

**Commission of  
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**Directorate-  
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for Economic  
and Financial  
Affairs**



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1973**

## **The economic situation in the Community**

Quarterly survey

**Commission of the European Communities  
Directorate-General for Economic and Financial Affairs  
Directorate for National Economies and Economic Trends  
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**EUROPEAN COMMUNITIES**

**COMMISSION**

**The Economic Situation  
in the Community**

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## I. THE OVERALL SITUATION

*At the end of 1972 and the beginning of 1973 the economic upswing in the enlarged Community spread to additional areas.*

*Vigorous economic growth in the United States and other major industrialized countries caused exports to expand more rapidly. Internal demand in the Community, which during most of 1972 had been stimulated mainly by the expansion of private consumers' expenditure, has in recent months also been boosted by a more vigorous drive to replenish stocks and a more favourable trend in fixed investment.*

*The expansion of production gathered additional momentum, and bottlenecks began to appear again here and there. Imports too grew at a faster pace. Employment in the Community rose distinctly, although many enterprises were endeavouring to cut their manpower requirements through rationalization measures.*

*The upward movement of prices remained rapid throughout the Community. Prices in all member countries were being pushed up by the persistent rise in wage costs and the higher costs of imported raw materials and semi-manufactures. In a number of member countries there were also strains in the supply-demand situation.*

*The very high rates of growth in the money supply, which were due mainly to a sharp expansion of lending, suggest that developments in this field have so far exercised no lasting restraint on inflationary tendencies.*

*Even though the effects of the monetary crisis in February and March introduce an element of uncertainty into the economic outlook for the Community, there are many indications that the economic upswing will not be affected to any great extent in the next few months. But exports to non-member countries may grow*

*less than originally expected, at least in terms of volume, because the competitive position of most Community countries has suffered from the exchange rate realignment.*

*On the other hand it must be borne in mind that the business upswing is based much more than before on the economic situation in Europe itself, especially after enlargement of the Community. In this respect, the outlook for production, incomes and employment is by and large still favourable, because both the propensity to invest of enterprises and the growth of expenditure on consumption suggest a vigorous expansion in demand. At the same time, however, there is reason to fear that the upward thrust of prices will remain strong throughout the Community.*

## A. Short-term economic policy

The economic trend in the enlarged Community, which is examined in the following chapters, broadly confirms the picture which the preceding Quarterly Surveys have given of the economic outlook. All member countries are benefiting from a distinct upswing in economic activity. Employment has improved everywhere, especially in countries such as Ireland, Italy and the United Kingdom, where the unemployment rate had been comparatively high. The trend in costs and prices, on the other hand, remains extremely disturbing. The annual rate of increase currently ranges from 5.7% (Luxembourg) to 8.2% (Ireland).

The monetary crisis which broke in February and is attributable to substantial inflows of dollars into the Community, demonstrates once again how unstable international monetary relations are at present and how vulnerable the Community is to a flare-up of speculation.

Yet the cause of such waves of speculation is by no means economic. The analysis of labour costs in the Community given in an annex to this survey clearly shows that in the past few years labour costs per unit of output, both in terms of national currency and even more when the changes in exchange rate are taken into account, have shown a distinctly more favourable trend in the United States than in the countries of the enlarged Community. The erosion of purchasing power is much weaker in the United States than in Europe. Also, the point has repeatedly been made in the Quarterly Surveys that the shift in the terms of trade due to the exchange rate realignment agreed upon in Washington in December 1971 would initially lead to a deterioration in the US balance of trade. In the meantime, several studies have shown that the changes in the balances on trade account which are in the last resort the purpose of the exchange rate adjustments, take a comparatively long period, i.e. several years, to materialize. The reactions of the market, on the other hand, are frequently influenced by short-term developments, in addition to being often irrational in character. Consequently, even the fresh devaluation of the dollar,

announced on 11 February, and the decision by the Japanese Government to allow the exchange rate of the yen to float, led to no more than a very short period of quiet on the foreign exchange markets. Only two weeks later there were fresh inflows of speculative capital which forced the authorities of most industrialized countries to close their foreign exchange markets.

On 14 February, i.e. following the announcement of the dollar devaluation, the Council of the European Communities agreed to proceed more rapidly with the decisions on the implementation of economic and monetary union called for in the final communiqué of the Conference of Heads of State or Government of 21 October 1972. The Commission will therefore, before 30 June 1973, submit a report on the adjustment of short-term monetary support and on the conditions for the progressive pooling of monetary reserves. In view of recent events, the Council in addition considered that the Community should work out without delay a common position with regard to the reform of the international monetary system so as to give additional impetus to the work being done by the Committee of Twenty of the International Monetary Fund.

Following the closure of the foreign exchange markets at the beginning of March, the Council on 4, 8 and 11 and 12 March made a fresh and thorough study of the monetary situation. It noted that the onset of the latest crisis had not been justified by the exchange rate relationships at present existing between the main currencies, and stemmed from distrust of speculative origin. Because of the international character of the crisis, the Council considered that the Community and the principal countries affected by the crisis should consult with each other, and it worked out a common position for such consultation. In the light of the results of the meeting which the enlarged Group of Ten had held in Paris on 9 March 1973, the Council on 11 March examined the measures to be taken to cope with the international monetary crisis. It took the following decisions:

- (i) The maximum spread between the German mark, the Danish krone, the Dutch guilder, the Belgian franc, the Luxembourg franc and the French franc will be maintained at 2.25%; in the case of the Member States which continue to operate a two-tier market, this commitment applies to the official market only.
- (ii) The Central Banks are no longer obliged to intervene at the fluctuation limits of the dollar.
- (iii) In order to protect the system against destabilizing capital movements, the Directive of 21 March 1972 will be more effectively implemented and additional controls will be put into operation as far as is necessary.

The British, Irish and Italian members of the Council stated that their Governments intended to associate themselves as soon as possible with the decision which had been taken to maintain the Community limits of fluctuation.

The Commission will put forward suggestions which it considers suitable when it submits its report on the adjustment of "short-term monetary support" measures and on the conditions for the progressive pooling of reserves; this will be done within the time limit set, that is, by 30 June 1973.

The Council agreed that in the meantime close and continuing consultation on monetary matters would be maintained between the competent bodies in the Member States. The representative of the Government of the Federal Republic of Germany gave notice that his Government intended to raise the central rate of the German mark by 3% before the exchange markets reopened, in order to make a contribution towards the orderly development of exchange rate relationships.

The latest events on the monetary front highlight the need to press forward energetically with the fight against the erosion of purchasing power, for the uncertainty which inflationary tendencies create for individual decisions increases the danger of speculative behaviour. It was perhaps no coincidence that the latest monetary crisis started at a moment when in

the United States inflationary fears were strengthening again. Another reason why there is an urgent need for the Community to take energetic action against inflation is that in the longer term some Member States are in danger of seeing the competitiveness of their economies dwindle as the strong upward thrust of costs and prices combines with the longer-term effects of the repeated exchange rate adjustments. Nor must it be forgotten that the Community as a whole, because of the scale of its contribution to international trade, exerts a major influence on the international price trend. In any case, the fight against inflationary tendencies is essential because these tendencies have drastic social consequences in terms both of the distribution of incomes and assets, and of meeting the cost of the growing claims being made on public budgets.

At its meeting of 30 and 31 October the Council of the European Communities, on a proposal from the Commission, agreed on a programme to combat inflation<sup>1</sup>. Although measures in this field have been taken in all Member States, the probability is that the objective which the Community has set itself for the trend of consumer prices during 1973 (a 4% increase between December 1972 and the end of 1973) will not be attained in most member countries. In the circumstances it seems that the anti-inflationary measures will have to be maintained and, if need be, stepped up further. In those countries which already have full employment or are close to full employment, the appreciation of the national currency will certainly have a dampening effect on prices. But in these countries it also seems necessary to keep the expansion of domestic demand within reasonable limits, especially through public finance policy.

In countries like Ireland, Italy and the United Kingdom, where the employment situation is still a major preoccupation, despite the improvement recorded recently, there is on the whole no need yet for a restrictive course. A change in the pattern of demand, however, would be desirable. Should exports provide vigorous stimuli to economic growth, especially as a

<sup>1</sup> This programme is contained in the Council Resolution of 5 December 1972 on measures to be taken against inflation, reproduced in the annex.



result of the depreciation of the currencies of these countries, the expansion of domestic demand would have to be subjected to some cautious steering. Within domestic demand, it seems advisable that the expansion of expenditure on consumption should be curbed. Fixed

investment, on the other hand, should still be given a good measure of encouragement because the investment ratio in this second group of countries is much lower than in the first, and because investment too must expand if growth is to be steadier in the longer term.

## B. Recent developments

### 1. The world economic situation

The acceleration of economic growth in the United States and the business upswing in most industrialized countries, including the Community countries, have caused the world economic situation to improve distinctly in recent months.

In the United States, expansion has gathered additional speed. In the fourth quarter, real gross national product rose by 2.1%, compared with 1.6% in the third. Investment, in particular, climbed very vigorously, especially spending on plant and machinery, residential construction and on other types of building. There was a considerable drive to replenish stocks. Private consumers' expenditure, especially on non-durable consumer goods, went up at a lively pace, despite a distinctly stronger propensity to invest. This was due mainly to the rapid advance in disposable incomes. The growth of exports accelerated, boosted perhaps by the first favourable effects of the dollar devaluation decided upon in Washington in December 1971.

Industrial production expanded at a lively pace. In January it was 10.4% higher than a year earlier. As a consequence, employment too went up appreciably. In December the number of persons employed was 2.4% higher than in December 1971. The unemployment rate in January was 5.1%, compared with 5.9% in January 1972.

The upward movement of prices remained moderate. In the fourth quarter, the GNP price deflator rose by 0.6%, compared with 0.5% in the third. Consumer prices increased more vigorously again, with the level in January 3.7% up on a year earlier. Wholesale prices, too, have resumed a sharper advance recently, pushed up mainly by rising prices for agricultural products, raw materials and imported goods.

Recourse to supplies from abroad remained vigorous, especially in the energy sector. In the fourth quarter, the seasonally adjusted value of imports was 6.8% higher than in the third

quarter and 34% higher than a year earlier. As a consequence, the deficit on the trade account remained heavy; in the fourth quarter it was \$ 1.600 million, bringing the deficit for 1972 as a whole to \$ 6.500 million. The deficit on the overall balance of payments (on an official reserve transactions basis), fell, however, from \$ 4.600 million in the third quarter to \$ 1.500 million in the fourth, owing to large-scale repatriation of capital; but at the beginning of 1973 it was probably substantial again, as a result of the revival of international currency speculation, which on 11 February led to a 10% devaluation of the dollar.

In Canada, where economic activity had slowed down for a time during the summer, growth has been lively again. If this was due mainly to the firmer trend of export demand, domestic demand, helped by an expansionary fiscal policy, has also shown a favourable tendency. Unemployment tended to decline slightly.

In Japan, economic growth has gathered considerable momentum in recent months. The expansion of domestic demand gained in vigour. This was due partly to the revival in private consumers' expenditure, engendered by wage increases and a rise in employment; the sharp increase in public expenditure and residential construction was another major factor. The growth of exports accelerated once again, so that the trade account continued to show large surpluses, despite the lively rise in imports.

In the EFTA countries which have remained outside the Community, economic activity also continued to expand appreciably. In Switzerland, the rate of economic growth remained very high. The buoyant trend of domestic demand, particularly in the field of private consumption, combined with a fresh upturn in exports. Costs and prices were tending sharply upwards, despite increased recourse to foreign supplies. On 23 January the excessive demand for Swiss francs, especially following the introduction of a two-tier foreign exchange market in Italy, prompted the Swiss authorities to cease intervening on the foreign exchange market and to allow their currency to float. In Austria,

economic growth remained vigorous. It was accompanied by increased inflationary strains, reflected in an 8% rise in the consumer price index between December 1971 and December 1972. Under a stabilization programme launched by the Government, the tariff cuts for industrial products, fixed under the agreements with the EEC, were brought forward to October 1972. In Sweden, economic recovery spread to additional areas. The rise in exports, in particular, accelerated distinctly. In Norway, economic activity was sustained mainly by export demand, while the trend of domestic demand continued to be fairly weak. Unemployment rose and the upward movement of prices gained additional speed, despite the price freeze introduced in September.

All in all, import demand in the industrialized countries has expanded vigorously in recent months. Demand from the developing countries, too, has probably tended to be firmer, particularly as there is reason to assume that the developing countries' export earnings have received a boost from the high level of raw material imports by the industrialized countries, the persistence of the upward movement of world market prices and, particularly, the firm trend of prices for petroleum products.

## 2. The economic situation in the Community

### a) External demand

The value of the enlarged Communities' exports to non-member countries expanded more vigorously as a result of the faster rise in demand in the major international markets and of the margin of spare capacity still available in some member countries. In terms of volume, however, the advance was not as vigorous, owing to the marked increase in export prices.

### b) Internal demand

Around the turn of the year internal demand was expanding at a lively pace throughout the enlarged Community.

Capital spending by enterprises, which during most of 1972 was running at a comparatively

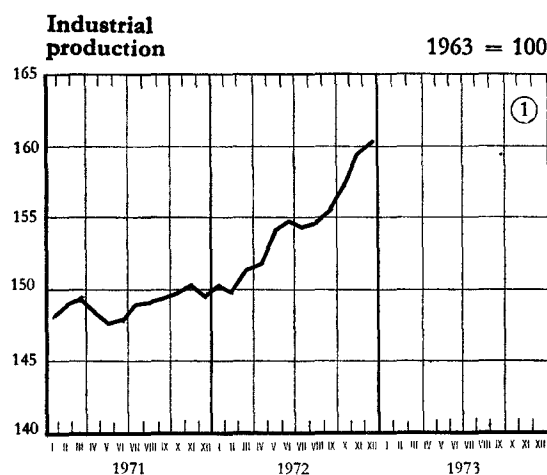
low level except in France, has shown a somewhat more expansionary tendency recently. Purchases of plant and machinery appear to have started rising more briskly, especially in Germany and Italy. But the main stimulus to production has come from stock building. The drive to replenish stocks has been promoted by good sales prospects, the persistent rise in prices, an abundant supply of liquidity and the fairly low level of stocks of raw materials and semi-finished products in manufacturing industry.

Building investment continued to climb comparatively rapidly around the turn of the year, helped by the unusually mild winter. Expansion in residential construction remained fairly vigorous, while growth in industrial building was slow; public building and construction also showed an expansionary trend, especially in France, the United Kingdom, Denmark and the Netherlands.

Private consumers' expenditure in the enlarged Community has been rising at a lively pace in recent months. Private demand by households has been stimulated by the continuing rapid increase in wages and, in some member countries, by the rise in transfer incomes; the improvement in the situation on the labour market has been another contributing factor. The savings ratio, however, has remained high in most member countries.

### c) Production and employment

At the beginning of 1973 production expanded briskly throughout the enlarged Community,



owing to the buoyant trend in most components of demand and to the unusually good weather, which enabled outdoor work to be continued.

This entailed a significant rise in the degree of capacity utilization. Production of basic materials and intermediate products showed a particularly distinct gain in speed. Production of

consumer goods also continued to expand appreciably, with some sectors, especially motor car production in France and the United Kingdom, no longer able to keep in step with rising demand. Production of plant and machinery, on the other hand, showed a very sluggish trend; in some countries, particularly Italy, it was even lower than a year earlier.

*Industrial production<sup>1</sup>*  
(% change on corresponding quarter)<sup>2</sup>

	1971				1972			
	I	II	III	IV	I	II	III	IV
Germany	+ 3.3	- 0.8	- 1.4	- 2.1	+ 5.3	- 0.1	+ 0.3	+ 4.4
France	+ 2.6	- 0.4	+ 4.6	+ 1.2	+ 1.4	+ 0.9	+ 2.4	+ 2.2
Ireland	+ 1.2	0	- 0.6	+ 3.1	0	- 0.6	+ 3.0	.
Italy	- 4.8	- 3.8	+ 2.2	+ 6.3	- 3.6	- 0.5	+ 0.7	+ 8.0
Netherlands	+ 4.8	- 2.3	+ 1.4	+ 2.5	+ 6.8	- 1.8	- 0.3	+ 4.0
Belgium	+ 1.5	- 2.3	+ 1.9	+ 1.5	+ 1.6	+ 6.0	- 2.5	+ 2.8
Luxembourg	+ 0.9	+ 4.8	+ 0.6	- 2.3	- 1.1	+ 4.5	+ 2.9	+ 2.7
United Kingdom	- 1,8	- 0,3	+ 0,8	+ 1,1	- 3,9	+ 6,0	+ 1,3	+ 4,3
Community ( <sup>3</sup> )	+ 1.4	- 0.8	+ 0.9	+ 0.2	+ 1.6	+ 2.0	+ 0.5	+ 3.3

<sup>1</sup> Excluding construction, food, beverages and tobacco. United Kingdom : excluding construction. Ireland : extraction and transforming industries. For Denmark, no comparative data available.

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

<sup>3</sup> Estimations.

Around the turn of the year the labour market of the enlarged Community reflected the progressive pick-up in economic activity. The number of unemployed, for instance, tended to go distinctly downwards; this was only in part due to the continuation of outdoor work, made possible by the unusually good weather.

Accompanied though it was by numerous rationalization efforts through which enterprises sought to offset the effects of higher costs, the business upturn brought a rise in employment. The number of unfilled vacancies has climbed fairly distinctly in recent months, especially in France, the United Kingdom, Italy and Germany. All in all, however, the situation on the

labour market continues to reflect major disparities between regions and between sectors.

#### d) *Balance of the markets*

With domestic demand showing an increasingly firm trend in the enlarged Community generally, imports from non-member countries expanded at a faster pace, following near-stagnation during the summer. Raw material imports in terms of value went up sharply, owing to stronger demand and higher world market prices. Imports of agricultural products rose appreciably as certain of these products were becoming scarce in the Community. The lively growth

of private consumers' expenditure and the pick-up in the propensity to invest led to rising purchases of manufactured goods.

The upward movement of consumer prices in the enlarged Community continued at a rapid pace at the end of 1972 and the beginning of 1973. Only part of this was due to fortuitous factors such as the introduction of value-added tax in Ireland and Italy and higher prices for

certain agricultural products (especially beef and veal). The main cause lay in the persistence of the general inflationary tendencies, with strains apparent in the supply-demand situation and prices being pushed up by costs, especially wage costs and the cost of imported raw materials and semi-manufactures. In the United Kingdom and Ireland, the depreciation of the pound exerted additional upward pressure on import prices in terms of national currency.

### Consumer Price Index

(% change)

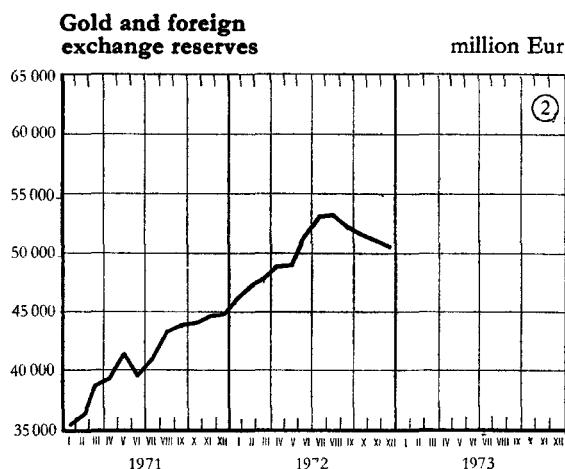
	January 1972 May 1972	May 1972 September 1972	September 1972 January 1973	January 1972 January 1973
Denmark	+ 2.8	+ 2.0	+ 2.1	+ 7.1
Germany	+ 1.5	+ 2.3	+ 2.7	+ 6.5
France	+ 1.9	+ 2.5	+ 2.0	+ 6.6
Ireland <sup>1</sup>	+ 1.5	+ 2.8	+ 1.5	+ 8.2
Italy	+ 2.0	+ 2.6	+ 3.4	+ 8.1
Netherlands	+ 3.3	+ 1.6	+ 2.6	+ 7.6
Belgium	+ 1.2	+ 2.6	+ 2.9	+ 6.9
Luxembourg	+ 1.1	+ 2.8	+ 1.8	+ 5.7
United Kingdom	+ 2.3	+ 2.3	+ 2.9	+ 7.7

<sup>1</sup> Periods : February-May 1972; May-August 1972; August-November 1972; November 71-November 72.

The balance of trade of the enlarged Community improved during the closing months of 1972 and showed a surplus. The large surpluses on the German trade account and the distinct improvement in the British trade account after the end of the dock strike were the main contributing factors. The deficits on services and on current account, on the other hand, appear to have risen. In the fourth quarter, the enlarged Communities' overall balance of payments on current account closed with a considerable surplus, which was probably higher than in the third quarter. The Communities' capital account, on the other hand, deteriorated distinctly in the fourth quarter.

On balance, the official monetary reserves of the enlarged Community fell in the closing

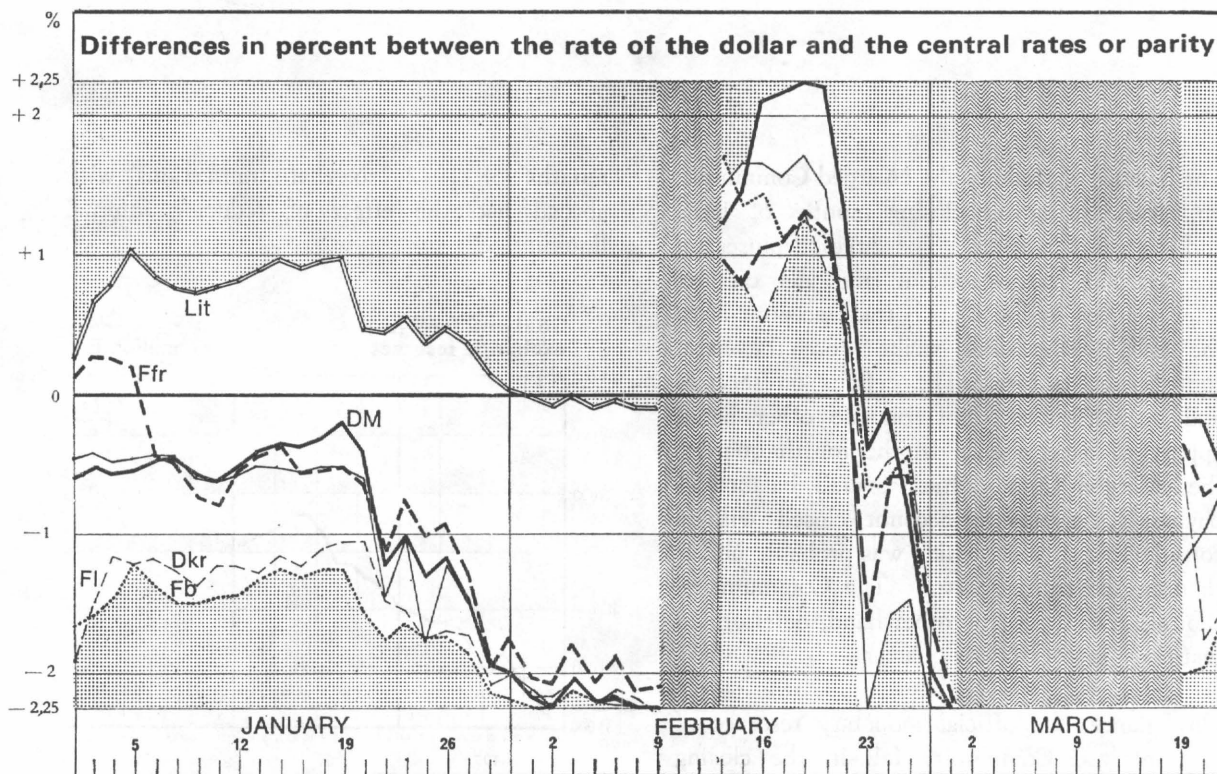
months of 1972, so that transactions with abroad had the effect of reducing internal liquidity.



From January 1973 onwards, however, the Community registered fresh inflows of foreign exchange. At the beginning of February the new dollar crisis made them reach unprecedented proportions. In the first nine days of February the German Bundesbank was compelled to buy close on \$ 6.000 million on the foreign exchange markets to support the exchange rate of the dollar. As even a considerable tightening of the defensive measures in Germany failed to put an end to the wave of speculation, the monetary authorities of the Community countries and of other major industrialized countries had to close the foreign exchange markets on 9 February. On 11 February the US Government announced a 10% devaluation of the dollar in terms of the parity communicated to the International Monetary Fund. The Japanese Government decided to let the exchange rate of the yen float on the foreign exchange market. In Italy, where on 11 January the foreign exchange market had been split into a market for financial transactions and a market for commercial transactions, with the Central Bank intervening only on the latter, the Government decided to suspend, with effect from 12 February, intervention on the market for commercial transactions also. The Governments of the United Kingdom, Ireland, Canada and Switzerland allowed their curren-

cies to continue floating. But the calm that ensued on the foreign exchange markets was of short duration. At the beginning of March the monetary authorities of a number of member countries were again forced to take in substantial amounts of foreign currency, which prompted a fresh suspension of central bank intervention and official quotation on the foreign exchange markets. The Council of the European Communities discussed the monetary crisis on 4, 8 and 12 March; the results are set out in the introductory chapter and in the section on economic policy measures.

In a number of member countries the cash transactions of the public authorities contributed sharply to the expansion of liquidity. In Germany, for instance, the Federal budget in the fourth quarter closed with a very heavy cash deficit, which was financed largely by monetary means; a year earlier the deficit had been much smaller. In the United Kingdom, too, where the 1972/73 budget had been distinctly expansionary, there were probably heavy deficits; from the summer onwards, at any rate, the full effects were felt of the tax concessions granted in the spring. The total budgetary deficit in 1972 was probably twice as heavy as in 1971. In Belgium, the heavy budget deficits did not



have a very expansionary effect on liquidity because they were financed mainly by the issue of loans. The Italian budget was almost in equilibrium in October-November, as it had been a year earlier. In France, on the other hand, the seasonal surplus in the fourth quarter was larger than a year earlier. In 1972 the cash transactions of the Treasury probably closed with an excess of revenue over expenditure totalling almost FF 4500 million, following a deficit of FF 3600 million a year earlier.

At the end of 1972 internal liquidity received strong stimuli especially from bank lending to the private sector; among the factors influencing

liquidity, the weight of this lending even increased considerably in Germany and the United Kingdom. In the United Kingdom, a call was made in November for special deposits in respect of banks' eligible liabilities, with a further call to follow in mid-December. In Germany the Bundesbank, in addition to tightening the cash deposit requirement, cut the commercial banks' rediscount quotas by 10% from 1 February 1973. With effect from 1 March it raised the minimum reserve ratios, freezing DM 5.000 million of the liquidity that had flowed in from abroad. In France, the compulsory reserves in respect of lending were raised in September and December. In addition, liquidity was siphoned

*Demand for and supply of goods and services*

	1970 <sup>1</sup>	1971 <sup>1</sup>		1972 <sup>2 4</sup>		1973 <sup>3 4</sup>	
	At current prices in '000 million Eur <sup>5</sup>	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Gross fixed asset formation	147.3	+ 2.1	+ 9.4	+ 2	+ 7½	+ 6	+ 12
Public current expenditure on goods and services	94.1	+ 5.0	+ 16.5	+ 3½	+ 12	+ 3½	+ 11½
Private consumers' expenditure	367.7	+ 4.3	+ 10.4	+ 4½	+ 11	+ 4½	+ 11½
Gross Community product	628.7	+ 3.0	+ 10.2	+ 3½	+ 10½	+ 5	+ 12
Balance exports less imports (in '000 million Eur) <sup>5</sup>	+ 6.7	+ 9.2		+ 10.1		+ 8.8	

<sup>1</sup> Statistical Office of the European Communities (SOEC); National Accounts.

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

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

<sup>5</sup> 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.

off through the issue of a major Government loan and the temporary freezing of the proceeds. In Ireland, on the other hand, the Central Bank in November raised the ceiling placed on the expansion of lending from April 1972 to April 1973 by 25%. This was to prevent, in the interest of economic growth, the large public need for borrowed funds being satisfied in undue measure at the expense of private investors. But as lending soon rose above the new ceiling and as the loans extended to the private sector were not being used for productive purposes to the extent that had been hoped, the Irish Central Bank at the beginning of February invited the banks to pursue a more selective credit policy and raised the liquidity ratios.

The money supply (stock of money and near-money) in 1972 expanded at an unusually vigorous rate almost everywhere in the Community, despite the efforts by the monetary authorities to reduce the margin of free liquidity. Within 12 months it rose by 27% in the United Kingdom (December and January), 20% in France (November), 19% in Ireland and Italy (November), 17% in Germany and Belgium

(December), and 15% in Denmark (December). In the Netherlands, the increase was at 11% (November) comparatively moderate.

In addition to the various measures of credit policy, most member countries in the closing months of 1972 raised the cost of credit. In the United Kingdom, the minimum lending rate, which has replaced bank rate since October, climbed from 6% in October to 9% in December, then declined slightly, to 8.75%, in January. In the other Community countries, too, the discount rates and/or rates for advances on securities were put up sharply. In Denmark, where the discount rate had been raised from 7% to 8% in June, it was cut again at the beginning of October.

On the Community's capital markets the upward tendency of interest rates likewise asserted itself, so that long-term interest rates generally moved to distinctly higher levels. Share prices in a number of countries ran virtually level towards the end of the year, but in January they hardened again slightly for a time in some countries.



## C. Outlook

### 1. Outlook for world economic activity

The phase of vigorous upswing, currently the main feature of world economic activity, is likely to continue throughout 1973 and to be reflected in a strong expansion of international trade. The sharp rise in domestic demand in the industrialized countries will cause trade in finished goods to rise faster, and demand for raw materials and energy products will probably also expand at a lively pace. Furthermore, there is reason to assume that the 10% devaluation of the dollar, coupled with the improvement in the competitive position of the US economy brought about by the exchange rate realignment agreed upon in Washington in 1971, will give an appreciable encouragement to exports by the United States, while the volume of US imports, especially imports of raw materials and semi-manufactures, will be influenced more by the very high level of economic activity to be expected for 1973 than by the higher import prices in terms of dollars. The enlargement of the Community will also have a stimulating effect on world trade, especially as a result of the first 20% cut in tariffs on 1 April that will be applied not only between the original and the new members of the Community but also in trade with the EFTA countries that have not joined the Community. Import demand by the developing countries is also likely to strengthen further.

In the *United States*, rapid economic growth will probably continue in the months ahead. Exports are likely to be stimulated by the faster expansion of demand on foreign markets, with an additional boost from the increased competitiveness of American goods resulting from the exchange rate realignments and the favourable trend of costs and prices. Domestic demand, too, is likely to maintain its rapid growth. The latest surveys suggest that investment plans have been revised upwards, so corporate investment can be expected to show a particularly buoyant trend. The rise in building permits towards the end of 1972, coupled with the high number of building starts, makes it reasonable to believe that building activity will remain lively, though its pace will no doubt tend to slow down as the

year advances. The drive to replenish stocks may gain additional momentum.

The steady rise in employment, together with the 20% increase in welfare benefits from October 1972 and the refund, due in the second quarter of 1973, of the amounts by which income tax payments in 1972 exceeded liabilities, are likely to entail a rapid growth of disposable incomes and private consumers' expenditure. Total public expenditure will probably also maintain its vigorous rise in the first half of the year. In the second half, on the other hand, the curb placed on the expansion of expenditure in the 1973/1974 Federal budget may be reflected in a weaker trend of total public expenditure.

With the US authorities endeavouring to avoid a fresh rise in the rate of inflation, monetary policy will probably be along fairly cautious lines, and the money supply will continue to rise only moderately. The current tendency for interest rates to go up may therefore strengthen.

The upward thrust of prices is likely to become more vigorous, if anything, in particular because of the devaluation of the dollar and the rising prices being paid for services and for agricultural products. The balance of trade may continue to deteriorate in the next few months, despite the faster growth of exports. Most of this will be due to the adverse swing in the terms of trade produced by devaluation of the dollar—import prices will go up more sharply than export prices, and the effects will be all the stronger because the volume of imports is likely, in view of the rapid pace of economic growth, to continue expanding vigorously.

In *Canada*, economic growth may accelerate slightly in the next few months, helped mainly by a lively rise in private investment. An additional stimulus will probably come from an appreciable expansion in exports, which will benefit from the depreciation of the Canadian dollar against the currencies of most other industrialized countries except the United States. Unemployment is likely to fall, while prices will show an appreciable upward tendency. In

*Japan*, where the conditions for rapid growth looked extremely favourable until recently, the appreciation of the yen on the foreign exchange markets may result in a certain slackening in the pace of expansion. Rising export prices are indeed likely to curb the growth of exports in terms of volume and induce enterprises to be more cautious over spending on investment. All in all, however, production will still be rising more rapidly than in the other industrialized countries, given the great buoyancy of the other components of domestic demand. Imports are likely to continue expanding at a lively pace. In *Switzerland* and *Austria*, economic growth can be expected to be vigorous, despite the curbs introduced at the end of the year. Recourse to foreign supplies is likely to remain strong in both countries. In *Sweden*, the economic situation may settle down, even though there is uncertainty about the trend of private investment. The expansion of exports is likely to accelerate, particularly since the devaluation of the krone by some 5% has given Sweden's industry a competitive edge on most trading partners. In *Norway*, the firmer trend of private consumers' expenditure and of investment will probably more than offset the expected slowdown in the growth of exports.

In the developing countries, the propensity to import is likely to strengthen more and more. The reserve position of these countries is helped by a number of factors such as the continuing vigour of demand for their products in the industrialized countries, the upward movement of raw material prices that will no doubt persist in 1973, the extension of generalized tariff preferences for developing countries, and the proposed increase in development aid.

## 2. Outlook for the Community

Given the favourable outlook for the economic trend in non-member countries, the Community's exports will probably go on expanding briskly in the months ahead, despite the devaluation of the dollar and despite the increased pressure of internal demand on capacities.

Internal demand in the Community is likely to continue growing vigorously throughout 1973.

The trend of *gross fixed asset formation* may gain in buoyancy. The stronger propensity to invest of enterprises and the rise in orders for plant and machinery will probably antai an acceleration in the growth of capital spending. But there is no telling yet whether the new situation on the foreign exchange markets will cause certain capital projects to be shelved temporarily. Several indications are, however, that investment activity in the economy as a whole will be influenced more by the general business upswing in the Community itself, by the greater sales opportunities resulting from enlargement and by the pressure to rationalize than by the deterioration in the ability to compete on the North American market. Furthermore, the depreciation of the pound and of the lira on the foreign exchange markets has entailed an improvement in the competitive position of the United Kingdom, Ireland and Italy against all other trading partners, and this may have a favourable effect on the investment climate in the three countries concerned.

The current volume of orders in the building industry suggests that overall activity in residential construction will remain vigorous, even though a slowdown must be expected in a number of member countries such as the United Kingdom, the Netherlands and Belgium. Industrial building, too, could benefit appreciably from the pick-up in the propensity to invest of enterprises. The rise in public building, on the other hand, will be more moderate than in the second half of 1972.

*Stockbuilding* will in any case provide vigorous stimuli to economic activity, particularly since in a number of member countries stocks of raw materials and semi-manufactures are comparatively low.

*Expenditure on consumption* is likely to maintain its rapid expansion in most countries of the enlarged Community. The trend in incomes, especially the rise in wage rates and the growth of employment, will at any rate provide the necessary basis. But in most member countries private consumers' expenditure in real terms is unlikely to move up more rapidly than in 1972. The erosion of purchasing power by rising prices must indeed be expected to make itself increasingly felt. One exception may be provided by the United Kingdom, where the transition

to Stage Two of the counter-inflationary programme may in the months ahead allow real personal consumption to grow at a somewhat more lively pace than at the turn of 1972/1973. The budget estimates and the latest pay increases in public administration point to a distinct rise in public expenditure on goods and services.

With overall demand likely to accelerate, the growth of *internal demand* in the Community will probably gain additional speed.

Activity in the services sector, which like industry employs some 40% of all wage and salary earners, will probably expand at a lively pace. This applies in particular to the distributive trades, the transport sector, banking, insurance and tourism.

Agricultural production will go on rising appreciably, provided the weather is normal. This may provide a special boost to general economic expansion in countries like Ireland and Denmark, where agricultural production accounts for a comparatively large proportion of gross national product. Given these tendencies in production, the gross product of the enlarged Community in 1973 will grow all in all by some 4½ to 5%.

The situation in the *labour markets* in the enlarged Community can be expected to improve visibly. The rise in employment will accelerate as the year advances. The expansion of economic activity will be accompanied by an increase in the number of persons employed, especially in industry. In most countries this is likely to be reflected in a tendency for the number of unemployed to fall. At the same time the number of unfilled vacancies will probably rise very distinctly. In some countries, especially Germany, France and Luxembourg, the strains already being felt in certain industries are likely to increase still further.

The volume of *imports* from non-member countries will no doubt expand at a distinctly faster pace throughout 1973, helped not only by the greater vigour of economic activity in the Community but also by the change in the exchange rate relationships, especially as a result of the devaluation of the dollar. In the current account balance however, this effect will be partly

offset by a temporary improvement in the terms of trade of the Community as a whole.

There is a danger that domestic price levels will go on rising sharply, despite the measures taken in the member countries under the decision by the Council of the European Communities on action to combat inflation. The factors working in this direction include not only the upward movement in cost—especially the increase in wage costs per unit of output, the rise in raw material and energy prices on the world markets and the mounting cost of raising capital—but also the strains in the supply-demand situation that are once more becoming apparent in a number of member countries.

### Major economic policy measures

#### October

— *At their meeting of 30 and 31 October 1972 in Luxembourg, the Ministers of Economic Affairs and Finance of the enlarged Community adopted a resolution on measures to be taken against inflation.*

— *On the same date the Council agreed to take measures to liberalize imports of certain agricultural products.*

#### November

— *On 9 November 1972, in Brussels, the Council at its 214th meeting adopted a number of provisions concerning the drawing up of a programme for action in the social field. It took decisions on assistance from the European Social Fund to agriculture and the textile industry, and agreed on preliminary guidelines for the drawing up of a European social budget.*

#### December

— *On a proposal from the Commission, the Council decided on the details to govern the application, in 1973, of generalized preferences for the developing countries.*

— *A Commission Regulation which entered into force on 7 December authorized Member States, until 31 March 1973, to sell storage butter at the reduced price of 76 Eur/100 kg (the intervention price being 186 Eur/100 kg).*

January 1973

— On 1 January Denmark, Ireland and the United Kingdom acceded to the Communities.

— From the same date the countervailing duties on certain imports from the United States (polyethylene, fabric of man-made fibres) were eliminated.

