



**European
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**Directorate-
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**The economic situation
in the Community**

2

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Quarterly survey

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

COMMISSION

**The Economic Situation
in the Community**

JUNE 1972

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I. THE OVERALL SITUATION

At the turn of the year, the main features of the economy in the Community were a rapid increase in costs and prices, a fall in capacity utilization rates, a slight deterioration in employment and a slowdown of economic growth in all member countries except France and Italy. After the distinct deterioration in the second half of 1971, however, the business climate in most member countries took a turn for the better at the beginning of 1972.

Exports to non-member countries tended to slacken in the fourth quarter of 1971 and, it would seem, in the early months of 1972 as well. The propensity to invest of private sector enterprises probably declined further, owing to the profit squeeze and the lower rate of capacity utilization. At the same time there was a vigorous rise in expenditure on residential construction and public works, largely as a result of the measures taken by certain governments and the unusually mild winter. Though private consumers' expenditure was expanding more slowly in a number of member countries, it too continued to provide a vigorous boost to economic activity.

The growth of production generally was comparatively modest, although in some member countries the pace of output picked up slightly after the turn of the year. Unemployment ceased to rise; there was a further drop in the value of imports from non-member countries; intra-Community trade tended to mark time and, despite a somewhat calmer trend in producer prices, the cost of living continued to climb rapidly.

Although most member countries have already taken or announced measures to sustain demand, no radical change in economic trend can be expected for the time being, but there is also no reason to fear the emergence of recessionary tendencies. The growth of production in most member countries will however continue for a time to be relatively modest, and it is only in the second half of the year that economic activity may become more buoyant, helped mainly by an improvement in the propensity to invest. All in all, the real gross Community product should increase in 1972 by some 3%.

A. Short-term economic policy

The economic situation in the Community was very unsatisfactory at the end of 1971. The rise in costs and prices continued, despite a certain slowdown in some countries, to be very rapid; there was a fall in the number of hours actually worked, and seasonally adjusted unemployment rose slightly; economic growth slowed down appreciably in all member countries except Italy and France, exports to non-member countries tended downwards in the fourth quarter, and the propensity to invest of entrepreneurs deteriorated in almost all member countries.

Although there have been signs of an appreciable improvement in the business climate since the decisions taken in Washington, most member countries will in the months ahead still be faced with little growth in economic activity or even stagnation, accompanied by a vigorous upward thrust of costs and prices.

In view of this situation the Commission has recently stressed¹ that Member States, in coping with the problems posed by the economic outlook for 1972 and described in detail later in this Survey, should remember that the general guidelines laid down on 26 October 1971 by the Council in the "Annual Report on the Economic Situation in the Community"² have on the whole lost nothing of their force. The Commission feels, however, that the new economic situation calls for some adjustment of the emphasis laid on the various elements in the policy mix, especially as the guidelines contained in the Annual Report have so far been followed very unevenly by the member countries, and as at the moment there is reason to assume that in the fourth quarter of 1972 some member countries will move very close to the guidelines on prices and incomes (annual rate of increase of some 3 to 3½% for prices and some 6 to 7% for wages), while others may still be fairly far from achieving these targets.

¹ Memorandum from the Commission to the Council on the adaptation of economic policy guidelines for 1972, 8 March 1972.

² *Journal officiel of the European Communities*, No. L 253, 16 November 1971, pp. 13 et seq.

Those member countries in which the upward thrust of costs and prices will remain lively in 1972, i.e. the Netherlands, France and Belgium, should therefore exercise caution in taking measures to sustain or boost economic activity. In Germany, the deceleration in the upward movement of wages, coupled with the relative weakness of economic activity, would seem to allow of action being taken to sustain domestic demand without undue delay. The Federal Government has already announced that the DM 6 000 million of counter-cyclical surcharge on income and corporation tax would be repaid in the second half of June.

The less restrictive or even reflationary course of monetary policy could be maintained in all member countries but there should be no excessive expansion of liquidity. Member States should, in the circumstances, closely concert their measures in this field, especially where interest rate policy is concerned. To increase the effectiveness of monetary policy capital movements to and from non-member countries should also be subjected to the requisite degree of regulation. In this connection, the Council at its meeting of 20 and 21 March 1972, acting on a proposal from the Commission, adopted a directive concerning the regulation of international financial flows and the action that should be taken to neutralize their undesirable effects on internal liquidity.

With regard to budgetary policy it is important that those countries in which there has so far been no evidence that the rise in costs and prices is slowing down should ensure that the growth of expenditure is in keeping with the guidelines laid down by the Council in October, while the others would appear to be justified in allowing these guidelines to be exceeded somewhat.

Quite generally it must be emphasized once again that for the upward thrust of prices and wages to be dampened significantly without lasting damage to growth, it is essential that the economic and social policy of all Member States be supported by both sides of industry. In particular, if the measures to sustain or revive economic activity and maintain job security are

to be effective, an end must be put to the spiralling demands of the various economic and social groups.

In short, the remedy in the present situation lies neither in giving an unrestrained boost to demand in the hope of maintaining full employment at any price, nor in having excessive recourse to the classic methods of dampening demand, used in the vain hope of suppressing an upward thrust of costs and prices which in present circumstances can hardly be attributed to an imbalance between supply and demand. More effective would be to pursue a selective policy of supporting demand, especially in those industries and regions where plant capacity and manpower reserves are not sufficiently utilized—a policy that should be backed up by close cooperation from both sides of industry.

The success of short-term economic policy in 1972 also hinges on a substantial improvement in international monetary relations, and here the Community will have to make a major contribution. This means that there will in addition have to be closer coordination of short-term economic policy and better organization of monetary and financial relations between the Member States, in respect of which the Council agreed further steps on 21 March.

To strengthen the coordination of Member States' short-term economic policies the Council took the following decisions:¹

A special coordinating group has been set up at the Council with the task of keeping Member States constantly informed on each other's short-term economic and financial policy and coordinating these policies in the framework of the economic policy guidelines laid down by the Council. The group would consist of one special representative of the Minister or Ministers responsible in each Member State, and one representative of the Commission.

Whenever a Member State plans to take measures or decisions that deviate from the economic

policy guidelines laid down by the Council, it will have to consult the other Community countries in this coordinating group before adopting them. If major objections are raised to the measures or decisions, a Member State or the Commission may apply for discussion of the matter to be transferred to the Council, which will have to meet within eight days.

In addition, the Commission will as soon as possible submit to the Council a proposal for a directive to promote stability, growth and full employment in the Community.

In order to make an immediate start with the regional and structural measures necessary for the full achievement of monetary and economic union, the Council also agreed in principle that from 1972 the European Agricultural Guidance and Guarantee Fund can be used to finance regional development projects and that other suitable Community instruments will be used to help progress in this field.

In order to improve the organization of monetary and financial relations among Member States and make a first step towards the creation, in the framework of the international monetary system, of a monetary area with an independent personality of its own, the Council asked the Central Banks of the Member States to ensure gradual narrowing of the spread between the most highly and the least highly rated currencies in the Community. By 1 July 1972 the maximum spread between the currencies of any two Member States is not to exceed 2.25%, it being understood that full use will be made of the margins of fluctuation permitted by the International Monetary Fund at world level.¹

With this end in view, the Central Banks were asked to intervene on the foreign exchange markets of their countries in accordance with the following principles:

- (i) In Community currencies if the exchange rates of these currencies on the foreign exchange market concerned reach the maximum spread of 2.25%;

¹ Resolution of the Council and the Representatives of the Governments of the Member States of 21 March 1972 on the application of the Resolution of 22 March 1971 concerning the achievement by stages of economic and monetary union in the Community.

¹ At the end of March the maximum spread recorded between the currencies of the Member States was already within this range.

- (ii) In US dollars if the exchange rate of the dollar on the foreign exchange market concerned reaches the limit of fluctuation set by the International Monetary Fund;
- (iii) Otherwise only after a joint decision by the Central Banks.

Any balances arising out of interventions in Community currencies must be settled within a month, except where the Committee of Governors of Central Banks agrees otherwise. The balances must be settled in accordance with

the structure of the monetary reserves of the debtor country.

In addition, the Council agreed that proposals from the Commission for completing the steps required in the first stage of economic and monetary union, particularly the proposals on tax harmonization and the gradual establishment of a European capital market, should be given priority on the Council's agenda, and that it will then act on them within six months.

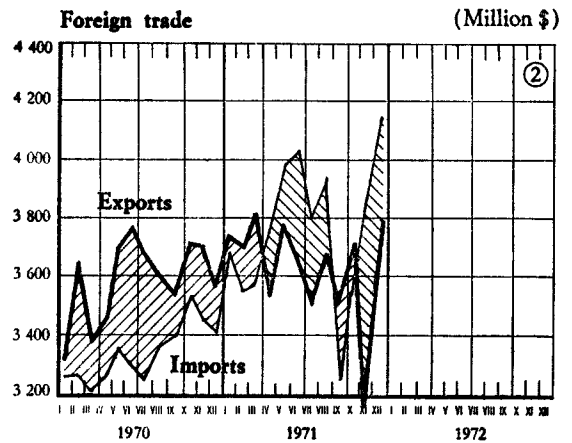
B. Recent developments

1. The world economic situation

In the past few months exports to non-member countries have been affected by the appreciation of most Community currencies, the repercussions of monetary uncertainty and, quite generally, the comparatively weak trend of world trade. They were slipping in the fourth quarter of 1971, and probably showed a further slight decline in the early months of 1972.

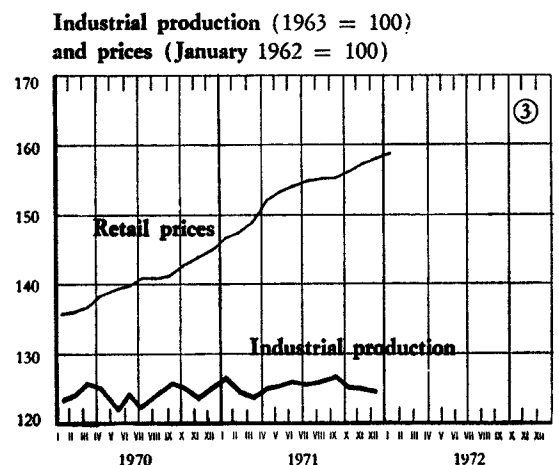
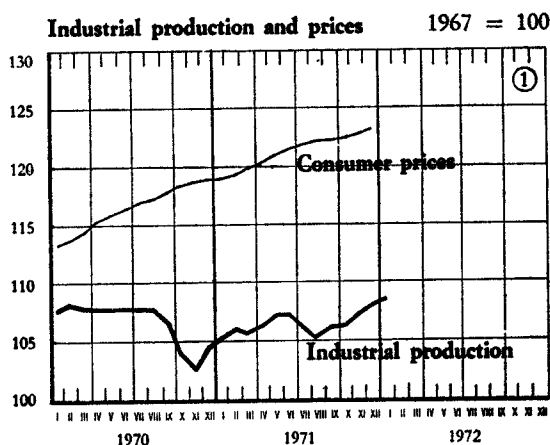
While the economic upswing in the United States gathered momentum in the fourth quarter of 1971 and the beginning of 1972, the business situation in a large number of other industrialized countries remained depressed. This had an unfavourable impact on world trade which was heightened by the slowdown of economic growth in the Community. The slackening of import demand from the developing countries continued.

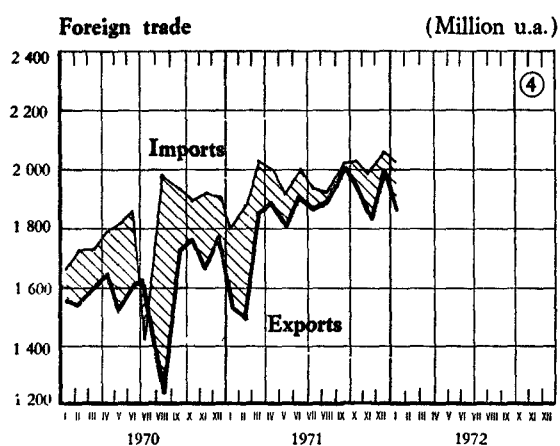
In the United States, real gross national product in the fourth quarter showed a seasonally adjusted rise of 1.4%, compared with 0.7% in the third quarter. This acceleration stems mainly from a more lively growth of public current expenditure, private consumers' expenditure and stockbuilding. Private consumption in particular expanded considerably in the final quarter of 1971. The past few months have also brought a slight recovery of investment in plant and machinery, which had been particularly sluggish until summer.



The price and wage freeze maintained until mid-November and then replaced by more flexible controls had a distinctly dampening effect on the rise in consumer prices. Although employment went up appreciably, unemployment remained at a high level, accounting for 5.7% of the labour force in February. The foreign trade figures are still distorted by the long dock strike, which was not called off until the end of February. The balance of trade closed with heavy deficits in the fourth quarter of 1971 and at the beginning of 1972.

In the United Kingdom, the slight pick-up that had been apparent since the middle of the year continued in the fourth quarter, helped mainly by a firmer trend in private consumers' expenditure and a lively expansion of residential construction. Early in 1972, however, this pick-





up was temporarily interrupted by the effects of the miners' strike. The propensity to invest of enterprises remained comparatively weak. Unemployment went up further, and in January the number of jobless accounted for 3.8% of the labour force. Though still very lively, the upward thrust of prices and wages weakened a little. The surpluses on trade have shown a marked decline recently.

In most other industrialized countries outside the Community economic growth was weak. In Austria, Switzerland and Norway expansion

Visible exports to non-member countries

(Values and % changes on preceding year)

	1970		1971				
	million u.a. ¹	Full year	1st quarter	2nd quarter	3rd quarter ⁵	4th quarter	Full year
All non-member countries	45 198	+ 15	+ 10.5	+ 7.5	+ 12	+ 5	+ 9.5
of which :							
Industrialized countries ²	29 836	+ 16.5	+ 15.5	+ 8	+ 12	+ 3.5	+ 9.5
including :							
United States	6 633	+ 11.5	+ 22.5	+ 16.5	+ 27.5	- 9.5	+ 13.5
EFTA	14 884	+ 16.5	+ 13	+ 7.5	+ 10	+ 8	+ 9.5
United Kingdom	3 667	+ 9	+ 22	+ 16.5	+ 26	+ 16.5	+ 20
Developing countries ³	11 546	+ 13	+ 14	+ 6	+ 12	+ 7	+ 9.5
including :							
Associated overseas countries and territories	3 253	+ 18.5	+ 10.5	- 3.5	0	+ 3	+ 2.5
Other countries ⁴	3 817	+ 12	+ 5	+ 11.5	+ 9.5	+ 15	+ 10

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

¹ 1 u.a. = 1 unit of account = 0.888671 g of fine gold.

² Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

³ Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

⁴ Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC and other exports.

slowed down, while in the other countries of Western Europe it continued to be sluggish. Canada registered lively economic growth, helped by the revival in the United States, while the economic trend in Japan remained weak.

2. The economic situation in the Community

(a) Internal demand

In most member countries, the slackening in the expansion of domestic demand noted previously has in recent months become, if anything, still more marked. Exceptions are Italy, where economic activity has revived again a little, and France, where demand is still expanding briskly. In Germany, the flow of new orders recovered slightly at the beginning of 1972.

The growth of gross fixed asset formation by enterprises was almost everywhere held back by shrinking profit margins, the less favourable outlook for domestic and export sales, and the fall in the level of capacity utilization. Actual spending on plant and machinery therefore tended downwards in most Community countries.

Building investment, on the other hand, ran at a comparatively high level, owing to the unusually mild winter. This was particularly evident in residential construction and public works, with several member countries encouraging activity in both sectors through official measures.

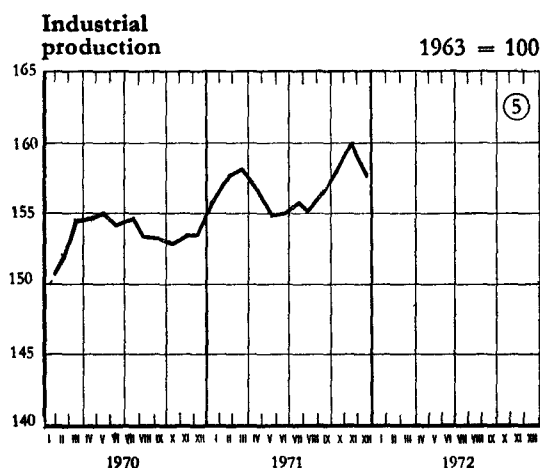
With regard to stockbuilding, the EEC Business Surveys suggest that in most member countries the period under review has seen an involuntary build-up of stocks of finished products. Stocks of raw materials, by contrast, still seemed in the early months of 1972 to be stabilizing if not actually declining.

The rise in expenditure on consumption has remained vigorous in the past few months, but there has been an unmistakable tendency for its pace to slow down. The small rise in the numbers employed, the fall in the number of hours worked and the reduction—particularly in Germany—of the pace at which agreed wages

were advancing all affected the expansion of disposable incomes. In addition, the progressive easing of strains on the labour market has in several member countries led consumers to be more cautious, and this has caused the savings ratio to go up. With consumer prices continuing to climb sharply, the slackening in the expansion of expenditure is fully evident in the figures for private consumers' expenditure at constant prices.

(b) Production and employment

Although the expansion of overall demand lost momentum, the growth of production gathered a little speed at the end of 1971 and the beginning of 1972. In the countries in the north of the Community, activity in the building and ancillary industries was very lively for the season, owing to the unusually good weather. In some countries, too, the ending of labour



disputes led to a somewhat more favourable trend of production. Production in Italy helped by the improved business climate, continued before and after the turn of the year to creep upwards, while in France it expanded comparatively rapidly.

At the end of 1971, pressures on the labour market were still easing; unemployment was going up, working hours shortening and the number of unfilled vacancies declining in almost all Community countries. In some of them, however, the particularly mild weather brought this tendency to a—presumably temporary—halt at the beginning of 1972.

Industrial production¹

(% change on preceding quarter)²

	1970				1971			
	I	II	III	IV	I	II	III	IV
Germany	+ 3.1	- 0.5	- 0.9	+ 0.6	+ 3.5	- 1.4	- 1.6	- 1.3
France	+ 3.6	- 0.7	- 0.5	+ 1.3	+ 2.5	- 1.7	+ 5.5	+ 1.1
Italy	+ 13.6	- 2.5	+ 3.2	+ 1.5	- 3.8	- 4.7	+ 1.0	+ 7.2
Netherlands	+ 4.7	- 2.0	+ 1.5	+ 3.3	+ 5.3	- 4.1	+ 2.1	+ 1.1
Belgium	- 0.4	- 0.5	+ 0.9	+ 0.9	+ 2.6	- 3.4	+ 1.8	+ 3.1
Luxemburg	+ 0.4	0.0	- 4.3	- 5.2	+ 1.5	+ 5.2	+ 0.2	- 2.9
Community	+ 4.0	- 0.3	+ 0.9	- 0.1	+ 2.4	- 1.6	+ 1.0	+ 0.6

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

¹ Excluding construction, food, beverages and tobacco.

² Calculated on the basis of the seasonally adjusted indices.

(c) Balance of the markets

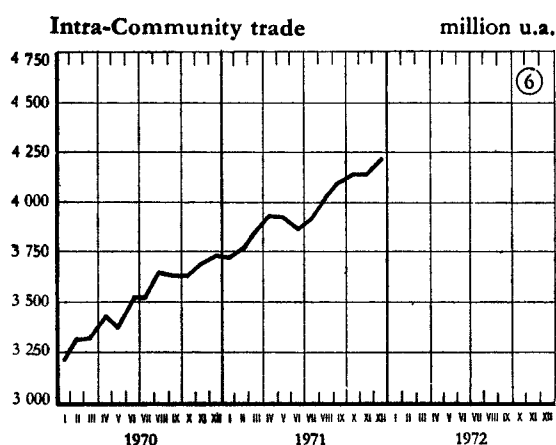
The value of the Community's imports from non-member countries has fallen further in recent months, the principal causes being the slowdown in final demand and the drive to run down stocks. The appreciation of Member States' currencies in terms of those of the non-member countries has so far had no significant expansionary effects on imports.

Under the influence of the same factors, intra-Community trade has shown little if any increase during the past few months. Despite the comparatively sharp appreciation of the German mark, the expansion of German imports from

the other Community countries has not gathered speed. In France, the rise in imports from the rest of the Community has tended to slow down distinctly in recent months. In the Netherlands, imports from the Community have ceased to rise, and in the Belgo-Luxembourg Economic Union they have even showed a slight downward trend. Italy is the only Community country where the trend of imports from other member countries has recently regained some measure of buoyancy, economic activity having begun to pick up.

Although the slowdown in demand caused the rise in producer prices for industrial products to settle down, this has not yet had any effect on the cost of living, which has continued to go up rapidly. At the same time the vigorous increase in the prices of agricultural products and services also contributed to the persistent rise in consumer prices.

The Community's balance of visible trade (on a settlements basis) and its balance of payments on current account closed with surpluses in the fourth quarter. The capital account, on the other hand, was affected by considerable net exports of short-term capital, with the result that the Community's overall balance of payments for October-December 1971 was in



Visible imports from non-member countries

(Values and % changes on preceding year)

	1970		1971				
	Million u.a. ¹	Full year	1st quarter	2nd quarter	3rd quarter	4th quarter	Full year
All non-member countries	45 621	+ 16	+ 12.5	+ 5.5	+ 5	+ 0.5	+ 5.5
of which :							
Industrialized countries ²	26 411	+ 18.5	+ 13	+ 2.5	- 4	- 4	+ 3.5
including :							
United States	9 038	+ 23	+ 18	- 2.5	- 2.5	- 19.5	- 2.5
EFTA	10 715	+ 13	+ 11.5	+ 5.5	+ 6	+ 3	+ 6.5
United Kingdom	4 009	+ 11.5	+ 9	+ 5.5	+ 13	+ 3.5	+ 7.5
Developing countries ³	16 105	+ 13	+ 12	+ 10	+ 6.5	+ 4	+ 8
including :							
Associated overseas countries and territories	3 517	+ 10	- 12.5	- 14	- 17	- 6	- 13
Central and South America	3 591	+ 13.5	+ 12.5	- 10	- 12.5	- 8.5	- 5
Other countries ⁴	3 105	+ 11.5	+ 8.5	+ 9.5	+ 14	+ 18	+ 12.5

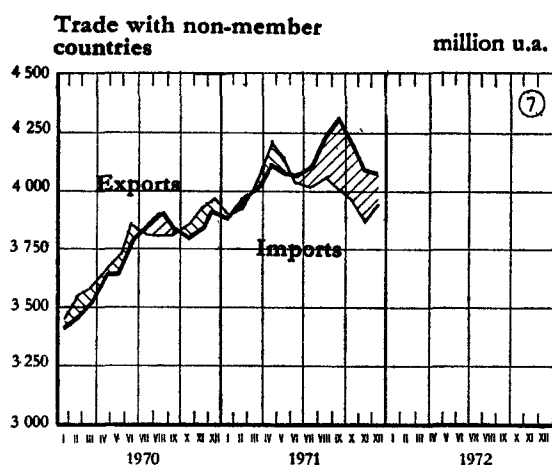
Source : Statistical Office of the European Communities (SOEC).

¹ 1 u.a. = 1 unit of account = 0.888671 g of fine gold.

² Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

³ Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

⁴ Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC and other imports.



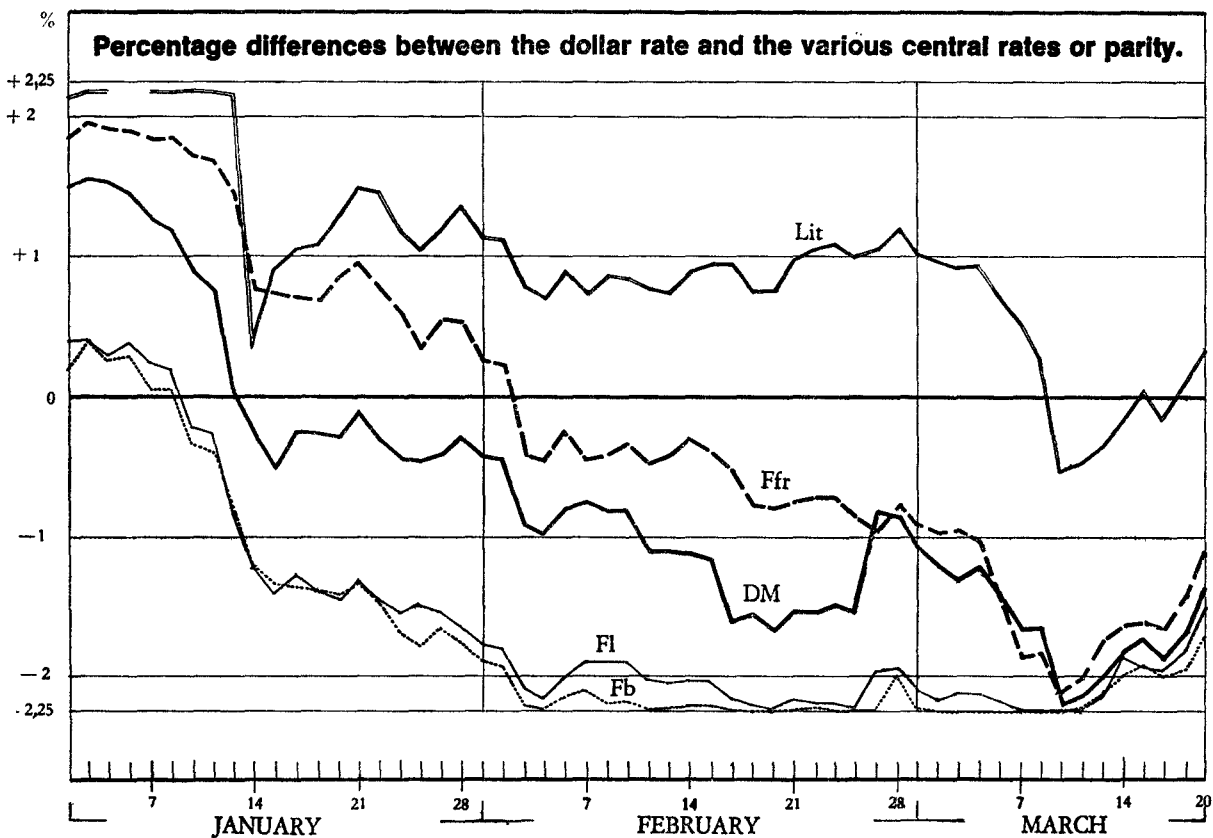
Consumer price index

(% changes)

	January 1971 May 1971	May 1971 September 1971	September 1971 January 1972	January 1971 January 1972
Germany	+ 2.2	+ 1.2	+ 2.4	+ 5.8
France	+ 2.2	+ 1.7	+ 1.7	+ 5.6
Italy	+ 1.7	+ 1.3	+ 1.7	+ 4.7
Netherlands	+ 3.8	+ 2.3	+ 1.9	+ 7.9
Belgium	+ 2.0	+ 1.9	+ 1.3	+ 5.3
Luxembourg	+ 2.4	+ 0.9	+ 2.0	+ 5.3

deficit. Official gross monetary reserves nevertheless rose sharply, mainly because the commercial banks repatriated foreign assets on a substantial scale. The growth of the monetary reserves continued in the first two months of 1972. This was in part due to the third allocation, on 1 January, of Special Drawing Rights in a total amount of 2 900 million u.a., of which

the Community countries received 577.7 million u.a. In addition, large amounts of dollars were placed in the Community to take advantage of the interest rate differential, or for speculative reasons. Since the monetary agreement reached in Washington, the exchange rates of the dollar against almost all Community countries have fallen below the agreed central



1972

rates or parities. On several occasions the Central Banks have intervened on the foreign exchange markets either because the dollar had reached the lower limit of the 2.25% spread allowed in each direction under the Washington agreement, or because they wanted to prevent the dollar sinking close to this lower limit.

All in all, transactions with abroad had an expansionary effect on internal liquidity in the first two months of 1972.

The cash transactions of the public authorities in the fourth quarter of 1971 reduced liquidity

in the Netherlands and France, where the authorities, as is usual at this season, were able to show surpluses. In the other member countries, by contrast, there were cash deficits, financed in large measure by monetary means.

The expansion of bank lending to the private sector has remained vigorous in recent months and in some cases has even accelerated. The strains on the Community's money markets nevertheless eased distinctly in the closing months of 1971 and at the beginning of 1972. A similar, though less pronounced, tendency

Demand for and supply of goods and services

	1969 ¹	1970 ^{2 5}		1971 ^{3 5}		1972 ^{4 5}	
	At current prices in '000 million u.a. ⁶	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Gross fixed asset formation	101.9	+ 8.5	+ 18.6	+ 3	+ 10	+ 1	+ 5½
Public current expenditure on goods and services	60.2	+ 4.1	+ 11.7	+ 4½	+ 16½	+ 3½	+ 10½
Private consumers' expenditure	253.1	+ 6.0	+ 10.8	+ 5	+ 10½	+ 4	+ 9
Gross Community product	430.1	+ 5.6	+ 12.2	+ 3½	+ 10½	+ 3	+ 8
Balance exports less imports (in '000 million units of account) ⁶	5.3	+ 4.6		+ 6.5		+ 6.9	

¹ Statistical Office of the European Communities (SOEC); National Accounts 1960-70 (1971).

² Actual results.

³ Estimates.

⁴ Forecasts.

⁵ Based on Community totals of the aggregates of the individual member countries at official exchange rates 1970.

⁶ 1 u.a. = 1 unit of account = 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.

asserted itself on the Community's capital markets. The yields of fixed-interest securities have been declining recently, while share prices have recovered since the monetary conference held in Washington.

The changes that have occurred on the money and capital markets are closely connected with the relaxation of credit policy by the Central Banks. While credit policy was already being made less restrictive during 1971, the early months of 1972 saw a further appreciable easing in several member countries. Here the inflows of capital from non-member countries were a particularly important factor, reinforcing the effects of a slackening in corporate investment and the further easing of the strains affecting business activity.

The downward movement of interest rates in the United States and on the Eurodollar market has continued in recent months. To prevent the interest rate differential from widening, discount rates at the beginning of the year were cut further in all Community countries except Italy; at the beginning of March it was 3% in Germany, 4% in the Netherlands and Belgium, 4.5% in Italy and 6% in France. In Germany, the measures to curb inflows of capital included an increase in the minimum reserve ratios applicable to the bank deposits of non-residents, and the introduction of a requirement that enterprises should place interest-free with the Bundesbank 40% of any financial credits contracted abroad. In Belgium and the Netherlands, too, steps were taken at the beginning of March to stem undesirable inflows of capital.

