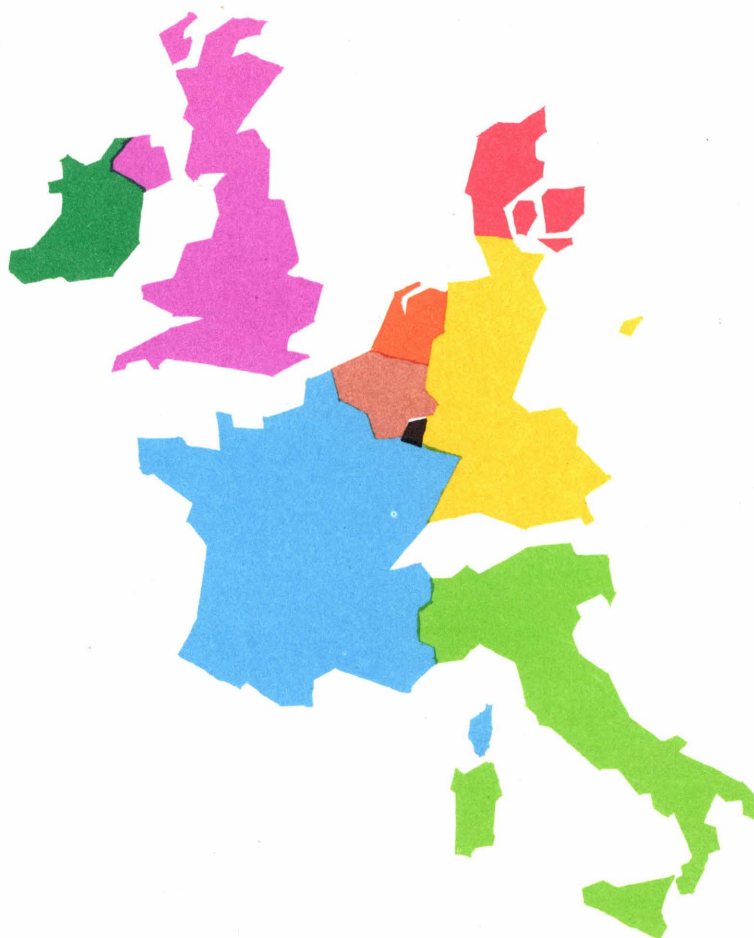


**Commission of  
European  
Communities**

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



**2  
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  
Rue de la Loi 200, 1040 Brussels**

**EUROPEAN COMMUNITIES**

**COMMISSION**

**The Economic Situation  
in the Community**

**JUNE 1974**

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## I. THE OVERALL SITUATION

*In recent months economic trends have been very strongly influenced by the effects of the energy crisis. Although industrial production had been slipping slightly around the turn of the year, employment and production remained high at the beginning of Spring. As a result of the increase in the cost of crude oil, the upsurge in prices — already very rapid — gathered considerable momentum and the balance of payments of some member countries deteriorated sharply. At the same time the higher oil prices had a considerable unsettling influence on the foreign exchange markets.*

*The economic outlook for the remainder of 1974 is generally more favourable than had been expected when the energy crisis broke. Measured in terms of the value of expenditure, demand should in general continue to expand sharply. Exports will probably go on increasing, although appreciably less rapidly than in 1973. Investment prospects look brighter in several member countries, with efforts to rationalize production processes being the prime factor. Private consumers' expenditure should also show signs of expanding. Nevertheless production trends will probably differ considerably from one industry to another. Production in the motor industry in particular could be held back by the after-effects of the energy crisis. In addition, output in construction will probably be relatively depressed in several member countries. After allowing further for the production losses in Britain in the first quarter, the Community's real gross national product will probably grow only by some 2½% in 1974.*

*Prices will in general continue to climb very rapidly in the Community, showing rates of increase that will no doubt be appreciably higher for the year on average than in 1973. Considerable deficits are likely in the current balances of payments, with Germany and the Benelux countries being in surplus, or more or less in balance, while the other member countries will record large deficits.*



## A. Conjunctural policy

The analysis of the economic situation in the early months of this year, undertaken in the following chapters, shows clearly the difficulties for the countries of the Community raised by the considerable increase in the price of oil. In addition, this factor has seriously worsened the outlook for the course of prices in 1974. At the same time, inflation has been strengthened by internal factors and in particular by the pressure of costs. The forecast increases in consumer prices in the various member countries lie between 8 and 18% year on year. The current balances of payments have deteriorated seriously, though there are considerable differences from one country to another. While the Federal Republic of Germany and the Benelux countries are likely to enjoy surpluses or at least situations of equilibrium, the other Community countries can certainly expect deficits, which in some cases will be very high. Given the growing difficulty of ensuring the long-term finance of large current balance of payment deficits, it is more and more essential that deficit countries should implement energetic policies designed to re-establish internal and external equilibrium. Without such policies some countries might find themselves obliged unilaterally to adopt protective measures which would create a severe danger for the cohesiveness of the Community.

In such circumstances, at the end of last April, the Italian Government, invoking Article 109 of the Treaty of Rome, announced certain measures designed to stop the rapid deterioration of the external position of the Italian economy. Essentially they required Italian importers to place an interest-free deposit with the Bank of Italy for 6 months equivalent to 50% of the value of their purchases abroad. Imports of investment goods, raw materials and energy products were excluded, so that the regulations only affected about 40% of total imports. The Italian Government has said that the main object of these measures is to limit the growth of internal liquidity. In addition it has decided to reduce foreign exchange allocations to Italian tourists.

While recognizing that the Italian Government is faced with serious problems, the Commission

is concerned at seeing a member country have recourse to measures which, even if their essential purpose is of a monetary nature, could nevertheless lead to a grave weakening of the very foundations of the Community because they disturb the operation of both the customs union and the common market in agriculture. Thus the Commission has decided to use every means available to it to support the efforts of the Italian Government to improve the situation and at the same time to prevent a chain reaction taking place inside and outside the Common Market. In this context it believes that these unilateral measures must be replaced as soon as possible by Community action. On 6 May 1974 the Commission therefore made a recommendation to the Italian Government on the basis of Article 108 § 1 of the Treaty of Rome explaining the action that it considered necessary and urgent. In order to support the efforts of the Italian authorities along these lines the Commission has recommended the Council to adopt the mutual assistance procedures as described in Article 108 § 2 of the Treaty in favour of Italy. Since an agreement on this subject was not reached at the Council meeting on 7 May, the Commission has authorized the Italian Government to keep the measures in force for a limited time and under certain conditions. It has however made it clear that the way in which the deposit scheme is operated must not lead to further impediments to imports. Furthermore, it has reserved the power to modify or to end the measures in question should the conditions which gave rise to their introduction no longer obtain. For these reasons it will undertake, before 31 July, a study of the general situation in Italy and the effects of the protective measures that have been applied. On 5 June the Commission decided that from 9 June onwards the Italian Republic would no longer be permitted to apply the deposit measure to imports of certain calves and young cattle for fattening. The Italian Republic is authorized to apply compensatory payments on these products from 10 June onwards.

Certain other countries, in particular Denmark, France and Belgium, are endeavouring through an internal policy aimed mainly at reducing

domestic demand to stem inflation and prevent a further worsening of the balances of payments. The Commission has stressed many times <sup>(1)</sup> the grave threat that accelerating inflation and severe current balance of payments disequilibria place on the cohesiveness of the Community and consequently on the maintenance of a high level of employment and a standard of life which the process of integration has made possible. Also reducing the rate of inflation has become of paramount importance for the whole Community. In those countries which now suffer very high balance of payments deficits and where prices are rising particularly fast, an energetic domestic stabilization policy is a necessary precondition for the improvement of the external economic situation. The struggle against inflation is nevertheless made somewhat easier by the fact that the recession which many people thought would follow the increases in the price of oil has not materialized. Rather, economic activity has continued at a high level, particularly in Europe, and even in North

America and in Japan the economic situation can be expected to improve in the course of the year. Furthermore, the push given to inflation by developments in the world raw material markets has weakened during the last months.

In this context, on 6 June 1974, the Council of the European Communities in its decision on economic policy guidelines for 1974 has laid down the basic lines of an appropriate anti-inflation policy. Furthermore, it has charged the coordination group for short-term economic and financial policy with a deep examination of its meeting on 15 July of the economic situation in each member country and the anti-inflationary measures which are called for.

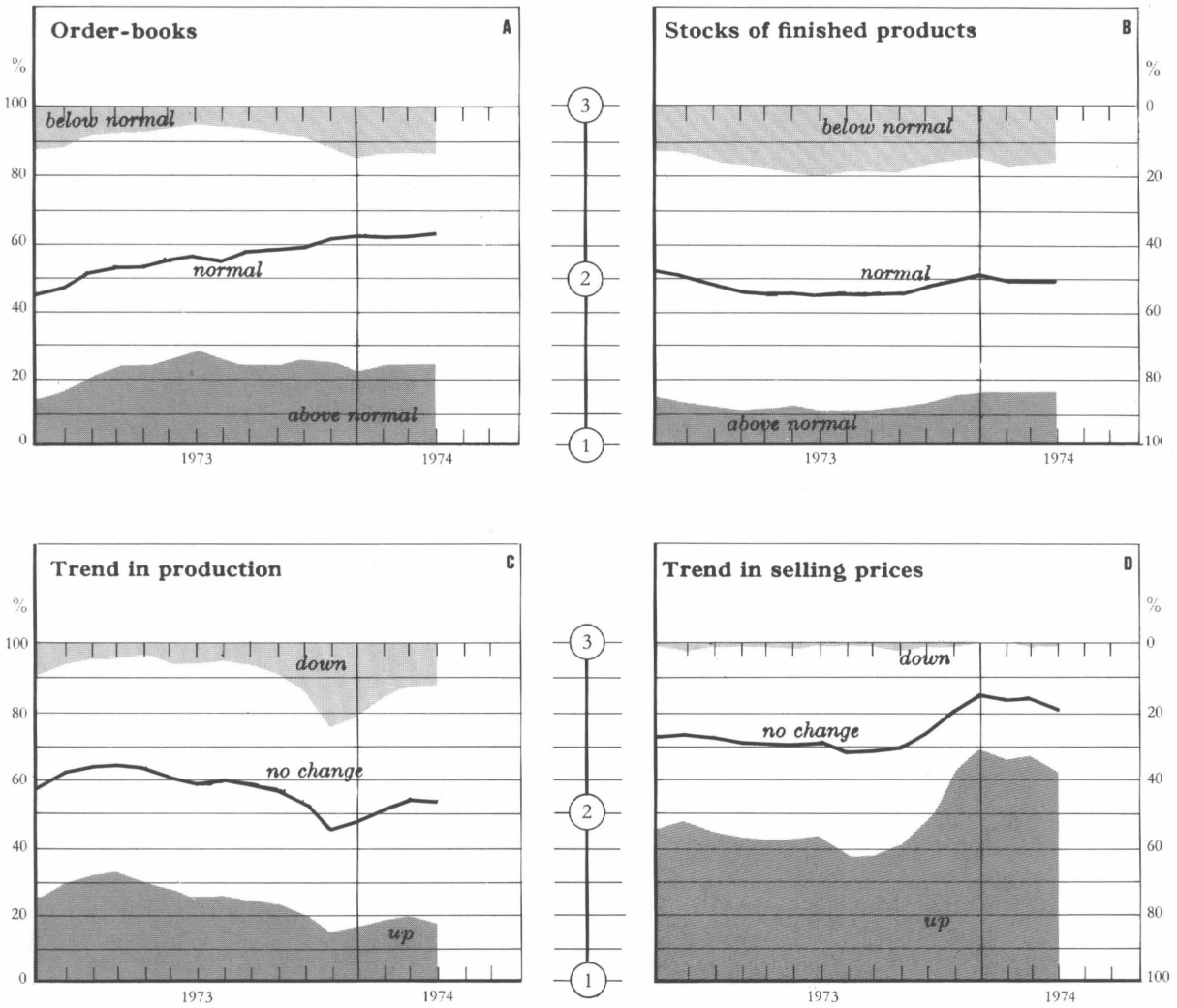
Alongside the efforts made to contain inflation and prevent recourse to unilateral protective measures, Community solidarity must help to overcome the difficulties until an appropriate anti-inflationary policy has resolved the balance of payments problems.

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<sup>1</sup> Cf. Especially its Communication to the Council concerning economic policy guidelines for 1974, the text of which is reproduced in the last Quarterly Report on the Economic Situation in the Community, as well as the Communication which it sent to the Council dated 5 June 1974 on "Urgent Economic and Monetary Measures".



## 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

Since October of last year the world economic situation has been increasingly influenced by the repercussions of the oil crisis. After two years of vigorous expansion, several industrialized countries outside the Community experienced a standstill in economic growth in the first quarter of 1974. Demand for cars was particularly sluggish. The rise in domestic price levels generally accelerated in the industrialized countries but the extraordinarily sharp upsurge of world commodity prices noted in 1972 and 1973 has distinctly slackened recently. Although the prices of certain commodities are still very volatile, the overall level of spot prices for raw materials (other than oil) has fallen since February.

As export order books were full and stocks were low at the beginning of the oil crisis, world trade reacted only gradually to the decline in economic activity. Rapid expansion of trade in value terms continued, but in terms of volume its growth slowed down. There has been a substantial improvement in the trade balances of the oil-producing countries, at the expense of the industrialized countries and the other developing countries.

In the *United States* the slowdown in economic activity already discernible since the beginning of 1973 became more pronounced as a result of the energy crisis. In the first quarter of 1974, real gross national product fell appreciably for the first time since 1970, to a level about 1.5% lower than in the previous quarter but still slightly higher than a year earlier.

However, the limited information on the second quarter available when this report was written seems to indicate that the economic downturn has come to an end. Residential construction investment seems to be past its trough. Business investment in several key industries has gone on rising, boosted by the continuing

favourable trend of profits and persistent capacity bottlenecks. Personal disposable income increased further, although distinctly more slowly than in the countries of Europe; in April average weekly earnings in industry were 6.3% higher than a year earlier. Purchases of consumer durables and especially of motor vehicles have recently picked up again slightly. Expenditure by the Federal administration seems to have grown appreciably faster. Industrial production, which on a seasonally adjusted basis had been steadily declining since November 1973, rose slightly in April. With the labour force expanding only gradually, the unemployment rate remained steady in the Spring at about 5%.

The progressive relaxation of price and wage controls, which were almost entirely lifted at the end of April, was accompanied by an appreciable acceleration in the upward movement of prices. In April the consumer price index was over 10% higher than a year earlier. Although exports grew briskly, the faster expansion of the value of imports, due mainly to the higher cost of oil products, in March resulted in a substantial reduction in the trade surplus on a fob basis. Since the autumn, interest rates have been rising again, reaching a new record level at the beginning of May under the influence of the Federal Reserve's restrictive policy. A slight downturn occurred however at the beginning of June.

*Canada* has been little affected by the oil crisis. The growth of demand and production has continued in recent months and the situation on the labour market has remained firm. The trade balance has remained in large surplus. Given the sharp erosion of purchasing power, Canadian monetary policy was tightened in April. In April the consumer price index was 9.9% higher than a year earlier.

In *Japan*, where economic growth had progressively slackened during 1973, real gross national

product fell by 5% in the first quarter of 1974, and the fall probably continued in the second. All the components of domestic demand have been weak. Despite the reduced pressure of demand and a very restrictive monetary policy, the rise in wages and prices was extraordinarily rapid. After a period of widespread strikes, wage increases of about 30% were awarded in a number of important industries. In April the consumer price index was 24.9% higher than a year earlier. The increased cost of oil imports was reflected in a sharp deterioration in the balance of trade.

In the *other industrialized countries*, outside the Community, economic activity has in general slowed down, but not to the extent feared immediately after the oil crisis broke. Imports and exports have gone on rising vigorously. The upsurge in prices has strengthened everywhere: in the last twelve-month period for which figures are available, consumer prices rose by 9% in Norway, 10% in Austria and Switzerland, 11% in Sweden, 13% in Australia, 16% in Spain and 17% in Finland.

Imports by the *Eastern bloc countries and the developing countries* as a group seem to have expanded vigorously. There is however a marked difference between those developing countries which have benefited from the sharply higher prices for their exports of raw materials, and the other countries not richly endowed with natural resources. The countries in the first category—notably the oil-producing countries—have increased their imports considerably, while the countries in the second group, confronted by sharp increases in import prices, found it difficult to maintain the volume of imports at its earlier level.

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

Despite the effects of the oil crisis, economic activity in the first quarter of 1974 remained at a high level in all Community countries except the United Kingdom, where labour disputes and the temporary shortening of the working week

to three days resulted in a considerable fall in production and employment. At the beginning of Spring a slight upturn was evident in the Community. The balance of the markets has distinctly deteriorated, mainly under the impact of the oil crisis. The rate of price increase has practically doubled within a year though the rise recorded differs appreciably from country to country. Apart from Germany, the payments balances have shown a marked adverse swing.

### *(a) External demand*

The value of *exports* to non-Member States has continued to rise appreciably in the past few months, and exports prices have climbed considerably. Real expansion has slowed down however especially that of exports to the United States and to the non-oil producing developing countries. On the other hand, the Community's sales to oil-producing and state-trading countries expanded sharply, with the emphasis on capital goods.

### *(b) Internal demand*

Although the effects of the energy crisis vary sharply from sector to sector, internal demand in nominal terms remained at a high level. At the beginning of Spring its expansion even accelerated a little. Expenditure on *gross fixed asset formation*, for instance, which had slowed down to a certain extent at the end of 1973 and the beginning of 1974, probably resumed its growth. This improvement, which was much sharper in money terms than in real terms because of the faster upward movement of prices, resulted from a firmer propensity to invest of enterprises in several member countries once the first shock of the energy crisis had been overcome. The key to this trend lies in the need to rationalize and restructure production to control the upward movement of costs, especially energy costs, and also, in some member countries, the easing of the restrictive line of budgetary policy, and the expectation of new price rises. Expenditure on residential construction, by contrast, tended to fall, mainly because of the sharp upsurge in costs, the shortage and higher cost of finance, and, in some countries, also the signs of saturation on the housing

market. The number of housing starts was distinctly lower than a year earlier. Public investment provided hardly any stimulus to the economy in most countries: in France and the Netherlands, however, public building activity remained firm, and in Germany there has been a certain upturn recently.

*Stockbuilding* was also very buoyant. Because of the continuing price increases for raw materials and semi-manufactures, enterprises made efforts to keep their stocks of intermediate products as high as possible. At the same time stocks of finished products increased involuntarily in the motor industry, which is facing sales difficulties.

The expansion of private *consumers' expenditure* was heavily influenced by the higher cost of oil products. Private consumers had to spend appreciably more on fuel. At the same time their purchases of cars fell considerably; in the first quarter new registrations of passenger cars in the Community were 20% lower than a year earlier. In addition many purchases of other consumer durables were postponed at the beginning of the energy crisis because of uncertainty about the future economic situation. It was not until the end of the winter that sales began to improve a little. Apprehension over the continuing sharp upsurge in prices increasingly seems to be the decisive factor in consumers' behaviour. The results of the EEC consumer surveys show that the propensity to save is, if anything, still rising in Germany, the Netherlands and Belgium, while it is tending to fall in France and Italy.

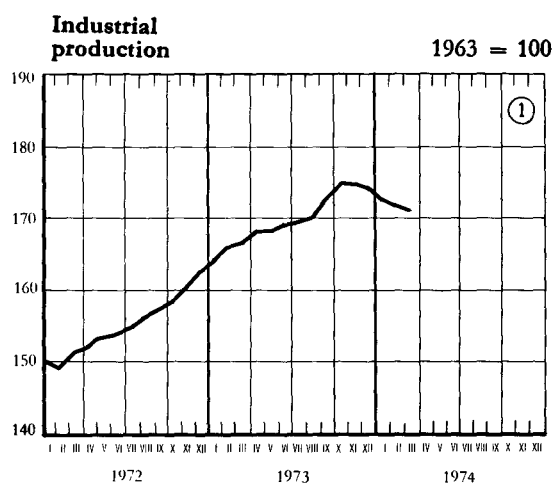
In the past few months, the expansion of public expenditure in most Member States, especially Italy and Belgium, has continued unabated; in Germany, the Netherlands and Ireland it has even tended to accelerate.

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

The growth of *production*, which at the beginning of the year was relatively weak in several member countries, showed a firmer tendency towards the end of the first quarter. This was helped by the return to normal working in the

United Kingdom and continued good weather for outdoor work.

The seasonally adjusted index of the SOEC shows that industrial production in the Community, excluding construction and the food, drink and tobacco industry, probably rose by 2% between the fourth quarter of 1973 and the first quarter of 1974, compared with 0.5% between the third and fourth quarters of 1973.



The rate of growth on the same period of the previous year reached 3%. The production of raw materials and intermediate products, especially iron and steel products and chemicals, maintained its vigorous growth. Elsewhere the structural problems facing certain industries showed up particularly clearly in this phase of comparatively weak economic growth. Thus in the textile and footwear industries, and, in some countries, in the building materials industry, developments were unfavourable. The same applied to the production of motor vehicles, but this fell less sharply than final demand, however, because of the growth of stocks. In the services sector the business trend generally continued upwards.

These tendencies in demand and production enabled *employment* to remain at a high level, but unemployment still rose in the Community as a whole, although trends differed from country to country and between sectors of the economy. In Germany and the Netherlands, enterprises' manpower requirements fell and

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

	1972				1973				1974
	I	II	III	IV	I	II	III	IV	I
Germany	+ 3.8	+ 0.6	+ 2.0	+ 3.5	+ 3.2	- 0.1	+ 1.4	+ 0.5	- 0.2
France	+ 1.1	+ 1.0	+ 1.3	+ 4.0	+ 3.3	+ 0.1	+ 0.6	+ 3.8	+ 4.0
Ireland	0	- 0.9	+ 2.8	+ 4.6	+ 6.1	- 1.7	- 0.8	.	.
Italy	- 1.9	- 0.4	+ 1.0	+ 7.2	- 7.2	+ 9.4	+ 6.8	+ 1.3	- 1.8
Netherlands	+ 3.6	- 0.1	+ 3.6	+ 2.9	+ 2.3	- 1.2	+ 3.5	+ 3.9	- 0.5
Belgium	+ 2.1	+ 4.5	- 1.0	+ 3.8	+ 1.3	+ 0.5	- 0.1	+ 1.3	+ 0.1
Luxembourg	- 1.3	+ 3.3	+ 3.1	+ 4.1	+ 5.5	- 1.1	+ 1.4	+ 4.9	+ 6.3
United Kingdom	- 4.4	+ 6.4	+ 1.4	+ 2.9	+ 3.8	+ 0.2	+ 1.9	- 1.3	- 9.7
Community <sup>3</sup>	+ 0.6	+ 2.1	+ 2.5	+ 3.0	+ 1.8	+ 1.5	+ 2.4	+ 0.5	- 1.9

<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 indexes of the Statistical Office of the European Communities. Ireland: OECD figures.

<sup>3</sup> Estimates.

the number of unemployed tended to go up, especially in the building industry. In Belgium, Ireland and Denmark, unemployment also showed a slight increase at the beginning of Spring. In Italy, where economic activity continued to expand vigorously, the number of unemployed has stayed unchanged. In France and the United Kingdom, unemployment on a seasonally adjusted basis has fallen from the peak recorded during the winter, and the number of unfilled vacancies is tending upwards again after an appreciable drop due to the energy supply problems. In general, short-time working was comparatively widespread, especially in the motor and textile industries, but there has recently been an improvement.

The value of *imports* from non-member countries has climbed very rapidly in the past few months owing to the exceptional rise in the cost of oil and the rapid upward movement of prices for other raw materials. The prices of imported semi-manufactures and to a lesser

extent of finished products reflected the worldwide acceleration of inflation. Imports in real terms, on the other hand, have probably slowed down distinctly, especially in Germany. The trend of *intra-Community* trade showed a similar pattern. Nevertheless the upsurge in prices and the slower expansion of trade at constant prices have probably been less marked than in the case of imports from non-member countries. Much of this may have been due to the second 20% tariff cut between the original Community countries and the new members, which came into force on 1 January.

(d) *Balance of the markets*

The upsurge in *prices* accelerated very appreciably. This is only partly due to the direct effects of the higher cost of oil products such as petrol and heating oil. A more important factor in the burst of inflation is the general upsurge in costs and the spread of inflationary

expectations. There are in fact increasing signs of the upsurge in prices being spurred by a process of self-reinforcement. The entire Community is hard hit by the rise in world market prices, as it is heavily dependent on non-member countries for raw materials. Moreover, because of the depreciation of their respective currencies, some member countries have felt the rise in

import prices more sharply than others. The continued acceleration of the increase in wage costs in almost all the countries of the Community has also given additional impetus to the present upsurge in prices, both in industry and in the services sector. By contrast, good harvests in the current crop-year and good weather have enabled the rise in food prices to level off.

### Consumer Prices

(% increase)

Country	June 71 to Dec. 71	Dec. 71 to June 72	June 72 to Dec. 72	Dec. 72 to June 73	June 73 to Dec. 73	Apr. 72 to Apr. 73	Apr. 73 to Apr. 74
Denmark	2.6	3.7	3.3	5.3	6.8	8.4	14.6
Germany	2.1	3.3	3.1	4.6	3.3	7.5	7.1
France	2.8	2.8	4.1	3.2	5.1	6.7	13.2
Ireland <sup>1</sup>	4.0	3.8	4.3	7.1	5.2	11.7 <sup>2</sup>	.
Italy	2.4	2.9	4.4	6.9	5.3	10.5	16.3
Netherlands	3.2	4.4	3.3	4.8	3.5	8.0	8.9
Belgium	2.8	2.7	3.7	3.2	4.0	7.2	10.4
Luxembourg	2.1	2.7	3.1	3.5	2.5	6.9	9.0
United Kingdom <sup>3</sup>	2.5	3.5	4.0	5.1	5.2	9.2	15.2

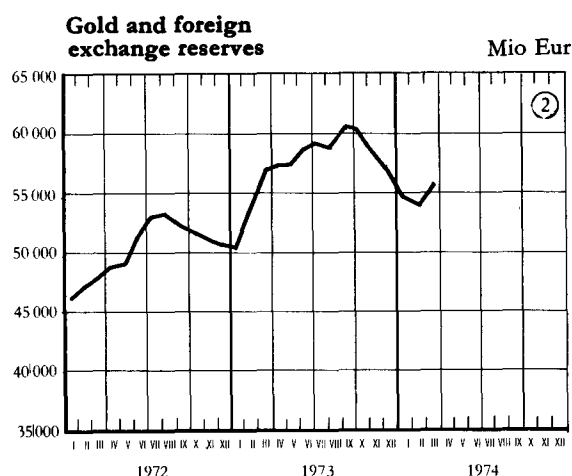
<sup>1</sup> Calculated on the basis of quarterly indices.

<sup>2</sup> May.

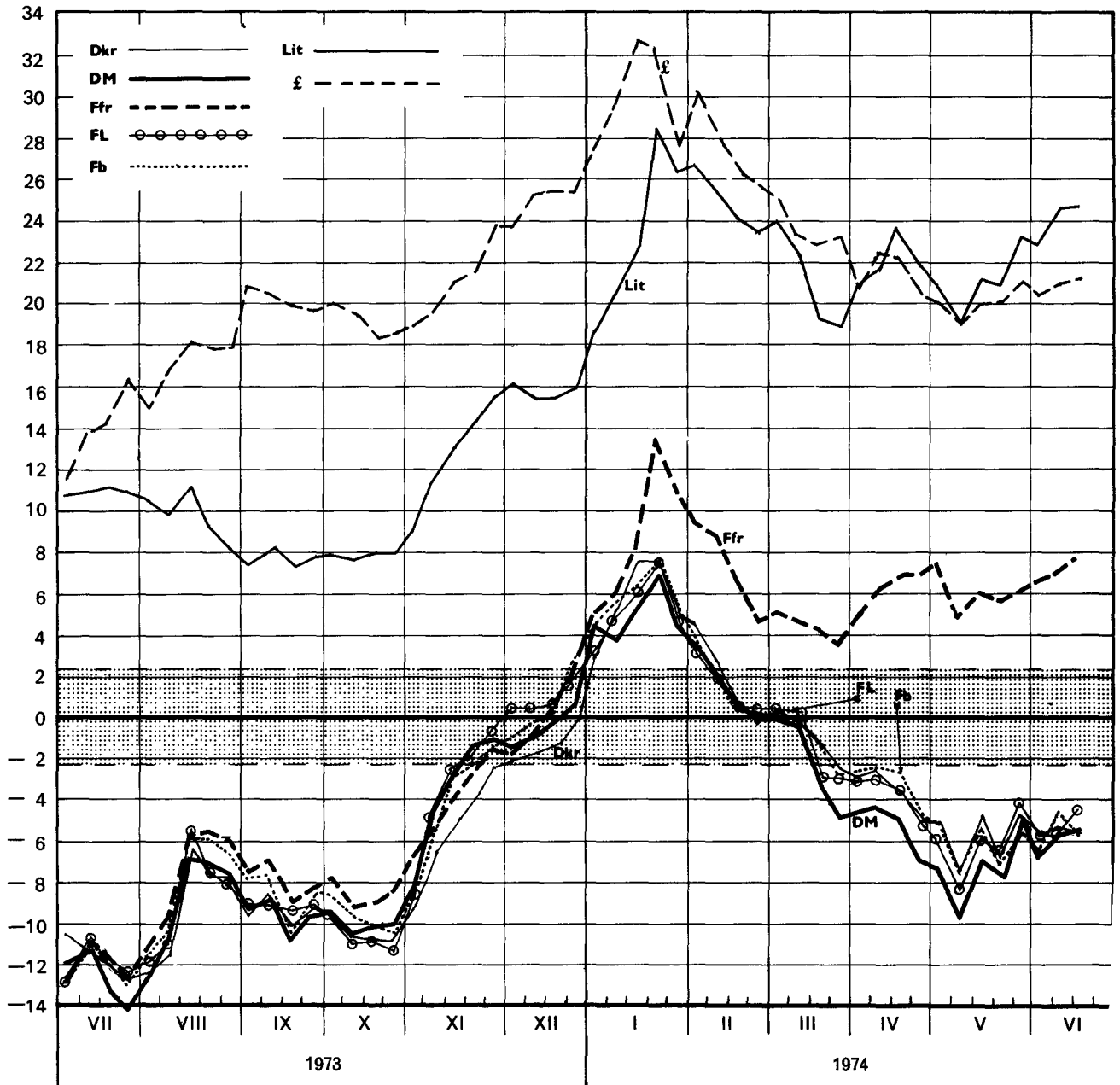
<sup>3</sup> Retail prices.

Owing mainly to the exceptional jump in oil prices and the appreciable increase in the cost of other raw materials, the Community's *balance of trade* with non-member countries deteriorated very markedly. The adverse swing was particularly pronounced at the beginning of the Spring when the higher oil prices fixed at the end of 1973 began to be fully reflected in the customs statistics.

Developments on the oil markets seriously unsettled the *foreign exchange markets*. At the turn of the year, there was a heavy drain on foreign exchange reserves not only of countries



Percentage differences between the dollar rate and the various central rates or parity. \*



\* Quotations given each thursday, or on occasion wednesday.



which had already been running current account deficits but also of countries with long-standing surpluses, such as Germany. At the same time, the dollar rose appreciably. Since February this trend has been reversed. Germany's reserves have risen again and the dollar has resumed its downward tendency. Foreign exchange losses induced the French Government to release the Banque de France from its duty to intervene under the Community exchange rate scheme, for a period of six months. Germany, the Netherlands, the BLEU and Denmark remained in the Community scheme, in which Sweden and Norway also continued to participate. Since the beginning of the year, the lira and the French franc have depreciated substantially in relation to the currencies of the member countries participating in the Community exchange rate scheme; their movements have been parallel with those of the dollar. On the other hand, the depreciation of the pound sterling has been less pronounced. At the end of May, the weighted depreciation in relation to the other Community currencies since the beginning of the year reached about 9% for the lira and 4% for the French franc, while the pound sterling scarcely showed any change.

The restrictive line of *monetary policy* was maintained throughout the Community. In some member countries, particularly Germany and the United Kingdom, *bank lending* in the first quarter contributed less strongly to domestic liquidity. In other countries, where lending was still expanding vigorously, quantitative credit restrictions were extended or tightened. In Italy, for instance, bank lending may as a general principle grow by no more than 15% between the end of March 1974 and the end of March 1975; for the first time this also includes lending to the central, regional and local authorities. In France, quantitative credit restrictions were extended until June, the maximum year-to-year growth of lending being fixed at 13% for both May and June. In Belgium, the monetary authorities are also trying to control credit expansion by making greater use of quantitative restrictions on the growth of lending but, on the other hand, banks' minimum reserve requirements were relaxed.

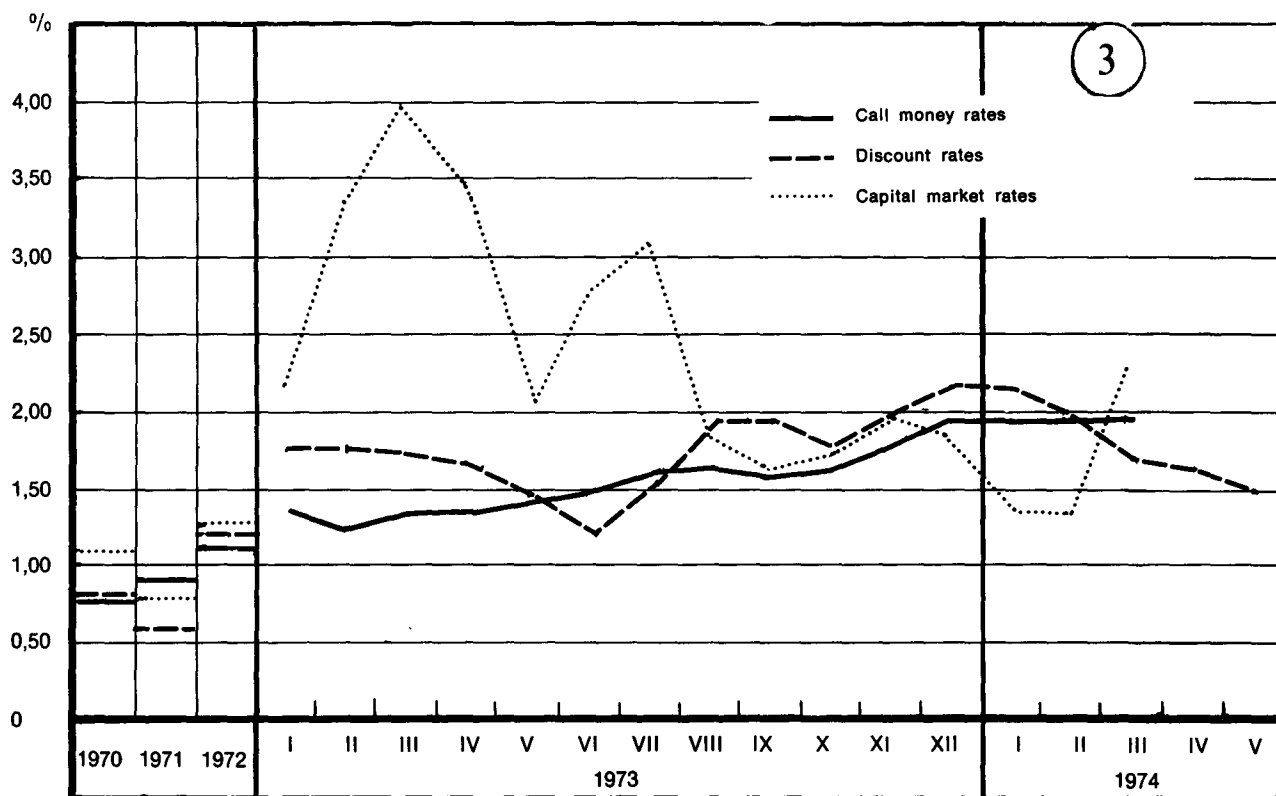
The effects of the *transactions of the public*

*authorities* varied from one member country to another. Pushed up by inflation, tax revenue was high throughout the Community, while correspondingly there were rapidly increasing demands on the expenditure side. To prevent the energy crisis from dampening economic activity, several member countries relaxed their restrictive budgetary policies at the turn of the year or even took budgetary measures to stimulate their economies. In Germany and the Netherlands, for instance, tax measures which made business investment more expensive, were lifted and additional expenditure programmes introduced. Budgetary policy in Italy, Ireland and Belgium was clearly expansionary. In France, on the other hand, budget management during the early months of 1974 had a dampening effect. Steps were taken in March in the United Kingdom to reduce the budgetary deficit by cutting expenditure and raising taxes. In Denmark indirect taxes were raised in May with the aim of holding back personal consumption and, hence, imports.

