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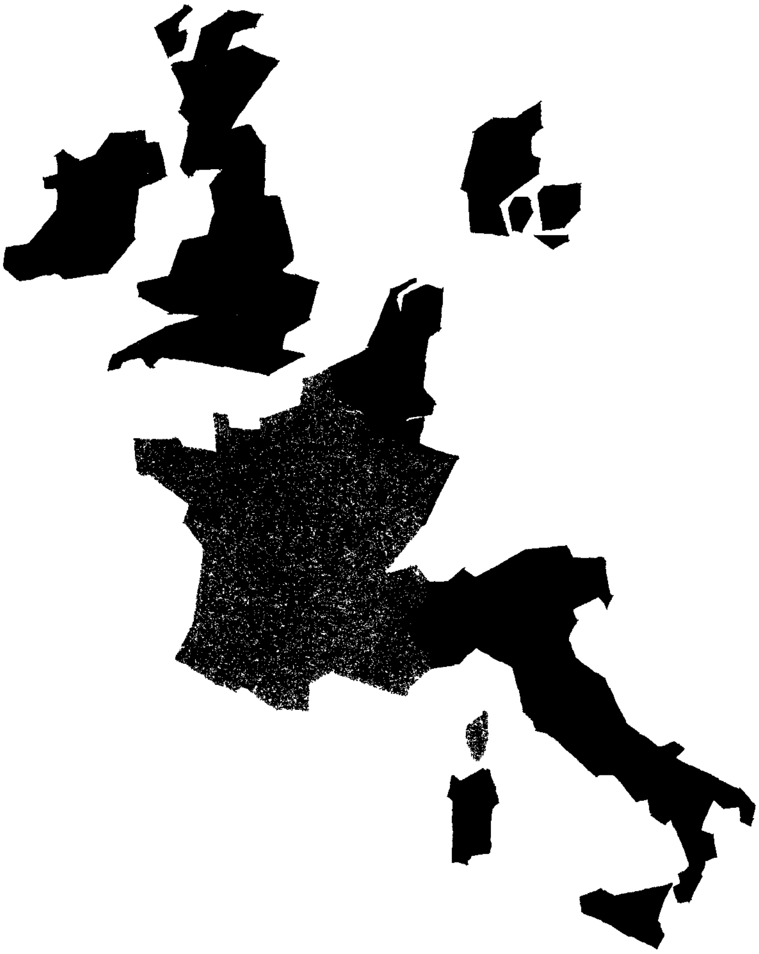

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1975

# The economic situation in the Community

Quarterly survey

Commission of the European Communities
Directorate-General for Economic and Fiancial Affairs
Directorate for National Economies and Economic Trends
Rue de la Loi 200, 1049 Brussels

COMMISSION OF THE
EUROPEAN COMMUNITIES

# The Economic Situation in the Community

OCTOBER 1975

*This issue contains the proposal of the Commission of the European Communities for the annual report on the economic situation in the Community which the Council is to adopt in the autumn, in accordance with Article 4 of its decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community.*

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# Annual report
# on the economic situation in the Community

*(drawn up in accordance with Article 4 of the Decision of 18 February 1974 of the Council of the EuropeanCommunities on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community).*

*(Commission proposal to the Council)*

# TABLE OF CONTENTS

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## FOREWORD

Under Article 4 of its Decision dated February 18 1974, concerning the realisation of a high degree of convergence in the economic policies of the Member States of the European Economic Community, the Council, acting on a proposal from the Commission and after consulting the European Parliament and the Economic and Social Commitee, must, at the end of the third quarter [1], adopt an annual report on the economic situation in the Community and must set economic policy guidelines to be followed by the Member States in the following year. Once the report has been adopted by the Council, the governments must bring it to the attention of their national Parliaments so that it may be taken into account in budget debates.

The guidelines contained in this report may have to be adjusted to take account of the trend of economic development when the Council carries out its subsequent examinations of the economic situation.

## I. THE SCALE OF THE RECESSION IN 1975

*Exceptional depth of the recession*

1.1. Since the middle of last year and more particularly in the first half of 1975, the Member States have gone through the severest recession since the war. The conjunctural situation has been characterised by falling demand and production, a low rate of capacity utilization, an increase in unemployment, and, despite some success in combating inflation, a continuing rise in consumer prices, still with marked discrepancies between one country and another.

*Signs that the downswing is coming to an end*

The downswing which started in Germany and Italy, spread to the Benelux countries and a little later also reached France. Finally, economic activity in the United Kingdom, following efforts made to make up ground lost as a result of the strikes in 1974, steadily lost momentum. In the middle of 1975, industrial production had reverted in most Member States to its level at the beginning of 1972. For the Community on average, it had dropped by some 12½% in a year[2]. However in several member countries the downward phase of the recession seems to have ended and the economic climate to have begun to improve.

1.2. In the autumn of 1974, when the previous report on the economic situation in the Community [3] was being prepared, the much more optimistic forecast made for the economic situation in 1975 still appeared plausible, despite the levy imposed on the resources of member countries by the quadrupling of the oil price. The main

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[1] The Commission has laid before the Council proposed amendments to this timetable postponing the deadline until the fourth quarter (see proposal for a Council Decision presented by the Commission on 25 July 1975, Official Journal of the European Communities, no C 218, 24 September 1975, p. 2).

[2] See Table 1 annexed.

[3] See the Annual Report on the Economic Situation in the Community, Official Journal of the European Communities, No C 149, 28 November 1974, p. 1.

reason why this forecast proved wrong was that it underestimated the following factors:

*Earlier underestimation of recessionary trends*

— the extent to which the energy crisis, inflation and counter-inflationary policies would aggravate the recession and entail adjustments;

— the impact of these effects — and of their mutual reinforcement — on world trade, and the resulting fall in external demand;

— the extent of the run-down of stocks and the cautiousness of consumers as well as investors.

*Fall in world trade*

1.3. For the first time since the war, the volume of *world trade* will fall in 1975 (by 5-6 % at an annual rate). The marked contraction in world trade reflects the scale of the recession, which, beginning in the United States and Japan, has spread to all the industrialized countries and the non-oil producing developing countries. Between the second half of last year and the first half of this, the decline in economic activity led, for the Community, to a reduction of about 20% by volume in the export demand generated by the industrialized countries. This reduction was not offset by the continuing growth of imports by the OPEC countries (estimated at 45% in volume terms in 1975). In fact, at present, these countries account for only about 10% of the Community's exports to third countries.

*and Community exports*

1.4. In 1975, the decline in export demand will mean for the various Member States a fall in the volume of *exports* compared with 1974 ranging from 4% (United Kingdom) to 11% (Germany); only Italy will more-or-less succeed in holding its exports to the same level in real terms. The forecasts made in the autumn of 1974 suggested that the trend would be normal or nearly so, but, in fact, Member States' exports in 1975 probably have contracted appreciably. The resulting shortfall in demand will amount to between 3 and 5% of gross domestic product for 1975.

Intra-Community trade has declined even more than export demand generated by third countries taken as a whole.

*Improvement in external balance*

1.5. *Imports* of member countries have in general declined more sharply than exports. At the same time, the terms of trade have improved, particularly as raw material prices have declined.

Except in the case of the United Kingdom, the heavy current account deficit run by Community countries in 1974 will probably be worked down to very modest levels in 1975. The Community's current account will show a slight surplus [1], despite the fact that the German surplus will contract by more than half (by some DM 10 000 million). Considerable progress has therefore been made in 1975 in restoring external equilibrium in the Community. The improvement in the Community's current balance has been essentially due to the unexpected severity of the recession and the resultant reduction in imports. Financing the deficits has been less burdensome than was forecast.

*Infectiousness of recession*

1.6. As trade and financial *interdependence* between the industrialized countries and, in particular, the Community countries has become far stronger, economic disruption

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[1] See Table 2 annexed.