C. Outlook

1. Outlook for world economic activity

Despite the improved psychological climate after the Washington decisions, the outlook for the Community's exports to non-member countries in the next few months is not particularly favourable. Although economic expansion can be expected to gather speed in North America and to a lesser degree in the United Kingdom, the pace of economic growth in the other industrialized countries will probably remain moderate, at least in the first half of the year. This is why world trade in real terms will expand at a slower pace, certainly not much more than an annual rate of 5%. In addition, industry in the Community is faced with increased competition as a result of the realignment of exchange rates, and the appreciation of the currencies of the member countries may also gradually affect the volume of the Community's exports.

In the United States, where the Federal budget will provide very vigorous stimuli especially in the first half of the year, the economic upswing is likely to continue. Gross fixed asset formation will probably show a firmer tendency. The recovery of investment in plant and machinery should gather momentum except in manufacturing industries. Residential construction will remain buoyant, and stocks will build up sharply as expansion continues. Private consumers' expenditure is likely to increase at a fairly lively pace in the months ahead, even if the rise in wages and salaries is no more than moderate. All in all, it looks as if the real growth in gross national product may be some 5½% in 1972. This rate implies that recourse to supplies from abroad may remain vigorous, despite the devaluation of the dollar.

In the United Kingdom, economic activity is likely to return to normal after the end of the strike in the coal mines. The chances are, however, that the losses of production will not be fully offset, as there have been considerable losses of income owing to the protracted strike and its repercussions on other sectors of the economy. In all probability, then, it will hardly be possible to achieve in 1972 the 3½% growth in gross national product expected in the last

Quarterly Survey. The surplus on current account, on the other hand, may shrink further.

In most industrialized countries of Europe and in Japan the current slackening in business activity is likely to continue for some time yet. Imports by these countries should therefore rise only moderately. The expansion of imports by the developing countries will probably slow down.

2. Outlook for the Community

There are many indications that in the coming months economic growth will at first continue to be fairly moderate. For the moment, at any rate, there is no sign of any significant acceleration in internal demand. Whether and to what extent economic activity will pick up during the second half of the year depends not only on the short-term economic policy pursued in the period ahead, but even more on the extent to which the various economic groups adjust their behaviour and especially their income and price demands to current economic conditions.

Gross fixed asset formation as a whole will probably show a comparatively modest rise. In some member countries corporate investment may even decline further. Although stiffer competition and the consequent pressure to rationalize, the impending enlargement of the Community and easier finance are major inducements to new investment, the propensity to invest will be affected by the profit squeeze and the lower degree of capacity utilization. In some member countries, however, especially Italy and France, public enterprises will spend considerably more on investment.

Building investment will probably go up quite appreciably since demand in residential construction, public building and civil engineering should harden further in most member countries. In the past few months these sectors have already benefited from Government measures, and they are likely to figure prominently in any programmes that are adopted to sustain economic activity.

The rise in private consumers' expenditure will probably remain brisk despite a more moderate increase in wage incomes and the less favourable employment situation. In France the expansion of private consumers' expenditure will still be appreciable, while in Italy it may even gather speed. In Germany, private consumers' expenditure will be given an additional temporary boost through the repayment to households of the approximately DM 4 000 million of counter—cyclical surcharge on income tax—a move which is planned for the middle of the year.

Given the current outlook for the trend of overall demand, production in the Community will expand no more than modestly during most of 1972. In some industries, especially metal-working, output in the months ahead will even be lower than a year earlier. In the second half of the year, however, the pace may well pick up a little.

All in all, the real gross Community product is likely to grow by some 3% in 1972. The index of industrial production (excluding construction, food, beverages and tobacco) is expected to rise by some 1 to 1½%.

Total employment in the Community is unlikely to show any significant rise in the next few months. Any increase in the number of persons in paid employment will probably be balanced by fresh cuts in the working week. In some countries industrial employment might even decline further for a time. The services sector, on the other hand, which so far has had considerable difficulty in recruiting additional labour, will find it easier to meet its manpower requirements.

With economic activity in the Community comparatively weak and harvests in 1971 good, imports from non-member countries will probably go up little. Expressed in units of account, the downward tendency of the value of imports

that has been noted in the past few months might even continue for a while. As exports will show a similar trend, the Community's balance of trade is unlikely to change in any appreciable measure until the middle of 1972 (apart from seasonal variations), after which it may show somewhat higher surpluses again.

Although the upthrust of industrial producer prices has eased further, the price climate as a whole threatens to remain very unfavourable in most member countries. In consumer prices, at any rate, the rise will still be rapid.

Major economic policy measures

January

The Treaty concerning the accession of the United Kingdom, Denmark, Ireland and Norway was signed on 22 January 1972.

February

The draft of a trade agreement with the United States was signed on 4 February.

March

At its meeting of 20 and 21 March 1972 the Council adopted a resolution on the application of the resolution of 22 March 1971 concerning the achievement by stages of economic and monetary union in the Community. It also adopted a directive concerning the regulation of international financial flows and action to neutralize their undesirable effects on internal liquidity. At the same meeting, the Council reviewed the economic policy pursued in 1971 and adapted the guidelines laid down in the "Annual Report on the Economic Situation in the Community" to current economic trends.

Subject to consulting the acceding States, the Council agreed to the text of a directive on coordinated statistical surveys of the business situation.

Community

TABLE 1: Basic data 1970

	Communi- nity	Ger- many	France	Italy	Nether- lands	Bel- gium	Luxem- bourg
Total area ('000 sq. km.)	1 167.5	248.5	551.2	301.2	36.6	30.5	2.6
Total population ('000)	188 147	61 566	50 705	53 486	13 019	9 691	340
Density of population per sq. km.	161	248	92	178	356	318	131
Numbers in employment ('000)	74 196	27 204	20 473	18 956	4 678	3 842	(143.6)
Numbers in employment, break- down by main sector (%):							
Agriculture	13	8.8	14.2	19.4	7.3	(4.7)	(10.9)
Industry	44	48.7	40.6	43.3	41.2	(42.4)	(46.3)
Services	44	42.5	45.2	37.3	51.5	(52.9)	(42.8)
Share of gross domestic product (%):							
Agriculture	.	3.6	6.0	10.3	6.2	4.5	(4.1)
Industry	.	52.9	48.2	40.5	42.0	42.6	(56.9)
Services	.	43.5	45.8	49.2	51.8	52.9	(39.0)
In % of gross domestic product:							
Private consumers' expenditure	.	54.3	58.8	63.9	56.8	60.4	(55.7)
Public current expenditure on goods and services	.	15.9	12.1	12.7	16.1	14.0	(10.8)
Gross fixed asset formation	.	26.5	25.8	21.2	26.3	22.1	(25.6)
Total exports	.	23.1	16.0	20.2	48.3	44.4	83.2 ¹
Total imports	.	21.5	15.8	19.6	49.6	42.1	72.6 ¹

¹ 1969

TABLE 2: Key indicators

	% change by volume on preceding year					Volume indices (1963 = 100)
	1966	1967	1968	1969	1970	1969
Gross Community product	+ 4.3	+ 3.2	+ 6.0	+ 7.3	+ 5.4	144
Industrial production	+ 5.0	+ 1.3	+ 8.9	+ 11.9	+ 6.3	154
Visible imports	+ 7.1	+ 0.8	+ 11.6	+ 12.6	+ 21.1	184
Private customers' expenditure	+ 4.7	+ 3.7	+ 4.9	+ 7.0	+ 6.4	143
Gross fixed asset formation	+ 4.5	+ 1.0	+ 7.4	+ 9.6	+ 8.2	152
Visible exports	+ 8.3	+ 7.6	+ 13.5	+ 7.5	+ 9.3	188
Intra-Community visible trade	+ 11.0	+ 5.7	+ 19.5	+ 22.5	+ 12.4	245
Gross product per capita	+ 3.4	+ 2.6	+ 5.4	+ 6.4	+ 4.5	135

TABLE 3 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1968 = 100)	1969	137	142	146	150	151	152	135	115	146	150	158	154
	1970	149	156	160	160	163	157	142	118	155	160	165	160
	1971	156	161	161	163	161	161	145	117	160	166	169	160
Imports from non-member countries (cif, million u.a.)	1969	3 175	2 793	3 105	3 283	3 321	3 376	3 259	2 858	3 365	3 637	3 407	3 636
	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
Exports to non-member countries (fob, million u.a.)	1969	2 886	2 745	3 261	3 306	3 295	3 296	3 584	2 801	3 225	3 729	3 425	3 658
	1970	3 285	3 349	3 749	3 823	3 589	3 949	3 984	3 322	3 703	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
Balance of trade (million u.a.)	1969	- 280	- 48	+ 156	+ 23	- 26	- 80	+ 325	- 57	- 140	+ 92	+ 18	+ 22
	1970	- 379	- 48	+ 141	- 131	- 146	- 51	+ 204	- 54	- 109	+ 207	- 246	+ 152
	1971	- 126	- 81	+ 66	- 65	+ 131	- 130	+ 422	+ 159	+ 199	+ 195	+ 185	+ 365
Intra-Community trade (million u.a.)	1969	2 696	2 727	3 057	3 043	3 013	3 101	3 157	2 415	3 089	3 554	3 144	3 242
	1970	3 140	3 234	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

NOTES TO GRAPHS AND TABLES

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

Germany : SOEC; Statistisches Bundesamt.

France : SOEC.

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.

Conversion into units of account (1 u.a. = 0.888671 g fine gold).

Graph 1

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

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.

Graph 3

Three-month moving averages of the seasonally adjusted value of exports to non-member countries (fob) and imports from these countries (cif), as shown by foreign trade statistics.

Graph 4

Three-month moving averages of the seasonally adjusted value of trade between member countries, as shown by foreign statistics on imports.

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.

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

See note to Table 2.

II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES

A. Germany

Towards the end of 1971 the economy had been cooling down more rapidly, but the beginning of 1972 brought a slight improvement in the business climate. Production nevertheless ran below the level of a year earlier. The rise in wages slowed down, but the upward tendency of prices, especially consumer prices, remained vigorous.

Despite the improvement in the psychological climate in trade and industry, the trend in the next few months is likely to be comparatively sluggish. During the second half of the year, however, economic activity may pick up, helped by the relaxation of credit policy and the stimuli provided by budgetary policy.

1. Recent developments

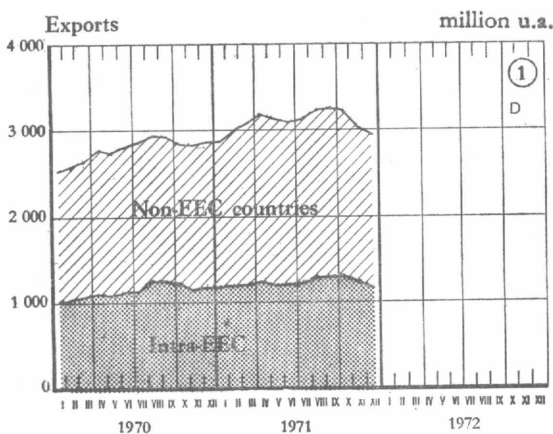
The tendency for the economy to cool down, which had been growing appreciably stronger since the autumn of 1971, especially under the impact of the monetary crisis and the strike in the metal working industry, came to a halt at the beginning of the year. Since December the mood has been slightly more cheerful again, particularly in the corporate sector. The trend in export demand and investment has nevertheless remained depressed. Although the expansion of incomes has slackened, the trend of prices, and of the cost of living in particular, has remained unsatisfactory.

Exports, which in the downward phase of earlier trade cycles had helped to underpin activity, are now showing a distinct tendency to slacken. In November-January, for instance, the seasonally adjusted value of goods actually exported was 4.2% lower than in the preceding three months.

Investment in plant and machinery—where the slowdown was first and most clearly apparent—continued to decline. As pointed out in Quarterly Survey No. 1/1972, the decline that had become almost inevitable after the boom of the past few years has been steeper since the autumn, especially because exporting has become more difficult and profit margins shrank sharply in 1971.

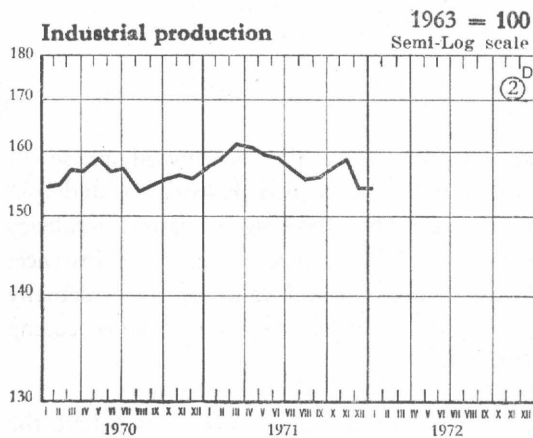
Building investment as a whole rose again, both in volume and in value, in the final quarter of 1971; helped by good weather, the improvement continued in the early months of this year. Industrial construction declined, but residential building continued to provide vigorous stimuli. The situation in civil engineering has also improved, owing to less restrictive budget management.

The expansion of private consumers' expenditure has slowed down in recent months,



mainly as a result of the less buoyant trend of incomes apparent since the autumn. In January, the year-to-year rise in agreed hourly wages in industry had dropped to 8.3%, compared with a rate of 15% in September. Actual wages per person employed rose at about the same pace. There was also an appreciable increase in saving. The decline in the expansion of consumption was most evident in the weaker trend of retail sales; in December-January, the increase in these sales over a year earlier was 7.6% in terms of value and 2.7% in terms of volume.

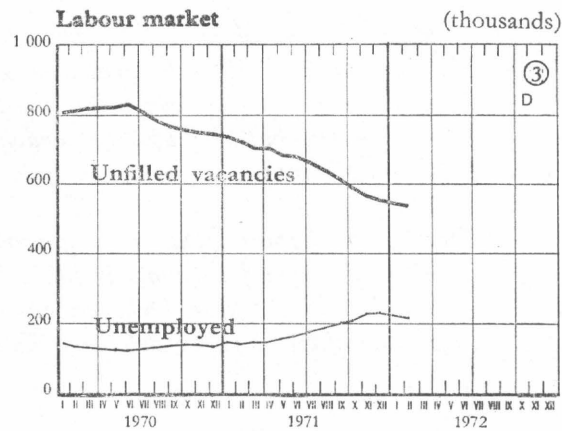
The downward tendency of industrial production gained in speed until the end of the year, in part as a result of the labour dispute in the metal working industry; January, however, brought a certain improvement, some of it due



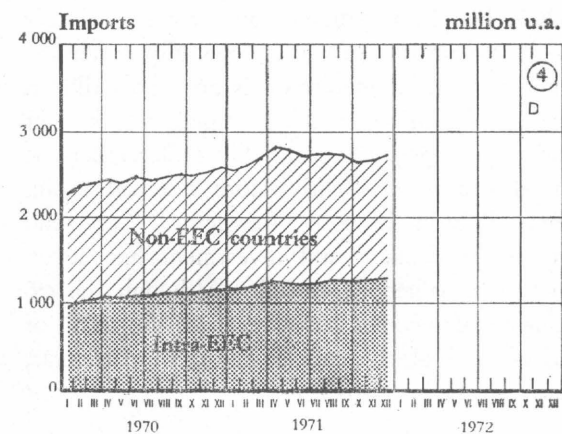
to the good weather and to the production losses suffered in the preceding period. Overall, industrial production in November-January was 0.4% after seasonal adjustment down on the figure for the preceding three months, or 1.4% lower than a year earlier. The fall was particularly pronounced in the capital goods industry.

On the labour market the fall-off in activity had, in contrast to what happened during the 1966/67 downturn, comparatively little impact. Firms are evidently endeavouring to adjust to the decline in demand less by trimming their labour force than by putting workers on short time. In mid-February, the number of persons on short time was 227 000, considerably more (63 000) than a year earlier. The number of foreign workers, on the other hand, still rose

slightly, and the seasonally adjusted unemployment rate at the end of February was only 0.9%.



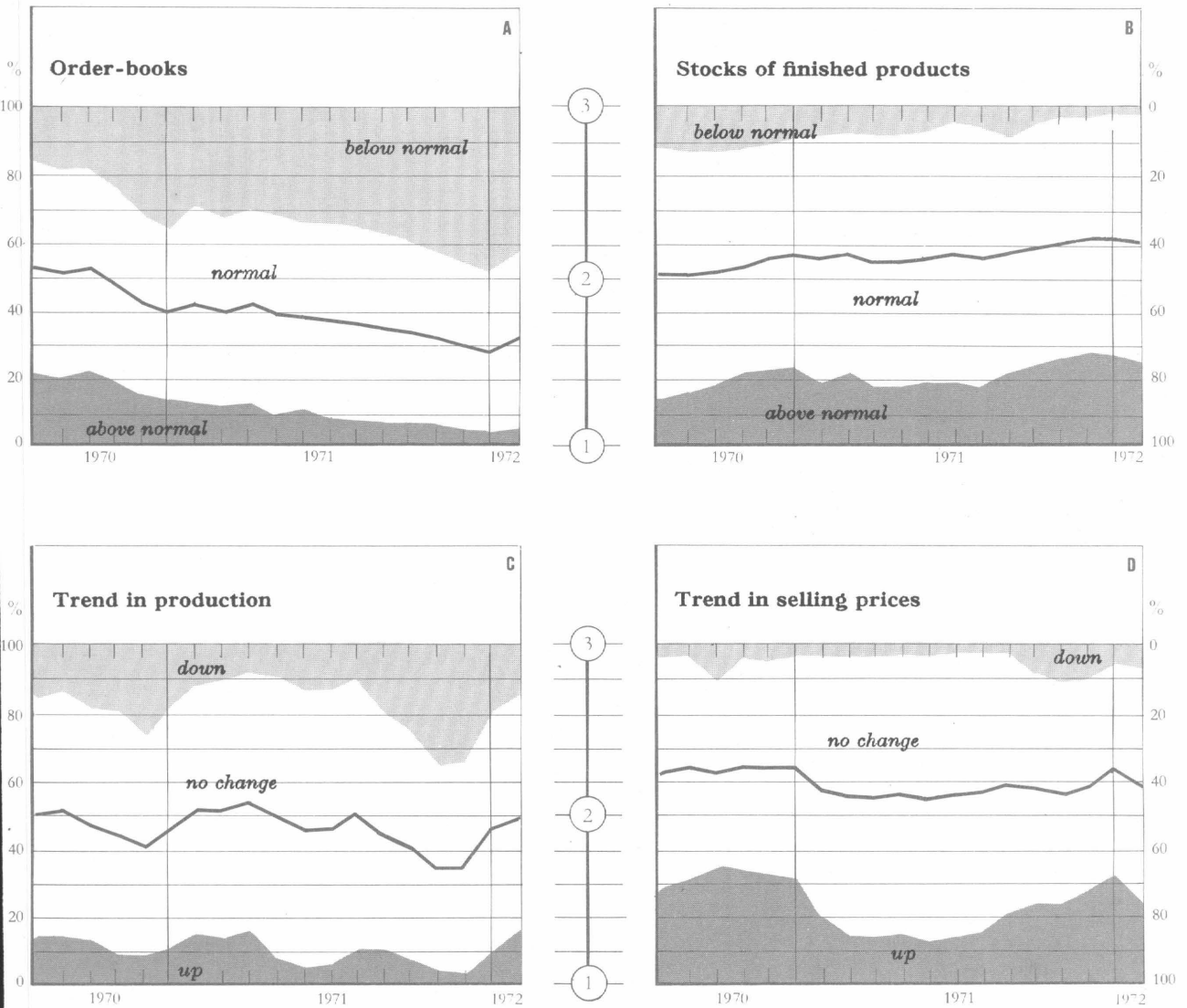
Imports have scarcely risen any further in recent months. The decline in imports of raw materials, semi-manufactures and primary products was offset by a still fairly vigorous rise in imports of consumer goods. In January the



year-to-year increase in total imports was 7.1% in terms of value and 11.8% in terms of volume.

While there has been a distinct reduction recently in the upward movement of industrial producer prices (in February their increase over a year earlier was down to 2.6%), the sharp rise in agricultural producer prices and consumer prices has continued unabated. In mid-February, the cost-of-living index was 5.5% higher than a year earlier.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

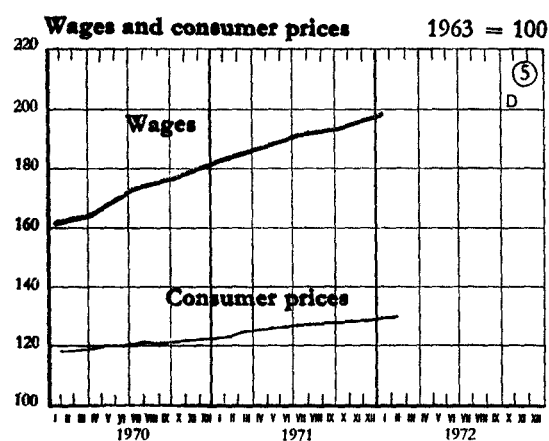


Answers to questions in the EEC business survey, carried out in the German Federal Republic by the IFO-Institut.

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".



The balance of payments has continued to show large trade surpluses in recent months. The balance of trade with the other Community countries, however, has for the last year been showing increasing deficits, a situation registered only once so far since the Community was established. In addition, the inflow of capital from abroad has been gathering pace again, especially since the turn of the year. The overall foreign exchange position of the Bundesbank and the commercial banks improved by DM 5 000 million between November and February (this figure takes no account of the fall of about DM 6 000 million in the value of the Bundesbank's foreign exchange reserves due

Demand for and supply of goods and services

	1969 ¹	1970 ¹		1971 ¹		1972 ²	
	At current prices (in DM '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ⁴	141.9	+ 8.1	+ 10.9	+ 6.2	+ 8.7	+ 4	+ 6
Gross fixed asset formation	146.2	+ 11.5	+ 23.9	+ 4.0	+ 11.7	- 2½	+ 1½
Public current expenditure on goods and services	95.1	+ 4.3	+ 13.8	+ 6.1	+ 19.0	+ 4½	+ 11
Private consumers' expenditure	334.0	+ 6.9	+ 10.9	+ 5.3	+ 10.8	+ 2½	+ 7
Gross national product	603.4	+ 5.5	+ 13.2	+ 2.8	+ 10.7	+ 1½	+ 6
Imports ³	127.1	+ 15.2	+ 15.1	+ 9.2	+ 9.9	+ 3½	+ 5

¹ Federal Statistical Office, "Wirtschaft und Statistik", No. 1/1972.

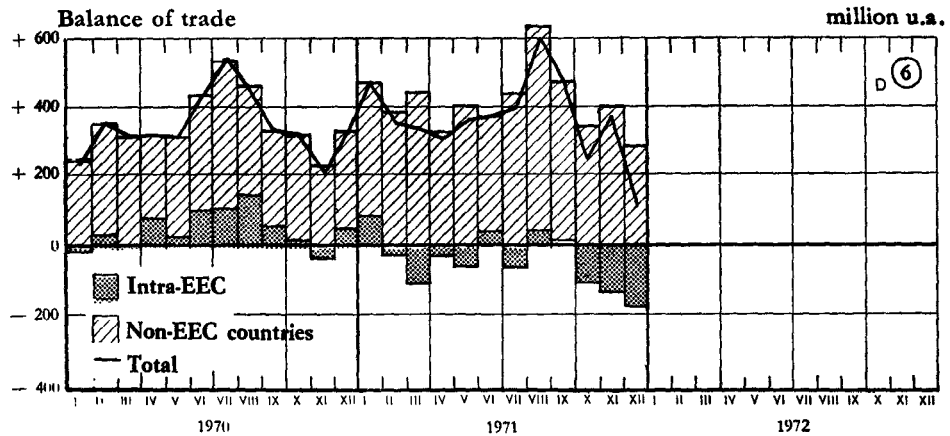
² Forecasts.

³ Goods, services and factor income.

Note :

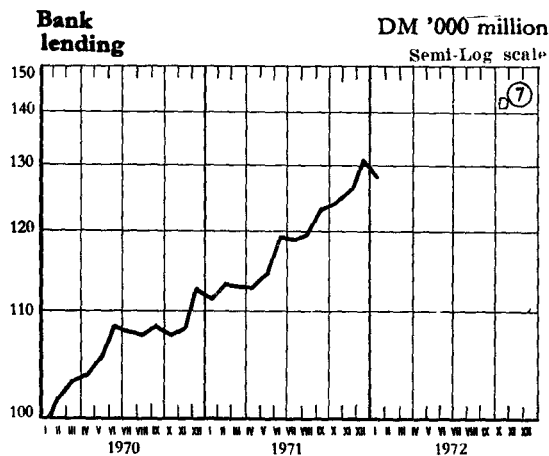
(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

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



to revaluation, but includes the allocation of special drawing rights).

In November-January, the money supply rose at an annual average rate of 13%. Lending to business has again climbed quite appreciably, but at the same time there has been a vigorous rise in the formation of monetary capital.



2. Outlook

Although entrepreneurs were in a more confident mood at the beginning of the year, the economic trend is likely to remain comparatively sluggish in the next few months. Whether economic activity will pick up later in the year depends not only on when and how far the Federal Government will use the opportunities open to it for stimulating expansion but also

on the progress made in eliminating inflationary tendencies.

Exports are unlikely to provide any appreciable stimulus in the next few months. German exporters have registered an appreciable deterioration in their order-books recently, and there is reason to assume that with the competitive position distinctly more unfavourable and the general lack of vigour in world economic activity, the pressure of competition from other industrialized countries will if anything increase. Later in the year, however, the outlook for exports may improve, helped by the revival of business in the United States, but even more by a recovery of economic activity in Italy and comparatively vigorous economic growth in France.

Investment, which is of great importance for the future trend of economic activity, may for a considerable part of the year continue to reflect the depressed propensity to invest of entrepreneurs. It appears to be too early yet to take the slight improvement in the business climate as a pointer to an early pick-up of investment in plant and machinery, even though finance has been much easier to obtain in recent months and the pressure on profit margins is likely to ease. Any boost the public authorities may decide to give would affect enterprises only gradually. Building investment as a whole can be expected to expand slightly in real terms, helped mainly by the still vigorous expansion of residential construction. There will also be an expansion of public investment programmes that have already been decided upon.

Stockbuilding at present constitutes a major element of uncertainty. The modest expectations which managements have expressed on the future trend of demand still suggest that the factors making for reduction will outweigh those making for expansion. The latest results of the EEC business survey show that a growing number of enterprises found their stocks too high.

The fairly appreciable boost which private consumers' expenditure has given to economic activity so far will hardly lose in strength. True, there is reason to assume that the upward movement of wages will continue to slacken, though probably no longer as sharply as in recent months, that employment will continue to decline slightly and that the already high propensity to save may even rise further. However, the repayment to pensioners of DM 1 300 million of sickness insurance contributions, and still more the repayment of the counter-cyclical surcharge, which has already been decided upon and which will give households an additional purchasing power of some DM 4 000 million towards the middle of the year, will have a very sharp expansionary effect on private consumers' expenditure.

This outlook for the trend of overall demand suggests that industrial production may mark time in the next few months. It is only later in the year that output will pick up gradually. The Commission therefore feels that real gross national product in 1972 will hardly grow by more than 1½ %.

In line with the weak economic trend, imports too will rise only moderately in the next few months, despite the benefits that revaluation has brought to foreign suppliers.

The price climate will remain unfavourable for the time being. Although the tendency for the rise in industrial producer prices to slow down is likely to continue, it will probably be a considerable time before this works through to other prices. Consumer prices in particular will still rise rapidly for a while, one of the reasons being that public service charges will have to be put up and that food prices must be expected to increase appreciably despite the dampening effects likely to result from the revaluation of the German mark.

The still appreciable upward thrust of costs and prices obviously sets limits to the possibility of giving short-term economic policy an expansionary bias. It must however be remembered that excess demand has ceased, except in some particular sectors, to be the cause of the upward thrust of prices. While the present situation calls for measures to sustain economic activity, these should be implemented in such a way that the tendency for the upward movement of wages to slacken is consolidated and appreciable progress made towards stabilizing prices. Now that the Federal Government has brought forward to the middle of this year repayment of the counter-cyclical surcharge due to be refunded by 31 March 1973, special care should be taken to avoid an upsurge in consumption that would send consumer prices to still higher levels. One way of doing this would be to encourage households, through an appropriate information policy, to save part of the money refunded.

Especially now that it has become clear that expenditure by the Federal Government and even more expenditure by the Länder will rise considerably faster this year than was envisaged in the budgets, recourse to the contingency budgets should be postponed for the time being.

For the future trend of investment it is of particular importance that the local authorities, which account for the major part of public investment, should not be prompted by a fall in tax receipts to revise their investment plans downwards or spread them over a longer period.

In the past few months, the Bundesbank has already considerably eased its monetary policy. At 3% the discount rate reached a level below which it has fallen only once so far, in 1959. These measures have been taken mainly in an effort to ensure equilibrium in payments transactions with abroad, but in view of the slackening of corporate investment they have also been justified from the angle of short-term economic policy, as they have meant that the terms which firms can obtain finance are now easier. In determining whether it is advisable to take additional measures in this field, the authorities must bear in mind that their sharply rising deficits may have an appreciable effect on domestic liquidity.

Quite generally, it is still acutely necessary to stem undesirable inflows of capital. The application, since the beginning of the year, of the provision under which a proportion of funds raised abroad must be placed interest-free with the Bundesbank could discourage borrowing abroad by domestic non-banks.

3. The economic situation in West Berlin

In the past few months, West Berlin's economy has cooled down somewhat more sharply than that of the Federal area, but there has been nothing to indicate a recession.

Overall, visible trade with foreign countries has risen only little in recent months. Deliveries to the Federal area, which are of particular importance to West Berlin's economy, remained at a high level, but here too there have recently been signs of a slowdown, in line with the depressed state of demand in the Federal area. As capital goods account for a large part of these deliveries, the slackening of the investment boom in the Federal area will have been a major factor in this recent tendency; public current expenditure on goods and services, by contrast, provided very expansionary stimuli to economic activity, mainly as a result of high expenditure on wages and salaries.

While production of capital goods tended downwards, output of consumer goods rose further. Total industrial production in the fourth quarter of 1971 was 3% up on a year earlier. The figures now available for the gross product show that 1971 saw a real growth of 1.7%.

The labour market still reflects the somewhat easier trend which has been discernible since the middle of 1970. The number of persons employed in industry fell much more than in the Federal area; in the fourth quarter of 1971, it was on average a good 6% lower than a year earlier. The number of foreign workers, however, was still rising slightly. The upward thrust of prices remained very vigorous, especially that of consumer prices; in January, the cost-of-living index was some 6% higher than a year earlier.