All in all, these factors caused *money supply* growth to slow down, particularly in the Netherlands, Germany and, more recently, the United Kingdom.

*Interest rates* have on the whole tended to converge. The general rise in interest rates at first continued at the beginning of the year, but towards the end of the first quarter—in contrast with the rising trend of interest rates in the United States—money markets eased, especially in Germany (one reason being foreign exchange purchases by the Bundesbank) and the United Kingdom (because of the need to increase liquidity during the economic crisis). By contrast, interest rates rose in Belgium and even more in Italy, the two Community countries with hitherto the lowest interest levels. During the first quarter, the discount rate was raised in Denmark on 23 January from 9 to 10%, in Belgium on 1 February from 7.75 to 8.75%, and in Italy on 20 March from 6.5 to 9%. On the other hand, the Bank of England's minimum lending rate fell, following the release of special deposits, from 13% at the beginning of January to 11.75% in the first half of April. Long-term interest rates generally continued to climb in the Community. Fears of an accelerating fall

**Dispersion of interest rates in the Community**  
(mean deviation from Community average)



in the value of money and the connected expectation that the restrictive monetary policy, with high interest rates, would be maintained, deterred

many savers from investing in long-term securities. In some member countries this seriously impeded the functioning of the capital markets.

*Demand for and supply of goods and services*

	1971 <sup>(1)</sup>	1972 <sup>(1)(2)</sup>		1973 <sup>(2)</sup>		1974 <sup>(2)(3)</sup>	
	At current prices Mrd Eur ( <sup>4</sup> )	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Gross fixed asset formation	162.0	+ 3.0	+ 10.3	+ 5.2	+ 14.1	+ 2	+ 15
Public current expenditure on goods and services	109.9	+ 4.3	+ 14.6	+ 3.6	+ 14.2	+ 3	+ 17
Private consumers' expenditure	408.0	+ 4.7	+ 12.4	+ 4.6	+ 13.1	+ 2.0	+ 15
Gross Community product	694.2	+ 3.7	+ 11.9	+ 5.6	+ 13.6	+ 2½	+ 13
Balance exports less imports (Mrd Eur) ( <sup>4</sup> )	+ 7.5	+ 7.7		+ 5.9		- 9.9	

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

<sup>2</sup> Based on Community totals of the aggregates of the individual member countries at the central rates fixed in Washington on 18 December 1971.

<sup>3</sup> Estimates.

<sup>4</sup> 1 Eur = 0.888671 g of fine gold.

*Note :*

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

## C. Outlook

### 1. Outlook for world economic activity

Economic activity in the United States and Japan can be expected to pick up again in the second half of the year, but in the other industrialized countries outside the Community, economic growth in the second half of 1974 is unlikely to differ much from the present rate. The volume of world trade will continue to expand if only very moderately compared with the very fast increase in 1973. Towards the end of the year, however, there may well be a slight acceleration. The Commission's departments at present expect the volume of world trade on an imports basis (excluding imports of the EEC member countries and state-trading countries) to increase by 6% in 1974, compared with a rise of 12% in 1973. The upward movement of prices is likely to remain very rapid, but in some industrialized countries it may slow down slightly, especially if raw material prices continue their tendency to stabilize and agricultural production turns out to be higher than in 1973, as is presently expected.

In the *United States* the economic trend is likely to be increasingly upwards again in the second half of 1974, but growth rates will probably still turn out to be comparatively low. This is because monetary and credit policy must be expected to remain restrictive given the continuing strong inflationary tendencies, and because bottlenecks are likely to persist in certain key industries, despite a high rate of investment activity.

It is above all a sharper increase in private consumers' expenditure which may stimulate expansion. On the wage front for instance there will probably be a quite noticeable catching up process after the recent decline in personal incomes. Moreover, corporate investment activity will remain very high. The latest business surveys indicate that industry's investment expenditure can be expected to increase substantially in 1974. It should also be borne in mind that in contrast to the situation in similar phases of earlier cycles, stocks are relatively low. Finally, the deterioration of the situation in housing construction could slow down.

Even so, gross national product will grow very little between 1973 and 1974—i.e. by scarcely 1/2%. Employment will probably rise relatively slowly because of the expected advance in productivity, so that the unemployment rate may still go up a little.

Once price controls have been lifted, the prices of industrial goods are likely to climb further. On the other hand, farm prices may flatten out or even fall as a result of a distinct improvement in production. This would imply a weakening of inflationary trends in the economy generally. Exports are likely to maintain their brisk growth, especially as the competitive position of American industry after the repeated dollar devaluation is very favourable. Nevertheless the trade balance must be expected to show a considerable deficit in the second half of 1974, on account of the sharp rise in oil prices.

In *Japan*, the economy is expected to resume its growth in the autumn, with the main expansionary stimuli probably coming from exports and the revival of investment activity. Despite the difficulties recently faced by the Japanese economy, business surveys indicate that managements take a fairly optimistic view. The upward thrust of prices will probably remain vigorous and there is likely to be a deficit—although smaller than in the first half of the year—on current account.

*Canada's* strong economic growth should continue, with all components of demand firm. The current account will remain in surplus. In *Sweden* and *Norway*, the pace of expansion may even quicken somewhat, helped by expansionary budgetary policies. In *Austria* and *Switzerland*, on the other hand, economic growth may if anything fall off in the second half of the year; the trend of investment demand, in particular, is likely to be sluggish.

In the *developing countries*, imports of the oil producing countries and of some countries which in the last few years have benefited greatly from the rise in raw material prices, will probably grow very strongly. It should be borne in mind, however, that the Community's exports to the oil producing countries constitute

only a comparatively small fraction of its total exports. Demand from the other developing countries, which have been hit very hard by the increase in oil prices, will probably grow only slightly, if at all.

## 2. Outlook for the Community

Economic prospects will continue to be dominated by strong inflationary tendencies throughout the Community and the serious balance of payments problems of some member countries. These will considerably restrict the room for manoeuvre in planning short-term economic policy. It can nevertheless be assumed that economic growth will continue in the period up to the end of the year. In countries in which restrictive measures, in particular budgetary measures, were appreciably relaxed following the oil crisis, there may even be an acceleration. This will be helped by the expected improvement in the world economic situation. Even so, growth rates of output will probably be lower than in previous upswings of the economic cycle, especially as some sectors will still be feeling the after-effects of the increase in oil prices. While some industries will have a relatively large amount of spare capacity, others may have difficulty in keeping pace with the expansion of demand.

In view of the expected upturn in world economic activity, *exports* to non-member countries will probably continue to grow, although far less rapidly than in 1973. Exports to North America in particular should increase more sharply again, although the depreciation of the dollar has appreciably weakened the competitive position of industry in most European countries.

*Gross fixed capital formation* may provide a stronger stimulus. In nominal terms, total fixed investment in 1974 will probably increase even more sharply than in 1973, but this is due solely to the faster pace of price rises. The flow of new orders in the capital goods industry and the results of the EEC business surveys suggest an improvement in the investment climate. Capital expenditure on plant and machinery is likely to be boosted by rationalization efforts to keep down labour costs and, to an increasing extent,

by efforts to save energy. Public expenditure on civil engineering should increase only moderately in most member countries. Activity in residential construction will remain sluggish, except in France and Ireland, where building of subsidized housing is very buoyant.

Although *stocks* of finished products have risen sharply in recent months in some industries, in particular the motor industry, stockbuilding may continue to provide a fairly appreciable stimulus. In the United Kingdom, where stocks were run down substantially during three-day working at the beginning of the year, there should be a considerable amount of restocking.

In the second half of the year, *private consumers' expenditure* in most member countries will increase very rapidly in terms of value, for wages will no doubt rise at a fast pace. The index-linking of wages and the payment of other forms of cost-of-living supplements are important factors behind the upward wage movement. At the same time, transfer incomes will again grow sharply in most member countries. As the economic situation improves, the propensity to save may fall off slightly. In terms of volume, however, the growth of private consumption should be relatively moderate.

This outlook for demand would suggest that *production* will stay on an upward trend during the second half of the year, particularly in the basic materials and capital goods industries. Developments in construction, the motor industry and some other branches of the consumer goods industry, on the other hand, may remain quite sluggish. Overall the increase in the Community's real *gross national product* should be some 2½ % in 1974.

The *labour market* situation will probably remain relatively stable. The number of persons employed should increase only slightly and unemployment will not fall to any notable degree. In certain industries of some member countries, in particular the motor industry and construction, unemployment may even tend to rise further. In this connection it must be borne in mind that the persistent cost pressures will dampen any increase in employment, and that, as a result of the effects of higher oil prices,

significantly more wage and salary earners than in the past may have to change jobs.

A further appreciable rise in Community *imports* looks likely. The rate of growth may well accelerate in Germany and perhaps for a time in the United Kingdom as well, where purchases of raw materials and semi-manufactured products could be boosted by the rebuilding of stocks. In Germany, this is partly because importers in recent months have sought to hold off purchases abroad in view of the uncertainty surrounding exchange rate relationships. Following the sharp deterioration in the Community's balance of trade in the first quarter, due mainly to the higher prices of petroleum products, the deficit could level off as the year advances. At all events the situation will differ sharply from member country to member country. While Germany and the Benelux countries will record surpluses, some of the other Community countries will have large deficits. For the Community as a whole, the current balance of payments will probably also show a considerable deficit.

It is to be feared that *prices* in the Community will still be climbing rapidly in the second half of the year. As there is a certain time-lag before consumer prices are affected by import prices, the increases in the prices of raw materials and petroleum products recorded in recent months have yet to have their full effect on domestic prices. Furthermore, in hardly any country has the rise in wage costs so far shown signs of slackening. In the agricultural sector, however, better harvest prospects and an increase in the output of livestock products may slow down the upward movement in prices.

### **Major economic policy measures**

*December 1973:*

— At its meeting on 3 and 4 December, the Council adopted, in the form of a resolution, a set of measures to be applied by the various Member States, in the light of their respective economic situations, concerning the fight against rising prices and the maintenance of a high level of employment in the Community.

— On 12 December, the Council agreed upon the implementation of the social action programme presented by the Commission, after incorporating a list of actions to be given priority.

— On 12 December, the Commission gave its approval to participation by the Social Fund in various projects, particularly pilot schemes to assist handicapped workers.

— At its meeting on 17 December, the Council reached agreement in principle on the Commission's proposals concerning the implementation of the second stage of economic and monetary union, whilst suspending their final adoption and entry into force.

— At the same meeting, on 17 December, the Council reached agreement in principle on setting up an Energy Committee and on the provision of information to the Commission to enable exhaustive energy tables to be drawn up for the Community. These latter decisions were held in abeyance until 30 January 1974 when they were finally approved.

*January 1974:*

— The second 20% cut in customs tariffs between the six original Community countries and the three new members took effect on 1 January.

— On 14 and 15 January, the Council decided to participate in the Washington conference on energy problems.

— On 21 and 22 January, the Council authorized the application of compensatory amounts at the French frontiers to offset the effect on import and export trade of the floating of the French franc.

*February:*

— At its meeting of 18 February the Council formally adopted the following instruments:

— decision on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community;

— directive on stability, growth and full employment in the Community;

- *decision setting up an Economic Policy Committee;*
- *resolution concerning short-term monetary support.*

*March:*

- *At its meeting on 4 March, the Council requested its President, Mr. Scheel, to contact the Arab countries with a view to defining the basis of future cooperation.*
- *At the Council meeting on 21, 22 and 23 March, the Ministers of Agriculture set the farm prices for the coming farm year; the average increase is 9%.*

*April:*

- *At the end of April, the Ministers of Finance of the Community reached agreement in principle on the mobilization of gold reserves. After consultation with the US government, the monetary authorities are to be authorized to buy and*

*sell gold both among themselves at a market-related price and on the free market.*

*May:*

- *Under article 108 § 3 of the Treaty establishing the European Economic Community, the Commission decided, on Wednesday the 8th of May, to authorise Italy to take, on a strictly limited and temporary basis, certain protective import measures (Please see the chapter on Italy). The application of these measures will be controlled by the Commission.*

*June:*

- *On the 4th of June, the Council made a regulation establishing a new rate for the "green" Lira, which was thereby devalued by 12.5% with effect from the date of application of the Commission's decision of 8 May 1974.*
- *On the 6th of June, the Council adopted a decision concerning the adjustment of the economic policy guidelines for 1974.*

## Community

**TABLE 1: Basic data 1972**

	Communi- ty	Denmark	Germany	France	Ireland	Italy	Nether- lands	Belgium	Luxem- bourg	United King- dom
Total area ('000 sq. km.)	1 524.8	43.0	248.5	551.2	70.3	301.2	33.5	30.5	2.6	244.0
Total population ('000)	255 044	4 994	61 669	51 700	3 014	54 401	13 330	9 711	348	55 877
Density of population per sq. km.	167	116	248	93	43	181	398	318	134	229
Numbers in employment ( '000)	104 311	2 414	27 463	20 709	1 048	18 331	4 701	3 969	151	24 744
Numbers in employment, breakdown by main sector (%) :										
Agriculture	10	10.4	7.4	12.9	25.5	18.0	6.7	4.1	9.3	2.7
Industry	44	35.9	48.5	40.4	28.7	43.8	36.9	42.3	48.3	46.9
Services	46	53.7	44.1	46.7	54.2	38.2	44.2	51.2	42.4	50.4
Share of gross domestic product (%) :										
Agriculture	.	7.7	3.5	5.9	16.9	9.2	5.8	4.3	(4.4) <sup>(1)</sup>	2.9
Industry	.	38.2	50.9	47.2	32.3	38.9	39.9	43.3	(57.5) <sup>(1)</sup>	42.5
Services	.	54.1	45.6	46.9	50.8	51.9	38.7	52.4	(38.1) <sup>(1)</sup>	54.6
In % of gross domestic product :										
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

(<sup>1</sup>) 1970

**TABLE 2: Key indicators**

	% change by volume on preceding year						Volume indices 1963 = 100
	1967	1968	1969	1970	1971	1972	1972
Gross Community product	+ 3.1	+ 5.4	+ 6.3	+ 4.9	+ 3.2	+ 3.7	149
Industrial production	+ 0.9	+ 8.5	+ 9.3	+ 5.1	+ 2.3	+ 5.1	158
Imports of goods and services	+ 5.0	+ 11.1	+ 14.4	+ 10.7	+ 7.0	+ 8.9	214
Private customers' expenditure	+ 3.5	+ 4.1	+ 5.3	+ 5.4	+ 4.3	+ 4.9	148
Gross fixed asset formation	+ 2.4	+ 6.5	+ 7.9	+ 7.1	+ 2.5	+ 2.9	159
Exports of goods and services	+ 5.9	+ 12.5	+ 12.8	+ 9.5	+ 8.1	+ 7.6	219
Intra-Community visible trade	+ 5.7	+ 19.5	+ 22.5	+ 12.4	+ 9.0	+ 11.6	298
Gross product per capita	+ 2.5	+ 4.8	+ 5.5	+ 4.3	+ 2.4	+ 3.1	139



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	172	174	174	174	176	153	137	174	179	185	177
	1974	167	175										
Imports from non-member countries (cif, million Eur)	1971	3 676	3 912	4 405	4 090	3 948	4 310	3 906	3 705	3 936	3 987	3 916	4 417
	1972	3 908	4 094	4 559	4 156	4 509	4 424	3 988	4 117	4 280	4 666	4 716	5 007
	1973	4 961	4 981	5 205	5 008	5 858	5 591	5 503	5 316	5 763			
Exports to non-member countries (fob, million Eur)	1971	3 550	3 831	4 471	4 025	4 079	4 180	4 328	3 864	4 135	4 182	4 101	4 782
	1972	4 001	4 328	4 798	4 476	4 768	4 871	4 552	4 265	4 483	5 345	5 071	5 601
	1973	4 969	5 158	5 470	5 302	6 247	5 858	6 279	5 443	6 033			
Balance of trade (million Eur)	1971	- 126	- 81	+ 66	- 65	+ 131	- 130	+ 422	+ 159	+ 199	+ 195	+ 185	+ 365
	1972	+ 93	+ 234	+ 239	+ 320	+ 259	+ 447	+ 564	+ 148	+ 203	+ 679	+ 355	+ 594
	1973	+ 8	+ 177	+ 265	+ 294	+ 389	+ 267	+ 776	+ 127	+ 270			
Intra-Community trade (million Eur)	1971	3 369	3 786	4 459	3 967	3 920	4 103	3 995	3 448	4 073	4 398	4 252	4 388
	1972	4 029	4 403	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			

## NOTES TO GRAPHS AND TABLES

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

Denmark: SOEC; Danmarks Statistik.

Germany: SOEC; Statistisches Bundesamt.

France: SOEC.

Ireland: SOEC; Administration Year Book (IPA) CB, Basic statistics

Italy: SOEC; Relazione generale sulla situazione economica del Paese (1972).

Netherlands: SOEC; Ministerie van Sociale Zaken en Volksgezondheid; Centraal Bureau voor de statistiek.

Belgium: SOEC; Ministère de l'Emploi et du Travail.

Luxembourg: SOEC.

United Kingdom: SOEC; Central Statistical Office.

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

**Graph 1**

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

**Graph 2**

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

## **Community**

### *Table 1*

Total population at mid-year; for Germany, estimated average for year; for Italy, average for year.  
Resident population in employment at mid-year; for Germany, estimated average for year; for Italy, average for year less persons temporarily working abroad.  
Percentage shares of the main economic sectors at factor cost.  
Percentage shares of demand aggregates and of total imports at market prices.  
Total Exports and Imports; goods and services.

### *Table 2*

Industrial production, excluding construction, food, beverages and tobacco: index of the Statistical Office of the European Communities.  
Trade between member countries, on imports basis: as shown by foreign trade statistics. Figures for the original members of the 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

*At the beginning of the year, the level of activity was still high despite the effects of the oil crisis. The growth of domestic demand slackened a little, but exports continued to expand rapidly. Unemployment has risen recently. The upward movement of prices and costs gathered additional momentum and the current balance of payments deteriorated sharply.*

*In the months ahead, the deceleration of growth could become more pronounced, both on the demand and on the production side. The conditions for the maintenance of internal and external equilibrium will remain insecure.*

### 1. Recent developments

Despite the impact of the oil crisis, which caused a cut in supplies until the month of February, the level of activity continued to be high. Employment remained fairly stable. At the same time, the conditions for the maintenance of internal and external equilibrium deteriorated sharply.

*Exports* continued to grow at a rapid pace. From January to April their value was up by 12% on the previous four months and 34.5% higher than a year earlier. However, much of this increase was due to the sharp rise in export prices. Sales of industrial products, which were stimulated by the second cut, on 1 January, in tariffs between the original Community countries and the new members, continued to benefit from strong demand, especially from Germany, France and the Benelux countries. Deliveries to Sweden and Norway also picked up again appreciably. Exports of agricultural produce, which account for almost 30% of total foreign sales, rose very rapidly in value.

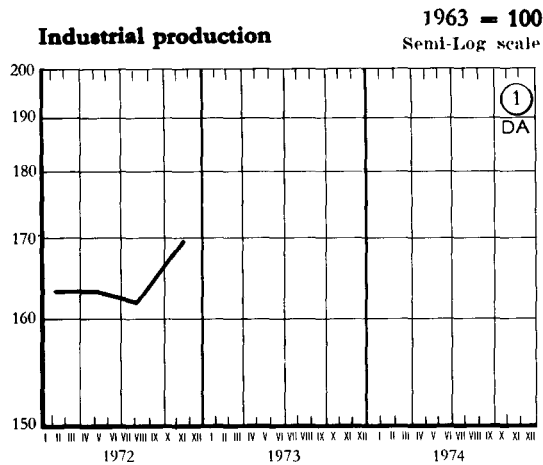
Domestic demand lost some of its buoyancy. Although still at a high level, *investment* tended to moderate due to several factors. Firstly, the prospect of a more moderate level of activity no doubt led managements to implement their capital spending programmes more slowly.

Secondly, due to the measures taken in 1973 (abolition of the VAT refund on dwellings, cut in the number of building permits issued, credit restrictions) the number of housing starts in the first four months of 1974 were less than 44% of those for the previous year. In addition, the ban on new public building resulted in a decline in public sector investment. Finally, stock-building may have slowed down, notably because of the rise in interest rates.

*Private consumers' expenditure* grew more slowly, especially as a result of the sharp rise in oil prices and its impact on disposable income. The seasonally adjusted index of the volume of retail sales showed no further increase in the early months of the year. On the other hand, the number of new car registrations, which had fallen sharply between November and January, picked up again in the following months. This may be seen partly as a reaction to the earlier decline brought about by the oil supply uncertainties, and partly as precautionary buying due to the expectation of sharply higher prices. The growth of *public current expenditure* probably slackened a little.

Despite some slow down in overall demand, *production* continued to expand vigorously. Industrial production increased significantly at the beginning of the year, as can be seen from the upward trend of employment in manufac-

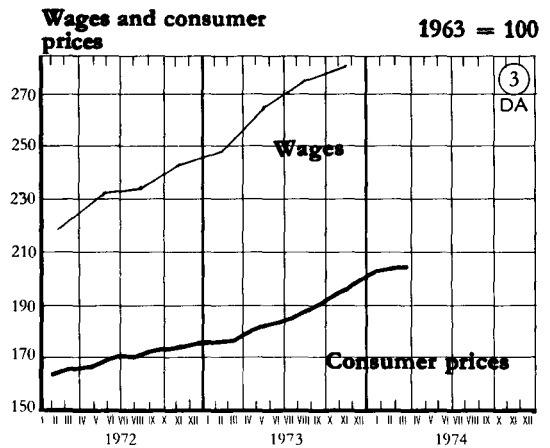
turing industry. The volume of agricultural production probably grew moderately.



The *employment* situation was virtually unchanged. Manpower made redundant in the building sector seems to have been absorbed by other industries, especially those manufacturing plant and machinery. Although some firms are still troubled by shortages of skilled labour, the number of jobs on offer has declined in recent months. Moreover, since November the number of registered unemployed has shown some tendency to rise and this tendency has recently been accentuated.



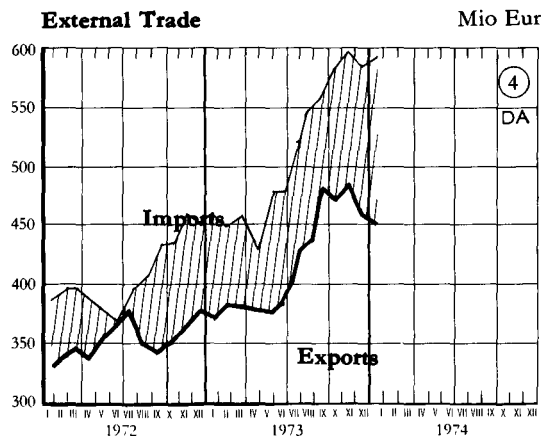
The upward movement of *prices*, which slowed down temporarily during the price freeze (2 January to 24 February), subsequently resumed its rapid pace. In April, the consumer price



index was 14.2% up on the level recorded a year earlier. While the trend of food prices was somewhat more moderate, the rise in prices of imported basic materials accelerated.

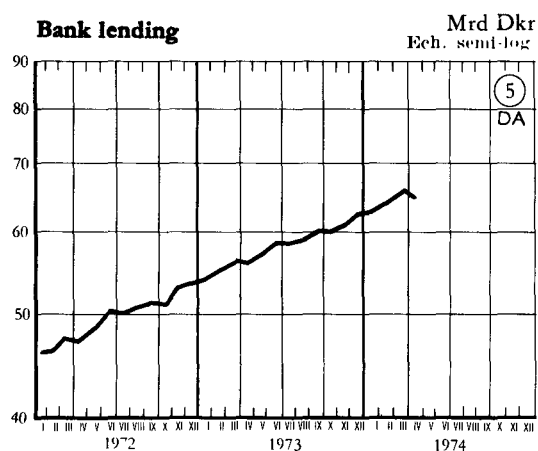
*Imports* continued to grow strongly—especially in terms of value—as a result of the faster rise in import prices. All categories of products were affected by this increase, especially industrial products, raw materials used in agriculture, and transport equipment. In the first four months of the year, the value of total imports, adjusted for seasonality, was up 27% on the previous four months and was 51% higher than a year earlier.

As a result of increased reliance on imports and a distinct deterioration in the terms of trade, the *balance of trade* worsened sharply. In the first four months of the year, the deficit doubled compared with the same period of



1973, rising to Dkr 6,000 million. Net total reserves consequently fell by Dkr 967 million between the end of December and the end of April, to Dkr 6,800 million. However, the net position of the commercial banks improved by Dkr 2,200 million during the same period.

Borrowing went on expanding even though the ceiling on *lending* to the economy remained in force. The increase in the money supply (M2)—not seasonally adjusted—continued to slacken; in April, the year-to-year growth was 9.8%, compared with 12.6% in December 1973.



### Demand for and supply of goods and services

	1971 <sup>(1)</sup>	1972 <sup>(1)</sup>		1973 <sup>(2)</sup>		1974 <sup>(2)</sup>	
	At current prices (in Dkr '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>(3)</sup>	38.8	+ 6.0	+ 12.1	+ 6	+ 25½	+ 7	+ 19
Gross fixed asset formation	38.5	+ 2.5	+ 12.2	+ 12½	+ 23	+ 2	+ 21
Public current expenditure on goods and services	28.5	+ 5.0	+ 13.0	+ 3	+ 16½	+ 3	+ 21½
Private consumers' expenditure	76.7	+ 3.0	+ 9.0	+ 4½	+ 14	+ 2½	+ 18½
Gross national product	140.3	+ 4.7	+ 13.2	+ 5	+ 17	+ 2	+ 16
Imports <sup>(3)</sup>	40.6	+ 3.4	+ 8.1	+ 17	+ 31½	+ 4½	+ 25½

<sup>1</sup> Danmark Statistik.

<sup>2</sup> Estimates.

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

*Note :*

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

## 2. Outlook

In the coming months, the Danish economy is likely to experience a certain slowdown in the growth of demand, production and employment.

The relatively favourable outlook for demand from certain important buyer countries such as Sweden and Norway points to a further appreciable expansion of *exports*. On the other hand, the growth of domestic demand will probably slow down significantly. The propensity to invest will no doubt be curbed by the downward revision of private sector *investment* programmes in recent months. The latest business survey, carried out in April, indicated cut-backs in investment plans in industry. In particular,

a marked decline in building activity—both public and private—is foreseen as a result of the measures taken since the spring of 1973 and the high level of interest rates. It is not until the autumn, when the present ban on public building is to end, that a certain recovery may set in.

Although the trend of private *consumers' expenditure* is subject to a number of uncertainties, the increase of personal spending can be expected to moderate appreciably. Even if wages and salaries continue their rapid rise and transfer payments, especially to the least well-off increase substantially, disposable income will be affected by higher taxation and by the application, in September, of the compulsory saving

### Central Government Budget

	1973/1974		1974/1975	1973/1974	1974/1975
	Original Budget	Revised Budget	Draft Budget	Original Budget	Original Budget
	Mio Dkr			% changes on the preceding year's original budget	
Expenditure	49,471	49,530	61,383	+ 15.3	+ 24.1
Revenue	53,500	55,005	65,123	+ 16.6	+ 21.7
of which:					
— direct taxes	26,435	27,110	34,056	—	+ 28.8
— indirect taxes	25,300	26,960	29,116	—	+ 15.1
Surplus on current and capital account	+4,029	+5,475	+3,740	—	—

scheme introduced last April. In addition the new measures adopted by the Parliament on 15 May to increase indirect taxes which will affect 15% of household expenditure will have a substantial effect on consumption. Besides, the less favourable situation on the labour

market and the less buoyant outlook for growth may lead consumers—in spite of price increases—to spend more cautiously. To judge from the Government's plans, public current expenditure will continue to increase very slowly, especially in terms of volume.



With the trend of domestic demand less buoyant, *production* must be expected to expand somewhat more slowly. The number of unfilled vacancies should continue to decline and the shortages still noted in certain sectors will no doubt tend to disappear. The shorter working week planned for the end of the year and the prospect of an upswing in 1975 could, however, lead managements to postpone possible cuts in their workforce. Despite this factor the employment situation will deteriorate and unemployment will without doubt rise.

Given the fall-off in the expansion of demand and production, the growth in the volume of *imports* is likely to slacken distinctly, more especially as the recent increases in indirect taxation will have a decelerating effect on the imports of certain goods, and in particular cars. As the upsurge in the cost of imported energy and finished products should moderate slightly during the year, imports could also develop less rapidly in value. Thus the deficit on the trade balance, although remaining high, could decline somewhat.

In the circumstances, the problems facing the Danish authorities will essentially revolve around a return to better conditions of equilibrium, both internal and external. A slowdown in the upward movement of costs and prices is the more desirable in that it would help to maintain the competitive position of Danish products, a precondition for a rapid expansion of exports and an improvement in the balance of payments.

### **Major economic policy measures**

*November 1973:*

— *The issue of work permits to foreign workers was suspended on 29 November and the renewal of existing permits for more than one year was forbidden.*

*December:*

— *The discount rate was raised from 8 to 9% on 20 December.*

*January 1974:*

— *A price freeze was imposed, from 2 January to 24 February, covering all products with the*

*exception of raw materials and other imported goods.*

— *The maximum level of unemployment benefits was raised by some 14% to Dkr 132 per day. The percentage of the usual daily wage remains at 90%.*

— *On 22 January, the discount rate was put up from 9 to 10%.*

*February:*

— *The capital tax system was revised. The tax threshold was raised from Dkr 300,000 to Dkr 450,000 and the tax rate fixed at 0.9% for amounts lower than Dkr 2 million and 1.1% for amounts exceeding that figure.*

— *Parliament adopted economic policy measures proposed by the government, including:*

— *subsidies to all firms, with the exception of banks and insurance companies, calculated on the basis of the number of employees and intended to reduce the rise in costs;*

— *restrictions on dividend payments.*

— *A ban was placed, until 1 August 1974, on any increase in the number of civil servants from the level of 14 February 1974.*

*March:*

— *The new budget for the fiscal year 1974/75 was adopted on 29 March. The budget provides for a cut in expenditure of about Dkr 1,500 million compared with the preliminary estimates. The surplus on capital account is estimated at Dkr 3,700 million and the cash surplus at Dkr 1,400 million.*

*April:*

— *A system of compulsory saving from income was introduced, which should freeze a sum of about Dkr 1,050 million. This measure will apply to single persons having a taxable income exceeding Dkr 40,000 and to married persons with a taxable income exceeding Dkr 30,000 each. The amount to be saved varies from 4 to 9% according to income level and must be deposited with a bank in three instalments beginning in September 1974. After three years, the amount saved will be repaid over a five-year period.*

— On 5 April, a decision was taken to maintain the existing credit ceiling during the next few months.

*May:*

— 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 less than 4 tonnes. This tax only applies to those vehicles imported from 8 May.

*Permanent measures (indefinite duration).*

— Increase of 50% (instead of 66.7% initially proposed) on the road tax for private vehicles. The tax for commercial vehicles less than 3 tonnes was also increased.

— Increase of 20% (instead of 33% previously proposed) on the taxes on domestic equipment (fridges, washing machines, cookers, extractors, razors, etc.).

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

— Increase of 10% of the tax on tape recorders.

TABLE 1 : Key indicators

	1969	1970	1971	1972	1973	1973
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	+ 8.1	+ 2.7	+ 3.5	+ 4.4	+ 3.7	157.1
Industrial production	+ 12.0	+ 2.7	+ 2.6	+ 8.5	—	—
Total imports	+ 14.6	+ 8.3	+ 2.4	+ 4.3	+ 18.3	236.8
Private consumers expenditure	+ 9.9	+ 1.3	+ 2.3	+ 3.0	+ 4.3	152.1
Public current expenditure on goods and services	+ 9.0	+ 11.4	+ 8.6	+ 7.7	+ 4.7	201.0
Gross fixed asset formation	+ 10.2	+ 4.9	+ 4.1	+ 4.5	+ 9.2	188.7
Total exports	+ 9.4	+ 6.3	+ 7.1	+ 7.5	+ 9.2	208.1
Gross national product per head of population	+ 7.5	+ 1.8	+ 2.9	+ 3.8	+ 3.1	145.8
Gross national product per person in employment	+ 7.5	+ 1.1	+ 3.1	+ 2.6	+ 3.0	139.3
	% change by value on preceding year					
Gross income per employee	+ 12.1	+ 11.0	+ 10.5	+ 14.0	+ 16.0	—

TABLE 2 : Indicators for internal and external equilibrium

	1969	1970	1971	1972	1973
Balance exports less imports					
in million Eur	- 334.6	- 469.1	- 423	- 93	- 389
as percentage of GNP	- 2.2	- 2.8	- 2.3	- 0.5	- 1.6
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	+ 5.6	+ 8.5

**Denmark**

**TABLE 3: Selected monthly indicators**

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1968 = 100)	1970			107			119			117			118
	1971			116			118			119			119
	1972			126			127			126			131
Unemployed (1 000)	1972	31.7	36.4	26.7	32.6	40.4	33.1	33.3	31.1	29.1	25.0	21.9	21.0
	1973	12.0	6.9	10.3	31.5	19.9	25.0	25.6	23.4	23.7	21.5	22.2	22.3
	1974	18.6	9.3										
Dwellings under construction (1 000)	1972	33.5	33.1	33.2	33.5	34.8	39.2	39.0	38.5	38.6	40.5	40.1	38.8
	1973	38.6	38.0	38.5	38.2	38.5	37.8	37.0	36.3	35.0	35.3	34.1	32.6
	1974	60.1	59.0	56.9	55.4								
Retail sales (1968 = 100)	1972	135	137	142	144	143	145	147	151	153	147	151	151
	1973	158	157	156	159	156	165	164	170	174	173	174	176
	1974	177	178	174	182								
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	160.8	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								
Visible imports (million Eur)	1972	397	413	386	370	382	363	455	417	444	470	480	412
	1973	503	442	429	417	514	522	560	562	557	613	611	516
	1974	650											
Visible exports (million Eur)	1972	366	347	337	335	409	367	357	330	347	385	374	377
	1973	367	412	376	347	409	411	492	402	540	467	441	469
	1974	440											
Balance of trade (million Eur)	1972	- 31	- 66	- 49	- 35	+ 27	+ 4	- 98	- 87	- 97	- 85	- 106	- 35
	1973	- 136	- 30	- 53	- 70	- 105	- 111	- 68	- 160	- 17	- 146	- 170	- 47
	1974	- 210											
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							
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	9 164	9 115	9 248	9 521	9 681	9 897	9 820	9 906	10 099	10 185	10 427	10 534
	1974	10 202	10 160	10 173	10 458								

**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; seasonally adjusted.

*Graph 2*

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

*Graph 3*

Wages: hourly earnings in industry (including bonuses).