— The Commission took a number of decisions under its competition policy designed in particular to prevent unlawful agreements in the cement sector.

February

— The foreign exchange markets in the Community were closed from 9 to 13 February.

— On 12 February the Government of the United States announced a 10% devaluation of the dollar. The Japanese Government decided to allow the rate of exchange of the yen to float.

— On 14 February the Council examined the various aspects of the monetary developments over the preceding days. It regarded the decision of the United States to devalue the dollar from its parity as declared to the International Monetary Fund, and that of Japan to float its currency, as steps towards greater equilibrium in international payments. It was glad to see that the currency markets had reopened promptly.

The Council reaffirmed its determination to work without delay towards the establishment of economic and monetary union, an aim entailing the participation of all Member States in the Community monetary system.

The Council considered it desirable to proceed more rapidly with the decisions on the implementation of economic and monetary union called for in the final communiqué of the Conference of Heads of State or Government of 21 October 1972.

The Commission will therefore, before 30 June 1973, submit a report on the adjustment of short-term monetary support and on the conditions for the progressive pooling of monetary reserves. The Council requested the Monetary Committee and the Committee of Governors of Central Banks to collaborate fully with the Commission in observing this deadline.

*It was the Council's opinion, in view of recent events, that the Community should without delay work out a common position with regard to the reform of the international monetary system so as to give additional impetus to the work being done by the Committee of Twenty of the International Monetary Fund.*

March

— The foreign exchange markets in the Community were closed once again from 2 March 1973, to reopen on 19 March.

— The Council met on 4 March to make a thorough study of the situation which had led to the closing of the foreign exchange markets in Europe. It noted that the onset of this crisis had not been justified by the exchange rate relationships at present existing between the main currencies, and stemmed from distrust of speculative origin.

The Council studied the various means that would make it possible to avoid the functioning of the Community being disturbed by destabilizing movements of capital, and to achieve progress in the establishment of economic and monetary union. It was agreed that the proposals of the Commission and the various suggestions that had been put forward in this context during the discussion constituted a suitable basis for the definition of a common attitude. The Council instructed the Monetary Committee to undertake without delay a detailed examination of the whole matter.

At the same time the Council, because of the international character of the crisis, considered that arrangements should be made, during the course of the coming week, for consultations between the Community and the principal countries affected. The President of the Council was to make the necessary contacts.

— On 8 March 1973 the Council once more examined the monetary situation and prepared the common standpoint which the President in office of the Council was to submit on behalf of the Community at the meeting with the other members of the Group of Ten in Paris on 9 March 1973.

— On 11 March the Council met again to examine the measures to be taken to cope with the international monetary crisis, particularly in

*the light of the meeting which the enlarged Group of Ten had held in Paris on 9 March 1973.*

*The Council recorded the following decisions:*

- The maximum spread between the German mark, the Danish krone, the Dutch guilder, the Belgian franc, the Luxembourg franc and the French franc will be maintained at 2.25%; in the case of the Member States which continue to operate a two-tier market, this commitment applies to the official market only;*
- The Central Banks are no longer obliged to intervene at the fluctuation limits of the dollar;*
- In order to protect the system against destabilizing capital movements, the Directive of 21 March 1972 will be more effectively implemented and additional controls will be put into operation as far as necessary.*

*The British, Irish and Italian members of the Council stated that their Governments intended*

*to associate themselves as soon as possible with the decision which had been taken to maintain the Community limits of fluctuation.*

*The Commission will put forward suggestions that it considers suitable when it submits its report on the adjustment of short-term monetary support and on the conditions for the progressive pooling of reserves; this will be done within the time limit set, that is, by 30 June 1973.*

*The Council agreed that in the meantime close and continuing consultation on monetary matters would be maintained between the competent bodies in the Member States.*

*The representative of the Government of the Federal Republic of Germany gave notice that his Government intended to make a minor adjustment of the central rate of the German mark before the foreign exchange markets reopened, in order to make a contribution towards the orderly development of exchange rate relationships.*

## Community

**TABLE 1: Basic data 1971**

	Communi- nity	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)	253 244	4 960	61 284	51 250	2 971	53 809	13 194	9 673	345	55 668
Density of population per sq. km.	217	115	247	93	42	179	394	318	133	228
Numbers in employment ('000)	104 611	2 409	27 098	21 035	1 071	19 625	4 715	3 816	148	24 694
Numbers in employment, breakdown by main sector (%) :										
Agriculture	13	10.7	8.2	13.5	26.3	19.3	6.8	4.3	10.2	2.9 <sup>(1)</sup>
Industry	44	36.9	48.6	40.5	30.6	43.7	39.5	43.2	47.4	46.6 <sup>(1)</sup>
Services	44	52.4	43.2	46.0	43.0	37.0	41.4	52.5	42.4	50.5 <sup>(1)</sup>
Share of gross domestic product (%) :										
Agriculture	.	7.6	3.3	5.7	16.4	9.7	5.7	4.2	(4.1) <sup>(1)</sup>	2.9
Industry	.	38.9	52.0	47.5	35.6	38.7	41.8	44.3	(56.9) <sup>(1)</sup>	43.5
Services	.	53.5	44.7	46.8	48.0	51.6	37.9	51.5	(39.0) <sup>(1)</sup>	53.8
In % of gross domestic product :										
Private consumers' expen- diture	.	59.3	53.9	53.9	68.2	63.9	56.8	60.1	57.2	62.0
Public current expenditure on goods and services	.	21.6	17.2	12.4	14.6	14.2	17.0	14.0	11.6	18.7
Gross fixed asset formation	.	21.3	26.7	25.6	23.1	19.9	24.9	22.8	30.5	17.9
Total exports	.	28.5	22.8	16.8	39.5	21.1	47.5	47.8	77.3	22.7
Total imports	.	30.0	21.5	16.1	43.3	19.5	47.5	44.7	77.1	21.3

(<sup>1</sup>) 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

TABLE 3: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970	142	149	152	151	152	149	134	116	148	152	156	150
	1971	148	153	154	153	153	153	137	115	152	157	161	151
	1972	152	152	159	161	160	159	141	128	158	165	172	167
Imports from non-member countries (cif, million Eur)	1970	3 664	3 397	3 608	3 959	3 735	4 000	3 780	3 376	3 812	3 892	4 099	4 280
	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
Exports to non-member countries (fob, million Eur)	1970	3 285	3 349	3 749	3 828	3 589	3 949	3 984	3 322	3 708	4 099	3 853	4 432
	1971	3 550	3 831	4 471	4 025	4 079	4 180	4 328	3 864	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
Balance of trade (million Eur)	1970	- 379	- 48	+ 141	- 131	- 146	- 51	+ 204	- 54	- 109	+ 207	- 246	+ 152
	1971	- 126	- 81	+ 66	- 65	+ 131	- 180	+ 422	+ 159	+ 199	+ 195	+ 185	+ 365
	1972	+ 93	+ 234	+ 239	+ 320	+ 259	+ 447	+ 564	+ 148	+ 203	+ 679	+ 355	+ 594
Intra-Community trade (million Eur)	1970	3 140	3 284	3 604	3 782	3 247	3 861	3 655	2 949	3 719	3 900	3 847	3 830
	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	4 408	4 984	4 470	4 692	4 861	4 180	3 971	4 668	5 137	4 988	5 109

## 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 (1969).

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.

## **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

*The expansion of economic activity has gained additional speed in the last few months. There has been increasing recourse to foreign supplies and conditions on the labour market have improved further. The upward thrust of prices, however, has remained very strong.*

*Production, employment and incomes can be expected to rise appreciably during the rest of the year 1973, while the conditions for internal and external economic equilibrium may deteriorate.*

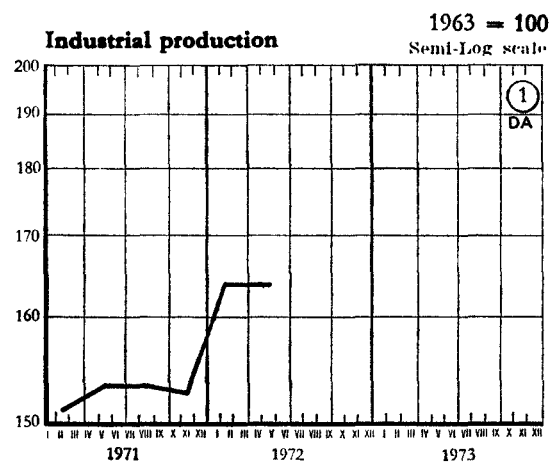
### 1. Recent developments

After a period of hesitation in the third quarter, due in part to the uncertainties connected with the referendum on entry, the Danish economy resumed a rapid pace of growth, which was accompanied by an increase in the rate of utilization of production capacity.

Exports maintained their lively advance, helped by the acceleration of demand from Denmark's principal trading partners in the second half of 1972. Exports to the enlarged Community particularly, which had hardly grown since the middle of 1971, recovered distinctly. All in all, the value of exports in the fourth quarter was some 20% up on a year earlier.

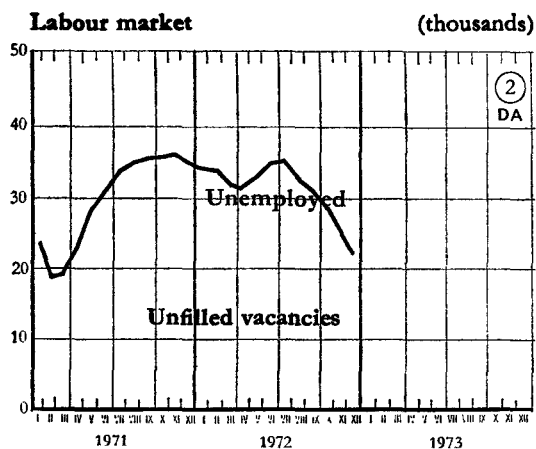
Domestic demand too tended to expand more rapidly. According to the results of the recent business surveys, private sector investment benefited from the general pick-up in business and the improved sales opportunities afforded by membership of the Community. Activity in building and construction remained very lively.

The most recent figures on retail sales show a sustained increase in consumer expenditure, resulting from the continued rise in wage rates and the increase in employment.

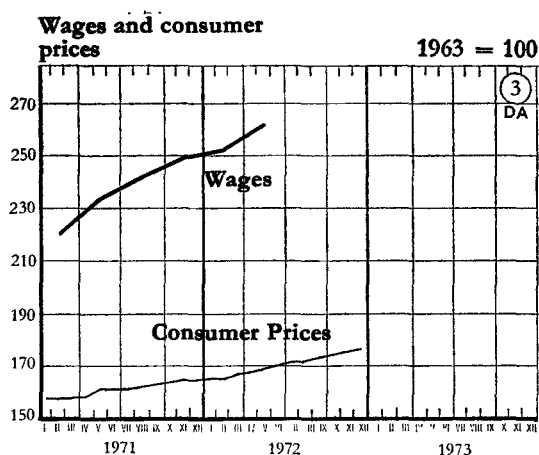


Linked to the acceleration in overall demand, industrial production, on which little statistical information is available, appears to have increased further, perhaps even at an accelerated rate. Agricultural production continued at a high level.

Conditions on the labour market have improved and unemployment has been decreasing appreciably since May. The unemployment rate, adjusted for seasonal variations and measured by reference to the number of insured wage and salary earners, stood at a level of less than 3% at the end of the year as compared to more than 4% at the end of 1971.

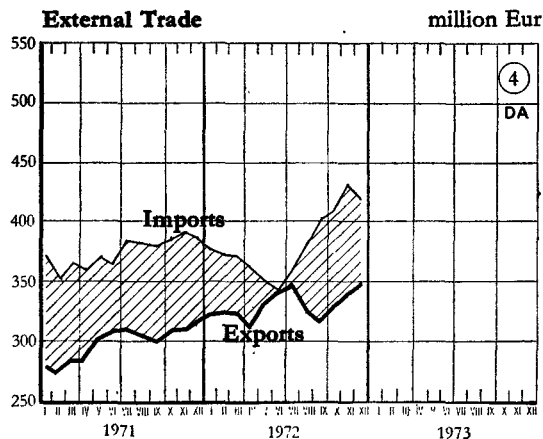


The rise in prices, which had slowed down in the third quarter, showed a tendency to accelerate towards the end of the year. In December the consumer price index was up 7.1% on a year earlier. This movement has carried on into the present year because of a considerable increase in the prices for agricultural products, an increase which from 1 February 1973 has been due in part to alignment on the prices charged in the Community as a whole. Demand for imported goods, which remained moderate in the first half of the year, has strengthened appreciably, in line with the acceleration in domestic demand and because of the progressive reduction from 1 July of the import surcharge.

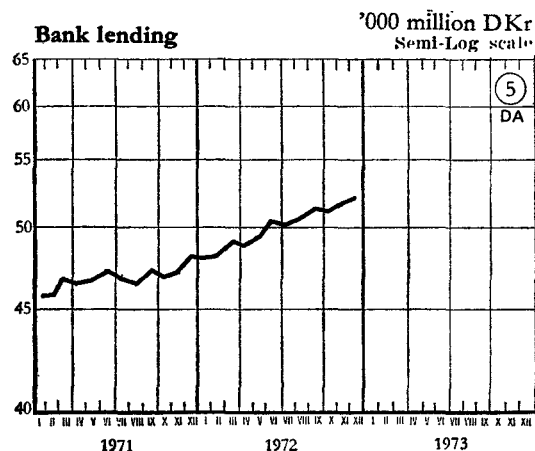


Due to this, and despite an improvement in the terms of trade, the trade balance deteriorated during the last months of the year. Substantial outflows of capital were recorded

prior to the referendum on membership, but since then there have been inflows again. At the end of the year, official net monetary reserves stood at Dkr 5 600 million.



The trend in the balance of payments and the quite appreciable growth in bank lending to private customers set the stage in the closing months of the year for a significant monetary expansion. The money supply (M2), not adjusted for seasonal variations, grew at some 6% between the third and fourth quarters and at the end of 1972 was approximately 15% above the previous year's figure. After the decision taken on 10 October by the Danish authorities to resume participation in the agreement concluded between Community countries to narrow the margin of exchange rate fluctuation to 2.25%, the Danish krone recovered distinctly.



*Demand for and supply of goods and services*

	1970 <sup>(1)</sup>	1971 <sup>(1)</sup>		1972 <sup>(2)</sup>		1973 <sup>(3)</sup>
	At current prices (in Dkr '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports <sup>(4)</sup>	33 836	+ 5	+ 9	+ 7	+ 12	+ 12
Gross fixed asset formation	25 913	+ 2.5	+ 8.5	+ 9	+ 16	+ 7½
Public current expenditure on goods and services	23 596	+ 7.5	+ 20	+ 6	+ 15½	+ 5½
Private consumers' expenditure	71 601	+ 2	+ 7	+ 3-3½	+ 10	+ 4
Gross national product	118 140	+ 4	+ 10.5	+ 4½-5	+ 14	+ 5½
Imports <sup>(4)</sup>	37 020	+ 0	+ 6	+ 4½	+ 5	+ 15

<sup>1</sup> Statistical Office of the European Communities.

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

<sup>4</sup> 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.

## 2. Outlook

Economic growth should continue at a rapid rate in the coming months. The favourable economic outlook in the countries which are Denmark's principal trading partners and the first tariff reductions on 1 April between the new members and the Six are likely to entail an acceleration in Danish exports, despite the influence of the devaluation of the dollar, of the Swedish krone and of the Finnish mark. Agricultural exports in particular may well progress perceptibly, and the export prices of these products must be expected to rise appreciably. The expansion of domestic demand may at the same time accelerate further.

The recovery of private investment apparent at the end of 1972 should strengthen both in agriculture and in industry. Investment in plant and machinery will benefit from the resumption of certain programmes which had been delayed while waiting for the lowering of the surcharge on imports of plant and machinery. On the other hand the restrictions, decided on in November on the granting of new housing permits may cause the growth of investment in residential construction to slow down as the year advances.

On the basis on the budget proposals for the next fiscal year commencing on 1 April 1973, public current expenditure is likely to rise at

roughly the same rate in real terms as GNP. Private consumers' expenditure will probably again increase considerably. On the incomes side, at any rate, the necessary conditions are satisfied, for wages must no doubt be expected to go up again sharply in the spring, and employment is likely to rise. There is no telling, however, whether the propensity to save will increase.

The prospects for the trend of supply and demand suggest that production and employment will rise further. But the unemployment rate, given its present low level, is unlikely to diminish as rapidly as it did in the second half of 1972. The labour market may even come under heavy strain again.

The expansion of imports will continue and probably accelerate, helped by the removal of the import surcharge on 1 April, following a cut from 7 to 4% on 1 January. Although the terms of trade are expected to show a favourable trend, mainly because of a rise in export prices for agricultural products, the trade balance is likely to deteriorate in the course of 1973.

In all probability the upsurge in prices will continue. Its magnitude will depend not only on the expected strains between supply and demand but also on the outcome of the negotiations for the renewal of collective wage agreements. The abolition of the import surcharge, coupled with the appreciation of the krone against the currencies of some major supplier countries, may, however, have a certain moderating influence.

Given the generally satisfactory rate of economic growth and the tendency towards full employment, the principal objective of economic policy must be to curb the rise in prices and maintain external equilibrium. In this respect particular importance attaches to the current salary negotiations already mentioned.

It must also be noted that the Government has tabled a bill concerning the setting up of an investment fund to be financed by contributions from employers under a "save-as-you-earn" scheme. This is an interesting experiment from the angle of policy on incomes and the formation of assets. Such a system of employee saving could, if taken into account during the wage negotiations, contribute to bringing the expansion in overall demand and particularly in consumption more into line with the objectives of price policy.

Under these circumstances, it also seems advisable to seek an improvement in the conditions for internal and external equilibrium by the additional means of adopting a cautious monetary policy and moderating the growth of public expenditure.

### **Major economic policy measures**

*January 1973:*

— *Accession of Denmark to the European Communities.*

— *The Government tabled a bill on the creation of an investment fund to be managed by employee organizations and persons nominated by the Minister of Labour. The fund will acquire holdings in private-sector companies.*

— *The contributions to this fund, initially fixed at 0.5% of the wage and salary bill (for 1974), will gradually rise to 5%. The earnings invested in this way can only be mobilized under certain conditions and after a wait of a minimum of seven years.*

*February:*

— *After the evaluation of the dollar, the Danish authorities decided to maintain the central rate of the krone in terms of SDRs.*

TABLE 1 : Key indicators

	1967	1968	1969	1970	1971	1971
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	+ 4.1	+ 4.3	+ 8.7	+ 3.3	+ 3.6	148
Industrial production	+ 3.3	+ 3.2	+ 11.5	+ 2.8	+ 2.0	152
Total imports	+ 6.4	+ 4.2	+ 14.5	+ 8.3	- 0.7	185
Private consumers expenditure	+ 3.9	+ 1.9	+ 9.1	+ 2.9	+ 2.4	142
Public current expenditure on goods and services	+ 7.7	+ 6.0	+ 9.0	+ 10.6	+ 8.8	177
Gross fixed asset formation	+ 8.2	- 0.5	+ 13.2	+ 6.0	+ 1.9	176
Total exports	+ 6.2	+ 9.1	+ 9.3	+ 6.1	+ 4.0	170
Gross national product per head of population	+ 3.1	+ 3.7	+ 8.1	+ 2.4	+ 3.0	139
Gross national product per person in employment	+ 1.1	+ 5.1	+ 2.2	+ 2.2	+ 2.8	133
	% change by value on preceding year					
Gross income per employee	+ 6.1	+ 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

Denmark

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	.	.	.	.	.	.
Unemployed (1 000)	1970	20.2	24.9	28.1	24.9	24.0	23.9	26.0	25.2	27.7	27.0	28.2	10.3
	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	26.7	32.6	40.4	33.1	33.3	31.1	29.1	25.0	21.9	21.0
Dwellings under construction (1 000)	1970	39.2	38.9	37.6	41.5	40.8	39.7	39.5	40.3	42.1	41.2	39.5	36.3
	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
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)	1970	146	147	148	148	149	149	153	153	154	155	156	156
	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
Visible imports (million Eur)	1970	333	359	354	361	375	394	335	364	361	360	416	371
	1971	335	360	412	305	338	391	365	374	379	400	397	371
	1972	397	413	386	370	382	363	455	417	444	470	480	412
Visible exports (million Eur)	1970	251	259	284	274	259	284	271	281	276	289	297	266
	1971	270	275	286	274	337	311	286	316	299	321	319	320
	1972	366	347	337	335	409	367	357	330	347	385	374	377
Balance of trade (million Eur)	1970	- 82	- 100	- 70	- 87	- 116	- 110	- 64	- 83	- 85	- 71	- 119	- 105
	1971	- 65	- 85	- 126	- 31	- 51	- 80	- 79	- 58	- 80	- 79	- 78	- 51
	1972	- 31	- 66	- 49	- 35	+ 27	+ 4	- 98	- 87	- 97	- 85	- 106	- 35
Official gold and foreign exchange reserves (million Eur)	1970	400	400	449	378	362	342	324	371	393	428	464	484
	1971	507	544	595	474	424	424	434	423	422	469	589	670
	1972	757	781	795	755	752	729	708	736	663	648	713	734
Money supply (million Eur)	1970	.	.	.	.	.	.	.	.	.	.	.	.
	1971	8 503	8 968	8 455	8 132	8 196	9 320	9 450	9 349	9 620	9 052	9 453	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.



*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

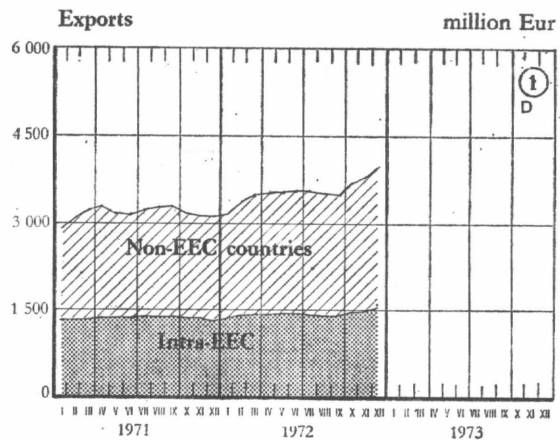
*Around the turn of the year Germany's economy reflected an appreciable acceleration in demand, with export demand in particular providing vigorous stimuli. Production, which had remained steady since the spring of 1972, resumed a distinct upward trend. Enterprises made increased calls on the labour market and took a more expansionary line over investment. The very sharp upsurge in prices continued unabated.*

*In the months ahead the expansionary forces inherent in the economic trend are likely to develop further. With export activity remaining lively, domestic demand too will pick up more vigorously. Given the comparatively narrow margin of spare capacity this is expected to produce fresh strains between supply and demand, which threatens to lead to an aggravation of the inflationary tendencies.*

### 1. Recent developments

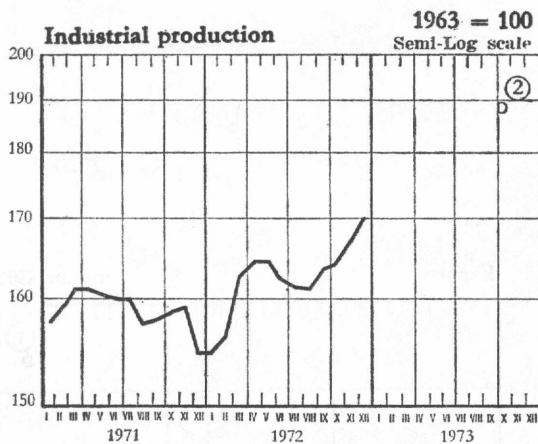
In the closing months of 1972 and at the beginning of 1973 the expansionary forces, until then comparatively subdued, gathered momentum in Germany, helped mainly by the strong pick-up in export demand. The increase in the vigour of economic activity occurred against the background of almost normal capacity utilization rates and was accompanied by an upward movement of prices unparalleled since the end of the Korean war.

Export demand, which has been growing faster since the autumn of 1972 due to the increasing buoyancy in world economic activity, is the main impetus behind the present economic expansion. The seasonally adjusted value of visible exports in November-January was 10% up on the previous three months, and a good fifth higher than a year earlier, when the figures had admittedly been seriously affected by the international monetary disturbances and by labour disputes in German industry. Exports to the United States and the United Kingdom showed a particularly lively advance.

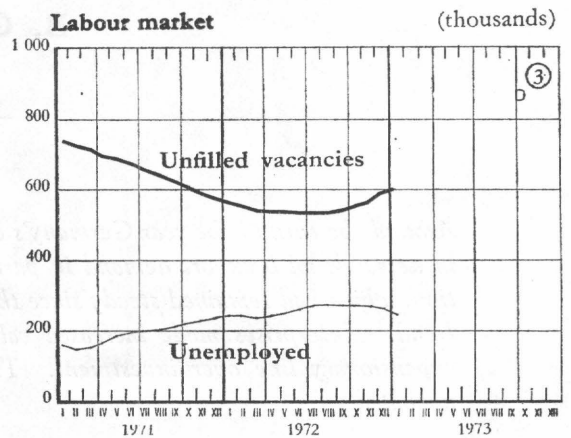


Domestic demand, on the other hand, provided less vigorous additional stimuli to economic activity. Corporate spending on plant and machinery has risen only slightly so far, despite an improvement in the investment climate. Allowing for seasonal variations, total expenditure on building even showed a drop from the unusually high level recorded in the first half of 1972. There was also a slight slackening of the expansion in private consumers' expenditure towards the end of the year. Retail sales in the

fourth quarter of 1972 were still 7.2% up on a year earlier, but allowing for seasonal variations they failed to reach the high level to which they had risen in the summer. This was mainly because the effects on disposable income of the repayment of the counter-cyclical surcharge were wearing off. The upsurge in wages, on the other hand, continued, special payments at the end of the year being a contributing factor. In the fourth quarter, the level of wages and salaries per person employed in the economy as a whole was 10.3% higher than in the same quarter a year earlier. At the beginning of the year, new collective wage agreements were concluded in a number of major sectors, with awards averaging 8.5%.

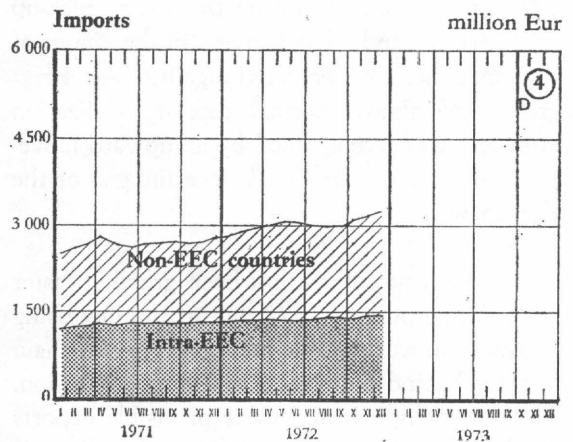


With the pick-up in economic activity gaining increasingly in vigour and the good weather, the seasonally adjusted figures for industrial production have risen considerably in recent months. In November-January the monthly average was 4.7% up on the figures for the previous three months. On the labour market, too, the distinct effects are now being felt of the improvement in the business situation as entrepreneurs have dropped some of their caution over recruiting additional manpower. In the fourth quarter the number of persons in paid employment was slightly up compared with the same quarter last year. The number of foreign workers rose further, but recruitment of native manpower also increased, enabling unemployment to fall appreciably. At the end of February, and allowing for seasonal variations,



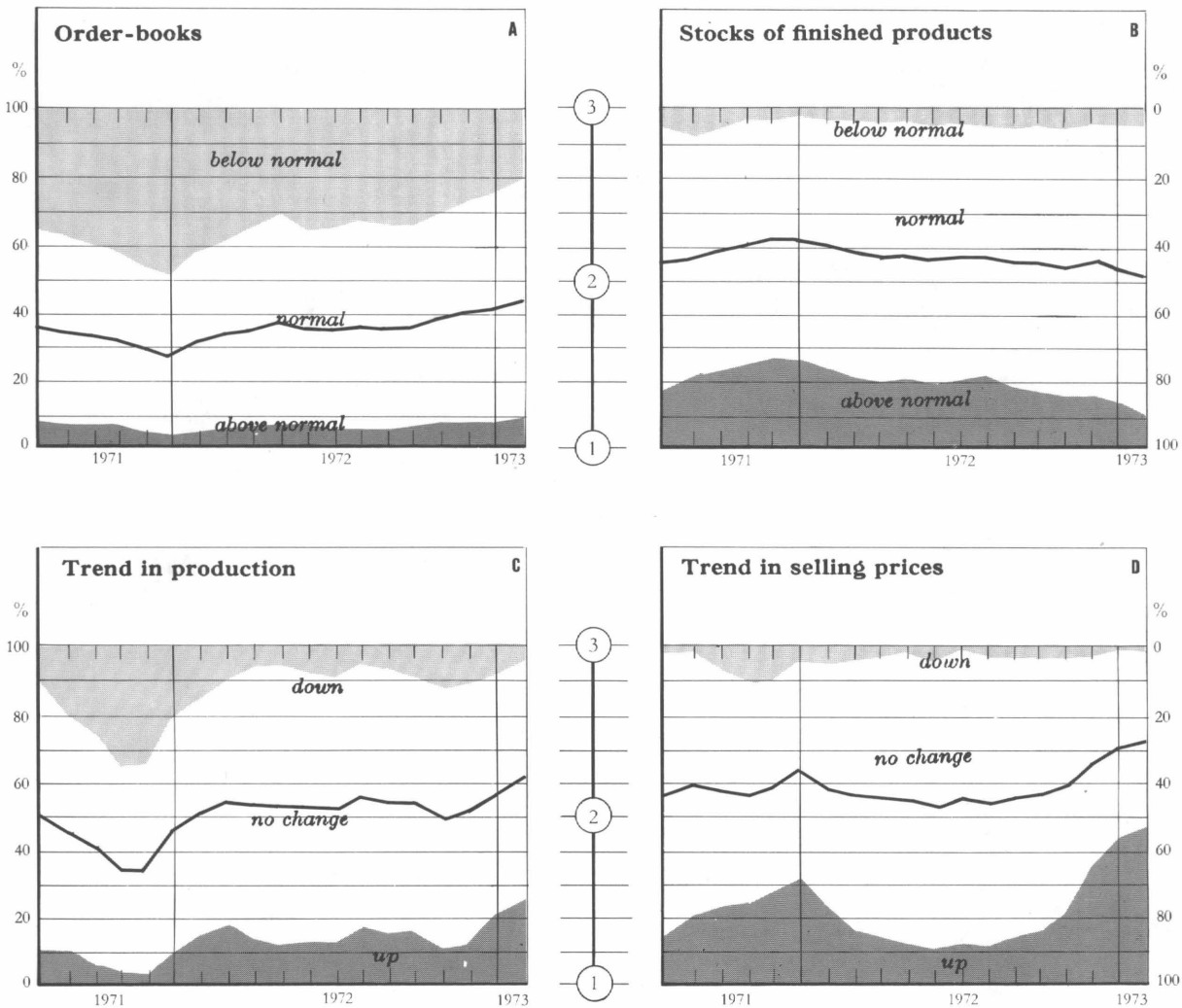
the number of unfilled vacancies was about three times higher than the number of unemployed.

Visible imports expanded at a faster pace; in November-January their value was 15.8% higher than a year earlier. This was due in part to the pick-up in domestic production, which provided a boost to purchases of raw materials, semi-manufactures and primary products, but the exceedingly rapid increase in the prices to be paid for imported products, especially agricultural products, was also a very important factor. At the end of January, import prices were 11.8% higher than a year earlier.



The upward movement of prices continued unabated. In January the cost-of-living index was 6.5% higher than at the beginning of 1972. Producer prices for agricultural and industrial

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

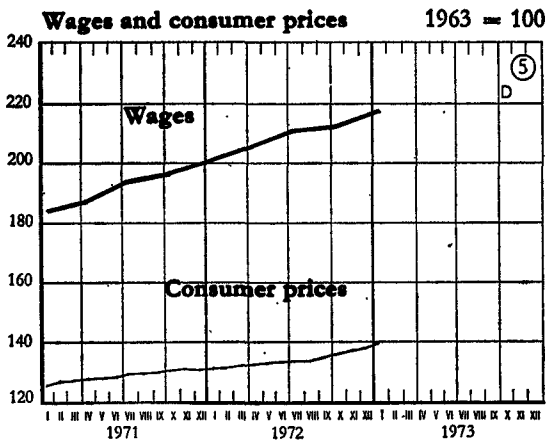


Answers to questions in the EEC business survey, carried out in the German Federal Republic by the IFO-Institut. GRAPHS A, B, C and D: The three zones (gray, white and black) show the percentages of the three different answers.

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".



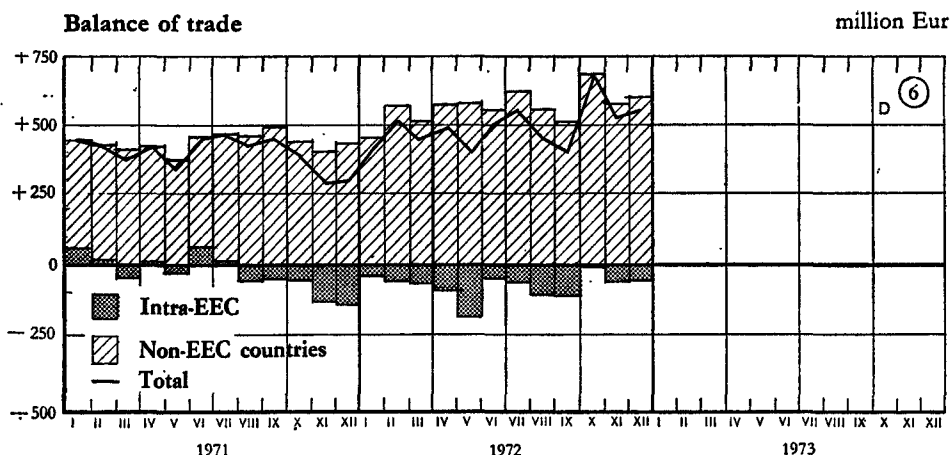
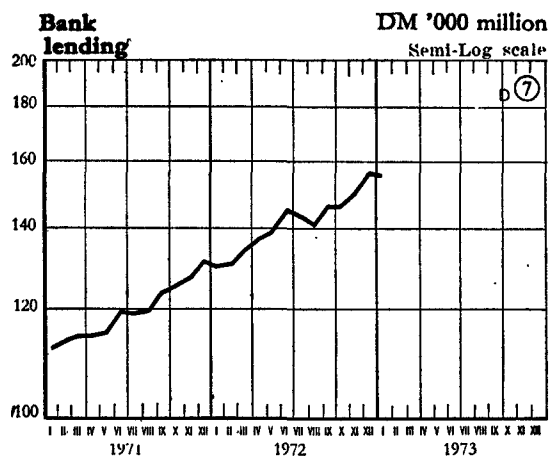


exchange markets were closed) the Bundesbank was compelled to take in a total of \$ 8.600 million.

The expansion of lending continued unabated, despite a sharp curtailment of banks' free liquid reserves. The money supply also went on expanding appreciably; in Januar, the stock of money and near-money (M2) was 16.9% up on a year earlier. Under the impact of the more restrictive monetary and credit policy pursued by the Bundesbank, interest rates on short- and medium-term credit have risen appreciably since the autumn of 1972. Long-term interest rates, too, which initially had remained unchanged, have been put up significantly.

products also maintained their upward trend; in Januar, the year-to-year increase was 13.4% and 4.8% respectively.

The foreign trade surplus climbed vigorously during the period under review, owing to the sharp rise in exports, so that the current account too was back in surplus. Until the end of Januar the cash deposit requirement and the restrictions on capital movements had led to outflows of capital, especially short-term capital; subsequently, however, exceedingly heavy inflows of speculative capital were recorded again, in the context of the new currency crisis. In Februar and on 1 March (before the foreign



*Demand for and supply of goods and services*

	1970 <sup>1</sup>	1971 <sup>1</sup>		1972 <sup>1</sup>		1973 <sup>2</sup>
	At current prices (in DM '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports <sup>3</sup>	158.6	+ 6.5	+ 9.2	+ 7.6	+ 8.8	+ 10½
Gross fixed asset formation	181.1	+ 4.5	+ 12.2	+ 1.9	+ 5.6	+ 4½
Public current expenditure on goods and services	109.0	+ 7.3	+ 19.8	+ 4.4	+ 12.6	+ 4
Private consumers' expenditure	369.0	+ 5.6	+ 11.0	+ 3.5	+ 9.5	+ 3½
Gross national product	685.6	+ 2.7	+ 10.7	+ 2.9	+ 9.2	+ 4½
Imports <sup>3</sup>	147.4	+ 9.8	+ 10.5	+ 8.1	+ 7.4	+ 10½

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

<sup>2</sup> Estimates.

<sup>3</sup> 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 hypotheses mentioned in the Quarterly Survey. 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 expansionary forces inherent in the economic trend are likely to gain in strength during 1973, with domestic demand providing increasingly vigorous stimuli, helped by the buoyancy of export demand.

Given the sharp rise in new export orders (in November-January, a seasonally adjusted 18.5% on the preceding three months), the expansion of exports can be expected to continue at a rapid pace in the months ahead. German exports, especially of plant and machinery, will throughout the year benefit from the favourable growth prospects in major trading partners inside and outside the Community, particularly from the

pick-up of investment in most of them. But the appreciation of the German mark against the currencies of these countries is having an adverse effect on the competitive position of German industry, a position which has already suffered from the sharp upsurge in costs of the past few years and from previous exchange rate changes, so that German industry's share in the volume of world trade may decline.

Investment as a whole will expand more rapidly again. The main boost will come from the rationalization efforts being made to counter the persistent pressure of costs, but extension of capacity will also make a more vigorous contribution again, especially in the industries near the consumer stage, where utilization of capacity has already reached the record levels of the last



boom. The EEC investment survey carried out in industry in the final quarter of 1972 likewise points to a distinct improvement in the investment climate. According to the survey, enterprises plan a 6% increase in their investment spending in 1973, compared with a cut of 5% in 1972. Building investment will again enable the building industry to operate at capacity, especially in areas other than civil engineering, as the unusually large backlog of work in residential construction has accumulated further, and as industrial building is likely to expand more vigorously again.

Expenditure on consumption generally will remain a buoyant factor in the economic trend. In view of the predominantly rigid character of public consumption, and given the latest pay award in public administration, there is little hope of any significant slowdown in the expansion of public spending. Private consumers' expenditure at current prices may rise at much the same pace as last year. Although gross incomes will probably go up more vigorously owing to rising actual earnings, the advance in disposable incomes will be weaker than a year earlier because taxation will exert its full effect again and contributions to the pension insurance fund have been put up. Households' propensity to save, however, may slacken again, following unusually vigorous saving in 1972.