(inflation and deflationary or reflationary movements) occurring in one country "contaminates" the partner countries more rapidly than in the past and, given the multiplier effect, attacks once again the country in which it originated. These multiplier effects were particularly powerful when the world recession started in 1973 and 1974. Studies carried out at international level have shown that a reduction of 1% in the rate of growth of domestic demand in each of the industrialized countries will have double this impact on aggregate demand in the Community countries [1]. This estimate does not allow for effects being transmitted by mechanisms other than trade flows, for instance monetary relations and capital and labour movements. The conclusion to be drawn for economic policy purposes is that national measures to combat inflation or the economic recession taken in isolation are bound to be limited in their effects.

*Weakness in investment*

1.7. Despite reflationary programmes introduced in almost all the Member States, signs of recovery in final domestic demand remained sporadic still the autumn. Private-sector *investment expenditure* is still falling, although in some Member States considerable incentives have been provided for investment. The main causes of the decline in the propensity to invest are the extremely low capacity utilization rates in industry (about 75%), the relentless rise in costs due to losses in productivity, which leaves firms in a very weak profit position, and also the uncertainty with regard to the economic outlook. Likewise, investment in the housing sector is very sluggish in certain member countries and the stock of unsold dwellings ramains high. Public-sector capital expenditure is the only investment component which, since the middle of the year, seems to be on an upward course, boosted by central government investment programmes.

*Strong effects of the rundown in stocks*

The impact of stock reductions on the trend of activity in 1975 goes far to account for the decline in industrial output. In some countries and some industries not all the involuntary *stocks* of finished products have yet been disposed of. The process may well be now complete in some cases as regards raw materials and intermediate goods.

*Cautiousness in consumer expenditure*

1.8. Private *consumption expenditure* has increased only weakly in real terms. In some Member States it has actually fallen. The growth of disposable incomes has slackened as a result of cuts in the number of hours worked and the slowdown in the upward movement of wages and salaries. At the same time, the insecurity of the employment situation and a desire to reestablish the real value of savings have caused an unusually rapid increase in the propensity to save.

Purchases of consumer durables and clothing have been particularly affected by the weakness of demand; expenditure on tourism, on the other hand, has not diminished. In recent months, sales of new cars have recovered in Denmark and the Benelux countries and aspecially in Germany.

Only central government current expenditure is continuing to grow at a relatively high rate.

*Worsening situation on the labour market*

1.9. The deterioration in the *labour market* situation has taken on alarming proportions. In all the member countries 1975 will see a sharp fall in employees. In the

[1] The multiplier is believed to be higher than 2 for the Benelux countries, Denmark and Ireland and lower than 2 for France and Italy.

Community as a whole, the unemployed totalled almost 5 million in August 1975, which, after seasonal adjustment, represents more than 4½% of the working population, and is about 2 million up on the August 1974 total [1]. Short-time working is spreading in most of the Member States, in particular France and Italy, less overtime is being worked, and the number of unfilled vacancies has dropped. Since the end of the holiday period, there have been, in some member countries, some weak signs that unemployment might be levelling off, but with the arrival on the labour market of school-leavers, a further deterioration in the situation is to be feared. In an attempt to maintain the level of employment in construction, many Member States have adopted measures which could prevent a fresh downturn in this sector.

*Success in the struggle against inflation*

1.10. As a result of the anti-inflationary policies, the fall in world prices and the weakness of demand, *inflation* has eased in all the Member States. The slowdown in the upward price movement has occurred at different times and with differing intensity from country to country [2]. Some definite progress has been made, in particular in Denmark, the Federal Rupublic of Germany, in Italy and, quite recently, in Ireland. On average for the year, however, the rise in consumer prices for the Community as a whole, estimated at about 12½% between 1974 and 1975, will not change much; and the range of inflation rates — between Germany (about 6% in 1975) and Ireland and the United Kingdom (about 22-23%) — will be wider in 1975 than in 1974. Consumer prices for manufactured products have risen less than those for other products and services, although wage costs per unit of output in industry are still rising. This reflects keener competition, but also means that firms will face falling profit rates in industry. The underlying upward trend of foodstuff prices and the many increases in public service charges and prices for services and energy have limited the moderation of the rate of increase in the general price level.

## II. ECONOMIC POLICY IN 1975

*Gradual shift in economic policy...*

2.1. In view of the persistence of inflation and the slowdown in economic activity, the governments of the member countries face difficult decisions. Only the Federal Republic of Germany and the Netherlands have been able to follow clearly expansionary policies since the beginning of 1975. Given the seriousness of domestic disequilibria and external deficits, most other member countries have only very gradually been adjusting their demand management policies towards reflation. Consequently, and also as a result of structural rigidities and the long time-lags before the measures, once taken, have begun to bite, economic policy has not shown, on the whole, the expected results.

*...and in monetary policy*

2.2. Since the autumn of 1974, the authorities, at first in a number of countries and then in all the countries, have been gradually moving away from a restrictive *monetary policy*. The first measures taken to relax monetary policy were designed merely to offset an incipient slowdown in activity. It is only in the course of 1975 that monetary policy has become steadily more expansionary. The strength of the measures taken

[1] See Table 3 annexed.
[2] See Tables 2 and 4 annexed.

and their timing have varied between countries: those which, in view of their rate of inflation and their balance of payments situation, enjoyed the greatest scope for manoeuvre, took the most energetic action. Germany was the first country to set its policy on a fresh course. After slackening somewhat, the rate of growth of the money supply in most Member States has tended to gather momentum since the spring. Since the end of last year, with the demand for credit falling, quantitative restrictions on the volume of bank lending have either been relaxed or abolished altogether. Most interest rates are, generally speaking, a good deal lower than in the autumn of 1974, owing to the high propensity to save and the weakness of demand for funds from firms and individuals. Since the spring of this year, short-term rates have steadily drifted downwards in the Community whilst picking up again in the United States. This scissors movement and the improvement in the American conjunctural situation and balance of payments has strengthened the dollar. The currencies in the "snake" had depreciated against the dollar by an average of 11% at the end of September, compared with their best level in the first half of 1975. The corresponding figures for the lira and sterling are 7% and 14% respectively.

*Relative resistance of long-term interest rates*

In general, long-term interest rates have been slow to imitate the fall in short-term rates; indeed, in a number of Member States, there has been an actual tendency for them to rise since the summer. Although the propensity to save has been exceptionally buoyant, there has been no great inclination to invest in bonds. In addition, the impovement in share prices which all member countries experienced before the spring has now become rather less assured, with those of some shares even falling sharply during the summer.

*Budgetary policy to sustain demand*

2.3. While, in most Member States, the *budgets* adopted for 1975 were part of a cautious, even restrictive, policy dictated by the severe disequilibria in the economic situation in the autumn of 1974, the actual administration of the budgets has, during 1975, been redirected so as to support economic activity. Given the conflicting objectives facing them, the Member States have, to differing degrees, had to attach increasingly greater priority to safeguarding the level of employment. This change of direction in public finance has been determined partly by built-in reactions to the deterioration in the economic situation affecting both spending (on unemployment benefits, in particular) and tax revenue. Most governments have, however, made several adjustments to their budgets during 1975 in an attempt to sustain the level of effective demand. Thus budget deficits have swollen considerably [1].

*Prices and incomes policies*

2.4. The United Kingdom and Denmark have to a large extent resorted to *incomes policies*. In almost all the other Member States, price restraint and competition policies have been adopted. Belgium, for instance, has imposed a selective price freeze, while France has blocked certain prices and imposed controls on profit margins.

## III. OUTLOOK FOR THE ECONOMIC SITUATION IN 1976

3.1. On what is at present the most likely assumption — that the stimulus afforded by the expansion in world trade, the reflationary measures taken by the public

[1] See Table 5 annexed.

authorities, the spontaneous internal factors of recovery and renewed confidence will exert a combined impact — the economy could well start to pull out of the recession between now and early 1976. In this case, it would be reasonable to expect the gross domestic product in the Community as a whole to expand by 3 to 3½% in real terms in 1976, given that it will have fallen by 2½% in 1975.

3.2. The validation of this assumption about economic developments in the Community in 1976 will depend on:

— the extent to which the policies designed to stimulate the economy will in fact make an effective contribution to spontaneaous expansionary factors and to a recovery in external demand;
— the speed of recovery in industry's and consumers' confidence in future economic developments.