*Graph 4*

Imports: cif; exports: fob; seasonally adjusted; three-month moving averages, OECD.

*Graph 5*

Bank lending: by commercial and major savings banks.

*Table 1*

GNP at market prices;  
 Industrial production: value added by industry;  
 Exports and imports: goods and services;  
 Gross income per employee: income from employment, SOEC.

*Table 2*

Balance exports less imports: goods, services and factor incomes, SOEC.  
 Unemployment rate: number of insured unemployed as percentage.

*Table 3*

Industrial production: volume of sales in manufacturing; seasonally adjusted.  
 Insured unemployed: seasonally adjusted, OECD.  
 Dwellings under construction : Until the end of 1973 the figures only cover large urban areas. r l Comparable figures for 1973 on the new definition :  
     Jan. : 66,5;  
     Febr. : 66,3;  
     March : 68,7;  
     April : 68,8.  
 Retail sales: seasonally adjusted.  
 Imports: cif, exports: fob; seasonally adjusted, OECD.  
 Balance of trade: difference between the seasonally adjusted figures of exports and imports, OECD.  
 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, Danmarks Nationalbank.  
 Money supply: notes and coins in circulation and deposits at post giro accounts commercial and major savings banks, Danmarks Nationalbank.



## **CORRIGENDUM**

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

#### **No 1 - 1974**

- Page 7, para. 3* : after the first sentence, insert "Already, the oil price increase is causing a generalised acceleration in the rise in prices. At the same time domestic factors, especially cost pressures, are tending to add to inflation".
- Page 12, para. 4* : amend first two sentences to read "In the second group of countries the constraints imposed by the balance of payments situation and by the vigorous upsurge in costs and prices call for policies to restructure demand aimed at improving the external balance".





## B. Germany

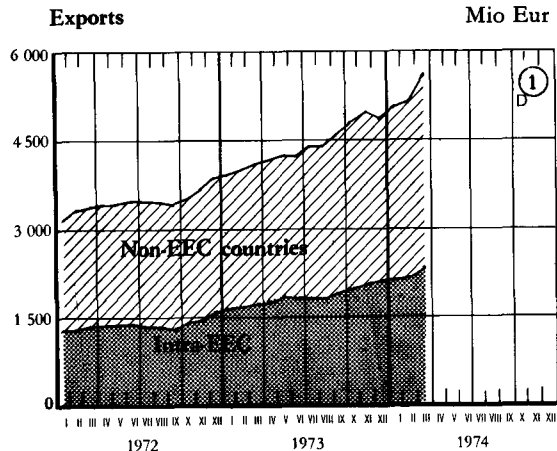
*In the spring the business climate improved in Germany, helped by the vigorous expansion of export demand and a revival in the propensity to invest of enterprises. The very sharp rise in costs in the economy has given a further twist to the price spiral.*

*The coming months will probably see a gradual strengthening of the expansionary forces in the economy. The upward movement of prices, especially consumer prices, could speed up appreciably.*

### 1. Recent developments

Once the danger of impediments to production in the form of a short-fall in energy supplies had disappeared and the Federal Government had lifted most of the restrictive measures of short-term economic policy, industrialists became more confident again in the early months of the year and the economic trend was more favourable than at first seemed likely. The underlying recovery did not suffice to remedy obvious structural weaknesses in major sectors. The upward movement in the cost of labour and materials remained very vigorous and has so far been reflected mainly in a very strong upsurge in industrial producer prices.

*Export* demand was still lively despite the revaluation of the German mark and the sharp rise in German export prices, enabling Germany's visible exports to reach new record levels. In the period under review it was thus exports which gave economic activity the main boost and not only prevented pessimism from becoming even more widespread but also stim-



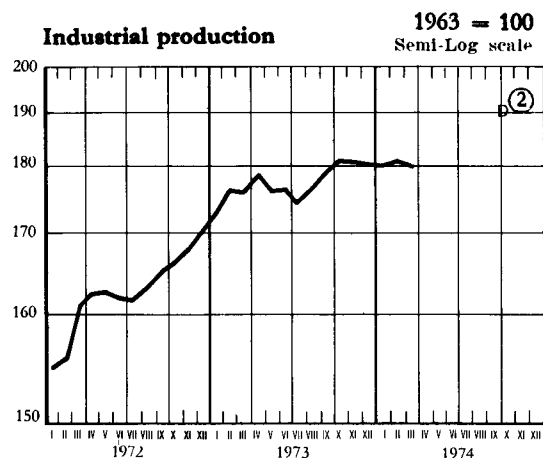
ulated other fields of the economy. The total value of visible exports during the first four months of the year was up 32% on the same period a year earlier; in real terms the increase was 18½%.

The more favourable economic outlook and the abolition of the investment tax led to a certain increase in the *propensity to invest* of enter-

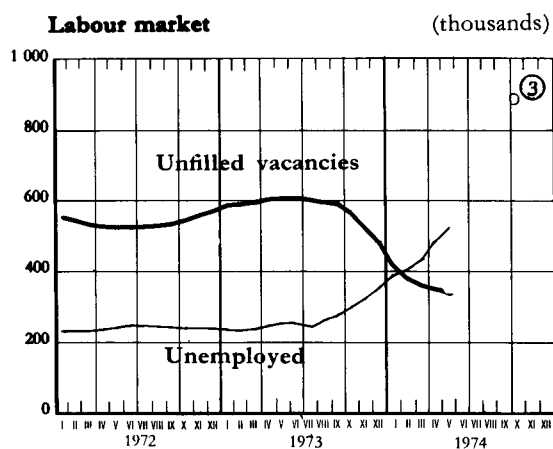
prises despite the credit squeeze and the continuing increase in long-term interest rates. In the *building sector*, the already very depressed business climate deteriorated further in the first quarter. Thanks to the very mild winter building activity was hindered less than usual by weather conditions and new orders continued to be placed only cautiously, the result being that the period covered by building orders on hand shortened, which is unusual for the season. The fall in demand remained sharpest in residential construction, which was paralyzed by excess supply and the high cost of borrowing. Demand for industrial and commercial building was held back by the reluctance of enterprises to extend capacity. The public authorities acted to prevent an even sharper setback in the building industry by placing an increased number of orders, particularly civil engineering orders, and by spending more on the programmes to promote publicly assisted housing.

*Private consumers' expenditure* too expanded at a very sluggish pace. In the first quarter, retail sales were only 3.1% higher than a year earlier, and in real terms they even declined by some 3½%. Purchases of motor vehicles remained exceptionally slack, partly as a result of the measures taken to cope with the oil crisis; registrations of new passenger cars were 29% lower during the first four months of the year than a year earlier. The upward movement of wages accelerated again owing to wage settlements that were considerably in excess of the awards needed to preserve real purchasing power. However, because of the drop in the number of persons employed and the delayed payment of the increases, the total wage and salary bill did not go up to the same extent; for the economy as a whole the rise on a year earlier was 8% in the first quarter.

The trend of *production* did not quite keep up with the somewhat more vigorous expansion of demand. Taking the economy as a whole, it probably lagged appreciably behind the rate of growth of capacity, so that capacity utilization rates in the economy dropped further. During the first four months of the year total industrial production was only 1.2% up on a year earlier, when it had admittedly been very high.



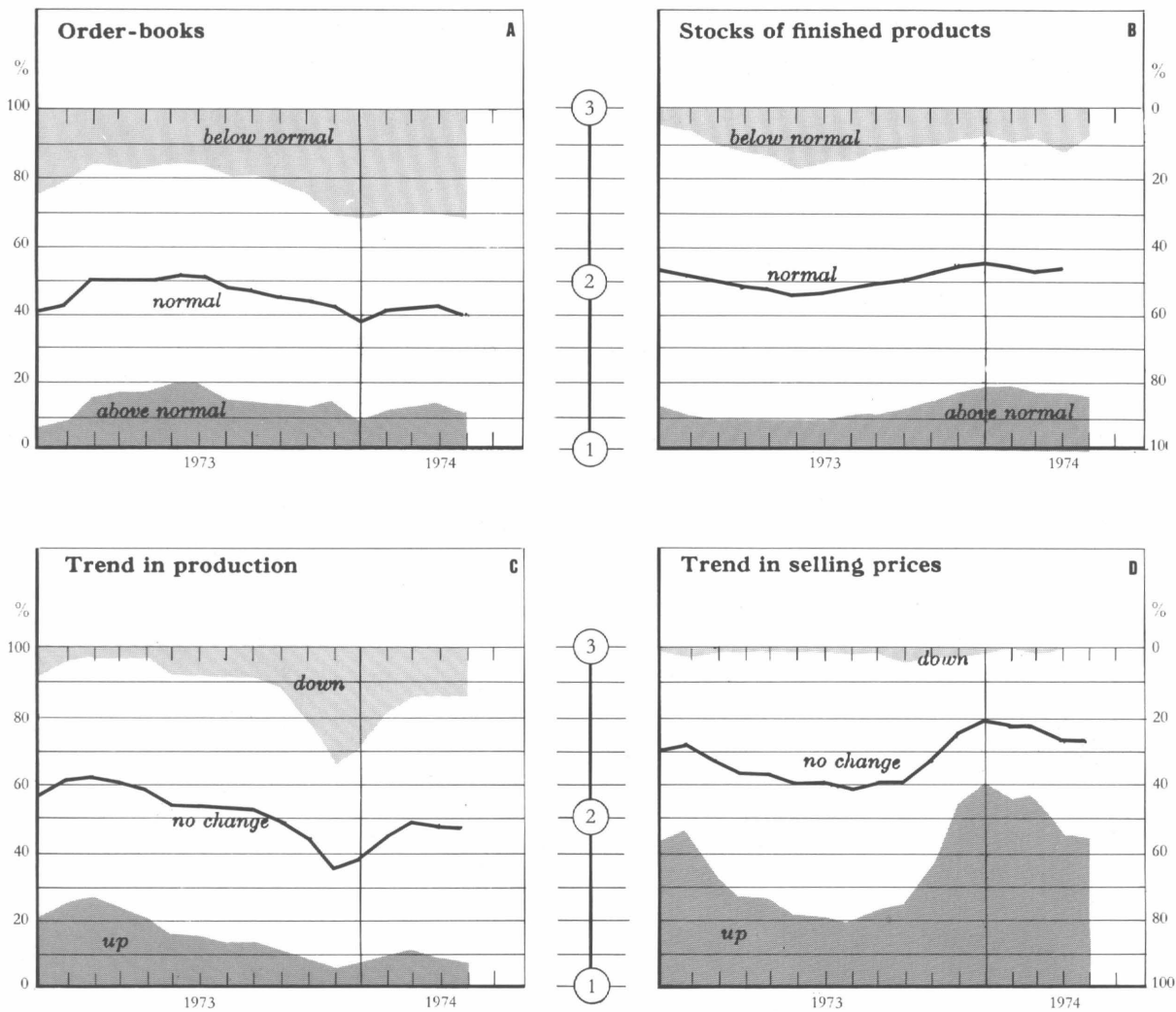
The relatively quiet trend of production, the continued increase in spare capacities, and the growing need to check the pressure of wage costs by rationalization, are reflected in a rise



in *unemployment* and particularly in a fall in the number of jobs on offer. For the first time since 1967, and allowing for seasonal variations, the number of unemployed now exceeds the number of unfilled vacancies. At the end of May, there were 557 000 unemployed compared to 319 000 unfilled vacancies, in seasonally adjusted terms. Short-time working remained very widespread.

Visible *imports* grew relatively slowly. In the first four months their value was 18.3% higher than a year earlier. The unusually steep rise

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.

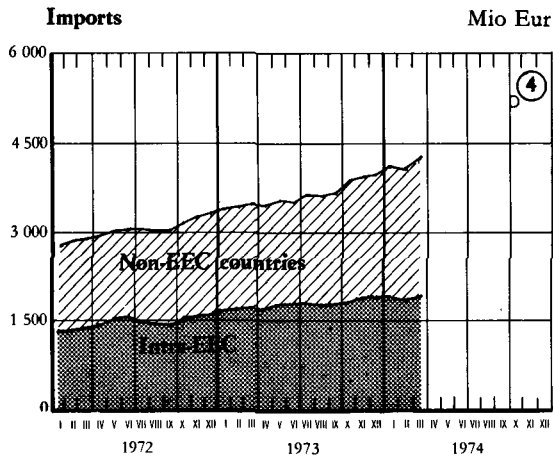
GRAPHS A, B, C and D : The three zones (gray, white and black) show the percentages of the three different answers.

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".



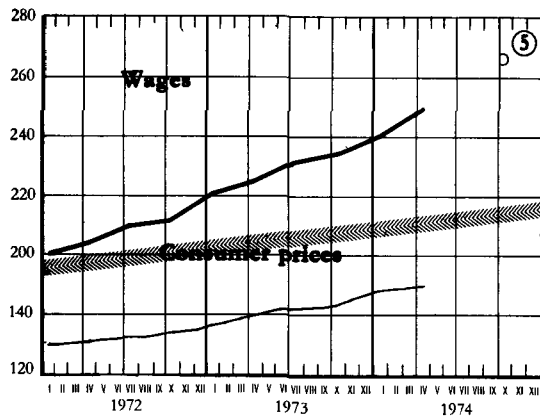
in import prices, which continued in the period under review with the average value of imports in the first four months up 23% on the previous year, strike-induced supply difficulties in major



trading partners, and also, speculation on a further increase in the exchange rates of the German mark, seem to have prompted importers to exercise a great deal more restraint than was to be expected in a situation where domestic economic activity was expanding again slightly. Purchases of foodstuffs were particularly depressed.

The upsurge in the price of imported goods, especially mineral oils and other raw materials, and excessive wage settlements touched off fresh waves of price rises which are already clearly visible especially at the level of industrial pro-

Wages and consumer prices 1963 = 100

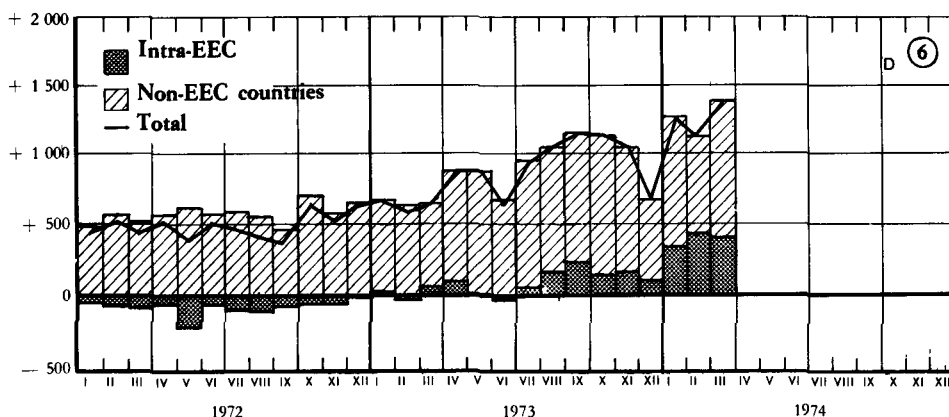


ducer prices, which were 13.2% higher in April than a year earlier. The consumer price index rose considerably less because of special factors affecting foodstuffs and heating oil. In the year to May it went up by 7.2%.

The continued vigorous growth of exports coupled with the very slow rate of expansion of imports enabled the foreign trade surpluses to rise to unprecedented levels. In the first four months of the year Germany's balance of visible trade showed a surplus of DM 17 900 million. As there was virtually no further underlying deterioration in the balance of services and transfer payments, the surpluses on current account also rose considerably. The weighted appreciation of the German mark, which had decreased appreciably until January, has increased sharply since then. As the Bun-

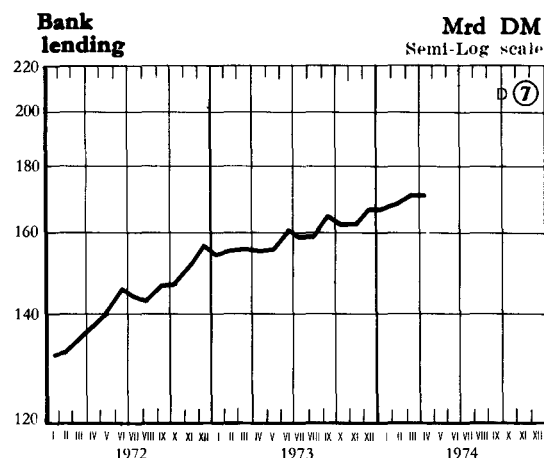
Balance of trade

Mio Eur



desbank intervened repeatedly to assist the currencies in the joint float and also purchased dollars, its currency reserves have risen again since March. At the end of April they stood at DM 92 500 million net.

Despite the comparatively restrictive monetary and credit policy pursued by the Bundesbank, the foreign exchange inflows have led to a somewhat faster growth in the *money supply* lately. At the end of April the stock of money and near-money (M2) was 11.5% higher than a year earlier, when it had admittedly been greatly inflated by speculative inflows of considerable amounts of foreign exchange. Despite the relatively slack demand for credit by trade and industry and an improvement in the banks'



liquidity position, the upward tendency of long-term interest rates continued.

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

	1971 <sup>1</sup>	1972 <sup>1</sup>		1973 <sup>1</sup>		1974 <sup>2</sup>	
	At current prices (in DM '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	174.2	+ 7.8	+ 9.1	+ 16.4	+ 19.1	+ 8	+ 19½
Gross fixed asset formation	203.1	+ 1.9	+ 6.1	+ 0.5	+ 5.2	- ½	+ 7
Public current expenditure on goods and services	130.6	+ 4.4	+ 12.5	+ 4.4	+ 15.5	+ 4	+ 16½
Private consumers' expenditure	408.7	+ 3.7	+ 9.5	+ 3.1	+ 10.5	+ 1½	+ 10
Gross national product	760.1	+ 3.0	+ 9.2	+ 5.3	+ 11.6	+ 2	+ 9½
Imports <sup>3</sup>	162.0	+ 8.2	+ 8.0	+ 10.0	+ 14.8	+ 4	+ 21½

<sup>1</sup> Federal Statistical Office/"Wirtschaft und Statistik", No. 2/1974.

<sup>2</sup> Estimates.

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

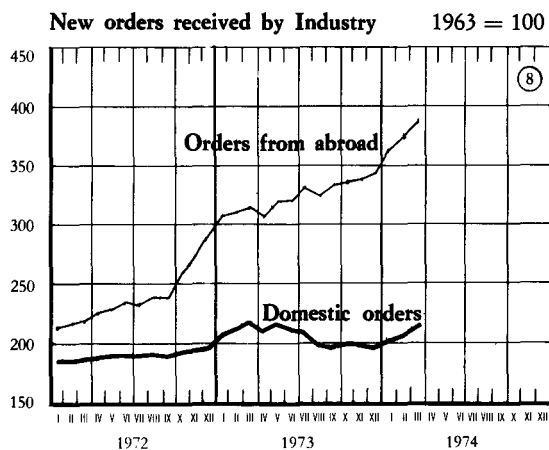
*Note :*

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

## 2. Outlook

Expansionary forces may gradually strengthen in the next few months, so that later in the year real growth is likely to be back on the medium-term growth path. The vigorous upward movement of costs may be reflected in a sharper upsurge in prices.

Even if in the next few months *export demand* should lose buoyancy—especially in real terms—as the domestic economic trend improves, German exports are likely to continue at a very high level because of the very heavy



### The Federal Budget

	1973		1974	1973	1974
	Budget	Estimated <sup>1</sup> outturn	Budget	Budget	
	DM '000 million			% change on the preceding year's budget	
Expenditure <sup>2</sup>	121.6	121.6	136.4	+ 10.3	+ 12.2
of which:					
— current expenditure	97.6	97.8	111.4	+ 8.2 <sup>(5)</sup>	+ 14.1
— capital expenditure	24.1	23.8	25.8	+ 9.3	+ 7.1
Revenue <sup>4</sup>	118.8	119.0	128.0	+ 13.6	+ 7.7
of which:					
— direct taxes	48.3	49.5	56.8	—	+ 17.6
— indirect taxes	66.8	65.4	67.4 <sup>(6)</sup>	—	+ 0.9
Net borrowing requirement <sup>2/4</sup>	— 2.8	— 2.6	— 8.4	—	—

<sup>1</sup> Adjusted to the method used for the 1974 estimates by including the financing of the German Company for Public Works, and hospital financing.

<sup>2</sup> Excluding debt redemption.

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

<sup>4</sup> Excluding yield of special counter-cyclical taxes (stability levy, investment tax).

<sup>5</sup> Because the 1972 budget included high overall spending cuts yet to be implemented, both growth rates are lower than the rate for overall expenditure.

<sup>6</sup> From 1974 turnover taxes are reapportioned between the Federal Government and the Länder.

backlog of export orders (export order books in April were 43.4% up on a year earlier).

After the abolition of the investment tax and recovery from the shock of the oil crisis, the revival of *demand for plant and machinery* will probably continue as the year advances. The main contribution is likely to come from programmes to cover current investment needs which were shelved in the past and greater rationalization efforts to mitigate the rising pressure of costs. However, the unsatisfactory profit trend, especially on the domestic market, persistent financing difficulties and enterprises' increased propensity to invest abroad suggest that average 1974 growth in investment in plant and machinery will be rather moderate in real terms. Building investment is likely to be held back for quite some time by the adjustment to longer-term requirements which has become necessary in residential construction after the previous excessive increase. Despite the reintroduction of depreciation allowances, the high interest on capital in this especially sensitive area is also likely to continue depressing demand considerably. Even the vigorous increase in public demand for building will be unable to prevent the fall in building investment in real terms from gathering momentum in 1974 as a whole.

Expenditure on *consumption* is likely to be stimulated mainly by the expansionary effects of budgetary policy. Public consumption for instance will give a comparatively vigorous boost to domestic demand. Because of the sharply progressive tax scales, the faster advance in per capita income is unlikely to lead to a corresponding rise in disposable incomes, so that as the upsurge in prices strengthens, private consumers' expenditure in real terms will probably go on expanding only moderately. However, the present strong inflationary tendencies make the future trend of personal saving very difficult to assess. An appreciable decrease in the propensity to save would further push up private consumption.

Given the expected acceleration in the expansion of demand, the growth in *real gross national*

*product* may average some 2% for 1974. Even if later in the year real growth resumes a pace close to the average increase in production capacity, this is hardly likely to lead to any strains on the *labour market*, in view of soaring wage costs.

With domestic economic activity picking up, *demand for imports* will also expand somewhat more quickly. Overall, however, there will be no significant fall in the trade surpluses in 1974, and the current account too is again likely to close with a large surplus.

There is reason to fear that in the next months the considerable cost increases which have occurred in the economy up till now will increasingly work through to consumer prices.

This outlook presents *economic policy* with extremely difficult tasks, for which no universally satisfactory solution commends itself in the short term. The negative effects of soaring domestic costs and the additional inflationary pressures originating abroad could not be absorbed instantaneously even by foregoing a considerable amount of growth. Such a policy would moreover lead to a worsening of the balance of payments problems facing other Community countries. The main task will be to limit the scope for passing on higher costs by keeping the growth in the money supply to a moderate rate, and to dampen the upward movement of costs by helping to increase productivity as much as possible, thereby paving the way for a more favourable combination of economic policy objectives in the year ahead.

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

The business trend in the Federal area is broadly reflected in the trend of West Berlin's economy, which in the past few months has shown an increasing tendency to pick up. Exports to foreign countries maintained their rapid growth and merchandise deliveries to the Federal area expanded faster. There is however still no change in the trend of investment activity, which in the past year had again lagged behind the trend in the Federal area. Although wage increases brought a further acceleration in the



rise in incomes, the growth of private consumers' expenditure remained weak. Retail sales in the first quarter of 1974 were 5.7% higher than a year earlier.

Industrial production has recovered again in the past few months, following a distinctly sharper downturn than in the Federal area in the second half of 1973. In the first quarter it ran at roughly the same level as a year earlier, when it had admittedly been very high. The situation on the labour market has stabilized in recent months. At the end of April there were 18 000 unemployed and 12 800 unfilled vacancies.

In the past few months the average monthly rise in the cost of living has been somewhat faster in Berlin than in the Federal area. In March the Consumer price index was 7.3% up on the same month a year earlier.

The economic upswing to be expected for the Federal area and the continued vigour of export demand are likely to go on stimulating economic activity in West Berlin in the next few months. All in all, the growth in real GNP may turn out to be somewhat weaker than in the Federal area because demand for capital goods will probably remain comparatively moderate.

### **Major economic policy measures**

*November 1973:*

— On 29 November the Bundesbank decided to raise the rediscount lines of the credit institutions by 15%.

*December:*

— In mid-December the Bundestag passed a law to grant a non-recurring subsidy to help meet the increased cost of heating oil. The subsidy is payable to recipients of housing allowances, of national assistance, of war victims' pensions, etc. It amounts to DM 100 to 300,— depending on the size of the household.

— On 19 December the Federal Government decided to relax its restrictive policy by introducing the following measures:

(a) The 11% investment tax was abolished and diminishing balances depreciation for plant and machinery reintroduced as from 30 November 1973.

(b) The special depreciation allowances for residential building under Section 7 (b) of the Income Tax Law will be available again for buildings in respect of which building permission was requested after 31 December 1973.

(c) The special depreciation allowances for investment in coal and ore mining were extended to lignite mining.

(d) In implementing the provisional 1974 budget no restrictions are to be placed on investment.

(e) The Federal Government, the Länder and the local authorities are to agree on a programme for stepping up the public authorities' capital expenditure, to be implemented in the event of any major fall in activity.

(f) The restrictive practices authorities were invited to take firm action against abusive pricing policies, in accordance with the stricter regulations now in force.

(g) With effect from 1 January 1974 some provisions of the Cash Deposit Law were eased to facilitate the financing of imports and foreign investment.

(h) The postponement of two projects under the 1974 joint expenditure programme of the Federal Government and the Länder and the freeze on DM 230 million from the 1973 ERP programme were lifted with immediate effect.

(i) The small-business assistance programme which was stopped in 1973, in particular in respect of firms in the textile, clothing, footwear and leather goods industries, building and the hotel and restaurant business, has been re-launched in its entirety. DM 500 million are available for this purpose.

*January 1974:*

— On 11 January the Bundesbank adopted the following credit policy decisions, with effect from 1 January 1974:

(a) *The 60% minimum reserve requirement in respect of the growth of foreign liabilities was abolished.*

(b) *The minimum reserve ratios on domestic liabilities were reduced by 5% of their current level.*

(c) *The minimum reserve ratios on existing foreign liabilities were reduced by 5 percentage points, to 35% for sight deposits, 30 % for time deposits and 25% for savings deposits.*

(d) *The grant of special advances on securities was stopped with immediate effect and outstanding advances of this type had to be repaid on 16 January.*

— *On 30 January the Federal Government decided to relax still further its restrictions on capital movements:*

(a) *The rule requiring prior authorization to be obtained for purchases by non-residents of German shares, for the raising of foreign loans by domestic firms and for direct investment by non-residents in domestic firms, was abolished.*

(b) *The cash deposit rate was reduced from 50% to 20% and the limit of exemption from the cash deposit requirement raised from DM 50 000 to DM 100 000.*

#### *February:*

— *On 6 February the Federal Government adopted the 1974 annual economic report which sets out in particular the economic and financial policy aims for the current year. According to the report, real gross national product may grow by between 0 and 2% in 1974.*

— *At the same time the Federal Government decided on the following measures:*

(a) *DM 300 million was made available for infrastructure improvement in structurally weak areas under a special aid programme financing up to 50% of the cost of individual projects. In addition, a further DM 300 million was made available for the Federal Government's investment projects. Including additional contributions from the Länder and local authorities, the programme totals some DM 800,—/900,— million.*

(b) *The stability surcharge on income and corporation tax, which is estimated to yield some*

*DM 2 200 million in the first half of 1974, will end on 1 July 1974, as originally planned.*

— *Agreed wages and salaries in the public service were raised by 11% across the board, with the minimum monthly increase to be DM 170, backdated to 1 January 1974.*

— *On 22 February the Federal Government adopted the main lines of the personal asset formation: from 1976 all enterprises with a taxable profit of DM 400 000 and more are to be liable to a levy graduated as a percentage of profits, reaching 10% for profits of DM 1 million and more. This levy is expected to yield a total of about DM 5 000 million per annum. Employees earning up to DM 36 000 per annum, and up to DM 54 000 if married and the spouse is not gainfully employed, are to receive asset-creating benefits every year of about DM 212 in the form of share certificates which cannot be freely disposed of for a period of seven years. Anyone selling his shares after seven years loses the right to receive further benefits. After twelve years the sum accumulated can be freely disposed of with no financial loss. The annual income ceiling goes up by DM 9 000 for each child. Asset-creating benefits under the DM 624 law or freely agreed with employers are not affected by the new scheme.*

#### *March:*

— *On 13 March the Federal Government decided to abolish the DM 14 000 million limit on public authority borrowing laid down for 1974 (Debt Ceiling Regulation).*

— *From mid-March the Bundesbank again granted the banks relief in the form of special advances on securities and loans against the collateral of bills with a minimum term of 10 days.*

#### *April:*

— *With effect from 8 April the Bundesbank reduced the interest rate for loans against the collateral of bills from 11.5 to 10% and stopped granting special advances on securities.*

*May:*

— On 22 May the Bundestag adopted the 1974 Federal budget. Total expenditure is DM 136 400 million, and estimated revenue some DM 128 000 million. Expenditure is 12.0% up on the provisional outturn for 1973 and revenue is 8.1% up. The net borrowing requirement is DM 8 400 million, compared with DM 3 200 million the year before.

— To mop up part of the bank liquidity resulting from the inflow of foreign exchange, the Bundesbank decided on 22 May that from 31 May, and until further notice, the banks' rediscount quotas could be used only to the tune of 75% of the total. This will reduce bank liquidity by DM 2 500 million or so.

*June:*

— On 5 June the Bundestag passed the income tax reform which is to come into force on 1 January 1975. In 1975 it will probably result in between DM 10 000 million and DM 12 000 million less tax being paid. The main provisions are:

(a) Child allowances disappear from wages and income tax. Instead increased family allowances are introduced, to be paid by the labour exchanges.

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

(c) 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.

(d) The payment of wealth tax can no longer be treated as specially allowed expenditure.

(e) Provident expenditure (social security contribution, life insurance and building society payments) is deductible from the tax liability only at the rate of 22%.

(f) An additional tax-free allowance is introduced for income other than pensions of persons over 65 years of age.

(g) The tax-free allowances are increased for officials' and company pensions.

(h) A tax-free allowance for savers is introduced for investment income.

(i) The tax-free allowance for employees is increased to DM 600. This allowance is deductible from the tax liability only at the rate of 22%.

(k) Income ceilings are introduced into the savings promotion scheme.

