

**Commission of
European
Communities**

**Directorate-
General
for Economic
and Financial
Affairs**



**2
1973**

The economic situation in the Community

**Commission of the European Communities
Directorate-General for Economic and Financial Affairs
Directorate for National Economies and Economic Trends
Rue de la Loi 200, 1040 Brussels**

EUROPEAN COMMUNITIES

COMMISSION

**The Economic Situation
in the Community**

JULY 1973

Contents

	<i>Page</i>
I. The overall situation	3
A. <i>Short-Term economic policy</i>	5
B. <i>Recent developments</i>	8
1. The world economic situation	8
2. The economic situation in the Community	8
a. External demand	9
b. Internal demand	9
c. Production and employment	10
d. Balance of the markets	11
C. <i>Outlook</i>	16
1. Outlook for world economic activity	16
2. Outlook for the Community	17
II. The situation in each of the Community countries	23
A. <i>Denmark</i>	25
1. Recent developments	25
2. Outlook	27
B. <i>Germany</i>	33
1. Recent developments	33
2. Outlook	38
3. The economic situation in West Berlin	39
C. <i>France</i>	45
1. Recent developments	45
2. Outlook	50
D. <i>Ireland</i>	57
1. Recent developments	57
2. Outlook	59
E. <i>Italy</i>	65
1. Recent developments	65
2. Outlook	70
F. <i>Netherlands</i>	77
1. Recent developments	77
2. Outlook	82
G. <i>Belgo-Luxembourg Economic Union</i>	89
Belgium	89
1. Recent developments	89
2. Outlook	94
Luxembourg	101
1. Recent developments	101
2. Outlook	102
H. <i>United Kingdom</i>	109
1. Recent developments	109
2. Outlook	112
Annex	
Council Resolution of 28 June 1973 on further measures to be taken against inflation	118

I. THE OVERALL SITUATION

At the beginning of the summer there has been a vigorous economic upswing throughout the Community, though it varied in degree from country to country. Rapidly growing world demand led to a strong increase in exports to non-member countries. The growth of internal demand accelerated in the whole Community. The propensity to invest of enterprises gained in buoyancy. Stocks were being replenished and the implementation of investment programmes was speeded up. Expenditure on consumption also provided appreciable stimuli to production and employment.

Internal production expanded very vigorously, entailing a rise in the degree of capacity utilization. In a number of member countries and industries delivery dates lengthened and there were even first signs of certain goods tending to be in short supply.

Employment rose in all member countries. In some of them there were increasing complaints from trade and industry about a growing shortage of manpower.

The upward movement of prices was generally very rapid, and in a number of member countries it even gathered additional momentum in the spring. While for a number of agricultural products the worst increases seem to be over, the upsurge of prices in the other areas has remained very strong. Much of this is due to increasing strains between supply and demand in most member countries. But there is also the continued vigour of the rise in costs, which is apparent not only in raw materials and primary products but also in the other cost elements, including wages.

In all Community countries the money supply has maintained its rapid growth in recent months, which since the spring has been due mainly to a very sharp expansion of lending.

Notwithstanding the restrictive measures taken in most member countries, and despite the weakening of the competitive position of the European Community as a result of the appreciation of most Community currencies, all the indications are that the economic upswing will remain appreciable in the second half of 1973.

The rapid economic growth enjoyed by the trading partners of the enlarged Community suggests that exports will rise considerably. Gross fixed asset formation may even accelerate further in a number of Member States, and stockbuilding too will probably still provide appreciable stimuli to economic activity. The expansion of expenditure on consumption in terms of money will remain rapid.

Production and employment will therefore go on rising. Real gross Community product in 1973 should grow by some 6 %, compared with 4 % in 1972 and 3 % in 1971. The pressure of prices will still be heavy in the next few months. The anti-inflationary measures taken or planned will take some time to produce effects, especially at the level of consumer prices.

A. Short-term economic policy

The analysis of the economic situation undertaken in the following chapters shows that all member countries are experiencing a vigorous upswing; in some of them there are already signs of overheating.

Production and incomes are growing rapidly and the employment situation has improved everywhere. At the same time the upward movement of prices has been very fast throughout the Community; in a number of member countries it even gathered additional speed in the spring. The increase in consumer prices on a year earlier currently ranges from 6.7 % (Luxembourg) to 11.7 % (Ireland).

Despite the anti-inflationary measures that have been taken in all member countries, the upward movement of prices has thus maintained its alarming rate. This rate threatens to become twice as high as that in the guidelines for 1973 laid down by the Council last October. The Commission in its communication to the Council of 20 June 1973 on the economic policy to be pursued in 1973 and on the preparation of budgets for 1974 therefore warned against the great dangers of the temptation to adopt a passive or fatalistic attitude towards inflation. Inflation is indeed increasingly besetting modern societies. It has considerable harmful effect which are perhaps not felt as much as they might be because of present prosperity, but which are no less real for all that: jamming of economic and monetary machinery; misallocation of resources; purchase of material assets as a hedge; distortion of the distribution of incomes and wealth to the disadvantage of the weakest groups; creation of a climate of uncertainty and tension in relations between the main groups of society. Inflation therefore jeopardizes continued economic growth and full employment. It could cause member countries again to take different lines on costs and prices and consequently engender political reactions inconsistent with the Community approach. It therefore seriously endangers the establishment of economic and monetary union; such union is necessary not only to confer upon Europe a sufficient ability to act in the economic policy field but also to safeguard and raise the living

standards of all sections of the population in all parts of Europe.

In the circumstances the major concern of the Community's short-term economic policy must be the joint battle against inflation. With this in mind the Council, at its meeting of 28 June 1973 in Luxembourg, adopted on a proposal from the Commission a resolution on further measures to be taken against inflation, laying down that those already introduced to combat inflationary tendencies must be maintained and strengthened by concerted action. This should be done with due regard to the situation of each individual member country.

The resolution, which is reproduced in Annex I to this Survey, provides that all Member States are to pursue an economic policy aimed at slowing down the rise in prices. The Member States in which capacity utilization is already high are to maintain and extend their measures to curb the expansion of overall demand. The other Member States (United Kingdom, Italy and Ireland) are to make sure that the growth of overall demand does not become excessive. In particular, they are to make their policies selective enough for available resources to be channelled into industrial investment. It must be borne in mind here that it is precisely in these three countries that the share of industrial investment in gross national product is lowest in the Community.

On monetary and credit policy, the resolution provides that the rate of expansion of the money supply (money and quasi-money) is to be reduced substantially by the end of 1973. To this end, the growth in the volume of lending must be restricted, with special attention to be paid to curbing the expansion in consumer credit, building loans and loans to finance the purchase of real property. Interest rate policy must be consistent with the above-mentioned aims of monetary policy. This means that Member States must do nothing to counteract the consequent upward tendency of interest rates. At the same time, Member States are to ensure, through appropriate measures of interest rate or tax policy, that the level of savings remains

high or is raised. This appears to be very important in present circumstances as the strengthening of inflationary tendencies has in recent years entailed a sharp fall in real interest rates on savings deposits. For the foreign sector to leave sufficient scope for a restrictive monetary and credit policy, Member States are to continue their joint action to prevent undesirable inflows of capital from abroad; if necessary, they are to tighten the rules designed to regulate international capital flows and neutralize their undesirable effects on domestic liquidity. In the resolution the Committee of Governors of Central Banks was invited to carry out a quarterly review of the growth in the money supply in the Member States.

In the field of budgetary policy the resolution provides that in Italy and Ireland, where unemployment is highest in the Community, there is still a need for budgetary policy measures to stimulate the economic upswing, but these should be implemented in such a way that they do not jeopardize the moves to moderate the rate of price increases. The other Member States are to rely on stringent budget management in the second half of 1973. They are to cancel budget appropriations, if need be, and refrain from any new projects which might require major additional expenditure, in an effort to ensure that the growth of actual spending in 1973 comes as close as possible to the guidelines laid down by the Council in October 1972. In the draft budgets for 1974 the growth of expenditure is to be curbed in all Member States. As a general rule, it should be lower than the rate expected for 1973. Only in those countries where budgetary expenditure has over the last two years grown less rapidly than gross national product in terms of value, a somewhat higher rate may be envisaged, but it will still have to be lower than the growth of GNP in money terms expected for 1974. The net borrowing requirement of the central government is to be reduced in all Member States by comparison with the outturn for 1973.

If it proves impossible to cut back the increase in expenditure sufficiently, a rise in taxation will have to be considered. The Governments of the Member States are to ensure that during the second half of 1973 and in 1974 the regional and local authorities too manage their budgets in a way compatible with the requirements of

short-term economic policy. Any budget deficits are to be financed by methods compatible with the above-mentioned objectives of monetary and credit policy. Except in Member States still faced with particularly marked underemployment (i.e., Ireland and Italy), these deficits are therefore to be financed by long-term borrowing. In addition, Member States are to endeavour to consolidate short-term debts and, where appropriate, issue long-term loans on the capital market, the proceeds of which are to be frozen with the central bank so as to siphon off liquidity. The Budgetary Policy Committee was invited to examine every three months the extent to which the budgets are being implemented in accordance with the guidelines laid down by the Council.

As the upward thrust of prices must also be combated by structural action, Member States are to reinforce the measures to reduce regional imbalances and to improve the structure of employment. They are to coordinate their policies at Community level to direct a considerable proportion of new corporate investment preferably towards those Community areas where the level of economic development is lowest.

In addition, the resolution provides that full effect is to be given to the arrangements to promote the domestic supply of agricultural products of which there currently is a shortage on the Community's markets, to the measures to promote competition at Community level and to the moves to eliminate obstacles to intra-Community trade in foodstuffs and medicinal products. At the same time Member States are to continue to apply strictly national legislation concerning the prohibition or control of resale price maintenance and of agreements or practices constituting a refusal to sell, measures designed to ensure the publishing of prices, and unfair competition. Member States are to exchange information in the Short-term Economic Policy Committee on the results of price measures and are to consult each other on the most appropriate means of solving specific problems of common interest in good time. In this context, the Committee is to give priority to examining the possibility of setting up in all Member States a system requiring enterprises above a certain size to notify price increases in advance and the possibility of strengthening State supervision of

price formation in order to prevent abuses on important markets.

There is no doubt that the measures set out above by themselves moderate the rise in prices. It is therefore essential that these measures be supported, in the field of prices and incomes, by the attitude of those responsible for the economy and that of the two sides of industry. Under the resolution, Member States are therefore to encourage an appropriate attitude by suitable measures.

However, the Council was unable to reach agreement on additional commercial policy measures to combat inflation, on the lines of those proposed by the Commission in October and again in January.

At the end of October the Council intends to make a fresh examination of the results achieved in combating inflation.

Following the dollar crisis in February and March and the decisions taken by the Council of the European Communities on 19 March, the foreign exchange markets calmed down, but this state of affairs was of short duration. Since May speculation has flared up again. The dollar dropped sharply despite an appreciable improvement in the United States balance of trade. The Community currencies in the joint float consequently moved appreciably beyond the limits of the 2.25 % margin on either side of their parity or their central rate against the dollar. From about mid-June the German mark, which initially had been at the bottom of the Community band, stood at the top. Following consultations with the partner countries and the Commission, the German Government on 29 June decided to revalue the mark by 5.5 %.

Such exchange rate changes are perfectly compatible with the exchange rate system currently in operation in the Community. In the period leading up to economic and monetary union in Europe, fixed but adjustable exchange rates are an essential element of the process of integration. As long as economic trends are not sufficiently in line, it is impossible to forego such exchange rate adjustments, which are the safety valve necessary to give the Community exchange rate system a high degree of credibility.

But there must be no overlooking the fact that the latest adjustment in the central rate of the German mark was due to speculative movements of capital rather than a fundamental disequilibrium on current account. Another factor may have been the expectation that the stabilization policy pursued by the Federal Government and the Bundesbank will succeed, entailing a possible shift of resources to exporting. In this respect the change in the central rate of the German mark constitutes a preventive measure backing up the domestic stabilization programme.

Of the three Community currencies floating independently, the lira showed hectic movements. In the first half of June the lira-dollar rate dropped sharply. However, after the Italian monetary authorities had taken measures to raise short-term interest rates and after the short-term monetary support mechanism had been activated in favour of Italy, the official lira rate improved again. The credit which the Member Countries' central banks made available to the Banca d'Italia by way of short-term monetary support totalled 1 562.5 million units of account. Furthermore, the German and French central banks granted an additional swap credit of \$ 1 000 million, with each providing half. The consultations on the economic situation of the beneficiary country which are to follow the grant of short-term monetary support started immediately in the Monetary Committee.

The decision by the United Kingdom, Ireland and Italy not to participate, for the time being, in the Community's narrower margins scheme does not reflect a vastly differing attitude of these countries towards the Community's present exchange rate mechanisms. The Governments of these countries have pointed out on several occasions, especially at the Council meeting of 11 March 1973, that they intended to join the system currently in force in the Community as soon as possible. Here, implementation of the proposals put forward by the Commission in its report to the Council of 27 June 1973 on the adjustment of short-term monetary support arrangements and the conditions for the progressive pooling of reserves could prove of major help, but participation of the three currencies in the Community exchange rate system must not be made to hinge on it.

B. Recent developments

1. The world economic situation

The world economic situation in recent months has reflected rapid economic expansion in the industrialized countries and a sharp acceleration in the growth of world trade. At the same time the upward thrust of prices has gained additional vigour. Never since the beginning of the fifties has there been such a pronounced worldwide tendency for prices to rise as at the moment. In addition to a sharp increase in costs and prices in the industrialized countries, there has been an appreciable advance in raw material prices owing to very heavy, and in part speculative, demand. With certain agricultural products in short supply, their prices have also climbed considerably. At the end of May 1973, the Reuter and Moody indexes were up 64 % and 31 % respectively on the year before (on a dollar basis).

In the *United States* expansion continued in the second quarter; real gross national product, which had risen by 2 % between the fourth quarter of 1972 and the first quarter of 1973, probably expanded by another ½ to 1 % in the second quarter. All components of demand other than purchases by the Federal administration grew rapidly. There was a particularly distinct increase in gross fixed asset formation by enterprises. As a result of the rise in incomes, private consumers' expenditure too expanded at a lively pace without, however, reaching the unusually high rate recorded in the first quarter (3.7 %). At the same time the upward movement of prices accelerated in the second quarter; the implicit price deflator for GNP rose by nearly 2 % compared with 1.6 % in the first quarter. Wholesale and retail prices climbed sharply. In May the consumer price index was 5.5 % higher than a year earlier. The expansion of exports has accelerated in recent months, mainly because costs have risen less than in the other industrialized countries and because of the effects of the repeated devaluations of the dollar. But there has also been the influence of high agricultural exports to state-trading countries and very large deliveries of uranium to Japan. At the same time the growth of imports slackened appreciably,

enabling the balance of trade to show a distinct improvement; in the second quarter there even was a slight surplus, for the first time since the first quarter of 1971.

In *Canada* rapid economic growth continued, helped by an expansionary economic policy. In the first half of the year real gross national product even expanded at a much faster rate than in the United States. The upward movement of prices has accelerated in recent months; in May, the consumer price index was up 5.5 % on a year earlier.

In *Japan*, too, rapid expansion has continued in recent months. Between the first and second quarters real gross national product rose by almost 3 %. The growth in investment was particularly rapid. The situation on the labour market tightened appreciably. The increased pressure of demand on domestic resources is being reflected in a faster rise in prices and costs and a considerable advance in imports.

In almost all *other parts of the industrialized world*, especially the European countries, the underlying expansion remained strong, boosted as it was by lively export demand and a considerable increase in domestic demand. Inflationary tendencies continued to be very heavy.

The buoyant trend of world trade also owed much to stronger import demand from the *developing countries*. Their foreign exchange reserves continued to rise owing to vigorous demand from the industrialized countries and the very rapid increase in raw material prices.

2. The economic situation in the Community

The main features of the current economic situation in the Community are rapidly increasing exports, a more lively expansion of internal demand, a particularly distinct upswing in corporate investment, accelerating economic growth, an improvement in the employment situation and persistence of the alarming upsurge in prices.

a) *External demand*

The value of the Community's exports to non-member countries has continued to rise at a lively pace in recent months, despite the effects of the appreciation of the currencies of most member countries. This reflects the buoyant trend of world demand generated by the faster expansion of domestic demand, particularly investment demand, in the industrialized countries. In the United Kingdom, Ireland and Italy, exports received additional stimuli from the de facto devaluation of the three currencies. Generally, export prices have hardened considerably for several months. Only exports to the United States showed a fall because the dollar devaluations have entailed a deterioration of the Community's competitive position.

b) *Internal demand*

In the spring the growth of internal demand gathered additional speed throughout the Community.

Gross fixed asset formation has become the most buoyant factor in internal demand, both in money and in real terms. The growth of *corporate investment* in particular has accelerated, for the propensity to invest of enterprises has risen markedly in most Member States. Because of the higher degree of capacity utilization and the distinct improvement in sales prospects, many enterprises expedited implementation of their investment programmes. The liquidity situation does not appear to have posed any major financing difficulties. In most member countries profits have risen again as growing demand has enabled increased costs to be passed on in prices. Bank loans too were relatively easy to obtain despite restrictive credit policies. In the United Kingdom and Italy, moreover, the margin of available liquidity widened temporarily because the introduction of value added tax brought a change in the timing of tax payments.

The results of the EEC investment survey carried out at the beginning of the spring at any rate suggest that industrial investment programmes for 1973 were revised upwards almost everywhere. Even in Luxembourg, the only member country in which capital expenditure

planned for 1973 is lower than the figure for a year earlier, there are signs of a distinct improvement in the propensity to invest.

Stockbuilding too has made a major contribution to general expansion in recent months. The rapid growth of final demand entailed a fall in industry's stock of finished products, but there was restocking in the distributive trades. In addition, the tendency for stocks of raw materials and semi-manufactures to be replenished, of which there had been signs in 1972 in most industries, continued in the first half of 1973. Part of this may have been due to speculative reasons, such as fears that world market prices will go on rising sharply.

Investment spending in the *building sector* remained at a high level, helped by the distinct growth in housing demand in all member countries. In the Benelux countries, Ireland and to a certain extent also in the United Kingdom the expansion in residential construction was in addition being encouraged by official measures. Industrial building reached a considerable volume in the Community. Public spending on building and civil engineering projects increased rapidly in France and Ireland, while its expansion probably slackened in Germany, Italy and the United Kingdom.

Public expenditure also contributed to the faster rise in overall demand, despite efforts to give budgetary policy a restrictive bias; since the beginning of the year it has generally been rising more vigorously than GNP in money terms.

In the early months of the year private consumers' expenditure in terms of value maintained its distinct rise in most Community countries, helped by the very rapid advance in incomes. The employment situation improved appreciably, and there has also been a sharper rise in wages since the beginning of the year; in some countries transfer incomes too went up considerably. In a number of member countries the rapid increase in the cost of living appears to have entailed a fall in the savings ratio of households. The results of the third consumer survey in the Community at any rate show that households especially in Germany, Belgium and the Netherlands expect an acceleration in the upward movement of prices and have therefore brought forward certain purchases of consumer durables.

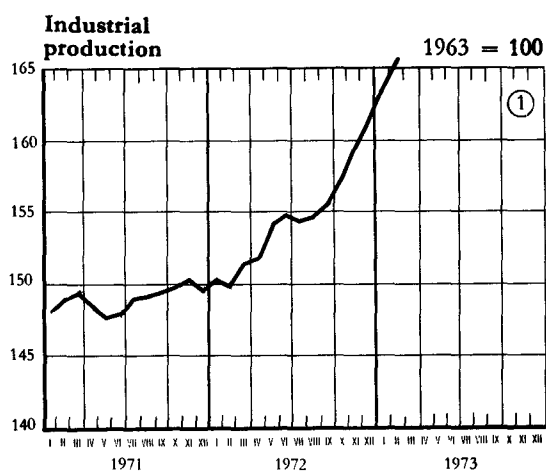
c) Production and employment

Since the beginning of the year the growth of internal supply has accelerated considerably throughout the Community.

As regards *agricultural production*, the shortage of a number of farm products which emerged in 1972 has probably lost in significance. The situation on the markets in fruit and vegetables has improved, especially for potatoes. Cattle numbers in the Community have risen again. There is still excess supply on the market in milk products.

In *industry* the very lively activity registered in recent months has brought an appreciable rise in the degree of utilization of plant capacity, so that bottlenecks have appeared, confined though they have been to certain regions or sectors. Overall, delivery dates in industry have length-

ened markedly; this has been due mainly to the high volume of new orders, and in part also



to stoppages which paralysed production in some industries, especially the motor industry in the United Kingdom, Italy and France.

Industrial production¹

(% change on corresponding quarter)²

	1971				1972				1973
	I	II	III	IV	I	II	III	IV	I
Germany	+ 3.3	- 0.8	- 1.4	- 2.1	+ 5.3	- 0.2	+ 1.2	+ 3.4	+ 5.0
France	+ 2.6	- 0.4	+ 4.6	+ 1.2	+ 1.4	+ 1.1	+ 1.4	+ 3.5	+ 4.4
Ireland	+ 1.2	0	- 0.6	+ 3.1	0	0	+ 3.8	+ 4.5	.
Italy ³	.	.	.	.	.	.	.	.	.
Netherlands	+ 4.8	- 2.3	+ 1.4	+ 2.5	+ 6.8	- 1.8	+ 1.4	+ 4.2	+ 4.7
Belgium	+ 1.5	- 2.3	+ 1.9	+ 1.5	+ 1.6	+ 5.5	- 2.0	+ 3.2	.
Luxembourg	+ 0.9	+ 4.8	+ 0.6	- 2.3	- 1.1	+ 4.8	+ 2.4	+ 2.9	+ 5.6
United Kingdom	- 1.8	- 0.3	+ 0.8	+ 1.1	- 3.9	+ 5.4	+ 2.3	+ 2.3	+ 3.0
Community	.	.	.	.	.	.	.	.	.

¹ Excluding construction, food, beverages and tobacco. Ireland : extraction and transforming industries. For Denmark, no comparative data available.

² Calculated on the basis of the unadjusted indices of the Statistical Office of the European Communities. Ireland: O.E.C.D. figures.

³ Series in course of revision.

The Community countries in which industrial production rose sharpest were Denmark, Germany, France and the United Kingdom. In Italy and the Netherlands, too, expansion has picked

up since the beginning of the second quarter as a result of an appreciable decline in stoppages and strikes and of the drive to clear the production backlog. In the BLEU and Ireland

industrial production in the first quarter of 1973 probably went up at much the same pace as in the final quarter of 1972. In the building sector lively growth has continued in recent months throughout the Community.

Activity also rose rapidly in the *services sector*, especially the distributive trades and transport. On the Community's *labour markets*, the continued economic expansion in the first half of the year was reflected in a decline of unemployment and increased manpower requirements of enterprises. Especially in Germany, Denmark and France, manpower shortages constituted an appreciable obstacle to stronger growth of production. In Italy and the Netherlands, on the other hand, the fall in unemployment was comparatively small, mainly because of structural factors which obviously included the sharp upsurge of costs in recent years.

d) *Balance of the markets*

Moving in line with internal supply, imports from non-member countries have also maintained their rapid growth in recent months. The expansion in volume stemmed mainly from the faster rise in internal demand, especially for capital goods, the high degree of utilization of production capacities within the Community, and the tendency for stocks to be replenished. The increase in value was in addition boosted by the rapid rise in world market prices for raw materials and by higher prices for food and for petroleum products.

Trade between member countries likewise expanded vigorously. In addition to the factors mentioned above, this reflected the effects of the first 20 % tariff cut between the six and the three new member countries, in force since 1 April.

Consumer Price Index

(% change)

	May 1972 September 1972	September 1972 January 1973	January 1973 May 1973	May 1972 May 1973
Denmark	+ 2.0	+ 2.1	+ 4.3	+ 8.7
Germany	+ 2.3	+ 2.7	+ 2.7	+ 7.8
France	+ 2.5	+ 2.0	+ 2.4	+ 7.2
Ireland	+ 2.8 ¹	+ 1.5 ²	+ 3.0 ³	+ 11.7
Italy	+ 2.6	+ 3.4	+ 4.8	+ 11.1
Netherlands	+ 1.6	+ 2.6	+ 3.7	+ 8.3
Belgium	+ 2.6	+ 2.9	+ 1.8	+ 7.5
Luxembourg	+ 2.8	+ 1.8	+ 3.0	+ 7.8
United Kingdom	+ 2.3	+ 2.9	+ 3.9	+ 9.5

¹ May — August 1972

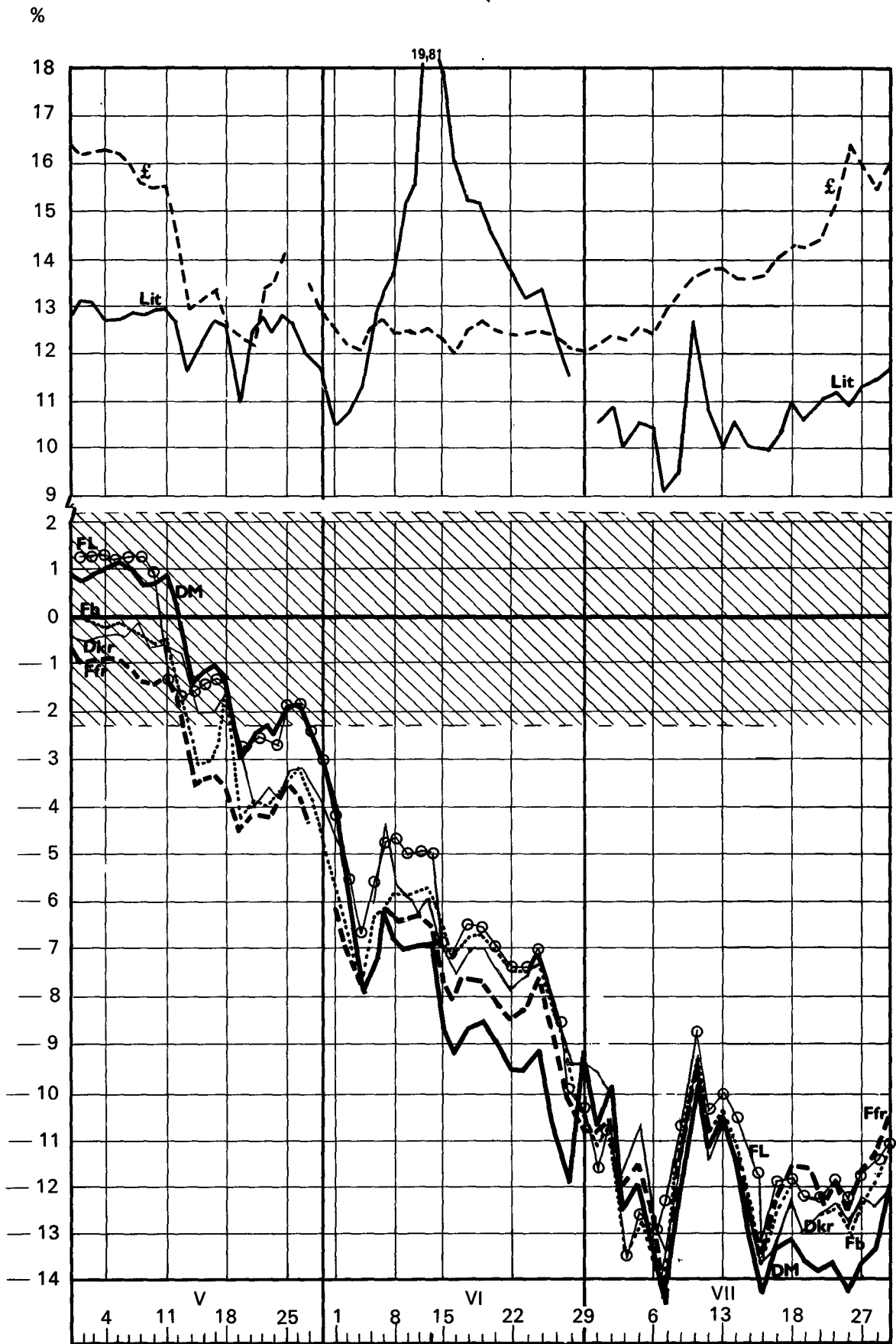
² August — November 1972

³ February — May 1973

The rapid upsurge of prices continued unabated. Generally, poor harvests and the shortage of certain categories of meat led to appreciable increases in food prices; at the same time the higher cost of raw materials, especially energy products, was being passed on in higher prices

for finished products. The adjustment in the value of most European currencies produced little slackening in the rise of import prices; in Italy, Ireland and the United Kingdom the increase even gathered additional momentum as a result of floating. The faster rise of wages in

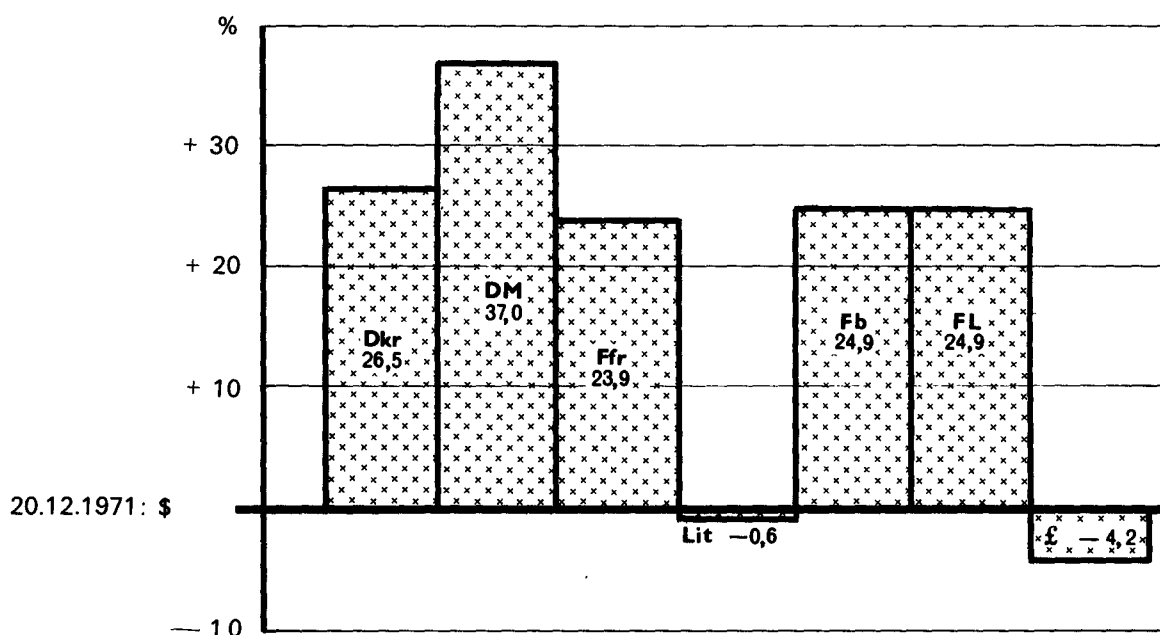
Percentage differences between the dollar rate and the various central rates or parity.



industry and the services sector in most member countries was also an important factor in the upward movement. However, increased costs could not have been passed on to much a large extent had demand not expanded as vigorously. In most member countries prices are currently being pushed up by the pressure of both demand and costs, particularly since in a number of them wages are directly linked to the price index under sliding wage clauses. Even where there is no provision for automatic adjustment, most groups active in economic life are in the present inflationary situation more rapid than previously in reacting to price increases by making fresh demands for higher incomes.

The Community's *balance of trade* deteriorated and closed with a slight deficit in the first quarter. This was largely the result of heavy deficits on the Italian and British trade accounts. The Community's balance on current account, however, has probably shown further, though distinctly smaller, surpluses in recent months. Following the joint float of six currencies on 19 March (1) — the United Kingdom, Ireland and Italy continued to allow their currencies to float independently — the situation on the foreign exchange markets settled down for a while. At the same time capital began to flow out to a certain extent. From May onwards, however, speculation flared up again. The

Appreciation or depreciation of Member States' currencies at 31 July 1973 with respect to their central rates in \$ 20 December 1971.

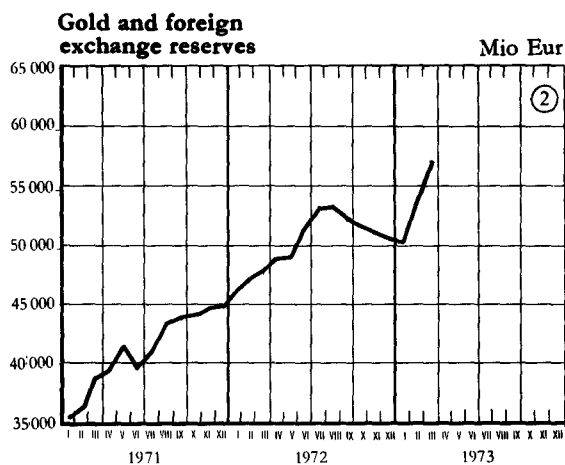


dollar dropped sharply, despite an improvement in the US balance of trade. The Community currencies in the joint float therefore moved appreciably beyond the limits of the 2.25 % band on either side of their parities or central rates against the dollar. In June, Germany again registered heavy inflows of foreign exchange, but this time from countries which maintain currencies within the Community band. On 29 June the German government therefore revalued the German mark by 5.5 % ,

with participation in the joint float continuing on this new basis.

Owing to the heavy inflows of foreign exchange during the early months of the year, member countries' domestic liquidity expanded very

1) For the dollar crisis in February and March see the last Quarterly Survey of the economic situation in the Community (N° 1/1973), pp. 5 and 6 and p. 12.



sharply, even though not only Germany, which was hit hardest, but also other Member States took measures to neutralize the expansionary effect on liquidity of these inflows of money. To the extent that the currency flowed into the banking system, these measures were largely successful. But it was hardly possible to stop the expansionary effects exerted directly on the money supply by inflows to non-banks.

Bank liquidity was severely cut back in almost all member countries. Almost everywhere the commercial banks were required to lodge high interest-free deposits with the central bank as contra-items to their foreign liabilities, or existing requirements were tightened. Minimum reserve ratios were raised in certain member countries, notably in the Federal Republic of Germany and the United Kingdom. In Belgium the agreement between the central bank and the commercial banks on the holding of minimum reserves was extended. A similar agreement has been arranged in the Netherlands. The Banque de France tightened the restrictions on the growth of lending still further; where lending grows faster than the norm banks are required to maintain additional minimum reserves.

The result was that in France *bank lending* to the private sector tended to slow down slightly until March; subsequently, however, it gained in vigour again. In other member countries, by contrast, the growth of lending remained very strong or even accelerated further. In Denmark for instance, the ceiling on the growth of lending, initially applying for the first half-year and then extended until October, was reached at the end of March already. Since then Danish commercial banks may grant new loans only to

the extent that credit outstanding is being repaid. In Ireland, the figure for the admissible expansion of lending up to April was exceeded in January already, with the strongest contribution coming from lending to the personal sector. In Germany, to, credit expansion remained very vigorous. In the Netherlands it even gathered additional speed.

The *cash transactions of the public authorities* had a restrictive effect on domestic liquidity in most member countries. This was due less to the trend of expenditure, which remained expansionary, than to the vigorous increase in tax receipts brought about by inflation, and to the efforts to finance deficits by long-term borrowing. In Germany, not only did the Federal budget close with a cash surplus, as is usual for the season, but also the Federal Government increased its cash resources by floating the first tranche of a stability loan and freezing the proceeds.

In Denmark and the United Kingdom, too, the budgets showed surpluses. In France, the Government's net borrowing requirement in the first quarter was, at some FF 3 600 million, more than three times as high as a year earlier, mainly as a result of the cut in VAT, but the Government contracted long-term debt for double the amount, of which FF 6 500 alone through a loan. In the Netherlands, the budget closed with a smaller cash deficit than a year earlier; here too it was financed from savings, and short-term indebtedness was consolidated.

The deficit in the Irish budget was likewise covered by new long-term borrowing. Budget transactions in Belgium and Italy had an expansionary effect on domestic liquidity.

On balance these factors led to a further vigorous growth in the *money supply* (M2) in the Community, even though the pace in the United Kingdom, Ireland, France and Denmark slackened a little towards the end of the first or at the beginning of the second quarter. Nevertheless, in April the increase on a year earlier in the United Kingdom and Ireland was at more than 20 % still very high. In Germany, it was some 19 % in May. In the other member countries the money supply was between 14 % and 16 % up on a year earlier. A new and disquieting feature of the latest trend is that in a number of member countries the expansion of bank lending was particularly sharp, in con-

trast to the situation in 1972 and at the beginning of 1973, when it was mainly external factors which made a substantial contribution to the growth in the money supply.

The situation on the *money market* tightened sharply. In Germany, the call money rate in April was at times as high as 25 % and more than 30 % during the summer. In Ireland, too, call money rates rose sharply. Discount rates were raised in Denmark, Germany, France, the

Netherlands and Belgium. The minimum lending rate of the Bank of England has also risen, after a slight decrease in the middle of the year, and at the end of July was the highest discount rate in the Community. In Italy, the central bank put up the rate for advances on securities, together with the discount rate in Ireland is still the highest in the Community.

Interest rates on the *capital market* were rising throughout the Community.

Demand for and supply of goods and services

	1970 ¹	1971 ¹		1972 ^{2 4}		1973 ^{3 4}	
	At current prices in '000 million Eur ⁵	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Gross fixed asset formation	147.3	+ 2.2	+ 9.4	+ 2½	+ 8	+ 7	+ 14½
Public current expenditure on goods and services	94.1	+ 5.0	+ 16.5	+ 4	+ 12½	+ 4	+ 13
Private consumers' expenditure	367.7	+ 4.3	+ 10.4	+ 5	+ 11	+ 5	+ 13½
Gross Community product	628.7	+ 3.0	+ 10.2	+ 3½	+ 10	+ 6	+ 13½
Balance exports less imports (in '000 million Eur) ⁵	+ 6.7	+ 9.2		+ 9.8		+ 6.8	

¹ Statistical Office of the European Communities (SOEC); National Accounts.

² Estimates.

³ Forecasts.

⁴ Based on Community totals of the aggregates of the individual member countries at the central rates fixed in Washington on 18 December 1971.

⁵ 1 Eur = 0.888671 g of fine gold.

Note :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks and differences in treatment of the balance of exports less imports.

(b) The estimates and forecasts are approximations based on certain hypotheses generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

C. Outlook

1. Outlook for world economic activity

Lively economic expansion in the industrialized countries is likely to continue in the next few months, enabling world trade to maintain its rapid growth. The general inflationary tendencies must be expected to persist, despite the restrictive measures taken in some countries.

In the *United States*, the outlook for the trend of demand and available production capacities in the months ahead is affected to some extent by uncertainty about the direction of the Administration's economic policy. With inflationary tendencies gaining in vigour, in mid-June retail prices, including those for food, were frozen for a maximum of two months at the level reached in the first week of June. In addition, a ban was placed on exports of certain agricultural products to favour the domestic market. Much more stringent price and wage controls were announced for the early part of Phase IV, beginning on 15 August 1973.

Nevertheless there are many indications that domestic demand will continue to expand rapidly in the months ahead. Both the latest business surveys and order books in the capital goods industry suggest a vigorous rise in investment activity. In building and construction there is still a heavy backlog of orders which will probably ensure a high level of activity even though the upswing is likely to level off increasingly. Moreover, with stocks still fairly low, stockbuilding may provide quite appreciable stimuli to economic growth.

Private consumers' expenditure will climb sharply. With major collective agreements up for renewal, wages will probably rise more rapidly again, particularly since the guideline for wage increases laid down by the Administration (5.5 % a year) will probably be increasingly difficult to push through.

