

**Commission of  
European  
Communities**

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



**4  
1974**

**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  
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**EUROPEAN COMMUNITIES**

**COMMISSION**

**The Economic Situation  
in the Community**

**DECEMBER 1974**

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## I. THE OVERALL SITUATION

*Although activity in the Community continued at a relatively high level during the autumn, several indicators show a cooling of the short-term economic climate. In the last conjunctural surveys, heads of firms in most member countries were less sanguine about their order books than in preceding years. They were also more hesitant as regards their expectations about the future growth of their output.*

*A stimulus has come from the rapid growth of exports to non-member countries. Internal demand on the other hand has slowed down appreciably since the summer. The willingness to invest on the part of firms has weakened, the efforts toward rationalization to offset cost increases being insufficient to compensate for the slow-down in other sectors. In most member countries both private and public construction has become less dynamic. Furthermore household demand has grown more slowly during the autumn, with the exception of the United Kingdom and the Federal Republic of Germany.*

*After being very rapid in the early months of the year, the rate of growth of output in the Community as a whole has significantly slowed down. While agricultural output grew substantially, on average in the Community industrial output stagnated in the autumn. Although certain industrial sectors showed quite a high rate of growth, output in other sectors diminished markedly. This situation has led to considerable sectoral discrepancies in the labour market. Unemployment has tended to increase in all the member countries. The volume of imports from non-member countries has only risen slightly in the last few months. Prices have continued to rise quickly, although at substantially different rates in different countries. There have been some signs of improvement in the balances of payments of the countries in serious deficit, while the surplus of the Federal Republic of Germany has been somewhat reduced.*

*The economic outlook both inside and outside the Community is full of uncertainty. There are strong reasons to believe that economic growth in the Community as a whole will be very weak in the first half of 1975. Undoubtedly there will be some slight downturn in demand from the major countries outside the Community. As for internal demand, there are few signs of improvement, especially since in most member countries the acute balance of payments deficits inhibit or at least seriously limit the possibility of an active expansionist policy. However, in the Federal Republic of Germany and in the Netherlands internal demand will undoubtedly become a little more dynamic owing to the softening of the restrictive budgetary and credit policies, and also in so far as the Federal Republic of Germany is concerned the stimulatory impact of the tax reform.*

*The growth of the gross Community product in real terms, which will probably reach some 2½% in 1974, should be between 2½% and 3% in 1975. The situation in the labour market could worsen again in the months to come.*

*In most member countries consumer prices will certainly continue to climb. As regards the balance of payments on current account, it is at present very hard to make forecasts since its future depends to a large extent on the price of petrol.*

## A. Short-term economic policy

In the past few months the economic situation in the Community has not developed satisfactorily. There have been increasing signs of a slowdown. The business climate in industry has worsened. More and more firms are reporting a shortage of orders, unduly large stocks of finished products and growing problems of finance. The expansion of production has slowed down distinctly in most member countries, and in some the indices for industrial production even show a slight fall. With more workers on short time and the number of unemployed rising, employment problems have grown. Despite a slight improvement in the trade balances of those member countries with the heaviest deficits and a reduction in Germany's surplus, external disequilibria were still considerable. The upsurge in prices has continued unabated. The increase in consumer prices at annual rates was over 20% in Italy, between 15% and 20% in Ireland, the United Kingdom, Denmark and Belgium, between 10% and 15% in France, Luxembourg and the Netherlands, while only about 7% in the Federal Republic of Germany.

The present difficulties are no doubt partly due to the impact of the unusually sharp rise in oil prices. But they are also largely a result of a rate of inflation that has gone unchecked for several years. This has not only led to considerable disparities in the distribution of income and wealth, growing social strains and jockeying by the various economic groups for an absolute and relative improvement in their incomes, but it has also appreciably falsified economic judgement and distorted the allocation of resources. In recent years, this survey has repeatedly referred to the dangers inherent in such a process.

They are all the greater since the jump in oil prices, and the very sharp deterioration it has caused in the external equilibrium of some member countries, require that the structure of the European economy be changed as rapidly as possible. The Community's productive potential must be first geared to the development of new sources of energy, the stepping up of exports to oil-producing countries, which in the

next few years are likely to concentrate much of their demand on capital goods and base products, and to the shifts in the pattern of domestic demand caused by the higher cost of energy. In the next few years private consumers' expenditure will be less of a driving force behind economic growth than in the last two decades. If the problems thrown up by the necessary restructuring are to be solved, the share of private consumers' expenditure in the gross national product will have to fall slightly and the share of investment and especially of exports will have to rise.

Developments in 1974 suggest that these changes are not yet sufficiently under way. Exports to oil-producing countries have expanded vigorously, but not all member countries have been able to benefit from this adequately. The propensity of enterprises to invest has weakened in most member countries while a greater readiness to invest is desirable to sustain economic growth and speed up the restructuring process. This is particularly true for the basic and capital goods industries, where capacity utilization rates are at present still very high; for reluctance to invest in these sectors might mean that a future business upswing would very quickly come up against bottlenecks in these key industries, and so reinforce inflationary tendencies.

The poor performance of business investment owes much to development as regards incomes. Germany is in fact the only country where income claims have moderated recently although even these the latest wage settlements—including all fringe benefits—are still above a 10% increase. In the other countries, by contrast, no weakening is yet discernible in the very sharp upsurge in wages. The great threat to economic growth and the level of employment posed by the sharp upsurge in prices and costs should give both sides of industry cause to reconsider their wage and price demands.

As long as there is no appreciable moderation in the upward thrust of prices and costs, there would be little point in attempting to counteract a deterioration in the business climate by the

indiscriminate reflation of aggregate demand. Such a policy would give a new twist to the inflationary spiral and further increase employment problems in the longer term. It would of course be equally wrong to wish to solve the problems of inflation and the balance of payments by a deflationary policy resulting in excessive unemployment. For this reason the level of employment should primarily be supported by selective measures which help to speed up the restructuring process in the economy.

In view of the uncertainty surrounding the future course of the economy, all member countries should at all events have at their disposal public expenditure programmes suitable for immediate implementation. The initiation of such programmes is warranted particularly in those countries which are not faced with current balance of payments deficits. Such programmes have already been introduced in the Netherlands and in Germany. Additional measures to sustain private investment might be required, particularly in Germany, where unemployment is rising and external surpluses are still very large. A policy of reasonable growth in the surplus countries, which should not of course jeopardize progress in stabilizing prices, would make it easier for the deficit countries to step up their exports and thus maintain a high level of employment, and would help to improve their balances of payments.

In the medium term the current balance of payments of the Community as a whole can be brought back into equilibrium only through the successful restructuring of the economy together with an increase in the import demand of the oil producing countries. Pending this, deficits will have to be financed by drawing on foreign exchange reserves and by borrowing. In this respect the situation varies sharply from one member country to another. Large surpluses in Germany and the Netherlands contrast with

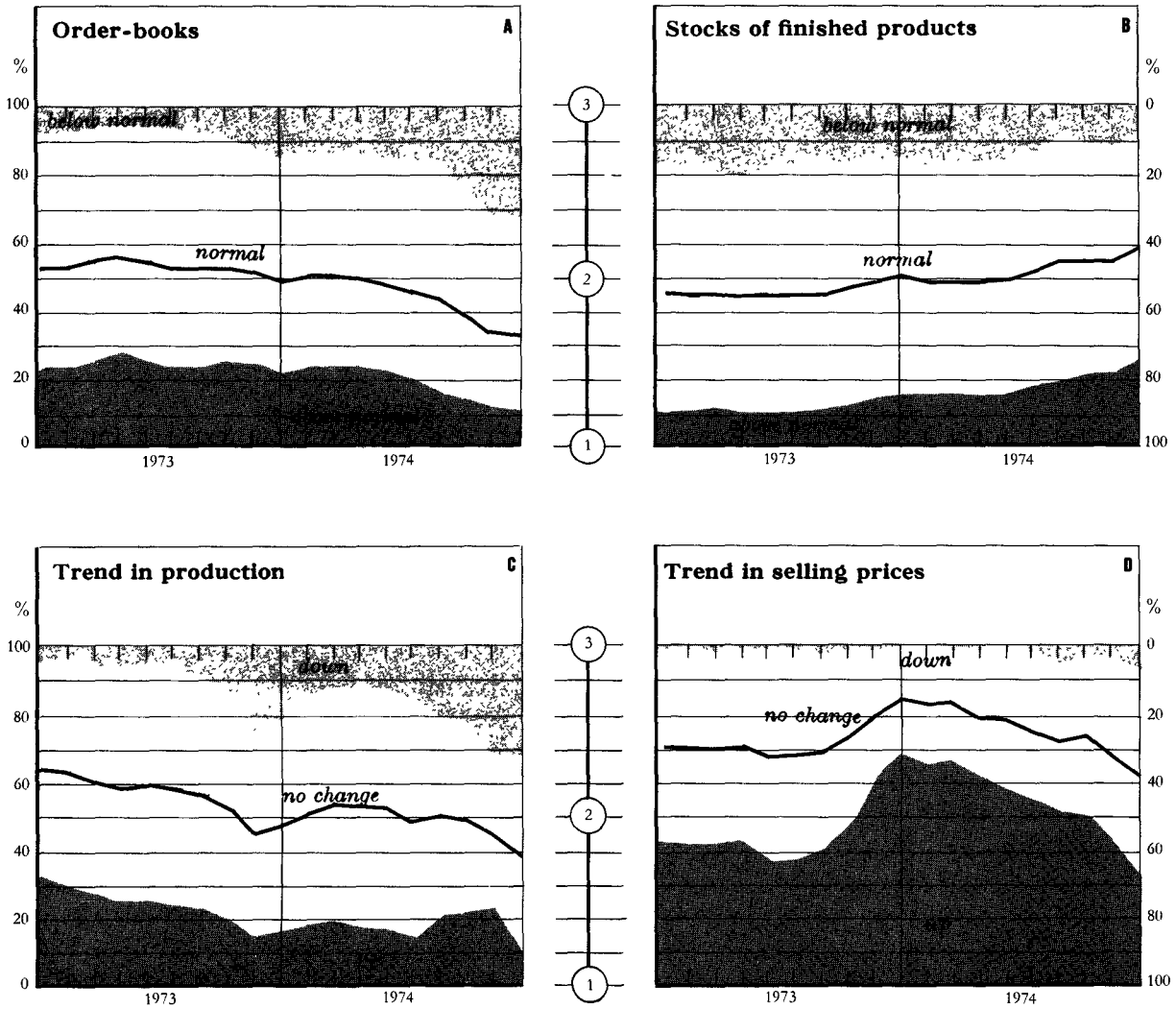
considerable financing needs in other member countries. The Community as a whole records a very heavy deficit, so that in the medium term the deficit countries' adverse balance on current account can be covered to only a limited extent by the surpluses of the other member countries.

Aid of this sort, amounting to 1,562.5 million units of account (\$ 1,884.9 million), was granted to Italy on 28 June 1973, in the form of short-term monetary support; it was extended until 18 December 1974. At the meeting on 18 December 1974, the Council agreed a directive extending medium-term financial assistance of 1.159.2 million units of account for three and a half years to Italy. Current balance of payments difficulties prevented the United Kingdom from contributing to this assistance, although the British Government announced its country's willingness to continue the renewable credit to the Bank of Italy for the same amount (403.3 million units of account) as the Bank of England had extended within the framework of the short-term monetary support. On its side the Italian Government agreed to implement certain economic and monetary measures with a view to repairing the internal and external economic situation.

In order to raise capital in non-member countries and particularly in the oil-producing countries, at its meeting on 18 October 1974, the Council approved the Commission's proposal to set up machinery for issuing Community loans. Initially, however, these are not to exceed a total of \$ 3,000 million (principal and interest). They will run for a minimum of five years. As in the case of medium-term financial assistance, economic policy conditions will be imposed on the country receiving such funds. The new machinery is an important step towards the Community's direct participation in the process of recycling the oil-producing countries' foreign exchange surpluses.



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

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

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



## B. Recent developments

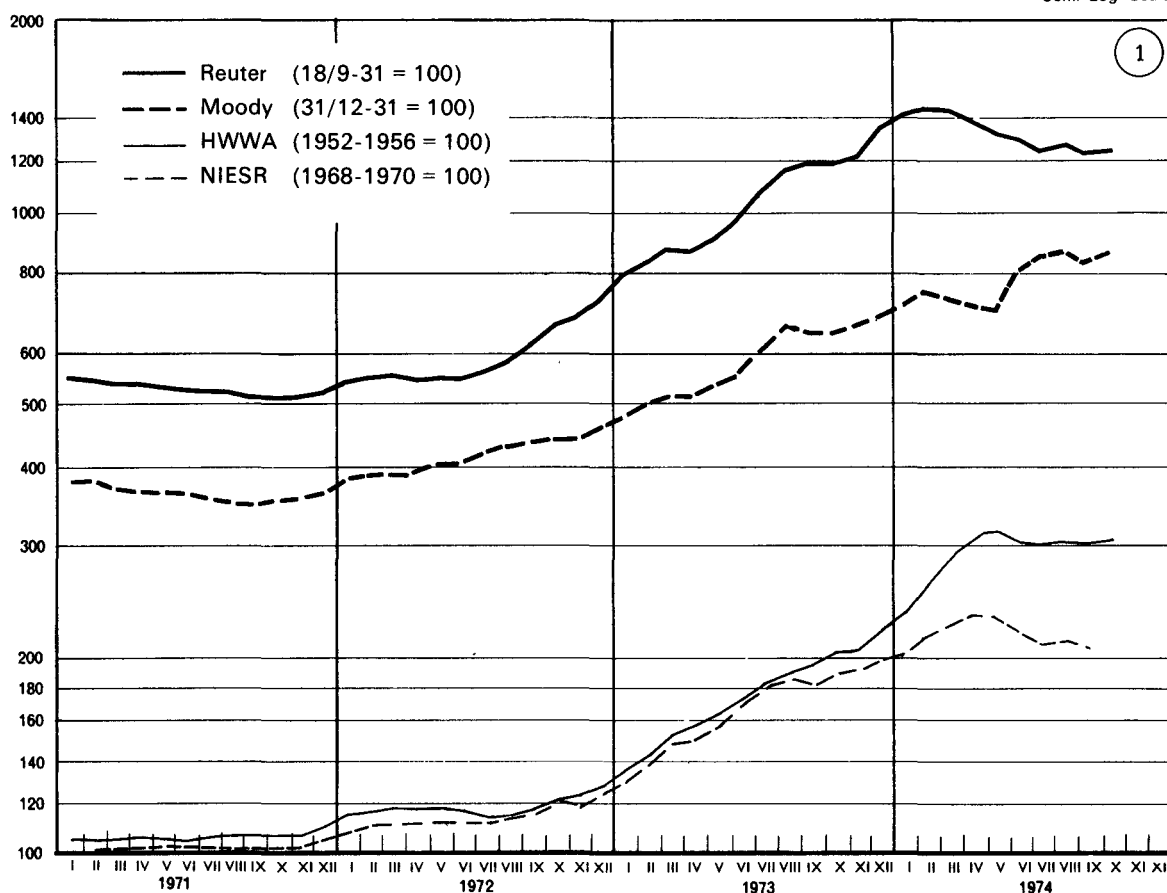
### 1. The world economic situation

The slackening of economic activity experienced at the beginning of the year by the industrialized countries, particularly the USA and Japan, became even more marked in the third quarter. Unemployment has increased in these countries. Domestic price levels have continued to rise owing to the massive jump in oil prices, the

rapid upsurge in food prices and also to the persistent increase in the pressure of wage costs. However, the spot prices of many industrial raw materials, unlike those of foodstuffs, have fallen distinctly since the spring, which should relieve the pressure of costs slightly, at least in the longer term. In October, the Reuter and Moody indices were up only 5% and 35% respectively on a year earlier.

INDEXES OF COMMODITY PRICES

Semi-Log Scale



World trade has developed very unevenly since the beginning of the oil crisis. In the first six months the industrialized countries' imports expanded very slowly in terms of volume, while the volume of their exports continued to grow at a fairly satisfactory rate. Much of the expansion in exports was due to the sharply increased purchases of the oil-producing countries

and of the state-trading countries. The total volume of world trade, excluding imports by the Community, will probably still grow by about 8% in 1974, as against 14% in 1973.

Contrary to the forecasts made before the summer in Quarterly Survey No 2-1974, economic activity has slackened further in the *United*

*States* in the second half of this year. Real gross national product, which fell by 1.8% in the first and by 0.4% in the second quarter, was down a further 0.5% in the third quarter. Capacity-utilization rates dropped. Employment rose at a noticeably slower pace, and in October was 1.1% up on a year earlier. Even so, the unemployment rate climbed from its low of 4.6% in October 1973 to 6% in October 1974.

Exports expanded relatively slowly, and in volume terms they even declined, notably as a result of lower agricultural exports. Residential construction also remained slack but business fixed investment continued to grow rapidly. The moderate trend of export and consumer demand does not yet seem to have affected the propensity to invest of industrial enterprises. Real private consumers' expenditure grew only slightly in the second and third quarters, after declining in the first. What expansion there was came from a reduction in personal saving. Real personal disposable incomes have been falling since the end of 1973 owing to the sharp price rises. The increase in average hourly wages has nevertheless accelerated: in August in the private sector they were 9% up on a year earlier.

The upsurge in domestic prices has gathered additional momentum mainly as a result of a more rapid rise in food prices. During the summer months the consumer price index climbed at an annual rate of 13%, as against some 11% in the second quarter. In September the index was 12.1% up on a year earlier.

With exports of agricultural products slackening and the cost of imported oil going up, the balance of trade deteriorated further. A growing deficit has been recorded since May, reaching \$ 2,600 million (fob/fob) in the third quarter, despite some improvement in September. The balance of payments on current account, which was still close to equilibrium in the second quarter, may therefore have been in deficit in the last few months. However, the United States recorded a large inflow of petrodollars.

In *Canada*, the growth of economic activity has slowed down somewhat in recent months as a

result of capacity bottlenecks in certain sectors, strikes in building and construction, and sluggish demand for Canadian exports, particularly from the USA. Imports have risen sharply and the balance of trade has deteriorated. In October consumer prices were 11.6% up on a year earlier.

In *Japan*, real gross national product grew at only a very moderate pace in the second quarter after falling distinctly in the first quarter. Industrial production slackened further and in September was 10% below the peak reached in November 1973. All the components of domestic demand, especially investment, were sluggish. The balance of trade (fob/fob) has moved back into surplus, due mainly to the sharp rise in export prices in the summer months. Although the upsurge in domestic prices slowed down somewhat, compared with the first half of the year, the consumer price index was still some 24% higher in September than twelve months previously.

In the *other industrialized countries* outside the Community economic growth generally continued to slacken. Only Norway and Sweden escaped the general trend and experienced a period of relatively fast expansion. Almost everywhere exports were less buoyant than at the beginning of the year. Inflationary pressures remained strong in all countries; during the last twelve-month period for which figures are available, consumer prices rose by some 9% in Sweden, 10% in Austria, Norway and Switzerland, 16% in Australia and 18% in Finland.

In the *Eastern bloc countries* production in general expanded strongly. Trade with western countries again grew faster than intra-bloc trade. The *oil-producing countries* used part of their greatly increased oil revenues to step up their imports of goods. Although the other developing countries were faced with much higher bills for their oil imports, it would appear that the volume of their imports of other goods was still expanding in the first half of the year. However, the situation varied sharply from one country to another, and some developing countries are experiencing growing financial difficulties.

## 2. The economic situation in the Community

Since the summer the expansion of demand and production in the Community has shown a distinct tendency to slow down, which has made employment problems more acute. In most member countries this has as yet had little if any effect on the rate of price increase.

### (a) *External demand*

Despite the stagnation in exports to North America, the volume of Community *exports* to non-member countries has continued to expand appreciably. However, in the last few months these exports have lost some of their buoyancy. The sharpest increase has been in sales to the oil-producing countries. In recent months export prices have tended to rise more rapidly.

### (b) *Internal demand*

Since the summer, the effects of the energy crisis, and also of inflation, seem to have been reflected increasingly in a tendency for all the major components of domestic demand to weaken. Thus the *propensity to invest* of enterprises, which was still high in several member countries in the first half of the year, has declined in recent months, at least on the basis of the latest trend of business in the capital goods industries. The main factors are poor profits and financing difficulties, the unfavourable view taken of the sales outlook and the rise in unused capacity. Even the continued strength of investment in the energy sector has not cancelled out these factors. Investment in residential construction has also been falling off distinctly, although there are very considerable differences from one member country to another, with the sharpest drop recorded in Germany and Denmark. Public investment has so far not provided any major expansionary stimulus. The pressure on liquidity, the high cost of borrowing and the tendency for world market prices to stabilize have induced firms to implement a very cautious stockbuilding policy. This applies in particular to stocks of raw materials and semi-manufactures, while involuntary stocks of finished products have built up in sectors such as the motor industry which are faced with serious sales difficulties.

The growth of private *consumers' expenditure* has also started to slow down in most Community countries except the United Kingdom and Germany, where a slight pick-up has been recorded compared to the spring. The strong upsurge in prices and the deterioration of the situation on the labour market had particularly marked dampening effects on the buoyancy of private consumption. This led to considerable shifts in the pattern of expenditure. Private consumers in some countries tended to prefer to purchase consumer durables, such as household electrical appliances, in order to beat price increases. Except for food purchases, this contrasted with a cutback in expenditure on non-durable goods such as clothing and on certain services, particularly in the tourist industry. Furthermore, purchases of passenger cars continued to be severely curbed by the high price of petrol and in certain countries, the increase in taxation. In Germany, however, there are signs of an improvement in that sector. New registrations of passenger cars in the first eight months of 1974 showed a drop on a year earlier which ranged from 3% in Italy to 26.7% in the United Kingdom, the average for the Community being 16%.

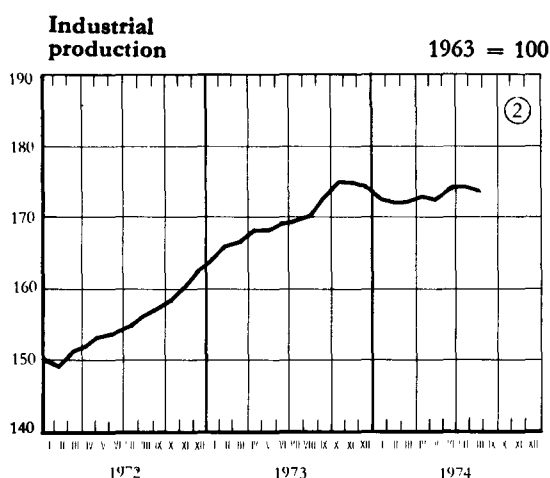
### (c) *Production, employment and imports*

After accelerating briskly during the early months of the year, the growth of total *domestic supply* in the Community has slackened distinctly since the summer.

Nevertheless, agricultural production has increased further despite the relatively poor fruit and vegetable crops. Cereal crops were about 2% up on a year earlier and beef and veal production were up as much as 15%.

By contrast, industrial production in the Community, on a seasonally adjusted basis, showed little if any growth up to the beginning of the autumn. In the third quarter it was about 1% up on a year earlier. Only in France is production still rising briskly.

Quite generally, activity slackened, particularly in building and construction and in the consumer goods industries. There was also a fairly



marked decline in the motor vehicles, textile and clothing, and leather and footwear industries. However, the trend in the basic materials industries such as petrochemicals and in certain capital goods industries, e.g. mechanical and electrical engineering construction, remained relatively favourable into the summer at least. Steel production, which rose sharply during the first half of the year, has maintained its high level since then.

Activity in the services sector also tended to slow down, particularly in the transport sector,

the tourist industry and in certain of the distributive trades.

At the beginning of the autumn the *labour market* in the Community showed a trend to rising unemployment. The countries most affected were Denmark and Germany. Unemployment also rose quite sharply in the other Community countries. There was also a distinct tendency for short-time working to increase. Furthermore, the situation varied considerably from industry to industry and from region to region; this emphasized the structural factors in unemployment in Italy. In most countries unemployment is very high in building and construction, an industry suffering not only from a cyclical but also from a structural decline in demand; the industries associated with building are also finding themselves faced with growing employment problems. The same applies to the textile industry. Demand for labour in certain capital goods industries, on the other hand, increased further. Unemployment rose faster in the case of women than in the case of men, particularly in France, the Netherlands and Belgium. Most member countries experienced an increase in the proportion of unemployed accounted for by young people looking for first jobs.

*Industrial Production* <sup>(1)</sup>

(% change on preceding quarter)<sup>2</sup>

	1972		1973				1974		
	III	IV	I	II	III	IV	I	II	III
Germany	+ 2.0	+ 3.5	+ 3.2	- 0.1	+ 1.5	+ 0.2	- 0.2	- 0.2	- 2.2
France	+ 1.3	+ 4.0	+ 3.3	+ 0.2	+ 0.1	+ 3.0	+ 2.4	- 0.3	.
Ireland	+ 3.8	+ 3.6	+ 5.3	- 0.8	0	+ 1.7	+ 5.6	.	.
Italy	+ 1.0	+ 7.2	- 7.2	+ 9.5	+ 5.8	+ 2.4	- 0.8	+ 1.1	- 2.6
Netherlands	+ 3.6	+ 2.9	+ 2.3	- 1.2	+ 3.1	+ 4.5	+ 1.1	- 1.8	.
Belgium	- 1.0	+ 3.8	+ 1.3	- 1.8	+ 0.1	+ 2.7	+ 7.7	+ 2.0	.
Luxembourg	+ 3.1	+ 4.1	+ 5.5	- 1.1	+ 1.2	+ 4.9	+ 3.7	- 3.2	- 0.4
United Kingdom	+ 1.4	+ 2.9	+ 3.8	+ 0.1	+ 2.2	- 1.6	- 7.0	+ 6.0	+ 2.2
Community <sup>3</sup>	+ 2.5	+ 3.0	+ 1.8	+ 1.3	+ 2.1	+ 0.9	- 0.9	+ 1.0	.

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

In recent months demand for *imports* from non-member countries has been very sluggish in terms of volume, particularly in Denmark, Germany, Italy and the United Kingdom.

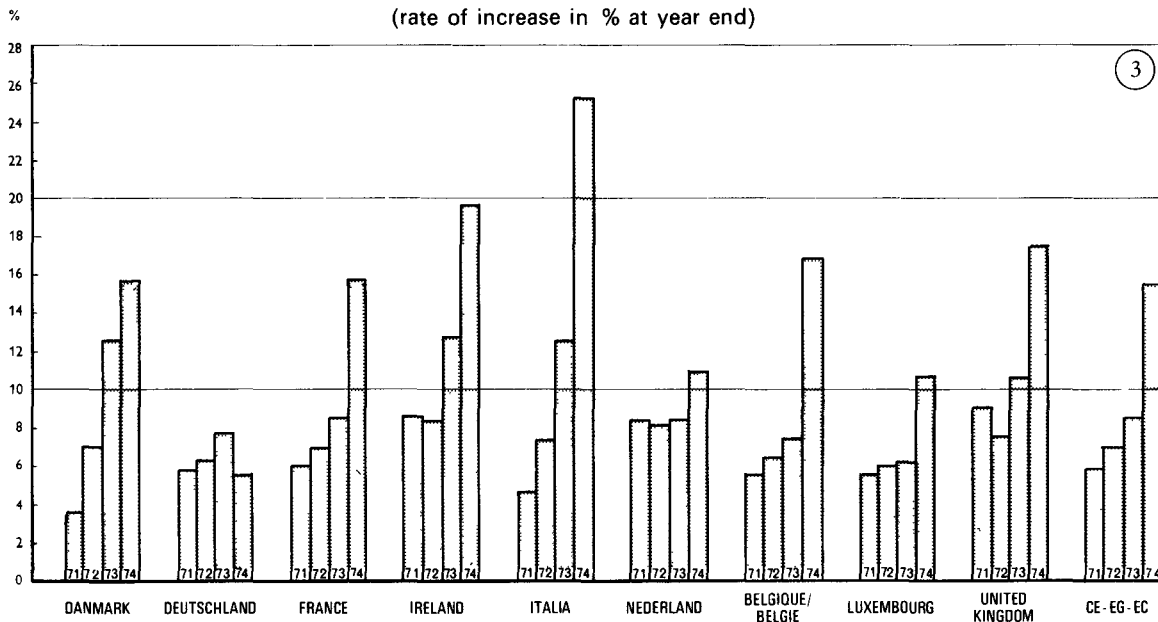
Contrary to the usual past experience, *intra-Community trade* has expanded much more slowly than exports to non-member countries. This may have been helped by the fact that some countries, particularly Italy and Denmark, are making deliberate efforts to curb domestic demand and the growth of imports.

(d) *Balance of the markets*

The conditions determining economic equilibrium have remained very unfavourable in recent months. There is the strong impression that inflation is increasingly feeding on itself. In any case, *prices* have been rising very fast throughout the Community, with some countries even experiencing an acceleration at the beginning of the summer. The prices of industrial products climbed particularly sharply in

**TRENDS IN CONSUMER PRICES SINCE 1970**

(rate of increase in % at year end)



— For 1974, the year-end rate has been calculated according to the variation between December 1973 and September 1974.

— Figures for the Community at the medium change.

all member countries. There was a very marked rise in the prices of certain services in the public sector and in the tourist industry during the summer months. Rent increases, on the other hand, were below average in most countries. The decline in the world market prices of some important raw materials since the beginning of the year has not yet had any noticeable moderating effect on producer prices. Prices of agricultural foodstuffs showed conflicting trends; for example, the import prices of commodities such as soya beans and maize climbed very sharply and there was also an increase in the prices of

products for which harvests in the Community were poor, while meat prices tended to stabilize. In some countries beef and veal prices even fell considerably.

The appreciable deterioration in the Community's *balance of trade* recorded in the first half of the year came to a halt in the third quarter as a result of very weak import growth and a more favourable trend in the terms of trade. There are now first signs of a reduction in the trade deficits of Denmark, Italy and the United Kingdom. The large surplus on Ger-

many's balance of trade has for some months shown a slight downward tendency.

The *foreign exchange markets* have been much calmer during recent months than in the first half of the year. Some Member States, such as France, the United Kingdom and Italy, whose balances of payments were hit particularly hard by higher oil prices, have recently recorded small

inflows of foreign exchange. Moreover, within the group of countries participating in the joint Community system, there were appreciable transfers of reserves from Germany to the Netherlands and the BLEU as the German mark had to be supported at the lower intervention point between July and the beginning of October. At times the German mark was also weak in relation to the Danish crown. In September,

### Consumer Prices

(% increase)

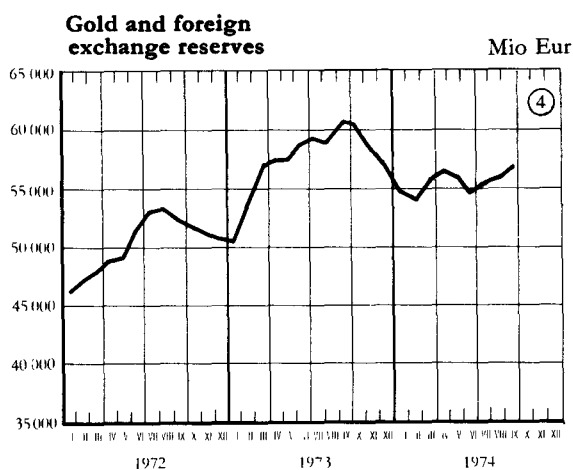
Country	June 72 to Dec. 72	Dec. 72 to June 73	June 73 to Dec. 73	Dec. 73 to June 74	Oct. 72 to Oct. 73	Oct. 73 to Oct. 74
Denmark	3.3	5.3	6.8	7.9	10.3	16.9
Germany	3.1	4.6	3.3	3.5	6.6	7.1
France	4.1	3.2	5.1	8.4	8.1	14.9
Ireland	4.3 <sup>1</sup>	7.1 <sup>2</sup>	5.2 <sup>1</sup>	10.4 <sup>2</sup>	11.2 <sup>3</sup>	17.9 <sup>3</sup>
Italy	4.4	6.9	5.3	10.9	11.0	24.3
Netherlands	3.3	4.8	3.5	5.5	7.9	10.7
Belgium	3.7	3.2	4.0	8.3	6.8	15.8
Luxembourg	3.1	3.5	2.5	6.1	5.5	10.8
United Kingdom <sup>4</sup>	4.0	5.1	5.2	10.8	9.9	17.1

<sup>1</sup> May/November

<sup>2</sup> November/May

<sup>3</sup> August

<sup>4</sup> Retail prices.



the German authorities therefore abolished the cash deposit requirement introduced to stem undesirable inflows of capital and at a rate amounting, in the end, to 20% of foreign borrowings. Since the beginning of October, the Community currencies remaining in the joint Community scheme have been strengthening again against the US dollar owing to the fall in short-term interest rates in the USA. The fluctuations of the Community currencies floating independently have stayed within relatively narrow limits. In the middle of November, however, the Italian lire, the pound sterling and the French franc were once again less firm.

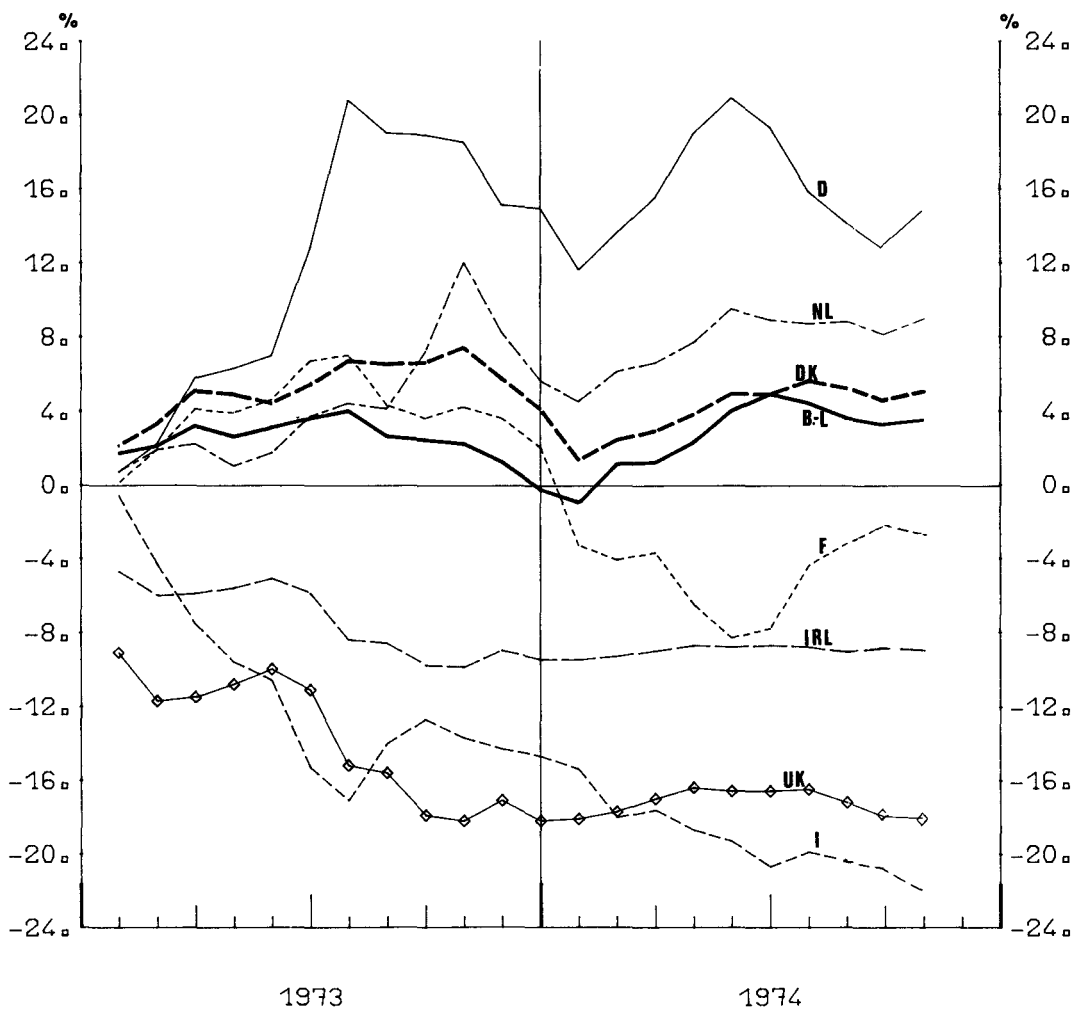


### WEIGHTED APPRECIATION OR DEPRECIATION OF THE CURRENCIES OF MEMBER COUNTRIES IN %

(Reference period : "Smithsonian Agreement", De-  
cember 1971 ; weighting according to the structure  
of foreign trade)

—————	DEUTSCHLAND
- - - - -	FRANCE
- - - - -	ITALIA
- - - - -	NEDERLAND
—————	U.E.B.L. - B.L.E.U.
◊ ——— ◊	UNITED KINGDOM
- - - - -	IRELAND
- - - - -	DANMARK

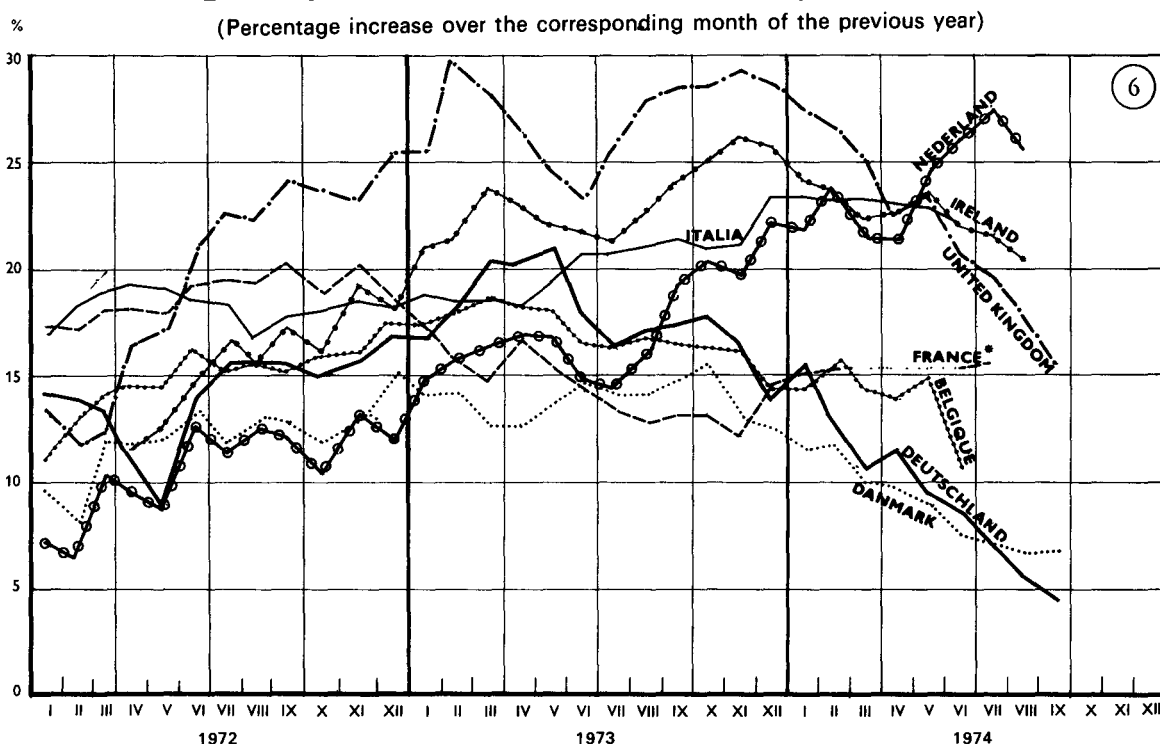
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Overall, in recent months *monetary policy* has remained restrictive in the Community although there has been evidence of some relaxation in a number of countries. In Germany, for example, the minimum reserve ratios were lowered at the beginning of September and again at the beginning of October in order to compensate for the drain on domestic liquidity caused by outflows of foreign exchange. Furthermore, in the se-

cond half of October the banks' rediscount quotas were raised. The additional domestic liquidity created in other Community countries, especially in the Netherlands, by the need to support the German mark was not siphoned off. Some of the liquidity restrictions in force in the United Kingdom, Ireland and Denmark have also been relaxed in recent months.