**Germany (FR)**

**TABLE 1 : Key indicators**

	1969	1970	1971	1972	1973	1973
	% change by volume on preceding year					1963 = 100
Gross national product	+ 8.2	+ 5.8	+ 2.7	+ 3.0	+ 5.3	158
Industrial production	+ 10.7	+ 6.3	+ 2.3	+ 3.1	+ 5.9	168
Total imports	+ 16.9	+ 15.9	+ 9.6	+ 8.2	+ 10.0	261
Private consumers' expenditure	+ 7.7	+ 7.0	+ 5.2	+ 3.7	+ 3.1	158
Public current expenditure on goods and services	+ 4.9	+ 4.9	+ 7.3	+ 4.4	- 4.4	141
Gross fixed asset formation	+ 12.1	+ 11.5	+ 4.5	+ 1.9	+ 0.5	156
Total exports	+ 12.6	+ 9.0	+ 7.2	+ 7.8	+ 16.4	266
Gross national product per head of population	+ 7.2	+ 4.8	+ 1.6	+ 2.4	+ 4.8	147
Gross national product per person in employment	+ 6.6	+ 4.6	+ 2.8	+ 3.7	+ 5.2	159
	% change by value on preceding year					
Gross income per employee	+ 9.8	+ 15.1	+ 12.6	+ 10.0	+ 12.9	248

**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	+ 4 330	+ 7 662
as percentage of GNP	+ 2.4	+ 1.6	+ 1.6	1.8	2.8
Unemployment rate	0.7	0.6	0.7	0.9	1.0
Prices to private consumers (% change on preceding year)	+ 2.5	+ 3.5	+ 5.3	+ 5.6	+ 7.1

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					1968 = 100	Million Eur.	% of totals
	1968	1969	1970	1971	1972	1972	1972	1972
<b>Visible exports</b>								
Total	+ 14.3	+ 16.9	+ 17.7	+ 14.2	+ 9.0	291.2	42 563	100.0
Intra-EEC	+ 16.7	+ 23.9	+ 18.6	+ 14.0	+ 8.5	311.4	16 976	39.9
To non-EEC countries	+ 12.9	+ 12.8	+ 17.1	+ 14.3	+ 9.4	279.2	25 587	60.1
<b>Exports of food, beverages and tobacco</b>								
Total	+ 21.8	+ 27.0	+ 27.6	+ 19.6	+ 19.1	526.3	1 518	3.6
Intra-EEC	+ 32.8	+ 31.0	+ 16.6	+ 22.2	+ 28.6	819.7	910	2.1
To non-EEC countries	+ 9.4	+ 21.6	+ 43.7	+ 16.5	+ 7.2	342.8	608	1.5
<b>Exports of raw materials, fuel and power</b>								
Total	+ 10.7	+ 4.2	+ 18.9	+ 11.9	+ 0.1	174.2	2 178	5.1
Intra-EEC	+ 10.6	+ 5.4	+ 20.1	+ 11.5	+ 0.4	177.8	1 357	3.2
To non-EEC countries	+ 11.5	+ 2.4	+ 16.9	+ 12.6	- 0.4	168.6	822	1.9
<b>Exports of semi-finished and finished industrial goods</b>								
Total	+ 15.9	+ 17.5	+ 17.3	+ 14.1	+ 9.2	297.2	38 866	91.3
Intra-EEC	+ 21.6	+ 17.5	+ 18.6	+ 13.8	+ 8.3	321.3	14 710	34.6
To non-EEC countries	+ 13.0	+ 13.0	+ 16.5	+ 14.3	+ 9.8	234.2	24 157	56.7
<b>Visible imports</b>								
Total	+ 16.1	+ 23.7	+ 20.0	+ 15.2	+ 6.7	281.3	36 627	100.0
Intra-EEC	+ 21.7	+ 30.0	+ 21.8	+ 20.8	+ 11.1	411.8	17 880	48.8
From non-EEC countries	+ 12.5	+ 19.3	+ 17.9	+ 10.1	+ 2.7	216.1	18 746	51.2
<b>Imports of food, beverages and tobacco</b>								
Total	+ 3.7	+ 16.7	+ 14.3	+ 13.5	+ 10.2	223.4	6 192	16.9
Intra-EEC	+ 11.9	+ 26.8	+ 12.6	+ 21.9	+ 15.3	335.5	3 236	8.8
From non-EEC countries	- 1.9	+ 9.0	+ 15.9	+ 6.2	+ 5.1	163.6	2 956	8.1
<b>Imports of raw materials, fuel and power</b>								
Total	+ 15.8	+ 12.2	+ 13.6	+ 13.5	- 0.4	208.0	7 482	20.4
Intra-EEC	+ 18.1	+ 23.3	+ 18.5	+ 22.0	+ 2.1	323.3	1 765	4.8
From non-EEC countries	+ 15.3	+ 9.7	+ 12.3	+ 11.2	- 1.1	187.5	5 717	15.6
<b>Imports of semi-finished and finished industrial goods</b>								
Total	+ 21.1	+ 31.4	+ 23.5	+ 16.3	+ 8.2	345.2	22 954	62.7
Intra-EEC	+ 25.4	+ 32.0	+ 24.8	+ 21.5	+ 11.5	455.3	12 880	35.2
From non-EEC countries	+ 16.8	+ 30.7	+ 22.1	+ 10.6	+ 4.3	263.6	10 074	27.5

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	162.0	158.8	162.1	165.8	159.9	160.1	165.3	163.6	166.6	168.1	168.9	175.7
	1973	173.7	180.1	175.4	179.7	172.6	177.5	173.0	179.5	184.6	178.7	177.8	183.7
	1974	178.5	181.7	179.9									
<b>New orders received (1963 = 100)</b>	1972	184	191	195	186	195	201	181	193	199	212	218	215
	1973	246	231	240	221	258	221	216	221	220	233	233	215
	1974	252	254	269	256								
<b>Unemployed (1 000)</b>	1972	236.3	235.4	227.4	253.1	254.3	247.8	251.0	247.4	239.5	246.8	250.3	244.1
	1973	244.3	235.8	253.2	259.6	252.9	253.8	269.0	278.6	283.9	321.2	360.6	417.6
	1974	403.6	411.8	497.3	552.3	538.1							
<b>Construction: permits for residential construction (1 000)</b>	1972	63.7	60.7	61.2	63.3	63.8	71.2	65.1	64.5	62.9	64.1	64.1	64.5
	1973	64.8	60.9	65.9	55.6	68.2	57.5	59.1	57.0	46.4	42.8	43.0	38.1
	1974	42.7	35.9										
<b>Private consumers' expenditure: department store turnover (1963 = 100)</b>	1972	227.9	238.9	240.3	218.1	234.4	241.7	239.6	255.5	249.6	237.8	242.9	260.3
	1973	252.6	254.1	249.6	258.2	257.5	269.4	257.2	254.0	245.5	268.4	263.5	285.3
	1974	283.3	265.7										
<b>Consumer prices (1963 = 100)</b>	1972	129.0	129.8	130.4	130.7	131.7	131.7	132.4	132.5	133.8	134.4	135.0	135.7
	1973	137.1	138.1	139.0	139.9	140.7	141.7	142.0	142.0	142.1	143.2	145.0	146.3
	1974	147.2	148.6	149.0	149.9	150.8							
<b>Visible imports (million Eur)</b>	1972	2 742	2 996	3 026	2 837	3 171	3 051	2 842	3 128	3 068	3 242	3 303	3 217
	1973	3 397	3 443	3 408	3 298	3 798	3 379	3 562	3 682	3 509	4 136	4 130	3 700
	1974	4 431	3 961	4 420									
<b>Visible exports (million Eur)</b>	1972	3 189	3 500	3 465	3 345	3 572	3 557	3 330	3 565	3 464	3 895	3 823	3 847
	1973	4 051	4 040	4 036	4 174	4 672	4 029	4 509	4 711	4 639	5 252	5 160	4 375
	1974	5 777	5 569	5 799									
<b>Balance of trade (million Eur)</b>	1972	+ 447	+ 504	+ 439	+ 508	+ 400	+ 506	+ 488	+ 437	+ 395	+ 653	+ 520	+ 611
	1973	+ 653	+ 597	+ 628	+ 876	+ 874	+ 650	+ 947	+ 1 029	+ 1 134	+ 1 114	+ 1 030	+ 675
	1974	+ 1 346	+ 1 608	+ 1 379									
<b>Official gold and foreign exchange reserves (million Eur)</b>	1972	17 113	17 794	17 734	17 789	17 845	20 889	22 446	22 252	21 728	21 630	21 318	20 838
	1973	20 592	23 741	26 380	26 095	25 601	27 554	29 009	28 390	29 986	29 848	29 159	27 387
	1974	26 504	26 384	27 086	27 810								
<b>Money supply (DM '000 million)</b>	1972	116.5	117.6	120.6	122.5	120.5	125.2	127.5	127.8	128.3	128.5	132.4	133.6
	1973	130.8	131.8	136.9	136.8	130.8	132.6	131.8	128.8	129.1	128.3	132.7	136.3
	1974	132.4	134.1	136.4	138.4								

## 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 the intra community trade the new Community countries have not yet been taken into account.

#### Graph 1

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

#### Graph 2

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

#### Graph 3

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

#### Graph 4

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

#### Graph 5

Wages and consumer prices: index of average hourly gross earnings in industry (including construction); cost-of-living index (all households) at middle of month, not adjusted for seasonal variations.

#### Graph 6

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

#### Graph 7

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

#### 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 national product at market prices.

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

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

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

#### Table 2

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

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

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

#### Table 3

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

#### Table 4

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

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

Unemployed: position at end of month, adjusted for seasonal variations.

Construction: seasonally adjusted number of dwellings authorized.

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

Consumer prices: cost-of-living index (all households), not adjusted for seasonal variations.

Imports cif, exports fob; value, adjusted for seasonal variations.

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

Official gold and foreign exchange reserves: monetary authorities' reserves of gold and convertible currency, holdings in special drawing rights and reserve position in IMF. Figures are given gross, liabilities to abroad not having been deducted. Position at end of month.

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

## C. France

*In France, the early months of the year saw a slight slowdown in production, mainly under the impact of the energy crisis and a notable increase in consumer and export demand. In addition to the rapid rise in domestic costs and prices which continued until the end of 1973, the early months of 1974 showed a sharp upsurge in the cost of imported raw materials which gave additional impetus to the upward movement of prices and led to a large external deficit.*

*The pressure of demand is unlikely to ease substantially in the next few months, while supply in real terms will start to grow again steadily. There will be no spontaneous slackening in the movement of prices and the external deficit is likely to remain high until the beginning of 1975.*

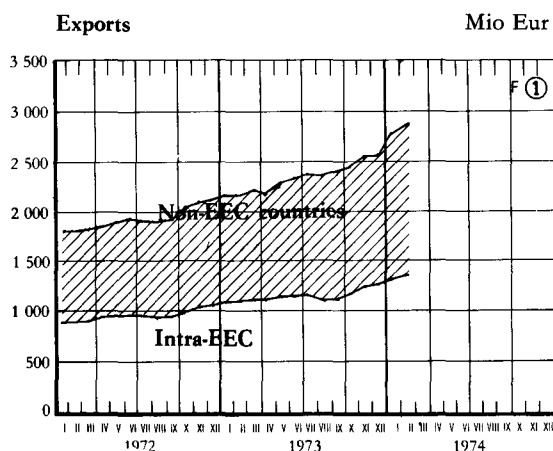
### 1. Recent developments

The growth of the French economy has continued since the beginning of the year against a strongly inflationary background, while there has been little if any slackening in the pressures on productive capacity and the rise in production costs has become distinctly more rapid.

The growth of *export* demand has accelerated appreciably since the end of 1973: in the first four months of the year the seasonally adjusted

value of exports expressed FOB/FOB was up 40% on a year earlier. Export sales, which have been made very profitable by the weakening of the franc and by the fact that export markets are not subject to price regulations, seem to have increased rather more because of improved business with non-member countries. Owing to the slowdown of motor car sales, consumer goods are at present the group least in demand.

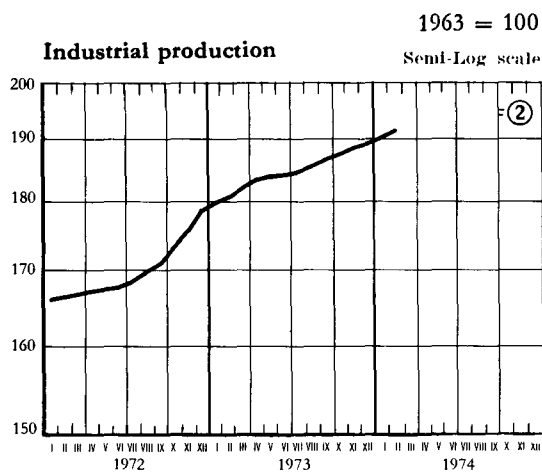
Domestic demand has continued to expand strongly, except for those branches particularly affected by the rise in the prices of petroleum products. The trend of business *investment* has remained upward, particularly where the capital spending programmes of the large enterprises are concerned: the high degree of plant utilization and the continued strength of overall demand have encouraged industrialists to maintain their capital spending plans. In some cases, particularly at the level of small and medium-sized enterprises, cash difficulties have put a slight brake on plant expansion; as often as not this has merely entailed spreading the originally planned expenditure over a longer period of time. Even though the official restrictions on



credit expansion had an impact on the building industry, particularly residential construction, the fact that many saving-for-homeownership contracts have matured recently helped to maintain activity in this industry. Capital spending by the public sector continued to expand rapidly.

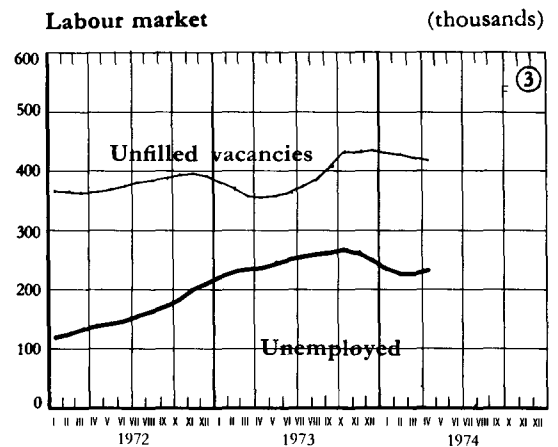
Expenditure on *consumption* has been one of the most buoyant components of demand. Private consumers' expenditure boosted by improved social security benefits and higher wages and salaries, particularly for the low-paid, has gathered speed since the end of 1973. Following a great deal of anticipatory buying, mainly of durables, the upsurge in demand has also benefited other categories of consumers' expenditure; only motor car purchases have slowed down markedly. Public current expenditure maintained its rapid growth.

Since the first quarter of this year *production* has recovered its momentum. Capacity utilization rates are very high except in certain industries still suffering from the effects of the higher cost of petroleum products. According to INSEE, 37% of the enterprises surveyed in March stated that they were unable to increase their production any further due to shortages



of capacity compared with 39 % in November 1973; this slight casing was due mainly to the difficulties experienced by the motor industry. In the middle of the first quarter, the INSEE index of industrial production adjusted for seasonal variations, was up 5.9% on twelve months earlier.

The *labour market* was sluggish at the beginning of the year owing to the uncertainties affecting managements' assessment of the short-term outlook and to certain difficulties confronting individual industries. It would however seem that the situation has been reversed since the middle of the first quarter and that available manpower

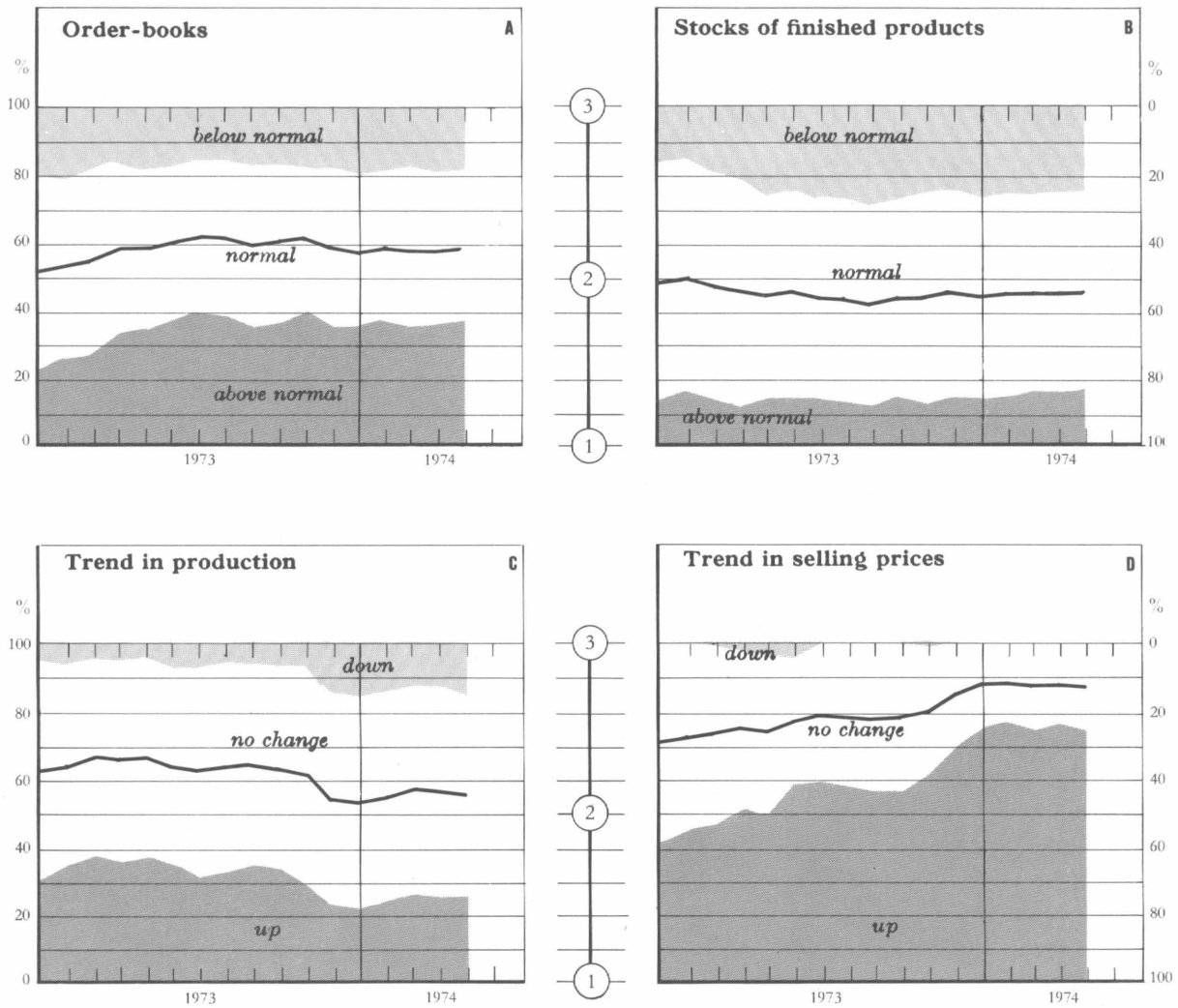


is in demand again. The seasonally adjusted number of job-seekers at the end of April almost returned to that seen at the end of 1973. The number of unfilled vacancies, after a sharp fall at the end of last year, is again rising: at the end of April it was up 8.1% on December. The upsurge in the cost of living and in many cases no doubt also managements' fear of losing skilled workers led to a rapid rise in wages and salaries which has gathered additional momentum since the beginning of the year; at the beginning of the second quarter, hourly wage rates were climbing at an annual rate of 19%. The minimum wage went up even more sharply, the increase in early May bringing it to a level 28% above that of a year earlier.

The world increase in the price of raw materials, particularly oil, and imported manufactures, together with the depreciation of the franc, led to a spectacular rise in the value of *imports* which in the first four months was almost 60% higher than a year earlier in terms of deseasonalised fob/fob figures. Their volume, although difficult to measure at present, would also seem to have continued to expand, boosted by the high level of activity: in the first quarter



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.

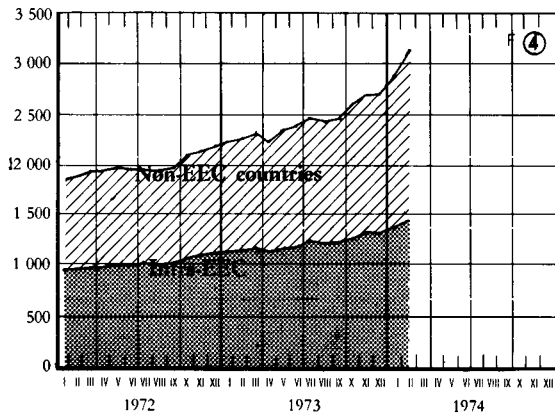
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- 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".



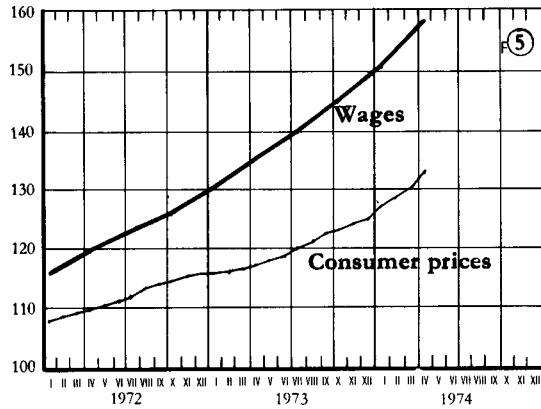
Imports

Mio Eur



Wages and consumer prices

1970 = 100



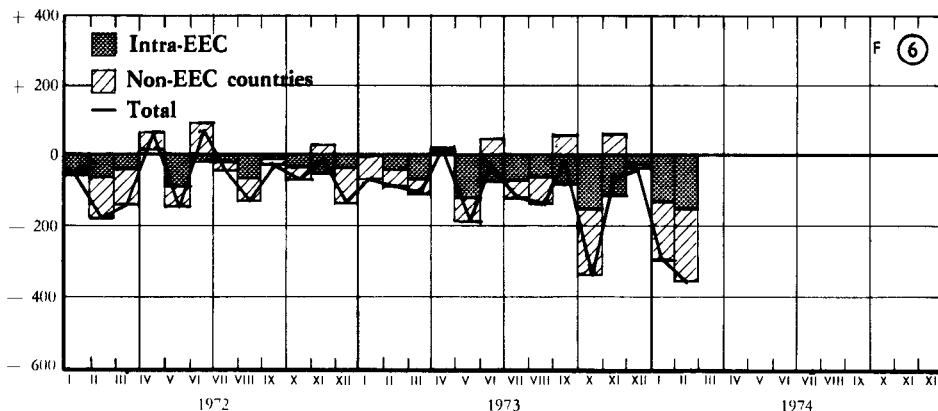
the volume of goods purchased abroad was up 10% on the corresponding period in 1973.

The upsurge in *prices*, which accelerated sharply at the beginning of the year as a result of the higher cost of imported energy products, has

since continued at a rapid pace. The rise in production costs has worked through to all categories of goods and services, with wholesale prices going up even more sharply than retail prices. In the first four months, the consumer price index calculated by INSEE was climbing at an annual rate of 18.8%.

Balance of trade

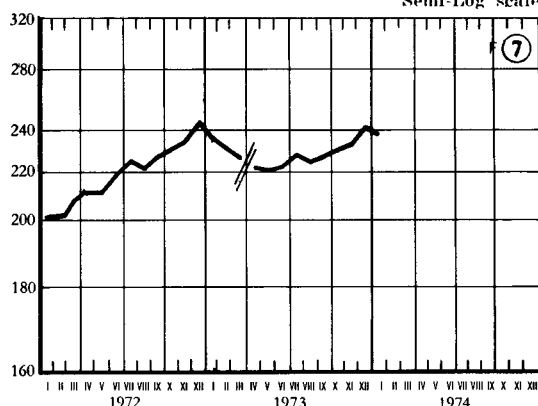
Mio Eur



The rise in import prices led to a considerable deterioration in the *balance of trade*, which in the first four months of the year showed a deficit (fob/cif, adjusted for seasonal variations) of FF 9,300 million. Energy products apart the balance would have been in surplus by some FF 4,500 million. The deficit on long-term capital account also tended to widen. Gross official gold and foreign exchange reserves continued to diminish, falling from 7,100 million u.a. in December 1973 to FF 6,700,000 million in April 1974.

The growth of *domestic liquidity* slowed down

Bank lending

Mrd Ffr.  
Semi-Log scale

*Demand for and supply of goods and services*

	1971 <sup>1</sup>	1972 <sup>1</sup>		1973 <sup>2</sup>		1974 <sup>3</sup>	
	At current prices (in FF '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	160.6	+ 10.3	+ 12.5	+ 14.8	+ 22.0	+ 8.3	+ 22.2
Gross fixed asset formation	232.1	+ 7.6	+ 12.2	+ 8.7	+ 15.4	+ 3.6	+ 17.4
Public current expenditure on goods and services	112.0	+ 4.0	+ 10.4	+ 2.4	+ 11.5	+ 2.3	+ 17.0
Private consumers' expenditure	533.8	+ 5.8	+ 11.9	+ 6.0	+ 13.6	+ 3.6	+ 17.4
Gross national product	898.6	+ 5.7	+ 12.0	+ 6.1	+ 13.7	+ 4.5	+ 15.1
Imports <sup>3</sup>	151.6	+ 14.6	+ 13.3	+ 16.5	+ 23.6	+ 5.9	+ 35.3

<sup>1</sup> Rapport sur les comptes de la Nation 1972. Ministère de l'Economie et des Finances.

<sup>2</sup> Estimates.

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

*Note :*

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

slightly: in the first two months of the year, after seasonal correction, the money supply (M2) increased by 1.8%. Treasury transactions had a major restrictive effect, mainly as a result of the sharp rise in revenue. The money market remained under pressure; interest rates settled at a high level.

## 2. Outlook

There is little likelihood of major slackening in the economic situation in the second half of the year. Now that the uncertainty caused by the oil crisis has been almost entirely dispelled, the growth of output should, with a few exceptions such as the motor industry, return to its long-term trend.

The scope for selling more profitably on foreign markets, particularly since the fall of the exchange rate of the franc, together with a more encouraging outlook for growth in the main buyer countries, should enable *exports* to grow at a rate, if not as high as at the beginning of the year, at least higher than the average for 1973. It is also possible that the price controls, which are applicable only inside the country, will add to the stimulatory effect on exports of the measures introduced at the beginning of the year with a view to reducing the external deficit. The expansion of domestic demand noted in the first part of the year should continue in the second half year. Of course, this forecast does not apply to the motor industry where domestic and export demand will be slow to recover.

On the *investment* side, the narrow margins of

*The Central Government Budget*

	1973		1974	1973	1974
	Original Budget	Revised Budget	Original Budget		
	FF '000 million			% changes on the preceding year's original budget	
Expenditure <sup>1</sup>	204.2	209.5	228.1	+ 10.0	+ 11.7
of which:					
— current expenditure	172.5	176.1	193.7	+ 11.7	+ 12.3
— capital expenditure <sup>2</sup>	31.3	33.0	33.8	+ 2.0	+ 8.0
Revenue	204.2	209.5	228.4	+ 10.0	+ 11.8
of which:					
— direct taxes	66.7	72.0	78.5	+ 8.8	+ 17.7
— indirect taxes	117.6 <sup>(3)</sup>	114.9	126.7	+ 12.4	+ 7.8
Net borrowing requirement <sup>1</sup>	0	0	+ 0.3		

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

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

<sup>3</sup> Not taking account of reductions in V.A.T.

*Note :*

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

available capacity, mainly due to a shortage of plant, and the recovery which is getting under way in the buyer countries will no doubt encourage managements to implement their planned investment programmes. Most of the demand for plant and machinery should however stem from the implementation of multiannual programmes by most of the large enterprises in the public or private sector; a fresh contribution will come from the additional investments associated with higher oil prices and wage costs. But this buoyancy may well be curbed by some uncertainty about the future which has not been entirely dispelled, by the considerable increase in manufacturing costs, particularly wage costs, and

by cash difficulties due to the fact that bank loans remain expensive and difficult to obtain and that prices and margins are rigorously controlled. On the other hand, investment in residential construction may well accelerate as a result of the implementation of saving-for-homeownership contracts.

Private *consumers' expenditure* in real terms is likely to rise almost as rapidly a real disposable income, which will however not expand quite as fast as its trend rate. Public current expenditure will maintain its brisk growth.

Even though—taking the average for the year—

the components of overall demand will probably not increase as rapidly as in recent years, there is little likelihood of any appreciable easing in the pressure on supply. In the present circumstances, *production* can hardly expand faster than its trend rate of 4% a year, which is about the long-term growth rate of productive capacity. All in all, the proportion of enterprises unable to step up production will remain virtually unchanged. That does not exclude some under-utilisation of capacity in sectors affected by the oil crisis. Reliance on foreign supply may increase slightly; import prices expressed in terms of national currency should however act as a brake on the growth in the volume of imports. After relatively favourable figures in the early months of the year, the trade balance will probably tend to deteriorate between now and the end of the year, partly under the impact of the depreciation of the franc.

The upward movement of *prices* is unlikely to slow down, for part of the increase in the various components of production costs has yet to come through; wage costs in particular must be expected to go on climbing at least as rapidly as in the past.

In the first quarter of 1974, the serious disruption caused by the increase in the prices of imported raw materials added to the strong burst of inflation which affected the French economy during 1973. Even if the increase in the cost of imported products were to slow down substantially, its impact via the production and distribution apparatus is likely to be felt well beyond the current year and will add to domestic inflationary factors, an appreciable part of which remains of a structural nature. Inflation is very likely to be aggravated by the performance of the franc on the foreign exchange market.

Apart from these effects on domestic inflation, the current depreciation of the franc is bound to widen the *external deficit* for 1974, partly owing to the high proportion of essential imports, particularly oil, the price of which will increase rapidly, and partly because of the difficulties of stepping up exports in the short term when capacities are fully utilized and domestic demand is buoyant.

All in all, the fall in the growth rate noted at the beginning of the year should not lead to any easing of the measures taken to combat inflation as long as the pressure of demand remains heavy and encourages dangerously high wage demands. In these conditions *anti-inflationary policy* must remain the first priority.

## Major economic policy measures

*November 1973:*

— *Firms employing more than twenty persons, whose product prices had been freed in June 1972, were once more made subject to the system of "controlled programming", which limits the authorized annual price increases.*

*December:*

— *The minimum wage was increased by 2.1%, to 5.43 francs per hour.*

— *A new set of anti-inflation measures was adopted:*

— *Increases were made in the principal direct taxes and the date of payment was brought forward;*

— *Part of the public expenditure scheduled for the first half of 1974 was deferred to the second half;*

— *The volume of loans granted by the Caisse des dépôts et consignations in the first half of 1974 was not to exceed that for the same period of 1973;*

— *Interest rates and tax exemption margins applicable to private savings were increased;*

— *Dividend distributions were restricted;*

— *The year-to year growth rate in credit outstanding was fixed at 11% for the end of the first quarter of 1974;*

— *Public officials were guaranteed that their purchasing power would be maintained at its current level.*

— *The law amending the 1973 Finance Law was passed; the supplementary budget was in balance and amounted to FF 3,900 million.*

— The 1974 Finance Law was adopted; the total volume was up by 12.4%, i.e. an increase of the same order as that estimated for gross domestic product in terms of value.

#### January 1974:

— Public assistance benefits to unemployed workers were increased by 12.5%.

— The price ceilings for subsidized housing were raised by 9.5%.

— The banks' base rate for loans to customers was raised from 10.4% to 11.4%; as a result, the minimum rate for discounting trade bills rose to 11.8% and that for current account overdrafts to 13.45%.

— The Conseil national du crédit raised the maximum reserve ratio applicable to banks' liabilities from 15 to 25%.

— The Banque de France raised the reserve ratio applicable to sight deposits from 14 to 16% and that applicable to time deposits from 5 to 7%. However, reserves were no longer required against non-resident deposits.

— For a period of six months, with effect from 19 January, the Banque de France was no longer required to intervene in foreign exchange markets to support the franc; at the same time, exchange controls were slightly tightened.

#### February:

— The Treasury floated a \$ 1,500 million loan abroad; in total foreign loans have risen to 3,500 million dollars.

— Practices forbidden to oil companies in France were listed in a protocol published in the Bulletin officiel du service des prix.

— The Bank of France stipulated the conditions for exemption from credit restrictions applying to the financing of installations designed to reduce energy consumption.

#### March:

— The minimum wage was raised by 3.1% to FF 5.6 per hour with effect from 1 March.

— The price of naphtha was raised by 53.5%.

— Electricity charges were increased by 14.5%.

— Credit restrictions were eased to encourage exports; this measure particularly concerned pre-financing loans granted during the manufacture of export goods and loans granted to purchasers.

— The two-tier foreign exchange market was abolished with effect from 21 March.

— The Treasury and the Compagnie française d'assurance pour le commerce extérieur improved the guarantees provided against risks involved in investment abroad.

— A new set of short-term economic measures was immediately implemented:

— Increases in most public service charges were deferred;

— The year-to-year growth rate in bank credit outstanding was fixed at 12% for April and 13% for May and June;

— The programme contracts policy governing prices of industrial products, which was due to expire at the end of March, was extended for a further six months from 1 April; firms would be able to pass on rises in raw material costs rapidly, but tight standard limits would be imposed on internal cost factors in any increase. Percentage trading margins were to be kept unchanged.

— Gas charges were raised by 14.5% for domestic users and by 40% for industrial users.

#### April:

— Transport charges were increased by between 6.5 and 8% for road transport and by 7.5% for rail transport.

— The Banque de France deferred the reference date for computing compulsory reserves in respect of bank credit outstanding from 2 October 1973 to 2 January 1974. The effect of this measure was to ease reserve requirements by an amount estimated at some FF 10,000 million.

— The Banque de France further relaxed lending restrictions on investments resulting in reduced energy consumption.

#### May:

— The minimum wage was raised to FF 5.95 per hour, an increase of 6.25%; this brought the overall increase since May 1973 to 28.2%.

June :

— On the 12 June a program was announced to control inflation and reestablish external equilibrium. The principal measures are the following :

(a) taxation : corporation tax payable in 1974 is increased by 18%; the rates for depreciation of assets are reduced; household income tax is raised by 5, 10 or 15% according to income class (part of this extra tax equal to 5% will be repaid from 1 July 1975); capital gains on property will be taxed at 10%;

(b) budget : a balanced budget, including the social measures which are to be taken shortly, will be presented to Parliament at the end of June; the revenue due to fiscal drag will be sterilized and used to pay back 3.5 billion francs of loans advanced by the Bank of France; the Government moreover undertakes to achieve economies worth a billion francs in the 1974 budget; the 1975 budget will be strictly balanced and the growth of expenditure will be at most equal to that of GNP in value;

(c) credit : the interest rate for savings accounts is increased from 6 to 8% and the rate applicable to the savings—for—home-ownership scheme from 7 to 8%; the maximum rate of growth of

credits to the economy, fixed at 18% for the end of June, remains unchanged for July; the penalties for exceeding this norm will be doubled;

(d) prices : the Government intends to apply the current contractual arrangements as vigorously as possible; to this end, firms must make available their price-lists effective on the 1 June 1974; they will be asked to reduce their commercial margins and, where necessary required to do so; rents, blocked up to 1 July, may be increased beyond that date by a maximum of 6.8%;

(e) energy : prices for energy products will be increased by 3 to 10%; the price of petrol will be increased by 0.05 francs per litre and the resulting revenue used to reduce taxes on public transport; public authorities will reduce their use of oil products by 15%; quantitative rationing schemes for certain products (oil for domestic heating) will be implemented soon.

— The National Credit Committee announced that the bank reserve requirements on credit are withdrawn.

— The base rate for bank loans was raised by one point to 12.4%; the minimum discount rate on commercial bills was raised to 12.8% and that for current account overdrafts to 14.45%.