The outlook for the trend of demand suggests that the growth of industrial production will gain in strength. Even though some sectors such as the basic materials and capital goods industries still have a certain margin of spare capacity, the scope for stress-free growth of production is comparatively limited. All in all, real gross national product in 1973 may grow by between 4.5 and 5%, in the Commission's view. Although there will be a vigorous rise in imports in terms of value, the trade balance is expected to show large surpluses.

Prices will remain the black spot in the economic picture. With the faster price increases of last year an aggravating factor already, the price trend in 1973 will be increasingly affected by the growing strains in the business situation. Additional upward pressure will probably be exerted by import prices, which are still rising sharply despite the appreciation of the German mark. Consequently, there is no hope of the

rise in prices being kept to the target figure laid down by the Council at the end of October 1972.

In the circumstances, the need for a determined stabilization policy is more pressing than ever; such a policy will be all the more effective the more the external flank is safeguarded through the implementation of concerted short-term economic policy measures in the Community. The principal task will be to manage the expansion of demand in such a way that the scope for new price increases, which could provide additional stimuli to the movement in wages, remains as limited as possible. With strains threatening to spread to new areas there would be no sense in trying to exploit the very last margin of real growth potential. The trend of demand should be controlled especially through the energetic use of monetary, credit and budget policy.

Within the limits set by the external situation, monetary and credit policy should in particular aim at reducing the expansion of the money supply, and especially the vigorous growth of lending, to a more moderate rate. The proposed improvement in the instruments available to the Bundesbank could provide additional scope for acting along these lines. Stabilization policy must also be supported by public finance policy. In addition to keeping the rise in expenditure by the Federal Government and the Länder within the limits set by the Council of the Community at the end of October 1972, the authorities should, through an appropriate fiscal policy, curb the expansion of demand; this should include not only management of the overall trend of incomes and profits but also action to prevent the development of fresh discrepancies in the trends of individual types of income.

### **3. The economic situation in West Berlin**

In the past few months, West Berlin's economy too has benefited from the business upswing, although in a more uneven and less pronounced way than the economy of the Federal area. Export deliveries showed a particularly sharp rise, while deliveries to the Federal area, West Berlin's major customer, expanded at a weaker rate. This is no doubt due to the fact that the trend in capital spending in the Federal

Republic has recovered only slowly so far and has therefore continued to exert a certain restraining effect on output in the capital goods industry, the most important of Berlin's industries.

Investment activity remained subdued. While in the Federal area building investment was generally providing vigorous stimuli, building activity in Berlin continued to decline. The main boost to the economic trend came from private consumers' expenditure; retail sales in the fourth quarter were ...% higher than a year earlier.

Industrial production as a whole picked up appreciably; in the fourth quarter of 1972 it was 7.6% up on the previous year. There was also a significant improvement on the labour market, where conditions had eased much more sharply than in the Federal area.

The upward movement of consumer prices accelerated and was sharper than the average rate for the Federal area. In December the cost-of-living index was ...% up on the same month a year earlier.

In 1973 economic activity in Berlin may expand somewhat more vigorously again, helped by the improvement in the political position of the city. But the economic upswing will probably not be as pronounced as in the Federal area, particularly since the growth of building investment will be very weak, compared with the Federal area.

## Major economic policy measures

### October

(1) On 27 October 1972 the Federal Government decided to launch a stability programme with the following main features:

- (a) The Federal Government will support the Bundesbank in pursuing a restrictive monetary and credit policy, with the aim of holding the 1973 increase in money supply to the growth rate of the gross national product in terms of money;
- (b) The instruments of credit policy available to the Bundesbank are to be improved

*forthwith, especially the conditions for making minimum reserve policy more effective.*

- (c) *Both the Federal Government and the Länder and local authorities are to use any tax revenue in excess of the target figures in the 1972 budget to reduce net borrowing still further.*
  - (d) *The rise in expenditure under the 1973 Federal Budget is to be kept to the growth rate of GNP in terms of money. Net borrowing is not to exceed the corresponding figure for 1972. The number of established Federal Government posts is to be cut by 2 000 in 1973.*
  - (e) *The Federal Government will urge, at the EEC Council of Ministers, that merchandise imports from non-member countries and the acceding countries be facilitated. In addition it will take further national measures under commercial and agricultural policy;*
  - (f) *The Federal Cartel Office was instructed to intensify the investigation of resale price maintenance and price recommendations;*
  - (g) *The restrictive practices law is to be amended with a view to introducing prior control of mergers, strengthening the supervision of abusive practices engaged in by market dominating enterprises, and facilitating co-operation between small and medium-sized enterprises; in the meantime the relevant amending bill has been tabled in the Bundestag by the parliamentary parties of the Government coalition;*
  - (h) *The Federal Government will support efforts by the Commission of the European Communities to strengthen and develop the system of competition in the common market. It will also urge, at the Council of Ministers, that existing obstacles to trade be eliminated.*
  - (i) *The existing regulation on price marking is to be extended to improve market transparency in the services sector.*
  - (j) *Arrangements are to be made to render it easier for the price authorities of the Länder to take action against and punish the charging of excessive rents.*
- (2) *At the end of October the Federal Government instructed the authorities responsible for the placing of public building contracts to put up for tender in the Official Journal of the Eu-*

ropean Communities all public building contracts worth more than 1 million u.a. (DM. 3.66 million). Bidders from the other EEC countries are to be given the same treatment as residents. The Länder and local authorities are to proceed along similar lines.

#### November

(1) With effect from 3 November 1972 the Bundesbank raised the discount rate from 3.5% to 4% and the rate for advances on securities from 5% to 6%. The selling rates for money market paper were also put up.

(2) On 24 November 1972 the Council of Experts on the Assessment of the General Economic Trend submitted its 1972 annual report.

#### December

(1) With effect from 1 December the Bundesbank increased the discount rate from 4% to 4.5% and the rate for advances on securities from 6% to 6.5%. The selling rates for money market paper were also raised. The Bank's rediscount quotas were cut by 10% from 1 February. The Bundesbank's open-market operations were stepped up and extended to non-banks.

(2) On 6 December 1972 the Federal Government decided to reduce the limit of exemption from the cash deposit requirement from DM 500 000 to DM 50 000, with effect from 1 January.

(3) On 19 December 1972 the Bundestag adopted the 1972 Federal Budget. The volume of expenditure is some DM 109 000 million, about 11% more than under the 1971 budget and 8.8% more than actual expenditure in 1971. The net borrowing requirement is DM 4 400 million.

(4) On 20 December the Bundestag modified the pension reform decided upon in September. For persons drawing pension before the age of 65, the additional employment income must not exceed DM 690 per month; the grant of the increment of 0.4% envisaged previously is to be restricted to persons who waive the drawing of pension for a period beyond the age of 65.

#### January 1973

(1) The interest rates for savings deposits were raised by an average of  $\frac{1}{2}$ % from 1 January. The standard savings interest rate (for deposits at legal period of notice) is now 4.5%.

(2) From 1 January contributions to the Social Pension Insurance Fund were raised from 17 to 18% of gross income, and the maximum income for the computation of contributions was increased from DM 2 100 to DM 2 300 a month. This will cost both employees and employers an extra DM 1 500 million each.

(3) In a number of important sectors of the economy such as the iron and steel industry, the metal-working industry and public administration, wages and salaries were put up by an average of 8.5% from 1 January.

(4) The Bundesbank raised the discount rate from 4.5% to 5% and the rate for advances on securities from 6.5% to 7% with effect from 12 January. At the same time, rediscount quotas were cut by 10% with effect from 1 April.

(5) The Federal Railway's passenger fares were put up by an average of 10% from 28 January (bringing in extra receipts of DM 250 million). The Federal Railways were also authorized to raise the rates for goods transport by a margin of up to 20%, from 1 February.

#### February

(1) Faced with heavy inflows of dollars the Federal Government on 2 February decided on the following measures:

Were made subject to authorization, with immediate effect:

- (a) The sale of German shares by residents to non-residents;
- (b) The borrowing by residents from non-residents and arrangements under which goods and services are paid for later than is customary in the trade (borrowings of up to DM 50 000 remain exempt).
- (c) Direct investment by non-residents in the Federal Republic if the amount of DM 50 000 is exceeded.
- (d) The cash deposit rate was raised from 50% to 100% and the discounting of domestic bills brought under the cash deposit requirement.

(2) On 7 February the Bundesbank decided to cut rediscount facilities with immediate effect, inviting the credit institutions to use their rediscount quotas only to the tune of 60%.

(3) On 17 February the Federal Government completed its discussions of the 1973 annual economic report. According to the guide figures in this report, the Federal Government's targets for 1973 are a 4 to 5% growth in real GNP, an unemployment rate of just under 1%, and reduction of the rise in consumer prices to an average of 5.5 to 6% over the year.

(4) On the same day the Federal Government approved the draft of the 1973 Federal budget and the finance plan until 1976. The budget closes with DM 120 400 million, a 10.5% increase on expenditure under the 1972 budget, or 9.7% more than the provisional figure for actual disbursements in 1972. The net borrowing requirement is some DM 4 000 million. Direct subsidies by the Federal Government are to be reduced by 5% as the budget is being implemented. In addition, the number of posts in Federal administration is to be cut by 2 000 in 1973, and a general ban is placed on the creation of new posts. Under the medium-term finance plan, the average annual growth of Federal Government expenditure from 1974 to 1976 is 8.5%.

(5) The Federal Government at the same time decided on the following measures to restore stability:

(a) the excise duty on mineral oil will be raised by 5 pfennigs a litre, with effect from 1 July. The extra Federal revenue produced by this increase is DM 700 million in 1973 and some DM 2 000 million in 1974.

(b) The date for payment of the excise duty on mineral oils and on spirits was brought forward, which is expected to bring in a further DM 1 000 million or so in extra revenue in 1973.

(c) From 1 July a 10% stability surcharge will be levied for a period of one year, on corporation tax liability and on the income tax liability of single persons with a taxable income of more than DM 100 000 a year and married persons with a taxable income of more than DM 200 000 a year. The extra tax revenue of DM 2 400 million which this is expected to produce will be frozen temporarily with the Bundesbank.

(d) The Federal Government will float a stability loan totalling DM 4 000 million, with the yield also to be frozen temporarily with the Bundesbank,

(e) The provision under which interest on borrowed funds is deductible from taxable income will be abolished from 1 January 1974.

(f) For certain buildings, especially industrial buildings, diminishing balance depreciation was abolished with immediate effect.

(g) Regional investment grants and grants for investment which promotes research and development were reduced from 10% to 7.5% with immediate effect.

#### March

With effect from 1 March the Bundesbank raised the minimum reserve ratios on domestic liabilities by 15% for sight and time deposits and by 7½% for savings deposits, thereby reducing the liquid reserves of the banking system by some DM 5 000 million.

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	+ 6.8	+ 7.1	+ 4.8	+ 1.7	+ 2.2	140
Gross national product per person in employment	+ 7.1	+ 6.3	+ 4.3	+ 2.8	+ 3.6	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

## Germany (FR)

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					1968 = 100	Million Eur.	% of totals
	1967	1968	1969	1970	1971	1971	1971	1971
<b>Visible exports</b>								
Total	+ 8.0	+ 14.3	+ 16.9	+ 17.7	+ 14.2	267	89 040	100.0
Intra-EEC	+ 9.4	+ 16.7	+ 23.9	+ 18.6	+ 14.0	287	15 647	40.1
To non-EEC countries	+ 7.2	+ 12.9	+ 12.8	+ 17.1	+ 14.3	256	23 393	59.9
<b>Exports of food, beverages and tobacco</b>								
Total	+ 26.9	+ 21.8	+ 27.0	+ 27.6	+ 19.6	442	1 275	3.3
Intra-EEC	+ 61.2	+ 32.8	+ 31.0	+ 16.6	+ 22.2	637	708	1.8
To non-EEC countries	+ 2.6	+ 9.4	+ 21.6	+ 43.7	+ 16.5	320	568	1.5
<b>Exports of raw materials, fuel and power</b>								
Total	+ 1.3	+ 10.7	+ 4.2	+ 18.9	+ 11.9	174	2 176	5.6
Intra-EEC	+ 1.5	+ 10.6	+ 5.4	+ 20.1	+ 11.5	177	1 351	3.5
To non-EEC countries	+ 0.4	+ 11.5	+ 2.4	+ 16.9	+ 12.6	169	825	2.1
<b>Exports of semi-finished and finished industrial goods</b>								
Total	+ 6.6	+ 15.9	+ 17.5	+ 17.3	+ 14.1	272	35 588	91.1
Intra-EEC	+ 4.7	+ 21.6	+ 25.8	+ 18.6	+ 18.8	297	13 589	34.3
To non-EEC countries	+ 7.6	+ 13.0	+ 13.0	+ 16.5	+ 14.3	259	21 999	56.3
<b>Visible imports</b>								
Total	- 3.7	+ 16.1	+ 23.7	+ 20.0	+ 15.2	264	34 341	100.0
Intra-EEC	- 1.0	+ 21.7	+ 30.0	+ 21.8	+ 20.8	371	16 088	46.8
From non-EEC countries	- 5.4	+ 12.5	+ 19.3	+ 17.9	+ 10.1	210	18 253	53.2
<b>Imports of food, beverages and tobacco</b>								
Total	- 4.2	+ 3.7	+ 16.7	+ 14.3	+ 13.5	203	5 620	16.4
Intra-EEC	+ 0.1	+ 11.9	+ 26.8	+ 12.6	+ 21.9	291	2 808	8.2
From non-EEC countries	- 6.9	- 1.9	+ 9.0	+ 15.9	+ 6.2	156	2 814	8.2
<b>Imports of raw materials, fuel and power</b>								
Total	- 0.6	+ 15.8	+ 12.2	+ 13.6	+ 9.0	200	7 212	21.0
Intra-EEC	+ 9.4	+ 18.1	+ 23.3	+ 18.5	+ 22.0	315	1 729	5.0
From non-EEC countries	- 2.5	+ 15.3	+ 9.7	+ 12.3	+ 5.4	180	5 483	16.0
<b>Imports of semi-finished and finished industrial goods</b>								
Total	- 5.0	+ 21.1	+ 31.4	+ 23.5	+ 17.9	324	21 510	62.6
Intra-EEC	- 3.0	+ 25.4	+ 32.0	+ 24.8	+ 21.5	408	11 553	33.6
From non-EEC countries	- 6.9	+ 18.8	+ 30.7	+ 22.1	+ 14.0	261	9 957	29.0

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1968 = 100)	1971	162.4	161.4	159.3	162.2	169.4	157.3	159.7	153.7	159.2	161.7	155.2	145.7
	1972	162.3	160.7	164.4	167.3	161.0	153.5	163.0	160.2	165.0	166.3	163.4	174.6
	1973												
New orders received (1968 = 100)	1971	180	182	194	185	182	188	181	183	185	175	182	183
	1972	184	193	198	188	195	202	182	198	197	205	213	217
	1973	237											
Unemployed (1 000)	1971	169.5	146.3	167.2	163.8	171.5	176.7	169.2	199.4	207.6	222.0	239.9	231.3
	1972	232.4	231.2	216.9	247.5	254.6	257.3	267.0	269.5	267.2	269.1	263.1	230.7
	1973	190.2											
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	60.4	61.2	63.0	63.8	70.6	64.9	64.3	63.3	63.6	64.2	65.1
	1973												
Private consumers' expendi- ture : department store turnover (1968 = 100)	1971	209.0	203.7	206.4	217.3	209.4	219.1	226.0	213.0	226.0	221.8	232.3	225.3
	1972	228.1	240.1	240.1	216.0	234.7	244.8	238.7	267.7	251.5	238.1	242.4	
	1973												
Consumer prices (1968 = 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	134.8	135.7	136.4	137.1	137.7
	1973	139.3											
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	3 048	3 034	2 858	3 177	3 052	2 763	3 100	3 075	3 217	3 306	
	1973												
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	3 137
	1972	3 140	3 564	3 526	3 342	3 568	3 553	3 327	3 539	3 461	3 910	3 821	
	1973												
Balance of trade (million Eur)	1971	+ 445	+ 335	+ 413	+ 406	+ 352	+ 416	+ 478	+ 422	+ 441	+ 383	+ 271	+ 284
	1972	+ 419	+ 516	+ 442	+ 484	+ 391	+ 551	+ 564	+ 439	+ 386	+ 693	+ 515	
	1973												
Official gold and foreign exchange reserves (million Eur)	1971	13 411	14 252	15 201	16 138	18 400	16 207	16 603	16 385	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											
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	120.5	122.4	120.5	126.0	128.1	127.7	128.3	128.5	132.4	132.6
	1973												

## 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).

*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

*At the beginning of 1973 the French economy was in a phase of vigorous expansion. Investment, incomes and consumption were rising sharply, and the growth of production and employment accelerated. The supply-demand situation, however, showed increasing signs of strain. The pressure to import was every strong, while the underlying rise in costs and prices remained disturbing.*

*In the next few months the French economy will continue to reflect heavy inflationary pressures. There are no signs that the trend of demand may lose in buoyancy, while on the supply side the scope for boosting production is being limited by a shortage of plant capacity and labour.*

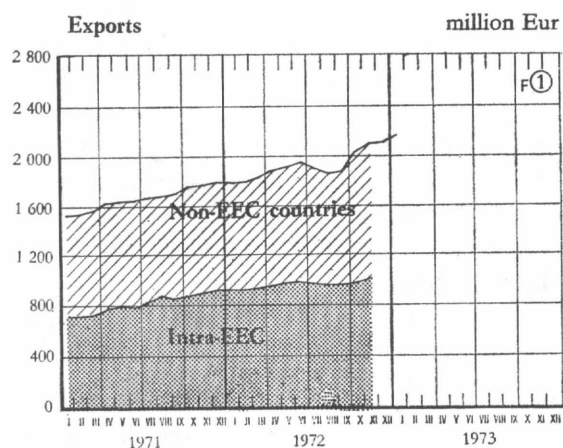
### 1. Recent developments

The rapid increase in the rate of utilization of the factors of production owed much to the very buoyant trend of export demand. Together with the competitive edge which industry still enjoyed as a result of the various exchange rate realignments in 1969 and 1971, the pick-up of activity in major purchasing countries brought a vigorous rise in export orders; it would seem, however, that swift execution of these orders has gradually been impeded by supply bottlenecks. Nevertheless,

after the end of the summer holidays visible exports still showed a considerable expansion which affected shipments to most destinations. In December-January, they were some 20% up in value on a year earlier.

The growth of domestic demand tended to accelerate further. Additional impetus came mainly from investment activity. With sales expanding, profits climbing and access to borrowed funds very easy, private industry in recent months has stepped up expenditure on building and plant and machinery more sharply than planned, and the other branches of the private sector, especially agriculture, building and the distributive trades, also appear to have invested more than previously. Furthermore, public enterprises and the State carried out extensive investment programmes which were notably up on 1971. There was also a vigorous upturn in residential construction.

The growth of expenditure on consumption remained very rapid and at times even distinctly accelerated. Public current expenditure rose by reason of higher spending on goods and services and even more because of increases in wages and pensions and back-



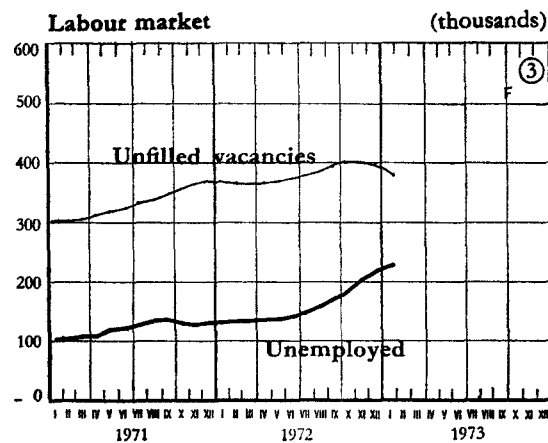
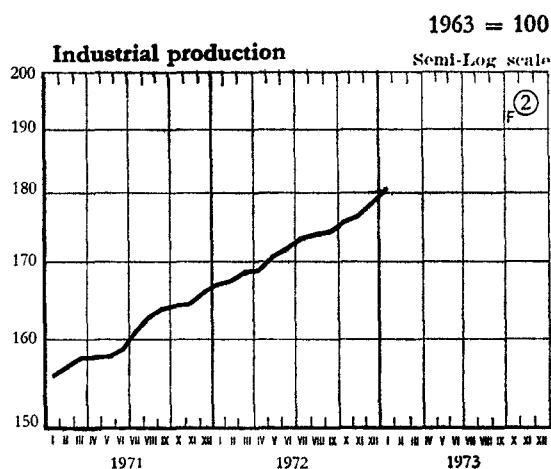
payments due under cost-of-living clauses. Private consumer's expenditure in the autumn even showed the first signs of a certain overheating. With the price climate deteriorating, consumer durables such as private cars, domestic appliances and furniture were all the more in demand as households considered that they were better off financially than they had been for years and were expecting further substantial increases in their incomes. The rise in household incomes is indeed likely to have accelerated recently: hourly wages have climbed at an annual rate of more than 12%, a rate which—except for the months immediately following May 1968—has not been registered for 15 years. Employment has shown a distinct upward tendency, social security benefits have been put up markedly, and the amounts withdrawn by self-employed persons from their business have shown all signs of climbing more sharply than previously.

Domestic production was able to keep abreast with this general boom in demand only at the cost of growing strains. In industry especially, diminishing stocks of finished goods, a rising backlog of orders and lengthening delivery periods pointed to bottlenecks in capacity. In November already, a third of the managements questioned in the business surveys cited shortages of plant capacity and/of labour as a factor limiting the expansion of production. The elasticity of supply is low, particularly in the consumer goods industry, whereas in the capital goods industry there still appears to be spare capacity for the time being. The growth of

industrial production generally has therefore picked up only moderately since the end of the summer holidays.

Towards the end of 1972 and in early 1973, according to the monthly INSEE index, it reached an annual rate of 7 to 8%.

Demand for additional manpower has climbed rapidly in recent months. At the end of January 1973, the seasonally adjusted number of notified vacancies stood at 222 200, almost double the figure of a year before. This compared with a seasonally adjusted number of 368 900 job-seekers, which is partly accounted for by immobility of labour or lack of the necessary skills. The number of job-seekers has nevertheless been falling steadily, while the number of wage and salary earners has been climbing, and the actual number of hours worked has begun to rise again.

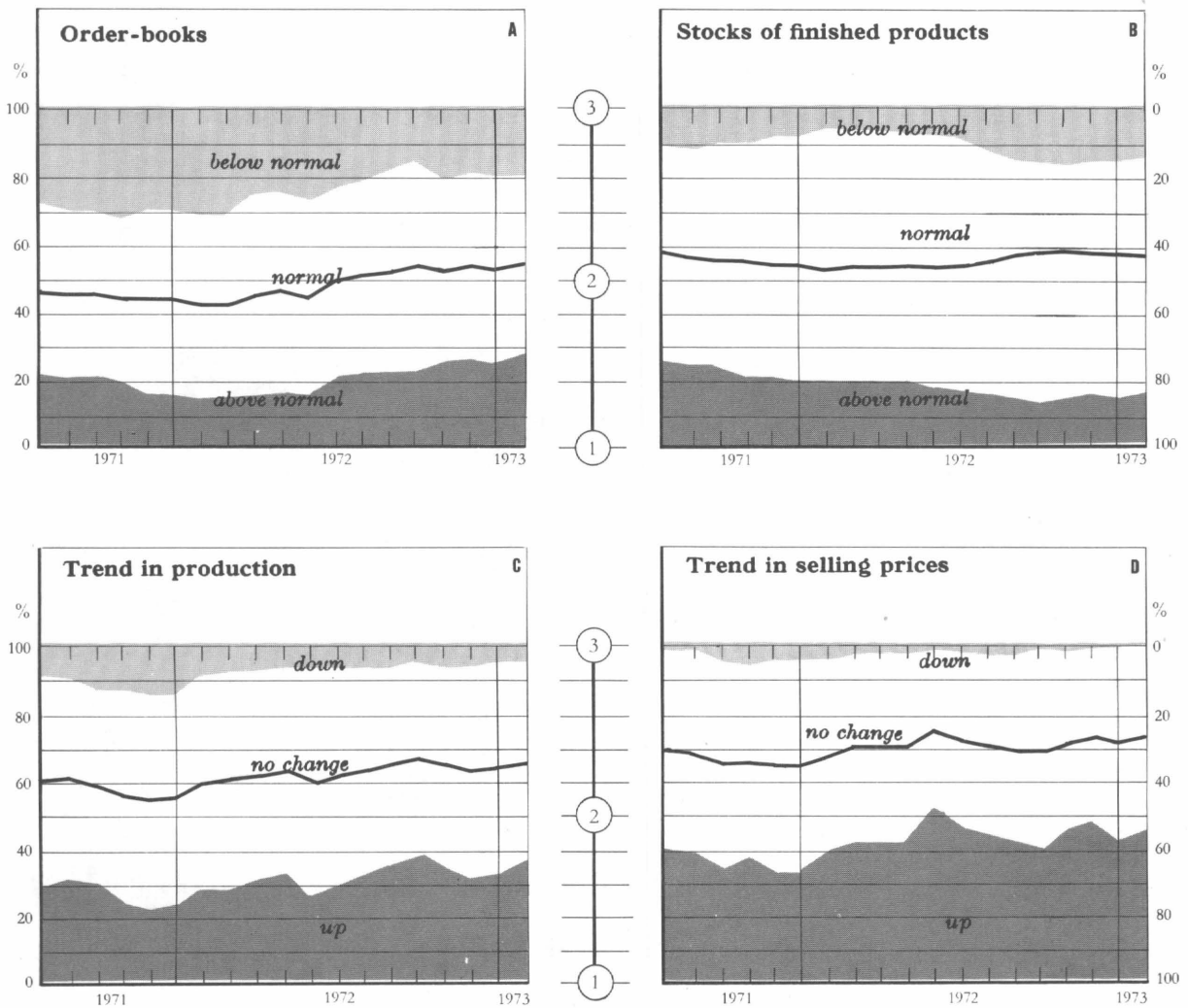


The high degree of utilization of domestic production capacity, coupled with the relatively short delivery periods and competitive prices of foreign suppliers, led to a steep rise in imports. In December-January, the volume of visible imports was no less than 18% up on a year earlier. The advance was particularly sharp in imports of finished industrial products, especially consumer goods.

With the pressure of demand increasing, the upward movement of prices speeded up all

France

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



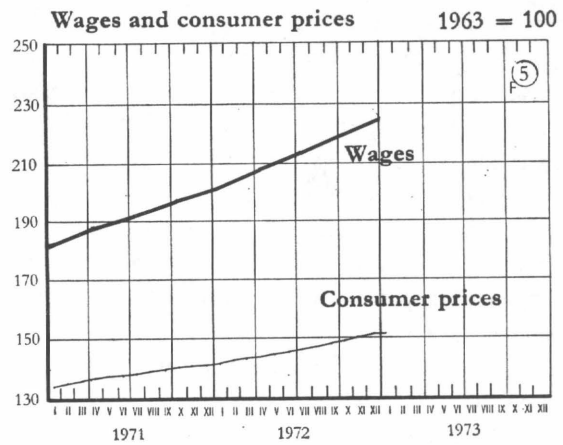
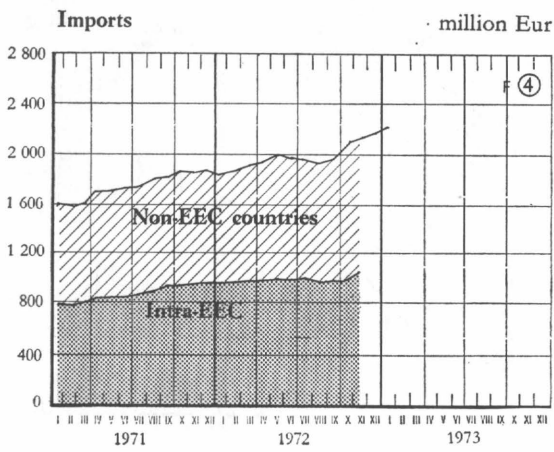
Answers to questions in the EEC business survey, carried out in France by INSEE.

GRAPHS A, B, C and D : The three zones (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 :

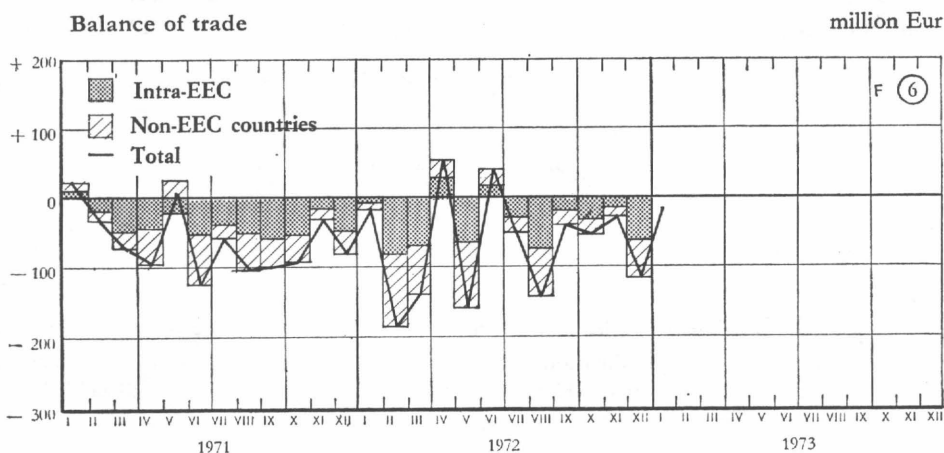
- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".



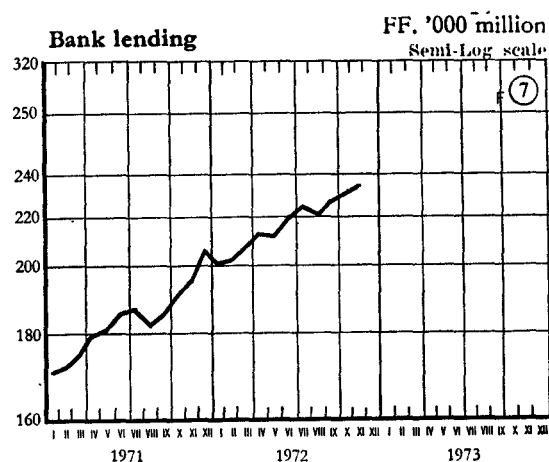


the more as there was no slackening in the rising trend of costs. Moreover, the short-supply in certain agricultural and food products due to an insufficient elasticity of production contributed to the general rise in prices. In the closing months of 1972, agricultural producer prices were increasing at an annual rate of about 14%. Industrial producer prices were climbing at an underlying rate of almost 5%—in the consumer goods industry alone at about 6.5%. In the four months from August to December 1972, the cost of living, as measured by the INSEE index of 295 items, rose at an annual rate of more than 8%, or much faster than in any comparable period since the end of the 1950s. In January 1973, however, the index remained unchanged as an immediate consequence of the cut in VAT rates, but was still 6.6% higher than in January 1972.

In the autumn and at the beginning of the winter of 1972, the external position reflected a marked decline in the surplus on visible trade, a services account that only just balanced, and a heavy deficit in unilateral transfers. As there was also a net outflow of capital, the surplus on the overall balance of payments was comparatively small. It would appear that the commercial banks might have somewhat improved their net foreign exchange position, while the gross gold and foreign exchange reserves of the monetary authorities, which had still risen by a good 1 600 million units of account in the first nine months of 1972, remained virtually unchanged in the final quarter. At the end of December they stood at about 9 200 million units of account (Eur). January and February 1973 too brought practically no increase.



Even though there was only a small inflow of liquidity from abroad, the underlying rate of monetary expansion remained extremely fast. The money supply at the end of November was almost 20% up on a year earlier. This was due to the excessive growth of lending to business and private customers, while cash transactions by the public authorities had no expansionary effect on liquidity in the fourth quarter. Extra tax receipts were so large that cash transactions in 1972 will probably have closed with a surplus of almost FF 4 500 million, as against a deficit of FF 3 500 million the year before.



### *Demand for and supply of goods and services*

	1970 <sup>1</sup>	1971 <sup>1</sup>		1972 <sup>2</sup>		1973 <sup>3</sup>
	At current prices (in FF '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports <sup>4</sup>	138.8	+ 11.7	+ 14.9	+ 12½	+ 14½	+ 12½
Gross fixed asset formation	209.9	+ 5.0	+ 10.3	+ 6½	+ 12½	+ 7½
Public current expenditure on goods and services	100.9	+ 3.5	+ 10.7	+ 3	+ 11	+ 3½
Private consumers' expenditure	476.7	+ 6.0	+ 11.8	+ 6	+ 12½	+ 6
Gross national product	820.2	+ 5.0	+ 10.2	+ 5½	+ 12	+ 6
Imports <sup>4</sup>	134.7	+ 11.6	+ 13.1	+ 12½	+ 15	+ 13

<sup>1</sup> Rapport sur les comptes de la Nation 1971. Ministère de l'Economie et des Finances.

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

<sup>4</sup> 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 generally 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.

The changeover to a restrictive course of monetary policy<sup>1</sup>, which was initiated in mid-1972 and has been gradually continued since the beginning of the autumn, led to considerable strains on the money market and to an appreciable rise in the level of interest rates. The capital market remained extremely liquid, so a considerable volume of issues was able to find takers without difficulty. On the stock exchange, fixed-interest securities were very firm, while share prices slipped distinctly in the closing weeks of the year. The price of gold at times reached record levels, owing to the fresh unrest on the foreign stock exchange markets.

## 2. Outlook

All the signs are that the expansionary forces in the French economy will remain dominant in the coming months. Export demand will continue to be a strong stimulus. In addition to the very buoyant trend of world economic activity generally, sales of French products are likely to benefit in particular from the enlargement of the Community and the accompanying progressive abolition of tariff barriers and other obstacles to trade. However, exporters may lose interest in seizing these opportunities and stepping up sales abroad as competition in international trade is stiffening owing to the latest dollar devaluation and the consequent change in exchange rate patterns, while, productive capacity being already scarce, sales on the domestic market offer easier and probably higher profits.

Indeed, domestic demand must be expected to take up still more of the available productive capacity. Entrepreneurs, who on the whole are very confident about the future trend of sales and who have ample liquidity at their disposal, are inclined to step up capital spending. Private industry is still cautious for the moment over announcing new projects for 1973, but the orders it places for plant and machinery show a clear upward tendency; actual spending on investment is therefore

likely to considerably outstrip initial plans as the year advances. Public enterprises have in any case planned for considerably higher investment expenditure than in 1972. Residential construction, too, will continue to expand strongly because there is a large backlog of work, current demand for non-subsidized residential construction still shows no signs of tailing off, in spite of tighter mortgage conditions, and considerable funds have been made available for subsidized housing.

Furthermore, the propensity to consume of households may still show a tendency to increase, since the restraining effects of the cut in VAT rates and of the issue of a Government loan have only been temporary. In any case, the result of the latest consumer surveys suggest that there are plans to spend on a considerable scale, especially on consumer durables and cars. Incomes of wage and salary earners and of self-employed persons will continue to climb very rapidly. In particular, there is still no indication of the increase in hourly wage rates slackening, while employment will probably rise at a faster rate.

It will become more difficult for domestic supply to satisfy this demand. Large sectors of industry are already stretched to capacity. New capacity appears to become available only slowly, since investment over recent years was predominantly geared to rationalization and modernization, and less to expanding capacity. Moreover, there is often a shortage of skilled labour. This means that there are very narrow limits to an increase in the present rate of production. Provided agricultural production benefits from normal weather, the growth in the real gross national product in 1973 may nevertheless be some 6%, or slightly more than in 1972.

Increasing recourse will have to be had to foreign supplies in order to satisfy demand, which will mean a certain deterioration on trade account, especially since there is little hope of the latest exchange rate adjustments having any marked dampening effect on import prices.

The upward pressure on prices inherent in the business situation, which at the beginning

<sup>1</sup> For details see the list "Major economic policy measures" at the end of this chapter.

of the year had been masked by the technical effects of the cut in VAT, is now likely to make itself felt again distinctly. The price expectations of industry and commerce at any rate have continued to point very sharply upwards.

As long as the inflationary mentality of those active in economic life is not overcome, and as long as inflation is being viewed not as a threat to production and employment but rather as a stimulus, there is little chance of attaining the objective set by the Council of the European Communities on 30 and 31 October, namely reducing the rise in consumer prices in the course of 1973 to a rate of 4%. Lasting stability can only be regained through a short-term economic policy which takes well balanced and drastic action against the causes of inflation.

As early as the beginning of December, the French Government published a plan for fighting inflation<sup>1</sup>, and since then has taken several steps whose restrictive effects (disregarding the measures relating to credit policy) are, however, highly complex. The cut in VAT rates, to the extent that it is passed on by the distributive trades, constitutes a once-for-all lowering of price levels, but at the same time involves a corresponding increase in the real income of households and, by reducing tax receipts, a financial shortfall in the budget of about FF 6 600 million. The proceeds of the Government loan in any case represent hardly 1.5% of the money supply and will gradually flow back into the economy, probably from April onwards. In the circumstances it remains to be seen whether the undoubtedly favourable psychological effects of these measures will be strong enough to obviate the need for additional measures directly aimed at restricting the expansion of demand. Such measures could appropriately take the form of a radical tightening of monetary policy, a cut in certain types of public expenditure, and the definitive freezing of extra tax receipts due to inflation, without, in the present situation, posing a threat to growth and employment.

<sup>1</sup> For details see the list "Major economic policy measures" at the end of this chapter.

## Major economic policy measures

September :

— In mid-September the Government submitted the draft of the 1973 budget to the National Assembly. With ordinary expenditure going up by some 11 %, which is not more than the expected increase in gross domestic production in terms of money, and extraordinary expenditure totalling some FF 2 300 million to be frozen temporarily in the economic contingency fund, aggregate expenditure and aggregate revenue balance, despite the introduction of a number of tax concessions.

— At the end of September the Government decided on a number of measures to assist agriculture: increase in Government aid to help modernize and improve the production and sale of certain products (including the setting up of a special agency to promote stock-breeding and regulate meat prices) and payment of grants to young farmers in structurally weak regions.

October :

— With effect from 1 October basic salaries in public administration were raised by 1.3 %, the pay structure was improved and the system of locality differentials modified. In addition, a 1 % cost of living bonus was granted, retroactively from 1 September, under the "maintenance of purchasing power" agreements. A similar increase was made in retirement pensions.

— In view of the rapid expansion of the money supply, the Banque de France in mid-October was authorized to raise the minimum reserve which the Commercial banks and other financial institutions are required to maintain in respect of the volume of credit outstanding to a level of up to 50 %, where appropriate. It was also authorized to prohibit, if necessary, the payment of interest on non-residents' sight balances and time deposits (involving periods of less than 180 days).