### DEVELOPMENT OF MONEY SUPPLY (M2 resp. M3)



Demand for *credit* has remained relatively low in most Community countries. In France, the general ceiling controls were tightened for December, but the grant of export credit was made easier. In Denmark and in Belgium it was decided, in August and September, both to ease rules on export credit and to relax the general credit controls.

In most member countries the *cash transactions of the public authorities* had an expansionary effect during the summer months. While tax revenue was still rising sharply in some countries, such as France and Belgium, its growth slowed down appreciably in others, particularly Germany, so that considerable financial deficits arose despite the moderate increase in expenditure. In Germany an additional programme of

expenditure was introduced in October to assist low-employment areas. In Denmark and Germany, reforms of direct taxation are to enter into force at the beginning of 1975, substantially increasing private consumers' spending power. In Denmark the loss of revenue is to be offset by expenditure cuts. In Belgium too tax relief was granted for persons in the low and medium income ranges; this is to be offset by an increase in some direct and indirect taxes. In Italy, budget management continued to be expansionary and in the United Kingdom too it provided stronger stimuli to economic activity than in the preceding months. In France, on the other hand, the cash transactions of the public authorities had a contractionary effect on liquidity.

As a result of the various determinants, the tendency for the *money supply* to expand more slowly has continued in most member countries. The broadly-defined money supply, M3, showed a slower annual growth rate than a few months ago, notably in the United Kingdom, Ireland, Denmark and Germany. In the Netherlands, on the other hand, its already rapid pace of expansion has quickened still further.

It appears that a reversal in the trend in short-term *interest rates* is occurring in most of the Community countries. In the United Kingdom this has been helped by a reduction in the Bank of England's minimum lending rate from 11.75

to 11.5% on 23 September. Similarly the discount rate was brought down in Germany from 7 to 6.5% on 25 October and in the Netherlands from 8 to 7% on 28 October. Short-term interest rates have also fallen in France and Belgium. On the other hand there were further rises in Italy. Long-term interest rates stayed at a high level in most member countries and, indeed, they continued to climb in Italy. Obstacles in the way of a decline include not only the general reluctance of savers in view of the fall in the value of money, to invest long-term but also the large financing needs of the public authorities in some countries, notably Germany.

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

	1972 <sup>1</sup>	1973 <sup>2 3</sup>		1974 <sup>2 3</sup>		1975 <sup>2 3</sup>	
	At current prices Mrd (in Eur 000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>4</sup>	178.1	+ 12.4	+ 20.9	+ 10	+ 33½	+ 6½	
Gross fixed asset formation	178.7	+ 4.5	+ 13.9	- ½	+ 13	+ 0	
Public current expenditure on goods and services	125.9	+ 3.8	+ 13.9	+ 3	+ 17½	+ 2½	
Private consumers' expenditure	458.4	+ 4.6	+ 13.0	+ 1½	+ 14½	+ 2½	
Gross Domestic product	774.8	+ 5.4	+ 13.3	+ 2½	+ 12½	+ 2½	
Imports <sup>4</sup>	170.4	+ 12.3	+ 24.9	+ 4	+ 41	+ 4½	

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

<sup>2</sup> Based on Community totals of the aggregates of individual member countries converted into units % account (EUR) at the exchange rates applicable on 31.10.1974.

<sup>3</sup> Estimates.

<sup>4</sup> Goods and services including intracommunity transactions.

## C. Outlook

### 1. Outlook for world economic activity

There are many indications that world economic activity will not show any significant improvement in the early months of next year. The economies of important industrialized countries outside the Community will probably stagnate or grow only very slowly. However, much depends on the policies adopted by the governments to combat the continuing inflation and to avoid, as far as possible, a downturn in employment. The Japanese economy can be expected to pick up only gradually. Similarly any revival in the United States is unlikely to occur until after the summer. Most other industrialized countries will probably experience a further decline in economic growth. A worldwide recovery of economic activity may not be possible before mid-1975.

Although the imports of the industrialized countries are likely to rise only moderately, world trade will probably continue to expand, but at a slightly slower pace than in 1974. This will be helped by the expected sharp increase in the imports of the oil-producing countries.

The economic trend in the *United States* is unlikely to show any fundamental change in the coming months. The economic programme announced by the President on 8 October will probably produce effects mainly in the medium term. Nevertheless, the specific measures to assist residential construction, the increase in the investment tax credit from 7% to 10%, the reduction of tax on low incomes and the additional measures to help the unemployed should help to maintain economic activity, despite the plan to cut budgetary expenditure by some \$ 5,000 million and to introduce a temporary 5% surtax on companies and on persons in the higher income brackets. Overall, a recovery of economic activity between the second half of 1974 and the first half of 1975 is therefore unlikely.

In *Japan*, production could gradually pick up during the early months of 1975. Exports

should provide a further stimulus to growth, and investment activity could also become somewhat brisker. The balance of payments on current account is likely to improve further.

In *Canada*, economic expansion will probably continue, though at a less vigorous rate than previously because of the stagnation in the US economy. Growth rates are expected to fall in *Austria*, *Sweden* and *Spain* too. *Switzerland's* growth rate will remain low. Only *Norway*, which is benefiting from the oil boom, is likely to experience more rapid expansion.

Among the *developing countries*, imports of the oil-producing countries will go on rising rapidly, with increasing emphasis probably on capital goods for improving the infrastructure and establishing an industrial base of their own. Import demand in the other developing countries will probably be very weak, held back not only by the higher oil prices but probably also by the effects of the worsening of their terms of trade with the industrialized countries.

### 2. Outlook for the Community

The slowdown in the expansion of economic activity will probably persist during the coming months, but, assuming that appropriate economic policies are followed, it seems that this trend should not lead to a marked fall in production.

*Exports* to non-member countries are likely to expand much more slowly in real terms. The markets in other industrialized countries will not be very buoyant. A large proportion of the increased exports will probably go to the oil-producing countries and the state-trading countries. However, export prices can be expected to continue rising distinctly.

Domestic demand will also remain weak. *Gross fixed capital formation* will probably be compa-

ratively sluggish in the first half of 1975. The current flow of new orders for capital goods reflects a distinct reduction in the propensity to invest of firms in most member countries, especially Germany and Italy. However, the outlook for investment demand in France, and, to a lesser extent, in the BLEU, is somewhat more favourable. Expenditure on residential construction will probably show little increase in the coming months owing to the high interest rates. Nor will stockbuilding give any boost to activity. There are, however, two exceptions to the general tendency of investment demand. Firstly, expenditure in the energy sector will continue to expand rapidly as a result of the oil prospecting drive and the construction of nuclear power stations. Secondly, governments will probably find themselves forced, in the near future, to step up public building programmes in order to prevent excessive unemployment. Such expenditure programmes have already been announced in Germany and the United Kingdom; building activity can be expected to pick up somewhat in Denmark, too, following the ending of the building freeze in the public sector.

Trends in private *consumers' expenditure* are difficult to forecast at present. There has so far been no sign of a slackening in the rise in earnings in most member countries, except in Germany where a slower rate of increase should follow the recently concluded wage agreements. However, in Germany, as in Denmark, a comprehensive tax reform will enter into force on 1 January which will substantially increase the purchasing power of private consumers. On the other hand, the deterioration in the employment situation through higher unemployment or more widespread short-term working could not only dampen private consumers' money incomes but may also lead to a higher savings ratio. The real increase in private consumers' expenditure will be curbed by the strong upsurge in prices. Under the combined influence of these factors, real private consumers' expenditure may on balance increase only slightly. This could entail some recovery in demand for cars in some member countries.

According to the results of the EEC business surveys, managements expect a further decline

in *industrial production* in the coming months. The Community's real gross domestic product will probably grow by about 2½ to 3% in 1975.

The *employment situation* could therefore deteriorate still further in the coming months and the level of unemployment is likely to rise. This could cause particularly severe problems for young people seeking their first job.

The volume of *imports* into the Community will grow slowly in the months ahead, but could increase more rapidly again after the spring when activity picks up in some Community countries. Furthermore, the third reduction of 20% in the customs duties between the original members of the Community and the three new member countries, which will come into effect on 1 January 1975, should give an additional stimulus to intra-Community trade. Considerable uncertainty still surrounds the trend of import prices. Should the tendency to put up oil prices, of which there have been signs in recent months, make further progress, it will be much more difficult to reduce the trade deficit. If oil prices remain constant or increase only slightly, there should be a gradual improvement in the trade balances of those countries which now have very large deficits on current account. The Benelux countries will continue to have a current payments surplus. Germany's surplus, though probably still very large, is likely to be smaller than in the first nine months of 1974. For the Community as a whole, the balance of payments on current account will remain in considerable deficit.

*Consumer prices* will maintain their distinct upward movement in the Community. In most countries, however, the upsurge can be expected to stop accelerating. This is due partly to the anti-inflationary measures which Member States have taken, and partly to the tendency for the prices to stabilize on world commodity markets. Nevertheless, the future price trend will depend a great deal on the size of wage settlements, for which only cautious forecasts can be offered at present in view of the wage negotiations yet to be held.

## Major economic policy measures

July 1974 :

— The decision of the Council of 6 June concerning the alteration of the guidelines for economic policy in 1974 was adopted finally on 4 July.

— On 16 July the Council decided to suspend until 31 October 1974 the granting of import licences for beef.

September :

— The short term monetary support provided by the European Monetary Cooperation Fund (EMCF) to Italy was renewed for the period from 18 September to 18 December 1974.

October :

— At the session of 21 October 1974, the Council approved the Fourth Annual Report and decided on a regulation in relation to Com-

munity loans permitting the financing of deficits caused by the rise in oil prices. These loans from outside the Community cannot amount to more than a total amount equivalent in units of account to \$ 3,000 million (principal and interest) and will be issued for a minimum period of five years.

November :

— On 18 November the Council gave its agreement in principle to several economic policy guidelines proposed by the Commission covering the following objectives: the braking of inflationary trends, preventing unemployment, the gradual restoration of balance to external payments, the adaptation of economic structures to the new international environment.

Having noted the advisability of the Community's contributing to Italy's medium-term financial requirements, the Council also approved a directive granting medium-term financial assistance of 1,159.2 million units of account to that country for an average term of 3½ years.

TABLE 1: Basic data 1973

	Communi- nity	Denmark	Germany	France	Ireland	Italy	Nether- lands	Belgium	Luxem- bourg	United King- dom
Total area ('000 sq. km.)	1 528.2	49.1	248.6	547.0	70.3	301.3	40.8	30.5	2.6	244.0
Total population ('000)	256 621	5 027	61 987	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 % of gross domestic product: <sup>1)</sup>										
Private consumers' expen- diture	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

1) 1972

TABLE 2: Key indicators

	% change by volume on preceding year						Volume indices 1963 = 100
	1968	1969	1970	1971	1972	1973	1973
Gross Community product	+ 5.4	+ 6.0	+ 4.9	+ 3.3	+ 3.7	+ 5.4	156
Industrial production	+ 8.5	+ 9.3	+ 5.1	+ 2.3	+ 4.7	+ 8.6	170
Imports of goods and services	+ 11.1	+ 14.4	+ 10.7	+ 7.0	+ 8.9	+ 12.3	242
Private customers' expenditure	+ 4.1	+ 5.3	+ 5.4	+ 4.3	+ 4.9	+ 4.6	154
Gross fixed asset formation	+ 6.5	+ 7.9	+ 7.1	+ 2.5	+ 2.9	+ 4.5	166
Exports of goods and services	+ 12.5	+ 12.8	+ 9.5	+ 8.1	+ 7.6	+ 12.4	248
Intra-Community visible trade	+ 19.5	+ 22.5	+ 12.4	+ 9.0	+ 11.6	+ 6.7	301
Gross product per capita	+ 4.8	+ 5.5	+ 4.3	+ 2.5	+ 3.0	+ 4.7	146

## Community

**TABLE 3 : Basic monthly indicators**

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1972	153	153	161	163	162	160	142	124	160	167	174	172
	1973	164	173	175	174	175	176	153	137	175	180	186	177
	1974	170	178	181	179	179	183	158	133				
Imports from non-member countries (cif, million Eur)	1972	3 908	4 094	4 559	4 156	4 509	4 424	3 988	4 117	4 280	4 666	4 716	5 007
	1973	4 961	4 981	5 205	5 008	5 858	5 591	5 503	5 316	5 763	6 308	6 202	6 676
	1974	7 319	7 646	8 910	9 091	9 160	8 845						
Exports to non-member countries (fob, million Eur)	1972	4 001	4 328	4 798	4 476	4 768	4 871	4 552	4 265	4 483	5 345	5 071	5 601
	1973	4 969	5 158	5 470	5 302	6 247	5 858	6 279	5 443	6 033	7 065	6 813	6 853
	1974	7 195	7 303	8 380	8 474	8 968	8 204						
Balance of trade (million Eur)	1972	+ 93	+ 234	+ 239	+ 320	+ 259	+ 447	+ 564	+ 148	+ 203	+ 679	+ 355	+ 594
	1973	+ 8	+ 177	+ 265	+ 294	+ 389	+ 267	+ 776	+ 127	+ 270	+ 757	+ 611	+ 177
	1974	- 124	- 343	- 530	- 617	- 192	- 641						
Intra-Community trade (million Eur)	1972	4 029	4 403	4 984	4 470	4 692	4 861	4 180	3 971	4 668	5 137	4 988	5 109
	1973	5 036	5 245	5 435	5 259	5 994	5 814	5 503	5 004	5 743	6 800	6 340	6 059
	1974	6 636	6 582	7 572	7 599	7 897	7 135						

### NOTES TO GRAPHS AND TABLES

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

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

#### Graph 2

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

#### Graph 4

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



*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. Figures for the original members of the Community.



## **II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES**



## A. Denmark

*In the last few months the main features of economic activity have been a pronounced fall-off in domestic demand and production and increased unemployment. The upward movement of prices slowed down a little in the summer but has since accelerated. The trade balance has distinctly improved.*

*For the end of 1974 and early 1975 a very slight expansion can be expected while the rate of unemployment will remain high. Rising prices and costs may slow down and the current account of the balance of payments may improve.*

### 1. Recent developments

Activity has continued to slow down in recent months, mainly due to the steadily shrinking domestic demand. Unemployment has increased. Prices continue to move upwards rapidly but the current balance of payments has distinctly improved.

The growth of *exports* slowed down sharply in the second quarter and then picked up speed. The rate of growth in money terms<sup>1</sup> seasonally adjusted in the third quarter was 5.7% up on the previous quarter. This growth was all the more remarkable in that it was mainly due to an upsurge of exports of industrial products, particularly capital goods. On the other hand, sales of agricultural products fell by some 5% in money terms. Even taking into account the fall in prices in some important sectors, the volume of agricultural sales has also dropped. Domestic demand has continued to slow down in recent months. *Investment* activities have once again slackened. The unfavourable sales outlook on the domestic market has no doubt put a brake on or delayed investment programmes in the private sector, as shown by the results of the October business survey and the fall-off in imports of capital goods and raw materials. In the construction sector, the drop

in demand was particularly noticeable. In the period July-September, the number of housing starts was almost 53% less than in the same period in 1973. At least until the ban on public building by local authorities was lifted on 15 August last and on 1 October for central government construction, the level of demand in this sector remained very weak.

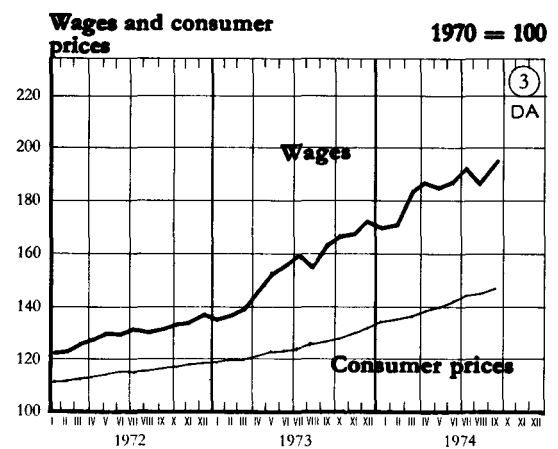
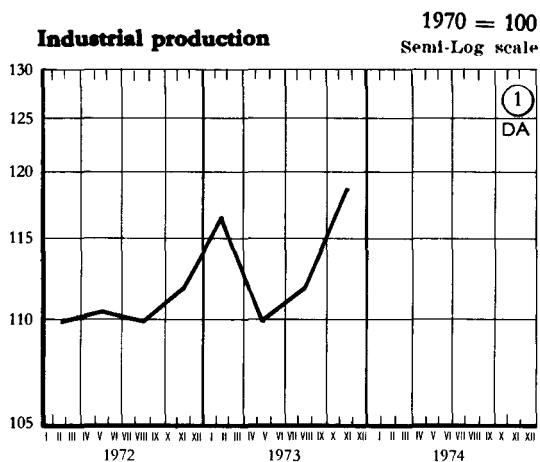
Private *consumers' expenditure* has not increased in recent months as can be seen by the trend of retail sales in money terms; in real terms there has been a net reduction since May. The number of new car registrations which had picked up slightly between February and May has since then declined to a marked extent. In September it was over 68% less than a year previously. The slowdown in household expenditure can largely be accounted for by higher indirect taxation imposed last May which had led to precautionary buying by individuals beforehand and no doubt also by the deterioration in the employment situation. Despite a considerable increase in wages and salaries, public expenditure rose slightly more slowly.

*Production* seems to have weakened in recent months. Industrial manufacturing sales have fallen and employment figures have decreased in this sector. There was a particularly sharp drop in building and construction. Agricultural pro-

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

duction benefited from bumper harvests of grain crops (+10% compared with the previous

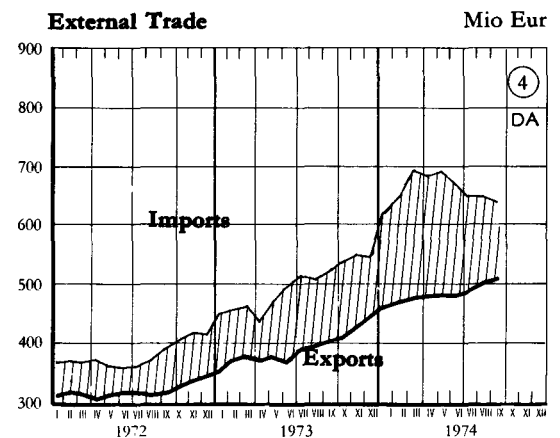
of foodstuffs and services, and despite a near stagnation of import prices.



year) and a marked growth in the output of meat and milk products, which rose in the first half of the year by 2.5% as compared to the corresponding period of 1973.

*Imports*, which had definitely slowed down in the second quarter both in real terms and in money terms have since then remained at a fairly low level. All the categories of imported pro-

*Employment* has sharply decreased since April. The number of unfilled vacancies has declined by over 50% in the third quarter against the preceding quarter. The number of employed in manufacturing industry has dropped by 1.1% during June-August as against March-May. The



ducts have been affected by the slowdown in domestic demand.

number of insured unemployed has gone up considerably in recent months; in October it was about 67,100, namely 7.9% of the total of insured persons as against 1.5% one year ago.

Consequently, and in view of the accelerated growth of exports, the *trade balance* has distinctly improved. The deficit which was Dkr. 4,800 million in the first quarter and Dkr. 4,200 million in the second quarter is now Dkr. 3,000 million in the third. Because of this the current balance has improved markedly, the deficit being Dkr. 900 million in the third quarter as against Dkr. 1,900 million in the second. If oil is excluded there is a slight surplus on the current account. Total net reserves have diminished slightly and are now Dkr. 6,600 million at the end of October.

After slowing down in the summer months, the upward movement of *prices* once again accelerated, since September. In October, the consumer price index was about 16.8% higher than a year ago, mainly due to the faster rise of prices

The expansion of *credit* has remained moderate, despite a slight easing in the terms for loans,

*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 Dkr '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	
Exports <sup>3</sup>	43.7	+ 8.4	+ 19.5	+ 6	+ 23	+ 5	
Gross fixed asset formation	44.3	+ 9.2	+ 20.3	- 3	+ 14	- 3	
Public current expenditure on goods and services	32.5	+ 4.7	+ 15.4	+ 4	+ 24	+ 3½	
Private consumers' expenditure	82.6	+ 4.3	+ 13.5	- ½	+ 14½	+ 2	
Gross domestic product	158.8	+ 3.8	+ 14.8	+ 1½	+ 15	+ 1½	
Imports <sup>3</sup>	42.6	+ 18.0	+ 30.4	- 2½	+ 27	- ½	

<sup>1</sup> Danmark Statistik.

<sup>2</sup> Estimates.

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

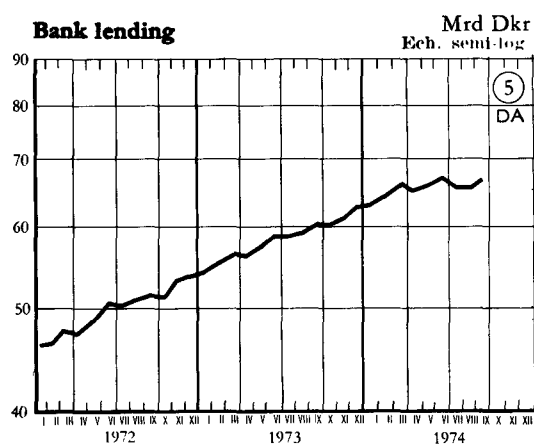
particularly for construction and export sectors. The increase in the money supply (M2), not seasonally adjusted, continued to slacken; in September, the year-to-year growth was only 6.8% compared with 14.9% in September 1973.

## 2. Outlook

The present trend of the economy which is typified by a slowdown in domestic demand, production and employment should continue until the end of the year and during the first half of 1975.

Given that the demand from the main trading partners, particularly the Federal Republic of Germany and the Scandinavian countries, will not be so dynamic as has until recently been supposed, *exports* can be expected to expand less rapidly. The reduction in customs duties to come into effect on 1 January 1975 between the original and new member countries of the Community, however, could act as a worthwhile stimulus.

Domestic demand should continue to grow quite slowly. Business *investment* will no doubt be affected by the downward revision of industrial



investment programmes and the expected decrease in residential housing construction. However, now that interest rates are lower and the ban on public building has been lifted, demand in the construction sector may gradually strengthen.

Private consumers' expenditure may remain depressed until the end of the year. Until this date disposable income will be affected by a number of negative factors: the impact of higher unemployment and part-time working, the repercussions of higher indirect taxation applied in May and payments made in September, October and November under the compulsory saving scheme. Furthermore, arrears of direct income tax to be collected by the State for 1973 amounting to some Dkr. 1,000 million will have a dampening effect on private consumers' expenditure. On the other hand, in early 1975, household expenditure should pick up somewhat as a result of the tax reform<sup>1</sup> to come into force on 1 January. It will have the effect of reducing direct taxes by some Dkr. 7,000 million, particularly in the medium and lower income brackets. Public current expenditure should grow fairly slowly.

In early 1975, production is unlikely to make much progress. The movement towards stagnation or even to a decrease could even be reinforced when the industrial and commercial sector reduce the level of their stocks. Employment may continue to drop and unemployment is likely to be high.

Combined with the trend of domestic demand, imports are likely to continue to remain at a relatively low level. Thus, the deficit on the trade balance may continue to shrink, provided the terms of trade improve slightly. Rising prices should slow down as a result of the stabilisation of the prices of imported raw materials.

Thus, the main problem of economic policy is to avoid the likely consequences of too sudden a slowdown in activity on employment levels. At the same time it is important to ensure that the current stage of weak domestic demand, which could facilitate the transfer of resources abroad and compensate the current deficit, also has a rapid braking effect on rising costs. In this

<sup>1</sup> Details of this reform are given in the list of major economic policy measures and decisions.

context, a reduction of direct taxation should help to temper wage claims at the end of the year and put a brake on the growth of nominal incomes during the first quarter of 1975.

## Major economic policy measures and decisions

May 1974 :

— On 15 May the Danish Parliament adopted certain temporary and permanent measures to increase indirect taxation.

— temporary measure (from 8 May to 31 December 1974) :

— increase of 50% in the registration charge for new cars of less than 4 tonnes. This tax only applies to those vehicles imported from 8 May.

— permanent measures (indefinite duration) :

— increase of 50% on the road tax for private vehicles. The tax for commercial vehicles of less than 3 tonnes was also increased.

— imposition of a 20% excise duty on domestic equipment (fridges, washing machines, cookers, extractors, razors, etc.).

— increase of excise duties on tobacco, cigarettes, alcohol (incl. wine and beer). The increase varies according to the products in question.

— imposition of a 10% excise duty on tape recorders.

— The Central Government has, in negotiations with the local governments and the counties, fixed the investment- and borrowing limits for the local authorities for the fiscal year 1975-76. The amount for investments was cut down from Dkr. 4,800 million in 1974-75 to Dkr. 4,400 million in 1975-76 and the possibilities for obtaining loans were fixed at an amount of Dkr. 665 million against Dkr. 1,330 million in 1974-75.

June :

— The Parliament adopted on 11 June the housing policy for the following 4-year period. The main elements were :



- *stabilizing the annual level of construction of new dwellings at 40,000 units of which 8,000 units shall be social dwellings.*
  - *the system of financing the social residential construction was changed. The basic capital must now be 26% of the total costs, provided by the State (10%), local authorities (5%), social societies investment fund (8%) and the tenants deposits (3%). The remaining 74% of the total costs shall be financed by credit societies on normal conditions.*
  - *the rules concerning the imputed taxable value of living in owner-occupied family houses and dwellings will be modified gradually.*
  - *The investment and borrowing limits for local authorities were relaxed.*
  - *On 11 June the Government increased the tax rate for limited companies from 36% of taxable income to 37%.*
  - *From 1 April the system of basing loans for new houses on real property values as of April 1973 was abolished.*
- August :*
- *The ban on public construction was abolished on 15 August as far as local authorities are concerned.*
  - *The credit ceiling was raised by 3%, i.e. about Dkr. 2,200 million on 26 August.*
  - *The quantitative regulation adopted in June on the construction of dwellings was abolished.*
- September :*
- *An income tax reform partially passed the "Folketing" on 20 September. The reform will come into force on 1 January 1975. The main elements are :*
  - *incomes up to Dkr. 9,000 for each person are tax-free( against Dkr. 7,000 before the reform).*
- *taxation will be assessed according to the following scale, based on average local taxation: Dkr. 9,000-50,000: 39.5%, Dkr. 50,000-90,000: 53.9% and Dkr. 90,000 +: 64.7%.*
  - *the reform means a reduction of Central Government direct income tax receipts of Dkr. 7,000 million in 1975.*
  - *to finance the reform savings on the budget 1975-76 of Dkr. 6,700 million (about 5,000 million Dkr. in 1973 prices) have been proposed, including: construction and other investments : Dkr. 820 million, expenditure governed by budget ceilings: Dkr. 500 million, reserves for new legislation: Dkr. 670 million, reduction of children's allowances: Dkr. 800 million and abolition of subsidies on certain dairy products: Dkr. 220 million (all savings in 1973 prices).*
  - *In an attempt to improve the unemployment situation, the Government and the National Bank took the following measures:*
  - *the refinancing of export credits in the National Bank has been eased. The interest rate has been reduced from 9% to 8%.*
  - *export credits of the private banks are no longer included in the credit ceiling.*
  - *the financing of new construction by mortgage societies has been eased.*
  - *an export credit institution will be established to help firms in financing long-term export credits.*
- October:*
- *The levy of 2½% on house sales was abolished on 1 October.*
  - *The ban on construction as far as the Central Government is concerned was abolished on 1 October.*
- November:*
- *The credit ceiling was raised by 2% from 30 November 1974.*

**Denmark**

**TABLE 1 : Key indicators**

	1969	1970	1971	1972	1973	1973
	% change by volume on preceding year					Indices 1970 = 100
Gross domestic product	+ 8.2	+ 2.8	+ 3.8	+ 4.5	+ 3.8	112.6
Industrial production	+ 12.8	+ 5.8	+ 3.5	+ 7.3	+ 6.6	118.5
Total imports	+ 14.5	+ 7.9	+ 1.9	+ 3.7	+ 18.0	124.6
Private consumers expenditure	+ 9.9	+ 1.3	+ 2.3	+ 3.0	+ 4.3	109.9
Public current expenditure on goods and services	+ 9.0	+ 11.4	+ 8.6	+ 7.7	+ 4.7	122.5
Gross fixed asset formation	+ 10.2	+ 4.9	+ 4.1	+ 4.5	+ 9.2	118.9
Total exports	+ 9.4	+ 5.8	+ 7.3	+ 7.1	+ 8.4	124.6
Gross domestic product per head of population	+ 7.7	+ 2.1	+ 2.9	+ 4.0	+ 3.1	110.3
Gross domestic product per person in employment	+ 7.5	+ 1.4	+ 2.8	+ 4.1	+ 3.1	110.3
	% change by value on preceding year					
Gross income per employee	+ 12.1	+ 12.3	+ 11.2	+ 10.0	(+ 14.3)	139.8

**TABLE 2 : Indicators for internal and external equilibrium**

	1969	1970	1971	1972	1973
Balance exports less imports					
in million Eur	- 295.2	- 424.5	- 252.8	+ 144.1	+ 437.6
as percentage of GDP	1.9	2.5	1.3	0.7	3.1
Unemployment rate	3.9	2.9	3.7	3.7	2.4
Price-index of private consumers expenditure (% change on preceding year)	+ 3.4	+ 5.6	+ 5.0	+ 5.5	+ 8.8

TABLE 3: Foreign trade (at current prices)

	% change on preceding year			Million Eur	% of total
	1971	1972	1973		
Visible exports					
Total	+ 8.3	+ 12.5	+ 22.1	4 855	100
Intra-EEC	+ 8.6	+ 13.8	+ 32.3	2 242	46.2
To non-EEC countries	+ 8.1	+ 11.6	+ 14.5	2 613	53.8
Exports of food, beverages and tobacco					
Total	+ 8.1	+ 10.3	+ 24.8	1 726	35.6
Intra-EEC	+ 3.2	+ 8.4	+ 39.9	1 064	21.9
To non-EEC countries	+ 15.7	+ 12.3	+ 6.4	662	13.6
Exports of raw materials, fuel and power					
Total	+ 11.3	+ 9.7	+ 27.2	458	9.4
Intra-EEC	+ 4.2	+ 12.2	+ 25.6	225	4.6
To non-EEC countries	+ 15.7	+ 9.0	+ 28.8	233	4.8
Exports of semi-finished and finished industrial goods					
Total	+ 8.1	+ 14.4	+ 19.6	2 671	55.0
Intra-EEC	+ 14.6	+ 18.8	+ 26.4	953	19.6
To non-EEC countries	+ 5.0	+ 11.7	+ 16.7	1 718	35.4
Visible imports					
Total	+ 3.2	+ 3.0	+ 32.6	6 131	100
Intra-EEC	- 0.6	+ 4.5	+ 32.9	2 826	46.1
From non-EEC countries	+ 6.6	+ 1.9	+ 32.3	3 305	53.9
Imports of food, beverages and tobacco					
Total	+ 4.8	+ 5.3	+ 37.9	618	10.1
Intra-EEC	+ 10.7	+ 3.4	+ 60.3	174	2.8
From non-EEC countries	+ 3.1	+ 5.9	+ 30.7	444	7.3
Imports of raw materials, fuel and power					
Total	+ 8.2	- 1.6	+ 28.5	1 084	17.7
Intra-EEC	+ 14.4	- 1.1	+ 45.6	359	5.9
From non-EEC countries	+ 5.9	- 1.9	+ 21.4	725	11.8
Imports of semi-finished and finished industrial goods					
Total	+ 1.7	+ 4.0	+ 32.9	4 429	72.2
Intra-EEC	- 3.2	+ 5.3	+ 29.4	2 293	37.4
From non-EEC countries	+ 7.7	+ 2.5	+ 36.9	2 136	34.8

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1968 = 100)	1971			116			118			119			119
	1972			126			127			126			131
	1973			134			126			131			136
	1974												
Unemployed (1 000)	1972	37.0	39.0	31.6	32.5	37.2	30.6	30.9	27.6	23.9	21.5	21.7	25.9
	1973	20.0	16.6	16.1	30.3	19.6	19.0	20.7	19.5	18.7	17.0	19.8	25.6
	1974	26.3	17.8	15.7	25.2	32.9	38.0	39.8	47.8	58.0			
	1975												
Construction: permits for residential construction	1972	1 684	3 854	2 242	2 995	3 627	5 372	1 533	2 637	3 347	2 471	2 579	2 855
	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				
	1975												
Private consumers expen- diture (1968 = 100)	1972	135	137	142	144	143	145	147	151	153	147	151	151
	1973	158	157	156	158	157	165	165	169	171	172	174	175
	1974	177	179	174	182	185	179	181	180				
	1975												
Consumer prices (1964 = 100)	1972	158.5	159.2	160.3	161.4	163.0	164.1	164.4	165.0	166.3	167.5	168.9	169.5
	1973	169.8	171.6	172.6	174.9	177.1	178.5	179.7	180.8	182.7	184.8	187.9	190.8
	1974	194.2	194.8	196.5	199.8	202.4	205.9	208.4	209.6	213.1			
	1975												
Visible imports (million Eur)	1972	353	379	354	365	348	346	375	386	409	413	424	395
	1973	517	441	417	434	554	480	493	532	532	543	567	526
	1974	749	650	675	729	667	615	651	670				
	1975												
Visible exports (million Eur)	1972	328	307	290	307	325	313	307	314	318	338	341	345
	1973	346	392	374	313	378	370	420	381	404	426	437	460
	1974	468	492	485	475	481	479	488	527				
	1975												
Balance of trade (million Eur)	1972	- 25	- 72	- 64	- 58	- 23	- 33	- 68	- 72	- 91	- 75	- 83	- 50
	1973	- 173	- 49	- 43	- 121	- 176	- 110	- 73	- 151	- 128	- 117	- 130	- 66
	1974	- 281	- 158	- 190	- 254	- 186	- 136	- 163	- 143				
	1975												
Official gold and foreign exchange reserves (million Eur)	1972	756	780	794	754	749	726	705	732	660	647	727	774
	1973	807	867	893	964	969	961	911	755	778	799	1 007	1 097
	1974	954	880	837	865	707	652	635	670	630			
	1975												
Money supply (million Eur)	1972	8 021	7 965	8 193	8 422	8 475	8 628	8 565	8 656	8 766	8 793	9 212	9 328
	1973	9 151	9 093	9 233	9 495	9 647	9 884	9 773	9 873	10 063	10 156	10 407	10 507
	1974	10 202	10 160	10 156	10 429	10 504	10 640	10 467	10 537	10 755			
	1975												

## Denmark

### NOTES TO GRAPHS AND TABLES

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

#### *Graph 1*

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

#### *Graph 2*

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

#### *Graph 3*

Wages: hourly earnings in industry (including bonuses).

#### *Graph 4*

Imports: cif; exports: fob; excluding ships and aircraft. Seasonally adjusted; three-month moving averages.

#### *Graph 5*

Bank lending: by commercial and major savings banks.

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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 employment.

#### *Table 2*

Balance exports less imports: Goods and services.  
Unemployment rate: insured unemployed as percentage of total number of insured workers.

#### *Table 3*

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). Figures for Ireland are not included for 1971 and 1972.

#### *Table 4*

Industrial production: volume of sales in manufacturing industry; seasonally adjusted.  
Unemployment: Number of insured unemployed; adjusted for seasonal variations; SOEC.  
Construction: number of dwellings authorized. Not adjusted for seasonal variations. Until the end of 1972 the figures only cover large urban areas.  
Private consumers' expenditure: Retail Sales Index; adjusted for seasonal variations.  
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 gold and foreign exchange reserves: monetary reserves: monetary authorities gross reserves of gold and convertible currency, holdings in special drawing rights and reserve position at the IMF; liabilities to abroad have not been deducted, position at end of month. Danmarks Nationalbank.  
Money supply: notes and coins in circulation and deposits at post giro accounts commercial and major savings banks, position at end of month, Danmarks Nationalbank.