The numbers in employment will grow further; in the period up to the end of the year tax refunds and improved welfare payments are also likely to contribute appreciably to the rise in personal disposable income. The savings ratio may well decline.

The growth of public spending, on the other hand, will probably be curbed by the expenditure cuts decided upon by the Administration.

Production will go on rising, though probably no longer at the same unusually rapid pace as in the first half of the year. All in all, real gross national product in 1973 may be 7 % higher than in 1972. The unemployment rate towards the end of the year may be some 4½ %.

Maintenance of price controls in a number of key economic sectors and particularly the two-month freeze on all retail prices, announced in mid-June, are likely to entail a reduction in the rate of price increase, at least temporarily, even though there is reason to fear a considerable jump in the price indices after the end of the freeze. The substantial rise in the cost of imports will also be reflected in the level of domestic prices.

As exports will continue to expand owing to strong export demand and the favourable effects of the dollar devaluations, the tendency for the balance of trade to improve should continue. The extent of this improvement will depend essentially on the availability of sufficient resources for exporting and the existence of possibilities for substituting domestic products for imports. An additional point is that the trend in the terms of trade will probably remain unfavourable for some time yet.

In the *other industrialized countries* the expansionary forces should continue to dominate while available resources will remain under heavy pressure. Given the high degree of capacity utilization, the growth in gross national product in most countries may slow down a little towards the end of the year. This is particularly true of Switzerland, where investment and particularly residential construction may lose in vigour. In Austria, too, investment activity may slacken appreciably in the next few months. The inflationary strains generated by the vigour of overall demand and the persistence of cost pressures will presumably continue. In the circumstances, economic growth must be expected to slow down slightly towards the end of the year.

In the *developing countries* the propensity to import will probably remain high in the months ahead. The monetary reserves of these countries will go on rising vigorously. For one thing, export receipts of the petroleum producing countries will climb rapidly as a result of the latest increases in petroleum prices. For another, export earnings of the other raw material producing countries will no doubt benefit from firm commodity prices. In addition, in the months ahead the tendency for stocks to be replenished, apparent in almost all industrialized countries, will probably continue to stimulate world trade in these products.

2. Outlook for the Community

The prospective trend of economic activity in the export markets of the enlarged Community as a whole suggests that the Community's exports will expand considerably in the months ahead. Towards the end of the year, however, their growth may slacken, mainly because the competitive position of the export industry will be affected by the appreciation of most Community currencies on the foreign exchange markets and by the persistent upsurge in costs within the Community, while the margin of spare capacity available for exporting is narrowing owing to the pressure of internal demand.

Internal demand in the Community is indeed likely to maintain its rapid expansion in the second half of 1973.

Gross fixed asset formation in the Community as a whole may even accelerate somewhat, at least at the beginning of the second half-year. The propensity to invest of enterprises, for instance, has been picking up until very recently with the favourable outlook for sales and the improved liquidity situation, and there is still a substantial supply of loan capital, despite the restrictive monetary and credit policy. The only exception is Germany, where the Government has taken drastic measures to curb the expansion of investment activity. Order books and the flow of new orders for plant and machinery also suggest that actual expenditure on investment will expand considerably in the next few months.

Activity in *residential construction* will go on rising throughout the Community. Given the large number of dwellings currently under construction, the restrictive measures of tax or credit policy taken in some countries will have a dampening effect only in the longer term.

The growth of capital spending by the public authorities, on the other hand, must be expected to slacken in most member countries. In the past few months specific measures to cut expenditure in this field have been taken in Denmark, Germany, Belgium, Luxembourg and the United Kingdom. But in the other countries too the tight budgetary situation will probably entail a slowdown in the rise of public investment. This does not apply to Ireland and Italy, however, where pending plans under the budget will probably cause expansion to gain additional vigour.

Stockbuilding will continue to provide much the same stimuli to economic activity as previously. The drive to replenish stocks of raw materials may tend to slacken somewhat, but this may be offset by a tendency towards stabilization in stocks of finished products, which have fallen to a very low level in industry.

Stimulated by a sharp rise in incomes, expenditure on *consumption* in terms of money will probably maintain its rapid growth in most Community countries. Following the conclusion of new collective wage agreements, the rise of wages in a number of countries must indeed be expected to accelerate in the second half of the year. In addition, wages in several countries will be put up further because they are linked—*de jure* or *de facto*—to the rise in consumer prices. The future trend of wages in the United Kingdom, however, is difficult to forecast at the moment as the end of the summer will see the beginning of a new phase of incomes policy, which at the moment places a strict limit on pay increases. Employment is likely to rise in all Community countries, which will also boost the expansion of incomes and consumption. In most countries transfer incomes too will go up rapidly. Lastly, the vigorous upsurge of prices may cause the savings ratio to fall in most member countries.

Demand will thus provide scope for a rapid growth of *internal production* in the second

half of the year. In most member countries, however, the expansion of production will be increasingly limited by manpower and plant capacity bottlenecks, so that supply will be unable to keep up with rising demand.

On the other hand, the tendency for certain agricultural products, especially some livestock products, to be in short supply will probably slacken, so that in this respect agricultural markets can be expected to be in better equilibrium.

The situation on the Community's *labour markets* will continue to reflect disparities between sectors and between regions. The manpower shortage already apparent in a number of sectors may become more acute and may increasingly impede activity. In other sectors and certain regions, by contrast, unemployment will probably still be high although its tendency is downwards. All in all, the number of unemployed will probably fall further and the average for 1973 be appreciably lower than that for 1972. At the same time the number of unfilled vacancies is likely to rise distinctly throughout the Community.

In the months ahead there will probably still be a very strong tendency to seek *supplies from abroad*. The growth of imports will therefore remain rapid and may even accelerate, boosted as it will be, not only by a considerable rise in imports of raw materials and agricultural products, but also by an appreciable increase in the share of imported manufactured goods in the products sold on the Community markets.

Intra-Community trade will probably expand even more sharply than imports from non-member countries, particularly since the first tariff cut within the enlarged Community provides a considerable incentive for the integration of the markets.

There is reason to fear that the upward movement of prices in the Community will hardly slacken in the next few months. The anti-inflationary measures taken or envisaged are

unlikely to have any appreciable influence on the current pace of price increase before the end of the year. The strains between supply and demand are indeed tending to increase. In most countries they are accompanied by a considerable upsurge in costs, itself reflecting climbing world market prices for raw materials and energy products, a rise in wage costs per unit of output, increased demands for higher incomes by other groups, etc. The trend of retail prices in the months ahead will also be heavily influenced by the fact that the rapid increase in producer and wholesale prices in recent weeks is yet to work its way through.

Major economic policy measures

April

— *At its 237th meeting on 2 and 3 April 1973 the Council adopted the Regulation establishing a European Monetary Cooperation Fund.*

May

— *On 1 May the Council fixed the agricultural prices for the 1973/74 marketing year, with price increases for livestock products ranging from 5.5 % for milk to 10.5 % for cattle. At the same meeting the Council decided on moves to assist farming in certain poorer areas. It also adopted measures to encourage beef and veal production.*

— *On 22 and 23 May the Council adopted measures for diminishing the effects of supply difficulties in petroleum and petroleum products.*

June

— *On 28 June the Council carried out the second examination for 1973 of the economic situation in the Community and adopted a resolution on further measures to be taken against inflation (reproduced in the annex to this Survey).*

TABLE 1: Basic data 1971

	Communi- ty	Denmark	Germany	France	Ireland	Italy	Nether- lands	Belgium	Luxem- bourg	United King- dom
Total area ('000 sq. km.)	1 524.8	43.0	248.5	551.2	70.3	301.2	33.5	30.5	2.6	244.0
Total population ('000)	253 861	4 060	61 284	51 250	2 971	54 303	13 385	9 695	345	55 668
Density of population per sq. km.	217	115	247	93	42	182	394	318	133	228
Numbers in employment ('000)	104 352	2 409	27 173	21 035	1 058	19 254	4 715	3 816	148	24 744
Numbers in employment, breakdown by main sector (%) :										
Agriculture	10	10.7	8.2	13.5	25.8	19.3	6.8	4.3	10.2	2.7
Industry	45	36.9	48.6	40.5	29.4	43.7	39.5	43.2	47.4	46.9
Services	45	52.4	43.2	46.0	44.8	37.0	41.4	52.5	42.4	50.4
Share of gross domestic product (%) :										
Agriculture	.	7.5	3.5	5.6	16.4	9.8	5.7	4.2	(4.4) ¹⁾	2.9
Industry	.	38.7	51.8	46.4	35.6	39.0	41.8	44.3	(57.5) ¹⁾	43.3
Services	.	53.8	44.7	48.0	48.0	51.2	37.9	51.5	(38.1) ¹⁾	53.8
In % of gross domestic product :										
Private consumers' expen- diture	.	59.3	53.9	58.9	68.2	71.3	56.8	60.1	57.2	61.8
Public current expenditure on goods and services	.	21.6	17.2	12.4	14.6	15.9	17.0	14.0	11.6	18.7
Gross fixed asset formation	.	21.3	26.7	25.6	23.1	22.4	24.9	22.8	30.5	18.0
Total exports	.	29.1	22.8	16.8	39.5	23.4	47.5	47.8	77.3	22.6
Total imports	.	30.7	21.5	16.1	43.3	21.9	47.5	44.7	77.1	21.1

¹⁾ 1970

TABLE 2: Key indicators

	% change by volume on preceding year						Volume Indices 1963 = 100
	1966	1967	1968	1969	1970	1971	1971
Gross Community product	+ 4.3	+ 3.4	+ 6.1	+ 7.5	+ 5.7	+ 3.4	149
Industrial production	+ 5.0	+ 1.3	+ 8.9	+ 11.9	+ 6.2	+ 2.6	158
Visible imports	+ 7.1	+ 0.8	+ 11.6	+ 12.6	+ 21.1	+ 0.5	185
Private customers' expenditure	+ 4.6	+ 4.0	+ 4.6	+ 6.8	+ 6.2	+ 4.8	149
Gross fixed asset formation	+ 4.5	+ 1.0	+ 7.1	+ 9.6	+ 8.5	+ 2.7	156
Visible exports	+ 8.3	+ 7.6	+ 13.5	+ 7.5	+ 9.3	+ 7.4	202
Intra-Community visible trade	+ 11.0	+ 5.7	+ 19.5	+ 22.5	+ 12.4	+ 9.0	267
Gross product per capita	+ 3.5	+ 2.8	+ 5.5	+ 6.5	+ 4.8	+ 2.5	135

Community

TABLE 3 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1971	(149)	(152)	(155)	(155)	(153)	(154)	(139)	(117)	(153)	(158)	(161)	(152)
	1972	(152)	(153)	(162)	(162)	(161)	(159)	(142)	(124)	(160)	(167)	(173)	(169)
	1973	(164)	(172)	(174)									
Imports from non-member countries (cif, million Eur)	1971	3 676	3 912	4 405	4 090	3 948	4 310	3 906	3 705	3 936	3 987	3 916	4 417
	1972	3 908	4 094	4 559	4 156	4 509	4 424	3 988	4 117	4 280	4 666	4 716	5 007
	1973	4 961	4 981	5 205									
Exports to non-member countries (fob, million Eur)	1971	3 550	3 831	4 471	4 025	4 079	4 180	4 328	3 964	4 135	4 182	4 101	4 782
	1972	4 001	4 328	4 798	4 476	4 768	4 871	4 552	4 265	4 483	5 345	5 071	5 601
	1973	4 969	5 158	5 470									
Balance of trade (million Eur)	1971	- 126	- 81	+ 66	- 65	+ 131	- 130	+ 422	+ 159	+ 199	+ 195	+ 185	+ 365
	1972	+ 93	+ 234	239	+ 320	+ 259	+ 447	+ 564	+ 148	+ 203	+ 679	+ 355	+ 594
	1973	+ 8	+ 177	+ 265									
Intra-Community trade (million Eur)	1971	3 369	3 786	4 459	3 967	3 920	4 103	3 995	3 448	4 073	4 398	4 252	4 388
	1972	4 029	4 403	4 984	4 470	4 692	4 861	4 180	3 971	4 668	5 137	4 988	5 109
	1973	5 036	5 245	5 435									

NOTES TO GRAPHS AND TABLES

Source: Community: Statistical Office of the European Communities (SOEC).

Denmark: Danmarks Statistik.

Germany: SOEC; Statistisches Bundesamt.

France: SOEC.

Ireland: Administration Year Book (IPA) CB, Basic statistics

Italy: Relazione generale sulla situazione economica del Paese (1972).

Netherlands: SOEC; Ministerie van Sociale Zaken en Volksgezondheid; Centraal Bureau voor de statistiek.

Belgium: SOEC; Ministère de l'Emploi et du Travail.

Luxembourg: SOEC.

United Kingdom: Central Statistical Office.

Where not stated otherwise, statistics for the Community refer to the original members.

Conversion into Eur (1 Eur = 0.888671 g fine gold).

Graph 1

Three-month moving averages of the seasonally adjusted indices (excluding construction, food, beverages and tobacco). Estimations for the enlarged Community.

Graph 2

Monetary authorities' reserves of gold and convertible currency, holdings in special drawing rights and reserve position in the IMF. Gross figures, i.e. including foreign liabilities. Position at end of month. Figures for the enlarged Community.

Table 1

Total population at mid-year; for Germany, estimated average for year; for Italy, average for year.
Resident population in employment at mid-year; for Germany, estimated average for year; for Italy, average for year less persons temporarily working abroad.
Percentage shares of the main economic sectors at factor cost.
Percentage shares of demand aggregates and of total imports at market prices.
Total Exports and Imports; goods services and factor incomes.

Table 2

Industrial production, excluding construction, food, beverages and tobacco: index of the Statistical Office of the European Communities.
Imports (cif) from non-member countries, exports (fob) to non-member countries: as shown by foreign trade statistics.
Trade between member countries, on imports basis: as shown by foreign trade statistics.

Table 3

Industrial production: estimates for enlarged Community based on SOEC indices (excluding construction, food, beverages and tobacco).
External trade: see notes to table 2.

II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES

A. Denmark

At the beginning of summer 1973 the Danish economy is expanding on a broad front. Investment, incomes and consumption are advancing strongly and the growth of production has probably accelerated. The supply-demand situation is showing increasing strain, leading to heavy pressure to import and a rapid rise in costs and prices.

Trends in the coming months are likely to reflect the continuing expansion of the economy, but conditions for the maintenance of economic balance will continue to be insecure.

1. Recent developments

After a temporary slowdown of activity brought about by industrial disputes in March, the pace of growth in the economy as a whole has quickened in recent months and has been accompanied by a new increase in capacity utilization rates.

Exports expanded rapidly. In the first five months of the year their value was 15 % higher than a year earlier. Sales of manufactured products grew strongly owing to the buoyant trend on export markets and the impact of the first tariff cuts vis-à-vis the Community. Agricultural exports, whose value in the first four months was up 30 % on a year earlier, benefited considerably from the opening up of the Community market; however, a large part of the increase was due to a faster rise in prices.

The trend of domestic demand was very buoyant. Corporate *investment* expanded vigorously as the stronger business upswing at home and the improved sales opportunities abroad encouraged industry and agriculture to make substantial new investments. Building and constructions, too, provided a strong stimulus to economic activity; in the first quarter the number of housing starts was 35 % higher than a year earlier. This trend prompted the autho-

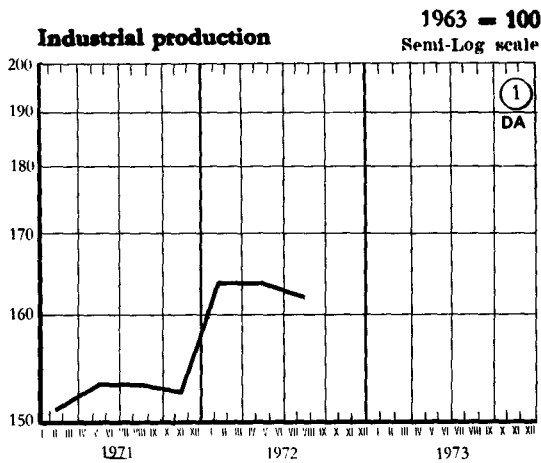
rities to reinforce progressively the restrictive measures taken in this field. Thus on 9 March the refund of value added tax on residential buildings was abolished. These measures entailed a drop in housing starts. Public sector investment probably slackened, notably because of the ban on new public building projects which took effect on 13 April.

Stockbuilding probably gave a quite strong impetus to demand even though many stocks contracted temporarily as a result of the strikes in March.

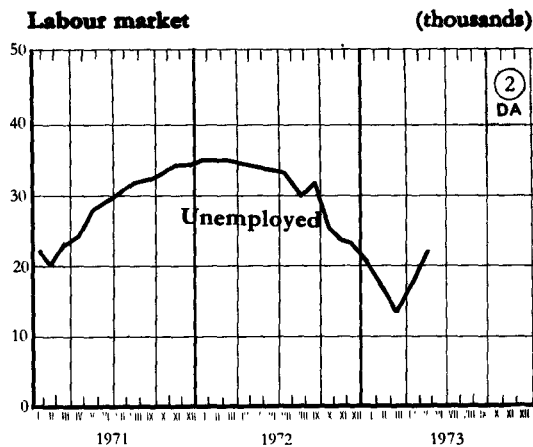
Private consumers' expenditure continued to grow rapidly in value as can be seen from both the distinct upswing in retail sales and the strong increase in purchases of motor cars, which in January-May were up 44 % on a year earlier, when the level had admittedly been comparatively low. The key factors were the rapid rise in industrial wages, an appreciable growth in transfer incomes and a considerable increase in agricultural incomes. Public consumption too expanded more rapidly due mainly to a higher salary bill.

Conditions on the demand side therefore permitted *production* to rise strongly. However, this progress was appreciably impeded in March by strikes which affected 50 % of the produc-

tion sector. Thereafter, industrial production appears to have accelerated distinctly. Agricultural production has remained relatively stable in volume terms.

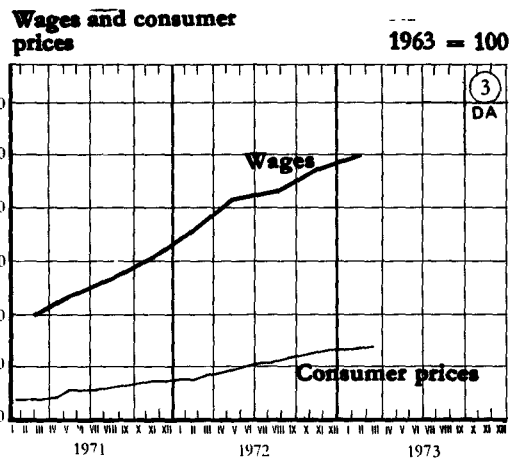


The faster rate of growth led to a further increase in *employment*; the latest business survey showed that numerous firms had difficulties in recruiting additional manpower. At the same



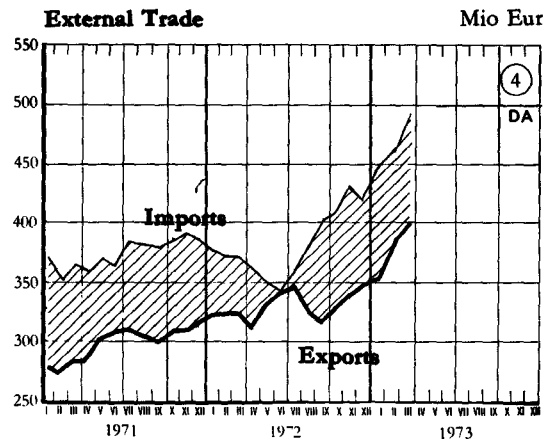
time the numbers registered as unemployed fell further and in May accounted for 1.6 % of wage and salary earners, as against 3.4 % a year earlier.

Despite the moderating effect of the abolition of the import surcharge as well as the appreciation of the krone on the foreign exchange market, the *rise in prices* remained very vigorous. In May, the consumer price index was 8.7 % above the same month in 1972. Food prices and prices of imported raw materials climbed at a particularly rapid rate.



The pace of *imports* quickened distinctly owing to the more vigorous expansion of demand and the abolition of the surcharge on 1 April. Imports of finished products, in particular cars, progressed at a lively rate and those of raw materials and semi-manufactures also reached a high level. In the first five months of the year, the value of total imports was 30 % higher than a year earlier.

Despite an improvement in the terms of trade the *balance of trade* continued to deteriorate. In the first five months of the year the deficit, at Dkr 4 100 million, was twice as high as a



year earlier. Capital inflows have continued over the past few months and as a result official net reserves have risen to Dkr 6 700 million at the end of June.

Thanks to the restrictive measures taken by the monetary authorities since December the rate of growth of domestic liquidity tended to stabilize. In May the stock of money and near-

Demand for and supply of goods and services

	1970 ¹	1971 ¹		1972 ²		1973 ³	
	At current prices (in Dkr '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ⁴	33 836	+ 4.0	+ 8.7	+ 10½	+ 14	+ 9	+ 17
Gross fixed asset formation	25 913	+ 1.9	+ 6.4	+ 2	+ 11	+ 12	+ 23
Public current expenditure on goods and services	23 596	+ 8.9	+ 18.5	+ 6½	+ 15½	+ 5½	+ 15½
Private consumers' expenditure	71 601	+ 2.4	+ 7.0	+ 3	+ 10	+ 5	+ 12
Gross national product	118 140	+ 4.0	+ 9.4	+ 4½	+ 14	+ 5½	+ 14½
Imports ⁴	37 020	- 0.7	+ 4.9	+ 2	+ 7	+ 17	+ 22

¹ Statistical Office of the European Communities.

² Estimates.

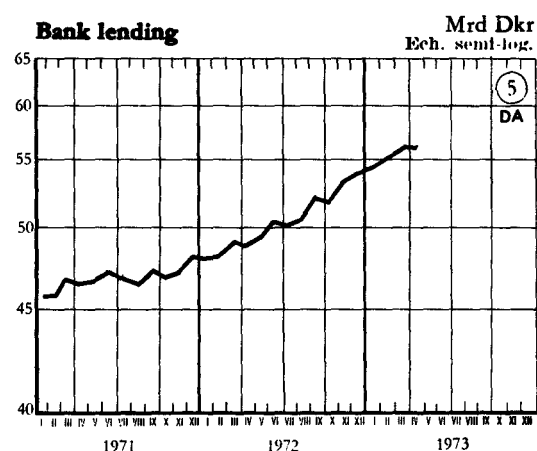
³ Forecasts.

⁴ Goods, services and factor income.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on hypotheses set out in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.



money (M2) was 14.2 % higher than a year earlier.

2. Outlook

Economic trends in the months ahead will probably continue to reflect a strong growth in incomes, employment and production.

Owing to the favourable outlook for sales on foreign markets, *exports* can be expected to grow rapidly; the vigorous expansion of domestic demand, however, is likely to put a brake on export capacity.

Domestic demand should remain very buoyant. *Investment* activity will receive additional stimuli particularly from capital expenditure on projects in industry and agriculture. In building and construction, on the other hand, there will probably be a distinct fall-off, mainly from the

autumn onwards. The various fairly drastic measures taken to curb residential construction, which are outlined at the end of this chapter, should be reflected progressively in a reduction of the number of housing starts. The ban on public sector construction between April and November will equally be a restraining factor.

Consumption expenditure may even grow somewhat faster than previously. *Public consumption* will continue to be boosted by salary increases in the public sector, and *private consumers* are also expected to step up spending. In addition to the increases provided for under the new collective agreements, wages in September will go up by some 4 % under the sliding wage scale. Besides, the strained situation on the labour market in many sectors may lead to a certain amount of wage drift. Lastly, there may well be a fall in the savings ratio both because of expectations of a persistently strong upsurge in prices and because of the possibility of savings being switched from the purchase of housing into consumption.

Given this trend of demand, supply is likely to expand further. *Production* will probably grow more rapidly, particularly since there is still a need to recoup output lost during the strike. The number of unfilled vacancies is likely to continue to rise and manpower shortages will become still more acute in the next few months. Unemployment, however, is unlikely to fall much further as it is already down to a low level.

Imports will grow very rapidly owing to the lively expansion of domestic demand and the abolition of the import surcharge. As the trend in the terms of trade will probably no longer be as favourable as in the past, the balance of trade will deteriorate further.

The upward movement of *prices* and costs will probably continue. In the circumstances, the main aim of economic policy should be to restore reasonable conditions for domestic and external equilibrium. At the end of 1972 already the authorities adopted a restrictive course centring on budget cuts and measures to dampen the rapid growth of demand in building and construction.

There appears to be a case for maintaining this policy and, where necessary, making fresh cuts

in public expenditure. In the credit policy field it would be appropriate for the Central Bank to keep the expansion of domestic liquidity under strict control. This means that the restrictive measures to influence domestic liquidity and the policy of placing a ceiling on lending will have to be maintained. But there must be no overlooking the fact that the inflationary strains cannot be reduced in any lasting manner unless all economic and social groups make an appropriate contribution.

Major economic policy measures

March

— The Government adopted a restraint package for the fiscal year 1973-1974, which meant expenditure cuts of Dkr 1 016 million on the original estimates of more than Dkr 52 000 million.

— The temporary import surcharge was abolished at the end of March.

April

— On 10 April the labour dispute (strike and lockout of 268 000 industrial workers) ended with an agreement which provides for:

— equal pay for equal work;

— higher compensation for cost-of-living increases;

— wage increase of 8 %, to be implemented by half-yearly steps over a period of two years.

— a shortening of the working week by 1¾ hour to 40 hours from December 1974.

— The Mortgage Credit Council placed a ceiling on the amount that the mortgage lending institutions may cover by mortgage on new houses; the basis for computing loans was limited to the rateable value as of April 1973.

— The Government imposed a ban on public building from 13 April to 1 November 1973.

May

— The authorities decided not to raise the credit ceiling in the period 1 July to 1 October.

June

- *The new "housing agreement" was adopted by Parliament. The main points are:*
- *abolition of reimbursement of VAT on dwellings;*
- *increase of rents for privately financed and subsidized dwellings;*

- *changes in the method of calculating imputed income from owner-occupied dwellings; higher taxation for these dwellings.*

July

- *The discount rate was raised from 7 to 8 % on 11 July.*

Denmark

TABLE 1 : Key indicators

	1968	1969	1970	1971	1972	1972
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	+ 4.3	+ 8.7	+ 3.3	+ 3.6	+ 4.8	154
Industrial production	+ 3.2	+ 11.5	+ 2.8	+ 2.0	.	.
Total imports	+ 4.2	+ 14.5	+ 8.3	- 0.7	+ 3.4	193
Private consumers expenditure	+ 1.9	+ 9.1	+ 2.9	+ 2.4	+ 3.0	148
Public current expenditure on goods and services	+ 6.0	+ 9.0	+ 10.6	+ 8.8	+ 6.7	188
Gross fixed asset formation	- 0.5	+ 13.2	+ 6.0	+ 1.9	+ 2.1	167
Total exports	+ 9.1	+ 9.3	+ 6.1	+ 4.0	+ 7.9	189
Gross national product per head of population	+ 3.7	+ 8.1	+ 2.4	+ 3.0	.	.
Gross national product per person in employment	+ 5.1	+ 2.2	+ 2.2	+ 2.8	.	.
	% change by value on preceding year					
Gross income per employee	+ 1.2	+ 12.1	+ 11.0	.	.	.

TABLE 2 : Indicators for internal and external equilibrium

	1967	1968	1969	1970	1971
Balance exports less imports					
in million Eur	- 240.5	- 178.1	- 334.6	- 469.1	- 351.6
as percentage of GNP	- 2.0	- 1.4	- 2.4	- 3.0	- 2.1
Unemployment rate	2.7	5.0	3.9	2.9	3.7
Price-index of private consumers expenditure (% change on preceding year)	+ 9.9	+ 9.0	+ 13.6	+ 8.3	+ 7.1

TABLE 3 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970	.	.	.	.	.	154	.	.	152	.	.	153
	1971	.	.	151	.	.	153	.	.	153	.	.	152
	1972	.	.	164	.	.	164	.	.	163	.	.	.
Unemployed (1 000)	1971	21.8	17.4	23.5	28.0	31.5	32.2	33.0	34.6	32.9	33.5	38.1	32.0
	1972	31.7	36.4	28.7	32.6	40.4	33.1	33.3	31.1	29.1	25.0	21.9	21.0
	1973	12.0	6.9	10.3	31.5								
Dwellings under construction (1 000)	1971	36.3	34.0	32.9	32.9	32.9	32.9	33.6	34.5	35.9	36.5	36.2	33.9
	1972	33.5	33.1	33.2	33.5	34.8	39.2	39.0	38.5	38.6	40.5	40.1	38.8
	1973	38.6	38.0	38.5									
Retail sales (1963 = 100)	1970	183	186	188	186	191	195	195	187	192	197	199	192
	1971	195	200	198	210	202	202	205	210	212	218	217	210
	1972	211	218	226	221	225	224	229	234	239	237	233	234
Consumer prices (1963 = 100)	1971	156	156	156	157	160	160	160	161	162	163	164	164
	1972	165	165	167	168	169	170	171	171	173	174	175	176
	1973	177	178	180									
Visible imports (million Eur)	1970	333	359	354	361	375	394	335	361	361	360	416	371
	1971	335	360	112	305	388	391	365	374	379	400	397	371
	1972	397	113	386	370	382	363	455	417	411	470	480	412
Visible exports (million Eur)	1970	251	259	281	271	259	281	271	281	276	289	297	266
	1971	270	275	286	271	337	311	286	316	299	321	319	320
	1972	366	317	337	335	409	367	357	330	347	385	371	377
Balance of trade (million Eur)	1970	- 82	- 100	- 70	- 87	- 116	110	- 61	- 83	- 85	- 71	- 119	- 105
	1971	- 65	- 85	- 126	- 31	51	- 80	- 79	- 58	- 80	- 79	- 78	- 51
	1972	- 31	- 66	- 19	- 35	27	+ 4	- 98	- 87	- 97	- 85	- 106	- 35
Official gold and foreign exchange reserves (million Eur)	1970	400	409	419	378	362	342	321	371	393	428	464	484
	1971	507	514	595	471	424	424	434	423	422	469	580	670
	1972	757	781	795	755	752	720	708	736	663	618	713	731
Money supply (million Eur)	1970												
	1971	8 503	8 968	8 455	8 132	8 196	9 320	9 450	9 319	9 620	9 052	9 153	9 310
	1972			9 397			10 102			10 153			

NOTES TO GRAPHS AND TABLES

Source: OECD (except as otherwise indicated).
Conversion into Eur (1 Eur = 0.888671 g of fine gold).

Graph 1

Industrial production: volume of sales in manufacturing; seasonally adjusted.

Graph 2

Labour market: seasonally adjusted; three-month moving averages. Insured unemployed.

Graph 3

Wages: hourly earnings in industry (including bonuses).

Graph 4

Imports: cif; exports: fob; seasonally adjusted; three-month moving averages.

Graph 5

Bank lending: by commercial and major savings banks.

Denmark

Table 1

GNP at market prices.

Industrial production: value added by industry.

Exports and imports: goods and services.

Gross income per employee: income from employment.

Table 2

Balance exports less imports: goods, services and factor incomes.

Unemployment rate: number of insured unemployed as percentage.

Table 3

Industrial production: volume of sales in manufacturing; seasonally adjusted.

Insured unemployed: seasonally adjusted.

Retail sales: seasonally adjusted.

Imports: cif, exports: fob; seasonally adjusted.

Balance of trade: difference between the seasonally adjusted figures of exports and imports.

Official gold and foreign exchange reserves: monetary reserves: monetary authorities gross reserves of gold and convertible currency, holdings in special drawing rights and reserve position at the IMF; liabilities to abroad have not been deducted.

Money supply: notes in circulation and deposits at commercial and major savings banks.

B. Germany

Overall demand in Germany has expanded very sharply in recent months, boosted by the surge of export demand. The propensity to invest in particular rose very rapidly. With production growing vigorously there was increasing evidence of real resources being overstrained. The upsurge of prices reached proportions never seen before in Germany.

In May the rapid overheating of the economy forced the Federal Government to tighten its stability policy rigorously. At the end of June the German mark was revalued by 5,5 % as an accompanying measure. Until the end of the year, however, the economic trend will probably still reflect the excessive spurt in demand registered previously.

1. Recent developments

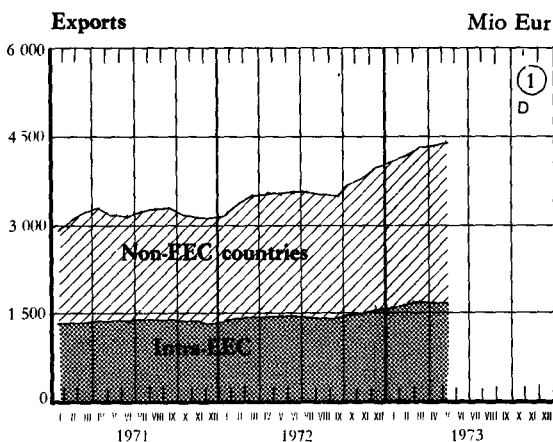
Boosted by soaring export demand, investment activity in Germany accelerated at an unusually rapid and vigorous rate in the spring. With the other components of demand also expanding sharply, the broadening business upswing therefore assumed excessive proportions sooner than had been expected. At the same time the upward movement of prices, which had already been very disquieting, strengthened further.

The boom experienced by Germany's principal trading partners still provided very vigorous stimuli to *export demand*, enabling the rapid

expansion of German exports to continue in recent months. In the second quarter visible exports were 19,3 % higher than a year earlier.

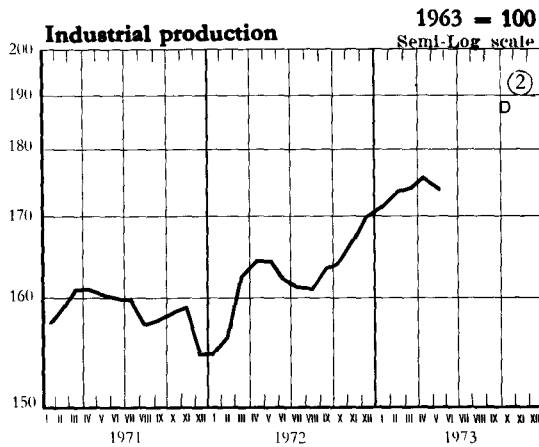
In the period under review domestic demand reflected the steep rise in corporate *investment*. With sales and profit expectations improving, capacity bottlenecks increasing and enterprises themselves flush with liquidity, there was a very sharp rise in new orders received by the capital goods industry. Activity in the building sector picked up more than usual for the season, stimulated by the business upswing. While overheating in residential construction has continued, capacities in building and construction are now coming under increasing pressure from industrial building also. The trend of building activity in the public sector, however, remained quiet.

With the expansion of incomes resuming a faster pace, private *consumers' expenditure* rose more vigorously again. In March-May retail sales as a whole were up 10.6 % on the corresponding period of a year earlier. The increasing strains in the business situation led to a distinct rise in the level of wages and salaries. On the one hand there was more overtime working, on the other enterprises were less reticent about making pay concessions at plant level. The latest wage



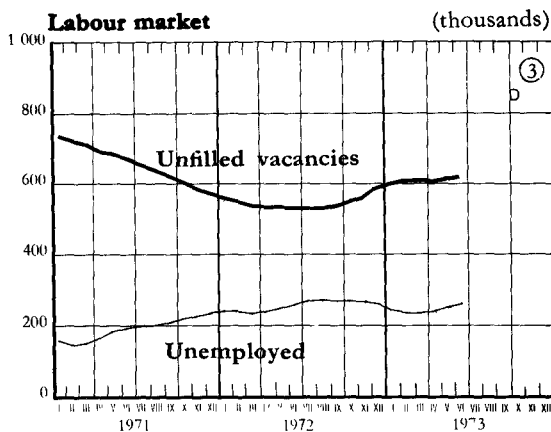
settlements have been distinctly higher than the wage increases agreed upon at the beginning of the year; in some cases special supplements were granted on these earlier awards in view of the unexpectedly sharp price increase. In the first quarter, the level of wages and salaries per person employed in the economy as a whole was 11.5 % higher than a year earlier.

With demand running considerably ahead of production possibilities, spare capacity is being taken up increasingly. Adjusted for seasonal variations, industrial production in recent



months has even moved slightly above the unusually high level reached at the beginning of the year. All in all, in the first five months of the year it was up 7.7 % on a year earlier.

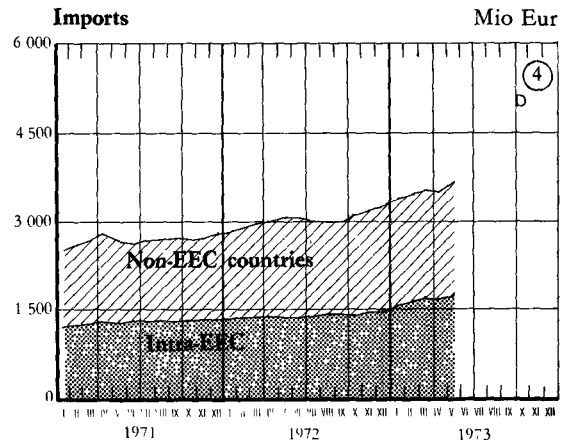
The rapid pace of production failed to work through to the labour market because enterprises were cautious over recruiting additional



manpower and there was increased overtime working. The number of jobs on offer went up only little and seasonally adjusted unemploy-

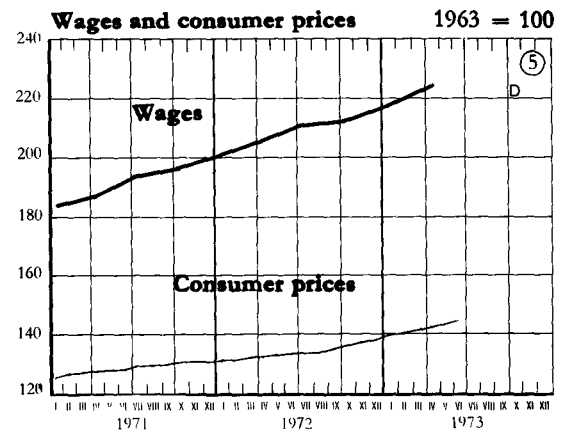
ment even rose slightly. At the end of June, and allowing for seasonal variations, there were 282 000 unemployed while the number of unfilled vacancies stood at 600 000.

Owing to the heavy pressure on domestic resources, *visible imports* continued at a high level. In the second quarter their value was up



12.1 % on a year earlier. Much of this increase was again due to the fact that the cost of imported products went on rising, despite the appreciation of the German mark.