— In mid-October official prices were fixed for a number of items (pocket books, electric appliances, building materials) the prices for which had in the preceding weeks been put up



by more than was admissible under the price programme agreement. In addition, certain enterprises especially in the textile industry must in future seek official approval for any price increase.

November :

— From 1 November the statutory minimum growth wage (SMIC) was raised by 5.8 % to FF 4.55 an hour, an increase that was much larger than the effect of the rise in the cost of living (retail prices went up by an average of 5.7 % since the beginning of the year, while the SMIC rose by 15.5 %).

— In line with the decisions to combat inflation, adopted at the meeting of the Council of Ministers of the European Communities in Luxembourg at the end of October, the Banque de France with effect from 2 November raised the discount rate from 5.75 % to 6.5 % and the rate for advances on securities from 7.25 % to 8 %. The preferential discount rate for medium-term claims arising from foreign business with non-member countries was left unchanged at 4.5 %.

— This prompted the commercial banks to put up their lending rates, especially those for short-term and medium-term loans : the base rate was increased in two stages, from 6.3 %, to read 7.1 % at the end of November.

— At the beginning of November the Government approved a bill to introduce a minimum monthly wage. Calculated on the basis of the SMIC and the statutory 40 hour week, this wage is to be paid to all wage earners in firm employment. The Government will take over half of the differential to be paid by the employer, in the case of short-time working, to make up the minimum monthly wage.

— Also at the beginning of November the Government adopted a bill to guarantee equality of pay as between men and women. Wages for men and women are to be fixed according to the same norms; all agreements conflicting with the principle of "equal pay for equal work" are to be invalid, and a general obligation is introduced to pay whatever wage is higher.

— In an effort to curb the rapid growth of lending to business and private customers, the

Banque de France with effect from 21 November raised the minimum reserve ratio for the growth of lending by the banks and other financial institutions from 5 April 1972 onwards from 15 % to 33 %. But some specific types of loan, especially certain loans connected with foreign business, will not be counted; the requirement to maintain minimum reserves in respect of the growth of the volume of lending prior to 5 April 1972 was also abolished. On balance, this is nevertheless likely to constitute a drain on liquidity of the order of FF 5 000 million.

— At the same time the banks and other financial institutions were invited to stop any promotion of personal loans, limit the period for such loans to a maximum of two years and exercise great restraint in granting building loans. The rules on mortgage loans were tightened, especially the provisions on the buyer's own capital contribution towards the cost of a second dwelling.

— To supplement these measures and adjust to the further surge in money market rates that had been registered in the preceding weeks, not least as a result of very active intervention by the Banque de France, the discount rate was put up once again, from 6.5 % to 7.5 %, with effect from 30 November. The rate for advances on securities was likewise raised by 1 % to 9 %, while the preferential discount rate for medium term claims arising from foreign business with non-member countries was maintained.

— As part of the preparation of a comprehensive plan to combat inflation the Government at the end of November tightened its price policy. The prices for certain categories of potatoes were lowered by 5 cts and frozen at the new level; considerable quantities of storage butter will be put on the market in the next four months, at a price reduced by some 12 %; penalties were imposed on a number of companies, especially from the clothing industry, which failed to comply with existing price provisions.

December :

— On 7 December the Government announced its plan to combat inflation :

- (a) VAT rates will be reduced substantially with effect from 1 January 1973, with the standard rate to come down from 23 % to 20 %, the reduced rate—applying mainly to food—from 7.5 % to 7 %, and the rate for pastry from 17.6 % to 7 %. Taxation of beef and veal will be suspended altogether until the end of July 1973. To offset the disadvantages entailed for traders and craftsmen coming under the flat-rate system of taxation, the relevant exemption limits and allowances were raised by 10 %.
- (b) To cover the financial shortfall in the 1973 budget caused by this tax cut—the net loss of revenue is FF 6 600 million—the Government will float a long-term loan carrying an exchange rate guarantee.
- (c) Monetary policy was tightened. In the first half of 1973 strict norms will be applied to the expansion of the volume of lending (the rise on the corresponding period for a year earlier not to exceed 19 % on 31 March and 16 % on 30 June). Where lending grows faster banks are required to lodge additional, sharply rising minimum reserves.
- (d) Interest rates on savings deposits were raised slightly, by 0.5 %.
- (e) The business community was asked to pass all of the cut in VAT on in prices and to keep such prices and rates as are not affected by this cut unchanged for a period of three months.
- (f) Both sides of industry were invited to take as a guide for wage negotiations in 1973 the target for the maximum increase in prices, fixed at 4 % by the Council of Ministers of the European Communities at a meeting held at the end of October, and to keep the increase in money wages to a maximum of 7 % (including 1 % for structural improvements), with a clause in the collective wage agreements providing a guarantee in respect of the trend of real wages.

— In an effort to introduce greater equality of opportunity in the distributive trades and the small crafts industries, the Government at the beginning of December introduced the draft of a wide ranging outline law, designed mainly to progressively align the bases for taxation,

harmonize social insurance cover, promote mergers, facilitate the modernization of businesses through tax concessions and the grant of loans, supervise the establishment of super-markets and prevent unfair competition.

— In the first half of the month the Government adopted a number of bills designed to increase protection against wrongful dismissal, improve working conditions in industry (including safety regulations) to make it easier for certain employees, particularly women, to obtain part-time work, stop abuses in the provision of mass accommodation, especially for foreign workers, and extend the entitlement to supplementary pensions to all workers and pensioners.

— As part of the moves to raise the level of interest rates, the rate for tax bills (obligations cautionnées), issued mainly by small and medium sized firms to pay indirect taxes and covered by a bank guarantee, was put up from 6.5 % to 7.5 % with effect from 15 December.

— In mid-December the National Assembly adopted the supplementary budget for 1972. The excess of expenditure over the figure originally budgeted for is FF 3 780 millions spent mainly on industrial and social aid and wages and salaries. But as on the revenue side there were correspondingly higher receipts from taxation, especially from value added tax, the 1972 budget remained in equilibrium.

— In mid-December the National Assembly also adopted the 1973 budget, making only minor amendments to the Government draft. The tax and financial measures provided for under the plan to combat inflation were covered in an extra article.

— In order to render it easier for the commercial banks to make their end of year settlements, the Banque de France with effect from 22 December reduced the minimum rate for the investment of customers' deposits in medium term bills or bonds from 12.5 % to 10 %. This probably released some FF 5 000 to 6 000 million worth of rediscountable paper and paper eligible for the money market.

— The basis of assessment for the social security pensions which after 31 December falling due for the first time was changed for the benefit of the insured. Instead of being based on the average wage or salary income received

in the last ten years before the occurrence of the event insured against or before the age of 60, old age pensions will now be calculated by reference to the highest average income during any ten-year period after 31 December 1947.

January 1973 :

— With effect from 1 January family allowances were raised by 4 % and regional differentials eliminated.

— A new central bank law entered into force at the beginning of January. It covers the tasks, responsibilities and the organization of the Banque de France and give the Banque some degree of independence of the Government, especially the Finance Ministry.

— The very far-reaching restrictions on foreign borrowing by French enterprises, in force since October 1971, were eased at the beginning of January. Subject to examination and approval by the Treasury, enterprises may now raise foreign loans or credits to carry out investment projects abroad, provided these investments are of real industrial or commercial interest and the enterprises cannot draw on sufficient funds of their own.

— The Government loan floated at par on 16 January (carrying an interest rate of 7 %, running for a fixed period of 15 years and benefitting from a guarantee clause denominated in European units of account) was oversubscribed in a few hours; in consequence the amount of the loan was raised by FF 1 000 m to FF 6 500 m.

— With effect from 20 January the Banque de France made a further cut, from 10 % to 7 %, in the minimum rate applying to the investment by the commercial banks, of customers' deposits in medium term bills or bonds. This released a further FF 7 000 million worth of rediscountable paper and paper eligible for the money market, and gave the commercial banks correspondingly greater scope for raising liquid funds.

— During the month the 1973 collective wage agreements were concluded for a number of State-owned enterprises, including Renault, and

for the public service. All these agreements feature a guarantee under which real wages are to go up by a certain rate (2 to 2.5 %), and consequently provide initially for only a moderate rise in money wages (some 6 %). Most of the agreements also fix a minimum monthly wage (FF 1 000 to FF 1 200), provide for shorter working hours, a reduction in pensionable age (for Renault, for instance, to 62 years for men and 61 years for women), and improvements in retirement pensions.

— At the end of January the Government decided on a number of improvements concerning family allowances and housing allowances. For some allowances this brought in particular a considerable extension of the range of beneficiaries.

February :

— With effect from 1 February the statutory minimum growth wage (SMIC) was put up by another 2 % to reach FF 4.64 an hour, 17.7 % more than a year earlier. On the basis of a working week of 44.5 hours, currently the average in private industry, this gives a minimum monthly wage of FF 895.

— Benefits under the State-operated unemployment insurance scheme were raised by 7 % with effect from 1 February. The rate per day is now FF 8.88 during the first three months of unemployment and FF 8.07 thereafter; the supplement for each dependent person is FF 3.53.

— At the beginning of February the Government announced a number of measures to assist families: improvements in the provision by the public authorities, buses and higher subsidies towards transport costs; increase in the value of study grants; more and better nursery schools and infant schools for rural areas.

— To improve the quality of the stock of housing, the purchase and modernization of old buildings by the authorities running the publicly-assisted housing programme (HLM) were facilitated from the beginning of February, and building and loan associations were given greater scope for granting loans to finance housing repairs.

France

TABLE 1 : Key indicators

	1967	1968	1969	1960	1971	1971
	% change by volume on preceding year					1963=100
Gross national product	+ 5.0	+ 5.0	+ 7.7	+ 5.9	+ 5.0	156
Industrial production	+ 4.7	+ 5.4	+ 8.5	+ 6.8	+ 5.0	165
Total imports	+ 8.0	+ 12.1	+ 21.7	+ 8.3	+ 11.6	237
Private consumers' expenditure	+ 5.4	+ 4.6	+ 6.4	+ 4.5	+ 6.0	150
Public current expenditure on goods and services	+ 3.9	+ 4.6	+ 4.9	+ 3.5	+ 3.6	133
Gross fixed asset formation	+ 6.2	+ 5.5	+ 10.9	+ 7.5	+ 5.0	186
Total exports	+ 7.6	+ 9.5	+ 17.7	+ 17.2	+ 11.7	238
Gross national product per head of population	+ 4.2	+ 4.2	+ 6.9	+ 4.9	+ 4.0	145
Gross national product per person in employment	+ 4.6	+ 5.1	+ 6.0	+ 4.4	+ 4.3	146
	% change by value on preceding year					
Gross income per employee	+ 6.2	+ 12.5	+ 11.3	+ 10.1	+ 10.1	199

TABLE 2 : Indicators for internal and external equilibrium

	1967	1968	1969	1970	1971
Balance exports less imports					
in million Eur	+ 452	+ 81	- 830	+ 724	+ 1 293
as percentage of GNP	+ 0.4	+ 0.06	- 0.6	+ 0.5	+ 0.8
Unemployment rate	2.1	1.8	1.6	1.7	2.1
price index of private consumers' expenditure (% change on preceding year)	+ 2.8	+ 4.7	+ 7.0	+ 5.1	+ 5.5

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					1963 = 100	Million Eur	% of totals
	1967	1968	1969	1970	1971	1971	1971	1971
<b>Visible exports</b>								
Total	+ 4.5	+ 11.4	+ 17.4	+ 19.2	+ 14.6	252	20 326	100.0
Intra-EEC	+ 2.0	+ 16.0	+ 30.6	+ 21.7	+ 16.0	325	10 049	49.4
To non-EEC countries	+ 6.3	+ 8.1	+ 7.5	+ 16.9	+ 13.2	206	10 277	50.6
<b>Exports of food, beverages and tobacco</b>								
Total	+ 2.9	+ 19.8	+ 20.8	+ 6.0	+ 26.9	274	3 442	16.9
Intra-EEC	+ 6.0	+ 26.6	+ 41.9	+ 1.8	+ 31.4	448	2 137	10.5
To non-EEC countries	- 0.1	+ 12.8	- 3.3	+ 13.2	+ 20.3	168	1 305	6.4
<b>Exports of raw materials, fuel and power</b>								
Total	- 3.7	+ 1.6	+ 10.6	+ 12.1	+ 7.0	155	1 492	7.3
Intra-EEC	- 3.7	+ 0.9	+ 19.9	+ 14.2	+ 3.6	172	964	4.7
To non-EEC countries	- 3.6	+ 2.6	- 3.5	+ 7.9	+ 13.8	131	528	2.6
<b>Exports of semi-finished and finished industrial goods</b>								
Total	+ 6.0	+ 10.9	+ 17.5	+ 23.1	+ 12.9	261	15 392	75.8
Intra-EEC	+ 2.2	+ 16.2	+ 29.0	+ 29.7	+ 13.8	329	6 948	34.2
To non-EEC countries	+ 8.4	+ 7.8	+ 10.2	+ 18.1	+ 12.2	224	8 444	41.6
<b>Visible imports</b>								
Total	+ 4.6	+ 12.5	+ 23.7	+ 9.9	+ 11.3	241	21 063	100.0
Intra-EEC	+ 10.7	+ 23.1	+ 31.3	+ 6.5	+ 13.9	337	10 541	50.0
From non-EEC countries	+ 0.2	+ 4.4	+ 16.7	+ 13.3	+ 8.8	188	10 522	50.0
<b>Imports of food, beverages and tobacco</b>								
Total	- 2.6	+ 2.7	+ 19.5	+ 6.9	+ 4.1	165	2 555	12.1
Intra-EEC	+ 16.6	+ 31.8	+ 33.4	+ 3.9	+ 14.3	339	931	4.4
From non-EEC countries	- 7.4	- 6.4	+ 13.5	+ 8.4	- 0.9	127	1 624	7.7
<b>Imports of raw materials, fuel and power</b>								
Total	+ 0.3	+ 3.6	+ 10.6	+ 11.9	+ 15.0	168	5 175	24.6
Intra-EEC	- 2.3	+ 14.2	+ 11.4	+ 9.0	+ 17.2	171	858	4.1
From non-EEC countries	+ 0.8	+ 1.7	+ 10.5	+ 12.5	+ 14.6	167	4 317	20.5
<b>Imports of semi-finished and finished industrial goods</b>								
Total	+ 9.0	+ 19.6	+ 30.3	+ 9.8	+ 11.4	326	13 333	63.3
Intra-EEC	+ 12.0	+ 23.3	+ 33.3	+ 6.6	+ 13.5	372	8 752	41.6
From non-EEC countries	+ 4.4	+ 13.3	+ 24.6	+ 16.1	+ 7.5	263	4 581	21.7

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<b>Industrial production (1963 = 100)</b>	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	166.5	164.9	167.1	165.9	169.7	167.3	164.8	178.9	173.3	172.3	177.9	178.3
	1973	(182.5)											
<b>Number of persons seeking employment (1 000)</b>	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	365.3	375.2	375.2	374.1	386.6	397.7	404.3	407.0	395.2	388.8
	1973	365.6											
<b>Construction: building permits issued for housing (1 000)</b>	1971	48.7	56.5	67.5	53.7	48.7	60.7	52.7	48.6	52.3	54.1	60.4	56.0
	1972	63.9	56.4	49.4	50.6	54.4	(51.2)	(50.5)					
	1973												
<b>Private consumers' expenditure: turnover of department stores (1963 = 100)</b>	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	194.0	177.1	185.6	193.1	183.5	188.8	197.6	185.7	192.8	196.0
	1973												
<b>Consumer prices (1963 = 100)</b>	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											
<b>Visible imports (million Eur)</b>	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	2 048	1 838	2 129	1 979	1 814	2 055	2 097	2 156	2 174	(2 253)
	1973	(2 242)	(2 228)										
<b>Visible exports (million Eur)</b>	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	1 830	1 917	1 894	1 972	2 017	1 768	1 912	2 064	2 108	2 153	2 113
	1973	(2 227)	(2 185)										
<b>Balance of trade (million Eur)</b>	1971	+ 25	- 22	- 69	- 97	+ 10	- 120	- 51	- 101	- 97	- 92	- 23	- 81
	1972	- 13	- 186	- 131	+ 56	- 157	+ 38	- 46	- 143	- 33	- 48	- 21	- 140
	1973	(- 15)	(- 43)										
<b>Official gold and foreign exchange reserves (million Eur)</b>	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											
<b>Money supply (Fr '000 million)</b>	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	256.6	263.6	261.4	263.9	270.9	275.7	275.3	281.6	282.1	289.0	(289.7)
	1973												

## 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).

#### *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 Cr dit; short-term loans (up to 2 years) from monetary institutions to business and private customers; position at end of month.

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#### *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

*Following two years of relatively moderate economic growth, activity has of late been picking up appreciably, boosted mainly by export demand and private consumption. Prices have maintained their vigorous upward movement.*

*Expansion is likely to gain in vigour in the next few months, entailing an appreciable improvement on the labour market. Great attention will however have to be paid to the conditions for maintaining economic equilibrium.*

### 1. Recent developments

Economic growth, which in the first half of 1972 had been only moderate owing mainly to the economic trend in the United Kingdom, has picked up a little in the last few months, helped by the recovery in exports and the strengthening of domestic demand.

With Irish industry expanding its capacity and demand in the industrialized countries accelerating exports have been rising at a lively pace in recent months. Demand from the Community countries has been particularly strong. Sales of manufactured goods have expanded considerably. Exports of agricultural products especially meat, have grown distinctly in terms of volume, while in terms of value the expansion has been even sharper owing to the strong rise in agricultural prices. In the fourth quarter total exports in terms of value were 30% up on a year earlier.

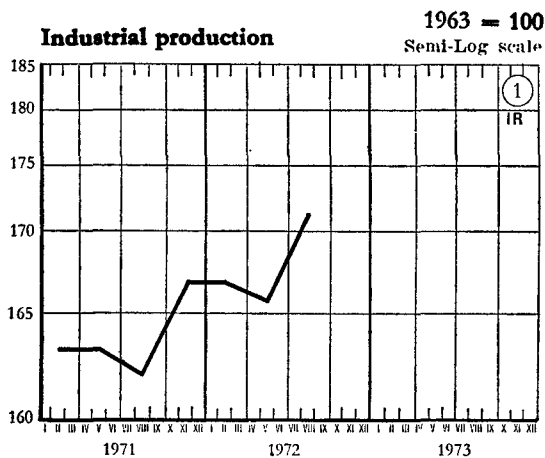
Corporate *investment*, which had been sluggish during most of 1972, has recently shown signs of picking up again. In building and construction, the impact of the deflationary measures has been felt since the third quarter of 1972.

The latest indicators suggest that the growth of private consumers' expenditure has acceler-

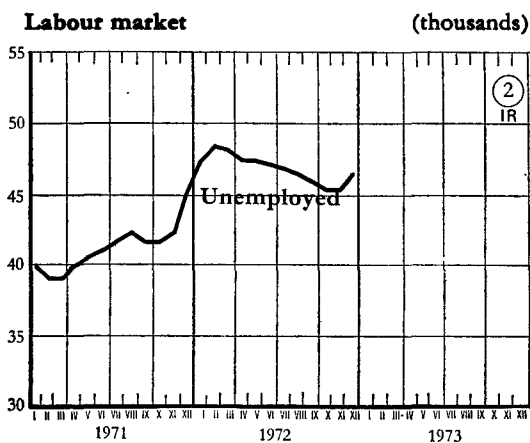
ated, boosted by the continued pay increases, the rapid rise in agricultural incomes and the comparatively easy credit policy; the buying spate to beat the introduction of value added tax on 1 November was an additional factor. In October, the index of retail sales was thus 22% up on the same month of 1971. Even after the introduction of value added tax, private consumers' expenditure remained buoyant. Expenditure by public authorities has also expanded considerably, with most of the rise due to increased recruitment in the public sector.

Although the statistics on industrial production were rather late in becoming available, the impression is that expansion has if anything gained in vigour. In manufacturing, for instance, seasonally adjusted output probably climbed appreciably, and agricultural output, especially output of livestock products, showed a vigorous rise. The trend in tourism, on the other hand, remained weak.

The improvement in the business climate has recently begun to make itself felt on the labour market. The unemployment rate, measured by the number of unemployed persons on the live register was still 8% in December, but there has been an appreciable improvement in the past three months. For the first time



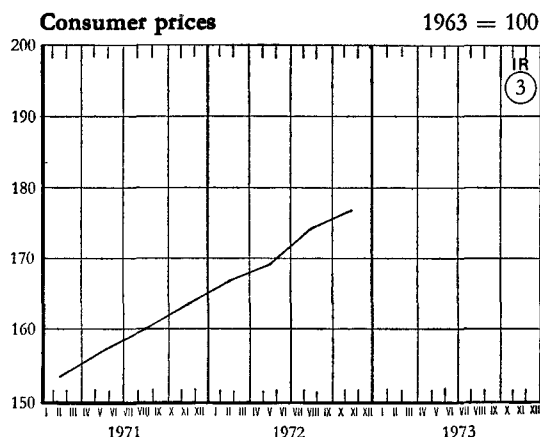
since the beginning of 1972 the unemployment rate has thus been slightly lower than a year earlier, even though employment in manufacturing industry, where production has gone up, has shown little if any rise so far, owing mainly to large productivity gains.



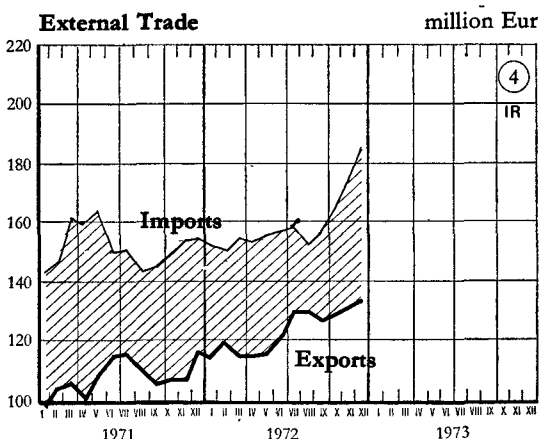
The upward thrust of prices remained vigorous. Consumer prices in the fourth quarter were 1,5% higher than in the third, and in mid-November<sup>1</sup> were 8,2% up on a year earlier. Domestic food prices were influenced by the upsurge in export prices for agricultural products and a poor harvest. The prices of manufactured goods, on the other hand,

<sup>1</sup> The consumer price index is calculated for the middle of each quarter.

showed a slight tendency to ease, especially as a result of the «National Pay Agreement».<sup>2</sup>



Since the end of the summer the rate of growth of imports has accelerated; in the fourth quarter, imports showed a seasonally adjusted rise of 20% on the previous quarter. This was due to a number of factors; including the temporary bulge following the British dock strike in the summer, the vigorous increase in purchases of raw materials and semi-finished goods, and the depreciation of the pound on the value of imports in terms of national currency.



<sup>2</sup> Agreement between industry and the unions to limit wage increases between the middle of 1972 and the end of 1973.



*Demand for and supply of goods and services*

	1970 <sup>(1)</sup>	1971 <sup>(1)</sup>		1972 <sup>(2)</sup>		1973 <sup>(3)</sup>
	At current prices (in £ '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports <sup>(4)</sup>	664.7	+ 3.1	+ 10.6	+ 5	+ 15½	+ 10
Gross fixed asset formation	356.3	+ 8.9	+ 21.0	+ 3	+ 11	+ 6½
Public current expenditure on goods and services	230.9	+ 3.3	+ 17.4	+ 9	+ 22½	+ 7
Private consumers' expenditure	1 129.7	+ 3.3	+ 12.4	+ 3	+ 12	+ 3½
Gross national product	1 621.3	+ 3.0	+ 14.0	+ 3	+ 15	+ 4½
Imports <sup>(4)</sup>	730.0	+ 4.1	+ 10.4	+ 7	+ 11	+ 9½

<sup>1</sup> Statistical Office of the European Communities.

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

<sup>4</sup> 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.

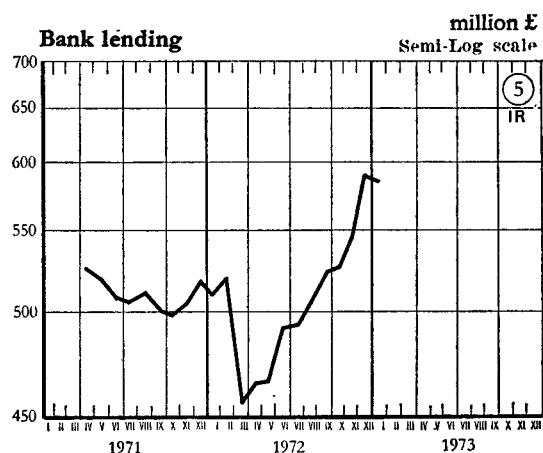
(b) The estimates and forecasts are approximations based on the hypotheses set out in the Quarterly Survey. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

But with the fast expansion in the volume of exports and the terms of trade improving sharply the trade balance was somewhat more favourable. The current account improved slightly, despite the deterioration on services account.

Since 23 June 1972 the Irish pound has floated on the foreign exchange markets, along with the pound sterling.

**2. Outlook**

Economic growth will probably strengthen in the next few months. Exports in particular should benefit from a number of factors.



These include firstly, an acceleration in export demand, especially because of the improved

economic situation in the United Kingdom, and the favourable sales prospects throughout the Community. Secondly, the competitive position of Irish products on world markets which had already been helped by the depreciation of the pound on the foreign exchange markets since the middle of 1972, will be strengthened further by the fresh downward movement of the exchange rate, in relation to the other Community currencies, following the devaluation of the dollar. The growth of exports of agricultural products, especially beef, is also likely to continue at a rapid pace in the coming months.

The trend of corporate investment, especially in plant and machinery, should be boosted by the measures taken under the 1972/73 budget, and by the improvement in the general business climate due in particular to the new prospects opened up by Ireland's accession to the Community. Investment in residential construction is also likely to gain in vigour. Stockbuilding, which had been relatively sluggish until the middle of 1972, will no doubt provide appreciable stimuli to economic activity.

On the assumption that the policy of credit restraint adopted in February is not tightened further, private consumers' expenditure too can be expected to go on rising at a lively pace. The expected wage increases and the improvement in industrial employment are indeed likely to lead to an appreciable advance in personal incomes. The rapid growth of farm incomes since the middle of 1972 will remain another major factor in the expansion of spending by households. Although the guidelines for the new budget, due in the spring, were not yet known when this survey was being completed, it is safe to assume that public expenditure will continue to grow rapidly.

With overall demand gaining in vigour, the expansion of domestic supply should accelerate. Industrial production will rise substantially, particularly in the export producing sectors. Livestock production, which will benefit considerably from the opening up of the common market, is likely to increase more rapidly than in 1972. All in all, real

GNP in 1973 may grow by between 4.5% and 5.0%.

Given current trends and the recent improvement in the business climate, unemployment should fall distinctly, but its level at the end of 1973 will probably still be comparatively high.

Even though there may be some slackening, the upward movement of prices is likely to remain rapid, owing to the influence of rising export prices on domestic prices and to the persistent increase in wage costs.

The acceleration in economic growth is likely to cause imports to increase at a faster rate. As in the next few months the improvement in the terms of trade will probably no longer be as marked as previously (the expected rise in the prices for agricultural exports being partly offset by the effects of the depreciation of the pound), the trade balance may deteriorate slightly. The less favourable trend in the trade balance is likely, however, to be partly compensated for by higher receipts on services account, in particular from tourism.

The Irish authorities are faced with the difficult task of both maintaining a satisfactory rate of growth of economic activity so as to reduce unemployment and seeking to moderate the rate of cost and price increases. The very open nature of the Irish economy adds to the difficulty. The authorities will nevertheless, have to endeavour to make full use of the room for manoeuvre available on the home front, notably by following a cautious policy on the budget and on consumer credit while continuing to encourage public and private investment.

### **Major economic policy measures**

*January 1973:*

*Accession of Ireland to the European Communities.*

*February 1973:*

1. *The Associated Banks raised their lending rates by 1% and their deposit rates by 1 1/4%.*

2. In view of the sharp increase in bank lending, the Central Bank on 6 February decided on the following measures to limit the growth of the money supply:

a The Associated Banks were required to raise their primary liquidity ratios from 12 to 13% im-

mediately and their secondary ratios to a level of 31% over the next three weeks.

b The liquidity ratios of the non-associated banks were also raised.

c The banks were required to deposit 50% of any net inflows of foreign exchange with the Central Bank, with the amounts thus deposited not counting towards the liquidity ratio.

Ireland

TABLE 1 : Key indicators

	1967	1968	1969	1970	1971	1971
	% change in volume on preceding year					Indices 1963 = 100
Gross national product	+ 5.3	+ 7.7	+ 4.3	+ 2.5	+ 3.6	136.3
Industrial production	+ 8.2	+ 10.4	+ 6.6	+ 3.3	+ 4.1	158.7
Total imports	+ 3.8	+ 15.7	+ 13.4	+ 2.5	+ 4.1	177.9
Private consumers' expenditure	+ 3.4	+ 8.3	+ 4.3	+ 2.7	+ 3.2	139.9
Public current expenditure on goods and services	+ 4.6	+ 5.6	+ 6.9	+ 7.0	+ 3.3	140.8
Gross fixed asset formation	+ 6.7	+ 12.9	+ 19.7	- 1.2	+ 9.0	183.4
Total exports	+ 10.4	+ 9.0	+ 4.6	+ 4.4	+ 4.9	166.6
Gross national product per head of population	+ 4.7	+ 7.3	+ 3.9	+ 1.7	+ 2.7	130.5
Gross national product per person in employment	+ 5.5	+ 7.3	+ 3.7	+ 3.2	+ 3.1	135.6
	% change in value on preceding year					
Gross income per employee	+ 7.1	+ 8.7	+ 12.2	+ 14.0	+ 14.9	186.3

TABLE 2 : Indicators for internal and external equilibrium

	1967	1968	1969	1970	1971
Balance exports less imports					
in millions Eur	+ 74.1	- 78.0	- 124.3	+ 9.1	- 13.7
as percentage of GNP	+ 2.7	- 2.4	- 3.4	+ 0.2	+ 0.3
Unemployment rate	6.7	6.7	6.4	7.2	7.2
prices to private consumers (% change on preceding year)	+ 3.2	+ 4.7	+ 7.0	+ 8.4	+ 9.1

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				
Unemployed (1 000)	1970	35	36	39	42	46	47	45	43	43	42	40	40
	1971	39	39	40	40	41	41	42	43	39	42	45	48
	1972	48	48	47	51	48	46	46	47	44	45	47	48
Construction : permits for residential construction (1 000)	1970		2.75			3.81			5.05			4.37	
	1971		5.32			5.52			5.28			5.17	
	1972		5.44			5.6							
Private consumers' expen- diture (1963 = 100)	1970	155	162	165	164	155	157	157	158	167	170	172	173
	1971	176	174	177	177	179	181	180	180	180	183	186	188
	1972	188	192	204	192	201	203	199	202	206	225		
Consumer prices (1963 = 100)	1970		138.6			144.3			146.7			150.0	
	1971		152.4			156.5			159.7			162.9	
	1972		166.7			169.2			173.9			176.4	
Visible imports (million Eur)	1970	121	129	114	128	135	125	123	130	133	151	137	146
	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
Visible exports (million Eur)	1970	86	88	77	83	96	86	78	86	86	94	82	95
	1971	111	102	101	98	124	123	106	107	108	105	102	138
	1972	103	117	114	103	120	139	129	118	132	134	127	139
Balance of trade (million Eur)	1970	- 35	- 41	- 37	- 45	- 39	- 39	- 45	- 44	- 47	- 57	- 55	- 51
	1971	- 34	- 48	- 87	- 42	- 38	- 21	- 42	- 39	- 44	- 44	- 51	- 15
	1972	- 48	- 29	- 45	- 45	- 37	- 29	- 19	- 22	- 44	- 41	- 43	- 67
Official gold and foreign exchange reserves (million Eur)	1970	720	700	729	736	720	713	710	722	754	750	742	697
	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
Money supply (million £)	1970	381.7	373.0										
	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	

## 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.

## Ireland

### 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

The economic recovery which began at the end of 1971 but has faltered on several occasions since, picked up quickly at the end of 1972. At the same time the upward thrust of prices became more vigorous, receiving additional stimuli from the introduction of value added tax on 1 January 1973.

The rise in production, employment and incomes can be expected to gain in vigour as the year advances, but the price trend will probably continue to be highly unsatisfactory.

### 1. Recent developments

The autumn upswing was particularly marked this time, despite numerous stoppages in connection with important wage negotiations. A major contributing factor was doubtless anticipatory purchasing by the distributive trades and consumers to beat the introduction of value added tax on 1 January 1973; however, the pick-up of economic activity generally seems also to have quickened.

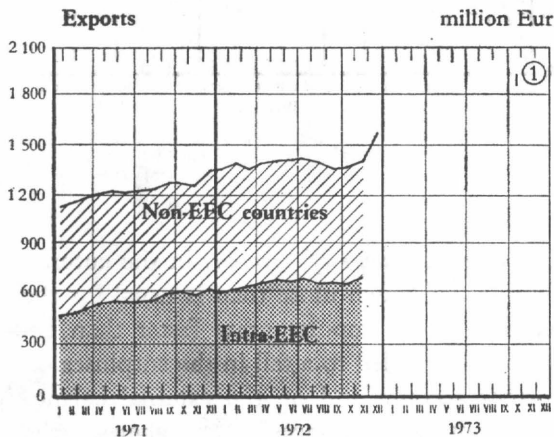
Exports of goods and services, for instance, climbed very vigorously, after a certain fall-off during the summer. In the fourth quarter the value of visible exports was 17.4% up

on a year earlier. The trend was very buoyant especially in deliveries to the United States, the United Kingdom, Japan and France.

As regards domestic demand, the upward movement of *investment* in plant and machinery appears to have gained additional vigour in the autumn. Building activity, both industrial and residential, also seems to have strengthened further. However, the overall level of investment was decidedly low, and well down on the trend apparent until the autumn of 1969.

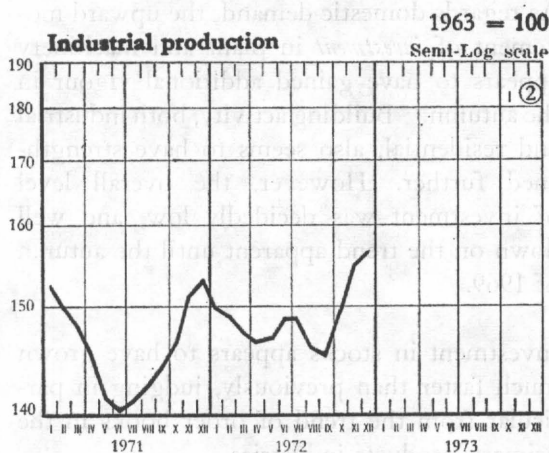
Investment in stocks appears to have grown much faster than previously, judging in particular from the trend of order books in the primary products industries.

The more expansionary business trend in the autumn was also a reflection of the movement in private *consumers' expenditure*. There are many indications that, despite loss of earnings due to strikes and temporary difficulties in obtaining ready money, consumption began to climb briskly towards the end of the year. Hourly wage rates rose sharply, not least as a result of a particularly large increase in the cost-of-living supplements, while the number of hours worked per employee went up. Moreover, pensions were raised appreciably. Lastly, the sharp upswing in private consumers' expenditure was probably helped by the



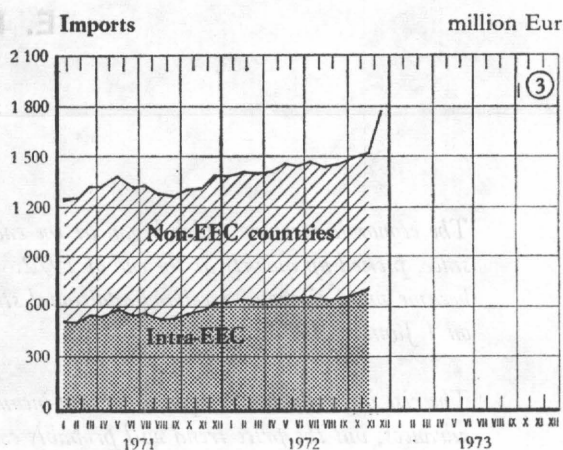
propensity of many households to make certain purchases ahead of the introduction of value added tax. This is probably the reason for the temporary slowdown of the increase in private consumers' expenditure at the beginning of 1973.

Despite frequent strikes, industrial production reached a record level in October, and this growth took in all major sectors. The seasonally adjusted ISCO index of industrial production showed an increase of no less than 8% between the third and fourth quarters. However, this rate may be inflated due to technical reasons (structural changes in the seasonal pattern) and special factors (anticipatory purchases). In the fourth quarter industrial output per working day was up 4.6% on a year earlier. The trend of production must therefore be expected to go through a temporary but definite calm in the early months of 1973.



Imports, in particular from member countries, also grew more rapidly. In the fourth quarter the value of visible imports was 21.2% up on the same period a year earlier.

There was a rise in the seasonally adjusted number of wage and salary earners and an even more noticeable increase in the seasonally adjusted average number of hours worked per person. For the first time for a year there was a distinct fall, seasonally adjusted, in the number of unemployed.