## B. Germany

*Economic activity in Germany has continued to slacken in recent months, but this overall picture marks sharp differences from one industry to another. Unemployment has risen sharply. At some 7% at the consumer level, the upward movement of prices has remained relatively moderate in comparison with other industrialized countries.*

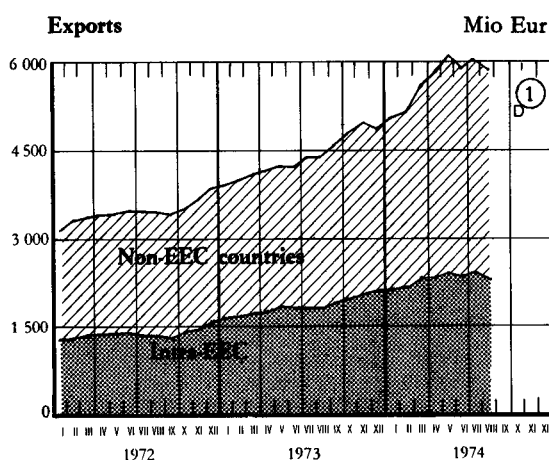
*In the months ahead, the expansionary stimuli provided by the public sector will probably boost activity, although a general economic revival will be possible only if there is a distinct improvement in the investment climate.*

### 1. Recent developments

In the summer and early autumn, the business situation in Germany continued to vary sharply from industry to industry. While in some sectors closely associated with exporting activity remained very brisk, in others the process of adjusting to a falling volume of demand led increasingly to cuts in production. With total economic activity on a slightly downward course and with wage costs having soared in recent years, firms were forced to lay off increasing numbers of workers.

Although export demand increased at nothing like the unusually rapid pace in the first half of the year, visible exports continued to be the principal expansionary factor. In terms of value they were 32.2% up in the third quarter on a year ago. After adjustment for price changes, the increase was 9.8%.

With sales prospects being clouded in more and more uncertainty, especially as regards the domestic market, and with profit margins being

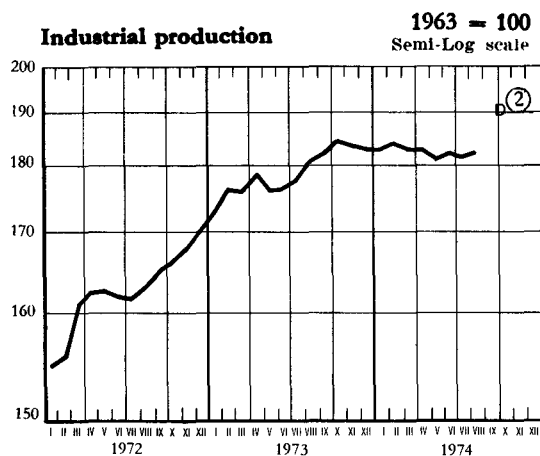


rapidly eroded by the persistent pressure of costs, the propensity of enterprises to invest fell further. The volume of investment in plant and machinery, for example, contracted appreciably. In the building industry, with authorized projects and buildings already in progress being rapidly completed, a shortage of new orders both in residential construction and in industrial and commercial building led to a cutback in production. The public authorities sought in-

creasingly to boost business in this sector by bringing forward new building and civil engineering orders.

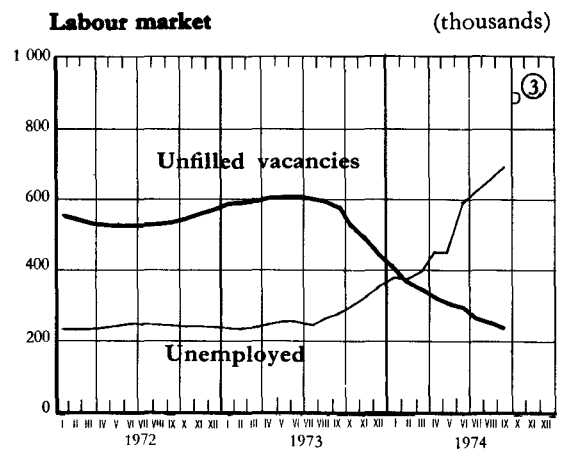
Although there were signs of a certain revival after the summer holidays, private *consumers' expenditure* continued to expand at a sluggish pace. In the third quarter, retail sales were 9.5% up on a year earlier, but in real terms the increase was merely 1.4%. Sales of new passenger cars have recovered slightly in recent months, but new registrations in the third quarter were still 6.1% below the level at the same time last year. The slow-down in business, which in some sectors was becoming more pronounced, was reflected to only a limited degree in the trend of wages. Wages per person employed in industry were 14.2% up in the third quarter on a year earlier. Because of the fall in the numbers employed, however, the increase in the gross wage and salary bill was only 10.9%.

Although the situation varied sharply from one branch to another, total *industrial production* weakened, with the result that capacity utiliza-



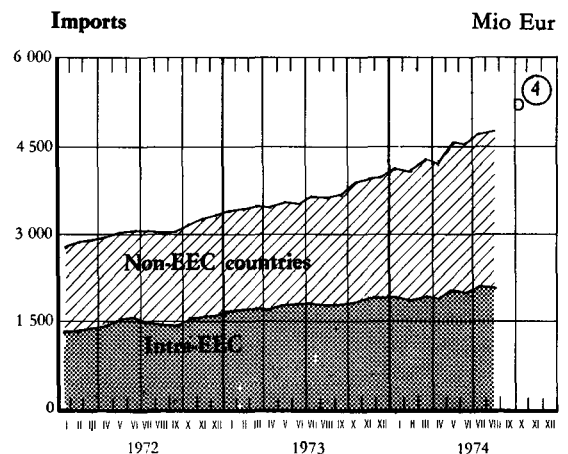
tion rates in the economy dropped further. In the third quarter, total industrial output was 2.2% down on a year earlier.

The upward tendency of *unemployment*, which has been evident for some time past, became more marked. At the end of October, there were, on a seasonally adjusted basis, 835,000 unemployed and 253,000 unfilled vacancies. Following a temporary fall in the summer



months, short-time working also resumed its upward course.

There was a distinct revival in visible *imports*. In the third quarter, their value was 36.3% higher than a year earlier. Some of this reflects a sharp rise in import prices, which in terms

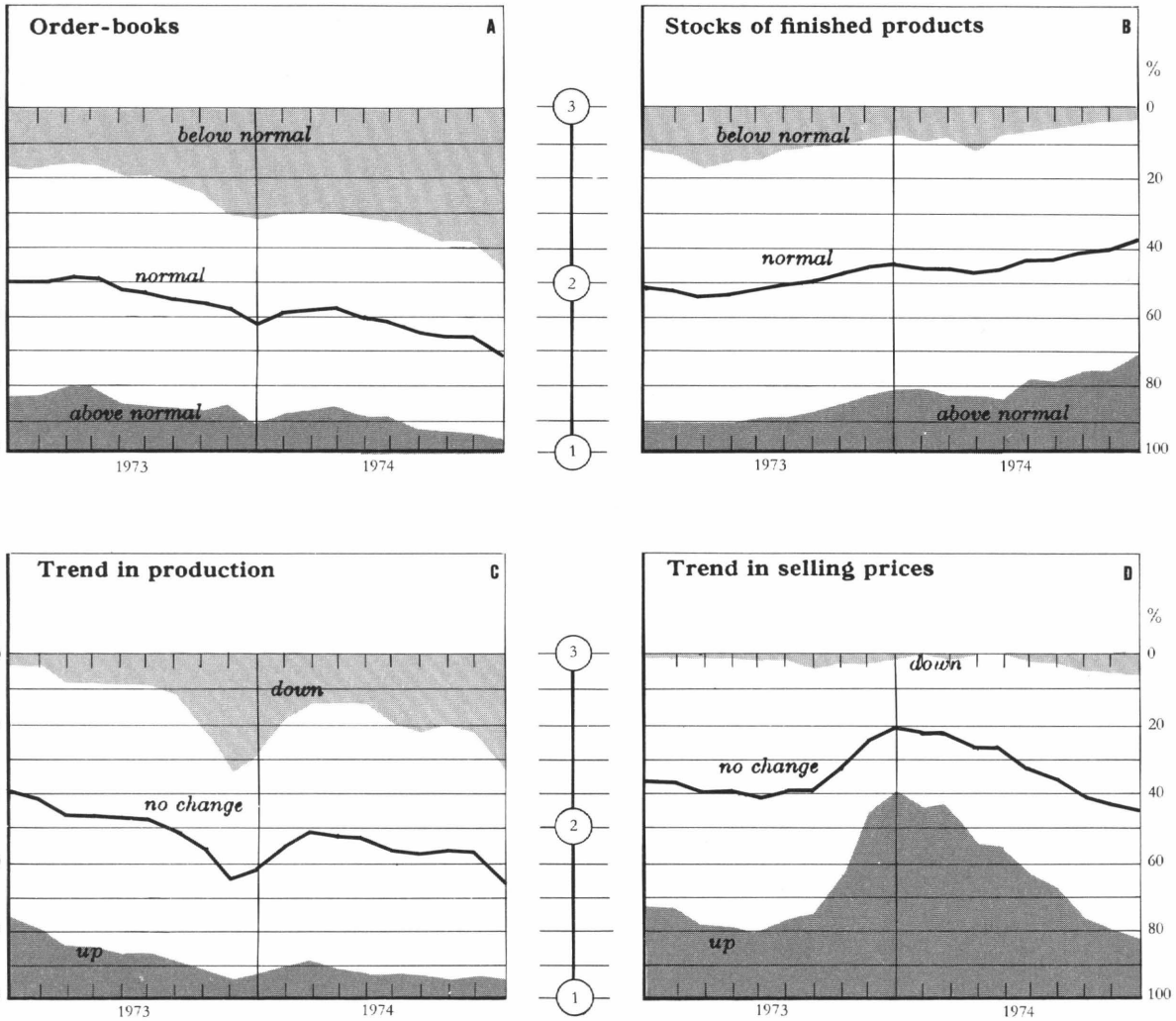


of average values increased by 33.4% over the same period. The volume of imports also expanded somewhat more rapidly and was slightly up again on the level a year ago.

With the sluggish trend of consumer demand limiting the scope for passing on price increases and with substantial cuts being made in mineral oil and food prices, the trend of *consumer prices* in the summer was comparatively favourable. In October the consumer price index was 7.1% up on a year ago. The upward movement of industrial producer prices con-

Germany

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION

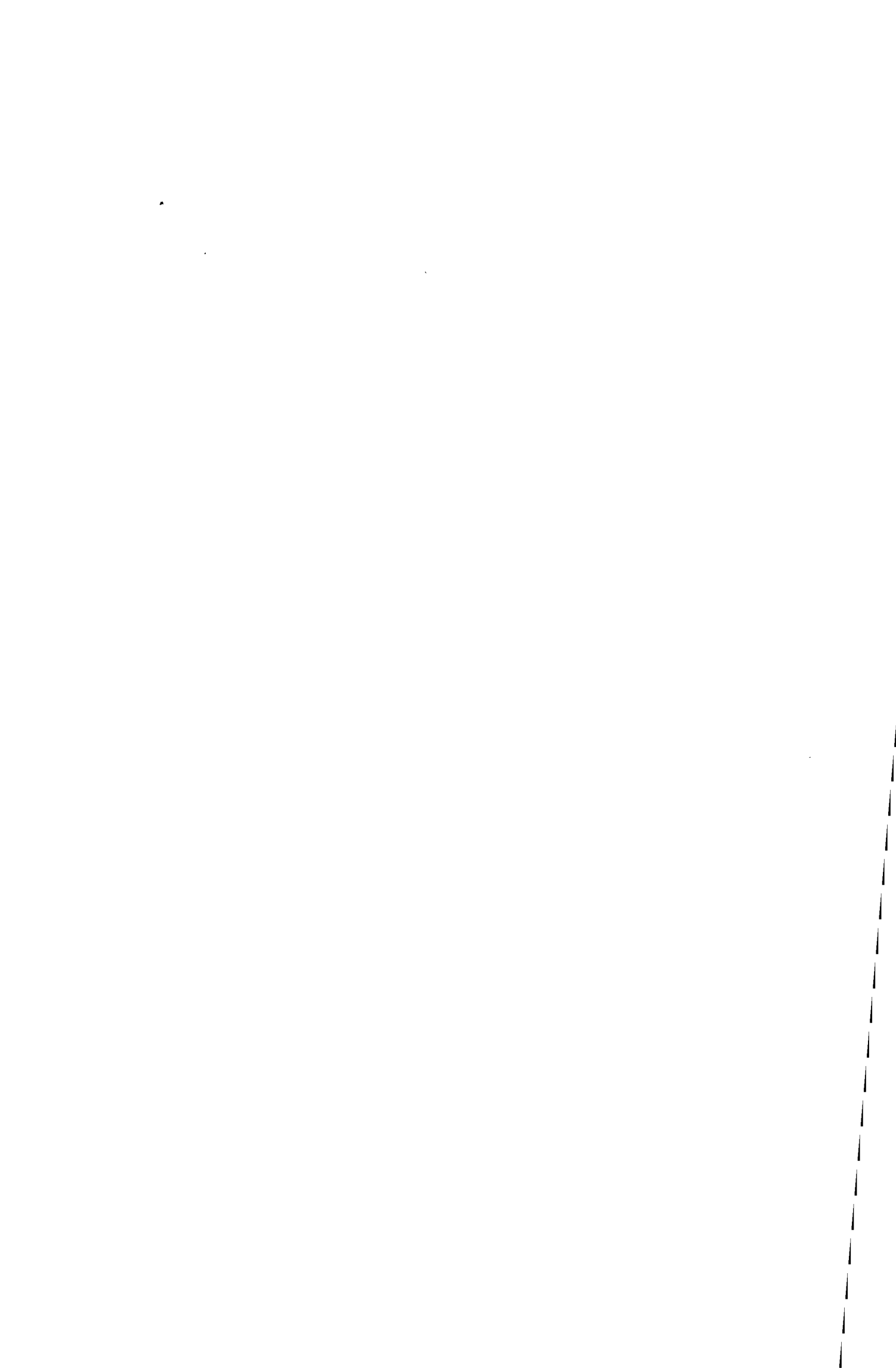


Answers to questions in the EEC business survey, carried out in the German Federal Republic by the IFO-Institut.

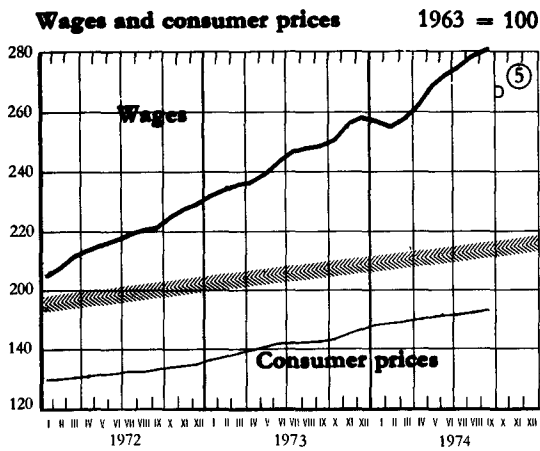
GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

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

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

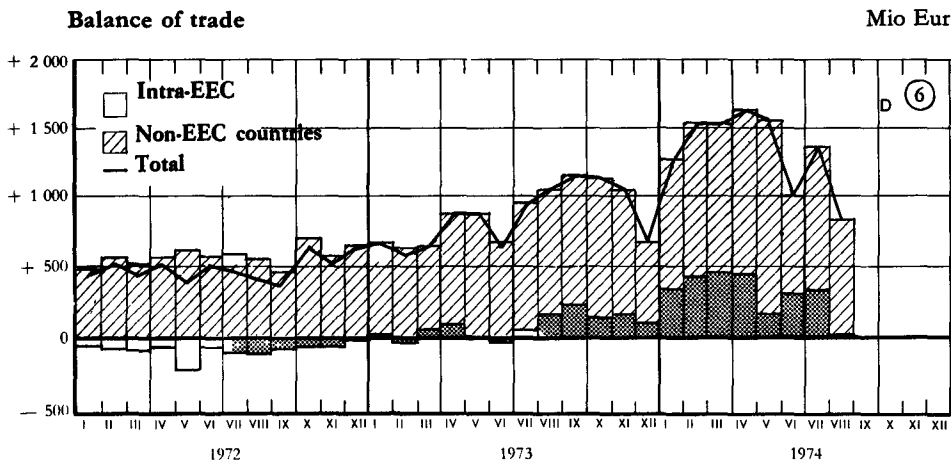




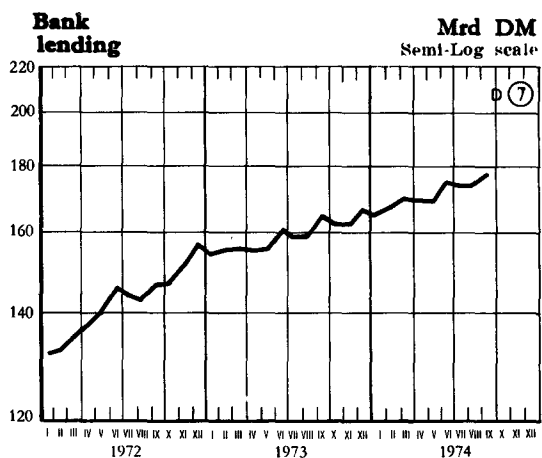


With export growth losing some of its buoyancy, the *foreign trade surpluses* have fallen slightly in recent months. In the nine months to the end of September, the visible trade surplus nevertheless totalled DM. 36,900 million as compared with DM. 22,800 million for the same period last year. Despite the sharply increased deficits on the balance of service transactions, considerable surpluses continued to be recorded on current account. As the capital account showed further net outflows, the Bundesbank's net currency reserves fell in the first ten months of the year by DM. 3,500 million. By reference to the central rates at the end of 1972, the weighted appreciation of the mark against all other currencies, decreased from 21.6% at the beginning of May to 16.8% at the end of October.

tinued unabated. In October they were 14.6% higher than in October last year.



Foreign exchange outflows and the renewed upsurge in monetary capital formation have in recent months acted as an appreciable brake on the growth of the *money supply*. The Bundesbank countered the contractionary effects by lowering minimum reserve requirements and easing other restrictions on liquidity. At the end of October the stock of money and near-money (M2) was 2.4% higher than a year earlier. While short-term interest rates fell slightly, notably because the Bundesbank sought to ease money market conditions, the trend of long-term interest rates remained very firm, one of the main causes probably being the public authorities' large long-term borrowing requirement.



*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 DM '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	
Exports <sup>3</sup>	180.1	+ 16.7	+ 19.2	+ 15	+ 33	+ 5½	
Gross fixed asset formation	217.4	+ 1.1	+ 5.8	- 7	- 1	- 2	
Public current expenditure on goods and services	146.5	+ 4.0	+ 15.1	+ 4	+ 15½	+ 3	
Private consumers' expenditure	450.9	+ 2.9	+ 10.2	0	+ 7	+ 3½	
Gross domestic product	834.6	+ 5.3	+ 11.5	+ 1	+ 7	+ 2½	
Imports <sup>3</sup>	164.7	+ 9.9	+ 14.8	+ 4½	+ 30½	+ 6	

<sup>1</sup> Federal Statistical Office/ National -Accounts, Series 1, 1973.

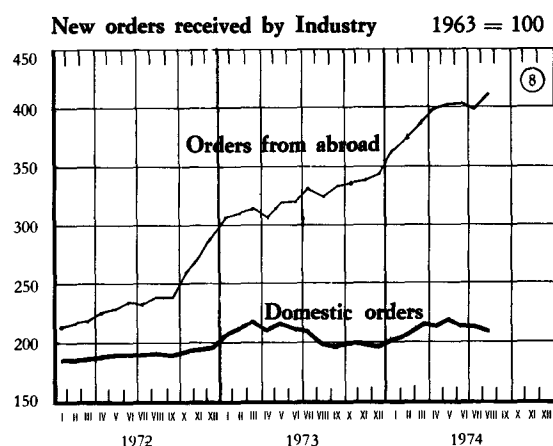
<sup>2</sup> Estimates.

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

## 2. Outlook

The economic trend for the next few months is beset with considerable dangers. While public finance, notably as a result of the tax reform due to come into force on 1 January 1975, will increasingly provide an expansionary stimulus which could lead to a gradual revival in domestic economic activity and especially in private consumption, it is still by no means certain that the rallying expansionary forces will be sufficient to curb the decline in employment. Much will depend on the outcome of the forthcoming wage negotiations and the effects they will have on the investment climate.

Even though this year's unusually rapid rate of growth of *export demand* may slow down, exports can be expected to go on expanding briskly, especially as German exporters will con-



tinue to be highly competitive, helped by a domestic price trend that is considerably more favourable than in most partner countries, and

also by the relatively short delivery dates they can offer.

A distinct revival of private consumption in the months ahead could also boost *investment* activity. However, these stimuli will probably be limited by the margin of spare production capacity which will no doubt continue to exist for some time to come. An appreciable and lasting improvement in the investment climate can be expected only if corporate profits, which at present differ sharply from industry to industry, turn up appreciably. A further sharp decline is likely in building investment. In residential construction, the very heavy backlog, which up to now has helped to sustain activity, has shrunk visibly. The expected reluctance to expand production capacity will probably keep the damper on industrial and commercial building too. The acceleration in public building activity, particularly through the special programmes to support the building industry, will probably provide only partial relief.

Expenditure on *consumption*, by contrast, could accelerate appreciably. While the expansion of public consumption will probably slow down distinctly, private consumers' expenditure will be boosted considerably, in particular by the tax reform, even if part of the DM. 14,000 million or so which this reform will add to households' purchasing power went into increased savings. A further appreciable deterioration in the employment situation could however prove a serious obstacle to the recovery of private consumption.

All in all, the expansionary forces will probably be slow in developing. The 3% growth rate for *production* — the target set in the annual report on the economic situation in the Community—can only be achieved if firms show a greater willingness to invest.

Even if a revival in domestic economic activity was to trigger off a more rapid expansion of *imports*, the foreign trade surpluses should remain high.

The main problem for *economic policy* in the period ahead will be to secure a sufficient revival in domestic demand, and in particular investment, without jeopardizing further progress in the struggle against inflation, for which the conditions are somewhat more favourable in

that the exceptional upsurge in the price of oil and other major raw materials should not be repeated in 1975.

However, the danger of the economy moving on to an undesirable course is particularly great. One main threat would come from unduly sharp increases in domestic costs, which could confront those responsible for economic policy with the dilemma of having to combat a persistent decline in private investment and a fall in employment on the one hand and a renewed upsurge in prices on the other. The wage negotiations scheduled for the end of 1974 are therefore of fundamental importance for the future economic trend, especially as the expected large public authority borrowing requirement will leave little scope for additional budgetary stimulus.

### Major economic policy measures

June 1974:

— *At the beginning of June the Bundesbank instructed the commercial banks to report their forward exchange commitments monthly beginning at the end of July. Figures must be given for aggregate foreign positions and separate data provided for all dollar and sterling positions.*

— *At the end of June the Federal Finance Minister called on the Federal departments and authorities to cut their administrative expenditure, grants and subsidies in the current year by at least 10%. In addition, the number of Federal authority posts is to be reduced by 1,400. These cuts will not affect capital spending.*

July:

— *The measure restricting to 75% the proportion of rediscount quotas which banks could use, which had been in force since 31 May, was lifted by the Bundesbank at the beginning of July. This gave the commercial banks extra rediscount facilities totalling some DM. 2,500 million. The Bundesbank stated that it was willing to grant credit institutions unrestricted advances against securities at the going rate for these transactions (9%) with no limitation of the amount in-*

involved. Advances granted at special interest rates were suspended until further notice.

— On 4 July the Federal Government adopted the draft Federal budget for 1975 and the medium term finance plan for 1974-1978. Allowing for the financial effects of the tax reform and family allowances, total expenditure in 1975 will amount to DM. 154,000 million. This is 8.7% higher than the 1974 expenditure figure, adjusted to facilitate comparison. The net borrowing requirement will be DM. 14,600 million.

— On 18 July the Bundesbank decided on the following measures:

— The decision to grant unrestricted advances against securities at the current 9% rate was extended from 31 July to 31 August inclusive.

— The limit on the amount of prime acceptances that the Bundesbank may purchase under its market regulation policy was raised by DM. 200 million to 1,100 million. This additional facility was intended exclusively for the benefit of private banks and small regional banks.

— The liquidity consortium set up recently, after the collapse of the Herstatt Bank, was promised refinancing aid by the Bundesbank.

— The special rediscount facilities which the Reconstruction Loan Corporation has with the Bundesbank were increased, enabling it to refinance up to DM. 500 million of loans which it makes available to small and medium-size enterprises.

— On 25 and 26 July respectively the Bundestag and Bundesrat passed the income tax reform which is to come into force on 1 January 1975. In 1975 it will probably result in tax relief worth some DM. 13,000 million or DM. 1,500 to 2,000 million more than was allowed for in the draft budget.

The main provisions are:

— Child relief disappears from wages and income tax. Instead increased family allowances are introduced, to be paid by the labour exchanges.

— The basic tax-free allowance is raised to DM. 3,000 for a single person and DM. 6,000 for a married couple.

— The limits up to which tax is payable at the standard rate are raised to DM. 16,000 for a single person and DM. 32,000 for a married couple, and the standard rate itself is raised to 22%. The progressive scale starts with 30.8% and goes up to 56% for incomes of DM. 130,000 for a single person or DM. 260,000 for a married couple.

— The payment of wealth tax can no longer be treated as specially allowed expenditure.

— The maximum amounts up to which provident expenditure is deductible from taxable incomes as special expenditure are increased.

— An additional tax-free allowance is introduced from income other than pensions of persons over 65 years of age.

— The tax-free allowances are increased for officials' and company pensions.

— A tax-free allowance for savers is introduced for investment income.

— The tax-free allowance for employees is doubled from DM. 240 to DM. 480. This allowance is deductible from tax liability only at the rate of 22%.

— Income ceilings are introduced into the savings promotion scheme.

— The 3% supplementary levy on personal income tax is to be discontinued from 1 January 1975.

August:

— At the beginning of August the Federal Government decided that the tax on heating oil due to lapse on 31 December 1974 would continue to be levied until the end of 1979. The annual revenue from this tax amounts to some DM. 800-900 million.

— On 16 August the Bundesbank decided to lower by 10% the minimum reserve ratios for domestic liabilities with effect from 1 September, increasing bank liquidity by DM. 4,750 million. This measure was taken in view of the drain on bank liquidity caused mainly by outflows of foreign exchange.

— At the end of August the Bundesbank decided to extend until further notice the 31 August deadline for granting unlimited advances against securities at the current « normal » 9% rate.

## September :

— On 12 September the Bundesbank and the central organisations of the banking and savings bank sector agreed on the creation of a joint credit institution the "Liquidität-Konsortialbank GmbH" the objective of which, at the general economic level, is to guarantee both domestic and foreign interbank settlements. The new institution will afford financial assistance if a basically sound credit institution is in danger of running into liquidity difficulties.

— On 11 September the Federal Government lifted the obligation, in force since 1 January 1972, to make a cash deposit when borrowing abroad. At the same time the obligation for foreigners to obtain authorization before purchasing domestic claims was abolished.

— On 25 September the Federal Government launched a special programme for sustaining building employment in areas with above-average unemployment. Of the total of DM. 950 million to be spent under the programme, the Federal Government is to provide DM. 600 million and the Länder DM. 350 million. The programme is to be financed from funds frozen in the Bundesbank.

— On 26 September the Bundesbank decided to lower by 8% the minimum reserve ratios with effect from 1 October, putting some DM. 4,100 million back into the banking system. This measure was taken in view of the drain on bank liquidity caused by outflows of foreign exchange and the increase in the circulation of notes and coin.

## October

— The Federal Banking Supervisory Office restricted the commercial banks' scope for forward exchange transactions, with effect from 1 October: the proportion of foreign currency liabilities not covered by claims must not exceed 30% of the banks' liable capital. Furthermore, the difference between the amounts of maturing foreign currency claims and liabilities must not

exceed 40% of the liable capital in any one calendar month or calendar half year. This includes securities denominated in a foreign currency, but excludes bank notes and coin.

— On 16 October the Federal Government approved the draft of the eighteenth Pension Adjustment Law, under which old-age pensions will be raised by 11.1% as from 1 July 1975, disablement benefits by 11.8% as from 1 January 1976 and old-age pensions for farmers by 11.1% as from 1 January 1976.

— On 23 October the Federal Government adopted a number of measures for securing long-term energy supplies:

(a) Coal production until 1980 is to be kept at approximately 94 million tonnes per annum.

(b) In the next few years additional stocks of coal, amounting to 10 million tonnes, are to be built up.

(c) In order to speed up rationalization in the coal-mining industry, annual investment aid will be raised by DM. 50 million to DM. 210 million.

(d) Coal is no longer to be exported below cost price.

(e) Coking coal subsidies are now to be stopped completely whenever possible. In addition, it is planned to introduce annual import quotas for coking coal amounting to 3 million tonnes.

(f) The level of the compulsory stocks to be kept by oil companies and traders is to be raised. In addition, the Federal Government will build up crude oil stocks of its own, reaching 4 million tonnes by 1977.

(g) Promotion of investment in the field of nuclear energy is to be stepped up.

(h) To increase the proportion of natural gas in total energy supplies, new suppliers of natural gas are to be sought, with aid from the Government.

— On 25 October the Bundesbank lowered the discount rate from 7% to 6.5% and the interest rate for advances on securities from 9% to 8.5%. The credit institutions' rediscount quotas were raised by 2.5%, to DM. 14,000 million, as from 1 November.

**Germany (FR)**

**TABLE 1 : Key indicators**

	1969	1970	1971	1972	1973	1973
	% change by volume on preceding year					1963=100
Gross domestic product	+ 8.2	+ 5.9	+ 2.9	+ 3.4	+ 5.3	159
Industrial production	+ 10.7	+ 6.3	+ 2.4	+ 3.4	+ 5.9	169
Total imports	+ 17.0	+ 15.3	+ 9.9	+ 8.8	+ 9.9	263
Private consumers' expenditure	+ 7.7	+ 7.0	+ 5.6	+ 4.1	+ 2.9	159
Public current expenditure on goods and services	+ 4.9	+ 4.9	+ 7.3	+ 3.9	+ 4.0	140
Gross fixed asset formation	+ 12.1	+ 11.5	+ 4.5	+ 2.7	+ 1.1	158
Total exports	+ 12.4	+ 8.7	+ 6.8	+ 8.1	+ 16.7	266
Gross domestic product per head of population	+ 7.1	+ 4.9	+ 1.9	+ 2.8	+ 4.8	147
Gross domestic product per person in employment	+ 6.6	+ 4.6	+ 2.6	+ 3.6	+ 5.1	159
	% change by value on preceding year					
Gross income per employec	+ 9.8	+ 15.1	+ 12.5	+ 9.6	+ 12.9	247

**TABLE 2 : Indicators for internal and external equilibrium**

	1969	1970	1971	1972	1973
Balance exports less imports					
in million Eur	+ 3 754	+ 3 052	+ 3 339	+ 4 393	+ 7 608
as percentage of GNP	+ 2.4	+ 1.6	+ 1.6	1.8	2.7
Unemployment rate	0.7	0.6	0.7	0.9	1.0
Consumer prices (% change on preceding year)	+ 2.5	+ 3.5	+ 5.4	+ 5.4	+ 7.0



## Germany (FR)

### NOTES TO GRAPHS AND TABLES

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

— For intra-community trade, the new Community countries have not been taken into account except for 1973 figures (including comparisons with 1972) 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; three-month moving averages.

#### *Graph 3*

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

#### *Graph 4*

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

#### *Graph 5*

Wages and consumer prices: index of the wage and salary bill per employee in industry (construction and energy excluded); series adjusted for seasonal variations by the Deutsche Bundesbank; three-month moving averages; cost-of-living index (all households) at middle of month, not adjusted for seasonal variations.

#### *Graph 6*

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

#### *Graph 7*

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

#### *Graph 8*

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

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#### *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).

#### *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: monetary authorities' reserves of gold and convertible currencies, 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

Since July the strains in the French economy, which had previously been steadily worsening, have tended to ease. However, domestic inflationary pressures which have built up over many months are still pushing up prices at too fast a pace. The foreign trade disequilibrium continued to worsen in the second and third quarters.

The present economic slowdown is likely to continue in 1975 and may result in inflationary pressures easing somewhat. This will probably help to reduce the trade deficit, but could make employment problems more acute.

### 1. Recent developments

After a long period of brisk expansion, strains in the production system have eased appreciably. Nevertheless, many imbalances persist, with the external deficit and rapidly rising prices being the most obvious symptoms.

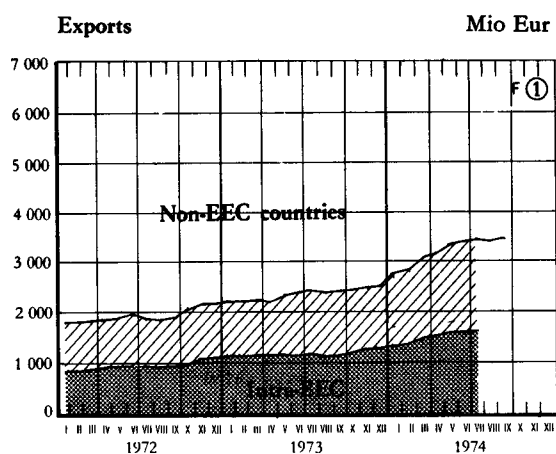
After expanding at an unprecedented rate in the first part of the year, the growth of *export demand* has fallen off sharply; nevertheless, in the third quarter, exports in terms of value were more than 40% up on a year earlier. Recently,

however, this advance has been due more to price rises than to increases in volume.

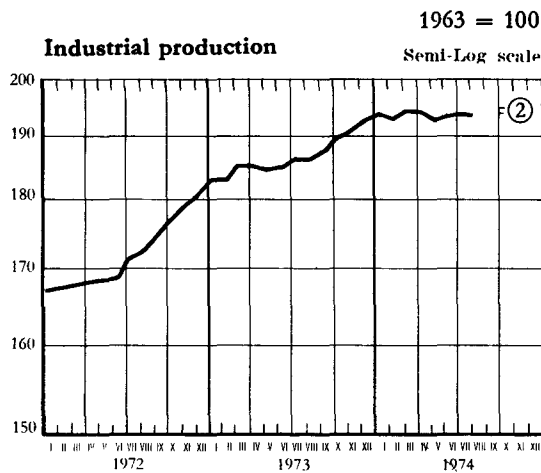
Domestic demand showed a more varied pattern than in the past. The slow-down in *capital expenditure* since the end of the summer may have been due to a more cautious assessment of the outlook for sales as much as to the increase in the cost of finance. This deceleration was particularly marked in the building sector, where present availability of credit, for both builders and house buyers, acted as a further deterrent.

Expenditure on *consumption*, which up to the beginning of the year had long been a buoyant component of demand, has since expanded at a much more moderate pace. The overall increase in private consumer demand was barely higher than the rise in prices; beneath this levelling-off in real terms, however, fairly substantial changes occurred in the pattern of consumption, with less being spent on passenger cars and more on other durables. In real terms, public current expenditure also rose more slowly than in the past.

*Production* rose fairly steadily up to the autumn. The INSEE index of industrial production (ex-

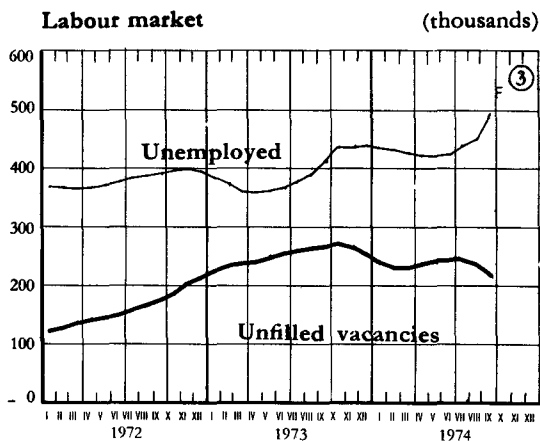


cluding construction) for August was up by 4.1% on a year earlier, a rate of growth slightly lower than that prevailing for some time past. However, despite this overall trend, considerable



differences exist between individual industries; activity fell off in consumer goods industries—especially the motor industry and textiles—while the production of plant and machinery and that of certain basic industries continued to rise significantly.

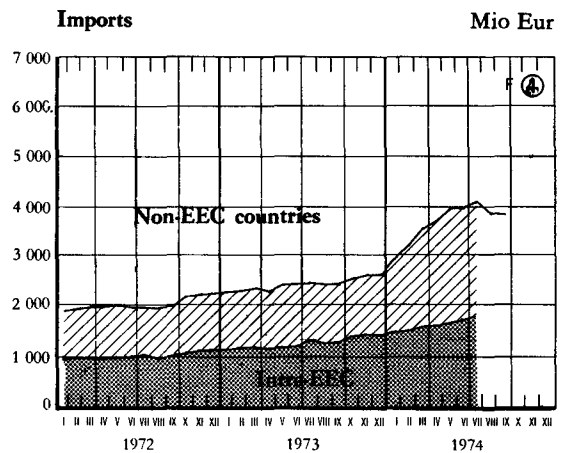
The strains on the *labour market* eased considerably in the second half of the year. The num-



ber of job seekers has risen continuously (on a seasonally adjusted basis) since the beginning of

the year, while the number of unfilled vacancies began to decline after the first six months. Besides the current economic slowdown, the very substantial pay increases being granted until recently undoubtedly influenced this trend. Over the past year hourly wage rates have risen more than 20%, more than sufficient to compensate for the rapid rise in consumer prices. The considerable cost to industry of these wage increases suggests, firstly, that labour is still in short supply and secondly, that firms expect to be able to compensate some way or other for this increase in costs.