Economic activity may be expected to maintain its level in 1972. There is reason to fear,

however, that redundancies could have an unfavourable impact on the structure of employment.

Major economic policy measures

December

(1) As part of the realignment of the exchange rates of the major industrialized countries of the Western world, decided upon at the Washington Conference of the Group of Ten of 17 and 18 December 1971, the central rate of the German mark in terms of the US dollar was provisionally fixed at DM 3.2225 (previously DM 3.66). This constitutes a 13.58% revaluation against the dollar. The weighted rate of revaluation against all foreign currencies is 6.5%. At the same time the spread between the intervention points and the provisional parity was widened from 0.75% to 2.25% on either side of this parity.

(2) The Bundesbank lowered the discount rate from 4.5% to 4% and the rate for advances on securities from 5.5% to 5% with effect from 23 December 1971. The minimum reserve ratios for domestic liabilities were cut by 10% from 1 January 1972, reducing banks' compulsory minimum reserves by a little less than DM 3 000 million. The reserve ratios applicable to foreign liabilities were left unchanged.

January 1972

(1) The Cash Deposit Law (Law of 23 December 1971 amending the Foreign Trade and Payments Law) entered into force on 1 January 1972. It empowers the Federal Government to freeze a proportion of the inflows of foreign money and capital provided they seriously jeopardize the effectiveness of the Federal Government's monetary and short-term economic policy. In such a case residents may be required to place a certain percentage of their foreign borrowings interest-free in an account with the Bundesbank, for a specified period.

(2) Wages in the metal working industry were raised by 7.5% from 1 January 1972. The new collective agreement runs for twelve months. For the period October to December 1971, workers were paid a lump sum totalling DM 180. This brings the wage increase for the full fifteen months covered by the agreement

to an annual rate of just under 7%. A stage-by-stage plan that forms part of the collective agreement also provides for the payment, in 1972, of 40% of a thirteenth monthly salary.

(3) From 1 January 1972, the wage and salary earners in public administration received a linear increase of 4% and a monthly supplement of DM 30, the actual rise thus being some 6.5%. The working week is to be shortened from 42 to 40 hours from 1 October 1974.

(4) On 24 January 1972 a meeting was held of the public authorities' Council on Economic Trends, one of whose tasks is to coordinate the calls which the public authorities make on the capital market. As regards the public authorities' borrowing requirements for 1972, the Council feels that there is a case for ensuring a continuous flow of new issues that would not counteract the incipient tendency for interest rates on the capital market to fall, would help to avoid disruptions and would provide a further incentive to private saving.

(5) On 26 January 1972 the Federal Government adopted the 1972 Annual Economic Report. According to the guide figures of the target projection underlying the Report, the Federal Government considers that in 1972 it will be possible to achieve a real growth in GNP of 2 to 3%, against the background of an unemployment rate of 1% and a rise in consumer prices of 4.5%. The main measures to be taken in order to achieve this aim and to underpin economic activity are the use, from the spring on, of the Federal Government's contingency budget of DM 2 500 million, additional spending by the Länder (contingency budgets, release of the counter-cyclical equalization reserve), additional expenditures of up to DM 1 000 million out of ERP funds, and the repayment of the counter-cyclical surcharge on income and corporation tax of DM 5 900 million, to be started in the summer of this year.

(6) On 26 January 1972, the Bundestag approved a 25% increase in the excise duty on tobacco from 1 September 1972, an increase in the excise duty on mineral oils of 4 pfennigs per litre from 1 March 1972, and the repayment of the 2% sickness insurance contribution levied on pensions in 1968 and 1969. This amount, which represents about 40% of a month's pension, is to be refunded at the end of March and the beginning of April, involving a total

disbursement by the social pension insurance fund of DM 1 300 million.

(7) On 29 January 1972 the Federal Government and the Länder agreed to increase the Länder's share in the yield of turnover tax in 1972 and 1973 from 30% to 35%. For the Federal Government this means a reduction in revenue amounting to some DM 1 300 million. Added to this there are supplementary Federal Government allocations to the Länder of DM 550 million per year, or some 1.1% of the turnover tax yield.

February

(1) From 1 February 1972, wages in the steel industry went up 6%, calculated on the basis of an hourly wage increased by 22 pfennings. The new collective agreement runs until the end of November 1972. For the four months from October 1971 to January 1972 the steelworkers receive a lump sum of DM 200 net. This brings the total wage increase for the fourteen months covered by the agreement to about 7%.

(2) Under a collective wage agreement concluded on 2 February 1972 between workers' and employers' organizations in the building industry, the wages of building workers will be increased by 6.4% from 1 May 1972. Moreover, it was decided that from 1 April 1973 a compensatory payment for hours not worked because of bad weather will have to be made in the summer months too.

(3) On 24 February 1972 the Bundesbank adopted the following measures:

(a) The discount rate was lowered from 4% to 3% and the rate for advances on securities from 5% to 4% with effect from 25 February 1972.

(b) The rediscount quotas available to the banks were cut by 10% with effect from 1 March 1972. This reduced the total volume of rediscount credit at the disposal of the banks by some DM 2 300 million.

(c) The reserve ratios applicable to the growth of reserve-carrying liabilities towards non-residents were put up from 30% to 40% with effect from 1 March 1972. At the same time, the reference date for the computation of the reserve in respect of the growth of liabilities was moved from November 1970 to November 1971, it being understood that any reduction in the basis

of computation resulting from this change should not exceed 20% of the basic level of November 1970.

(d) The minimum reserves in respect of reserve-carrying sight liabilities to non-residents will shortly be calculated per calendar day rather than on the basis of four fixed weekly dates only, as has been the practice so far.

(4) The Federal Government's exchange rate insurance scheme for long-term export contracts entered into force on 24 February 1972. Cover is provided for export contracts in US dollars, sterling or Swiss francs. In addition, there are the following provisions: insurance cover is available only for export contracts under which the period from the date of conclusion to the date when the final payment falls due is longer than two years; the exchange rate risk is not covered until after the end of this period; during the first two years, the exporter must bear the risk himself or cover it on the forward foreign exchange market. Exchange rate losses of up to 3% are to the debit of the exporter while

exchange rate gains of more than 3% must be paid over to the Federal Government; the standard premium is 0.7% per year.

March

(1) On 1 March 1972 the Federal Government adopted the regulation implementing the Cash Deposit Law (see above). Foreign borrowing that is not directly related to the carrying out of merchandise and service transactions was forthwith subject to the payment of a cash deposit of 40%. Loans contracted before 1 January 1972 and received before 1 March 1972 are not subject to this requirement. The regulation also provides for a number of exemptions, which include in particular all loans from the European Investment Bank.

(2) On 15 March 1972 the Federal Government announced that the counter-cyclical surcharge on income and corporation tax would be refunded in the second half of June and at the beginning of July. Some DM 4 000 million of the repayment will go to households and some DM 2 000 million to enterprises.

TABLE 1: Key indicators

	1967	1968	1969	1970	1971	1971
	% change by volume on preceding year					1963=100
Gross national product	- 0.2	+ 7.3	+ 8.0	+ 5.5	+ 2.8	145
Industrial production	- 2.5	+ 9.8	+ 10.6	+ 6.2	+ 2.4	154
Total imports	- 1.4	+ 14.7	+ 16.9	+ 15.2	+ 9.2	217
Private consumers' expenditure	+ 0.9	+ 3.8	+ 8.0	+ 6.9	+ 9.3	148
Public current expenditure on goods and services	+ 3.1	- 0.0	+ 5.6	+ 4.3	+ 6.1	128
Gross fixed asset formation	- 8.4	+ 8.0	+ 12.1	+ 11.5	+ 4.0	152
Total exports	+ 8.1	+ 13.4	+ 12.6	+ 8.1	+ 6.2	209
Gross national product per head of population	- 0.6	+ 6.8	+ 6.8	+ 4.2	+ 1.8	136
Gross national product per person in employment	+ 2.8	+ 7.1	+ 6.1	+ 4.0	+ 2.7	143
	% change by value on preceding year					
Gross income per employee	+ 3.4	+ 6.7	+ 9.7	+ 15.0	+ 12.6	187

TABLE 2: Indicators for internal and external equilibrium

	1967	1968	1969	1970	1971
Balance exports less imports					
in million units of account	+ 4 063	+ 4 488	+ 3 906	+ 3 046	+ 2 893
as percentage of GNP	+ 3.3	+ 3.3	+ 2.5	+ 1.6	+ 1.4
Unemployment rate	1.7	1.2	0.7	0.5	0.7
Prices to private consumers (% change on preceding year)	+ 1.8	+ 1.9	+ 2.5	+ 3.7	+ 5.3

Germany

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					1963 = 100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 12.5	+ 8.0	+ 14.3	+ 16.9	+ 17.7	234	34 195	100.0
Intra-EEC	+ 16.0	+ 9.4	+ 16.7	+ 23.9	+ 18.7	252	13 738	40.2
To non-EEC countries	+ 10.6	+ 7.2	+ 12.9	+ 12.8	+ 17.0	223	20 456	59.8
Exports of food, beverages and tobacco								
Total	- 2.0	+ 26.9	+ 21.8	+ 27.0	+ 27.6	370	1 066	3.1
Intra-EEC	+ 6.6	+ 61.2	+ 32.8	+ 31.0	+ 16.6	522	579	1.7
To non-EEC countries	- 7.3	+ 2.6	+ 9.4	+ 21.6	+ 43.7	275	487	1.4
Exports of raw materials, fuel and power								
Total	+ 7.1	+ 1.3	+ 10.7	+ 4.2	+ 19.0	156	1 946	5.7
Intra-EEC	+ 8.5	+ 1.5	+ 10.6	+ 5.4	+ 20.3	159	1 213	3.5
To non-EEC countries	+ 5.0	+ 0.4	+ 11.5	+ 2.4	+ 16.9	150	732	2.2
Exports of semi-finished and finished industrial goods								
Total	+ 13.8	+ 6.6	+ 15.9	+ 17.5	+ 17.7	239	31 183	91.2
Intra-EEC	+ 13.9	+ 4.7	+ 21.6	+ 25.8	+ 18.7	261	11 946	34.9
To non-EEC countries	+ 11.3	+ 7.6	+ 13.0	+ 13.0	+ 16.5	226	19 237	56.3
Visible imports								
Total	+ 3.2	- 3.7	+ 16.1	+ 23.7	+ 19.6	229	29 816	100.0
Intra-EEC	+ 4.2	- 1.0	+ 21.7	+ 30.0	+ 21.8	305	13 233	44.4
From non-EEC countries	+ 2.5	- 5.4	+ 12.5	+ 19.3	+ 17.9	191	16 583	55.6
Imports of food, beverages and tobacco								
Total	+ 2.4	- 4.2	+ 3.7	+ 16.7	+ 14.3	179	4 954	16.6
Intra-EEC	+ 6.8	+ 0.1	+ 11.9	+ 26.8	+ 12.6	239	2 303	7.7
From non-EEC countries	- 0.1	- 6.9	- 1.9	+ 9.0	+ 15.9	147	2 651	8.9
Imports of raw materials, fuel and power								
Total	+ 2.8	- 0.6	+ 15.8	+ 12.2	+ 13.6	184	6 617	22.2
Intra-EEC	+ 8.1	+ 9.4	+ 18.1	+ 23.3	+ 18.5	253	1 417	4.8
From non-EEC countries	+ 1.8	- 2.5	+ 15.3	+ 9.7	+ 12.3	171	5 200	17.4
Imports of semi-finished and finished industrial goods								
Total	+ 3.6	- 5.0	+ 21.1	+ 31.4	+ 23.5	274	18 246	61.2
Intra-EEC	+ 2.8	- 3.0	+ 25.4	+ 32.0	+ 24.8	236	9 514	31.9
From non-EEC countries	+ 4.3	- 6.9	+ 16.8	+ 30.7	+ 22.1	229	8 732	29.3

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970	154.7	157.2	159.6	153.8	163.8	151.5	155.6	154.2	155.2	157.6	156.5	153.7
	1971	163.0	162.1	159.1	161.3	159.2	156.9	158.7	152.5	158.5	162.0	156.0	145.6
	1972	162.1											
New orders received (1963 = 100)	1970	178	185	181	183	169	182	179	175	180	173	179	185
	1971	181	182	199	187	183	189	181	182	183	172	180	181
	1972												
Unemployed (1 000)	1970	147.7	137.5	153.0	130.1	135.1	140.8	149.7	153.9	152.3	154.3	156.5	145.2
	1971	169.5	146.8	167.2	168.9	173.0	181.9	197.6	210.4	218.6	228.3	243.9	229.2
	1972	216.5	222.0										
Construction: permits for residential construction (1 000)	1970	49.7	50.2	47.5	51.7	48.9	51.0	54.2	52.9	52.8	47.4	50.5	48.4
	1971	53.3	56.7	57.6	55.6	60.6	61.7	58.0	62.9	61.2	56.2	61.0	60.1
	1972												
Private consumers' expenditure: department store turnover (1963 = 100)	1970	182.3	175.0	183.6	182.7	184.8	196.7	202.7	194.5	205.4	200.2	197.3	205.9
	1971	210.2	200.3	205.3	217.2	207.7	220.4	226.0	215.8	233.9	214.9	231.8	226.0
	1972	231.0											
Consumer prices (1963 = 100)	1970	119.1	119.3	119.8	120.1	120.3	120.7	120.7	120.6	120.6	121.2	121.3	122.3
	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										
Visible imports (million u.a.)	1970	2 322	2 419	2 368	2 612	2 333	2 478	2 519	2 402	2 555	2 486	2 639	2 630
	1971	2 356	2 848	2 921	2 785	2 628	2 756	2 826	2 637	2 717	2 617	2 740	2 896
	1972												
Visible exports (million u.a.)	1970	2 560	2 792	2 637	2 940	2 654	2 927	3 079	2 873	2 888	2 804	2 850	3 010
	1971	2 837	3 219	3 270	3 098	2 991	3 140	3 229	3 239	3 202	2 865	3 023	3 000
	1972												
Balance of trade (million u.a.)	1970	+ 238	+ 373	+ 319	+ 328	+ 321	+ 449	+ 560	+ 471	+ 333	+ 318	+ 211	+ 330
	1971	+ 481	+ 371	+ 349	+ 313	+ 363	+ 384	+ 403	+ 652	+ 485	+ 248	+ 284	+ 104
	1972												
Official gold and foreign exchange reserves (million u.a.)	1970	6 455	6 616	6 765	6 893	7 212	8 215	9 378	9 643	10 700	11 233	12 961	13 009
	1971	13 411	14 252	15 201	16 138	18 400	16 207	16 603	16 335	16 561	16 818	16 981	16 552
	1972	17 113	17 794										
Money supply (DM '000 million)	1970	95.5	95.5	96.4	96.0	97.0	98.1	99.7	99.5	99.1	99.2	100.4	102.4
	1971	103.8	104.4	105.4	107.2	109.7	109.5	112.9	113.0	112.4	113.3	113.9	115.2
	1972	117.0											

NOTES TO GRAPHS AND TABLES

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

Graph 1

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

Graph 2

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

Graph 3

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 4

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

Graph 5

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

Graph 6

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

Graph 7

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

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.

B. France

France is at the moment the country with the highest rate of economic growth in the Community and in all Western Europe. Although the expansion of exports and to a limited extent also the propensity to invest of entrepreneurs have slackened somewhat, production has gone up appreciably, helped largely by the persistence of the vigorous rise in private consumers' expenditure and demand from the public authorities. At the same time, however, the inflationary pressures have continued to be very strong.

Economic growth can be expected to continue in the months ahead even though demand may fall off temporarily in this or that particular sector. The upward movement of costs and prices is likely to remain rapid for the time being.

1. Recent developments

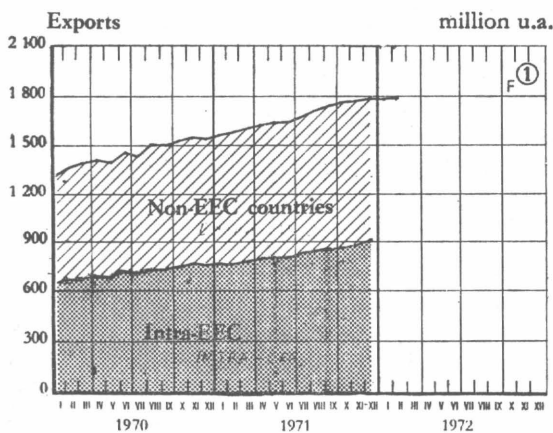
Economic growth in France has continued to be quite rapid in recent months even though the boost from both exports and the propensity to invest of private enterprises has been less vigorous than during most of 1971. The upward thrust of costs and prices has remained very strong.

Export demand has provided little stimulus to the French economy in recent months. In

January-February, the seasonally adjusted value of visible exports was not much higher than in summer 1971, despite an increase in deliveries of agricultural products. Given the persistent rise in export prices, the volume of exports probably remained virtually unchanged.

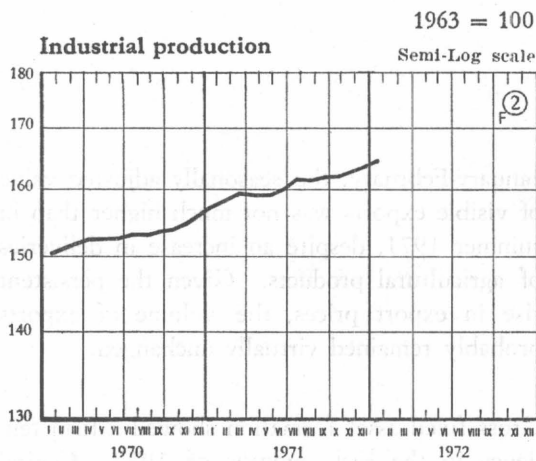
Gross fixed asset formation showed a firm tendency in the early months of 1972. Capital spending by the Government and the public enterprises, for instance, expanded significantly. The recovery in residential construction made further progress. To judge by the results of the business surveys, however, private enterprises, especially in industry, took a more cautious line over implementing new investment programmes.

Expenditure on consumption again provided a vigorous boost. The public authorities' current expenditure on materials and wages and salaries was stepped up vigorously, and the expansion of private consumers' expenditure also continued at a rapid pace. In January and February, the number of new registrations of passenger and estate cars was 21% higher than a year earlier. The rise in personal incomes has as yet shown



no signs of slackening. The increase in hourly wage rates in trade and industry continued at an annual rate of almost 10%. In addition, employment probably rose further towards the end of 1971 and at the beginning of 1972, particularly since good weather helped the outdoor trades. Furthermore, with the cost of living going up sharply, wage and salary supplements were at the beginning of 1972 granted under the purchasing power guarantee, especially in the public sector. Transfer incomes (unemployment benefits and certain types of pension) were also raised appreciably.

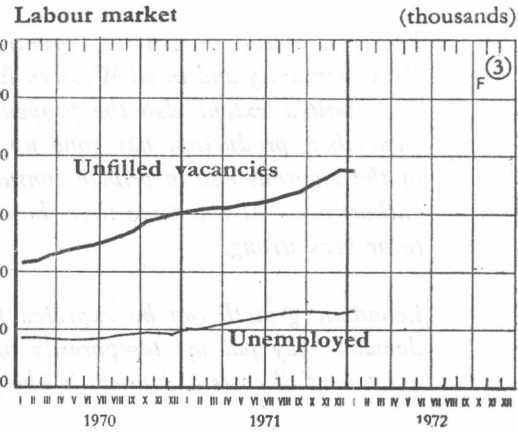
Moving in line with the above-mentioned trends in demand, production in the consumer-oriented industries expanded at a particularly rapid pace; the degree of capacity utilization in these industries continues to be very high. While the output of semi-manufactures has picked up slightly in recent months, the pace of



production in the capital goods industries has slackened further. All in all, industrial production in recent months has still risen at an annual rate of 6 to 7%.

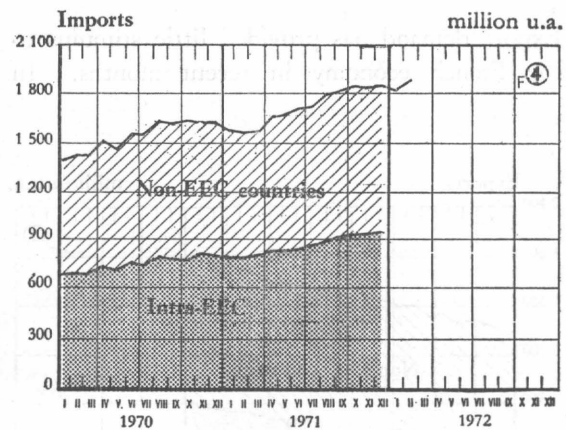
The seasonally adjusted number of persons seeking jobs more or less stabilized at the beginning of the year, when it accounted for about 1.75% of the labour force. At the same time the number of unfilled vacancies remained very high. Although productivity gains are still comparatively substantial, the shortening of the working week (which is in large part the result of clauses in collective agreements) compels enterprises to increase their labour force; the effect on the pool of domestic manpower is all

the greater as the immigration of foreign labour has been deliberately slowed down since the middle of 1971.



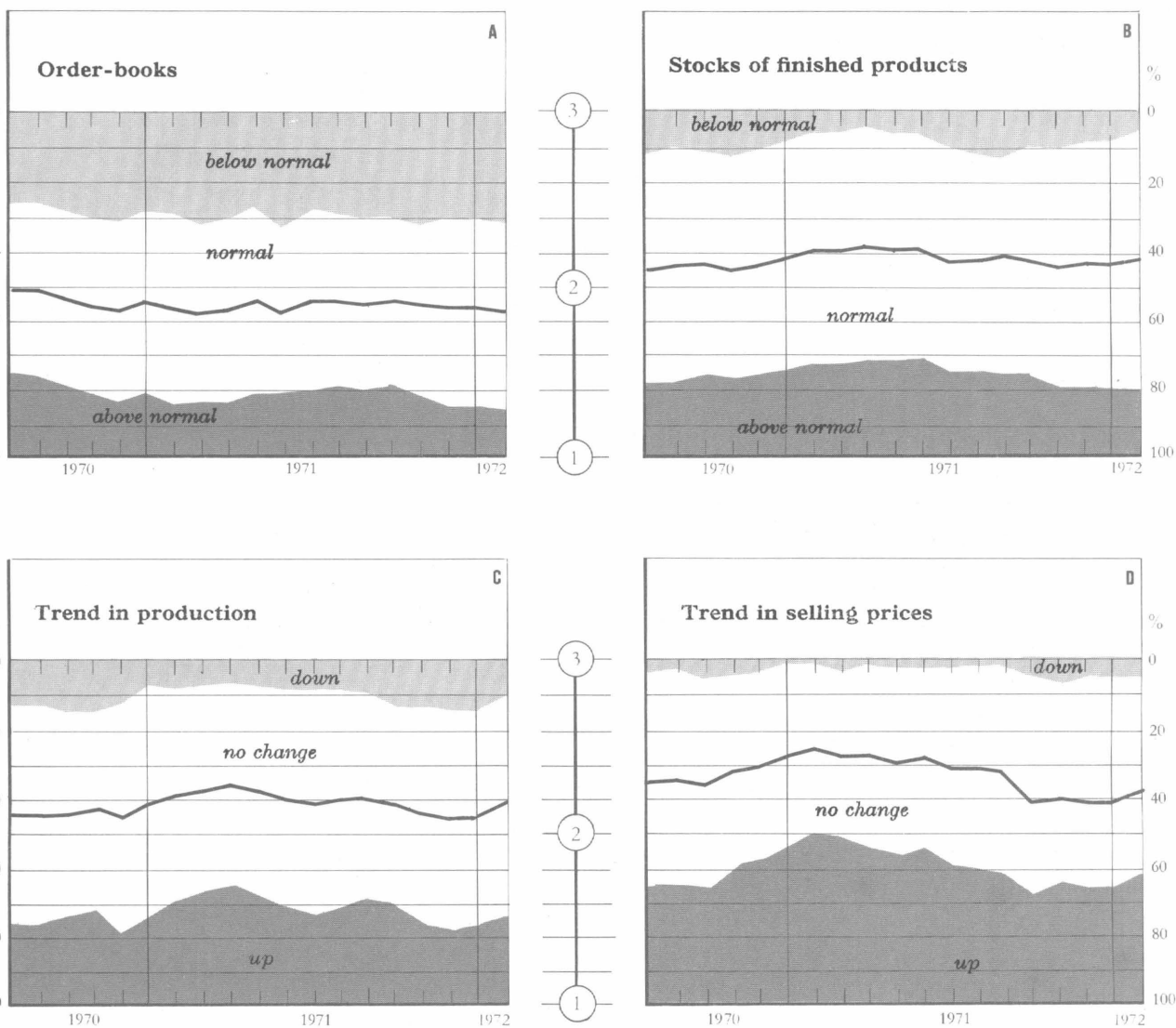
The value of imports has tended to stabilize recently for a number of reasons. These include some letting up in what had been a very strong propensity to import, more cautious management of stocks of raw materials and semi-manufactures, a decline in various import prices and the temporary difficulties which German industrialists have experienced in effecting deliveries as a result of strikes.

Inflationary strains remained very heavy although the efforts by the Government to contain the upward movement of prices in collaboration with enterprises led to a slight slowdown. The prices of agricultural products,



by contrast, showed a very vigorous upward tendency. In January 1972 the INSEE index of 295 items was 5.6% higher than a year earlier.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

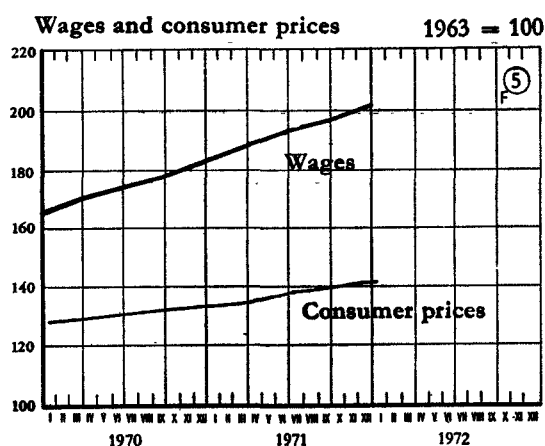


Answers to questions in the EEC business survey, carried out in France by INSEE.

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 balance of trade has improved slightly since the autumn of 1971. On long-term capital account, however, there was a large surplus, with the result that the overall balance of payments in the fourth quarter closed with a substantially higher surplus than in the preceding quarters. The gross gold and foreign exchange reserves of the monetary authorities (including Special Drawing Rights and the reserve position in the IMF) rose from 6 850 million u.a. in October 1971 to 7 600 million u.a. in January 1972.

Demand for and supply of goods and services

	1969 ¹	1970 ¹		1971 ²		1972 ³	
	At current prices (in FF '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ⁴	110.4	+ 17.0	+ 25.9	+ 10	+ 14½	+ 8	+ 10
Gross fixed asset formation	184.0	+ 7.4	+ 14.9	+ 6	+ 11½	+ 6	+ 11
Public current expenditure on goods and services	89.4	+ 3.8	+ 11.1	+ 3½	+ 12	+ 3	+ 11
Private consumers' expenditure	439.6	+ 4.3	+ 9.7	+ 6½	+ 12½	+ 5½	+ 11
Gross national product	731.7	+ 6.0	+ 12.0	+ 5½	+ 12	+ 4½	+ 10½
Imports ⁴	114.4	+ 8.5	+ 18.8	+ 9	+ 12½	+ 10	+ 11

¹ Rapport sur les comptes de la Nation 1970. Ministère de l'Economie et des Finances.

² Estimates.

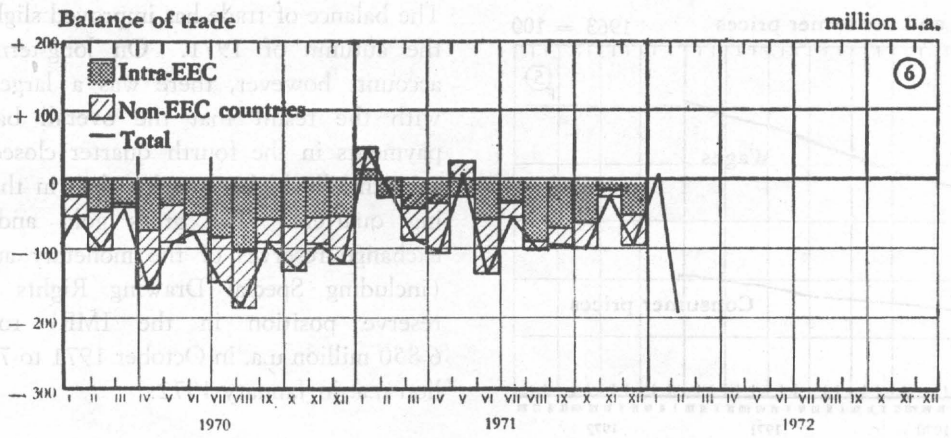
³ Forecasts.

⁴ Goods, services and factor income.

Note :

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

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



The balance of payments surpluses and the growth in the volume of credit were decisive factors in the expansion of domestic liquidity. In the fourth quarter, the seasonal pressure on liquidity exerted by the cash transactions of the Government was somewhat stronger than a year earlier, for the cash surplus of FF 4 500 million was larger than in the final quarter of 1970. This last-quarter surplus reduced the deficit for the full year 1971 to FF 3 600 million, against the surplus of FF 3 700 million with which 1970 had closed.

Conditions on the money market were easy, particularly since several cuts were made in the minimum reserve ratios, the last one on 21 March 1972. Interest rates tended downwards. Besides lowering the discount rate from 6.5% to 6% on 13 January, the Banque de France made several cuts in its intervention rates on the money market, the last of them at the beginning of March. The capital market

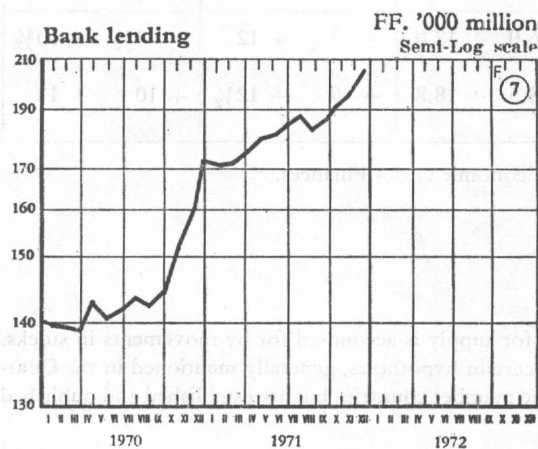
reflected lively savings activity. The bond market remained firm, and share prices rallied.