*Some improvement in world trade*

3.3. The strength of the recovery in demand will depend on the buoyancy of the *world economy* in the months ahead. Growth of around 5% in the volume of world trade (volume of imports, excluding Community imports) seems reasonable in 1976, in spite of the deflationary impact of the recent 10% rise in the price of oil. An increase of about 6% in the imports of the industrialized non-member countries (1975: -10%) is all the more probable since Japan andthe United States have passed the low points of their recessions and have since then steadily gained ground. But there too, there is the danger that a fresh upsurge in inflation will cause economic agents to quickly revise their expectations. The demand for imports in the OPEC countries will continue to grow, albeit at a less rapid rate (about 20-25% in 1976) while the import demand in state-trading countries will tend, at the very least, to settle at a stable level.

*Expansionary measures*

3.4. The *programmes to stimulate economic activity* recently adopted in Italy, Germany, France, Denmark and the Netherlands should produce results in coming months, both in the capital goods industries and in the construction sector. The results will be all the better insofar as the official programmes are reflected in orders promptly placed and insofar as the cautious approach to spending adopted by the local authorities in certain Member States can be countered more energetically.

*Stock rebuilding...*

The reconstitution of *stocks* will also boost production, and this process seems already to have got under way in some Member States; it could account for an increase of 1% or more in the gross national product and at the same time stimulate imports of raw materials.

3.5. There can be no lasting recovery in the economy until households' normal propensity to consume has been restored. However, as long as the uncertainties affecting incomes and employment policies persist, *private consumption demand* will remain depressed, while the propensity to save will remain strong. In order to bolster confidence, it is just as important to start curbing inflation as it is to bring about close cooperation between unions and management in respect of incomes policy, employment policy and social policy.

3.6. With so many firms running below or well below capacity, there is little chance that *private investment* will substantially boost demand in the months ahead.

*...and of firms continues*

The reluctance of managements to implement investment programmes will probably be overcome only when there is definite evidence of a recovery in final demand and when the cash situation of firms shows an improvement, i.e. at a later stage in the recovery of the economy.

*Recovery of output...*

3.7. Recovery of output will occur at different times and with different growth rates in different countries [1]. The relative weakness of these rates is not surprising, and is due, among other factors to:

— pessimism among the different economic groups caused by the shock of the energy crisis and the persistence of the recession;
— distortions and rigidities in the economic system caused by prolonged inflation;
— the weakening of important sectors which in the past have been motors of expansion;
— the profound changes which have occured in the international scene.

*...and later an improvement in the employment situation...*

3.8. In the first instance, the recovery of expansion will entail an increase in the number of hours worked per person employed, with less part-time working. The numbers of *wholly unemployed* will probably begin to decline only from mid-1976 onwards. For the average of 1976, the number of persons unemployed in the Community could well increase by half a million compared with the average for 1975, to reach nearly 5 million.

3.9. Although the recovery is likely to be slow, the dangers of *inflation* will be ever-present. Wages and salaries could well respond too quickly to the recovery of the economy. Managements, for their part, will be tempted to restore profit margins more rapidly than in the past. Lastly, the upward movement in import prices, of raw materials for instance, and more particularly the recent increase in oil prices, are bound to affect internal prices. It is therefore to be feared that the tempo of the upward movement in consumer prices in the member countries of the Community will be scarcely slower than at present. A rate of inflation below 10% in the Community as a whole could, therefore, only be acheived through major efforts on the part of member countries.

*Worsening of current account*

3.10. The Community's *current account*, as that of certain of its members in particular, should begin to worsen in 1976. A deterioration in the terms of trade is also to be expected.

*Weakness of recovery*

3.11. 1976 will be characterised by the persistence of price inflation in the Community and uncertainties about international economic relations.

A reappearance of inflationary pressures will quickly threaten the confidence of the various economic groups, will necessitate premature restrictive policies and lead to a new employment crisis. Moreover, the weakness of the point of departure, in particular as far as the financial position of enterprises and the public sector is concerned, threatens to throttle the recovery.

To sum up, the economic situation in the Community remains precarious.

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[1] See Table 2 annexed.

# IV. GUIDELINES FOR ECONOMIC POLICY

## a) General guidelines

*Necessary alignment of action*

4.1. Despite the efforts of governments and both sides of industry, the serious difficulties and the dangers confronting the economies of the Community countries have by no means been overcome. However a deep depression has been avoided. The increasing degree of economic interdependence and the unexpected scale of the world recession are pressing reasons for pursuing efforts to strengthen economic coordination at Community and international level.

This coordination does not mean that the Member States should pursue identical economic policies, since both from a conjunctural and a structural point of view, they still differ too widely for this. However, an alignment of fundamental objectives seems essential if what has been achieved so far as a Community is to be preserved and further progress is to be made along the road to European integration.

*Need for budgetary policy to sustain the recovery*

4.2. In most Member States, *budgetary policy* will still need to support economic activity over the coming months. In several countries, there is a case for heavier overall spending by the public authorities in 1976 (volume). Similarly a reduction in direct taxation must be envisaged in many cases, if only to account for some or all of the effects of ''fiscal drag''. The uncertainly about the conjunctural situation requires great flexibility in public finance policy: while the budget is an eminently suitable instrument for checking the decline in economic activity, any over-stimulation of domestic demand or excessive monetary financing might well produce a new bout of inflation which would cut short a nascent recovery.

If activity does pick up substantially, the authorities should then stabilize or scale down their budget deficit during the year, not as a restrictive policy but because no further large-scale reflationary measures would be needed and because tax revenues would start rising again as activity picked up. Stabilizing or reducing the deficit would be in line with the need for a non-inflationary recovery enabling a larger share of total savings to be allocated to meeting the growing need for credit in the private sector. It should herald a tightening up of public finances which will in any event be needed in the years to come.

*Need for a flexible monetary policy*

4.3. In 1975, the Member States in general followed expansionary *monetary policies*. In most member countries these policies should be maintained to provide backing for the movement towards economic recovery. They should, however, be conducted with prudence so that any excessive expansion of liquidity can be avoided when the recovery of private-sector borrowing, taken with public treasury financing requirements, swells the demand for credit.

Also monetary policy must avoid excessive interest rate differentials vis-à-vis the international market so as to prevent disturbing capital movements. These considerations lead inevitably to the conclusion that close coordination is necessary both between the Member States and between the Community and the principal non-member countries.

*...and cooperation among different economic groups*

4.4. The most urgent task now facing the authorities and various socio-economic groups is to ensure that economic recovery in the Community can get under way and that the conditions are established under which lasting growth and an improvement in the employment situation can be achieved. Industrial strife or renewed inflationary patterns of behaviour would undermine the fragile foundations of economic progress, would make the recovery that much more difficult to achieve, and threaten the employment situation.

*Rôle of firms*

*Cooperation* between the two sides of industry and the authorities is the key to any revival of confidence in future economic growth. But it cannot be built up unless the distribution of the burden created by the economic difficulties is as fair as possible.

With regard to firms, it may reasonably be expected that they should improve their financial situation as a result of progress in productivity and fuller use of capacity and that they should show the greatest restraint in their prices policy. Supervision of prices and a policy of keen competition should help to limit price increases.

*...and unions*

If profits and the propensity to invest are to improve, the unions must show moderation in wage demands and, for a limited period, they must forego the large increases in real income obtained over recent years, since these have largely outstripped increases in productivity and have led to a heavy increase in the share of national income accounted for by wages. Such a wages policy is, however, conceivable only if there is fuller worker participation in drawing up economic policy and greater information on economic developments.

*...and the public sector*

Finally the authorities must face the difficult task of containing budget deficits and, at the same time, of facilitating not only the economic recovery but also the changes needed in the long term, through practising a courageous social policy and an effective employment policy.