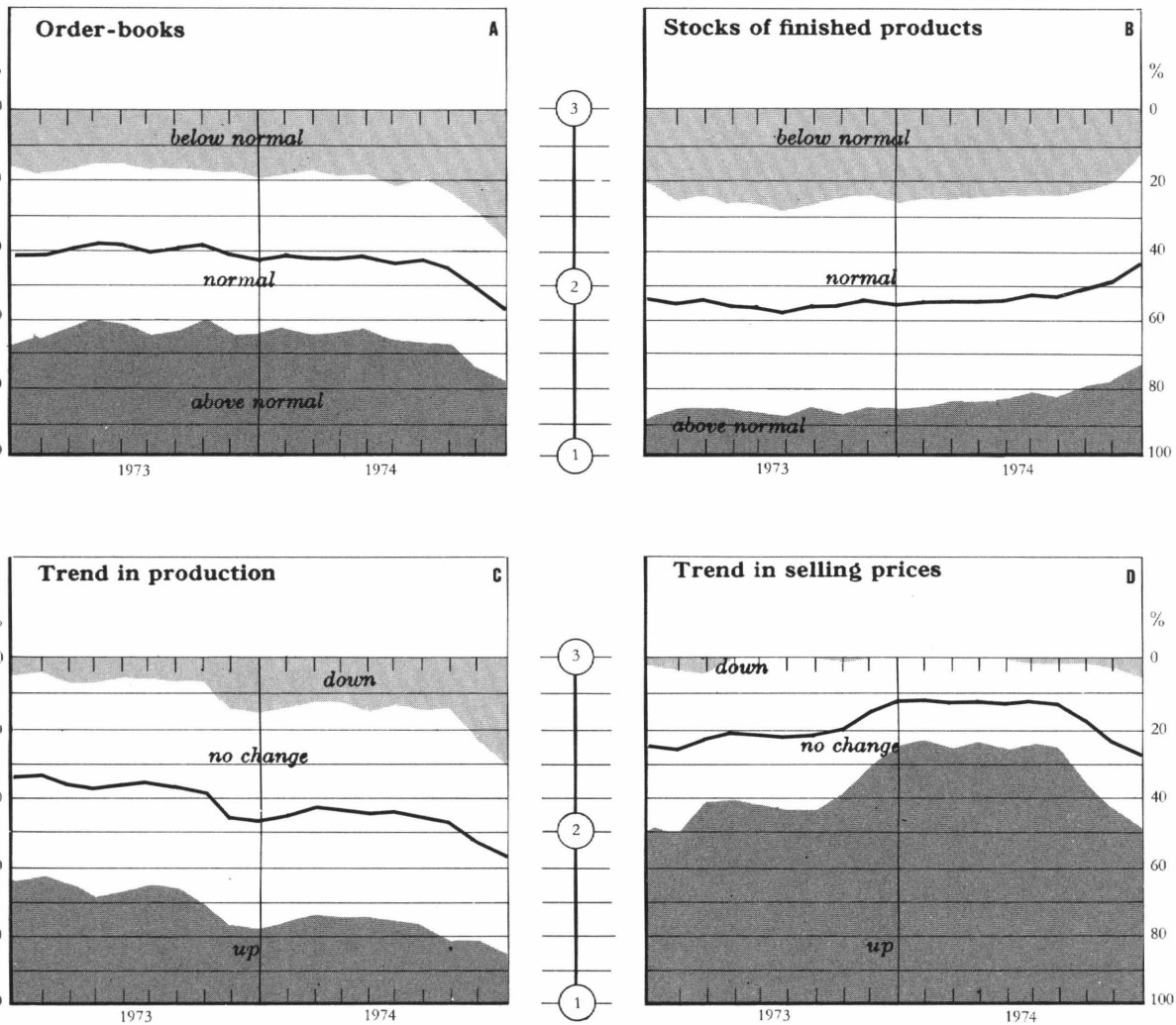
Following the exceptional rise in the value of *imports* at the beginning of the year, the trend of purchases from abroad has fallen off sharply. The volume of imports, on the other hand, has been rising very slowly (in terms of seasonally



adjusted fob-cif figures); in the second quarter, the level was only 4.3% up on a year earlier. Since the middle of the year, import prices have begun to stabilize.

*Prices* continued to rise at a very rapid pace; in September, the INSEE consumer price index was 14.7% higher than a year earlier. However, different movements took place with respect to the components; the increases in raw material prices led to rapid increases in the prices of manufactured products, while those of services and food rose less sharply.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



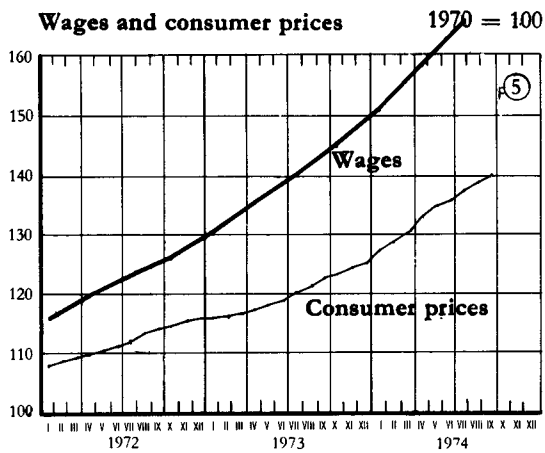
Answers to questions in the EEC business survey, carried out in France by INSEE.

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

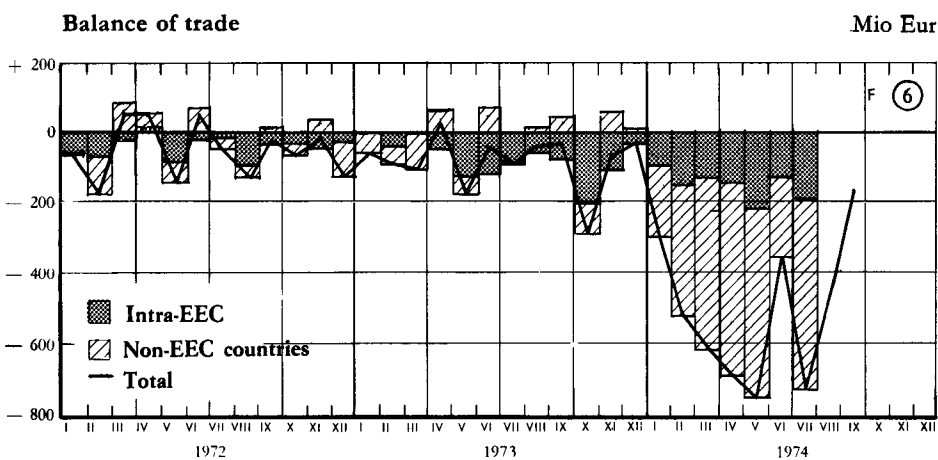
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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





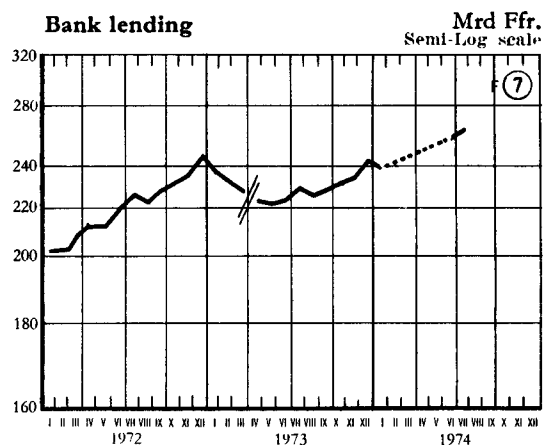
The sharp deterioration in the terms of trade at the beginning of the year resulted, despite the growth of exports, in a widening of the *trade deficit* (in seasonally adjusted fob-fob figures) from FF. 3,300 million in the first quarter to about FF. 6,000 million in the third.



The high interest rates on the money market were the main factor behind the firmer performance of the French franc, which was further strengthened by various loans raised abroad of some \$ 5,000 million. Gross official gold and foreign exchange reserves have risen again since April, and by August were back at the December 1973 level of FF. 39,200 million.

and the scarcity of liquidity partly explain the plummeting of share prices and the scarcity of new issues on French stock exchanges.

The growth of the money supply has somewhat diminished; at the end of September, the year-to-year increase was 15%. However, in the same period, total *bank lending* expanded by 20%. As a result of the exceptionally sharp rise in revenue, especially from indirect taxation, the net effect of Treasury transactions was restrictive. The money market was at times under severe strain; interest rates were kept at a high level by the Banque de France. The attractiveness of certain short-term investments



### 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
Exports <sup>3</sup>	172.5	+ 12.7	+ 20.9	+ 12½	+ 37½	+ 7
Gross fixed asset formation	260.4	+ 6.5	+ 13.6	+ 5½	+ 18½	+ 3½
Public current expenditure on goods and services	123.7	+ 3.4	+ 11.5	+ 2½	+ 17½	+ 2
Private consumers' expenditure	597.5	+ 6.0	+ 13.6	+ 4½	+ 19	+ 3½
Gross domestic product	1,006.2	+ 6.0	+ 13.6	+ 5	+ 15½	+ 3½
Imports <sup>3</sup>	163.8	+ 14.1	+ 22.9	+ 8½	+ 52½	+ 6

<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

In spite of weakening of economic growth in the last few months, there is still uncertainty as to what the first half of 1975 will bring by way of restoring internal and external equilibria in the French economy.

The continued growth of *exports* will depend more than ever on the trend of world trade. However, French exporters should not see their market shares slip, since past bottlenecks should have disappeared completely and the rise in production costs has been till now no faster than for France's principal competitors.

The growth of domestic demand will be more moderate. Private *consumers' expenditure* should continue to grow, but in view of slower increases in certain categories of non-wage incomes the rise will be somewhat more moderate. Fairly marked changes in the pattern of con-

sumption can also be expected as a result of differences in the size of price increases. Public current expenditure—at least in the early months of the year—will probably continue to expand quite slowly. *Investment* demand should slacken a little more, for although the new conditions to which the French economy must adapt will call for sustained programmes of fixed investment, wage increases and the high cost of borrowing will certainly entail cash problems for many firms. In building, the deceleration aimed at since the spring and which will lead to a marked levelling off of activity at the end of the year, should continue longer than in other industries. This tendency may be accentuated by the public authorities' investment activities.

Although overall *production* of goods and services is likely to continue growing, there can be no doubt that sharp discrepancies will occur. A number of marginal enterprises, which are

now managing to survive only because of past inflationary excesses, may be hit by the slow-down in the economy. This "shake-out", which has already begun, is unlikely to be too drastic as long as lending to the economy does not expand less rapidly than gross national product in money terms.

There may also be relatively less recourse to *imports*. Purchases of raw materials for processing will tend to slow down in line with domestic production. Imports of consumer goods will expand much less rapidly, the slow-down probably being sharper than that of private consumer demand. The slackening in demand for plant and machinery should be less marked. In these circumstances, the trade deficit is likely to narrow gradually, but there can be no hope of a return to equilibrium by the end of the year.

The relaxation of strains, tending to ease the upward movement of *prices*, may continue for some time to come. However, for this trend to continue, the main requirement is a restrictive monetary policy, based on strict control of the growth of total lending. It seems clear that the inflation which has affected the French economy in 1974 is largely internal in origin. An improvement in this field will require a substantial and lasting slowdown in the upward trend of costs—especially wage costs—and will also mean that private consumers' purchasing power must increase more slowly.

In the present circumstances the scale and persistence of the *external deficit* is, together with the upward trend of prices, by far the most serious problem arising from the economic situation in France. If the conditions are to be created for bringing about a lasting improvement in the external position, the structure of the economy will need to be recast to promote exports and to cut back imports. The decision, taken in October, to place a ceiling on the total value of oil imports is an important step in this direction.

The easing of strains, which should continue during the coming months, is a prior condition for improving the external position and slowing down the rate of price rises. The pressure of demand, however, is not the sole cause of inflation; the present upward trend of costs is

becoming the main obstacle to restoring fundamental equilibria, and by consequence the sustained achievement of a high level of employment.

### **Main economic policy measures**

*June 1974:*

— *As of 20 June, the discount rate was raised from 11% to 13% and the rate for advances on securities from 12.5% to 14.5%.*

*July:*

— *As of 1 July, the minimum wage was raised by 7.6% and various social security benefits were increased (family allowances, old-age pensions and disablement benefits).*

— *The limit on the year-to-year growth of credit remained at 13% for August.*

— *The issue of entry permits to workers from non-member countries was suspended until the end of September. The welfare schemes for foreign workers will be improved.*

— *Parliament adopted the law amending the 1974 Finance Law; the supplementary budget is in balance and makes provision for additional expenditure of FF. 8,600 million.*

— *The interest rate on pledged bonds (obligations cautionnées) was raised from 11% to 13%. These bonds mainly consist of bank-guaranteed short-term bills drawn on small and medium-sized firms to postpone the payment of indirect taxes.*

— *The Government adopted a number of measures to safeguard farm incomes (market support, easier credit terms).*

*August:*

— *The limit on the year-to-year growth of credit remained at 13% for September. Ceiling controls were slightly eased in respect of lending to small and medium sized enterprises and export industries. Overall, exporters will receive additional finance totalling FF. 4,000 million.*

— *The rules governing direct French investment abroad and direct foreign investment in France were relaxed.*

*September:*

— From 1 September, the minimum wage was raised by 2.3%, bringing the total increase since September 1973 to 25.9%.

— The Ministry for Industrial Affairs announced a number of energy-saving measures.

— The Ministry for Economic Affairs and Finance introduced a new scheme for controlling the prices of industrial products, operative from 1 October 1974. In future the Government would lay down maximum overall limits for price rises in the various branches, and the dates for implementation of these rises. Reductions in the prices of raw materials would be taken into account in determining these limits.

— The decision to suspend the issue of entry permits for foreign workers was extended until further notice.

— The limit on the year-to-year growth of credit subject to ceiling controls was fixed at 13% for October and November and 12% for December. The limit on the year-to-year increase in the volume of short-term export credit claims was raised from 19% to 22% with effect from the end of October.

— The draft 1975 finance law was submitted to Parliament. Final expenditure is up 17.6%

compared with the initial 1974 Finance Law (assuming a 14.3% growth of GDP in money terms). There is a surplus of FF. 500 million, assuming a 10% year-on-year price rise.

*October:*

— The *Conseil de planification* (Planning Board) was set up. It is principally composed of the President of the Republic, the Prime Minister, the Minister of Economic Affairs, the Minister of Labour and the *Commissaire général au plan*. It will meet twice a month. The essential purpose of the Board is to ensure a direct link between the governmental decision-making level and the work of the *Commissariat général au Plan*, and at the same time allow better account to be taken of medium-term considerations in day-to-day policy determination.

— Following an agreement between the authorities and both sides of industry, wage and salary earners declared redundant for economic reasons will for a period of one year receive severance pay equal to 90% of their former gross pay.

— A draft law was tabled introducing a counter-cyclical tax on inflationary increases in value added, applying from 1974 onwards.

— The interest rate on medium and long-term export credit was raised to 7.5%.



TABLE 1: Key indicators

	1969	1970	1971	1972	1973	1973
	% change by volume on preceding year					1970=100
Gross domestic product	+ 7.7	+ 6.0	+ 5.3	+ 5.7	+ 6.0	118
Industrial production	+ 8.6	+ 6.5	+ 5.3	+ 5.7	+ 6.4	118
Total imports	+ 22.4	+ 3.2	+ 8.8	+ 14.6	+ 14.1	142
Private consumers' expenditure	+ 6.3	+ 4.5	+ 5.9	+ 5.8	+ 6.0	119
Public current expenditure on goods and services	+ 4.9	+ 3.3	+ 4.2	+ 4.0	+ 3.4	112
Gross fixed asset formation	+ 9.3	+ 5.2	+ 6.7	+ 7.6	+ 6.7	122
Total exports	+ 17.0	+ 12.4	+ 11.7	+ 10.3	+ 12.7	139
Gross domestic product per head of population	+ 6.8	+ 5.1	+ 4.3	+ 4.8	+ 5.1	115
Gross domestic product per person in employment	+ 6.0	+ 4.5	+ 4.7	+ 5.0	+ 4.6	115
	% change by value on preceding year					
Gross income per employee	+ 11.8	+ 10.2	+ 10.5	+ 10.5	+ 12.4	137

TABLE 2: Indicators for internal and external equilibrium

	1969	1970	1971	1972	1973
Balance exports less imports					
in million Eur	- 774	+ 720	+ 1 620	+ 1 602	+ 1 440
as percentage of GNP	- 0.6	+ 0.5	+ 1.0	+ 0.9	+ 0.7
Unemployment rate	1.6	1.7	2.1	2.3	2.1
price index of private consumers' expenditure (% change on preceding year)	+ 7.2	+ 5.3	+ 5.7	+ 5.8	+ 7.2

**France**

**TABLE 3 : Foreign trade (at current prices)**

	% change on preceding year					Million Eur	% of totals
	1969	1970	1971	1972	1973		
<b>Visible exports</b>							
<b>Total</b>	+ 17.4	+ 19.2	+ 14.6	+ 15.6	+ 21.2	28 453	100.0
<b>Intra-EEC</b>	+ 30.6	+ 21.7	+ 16.0	+ 16.5	+ 20.7	15 964	56.1
<b>To non-EEC countries</b>	+ 7.5	+ 16.9	+ 13.2	+ 14.4	+ 21.9	12 489	43.9
<b>Exports of food, beverages and tobacco</b>							
<b>Total</b>	+ 20.8	+ 6.0	+ 26.9	+ 20.6	+ 16.5	4 833	17.0
<b>Intra-EEC</b>	+ 41.9	+ 1.8	+ 31.4	+ 22.2	+ 19.1	3 465	12.2
<b>To non-EEC countries</b>	- 3.3	+ 13.2	+ 20.3	+ 17.9	+ 10.3	1 368	4.8
<b>Exports of raw materials, fuel and power</b>							
<b>Total</b>	+ 10.6	+ 12.1	+ 7.0	+ 19.5	+ 24.8	2 224	7.8
<b>Intra-EEC</b>	+ 19.9	+ 14.2	+ 3.6	+ 19.3	+ 25.0	1 576	5.5
<b>To non-EEC countries</b>	- 3.5	+ 7.9	+ 13.8	+ 19.9	+ 24.4	648	2.3
<b>Exports of semi-finished and finished industrial goods</b>							
<b>Total</b>	+ 17.5	+ 23.1	+ 12.9	+ 13.9	+ 22.0	21 396	75.2
<b>Intra-EEC</b>	+ 29.0	+ 29.7	+ 13.8	+ 14.4	+ 20.7	10 923	38.4
<b>To non-EEC countries</b>	+ 10.2	+ 18.1	+ 12.2	+ 13.6	+ 23.4	10 473	36.8
<b>Visible imports</b>							
<b>Total</b>	+ 23.7	+ 9.9	+ 11.3	+ 15.2	+ 21.9	29 575	100.0
<b>Intra-EEC</b>	+ 31.3	+ 6.5	+ 13.9	+ 15.9	+ 20.7	16 398	55.5
<b>From non-EEC countries</b>	+ 16.7	+ 13.3	+ 8.8	+ 14.5	+ 23.5	13 177	44.5
<b>Imports of food, beverages and tobacco</b>							
<b>Total</b>	+ 19.5	+ 6.9	+ 4.1	+ 15.7	+ 24.0	3 665	12.4
<b>Intra-EEC</b>	+ 33.4	+ 3.9	+ 14.3	+ 11.2	+ 19.8	1 458	4.9
<b>From non-EEC countries</b>	+ 13.5	+ 8.4	- 0.9	+ 18.3	+ 26.9	2 207	7.5
<b>Imports of raw materials, fuel and power</b>							
<b>Total</b>	+ 10.6	+ 11.9	+ 15.0	+ 8.5	+ 20.1	6 747	22.8
<b>Intra-EEC</b>	+ 11.4	+ 9.0	+ 17.2	+ 7.1	+ 19.7	1 222	4.1
<b>From non-EEC countries</b>	+ 10.5	+ 12.5	+ 14.6	+ 8.8	+ 20.2	5 525	18.7
<b>Imports of semi-finished and finished industrial goods</b>							
<b>Total</b>	+ 30.3	+ 9.8	+ 11.4	+ 17.7	+ 22.2	19 163	64.8
<b>Intra-EEC</b>	+ 33.3	+ 6.6	+ 13.5	+ 17.3	+ 20.8	13 718	46.4
<b>From non-EEC countries</b>	+ 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.
<b>Industrial production</b> (1963 = 100)	1972	166.5	165.9	167.7	166.1	169.4	168.8	163.5	173.7	175.5	173.4	178.4	180.2
	1973	182.4	183.3	184.5	178.3	188.6	184.4	178.5	188.4	185.2	188.8	193.6	186.4
	1974	195.7	195.8	191.2	191.5	195.5	194.0	188.2	196.0				
<b>Number of persons seeking employment</b> (1 000)	1972	365.0	365.9	368.8	375.6	381.9	379.6	389.3	393.7	398.1	401.9	394.6	390.0
	1973	371.9	362.1	359.7	365.5	370.4	371.1	392.1	402.3	432.5	437.8	428.7	433.5
	1974	426.3	421.4	418.5	416.5	420.1	425.7	450.5	469.5	547.9			
<b>Construction : building permits issued for housing</b> (1 000)	1972			140.6			150.4			146.3			199.8
	1973			160.9			150.4			171.0			187.7
	1974			157.2									
<b>Private consumers' expendi- ture : turnover of depart- ment stores (1963 = 100)</b>	1972	106.6	106.5	110.3	105.7	102.3	111.9	109.9	108.1	116.6	109.3	104.2	116.1
	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	129.0						
<b>Consumer prices</b> (1970 = 100)	1972	108.3	108.9	109.4	109.8	110.4	111.0	111.9	112.5	113.2	114.2	114.9	115.5
	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			
<b>Visible imports</b> (million Eur)	1972	1 818	2 013	2 019	1 813	2 126	1 940	1 810	2 078	2 101	2 153	2 171	2 251
	1973	2 306	2 244	2 334	2 131	2 647	2 393	2 420	2 353	2 464	2 820	2 754	2 564
	1974	3 409	3 494	3 738	4 013	4 251	3 729	4 216	(3 617)	(3 792)			
<b>Visible exports</b> (million Eur)	1972	1 763	1 828	1 874	1 869	1 972	1 993	1 764	1 951	2 079	2 089	2 153	2 117
	1973	2 244	2 151	2 228	2 151	2 462	2 356	2 324	2 310	2 435	2 525	2 693	2 515
	1974	3 124	2 971	3 068	3 290	3 505	3 337	3 490	(3 158)	(3 428)			
<b>Balance of trade</b> (million Eur)	1972	- 55	- 185	- 145	+ 56	- 154	+ 53	- 46	- 127	- 22	- 68	- 18	- 130
	1973	- 62	- 93	- 106	+ 20	- 185	- 37	- 96	- 43	- 29	- 295	- 61	- 49
	1974	- 285	- 523	- 670	- 723	- 746	- 392	- 726	(- 459)	(- 364)			
<b>Official gold and foreign exchange reserves</b> (million Eur)	1972	7 748	7 804	7 802	7 798	7 809	8 657	9 144	9 176	9 230	9 224	9 228	9 224
	1973	9 220	8 821	9 270	9 501	9 622	9 609	9 615	9 316	9 304	8 401	7 084	7 068
	1974	6 865	6 723	6 737	6 737	6 750	6 770	6 892	7 052	7 132	7 425		
<b>Money supply</b> (Fr '000 million)	1972	257.0	259.1	265.0	263.0	267.5	272.6	277.1	277.4	283.7	284.7	293.0	290.2
	1973	291.0	291.3	292.3	298.3	302.9	302.8	299.6	301.1	305.4	307.4	306.3	319.8
	1974	317.0	317.6	—	—	—	335.6						

## 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; three-month moving averages.

*Graph 3*

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

*Graph 4*

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

*Graph 5*

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

*Graph 6*

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

*Graph 7*

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

*Table 1*

GNP at market prices.

Industrial production: value added by industry.

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

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

*Table 2*

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

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

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

*Table 3*

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

*Table 4*

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

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

Construction: 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.

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

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

Source: Banque de France.



## D. Ireland

*In recent months the Irish economy has experienced a slow down in the growth of demand and production. The employment situation has deteriorated and the rate of price increase remains very rapid. The deficit on the current account of the balance of payments is still very high.*

*These trends should persist until the end of the year and into early 1975. They are likely to be accompanied by an intensification of unemployment. Cost and price pressures will remain strong and external disequilibrium will continue to pose difficult problems.*

### 1. Recent developments

The growth of activity has continued to slow down and is substantially below that expected at the beginning of the year. This profile, which has been reflected in an increase in unemployment, is due primarily to sluggishness of domestic demand, in particular of private consumption and construction. At the same time the rise in prices remains very rapid and the current account deficit balance is still at a very high level.

*Exports* have continued to be a stimulant to the economy. Their value for the third quarter was 30% higher than in the same quarter last year. This value increase however conceals differing trends as between industrial and agricultural exports. A substantial part of the increase in value 43% of external sales of industrial products is due to the rapid rise in export prices. Conversely the growth of 11% in the value of agricultural exports in the third quarter as against that in 1973 represents a more rapid increase in volume when account is taken of the fall in cattle prices. However, it should be noted that some of the agricultural exports represent the movement of "intervention" beef into storage abroad.

The slowdown in the growth of domestic demand, apparent since the beginning of the year,

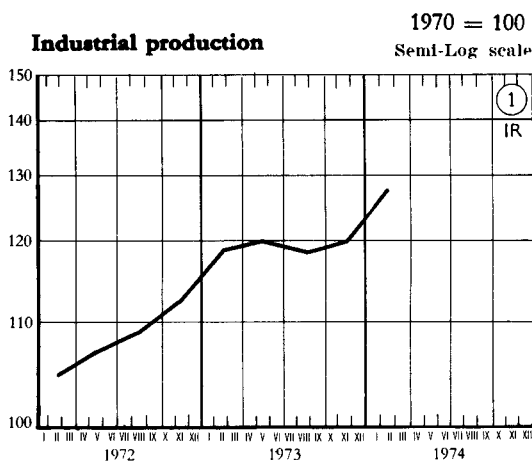
has continued during the summer months. On the basis of the most recent results of CII/ESRI surveys, carried out on behalf of the EEC, *investment* has slowed down substantially. In addition, order books of industry have fallen progressively since the spring and imports of capital goods have, in recent months, not grown as rapidly as previously. The construction sector which had in the early months of the year been buoyant, has more recently slowed down, particularly in respect of private residential construction. Cement sales have declined and new housing starts decreased by 15% on a quarter to quarter basis in the second three months of the year. However, the development of local authority construction was more satisfactory; notably due to the support measures taken at the beginning of the year and strengthened in July.

After a certain moderation observed in the first quarter, public investment has since then grown rapidly under the expansionary effects of the new budget.

The value of private *consumption* has been sluggish in recent months. When account is taken of certain exceptional factors (strikes in transport and distribution) this moderation of consumer expenditure is due principally to the fall in agricultural incomes and the deterioration of the employment position. In volume, retail sales have fallen on a quarter to quarter basis

in the second quarter ( $-4\%$ ) and more recent figures indicate an even more marked recession. New car registrations which declined in the first few months of the year have more recently increased again, the rise being particularly pronounced for smaller cars. However, the level of registrations is still below that of last year. Due to the acceleration of wages and salaries, public expenditure on goods and services has risen more rapidly than previously.

Because of the less buoyant trend in demand, the growth of industrial production has weakened considerably, as is shown in the most recent industrial surveys. The sectors most seriously affected by the slowdown are paper and printing, apparel, textiles and furniture. Agricultural production has only increased marginally. In



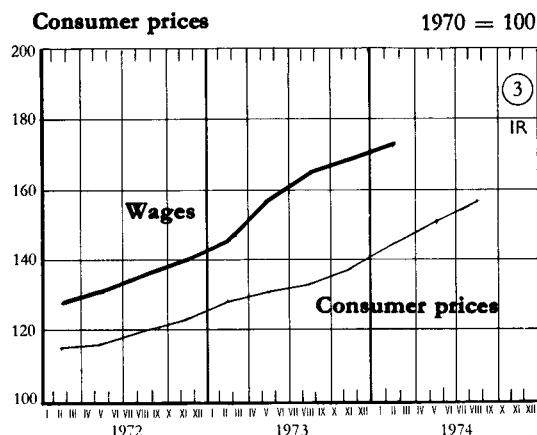
particular, cattle output recently seems to have remained stagnant, judging by the number of animals under one year old in the June census. Revenue from tourism has only risen slightly and for the first nine months of the year the number of visitors registered declined by  $0.6\%$  on the previous year, despite a sizeable growth in the number of tourists from the continental Community countries.

Recent months have seen a rapid deterioration in the employment position. The number of registered unemployed corrected for seasonal variation increased markedly since May; at the end of October it had risen to 76,200 which represents  $7.2\%$  of those at work; as against  $6.2\%$  in the same month last year. The sectors



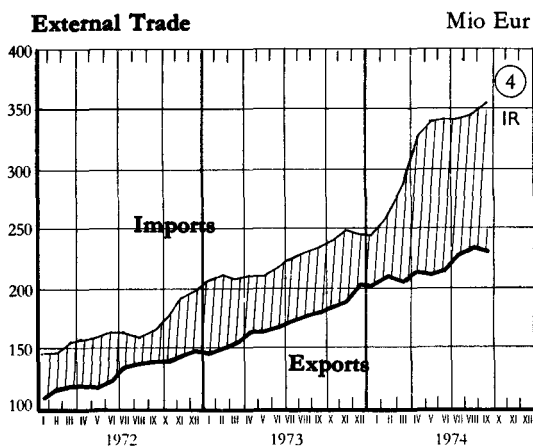
most affected have been apparel and construction as well as the automobile and distributive trades.

The rise in prices remains rapid despite some slight tendency towards a deceleration in the third quarter. In mid-August the consumer



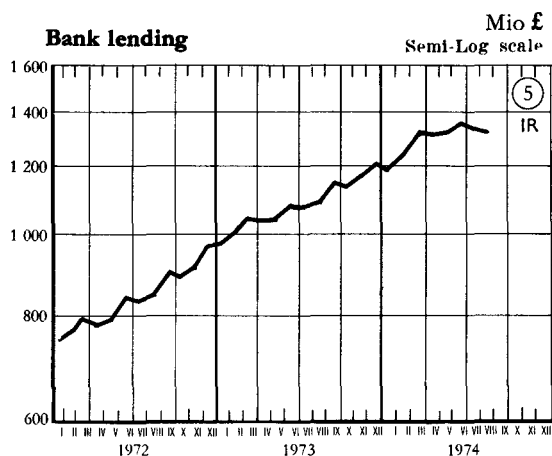
price index was  $17.9\%$  above that of the previous year. If fuel and light are excluded the increase was  $14.7\%$ .

After a rapid growth in the opening months of the year, imports have more recently shown a more stabilized development. When account is taken of the persistent rise in import prices some reduction may have occurred recently in terms of volume. The most important slowdown can be seen in imports of materials for further production both for the agricultural and the industrial sectors. Despite this slower progress of imports, the trade deficit remains high and has reached an average monthly level of nearly £ 50 million in the last few months. Since the services surplus has only increased



marginally the current balance is still at a high level. External reserves, however, have increased in recent months as a result of large borrowing abroad by the Government and without doubt also due to the high level of investment capital inflows.

Due to the tightening of monetary policy by the Central Bank, the growth of *bank lending* to the private sector has slowed down over the sum-



mer. The increase in the money supply (M3) remains above 20%.

*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
Exports <sup>3</sup>	773	+ 8.4	+ 31.4	+ 9½	+ 28	+ 6½
Gross fixed asset formation	486	+ 12.9	+ 27.6	+ 2½	+ 22	+ 1½
Public current expenditure on goods and services	352	+ 7.4	+ 20.7	+ 4½	+ 22	+ 1
Private consumers' expenditure	1,441	+ 6.3	+ 18.4	+ ½	+ 18	+ 2
Gross domestic product	2,208	+ 4.8	+ 20.0	+ 2	+ 9	+ 2
Imports <sup>3</sup>	895	+ 18.4	+ 34.2	+ 6	+ 46½	+ 5

<sup>1</sup> "Review of 1973 and Outlook for 1974", Department of Finance. Revised trade volume figures for 1973.

<sup>2</sup> Estimates.

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

## 2. Outlook

The present slowdown of economic activity is likely to continue into the opening months of 1975 and exist side by side with a high rate of inflation and a large deficit on the current account of the balance of payments.

Despite the uncertainties which still characterize assumptions on the international environment for the coming months, *exports* should continue at a high level. Firstly, sales to the United Kingdom, which still represent over 50% of total Irish exports, should grow more rapidly on account of the strengthening of internal demand which may result from the recent budget. Secondly, exports of agricultural produce in value will benefit from the increases in prices decided on within the Community.

Internal demand is likely only to make slow progress. *Investment* will without doubt be progressively affected by the less favourable outlook for sales on the home market. In addition, the expansion of foreign investment will depend on a strengthening of the world conjunctural situation. Finally, in the absence of specific measures to boost construction, the slowdown in this sector will continue.

Private *consumption* should pick up a little in the coming months. The full effect of the budgetary measures of last May which included in particular increases in social welfare benefits from July and tax concessions from August should be reflected in a slightly more rapid growth of household expenditure. However, the posture of consumers will continue to be influenced by the deterioration in the employment situation and the rapid rise in prices will affect the volume of consumption.

On account of this slow growth of demand, *production* should only grow modestly except for those subsidiaries of foreign industries orientated towards export markets. Despite higher prices, agricultural production is likely to decline somewhat particularly because of the already high level of cattle stocks and the high cost of farm inputs. Industrial employment should continue to grow but at a slower rate than that needed to absorb the outflow from the agricultural sector. As a result, unemployment will no doubt continue to increase.

The slight recovery in private consumption should not have any marked effect on the growth in the value of *imports* which will remain slow. Thus, and when account is taken of the improvement in the terms of trade brought about by the introduction of the "green pound" the trade deficit should be reduced.

Despite the upward pressure brought about by the rise in *prices* of agricultural products the rate of price increase could moderate a little. In these circumstances the most immediate problem for the Irish authorities will be to lighten the strong upward push of costs. In this regard, the salary negotiations which result from the forthcoming renewal of the National Pay Agreement will play a vital role. In so far as moderation in the growth of salaries comes about, and if it is within a sufficiently rapid time scale, the room for manoeuvre of the authorities to sustain employment levels and to improve the economic structure will be greatly increased.

### Major economic policy measures and decisions

May 1974:

— The Minister for Finance announced amendments to his proposals for capital gains and wealth taxes. The proposed level of capital gains tax is being cut from 35% to 26% and the wealth tax to 1% from a previous range of 1.5% to 2.5%. Also principal private residences are to be exempted while the general exemption level for wealth tax is increased from £ 60,000 to £ 100,000.

— The Minister for Industry and Commerce accepted recommendations by the National Prices Commission that a number of goods and services produced by small firms should be partially exempted from price control. Price increases on a wide variety of goods were also approved.

June:

— The Minister for Finance announced the raising of a loan of 200 million European units of account at 9.8% on the European capital market and on 12 June that a credit facility of £ 82 million provided by a consortium of thir-



teen banks had been arranged to supplement domestic resources in financing the capital budget.

— The Central Bank increased the primary liquidity ratio of the North American, Continental and merchant banks operating in Ireland from 10% to 13%.

— The Associated Banks lowered their lending rates by 0.75 of a % point. In addition, interest rates on deposits of over £ 5,000 were reduced by 1.5 of a % point.

#### July:

— The Government signed an agreement in principle for it to become 49% owners in Bula Ltd., which owns an important part of the zinc and lead ore reserves in Ireland.

— The Minister for Finance announced that a loan of £ 5 million would be made by the banks to the building societies.

— The Government provided an additional £ 9 million for Local Authority house purchase loans for the period April-December 1974. The purpose of this extra provision was to assist the private housing sector.

#### August:

— The Minister for Industry and Commerce accepted the recommendation of the National Prices Commission for an increase in the price of milk.

— It was announced that the maximum amount of loans for new houses which may be approved

by building societies has been increased from £ 7,500 to £ 8,500.

#### September:

— The National Prices Commission approved increases in more than a hundred consumer items. In addition, the Minister for Industry and Commerce accepted a recommendation that restaurants and hotels should be able to increase their charges without prior approval from the Department.

— The Agricultural Ministers of the EEC agreed on a farm package deal which includes a 5% increase in farm prices and an 11.4% devaluation of the Irish Green Pound vis-à-vis the European unit of account.

— Two loans totalling £ 12 million were made by the European Investment Bank for modernising the Irish telephone service and for loans to small and medium-sized agricultural ventures sponsored by the Agricultural Credit Corporation.

#### October:

— Postage charges were raised by 40%, as well as licence fees for television receivers.

— The Minister for Local Government announced that building societies were being allowed to increase their loan limit from £ 8,500 to £ 9,000. The Government also decided that the special temporary interest subsidy on building societies shares and deposits would continue until 31 December.