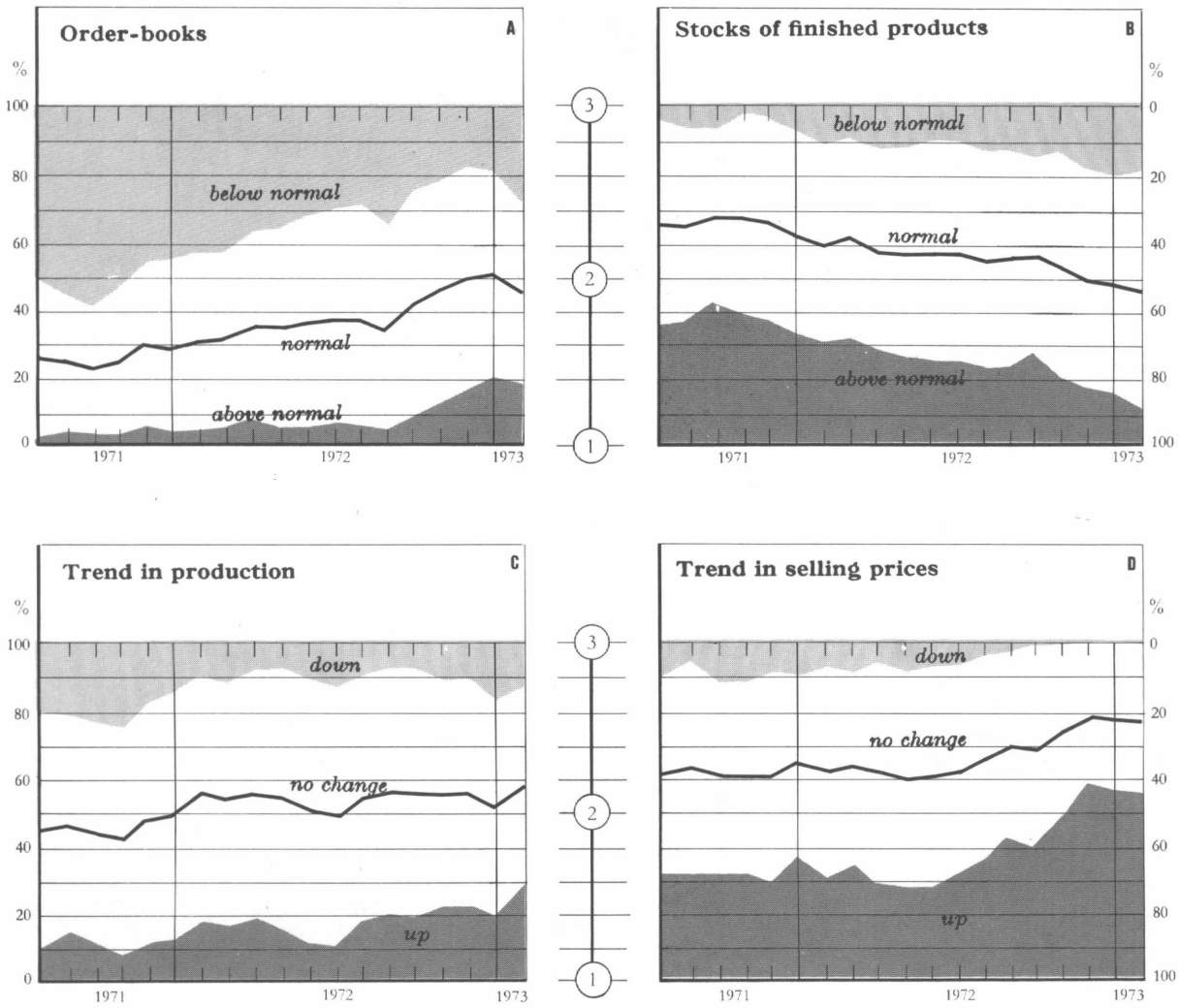
Around the turn of the year there was yet a further acceleration in the upward movement of consumer prices, and even more of wholesale prices. This was probably attributable to a shortage of some domestic agricultural produce due to the weather and a very appreciable increase in the cost of certain imported agricultural products, and also to price increases in anticipation of the introduction of value added tax on 1 January 1973. In January 1973 the consumer price index was 8.1% up on a year earlier.



The overall balance of payments in the autumn deteriorated much more than is usual for the season. First, imports grew faster than exports and this led to a fall in the surpluses on current account and on the external balance of goods and services. Nevertheless, the



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

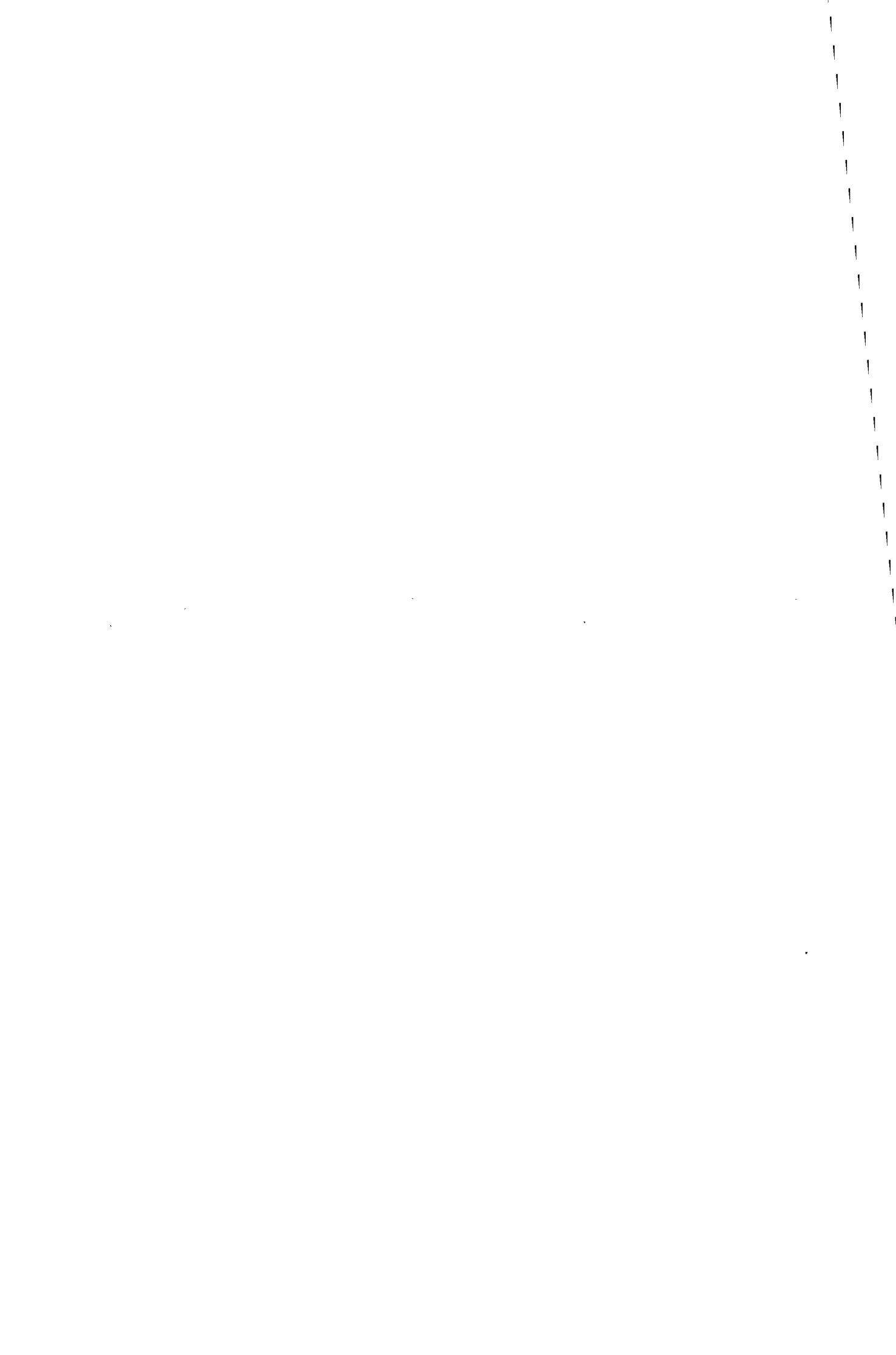


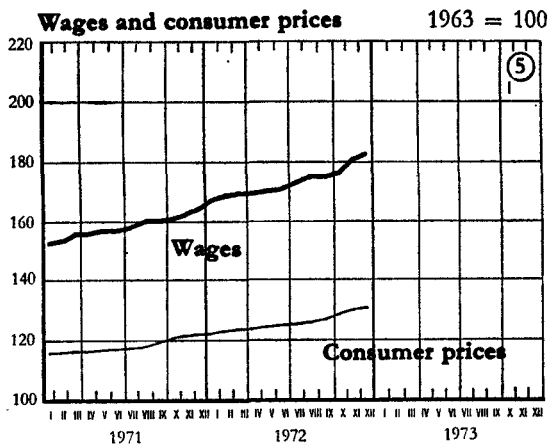
Answers to the questions in the EEC business survey, carried out in Italy by ISCO-Mondo Economico.

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".

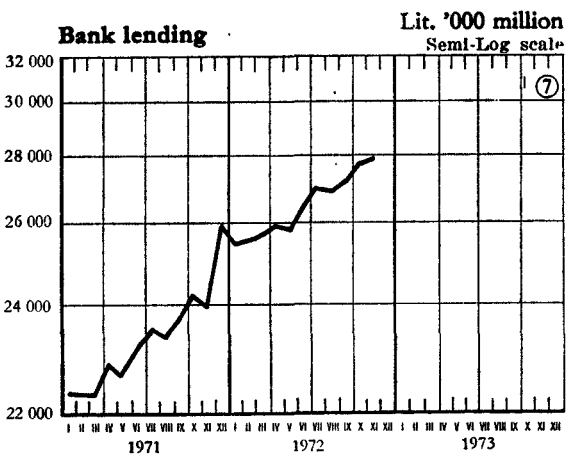




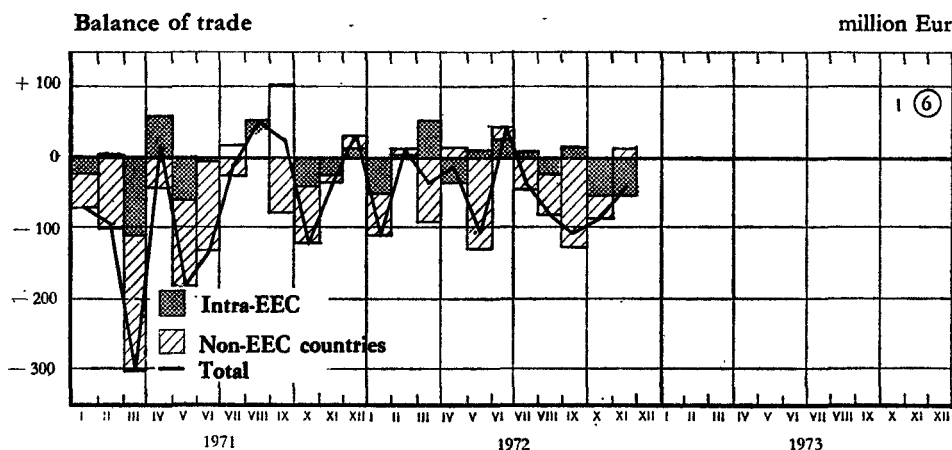
ready in force on financial account (see the list of measures at the end of the chapter).

Bank liquidity contracted. The *liquidity*-raising effects of Treasury transactions were more than offset by the liquidity-reducing effect of payments transactions with abroad and a sharp increase in cash holdings outside the banking system. This caused the banks to refinance at the Banca d'Italia for the first time in a long period.

latter still showed a large surplus of Lit. 584.000 million as compared with a surplus of Lit. 826.000 million in 1971. Secondly, in the fourth quarter and at the beginning of 1973 there were major outflows of capital, largely in the form of increased prepayments for imports and extended terms of payment for exports, and the purchase of foreign securities. Despite money imports by the commercial banks and further loan issues on the international capital market, net official gold and foreign exchange reserves fell again between September and December (by Lit. 221.000 million to Lit. 3.453.000 million). To put a stop to further losses of foreign exchange through net outflows of capital, the monetary authorities in January 1973 decided to split the foreign exchange market and in February allowed the Lira rate for commercial transactions to join the temporary float al-



The growth in the money supply slowed down further, but in November 1972 the year-to-year rise was still 18.5%. A more lively increase in bank lending, in particular to the public authorities, contributed to this expansion. Interest rates did not fall any lower,



*Demand for and supply of goods and services*

	1970 <sup>1</sup>	1971 <sup>1</sup>		1972 <sup>1</sup>		1973 <sup>2</sup>	
	At current prices (in Lit '000 million)	% change on preceding year					
		Volume <sup>4</sup>	Value	Volume <sup>4</sup>	Value	Volume <sup>5</sup>	
Exports <sup>3</sup>	11 795	+ 6.2	+ 12.3	+ 11.2	+ 12.8	+ 11½	
Gross fixed asset formation	12 302	- 3.5	+ 6.8	- 0.2	+ 5.1	+ 5½	
Public current expenditure on goods and services	7 362	+ 5.2	+ 21.6	+ 4.2	+ 12.8	+ 3½	
Private consumers' expenditure	37 280	+ 2.8	+ 8.2	+ 3.8	+ 9.9	+ 5½	
Gross national product	58 212	+ 1.6	+ 8.3	+ 3.2	+ 9.3	+ 5½	
Imports <sup>3</sup>	11 431	+ 1.7	+ 8,6	+ 13.2	+ 15.6	+ 11½	

<sup>1</sup> Relazione generale sulla situazione economica del Paese (1972).

<sup>2</sup> Forecasts.

<sup>3</sup> Goods, services and factor income.

<sup>4</sup> At 1963 prices.

<sup>5</sup> 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 hypotheses set out in the Quarterly Survey. They have been discussed with experts from the member countries, but are established and published on the sole responsibility of the Commission.

and in fact showed a slight upward tendency, if anything.

## 2. Outlook

Overall, the latest events in the field of international exchange rate relationships have helped to strengthen the competitive position of the Italian economy. Future economic trends are nevertheless likely to be determined largely according as the industrial climate and the structure of costs develop. Although collective wage agreements covering several

years have been concluded for most of the economy, in the important sector of the metal-working industry wage negotiations were still in progress when this report was being completed. For the Italian economy much will depend on whether, as assumed here, these negotiations shortly produce results acceptable to the two sides of industry and from the point of view of the economy as a whole. Such an outcome is obviously fundamental not only to the maintenance, in the long as well as the short term, of an adequate competitive position and the attainment of a satisfactory level of employment, but also to the fight against inflation within the Community.

*Exports* may rise even more briskly in 1973 than in the previous year. Indeed, there has been an improvement not only in Italy's competitive position, as noted above, but also in the prospects for world economic activity. Moreover, from April some 15% of Italy's exports will benefit from tariff cuts in the acceding countries and the remaining EFTA States.

The more favourable export outlook and the pick-up of domestic demand, together with the policy of stimulating investment which the Government has been pursuing for quite some time already, suggest a further revival of *investment* activity. The slight improvement apparent in 1972 in corporate profits, caused partly by the abolition, in June 1972, of turnover tax on investment, is a pointer in the same direction. Here, mention should also be made of the tax credits on investment spending undertaken before June, tax credits which will affect profits in 1973. The EEC business survey carried out in the fourth quarter of 1972 suggests that industry plans to step up investment spending by 13% in 1973, and the results of the "Forum" survey recently conducted by "Mondo Economico" also point to an appreciable rise in investment, at least in the first half of 1973. At the same time the various measures to encourage residential construction may cause activity in this sector to gain in strength.

After a temporary lull in early 1973 due to the introduction of value added tax, private consumers' *expenditure* may stimulate economic activity more vigorously again as the year advances. At all events, with disposable incomes likely to rise sharply, the essential condition for such a development will have been satisfied. In addition, the propensity to consume of households, which has been extremely low for several years, may show a tendency to rise as business picks up.

All in all, the growth in the *real gross national product* may be some 5% to 5½% in 1973, while *imports* are likely to maintain their sharp rise. This also means that the stage is set for an improvement in the employment situation. The number of persons in paid *employment* is likely to go up again, and in particular average

working hours per person may increase distinctly.

Although there is sufficient elasticity of production, the upward thrust of *prices*, which received additional impetus around the turn of the year from the introduction of value added tax, will remain strong, particularly since enterprises may try, in the wake of the more lively trend of demand, to pass on in prices part of the pressure of costs, which has increased sharply in recent years, and of the vigorous rise in the prices of imported goods.

The forecasts for exports and imports imply that the external surplus will stay large.

In the circumstances the main problem of *short-term economic policy* will probably be how to put a brake on the upsurge in prices while achieving rapid growth of production and employment and securing Italy's full participation in the monetary mechanisms of the Community. To maintain Italy's competitive position on international markets in a lasting manner and to ensure a production potential which would also suffice in the medium term, growth should be based on as vigorous an expansion of productive investment as possible. Such expansion would probably be all the more enduring in an improved price climate. The more private investment activity strengthens, the more necessary will it become at a later date to achieve a gradual reduction in the public authorities' deficit, which is now large for reasons of short-term economic policy and will be larger still in 1973, in order to ensure in a lasting manner that the borrowing requirement of the economy as a whole is met by methods that cause as little strain as possible.

### **Major economic policy measures**

*October 1972:*

— In the first half of the month the Government adopted a number of regulations laying down the details of the reform of indirect taxation scheduled to enter into force on 1 January 1973.

— Towards the middle of the month the Government decided to increase the fund for the financing

of regional development programmes from Lit. 20.000 million in 1972 to Lit. 114.000 million in 1973.

November 1972 :

— On 15 November the Government's export credit guarantee fund was increased from Lit. 500.000 million to Lit. 750.000 million.

— Under a Government bill submitted at about the same time the export credit guarantee provided by the Government will in future also cover the exchange rate risk; short-term loans will not be included in this arrangement.

— Towards the end of the month agreement was reached on the grant of a \$60 million foreign exchange credit by a consortium of Japanese banks to the state-controlled ICIPU, the public corporations' credit institution. An interest rate of 7.25% will be charged on a tranche of \$15 million, while a variable interest rate has been agreed for the balance. This rate is to be 0.625 or 0.75 percentage points higher than the current rate of interest on the Euromarket. The period to maturity is seven years.

— The Ministry of Labour announced the establishment of an official central office for vocational training and further training. The existing labour exchanges are to be reorganized to help increase the mobility of labour.

— To speed up the building of schools, the substantial amounts of unspent appropriations ("residui passivi") earmarked for this purpose were transferred from the budget to the state-controlled IRI.

December 1973 :

— As from the beginning of the month exporters' cost risks were taken over by the Export Credit Committee. The maximum covered is 10% of the cost that served as a basis for the conclusion of the supply contract. Up to 5% of the risk must be borne by the exporter himself.

— About the same time the Government decided to extend until the end of 1972 the tax concessions for certain petroleum products granted for reasons of price policy.

— Early in the month the commercial banks were granted a new facility under which they may offer

to sell to the foreign exchange office, on swap terms, dollar amounts benefiting from three months' forward cover. In July already the commercial banks had been given authorization to make net imports of money.

— With effect from 5 December the Banca d'Italia raised its interest rates for certain advances on securities from 3½% to 5½%. Affecting only a small part of the refinancing loans granted to the commercial banks (viz. advances on securities for fixed periods of up to 22 days), this measure did not imply a change of direction of monetary policy, which remained expansionary; the intention was rather to prevent certain forms of capital flight.

— Before Christmas a law was adopted under which the VAT rates planned to be applied to restaurants and canteens and to most foodstuffs sold by retailers were lowered; for restaurants and canteens the cut was from 12% to 6%, and for foodstuffs from 6% to 3%. The rates envisaged for certain basic foodstuffs had already been reduced to 1% by a regulation adopted at the end of October.

— About the same time the CIP (Inter-Ministerial Committee for Prices) took a number of important decisions of price policy: the prices of bread, milk, fertilizer and most pharmaceutical products to remain unchanged; domestic electricity rates to be lowered; prices for a certain number of drugs to be cut; in the first quarter of 1973 30.000 tons of butter to be sold at reduced prices from stocks held by the Community's storage agencies.

— Towards the end of the month the Government decided, for reasons of price policy, to reduce the burden of direct taxation from 1 January 1973 by removing the surcharge on direct tax rates introduced in 1955 for the Province of Calabria. The resultant short-fall in tax revenue in 1973 was estimated at Lit. 140.000 million.

— Towards the end of the month the CIPE (Inter-Ministerial Committee for Economic Programming) decided to tighten official price controls.

— Towards the end of the month the Government submitted a bill designed to broaden the guarantee basis for the grant of medium-term loans to small and medium-sized industrial enterprises. This is to be achieved through the establishment of a fund administered by representatives of the Government and of the banks.

— Shortly before the end of the year the authorities ordered a price freeze for petroleum products.

*This freeze is to apply until the entry into force of a law, prepared by the Government, setting up the machinery to ensure that the prices of these products remain unchanged even after the introduction of the VAT system on 1 January 1973. Press reports put the resultant shortfall in Government revenue in 1973 at Lit. 239.000 million. The price of sugar was also frozen.*

*— About the same time the Government submitted a bill providing in particular for a cut in indirect taxes on olive oil and margarine.*

#### *January 1973 :*

*With effect from 22 January the authorities split the foreign exchange market (allowing the rate of exchange of the lira to find its own level in capital transactions with abroad, and maintaining the official parity and margins of exchange rate fluctuation in respect of current transactions) and reduced the maximum periods allowed for payments in respect of goods and services (for advance payments on imports from 90 to 30 days and for the deferred payment of exports from 360 to 90 days). These measures are designed to prevent foreign exchange losses due to capital exports.*

#### *February 1973 :*

*— Since the beginning of the month Italian banks have been required, in their foreign note and coin business connected with foreign travel, to sell and buy exclusively at the rate for the financial lira, and foreign exchange purchases by Italian residents have been limited to the equivalent of Lit. 500.000 (previously Lit. 1 million) per person. The rate applied to purchases of travellers cheques denominated in foreign currency, however, is official parity.*

*— On the 13th of the month the lira was allowed to find its own level on the foreign exchange markets also in respect of current transactions with abroad.*

*— About the same time a consortium of Japanese banks provided the State-owned I.M.I. Bank with a loan amounting to \$200 million on a 3 to 5 year term and at a rate  $\frac{5}{8}$  of a point above a certain London money market reference rate.*

*— At the beginning of the month a law was published under the terms of which a fund of Lit. 330.000 million from the National Budget is put, for the period 1972/78 at the disposal of EGAM, an independent public corporation which administers certain iron and steel mills. The State will cover this expenditure by borrowing.*

Italy

TABLE 1 : Key indicators

	1967	1968	1969	1970	1971	1971
	% change by volume on preceding year					Indices 1963=100
Gross national product	+ 6.8	+ 6.4	+ 5.7	+ 4.9	+ 1.4	144.3
Industrial production	+ 8.7	+ 9.4	+ 6.9	+ 6.2	- 1.3	150.3
Total imports	+ 12.7	+ 7.3	+ 21.6	+ 17.5	+ 0.5	170.7
Private consumers' expenditure	+ 7.1	+ 4.9	+ 6.1	+ 7.8	+ 2.6	188.8
Public current expenditure on goods and services	+ 4.3	+ 4.1	+ 3.1	+ 1.9	+ 4.2	132.2
Gross fixed asset formation	+ 11.8	+ 9.7	+ 8.0	+ 3.4	- 4.9	115.9
Total exports	+ 6.7	+ 15.3	+ 13.6	+ 6.6	+ 6.5	241.0
Gross national product per head of population	+ 6.0	+ 5.8	+ 5.1	+ 4.2	+ 0.7	133.9
Gross national product per person in employment	+ 5.7	+ 6.7	+ 7.0	+ 4.7	+ 1.7	148.9
	% change by value on preceding year					
Gross income per employee	+ 8.5	+ 7.4	+ 7.6	+ 15.1	+ 12.9	212.6

TABLE 2 : Indicators for internal and external equilibrium

	1967	1968	1969	1970	1971
Balance exports less imports					
in million Eur	+ 1 235	+ 2 288	+ 1 928	+ 582	+ 1 597
as percentage of GNP	+ 1.8	+ 3.0	+ 2.3	+ 0.6	+ 1.6
Unemployment rate	3.5	3.5	3.4	3.1	3.1
consumer prices (% change on preceding year)	+ 2.9	+ 1.5	+ 2.9	+ 5.3	+ 5.2





## Italy

### 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).

#### *Graph 1*

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: 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.

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#### *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 1973 the economic trend in the Netherlands still reflected very strong inflationary pressures, coupled with an acceleration of economic growth and an improvement in the situation on the labour market.*

*Should the present course of economic policy be maintained and demand continue to expand, the conditions for domestic equilibrium will probably remain a matter for concern unless the two sides of industry succeed in moderating their demands.*

### 1. Recent developments

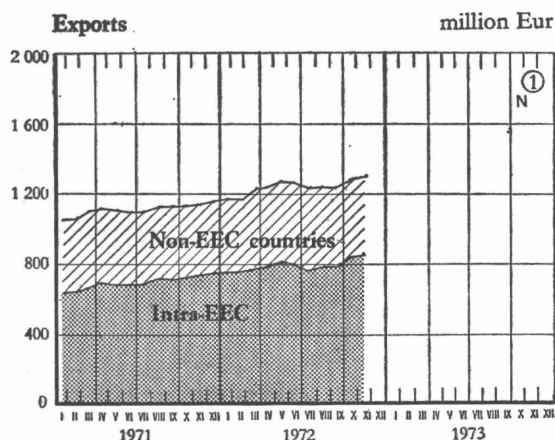
Despite the conclusion, in December, of an agreement on wage restraint, and despite an official drive to stabilize prices, the firmer trend of economic activity registered in the past few months has been decidedly uneven.

The growth of exports, which had slowed down distinctly in the third quarter, has since then gradually strengthened again, thanks mainly to a rise in orders from the member countries of the enlarged Community. According to the foreign trade statistics, which admittedly reflect the underlying trend only incompletely owing to delays in reporting, the value

of visible exports<sup>1</sup> in the fourth quarter was 10.1% up on a year earlier.

Domestic demand too seems to have recovered from the weak trend that had been apparent for a time after the second quarter. Various indicators show that the propensity of enterprises to invest picked up somewhat towards the end of 1972. Residential construction continued to benefit from official efforts to promote employment, reflected in the policy on the issue of building permits. Public investment appears to have been somewhat more buoyant recently, thanks mainly to the implementation of two work-procurement programmes.

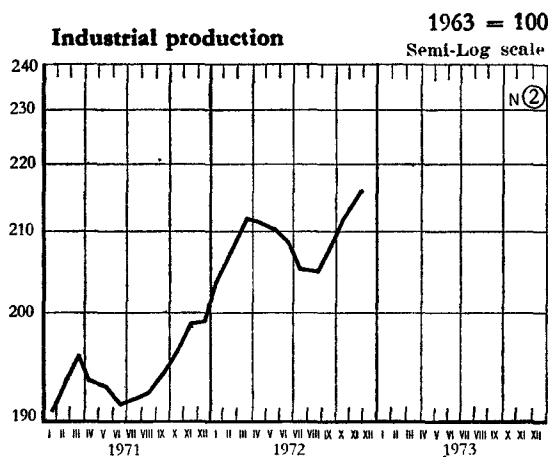
The upward tendency of private consumers' expenditure has probably shown little change since the second quarter. Towards the end of the year there was evidence of anticipatory purchasing, especially of passenger cars, to beat the price increases expected to take effect on 1 January 1973. In the final quarter of 1972 the increase in private consumers' expenditure over a year earlier was some 10.5% in terms of value but only some 2% in terms of volume. The rise in wage incomes has probably not yet shown any significant tendency to slow



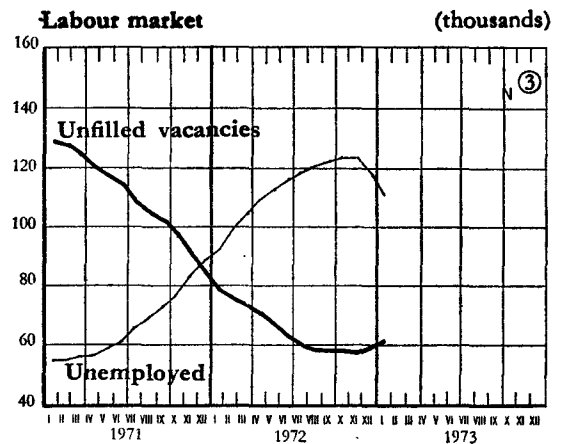
<sup>1</sup> Excluding exports to the Belgo-Luxembourg Economic Union.

down. The dispute over how the wage increases agreed upon under the "Central Akkoord 1973" should be distributed among the various income groups has delayed the conclusion of major new collective wage agreements. This is reflected in the index of agreed wages, which at the end of January was only 8.4% up on a year earlier. Employment (total number of hours worked) rose again. Furthermore, with effect from 1 January 1973 the statutory minimum wage was raised by 9.2% and an increase of some 10% made in general old-age pensions and survivors' pensions under the statutory pension insurance scheme.

Helped by the gradual recovery in demand, production expanded at a rapid pace. In November-December the seasonally adjusted CBS index of industrial production was some 2% up on April-May, when it had reached an all-time high. Much of this increase, however, was due to the sharp expansion in the production of natural gas. In manufacturing industry the upswing was more moderate, and the advance on the level of April-May was small. The building industry too has registered a certain pick-up recently, to judge by the indicators available so far.

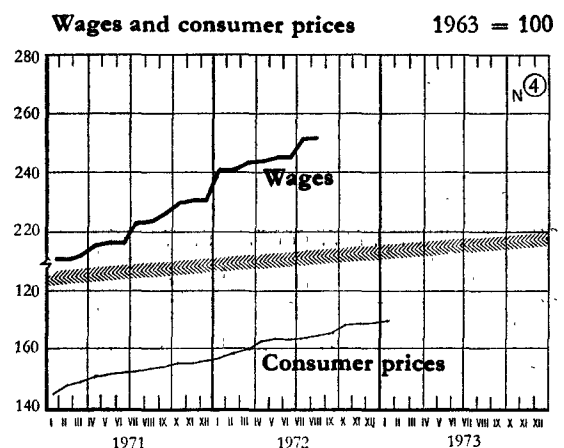


The situation on the labour market has improved appreciably since the middle of 1972. Seasonally adjusted figures from the Ministry of Social Affairs show that between the end of September and the end of January the number of unemployed fell by 21,000 to 108,000, or 2.3% of the civilian labour force. The fall was particularly sharp in the building



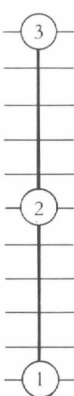
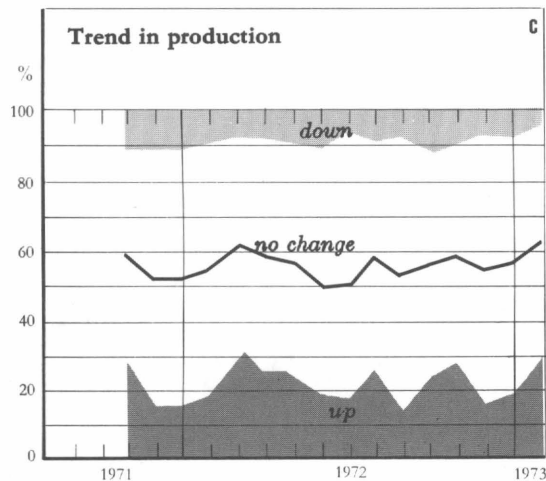
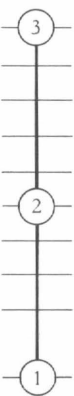
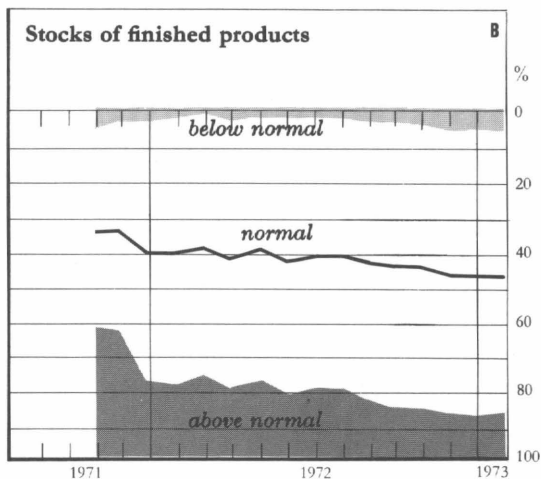
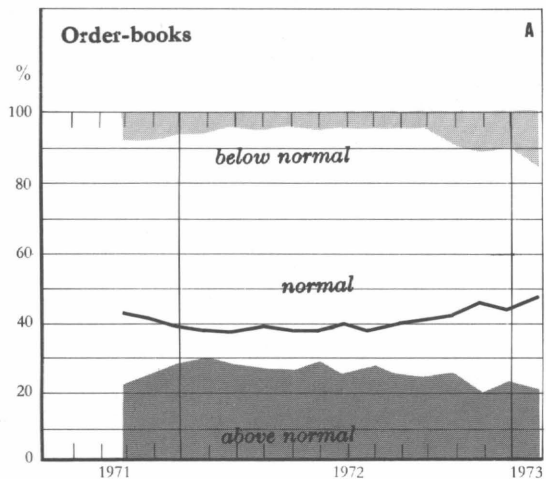
industry, which benefited not only from the unusually good weather but also from the measures to combat unemployment. Yet, at the end of January, there had been little increase in the number of unfilled vacancies.

The level of domestic prices continued to rise rapidly, pushed up by the heavy pressure of costs, higher indirect taxes and the increase in the prices of agricultural products. The new rules in force since 22 November have not yet led to any radical slackening in the upward movement of prices. Between December 1972 and February 1973 the consumer price index climbed by some 1.5%, compared with 1.7% a year earlier, bringing the rise on February 1972 to 7.2%.



Imports have been expanding rapidly since the middle of 1972. In October-December

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.

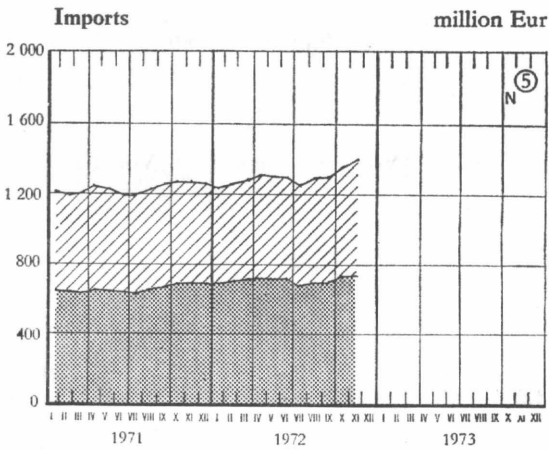
GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

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".

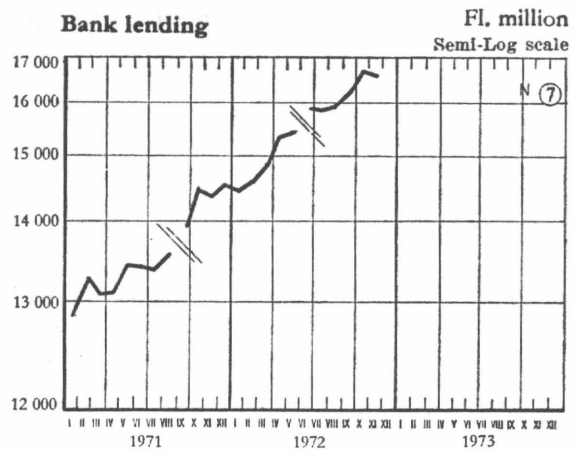


the value of visible imports<sup>1</sup> as reflected in the foreign trade statistics was 8.7% higher than the previous year.



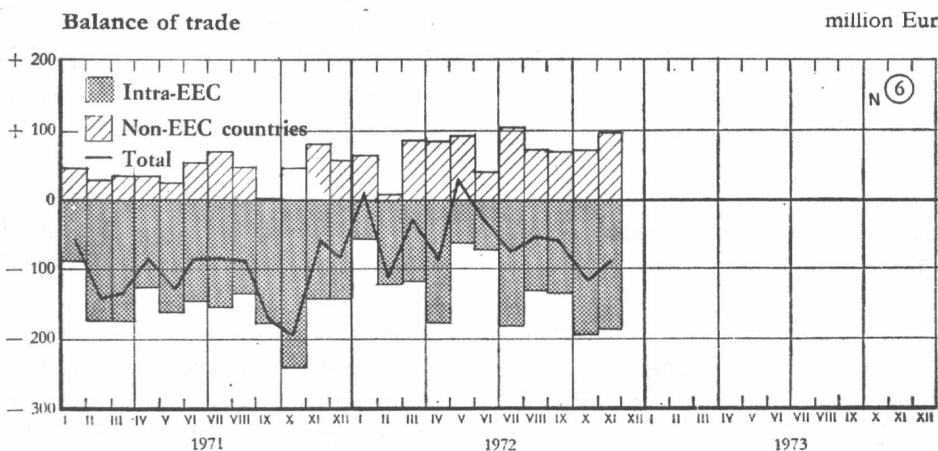
The balance of trade showed little if any change in the closing months of 1972, despite the marked growth of imports. On a transactions basis the current account in the fourth quarter of 1972 therefore closed with much the same surplus as in the previous quarter. The foreign exchange position of the commercial banks improved sharply, while official net gold and foreign exchange reserves fell by Fl. 350 million in the fourth quarter. In February, the revival of international speculation made itself felt also in the Netherlands,

<sup>1</sup> Excluding imports from the Belgo-Luxembourg Economic Union.



forcing the Nederlandsche Bank to sell considerable amounts of foreign exchange.

The liquidity ratio (ratio of domestic liquidity to national income) showed a further fall in the final quarter of 1972. Transactions with abroad still had an expansionary effect but the handling of budgetary expenditure in the autumn siphoned off substantial amounts of liquidity. Moreover, the growth of bank lending to the private sector was no longer quite as rapid as in the second quarter of 1972. All in all, in the closing months of 1972 the money supply was expanding at an annual rate of some 12%. This trend was accompanied by a fresh rise in interest rates, which until the revival of international speculation was particularly pronounced for short-term money. With effect from 6 November the discount rate was raised from 3% to 4%, the tendency prevailing since 1971 thus being reversed.



*Demand for and supply of goods and services*

	1970 <sup>1</sup>	1971 <sup>2</sup>		1972 <sup>3</sup>		1973 <sup>4</sup>	
	At current prices (in Fl. '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	
Exports <sup>5</sup>	59.11	+ 11.2	+ 13.2	+ 9	+ 11	+ 8½	
Gross fixed asset formation	28.95	+ 2.0	+ 12.4	- 4½	+ 3½	+ 5	
Public current expenditure on goods and services	18.87	+ 3.2	+ 17.7	+ 2	+ 13½	+ 2	
Private consumers' expenditure	66.67	+ 3.1	+ 11.2	+ 3½	+ 12	+ 4	
Gross national product	115.84	+ 4.2	+ 12.4	+ 4	+ 14	+ 4½	
Imports <sup>5</sup>	60.36	+ 6.7	+ 11.4	+ 5	+ 4½	+ 9	

<sup>1</sup> Centraal Bureau voor de Statistiek; CBS.

<sup>2</sup> Centraal Planbureau; CPB.

<sup>3</sup> Estimates.

<sup>4</sup> Forecasts.

<sup>5</sup> 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 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.

## 2. Outlook

The economic trend until the end of 1973 will probably reflect a continued expansion of activity. There is a very great danger, however, that inflationary tendencies will not slacken sufficiently.

Exports are likely to expand appreciably until the end of the year. There should, at any rate, be a marked acceleration of demand in the main purchasing countries. In addition, exports of agricultural products, especially in the second half of the year, are likely to show a more favourable trend than in 1972 and

at the beginning of 1973, assuming a normal harvest. The expansion of exports of natural gas, on the other hand, may well slow down as domestic consumption increases. The devaluation of the dollar is also having an inhibiting effect on exports.