TABLE 1 : Key indicators

	1969	1970	1971	1972	1973	1973
	% change by volume on preceding year					1970=100
Gross national product	+ 7.3	+ 5.8	+ 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 national product per head of population	+ 6.5	+ 4.9	+ 4.3	+ 4.8	+ 5.1	115
Gross national product per person in employment	+ 5.6	+ 4.3	+ 4.7	+ 4.4	+ 5.2	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					1963 = 100	Million Eur	% of totals
	1968	1969	1970	1971	1972	1972	1972	1972
<b>Visible exports</b>								
Total	+ 11.4	+ 17.4	+ 19.2	+ 14.6	+ 15.6	290	23 469	100.0
Intra-EEC	+ 16.0	+ 30.6	+ 21.7	+ 16.0	+ 16.5	379	11 708	49.9
To non-EEC countries	+ 8.1	+ 7.5	+ 16.9	+ 13.2	+ 14.4	236	11 761	50.1
<b>Exports of food, beverages and tobacco</b>								
Total	+ 19.8	+ 20.8	+ 6.0	+ 26.9	+ 20.6	331	4 150	17.7
Intra-EEC	+ 26.6	+ 41.9	+ 1.8	+ 31.4	+ 22.2	548	2 612	11.1
To non-EEC countries	+ 12.8	- 3.3	+ 13.2	+ 20.3	+ 17.9	198	1 538	6.6
<b>Exports of raw materials, fuel and power</b>								
Total	+ 1.6	+ 10.6	+ 12.1	+ 7.0	+ 19.5	191	1 783	7.6
Intra-EEC	+ 0.9	+ 19.9	+ 14.2	+ 3.6	+ 19.3	229	1 150	4.9
To non-EEC countries	+ 2.6	- 3.5	+ 7.9	+ 13.8	+ 19.9	146	633	2.7
<b>Exports of semi-finished and finished industrial goods</b>								
Total	+ 10.9	+ 17.5	+ 23.1	+ 12.9	+ 13.9	298	17 536	74.7
Intra-EEC	+ 16.2	+ 29.0	+ 29.7	+ 13.8	+ 14.4	376	7 946	33.9
To non-EEC countries	+ 7.8	+ 10.2	+ 18.1	+ 12.2	+ 13.6	254	9 590	40.8
<b>Visible Imports</b>								
Total	+ 12.5	+ 23.7	+ 9.9	+ 11.3	+ 15.2	278	24 259	100.0
Intra-EEC	+ 23.1	+ 31.3	+ 6.5	+ 13.9	+ 15.9	391	12 218	50.4
From non-EEC countries	+ 4.4	+ 16.7	+ 13.3	+ 8.8	+ 14.5	215	12 043	49.6
<b>Imports of food, beverages and tobacco</b>								
Total	+ 2.7	+ 19.5	+ 6.9	+ 4.1	+ 15.7	194	2 956	12.2
Intra-EEC	+ 31.8	+ 33.4	+ 3.9	+ 14.3	+ 11.2	376	1 035	4.3
From non-EEC countries	- 6.4	+ 13.5	+ 8.4	- 0.9	+ 18.3	151	1 921	7.9
<b>Imports of raw materials, fuel and power</b>								
Total	+ 3.6	+ 10.6	+ 11.9	+ 15.0	+ 8.5	182	5 614	23.1
Intra-EEC	+ 14.2	+ 11.4	+ 9.0	+ 17.2	+ 7.1	183	919	3.8
From non-EEC countries	+ 1.7	+ 10.5	+ 12.5	+ 14.6	+ 8.8	182	4 695	19.3
<b>Imports of semi-finished and finished industrial goods</b>								
Total	+ 19.6	+ 30.3	+ 9.8	+ 11.4	+ 17.7	384	15 689	64.7
Intra-EEC	+ 23.3	+ 33.3	+ 6.6	+ 13.5	+ 17.3	437	10 262	42.3
From non-EEC countries	+ 13.3	+ 24.6	+ 16.1	+ 7.5	+ 18.5	312	5 427	22.4

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	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	184.0	177.8	188.2	183.9	178.5	189.1	184.7	188.7	192.7	184.7
	1974	191.7	195.7	(193.2)									
<b>Number of persons seeking employment (1 000)</b>	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	371.6	393.6	402.6	432.2	438.2	429.6	434.4
	1974	428.0	422.8	419.1	416.5								
<b>Construction : building permits issued for housing (1 000)</b>	1972	58.8	54.6	48.7	50.7	53.6	54.3	49.9	52.0	50.3	59.8	67.8	37.6
	1973												
	1974												
<b>Private consumers' expenditure: turnover of department stores (1963 = 100)</b>	1972	181.3	189.5	192.5	178.5	185.7	192.7	193.8	190.7	198.3	185.9	192.8	192.1
	1973	190.5	195.0	197.9	189.2	205.9	208.6	183.9	197.0	195.8	212.7	220.5	217.4
	1974	220.7	217.5	218.4									
<b>Consumer prices (1970 = 100)</b>	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								
<b>Visible imports (million Eur)</b>	1972	1 818	2 013	2 019	1 813	2 126	1 940	1 810	2 078	2 101	2 153	2 171	2 241
	1973	2 306	2 244	2 324	2 130	2 647	2 386	2 420	2 535	2 490	2 320	2 754	2 539
	1974	3 414	3 494	(3 614)	(3 885)								
<b>Visible exports (million Eur)</b>	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	2 349	2 308	2 412	2 471	2 496	2 694	2 508
	1974	3 125	2 970	(3 043)	(3 168)								
<b>Balance of trade (million Eur)</b>	1972	- 55	- 185	- 145	+ 56	- 154	+ 53	- 46	- 127	- 22	- 68	- 18	- 130
	1973	- 62	- 93	- 106	+ 21	- 185	- 37	- 112	- 123	- 19	- 324	- 60	- 31
	1974	- 289	- 524	(- 571)	(- 717)								
<b>Official gold and foreign exchange reserves (million Eur)</b>	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	9 816	9 304	8 401	7 084	7 068
	1974	6 865	6 723	6 737	6 737								
<b>Money supply (Ffr '000 million)</b>	1972	255.7	257.3	263.3	261.9	264.6	270.9	274.3	275.4	281.1	281.2	288.6	287.5
	1973	289.5	289.3	293.8	299.0	302.1	302.0	298.7	301.1	305.2	306.5	305.5	320.1
	1974												

## 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.

*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: seasonally adjusted number of dwellings authorized.

Private consumers' expenditure: turnovers by value, adjusted for seasonal variations.

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

Imports cif, exports fob, adjusted for seasonal variations.

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

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

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



## D. Ireland

*The slackening of economic activity under way since the second half of 1973 has become somewhat more pronounced following the oil crisis, and has recently been reflected in the unemployment rate. Prices are rising faster and the trade balance has deteriorated appreciably.*

*Under the impact of the new budget, expansionary forces should prevail in the coming months and enable growth to accelerate. Inflationary strains are likely to remain strong.*

### 1. Recent developments

The slackening of economic activity, which had begun in the second half of 1973 has continued in recent months. The upward movement of prices has gathered additional momentum and the current balance of payments has deteriorated appreciably.

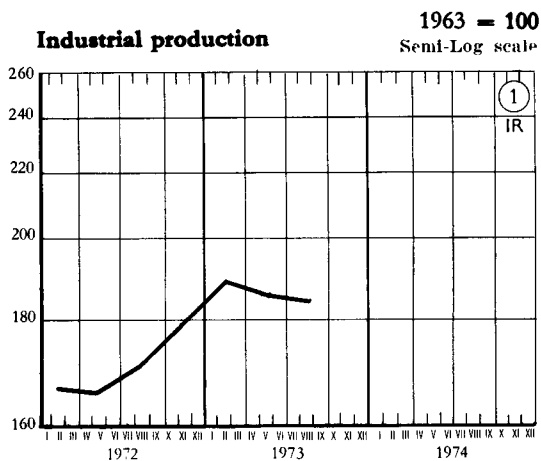
*Exports* continued to expand sharply in terms of value in the early months of the year; from January to April, adjusting for seasonal variations, they were 8% higher than in the previous four months and 35% up on the same period in 1973. This movement is partly due to the rapid rise in export prices. But while sales of industrial products grew rapidly, exports of agricultural products went up more slowly in value, in particular as a result of the increase in supply on the markets of the other Community countries which has influenced the Irish prices of these products.

The expansion of domestic demand slowed down appreciably. The propensity to invest seems to have moderated, influenced by the less favourable economic outlook and the economic situation in the United Kingdom. Judging from recent surveys and purchases of plant and machinery, *investment* activity has probably slackened in the private sector. The building industry, which had been depressed since the second quarter of 1973, showed a recovery at

the beginning of 1974. Cement sales, which had fallen in the third and fourth quarters, picked up again in the first four months of this year. Following a drop in the fourth quarter, the number of housing starts probably increased distinctly in the early months of 1974, judging from the sharp rise in loans granted in recent months, in particular by local authorities. Public investment, which had grown rapidly in the second half of 1973, fell in terms of value in the first quarter of 1974 judging from the seasonally adjusted figures.

The increase in the value of private *consumers' expenditure* moderated between November and January, as a result of the effects of the oil crisis, particularly on the purchases of new cars and even the volume figures dropped as soaring prices ate into disposable incomes, but increased slightly since then. Since February sales of new cars, on the basis of seasonally adjusted figures, have recovered and in April had almost reached the previous year's level. Public current expenditure has also increased appreciably.

The latest business surveys would suggest that *industrial production* has expanded more slowly, the least buoyant industries being clothing, paper, wood and furniture. Agricultural output showed only a small rise, in particular because of the drop in beef prices. Milk and butter production fell.

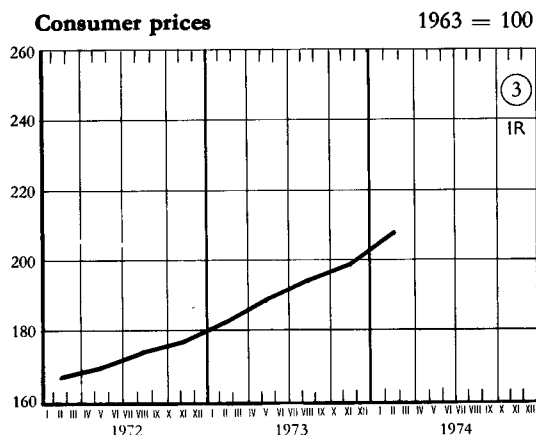


Employment seems to have increased less rapidly in recent months. The seasonally adjusted



number of registered unemployed, which had dropped in March, rose in April and May.

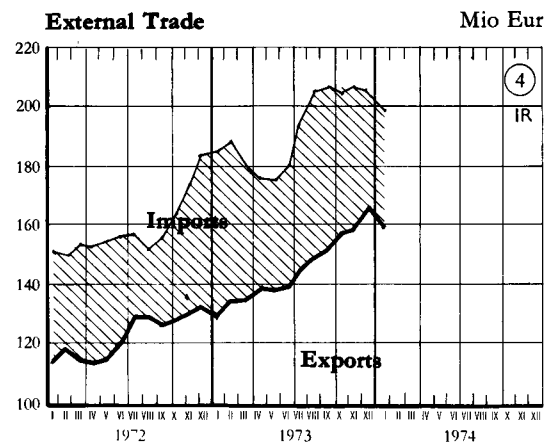
The upward *price* movement gathered further momentum, mainly as a result of the higher



import bill for energy products (oil and coal). In mid-February, the consumer price index was up by 13.5%.

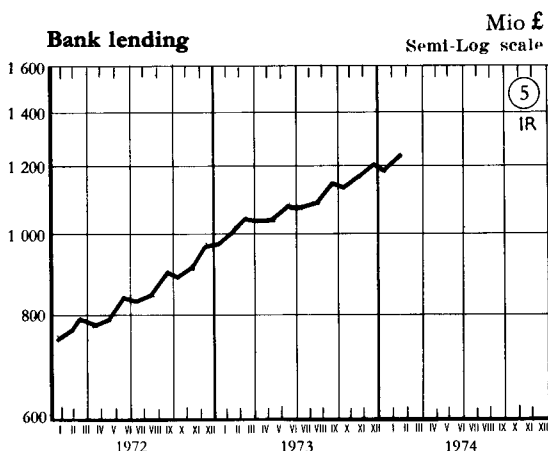
Despite the less buoyant trend of demand and production, *imports* expanded at a very rapid pace. Seasonally adjusted figures show that they were 28% higher in January-April than in the previous four months and more than 50% up on a year earlier.

As a result of the adverse swing in the terms of trade, the seasonally adjusted *trade deficit*



increased sharply to £ 165 million in January-April 1974, more than double the figure for the previous four months. Consequently, and despite a favourable trend in tourism, the current balance of payments worsened appreciably. Since December, official reserves have fallen slightly.

Although a restrictive monetary policy continued to be applied bank *lending* to the



*Demand for and supply of goods and services*

	1971 <sup>(1)</sup>	1972 <sup>(1)</sup>		1973 <sup>(1)</sup>		1974 <sup>(2)</sup>	
	At current prices (in £ million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>(3)</sup>	677	+ 2.0	+ 14.2	+ 10½	+ 31½	+ 9	+ 28
Gross fixed asset formation	432	+ 2.5	+ 12.5	+ 13	+ 27½	+ 4	+ 19
Public current expenditure on goods and services	281	+ 10.4	+ 25.4	+ 7½	+ 20½	+ 6	+ 22½
Private consumers' expenditure	1,265	+ 5.4	+ 13.9	+ 6	+ 18½	+ 4	+ 19½
Gross national product	1,889	+ 4.0	+ 18.2	+ 7	+ 20	+ 4	+ 15½
Imports <sup>(3)</sup>	805	+ 7.7	+ 11.2	+ 13½	+ 34	+ 7	+ 33½

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

<sup>2</sup> Estimates.

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

*Note :*

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

private sector went on increasing; in February it was 20% up on the level of February 1973. Though still high (+25% in February), the increase in the money supply tended to slow down.

## 2. Outlook

The present period of slackening growth should give way to a phase of acceleration in the coming months as the new budget begins to exert an extra pull.

*Exports* should continue to grow briskly. While sales of industrial products are expected to increase at a slightly slower pace, the volume of agricultural exports should accelerate, in view

of the very high livestock numbers. In addition, exports of raw materials could be given a fillip by the gradual opening of new mines and the upsurge in lead and zinc prices.

Domestic demand should grow stronger. Fresh foreign *investment* and capital spending on plant extension in particular the energy (gas) and mining industries will probably keep up the buoyant pace of investment activity. Furthermore, the public works programme included in the new budget should spell a distinct advance in investment by the public authorities. In the building industry, the recovery noted at the beginning of the year should be consolidated.

The growth of expenditure on *consumption* will probably gather appreciably more momentum.

Following the lull at the beginning of the year stemming partly from the uncertainty of the economic situation, purchases by households, in particular of durable goods, are likely to pick up again. The National Pay Agreement concluded last February, under which wages and salaries

will rise by some 18% in 1974, should bring about an appreciable increase in disposable income, despite the rapid upward price movement. Added to this will be the considerable impact of income tax reliefs and higher transfer payments included in the new budget.

*The Central Government Budget*

	1973/1974		1974/1975	1973/1974	1974/1975
	Budget	Outturn	Budget	Budget	Budget
	£ million			% change on the previous year's budget	
Expenditure <sup>1</sup>	999	1 027	1 244	+ 23.3	+ 24.5
of which:					
— current expenditure	795	803	983	+ 22.3	+ 23.6
— capital expenditure <sup>2</sup>	204	224	261	+ 27.5	+ 27.9
Revenue	758	797	925	+ 22.9	+ 22.0
of which:					
— direct taxes	246	256 <sup>3</sup>	313 <sup>3</sup>	+ 20.6	+ 27.2
— indirect taxes	407	434 <sup>3</sup>	480 <sup>3</sup>	+ 25.6	+ 17.9
Net borrowing requirement <sup>1</sup>	241	230	319		

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

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

<sup>3</sup> Estimates.

*Note :*

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

Given the more buoyant trend of demand, *production* should rise a little more vigorously, in particular in industry and services. The increase in the volume of agricultural production, on the other hand, will probably be only small in view of the foreseeable trend in beef prices and the high cost of animal feedingsuffs. Employment in manufacturing industry should

be up again, but with the decline in agriculture, total *employment* will probably rise only moderately.

As overall demand grows firmer, *imports* should continue to climb rapidly, especially as the economy does not appear to have the capacity to absorb by itself the expansionary effects of



the budget. Consequently, and because of the upsurge in import prices stemming partly from the effects of the higher oil bill, the adverse trend in the trade balance should continue. In the balance of payments however, this trend could be offset by large inflows of capital.

*Prices* are likely to continue rapidly upwards and this will inevitably affect costs. The fundamental concern of the Irish authorities will therefore be to reconcile the objective of maintaining a satisfactory rate of growth and a high level of employment with the re-establishment of better internal and external equilibrium. *Economic policy* should therefore be directed with a large measure of flexibility in order to ensure that the inflationary pressures which could result from the expansionary effects of the budget on domestic liquidity do not grow heavier and that there is no unduly sharp deterioration in the balance of payments.

### **Major economic policy measures**

*October 1973:*

— *The Holidays (Employees) Bill 1973 introduced in the Dáil on 30 October provides for minimum holidays of three weeks per year instead of two for all workers except those in agriculture. It also proposes six public holidays per year.*

*November:*

— *The Government announced on 7 November the issue of an 11% National Loan 1993-1998 with a yield to redemption of 11.75% (subsequently increased to 12%).*

— *The Minister for Industry and Commerce approved price increases on over 70 items, including food products, cars, hardware, newspapers, furniture and coal, recommended by the National Prices Commission.*

— *On 18 November the Minister for Transport and Power made Statutory Orders compelling wholesalers and distributors of oil products to reduce supplies for the last quarter of 1973.*

— *The Minister for Local Government an-*

*nounced on 20 November that the restriction on building societies giving loans for second-hand houses would be raised from 1 December.*

— *The Minister for Finance announced that the Government had negotiated a loan of £ 7.5 million from the European Investment Bank for the improvement of tele-communications in Ireland. The loan is for a period of 8 years and carries an interest rate of 8.5% p.a.*

— *The Associated Banks raised their interest rates on 30 November. All lending rates were increased by 1.5% while deposit rates rose by between 1 and 2%.*

*December:*

— *On 28 December the Minister for Transport and Power extended the controls on supplies of oil products to 31 January 1974.*

*January 1974:*

— *On 9 January the Minister for Finance announced a new regulation stipulating that the amount of interest payments qualifying for income tax and surtax relief will be limited to £ 2,000 per year.*

— *The Minister for Social Welfare made an order on 18 January extending compulsory social insurance to all employees from 1 April.*

— *The Industrial Development Authority announced on 21 January the introduction of a scheme of grants towards expenditure which would lead to savings in energy. Grants range from 25% of capital costs to 35% in certain areas.*

— *The Electricity Supply Board announced on 31 January a fuel surcharge of 30% on electricity charges.*

— *The Minister for Transport and Power made a new order on 31 January relaxing somewhat the controls on oil supplies during February and March.*

*February:*

— *On 21 February the Minister for Industry and Commerce approved price increases on a*

*wide variety of goods (coal, gas, margarine, paper and medicinal products) as recommended by the National Prices Commission.*

— *On 28 February the Government published a White Paper announcing its intention to introduce new capital taxes and to abolish succession duties from 1 April 1975.*

#### *March:*

— *The Government announced on 1 March that it had negotiated a ten-year loan of £ 15.5 million with a Dutch bank at an interest rate of 9%.*

— *On 7 March the Irish Congress of Trade Unions accepted the revised proposals for a new National Pay Agreement. The percentage increases range from 13.8% for those earning £ 60 per week or more to 24.6% for those with pay of £ 15 per week or less. In addition a cost of living supplement will be paid during the last three months of the Agreement.*

— *On 14 March the Minister for Transport and Power approved a £ 23 million plan for modernizing the railways.*

— *On 15 March the Minister for Industry and Commerce set up advisory bodies to investigate the prices of meat, fertilizers and coal.*

— *On 28 March the Minister for Transport and Power made a new order maintaining the restrictions on oil supplies until the end of June.*

#### *April:*

— *The Minister for Finance announced on 1 April that the public capital expenditure estimates for the nine months of the current financial year (from 1 April to 31 December) totalled £ 295.4 million.*

— *On 3 April the Minister for Finance presented the new budget for the financial year (from 1 April to 31 December 1974); it included:*

— *a reform of income tax exempting 60,000 people on low incomes from this tax and providing substantial relief for the other categories; the introduction of a tax on certain agricultural incomes which should affect some 5% of farmers;*

— *an appreciable increase in expenditure on wages and salaries;*

— *a considerable increase in social welfare payments.*

— *On 10 April the Minister for Industry and Commerce fixed a maximum price for certain products (gas, butter, frozen vegetables, margarine and feedingstuffs), as recommended by the National Prices Commission.*

#### *May:*

— *On 4 May the Minister for Transport and Power lifted the remaining restrictions on supplies of petroleum products.*

TABLE 1: Key indicators

	1969	1970	1971	1972	1973	1973
	% change in volume on preceding year					Indices 1963 = 100
Gross national product	+ 4.3	+ 2.5	+ 3.6	+ 2.9	+ 7.0	151.1
Industrial production	+ 6.6	+ 3.3	+ 4.1	+ 4.3	+ 10.0	182.0
Total imports	+ 13.4	+ 2.5	+ 4.1	+ 7.2	+ 15.4	220.1
Private consumers' expenditure	+ 4.3	+ 2.7	+ 3.2	+ 4.0	+ 6.2	154.5
Public current expenditure on goods and services	+ 6.9	+ 7.0	+ 3.3	+ 8.7	+ 7.5	164.5
Gross fixed asset formation	+ 19.7	- 1.2	+ 9.0	+ 2.1	+ 12.8	211.3
Total exports	+ 4.6	+ 4.4	+ 4.9	+ 3.4	+ 10.7	190.7
Gross national product per head of population	+ 3.9	+ 1.7	+ 2.7	+ 1.7	+ 5.7	140.3
Gross national product per person in employment	+ 3.7	+ 3.2	+ 3.1	+ 3.9	+ 6.4	149.9
	% change in value on preceding year					
Gross income per employee	+ 12.2	+ 14.0	+ 15.9	+ 15.1	+ 17.6	254.4

TABLE 2: Indicators for internal and external equilibrium

	1969	1970	1971	1972	1973
Balance exports less imports					
in millions Eur	- 309.4	- 313.2	- 314.4	- 235.2	- 386.4
as percentage of GNP	- 8.5	- 7.8	- 6.8	- 4.4	- 6.1
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

Ireland

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1963=100	Million Eur	% of totals
	1968	1969	1970	1971	1972			
Visible exports								
Total	15.6	11.1	15.5	15.4	20.0	329.9	1,552	100.0
Intra-EEC	14.0	9.7	15.8	16.0	21.3	322.9	1,210	78.0
Extra-EEC	21.7	16.2	14.5	13.7	15.9	357.6	342	22.0
Exports of food, beverages and tobacco	8.0	4.0	13.1	21.6	15.1	231.9	695	45.6
Exports of raw materials, fuel and power	14.5	42.8	9.2	5.3	14.4	310.8	105	6.9
Imports of semi-finished and finished industrial goods and miscellaneous goods	26.8	12.1	18.8	14.3	26.6	574.3	723	47.5
Visible imports								
Total	24.5	18.9	10.3	11.6	11.6	274.6	2,022	100.0
Intra-EEC	31.2	20.1	13.7	8.6	14.5	283.1	1,401	69.3
Extra-EEC	12.9	16.4	3.2	18.2	5.6	257.0	621	30.7
Import of food, beverages and tobacco	18.9	2.3	7.3	4.1	19.5	184.9	268	13.3
Imports of raw materials, fuel and power	17.8	7.2	12.8	16.8	0.4	209.5	270	13.4
Exports of semi-finished and finished industrial goods and miscellaneous goods	27.5	25.4	10.3	11.9	12.7	320.8	1,484	73.3

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1971		163			163			162			167	
	1972		167			166			171			179	
	1973		190			187			185			190	
Unemployed (1 000)	1972	48	48	47	51	48	46	46	49	49	48	48	48
	1973	46	45	44	43	43	44	44	44	45	43	43	43
	1974	44	44	43									
Construction : permits for residential construction (1 000)	1971		5.32			5.52			5.28			5.17	
	1972		5.48			6.7			6.6			6.4	
	1973		13.13			4.24			6.76			6.10	
Private consumers' expenditure (1963 = 100)	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										
Consumer prices (1963 = 100)	1972		166.7			169.2			173.9			176.4	
	1973		183.4			189.0			193.6			198.6	
	1974		208.2			219.6							
Visible imports (million Eur)	1972	151	146	166	146	157	168	148	140	176	175	170	206
	1973	181	180	178	173	177	194	218	204	195	213	213	186
	1974	193											
Visible exports (million Eur)	1972	103	117	121	103	120	139	129	118	132	134	127	139
	1973	122	143	142	134	142	145	148	153	152	167	154	176
	1974	148											
Balance of trade (million Eur)	1972	- 48	- 29	- 45	- 43	- 37	- 29	- 19	- 22	- 44	- 41	- 43	- 67
	1973	- 59	- 37	- 36	- 39	- 35	- 49	- 70	- 52	- 43	- 46	- 59	- 10
	1974	- 45											
Official gold and foreign exchange reserves (million Eur)	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								
Money supply (million £)	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								

## NOTES TO GRAPHS AND TABLES

Source: OECD; Main economic indicators (except as otherwise indicated).  
Conversion into Eur (1 Eur = 0.888671 g of fine gold).

*Graph 1*

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

*Graph 2*

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

*Graph 3*

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

*Graph 4*

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

*Graph 5*

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

*Table 1*

GNP at market prices: NIEA; National income and expenditure accounts 1971.  
Industrial production: ESRI; Volume of production; mining and manufacturing industry.  
Total exports and imports: goods, services and factor income; NIEA.  
Gross income per employee: Irish Statistical Bulletin (ISB); earnings and employment in total transportable goods industries.

*Table 2*

Balance exports less imports: as defined for the national accounts.  
Unemployment rate: ISB; Percentage of insured persons on the live register.  
Price index: ISB; Consumer price index.

*Table 3*

Data from 1967 to 1971 from "External Trade Statistics 1971"; 1972 from "Trade Statistics of Ireland 1972"; 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 insured unemployed; adjusted for seasonal variations.  
Construction: Central Bank; Total of new dwellings begun or authorised; not seasonally adjusted.  
Private consumers' expenditure: Retail Sales Index; seasonally adjusted.  
Consumer prices: ISB; Consumer price index; not seasonally adjusted.  
Visible trade: Imports cif, exports fob; seasonally adjusted.  
Balance of trade: Difference between values of imports and exports; seasonally adjusted.  
Official Gold and Foreign Exchange Reserves: CB; Official External Reserves, Monetary Authorities' reserves of gold and convertible currency, holdings of special drawing rights and reserve position in the IMF.  
Money Supply: CB; Currency and current accounts (adjusted).



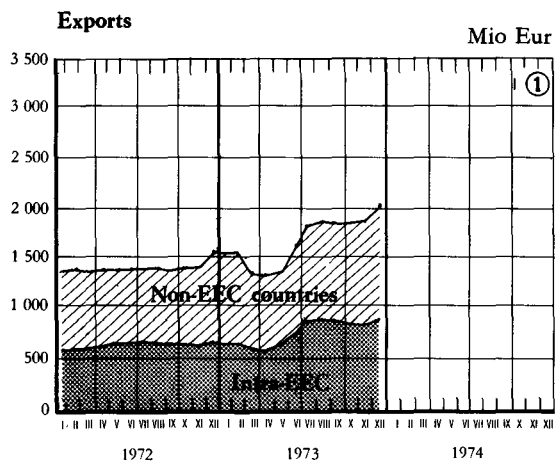
## E. Italy

After a short interruption towards the end of last year owing to the oil crisis, economic growth continued vigorously in the early months of 1974, although there were differences from sector to sector. Employment tended distinctly upwards. At the same time however the very rapid upsurge in prices accelerated still further and the disequilibrium on current account worsened. Despite the more stringent economic policy, economic activity is likely to continue at a high level in the remainder of 1974.

### 1. Recent developments

The very vigorous and general economic upswing discernible at the beginning of the autumn came to a standstill towards the end of last year, owing to the oil crisis; but in the early months of 1974 it continued at a rapid pace, although there were differences from sector to sector. To judge from the economic indicators, which this time are especially incomplete, economic activity in the winter was mainly supported by domestic demand as the propensity to spend seemed to have increased quite generally owing to the persistent inflationary climate. The conditions of equilibrium have in fact deteriorated alarmingly; this is particularly true of the balance of payments.

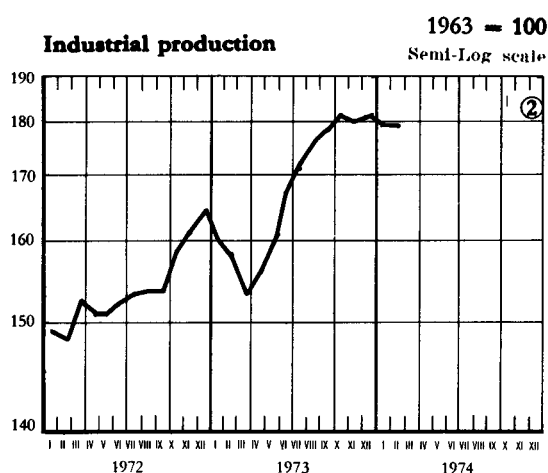
After a rapid advance in the last three quarters of 1973, in the first four months of 1974 the underlying expansion in the value of *exports* of goods and services was only moderate. Even so, visible exports were as much as 70½% higher than a year earlier, when the figures had been affected by strikes. The year-to-year increase was especially large in exports of building materials, chemicals and iron and steel.



According to the ISCO monthly business survey, *investment* spending moved vigorously upwards. The main increase presumably was in capital expenditure on plant and machinery, particularly cost-saving machines and equipment. Investment in stocks of raw materials and semi-manufactures is also likely to have gone on rising. Stocks of finished products, on the other hand, have apparently dropped to a very low level. Thanks to the mild winter the relatively slow expansion of building investment appears to have continued.

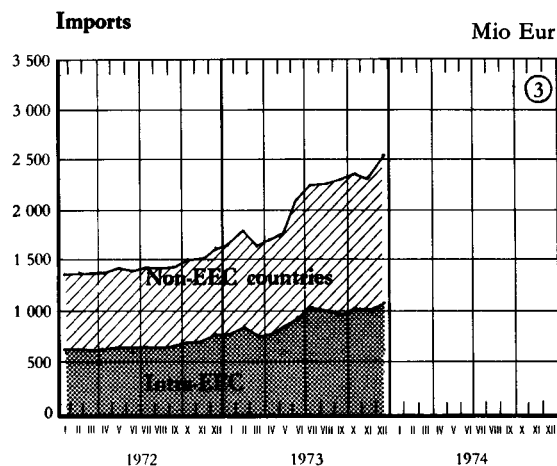
Private consumers' expenditure probably grew briskly, for wages and salaries expanded considerably: industrial and public service wages and salaries advanced appreciably; some transfer incomes (minimum pensions, family allowances and unemployment benefits) were put up, and the level of employment rose further. Together with an increased propensity to consume, these factors have more than offset the decline, or at least slower growth, in expenditure on private cars, caused by the increase in petrol prices and the economy measures introduced in the wake of the oil crisis. Significant increases in the index-linked cost of living supplements were introduced in February and May, equivalent to more than 3% of the total wage and salary bill. The growth of private consumers' expenditure in real terms was considerably less than that in money terms.

Industrial production expanded vigorously. The ISTAT indices—seasonally adjusted by ISCO—suggest that in the first quarter it was more than 3% higher than in the previous quarter and 6½% up on the average level for 1973. The increase on a year earlier, when the



level was admittedly low because of the strike in the metal-working industry, was as much as 15%, measured by the unadjusted index. The production of finished products and primary products went up at a particularly rapid pace, while that of motor cars, oil derivatives, rubber and footwear tended to be sluggish. To judge from the ISCO business survey, capacity utilization has risen distinctly to reach a high level, especially in some sectors.

The underlying trend of supplies from abroad also remained expansionary. Expressed in lire, visible imports in the first four months were 100% higher than a year earlier, but this rate



chiefly reflected the rapid rise in the cost of oil and other commodities. Also, the worldwide upsurge in import prices was especially felt by Italy because of the de facto devaluation of the lira.

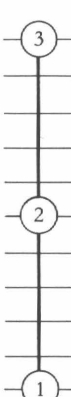
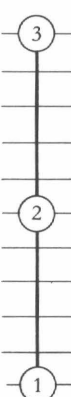
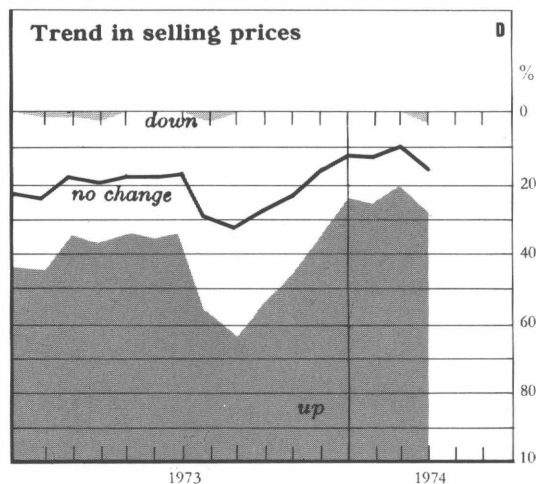
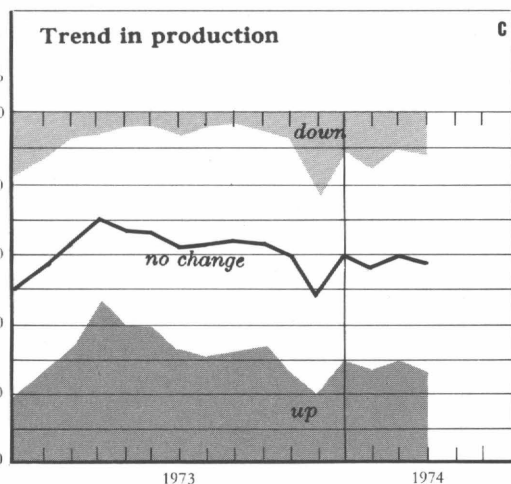
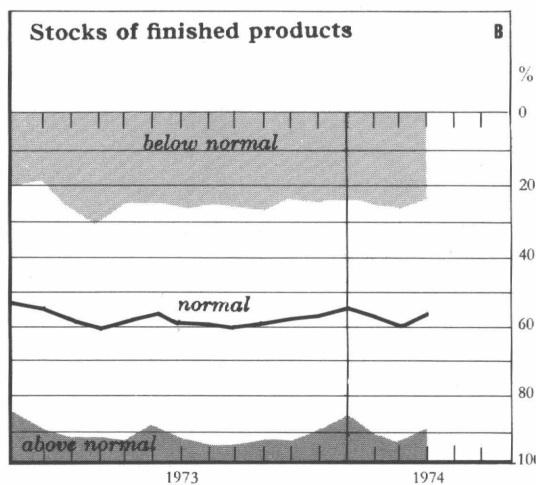
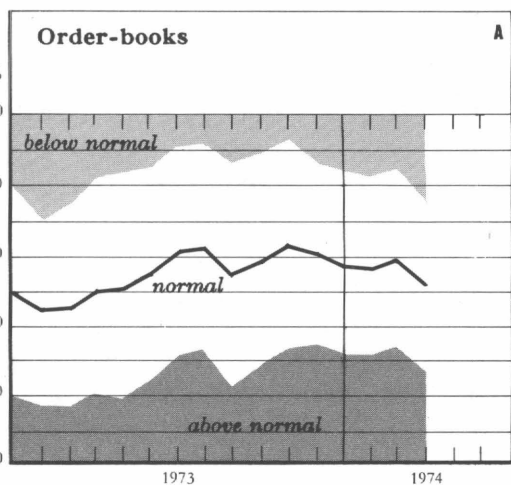
Employment went on rising distinctly. In the first three months of 1974, the number of employed, adjusted for seasonal variations by the Statistical Office of the European Communities, was 1½% higher than in the previous



quarter. For wage and salary earners the corresponding increase was a good 0.5%. However, some of the sectors hit by the oil crisis,



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.

