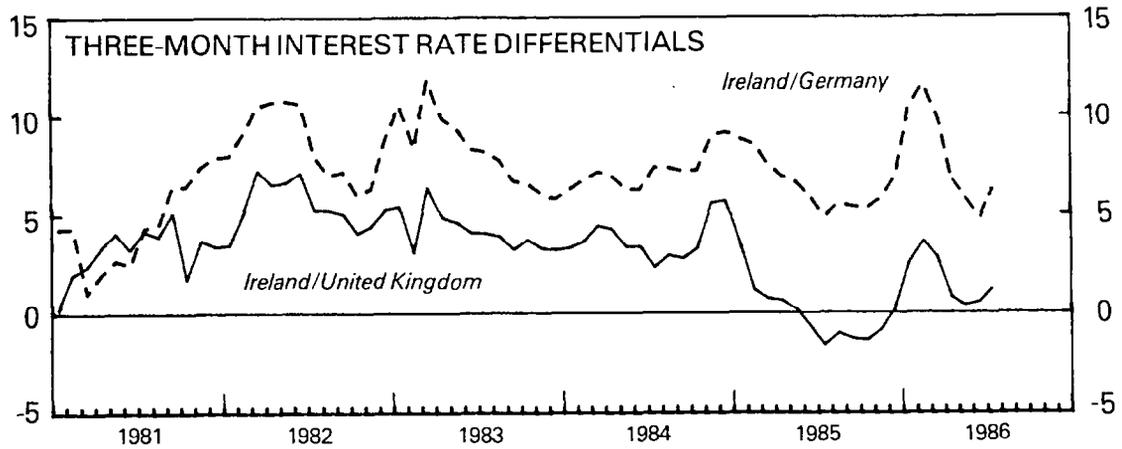
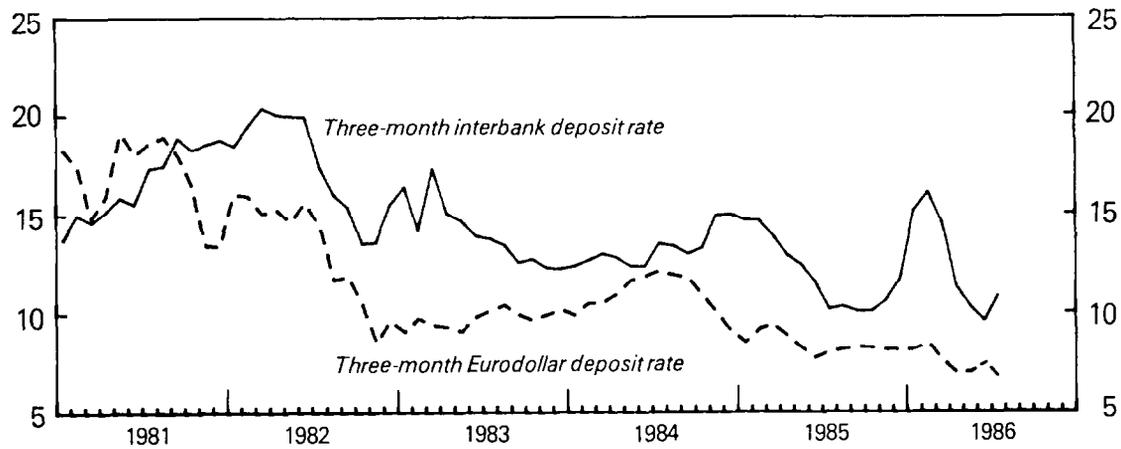
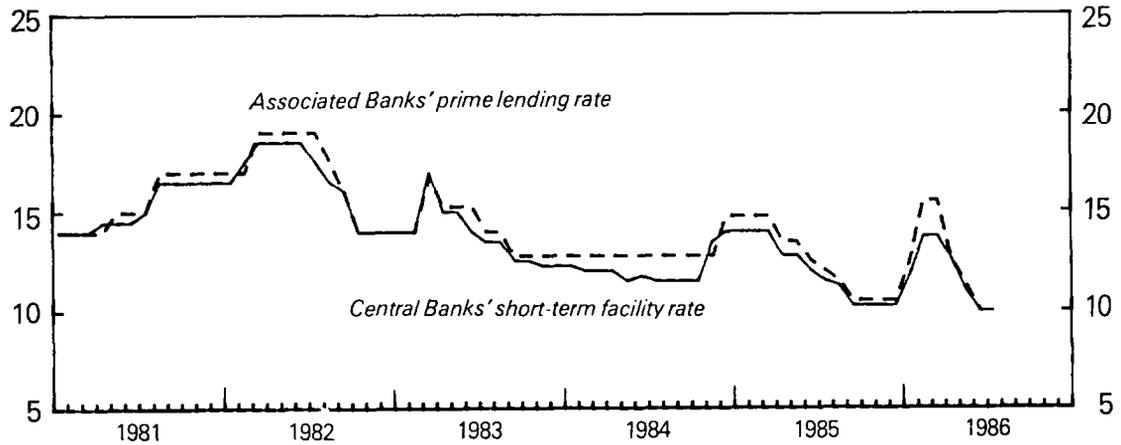