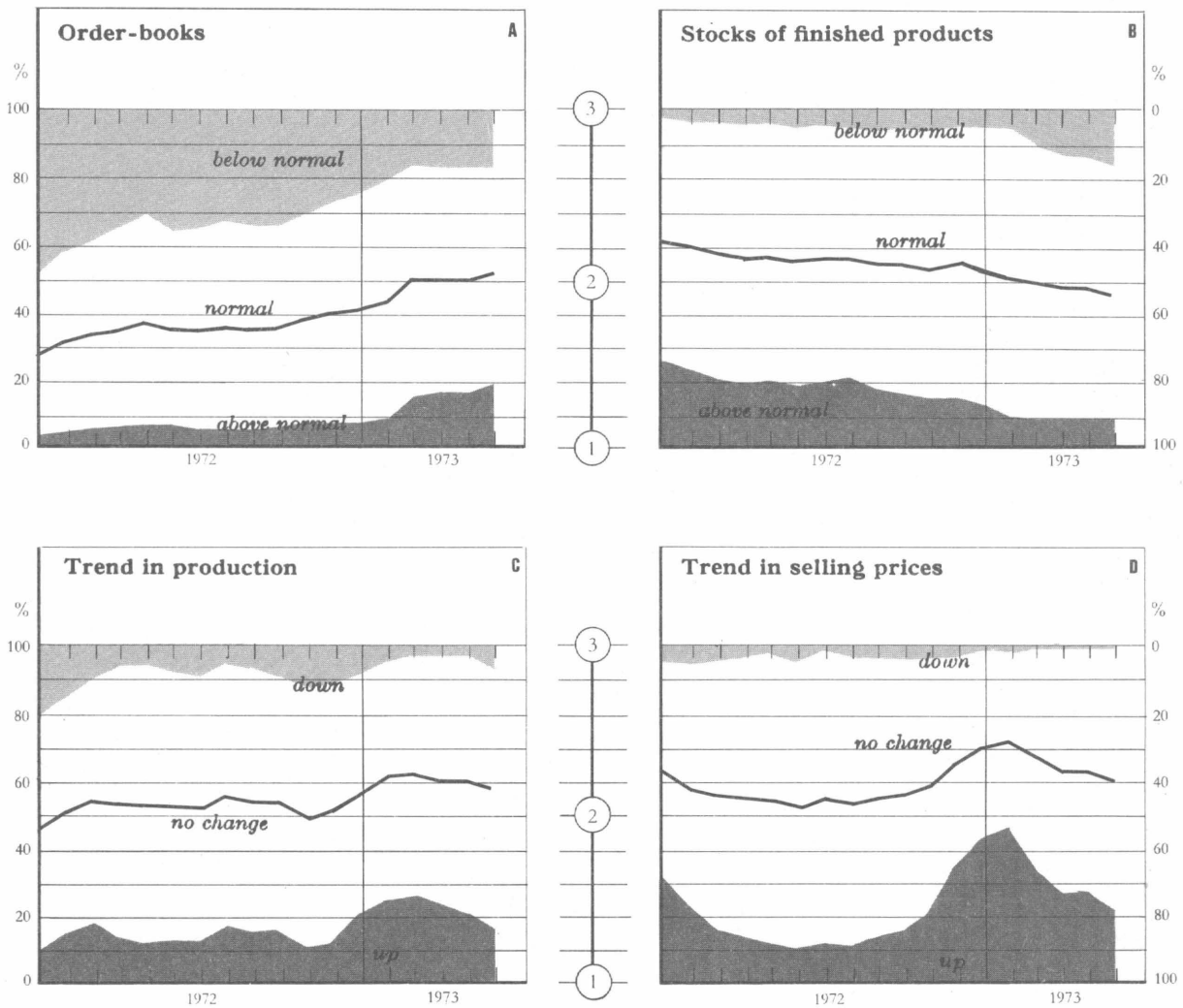
Carried along by booming demand, prices were climbing at a rate never seen before in Germany. In June the cost-of-living index was up 7.9 %



on a year earlier. The acceleration of inflation has spread to almost all economic sectors and levels of production and distribution.

As a result of the buoyant trend of exports the *foreign trade* surpluses continued to rise vigorously. The current account therefore was in

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



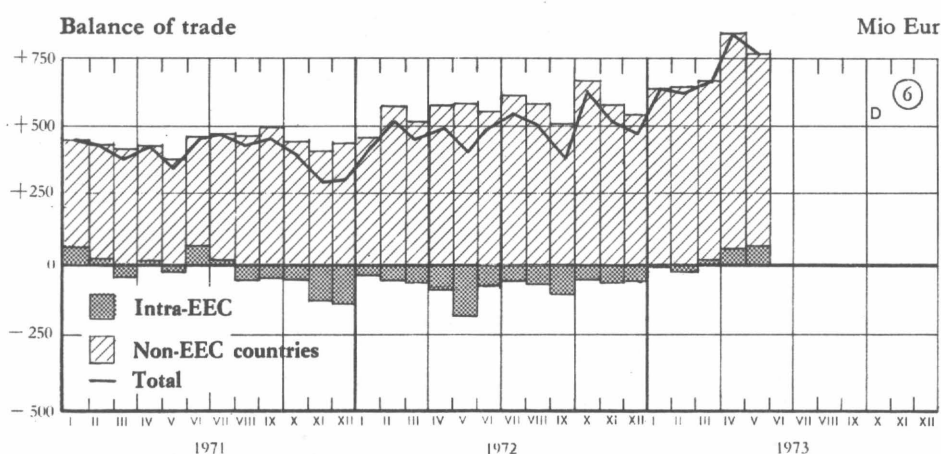
Answers to questions in the EEC business survey, carried out in the German Federal Republic by the IFO-Institut.

GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".





increased surplus again despite heavier deficits on services and transfer payments. Following the monetary policy decisions taken at the beginning of March, speculative inflows of capital into Germany stopped for a time. However,

between the end of May and the end of June the German currency was appreciated again increasingly so that the exchange rate for the German mark moved from the bottom to the top of the spread in the joint float and the

Demand for and supply of goods and services

	1970 ¹	1971 ¹		1972 ¹		1973 ²	
	At current prices (in DM '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ³	158.6	+ 6,5	+ 9.2	+ 7.6	+ 8.8	+ 14½	+ 17
Gross fixed asset formation	181.1	+ 4.5	+ 12.2	+ 1.9	+ 5.6	+ 7½	+ 13½
Public current expenditure on goods and services	109.0	+ 7.3	+ 19.8	+ 4.4	+ 12.6	+ 4	+ 13½
Private consumers' expenditure	369.0	+ 5.6	+ 11.0	+ 3.5	+ 9.5	+ 3½	+ 11½
Gross national product	685.6	+ 2.7	+ 10.7	+ 2.9	+ 9.2	+ 6	+ 13
Imports ³	147.4	+ 9.8	+ 10.5	+ 8.1	+ 7.4	+ 12	+ 17

¹ Federal Statistical Office « Wirtschaft und Statistik », No. 2/1973.

² Forecasts.

³ Goods, services and factor income.

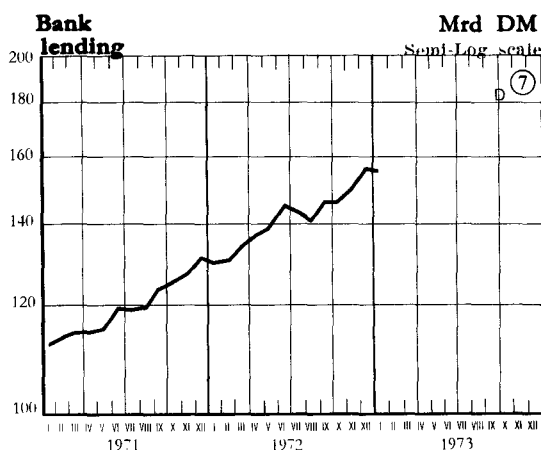
Note :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates are approximations based on certain hypotheses generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

Bundesbank registered a substantial inflow of foreign exchange from other Community countries. On 29 June the Federal Government therefore decided to revalue the German mark by another 5.5 %, thereby safeguarding the domestic stabilization programme against exter-

multi to German exports in the months ahead, despite the fresh revaluation of the German mark at the end of June.



Future *investment demand* is likely to be appreciably hit by the measures which the Federal Government announced in May, especially the introduction of an 11 % investment tax. However, if account is taken of the unusual bunching of orders to the capital goods industries in the first months of the year and of the comparatively long production time needed to fill these orders, there seems to be little likelihood of actual spending on plant and machinery falling significantly in 1973. This is even more true of building investment because the level of building permits already issued and therefore not affected by the measures is high enough to keep building capacities engaged beyond 1973.

nal influences. The Bundesbank was able to neutralize most of the liquidity inflow as far as the banking system was concerned but was largely powerless against the expansionary effects on liquidity at the level of enterprises. In addition, the expansion of bank lending continued at a rapid pace. Even though its growth slowed down in April and May the stock of money and near-money (M2) at the end of May was 21.2 % higher than a year earlier. Nevertheless the monetary and credit policy pursued by the Bundesbank led to a very distinct rise in interest rates on the money and capital markets.

Expenditure on *consumption* will maintain its rapid expansion. The planned cuts in budgetary expenditure will probably do little to curb the very vigorous growth in government consumption. The expansion of private consumers' expenditure may even gather additional momentum, especially if the sharp increase in prices led to a further strengthening of the upward thrust of wages and a drop in the propensity to save.

2. Outlook

The stability levy can hardly be expected to provide relief as the drain, comparatively small as it is in any case, on personal purchasing power is likely to be reflected in a fall in saving rather than in a drop in private consumers' expenditure.

The economic trend in the period up to the end of 1973 will probably be largely a reflection of the excessive expansion in recent months and of the sales and incomes expectations created by it. There is little hope of the radical tightening of stabilization policy leading to a distinct break in the business trend during the remainder of the year.

The pace of expansion recorded in the early months of the year and the expected buoyant trend of demand suggest that *gross national product in 1973* may grow by between 6 and 6½ %, or considerably faster than had been expected as recently as the beginning of the year. In the process, the remaining margin of spare production capacity will be taken up more and more so that there is reason to expect increasing strains until the end of the year. Even though import demand is rising and the terms of trade continue to deteriorate, there will again be large foreign trade surpluses, but these are likely to be offset in large measure by deficits in the other items of the current account.

With new orders to industry as a whole in the first five months of the year up 40 % on a year earlier, the heavy backlog of *export orders* and the continued boom experienced by the main trading partners will still provide vigorous sti-

Given these prospects, there is little hope of an early easing in the *pressure on prices*. Even the measures taken by the Federal Government to dampen demand and the restrictive monetary and credit policy pursued by the Bundesbank will not prevent the inflationary process from continuing for the time being. In all probability the substantial braking effect initiated by these measures will not develop fully until next year.

The *stabilization* measures will produce the hoped-for results only if they are implemented rigorously and are backed up by all groups participating in economic life. Under budgetary policy great care should be taken in particular to see that all the measures adopted are given effect rapidly. Especially the regional and local authorities should exercise greater restraint over spending. Monetary and credit policy should maintain its restrictive course in order to back up, from the monetary side, the efforts to check demand in money terms.

The new situation created by the restrictive policies of the Federal Government and the Bundesbank should also find its reflection in the attitude of both sides of industry. In particular, there is a need for this change to be taken into account in new wage negotiations. This assumes, however, that enterprises too adjust their pricing policies and do not push up prices to the limit of what is still possible for the time being. The recent decision to strengthen competition policy, which includes the abolition of retail price maintenance advocated in this survey for a long time past, could make a useful contribution.

3. The economic situation in West Berlin

In recent months Berlin's economy has increasingly been affected by the unusually sharp acceleration, accompanied by growing strains, of the economic upswing in the Federal area. Especially the steep rise in demand for plant and machinery provided vigorous stimuli to production in the capital goods industries. The strong pull of demand from the Federal area showed up clearly in the rapid expansion of Berlin's merchandise deliveries, which in the past few months have markedly outstripped

exports to foreign countries, themselves still expanding vigorously.

Investment activity, which had been sluggish for quite some time, strengthened appreciably. But ordering was not as hectic as in the Federal area since there was still a major volume of spare capacity to be taken up in Berlin's economy. With incomes rising more rapidly again, private consumers' expenditure too expanded more vigorously. In the first quarter of 1973, retail sales were up 9.6 % on a year earlier.

Industrial production was able to expand rapidly, evidently because of the size of the capacity reserves; in the first quarter it was 10 % higher than in the corresponding period of 1972. The situation on the labour market improved further. At the end of May the number of unfilled vacancies exceeded the number of unemployed by about 9 600.

Consumer prices in May were 8.7 % higher than a year earlier.

With economic growth in the Federal area expected to be very vigorous until the end of 1973, the pace of economic activity in Berlin too is likely to quicken further, especially because available production capacities still offer scope for expansion.

Major economic policy measures

April

— A further 10 % cut in rediscount quotas decided upon by the Bundesbank in January entered into force on 1 April.

— The Federal Railways' rates for goods transport were raised by an average of 6 % from 15 April.

May

— With effect from 4 May the Bundesbank raised the discount rate from 5 % to 6 % and the rate for advances on securities from 7 % to 8 %. Interest rates for money market paper were also put up.

— On 9 May the Federal Government adopted a stability programme with the following main features:

— Federal Government appropriations representing no statutory or international commitments will be reduced by 5 % as the budget is being implemented (a saving of some DM 700 million). The Länder were asked to implement their budgets along similar lines.

— 10 % of the appropriations entered into the 1973 Federal and Länder budgets to cover joint expenditure is to be carried forward to the 1974 financial year, representing a saving of DM 330 million for the Federal Government and DM 660 million for the Länder.

The relevant commitment authorizations in the draft Federal budget for 1974 will receive similar treatment.

— Net borrowing by the central, regional and local authorities will be reduced by DM 5 500 million (DM 1 700 million for the Federal Government, DM 2 800 million for the Länder, and DM 1 000 million for the local authorities). The Federal Government's extra tax revenue in excess of DM 1 700 million will be frozen with the Bundesbank. The Länder were also required to freeze any further tax revenue with the Bundesbank.

— Expenditure under the ERP programme was reduced by 10 % (a saving of DM 230 million).

— The minimum income levels for the application of the 10 % stability surcharge decided upon on 17 February were lowered to DM 24 000 for single persons and DM 48 000 for married couples.

— All investment in respect of which orders are placed after 8 May 1973 will be subject to an 11 % investment tax under the VAT system, for a period of two years at the most. The Federal Government may by statutory order reduce or abolish the investment tax. The resultant tax revenue will be frozen with the Bundesbank in the counter-cyclical equalization reserve.

— The suspension of diminishing balance depreciation for certain buildings, especially industrial buildings, decided upon by the

Federal Government on 17 February was extended to cover all buildings (except subsidized housing) and plant and machinery in respect of which orders are placed between 9 May 1973 and 30 April 1974.

— The special depreciation allowances for owner-occupied houses and apartments under Section 7 (b) of the Income Tax Law were suspended for buildings in respect of which building permission is requested after 8 May 1973 and before 1 May 1974.

— The timing of advance payments of income tax and corporation tax pursuant to Section 26 of the stability law was linked more closely to profit trends.

— In 1973 a portion of DM 2 500 million of the social security institutions' liquid reserves is to be frozen with the Bundesbank in an interest bearing account.

— A second tranche of the stability loan decided upon in February will be floated shortly.

— Full use is to be made of the remaining scope for autonomous trade policy measures; in particular, trade with the state-trading countries is to be liberalized further.

— Restrictions are to be placed on the granting of guarantees and sureties for export.

— The Federal Government will continue to press within the European Communities for a linear tariff cut and an improvement in Community preferences for developing countries.

— The public tender procedure is to be expanded with a view to strengthening competition when public contracts are placed. The placing of orders will be postponed in the event of excessive demand on regional markets.

— At the end of May the Federal Government decided to raise war victims' pensions by 11.4 % from 1 January 1974.

June

— With effect from 1 June the Bundesbank raised the discount rate from 6 % to 7 % and the rate for advances on securities from 8 % to 9 %. Interest rates for money market paper were also put up. From the same date the Bundesbank ceased, until further notice, to

grant advances on securities to credit institutions.

— Under a decision adopted by the Federal Government on 13 June the purchase by foreigners of claims on residents involving amounts of more than DM 50 000 was made subject to authorization. Till then such transactions needed merely to be notified.

— On 14 June the Bundestag passed a law amending the restrictive practices law, mainly by introducing prior control of mergers, tightening the supervision of abusive practices engaged in by market dominating enterprises, prohibiting resale price maintenance for branded goods and facilitating cooperation between small and medium-sized enterprises. Price recommendations are on principle still admissible, but there is to be stricter control to prevent abuse.

— On 20 June the Bundestag adopted the 1973 Federal budget. Total expenditure is DM 120 230 million, 10.3 % more than under the 1972 draft budget and 9.6 % more than the outturn for 1972. The net borrowing requirement is just under DM 2 000 million.

— On 26 June the Bundesbank decided to make a 25 % cut, from 1 July, in the basic amount used to compute the growth in foreign liabilities subject to the minimum reserve requirement. This raised the minimum reserves

to be maintained in respect of such liabilities by some DM 1 500 million. The interest rates for the Bundesbank's money market paper were again raised with effect from 27 June.

— On 29 June the Federal Government decided to revalue the German mark by 5.5 % with immediate effect.

July

— Wage and salary earners in the iron and steel industry will receive a transitional lump-sum payment of DM 280 for the period from 1 July to 31 December.

— From 1 July existing pensions under the statutory pension insurance scheme were raised by 11.4 % and invalidity pensions by 9.1 %.

— From 1 July service enterprises are required to mark the prices of their main services, as is already the case with firms in the distributive trades. Prices must include value added tax and other price components.

— In July the Federal Government floated a second tranche totalling DM 750 million of the stability loan decided upon under the first stability programme of 17 February; the coupon was 10 %. Of this amount DM 250 million will be made available to the Bundesbank for its open-market policy.

Germany (FR)

TABLE 1 : Key indicators

	1968	1969	1970	1971	1972	1972
	% change by volume on preceding year					1963=100
Gross national product	+ 7.3	+ 8.2	+ 5.8	+ 2.7	+ 2.9	150
Industrial production	+ 9.8	+ 10.7	+ 6.3	+ 2.1	+ 2.9	158
Total imports	+ 14.7	+ 16.9	+ 15.9	+ 9.8	+ 8.1	238
Private consumers' expenditure	+ 3.8	+ 7.7	+ 7.0	+ 5.6	+ 3.5	153
Public current expenditure on goods and services	- 0.0	+ 4.9	+ 4.9	+ 7.3	+ 4.4	135
Gross fixed asset formation	+ 8.0	+ 12.1	+ 11.5	+ 4.5	+ 1.9	155
Total exports	+ 13.4	+ 12.6	+ 9.0	+ 6.5	+ 7.6	227
Gross national product per head of population	+ 6.9	+ 7.2	+ 4.8	+ 1.7	+ 2.3	140
Gross national product per person in employment	+ 7.1	+ 6.3	+ 4.3	+ 2.9	+ 3.8	150
	% change by value on preceding year					
Gross income per employee	+ 6.7	+ 9.7	+ 15.0	+ 12.6	+ 10.0	218

TABLE 2 : Indicators for internal and external equilibrium

	1968	1969	1970	1971	1972
Balance exports less imports					
in million Eur	+ 4 488	+ 3 906	+ 3 046	+ 2 791	+ 3 801
as percentage of GNP	+ 3.3	+ 2.4	+ 1.6	+ 1.3	1.6
Unemployment rate	1.2	0.7	0.5	0.7	0.9
Prices to private consumers (% change on preceding year)	+ 1.9	+ 2.5	+ 3.5	+ 5.2	+ 5.8

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					1968 = 100	Million Eur.	% of totals
	1968	1969	1970	1971	1972	1972	1972	1972
Visible exports								
Total	+ 14.3	+ 16.9	+ 17.7	+ 14.2	+ 9.0	291.2	42 563	100.0
Intra-EEC	+ 16.7	+ 23.9	+ 18.6	+ 14.0	+ 8.5	311.4	18 976	39.9
To non-EEC countries	+ 12.9	+ 12.8	+ 17.1	+ 14.3	+ 9.4	279.2	25 587	60.1
Exports of food, beverages and tobacco								
Total	+ 21.8	+ 27.0	+ 27.6	+ 19.6	+ 19.1	526.3	1 518	3.6
Intra-EEC	+ 32.8	+ 31.0	+ 16.6	+ 22.2	+ 28.6	819.7	910	2.1
To non-EEC countries	+ 9.4	+ 21.6	+ 43.7	+ 16.5	+ 7.2	342.8	608	1.5
Exports of raw materials, fuel and power								
Total	+ 10.7	+ 4.2	+ 18.9	+ 11.9	+ 0.1	174.2	2 178	5.1
Intra-EEC	+ 10.6	+ 5.4	+ 20.1	+ 11.5	+ 0.4	177.8	1 357	3.2
To non-EEC countries	+ 11.5	+ 2.4	+ 16.9	+ 12.6	- 0.4	168.6	822	1.9
Exports of semi-finished and finished industrial goods								
Total	+ 15.9	+ 17.5	+ 17.3	+ 14.1	+ 9.2	297.2	38 866	91.3
Intra-EEC	+ 21.6	+ 25.8	+ 18.6	+ 13.8	+ 8.3	321.3	14 710	34.6
To non-EEC countries	+ 13.0	+ 13.0	+ 16.5	+ 14.3	+ 9.8	284.2	24 157	56.7
Visible imports								
Total	+ 16.1	+ 23.7	+ 20.0	+ 15.2	+ 6.7	281.3	36 627	100.0
Intra-EEC	+ 21.7	+ 30.0	+ 21.8	+ 20.8	+ 11.1	411.8	17 880	48.8
From non-EEC countries	+ 12.5	+ 19.3	+ 17.9	+ 10.1	+ 2.7	216.1	18 746	51.2
Imports of food, beverages and tobacco								
Total	+ 3.7	+ 16.7	+ 14.3	+ 13.5	+ 10.2	223.4	6 192	16.9
Intra-EEC	+ 11.9	+ 26.8	+ 12.6	+ 21.9	+ 15.3	335.5	3 236	8.8
From non-EEC countries	- 1.9	+ 9.0	+ 15.9	+ 6.2	+ 5.1	163.6	2 956	8.1
Imports of raw materials, fuel and power								
Total	+ 15.8	+ 12.2	+ 13.6	+ 13.5	- 0.4	208.0	7 482	20.4
Intra-EEC	+ 18.1	+ 23.3	+ 18.5	+ 22.0	+ 2.1	323.3	1 765	4.8
From non-EEC countries	+ 15.3	+ 9.7	+ 12.3	+ 11.2	- 1.1	187.5	5 717	15.6
Imports of semi-finished and finished industrial goods								
Total	+ 21.1	+ 31.4	+ 23.5	+ 16.3	+ 8.2	345.2	22 954	62.7
Intra-EEC	+ 25.4	+ 32.0	+ 24.8	+ 21.5	+ 11.5	455.3	12 880	35.2
From non-EEC countries	+ 16.8	+ 30.7	+ 22.1	+ 10.6	+ 4.3	263.6	10 074	27.5

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1971	162.4	161.4	159.3	162.2	159.4	157.8	159.7	153.7	159.2	161.7	155.2	145.7
	1972	162.2	160.8	164.4	167.0	160.6	159.0	164.0	162.5	166.2	167.1	167.1	174.1
	1973	174.5	182.3	178.0	181.3	172.2							
New orders received (1963 = 100)	1971	180	182	194	185	182	188	181	183	185	175	182	183
	1972	184	193	198	188	195	202	182	198	197	204	213	218
	1973	253	237	236	219	259							
Unemployed (1 000)	1971	169.5	146.8	167.2	168.8	171.5	176.7	169.2	199.4	207.6	222.0	239.9	231.8
	1972	232.4	231.2	216.9	246.4	249.6	248.0	254.7	251.2	248.6	254.7	255.5	244.1
	1973	237.2	233.8	244.1	253.7	246.5	251.2						
Construction : permits for residential construction (1 000)	1971	55.1	56.3	55.1	54.8	60.6	61.0	58.3	63.3	62.3	59.0	61.1	61.8
	1972	63.4	60.3	61.2	63.1	63.8	70.8	65.2	64.5	63.4	63.9	64.2	64.9
	1973	65.5	61.2	65.9	55.4								
Private consumers' expenditure : department store turnover (1963 = 100)	1971	209.0	203.7	205.4	217.3	209.4	219.1	226.0	213.1	226.0	221.8	232.3	225.3
	1972	228.0	239.2	239.5	215.4	233.6	242.5	239.7	257.9	250.2	238.5	244.2	260.9
	1973	252.9	254.8	248.6									
Consumer prices (1963 = 100)	1971	123.5	124.5	125.3	125.9	126.2	126.7	127.2	127.1	127.7	128.3	128.9	129.3
	1972	130.7	131.3	132.1	132.3	132.6	133.5	134.3	134.3	135.7	136.4	137.1	137.7
	1973	139.3	140.2	141.1	142.2	143.1	144.0						
Visible imports (million Eur)	1971	2 447	2 864	2 855	2 688	2 635	2 720	2 747	2 694	2 756	2 663	2 747	2 903
	1972	2 721	3 012	3 109	2 874	3 177	3 069	2 773	3 076	3 067	3 227	3 306	3 221
	1973	3 398	3 519	3 437	3 306	3 822							
Visible exports (million Eur)	1971	2 892	3 199	3 268	3 094	2 997	3 136	3 225	3 116	3 197	3 046	3 018	3 187
	1972	3 140	3 559	3 528	3 343	3 569	3 553	3 328	3 586	3 461	3 864	3 821	3 699
	1973	4 048	4 157	4 019	4 173	4 639							
Balance of trade (million Eur)	1971	+ 445	+ 335	+ 413	+ 406	+ 352	+ 416	+ 478	+ 422	+ 441	+ 383	+ 271	+ 284
	1972	+ 419	+ 547	+ 419	+ 469	+ 392	+ 485	+ 555	+ 510	+ 394	+ 636	+ 515	+ 478
	1973	+ 650	+ 637	+ 582	+ 877	+ 817							
Official gold and foreign exchange reserves (million Eur)	1971	13 411	14 252	15 201	16 138	18 400	16 207	16 603	16 335	16 561	16 818	16 981	16 552
	1972	17 113	17 794	17 734	17 789	17 845	20 389	22 446	22 252	21 728	21 630	21 318	20 838
	1973	20 592	23 471	26 380	26 095	25 601	27 553						
Money supply (DM '000 million)	1971	103.6	104.4	105.3	107.3	109.7	110.1	112.2	113.0	112.4	113.3	114.9	115.5
	1972	116.6	117.1	120.4	122.3	120.5	126.0	128.0	127.7	128.3	128.5	131.6	131.4
	1973	131.8	131.9	137.7	137.2	130.3							

Germany (FR)

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).
Conversion into Eur (1Eur = 0.888671 g of fine gold).

— For the intra community trade the new Community countries have not yet been taken into account.

Graph 1

Exports fob: series adjusted for seasonal variations; three-month moving averages.

Graph 2

Industrial production: excluding construction, food, beverages and tobacco; adjusted for seasonal variations; three-month moving averages.

Graph 3

Labour market: series adjusted for seasonal variations; three-month moving averages; position at end of month.

Graph 4

Imports cif: series adjusted for seasonal variations; three-month moving averages.

Graph 5

Wages and consumer prices: index of average hourly gross earnings in industry (including construction); cost-of-living index (all households) at middle of month, not adjusted for seasonal variations.

Graph 6

Balance of trade: difference in terms of value between exports and imports, seasonally adjusted.

Graph 7

Bank lending: short-term loans to business and private customers within the country; position at end of month, not adjusted for seasonal variations.

Table 1

Gross national product at market prices.

Industrial production: value added by industry (including small workshops).

Total exports and imports: goods, services and factor income.

Gross income per employee: income from paid employment (including employers' share of social insurance contributions).

Table 2

Balance exports less imports, as defined for the national accounts.

Unemployment rate: number of unemployed as percentage of total labour force (annual averages); source: Statistisches Bundesamt and Bundesanstalt für Arbeit.

Price index: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

Table 3

Exports fob, imports cif. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

New orders received: manufacturing industry (excluding food, beverages and tobacco); seasonally adjusted value index.

Unemployed: position at end of month, adjusted for seasonal variations.

Construction: seasonally adjusted number of dwellings authorized.

Private consumers' expenditure: seasonally adjusted value index of department store turnovers.

Consumer prices: cost-of-living index (all households), not adjusted for seasonal variations.

Imports cif, exports fob; value, adjusted for seasonal variations.

Balance of trade: difference between values of imports and exports, seasonally adjusted.

Official gold and foreign exchange reserves: monetary authorities' reserves of gold and convertible currency, holdings in special drawing rights and reserve position in IMF. Figures are given gross, liabilities to abroad not having been deducted. Position at end of month.

Money supply: notes and coin in circulation (excluding cash holdings of credit institutions) and sight deposits of domestic non-banks (excluding public authorities' deposits with the Bundesbank); position at end of month, adjusted for seasonal variations.

C. France

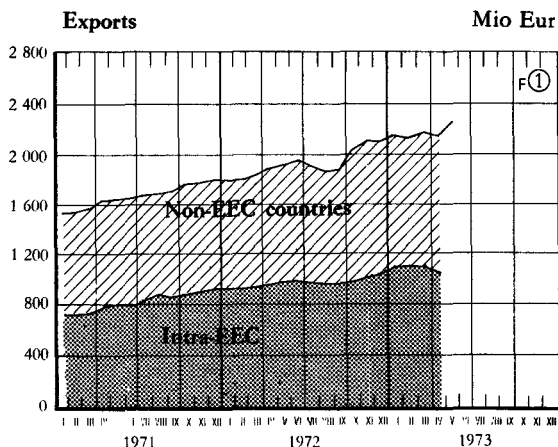
Inflationary pressures in the French economy have continued to mount in recent months. Production has gained additional momentum, boosted by the vigorous expansion of expenditure on consumption, the continued rapid growth of export demand and, in particular, an upturn in investment activity. The upward movement of prices, which had slackened markedly at the beginning of the year, has accelerated again.

The next few months are unlikely to bring any easing in the pressure of demand in money terms, while the scope for expanding supply in real terms appears to be limited now. Prices and costs will go on rising, and increased imports are likely to be a burden on the trend of the trade balance.

1. Recent developments

So far this year trends in the French economy have continued to reflect very heavy, and often still increasing, pressure on productive resources and, associated with this pressure, a persistently rapid upsurge in costs and prices. At the same time the growth in production accelerated.

The expansion of *export demand* still gained in vigour slightly, contributing substantially to the growth of overall demand. The value of visible exports in March-May was up some 19 % on

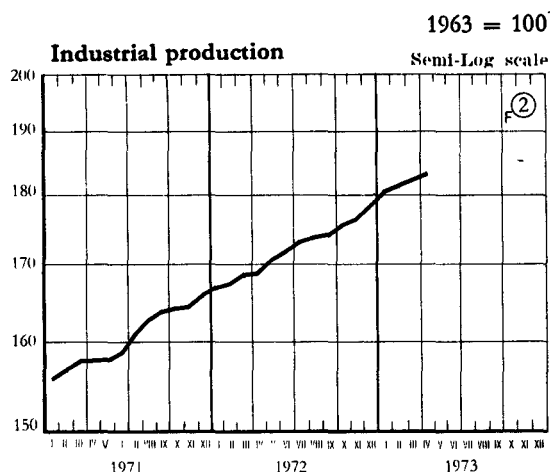


the corresponding period of 1972. Growth was sharpest in the markets within the Community.

Domestic demand too appears to have gathered additional momentum, mainly because of the stimuli from the renewed upswing of *investment* in industry and the services sector; excellent sales prospects in often very profitable markets, the quite favourable profit situation still enjoyed by most enterprises, and even more the rise in wage costs which is now very rapid, have prompted trade and industry to step up investment principally with the aim of increasing productivity. Investment in residential construction too has continued to grow markedly, and investment spending by the public authorities has also expanded at a lively pace.

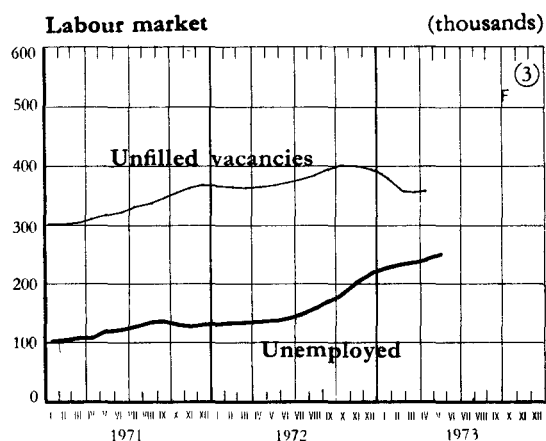
The rise in *expenditure on consumption* continued at a rapid pace and has presumably become slightly faster still since the beginning of the year. Public current expenditure on goods and services climbed markedly, partly because of fortuitous factors. Private consumers' expenditure went on forging ahead, helped by the sharp acceleration in the trend of wage and salary income and the considerable improvements in social security benefits.

The vigorous increase in overall demand led to a distinct acceleration in the growth of industrial *production*. The seasonally adjusted INSEE index shows that in the first four months of 1973 it had been rising at an annual



rate of 11 to 12 %. The growth of production would no doubt have been sharper still had not shortages of manpower and technical capacities proved a limiting factor. A constantly increasing proportion of the industrialists questioned under the INSEE survey report that they are unable to expand their production any further because their capacities are fully engaged. In June 1973 this proportion was as high as 31 %, a level last reached in 1969.

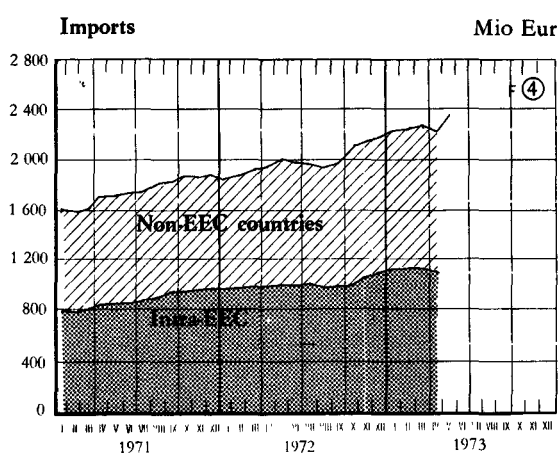
The boom has also led to increasing strain on the *labour market*; there is very strong demand for manpower, including unskilled labour. The efforts to employ more women workers and work more overtime have met with very limited



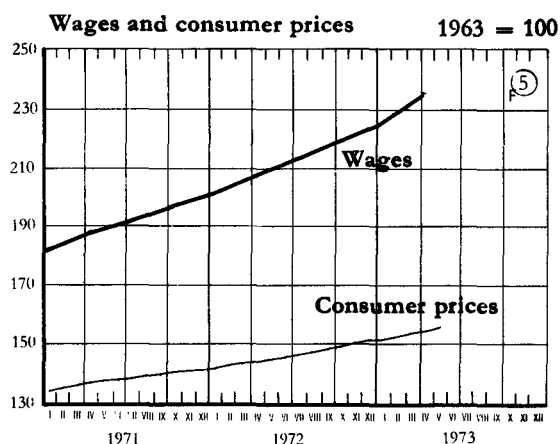
success only, and recourse to foreign labour has, if anything, been impeded for some time by certain official requirements. The seasonally adjusted number of job-seekers has declined steadily since October 1972, to level out towards the end of the first quarter of 1973, while the average length of unemployment

shortened. The seasonally adjusted number of unfilled vacancies has moved up consistently since the beginning of 1972; in the first four months of 1973 it was up some 11½ % on a year earlier. The shortage of manpower contributed to a further acceleration in the rise of wages; since the beginning of the year, hourly wage rates in trade and industry have probably been rising at an annual rate of 14 %.

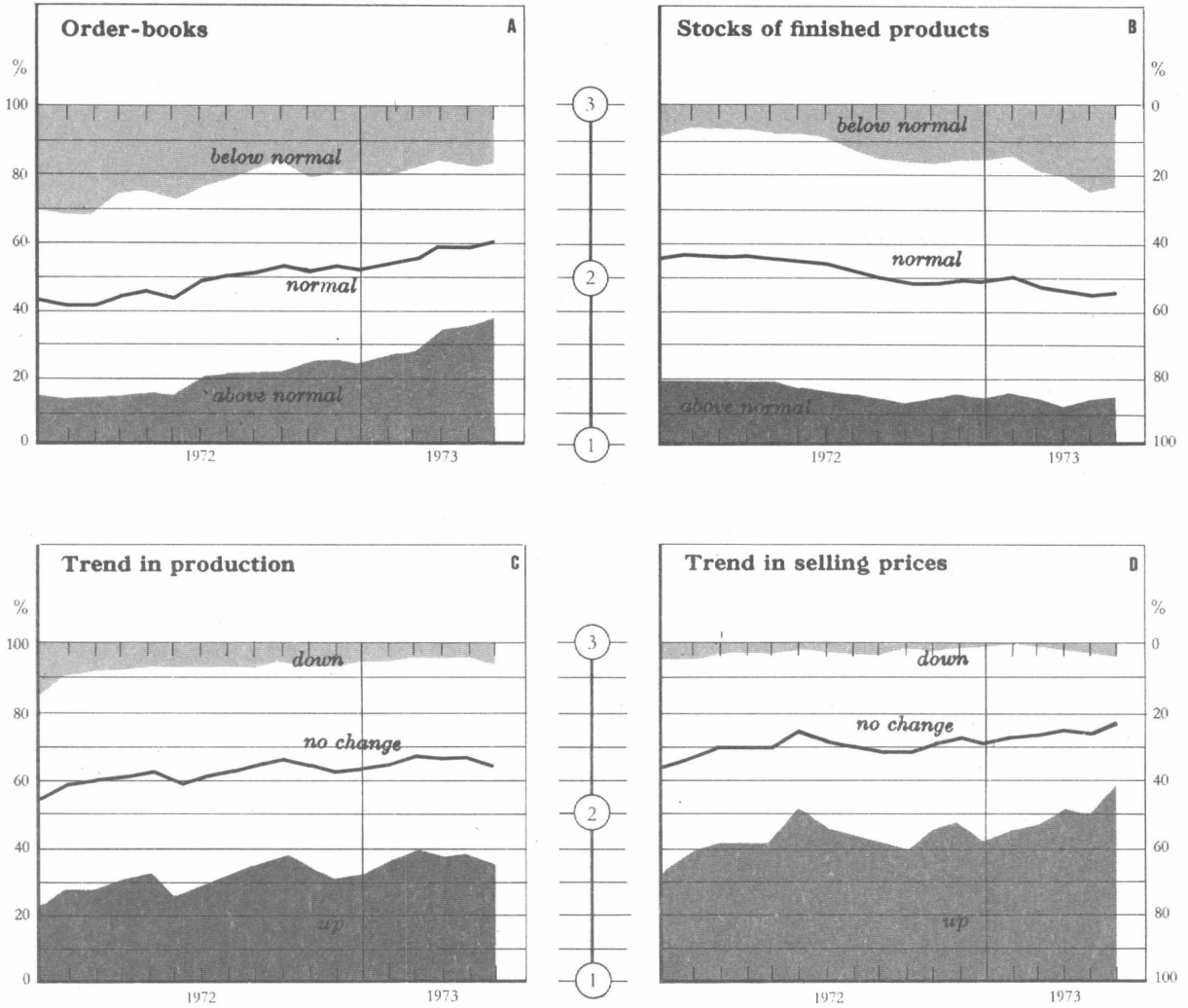
The pressure to *import* has risen distinctly since the beginning of the year, with the volume of visible imports growing at an annual rate of some 22 %.



The steady rise in production costs continued to exert strong pressure on *prices*, which households and enterprises found all the easier to put up with as incomes were dimbling at a faster pace. The upward movement of prices, which at consumer level slowed down appreciably in the first three months of the year as a result of the cut in VAT rates but continued unabated at producer level, has since April been even



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to questions in the EEC business survey, carried out in France by INSEE.

GRAPHS A, B, C and D : The three zones (grey, white and black) show the percentages of the three different answers.