2. Outlook

The economic outlook in France is currently determined by two conflicting factors. While the economic slowdown registered by the country's main trading partners and the somewhat more unfavourable exchange rate relationship obtaining since the Washington agreement will affect the trend of exports and therefore perhaps the propensity to invest of strongly export-oriented enterprises, the measures to revive economic activity that took effect at the beginning of the year will provide a fresh boost to domestic demand, especially gross fixed asset formation.

The rise in exports during the next few months will probably be no more than moderate, as economic growth in the principal countries trading with France will for a while be quite weak, except in North America. The competitive edge which export firms were given by the shift in exchange rate relationships was used largely to put up prices, and it is by no means certain whether in the current phase of the economic cycle firms are prepared to make price concessions to their foreign trading partners so as to secure an appreciable increase in the volume of their exports.

Relevant to this situation is the fact that sales possibilities on the domestic market have remained good.



The investment climate, for instance, appears to have improved somewhat after the Washington decisions. While the propensity to invest of private enterprises still lacks the momentum of the past few years, capital spending by the Government and by public enterprises will show a further vigorous growth. The cut in interest rates is also likely to have a favourable impact on investment, especially in the building sector, where activity can be expected to show a sustained and vigorous upswing, particularly in residential construction, public building and civil engineering.

The growth of private consumers' expenditure in terms of money will roughly maintain its present rapid pace. There are no indications at the moment that the rise in personal incomes will slacken to any appreciable extent. Wage rates in particular will continue to climb vigorously, as will the number of persons employed, especially in building and construction.

In the circumstances, production will probably still rise briskly, though perhaps no longer as sharply as in the second half of 1971. The growth of production in the capital goods industry, in particular, may, if anything, accelerate again slightly, while the consumer goods industries may well register a slight temporary slowdown, mainly because of movements in stocks held by dealers; in any case the latest EEC Business Surveys show that managements expect the rate of expansion to fall slightly. All in all, real GNP is likely to grow by 4½ to 5% in 1972.

The level of employment in the economy as a whole will remain high, but the number of unemployed may continue to rise slightly, mainly for structural reasons and because of the high number of school-leavers. The labour market will probably show quite considerable disparities between one region and another, and between the various trades, with manpower in short supply in some regions despite the very high total of persons seeking jobs.

Imports are likely to resume a slight upward movement, particularly since managements in some consumer goods industries complain of difficulties in adjusting production to rising demand. The shift in the exchange rate rela-

tionships since December may also encourage imports of various goods. The expected replenishment of stocks of raw materials should also work in this direction. The trade surplus may therefore fall slightly.

The price climate will remain unfavourable even if the authorities continue to pursue an active price policy. According to the latest EEC Business Surveys industrial producer prices must be expected to go up at an annual rate of at least 3%. The rise in consumer prices may indeed prove to be appreciably sharper, particularly since the prices for food and certain services will maintain a strong upward tendency.

This is why the main aim of short-term economic policy should still be to check the rise in costs and prices. In 1972 France will in any case register the highest rate of economic growth of all countries in Western Europe, even though growth this year will fall short of the average annual rate envisaged for 1970-75 under the VIth Plan and the Community's Third Medium-term Economic Policy Programme. A systematic boost to domestic demand could add to inflationary strains without providing any basic solution to the problem of unemployment, which in France appears to be due to structural factors rather than the economic trend. The decision, taken at the beginning of this year, to place Government orders earlier than planned and to accelerate spending should be implemented in such a way that the growth of Government expenditure does not exceed the rate envisaged originally. Cautious budget management is indeed all the more necessary as the change in the method of computing value added tax, announced at the same time, will entail a shortfall of tax receipts and benefit enterprises. In addition, budgetary policy must allow for the less restrictive monetary policy which in 1971 had led to a rapid expansion in the money supply and in advances to business customers.

Given the structural aspects of unemployment, the measures to boost economic activity should be concentrated on regions and sectors where there are manpower reserves. Special emphasis should be placed on all measures likely to be helpful in the implementation of regional development programmes and to increase the mobility of labour.

Major economic policy measures

December

(1) Some FF 5 000 million of minimum reserves were released as part of the relaxation of monetary policy which began with a cut in the discount rate at the end of October and was pursued in the form of further measures to reduce interest rates (these included several cuts in the Banque de France's intervention rates on the money market, the lowering from 5.5% to 5.25% of the net interest paid on five-year treasury bills, and a reduction of between 0.3 and 0.6%, depending on type of loan, in the lending rates charged by the commercial banks). With effect from 21 December, the minimum reserve ratios for sight deposits were reduced from 12.25% to 10%, for time deposits from 6.5% to 4% and for loans outstanding from 3% to 2%. In addition, the reserve ratios in respect of non-residents' accounts, so far a uniform 12.25%, were aligned on those applicable to residents' accounts.

(2) As part of the realignment of the exchange rates of the major industrialized countries of the Western world, decided upon at the conference held by the Group of Ten in Washington on 17 and 18 December, the central rate of the French franc was fixed at FF 5.11570 to the US dollar, with effect from 21 December (previously FF 5.55419 to the US dollar). The two-tier foreign exchange market distinguishing between commercial and financial francs was, however, maintained and only certain of the foreign exchange control measures were abolished, among them the ban on conversion or transfer of franc holdings of non-residents, the rules governing the foreign exchange position of the commercial banks, the limits on the periods allowed for the payment of imports, and the ban on payment of interest on sight and short-term deposits of non-residents.

(3) At the end of December the Banque de France announced a change in the refinance facilities available to the commercial banks. The rediscount quotas which the banks had been allocated and which, if exceeded, gave rise to the payment of a penalty rate over and above the discount rate, were abolished from 15 January. From that date, rediscount credit from the Central Bank has been available only for medium-term bills arising from export business

with non-member countries. Refinance for other credit transactions must be obtained on the money market; with the reform of the structure of interest rates under way since the beginning of 1971 and the more extensive use being made of open-market policy, this market had in any case become an increasingly important source of liquidity for the banking system.

January 1972

(1) Several social security benefits were raised with effect from 1 January, in particular old-age allowances and invalidity pensions.

(2) In mid-January the Government announced a plan to support economic activity; this provides for:

(a) A modification of the rules applying to the deduction of tax on inputs, and the repayment of value added tax credits to certain enterprises. For 1972, the cost of this operation to the Treasury is put at some FF 1 200 million.

(b) The accelerated placing of public works contracts worth some FF 500 million.

(c) Implementation of the contingency investment programmes and acceleration of capital spending by public enterprises involving an amount of more than FF 2 200 million.

(d) The release of some FF 1 000 million for publicly assisted residential construction and authorization for the savings banks to grant mortgage loans worth FF 1 400 million, compared with 900 million in 1971.

When certain supplementary expenditure are included, these measures mean that FF 4 500 million of capital expenditure is being brought forward to the first half of 1972 by the Government and the public enterprises. Overall, they entail an increase of FF 2 200 million in the funds available for investment.

(3) In connection with the Government's plan to support economic activity the Banque de France on 13 January lowered the discount rate from 6.5% to 6% and the rate for advances on securities from 8% to 7.5% while the preferential discount rate for medium-term claims arising from foreign business with non-member countries was left unchanged at 4.5%. This prompted some commercial banks to reduce the basic rate of interest for rediscountable medium-term credit from 8.6% to 8.1%.

(4) In mid-January the Government approved a substantial increase in aid to regional development. To promote industrialization, especially in the western part of the country and the frontier areas in the east, the establishment of new or expansion of existing industrial establishments will be subsidized through grants of up to 25% of the investment outlay. In addition, grants of up to 20% will be made to encourage companies to transfer their head offices and research departments to the regions that qualify for assistance.

February

(1) Wages, salaries and pensions in the public service and the pay and pensions of the armed forces were raised by 1.5% from 1 February, following a 0.5% increase granted on 1 January to make up for the rise in the cost of living in 1971.

(2) To make consumers more price conscious, to provide a clearer picture of the prices asked by retailers and the services sector and thereby to intensify competition, businessmen are required, from 1 February, to show clearly and visibly the prices of all goods and services offered in shop windows, shops or workshops.

(3) As part of the efforts to encourage residential construction, a far-reaching reform of the building loan system was undertaken on 1 February. The reform is designed, in particular, to provide more funds for the construction of dwellings for the lower paid, to reduce the cost of credit by intensifying competition among the credit institutions, to remove unjustified advantages enjoyed by certain borrowers as a result of long-term interest rate subsidies, and to simplify the procedure for obtaining housing loans.

(4) The beginning of February saw the reintroduction of the exchange rate guarantee scheme for exporters, announced by the Government in the middle of October 1971. The guarantee provided under this scheme normally runs for two years and covers:

- (a) Losses suffered as a result of a drop in the exchange rate of the currency in which the export contract was concluded;
- (b) Losses suffered as a result of a rise in the exchange rate of the currency in which payment was made for the import of products needed to manufacture the exported goods;

- (c) The loss suffered by the bank which puts up foreign exchange guarantees for export contracts.

The guarantee, which in principle covers the total amount of the export contract, begins to operate when the exchange rate differential reaches 3% or more. For the time being, the premium is 0.648% per year.

(5) The basic rate of interest for consumer credit was cut by 1% with effect from 15 February. As the consumer credit institutions at the same time appreciably reduced the standard charge they make to cover their costs, the actual cut in the cost of consumer credit was some 2%.

(6) At the end of February, the employers' association and the major trade unions signed an agreement under which unemployed persons who are over 60 and had been subject to the statutory social security scheme for at least 15 years are guaranteed a benefit of two-thirds of the wage (including social security contributions) they actually earned during their last three months on the payroll. This rate is to go up to 70% by 1974. The necessary funds will come partly from the public authorities and partly from employers' contributions.

March

(1) At the beginning of March the Government announced an additional number of selective monetary measures to support economic activity:

- (a) Reduction by 0.25% of the coupon of public loan issues and medium-term treasury bills;
- (b) Relaxation of the rules governing investment by insurance companies, enabling these companies, among other things, to grant direct loans to enterprises;
- (c) Lowering, with effect from 21 March, of the minimum reserve ratios for sight deposits from 10% to 8% and for time deposits from 4% to 3%, releasing some FF 3 500 million of liquidity;
- (d) Increased opportunities for the Banque de France to pursue an open market policy by buying and selling bonds;
- (e) Reduction from 4.25% to 4% in the interest rate on savings bank deposits and from 8% to 7% in the interest rate on payments into new accounts with building and loan associations.

(2) *In mid-March almost all banks cut their lending rates—by an average of some 0.5%.*

April

Price control regulations were eased on 1 April. Industrial firms employing fewer than 20 persons are now completely free again in their price policy. Price control was also lifted with regard to prices for certain goods such as radio and television sets, records and photographic material, jewellery and furs, crystal ware and porcelain, perfumes and alcoholic beverages. Industrial enterprises employing more than 20

persons, however, will still be subject to a price restraint programme under which the maximum price increase for manufactured products between 1 April 1972 and 1 April 1973 must not exceed the national guide figure of 3%. There are exemptions for enterprises or sectors facing stiff competition. The distributive trades and the other services sectors will continue to see their profit margins and price increases fixed administratively. In the next 12 months, the average increase in public service charges is planned to match the 3 to 4% increase in the prices for industrial products and services.

TABLE 1: Key indicators

	1966	1967	1968	1969	1970	1970
	% change by volume on preceding year					1963=100
Gross national product	+ 5.6	+ 5.0	+ 4.6	+ 7.7	+ 6.0	148
Industrial production	+ 7.4	+ 4.6	+ 4.7	+ 9.8	+ 7.1	157
Total imports	+ 13.9	+ 8.0	+ 12.8	+ 22.5	+ 8.5	215
Private consumers' expenditure	+ 4.8	+ 5.4	+ 5.5	+ 6.7	+ 4.3	143
Public current expenditure on goods and services	+ 2.3	+ 4.1	+ 5.1	+ 4.4	+ 3.8	129
Gross fixed asset formation	+ 8.4	+ 6.1	+ 6.6	+ 10.1	+ 6.6	176
Total exports	+ 8.4	+ 7.5	+ 10.0	+ 17.0	+ 17.0	213
Gross national product per head of population	+ 4.7	+ 4.2	+ 3.8	+ 6.8	+ 5.1	139
Gross national product per person in employment	+ 4.8	+ 4.6	+ 4.6	+ 5.8	+ 4.4	140
	% change by value on preceding year					
Gross income per employee	+ 6.1	+ 6.7	+ 11.6	+ 12.0	+ 9.4	181

TABLE 2: Indicators for internal and external equilibrium

	1966	1967	1968	1969	1970
Balance exports less imports					
in million u.a.	+ 344	+ 446	+ 101	- 792	+ 558
as percentage of GNP	+ 0.3	+ 0.4	+ 0.08	- 0.6	+ 0.4
Unemployment rate	1.4	1.8	2.1	1.7	1.7
price index of private consumers' expenditure (% change on preceding year)	+ 3.0	+ 2.8	+ 4.9	+ 6.8	+ 5.2

France

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					1968 = 100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 8.3	+ 4.5	+ 11.4	+ 17.4	+ 18.8	219	17 676	100.0
Intra-EEC	+ 12.0	+ 2.0	+ 16.0	+ 30.6	+ 20.9	278	8 606	48.7
To non-EEC countries	+ 5.8	+ 6.3	+ 8.2	+ 7.5	+ 16.8	182	9 070	51.3
Exports of food, beverages and tobacco								
Total	+ 7.5	+ 2.9	+ 19.8	+ 20.8	+ 6.0	216	2 711	15.3
Intra-EEC	+ 19.4	+ 6.0	+ 26.6	+ 41.9	+ 1.7	341	1 626	9.2
To non-EEC countries	- 2.0	- 0.1	+ 12.8	- 3.3	+ 13.2	140	1 085	6.1
Exports of raw materials, fuel and power								
Total	+ 7.3	- 3.7	+ 1.6	+ 10.6	+ 11.7	140	1 390	7.9
Intra-EEC	+ 7.4	- 3.7	+ 0.9	+ 19.9	+ 13.7	184	9 282	5.2
To non-EEC countries	+ 7.2	- 3.6	+ 2.6	- 3.5	+ 7.9	107	464	2.7
Exports of semi-finished and finished industrial goods								
Total	+ 8.7	+ 6.1	+ 11.1	+ 17.5	+ 22.5	230	19 575	76.8
Intra-EEC	+ 11.2	+ 2.3	+ 16.2	+ 29.0	+ 28.7	287	6 054	34.3
To non-EEC countries	+ 7.2	+ 8.5	+ 8.1	+ 10.2	+ 18.0	199	7 521	42.5
Visible imports								
Total	+ 14.6	+ 4.5	+ 12.5	+ 27.7	+ 9.8	217	18 913	100.0
Intra-EEC	+ 20.8	+ 10.7	+ 23.1	+ 31.3	+ 6.5	296	9 252	48.9
From non-EEC countries	+ 10.5	+ 0.2	+ 4.4	+ 16.7	+ 13.2	173	9 661	51.1
Imports of food, beverages and tobacco								
Total	+ 8.4	- 2.6	+ 2.7	+ 19.6	+ 6.8	158	2 453	13.0
Intra-EEC	+ 1.3	+ 16.6	+ 31.8	+ 33.4	+ 3.9	296	814	4.3
From non-EEC countries	+ 10.3	- 7.4	- 6.4	+ 13.5	+ 8.4	128	1 639	8.7
Imports of raw materials, fuel and power								
Total	+ 5.9	+ 0.3	+ 3.6	+ 10.6	+ 4.5	136	4 202	22.2
Intra-EEC	+ 9.5	- 2.3	+ 14.2	+ 11.4	+ 8.7	146	730	3.9
From non-EEC countries	+ 5.3	+ 0.8	+ 1.7	+ 10.5	+ 3.7	134	3 472	18.3
Imports of semi-finished and finished industrial goods								
Total	+ 22.0	+ 9.0	+ 19.6	+ 30.3	+ 12.4	300	12 258	64.8
Intra-EEC	+ 25.0	+ 12.0	+ 23.3	+ 33.3	+ 6.5	328	7 703	40.7
From non-EEC countries	+ 17.7	+ 4.4	+ 13.3	+ 24.0	+ 23.9	261	4 550	24.1

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970	150.3	150.7	150.7	151.4	149.2	148.2	150.6	144.3	152.0	151.2	149.9	151.8
	1971	152.6	154.6	156.6	161.9	162.2	161.6	162.4		162.8	161.9	163.0	
	1972	(164.8)											
Number of persons seeking employment (1 000)	1970	221.4	227.2	233.3	241.3	246.9	252.5	262.6	274.1	285.9	297.2	303.7	304.9
	1971	311.1	307.9	310.3	311.4	316.2	320.9	331.0	341.9	359.1	376.7	378.4	378.7
	1972	(378.0)	(365.2)										
Construction: building permits issued for housing (1 000)	1970	45.2	53.7	48.7	46.7	46.9	53.2	45.1	42.7	51.7	39.3	43.5	72.1
	1971	49.8	57.0	67.3	46.8	53.8	61.9	(52.4)	(44.2)	(51.9)	(55.5)	(60.5)	(63.2)
	1972												
Private consumers' expenditure: turnover of department stores (1963 = 100)	1970	151.8	142.9	139.6	142.7	144.1	142.9	147.0	148.9	143.8	149.4	135.9	154.3
	1971	160.9	156.7	150.2	154.8	142.3							
	1972												
Consumer prices (1963 = 100)	1970	128.0	128.6	129.0	129.6	130.1	130.7	130.9	131.4	132.0	132.5	133.0	133.4
	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											
Visible imports (million u.a.)	1970	1 434	1 488	1 431	1 660	1 406	1 663	1 563	1 682	1 656	1 631	1 657	1 686
	1971	1 488	1 613	1 734	1 716	1 638	1 799	1 746	1 892	1 854	1 855	1 832	1 911
	1972	1 742	2 047										
Visible exports (million u.a.)	1970	1 385	1 389	1 397	1 503	1 323	1 595	1 415	1 507	1 572	1 501	1 574	1 569
	1971	1 531	1 595	1 651	1 615	1 652	1 667	1 691	1 794	1 769	1 761	1 813	1 827
	1972	1 756	(1 820)										
Balance of trade (million u.a.)	1970	- 49	- 99	- 34	- 157	- 83	- 68	- 148	- 175	- 84	- 130	- 83	- 117
	1971	+ 43	- 18	- 83	- 101	+ 14	- 132	- 55	- 98	- 85	- 94	- 19	- 84
	1972	+ 14	(- 227)										
Official gold and foreign exchange reserves (million u.a.)	1970	4 050	4 122	4 126	4 197	4 307	4 447	4 657	4 713	4 743	4 784	4 957	4 960
	1971	5 346	5 404	5 490	5 561	5 628	5 655	6 158	7 231	6 899	6 854	7 073	7 589
	1972	7 587	7 638										
Money supply (FF '000 million)	1970	205.7	206.3	207.4	207.2	207.3	208.0	209.5	211.7	213.3	219.7	223.2	227.8
	1971	228.7	232.2	234.5	232.1	236.4	240.4	243.4	243.2	245.3	250.5	250.7	253.9
	1972												

NOTES TO GRAPHS AND TABLES

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

Graph 1

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

Graph 2

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

Graph 3

Wages and consumer prices; index of hourly wage rates, all activities, all regions; national index of consumer prices for 1969 and 1970: 259 items; from January 1971 new index of 295 items.

Graph 4

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

Graph 5

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

Graph 6

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

Graph 7

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

Table 1

Source: "Rapport sur les comptes de la Nation 1970". Ministère de l'Économie et des Finances.

GNP at market prices (new series on 1962 basis).

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

Source: "Rapport sur les comptes de la Nation 1970". Ministère de l'Économie et des Finances.

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, constant samples; adjusted for seasonal variations.

Consumer prices: national index of 259 items in 1969 and 1970; new 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.

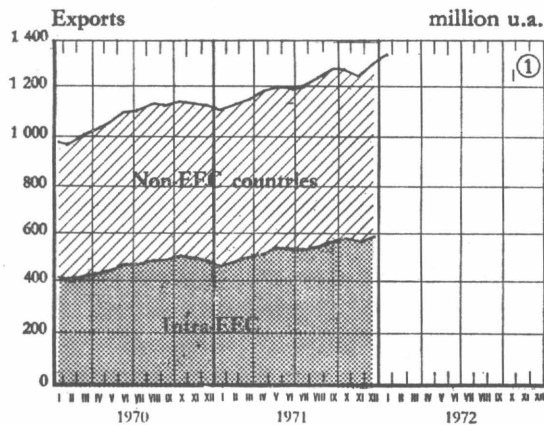
C. Italy

The economic trend may have become somewhat firmer around the turn of the year, helped by the more lively growth of domestic demand, while unemployment, which had been rising since the spring of 1970, was, if anything, creeping down again.

Although all economic predictions are hazardous, there are now—thanks in no small measure to the Government's expansionary policy—much better chances that economic activity will pick up again during the year, even if at first the recovery is sure to be slow.

1. Recent developments

After a year and a half of virtually uninterrupted weakening, the economic trend was somewhat firmer again around the turn of the year, with the decisive boost coming from a revival of domestic demand. Exports of services and even more of goods continued to grow rapidly,



despite some loss of momentum. The level of export orders on hand may have started to move up for the first time since the middle of 1969. Between the third and the fourth quarter, the seasonally adjusted value of exports, in terms of lire, rose at an annual rate of 18%.

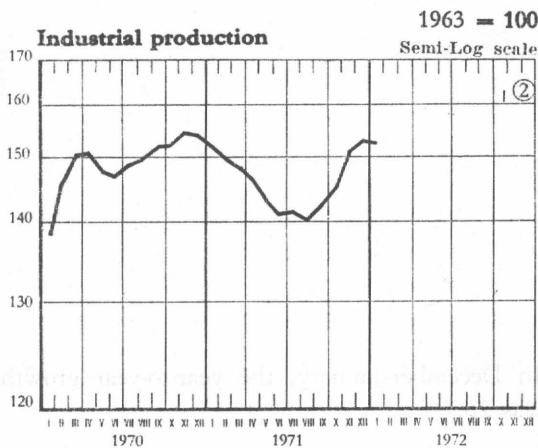
In December-January, the year-to-year growth was 26.7%.

Among the elements of domestic demand, investment activity shows signs of picking up somewhat, though the extent of recovery is not yet clear. Replies from managements to the monthly questions on the order situation and on the trend of production and foreign trade suggest that investment in plant and machinery, which had been declining for quite some time, may be picking up again. A similar change of trend was registered in stockbuilding, but here the change was very marked. In both cases the new rules on the tax treatment of investment undertaken prior to introduction of the value added tax system may have helped wean entrepreneurs from their wait-and-see attitude. Owing to the persistent crisis in residential construction, building investment may have maintained its downward trend, despite the direct and indirect measures which the authorities took to boost it.

The expansion of private consumers' expenditure probably gathered momentum; at any rate domestic order-books in the consumer goods industry and the production and import of consumer goods showed a distinct upward tendency. The key factor here seems to have been

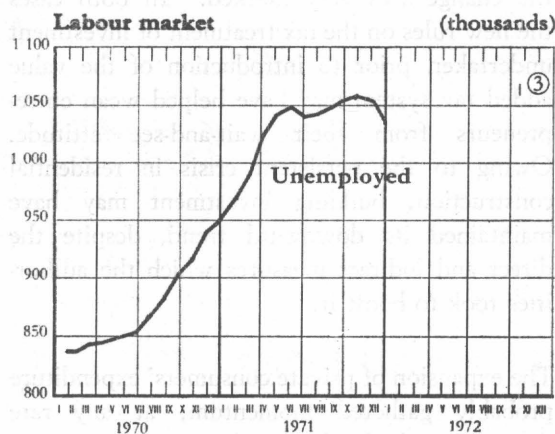
an increase in the propensity to consume; in addition, mass incomes may have expanded somewhat more vigorously because employment went up again. The rise in hourly wages was not least a reflection of the particularly sharp increase in the cost-of-living supplements under the sliding-scale wage agreements. Consumption was also boosted by what appears to have been a quite marked rise in farm incomes.

Industrial production (excluding construction, which is once again declining) has been rising



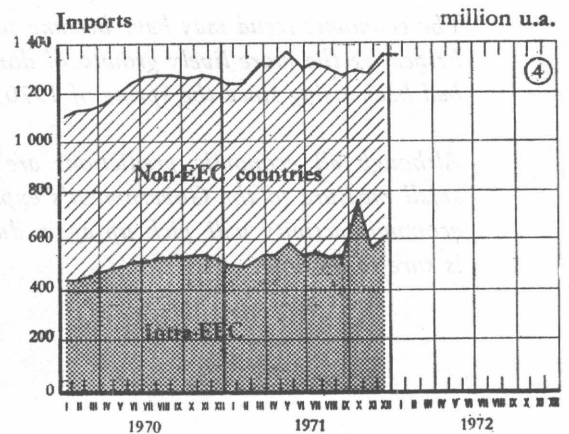
since the beginning of the autumn, as forecast. The output of intermediate products expanded at a particularly rapid pace. In December-January, production per working day was nevertheless only 0.6% up on a year earlier.

The number of wage and salary earners tended if anything to fall slightly, but the average



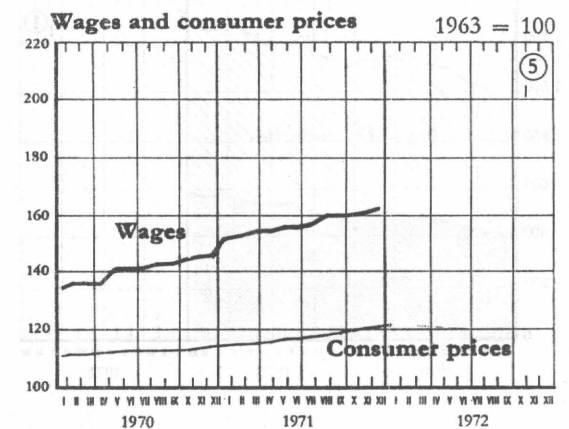
number of hours worked per person in paid employment may have risen again. With the

labour force declining a little, the number of unemployed nevertheless ceased to rise and indeed showed a drop.



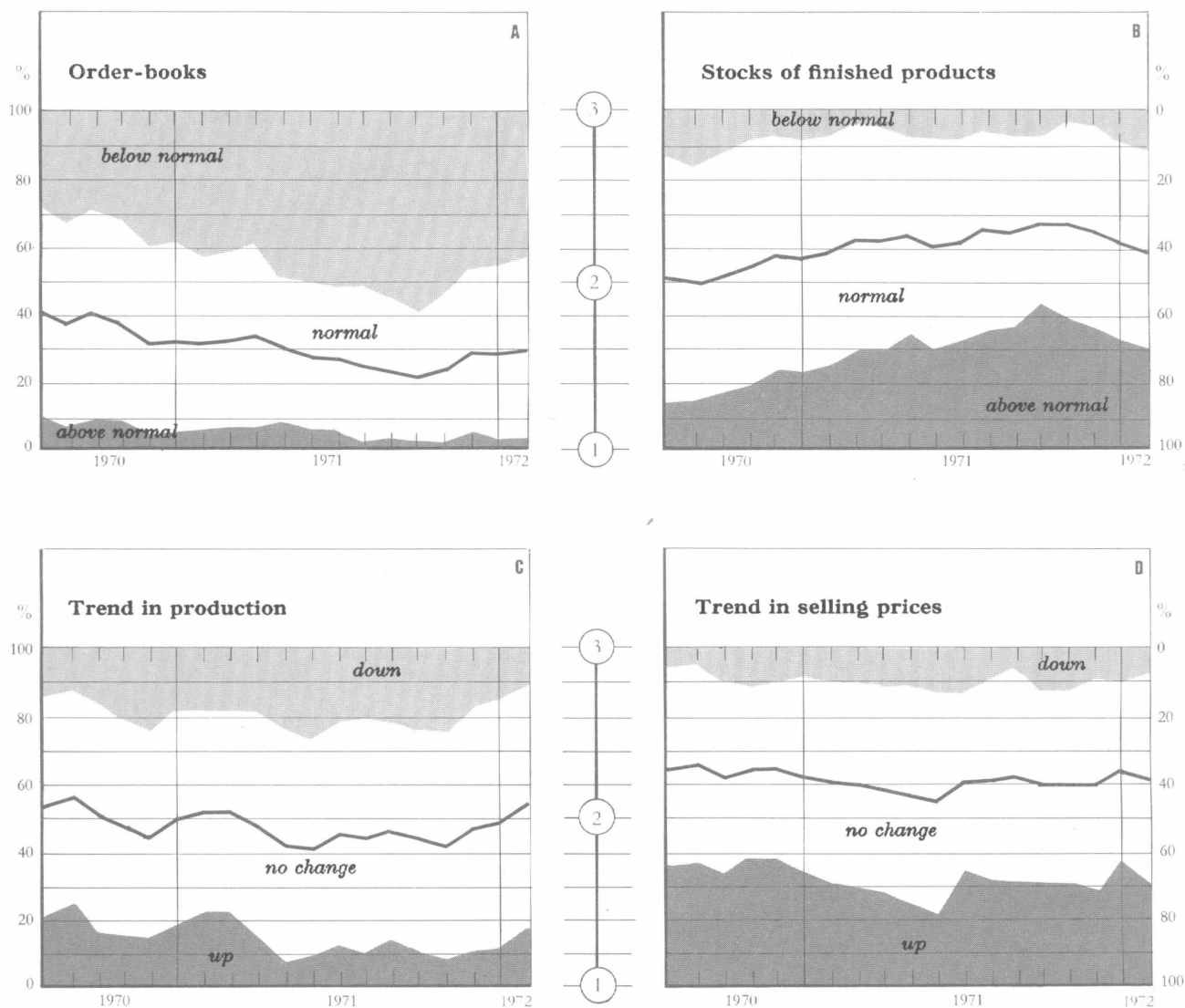
Imports were going up again, after a fairly long period of decline. Seasonally adjusted visible imports (in terms of lire) rose by 7% between the third and fourth quarters; in December-January, they were 14.4% higher than a year earlier.