Sources: Central Bank of Ireland, *Quarterly Bulletin*; and IMF, *International Financial Statistics*.

<sup>1</sup> In units of foreign currency per Irish pound.



CHART 4  
IRELAND  
INTEREST RATE DEVELOPMENTS  
(In percent)



Sources: Central Bank of Ireland, *Quarterly Bulletin*, IMF, Data Fund; and data provided by the Irish authorities.



Table 1. EMS Realignments

	9/24/79	11/30/79	3/23/81	11/5/81	2/22/83	6/14/82	3/21/83	7/22/85	4/7/86	8/4/86
Percentage changes in bilateral central rates <sup>1/</sup>										
Belgium-Luxembourg franc					-8.5		1.5	2.0	1.0	
Danish krone	-2.9	-4.8			-3.0		2.5	2.0	1.0	
Deutsche mark	2.0			5.5		4.25	5.5	2.0	3.0	
French franc				-3.0		-5.75	-2.5	2.0	-3.0	
Italian lira			-6.0	-3.0		-2.75	-2.5	-6.0		
Irish pound							-3.5	2.0		-8.0
Netherlands guilder				5.5		4.25	3.5	2.0	3.0	
			<u>ECU central rates</u>		<u>Central rate change</u>					
			Previous	New	in terms of ECUs per currency					
					In percent					
Realignment of August 4, 1986										
Belgian-Luxembourg franc			43.6761	43.1139						1.3
Danish krone			7.91896	7.81701						1.3
Deutsche mark			2.13834	2.11083						1.3
French franc			6.9628	6.87316						1.3
Italian lira			1,496.21	1,476.95						1.3
Irish pound			0.712956	0.764976						-6.8
Netherlands guilder			2.40935	2.37833						1.3
Pound sterling <sup>2/</sup>			0.630317	0.679256						-7.2
Greek drachma <sup>2/</sup>			135.659	137.049						-1.0

Source: EC Commission.

<sup>1/</sup> Calculated as the percentage change against the group of currencies whose bilateral parities remained unchanged in the realignment; except in the case of the realignments of March 21, 1983 and of July 22, 1985, where, all currencies having moved, bilateral shifts need to be derived by combining the relative movements of the two currencies concerned.

<sup>2/</sup> The pound sterling and the Greek drachma are included in the calculations of the ECU; notional central rates have to be ascribed to both for the calculation of the divergence indicator, and for other reasons related both to the workings of the EMS and the Common Agricultural Policy.

