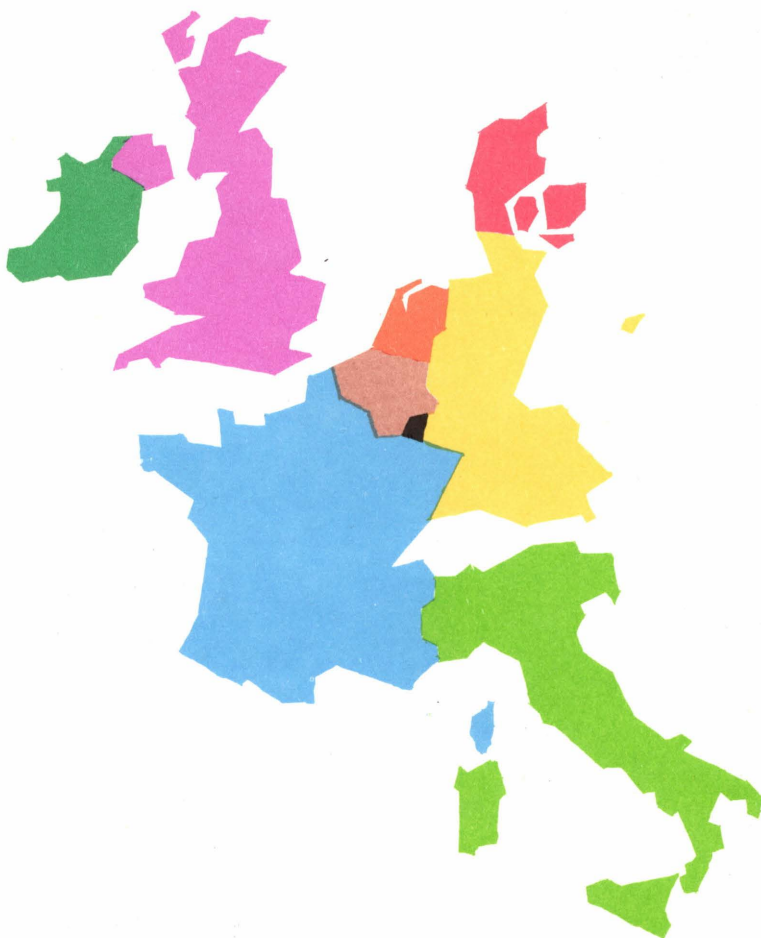


**Commission of  
European  
Communities**

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



**2  
1975**

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

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

**EUROPEAN COMMUNITIES**

**COMMISSION**

**The Economic Situation  
in the Community**

**JUNE 1975**

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## I — THE OVERALL SITUATION

*The Community countries are at present in a phase of transition and adjustment of economic trends, in which the development of the various indicators shows some differences. The decline in economic activity which began in the middle of last year turned out to be more pronounced and longer lasting than had been generally expected. In terms of capacity utilization and employment the situation is now the most unfavourable ever experienced by the Community. Unemployment and the number of workers on short time are increasing in all the member countries. It is not certain that the downward movement of economic activity has already reached its lowest point, but it can be stated with some confidence that the recessionary trends which are a feature of demand and production are steadily becoming less pronounced. Signs of an improvement in the economic climate are still few and far between and are not yet conclusive. Although domestic demand has been steadier in the last few months, foreign demand has fallen appreciably, under the influence of a recession which has developed simultaneously in all the industrial countries. The deficit in the trade balance and in the balance of payments of the Community has shrunk at a surprisingly fast rate, as a result of the weakness of economic activity and helped by an improvement in the terms of trade. Clear differences nevertheless persist between member countries on the domestic front. The rise in producer prices and also in import prices has eased. But the improvement has been much less marked at the consumer price level; since the beginning of the year, however, the rise in consumer prices has slowed noticeably in some of the Community countries, but in two other member countries, on the other hand, it has accelerated strongly.*

*At the moment it is difficult to evaluate with any great precision the favourable elements and the accompanying dangers in the economic outlook for the rest of this year. Certain autonomous factors, such as an end to the rundown of stocks and especially the measures both global and selective which have been introduced to revive the economic situation, are basic conditions which allow the hope that a*

*gradual recovery of economic activity in the Community will be seen beginning next autumn. An appreciable stimulus should come in particular from the tendency in member countries for interest rates to fall, from the general relaxation of monetary policy, and also, in those countries with a balance of payments surplus, from the expansionary influence of budgetary policy. On the other hand, it is not yet known when and to what extent consumers and investors will abandon their present cautious approach. The contribution expected from the recovery of exports to non-member countries will be fairly limited at least until towards the end of the year. In these circumstances real gross domestic product of the Community in 1975 as a whole is forecast to be slightly below the previous year's level.*

*The upturn in demand and output which should become evident in the second half of the year will not result in the near future in a significant improvement in the labour market situation. The delay before the revival of activity affects employment will be longer than usual on this occasion, given the extraordinarily wide margins of spare capacity and the structural changes which must take place. The rise in consumer prices will continue at a rate which varies considerably from country to country. Although inflationary trends are easing in some countries, the rise in prices and costs will scarcely slow down in annual average terms in the Community as a whole; not until towards the end of the year is the rise in consumer prices likely to be brought down to a rate of around 10 %. The substantial improvement recorded up until now in the Community's balance of payments could come to an end on the assumption that a stronger growth of imports of raw material and semi-finished goods will occur.*

## A. Economic policy problems

There is no firm revival of economic activity in the member countries; unemployment is running at unusually high levels; severe 'hard core' inflation has persisted even in the most depressed phase of a deep economic trough; and the differences between the price and balance of payments situations in the member countries are still considerable. All this makes vigorous action necessary at the national economic policy level; it also demands a Community conjunctural strategy. The internal risks confronting the Community are compounded by the uncertainty as to when and to what extent the world economy will recover from the low point of the most acute recession since the war. The situation is aggravated by the still unresolved difficulties concerning the international monetary system, the repercussions of the continuing weakness of the dollar and the additional uncertainties surrounding future oil prices.

In such circumstances, economic policy measures at all levels, particularly within the Community, need to be constantly reviewed and coordinated. At the end of 1974 and again in March 1975, the Community's member countries agreed on a programme of complementary measures that is in line with both the requirements of the fight against inflation and the need to improve the employment and balance of payments situations. At the Council meeting on 18 March, the member countries adopted adjusted economic policy guidelines for 1975.<sup>1</sup>

For some time now and particularly during the last few months, these guidelines have been translated into practical action and economic programmes, namely:

— comprehensive measures to stimulate the economies of member countries with balance of payments surpluses and relatively low rates of inflation;

— cautious and selective measures to encourage investment and reduce unemployment in coun-

tries with balanced or rapidly improving payments situations and

— pursuit of generally restrictive policies in countries with heavy payments deficits and high rates of inflation.

There is no reason at the present time to change fundamentally this strategy—tailored, as it is, to the needs of individual countries though based on an overall Community approach—even if the upturn, as now seems likely, should be delayed, and the pacemaker role to be played by the surplus countries should therefore not yet become effective. This in no way rules out selective measures, for example, to reduce unemployment. The main risk attendant upon further stimulatory measures is that they may lead to overheating during the next upswing and, as in 1973, produce a situation that would call for even stricter curbs on activity and would generate even greater unemployment than before. The difficulty in obtaining any further easing in consumer prices shows how precarious the initial success in combatting inflation may be and how hard it is to change attitudes to inflation that have become deeply rooted over the years. At the same time, however, those threats to employment, production and capacity utilization which will materialize if the economic upswing at both international and Community level is delayed until 1976 proves to be very modest in scale cannot be neglected.

The short-term economic policies of the Community countries will have to resolve the following difficulties:

— on the one hand, the possibility that the strength of the coming recovery of economic activity could give rise to the renewed appearance of inflationary tendencies and lead to a deterioration of the balance of payments must be avoided;

— on the other hand, the continuance of, or even a worsening in the stagnation of production and substantial unemployment, in a situation where too much faith is placed in the automatic market mechanisms and in the economic policy measures already taken, must be prevented.

<sup>1</sup> Cf. The decision adopted by the Council at its meeting of 18 March 1975, based on a communication from the Commission to the Council dated 17 March 1975 (reproduced in Quarterly Survey No 1/1975).

In any review of economic policy, it would be a great mistake to ignore the limited room for manoeuvre that almost all member countries currently have in this field. Because of their heavy dependence on trade, all the Community countries are relying on the large industrial countries outside the Community to move out of recession and into a period of recovery as soon as possible. The member countries with heavy balance of payments deficits have framed their economic policies to take full advantage of export opportunities. For them, excessive growth of domestic demand would jeopardize the prospect of restoring balance of payments equilibrium and obtaining foreign credit and would drive their inflation rates still higher. But the surplus countries, too, are hampered, in that any additional budgetary measures would force up budget deficits that are already very high.

More than additional short-term measures, what now seems necessary is action to stabilize the medium and long-term expectations of those involved in the economic process and to strengthen the confidence of investors and consumers in the

future. The uncertainties surrounding the present situation and the delayed upswing are to be explained largely by the combined impact of a considerable number of factors which are mostly not cyclical but structural in nature: the structural problems that have been persistently ignored, from the time before the oil crisis, the additional inflationary shock and the reorganization imposed by the oil crisis, the effects of the heavy appreciation or depreciation of member countries' currencies that are now being felt, and, lastly, the conditioning and warping of mental attitudes resulting from the world inflation since the early 1970's. Neither the intensity nor the pattern of the expected economic upswing will be comparable with past cycles.

The conjunctural strategy to obtain a more orderly cyclical development must be accompanied by, at Community level, a structural medium-term policy which would include employment policy and which would reconcile overall growth prospects with the needs of the structural changes to be achieved.

## B. Recent developments

### 1. The world economic situation

In the final months of 1974 and in the first quarter of 1975 the down turn in *economic activity* in the developed countries outside the Community became steeper and more widespread. As a consequence unemployment increased very strongly and has reached post-war record levels in several countries. The continued weakness of non-oil commodity prices, especially for industrial raw materials, and the freeze of oil prices until September agreed by the OPEC countries are factors which have helped to limit inflationary pressures, and output prices have

risen more slowly or even fallen in recent months. The rise in consumer prices, although generally still very fast, has also eased in some countries.

There has been an appreciable fall in the volume of *world trade* in recent months. Demand for imports by the developed countries has been very weak because of depressed domestic activity. Imports by the non-oil producing developing countries have fallen in real terms, since these countries are being squeezed by the higher cost of oil, the weak demand for their exports from the industrial countries and a deterioration in

*World trade (volume of imports basis)*  
(% change on preceding year)

	1973	1974	1975
Total developed countries <sup>1</sup>	13.5	2.5	— 4.5
OPEC	20.0	38.0	35.0
Other developing countries	14.0	14.0	— 8.0
Centrally planned economies	12.0	10.0	3.0
World <sup>1</sup>	13.5	8.0	— 2.0
EEC	12.5	0.5	(— 1.5)
World <sup>2</sup>	13.0	5.0	— 2.0

<sup>1</sup> Excluding EEC.

<sup>2</sup> Including EEC.

Source: Estimates of services of the Commission.

their terms of trade. Imports by the oil-producing countries on the other hand have continued to grow very vigorously, and there has also been some expansion in the purchases of the state-trading countries.

In the *United States*, the recession which set in at the beginning of 1974 deepened after the summer due to a sharp fall in residential construction and consumers' expenditure on durable goods and worsened subsequently due to a de-

cline in manufacturing investment and the running down of stocks. GNP in real terms declined more steeply in the fourth quarter of 1974 and the first quarter of 1975 (by 2.3% and 2.8% respectively). In March the capacity utilization rate in industry fell to an exceptionally low level of no more than about 66%. The unemployment rate also rose more rapidly to touch 9.2% in May, corresponding to some 8.5 million unemployed, the highest figure since 1941. In addition, about 4 million were on short time, and the number of non-registered unemployed stood at more than 1 million. However from the beginning of the second quarter, the above negative trends were becoming less pronounced. In addition, housing starts were almost stable while wage and salary payments in the private sector and orders for durable goods have shown some recovery.

The rate of inflation has eased since the autumn of 1974, resulting principally from a fall in the prices of basic materials and keener price competition brought about by slackness in demand. The wholesale price index stayed virtually stationary until April, when it rose under the influence of a rise in the prices of agricultural produce. The consumer price rose during the period from January to April at an annual rate of just over 6%.

The general sluggishness of economic activity led to a fall in imports while exports remained unchanged thanks mainly to strong agricultural exports and the surge in exports to OPEC countries. Under these conditions the trade balance improved considerably; in the first quarter the surplus reached \$2 1000 million (on a fob-fob, seasonally adjusted basis) compared with a deficit of \$ 500 million in the fourth quarter of 1974.

Short-term interest rates, which had declined owing to the slackness in the demand for credit, hardened somewhat in April mainly because of the expectations that considerable calls will need to be made on the capital market to finance the huge budget deficit. But this fear has abated considerably in recent weeks, and the downward trend in rates has reasserted itself.

Economic activity in *Canada* fell in the final months of 1974 as the economy increasingly came under the influence of the recession in the USA. Industrial production again fell sharply in the first quarter (—2.8% on the previous quarter). By April the unemployment rate had risen to 7.2%. Exports have been weak while imports have continued to increase and the trade balance has moved into deficit. Price rises have eased in recent months.

*Changes in consumer prices in major non-EEC countries (%)*

Country	December 1973 to June 1974	June 1974 to December 1974	December 1974 to April 1975	December 1974	1975				April 1974 to April 1975
					January	February	March	April	
	Increase at annual rate				Increase on preceding month				
USA	12.5	11.9	6.3	0.7	0.5	0.7	0.4	0.5	10.2
Canada	13.5	11.2	6.9	1.0	0.5	0.7	0.5	0.5	11.1
Japan	26.6	17.4	12.5	0.4	0.5	0.3	0.8	2.3	13.6
Community	16.3	13.3	15.7	0.8	1.3	0.7	0.9	1.6	13.8

Sources: National statistics and estimates of Services of the Commission.

Real gross national product in *Japan* declined by 0.2% and 0.4% in the final two quarters of 1974. Industrial production fell particularly sharply in December and January, but there was some recovery in March and April; thus there are now signs that the recession in the Japanese economy has passed its lowest point. Although exports have now lost the vigour they displayed during 1974, imports have been very weak indeed and the trade surplus has tended to increase. There has been a marked easing in inflation; wholesale prices declined in each of the first three months of 1975, bringing the increase in April over the same month of 1974 to only 4.3%, while consumer prices are also rising more slowly.

The *other industrialized countries* outside the Community felt the effects of world recession more and more seriously in the latter part of 1974 and early in 1975. Many of them have recorded falls in the trend of production (Australia, Austria, Switzerland), and growth has slackened everywhere, influenced by stagnation in exports. Many of these countries are running substantial trade deficits relative to the size of their economies. There has been some success in getting inflation under control, but the situation differs widely from country to country. In the latest 12 month period for which information is available consumer prices rose by some 8% in Sweden, 9% in Austria and Switzerland, 11% in Norway, 17% in Australia and 18% in Finland.

In the *Southern European countries* economic growth has also slowed and the pace of inflation has accelerated in some cases. In *Spain* output has fallen since last autumn, the current account deficit is still very high, and consumer prices have risen by 17% during the last 12 months. In *Portugal* the inflation rate, which had been very high, has eased under the influence of a price freeze, the balance of payments deficit has deteriorated because of capital outflows, and the propensity to invest is very low. In *Greece*, however, production has recently picked up after falling in 1974, the annual rate of increase in consumer prices is about 14% and Greek exports of manufactured goods have been performing well. There has been little growth in

production in *Turkey*, where the inflation rate remains above 20%. The trade deficit has widened considerably because of a fall in exports and a strong rise in the value of imports.

## 2. The economic situation in the Community

The deterioration in the economic climate and employment situation due to persistent inflation and the rise in oil prices continued up to the beginning of 1975 and became more serious than had been expected. In recent months, however, the first signs of a change in the economic climate have become apparent in several member countries, although the situations in the individual member countries still differ significantly. This improvement has had little if any influence on the labour market situation, which has deteriorated further. A more favourable trend in the terms of trade and a fall in the volume of imports inhibited by slack domestic demand helped the deficit countries to make considerable advances in restoring balance of payment equilibrium. Generally speaking, progress made in curbing the upward price movement in the Community remained unsatisfactory. The varying degree of success achieved in efforts to control the forces generating domestic inflation has contributed to the continuing existence of sharp differences between the member countries.

### (a) *External demand*

Because of the recession in world economic activity and stagnation in world trade the expansion in the value of Community *exports* to non-member countries has slowed down most noticeably since the autumn. In real terms there has recently been no growth or even a decline in these exports. Almost the only buoyant markets are in the oil-producing countries, where Italy has been doing especially well, but exports to the state-trading countries of Eastern Europe have also generally continued to expand.

(b) *Internal demand*

In the Community as a whole, internal demand in the first half of 1975 showed little vigour. However, the slackening trends unmistakable in the second half of 1974 have steadied since the beginning of this year. This improvement was most pronounced in the Member States with comparatively low rates of inflation.

With firms operating well below capacity and company profits under pressure (despite the fall in raw material prices) business investment fell in most industries up to the spring. Clearly, however, the measures which have been introduced have helped to limit this downward tendency in investment. These include, in all member countries, cuts in interest rates and easier borrowing conditions and, in some countries, investment incentives. In Germany, for instance, fixed investment in some industries and purchases of new motor vehicles reverted to a rather more buoyant trend. In France, where the level of investment is relatively high, the implementation of the programme to expand nuclear energy capacity acted to support economic activity. In the United Kingdom, investment in the oil industry and investment by the nationalized industries continued to expand. In building, stronger public sector demand together with measures to promote private investment helped to limit the decline in investment. Residential construction is apparently, however, still declining despite certain measures to promote subsidized housing; in several Member States the number of unsold dwellings is still very high.

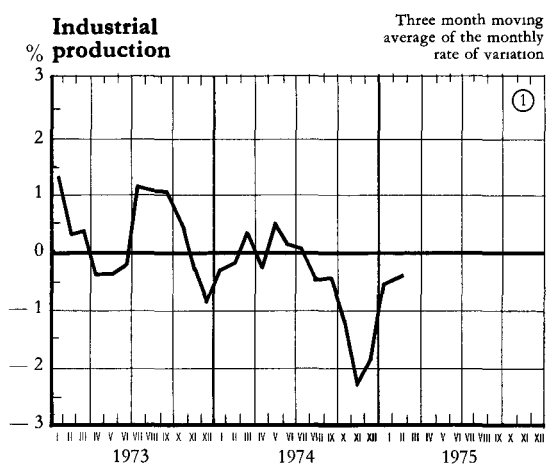
In the first half of 1975, the rundown of stocks, affecting in particular basic materials and producer goods, continued to curtail economic activity. This trend, which stems mainly from declining raw material prices and the uncertain economic outlook, now appears to be less marked. But as yet, except in a few industries, there has been no notable decline in the stocks of finished goods which inevitably built up during the downswing in the economy.

Apart from in Denmark and the Netherlands the pace of *private consumers' expenditure* has been sluggish since the beginning of the year.

The rise in personal disposable incomes, however, does not appear to be slackening further. While the fall in the numbers in employment and the cuts in hours worked again eroded total incomes, wages and transfer incomes continued to rise rapidly in several Community countries, due essentially to the indexation of wages and the rise in social benefits to compensate for the loss of income resulting from unemployment. In addition in some countries—in particular Denmark, Germany and the Netherlands—the tax burden on persons was eased at the beginning of the year, and in Italy a reform of the sliding tax scale limited the fall in the purchasing power of wages. The propensity to save, however, remained very strong as the uncertain economic prospects made households more cautious. The textile industry and manufacturers of consumer durables have been, generally speaking, the hardest hit by the sluggishness of consumer demand. Sales of passenger cars remained depressed, although in Denmark and Germany the number of new registrations rose slightly.

(c) *Production, employment and imports*

After falling in the final quarter of 1974 in all Community countries, production has tended to steady in some countries since the beginning of



the year. The degree of capacity utilization is, however, lower and delivery leadtimes shorter than at any time since the end of the war. Apart

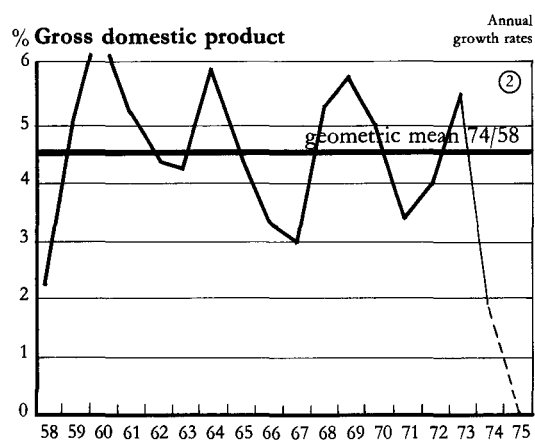


from some very limited cases, production was no longer held up by supply bottlenecks or difficulties in obtaining finance or finding workers.

The SOEC seasonally adjusted index showed that industrial production in the Community (excluding construction and the food, drink and tobacco industry) in the first quarter of 1975 remained at the low level of the final quarter of 1974; compared with the same period of the previous year there was a fall of about 6%. In the early months of the year, production of basic materials and intermediate products, and above all steel production, fell even below the levels for the final quarter of 1974. In the metal-working industry, however, the downward trend has bottomed out, mainly owing to the increased output in the motor industry and electrical engineering. In building and construction, increased expenditure by the public auth-

orities appears, in some countries, to have cancelled out the decline elsewhere.

In the service industries too, the effects of the general economic downturn are discernible.



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

Country	1973				1974				1975
	I	II	III	IV	I	II	III	IV	I <sup>3</sup>
Germany	+ 3.3	+ 0.2	+ 2.1	- 0.1	- 0.6	+ 0.3	- 2.6	- 3.9	- 2.3
France	+ 2.6	+ 1.0	+ 0.7	+ 2.9	+ 2.0	+ 0.4	- 1.5	- 3.1	- 4.2
Ireland	+ 5.3	+ 0.8	+ 0.0	+ 0.8	+ 4.9	- 2.4	- 2.4		
Italy	- 6.7	+ 8.2	+ 7.2	+ 1.5	- 0.7	+ 0.4	+ 1.2	- 9.7	- 2.3
Netherlands	+ 0.5	+ 0.9	+ 3.1	+ 3.1	- 0.1	+ 0.2	+ 2.0	+ 0.5	- 5.0
Belgium	- 0.8	- 0.4	+ 1.4	+ 1.8	+ 6.0	+ 1.5	- 2.6	- 2.8	- 4.5
Luxembourg	+ 5.2	- 1.6	+ 1.8	+ 4.9	+ 3.5	- 2.8	- 0.8	- 5.1	- 10.2
United Kingdom	+ 5.0	- 1.1	+ 1.7	- 1.6	- 6.1	+ 4.8	+ 0.5	- 2.1	+ 0.9
Community <sup>3</sup>	+ 2.1	+ 0.7	+ 2.4	+ 1.1	- 1.2	+ 1.4	- 1.1	- 3.7	- 2.3

<sup>1</sup> Excluding construction, food, beverages and tobacco. Ireland: mining and manufacturing industries. For Denmark, no similar data available.

<sup>2</sup> Calculated on the basis of the seasonally adjusted indices of the Statistical Office of the European Communities. Ireland: OECD figures.

<sup>3</sup> Estimates.

Freight carriers are a particularly clear example, but other service sectors and especially tourism still seem, by contrast, to be enjoying growth.

Since the beginning of the year the *employment* situation in the Community has deteriorated further and the number of unemployed has risen in all the Member States. Early in the spring the seasonal contraction in unemployment only occurred in a few countries, notably Germany, and was considerably less marked than in previous years. For the Community as a whole, the seasonally-adjusted number of unemployed in March was some 4.3 million. For the same month, unemployment measured as a percentage of the labour force was close on 9% in Ireland, 4.5% in Belgium, 4.3% in Denmark and Germany, 3.9% in the Netherlands, 3.6% in France, and 3% in the United Kingdom; in Italy the figure was 3.1% in January. As no

common definition of unemployment exists it is difficult to compare these figures; subject to this reservation, unemployment for the Community as a whole can be put at rather more than 4% in April. Likewise short-time working remained very widespread in the early months of the year in all member countries, in particular Italy, Germany and the Netherlands. Certain groups of workers, especially women and young persons, have still been taking more than their share of the difficulties besetting the labour market situation; unemployment among young persons makes up a considerable proportion of the high unemployment in some countries. Industries particularly hard hit are building, textiles and motor vehicles. The number of unfilled vacancies has continued downwards partly because managements have been endeavouring to rationalize operations.

*Unemployment rates*<sup>1</sup>

Country	1973				1974				1975
	I	II	III	IV	I	II	III	IV	I
Denmark	0.8	0.8	0.8	0.9	0.7	1.7	2.6	2.8	4.0
Germany	0.9	1.0	1.2	1.6	1.8	2.1	2.7	3.1	3.7
France	1.7	1.8	2.0	2.0	1.9	2.1	2.5	3.0	3.2
Ireland	6.1	5.9	5.9	6.0	5.9	6.1	6.6	8.0	9.0
Italy	5.5	5.4	5.2	5.0	5.0	5.1	5.3	5.1	
Netherlands	2.6	2.5	2.5	2.5	2.7	2.9	3.2	3.5	3.9
Belgium	2.7	2.7	2.8	2.7	2.7	2.9	3.2	3.6	4.3
Luxembourg	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
United Kingdom	2.8	2.5	2.3	2.1	2.3	2.5	2.7	2.8	3.0
Community	2.6	2.5	2.5	2.5	2.7	2.8	3.2	3.4	

<sup>1</sup> Number of unemployed as % of civilian labour force; seasonally adjusted figures for the final month of each quarter.

Source: Rates calculated from SOEC figures.

As a result of the weakness of final demand and the running-down of stocks Community imports from non-member countries have declined since last summer. The volume of oil imports, in particular, has dropped appreciably, partly owing to the general economic situation and partly in response to high prices and the mild winter in Europe. Demand for other raw material imports has also been depressed as manufacturers have tried to reduce their stocks. The fall in the prices of a number of imported raw materials had helped to curb the upward movement in import prices in general and so has contributed to the much reduced rate of growth in the value of imports from outside the Community.

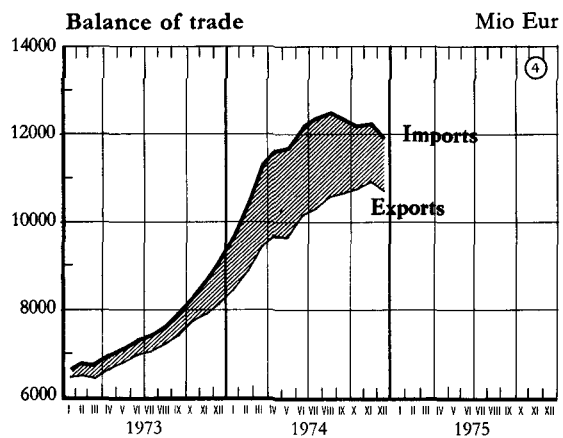
In the last quarter of 1974 and in the first few months of 1975, *intra-Community trade* also dropped. Imports from the other member countries have recently been running at a particularly low level in Italy, Belgium and France.



(d) *Balance of the markets*

Although inflation has tended to slow down since the spring, the upward movement in prices in the Community is still vigorous. Indeed the difference in inflation rates between some member countries and most of the others have tended to widen. In a number of member countries—for example, France, Denmark, and Italy—the rise in consumer prices has slowed down appreciably since the last few months of

1974; in other Community countries, the easing in the upward movement of prices has been less marked and the rise in the United Kingdom and Ireland actually strengthened. The rate of increase of consumer prices for manufactures has, in most Community countries, been somewhat lower than for consumer prices as a whole. Declining world commodity prices and sluggish internal demand have helped to ease inflationary pressure. As a result, wholesale and producer prices have definitely been increasing more slowly, particularly in Belgium, Germany, France and Italy. In contrast, the rise in the prices of farm produce, particularly meat, is only a little slower. Generally speaking, the prices of services have also climbed sharply; for instance, the charges for numerous public services have been raised in most of the countries.



Since the volume of Community imports has been accompanied by a gradual improvement in the terms of trade, the deficit in the Community's *balance of trade* is a good deal lower than it was in the middle of last year. All the countries with large trade deficits have shared in this improvement, but the recovery has been especially noteworthy in the cases of France and Italy.

The success obtained in combatting external imbalances has had a favourable effect on most deficit countries' *foreign exchange reserves* and *exchange rates*. The most recent developments have highlighted the close relationship between interest rate policy and trends on the exchanges.

Changes in consumer prices since 1973 (%)

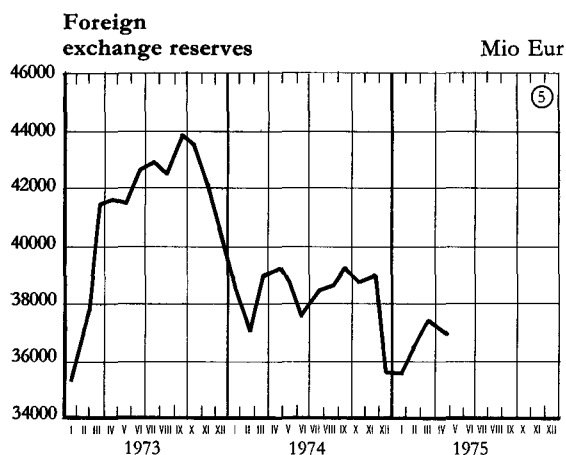
Country	December 1973 to June 1974	June 1974 to December 1974	December 1974 to April 1975	December 1974	1975				April 1974 to April 1975
					January	February	March	April	
	Increase at annual rate <sup>1</sup>			Increase on preceding month					
Denmark	16.5	14.5	4.8	0.7	0.1	0.3	0.8	(0.3)	11.9
Germany	7.1	4.6	8.3	0.3	0.9	0.5	0.5	0.8	6.1
France	17.5	12.8	11.4	0.8	1.1	0.8	0.8	0.9	12.7
Ireland	22.0	12.1	35.9			8.5 <sup>2</sup>	.	.	.
Italy	23.0	26.0	13.4	0.8	1.2	1.5	0.1	1.3	20.4
Netherlands	11.4	10.3	11.9	0.5	0.6	0.3	1.5	1.2	9.8
Belgium	17.2	14.2	12.6	0.7	1.1	1.1	0.7	1.1	14.4
Luxembourg	12.3	10.2	12.9	0.8	0.7	1.5	0.7	1.2	10.5
United Kingdom	23.8	15.6	34.7	1.5	2.6	1.7	2.0	3.9	21.7
Community	16.3	13.3	15.7	0.8	1.3	0.7	0.9	1.6	13.8

<sup>1</sup> Annual rates of change calculated from six-month periods in 1974 and from four-month period in 1975.

<sup>2</sup> Ireland : quarterly rate.

Source : National statistics and estimates of Services of the Commission.

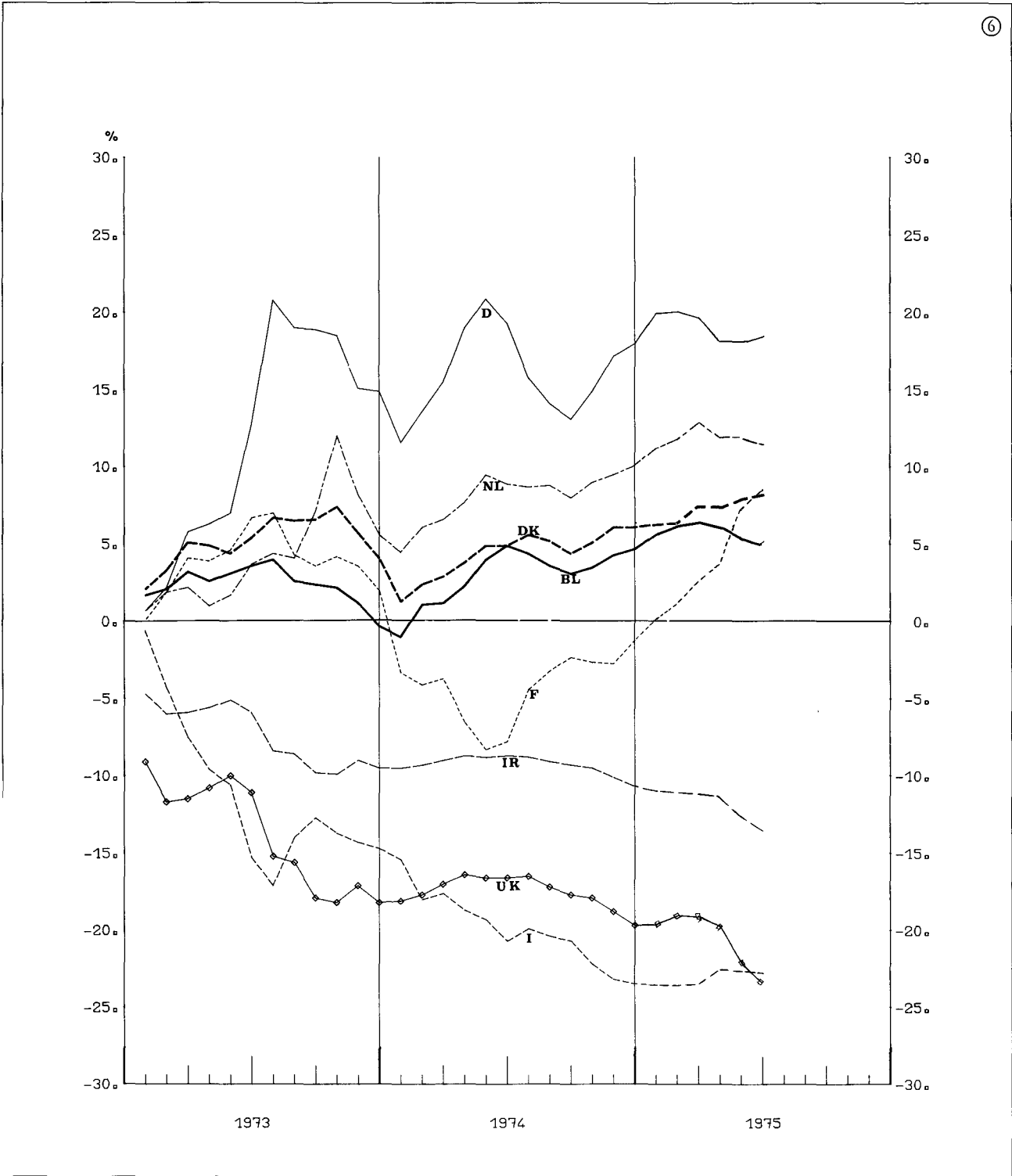
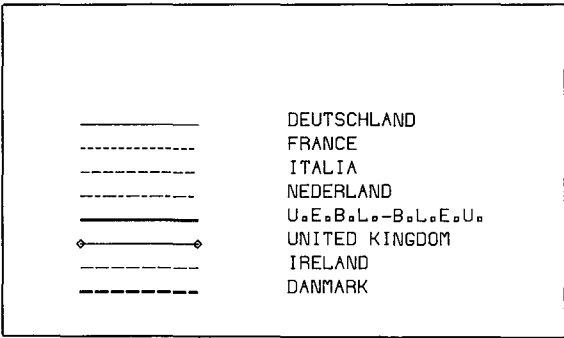
During the first four months of 1975, the currency reserves of France, Italy and the United



Kingdom have increased considerably, although in the United Kingdom this was largely a matter of borrowing; in May, however, the United Kingdom reserves fell sharply, following support operations for the sterling exchange rate. In January and February, the reserves held by Germany and the Netherlands rose sharply following market intervention by the monetary authorities to slow down the decline in the exchange rate for the dollar. The downward trend in the value of the dollar which had persisted for five months was reversed at the beginning of March, but since the middle of April there has been a further fall. From mid-March until the beginning of May the German mark stood at the lower intervention point of the joint Community exchange rate system. The Italian lira has become firmer and the French

**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)*



⑥

*Trade balances*<sup>1</sup>  
(seasonally adjusted)

(Mio Eur)

Country	1973				1974				1975
	I	II	III	IV	I	II	III	IV	I
Denmark	- 75	- 85	- 53	- 120	- 217	- 186	- 84	- 114	- 76
Germany	+ 625	+ 754	+ 997	+ 1 015	+ 1 423	+ 1 290	+ 1 257	+ 1 331	+ 1 135
France	- 103	- 46	- 70	- 139	- 506	- 573	- 559	- 422	- 163
Ireland	- 53	- 56	- 63	- 48	- 81	- 122	- 127	- 64	- 76
Italy	- 300	- 469	- 506	- 488	- 967	- 1 087	- 1 014	- 649	
Netherlands	+ 27	+ 12	- 102	- 30	- 17	- 21	- 104	- 61	
BLEU	+ 30	+ 34	+ 30	+ 38	- 82	- 63	- 78	0	
United Kingdom	- 484	- 634	- 699	- 1 020	- 1 240	- 1 583	- 1 268	- 1 218	- 826
Community	- 250	- 280	- 360	- 684	- 1 509	- 2 037	- 1 952	- 1 410	

<sup>1</sup> Including intra-Community trade; monthly averages.

Source: SOEC.

franc has improved strongly. The French franc has made good all the ground lost since it left the joint Community system in January 1974; since the middle of May, it has been lying within the Community range of fluctuation. The pound sterling was subject to an important fall in the second half of April and first part of May, before steadying at its new low level.

In the first few months of 1975, the key *monetary policy* objective was to counter the slowdown in economic activity, thereby achieving greater consistency in monetary policy in the Community. In Belgium, the rediscount quota was raised in January and at the end of April it was decided to lift in three stages certain of the reserve requirements for banks. In Italy, the cash deposit requirements for some imports were phased out at the end of March, thereby releasing over the ensuing six months the

amounts deposited earlier with the Italian Central Bank; a reform of the minimum reserve arrangements carried out in February has, however, had a generally neutral effect as regards monetary policy. The requirement introduced in December 1973 that banks in the United Kingdom should hold additional minimum reserves if the growth in their interest-bearing deposits exceeded a given ceiling was lifted in March. In December of last year, the Bundesbank announced that it was aiming at an expansion of about 8% in the central bank money supply in 1975.

In all Community countries, the *demand for bank credit* was low. On the supply side, there are few major obstacles standing in the way of a greater expansion in bank credit in the Community. The banks possess sufficient liquidity, and most lending rates are now a good deal lower. In addition, the quantitative credit re-

*Developments in the monetary situation*

Country	Money supply <sup>1</sup> (Annual growth rates, %)						Short-term bank credit (Annual growth rates, %)			Interest rates					
	1973 <sup>3</sup>		1974 <sup>3</sup>		1975		1973 <sup>3</sup>	1974 <sup>3</sup>	1975	Short-term <sup>2</sup>			Long-term		
	M <sub>1</sub>	M <sub>2</sub>	M <sub>1</sub>	M <sub>2</sub>	M <sub>1</sub>	M <sub>2</sub>				1973 <sup>3</sup>	1974 <sup>3</sup>	1975	1973 <sup>3</sup>	1974 <sup>3</sup>	1975
Denmark	10.0	12.7	5.9	8.9	1.4 <sup>7</sup>	8.9 <sup>7</sup>	15.4	7.1	5.1 <sup>4</sup>	8.5	9.5	7.5 <sup>7</sup>	12.2	15.2	12.8 <sup>9</sup>
Germany	1.8	13.8	10.9	5.2	12.4 <sup>7</sup>	-2.2 <sup>7</sup>	6.2	7.6	3.5 <sup>4</sup>	11.9	8.4	4.7 <sup>7</sup>	9.7	9.9	8.5 <sup>9</sup>
France	9.7	14.3	15.2	16.8	10.9 <sup>5</sup>	16.1 <sup>5</sup>	-0.8	21.3	18.8 <sup>8</sup>	11.2	12.0	8.3 <sup>7</sup>	9.8	10.9	11.4 <sup>5</sup>
Ireland	7.1	25.7	5.3	20.2	9.6 <sup>7</sup>	17.7 <sup>7</sup>	22.9	15.5 <sup>6</sup>	8.5 <sup>7</sup>	13.5	11.3	10.5 <sup>4</sup>	13.5	16.9	13.9 <sup>7</sup>
Italy	24.5	23.3	10.7	15.4	—	—	—	—	—	8.2	17.5	11.7 <sup>4</sup>	7.4	11.4	10.5 <sup>4</sup>
Netherlands	-0.2	22.0	12.2	20.0	13.3 <sup>4</sup>	15.8 <sup>4</sup>	34.5	25.5	25.8 <sup>4</sup>	8.8	7.0	3.7 <sup>7</sup>	9.0	9.1	8.9 <sup>7</sup>
Belgo-Luxembourg Economic Union	8.4	14.6	8.8	9.0	8.3 <sup>4</sup>	7.8 <sup>4</sup>	19.5	8.5	4.3 <sup>4</sup>	7.2	9.0	4.5 <sup>7</sup>	7.8	9.0	8.1 <sup>10</sup>
United Kingdom	4.5	28.5	8.3	11.9	13.2 <sup>4</sup>	10.1 <sup>4</sup>	11.5	15.0 <sup>6</sup>	17.9 <sup>5</sup>	9.5	6.8	8.2 <sup>7</sup>	12.5	17.2	13.9 <sup>7</sup>

<sup>1</sup> M<sub>1</sub> : notes and coin in circulation plus demand deposits. M<sub>2</sub> : M<sub>1</sub> plus near-money.

<sup>2</sup> Interest rate on overnight loans; Denmark : 91 day certificates of deposit of the Nationalbank.

<sup>3</sup> December; <sup>4</sup> March; <sup>5</sup> February; <sup>6</sup> November; <sup>7</sup> April; <sup>8</sup> January; <sup>9</sup> May; <sup>10</sup> June.

Source : Service of the Commission.

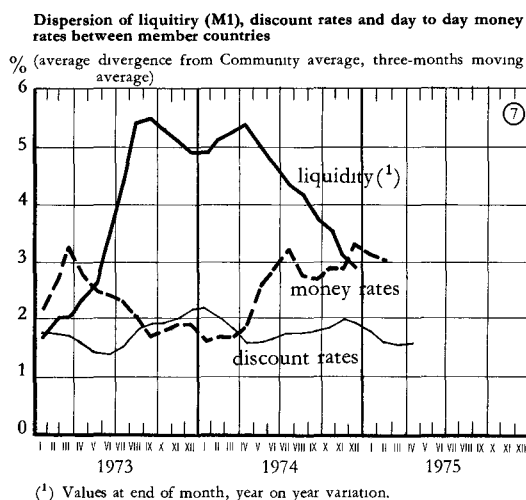
restrictions do not now impose any severe constraints; in France, the ceiling set is no longer reached. In Italy, the requirement that bank credit should not grow by more than 15% each year was allowed to lapse at the end of March; under their Community commitments, bank credit will not be permitted to expand by more than Lit 24 700 000 million between March 1975 and March 1976. At the end of April, the quantitative credit controls in force in Belgium were also discontinued. In Denmark, the credit ceiling was raised by 3% at the end of April.

In several member countries, the *cash transactions of the public authorities* have partly offset the negative effects on liquidity of sluggish private-sector demand for credit. The slack economic conditions have inhibited the inflow of tax revenue in most member countries, particularly Germany and Denmark. In several countries, this effect has been aggravated by tax revenue losses due to tax incentives to households and business. In almost all member countries, on the other hand, public expenditure has been stimulated by factors connected with the present business situation; for one thing, public benefits such as unemployment benefits, which are automatically payable in the event of under-employment, have increased and, secondly, selective expenditure programmes have been adopted. Consequently, public spending helped to boost economic activity in a number of member countries. The measures adopted in the first few months of 1975 to sustain economic activity included interest subsidies granted to companies

in Italy and France, finance made available to companies in difficulties in the Netherlands, tax incentives to stimulate investment in France and special measures to assist building and construction in the Netherlands, Italy and France. In contrast, the United Kingdom government, faced with a formidable public finance situation, decided in mid-April to cut certain consumer subsidies and to raise income tax and a fairly large number of indirect taxes; it also introduced various tax measures to improve the financial position of companies.

As a result of these various factors, the narrowly-defined *money supply* ( $M_1$ ) expanded on a year-to-year comparison at a moderately faster rate once more in those countries where it had grown slowly during 1974, while in other countries, particularly Italy, which previously had experienced a high rate of expansion, it slowed down appreciably. Consequently, money supply growth rates in the individual countries have been coming closer in line with each other.

The general downward trend in *interest rates* which got under way in almost all member countries and also in major non-member countries in the autumn of last year gathered momentum in the first quarter of 1975. In Germany and in the Benelux countries money market rates are approaching the level they reached in the first half of 1975, when the period of high interest rates set in. At the beginning of the year, the monetary authorities in all member countries embarked on a policy of lowering banks' refinancing cost. None the less, after seven successive cuts since the end of the last year, the United Kingdom's minimum lending rate was raised by  $\frac{1}{4}\%$  to 10% at the beginning of May. During this period the discount rates in the member countries were cut by amounts varying between  $1\frac{1}{2}\%$  (United Kingdom) and  $3\frac{1}{2}\%$  (France). At the beginning of June Community discount rates lay between  $4\frac{1}{2}\%$  in Germany and 10% in the United Kingdom and Ireland. Long-term interest rates were slow to react to the fall in money-market rates. Since the beginning of the year, however, the decline in long-term interest rates has spread to most Community countries, despite substantial new issues of bonds by public authorities.