**b) The guidelines for Member Countries**

In *Denmark*, the effect on domestic demand of the reflationary measures taken in September and the expected upturn in external demand should encourage a recovery in activity in the coming months. This recovery, however, will only give rise to a slow increase in employment and the number of unemployed could remain high. The rate of price increases will probably continue to fall. The expected development of imports is likely to lead to a sharp deterioration in the current account of the balance of payments.

The extension of the pay agreements of last spring has contributed to a more moderate development in prices and salaries; the strict application of these agreements should mean further progress in this direction. The improved costs situation could help to stimulate exports in an intensely competitive situation and to limit the size of the external deficit.

In this respect, budgetary policy, which has helped to achieve a more favourable development of incomes, should try to ensure in particular that the deliberate lessening of the fiscal burden undertaken since the beginning of 1975 should be offset by a slower rate of increase of current expenditure which, given a favourable development of the economy, should enable the budget deficit to be reduced.

Monetary policy should seek to counter the consequences which could rise in a period of economic recovery, from an excessive growth of domestic liquidity caused by a large Government deficit. The monetary authorities should, in addition, try to ensure a substantial inflow of capital. Credit policy should aim at preventing the appearance of destablising factors, especially in the construction sector.

The economic upturn which had been expected, in the *Federal Republic of Germany*, has not yet occurred and available production capacity continued to increase up to the summer.

The measures undertaken by the authorities responsible for economic policy to increase the level of economic activity, the awaited recovery of the world economy, as well as the eventual strengthening of private consumption and the propensity to invest should give rise, in a short time, to a turn-round in economic activity and a progressive rise in economic growth. Nonetheless, a considerable measure of uncertainty still affects the hopes placed on the factors leading to an upturn. In the first stages an expansion of world trade will not be of great help to the Federal Republic of Germany, on the one hand because of the structure of its exports which are directed largely towards plant and machinery, on the other hand as a result of delayed reactions to exchange rate changes which could possibly still influence the German economy. Under these conditions the task of economic policy will be essentially to support, to the extent required, the forces of expansion in order to attain in 1976 a higher rate of capacity utilisation.

Budgetary policy should be flexible. On the one hand it should continue in line with the decisions arrived at for improving the structure of the budget and to continue to limit the budget deficit in the medium-term, and on the other hand, with a view to the upturn in economic activity, it should show a deficit in 1976 similar to that of 1975. A possible short-fall in tax receipts should not lead to new reductions in expenditures in the short term; where necessary, supplementary measures for supporting the level of activity should be taken.

Monetary policy should be such as to allow an economic recovery while preventing the development of inflationary tensions. An abundance of liquidity in the economy, and if necessary the adoption of open market policies, should make the financing of the deficits easier and inhibit an unwarranted rise in long-term interest rates.

The increase in prices might, however, continue to slow down, above all if moderate wags rises are agreed on at the next negotiations which will limit costs on enterprises and if the latter by the help of a better utilisation of capacity could bring about new increases in productivity.

In *France*, the recession which the economy has undergone in 1975 following a sharp fall in demand, seems to a large extent to have been brought about by a severe run-down in stocks. This resulted from the fact that the business sector suffered severe liquidity problems, as price and employment policies prevented it from passing on the extra burden resulting from the deterioration of the terms of trade in 1973 and 1974. The reconstitution of stocks, a process which is beginning, will bring about a marked recovery, but sustained expansion requires that the other components of demand, notably private fixed investment, react favorably to this year's stimulatory measures and improved prospects for the future. However unemployment will certainly remain high throughout most of 1976. The trade balance which will show a substantial surplus in 1975 will probably be close to equilibrium next year.

The depth of the recession has made it easier to curtail inflation. As the economy starts to expand and since raw material prices are now increasing, it will prove extremely difficult to effect a further cut in the monthly rate of price increases. Certainly the high wage rate increases of the first half of this year, as well as the rises in employers' social security contributions have yet to be fully reflected in wholesale prices.

If the economic expansion is sustained through the course of 1976 the budget deficit, which in terms of execution will be close on 40 000 million francs in 1975, should be limited. But given that certain expenditures decided upon in the 1975 expansionary programmes will not be effected till next year a certain deficit will occur in 1976. Besides, in order to ensure that recovery is sustained it may be necessary to take further measures with budgetary implications.

Monetary policy has not been restrictive during the recession. Ceilings on bank lending have not been reached. The money supply in 1975 has risen at a higher rate than GDP in value terms. Interest rates have tended to fall substantially. In 1976 developments in the monetary aggregates should be watched closely to avoid any appearance of inflationary pressures later in the year.

In *Ireland* recovery could occur within the next few months, but that recovery will be slow until the world economic situation, and particularly that of the United Kingdom, gives it greater impetus. The employment position will remain worrying and unemployment will stay at a high level. The inflation rate will continue to slow down. The current balance of payments will improve before the recovery becomes fully established.

Policy on incomes will play the most important role in consolidating the present tendency towards a slowdown in the rate of inflation, by reducing cost increases, which threaten the competitive position of Irish goods. To achieve this it is not sufficient to institute an automatic link between prices and wages. Limitations on incomes growth and spreading that growth over time should be implemented for all social groups.

Budgetary policy in 1976 needs to restrain the growth of public consumption and avoid excessive increases in private consumption. This implies that the net borrowing requirement be brought down to considerably below the 17% of the gross domestic product which it will certainly reach in 1975.

Monetary policy should be prudent, particularly during the recovery period, so as to avoid allowing the growth in internal liquidity, which results from the increase in the finance needed by the public sector in the last two years, to raise new inflationary pressures. During this period, the authorities should also aim at the building up of the necessary resources for financing productive investment in the private sector.

In *Italy*, the considerable progress achieved since the end of 1974 towards restoring external and internal equilibrium has been accompanied by a very marked economic recession. The authorities have found themselves required to stimulate activity through an easy money policy and even more so through budgetary measures. But economic expansion will only become more rapid when world trade recovers and when the settlement of the agreements with the trade unions in the autumn has eliminated the uncertainty about them, particularly insofar as the profitability of companies is concerned.

In this context the government should do all it can to speed up the implementation of the expansionary measures, especially given the fact that delays could endanger a balanced growth in the near future. Budgetary policy should aim at eliminating rigidities in public expenditure and in augmenting tax receipts as far as necessary to meet the requirements of the infrastructure and public services. In this respect tightening controls to reduce tax evasion should become a prime goal. Besides, a greater flexibility in anticyclical measures should be sought, particularly through simplifying administrative procedures, by speeding up the implementation of state-fianced investment programmes, and if necessary by modifying the current legislation. Moreover, there is some danger that the continuance in the medium term of a high current account deficit might lead to serious problems in financing investment and then to an unfavourable impact on internal and external equilibrium, and so lead to a stop-go cycle which can only have serious implications.

Monetary policy, in reducing interest rates, will rightly help to increase the demand for credit by the private sector. However such a policy needs to be implemented carefully in order not to upset the attractiveness of the Italian capital market for foreign investors and to reduce the balance of payments constraint. Moreover, the balance of payments could be threatened by speculative purchases occasioned by the economic recovery and the rising prices of raw materials. In the near future the monetary authorities must show prudence, particularly in appreciating the real needs of the economy in so far as credit is concerned.

In the *Netherlands* considerable support has been and is still being given to domestic demand. In the framework of the budget for 1976 the government has further reinforced its reflationary policy. According to the draft budget, the net borrowing requirement of the State should reach Fl 14,500 million, including the amortisation of the national debt.

Despite the strongly expansionary stance of budgetary policy, the employment situation is unlikely to improve noticeably next year. Indeed, even if the expected recovery in foreign demand were to become evident very soon, it could not have much influence on unemployment until after a relatively long time-lag. The reabsorption of structural unemployment requires a global effort as well as selective action.

The outlook for the development of prices and wage costs in 1976 is not reassuring, although it appears more favourable than in 1975. Undoubtedly the prospect of some advances in productivity allows a more gradual development in wage costs per unit of output to be hoped for, and the government's decision not to raise the existing social security contribution rates constitutes, from here onwards, a major contribution to holding back inflation. But it is important that this measure should be accompanied by a parallel effort from both sides of industry to moderate the rise in nominal incomes and attempt to reach the objective proposed by the government (an increase of less than 10% in salaries).