Table 2. EMS: Bilateral Central Rates and Intervention Limits

(Effective August 4, 1986)

		100 Belgian/ Luxembourg francs	100 Danish kroner	100 deutsche marks	100 French francs	1000 Italian lire	1 Irish pound	100 Nether- lands guilders
Belgian/ Luxembourg franc	L	...	564.10	2089.00	641.55	31.0	57.6420	1854.05
	C	...	551.536	2042.52	627.278	29.1912	56.3598	1812.78
	U	...	539.30	1997.20	613.35	27.490	55.1060	1772.45
Danish krone	L	18.543	...	378.76	116.32	5.62	10.4511	336.16
	C	18.1312	...	370.332	113.732	5.29268	10.2186	328.676
	U	17.727	...	362.09	111.20	4.985	9.9913	321.36
Deutsche mark	L	5.007	27.615	...	31.41	1.5175	2.8220	90.770
	C	4.8959	27.0028	...	30.7109	1.42917	2.75934	88.7526
	U	4.787	26.400	...	30.030	1.3460	2.6980	86.78
French franc	L	16.3045	89.925	333.03	...	4.9410	9.1890	295.57
	C	15.9419	87.9257	325.617	...	4.65362	8.98480	288.991
	U	15.5870	85.97	318.37	...	4.3830	8.7850	282.56
Italian lira	L	3637.4	20062.0	74295.0	22817.0	...	2050.03	65941.0
	C	3425.7	18894.0	69970.6	21488.6	...	1930.71	62100.2
	U	3226.3	17794.0	65898.0	20238.0	...	1818.34	58480.0
Irish pound	L	1.8147	10.0087	37.0644	11.3830	0.549952	...	32.8940
	C	1.77431	9.78604	36.2405	11.1299	0.517943	...	32.1644
	U	1.7348	9.5683	35.4358	10.8825	0.487799	...	31.4465
Netherlands guilders	L	5.6420	31.1175	115.235	35.39	1.710	3.1800	...
	C	5.51640	30.4251	112.673	34.6032	1.61030	3.10903	...
	U	5.3935	29.7475	110.1675	33.8325	1.5165	3.0400	...

Source: EC Commission.

Legend: L = Lower intervention limit; C = Bilateral central rate; and U = Upper intervention limit.

Table 3. Ireland: External Developments

	1981	1982	1983	1984	1985	1986
	(In millions of Irish pounds)					
Merchandise exports, f.o.b.	4,789	5,592	6,813	8,696	9,527	...
Merchandise imports, c.i.f.	<u>-6,487</u>	<u>-6,712</u>	<u>-7,334</u>	<u>-8,893</u>	<u>-9,372</u>	<u>...</u>
Balance of trade (In percent of GNP)	-1,698 (-15.7)	-1,120 (-9.1)	-522 (-3.9)	-197 (-1.3)	155 (1.0)	...
Net invisibles (including transfers)	<u>103</u>	<u>-196</u>	<u>-404</u>	<u>-693</u>	<u>-704</u>	<u>...</u>
Current account balance (In percent of GNP)	-1,595 (-14.7)	-1,316 (-10.7)	-925 (-6.9)	-890 (-6.1)	-549 (-3.5)	-165 <u>1/</u> (...)
Net capital inflows	<u>1,603</u>	<u>1,406</u>	<u>1,152</u>	<u>858</u>	<u>745</u>	<u>212</u>
Of which:						
Public sector <u>2/</u>	1,437	1,379	968	819	956	652 <u>1/</u>
Financial sector	12	132	606	368	285	380 <u>1/</u>
Nonbank private sector	45	3	-96	-130	41	(-848 <u>1/</u> )
Net residual	117	-232	-253	-339	-630	(
Overall balance	<u>9</u>	<u>91</u>	<u>227</u>	<u>-32</u>	<u>196</u>	<u>47</u>
	(Annual percentage changes)					
Memorandum items:						
Volume of exports	-0.4	7.2	12.1	18.2	6.5	1.1 <u>3/</u>
Agricultural exports	-19.3	-3.1	3.2	13.5	2.6	...
Manufactured exports	10.6	11.4	13.3	18.8	6.7	...
Market for manufactured exports	4.4	8.7	7.4	5.1	7.1	...
Volume of imports	2.1	-3.4	3.2	10.3	3.4	2.8 <u>3/</u>
Unit value of exports	16.1	11.1	8.8	8.4	2.8	-4.4 <u>4/</u>
Unit value of imports	18.8	7.3	4.7	9.7	2.3	-7.3 <u>4/</u>
Terms of trade	-2.3	3.5	3.9	-1.2	0.4	3.1 <u>4/</u>
Effective (trade-weighted) exchange rate	-8.5	-0.6	-3.3	-4.4	0.2	8.9 <u>5/</u>
External official reserves:						
In millions of SDRs <u>6/</u>	2,291	2,389	2,534	2,412	2,689	2,653 <u>7/</u>
In months of imports	(3.0)	(3.3)	(3.8)	(3.2)	(3.0)	(...)
External public debt (in percent of GNP)	47.0	56.4	67.3	68.7	66.7	...
Debt service ratio (in percent)	10.8	19.2	16.9	18.1	15.0	...