*Demand for and supply of goods and services*

	1972 <sup>1</sup>	1973 <sup>1</sup>		1974 <sup>2</sup>		1975 <sup>2,4</sup>	
	At current prices Mrd. EUR 2	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	169.1	+ 12.1	+ 21.9	+ 10.0	+ 34.8	- 3	+ 7
Gross fixed asset formation	175.2	+ 4.9	+ 14.0	- 2.7	+ 11.5	- 4	+ 7
Public current expenditure on goods and services	111.4	+ 3.5	+ 13.7	+ 3.5	+ 18.7	+ 3	+ 18
Private consumers' expenditure	460.8	+ 4.5	+ 13.1	+ 1.6	+ 14.1	+ 1	+ 13
Gross domestic product	761.1	+ 5.5	+ 13.4	+ 1.9	+ 12.5	- ½	+ 13
Imports <sup>3</sup>	160.7	+ 11.6	+ 25.3	+ 4.0	+ 40.7	- 3	+ 3

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

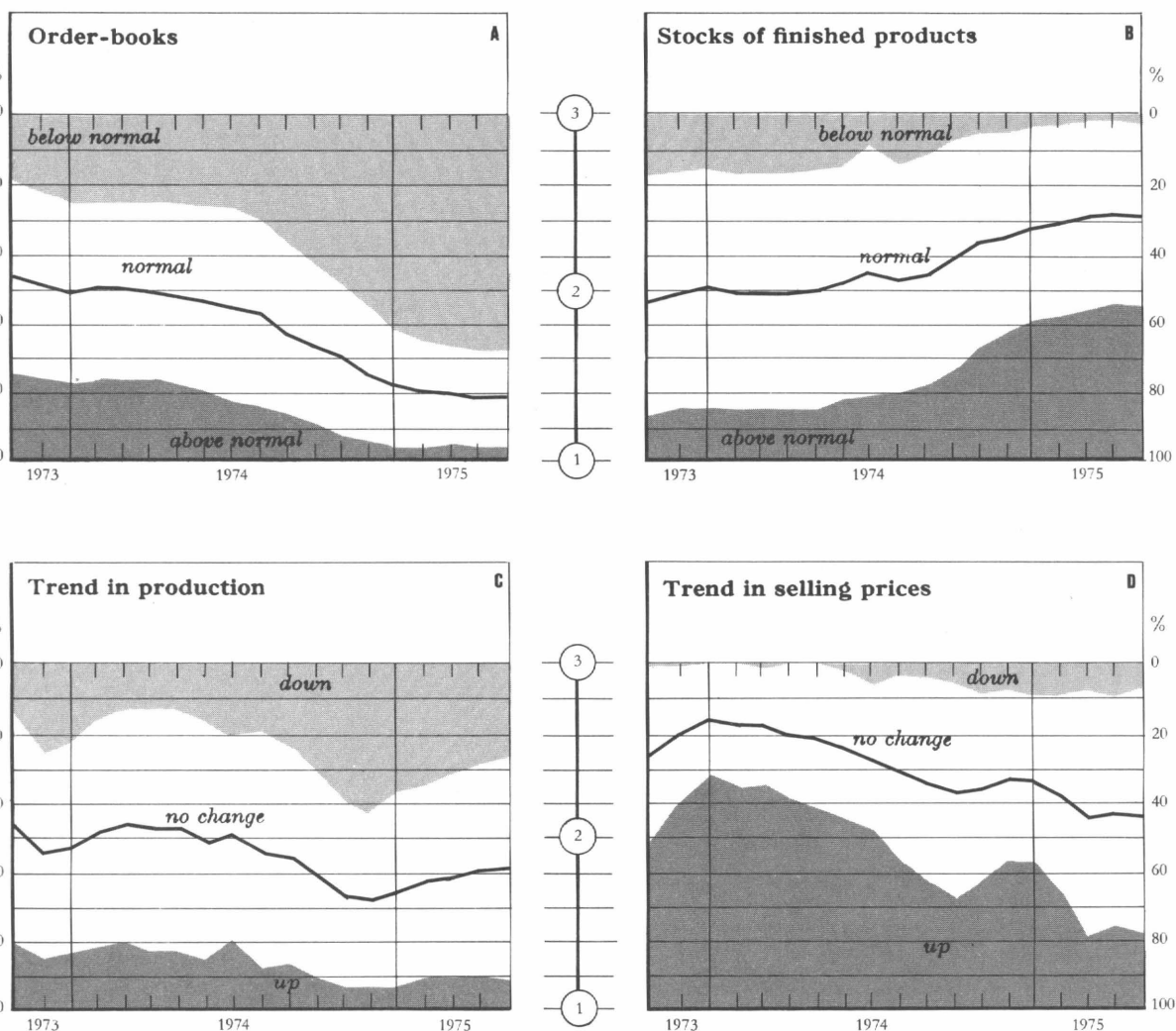
<sup>2</sup> Based on Community totals of the aggregates expressed in units of account (EUR). (1974 exchange rate from SOEC General Statistics, vol. 3/75, Table 853.

<sup>3</sup> Goods and services including intra-community transactions.

<sup>4</sup> Estimates.



## BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to questions in the EEC business survey, carried out in the countries of the original Community.

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

The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages 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".



## C. Outlook

### 1. Outlook for world economic activity

There has been a relaxation of economic policies in several non-member countries in recent months, notably of course in the United States, and there are some indications that the sharpest phase of the downswing in *world economic activity* is now over. A recovery in activity is expected in the latter part of this year in the major countries, which should gather strength during 1976 and be experienced more generally by the smaller countries. However, for 1975 as a whole there could be a substantial drop of about 2% in the real gross national product of the developed economies outside the Community, compared with a fall of 1% in 1974. Unemployment is likely to continue to rise throughout the rest of this year and into 1976 given the considerable margins of spare capacity now existing.

Some easing of price increases can be looked for in most countries during the rest of this year. Demand will begin to strengthen while prices are still rising at a much higher rate than at previous upturns in the economic cycle.

*World trade* should recover a little towards the end of the year, but for 1975 as a whole the volume of world imports (excluding EEC imports but including imports of the state-trading countries) will fall about 2% compared with a rise of about 8% in 1974. This is the first time since the war that world trade has fallen. The revival in trade should strengthen during 1976, when the volume of world trade may grow by about 6%.

In the *United States*, where it is only in the last few months that budgetary policy has become clearly expansionary, the impulse given by the tax rebates and cuts (\$22.8 milliard as from the month of May) is expected to become evident during the next few months, through a revival in private consumer's expenditure and an improvement in the investment climate. However, given the exceptionally high level of spare capacity, investment activity will generally re-

main subdued. Rebuilding of stocks should start and gradually strengthen, and residential construction will increase considerably relative to the very low level reached at the beginning of this year. Although employment will rise, the expansion in output will not be such that a fall in unemployment can be expected before early 1976.

Consumer price increases should remain limited from now until the end of the year and, even if influenced by the final shape of the energy-saving programme, will be considerably lower than originally forecast when the budget was presented in February. Given the influence of the revival of home demand, the trade balance will worsen in the second half of the year.

In *Japan* some minor selective relaxation of policies has already been introduced, and this is likely to be reinforced now that the spring wage-bargaining round has been concluded with the award of moderate wage rises. Production should recover during the second half of the year, and by 1976 the economy could be expanding rapidly. The balance of payments on current account could deteriorate a little during the second half of this year.

In *Canada* the economy should start expanding again in the second half of 1975 as a result of the stimulatory measures introduced by the Canadian government, and in response to the expected upswing in the US economy. In the smaller countries of Western Europe outside the EEC the downward trend in output of the last few months should be halted, but growth is generally likely to be modest during the remainder of this year. Only in *Norway* can a sustained rate of expansion be expected.

The massive current account surpluses of the *oil-producing countries* should continue to decline gradually through the rest of the year. This will mainly be due to the very rapid expansion of these countries' imports, since their exports of oil which have fallen back may recover slightly if demand in the industrial countries picks up.

However, it is unlikely that the rates of growth in the imports of the OPEC countries can be sustained at quite such a high level as experienced during 1974 and the early months of 1975. Interest receipts on the financial assets being accumulated by the oil states will make a growing contribution to these countries' current account surpluses.

Demand for imports by the *non-oil-producing developing countries* will probably remain very depressed throughout the remainder of this year, but if demand for their commodity exports revives there may be some recovery in their ability to import next year.

## 2. Outlook for the Community

A certain number of conditions must be met for domestic economic trends in the Community to improve gradually and then enter an upward phase towards the end of the year. The most important of these is the reestablishment of confidence among producers, traders and consumers. Lasting steady growth and a gradual reduction of unemployment can only be obtained if there is an appreciable slowing in the rise in prices in those countries where it remains excessive.

*Exports* to non-member countries are likely to show no real growth in the next few months, but they could start to pick up again gradually towards the end of the year as demand from the major industrialized countries begins its expected recovery. Export prices will probably rise more slowly.

Influenced by the various reflationary programmes, *gross fixed capital formation* should help to give some spur to production in the second half of the year. However, the partial results so far available from the investment surveys carried out in the Community in March and April hardly suggest that there will be a rapid improvement in the investment climate in industry. The flow of new orders in the capital goods industry in some countries points to a slight increase in the propensity to invest now that the measures introduced are beginning to bite. There is a risk, however, that these measures

will have only a temporary effect, especially in Germany. On the other hand, public works contracts should have more effect than in the first half year. Although there seems to be little likelihood in most Community countries that activity in private residential construction will pick up again in the second half of the year, an increasing rise should be seen in the subsidized sector.

*Stockbuilding* should also make a fairly vigorous contribution to economic activity in the second half of 1975. The swollen stocks of finished products, particularly of cars, may be expected to be run down, producing an appreciable effect on production. The improved economic outlook should lead managements to start building up stocks of basic materials once again.

Renewed growth of private *consumers' expenditure* seems to depend essentially on the question of whether and when households' confidence about economic developments will be restored. The fall in inflation rates, the expansion of disposable income, helped especially by tax adjustments, and the increase in economic activity, though limited to certain fields, should stimulate private consumer demand during the second half of the year in some countries at least, particularly in Germany and the Netherlands; however, there is little likelihood that this development will reach appreciable proportions. In the other countries, private consumer demand should remain fairly sluggish and savings rates relatively high. In the United Kingdom, a very sharp rise in prices and a decrease in real expenditure by households can be expected.

The outlook for demand would suggest that production will stage a recovery during the second half of the year. This applies particularly to the metal products sector in which an expansion of car production is expected, and also to the basic materials and capital goods industries, where stockbuilding may help to spur on production activity. Developments in building and construction, on the other hand, may remain sluggish. The wet weather during the autumn of 1974 and at the beginning of 1975 would suggest less favourable harvests in 1975, particularly for cereals. Although the real gross Com-

munity product may be increasing at an annual rate of 3.4% by the end of 1975, there will be no growth in the year as a whole, compared with a rise of about 2% the previous year.

No appreciable improvement in the *labour market* situation can reasonably be expected before the end of the year. The differences between the individual countries will continue. In the event of economic activity recovering in some countries during the second half of the year, this could only have a slight effect on increasing the supply of jobs, since the strength of the recovery would remain limited. In many industries managements may well go on giving priority to rationalization measures. However, the number of hours worked per worker should increase and a reduction in short-time working can also be expected. In these circumstances, the number of wholly unemployed cannot be expected to start falling appreciably before the beginning of next year. Since in most member countries unemployment is largely of a structural nature, large-scale and long-term efforts are bound to be required to deal with the problem properly.

The volume of Community *imports* will probably be stagnant during the next few months. In countries where economic activity is gradually picking up, imports could well begin rising again — moderately — thereafter. Import prices as a whole should go on increasing relatively slowly until the autumn. In these circumstances, the Community's *balance of trade* is unlikely to show much more improvement between now and the end of the year.

Since the rise in production costs is likely to lose a little momentum, inflationary pressures at production level will ease slightly, though this will probably have hardly any significant effect on consumer *prices* over the next few months. Price rises should continue to slow down in the countries where inflation has already begun to ease. None the less, it is to be feared that inflation will remain severe, particularly in the United Kingdom and Ireland. The tendency for price trends to differ from country to country will thus persist.

## Major economic policy measures

December 1974:

— At the meeting of the Heads of State or Government on 9 and 10 December, a European Regional Development Fund was established. Its annual appropriation will be 300 million units of account in 1975 and 500 million units of account in the following two years.

— At its meeting of 17 December, the Council gave its approval to the establishment of a European Centre for the Development of Vocational Training.

— On 19 December, the Council approved the regulation implementing the regulation on Community loans.

January 1975

— On 20 January, the Council authorized the import of a further 200 000 tons of sugar to supply the Italian market, and a new wine distilling operation in France and Italy.

February:

— On 28 February, the Lomé Convention was signed with forty-six African, Caribbean and Pacific countries.

— At its meeting on 11 to 13 February, the Council set the farm prices for the 1975/76 farm year. The average percentage increase for the Community as a whole is about 10%.

March:

— Agreement was reached at the first European Council, on 10 and 11 March, on the correcting mechanism to be applied in the financing of the Community budget by the Member States.

— At its meeting on 18 March the Council adopted a decision proposed by the Commission on the adjustment of economic policy guidelines for 1975. It also took note

— firstly, of the report on the application of the Council decision of 18 February 1974 on the attainment of a high degree of conver-

*gence of the economic policies of the Member States of the EEC and the conformity of the policies pursued with the objectives set, and*

— *secondly, of a summary account of the economic policies pursued in 1974 (cf. Quarterly Survey 1975/1).*

— *On 18 March, the Council adopted the definition of a unit of account to be used in expressing the amounts of aid under the Lomé Convention. The Governors of the European Investment Bank decided to use the same unit of account in drawing up the balance sheet of the Bank.*

*April:*

— *Since 1 April 1975, small non-commercial consignments of goods sent by one private person to another private person within the Community have been completely exempt from tax and customs duties, provided that tax has been paid on them in the country from which they are sent and the value of the goods does not exceed 40 units of account.*

— *At its meeting on 15 April, the Council authorized a new wine distilling operation, without any ceiling as to quantity but with a time limit of 55 days. This brought to an end the closing of French frontiers to Italian wine.*



TABLE 1: Basic data 1973

	Communi- ty	Denmark	Germany	France	Ireland	Italy	Nether- lands	Belgium	Luxem- bourg	United King- dom
Total area ('000 sq. km.)	1 528.2	43.1	248.6	547.0	70.3	301.3	40.8	30.5	2.6	244.0
Total population ('000)	256 621	5 027	61 967	52 134	3 051	54 890	13 439	9 742	350	56 021
Density of population per sq. km.	168	117	249	95	43	182	329	319	135	230
Numbers in employment ('000)	101 980	2 385	26 202	20 954	1 042	18 310	4 564	3 816	154	24 553
Numbers in employment, breakdown by main sector (%):										
Agriculture	9.2	9.5	7.5	12.2	25.0	17.4	6.8	3.9	9.1	3.0
Industry	43.2	33.8	48.9	39.4	30.8	44.0	36.2	43.3	48.7	43.3
Services	47.6	56.7	43.6	48.4	44.2	38.6	57.0	52.8	42.2	54.7
Share of gross domestic product (%): <sup>1</sup>										
Agriculture	.	7.7	3.5	5.9	16.9	9.2	5.8	4.3	4.7	2.9
Industry	.	38.2	50.9	47.2	32.3	38.9	39.9	43.3	56.1	42.5
Services	.	54.1	45.6	46.9	50.8	51.9	38.7	52.4	39.2	54.6
In % gross domestic product <sup>1</sup>										
Private consumers' expenditure	59.2	56.9	54.0	59.7	65.8	64.7	55.9	60.6	57.7	63.6
Public current expenditure on goods and services	16.2	22.6	17.7	12.3	15.3	14.8	16.7	14.9	12.4	19.1
Gross fixed asset formation	23.1	21.0	26.0	26.0	22.1	19.4	23.2	21.1	30.8	18.2
Total exports	23.0	28.7	21.6	17.2	35.8	20.0	46.0	43.5	80.9	21.6
Total imports	22.0	28.2	19.9	16.4	41.2	19.7	43.4	41.0	81.8	21.8

<sup>1</sup> 1972.

TABLE 2: Key indicators

	% change by volume on preceding year						Volume index 1970 = 100
	1968	1969	1970	1971	1972	1973	1973
Gross Community product	+ 5.4	+ 5.8	+ 4.9	+ 3.4	+ 4.0	+ 5.5	113
Industrial production	+ 8.5	+ 9.3	+ 5.1	+ 2.3	+ 4.7	+ 8.6	116
Imports of goods and services	+ 10.9	+ 14.3	+ 10.0	+ 6.4	+ 9.9	+ 11.5	130
Private customers' expenditure	+ 3.8	+ 5.3	+ 5.0	+ 4.3	+ 4.6	+ 4.5	114
Gross fixed asset formation	+ 7.0	+ 7.5	+ 6.7	+ 3.1	+ 3.7	+ 4.9	112
Exports of goods and services	+ 12.8	+ 12.5	+ 8.7	+ 8.4	+ 8.4	+ 12.1	132
Intra-Community visible trade	+ 19.5	+ 22.5	+ 12.4	+ 9.0	+ 11.6	+ 4.6	127
Gross product per capita	+ 4.7	+ 5.0	+ 4.3	+ 2.6	+ 3.3	+ 4.8	111

TABLE 3: Basic monthly indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Industrial production (1963 = 100)	1973	164	173	175	174	174	175	152	136	175	180	186	176
	1974	169	177	180	179	179	183	157	135	173	175	178	164
	1975	161	168	170									
Imports from non-member countries (cif, million Eur)	1973	6 547	6 035	6 647	6 197	7 269	6 666	6 504	6 528	6 907	7 708	7 753	8 009
	1974	7 051	9 144	10 696	10 669	10 795	10 359	11 410	10 197	10 336	11 164	10 241	10 970
	1975												
Exports to non-member countries (fob, million Eur)	1973	5 879	5 874	6 195	6 371	6 922	6 448	6 748	6 130	6 536	7 663	7 537	7 382
	1974	7 672	7 819	8 846	8 870	9 360	8 513	10 053	8 695	9 088	10 272	9 443	10 363
	1975												
Balance of trade (million Eur)	1973	668	161	452	- 174	347	218	- 244	398	371	45	216	627
	1974	1 379	1 325	1 850	1 799	1 435	1 846	1 357	1 502	1 248	892	798	207
	1975												
Intra-Community trade (million Eur)	1973	6 774	6 816	7 109	6 766	7 863	7 466	7 088	6 625	7 228	8 666	8 330	7 731
	1974	8 535	8 424	9 604	9 566	9 840	8 918	9 941	7 899	9 213	10 120	8 790	8 716
	1975												

## NOTES TO GRAPHS AND TABLES

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

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

*Graph 1*

Seasonally adjusted indices (excluding construction, food, beverages and tobacco).

*Graph 5*

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

*Table 1*

Total population at mid-year.

Resident population in employment at mid-year.

Percentage shares of the main economic sectors at factor cost.

Percentage shares of demand aggregates and of total imports at market prices.

Total Exports and Imports; goods and services.

*Table 2*

Industrial production, excluding construction, food, beverages and tobacco.

Trade between members countries, on imports basis. Figures for the original members of the Community up to 1972, from 1973 enlarged Community.

*Table 3*

Industrial production : see notes to table 2.

External trade : Imports from non-member countries, exports to non-member countries : as shown by foreign trade statistics. Trade between member countries, on imports basis.



**II— THE SITUATION IN EACH  
OF THE COMMUNITY COUNTRIES**



## A. Denmark

*During the past few months the level of economic activity has remained weak and the unemployment rate still continues to grow. However, the rise in prices has slowed down appreciably and the current balance of payments has improved substantially.*

*The present situation is not likely to change markedly in the coming months. The weakness of demand and production will continue to affect the level of employment. The rise in prices should remain small due particularly to the success of the incomes policy.*

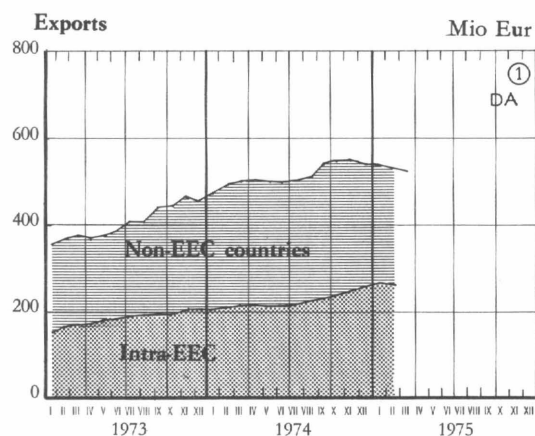
### 1. Recent developments

The Danish economy has been characterized in recent months by a very weak level of economic activity. External demand has slowed down and the employment position has not improved. On the other hand, very substantial progress has been made towards the reestablishment of internal and external equilibrium.

External demand which had been dynamic up to the autumn of 1974, has more recently slowed

down considerably. Thus, total *exports*<sup>1</sup> from January to April, seasonally adjusted, declined by -0.9% on the figure for the period September-December. This weakening is due to a number of factors. The slowdown of demand in the Scandinavian partner countries has led to a levelling off of sales of industrial products to these countries. Despite the further reduction in customs duty, effective from 1 January 1975 within the Community, sales to these countries have only risen slightly. The large rise in costs of Danish goods noted in 1974 could also have affected their competitive position. Finally, agricultural sales have hardly risen at all in value, despite the rise in Community prices, which implies some reduction in export volume.

Internal demand in total has remained weak. *Investment* activity has slowed down further; the less favourable picture with regard to external openings and the stagnation of the domestic conjunctural position have led entrepreneurs to reduce their investment plans. In addition, despite the selective support measures taken in the field of residential construction (abolition of quantitative restrictions and relaxing of credit policy) the building sector has remained depressed. During the first three months of the year the number of new housing starts was still nearly 30% lower than that for the

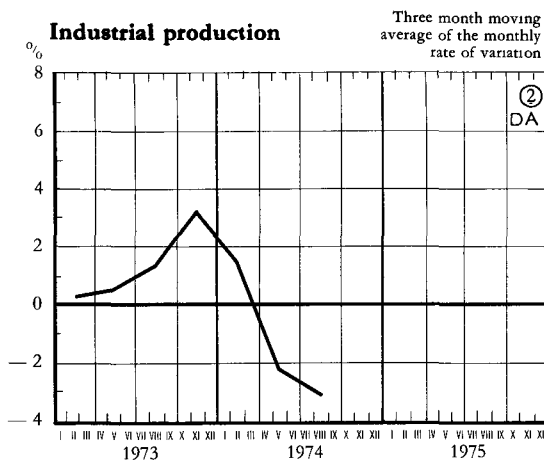


<sup>1</sup> Excluding ships and aircraft.

same period of 1974. The trend has however improved since the beginning of the year. In addition, the lifting on 1 October 1974 of the ban on central government construction activity has been followed by a substantial increase in activity in this sector.

After the continued slowdown noted since the spring of 1974, *consumer expenditure* has recovered slightly in the course of the last few months. This development stems from the growth in disposable income due to the lightening of direct taxes which took effect on 1 January and the marked increase in certain transfers. The volume index of retail sales, seasonally adjusted, has increased substantially and at the beginning of the year reached again the level of the previous year. In addition, new car registrations, which had not stopped slowing down since the middle of 1974, have risen considerably during the first few months of the year. This reversal is no doubt due partially to the lifting on 1 January of the fiscal surtax on cars. Despite a certain moderation in the rise of salaries, public consumption is still growing fairly rapidly.

Faced with the reduction in the level of total demand *production* has continued to weaken. In industry production is still falling and the deterioration in the employment position has continued. Export orientated industries, in particular those producing investment goods, as



well as the construction industry have recently been affected most. Agricultural production,

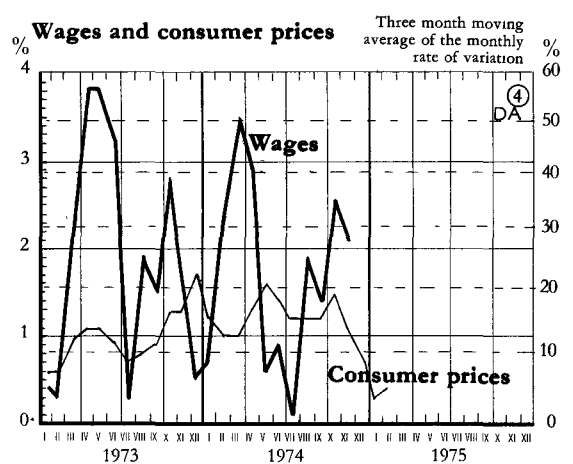
where both the meat and creamery sectors have followed the same course, has remained stagnant in volume.

The *employment* situation has remained unfavourable in recent months. The number of vacancies has further diminished in the first quarter of 1975 on the preceding quarter. The number of workers engaged in industry has also fallen. The rate of unemployment has increased still further and in April the seasonally



adjusted number of registered unemployed had reached 107,600 or 4.3% of the active population.

The rise in *prices* has slowed down appreciably due in particular to the moderation of import



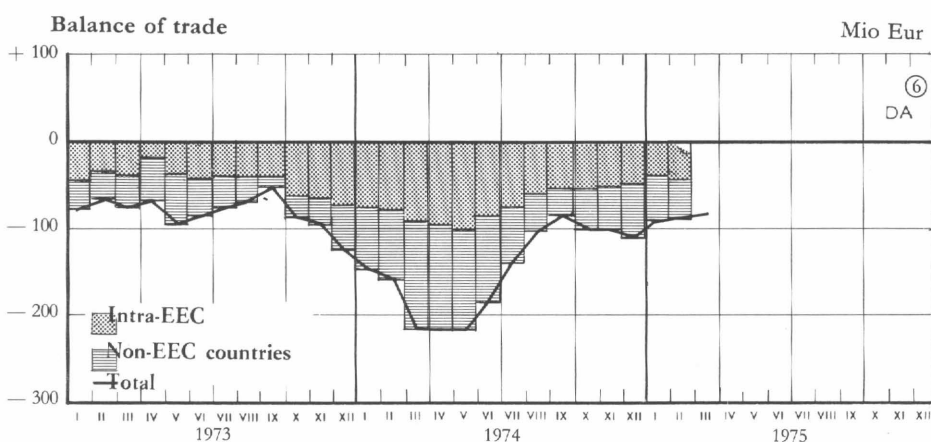
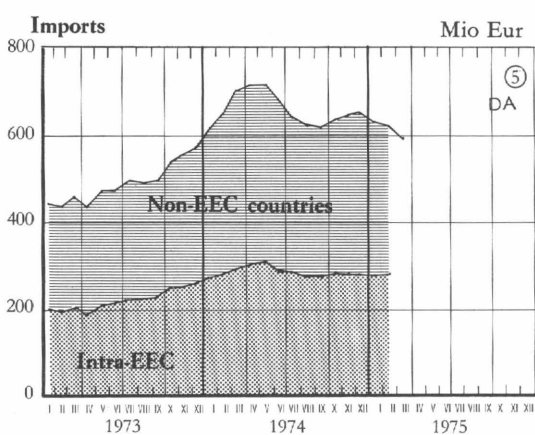
prices; during the first four months of 1975 the index of consumer prices rose at an annual rate



of only 5% as against a corresponding rise of 15.5% in the second half of 1974. On a year-to-year basis the increase in the index in April was 11.9%.

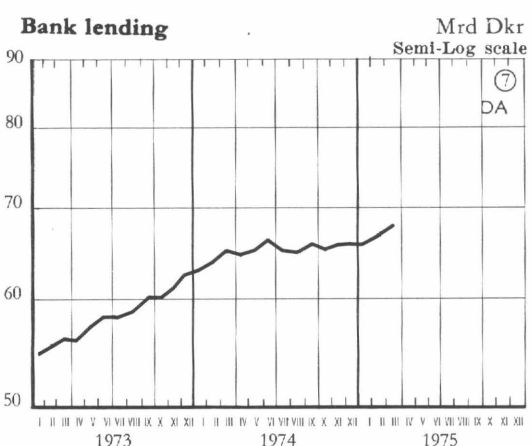
Because of the weakness of demand, the slow-down in *imports*<sup>1</sup> has continued and all categories of products have been affected. The reduction, however, has been particularly noticeable in the case of raw materials and investment goods. From January to April the value of external purchases was 0.5% lower than that for September to December.

Because of this drop in imports the *trade balance* has continued to improve. The deficit,



seasonally corrected, which reached Dkr. 2 800 million in the third quarter of 1974 and Dkr. 2 300 million in the fourth was down to around Dkr. 1 800 million in the first three months of 1975.<sup>2</sup> The current balance is likely to have improved further. However, the level of net reserves has declined and it reached Dkr. 5 600 million at the end of April as opposed to Dkr. 7 100 at the end of December.

*Monetary policy* has been progressively relaxed. The latest reduction in the discount rate brought



<sup>1</sup> Excluding ships and aircraft.  
<sup>2</sup> If the oil deficit is disregarded, the trade balance has reached an equilibrium position.

it down to 8% in April. The credit ceiling was raised by 2% in November and by a further 3% in April in order, principally, to leave a supplementary margin available for the growth of investment. This margin has not however

been used since firms remain cautious and also because of the fall in activity in the construction sector. The increase in the money supply (M2) has been quite small; in April it grew by 8.9% on a year-to-year basis.

*Demand for and supply of goods and services*

	1972 <sup>1</sup>	1973 <sup>1</sup>		1974 <sup>1</sup>		1975 <sup>2</sup>	
	At current prices (in Dkr '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	44.1	+ 8.0	+ 19.8	+ 5.1	+ 25.8	- 2	+ 6½
Gross fixed asset formation	31.9	+ 8.8	+ 19.6	- 9.7	+ 6.5	- 12	- 2
Public current expenditure on goods and services	31.7	+ 2.0	+ 14.5	+ 2.6	+ 21.2	+ 3½	+ 16
Private consumers' expenditure	83.1	+ 5.0	+ 13.9	- 3.5	+ 11.0	+ 3½	+ 14½
Gross domestic product	146.4	+ 3.1	+ 14.3	+ 1.6	+ 12.0	+ ½	+ 12
Imports <sup>3</sup>	42.7	+ 19.0	+ 30.9	- 3.5	+ 28.4	- 7	- 1

<sup>1</sup> Danmark Statistik.

<sup>2</sup> Estimates.

<sup>3</sup> Goods and services.

## 2. Outlook

There is no reason to expect in the coming months any substantial change in the conjunctural climate, which should continue to be characterized by very slow rates of growth of both demand and production as well as a high unemployment rate. A slight recovery of economic activity could take place towards the end of the year because of a more dynamic development in consumer expenditure. This trend should be

reinforced progressively in 1976, if external demand proves to be more buoyant. In total, gross domestic product will scarcely grow at all in real terms for 1975 as a whole.

When account is taken of the uncertain outlook on important export markets (notably Scandinavia) and the fact that the recovery expected in other countries will undoubtedly be slower and more delayed than initially foreseen exports will remain slow up to the end of the year. Although

sales of industrial products will continue to be affected in particular, a more favourable picture emerges for agricultural sales which should benefit from the increase in internal Community prices.

Internal demand will only strengthen slowly. Firms' investment could improve a little judging from the most recent business surveys which appear less pessimistic. Particularly in the construction sector the fall in interest rates and the measures taken in the past few months<sup>1</sup> should be reflected in a recovery in activity. Besides, a return to a more normal level of stocks of fin-

ished products from now until the end of the year should support the level of production.

Private *consumption* will no doubt be the most appreciable sustaining factor of the economy. Indeed, disposable incomes will be favourably influenced by a certain number of factors: lightening of direct taxes at the beginning of the year, the maintenance of transfer payments at a high level and delays in the application of measures envisaged in the preparation of the budget. The strength of the expected recovery will depend, however, on the attitude of households faced with developments in the labour market situation and the extent to which the savings ratio is reduced. Public current expenditure could also grow a bit more rapidly.

<sup>1</sup> For details see annex.

#### The Central Government Budget

	1974-1975			1975-1976	
	Initial Budget		Revised Budgets	Initial Budget	
	M.Dkr.	% change <sup>2</sup>	M.Dkr.	M.Dkr.	% change <sup>2</sup>
Expenditure <sup>1</sup>	63 704	+ 25.0	64 572	71 368	+ 12.0
Revenue	65 123	+ 21.7	60 035	62 055	- 4.7
of which:					
— direct taxes	34 056	+ 28.8	31 110	28 526	- 16.2
— indirect taxes	29 116	+ 15.1	27 000	31 324	+ 7.6
Surplus on current and capital account	1 419	—	- 4 537	- 9 313	—

<sup>1</sup> Disregarding debt extinction (net).

<sup>2</sup> On the preceding year's initial budget.

*Note:*

The figures in the above table are based on national budgets and are recalculated on the basis of Community definitions.

The strengthening internal demand should be reflected towards the end of the year in a stabilization of *production* which should first affect the sectors of construction and consumer goods before being reflected in a more general recovery. The level of employment should stop falling but the rate of unemployment will no doubt remain high.

Under these conditions the level of *imports* will remain weak but could increase towards the end of the year due to the progressive reduction in stocks of raw materials and finished goods. Because of this and given the weak performance expected for exports, the improvement in the trade balance is likely to be halted. The rise in prices should continue to slow down more especially as the slower rhythm of salary increases resulting from recent decisions in this respect<sup>1</sup> as well as the more favourable development of import prices continue to exert their positive effects.

Better conditions for a substantial moderation of the rise in costs will thus be established. Therefore, the principal problem which will face the Danish authorities will be to continue to encourage this development, which should result in an improvement in the competitive position of Danish products, in such a manner as to stimulate exports and ensure that the recovery in activity and unemployment will be durable. At the same time it will also be important to watch attentively the development of public authority finances so that the considerable growth in the budget deficit does not increase internal liquidity too rapidly and endanger the progress made up to now in the fight against inflation.

### Major economic policy measures

December 1974:

— *Maximum daily unemployment benefits were raised from Dkr. 132 to Dkr. 162 with effect from 1 January.*

<sup>1</sup> See details in annex.

January 1975.

— *On 1 January the temporary 50% surtax on the registration of new motor vehicles weighing less than 4 m.t. was abolished.*

— *On 1 January the first part of the tax reform adopted in September, which includes a reduction of Dkr. 7 000 million on personal income tax, was put into effect.*

— *With effect from 14 January the discount rate was lowered from 10% to 9%.*

March;

— *The investment frames for the local authorities was increased by about 15% for the fiscal year 1975/76.*

— *Proposals for legislation regulation the development of wages, salaries, pensions and incomes from entrepreneurship were adopted in the 'Folketing' on 11 March and the main elements were:*

a. *Prolongation of existing agreements with the following changes:*

- *increase in March and September 1976 of the minimum wages by Dkr. 0.40 per hour (i.e. about 2% each time).*
- *increase of all wage rates by Dkr. 0.35 (i.e. about 1.5%) per hour. as compensation for reduction of working hours which took place in December.*
- *increase of the additions given to workers working in shifts.*
- *from January 1976 an increase of employers' contributions to the Training Fund from Dkr. 0.01 per hour to Dkr. 0.03 per hour worked.*

b. *The basic year for the wage regulating price index was changed from January 1971 = 100 to January 1975 = 100.*

- *from 1 September 1975 increase by Dkr. 0.30 per hour (i.e. about 1.5%) as compensation for the change in the index.*

c. *Employees in the public sector and other white collar workers up to now subject to a percentage increase in their salaries, will now receive cost-of-living compensation as a fixed amount per hour.*

- *The amount payable for every portion is increased to Dkr. 0.60 per hour instead of Dkr. 0.40 per hour.*
- *To avoid distortions between the public and the private sector and within the public sector, salaries should be renegotiated regularly from 1976.*

*d. Increase from 1 October 1975 of social pensions as compensation for change in cost-of-living adjustment.*

*e. Limitation of cost-of-living adjustment for civil servants' pension scheme to Dkr. 1 248 per person per year.*

*f. From 6 March 1975 ban on increase of profit margins for enterprises in industry, professions and the distributive, transport and service trades, with certain exceptions approved by the Minister for Commerce. An eventual alteration to this measure will take place at the latest on 1 February 1976.*

*g. Limitation of dividends, bonuses, etc., at the 1974 level.*

*h. Limitation of interest rate margins for banks and savings banks. The margin must not exceed the average for the three previous years.*

*April:*

— *The Danish budget for the fiscal years 1975/76 passed by Parliament implies a cash deficit of Dkr. 9 400 million, as against Dkr. 6 400 million initially proposed by the Government.*

— *On 7 April the discount rate was lowered by 1% to 8%.*

— *The subsidy for certain dairy products was abolished on 17 April, which means a saving on the Government Budget of Dkr. 30 million.*

— *With effect from 30 April the credit ceiling was increased by 3% from Dkr. 79 600 million to Dkr. 82 000 million.*

— *Parliament agreed to a subsidy of Dkr. 300 million for improvements, repairs, maintenance and insulations of houses and flats.*

— *The quota for commercial loans in foreign currency for the financing of external trade which banks and savings banks are allowed to exclude from the credit ceiling has been increased from Dkr. 400 million to Dkr. 600 million.*

— *The conditions for obtaining loans at the Central Bank by commercial banks and savings banks were tightened to permit a greater control of liquidity.*

TABLE 1: Key indicators

	1970	1971	1972	1973	1974	1974
	% change by volume on preceding year					1970=100
Gross domestic product	+ 2.4	+ 3.9	+ 4.8	+ 3.9	+ 1.6	113.8
Industrial production	+ 5.8	+ 3.5	+ 7.3	+ 6.6	(- 0.5)	(117.9)
Total imports	+ 7.9	+ 1.9	+ 3.7	+ 18.0	- 3.5	121.0
Private consumers' expenditure	+ 1.3	+ 2.3	+ 3.0	+ 4.3	- 3.5	106.4
Public current expenditure on goods and services	+ 11.4	+ 8.6	+ 7.7	+ 4.7	+ 2.6	116.8
Gross fixed asset formation	+ 3.9	+ 4.5	+ 5.6	+ 10.9	- 9.7	108.9
Total exports	+ 5.8	+ 7.3	+ 7.1	+ 8.4	+ 5.1	131.7
Gross domestic product per head of population	+ 1.6	+ 3.2	+ 4.1	+ 2.2	+ 1.1	111.1
Gross domestic product per person in employment	+ 0.9	+ 2.9	+ 4.1	+ 2.5	+ 1.5	111.3
	% change by value on preceding year					
Gross income per employee	+ 12.3	+ 11.2	+ 9.5	+ 13.8	+ 20.6	137.7

TABLE 2: Indicators for internal and external equilibrium

	1970	1971	1972	1973	1974
Balance exports less imports					
in million Eur	- 424.5	- 252.8	+ 144.1	- 405.6	- 700.3
as percentage of GDP	- 2.7	- 1.5	0.7	- 1.8	- 2.8
Unemployment rate	2.9	3.7	3.7	2.4	5.3
Price-index of private consumers' expenditure (% change on preceding year)	+ 5.6	+ 5.0	+ 5.5	+ 9.6	+ 15.0

TABLE 3: Foreign trade (at current prices)

	% change on preceding year				Indices 1970 = 100	Million Eur	% of totals
	1971	1972	1973	1974			
Visible exports							
Total	+ 8.3	+ 12.5	+ 22.3	+ 27.5	190.1	6 191	100.0
Intra-EEC	+ 8.6	+ 13.8	+ 32.3	+ 18.1	192.7	2 648	42.8
To non-EEC countries	+ 8.1	+ 11.6	+ 14.8	+ 35.6	188.3	3 543	57.2
Exports of food, beverages and tobacco							
Total	+ 8.1	+ 10.3	+ 24.8	+ 13.2	169.1	1 954	31.6
Intra-EEC	+ 3.2	+ 8.4	+ 39.9	+ 11.8	176.3	1 190	19.3
To non-EEC countries	+ 15.7	+ 12.3	+ 6.4	+ 15.4	158.9	764	12.3
Exports of raw materials, fuel and power							
Total	+ 11.3	+ 9.7	+ 27.2	+ 53.9	219.3	705	11.4
Intra-EEC	+ 4.2	+ 12.2	+ 25.6	+ 40.0	210.9	316	5.1
To non-EEC countries	+ 15.7	+ 9.0	+ 28.8	+ 67.4	226.7	389	6.3
Exports of semi-finished and finished industrial goods							
Total	+ 8.1	+ 14.4	+ 19.6	+ 32.2	198.6	3 532	57.0
Intra-EEC	+ 14.6	+ 18.8	+ 26.4	+ 19.9	207.9	1 142	18.4
To non-EEC countries	+ 5.0	+ 11.7	+ 16.7	+ 39.0	194.4	2 390	38.6
Visible imports							
Total	+ 3.2	+ 3.0	+ 32.6	+ 29.4	182.7	7 936	100.0
Intra-EEC	- 0.6	+ 4.5	+ 32.9	+ 27.8	176.4	3 612	45.5
From non-EEC countries	+ 6.6	+ 1.9	+ 32.3	+ 30.8	188.3	4 324	54.5
Imports of food, beverages and tobacco							
Total	+ 4.8	+ 5.3	+ 37.9	+ 9.2	166.4	675	8.5
Intra-EEC	+ 10.7	+ 3.4	+ 60.3	+ 19.5	219.3	209	2.6
From non-EEC countries	+ 3.1	+ 5.9	+ 30.7	+ 5.2	150.2	466	5.9
Imports of raw materials, fuel and power							
Total	+ 8.2	- 1.6	+ 28.7	+ 92.3	263.4	2 088	26.3
Intra-EEC	+ 14.4	- 1.1	+ 45.6	+ 99.7	328.3	717	9.0
From non-EEC countries	+ 5.9	- 1.9	+ 21.7	+ 88.7	238.7	1 371	17.3
Imports of semi-finished and finished industrial goods							
Total	+ 1.7	+ 4.0	+ 32.8	+ 16.6	164.5	5 173	65.2
Intra-EEC	- 3.2	+ 5.3	+ 29.4	+ 17.1	155.0	2 686	33.9
From non-EEC countries	+ 7.7	+ 2.5	+ 36.8	+ 16.5	176.2	2 487	31.3

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1972			104			107			106			109
	1973			110			107			111			115
	1974			118			116			107			107
Unemployed (1 000)	1973	18.7	19.1	18.2	30.3	19.7	19.8	20.8	20.0	19.1	17.7	18.6	21.8
	1974	23.6	19.2	17.2	25.1	33.5	40.9	43.1	52.8	64.2	78.1	79.0	69.7
	1975	94.2	86.1	97.5									
Construction permits for residential construction	1973	4 248	4 793	6 601	3 931	4 725	4 209	3 115	3 860	4 661	4 853	2 834	3 467
	1974	3 104	2 407	2 590	3 294	1 690	2 760	1 113	1 224	1 939	1 690	1 070	1 384
	1975	1 915	1 723	2 141									
Private consumers expenditure (1970 = 100)	1973	127.5	125.1	129.5	127.2	128.7	135.7	132.7	139.7	136.6	137.2	144.3	141.9
	1974	143.2	143.1	142.1	148.8	153.7	141.9	149.7	152.7	144.6	147.2	156.4	150.1
	1975	160.4	155.5	157.1									
Consumer prices (1970 = 100)	1973	116.8	118.0	118.7	120.3	121.8	122.8	123.6	124.3	125.7	127.1	129.2	131.2
	1974	133.6	134.0	135.1	137.4	139.2	141.6	143.3	144.2	146.6	148.5	150.5	151.5
	1975	151.7	152.1	153.2	153.7								
Visible imports (million Eur)	1973	489.0	417.1	449.1	420.4	534.1	448.1	469.6	505.8	472.6	607.8	583.3	541.1
	1974	712.7	697.8	721.8	733.8	696.3	618.7	627.0	623.9	608.6	694.6	639.4	620.1
	1975	626.1	614.0	556.5									
Visible exports (million Eur)	1973	372.3	386.6	371.1	343.5	403.6	398.5	425.5	390.9	490.9	440.5	443.1	480.2
	1974	471.2	504.8	505.0	492.3	499.5	497.0	522.6	538.9	546.0	537.7	555.6	516.4
	1975	539.9	533.7	472.0									
Balance of trade (million Eur)	1973	- 116.7	- 30.5	- 78.0	- 76.9	- 130.5	- 49.6	- 44.1	- 114.9	+ 18.3	- 167.3	- 140.2	- 60.9
	1974	- 241.5	- 193.0	- 216.8	- 241.5	- 196.8	- 121.7	- 104.4	- 85.0	- 62.6	- 156.9	- 83.8	- 103.7
	1975	- 86.2	- 80.3	- 84.5									
Official foreign exchange reserves (million Eur)	1973	744	804	830	904	906	898	848	692	715	736	944	1 034
	1974	891	817	774	802	644	589	572	607	567	569	611	640
	1975	622	574	627	565								
Money supply (million Eur)	1973	4 651	4 557	4 690	4 884	4 826	5 186	5 005	5 043	5 183	5 176	5 360	5 404
	1974	5 077	5 001	4 954	5 198	5 182	5 319	5 081	5 162	5 337	5 370	5 649	5 722
	1975	5 211	5 211	5 453									

## NOTES TO GRAPHS AND TABLES

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

*Graph 1*

Exports fob: seasonally adjusted; three-month moving averages.

*Graph 2*

Industrial production: volume of sales in manufacturing industry; quarter to quarter change in smoothed series (three-quarter moving averages); seasonally adjusted; Danmarks Statistik.

*Graph 3*

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

*Graph 4*

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

*Graph 5*

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

*Graph 6*

Wages and consumer prices: month to month change in smoothed series of hourly earnings in industry and consumer price index (three-month moving average); not seasonally adjusted; Danmarks Statistik.

*Graph 7*

Bank lending: by commercial and major savings banks; not seasonally adjusted; Danmarks Statistik.

*Table 1*

*Source:* Danmarks Statistik.

GDP at market prices.

Industrial production: value added at constant prices by industry.

Exports and imports: goods and services.

Gross income per employee: income from employment.

*Table 2*

*Source:* Danmarks Statistik.

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

Unemployment rate: insured unemployed as percentage of total number of insured workers.

Price index: Consumer expenditure deflator.

*Table 3*

*Source:* Danmarks Statistik.

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

*Table 4*

Industrial production: volume of sales in manufacturing industry; seasonally adjusted, Danmarks Statistik.

Unemployment: Number of insured unemployed; seasonally adjusted.

Construction: number of dwellings authorized. Seasonally adjusted.

Private consumers' expenditure: Retail Sales Index; seasonally adjusted.

Consumer prices: Consumer price index; not seasonally adjusted.

Imports: cif, exports: fob; seasonally adjusted.

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

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

Money supply: notes and coins in circulation and sight deposits at post giro accounts commercial and major savings banks, position at end of month; not seasonally adjusted.



## B. Germany

*Following the marked decline in demand in the closing months of 1974, economic activity in Germany was running at a distinctly reduced level at the beginning of this year. As the pace of production slowed down, unemployment climbed further.*

*Economic growth in the months ahead could recover slowly as domestic demand gathers momentum. Export demand, however, seems unlikely to provide much stimulus. Given the foreseeable gains in productivity, the expansionary forces will hardly be strong enough to cause any noticeable drop in the level of unemployment. The price climate could continue to improve gradually.*

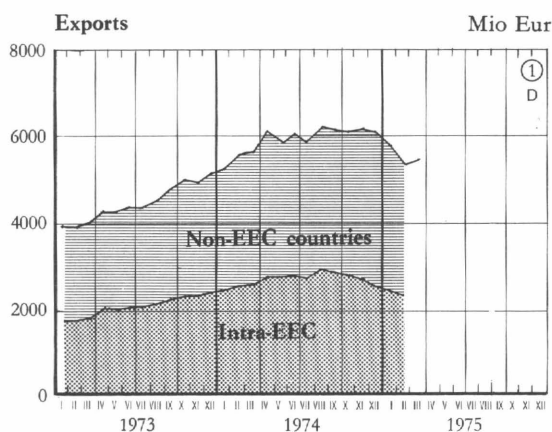
### 1. Recent developments

The German economy showed marked signs of recessionary tendencies in the early months of the year. The Federal Government's reflationary measures in 1974 and the moderate wage increases at the beginning of the year do however hold out the hope of a gradual change in the economic climate.

As a result of the appreciable fall-off in eco-

nomical activity in most industrialized countries, German visible exports have fallen sharply in recent months. In terms of value, total exports in the first four months of the year were 2.5% down on a year ago compared with year-on-year increases of 23.5% and 32.2% in the two previous quarters. The rise in export prices slackened distinctly under the impact of keener competition on foreign markets; thus, the slowdown in the volume of exports was somewhat less pronounced.

Business investment demand was favourably influenced by the investment premium, but at the present stage of the trade cycle it would be premature to interpret this as a general and lasting recovery in the propensity to invest. A certain improvement has probably been recorded in investment in plant and machinery mainly as a result of purchases of vehicles and machinery for which the decision to invest can be taken at relatively short notice. The decline in building investment has continued in recent months. Activity in residential construction continued to be impeded by the excess supply which still overhangs the market. Similarly, investment in industrial and commercial building



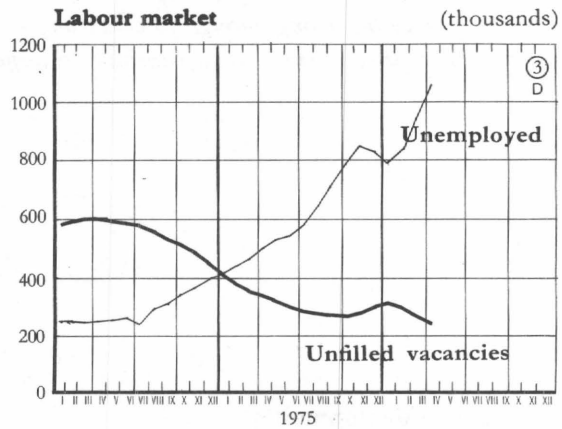
showed a slight decline. Public sector investment, however, continued to expand, boosted by an expansionary budgetary policy. Firms were reluctant to invest in stocks.