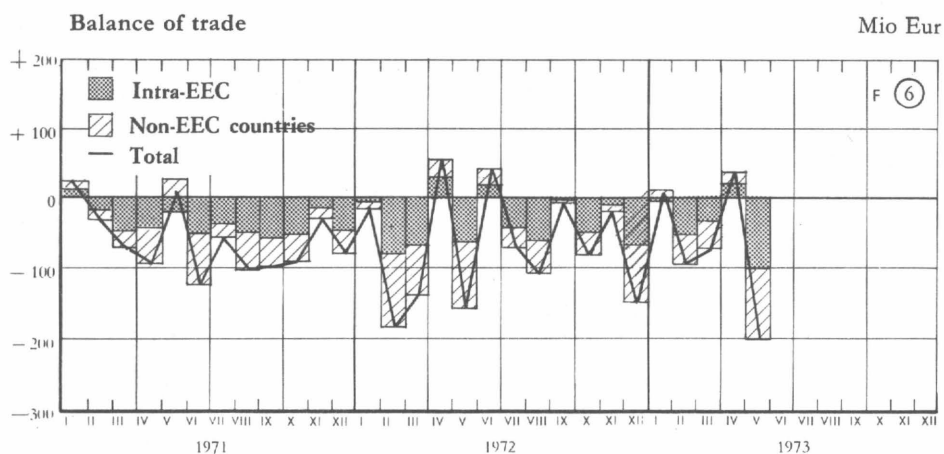
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".



faster than the rapid pace registered in the second half of 1972. In April 1973 the consumer price index was up 6.7 % on a year earlier.

The deficit in the *balance of trade* (cif-fob) has tended to widen since the beginning of the year. On long-term capital account, the deficit in the first quarter was much heavier than a year ear-



Demand for and supply of goods and services

	1970 ¹	1971 ¹		1972 ¹		1973 ²	
	At current prices (in FF '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ³	138.5	+ 14.0	+ 16.0	+ 9.0	+ 12.3	+ 13½	+ 16½
Gross fixed asset formation	209.2	+ 5.6	+ 10.6	+ 7.0	+ 12.4	+ 7½	+ 14
Public current expenditure on goods and services	100.0	+ 4.1	+ 11.2	+ 3.9	+ 11.1	+ 4	+ 12
Private consumers' expenditure	478.6	+ 6.1	+ 11.8	+ 5.8	+ 11.7	+ 6	+ 13
Gross national product	809.2	+ 5.5	+ 11.2	+ 5.4	+ 11.4	+ 6	+ 13
Imports ³	134.4	+ 11.2	+ 12.9	+ 10.3	+ 13.2	+ 14	+ 18

¹ Rapport sur les comptes de la Nation 1972. Ministère de l'Economie et des Finances.

² Forecasts.

³ Goods, services and factor income.

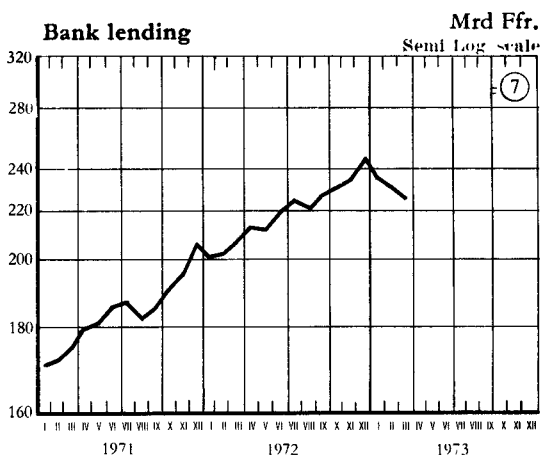
Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The forecasts are approximations based on certain hypotheses generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

lier, and the overall balance of payments closed with a small surplus only. Gross official gold and foreign exchange reserves rose from 9,200 million u.a. at the end of 1972 to 9,600 million u.a. at the end of May 1973.

The growth of *domestic liquidity* slowed down, mainly as a result of the measures taken last December. At the end of May 1973 the expansion in the money supply over a year earlier was 16 %. Treasury transactions in particular had a restrictive effect (of almost FF 3,000 million) as liquidity was siphoned off through the issue of a government loan. But lending to business and private customers too tended to



slacken. Foreign exchange inflows, on the other hand, had a distinctly expansionary effect on liquidity, especially in March. The strains on the money market showed no signs of easing, and interest rates remained high. The Banque de France supported the upward tendency of interest rates by raising the discount rate from 7½ to 8½ % at the beginning of July.

2. Outlook

The strains currently apparent in the French economy are likely to increase further until the end of the year. For one thing, with the main buyer countries in a phase of boom or at least a phase of upswing, there is reason to expect *exports* to go on rising even if market shares can no longer be increased as vigorously as hitherto. Production costs in France do not appear to be climbing much more rapidly than in the competing countries so that the com-

petitive position is unlikely to show any major deterioration in the short term. But with production capacities fully engaged, it will not be possible to use all of these sales opportunities.

The strongest stimuli to general economic activity are likely to come from domestic demand, for the probability is that all components will simultaneously be in a phase of faster expansion, if only because of their interdependence. In March the private sector's *investment* plans for 1973 were revised sharply upwards; this tendency will probably gain additional vigour, for a large number of industries are faced with capacity bottlenecks while the current outlook for sales is good. Residential construction will make further rapid progress as the measures to restrict mortgage lending will probably make themselves felt only very gradually.

Private consumers' expenditure will probably rise at much the same pace even somewhat faster than, disposable income, which is itself gaining additional momentum. This is because the savings ratio of households may decline slightly. *Public consumption* too will go up very rapidly.

Domestic supply will keep up with rapidly expanding demand only at the price of still heavier strains. There are physical limits to the expansion of *production* which are much narrower than the growth of demand. The recovery of investment activity will be slow in having an effect on capacities and, moreover, the structure of the manpower reserves available at present is little adapted to that of unfilled vacancies. The percentage of industrialists who are unable to produce more is therefore likely to grow further. In the circumstances there will inevitably be heavier pressure to import, which may lead to an increasing deterioration in the balance of trade.

Prices will in all probability rise at least as rapidly as at the end of 1972. While at the moment incomes are still increasing faster than the cost of living, leaving scope for a substantial advance in real incomes, there is a great risk that the acceleration in the upward movement of prices will gradually eliminate the difference between the two rates, which may give rise to new wage demands.

A sufficient and rapid dampening of the expansion of demand in money terms can be achieved

only by sharply reducing domestic liquidity. Measures to this effect were initiated at the beginning of July already; they included restrictions on the growth of personal indebtedness and mortgage lending. Liquidity might also be cut back by floating a new government loan of a size that would have to be equivalent to a considerable percentage of the money supply. It is also essential that the Government should manage its finances along restrictive lines and that in implementing the 1973 budget the expenditure estimates are not exceeded. As the proceeds of the loan floated in January have since March been released at the rate of one tenth a month to cover cash deficits, it would be advisable for the authorities to freeze the extra tax receipts which are being generated by the economic trend and inflation and are much larger still than had been estimated originally. The decision, in July, to continue the freeze of the budget moneys in the economic contingency fund could be extended to include the proceeds of the stability loan; the acceleration of payment planned to be introduced for corporation tax could be envisaged for other taxes as well. For the struggle against the upward thrust of prices to be successful, however, action must also be taken to encourage competition in the distributive trades.

Major economic policy measures

March

— In mid-March the Banque de France granted about fifty mortgage banks an extension of the time limit for compliance with the norms applying to the expansion of lending to private customers.

— To cope with the new international monetary crisis and prevent speculative inflows of capital, the authorities with effect from 17 March supplemented foreign exchange controls by three technical measures relating to non-residents' accounts:

1. Payment of interest on deposits denominated in French francs was prohibited;
2. The minimum reserve ratio in respect of such deposits was raised to 100 %;
3. A ban was placed on using these deposits to buy money market paper such as treasury

bills or short-term deposit certificates or converting them into time deposits.

In addition the banks were prohibited from increasing their forward foreign exchange position from the level of 28 February.

— *The price agreements policy which had been initiated in March 1972 and was due to expire on 31 March was extended for one month.*

April

— *At the beginning of April the French banking association announced that banks would in future charge negative interest on non-residents' accounts in the form of a commission of 0.75 %. This was to counterbalance the effects of the recent increase, to 100 %, in the minimum reserve ratio on non-residents' accounts. The measure was also designed to curb the inflow of foreign capital.*

— *The foreign exchange rules applying to foreign trade since the beginning of 1972 were eased at the beginning of April. The obligation on exporters to require foreign clients to effect payment within a maximum of 180 days was abolished. The limit of 3 to 6 or 12 months (depending on the category of goods) on the period for which importers may cover their exchange risk was also removed; this brought the system of forward cover for importers into line with that for exporters.*

In future the exchange rate guarantee will be available for contracts running for more than a year, instead of two years; while previously the exchange rate guarantee began to operate when, between the time of signing and the time of completion, the currency in which the contract had been concluded deviated by more than 3 % from the starting rate, the critical figure is now 2.25 %, or the same as the maximum spread between the currencies participating in the Community's exchange rate mechanism. In addition, administrative processing of applications for the grant of an exchange rate guarantee was simplified.

— *In mid-April a decree modified the rules on the grant to hotels of a special investment premium for the benefit of tourist hotels. The premiums will now go mainly to the more modest hotel establishments.*

— *The French airlines were authorized to raise their fares by some 5 % from 15 April.*

— With effect from 16 April the banks increased their base lending rate from 7.10 % to 7.40 %. The discount rate for trade bills went up from 7.50 % to 7.80 % and the rate for overdrafts from 9.15 % to 9.45 %.

May

— The authorities adopted the new price rules valid until 31 March 1974. The main points are:

1. Prices of industrial products: between 1 April 1973 and 31 March 1974 the average rise in the prices of industrial products may not exceed 3.6 % (as against 3 % in the previous 12 months); the maximum rate ranges from 3 % to 4.2 %, depending on the industry, and is determined by the scope for productivity gains. Enterprises whose cost prices contain a large element of raw material costs may opt for another system under which an annual price increase of 3 % combines with a supplement or deduction for rising or falling raw material prices and, in exceptional cases, for changes in the costs of fuel and power, transport, packaging and delivery. Price shifts within one and the same firm (above-average price increases for certain articles and offsetting reductions for others may not exceed half of the official target rate. Enterprises which do not sign these annual programme contracts will become subject again to the system of prior notification of price changes.

2. Distributive trades: traders' percentage margins in terms of supply prices must remain unchanged.

3. Services: permissible price increases are determined by operating costs in the various branches. The non-wage element in these operating costs may go up by the same percentage as industrial prices. A specific percentage may be applied to the wage element, taking into account productivity gains and a reasonable rate of wage increase.

4. Public service charges: these will also be subject to a system of annual programming similar to that applying to services supplied by the private sector.

5. Supervision: compliance with the commitments entered into by firms will be supervised and infringement may be punished.

— The French Railways were authorized to raise their rates for goods transport and their

passenger fares by some 5 % with effect from 7 May and 16 May respectively. Fares on the Paris suburban lines were not affected.

— Following the farm price decisions taken by the Council of Ministers of the Communities, the retail price of milk was raised by 7 to 8 centimes, depending on the department, from 10 May; the prices of fresh milk products went up from 1 June.

— In mid-May the Government announced a number of measures to promote subsidised housing. The interest rate on additional loans needed to finance normal increases in building costs will be the same as that on the main loan; loans for improving the quality of dwellings will in future be available at a reduced rate of interest. The procedure for applying for housing allowances will be simplified.

— In mid-May the French Railways signed an agreement on wage adjustments in 1973. The main features are a 6 % increase in money wages, a guaranteed 2 % rise in real wages, pay reform and improvements in pensions and holiday allowances.

— At the end of May the authorities announced that the credit restrictions would be extended to cover the third quarter. In the year to 30 September the rise in lending must not exceed 15 %.

June

— The salaries of officials were raised by 1.5 % from 1 June.

— From 1 June motor fuel prices went up by between 2.7 and 3.9 %, depending on the category.

— On 9 May the banks for the fifth time since 15 September 1972 raised their base lending rate, from 7.40 % to 7.70 %. The discount rate for trade bills moved to 8.10 % and the overdraft rate to 9.75 %. This fresh increase in banks' lending rates was due to the increase in non-interest bearing minimum reserves and the higher cost of refinance.

— With effect from 18 June new rules were introduced for intervention on the money market by the Banque de France. In future, most of the banks' refinance from the Central Bank will have to be obtained by firm buying of eligible paper under a tender procedure. The

idea is to stop banks relying on being able to obtain refinance in the form of call money.

— In mid-June the Government made known the main lines of its programme for 1973 and 1974. The action envisaged includes speeding up implementation of certain public infrastructure projects, improving the incomes of the poor, assisting small and medium-sized enterprises and waiving an increase in the rates of Paris transport.

— An agreement concluded on 25 June between the central trade union organizations and employers gives an incomes guarantee to workers aged 57 and over who have lost their jobs and do not draw their full pension until the age of 65; the allowance paid was raised and made easier to obtain.

— At the end of June the Government decided to supplement and tighten the rules on mineral oil imports into France. In addition to authorizing three new companies (two of which are foreign) to engage in importing and refining, the decision relates to diversification and security of supply.

July

— The suspension of value added tax on beef was extended from 1 July to 31 December 1973.

— From 1 July the statutory minimum growth wage (SMIC) was raised to FF 5.20, equivalent to a monthly wage of FF 1,000 on the basis of a working week of 43½ hours. This brought the rise in the minimum wage since July 1972 to 20.9 %.

— With effect from 1 July rents for old dwellings (about 1.4 million) were raised by between 6 and 17 %, depending on the category.

— From 1 July permanent and seasonal farm workers and smallholding tenants received the same cover against industrial injuries and diseases as other wage-earners.

— On 5 July the Government adopted a number of measures which applied with immediate

effect and were designed to supplement and strengthen its anti-inflation programme:

— The discount rate, which had stood at 7.5 % since 1 December 1972, was raised to 8.5 %;

— The minimum reserve ratio applicable to bank deposits was raised from 10 % to 12 % for residents' accounts and from 12 % to 14 % for non-residents' accounts;

— The limit on the year-to-year growth in lending, originally fixed at 15 % for the end of the third quarter, was lowered to 14 %. To prevent an unduly sharp rise during the quarter, ceilings were introduced for the positions at the end of July (16.5 %) and the end of August (16 %);

— Banks were required to restrict the granting of loans to private customers and keep credit outstanding to the level of 3 July. Hirepurchase contracts for motor cars were put in the same category as bank loans. The construction and purchase of second dwellings may no longer be financed on the mortgage market. Insurance companies were required to cease lending to enterprises;

— FF 2,500 million worth of conditional appropriations under the economic contingency fund will remain frozen in the financial year 1973;

— The time limit for paying advance corporation tax was brought forward from 15 December to 15 October;

— The ceiling on deposits in tax-exempt savings books accounts was raised from FF 20,000 to FF 22,500;

— Price controls during the summer will be tightened in 25 departments with a major tourist industry;

— Bilateral quotas for imports from the Eastern bloc and certain countries in Asia were raised by 20 %.

— Following these measures the banks decided to raise their base lending rate from 7.70 % to 8.20 % with effect from 7 July. The minimum rate for discounting trade bills was put up from 8.10 % to 8.60 %.

France

TABLE 1: Key indicators

	1968	1969	1970	1971	1972	1972
	% change by volume on preceding year					1963=100
Gross national product	+ 5.0	+ 7.7	+ 6.0	+ 5.5	+ 5.4	165
Industrial production	+ 5.4	+ 8.5	+ 6.7	+ 5.7	+ 5.8	175
Total imports	+ 19.7	+ 22.5	+ 8.1	+ 11.2	+ 10.3	262
Private consumers' expenditure	+ 4.6	+ 6.4	+ 4.9	+ 6.1	+ 5.8	160
Public current expenditure on goods and services	+ 4.6	+ 4.9	+ 3.2	+ 4.1	+ 3.9	139
Gross fixed asset formation	+ 5.5	+ 10.9	+ 7.5	+ 5.6	+ 7.0	198
Total exports	+ 9.5	+ 17.5	+ 17.9	+ 14.0	+ 9.0	265
Gross national product per head of population	+ 4.2	+ 6.8	+ 5.1	+ 4.5	+ 4.5	152
Gross national product per person in employment	+ 5.1	+ 6.0	+ 4.6	+ 4.8	+ 4.7	154
	% change by value on preceding year					
Gross income per employec	+ 12.5	+ 11.3	+ 10.1	+ 10.1	+ 10.4	220

TABLE 2: Indicators for internal and external equilibrium

	1968	1969	1970	1971	1972
Balance exports less imports					
in million Eur	+ 81	- 830	+ 724	+ 1 602	+ 1 548
as percentage of GNP	+ 0.06	- 0.6	+ 0.5	+ 1.0	+ 0.9
Unemployment rate	1.8	1.7	1.8	2.2	2.4
price index of private consumers' expenditure (% change on preceding year)	+ 4.7	+ 7.0	+ 5.1	+ 5.5	+ 5.6

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					1963 = 100	Million Eur	% of totals
	1968	1969	1970	1971	1972			
Visible exports								
Total	+ 11.4	+ 17.4	+ 19.2	+ 14.6	+ 15.6	200	23 469	100.0
Intra-EEC	+ 16.0	+ 30.6	+ 21.7	+ 16.0	+ 16.5	379	11 708	49.9
To non-EEC countries	+ 8.1	+ 7.5	+ 16.9	+ 13.2	+ 14.4	236	11 761	50.1
Exports of food, beverages and tobacco								
Total	+ 19.8	+ 20.8	+ 6.0	+ 26.9	+ 20.6	331	4 150	17.7
Intra-EEC	+ 26.6	+ 41.9	+ 1.8	+ 31.4	+ 22.2	548	2 612	11.1
To non-EEC countries	+ 12.8	- 3.3	+ 13.2	+ 20.3	+ 17.9	198	1 538	6.6
Exports of raw materials, fuel and power								
Total	+ 1.6	+ 10.6	+ 12.1	+ 7.0	+ 19.5	191	1 783	7.6
Intra-EEC	+ 0.9	+ 19.9	+ 14.2	+ 3.6	+ 19.3	229	1 150	4.9
To non-EEC countries	+ 2.6	- 3.5	+ 7.9	+ 13.8	+ 19.9	146	633	2.7
Exports of semi-finished and finished industrial goods								
Total	+ 10.9	+ 17.5	+ 23.1	+ 12.9	+ 13.9	298	17 536	74.7
Intra-EEC	+ 16.2	+ 29.0	+ 29.7	+ 13.8	+ 14.4	376	7 946	33.9
To non-EEC countries	+ 7.8	+ 10.2	+ 18.1	+ 12.2	+ 13.6	254	9 590	40.8
Visible imports								
Total	+ 12.5	+ 23.7	+ 9.9	+ 11.3	+ 15.2	278	24 259	100.0
Intra-EEC	+ 23.1	+ 31.3	+ 6.5	+ 13.9	+ 15.9	391	12 218	50.4
From non-EEC countries	+ 4.4	+ 16.7	+ 13.3	+ 8.8	+ 14.5	215	12 043	49.6
Imports of food, beverages and tobacco								
Total	+ 2.7	+ 19.5	+ 6.9	+ 4.1	+ 15.7	194	2 956	12.2
Intra-EEC	+ 31.8	+ 33.4	+ 3.9	+ 14.3	+ 11.2	376	1 035	4.3
From non-EEC countries	- 6.4	+ 13.5	+ 8.4	- 0.9	+ 18.3	151	1 921	7.9
Imports of raw materials, fuel and power								
Total	+ 3.6	+ 10.6	+ 11.9	+ 15.0	+ 8.5	182	5 614	23.1
Intra-EEC	+ 14.2	+ 11.4	+ 9.0	+ 17.2	+ 7.1	183	919	3.8
From non-EEC countries	+ 1.7	+ 10.5	+ 12.5	+ 14.6	+ 8.8	182	4 695	19.3
Imports of semi-finished and finished industrial goods								
Total	+ 19.6	+ 30.3	+ 9.8	+ 11.4	+ 17.7	384	15 689	64.7
Intra-EEC	+ 23.3	+ 33.3	+ 6.6	+ 13.5	+ 17.3	437	10 262	42.3
From non-EEC countries	+ 13.3	+ 24.6	+ 16.1	+ 7.5	+ 18.5	312	5 427	22.4

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1971	153.0	155.7	157.2	154.2	153.8	156.2	160.7	160.6	164.3	162.2	165.0	164.4
	1972	166.6	165.0	167.8	166.6	170.3	168.0	164.0	174.9	173.5	172.8	177.9	179.4
	1973	183.6	184.5	184.7	179.5	(187)	(183)						
Number of persons seeking employment (1 000)	1971	305.3	303.3	308.2	315.2	322.6	329.5	340.4	347.6	359.4	369.9	372.7	373.5
	1972	365.6	365.1	365.8	375.2	374.5	372.4	384.2	395.7	403.4	407.4	396.3	390.2
	1973	368.5	357.9	355.6	365.1	365.3	(375)	(406)					
Construction: building permits issued for housing (1 000)	1971	48.7	56.5	67.5	53.7	48.7	60.7	52.7	48.6	52.3	54.1	60.4	56.8
	1972	63.6	56.2	49.3	50.2	54.4	50.0	50.5	47.6	50.9			
	1973												
Private consumers' expenditure: turnover of department stores (1963 = 100)	1971	178.1	178.5	175.8	183.7	173.4	185.8	179.4	176.1	177.2	178.0	189.2	183.7
	1972	181.7	191.9	193.9	177.1	185.6	193.0	183.5	188.7	197.6	186.0	192.8	194.3
	1973	190.7	197.0	198.9	188.8								
Consumer prices (1963 = 100)	1971	134.2	134.8	135.4	136.2	137.1	137.6	138.2	138.8	139.4	140.2	140.7	141.4
	1972	141.8	142.6	143.2	143.7	144.5	145.3	146.5	147.3	148.2	149.5	150.4	151.2
	1973	151.2	151.6	152.4	153.4	154.7	155.9	157.1					
Visible imports (million Eur)	1971	1 491	1 617	1 741	1 726	1 642	1 798	1 749	1 858	1 851	1 858	1 836	1 921
	1972	1 754	2 016	2 025	1 819	2 129	1 968	1 814	2 117	2 107	2 157	2 175	2 237
	1973	2 236	2 248	2 297	2 112	(2 663)	(2 382)						
Visible exports (million Eur)	1971	1 516	1 595	1 672	1 629	1 652	1 678	1 698	1 757	1 754	1 766	1 813	1 840
	1972	1 741	1 829	1 890	1 875	1 973	1 998	1 745	2 009	2 099	2 077	2 154	2 077
	1973	2 240	2 153	2 225	2 150	(2 460)	(2 335)						
Balance of trade (million Eur)	1971	+ 25	- 22	- 69	- 97	+ 10	- 120	- 51	- 101	- 97	- 92	- 23	- 81
	1972	- 13	- 187	- 135	+ 56	- 157	+ 30	- 69	- 108	- 8	- 80	- 21	- 150
	1973	+ 4	- 95	- 72	+ 38	(- 203)	(- 47)						
Official gold and foreign exchange reserves (million Eur)	1971	5 346	5 404	5 487	5 559	5 626	5 653	6 150	7 626	7 308	7 270	7 492	7 601
	1972	7 748	7 804	7 802	7 798	7 809	8 657	9 144	9 176	9 230	9 224	9 228	9 224
	1973	9 220	8 821	9 270	9 501	9 622	9 609	9 615					
Money supply (Fr '000 million)	1971	229.0	232.5	234.7	233.4	236.9	240.3	243.5	244.4	244.8	248.5	249.5	251.3
	1972	255.1	257.2	263.8	261.5	264.0	271.0	275.7	275.3	281.5	282.1	289.2	289.9
	1973	287.7	287.6	293.5	298.1								

France

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated). Conversion into Eur account (1 Eur = 0.888671 g of fine gold).

— For the intra community trade the new Community countries have not yet been taken into account.

Graph 1

Exports fob: series adjusted for seasonal variations; three-month moving averages.

Graph 2

Industrial production: excluding construction, food, beverages and tobacco; adjusted for seasonal variations; three-month moving averages.

Graph 3

Labour market; series adjusted for seasonal variations; three-month moving averages; position at end of month; unemployed — number of persons seeking employment.

Graph 4

Imports cif: series adjusted for seasonal variations; three-month moving averages.

Graph 5

Wages and consumer prices; index of hourly wage rates, all activities, all regions; national index of consumer prices; from January 1971 new index of 295 items.

Graph 6

Balance of trade: difference in terms of value between imports and exports, seasonally adjusted.

Graph 7

Bank lending; source: Conseil National du Crédit; short-term loans (up to 2 years) from monetary institutions to business and private customers; position at end of month.

Table 1

GNP at market prices.

Industrial production: value added by industry.

Total exports and imports: goods, services and factor income.

Gross income per employee: income from paid employment (including employers' share of social insurance contributions).

Table 2

Balance exports less imports: as defined for the national accounts.

Unemployment rate: number of unemployed (persons available for and seeking employment, estimated on the basis of the number of job applicants, in the light of the latest population census) as percentage of the total domestic labour force.

Consumer prices: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

Table 3

Exports fob, imports cif; the products have been grouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

Number of persons seeking employment: position at end of month, adjusted for seasonal variations.

Construction: seasonally adjusted number of dwellings authorized.

Private consumers' expenditure: turnovers by value, adjusted for seasonal variations.

Consumer prices: national index of 295 items since January 1971.

Imports cif, exports fob, adjusted for seasonal variations.

Balance of trade: difference between values of imports and exports, seasonally adjusted.

Official gold and foreign exchange reserves: gross reserves of gold and convertible currency held by the Banque de France and the Fonds de Stabilisation des changes, position at end of month.

Money supply: fiduciary circulation (total notes and coin in circulation, excluding notes and coin held by the Banque de France) plus sight deposits (deposits made with the Banque de France by private persons or enterprises, deposits with the Post Office giro or with public accountants, plus sight deposits relating to the activities of certain financing institutions in metropolitan France. Position at end of month, adjusted for seasonal variations.

D. Ireland

The pickup in economic activity has spread to additional areas in recent months and is now apparent in all components of domestic demand. The situation on the labour market has improved while the vigorous rise in salaries and prices has continued unabated. The trade balance has deteriorated despite a rapid growth of exports.

Incomes and demand appear to set the stage for a continuation of rapid economic expansion in the months ahead. This is likely to entail a further increase in capacity utilization rates, but the conditions for the maintenance of economic equilibrium continue to be very insecure.

1. Recent developments

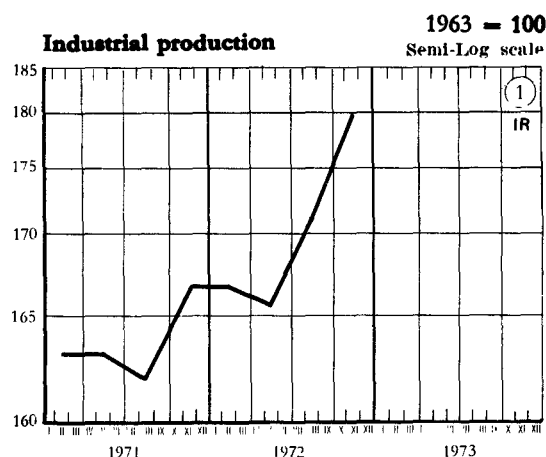
In the past few months the economic upswing, which initially had been encouraged by a pickup in external demand, has spread progressively to all the components of domestic demand, leading to an improvement in the degree of capacity utilization.

Exports continued to grow at a rapid pace; in the first five months their value was some 40 % higher than in the corresponding period of 1972. The most recent indicators show that this development is continuing. Sales of agricultural produce, especially meat, increased not only in volume but particularly in value because export prices maintained their upward tendency. But the rise was sharpest in exports of industrial products, notably those of the chemical and textile industries.

The expansion of domestic demand, which had remained relatively moderate up to the beginning of the year, has since strengthened distinctly. The indicators available suggest that *investment activity* has accelerated, with the trend in building and construction particularly dynamic. In the first five months of 1973 sales of cement were up 23 % in volume on the corresponding figure of the previous year. Housing starts, which in the final quarter of 1972 had already been 24 % higher than a year

earlier, have continued to climb rapidly. The growth of public investment has probably accelerated. Stocks appear to reflect the efforts by enterprises to adjust their levels to rising output.

With agricultural incomes continuing to increase and the level of employment rising, the growth in *private consumers' expenditure* gained additional speed. In the first three months of the year retail sales were some 18 % higher than a year earlier. New car registrations on the basis of seasonally adjusted figures increased by 13 % between the fourth quarter of 1972 and the first quarter of 1973, bringing the rise on a year earlier to 25 %.



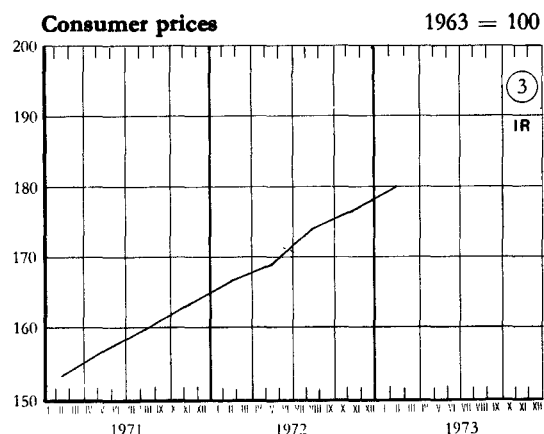
Agricultural *production* continued to grow rapidly. Industrial production made further progress, particularly in the export-oriented industries (chemicals and textiles). In food products and mining, however, the trend was not quite as favourable. A certain advance was registered in the services sector due principally to a recovery in tourism.

Although still running at a high level, *unemployment* has fallen in recent months. In May the number of those on the live register (ex-



cluding those in the agricultural sector) represented 7.1 % of the insured population as against 8.1 % in 1972.

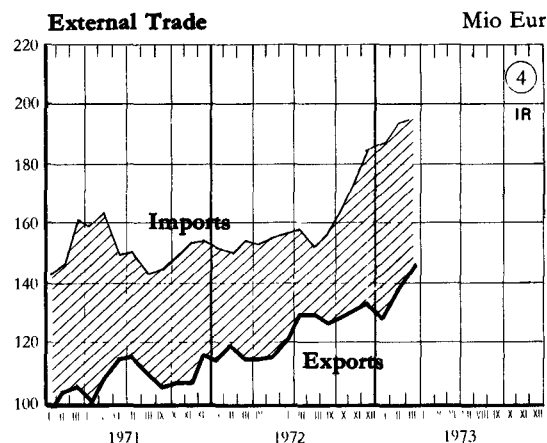
The *upward movement of prices* accelerated, mainly because of the pressure exerted by food prices, which in May were some 20 % higher



than a year earlier; the progress of import prices was an additional factor. In mid-May, the con-

sumer price index was 11.7 % above its level in May 1972.

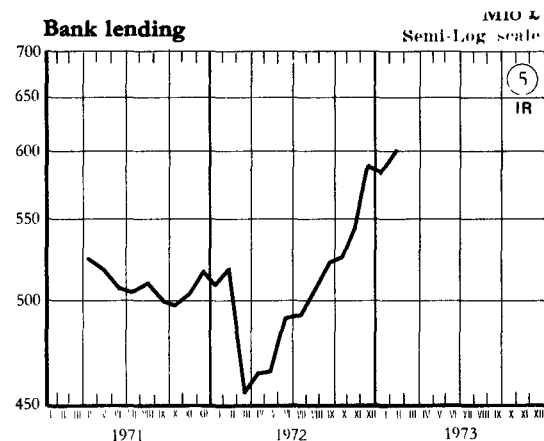
The expansion of domestic demand was reflected in the faster growth of *imports*, which in value



terms were some 35 % higher in the first five months of 1973 than a year earlier. As a result the trade deficit has widened rapidly, reaching an average monthly figure of £ 25 million in recent months as compared to £ 19 million in the first half of 1972.

The *balance of payments* on current account, however, deteriorated only slightly owing to an improvement on the services account and payments from the European Agricultural Guidance and Guarantee Fund.

Despite the tighter monetary policy adopted in February (for details see the list of measures at



the end of this chapter), *bank lending* to the private sector continued to increase and in April was 30 % higher than last year.

Demand for and supply of goods and services

	1970 ¹	1971 ¹		1972 ²		1973 ³	
	At current prices (in £ million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports (*)	681.7	+ 3.8	+ 11.2	+ 2.5	+ 13.9	+ 12½	+ 24
Gross fixed asset formation	356.3	+ 8.9	+ 21.0	+ 2.2	+ 11.4	+ 10	+ 21
Public current expenditure on goods and services	230.9	+ 3.3	+ 17.4	+ 8.9	+ 22.5	+ 7	+ 21
Private consumers' expenditure	1,129.7	+ 3.3	+ 12.4	+ 4.0	+ 12.8	+ 5	+ 15
Gross national product	1,663.1	+ 3.1	+ 14.1	+ 3.0	+ 16.6	+ 5½	+ 19
Imports (*)	770.4	+ 4.5	+ 10.9	+ 6.5	+ 10.5	+ 15	+ 25

¹ Statistical Office of the European Communities.

² Estimates.

³ Forecasts.

⁴ Goods, services and factor income.

Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

2. Outlook

The prospects for export and domestic demand suggest an acceleration of economic growth in the next few months.

The rapid expansion of demand in principal overseas markets, and in particular the Community, will promote *exports* of industrial goods, the competitive position of which has benefited from the depreciation of the pound. Sales of agricultural products should also continue to rise strongly in terms of value; in terms of volume their growth may even accele-

rate, offsetting the expected moderation in the movement of export prices.

Domestic demand will probably advance more vigorously owing to the additional impetus given by the budget for the financial year 1973/74. This provides for a strong increase in public expenditure, mainly to stimulate *investment*, in particular in building. Corporate investment should also be encouraged by these measures. The additional stimulus provided to *private consumers' expenditure* by the planned increase in transfer incomes, especially pensions, will be all the stronger as the main bene-

ficiaries are those on low incomes, whose propensity to consume is comparatively high. Continuing with the sharp upsurge in wages which is likely to persist, the rise in agricultural incomes will also make for a continuation of the very rapid advance in private consumer spending.

The accelerated expansion in demand should be reflected in a strong growth in *production* and a further reduction in spare capacity. All in all, gross national product in real terms may grow by between 5 % and 6 % in 1973. Employment will probably continue to rise and the unemployment rate is likely to fall appreciably.

The *upward thrust of prices* will remain vigorous. However, the next few months could bring a certain slowdown, notably because of the reinforcement of price control and a slackening in the upsurge of food prices.

With the upswing generating increased pressure to *import*, the *balance of trade* will probably continue to deteriorate. In the overall balance of payments, however, this may be compensated for by a favourable trend in service transactions and presumably a continued net inflow of capital.

In these conditions the principal task of the Irish authorities will be to combine a satisfactory rate of expansion with a sufficient moderation in the upward thrust of prices. This type is why *budgetary policy* in particular will have to be very flexible. It should be aimed mainly at stimulating productive investment while restraining the growth of public expenditure of a less urgent nature. In addition, consideration should be given to taxing certain incomes which are at present exempt and which have risen strongly in the past two years. Under credit policy, the growth in the money supply, which is still very rapid, should be curbed further. Lending should therefore be more selective so as to favour the financing of investment which contributes primarily to improving the structure of the economy. But a lasting moderation of the rise in prices will be achieved only if both sides of industry back up this policy by exercising restraint in their claims in the forthcoming wage negotiations.

Major economic policy measures

March

— The Irish pound together with the pound sterling did not participate in the joint Community float.

— The Associated banks increased their interest rates by 1.25 % points from the close of business on 26 March.

— The Government took action to control building society interest rates. For house loans a maximum rate of 10 % was fixed. Societies which exceed this rate lose their special tax concessions.

April

— The Associated banks reduced their interest rates by 0.5 % points from the close of business on 17 April.

May

— The Irish budget introduced on 16 May included the following measures :

— increased social expenditure, a reduction to 69 in the qualifying limit for old age pensions and increased family allowances;

— rises in public service salaries;

— greater aid to developing countries;

— an extension to March 1975 of the period in which free depreciation of machinery is allowed in certain areas;

— modifications in VAT from 1 September including the abolition of this tax on food and increases on other goods; the net effect of these measures will be an increase of £ 2.6 million in VAT receipts;

— increased excise taxes and rises in postal charges and motor vehicle taxation.

June

— The creation of a National Economic and Social Council was announced.

— Price control was reinforced by the following measures:

— the fixing of maximum prices for the most important food products;

— the setting of a ceiling on profit margins for a number of products at the import, wholesale and retail levels.

TABLE 1 : Key indicators

	1968	1969	1970	1971	1972	1972
	% change in volume on preceding year					Indices 1963 = 100
Gross national product	+ 7.7	+ 4.3	+ 2.5	+ 3.6	+ 2.9	140.3
Industrial production	+ 10.4	+ 6.6	+ 3.3	+ 4.1	+ 4.3	165.5
Total imports	+ 15.7	+ 13.4	+ 2.5	+ 4.1	+ 7.2	190.7
Private consumers' expenditure	+ 8.3	+ 4.3	+ 2.7	+ 3.2	+ 4.0	145.5
Public current expenditure on goods and services	+ 5.6	+ 6.9	+ 7.0	+ 3.3	+ 8.7	153.0
Gross fixed asset formation	+ 12.9	+ 19.7	- 1.2	+ 9.0	+ 2.1	187.3
Total exports	+ 9.0	+ 4.6	+ 4.4	+ 4.9	+ 3.4	172.3
Gross national product per head of population	+ 7.3	+ 3.9	+ 1.7	+ 2.7	+ 1.7	132.7
Gross national product per person in employment	+ 7.3	+ 3.7	+ 3.2	+ 3.1	+ 3.9	140.9
	% change in value on preceding year					
Gross income per employee	+ 8.7	+ 12.2	+ 14.0	+ 15.9	+ 15.1	216.3

TABLE 2 : Indicators for internal and external equilibrium

	1968	1969	1970	1971	1967
Balance exports less imports					
in millions Eur	- 189.6	- 309.4	- 313.2	- 314.4	- 278
as percentage of GNP	- 6.0	- 8.5	- 7.8	- 6.8	- 5.2
Unemployment rate	6.7	6.4	7.2	7.2	8.1
prices to private consumers (% change on preceding year)	+ 4.7	+ 7.0	+ 8.4	+ 9.1	+ 8.7

Ireland

TABLE 3 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970		152			155			159			161	
	1971		163			163			162			167	
	1972		167			166			171			179	
Unemployed (1 000)	1971	39	39	40	40	41	41	42	43	39	42	45	48
	1972	48	48	47	51	48	46	46	49	49	48	48	48
	1973	46	45	44	43								
Construction : permits for residential construction (1 000)	1971		5.32			5.52			5.28			5.17	
	1972		5.48			6.7			6.6			6.4	
	1973		13.13										
Private consumers' expen- diture (1963 = 100)	1971	176	174	177	177	179	181	180	180	180	183	186	188
	1972	188	192	204	192	201	203	199	202	206	225	206	208
	1973	225	238										
Consumer prices (1963 = 100)	1971		152.4			156.5			159.7			162.9	
	1972		166.7			169.2			173.9			176.4	
	1973		183.4			189.0							
Visible imports (million Eur)	1971	145	150	188	140	162	144	147	146	153	149	153	153
	1972	151	146	166	146	157	168	148	140	176	175	170	206
	1973	183	192	196									
Visible exports (million Eur)	1971	111	102	101	98	124	123	106	107	108	105	102	138
	1972	103	117	121	103	120	139	129	118	132	134	127	139
	1973	181	153	159									
Balance of trade (million Eur)	1971	- 34	- 48	- 87	- 42	- 38	- 21	- 42	- 39	- 44	- 44	- 51	- 15
	1972	- 48	- 29	- 45	- 43	- 37	- 29	- 19	- 22	- 44	- 41	- 43	- 67
	1973	- 63	- 38	- 46									
Official gold and foreign exchange reserves (million Eur)	1971	704	790	801	801	795	803	797	864	898	910	966	916
	1972	966	956	979	989	972	957	941	922	907	927	972	1 037
	1973	1 004	980	971	975	978	959						
Money supply (million £)	1971				390.5	382.7	398.8	388.6	397.5	408.6	409.4	411.3	430.2
	1972	418.0	412.1	419.7	430.4	428.3	447.5	446.0	451.8	476.9	469.7	485.9	499.2
	1973	492.7	473.5	513.0	482.1								

NOTES TO GRAPHS AND TABLES

Source: OECD; Main economic indicators (except as otherwise indicated).
Conversion into Eur (1 Eur = 0.888671 g of fine gold).