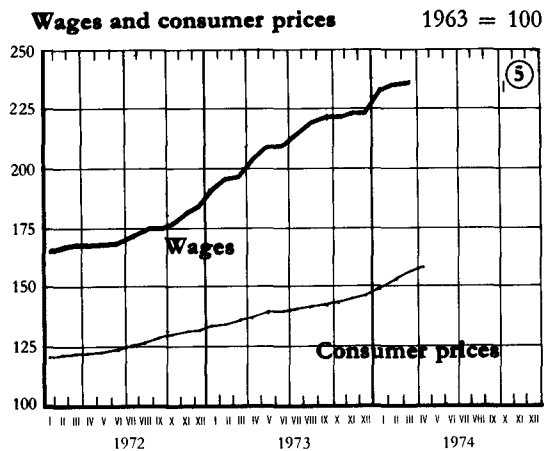
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- 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".



especially the motor industry, had to introduce short-time working.

The fresh acceleration in the sharp upsurge of prices noted in the autumn continued in the



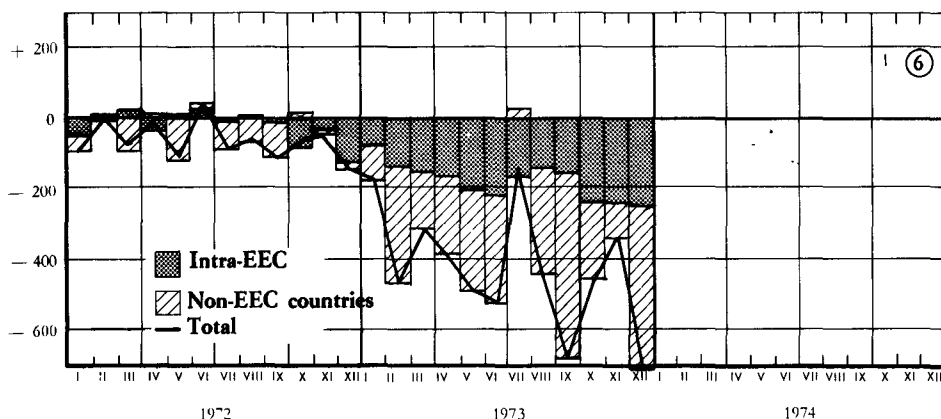
winter and more especially in the spring. Consumer prices rose by an average of 1.9% a

month in the first four months of 1974, and wholesale prices by 6.5% in January-February. The corresponding figures for the final quarter of 1973 were 1.1% and 2.9% respectively. The consumer price index climbed by 16.3% between April 1973 and April 1974 and the wholesale price index by 39.3% between February 1973 and February 1974. The rapid upsurge in prices was due mainly to the extremely strong pressure of costs resulting from the higher import prices mentioned above and from an advance in per capita wages and salaries far above the increase in productivity, and to the lively expansion in demand and a partial easing of the price freeze introduced last summer.

In the first four months of 1974 the trend of the *balance of payments* on current account continued to be extremely unfavourable. The trade deficit widened very rapidly because of an unusually sharp deterioration in the terms of trade (reaching Lit. 2,767,000 million compared with

**Balance of trade**

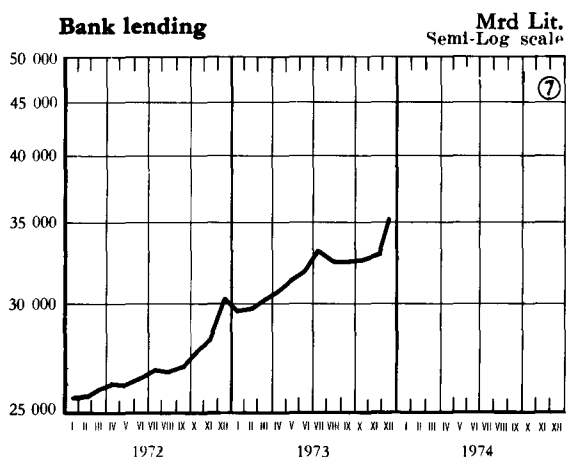
Mio Eur



Lit. 905,000 million a year earlier). The capital account was affected by conflicting tendencies: illegal forms of capital exports and the leads and lags trend caused a drain, but this was more than compensated for by further massive borrowing on the international capital markets. All in all, the first quarter balance of payments closed with a deficit (Lit. 1,674,000 million or approximately Lit. 2,800,000 million if foreign borrowing is excluded). To preserve their gross gold and foreign exchange reserves, in March the monetary authorities drew on the short-term monetary support facility granted by the Com-

munity last summer, and the commercial banks imported money at the request of the Banca d'Italia. According to official statistics, the net reserves of the monetary authorities rose by Lit. 56,000 million to Lit. 3,348,000 million between the end of December 1973 and the end of April 1974, and their medium- and long-term foreign indebtedness increased by Lit. 1,286,000 million.

Despite the payments transactions with abroad and even though most of the heavy Treasury deficit was again financed by monetary means,



the commercial *banks' domestic liquidity* declined in the first quarter. This was mainly due to a lively expansion in bank lending and a sharp increase in the note and coin circulation.

Short-term interest rates again rose appreciably, in line with the international trend, particularly since the cost of refinance from the Banca d'Italia went up further. At the beginning of the spring the interest on interbank balances reached approximately 11%, and in May the rate charged on short-term loans to first-class borrowers stood at 14.5%. For some time past the effective yield on bonds has also tended upwards.

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

	1971 <sup>(1)</sup>	1972 <sup>(1)</sup>		1973 <sup>(1)</sup>		1974 <sup>(2)</sup>	
	At current prices (in Lit '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	13,362	+ 11.6	+ 13.5	+ 5.3	+ 18.9	+ 10	+ 34½
Gross fixed asset formation	12,680	+ 0.4	+ 5.6	+ 9.9	+ 27.2	+ 7½	+ 32½
Public current expenditure on goods and services	8,946	+ 4.6	+ 13.6	+ 3.3	+ 15.8	+ 3	+ 19
Private consumers' expenditure	40,224	+ 3.3	+ 9.2	+ 6.2	+ 17.8	+ 3	+ 21½
Gross national product	63,127	+ 3.1	+ 9.1	+ 5.9	+ 17.0	+ 4½	+ 21½
Imports <sup>3</sup>	12,340	+ 13.1	+ 15.4	+ 11.9	+ 37.9	+ 7	+ 44

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

<sup>2</sup> Estimates.

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

*Notes :*

The difference between the figures for demand and those for supply is accounted for by movements in stocks. The estimates are approximations based on the hypotheses generally set out in the Quarterly Survey. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

## 2. Outlook

The future economic trend—in the second half of 1974—is once again particularly difficult to forecast, for there is considerable uncertainty about the effects of the more stringent economic policy which the Italian Government has adopted in view of the inflationary tendencies and the difficulties in meeting the balance of payments deficit by borrowing abroad. Assuming that the world economic trend gathers momentum again during the second half of 1974 and that there are no disruptive labour disputes, economic activity is likely to continue at a high level.

A number of reasons suggests that *exports* will increase vigorously as world economic activity picks up; these include the positive volume effects now to be expected from the depreciation of the lira since February 1973, the attraction for industry of making special export efforts in view of the current controls on domestic prices, and last but not least, an economic policy which is aimed at directing the growth of resources mainly into exports.

The expansion in domestic demand by contrast may slow down markedly. The propensity of enterprises to undertake cost-saving *investment*

*The Central Government Budget*

	1973		1974	1973	1974
	Original Budget	Revised Budget	Original Budget		
	Lit. '000,000 million			% changes on the preceding year's original budget	
Expenditure <sup>1</sup>	20.8	20.9	23.7	+ 22.3	+ 13.7
of which:					
— current expenditure	16.4	16.5	19.5	+ 21.4	+ 18.3
— capital expenditure <sup>2</sup>	4.4	4.4	4.2	+ 25.6	— 3.6
Revenue	15.4	15.5	17.0	+ 15.8	+ 10.1
of which:					
— direct taxes	4.0	4.0	4.3	+ 13.7	+ 5.8
— indirect taxes	10.6	10.6	11.8	+ 16.5	+ 12.1
Borrowing requirement <sup>1</sup>	— 5.4	— 5.4	— 6.7		

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

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

*Note :*

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

and to bring it forward to beat rising prices is likely to remain strong, especially as the line taken over short-term economic policy implies an official intention to provide the necessary financial scope for such projects. But stock-building, which was sharply inflated last year, and building investment will probably grow more slowly, notably under the influence of the monetary authorities' credit policy.

Above all it is to be expected that the expansion in private *consumers' expenditure* will be more sluggish and that real consumption in particular will increase distinctly less than last year owing to the sharp price rises and tax measures.

In the circumstances it appears reasonable to expect the *real gross national product* to rise by about 4½% between 1973 and 1974. The growth in the volume of visible *imports* may be comparatively small owing to the measures taken in the light of the oil crisis and to the cash deposit scheme introduced in May for a large proportion of imports. The value of imports, by contrast, will no doubt show an unusually sharp increase on 1973 because of soaring import prices.

From the middle of the year the *employment* trend may temporarily lose some of its momentum.

The factors behind the rapid upsurge in *prices* in the first part of the year are likely to continue to operate. Further boosts to prices must be expected from the import deposit scheme. However, with more time elapsing since the oil-induced upsurge, the upward movement of prices may slow down by the turn of 1974/75.

The *balance of payments* on current account for 1974 as a whole will close with an unusually heavy deficit—mainly caused by the higher cost of oil. However, with economic policy following the lines assumed, the trend can be expected to improve again as the year advances.

The above account shows that the main problem facing *economic policymakers* is the re-establishment of internal and external equilibrium. The return to a healthier balance of payments situation, which is indispensable in the longer term to safeguard growth and employment, can in

fact be achieved only if the expansion of domestic demand is curbed rapidly and energetically. Success in this area would certainly also facilitate the raising of bridging loans—in any case still necessary—on the international capital market.

## Major economic policy measures

October 1973:

— During the month the provisions to implement the reform of direct taxation, due to enter into force on 1 January 1974, were adopted. (For details of the reform see "The economic situation in the Community", 1/1972).

— On 6 October the export of certain petroleum products (gasolene and kerosene) was made subject to authorization to be granted automatically in the case of export to other Member States.

November:

— From 1 November, the lira equivalent of the unit of account used in the common agricultural policy was raised by approximately 4% in respect of most of the products for which Italian farmers receive guaranteed prices. There would be a further increase (of 3.5%) in 1974, e.g. on 1 April for milk, cheese, beef and veal. At the same time the compensatory amounts applied to trade with the other Member States, introduced as a result of the changes in exchange rates were reduced.

— Towards the middle of the month an agreement was concluded whereby the conditions of insurance for short-term export credit granted to small and medium-sized industrial firms were improved considerably with effect from 1 January 1974.

— With effect from 15 November to the end of March 1974 the export of petrol and fuel oil was made subject to authorization to be granted automatically in the case of export to other Member States.

— In the second half of the month the Government decided to increase the 1974 budget appropriations for the regional development

fund from Lit. 140,000 million to Lit. 460,000 million. Owing to cuts in other budget items the budgetary deficit remained unchanged.

— On 22 November the Government decided, in view of the oil crisis, to increase the prices of petroleum products once again, with immediate effect and to restrict energy consumption by the introduction of various energy-saving measures (including a ban on Sunday motoring, earlier closing times for shops, fewer television programmes and an earlier start of theatre programmes, restriction of shop-window lighting, reduced heating in offices).

#### December:

— At the beginning of the month an increase in the price of pasta (of approximately 25%) was officially authorized. This was the first time that the freeze on the prices of a number of essential consumer goods, in force since the end of July, was relaxed.

— Towards the middle of the month the monetary authorities decided, as a continuation of the capital market policy measure adopted on 28 June, to extend into the new year the requirement on commercial banks to make additional net purchases of fixed interest securities: on 30 June 1974 the banks' portfolios of such securities must therefore exceed that of 31 December by an amount equivalent to at least 3% of their clients' savings deposits as at 31 December 1972.

— Towards the end of the month an agreement was concluded between an international bank consortium and the Italian financing institution CREDIOP on the grant of a \$ 1,000 million long-term foreign exchange loan to finance infrastructure projects.

— At the end of the month the CIP (Inter-Ministerial Committee for Prices) decided on a considerable increase in the prices of fertilizers and cement. In addition, a number of industrial firms whose prices had been frozen since the end of June were authorized to put up such prices.

— At the end of the month the existing freeze on rents was extended to cover a wider field and prolonged to 30 June 1974.

#### January 1974:

— At the beginning of the month, the CIP (Inter-Ministerial Committee for Prices) decided to remove various food products from the list of 21 products whose prices had been frozen since last July.

— Towards the end of the month, the value of the common agricultural policy unit of account in lira was again increased from Lit. 678 to 712 (+5%). At the same time compensatory amounts applied to trade in agricultural products with other Member States were further reduced.

— At the end of the month an agreement was concluded on the grant of a \$ 600 million loan to IMI, a State-controlled credit organization. The loan, granted by an international bank consortium, is for 10½ years. The interest rate is to be ¾ percentage points above the level prevailing on the London Eurodollar market.

#### February:

— In the second half of the month, the Inter-Ministerial Committee for Prices authorized a price increase for various food products affected by the above-mentioned freeze in force since July 1973. The increases vary from 7% to 38% according to the products.

— Towards the end of the month, the measures restricting energy consumption introduced in November 1973 were relaxed in respect of Sunday and holiday motoring. On the other hand, the prices of petroleum products were raised once again: petrol +30%, fuel oil +25%, gas oil for heating +52%.

— Towards the end of the month, the Government decided to raise certain postal rates by between 38% and 67%. This measure should bring in an estimated extra Lit. 25,500 million a year.

#### March:

— From 8 March, a limit of Lit. 20,000 per person was placed on the amount of Italian bank notes that both residents and non-residents could take with them when entering or leaving the country. Residents travelling abroad would

be allowed to take foreign currencies worth approximately Lit. 500,000 but the amount would have to be recorded in their passport. These measures were intended to restrict the flight of capital and strengthen the lira.

— On 20 March, the monetary authorities decided to raise the official discount rate and the rate for fixed-term advances from 6.5% to 9%. The maximum supplement charged on the basic rates when certain limits are exceeded remained unchanged at three points.

— Towards the end of the month treasury bills were issued with new features concerning the maturity, which was reduced to four years. They carry a nominal rate of interest of 7%, and provide an approximate yield of 7.5%.

— The two-tier exchange market in existence since January 1973 was abolished with effect from 22 March.

— Towards the end of the month, the Italian Government signed a letter of intent relating to the commitments it had accepted with a view to obtaining a stand-by credit of 1,000 million SDR's (\$ 1 200 million) from the IMF. The main commitments were as follows:

— The part of the current account deficit which is not directly attributable to higher oil prices would be reduced in 1974 and eliminated by the end of 1975;

— The Treasury would restrict its borrowing requirement to Lit. 8,700,000 million. To achieve this objective, taxation must be increased to bring in a additional Lit. 500,000 million;

— The growth of overall borrowing for the domestic needs of the economy between April 1974 and March 1975 would be limited to Lit. 22,400 million.

— At the end of the month, the Council of Ministers approved an average increase of 30% for railway charges to take effect on 15 May. This measure would cut the government deficit by an estimated Lit. 140,000 million per year. Goods rates had remained unchanged since 1961 and passenger fares since 1963.

— Since the end of the month, on the basis of an agreement concluded with two large Italian banks, enterprises which had taken up export credit insurance (with payment deferred up to a maximum of 24 months) could imme-

diately mobilize the amount of their claims on foreign customers, provided that they ceded the rights under the insurance policy.

April:

— At the beginning of the month, pursuing their selective credit policy, the monetary authorities decided to limit the expansion of bank lending. Taking the level of 1 April 1974 as a basis, the growth of individual loans of more than 30 million lire could not exceed 8% in the period up to October 1974 and 15% up to April 1975. Exceptions were allowed for certain productive activities, in particular the electricity supply industry, railways, and the agricultural intervention agency (AIMA). These measures fit in with the above-mentioned commitments to the IMF. They are intended in particular to limit the borrowings of local authorities.

— At the beginning of the month, a decree-law set up a National Commission for Companies and the Stock Exchange which was to reform stock exchange activities and to regulate the keeping and publication of the balance sheets of companies quoted on the stock exchange. With a view to stimulating the supply of capital in Italy, the decree-law restored the right of residents, as regards taxes on dividends, to choose between a 10% payment on account or a 30% payment giving full discharge from tax liability ("cedolare secca"). Shareholders would have to declare their identity to the tax authorities unless they opted for the second formula. For non-residents, the withholding tax on income from capital placed in Italy was reduced from 30% to 15%.

— At the end of the month, the Italian Government decided that importers would have to lodge a non-interest-bearing cash deposit for six months with the Banca d'Italia in respect of imports of goods other than raw materials, energy products and capital goods. The deposit, amounting to 50% of the value of such imports, would affect some 40% of total purchases abroad (on 8 May the Commission of the European Communities authorized this scheme, subject to certain conditions). At the same time it was decided to further limit the foreign exchange allowance for Italian tourists abroad: the



*maximum allowance of Lit. 500,000 per person, introduced earlier, would in future be granted only once a year.*

*May:*

*The measures adopted in March restricting the amount of Italian bank notes which could be brought into or taken out of the country were eased from 4 May; the maximum amount was raised to Lit. 35,000.*

*— At the beginning of the month a decree came into force, amending the residential construction provisions, especially as laid down in the outline law passed in 1971. The decree is mainly intended to increase the supply of subsidized*

*housing by accelerating administrative procedures.*

*— At about the same time the monetary authorities repeated the decision authorizing certain domestic banks to guarantee to meet Italian importers' liabilities resulting from the granting of credits by foreign suppliers.*

*June:*

*— With effect from 1 June the motoring restrictions which had been introduced because of the oil crisis were lifted.*

*— A ministerial authorization raised the maximum permissible price of daily newspapers from 100 to 150 lire; this followed an increase of some 10% authorized in January.*

Italy

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

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1963=100	Million Eur	% of totals
	1968	1969	1970	1971	1972	1972	1972	1972
<b>Visible exports</b>								
Total	+ 17.0	+ 15.2	+ 12.6	+ 13.4	+ 14.4	340	17 131	100.0
Intra-EEC	+ 20.9	+ 22.2	+ 13.8	+ 17.9	+ 15.6	431	7 731	45.1
To non-EEC countries	+ 14.5	+ 10.5	+ 11.9	+ 9.9	+ 13.4	289	9 400	54.9
<b>Exports of food, beverages and tobacco</b>								
Total	- 3.7	+ 15.6	+ 9.2	+ 16.2	+ 17.9	218	1 504	8.8
Intra-EEC	- 1.3	+ 21.4	+ 5.7	+ 24.9	+ 20.4	268	875	5.1
To non-EEC countries	- 6.1	+ 9.3	+ 13.4	+ 6.3	+ 14.6	173	629	3.7
<b>Exports of raw materials, fuel and power</b>								
Total	+ 14.1	+ 1.4	+ 10.3	+ 17.5	- 2.8	239	1 131	6.6
Intra-EEC	+ 14.7	- 2.0	+ 9.6	+ 15.0	- 4.5	315	402	2.3
To non-EEC countries	+ 13.7	+ 3.6	+ 10.6	+ 18.9	- 1.8	211	729	4.3
<b>Exports of semi-finished and finished industrial goods</b>								
Total	+ 20.0	+ 16.7	+ 13.2	+ 12.7	+ 15.6	373	14 496	84.6
Intra-EEC	+ 25.4	+ 24.9	+ 15.0	+ 17.3	+ 16.5	482	6 454	37.7
To non-EEC countries	+ 16.7	+ 11.5	+ 11.9	+ 9.3	+ 15.0	316	8 042	46.9
<b>Visible imports</b>								
Total	+ 4.3	+ 21.4	+ 19.4	+ 5.9	+ 12.5	236	17 810	100.0
Intra-EEC	+ 9.1	+ 29.9	+ 27.4	+ 9.3	+ 19.0	322	7 994	44.9
From non-EEC countries	+ 1.8	+ 16.6	+ 14.3	+ 3.6	+ 7.7	194	9 816	55.1
<b>Imports of food, beverages and tobacco</b>								
Total	+ 8.5	+ 14.9	+ 18.0	+ 20.5	+ 15.7	263	3 481	19.5
Intra-EEC	+ 29.0	+ 26.8	+ 20.9	+ 32.4	+ 26.7	663	1 592	8.9
From non-EEC countries	+ 0.9	+ 9.2	+ 8.1	+ 13.3	+ 7.8	175	1 889	10.6
<b>Imports of raw materials, fuel and power</b>								
Total	+ 1.0	+ 13.0	+ 11.8	+ 8.9	+ 4.6	205	5 325	29.9
Intra-EEC	- 3.0	+ 20.6	+ 16.6	+ 4.2	+ 14.3	261	832	4.7
From non-EEC countries	+ 1.7	+ 11.8	+ 11.0	+ 9.8	+ 3.0	198	4 493	25.2
<b>Imports of semi-finished and finished industrial goods</b>								
Total	+ 8.6	+ 31.0	+ 27.1	- 0.5	+ 16.5	248	9 004	50.6
Intra-EEC	+ 8.1	+ 32.4	+ 30.8	- 5.2	+ 17.7	291	5 570	31.3
From non-EEC countries	+ 9.2	+ 29.0	+ 22.2	- 8.3	+ 14.5	202	3 434	19.3

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	155.2	154.6	150.2	150.3	153.7	154.0	153.3	155.2	154.2	169.5	162.1	164.3
	1973	154.5	154.7	150.7	164.1	166.6	171.5	178.9	181.0	177.4	186.1	177.8	180.0
	1974	181.5	176.8	178.2	189.2								
<b>Unemployed (1 000)</b>	1972	1 041.0	1 052.9	1 056.1	1 057.8	1 054.9	1 055.6	1 050.4	1 051.3	1 052.2	1 044.7	1 031.9	1 009.1
	1973	1 046.9	1 036.0	1 046.2	1 044.3	1 016.5	1 018.0	990.1	986.8	981.2	988.5	964.7	933.4
	1974	970.7	958.6										
<b>Construction: permits for residential construction (1 000)</b>	1972	29.5	27.1	28.6	27.1	28.3	31.6	25.5	23.1	28.0	30.4	32.7	34.4
	1973	34.2	30.6	32.3	30.7	34.7	31.3	29.5	30.2	31.5	36.0		
	1974												
<b>Private consumers' expendi- ture: department store turnover (1963 = 100)</b>	1972	205.7	222.6	229.6	194.6	222.5	214.2	216.1	226.2	249.2	220.8	222.5	232.7
	1973	235.5	250.8	246.7	257.2	258.0	239.8	253.9	270.3	282.5	300.4		
	1974												
<b>Consumer prices (1963 = 100)</b>	1972	138.0	138.7	139.1	139.4	140.6	141.4	141.9	142.8	144.2	145.8	146.9	147.6
	1973	149.1	150.9	152.5	154.0	156.3	157.7	158.6	159.6	160.5	161.8	163.7	166.0
	1974	168.7	172.3	176.8	179.0								
<b>Visible imports (million Eur)</b>	1972	1 374.6	1 362.9	1 466.2	1 387.6	1 467.9	1 417.7	1 464.7	1 451.4	1 479.3	1 575.8	1 466.8	1 902.2
	1973	1 586.7	1 877.9	1 437.4	1 755.1	2 186.9	2 400.3	2 873.9	2 200.5	2 493.6	2 329.1	2 132.6	3 129.6
	1974	2 576.1	3 344.7	(3636.0)	(3744.0)								
<b>Visible exports (million Eur)</b>	1972	1 285.4	1 366.3	1 393.4	1 368.6	1 361.5	1 461.3	1 375.2	1 396.3	1 365.3	1 513.2	1 426.9	1 758.2
	1973	1 395.1	1 479.9	1 033.9	1 361.9	1 622.4	1 387.0	1 914.5	1 834.4	1 809.4	1 931.9	1 872.9	2 354.0
	1974	2 028.2	2 215.6	(2132.0)	(2466.0)								
<b>Balance of trade (million Eur)</b>	1972	- 89.2	+ 3.4	- 72.8	- 19.0	- 106.4	+ 43.6	- 89.5	- 55.1	- 114.6	- 62.6	- 39.9	- 144.0
	1973	- 201.5	- 398.0	- 403.5	- 393.2	- 564.5	- 527.3	- 259.4	- 346.1	- 684.2	- 397.2	- 259.7	- 775.6
	1974	- 547.9	- 1 129.1	(- 1504.0)	(- 1278.0)								
<b>Official gold and foreign exchange reserves (net million Lit.)</b>	1972	3 880	3 840	3 789	3 750	3 758	3 663	3 701	3 839	3 674	3 615	3 485	3 460
	1973	3 134	3 203	3 106	3 144	3 096	2 952	2 774	3 245	3 272	3 090	3 030	3 292
	1974	3 204	2 801	3 595	3 348								
<b>Money supply (Lit. '000 million)</b>	1972	35 742	35 597	36 266	36 995	37 392	37 686	38 183	37 812	38 558	39 227	40 153	45 954
	1973	42 101	42 224	42 902	44 056	44 688	46 066	47 871	46 637	47 600	48 257	49 335	54 156
	1974												

## Italy

### NOTES TO GRAPHS AND TABLES

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

— For the intra community trade the new Community countries have not yet been taken into account.

#### *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*

Labour market: number of registered unemployed; series prepared by the Ministero del Lavoro e della Previdenza Sociale and adjusted for seasonal variations by the Statistical Office of the European Communities; three-month moving averages.

#### *Graph 4*

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

#### *Graph 5*

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

#### *Graph 6*

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

#### *Graph 7*

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

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#### *Table 1*

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

GNP at market prices.

Industrial production: value added by industry at factor cost.

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

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

#### *Table 2*

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

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

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

#### *Table 3*

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

#### *Table 4*

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

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

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

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

Consumer prices: unadjusted index.

Imports cif, exports fob, adjusted for seasonal variations.

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

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

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

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

## F. Netherlands

*Despite difficulties caused by oil shortage, production was well maintained in the early months of the year reflecting a certain buoyancy of exports of non-oil products. Unemployment, nevertheless, edged upward. The rise of consumer prices showed a less marked acceleration than in most other member countries.*

*A resumed growth of demand—to some extent the result of expansionary policy measures taken this spring — is likely to prompt a strengthening of activity in the second half of 1974, accompanied, however, by a rapid rise in costs and prices. The current external account, although deteriorating, may remain in surplus.*

### 1. Recent developments

The strengthening of economic activity which took place in the twelve months up to October 1973—after a temporary halt in November-December due essentially to the oil crisis—has resumed, although at a more moderate pace in the early months of the present year.

A renewed upturn in *exports*—after sluggish trends in most of 1973—seems to have been a source of buoyancy for industry in the early months of 1974. In January-February, the va-

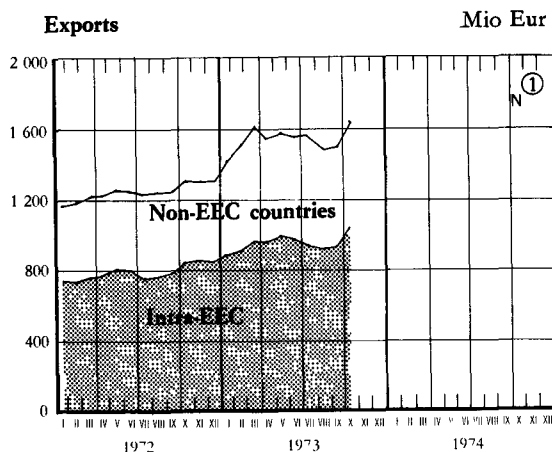
lue of total exports (excl. trade with B.L.E.U.) was some 23% above the level a year ago (crudely adjusted for a change in statistical reporting in 1972-73).

Most of the acceleration in export growth was due to the steep rise in export prices for oil products, but non-oil products seem to have expanded also in real terms.

The expansion of domestic demand has remained rapid. In real terms, national expenditure may, however, have seen little increase in the early months of 1974.

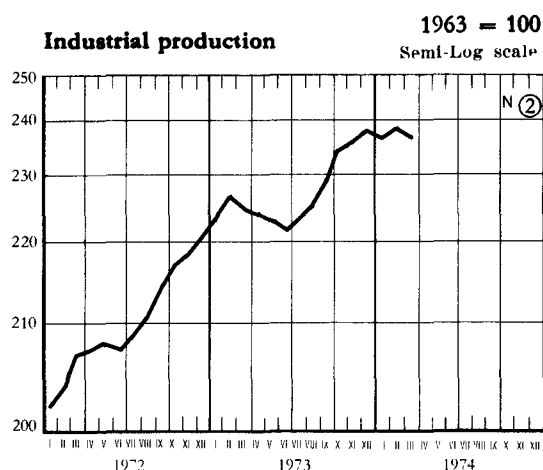
*Fixed investment* saw rather weak trends. Thus, the decline in dwelling construction observed in 1973 continued in the first half of this year: in January-April housing starts were down 22% from the level a year ago. Investment in industrial and other construction held up better, whereas transport equipment saw a weak trend under the influence of the oil crisis in the first quarter.

*Wage and salary incomes* as well as *social transfers* have been substantially raised during recent months. Thus, in April 1974 hourly wage rates were 15.6% higher than a year earlier. Des-



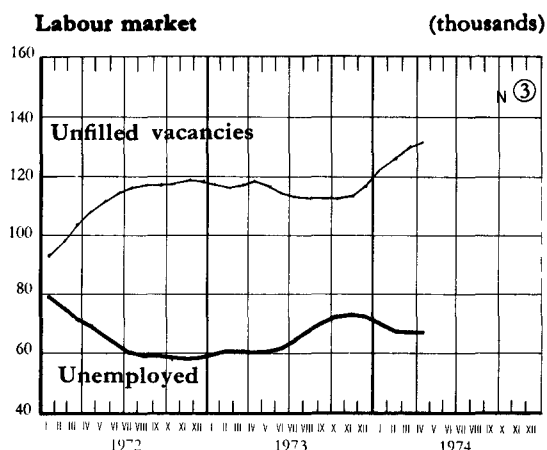
pite upward adjustment of social security premiums the rise in household disposable incomes has, therefore, remained fast. *Consumers' expenditure*, following anticipatory buying in late 1973, may have seen a more modest growth in the first months of the present year. Given, moreover, the steep rise in prices, the volume of private consumption showed a decline in the first quarter. Passenger car registrations, in particular, fell considerably. *Public consumption*, on the other hand, may have seen a more sustained growth.

Development of *production* confirms the rather divergent trends in demand described above. Due to supply constraints, output of the petrochemical industry has declined; in other export-dominated industries a certain buoyancy has prevailed, whereas industrial branches producing



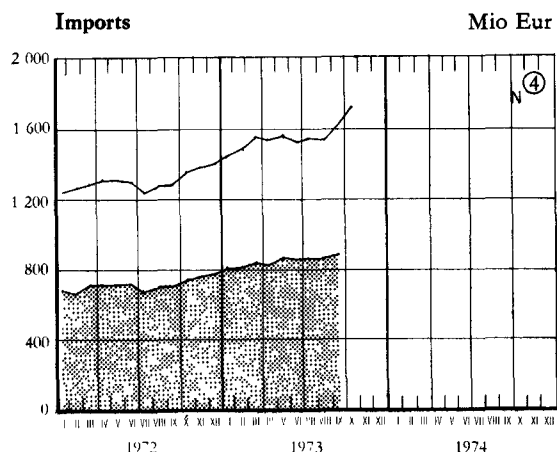
consumer goods for the home market have experienced more bearish conditions. In the first quarter the level of industrial production (excl. construction) was about 1.5% above the fourth quarter of 1973 and some 6.5% above the level a year ago. In construction, on the other hand, output was lower than in the first quarter of 1973.

Given the low level of activity in the construction sector, *unemployment* among construction workers has increased considerably: it reached about 25,000 in May of this year compared with 16,000 in the same month of 1973. Excluding building workers the rise over twelve months was much smaller.

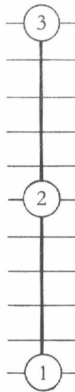
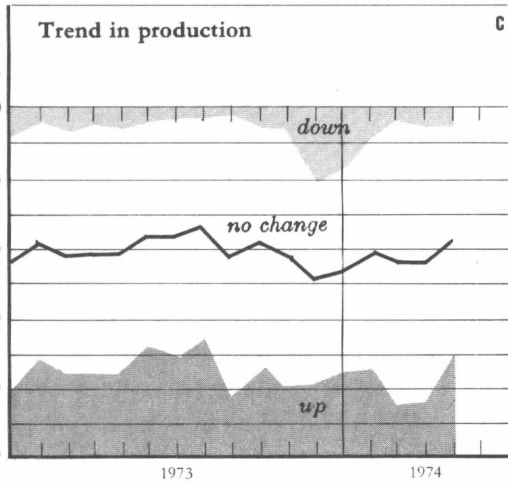
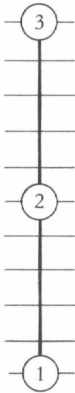
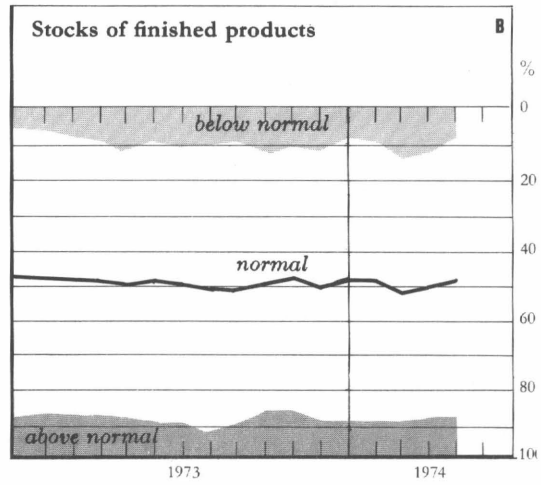
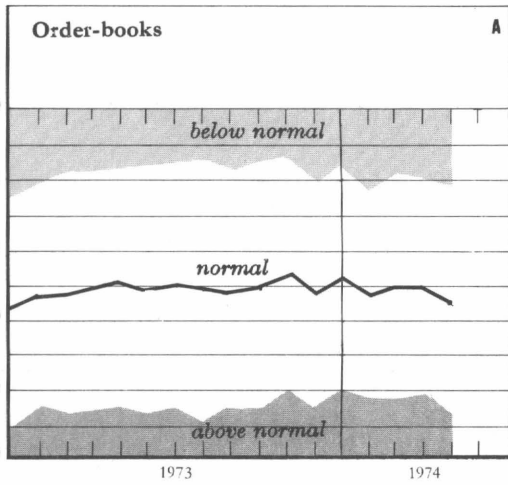


Total unemployment (labour reserve) at the end of May 1974 amounted to 2.9% of the labour force as compared to an average of 2.5% for 1973. The number of vacancies outstanding, following a drop in January, resumed its rising trend; in April the number of vacancies for men was 23% higher but for women 5% lower than a year earlier. Demand for metal workers (men) in particular, was up 34% over this period, whereas vacancies for building workers fell. Nevertheless, at the end of May unemployment was still nearly twice as high as the number of vacancies.