**Ireland**

**TABLE 1 : Key indicators**

	1969	1970	1971	1972	1973	1973
	% change in volume on preceding year					Indices 1970 = 100
Gross domestic product	+ 6.0	+ 2.7	+ 3.6	+ 3.9	+ 4.8	112.8
Industrial production	+ 7.1	+ 4.2	+ 4.2	+ 4.3	+ 10.0	119.6
Total imports	+ 13.5	+ 2.5	+ 4.1	+ 7.7	+ 18.4	132.7
Private consumers' expenditure	+ 5.4	+ 2.1	+ 2.1	+ 5.4	+ 6.3	114.3
Public current expenditure on goods and services	+ 6.9	+ 6.3	+ 11.2	+ 10.4	+ 7.4	131.8
Gross fixed asset formation	+ 25.3	- 0.9	+ 2.7	+ 6.3	+ 12.9	123.2
Total exports	+ 4.7	+ 4.7	+ 4.9	+ 2.0	+ 8.4	115.9
Gross domestic product per head of population	+ 4.3	+ 1.8	+ 4.1	+ 3.9	+ 3.5	112.0
Gross domestic product per person in employment	+ 4.4	+ 3.8	+ 5.1	+ 6.1	+ 4.2	116.2
	% change in value on preceding year					
Gross income per employee	+ 12.2	+ 14.0	+ 15.0	+ 15.2	+ 18.9	157.4

**TABLE 2 : Indicators for internal and external equilibrium**

	1969	1970	1971	1972	1973
Balance exports less imports					
in millions Eur	- 308.2	- 308.9	- 307.7	- 292.8	- 444.0
as percentage of GDP	- 8.8	- 7.9	- 6.9	- 5.5	- 7.0
Unemployment rate	6.4	7.2	7.2	8.1	7.2
prices to private consumers (% change on preceding year)	+ 7.0	+ 8.4	+ 9.1	+ 8.7	+ 11.4

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1963 = 100	Million Eur	% of totals
	1969	1970	1971	1972	1973			
<b>Visible exports</b>								
Total	11.1	15.5	15.4	20.0	34.4	443.4	2 086	100.0
Intra-EEC	9.7	15.8	16.0	21.3	31.0	423.0	1 585	76.0
Extra-EEC	16.2	14.5	13.7	15.9	46.5	523.9	501	24.0
Exports of food, beverages and tobacco	4.0	13.1	21.6	15.1	27.8	296.4	902	43.2
Exports of raw materials, fuel and power	42.8	9.2	- 5.3	14.4	33.4	414.6	144	6.9
Imports of semi-finished and finished industrial goods and miscellaneous goods	12.1	18.8	14.3	26.6	40.8	808.6	1 040	49.9
<b>Visible imports</b>								
Total	18.9	10.3	11.6	11.6	35.1	371.0	2 732	100.0
Intra-EEC	20.1	13.7	8.6	14.5	39.8	395.8	1 958	71.7
Extra-EEC	16.4	3.2	18.2	5.6	24.6	320.2	774	28.3
Imports of food, beverages and tobacco	2.3	7.3	4.1	19.5	26.0	233.0	346	12.7
Imports of raw materials, fuel and power	7.2	12.8	16.8	- 0.4	42.6	298.7	385	14.1
Exports of semi-finished and finished industrial goods and miscellaneous goods	25.4	10.3	11.9	12.7	35.4	434.4	2 001	73.2

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<b>Industrial production (1970 = 100)</b>	1972		106			106			110			114	
	1973		120			119			119			121	
	1974		128			—			—			—	
<b>Unemployed (1 000)</b>	1972	70.3	70.0	69.7	72.1	70.9	72.4	72.7	73.6	73.0	71.6	70.3	72.0
	1973	69.7	70.0	65.9	66.6	65.3	65.3	66.4	67.1	66.0	65.2	64.2	66.5
	1974	67.3	67.5	64.9	66.4	67.2	67.7	69.5	72.1	75.0	76.2		
<b>Construction : permits for residential construction (1 000)</b>	1972		5.48			6.70			6.58			6.44	
	1973		13.13			4.24			6.43			6.05	
	1974		7.48			6.80			—			—	
<b>Private consumers' expenditure (1963 = 100)</b>	1972	188	192	204	192	201	203	199	202	206	225	206	208
	1973	225	238	232	230	240	242	230	253	235	241	247	241
	1974	254	274	259	277	267							
<b>Consumer prices (1963 = 100)</b>	1972		166.7			169.2			173.9			176.4	
	1973		183.4			189.0			193.6			198.6	
	1974		208.2			219.6			228.3			—	
<b>Visible imports (million Eur)</b>	1972	143	153	163	153	156	172	150	147	198	187	187	224
	1973	202	206	209	213	205	225	239	230	237	257	247	234
	1974	253	288	331	360	330	338	358	343	355			
<b>Visible exports (million Eur)</b>	1972	100	120	120	105	118	136	138	128	142	139	150	153
	1973	133	161	165	158	165	172	174	178	178	194	190	223
	1974	191	216	204	221	205	224	252	222	211			
<b>Balance of trade (million Eur)</b>	1972	- 43	- 33	- 43	- 48	- 38	- 36	- 12	- 19	- 56	- 48	- 37	- 71
	1973	- 69	- 45	- 44	- 55	- 40	- 53	- 65	- 52	- 59	- 63	- 57	- 11
	1974	- 62	- 72	- 127	- 139	- 125	- 114	- 106	- 121	- 144			
<b>Official gold and foreign exchange reserves (million Eur)</b>	1972	966	956	979	989	972	957	941	922	907	927	972	1 037
	1973	1 004	980	971	975	978	959	978	1 012	1 061	1 056	1 061	1 045
	1974	1 021	971	1 032	977	1 000	957	1 067	1 200	1 124			
<b>Money supply (million £)</b>	1972	418.0	412.1	419.7	430.4	428.3	447.5	446.0	451.8	476.9	469.7	485.9	499.2
	1973	492.7	473.5	513.0	482.4	481.6	503.9	500.4	507.1	531.9	520.2	525.7	534.5
	1974	520.9	500.2	533.0	510.7	503.2	512.4	508.4	515.1				

## **Ireland**

### **NOTES TO GRAPHS AND TABLES**

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

#### *Graph 1*

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

#### *Graph 2*

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

#### *Graph 3*

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

#### *Graph 4*

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

#### *Graph 5*

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

#### *Table 1*

GDP at market prices : NIEA; National income and expenditure accounts 1972, "Review of 1973 and Outlook for 1974", Department of Finance. Revised trade volume figures for 1973.

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

Total exports and imports : goods and services; NIEA.

Gross income per employee: Irish Statistical Bulletin (ISB); earnings and employment in total transportable goods industries.

#### *Table 2*

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

Unemployment rate: ISB; Percentage of insured persons on the live register.

Price index: ISB; Consumer price index.

#### *Table 3*

Data from 1968 to 1971 from "External Trade Statistics 1971"; 1972 and 1973 from "Trade Statistics of Ireland"; 1963 from Statistical Abstract.

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: Mining and manufacturing industry; seasonally adjusted.

Unemployment: Number of registered unemployed; adjusted for seasonal variations, SOEC.

Construction: Central Bank; Total of new dwellings begun or authorised; not seasonally adjusted.

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

Consumer prices: ISB; Consumer price index; not seasonally adjusted.

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

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

Official Gold and Foreign Exchange Reserves: CB; Official External Reserves, Monetary Authorities' reserves of gold and convertible currency, holdings of special drawing rights and reserve position in the IMF.

Money Supply: CB; Currency and current accounts (adjusted).

## E. Italy

*With domestic demand falling off, the underlying trend of economic activity slackened around the middle of the year. The accompanying slowdown in the growth of imports and the brisk expansion of exports brought the first improvement in the balance of payments for quite some time: Prices continued to soar.*

*In the period up to the end of the year, and during the early months of 1975, the trend of production and employment will probably be much weaker than it was up to mid-1974. There is hope that, in the early months of next year, there will appear the first signs of some slowing down in the rate of price increases.*

### 1. Recent developments

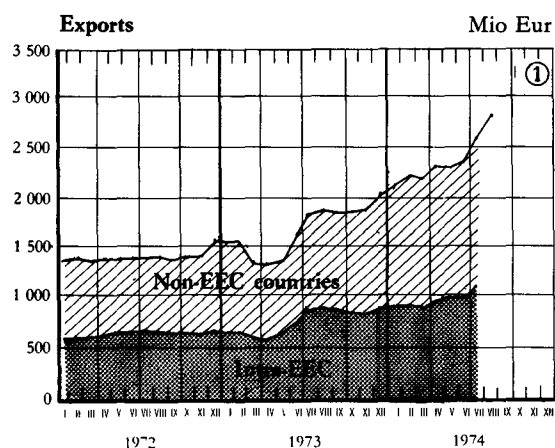
Following the very vigorous expansion of economic activity during the first half of the year, the economic climate became noticeably cooler in the third quarter. While the rapid upsurge of prices continued unabated, there was the first evidence for a long time of external disequilibrium becoming less marked.

On the demand side, *exports* expanded vigorously in terms of volume and particularly in value; the underlying rate may even have accelerated compared with the second quarter.

This applied in any case to visible exports, whose value in the third quarter was 54½% up on a year earlier. Statistics produced by the foreign exchange office suggest that foreign exchange receipts from exports of services rose again appreciably.

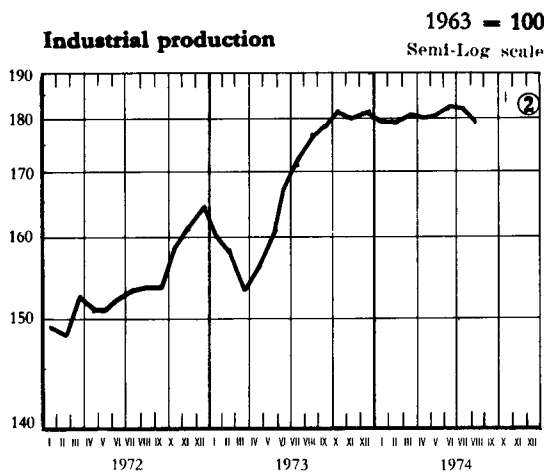
Judging from the indirect and for the most part qualitative indicators available so far, domestic demand, on the other hand, tended to be rather sluggish. This was particularly true of *investment*. Both the monthly EEC business surveys conducted by ISCO and the half-yearly "Forum" survey carried out in July by "Mondo Economico" point to a fall-off in demand for plant and machinery. Building investment also tended to be slack. The trends in and the outlook for overall demand, together with the restrictive monetary and credit policy implemented by the monetary authorities, have probably led to a fall in stockbuilding, at least in volume terms.

Although incomes are still rising briskly, the growth of private *consumers' expenditure* seems to have slowed down. This impression is, however, based mainly on the results of the surveys referred to above, as no other indicators are available. Following a fairly long period during which private households brought for-



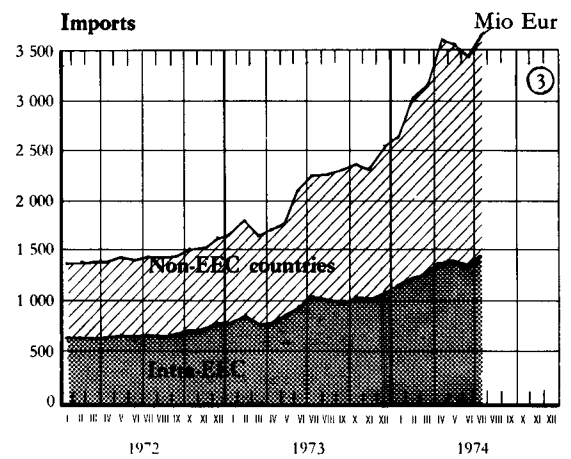
ward purchases to beat rising prices, demand for consumer durables may now have lost momentum. Furthermore, the rapid rise in the price of petrol checked expenditure on private transport, without the savings achieved being offset by increased expenditure on other consumer goods. Finally, the greater uncertainty surrounding the general economic outlook could have led to a decline in the propensity to consume.

The ISTAT indices—seasonally adjusted by ISCO—suggest that industrial production in the third quarter was some 5½% down on the second quarter; yet in the first quarter it had risen over 4% and in the second by 1½%. The unadjusted indices show it to have been 1.6% higher than in the third quarter 1973; the corresponding growth rate for the first nine months of 1974 was 8.7%. However, the underlying decline in industrial production in



the third quarter was probably less marked than indicated by the seasonally adjusted indices, as the same period saw longer holiday shutdowns as a result of new collective agreements. Production was particularly sluggish in the textile and metal-working industries.

The underlying increase in imports, in volume terms, was also fairly small. Nevertheless, in the third quarter *visible imports* were no less than 67% up on a year earlier in terms of value, but this rate was mainly a reflection of the upward thrust of prices due to the higher prices of oil and other raw materials.



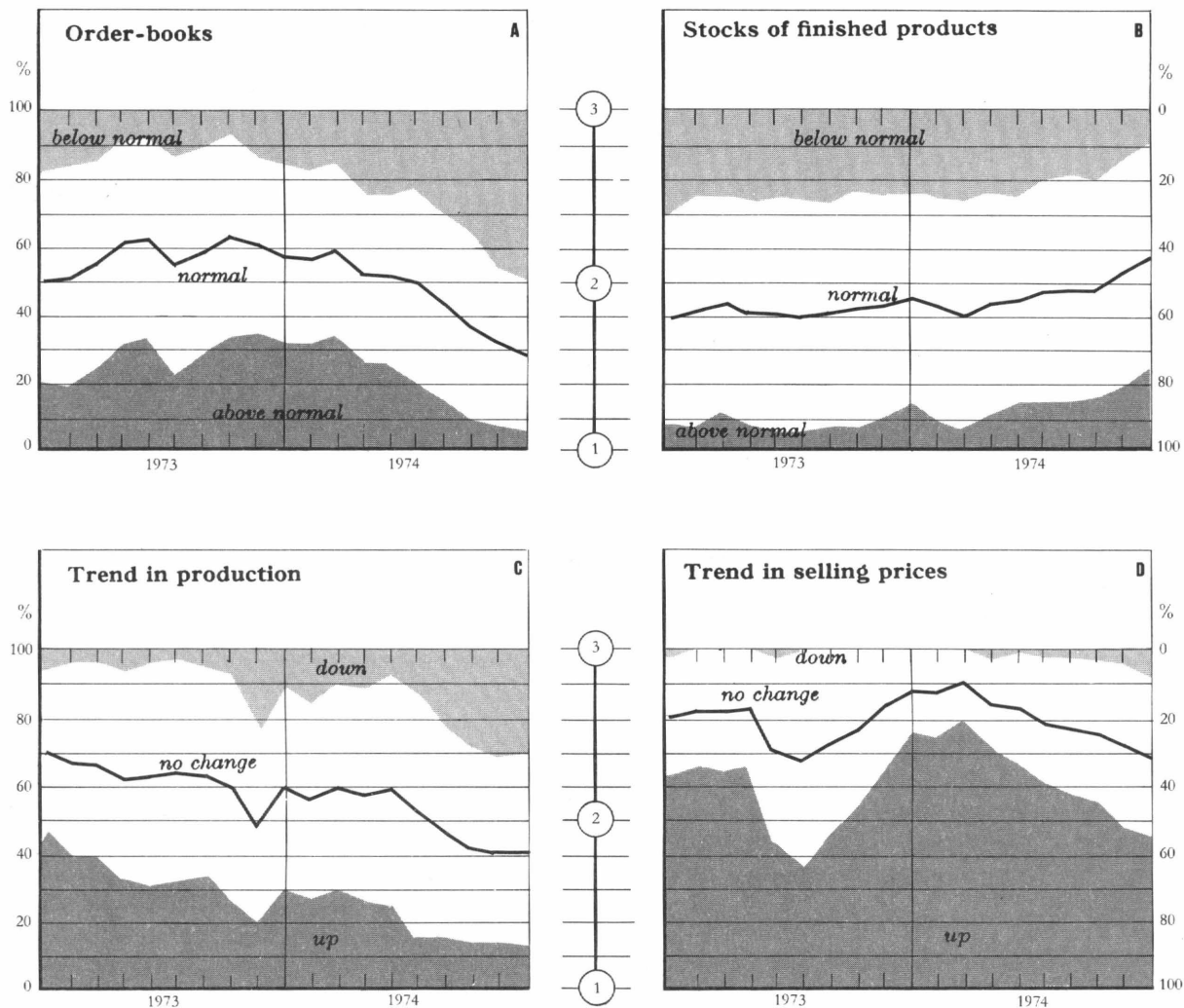
The sluggish trend of production has had only a limited effect on the situation of the *labour market*. The number of wage and salary earners, adjusted for seasonal variations, again increased slightly by 0.4% between the second and third quarters, and the unadjusted figure was 1.9% up on a year earlier. At the same



time, however, average working hours per capita tended to fall owing to the reduction in overtime and the introduction of short-time working by some motor manufacturers. Contrary to the normal seasonal pattern, the unemployment rate rose a little in July (to 2.8%, from 2.5% in April; basis: ISTAT sample surveys).

The sharp upsurge of *prices* continued in the third quarter and became even stronger at retail level. The rise in consumer prices reflected the effects of the measures taken in July to dampen domestic economic activity, which included in

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

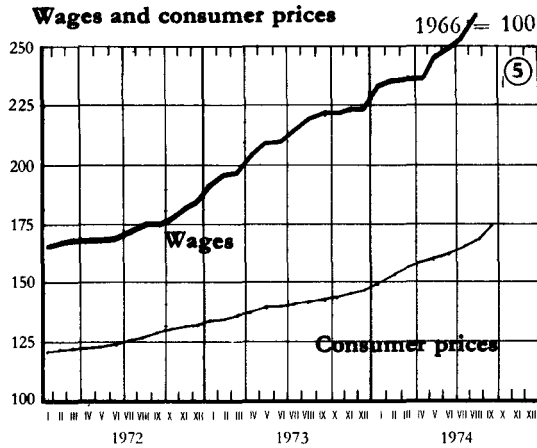
- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".





particular an increase in indirect taxation. The lifting of the partial price freeze imposed in the summer of 1973 also boosted the tendency for prices to rise. Furthermore, the exorbitant increases in wholesale prices which have been

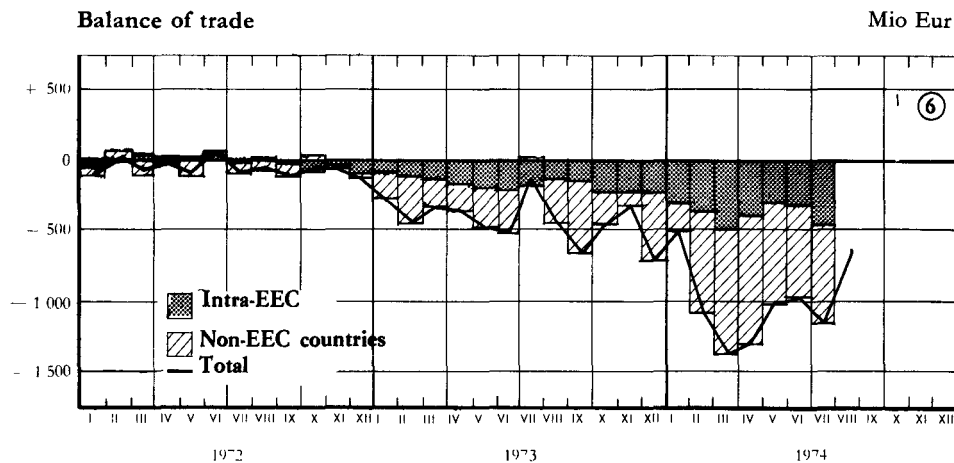
tember, consumer prices were 23.0% and wholesale prices 43.7% higher than a year earlier.



As a result of the trends in visible exports and imports mentioned above, the *trade deficit* tended to narrow in the third quarter. The oil deficit is still growing, but the non-oil trade account in the third quarter closed with a much smaller deficit than previously (Lit. 215,000 million). The seasonal improvement in the balance of payments on current account was therefore particularly marked. Longer-term capital transactions with other countries also showed a satisfactory trend in the third quarter. According to the foreign exchange statistics prepared by the UIC, the transactions produced a surplus of Lit. 285,000 million, although this time, unlike the preceding quarters, no compensatory inflows of capital were recorded<sup>1</sup>. In addition there was a considerable inflow of short-term capital in the form of leads and lags.

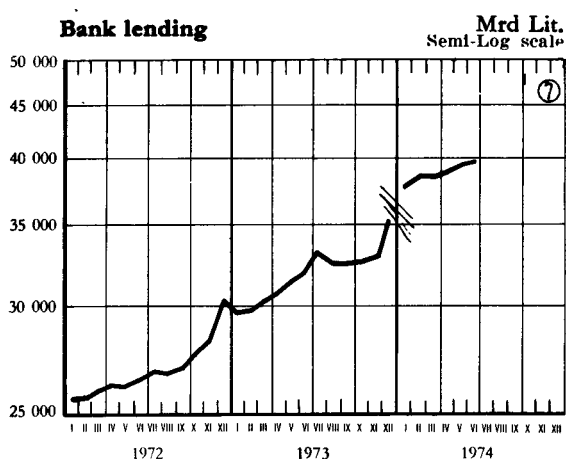
recorded since last year have now begun to feed through increasingly to retail prices. In Sep-

<sup>1</sup> Borrowing by state-controlled enterprises on the international markets.



The third quarter overall balance of payments closed with a surplus of Lit. 203,000 million. Official net gold and foreign exchange reserves were up by more than Lit. 1,700,000 million, with most of the increase reflecting the foreign exchange loan granted by the German Bundesbank in September (\$ 2,000 million, or Lit. 1,321,000 million).

Despite the improvement in foreign transactions, *bank liquidity* contracted appreciably in the third quarter. This was because the liquidity-raising effects of the Treasury's extremely high cash deficit were gradually weakening, and because a slow-down in the demand for credit caused many commercial banks to repay central bank loans.



With the general public reluctant to invest, supply exceeded demand on the *securities market*, and effective yields tended further upwards. In September, bond yields, at about 10½%, were more than half a point higher than in June. During the same period, the *interest rate* on interbank deposits fell slightly, but still stood above 17½% in September.

*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 Lit '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports <sup>3</sup>	15,167	+ 5.3	+ 18.9	+ 6½	+ 40½	+ 8
Gross fixed asset formation	13,396	+ 9.9	+ 27.2	+ 6½	+ 34½	- 3½
Public current expenditure on goods and services	10,162	+ 3.3	+ 15.8	+ 2½	+ 18½	+ 2
Private consumers' expenditure	43,914	+ 6.2	+ 17.8	+ 3	+ 21½	+ 1½
Gross national product	68,880	+ 5.9	+ 17.0	+ 4½	+ 20	+ ½
Imports <sup>3</sup>	14,239	+ 11.9	+ 37.9	+ ½	+ 58	+ 1

<sup>1</sup> Relazione generale sulla situazione economica del Paese (1973).

<sup>2</sup> Estimates.

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

## 2. Outlook

During the remainder of this year and in the early months of 1975, production will probably show a less favourable trend than during the first half of 1974. Domestic demand may slacken for a time, held back by the restrictive economic policy which is indispensable in view of the inflationary tendencies and the difficulty of financing the large balance of payments deficit. Assuming that world economic activity will recover to a certain extent, and provided that there are no disruptive labour disputes, a significant expansion of exports can be expected, however, so that the reduction of the external disequilibrium which began in mid-1974 will probably continue.

There are still very sound reasons for expecting a rapid expansion of *exports*; these include the recovery in world economic activity just mentioned; the favourable volume effects of the depreciation of the lira since February 1973; and a certain change in the sales policies of firms which, given the slackening of business at home, will no doubt make increased efforts to penetrate foreign markets. Experience has shown that the latter factor in particular justifies some optimism about the growth of exports.

On the domestic front, the decline in the *propensity to invest* could continue. Although the strong upsurge in costs resulting from the enormous jump in the prices of raw materials and from rising wages exerts pressure to invest in new equipment and rationalization, this pressure may be overcompensated temporarily by a degree of capacity utilization that seems to be tending downwards again, by the restrictive credit policy and by psychological factors. Investment in plant and machinery and in industrial and commercial building may therefore be slack. The trend of investment in residential construction will probably also be dampened by the continuing sharp rise in building costs. Stockbuilding is likely to remain weak.

Private *consumers' expenditure* will probably expand at a slower pace under the combined impact of a slackening in the growth of disposable incomes and a decline in the propensity to consume. The tendency towards a certain

lull in demand following the anticipatory purchases referred to in section 1 could continue for a while. Furthermore, uncertain employment prospects may prompt private consumers to exercise of certain amount of restraint when spending money. The rapid upward movement of prices can also be expected to have a braking effect on the expansion of real consumption.

On the basis of these assumptions, and according to preliminary and naturally very uncertain forecasts of the trend of economic activity later next year, the real *gross national product* and the volume of *imports* of goods and services will probably grow only moderately between 1974 and 1975.

The trend of *employment* is likely to remain slack, at least during the first half of 1975, particularly as regards average working hours per capita.

With demand showing a more moderated trend, the rate of increase in the *price level* will probably be down in 1975. Even so the upsurge will still be very strong owing to the pressure of costs.

The *balance of payments* on current account should improve gradually, although it is certain to remain in very large deficit as a result of the higher raw material prices.

Those responsible for *short-term economic policy* are faced with the difficult task of promoting the improvement in the balance of payments, by strictly implementing the stabilization programme decided on last summer, continuing the cautious credit policy and, above all, curbing the growth of public authority expenditure, while at the same time keeping the fall-off in economic activity within reasonable limits. As the successful accomplishment of this task, which would be made easier if the world economic trend picked up, hinges notably on the behaviour of both sides of industry, a joint effort by the latter and the Government aimed at restoring general economic equilibrium as soon as possible appears imperative. Such a concerted effort would seem particularly important in view of the major wage negotiations due to be held in the autumn of 1975.

## Major economic policy measures

May 1974:

— Treasury bills worth Lit. 1,300,000 million were issued with new features: maturity reduced to three months; high yield (14.32% per annum).

June:

— The decree law on stock exchange reform was transformed into a law, after certain amendments had been made concerning a more accurate definition of the standards for the drawing up and publication of company balance sheets, a new definition of the supervisory function of the National Commission for Companies and the Stock Exchange, and the creation of a new type of security (savings shares). Such savings shares do not entitle the shareholder to a vote or to direct participation at general meetings, but have priority in the payment of dividends (5% of the nominal value of each share). The remaining dividends are to be distributed in such a way that total dividends on savings shares are 2% higher than dividends on normal shares.

— Following consultations in the Council of the European Communities, the Commission exempted imports of pigmeat (with effect from 24 June) and of calves and young cattle for fattening (with effect from 9 June) from the 50% cash deposit. The compulsory deposit was re-introduced in the second half of the month, but with a reduced rate and duration, for the latter category. The lira value of the unit of account used in intra-Community trade was increased from Lit. 712 to 801 (+ 12.5%) for pigmeat (with effect from 24 June) and sugar (with effect from 1 July). The new value is also to apply to trade in the other agricultural products with effect from a date yet to be fixed, (cf. Measures for October).

— The Inter-Ministerial Committee for Prices authorized an increase of approximately 13% in the prices of motor vehicles and tyres.

— The Inter-Ministerial Committee for Economic Programming authorized several projects for the construction of industrial plants in the Mezzogiorno. The relevant investment, amounting to some Lit. 300,000 million, is to be spread over 2½ to 5 years.

— The rent freeze was extended to 31 December 1974.

— Treasury bills worth Lit. 900,000 million were issued; maturity: one year, effective yield: 11.73% (cf. terms for the May issue).

July:

— With effect from 1 July, the price freeze introduced at the end of July 1973 for large trading and manufacturing firms (minimum annual turnover Lit. 10,000 million) was replaced by a very extensive system of supervision whereby the State may intervene, where necessary, by laying down maximum prices. In addition, the list of products whose prices are already controlled by the Inter-Ministerial Committee for Prices was extended, particularly by including all petroleum products, school books and galvanized tin.

— The Inter-Ministerial Committee for Prices decided to raise the prices of several products, including sugar (+39%), gas for domestic use (+18.2%) and light petroleum gas for road haulage (+14.4%).

— A number of measures to curb domestic demand were adopted, in the form of decrees-laws, in order to improve the balance of payments and to reduce the Treasury's deficit. These measures, which, with a few amendments, were converted into a law in August (see below), should, according to initial estimates by the appropriate ministries, increase revenue by approximately Lit. 3,200,000 million a year (Lit. 1,450,000 million in taxes, Lit. 1,130,000 million in increased public utility charges and Lit. 590,000 million in higher social insurance contributions). The measures can be summarized as follows: the advance income tax payment by self-employed persons must be made in November 1974 instead of being spread over 1974 and 1975; corporation tax was increased from 25 to 30%; increase in the basis for the assessment of tax on income from real property (+50% in the case of building and +100% in the case of land); the tax threshold for wage earners and pensioners with an annual income not exceeding Lit. 4 million was raised from Lit. 840,000 to Lit. 3.2 million (involving a tax revenue shortfall of some Lit. 300,000 million); payment by 31 December 1974, of a non-recurring special tax on property in towns, according to the number and type of rooms; selective introduction of non-recurring special taxes on motor vehicles, motor bicycles, pleasure

boats and aircraft. Increase in value added tax on luxury products (from 18 to 30%), beef and veal (from 6 to 18%), new residential buildings (from 3 to 6%); pleasure boats were brought into the value added tax system (minimum rate 12%, maximum rate 30%). Registration tax was raised from 5 to 8%, stamp duty from Lit. 500 to 700. The prices of premium grade and regular grade petrol were raised again, by 15.4% and 16.2% respectively (but coupons for cheaper petrol were reintroduced for foreign tourists). The regions were required to raise their charges for inter-city transport by at least 30%. Selective increases in electricity charges in order to reduce the ENEL's (Ente Nazionale Energia Elettrica) deficit. Exemptions and the flat-rate system for value added tax were abolished in order to combat tax evasion and to guarantee a fairer system of taxation; value added tax was extended to cover all services rendered by self-employed persons; the period allowed for drawing up invoices was shortened to one week (instead of thirty days); introduction of counter-checks and sample checks on taxpayers; extension of the Treasury's tax assessment period (31 December 1975 instead of 31 December 1974); increase to 10% in the interest charged for delayed tax payments; recruitment of 12,000 new officials to the tax administration. Plans to improve the financial position of the hospitals, not only by increasing the social insurance contributions (+1.5% for employers, +0.15% for employees), but also by recourse to the capital market (Lit. 2,700,000 million) and by cutting back health insurance fund expenditure through rationalization.

— The monetary authorities decided to extend, from June to December of this year, the measure fixed on 28 June 1973 by which commercial banks are obliged to make net supplementary purchases of fixed income securities. The banks' portfolios of such securities, with the exclusion of property bonds (« cartelle fondiaria »), should at 31 December 1974, be above the level of 30 June by a minimum amount of 3% of clients credits on current and savings accounts at the end of December 1973. However, the growth of these portfolios should not be above 50% of the rise in deposits occurring between the end of May and the end of November; the objective of this being to avoid further buying of securities by banks not experiencing a significant rise in their deposits.

— The monetary authorities further decided that the maximum net external indebtedness of banks should not exceed the level of 19 July 1974.

— To aid financing in the building sector, the monetary authorities authorized credit institutions to include property bonds (« cartelle fondiaria ») in their compulsory reserves, up to a maximum corresponding to 50% of the increase in these reserves.

— The price freeze applying to a number of widely used consumer products since July 1973 was lifted, but the prices of certain essential food products (especially milk, bread and sugar) are still controlled by the Inter-Ministerial Committee for Prices or by the provincial price committees (especially pasta, beef and veal and edible oils).

— On 31 July, the draft central government budget for 1975 (account of rights accrued and liabilities incurred) was presented. Revenue excluding proceeds from loans floated is up by 24% on the preliminary estimates in the draft budget for 1974 (against a rise of 10.1% in the 1974 budget); expenditure excluding redemption of debts is to grow by 16.8% (against 21.3% in 1974); the deficit comes to Lit. 6,064,000 million (against Lit. 6,246,000 million in 1974). Current expenditure is to rise by 16.3% (against 21.5%), implying a decline in its share of total expenditure. This decline represents a reversal of the upward trend recorded in preceding years. The central government expenditure, for 1975, to be financed initially outside the budget goes up from Lit. 1,231,000 million to Lit. 1,382,000 million, whereas a year earlier it declined slightly. With this expenditure, and including the further increase in the operating deficits of state-owned enterprises, the overall budget deficit amounts to no less than Lit. 8,755,000 million, despite numerous expenditure cuts and rapidly increasing revenue (Lit. 8,606,000 million in 1974).

August:

— The monetary authorities drew on IMF credits for the equivalent of \$ 624 million, partly against the "gold tranche" and partly (\$ 300 million) against the \$ 1,200 million standby credit granted to Italy towards the end of March.

— The Ministry of Foreign Trade published a decree exempting a number of agricultural products from the compulsory import deposit; these included butter, cereal flour, pasta, wines and horses. For other products, such as cattle and meat, the deposit was reduced to 25%. Furthermore, the limit for exemption from payment of the deposit was reduced from Lit. 1 million to Lit. 500,000 for products otherwise non-exempt.

— A Lit. 1,400,000 million issue of treasury bills was made, maturing in three months only and offering a high yield (15.32% a year). These bills are similar to the May issue, which they replace.

— The rent freeze regulations were extended until 30 June 1975, with certain amendments.

— The decree laws concerning a number of fiscal and parafiscal measures, issued by the Government on 6 July with a view to improving the balance of payments position and reducing the Treasury's deficit, were amended and converted into law. According to the latest calculations by the Italian authorities, these measures, including the effects of the amendments, should generate extra revenue totalling about Lit. 2,600,000 million a year (Lit. 1,100,000 million from taxes, Lit. 910,000 million from public utility charges and Lit. 590,000 million from

social insurance contributions). The principal amendments to the Government measures concerned: higher tax thresholds for wage and salary earners; heavier taxation of high personal incomes and non-ratification of the non-recurring tax on dwellings (this tax is the subject of a draft law to be approved shortly); in addition, small cars were exempted from the non-recurring tax on cars; the VAT rate on imports of live cattle was reduced from 18% to 6% and the tax rate on incomes of persons in the legal profession was increased from 25% to 35% (instead of 30%)—however, this increase will only be applicable until 31 December 1975. The decision to recruit an extra 12,000 civil servants for the Finance Ministry has been annulled.

#### October:

— With effect from 22 October, the obligation to make a deposit of 50% of the value of imports has been suspended in respect of imports of agricultural products, except for imports of coffee, tea, spices, sparkling wines, and drinks with a high alcoholic content. Also, the value of the unit of account for intra-Community trade in agricultural products was changed from Lit. 801 to Lit. 833. This new depreciation of the green lira entails a corresponding reduction in compensatory amounts.

TABLE 1: Key indicators

	1969	1970	1971	1972	1973	1973
	% change by volume on preceding year					Indices 1963=100
Gross national product	+ 5.7	+ 4.9	+ 1.6	+ 3.1	+ 5.9	158.0
Industrial production	+ 6.9	+ 6.2	- 0.5	+ 4.3	+ 8.0	170.0
Total imports	+ 21.6	+ 17.5	+ 1.7	+ 13.1	+ 11.9	218.8
Private consumers' expenditure	+ 6.1	+ 7.8	+ 2.8	+ 3.3	+ 6.2	208.6
Public current expenditure on goods and services	+ 3.1	+ 1.9	+ 5.2	+ 4.6	+ 3.3	143.7
Gross fixed asset formation	+ 8.0	+ 3.4	+ 3.2	+ 2.1	+ 15.2	135.7
Total exports	+ 13.6	+ 6.6	+ 6.2	+ 11.6	+ 5.3	281.4
Gross national product per head of population	+ 5.1	+ 4.2	+ 1.1	+ 2.4	+ 5.1	158.9
Gross national product per person in employment	+ 7.0	+ 4.7	+ 1.9	+ 5.3	+ 5.1	165.1
	% change by value on preceding year					
Gross income per employee	+ 7.6	+ 15.1	+ 13.7	+ 11.0	+ 17.7	279.8

TABLE 2: Indicators for internal and external equilibrium

	1969	1970	1971	1972	1973
Balance exports less imports					
in million Eur	+ 1 928	+ 582	+ 1 635	+ 1 471	- 2 540
as percentage of GNP	2.3	0.6	1.6	1.3	- 2.0
Unemployment rate	3.4	3.1	3.1	3.7	3.5
consumer prices (% change on preceding year)	+ 2.9	+ 5.3	+ 5.3	+ 5.9	+ 10.9





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

GNP at market prices.

Industrial production: value added by industry at factor cost.

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

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

*Table 2*

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

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

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

*Table 3*

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

*Table 4*

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

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

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

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

Consumer prices: unadjusted index.

Imports cif, exports fob, adjusted for seasonal variations.

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

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

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

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



## F. Netherlands

*Economic growth has slowed down distinctly since April and unemployment has shown a strong upward tendency. The first half of the year saw only a relatively slight fall in the surplus on the balance of payments on current account. Consumer prices have been climbing more rapidly.*

*In 1975 faster growth of domestic demand, partly as a result of the more expansionary economic policy, will probably result in a more vigorous increase in economic activity. The decline in employment should therefore gradually slow down. There is little hope of the upward movement of consumer prices slackening significantly in the near future.*

### 1. Recent developments

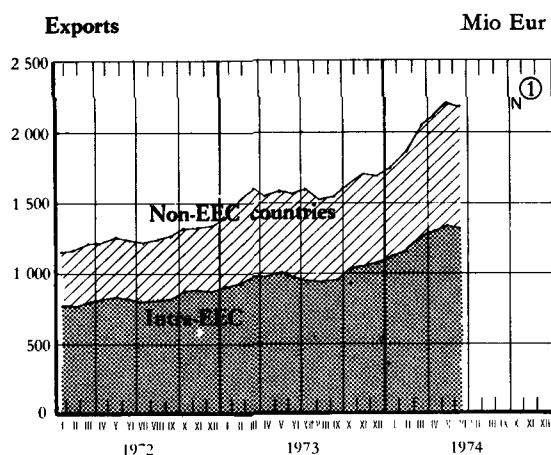
The principal features of the economic situation at the beginning of the autumn were relatively slow growth, a sharp increase in unemployment, an acceleration of the upward movement of domestic prices and a comparatively large surplus on the balance of payments on current account.

Apart from the fall in foreign sales of oil and oil products, exports of goods increased significantly up to and including the third quarter. The

value of total exports (excluding exports to the BLEU) in June-July showed a rise of 46.5% over a year earlier. The tendency for export prices to go up more slowly was not particularly marked at least until July. In June-July the average value of exports was 31% higher than a year earlier, and 21.5% higher if oil and oil products are disregarded.

Following a decline in the first quarter, the total volume of *gross fixed asset formation* stabilized, even though trends differed very considerably from sector to sector. While business investment in plant and machinery and in motor vehicles increased, building investment fell appreciably. Residential construction thus dropped further especially in the third quarter, and the slow upward tendency in the other branches of the building industry gave way to an appreciable decline in the second quarter.