Graph 1

Industrial production: Mining and manufacturing industry; adjusted for seasonal variations.

Graph 2

Unemployment: number of insured unemployed; adjusted for seasonal variations; three-month moving averages.

Graph 3

Wages and consumer prices (not adjusted for seasonal variations): hourly earnings; manufacturing industry.

Graph 4

External commerce: imports cif; exports fob; adjusted for seasonal variations; three-month moving averages.

Graph 5

Bank lending: Credits to private sector (commercial banks); not adjusted for seasonal variations.

Table 1

GNP at market prices: NIEA; National income and expenditure accounts 1971.
Industrial production: ESRI; Volume of production; mining and manufacturing industry.
Total exports and imports: goods, services and factor income; NIEA.
Gross income per employee: Irish Statistical Bulletin (ISB); earnings and employment in total transportable goods industries.

Table 2

Balance exports less imports: as defined for the national accounts.
Unemployment rate: ISB; Percentage of insured persons on the live register.
Price index: ISB; Consumer price index.

Table 3

Industrial production: Mining and manufacturing industry; seasonally adjusted.
Unemployment: Number of insured unemployed; adjusted for seasonal variations.
Construction: Central Bank; Total of new dwellings begun or authorised; not seasonally adjusted.
Private consumers' expenditure: Retail Sales Index; seasonally adjusted.
Consumer prices: ISB; Consumer price index; not seasonally adjusted.
Visible trade: Imports cif, exports fob; seasonally adjusted.
Balance of trade: Difference between values of imports and exports; seasonally adjusted.
Official Gold and Foreign Exchange Reserves: CB; Official External Reserves, Monetary Authorities' reserves of gold and convertible currency, holdings of special drawing rights and reserve position in the IMF.
Money Supply: CB; Currency and current accounts (adjusted).

E. Italy

In the first four months of 1973 the basic trend of demand and production was distinctly upwards, even though economic activity was hampered for a time by the effects of changed consumer attitudes in connection with the introduction of value added tax and, above all, by industrial disputes.

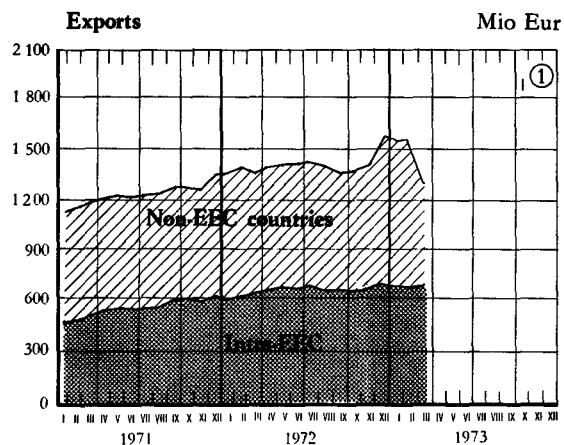
Economic recovery is likely to make visible progress in the next few months, At the same time, however, prices must be expected to continue their inflationary upsurge.

1. Recent developments

Production losses and supply difficulties due to strikes, together with reactions to the wave of anticipatory purchasing at the end of 1972 to beat the introduction of value added tax, caused economic activity to slow down appreciably for a time in the first four months of 1973. In that period the number of hours lost through stoppages was about three and a half times as high as a year earlier. However, with the major wage round which had begun last autumn having ended in April with the signing of a new collective wage agreement for the workers in the metal-working industry, the underlying economic trend, which for some time had been more sharply upwards, asserted itself more visibly again. The rapid upsurge of prices gained additional momentum.

Exports were particularly hard hit by the consequences of the strikes. In addition, the supply of agricultural products available for export was down owing to last year's poor harvests. In the first four months the value of visible exports was 4 % lower than a year earlier. Deliveries to non-member countries showed a particularly weak trend. In May the expansion of exports was very strong.

Investment activity probably improved further. In the first quarter the trend of domestic order books for plant and machinery was, if anything, unfavourable, but this was exclusively due to

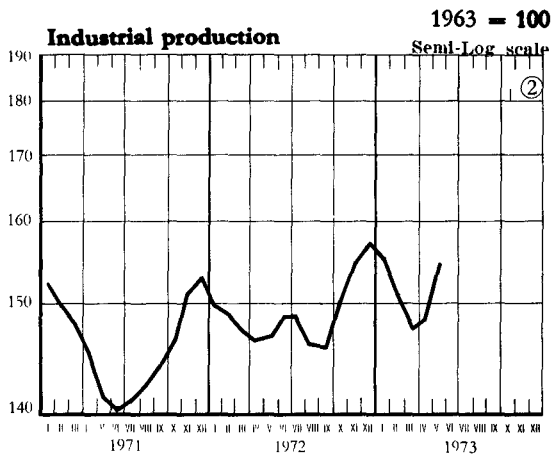


the labour disputes in the metal-working industry. Investment in building also seems to be tending distinctly upwards, as is shown by the monthly EEC surveys in particular. This is especially true of residential construction. The vigorous growth of investment in stocks has evidently continued.

As expected, there was a marked slackening in *private consumers' expenditure*, which had accelerated briskly towards the end of last year in view of the impending introduction of value added tax. In addition, loss of earnings due to strikes may have induced households to exercise greater restraint in consumer spending for a while. In the spring, however, this probably gave way again to a stronger propensity to consume. In any event, there has been an appreciable rise in disposable incomes owing to new

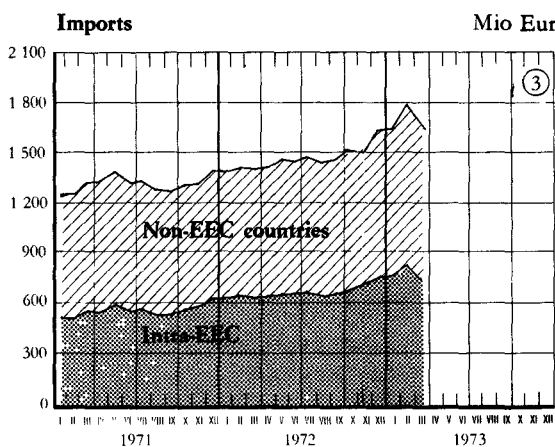
collective wage agreements, public transfer payments and the rapid increase in the size of cost-of-living supplements.

Industrial production in the first quarter was down by 0.3 % on the same quarter of last year (final quarter of 1972: + 2.6 %) ⁽¹⁾. This reflects a 15 % fall of production in the



strike-bound industries (metal-working, mechanical engineering and motor vehicles) and a 7 % increase in the rest of industrial production, with the cement, textile, chemical and food industries achieving particularly high growth rates. After the labour disputes in the above-mentioned industries had ended, vigorous growth was on the whole restored in April-May, with production up on last year by no less than 8.1 %.

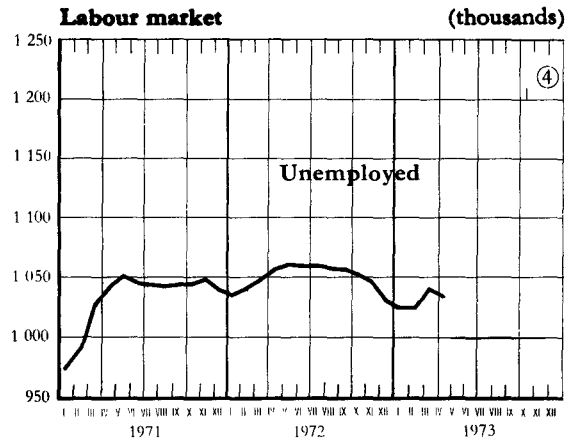
The underlying trend of *imports* remained sharply upwards, even though a fairly long strike



¹ These two percentages are not fully comparable owing to a change in the method of calculating the official production index.

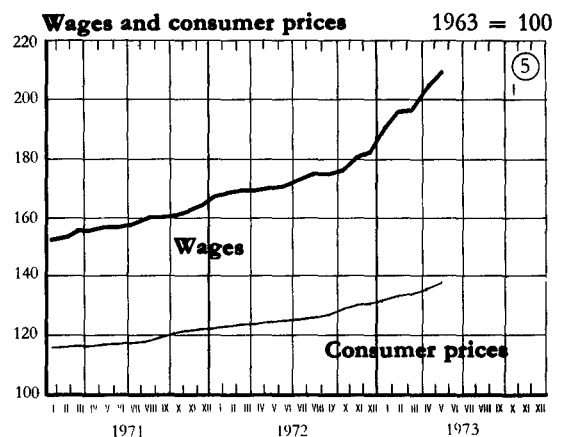
by the customs officials constituted an appreciable impediment. In the first four months of the year the value of visible imports was 19 % up on the previous year and in May as much as 46 %. The increase in volume was much smaller as import prices were climbing very rapidly.

The employment trend as regards *wage and salary earners* was also affected for a time by the inhibiting influence of these special factors,



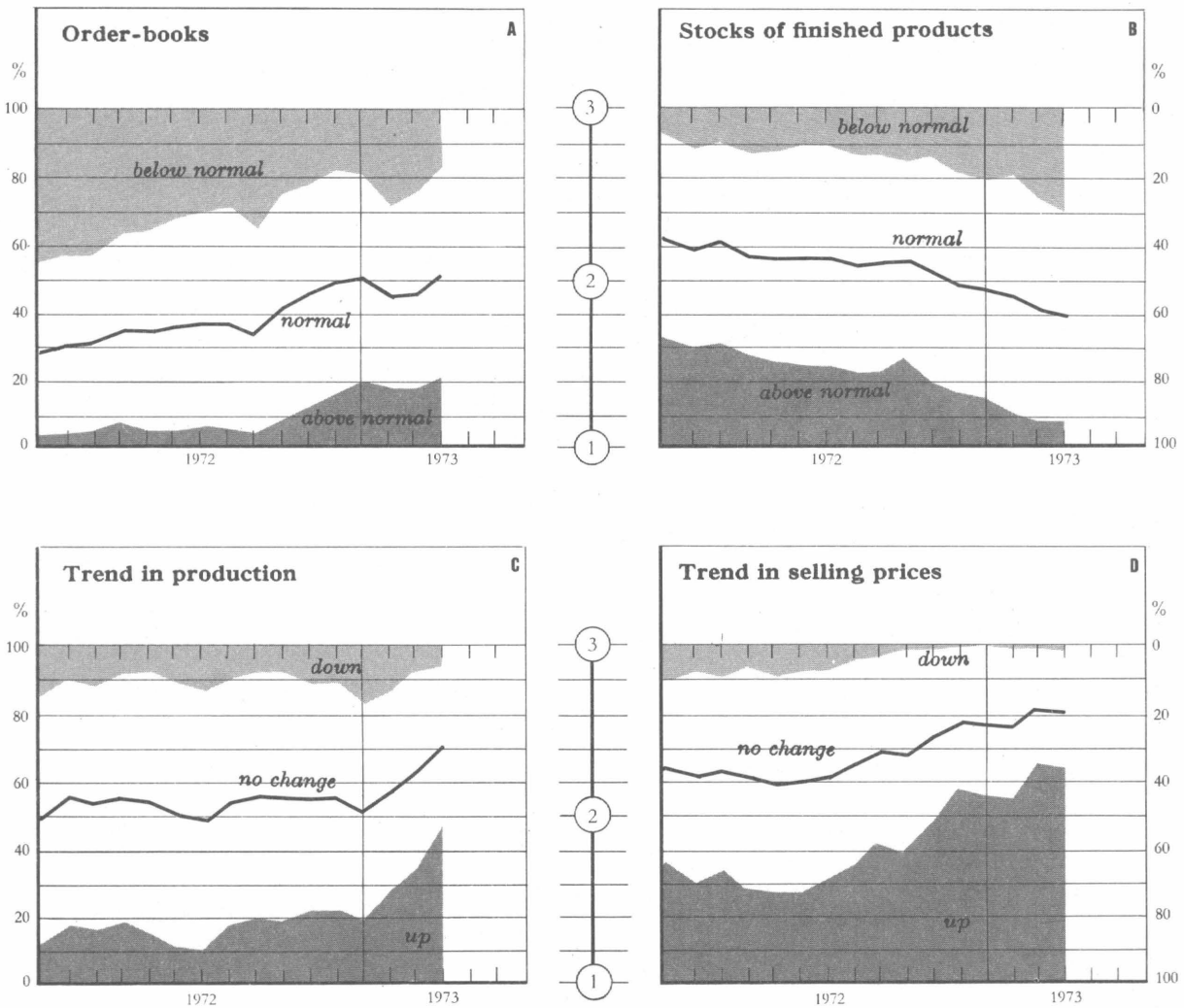
but in April it probably pointed more distinctly upwards again.

The extremely fast upsurge in *prices* has, if anything, gained additional vigour. Apart from bottlenecks in supplies of certain agricultural products, the main contributing factors have



been the increase in the cost of imports—boosted by the de facto devaluation of the lira—and the passing on of costs, made easier by the more buoyant trend of demand. On the other hand, the upward pressure on prices which was caused by the changeover to value added

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

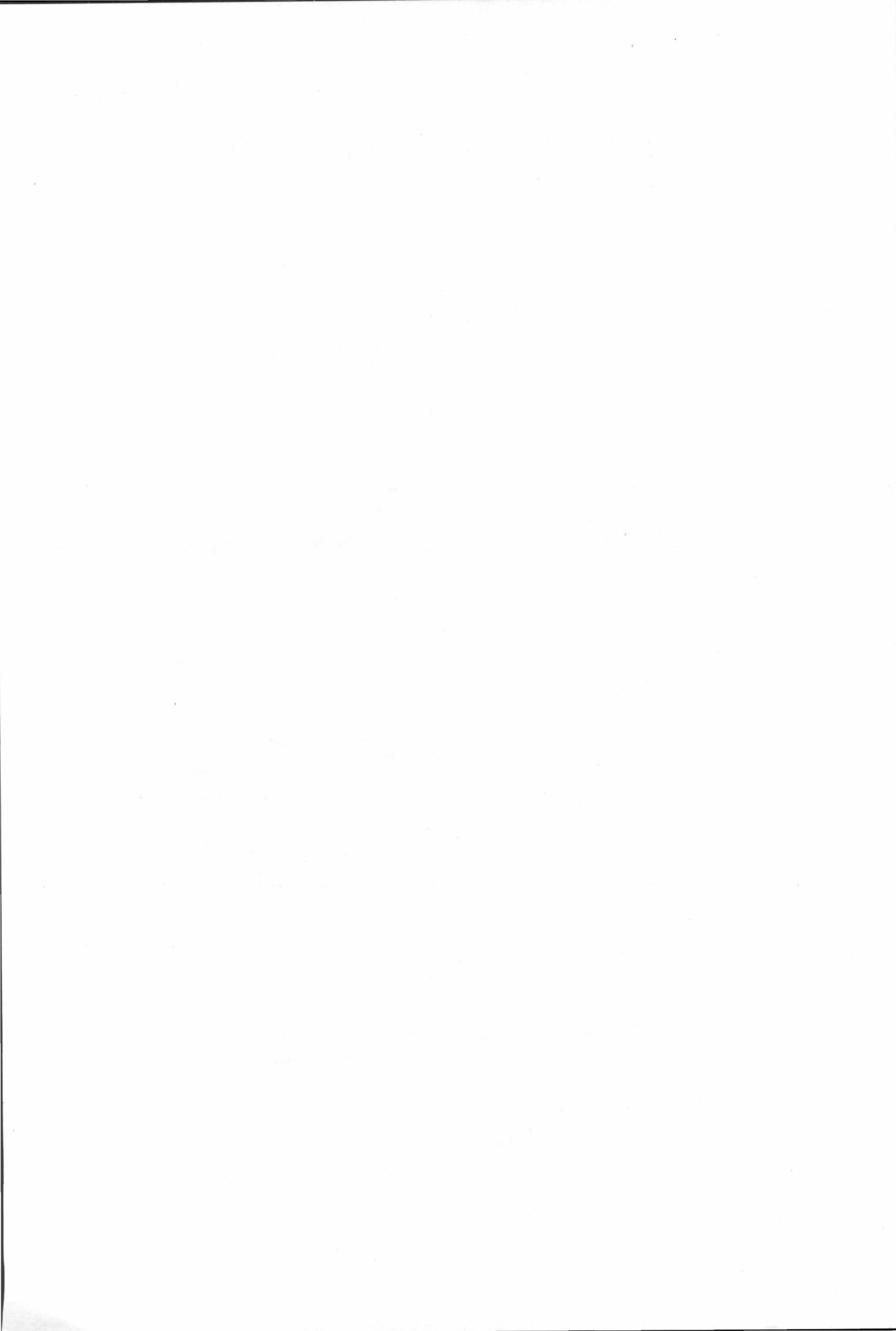


Answers to the questions in the EEC business survey, carried out in Italy by ISCO-Mondo Economico.

GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

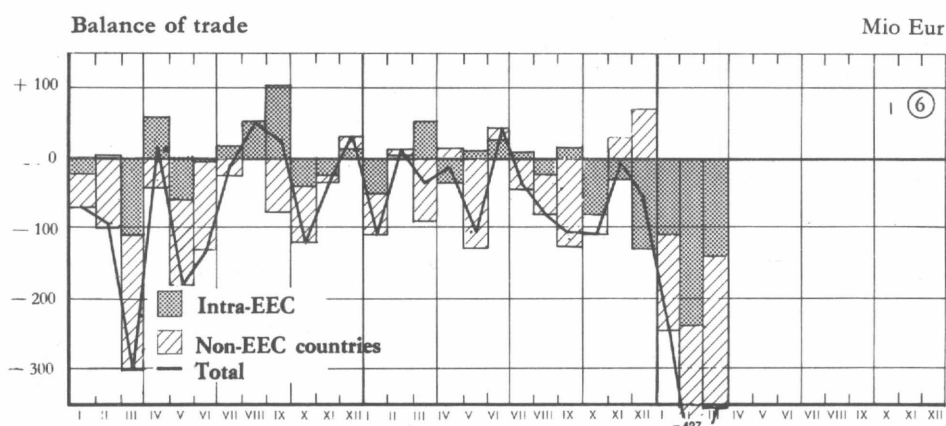
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".



tax and no doubt played an important part towards the end of last year, appears to be steadily lessening. In June consumer prices were $11\frac{1}{2}$ % higher than a year earlier.

The *balance of payments* again showed a large deficit in the first quarter—Lit. 520,000 million, of which Lit. 383,000 million in January alone. Admittedly, detailed balance of payments



Demand for and supply of goods and services

	1970 ¹	1971 ¹		1972 ¹		1973 ²	
	At current prices (in Lit '000 million)	% change on preceding year					
		Volume ⁴	Value	Volume ⁴	Value	Volume ⁵	Value
Exports ³	11,790	+ 6.2	+ 12.3	+ 11.2	+ 12.8	+ 9	+ 18½
Gross fixed asset formation	12,302	- 3.5	+ 3.1	- 0.2	+ 5.1	+ 5½	+ 15½
Public current expenditure on goods and services	7,389	+ 5.2	+ 21.6	+ 4.2	+ 12.8	+ 4	+ 13
Private consumers' expenditure	37,302	+ 2.8	+ 8.2	+ 3.8	+ 9.9	+ 6	+ 17
Gross national product	58,261	+ 1.6	+ 8.3	+ 3.2	+ 9.3	+ 5	+ 15
Imports ³	11,431	+ 1.7	+ 8.6	+ 13.2	+ 15.6	+ 11	+ 24½

¹ Relazione generale sulla situazione economica del Paese (1972).

² Forecasts.

³ Goods, services and factor income.

⁴ At 1963 prices.

⁵ At preceding year's prices.

Note :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The forecasts are approximations based on certain hypotheses generally mentioned in the Quarterly Surveys. They are established and published on the sole responsibility of the Commission.

figures are at present only available for the month of January since the monetary authorities have so far been unable to publish complete figures for the following months as well; this is due to a variety of reasons (gaps in the data flow following a long postal strike; difficulties of collection arising from the floating of the lira in mid-February). However, the partial information available suggests that in the first quarter current transactions (as defined by the foreign exchange office) closed with a deficit of about Lit. 500,000 million whereas capital transactions virtually balanced. In April-May, too, the current account was in heavy deficit. As a result of money imports by the commercial banks, which had been deliberately encouraged by the monetary authorities, net official gold and foreign exchange reserves fell by only Lit. 354,000 million between December 1972 and March 1973. Following an increase in April, and a fall again in May, official reserves at the end that month stood at Lit. 3,090,000 million.

Payment transactions with abroad, repayment of refinancing credits obtained from the Banca d'Italia and finally the fact that the seasonal drop in the note and coin circulation (sharply inflated towards the end of last year owing to bank strikes) turned out to be relatively slight, caused a further reduction in the *banks' domestic liquidity* at the beginning of the year even though the Treasury's cash deficit was again very high. Demand for *bank lending* con-



tinued to expand at the faster pace registered for some time past, with a distinct acceleration primarily in demand from enterprises. As a

result of this, the *money supply* maintained its rapid growth.

Until recently there had been virtually no change in the *level of interest rates* owing to repeated intervention by the Banca d'Italia, but there has been some upward movement since. This may have helped to produce a certain 'wait-and-see' attitude in demand for *fixed-interest securities*.

2. Outlook

All in all, economic activity can be expected to expand markedly in the remainder of the year, with strong stimuli coming from both export and domestic demand. The outlook for the price trend remains extremely disturbing.

After the exceptional dip at the beginning of the year, *exports* should again rise at a fast rate. The prospects for world economic activity are decidedly expansionary, and export demand will also be stimulated by the tariff reductions agreed with the acceding countries and the remaining EFTA countries. Moreover, the attractiveness of Italian goods and services could have increased even further since the lira was floated.

As regards domestic demand, the prospects are that the *trend of investment* in 1973 will stay expansionary both in expenditure on building and above all in spending on plant and machinery. The main reasons for this were set out in detail in the last Quarterly Survey (see p. 75). With wage costs continuing to climb sharply, the need to rationalize is likely to play an even bigger part in corporate investment planning. Stockbuilding is again expected to provide very appreciable stimuli.

Last but not least, private *consumers' expenditure* will probably gather considerable momentum. Disposable income must be expected to rise once again owing to further collective wage agreements (particularly in the textile industry), salary increases in the public sector and new increases in the index-linked cost-of-living supplements. Entrepreneurial and property incomes too are now likely to grow more quickly again. Finally, there will probably be a distinct recovery in the propensity to consume in view of the general revival of economic activity and the rapid erosion of purchasing power.

In the circumstances real *gross national product* may grow by about 5 % from 1972 to 1973. In spite of the de facto devaluation of the lira the volume of *imports* will probably again expand very sharply.

The upswing in production will no doubt bring an improvement in the *employment situation*. The number of unemployed in particular can be expected to fall.

A continuation of the sharp rise in *prices* is suggested by numerous factors, especially: the recent increase in the pressure of costs (which has been extraordinarily heavy for several years past) through wage increases far outstripping the advances in productivity achieved at the same time; the accelerated upward movement of the sliding wage scale; the worldwide increase in import prices, which is bound to have a particularly pronounced impact in Italy because of the lira devaluation; furthermore, efforts by enterprises to improve their profit situation by making use of the general upswing in demand. In the somewhat longer term the upsurge of prices should also be increasingly boosted by local bottlenecks in production, even though the figures for the degree of utilization of available manpower and plant capacity seem to suggest that the elasticity of production is generally still fairly high.

The *balance of payments* on current account, which had been in large surplus until recently, will probably move very quickly towards equilibrium.

Those prospects place before the authorities responsible for *short-term economic policy* a delicate task. On the one hand, they will have to stem the inflationary upsurge in prices in order to set economic expansion on a durable basis and fulfil an essential pre requisite for Italy's early return to fixed exchange rate relationships within the Community. On the other, they must be careful to avoid placing economic recovery and especially the revival of productive investment in serious jeopardy.

Given the heavy backlog of demand for productive and public infrastructure investment, it appears essential in this context that the formation of real capital should continue to be promoted actively. On the other hand, the strong expansion of the other components of

demand would have to be curbed so that the price trend in 1974 can from the outset be made to move in the desired direction.

Under monetary and credit policy, measures were taken in June to help raise short-term interest rates and facilitate long-term financing of investment. In view of the necessary stabilization efforts it would indeed seem desirable for monetary and credit policy to adopt a more cautious line and aim in particular at siphoning off excess liquidity in the hands of the public. One way of achieving this would be to issue a stability loan, the proceeds of which would have to be used to cut the public deficit, which has grown at an extraordinarily fast pace in the past few years. Even though interest rates would be pushed up as a result, this would hardly stop the desired growth of industrial investment, if only because investment is comparatively insensitive to interest rate changes, particularly in a situation where the level of real interest rates is very low. Moreover, determined appropriately and carried out in one move, an increase in the level of long-term interest rates, instead of entailing a temporary fall, would lead to an increase in the supply of savings capital. It would also help to stabilize the exchange rate for the lira, which would encourage inflows of capital from abroad and temper the rise in import prices.

Budgetary policy should place a drastic curb on the growth of public spending on consumption. On the other hand, additional tax incentives for investment and saving would be perfectly desirable. The reform of direct taxation, planned for 1 January 1974, should be carried out on schedule and should not lead to a slowing down of the spontaneous rise in tax revenue; under it, provision could be made for levying a repayable counter-cyclical surcharge on income tax.

Measures to encourage competition at home would be a welcome supplement to the anti-inflation campaign, particularly since competition in foreign trade has lessened as a result of the lira's depreciation on the foreign exchange markets. Consideration could for instance be given to introducing a general obligation to mark prices, making price supervision more effective and taking steps towards rationalizing the distribution system.

Major economic policy measures

March

— Towards the middle of the month Parliament passed a law reorganizing the taxation of petroleum products with a view to holding the prices of these products.

May

— At the beginning of the month, Parliament approved the setting up of an endowment fund fixed at Lit. 250,000 million for the state-controlled electricity company ENEL. The existing endowment funds of two other state-controlled companies, one of which, EFIM, finances projects in the manufacturing industries, are to be increased by Lit. 215,000 million and Lit. 18,000 million respectively. Allocation of these sums is to be spread over several years.

— Towards the middle of the month, imports of gold for industrial purposes, which had been rising sharply, were subjected to tighter official controls.

— IMI, the State credit organization, was granted a \$ 200 million 11-year loan by an international bank consortium; the variable interest rate is geared to the level prevailing on the London Euromoney market.

June

— On 18 June the Italian monetary authorities took a number of measures of interest rate and capital market policy. The interest rates charged by the Banca d'Italia for fixed-term advances on securities were put up from 19 June (the surcharge payable in certain cases was raised from 1.5 to a maximum of 3 percentage points, while the basic rate of interest for this type of re-finance, increased from 3½ % to 5½ % last December, was maintained). In 1973 the commercial banks will have to increase their portfolios of long-term fixed-interest securities as held at the end of 1972 by an amount equivalent to at least 6 % of their clients' sight and savings deposits as at 31 December 1972. Paper to be held as minimum reserves does not count towards this amount. At least 5 % of total deposits will have to be invested in bonds of the financial institutions granting loans on the security of personal property and the like, bonds of the state-controlled companies ENEL, IRI and ENI, and bonds of private-sector companies; an additional one per cent will have to be invested in loans issued by the government, the autonomous public corporations and the credit consortium for public works. These measures are designed to help stem outflows of money abroad and induce banks to switch more to long-term lending.

TABLE 1 : Key indicators

	1968	1969	1970	1971	1972	1972
	% change by volume on preceding year					Indices 1963=100
Gross national product	+ 6.4	+ 5.7	+ 4.9	+ 1.6	+ 3.2	149.2
Industrial production	+ 9.4	+ 6.9	+ 6.2	- 0.5	+ 3.9	157.4
Total imports	+ 7.3	+ 21.6	+ 17.5	+ 1.7	+ 13.2	195.5
Private consumers' expenditure	+ 4.9	+ 6.1	+ 7.8	+ 2.8	+ 3.8	196.4
Public current expenditure on goods and services	+ 4.1	+ 3.1	+ 1.9	+ 5.2	+ 4.2	139.1
Gross fixed asset formation	+ 9.7	+ 8.0	+ 3.4	- 3.2	- 0.2	117.8
Total exports	+ 15.3	+ 13.6	+ 6.6	+ 6.2	+ 11.2	267.2
Gross national product per head of population	+ 5.8	+ 5.1	+ 4.2	+ 1.1	+ 2.4	151.2
Gross national product per person in employment	+ 2.7	+ 7.0	+ 4.7	+ 1.9	+ 5.3	157.1
	% change by value on preceding year					
Gross income per employee	+ 7.4	+ 7.6	+ 15.1	+ 13.7	+ 11.0	237.7

TABLE 2 : Indicators for internal and external equilibrium

	1968	1969	1970	1971	1972
Balance exports less imports					
in million Eur	+ 2 288	+ 1 928	+ 582	+ 1 321	+ 925
as percentage of GNP	+ 3.0	+ 2.3	+ 0.6	+ 1.3	+ 0.8
Unemployment rate	3.5	3.4	3.1	3.1	3.6
consumer prices (% change on preceding year)	+ 1.5	+ 2.9	+ 5.3	+ 5.3	+ 5.9

Italy

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1963=100	Million Eur	% of totals
	1967	1968	1969	1970	1971			
Visible exports								
Total	+ 8.3	+ 17.0	+ 15.2	+ 12.6	+ 13.4	297	14 974	100.0
Intra-EEC	+ 3.3	+ 20.9	+ 22.2	+ 13.6	+ 17.9	373	6 688	44.7
To non-EEC countries	+ 11.6	+ 14.5	+ 10.5	+ 11.9	+ 9.9	255	8 286	53.3
Exports of food, beverages and tobacco								
Total	+ 4.7	- 3.7	+ 15.6	+ 9.2	+ 16.2	185	1 276	8.5
Intra-EEC	- 1.7	- 1.3	+ 21.4	+ 5.7	+ 24.9	223	727	4.8
To non-EEC countries	+ 12.4	- 6.1	+ 9.3	+ 13.4	+ 6.3	151	549	3.7
Exports of raw materials, fuel and power								
Total	+ 9.1	+ 14.1	+ 1.4	+ 10.3	+ 17.5	246	1 163	7.8
Intra-EEC	+ 15.9	+ 14.7	- 2.0	+ 9.6	+ 15.0	330	421	2.8
To non-EEC countries	+ 5.3	+ 13.7	+ 3.6	+ 10.6	+ 18.9	215	742	5.0
Exports of semi-finished and finished industrial goods								
Total	+ 8.8	+ 20.0	+ 16.7	+ 13.2	+ 12.7	323	12 535	83.7
Intra-EEC	+ 3.2	+ 25.4	+ 24.9	+ 15.0	+ 17.3	414	5 540	37.0
To non-EEC countries	+ 12.4	+ 16.7	+ 11.5	+ 11.9	+ 9.3	275	6 995	46.7
Visible imports								
Total	+ 12.9	+ 4.3	+ 21.4	+ 19.4	+ 5.9	210	15 830	100.0
Intra-EEC	+ 21.5	+ 9.1	+ 29.9	+ 27.4	+ 9.3	271	6 716	42.4
From non-EEC countries	+ 8.8	+ 1.8	+ 16.6	+ 14.3	+ 3.6	180	9 114	57.6
Imports of food, beverages and tobacco								
Total	+ 0.7	+ 8.5	+ 14.9	+ 18.0	+ 20.5	227	3 009	19.0
Intra-EEC	+ 26.6	+ 29.0	+ 26.8	+ 20.9	+ 32.4	523	1 257	7.9
From non-EEC countries	- 6.4	+ 0.9	+ 9.2	+ 8.1	+ 13.3	162	1 752	11.1
Imports of raw materials, fuel and power								
Total	+ 13.7	+ 1.0	+ 13.0	+ 11.8	+ 8.9	196	5 089	32.2
Intra-EEC	+ 14.2	- 3.0	+ 20.6	+ 16.6	+ 4.2	228	728	4.6
From non-EEC countries	+ 13.6	+ 1.7	+ 11.8	+ 11.0	+ 9.8	192	4 361	27.6
Imports of semi-finished and finished industrial goods								
Total	+ 18.8	+ 8.6	+ 31.0	+ 27.1	- 0.5	213	7 731	48.8
Intra-EEC	+ 22.3	+ 8.1	+ 32.4	+ 30.8	+ 5.2	247	4 731	29.9
From non-EEC countries	+ 14.5	+ 9.2	+ 29.0	+ 22.2	- 8.3	176	3 000	18.9

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1971	147.5	147.3	144.3	139.9	141.2	141.5	141.9	143.3	146.8	150.1	157.2	151.9
	1972	150.7	147.9	144.7	144.6	148.4	149.0	146.2	150.5	145.9	160.6	161.6	153.2
	1973	(149.2)	(144.1)	(142.8)	(157.0)	(159.7)							
Unemployed (1 000)	1971	994.0	1 012.7	1 063.6	1 045.8	1 044.6	1 047.2	1 041.6	1 036.0	1 049.8	1 042.5	1 042.2	1 028.2
	1972	1 038.5	1 050.9	1 061.9	1 055.1	1 054.2	1 055.4	1 051.7	1 049.7	1 056.1	1 046.8	1 029.0	1 008.1
	1973	1 038.2	1 030.0	1 050.9	1 005.8								
Construction: permits for residential construction (1 000)	1971	24.5	23.6	24.3	27.0	24.4	28.4	27.8	25.5	23.3	25.2	31.4	51.2
	1972	27.1	25.8	28.2	26.8	24.6	34.4	26.1	22.8	27.7	30.0	32.4	41.3
	1973	(37.9)	(31.0)										
Private consumers' expenditure: department store turnover (1963 = 100)	1971	200.6	199.4	195.4	210.8	198.2	192.8	196.7	195.5	219.5	208.4	213.7	207.0
	1972	204.3	233.3	234.3	189.8	221.3	214.2	209.8	226.6	253.3	222.5	222.5	241.9
	1973	[237.6]	[260.1]	[252.3]									
Consumer prices (1963 = 100)	1971	131.8	132.3	132.8	133.2	134.0	134.1	134.5	134.7	135.6	136.9	136.9	137.4
	1972	138.0	138.7	139.1	139.4	140.6	141.4	141.9	142.8	144.2	145.8	146.9	147.6
	1973	149.1	150.9	152.5	154.0	156.3							
Visible imports (million Eur)	1971	1 218.9	1 335.9	1 490.5	1 174.4	1 417.7	1 283.5	1 229.4	1 318.5	1 263.5	1 346.2	1 276.4	1 483.0
	1972	1 375.2	1 347.1	1 465.2	1 387.0	1 495.2	1 418.0	1 464.5	1 456.2	1 477.4	1 573.1	1 433.7	1 899.8
	1973	1 595.1	1 871.9	1 436.6	(1740.7)								
Visible exports (million Eur)	1971	1 114.6	1 211.7	1 180.3	1 196.6	1 255.6	1 156.2	1 224.6	1 326.7	1 284.4	1 236.3	1 276.5	1 544.7
	1972	1 262.2	1 356.2	1 412.1	1 370.5	1 348.4	1 463.2	1 378.5	1 387.6	1 368.0	1 459.7	1 429.4	1 844.8
	1973	1 348.4	1 444.2	1 081.1	(1363.6)								
Balance of trade (million Eur)	1971	- 104.3	- 124.2	- 310.2	+ 22.2	- 162.1	- 127.3	- 4.8	+ 8.2	+ 20.9	- 109.9	+ 0.1	+ 61.7
	1972	- 113.0	+ 9.1	- 53.1	- 16.5	- 146.8	+ 45.2	- 86.0	- 68.6	- 109.4	- 113.4	- 4.3	- 55.0
	1973	- 246.7	- 427.7	- 353.5	(-377.1)								
Official gold and foreign exchange reserves (net million Lit.)	1971	3 532	3 648	3 746	3 855	3 807	3 746	3 760	4 039	4 125	4 104	3 974	3 884
	1972	3 880	3 840	3 789	3 750	3 758	3 663	3 701	3 839	3 674	3 615	3 475	3 460
	1973	3 134	3 203	3 106	3 144	(3 090)							
Money supply (Lit. '000 million)	1971	30 416	30 120	30 534	31 007	31 455	32 084	32 545	32 531	33 138	33 547	33 883	36 905
	1972	35 742	35 597	36 266	36 995	37 392	37 686	38 183	37 812	38 558	39 227	40 153	45 954
	1973	42 101	42 224										

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).
Conversion into Eur (1 Eur = 0.888671 g of fine gold).

— For the intra community trade the new Community countries have not yet been taken into account.

Graph 1

Exports fob: series adjusted for seasonal variations; three-month moving averages.

Graph 2

Industrial production: from January 1973 Commission estimates because of rebasing of the unadjusted index; excluding construction, food, beverages and tobacco; series adjusted for seasonal variations; three-month moving averages.

Graph 3

Labour market: number of registered unemployed; series prepared by the Ministero del Lavoro e della Previdenza Sociale and adjusted for seasonal variations by the Statistical Office of the European Communities; three-month moving averages.

Graph 4

Imports cif: series adjusted for seasonal variations; three-month moving averages.

Graph 5

Wages and consumer prices: source ISTAT. Agreed minimum wages in industry (excluding family allowances).

Graph 6

Balance of trade: difference in terms of value between exports and imports, seasonally adjusted.

Graph 7

Bank lending: source Banca d'Italia. Short-term loans to business and private customers; position at end of month.

Table 1

Source for 1970 and 1971: Relazione generale sulla situazione economica del Paese (1971).

GNP at market prices.

Industrial production: value added by industry at factor cost.

Total exports and imports: goods, services and factor income.

Gross income per employee: income from paid employment (not including social insurance contributions borne by the State).

Table 2

Balance exports less imports: as defined for the national accounts.

Unemployment rate: number of unemployed as percentage of labour force (annual average); source ISTAT.

Price index: price index of private consumption adjusted by the GNP deflator, computed from the national accounts.

Table 3

Exports fob, imports cif; the products have been grouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

Unemployed: series provided by the Ministero del Lavoro e della Previdenza Sociale, adjusted for seasonal variations by the Statistical Office of the European Communities.

Construction: dwellings authorized in the provincial capitals and in other communes of 20 000 or more inhabitants; figures adjusted for seasonal variations.

Private consumers' expenditure: value index of department store turnovers, adjusted for seasonal variations.

Consumer prices: unadjusted index.

Imports cif, exports fob, adjusted for seasonal variations.

Balance of trade; difference between values of exports and imports, seasonally adjusted.

Official gold and foreign exchange reserves (net); source Ufficio Italiano dei Cambi; position at end of month.

Gold and gold assets assimilated to gold continue to be calculated on the preceding parity.

Money supply: notes and coin in circulation excluding cash holdings of the credit institutions other than the post office giro, deposits of residents with the banks (at less than one months' call), special assets of the Treasury and non-residents' holdings in the post office giro; position at end of month.

F. Netherlands

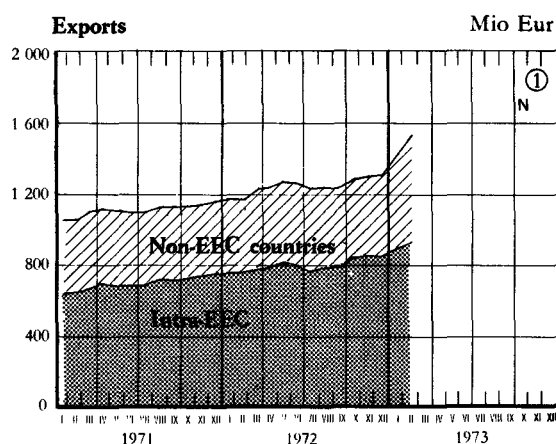
At the beginning of the summer the main features of the economic situation in the Netherlands were a sharp rise in costs and prices, an increase in capacity utilization, and a very moderate improvement in the situation on the labour market.