The value of merchandise *imports* (tentatively adjusted for a change in statistical reporting in 1972-73) in January-February was some 30% higher than a year earlier. Most of this increase was a reflection of rising prices; given a



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 :

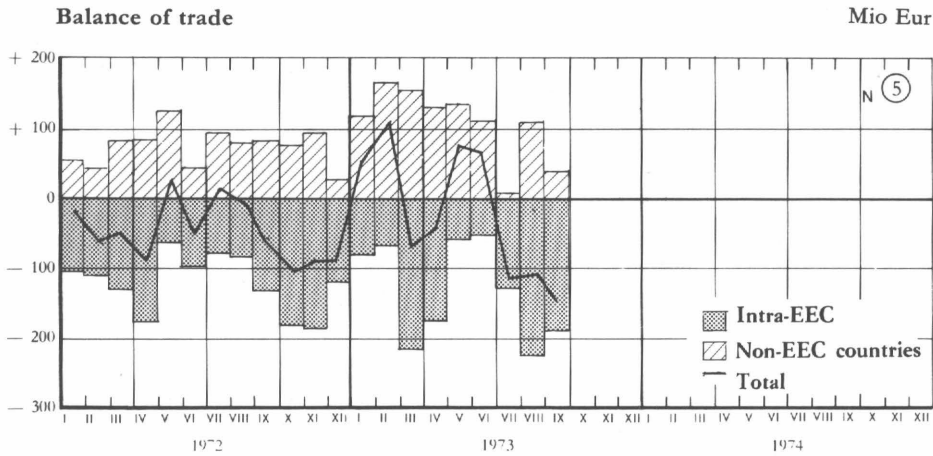
- by 0.03 for the answer "above normal", or "up";
- by 0.02 for the answer "normal", or "no change";
- by 0.01 for the answer "below normal", or "down".





sharp drop in imports of oil and transport equipment the total volume of imports may actually have declined between the fourth quarter of

1973 and the first quarter of 1974. The *trade deficit* widened compared to the fourth quarter of 1973.

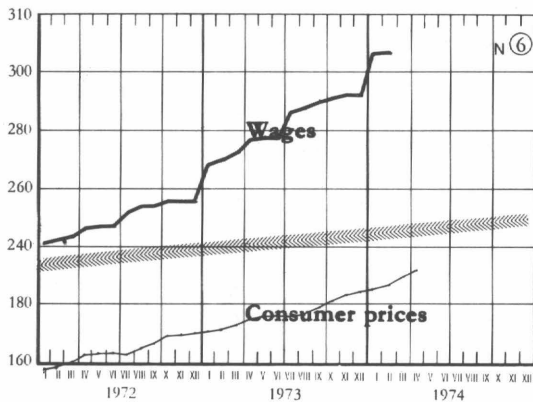


As in other member countries, *prices* have increased rapidly in recent months. Wholesale prices in March were 15.5% higher than a year earlier and up 5% from December despite the withholding effect of the revaluation of the guilder in September. Consumer prices in May were up 5.3% over five and 9.2% over twelve months—or less than in other member countries except Germany. The strict price control intro-

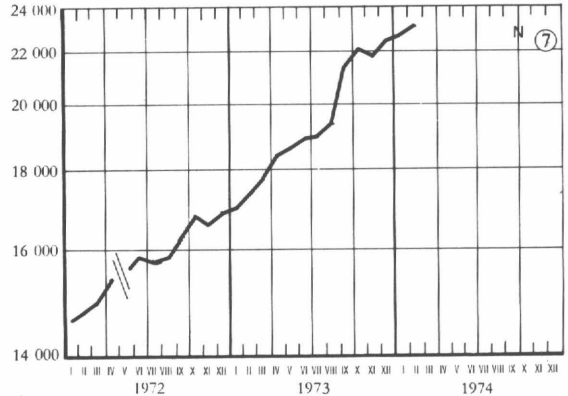
duced in the context of the enabling law may have been a major factor behind the fact that the Dutch price performance has been less bad than in most neighbouring countries despite the fact that wage cost per unit of output would seem likely to have expanded rather faster than earlier.

Total *money supply* (money and quasi-money) increased strongly in the early months of the year; the share of quasi-money in total money

**Wages and consumer prices** 1963 = 100



**Bank lending** Mio Fl



duced in the context of the enabling law may have been a major factor behind the fact that

supply, however, increased markedly presumably as an effect of the rise in interest rates over the last twelve months.

*Demand for and supply of goods and services*

	1971 <sup>1</sup>	1972 <sup>2</sup>		1973 <sup>3</sup>		1974 <sup>3</sup>	
	At current prices (in Fl '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>4</sup>	67.36	+ 8.8	+ 10.0	+ 14½	+ 22	+ 5	+ 27
Gross fixed asset formation	33.13	- 1.8	+ 5.2	+ 6.9	+ 12½	0	+ 12½
Public current expenditure on goods and services	22.28	+ 1.6	+ 12.8	+ 1	+ 13	+ 3	+ 18
Private consumers' expenditure	74.88	+ 3.2	+ 12.1	+ 2	+ 11	+ 3½	+ 14½
Gross national product	131.69	+ 4.2	+ 13.9	+ 5	+ 13½	+ 3½	+ 12
Imports <sup>4</sup>	67.83	+ 3.8	+ 3.4	+ 13½	+ 21½	+ 2	+ 31

<sup>1</sup> Nationale Rekeningen 1972, CBS.

<sup>2</sup> Centraal Planbureau.

<sup>3</sup> Estimates.

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

*Note :*

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

## 2. Outlook

A renewed strengthening of economic activity would seem likely to take place in the second half of 1974 as a result of rising exports, expansionary policy measures taken in the spring and a resumed increase in consumers' expenditure. The employment situation should be expected to stabilize towards the end of the year. The price performance will, on the other hand, hardly improve. A decline in the external surplus is to be foreseen.

The growth of *exports* should be favourably influenced by the restoration of a more normal supply situation for oil products and an expected strengthening of demand in important export markets.

After weak trends in the first half of the year, domestic demand should become more buoyant as the year goes by. Recent trends in industrial building starts and order inflow for machinery suggest that business *investment* is responding favourably to stimulative measures taken this spring (postponement of the selective investment tax and extra depreciation allowance); dwelling construction, which was on a downward trend as from early 1973, is expected to stabilize in the course of the present year. Public investment is equally expected to expand appreciably under the impact of measures to strengthen demand for labour.

Household disposable incomes will be boosted from mid-year as a consequence of wage indexation and raising of the tax-free minimum by 6.3% from 1st July. Private *consumption* can,

thus, be expected to see a resumed increase after the weak development in the first months of the year.

Against this background, industrial *production* would seem likely to expand at an annual rate of some 6 per cent towards the end of the year.

Gross national product, following an increase of 5% between 1972 and 1973, is forecast to rise by 3½% this year. On this assumption unemployment, after a rise in the first, should stabilize in the course of the second half of the year. Given the recent upturn in building starts a certain improvement of the *employment*

*The Central Government Budget (1)*

	1973		1974	1973	1974
	Budget estimate	Provisional outturn	Budget estimates		
	in Mrd Fl			% change on the preceding year's outturn	
Expenditure <sup>2</sup>	42.4	45.2	50.9	+ 14.4	+ 20.0
of which:					
— current expenditure	32.5	34.9	40.2	+ 14.2	+ 23.7
— capital expenditure <sup>3</sup>	9.8	10.3	10.8	+ 15.0	+ 10.2
Revenue	40.1	43.7	48.9	+ 13.2	+ 21.9
of which:					
— direct taxes	19.9	22.4	25.3	+ 13.5	+ 27.1
— indirect taxes	14.9	16.0	17.1	+ 12.7	+ 14.8
Net borrowing requirement <sup>2</sup>	- 2.3	- 1.5	- 2.0		

<sup>1</sup> Including "Wegenfonds".

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

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

*Note:*

The figures in this table are based on the national budgets and are not recalculated on the basis of Community definitions.

situation for building workers would not seem unlikely. The structurally determined unemployment—primarily due to stiffer competition

from imported products in such industries as textiles, clothing and leather may, however, continue to edge upwards.

Due to the high degree of self-sufficiency in the energy supply the balance of payments prospects of the Netherlands appear rather favorable. After a sharp deterioration in the early part of 1974 the terms of trade should subsequently improve entailing a stabilization of the *trade deficit*. For the year 1974 as a whole the current external account is expected to remain in surplus to the tune of 1.5% of GNP (as compared to 2.9% in 1973).

In the course of the year the rise in import *prices* should level off. The restrictive price policy operated in the early months of the year may, on the other hand, have resulted in a postponement of some price adjustments which may be effected later on as price controls are being softened again. The rise in consumer prices is thus expected to remain rather high throughout the year.

The acceleration of inflation, therefore, constitutes an important problem for *economic policy*. In view of the more expansionary orientation prompted to economic policy this spring, a return to a sustainable growth of activity should be expected in the course of the autumn. The postponement of the selective investment tax highlights the difficulties involved in weighting priorities with regard to employment, economic growth, regional balance and inflation. As a consequence of this decision investment seems to be expanding fast in the western, highly industrialised area, leading most likely to a local strengthening of demand for labour. The renewed widening of regional disequilibria thus incurred may at least in the longer run hamper the restoration of satisfactory conditions of equilibrium.

### Major economic policy measures

October 1973:

— On 8 October the Ministers of Finance of the Benelux countries reached agreement on a uniform system of value added tax, to be introduced with a view to eliminating the customs formalities between the Benelux countries. Under this system there will be only two VAT rates (as at present in the Netherlands), which

are to be at least 4% and 16%. These minimum rates may be raised by no more than 2 percentage points. If possible, the harmonization agreed upon is to be implemented by 1 January 1975.

— A draft law was tabled amending the 1968 turnover tax law. The arrangements applicable to agriculture were to be altered temporarily, with the flat rate for purchasers of agricultural products to be raised from 4¼% to 6¼% until 1 April 1974 in order to prevent revaluation resulting in an unduly heavy loss of farm income. An amendment tabled on 9 November 1973 extended the period of validity to 30 April 1974. The law in question entered into force on 21 December 1973.

— With effect from 16 October the Nederlandsche Bank raised the discount rate by 0.5%, which brought it to 7%. The interest surcharge for recourse to central bank credit in excess of the limits fixed was lowered from 3% to 2%.

— The Nederlandsche Bank announced that institutions participating in the liquidity reserve arrangements and suffering from a shortfall of liquidity in excess of a specified amount may purchase US treasury paper from it with such paper counting towards their liquidity reserve. This step was taken in order to eliminate the considerable differences between the liquidity margins of the various banking institutions.

— The authorities issued the 1973 regulation on the creation of temporary jobs to promote the integration into the labour force of unemployed persons who found it difficult to obtain a job; such persons were to be temporarily employed by a public institution. A subsidy of up to Fl. 17,500 per employed person was to be paid for this purpose.

— An amendment to the draft law on the selective investment arrangements was tabled, whereby the amount of investment above which authorization was required was raised from Fl. 1 to 3 million for industrial buildings and from Fl. 5 to 15 million for open-air plant. However, the old limits would continue to apply in the case of the Rhine delta area. Furthermore, industrial building project of more than Fl. 1 million and plant projects of more

than Fl. 5 million were made subject to notification.

— A draft law was tabled fixing the 1974 contribution to the old-age pension insurance fund. As in 1973, the contribution will take the form of a surcharge of 0.2% on the contributions to the employee family allowance scheme. The law was promulgated on 29 January 1974.

#### November:

— A draft law was tabled introducing a further amendment to the sickness fund law by linking the annual adjustment of the wage limits to the movement in the wage index. The law entered into force on 27 December 1973.

— A draft law was tabled authorizing the regulation of 18 September 1973 on the re-introduction of the investment allowance for industrial buildings (5% for 2 years).

— An act was promulgated enabling the State to take part in the EEC system of medium-term financial assistance.

— A price regulation for bread was published whereby a derogation from the general calculation rules was introduced for that sector.

#### December:

— On 3 December the system of central financing of local authority expenditure was extended. The amount up to which local authorities may issue loans with guaranteed payment of interest and/or principal was raised from Fl. 400 million to Fl. 450 million for a full year; no such ceiling has yet been fixed for the provinces. It was also decided that before the end of the year, the sum of Fl. 350 million, drawn from the provisional subscription account with the Treasury, would be made available to the Bank voor Nederlandsche Gemeenten.

— A general administrative regulation was published introducing a minimum wage scheme for young persons as from 1 January 1974. The amount of the minimum wage will be a specific percentage of the minimum wage for adults, ranging from 40% for fifteen year olds to 92.5% for twenty-two year olds.

— Nederlandsche Bank interest rates were raised by 1% with effect from 6 December, thus increasing the discount rate to 8%.

— A price regulation was published for private health insurance whereby a derogation from the general calculation rules was introduced for that sector.

— A draft law was tabled authorizing the issue of regulations concerning incomes determination and the protection of employment in 1974. Confined to 1974, this law would give the Government powers:

— to lay down wages and other conditions of employment for wage and salary earners in industry and the public service, with the relevant decisions having binding force;

— to exert a regulatory influence on the fixing of dividends and rents and

— to centralize policy on the termination of contracts of employment and to issue more detailed rules on the employment of foreign workers.

The law entered into force on 11 January 1974.

— The Nederlandsche Bank informed the credit institutions concerned that, in view of the current situation on the money market and the shortage of securities eligible as collateral for loans, it was willing, in certain circumstances, to accept loans against borrowers' notes to the Bank voor Nederlandsche Gemeenten and the Nederlandsche Waterschapsbank as collateral for advances.

— On 13 December the Nederlandsche Bank amended the rules on the interest surcharge payable by credit institutions having recourse to the Nederlandsche Bank in excess of their allotted quota. Where a particular credit institution exceeds this quota by up to 75%, the interest surcharge will be limited to the 2% p.a. previously announced. Where the quota is exceeded by more than 75%, the Bank surcharge will be higher; calculated from day to day, it will be published before 9.30 a.m. when there is any alteration. Until further notice this surcharge was fixed at 6%.

— A report was presented in the Second Chamber on the consequences of the oil shortage. Basing itself, partly on the enabling act,

*this report proposed for the coming period a flexible policy which in addition to protecting employment was aimed primarily at adapting spending potential to the reduced level of real national income. The basic idea was that the disposable income of the higher income groups should be made to suffer a sharper moderation in real terms than that of the lower income groups, with the lowest-paid to be protected from a drop in income. The increase in government expenditure was also to be curbed. The second phase—involving Fl. 175 million—of the work procurement programme announced on 18 September was to be brought forward; this amount—like the remaining Fl. 180 million—was to be spent as far as possible on projects helping to economize on oil. In order to restrict the basic rise in wages, policy continued to be aimed at controlling the upward movement of domestic prices, and more differentiated measures were proposed to this end.*

— *The Minister of Finance issued a decree enabling the banks—in view of the strained situation on the money market—to tender 3 ¾% treasury bonds, issued in 1964 and due to mature on 1 March 1974, for early redemption.*

— *With effect from 20 December the Nederlandsche Bank lowered the liquidity reserve ratio for short-term deposits from 10 to 9%.*

— *Second amendment to the 1973 price regulation for goods and services in force since 28 September. From 1 January 1974 freight costs also count as costs which can be passed on to the consumer. The current rules on profit margins were extended, enabling traders' cash margins as at 28 September 1973 to be raised by a maximum of 7% as from 1 January 1974.*

— *The Nederlandsche Bank announced that the interest surcharge payable by credit institutions which exceeded the quota for recourse to central bank credit by more than 75% would be reduced from 6% to 4% until further notice.*

— *The following entered into force: a law amending income tax and wages tax, a law amending wealth tax and a law raising the excise duties on petrol and diesel oil. The relevant draft laws had been tabled at the same time as*

*the government budget for 1974 as part of the 1974 tax programme.*

— *Guidelines were issued concerning the prices and public utility charges policy to be implemented by the regional and local authorities as part of the fight against inflation. Increases in public utility charges which affect the cost of living either directly or indirectly are subject to central control. The general rule is that charges and industrial tariffs may not be raised by more than 11.5% and 7% respectively up to 1 July 1974.*

*January 1974:*

— *With effect from 1 January, the minimum wage of workers aged 23 and over was increased by 6.5% to Fl. 1,049.10 a month.*

— *With effect from 1 January, the social assistance rate was increased to 100% of the minimum wage as at 1 July 1973.*

— *Under the half-yearly review of social security benefits, old age and survivors' pensions were increased by 6.5% from 1 January. This brought the old age pension to Fl. 779.50 a month for married couples and Fl. 550.50 for single persons.*

— *Social security contributions were raised with effect from 1 January. National insurance: the contributions ceiling was raised to Fl. 26,750 a year. Under the general scheme, old-age insurance contributions (ADW) were put up from 10.4 to 10.6%, survivors' insurance contributions (AWW) remained at 1.6%, special sickness expenses insurance contributions were increased from 2.6 to 2.65% and family allowance contributions from 1.8 to 1.9%. Workers' insurance: under the general scheme, sickness insurance contributions (cash benefits) were put up to 7.5% (on average), contributions to insurance against incapacity for work rose from 7.8 to 8.4%, compulsory 9.5% (only in the case of fixed wages not exceeding Fl. 23,000 a year), unemployment insurance contributions were put up to 1.1%, interim allowance contributions from 0.4 to 0.6%, and contributions to the employee family allowance scheme from*

3.2 to 3.6% (contributions ceiling also Fl. 26,750 a year).

— With effect from 1 January 1974, a number of petroleum products were increased in price. The retail price for petrol and diesel oil for cars went up by 5.2 and 1.8 cents a litre, respectively, as a result of an increase in excise duties (Benelux agreement), an increase in the retail margin and the effect of this higher margin on VAT. This brought the maximum retail price to 87.7 cents a litre for premium grade petrol, 84.9 cents for regular grade petrol and 48.7 cents a litre for diesel oil. The excise duty exemption (Benelux agreements) on private heating fuel was abolished, increasing the prices of domestic fuel oil grades I and II by Fl. 3.26 per 100 litres and petroleum prices by Fl. 3.35 per 100 litres.

— Issue of a price regulation on the maintenance and repair of motor vehicles in 1974, authorizing garages to raise their hourly rates by Fl. 2.50 partly to make up for the drop in turnover due to the petrol shortage.

— The Finance Minister sent a letter to the Second Chamber on the freezing of public expenditure in 1974, setting out the items which must be frozen to achieve a saving of up to Fl. 750 million, with over Fl. 500 million to come from the central government budget.

— With effect from 1 January 1974 the permitted maximum gross yield on publicly assisted rented dwellings was raised from 10 to 11.4% of the invested capital, owing to the sharp rise in long-term interest rates. The subsidies for housing to be constructed for rent or for owner-occupation also went up considerably.

— A regulation was issued, under the enabling act, on the terms of employment of wage and salary earners. Wages and other terms of employment were fixed at the level in force immediately before 1 December 1973, but with a compulsory wage increase of Fl. 15 (monthly basis) for adults both on 1 January 1974 and upon termination of the contract of employment, the second increase to be granted by 1 April 1974 at the latest. However, compensatory amounts agreed to make up for price rises which occurred in the past may continue to be applied, and shorter working hours or longer holidays

already laid down in collective agreements are also still authorized.

— Issue of a decree on dividend restraint under which the dividend per share to be distributed in 1974 for the financial year 1973 (or 1972/73) may not be higher than that distributed for the previous financial year, or higher than the average dividend over the previous five financial years, whichever is the higher.

— Issue of the 1974 rent restraint regulation, pursuant to which rents for business premises and housing in the so-called liberalized areas may not be increased by more than 7%. In the case of housing in the non-liberalized areas, rent increases excluding harmonization of rents may not exceed 6%, and including harmonization of rents, 7%. Rents for subsidized housing built during the past five years may be increased by a maximum of 3%. A draft law authorizing this decree was tabled on 9 February.

— Third amendment to the 1973 price regulation for goods and services. Manufacturers must observe a waiting period of eight weeks before passing on allowable external cost increases in their prices; the waiting period for service undertakings is six weeks, and for the distributive trades (in respect of higher purchase prices) four weeks. Pursuant to the regulation issued on 31 January (fourth amendment), entrepreneurs with a taxable income of less than Fl. 25,000 in 1972 and traders with a limited turnover are exempt from the waiting period.

— The 1974 regulation on professional fees was published. Fees charged by persons exercising a profession (except for doctors) may for the time being not exceed those in force on 1 December 1973.

— A price regulation on petroleum products fixed maximum retail prices for a number of products, including petrol.

February:

— The "closed circuit" for non-residents' purchases of guilder bonds, introduced in September 1971 to stop the inflow of foreign capital via the bond market, was discontinued.

— The Nederlandsche Bank announced that,

with effect from 4 February 1974 and until further notice, there would be a cut, from 4 to 2%, in the interest surcharge payable by credit institutions which exceeded their quota for recourse to central bank credit by more than 75%. The Bank also laid down new quotas for average recourse to central bank credit in the period 1 March to 19 June 1974, with a fixed interest surcharge of 2% where the quota is exceeded by up to 50%, and a variable interest surcharge where the quota is exceeded by a greater amount.

— Fifth amendment to the 1973 price regulation for goods and services. Firms in the distributive trades whose total wage costs go up by more than 10% as a result of the introduction of the minimum wage for young persons may raise their cash margins by 8% instead of 7%. They are also exempt from the obligation to wait four weeks before passing on increased purchase prices.

— The Minister of Finance sent a letter to the Second Chamber saying that in view of the unfavourable outlook for employment the Government had decided to end the freeze on public expenditure announced on 13 December. In addition, tax measures were being considered to stimulate investment and employment, and also to curb wage and price increases. At the same time, a letter from the Minister of Social Affairs gave a detailed account of how the remaining Fl. 355 million, left over mainly from the work procurement programme announced on 18 September 1973, were to be spent.

— A general administrative regulation introduced a 2.5% structural increase in the statutory minimum wage from 1 April 1974, partly on account of the equalizing tendencies in the collective agreements concluded in 1973.

— Promulgation of a law amending the unemployment law and the law on unemployment insurance by authorizing the grant of a wage supplement if an unemployment person takes on a job in which he earns less than the amount used for computing the unemployment benefit.

— A price regulation on petroleum products fixed maximum retail prices for a number of products, including petrol.

— The Nederlandsche Bank announced that in view of the easing of strains on the money market, the fixed interest surcharge payable by credit institutions which exceed their quota for recourse to central bank credit by no more than 50% would be cut from 2% to 1% until further notice.

March:

— The Nederlandsche Bank raised the maximum deposit on which interest may be paid to non-residents to Fl. 100,000.

— On 19 March 1974 the law on the selective investment arrangements was published. The date on which it enters into force will be fixed by the Minister for Economic Affairs in consultation with Parliament.

— A regulation was issued concerning the re-introduction of the investment levy on industrial plant and machinery with effect from 20 March 1974. The levy is 4% for two years.

— A second regulation on terms of employment under the enabling act included the following provisions:

(a) Gross wages to be increased by Fl. 15 per month three months after the termination of a collective wage agreement.

(b) Also three months after the termination of a collective wage agreement, a 3% advance to be granted to compensate for price rises yet to be credited.

(c) The price compensatory advance to be no less than Fl. 150 per annum for every percent of price increase. Over and above that it will be no less than Fl. 160.

(d) A deduction of 0.3% plus half the advance (1.5%) to be made from the price compensation at 1 July or later. The other half of the advance to be deducted from the next compensation (six months later).

— A draft law was tabled to raise the tax-free amounts for wage and income tax by 6.3% with effect from 1 July 1974.



— *Government expenditure was increased by Fl. 600 million to take account of price rises so that proposed programmes may be fully carried out.*

— *A draft law was tabled to raise the investment levy on buildings to 8% for two years (instead of 5% for two years) with effect from 20 March.*

**Netherlands**

*TABLE 1 : Key indicators*

	1968	1969	1970	1971	1972	1972
	% change by volume on preceding year					Indices 1963=100
Gross domestic product	+ 7.1	+ 7.0	+ 7.2	+ 4.0	+ 4.3	166
Industrial production	+ 10.5	+ 8	+ 7.5	+ 6	+ 5.0	
Imports	+ 13.0	+ 14.2	+ 14.5	+ 6.3	+ 4.5	228
Private consumers' expenditure	+ 6.9	+ 7.5	+ 7.8	+ 3.4	+ 3.2	164
Public current expenditure on goods and services	+ 2.4	+ 4.2	+ 6.3	+ 3.6	+ 1.6	129
Gross fixed asset formation	+ 11.0	- 2.1	+ 10.6	+ 1.5	- 2.0	174
Exports	+ 13.0	+ 15.5	+ 12.4	+ 10.9	+ 9.7	243
Gross domestic product per head of population	+ 5.5	+ 5.8	+ 5.5	+ 2.6	+ 3.3	148
Gross domestic product per person in employment	+ 6.1	+ 5.3	+ 6.0	+ 3.3	+ 5.1	156
	% change by value on preceding year					
Gross income per employee	+ 8.9	+ 13.2	+ 12.7	+ 13.3	+ 13.1	279

*TABLE 2 : Indicators for internal and external equilibrium*

	1968	1969	1970	1971	1972
<b>Balance exports less imports</b>					
in million Eur	+ 157	+ 122	- 461	- 130	+ 1 113
as percentage of GNP	+ 0.6	+ 0.4	- 1.4	- 0.4	+ 2.6
Unemployment rate	1.9	1.4	1.2	1.4	2.4
Price index of private consumption (% change on preceding year)	+ 2.3	+ 6.5	+ 4.5	+ 8.1	+ 8.6

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1963 = 100	Million Eur	% of totals
	1968	1969	1970	1971	1972	1972	1972	1972
<b>Visible exports</b>								
<b>Total</b>	+ 14.5	+ 19.6	+ 18.3	- 1.8	+ 12.5	262	12 092	100
<b>Intra-EEC</b>	+ 19.7	+ 25.1	+ 22.0	- 9.0	+ 14.8	288	7 613	58.6
<b>To non-EEC countries</b>	+ 8.2	+ 12.1	+ 12.7	+ 9.9	+ 9.4	232	5 379	41.4
<b>Exports of food, beverages and tobacco</b>								
<b>Total</b>	+ 15.9	+ 15.4	+ 18.5	- 3.0	+ 10.1	231	2 024	22.5
<b>Intra-EEC</b>	+ 22.1	+ 19.6	+ 22.8	- 5.8	+ 16.5	290	2 087	16.1
<b>To non-EEC countries</b>	+ 6.1	+ 7.8	+ 9.8	+ 3.5	- 3.2	153	837	6.4
<b>Exports of raw materials, fuel and power</b>								
<b>Total</b>	+ 12.8	+ 20.0	+ 31.8	+ 2.7	+ 10.1	262	2 446	18.8
<b>Intra-EEC</b>	+ 22.5	+ 26.0	+ 34.8	- 5.2	+ 11.7	281	1 432	11.0
<b>To non-EEC countries</b>	+ 1.7	+ 11.7	+ 27.2	+ 16.0	+ 8.0	240	1 015	7.8
<b>Exports of semi-finished and finished industrial goods</b>								
<b>Total</b>	+ 14.4	+ 21.1	+ 14.5	- 2.8	+ 14.2	276	7 622	58.7
<b>Intra-EEC</b>	+ 17.8	+ 27.5	+ 17.9	- 11.8	+ 15.0	289	4 095	31.5
<b>To non-EEC countries</b>	+ 10.6	+ 13.4	+ 10.0	+ 10.0	+ 13.3	262	3 528	27.2
<b>Visible imports</b>								
<b>Total</b>	+ 11.5	+ 17.3	+ 23.0	- 7.3	+ 5.5	219	13 097	100
<b>Intra-EEC</b>	+ 13.2	+ 19.2	+ 22.1	- 23.4	+ 7.9	201	6 184	47.2
<b>From non-EEC countries</b>	+ 9.5	+ 15.0	+ 24.1	+ 13.2	+ 3.3	240	6 012	52.8
<b>Imports of food, beverages and tobacco</b>								
<b>Total</b>	+ 9.7	+ 19.0	+ 13.5	- 7.1	+ 11.2	212	1 743	13.3
<b>Intra-EEC</b>	+ 28.1	+ 49.4	+ 5.1	- 24.7	+ 28.1	392	586	4.5
<b>From non-EEC countries</b>	+ 3.2	+ 5.4	+ 18.8	+ 2.9	+ 4.3	172	1 158	8.8
<b>Imports of raw materials, fuel and power</b>								
<b>Total</b>	+ 8.6	+ 13.8	+ 24.3	+ 10.9	+ 8.2	233	3 299	25.2
<b>Intra-EEC</b>	+ 4.8	+ 3.0	+ 7.1	- 17.9	- 2.6	124	380	2.9
<b>From non-EEC countries</b>	+ 9.7	+ 16.9	+ 28.7	+ 17.0	+ 9.8	263	2 919	22.3
<b>Imports of semi-finished and finished industrial goods</b>								
<b>Total</b>	+ 12.8	+ 18.1	+ 24.5	- 12.9	+ 3.2	216	8 055	61.5
<b>Intra-EEC</b>	+ 12.9	+ 18.1	+ 25.3	- 23.7	+ 6.9	199	5 219	39.9
<b>From non-EEC countries</b>	+ 12.6	+ 18.1	+ 22.5	+ 14.2	- 2.9	257	2 835	21.6

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	217.6	224.7	226.6	214.6	229.1	231.3	229.1	243.5	238.1	234.6
	1974	239.6	242.3	230.7									
<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	115.8	115.8	114.4	115.9	117.0	121.2
	1974	129.1	128.9	132.3	131.3								
<b>Permits for residential construction (1 000)</b>	1972	15.5	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	13.6	11.4	15.4	11.0	12.6	13.0	9.9	13.0	11.5	10.5	11.7
	1974	9.0	10.0	13.2									
<b>Department store turnover (1963 = 100)</b>	1972	248	260	270	246	263	278	252	274	287	264	279	283
	1973	267	288	284	267	285	298	272	282	293	299	310	329
	1974	300	311										
<b>Consumer prices (1963 = 100)</b>	1972	112.1	112.9	113.9	115.5	115.8	116.1	115.7	116.6	117.6	119.1	119.6	120.0
	1973	121.0	121.5	122.7	124.6	125.4	125.7	125.5	126.0	127.5	128.6	129.5	130.1
	1974	131.1	132.3	134.4	136.3								
<b>Visible imports (million Eur)</b>	1971	1 103	1 232	1 284	1 201	1 171	1 215	1 193	1 243	1 313	1 222	1 238	1 272
	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	1 579	1 541	1 610	1 480	1 656	1 451	1 567	1 624	1 703	1 841		
<b>Visible exports (million Eur)</b>	1971	1 048	1 088	1 148	1 111	1 045	1 132	1 113	1 159	1 139	1 129	1 182	1 191
	1972	1 173	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	1 560	1 439	1 738	1 533	1 432	1 498	1 569	1 827		
<b>Balance of trade (million Eur)</b>	1971	- 55	- 144	- 136	- 90	- 126	- 83	- 80	- 84	- 174	- 93	- 56	- 81
	1972	- 42	- 69	- 53	- 89	+ 33	- 53	+ 18	- 9	- 54	- 102	- 88	- 88
	1973	+ 53	+ 90	- 50	- 41	+ 81	+ 82	- 105	- 126	- 134	- 15		
<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	5 079	4 893	4 743	4 470	4 409	4 535	5 177	5 270	5 809
	1974	5 134	5 192	5 036									
<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	10 005	10 212	10 119
	1973	10 319	10 517	10 921	11 006	10 749	10 535	10 178	10 063	10 246	10 131	10 290	10 133
	1974	10 159	10 449										

## Netherlands

### NOTES TO GRAPHS AND TABLES

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

— For the intra community trade the new Community countries have not yet been taken into account.

#### *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*

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

#### *Graph 6*

Indices of agreed hourly wages in private sector.

#### *Graph 7*

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

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#### *Table 1*

Source: Nationale Rekeningen 1971, CBS.

GDP at market prices.

Industrial production: value added by industry inclusive construction.

Exports and imports: goods and services.

Gross income per employee: income from employment.

#### *Table 2*

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

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

Price index of private consumption computed from the national accounts.

#### *Table 3*

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

#### *Table 4*

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

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

Seasonally adjusted number of dwellings authorized.

Seasonally adjusted index of department store turnover.

Imports cif, exports fob; adjusted for seasonal variations.

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

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

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

## G. Belgo-Luxembourg Economic Union

### Belgium

*In recent months economic activity in Belgium has maintained its buoyancy. Employment and production progressed further in face of the difficulties caused by the energy crisis and despite a less dynamic development of demand.*

*Prospects for the second half of the year are somewhat less favourable, however. The expansion of demand could slow down more sharply, while the upward trend in consumer prices is likely to continue at a very rapid pace. The surplus on the current balance of payments will probably see a reduction.*

#### 1. Recent developments

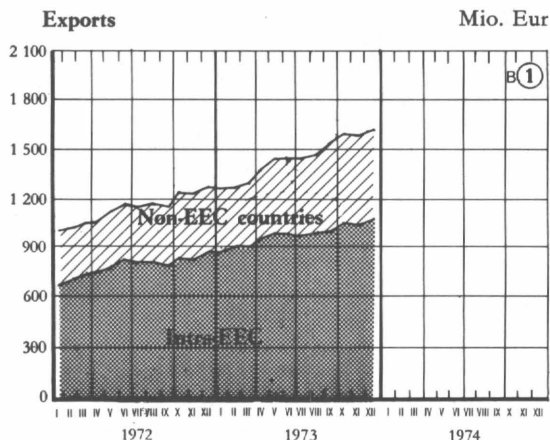
In recent months the level of activity has been distinctly higher than had been thought likely at the beginning of the energy crisis. Even so, the expansion of economic activity has slowed down, partly because of the lack of spare capacity following two years of rapid growth of industrial production, but also in certain branches because of the less buoyant trend of demand.

Visible *exports* have importantly sustained activity. According to customs returns visible ex-

ports in January-February were up 37.6% on a year earlier with exports of iron and steel industry products and chemicals particularly buoyant. This expansion was largely due to the faster rise in the export prices of these products.

The trend of domestic demand seems to have been much the same as in 1973. *Investment* thus did well, the implementation of programmes having been less seriously disturbed by the oil crisis than was initially feared. After some sluggishness in November and December, domestic order books in the capital goods industries lengthened further at the beginning of the year. The sustained activity of the building and construction industry was due essentially to a high level of investment in residential buildings.