The upward movement of prices in the fourth quarter was very weak at wholesale level (the average per month being 0.1%), but remained brisk at consumer level (0.5%), particularly where food and services are concerned. In January, the rise in wholesale prices gained



distinctly in momentum, notably because motor car prices were put up; their increase over a year earlier was 2.8%, and that of consumer prices 4.7%.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

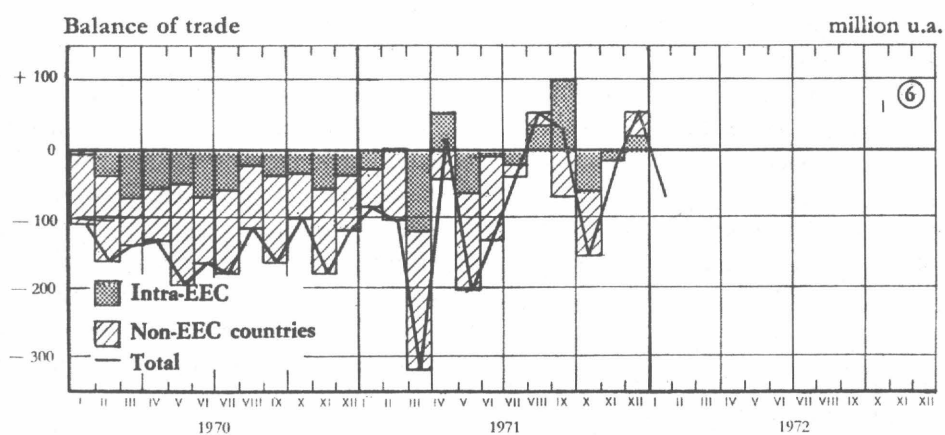


Answers to the questions in the EEC business survey, carried out in Italy by ISCO-Mondo Economico.

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".



Demand for and supply of goods and services

	1969 ¹	1970 ¹		1971 ¹		1972 ²	
	At current prices (in Lit '000 million)	% change on preceding year					
		Volume ⁴	Value	Volume ⁴	Value	Volume ⁵	Value
Exports ³	10 545	+ 6.6	+ 11.9	+ 6.5	+ 12.6	+ 5	+ 9
Gross fixed asset formation	10 700	+ 3.4	+ 15.0	- 4.9	+ 1.6	+ 1	+ 5
Public current expenditure on goods and services	6 898	+ 1.9	+ 6.7	+ 4.2	+ 21.2	+ 3	+ 7
Private consumers' expenditure	32 836	+ 7.8	+ 13.5	+ 2.6	+ 7.9	+ 3½	+ 9
Gross national product	52 091	+ 4.9	+ 11.8	+ 1.4	+ 8.1	+ 3	+ 8
Imports ³	9 340	+ 17.5	+ 22.4	+ 0.5	+ 7.4	+ 7½	+ 11

¹ Relazione generale sulla situazione economica del Paese (1971).

² Forecasts.

³ Goods, services and factor income.

⁴ At 1963 prices.

⁵ At preceding year's prices.

Note :

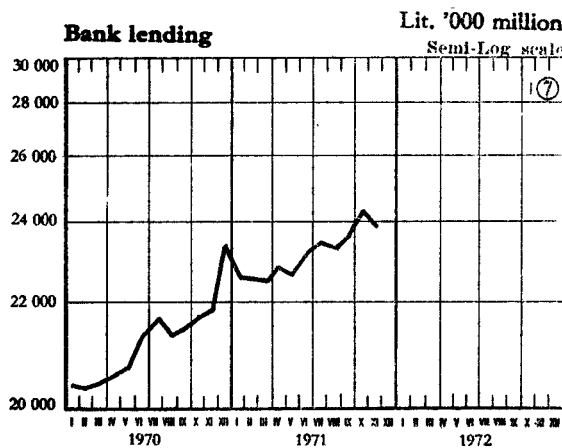
(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys.

They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

The balance of payments in the fourth quarter showed the first deficit in almost two years, but this was due exclusively to very substantial repayments of debt, made ahead of schedule. Despite imports of money by the commercial banks, the official net gold and foreign exchange reserves fell by Lit. 245 000 million between the end of September 1971 and the end of January 1972.¹

Payments transactions with abroad thus had a restrictive influence on the domestic liquidity of the commercial banks. A similar effect has been exerted by the recent strengthening of demand for credit, although this strengthening has been due mainly to public borrowing. Despite major calls on the capital market by the public authorities, the cash transactions of the Treasury tended to increase liquidity. All in all, the margin of liquidity available to the banks, and hence their lending potential, remained very substantial. The money supply continued to rise at the slower pace registered for some time past; in December it was 18½% up on a year earlier.



On the securities market, interest rates continued to decline and demand for bonds remained very lively. Shares, by contrast, continued to attract few buyers.

¹ Valuation of gold reserves and monetary reserves assimilated to gold on the basis of the old parities.

2. Outlook

The recent improvement in business confidence in Italy justifies the assumption that economic activity will maintain its slow rise in the months ahead. Around the middle of the year, the pace may quicken again. The improvement in business confidence, precarious though it still is owing in part to the government crisis, has probably been helped by two main factors, both of which were included among the conditions for a resumption of growth outlined in the last Survey. First, the decisions taken last December at the monetary conference held in Washington by the Group of Ten were viewed in Italy as an important step towards the solution of the world-wide monetary crisis. Second, the strains in industrial relations may have eased further.

In the circumstances, the following passages can be largely confined to summing up the prospects outlined in the last Survey and making a few small changes or supplementary points.

The export outlook has probably remained expansionary. This belief is supported not only by the trend of orders referred to in Section 1 above, but also by the results of the "Forum" survey recently carried out by "Mondo Economico". If account is taken of the removal of the 10% import surcharge by the United States and of the trend that has been registered so far in the effective rate of exchange of the lira, Italy's international competitive position, that had already picked up some time previously, has by and large not been affected by the Washington decisions.

Investment activity, too, still seems to be set for a moderate expansion during the year. The half-yearly EEC Business Survey among heads of enterprises, carried out in the autumn of 1971, and the "Forum" survey, carried out somewhat later and referring to the first half of 1972, suggest that the tendency to invest will strengthen.

With private consumers' expenditure likely to expand somewhat more rapidly—probably helped, in the second half of the year, by anticipatory purchasing ahead of the introduction of the

value added tax system—it still appears reasonable to expect real gross national product to grow by a good 3% and imports to increase appreciably.

In these circumstances the number of persons in paid employment should rise again, but it is in particular the average number of hours worked per person employed that may well go up.

Despite the high elasticity of supply, the upsurge in prices must be expected to continue. The general price level, measured in terms of the GNP deflator, is nevertheless likely to rise more slowly than last year, when it was forced up appreciably by salary increases in the public sector.

Given the low degree of utilization of manpower and plant capacity, the expansionary line of short-term economic policy should no doubt be maintained. However, as the moment approaches when the spontaneous forces of the market will have regained sufficient momentum and the boost given by short-term economic policy will have to be reduced accordingly, care has to be taken to enable the scope and the direction of short-term economic measures to be flexibly adjusted to the changed requirements.

With the banking system very liquid at the moment, the scope for an expansionary monetary policy has probably been exhausted. There may, however, be a case for a further cut in the cost of credit, a move that would in addition be helpful in view of the trend of interest rates at international level.

The emphasis within short-term economic policy should be on budgetary measures, especially since here the requirements of short-term policy and structural policy are at present largely identical. The encouragement given to demand, for instance, should be mainly in the form of an expansion of investment-related expenditure. This expenditure is not only comparatively elastic, but it also increases the stock of productive capital and social overhead capital, which must be welcomed from the angle of both the growth potential of the economy and the urgent need to develop the social infrastructure. On the receipts side, consideration may perhaps

be given to extending, for a limited period, the tax incentives to investment. Saving, too, should be further encouraged, but in this context special emphasis must be placed on the mobilization of savings for productive investment, for instance in the form of participation in the equity of companies.

The round of wage negotiations due to be held this year will be the largest so far and will coincide with a period of economic convalescence. To ensure that this process is not interrupted forthwith and can be carried over into a phase of balanced and lasting economic growth, efforts should be made, through close contacts between the Government and the two sides of industry, to reach agreement on the extent of wage increases that would be compatible with harmonious economic development. In addition, price controls should be tightened for a while and an appropriate information policy pursued, in order to make sure that the changeover to the value added tax system does not lead to an undue spurt in the cost of living.

Major economic policy measures

December 1971

(1) On 18 December, at the Group of Ten's conference in Washington on international currency realignment, agreement was reached that the central rate of the lira should be fixed at Lit. 581.50 to the US dollar, with a margin of fluctuation of 2.25% on either side (previously Lit. 625 with a margin of fluctuation of 0.75% on either side), the gold parity of the dollar being reduced by 7.89% and that of the lira by 1%.

(2) At the end of the month the Government submitted a bill under which the IMI Fund for applied research (set up in October 1968) is to receive a further injection of public money (increasing its resources by Lit. 100 000 million to Lit. 250 000 million). This extra money is to be raised on the capital market during the period 1972-76.

(3) At the end of the month, entry into force of the law on Government grants to help textile enterprises to restructure and reorganize and,

where appropriate, change over to some other production. The enterprises applying for such grants are required to submit appropriate plans within four months; the competent ministry will authorize them if implementation is likely to help improve production, strengthen competitiveness and maintain jobs.

March 1972

During the Parliamentary debates on the 1972 central government budget it was decided to postpone the introduction of the value added tax system once again (from 1 July 1972 to 1 January 1973).

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 u.a.	+ 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

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1963 = 100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 11.7	+ 8.3	+ 17.0	+ 15.2	+ 12.6	262	13 207	100.0
Intra-EEC	+ 12.3	+ 3.3	+ 20.9	+ 22.2	+ 13.6	316	5 660	42.9
To non-EEC countries	+ 11.0	+ 11.6	+ 14.5	+ 10.5	+ 11.9	232	7 547	57.1
Exports of food, beverages and tobacco								
Total	+ 1.5	+ 4.7	- 3.7	+ 15.6	+ 9.2	160	1 098	8.3
Intra-EEC	+ 0.4	- 1.7	- 1.3	+ 21.4	+ 5.7	179	582	4.4
To non-EEC countries	+ 2.3	+ 12.4	- 6.1	+ 9.3	+ 13.4	142	516	3.9
Exports of raw materials, fuel and power								
Total	+ 10.6	+ 9.1	+ 14.1	+ 1.4	+ 10.3	209	990	7.5
Intra-EEC	+ 21.5	+ 15.9	+ 14.7	- 2.0	+ 9.6	287	366	2.8
To non-EEC countries	+ 5.2	+ 5.3	+ 18.7	+ 3.6	+ 10.6	181	624	4.7
Exports of semi-finished and finished industrial goods								
Total	+ 13.4	+ 8.8	+ 20.0	+ 16.7	+ 13.2	286	11 119	84.2
Intra-EEC	+ 14.6	+ 3.2	+ 25.4	+ 24.9	+ 15.0	352	4 712	35.7
To non-EEC countries	+ 12.6	+ 12.4	+ 16.7	+ 11.5	+ 11.9	252	6 407	48.5
Visible imports								
Total	+ 16.7	+ 12.9	+ 4.3	+ 21.4	+ 19.4	197	14 865	100.0
Intra-EEC	+ 21.6	+ 21.5	+ 9.1	+ 29.9	+ 27.4	248	6 140	41.3
From non-EEC countries	+ 14.4	+ 8.8	+ 1.8	+ 16.6	+ 14.3	172	8 725	58.7
Imports of food, beverages and tobacco								
Total	+ 9.7	+ 0.7	+ 8.5	+ 14.9	+ 18.0	189	2 409	16.8
Intra-EEC	+ 13.5	+ 26.6	+ 29.0	+ 26.8	+ 20.9	397	954	6.4
From non-EEC countries	+ 8.7	- 6.4	+ 0.9	+ 9.2	+ 8.1	143	1 545	10.4
Imports of raw materials, fuel and power								
Total	+ 15.1	+ 13.7	+ 1.0	+ 13.0	+ 11.8	180	4 663	31.4
Intra-EEC	+ 18.2	+ 14.2	- 3.0	+ 20.6	+ 16.6	219	697	4.7
From non-EEC countries	+ 14.6	+ 13.6	+ 1.7	+ 11.8	+ 11.0	174	3 966	26.7
Imports of semi-finished and finished industrial goods								
Total	+ 22.0	+ 18.8	+ 8.6	+ 31.0	+ 27.1	213	7 704	51.8
Intra-EEC	+ 24.2	+ 22.3	+ 8.1	+ 32.4	+ 30.3	234	4 489	30.2
From non-EEC countries	+ 19.4	+ 14.5	+ 9.2	+ 29.0	+ 22.2	188	3 215	21.6

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970	148.9	153.6	149.2	148.8	145.5	146.4	152.3	149.6	152.6	152.6	157.9	150.6
	1971	147.4	151.3	144.8	140.6	140.8	141.4	141.8	138.2	146.9	150.0	156.6	151.3
	1972	(149.0)											
Unemployed (1 000)	1970	843.1	840.2	848.3	849.0	853.0	860.9	881.0	895.8	926.7	936.7	959.2	952.2
	1971	990.2	1 012.9	1 060.4	1 046.1	1 041.8	1 048.1	1 048.5	1 051.1	1 067.4	1 052.0	1 040.9	1 006.1
	1972	1 010.5											
Construction : permits for residential construction (1 000)	1969	31.5	21.3	19.0	21.4	21.8	22.8	21.8	22.6	25.8	25.3	24.5	24.4
	1970	23.4	22.3	22.1	25.3	25.0	24.8	24.9	21.6	23.3	24.5	24.1	33.4
	1971	22.7	21.0	21.6	27.7	25.2	29.2	30.0	26.2	24.0	26.0		
Private consumers' expenditure : department store turnover (1963 = 100)	1969	154.9	153.3	161.5	162.6	181.5	162.8	172.6	180.4	183.3	177.0	169.2	130.2
	1970	182.3	180.9	195.7	173.6	169.4	195.2	196.9	197.1	202.0	214.6	189.2	196.3
	1971	195.2	196.3	193.0	210.1	196.2	191.6	201.2	192.4	227.6	212.9	212.4	
Consumer prices (1963 = 100)	1970	125.1	126.1	126.6	127.2	127.7	128.0	128.2	128.4	129.2	129.8	130.8	131.3
	1971	131.8	132.3	132.8	133.2	134.0	134.1	134.5	134.7	135.6	136.3	136.9	137.4
	1972	137.9											
Visible imports (million u.a.)	1970	1 168.4	1 122.4	1 137.3	1 245.2	1 247.1	1 313.9	1 305.5	1 263.0	1 298.6	1 275.2	1 317.3	1 249.7
	1971	1 172.9	1 320.4	1 494.6	1 178.2	1 455.9	1 285.0	1 230.9	1 317.4	1 248.2	1 348.0	1 288.1	1 485.2
	1972	(1342.5)											
Visible exports (million u.a.)	1970	1 066.0	967.2	1 004.0	1 118.5	1 057.0	1 155.4	1 129.5	1 148.2	1 134.5	1 180.5	1 134.0	1 135.8
	1971	1 101.9	1 224.3	1 166.1	1 195.8	1 242.0	1 155.1	1 203.8	1 380.0	1 283.4	1 197.7	1 275.7	1 542.9
	1972	(1276.9)											
Balance of trade (million u.a.)	1970	- 102.4	- 157.2	- 133.3	- 126.7	- 190.1	- 158.5	- 176.0	- 114.8	- 164.1	- 94.7	- 183.3	- 113.9
	1971	- 71.0	- 96.1	- 328.6	+ 17.6	- 213.9	- 129.9	- 27.1	+ 62.6	+ 35.2	- 150.3	- 12.4	+ 57.7
	1972	(-65.6)											
Official gold and foreign exchange reserves (net million u.a.)	1970	4 457	3 943	3 947	3 923	4 368	4 233	4 130	4 226	4 411	4 776	4 903	5 271
	1971	5 652	5 836	5 994	6 167	6 091	5 993	6 016	6 463	6 600	6 566	6 359	6 427
	1972	6 899	6 361										
Money supply (Lit. '000 million)	1970	28 839	24 122	24 689	24 896	25 538	26 117	25 622	26 660	27 247	27 811	28 452	31 108
	1971	30 416	30 120	30 534	31 007	31 455	32 084	32 545	32 531	33 138	33 547	33 883	36 905
	1972	35 742											

NOTES TO GRAPHS AND TABLES

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

Graph 1

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

Graph 2

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 3

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

Graph 4

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

Graph 5

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

Graph 6

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

Graph 7

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

Table 1

Source for 1969 and 1970: Relazione generale sulla situazione economica del Paese (1970).

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.

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.

D. Netherlands

At the beginning of 1972, the imbalances in the economic situation of the Netherlands were still very strong. The upward movement of prices and costs continued at a disquieting pace, while economic activity showed little growth.

There are many indications that the risk of a further slackening in economic growth has diminished. However, the effects exerted by the revaluation of the guilder and by the distinct easing on the labour market will not, in the months ahead, be enough to produce the requisite weakening of inflationary tendencies.

1. Recent developments

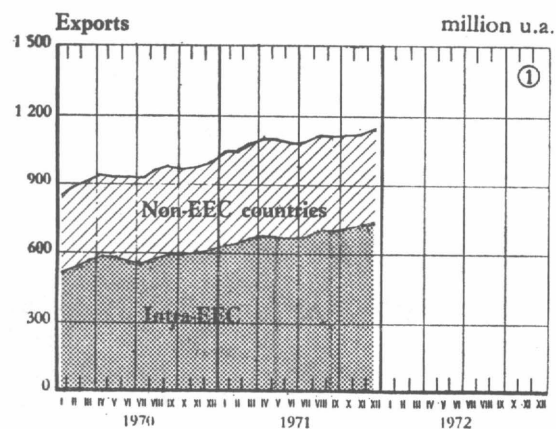
At the end of 1971 and in early 1972 economic growth was still comparatively weak, unemployment was still rising appreciably and the upward movement of costs and prices remained rapid.

With the flow of new export orders still satisfactory despite the revaluation of the

ies in terms of guilders were 10.5% up on a year earlier.¹

The growth of domestic demand as a whole was quite slow, but there were again quite marked differences from one component to another. As a result of the persistent shrinking of profit margins and the restrictive policy being followed, gross fixed asset formation by both enterprises and the public authorities continued to decline. Only residential construction may still have provided a fairly vigorous stimulus to economic activity, largely because the building industry found it easier to recruit workers and the weather was comparatively good.

In the fourth quarter of 1971 and at the beginning of the new year, the expansion of private consumers' expenditure was still brisk. This was mainly a consequence of the sharp increase in incomes, especially wage and transfer incomes, in the second half of 1971. In January, the agreed wage rate throughout the economy was 10% higher than a year earlier. The wage drift weakened, however, and there was a fall in the total number of hours worked.

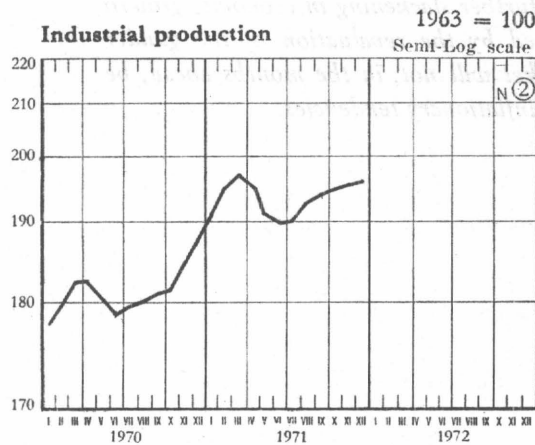


guilder, export industries able to draw on ample reserves of capacity, and harvests in 1971 good, visible exports have climbed further in recent months. In December-January, export deliver-

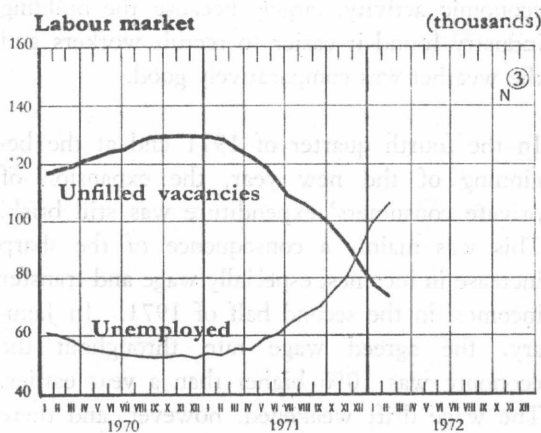
¹ Excluding deliveries to the Belgo-Luxembourg Economic Union, more difficult to record statistically since the frontier checks were abolished.

The growth of domestic supply is likely to have been modest. Industrial production, however, began to move up again, as in November-December the CBS index was 5.2% up on the same period a year earlier.

The tendency for pressures on the labour market to ease continued. Although there was little

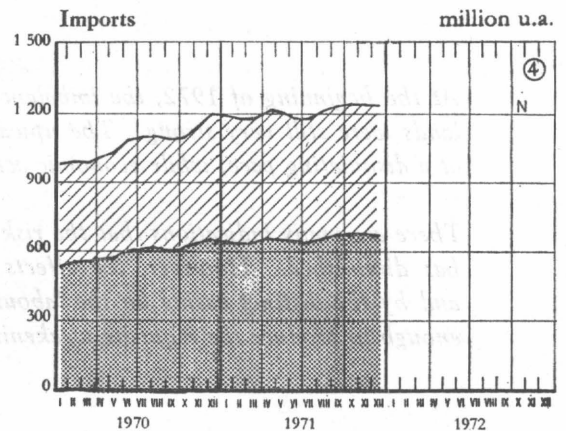


increase in the labour force, unemployment went up further. At the end of February, the seasonally adjusted number out of work was about 105 000, or 2.3% of the civilian labour force, which roughly corresponds to the highest unemployment rate recorded during the last dip in business activity in 1966-67; the situation was most acute in the northern provinces.

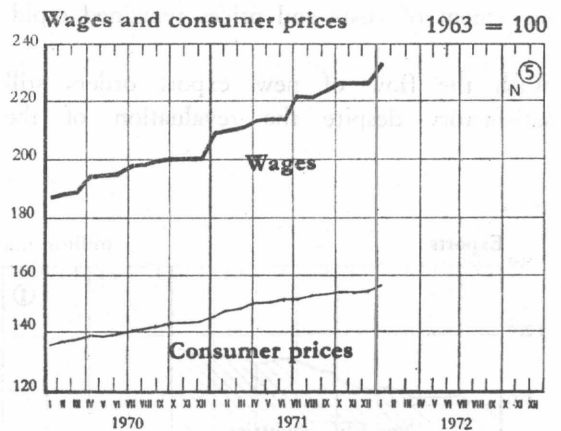


The slowdown in economic growth had a decidedly dampening effect on the trend of imports. In December-January, the value of imports in terms of guilders, as reflected in the

foreign trade statistics,¹ was little higher than a year earlier.



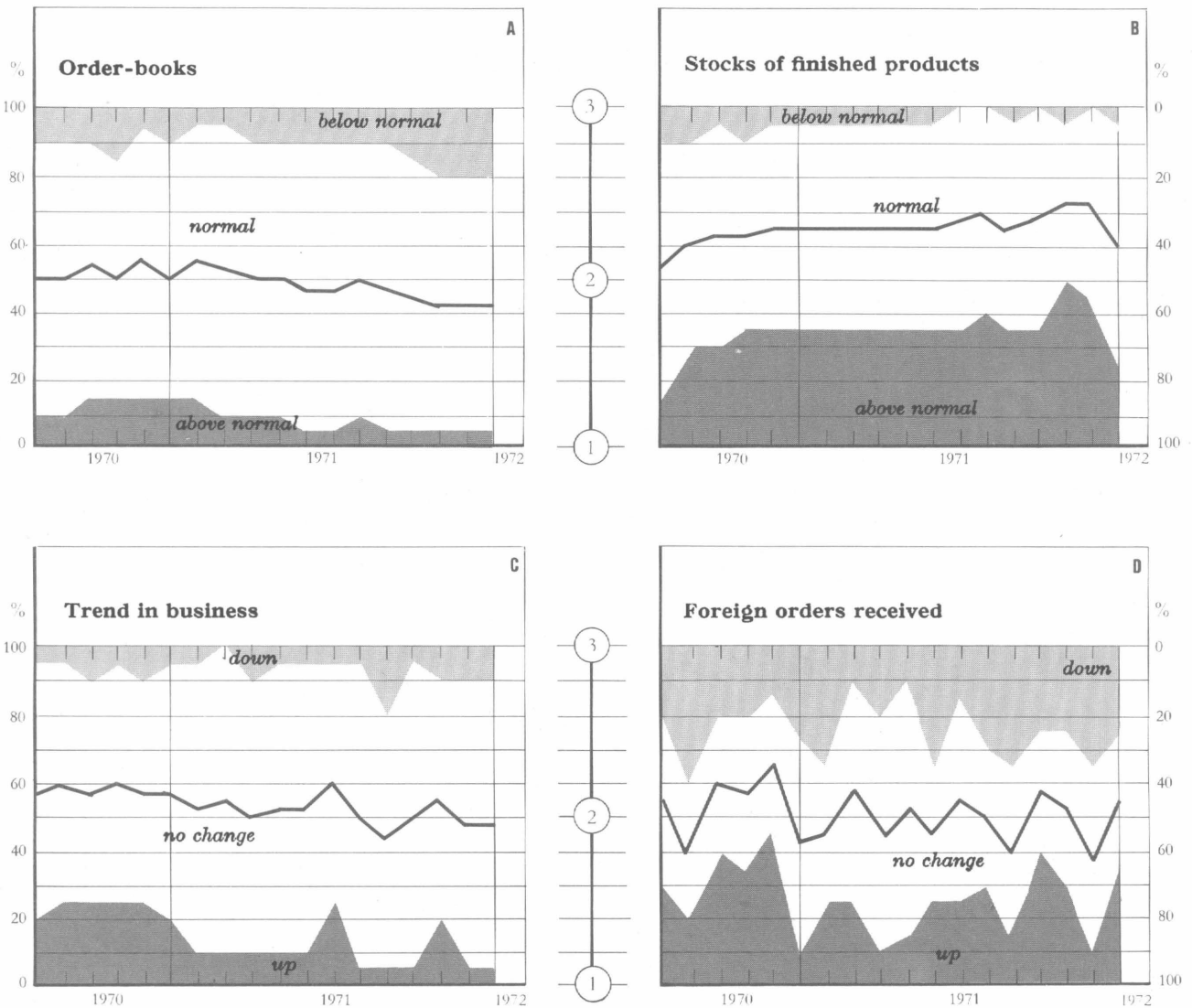
The level of domestic prices continued to rise rapidly, mainly because the pressure of labour costs was still very heavy; none the less there appear to be some signs that the situation is improving. The consumer price index went up by 1.7% between December and February, compared with 2.4% a year earlier; in February, the year-to-year increase was 7.7%.



The continued rise in exports and the distinct slowdown in the growth of imports, coupled with a steady improvement in the terms of trade, led to a drop in the trade deficit. As the capital account still showed a surplus, though much smaller than the last, the overall balance of payments closed with a surplus of Fl. 384

¹ Excluding purchases from the Belgo-Luxembourg Economic Union.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

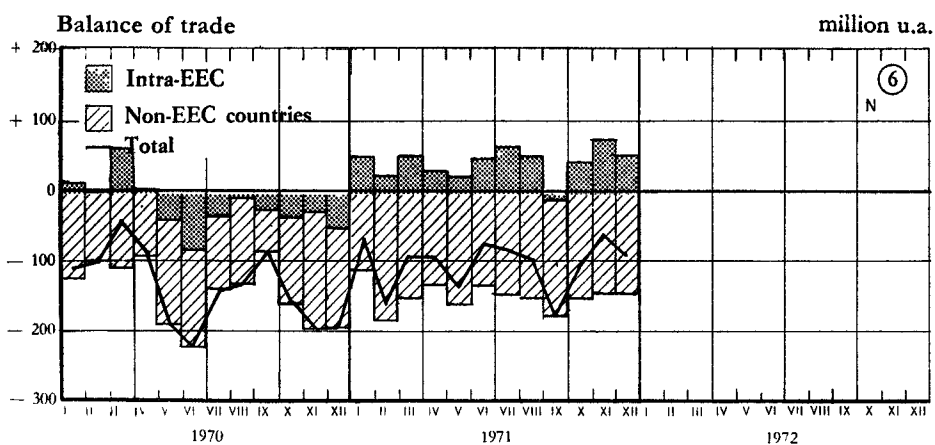
Note : The survey includes construction but not paper, petroleum, non-metallic minerals.

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".





Demand for and supply of goods and services

	1969 ¹	1970 ¹		1971 ²		1972 ³	
	At current prices (in Fl. '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ⁴	49.67	+ 13.7	+ 18.8	+ 10½	+ 13	+ 6½	+ 8
Gross fixed asset formation	25.81	+ 7.2	+ 15.3	+ 2	+ 12	- 4	+ 2½
Public current expenditure on goods and services	16.07	+ 5.5	+ 13.2	+ 4	+ 17	- ½	+ 9
Private consumers' expenditure	57.54	+ 7.4	+ 11.5	+ 3	+ 10	+ 3½	+ 11
Gross national product	102,39	+ 5.6	+ 10.5	+ 4	+ 12	+ 2½	+ 10
Imports ⁴	49.30	+ 15.0	+ 22.5	+ 6½	+ 11½	+ 4½	+ 5 ½

¹ Nationale Rekeningen 1970; CBS.

² Estimates.

³ Forecasts.

⁴ Goods, services and factor income.

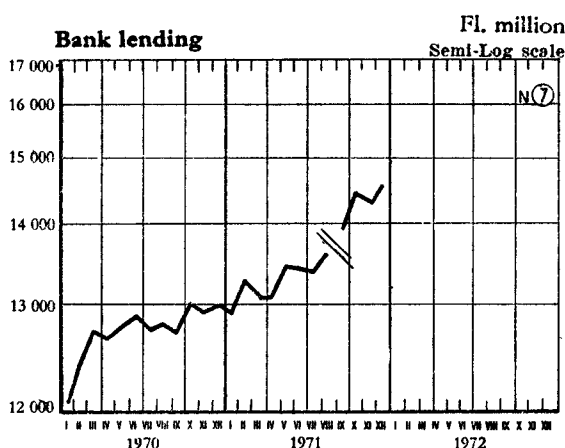
Note :

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

(b) The estimates 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.

million in the fourth quarter, compared with Fl. 620 million in the third.

Although the cash transactions of the public authorities again acted as a brake, the volume of liquidity remained comparatively high, owing to transactions with abroad and, above all, to the expansion of bank lending to business customers. At the end of the year, the limits placed on the growth of short-term lending by the banks were slightly exceeded for the first time in a long period.



Interest rates have been tending to decline in recent months. At least where short-term rates are concerned, this is in part the result of a deliberate policy by the monetary authorities to reduce the interest rate differential between the Netherlands and other countries so as to prevent the dollar rate of the guilder from breaking through the upper limit of the 2.25% margin of fluctuation fixed in December. At the beginning of March the monetary authorities also took further measures to stem the inflow of speculative capital.