Monetary policy will play an especially important part in 1976. Given that financing the budget deficit in 1976 through medium and long-term borrowing could present some problems, a resort to short-term methods of financing cannot be avoided; this could moreover help in keeping interest rates at a relatively low level.

In *Belgium* the recovery in activity could be delayed compared with the improvement in the economic situation expected for Belgium's main trading partners.

After having been restrictive last year, economic policy has been eased since the beginning of 1975. As for budgetary matters, the decision by the Belgian Government to advance the starting dates of public investment programmes will have its impact chiefly in 1976. In addition, the rate of growth of tax receipts will be distinctly lower than during 1975, a year in which the counter-inflationary policy was started, based partly on increased taxation. These two factors alone are likely to cause a sizeable increase in the borrowing requirement in terms of execution. Nevertheless, given the current short-term outlook for the economy, some further action, consisting essentially of a reduction in the burden of income-tax and, if need be, some encouragement for residential construction, particularly as regards grants for housing and housing improvement, seems appropriate. It is, however, important that, at the same time, efforts should continue to be made to moderate the growth of expenditure and transfer payments by public administrations.

Monetary policy could play an important role in stimulating activity, through an expansion in lending and a lowering of interest rates. The measures easing monetary policy recently taken in neighbouring countries have opened the way for similar initiatives on the part of the Belgian authorities. It would be particularly desirable to ensure that the reduction in base rates is effectively passed on to lending rates.

In any case, the employment situation could not be improved without a slowing down in the rise in wage costs. In this context it would be appropriate to keep strict control of trading profit margins.

In *Luxembourg* household and public sector demand could continue to grow at a relatively high rate, while exports, especially of iron and steel, are likely to recover only gradually under the influence of the expected firming in foreign demand. The construction industry, for which the decline in 1975 has been somewhat lessened by the expansion in public works, will remain very depressed in 1976, mainly because of the persistent weakness in the housing sector. The state deficit (net borrowing requirement), should remain substantial in 1976. Indeed the cost of the measures needed to neutralize the effects of the worsening in employment will remain high, while the yield from direct taxation and in particular from taxes on companies will scarcely increase.

Since the level of employment and of general activity are to a large extent determined by the trend in exports, economic policy should from now on aim at selective support for the private sector.

In the course of 1975, the economic recession in the *United Kingdom* proved to be deeper, and could well last longer, than officially expected at the time of the Spring Budget. The volume of consumers' expenditure was increasingly affected by the contraction of real personal disposable income. Private industrial investment, in both fixed assets and stocks, fell sharply. The buoyancy of public expenditure, combined with a net movement of resources into the balance of payments, however, served to limit the fall in overall demand. Nevertheless, unemployment climbed to a new post-war record level and the rate of inflation remained very high despite some recent signs of improvement. Although the current account of the balance of payments improved dramatically during the first half of 1975, some deterioration has recently occurred.

Domestic demand and output are unlikely to show strong signs of recovery before the spring of 1976 when inflation is expected to have moderated significantly, leading to a reversal of the present trend in consumers' expenditure and a strengthening of business confidence. The stimulus from public expenditure, however, is then expected to slacken as the cuts announced in the April Budget come into effect.

Despite the unsatisfactory prospects for output and employment, there will be limited scope for reflationary measures so long as the rate of inflation remains unduly high. Every effort should therefore be made to ensure that the Government's counter-inflation policy, as outlined in the July White Paper, is strictly implemented.

The behaviour of the external balance could also constitute a constraint on the authorities' room fo manoeuvre. Should the stimulus arising from the expected upturn of world trade be delayed, fundamental changes of policy, including general reflation, should be avoided and action confined to measures of a limited nature designed to alleviate the most serious difficulties.

In order to reverse the present trend towards a rapid expansion of the public sector borrowing requirement, the authorities should, from the beginning of the 1976/77 fiscal year, considerably reduce the rate of growth of public expenditure so as to achieve a rate below that projected for the nominal increase in gross domestic product. To this end, it is particularly important that the new pay limit be strictly observed in the entire public sector, including the nationalised industries. This budgetary policy should be continued during the expected period of recovery so that the size of the reduction of the borrowing requirement is increased as the upswing gathers momentum.

The present position with regard to monetary policy should be maintained in 1976, and the rate of expansion in money supply should remain below the target rate of inflation set out in the July White Paper. This should be complemented by a policy of maintaining sufficiently high levels of short-term interest rates to encourage orderly capital movements appropriate to the U.K. balance of payments.

## CONCLUSIONS

In the light of information available at the beginning of October it appears that the recession has bottomed out in France, the Federal Republic of Germany and Denmark and is nearly at an end in the majority of the other Member States.

If, in the course of the coming months, trends towards the replacement of stocks, a recovery in external demand and a normalisation of consumer expenditure are confirmed and become generalised, a moderate growth of gross Community product in real terms during 1976 seems probable. Nevertheless, industrial capacity will not necessarily be fully utilised and the employment situation will only improve gradually.

Given the uncertainties which exist as to the behaviour of economic agents, one can scarcely be sure of the amplitude or duration of the expected economic recovery. Therefore it will be necessary to follow very carefully the subsequent development of the conjunctural situation within the framework of frequent consultations and close coordination between Member States.

The Community should not in the immediate future count too much on a boost to economic activity from third countries. Its weight in international trade forces the Community itself to contribute to the recovery in the world conjunctural situation. A similar responsability falls on Member States in the Community context.

TABLE I

*Development of industrial production* [1]

| | Indices 1970 = 100 | | | | | Monthly levels | | % Variation between quarterly averages | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1972 | 1973 | 1974 | 1975 | | Max. | Min.[2] | 1973 | | | 1974 | | | | 1975 | | |
| | | | | I | II | 1974 | 1975 | II | III | IV | I | II | III | IV | I | II | Variation on 12 months [3] |
| Germany (Fed. Rep.) | 105.8 | 113.7 | 112.2 | 105.0 | 101.8 | 119.2 | 98.6 | + 0.9 | + 2.4 | − 0.3 | − 0.4 | + 0.7 | − 2.7 | − 3.3 | − 2.8 | − 3.0 | − 14.3 |
| France | 111.7 | 120.2 | 123.2 | 114.2 | 111.0 | 126.7 | 107.9 | + 1.4 | + 0.3 | + 1.9 | + 2.0 | + 0.3 | − 2.0 | − 3.7 | − 3.8 | − 3.3 | − 10.6 |
| Ireland | : | : | : | : | : | : | : | + 0.8 | + 0.0 | + 0.8 | + 4.9 | − 2.4 | − 2.4 | : | : | : | : |
| Italy | 103.6 | 113.9 | 118.8 | 108.6 | 103.4 | 123.9 | 99.6 | + 9.0 | + 4.5 | + 2.6 | + 0.4 | + 0.9 | − 1.7 | − 8.7 | − 1.4 | − 4.8 | − 15.5 |
| Netherlands | 111.7 | 118.6 | 122.6 | 117.3 | 111.9 | 124.3 | 111.1 | + 1.0 | + 2.7 | + 1.4 | + 1.3 | − 1.5 | + 1.1 | − 1.1 | − 3.7 | − 4.6 | − 9.0 |
| Belgium | 109.5 | 115.9 | 121.3 | 112.4 | 108.0 | 130.7 | 104.0 | + 1.5 | + 1.2 | + 0.7 | + 3.5 | + 2.1 | − 2.1 | − 3.1 | − 4.6 | − 4.0 | − 13.6 |
| Luxembourg | 102.4 | 114.6 | 119.3 | 101.8 | 88.3 | 128.4 | 82.5 | − 1.9 | + 1.7 | + 4.4 | + 4.5 | − 1.8 | − 3.0 | − 4.6 | − 9.8 | − 13.3 | − 23.9 |
| United Kingdom | 101.5 | 110.8 | 107.1 | 107.6 | 101.4 | 109.7 | 99.2 | − 0.5 | + 1.2 | − 2.1 | − 5.2 | + 4.9 | − 1.0 | − 0.2 | − 0.1 | − 5.8 | − 9.5 |
| Community | 106.4 | 114.9 | 115.4 | 109.0 | 104.8 | 120.5 | 103.8 | + 1.8 | + 1.6 | + 0.4 | − 0.3 | + 1.2 | − 1.8 | − 3.7 | − 2.3 | − 3.8 | − 12.4 |

*Source:* SOEC except Ireland: OECD.