The trend of consumption remained sluggish while the propensity to save turned up sharply. In the first quarter retail sales were again about 8% higher than in the same period last year; but in constant price terms, there was no increase. However, there was a strong recovery in sales of new cars as a certain pent-up demand had evidently built up over past years when purchases of new vehicles ran at a much reduced level. New registration for the period January-April were 20.9% up on the same period last year.

The considerably greater threats to employment curbed the rise in wages and salaries. Wages per person employed in industry were about 10% up on a year-on-year basis in the first quarter compared with 13.3% in the fourth quarter of 1974. But with employment continuing to decline, total gross wages and salaries increased by only 3.5% in the same period as against 8.1% in the fourth quarter of 1974. Higher transfer payments resulting notably from the tax and child allowance reform probably made for a somewhat positive trend in disposable incomes.

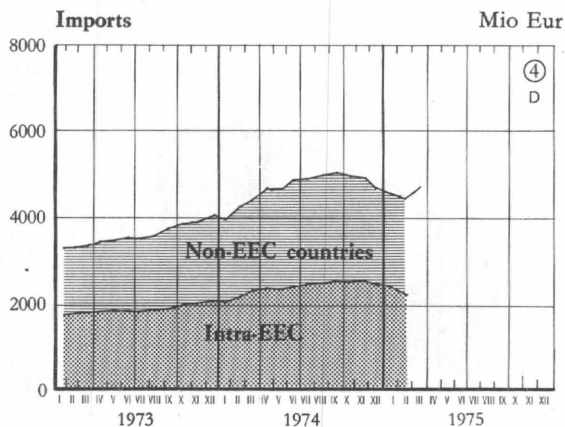
The downward tendency of industrial production under way since mid-1974 continued into 1975, taking the average for the early months

of the year. The most marked declines were in the industries hardest hit by the depressed export situation (steel and chemicals). Total industrial production in the first four months of the year was 9% down on the same period a year earlier. The degree of capacity utilization measured against individual firms' planned target capacities and after seasonal adjustment dropped to 76.2% of its normal level by April. As the pace of production slackened unemployment and short-time working continued to climb

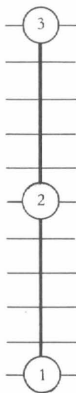
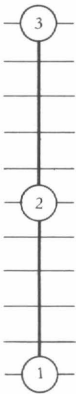
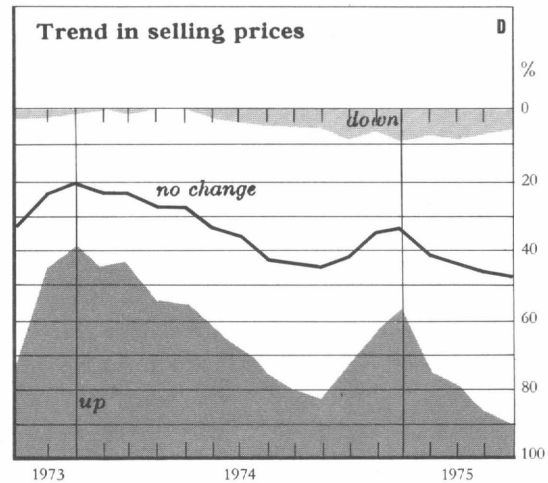
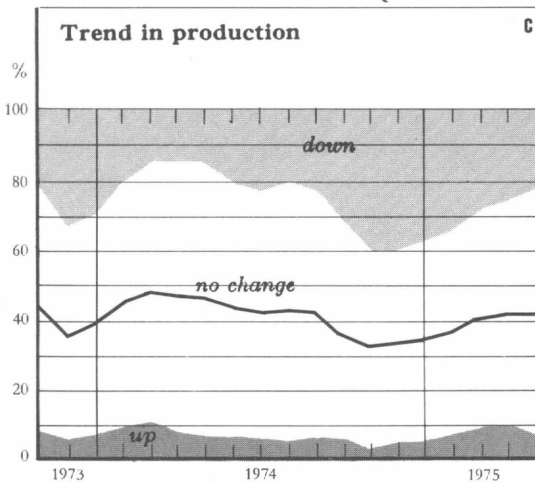
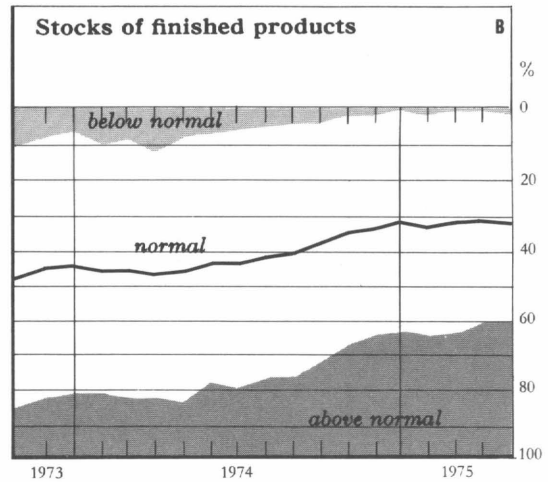
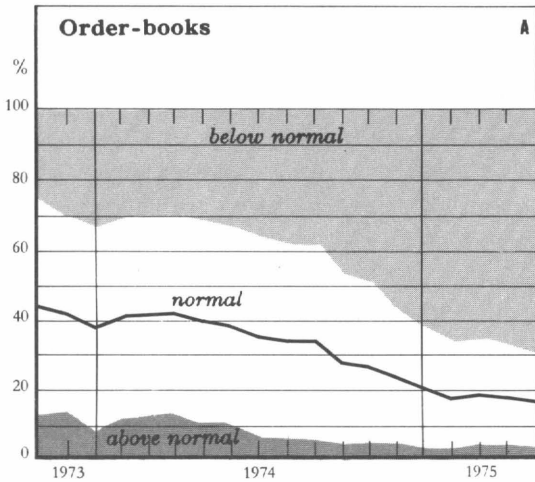


rapidly. Foreign workers and young persons were disproportionately affected. At the end of May 1 018 000 workers or 4.4% of wage and salary earners were unemployed, and in mid-May 922 000 were on short time.

Reflecting the sluggish domestic economy, visible imports also slipped distinctly. In terms of



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 (grey, white and black) show the percentages of the three different answers.

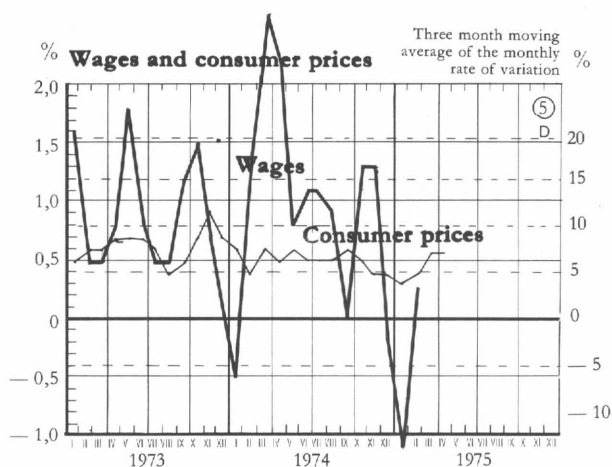
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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

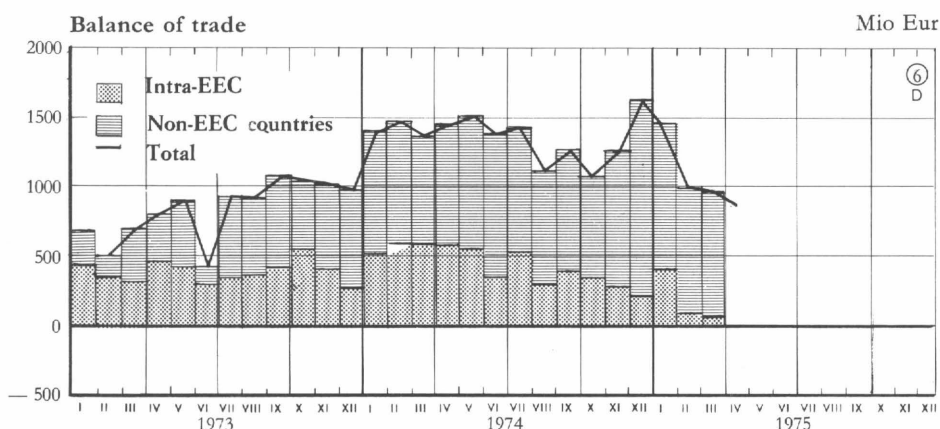


value they were only 5.1% up in the first four months of the year compared to a year earlier compared with 36.5% in the third quarter of 1974 and 20.3% in the fourth. Much of this was due to the sharp decline in the import prices for raw materials and semi-manufacturers.

Moderate wage agreements and falling import prices brightened the overall prices picture. In particular, industrial producer prices have steadied distinctly since the turn of the year and in April were some 5.8% up on April 1974. By contrast, there was no noticeable let-up in consumer price increases, but Germany still had clearly the lowest rate of price inflation compared with the rates prevailing elsewhere. In April the price index was 6.1% up on a year earlier.

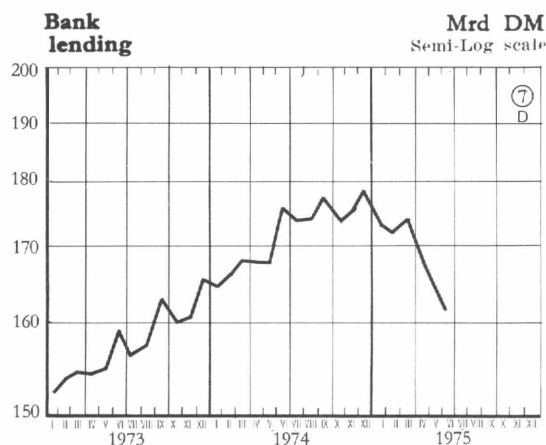


The foreign trade surpluses for the first four months of the year totalled DM 13 400 million,



well below the exceptionally high figure of DM 17 900 million for the same period last year. Likewise, the current account surpluses were below last year's high results. After taking account of balancing items, there was a small deficit on capital movements. During the first four months of the year the foreign exchange reserves of the Bundesbank increased by DM 2 400 million; by the end of April they had reached DM 83 700 million.

With lending expanding moderately and monetary capital formation exceptionally high, the money supply in recent months has continued to grow very slowly. At the end of April the stock of money and near-money (M2) was



2.2% below the level of a year ago; however, this reduction is due, to a large extent, to changes in the relative importance of time deposits and savings accounts. The gradual easing of

monetary policy has led to a distinct drop in short-term and long-term interest rates and recently in banks' lending and borrowing rates too.

*Demand for and supply of goods and services*

	1972 <sup>1</sup>	1973 <sup>1</sup>		1974 <sup>1</sup>		1975 <sup>2</sup>	
	At current prices (in DM '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	180.1	+ 16.7	+ 19.2	+ 13.5	+ 31.3	- 7	+ 1
Gross fixed asset formation	217.4	+ 1.1	+ 5.8	- 7.9	- 1.7	- 4½	+ 1½
Public current expenditure on goods and services	146.5	+ 4.0	+ 15.1	+ 4.4	+ 16.0	+ 3	+ 10½
Private consumers' expenditure	450.9	+ 2.9	+ 10.2	+ 0.2	+ 7.5	+ 1½	+ 7½
Gross domestic product	834.6	+ 5.3	+ 11.5	+ 0.6	+ 7.2	- 1½	+ 6½
Imports <sup>3</sup>	164.7	+ 9.9	+ 14.8	+ 4.0	+ 27.6	+ 1	+ 2½

<sup>1</sup> Federal Statistical Office/National Accounts, Series 1, preliminary report 1974.

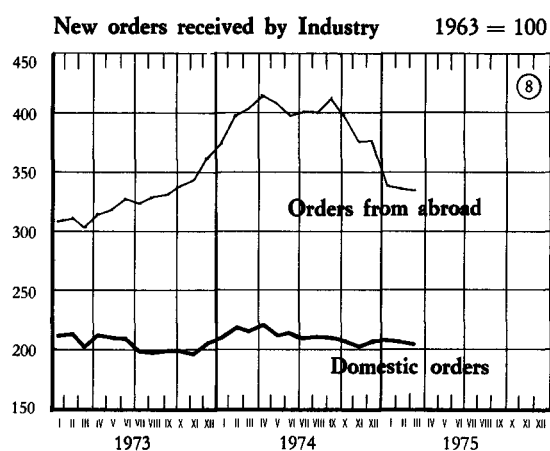
<sup>2</sup> Estimates.

<sup>3</sup> Goods and services.

## 2. Outlook

The economic policy measures and the distinct moderation of the pressure of costs on firms have helped to set the stage for a gradual upturn in economic growth. In contrast with the 1967 recession, when the subsequent recovery was export-led, this time export demand is unlikely to provide any extra stimuli. In addition, structural difficulties, in building and construction for instance, will continue to have a dampening effect on economic activity.

Following the sharp decline around the turn of the year, German exports may begin to pick up slowly as the year goes on, especially if the reflationary measures adopted by the major industrialized countries produce their effects and world trade in the second half of the year expands with renewed vigour. Moreover, the relatively more favourable domestic cost and price trends should strengthen the competitive position of German exporters. Taking the average for the year, however, exports cannot be expected to provide any notable stimulus to domestic activity.



the easing of monetary and credit policy and the distinct slackening in the upward movement of costs, notably as a result of the comparatively moderate wage settlements, have paved the way for a recovery of investment activity. Even if this does prompt firms to overcome their past reluctance to invest, capital spending on plant and machinery will initially expand only slowly, until the very considerable margins of idle capacity have been used up. The situation in the building sector could continue to improve. Residential construction will no doubt decline further, but the recovery in industrial and commercial building may continue as the economy picks up. The public authorities will seek to maintain the rapid expansion of their building activity, but the tight budgetary situation may prove to be an inhibiting factor.

The federal Government's reflationary measures,

### The Federal Budget

	1974 <sup>3</sup>			1975	
	Budget		Preliminary results	Budget <sup>4</sup>	
	DM '000 million	% changes	DM '000 million	DM '000 million	% changes
Expenditure <sup>1</sup>	141.6	+ 12.2	138.5	155.2 <sup>5</sup>	+ 9.6
of which:					
— current expenditure	116.6	+ 14.1	114.1	127.1	+ 9.0
— capital expenditure <sup>2</sup>	25.4	+ 7.1	24.4	28.7	+ 13.0
Revenue	133.2	+ 7.7	128.0	129.4	- 2.8
of which:					
— direct taxes	62.0	+ 17.6	60.0	57.2	- 7.7
— indirect taxes	67.4	+ 0.9	63.9	68.6	+ 1.8
Net borrowing requirement <sup>1</sup>	- 8.4	-	- 10.3	- 25.7	-

<sup>1</sup> Excluding debt redemption.

<sup>2</sup> Including participations and loans.

<sup>3</sup> Figures for 1974 have been adjusted to make them comparable with the 1975 figures, following the introduction of the new regulations for family allowances.

<sup>4</sup> Excluding the two programmes to stimulate economic activity introduced in September and December 1974.

<sup>5</sup> Including an overall spending cut of DM 700 million to be made during the fiscal year.

*Note:*

The figures in this table are based on national budgets and are recalculated on the basis of Community definitions.

Total expenditure on consumption could provide gradually increasing stimuli for the economy. The rate of growth of public current expenditure on goods and services will probably ease slightly, while the trend of private consumers' expenditure may be more buoyant. This is only likely, however, if households curb their propensity to save which at present is at an exceptionally high level and if private consumers' spending again grows more rapidly, moving in line with the general increase in incomes, so that the additional purchasing power created by the tax and child allowance reform is transformed into effective demand.

Given the marked downturn in the economy during the opening months of this year, gross domestic product in real terms could not reach the average level of 1974 even on the assumption that growth will accelerate very rapidly during the rest of the year. Therefore, no rapid progress is likely to be made in reducing the high level of unemployment.

With domestic demand the main force sustaining the economic revival, imports should also expand vigorously again. But in contrast to the performance last year the terms of trade are likely to improve appreciably, and so the nominal surplus will not be much below last year's figure.

Even if demand gathers momentum as expected, the distinct improvement on the costs front would safeguard the progress already made in restoring stability.

The task of economic policy-makers is now to maintain the stance adopted and wait for the stimulatory measures. However, there is a danger that the expected stimulus from private consumption, investment, and foreign demand, could be weaker than desired, or even non-existent. Thus, the upswing may be less rapid in getting under way than originally assumed and in the early stages may be only moderate. If there is no sustained revival, the problems for German economic policy could grow increasingly more serious. Should growth continue to fall short of potential, the prospects of bringing down unemployment as rapidly and sharply as

expected from the present high level, which is acceptable for a limited period as substantial welfare benefits are provided, will recede. Structural difficulties in regions and industries would become more acute.

A further likely consequence would be higher budget deficits. Moreover the stimulus that Germany is expected to give, in view of its position as a leading world trading nation, towards a more buoyant economic trend both inside and outside the Community would not be as strong as might be hoped.

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

The economic difficulties experienced throughout the world and the business downswing in the Federal area had an unmistakable impact on the economic trend in West Berlin. Two factors in Berlin's favour were the absence of a motor vehicle industry and the continuing capacity cut-backs in the building sector, which made possible a closer and more rapid adaptation to demand than in the Federal area. All in all, gross domestic product in Berlin in 1974 grew distinctly faster than in the Federal area (1.8% compared with 0.6%).

The downward trend in Berlin's visible exports in recent months has been especially marked in deliveries to the Federal area, while sales abroad have held up relatively well. Although investment in Berlin too was impeded by cost increases and uncertain sales and profit prospects, the decline in investment in plant and machinery and building was only about half as much as in the Federal area. Here too the growth of private consumers' expenditure lagged well behind the increase in disposable incomes. Retail sales in the first quarter of 1975 were 4.4% up on a year earlier.

The pace of total industrial production slackened distinctly but not as sharply as in the Federal area, and in recent months the trend has stabilized somewhat. Production figures for the first



quarter just about reached (—0.2%) the level of the first quarter of last year. As business flagged, unemployment and short-time working climbed more rapidly, though less than the average figures for the Federal area. During recent months, some improvement in the situation has been noted as compared to the end of last year. At the end of May, there were still 31 494 people unemployed, whilst the number of vacancies was 10 711.

The Federal Government's economic policy programme which also applies to West Berlin, and above all a revival of the West German economy should stimulate economic activity in Berlin too. The average growth rate in real gross domestic product in Berlin for 1975 should be similar to that in the Federal area.

### Major economic policy measures

December 1974:

— On 5 December, the Bundesbank decided to restrict the growth in the supply of central bank money in 1975 to 8%.

— On 12 December the Federal Government adopted a programme to stimulate economic activity.

It included the following measures:

— An investment premium of 7.5% of the initial cost or cost of production was granted for fixer investment (including subsidized housing), contracted or begun between 1 December 1974 and 30 June 1975 and delivered or completed before 1 July 1976 (or 1 July 1977 in the case of buildings and 1 July 1978 in the case of energy projects). Certain energy-saving investments undertaken after 31 December 1974 will benefit from an additional bonus of the same amount, for an initial unlimited period. Furthermore, the 1975 ERP economic programme and the Kreditanstalt für Wiederaufbau together made DM 1 500 million available as refinancing aid to encourage in-

vestment by small and medium-sized enterprises.

— Additional expenditure of DM 1 130 million by the Federal Government, especially in the energy field and in the building industry.

— DM 600 million was allocated up to 31 July for wage cost subsidies and mobility allowances to create jobs in areas with above-average unemployment. Wage cost subsidies to employers will be 60% of agreed wages and salaries and will be paid in a lump sum for a six-month period. Mobility allowances for employees whose new job is not situated in their place of residence or former place of employment, range from DM 300 to DM 600 depending on how long they have been unemployed. The period during which benefit could be drawn for short-term working, until then limited to twelve months, was extended to twenty-four months.

— In certain conditions purchases of second homes will in future also benefit from the concessions under Section 7 (b) of the Income Tax-Law. The funds from the stability surcharge, investment tax and stability loan totalling DM 6 000 million which were frozen with the Bundesbank were released to help finance the programme.

— On 18 December the Federal Government adopted the draft of a law amending the Banking Law. The main purpose of the amending law is to increase the Federal Banking Supervisory Office's power to intervene, and to restrict the granting of large loans. In future a single large loan may not exceed 75% of the credit institution's liable funds, the five largest loans may not exceed three times the liable funds, and all large loans together may not exceed six times the liable funds. There is provision for a five-year transitional period so that the banking system can adjust to the new rules.

— On 19 December the Bundesbank lowered the discount rate by ½% to 6% and the rate for advances against securities from 8.5% to 8%. The selling rates for money market paper were also cut by ½%.

— On 23 December the Bundestag pressed the 1975 law to safeguard energy supplies, which gave the Federal Government powers to take the necessary emergency measures in the event

of an energy crisis. This law supersedes the law to safeguard energy supplies of 9 November 1973, which expired at the end of last year; it will be valid until 31 December 1979.

#### January 1975:

— From 1 January benefits for unemployment and short-time working and the bad weather allowance were increased from 62% to 68% and unemployment relief from 52% to 58% of the net wage or salary. Payment of these benefits is to be speeded up. At the same time the unemployment insurance contributions were increased from 1.7% to 2% of gross monthly earnings.

— At the beginning of January the Federal Railways decided to raise passenger fares by an average of 8.9% from 16 February; this is expected to bring in an extra DM 180 million.

— In mid-January a new wage agreement was concluded in the building industry: from 1 May wages will be increased by 6.6% across the board and there will be a guaranteed payment of DM 200 as a thirteenth monthly income with the non-obligatory Christmas bonus counting towards this payment.

— On 23 January the Bundesbank increased the credit institutions' rediscount quotas for the period up to 31 March by approximately DM 2 500 million.

— On 29 January the Federal Government adopted the 1975 annual economic report, which sets out in particular the economic policy targets for 1975. According to this report, real gross national product should grow by some 2%; the average unemployment rate is estimated at approximately 3% and the advance in consumer prices at 6%.

#### February:

— With effect from 7 February the Bundesbank lowered the discount rate from 6 to 5.5% and the rate for advances on securities from 8 to

7.5%. The selling rates for money market paper were lowered by up to 1%. From 12 February selling rates for treasury bills were also cut by ½%.

— In mid-February a new pay agreement was concluded in the public service following negotiations between employers and employees: a 6% wage and salary increase was awarded, back-dated to 1 January. Each wage and salary earner also received a lump sum payment of DM 100. The new agreement runs for 13 months.

#### March:

— On 6 March the Bundesbank further lowered the discount rate by ½ to 5% and the rate for advances on securities by 1% to 6.5%. At the same time selling rates for money market paper were cut by ½%.

— On 21 March the Bundestag adopted the 1975 Federal budget. Total expenditure is DM 155 200 million, 12% up on the outturn for 1974 methodologically adjusted for the purpose of comparison. The net borrowing requirement is DM 25 700 million. These figures do not include the DM 2 300 million counter-cyclical spending programmes of September and December 1974 as these are to be financed from extra-budgetary funds frozen with the Bundesbank.

#### April:

— On 24 April the Bundesbank lowered the rate for advances on securities from 6.5 to 6%. The discount rate remained unchanged at 5%.

#### May:

— On 22 May the Bundesbank lowered the discount rate from 5 to 4.5% and the rate for advances on securities from 6 to 5.5%. With effect from 1 June reserve requirements on domestic liabilities were reduced by 5%, representing a reduction of about DM 2 000 million.

*June:*

— *On 4 June the Federal Government decided to allocate to measures for the creation of em-*

*ployment the sum of DM 250 million earmarked for specific employment aids (principally wage cost subsidies and mobility allowances) in the December 1974 economic programme which had not been implemented.*

TABLE 1: Key indicators

	1970	1971	1972	1973	1974	1974
	% change by volume on preceding year					1970=100
Gross domestic product	+ 5.9	+ 2.9	+ 3.4	+ 5.3	+ 0.6	113
Industrial production	+ 6.3	+ 2.4	+ 3.4	+ 5.9	- 1.3	111
Total imports	+ 15.3	+ 9.9	+ 8.8	+ 9.9	+ 4.0	137
Private consumers' expenditure	+ 7.0	+ 5.6	+ 4.1	+ 2.9	+ 0.2	113
Public current expenditure on goods and services	+ 4.9	+ 7.3	+ 3.9	+ 4.0	+ 4.4	121
Gross fixed asset formation	+ 11.5	+ 4.5	+ 2.7	+ 1.1	- 7.9	100
Total exports	+ 8.7	+ 6.8	+ 8.1	+ 16.7	+ 13.5	153
Gross domestic product per head of population	+ 4.9	+ 1.8	+ 2.7	+ 4.8	+ 0.5	110
Gross domestic product per person in employment	+ 4.6	+ 2.6	+ 3.6	+ 5.0	+ 2.5	114
	% change by value on preceding year					
Gross income per employee	+ 15.1	+ 12.5	+ 9.6	+ 12.9	+ 12.0	156

TABLE 2: Indicators for internal and external equilibrium

	1970	1971	1972	1973	1974
Balance exports less imports					
in million Eur	+ 3 052	+ 3 339	+ 4 393	+ 7 608	+ 11 880
as percentage of GNP	+ 1.6	+ 1.6	1.8	2.7	3.8
Unemployment rate	0.6	0.7	0.9	1.0	2.2
Consumer prices (% change on preceding year)	+ 3.5	+ 5.4	+ 5.4	+ 7.0	+ 7.3

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Million Eur	% of totals
	1969	1970	1971	1972	1973		
Visible exports							
Total	+ 16.9	+ 17.7	- 14.2	+ 9.0	+ 25.8	53 553	100.0
Intra-EEC	+ 23.9	+ 18.6	- 14.0	+ 8.5	+ 26.3	25 235	47.1
To non-EEC countries	- 12.8	+ 17.1	- 14.3	+ 9.4	+ 25.4	28 318	52.9
Exports of food, beverages and tobacco							
Total	+ 27.0	+ 27.6	+ 19.6	+ 19.1	+ 41.5	2 149	4.0
Intra-EEC	+ 31.0	+ 16.6	+ 22.2	+ 28.6	+ 37.3	1 354	2.5
To non-EEC countries	+ 21.6	+ 43.7	- 16.5	+ 7.2	+ 49.2	795	1.5
Exports of raw materials, fuel and power							
Total	+ 4.2	+ 18.9	+ 11.9	+ 0.1	- 31.8	2 870	5.4
Intra-EEC	+ 5.4	+ 20.1	+ 11.5	+ 0.4	- 25.4	1 835	3.4
To non-EEC countries	+ 2.4	+ 16.9	+ 12.6	- 0.4	+ 44.8	1 036	1.9
Exports of semi-finished and finished industrial goods							
Total	+ 17.5	+ 17.3	+ 14.1	+ 9.2	+ 25.5	48 534	90.6
Intra-EEC	+ 25.8	+ 18.6	+ 13.8	+ 8.3	+ 25.8	22 046	41.2
To non-EEC countries	+ 13.0	+ 16.5	+ 14.3	+ 9.8	+ 24.1	26 488	49.5
Visible imports							
Total	+ 23.7	+ 20.0	+ 15.2	+ 6.7	+ 18.6	43 421	100.0
Intra-EEC	+ 30.0	+ 21.8	+ 20.8	+ 11.1	+ 14.9	22 675	52.2
From non-EEC countries	+ 19.3	+ 17.9	+ 10.1	+ 2.7	+ 22.9	20 746	47.8
Imports of food, beverages and tobacco							
Total	+ 16.7	+ 14.3	+ 13.5	+ 10.2	+ 16.0	7 183	16.5
Intra-EEC	- 26.8	+ 12.6	+ 21.9	+ 15.3	+ 11.4	3 841	8.9
From non-EEC countries	- 9.0	- 15.9	- 6.2	+ 5.1	- 21.8	3 342	7.7
Imports of raw materials, fuel and power							
Total	+ 12.2	+ 13.6	+ 13.5	- 0.4	+ 34.9	10 090	23.2
Intra-EEC	+ 23.3	+ 18.5	+ 22.0	+ 2.1	+ 49.4	2 956	6.8
From non-EEC countries	+ 9.7	+ 12.3	+ 11.2	- 1.1	+ 29.6	7 134	16.4
Imports of semi-finished and finished industrial goods							
Total	+ 31.4	+ 23.5	+ 16.3	+ 8.2	- 13.9	26 147	60.3
Intra-EEC	+ 32.0	+ 24.8	+ 21.5	+ 11.5	+ 10.9	15 877	36.6
From non-EEC countries	+ 30.7	+ 22.1	- 10.6	+ 4.3	- 18.9	10 270	23.7

TABLE 4: Selected monthly indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept.	Oct	Nov	Dec	
Industrial production (1963 = 100)	1973	173.1	180.3	176.2	178.3	172.9	179.6	173.9	182.5	185.4	178.5	179.7	183.2	
	1974	178.0	181.3	179.1	177.8	174.5	187.6	176.3	175.7	174.7	170.8	171.2	163.6	
	1975	161.9	163.8	168.1										
New orders received (1963 = 100)	1974	248.0	225.8	228.3	218.5	258.0	221.0	220.9	228.7	223.6	229.7	233.1	221.7	
	1974	256.3	249.5	253.4	254.2	267.6	241.5	250.2	258.2	245.4	256.9	236.3	219.0	
	1975	249.8	234.8	212.2	243.2									
Unemployed (000)	1974	246.8	241.5	246.9	241.3	250.9	260.0	275.1	296.1	313.9	338.6	368.4	422.8	
	1974	411.3	405.0	478.5	518.5	532.0	555.6	558.3	651.4	711.4	796.9	867.7	821.3	
	1975	749.6	796.0	974.3	1 088.9	1 138.7								
Construction permits for residential construction (000)	1973	64.6	63.2	66.0	56.9	65.5	55.7	56.2	55.4	46.8	45.5	43.2	41.0	
	1974	43.9	38.0	37.1	34.8	39.8	31.4	33.6	32.5	31.7	32.9	27.6	37.6	
	1975	34.3	34.0											
Private consumers' expenditure Turnover of retail trade (1970 = 100)	1973	129	134	129	131	131	132	128	129	130	132	132	134	
	1974	134	135	136	137	138	135	142	138	141	144	143	140	
	1975	144	148	146										
Consumer prices (1970 = 100)	1973	115.2	116.0	116.8	117.5	118.2	119.0	119.3	119.3	119.4	120.3	121.8	122.9	
	1974	123.7	124.8	125.2	125.9	126.7	127.2	127.5	127.7	128.1	128.8	129.7	130.1	
	1975	131.3	132.0	132.6	133.6									
Visible imports (million Eur)	1973	3 324	3 418	3 356	3 386	3 789	3 406	3 562	3 723	3 605	4 080	4 129	3 697	
	1974	4 306	3 937	4 372	4 549	4 977	4 336	4 934	5 034	4 705	5 021	4 835	4 610	
	1975	4 275	4 520	4 122	5 235									
Visible exports (million Eur)	1973	4 008	3 921	4 043	4 168	4 664	4 020	4 500	4 661	4 719	5 133	5 150	4 669	
	1974	5 734	5 407	5 745	5 999	6 502	5 226	6 360	6 148	5 982	6 105	6 097	6 255	
	1975	5 730	5 506	5 079	6 111									
Balance of trade (million Eur)	1973	+ 684	+ 503	+ 687	+ 782	+ 875	+ 614	+ 938	+ 938	+ 1 114	+ 1 053	+ 1 021	+ 972	
	1974	+ 1 428	+ 1 470	+ 1 373	+ 1 450	+ 1 525	+ 890	+ 1 426	+ 1 114	+ 1 277	+ 1 084	+ 1 262	+ 1 645	
	1975	+ 1 455	+ 986	+ 957	+ 876									
Official gold and foreign exchange reserves (DM 000 million)	1973	77.0	86.4	93.9	92.9	91.2	93.5	98.2	96.2	101.4	100.4	98.2	92.5	
	1974	89.6	89.2	91.5	93.8	95.6	94.9	94.1	92.5	90.8	89.3	90.6	83.4	
	1975	84.8	86.8	87.8	85.8	85.0								
Money supply (DM 000 million)	1973	131.8	132.2	135.8	135.6	130.8	132.4	131.1	128.8	130.0	129.9	131.2	133.8	
	1974	134.5	135.8	136.2	137.0	136.8	139.5	140.5	141.3	142.5	142.1	146.7	149.7	
	1975	150.0	150.0	152.8	154.1									

## NOTES TO GRAPHS AND TABLES

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

*Graph 1*

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

*Graph 2*

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

*Graph 3*

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

*Graph 4*

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

*Graph 5*

Wages and consumer prices: index of the wage and salary bill per employee in industry (construction and energy excluded; cost-of-living index (all households)).

Series adjusted for seasonal variations by the Deutsche Bundesbank.

*Graph 6*

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

*Graph 7*

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

*Graph 8*

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

*Table 1*

Gross domestic product at market prices.

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

Total exports and imports: goods and services.

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 (including factor incomes).

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

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

*Table 3*

Exports fob, imports cif. The products have been grouped according to SITC section 0 and 1 (food, beverages and tobacco), 2-4 (raw materials, fuel and power) and 5-9 (semi-finished and finished industrial and miscellaneous goods). For intra-community trade, the new Community countries have not been taken into account except for 1973 figures (including comparisons with 1972).

*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 consumer's expenditure: Total retail trade; seasonally adjusted value index of the Deutsche Bundesbank.

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 the seasonally adjusted values of imports and exports.

Official gold and foreign exchange reserves: including IMF Special Drawing Rights and reserve position at the IMF. Figures are given gross, liabilities to abroad not having been deducted. Position at end of month.

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

## C. France

*The rapid decline in economic activity in the later months of 1974 was followed by a period of stagnation in the early part of this year. With domestic demand weak, external trade moved rapidly back into equilibrium and inflation lost a little momentum, though there was a sharp upsurge in unemployment.*

*The very scale of the decline in economic activity foreshadows a modest recovery, at least of a technical nature, by the end of the year. Trade should remain in equilibrium because exports will probably increase slightly. On the other hand, it is to be feared that an improvement in the economic activity will not allow much reduction in unemployment and will in fact curb the tendency for inflation to slow down.*

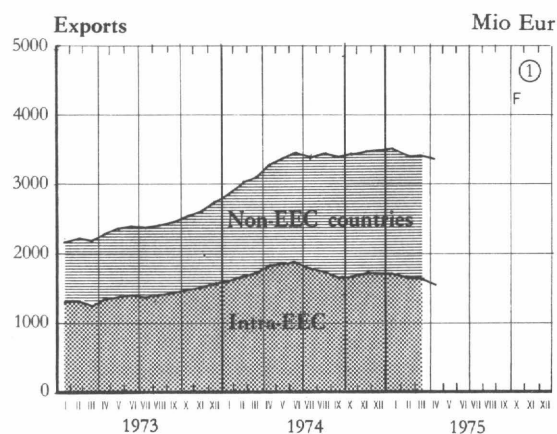
### 1. Recent developments

The decline in economic activity, a trend which spread through the various levels of the production process from last autumn onwards, gave way about the turn of the year to a period of stagnation which prevailed throughout most of the first half of 1975. It now seems possible that more balanced developments with regard to prices and trade can be once again achieved; on the other hand, unemployment has become a serious problem.

World business conditions have remained slack and French exports, in terms of value, have

therefore been marking time or actually declining. The slowdown in sales to industrialized countries has only been partly offset by further substantial progress on certain markets—mainly for capital goods—outside the Community; on the other hand, deliveries of intermediary goods have fallen.

Domestic demand has remained particularly depressed. Dealers and manufacturers have continued to run down stocks, though this phenomenon was declining by the end of the reference period. It began in 1974, when stocks of input products had reached extremely high levels at all stages, and it was strengthened by the serious cash difficulties now besetting firms and by weakening wholesale prices, combined with the poor business outlook.

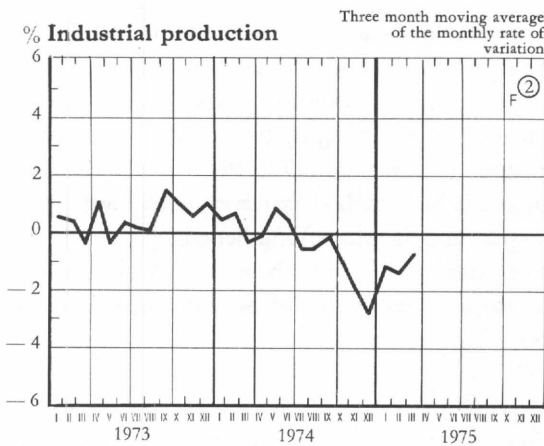


Expenditure on fixed investment has continued downwards: according to surveys carried out, the reduction in terms of volume continued during a considerable proportion of the first half of the year and is due not only to the financial difficulties affecting most firms, but also to the scale of idle capacity now available. In building and construction, the decline in activity which had begun as early as the middle of 1974 appears very substantial on a year-to-year comparison, although the seasonal slowdown seems to have been substantially less marked in recent

months due to the clement winter; in the residential construction sector, slacker activity is probably mainly due to the considerable increase in building costs while the growth rate of the disposable income of households has slowed considerably.

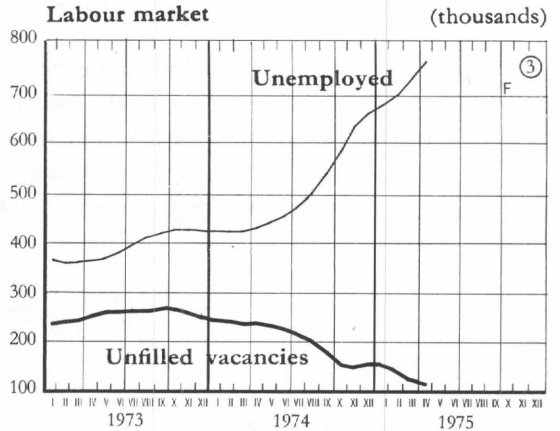
The decline in the overall purchasing power of persons in paid employment, resulting mainly from the slight reduction in numbers, has affected private consumers' expenditure: the volume of purchases of manufactures is about that of the same period of 1974. However, there is good reason to believe that households' reluctance to buy has its counterpart in a preference for precautionary, hence liquid saving, as evidenced, in particular by the trend in deposits in savings banks. Public current expenditure on goods and services, on the other hand, forged ahead in the early months of the year, this being mainly a matter of the various adjustments made to civil servants' salaries.

After the sharp decline in the second half of 1974, production probably stabilized in the early months of the present year. For the first quarter, the industrial production index (not including



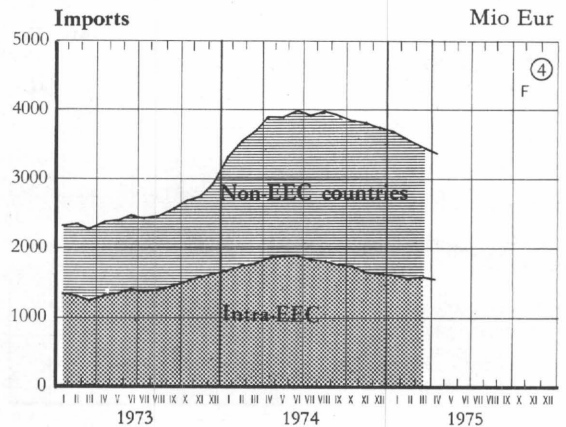
building and construction) was 7.8% lower than the same figure for 1974. However, the situation is not uniform throughout the sector: only the production of certain categories of capital goods items is continuing at a higher rate, while, with export demand flagging and managements still wishing to lower their stocks, intermediary goods are being manufactured in much smaller quantities.

With the decline in economic activity, many firms are now running well below capacity. Unemployment, rising sharply at the end of 1974, has reached a postwar record; for the first four months, the number of outstanding job applications was 70% up on the same 1974 figure. Short-time working also seems to have risen



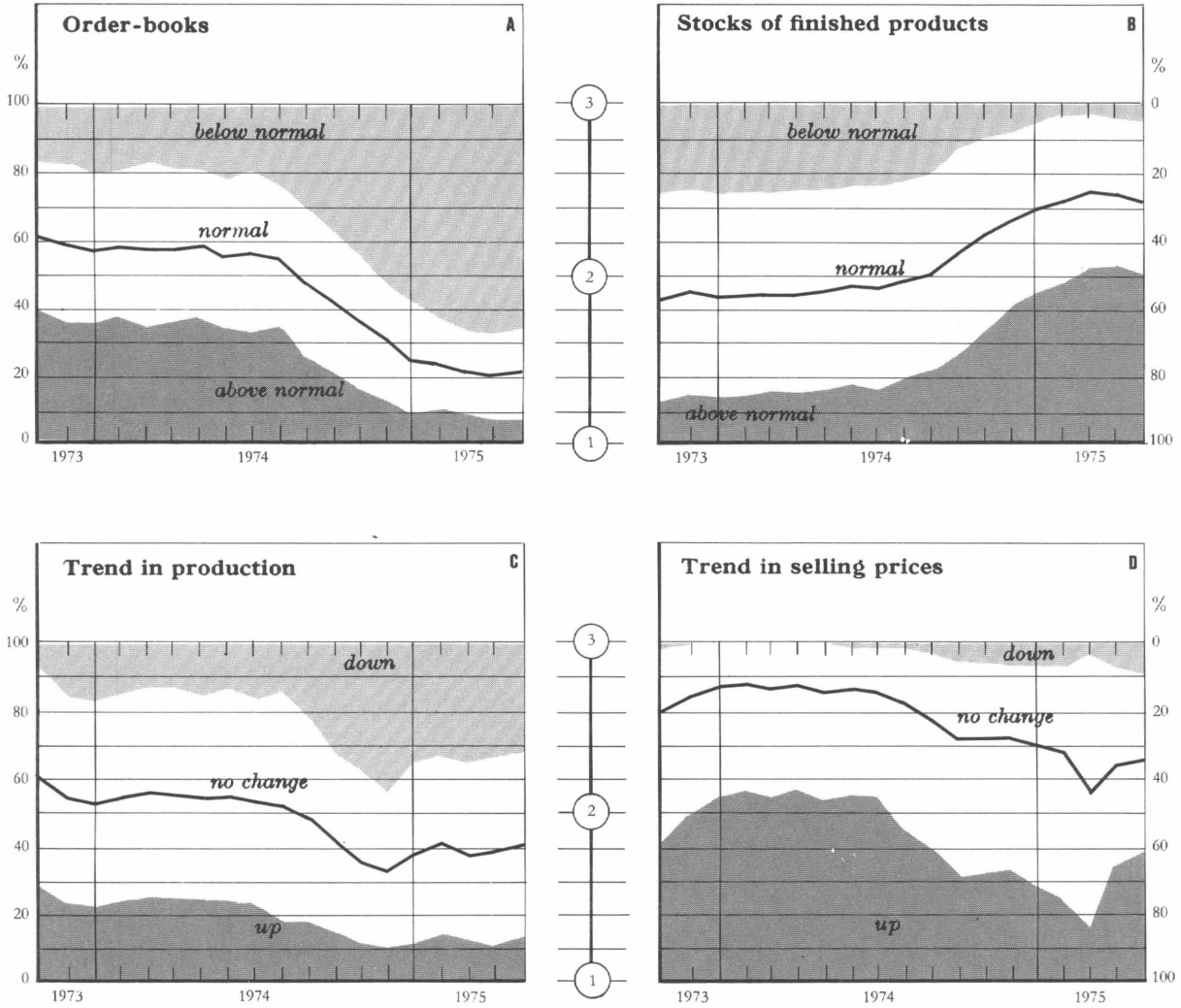
sharply, although here it is very hard to form an exact assessment. The number of vacancies has continued to decline though at a slower rate since the end of the first half of 1974. The decline in working hours has ceased. In this depressed employment situation, the upward movement in money wages remains considerable and is still generating increases in the purchasing power of the hourly wage-rate.

The stagnation of domestic economic activity had a marked effect on imports, which again de-





BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

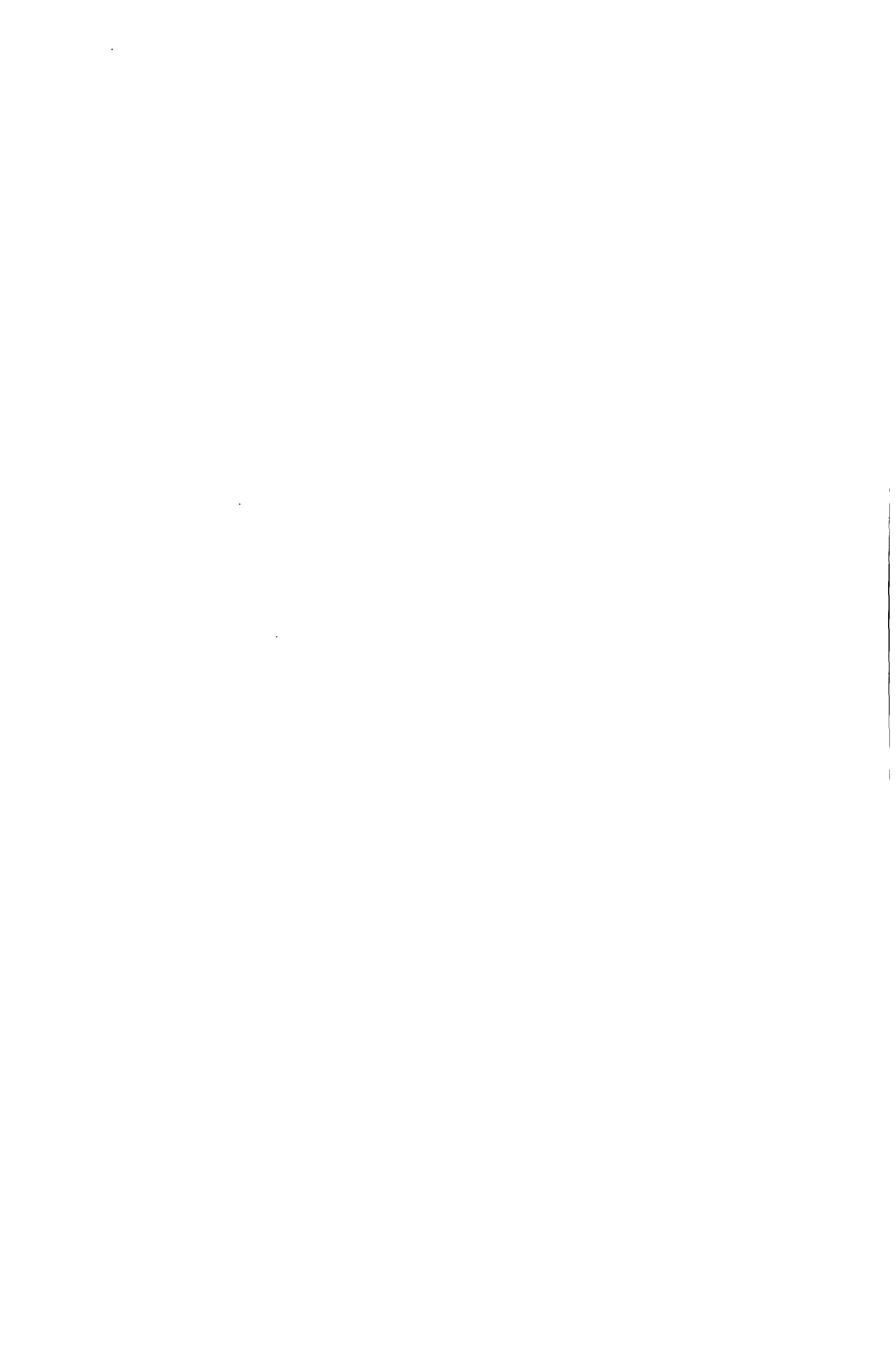


Answers to questions in the EEC business survey, carried out in France by INSEE.