2. Outlook

Overall, the prospects for the Dutch economy in the next few months are not very satisfactory. The upward movement of costs and prices will still be very rapid, while economic growth will probably be small.

The rise in exports will no doubt be modest in the next few months, for imports by the main

buyer countries are in the aggregate likely to increase less than in 1971. The competitive position of Dutch industry is also suffering from the appreciation of the guilder and the sharp upsurge in costs. Only if in the second half of the year the expected upswing in North America combines with an appreciable recovery in Europe may exports resume a somewhat more vigorous growth before the advent of 1973.

Domestic demand will increase only marginally. Gross fixed asset formation is likely to stabilize gradually by the end of the year. The tendency for building demand to slacken may soon come to a halt; this would be due mainly to the recent decision concerning more than Fl. 210 million of additional public investment in the northern provinces of the country, and to the more generous policy on authorization of industrial and commercial building projects. Residential construction is also likely to continue at a very high level. Corporate investment in plant and machinery, by contrast, which had tended downwards since the beginning of 1971, will on the whole still show a quite marked lack of vigour.

As stocks of finished products no longer appear to be unduly high, stockbuilding should have a slightly expansionary effect again.

The growth of private consumers' expenditure, by contrast, will continue to provide comparatively vigorous stimuli. The dampening influence exerted by the slower rise in the total wage bill and in transfer incomes may be partly offset by a somewhat stronger propensity to consume.

As a number of sectors which still have fairly long order-books are at the moment encountering less difficulty in employing additional factors of production, the rise in domestic supply, especially industrial production, may pick up somewhat as the year advances. In building and construction, the fall in output should come to a halt before the middle of the year. All in all, the real gross national product in 1972 is likely to grow by some 2½%.

Although a somewhat more vigorous rise in economic activity may have a favourable impact on the trend of demand for manpower, the still very sharp increase in wage costs suggests that

the drive to save on manpower will continue to affect the level of employment, for a while at least. As net immigration of workers is declining, however, seasonally adjusted unemployment can be expected to fall slightly by the end of the year.

The upward thrust of prices, still very strong, will probably slacken little in the next few months. Although the pressure of demand on supply will ease, other factors in the upward movement will lose nothing of their vigour. Even if some slowdown can be achieved in the advance of wage costs per unit of output, this cannot be expected to have a sufficiently moderating influence, in the short term, on the price climate, and particularly on the trend of consumer prices.

If the slight pick-up in production expected at the moment materializes, imports may gather momentum again during the year. The tendency, noted in 1971, for the external contribution to improve would then slacken again.

In the light of these prospects for the Dutch economy, it appears for the present that it would be inappropriate to make any significant change in the line of short-term economic policy. It would indeed be more advisable to establish the conditions that will be necessary if the upward thrust of costs and prices is to be moderated; failing this, the competitive position of the economy could deteriorate sharply and, in the longer term, the level of employment would suffer appreciably. In some regions unemployment has no doubt risen distinctly in recent months so that selective intervention measures would be perfectly legitimate; on the whole, however, the restrictive line pursued in managing the public finances should be maintained. This is all the more important as the need to stem capital inflows and the weak trend of investment leave little scope for monetary policy. In this context it must also be borne in mind that a number of important trading partners should sooner or later register a pick-up in economic activity; this would have a stimulating effect on the Dutch economy, while premature measures to boost domestic demand would compromise the necessary consolidation of the conditions required for domestic and external equilibrium.

Major economic policy measures

December

(1) *Government grants towards the cost of improving dwellings and residential areas were put up by 20% in respect of work carried out between 1 December 1971 and 1 March 1972.*

(2) *The restrictions on the issue of building permits for new industrial and commercial buildings in the provinces of Gelderland and Noord-Brabant were lifted. For the provinces of Noord-Holland, Zuid-Holland and Utrecht, they were eased; the system of building permits was not abolished here mainly because the Government intends to introduce, in due course, a selective investment tax, together with a system of permits.*

(3) *The law on premium saving schemes will remain in force in 1972. All taxpayers with a taxable income of up to Fl. 18 000 in 1971 may benefit from this law in 1972. In 1971, the limit was Fl. 15 000.*

4) *Railway rates were put up from 16 December 1971. The increase in passenger fares averaged 9.5%.*

(5) *Under the Washington decisions of 18 December the guilder was provisionally revalued by 11.57% in terms of the dollar, and it will probably be revalued by 2.76½ in terms of gold. At the same time the margin between the intervention points and the provisional parity was widened to 2.25% on either side. The monetary agreement between the Benelux countries remains in force, however, and the margin of 1.5% on either side of parity continues to apply to the Belgo-Luxembourg franc.*

(6) *The Minister for Public Health and the Environment decided to block the building of hospitals in 1972 until a national plan for hospital building is available.*

(7) *Given the persistence of a decidedly inflationary wage and price trend and the deficit on current account, the Nederlandsche Bank decided to maintain its restrictive credit policy in January and February 1972. In view of the season, the admissible increase in short-term bank lending to the private sector during this*

period was fixed at 3% of the average volume of credit permitted in the final quarter of 1971. This rate is the same as in the corresponding period in 1969 and 1970, but is higher than the rate for January-February 1971 (2%).

January 1972

(1) At the beginning of the year, a number of important tax measures entered into force. The automatic adjustment of the rates of income and wage tax to take account of inflation will be applied for the first time in 1972 but will be limited to 80%. The counter-cyclical surcharge was raised from 3% to 5%; this measure applies to income tax, wage tax and corporation tax and to the special excise duty on motor cars and the excise duty on petrol. Collection of income and property tax will be speeded up. The tax reliefs for the self-employed and for gainfully employed married women were increased. Old-age pensions and survivors' pensions will not be subject to wage tax in 1972. Part of the interest payable on mortgage loans for housebuilding will in future be deductible from wage tax. The temporary increase, from 0.5% to 0.6%, in the rate of property tax will be maintained for a further two years (1972 and 1973). VAT on electricity was raised from the reduced rate of 4% to the standard rate of 14%. The right to deduct turnover tax on capital expenditure was partly withdrawn for 1972, the proportion eligible for deduction being reduced from 90% to 67%. An excise duty on non-alcoholic beverages will be introduced in 1972. The excise duty on petrol was raised by 3.75 cents per litre. The motor vehicle tax was raised and the maximum amount of tax increased from Fl. 224 to Fl. 630.

(2) The minimum wage of Fl. 177.90 a week and Fl. 770.90 a month was put up to Fl. 187.80 and Fl. 813.90, respectively.

(3) Old-age pensions (AOW) and survivors' pensions (AWW) were increased by 1% from 1 January.

(4) Housing subsidies were raised.

(5) The Nederlandsche Bank lowered the discount rate from 5% to 4.5% from 6 January 1972.

(6) To combat unemployment, the Government on 7 January 1972 decided on the following measures, which have been dealt with in a report on the employment situation submitted in February:

(a) Implementation of additional structural improvement schemes in the northern provinces (where at the end of 1971 the unemployment rate was much higher than the national average) involving an expenditure of Fl. 150 million. These schemes will be carried out by the local authorities and the provinces; the finance is not to come from the 1972 Central Government budget but to be raised on the capital market or put up by the Bank van Nederlandse Gemeenten. The plans for the work involved have already been drawn up by the local authorities, enabling implementation to start immediately.

(b) Execution of Fl. 50 million of public works projects in the three northern provinces. These projects will be financed out of the Central Government budget, with Fl. 35 million coming from the unforeseen expenditure item and at most Fl. 15 million from the appropriations of various Ministries.

(c) Abolition of the rule making private investment in the provinces of Noord-Brabant and Gelderland subject to Government authorization.

(d) Further relaxation of the policy of granting such authorization in the provinces of Utrecht, Noord-Holland and Zuid-Holland.

(7) Limitation of the growth of loans to private customers or for hire purchase will be maintained for a further four months (beyond the 12 months planned originally); the maximum rate of growth for the period January-April was fixed at 8% per annum.

(8) Tabling of a bill under which university tuition fees in the academic year 1972/73 are put up from Fl. 200 to Fl. 1 000.

(9) Tabling of a bill on the extension, to 15 June 1974, of the current rules prohibiting resale price maintenance.

March

(1) The Nederlandsche Bank lowered the discount rate from 4.5% to 4% from 2 March 1972.

(2) On 7 March the Nederlandsche Bank provisionally suspended the restrictions on the expansion of credit. The Bank reserved the right to reimpose the restrictions, the reference amounts remaining unchanged, should credit expand too sharply.

(3) To stem speculative inflows of foreign exchange, the Nederlandsche Bank on 9 March took the following measures:

- (a) The general authorization to accept guilder deposits from non-residents was withdrawn with immediate effect. Maturing time deposits may not be renewed.
- (b) A foreign exchange notice issued with the authorization of the Finance Minister forbids residents to pay interest on non-residents' sight deposits denominated in guilders.

Netherlands

TABLE 1 : Key indicators

	1966	1967	1968	1969	1970	1970
	% change by volume on preceding year					Indices 1963=100
Gross national product	+ 2.6	+ 5.8	+ 6.6	+ 5.7	+ 5.6	148
Industrial production	+ 5.9	+ 5.7	+ 10.6	+ 8.2	+ 7.4	170
Total imports	+ 7.3	+ 6.7	+ 13.5	+ 14.7	+ 15.0	210
Private consumers' expenditure	+ 3.4	+ 5.2	+ 6.9	+ 4.3	+ 7.4	148
Public current expenditure on goods and services	+ 1.6	+ 2.8	+ 2.3	+ 2.2	+ 5.5	119
Gross fixed asset formation	+ 8.5	+ 8.1	+ 11.0	+ 0.5	+ 7.2	174
Total exports	+ 5.2	+ 7.8	+ 12.5	+ 15.7	+ 13.7	201
Gross national product per head of population	+ 1.2	+ 4.6	+ 5.5	+ 4.5	+ 4.3	136
Gross national product per person in employment	+ 1.8	+ 6.1	+ 5.7	+ 4.3	+ 4.3	139
	% change by value on preceding year					
Gross income per employee	+ 11.1	+ 9.2	+ 8.7	+ 11.1	+ 11.4	212

TABLE 2 : Indicators for internal and external equilibrium

	1966	1967	1968	1969	1970
Balance exports less imports					
in million u.a.	- 135	+ 23	+ 158	+ 102	- 38
as percentage of GNP	- 0.6	+ 0.1	+ 0.6	+ 0.4	- 1.2
Unemployment rate	1.0	2.0	1.9	1.5	1.2
prices to private consumers (% change on preceding year)	+ 5.4	+ 3.4	+ 2.3	+ 6.1	+ 3.8

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1963 = 100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 5.6	+ 7.9	+ 14.5	+ 19.6	+ 18.3	238	11 789	100
Intra-EEC	+ 5.3	+ 6.7	+ 19.7	+ 25.1	+ 22.0	276	7 312	62.0
To non-EEC countries	+ 6.0	+ 9.4	+ 8.2	+ 12.1	+ 12.7	198	4 478	38.0
Exports of food, beverages and tobacco								
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	158	836	7.1
Exports of raw materials, fuel and power								
Total	- 0.4	+ 10.1	+ 12.8	+ 20.0	+ 31.8	232	2 164	18.4
Intra-EEC	- 0.7	+ 10.7	+ 22.5	+ 26.0	+ 34.8	265	1 358	11.5
To non-EEC countries	- 0.1	+ 9.5	+ 1.7	+ 11.7	+ 27.2	192	811	6.9
Exports of semi-finished and finished industrial goods								
Total	+ 9.7	+ 6.6	+ 14.4	+ 21.1	+ 14.5	254	6 887	58.4
Intra-EEC	+ 9.8	+ 4.5	+ 17.8	+ 27.5	+ 17.9	291	4 057	34.4
To non-EEC countries	+ 9.6	+ 9.0	+ 10.6	+ 13.4	+ 10.0	215	2 831	24.0
Visible imports								
Total	+ 7.5	+ 4.0	+ 11.5	+ 17.3	+ 23.0	224	13 395	100
Intra-EEC	+ 8.7	+ 5.0	+ 13.2	+ 19.2	+ 22.1	243	7 484	55.9
From non-EEC countries	+ 6.0	+ 2.9	+ 9.5	+ 15.0	+ 24.1	205	5 911	44.1
Imports of food, beverages and tobacco								
Total	+ 3.9	+ 11.3	+ 9.7	+ 19.0	+ 13.5	205	1 686	12.6
Intra-EEC	+ 8.8	+ 22.7	+ 28.1	+ 49.4	+ 5.1	405	607	4.5
From non-EEC countries	+ 2.5	+ 7.6	+ 3.2	+ 5.4	+ 18.8	161	1 079	8.1
Imports of raw materials, fuel and power								
Total	+ 0.9	+ 5.2	+ 8.6	+ 13.8	+ 24.3	194	2 747	20.5
Intra-EEC	+ 7.7	+ 9.9	+ 4.8	+ 3.0	+ 7.1	155	475	3.5
From non-EEC countries	- 0.9	+ 3.9	+ 9.7	+ 16.9	+ 28.7	205	2 272	17.0
Imports of semi-finished and finished industrial goods								
Total	+ 10.5	+ 2.2	+ 12.8	+ 18.1	+ 24.5	248	8 962	66.9
Intra-EEC	+ 8.8	+ 3.3	+ 12.9	+ 18.1	+ 25.3	252	6 402	47.8
From non-EEC countries	+ 14.7	- 0.3	+ 12.6	+ 18.1	+ 22.5	239	2 560	19.1

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970	180.9	182.2	183.3	181.4	175.9	177.9	184.5	177.8	181.0	185.7	187.4	188.2
	1971	198.9	197.3	195.1	191.3	188.2	189.8	193.0	195.6	192.3	195.9	197.3	194.2
	1972												
Unemployed (1 000)	1970	60.3	56.7	56.7	55.3	56.7	56.1	53.4	53.8	55.1	55.8	54.7	54.1
	1971	58.1	53.6	58.2	57.4	61.2	65.3	66.4	69.7	74.2	80.4	90.1	98.5
	1972	107.8	112.4										
Construction: permits for residential construction (1 000)	1970	10 030	9 728	11 386	10 730	10 668	11 735	15 533	12 208	12 864	12 049	9 698	10 222
	1971	11 875	8 719	10 972	13 301	10 664	11 233	12 142	11 691	10 746	10 630	12 074	12 188
	1972												
Private consumers' expendi- ture: department store turnover (1963 = 100)	1970	208	208	214	213	225	216	227	222	229	208	214	252
	1971	217	229	225	235	232	263	236	277	246	217	254	
	1972												
Consumer prices (1963 = 100)	1970	136.6	137.9	139.3	139.9	139.8	140.5	140.9	142.3	143.3	143.8	143.8	143.9
	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	159.0										
Visible imports (million u.a.)	1970	1 001	1 049	995	1 079	1 115	1 153	1 135	1 105	1 117	1 120	1 261	1 254
	1971	1 102	1 236	1 260	1 200	1 170	1 216	1 188	1 253	1 312	1 229	1 237	1 271
	1972												
Visible exports (million u.a.)	1970	899	952	945	993	928	968	991	971	1 036	981	1 071	1 064
	1971	1 044	1 085	1 164	1 107	1 041	1 136	1 119	1 169	1 128	1 126	1 178	1 186
	1972												
Balance of trade (million u.a.)	1970	- 102	- 97	- 50	- 86	- 187	- 185	- 144	- 134	- 81	- 139	- 190	- 190
	1971	- 59	- 151	- 96	- 93	- 129	- 80	- 63	- 84	- 184	- 103	- 59	- 85
	1972												
Official gold and foreign exchange reserves (million u.a.)	1970	2 676	2 673	2 670	2 611	2 657	2 683	2 709	2 943	2 990	3 246	3 242	3 235
	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											
Money supply (million u.a.)	1970	6 506	6 523	6 649	6 699	6 819	6 774	6 925	6 973	7 058	7 119	7 197	7 220
	1971	7 502	7 624	7 725	7 899	8 162	7 897	8 067	8 072	8 274	8 350	8 335	8 475
	1972												

Netherlands

NOTES TO GRAPHS AND TABLES

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

Graph 1

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

Graph 2

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

Graph 3

Wages and consumer prices: indices of gross hourly earnings in industry (excluding mining, quarrying and construction); index of agreed wages. Cost-of-living index, source: CBS.

Graph 4

Bank lending: short-term bank loans, not adjusted for seasonal variations; position at end of month.

Graph 5

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

Graph 6

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

Graph 7

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

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 as percentage of the civilian labour force in employment. Source: CBS.

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

Unemployed: end-of-month figures, 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, not adjusted for seasonal variations.

Imports cif, exports fob; values, 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 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.

E. Belgo-Luxembourg Economic Union

Belgium

Around the turn of the year economic growth in Belgium continued, though at a slower rate than previously. Slackening was particularly marked in the propensity to invest of enterprises; production rose only modestly and the situation on the labour market eased, while the upsurge of costs and prices continued unabated.

Economic activity can be expected to expand more vigorously as the year advances, helped mainly by the Government's reflationary programme and the expected pick-up in exports. There is still a great risk that the distinct upward movement of costs and prices may persist.

1. Recent developments

At the beginning of 1972 expansion continued at a slower pace. While the rate of utilization of production capacity was no long quite as high as during most of 1971, the rise in costs and prices remained brisk.

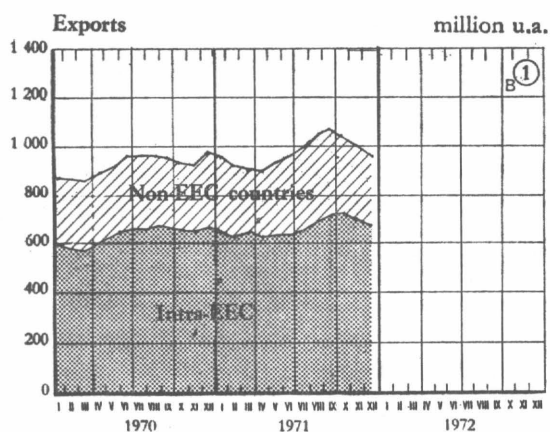
Although discrepancies in statistical recording make it difficult to reach a firm conclusion,

countries leading the fall. Foreign trade statistics show that in November-January visible exports in terms of Belgian francs were only 3% above the figure for a year earlier.

Domestic demand lacked vigour, especially fixed asset formation. The propensity to invest of enterprises slackened further, particularly in industry. In residential construction, too, activity was probably still declining, though perhaps no longer quite as fast as before. Public investment, by contrast, especially investment by the Central Government, rose quite vigorously.

The expansion of expenditure on consumption continued at a comparatively rapid pace. Public current expenditure on goods and services, for instance, again moved distinctly upwards, salaries having been raised sharply. With wages continuing to climb briskly, private consumers' expenditure too maintained its distinct growth, the more so as the propensity to save may have tended to slacken a little. Sales of consumer durables were the main sector to benefit from this trend.

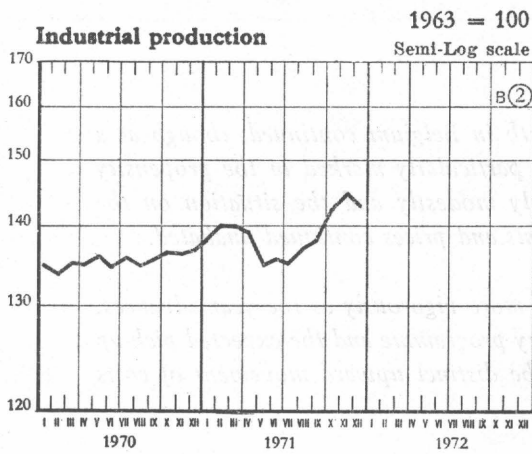
Industrial production has expanded little in recent months, but this has been due partly to



export demand in particular appears to have fallen off distinctly, with exports to non-member

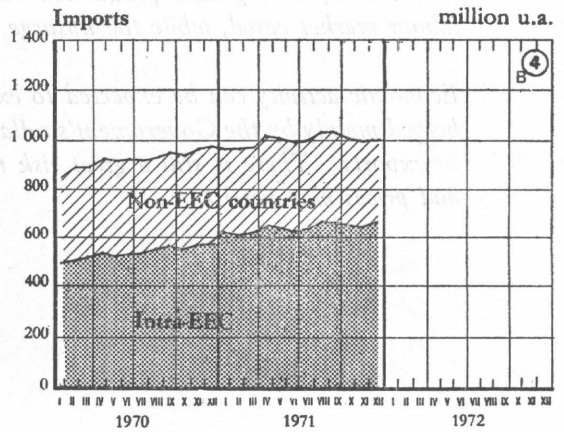
the effects of labour disputes at home and abroad. In October-December, industrial production as reflected in the INS index was 2.8%

working, which had remained at a comparatively low level until mid-November, has been rising sharply since then, in part as a result of strikes at home and abroad.



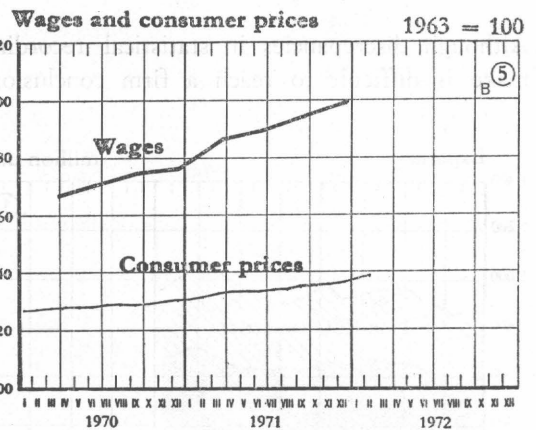
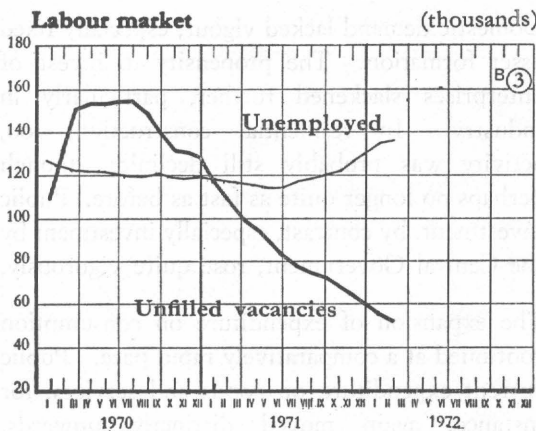
The comparatively weak trend of production coincided with a slowdown in the advance of imports. Purchases of raw materials and semi-manufactures even dropped perceptibly.

up on a year earlier. In building and construction, the trend of output appears to have revived somewhat of late, helped mainly by increased expenditure on public works.



The employment situation has taken a slight turn for the worse in recent months. The number of wholly unemployed increased further, especially in building and metal-working. In

The price climate was still very unsatisfactory. With prices for services and food climbing faster than before, the consumer price index maintained its rapid upward movement; in January-February 1972 it was 5.4% higher than a year earlier.

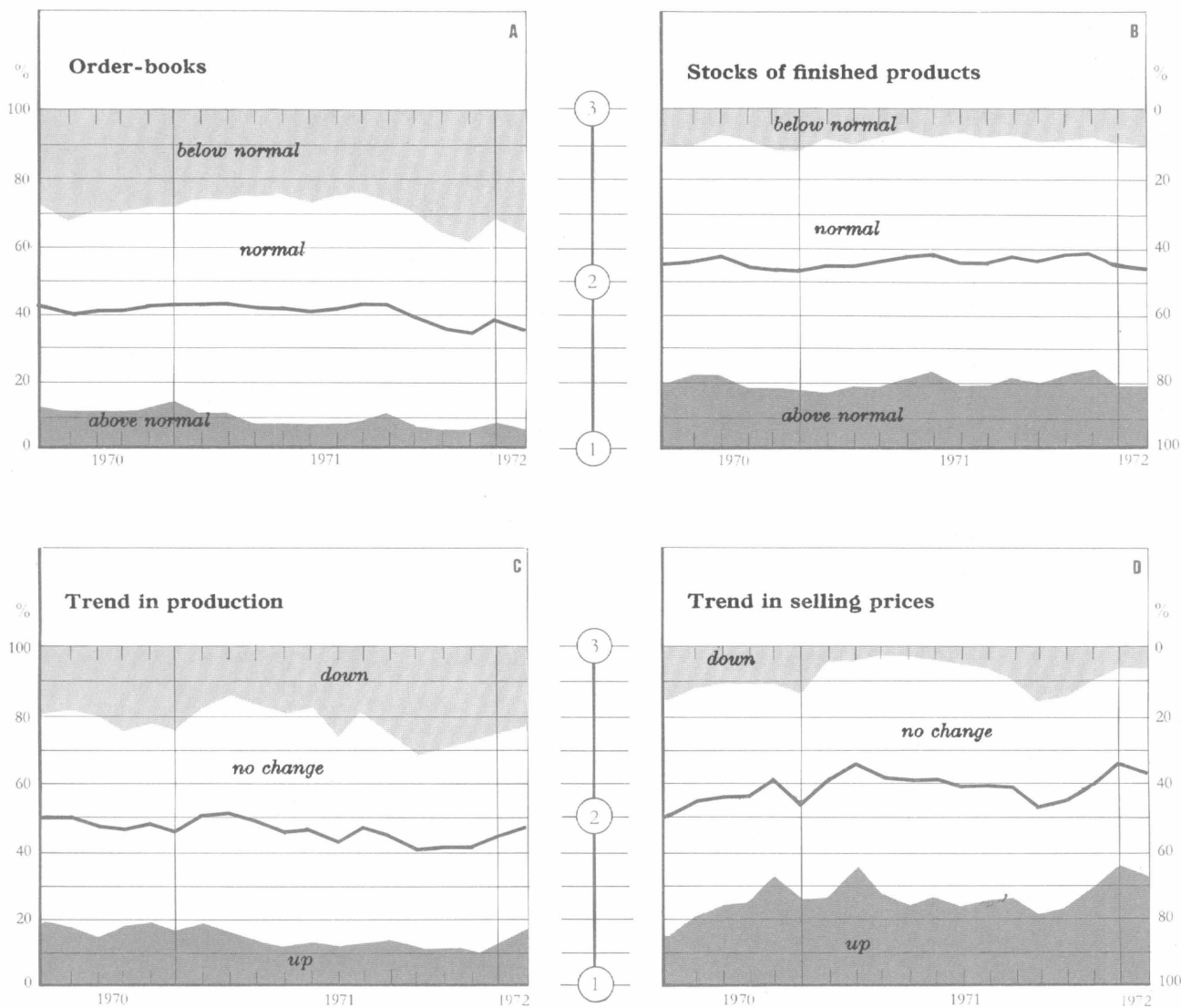


January, the unemployment rate (seasonally adjusted number of unemployed as a percentage of the civilian labour force) was 2.1%, compared with 1.8% a year earlier.¹ Short-time

Since the autumn of 1971 the surpluses on current account (goods, services and current transfers) have remained high; in the fourth quarter, the surplus was Bfrs. 12 200 million, compared with Bfrs. 8 100 million a year

¹ In terms of unemployed whose ability to work is normal, the rate in January was only 1.1%.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

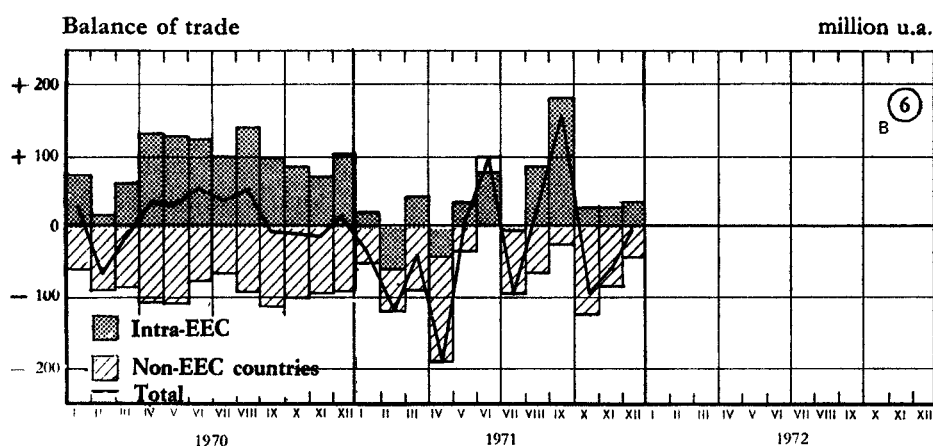


Answers to the questions in the EEC business survey, carried out in Belgium by the National Bank.

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

	1969 ¹	1970 ¹		1971 ²		1972 ³	
	At current prices (in Bfrs '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ⁴	510.9	+ 14.1	+ 21.2	+ 5½	+ 6½	+ 5	+ 6½
Gross fixed asset formation	240.3	+ 6.9	+ 17.0	+ 3½	+ 11½	+ 3½	+ 9
Public current expenditure on goods and services	160.7	+ 4.5	+ 10.9	+ 4½	+ 12	+ 6	+ 14½
Private consumers' expenditure	720.2	+ 3.9	+ 6.8	+ 3½	+ 10	+ 4	+ 9
Gross national product	1 152.2	+ 6.1	+ 11.5	+ 3½	+ 9	+ 3½	+ 8½
Imports ⁴	501.8	+ 9.8	+ 15.5	+ 6	+ 8½	+ 6½	+ 8½

¹ Statistical Office of the European Communities.

² Estimates.

³ Forecasts.

⁴ Goods, services and factor income.

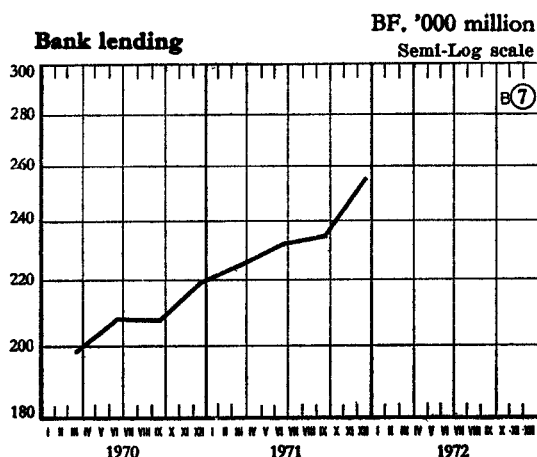
Note :

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

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

earlier. The overall balance of payments even closed with a somewhat larger surplus than in the third quarter of 1971, although the deficit on capital account had risen, largely because of a fall in direct investment by foreign enterprises.

Transactions with abroad, coupled with a sharp expansion of bank lending, led to a sharp increase in the money supply. Interest rates declined further. Nevertheless the dollar rate



since mid-January has almost consistently been at the upper intervention point fixed under the Washington agreement; as a consequence, the monetary authorities at the beginning of March placed further restrictions on capital transactions with abroad.