[1] Excluding construction, and the food, drink and tobacco industries; seasonally adjusted data.

[2] Belgium: April; France, Italy, Luxembourg, Community; May; Netherlands and United Kingdom: June; Germany (F.R.): July.

[3] June.

: Data not available.

*Changes in the principal macro-economic aggregates of the Community, the United States and Japan* [a]

| | Gross domestic product [b] (volume) | | | Consumer prices [c] | | | Unemployment rate [d] (as % of civilian labour force) | | | External balance (as % of G.D.P.) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | % variation over average of preceding year | | | | | | | | | | | |
| | 1974 | 1975 | 1976 | 1974 | 1975 | 1976 | 1974 | 1975 | 1976 | 1974 | 1975 | 1976 |
| Denmark | + 1.6 | − 1.0 | + 4.0 | + 15.0 | + 9.5 | + 8.0 | 2.4 | 4.5 | 3.7 | − 3.5 | − 1.1 | − 2.1 |
| Germany (Fed. Rep.) | + 0.6 | − 3.5 | + 4.0 | + 7.3 | + 6.0 | + 5.5 | 2.2 | 4.5 | 4.6 | + 2.4 | + 0.9 | + 0.8 |
| France | + 3.8 | − 2.0 | + 5.0 | + 13.7 | + 11.6 | + 9.0 | 2.3 | 3.9 | 4.0 | − 2.5 | + 0.1 | − 0.6 |
| Ireland | + 0.4 | − 3.6 | + 2.5 | + 17.3 | + 21.5 | + 16.0 | 5.7 | 8.4 | 10.1 | − 10.4 | − 1.7 | − 1.7 |
| Italy | + 3.4 | − 3.0 | + 3.0 | + 19.6 | + 17.0 | + 12.0 | 2.9 | 3.7 | 3.9 | − 5.3 | − 0.7 | − 0.7 |
| Netherlands | + 2.8 | − 2.1 | + 2.8 | + 10.0 | + 10.5 | + 10.0 | 3.0 | 4.4 | 5.2 | + 2.4 | + 1.7 | + 2.4 |
| Belgium | + 3.9 | − 1.9 | + 2.5 | + 12.3 | + 12.4 | + 10.0 | 2.7 | 4.8 | 5.6 | + 1.5 | + 1.7 | + 1.0 |
| Luxembourg | + 4.5 | − 7.5 | + 4.0 | + 9.5 | + 10.5 | + 8.5 | 0.0 | 0.7 | 0.5 | + 4.4 | − 9.5 | − 8.8 |
| United Kingdom | + 0.7 | − 0.7 | ± 0 | + 15.2 | + 21.5 | + 15.5 | 2.4 | 3.6 | (5.3) | − 4.6 | − 1.3 | − 1.2 |
| Community | + 2.0 | − 2.4 | + 3.3 | + 12.5 | + 12.4 | + 9.6 | 2.5 | 4.1 | 4.6 | − 1.4 | + 0.1 | − 0.1 |
| U.S.A | − 2.1 | − 4.0 | + 5.0 | + 11.5 | + 8.5 | + 8.5 | 5.6 | 8.5 | 8.0 | − 0.3 | + 0.5 | − 0.1 |
| Japan | − 1.8 | + 1.5 | + 6.0 | + 21.7 | + 11.0 | + 6.0 | 1.4 | : | : | − 1.1 | + 0.2 | − 0.2 |

[a] 1974: actuals; 1975: estimates; 1976: forecasts by the services of the Commission for the whole Community, sub-divided by Member State, also for the non-member countries covered.

[b] Gross domestic product; United States and Japan: Gross National Product.

[c] On a national accounts basis.

[d] As a result of disparities in definition, unemployment statistics cannot be compared between countries but only reflect developments within each country.

: Data not available.

## TABLE III

*Unemployment ratio* [1]

(as a %)

| | 1974 | | | | 1975 | | | |
|---|---|---|---|---|---|---|---|---|
| | I | II | III | IV | I | II | July | August |
| Denmark | 0.7 | 1.6 | 2.5 | 2.8 | 3.9 | 4.3 | 3.8 | 4.5 |
| Germany (F.R.) | 1.8 | 2.1 | 2.6 | 3.1 | 3.6 | 4.6 | 4.7 | 4.8 |
| France | 1.9 | 2.1 | 2.5 | 3.0 | 3.3 | 3.8 | 3.9 | 4.0 |
| Ireland | 5.8 | 6.1 | 6.7 | 8.0 | 9.2 | 8.9 | 8.9 | 9.0 |
| Italy | 2.7 | 2.9 | 3.1 | 2.8 | 3.1 | : | : | : |
| Netherlands | 2.7 | 2.9 | 3.2 | 3.5 | 3.9 | 4.3 | 4.5 | 4.7 |
| Belgium | 2.7 | 2.9 | 3.2 | 3.6 | 4.3 | 5.1 | 5.2 | 5.3 |
| Luxembourg | : | : | : | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| United Kingdom | 2.3 | 2.5 | 2.7 | 2.8 | 3.0 | 3.8 | 4.4 | 4.8 |
| Community | (2.2) | (2.4) | (2.8) | (3.0) | (3.4) | (4.1) | (4.4) | (4.7) |

[1] Number of unemployed as % of civilian labour force; seasonally adjusted figures for final month of each quarter. As a result of disparities in definition, unemployment statistics cannot be compared between countries but only reflect developments within each country.

*Source:* Rates calculated from S.O.E.C. figures.

## TABLE IV

*Changes in consumer prices since 1973*

| | Dec. 73 June 74 | June 74 Dec. 74 | Dec. 74 June 75 | Febr. 75 Aug. 75 | 1975 | | | | | August 74 August 75 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | April | May | June | July | August | |
| | Half-yearly increase (%) | | | | Increase on preceding month (%) | | | | | Increase (%) |
| Denmark | 7.0 | 7.0 | 3.4 | 3.8 | 0.3 | 1.5 | 0.6 | 0.5 | 0.2 | 9.5 |
| Germany (F.R.) | 3.5 | 2.3 | 4.1 | 2.4 | 0.8 | 0.6 | 0.7 | 0.0 | − 0.1 | 5.9 |
| France | 8.4 | 6.2 | 5.2 | 4.7 | 0.9 | 1.0 | 0.7 | 0.7 | 0.7 | 11.0 |
| Ireland | 10.4 | 8.7 | 14.6 | 5.2 | | 6.1 (1) | | | − 0.8 (1) | 18.9 |
| Italy | 10.9 | 12.3 | 6.0 | 4.0 | 1.3 | 0.8 | 0.8 | 0.4 | 0.5 | 13.2 |
| Netherlands | 5.5 | 5.0 | 4.6 | 5.2 | 1.2 | 0.6 | 0.2 | 0.5 | 1.0 | 10.4 |
| Belgium | 8.3 | 6.8 | 5.3 | 4.8 | 1.1 | 0.8 | 0.4 | 1.0 | 0.8 | 11.4 |
| Luxembourg | 6.1 | 4.9 | 5.5 | 4.6 | 1.2 | 1.0 | 0.7 | 0.9 | 0.4 | 10.6 |
| United Kingdom | 10.8 | 7.5 | 17.3 | 14.2 | 3.9 | 4.2 | 1.9 | 1.0 | 0.6 | 26.9 |
| Community | 7.8 | 6.4 | 7.5 | 5.9 | 1.6 | 1.5 | 0.9 | 0.5 | 0.4 | 13.2 |
| U.S.A. | 6.1 | 5.8 | 3.3 | 3.6 | 0.5 | 0.4 | 0.8 | 1.1 | 0.3 | 8.6 |
| Canada | 6.6 | 5.4 | 4.7 | 5.9 | 0.5 | 0.9 | 1.5 | 1.4 | 1.0 | 11.1 |
| Japan | 12.5 | 8.7 | 4.7 | : | 2.2 | 0.7 | 0.1 | 0.2 | : | : |

[1] Ireland quarterly variations.