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

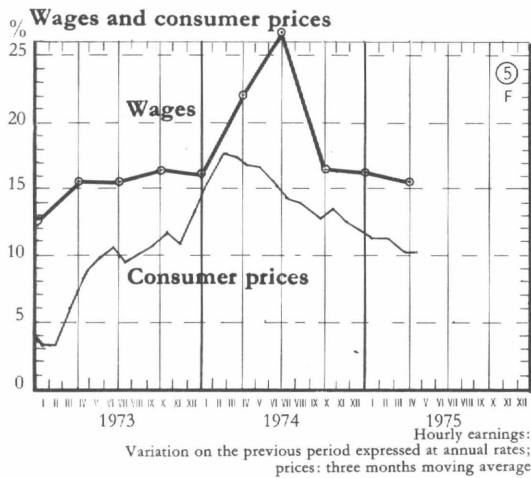
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows:

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



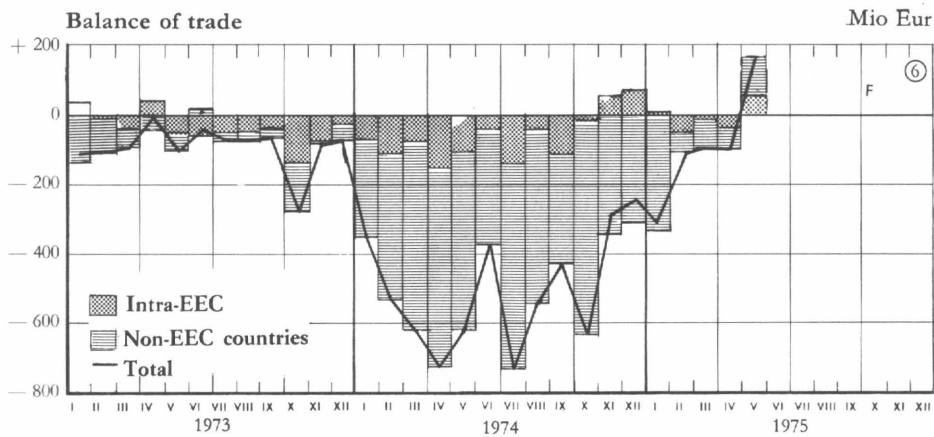
clined in terms of value during the early months of the year. The very definite reduction—3.2% for the first quarter compared with the last quarter of 1974—conceals, however, what was probably a less sharp change in the trend, because of the persistent appreciation of the French franc and the drop in raw materials prices. The index of prices of raw materials imported by France actually fell by nearly 5% between December 1974 and March 1975.

Prices began rising more slowly after mid-1974, but this trend was less marked in the first half



of 1975, and inflation remains some of the most disturbing aspects of the economic situation in France. It is true that the very sharp and very varied upward movements last year were bound to lead to successive increases in the retail price level. Nonetheless, a comparison of wholesale and retail price trends shows that margins have widened considerably since autumn 1974; for example, from September 1974 to March 1975 the retail price index for manufactured goods rose 5.9%, whereas, for the same period, the increase in wholesale prices of transformed industrial goods fell by nearly 2%. It may be that, by limiting competition between them, the constraint imposed on the expansion of the major retailers is in fact distorting the conditions under which retail prices are determined.

Although exports have stopped growing, the decline in imports in value led to a very prompt recovery in the trade balance, which was in equilibrium again by the end of 1974. This was, of course, facilitated by the sharp improvement in the terms of trade. The trade deficit (fob-fob, seasonally adjusted), which was still running at more than FF 2 000 million in the third quarter of 1974 and FF 435 million in the fourth quarter, gave way to a surplus of nearly

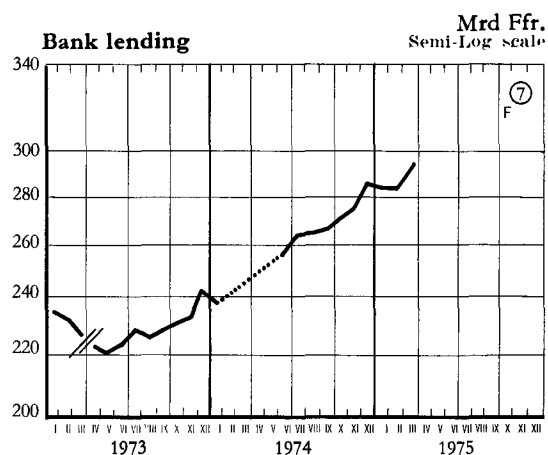


FF 2 000 million in the first quarter of 1975. This performance strengthened the tendency for the French franc to appreciate and by mid-May the franc was back within the Community 'snake' bands, although a year before it was being quoted at more than 12% below this

level. The strength of the franc is also accounted for in part by relative interest rates, still running at a high level: rates have been falling, though rather slowly, despite official encouragement, since late 1975, but the trend has been much more marked in respect of short-term

rates, which are now below long-term rates. Gross official gold and foreign exchange reserves rose (after revaluation of the gold stock) from FF 95 900 million in January to FF 98 500 million in April.

The expansion of the money supply (M2) stopped at the beginning of the year. According to the unadjusted figures it gave way in the first three months of the year to a reduction which promises to be one of the greatest in recent years. With regard to lending to commerce and industry, the situation of a year ago is now completely reversed and the ceilings imposed on the banks are in fact no longer reached.



*Demand for and supply of goods and services*

	1972 <sup>1</sup>	1973 <sup>1</sup>		1974 <sup>2</sup>		1975 <sup>2</sup>	
	At current prices (in FF '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	172.5	+ 12.7	+ 20.9	+ 14.9	+ 42.9	- 2	+ 2.5
Gross fixed asset formation	260.4	+ 6.5	+ 13.6	+ 2.1	+ 19.0	0	+ 11
Public current expenditure on goods and services	123.7	+ 3.4	+ 11.5	+ 3.5	+ 18.4	+ 11½	+ 17½
Private consumers' expenditure	597.5	+ 6.0	+ 13.6	+ 4.3	+ 17.3	+ 1	+ 12½
Gross national product	1 006.2	+ 6.0	+ 13.6	+ 3.8	+ 15.4	0	+ 13
Imports <sup>3</sup>	163.8	+ 14.1	+ 22.9	+ 12.2	+ 57.9	- 6½	- 5½

<sup>1</sup> Rapport sur les comptes de la Nation 1973. Ministère de l'Economie et des Finances.

<sup>2</sup> Estimates.

<sup>3</sup> Goods and services.

## 2. Outlook

There is little evidence pointing to an appreciable recovery in growth in the second half of this year, and it is likely that firms will go on working well below capacity. However, this should help the struggle against inflation and to consolidate trade equilibrium.

Only a fairly sharp recovery in the underlying trend of economic activity in a number of countries could generate any revival of exports, which will remain largely dependent on the execution of major contracts with certain non-member countries. French firms are by no means the only ones disposing of available production capacity and of stocks of products ready for delivery; only France's competitive position, still favourable in terms of prices, and what may

well be a range of products better adapted to outside needs, may enable the French economy to make the most of any recovery occurring in other countries. As to the past and future appreciation of the French franc, it is unlikely to harm the prospects of French exporters, since there is still room for appreciable productivity gains.

The outlook for any purely spontaneous revival of domestic demand seems remote: any progress will depend largely on trends in the situations of firms and in their production expectations.

Household consumption will serve to contain the fall in activity, but a recovery in this component of demand is unlikely. Such a recovery would need either a substantial improvement in the trend in disposable incomes, which could be

*The Central Government Budget*

	1974			1975	
	Budget		Preliminary results <sup>5</sup>	Budget	
	FF 000' million	% <sup>4</sup> changes	FF 000' million	FF 000' million	% <sup>4</sup> changes
Expenditure <sup>1</sup>	228.1	+ 17.7	244.4	269.5	+ 18.1
of which:					
— current expenditure	194.3	+ 13.5	208.3	232.3	+ 19.6
— capital expenditure	33.8	+ 2.4	36.1	37.2	+ 10.1
Revenue <sup>2</sup>	228.4	+ 11.9	252.9	269.5	+ 18.0
of which:					
— direct taxes	78.5	+ 17.7	96.1	102.6	+ 30.7
— indirect taxes <sup>3</sup>	126.7	+ 7.7	130.8	136.7	+ 7.9
Net borrowing requirement	+ 0.3	—	8.5	0	—

<sup>1</sup> General budget, specific appropriation accounts, loan accounts and balance on other specific accounts; debt repayments excluded.

<sup>2</sup> General budget, specific appropriation and loan accounts.

<sup>3</sup> After deduction of tax repayments and reliefs.

<sup>4</sup> Compared with initial budget of previous year.

<sup>5</sup> Second Revised Finance Act.

induced only by lower unemployment, or major gains in the purchasing power of the average wage, which would not be easy for firms to cope with, or, lastly, a sudden and substantial contraction in precautionary saving. The latter possibility should admittedly not be ruled out completely, but it would depend mainly on a change in the economic climate, and can therefore not be predicted in any reliable way. On the other hand, public current expenditure on goods and services will grow faster than in the past.

As for investment, it is still difficult to quantify the effect of last April's measures: the ample idle technical capacity available is likely to be an incentive to managements to act very prudently, in commissioning projects, or indeed to postpone them, even taking into account the advantages available to them from now until the end of the year, but the induced effect of demand from a number of industries (mainly in the public sector) for which investments have in any case been revised upwards must also be borne in mind. All in all, however, on the assumption that construction, particularly residential construction, will go on marking time, gross fixed asset formation will probably show no progress in real terms in the second half of the year. Even some increase in stock-building would not bring about an overall recovery: at all stages of the production process, stocks of products available for delivery are large enough for some time to cover a moderate build-up of stocks of inputs.

In view of the slackness of domestic demand, the recovery of production will probably remain modest in coming months. In certain cases, there could be a readjustment in the production system, where it has exaggerated the slowdown of demand.

Imports — largely a function of domestic activity — are unlikely to expand to any appreciable extent. In fact, managements have often turned to imports in the past to meet marginal needs at times when domestic production facilities were running at or near capacity; plainly, in the circumstances which will continue in the period up to the end of the year, this will not happen. It

is thus likely that the return to lasting trade equilibrium will be confirmed.

Several factors should help to slow down the upward retail price movement: in particular strain has been easing for several months in the trend of production costs at the wholesale price stage, demand is weak, and stocks and unit financing costs of stocks are declining. On the other hand, it must be remembered that certain price increases have not yet worked their way through the economy completely and that many managements are anxious to achieve a more healthy situation. Moreover, neither the sluggish business phase nor measures to reactivate the economy taken recently have altered the specifically structural causes of inflation in France. In particular, any marked recovery of demand could well create difficult conditions once again in certain industries with regard to production costs. Apparently the present period of relief on the labour market has not been used adequately to train the available work force, where skills are inadequate. Thus it is to be feared that as soon as the economy does get under way again, managements will once again find themselves hampered by the shortage of workers with the right skills. It is also possible, given the usual tendency for those involved in the economic process to persist in set behaviour patterns, that the present price control system will help to freeze relative price differentials, which, as time goes on, are getting farther and farther away from any economic rationality.

The threats to the short-term trend in the French economy discernible in the second half of 1974 seem for certain people to have been partly dispelled. Nevertheless, external equilibrium has been restored and 'imported' inflation has slowed down, in a very depressed international environment, only at the cost of an appreciable slowdown in economic activity and a very sharp worsening of unemployment; thus there is a great temptation to end this phase of consolidation. In present circumstances, with the underlying trend of inflation running at nearly 12% on an annual basis, any attempt to reactivate the economy by boosting domestic demand would be fraught with danger. The productive investment incentives introduced in the first half of this year are certainly those least

liable to spur inflation; however, it is also likely to be some time before they affect the general level of economic activity and improve employment. On the other hand, measures adopted at the same time to expand consumption would probably have generated a more rapid recovery, but at the price of a further inflationary spurt and the subsequent reemergence of an external disequilibrium situation which would impose a heavy burden on the French economy. Any lasting improvement in the conditions governing economic growth must depend on using the present period of lesser strain to implement measures to eliminate the structural components of inflation. This policy approach does not seem compatible with any early return to sustained growth.

### Major economic policy measures

November 1974:

— The Government adopted the draft Finance Law amended for 1974, complementary to the supplementary estimates voted in July 1974: expenditure will be FF 239 700 million, or FF 16 000 million more than the appropriations in the original budget, and revenues will be FF 248 200 million, thus exceeding by FF 24 000 million the original forecast. The public revenue surplus will therefore be about FF 8 500 million.

December:

— From 1 December the minimum hourly wage rate was increased by 3% (FF 6.75 instead of FF 6.55); this brought the increase for a year to 26.9%, comparing with price increases of 15%.

— A decree established the new arrangements with regard to trading margins for the first nine months of 1975; the margins will be calculated in relative values, item by item, and can be checked at any time by the authorities. In particular, any reduction at the wholesale stage must be reflected in retail prices.

— The Government adopted a set of monetary-policy measures :

- interest rates for the various forms of saving were raised on 1 January;
- the credit limitation system will be relaxed and simplified, the aim being to curb monetary growth in 1975 to about 11 to 12%. While previously the ceilings had been determined on the basis of 1972 transactions, the new system will take as basis the average of the authorized amounts outstanding for the last two quarters of 1974. Using this basis, the increase will be subject to a ceiling at +2% at the end of the first quarter of 1975 and at +3% at the end of the second quarter. For claims connected with exports, the rate of increase will be twice as high. The credits exempt from limitation will be retained. Special arrangements will be made to help small and medium-sized firms;
- In January, the Bank of France will revalue in its books the gold and foreign exchange reserves on the basis of free market prices.

January 1975:

— Fuel and power prices raised; the highest increases were in the industrial rates (gas, 20%, electricity, 19.2%).

— The Bank of France reduced its discount rate from 13 to 12%. The Banks' base rate was lowered by 0.5%, to 11.9%.

February:

— The Ministry of Agriculture released details of measures adopted to support farmers' incomes in 1975. They consisted mainly in two types of premium supplementing a price improvement agreed at Community level.

— The Bank of France lowered its discount rate from 12 to 11%. The banks' base rate was lowered from 11.9% to 11.2%.

March:

— The minimum hourly wage rate was raised from FF 6.75 to FF 6.95, an increase of about 3%.

— Several measures to support economic activity were adopted : they concerned mainly building and construction (subsidized housing, the release from credit limitation of certain types of loans, higher price ceilings) and industrial in-

vestment (relaxation of terms governing loans, reintroduction of the degressive depreciation system).

April:

— The Banque de France reduced its discount rate from 11% to 10%. The banks' base rate was lowered by 0.90 percentage points, from 11.20 % to 10.30 %.

— A number of measures were adopted with a view to supporting economic activity through a recovery of productive investment:

- floating of a consolidated FF 5 000 million equipment loan, with interest rate bonus;
- interest rate rebates for the FF 3 000 million credits recently allotted to export firms;
- special loan from the Economic and Social Development Fund of FF 250 million for the improvement of industrial structures;
- investment in nationalized undertakings was speeded up;
- tax rebates corresponding to 10 % of the cost of productive investment made by all undertaking between 30 April and 31 December 1975;
- payment of the first instalment of the conjunctural levy (due on 30 April) was waived;

— FF 240 million were approved (programme authorization) and FF 120 million were approved (as payment credits) for the West and Centre regions;

— a supplementary telecommunications' investment scheme was launched, involving a total of FF 4 200 million spread over 1975 and 1976.

May:

— The President announced the return of the franc into the Community 'snake'

June:

— The minimum hourly wage rate was raised to FF 7.12, an increase of 2.5%.

— The Prime Minister announced certain measures affecting the employment of young people, notably financial guarantees to young people seeking employment for the first time.

— The Finance Minister adopted measures affecting profit margins on certain products (through limiting percentage mark-ups) and froze the prices of certain other products.

— The Bank of France lowered its discount rate to 9½%.



TABLE 1: Key indicators

	1970	1971	1972	1973	1974	1974
	% change by volume on preceding year					1970 = 100
Gross domestic product	+ 5.8	+ 5.3	+ 5.7	+ 5.8	+ 3.8	122
Industrial production	+ 6.4	+ 5.7	+ 6.5	+ 5.9	+ 2.8	123
Total imports	+ 3.2	+ 8.8	+ 14.7	+ 18.1	+ 11.1	164
Private consumers' expenditure	+ 4.5	+ 5.9	+ 5.8	+ 5.8	+ 4.3	124
Public current expenditure on goods and services	+ 3.3	+ 4.2	+ 3.9	+ 4.1	+ 3.5	117
Gross fixed asset formation	+ 5.2	+ 6.7	+ 7.6	+ 5.6	+ 3.1	125
Total exports	+ 12.4	+ 11.7	+ 10.8	+ 15.5	+ 13.9	163
Gross domestic product per head of population	+ 4.9	+ 4.3	+ 4.7	+ 5.0	+ 3.0	118
Gross domestic product per person in employment	+ 4.4	+ 4.7	+ 5.0	+ 4.5	+ 2.8	118
	% change by value on preceding year					
Gross income per employee	+ 10.2	+ 10.5	+ 10.6	+ 12.4	+ 17.6	161

TABLE 2: Indicators for internal and external equilibrium

	1970	1971	1972	1973	1974
Balance exports less imports					
in million Eur	+ 720	+ 1 620	+ 1 692	+ 1 440	+ 3 151
as percentage of GDP	+ 0.5	+ 1.0	+ 0.9	+ 0.7	+ 1.3
Unemployment rate	1.7	2.1	2.3	2.1	2.3
Price-index of private consumers' expenditure (% change on preceding year)	+ 5.3	+ 5.7	+ 5.9	+ 7.1	+ 13.6

TABLE 3: Foreign trade (at current prices)

	"% change on preceding year					Million Eur	"% of totals
	1969	1970	1971	1972	1973		
Visible exports							
Total	17.4	19.2	14.6	15.6	21.2	28 453	100.0
Intra-EEC	30.6	21.7	16.0	16.5	20.7	13 964	56.1
To non-EEC countries	7.5	16.9	13.2	14.4	21.9	12 489	43.9
Exports of food, beverages and tobacco							
Total	20.8	6.0	26.9	20.6	16.5	4 833	17.0
Intra-EEC	41.9	1.8	31.4	22.2	19.1	3 465	12.2
To non-EEC countries	3.3	13.2	20.3	17.9	10.3	1 368	4.8
Exports of raw materials, fuel and power							
Total	10.6	12.1	7.0	19.5	24.8	2 224	7.8
Intra-EEC	19.9	14.2	3.6	19.3	25.0	1 576	5.5
To non-EEC countries	3.5	7.9	13.8	19.9	24.4	648	2.3
Exports of semi-finished and finished industrial goods							
Total	17.5	23.1	12.9	13.9	22.0	21 396	75.2
Intra-EEC	29.0	29.7	13.8	14.4	20.7	10 923	38.4
To non-EEC countries	10.2	18.1	12.2	13.6	23.4	10 473	36.8
Visible imports							
Total	23.7	9.9	11.3	15.2	21.9	29 575	100.0
Intra-EEC	31.3	6.5	13.9	15.9	20.7	16 398	55.5
From non-EEC countries	16.7	13.3	8.8	14.5	23.5	13 177	44.5
Imports of food, beverages and tobacco							
Total	19.5	6.9	4.1	15.7	24.0	3 665	12.4
Intra-EEC	33.4	3.9	14.3	11.2	19.8	1 458	4.9
From non-EEC countries	13.5	8.4	0.9	18.3	26.9	2 207	7.5
Imports of raw materials, fuel and power							
Total	10.6	11.9	15.0	8.5	20.1	6 747	22.8
Intra-EEC	11.4	9.0	17.2	7.1	19.7	1 222	4.1
From non-EEC countries	10.5	12.5	14.6	8.8	20.2	5 525	18.7
Imports of semi-finished and finished industrial goods							
Total	30.3	9.8	11.4	17.7	22.2	19 163	64.8
Intra-EEC	33.3	6.6	13.5	17.3	20.8	13 718	46.4
From non-EEC countries	24.6	16.1	7.5	18.5	25.6	5 445	18.4

TABLE 4: Selected monthly indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Industrial production (1965 = 100)	1973	180.7	181.7	183.5	179.0	187.4	184.7	181.0	188.5	185.2	189.5	193.7	187.9
	1974	194.9	195.7	191.5	193.3	195.4	195.6	191.3	192.3	192.1	191.4	185.9	180.5
	1975	179.7	180.2	174.6									
Number of persons seeking employment (1 000)	1973	367.7	362.9	364.7	372.5	377.3	380.8	396.4	404.7	426.6	428.1	420.4	424.9
	1974	422.2	420.8	421.9	426.4	437.7	455.2	475.8	490.6	545.9	589.3	634.7	664.3
	1975	673.9	701.3	731.2	770.7								
Construction - building permits issued for housing (1 000)	1973			146.3			145.6			159.4			169.1
	1974			176.6			152.0			186.4			158.8
	1975			172.6			157.9			160.1			126.2
Private consumer's expenditure turnover of department stores (1965 = 100)	1973	109.2	113.4	117.5	108.7	116.0	121.0	114.9	111.2	120.4	123.0	119.4	130.5
	1974	127.0	129.0	127.0	129.0	136.5	130.1	130.9	134.2	139.1	143.5	133.0	133.5
	1975	143.9	144.5	139.8	147.0								
Consumer prices (1970 = 100)	1973	115.5	115.8	116.4	117.2	118.3	119.2	120.2	121.0	122.1	123.4	124.5	125.3
	1974	127.4	129.1	130.6	132.7	134.3	135.8	137.5	138.6	140.1	141.8	143.1	144.3
	1975	145.9	147.0	148.2	149.5								
Visible imports (million Eur)	1973	2 323	2 249	2 313	2 133	2 555	2 369	2 425	2 430	2 486	2 825	2 760	2 626
	1974	3 432	3 500	3 637	3 967	4 111	3 644	4 224	3 876	3 859	4 021	3 673	3 839
	1975	3 758	3 560	3 292	3 554								
Visible exports (million Eur)	1973	2 209	2 147	2 219	2 132	2 457	2 329	2 352	2 352	2 426	2 549	2 688	2 559
	1974	3 068	2 965	3 020	3 239	3 500	3 269	3 504	3 327	3 434	3 388	3 387	3 597
	1975	3 447	3 458	3 211	3 472								
Balance of trade (million Eur)	1973	114	102	94	1	98	40	73	78	60	276	72	57
	1974	364	535	617	728	611	375	720	549	425	633	286	242
	1975	311	102	81	82								
Official foreign exchange reserves (million Eur)	1973	4 659	4 260	4 710	4 899	5 005	4 935	4 951	4 650	4 636	3 758	3 104	3 088
	1974	2 708	2 558	2 567	2 471	2 406	2 423	2 586	2 739	2 788	3 037	3 023	2 886
	1975	2 842	2 944	3 090	3 353								
Money supply (Bfr 1 000 million)	1973	289.7	290.1	293.1	298.8	302.5	302.4	298.9	301.1	305.1	306.9	305.6	322.2
	1974	318.0	316.6				319.0	329.7	325.7	331.3	337.3	355.7	371.9
	1975	355.9	350.2	358.6									

## NOTES TO GRAPHS AND TABLES

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

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

— For the intra community trade the new Community countries have not yet been taken into account, except for 1973 in table 3.

*Graph 1*

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

*Graph 2*

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

*Graph 3*

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

*Graph 4*

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

*Graph 5*

Wages and consumer prices; index of hourly wage rates, all activities, all regions; national index of consumer prices (295 items).

*Note on representation of gains in purchasing power.* The moving average centred on month  $j$  of the monthly rates of change for the months  $(j-1)$ ,  $j$ ,  $(j+1)$  is approximately equal to one third of the change between the months  $(j-2)$  and  $(j+1)$ . For example, in May 1974 and at annual rates, the moving average gives a rate of increase in prices of 16.7% compared with 16.9% for the change between March and June. Thus to show the gains in purchasing power graphically, the curve for prices must be put forward one month.

*Graph 6*

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

*Graph 7*

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

*Table 1*

GDP at market prices.

Industrial production: value added by industry.

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

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

*Table 2*

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

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

Consumer prices: price index of private consumption adjusted by the GDP 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: number of dwellings authorized. Position at end of quarter.

Private consumer's expenditure: turnovers by value, adjusted for seasonal variations. *Source*: Centre d'observation économique de la Chambre de Commerce de Paris.

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

Imports cif, exports fob, adjusted for seasonal variations.

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

Gross reserves of convertible currency.

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. *Source*: Banque de France.

## D. Ireland

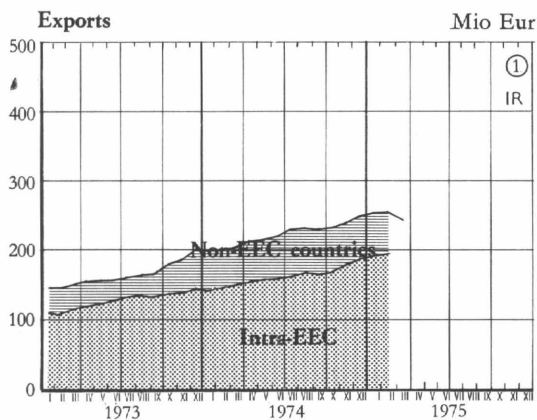
*The economy has continued to be characterized in the past few months by a persistent slowdown in demand and production which has been reflected in successive increases in unemployment. At the same time the rise in prices has accelerated and the deficit on the current balance is still substantial.*

*These trends seem unlikely to be modified appreciably in the course of the coming months and the overall level of activity will, no doubt, be weak, particularly when account is taken of the less favourable outlook for external demand. Inflationary tendencies should also remain marked.*

### 1. Recent developments

Economic activity has remained weak over the past few months and has been accompanied by a persistent increase in unemployment. Inflation, which is already the highest among Community countries, has accelerated. The current balance has made some progress since the end of 1974.

The growth of external demand has slowed down a little since December. Thus, *exports* which has risen in value by 8.3% in the period



September-December, on a seasonally adjusted basis, only rose by 5.6% in the first four months

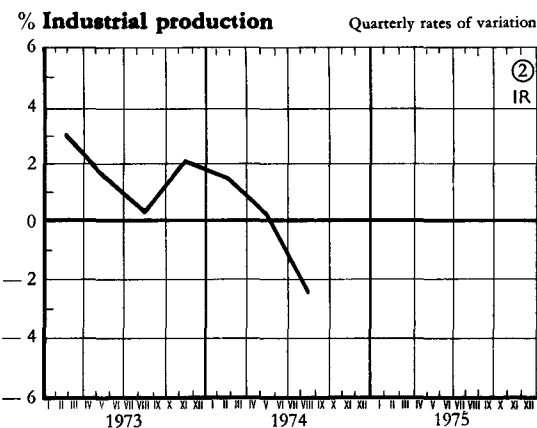
of 1975. When account is taken of the rise in export prices, this development however masks a slight decline in volume. On one hand sales of industrial products have been hit by the slowdown in demand on principal markets, particularly in the capital goods sector (and in particular the mechanical and electrical industries). On the other, the value of sales of agricultural products has not been as substantial as expected. The favourable effects of the large rise in prices emerging from the new agreements within the Community and the growth of capacity in the beef sector have in part been cancelled out by a moderation in the volume of produce available for export after the very high levels of sales in the last quarter of 1974 and the early months of 1975.

Despite some signs of improvement, internal demand has in total remained very sluggish. The slowdown in world demand, the unfavourable financial position of firms and the uncertain conjunctural outlook have put a brake on the propensity to invest. On the basis of the partial indicators available, private sector *investment*, with the exception of foreign inflows, has declined substantially. Despite the support measures taken at the beginning of the year the construction sector has remained stagnant. The number of housing starts has diminished over the past few months. The only more dynamic

element has been in the area of local authority housing. Because of the restrictive nature of the budget in so far as capital expenditure is concerned, public investment in the majority of sectors has only progressed slowly in value which reflects a reduction in volume.

The depressed trend of private *consumption* which was a feature of the last quarter of 1974 continued into the early months of 1975, reflecting the fall in real disposable income as inflation eroded aggregate incomes whose growth had been affected by rising unemployment and the fall in personal incomes. Another factor in the low level of consumption was the high level of savings. Retail sales in the first two months of 1975 rose by 15.8% in value on a year-to-year basis which, when account is taken of rising prices, meant a fall of 7% in volume. New car registrations decreased on a year-to-year basis by 6.4% in the period January-April. Given the large rise in wages and salaries public consumption has increased rapidly.

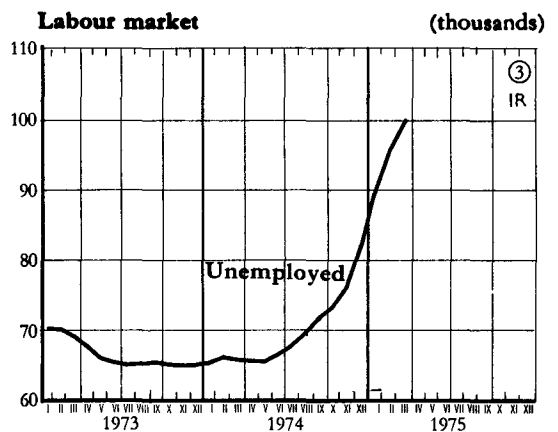
In the absence of available statistics and based on the results of the business survey carried out among managements, it seems that *industrial production* continued to slow down up to February before stabilizing at this level. Those sectors most affected by the slowdown have



been those of non-durable consumer goods, in particular in the areas of textiles and clothing and footwear. On the other hand, some improvement has been observed in intermediate goods. Agricultural production is likely to have been

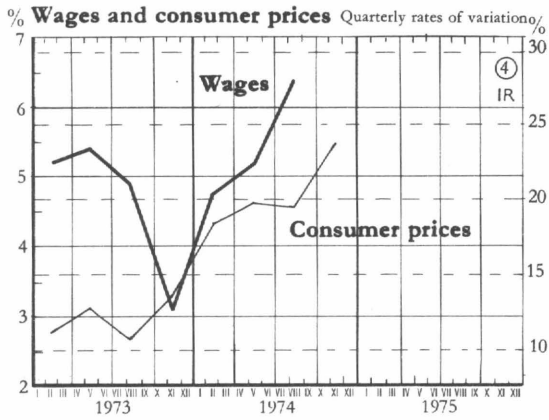
slightly better on account of the fall already recorded in cattle stocks in the second half of 1974 and of the rise in Community prices. Tourism has experienced some further drop in the number of visitors at the beginning of the year (-4% for January to April) despite a sharp increase observed from partner countries with the exception of the United Kingdom.

The employment situation has continued to dis-improve up to the spring. The number of those unemployed, which does not include school leavers or married women not eligible for unemployment payments, seasonally corrected, rose to 102 000 in April, which represents 9% of the labour force and is the highest level recorded for thirty years. The construction and textile sectors have been particularly hit. The reduction



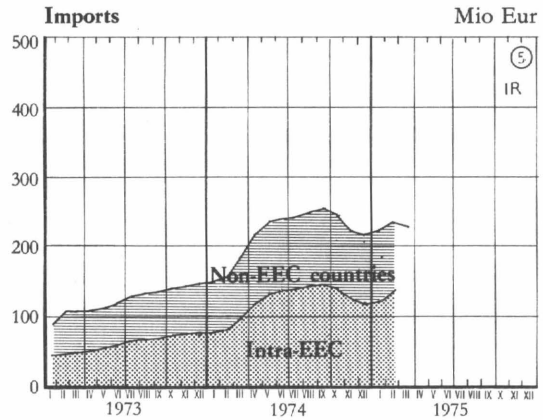
in the number of short-time workers can be explained by their movement into full unemployment.

Notably because of the effect of the increase in indirect taxes on certain consumer products, the rise in *prices* has accelerated in recent months. The consumer price index, which on a quarter-to-quarter basis had risen by 4.6% in the fourth quarter of 1974, increased by 8% in the first quarter of 1975 and by 6½% in the second quarter bringing it at mid-May to a figure 25% above that of the corresponding period of 1974. Because of the persistent slowdown in economic activity and a return to a more normal level of stocks, the growth in *imports* has fallen. In the first four months of the year their value, adjust-

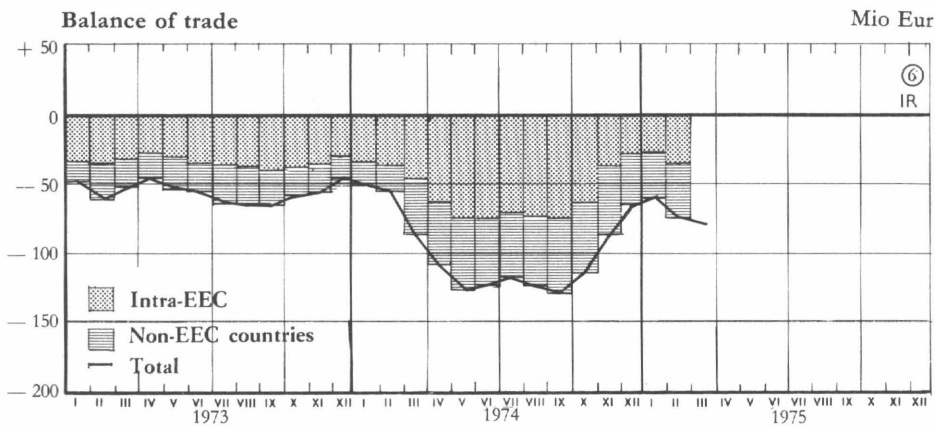


ed for seasonality, only rose by 2.3% on the period September-December 1974.

Because of this the trade deficit has decreased in the past few months (from January to April it was £123 million as against £133 million in



the period September-December 1974). The current account is also likely to have improved moderately; the deficit being a good deal less than last year. Since December the official reserves have fallen slightly and in April were £23 below the figure recorded at the end of 1974.



On a trade weighted basis the exchange rate of the pound has deteriorated during the past few weeks.

Monetary policy remains reasonably neutral. The increase in the money supply slowed down and in April was 17.7% above the corresponding figure for 1974.<sup>1</sup> The growth rate of bank lending to the private sector has also fallen over recent months (+8.5% in April on a year-to-year basis).



<sup>1</sup> as against 20.2% in December.

*Demand for and supply of goods and services*

	1972 <sup>1</sup>	1973 <sup>1</sup>		1974 <sup>2</sup>		1975 <sup>2</sup>	
	At current prices (in £ million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	774.9	- 9.0	+ 31.2	+ 0.9	- 23.3	- 21 <sub>2</sub>	. 22
Gross fixed asset formation	465.2	- 15.1	+ 27.0	- 3.4	+ 21.3	- 4	+ 141 <sub>2</sub>
Public current expenditure on goods and services	335.8	+ 4.4	20.0	+ 6.4	- 25.6	+ 1	+ 361 <sub>2</sub>
Private consumers' expenditure	1 484.6	- 7.7	+ 19.6	- 2.3	+ 14.6	- 1	+ 26
Gross domestic product	2 213.2	- 5.4	- 19.9	+ 0.4	+ 8.5	0	30
Imports <sup>3</sup>	894.1	+ 17.6	+ 35.1	- 3.7	+ 41.9	- 41 <sub>2</sub>	+ 111 <sub>2</sub>

<sup>1</sup> National income and expenditure 1973 C.S.O.

<sup>2</sup> Estimates.

<sup>3</sup> Goods and services.

## 2. Outlook

The outlook for the coming months is not such that an appreciable recovery of the conjunctural situation can be awaited. The probable but not yet certain, strengthening of internal demand and in particular of consumer expenditure will be compensated for by a more moderate trend in external demand. Not until the end of the year and possibly even into 1976, and to such an extent as the requirements of major partner countries pickup, will any progressive improvement take place. Thus, in total the rate of growth of gross domestic product is only likely to be slightly above zero for 1975 as a whole.

*Exports* will only grow slowly. The value of sales of industrial goods should be affected by the retarded effect of the weakness of world

demand as well as by the less rapid increase of imports into the United Kingdom. Exports of agricultural products could benefit on the other hand from the increase in prices decided on within the Community. In total, the volume of total exports in 1975 is likely to decline.

Internal demand should be somewhat more dynamic. The propensity to invest will no doubt remain weak, both in the public and private sectors. However, construction activity should register some recovery as a result of a greater supply of credit from the building societies.

*Consumer expenditure* should however pick up. A certain number of factors will contribute towards boosting personal incomes: the salary increase of 10% between January and March according to the sector concerned, for cost of



living rises in 1974,<sup>1</sup> the progressive implementation of the new pay agreement which provides for large increases in wages and salaries, the increase in social welfare transfers and the rise in agricultural incomes. In total the

effect on private consumption should be positive, despite the employment situation and the high savings ratio. Public authority current expenditure should also continue to grow rapidly.

*The Central Government Budget*

	1974			1975	
	Initial Budget <sup>e)</sup>		Outturn	Initial Budget <sup>e)</sup>	
	£M	<sup>0</sup> / <sub>0</sub> <sup>3</sup> change	£M	£M	<sup>0</sup> / <sub>0</sub> <sup>3</sup> change
Expenditure <sup>1</sup>	1 211	+ 25.1	1 235	1 561	+ 28.9
of which:					
— current expenditure	941	+ 22.7	957	1 251	+ 32.9
— capital expenditure <sup>2</sup>	270	+ 34.5	278	310	+ 14.8
Revenue	899	+ 18.5	899	1 129	+ 25.6
of which:					
— direct taxes	295	+ 22.9	293	390	+ 32.2
— indirect taxes	466	+ 12.3	461	581	+ 24.7
Net borrowing requirement <sup>1</sup>	— 312	+ 49.1	— 336	— 432	+ 38.5

<sup>1</sup> Disregarding debt extinction.

<sup>2</sup> Including participations, advances and loans.

<sup>3</sup> On the preceding year's initial budget. For 1973 only outturn figures are available.

<sup>e</sup> Estimates.

*Note:*

The figures in this table are based on national budgets and are recalculated on the basis of Community definitions.

This slightly more favourable outlook for internal demand should make itself felt gradually on the level of *production* which could recover moderately. This revival will not however be felt equally by all sectors but should benefit firstly those home industries producing consumer goods which up to now have been particularly affected by the slowdown in activity. The other more specialized firms, particularly in areas of high technology, will continue to suffer

from the effects of the flat international conjunctural position.

Employment is unlikely to improve before the end of the year. The unemployment rate will remain very high, given the arrival of school leavers on the already depressed labour market, the progressive reduction of the agricultural work force and reduced emigration.

There does not appear to be much hope for any substantial slowdown in the rate of inflation. Indeed the increase in food prices and the already strong pressure of internal costs will be

<sup>1</sup> The 1974 National Pay Agreement provided for full compensation of cost of living increases in 1974 above a ceiling of 10%.

further factors pushing up *prices* appreciably and these are unlikely to be cancelled out entirely by the moderation expected in import prices.

*Imports* are likely to experience some recovery towards the end of the year as a result of the strengthening of the demand for consumer goods. However, the terms of trade should improve markedly. Thus, the trade deficit will fall. As the services account should make some progress, the deficit on the balance of payment will be a good deal below that recorded in 1974.

As the pressure on prices and costs will remain substantial the margin available to the authorities to stimulate the economy and improve the employment position will remain narrow. In this respect the effects of the recent wage negotiations will make it more difficult to achieve progress on the employment front. The new National Pay agreement, particularly in so far as it implies substantial increases in government current expenditure, uses up resources which could be more appropriately used for creating employment and increasing the productive capacity of the economy by capital expenditure. Without substantial progress towards the limitation of cost increases the solution proposed of exchange rate adjustment could only be applied at the expense of a further aggravation of the employment position in traditional industries.

### Major economic policy measures

October 1974:

*The Minister for Industry and Commerce sanctioned certain price increases for dairy products.*

— *The Minister for Finance announced that a loan of about £7½ million denominated in Kuwaiti dinars is to be raised to help finance the public capital programme.*

— *The Minister for Finance issued a National Loan with a redemption yield of 12.56%. The loan is for a period of five years with the right of conversion into a sixteen year stock with a guaranteed minimum redemption yield (13.39%). The amount of private subscriptions to the stock was £18 million.*

November:

— *The Minister for Finance announced that he had arranged with a consortium of banks led by the Algemene Bank Nederland N.V., S.C. Warburg & Co. Ltd. and the Kredietbank S.A. Luxembourgeoise a loan of up to 50 million guilders (approximately £8.3 million) for five years at 10¼% to help finance the Government's capital programme.*

— *The Electricity Supply Board announced that it had arranged a £17.24 million seven year loan with a group of banks led by Morgan Guaranty Trust Company of New York to aid the financing of its development programme.*

— *A Government White Paper on the economy entitled 'A National Partnership' called for co-operation between the different groups in the economy to deal with the economic crisis.*

— *The Minister for Finance announced that the Government is to raise \$25 million (approximately £11 million) on the US Bond market.*

December:

— *The Government announced a substantial increase in the excise duty on petrol which is estimated to produce an increased Exchequer revenue of £27 million.*

January 1975:

— *The Minister for Local Government introduced a price index for new houses. For new houses ordered under contracts containing price variation clauses builders will not be permitted to impose extra charges to cover profits. If they do, the houses will be disqualified from State grants.*

— *The Minister for Industry and Commerce made an order fixing the maximum price of petrol. The order permits an increase of 10.3% in retail prices.*

— *The Irish Government Budget presented by the Minister for Finance implies a current deficit of £125 million. The major features of the current budget were:*

— *an increase in personal allowances for income tax of 15%;*

- measures to improve corporate liquidity by excluding the rise in values of stocks due to inflation from tax liability;
- increased depreciation allowances;
- social welfare increases of over 20%;
- increases in public sector salaries to account for inflation in 1975;
- increased expenditure and reliefs on industrial training (£1 million), agriculture (£2.3 million), horticulture (£0.3 million);
- increased excise duties on beer, tobacco, spirits, wine and table waters to produce an increase in revenue of £32 million;
- increased betting and stamp duties, as well as VAT Anti Avoidance and other measures to produce £4.2 million;
- introduction of new capital taxes (£3 million).
- The Government Capital Budget for 1975 provides for an increased expenditure of 19% on a year-to-year basis: capital investment and loans to industry are to rise by 41% and housing investment by 30%.

February:

- The Irish Banks' Standing Committee announced a reduction in lending and deposit rates.
- The Minister for Industry and Commerce approved certain increases in prices recommended by the National Prices Commission.
- The Council of Ministers of the EEC agreed on a farm price package which included a provision for the devaluation of the Irish green pound by 6.25% and increases in agricultural prices.
- The Government announced that a further £7 million is to be provided to finance local authority housing.

March:

- The Central Bank indicated in a statement on monetary policy that it would be pursuing a mildly expansionary policy in the current year. The banks may increase their lending by 24%

and credit restriction on the personal and financial sectors have been eased. The ban on increased lending for speculative projects will be maintained and no relaxations are proposed on the restriction on capital inflows.

— The employer-Labour Conference produced proposals for a new National Pay Agreement. They provide for increases of from 21½% to 29% to be implemented in four stages, the exact percentage being determined by cost of living developments up to November 1975.

— The Capital Acquisition's Tax Bill providing for taxation on gifts and inheritances to replace estate duty was published. Tax in each case is on a sliding scale, with the highest rate of tax set at 60%. Threshold limits vary from £5 000 where there is no close relationship between the parties involved to £150 000 for spouses and children.

April:

- Increases in social welfare insurance contribution rates came into effect.
- The draft National Pay Agreement was accepted by both employers and trade unions.
- The Irish Banks' Standing Committee announced a further reduction in lending and deposit rates.
- The Minister for Industry and Commerce announced the terms for offshore oil licensing. They include provisions for State participation in commercial finds.

May:

- The Government invited representatives of farmers, trade unions and employers to join Ministers in a working party, to suggest short-term-economic policy measures, under the Chairmanship of the Minister for Finance.
- A Bill published by the Government extended the period for which pay related benefit for unemployment and disability will be paid from six to nine months.



TABLE 1: Key indicators

	1970	1971	1972	1973	1974	1974
	% change by volume on preceding year					1970=100
Gross domestic product	+ 3.1	+ 3.2	+ 5.3	+ 5.1	+ 0.4	114.6
Industrial production	+ 4.3	+ 3.6	+ 4.3	+ 10.0	+ 2.8	122.3
Total imports	+ 2.5	+ 4.0	+ 6.1	+ 17.6	- 3.7	124.9
Private consumers' expenditure	+ 2.5	+ 3.3	+ 5.6	+ 7.7	- 2.3	114.8
Public current expenditure on goods and services	+ 6.2	+ 8.3	+ 8.5	+ 4.4	+ 6.4	130.5
Gross fixed asset formation	- 0.7	+ 5.4	+ 3.3	+ 14.0	- 3.4	120.0
Total exports	+ 4.6	+ 3.9	+ 3.4	+ 9.0	+ 0.9	118.0
Gross domestic product per head of population	+ 2.3	+ 2.0	+ 4.0	+ 3.9	- 0.8	109.3
Gross domestic product per person in employment	+ 4.4	+ 3.0	+ 6.1	+ 4.5	- 0.2	114.1
	% change by value on preceding year					
Gross income per employee	+ 16.0	+ 16.2	+ 14.5	+ 19.0	- 20.2	190.5

TABLE 2: Indicators for internal and external equilibrium

	1970	1971	1972	1973	1974
Balance exports less imports					
in million Eur	- 311.0	- 323.5	- 272.8	- 373.8	- 861.4
as percentage of GDP	- 7.9	- 7.2	- 5.4	- 7.2	- 16.0
Unemployment rate	7.2	7.2	8.1	7.1	7.9
prices to private consumers (% change on preceding year)	- 8.4	+ 9.0	+ 8.6	11.0	- 17.3

TABLE 3: Foreign trade (at current prices)

	%, change on preceding year					Indices 1970 = 100	Million Eur	% of totals
	1970	1971	1972	1973	1974			
Visible exports								
Total	15.5	15.4	20.0	34.4	29.2	260.5	2 103	100.0
Intra-EEC	15.8	16.0	21.3	31.0	26.9	303.1	1 570	74.7
Extra-EEC	14.5	13.7	15.9	46.5	36.5	184.2	533	25.3
Exports of food, beverages and tobacco	13.1	21.6	15.1	27.8	19.4	216.9	840	39.9
Exports of raw materials, fuel and power	9.2	5.3	14.4	33.4	42.4	210.3	16.0	7.6
Imports of semi-finished and finished industrial goods and miscellaneous goods	18.8	14.3	26.6	40.8	35.9	283.2	1 103	52.5
Visible imports								
Total	10.3	11.6	11.6	35.1	43.0	249.0	3 048	100.0
Intra-EEC	13.7	8.6	14.5	39.8	36.3	260.1	2 082	68.3
Extra-EEC	3.2	18.2	5.6	24.6	60.0	228.0	966	31.7
Imports of food, beverages and tobacco	7.3	4.1	19.5	26.0	37.0	219.4	369	12.1
Imports of raw materials, fuel and power	12.8	16.8	0.4	42.6	115.9	357.7	648	21.3
Exports of semi-finished and finished industrial goods and miscellaneous goods	10.3	11.9	12.7	35.4	30.0	221.3	2 031	66.6

TABLE 4: Selected monthly indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Industrial production (1970 = 100)	1972		104.5			106.5			108.9			112.4	
	1973		118.6			119.7			118.2			119.4	
	1974		127.1			124.3			120.1			118.3	
	1975												
Unemployed (1000)	1973	69.3	69.7	67.0	67.1	65.3	65.4	66.1	66.6	65.8	65.3	64.2	66.1
	1974	67.0	67.0	65.6	66.6	67.2	68.1	69.4	71.6	74.0	75.1	81.4	89.3
	1975	100.0	102.1	102.2	102.0								
	1976												
Construction permits for residential construction (1000)	1972												
	1973	3 612	5 311	4 248	1 101	1 866	1 100	1 970	1 950	2 587	2 219	2 132	1 719
	1974	2 451	1 698	3 424	2 531	2 212	1 788	2 104	2 220	2 333	1 751	1 955	1 777
	1975												
Private consumers' expenditure* (1970 = 100)	1973	135.6	138.8	140.5	138.1	146.1	152.3	145.1	157.1	143.1	148.1	157.1	153.2
	1974	152.8	159.1	156.0	163.1	162.1	165.0	168.1	170.1	167.1	172.1	176.1	175.7
	1975	180.0	185.1										
	1976												
Consumer prices (1970 = 100)	1973		126.5			130.3			133.4			137.1	
	1974		143.5			151.5			157.3			164.5	
	1975		177.7										
	1976												
Visible imports (million Eur)	1973	207.0	213.9	210.5	207.5	229.6	216.8	241.4	247.0	220.4	256.3	262.6	228.6
	1974	258.8	286.2	318.3	346.6	346.8	322.4	360.4	366.5	331.6	329.5	299.9	314.5
	1975	347.0	348.9	279.1	333.6								
	1976												
Visible exports (million Eur)	1974	140.3	155.7	167.7	157.8	161.4	169.0	167.7	176.6	169.6	207.5	199.3	202.1
	1974	196.6	205.4	206.7	113.8	216.6	219.6	237.9	223.6	213.3	240.6	251.9	260.1
	1975	272.0	258.3	217.0	271.3								
	1976												
Balance of trade (million Eur)	1973	66.7	48.2	42.8	49.7	68.2	47.8	73.7	70.4	50.8	48.8	63.3	26.5
	1974	62.2	80.8	111.6	132.8	130.2	102.8	122.5	142.9	118.3	88.9	48.0	54.4
	1975	75.0	90.6	62.1	62.1								
	1976												
Official foreign exchange reserves (million Eur)	1973	884	837	797	819	823	776	741	776	797	788	825	821
	1974	816	761	809	759	762	732	818	924	870	881	873	862
	1975	822	809	798	799								
	1976												
Money supply (million Eur)	1973	1 060	986	1 030	991	991	998	927	950	976	948	998	1 026
	1974	1 017	960	1 021	971	937	960	952	966	994	968	971	998
	1975		950	920									
	1976												

## NOTES TO GRAPHS AND TABLES

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

*Graph 1*

Exports fob : seasonally adjusted; three-month moving averages.