Domestic demand may grow somewhat more rapidly, especially because stockbuilding and gross fixed asset formation will provide stronger stimuli. The improvement in enterprises' propensity to invest, which had already been registered at the end of 1972, should make further progress, a contributing factor being the rise in profits during 1972. In addition,



entrepreneurs will take a less cautious attitude over investment in plant extension as the margin of spare capacity narrows. The implementation of projects which had been put off in view of the impending abolition of VAT on capital expenditure will work in the same direction. On the other hand, it is not possible yet to say with precision to what extent corporate investment will be curbed by the effects on the future trend of profits of the Government's price policy and by the measures to cut back investment in the Holland conurbation, but such dampening effects will probably not work through to investment activity until later in the year at the earliest. Investment by the public authorities is likely to grow only moderately, while investment in residential construction may even decline slightly.

The expansion of public and private expenditure on consumption will hardly slacken until the end of the year. Personal incomes will go on climbing sharply because total wages will rise vigorously and the trend of transfer incomes will remain comparatively buoyant. But with strong inflationary pressures persisting and the burden of taxation and of social security contributions becoming heavier, real disposable incomes and hence private consumers' expenditure at constant prices will rise at a weaker rate.

The expansion of production will probably be moderate. Real gross national product in 1973 may nevertheless still grow by 4% to 4.5%.

The situation on the labour market is likely to improve further, helped by the sustained recovery of economic activity and a fresh rise in the number of persons employed in the public service. On the other hand, there is reason to believe that there will be redundancies in marginal enterprises and that the tendency for the factor "labour" to be replaced by "capital" will continue. In the circumstances, unemployment may fall more slowly than in the upswing phase of earlier business cycles. The expansion of the volume of imports is unlikely to slow down, owing mainly to the revival in investment demand. The current account will probably deteriorate appreciably in the second half of the year, even

though the latest exchange rate realignment will have a dampening effect on the rise in import prices.

The level of domestic prices will still be tending sharply upwards in the next few months, particularly since in addition to the rising cost of imports the upward movement of prices will be boosted by the continued vigorous increase in wage costs per unit of output. There is reason to fear, therefore, that the rise in consumer prices will maintain the very rapid pace registered in 1972.

In consequence, the overriding task in 1973 for the authorities responsible for short-term economic policy still is to arrest the inflationary spiral and secure an improvement in the price climate.

But there are very great difficulties to overcome because there appears to be an increasing tendency for inflationary behaviour in the Netherlands to become ingrained. In the circumstances, it is essential that in line with the Community's anti-inflation measures decided upon by the Council of the European Communities on 30 and 31 October, full use be made of the economic policy instruments aimed particularly at inducing the two sides of industry to moderate their claims and preventing the economy from overheating as the year advances. It also appears essential to carry out an urgent revision of the priorities of medium-term policy, particularly in the field of public finance.

### **Major economic policy measures**

*October 1972 :*

— *Restrictions placed on the growth of consumer credits in the framework of short-term economic policy are taken off.*

— *A proposed amendment to the law concerning the more sound financing of capital expenditure by public authorities was made in the context of monetary policy.*

— *A draft law allowing selective interventions in investment is proposed. It makes it possible for*

the Government to tax or to reduce permits for investment in business premises and production installations situated in the southern provinces of the Netherlands and Utrecht, as well as in most of the northern part of the province of North Holland.

— A draft law is proposed, on the freezing of the level of family allowances for the first and second child, the saving from which should be directed into a Pension Fund. The propositions relating to the freezing of family allowances for the second child were meanwhile withdrawn.

— The Nederlandsche Bank and commercial banks agree to raise the ceiling for the financing of exports from 400 to 600 million florins.

— A regulation is published concerning the obligatory declaration of prices of goods and services in 1972. Increases in prices of goods\* and services from 27 October 1972 have to be declared within a week where they do not exceed the rise in costs unless turnover is below a certain fixed amount. On the other hand, price rises exceeding the cost increases arising since 27 October cannot generally be applied until one month after the declaration. This regulation becomes effective in November 1972.

November :

— The discount rate of the Nederlandsche Bank is increased by 1% to 4% from 6 November 1972.

— The Ministers of Finance of the Benelux countries decide to abolish as from 1 January 1974 all frontier checks within the three countries.

— A regulation forbidding all price of goods and services in 1972 above certain norms laid down in the ruling comes into force on 22 November 1972, with retrograde effect from 15 August 1972.

December :

— The system of central financing of the regional and local authorities' capital expenditure will be continued because the supply of funds on the capital market fell after the third quarter. The amount which all provinces and local authorities together are to receive for the execution of new public works projects was raised from Fl. 1,860 million to Fl. 2,160 million for a full year. In addition, the amount up to which the local authorities may issue

loans with guaranteed payment of interest and principal was raised from Fl. 365 million to Fl. 400 million for a full year; no such ceiling has been fixed yet for the provinces.

— The central agreement for 1973 was signed by the employers' and workers' organizations co-operating in the Joint Industrial Labour Council. This agreement is designed in particular to curb the inflationary rise in wages and prices. It prescribes, among other things, general rules of conduct concerning the fixing of wages and prices. The price policy agreed upon between the two sides of industry is not to enter into force until the abrogation of the decree on prices.

January 1973 :

— The statutory minimum wage was raised by 9.2% with effect from 1 January 1973; 3% of this was a structural increase. This brought the minimum wage to Fl. 939.90 a month or Fl. 216.90 a week.

— General benefits under the old-age pension scheme and the survivors' pension scheme were raised by more than 10%. General old-age pensions thus went up to Fl. 697.50 a month for married couples and to Fl. 492.50 for single persons.

— The following tax changes entered into force on 1 January 1973: the counter-cyclical surcharge (Wiebeltaks) levied in 1971 and 1972 on wage and income tax, corporation tax, excise duty on petrol and the special excise duty on motor cars was abolished; the automatic adjustment of the rate of wage and income tax to take account of inflation remains limited to 80%. The structure of wage and income tax was changed: a single income tax scale was introduced under which the tax-free allowance is determined exclusively by the composition of the family; family allowances will no longer be taken into account in calculating the taxable amount; tax rates range from 25% for the first slice of income (net of the tax-free allowance) to 71% for the highest income bracket. Provision was made for the building up of tax-free old-age reserves. The tax-free allowance for premiums paid into life annuity schemes was raised from Fl. 5,000 to Fl. 7,500 a year. The rate of wealth tax was put up from 0.6% to 0.7%. Personal allowances were raised. Increases were also made in the rate of corporation tax (from 46% to 48%), the standard rate of VAT (from 14% to 16%), and the excise duty on the purchase of passenger cars (from

\* Excluding real estate and ships.

15% to 16%). The excise duty system was recast in compliance with the agreements concluded between the Benelux countries. The surcharge on the motor vehicle tax was raised, and the maximum amount of the tax was put up from Fl. 630 to Fl. 736.

*March:*

— The Nederlandsche Bank reminded banks of the rules on the net foreign position, stressing that they are compulsory and making clear that banks

*infringing them are required to buy dollars from it at the rate of Fl. 2.8545, the dollars to be frozen with it until the infringement has ended.*

— In an effort to contain the expansionary effects which the wave of speculation is having on domestic liquidity, the Nederlandsche Bank raised the minimum reserve ratio from 0 to 3% for the period from 22 to 28 February, from 3% to 4% for the period from 1 to 7 March, and from 4% to 6% for the period from 8 to 14 March. This should enable more than 1,500 million guilders to be taken out of the banking system.

**Netherlands**

**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

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
<b>Visible exports</b>								
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
<b>Exports of food, beverages and tobacco</b>								
Total	+ 0.3	+ 9.9	+ 15.9	+ 15.4	+ 18.5	216	2 788	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
<b>Exports of raw materials, fuel and power</b>								
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	+ 34.8	265	1 353	11.5
To non-EEC countries	- 0.1	+ 9.5	+ 1.7	+ 11.7	+ 27.2	192	811	6.9
<b>Exports of semi-finished and finished industrial goods</b>								
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
<b>Visible imports</b>								
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
<b>Imports of food, beverages and tobacco</b>								
Total	+ 3.9	+ 11.3	+ 9.7	+ 19.0	+ 18.5	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	+ 18.8	161	1 079	8.1
<b>Imports of raw materials, fuel and power</b>								
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
<b>Imports of semi-finished and finished industrial goods</b>								
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	193.6	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	211.2	209.4	213.6	207.5	203.5	204.5	207.1	211.4	215.7	220.0	
	1973												
Unemployed (1 000)	1971	57.5	55.0	57.1	57.9	62.0	66.0	67.0	71.1	76.9	82.3	90.1	93.5
	1972	97.7	106.7	108.3	113.2	115.9	120.0	119.8	122.4	124.0	123.4	121.1	109.3
	1973	102.8											
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	12.7	12.6	14.8	13.5	15.1	13.5	14.2	10.5	14.7	13.5
	1973												
Department store turnover (1963 = 100)	1971	218	233	223	234	233	256	237	269	240	255	254	261
	1972	242	262	271	242	263	285	252	275	282	267	291	
	1973												
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	169.7											
Visible imports (million Eur)	1971	1 103	1 232	1 284	1 201	1 171	1 215	1 193	1 242	1 313	1 222	1 238	1 272
	1972	1 163	1 313	1 328	1 276	1 267	1 284	1 174	1 391	1 311	1 392	1 445	1 373
	1973												
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	1 302	1 190	1 304	1 249	1 120	1 352	1 232	1 249	1 344	1 289
	1973												
Balance of trade (million Eur)	1971	- 55	- 144	- 136	- 90	- 126	- 83	- 80	- 84	- 174	- 93	- 56	- 81
	1972	+ 12	- 90	- 26	- 85	+ 37	- 35	- 54	- 39	- 79	- 144	- 101	- 84
	1973												
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											
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	8 816	9 390	9 538	9 625	9 639	9 912	10 234	10 242	9 986	10 186	
	1973												

## Netherlands

### 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).

#### *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.

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#### *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

*At the end of 1972 and in early 1973 economic growth in Belgium was vigorous. The strongest stimuli continued to come from export demand, but there was also a further strengthening of domestic demand. The tendency on the labour market was reversed in the autumn, and there was a slight fall in the number of unemployed. The upward movement of prices and costs gathered additional speed. The balance of payments continued to show a large surplus on current account.*

*The outlook for export demand and a slight improvement in the investment climate suggest that production and employment will expand appreciably until the end of the year while inflationary tendencies will lose nothing of their alarming proportions.*

#### 1. Recent developments

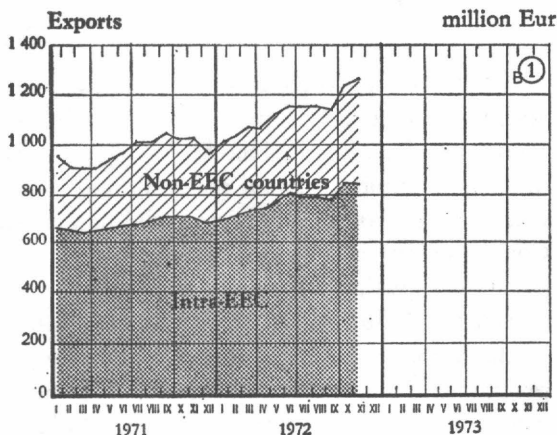
The economic upswing under way since the end of 1971 continued into early 1973, resulting in an increased utilization of the factors of production.

Exports of goods and services maintained their distinctly expansionary tendency, visible in almost all categories of goods. There was a relatively sharp increase in sales to the countries of the enlarged Community and to the

United States. Foreign trade statistics show that in October-December the value of visible exports was 25.3% up on the corresponding period of the previous year, when it had admittedly been comparatively low owing to the strike in the steel industry.

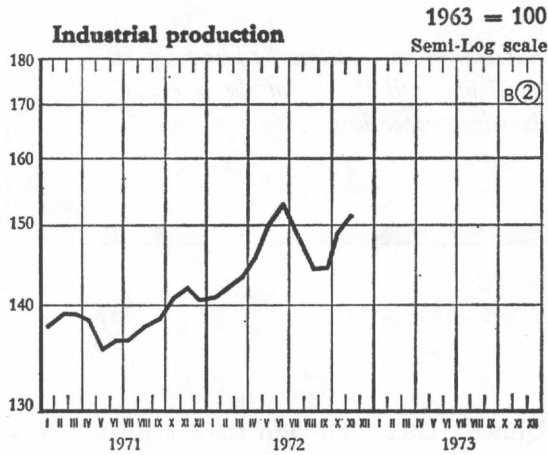
The expansion of domestic demand has tended to accelerate in recent months. The various components of investment demand showed conflicting tendencies. Enterprises were very cautious over investing in extension projects, while expenditure on residential construction probably rose sharply, helped in particular by the various incentives provided by the Government since 1971. Capital expenditure by the Government continued at a very high level.

The growth of consumers' expenditure continued to boost economic activity. Public current expenditure, for instance, rose sharply towards the end of the year, owing to the wage increases awarded under the "social programme". The growth of private consumers' expenditure likewise accelerated a little, helped mainly by a sharp advance in disposable incomes. At the end of 1972, gross hourly

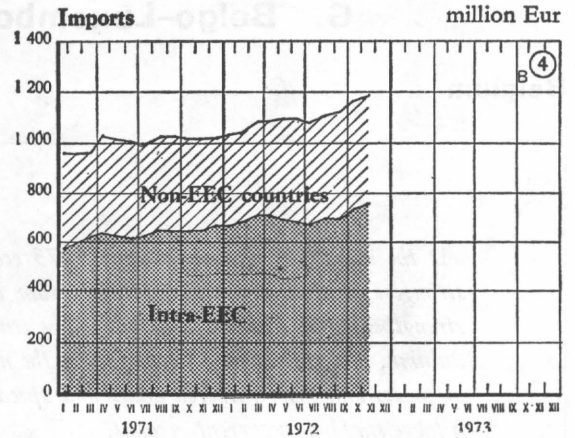
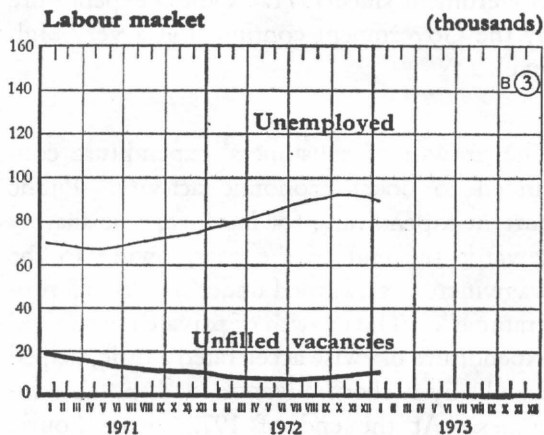


earnings in industry for instance were some 14% higher than a year earlier.

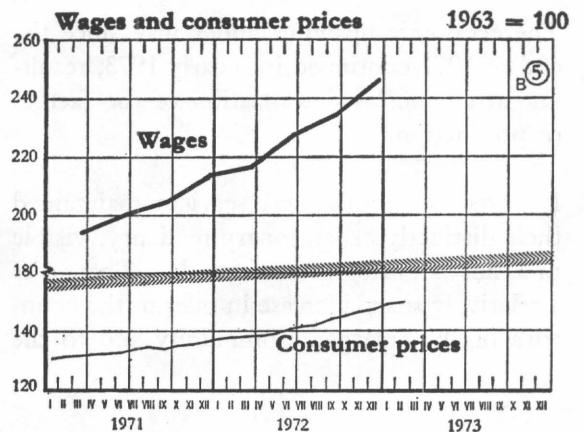
The trend of production, too, reflected the increasing vigour of demand. The expansion of industrial production gathered additional momentum, especially in primary production industries. Activity in building and construction was helped by the mild winter weather.



The easy conditions on the labour market persisted right into the autumn, but since then the picture has somewhat changed, partly because of the good weather. The number of unemployed has fallen slightly since November. At the beginning of 1973 the unemployment rate stood at 2.2% of the labour force while the number of unfilled vacancies rose again.



The trend of imports of goods and services has become stronger in recent months, although industry has taken a very cautious line over stocks of raw materials and semi-manufactures. In the fourth quarter of 1972 the value of imports, as reflected in the foreign trade statistics, was about 14% up on a year earlier.

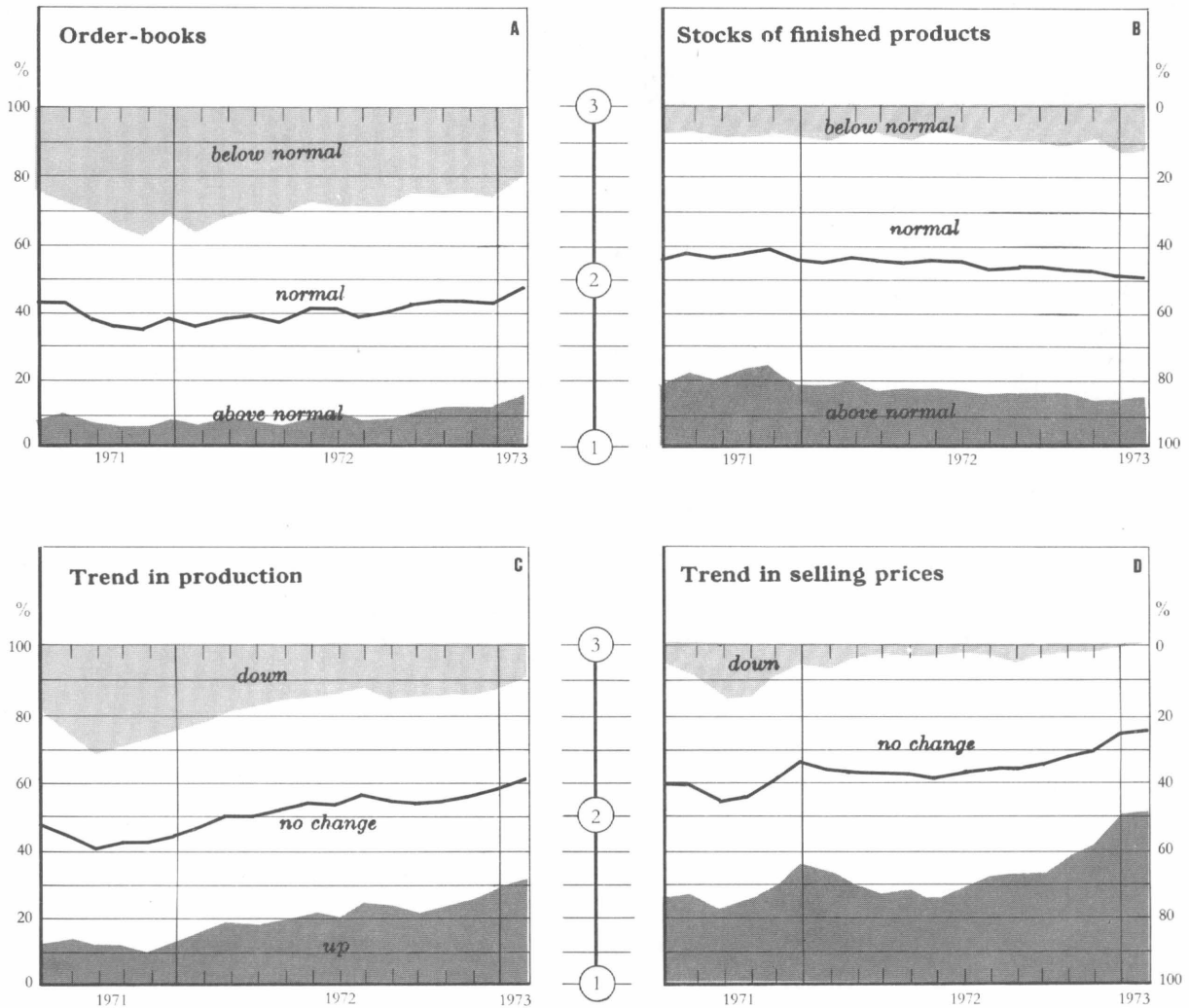


The upward movement of prices gathered additional speed. At producer level this is accounted for by the increase in the prices of a large number of raw materials and semi-manufactures, and the persistent rise in wages. Consumer prices climbed much faster than previously, pushed up mainly by increases in a number of indirect taxes and excise duties, and by the higher prices to be paid for agricultural products. In February 1973, the consumer price index was 6.9% up on February 1972.



Belgium

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



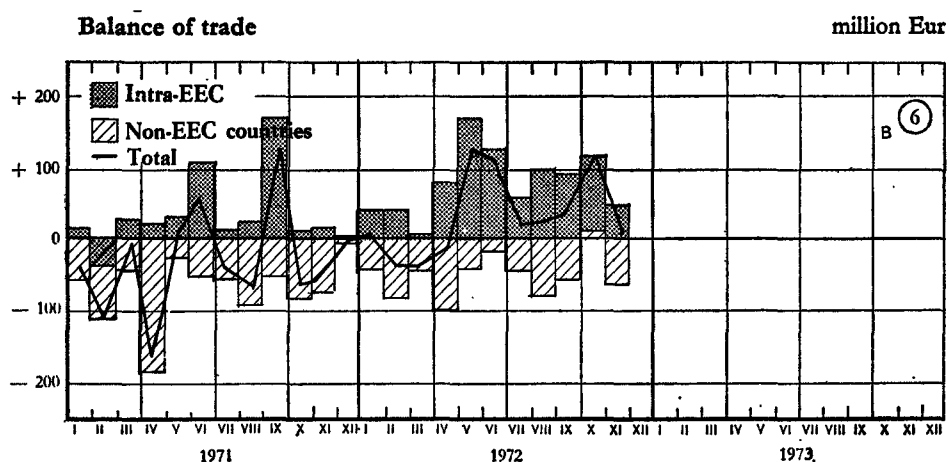
Answers to the questions in the EEC business survey, carried out in Belgium by the National Bank.

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".





*Demand for and supply of goods and services*

	1970 <sup>1</sup>	1971 <sup>1</sup>		1972 <sup>2</sup>		1973 <sup>3</sup>
	At current prices (in Bfrs '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports <sup>4</sup>	616.0	+ 8.1	+ 10.9	+ 11	+ 12½	+ 12
Gross fixed asset formation	289.7	- 3.1	+ 6.0	+ 2	+ 9½	+ 2½
Public current expenditure on goods and services	174.5	+ 4.8	+ 14.0	+ 7½	+ 16½	+ 4
Private consumers' expenditure	771.1	+ 4.6	+ 10.5	+ 4½	+ 10½	+ 4½
Gross national product	1,293.6	+ 3.7	+ 9.7	+ 4½	+ 11½	+ 5
Imports <sup>4</sup>	476.0	+ 6.2	+ 10.1	+ 11½	+ 11½	+ 11½

<sup>1</sup> Institut national de Statistique (INS).

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

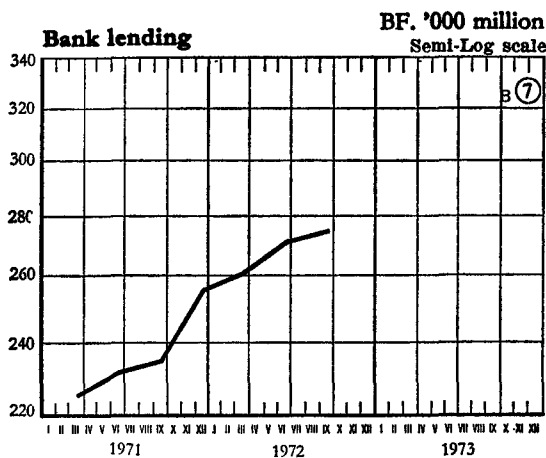
<sup>4</sup> Goods, services and factor income.

*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 are established and published on the sole responsibility of the Commission.

The balance of trade of the Belgo-Luxembourg Economic Union has improved further since last summer, so that the current account has again shown a large surplus. Despite large-scale outflows of long-term capital, the overall balance of payments in October-December closed with a surplus of Bfrs. 6,700 million. In February-March the revival of international currency speculation touched off major inflows of foreign exchange.



The balance of payments surpluses and the persistent growth in short-term bank lending to the private sector entailed a rapid expansion in domestic liquidity. At the end of 1972, the money supply was growing at a rate of 14½%. In November and March the Banque Nationale tightened the rules, adopted in July 1972, on the freezing of bank liquidity resulting from inflows of foreign exchange. The level of interest tended upwards. In the fourth quarter the Banque Nationale raised the discount rate in two stages from 4% to 5%.

## 2. Outlook

The upswing in the economy is likely to continue in the months ahead, while there is no hope, for the time being, of any significant slowdown in the upward movement of costs and prices.

The outlook for export demand is clearly expansionary. Sales opportunities in the ma-

ior partner countries have improved distinctly and Belgian industry, whose competitive position is still favourable, can be expected at least to maintain its share in export markets. Moreover, the enlargement of the Community and the attendant tariff cuts on 1 April 1973 are likely to give an additional fillip to export sales.

Gross fixed asset formation will probably expand more vigorously. This applies at least to corporate investment, which can be expected to pick up somewhat, partly because demand is exerting increasing pressure on production capacities, and partly because the economic outlook has improved. Investment demand will also be boosted by the new tax concessions (reduction of the tax levied on investment) and the expected improvement in companies' possibilities for self-financing. The growth of public investment, on the other hand, may slow down a little, as a result of the latest curbs, and that of residential construction too may slacken later in the year.

Private consumers' expenditure will continue to climb vigorously; personal incomes, at any rate, will provide the necessary scope. The numbers employed will go up, no doubt offsetting the slight slowdown which may occur in wage increases. Transfer incomes will advance more sharply than in 1972, even if no account is taken of cost-of-living supplement payable under index clauses.

There may also be a fall in the savings ratio of households. Public current expenditure on goods and services will go on expanding, though perhaps no longer quite as rapidly as in 1972.

The outlook for demand points to a further improvement in the situation on the labour market and to a rise in the degree of utilization of production capacities. Industrial output will continue to climb vigorously. Real gross national product in 1973 is likely to grow by at least 4.5% to 5%.

Expanding demand will probably lead to a distinct rise in the volume of imports, but external surpluses can be expected to continue at a high level, given the buoyant trend of exports.

Domestic economic equilibrium stands little chance of improving in the immediate future. The main factors in the price trend (supply-demand situation, rising wage costs, heavier taxation, higher cost of imports and rising interest rates) do not point to any appreciable slackening in inflationary tendencies. As a consequence, consumer prices will probably rise by considerably more than the target figure for 1973, laid down by the Council of the European Communities in October 1972.

The most urgent need facing the new Belgian Government in the field of economic policy therefore is to use an appropriate combination of the various economic policy instruments with a view to achieving as rapidly as possible an appreciable slowdown in the upsurge of costs and prices, thereby putting an end to inflationary expectations. The anti-inflationary programme adopted by the Government at the beginning of March is a step in this direction.

The expected fall in unemployment should reduce the risk of a clash of objectives and facilitate the necessary efforts to dampen the expansion of liquidity and curb the growth of public spending, efforts that are called for both in the short-term and in the long-term context. Success in establishing satisfactory domestic equilibrium will also depend largely on the two sides of industry supporting the Government's stabilization efforts.

## Major economic policy measures

### September 1972:

— The budgetary programme for 1973 was laid before the House of Deputies. Expenditure, including non-budgetary expenditure, was increased in total by 11% (compared with 21.3% in the 1972 budget); ordinary expenditure was increased by 12.5% (as against 20.9%) and extraordinary expenditure by 8.2% (as against 12.5%). The Government believed that there was no need to act to stimulate growth and the budget was based on the assumption that there would be an improvement in

the economic climate. The increase in receipts was 15.4% (compared with 14.6% in the 1972 budget). The budget deficit decreased by about Bfrs. 5,000 million.

— A law to be submitted to the Council of Ministers would make banks and savings banks subject to the same legislation. The Banque Nationale would play a greater part in formulating monetary policy and the respective roles of the Government, the Banque Nationale and the banking control authorities would be more clearly defined than hitherto.

### October:

— The Government took various measures concerning prices: an increase in the price of bread, extension of an agreement relating to the determination of prices of household electrical appliances and a requirement that prices should be stated in clear terms and displayed prominently.

— The Minister of Finance announced several proposals in the tax sphere. In future, expenditure on luxuries would not qualify as general expenses for tax relief; tax receipts would increase by 3,600 million Belgian francs as a result. Certain tax advantages accorded to public lending institutions would be withdrawn, putting them on the same tax footing as the banks. An additional inflow of 2,600 million Belgian francs was expected from the introduction of a new tax on banks' portfolios; until now banks could deduct from their profits notional losses on their current holdings of securities.

### November:

— The prices of pigmeat and beef were frozen for six months as a result of an agreement between the Minister of Economic Affairs and the representative body of the butchery trade.

— The agreement reached on 26 July 1972 between the Banque Nationale and the banks on the establishment of non-interest-earning deposits was extended from its due date of expiry of 31 December to the end of February 1973. From 20 November the amount of these deposits was calculated by applying various co-efficients and could be as high as 17,500 million Belgian francs, compared with 10,000 Belgian francs before. One-third of the increase will come from the banks, while the re-

remainder will come from the savings banks and public lending institutions, which were not hitherto subject to these arrangements. There would be a continuation of the requirement on organisations to invest in public issues fixed percentages of the growth of their deposits.

— The Banque Nationale raised its various discount and interest rates by 0.5% from 23 November 1972; its base rate consequently went up from 4% to 4.5%.

December:

— The Minister of Economic Affairs fixed maximum prices for taxi transport.

— The Banque Nationale decided to increase its discount and interest rates by 0.5% from 21 December; this brought its base rate from 4.5% to 5%.

January 1973:

— Wage and salary earners' old-age and survivors' pensions were put up by 7.96% from 1 January.

— Application of the reduced VAT rate (6% instead of 14%) to solid fuel was extended until 31 December 1973.

— The Minister of Economic Affairs authorized an increase in consumer prices for petrol and spa waters.

— In its policy statement to Parliament, the new Government foreshadowed the following moves to combat inflation:

— Stricter surveillance of the price trend under the statutory and contractual powers currently available;

— pursuit of a stringent budget policy in 1973, and greater selectivity of public investment; this policy is to keep to the main lines of the plan for 1971-75;

— pursuit of a tax policy that is neutral in its effect on costs in the goods and services sectors;

— selective grant of public investment aid.

February:

— The two sides of industry concluded an agreement, covering all economic sectors for the years 1973 and 1974, which included the following provisions:

— Guarantee, in case of sickness, of full net pay for the second, third and fourth week, from 1 July, and of full gross pay for the first week, from 1 January 1974;

— doubling, from 1 July 1973, the period of notice for workers;

— fixing a sufficient minimum wage by sector, upon the negotiations of wage agreements;

— progressive shortening of the working week to a length of 40 hours from 1 January 1975;

— grant of two additional days of paid holiday in 1973, and guarantee of four weeks from 1 January 1975;

— a number of agreements in principle, relating in particular to the refund of the cost of transport and the guarantee of 10 public holidays.

March:

— On 2 March the Government and the two sides of industry concluded an agreement in principle concerning a programme to combat the rise in prices. The main points were:

— Tightening the rules on hire purchase credit and personal loans, involving a return to the terms in force prior to the reflationary plan of April 1972. These measures entered into force on 19 February;

— pursuit of an active price policy including a two-month freeze on all public service charges; stricter application of the rules on the prior notification of price increases and temporary doubling of the period for such notification; stricter examination of the data submitted together with the notification of price increase, and stringent control after the increase; negotiations with the representatives of the various trade associations with a view to extending the price stabilization efforts to those enterprises which have a turnover of less than Bfrs. 5 million and are not required to notify price increases in advance; an opinion to be obtained from the Price Commission concerning the agricultural prices proposed by the Commission of the European Communities;

— an increase, at an early date, in the minimum reserve ratios of banks and financial institutions; continuation of the effort to pay back external debt; examination of arrangements to promote personal saving;

— selective implementation of the central government budget and of the budgets of the other

*public authorities, with priority to be given to programmes involving a substantial number of jobs and to programmes to broaden the social infrastructure; stricter measures for preventing tax evasion;*

*— construction of housing which has benefited from the counter-cyclical premium and implementation of the objectives of the five-year plan concerning the construction of low-cost dwellings to be spread over a longer period.*

## Belgium

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



TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1963=100	Million Eur	% of totals
	1967	1968	1969	1970	1971			
<b>Visible exports</b>								
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
<b>Exports of food, beverages and tobacco</b>								
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
<b>Exports of raw materials, fuel and power</b>								
Total	- 2.4	+ 13.4	+ 21.4	+ 0.1	- 5.7	185	799	6.6
Intra-EEC	- 3.6	+ 10.8	+ 21.3	+ 4.6	- 5.7	185	495	4.1
To non-EEC countries	- 0.5	+ 17.4	+ 21.7	- 6.4	- 5.7	131	304	2.5
<b>Exports of semi-finished and finished industrial goods</b>								
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
<b>Visible imports</b>								
Total	0	+ 16.1	+ 19.9	+ 13.6	+ 10.3	245	12 537	100.0
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
<b>Imports of food, beverages and tobacco</b>								
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
<b>Imports of raw materials, fuel and power</b>								
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
<b>Imports of semi-finished and finished industrial goods</b>								
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.
<b>Industrial production</b> (1963 = 100)	1970	131.7	136.2	137.5	131.5	139.8	132.2	135.9	135.7	134.9	138.8	135.3	136.0
	1971	141.3	140.4	135.7	138.5	131.3	138.0	138.5	135.5	141.5	145.1	139.2	137.5
	1972	146.2	140.3	142.2	151.8	153.4	149.1	150.0	145.0	147.8	152.3	145.3	157.1
<b>Unemployed</b> (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	76.5
	1972	79.7	80.1	81.8	83.1	84.8	87.7	89.7	91.0	92.4	94.6	92.5	89.0
	1973	99.9	98.2										
<b>Permits for residential construction</b>	1970	3 211	3 288	2 905	3 490	2 819	2 567	2 567	2 851	2 875	2 530	2 254	3 101
	1971	2 731	2 048	2 267	2 101	1 971	2 611	2 635	2 854	2 298	2 811	2 821	2 452
	1972	3 791	4 286	4 415	4 347	4 172	3 854	3 501	3 834				
<b>Department store turnover</b> (1963 = 100)	1970	158	156	158	156	160	158	169	158	165	179	163	182
	1971	167	169	161	173	166	177	182	181	180	187	180	183
	1972	184	193	203	183	192	208	197	200	224	196	199	
<b>Consumer prices</b> (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										
<b>Visible imports</b> (million Eur)	1970	841	942	887	1 023	862	925	1 028	888	981	948	986	1 021
	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	1 173	1 042	1 080	1 158	1 002	1 190	1 184	1 146	1 254	1 150
<b>Visible exports</b> (million Eur)	1970	881	883	892	1 004	905	1 009	999	999	986	931	982	1 038
	1971	884	876	1 026	885	969	1 079	989	961	1 147	940	964	1 027
	1972	1 050	1 015	1 139	1 030	1 215	1 270	1 025	1 234	1 224	1 267	1 264	1 371
	1970	+ 40	- 59	+ 5	- 19	+ 43	+ 84	- 29	+ 111	+ 5	- 17	- 5	+ 17
	1971	- 37	- 111	- 4	- 161	+ 11	+ 65	- 37	- 64	+ 125	- 64	- 54	+ 1
	1972	+ 8	- 30	- 34	- 12	+ 135	+ 112	+ 23	+ 44	+ 40	+ 121	+ 10	+ 221
<b>Official gold and foreign exchange reserves</b> (million Eur)	1970	2 470	2 504	2 537	2 564	2 581	2 605	2 723	2 750	2 797	2 842	2 894	2 854
	1971	3 119	3 125	3 083	3 105	3 307	3 205	3 293	3 449	3 433	3 343	3 341	3 349
	1972	3 445	3 564	3 537	3 507	3 430	3 698	3 846	3 901	3 874	3 831	3 771	3 708
<b>Money supply</b> (million Eur)	1970	7 692	7 749	7 864	7 903	7 892	7 890	7 987	7 911	7 989	8 096	8 078	8 124
	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	9 539	9 638	9 816	9 900	9 776	10 090	10 134	10 144	10 345	10 533	10 550	10 639

## Belgium

### 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).

#### *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.

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#### *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.

## Luxembourg

*At the beginning of 1973, Luxembourg's economy reflected a distinct upswing in activity and a sharp upward movement in prices.*

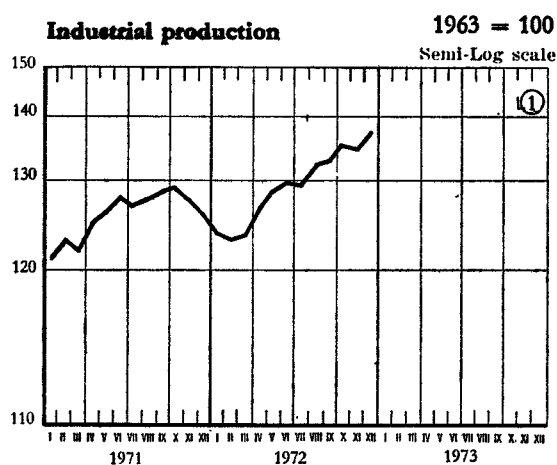
*There are many indications that the economy will maintain its vigorous growth throughout the year. The expansionary trend of export demand in particular is likely to help ensure a high degree of capacity utilization. The stabilization measures taken by the Government offer the prospect of a slightly improved price climate in the next few months.*

### 1. Recent developments

Economic activity in Luxembourg still pointed distinctly upwards around the turn of the year.

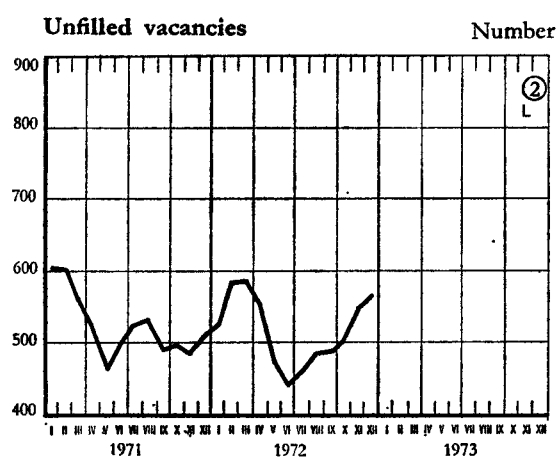
Export demand for steel products remained lively, owing to the favourable situation in steel markets outside the Community and to the continued strength of demand for semis from manufacturers of consumer durables from all Community countries. This led to an appreciable expansion in the volume of exports at a time when export prices were improving significantly.