*Sources:* Services of the Commission.

: Figures not available.

## TABLE V

*Expenditure, receipts and net balance of central government budgets*

| | Expenditure | | Receipts | | Net balance | | | |
|---|---|---|---|---|---|---|---|---|
| | Percentage change | | | | Value [1] | | As % of G.D.P. | |
| | 1974 | 1975 | 1974 | 1975 | 1974 | 1975 | 1974 | 1975 |
| Denmark[2] | + 23.0 | + 16½ | + 10.0 | – ½ | – 0.4 | – 10.6 | – 0.2 | – 5.2 |
| Germany (F.R.) | + 13.3 | + 18 | + 6.8 | – 1 | – 16.8 | – 64.5 | – 1.7 | – 6.2 |
| France | + 14.9 | + 23 | + 20.0 | – ½ | + 5.7 | – 35.0 | + 0.4 | – 2.4 |
| Ireland | + 27.6 | + 37 | + 18.5 | + 19½ | – 335.7 | – 616 | – 11.6 | – 17.4 |
| Italy | + 17.3 | + 32 | + 27.5 | + 31 | – 6 912 | – 9 300 | – 7.1 | – 8.3 |
| Netherlands | + 16.3 | + 25 | + 8.1 | + 14 | – 2.7 | – 8.7 | – 1.5 | – 4.3 |
| Belgium | + 15.5 | + 22 | + 19.0 | + 21 | – 76.5 | – 99.0 | – 3.6 | – 4.3 |
| Luxembourg | + 22.7 | + 22½ | + 23.4 | – 2½ | + 3.0 | – 2.4 | + 3.6 | – 3.1 |
| United Kingdom[2] | + 32.9 | + 28½ | + 24.0 | + 25½ | – 5 111 | – 7 910 | – 6.3 | – 7.8 |
| [3] | + 34.6 | + 33 | + 24.0 | + 25½ | – 1 621 | – 4 810 | – 2.0 | – 4.7 |

[1] Mrd, Dkr, DM, Ffr; Mio £, Mrd Lit., Fl, Fb, Flx, Mio £.
[2] 1974/75, 1975/76.
[3] Actual expenditure (i.e. total expenditure less net loans and advances), and balance of actual transactions (i.e. net borrowing requirement excluding the balance of loans and advances).
*Source:* Services of the Commission.

# TABLE VI

*Monetary situation*

| | Monetary supply[1] (% annual growth rate) | | | | | | Short-term bank lending (% annual growth rate) | | | Interest rates | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Short-term[4] | | | Long-term | | |
| | 1973[2] | | 1974[2] | | 1975[3] | | 1973[2] | 1974[2] | 1975[5] | 1973[2] | 1974[2] | 1975[6] | 1973[2] | 1974[2] | 1975[7] |
| | $M_1$ | $M_2$ | $M_1$ | $M_2$ | $M_1$ | $M_2$ | | | | | | | | | |
| Denmark | 10.0 | 12.7 | 5.9 | 8.9 | 13.4 | 16.6 | 13.9 | 14.0 | – 0.9 | 8.5 | 9.5 | 7.5 | 12.2 | 15.2 | 12.9 |
| Germany (F.R.) | 1.8 | 13.8 | 10.9 | 5.2 | 12.8 | – 3.1 | 5.4 | 8.5 | – 4.5 | 11.9 | 8.4 | 1.2 | 9.7 | 9.9 | 8.6 |
| France | 9.7 | 14.3 | 15.2 | 16.8 | 9.3 | 14.4 | – 0.8 | 18.3 | 14.8 | 11.2 | 11.9 | 7.2 | 9.8 | 10.9 | 10.7 |
| Ireland | 7.1 | 25.7 | 5.3 | 20.2 | 14.2 | 18.3 | 22.9 | 15.5 | 6.8 | 13.5 | 11.3 | 9.5 | 13.5 | 16.9 | 13.2 |
| Italy | 24.5 | 23.3 | 10.7 | 15.4 | 10.3 | 16.5 | 17.2 | 28.5 | 14.4 | 8.2 | 17.5 | 9.7 | 7.4 | 11.4 | 10.5 |
| Netherland | – 0.2 | 22.0 | 12.2 | 20.0 | 19.3 | 10.9 | 34.5 | 25.4 | 11.9 | 8.8 | 7.0 | 1.5 | 9.0 | 9.1 | 9.9 |
| Belgo-Luxembourg Economic Union | 8.4 | 14.8 | 8.7 | 11.3 | 12.4 | 13.6 | 19.5 | 10.0 | 4.5 | 7.2 | 9.0 | 5.1 | 7.8 | 9.0 | 8.2 |
| United Kingdom | 4.5 | 28.5 | 8.3 | 11.9 | 24.8 | 8.5 | 53.6 | 27.1 | 17.9 | 9.5 | 6.8 | 8.2 | 12.5 | 17.2 | 13.9 |

1 $M_1$: Money; $M_2$: Money and near-money.
2 December.
3 July except for Italy (February), Netherlands and BLEU (June).
4 Interest rate for call money; Denmark: 91 day certificates of deposit at Nationalbank.
5 July except for France and Denmark (June), United Kingdom and Belgium (March), Ireland and Italy (May).
6 August except for Italy and Ireland (June).
7 August except for Italy (June), United Kingdom and Ireland (July).
*Source:* Services of the Commission.

## TABLE VII

*Community trade balance*
*1973, 1974 and 1975*[1]

Mio U.A. — Monthly average

| Balance of / With respect to | Year | Germany | France | Italy | Netherlands[2] | B.L.E.U. | United Kingdom | Ireland[3] | Denmark |
|---|---|---|---|---|---|---|---|---|---|
| **INTRA E.E.C.** | | | | | | | | | |
| Germany (F.R.) | 73 | | − 101 | − 53 | + 62 | − 11 | − 92 | − 6 | − 49 |
| | 74 | | − 152 | − 109 | + 82 | − 36 | − 136 | − 9 | − 55 |
| | 75 | | − 77 | − 16 | + 102 | − 21 | − 104 | − 4 | − 45 |
| France | 73 | + 104 | | − 64 | + 33 | + 34 | − 49 | − 1 | − 7 |
| | 74 | + 167 | | − 103 | + 58 | + 34 | − 66 | − 8 | − 7 |
| | 75 | + 96 | | − 47 | + 53 | − 2 | − 70 | − 5 | − 7 |
| Italy | 73 | + 23 | + 56 | | + 33 | + 17 | − 20 | − 1 | − 9 |
| | 74 | + 97 | + 93 | | + 42 | + 10 | − 35 | − 3 | + 5 |
| | 75 | − 24 | + 34 | | + 31 | − 6 | − 24 | − 1 | + 8 |
| Netherlands | 73 | − 61 | − 19 | − 26 | | − 30 | − 50 | + 0 | − 12 |
| | 74 | − 45 | − 34 | − 27 | | + 3 | − 36 | − 2 | − 23 |
| | 75 | − 78 | − 33 | − 20 | | + 35 | − 23 | + 2 | − 21 |
| B.L.E.U. | 73 | + 12 | − 13 | − 21 | − 34 | | + 29 | + 1 | − 13 |
| | 74 | + 43 | − 12 | − 16 | − 3 | | + 38 | + 0 | − 16 |
| | 75 | + 27 | + 18 | 0 | − 24 | | + 16 | + 2 | − 12 |
| United Kingdom | 73 | + 82 | + 36 | + 10 | + 44 | − 27 | | − 17 | + 22 |
| | 74 | + 125 | + 43 | + 22 | + 80 | − 13 | | − 19 | + 16 |
| | 75 | + 92 | + 61 | + 14 | + 65 | − 2 | | − 24 | + 35 |
| Ireland | 73 | + 6 | − 0 | + 1 | + 2 | − 1 | + 16 | | + 2 |
| | 74 | + 8 | + 6 | + 2 | + 4 | + 1 | + 31 | | + 2 |
| | 75 | + 1 | + 2 | + 1 | + 3 | + 0 | + 25 | | + 1 |
| Denmark | 73 | + 48 | + 5 | − 9 | + 13 | + 11 | − 24 | − 2 | |
| | 74 | + 57 | + 4 | − 7 | + 22 | + 12 | − 20 | − 2 | |
| | 75 | + 42 | + 4 | − 9 | + 21 | + 12 | − 27 | − 1 | |
| E.E.C. Total | 73 | + 214 | − 36 | − 162 | + 153 | − 7 | − 190 | − 26 | − 66 |
| | 74 | + 452 | − 52 | − 238 | + 285 | + 11 | − 224 | − 43 | − 78 |
| | 75 | + 156 | + 9 | − 77 | + 251 | + 16 | − 207 | − 31 | − 41 |