*Graph 2*

Industrial production : C.S.O. (Central Statics Office); Mining and manufacturing industry; quarter to quarter change in smoothed series (three-quarter moving averages); seasonally adjusted.

*Graph 3*

Unemployment : number of registered unemployed; seasonally adjusted; three-month moving.

*Graph 4*

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

*Graph 5*

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

*Graph 6*

Wages and consumer prices : C.S.O.; quarter to quarter change in smoothed series of hourly earnings in manufacturing industry and consumer price index (three-quarter moving averages) not seasonally adjusted.

*Graph 7*

Bank lending : CB; Credits to private sector (commercial banks); not seasonally adjusted.

*Table 1*

GDP at market prices : NIEA (National income and expenditure accounts) 1973.

Industrial production : ESRI; Volume of production; mining and manufacturing industry.

Total exports and imports : goods and services; NIEA.

Gross income per employee : C.S.O., earnings and employment in total transportable goods industries.

*Table 2*

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

Unemployment rate : C.S.O.; Percentage of insured persons registered as unemployed.

Price index : Consumer expenditure deflator; NIEA.

*Table 3*

Data from 1970 and 1971 from "External Trade Statistics 1971"; 1972 to 1974 from "Trade Statistics of Ireland".

The products have been grouped according to the SITC sections 0-1, 2-4 and 5-9. Re-exports are not included in the breakdown by category. Figures for Shannon Free Airport are not included for 1963 and in the exports to and imports from Denmark, SITC category 9 for 1963 is not directly comparable with figures for later years.

*Table 4*

Industrial production : C.S.O.; Mining and manufacturing industry; seasonally adjusted.

Unemployment : Number of registered unemployed; seasonally adjusted.

Construction : Total of dwellings begun or authorized; seasonally adjusted.

Private consumers' expenditure : Retail Sales Index; seasonally adjusted.

Consumer prices : C.S.O.; Consumer price index; not seasonally adjusted.

Visible trade : Imports cif, exports fob; seasonally adjusted.

Balance of trade : Difference between values of imports and exports; seasonally adjusted.

Official Foreign Exchange Reserves : Official External Reserves, Monetary Authorities' reserves of convertible currency, holdings of special drawing rights and reserve position in the IMF, not seasonally adjusted.

Money Supply : Currency and current accounts, not seasonally adjusted.





## E. Italy

After a recessionary phase of over six months, the economic trend became distinctly firmer again in the early months of 1975. Further progress was also made in restoring internal and external equilibrium.

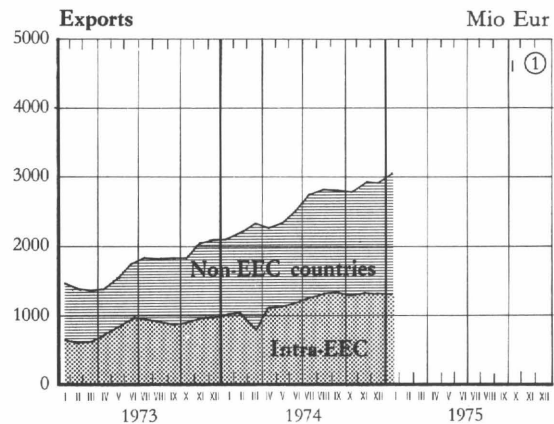
Even assuming an economic revival in the second half of the year, however, the real gross domestic product must be expected to fall in absolute terms between 1974 and 1975, mainly owing to a sharp drop in investment. The level of employment is also likely to decline between the two years. Consumer prices may rise somewhat more slowly than as between 1973 and 1974. The balance of payments deficit on current account will no doubt narrow very considerably.

### 1. Recent developments

Although final demand was generally still slack in January-February, the trend of economic activity in the early months of 1975 was firmer again after the marked decline in the second half of 1974. This was mainly due to two factors: firstly, stockbuilding ceased to shrink, following a fairly long period of decline; and secondly there was a propensity to satisfy a larger proportion of demand out of domestic production. The conditions determining external and internal equilibrium improved further.

According to the ISCO seasonally adjusted figures, in the first quarter the value of visible exports was 8½% down on the fourth quarter of 1974. In terms of volume the fall was even sharper. It was particularly marked in the case of consumer goods and producer goods. Compared with the same period last year, however, the value of visible exports was 28% up; the trend of merchandise deliveries to oil-producing and State-trading countries was particularly buoyant.

On the domestic demand side, the mostly qualitative indicators available so far suggest that the

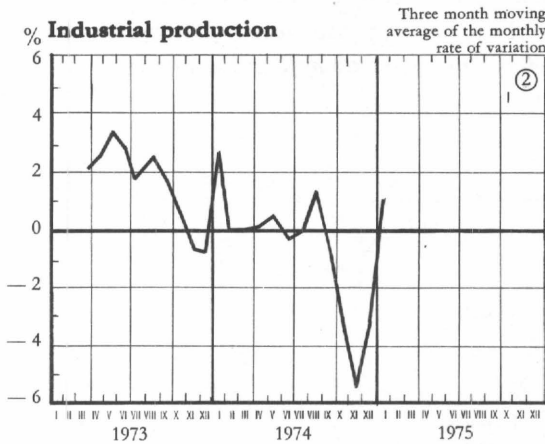


sharp decline in *fixed investment* continued, at least in terms of volume. This is certainly true in the case of capital expenditure on plant and machinery and probably also for building investment. Stockbuilding on the other hand may have been firmer than towards the end of last year.

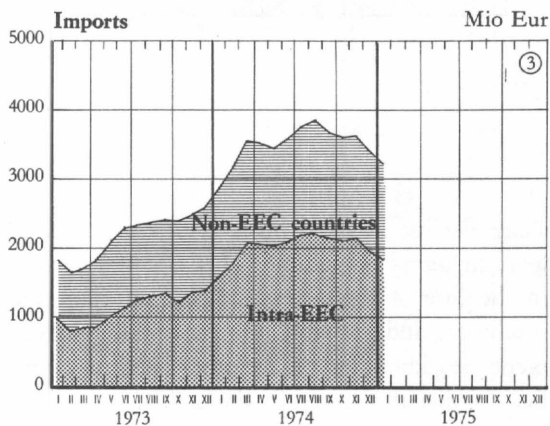
Following a period of pronounced consumer reticence, *private consumers' expenditure* is likely to have increased again. Disposable incomes have risen appreciably as a result of substantial

wage increases and an upward adjustment in family allowances and minimum pensions.

After declining sharply in the second half of 1974, *industrial production* steadied in the first quarter. The underlying rate of production of vehicles, chemicals and machinery rose distinctly, while that of metal producing industries declines. Even so the unadjusted index was still 12.2% down on a year earlier.

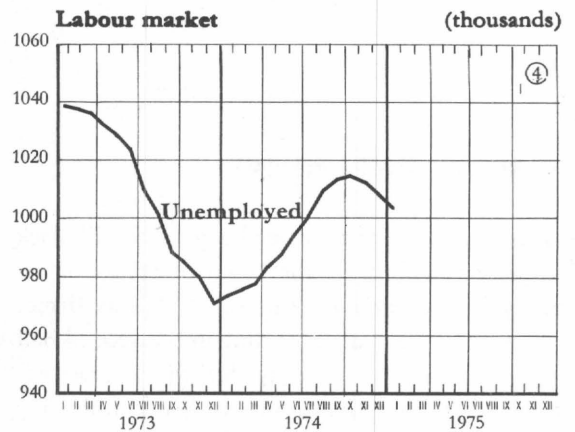


In the first quarter imports fell very appreciably. Seasonally adjusted, the value of visible *imports* for this period was no less than 17½% down on the fourth quarter of last year. At constant



prices the drop, which affected all the major groups of merchandise, was no doubt even

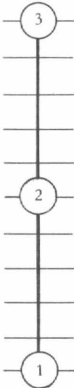
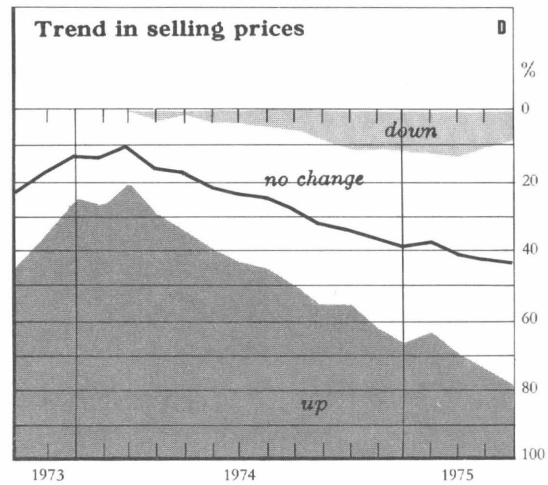
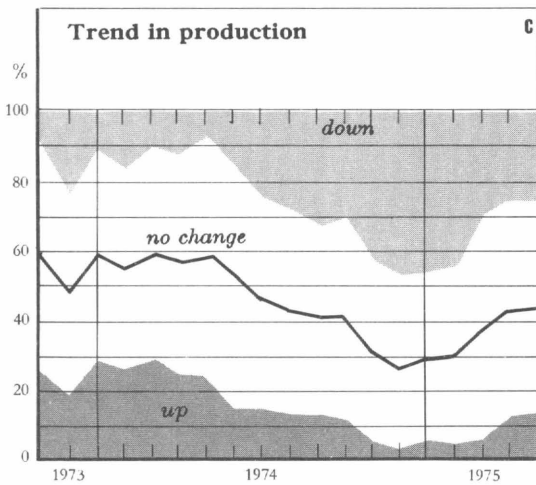
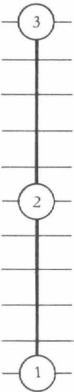
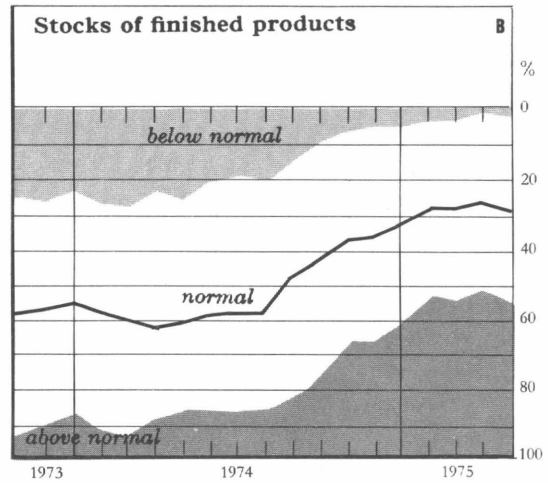
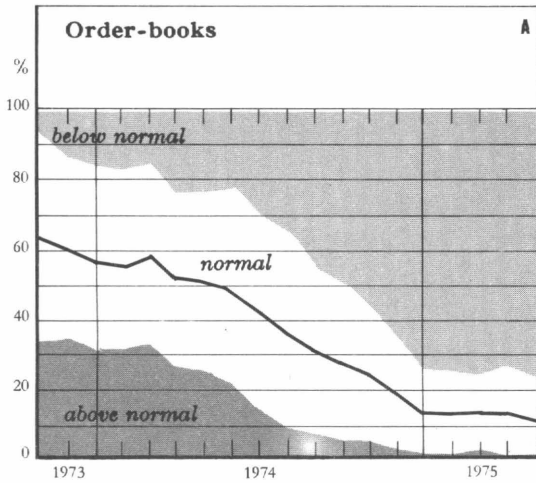
sharper. Compared with the first quarter of 1974, the fall in the value of imports was 4%. According to the ISTAT quarterly sample surveys, there was only a moderate increase in the number of wholly unemployed on the *labour market* (in January 0.5% up on a year earlier) while the number of workers on short time grew very rapidly (up 39%). The unemployment rate<sup>1</sup> was only 3.1%, but allowing for short-time working it was probably some one and a half times as high. Unemployment was above average in the north of Italy and among young people. A point to note is that at the same time the seasonally adjusted number of persons employed rose appreciably (up 1%) between October 1974 and January 1975, especially in industry.



Leaving aside certain special factors, such as an increase in indirect taxes products, on tobacco, peculiarities in recording the price of services and higher telephone charges, which pushed up the official consumer price indices in January, February and April, statistics indicate a further steadying of *prices* in the early months of the year. Wholesale prices remained unchanged in January and increased by only 0.2% in February, again 0.2% in March and 0.3% in April. The increase in consumer prices was 1.3% in January and 1.5% in February; in March it was

<sup>1</sup> The number of unemployed as a proportion of the labour force. Source: ISTAT.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

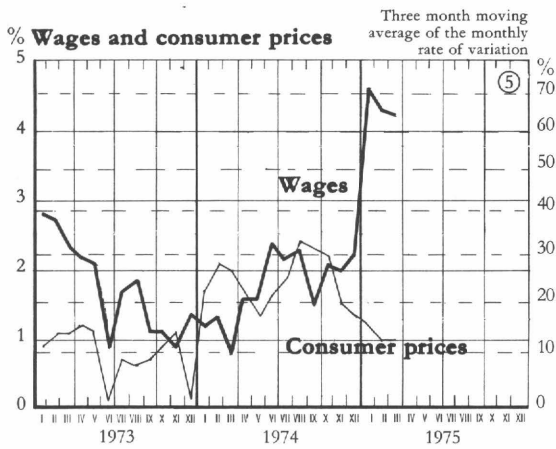
GRAPHS A, B, C and D : The three zones (grey, white and black) show the percentages of the three different answers.

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

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

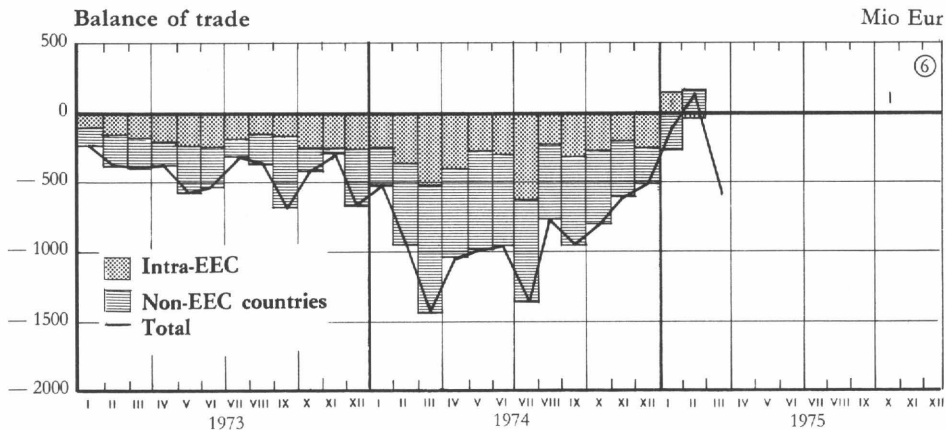


only 0.1 % as a result of lower electricity charges, and in April 1.3%. In April wholesale prices were 10.6% up on a year earlier and consumer prices were 20.4% up.



The early months of 1975 saw a further improvement in the *balance of payments*.<sup>1</sup> In January-February the deficit was down to Lit. 173 000 million (compared with Lit. 683 000 million a year ago), in March there was a Lit. 66 000 million surplus, despite repayment of a \$100 million loan. Service transactions and especially visible trade all contributed to the improvement in the balance of payments. Non-oil trade was again in surplus; in addition the oil trade deficit narrowed, after being inflated in the second half of 1974 by speculative factors. The fall in official gold and foreign exchange reserves (net) between December 1974 and March 1975 was low at Lit. 193 000 million. Since the end of February the weighted average exchange rate of the lira has improved almost continuously; the depreciation from the level on 9 February 1973

<sup>1</sup> Balance of current and capital transactions.

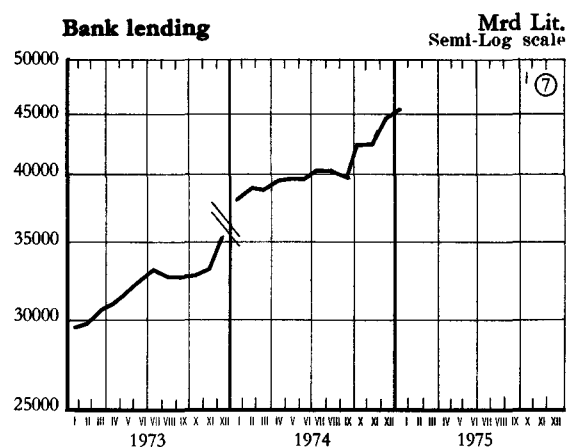


was 21.83% on 28 February 1975 and 20.66% on 4 June 1975.

For the first time in a fairly long period the monetary base has been tending to expand distinctly since the end of last year. This reflected both the improvement in the balance of pay-

ments and the heavy Treasury deficit and also the release of funds from the Banca d'Italia account in which loans raised abroad in recent years by various state-controlled banks and enterprises were partially frozen. The expansion of the monetary base and the public's increasing interest in long-term securities led to a further

drop in the *level of interest rates*, especially short-term interest rates. The fall in long-term interest rates was limited by the Banca d'Italia's open market operations. The gap between short- and long-term interest rates therefore narrowed distinctly. In April the average yield on bonds was 10.7 %, compared with 12.49 % last December. The corresponding interest rates for interbank balances were 11.4% and 17.52% respectively. Overall, the *demand for credit* was still weak in the early months of 1975.



*Demand for and supply of goods and services*

	1972 <sup>1</sup>	1973 <sup>1</sup>		1974 <sup>1</sup>		1975 <sup>2</sup>	
	At current prices (in Lit. '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	12 712	+ 5.4	+ 19.8	+ 10.8	+ 51.8	+ ½	+ 20½
Gross fixed asset formation	13 540	+ 8.2	+ 25.3	+ 4.2	+ 34.1	- 10½	+ 6½
Public current expenditure on goods and services	10 060	+ 2.7	+ 14.6	+ 1.9	+ 18.1	+ 1	+ 16
Private consumers' expenditure	45 233	+ 5.6	+ 17.8	+ 2.3	+ 22.3	- ½	+ 17½
Gross domestic product	69 026	+ 6.3	+ 17.1	+ 3.4	+ 20.6	- 1½	+ 18½
Imports <sup>3</sup>	12 979	+ 10.2	+ 38.5	+ 2.3	+ 61.5	- 7	+ 3

<sup>1</sup> Relazione generale sulla situazione economica del Paese (1974).

<sup>2</sup> Estimates by Commission departments.

<sup>3</sup> Goods and services.

*Note:*

The definitions used are those of the ESA (European System of Integrated Economic Accounts). They diverge from those used hitherto particularly in respect of the aggregates 'exports', 'imports', and 'private consumers' expenditure'. This is the main reason why the figures for 1972 and 1973 are not consistent with those given in Quarterly Survey 4/1974.

## 2. Outlook

The economic outlook to the end of the year and for the early months of 1976, as outlined

below, is essentially based on the assumption that the second half of the year will see a definite revival in world economic activity, and that the negotiations due to be held during the

period on the renewal of principal wage agreements will not this time be accompanied by major losses in production. It has further been assumed that the Italian authorities will maintain the more relaxed course of short-term economic policy on which they embarked towards the end of last year, encouraged by the progress made towards an improved equilibrium.

An appreciable expansion in *exports* is likely. This is suggested not only by the assumed recovery in world economic activity, but also by the favourable volume effects—which, as has been seen in the past, show up only after a considerable time lag—of the de facto devaluation of the lira since February 1973, by the stronger export drive which firms are expected to mount in view of the continuing slackness of business at home, and notably by an economic policy which encourages exports.

*Investment* is likely to remain decidedly sluggish, especially in the first half of the year. It is true that the above-mentioned export outlook, the cost induced pressure to rationalize, the need to invest in the conversion of plant and machinery following the oil crisis, and the more expansionary monetary and credit policy are all factors tending to boost the propensity of industry to invest. Major projects are also being prepared in the public investment sector. It is nevertheless fair to assume that the restraining factors will still predominate initially, especially the low utilization of production capacities, the slackness in consumption and certain psychological inhibitions. Stockbuilding, by contrast, is likely to provide a certain amount of stimulus as the year goes on.

*Private consumers' expenditure* will probably still be quite weak for a while, despite the in-

*The Central Government Budget*

	1974			1975	
	Original Budget		Revised Budget	Original Budget	
	Lit. '000,000 million	% <sup>4</sup> changes	Lit. '000,000 million	Lit. '000,000 million	% <sup>4</sup> changes
Expenditure <sup>1</sup>	23.7	+ 13.7	23.9	28.6	+ 20.7
of which:					
— current expenditure	19.5	+ 18.3	19.6	23.3	+ 19.5
— capital expenditure <sup>2</sup>	4.2	— 3.6	4.3	5.3	+ 26.2
Revenue <sup>3</sup>	17.0	+ 10.1	17.1	22.2	+ 30.6
of which:					
— direct taxes	4.3	+ 5.8	4.3	5.5	+ 27.9
— indirect taxes	11.8	+ 12.1	11.8	14.9	+ 26.3
Borrowing requirement	— 6.7	—	— 6.7	— 6.4	—

<sup>1</sup> Disregarding debt extinction.

<sup>2</sup> Including participations, advances and loans.

<sup>3</sup> Excluding loan proceeds.

<sup>4</sup> On the level of the preceding year.

*Note:*

The figures in this table are based on national budgets and are recalculated on the basis of Community definitions.

creases in incomes mentioned in the first section. For the time being, the weakness of the labour market and its uncertain prospects must still be expected to dampen the propensity to consume. Towards the end of the year, however, a certain recovery in this propensity seems quite possible. On the basis of these assumptions the real *gross domestic product* and especially the volume of *imports* will probably fall between 1974 and 1975. At the same time the *employment level*<sup>1</sup> is likely to remain very low, notably in the first half of 1975.

During the year *prices* will probably tend to rise appreciably more slowly than a year previously. Nevertheless the increase between 1974 and 1975 is again likely to be very sharp, given the high level already reached at the beginning of the year. There will no doubt be a further sharp improvement in the *balance of payments*. The more buoyant economic situation in the early months of 1975 justifies the hope that the — very real — danger of a huge and uncontrolled recession has largely been averted. It is now important to steady the course of the economy and then move into an upswing phase, without again endangering the restoration of the economy's internal and external equilibrium even in the longer term. Success in this task will depend not least on whether monetary policy manages to avoid an excess of liquidity, which might well occur with a shrinking balance of payments deficit, the persistence of a heavy public authorities' deficit, and a permissive credit policy.

### Major economic policy measures

*December 1974:*

— On 23 December, a set of measures was adopted aimed at a selective easing of credit controls in order to stimulate activity in the

<sup>1</sup> Number of persons employed times number of per capita hours worked.

*export industry and in construction. The main decisions were as follows:*

- The 15% ceiling imposed for the twelve months up to 31 March 1975 on the expansion of bank lending was removed in respect of large enterprises and export operations in general. However, total credit to the economy must remain within the limits agreed with international organizations
- The discount rate and the rate for advances on securities were lowered from 9% to 8%. However, the maximum supplement charged on these rates in the event of certain limits being exceeded was raised from 3 to 3.5 points. The rate of refinancing may therefore be 11.5%.
- The Banca d'Italia will give priority in its refinancing to bank lending in connection with the export of goods.
- The monetary authorities authorized the banks to withdraw, in exchange for property bonds, Lit. 300 000 million of their compulsory cash reserves and to hold part of these compulsory reserves in the form of bonds issued by institutions that finance public works.

*January 1975:*

— With effect from 1 January various amendments were made in the application of VAT in an attempt to combat tax evasion. They include the abolition of exemptions and changes in the intervals at which tax returns have to be filed and VAT paid by taxpayers with an annual turnover of less than Lit. 120 million. In addition, the lumpsum payment arrangements are to apply only to taxpayers with a turnover of less than Lit. 2 million (payment of a lumpsum Lit. 20 000 per year).

— Towards the middle of the month, the Treasury issued Lit. 1 000 000 million of ordinary three-month bills with a lower return than in the past (14.13% against 15.32% for the issue in November 1974). The aim of this measure and of the reduction in the cost of refinancing decided in December is to encourage the downward trend in interest rates that has been evident for some time.



— On 16 January, the CIP (Interministerial Committee for Prices) approved restructured electricity charges with a more favourable graduation being estimated at approximately Lit. 145 000 million per year. The fall in receipts would be offset by higher charges to domestic users with consumption above a certain level and for industrial, commercial and agricultural uses other than lighting.

— At the same time the CIP decided to raise the price of sugar by about 5½%.

— On 21 January the two sides of industry signed an agreement on the compensatory wage adjustment for short-time working. This will increase payments from the wage equalization fund from 66.6% to 80% of the respective gross wage—*inter alia* by means of an increase in the employers' contributions. The relevant law was adopted in the spring of 1975

— On 30 January a number of credit policy measures were adopted; they may be summarized as follows:

(a) The compulsory reserve system was rationalized and simplified, in particular by introducing a uniform reserve ratio for all banks and types of deposit. From the end of January 1975 this ratio, which was previously differentiated, is 15% of the change in deposit. The Minister for the Treasury may raise or lower the ratio by five points. The 15% reserve ratio is slightly higher than that of the last five years. As a general principle, the compulsory reserves must be lodged in cash; special rules apply for part of the banks' compulsory reserves.

(b) The obligation on the commercial banks, which has existed since mid-1973, to invest part of their assets in fixed-interest securities, was extended for the first half of 1975, with the amount of additional purchases of securities to be determined according to other criteria than those previously applied. In the first half of 1975 these purchases must be equivalent to 40% of the change in total deposits recorded in the six-months period from December 1974 to May 1975. Under the implementing regulations issued by the Banca d'Italia the purchases, which are additional to the portfolios held as at 31 December 1974, largely relate to new issues

(c) In order to facilitate the financing of agri-

cultural enterprises, the following measures were adopted:

— Certain agricultural loans would no longer be subject to the 15% ceiling on banks lending, which had been fixed for the twelve months to 31 March 1975.

— Government interest subsidies were increased.

— Provisions were made to ensure that securities newly issued in the context outlined at (b) and amounting to between Lit. 100 000 million and Lit. 150 000 million would be placed for the purpose of granting loans for infrastructure improvement.

(d) Provision was made for raising the ceiling for export guarantees from Lit. 700 000 million to Lit. 1 400 000 million. In the context outlined at (b), institutions financing export credits may in future place part of the securities they issue with the commercial banks.

February:

— On 20 February the Government adopted a package of budgetary policy measures designed to stimulate demand, in particular in the investment sector. The measures change the Central Government budget on an appropriations basis<sup>1</sup> for 1975 and provide for additional revenue and expenditure amounting to some Lit. 800 000 million each. The revenue is to be raised by advance tax deductions on investment income and to a lesser extent by increasing certain kinds of taxes. In the area of capital expenditure Lit. 435 000 million were made available in particular for agriculture, school building and exports. Approximately Lit. 350 000 million were earmarked chiefly for financing pension increases and an improvement in certain civil service salaries; this amount will therefore flow entirely into private consumption. At the same time the Government decided to increase postal rates in two stages, in order to reduce the Treasury deficit by Lit. 200 000 million. Thus the rates for letters within the Community have

<sup>1</sup> Purely legal concept. The trend of cash revenue and in particular of cash expenditure can therefore differ to varying degrees from that of the budget on an appropriations basis.

been increased by 100% in 1975 and by 50% from 1 January 1976.

— On 21 February the Government decided to increase telephone charges. The extra revenue, estimated at approximately Lit. 300 000 million, is to finance additional investment.

#### March.

— On 5 March \$500 million of the \$2 000 million loan granted last September by the Bundesbank against a gold guarantee was repaid by the Banca d'Italia. The term of the remainder of the loan was extended by six months.

— The IMF paid out some \$375 million to the Banca d'Italia, this amount is part of the \$1 200 million IMF credit granted at the beginning of 1974.

— On 13 March the authorities announced the issue of ordinary three-month Treasury bills amounting to Lit. 1 000 000 million. In order to support the tendency for interest rates to fall, these Treasury bills offer a lower yield than earlier issues (12.26% against 14.13% in January 1975 and 15.32% in November 1974).

— On 14 March the Government adopted several draft laws intended to stimulate residential construction. Their content may be summarized as follows:

— Additional expenditure of approximately Lit. 3 000 000 million over three years.

— Under a law adopted in May some Lit. 1 000 000 million of this is to be spent from the summer of 1975.

— Expenditure of Lit. 50 000 million on interest subsidies, which is intended to generate additional investment of approximately Lit. 1 000 000 million.

— Parliament also adopted this draft law in May.

— Encouragement of saving for home ownership ('risparmio casa'), inter alia by linking it to the movement in the cost of living.

— On the same day the Minister of Labour and the two sides of industry reached an agreement which in particular provides for an improvement in minimum pensions and for the

linking of all pensions to the trend of the cost of living index and of wages and salaries. From 1 January 1975 monthly pensions under Lit. 100 000 are increased by Lit. 13 000. In addition from 1 January 1976 pensioners are to receive a monthly cost of living supplement which will gradually reach 80% of the corresponding supplement received by wage and salary earners.

— On 21 March the following monetary measures were decided on to stimulate economic activity:

— With effect from 24 March the 50% cash deposit due on certain merchandise imports was abolished. This is likely to inject liquid funds amounting to approximately 1 200 000 million into the economy over the next six months.

— From 1 April the 12% to 15% ceiling on some kinds of bank loans introduced a year ago was abolished. The increase in total lending to the economy is still limited to Lit. 24 700 000 million for the twelve-month period to the end of March 1976.

— The issuing procedure for ordinary Treasury bills was changed: in future the Banca d'Italia as well as the commercial banks will be allowed to participate in the sale by public tender of Treasury bills. This is to give the central bank better control over the level of the interest rate struck for these issues.

— Partly in an effort to support the tendency for interest rates to fall, the Banca d'Italia will, when providing banks with funds, give precedence to those banks which can prove that they have appreciably reduced their lending and deposit rates, and have increased the proportion of their loans to the export industry and to agriculture.

#### April:

— On 3 April a law entered into force which provides for a reduction in the number of public entities. With the exception of the regional and local authorities and institutions of an economic or religious nature, these will be officially dissolved if, within three years, they have not been declared necessary by government order.

— On 16 April the Government and public service employees reached an agreement which by and large will extend to the public service the improvements achieved in February by private sector employees in the field of family allowances and the unification of cost of living supplements.

— On 20 April a 10% increase in rail charges was announced. These had already been increased by 30% in the previous year.

*May:*

— At the beginning of the month the Government decided on a temporary 12% increase in the prices of all pharmaceutical products. This will remain in force until the methods of adjustment at present in force for these prices have been examined.

— On 7 May the Government approved several draft laws intended to support activity in a number of industries (printing, textiles, craft industries, small and medium-sized enterprises). According to press reports, the relevant measures may cost the Government over Lit. 200 000 million in 1975.

— On 13 May the CIP (Interministerial Committee for Prices) decided to increase the prices of certain oil products by between 2.5 and 19%. The price of petrol remains unchanged.

— From 28 May the cost of refinance was reduced: the discount rate and the rate for advances on securities were reduced from 8 to 7%. At the same time the maximum additional charge due when certain limits are exceeded was reduced from 3.5 to 3%.

TABLE 1: Key indicators

	1970	1971	1972	1973	1974	1974
	% change by volume on preceding year					1970=100
Gross domestic product	+ 5.0	+ 1.6	+ 3.1	+ 6.3	+ 3.4	115.1
Industrial production	- 6.2	- 0.4	+ 3.6	+ 8.1	+ 4.2	116.2
Total imports	+ 15.9	+ 2.4	+ 11.7	+ 10.2	+ 2.3	128.9
Private consumers' expenditure	+ 7.2	+ 2.2	+ 3.6	+ 5.6	+ 2.3	114.4
Public current expenditure on goods and services	- 1.5	+ 5.4	+ 5.0	+ 2.7	+ 1.9	115.8
Gross fixed asset formation	+ 2.7	- 3.1	+ 0.4	+ 8.2	+ 4.2	109.7
Total exports	+ 6.0	+ 7.2	+ 11.8	+ 5.4	+ 10.8	139.8
Gross domestic product per head of population	+ 5.4	+ 0.9	+ 2.3	+ 5.5	+ 7.9	115.4
Gross domestic product per person in employment	+ 4.5	+ 1.8	+ 4.9	+ 5.3	+ 1.2	113.8
	% change by value on preceding year					
Gross income per employee	+ 15.1	+ 13.7	+ 11.2	+ 17.9	+ 20.4	179.5

TABLE 2: Indicators for internal and external equilibrium

	1970	1971	1972	1973	1974
Balance exports less imports					
in million Eur	- 714	- 149	- 423	- 3 782	- 7 277
as percentage of GDP	0.8	0.1	0.4	3.4	6.1
Unemployment rate	3.2	3.2	3.7	3.5	2.9
Consumer prices (% change on preceding year)	+ 5.4	+ 5.8	+ 6.4	+ 11.6	+ 19.6

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Million Ecu	% of totals
	1969	1970	1971	1972	1973		
Visible exports							
Total	15.2	12.6	13.4	14.4	19.9	20 543	100.0
Intra-EEC	22.2	13.6	17.9	15.6	19.6	10 296	50.1
To non-EEC countries	10.5	11.9	9.9	13.4	20.3	10 247	49.9
Exports of food, beverages and tobacco							
Total	15.6	9.2	16.2	17.9	11.1	1 671	8.1
Intra-EEC	21.4	5.7	24.9	20.4	9.7	1 072	5.2
To non-EEC countries	9.3	13.4	6.3	14.6	13.7	599	2.9
Exports of raw materials, fuel and power							
Total	1.4	-10.3	17.5	2.8	45.6	1 648	8.0
Intra-EEC	2.0	9.6	15.0	4.5	48.6	712	3.5
To non-EEC countries	3.6	10.6	18.9	1.8	43.3	936	4.6
Exports of semi-finished and finished industrial goods							
Total	16.7	13.2	12.7	15.6	18.8	17 224	83.8
Intra-EEC	24.9	15.0	17.3	16.5	18.9	8 512	41.4
To non-EEC countries	11.5	11.9	9.3	15.0	18.7	8 712	42.4
Visible imports							
Total	21.4	19.4	5.9	12.5	44.3	25 699	100.0
Intra-EEC	29.9	27.4	9.3	19.0	43.3	12 558	48.9
From non-EEC countries	16.6	14.3	3.6	-7.7	45.3	13 141	51.1
Imports of food, beverages and tobacco							
Total	14.9	18.0	20.5	15.7	41.9	5 175	20.1
Intra-EEC	26.8	20.9	32.4	26.7	37.7	2 497	9.7
From non-EEC countries	9.2	8.1	13.3	-8	45.9	2 678	10.4
Imports of raw materials, fuel and power							
Total	13.0	11.8	8.9	4.6	46.3	7 792	30.3
Intra-EEC	20.6	16.6	4.2	14.3	46.5	1 332	5.2
From non-EEC countries	11.8	11.0	9.8	3.0	46.1	6 450	25.1
Imports of semi-finished and finished industrial goods							
Total	31.0	27.1	0.5	16.5	44.1	12 732	49.5
Intra-EEC	32.4	30.8	5.2	17.7	44.5	8 729	34.0
From non-EEC countries	29.0	22.2	8.3	14.5	43.5	4 013	15.6

TABLE 4: Selected monthly indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Industrial production (1963 = 100)	1973	154.7	158.9	155.2	165.0	166.6	171.7	178.9	176.4	179.3	183.2	181.4	177.7
	1974	182.8	182.3	179.6	183.8	177.7	182.0	182.5	177.6	185.3	174.4	163.8	157.2
	1975	160.9	168.3										
Unemployed (1000)	1973	1 042.7	1 035.0	1 034.8	1 033.4	1 017.9	1 016.6	994.9	989.3	980.6	987.2	972.9	952.8
	1974	975.8	970.1	979.9	982.6	985.5	994.2	1 002.8	1 004.3	1 027.4	1 023.6	1 019.7	996.7
	1975	1 006.6	1 006.6										
Construction permits for residential construction (1000)	1973	33.5	32.2	32.7	31.1	32.1	31.6	31.6	33.2	31.9	36.3	34.6	55.5
	1974	32.8	27.9	30.5	28.9	27.3	26.0	26.2	20.8				
	1975												
Private consumers' expenditure department store turnover (1970 = 100)	1973	107.8	98.7	116.3	124.7	128.2	124.3	128.1	118.2	153.8	171.1	161.2	251.6
	1974	139.0	122.9	143.0	154.5	154.1	147.7	166.7	150.2	186.3	209.0	172.3	279.9
	1975												
Consumer prices (1970 = 100)	1973	116.2	117.6	118.8	120.0	121.8	122.9	123.6	124.4	125.1	126.1	127.6	129.4
	1974	131.5	134.3	137.8	139.5	141.5	143.5	146.4	149.6	153.9	156.8	159.8	161.1
	1975	163.2	165.6	165.8	168.0								
Visible imports (million Ecu)	1973	1 596.7	1 877.9	1 436.1	1 753.8	2 173.4	2 399.0	2 172.5	2 230.9	2 491.6	2 327.1	2 114.2	3 051.9
	1974	2 589.4	3 241.5	3 650.5	3 775.0	3 094.4	3 406.4	4 348.6	3 528.2	3 686.3	3 796.1	3 267.2	3 784.4
	1975	3 007.0	2 796.0										
Visible exports (million Ecu)	1973	1 395.1	1 479.9	1 032.0	1 361.7	1 617.1	1 872.7	1 908.6	1 868.2	1 808.9	1 931.4	1 872.4	2 353.5
	1974	2 063.1	2 288.6	2 227.2	2 467.1	2 105.3	2 443.2	3 007.4	2 781.0	2 731.0	2 963.8	2 660.2	3 276.2
	1975	2 893.0	2 936.7										
Balance of trade (million Ecu)	1973	-201.6	398.0	404.1	392.1	556.3	526.3	263.9	362.7	682.7	395.7	241.8	698.4
	1974	-526.3	952.9	-1 423.3	1 307.9	989.1	963.2	1 341.2	747.2	953.3	832.3	607.0	508.2
	1975	-114.0	140.7										
Official foreign exchange reserves (million EUR)	1973		2 467	2 210	2 252	2 136	1 802	1 524	2 226	2 287	2 004	1 974	2 349
	1974	2 093	1 467	2 496	2 084	1 469	1 307	1 638	1 632	3 396	2 753	2 278	2 550
	1975	2 217	2 150	2 265	2 428								
Money supply (Lit '000 million)	1973	42 838	42 740	43 223	44 166	45 504	46 715	47 345	47 314	48 414	49 044	49 930	54 053
	1974	52 218	52 490	53 182	54 176	54 582	55 451	55 585	55 170	55 439	55 816	56 045	
	1975												

## NOTES TO GRAPHS AND TABLES

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

- For the intra community trade up to and including 1972, account was taken only for the Community of the Six.

*Graph 1*

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

*Graph 2*

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

*Graph 3*

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

*Graph 4*

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 5*

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

*Graph 6*

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

*Graph 7*

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

*Table 1*

*Source*: Relazione generale sulla situazione economica del Paese (1974).

Gross domestic product at market prices.

Industrial production: value added by industry.

Total exports and imports: goods and services.

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. *Source*: "Relazione generale sulla situazione economica del Paese" (1974).

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

Price index: price index of private consumption adjusted by the GDP 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 position at end of month.

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

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

## F. Netherlands

Owing to the sluggish trend of export demand, economic activity declined sharply in December 1974 and the early months of 1975, and unemployment rose again. At the same time, the external account was still in large surplus and the upward movement of consumer prices moderated only slightly.

Production will probably tend upwards again in the second half of the year as export demand is expected to gather momentum while domestic demand should also respond to the expansionary budgetary policy. However, there seems little likelihood of a rapid improvement in the employment situation.

### 1. Recent developments

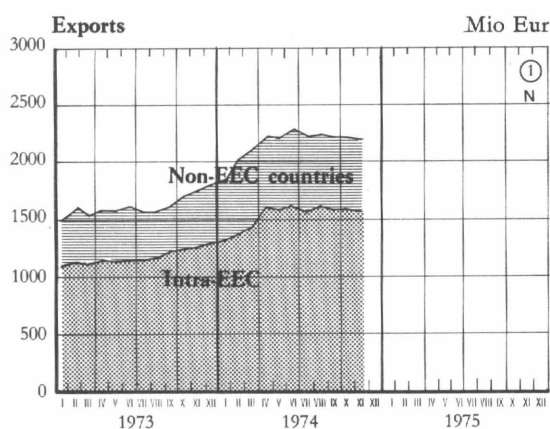
Economic activity until November held up better in the Netherlands than in the other member countries, but in the following months production dropped appreciably. Seasonally adjusted, unemployment rose further while price rises have eased somewhat in recent months.

Visible exports (in terms of volume) fell appreciably in the fourth quarter (by some 4% on the third quarter and about 1/2% on the final

quarter of 1973). With demand sluggish, the general upsurge in export prices also eased distinctly. Export prices for natural gas, by contrast, climbed sharply. Overall, average export values rose by only about 1 1/2% on the third quarter and so were 28% up on the level of a year earlier.

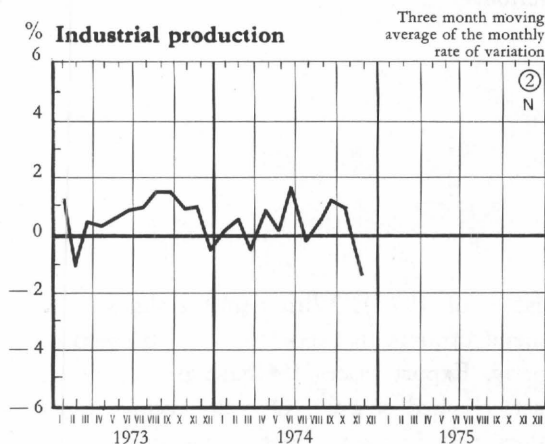
After expanding considerably in the two previous quarters, domestic demand (excluding stockbuilding) turned sharply downwards in terms of volume in the fourth quarter. The decline in private gross fixed asset formation (excluding residential construction) was especially steep. The downward trend in investment of residential construction, however, moderated and the volume of public investment has probably tended to stabilize. As a result of the sudden drop in final demand, stocks in many industries have risen sharply.

After increasing in the second and third quarters, private consumers' expenditure in terms of volume plunged sharply in the final quarter of 1974 to about the same level as in the fourth quarter of 1973. At the beginning of 1975 it probably expanded again as incomes increased considerably in real terms. Thus, from 1 Jan-



uary gross wages and salaries per employee rose by some 4½% and social security benefits were raised by a little over 5% while cuts of more than Fl 2 000 million (in a full year) were made in wages and income tax. As the Central Government made additional transfers to the social security funds, the overall rate of employees' social security contributions remained unchanged.

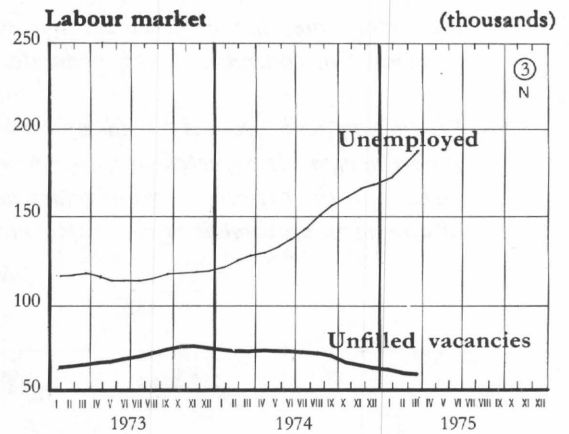
As a result of the sudden contraction of final demand, production fell sharply and there was



a further steep rise in the level of stocks. At the beginning of the year the trend showed signs of stabilizing, but output in the first quarter was still 3.0% down on the preceding quarter and 4.6% down on the first quarter of 1974. In building and construction, production fell further in the fourth quarter.

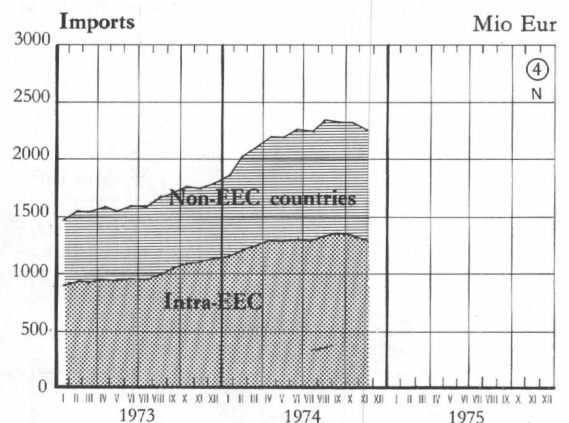
Employment dropped considerably as a result of the sharp decline in production. The reaction was even stronger than previously because of the sharp profit squeeze experienced. Against this background of deterioration in the labour market situation, both short-time working and unemployment climbed sharply, especially outside the Holland conurbation. The seasonally adjusted number of registered unemployed (labour reserve) rose between the end of September and the end of May by some 52 000 to 208 000 or 4.3% of the labour force. In addition the number of unfilled vacancies plummeted in the same period.

Visible imports were likewise appreciably affected by the fall-off in economic activity. In terms of volume (excluding imports from the BLEU) they fell in the fourth quarter by some 4½% and were about 3% down on a year



earlier. The decline in demand throughout the world led to a further slackening in the rise in import prices. Average import values rose by over 2% in the fourth quarter but were nevertheless 37% up on the same period last year.