Sources: IMF, International Financial Statistics, and Research Department; and data provided by the Irish authorities.

1/ Estimates for the first half of 1986.

2/ Borrowings by the Central Government and state-sponsored bodies.

3/ First five months of 1986 relative to the same period in the previous year.

4/ First four months of 1986 relative to the same period in the previous year.

5/ First seven months of 1986 relative to the same period in the previous year.

6/ Gold valued at SDR 35 per ounce; end-of-period data.

7/ End of July 1986.

Table 4. Ireland: Selected Economic Indicators

(Percentage changes)

	1981	1982	1983	1984	1985 <u>1/</u>	1986 <u>2/</u>
GNP at current market prices	20.4	13.8	9.1	9.1	6.1	9.8
GNP deflator	18.3	16.3	10.7	6.6	6.1	7.3
Real GNP	1.8	-2.3	-1.4	2.3	--	2.3
Components of demand at constant prices						
Private consumption	1.4	-5.8	-2.0	-0.5	1.5	3.5
Public consumption	0.5	3.9	-0.1	-1.2	0.8	1.0
Gross fixed investment	5.3	-5.0	-9.1	-1.8	1.5	3.0
Total final domestic demand	2.2	-3.9	-3.5	-1.0	1.4	2.9
Stockbuilding <u>3/</u>	<u>0.1</u>	<u>0.7</u>	<u>1.3</u>	<u>2.0</u>	<u>-1.8</u>	<u>0.5</u>
Total domestic demand	2.4	-3.4	-2.4	0.7	-0.3	3.3
Exports of goods and services	2.0	5.5	10.5	16.9	6.8	4.5
Imports of goods and services	<u>1.7</u>	<u>-3.1</u>	<u>4.7</u>	<u>9.5</u>	<u>3.0</u>	<u>4.8</u>
Foreign balance <u>3/</u>	-0.1	4.9	2.8	4.0	2.6	--
GDP	2.6	0.8	--	4.4	2.1	3.3
Net factor income from abroad <u>4/</u>	-0.8	-3.1	-1.4	-2.5	-2.3	-1.3
Memorandum items (annual averages):						
Consumer prices	20.4	17.1	10.4	8.6	5.4	3.0
Unemployment rate <u>4/</u>	10.1	12.1	14.7	16.3	17.4	...
Nonagricultural wage bill	19.5	14.0	7.7	8.5	6.5	7.5
Property income <u>5/</u>	25.3	9.6	17.3	13.1	21.5	12.0
Manufacturing production	2.7	-0.3	7.4	13.3	2.7	5.0
Average hourly earnings in manufacturing	16.4	14.4	11.6	10.6	7.3	6.0
Output per man-hour in manufacturing	5.0	5.1	14.0	15.5	6.2	6.0
Unit wage costs in manufacturing	10.9	8.8	-2.1	-4.2	1.0	--

Sources: Department of Finance, Current Economic Trends, May 1986; Central Statistics Office, National Income and Expenditure, 1983 and 1984, August 1985; and data provided by the Irish authorities.

1/ Provisional.

2/ Official forecasts as of May 1986.

3/ Contribution to growth in GNP.

4/ Registered unemployed as a percentage of labor force ("live register").

5/ Trading profits, professional earnings, interest, dividends, and rents.