The growth of domestic demand also continued almost unabated. Strong investment activity gave a boost to activity in the building industry, where the level of orders, both public and private, was higher than a year earlier. Investment in plant and machinery, on the other hand, appears to have slackened further. Private consumers' expenditure again climbed vigorously. This was due largely to the continued growth of disposable incomes, especially the sharp increase in wages engendered among other things, by the rise in employment and the grant of cost-of-living supplements under the sliding wage scale; the appreciable increase in transfer incomes was an additional factor.

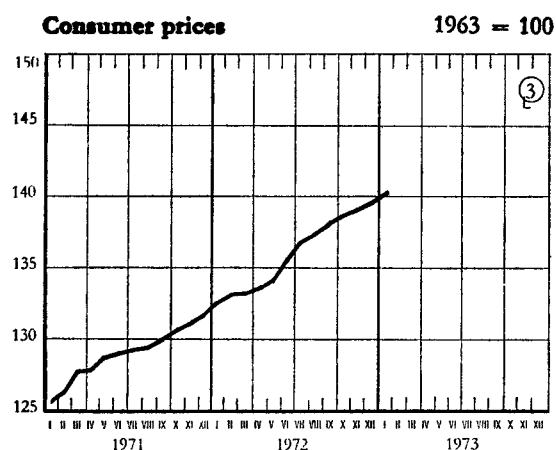


Production generally continued to expand. There was an appreciable rise not only in the steel industry but also in some other sectors, especially metal-working and chemicals. Allowing for seasonal factors, industrial production was growing rapidly towards the end of the year; in the fourth quarter it was 9.2% up on a year earlier. In building and construction, there was a marked increase in output, partly due to the mild winter.

Consequently, there was a further rise in the numbers employed, with manpower shortages becoming more evident, especially in building and construction. The seasonally adjusted number of unfilled vacancies went up appreciably in the second half of 1972.



shown a considerable rise. In February, the consumer price index was 5.9% up on a year earlier.



Consumer prices have climbed sharply in recent months. Food prices in particular have

### *Demand for and supply of goods and services*

	1970 <sup>1</sup>	1971 <sup>1</sup>		1972 <sup>1</sup>		1973 <sup>2</sup>
	At current prices (in Lfrs '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports <sup>3</sup>	43,760	- 4	- 7.8	+ 4	+ 7.1	+ 5
Gross fixed asset formation	13,329	+ 8	+ 18.8	+ 4	+ 9.7	- 5
Public current expenditure on goods and services	5,399	+ 1.5	+ 12.7	+ 4	+ 15.4	+ 2
Private consumers' expenditure	27,396	+ 4	+ 8.9	+ 4.2	+ 9.6	+ 4
Gross national product	51,046	+ 0.7	+ 2.2	+ 3.5	+ 8.2	+ 4½
Imports <sup>3</sup>	38,838	+ 0.3	+ 3.5	+ 4	+ 9.1	+ ½

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

<sup>2</sup> Commission forecasts.

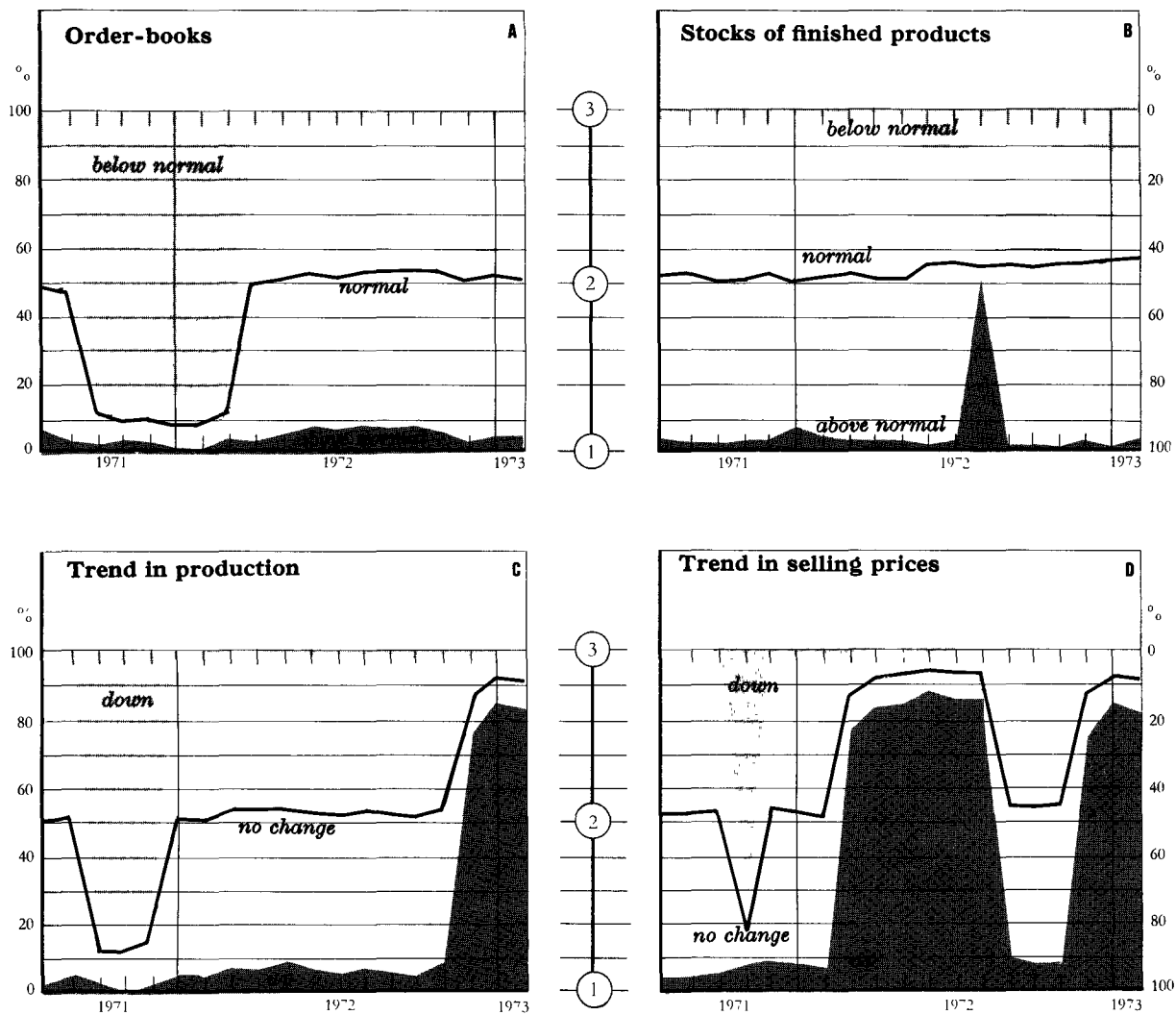
<sup>3</sup> Goods, services and factor income.

*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.

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".



## 2. Outlook

Growth can generally be expected to maintain its fairly vigorous pace in the coming months. The improved business situation in the partner countries will give a considerable boost to Luxembourg's exports, with the recent diversification in the range of exported products opening up additional export markets.

Domestic demand will be affected by conflicting factors. On the one hand, the propensity of enterprises to invest is likely to remain comparatively weak. The EEC investment survey carried out in the fourth quarter of 1972 even suggests that capital spending by industry will fall by about a quarter in 1973. Furthermore, the stimuli provided by the expansion of public investment will probably not be as vigorous as expected because the Government is endeavouring, as part of the fight against inflation, to spread its investment projects over a longer period. On the other hand, the advance of private consumers' expenditure is unlikely to slacken—despite the measures to restrict consumer credit—because wages and transfer incomes will continue to climb sharply. The recent switch to a more stringent price policy may in this context have a favourable effect on the growth of private consumers' expenditure in terms of volume.

Production will maintain its vigorous expansion in the next few months, as is also suggested by the results of the latest EEC business surveys among heads of enterprises. Plant capacity is unlikely to prove much of an inhibiting factor, except in building and construction, while the shortage of labour, especially skilled labour, may become still more acute. Real gross national product in 1973 will probably grow by 4.5%.

Given the expected slackening in fixed investment, imports are likely to rise at a comparatively slow pace. Purchases of raw materials and consumer goods, however, are expected to climb more vigorously.

The price climate may improve a little, helped mainly by the stabilization measures initiated by the Government, including a price freeze until March. It must be realized, however,

that once the freeze is over prices may go up more rapidly again and that the persistent rise in import prices, which has been gathering additional speed recently, will probably also be reflected in domestic price levels.

This year the principal task facing the Luxembourg Government on economic policy is to ensure, through appropriate measures, that the effects of domestic imbalances do not combine with the inflationary pressures from abroad. The stabilization measures taken by the Luxembourg Government under the anti-inflation programme decided upon by the Council of the European Communities on 30 and 31 October 1972 are along these lines.

### Major economic policy measures

#### *September 1972:*

— *The law of 29 August 1972 which modified and complemented the law of 16 August 1967 on the construction of a motorway system and the establishment of a Fund for road-building came into force. It contained a construction programme and determined the financing and functions of the road-building Fund.*

— *Subject to certain conditions, a subsidy in respect of interest payments was granted to people who had incurred debts through building or buying a home for the use of their families. A ceiling of 500,000 Luxembourg francs was placed on the value of the property.*

#### *October:*

— *Adherence to the Agreement of 1 May 1972 on the scale of charges paid to construction workers became compulsory. As a result, unskilled and semi-skilled construction workers received pay awards of 5% from 1 May 1972, 1% from 1 January 1973 and 2% from 1 September 1973 while skilled workers received awards of 6%, 2% and 3% from the same dates.*

#### *November:*

— *The sliding wage scale came into play, triggering a 2.5% increase in wages and salaries.*

— *A number of measures were taken to combat inflation:*

1. *The Bank Control Commissioner required all banks and all other credit institutions not to increase their total hire-purchase lending by more than 5% of the figure recorded on 30 September 1972. The limit will apply until 31 March 1973.*

2. *The Government undertook:*

— *to refrain, for the time being, from raising excise duty rates;*

— *to respect the Lfrs. 800 million ceiling placed on borrowing;*

— *to lay down clear priorities for the projects to be carried out in 1973;*

— *to co-operate with the local authorities in an effort to increase the supply of building land;*

— *to combat obstacles to competition;*

— *to arrange meetings with the two sides of industry from specific sectors that fail to act in conformity with the objectives of stability;*

— *to conclude price agreements with certain manufacturers and distributors;*

— *to encourage better consumer information;*

— *to apply strict criteria of selectivity to immigrant foreign labour.*

3. *The role of the price office was strengthened.*

*December:*

— *The authorities decided to freeze profit margins on beef, veal and pigmeat from 1 December.*

— *From 1 January 1973 family allowances are to be calculated on the following basis: Lfrs. 370 for one child, Lfrs. 740 for the second child, and Lfrs. 1,000 for each additional child; adjusted by the index, this gives Lfrs. 702, 1,404 and 1,899.*

— *Publication of the 1973 budget. Revenue amounts to Lfrs. 16,511 million and expenditure to Lfrs. 17,811 million, the deficit rising to Lfrs. 1,300 million.*

— *A Grand-Ducal decree of 22 December 1972 fixed the rules for the supervision of investment*

*funds to apply from 1 January 1973. All funds will have to be registered by 31 January, failing which they may have to be dissolved or wound up.*

— *The Grand-Ducal regulation of 29 December 1972 laid down the exemption from value-added tax on imports in international travel. The general tax-exempt amount is Lfrs. 1,150 as regards imports from non-member countries, and Lfrs. 6,250 as regards imports from other EEC countries.*

*January 1973:*

— *In accordance with an agreement between the Bank Control Commission and the Luxembourg banks a blocked account was set up at the Banque Nationale de Belgique as a counterpart to the convertible balances held by foreigners. The amount frozen exceeded Lfrs. 500 million at the beginning of the month. To prevent evasion of the Belgian measures it was also recommended that the balances held by Belgian enterprises be kept within their normal limits.*

— *Public investment worth Lfrs. 300 million was postponed until the second half of the year.*

— *The Minister of Economics decided to freeze almost all prices until 31 March. In addition to meat, the freeze now also applies to the prices of foodstuffs, detergents and other cleaning materials, and building materials.*

*February:*

— *From 1 April 1973 wages and salaries in the public sector will rise by 4%, and, by a further 3% from 1 January 1974.*

— *The new postal rates, to come into effect on 1 March 1973, will increase the cost of postage by 20% to 30%.*

— *From 1 March 1973 the minimum wage of monthly-paid workers will be raised to Lfrs. 9,400, an increase of about 16%.*



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)	1970	131.1	132.5	134.0	131.3	131.5	130.1	129.0	128.8	122.7	116.2	121.2	124.6
	1971	118.0	124.5	122.8	127.6	128.1	127.2	124.9	130.9	129.4	126.7	126.2	123.5
	1972	122.6	124.0	125.8	130.4	128.4	130.5	128.5	137.5	133.7	135.4	135.9	140.4
Unfilled vacancies	1971	522	651	498	422	471	604	487	511	476	503	479	544
	1972	543	680	544	429	443	455	474	517	473	520	652	497
	1973	735											
Consumer prices (1963 = 100)	1971	121.21	121.98	128.04	128.15	129.09	129.37	129.48	129.62	130.22	131.09	131.68	132.14
	1972	126.06	126.91	133.48	133.70	134.21	135.69	136.82	137.27	137.81	138.57	139.32	139.90
	1973	140.40	141.05										

## **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.

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#### *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

*Vigorous expansionary policies succeeded in producing a revival of activity and employment in the U.K. in the course of 1972. While private consumption responded strongly to expansionary measures, exports and private investment contributed little to the upswing. The increase in costs and prices accelerated in the second half of the year, and the Government introduced statutory controls in November. The deterioration in the external position, which began at the end of 1971, has continued.*

*The current tendency for output to grow fast should continue in the coming months. Revivals in exports, in private industrial investment and in stockbuilding should broadly offset the likely slowing down in the growth of private consumption. Strong upward cost pressures may lead to substantial price increases in 1973.*

### 1. Recent developments

The rate of expansion of the economy quickened in the course of 1972, and in early 1973 output continued to respond to the powerful stimulus administered in the 1972/73 budget. But growing disequilibrium in the field of foreign payments and inflationary pressures were also in evidence.

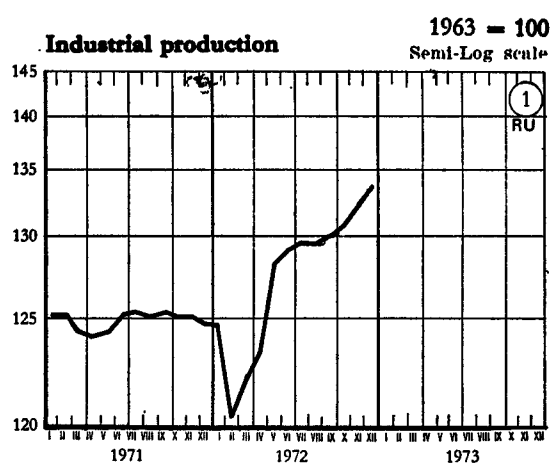
Despite the upward trend in world trade in 1972, exports are only now showing signs of increasing in volume terms. Adverse factors which persisted include the weakness of exports to the sterling-area, the inability of the motor industry to meet increased demand and, more generally, the deterioration in competitiveness, evident since 1970.

Domestic demand continued to expand quite rapidly up to early 1973. The fall in private fixed investment—reflecting in part the profits squeeze and slow growth of earlier years—may have come to an end as a result of a more buoyant outlook for demand. There

was, it seems, considerable destocking by industry for much of 1972, but this feature was much less marked by the end of the year. Public investment continued to rise, as did private investment in housing despite some shortage of mortgage finance.

The main expansionary element in the economy has continued to be private consumption. Following fiscal stimuli in 1971, whose effects carried on well into the following year, the 1972/73 budget gave a further large stimulus, mainly by increasing personal tax allowances. As a result, and stimulated further by large wage increases, rising employment and higher social security benefits, consumers' expenditure rose rapidly. In the fourth quarter of 1972 retail sales increased at an annual rate of some 16% in nominal terms and 7% in volume, and the rise continued in the early part of 1973. Expenditure on durable goods, especially cars and colour television sets, rose particularly quickly. Despite the rapid expansion of consumption, the personal savings ratio remained at a high level. In the public sector, consumption of goods and services increased at a moderate rate.

Although production was rising rapidly towards the end of 1972, most industries still had a considerable reserve of productive capacity. An important exception was the motor industry, which was unable to meet in full demands either from home or from overseas. In December, the index of industrial production was nearly 8% higher than a year earlier. However, a high proportion of demand was met from imports: the volume of merchandise imports in the second half of the year was some 14 percent up on a year earlier. This large increase can be ascribed, in part, to a loss of competitiveness.



*Demand for and supply of goods and services*

	1970 <sup>(1)</sup>	1971 <sup>(1)</sup>		1972 <sup>(2)</sup>		1973 <sup>(3)</sup>
	At current market prices £	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports <sup>(4)</sup>	12 782	+ 4.3	+ 11.0	+ 1½	+ 6½	+ 6½
Gross fixed asset formation	9 173	— 0.6	+ 8.2	+ 2½	+ 11	+ 7
Public current expenditure on goods and services	9 086	+ 3.5	+ 14.0	+ 3½	+ 11½	+ 4
Private consumers' expenditure	31 152	+ 2.6	+ 10.5	+ 6	+ 12	+ 5
Gross national product	50 819	+ 1.5	+ 10.4	+ 3½	+ 10	+ 6
Imports <sup>(4)</sup>	11 745	+ 3.2	+ 7.7	+ 9½	+ 15	+ 9

<sup>1</sup> Statistical Office of the European Communities.

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

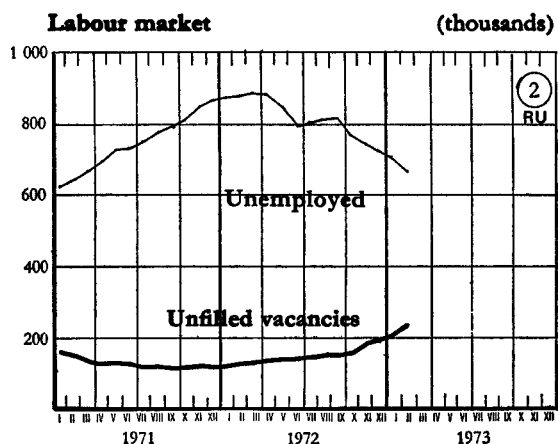
<sup>4</sup> Goods, services and factor income.

*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 set out in the Quarterly survey. 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.

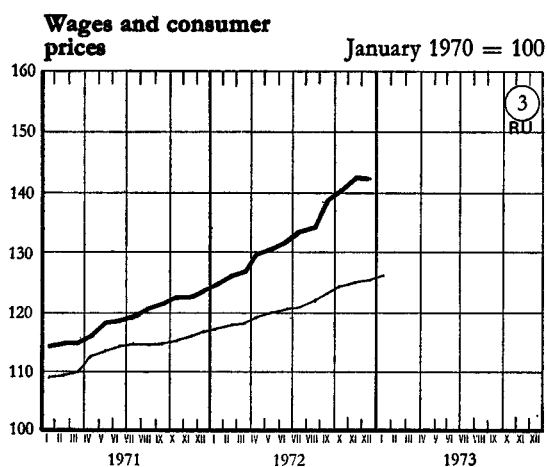
There was a rapid turnaround in the labour market in 1972, with an exceptionally rapid decline in unemployment in the most recent period. The unemployment rate fell from 3.8% in February 1972 to 2.9% a year later. The number of unfilled vacancies increased quickly, perhaps partly as a result of employers notifying labour exchanges of a higher proportion of their vacancies.



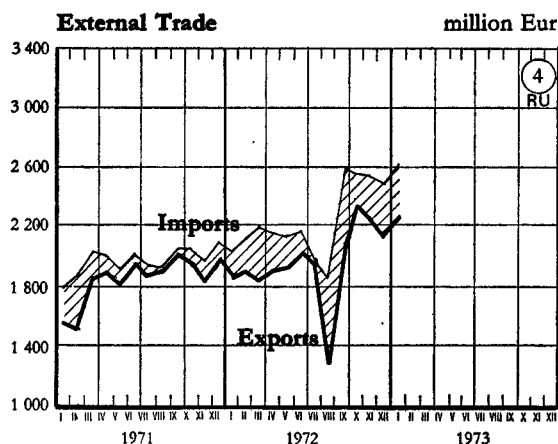
The second half of 1972 saw a re-acceleration of prices, under the influence of later rising wages, and higher import prices. Nevertheless, right at the end of the year, the initial effect of the standstill could be discerned: a slower rise in the prices of manufactured goods sold on the home market. At the beginning of 1973, retail prices were 7½% higher than a year earlier.

The current account continued to register a sizeable deterioration, the main factor being the worsening of the trade balance, reflecting the strong increase in the volume of imports and the big rise in import prices which resulted partly from the downward float of the pound, partly from the worldwide rise in commodity prices. In the fourth quarter, the deficit on current account was £43m. From the end of November to the end of February, the official reserves fell by £170m., partly as a result of debt repayments.

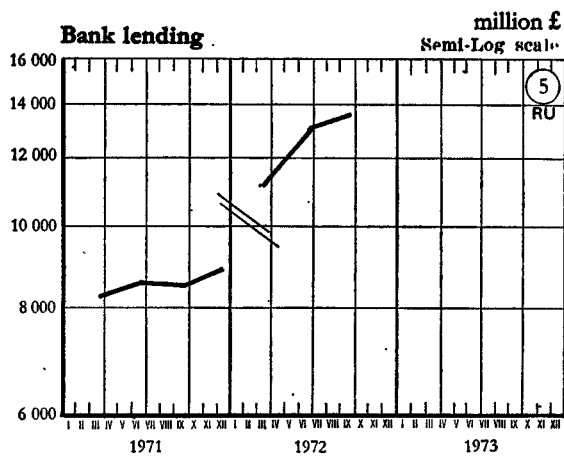
For most of 1972 monetary policy permitted a rapid growth in the money supply. At the



beginning of 1973 M3 (1) was 25% up on a year earlier. But part of this rise reflected recent structural changes in the financial system, and M<sup>1</sup> (the narrow version of money supply) rose by 13% in the same period. Bank lending to the private sector showed a big rise. At the same time interest rates rose appreciably. Bank rate stood at 5% until June but rose to a level of 8¾% by the beginning of March (by which time it had become the Bank of England minimum lending rate, and was determined automatically by a formula related to the Treasury Bill rate).



<sup>1</sup> Comprising notes and coins in circulation with the public together with all deposits, whether denominated in sterling or in other currencies held by UK residents in both the public and private sectors and sterling certificates of deposit held by UK residents (other than banks).



## 2. Outlook

The prospects for the United Kingdom economy exhibit a considerable degree of uncertainty, both internally and externally. While demand and activity may continue rising briskly for a time, a more moderate rate of expansion could take over later in the year unless the recovery in exports and private investment is strong.

*Exports* should provide an increasing stimulus with a buoyant pattern of world trade and the fall in the exchange rate in 1972 increasingly boosting the volume of merchandise trade. In addition there will be a stimulus from the reduction on 1 April of customs duties within the Community.

*Investment* in total should rise appreciably faster in 1973. Private industrial investment, which was particularly weak in 1972, could respond to the acceleration in output clearly evident by the end of last year and to better EEC prospects. Even if the rate of rise in the course of this year is quite marked, the annual growth rate is unlikely to be very large. The public investment programmes for 1973/74 already embody a considerable element of counter-cyclical expenditure, which may be reinforced by some carryover from the previous year's programme. As a result, public investment should rise strongly. Investment in dwellings is not expected to increase much, either on the private side where there may be a lack of mortgage finance, or on the public side.

By the end of 1972, the level of *stocks*, in relation to output, had reached an unusually low level. A substantial, and perhaps large, growth of stock building seems likely in the course of 1973.

Further increases in private consumption are likely in the course of 1973, but not at the same pace as last year. For this purpose it is assumed that the prices and incomes policy does not imply any major change in the prospects for the growth of real personal income. One important factor which should help to sustain consumption is the likelihood of a fall in the savings ratio from its high level in the second half of last year.

Because of the rapid increase in national output in the course of last year, and the likelihood of a continuing, and quite brisk, rate of activity for the full year 1973, in total, output total may attain a growth rate of 5½-6%, even if expansion slows down a little as the year progresses. Unemployment should continue to fall, but not as rapidly as in recent months.

Imports are likely to register another sharp increase, though the fall in the exchange rate will be a restraining factor. The relationship between the growth of demand and the growth of imports may not be as unfavourable as last year.

At the end of 1972, there was heavy pressure from costs, arising from rises in materials' prices and increases in wage earnings. Enterprises will be attempting to pass on these costs in higher prices, and it seems likely that, under the terms of phase II of the prices and incomes policy, there may be substantial price increases. The introduction of Value Added Tax will constitute, according to the experience of other countries in the Community, an added strain on prices. But strict control over prices during the transition to VAT is provided for in the counter-inflation bill; and the Government is embarking on a major advertising campaign.

The central tasks facing the British authorities, in the context of a full participation in the monetary mechanism of the Community, with respect to short-term economic policy are the moderation of inflation and the achievement

of a satisfactory level of employment, coupled with the reestablishment of equilibrium in the external accounts. These tasks cannot, however, be accomplished in full in 1973.

One of the requirements for realizing substantial progress towards these objectives is a significantly higher rate of investment, above all in manufacturing. Otherwise the current upswing may well be curtailed by shortages of plant capacity in advance of attaining a sustainable level of full employment. Moreover the dynamic advantages to be gained by the UK economy from accession to the Community would be delayed.

The Budget for 1973/74 does not, rightly, provide a substantial additional stimulus to the economy. It is important to maintain control over government expenditure, and to avoid any new stimulus coming from monetary policy, if internal and external equilibrium is to be reestablished.

The Government's measures of price and incomes restraint were introduced at a time when inflation was threatening to reach exceptional levels. It is important to use the time available during Phase II to lay the foundations, with the support of public opinion and the two sides of industry of a less rigid programme for controlling inflation, which at the same time should offer the prospect of achieving a demand structure more favourable to a fast and balanced rate of economic growth.

## Major economic policy measures

January 1973 :

— *Accession to the European Communities.*

— *Payment of 2 percent special deposits by the banks to the Bank of England (announced on 21 December).*

— *Announcement on January 17 of Phase II of the Government's anti-inflationary policies :*

*Phase I, which began on November 6, provided for a standstill on incomes, prices and dividends, and allowed some exceptions, mainly for fresh foods and for goods with a high import content. Phase II covers*

*the period from April to the autumn. Pay increases will be limited, under the terms of the policy, to 4% plus £1 a week ; moreover, pay increases will not be allowed to exceed £250 a year. Pay increases frozen during the standstill will be allowed by the end of May, subject to certain conditions. A Pay Board will be established which will administer a Pay Code, backed by statutory powers.*

*Prices of most manufactured goods and services supplied to the home market will be subject to control. The prices of goods and services exported will not be controlled. Other goods and services exempted from control include : imported products, fresh foods, and goods and services whose prices are regulated as a result of international agreements or arrangements. Manufacturers will not be permitted to increase prices in the domestic market except to the extent that allowable costs rise. Distributors' gross percentage margins will not be allowed to rise. In addition to controls on prices and margins, there will be restrictions on net trading profits which, expressed as a ratio of profits before tax to sales or turnover, will be held to the average of the best two of the previous five years.*

*A Price Commission will be established, with statutory powers, and will administer a Price Code. This will give the Commission a degree of latitude in some cases, e.g. where an application of the general rules would impede investment. The arrangements for the standstill on prices will continue until the end of April, in order to cover the period following the introduction of VAT on April 1.*

*In order to assist lower paid tenants, the Government announced that it would increase by £3.50 per week the needs allowance which is used to calculate rent rebates or allowances. In addition, the increase in the school meal charge, scheduled for 1 April, would be deferred. Some measure of control over local authority rates is proposed, and also over land prices and business rents. Dividends paid by companies will continue to be controlled, and increases will not in general be allowed to exceed 5%.*

February :

— *Publication of "The Price and Pay Code, a Consultative Document". This sets out, in some detail, proposals for a pay and prices code already outlined in the White Paper on Phase II of the anti-inflationary policies. The code is particularly stringent on prices, stating: "not more than 50%*

*of allowable cost increases arising from pay increases may be passed on as price increases“.*

*March :*

*— The Budget for the financial year 1973|74, announced on 6 March, is estimated to result in a reduction of revenue of £120 million—mainly by concessions on the coverage of VAT—compared with what would otherwise have occurred. Total public sector receipts are forecast to rise by 8%, between the financial years 1972|73 and 1973|74, and expenditures by 13%. The public sector’s borrowing requirement for 1973|74 is forecast at £4423m, compared with a provisional outturn of £2855m for the previous year. The main items in the Budget statement were:*

- VAT (starting on 1 April) to be fixed at 10% with concessions on children’s clothing and footwear, and on confectionery.*
- A large increase in social security benefits, to take effect from October, and to be paid for mainly by higher contributions.*
- A rise in the income tax allowance for people aged 65 or over.*
- Increased incentives for personal savings ; and a new scheme for companies to deposit surplus funds with the Inland Revenue.*
- Some relief on domestic rates in respect of revaluation.*
- Stricter tax control over profits on North Sea oil.*
- Legislation to be announced soon restricting the boarding of land for housing.*



TABLE 1: Key indicators

	1967	1968	1969	1970	1971	1971
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	2.1	3.1	2.2	2.2	1.5	123
Industrial production	0.6	5.2	2.6	1.1	0.6	125
Total imports	6.2	8.5	3.1	4.6	4.1	146
Private consumers' expenditure	2.3	2.5	0.5	2.7	2.6	119
Public current expenditure on goods and services	5.6	0.5	- 1.1	1.3	3.6	118
Gross fixed asset formation	6.8	5.1	- 0.6	2.5	- 0.6	141
Total exports	0.2	10.9	10.2	4.3	4.3	151
Gross national product per head of population	1.6	2.7	1.7	2.0	1.2	119
Gross national product per person in employment	3.5	3.8	2.3	3.0	3.2	128
	% change by value on preceding year					
Gross income per employee	5.4	7.6	6.8	12.6	12.5	188

TABLE 2: Indicators for internal and external equilibrium

	1967	1968	1969	1970	1971
Balance exports less imports					
in millions Eur	+ 102	+ 240	+ 1 954	+ 2 489	+ 3 379
as percentage of GNP	0.1	0.2	1.8	2.0	2.5
Unemployment rate	2.3	2.4	2.4	2.6	3.4
prices to private consumers (% change on preceding year)	2.5	4.5	5.4	5.4	7.7

## United Kingdom

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	- 2.5	7.5	14.2	9.8	13.8	187	22 021	100.0
Intra-EEC	- 2.0	8.5	18.5	14.8	9.9	189	4 625	21.0
Extra-EEC	- 2.5	7.2	13.0	8.5	14.9	186	17 396	79.0
Exports of food, beverages and tobacco	- 2.0	4.9	5.6	13.2	14.0	197	1 408	6.4
Exports of raw materials, fuel and power	- 5.5	6.9	6.1	14.3	7.5	135	1 233	5.6
Exports of semi-finished and finished industrial goods	- 2.3	8.1	15.5	8.8	15.0	191	19 380	88.0
Visible imports								
Total	6.0	7.4	5.3	8.7	8.9	171	23 602	100.0
Intra-EEC	9.7	7.5	3.9	13.4	15.7	229	5 060	21.4
Extra-EEC	4.6	7.3	5.7	7.5	7.0	158	18 542	78.6
Imports of food, beverages and tobacco	0.8	- 6.0	1.9	6.2	5.8	111	5 230	22.3
Imports of raw materials, fuel and power	1.6	6.2	2.3	7.2	8.8	140	6 051	26.0
Imports of semi-finished and finished industrial goods	10.9	13.3	8.9	15.2	10.0	256	12 321	51.7

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1971	126.1	123.8	122.9	124.4	125.3	125.7	125.6	125.7	125.4	124.9	124.7	124.2
	1972	124.8	115.4	126.6	127.8	129.6	129.3	129.8	129.3	130.8	132.3	133.6	133.9
	1973												
Unemployment (1 000)	1971	614	631	658	683	721	724	752	772	793	807	838	853
	1972	862	869	879	871	834	798	803	807	812	774	756	728
	1973	705	666										
Construction: Housing starts (1 000)	1971	27.6	28.4	26.4	26.8	26.8	24.7	29.1	28.2	29.7	31.2	29.1	35.9
	1972	32.0	26.8	28.6	28.1	26.3	31.3	29.7	27.9	27.7	28.6	31.7	31.7
	1973												
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	141.4	142.2	143.3	146.4	150.6	151.8	152.0	155.4	156.7	160.1
	1973												
Consumer 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											
Visible imports (million Eur)	1971	1 800	1 874	2 028	2 002	1 908	2 002	1 937	1 920	2 023	2 030	1 990	2 069
	1972	2 023	2 129	2 196	2 141	2 124	2 155	1 951	1 872	2 602	2 566	2 561	2 494
	1973	2 611											
Visible exports (million Eur)	1971	1 538	1 505	1 850	1 889	1 812	1 918	1 865	1 877	2 002	1 944	1 822	1 997
	1972	1 865	1 894	1 831	1 896	1 915	2 023	1 925	1 277	2 088	2 311	2 232	2 119
	1973	2 251											
Balance of trade (million Eur)	1971	- 262	- 370	- 178	- 113	- 96	- 84	- 72	- 43	- 22	- 86	- 168	- 72
	1972	- 158	- 235	- 365	- 245	- 209	- 132	- 26	- 595	- 514	- 254	- 329	- 374
	1973	- 350											
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	6 480	6 439	6 516	6 569	6 586	6 415	5 602	5 611	5 609	5 395	5 429	5 201
	1973												
Money supply (£ million)	1971	17 660	17 910	18 320	18 170	18 290	18 350	18 480	18 640	18 320	19 080	19 360	19 560
	1972	20 020	19 980	20 930	21 460	21 790	22 600	23 090	23 220	23 750	24 050	24 340	25 050
	1973	25 630											

NOTES TO GRAPHS AND TABLES

Source: C.S.O. (except as otherwise indicated).  
Conversion into Eur (1 Eur = 0.888671 g of fine gold).  
Seasonally adjusted unless otherwise stated.

*Graph 1*

Industrial production; three month moving averages.

*Graph 2*

Labour market: G.B. Source: Department of Employment.

*Graph 3*

Wages and consumer prices: index of monthly average earnings; retail price index, not seasonally adjusted. Source: Department of Employment.

*Graph 5*

Bank lending to the private sector. Source : Bank of England.

*Graph 4*

Exports f.o.b.: three month moving average. Imports c.i.f.: three month moving average. Balance of trade: difference in terms of value between exports and imports. Source: SOEC.

*Table 1*

Gross national product at market prices.  
Industrial production: value added by industry.  
Total imports and exports: goods, services and factor incomes.  
Gross income per employee: income from employment (including employers national insurance contributions).

*Table 2*

Exports less imports: balance of goods, services and factor incomes.  
Unemployment rate: number of unemployed in G.B. as a percentage of total labour force.  
Price index: deflator of private consumption.

*Table 3*

Exports f.o.b., imports c.i.f. EEC means «the six». The products have been grouped on the basis of the SITC: food, beverages and tobacco (sections 0 et 1), raw materials, fuel and power (sections 2-4), semi-finished and finished industrial goods (sections 5-9).

*Table 4*

Industrial production. Source: C.S.O.  
Unemployment, G.B. Source: Department of Employment.  
Housing starts: private and public. Source: Department of the Environment.  
Private consumers expenditure: value of retail sales. Source: Department of Trade and Industry.  
Consumer prices: January 1962 = 100; retail price index, not seasonally adjusted. Source: Department of Employment.  
Imports cif, exports fob; value, adjusted for seasonal variations.  
Balance of trade: difference between values of imports and exports, seasonally adjusted. Source: SOEC.  
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. Source: SOEC.  
Money supply: broad version (M3), including interest bearing deposits. Source: Bank of England.



## **Council resolution of 5 December 1972 on measures to be taken against inflation**

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the final communiqué of the Conference of the Heads of States and Governments, held in Paris on 19 and 20 October 1972;

Having regard to the draft resolution presented by the Commission;

Whereas it is necessary to undertake comprehensive action throughout the Community against the excessive inflationary trends at work at the present time; whereas such action should be based both on national policies coordinated at Community level and on common policies;

Whereas the measures to be taken should take into account the particular situations of the Member States;

Whereas action against price increases must be set within the framework of an economic policy aimed at balanced development, the fundamental objectives of which are economic growth, stability, full employment and the improvement of social conditions and of the quality of life,

ADOPTS THIS RESOLUTION:

### I

The Member States shall endeavour to reduce the rate of increase of consumer prices between December 1972 and the end of 1973 to 4%, exception being made for the effects of any modifications of indirect taxation.

### II

The Member States, convinced that an essential condition for slowing down price rises is

the restraint of nominal growth of wages and profits, shall endeavour to encourage such restraint by means of concerted action with the various social partners. This concerted action should be such as to safeguard the purchasing power of incomes and to allow a proper distribution of the benefits of economic expansion between the meeting of collective needs and the increase of private incomes.

Within this context, Member States will, in the manner appropriate to their particular situations, use their machinery for supervising trends of prices for industrial goods and for services so as to ensure that those trends are compatible with the overall objectives of prices policy in order to avoid price spirals and to ensure that a part of the gains of business productivity are passed on to consumers.

In using these measures, arrangements shall be made for exchanges of information and concerted action at a Community level.

### III

The Member States agree that action against price rises must be accompanied by action of a structural nature aimed at remedying regional imbalances in the distribution of the labour force and of technical capacities, in accordance with the conclusions of the Conference of the Heads of States and Governments, of 19-20 October 1972. The Member States will also, aided by the European Social Fund, increase their efforts in the field of vocational training and readaptation. They will improve, as rapidly as possible, the supply of information on job vacancies and skills for which there is a sharp increase in demand.

The problems relating to employment and income trends shall be the subject of periodical exchanges of information and concerted action at a Community level.

#### IV

The Member States shall progressively reduce the rate of expansion of the money supply (money and money-equivalents) to that of the gross national product in real terms, plus a normative rate of increase as regards prices fixed in accordance with the aims of general economic policy, account also being taken of the relation of money supply to the national product. This objective must be achieved by the end of 1974 at the latest.

If certain Member States are faced with marked under-employment, this objective may, after concerted action within the Community, be reconsidered accordingly.

Those Member States in which there is full employment, must secure a marked deceleration of the expansion of their money supply in 1973, corresponding to at least one-half of the reduction to be achieved by the end of 1974.

The monetary authorities must be in a position to take prompt action on:

- interest rates, by setting ceilings on rediscount facilities or by raising the rates at which they intervene;
- liquidity, imposing or adjusting reserve ratios in respect of the liabilities of financial intermediaries, and by recourse to open-market operations;
- the volume of credit, if necessary, in particular both by imposing restrictions or regulation of consumer credit (hirepurchase and personal loans).