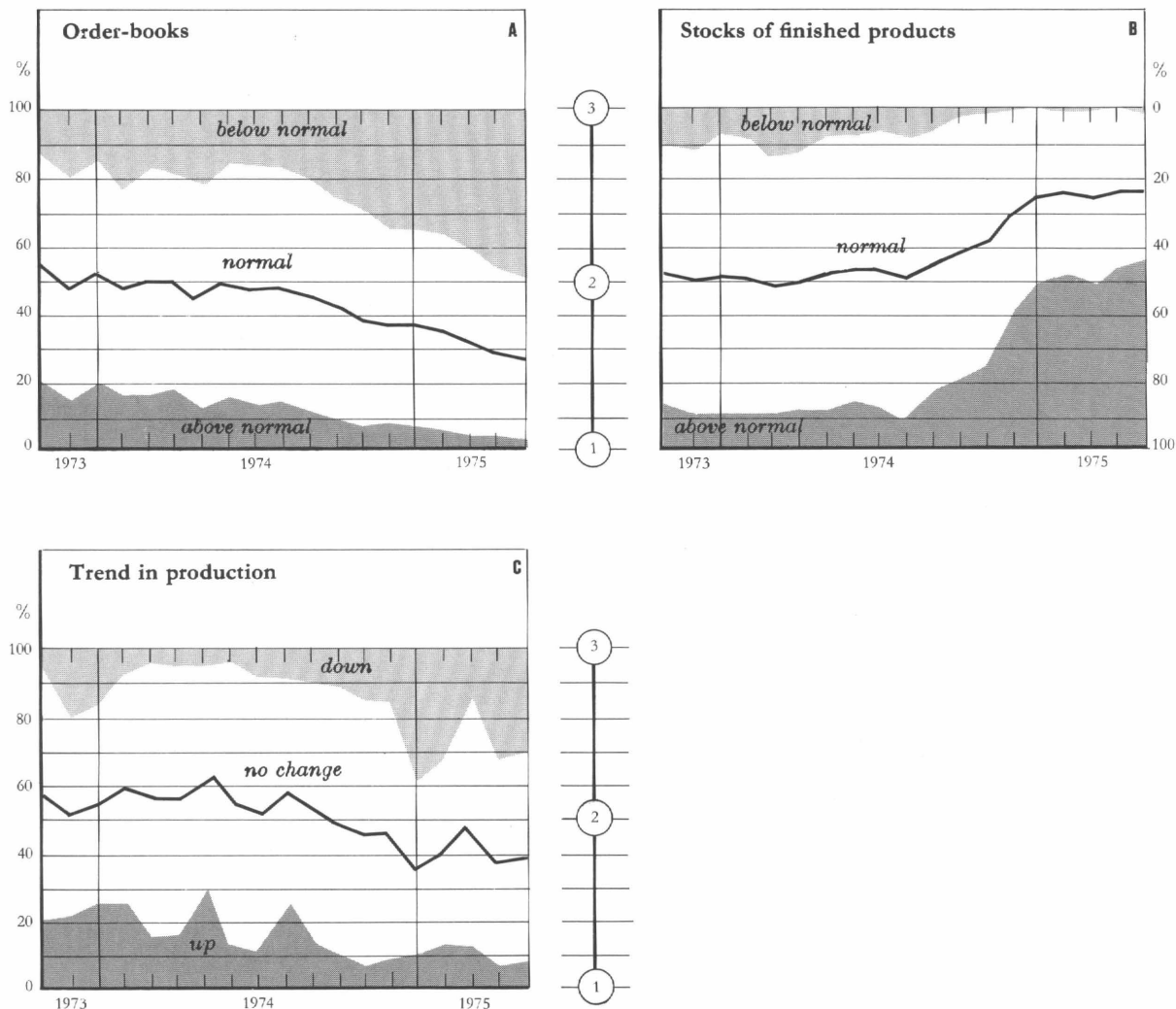
The information currently available suggests that domestic prices eased comparatively little.



Although wholesale prices for raw materials generally declined slightly in the fourth quarter,



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 (grey, white and black) show the percentages of the three different answers.

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

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

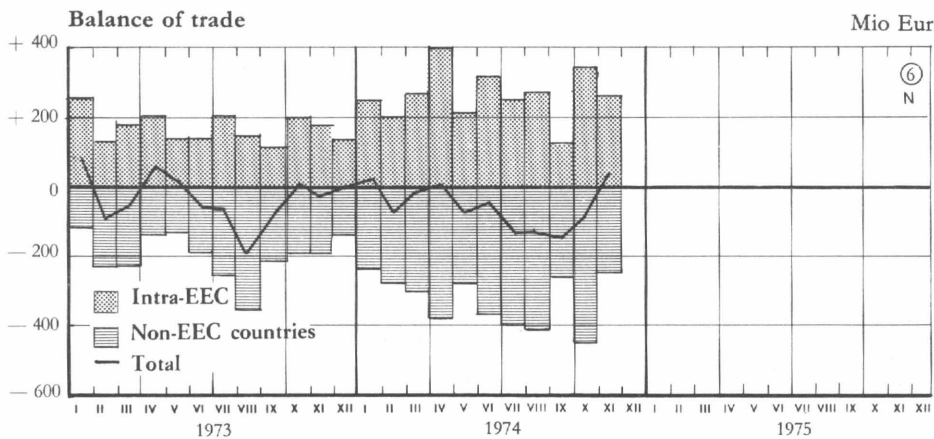


consumer prices started to rise sharply again, following a partly seasonal deceleration between November and February. In April the price index of private consumption expenditure by wage and salary earners' households was 10.3% up on a year earlier, the main cause being the continuing heavy pressure of costs. The low level of profitability and the relatively slow rise in productivity meant that increases in costs had even more than previously to be passed on in higher prices. In particular there has recently been a sharp rise in wage costs. Agreed hourly wages increased by almost 6% in the first quarter and were thus 16½ up on the same time last year.



The *current account* surplus (on a transactions basis) levelled off in the fourth quarter at just

over Fl 1 000 million. There was an appreciable improvement in the position on the goods and



services account while the surplus on factor incomes and current transfers narrowed considerably.

After continuing to increase slightly in the fourth quarter, the domestic *money supply* (M2) contracted in January. At the end of the month it was at about the same level as at the end of July 1974 but still 16.3% up on January 1974. Lending to the private sector slowed down considerably in the fourth quarter while the inflow



of liquidity from abroad was far higher than in the third quarter. Government transactions overall acted as a brake on the money supply, although not as strongly as in the previous

quarter. Interest rates followed a downward trend until March and this continued in April in the money market. In the capital market, however, rates showed a slight rise.

*Demand for and supply of goods and services*

	1972 <sup>1</sup>	1973 <sup>2</sup>		1974 <sup>3</sup>		1975 <sup>3</sup>	
	At current prices (in Fl '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports	69.04	+ 12.1	+ 19.7	+ 4	+ 31½	- 2	+ 5½
Gross fixed asset formation	35.22	+ 6.3	+ 12.2	- 6½	+ 5	- 4½	+ 6
Public current expenditure on goods and services	24.58	+ 0.7	+ 12.2	+ 3	+ 19	+ 4	+ 16
Private consumers' expenditure	82.22	+ 2.1	+ 11.3	+ 3	+ 13½	+ 3	+ 14
Gross domestic product	147.26	+ 4.1	+ 12.5	+ 2	+ 11½	- 1	+ 11
Imports	65.30	+ 11.9	+ 20.4	+ ½	+ 33½	- 2	+ 4

<sup>1</sup> Nationale Rekeningen 1973, CBS.

<sup>2</sup> Centraal Planbureau.

<sup>3</sup> Estimates.

## 2. Outlook

Following the decline in the early months of the year economic activity will probably pick up somewhat. A rapid improvement in the employment situation is unlikely. The rise in prices and costs will only slow down gradually. The current balance of payments may well record the same large surplus as in 1974.

The business survey in the member countries suggests that the economic outlook in the Netherlands could temporarily improve in spring, because of a revival of *export demand*. Exports will pick up markedly in the second half of the year. However, export prices, with exception of natural gas exports, will probably rise much more slowly this year than in 1974.

Domestic demand should also expand more rapidly in the second half of the year. While the growth of business *investment* (excluding residential construction) will be sluggish because of the comparatively low degree of capacity utilization at the present time and the continuing unfavourable profit situation, fixed investment by the central government and local authorities will probably increase distinctly. Housing demand may also be stimulated somewhat by the fall in interest rates and the support measures taken in autumn 1974. On the other hand, the

downward trend in stockbuilding will probably weaken during 1975.

Following the appreciable increase at the beginning of the year, *private consumers' expenditure* in terms of volume will probably grow somewhat more slowly than personal disposable money income. It is unlikely to rise faster than consumer prices in the last three quarters of the year. The short-term trend of the savings ratio is a major factor of uncertainty in this context.

*The Central Government Budget*<sup>1</sup>

	1974			1975 <sup>5</sup>		
	Original budget		Provi- sional outturn	Original budget		
	in Fl '000 million	% <sup>6</sup> change	in Fl '000 million	in Fl '000 million	% <sup>6</sup> change	
Expenditure <sup>2</sup>	50.9	+ 20.0	52.7	62.5	+ 22.8	
of which:						
— current expenditure	40.2	+ 23.7	41.6	50.3	+ 25.1	
— capital expenditure <sup>3</sup>	10.8	+ 10.2	11	12.2	+ 13.0	
Revenue <sup>4</sup>	48.9	+ 21.9	50.5	58.9	+ 20.4	
of which:						
— direct taxes	25.3	+ 27.1	26.7	30.0	+ 18.6	
— indirect taxes	17.1	+ 14.8	16.9	19.4	+ 13.5	
Net borrowing requirement	— 2.0	—	— 2.2	— 3.6	—	

<sup>1</sup> Including 'Wegengfonds'.

<sup>2</sup> Disregarding debt extinction.

<sup>3</sup> Including participations, loans and advances.

<sup>4</sup> Excluding borrowing.

<sup>5</sup> Excluding the effects of the measures from 16.11.1974, 20.2.1975 and 22.4.1975, to a total amount of Fl 5 100 million.

<sup>6</sup> On the preceding year's original budget.

*Note:*

The figures in this table are based on the national budgets and are recalculated on the basis of Community definitions.

From the middle of the year *production* should again move on a distinctly upward course, notably in the consumer goods industries. Despite the sharp increase in public sector investment,

total output in building and construction will probably grow only slowly. All in all, gross domestic product in real terms in 1975 is expected to fall by some 1%.

It is difficult to say how quickly and to what extent the increase in production will work through to *employment*. As most industries are likely to have spare labour capacity, a recovery of production will not lead immediately to recruitment of additional manpower. As the structural employment problems are almost impossible to solve in the present competitive and profit situations, there seems little hope of a reduction in unemployment this year.

After the drop at the beginning of the year, the volume of imports should rise again as demand and economic activity pick up. But with prices of raw materials and semi-manufactures rising more slowly, the total rise of the import price level should be slight.

It will probably take time for domestic *price* rises to slacken, for while nearly no further upward pressures are likely to come from abroad this year, wage costs per unit of output seem set to continue to rise owing to the slow pace of productivity growth.

The current *balance of payments* could show another very large surplus this year as the terms of trade are favourably influenced by the rise in natural gas prices and the fall in certain import prices.

The main problems facing *economic policy-makers* in the Netherlands in 1975 will be high unemployment, a considerable external surplus, structural disequilibria and continuing rapid cost-push inflation.

An expansionary budgetary policy—as is at present being implemented—will not eliminate the difficulties. This set of economic policy problems can be solved only through medium-term structural policy measures.

### Major economic policy measures

*August 1974:*

— Publication of a number of short-term measures to assist farmers.

— A report was presented to the Second Chamber on the housing and subsidy policy. The measures proposed included the institution of a system of income-related rents and of a system of subsidizing and financing rented dwellings on the basis of 'dynamic' costs.

*September:*

— Presentation of the central government budget for the financial year 1975 and publication of the macroeconomic forecasts for 1975. A number of earlier measures (work procurement programmes, tax relief for investment) will therefore be continued, and the deficit on the central government budget will be allowed to show a structural increase of Fl 1 500 million. According to the draft finance law, the budgetary deficit will amount to Fl 4 600 million.

— An interim report was presented to the Second Chamber on the fight against unemployment. The report gave details of a number of new measures to combat unemployment, which will cost a total of Fl 600 million. The programme will provide employment for 16 000 to 17 500 persons for one year, with a sum of Fl 400 million to be allocated to the building industry.

— The Nederlandsche Bank raised the liquidity reserve ratio for short-term deposits from 9 to 9.5% with effect from 19 September.

*October:*

— A draft law was tabled on the price of natural gas, authorizing the Minister for Economic Affairs to fix minimum prices for supplies of natural gas sold on the domestic market and abroad and to lay down rules telling domestic suppliers how to fix their tariffs.

— Publication of measures to stimulate residential construction.

— The Nederlandsche Bank raised the liquidity reserve ratio for short-term deposits from 9.5 to 10% with effect from 17 October.

— The Nederlandsche Bank announced that it had decided to reduce all its interest rates by one percentage point with effect from 28 October. The discount rate was fixed at 7%.

#### November:

— A Government statement was presented to the Second Chamber proposing measures to stimulate economic activity and employment, the programme would cost Fl 3 500 million and would mainly bring an easing of the burden of taxation and social security contributions for one year:

- the tax threshold would be raised and the tax brackets widened by 1.5%; increase to Fl 5 000 in the separate portion of the first bracket of income and wages tax (Fl 840 million);
- reduction in the contributions to the general family allowance scheme and maintenance of the current level of unemployment insurance contributions (as the Government will contribute Fl 500 million and Fl 400 million respectively);
- increase in the investment allowance for industrial and commercial buildings from  $2 \times 8\%$  to  $2 \times 12\%$  (Fl 240 million) and in the rate for accelerated depreciation of industrial and commercial buildings in areas outside the Holland conurbation from  $2 \times 16\frac{2}{3}\%$  to  $2 \times 20\%$  (Fl 60 million).

The statement also proposes additional expenditure to assist the building industry (Fl 915 million), selective measures to maintain and create jobs (Fl 250 million) and to reduce the differences between the skills in demand and those available on the labour market (Fl 200 million), and an increase in current transfers to local authorities (Fl 170 million).

— The Nederlandsche Bank reduced the liquidity reserve ratio for short-term deposits from 10 to 9.5% with effect from 21 November.

— On 27 November 1974 a draft law was tabled in the Second Chamber granting small business an extra temporary income tax allowance.

#### December:

— Decree extending the system of central financing of capital expenditure by regional and local government. In 1975 no ceiling will be placed on local authority borrowing with guaranteed payment of interest and principal.

— Publication of the 1975 regulation on the notification of changes in the prices of goods and services.

— Publication of the 1975 price regulation for goods and services, specifying the rules on the passing on of increases and reduction in costs recorded after 31 December.

— The Minister of Housing and Regional Planning adopted the following measures to stimulate residential construction:

- an extra subsidy (over and above the annual grant from the government) for the construction of owner-occupied housing (Fl 750 - 2 500);
- promotion of residential construction in urban renewal areas by means of a specific subsidy;
- extension of the system of extending loans and, where appropriate, giving a lump-sum grant to the local authorities or house-building associations which purchase non-residential buildings and convert them into dwellings;
- extension of the system of subsidies for improving the heat insulation of housing;
- increase in the financial grants for the improvement of post-war blocks of flats of house-building associations and local authorities;
- improvement of the system of subsidies for the improvement of private housing.

— On 30 December 1974 a draft law was tabled introducing a general system of insurance against incapacity for work.

#### January 1975:

— Benefits under the general old-age insurance scheme and under the general survivor's insurance scheme were increased by more than 5% with effect from 1 January 1975.

— With effect from January, there will be a 5.3% increase in benefits under the system of insurance against incapacity for work and in family allowances (except in the case of those paid for the first child).

— Social security contributions were cut with effect from 1 January 1975.

— With effect from 1 January, the statutory minimum wage was raised by 5.3% to Fl 1 254.50 a month, Fl 289.50 a week or Fl 57.90 a day.

— Creation of a fund for the structural improvement of the clothing industry and one for workers in this industry.

— The ceiling on credits, within the framework of the agreement with respect to export financing, for a duration of at least 5 years was raised by Fl 200 million to Fl 1 000 million. The ceiling for credits of between 3 and 5 years was maintained at Fl 100 million.

— The Council of Ministers decided to fix at 10% the selective investment tax on buildings constructed in the Rijnmond region, with the exception of administrative buildings and warehouses for which the tax has been fixed at 5%.

#### February:

— A bill was presented to reduce temporarily direct taxes within the framework of the new guidelines for 1975.

— Presentation to the Second Chamber of a memorandum concerning new measures designed

to promote employment. In total these measures will cost around Fl 700 million.

— Presentation to the Second Chamber of a memorandum in relation to the house building programme for 1975 which provides in total for the construction of 100 000 to 110 000 dwellings during the course of the year.

— A bill was presented relating to the notification of the laying off of workers, obliging an employer intending to lay-off 20 workers or more in a period of 3 months to notify the manager of the local regional employment office as well as the unions concerned.

#### March:

— The Nederlandsche Bank lowered its rates of interest from 7 March by 1% to 6%.

#### April:

— Increase of 1.7% of the minimum statutory wage from 1 April 1975. From this date the minimum wage for adults (23 years and over) was raised to Fl 15 303 per annum, Fl 1 275.30 per month, Fl 294.30 per week, of Fl 58.86 per day.

— Allowance under the old age insurance pension scheme (AOW) and survivors pensions (AWW) were increased by 3.7% from 1 April 1975.

— A new employment programme for the building and construction industry costing some Fl 1 000 million was announced.



TABLE 1: Key indicators

	1969	1970	1971	1972	1973	1973
	% change by volume on preceding year					Indices 1970=100
Gross domestic product	+ 7.0	+ 7.2	+ 4.0	+ 4.8	+ 3.7	113
Industrial production	+ 8.0	+ 7.5	+ 6.0	+ 4.7	+ 6.3	118
Imports	+ 14.2	+ 14.5	+ 6.3	+ 5.7	+ 11.6	125
Private consumers' expenditure	+ 7.5	+ 7.8	+ 3.4	+ 3.6	+ 2.1	109
Public current expenditure on goods and services	+ 4.2	+ 6.3	+ 3.6	+ 2.3	+ 0.7	106
Gross fixed asset formation	- 2.1	+ 10.1	+ 3.3	- 2.2	+ 6.5	108
Exports	+ 15.5	+ 12.4	+ 10.9	+ 10.8	+ 12.2	138
Gross domestic product per head of population	+ 5.8	+ 5.5	+ 2.6	+ 2.9	+ 3.8	110
Gross domestic product per person in employment	+ 5.3	+ 6.0	+ 3.3	+ 5.2	+ 4.3	114
	% change by value on preceding year					
Gross income per employee	+ 13.2	+ 12.7	+ 13.3	+ 12.8	+ 14.0	146

TABLE 2: Indicators for internal and external equilibrium

	1969	1970	1971	1972	1973
Current account balance					
in million Eur	+ 41	- 503	- 174	+ 1 045	+ 1 413
as percentage of GDP	+ 0.1	- 1.6	- 0.5	+ 2.5	+ 3.0
Unemployment rate	1.4	1.2	1.4	2.4	2.4
Price-index of private consumption (% change on preceding year)	+ 6.7	+ 4.2	+ 8.0	+ 8.3	+ 9.4

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Million Eur	% of totals
	1969	1970	1971	1972	1973	1973	1973
<b>Visible exports</b>							
Total	+ 19.6	- 18.3	- 1.8	- 12.5	- 25.3	19 255	100
Intra-EEC	+ 25.1	22.0	- 9.0	14.8	+ 22.6	13 969	72.5
To non-EEC countries	+ 12.1	- 12.7	- 9.9	+ 9.4	+ 32.8	5 286	27.5
<b>Exports of food, beverages and tobacco</b>							
Total	+ 15.4	+ 18.5	- 3.0	+ 10.1	- 13.8	3 751	19.5
Intra-EEC	- 19.6	- 22.8	- 5.8	+ 16.5	+ 6.6	2 851	14.8
To non-EEC countries	+ 7.8	+ 9.8	+ 3.5	- 3.2	- 45.0	900	4.7
<b>Exports of raw materials, fuel and power</b>							
Total	- 20.0	31.8	- 2.7	+ 10.1	8.5	3 256	16.9
Intra-EEC	- 26.0	+ 34.8	- 5.2	+ 11.7	- 3.4	2 445	12.7
To non-EEC countries	- 11.7	- 2.2	+ 16.0	- 8.0	- 27.4	811	4.2
<b>Exports of semi-finished and finished industrial goods</b>							
Total	+ 21.1	+ 14.5	- 2.8	- 14.2	+ 34.9	12 248	63.6
Intra-EEC	+ 27.5	- 17.9	- 11.8	- 15.0	- 36.5	8 673	45.0
To non-EEC countries	- 13.4	10.0	10.0	- 13.3	+ 31.2	3 575	18.6
<b>Visible imports</b>							
Total	+ 17.3	+ 23.0	- 7.3	+ 5.5	+ 23.6	19 539	100
Intra-EEC	19.2	+ 22.1	- 23.4	+ 7.9	- 21.1	11 923	61.0
From non-EEC countries	15.0	+ 24.1	13.2	+ 3.3	+ 27.8	7 616	39.0
<b>Imports of food, beverages and tobacco</b>							
Total	- 19.0	- 13.5	- 7.1	+ 11.2	+ 16.8	2 400	12.3
Intra-EEC	- 49.4	+ 5.1	- 24.7	+ 28.1	- 8.7	893	4.6
From non-EEC countries	- 5.4	- 18.8	+ 2.9	+ 4.3	+ 40.1	1 507	7.7
<b>Imports of raw materials, fuel and power</b>							
Total	- 13.8	+ 24.3	- 10.9	- 8.2	+ 18.5	4 079	20.9
Intra-EEC	+ 3.0	- 7.1	- 17.9	+ 2.6	+ 3.7	589	3.0
From non-EEC countries	16.9	28.7	- 17.0	+ 9.8	+ 23.3	3 490	17.9
<b>Imports of semi-finished and finished industrial goods</b>							
Total	18.1	+ 24.5	12.9	- 3.2	26.7	13 061	66.8
Intra-EEC	- 18.1	25.3	23.7	- 6.9	26.5	10 442	53.4
From non-EEC countries	- 18.1	- 22.5	14.2	- 2.9	- 27.6	2 619	13.4

TABLE 4: Selected monthly indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
<b>Industrial production</b> (1963 = 100)	1972	205.8	204.3	205.4	209.8	207.9	209.3	213.7	216.5	218.6	217.2	218.2	225.2
	1973	222.3	225.6	217.6	224.3	226.9	221.0	229.5	233.0	230.8	249.0	238.6	236.6
	1974	236.0	239.9	239.9	231.6	244.9	239.9	243.2	243.0	242.9	251.0	249.5	232.4
<b>Unemployed</b> (1 000)	1973	116.1	119.5	119.4	117.8	114.4	115.1	116.3	117.8	117.4	118.2	117.1	119.0
	1974	123.7	124.4	129.8	130.9	133.4	137.6	145.0	151.6	154.6	159.4	163.3	167.3
	1975	168.3	177.7	187.8	198.8								
<b>Permits for residential construction</b> (1 000)	1973	13.6	13.6	11.2	15.2	11.7	12.1	13.0	10.6	11.8	11.5	10.6	10.2
	1974	10.3	11.0	11.9	8.9	10.8	9.7	11.5	7.4	8.5	9.3	9.2	10.7
	1975	11.3	7.9	9.6									
<b>Retail turnover</b> (1970 = 100)	1972	111.2	116.3	121.2	113.2	114.4	120.1	116.3	120.2	125.8	118.1	124.6	126.4
	1973	124.4	127.4	131.1	125.2	130.8	136.2	127.0	134.7	131.7	136.4	140.9	127.0
	1974	135.2	135.3	139.1	141.1	148.3	143.1	147.3	153.1	144.7	153.4	156.0	150.4
<b>Consumer prices</b> (1970 = 100)	1973	121.0	121.5	122.7	124.6	125.4	125.7	125.5	126.0	127.5	128.6	129.5	130.1
	1974	131.1	132.3	134.4	136.3	136.8	137.3	137.7	138.7	140.8	142.6	143.7	144.4
	1975	145.2	145.5	147.7	149.7								
<b>Visible imports</b> (million Eur.)	1972	1 166	1 278	1 312	1 279	1 270	1 322	1 169	1 381	1 314	1 397	1 448	1 376
	1973	1 538	1 526	1 594	1 481	1 658	1 463	1 617	1 651	1 704	1 799	1 832	1 642
	1974	1 940	1 950	2 176	2 204	2 332	2 154	2 429	2 241	2 346	2 390	2 231	2 157
<b>Visible exports</b> (million Eur.)	1972	1 168	1 161	1 238	1 181	1 295	1 247	1 165	1 360	1 244	1 284	1 379	1 340
	1973	1 627	1 612	1 502	1 432	1 730	1 476	1 565	1 592	1 509	1 724	1 836	1 620
	1974	1 940	1 973	2 101	2 195	2 336	2 097	2 395	2 100	2 212	2 258	2 138	2 198
<b>Balance of trade</b> (million Eur.)	1972	- 2	- 117	74	98	25	- 76	4	- 21	69	- 113	69	- 36
	1973	88	86	- 93	48	- 72	13	52	- 59	- 195	- 75	- 5	- 22
	1974	0	23	75	- 10	5	57	34	- 141	134	- 132	93	41
<b>Official foreign exchange reserves</b> (million Eur.)	1973	2 489	2 709	3 195	3 140	2 953	2 801	2 528	2 465	2 494	3 136	3 229	3 568
	1974	3 093	3 151	2 995	2 715	2 760	2 589	2 675	2 957	3 540	3 743	3 780	3 544
	1975	3 584	3 527	3 452	3 448								
<b>Money supply</b> (million Eur.)	1973	10 425	10 505	10 786	10 887	10 627	10 547	10 270	10 180	10 759	10 610	10 798	10 689
	1974	10 715	10 982	10 901	10 930	11 207	11 238	11 184	11 375	11 471	11 563	11 734	12 036
	1975	12 060	12 142										

## NOTES TO GRAPHS AND TABLES

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

— For the intra community trade the new Community countries have not yet been taken into account, except for 1973 in Table 3.

*Graph 1*

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

*Graph 2*

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

*Graph 3*

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

*Graph 4*

Index of consumer prices and index of agreed hourly wages in private sector (*Source*: CBS): month to month change (three-month moving averages).

*Graph 5*

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

*Graph 6*

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

*Graph 7*

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

*Source*: Nationale Rekeningen 1973, CBS.

GDP at market prices.

Industrial production: value added by industry inclusive construction.

Exports and imports: goods and services.

Gross income per employee: income from employment.

*Table 2*

Current account balance: as defined for the national accounts.

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

Price index of private consumption computed from the national accounts.

*Table 3*

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

*Table 4*

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

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

Seasonally adjusted number of dwellings authorized.

Seasonally adjusted index of retail turnover.

Imports cif, exports fob; adjusted for seasonal variations.

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

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

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



## G. Belgo-Luxembourg Economic Union

### Belgium

*A decline in economic activity began in the second half of 1974 and this trend has continued in the early months of 1975; exports, in volume terms, have declined and domestic demand has weakened. The employment situation has deteriorated, and this has meant not only more unemployment but also fewer unfilled vacancies. Despite a decline in wholesale prices, consumer prices have continued to rise rapidly.*

*In the second half of the year, the recovery foreseen in export demand should generate a renewed upturn of production. Unemployment may well continue increasing in the period up to the end of the year. Price increases must be expected to lose momentum only very gradually, but the surplus on external trade will be maintained.*

### 1. Recent developments

Economic activity began declining in the third quarter of last year and this process has since spread to almost all sectors of the Belgian economy. Unemployment has also been rising sharply.

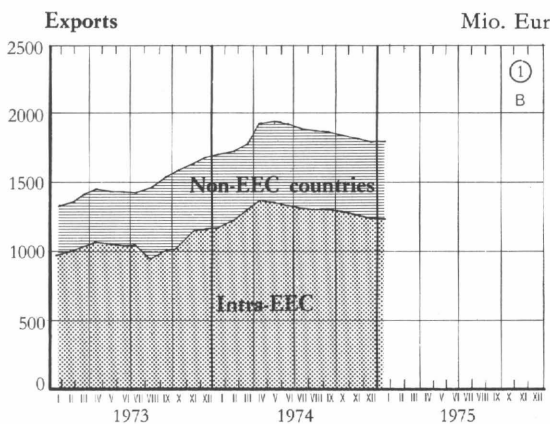
The key to the decline in economic activity has been the severe weakness of export demand. Exports, seasonally adjusted, value terms, which had declined already in the first quarter, fell a further 1.9% compared with the previous quarter. As compared with a year ago, the level

was up by 5.7%, this being a reflection of higher prices.

Domestic demand has also slackened. Uncertainties as to sales expectations, narrowing profit margins, idle production capacity and cash flow difficulties have led managements to scale down investment early in 1975. Demand in the form of residential construction has also tended to weaken. Public investment, which had practically stopped increasing during the second half of 1974, picked up again as a result of commitments under the official decision to implement in full the original 1975 investment programme.

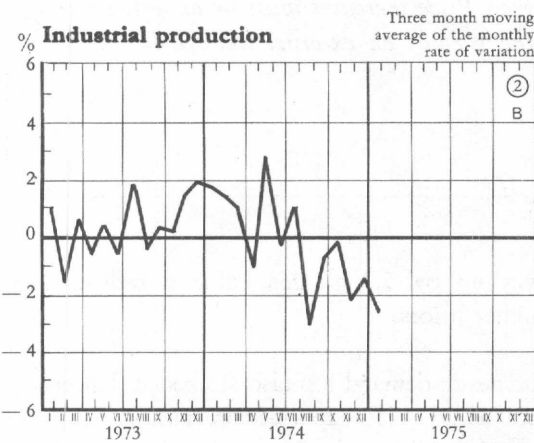
Stocks of finished products increased at an exceptionally rapid pace in the latter half of 1974 and early in 1975; on the other hand, stocks of raw materials have been run down at a fairly brisk tempo.

Consumption expenditure has lost momentum, the main factor here being a slowdown in the growth of private consumers' expenditure. In January, the year-to-year increase in the index of retail sales (value) stood at 17%; the volume index was up by 2.2% over the same period. In January-April, sales of private cars were only 2.8% up on the already low total for the first



quarter of 1974. Despite the very rapid progress in average hourly earnings in industry (the annual growth rate was 25.9% in the first quarter) the disposable income of households has increased only very slowly, for various reasons; the decline of employment, loss of overtime, increasing short-time working and a heavier tax and 'parafiscal' burden (mainly 'fiscal drag').

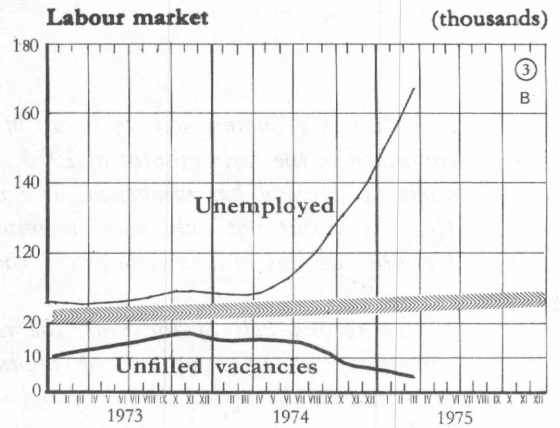
*Production* has fallen. The industrial production index continued to decline during the early months of 1975, being in January-February 6.7% below the year ago figure. The slowdown



in production activity has been particularly noticeable in respect of consumer goods and intermediary goods, whereas the industries producing capital goods have made a better showing. Early in 1975, the building and construction sector also slowed down a little.

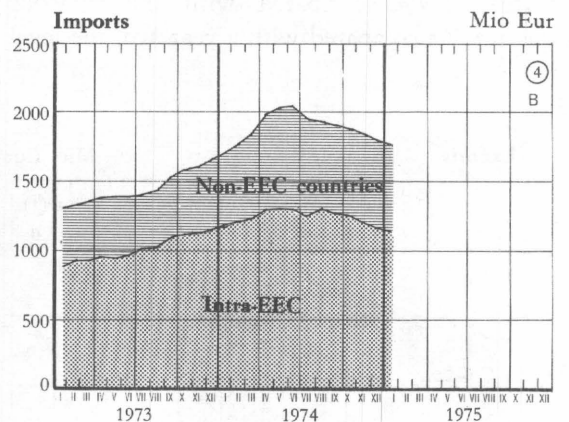
The impact of sluggish production activity has been felt in the *labour market* jobs. The number of persons fully unemployed continued to accelerate until early in 1975. By the end of April, the seasonally-adjusted figure for fully unemployed was 177 000, 25% up on the figure for the end of December. On the same date, the unemployment rate was running at 4.5%, comparing with 2.7% a year previously. Fully unemployed male workers with normal work ability account for the bulk of the increase. In addition, the average daily number of persons working short time, may have been running at about 80 000 in March comparing with 37 180 in

March 1974. The number of unfilled vacancies has continued to decline until April.



With economic activity declining and stocks being adjusted, merchandise *imports* have fallen. In the first quarter the seasonally adjusted figure for the value of imports was 7% below the average for the preceding quarter and 4.9% below the figure for the same period of 1974. As a result of this decline (which is largely a decline in volume) the trade balance, as calculated on the basis of customs returns, improved in the fourth quarter and early in 1975.

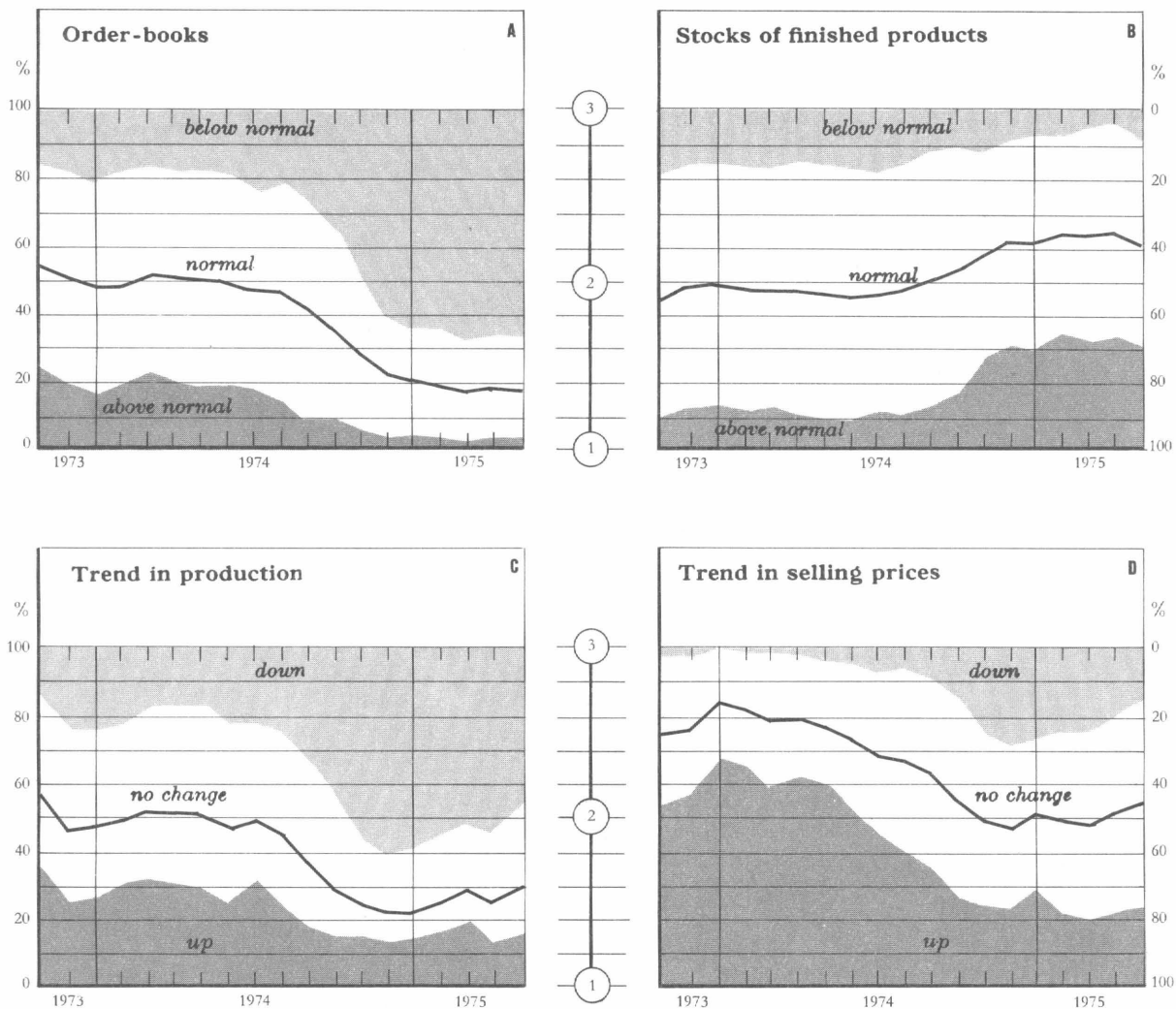
Inflationary pressures have become a little less severe. But neither the decline in wholesale *prices* (both for raw materials and semi-finished



products) nor the weakness of demand has brought to a halt the rapid upward movement

# Belgium

## BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

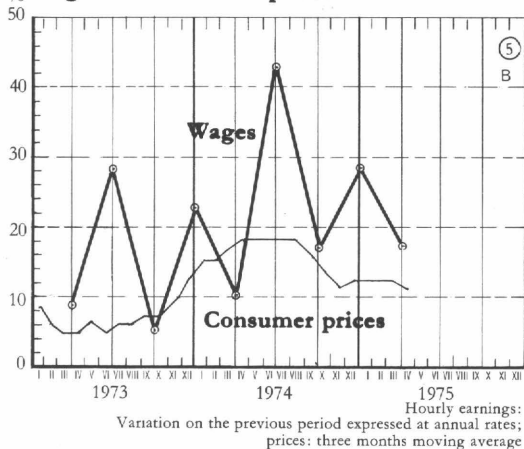
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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





### % Wages and consumer prices

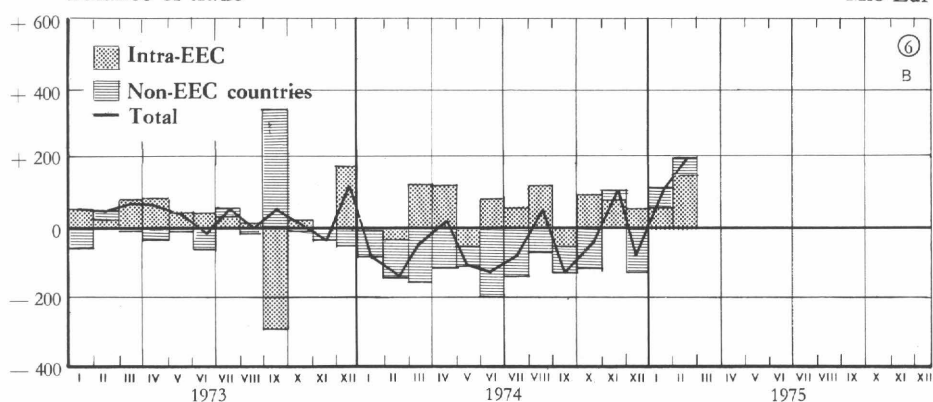


in consumer prices, the index for which was, in May 13.7% up on the May 1974 figure.

Following a Bfrs 8 600 million deficit in the last quarter of 1974, the overall *balance of payments* showed a surplus of Bfrs 21 000 million in January-March 1975 or more than twice the year ago figure. The current account remains in large surplus: Bfrs 20 000 million for the first three months as compared with Bfrs 14 200 million a year earlier.

The expansion of the *money supply* slowed down in the first quarter of this year. By March, the year-to-year growth rate was 7.8% compar-

### Balance of trade

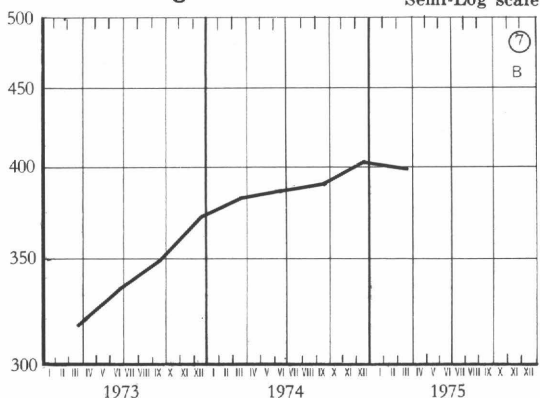


ing with 14.6% in March 1974. This slowdown was accompanied by weaker trends in credits to commerce and industry, a development which is probably due more to the fall-off of demand than to official measures of restraint.

Since the beginning of the year 1975, the authorities have in fact acted to relax monetary restrictions. Official discount rates, and the financial intermediaries' lending and borrowing rates have been reduced and the credit ceiling and the liquidity reserve requirements were eased and finally abolished. Despite the general decline in short-term interest rates since the fourth quarter of 1974, the tendency for long-term interest rates to decline has been less pronounced; the public authorities have heavy long-term capital requirements and this, together with

the persistence of inflation, has probably proved an obstacle to any more substantial reduction.

### Bank lending



*Demand for and supply of goods and services*

	1972 <sup>1</sup>	1973 <sup>1</sup>		1974 <sup>2</sup>		1975 <sup>2</sup>	
	At current prices (in BF '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	681.7	+ 14.1	+ 24.2	+ 2½	+ 25½	- 2	+ 5
Gross fixed asset formation	328.5	+ 5.4	+ 11.5	+ 7	+ 23	- 2	+ 10
Public current expenditure on goods and services	232.4	+ 5.2	+ 13.8	+ 5½	+ 20	+ 4	+ 19
Private consumers' expenditure	935.5	+ 6.8	+ 14.3	+ 3	+ 16	+ 2	+ 14
Gross national product	1 558.0	+ 5.4	+ 13.4	+ 4	+ 16½	0	+ 13
Imports <sup>3</sup>	633.5	+ 18.5	+ 28.0	+ 3	+ 30	- 1	+ 5½

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

<sup>2</sup> Estimates.

<sup>3</sup> Goods and services.

## 2. Outlook

Since domestic demand may remain weak, any improvement in the Belgian economy in 1975 will be mainly dependent upon the foreseeable recovery of economic activity in neighbouring countries. Price inflation and rising unemployment will remain serious problems.

Germany and the Netherlands are important customers for Belgium, so that the measures to revive their economies put in hand in these two countries should generate, with some delay, a recovery of Belgian *exports*. However, Belgium's competitive position is weakened by a relatively faster increase in production costs, with the result that exports could well pick up more slowly than in similar recovery periods in the past.

The rate of expansion of domestic demand is likely to be very slow: *investment* will probably make only a modest contribution, since firms already operating well below capacity will probably revise their expansion programmes downwards. The decline in the demand for industrial or commercial building and construction, and for residential construction will probably be offset only in part by faster growth in subsidized housing and public investment. The rate of stock formation must be expected to lose momentum following the involuntary build-up of stocks of finished products in 1974.

The growth of the consumption expenditure of the public authorities will remain firm, but the expansion of private *consumers' expenditure*

will probably show very little buoyancy. Despite an increase in transfer payments under social security arrangements, the growth of the real disposable income of households will probably lose momentum because of the contraction of employment and a rather slower upward movement in hourly wages.

The *industrial production* trend may be expected to 'bottom out' and expand anew before the end of the year; for 1975 taken as a whole, the average must be expected to fall short of that for 1974. With production holding firm in the other sectors, gross domestic product should not grow in 1975.

*The Central Government Budget*

	1974			1975	
	Original budget		Provi- sional outturn	Original budget	
	Fb '000 million	% <sup>4</sup> change	Fb '000 million	Fb '000 million	% <sup>4</sup> change
Expenditure <sup>1</sup>	584.3	+ 12.8	604.3	704.5	+ 20.7
of which:					
— current expenditure	484.4	+ 17.7	505.5	605.2	+ 24.9
— capital expenditure <sup>2</sup>	99.9	— 6.5	98.8	100.2	+ 0.03
Revenue <sup>3</sup>	509.1	+ 19.2	522.3	634.9	+ 24.7
of which:					
— direct taxes	256.6	+ 24.7	270.4	339.7	+ 32.4
— indirect taxes	231.2	+ 15.1	233.9	267.9	+ 15.8
Net borrowing requirement	— 75.2	—	— 86.0	— 70.5	—

<sup>1</sup> Disregarding debt extinction.

<sup>2</sup> Including participations, loans and advances together with re-imburement of VAT on stocks.

<sup>3</sup> Excluding borrowing.

<sup>4</sup> On the preceding year's original budget.

*Note:*

The figures in this table are based on the national budgets and are recalculated on the basis of Community definitions.

Present production capacity and staffing levels of firms will suffice to cover a modest expansion of production, so that a recovery in production activity would not bring with it any prompt improvement in the *employment* situation. The number of fully unemployed could, in fact, increase further in the second half of 1975, especially as a fresh influx of school-leavers at the end of the school year will probably boost unemployment among young people.

*Imports*, in terms of volume, are by now practically only marking time and this situation could persist for some months, since fixed investment is declining and firms have been slowing down the stock accumulation process. A recovery may be expected once production picks up again.

Inflationary trends are expected to remain fairly severe throughout most of the year: pressure on the production system has weakened so that

demand-pull inflation has been curbed, but the sharp increase in wage costs per unit of output is persisting because of inadequate productivity gains. To the extent that the retail price freeze, introduced early in May, helps to slow down the price/wages spiral, the upward movement of consumer prices should, nevertheless, slow down.

Growing unemployment, declining productive investment, and the steady rise of costs and prices are the key problems facing those responsible for economic policy in 1975. The situation cannot be restored to normal unless the recovery of export demand, foreseeable for the second half of the year, actually takes place, none the less, the upward movement of costs and prices must also be slowed down if a lasting improvement of the employment situation is to be achieved.

### Major economic policy measures

December 1974:

- At a special Cabinet meeting the government adopted a number of measures:
- the system of special allowances granted to employees when a firm closes down was extended to all workers made redundant as a result of the restructuring or merging of firms; in addition the introduction of a re-deployment bonus was envisaged;
- release of all public works appropriations in 1975 (compared with 80% in 1974);
- the restrictions on obtaining credit for the construction of low-cost housing were relaxed and the terms were adjusted;
- a premium of Bfrs 15 000 per annum, for three or five years, depending on the region, was introduced for each new job created by firms with up to ten persons on the payroll;
- the subsidies on export credits were increased from 0.85% to 1.10% (at an estimated cost of Bfrs 300 million, bringing the total amount of subsidies to Bfrs 1 150 million) (\$30 million);
- the ceilings on medium-term loans granted by institutions specializing in export financing were raised;

— new credits were announced amounting to Bfrs 50 million to help small and medium-sized firms when setting up an export department.

January 1975:

— The Government decided to carry out the public investment programme in its entirety in 1975 (Bfrs 125 000 million); for the period from January to April, 33% of the basic programme and 50% of the selective programme were released (Bfrs 43 000 million).

— Employers and unions approved the agreement covering all industries. The main points were an increase in the guaranteed minimum wage (Bfrs 15 000); the general adoption of the 40-hour week in 1975; the organization of the early retirement system for certain categories of work, the employers' contribution to workers' transport costs (50% of the price of low-cost season tickets); equal pay for men and women; payment of two days' double allowance for the fourth holiday week, etc.

— From 14 January the minimum deposits under hire purchase contracts were reduced and the maximum repayment period for personal loans was lengthened.

— On 30 January 1975, the Banque Nationale lowered its discount rates by 0.50% thus bringing the base rate, which had stood at 8.75% since 1 February 1974, down to 8.25%. At the same time, the Banque Nationale raised the re-discount ceiling. The base rate, which could be applied, since 8 July 1974, to only half of the ceiling assigned to each bank, is now applicable to 70% of the quota.