Table 5. Ireland: Selected Financial Indicators

	1981	1982	1983	1984	1985	1986
(In percent of GNP)						
Central government <u>1/</u>						
Expenditure	61.4	64.0	61.0	60.7	59.9	58.0 <u>2/</u>
Revenue	<u>45.6</u>	<u>48.2</u>	<u>47.3</u>	<u>48.3</u>	<u>47.1</u>	<u>46.1</u> <u>2/</u>
Exchequer borrowing requirement (EBR)	15.9	15.8	13.8	12.4	12.9	11.8 <u>2/</u>
Public sector borrowing requirement <u>1/</u>	20.3	20.0	17.7	16.2	15.7	14.2 <u>2/</u>
Total central government debt	96.5	106.1	118.4	128.0	131.0	...
Of which:						
Foreign debt	35.0	42.9	52.2	54.0	54.2	...
Interest on foreign government debt	2.3	4.2	4.3	4.8	5.0	...
(In percent of EBR)						
Total monetary financing	83.7	69.8	58.3	70.6	47.8	...
Domestic bank financing	10.9	11.7	11.1	28.4	3.7	...
Total foreign financing	72.9	58.1	47.2	42.2	44.1	...
Total nonmonetary financing	16.3	30.2	41.7	29.4	52.2	...
(In percent; end-of-period data unless otherwise indicated)						
Interest rates						
Short-term facility rate, Central Bank	16.5	14.0	12.3	14.0	10.3	10.0 <u>3/</u>
Three-month deposit rate, interbank market <u>4/</u>	18.8	15.5	12.3	15.0	11.7	10.8 <u>3/</u>
Prime lending rate, Associated Banks <u>5/</u>	17.0	14.0	12.8	14.8	10.5	10.0 <u>3/</u>
Yield on long-term government securities <u>6/</u>	18.3	14.5	14.2	14.9	11.8	10.3 <u>3/</u>

Sources: Department of Finance, Budget, various issues; Central Bank of Ireland, Quarterly Bulletin; IMF, Data Fund; and data provided by the Irish authorities.

1/ Figures for 1981 and 1982 are not directly comparable with data for subsequent years because of the transfer of some functions to autonomous bodies in 1983.

2/ Post-budget estimate.

3/ End of July.

4/ Average monthly data for the last month of the year.

5/ Overdrafts and term loans of up to one year for AAA customers; maximum rate.

6/ Fifteen years to maturity.

Table 6a. Ireland: Indicators of Competitiveness in Manufacturing 1/

(Relative to 16 major industrial trading partners)

	Relative Unit Labor Costs <u>2/</u>		Relative Wholesale Prices <u>2/</u>		Relative Hourly Earnings <u>2/</u>	
	Level (1980=100) (1)	Change (In percent year on year) (2)	Level (1980=100) (3)	Change (In percent year on year) (4)	Level (1980=100) (5)	Change (In percent year on year) (6)
1981	96.5	-3.5	97.1	-2.9	98.5	-1.7
1982	102.3	6.0	100.3	3.2	104.7	6.3
1983	96.5	-5.7	98.8	-1.5	101.1	-3.4
1984	88.4	-8.3	97.2	-1.5	100.1	-0.9
1985	87.3	-1.3	98.1	0.8	101.2	1.1
1985						
1st qtr.	85.0	-7.6	98.3	1.4	101.0	1.3
2nd qtr.	86.0	-1.6	96.9	-0.4	99.5	-0.7
3rd qtr.	89.0	-1.2	99.7	0.6	100.7	0.6
4th qtr.	89.2	5.8	99.5	1.8	103.6	3.1
1986 <u>2/</u>						
1st qtr.	90.5	6.5	103.4	5.2	107.5	6.5

Sources: IMF, International Financial Statistics, and Research Department; data provided by the Irish authorities; and staff estimates.

1/ Changes in Ireland relative to the weighted geometric average change in partner countries (based on total competitiveness weights). The weights reflect the importance of partner countries in Ireland's trade in manufactures in 1980, adjusted for their significance in other Irish export markets, including partner countries' own consumption.