2. Outlook

The outlook until the end of the year suggests that economic activity will expand somewhat more vigorously than was predicted in the last Quarterly Survey, the Belgian Government having in January announced a wide-ranging programme to reflate the economy.

The trend of Belgian exports will probably be fairly calm in the next few months; the stimulus given by abolition of the export charge will be offset by some weakness in export demand and the effects of the slight revaluation of the Belgian franc in relation to the currencies of the rest of the world. However, the economic trend in a number of important importing

countries may well recover gradually in the second half of the year, leading to an increase in imports from Belgium.

Gross fixed asset formation by enterprises is likely to slacken further, particularly since the persistent rise in wage costs will probably continue to affect profit margins. The reflationary measures taken by the Government, however, can be expected to produce a slight pick-up of activity in residential construction and a very sharp rise in capital expenditure by the public authorities. After the summer, stockbuilding too may provide a somewhat more vigorous boost to production and imports.

Private consumers' expenditure will still be expanding comparatively rapidly, although the rise in incomes from paid employment may fall off a little. The deceleration in the upward movement of wages, however, will probably be small because index-linked wages will go up as prices continue to rise. Transfer incomes will still be climbing appreciably. The faster expansion of public current expenditure on goods and services will also give a major boost to economic activity.

The trend of production is likely to reflect the slight pick-up expected to occur in overall demand. Industrial production, for instance, may after some hesitation in the next few months resume a somewhat more vigorous growth in the second half of the year. With the recovery in building and construction also expected to gather strength, the growth in real gross national product, so far put at some 3%, may reach some 3½% for the full year.

The situation on the labour market will for a time still reflect increased efforts by managements to offset the upsurge in production costs by savings on manpower. In the second half of the year, however, the rise in unemployment may tend to flatten out.

The underlying growth in imports will for the next few months at least probably prove to be comparatively small despite the appreciation of the Belgian franc.

The upward movement of prices is likely to continue at a fairly rapid pace. In particular,

there is reason to fear that the programme to boost economic activity may further aggravate the tendency for prices to rise in building and construction, as the situation in that industry has not yet eased sufficiently to restrain the rise in costs and prices for long. The cost of living, too, will continue to show a strong tendency to rise, independently of the changes made in the consumer price index.

Given this outlook, care must be taken to see that the wide-ranging programme to boost economic expansion which was announced at the beginning of the year does not compromise the necessary stabilization of costs and prices. True, the upward thrust of costs and prices in recent years has, all in all, been less pronounced in Belgium than in other countries, and the balance of payments on current account is still in large surplus. But the fall-off in economic activity has been less marked than elsewhere, and the upsurge of both wage costs and prices has of late been at least as sharp as in most other member countries. Steps to boost activity should be taken cautiously and selectively, as the upward movement of costs and prices might otherwise continue at a rapid pace; in the longer term, this would jeopardize the competitiveness of the Belgian economy and its growth prospects.

In view of the comparatively slow pace at which tax revenue is rising, the increase in salaries and the social measures taken will in any event cause the Government's current transactions to close with a deficit and start a process of dissaving in the Government sector. When the considerable increase in capital spending is also taken into account, the Central Government will even be faced with a net borrowing requirement significantly higher than the Bfrs. 55 000 million which the Council of the European Communities, in October 1971, laid down as a guideline for budget policy in 1972. A borrowing requirement in excess of this figure could be an impediment, in the current economic situation and in the medium term, to the re-establishment or maintenance of the basic equilibria.

With the propensity to invest of enterprises tending to weaken, and given the situation on the foreign exchange markets, where the Belgian franc has been at the upper intervention point

for several weeks past, the current line of monetary policy should be maintained.

Major economic policy measures

December

(1) *The Société Nationale d'Investissements and private enterprises founded the Société belge d'investissement international (S.B.I., Belgian company for international investment). The new company will assist in financing enterprises abroad so as to promote Belgium's economic relations with the host countries.*

(2) *The Banque Nationale raised the rediscount ceiling from Bfrs. 37 600 million to Bfrs. 43 900 million with effect from 31 December.*

(3) *In accordance with the law of 30 July 1971, a Ministerial Decree was issued requiring manufacturers and importers to notify domestic price increases at least two months before they enter into force. If the increase is made before this period is up, the Minister of Economics may freeze the prices for six months at their level prior to notification. When notifying an increase, enterprises must submit detailed cost calculations in support of their decision. The Minister has authority to order that for a period of up to six months an enterprise may not make the proposed increase or that it may make it only in part. After this period, the price increase may be put into effect. The distributive trades are not allowed to raise prices unless suppliers make an authorized increase.*

(4) *Under the decisions of the Group of Ten taken in Washington on 18 December, the Belgian franc was provisionally revalued by 11.57% in terms of the dollar (the central rate now being Bfrs. 44.8159 to the dollar), and it will probably be revalued by 2.76% in terms of gold. The margin of exchange rate fluctuation was widened to 2.25% on either side, but under the monetary agreement between the Benelux countries, which has been maintained in force, the margin by which the Dutch guilder may fluctuate around the central rate is still 1.5%. The Banque Nationale allowed exchange rates to fluctuate by up to 2.25% above and below the new central rate. Exchange rates on the*

free foreign exchange market were determined by supply and demand.

(5) Credit terms for publicly assisted housing were eased further, especially through the abolition of locality classification.

January 1972

(1) Income tax scales were adjusted to the increased cost of living.

(2) The authorities decided to continue applying the reduced VAT rate (6% instead of 14%) to a number of fuels (coal, ovoids, brown coal) until 31 December 1972.

(3) The Banque Nationale on 6 January lowered the discount rate from 5.5% to 5%.

(4) The new Government under Mr Eyskens on 25 January submitted its programme to Parliament. In the Government's view the most urgent task of economic policy was to put through a programme to revive economic activity. This includes the following measures:

(a) Relaxation of hire purchase regulations;

(b) Promotion of private investment through partial exemption from value added tax, special aid to small and medium-sized enterprises, tax concessions for new investment and aids towards active protection of the environment;

(c) Several measures to encourage residential construction (temporary reduction of registration fees, a counter-cyclical supplement to the housing premium, simplification of administrative procedure, construction of at least 3 000 additional low-cost dwellings);

(d) Acceptance of a deficit of some Bfrs. 6 000 million in the ordinary budget, since the various measures to combat tax evasion and speed up the collection of taxes, even when combined with the tax increases (10% surcharge on corporation tax, increase in the radio and TV licence and in taxes on vending machines, repayment in the form of bonds of the tax paid on goods stocked under the old tax system where the amount of the tax exceeds Bfrs. 100 000) will not yield sufficient extra revenue to cover the additional expenditure

caused by developments such as the social programme in the civil service and the need to combat unemployment;

(e) Establishment of a fund to revive economic activity and of a national solidarity fund which for 1972 were to receive Bfrs. 3 000 million and Bfrs. 2 000 million respectively;

(f) Implementation of special programmes for public investment. In addition to the Bfrs. 57 500 million programme already provided for under the extraordinary budget, there would be a supplementary programme of Bfrs. 10 000 million, and an appreciable increase in expenditure not coming under the budget.

February

(1) On 3 February 1972 the Banque Nationale lowered the discount rate from 5% to 4.5%.

(2) A bill was tabled to exempt old-age pensions from income tax (through standard deductions). The exemption applies to pensions of less than Bfrs. 85 000 in 1971 and less than Bfrs. 90 000 in 1972.

March

(1) The Banque Nationale lowered the discount rate from 4.5% to 4% with effect from 2 March. It also narrowed the margin between the basic rate and the other interest rates.

(2) On 1 March a new consumer price index entered into force, with 1971 as the new basis; the weighting of the three groups food products, non-food products and services is 30, 40 and 30%, respectively (previously 41.55, 37.02 and 21.43%).

(3) With effect from 1 March the Minister of Economics froze the prices for pharmaceutical products at the level of 7 January 1972.

(4) The convention establishing the Belgo-Luxembourg Economic Union was extended for ten years through ratification, on 6 March in Luxembourg, of the relevant protocol.

(5) Publication of the law and several decrees providing for a 5% increase, with retroactive

effect from 1 January, in wage and salary earners' pensions, allowances for the handicapped, invalidity pensions and the guaranteed income of old people.

(6) On 9 March the Belgo-Luxembourg Exchange Office instructed the banks to ensure that payments into foreigners' accounts

denominated in Belgian or Luxembourg francs are restricted to the amounts necessary for the normal transaction of current business, and to limit their own calls on foreign money markets. The Exchange Office invited the banks not to allow their debit positions to rise beyond the level recorded at the closing of transactions on 9 March.

Belgium

TABLE 1 : Key indicators

	1966	1967	1968	1969	1970	1970
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	+ 2.9	+ 4.0	+ 3.5	+ 6.7	+ 6.1	139
Industrial production	+ 4.9	+ 2.2	+ 4.0	+ 9.2	+ 5.7	146
Total imports	+ 8.2	+ 3.4	+ 13.3	+ 15.9	+ 9.8	190
Private consumers' expenditure	+ 3.3	+ 2.8	+ 5.7	+ 5.9	+ 3.9	133
Public current expenditure on goods and services	+ 3.9	+ 5.9	+ 4.6	+ 6.5	+ 4.5	141
Gross fixed asset formation	+ 6.4	+ 2.6	- 2.4	+ 5.6	+ 6.9	141
Total exports	+ 4.0	+ 6.7	+ 11.6	+ 15.9	+ 14.1	196
Gross national product per head of population	+ 2.2	+ 3.4	+ 3.1	+ 6.4	+ 5.7	134
Gross national product per person in employment	+ 2.5	+ 4.5	+ 3.6	+ 5.0	+ 5.5	134
	% change by value on preceding year					
Gross income per employee	+ 8.9	+ 7.1	+ 6.4	+ 8.4	(+ 11.3)	(179)

TABLE 2 : Indicators for internal and external equilibrium

	1966	1967	1968	1969	1970
Balance exports less imports					
in million u.a.	- 48	+ 176	+ 58	+ 182	+ 784
as percentage of GNP	- 0.3	+ 0.9	+ 0.3	+ 0.8	+ 3.1
Unemployment rate	1.7	2.3	2.8	2.3	1.9
prices to private consumers (% change on preceding year)	+ 4.1	+ 2.5	+ 2.3	+ 2.6	+ 2.8

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1963 = 100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 5.2	+ 3.0	+ 16.0	+ 23.3	+ 15.2	240	11 591	100
Intra-EEC	+ 6.1	+ 3.2	+ 18.5	+ 29.5	+ 16.9	270	7 946	68.6
To non-EEC countries	+ 3.9	+ 2.5	+ 11.7	+ 12.1	+ 11.6	192	3 645	31.4
Exports of food, beverages and tobacco								
Total	+ 8.4	+ 18.8	+ 15.5	+ 21.8	+ 19.6	204	932	8.0
Intra-EEC	+ 5.4	+ 25.7	+ 24.6	+ 27.1	+ 18.9	338	778	6.7
To non-EEC countries	+ 17.1	+ 1.3	- 13.4	- 1.3	+ 35.3	175	154	1.3
Exports of raw materials, fuel and power								
Total	+ 0.5	- 2.4	+ 13.4	+ 21.4	+ 0.1	143	841	7.3
Intra-EEC	+ 1.5	- 3.6	+ 10.8	+ 21.3	+ 4.6	146	524	4.5
To non-EEC countries	- 1.0	- 0.5	+ 17.4	+ 21.7	- 6.4	137	317	2.7
Exports of semi-finished and finished industrial goods								
Total	+ 7.7	+ 2.3	+ 16.4	+ 23.6	+ 15.9	257	9 818	84.7
Intra-EEC	+ 9.8	+ 1.9	+ 18.7	+ 30.3	+ 17.4	280	6 644	57.3
To non-EEC countries	+ 4.2	+ 2.9	+ 12.8	+ 11.8	+ 12.6	209	3 174	27.4
Visible imports								
Total	+ 12.6	0	+ 16.1	+ 19.9	+ 13.6	222	11 347	100
Intra-EEC	+ 15.4	- 0.6	+ 14.8	+ 25.3	+ 16.4	249	6 677	58.8
From non-EEC countries	+ 9.1	+ 0.6	+ 17.8	+ 13.3	+ 9.8	192	4 670	41.2
Imports of food, beverages and tobacco								
Total	+ 8.1	+ 10.0	+ 2.8	+ 14.9	+ 17.1	221	1 357	12.0
Intra-EEC	+ 10.6	+ 11.8	+ 24.0	+ 23.3	+ 20.4	324	772	6.8
From non-EEC countries	+ 6.4	+ 8.6	- 13.1	+ 5.8	+ 13.1	156	586	5.2
Imports of raw materials, fuel and power								
Total	+ 1.1	- 2.1	+ 22.8	+ 11.3	+ 11.7	175	2 450	21.6
Intra-EEC	+ 5.2	- 5.5	+ 17.6	+ 15.3	+ 12.0	178	876	7.7
From non-EEC countries	- 1.3	- 0.2	+ 25.7	+ 9.1	+ 11.5	174	1 574	13.9
Imports of semi-finished and finished industrial goods								
Total	+ 18.3	- 1.1	+ 16.7	+ 24.2	+ 13.6	245	7 540	66.4
Intra-EEC	+ 18.4	- 1.1	+ 13.0	+ 23.0	+ 16.8	280	5 029	44.3
From non-EEC countries	+ 18.1	- 1.2	+ 23.6	+ 17.9	+ 7.9	219	2 511	22.1

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970	131.4	136.2	137.5	131.0	139.8	132.2	136.1	135.8	134.8	133.8	135.3	136.1
	1971	142.4	142.0	136.1	138.1	129.8	138.7	136.9	135.1	142.1	149.0	142.5	135.0
	1972												
Unemployed (1 000)	1970	72.4	72.5	72.4	72.1	71.3	69.9	71.7	70.9	70.6	70.4	69.8	70.8
	1971	69.7	67.9	67.3	66.6	67.1	68.5	70.8	72.1	72.4	73.8	77.9	73.8
	1972	81.2	81.0										
Construction : permits for residential construction (1 000)	1970	3 397	3 125	2 620	3 346	2 500	2 530	2 668	2 870	2 886	2 694	2 355	3 107
	1971	2 765	1 972	2 220	2 240	1 914	2 792	2 805	2 865	2 222			
	1972												
Private consumers' expendi- ture : department store turnover (1963 = 100)	1970	157	155	157	156	160	162	163	156	165	179	159	171
	1971	170	173	162	173	166	183	182	183	182	187	177	
	1972												
Consumer prices (1963 = 100)	1970	126.73	127.12	127.85	128.33	128.35	128.40	129.07	129.34	129.30	129.53	129.91	130.12
	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	133.02	133.75										
Visible imports (million u.a.)	1970	841	942	887	1 023	862	925	1 023	888	981	948	986	1 021
	1971	912	992	1 032	1 060	962	975	1 081	1 051	987	993	1 022	1 006
	1972												
Visible exports (million u.a.)	1970	881	883	891	1 002	905	1 009	997	1 001	986	931	982	1 038
	1971	886	878	1 006	861	972	1 081	992	1 075	1 150	899	967	1 003
	1972												
Balance of trade (million u.a.)	1970	+ 40	- 59	+ 4	- 21	+ 43	+ 84	- 31	+ 113	+ 5	- 17	- 4	+ 17
	1971	- 26	- 114	- 28	- 190	+ 10	+ 106	- 89	+ 25	+ 163	- 93	- 56	- 3
	1972												
Official gold and foreign exchange reserves (million u.a.)	1970	2 479	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	3 298	3 449	3 433	3 343	3 341	3 349
	1972	3 442	3 561										
Money supply (million u.a.)	1970	7 719	7 768	7 864	7 905	7 898	7 908	7 987	7 912	7 990	8 066	8 011	8 236
	1971	8 466	8 446	8 411	8 439	8 625	8 703	8 832	8 808	8 940	8 957	8 955	9 333
	1972												

Belgium

NOTES TO GRAPHS AND TABLES

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

Graph 1

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

Graph 2

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

Graph 3

Wages and consumer prices (not adjusted for seasonal variations): agreed wages for manual workers, all branches, source: Ministère du Travail et de l'Emploi; consumer prices, source: Ministère des Affaires Économiques.

Graph 4

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

Graph 5

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

Graph 6

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

Graph 7

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

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.

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

Price index: price index of private consumption adjusted by the GNP deflator, 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.

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

The main features of the current business situation in Luxembourg are a weak rate of economic growth and a persistent tendency for prices to rise. The outlook for world demand for steel products, however, suggests that by the end of the year economic growth will once more be supported somewhat more vigorously by exports.

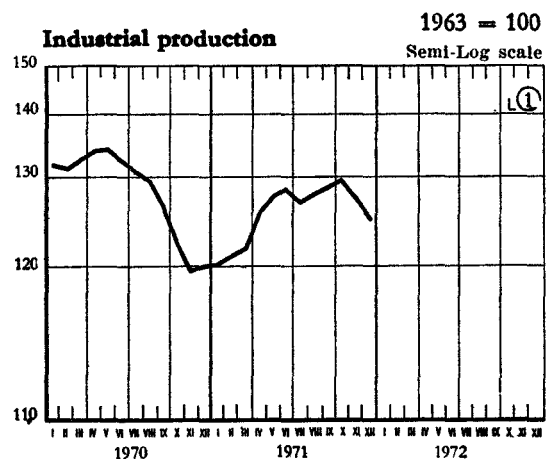
1. Recent developments

Luxembourg's economy has been cooling down distinctly in recent months. The growth of demand has slackened in almost all major sectors, and capacity utilization rates have fallen.

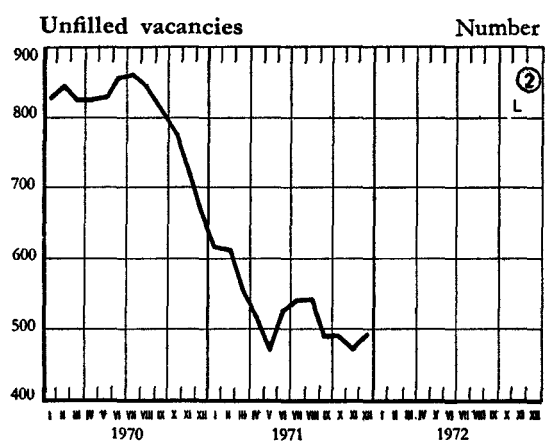
Exports in the last quarter dropped slightly once again, largely as a result of the fall in deliveries of steel products, but order-books in the iron and steel industry have probably not shortened further.

The growth of domestic demand slowed down more and more. In fixed asset formation, the effects of the declining propensity to invest of enterprises was only partly offset by the persistent increase in public capital expenditure and the slight improvement in the trend of residential construction. Unlike public current expenditure on goods and services, which was rising at a faster pace towards the end of last year, the expansion of private consumers' expenditure fell off further. The rise in wage incomes slowed down a little, while the propensity to save in the personal sector probably picked up slightly.

The expansion of supply remained within very narrow limits. Industrial production even fell slightly around the turn of the year; the STATEC index showed that in November-December it was 1.8% up on the corresponding 1970 figure. The growth of production in



building and construction, on the other hand, remained lively, thanks to the Government measures to support residential construction, and to good weather.



Demand for and supply of goods and services

	1969 ¹	1970 ¹		1971 ²		1972 ³	
	At current prices (in Lfrs '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports ⁴	38 525	+ 1.5	+ 13.7	- 3½	- 6	+ 1	+ 3
Gross fixed asset formation	10 456	+ 11.3	+ 23.0	+ 8	+ 19	- 1	+ 4½
Public current expenditure on goods and services	4 857	+ 1.5	+ 12.2	+ 1½	+ 11	+ 1½	+ 8½
Private consumers' expenditure	24 810	+ 8.0	+ 13.0	+ 4½	+ 9½	+ 4	+ 8
Gross national product	44 515	+ 3.3	+ 11.8	+ ½	+ 2½	+ 1½	+ 5½
Imports ⁴	34 266	+ 6.2	+ 17.8	+ 1½	+ 4½	+ 2	+ 4½

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

² Estimates.

³ Forecasts.

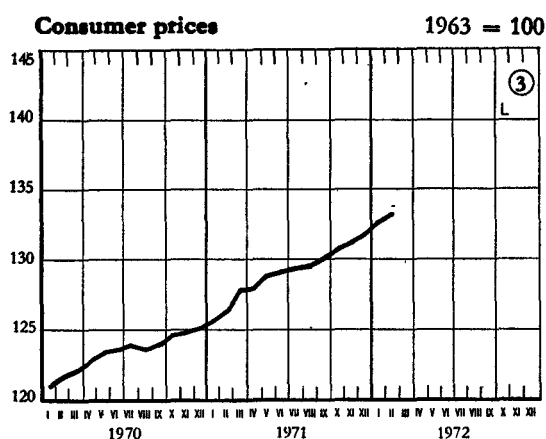
⁴ Goods, services and factor income.

Note :

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

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

With economic activity lacking vigour, the tendency for imports to slacken continued, especially in the capital goods sector.



The imbalance on the labour market eased gradually, as the persistent fall in the number of persons employed in the iron and steel industry coincided with a somewhat less lively demand for manpower in other industries.

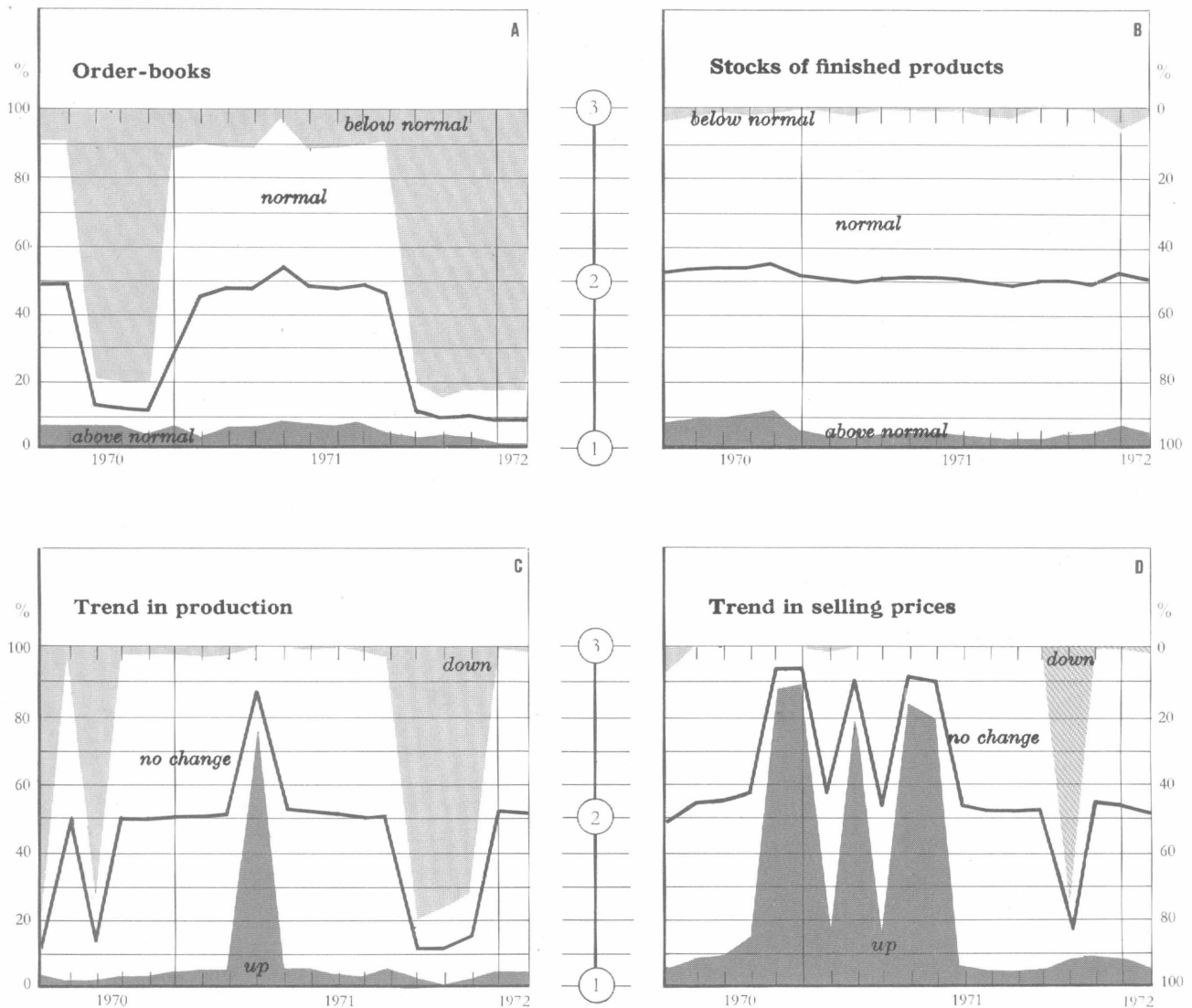
The rise in consumer prices remained brisk, the increase being particularly pronounced in food prices. In February, the index of consumer prices was 5.0% up on a year earlier.

2. Outlook

All in all, no significant revival in economic activity is yet in sight.

However, the tendency for exports to slacken should come to a comparatively early halt.

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".

There may even be a slight pick-up later in the year as the order situation in the iron and steel industry improves.

Domestic demand will rise no more than modestly until the end of the year. Gross fixed asset formation, for instance, is unlikely to provide any additional stimuli to economic activity. But the outlook has improved slightly since the level of investment in the iron and steel industry will continue to be comparatively high and activity in residential construction may be somewhat more vigorous than had been expected.

Private consumers' expenditure will probably expand at much the same pace as in recent months. This is because the total rise in disposable incomes will be more moderate than last year provided the change in the rules governing the mechanism of the sliding wage scale does not entail a quite appreciable addition to the rise in incomes from paid employment and the growth of transfer incomes.

The trend of industrial production is still largely determined by the trend of output in the iron and steel industry and might therefore resume a slightly upward movement. In building and construction, there would even appear to be some possibility that production may climb quite vigorously. All in all, the increase in real gross national product in 1972 is unlikely to exceed some 1½%.

On the labour market, the strains that prevailed till 1971 are therefore unlikely to recur for the time being, as the requirements of additional manpower will be significantly smaller and any demand from this or that industry can be more easily met by recruiting foreign workers.

The price climate is still being very largely influenced by the trend of import prices. There is reason to fear that prices for imports from Germany and Belgium in particular will again go up appreciably.

Demand management under short-term economic policy should therefore remain very cautious. The boost to economic activity being provided by the budget will in any case be considerably stronger than in 1971. This boost includes measures to sustain activity in the building

sector, the effects of which will be all the more appreciable as there is already evidence of a recovery in residential construction. To support the tendencies towards stabilization, care should be taken to ensure that the Government deficit is not financed by monetary means.

Major economic policy measures

January 1972

(1) *After the publication of the Finance Act for 1972, the following tax changes have been made: income tax scales to be adjusted to the higher cost of living; validity of the measure applying reduced VAT rates to certain important consumer goods to be extended; the somewhat reduced rate of special excise duty on petroleum etc. to be maintained.*

(2) *The guaranteed minimum wage was raised from Lfrs. 7 766 to Lfrs. 7 875 a month.*

(3) *A number of measures were taken in the price field. They relate in particular to the rules governing price marking and certain detailed provisions intended to improve price control.*

February

(1) *With the help of the "Office national de Conciliation", a new collective agreement was concluded in the iron and steel industry. It provides for a wage increase of Lfrs. 1 500, or an average of 8%, to be granted in three stages (1 January 1972, 1 September 1972, 1 January 1973).*

(2) *The Government tabled a bill to adjust pensions to the rise in wages and salaries.*

(3) *The rules on the criteria of the grant of premiums for the construction or purchase of housing were eased and the amount of the premium increased.*

March

The extension of the convention establishing the Belgo-Luxembourg Economic Union was ratified in Luxembourg on 6 March. Under the extended convention, a new scale for apportioning excise duties is to come into force, leading to an increase of some Lfrs. 300 million in Luxembourg's annual budget revenue.

Luxembourg

TABLE 1 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970	129.0	132.2	135.8	133.1	133.2	130.7	128.8	128.6	122.5	116.0	121.0	123.0
	1971	116.2	124.3	124.9	128.7	128.7	126.7	124.7	131.3	129.2	126.5	126.0	121.5
	1972												
Unfilled vacancies	1970	850	871	765	850	887	866	881	829	750	754	658	635
	1971	558	646	484	434	495	650	492	499	472	496	452	518
	1972	571											
Consumer prices (1963 = 100)	1970	121.21	121.98	122.21	122.74	123.38	123.72	124.20	123.84	124.35	124.74	124.95	125.23
	1971	126.06	126.91	128.04	128.15	129.09	129.37	129.48	129.62	130.22	131.09	131.63	132.14
	1972	132.80	133.20	133.41									

NOTES TO GRAPHS AND TABLES

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

Graph 1

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

Graph 2

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

Graph 3

Consumer prices; source: STATEC.

Table

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

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

Construction: seasonally adjusted number of residential buildings authorized.

Consumer prices: not adjusted for seasonal variations.

Brussels, 3 March 1972

Opinion on the economic budgets for 1972

At its meeting of 3 and 4 February 1972, the Short-term Economic Policy Committee examined the economic outlook for 1972 and the problems this outlook raises for short-term economic policy. The Committee based its work on the economic budgets for 1972 and the forecasts made by the Commission's services in the light of the new exchange rates resulting from the decisions taken in Washington on 17 and 18 December 1971.

1. The outlook for the months ahead points to a further slowdown of growth in almost all Community countries and the persistence of a vigorous rise in wages and prices. Although the restoration of fixed exchange rate relationships between the industrialized countries and the removal of the protectionist measures taken by the United States have eliminated one of the major uncertainties affecting international economic relations, important problems remain to be solved, especially those connected with the present non-convertibility of the dollar, the financing of the deficit in the United States balance of payments, and the regulation of speculative capital movements. Furthermore, the de facto revaluation, in terms of the dollar, of the currencies of the Community countries and of most non-member countries tends to reduce the export openings available to the Community as a whole. This could further inhibit the propensity to invest of enterprises, already affected by the appreciable shrinking of profit margins. Lastly, the expansion of consumption may slacken. In the circumstances, the Commission's services estimate that the gross national product (at constant prices) will grow at some 1.5% for Germany, 4.5% for France, 3% for Italy, 2% for the Netherlands,

3% for Belgium and 1.5% for Luxembourg.¹ Although the inflationary stimuli provided by demand weakened distinctly, the pressure of costs will doubtless continue to stimulate the upward thrust of prices which is likely to remain strong (with the rise in consumer prices as measured by the implicit price deflator averaging 4.5% to 7% for the year, depending on the country).