February:

— The Banque Nationale's monetary policy recommendations to the monetary and financial institutions, which would have run out at the end of January, were renewed for a further three-months period, but in a less stringent form.

— On 13 February the Government eased mortgage borrowing by raising the proportion which can be borrowed.

— The temporary scheme setting at six months, instead of two, the period of notice to be complied with for price increases was extended until the end of March 1975.

#### March:

— On 13 March the Banque Nationale cut its base rate from 8.25 to 7.50%, the other rates from 9 to 8% and decided to raise the banks' discount ceiling from 4.25 to 4.75% as of 1 April.

#### April:

— The Minister for Economic Affairs shortened from six to four months, with effect as from 1 April to 30 June, the compulsory period of notice for price increases.

— The Banque Nationale reduced interest rates. On 24 April the base rate was lowered from 7.5 to 7%, the other rates from 8 to 7.5%.

— The authorities introduced a set of measures relaxing monetary policy: these comprised termination of credit limitation measures still in force, gradual phasing out of the monetary reserve that must be lodged with the Banque Nationale and termination of restrictive measures relating to mortgage credit. Thus, the recommendations expiring at the end of April were allowed to lapse.

— The Government will lay before Parliament a draft law introducing a tax immunity scheme for investment exceeding the level in a reference period, the aim being to provide an incentive for

private investment in the second half of 1975. In addition, a draft law provides for the deduction of all interest on business and commercial loans.

— A 2% conjunctural aid will be made available for investments coming under the Economic Growth Law of 1970. For investments qualifying under the 1959 law, the State aid will be granted for seven years instead of five, provided the investment is implemented within twenty-four months.

— Export credits and the amounts placed at the disposal of the external trade fund will be increased. Small and medium-sized firms can apply for improved practical aid.

— The Government will work out a scheme for easing the social security burden borne by firms with large staffs.

— The restrictions on the construction of buildings and on civil engineering projects having a value exceeding Bfrs 50 million will be terminated.

#### May:

— A general freeze on prices was imposed for the May-June period. The price freeze will have no retroactive effects, nor is it applicable to items the prices of which are fixed by the European Community, to items coming under programme contracts or to auctioned items.

— The Banque Nationale reduced its interest rates to a uniform 6.5% with effect from 29 May. Thus there is no longer any distinction between the rate for discount transactions and the rate for other business.

TABLE 1: Key indicators

	1969	1970	1971	1972	1973	1973
	% change by volume on preceding year					Indices 1970=100
Gross domestic product	+ 6.5	+ 6.5	+ 3.9	+ 5.7	+ 5.3	115
Industrial production	+ 11.4	+ 9.1	+ 4.3	+ 7.0	+ 6.5	119
Imports	+ 14.7	+ 7.1	+ 5.6	+ 8.7	+ 18.6	136
Private consumers' expenditure	+ 5.2	+ 4.4	+ 4.7	+ 5.6	+ 6.8	118
Public current expenditure on goods and services	+ 6.1	+ 3.3	+ 5.9	+ 6.0	+ 5.2	118
Gross fixed asset formation	+ 5.6	+ 8.8	- 2.2	+ 3.8	+ 5.4	107
Exports	+ 14.6	+ 10.0	+ 7.3	+ 9.7	+ 14.1	134
Gross domestic product per head of population	+ 6.3	+ 6.1	+ 3.5	+ 5.0	+ 5.0	114
Gross domestic product per person in employment	+ 4.6	+ 4.6	+ 2.7	+ 5.8	+ 4.4	113
	% change by value on preceding year					
Gross income per employee	+ 8.0	+ 9.4	+ 11.4	+ 14.2	+ 12.4	143

TABLE 2: Indicators for internal and external equilibrium

	1969	1970	1971	1972	1973
Balance exports less imports					
in million Eur	+ 350	+ 800	+ 835	+ 1,348	+ 1,112
as percentage of GDP	+ 1.5	+ 3.1	+ 3.0	+ 4.2	+ 3.0
Unemployment rate	2.6	2.2	2.2	2.6	2.7
Prices to private consumers (% change on preceding year)	+ 3.0	+ 2.5	+ 5.1	+ 4.7	+ 7.0

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Million Eur	% of totals
	1969	1970	1971	1972	1973		
Visible exports							
Total	+ 23.3	+ 15.2	+ 4.0	- 20.5	+ 22.7	17 854	100
Intra-EEC	+ 29.5	+ 16.9	+ 4.2	+ 20.2	+ 21.3	13 043	73.1
To non-EEC countries	+ 12.1	+ 11.6	+ 3.7	+ 21.1	+ 26.8	4 811	26.9
Exports of food, beverages and tobacco							
Total	+ 21.8	+ 19.6	+ 14.9	+ 25.0	+ 22.9	1 646	9.2
Intra-EEC	+ 27.1	+ 16.9	+ 11.7	+ 25.8	+ 21.9	1 369	7.7
To non-EEC countries	- 1.8	- 35.3	- 30.8	- 21.6	+ 28.1	277	1.5
Exports of raw materials, fuel and power							
Total	+ 21.4	+ 0.1	- 5.5	+ 22.1	+ 25.9	1 229	6.9
Intra-EEC	+ 21.3	+ 4.6	- 5.7	+ 12.9	+ 30.6	882	4.9
To non-EEC countries	+ 21.7	- 6.4	- 5.3	+ 37.2	+ 15.3	347	2.0
Exports of semi-finished and finished industrial goods							
Total	- 23.6	+ 15.9	+ 3.8	+ 19.9	+ 22.4	14 979	83.9
Intra-EEC	+ 30.3	+ 17.4	+ 4.1	+ 20.0	+ 20.5	10 792	60.4
To non-EEC countries	+ 11.8	+ 12.6	+ 3.3	+ 19.6	+ 27.8	4 187	23.5
Visible imports							
Total	+ 19.9	+ 13.6	+ 10.3	+ 12.6	+ 23.9	17 492	100
Intra-EEC	+ 25.3	+ 16.4	+ 18.5	+ 14.8	+ 22.5	12 358	70.6
From non-EEC countries	+ 13.3	+ 9.8	- 1.4	+ 8.9	+ 27.4	5 134	29.4
Imports of food, beverages and tobacco							
Total	+ 14.9	+ 17.1	+ 11.4	+ 14.1	+ 28.9	2 224	12.7
Intra-EEC	+ 23.3	+ 20.4	+ 14.7	+ 23.9	+ 26.4	1 506	8.6
From non-EEC countries	+ 5.8	+ 13.1	+ 6.9	+ 0.3	+ 34.4	718	4.1
Imports of raw materials, fuel and power							
Total	- 11.3	+ 11.7	+ 2.6	+ 12.0	+ 17.8	3 318	19.0
Intra-EEC	+ 15.3	+ 12.0	+ 16.0	+ 17.2	+ 10.7	1 408	8.1
From non-EEC countries	+ 9.1	- 11.5	- 4.8	+ 8.4	- 23.6	1 910	10.9
Imports of semi-finished and finished industrial goods							
Total	+ 24.2	+ 13.6	+ 12.7	+ 12.5	+ 24.8	11 951	68.3
Intra-EEC	+ 28.0	+ 16.8	+ 19.6	+ 13.0	+ 23.9	9 445	54.0
From non-EEC countries	- 17.9	+ 7.9	- 1.2	+ 11.3	- 28.5	2 506	14.3

TABLE 4: Selected monthly indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Industrial production (1963 = 100)	1973	151.5	155.1	155.4	154.9	148.6	156.6	152.5	157.0	154.9	154.3	157.9	162.8
	1974	163.7	166.6	170.7	168.7	161.3	183.3	163.2	164.1	166.1	162.2	163.7	155.5
	1975	154.7	151.2										
Unemployed (1 000)	1973	104.7	104.9	104.4	104.2	105.3	105.7	106.5	106.5	107.8	109.4	107.3	107.2
	1974	107.1	106.6	106.0	107.1	109.8	113.2	116.7	119.6	126.3	133.0	136.8	141.6
	1975	149.9	158.3	168.1	177.0								
Permits for residential construction	1973	5 809	7 172	7 502	6 698	8 189	6 628	6 341	6 446	7 635	6 577	6 827	4 527
	1974	7 970	7 338	7 528	8 200	9 769	7 393	9 775	6 794	7 321	5 326	6 139	4 567
	1975	6 179											
Retail turnover (1970 = 100)	1973	130.0	129.2	137.1	133.1	137.5	139.7	130.0	135.3	137.1	145.5	143.1	143.1
	1974	149.4	148.2	150.5	157.2	160.8	156.9	158.9	159.5	160.2	170.1	160.2	170.6
	1975	172.5											
Consumer prices (1970 = 100)	1973	114.6	115.3	115.5	116.2	116.6	117.2	117.7	118.3	118.8	119.6	120.4	121.9
	1974	123.3	124.9	126.4	128.2	130.1	132.0	133.8	135.6	137.4	138.6	140.0	141.0
	1975	142.5	144.1	145.1	146.7								
Visible imports (million Eur)	1974	1 340	1 320	1 354	1 365	1 465	1 351	1 382	1 522	1 446	1 660	1 597	1 533
	1974	1 833	1 792	1 833	1 987	2 178	1 948	2 053	1 878	1 928	2 006	1 778	1 826
	1975	1 770	1 732	1 718									
Visible exports (million Eur)	1973	1 277	1 377	1 451	1 436	1 514	1 334	1 433	1 520	1 494	1 669	1 574	1 662
	1974	1 753	1 655	1 804	2 004	2 075	1 827	1 982	1 937	1 809	1 977	1 879	1 748
	1975	1 891	1 928	1 678									
Balance of trade (million Eur)	1973	- 63	+ 56	+ 97	+ 71	+ 49	- 17	+ 51	- 2	+ 48	+ 9	- 23	+ 128
	1974	- 79	- 137	- 29	+ 17	- 102	- 120	- 70	+ 60	- 119	- 29	- 101	- 78
	1975	+ 121	+ 196	- 40									
Official foreign exchange reserves (million Eur)	1973	2 369	2 650	2 776	2 850	2 955	2 930	2 903	2 819	2 792	2 852	2 840	2 692
	1974	2 486	2 484	2 496	2 451	2 338	2 363	2 562	2 614	2 774	2 932	3 018	2 928
	1975	3 004	3 122	3 159	3 193								
Money supply (million Eur)	1973	10 736	11 010	11 182	11 230	11 254	11 411	11 396	11 526	11 591	11 722	11 881	11 717
	1974	11 874	11 880	12 243	12 227	12 555	12 268	12 133	12 404	12 683	12 587	12 857	12 766
	1975	12 854	12 975										

## NOTES TO GRAPHS AND TABLES

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

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

— For the intra community trade the new Community countries have not yet been taken into account, except for 1973 in Table 3.

*Graph 1*

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

*Graph 2*

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

*Graph 3*

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

*Graph 4*

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

*Graph 5*

Wages and consumer prices (not adjusted for seasonal variations): average gross hourly earnings in industry, quarter to quarter change, *source*: Banque nationale de Belgique; consumer prices, month to month change (three-month moving averages), *source*: Ministère des Affaires Économiques.

*Graph 6*

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

*Graph 7*

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

*Table 1*

GDP at market prices.

Industrial production: value added by industry.

Exports and imports: goods and services.

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

*Table 2*

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

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

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

*Table 3*

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

*Table 4*

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

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

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

Private consumers' expenditure: seasonally adjusted value index of retail 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 foreign exchange reserves: gross reserves of foreign exchange held by the monetary authorities; position at end of month.

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



*In recent months industrial production has been contracting sharply and a certain amount of unemployment has become apparent. The upward price tendency has remained slower than in most of the other Community countries.*

*The factors supporting demand may be expected to gain strength and industrial production should start expanding again towards the end of the year.*

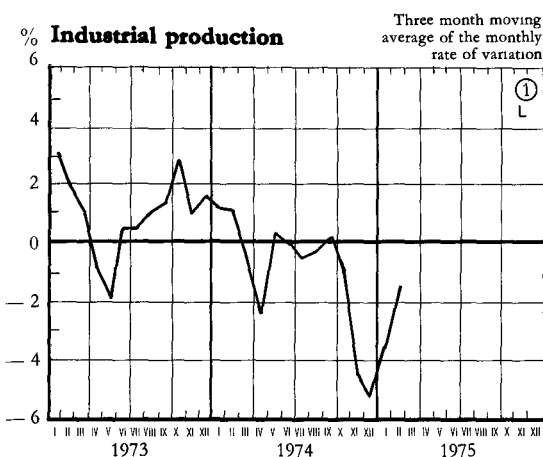
### 1. Recent developments

The decline in economic activity which began to slow down in the second half of 1974 continued in the first part of 1975. Consumer prices have been rising at the same rate as in 1974.

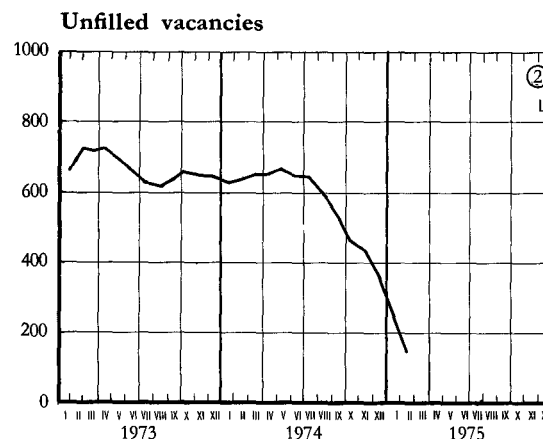
Economic activity has weakened because *exports*, particularly of steel products, have been falling. In the first quarter, steel deliveries were running 18% below the corresponding 1974 figure.

*Domestic demand* has lost its vigour. Firms have apparently been retrenching on fixed investment and the expected recovery in public investment has still not occurred on any scale. Residential construction which remained fairly strong, up to the beginning of the year because of the relatively large number of starts in 1974 seems to have weakened in recent months. In contrast, *private consumers' expenditure*, especially on consumer durables, seems to have expanded somewhat in early 1975, thanks to the continued growth of the real disposable income of households.

Declining demand has now affected *production*. In the steel industry in particular, where firms were running very near to capacity in 1974 (97.3% for crude steel, according to a provisional estimate), production has dropped sharply. In the first quarter, the seasonally adjusted figure for industrial production (excluding building and construction) was running at 13.8% below the average for 1974 and 16.9% below the corresponding figure for 1974. The



decline was less sharp in building and construction, where the year-to-year difference was 11.8% between the same periods

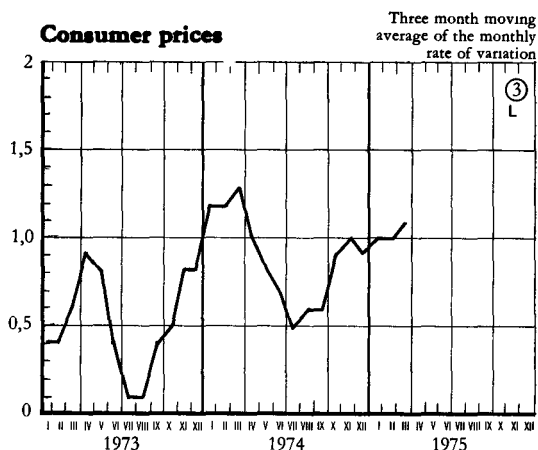


The number of unfilled vacancies contracted sharply (in seasonally adjusted terms, 160 in

March, compared with an average of 583 for 1974). The introduction of short-time working has prevented the appearance of any significant unemployment, but parallel to the extension of short-time working, which is now affecting nearly 2 000 workers, there has been a marked decline in the number of occupied frontier workers.

On the wage front, new collective bargaining agreements have recently been concluded in certain industries and service branches. The rate of increase of *prices* has slowed somewhat; the annual increase has fallen from 11.4% in November 1974 to 10.1% in May 1975.

In 1974, the liquidity of the Luxembourg banking system was strengthened by a substantial inflow of foreign capital. A large proportion of this capital was re-placed with financial institu-



tions abroad but there was still a rapid expansion of bank credit within the country. There is some evidence that this trend continued in the early part of 1975.

*Demand for and supply of goods and services*

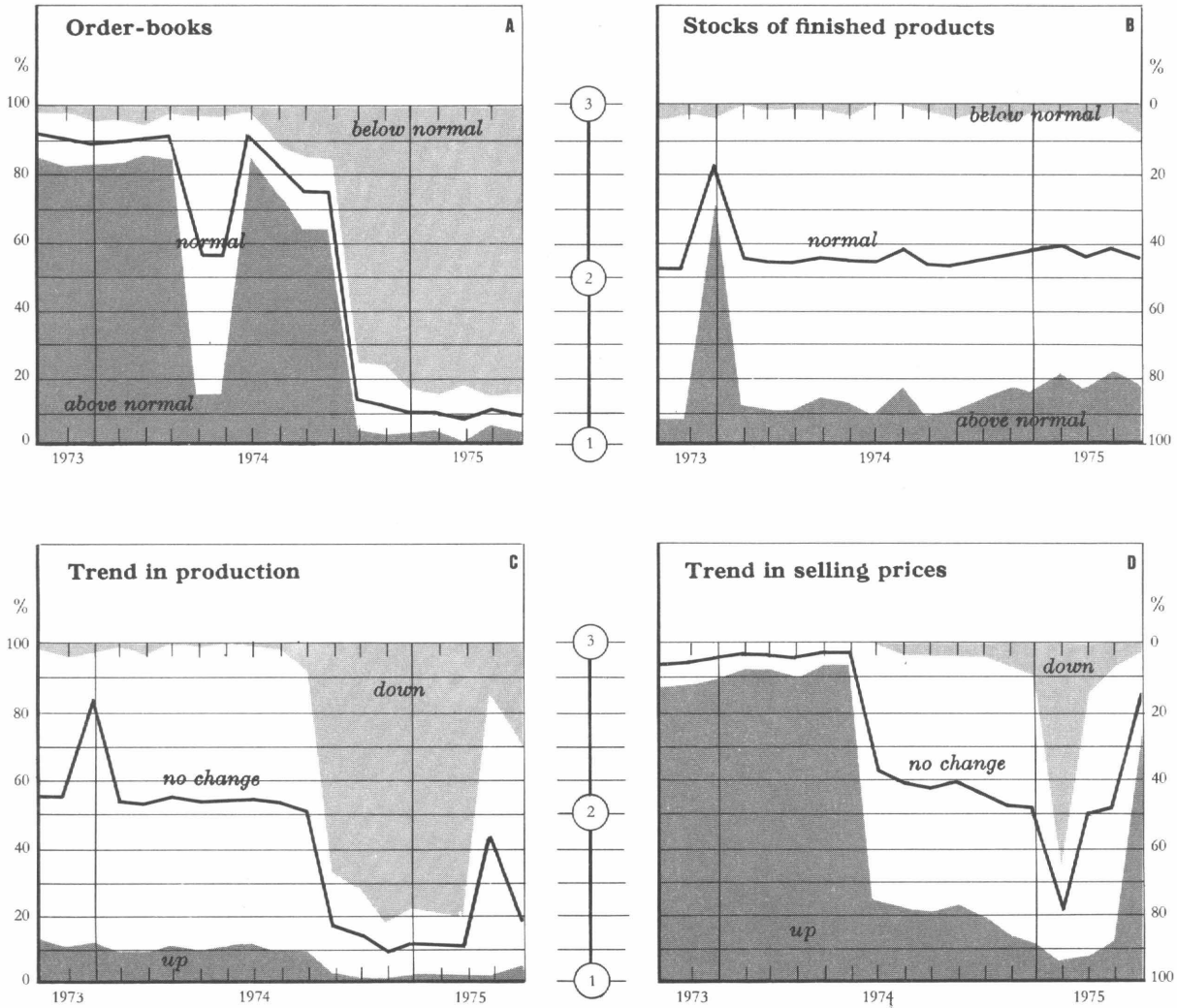
	1972 <sup>1</sup>	1973 <sup>1</sup>		1974 <sup>2</sup>		1975 <sup>2</sup>	
	At current prices (in Lfrs million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	46 200	+ 13	+ 31	+ 6	+ 28.5	- 9.5	- 16
Gross fixed asset formation	16 714	+ 5	+ 14.5	+ 1	+ 18.5	- 2.5	+ 9.5
Public current expenditure on goods and services	6 754	+ 3.5	+ 19.5	+ 2	+ 19	+ 2	+ 20.5
Private consumers' expenditure	33 701	+ 6	+ 12.5	+ 6.5	+ 16.5	+ 2	+ 12
Gross national product	59 252	+ 7.5	+ 19.5	+ 4.5	+ 16	- 3.5	- 3.5
Imports <sup>3</sup>	44 428	+ 10.5	+ 24	+ 6.5	+ 32	- 6.5	- 0.5

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

<sup>2</sup> Estimates.

<sup>3</sup> Goods and services.

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 (grey, white and black) show the percentages of the three different answers.

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

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



## 2. Outlook

Although it is difficult to say precisely when the recovery, which is expected to take place in Luxembourg's main trading partners, will be reflected in stronger production activity in Luxembourg itself, it seems unlikely that any upswing will occur before the end of 1975.

Indeed, for the iron and steel industry, in particular, new orders declined again in April as compared with previous months and *exports* could well continue to fall for some time before the turning point is reached.

As for *domestic demand*, its various components will probably show signs of a general weakening. Industrial investment will contract fairly sharply, whilst public investment should exhibit a certain underlying strength. Finally, the construction industry will remain depressed, principally because of the weak trend in the construction of apartment buildings.

Real disposable incomes of households will only show relatively slow growth despite the measures adopted in recent months to support employment and incomes. Thus private *consumption* will only grow very slowly during the remainder of this year.

*The Central Government Budget*

	1974		1975	
	Original budget			
	Flux '000 million	% change <sup>4</sup>	Flux '000 million	% change <sup>4</sup>
Expenditure <sup>1</sup>	19.1	+ 15.1	23.8	+ 24.6
of which:				
— current expenditure	14.4	+ 18.0	18.4	+ 27.8
— capital expenditure <sup>2</sup>	4.7	+ 6.8	5.4	+ 14.9
Revenue <sup>3</sup>	17.9	+ 16.2	23.7	+ 32.4
of which:				
— direct taxes	9.3	+ 20.8	13.6	+ 46.2
— indirect taxes	7.0	+ 22.8	8.2	+ 17.1
Net borrowing requirement	— 1.2	—	— 0.1	—

<sup>1</sup> Disregarding debt extinction.

<sup>2</sup> Including participations, loans and advances.

<sup>3</sup> Excluding borrowing.

<sup>4</sup> On the preceding year's original budget.

*Note:*

The figures in this table are based on the national budgets and are not recalculated on the basis of Community definitions.

The differing trends of the various demand components will affect *production* correspondingly. For example, whilst it is reasonable to expect that the industries working for the domestic market (services, for example) will enjoy some degree of stability, production in the export industries will probably not begin growing again for some time. Gross domestic product, taken as a whole, will probably fall by about 3%.

As a result, employment could well go on declining in 1976, with some net emigration of labour and the persistence of a minor unemployment problem.

The rate of increase of consumer *prices* will probably slow down in coming months, but even if annual rate of increase falls to a little less than 9% by December, the average rate of increase for the year will be about the same as in 1974.

Since exports are likely to decline further and imports to increase slightly, the *external balance* should show a substantial deficit.

The main features of the present situation in Luxembourg are the lack of uniformity in trends from sector to sector, with a pronounced weakness in the exporting manufacturing industries and sustained expansion of certain service sectors. Thus the crucial economic policy problem is that of guiding support along selective lines, with proper timing, towards the industries that have run into difficulties, and of tempering the impact of the employment crisis in certain industries without once again fuelling inflation.

### **Major economic policy measures**

*November 1974:*

— Pursuant to a regulation issued by the Bank Control Commissioner, investment funds must notify the Commissioner each month of their financial position, as from 1 December 1974. The purpose of the regulation is to supervise each fund's financial position, month by month, and if necessary to check the accounts.

*December:*

— The law on the central government revenue

and expenditure budget for the 1975 financial year was published. It provides for:

- revenue and expenditure of Lfrs 26 340 million and Lfrs 26 330 million respectively;
- reduction in the value added tax rates from 10% to 5% and from 5% to 2%, mainly for foodstuffs;
- authorization for the Finance Minister to issue treasury bonds;
- a ceiling on the recruitment of new government employees;
- tax reliefs for earners of small and medium incomes.

*January 1975:*

— On 1 January 1975 the wages and salaries of bank employees and iron and steel workers were increased by some 12% and 17% respectively. On the same date the statutory minimum wage was raised by 14%, and pensions were also adjusted.

— Persons receiving wages not exceeding a certain amount and building or buying a first dwelling were authorized to claim back up to Lfrs 60 000 and Lfrs 30 000 respectively of VAT due on the transaction. Fifty percent of the same benefit was made available to persons with wages or salaries exceeding the net minimum by not more than 20%.

*March:*

— To relax mortgage credit control, the Bank Control Commission, with the agreement of the Government:

- decontrolled the rates applicable to second dwellings;
- lowered from 70 to 60% of the borrowed capital the minimum of 'own' funds required for certain personal loans;
- reduced from 10.5 to 10% the general minimum mortgage interest rates;
- lowered from 70 to 30% the 'own' funds required from property developers, the duration of the loans remaining limited to two years.

*April:*

— On a Government proposal, it was decided to allocate a sum of Lfrs 3 400 million from the 1974 surplus to stimulate economic activity.

TABLE 1: Key indicators

	1969	1970	1971	1972	1973	1973
	% change by volume on preceding year					Indices 1970=100
Gross domestic product	+ 7.7	+ 3.9	+ 0.9	+ 4.1	+ 7.5	113
Industrial production	+ 11.4	+ 2.4	± 0	+ 4.6	+ 12.5	118
Imports	+ 11.3	+ 14.1	+ 3.3	+ 4.9	+ 11.1	120
Private consumers' expenditure	+ 4.5	+ 4.9	+ 5.8	+ 4.4	+ 6.0	117
Public current expenditure on goods and services	+ 3.3	+ 2.2	+ 3.0	+ 2.7	+ 3.5	109
Gross fixed asset formation	+ 7.8	+ 10.7	+ 12.9	+ 0.5	+ 5.1	119
Exports	+ 13.8	+ 7.3	- 2.1	+ 6.0	+ 13.1	117
Gross domestic product per head of population	+ 7.1	+ 3.5	- 0.6	+ 3.1	+ 6.1	109
Gross domestic product per person in employment	+ 7.0	+ 1.3	- 1.7	+ 1.4	+ 5.3	105
	% change by value on preceding year					
Gross income per employee	+ 5.9	+ 12.5	+ 9.1	+ 9.1	+ 11.1	132

TABLE 2: Selected monthly indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Industrial production (1963 = 100)	1973	138.2	147.7	149.2	142.4	144.6	141.3	144.2	146.2	145.7	149.7	158.5	149.1
	1974	156.4	163.7	153.2	153.3	152.4	154.9	153.0	149.7	153.2	153.8	144.4	133.4
	1975	130.5	129.4	128.0	115.9								
Unfilled vacancies	1973	730	657	775	703	675	693	598	588	664	652	649	615
	1974	662	600	676	711	599	666	656	593	519	437	395	390
	1975	230	99	178	263	255							
Consumer prices	1973	113.6	114.2	114.6	115.7	117.1	117.2	117.1	117.3	117.5	118.3	119.1	120.2
	1974	121.3	123.6	124.4	126.0	127.2	127.5	128.9	129.2	129.9	131.2	132.7	133.7
	1975	134.6	136.6	137.5	139.2	140.1	141.1						

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; month to month change (three month moving averages); adjusted for seasonal variations.

*Graph 2*

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

*Graph 3*

Consumer prices : month to month changes (three-month moving averages); *source* : STATEC.

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*Table 1*

GDP at market prices.

Industrial production : value added by industry.

Exports and imports : goods and services.

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

*Table 2*

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

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

Consumer prices : not adjusted for seasonal variations.



## H. United Kingdom

The level of economic activity in the United Kingdom remained virtually unchanged during the first half of 1975. As a result of this continued stagnation, there was a sharp rise in unemployment and a further fall in the volume of imports. The current account of the balance of payments registered a distinct improvement but a large deficit remained. The rate of inflation, already very high in early 1975, accelerated further, partly as a result of budgetary measures.

Economic activity is unlikely to show any marked sign of recovery during the remainder of the year with GDP only registering a rise of 1% between 1974 and 1975. If the anticipated upturn in world trade materializes in early 1976, the outlook for growth, employment and the balance of payments would improve.

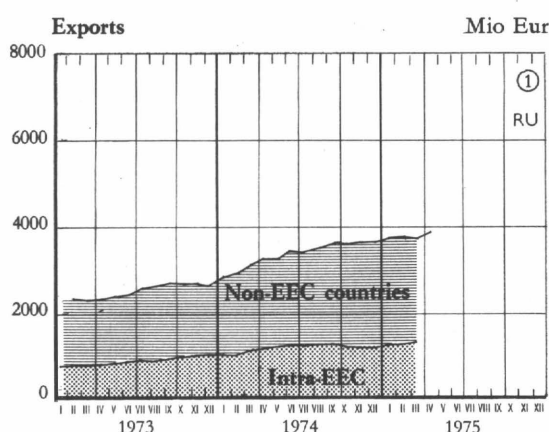
### 1. Recent developments

Output in the first half of 1975 hardly changed from the level reached in the final quarter of 1974. The rising trend in domestic consumption was offset by a distinct fall in private industrial investment. Despite a tendency for prices of

retail price inflation did not abate. The current balance of payments improved.

After a marked fall in the final quarter of 1974, exports expanded again in early 1975. Between the last quarter of 1974 and the first quarter of 1975, the value of exports, on an overseas trade statistics basis, rose by no less than 13% (8% in volume terms), reaching a level some 31% higher than a year before.<sup>1</sup> A particularly sharp rise occurred in deliveries to developing countries, especially to oil exporting countries. In contrast to 1974, exports to EEC countries, as a proportion of total U.K. exports (33% in 1974), fell somewhat during the first three months of the year. Exports in April were abnormally low as a result of an industrial dispute.

Gross fixed capital formation at constant prices was still rising during the final quarter of 1974 and the expected fall in manufacturing investment, forecast from official intentions surveys, did not materialize.



materials and fuel purchased by manufacturing industries to stabilize, the underlying rate of

<sup>1</sup> Unless otherwise stated, this analysis is based on seasonally adjusted data.

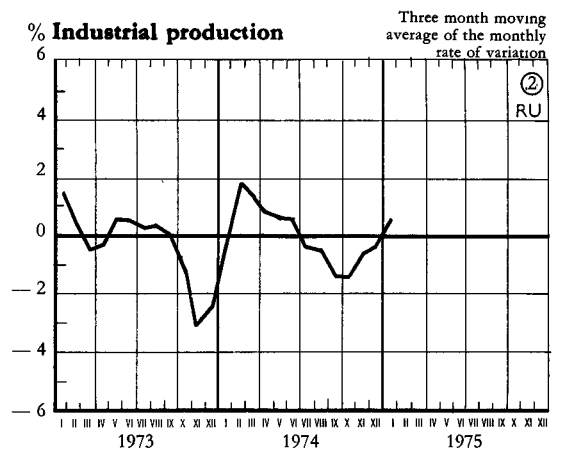
There are probably three reasons why the volume of total fixed investment had probably fallen only slightly during the first half of 1975 in spite of a substantial reduction in private industrial investment. Firstly, nationalized industries' investment was no longer affected by earlier spending cuts and gradually resumed its expansionary trend. Secondly, mining and quarrying investment continued to rise strongly as a result of North Sea oil and gas activity. Thirdly, investment in public dwellings has remained at the high level achieved in 1974, whereas private dwellings investment, which had fallen by some 20% between 1973 and 1974, bottomed out in the first half of 1975 as the inflow of funds to the building societies increased sharply and the rate of starts recovered.

Investment in *stocks* is likely to have fallen in the first half of 1975 judging by the sluggishness of output and by the low level of imports of industrial materials. There was, however, some involuntary increase in stocks of finished goods as the rising trend of consumer's expenditure came to an end.

The volume of *personal consumption*, which recovered during the second half of 1974 at an annual rate of 6% from the much depressed levels reached in the first half, showed no further signs of expansion. Preliminary estimates for the first quarter of 1975 indicate a fall at an annual rate of 1.2%. The number of new car registrations, which fell by 14% between 1973 and 1974, showed erratic movements in the opening months of 1975, but remained below the average of last year. Consumers' expenditure in current prices was sustained by a continued sharp rise in personal disposable income. In the twelve months to April, basic wage rates rose by 3% and there were no signs of any significant deceleration. Average earnings, however, slowed down in the opening months of 1975 as they were increasingly affected by short-time working and reduced overtime. With a further slight fall in employment and after taking into account other personal income, and the effects of inflation and fiscal drag, real personal disposable income is estimated to have fallen between the last quarter of 1974 and the first quarter of 1975. The rise in the volume of private consumption has been made possible by

a fall in the savings ratio from the very high level recorded in late 1974 (over 12%).

The weakening trend in demand was reflected in *output*, which remained virtually unchanged in the first quarter of 1975. Manufacturing production rose marginally compared to the last quarter of 1974 but the seasonal corrections may not have taken full account of the changed pattern of holidays. Analysis by industry reveals fairly distinct trends: engineering industries are still producing at the high levels of mid-1974 and many firms reported that lack of skilled labour is a factor limiting their output. On the

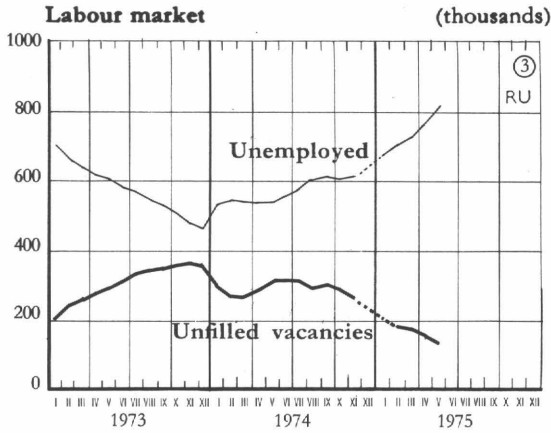


other hand, output of the construction, textile and clothing industries continued to fall in the first quarter. The monthly average of car production in the first four months of 1975 was 9% lower than that of 1974.

*Unemployment*<sup>1</sup> continued to rise, reaching 854 000 (excl. school leavers and adult students, or 3.7% of all employees, in May 1975. This rise was widely spread and affected virtually all industries and services. The construction industry continued to be more severely affected than other sectors: about 12% of the labour force was unemployed in April 1975, accounting for about 19% of the total unemployment

<sup>1</sup> Figures relate to UK.

figure<sup>1</sup>. The depressed state of the labour market is also reflected in the increase of short-time working and the sharp reduction in overtime. In manufacturing industries<sup>2</sup>, for instance, over

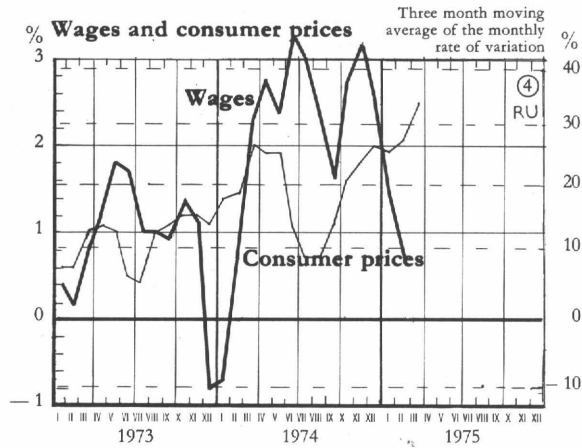


4% (250 000) of all operatives were on short-time working in May 1975 compared with only 0.7% (34 000) in May 1974. The North of England and Scotland appear to have been affected least by the weakening demand for labour. In the latter area, this is certainly due to structural factors, given the massive build-up of the off-shore programme there and the consequent growth of industries which supply and equip the oil rigs.

The wholesale price index of materials and fuels fell in the three months to April by 0.7%, compared to the preceding three months, reflecting the continued fall in world commodity prices. Wholesale output prices (home sales) recorded some deceleration in recent months but, in April were nevertheless some 24.4% higher than a year ago. During the first four months of the year, retail prices<sup>1</sup> rose at an average monthly rate of 2.5%, substantially faster than in 1974 (1.5%) and reached in April, a year-on-year rate of increase of 21.7%. Largely as a result of the April Budget measures, the increase in May was exceptionally high.

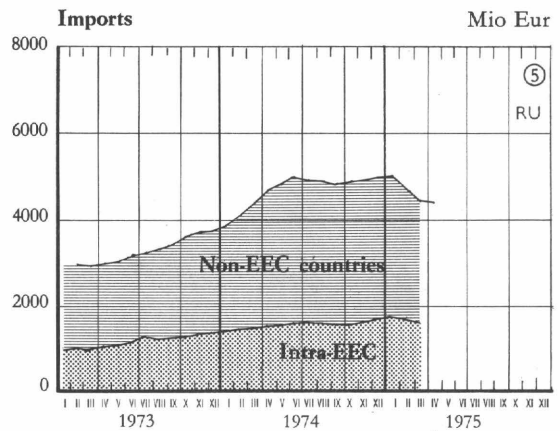
<sup>1</sup> Not seasonally adjusted figures.  
<sup>2</sup> Figure relates to Great Britain.

The trend of imports was falling. In the three months to April 1975, the value of imports (on an overseas trade statistics basis) was 7.8% lower than in the preceding three months, re-



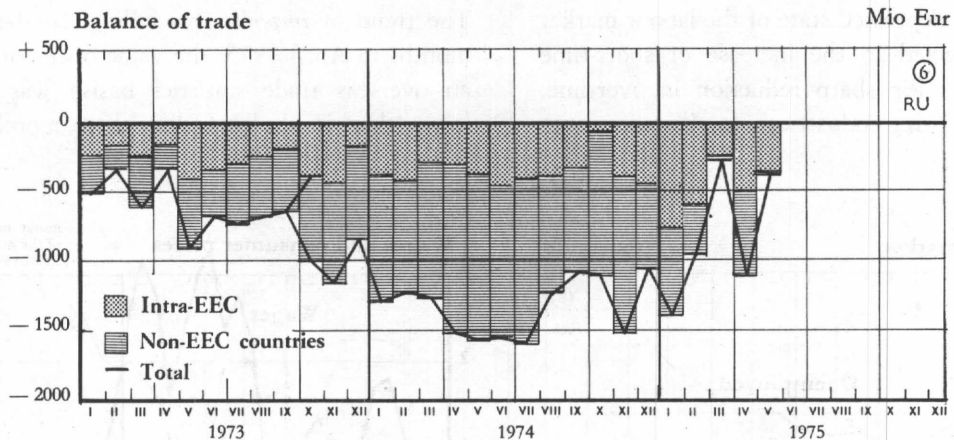
flecting the sluggishness of demand and output as well as some destocking of industrial materials.

In the first four months of the year, the deficit on visible trade was reduced to £972 million as against £ 1 683 million in the corresponding period of 1974. For the same periods, the cur-



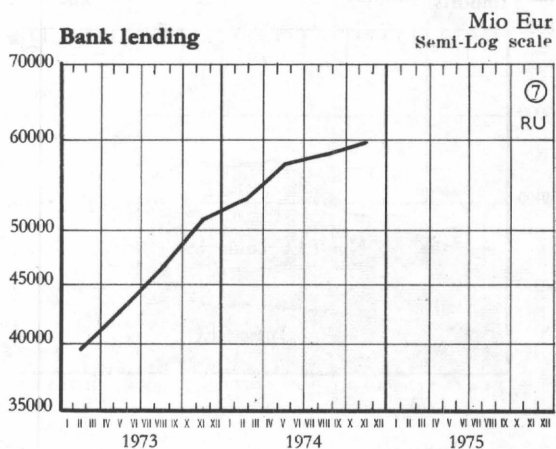
rent account deficit totalled £492 million and £1 264 million respectively.

During the first three months of 1975, the effective depreciation of sterling remained stable

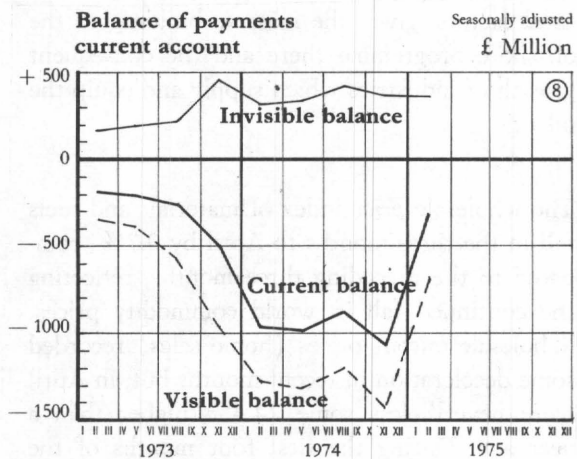


at about 21½% from Smithsonian parities but widened to 24%/25% in May. Since the end of 1974 *official reserves* have risen by \$343 million to reach \$7 132 at the end of April, after including public sector foreign currency borrowing of \$220 million under the exchange cover scheme and the drawing of the remaining \$1 000 million of the Euro-dollar loan, announced in the March 1974 Budget. In May, however, support for sterling in the foreign exchange markets by the Bank of England caused the reserves to

Interest rates moved gradually downward. The 3-month inter-bank rate fell from around 12½% at the end of 1974 to about 10% at the end of April. The Minimum Lending Rate was reduced in several stages from 11½% (at the end of 1974) to 9¾% (end-April), but rose again to 10% in early May. *Money supply*, broadly de-



fall by \$641 million, after inclusion of the proceeds of two loans from the European Coal and Steel Community totalling \$72 million.



financed (M3) continued to rise at a modest pace as growth of banklending remained sluggish and as the large expansionary effect of the public deficit was offset by substantial sales of government stock to the private non-bank sector. The narrowly defined money supply, however, rose much faster but its pace remained below the current inflation rate.

*Demand for and supply of goods and services*

	1972	1973		1974 <sup>1</sup>		1975 <sup>2</sup>	
	At current market prices £ million	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	13 252	+ 9.4	+ 24.8	+ 5.6	+ 31.4	+ 1	+ 20
Gross fixed asset formation	11 585	+ 4.1	+ 21.6	- 2.6	+ 15.9	- 3	+ 14½
Public current expenditure on goods and services	11 776	+ 3.7	+ 12.7	+ 1.9	+ 23.9	+ 5	+ 33
Private consumers' expenditure	39 428	+ 4.7	+ 13.6	- 0.1	+ 14.5	+ 1	+ 21
Gross domestic product <sup>4</sup>	62 575	+ 5.4	+ 13.4	+ 0.3	+ 12.9	+ 1	+ 23½
Imports <sup>3</sup>	13 424	+ 11.3	+ 36.3	+ 0.9	+ 44.2	- 1½	+ 11½

<sup>1</sup> Preliminary estimates.

<sup>2</sup> Forecasts.

<sup>3</sup> Goods and services.

<sup>4</sup> Including changes in stocks (not shown separately).

## 2. Outlook

Although GDP is expected to show, for the year as a whole, some growth (about 1%) over 1974, the comparison is distorted by the impact of the threeday working week on last year's figures and tends to disguise the extent of the present slowdown of economic activity. The Government's present strategy to make room in the economy for the release of the necessary resources for export should, however, improve the conditions for economic growth in 1976, although the rate of increase in GDP is likely to remain below that of productive potential.

For the immediate future no further growth of *exports* is foreseen but a marked acceleration is expected towards the end of 1975 or in the early months of 1976, when the United Kingdom should be able to take full advantage of the anticipated upturn in world trade.

The outlook for total *fixed investment* for the year as a whole is for a decline from the level achieved in 1974. However, the picture would have been much worse without the anticipated rise in investment by nationalized industries and the continued high level of investment associated with North Sea oil. The effects of the slowdown

in the economy and of the squeeze on corporate liquidity in 1974 will become increasingly apparent in the level of manufacturing investment: the decline already noted in the first half of the year will certainly continue into 1976. Investment in private sector dwellings is expected to gradually recover and move into a rising trend in 1976.

After a modest rise during the first half of 1975,

due partly to anticipatory buying in advance of increases in Value Added Tax, *consumers' expenditure* is expected to fall somewhat in the second half of the year, as rising unemployment, high rates of inflation and higher personal taxation exert an increasingly negative effect on real disposable income. In contrast, public sector current expenditure on goods and services is expected to continue to rise strongly during the outlook period.

*The Central Government Budget*

	1974-1975				1975-1976	
	Budget Estimate (March 1974)		Budget Estimate (Nov. 1974)	Provisional outturn	Budget Estimate (April 1975)	
	£ million	% <sup>3</sup>	£ million	£ million	£ million	% <sup>3</sup>
Expenditure <sup>1</sup>	31 310	+ 16.2	34 390	35 668	43 708	+ 39.6
of which:						
— current expenditure	26 629	+ 22.9	28 783	29 829	37 865	+ 42.2
— capital expenditure <sup>2</sup>	4 681	— 11.3	5 607	5 839	5 843	+ 24.8
Revenue	29 785	+ 29.8	30 460	30 559	35 881	+ 20.5
of which:						
— direct taxes	13 033	+ 37.2	13 312	13 146	16 074	+ 23.3
— indirect taxes	9 012	+ 20.9	8 570	8 619	10 520	+ 16.7
Net borrowing requirement (—) or surplus (+)	— 1 525	—	— 3 930	— 5 109	— 7 827	—

<sup>1</sup> Disregarding debt extinction.

<sup>2</sup> Including participations and loans.

<sup>3</sup> Percentage change on Budget estimate of preceding year.

*Note:*

The figures in this table are based on the national budgets and are not recalculated on the basis of Community definitions.

With total output virtually flat, *unemployment* will continue to rise and could exceed 1 million (4.3% of all employees) during the Autumn of this year.

*Imports* in the second half of 1975 are expected to remain at a low level in view of the decline in manufacturing investment, the expected slow-down in consumers' expenditure and the ab-

sence of any significant stimulus from stock-building. As a result of further movements in the terms of trade in the United Kingdom's favour and an improvement in the external balance in resource terms, the current account deficit for 1975 is not expected to exceed 2 500 million.

The outlook for *prices* during this period remains disturbing. The beneficial effect arising from the more favourable trend in import prices is likely to be offset by continued pressure from high wage settlements and price increases by nationalized industries. The underlying rate of increase of retail prices will fall only slowly from mid-1975 and, by the turn of the year, the increase over the previous twelve months will still be above 20%.

The key problem confronting the United Kingdom—as the Chancellor of the Exchequer himself recognized in his Budget speech in April this year—remains inflation. Practically all the other major economic problems, such as the size of the balance of payments current account deficit, the record public sector borrowing requirement, rising unemployment and falling investment, will remain to a large extent unsolved until there are signs that inflation itself is being mastered. In the present situation price inflation depends more directly than in the past, on the future trend of pay settlements. Therefore, unless the guidelines for pay increases laid down by the TUC as part of the 'social contract' are more strictly followed, or some other policy designed to moderate wage inflation is pursued successfully, the short-term outlook for the British economy will remain disturbing.

### **Major economic policy measures and decisions**

*December 1974:*

— On 6 December the Government announced plans to take a large shareholding in British Leyland in return for a Treasury guarantee of additional loans for investment purposes.

— On 9 December, the Secretary of State for Energy announced a series of measures to conserve energy-saving investment in industry, increases in the price of fuels, reduced speed

*limits on roads, and compulsory limits on heating levels in non-residential buildings.*

— On 12 December the British Gas Corporation announced that domestic gas prices would be increased by an average of 12% from 1 January.

— On 17 December, the Secretary of State for Energy announced the abolition of maximum prices for petrol and oil products, and price increases (e.g. petrol +16%) to become effective from 20 December.