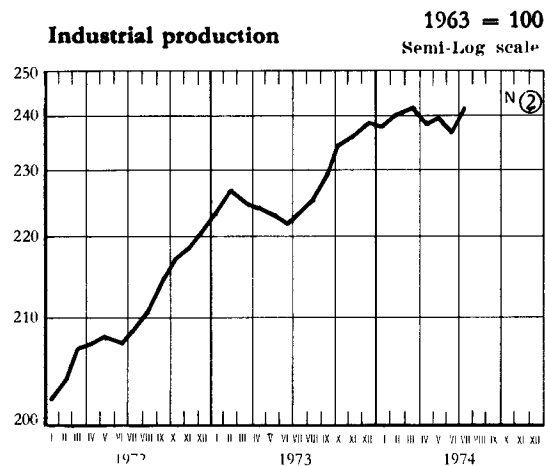
*Incomes* trends have shown a fairly uneven pattern this year. Thus, wage and salary incomes and transfer payments to the personal sector rose by 14.5% and 21% respectively. Agreed hourly wages at the end of September were 16.9% up on a year earlier. Entrepreneurial and property income, on the other



hand, rose by only 4.5%, with firms' profit margins on the domestic market squeezed sharply by the very restrictive prices policy. Higher taxes and social security contributions and the steep rise in prices meant that real personal disposable incomes grew relatively little.

Following a decline in the first quarter, private consumers' expenditure resumed a distinct upward trend. In June-July its value was 12% and its volume about 2.5% higher than a year earlier. Sales of passenger cars, which had dropped sharply after the onset of the oil crisis, expanded again appreciably.

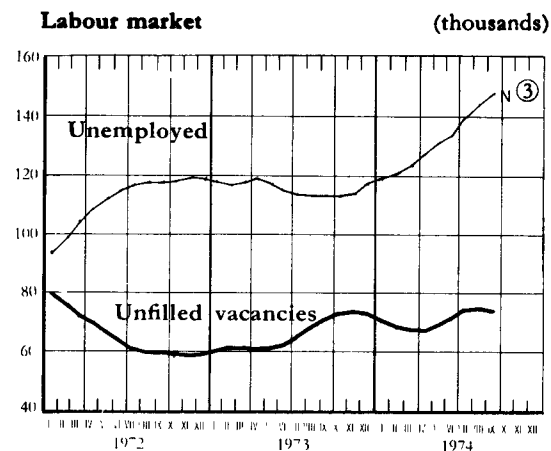
Industrial production, (seasonally adjusted), did not see any rise since the first quarter. Output in manufacturing even fell, and building activity



was distinctly slipping up to and including the third quarter. Real gross domestic product in 1974 as a whole is still likely to grow by 2½ to 3%.

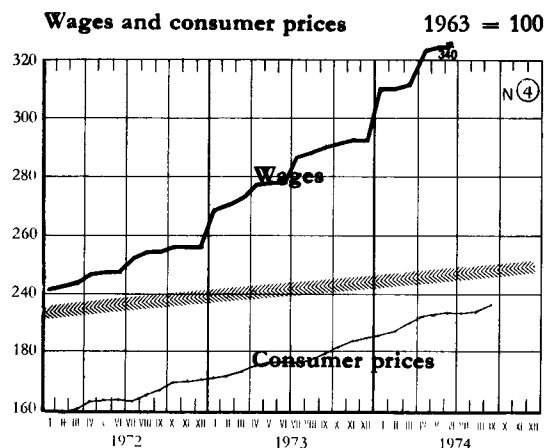
The situation on the labour market continued to deteriorate sharply. Employment in the construction sector fell appreciably, mainly as a result of the downturn in residential construction. The generally slow growth of production in manufacturing and the service industries also had an unfavourable influence on employment. In the ten months to the end of October the

number of unemployed rose by some 41,500, taking the unemployment rate to 3.4% of the labour force. Unemployment among the young rose particularly sharply. This was probably



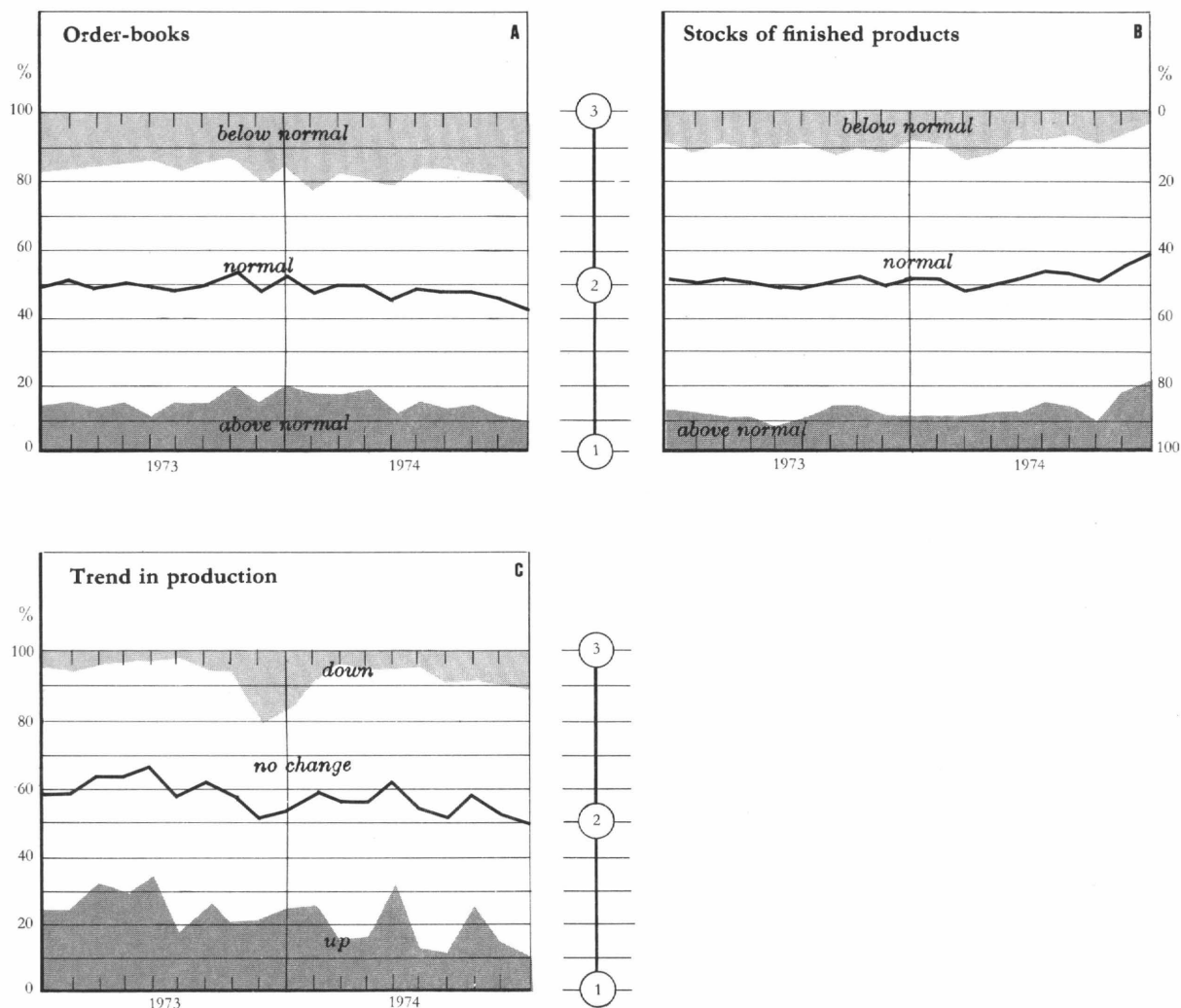
due in part to the introduction of a statutory minimum wage for employees under the age of twenty-three and to the extension of compulsory schooling to sixteen- and seventeen-year-old employees.

So far the upsurge of prices on the domestic market has shown no sign of slowing down. The wholesale price index for raw materials and semi-manufactures rose in July-August by a total of 3%. The increase for manufactures was smaller, however. The upward movement of



consumer prices has accelerated since June, in part probably as a result of the relaxation of the prices policy. In October the price index for

## BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

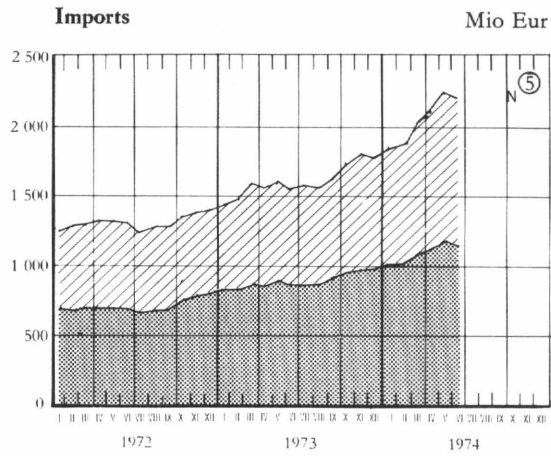
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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

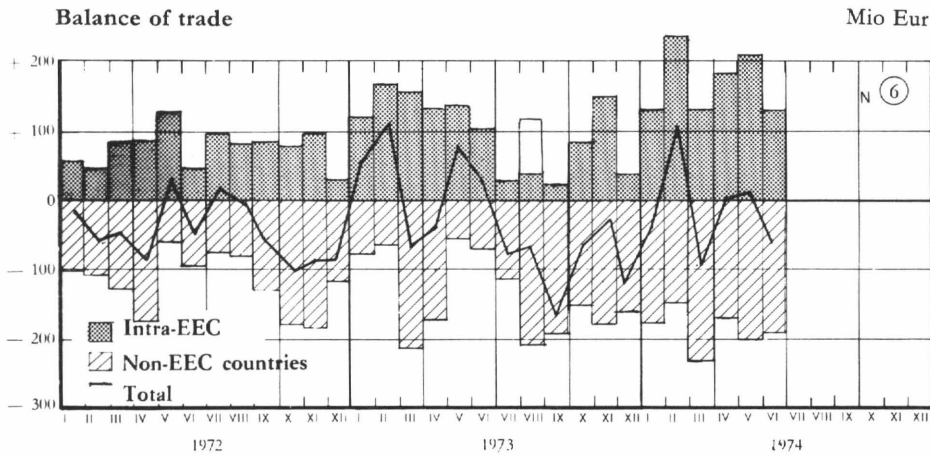


private consumption expenditure by wage and salary earners' households was some 10.7% up on a year earlier. Labour costs have also risen very steeply this year.

After expanding briskly in the first quarter, the volume of imports other than oil and oil products, rose only slowly up to July. If oil and oil products are included, the volume (excluding imports from the BLEU) in June-July, was some 3% higher than a year earlier. Since March the upward tendency of import prices has slowed down distinctly. In June-July, the approximate increase in the average value of total imports over a year earlier was 40.5% and if oil and oil products are excluded, 18%.



Despite an adverse swing of about 5½% in the terms of trade, the trade deficit, at some Fl.



2,000 million, increased only slightly in the first half of the year. The balance of payments on current account even showed a surplus of some Fl. 1,700 million compared to Fl. 2,000 million in the second half of 1973.

During the first eight months of the year there was a sharp increase of 19.5% in domestic liquidity (M2) mainly because of domestic liquidity creation, both by lending to the private sector and by the public authorities' cash transactions. However, the inflows of liquidity from abroad also remained substantial.



*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
Exports <sup>4</sup>	69.04	+ 12.1	+ 19.7	+ 4½	+ 31	+ 4½
Gross fixed asset formation	35.22	+ 6.3	+ 12.2	- 5	+ 6½	+ 2
Public current expenditure on goods and services	24.58	+ 0.7	+ 12.2	+ 3	+ 19	+ 3
Private consumers' expenditure	82.22	+ 2.1	+ 11.3	+ 3	+ 13½	+ 3
Gross national product	147.26	+ 4.0	+ 12.5	+ 2½	+ 12	+ 3
Imports <sup>4</sup>	65.30	+ 11.9	+ 20.4	- ½	+ 32½	+ 4

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

<sup>2</sup> Centraal Planbureau.

<sup>3</sup> Estimates.

<sup>4</sup> Goods and services.

## 2. Outlook

The world economic situation, the outcome of the current wage negotiations and orientation of the economic policy pursued and the investment propensity are major factors of uncertainty that make the future trend of the economy difficult to predict.

Given the assumptions made in this survey concerning the trading partners' imports and taking into account certain special factors (e.g. oil), exports of goods will continue to expand with the prices of exports of natural gas likely to rise considerably.

The growth of domestic expenditure will on balance probably speed up, especially in the field of *investment*. Thus the draft government budget for 1975 provides for a quite appreciable

increase in public authority investment. After the sharp drop in 1974, residential construction should expand again somewhat during 1975. Although the propensity to invest of enterprises is unlikely to improve much, business investment (excluding investment in residential construction) can be expected to grow somewhat as a result of the disappearance of some special factors in the transport equipment sector.

With the rise in wage and transfer incomes showing little if any slackening and the trend in the incomes of the self-employed much more favourable, the increase in personal disposable incomes will be greater than in 1974, especially in view of tax concessions and relatively slow growth of social security premiums. Although the savings ratio could increase again a little after declining in 1974, private *consumers' expenditure* is consequently likely to expand some-



what more than in 1974 in terms of both value and volume.

With the expansion of overall demand generally somewhat more vigorous, *production* may grow a little more rapidly. Building output should stabilize and may gradually tend upwards again.

There will probably be very little improvement in the situation on the *labour market* before mid-1975. While there are plans to increase the number of employed in the public service more sharply than in 1974 and while the numbers employed in building and construction could go up again, total employment will probably remain on a falling trend until mid-1975, held back by the generally relatively moderate growth of production and the lack of much improvement in the profitability of the enterprise sector. Unemployment may therefore rise further, although at a slower rate.

With the expansion of final demand and of stockbuilding speeding up, the volume of *imports* of goods will tend to grow more vigorously. There could be a further slowdown of the rise in import prices as a result of the relatively moderate expansion of world trade. The expected improvement in the terms of trade to be produced mainly by the sharp rise in prices for natural gas exports, should lead to a renewed reduction in the *trade deficit*.

In view of the upward thrust of domestic costs which is still strong and the less restrictive prices policy, there is little likelihood of the rate of consumer *price* increases slowing down significantly before the second quarter of 1975.

A serious deterioration in the employment situation, persistence of vigorous domestic cost inflation and a further increase in the large surplus on the balance of payments on current account will be the basic issues for the Dutch *economic policy* at the beginning of 1975. In the short term, a more expansionary budgetary policy, and in particular the decision not to increase taxes and social security contributions, will probably bring an improvement in the cost and employment situation at home. In the longer term, however, increased business investment is also essential if a drastic reduction in unemployment is to be achieved.

## Major economic policy measures

March 1974:

— The Nederlandsche Bank announced that the limit on sight and savings deposits on which interest may be paid to non-residents would be raised from Fl. 50,000 to Fl. 100,000.

— The Government, acting under the Special Powers Act issued a regulation on terms of employment in the public service, raising the salaries of public servants and assimilated employees by Fl. 30 per month, with effect from 1 January 1974.

— A draft law tabled to raise the tax-free amounts for wage and other income tax by 6.3% with effect from 1 July 1974; this is estimated to cost Fl. 750 million a year in lost tax revenue.

— The Government will spend an extra Fl. 600 million, and the local authorities an extra Fl. 135 million to allow for rising prices.

— A law was promulgated on the promotion of investment in certain parts of the country, but the date on which it enters into force has yet to be fixed.

— The investment allowance is to be reintroduced. Under a new regulation firms may deduct 2 x 4% of the purchasing cost of plant and machinery from their taxable profits. In addition, a draft law was announced raising the investment allowance for industrial buildings from 2 x 5% to 2 x 8%, likewise with effect from 20 March. A draft law authorizing the investment allowance for plant and machinery was tabled on 3 May 1974.

— The Nederlandsche Bank, as the authority supervising the banking system, reached an agreement with the Nederlandsche savings banks association concerning the introduction of a so-called liquidity reserve for savings banks.

— Announcement of the 1974 measures for the promotion of residential construction as part of the efforts to combat a recession; estimated expenditure: Fl. 100 million.

— Promulgation of an amendment to the Supplementary Rent Subsidy Order, setting out the conditions for payment of further subsidies to offset rent increases after radical property improvement.

#### April:

— Discussion between the Nederlandsche Bank and the representative organizations of the commercial and agricultural banks led to an agreement in principle concerning the tightening up of indirect credit controls.

— In future it will be compulsory for young persons of fifteen years of age to attend school two days a week, and for sixteen-year-olds to attend school one day a week.

— A draft law was tabled amending the 1947 housing law; only partial liberalization is now possible in certain regions, and complete or partial housing control may be reintroduced in those regions already liberalized.

— With effect from 1 April 1974, or following the expiry of existing wage agreements, adult wage and salary earners receive, in addition to the supplement of Fl. 30 per month already approved, a third supplement of Fl. 15 per month. The increase may also be granted in the form of some other improvement in employees' remuneration. Three months after the end of the wage agreement year, an advance of at least Fl. 450 per year must be granted on the three percent price compensatory amount to be offset in two instalments of 1.5% each against subsequent index-linked increases. In the case of the index-linked increase due six months after the end of the wage agreement year, a threshold of 0.3% must be taken into account. The remaining compensation for rising prices will then have to be at least Fl. 160 for each percent of price increase.

— The seventh amendment to the 1973 price regulation for goods and services authorized the distributive trades to raise their margins by 5.7%, with effect from 8 April 1974. Furthermore, since 1 May the distributive trades need no longer observe the waiting period introduced on 23 January before passing on price increases.

— The Government proposed that the minimum holiday allowance be raised from 6 to 7% with effect from the leave year 1973/1974 and the minimum wage and holiday allowance law be amended accordingly. The law introducing these amendments was published on 21 June.

#### May:

— A draft law was tabled (a) authorizing the 2 x 4% investment allowance for industrial plant and machinery, introduced by regulation with effect from 20 March, and (b) raising the allowance on industrial and commercial buildings from 2 x 5% to 2 x 8%, likewise with effect from 20 March.

— With effect from 1 May 1974, old-age and survivors' pensions were increased by 3.5%, after wage and salary earners had been promised a price compensatory advance. The increase in pensions was in anticipation of the normal adjustment due on 1 July of social insurance benefits to the movement of wages and salaries.

— Announcement of new measures to promote the improvement of private and publicly assisted post-war housing.

— Firms above a certain size must continue to notify price increases one month in advance (1974 regulation concerning the compulsory notification of increases in the prices of goods and services). With effect from 1 July, food and drink retailers, with the exception of butchers, were no longer subject to this requirement.

— Eighth amendment to the 1973 price regulation for goods and services. With effect from 1 June 1974 manufacturers and service undertakings are also free to implement price increases without observing a waiting period.

— Firms short of liquidity because of the oil crisis may obtain bridging loans guaranteed by the State (1974 regulation on bridging loans).

#### June:

— The Minister of Housing and Town and Country Planning announces that local authorities could guarantee mortgage loans for new dwellings up to 100% instead of 95%.

— A draft law was tabled amending the investment law to permit the Post Office Savings Bank and the postal cheque and giro institution to invest their funds in debt instruments drawn on individuals.

— The Nederlandsche Bank announced that for the period 20 June-18 September 1974 the quota for money market operators' average recourse to central bank credit at official rates totalled a little over Fl. 700 million.

— The Minister of Social Affairs asked the Sociaal-Economische Raad for an opinion on a revised system of indexing the statutory minimum wage, and on the related problem of the relationship between the net minimum wage and social security benefits.

— Publication of a law increasing, with effect from 1 July 1974, the tax-free amounts for wage and other income tax to help boost domestic expenditure.

— The Minister of Finance announced in the Second Chamber that after discussion with the Nederlandsche Bank new provisions had been adopted on the distribution of the latter's profits.

— Publication of the 1974 price regulation for goods and services authorizing industry and the services sector to pass on 50% and 85% respectively of the increased wage and salary costs arising in the second half of 1974. From 30 June, packaging costs are included in allowable costs. Traders' gross margins may be raised by 3% from 1 July. Drink and food (with the exception of butchers) are not subject to the provisions of this regulation.

#### July:

— Increase of the legal minimum wage by about 10.7% as from 1st July. It amounts from now on to Fl. 1,190.80 per month, Fl. 274.80 per week or Fl. 54.96 per day.

— Old age and survivors' pensions were increased by about 7% from 1 July 1974. This brought the pension for married couples and widows with children to Fl. 10,356 a year or Fl. 863 a month, and that for single persons and widows without children to Fl. 7,314 a year or Fl. 609.50 a month.

— Family allowances were raised by some 10.7%, except for the first child, from 1 July 1974.

— The Nederlandsche Bank announced that banks' liquidity reserve ratio for short-term deposits would remain at 9% for the period 18 July-21 August 1974, which in view of the conditions prevailing on the money market would reduce the banking system's free liquidity margin from some 1.5% to between 0.5 and 1% of short-term deposits.

— The Nederlandsche Bank announced that it had been arranged with the banks to expand the agreement on export financing.

— Amendment to the 1963 regulation on the import and export of industrial products, to the effect that imports and exports of crude petroleum products would no longer be subject to licensing under the law on imports and exports.

— Publication of a general administrative regulation establishing national standards concerning the details of the assistance required to bring resources to subsistence level. This regulation raised subsistence allowances to the level of the net minimum wage.

— Publication of a regulation on subsidies for part-time compulsory schooling in 1974-1975, laying down that in the period 1 August 1974 to 31 July 1975 subsidy of Fl. 20 a week will be paid to employers who for two days a week employ a worker who has to attend part-time school.

— A draft law was tabled on the spreading over several years of operating expenses connected with future changes in wages and salaries or prices. The main purpose is to eliminate the possibility of deducting from taxable profits pension costs arising from an expected increase after the end of the fiscal year. The law is to apply with retroactive effect to 1973 personal income and corporation tax (1973/1974).

— Announcement of a training programme for the metal-working industry which provides for the payment of a subsidy to enterprises of some Fl. 35 per man/day for training costs and an allowance of Fl. 30 a week to each worker participating in the programme.

#### August:

— Publication of a number of short-term measures to assist farmers, including:

— measures to influence demand for and supply of beef and veal;

— guarantees for loans for the purchase of oil by the farming and fishing industries;

— fixing of the price of natural gas for market gardeners at a level lower than that for the oil equivalent;

— extension until the end of 1974 of the time limit for the payment of 1973 income tax;

— increase in flat-rate VAT from 4.25% to 6% until 1 February 1975 at the latest.

— 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:

— The central government budget proposed for 1975 was submitted to the Parliament on 17 September. It envisaged expenditure amounting to Fl. 62,800 million, which, in comparison with the budget proposal and with the estimated outcome for 1974, represented increases of 23.1% and 16.7%, respectively. The receipts were estimated at Fl. 58,200 million, corresponding to increases of 18.8% and 15.9%, respectively. The net deficit to be financed increased from Fl. 2,800 million in 1974 to Fl. 3,600 million in 1975.

— On 19 September the Nederlandsche Bank raised the banks' liquidity reserve ratio for short-term deposits from 9 to 9.5%.

#### October:

— On 17 October the Nederlandsche Bank raised the banks' liquidity reserve ratio for short-term deposits from 9.5 to 10%.

— The interest rates applied by the Nederlandsche Bank were lowered by one point as from 28 October, the discount rate being reduced to 7%.

#### November:

— The Government announced a new package of stimulative measures amounting to a total of

about Fl. 3,600 million (1.9% of GNP in 1974).

— Lowering of taxes on wages and salaries and other incomes as from 1 April 1975 (840 million). For the time being this measure is applicable only for the year 1975.

— The Government abstained from raising the unemployment insurance premium by 0.6% as originally foreseen (400 million).

— The Government covered 0.5 points of employers' contributions to the system of family allowances (500 million).

— Increase of the investment allowance for industrial buildings (see measures: March 1974) from 8 to 12%. This allowance is valid for two years for investments for which orders have been placed in the period from 18 November 1974 to 18 November 1975 (240 million).

— The accelerated depreciation rate applicable for investment in industrial buildings outside the Randstad (West) is increased from 16 2/3 to 20% (60 million).

— New credits for public investment (800 million).

— New subsidies for dwelling construction (115 million).

— New transfers to local authorities (170 million).

— Assistance to enterprises in difficulties and to small and medium-sized enterprises in general (250 million).

— Recycling measures, promotion of professional and geographical mobility of unemployed and strengthening of employment exchange offices.

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

## Netherlands

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	+ 27.2	+ 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	+ 2.0	+ 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 (1963 = 100)</b>	1972	209.7	206.6	205.1	210.1	207.6	203.6	213.2	214.6	216.5	220.6	218.3	224.2
	1973	227.4	229.3	217.5	224.8	226.6	214.6	228.1	230.3	228.4	243.6	238.5	235.1
	1974	240.7	243.5	240.9	232.4	245.6	234.6	246.0	243.6				
<b>Unemployed (1 000)</b>	1972	97.6	105.5	108.3	113.4	115.2	117.9	118.4	118.1	118.1	119.2	121.1	116.4
	1973	115.8	119.0	119.9	118.4	115.1	115.5	115.9	117.0	116.1	117.0	117.0	118.6
	1974	124.0	124.0	130.3	131.9	135.5	139.6	145.2	151.4	153.3	157.8		
<b>Permits for residential construction (1 000)</b>	1972	15.6	13.2	13.3	12.8	14.4	13.7	14.3	13.1	14.5	10.4	14.6	14.4
	1973	13.4	13.8	11.4	15.4	11.0	12.3	13.1	10.1	12.3	11.6	10.6	10.7
	1974	9.8	10.6	12.5	8.9	9.9	10.3	11.5	6.8				
<b>Department store turnover (1963 = 100)</b>	1972	248	260	270	246	263	278	252	274	287	264	279	283
	1973	267	288	284	268	285	298	272	285	297	297	293	314
	1974	305	323	309	316	324	308	319					
<b>Consumer prices (1970 = 100)</b>	1972	112.1	112.9	113.9	115.5	115.8	116.1	115.7	116.8	117.6	119.1	119.6	120.0
	1973	121.0	121.5	122.7	124.6	125.4	125.7	125.5	128.0	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			
<b>Visible imports (million Eur)</b>	1972	1 215	1 293	1 323	1 278	1 269	1 292	1 122	1 364	1 312	1 409	1 447	1 375
	1973	1 563	1 517	1 632	1 479	1 656	1 467	1 567	1 618	1 703	1 841	1 829	1 640
	1974	1 991	1 949	2 228	2 202	2 330	2 157						
<b>Visible exports (million Eur)</b>	1972	1 173	1 224	1 270	1 188	1 302	1 239	1 140	1 355	1 259	1 307	1 359	1 287
	1973	1 632	1 631	1 549	1 439	1 738	1 496	1 487	1 550	1 539	1 776	1 801	1 520
	1974	1 952	2 054	2 132	2 203	2 346	2 097						
<b>Balance of trade (million Eur)</b>	1972	- 42	- 69	- 53	- 89	+ 33	- 53	+ 18	- 9	- 54	- 102	- 88	- 88
	1973	+ 69	+ 114	- 83	- 40	+ 82	+ 28	- 80	- 68	- 164	- 65	- 29	- 121
	1974	- 39	+ 105	- 96	+ 2	+ 16	- 61						
<b>Official gold and foreign exchange reserves (million Eur)</b>	1972	3 615	3 701	4 082	4 041	4 027	4 094	4 581	4 570	4 566	4 540	4 478	4 456
	1973	4 428	4 648	5 134	5 097	4 898	4 743	4 470	4 409	4 535	5 177	5 270	5 609
	1974	5 134	5 192	5 036	4 756	4 801	4 630	4 716	4 998	5 581	5 785		
<b>Money supply (million Eur)</b>	1972	8 760	8 946	9 440	9 541	9 515	9 629	9 870	10 123	10 245	9 991	10 198	10 129
	1973	10 319	10 517	10 921	11 006	10 761	10 554	10 191	10 064	10 246	10 127	10 285	10 130
	1974	10 157	10 446	10 511	10 525	10 819	10 753	10 618					

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-month moving averages.

*Graph 2*

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

*Graph 3*

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

*Graph 4*

Index of consumer prices.  
Indices of agreed hourly wages in private sector.

*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.

*Table 1*

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 department store turnover.  
Imports cif, exports fob; adjusted for seasonal variations.  
Balance of trade: difference between the seasonally adjusted figures of imports and exports.  
Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange in the Nederlandsche Bank at end of month.  
Money supply: notes and coin in circulation excluding cash holdings of monetary institutions, plus sight deposits with banks; position at end of month, adjusted for seasonal variations.





## G Belgo-Luxembourg Economic Union

### Belgium

After expanding at a very rapid pace at the beginning of the year since the second quarter the underlying trend of economic activity has shown signs of slowing down. For the past few months, new orderbooks have tended to shorten and the growth of private consumption seems to have passed its peak. The number of unemployed has risen. Prices have continued to rise very rapidly.

Since the expansionary factors in the economy are at present comparatively weak, a slowdown in the rate of expansion must be expected in the coming months. Prices could go on rising at a very rapid pace.

#### 1. Recent developments

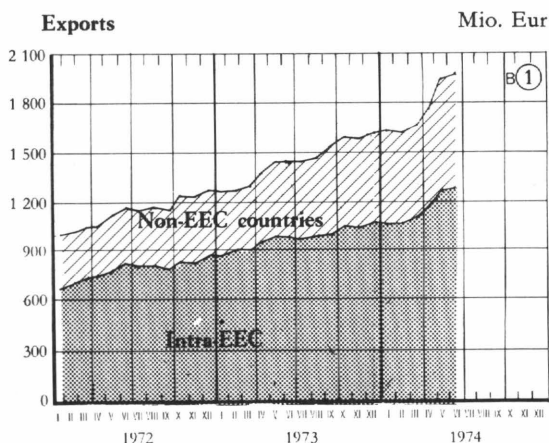
The rate of growth of activity which, in the first half of 1974, had been given a powerful boost by export demand, heavy spending by households on durables and house building, has started to decline. The EC-business survey carried out by the Banque Nationale shows since May a distinct cooling off of the business climate.

After expanding rapidly, partly as a result of a speculation-induced acceleration in new orders,

export demand has slowed to some extent—mainly as a consequence of the economic trends on the principal export-markets. The value of exports showed no rise from May to July. For the months June-July, the figures were nevertheless 34.3% up on the corresponding period in 1973. The sharpest rise was in sales to non-member countries.

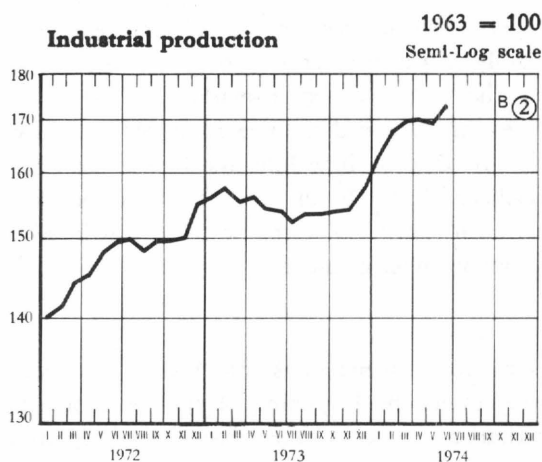
Domestic demand was on the whole very buoyant at the beginning of the year, but its various components have subsequently displayed diverging trends. *Fixed investment* thus expanded briskly, especially in industry, where the pressure of demand on production capacity, rationalization programmes and—to some extent—the expectation of higher prices, all contributed to this trend. Demand in residential construction—with the exception of public housing—remained particularly vigorous, despite rises in costs and interest rates on mortgage loans. The level of public investment continued to be very high.

In terms of value, private *consumption* increased sharply as a result of a decline in the propensity to save and substantial rises in money wages. At the end of September, the index of average



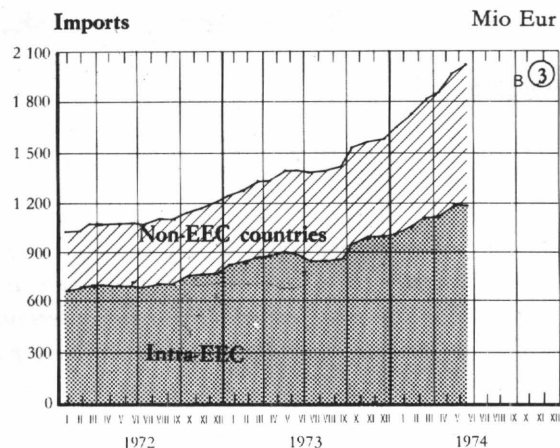
gross hourly earnings in industry was 22.7% higher than a year earlier, mainly because the sliding scale was triggered off repeatedly. But at constant prices, private consumption probably marked time as the impetus provided by the wave of speculative buying, seen at the beginning of the year, ran out of steam. Public authority expenditure was driven sharply upwards by increases in the prices of goods and services and by the effects of the indexation of many categories of expenditure, in particular wages and salaries.

Following a period of very brisk expansion, the rate of growth of *production* slowed down from the second quarter onwards. Other than by demand, the trend was influenced by labour disputes and structural problems in certain sectors such as the automobile and textile industries. The seasonally adjusted rise in the



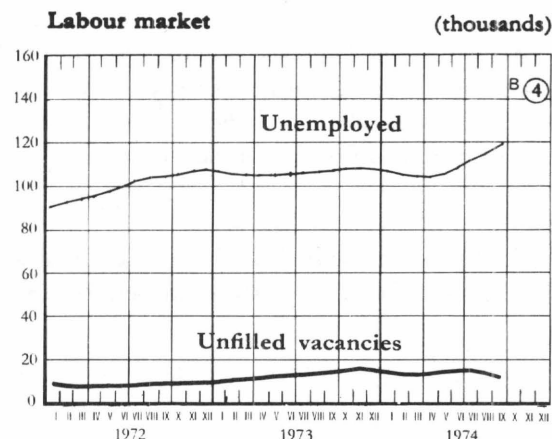
index of industrial production fell from 7.0% in the first quarter to 0.5% in the second. In June-July, it was nevertheless 8.6% up on the corresponding period in 1973. Overall activity in construction, particularly housebuilding, remained very brisk.

*Imports* expanded very rapidly in value mainly as a result of the sharp increases in the price of oil products and other raw materials. In June-July, total imports were 44.2% up on the corresponding period of the previous year. Imports from non-member countries grew almost twice



as quickly as imports from Community countries.

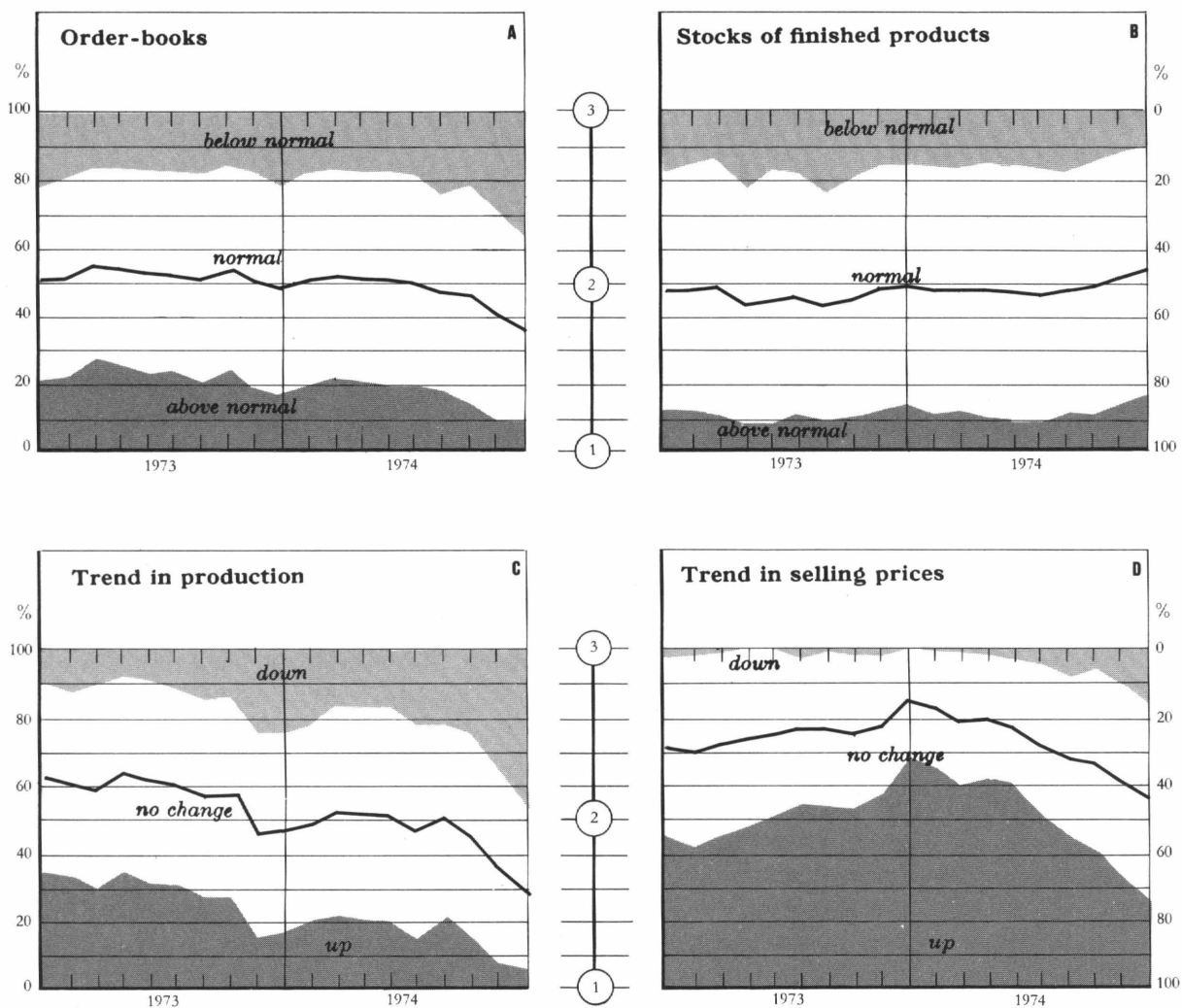
The situation on the *labour market* began to ease. The total of wholly unemployed has been showing a sharper upward tendency since March 1974. This rise reflects a very appreciable increase in the number of unemployed women, especially in textiles, clothing, services and the



distributive trades. Nevertheless, in October, also the number of unemployed men started to rise. Overall, the seasonally adjusted unemployment rate in October was 3.4% as against 2.8% a year earlier. The number of unfilled vacancies, which had fluctuated around the high figure of 16,100 (seasonally adjusted) during the first half of the year, has fallen fairly sharply in the past few months. The figure for October was about half the level twelve months earlier. There was also an appreciable increase in short-

# Belgium

## BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

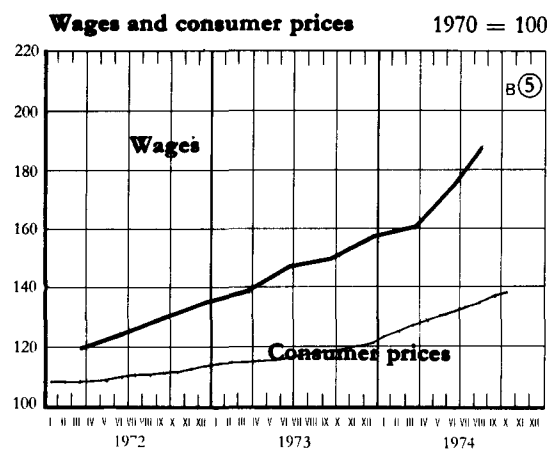
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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



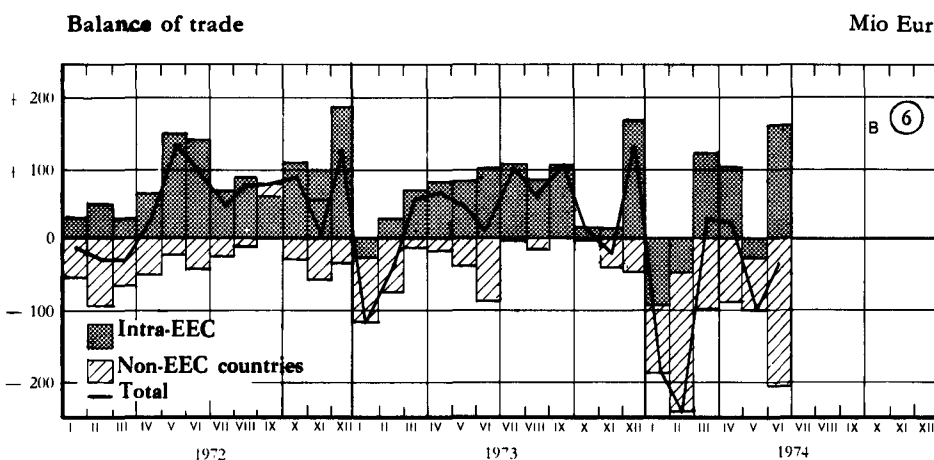
time working in certain industries, such as metal-working.