The next few months are not expected to bring any basic change. The upward movement of domestic costs and prices in particular is likely to continue at a rapid pace.

1. Recent developments

Since the end of 1972 there has been a lively economic upswing in the Netherlands. The sharper rise in demand has led to an appreciably higher degree of utilization of production capacities, but so far this has hardly been accompanied by a fall in unemployment. The conditions determining internal equilibrium have deteriorated further.

The expansion of export demand resulted in a very rapid increase in Dutch exports. Adjusted for delays in the collection of customs statistics,



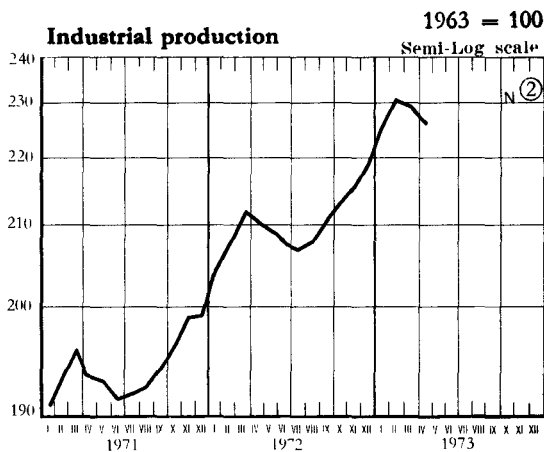
the value of visible exports (excluding exports to the BLEU) in the first four months of the year was 16.4 % higher than a year earlier.

The stimuli provided by domestic demand have strengthened increasingly since the end of 1972, mainly as a result of faster growth in *investment*. The increased propensity to invest of enterprises was reflected principally in a stronger expansion of expenditure on plant and machinery and transport equipment. Corporate investment in building, on the other hand, has hardly risen. Residential construction continued to expand at a rapid pace. The trend of public investment was sluggish, except in road building.

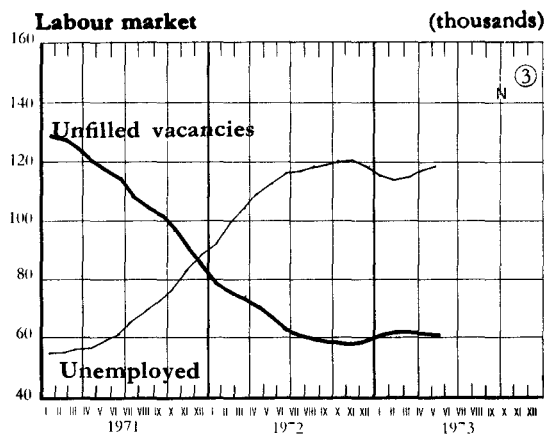
Private consumers' expenditure continued to forge ahead, even though the rise in real terms—except for new registrations of cars—was comparatively small owing to the vigorous upsurge in prices. The expansion of consumer spending was due mainly to the rapid increase in incomes. The vigorous upward movement of wages continued unabated, despite the delays in the conclusion of new collective wage agreements due to differences of opinion over how the Centraal Akkoord was to be implemented; in April agreed hourly wages were about 9.5 % higher than a year earlier. In addition there was a particularly vigorous increase in transfer incomes; at the beginning of the year general old-age pensions were up 16.5 % on a year earlier.

Production pointed distinctly upwards. Despite labour disputes, industrial production in the first

four months was 7.5 % higher than in the corresponding period of 1972. The improvement in the business situation, however, did not



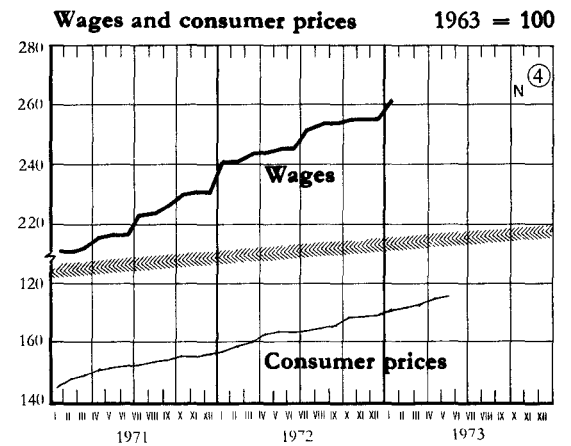
have the same favourable effect on the *labour market* as in earlier phases of upswing. Following the increase recorded since the beginning of this year, the seasonally adjusted number of unemployed in June was 123,800, or only slightly below the record level of September 1972. This was equivalent to an unemployment rate of 2.7 % (seasonally



adjusted unemployment as a percentage of the labour force). Since the end of March however, the number of vacancies showed a marked upward trend.

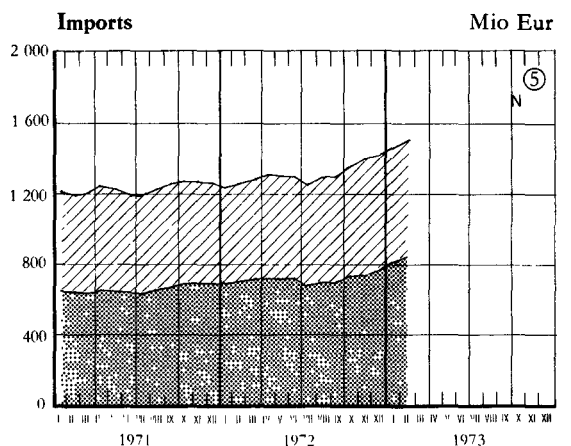
The upward thrust of *prices* remained very strong. Between December 1972 and June 1973 the consumer price index rose by 4.7 %, which brought its increase over June 1972 to

8.3 %. This trend was mainly the result of the sharp rise in wage costs, the accelerated advance



of import prices, the increase in certain indirect taxes and a rapid upsurge in some food prices.

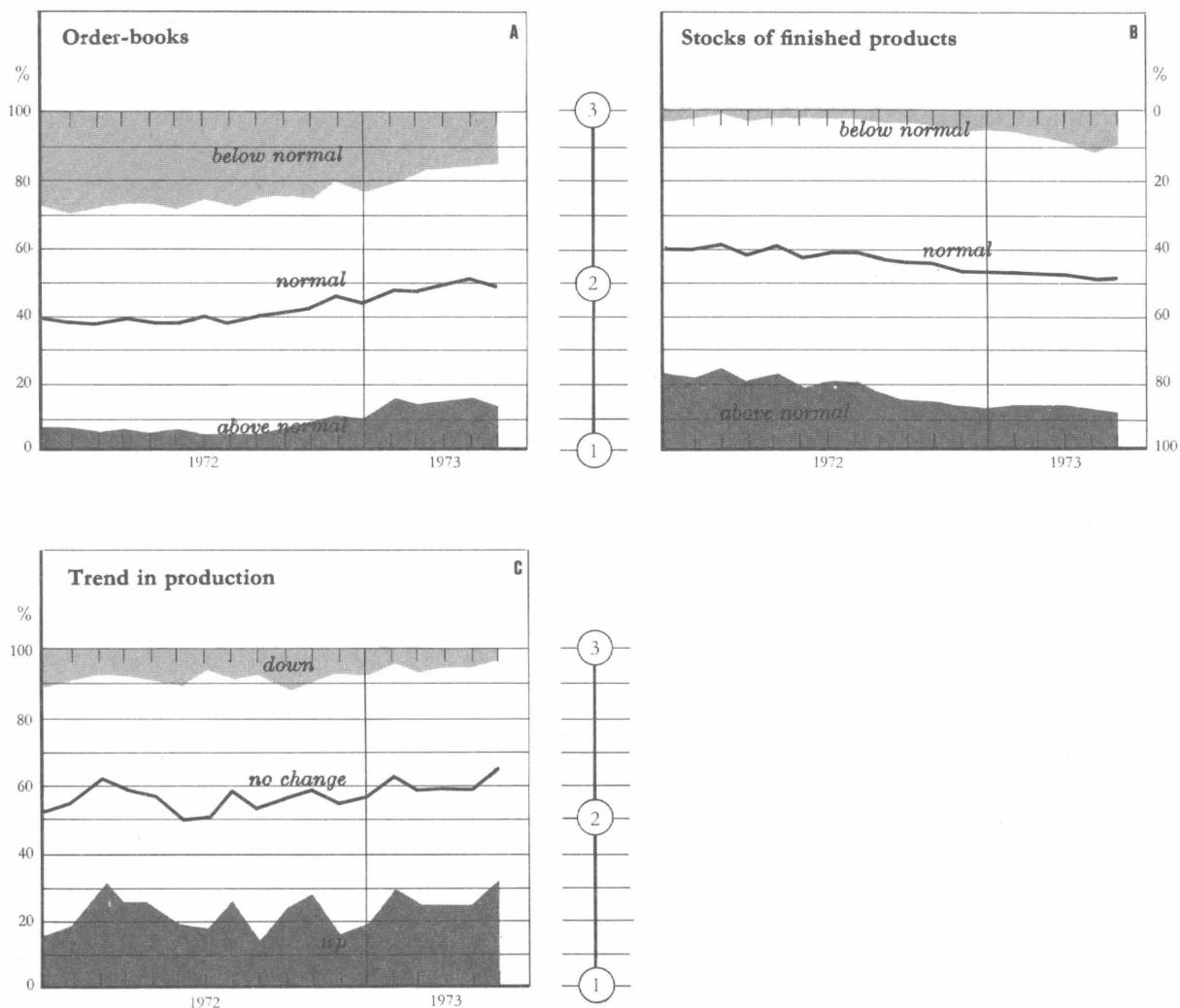
Owing to the vigorous expansion of industrial production and the revival of demand for capital goods, the growth of *imports* gathered ad-



ditional momentum. In the first four months of 1973 the value of visible imports as reflected in the seasonally adjusted foreign trade statistics was 17.2 % higher than a year earlier.

The tendency for the *balance of trade* to improve came to a halt, particularly since the unfavourable trend in the terms of trade gained in vigour. The surplus on current account nevertheless widened; in the first quarter it was Fl. 1,500 million, seasonally adjusted and on a transactions basis, compared with Fl. 750 million in the fourth quarter of 1972.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Source : Business survey of the Centraal Bureau voor de Statistiek.

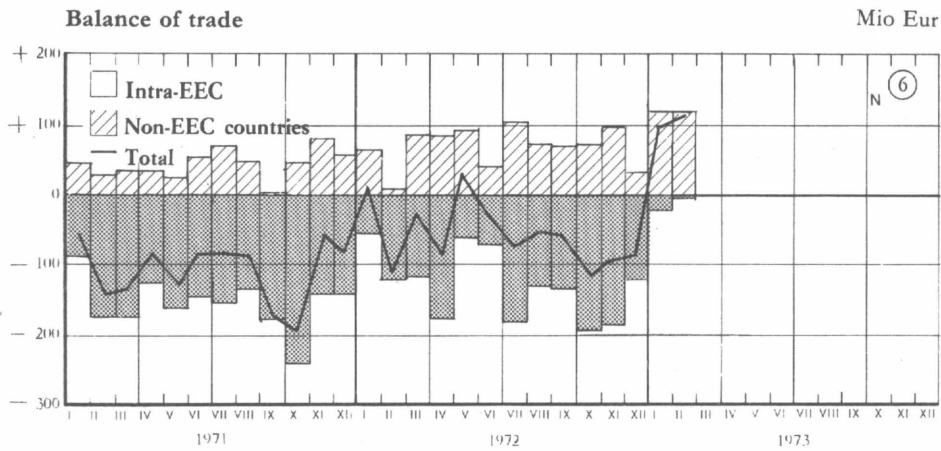
Note : The survey includes construction but not paper, petroleum, non-metallic minerals.

GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".





The liquidity ratio (ratio of domestic liquidity to national income) rose in the first quarter des-

pite a more restrictive monetary and credit policy. In April, the money supply (on the

Demand for and supply of goods and services

	1970 ¹	1971 ²		1972 ³		1973 ⁴	
	At current prices (in Fl. '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ⁵	59.11	+ 11.2	+ 13.2	+ 9½	+ 11	+ 11	+ 17
Gross fixed asset formation	28.95	+ 2.0	+ 12.4	- 3	+ 5	+ 6	+ 14
Public current expenditure on goods and services	18.87	+ 3.2	+ 17.7	+ 1½	+ 13	+ 2	+ 13½
Private consumers' expenditure	66.67	+ 3.1	+ 11.2	+ 3½	+ 12	+ 3½	+ 12
Gross national product	115.84	+ 4.2	+ 12.4	+ 4	+ 14	+ 5	+ 13
Imports ⁵	60.36	+ 6.7	+ 11.4	+ 5½	+ 4½	+ 11½	+ 19

¹ Centraal Bureau voor de Statistiek; CBS.

² Centraal Planbureau; CPB.

³ Estimates.

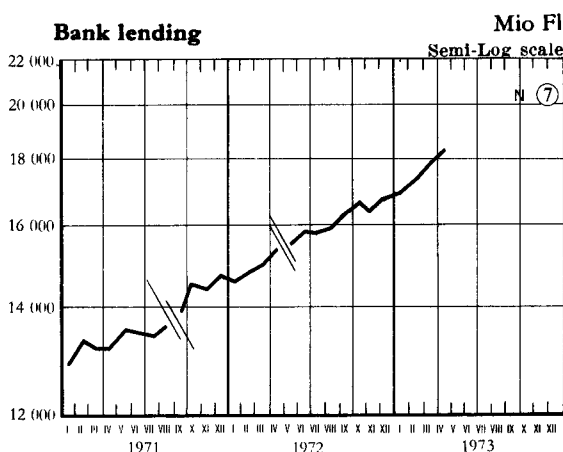
⁴ Forecasts.

⁵ Goods, services and factor incomes.

Note :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.



broad definition) was 16.7 % higher than a year earlier. After declining until April, short-term interest rates have been edging up again in recent months.

2. Outlook

There are many indications that demand in money terms will continue to expand rapidly between now and the end of the year. The danger is, that this will lead to increasing pressure on the production apparatus and a persistence of inflationary tendencies.

Exports are likely to show a further appreciable increase in the second half of the year. However, with export demand probably slowing down and the elasticity of supply in the export-oriented industries diminishing, the rate of growth may slacken.

The expansion of domestic demand too should remain quite strong. *Fixed investment* will continue to forge ahead, though perhaps somewhat less rapidly than hitherto. Corporate investment will be underpinned mainly by rationalization efforts, while the increase in expenditure on extension projects will be curbed by the prospect of higher taxes in the country's congested areas and the growing tendency for branch establishments to be set up abroad. Unless the investment programmes for subsidized housing are still revised upwards there may be a quite appreciable slowdown in this sector. Public investment, on the other hand, is likely to provide more vigorous stimuli,

particularly since a new work procurement programme will be put into effect in the second half of the year.

Private consumers' expenditure is likely to go on expanding rapidly. A number of reasons even suggest that its trend will accelerate slightly; these include a somewhat more lively rise in disposable incomes mainly as a result of awards under major new collective wage agreements, wage supplements granted under the sliding wage scale, a considerable improvement in social transfer payments from 1 June, and presumably also a fall in the propensity to save.

The hitherto very rapid expansion of *production* is likely to slacken off somewhat in the second half of the year. This is particularly true of manufacturing industry, in which the expansion of production is increasingly coming up against the limits set by plant capacity. Real gross national product may be 4.5 % to 5 % higher than in 1972, taking the average for the year.

The situation on the *labour market* will probably improve owing to the continued expansion of economic activity and a further increase in the numbers employed in public administration. But there is reason to expect that the tendency for the factor "labour" to be replaced by capital will continue and that further jobs will be lost in marginal enterprises. In addition, manpower demand in residential construction must be expected to be weak. In the circumstances, unemployment is likely to fall at a much slower rate than in the upward phase of previous business cycles.

The growth in the volume of *imports* will remain quite strong. The balance of trade may deteriorate, particularly since there will be a further adverse swing in the terms of trade because import prices will presumably show another sharp increase. This means that the surplus on current account for 1973 as a whole will probably be lower than in 1972.

The level of domestic *prices* is likely to go on climbing sharply until the end of 1973 as the rapid upsurge in import prices will combine with a persistent rise in wages and an increase in the pressure of demand on the production apparatus.

Given this outlook the principal aim of *short-term economic policy* should be to contain the upward thrust of prices and costs. But for the fight against inflation to be successful without impeding economic growth to any significant extent the various groups active in economic and industrial life must voluntarily moderate their demands for higher incomes. In addition, it appears to be essential at the moment that the authorities adopt a restrictive policy which dampens the expansion of demand. The quite strong stimuli which economic activity is receiving from budgetary policy should be curbed as much as possible. This applies in particular to transfer payments, which have risen at an extraordinarily rapid pace in recent years. At the same time monetary and credit policy should continue to dampen the expansion of domestic liquidity, with special emphasis on consumer credit and loans for dwellings involving high building costs.

Major economic policy measures

February

— Publication of the law amending the financial equalization arrangements by transferring the cost of subsidies towards social assistance payments from the "Gemeentefonds" to the budget of the Ministry of Culture, Recreation and Social Work with effect from the 1973 budget year.

— To counter the expansion in the money supply produced by speculative inflows of foreign exchange, the Nederlandsche Bank from 22 February tightened the minimum reserve requirements in several stages.

March

— On 15 March the Government authorized the Nederlandsche Bank to apply a special commission to increases in the guilder balances of non-residents. With effect from 26 March this commission was fixed at 0.25 % a week until further notice. This measure, which supplemented the existing restrictions on capital imports, was aimed at discouraging non-residents from confronting the banking system with ex-

cessive demand for guilders, which could force up the rate of exchange for the guilder more sharply than would be justified by the underlying balance of payments situation. In the week beginning on 7 May the special commission was reduced to zero until further notice. By then the guilder balances had returned to their normal levels, and the situation on the foreign exchange market had settled down.

— On 26 March the Nederlandsche Bank reached agreement with the organizations concerned on the introduction of an ad hoc cash reserve geared to the increase, from a specified reference date, in the foreign exchange banks' foreign liabilities in guilders. This reserve was 50 % from 29 March to 18 April and 80 % from 19 April to 2 May, when the system was discontinued.

April

— Under the law on annual rent increases, rents for subsidized housing were again raised by 6 % throughout the country, with effect from 1 April. Rents for a large number of dwellings that are no longer subsidized were also allowed to be increased.

— On 27 April the trade unions NVV and CNV and employers in industry reached an agreement in principle on the wage dispute. Under this agreement, compensation for price increases from 1 July 1973 will be granted as follows:

- Persons earning up to Fl. 28,000 a year will receive full compensation;
- persons in the Fl. 28,000 to 34,000 bracket will receive one half percent on the last Fl. 6,000 for every percent of price increase, and persons earning more than Fl. 34,000 will get 0.25 % on the portion in excess of Fl. 34,000 for every percent of price increase.

The parties stated in advance that they would accept the findings of the study on price compensation which is to be completed by 31 December.

If this study showed that there was over-compensation or under-compensation for certain groups, an adjustment would have to be made by 31 December. If the study was not completed in time, the minimum compensation agreed upon in all collective agreements for

each percent of price increase would continue to apply after 31 December. Where there were no collective agreements, a wage increase of 1 % would be granted for each percent of price increase.

May

— In view of the disquieting rise in consumer prices during the first four months of the year the new Dutch Government on 28 May decided:

- a) to maintain the 1972 price regulation for goods and services;*
- b) to maintain the possibility for industry and the distributive trades to pass on a limited portion of increased wage costs;*
- c) to tighten the price regulation governing the passing on of wage increases in the services sector;*
- d) to take powers again to adopt price regulations for certain sectors of the economy;*
- e) to adopt a regulation on price notification requiring enterprises to notify price increases one month in advance.*

June

— In view of the rise in interest levels abroad, the Nederlandsche Bank with effect from 4 June raised all its rates by 0.5 %; on 28 June it put them up by another 0.5 %, which brought the discount rate to 5 %.

— The Government announced a new spending programme, totalling Fl. 250 million, to combat unemployment.

July

— With effect from 1 July 1973 a 5 % increase was granted in the statutory minimum wage, old-age pensions, children's allowance (except for the first child) and invalidity pensions. This brought the statutory minimum wage to Fl. 227.40 a week or Fl. 985.40 a month. The old-age pension rose to Fl. 732 a month for married couples and to Fl. 517 a month for single persons.

— With effect from 18 July the Nederlandsche Bank raised all its interest rates by a further 1 %, which brought the discount rate to 6 %.

TABLE 1 : Key indicators

	1967	1968	1969	1970	1971	1971
	% change by volume on preceding year					Indices 1963=100
Gross domestic product	+ 5.5	+ 7.1	.	+ 6.3	+ 4.5	159
Industrial production	+ 5.5	+ 10.5	+ 8	+ 7.5	+ 6	180
Imports	+ 6.3	+ 13.0	+ 14.2	+ 13.9	+ 6.0	217
Private consumers' expenditure	+ 5.2	+ 6.9	.	+ 7.4	+ 3.0	157
Public current expenditure on goods and services	+ 2.9	+ 2.4	.	+ 5.8	+ 13.6	126
Gross fixed asset formation	+ 8.1	+ 11.0	.	+ 8.3	+ 1.7	174
Exports	+ 6.9	+ 13.0	+ 15.5	+ 12.0	+ 11.0	222
Gross domestic product per head of population	+ 4.3	+ 6.0	.	+ 5.0	+ 3.3	145
Gross domestic product per person in employment	+ 5.0	+ 6.1	.	+ 5.2	+ 4.0	148
	% change by value on preceding year					
Gross income per employee	+ 9.2	+ 8.7	.	+ 11.7	+ 13.4	246

TABLE 2 : Indicators for internal and external equilibrium

	1967	1968	1969	1970	1971
Balance exports less imports					
in million Eur	+ 23	+ 158	+ 121	- 345	- 77
as percentage of GNP	+ 0.1	+ 0.6	+ 0.4	- 1.1	- 0.2
Unemployment rate	2.0	1.9	1.4	1.2	1.5
Price index of private consumption (% change on preceding year)	+ 3.4	+ 2.5	+ 6.5	+ 4.5	+ 8.0

Netherlands

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1963=100	Million Eur	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 5.6	+ 7.9	+ 14.5	+ 19.6	+ 18.3	238	11 789	100
Intra-EEC	+ 5.3	+ 6.7	+ 19.7	+ 25.1	+ 22.0	276	7 312	62.0
To non-EEC countries	+ 6.0	+ 9.4	+ 8.2	+ 12.1	+ 12.7	193	4 478	38.0
Exports of food, beverages and tobacco								
Total	+ 0.3	+ 9.9	+ 15.9	+ 15.4	+ 18.5	216	2 738	23.2
Intra-EEC	- 0.2	+ 9.6	+ 22.1	+ 19.6	+ 22.8	264	1 902	16.1
To non-EEC countries	+ 1.0	+ 10.5	+ 6.1	+ 7.8	+ 9.8	153	836	7.1
Exports of raw materials, fuel and power								
Total	- 0.4	+ 10.1	+ 12.8	+ 20.0	+ 31.8	232	2 164	18.4
Intra-EEC	- 0.7	+ 10.7	+ 22.5	+ 26.0	+ 34.3	265	1 353	11.5
To non-EEC countries	- 0.1	+ 9.5	+ 1.7	+ 11.7	+ 27.2	192	811	6.9
Exports of semi-finished and finished industrial goods								
Total	+ 9.7	+ 6.6	+ 14.4	+ 21.1	+ 14.5	254	6 887	58.4
Intra-EEC	+ 9.8	+ 4.5	+ 17.8	+ 27.5	+ 17.9	291	4 057	34.4
To non-EEC countries	+ 9.6	+ 9.0	+ 10.6	+ 13.4	+ 10.0	215	2 831	24.0
Visible imports								
Total	+ 7.5	+ 4.0	+ 11.5	+ 17.3	+ 23.0	224	13 395	100
Intra-EEC	+ 8.7	+ 5.0	+ 13.2	+ 19.2	+ 22.1	243	7 484	55.9
From non-EEC countries	+ 6.0	+ 2.9	+ 9.5	+ 15.0	+ 24.1	205	5 911	44.1
Imports of food, beverages and tobacco								
Total	+ 3.9	+ 11.3	+ 9.7	+ 19.0	+ 13.5	205	1 686	12.6
Intra-EEC	+ 8.8	+ 22.7	+ 28.1	+ 49.4	+ 5.1	405	607	4.5
From non-EEC countries	+ 2.5	+ 7.6	+ 3.2	+ 5.4	+ 18.3	161	1 079	8.1
Imports of raw materials, fuel and power								
Total	+ 0.9	+ 5.2	+ 8.6	+ 13.8	+ 24.3	194	2 747	20.5
Intra-EEC	+ 7.7	+ 9.9	+ 4.8	+ 3.0	+ 7.1	155	475	3.5
From non-EEC countries	- 0.9	+ 3.9	+ 9.7	+ 16.9	+ 28.7	205	2 272	17.0
Imports of semi-finished and finished industrial goods								
Total	+ 10.5	+ 2.2	+ 12.8	+ 18.1	+ 24.5	248	8 962	66.9
Intra-EEC	+ 8.8	+ 3.3	+ 12.9	+ 18.1	+ 25.3	252	6 402	47.8
From non-EEC countries	+ 14.7	- 0.3	+ 12.6	+ 18.1	+ 22.5	239	2 560	19.1

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1971	198.6	193.8	193.8	190.9	192.5	189.5	192.6	194.2	194.1	199.9	200.2	195.4
	1972	215.5	210.5	208.2	211.5	207.5	203.5	209.8	209.4	212.1	216.0	218.0	223.6
	1973	234.4	233.6	220.6	225.0								
Unemployed (1 000)	1971	57.5	55.0	57.1	57.9	62.0	66.0	67.0	71.1	75.6	81.3	90.1	94.0
	1972	97.7	106.7	108.3	112.9	114.4	117.5	117.6	119.6	121.3	121.6	121.2	113.0
	1973	109.1	114.2	117.9	119.0	117.1							
Permits for residential construction (1 000)	1971	11.9	9.6	10.2	12.4	10.3	11.6	11.9	11.1	11.9	10.6	12.1	13.0
	1972	15.0	12.6	13.0	12.4	14.5	13.8	14.9	13.4	14.3	10.5	14.7	13.6
	1973	14.2	14.3	9.5	16.6								
Department store turnover (1963 = 100)	1971	218	233	223	234	233	256	237	269	240	255	254	261
	1972	242	261	271	242	263	285	252	275	281	267	290	296
	1973	258	279	276									
Consumer prices (1963 = 100)	1971	145.3	147.4	148.5	150.4	150.8	151.3	151.7	153.0	154.3	155.7	155.5	156.4
	1972	157.7	158.9	160.3	162.5	162.9	163.3	162.8	164.0	165.5	167.7	168.3	168.8
	1973	170.1	170.8	172.6	175.4	176.4	176.8						
Visible imports (million Eur)	1971	1 103	1 232	1 284	1 201	1 171	1 215	1 193	1 243	1 313	1 222	1 238	1 272
	1972	1 163	1 313	1 332	1 276	1 267	1 292	1 170	1 382	1 311	1 397	1 445	1 373
	1973	1 536	1 568										
Visible exports (million Eur)	1971	1 048	1 088	1 148	1 111	1 045	1 132	1 113	1 159	1 139	1 129	1 182	1 191
	1972	1 174	1 223	1 303	1 190	1 304	1 255	1 112	1 343	1 237	1 258	1 347	1 289
	1973	1 635	1 684										
Balance of trade (million Eur)	1971	- 55	- 144	- 136	- 90	- 126	- 83	- 80	- 84	- 174	- 93	- 56	- 81
	1972	+ 12	- 90	- 29	- 86	+ 37	- 37	- 58	- 39	- 74	- 139	- 98	- 84
	1973	+ 99	+ 116										
Official gold and foreign exchange reserves (million Eur)	1971	3 339	3 529	3 543	3 394	3 540	3 492	3 476	3 488	3 585	3 564	3 527	3 568
	1972	3 615	3 701	4 082	4 041	4 027	4 094	4 581	4 570	4 566	4 540	4 478	4 456
	1973	4 428	4 648	5 134	5 135	5 079							
Money supply (million Eur)	1971	7 484	7 583	7 677	7 892	8 162	7 934	8 098	8 127	8 267	8 345	8 357	8 562
	1972	8 707	8 832	9 402	9 538	9 617	9 626	9 899	10 233	10 242	9 994	10 195	10 085
	1973	10 243	10 381										

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).
Conversion into Eur (1 Eur = 0.888671 g of fine gold).

— For the intra community trade the new Community countries have not yet been taken into account.

Graph 1

Exports fob. Series adjusted for seasonal variations; three-month moving averages.

Graph 2

Industrial production: excluding construction, food, beverages and tobacco; adjusted for seasonal variations; three-month moving averages.

Graph 3

Labour market: series adjusted for seasonal variations; three-month moving averages; position at end of month.

Graph 4

Imports cif. Series adjusted for seasonal variations; three-month moving averages.

Graph 5

Indices of agreed hourly wages in private sector.

Graph 6

Balance of trade: difference between the seasonally adjusted figures of imports and exports.

Graph 7

Bank lending: short-term bank loans, position at end of month.

Table 1

Source: Nationale Rekeningen 1971, CBS.

GDP at market prices.

Industrial production: value added by industry inclusive construction.

Exports and imports: goods and services.

Gross income per employee: income from employment.

Table 2

Balance exports less imports: as defined for the national accounts.

Unemployment rate: number of unemployed as percentage of the civilian labour force in employment. Source: CBS.

Price index of private consumption computed from the national accounts.

Table 3

Exports fob, imports cif; the products have been grouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

Industrial production: adjusted for seasonal variations, excluding construction, food, beverages and tobacco

Unemployed: end-of-month figures, adjusted for seasonal variations.

Seasonally adjusted number of dwellings authorized.

Seasonally adjusted index of department store turnover.

Imports cif, exports fob; adjusted for seasonal variations.

Balance of trade: difference between the seasonally adjusted figures of imports and exports.

Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange in the Nederlandsche Bank at end of month.

Money supply: notes and coin in circulation excluding cash holdings of monetary institutions, plus sight deposits with banks; position at end of month, adjusted for seasonal variations.

G. Belgo-Luxembourg Economic Union

Belgium

In recent months economic expansion has gathered momentum. Essentially, this is due to the vigour of all the components of demand, but corporate investment has shown a particularly marked increase in strength. The employment trend has continued to rise. At the same time, the upward movement of prices has remained rapid at all levels.

The sustained upswing in incomes, demand and production provides reason to fear that inflationary strains will remain unacceptably severe in the coming months.

1. Recent developments

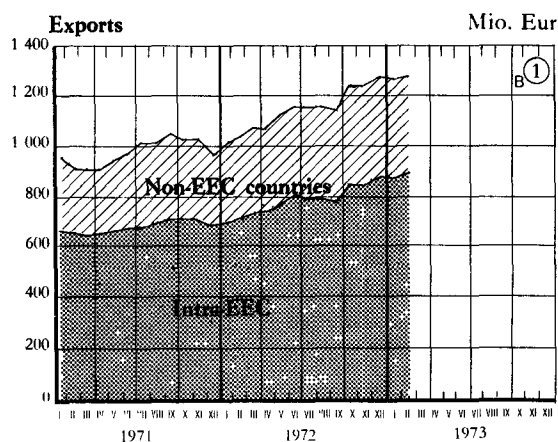
Since the beginning of the year the economic upswing has gathered additional momentum. It has been accompanied by an improvement in the employment situation and the further aggravation of internal disequilibria.

With economic activity still increasing in most of the customer countries, *exports* have risen sharply. Customs returns show that merchandise exports in the first four months were

crease is partly accounted for by an appreciable rise in export prices.

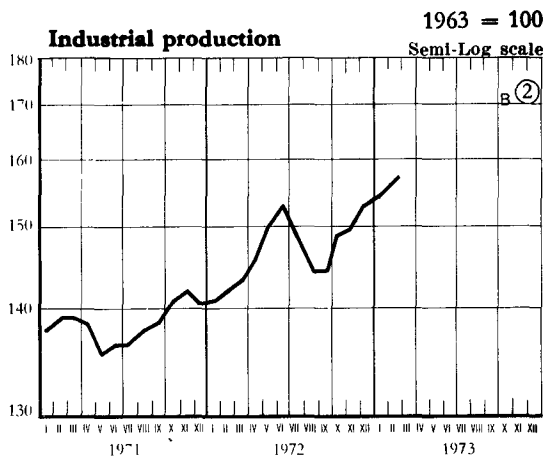
Domestic demand in recent months has been making a growing contribution to more vigorous economic expansion. The improvement in the economic outlook and the increased utilization of production capacity have favoured a revival of firms' *investment* in the industrial field, expressed both in a renewed rise in fixed investment and in stronger stockbuilding. At the same time, the rise in residential construction has gathered momentum. On the other hand, investment by public authorities has been growing more slowly, certain important investment programmes having been completed.

Consumption has continued to spur on economic activity. The key to this trend has been the rapid increase in incomes, generated both by a stronger rise in employment and by a rapid advance in wage rates. Gross hourly earnings in industry were 15.1 % up in March over the March 1972 figure. Pensions have also risen appreciably. At the same time, the propensity to save seems to have declined a little, partly because prices have been rising so sharply and partly because consumers have been making their decisions to purchase more rapidly. New wage and salary concessions have added to public consumption, which was in any case already increasing at a lively pace.



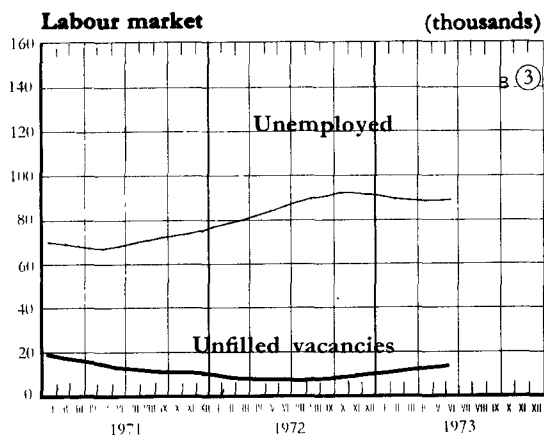
20.7 % up on the corresponding figure for 1972 in value terms. However, this sharp in-

The growth of *production*, quite appreciable though it already was, has tended to gain additional strength. For the January-May period, the industrial production index showed a gain



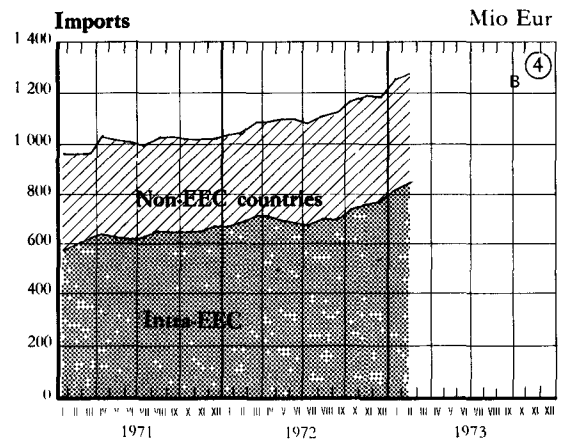
of 7.8 % over a year earlier. With residential construction expanding, overall construction too continued to rise.

The economic upswing has brought with it a slight improvement in the situation on the *labour market*. The number of unemployed, however, showed hardly any fall in the first half of the year. Since the beginning of the year the



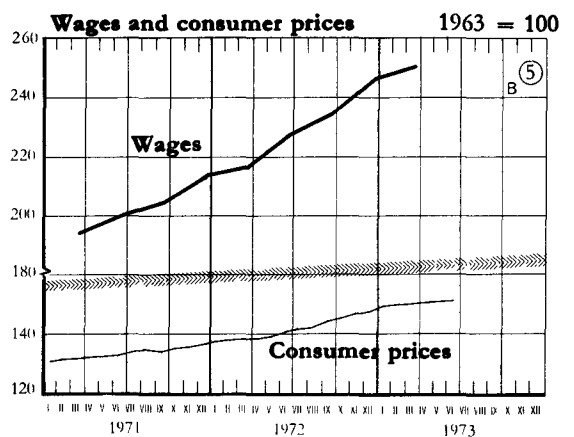
unemployment rate has been running at 2.3 %, compared with 2.5 % in October 1972, the peak for the last three years.

With the increase in demand for plant and machinery and the continuing upward movement in raw material prices, the growth of *imports* has accelerated sharply. Customs returns show that in the first four months the figure was



21.6 % higher in value terms than a year earlier.

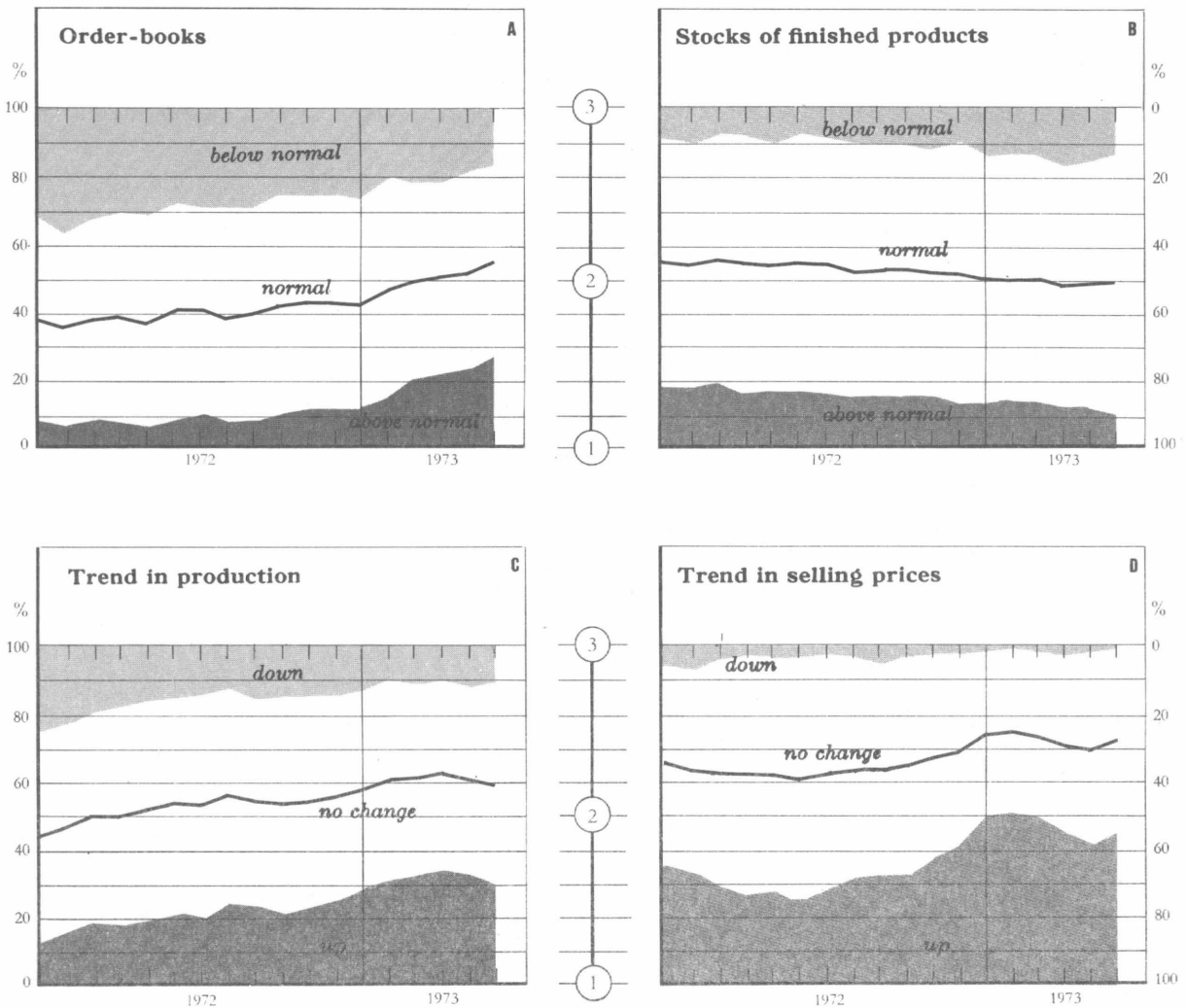
The upward movement of *prices* continued at a faster pace. The main elements in this trend have been higher prices for industrial raw materials and semi-manufactures both at home and abroad, rising farm produce prices and the continuing rise in wage costs. Although these factors, individually, did much to accelerate the



price trend, it is also true that the vigorous expansion of demand, with the strains it entailed in certain industries, has also helped considerably to push up prices. The increase was particularly vigorous in the area of consumption; the consumer price index in July was 6.6 % up on the 1972 figure.