— The Secretary for the Environment announced, on 19 December, that the freeze on commercial rents would end on 1 February, 1975. It was also announced that the British Steel Corporation would raise its prices by 20% as from 2 January 1975.

— A new Price Code came into operation on 20 December. The principal changes made were:

— to allow firms to pass on to prices a greater proportion of increases in labour costs;

— to permit firms to recoup by increased prices, over a period of one year, up to 17½% of the cost of their investment expenditure for that year on plant, machinery and industrial building;

— to provide improved safeguards for profit margins.

— British Rail announced, on 27 December, that fares would be increased by an average of 12½% from 26 January 1975.

*January 1975:*

— On 3 January the Post Office announced plans to raise postal and telecommunications charges from March 17 to raise additional revenue estimated at £650 million per annum.

— On 13 January restrictions on heating levels in non-residential buildings, and on the use of electricity for advertising, came into force.

— On 17 January, the Bank of England minimum lending rate was reduced by ¼% to 11¼%.

— The control on exports of coal, coke and solid fuels, introduced in February 1974, was lifted as from 21 January.

— The Bank of England's minimum lending

rate was reduced from 11¼% to 11% on 24 January.

— A further drawing (\$700 million) was made on the \$2 500 million Eurodollar loan (announced at the time of the March 1974 Budget).

#### February:

— On 7 February the Bank of England's minimum lending rate was reduced by ¼% to 10¾%.

— On 11 February, the Secretary of State for Trade made an order removing the control, imposed in October 1974, on exports of oil and liquefied petroleum gases, with effect from 4 March.

— On 14 February the Bank of England's minimum lending rate was reduced by ¼% to 10½%.

— The National Coal Board announced price increases on 17 February. From 1 March the price of industrial and coking coal is to be increased by 30% and prices for house coal are to be increased by about 22% from 1 April. The rises followed the 30% pay increases to the miners.

— In the annual farm price review, announced on 17 February, prices of milk, butter and cheese were increased.

— On 21 February, the Post Office was given clearance to increase post and telephone charges as from 17 March. The rises will give extra revenue of £650 million a year.

— The Bank of England ended on 28 February two controls over the banking system: the supplementary special deposits scheme, and the limit on the maximum rate of interest (9½%) that banks were allowed to pay on small deposits. A final drawing (\$300 million) was made on the \$2 500 million Eurodollar loan (announced at the time of the March 1974 Budget).

#### March:

— On 3 March the subsidy on butter was increased to £233 a ton.

— The Bank of England's minimum lending rate was reduced by ¼% on 8 March, and by a further ¼% on 21 March, to reach a level of 10%.

— Increases in the price of electricity for domestic, industrial and commercial users were announced on 25 March. The increases, ranging from 7½% (commercial and industrial users) to 28½% (domestic consumers) will be effective from 1 April and should yield additional annual revenue of £460 million.

#### April:

— The Budget for the financial year 1975/1976 was announced on 15 April. Compared to the previous financial year, the rise in total public expenditure was forecast at 23% compared with 22% for receipts. The public sector borrowing requirement was estimated to rise from the provisional outturn of £7 602 million for 1974/1975 to £9 055 million in 1975/1976. The principal points from the Budget Statement were

— increase of 2 percentage points on the base rate (33% to 35%) and on higher rates of income tax, coupled with higher tax-free allowances;

— the scheme for tax relief on inflation-induced stock appreciation is to be continued for a further year and its coverage modified;

— value added tax to be increased from 8% to 25% on most electrical goods, photographic goods, furs and jewellery;

— duty on alcoholic drinks and tobacco to be increased;

— excise duty on vehicles to be increased, (e.g. from £25 p.a. to £40 p.a. for cars);

— public expenditure to be reduced by £180 million in 1975/1976 through reductions in price restraint subsidies to nationalized industries, and by a further £900 million in 1976/1977 mainly by reducing food subsidies, capital expenditure on housing, investment by nationalized industries and the defence budget;

— additional funds (£50 million) to be made available over the next two financial years to strengthen manpower training program-



*mes, and special payments to be made to firms prepared to defer planned redundancies;*

*— special assistance to be given to firms willing to advance their investment projects.*

*— On 19 April, the Bank of England's minimum lending rate was reduced by  $\frac{1}{4}\%$  to  $9\frac{3}{4}\%$ .*

*May:*

*— On 2 May a Bill was published proposing that nationalized industries should receive a further £650 million as compensation for price restraint in 1974/1975.*

*— It was announced on 22 May that old-age pensions are to be increased by 15% from 17 November.*

TABLE 1: Key indicators

	1970	1971	1972	1973	1974	1974
	% change by volume on preceding year					1970=100
Gross domestic product	+ 1.8	+ 2.0	+ 1.4	+ 5.3	+ 0.6	109.6
Industrial production	+ 0.3	+ 0.4	+ 2.0	+ 7.2	- 3.2	106.4
Total imports	+ 5.0	+ 4.7	+ 9.7	+ 11.3	+ 0.9	129.0
Private consumers' expenditure	+ 2.4	+ 2.6	+ 6.0	+ 4.7	- 0.1	113.8
Public current expenditure on goods and services	+ 1.5	+ 3.0	+ 4.1	+ 3.7	+ 1.9	113.3
Gross fixed asset formation	+ 2.0	+ 1.6	+ 2.7	+ 4.1	- 2.6	105.8
Total exports	+ 4.8	+ 7.0	+ 2.6	+ 9.4	+ 5.6	126.8
Gross domestic product per head of population	+ 1.6	+ 1.5	+ 2.0	+ 5.0	+ 0.5	109.3
Gross domestic product per person in employment	+ 2.8	+ 3.7	+ 3.1	+ 3.2	n/a	n/a
	% change by value on preceding year					
Gross income per employee	+ 12.7	+ 12.5	+ 11.9	+ 11.8	n/a	n/a

TABLE 2: Indicators for internal and external equilibrium

	1970	1971	1972	1973	1974
Balance exports less imports					
in million Eur	+ 909	+ 1 776	- 412	- 4 228	- 11181
as percentage of GDP	0.9	1.5	- 0.3	- 2.8	- 6.5
Unemployment rate	2.6	3.3	3.7	2.6	2.8
Consumer prices (% change on preceding year)	+ 5.8	+ 8.2	+ 6.7	+ 8.6	+ 16.1

TABLE 3: Foreign trade (at current prices)

	%, change on preceding year					Indices 1970 = 100	Million Eur	%, of totals
	1970	1971	1972	1973	1974			
Visible exports								
Total	+ 9.8	+ 13.9	+ 6.2	+ 27.6	+ 32.4	204.5	39 586	100
Intra-EEC	+ 14.1	+ 12.9	- 10.6	+ 37.1	+ 36.7	234.0	13 219	33.4
Extra-EEC	+ 8.2	+ 14.3	+ 4.4	+ 23.5	+ 30.4	192.4	26 367	66.6
Exports of food, beverages and tobacco	+ 13.3	+ 14.3	+ 12.3	+ 32.4	+ 21.6	206.7	2 551	6.4
Exports of raw materials, fuel and power	+ 13.5	+ 7.3	+ 9.0	+ 43.0	+ 67.6	280.0	3 226	8.1
Exports of semi-finished and finished industrial goods and miscellaneous goods	+ 9.3	+ 14.3	+ 5.5	+ 26.2	+ 30.9	199.3	33 809	85.5
Visible imports								
Total	+ 8.7	+ 8.7	+ 13.4	+ 42.3	+ 45.9	256.5	55 481	100
Intra-EEC	+ 13.5	+ 19.5	+ 20.8	+ 47.7	+ 48.6	316.9	18 533	33.4
Extra-EEC	+ 7.0	+ 4.7	+ 10.3	+ 39.9	+ 44.6	234.1	36 948	66.6
Imports of food, beverages and tobacco	+ 6.1	+ 6.3	+ 8.3	+ 31.5	+ 22.0	184.3	9 070	16.3
Imports of raw materials, fuel and power	+ 6.8	+ 9.1	+ 1.9	+ 43.9	+ 95.2	312.0	17 297	31.2
Imports of semi-finished and finished industrial goods and miscellaneous goods	+ 10.8	+ 9.5	+ 21.2	+ 45.8	+ 35.5	261.9	29 474	52.5

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct.	Nov	Dec
Industrial production (1970 = 100)	1973	108.6	110.2	110.6	109.2	109.0	110.0	110.9	110.5	110.8	111.4	110.4	106.6
	1974	101.2	103.3	105.9	107.3	107.5	108.6	109.2	109.1	107.6	107.0	106.6	102.8
	1975	104.9	105.5	104.6									
Unemployment (000)	1973	736.2	693.5	663.4	648.7	630.3	621.5	608.9	594.8	574.3	542.1	516.9	502.4
	1974	562.2	576.3	572.6	573.4	575.3	589.9	610.6	634.9	641.4	637.1	638.2	n/a
	1975	708.4	736.7	754.1	794.2	853.5							
Construction: Housing starts (000)	1973	30.2	33.4	30.8	28.9	26.1	27.4	25.3	26.1	28.8	23.4	24.1	23.2
	1974	21.7	23.3	24.8	21.8	21.7	21.5	18.0	21.1	20.1	19.7	19.5	18.6
	1975	26.0	28.0	24.8									
Private consumers' expenditure value of retail sales (1971 = 100)	1973	119.7	123.1	126.8	119.6	120.9	124.9	126.2	127.5	129.3	132.4	134.1	135.7
	1974	134.7	137.0	138.4	138.9	138.7	143.5	146.6	150.5	154.0	156.4	160.3	158.8
	1975	165.8	166.7	166.3									
Retail prices (Jan. 1962 = 100)	1973	171.3	172.4	173.4	176.7	178.0	178.9	179.7	180.2	181.8	185.4	186.8	188.2
	1974	191.8	195.1	196.8	203.5	206.4	208.5	210.4	210.6	212.9	217.1	221.0	224.2
	1975	230.0	233.8	238.4	247.6								
Exports (million Eur)	1973	2 088	2 160	2 071	2 256	2 146	2 304	2 306	2 352	2 503	2 357	2 453	2 446
	1974	2 426	2 760	2 902	3 062	3 130	3 178	3 209	3 307	3 470	3 233	3 110	3 326
	1975	3 749	3 494	3 696	3 278								
Imports (million Eur)	1973	2 256	2 328	2 578	2 294	2 734	2 635	2 748	2 894	2 974	3 324	3 130	3 250
	1974	3 360	3 790	3 989	4 001	4 279	4 219	4 246	4 289	4 358	4 418	4 550	4 188
	1975	4 409	4 190	3 979	3 972								
Balance of trade (million Eur)	1973	- 168	- 168	- 507	- 38	- 588	- 331	- 442	- 542	- 471	- 967	- 677	- 804
	1974	- 934	- 1 030	- 1 087	- 939	- 1 149	- 1 041	- 1 037	- 982	- 888	- 1 185	- 1 440	- 862
	1975	- 660	- 696	- 283	- 694								
Official foreign exchange reserves (million Eur)	1973	4 000	3 610	3 562	3 701	4 150	4 180	3 663	3 642	3 483	3 695	3 776	3 706
	1974	3 670	3 494	3 678	3 986	3 881	3 768	3 748	3 859	4 094	4 269	4 333	3 615
	1975	3 554	3 679	3 698	3 713								
Money supply (million Eur)	1973	61 392	63 422	64 416	65 376	65 592	66 888	69 336	70 992	72 672	74 328	75 192	77 160
	1974	78 744	80 184	80 232	80 280	80 592	80 448	82 968	83 832	83 952	84 360	85 392	85 992
	1975	86 328	87 072	87 888	88 032								

NOTES TO GRAPHS AND TABLES

Conversions into Eur (1 Eur = 0.888671 g of fine gold) £ 1 = 2.40 Eur.  
Seasonally adjusted unless otherwise stated.

*Key to sources:* — (a) Central Statistical Office.

(b) Department of Employment.

(c) Bank of England.

(d) Statistical Office of the European Communities.

(e) Office of Population Censuses and Surveys, General Register Office (Scotland), General Register Office (Northern Ireland).

(f) Ministry of Health and Social Services (Northern Ireland).

(g) Department of Trade and Industry.

(h) Department of the Environment.

*Graph 1*

Exports fob. Series adjusted for seasonal variations: three-monthly moving average (d).

*Graph 2*

Industrial production: three-month moving average of all industries index (1970 = 100) (b).

*Graph 3*

Labour market (Great Britain): wholly unemployed excluding school-leavers and adult students; number of adult unfilled vacancies.

[*Note:* figures for December 1974 and January 1975 not available because of industrial dispute in Employment Offices] (b).

*Graph 4*

Wages and consumer prices: three-monthly moving average of index of monthly average earnings in Great Britain (all employees) (January 1970 = 100): three-monthly moving average of retail price index (all items not seasonally adjusted.) (Index based on January 1962 = 100, January 1970 = 100) (b).

*Graph 5*

Imports cif: series adjusted for seasonal variations; three-monthly moving average (d).

*Graph 6*

Balance of trade: difference between the seasonally adjusted figures for imports and exports (d).

*Graph 7*

Current account: Imports and exports on fob basis. Invisible balance includes services, factor incomes and current transfers (a + g).

*Graph 8*

Bank lending to the private sector: advances (not seasonally adjusted) by the total banking sector to UK residents, excluding lending to the government, local authorities, public corporations and financial institutions. Breaks in the series occur in the first quarter of 1972 and the first quarter of 1973 (c).

*Table 1*

Gross domestic product at market prices (d).

Index of industrial production (all industries) (1970 = 100) (a).

Total imports and exports of goods and services (d).

Total population at end-June (not seasonally adjusted) (e).

Persons in employment: working population excluding the unemployed. Owing to a break in the series, figures prior to 1971 have been adjusted.

Gross income from employment (a).

Employees: persons in employment (as defined above) excluding employers and self-employed (b + f).

*Table 2*

Exports less imports: balance of goods and services (d).

Unemployment rate: number of unemployed as a percentage of the estimated number of employees (including the unemployed) (b + f).

Consumer prices: deflator of private consumption (d).

*Table 3*

Exports (fob) and imports (cif) of goods on an overseas trade statistics basis. EEC figures are shown on the new basis throughout. The products have been grouped according to the SITC sections 0 and 1, 2-4 and 5-9 (g).

*Table 4*

Index of industrial production (all industries) (1970 = 100) (a).

Unemployment: wholly unemployed, excluding school-leavers and adult students (b + f).

Construction: private and public housing starts in Great Britain (h).

Retail sales: index numbers of the value of sales at current prices (1971 = 100) (g).

Retail price index (all items) (not seasonally adjusted) (January 1962 = 100) (b).

Exports (fob) and imports (cif) of goods on a balance of payments basis (a).

Official foreign exchange reserves: end-month figures (not seasonally adjusted) comprising gold, IMF Special Drawing Rights, convertible currencies and, from July 1972, the UK's reserve position at the IMF. Before conversion into Eur, values have been converted into sterling at prevailing middle rates. For these reasons, breaks in the series occur in December 1971, July 1972 and February 1973 (c).

Money supply: M3 (including interest-bearing deposits). Breaks in the series occur in April 1972 and April 1973 (c).



## Trends in industrial labour costs

### A. Introduction: Methods

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

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

*Gross income from employment* is defined as wages, salaries and social insurance contributions. For Belgium, however, separate figures corresponding to this definition are still not available for income from employment by economic sector; in this case, therefore, the index given by the Banque Nationale de Belgique for the total wage bill has been used, corrected by the addition of the average figure for employers' social insurance contributions. It should be pointed out that this approximation probably understates the true trend of wage 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 Denmark, Ireland, 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. For the calculation of gross value added at constant

prices, 1970 has been chosen as the base year. It would have been more appropriate to use the trend of gross incomes and gross value added at constant prices per hour worked, but this could not be done because the statistics on the number of hours worked in the Community countries are incomplete. Consequently, these two items could only be calculated per employee.

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

As in previous years, the survey gives figures for the trend in labour costs adjusted for changes in official exchange rates. Until 1971, the calculation was made on the basis of parities declared to the International Monetary Fund. Because of the devaluation of the dollar in 1971, the data have been converted, since that year, into units of account of the European Communities (EUR).<sup>1</sup> The conversion rates have been supplied by the Statistical Office of the European Communities. For currencies floating alone, (the Pound Sterling since 23 June 1972, the Italian Lira since 14 December 1973, the French Franc since 21 January 1974) a rate of exchange in terms of EUR was calculated (for each floating currency, a simple arithmetic mean of the market rates against EUR, calculated from the ratio for each non-floating currency, between its EUR value at the central rate and its value against the floating currency at the market rate).

<sup>1</sup> One unit of account = 0,88867088 g of fine gold.

For the 'snake' currencies, floating together, data expressed in national currencies were converted into units of account EUR, on the basis of the parity or the central rates.

For the Dollar, since 19 March 1973, the rates of exchange with respect to EUR are calculated by the same method as for the floating Community currencies.

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

For all countries covered in this Annex, the figures are based 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.

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.

With regard to the figures for the number of wage and salary earners in industry, it was necessary in the case of Denmark to make linear interpolations between the results of surveys carried out in 1960, 1965, 1967 and 1969; for all the following years it was possible to use the results of surveys which have been effected annually since 1969. In the case of Ireland, the results of annual surveys on salaried employment by sector have also been used.

The concept of *value added* differs from that of industrial production as generally applied in

calculating monthly indices of industrial production.

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

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

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

#### B. *Developments in 1974*

In 1974, industrial labour costs per unit of gross value added increased in all the countries of the Community at a distinctly faster pace than in preceding years. In terms of national currencies, the rise was largest in the United Kingdom (approximately 26% against 7.5% in 1973) and in Italy (22% against 12.5% in 1973). The increase was also sharp in Denmark and Ireland (18.5% against 8.8 and 8.9% respectively in 1973). Elsewhere, the growth rate was 14.5% in France (against 7.6% in 1973), approximately 13% in Belgium (against 7.9%) and 11% in the Netherlands (against 9.7%). Germany came lowest in the table, although the figure was still almost 9% (against 7% in 1973). In the United States, too, the increase in industrial labour costs was much faster in 1974, approximately 8.5% (against 3.1% for 1973).

Calculations taking account of conversion rate



changes *vis-à-vis* the European unit of account (EUR) show a larger increase in labour costs for 1974 in Germany and the Netherlands than is indicated by the figures based on national currencies. On the other hand, in terms of the unit of account, the year-on-year increase was smaller in the United States and in all the other Community countries, except Belgium and Denmark, where the increments were the same in the two calculations. In the United Kingdom, the year-on-year comparison for 1974 in EUR terms showed that the growth of labour costs gathered considerable momentum (21% as against -8% in 1973). The same is true for Ireland (13.5% as against -6.8% in 1973), and for Italy (9% as against -2.6% in 1973). In the United States, two consecutive years in which labour costs fell (-10.5% for 1973) were followed by an 8% rise in 1974.

In general, both in the Community and the United States, the sharp rise in industrial labour costs is due to the combined effects of the faster rise in *per capita* income from employment and the slowdown in productivity gains per person employed.

*Per capita* income from employment in industry rose even more sharply in 1974 than in 1973 in Italy (23% against 21% in 1973), the United Kingdom (22% against 14% in 1973), Denmark (21.5% against 17.8% in 1973), France, Ireland and Belgium (19% in each case against 13%, 16.2% and 14.9% respectively in 1973). In the Netherlands, the rate of increase was around 15%, as in 1973. However, the upward movement lost a little momentum in Germany (12% against 13.2 in 1973). In the United States, the rise in *per capita* income from employment remained distinctly slower than in the countries of the Community, but did accelerate to some extent, increasing from 6.5% in 1973 to 7.5% in 1974.

In all the countries, productivity per worker in industry, defined as the gross value added (at constant prices) per employee in industry, increased only very slightly, and it even fell in the United Kingdom and the United States, by 3.5%

and 0.5% respectively, against gains of 6.1% and 3.3% in 1973. In Ireland, there was no increase in 1974, after the 6.7% improvement recorded the previous year. In Italy, the rise was 1% (against 7.6% in 1973), in Denmark 2.5% (against 8.3%), in Germany 3% (against 5.9%), in the Netherlands and France 4% (against 5% in both countries in 1973) and in Belgium 5.5% (against 6.4%). These results are mainly due to the weakness of productive activity in 1974, which was reflected in an appreciable slowdown in the growth of gross value added at constant prices. Although employment in industry declined in all the countries of the Community and in the United States, the increase in gross value added per person employed was only slight.

It should be noted that the considerable increase in short-time working in most Community countries and the contraction in hours worked reduce the significance of the above figures in relation to the actual trend.

In 1974, the number of persons employed in industry increased by 3% in Italy (against 0.4% in 1973), 2.5% in Ireland (1.9% in 1973) and 0.3% in France (1.8% in 1973). In the other member countries employment contracted by 4% in Denmark and Germany (against a fall of 3.3% and no change respectively in 1973), 2% in the Netherlands (a fall of 1.3% in 1973) and 0.5% in Belgium and the United Kingdom (-0.7% and +1.1% respectively in 1973). In the United States there was no change for 1974, following a 5.5% increase in 1973.

In all the countries the implicit price index for value added in industry shows a strong rise in prices in 1974, much higher than that recorded in 1973; except for the United States, however, this rise was everywhere less rapid than that of wage costs per unit of gross value added. The increase reached about 18.5% in Italy (against 9.6% in 1973), 15% in the United Kingdom (against 11.4% in 1973), 14% in France and Ireland (against 6.6% and 9.6% respectively in 1973), 13.5% in Denmark (against 11.2% in 1973), 8% in Belgium (against 6.7% in

1973), 6.5% in the Netherlands (the same as in 1973) and 5.5% in Germany (against 4.0% in 1973); in the United States there was a figure of some 10.5% (against 2.4% in 1973).

The longer-term trend in industrial labour costs per unit of gross value added is illustrated in the attached table. Changes are given from 1970 onwards.

*Wage costs in industry per unit of gross value added at constant prices*  
(Including construction)

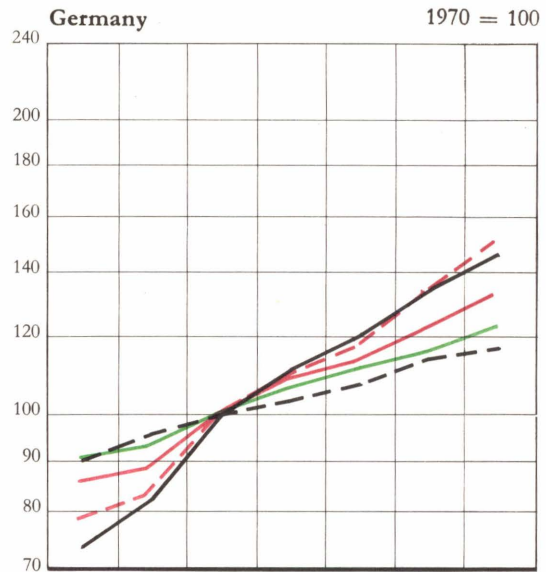
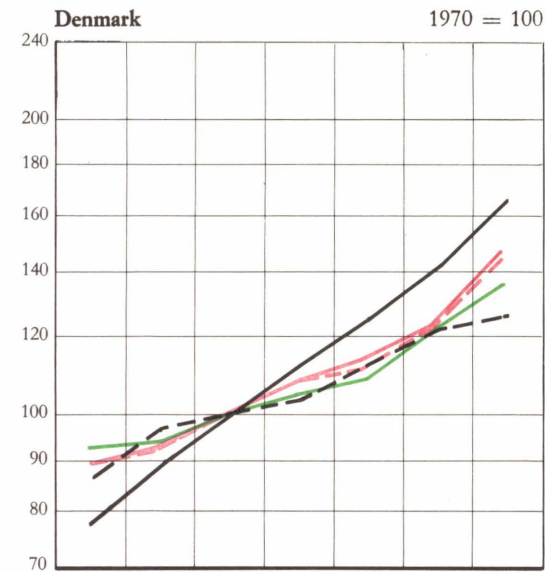
Country	% increase on preceding year			1970-1974 % increase		
	Figures in national currency			Figures in national currency	Figures in EUR <sup>1</sup>	Figures in \$ <sup>2</sup>
	1972	1973	1974			
Denmark	4.0	8.8	18.5	46	44.5	80
Germany (FR)	4.6	6.9	8.8	32	50	86.5
France	6.4	7.6	14.5	39	28.5	60.5
Ireland	8.5	8.9	18.5	54.5	20.5	50.5
Italy	5.5	12.4	22	62	24.5	55.5
Netherlands	3.0	9.7	11	32.5	43	78
Belgium	7.1	7.9	13	40	43.5	79.5
United Kingdom	9.7	7.5	26	60	25	56
United States	1.2	3.1	8.7	14	— 8.5	—

<sup>1</sup> Calculated on the basis of figures in national currencies, adjusted for exchange rate variations in relation to the Eur.

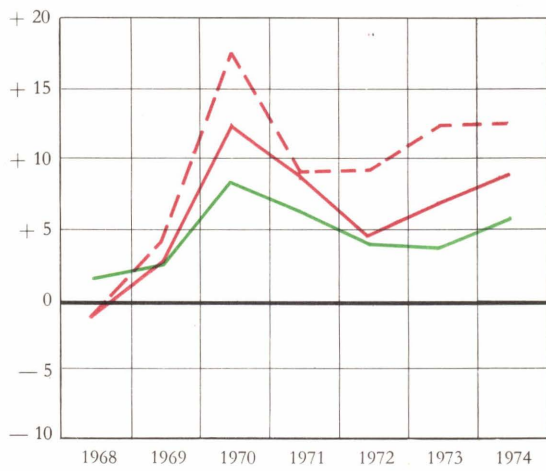
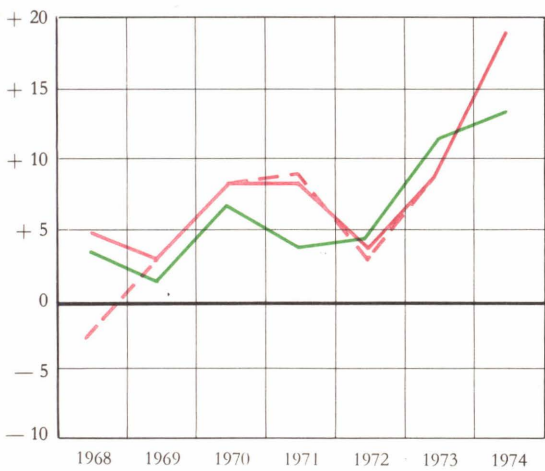
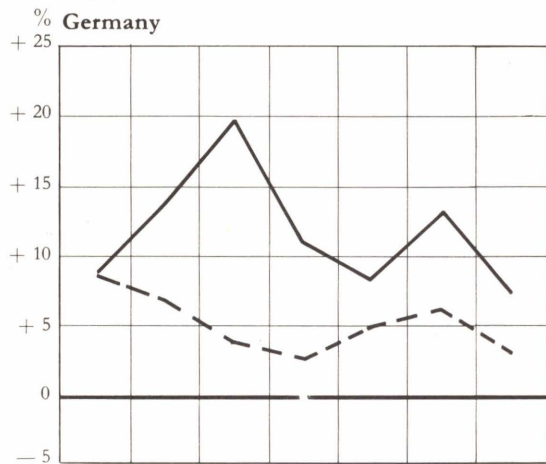
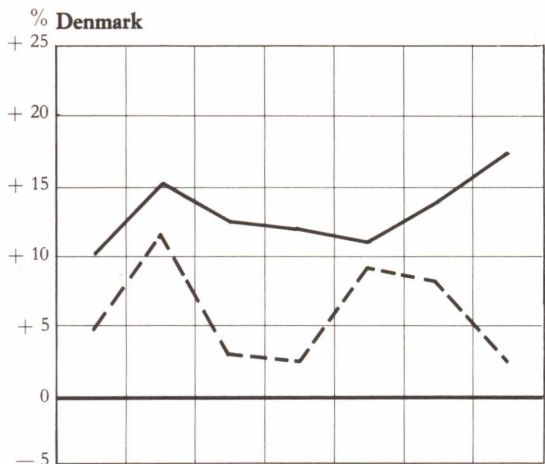
<sup>2</sup> Calculated on the basis of figures in national currencies, adjusted for exchange rate variations in relation to the dollar.

Sources: Estimates by Commission's departments.

# LABOUR COSTS IN INDUSTRY

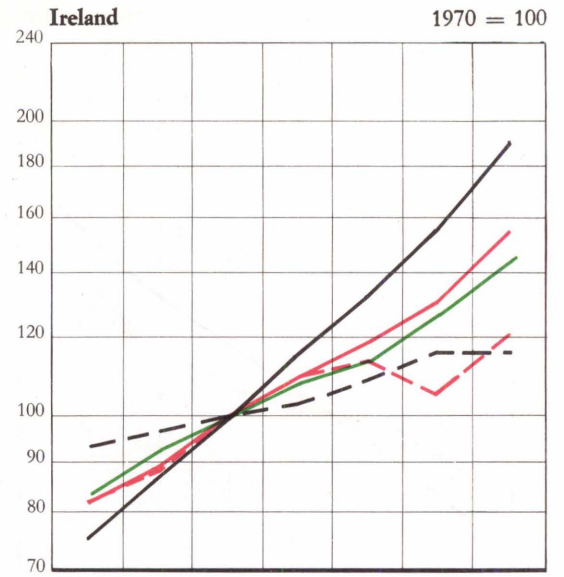
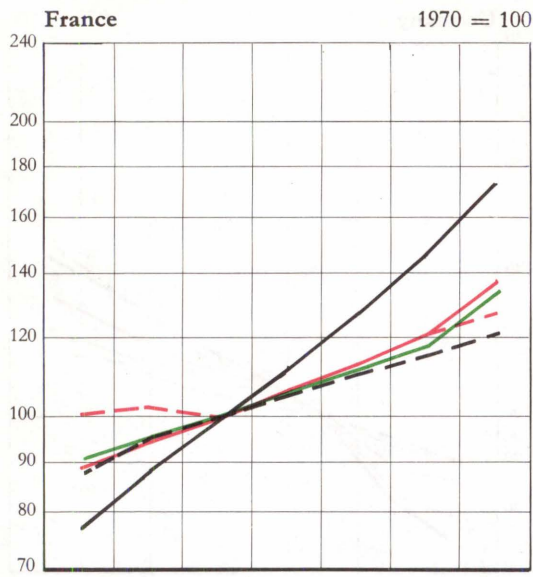


% change on preceding year

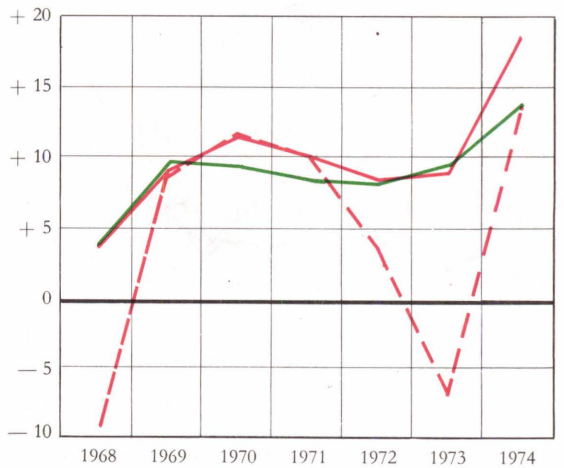
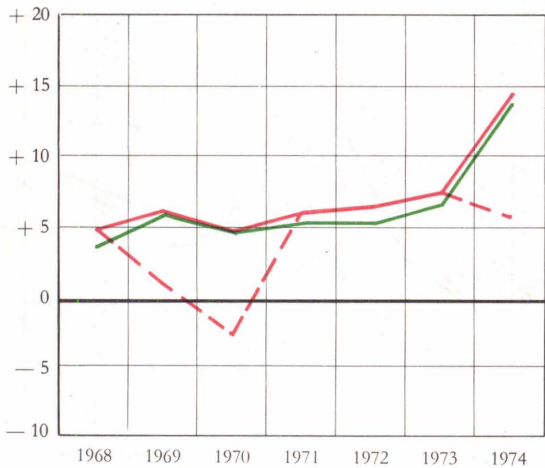
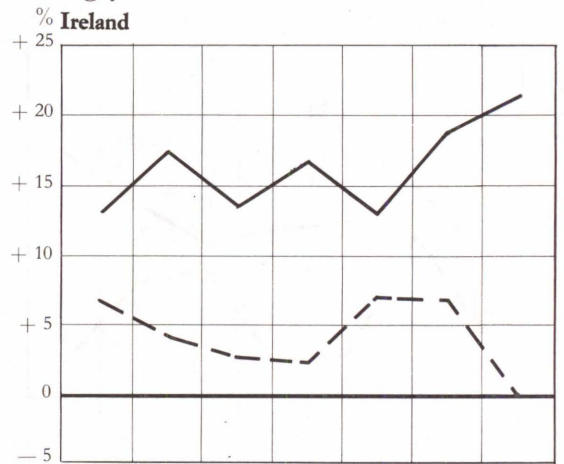
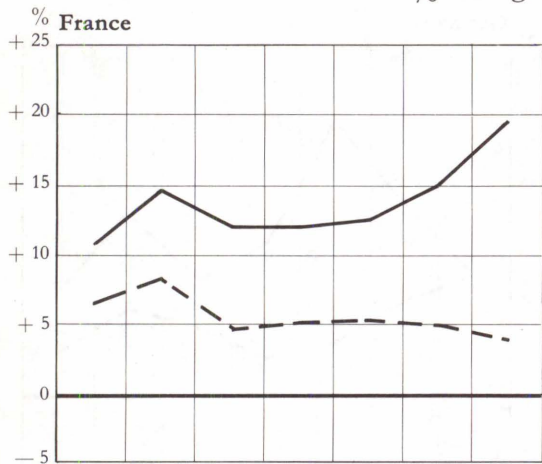


- Income from employment per head
- - - Gross value added (at constant prices) per employee
- Labour costs per unit of gross value added (at constant prices)
- - - Labour costs per unit of gross value added (at constant prices) corrected to account for changes in official exchange rates
- Implicit price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

# LABOUR COSTS IN INDUSTRY

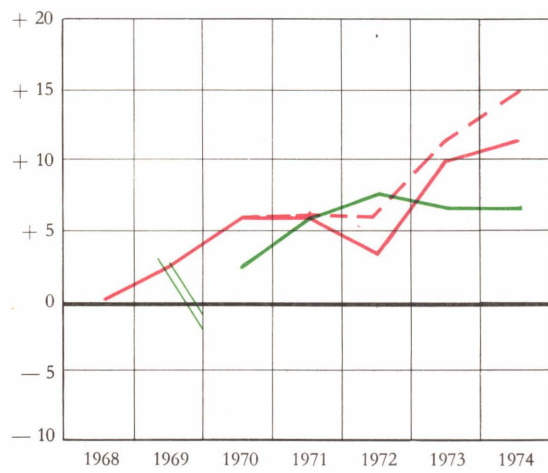
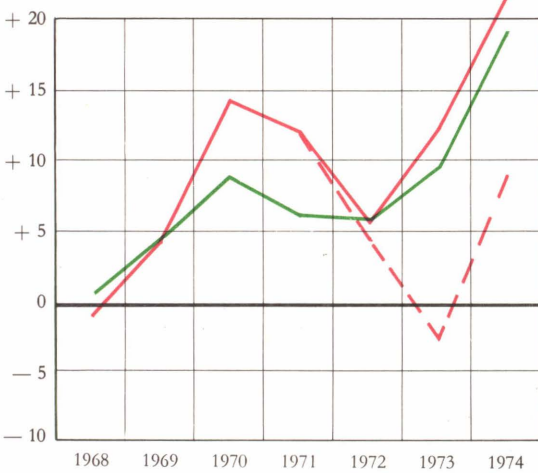
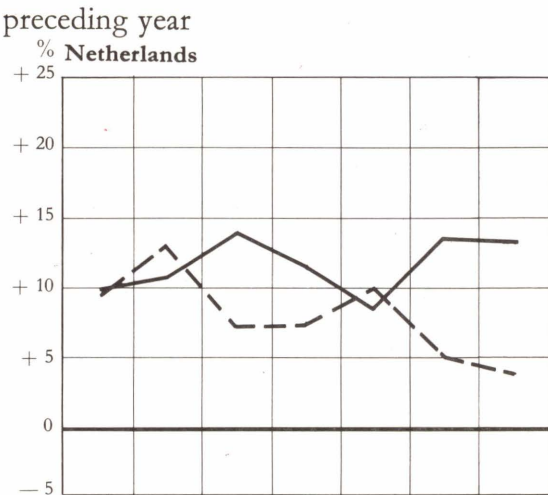
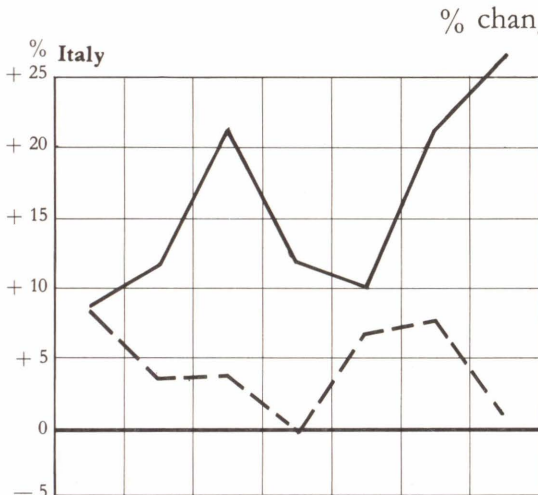
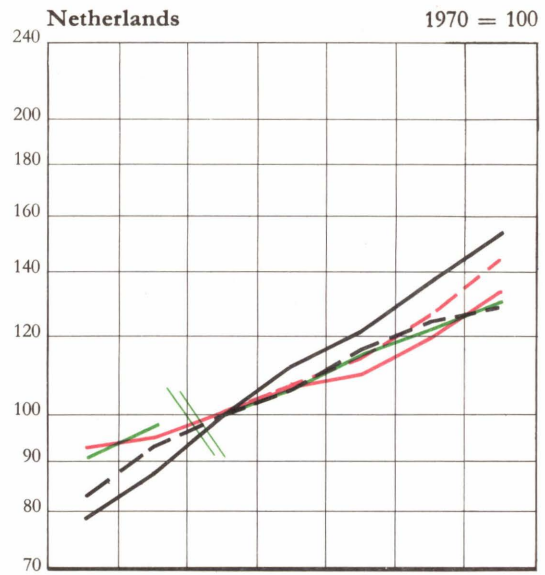
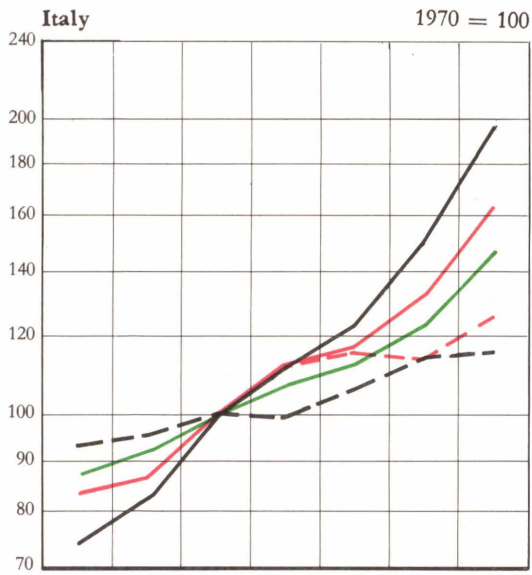


% change on preceding year



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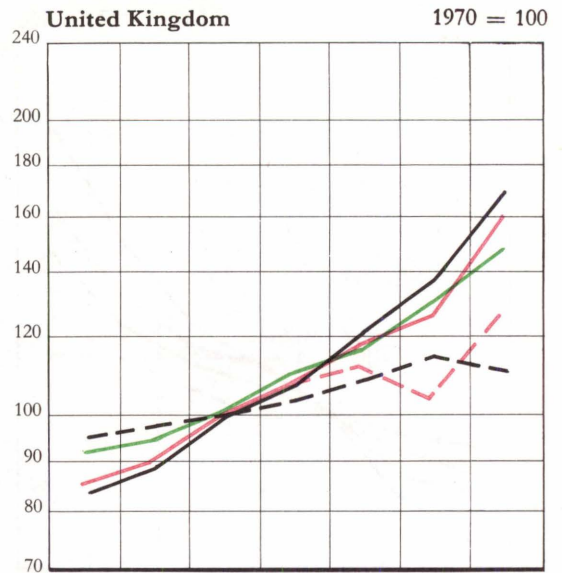
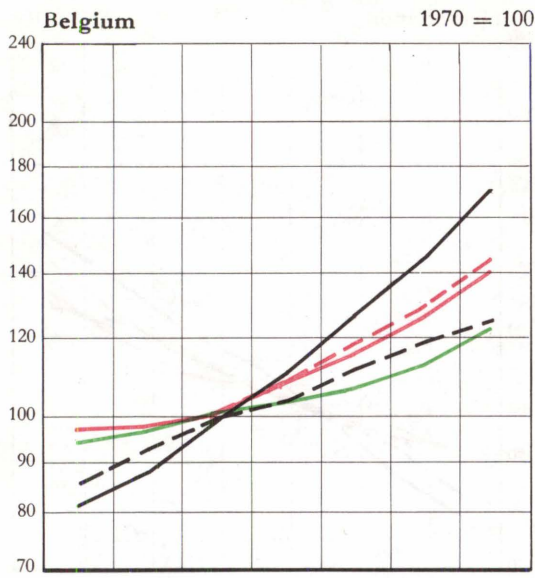
# LABOUR COSTS IN INDUSTRY



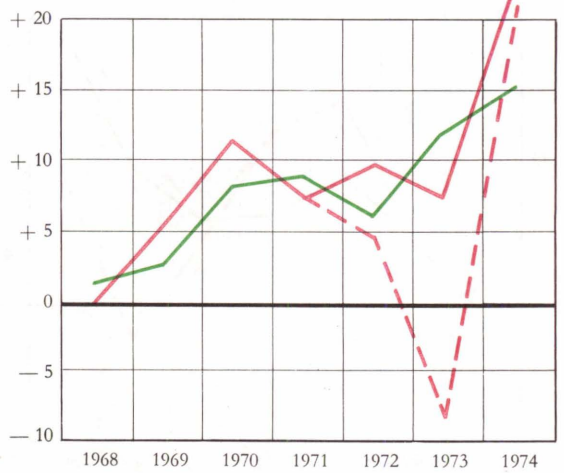
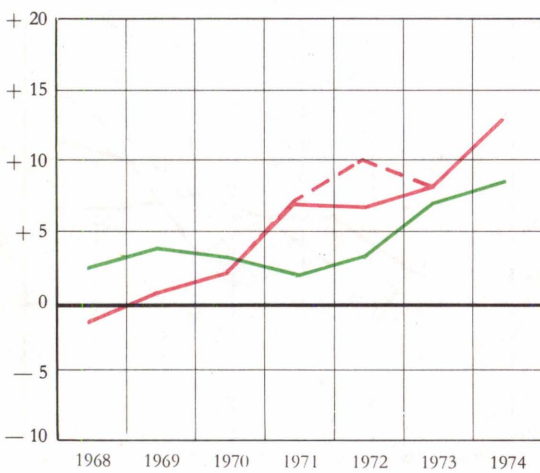
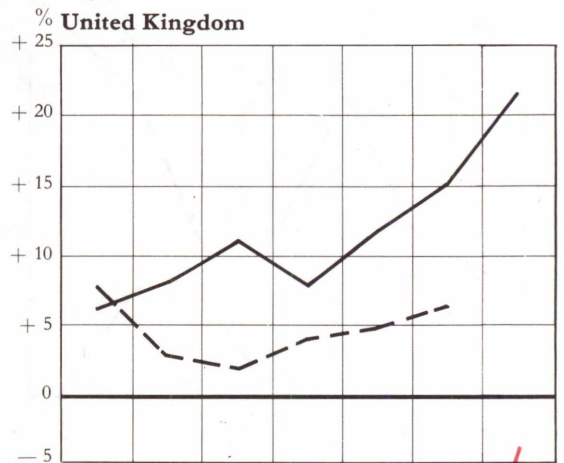
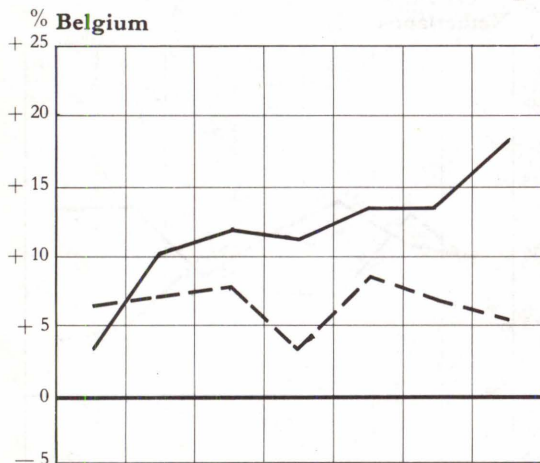
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# LABOUR COSTS IN INDUSTRY

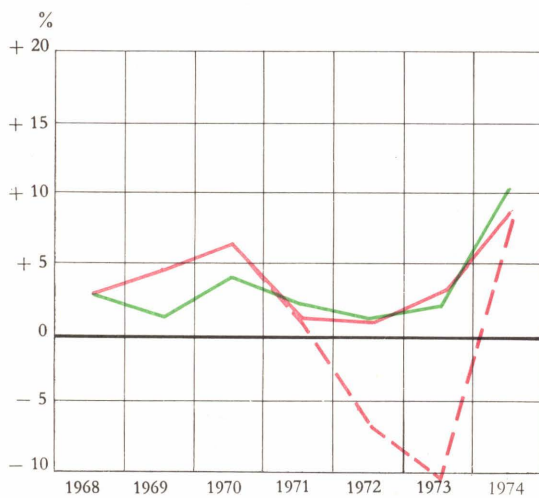
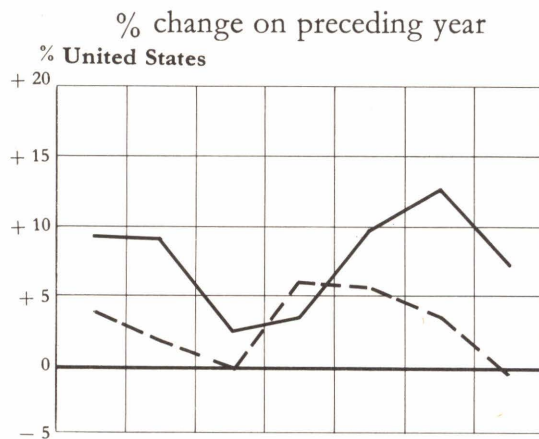
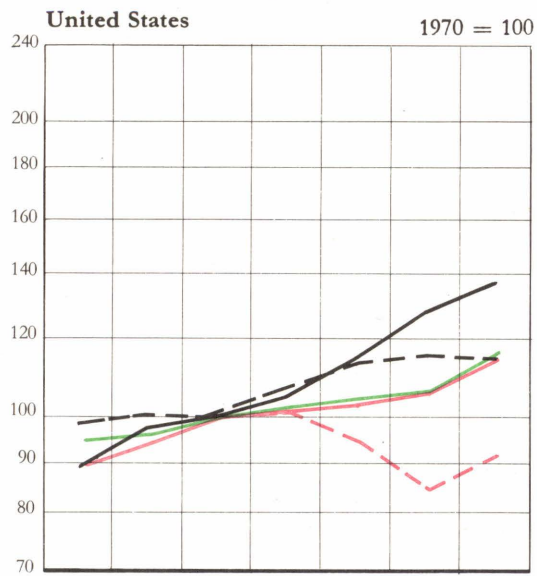


% change on preceding year



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

# LABOUR COSTS IN INDUSTRY



- Income from employment per head
- - - 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