Consumer prices have continued to rise rapidly. In October, the index was 15.8% higher than

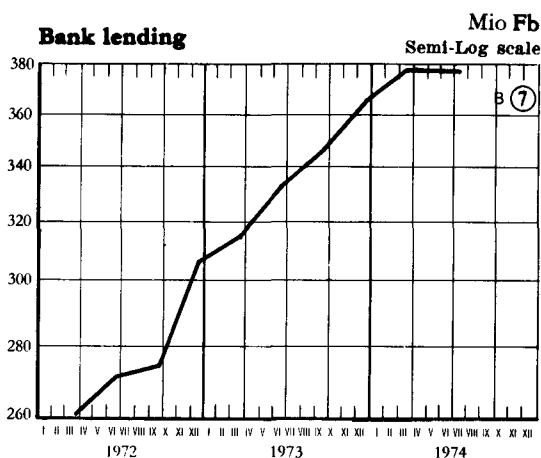


for the corresponding month in 1973. However, the situation on the *prices* front is beginning to show signs of easing in the field of wholesale trade.

The overall *balance of payments* surplus in the first eight months of the year was far higher than for the same period last year (Bfrs. 29,000 million as against Bfrs. 8,400 million). This improvement was exclusively due to a substantial net inflow of capital—compared with net outflows in the past. Thus purchases of foreign securities declined and direct investment in Belgium rose. By contrast, the position on current account deteriorated: the surplus was down to Bfrs. 22,000 million for the first eight months of the year as compared with Bfrs. 28,000 million the year before.



The increase in *domestic liquidity* was much less marked in the second quarter than in the first. The reasons were that the public authorities looked less to monetary means to finance their deficits and that bank lending to business and private customers was curbed by the restrictive measures introduced. The rise in short-term interest rates has levelled off and some decline was seen as from October. Long-term rates remained on a high level.



*Demand for and supply of goods and services*

	1972 <sup>1</sup>	1973 <sup>2</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	
Exports <sup>3</sup>	679.0	+ 12½	+ 21	+ 6	+ 26½	+ 5½	
Gross fixed asset formation	331.7	+ 7½	+ 16½	+ 5½	+ 19	+ 1	
Public current expenditure on goods and services	231.2	+ 5	+ 14	+ 4	+ 18	+ 3½	
Private consumers' expenditure	946.8	+ 6	+ 13	+ 3½	+ 16½	+ 3½	
Gross domestic product	1,561.8	+ 5.7	+ 13½	+ 4	+ 15	+ 3	
Imports <sup>3</sup>	641.5	+ 14	+ 23½	+ 6	+ 32½	+ 5	

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

<sup>2</sup> Estimates.

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

## 2. Outlook

The slackening of economic activity evident at the beginning of the autumn may become somewhat more pronounced in the coming months. Nevertheless, it will probably take some time for the upward movement of prices to ease off.

In view of the underlying slowdown in the flow of new orders, and the drop in the prices of certain products, *exports* must be expected to grow less fast both in value and in volume terms.

Some components of domestic demand could turn out to be less buoyant in the months to come. There could be a lull in business *investment* following the rapid expansion at the

beginning of the year, while investment in housing is likely to fall off sharply in the course of 1975 as a result of the high cost of mortgage loans, credit restrictions and specific measures curbing the building of large blocks of flats. Expenditure already authorized and appropriations contained in the 1975 budget would suggest that public sector investment will see only a moderate increase.

Tax concessions accorded to the lower and middle income group, wage increases resulting from new collective agreement and the application of sliding-scale clauses, could make for a further buoyant expansion of private *consumers' expenditure*, despite the subsiding of the wave of speculative buying and the stagnation in employment. Judging from the draft central government budget for 1975, public current expendi-

ture will also continue to rise at a fairly rapid pace.

In industry, where order books have been tending to shorten since the beginning of the autumn, *production* is likely to expand slowly in 1975.

*Unemployment* could go on rising in the coming months, since firms faced with cash problems and a more sluggish trend in demand will probably be more reluctant to take on new workers. The growth rate of *imports* in terms of volume is likely to slow down as a result of the slower expansion of domestic demand. In view of the drop in the prices of certain major raw materials, for which the present slowdown in economic activity in the principal industrialized countries is partly responsible, imports in value terms will probably also rise less rapidly than at the beginning of 1974. Nevertheless, the current account position could deteriorate still further.

*Prices* will probably continue to rise fairly briskly for some months yet. Slower rises in import prices and the levelling-off of wholesale prices should exert a dampening impact upon the trend of consumer prices. Nevertheless, the continued and substantial rise in wage costs as well as expected increases of public charges will continue to exert upwards pressure on the price index.

Following a period of comparatively slow price rises and a favourable labour market situation in recent years, Belgium has been faced in 1974, with a rapid acceleration in the rise of consumer prices and mounting unemployment. The principal problem for *economic policy*, therefore, is to curb the upward movement of prices without bringing about a further deterioration in the labour market situation. To solve this problem, substantial progress must be made in containing cost increases.

### Major economic policy measures

June 1974:

— The Belgian Government drew up an anti-inflationary programme. The measures implementing this plan were taken during the follow-

ing months. Their main objective was to limit the growth of demand by means of budgetary, monetary, credit and prices policy measures.

— The temporary arrangement fixing the period of prior notification of price increases at three months instead of two was extended until 1 October.

— The Minister of Economic Affairs laid down the rules, applicable from 1 December, for calculating the maximum retail prices of imported books and periodicals.

— Various measures were taken concerning prices. The prices of cigars, cigarillos, tobacco and coal for industry and domestic use were increased. This last measure would bring the mines a projected Bfrs. 3,000 million in additional revenue in a full year, and this might result in certain cuts in the government subsidies to the coalmining industry.

— The Minister of Finance published a notice for employers showing the flatrate reductions they could make in the advance payment on wage tax due on the basis of the scales at present in force for wages and salaries paid from 1 July 1974. The Government would later put before Parliament proposed amendments to the personal income tax arrangements for small and medium-sized occupational incomes.

— All enterprises were placed under the obligation to notify the Price Commission five days before bringing into force any total or partial increase planned in the light of the Minister's decision following his examination of the notice of the intended increase.

— At the end of the month the CGER decided to suspend new lending until 1 September 1974. This measure concerned all forms of lending to private customers and to business.

July:

— For a six-month period, starting from 2 July, the deposit for hire purchase sales was increased by 10% and the repayment periods for personal loans cut depending on the amount. The deposit for the purchase of a car rose from 40 to 50% and the repayment period for amounts over Bfrs. 100,000 was reduced from 24 to 15 months.

— The financial intermediaries decided on a general increase in interest rates paid on short-

*term deposits as from 1 July. Rates of interest paid on savings book deposits were not changed.*

— *With effect from 8 July, the Banque Nationale acted to increase both the rate applied to rediscounted bills and the rate for advances against collateral. As regards the base rate (8.75%) it now applies to only half the upper limit for rediscount attributed to each bank. A higher rate (about 10%) is applied to the other half. For advances against collateral, only those not exceeding a certain quota will benefit from the 9.5% rate. Above this quota and up to the credit ceiling which each bank has with the Banque Nationale the rate is higher than 9.5%.*

— *The Banque Nationale made a recommendation to the principal financial intermediaries as part of the government's anti-inflationary programme. This recommendation covered the four-month period up to the end of October and followed on from that of 29 March which expired at the end of June. Its purpose was to place even tighter limits than previously on the growth of lending. The liquidity reserve ratios for the funds of the financial intermediaries were left unchanged. At the Government's request, it was made possible to subscribe to up to Bfrs. 6,000 million of special interestbearing Treasury certificates to constitute this reserve; the remainder still had to be frozen in interest-free accounts at the Banque Nationale. The credit controls, introduced by the recommendation of 29 March, were tightened. At the end of October, the volume of utilized credit granted originally by banks was not to exceed that at the end of June by more than 2.85%. Similar restrictions were imposed on new lending by the other categories of financial intermediaries. In addition the financial institutions were requested to be selective in their lending, with priority to be given to export credit loans, subsidized investment credit and certified bills representing imports, and to restrict hire purchase loans and building loans other than for low-cost houses. The Banque Nationale asked the Banking Commission to make this recommendation binding on the banks.*

— *The Minister of Economic Affairs prescribed a 2.6% reduction in the consumer prices of beef and pork as from 19 July.*

— *The Government approved a draft law intended to enhance the powers at present granted to the Belgo-Luxembourg Foreign Ex-*

*change Institute to control movements of capital and foreign currencies. Its objective is to make it possible, where necessary, to influence international capital movements by acting on both the amount of deposits, debts and claims, and on the interest paid on them, and to make provision for the establishment of blocked interest-free deposit accounts and for the introduction of a provisional tax on foreigners' deposits in Belgium.*

— *The base mortgage rate charged by private credit institutions was raised to 12.5% by the principal institutions (14% for second rank mortgages). At the beginning of the year it was still 10.56%.*

— *From 15 July the semi-public financial institutions also increased their base rate by 0.75% to 11%. For regular savers who guarantee the transaction with a life-assurance contract, the most favourable rate rose from 9.25% to 10%. The rate for loans for low-cost housing granted by the CGER moved to 6%.*

— *The Minister of Economic Affairs and the Federation of Oil Companies concluded a three-year programme contract which introduced a flexible formula for calculating the prices of petroleum products, based on both the cost price and the market price of crude oil. The application of the new formula would result in a slight reduction in the ex-refinery prices of most current products, but the Minister decided to restore the excise duty temporarily abolished on 1 March (30 centimes on petrol) which resulted in petroleum products going up (18 centimes for regular grade petrol) from 1 August. It was also agreed that prices would remain unchanged until 1 October 1974.*

— *As part of the anti-inflation programme, a law was passed to encourage saving. The measures involve an increase in the tax-free slice of savings book income, raising it from Bfrs. 10,000 to 15,000 and the introduction of a tax-free slice of Bfrs. 10,000 for income from other forms of fixed interest saving, provided that total net income does not exceed Bfrs. 350,000 after these deductions. These measures would cut tax receipts by Bfrs. 500 million. The law also increased the rate of interest on deferred and delayed payments (from 0.60% to 1% per month). This law gave the Ministers of Economic Affairs and Finance the power, for six*



months starting on 8 August, to fix, in the light of the type of property to be financed or the value of the property mortgaged, the maximum percentage of the market value of the property which may be lent on mortgage, the maximum period for which the loan may be granted and certain conditions of repayment. Low-cost housing and medium-sized housing were not affected by the restrictions, nor were commitments under contracts to save to buy homes. For other housing the new system varies with the quality of the borrower. For instance, for borrowers who do not own another property, the percentages which may be borrowed are 60%, 55% and 50% for properties with a value less than Bfrs. 2,500,000, between Bfrs. 2,500,000 and 3,500,000 and more than Bfrs. 3,500,000 respectively. Prospective buyers who already own property, may now obtain a mortgage loan only on more restrictive terms. The aim of this measure is to curb property speculation without bringing overall housing demand to an abrupt halt.

— The Government tabled in the Senate the draft "mammoth" law. In order to eliminate certain distortions of competition, the statutes of banks and of private savings banks were brought closer together. Private savings banks which had been authorized to effect only transactions which were explicitly permitted, will now be entitled to carry out placement and credit transactions. The draft law provides for the Bank Commission to re-institute control of private savings banks. As an off-set to this improvement in the statute of savings banks, the central bank is given the power to apply monetary policy to financial institutions other than banks. This draft law enables banks, savings banks and other intermediaries increasingly to carry out similar transactions (trend away from specialization). The draft also deals with a number of other legal provisions.

— The Minister of Finance sent a memorandum to all ministerial departments laying down the directives relating to restrictions on public investment. During the second half of 1974 spending commitments will be reduced to 35 or 40% of the original programme. As spending had not been increased at all in relation to 1973, public investment would be down by some Bfrs. 30,000 million for the year. In addition, invitations to tender for new buildings continued to be deferred until 30 September.

— In an agreement dated 23 July, the Government made use of the right contained in an agreement concluded on 14 September 1948 between the Belgian Government and the Banque Nationale giving the Government a credit facility with the Banque Nationale and making provision for a possible periodical increase by reference to the increase in the Government's ordinary receipts. The credit margin was thus raised from Bfrs. 16 million to Bfrs. 21,300 million as from 1 August.

August:

— A ministerial decree was published enabling the Minister of Economic Affairs, by reasoned decision, to postpone a price rise for six months, when the increase is notified by one enterprise or a number of enterprises representing only a small part of the market.

— At the beginning of August, the Government decided to raise certain taxes to balance the budget in 1975: excise duty was increased by 10% on beer and by 18% on cigarettes, cigars, spirits, tobacco and perfume, (+ Bfrs. 3,800 million); the tax on motor vehicles was increased (↓ Bfrs. 2,000 million); corporation tax was raised, from 42% to 48% for large enterprises (with net taxable profits over Bfrs. 3 million) (↓ Bfrs. 6,000 million); personal income tax was increased by 10% for incomes over Bfrs. 1.5 million (25,000 taxpayers) (+ Bfrs. 1,500 million); fixed registration taxes and court dues were indexed (↓ Bfrs. 500 million). The following measures were also taken: the tax allowance on investments was deferred (saving Bfrs. 4,900 million); VAT system applying to motor fuels was changed, VAT on petrol being replaced by an excise duty (to bring an extra Bfrs. 1,000 million of budget revenue without changing the retail price); the collection of taxes was speeded up with the introduction of a 25% advance payment to be made by the self-employed and companies (+ Bfrs. 18,000 million in 1975); a study was put in hand on the rules governing business tax on large foreign enterprises to prevent flights of capital abroad. These measures should boost Treasury receipts by Bfrs. 19,700 million. Furthermore, measures to combat tax evasion should bring in an additional Bfrs. 7,000 million.

— The Minister of the Interior addressed a circular to the local authorities urging them to join in the fight against inflation. The increase

*in public expenditure should not be allowed to exceed the rate of economic growth and the local authorities should make use of the possibilities made available to them for imposing taxes. They should also cut back their investment programmes.*

— *The Minister of the Interior called upon the local and regional authorities to halt, for a period of 2 months—from 1 August to 30 September—all procedures leading up to the awarding of public-works contracts for new buildings of any type whatsoever.*

#### *September:*

— *The Government adopted some additional measures in its programme to combat inflation: it refused to increase fares on public city and regional transport; the systems fixing maximum prices (amounting to a price freeze) was extended; negotiations continued on stabilization agreements with various industrial federations; some retail food prices were lowered to reflect reductions at producer level; income tax scales were adjusted to eliminate the effects of inflation on annual incomes up to Bfrs. 150,000 and to attenuate the effects on incomes up to Bfrs. 350,000 (cut in revenue: Bfrs. 2,700 million).*

— *At the beginning of September, the CGER announced that the decision to halt lending, taken on 26 June, would remain in force until further notice.*

— *The private and semi-public financial intermediaries increased their deposit interest rates. On short-term deposits, the increase is only marginal but it rises to 1% on five-year investments. For savings books, the loyalty premium was raised by 0.50% to 1.50% per year. A further bonus of 2% per year to encourage saving was introduced; it will apply to the net increase in the amount shown in savings books from 16 September and will remain in force until 31 December 1974.*

— *A law was published instituting the right to a subsistence income for each Belgian of full age who does not have sufficient resources and who is unable to obtain them. The amount is fixed at Bfrs. 64,469 for a couple and Bfrs. 46,981 for a single person. These amounts will be indexed and linked to changes in the general standard of living. On 1 January 1975 it will be at least Bfrs. 72,000.*

— *Pursuant to the decision taken at the beginning of August, five royal decrees were published increasing excise duties and consumption taxes on spirits, perfume, motor fuel, and other petroleum products. These measures will come into force on 1 October and should bring in additional revenue of Bfrs. 2,000 million. The effects will not work through to the Treasury until February 1975.*

— *The executive board of the Fédération des Entreprises Belges called on all its members, both producers and distributors to make an effort to hold prices constant and if possible to lower them by temporarily accepting certain sacrifices.*

— *A royal decree was published laying down that building and other construction work costing over Bfrs. 50 million and authorized after 13 September could not begin until one year after the date of issue of the actual building permit. Exceptions would be made in the case of low-cost housing and medium standard housing.*

— *The Minister of Economic Affairs negotiated several agreements on price changes with various industrial federations, including the Fédération des industries textiles and textile wholesalers and retailers. The Minister also announced that producers of domestic electrical appliances had agreed to extend the current "programme" contract until 31 January 1975 and had undertaken not to notify any price rises before this date.*

— *The Minister of Economic Affairs announced that at his request the oil companies had agreed to postpone for one month the increase in the price of heating oil agreed in the "programme" contract signed on 24 July 1974.*

— *The CGER decided to resume processing applications for mortgage and business loans. Priority for these loans will be given to the best customers. This measure marked the end of the credit freeze decided at the end of June. Public mortgage institutions decided at the same time to raise interest rates on loans by 1%.*

#### *October:*

— *The Minister of Agriculture granted special aid to horticulturists to offset part of the increased heating costs for glasshouse products.*

— *On 4 October the Government tabled the draft central government budget for 1975. Net*

expenditure totals Bfrs. 705,000 million, an increase of 19.2% on the preliminary estimates for 1974 and 13.0% on the amended budget. Total revenue is up by 24.5% on the preliminary estimates and by 21.2% on the amended budget. The net borrowing requirement will be Bfrs. 70,500 million in 1975 as against Bfrs. 99,500 million (amended) in 1974.

— A ministerial decree issued at the end of September extended until 1 February 1975 the provisional arrangement increasing the period of prior notification of price rises from two months to three. A later decree issued on 14 October temporarily increased the period to six months with effect until 31 January 1975. The Minister was also empowered to authorize increases before the expiring of the period, to propose that notified increases should be limited, to reject all or part of the increases or simply to take no action implying that the firm concerned must wait until the period has expired. This decree further laid down rules governing percentage trading margins.

— The Government decided to cut VAT on heating oil from 14 to 6%, with effect from 1 November, thereby enabling the price increase planned for the same date to be postponed

until the Commission de concertation pour le pétrole had completed its examination of the programme contract concluded between the appropriate minister and the Fédération pétrolière.

November:

— The Government and the Banque Nationale drew up the recommendations for the permissible growth of lending in the period up to the end of January. The limit on the year-to-year increase in bank credit outstanding to business and private customers was raised from 14 to 16%, with more favourable rules to apply to export credit. Following changes to the liquidity reserve arrangements, the amount of the funds which banks have had to freeze with the Banque Nationale will not be increased any further, while the rules on the purchase of government stock will be maintained in force. Lastly, special measures were taken to ensure adequate financing of small and medium-sized firms.

— The financial intermediaries decided to lower interest rates on short-term deposits from 12 November. Moreover, the cost of short-term credit was cut slightly.

**Belgium**

**TABLE 1 : Key indicators**

	1968	1969	1970	1971	1972	1972
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	+ 4.2	+ 6.5	+ 6.7	+ 3.5	+ 5.4	153
Industrial production	+ 6.4	+ 11.3	+ 9.5	+ 2.5	+ 6.7	170
Total imports	+ 13.5	+ 16.0	+ 8.9	+ 6.5	+ 7.5	212
Private consumers' expenditure	+ 5.4	+ 5.2	+ 4.6	+ 3.9	+ 5.9	146
Public current expenditure on goods and services	+ 3.5	+ 6.1	+ 3.3	+ 5.9	+ 7.2	156
Gross fixed asset formation	- 1.5	+ 5.6	+ 8.8	- 2.2	+ 4.8	149
Total exports	+ 13.8	+ 15.7	+ 11.7	+ 8.6	+ 6.9	223
Gross national product per head of population	+ 3.9	+ 6.3	+ 6.4	+ 3.1	+ 5.0	147
Gross national product per person in employment	+ 4.3	+ 4.8	+ 4.9	+ 2.4	+ 5.1	144
	% change by value on preceding year					
Gross income per employee	+ 6.1	+ 8.0	+ 9.6	+ 11.9	+ 14.2	224

**TABLE 2 : Indicators for internal and external equilibrium**

	1968	1969	1970	1971	1972
Balance exports less imports					
in million Eur	+ 192	+ 350	+ 800	+ 904	+ 1 116
as percentage of GNP	+ 0.9	+ 1.5	+ 3.1	+ 3.1	+ 3.4
Unemployment rate	2.8	2.3	1.9	1.9	2.2
prices to private consumers (% change on preceding year)	+ 2.9	+ 3.2	+ 2.5	+ 5.8	+ 5.0

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>							
<b>Total</b>	+ 23.3	+ 15.2	+ 4.0	+ 20.5	+ 22.7	17 854	100
<b>Intra-EEC</b>	+ 29.5	+ 16.9	+ 4.2	+ 20.2	+ 21.3	13 043	73.1
<b>To non-EEC countries</b>	+ 12.1	+ 11.6	+ 3.7	+ 21.1	+ 26.8	4 811	26.9
<b>Exports of food, beverages and tobacco</b>							
<b>Total</b>	+ 21.8	+ 19.6	+ 14.9	+ 25.0	+ 22.9	1 646	9.2
<b>Intra-EEC</b>	+ 27.1	+ 16.9	+ 11.7	+ 25.8	+ 21.9	1 369	7.7
<b>To non-EEC countries</b>	- 1.8	+ 35.3	+ 30.8	+ 21.6	+ 28.1	277	1.5
<b>Exports of raw materials, fuel and power</b>							
<b>Total</b>	+ 21.4	+ 0.1	- 5.5	+ 22.1	+ 25.9	1 229	6.9
<b>Intra-EEC</b>	+ 21.3	+ 4.6	- 5.7	+ 12.9	+ 30.6	882	4.9
<b>To non-EEC countries</b>	+ 21.7	- 6.4	- 5.3	+ 37.2	+ 15.3	347	2.0
<b>Exports of semi-finished and finished industrial goods</b>							
<b>Total</b>	+ 23.6	+ 15.9	+ 3.8	+ 19.9	+ 22.4	14 979	83.9
<b>Intra-EEC</b>	+ 30.3	+ 17.4	+ 4.1	+ 20.0	+ 20.5	10 792	60.4
<b>To non-EEC countries</b>	+ 11.8	+ 12.6	+ 3.3	+ 19.6	+ 27.8	4 187	23.5
<b>Visible imports</b>							
<b>Total</b>	+ 19.9	+ 13.6	+ 10.3	+ 12.6	+ 23.9	17 492	100
<b>Intra-EEC</b>	+ 25.3	+ 16.4	+ 18.5	+ 14.8	+ 22.5	12 358	70.6
<b>From non-EEC countries</b>	+ 13.3	+ 9.8	- 1.4	+ 8.9	+ 27.4	5 134	29.4
<b>Imports of food, beverages and tobacco</b>							
<b>Total</b>	+ 14.9	+ 17.1	+ 11.4	+ 14.1	+ 28.0	2 224	12.7
<b>Intra-EEC</b>	+ 23.3	+ 20.4	+ 14.7	+ 23.0	+ 26.4	1 506	8.6
<b>From non-EEC countries</b>	+ 5.8	+ 13.1	+ 6.9	+ 0.3	+ 34.4	718	4.1
<b>Imports of raw materials, fuel and power</b>							
<b>Total</b>	+ 11.3	+ 11.7	+ 2.6	+ 12.0	+ 17.8	3 318	19.0
<b>Intra-EEC</b>	+ 15.3	+ 12.0	+ 16.0	+ 17.2	+ 10.7	1 408	8.1
<b>From non-EEC countries</b>	+ 9.1	+ 11.5	- 4.8	+ 8.4	+ 23.6	1 910	10.9
<b>Imports of semi-finished and finished industrial goods</b>							
<b>Total</b>	+ 24.2	+ 13.6	+ 12.7	+ 12.5	+ 24.8	11 951	68.3
<b>Intra-EEC</b>	+ 28.0	+ 16.8	+ 19.6	+ 13.0	+ 23.9	9 445	54.0
<b>From non-EEC countries</b>	+ 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.
<b>Industrial production</b> (1963 = 100)	1972	145.9	143.2	142.9	149.9	152.7	146.9	150.3	148.0	149.0	152.7	150.1	
	1973	155.0	153.1	155.5	155.5	151.8	152.8	151.8	156.0	152.6	153.7	156.4	
	1974	170.3	171.3	167.9	171.3	169.0	179.3						
<b>Unemployed</b> (1 000)	1972	94.0	94.6	97.0	98.4	100.6	102.5	102.7	103.6	104.6	106.4	106.7	
	1973	104.7	104.4	103.9	104.3	104.9	105.8	106.6	106.6	108.0	109.5	107.8	
	1974	107.3	106.4	105.8	107.1	108.8	112.2	115.9	118.1	125.2	133.0		
<b>Permits for residential construction</b>	1972	3 850	4 157	4 416	4 488	4 173	4 287	3 838	3 841	4 398	5 267	5 365	5 576
	1973	4 489	4 719	5 161	4 862	5 004	4 248	4 622	3 961	4 120	4 629	3 469	2 992
	1974	4 527	4 065	5 355									
<b>Department store turnover</b> (1963 = 100)	1972	184	191	201	183	192	208	197	200	228	196	199	216
	1973	202	216	223	208	217	237	212	219	237	233	221	241
	1974	240	247	244	242	253	255						
<b>Consumer prices</b> (1970 = 100)	1972	107.3	107.8	108.0	108.3	108.5	109.6	110.4	110.6	111.3	112.0	112.8	113.6
	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		
<b>Visible imports</b> (million Eur)	1972	1 059	1 045	1 149	1 042	1 081	1 163	969	1 190	1 140	1 159	1 255	1 207
	1973	1 340	1 319	1 372	1 364	1 464	1 375	1 332	1 528	1 444	1 640	1 596	1 532
	1974	1 872	1 790	1 787	1 985	2 176	1 945	2 043					
<b>Visible exports</b> (million Eur)	1972	1 046	1 012	1 120	1 068	1 211	1 265	1 020	1 271	1 220	1 254	1 259	1 364
	1973	1 225	1 234	1 440	1 436	1 514	1 393	1 434	1 588	1 552	1 657	1 575	1 664
	1974	1 693	1 549	1 814	2 005	2 077	1 907	1 973					
<b>Balance of trade</b> (million Eur)	1972	- 13	- 33	- 29	+ 26	+ 130	+ 103	+ 51	+ 81	+ 79	+ 95	+ 4	+ 157
	1973	- 116	- 35	+ 67	+ 72	+ 51	+ 18	+ 102	+ 60	+ 108	+ 17	- 21	+ 132
	1974	- 178	- 242	+ 26	+ 20	- 99	- 38	- 69					
<b>Official gold and foreign exchange reserves</b> (million Eur)	1972	3 444	3 563	3 536	3 506	3 429	3 697	3 840	3 900	3 873	3 830	3 770	3 707
	1973	3 902	4 167	4 293	4 367	4 472	4 447	4 420	4 336	4 309	4 369	4 357	4 168
	1974	3 962	3 960	3 972	3 927	3 814	3 839	4 038	4 090	4 250	4 408		
<b>Money supply</b> (million Eur)	1972	9 574	9 617	9 732	9 879	9 797	10 130	10 202	10 154	10 355	10 545	10 598	10 696
	1973	10 789	11 052	11 202	11 340	11 251	11 464	11 430	11 442	11 507	11 708	11 840	11 671
	1974	11 929	11 951	12 262	12 303	12 527	12 242	12 141	12 305				

## Belgium

### NOTES TO GRAPHS AND TABLES

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

— 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; series adjusted for seasonal variations; three-month moving averages.

#### *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, source: Banque nationale; consumer prices, source: Ministère des Affaires Économiques.

#### *Graph 6*

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

#### *Graph 7*

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

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#### *Table 1*

GNP at market prices.

Industrial production : value added by industry.

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

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

#### *Table 2*

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

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

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

#### *Table 3*

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

#### *Table 4*

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

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

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

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

Consumer prices: not adjusted for seasonal variations.

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

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

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

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

*The Luxembourg economy, which at the beginning of 1974 was enjoying a vigorous upswing, has tended to slacken since the spring. Consumer prices have increased much less rapidly than in most other Community countries.*

*The outlook for export demand suggests that production will expand only slightly in the months ahead. Domestic demand should however remain buoyant. The upward thrust of prices will probably be less strong than in 1974.*

## 1. Recent developments

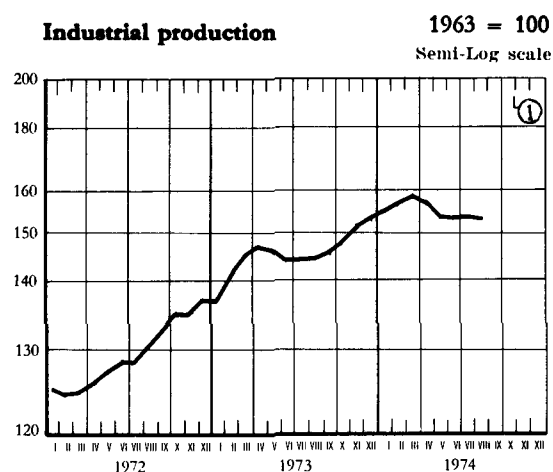
After an upsurge of activity in the first quarter of 1974, the Luxembourg economy reverted to a slower pace in the spring and summer months. The upward movement of prices slowed down in the third quarter, mainly owing to seasonal factors.

Given the substantial backlog of orders in industry, the slackening of *export demand* noted in recent months has so far barely affected the level of activity. In the iron and steel industry, deliveries to non-member countries have been declining since the end of 1973, but exports to the other Community countries have been rising rapidly until very recently.

Overall, *domestic demand* has maintained its buoyancy. While the growth of business investment seems to have slowed down, the expansion of public investment and residential construction has remained rapid. Private consumers' expenditure has continued to be fairly buoyant, boosted by the substantial increase in incomes under the wage agreements concluded at the beginning of the year and new threshold payments. Thus, new-car registrations in the first three quarters of the year ran at much the same

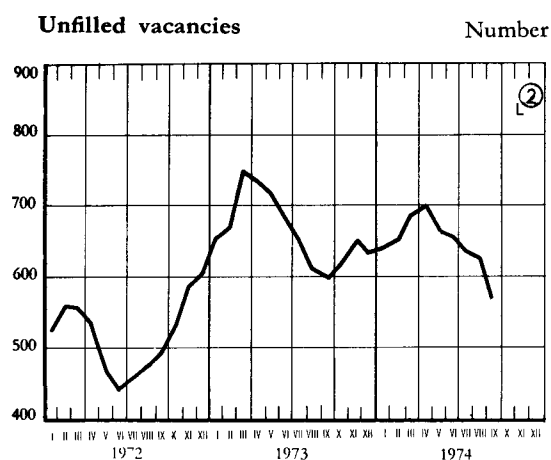
level as a year earlier, contrary to the situation in other Member countries.

The seasonally adjusted index of industrial production (excluding construction) which had dropped by 2.6% between the first and second quarters, has not subsequently recovered. In the third quarter the unadjusted index was up 4.6% on a year earlier.

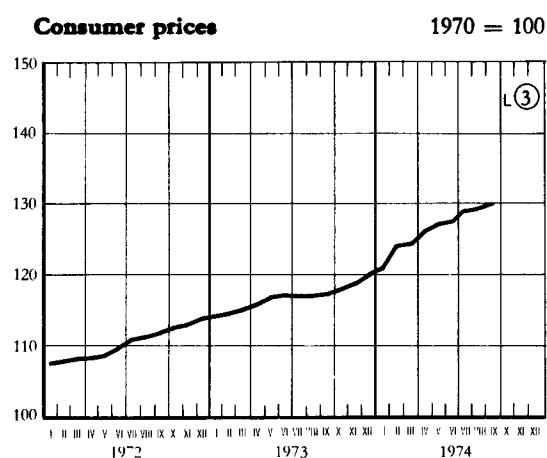


*Building and construction*, where activity was very lively until the summer, has since slowed down somewhat and the strains caused by the shortage of manpower have tended to ease.

Unfilled vacancies have tended to decline since April.



seen in the last three months was largely due to a temporary fall in the prices of certain food



Consumer prices in October 1974 had risen by 10.8% over twelve months. A slight slowdown

of prices continues unabated.

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

	1972	1973 <sup>1</sup>		1974 <sup>2</sup>		1975 <sup>2</sup>
	At current prices (in Lfrs. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports <sup>3</sup>	49,850	+ 9.7	+ 27.3	+ 5½	+ 25½	+ 1
Gross fixed asset formation	16,958	+ 4	+ 13.3	+ 2	+ 18½	+ 2½
Public current expenditure on goods and services	6,932	+ 1.7	+ 13.9	+ 2	+ 21	+ 2
Private consumers' expenditure	33,410	+ 6	+ 12.5	+ 7	+ 17	+ 5½
Gross domestic product	58,135	+ 7.5	+ 20.6	+ 4½	+ 16½	+ 2
Imports <sup>3</sup>	49,215	+ 6.3	+ 18.7	+ 6½	+ 28	+ 3½

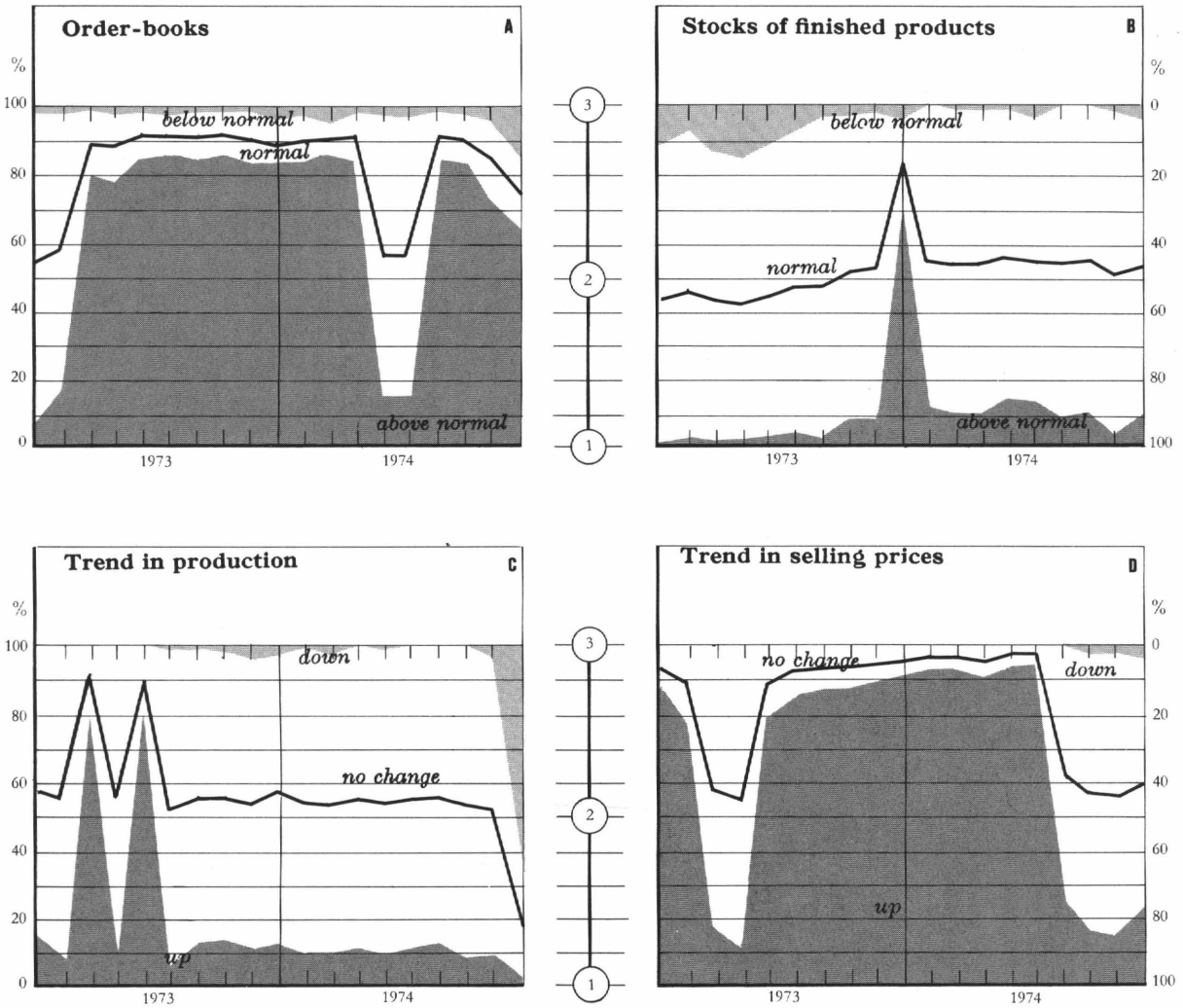
<sup>1</sup> Service central de la statistique et des études économiques (STATEC), Luxembourg.