As a result of substantial surpluses on *current account* and a decline in net outflows of long-term capital, the overall balance of payments showed a surplus of Bfrs. 10,900 million in the first four months.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

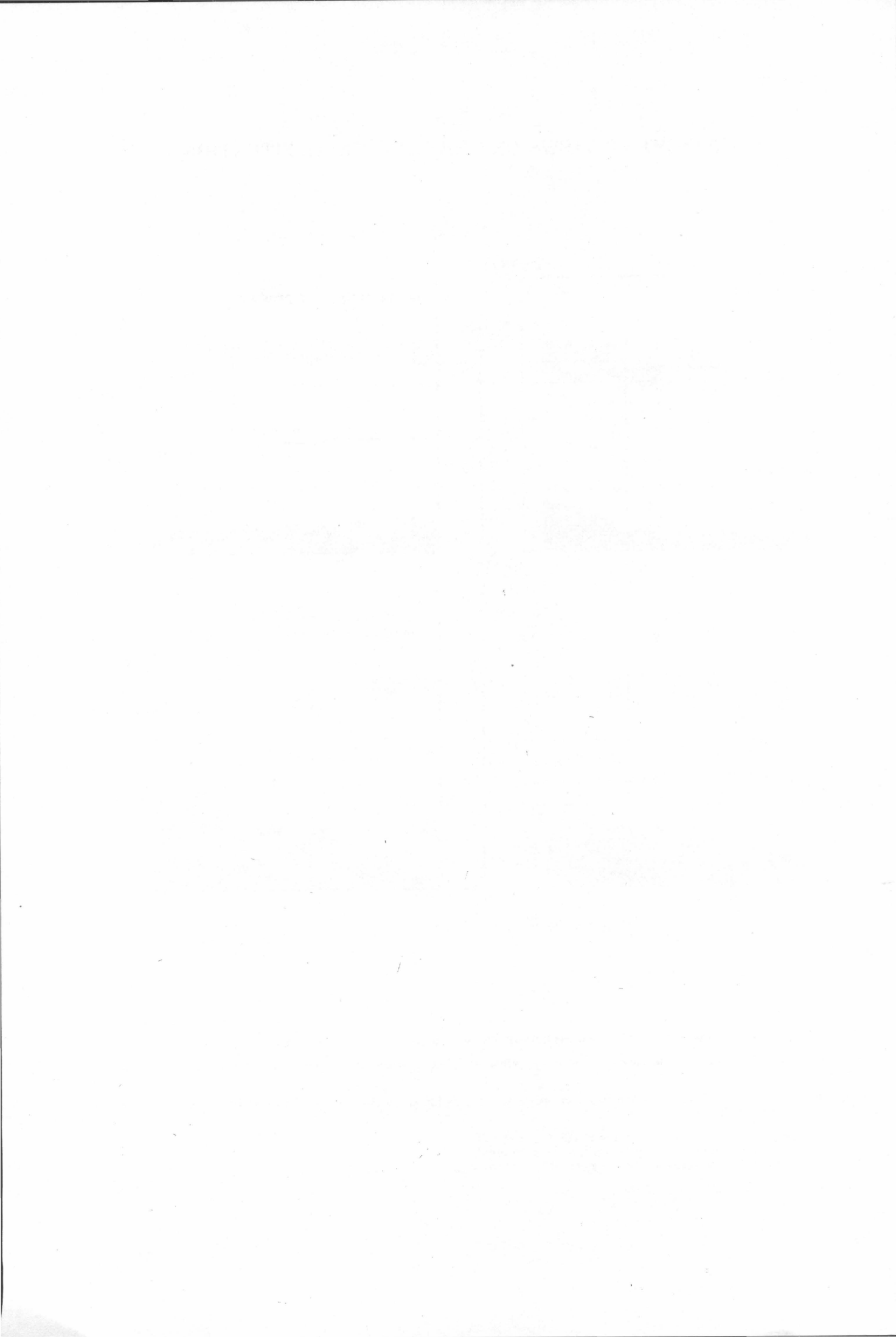


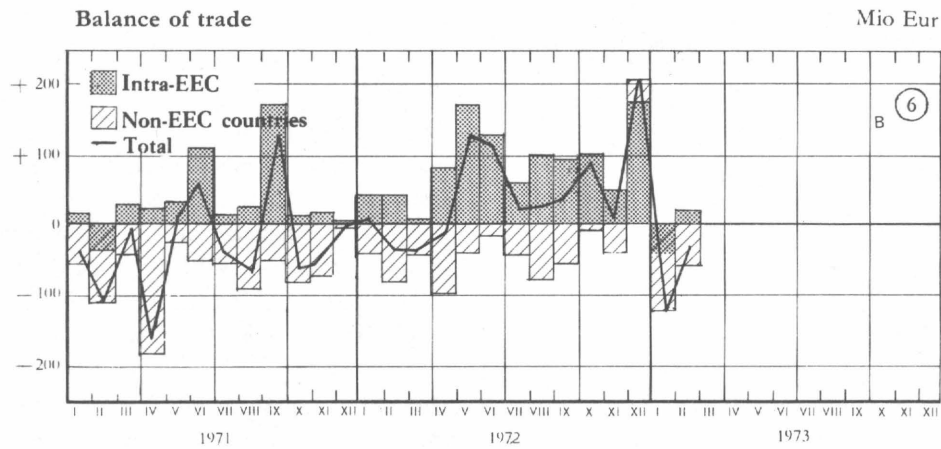
Answers to the questions in the EEC business survey, carried out in Belgium by the National Bank.

GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".





The rapid expansion of domestic liquidity has continued and indeed gathered a little further momentum. From May 1972 until May 1973, the money supply rose by 14.7 %. The vigorous

increase in bank lending generated by the faster growth of investments, combined with balance of payments surpluses, accounted for most of this increase. Nonetheless, interest-rate trends

Demand for and supply of goods and services

	1970 ¹	1971 ¹		1972 ²		1973 ³	
	At current prices (in Bfrs '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ⁴	616.0	+ 8.1	+ 10.9	+ 11½	+ 13	+ 12½	+ 17
Gross fixed asset formation	289.7	- 3.1	+ 6.0	+ 2	+ 9	+ 5	+ 13½
Public current expenditure on goods and services	174.5	+ 4.8	+ 14.0	+ 6½	+ 16	+ 4½	+ 13½
Private consumers' expenditure	771.1	+ 4.6	+ 10.5	+ 5½	+ 11	+ 5½	+ 12½
Gross national product	1,293.6	+ 3.7	+ 9.7	+ 5	+ 12	+ 5½	+ 13
Imports ⁴	476.0	+ 6.2	+ 10.1	+ 11½	+ 11½	+ 12	+ 17½

¹ Statistical Office of the European Communities.

² Estimates.

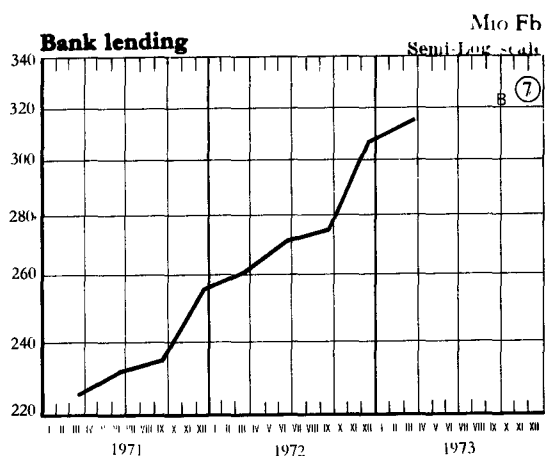
³ Forecasts.

⁴ Goods, services and factor income.

Note :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.



on the money and capital market have been rising; the Banque Nationale has given its support to this movement by raising its lending rates in May and July.

2. Outlook

The boom is expected to continue in the coming months. Domestic demand should provide a powerful stimulus, and this is all the more likely to add to inflationary tendencies as export demand will remain at a very high level, at least in the next few months.

With world demand rising vigorously, *exports* should indeed forge ahead in the period up to the end of the year. It is true that exports of semi-manufactures must be expected to slacken, but this loss should be largely offset by rising exports of finished goods.

The growth of the main components of *domestic demand* is expected to remain as lively as before. The investment expenditure of industrial enterprises will probably grow, and the *investment climate* in general will therefore, for this and other reasons, continue to improve. At any rate, the propensity to invest has grown appreciably firmer in recent months: according to the investment survey carried out by the Central Bank in May, in the EEC framework, capital expenditure in industry should grow by about 25 % in 1973, contrasting with a decline of 7 % in 1972. Residential construction should continue to grow at a brisk rate, although the advance may be curbed somewhat by the policy of restricting finance. Lastly, the growth of

investment by the public authorities will probably slow down increasingly.

The expansion of private *consumers' expenditure* should continue unabated during the rest of the year. The main factors here are the continuing growth of incomes from paid employment and of transfer incomes. At the same time, with the inflationary climate persisting, the propensity to save will probably tend downwards.

Production should again show a substantial increase, although there is a danger that its elasticity will gradually decline. All in all, *gross national product* in real terms should grow by 5.5 % in 1973.

This means that the conditions for the further growth of *employment* are fulfilled, so that labour shortages will probably increase in certain regions and certain occupations.

Stimulated by the continuing business upswing, especially the expected strengthening of investment, and as a result of keener competition from abroad owing to the revaluation of the Belgian franc, *imports* will probably continue to grow at a rapid rate.

In view of the demand and cost trends, it is to be feared that the unfavourable *price situation* will continue. Moreover, increases in a number of indirect taxes and public service charges have been announced for the second half of the year, so that an increase in consumer prices for the full year of more than 6.5 % is probable.

In view of this situation, the main goal of those responsible for *short-term economic policy* must be to moderate the rise in prices and costs. Strict maintenance and, if possible, even a tightening-up of the programmes already announced to curb public expenditure and of the restrictive monetary and credit policy can make an important contribution here. In the latter field, one important aim should be to keep consumer credit and mortgage credit under firm control. A further condition for a return to a more satisfactory price trend is for managements and unions to adopt an appropriate attitude and bear in mind the economic and social implications of inflation for the economy in general and for the socially weaker sections of the community in particular.

Major economic policy measures

March

— In parallel with the decisions on minimum reserves, re-discount and certification quotas were reduced. The total quota is now Bfrs. 45,000 million, i.e. Bfrs. 3,000 million below the level before the recent limitations.

— In compliance with the request of the Finance Minister in the setting of the common Benelux policy, and at the invitation of the Banque Nationale, banks established in Belgium acceded to an agreement foreseeing, for all balances on non-residents' convertible accounts, a maximum amount and the levying of a special commission of 0.25 % per week (i.e. 13.1 % per year) on balances exceeding these maximum amounts. The agreement entered into force on 26 March and is valid until the end of June 1973.

April

— The Government announced the preparation of a draft law modifying exchange control regulations. This will give the monetary authorities machinery to combat disorderly or speculative movements of "hot" money on the Belgian capital market.

— A preliminary agreement between the Government and the two sides of industry was reached at the employment conference. The main points were the implementation of the agreement on mass redundancies and a provisional arrangement in respect of dismissals of employees of 60 years of age (early retirement). The Government also undertook to adopt measures on economic planning, on export incentives and on the encouragement of job-creating investments by small and medium-sized firms.

May

— The agreement on freezing meat prices, which expired at the end of April, was extended for a further six months, with a small adjustment (+ 3 %).

— The Banque Nationale's base rate—5 % since December—was raised to 5.5 % with effect from 10 May. The Banque's other lending rates were put up from 6 % to 7 %.

— The Government announced a range of measures to curb public expenditure in respect both of consumption and of transfers. The aim, through this programme and vigorous control of expenditure, is to enable the deficit on the ordinary budget to be brought down to about Bfrs. 7,000 million.

— Parliament passed the law on the raising of pensions for the self-employed by 8.3 % from 1 January, rather than from 1 July as had been foreseen in the "social planning" arrangements for this sector.

— The time periods to be complied with between the grant of the building premium, beginning of the work and completion of the house or flat were extended. The aim is to spread out in time the heavy demand in this sector of the building industry.

— The Minister for Economic Affairs fixed the retail price for potatoes and dealers' mark-ups at all levels, including retail sales.

— The Ministerial Committee for Economic and Social Co-ordination approved measures for the structural promotion of Belgian exports (reorganization of the system of interest rebates, appointment of external trade representatives and establishment of a division in OBCE, the Belgian Foreign Trade Office, for the promotion of exports by small and medium-sized firms).

June

— A number of measures were taken with regard to prices: fixing of maximum prices for the sale of liquid milk, raising of prices of light and heavy heating fuel and of diesel fuel.

— The agreement on the formation of a minimum reserve by financial institutions, already extended for three months in February 1973, was extended for a further four months until the end of September 1973. Its scope was extended to cover insurance companies.

— The Banque Nationale cut the rate for computing banks' re-discount and certification quotas from 7½ % to 7¼ %.

— Publication of the law amending the income tax law, especially as regards the taxation of capital gains, the basis of assessment and calculation of corporation tax and tax on non-residents and the prevention of certain forms of tax fraud and evasion.

July

— A number of measures were taken concerning prices. These included the fixing of maximum selling prices for petroleum products at the various trading levels and an increase in the price of cigarettes.

— With effect from 5 July the Banque Nationale raised its various discount and interest rates by 0.5 %; this brought the base rate, which since 10 May had stood at 5.5 %, to 6 %.

— The Ministerial Committee on public investment decided to extend the 12.5 % cut in expenditure under the public works programme, applied in the first half of the year, to the

second half of 1973. Spending commitments on non-priority projects in this sector will thus be limited to 75 % of the amount originally envisaged for 1973.

— Through the medium of the National Committee of Economic Expansion the Council of Ministers consulted representatives of both sides of industry for their views on a new set of measures which it had approved in order to relieve inflationary pressures.

August

— A number of public service charges (rail, bus and tram fares) were raised by 10 % from 1 August.

TABLE 1 : Key indicators

	1967	1968	1969	1970	1971	1971
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	+ 3.9	+ 4.2	+ 7.1	+ 6.2	+ 3.7	146
Industrial production	+ 2.2	+ 5.5	+ 11.7	+ 6.6	+ 3.0	160
Total imports	+ 3.5	+ 13.6	+ 15.9	+ 8.6	+ 6.2	201
Private consumers' expenditure	+ 2.7	+ 5.7	+ 6.2	+ 4.3	+ 4.6	140
Public current expenditure on goods and services	+ 6.0	+ 3.7	+ 6.3	+ 3.1	+ 4.8	144
Gross fixed asset formation	+ 2.6	- 2.3	+ 5.6	+ 9.8	- 3.1	140
Total exports	+ 6.7	+ 13.8	+ 15.9	+ 11.5	+ 8.1	211
Gross national product per head of population	+ 3.4	+ 3.9	+ 6.8	+ 5.9	+ 3.3	140
Gross national product per person in employment	+ 4.4	+ 4.2	+ 5.3	+ 4.5	+ 2.7	138
	% change by value on preceding year					
Gross income per employee	+ 7.4	+ 6.1	+ 8.5	9.7	+ 12.7	199

TABLE 2 : Indicators for internal and external equilibrium

	1967	1968	1969	1970	1971
Balance exports less imports					
in million Eur	+ 180	+ 197	+ 360	+ 822	906
as percentage of GNP	+ 0.9	+ 0.9	+ 1.5	+ 3.1	3.1
Unemployment rate	2.3	2.8	2.3	1.9	1.9
prices to private consumers (% change on preceding year)	+ 2.5	+ 2.3	+ 2.6	+ 2.7	+ 5.7

Belgium
TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1963 = 100	Million Eur	% of totals
	1967	1968	1969	1970	1971	1971	1971	1971
Visible exports								
Total	+ 3.0	+ 16.0	+ 23.3	+ 15.2	+ 4.0	250	12 077	100
Intra-EEC	+ 3.2	+ 18.5	+ 29.5	+ 16.9	+ 4.2	282	8 286	68.6
To non-EEC countries	+ 2.5	+ 11.7	+ 12.1	+ 11.6	+ 3.7	201	3 792	31.4
Exports of food, beverages and tobacco								
Total	+ 18.8	+ 15.5	+ 21.8	+ 19.6	+ 14.9	348	1 072	8.9
Intra-EEC	+ 25.7	+ 24.6	+ 27.1	+ 16.9	+ 11.7	379	870	7.2
To non-EEC countries	+ 1.3	- 13.4	- 1.8	+ 35.3	+ 30.8	230	201	1.7
Exports of raw materials, fuel and power								
Total	- 2.4	+ 13.4	+ 21.4	+ 0.1	- 5.7	135	799	6.6
Intra-EEC	- 3.6	+ 10.8	+ 21.3	+ 4.6	- 5.7	138	495	4.1
To non-EEC countries	- 0.5	+ 17.4	+ 21.7	- 6.4	- 5.7	131	304	2.5
Exports of semi-finished and finished industrial goods								
Total	+ 2.3	+ 16.4	+ 23.6	+ 15.9	+ 4.1	262	10 206	84.5
Intra-EEC	+ 1.9	+ 18.7	+ 30.3	+ 17.4	+ 4.5	297	6 921	57.3
To non-EEC countries	+ 2.9	+ 12.8	+ 11.8	+ 12.6	+ 3.5	208	3 287	27.2
Visible imports								
Total	0	+ 16.1	+ 19.9	+ 13.6	+ 10.3	245	12 537	100
Intra-EEC	- 0.6	+ 14.8	+ 25.3	+ 16.4	+ 18.5	295	7 924	63.2
From non-EEC countries	+ 0.6	+ 17.8	+ 13.3	+ 9.8	- 1.4	190	4 613	36.8
Imports of food, beverages and tobacco								
Total	+ 10.0	+ 2.8	+ 14.9	+ 17.1	+ 11.4	246	1 512	12.1
Intra-EEC	+ 11.8	+ 24.0	+ 23.3	+ 20.4	+ 14.7	372	886	7.1
From non-EEC countries	+ 8.6	- 13.1	+ 5.8	+ 13.1	+ 6.9	167	626	5.0
Imports of raw materials, fuel and power								
Total	- 2.1	+ 22.8	+ 11.3	+ 11.7	+ 2.7	180	2 516	20.1
Intra-EEC	- 5.5	+ 17.6	+ 15.3	+ 12.0	+ 16.0	204	1 017	8.1
From non-EEC countries	- 0.2	+ 25.7	+ 9.1	+ 11.5	- 4.8	166	1 499	12.0
Imports of semi-finished and finished industrial goods								
Total	- 1.1	+ 16.7	+ 24.2	+ 13.6	+ 12.7	276	8 495	67.8
Intra-EEC	- 1.1	+ 13.0	+ 28.0	+ 16.8	+ 19.5	311	6 010	47.9
From non-EEC countries	- 1.2	+ 23.6	+ 17.9	+ 7.9	- 1.0	217	2 485	19.8

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1971	141.3	140.4	135.8	138.5	131.3	138.0	138.3	135.4	141.6	145.1	139.2	135.5
	1972	146.2	140.3	142.0	149.8	153.3	149.1	150.6	145.3	147.5	153.2	146.4	158.1
	1973	157.0	154.5										
Unemployed (1 000)	1971	69.1	67.9	67.3	67.0	67.7	69.2	71.0	72.2	72.9	73.9	77.0	77.2
	1972	79.7	80.1	81.8	83.1	84.5	86.2	88.4	88.9	90.6	93.6	92.7	91.1
	1973	89.6	89.1	88.2	88.9	88.7	90.2						
Permits for residential construction	1971	2 731	2 048	2 267	2 101	1 971	2 611	2 635	2 854	2 298	2 811	2 980	2 450
	1972	3 766	4 259	4 417	4 370	4 172	3 812	3 468	3 834	4 507	5 260	5 997	
	1973												
Department store turnover (1963 = 100)	1971	167	169	161	173	166	177	182	181	180	187	182	187
	1972	184	193	202	183	192	208	197	199	224	196	200	225
	1973	199	213										
Consumer prices (1963 = 100)	1971	130.81	131.83	132.39	133.07	133.40	133.68	134.50	135.01	135.95	136.32	136.79	137.38
	1972	138.02	138.75	138.93	139.42	139.67	141.03	142.07	142.32	143.27	144.09	145.15	146.17
	1973	147.48	148.30	148.63	149.47	150.09	150.83						
Visible imports (million Eur)	1971	921	987	1 030	1 046	958	1 014	1 026	1 025	1 022	1 004	1 018	1 026
	1972	1 042	1 045	1 182	1 042	1 081	1 169	981	1 166	1 175	1 167	1 255	1 161
	1973	1 344	1 319	1 383									
Visible exports (million Eur)	1971	884	876	1 026	885	969	1 079	989	961	1 147	940	964	1 027
	1972	1 050	1 015	1 131	1 026	1 215	1 270	1 025	1 289	1 225	1 243	1 264	1 337
	1973	1 230	1 289	1 460									
Balance of trade (million Eur)	1971	- 37	- 111	- 4	- 160	+ 12	+ 65	- 37	- 64	+ 125	- 65	- 54	+ 1
	1972	+ 8	- 30	- 52	- 16	+ 128	+ 101	+ 44	+ 122	+ 49	+ 76	+ 10	+ 196
	1973	- 114	- 30	+ 77									
Official gold and foreign exchange reserves (million Eur)	1971	3 119	3 125	3 083	3 105	3 307	3 205	3 298	3 449	3 433	3 343	3 341	3 349
	1972	3 444	3 563	3 536	3 506	3 429	3 697	3 840	3 900	3 873	3 830	3 770	3 707
	1973	3 902	4 167	4 293	4 367	4 472	4 447						
Money supply (million Eur)	1971	8 439	8 432	8 410	8 489	8 619	8 669	8 825	8 808	8 940	9 015	9 070	9 341
	1972	9 589	9 646	9 818	9 900	9 786	10 130	10 199	10 143	10 345	10 518	10 534	10 648
	1973	10 804	11 068	11 289	11 365	11 246							

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).
Conversion into Eur (1 Eur = 0.888671 g of fine gold).

— For the intra community trade the new Community countries have not yet been taken into account.

Graph 1

BLEU exports fob: series adjusted for seasonal variations; three-month moving averages.

Graph 2

Industrial production: excluding construction, food, beverages and tobacco; series adjusted for seasonal variations; three-month moving averages.

Graph 3

Labour market: series adjusted for seasonal variations; three-month moving averages; position at end of month.

Graph 4

BLEU imports cif: series adjusted for seasonal variations; three-month moving averages.

Graph 5

Wages and consumer prices (not adjusted for seasonal variations): average gross hourly earnings in industry, source: Banque nationale; consumer prices, source: Ministère des Affaires Économiques.

Graph 6

BLEU balance of trade: difference between seasonally adjusted values of imports and exports.

Graph 7

Bank lending: advances by the banking system, not adjusted for seasonal variations; position at end of month.

Table 1

GNP at market prices.

Industrial production: value added by industry.

Total exports and imports: goods, services and factor income.

Gross income per employee: income from paid employment (including employer's share of social insurance contributions).

Table 2

Balance exports less imports: as defined for the national accounts, included factor income.

Unemployment rate: number of unemployed as percentage of the civilian labour force in employment.

Price index: price index of private consumption, computed from the national accounts.

Table 3

BLEU: Exports fob, imports cif; the products have been grouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (Groups 0 and 1 CST), raw materials, fuel and power (Groups 2-4 CST), semi-finished and finished industrial goods (Groups 5-9 CST).

Table 4

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

Unemployed: end-of-month figures, adjusted for seasonal variations.

Construction: seasonally adjusted number of residential buildings authorized, adjusted for seasonal variations.

Private consumers' expenditure: seasonally adjusted value index of department store turnovers.

Consumer prices: not adjusted for seasonal variations.

BLEU: Imports cif, exports fob; figures adjusted for seasonal variations.

BLEU: Balance of trade: difference between values of imports and exports, seasonally adjusted.

Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange held by the monetary authorities; position at end of month.

Money supply: notes and coin in circulation, excluding cash holdings of the credit institutions other than the Post Office giro; residents' sight deposits (up to one month) with banking institutions; the special Treasury accounts and sums held by non-residents with the Post Office giro; position at end of month, adjusted for seasonal variations.

In recent months, demand and economic activity have been growing vigorously and the upward price trend has remained strong.

Despite a somewhat less buoyant trend in exports of steel products, expansion should continue in the second half of the year. The price and cost movement will remain a source of concern.

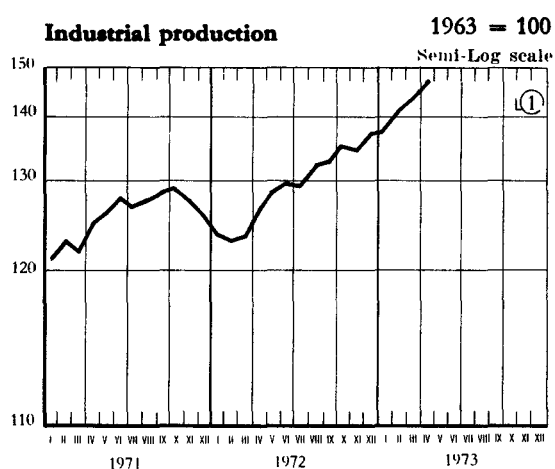
1. Recent developments

In the second quarter of 1973, the pressure of demand led to a further contraction of available capacities. Internal equilibrium deteriorated further.

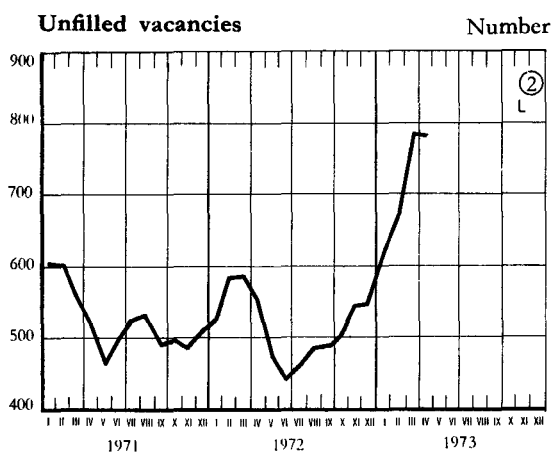
The lively upswing in international steel markets and the vigorous growth of export demand in other industries boosted *exports*, so their volume figures increased appreciably and there was an exceptionally sharp increase in export prices.

Domestic demand remained strong. Although the establishment of new firms has apparently slowed down a little, the upward trend in modernization and rationalization investment has continued. There was a considerable increase in public expenditure on investment. The trend of residential construction has risen at a faster rate. *Private consumers' expenditure*—fed by the rapid development of the national wage bill and of transfer incomes—climbed sharply. On 1 March the statutory minimum wage was raised by 16 %.

In most sectors and branches of the economy, *production* has risen very sharply. In *industry* as a whole, production in the first five months of the year was 14.1 % higher than in the corresponding period of 1972. In the building industry, production quickly resumed its expansionary trend after the winter, mainly as a result of more lively growth in residential construction.



Employment has again risen. Despite the increase in the number of foreign workers, the



number of unfilled vacancies was 38 % up in the first four months on the corresponding 1972 figure.

Demand for and supply of goods and services

	1970 ¹	1971 ¹		1972 ¹		1973 ²	
	At current prices (in Lfrs '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ³	43,760	- 2	- 4	+ 5	+ 9.2	+ 10½	+ 24½
Gross fixed asset formation	13,329	+ 8	+ 18.8	+ 4	+ 10.3	0	+ 7½
Public current expenditure on goods and services	5,399	+ 3.2	+ 14.4	+ 2.5	+ 13.8	+ 2	+ 13½
Private consumers' expenditure	27,396	+ 4	+ 8.9	+ 4.2	+ 9.6	+ 4½	+ 11
Gross national product	51,046	+ 0.7	+ 2.2	+ 3.5	+ 8.7	+ 7	+ 18½
Imports ³	38,838	+ 2.8	+ 8.1	+ 4.8	+ 10.4	+ 6	+ 14½

¹ Service central de la statistique et des études économiques (STATEC), Luxembourg.

² Forecasts.

³ Goods, services and factor income.

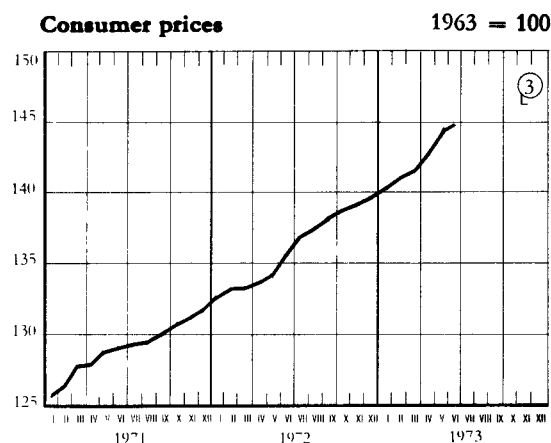
Note :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The forecasts are approximations based on certain hypotheses generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

The increase in *consumer prices* gathered momentum until April but levelled off in May. In June they were 6.7 higher than in June 1972;

this was mainly due to a sharp increase in food prices and in rates being charged for certain services.

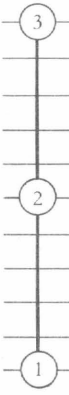
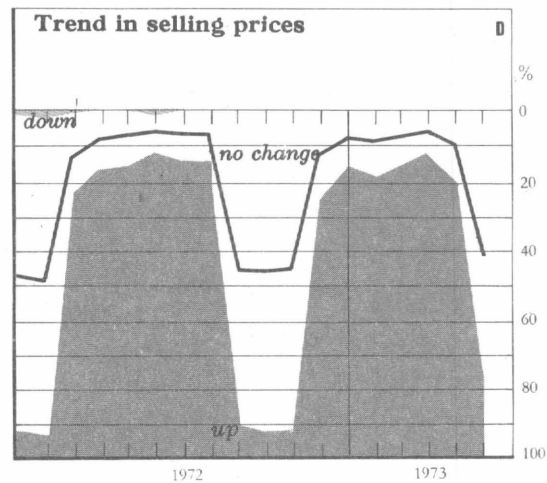
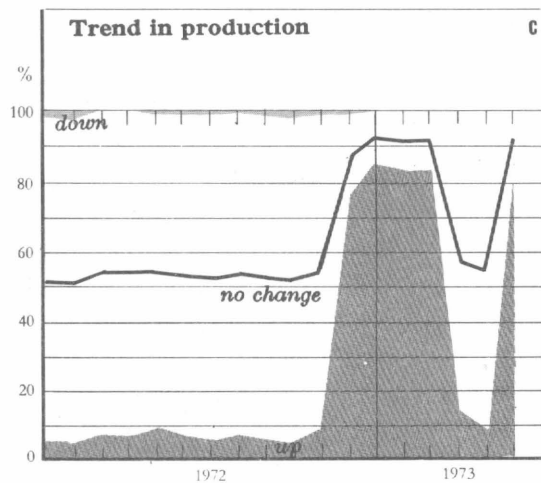
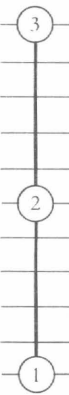
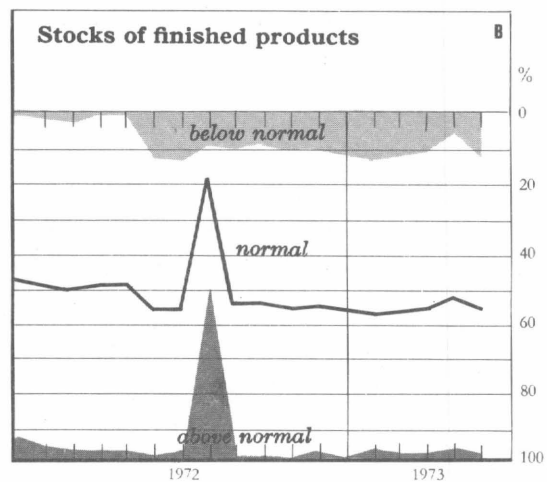
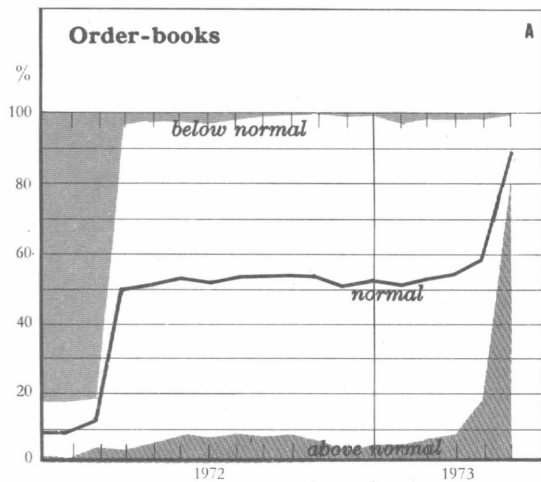


2. Outlook

In coming months, growth should continue, although the actual rate, given the foreseeable trend of demand and the growing exhaustion of available capacities in certain industries, should be lower.

The contribution of *exports* to economic activity will remain substantial. It is true that the trend of sales by the steel industry could lose in vigour in certain markets. But it is also to be

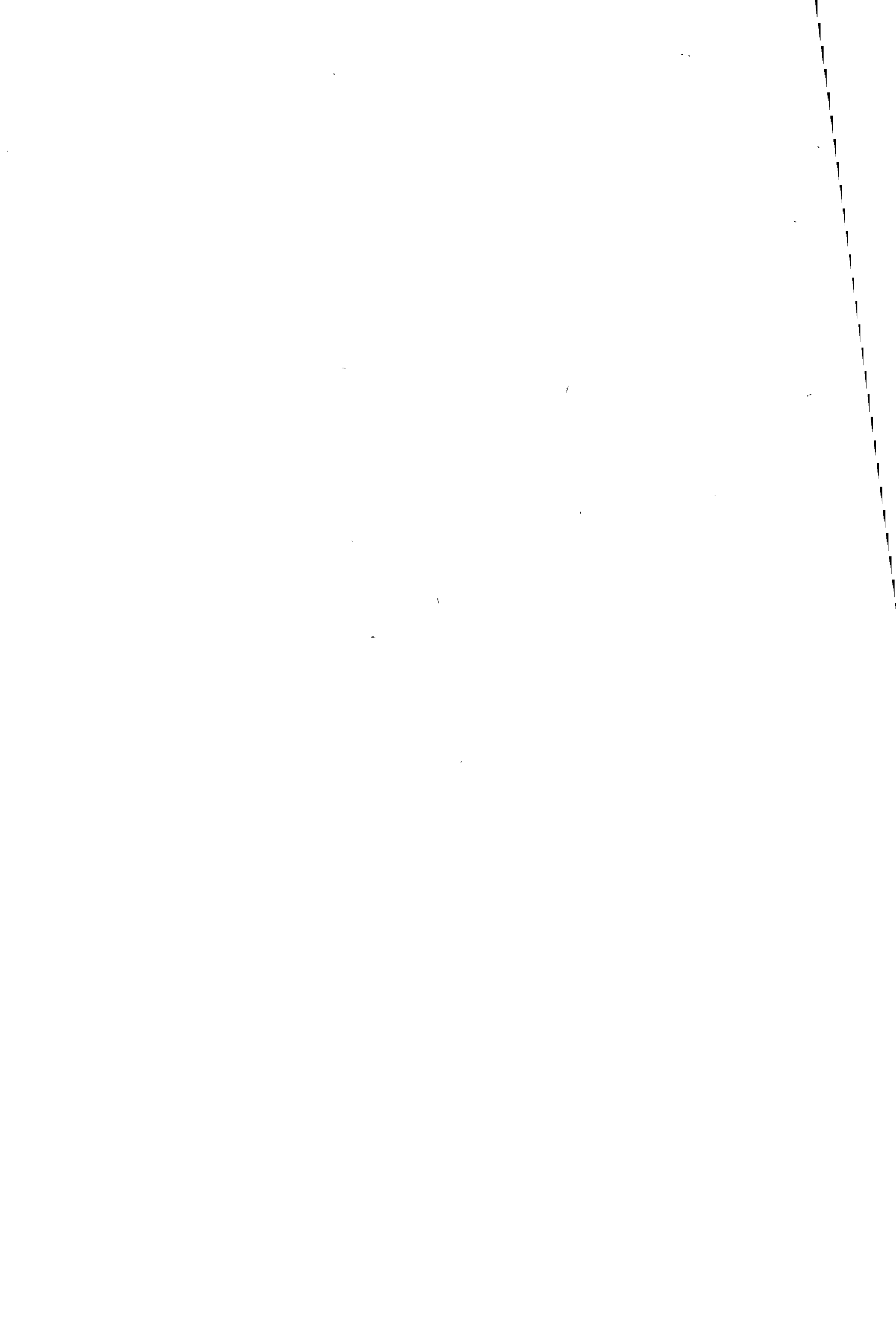
BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to the questions in the EEC business survey, carried out in Grand Duchy of Luxembourg by STATEC.
 GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".



expected that the exports of new industries that have started operations in the Grand Duchy will continue to expand at a lively pace.

The growth of *domestic demand* will remain vigorous. Gross fixed asset formation should expand appreciably, especially under the influence of corporate investment in rationalization and modernization schemes, and of residential construction. Private consumers' expenditure should continue to grow in parallel with the continuing vigorous development of disposable incomes. In particular, the trend in demand for consumer durables should remain definitely upwards.

The *increase in production* should continue in coming months, but in certain industries, particularly construction and steel, less unused capacity is now available and the actual growth rate should therefore slow down a little. All in all, gross national product in real terms should grow by about 7 % in 1973. On the *labour market*, it is probable that strains in certain industries will become more severe because of recruiting difficulties.

Imports should continue to grow, though probably at a somewhat slower pace.

The upward *thrust of prices*, which has so far been very strong, should slacken a little in coming months with the implementation of the anti-inflation programme announced at the end of May. Nonetheless, the annual rate of increase in consumer prices in 1973 could be some 6.5 %.

The outlook for the Luxembourg economy suggests that there is an urgent need for the *economic policy* authorities to endeavour to establish the conditions in which the price and cost trend can be moderated. Measures of curtailment recently announced in the field of prices and with regard to the budget and credit policy are apparently in line with this goal, and should be strictly implemented.