The Member States shall continue their joint action to prevent undesirable inflows of capital from abroad and shall, as necessary, strengthen the machinery set up by Council Directive of 21 March 1972 on regulating international monetary flows and neutralising their undesirable effects on domestic liquidity.

The monetary authorities shall take concerted action on ways and means of preventing unwanted capital movements which may result from shifts in leads and lags.

In taking such concerted action, the Member States must ensure that the measures adopted do not interfere with the liberalisation of current transactions within the Common Market and, as far as possible ensure free movement of capital within the Community.

The Central Banks are requested not to further increase directly or indirectly, their investments on the Eurodollar market.

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, adopt appropriate provisions under certain Council Decisions, in particular that of 22 March 1971 on the strengthening of cooperation between the Central Banks of the Member States of the European Economic Community.

#### V

The Member States shall observe strict rules with regard to the management of public finance, both as regards expenditure in the current financial year and expenditure in the following financial year.

With regard to the implementation of the national budgets in 1973, the actual rise in expenditure, a part from that expenditure linked to the creation of jobs in States which are faced with marked under-employment, shall not exceed the rate of increase in the gross national product in money terms on which the Member States' budget assumptions are based. In addition, for the first half of 1973, those Member States in which there is full employment shall provide for:

- staggering expected expenditure; or
- setting aside contingency instalments of expenditure; or
- any other measure having equivalent effect.

At the end of the first six months the Council shall consider whether this machinery should be retained or adapted.

Should certain expenditures exceed the level envisaged, offsetting reduction shall be made under other budget items. In this context, and without prejudice to Articles 92 and 93 of the Treaty, State aids should be examined with a view to reducing transfer payments benefiting certain sectors of the economy, with special attention being paid to aids of a purely conservatory nature, in particular aids to those industries which are unlikely to become competitive in the long term and play a positive role in the growth of the economy.

The budgetary authorities shall apply the surplus revenues accruing from a rise in prices exceeding that projected in the drawing up of the 1973 budgets, to reduce the net borrowing requirement or to lower indirect taxes in the States where these are at a relatively high level; alternatively these surpluses shall be frozen with the Central Bank.

Those Member States whose budgets show a net borrowing requirement should—with the exception of those countries with particularly marked under-employment—refrain from any monetary financing of this deficit.

Should inflationary pressures not ease sufficiently during 1973, a more restrictive budgetary policy will be envisaged. The Member States will then have to increase taxation or reduce expenditure.

The Budgetary Policy Committee shall examine quarterly whether the 1973 budgets are being implemented in accordance with the guidelines adopted above.

## VI

The Council, acting on a proposal from the Commission, shall, before 31 January 1973 decide upon commercial policy measures concerning quantitative restrictions, the application of generalised preferences and, possibly, specific tariff reductions likely to contribute to combating inflation.

## VII

The Council declares its readiness to review, on a proposal from the Commission, Council Regulation (EEC) No 1654/72 of 31 July 1972 laying down general rules to be applied in the event of substantial price rises in the beef and veal sector, taking particular account of the unanimous desire to combat inflation in the Community. The revised Regulation shall apply from 1 February 1973. Pending this review, and until 31 January 1973, the date on which the existing Regulation expires, the Council has decided to reduce the customs duties applicable to beef and veal by 50%. However, with regard to calves and young male bovine animals intended for fattening, the

current 50% reduction in import duty shall be increased to 100%. The Commission is requested to take the necessary measures to implement these decisions.

In addition, the Council, acting on a proposal from the Commission shall adopt without delay the acts concerning the following agricultural measures:

- measures intended to promote the production of beef and veal;
- suspension, in the Member States in which they still exist, of quantitative restrictions on imports of potatoes, during the period from 15 November 1972 to 17 February 1973.

The decisions concerning export refunds shall be supervised with particular care.

## VIII

The Council takes note of the wish expressed by the Commission to reinforce its measures against the restrictions on competition arising from horizontal price agreements, concerted pricing practices and price discrimination applied by undertakings having a dominant position, or from market-sharing agreements and other restrictive practices by undertakings designed to maintain the compartmentation of the markets, or from voluntary restraint agreements in so far as these run counter to the commercial policy of the Community.

The Council takes note of the Commission's intention to submit, independently of the application of Article 86 in such cases, proposals aimed at setting up a more systematic control over concentrations of a certain size.

It requests the Member States to apply strictly national legislation concerning:

- the prohibition or control of resale price fixing and of agreements or practices constituting a refusal to sell;
- measures designed to ensure the publishing of prices, in particular those concerning the prohibition on exposing goods for sale or the offering of services without indicating their price, and measures designed to enable the real price to be determined, taking into account the qualities and quantities offered to enable price-comparisons to be made;

— unfair competition, commercial practices and the packaging and presentation of goods, in particular the labelling of food-stuffs.

#### IX

The Council will decide, if possible before 30 April 1973, and at the latest by 30 June 1973, on the proposed directives aimed at harmonising at Community level, those laws and regulations which because of their diversity still restrict intra-Community trade in food-stuffs, on grounds of hygiene and public health, and the directives having as their object the liberalisation of trade in medicinal products within the Community.

The application of the directives by which it has been decided to open public works contracts and concessions to competition, and the harmonisation of provisions relating thereto, will be closely supervised.

The Council will act, as quickly as possible, on the proposed directive on coordinating procedures for the award of public supply contracts.

#### X

The Council will examine the outcome of this programme of action at meetings held in 1973 to review the economic situation in the Community, and in particular at its meeting in June 1973.

#### XI

In accordance with the procedure laid down for the period preceding accession the acceding States have been consulted on this Resolution. They have recorded their agreement on the objectives contained in this Resolution. Taking into account their particular situations and the instruments of economic policy available to them, they declare themselves prepared to take steps to enable them to attain these objectives.



Brussels, 21 st March 1973

## Opinion on the economic budgets for 1973

At its meeting on 23rd January 1973, the Short-term Economic Policy Committee examined the economic outlook for 1973 and the problems this outlook raises for short-term economic policy. The Committee based its work on the economic budgets for 1973 submitted by the member countries of the Community as originally constituted, the summary made by the appropriate Commission departments, and data supplied by the delegations of the new member countries which were based on their own estimates.

1. The outlook for the months ahead suggests that production in the Community will grow more rapidly in view of the improvement in the trend of world economic activity. The rate of increase in the gross product, both for the Six and for the enlarged Community, could reach about 5% in real terms. The disparities in growth rates between countries in 1973 should be less marked than in 1972. Growth should be much faster, especially in the Federal Republic of Germany, and probably in Italy, the United Kingdom and Ireland, but there still is spare production capacity in the last three countries.

2. Despite the fact that economic recovery normally entails substantial productivity gains, a fall in unemployment can be expected during 1973; this will leave some important pockets of regional unemployment, particularly in Italy, the United Kingdom, Ireland and to a lesser extent the Netherlands. In the Federal Republic of Germany, on the other hand, the shortage of labour will become more pronounced.

As regards the external position, the acceleration of growth should cut down the current account surplus of the Community taken as a whole.

3. Rising costs and prices remain the major problem confronting all the member countries without exception. In spite of the increase in productivity there is no sign yet of any general tendency for the upward thrust of wage costs per unit of output to slow down. This is all the more disquieting in that other factors are likely to push up costs in 1973; these include the rise in world market prices for industrial raw materials, food and agricultural products. Further, the expansionary outlook gives reason to fear that in some member countries demand will add to inflationary pressures. Moreover, depending on whether they are based on targets or rather on probable developments, the economic budgets for 1973 indicate that prices and costs will go up at different rates in different countries.

4. Aware of these dangers, the institutions of the Community set out on 5.12.1972 in a resolution adopted by the Council and the Representatives of the Member States a number of measures designed to reduce inflationary pressures. The Committee has taken note of measures which have been taken or announced since then by the various Member States, which are attempting in general to slow down the growth of liquidity and at the same time to increase the cost of credit. In the other areas of economic policy, notably budget policy and prices and incomes policy some of the Member States have taken important steps, but it would seem too early to pass judgment on their effects at this stage.

In spite of the measures taken, whose impact will necessarily make itself felt only gradually, the money supply is still increasing rapidly in most of these countries some of which, however, do not have an underemployment problem. Although in a number of countries also (the Netherlands, Belgium) the rate of

increase in public expenditure is exceeding the rate of growth of GNP in money terms, net deficits to be financed in the majority of member countries appear to be within the limits established by the resolution, partly on account of surplus revenues resulting from inflationary pressures.

5. Given this situation, the target assigned to the Member States under the resolution for keeping prices under control in 1973 is an ambitious one. If the Member States wish to work their way towards this target, their efforts will have to be so much the greater, at both Community level and national level, as the most recent developments make it unlikely that major changes in the trend will occur in the near future. In the present situation, measures should be taken to slow down price increase, as the danger is great that the economic upswing expected for 1973 might lead to a situation in which the inward movement of prices could only be controlled at the cost of substantial sacrifices in terms of growth and employment.

It is highly desirable that the Community's arrangements be worked out in greater detail as is provided for in certain cases, or extended: in agriculture, for instance, the extension of the customs measures would have to be combined with an appropriate policy on guide prices; likewise, practical measures of trade policy could usefully contribute to the effectiveness of the steps taken by the Member States themselves. Where these steps are concerned, it is essential that the guidelines laid down for the increase in public expenditure, for the net borrowing requirement and for the

growth of the money supply are adhered to. Concerning the growth of the money supply, the measures adopted to implement the Council Directive of 21st March 1973 for the regulation of international financial flows and the neutralisation of their undesirable effects on domestic liquidity, have also an important role to play. Nevertheless, it must be recognised that inflation is now being aggravated more than in the past by rising costs and incomes. The traditional tools for containing expenditure are increasingly ineffective. The need to combat this form of inflation in a more direct manner is therefore urgent, and moves to convince the two sides of industry to exercise greater restraint over costs and prices should be reinforced.

6. Price movements in recent years differ a good deal from what the member countries had in mind as medium-term economic policy targets. The same is true for a number of countries with regard to employment. The Committee is aware of the limits that reconciling these two targets imposes on demand management, which in some of these countries must remain directed towards raising the level of economic activity. It insists, however, that the Community as a whole needs to maintain or introduce structural measures designed to help achieve equilibrium on the labour market (a moderation in the growth of salary costs could give a contribution to this end). If it fails to reconcile the requirements of growth and stability, the Community would in the long run be in danger of sacrificing growth to stability at a time when there is a clear improvement in what is being achieved by other major countries in this respect.

## Trends in industrial labour costs

### A. Introduction: methods

Every year since 1962 one of the Commission's Quarterly Surveys on the economic situation in the Community has included an Annex showing trends of income from employment, productivity of labour, labour costs per unit of gross value added at constant prices, and the implicit price index for gross value added in industry, not only in the member countries but also in the United States and the United Kingdom.

*The definitions and methods of calculation* used in this survey are as follows:

*Gross income from employment* is defined as wages, salaries and social insurance contributions. For Belgium, however, separate figures corresponding to this definition are still not available for income from employment by economic sector; in this case, therefore, the index given by the Banque Nationale de Belgique for the total wage bill has been used, corrected by the addition of the average figure for employers' social insurance contributions. It should be pointed out that this approximation probably understates the true trend of wages in Belgian industry. The figures for labour costs in Belgian industry therefore have to be treated with even more caution than those for the other countries.

In Italy and the United Kingdom, no market-price figures are published for *gross value added at constant prices*, broken down by economic sector; for these countries, therefore, factor-cost data have been used. The prices taken as a basis for calculating gross value added at constant prices are those of 1963 in all cases except the United States, for which the reference prices used are still those of 1958. It would have been more appropriate to use the trend of gross incomes and gross value added at constant

prices per hour worked, but this could not be done because the statistics on the number of hours worked in the Community countries are incomplete. Consequently, these two items could only be calculated per employee.

Labour costs per unit of gross value added at constant prices were calculated by dividing the index of the wage bill by the index of gross value added at constant prices. These figures can also be obtained by dividing the wage bill per person employed by gross value added per person employed.

As in previous years, the survey gives figures for the trend in labour costs adjusted for changes in official exchange rates. Because of the dollar devaluation in 1971, these calculations are now based on the rates of exchange of the various national currencies against the European unit of account (EUR).<sup>1</sup> For most of 1971, when most European currencies fluctuated on the foreign exchange markets, conversion into units of account was made by reference to the market rates. From 21 December 1971, conversion into units of account has been effected on the basis of the central rates laid down in Washington on 19 December 1971, except for sterling, which since 21 June 1972 has again been converted on the basis of market rates.

The *implicit price index* is obtained by dividing gross value added at current prices by gross value added at constant prices.

For all countries covered in this Annex, the 1972 figures are based wholly or partly on estimates.

The following should be said about the *significance* of the series used here:

<sup>1</sup> One unit of account = 0.88867088 g of fine gold.

As far as possible the statistical data have been taken from national accounts, in order to ensure a sufficient degree of international comparability. In this connection, however, it should be remembered that only the trends in the indices are internationally comparable. This qualification is all the more important in that even the relationship between the various levels in the base year 1963 is not necessarily "correct".

Use of the national accounts means that only annual figures can be used. Changes in the course of the year are only partly reflected in the annual figures concerned, and they also affect the results for the following year. This makes it more difficult to judge short-term trends in particular.

The concept of value added differs from that of industrial production as generally applied in calculating monthly indices of industrial production.

This difference between value added and industrial production (as used for production indices) appears most clearly in the *implicit price index for gross value added*. In this index, two essential factors affecting actual market prices are not taken into account, namely, firm-to-firm supplies within industry and supplies from other sectors, including abroad. The trend of the implicit price index therefore differs from the trend of market prices to an extent which varies from country to country, since the proportion of value added in industrial output also varies.

*Gross income from employment in industry* does not include all wages contained in the market prices, i.e. it excludes wages paid in respect of goods and services supplied to industry by other domestic sectors.

These remarks should show that the series which follow must be used cautiously. They are not internationally comparable as they stand, and their development in time is different from that of series the data of which are based not on value added but on gross production.

#### B. *Developments in 1972*

In 1972 *industrial labour costs per unit of gross value added* continued to climb at a lively pace in the enlarged Community, but in most coun-

tries the rise was slower than in 1971. In terms of national currencies, the slowdown was quite distinct in Italy (7.5% against 12.7% in 1971), Germany (4.5% against 8.5% in 1971) and the Netherlands (3.5% against 6.5% in 1971); it was less pronounced in the United Kingdom, where labour costs per unit of gross value added advanced by 5.9%, compared with 6.7% a year earlier. In France and Belgium, the rate of increase was much the same as in 1971, i.e. some 6.5% and 8% respectively. As in 1971, the advance was in all Community countries faster than in the United States, where it reached a mere 1.5% (1971: 2%).

If account is taken of the changes in the rates of exchange against the European unit of account (EUR), the rise in labour costs per unit of gross value added is slightly less than that based on the national currencies, although some Community currencies were revalued in December 1971. This is because in 1971 the gap between the market rates and the EUR parity was wider than the gap resulting from the new exchange rate relationships laid down in Washington in 1971. In terms of European units of account, the rise was some 7½% in Belgium (1971: 11.4%), almost 6% in France (1971: 7.4%), over 5% in Italy (1971: 7.5%), close on 4% in Germany (1971: 14%) and slightly more than 2% in Italy (1971: 7.5%) and slightly more than 2% in the Netherlands (1971: 10.2%). In the United Kingdom, labour costs per unit of value added in terms of European units of account fell by 0.3% due to the floating of sterling. In the United States, they dropped by 6.5%, in terms of European units of account, owing to the devaluation of the dollar in December 1971.

Rather than being the result of any appreciable slackening in the increase of per capita income from employment, the slowdown in the rise of industrial labour costs in the countries of the enlarged Community is due mainly to a faster advance in productivity.

The growth rate of per capita income from employment remained vigorous throughout the enlarged Community; it was 13% in the United Kingdom and Belgium, 12.5% in the Netherlands, 11.5% in France, 11% in Italy and 9% in Germany. Compared with 1971, this represents a slight slowdown in Germany and the

Netherlands and no change in France and Italy; the figure for Belgium and the United Kingdom implies an acceleration on the preceding years.

In the United States, on the other hand, the rise in per capita income from employment in industry was at 6.5% (1971: 7.3%) still distinctly slower than in the Community countries.

The growth rate of *gross value added (at constant prices) per employee* accelerated in all Community countries. It was 9% in the Netherlands (1971: 6.7%), 6.7% in the United Kingdom (1971: 4.5%), 5.3% in Belgium (1971: 4.3%), some 4.5% in Germany and France (1971: 2.9% and 4.3% respectively), and 3.5% in Italy (1971: -1%). In 1972 increased rationalization efforts were being made to offset the rise in labour costs. The

number of persons employed in industry therefore dropped distinctly in almost all member countries; at 3.5% the fall was sharpest in the Netherlands and the United Kingdom (1971: -1.2% and -3.8% respectively); it was 1.5% in Germany and Italy (1971: about -0.5% in both countries) and 1% in Belgium (1971: +0.2%); in France, on the other hand, the number of persons employed went up by 0.8%, matching the advance registered in 1971.

In the United States, employment in industry rose by 2%, after a sharp fall in the two preceding years (1970: -3.7%, 1971: -3.4%); the increase in gross value added per employee reached 5% (1970: 0%, 1971: 5.2%); at 7.5% the growth of gross value added in industry was faster than in any country of the enlarged Community.

*Labour costs per unit of gross value added in industry*  
(at constant prices)

Country	1963 = 100							1972/ 1968 in % 1	1972/ 1968 in % 2
	1968	1969	1970	1971 <sup>1</sup>	1971 <sup>2</sup>	1972 <sup>1</sup>	1972 <sup>2</sup>		
Germany	105.2	108.1	121.5	131.8	151.6	137.7	157.3	30.9	49.5
France	114.1	120.9	126.4	134.9	120.8	143.8	127.8	26.0	12.0
Italy	108.4	113.3	129.9	146.4	147.9	157.4	155.6	45.2	43.5
Netherlands	119.4	126.5	133.1	141.8	146.7	146.5	150.6	22.7	26.1
Belgium	110.5	109.7	115.7	125.3	128.9	134.7	138.4	21.9	25.2
United States	111.9	117.3	128.6	137.3	119.8	145.4	119.5	29.9	6.8
United Kingdom	112.1	117.6	124.9	127.4	127.0	129.0	118.9	15.1	6.0

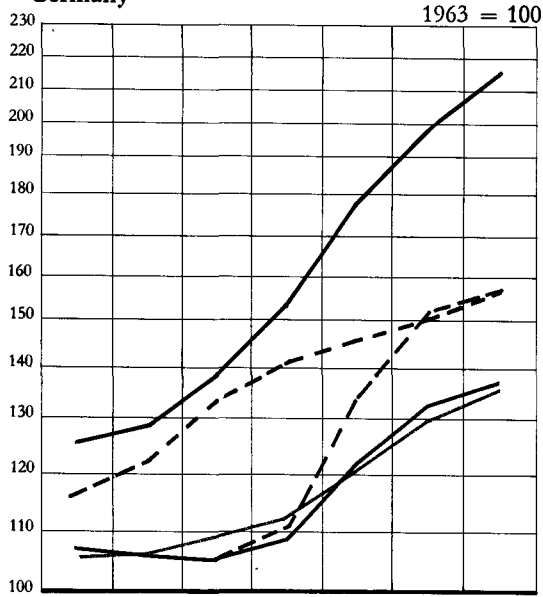
<sup>1</sup> In national currencies.

<sup>2</sup> Adjusted for parity changes.

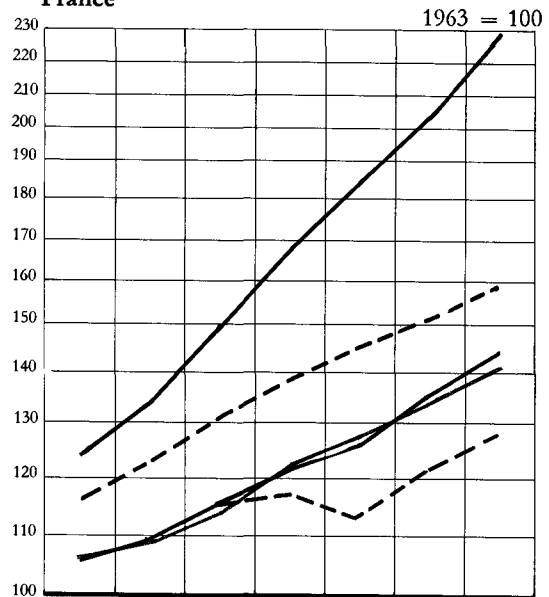


# LABOUR COSTS IN INDUSTRY

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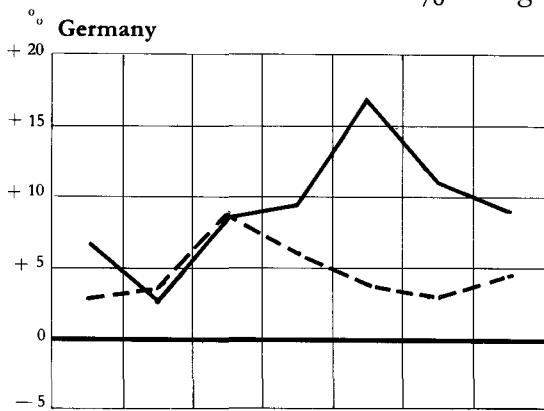


France

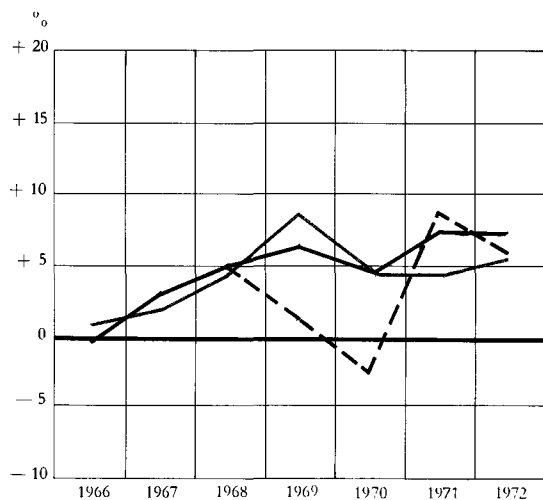
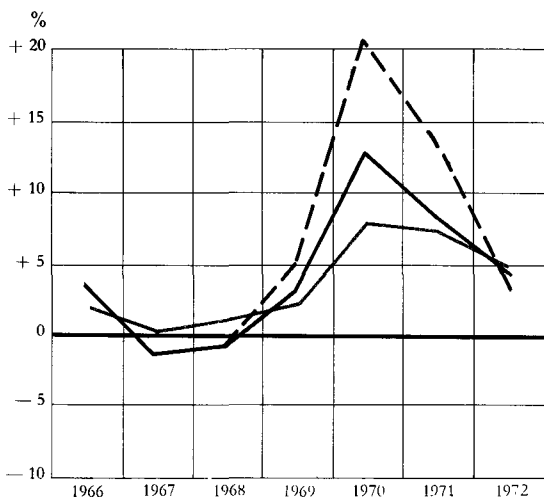
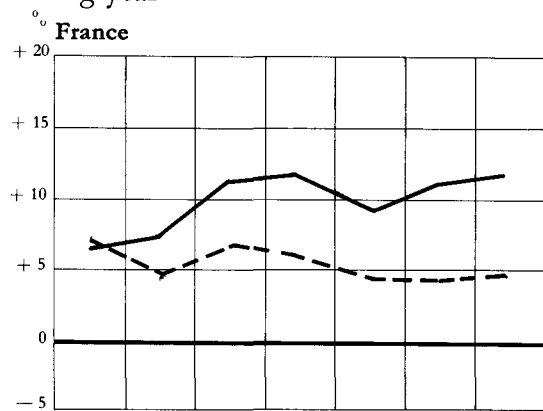


% change on preceding year

Germany

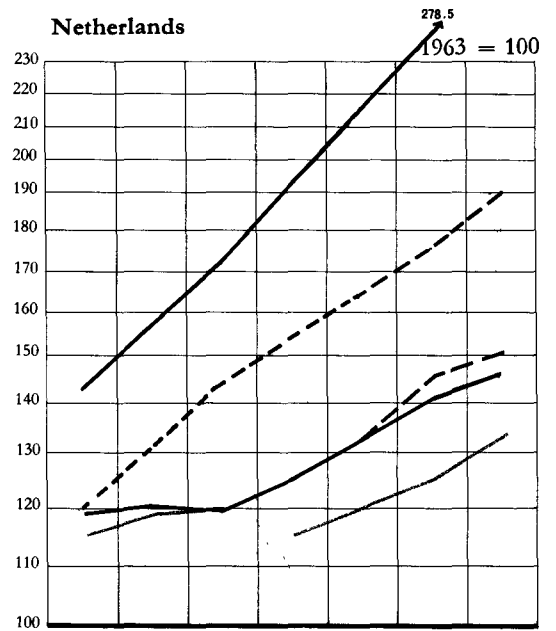
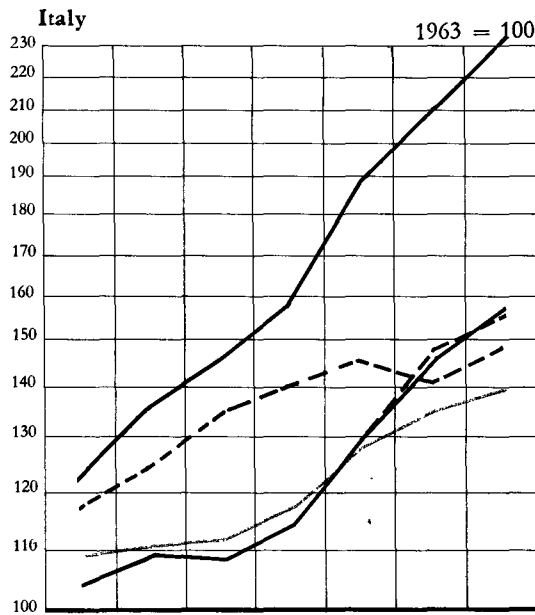


France

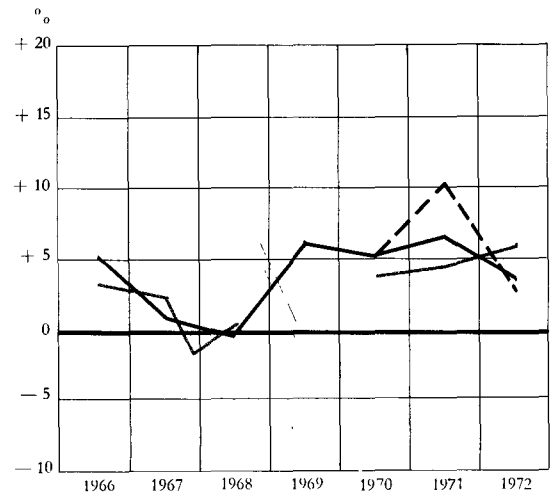
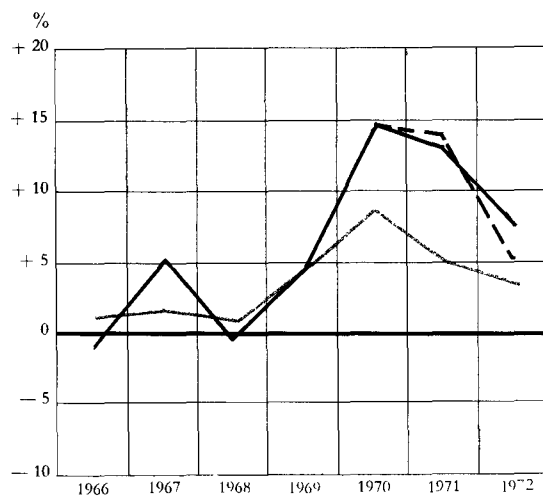
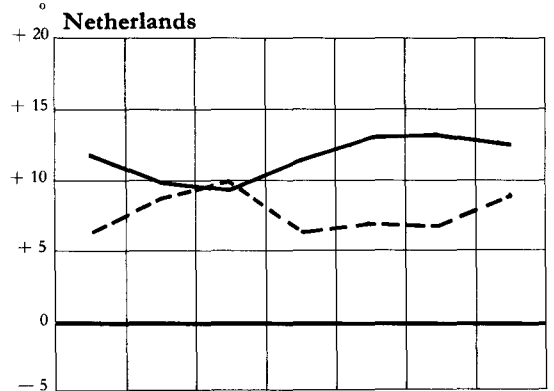
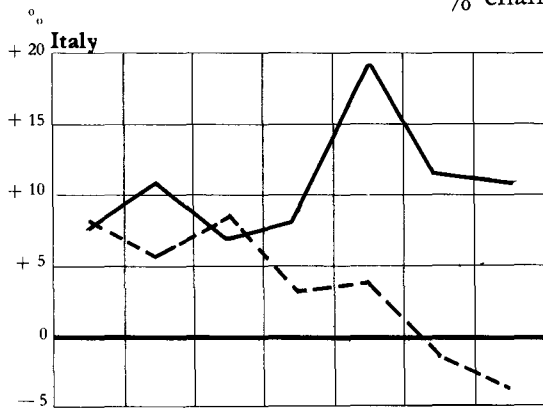


- Income from employment per head
- - - - - Gross value added (at constant prices) per employee
- Labour costs per unit of gross value added (at constant prices)
- - - - - Labour costs per unit of gross value added (at constant prices) corrected to account for changes in official exchange rates
- Implicit price index of gross value added

# LABOUR COSTS IN INDUSTRY



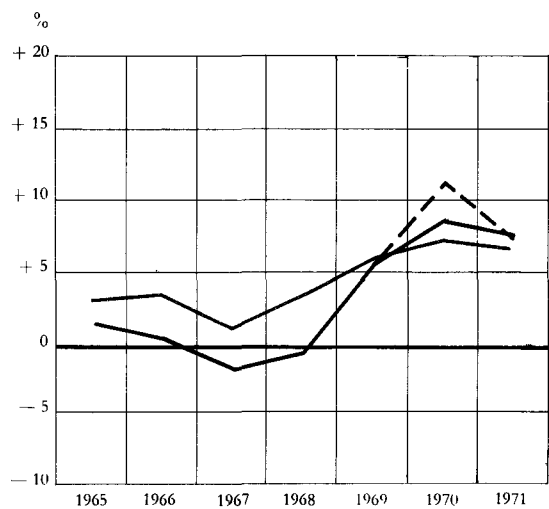
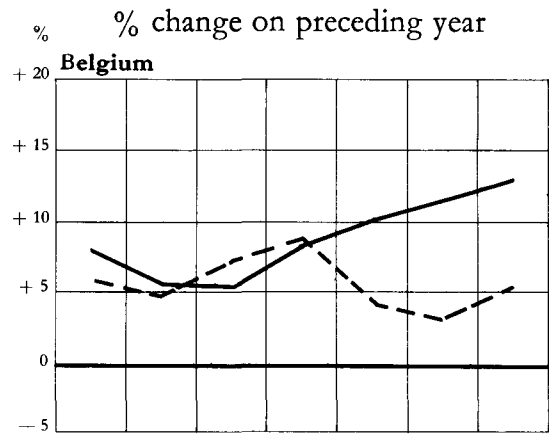
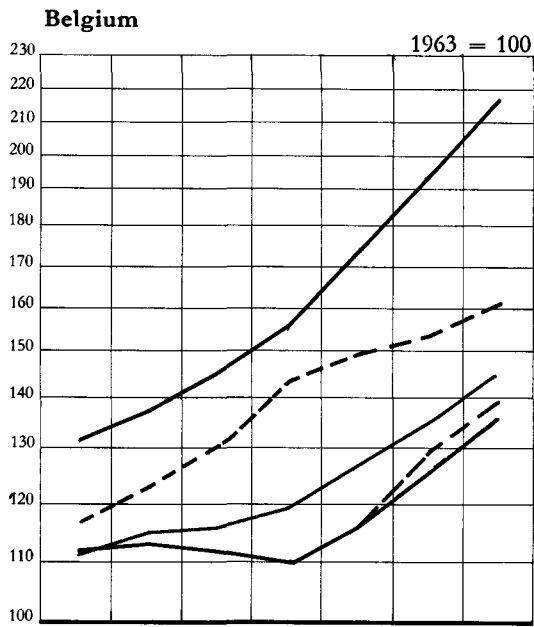
% change on preceding year



- *Income from employment per head*
- - - - - *Gross value added (at constant prices) per employee*
- *Labour costs per unit of gross value added (at constant prices)*
- - - - - *Labour costs per unit of gross value added (at constant prices) corrected to account for changes in official exchange rates*
- *Implicit price index of gross value added*

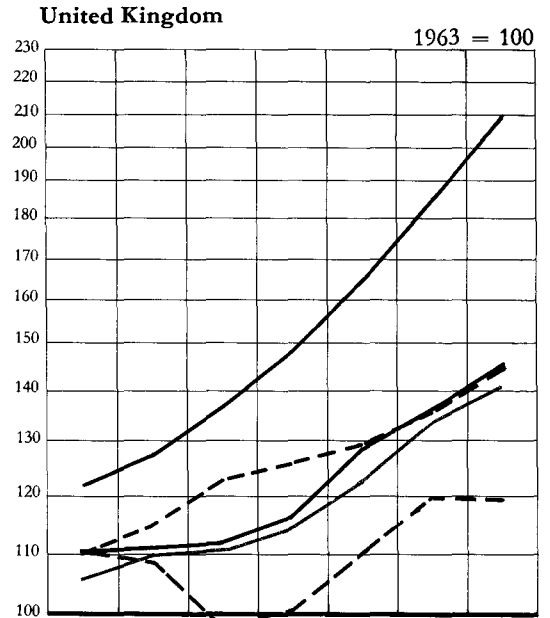
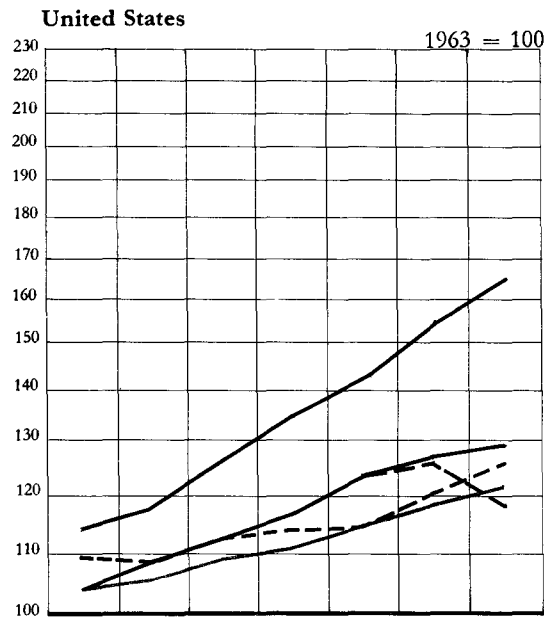


# LABOUR COSTS IN INDUSTRY

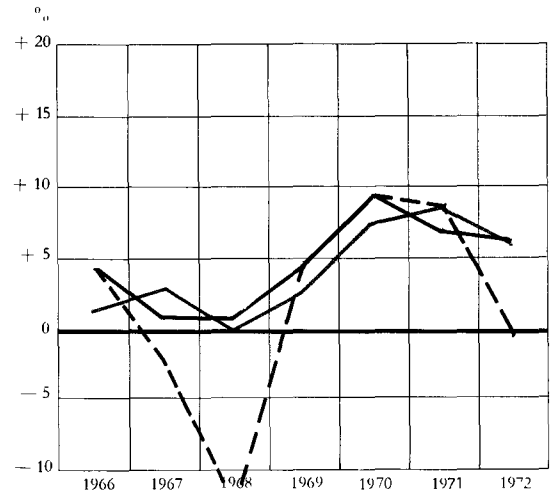
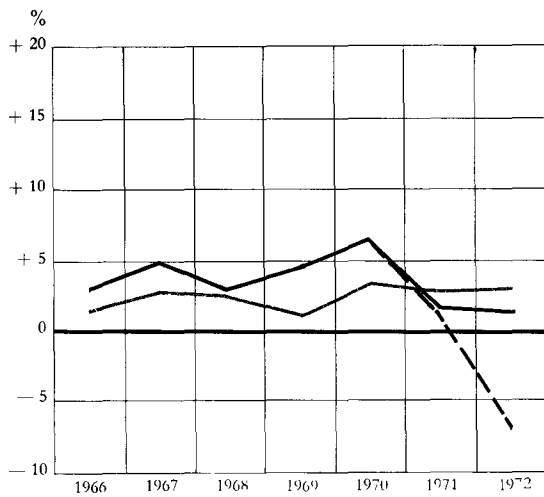
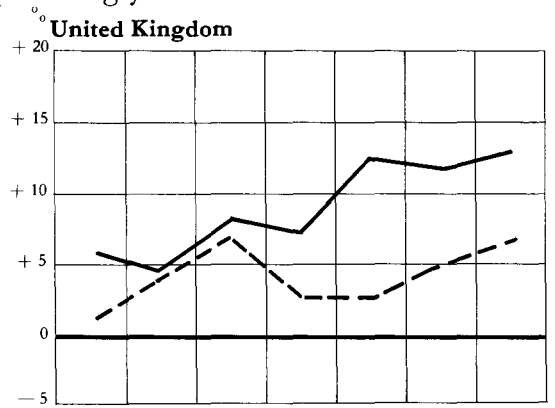
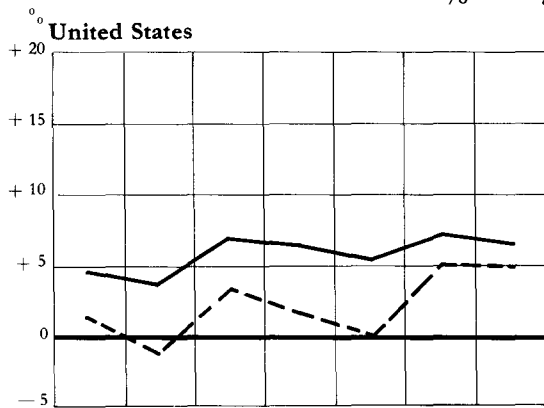


- Income from employment per head
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- - - - - Labour costs per unit of gross value added (at constant prices) corrected to account for changes in official exchange rates
- Implicit price index of gross value added

# LABOUR COSTS IN INDUSTRY



% change on preceding year



- *Income from employment per head*
- - - - - *Gross value added (at constant prices) per employee*
- *Labour costs per unit of gross value added (at constant prices)*
- - - - - *Labour costs per unit of gross value added (at constant prices) corrected to account for changes in official exchange rates*
- *Implicit price index of gross value added*