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

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

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



## 2. Outlook

The fall-off in demand revealed by some economic indicators early in the autumn may work through to production levels in the next few months.

With new orders already down in the iron and steel industry and in the other industries, the growth of *exports* must be expected to slacken sharply in volume as well as in value terms.

New building permits are stagnating so that residential construction is likely to flatten out while *investment* by the central government and public enterprises may continue at a high level. Business investment will probably remain firm despite the uncertainties that may affect decisions to expand or re-equip. Stimulated by certain tax adjustments and wage and salary increases in both the public and private sectors, private *consumers' expenditure* may grow relatively rapidly, though not as rapidly as in 1974, when the pace was exceptionally fast. Public current expenditure in real terms seems to be set to rise at the same rate as in 1974, growth in money terms being hardly affected by the expected slowdown in the upward movement of prices.

As export growth is expected to be moderate, industrial *production* will probably increase little in the coming months. Industries that are more dependent on domestic demand should however remain fairly buoyant. Overall, gross domestic product may therefore increase by about 2% in 1975 compared with 4.5% in 1974.

The upward movement of consumer *prices* should start to slow down which—through the sliding wage scale—is likely to have a braking effect on wage and salary increases.

Nevertheless, it will take time to return to an acceptable rate of inflation; so the fight against inflation should remain one of the top priorities of the authorities.

## Major economic policy measures

*May 1974:*

— *The law of 10 May introduced conversion measures in agriculture, commerce and crafts, which consist of a monthly allowance and a lump sum payment following termination of employment and aid for vocational retraining.*

*July:*

— *The measures restricting mortgage lending (only 30% of the cost of financing second dwellings, loan period reduced to two years for property developers) which expired on 30 June, were extended.*

*August:*

— *An agreement was concluded between the Bank Control Commissioner, the management of the Caisse d'épargne and the representatives of the banks for a uniform rise in interest rates on savings accounts and the institutions concerned reserved the right to increase lending rates correspondingly. Rates for loans would be calculated for each individual case.*

— *The reduced VAT rate on coffee and coffee substitutes would continue to apply until 31 December:*

— *Collective wage agreements concluded by the various building trades were made compulsory. Under these agreements, wages are to be increased by 10% and more with effect from 1 March 1974.*

*September:*

— *The Government tabled the draft central government budget for 1975. Compared with the budget voted for 1974 receipts are up by 27% at Lfrs. 25,600 million and expenditure by 24% at Lfrs. 25,300 million. The increase in planned spending stems mainly from a 66.4% rise in extra-ordinary expenditure, with substantial amounts going to investment funds. Taking these funds into account, net overall expenditure, calculated according to the Community rules, should grow by 17.2% compared with 1974.*

*October:*

— *The authorities tighten control with foreign currency transaction of the banks. Transactions are to be covered and supervised daily.*

**Luxembourg**

**TABLE 1 : Key indicators**

	1968	1969	1970	1971	1972	1972
	% change by volume on preceding year					Indices 1963 = 100
Gross domestic product	+ 5.3	+ 7.7	+ 3.9	+ 9.9	+ 4.1	138
Industrial production	+ 7.4	+ 11.4	+ 2.4	± 0	+ 4.6	142
Total imports	+ 9.6	+ 9.6	+ 12.8	+ 6.3	+ 5.8	165
Private consumers' expenditure	+ 3.7	+ 4.8	+ 5.5	+ 5.4	+ 5.0	143
Public current expenditure on goods and services	+ 4.0	+ 3.3	+ 2.2	+ 3.1	+ 2.7	128
Gross fixed asset formation	- 5.6	+ 7.6	+ 10.6	+ 9.8	+ 5.1	112
Total exports	+ 13.5	+ 12.1	+ 8.4	+ 0.6	+ 7.9	176
Gross national product per head of population	+ 4.9	+ 7.1	+ 3.5	- 0.6	+ 3.1	129
Gross national product per person in employment	+ 5.0	+ 6.3	+ 1.2	- 1.1	+ 2.0	125
	% change by value on preceding year					
Gross income per employee	+ 5.4	+ 6.2	+ 12.0	+ 9.8	+ 12.6	201

**TABLE 2 : Selected monthly indicators**

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1972	124.2	123.6	125.3	129.3	127.8	128.5	128.6	135.5	133.3	137.8	135.2	140.0
	1973	136.7	147.9	150.9	143.5	145.8	141.4	144.4	145.6	145.9	149.6	158.7	148.9
	1974	155.7	163.9	154.3	153.5	152.1	153.9	153.2	150.5	153.4			
Unfilled vacancies	1972	543	626	531	433	435	459	459	512	515	558	688	568
	1973	736	714	801	697	654	698	598	528	668	656	645	618
	1974	670	671	709	705	580	677	654	534	526			
Consumer prices (1970 = 100)	1972	107.5	107.8	108.0	108.2	108.6	109.8	110.8	111.1	111.6	112.2	112.8	113.2
	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		

**NOTES TO GRAPHS AND TABLES**

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

*Graph 1*

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

*Graph 2*

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

*Graph 3*

Consumer prices; source: STATEC.

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*Table 1*

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

*Following the depressed levels of the first half of 1974 due to the impact of the energy crisis and three day working, output and expenditure recovered somewhat during the second half of the year. Nevertheless, unemployment tended to rise more strongly. The growth of average earnings continued to accelerate. The monthly rate of price increases slowed down during the summer, largely because of the impact of certain direct measures; however, the underlying rate of price inflation remained strong. The substantial deficit of the current account of the balance of payments registered some reduction during the course of the year.*

*Prospects for the first half of 1975 are for a rather moderate growth of the major components of demand. Little deceleration in the rate of increase in prices is foreseen. Some reduction in the current account deficit is expected.*

### 1. Recent developments

The course of the economy so far in 1974 has been influenced by divergent factors. On the one hand, the public expenditure cuts of December 1973, the soaring costs of oil, industrial disputes and a period of three-day working in January-February 1974, combined with a growing erosion of business confidence, have had a depressing effect on economic activity in the early part of the year. On the other hand, the resumption of normal working, the mildly reflationary measures of the July budget and the accelerated rise in wages and salaries due to the activation of indexation clauses have led to some recovery from mid-1974 onwards. For the year as a whole, gross domestic product in volume terms is unlikely to show much change from the level of 1973.

The growth of *exports* has continued in the third quarter of 1974, although not at the rapid rate experienced in the previous quarter, with the result that the total value of exports in the first ten months of this year was 35% above

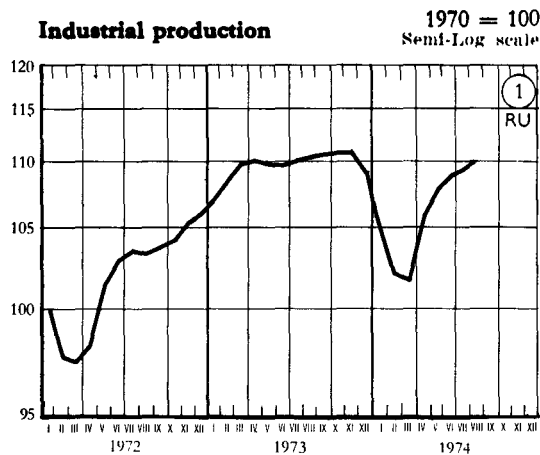
the corresponding period of 1973. In volume terms, however, exports have not shown any further increase from the high level reached in February of this year and, in the third quarter, were hardly more than 4.5% higher than a year ago. Recent indicators suggest that U.K. export performance has been quite favourable in EEC markets, but rather poor in North America and in O.P.E.C. countries.

The expansionary trend of *fixed capital formation* in manufacturing industry of the last eighteen months appears to have lost much of its strength recently. Trends in housing construction remained distinctly different in the public and private sectors. The number of public sector housing starts in the third quarter continued at a high level and was 29% above the same period in 1973. However, in the private sector, the marked downward trend of investment continued and the number of new dwellings started in the third quarter was less than half the level of the corresponding period in 1973. Stockbuilding during the third quarter levelled out, as the stocks consumed during the period of three-day working had been largely replenished during the second quarter.

Recent data indicates that there was a marked recovery in the volume of *consumers' expenditure* with the increase in the third quarter of some 1.6% over the previous quarter attributable largely to the effects of threshold payments, increased pensions and a reduction in V.A.T. rates. New car registrations, however, for which the credit restrictions, introduced at the end of 1973, still apply, were in the third quarter almost 25% lower than a year ago.

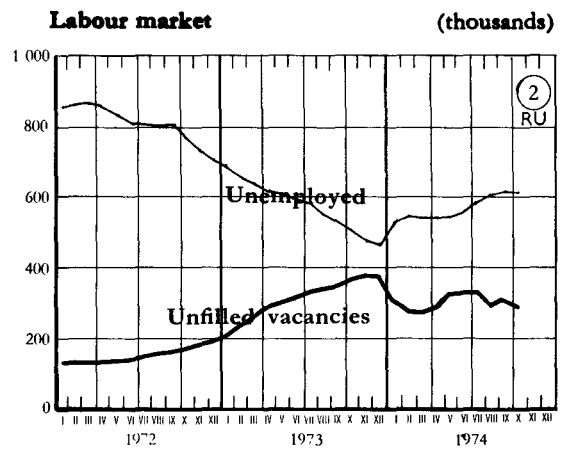
The rise in average earnings accelerated between the second and the third quarters, having received additional impetus from payments under the "threshold clause" in many wage agreements. In September, average earnings registered a year on year increase of 23%.

Domestic *output* is estimated to have increased by 1% in the third quarter, to a level 0.5%

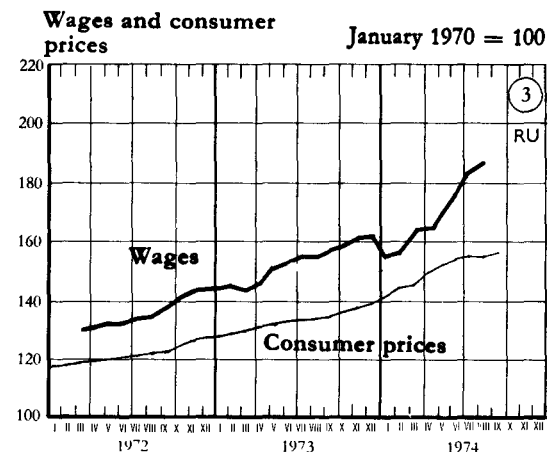


higher than the average for 1973. The index of industrial production rose by 1.1% in the third quarter, but the September level was 1.5% below that of the corresponding month in 1973.

*Unemployment* has risen more quickly in the second half of the year, and by October the total number of unemployed in the U.K. (seasonally adjusted) was about 637,000, equivalent to 2.7% of all employees.



The rate of increase of wholesale output *prices* slowed down somewhat in the third quarter of 1974; the index in October was nevertheless 26.2% above the level of a year previously. Although the index of wholesale prices of basic materials and fuels purchased, in October 1974, was 38% above its level of the previous year, the rise since the start of the year was less than 6%. The underlying rate of increase in retail prices continued at a high level, and by October



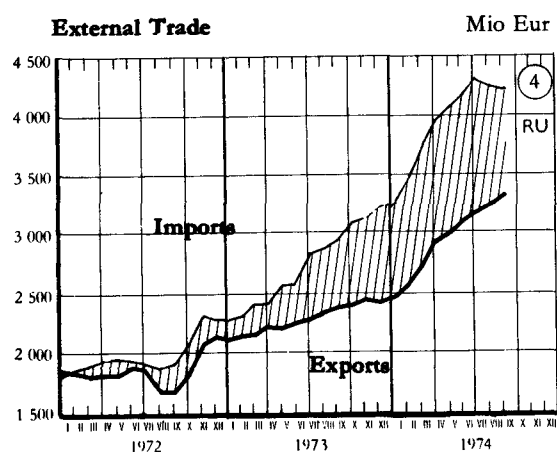
the all-items index had risen by 17.1% over the previous twelve months despite the effects of a reduction in V.A.T. rates and additional help for local ratepayers, which substantially influenced the index in August.

The rate of growth of *imports* of goods has slackened, and the total value of imports in the



third quarter was only 1.3% above that for the second quarter, but some 47% above the same period in 1973. Practically all the increase in the value of imports has been due to price increases, for the volume of imports in the third quarter was only 1% above the level of the third quarter in 1973.

There was a reduction in the *visible trade* deficit between the second and the third quarters, due to an improvement of 6.2% in the terms of trade, which reversed the declining trend that



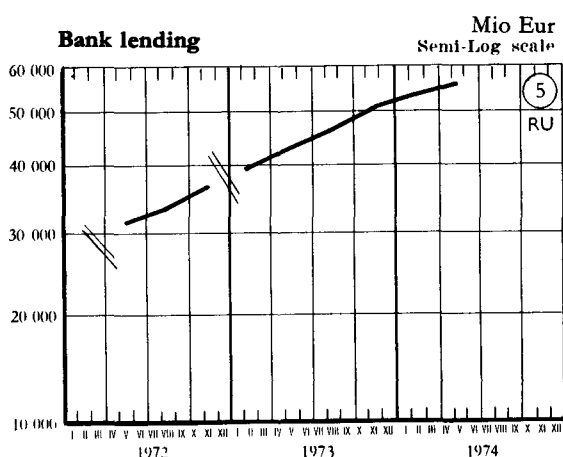
had continued virtually unabated since late 1972. Nevertheless, the total trade deficit for the period January to October amounted to a record £ 4,255 million compared to £ 1,759 million for the corresponding period of 1973. The continued surplus on invisibles helped to offset part of the trade deficit, but the current account deficit, for the first ten months of the year, reached £ 3,224 million (\$ 7,545 million)<sup>1</sup>.

The external value of sterling, as measured by the effective depreciation from Smithsonian parities, remained relatively stable throughout the summer, but deteriorated from October. The effective depreciation was 20% in mid-November. *Official reserves* rose by \$ 1,071 million during the first ten months of 1974 to reach a level of \$ 7,547 million after inclusion of public sector foreign borrowing of nearly \$ 2,200 million, and drawings of \$ 500 million

<sup>1</sup> Converted at average of daily exchange rates.

on the \$ 2,500 million loan announced at the time of the March Budget.

There has been a marked decrease in 1974 in the rate of growth of the main *monetary aggregates*. Restraining influences have been the reversal of special factors related to interest rate arbitrage, large official sales of government debt to the general public and a more modest rate of growth of bank lending to the private sector.



In the nine months up to September 1974, the rise in the broadly-defined money supply (M 3) was 9.6%, compared to an increase of 21.3% over the same period in 1973.

The upward trend in long-term *interest rates* continued into the third quarter; the gradual easing in short-term rates was maintained up to October.

On 12 November, the Chancellor of the Exchequer presented a Supplementary Budget; (for brief details see "Major Economic Policy Measures"). The proposals which, on balance, will have a mildly inflationary effect, fell into three broad categories. Firstly, measures to improve the liquidity and profitability of the corporate sector by a total of £ 1,600 million up to the end of 1975. Secondly, steps to encourage energy conservation. Thirdly, measures to redistribute the burden of taxation, and to counter the effects of inflation on the more vulnerable members of society.

*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 market prices in £ million	% change on preceding year					
		Volume	Value	Volume	Value	Volume	
Exports <sup>3</sup>	13,298	+ 9.2	+ 24.0	+ 6	+ 33	+ 4½	
Gross domestic fixed capital formation	11,429	+ 4.8	+ 21.4	- 2	+ 20	+ 1	
Public authorities' current expenditure on goods and services	11,868	+ 3.8	+ 12.7	+ 2	+ 19½	+ 2½	
Private consumers' expenditure	39,380	+ 4.6	+ 13.6	-	+ 15	+ 2½	
Gross domestic product	62,514	+ 5.3	+ 13.1	+ ½	+ 12	+ 2½	
Imports <sup>3</sup>	13,438	+ 11.1	+ 36.5	+ 1½	+ 46	+ 4½	

<sup>1</sup> Services of the Commission.

<sup>2</sup> Estimates.

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

## 2. Outlook

Following the somewhat faster growth of output and expenditure during the second half of 1974, due in part to the recovery from a depressed first half, the rise in the gross domestic product in volume terms is expected to be rather moderate during the first half of 1975.

A further slowdown in the growth of *export* value is expected during the first half of 1975, due to the deceleration in the rise in export prices following the record increase of the previous year. However, a slightly faster growth of export volume is projected in the first half of 1975 as against the sluggish performance of the previous half-year.

Private *consumption* is expected to provide some stimulus during the first half of 1975. With average earnings projected to rise at an annual rate of over 20% over the second half of 1974, the growth of nominal incomes is forecast to

remain strong. The effect of the "social contract" between the Government and the trade unions in moderating the growth of incomes remains at this stage rather uncertain; however, a very gradual slowing down in the rate of growth of wages and salaries is foreseen during the first half of 1975, compared with the second half of 1974, when they rose very rapidly, in part reflecting the impact of the activation of the indexation clauses contained in a number of pay agreements. Once allowance is made for the effects both of continued strong price increases and of fiscal drag, real disposable income should register a slight increase between the second half of 1974 and the first half of 1975. A further small decline in the savings ratio is expected.

The outlook for fixed *investment* is very mixed. In the private sector, the squeeze on liquidity and profitability which has already occurred, combined with the lack of business confidence, will continue to influence investment decisions

in the coming months; however, the assistance to be given to the corporate sector by the measures announced in the November Budget should contribute to preventing any marked aggravation of the decline in non-housing investment. The fall in the volume of private housing investment is likely to slow down as additional finance becomes available. In the public sector, both for housing and other investment, prospects are brighter. Despite stabilization of housing investment, total public investment should recover as the constraints imposed by the cuts made in December 1973 in public expenditure programmes cease to be effective.

The growth of total *output* is expected to remain sluggish during the first half of 1975, with the main element of expansion probably provided by consumers' expenditure. Unemployment is estimated to rise gradually and the average number of unemployed could be above 3% of the total number of employees during the first half of 1975.

As a result of the stimulus provided by the rise in private consumption, *import* volume is expected to rise again during the first half of 1975. It is foreseen that the terms of trade will continue to move in the United Kingdom's favour. The deficit on the current account of the balance of payments is estimated to register some improvement between the second half of 1974 and the first half of 1975. However, it is likely to remain quite substantial, amounting to at least 3% of projected GDP.

The outlook for *prices* is not likely to show any improvement in this period as the rather rapid increase in wage costs that occurred during the second half of 1974 and the effects of the higher VAT rate on petrol and relaxation of the Price Code work their way through to retail prices.

The main problems confronting the United Kingdom remain a rather low rate of growth of domestic output, combined with a gradual rise in unemployment and continued high rates of price and wage increases. While the current account deficit should register some improvement during the first half of 1975, it is likely to remain substantial, requiring sizeable foreign financing. Maintenance of confidence of over-

seas holders of sterling and of potential lenders must therefore not be jeopardized. There will therefore be no room for any further reflationary measures. In fact, in the event that the rise in money incomes should significantly exceed the norms of the social contract, measures to restrain the likely growth of private consumption would be called for.

## Major economic policy measures

*June 1974:*

— *In a consultative paper circulated to local authorities, the Government indicated that, in legislation to be introduced to repeal the Housing Finance Act, local authorities would again be enabled to determine council house rents and the freeze on such rents would be abolished.*

— *Details of the Government's plans for industrial policy were announced on 11 June. The proposals included "planning agreements" between the Government and leading companies to ensure compliance with the Government's economic objectives, and the institution of a National Enterprise Board, which would acquire an interest in firms in key sectors of manufacturing industry and serve as a "competitive stimulus" to the private sector.*

— *The Government announced on 12 June that food retailers had agreed to hold down prices of basic items such as bread, butter, cheese and meat and to concentrate their promotional activity, as far as possible, on such items.*

— *On 20 June, the Government made an Order freezing all business rents fixed since the original control date of 6 November 1972. The standstill on business rents is to continue until May 1975, after which limited increases will be allowed.*

— *It was announced on 28 June that the Government intended to introduce legislation to make certain increases in the rents of private house tenants subject to phasing in three annual stages. This would apply to registered rent increases above a specified amount and would come into force when the freeze on such rents expired on 31 December 1974.*

## July:

— On 1 July, the Pay Board published its report recommending additional pay allowances (of up to £ 400 p.a.) for workers in London, and the Government accepted the Board's proposals.

— The Government announced, on 10 July, that an additional £ 47 million would be allocated to the Health Service to cushion the effect of rising prices.

— On 11 July, the Government announced plans for greater public control over the exploitation of the North Sea oil fields, including an additional tax on profits from oil operations, and the establishment of a National Oil Corporation to exercise the State's interest in oil, and of a Scottish Development Agency to channel some of the gains from oil exploitation to promote Scotland's economy.

— On 16 July, the Post Office announced that increases in telecommunications charges, amounting to £ 141 million in a full year, would operate from 12 August.

— The Government announced, on 18 July, the abandonment of plans to build a new London airport at Maplin.

— In a statement to the House of Commons on 22 July, the Chancellor of the Exchequer announced a series of measures including

— a reduction from 10% to 8% in the rate of Value Added Tax;

— the provision of relief for local ratepayers whose rates have increased by more than 20%;

— an increase in subsidies to rent- and ratepayers on low incomes;

— doubling of the Regional Employment Premium;

— a relaxation of dividend control to permit companies to increase their distributions by up to 12½%;

— the allocation of a further £ 50 million (out of the £ 500 million already provided in the March Budget) for additional food subsidies.

— It was also announced that a 5-year \$ 1,200 million loan had been negotiated with the Iranian Government on behalf of British public institutions, to be drawn upon in the next three years.

— A Parliamentary Order abolishing the Pay Board came into effect on 26 July.

— On 27 July, the Government published proposals to pay a total of £ 341 million to the Post Office, the British Gas Corporation and the Central Electricity Generating Board as compensation for price restraint.

— On 29 July, the Government introduced a bill embodying the proposals previously announced in June concerning public sector housing.

— The Consumer Credit Act, which provides increased protection for consumers entering into credit and hiring transactions, received the Royal Assent on 31 July.

— On 31 July, the Government gave details of the shipbuilders, ship-repair organisations and marine diesel manufacturers which it intended to take into public ownership.

## August:

— On 6 August, the Government announced plans to allow pensioners to invest up to £ 500 each in a new type of savings bond whose value would be linked to the cost of living. A similar arrangement would also apply to new save-as-you-earn (SAYE) contracts. An additional unspecified bonus would be paid on bonds held for 5 years and on SAYE contracts held for 7 years and all gains would be free of tax. The new instruments are not expected to be on sale until the summer of 1975.

— On 8 August, further details were published of the two new taxes announced in the Budget Statement. The capital transfer tax, which, on enactment, will apply retrospectively to the beginning of the 1974/1975 financial year, is to replace estate duty and will be charged on gifts made by individuals in excess of an initial £ 15,000. The Government's proposals for the wealth tax were published in a consultative paper for public discussion. At present it is envisaged that, as from financial year 1976/77, the tax will be charged annually at rates ranging from 1% to perhaps 5% on successive slices of net wealth exceeding £ 100,000.

— On 12 August, the Government announced its intention to take into public ownership several sites in Scotland for the construction of North Sea oil production platforms.

— On 13 August, the Government announced that additional funds amounting to £ 25 million a year were to be made available to support regional development in selected areas of high unemployment.

— On 15 August, the Government published a White Paper entitled, "The Regeneration of British Industry", which incorporated the main proposals announced on 11 June. Government policy on the extension of public ownership was said to be limited, during the next Parliament, to the shipbuilding, aircraft, North Sea oil, port, road haulage and building industries.

— On 20 August, the Government enlarged upon its plans for the reorganisation of the national dock system. These involve the taking into public ownership of privately-owned ports and stevedoring companies and the establishment of a national ports authority responsible for the issue of dock licences and the orderly development of the port system.

#### September:

— Restrictions on the export of high alloy ferrous scrap metal to countries in the EEC were abolished with effect from 1 September.

— Subsidies on tea (at a cost of £ 15 million in 1974/75) and on household flour (at a cost of £ 6 million in 1974/75) were introduced on 2 September.

— On 13 September, the Government published its proposals to increase social security payments to the disabled, and to introduce payments to additional categories of beneficiary.

— Also, the Government published details of its Employment Protection Bill which would extend the rights of trade unionists and particularly would compel employers to pay a guaranteed minimum rate of wages in the event of short-time working or "lay-offs".

— On 17 September, the National Coal Board announced price increases of up to 28%.

— On 19 September, the Secretary of State for Industry announced a grant of £ 20 million to Rolls-Royce to help finance engine development to meet export orders.

— On 20 September, the Bank of England's Minimum Lending Rate fell by 0,25% to 11,5%.

#### October:

— On 2 October, the Government announced an increase in the subsidy on bread, at an additional cost of £ 4 million in 1974/75. The consumer subsidy on butter was increased on 7 October, at an extra cost of £ 12.5 million in 1974/75.

— The Secretary of State for Prices and Consumer Protection introduced on 28 October an Order, relating to bread prices, which was the first in a series which will impose maximum consumer prices for all subsidised foods.

— On 29 October, the Government introduced an Order designed to pay £ 217.8 million in compensation to the British Gas Corporation, the Central Electricity Generating Board, and the area electricity distributing Boards in England and Wales, to cover deficits incurred in 1973/1974 as a result of price restraint imposed on them.

#### November:

— The consumer subsidy on cheese was increased on 11 November at an additional cost of £ 11.7 million in 1974/1975.

— A Supplementary Budget was introduced on 12 November. Taking the Budget measures into account, public expenditure in 1974/1975 was expected to rise by 26.1% over the 1973/74 outturn; receipts were expected to rise by 24.7%. The public sector borrowing requirement was estimated to rise to £ 6,331 million, compared to the original estimate in the March Budget of £ 2,733 million. The principal points from the Budget statement were:

— A new "Capital Transfer Tax" is to be introduced, which will apply to gifts made since 26 March 1974 and is intended to replace estate duty in due course.

— Starting point of the investment income surcharge is to be lowered from £ 2,000 to £ 1,000 (£ 1,500 for tax payers over 65 years of age).

— Tax relief is to be granted to companies in respect of stock appreciation.

— Initial tax allowances are to be increased for corporate expenditure on industrial buildings (from 40% to 50%), and on insulation of such buildings (from 40% to 100%).

- Substantial expansion of medium-term lending by "Finance for Industry"; also, banks are to give priority to lending to industry.
  - A new tax on profits of oil companies' Continental Shelf operations is to be introduced.
  - Value added tax on petrol was increased from 8% to 25% with effect from 18 November.
  - The standard retirement pension will be raised (+ £ 1.60 to £ 11.60 for a single person; + £ 2.50 to £ 18.50 for a married couple), from April 1975.
  - Short-term social security benefits to be increased by approximately 14% from April 1975.
  - Family allowances to be increased by 60 p to £ 1.50 for second children, and by 50 p to £ 1.50 for third and subsequent children, as from April 1975.
- Changes are to be made in the Price Code:
    - 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.
  - Subsidies to nationalised industries for price restraints are to be phased out as quickly as possible.
  - The arrangement to guarantee certain official overseas holdings of sterling is to be discontinued at the end of 1974.

TABLE 1: Key indicators

	1969	1970	1971	1972	1973	1973
	% change by volume on preceding year					Indices 1970 = 100
Gross domestic product	+ 1.1	+ 2.1	+ 2.3	+ 3.1	+ 5.3	111.1
Industrial production	+ 2.7	+ 0.3	+ 0.4	+ 2.0	+ 7.2	109.8
Total imports	+ 3.0	+ 5.0	+ 4.8	+ 9.9	+ 11.2	128.1
Private consumers' expenditure	+ 0.2	+ 2.4	+ 2.7	+ 6.0	+ 4.6	113.9
Public current expenditure on goods and services	- 1.4	+ 1.6	+ 3.1	+ 4.0	+ 3.8	111.3
Gross fixed asset formation	+ 0.5	+ 1.9	+ 0.9	+ 2.4	+ 4.8	108.3
Total exports	+ 9.3	+ 5.0	+ 7.2	+ 2.6	+ 9.1	120.0
Gross domestic product per head of population	+ 0.7	+ 1.9	+ 1.9	+ 2.8	+ 5.1	110.1
Gross domestic product per person in employment	+ 1.1	+ 2.9	+ 3.8	+ 3.0	+ 3.1	110.2
	% change by value on preceding year					
Gross income per employee	+ 7.1	+ 12.7	+ 12.5	+ 11.9	+ 11.8	140.8

TABLE 2: Indicators for internal and external equilibrium

	1969	1970	1971	1972	1973
Balance: exports less imports					
in million Eur	+ 422	+ 931	+ 1,874	- 336	- 4,426
as percentage of GDP	0.4	0.8	1.4	0.2	2.6
Unemployment rate	2.5	2.6	3.4	3.8	2.7
Consumer prices (% change on preceding year)	+ 5.7	+ 5.8	+ 8.2	+ 6.7	+ 8.6

**United Kingdom**

**TABLE 3: Foreign trade (at current prices)**

	% change on preceding year					Indices 1970 = 100	Million Eur	% of totals
	1969	1970	1971	1972	1973	1973	1973	1973
<b>Visible exports</b>								
Total	+ 14.1	+ 9.8	+ 13.9	+ 6.1	+ 27.8	154.5	29,892	100.0
Intra-EEC	+ 18.9	+ 14.0	+ 12.9	+ 10.6	+ 37.0	171.1	9,672	32.4
Extra-EEC	+ 12.4	+ 8.2	+ 14.3	+ 4.4	+ 23.8	147.7	20,220	67.6
<b>Exports of food, beverages and tobacco</b>	+ 5.5	+ 13.3	+ 14.3	+ 12.3	+ 32.7	170.3	2,101	7.0
<b>Exports of raw materials, fuel and power</b>	+ 5.6	+ 13.5	+ 7.3	+ 8.7	+ 43.5	167.5	1,928	6.5
<b>Exports of semi-finished and finished industrial goods and miscellaneous goods</b>	+ 15.3	+ 9.3	+ 14.3	+ 5.5	+ 26.4	152.5	25,863	86.5
<b>Visible imports</b>								
Total	+ 5.3	+ 8.7	+ 8.7	+ 13.4	+ 42.3	175.4	38,050	100.0
Intra-EEC	+ 4.3	+ 13.4	+ 19.5	+ 20.7	+ 47.6	213.0	12,473	32.8
Extra-EEC	+ 5.6	+ 7.0	+ 4.7	+ 10.3	+ 39.9	161.6	25,577	67.2
<b>Imports of food, beverages and tobacco</b>	+ 1.6	+ 6.1	+ 6.3	+ 8.3	+ 31.5	151.3	7,434	19.5
<b>Imports of raw materials, fuel and power</b>	+ 2.4	+ 6.8	+ 9.1	+ 1.9	+ 44.0	160.1	8,861	23.3
<b>Imports of semi-finished and finished industrial goods and miscellaneous goods</b>	+ 8.7	+ 10.8	+ 9.5	+ 21.2	+ 45.8	193.6	21,755	57.2

**TABLE 4: Selected monthly indicators**

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<b>Industrial production (1970 = 100)</b>	1972	99.2	93.1	100.0	101.9	103.1	103.7	103.1	103.0	104.9	105.3	105.9	106.1
	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	101.5	103.3	106.3	108.1	108.1	109.3	110.0	110.5				
<b>Unemployment (000)</b>	1972	899.6	909.5	915.5	911.2	879.4	847.7	848.3	844.6	846.6	812.1	787.7	756.5
	1973	735.4	696.7	668.0	648.0	636.9	624.3	611.2	592.8	570.1	539.1	512.4	496.4
	1974	561.3	576.3	572.6	573.4	575.3	589.9	610.6	634.9	641.5	637.1		
<b>Construction: Housing starts (000)</b>	1972	31.4	27.2	29.7	28.2	26.3	31.2	29.2	27.7	29.0	27.8	30.3	32.4
	1973	30.2	33.4	30.8	28.9	26.1	27.4	25.3	26.1	28.8	23.4	24.1	23.2
	1974	21.5	23.7	25.5	21.8	22.0	22.0	19.0	21.0				
<b>Private consumers' expenditure: value of retail sales (1971 = 100)</b>	1972	105.5	105.6	106.6	107.5	108.8	110.6	112.9	113.8	114.6	116.8	118.2	121.3
	1973	119.8	123.1	127.2	119.5	120.4	124.5	126.1	127.4	128.9	133.0	134.5	136.2
	1974	134.8	136.7	138.8	138.4	138.0	142.8	146.0	150.1				
<b>Retail prices (Jan. 1962 = 100)</b>	1972	159.0	159.8	160.3	161.8	162.6	163.7	164.2	165.5	166.4	168.7	169.3	170.2
	1973	171.3	172.4	173.4	176.7	178.0	178.9	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			
<b>Exports (million Eur)</b>	1972	1 718	1 793	1 714	1 786	1 793	1 925	1 793	1 174	1 961	2 155	2 054	2 059
	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	2 429	2 767	2 899	3 012	3 018	3 180	3 187	3 307	3 401			
<b>Imports (million Eur)</b>	1972	1 738	1 879	1 898	1 889	1 872	1 896	1 733	1 577	2 299	2 266	2 297	2 206
	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	3 338	3 823	4 020	3 989	4 193	4 325	4 332	4 018	4 308			
<b>Balance of trade (million Eur)</b>	1972	- 20	- 86	- 184	- 103	- 79	+ 29	+ 60	- 403	- 338	- 111	- 243	- 147
	1973	- 168	- 168	- 507	- 38	- 588	- 331	- 442	- 542	- 471	- 967	- 677	- 804
	1974	- 909	-1 056	-1 121	- 977	-1 145	-1 145	-1 145	- 771	- 907			
<b>Official gold and foreign exchange reserves (million Eur)</b>	1972	6 430	6 439	6 516	6 569	6 586	6 415	5 602	5 611	5 609	5 395	5 429	5 201
	1973	5 120	4 906	5 004	5 071	5 586	5 813	5 494	5 402	5 290	5 604	5 508	5 369
	1974	5 122	4 946	5 342	5 767	5 736	5 563	5 537	5 671	5 942	6 257		
<b>Money supply (million Eur)</b>	1972	48 096	48 192	49 368	51 744	52 608	54 264	55 416	55 824	56 952	57 672	58 224	59 928
	1973	61 392	63 432	64 416	65 208	65 592	66 888	69 336	70 992	72 672	74 328	75 192	77 160
	1974	78 744	80 184	80 232	80 544	80 544	80 400	82 896	83 784	83 904			



NOTES TO GRAPHS AND TABLES

Conversions into Eur (1 Eur = 0,888671 g of fine gold) £ 1 = 2.40 Eur.  
Seasonally adjusted unless otherwise stated.

Key to sources : — (a) Central Statistical Office.  
(b) Department of Employment.  
(c) Bank of England.  
(d) Statistical Office of the European Communities.  
(e) Office of Population Censuses and Surveys, General Register Office (Scotland), General Register Office (Northern Ireland).  
(f) Ministry of Health and Social Services (Northern Ireland).  
(g) Department of Trade and Industry.  
(h) Department of the Environment.

*Graph 1*

Industrial production : three-monthly moving average of all industries index (1970 = 100) (a).

*Graph 2*

Labour market (Great Britain) : wholly unemployed, excluding school-leavers and adult students; number of adult unfilled vacancies (b).

*Graph 3*

Wages and consumer prices : index of monthly average earnings in Great Britain (all employees) (January 1970 = 100); retail price index (all items) (not seasonally adjusted) (index based on January 1962, January 1970 = 100) (b).

*Graph 4*

Exports (f.o.b.) and imports (c.i.f.) of goods on a balance of payments basis : three-monthly moving averages (a).

*Graph 5*

Bank lending to the private sector : advances (not seasonally adjusted) by the total banking sector to UK residents, excluding lending to the government, local authorities, public corporations and financial institutions. Breaks in the series occur in the first quarter of 1972 and the first quarter of 1973 (c).

*Table 1*

Gross 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 (f.o.b.) and imports (c.i.f.) 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 & 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 (f.o.b.) and imports (c.i.f.) of goods on a balance of payments basis (a).  
Official gold and foreign exchange reserves : end-month figures (not seasonally adjusted) comprising gold, IMF Special Drawing Rights, convertible currencies and, from July 1972, the UK's reserve position at the IMF. Before conversion into Eur, values have been converted into sterling at prevailing middle rates. For these reasons, breaks in the series occur in December 1971, July 1972 and February 1973 (c).  
Money supply : M3 (including interest-bearing deposits). Breaks in the series occur in April 1972 and April 1973 (c).