2. It is in France that the rate of activity is most sustained, but there are indices which suggest that growth will slacken temporarily in the months ahead; in Italy, the business trend has remained weak, as the effects of the measures taken by the Government to revive activity are working through only very gradually; in the other countries, expansion slowed down distinctly towards the end of 1971. The economic situation in the various member countries of the Community shows many common features.

All in all, none of the major policy objectives is likely to be attained satisfactorily in 1972. Those responsible for economic policy in the member countries will in varying measure be faced with three basic problems:

- (i) Persistence of the rapid rise in costs and prices, which is in conflict with the guidelines adopted by the Council on 26 Oc-

¹ The Commission's forecasts were drawn up at the beginning of January 1972 and take into account only the political measures already adopted or definitely to be adopted. They may differ from the national forecasts, which are sometimes based on different economic policy assumptions.

tober 1971 in the annual report on the economic situation in the Community;

- (ii) A moderate rate of growth, appreciably below the figures laid down in the Third Medium-term Economic Policy Programme;
- (iii) A certain deterioration in the level of employment, which means an unemployment rate above the average assumed for each member country in the Third Medium-term Economic Policy Programme for 1971-75.

3. Faced with this situation, the authorities of the member countries have adopted a number of measures in recent months. All countries have eased the restrictive line of monetary policy, though to varying degrees. France has countered the foreseeable cooling of the economic situation and the deterioration on the labour market by budget measures designed to give a temporary boost to demand, while Belgium is implementing a broad programme to revive economic activity. Other countries, particularly Germany and the Netherlands, which have available instruments which can be used rapidly in the event of an appreciable decline in economic activity considered however that it would be premature to take budget measures to stimulate demand. In Italy, where the economic trend has remained weak in the past two years, the authorities continued their efforts to stimulate demand.

4. These differences in the approach adopted by the authorities are due not only to the impact of specific structural factors, particularly the structure of the labour force and the uneven way in which the reserves of manpower are distributed between regions and occupations, but also to differences in the way the public has reacted to the extent of the problems weighing on the economy of their countries, especially the problem of stabilizing the level of prices and wages. In the present situation, coordination of short-term economic policy within the Community will be possible only if the Member States, while continuing to aim at a rate of growth in line with their productive potential, comply with the price and wage guidelines laid down by the Council and make a joint effort to ensure that their measures produce optimum results. These measures

would be more effective if they offered each other mutual support, for they could then be taken in smaller doses, and the possible risks for domestic equilibrium would be smaller. Individual and non-harmonized measures, by contrast, would inevitably have repercussions on the other Community countries, which could be tempted to try and offset their effects.

5. In the circumstances, the Committee considers that in the months ahead the economic policy of the Member States of the Community should be along the following lines:

The less restrictive course of monetary policy adopted in recent months should be maintained, but it would be necessary to ensure that there is no excess liquidity. In any case, the task of the monetary authorities could still be complicated by the problems posed by international movements of capital, particularly if interest rates were to remain excessively low in the United States. Control of these capital movements, or the use of equivalent means of regulating them, may give the authorities greater freedom of action, particularly if they consider that they are unable, in view of the persisting inflationary tendencies, to let interest rates fall below a level compatible with the objectives of domestic policy.

As regards budget policy, it would appear that the time has not yet come for making any significant change in the guidelines laid down in the Annual Report, guidelines which already provide for a substantial increase in public expenditure. Generally speaking, the expected shortfall of tax revenue will in several member countries cause the borrowing requirement to rise distinctly above the level envisaged last October. It might nevertheless be desirable for the authorities, particularly in Germany, to resort sooner than planned to certain measures to sustain demand, while in France there may be a case for caution over stepping up public expenditure. The Committee was concerned at the scale of the reflationary programme envisaged by Belgium, and feels that it should be implemented with great moderation.¹ In Italy, it still seems that the authorities should adopt a budget policy which will give a fillip

¹ The Committee decided to examine this programme in detail at its next meeting.

to the economy by speeding up investment in the economic and social infrastructure and encouraging corporate investment. Generally speaking, efforts should be made to ensure mutual compatibility between the objectives of monetary policy and the methods of financing budget deficits.

In view of the ground lost during the past few years, preference should be given, as part of the drive to boost demand, to measures encouraging investment in infrastructure, notably with a view to promoting better regional equilibrium. Furthermore, the efforts being made to improve the occupational training of manpower and adjust it better to the requirements of trade and industry should be stepped up further. Lastly, the steps to be taken should be concentrated mainly on those regions and sectors where resources, whether of manpower or capital, are currently under-utilized.

Distinct progress in complying with the price and wage objectives laid down in the Annual Report appears to be all the more necessary as it is a direct condition for the effectiveness of the reflationary measures. In this context it is

important that both sides of industry should adopt an attitude in conformity with these objectives, and so help to maintain a high level of employment. The authorities for their part should make the fullest possible use of the various instruments at their disposal in their drive to check the rise in costs and prices and to achieve a better equilibrium on the labour market.

The Committee also wishes to stress that the slowdown in the rise of wages and prices that has begun to make itself felt in varying degrees could be jeopardized if there were an appreciable rise in agricultural prices and in the prices of certain services such as public service charges and other administratively fixed rates.

Lastly, the Committee considers that effective coordination of short-term economic policy should be accompanied by substantial progress in giving the Community a monetary personality of its own and in improving the orderly functioning of the international monetary system; this could not but have beneficial effects on the achievement of the objectives of growth and stability.

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 the trends of income from employment per head, 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 calculating methods 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 better 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. This makes it more difficult to interpret the graphs, especially the results for the last few years, during which the number of hours actually worked has changed considerably in most of the countries.

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 the last two years, the survey gives figures for the trend in labour costs adjusted for changes in official exchange rates. These calculations are based on the rate of exchange of the national currencies concerned against the US dollar.¹

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

¹ For the year 1971, when most European currencies fluctuated for a more or less long period, an average rate was taken for the various currencies, calculated, for the period from 1 January to 30 November, on the basis of the average monthly rates published in the "Bulletin de la Banque Nationale de Belgique", for the period from 1 December to 17 December on the basis of the daily rates notified by the monetary authorities of the Member States, and for the rest of the year on the basis of the central rates agreed in Washington.

For all countries covered in this Annex, the 1971 figures rest wholly or partly on estimates. The following should be said about the significance of the series used here.

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 the 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 left out of 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 whose data are based not on value added but on gross production.

B. Developments in 1971

The first and still provisional calculations made by the Commission's services suggest that in 1971 industrial labour costs per unit of gross value added (at constant prices) expressed in national currencies rose very rapidly in all Community countries. The advance was particularly sharp in Italy, where it reached some 14 1/2%, a figure comparable with that for 1970 (14.3%). In Belgium, the Netherlands and France the pace of advance was distinctly faster than for the previous year; it was 9% in Belgium (1970: 7.3%), 7% in the Netherlands (1970: 5.6%), and 6% in France (1970: 4.8%). In Germany, the increase in terms of the national currency slowed down somewhat, but was still 8%, compared with 12.4% in 1970. In all member countries the rise in terms of national currencies was therefore sharper than in the United States, where it was down to 2.5% (1970: 5.2%), and only in France was it somewhat lower than in the United Kingdom, where the figure was 6.5% (1970: 9.1%).

If account is taken of the shift in exchange rates, the picture is even more unfavourable for all member countries except France. On a dollar basis, the increase was 16.3% in Italy, 13.2% in Germany, 12% in Belgium, 10.4% in the Netherlands and 6.5% in France, compared with 8.6% in the United Kingdom and 2.5% in the United States.

The rise in labour costs per unit of gross value added in the Community is due mainly to the increase in incomes from employment per head, and in most member countries also to a slowdown in the pace at which industrial production has been expanding.

In most member countries, the growth rates of per capita income from employment came very close to each other, the figures being 13.5% for the Netherlands, 12.5% for Belgium and 11% for Germany, France and Italy. In France, Belgium and the Netherlands this was a steeper rise than a year earlier, while in Germany it represented a slight and in Italy a pronounced slowdown. In the United Kingdom and the United States per capita income from employment rose by 12% and 6.5%, respectively.

The growth of gross value added (at constant prices) per employee, by contrast, was weak in most member countries. This was a result not only of the limited expansion of production but also of the fact that employers avoided making unduly sharp cuts in manpower. This was particularly evident in Italy, where short-time working caused a comparatively large number of wage and salary earners to register with the wage equalization fund; for 1971, then, the fall in gross value added per head was as much as 3.5%, following a rise of 4% in 1970.

In Germany, gross value added in industry rose by 2.5%, while a year earlier the advance had still been some 6%. As the number of wage and salary earners dropped by 0.5%, the rise per employee was 3%, compared with 3.5% in 1970.

In Belgium, gross value added in industry increased by 3%, compared with 5.5% in 1970.

As the number of persons employed remained virtually unchanged, the advance per employee was 3%, as against 4.2% in 1970.

The growth of industrial production was sharpest in the Netherlands and in France. In both countries, gross value added rose by 6%, or somewhat more slowly than a year earlier, when the rate had been 7.4% for the Netherlands and 7% for France. The increase in gross value added per employee was 6.5% in the Netherlands (1970: 6%) and 5% in France (1970: 4.6%).

In the United Kingdom, gross value added (at constant prices) per person employed rose by a mere 1.3% (1% in 1970). However, as the number of persons employed in industry dropped considerably (by some 4%, compared with 1.7% in 1970), gross value added per employee still rose by some 5%, compared with 2.7% a year earlier.

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

	1963 = 100						1971/1967 in % ¹	1971/1967 in % ²
	1967 ¹	1968 ¹	1969 ¹	1970 ¹	1971 ¹	1971 ²		
Germany	106.2	105.2	108.2	121.7	131.4	150.7	23.7	41.9
France	108.7	115.4	122.5	128.4	135.5	121.0	24.7	11.3
Italy	109.2	108.4	113.2	129.4	148.2	150.5	35.7	37.8
Netherlands	120.2	119.3	124.9	131.9	141.1	145.6	17.4	21.1
Belgium	112.1	111.2	112.5	120.7	131.6	135.0	17.4	20.4
United States	108.8	112.1	118.7	125.0	128.1		17.7	17.7
United Kingdom	112.7	113.9	119.2	130.0	138.4	121.2	22.8	7.5

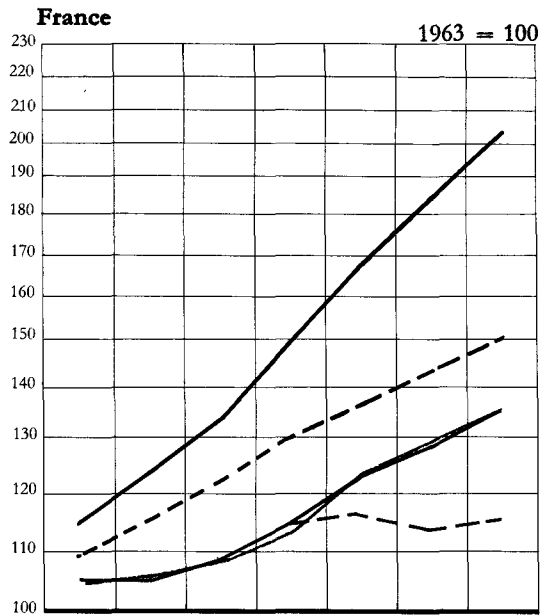
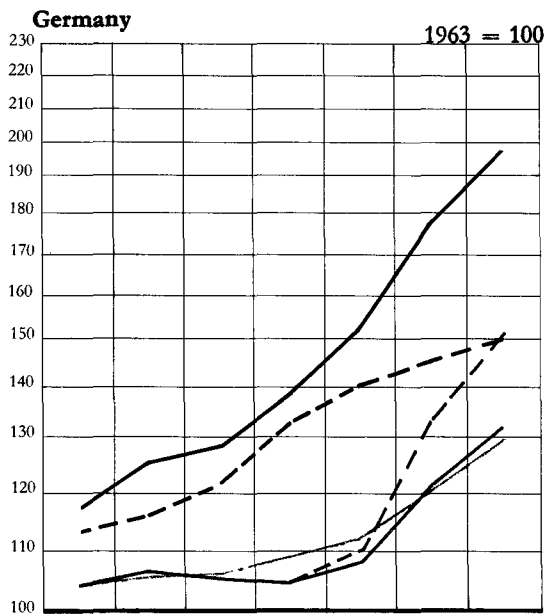
¹ In national currencies.

² Adjusted for parity changes.

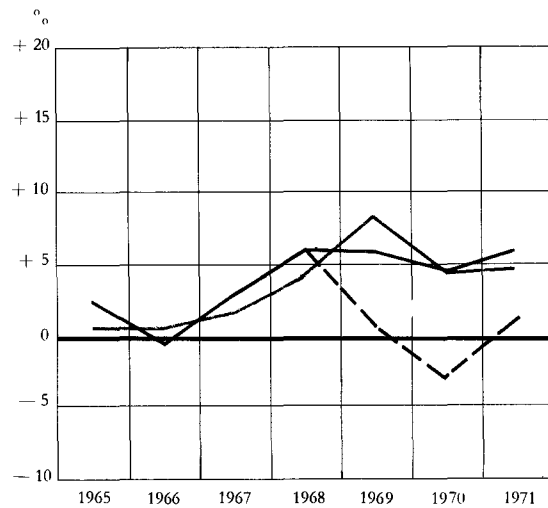
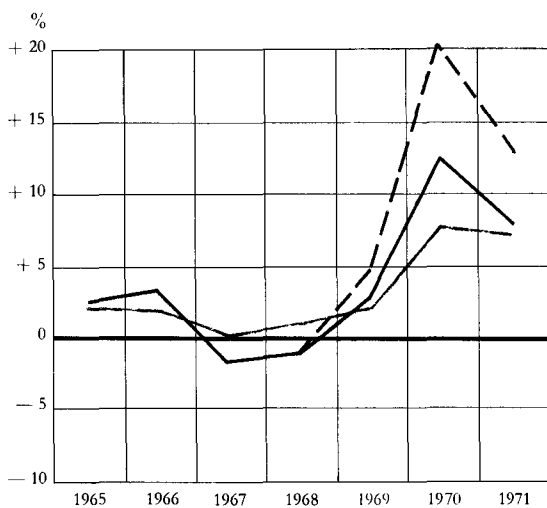
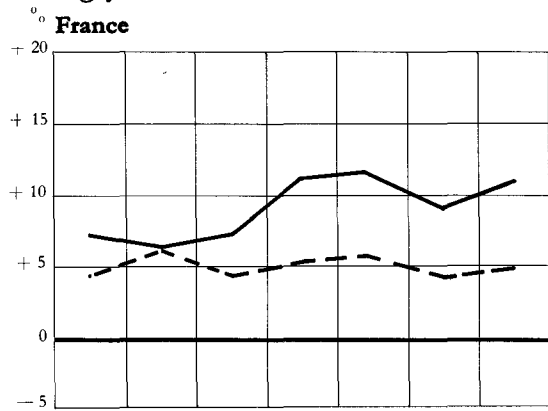
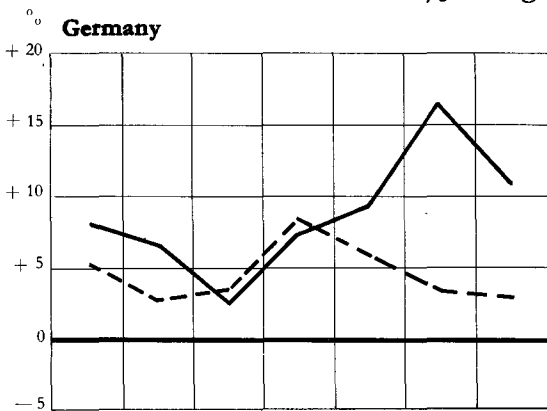
In the United States, gross value added (at constant prices) in industry was virtually unchanged, following a decline of 3% a year earlier. With the number of wage and salary earners showing a further sharp fall in 1971 (4% compared with 3.5% in 1970), gross value added per employee went up by 4%, compared with a mere 0.6% a year earlier.

The longer-term trend in labour costs per unit of gross value added is illustrated in the table above. The 1971 figures are compared with those of 1967, the year when most member countries entered the boom period of the past few years. A separate column gives the same comparison, account being taken of the exchange rate changes.

LABOUR COSTS IN INDUSTRY

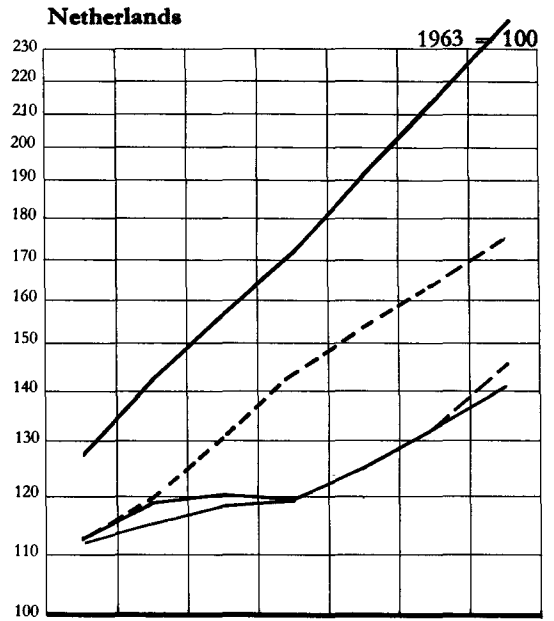
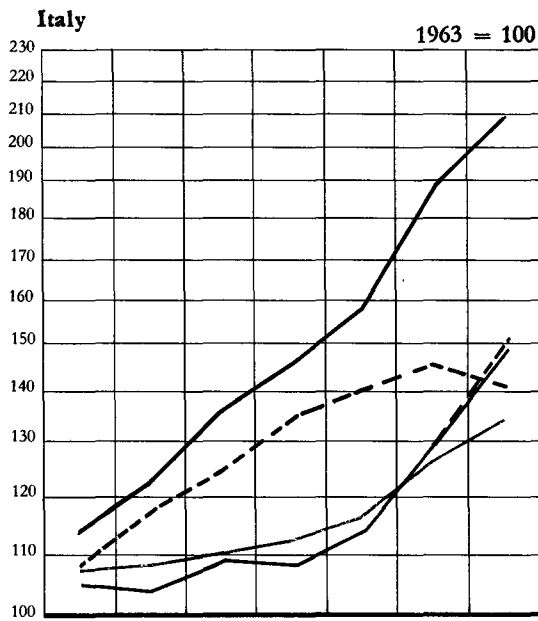


% change on preceding year

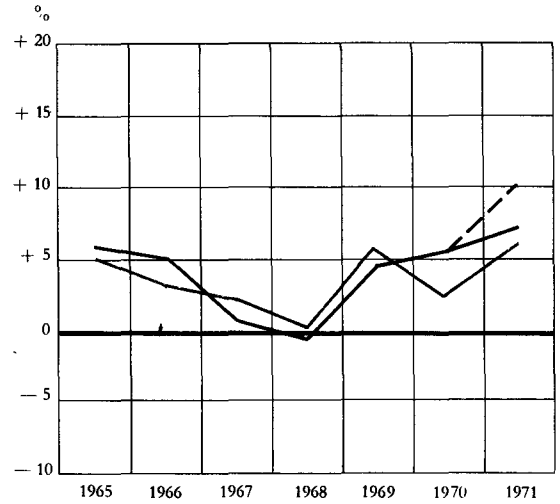
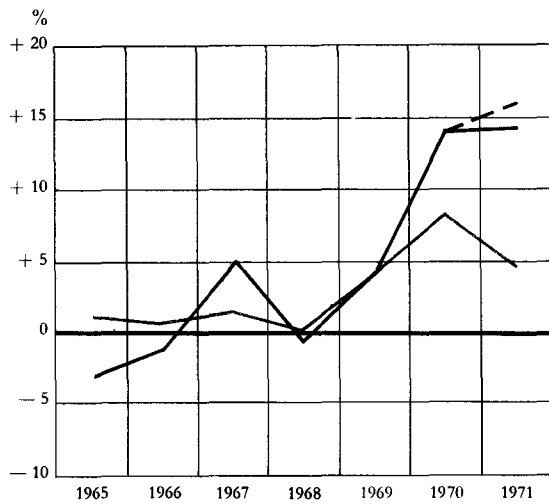
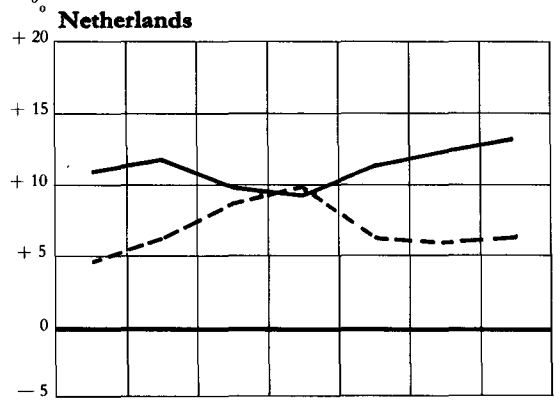
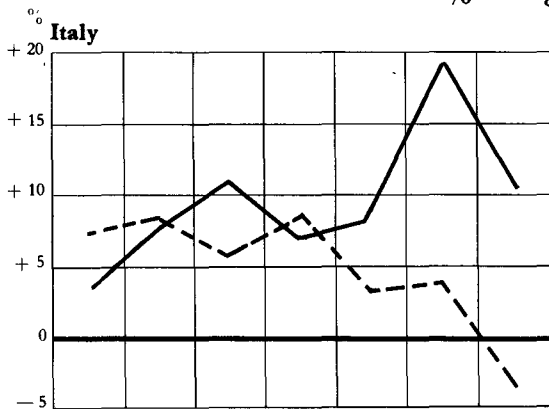


- *Income from employment per head*
- - - - - *Gross value added (at constant prices) per employee*
- *Labour costs per unit of gross value added (at constant prices)*
- - - - - *Labour costs per unit of gross value added (at constant prices) corrected to account for changes in official exchange rates*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

LABOUR COSTS IN INDUSTRY

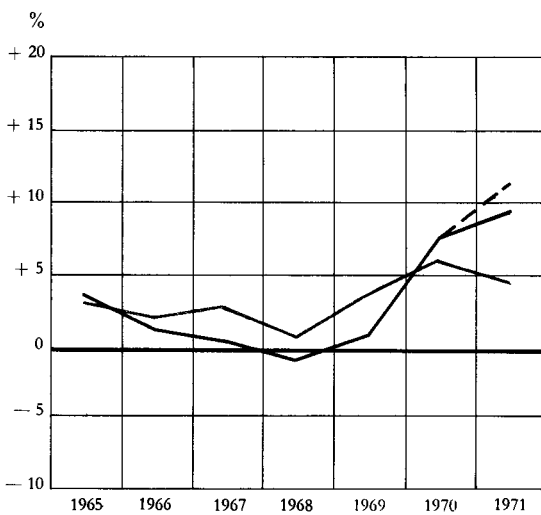
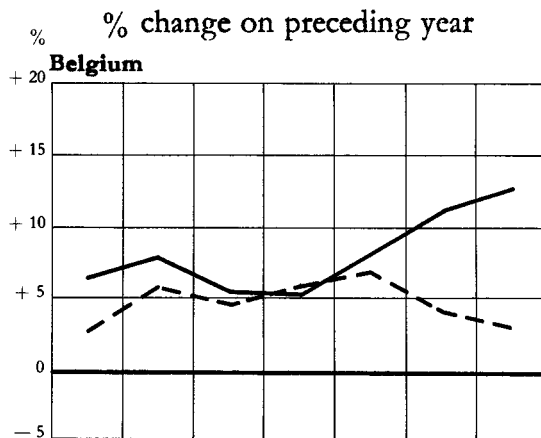
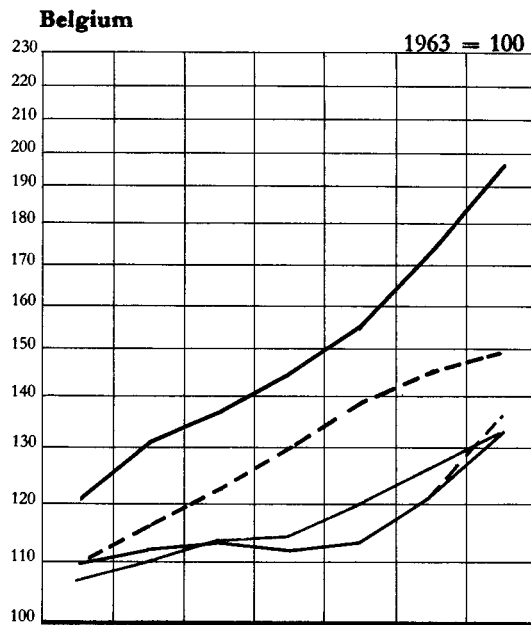


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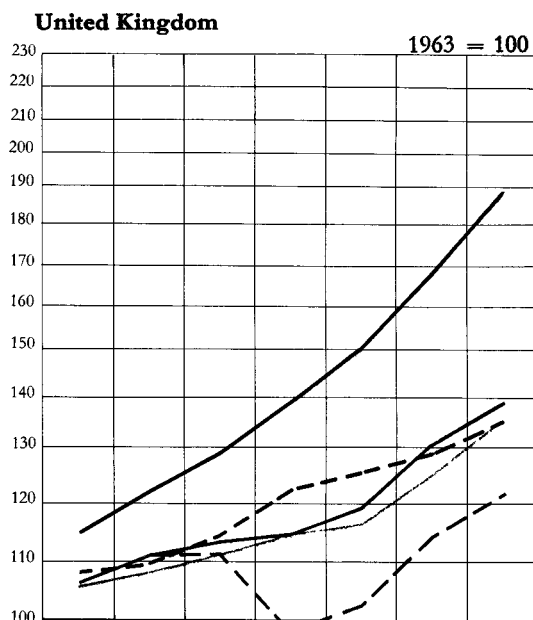
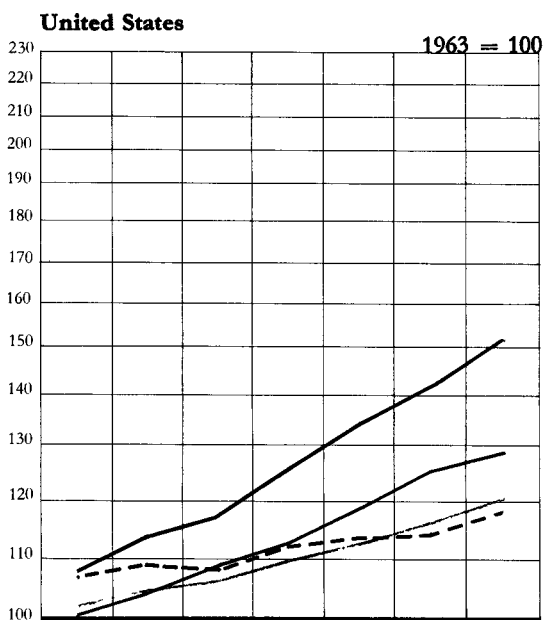
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LABOUR COSTS IN INDUSTRY

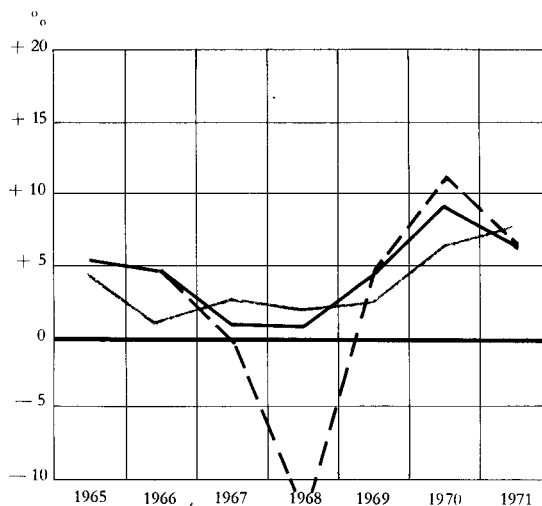
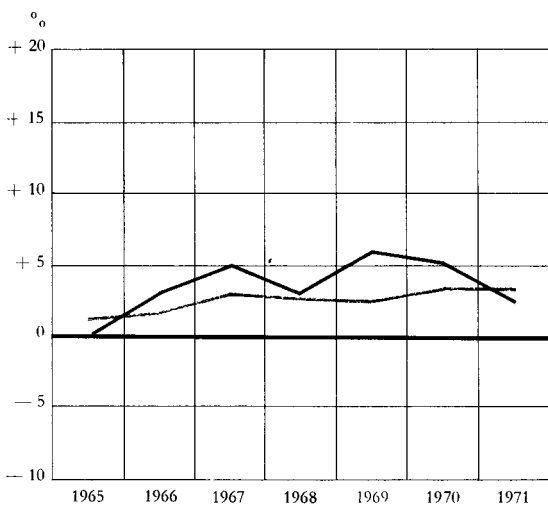
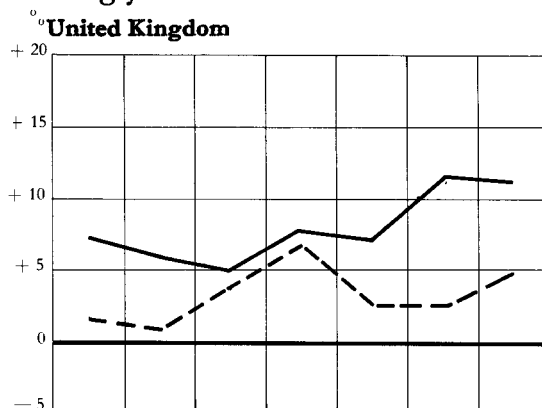
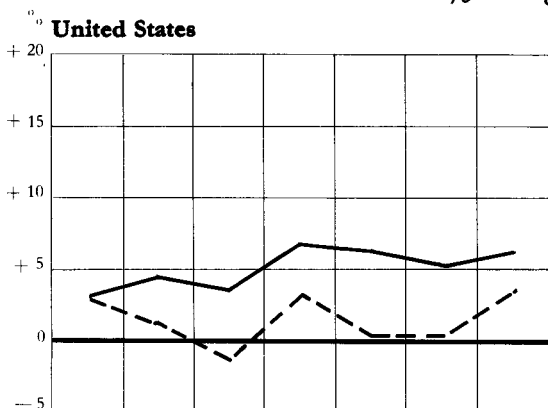


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LABOUR COSTS IN INDUSTRY



% change on preceding year



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