| Balance of / With respect to | Year | Germany | France | Italy | Netherlands[2] | B.L.E.U. | United Kingdom | Ireland [3] | Denmark |
|---|---|---|---|---|---|---|---|---|---|
| **EXTRA E.E.C.** | | | | | | | | | |
| U.S.A. | 73 | + 72 | – 94 | – 27 | – 85 | + 1 | – 17 | + 1 | – 5 |
| | 74 | + 87 | – 128 | – 54 | – 110 | – 23 | – 117 | – 0 | – 10 |
| | 75 | – 46 | – 143 | – 86 | – 128 | – 46 | – 136 | – 5 | – 7 |
| Japan | 73 | – 21 | – 8 | – 6 | – 12 | – 5 | – 28 | – 1 | – 8 |
| | 74 | – 12 | – 32 | – 8 | – 16 | – 8 | – 44 | – 2 | – 11 |
| | 75 | – 23 | – 45 | – 11 | – 21 | – 17 | – 62 | – 1 | – 5 |
| O.P.E.C. [4] | 73 | – 95 | – 109 | – 139 | – 129 | – 35 | – 47 | – 4 | – 14 |
| | 74 | – 288 | – 372 | – 451 | – 284 | – 138 | – 491 | – 16 | – 58 |
| | 75 | : | : | : | : | : | : | : | : |
| Other | 73 | + 675 | + 154 | – 37 | + 32 | – 97 | – 436 | – 15 | – 29 |
| | 74 | + 1 094 | + 120 | + 43 | + 110 | + 60 | – 157 | – 18 | + 12 |
| | 75 | : | : | : | : | : | : | : | : |
| EXTRA E.E.C. Totaal | 73 | + 631 | – 57 | – 209 | – 194 | – 136 | – 528 | – 19 | – 56 |
| | 74 | + 881 | – 412 | – 470 | – 300 | – 109 | – 809 | – 36 | – 67 |
| | 75 | + 865 | – 66 | – 228 | – 273 | – 175 | – 588 | – 22 | – 91 |
| WORLD | 73 | + 845 | – 93 | – 371 | – 41 | – 143 | – 718 | – 45 | – 122 |
| | 74 | + 1 333 | – 464 | – 708 | – 15 | – 98 | – 1 033 | – 79 | – 145 |
| | 75 | + 1 021 | – 57 | – 305 | – 22 | – 159 | – 795 | – 53 | – 132 |

*Source:* S.O.E.C.

1 1975: January-June only.

2 1975: Netherlands: January-May only.

3 1975: Ireland: Based on National Statistics converted to Units of Account.

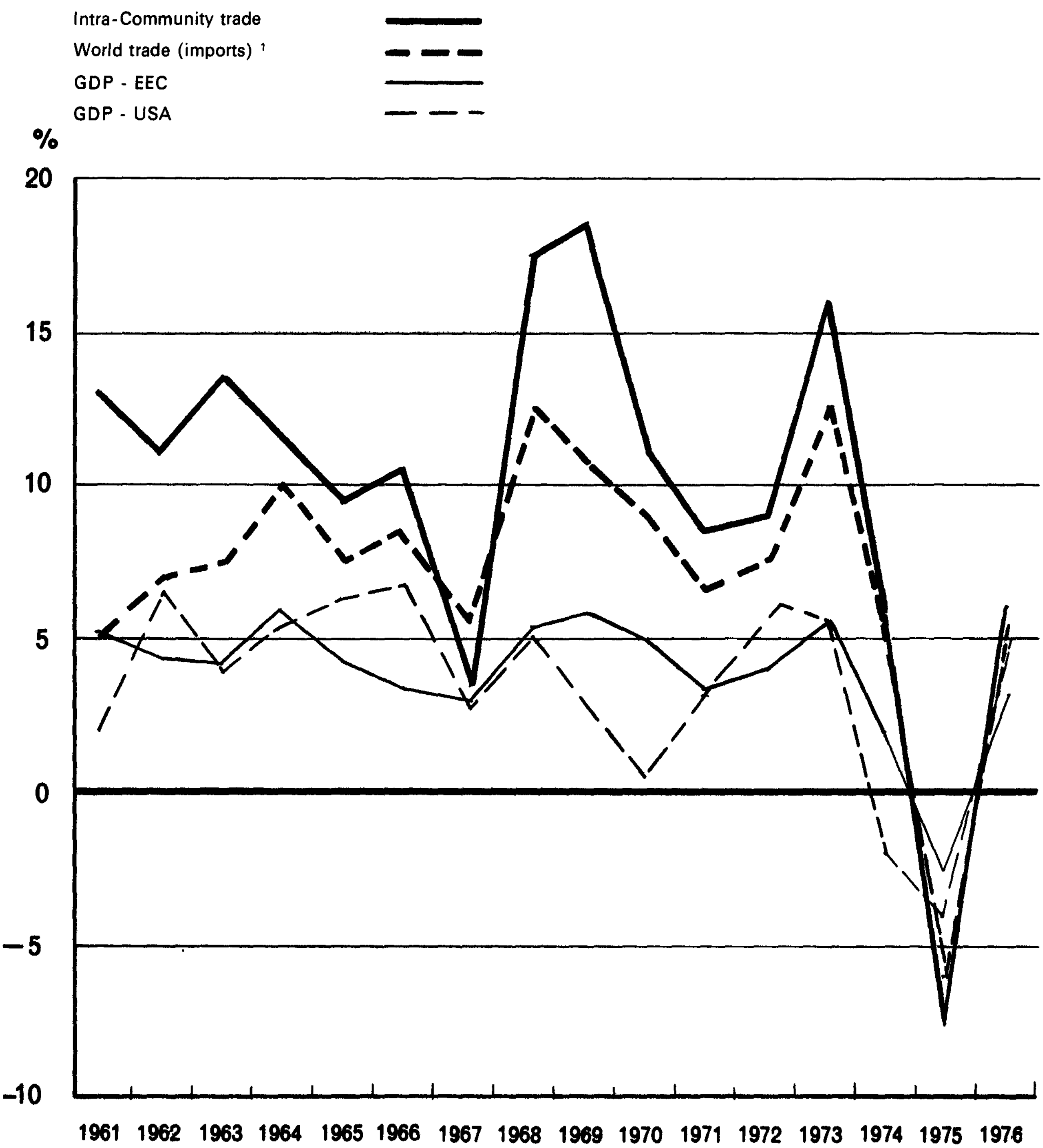
4 O.P.E.C. Includes Algeria, Bahrain, Equador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia and Venezuela.

: Figures not available.

**Graph A**

## TRADE AND OUTPUT IN THE COMMUNITY AND THE WORLD SINCE 1961

*( % change in volume on preceding year)*




[1] *Excluding State-trading countries.*

**Graph B**

## WEIGHTED APPRECIATION OR DEPRECIATION OF THE CURRENCIES OF MEMBER COUNTRIES IN %

*(Reference period: "Smithsonian Agreement", December 1971; weighting according to the structure of foreign trade)*