Major economic policy measures

March

— On 9 March the Belgo-Luxembourg Foreign Exchange Institute called upon the banks, in

order to discourage speculative capital inflows, to take measures holding down the formation of deposits in Belgian or Luxembourg francs by non-residents to the levels necessary for the normal performance of current operations, and also to limit their own use of foreign money markets to the degree necessary for their work. The point of reference is the status at the close of operations on 9 March. Temporary excess debit balances, not exceeding 10 %, are allowed.

— Belgium and Luxembourg decided to levy a negative interest rate of 0.25 % per week on the convertible Bfrs. accounts of non-residents. The levy was to be applied by the commercial banks to all balances exceeding the daily average of the last quarter of 1972 and would apply from 1 April onwards (corresponding to a yearly rate of 13.1 %).

— The law of March 1973 on the raising of civil servants' salaries entails an additional burden on the budget of about Lfrs. 220 million.

April

— The law of 9 April 1973 granted temporary investment subsidies in the form of income tax rebates (which can be cumulated) of 9 % of the additional investment and of 6 % for the first section up to Lfrs. 2 million and 3 % for the rest. Investment in building, livestock and mineral and fuel deposits are not included. The law refers to the business years ending in the years 1972 to 1974.

— In the law of 26 April 1973 on the emoluments of civil servants, new rules were introduced for the grading and promotion of officials, involving additional budget expenditure of Lfrs. 50 million.

May

— As a result of the decisions of the Council of Ministers of the European Communities of 1 May, the price for 1 kg of butter was reduced by Lfrs. 5 and the price of 1 litre of milk raised by Lfrs. 0.75.

— On 25 May two regulations were approved easing the terms under which people who build or buy a house qualify for an interest rate rebate.

— On 29 May the Government announced a series of measures on inflation control in the following areas:

- Prices: freezing of retailers' margins for meat; freezing of prices of building materials; fixing of the retail price of a kilogramme of potatoes at Lfrs. 8; extension, from 30 to 60 days, of the period for the compulsory announcement of price increases; dropping of the special indexation clause for electricity users in specific areas;
- Money and credit: incentive to the development of new forms of saving; retention of the minimum reserve system; curtailment of building credit in order to combat speculation;
- Taxes: decision not to raise indirect taxation; reduction of the value added tax rates for certain foodstuffs from 10 % to 5 %; introduction of a compensatory tax-free allowance for wage- and salary-earners; application from 1 January 1974 of index-

linking of tax scales; raising of corporation tax (in connection with the economic situation) by 5 %—the yield temporarily frozen can be refunded at a later date; raising of the untaxed amount for interest on deposits and income from government stock to Lfrs. 15 000.

- Budget: partial freezing of budget surpluses; postponement of certain public construction work.

July

— On 4 July Parliament approved a general law promoting economic expansion on the lines of that which applied until the end of 1971.

- Parliament approved the anti-inflationary measures reducing certain VAT rates, increasing the tax-free limit on earnings of interest on deposits and income from government stock and levying the supplementary 5 % of corporation tax.

TABLE 1: Key indicators

	1967	1968	1969	1970	1971	1971
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	+ 0.2	+ 5.3	+ 7.7	+ 3.5	+ 0.7	131
Industrial production	- 2.1	+ 7.4	+ 11.4	+ 3.3	± 0	135
Total imports	- 4.5	+ 9.8	+ 9.2	+ 5.8	+ 0.5	140
Private consumers' expenditure	0	+ 3.7	+ 4.8	+ 5.5	+ 4.0	134
Public current expenditure on goods and services	+ 3.6	+ 4.0	+ 3.3	+ 2.2	+ 3.2	125
Gross fixed asset formation	- 9.3	- 5.6	+ 7.6	+ 16.4	+ 8.0	110
Total exports	- 1.5	+ 13.4	+ 11.9	+ 2	- 4.0	148
Gross national product per head of population	+ 0.1	+ 4.9	+ 7.1	+ 3.1	- 1.1	124
Gross national product per person in employment	+ 1.4	+ 5.1	+ 6.2	+ 0.9	- 1.8	121
	% change by value on preceding year					
Gross income per employee	+ 3.6	+ 5.5	+ 6.2	+ 12.6	(+ 10)	174

TABLE 2: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1971	118.0	124.5	122.8	127.6	128.1	127.2	124.9	130.9	129.4	126.7	126.3	123.5
	1972	122.4	123.5	125.5	130.6	129.2	130.5	128.6	137.4	133.3	135.1	135.2	140.6
	1973	136.0	147.9	150.7	143.6								
Unfilled vacancies	1971	522	651	498	422	471	604	487	511	476	503	482	542
	1972	543	680	544	430	444	466	489	530	472	508	636	480
	1973	735	788	838	725								
Consumer prices (1963 = 100)	1971	126.06	126.91	128.04	128.15	129.09	129.37	129.48	129.62	130.22	131.09	131.63	132.14
	1972	132.80	133.21	133.43	133.70	134.21	135.71	136.84	137.30	137.91	138.57	139.32	139.90
	1973	140.40	141.05	141.57	142.90	144.66							

Luxembourg

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Graph 1

Industrial production: excluding construction, food, beverages and tobacco; adjusted for seasonal variations; three-month moving averages.

Graph 2

Unfilled vacancies: adjusted for seasonal variations; three-month moving averages.

Graph 3

Consumer prices; source: STATEC.

Table 1

GNP at market prices.

Industrial production: value added by industry.

Exports and imports: goods, services and factor income.

Gross income per employee: income from paid employment (including employer's share of social insurance contributions).

Table 2

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations.

Unfilled vacancies: seasonally adjusted end-of-month figures.

Consumer prices: not adjusted for seasonal variations.

H. United Kingdom

The economic expansion has considerably improved in recent months. Demand and output have been rising briskly in the first half of 1973. Exports continued their strong upward trend and investment both in fixed assets and in stocks recovered from its so far modest rate of expansion. Consumer spending slowed down in the second quarter as a reaction to the exceptional pre-VAT buying spree. Price increases were still rapid. The current account of the balance of payments has considerably deteriorated.

With new orders for investment and exports clearly upward, overall demand will certainly assure further economic growth in the months ahead. The rise in prices is likely to remain quite large.

1. Recent developments

The general economic situation continued to improve in the first half-year and there were clear signs of a switch in demand from private consumption to investment and exports. As a result, economic growth became broader-based. Both internal and external disequilibria remained substantial.

There was a marked improvement in the underlying trend of *exports*, in both value and volume terms. In the first six months of the year, exports on a trade statistics basis were 22.8 % higher than a year earlier. Exports to all major markets, particularly to the other members of the Community, showed significant improvements. The declining trend of exports to the overseas sterling area, seen in 1972, was decisively reversed.

Overall *domestic demand* continued to expand at a rapid rate but showed increasing signs of a change in its composition as the year went on. As a matter of fact, higher rates of capacity utilization and growing confidence of trade and industry in the economic outlook were reflected in the clear upswing in expenditure on plant and machinery. Housing construction remained at a high level. After negative stockbuilding in

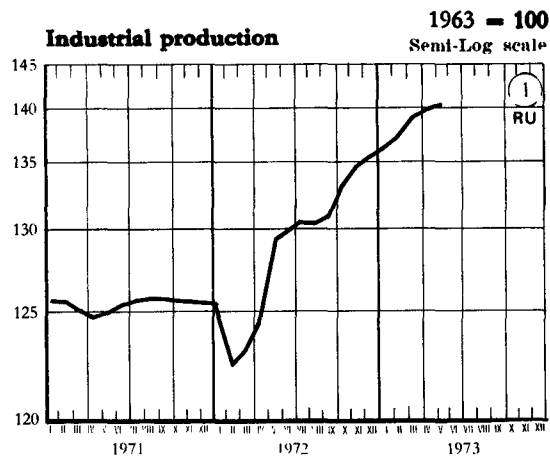
1972, firms now appear to be gearing their investment in stocks to the fast-rising level of production.

A number of factors were responsible for a strong expansion of consumers' expenditure. Personal disposable income in value terms continued to grow, though at a reduced rate; the fall in unemployment, the growing confidence in the economic situation and particularly the introduction of VAT contributed to a reduction in the savings ratio and to an increase in the sales of consumer durables on hire-purchase. New car registrations, in spite of a fall in domestic production, were up some 20 % in the first quarter on the somewhat depressed level reached a year before.

Overall, private consumption reached a year-to-year growth rate of 8.7 % in volume terms and of 15.1 % in value terms in the first quarter. VAT was introduced on 1 April. In the subsequent three-month period consumers' expenditure showed a marked fall; according to preliminary estimates, the level of real consumption was still about 4.4 % higher than a year ago.

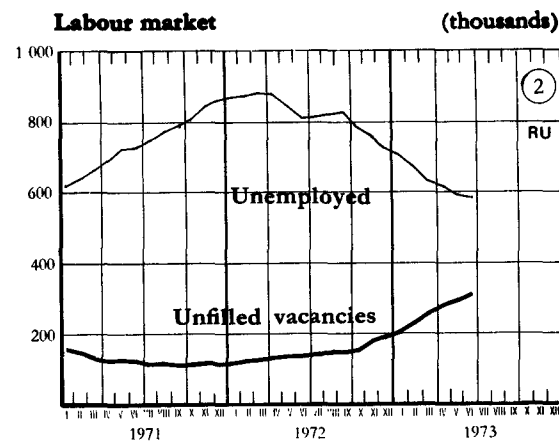
Public consumption of goods and services appears to have been expanding at a fairly regular rate.

Domestic output must have been expanding at a high rate throughout the first half of 1973. Industrial production, which had already been



rising strongly in 1972, accelerated in the first quarter to achieve during recent months an annual rate of growth of about 9 %.

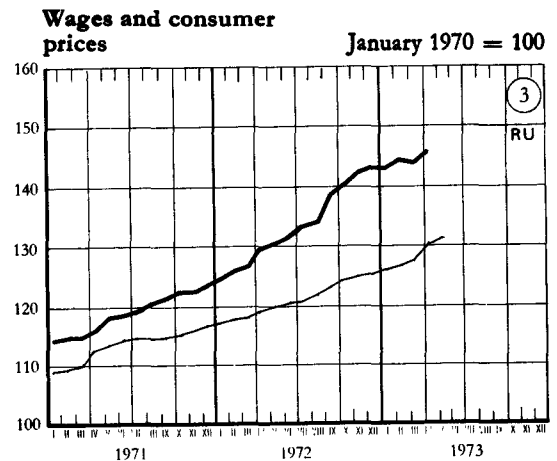
Conditions on the labour market reflected the strongly expansionary course of the economy. By July the seasonally adjusted unemployment rate had fallen to 2.6 %, (1) which was down by a third from its peak in April 1972. At the same time, unfilled vacancies continued to in-



crease sharply. After the rapid shake-out of labour observed during the previous recession, some reverse movement seems to be taking place at this stage of the business cycle.

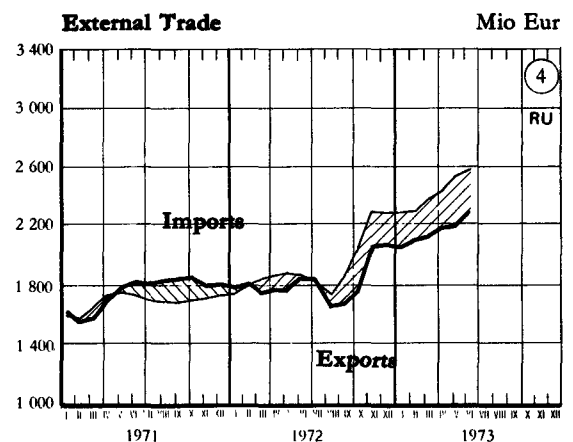
1 Expressed as a percentage of the estimated total number of employees.

Price developments in recent months have been influenced by three main factors: the Government's prices policy, rising world commodity and food prices and the introduction of VAT on 1 April. From November to March, retail prices, in spite of the general standstill policy, continued to rise at a fairly stable annual rate of about 7½ %, almost exclusively due to higher food prices, not subject to the standstill.



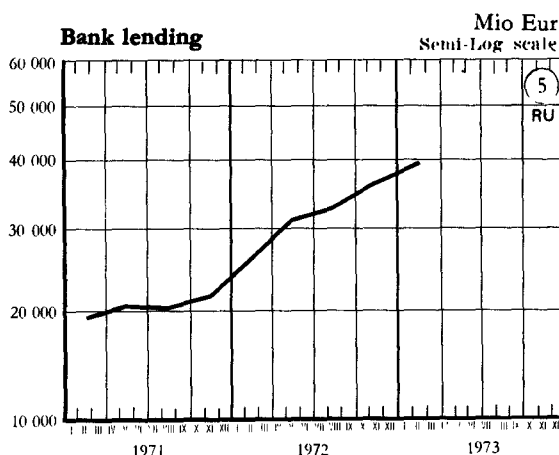
In April, however, largely as a result of the increase in local authority rates and the introduction of VAT, the retail price index jumped 1.9 %. In May and June the index rose a further 0.6 % a month, on average, to reach a level 9.3 % higher than a year previously.

Imports of goods have increased vigorously. Volume on a trade statistics basis rose about 14 % year on year during the first six months of 1973 with the growth being heavily concentrated in raw materials and machinery. Due to the steep rise in prices of food and raw materials accentuated further by the depreciation of the



pound, the total import bill increased much faster, i.e. at 33.9 %. This explains the large deficit of £ 414 million which is estimated to have occurred on the current account of the balance of payments in the first half of 1973.

Money supply was expanding rapidly in the opening months of the year, though partly as a result of special factors. The authorities attempted to slow down the rate of growth and in the three months to May the annual rate of expansion of M 3 fell back to 12 %, compared with 34 % in the three months to February. On the other hand, the corresponding figures for M 1 showed an increase from 7 % to 17 ½ %. The minimum lending rate of the Bank of England tended to fall right from the



turn of the year, reflecting the favourable liquidity position of the economy. Following a

Demand for and supply of goods and services

	1970 ¹	1971 ¹		1972 ²		1973 ³	
	At current market prices £ million	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ⁴	12,786	+ 4.4	+ 11.1	+ 3.1	+ 6.2	+ 11½	+ 23
Gross fixed asset formation	9,266	— 0.6	+ 8.2	+ 0.4	+ 8.7	+ 6½	+ 15
Public current expenditure on goods and services	9,120	+ 4.1	+ 14.7	+ 3.7	+ 12.2	+ 5	+ 13½
Private consumers' expenditure	31,211	+ 2.5	+ 10.6	+ 6.8	+ 12.5	+ 5½	+ 13½
Gross national product	51,014	+ 1.7	+ 10.7	+ 2.5	+ 8.9	+ 7	+ 14
Imports ⁴	11,742	+ 4.1	+ 8.8	+ 9.0	+ 13.9	+ 12½	+ 28½

¹ Statistical Office of the European Communities.

² Estimates.

³ Forecasts.

⁴ Goods, services and factor income.

Note :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the services of the Commission.

renewed acceleration in the growth of the money supply in the middle of the year and a further weakening of sterling in the exchange market, the authorities took various measures which had the effect of raising the minimum lending rate during the second half of July in two stages from 7 ½ % to a record level of 11 ½ %.

2. Outlook

The current expansionary trend of domestic demand and the increased buoyancy of economic activity in the UK's major export markets assure further economic growth in the United Kingdom in the second half of 1973.

The outlook for exports in the second half of 1973 remains bright. Export order books are at a very high level and if British manufacturers retain their keenness to sell abroad in spite of the domestic boom *exports* could do very well indeed. They will certainly be favoured by the depreciation of the pound and can be expected to increase at a particularly rapid speed in the fast-growing market of the Community and in the overseas sterling area, whose own export earnings in the recent past have been rising steeply as a result of the boom in commodity prices.

Fixed investment is likely to accelerate, particularly in manufacturing industry. An increasing rate of capacity utilization and growing confidence in future prospects should produce a strong upsurge of investment as the year goes on. The financing of this investment is not likely to be inhibited by shortage of funds, since company liquidity is abnormally high as a result of improved profitability and the short-term effects of the change-over to VAT. There is also evidence that investment in stocks will recover further, since restocking up to now has not kept pace with the sharp increase in output, so that the stocks/output ratio, already very low, has continued to fall. However, the outlook for investment in dwellings is for little change. Apart from some minor savings announced in May, public investment is expected to rise quite rapidly, as outlined in the Budget.

The path of private consumption in the coming months is difficult to assess in view of the uncer-

tain effects of the pre-VAT spending spree. As a reaction to this, irregular movements are likely to occur, particularly in the field of consumer durables. Disposable income, however, will continue to rise, though a higher proportion may be devoted to savings as a result of the stimuli given by the Government.

The rate of expansion of *output* is expected to slow down somewhat from the extraordinarily high level achieved in the first quarter. Nevertheless, the rate of growth of GDP for the year as a whole could well be about 7 % in volume terms. Unemployment will fall further, not only as a result of the growing demand for labour, but also on account of the increase in the minimum permitted school-leaving age.

The high rate of expansion of the economy and the necessity for further replenishment of stocks will undoubtedly sustain a brisk growth of *imports*. The substitution effects of the depreciation of sterling, which at any rate would be confined mainly to manufactured goods, are not likely to make themselves felt before the end of the year. The current account of the balance of payments is therefore expected to produce substantial deficits, though some improvement may occur towards the end of the year.

The outlook for *prices* is not likely to improve. Though price controls continue to exert a favourable influence, further sizeable increases at the retail price level are likely, in particular as a result of the development of prices of imported goods and of food items.

The reflationary policy pursued in the United Kingdom has produced the desired results in recent months as far as growth is concerned. However, the prospect of a rapid drop in margins of unutilized capacity in the second half of 1973 seems to call for a cautious approach to avoid the danger of overall demand exerting excessive pressure on resources. If this prospect were to become a reality, a selective monetary and budgetary policy would have to be adopted to direct available resources towards exports and industrial investment by limiting the growth of the other components of demand. Reducing imbalances could also give a policy of voluntary co-operation on prices and incomes a better chance of success and make it easier for the United Kingdom to participate fully in the Community's monetary machinery.

In order to achieve a balanced growth, budgetary policy should be flexible. The Government has already shown itself aware of this need through its announcement of cuts in public expenditure, though these will probably not have much effect until 1974. Although the underlying growth of private consumption has recently shown signs of a slow-down, this could be temporary, in which case new cuts in public expenditure might be required. This would also have the welcome effect of alleviating the expansionary effects of the very large borrowing requirement. Whatever policy line is adopted, however, small adjustments made in good time to restore the balance between demand and supply would undoubtedly be preferable to the possibility of the severe restraints which might otherwise be necessary later on in the business cycle.

Monetary policy should aim at containing the growth of the money supply within narrow limits. The announced measures to stimulate savings and to encourage companies to deposit excess funds in special tax deposit accounts should be readily implemented and perhaps even reinforced.

In spite of the recent sharp falls in unemployment it remains at a high overall level. As the unemployment ratio falls, however, it will become increasingly important to recognise the fact that regional disparities in labour market conditions require special regional and structural measures rather than overall demand management policies.

Major economic policy measures

March

— The Budget for the financial year 1973-74 was announced on 6 March. The rise in public expenditure was forecast at 13 %, compared with 8 % for receipts. As a consequence the public sector borrowing requirement was estimated to rise from the provisional outturn of £ 2,855 million for the previous year to £ 4,423 million. The main items in the Budget Statement were:

— from its introduction on 1 April value-added tax would be at the rate of 10 %. Exemptions from the coverage of the tax were

announced for children's clothing and footwear and confectionery, at an estimated cost to the Exchequer of £ 120 million;

— *a large increase in social security benefits, to take effect from October, would be financed mainly by higher contributions;*

— *the income-tax allowance for people aged 65 or over would be increased;*

— *increased incentives for personal savings were offered, while companies were given the opportunity of depositing their excess funds at attractive rates of interest in special tax deposit accounts with the Inland Revenue;*

— *some relief would be given to those facing substantial increases in local authority rates as a result of the property revaluation;*

— *stricter control would be exercised over North Sea oil profits;*

— *non-central government public authorities would in future be permitted to borrow funds abroad. (In response to this a number of sizeable loans have been arranged and partly utilized, including one of \$ 1,000 million by the Electricity Council);*

— *legislation to restrict the hoarding of land for housing would be announced soon.*

— *Following an agreement with the banks and finance houses, the Bank of England announced on 11 March that in future it would be able to make calls for Special Deposits at differential rates on domestic and overseas bank funds. These are deposits which are called for by the Bank of England from banks and finance houses. They are normally expressed as a percentage of these institutions' eligible deposits. In addition the credit control scheme would be extended with modifications to include the Northern Ireland banks, which were hitherto excluded.*

— *On 21 March larger than expected increases in the guaranteed prices for farm produce were announced for the forthcoming year. The total cost of agricultural support was tentatively forecast to increase from £ 282 million to £ 340 million.*

— *Legislation implementing Stage II of the Government's counter-inflation programme was approved on 22 March. In three important respects the controls on prices were less stringent than those proposed in the earlier consultative document. The list of cost increases*

against which price increase could be calculated was enlarged and the proportion of such cost increases which could be passed on in the form of higher prices would not be restricted to 50 % in cases where labour costs exceeded 35 % of total costs. Furthermore the Prices Commission would be permitted to exempt from the normal rules price increases not only by companies which suffered from reduced profit margins during the period of voluntary restraint but also in cases where it judged that the rate of return was such as to discourage capital investment.

— The Bank of England's minimum lending rate fell $\frac{1}{4}$ % to $8\frac{1}{2}$ % on 23 March.

April

— As from 1 April purchase tax and selective employment tax were superseded by value added tax. To isolate price changes due to the change-over, the general standstill on prices was extended until 28 April.

— As from 1 April, some wage rises became payable under Stage II of the prices and incomes policy.

— On 1 April tariff barriers with the other Community countries were lowered.

— On 4 April the building societies announced a 1 % increase in their mortgage rate to $9\frac{1}{2}$ %. A larger rise was averted by the Government's decision to pay subsidies to the societies at the rate of about £ 6 million a month for three months.

— A unified system of direct taxation replacing personal income tax and surtax came into effect on 6 April, the beginning of the new financial year.

— On 9 April the Government announced its proposed measures to promote the building of more and better houses. They included a tax of 30 % a year on land hoarders for unreasonable delay in completing housing developments for which planning permission had been granted.

— On 16 April the British Steel Corporation announced steel price increases of $9\frac{1}{2}$ % from 30 April with more to come at the end of Stage II.

— The Bank of England's minimum lending rate fell to 8 % on 13 April but rose again to $8\frac{1}{4}$ % on 20 April.

May

— The Government announced a reduction in the price of butter through subsidies of about £ 18 million a year. Half of this amount would be at the expense of the Community Budget together with a further £ 3 million for the supply of butter at even lower prices to those receiving social assistance.

— On 21 May public expenditure cuts were announced as a precaution against excessive demand pressures building up in the economy. The cuts amounted to about £ 100 million in 1973/74 and £ 500 million in 1974/75.

— The Bank of England's minimum lending rate fell to 8 % on 11 May and to $7\frac{3}{4}$ % on 18 May.

June

— On 22 June the Bank of England's minimum lending rate fell to $7\frac{1}{2}$ %.

July

— The scheme announced in May, whereby people receiving social assistance would be eligible to buy butter at reduced rates, came into effect on 2 July.

— On 19 July the Bank of England announced measures to arrest the foreign exchange depreciation of the pound and to control the rate of growth of the money supply. The Banks were asked to pay to the Bank of England a further 1 % of Special Deposits in equal instalments on 6 and 15 August. In addition the discount houses were freed from the requirement that they should hold at least 50 % of borrowed funds "in defined categories of public sector debt". This meant that they no longer needed to bid so vigorously for Treasury Bills. As a result, the Bank of England's minimum lending rate, which is linked to the Treasury Bill rate by a set formula, rose strongly to 9 % on 20 July and to $11\frac{1}{2}$ % on 27 July.

TABLE 1: Key indicators

	1968	1969	1970	1971	1972	1972
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	+ 3.1	+ 2.2	+ 2.4	+ 1.7	+ 2.5	126.9
Industrial production	+ 5.3	+ 2.7	+ 1.1	+ 0.7	+ 3.3	129.9
Total imports	+ 8.5	+ 3.1	+ 4.6	+ 4.1	+ 9.0	158.9
Private consumers' expenditure	+ 2.6	+ 0.6	+ 2.7	+ 2.5	+ 6.8	127.5
Public current expenditure on goods and services	+ 0.5	- 1.4	+ 1.7	+ 4.1	+ 3.7	122.7
Gross fixed asset formation	+ 5.0	- 0.5	+ 3.1	- 0.6	+ 0.4	143.0
Total exports	+ 10.9	+ 10.2	+ 4.3	+ 4.4	+ 3.1	155.4
Gross national product per head of population	+ 2.6	+ 1.8	+ 2.1	+ 1.4	+ 2.1	121.9
Gross national product per person in employment	+ 3.9	+ 2.2	+ 3.1	+ 3.2	+ 3.2	130.3
	% change by value on preceding year					
Gross income per employee	+ 7.8	+ 7.0	+ 12.6	+ 13.0	+ 12.2	212.0

TABLE 2: Indicators for internal and external equilibrium

	1968	1969	1970	1971	1972
Balance: exports less imports					
in millions Eur	+ 365	+ 1,824	+ 1,858	+ 2,009	+ 727
as percentage of GNP	0.4	2.1	2.1	2.2	0.8
Unemployment rate	2.3	2.2	2.4	3.1	3.5
Prices to private consumers (% change on preceding year)	+ 4.5	+ 5.4	+ 5.4	+ 7.8	+ 5.4

United Kingdom

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1963 = 100	Million Eur	% of totals
	1968	1969	1970	1971	1972	1972	1972	1972
Visible exports								
Total	+ 23.0	+ 14.1	+ 9.8	+ 13.9	+ 6.1	223.3	23,389	100.0
Intra-EEC	+ 25.1	+ 18.7	+ 14.1	+ 12.9	+ 10.6	243.9	7,056	30.2
Extra-EEC	+ 22.3	+ 12.3	+ 8.2	+ 14.3	+ 4.3	215.4	16,333	69.8
Exports of food, beverages and tobacco	+ 21.0	+ 5.5	+ 13.3	+ 14.3	+ 12.3	235.3	1,583	6.8
Exports of raw materials, fuel and power	+ 23.4	+ 5.6	+ 13.5	+ 7.3	+ 8.8	145.5	1,344	5.7
Imports of semi-finished and finished industrial goods and miscellaneous goods	+ 23.2	+ 15.3	+ 9.3	+ 14.3	+ 5.5	230.4	20,462	87.5
Visible imports								
Total	+ 22.7	+ 5.3	+ 8.7	+ 8.7	+ 13.6	223.9	26,774	100.0
Intra-EEC	+ 20.8	+ 4.3	+ 13.5	+ 19.5	+ 20.9	316.7	8,458	31.6
Extra-EEC	+ 23.4	+ 5.6	+ 7.0	+ 4.7	+ 10.5	197.2	18,316	68.4
Imports of food, beverages and tobacco	+ 7.8	+ 1.6	+ 6.1	+ 6.3	+ 8.4	140.8	5,663	21.2
Imports of raw materials, fuel and power	+ 21.1	+ 2.4	+ 6.8	+ 9.1	+ 2.1	166.0	6,168	23.0
Exports of semi-finished and finished industrial goods and miscellaneous goods	+ 32.6	+ 8.7	+ 10.8	+ 9.5	+ 21.4	353.8	14,943	55.8

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1971	126.8	124.5	123.6	125.1	126.0	126.4	126.5	126.6	126.3	126.1	125.9	125.4
	1972	125.5	116.1	127.3	128.7	130.6	130.4	130.4	130.8	132.7	134.5	135.5	136.1
	1973	136.7	138.4	140.0	140.3	141.2							
Unemployment (000)	1971	647.7	664.5	688.0	718.7	758.6	768.4	794.2	813.1	834.6	852.6	879.0	893.1
	1972	900.1	906.5	911.6	911.9	873.4	845.5	846.4	846.5	850.1	814.8	791.4	761.9
	1973	736.2	693.5	663.8	648.7	630.3	621.6	609.0					
Construction : Housing starts (000)	1971	27.6	28.9	27.2	27.0	27.3	24.7	28.7	28.1	30.3	30.6	27.9	35.6
	1972	31.4	27.2	29.7	28.2	26.3	31.2	29.2	27.7	29.0	27.8	30.3	32.4
	1973	30.7	34.0	31.3	29.0	25.7							
Private consumers' ex- penditure : value of retail sales (1966 = 100)	1971	125.8	123.2	128.1	130.8	131.6	131.1	133.9	136.0	135.4	138.1	138.3	139.5
	1972	140.2	140.8	141.3	142.2	143.3	146.4	150.6	151.8	152.0	155.4	156.7	160.2
	1973	159.4	164.7	169.4	158.0	158.8							
Retail prices (Jan. 1962 = 100)	1971	147.0	147.8	149.0	152.2	153.2	154.3	155.2	155.3	155.5	156.4	157.3	158.1
	1972	159.0	159.8	160.3	161.8	162.6	163.7	164.2	165.5	166.4	168.7	169.3	170.2
	1973	171.3	172.4	173.4	176.7	178.0	178.9						
Exports (million Eur)	1971	1,505	1,476	1,802	1,829	1,754	1,853	1,795	1,819	1,877	1,824	1,687	1,889
	1972	1,733	1,800	1,704	1,807	1,783	1,946	1,790	1,176	1,973	2,148	2,047	2,011
	1973	2,081	2,158	2,081	2,285	2,184	2,338						
Imports (million Eur)	1971	1,510	1,627	1,793	1,740	1,666	1,750	1,673	1,654	1,730	1,726	1,685	1,795
	1972	1,745	1,874	1,910	1,896	1,872	1,896	1,723	1,591	2,306	2,268	2,273	2,222
	1973	2,273	2,342	2,578	2,402	2,690	2,669						
Balance of trade (million Eur)	1971	- 5	- 151	+ 9	+ 89	+ 88	+ 103	+ 122	+ 165	+ 147	+ 98	+ 2	+ 94
	1972	- 12	- 74	- 206	- 89	- 89	+ 50	+ 67	- 415	- 333	- 120	- 226	- 211
	1973	- 192	- 184	- 497	- 117	- 506	- 331						
Official gold and foreign exchange reserves (million Eur)	1971	3,002	3,194	3,317	3,420	3,523	3,619	3,871	4,807	5,014	5,210	5,573	6,062
	1972	6,430	6,439	6,516	6,569	6,586	6,415	5,602	5,611	5,609	5,395	5,429	5,201
	1973	5,210	4,906	5,004	5,071	5,586	5,813						
Money supply (million Eur)	1971	42,384	42,984	43,968	43,608	43,896	44,040	44,352	44,796	45,168	45,792	46,464	46,944
	1972	48,048	47,952	49,176	51,528	52,344	54,312	55,464	55,800	57,096	57,816	58,512	60,216
	1973	61,680	63,456	64,608	65,040	65,304	66,888						

NOTES TO GRAPHS AND TABLES

Conversions into Eur (1 Eur = 0.888671 g of fine gold) £ 1 = 2.40 Eur.
Seasonally adjusted unless otherwise stated.

Key to sources : — (a) Central Statistical Office.
(b) Department of Employment.
(c) Bank of England.
(d) Statistical Office of the European Communities.
(e) Office of Population Censuses and Surveys, General Register Office (Scotland), General Register Office (Northern Ireland).
(f) Ministry of Health and Social Services (Northern Ireland).
(g) Department of Trade and Industry.
(h) Department of the Environment.

Graph 1

Industrial production : three-monthly moving average of all industries index (1963 = 100) (a).

Graph 2

Labour market (Great Britain) : wholly unemployed, excluding school-leavers and adult students; number of adult unfilled vacancies (b).

Graph 3

Wages and consumer prices : index of monthly average earnings in Great Britain (all employees) (January 1970 = 100); retail price index (all items) (not seasonally adjusted) (index based on January 1962, January 1970 = 100) (b).

Graph 4

Exports (f.o.b.) and imports (c.i.f.) of goods on a balance of payments basis : three-monthly moving averages (a).

Graph 5

Bank lending to the private sector : advances (not seasonally adjusted) by the total banking sector to UK residents, excluding lending to the government, local authorities, public corporations and financial institutions. Breaks in the series occur in the first quarter of 1972 and the first quarter of 1973 (c).

Table 1

Gross national product at market prices (d).
Index of industrial production (all industries) (1963 = 100) (a).
Total imports and exports of goods, services and factor incomes (d).
Total population at end-June (not seasonally adjusted) (e).
Persons in employment : working population at end-June excluding the unemployed (not seasonally adjusted) (b + f).
Gross income from employment (a).
Employees : persons in employment (as defined above) excluding employers and self-employed at end-June (not seasonally adjusted) (b + f).

Table 2

Exports less imports : balance of goods, services and factor incomes (d).
Unemployment rate : number of unemployed as a percentage of the estimated number of employees (including the unemployed) at end-June (not seasonally adjusted) (b + f).
Consumer prices : deflator of private consumption (d).

Table 3

Exports (f.o.b.) and imports (c.i.f.) of goods on an overseas trade statistics basis. CEC figures are shown on the new basis throughout. The products have been grouped according to the SITC sections 0 & 1, 2-4 and 5-9 (g).

Table 4

Index of industrial production (all industries) (1963 = 100) (a).
Unemployment : wholly unemployed, excluding school-leavers and adult students (b + f).
Construction : private and public housing starts in Great Britain (h).
Retail sales : index numbers of the value of sales at current prices (1966 = 100) (g).
Retail price index (all items) (not seasonally adjusted) (January 1962 = 100) (b).
Exports (f.o.b.) and imports (c.i.f.) of goods on a balance of payments basis (a).
Official gold and foreign exchange reserves : end-month figures (not seasonally adjusted) comprising gold, IMF Special Drawing Rights, convertible currencies and, from July 1972, the UK's reserve position at the IMF. Before conversion into Eur, values have been converted into sterling at prevailing middle rates. For these reasons, breaks in the series occur in December 1971, July 1972 and February 1973 (c).
Money supply : M3 (including interest-bearing deposits). Breaks in the series occur in April 1972 and April 1973 (c).

Council resolution on further measures to be taken against inflation

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Council Resolution of 5 December 1972 on measures to be taken against inflation;

Having regard to the Commission communication on the economic policy to be pursued in 1973 and on the preparation of budgets for 1974;

Having regard to the draft resolution presented by the Commission;

Whereas prices are still rising with alarming speed despite the anti-inflationary measures taken in accordance with the above-mentioned Resolution of 5 December 1972;

Whereas inflation jeopardises continued economic growth and full employment; whereas it causes increasing distortion in the distribution of incomes and wealth; whereas it seriously endangers the establishment of economic and monetary union;

Whereas the measures already introduced to combat inflationary tendencies must therefore continue to be employed and strengthened, by concerted action, with due regard for the specific situation of each of the Member States;

ADOPTS THIS RESOLUTION:

I

All the Member States shall pursue an economic policy aimed at slowing down the rise in prices. The Member States in which capacity utilization is already high shall continue and extend their action to check the expansion of overall demand. The other Member States (United Kingdom, Italy and Ireland) shall ensure that the rate of

expansion of overall demand does not become excessive. In particular they shall ensure that their policy is sufficiently selective to channel the available resources to industrial investment.

II

The Member States in which capacity utilization the measures introduced under Section IV of the Resolution of 5 December 1972, in order to bring about a substantial reduction, by the end of 1973, in the rate of expansion of the money supply (money and quasi-money).

The monetary authorities of the Member States shall where appropriate ensure that the expansion of credit is restricted by making use of the instruments referred to in the Resolution of 5 December 1972. Consumer credit and credit for construction and for property transactions shall be subject to particular attention.

Interest rate policies should be compatible with the above-mentioned monetary objectives.

The Member States shall ensure that a high level of savings is maintained or encouraged, especially by appropriate measures in the fields of interest rates or taxation.

The Member States shall continue their joint action to prevent undesirable inflows of capital from abroad and if necessary shall strengthen the instruments set up pursuant to the Council Directive of 21 March 1972 to regulate international capital flows and neutralise their undesirable effects on domestic liquidity.

The Committee of Governors of Central Banks shall carry out a quarterly review of trends in the money supply in the Member States so that the Central Banks may, if necessary, take appropriate steps under certain Council Decisions, in particular that of 22 March 1971 on the strengthening of co-operation between the

Central Banks of the Member States of the European Economic Community. By 30 January 1974 at the latest, the Committee of Governors of Central Banks and the Monetary Committee shall put before the Council and the Commission a report on the results achieved, under monetary policy, in implementing this Resolution.

III

The Member States shall, whenever appropriate, reinforce the measures to reduce regional imbalances and to improve the structure of employment referred to in Section III of the Resolution of 5 December 1972. Member States shall co-ordinate their policies at Community level to direct a considerable proportion of new corporate investment preferably towards those Community areas where the level of economic development is the weakest.

IV

In Italy and Ireland, the budget policy measures to stimulate the economic upswing will be implemented in a way which will not jeopardise the moves to moderate price increases.

The other Member States shall apply tight budget management in the second half of 1973. They shall cancel budget appropriations, if need be, and refrain from any projects which might require major additional expenditure, in an effort to ensure that the rate of growth of actual spending comes as close as possible to the guidelines for 1973 laid down in Section V of the Resolution of 5 December 1972.

The rate of growth of expenditure foreseen in all the Member States' draft budgets for 1974 should be moderated. As a general rule it should be lower than the rate of growth envisaged for 1973 as compared with that for the previous year.

In those countries in which budgetary expenditure has over the last two years grown less rapidly than the Gross National Product in value, the growth of this expenditure should in any case be less than that at present foreseen for the Gross National Product in value for 1974. The net borrowing requirement of the central government should be reduced in all the Member States by comparison with the outturn expected for 1973. If it proves impossible to

contain the growth of expenditure to the extent required, a rise in taxation will have to be considered. This could be achieved in certain Member States by refraining, amongst other courses of action, from mitigating the progressive nature of income taxes.

The Governments of the Member States shall ensure that during the second half of 1973 and in 1974 the local authorities too will manage their budgets in a way compatible with the requirements of short-term economic policy. They shall use the means at their disposal to limit the expenditure and reduce the borrowing of these authorities.

Any budget deficits in 1973 and 1974 will have to be financed by methods compatible with the monetary policy objectives set out above. Except in Member States faced with particularly marked under-employment, budget deficits will be financed by long-term borrowing. In addition, Member States shall endeavour to consolidate short-term debt and, where appropriate, issue long-term loans on the capital market, the proceeds of which will be frozen with the Central Bank.

The Budgetary Policy Committee shall every three months examine the extent to which the implementation of the budgets is in accordance with the guidelines set out above and shall submit to the Council and the Commission, not later than 30 January 1974, a report on the results achieved in public finance in pursuance of this Resolution.

V

The Community institutions shall ensure that full effect is given to the Community measures outlined in Sections VII, VIII and IX of the Resolution of 5 December 1972.

VI

Member States shall continue to apply strictly the measures of national legislation referred to in Section VIII of the Resolution of 5 December 1972. They shall regularly exchange information within the Short-term Economic Policy Committee on the results of price policy and consult each other on the most appropriate methods of solving specific problems of common interest in good time. In this context,

the Short-term Economic Policy Committee shall give priority to examining both the possibility of setting up in all Member States a system requiring enterprises exceeding a certain size to notify price increases in advance and the possibility of increasing State supervision of price formation in order to prevent abuses on important markets.

VII

The measures set out above cannot themselves alone moderate the rise in prices. It is essential

that they should be supported by the behaviour of those who have responsibilities for the economy, and of the social partners, in the fields of prices and incomes. The Member States should encourage such behaviour by appropriate measures.

VIII

The Council will examine the outcome of this programme of action at its next meeting to review the economic situation in the Community, which is scheduled for October.