2/ Adjusted for exchange rate changes.

Table 6b. Ireland: Indicators of Competitiveness in Manufacturing 1/  
(Relative to the EMS partners) 2/

	Relative Unit Labor Costs <u>3/</u>		Relative Wholesale Prices <u>3/</u>		Relative Hourly Earnings <u>3/</u>	
	Level (1980=100) (1)	Change (In percent year on year) (2)	Level (1980=100) (3)	Change (In percent year on year) (4)	Level (1980=100) (5)	Change (In percent year on year) (6)
1981	104.7	4.7	104.9	4.9	107.8	7.8
1982	110.9	5.9	108.1	3.1	115.2	6.9
1983	101.5	-8.5	105.6	-2.3	109.5	-4.9
1984	96.1	-5.3	106.1	0.5	111.4	1.7
1985	97.3	1.2	107.8	1.7	114.9	3.2
1985 1st qtr.	93.4	-6.0	107.4	1.7	114.0	3.2
2nd qtr.	97.0	3.6	108.1	2.5	114.6	3.9
3rd qtr.	100.7	2.3	108.5	2.1	116.0	3.4
4th qtr.	97.9	5.4	107.3	0.4	114.9	2.1
1986 1st qtr.	95.1	1.8	106.9	-0.5	113.7	-0.3

Source: See Table 6a.

1/ Changes in Ireland relative to the weighted geometric average change in partner countries (based on total competitiveness weights). The weights reflect the importance of partner countries in Ireland's trade in manufactures in 1980, adjusted for their significance in other Irish export markets, including partner countries' own consumption.

2/ Excluding the United Kingdom and Greece which do not participate in the exchange rate mechanism of the EMS.

3/ Adjusted for exchange rate changes.

Table 6c. Ireland: Indicators of Competitiveness in Manufacturing

(Relative to the United Kingdom)

	Relative Unit Labor Costs 1/		Relative Wholesale Prices 1/		Relative Hourly Earnings 1/	
	Level (1980=100) (1)	Change (In percent year on year) (2)	Level (1980=100) (3)	Change (In percent year on year) (4)	Level (1980=100) (5)	Change (In percent year on year) (6)
1981	96.3	-4.0	96.4	-3.7	96.1	-4.3
1982	106.0	10.0	101.6	5.4	105.1	9.4
1983	105.7	-0.3	103.9	2.3	105.9	0.8
1984	97.0	-8.1	104.1	0.2	106.1	0.1
1985	93.7	-3.5	103.7	-0.4	105.0	-1.1
1985 1st qtr.	96.8	-2.9	109.7	7.5	110.4	6.1
2nd qtr.	92.2	-4.0	101.9	-1.4	102.8	-3.0
3rd qtr.	92.2	-6.9	100.1	-4.1	101.0	-4.7
4th qtr.	93.6	0.2	103.2	-3.4	105.8	-2.3
1986 1st qtr.	97.5	0.7	110.1	0.4	113.7	3.0

Source: See Table 6a.

1/ Adjusted for exchange rate changes.

MONETARY COMMITTEE  
OF THE EUROPEAN COMMUNITIES

Brussels, 2 August 1986

COMMUNIQUE

On 2 August 1986, the Ministers and Central Bank Governors of the EEC member countries have by mutual agreement, in a common procedure involving the Commission and on the basis of a proposal from the Monetary Committee, decided on an adjustment of central rates within the European Monetary system as follows:

The Irish pound is adjusted downward by 8 percent vis-à-vis all other participating currencies.

The new ECU central rates are the following:

(in units of national currency per ECU)

LIT	1,476.95
FF	6.87316
DN	2.11083
HFL	2.37833
BFR	43.1139
LFR	43.1139
DKR	7.81701
IRL	0.764976
UKL	0.679256
DRA	137.049

The new bilateral central rates and the compulsory intervention rates will be communicated by the monetary authorities in time for the opening of foreign exchange markets on 4 August, 1986.