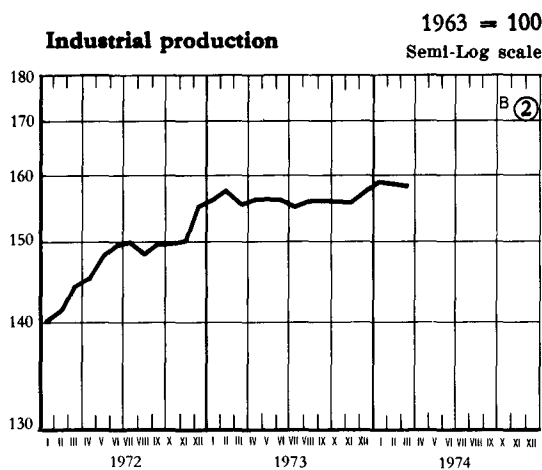
Consumption expanded significantly. At the beginning of the year, *private consumers' expenditure* accelerated as a result of speculative buying due to fears about possible shortages of certain products and a persistent rapid upsurge of prices. Private car sales were down for the first four months of 1974 on average but consumer demand seems to have switched to other sectors. Personal incomes—especially wages and salaries—increased rapidly. In



March, the index of average gross hourly earnings in industry was 15.8% higher than a year earlier. However, because of the very sharp rise in consumer prices since December, total private consumers' expenditure in volume terms appears to have been rising but only slowly.

General *government expenditure* rose more rapidly than forecast as a result of the increase in civil servants' salaries and the rise in prices of goods and services.

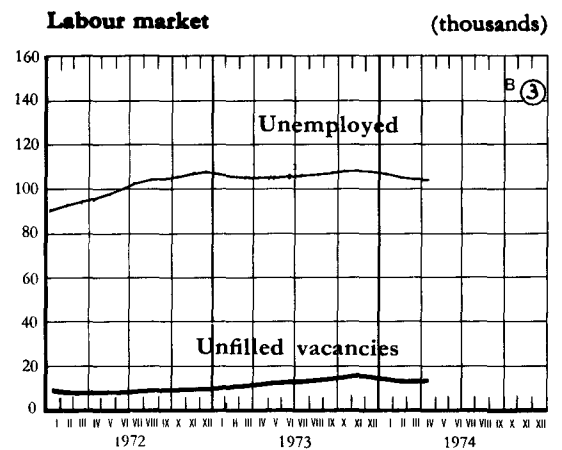
Divergent trends in demand resulted in unequal growth rates in the various sectors of *production*. Oil supply problems at the beginning of the year do not appear to have influenced industrial production. The iron and steel industry and manufacturing of building materials and investment goods continued to expand, while production in certain consumer goods industries—such as production of automobiles—grew much more slowly. In building and con-



struction—principally housing—activity remained very brisk. Overall, the index of industrial production for January-February was up 10.6% on the same period last year.

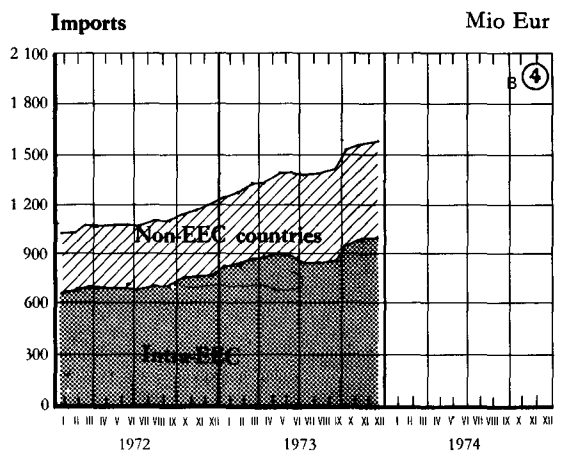
The comparatively less favourable trend of business in certain highly labour-intensive industries does not seem to have had an adverse effect on the overall *employment* situation. Nevertheless, the decline in unemployment seen as from October 1973 has apparently come to a halt. For several months the unemployment

rate has been around 2.7%. At the end of April, the number of unemployed was 2.8% higher than a year earlier. Although distinctly lower than the figure for September 1973, in April the number of unfilled vacancies was up 35% on a year earlier. Short-time working and



the number of temporarily stopped were affected by stoppages in sectors in which they had previously been rare.

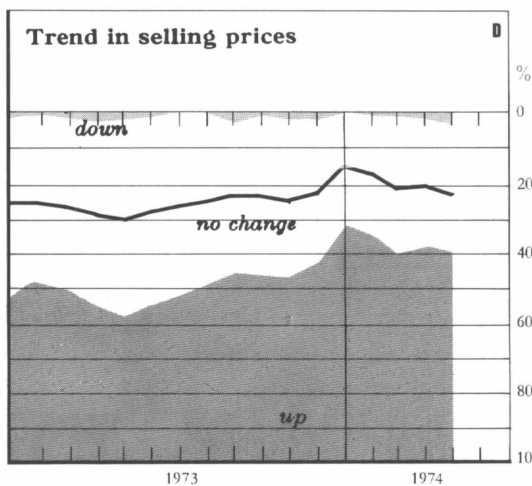
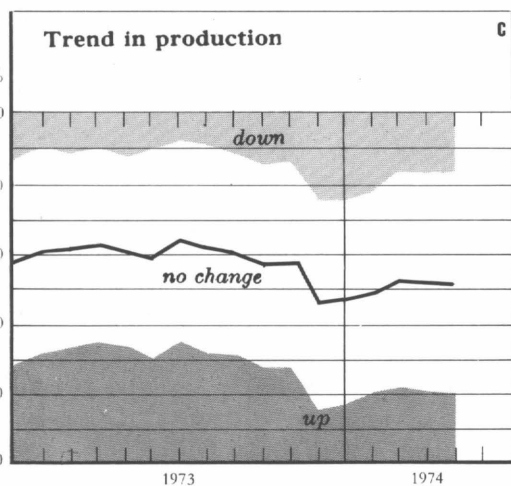
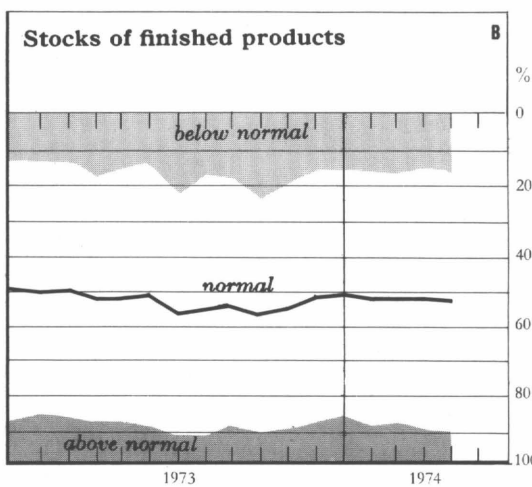
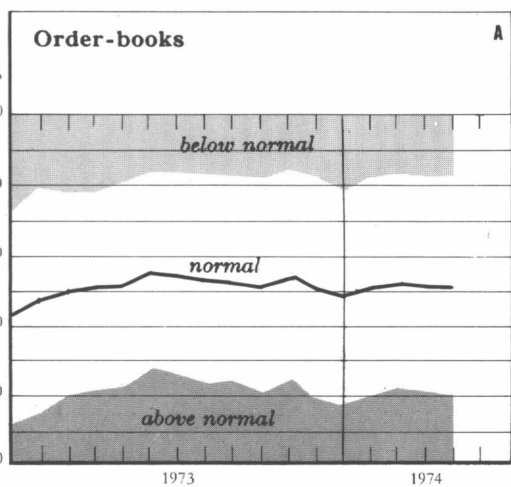
*Imports* grew rapidly in terms of value, principally as a result of the sharp rise in world prices of certain imports. According to customs



returns, the value of imports in January was 33.2% higher than a year earlier.

The upward movement of *prices* accelerated. The rapid rise in wholesale prices, first of raw

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.

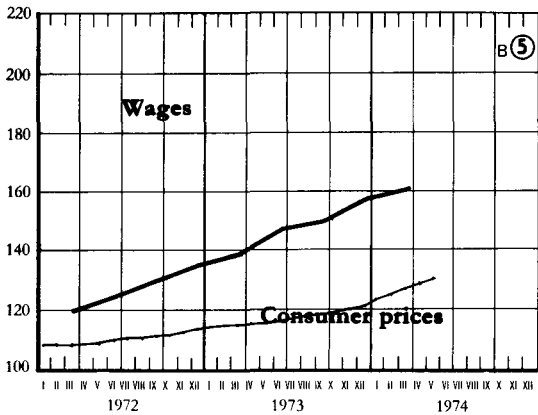
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

- 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".





**Wages and consumer prices** 1970 = 100



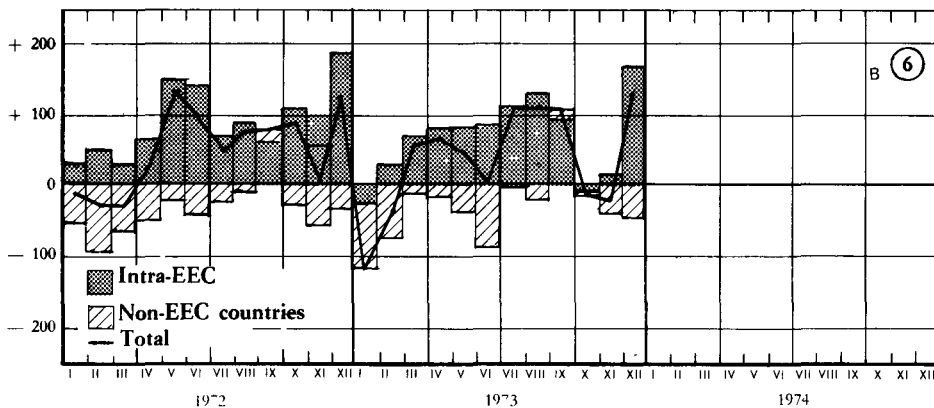
with a slower advance in productivity, resulted in a further jump in wage costs per unit of output. Since the end of last year, the rise in the consumer price index has accelerated. This development is only partly due to the higher prices of petroleum products, since a considerable number of other products have also risen substantially since December. In May, the index was 11.5 % higher than in May 1973.

As a consequence of the rapid rise of import prices, notably for raw materials, the trade surplus has narrowed; due to this, the *current balance of payments* was in surplus to the tune of BF 7.3 billion in the period January-April as against BF 18.5 billion a year earlier. However, the balance on capital transactions improved, due essentially to a surplus on private capital transactions reflecting a reduction of portfolio

materials and then of semi-finished products, adversely affected industry's production costs. In addition, the increase in wage costs, together

**Balance of trade**

Mio Eur

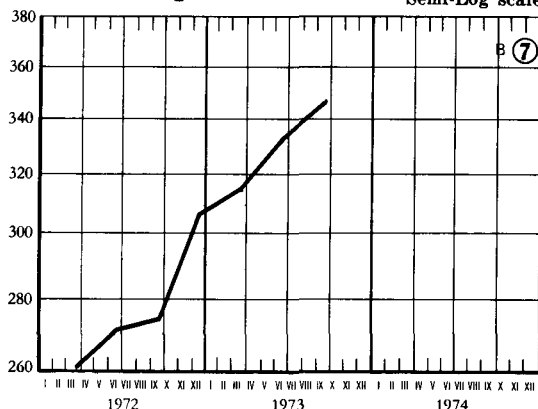


investment of B.L.E.U. abroad and a strong rise of direct investment in Belgium. The overall balance of payments thus saw a surplus of BF 5.5 billion as against BF 10.3 billion during the same period of 1973.

Despite a marked rise of short-and long-term interest rates *bank advances* expanded considerably in the first quarter and particularly during the month of March—in the period up to the strengthening of the restrictive policy of the Central Bank. At the end of March the money supply (M1) was 9% higher than a year earlier.

**Bank lending**

Mio Fb  
Semi-Log scale



*Demand for and supply of goods and services*

	1971 <sup>1</sup>	1972 <sup>1</sup>		1973 <sup>2</sup>		1974 <sup>3</sup>	
	At current prices (in BF '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>4</sup>	681.1	+ 6.9	+ 9.5	+ 12½	+ 21	+ 6½	+ 22½
Gross fixed asset formation	306.7	+ 4.9	+ 8.6	+ 8	+ 17½	+ 3½	+ 16½
Public current expenditure on goods and services	201.1	+ 7.2	+ 16.6	+ 5	+ 14½	+ 3½	+ 17
Private consumers' expenditure	851.0	+ 5.9	+ 11.3	+ 6	+ 13½	+ 3	+ 15
Gross national product	1,418.7	+ 5.4	+ 11.6	+ 5.8	+ 13½	+ 3½	+ 13½
Imports <sup>4</sup>	637.1	+ 7.5	+ 8.5	+ 13½	+ 23½	+ 6	+ 27½

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

<sup>2</sup> Estimates.

<sup>3</sup> Forecasts.

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

*Note :*

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

## 2. Outlook

In the present inflationary climate the behaviour of the various economic sectors is difficult to predict. It seems reasonable, however, to expect economic activity to slacken a little in the coming months.

The value of *exports* will continue to grow quite substantially due mainly to price rises, with the buoyancy of export demand for intermediate goods an additional factor; the outlook for exports of consumer goods and plant and machinery looks less favourable because of some weakening in final demand in Belgium's principal export markets.

The expansion of *domestic demand* could remain rapid—or even accelerate—in terms of value

while in real terms it will probably slow down. The growth of *investment* may thus drop back to a rate slightly lower than last year, as a consequence of the stagnation of public sector investment. On the other hand, the lengthening of domestic order books for plant and machinery seems to indicate that this type of capital spending is continuing to expand—no doubt helped by efforts to diversify energy sources and adapt production techniques to cope with the rise in the relative prices of energy and raw materials.

Public *expenditure* will once more expand significantly, mainly as a result of salary increases for civil servants. Despite the continuing rapid rise in money incomes, private consumers' expenditure may be virtually stagnant in real terms during the coming months, owing to the rapid

upsurge in prices and the gradual subsiding of the wave of speculative buying.

This being the case, *production* will no doubt expand only moderately in the second half of the year. The modest growth of private con-

sumers' expenditure will affect the production of consumer goods. Activity in the building industry—especially housing—may also fall off. The growth of GNP is thus likely to decline to about 3½% in 1974, as against 5.8% in 1973.

### The Central Government Budget

	1973		1974	1973	1974
	Budget estimate	Provisional outturn	Budget estimates <sup>1</sup>		
	BF '000 million			% change on the preceding year's outturn	
Expenditure <sup>2</sup>	518.0	535.3	584.3	+ 11.4	+ 12.8
of which:					
— current expenditure	411.4	437.7	484.4	+ 11.9	+ 17.7
— capital expenditure <sup>3</sup>	106.8	97.6	99.9	+ 9.8	— 6.5
Revenue	427.1	442.3	509.1	+ 14.7	+ 19.2
of which:					
— direct taxes	411.8	427.3	493.0	+ 14.6	+ 19.7
Net borrowing requirement <sup>2</sup>	— 90.9	— 93.0	— 75.2	—	—

<sup>1</sup> Draft budget estimates for 1974.

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

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

*Note :*

The figures in this table are based on the national budgets and are not recalculated on the basis of Community definitions.

The slowdown in activity will have repercussions on the *labour* market. Demand for labour must therefore be expected to slacken a little in the coming months. Nevertheless, a fairly high level of employment should be maintained throughout the greater part of the year; unemployment will probably increase only moderately, except in sectors directly hit by the effects of the energy crisis.

The strong growth of *imports* in value terms should continue—or even accelerate—in the coming months, boosted by rapid rise and the resumption of imports of crude oil and petroleum products which had been partly stopped in March and April because of difficulties in reaching agreement on the prices at which these products may be sold in Belgium. Overall, the volume of imports should expand much more

slowly in 1974 than in 1973. The outlook for foreign trade and the services account points to a marked decline in the *current balance of payments* surplus.

The upward movement of *prices* is likely to maintain its rapid pace. It is to be expected that the rises in raw materials and energy prices effected in 1973 and early 1974 will continue to be reflected both in industrial wholesale prices and in consumer prices.

These prospects seem to show that even Belgium, whose performance on the price front has been better than that of most Community countries, is no longer immune to extremely heavy busts of inflationary pressure. The rise in import prices was one of the causes of the recent acceleration of inflation but it is probable that the strong pressure of demand until the closing months of 1973 made it easy to pass on cost increases in selling prices. In the months ahead, the balance between supply and demand should improve, making possible more effective action against inflation without jeopardizing employment prospects.

### **Major economic policy measures**

*November 1973:*

— *The Government took a number of measures to reduce and supervise the consumption of petroleum products. These included the restriction of deliveries to 90% of average monthly supplies in the first quarter of 1973, except for priority sectors; a ban on withholding petroleum products from the market; the requisition of the petroleum industry; restrictions on the consumption of electric power for certain uses; a ban on Sunday driving; supervision of the conversion and extension of equipment resulting in an increase in heating power; and a provision making exports of petroleum products subject to licensing.*

— *On 29 November 1973 the Banque Nationale raised its base rate from 7 to 7.75%, the other discount and lending rates were not changed. At the same time, the upper limits for rediscount and certification for all banks were reduced from BF 42,600 million to BF 37,700 million with effect from 15 December.*

*The Banque Nationale also opened a credit of BF 10,000 million (with the possibility of increasing it to BF 13,000 million) at an interest rate of 8.5 to 9.5% in favour of the Institut de Réescmpte et de Garantie.*

— *The Government decided to include gas oil and fuel oil in the consumer price index with effect from 1 November taking the prices in force on 1 October 1973 as a basis. These two new items take the place of coal products.*

— *The Belgo-Luxembourg Foreign Exchange Institute fixed upper limits for Belgian and Luxembourg banks' bear positions in convertible francs and foreign currencies (regulated markets) in order to restrict the free margin existing within the authorized limits.*

*December:*

*The law on the 1974 revenue and expenditure budget was published. In comparison with the 1973 adjusted budget, overall expenditure is to go up by 6.9% and revenue by 14.9%. Compared with the original budget for 1973, however, expenditure is to grow by 13.2% and revenue by 19.3%. The net borrowing requirement under the single budget is to fall from BF 105,600 million to BF 77,200 million.*

— *The programme law on the implementation of the 1974 budget was published. The aim is to help save a total of BF 10,000 million. The proposed measures with a direct impact on the budget include: one year's postponement of the repayment of tax included in the value of stocks held at the time of changeover to VAT, where the liability is to enterprises with an annual turnover of more than BF 7.5 million; the Government's debt will be expressed in the form of negotiable bills of exchange (expenditure decrease: BF 7,600 million); full deductibility of new investments from VAT liability postponed for one year (extra receipts: BF 4,100 million); cut in the subsidies to the local authorities' fund (expenditure decrease: BF 1,000 million); application to the semi-public enterprises of the same tax rate as to the private sector (extra receipts: BF 800 million); reduction of the tax rates on incomes below BF 350,000 (revenue decrease: BF 4,100 million); reorganization and control of betting on*

horse races (extra receipts: BF 350 million); 50% cut in the contributions to the economic expansion fund (expenditure decrease: BF 2,400 million); stricter supervision of the recruitment of government employees and of university budgets; consolidation of hospital debts and obligation on the local authorities concerned to meet the hospitals' deficit.

January 1974:

— The Belgian banks introduced a minimum lending rate which may vary with time and which, until further notice, was fixed at 9% per annum. To determine the rates for their cash and equivalent advances they will no longer refer solely to the Banque Nationale's rates but will base themselves to a greater extent on the state of the market.

— In connection with the liquidity reserve, the banks will apply the temporary commission of 0.25% per annum, already in force for discount and acceptance credit, to all current account overdrafts.

— The "social planning" agreement in the public sector provided for a 6% salary increase on 1 January for staff on minimum pay and a 4% increase for the others plus a general 2% increase on 1 July, and increases in the end of the year bonus and holidays allowance; the working week was reduced to 40 hours with effect from 1 January 1975. State pensions went up 4% on 1 January 1974 and will rise a further 2% at the beginning of 1975.

— Wage and salary earners' pensions were increased by between 4 and 8% depending on the retirement date, with effect from 1 January (without prejudice to the index link). Old age and survivors' pensions and guaranteed incomes were also raised.

— A law on old age and survivors' pensions for the self-employed was published; it included the anticipated application (on 1 March) of the "social planning" agreement, a less strict means test and increases in the amounts payable.

— The temporary arrangements which fix the period of prior notification of proposed price

increases at three months instead of two were extended until 1 April 1974.

— The Belgian banks decided to increase the variable minimum lending rate from 9 to 9.75% and to extend its application.

— The Belgo-Luxembourg Foreign Exchange Institute relaxed the restrictions intended to prevent excessive capital inflows by suspending the negative interest on non-residents' deposits and by authorizing banking establishments to resume payment of interest on convertible franc accounts.

February:

— The Banque Nationale increased its various interest rates by 1 point with effect from 1 February, so that the base rate went up from 7.75 to 8.75%, and the other rates from 8.5 to 9.5%.

— The financial institutions increased creditor interest rates by 0.50% for time deposits and short-term deposits certificates, and by 0.25% for savings bank books.

— The gentlemen's agreement concluded in October 1973 between the Banque Nationale and the financial intermediaries, under which the latter lodge a liquidity reserve with the Banque Nationale, was extended until the end of March, subject to several rules being relaxed.

— The Minister of Economic Affairs repealed several restrictive measures applying to oil and electricity consumption, which had been taken during the oil crisis in December and January.

— The Banque Nationale lowered from 5½ to 5¼ the coefficient used to calculate the banks' upper limits for rediscount and certification. As a result the total value of rediscountable paper was reduced from BF 37,800 to 37,400 million.

March:

— The Minister of Economic Affairs imposed a temporary freeze on the selling prices of

petroleum products. In addition, distributors' and retailers' (filling stations) profit margins were increased by reducing the excise duties on petrol and diesel fuel.

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

#### April:

— The Minister of Economic Affairs fixed new maximum selling prices for petroleum products.

— The financial institutions raised the variable minimum lending rate to 10.25% p.a. for cash advances and 9.75% p.a. for discount credit. In addition, interest rates on time deposits were increased.

— As regards the liquidity reserve, the Banque Nationale abandoned the earlier procedure of concluding gentlemen's agreements and, pursuant to the law of 28 December 1973, made a recommendation to the financial intermediaries that during the second quarter, the coefficients used to calculate the liquidity reserve maintained against liabilities—with the exception of demand deposits—should be lowered; this would lead to a drop of some Bfrs 9,500 million in the liquidity reserve. In addition, the Banque Nationale imposed strict limits on credit utilization and new bank lending both to firms and private customers, but at the same time exempted certain operations from quota restrictions. For example, bank lending must not increase at an annual rate of more than 14%. Under the new arrangements, the interest-free liquidity reserve

will be calculated at the penal rate of 30% for the first slice exceeding the limits, and at a rate as high as 60% for the second slice. Furthermore, the banks run the risk of seeing their possibilities of resorting to the Banque Nationale restricted or completely abolished.

#### May:

— The Banque Nationale lowered the coefficients used to calculate the upper limit for rediscount from 5.25% to 4.5% with effect from 1 May; this measure reduced the total value of rediscountable paper from about BF 37,500 to 32,000 million.

— Various measures are taken in the price field: fixing of maximum prices for cigarettes, taxis, hairdressing, milk, bread, petroleum products, nitrogenous fertilizers, bricks; price freeze for perfumes and toilet articles, lowering of the retail sales price for pig-meat.

— The financial intermediaries raise their deposit rates of interest to a varying degree for different forms of savings. Interest rates on mortgage advances are also raised.

#### June:

— The Belgian Government draws up an anti-inflationary programme. The main objective of these measures—the details of which still have to be fixed—is to limit the growth of demand via action in the field of budgetary cuts, money, credit and price policy.

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

# Belgium

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1963=100	Million Eur	% of totals
	1968	1969	1970	1971	1972			
<b>Visible exports</b>								
<b>Total</b>	+ 16.0	+ 23.3	+ 15.2	+ 4.0	+ 20.5	301	14 548	100
<b>Intra-EEC</b>	+ 18.5	+ 29.5	+ 16.9	+ 4.2	+ 20.2	338	9 955	68.4
<b>To non-EEC countries</b>	+ 11.7	+ 12.1	+ 11.6	+ 3.7	+ 21.1	242	4 593	31.6
<b>Exports of food, beverages and tobacco</b>								
<b>Total</b>	+ 15.5	+ 21.8	+ 19.6	+ 14.9	+ 25.0	422	1 339	9.2
<b>Intra-EEC</b>	+ 24.6	+ 27.1	+ 16.9	+ 11.7	+ 25.8	477	1 095	7.5
<b>To non-EEC countries</b>	- 13.4	- 1.8	+ 35.3	+ 30.8	+ 21.6	280	245	1.7
<b>Exports of raw materials, fuel and power</b>								
<b>Total</b>	+ 13.4	+ 21.4	+ 0.1	- 5.5	+ 22.1	165	976	6.7
<b>Intra-EEC</b>	+ 10.8	+ 21.3	+ 4.6	- 5.7	+ 12.9	156	559	3.8
<b>To non-EEC countries</b>	+ 17.4	+ 21.7	- 6.4	- 5.3	+ 37.2	180	417	2.9
<b>Exports of semi-finished and finished industrial goods</b>								
<b>Total</b>	+ 16.4	+ 23.6	+ 15.9	+ 3.8	+ 19.9	311	12 233	84.1
<b>Intra-EEC</b>	+ 18.7	+ 30.3	+ 17.4	+ 4.1	+ 20.0	352	8 302	57.1
<b>To non-EEC countries</b>	+ 12.8	+ 11.8	+ 12.6	+ 3.3	+ 19.6	249	3 931	27.0
<b>Visible Imports</b>								
<b>Total</b>	+ 16.1	+ 19.9	+ 13.6	+ 10.3	+ 12.6	276	14 118	100
<b>Intra-EEC</b>	+ 14.8	+ 25.3	+ 16.4	+ 18.5	+ 14.8	339	9 095	64.4
<b>From non-EEC countries</b>	+ 17.8	+ 13.3	+ 9.8	- 1.4	+ 8.9	207	5 023	35.6
<b>Imports of food, beverages and tobacco</b>								
<b>Total</b>	+ 2.8	+ 14.9	+ 17.1	+ 11.4	+ 14.1	281	1 725	12.2
<b>Intra-EEC</b>	+ 24.0	+ 23.3	+ 20.4	+ 14.7	+ 23.9	461	1 098	7.8
<b>From non-EEC countries</b>	- 13.1	+ 5.8	+ 13.1	+ 6.9	+ 0.3	167	628	4.4
<b>Imports of raw materials, fuel and power</b>								
<b>Total</b>	+ 22.8	+ 11.3	+ 11.7	+ 2.6	+ 12.0	201	2 817	20.0
<b>Intra-EEC</b>	+ 17.6	+ 15.3	+ 12.0	+ 16.0	+ 17.2	239	1 192	8.4
<b>From non-EEC countries</b>	+ 25.7	+ 9.1	+ 11.5	- 4.8	+ 8.4	180	1 625	11.5
<b>Imports of semi-finished and finished industrial goods</b>								
<b>Total</b>	+ 16.7	+ 24.2	+ 13.6	+ 12.7	+ 12.5	309	9 576	67.8
<b>Intra-EEC</b>	+ 13.0	+ 28.0	+ 16.8	+ 19.6	+ 13.0	349	6 805	48.2
<b>From non-EEC countries</b>	+ 23.6	+ 17.9	+ 7.9	- 1.2	+ 11.3	241	2 771	19.6

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	163.2
	1973	154.3	155.1	156.4	156.7	155.9	155.4	153.3	160.0	154.4	153.9	158.3	161.5
	1974	157.2	157.8	159.2									
<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	105.6
	1973	104.7	104.4	103.9	104.3	104.9	105.8	106.8	106.9	108.3	109.5	107.5	107.0
	1974	106.6	105.8	105.6	107.1								
<b>Permits for residential construction</b>	1971	2 758	2 094	2 264	2 001	1 968	2 524	2 550	2 849	2 378	2 807	3 281	2 440
	1972	3 850	4 157	4 416	4 488	4 173	4 287	3 838	3 841	4 398	5 267	5 365	5 575
	1973	4 606	4 795	5 159	4 793	5 003	4 202	4 560	3 958	4 193			
<b>Department store turnover</b> (1963 = 100)	1971	167	169	161	173	166	177	182	181	180	187	182	187
	1972	184	191	201	183	192	208	197	200	228	196	199	216
	1973	202	216	223	208	217	237	212	217	235	233	224	255
<b>Consumer prices</b> (1963 = 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							
<b>Visible imports</b> (million Eur)	1971	921	987	1 030	1 046	958	1 014	1 026	1 025	1 022	1 004	1 018	1 026
	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	1 387	1 318	1 510	1 444	1 659	1 596	1 532
<b>Visible exports</b> (million Eur)	1971	884	876	1 026	885	969	1 079	989	961	1 147	940	964	1 027
	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	1 284	1 436	1 436	1 514	1 393	1 434	1 621	1 552	1 645	1 575	1 660
<b>Balance of trade</b> (million Eur)	1971	- 37	- 111	- 4	- 160	+ 12	+ 65	- 37	- 64	+ 125	- 65	- 54	+ 1
	1972	- 13	- 33	- 29	+ 26	+ 130	+ 103	+ 51	+ 81	+ 79	+ 95	+ 4	+ 157
	1973	- 116	- 35	+ 63	+ 72	+ 50	+ 6	+ 116	+ 111	+ 108	- 15	- 21	+ 128
<b>Official gold and foreign exchange reserves</b> (million Eur)	1972	3 444	3 563	3 536	3 506	3 420	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	4 198
	1974	3 950											
<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	10 697
	1973	10 789	11 032	11 202	11 341	11 254	11 433	11 413	11 444	11 508	11 713	11 819	11 588
	1974	11 876	11 915	12 221									



**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.

*Graph 1*

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

*Graph 2*

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

*Graph 3*

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

*Graph 4*

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

*Graph 5*

Wages and consumer prices (not adjusted for seasonal variations): average gross hourly earnings in industry, source: Banque nationale; consumer prices, source: Ministère des Affaires Économiques.

*Graph 6*

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

*Graph 7*

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

*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.



*In recent months economic activity has once again been characterised by a buoyant upward trend. Export demand for iron and steel products has been the main factor in the business upswing. However, domestic demand, fuelled by a substantial increase in purchasing power, has also sharply increased.*

*The outlook is for a temporary slow-down in the growth of industrial production, due mainly to the trend in exports. The upward movement of prices will probably remain rapid during the greater part of the year.*

## 1. Recent developments

Expansion has continued in recent months, mainly as a result of the growth of world demand for iron and steel products. Order books in the iron and steel industry have remained well filled and the impetus thus given to the economy as a whole points to a good overall performance during the first half of the year, even though the sales outlook for certain sectors has not been so buoyant in the past few months.

Overall, *exports* grew significantly, thanks to the accelerated pace of deliveries by the iron and steel industry.

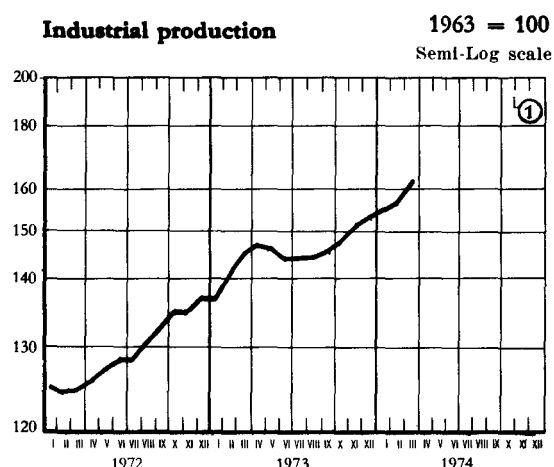
The various components of *domestic demand* seem to have shown widely differing trends.

*Gross fixed asset formation* expanded moderately. Demand for non-residential building has not been very strong and purchases of plant and machinery have tended to slow down. Demand for single family houses has instead been maintained. Households showed an increased preference for flats, perhaps as a result of the rise in building costs and higher mortgage rates.

*Private consumers' expenditure*, on the other hand, rose considerably, boosted by the combined effects of anticipatory purchases, the adjustment of tax scales to the cost of living

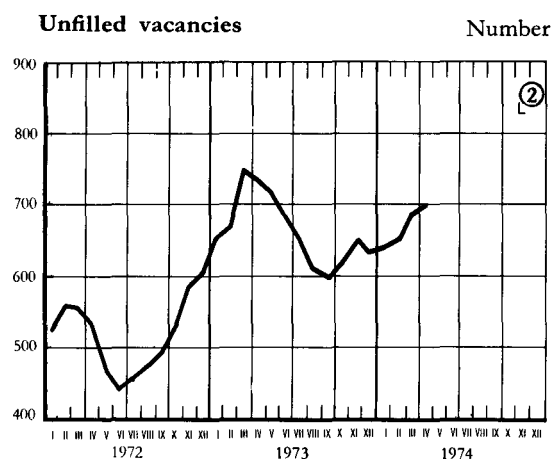
and substantial pay increases granted at the beginning of the year in both the private and public sectors. These pay increases resulted partly from the triggering of the sliding wage scale mechanism (2.5% on 1 January and 1 April) but more particularly from the new collective agreements concluded first in the iron and steel industry (+13% on 1 January) and then in other sectors (+10%, notably in the building industry, on 1 March).

In the first quarter of the year, industrial production was 8.7% higher than a year earlier, although the pace of increase slackened a little. Crude steel production reached record levels, and the building industry picked up rapidly at



the beginning of the year, no doubt helped by the weather.

The rise in *employment*, although less rapid



than before, led to further recruitment of foreign labour. However, the manpower shortages which seem to have curbed industrial production in 1973 have not appeared so acute at the beginning of 1974, except in the capital goods sector, where the shortage of skilled workers is still severe.

The removal of the freeze on certain *prices* at the end of the year, together with a strong rise in import prices, no doubt contributed to the faster pace of inflation during the first months of 1974. Higher prices in oil products are only partly responsible for this. The year-to-year increase in the overall price index went up from 6.1% in December to 8.6% in May.

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

	1971	1972 <sup>(1)</sup>		1973 <sup>(1)</sup>		1974 <sup>(2)</sup>	
	At current prices (in Flbg '000 million)	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	46,816	+ 7.9	+ 6.5	+ 9.7	+ 27.3	+ 4.8	22.3
Gross fixed asset formation	15,201	+ 5	+ 11.5	+ 4	+ 20.4	- 4.2	7.4
Public current expenditure on goods and services	6,109	+ 2.7	+ 13.5	+ 2	+ 14.3	+ 2	19.9
Private consumers' expenditure	30,236	+ 5	+ 10.5	+ 6	+ 12.5	+ 6.7	16.3
Gross national product	53,868	+ 4.1	+ 7.9	+ 7.5	+ 20.6	3½	14½
Imports <sup>3</sup>	45,394	+ 6.4	+ 8.4	+ 6.3	+ 18.7	4.9	23.3

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

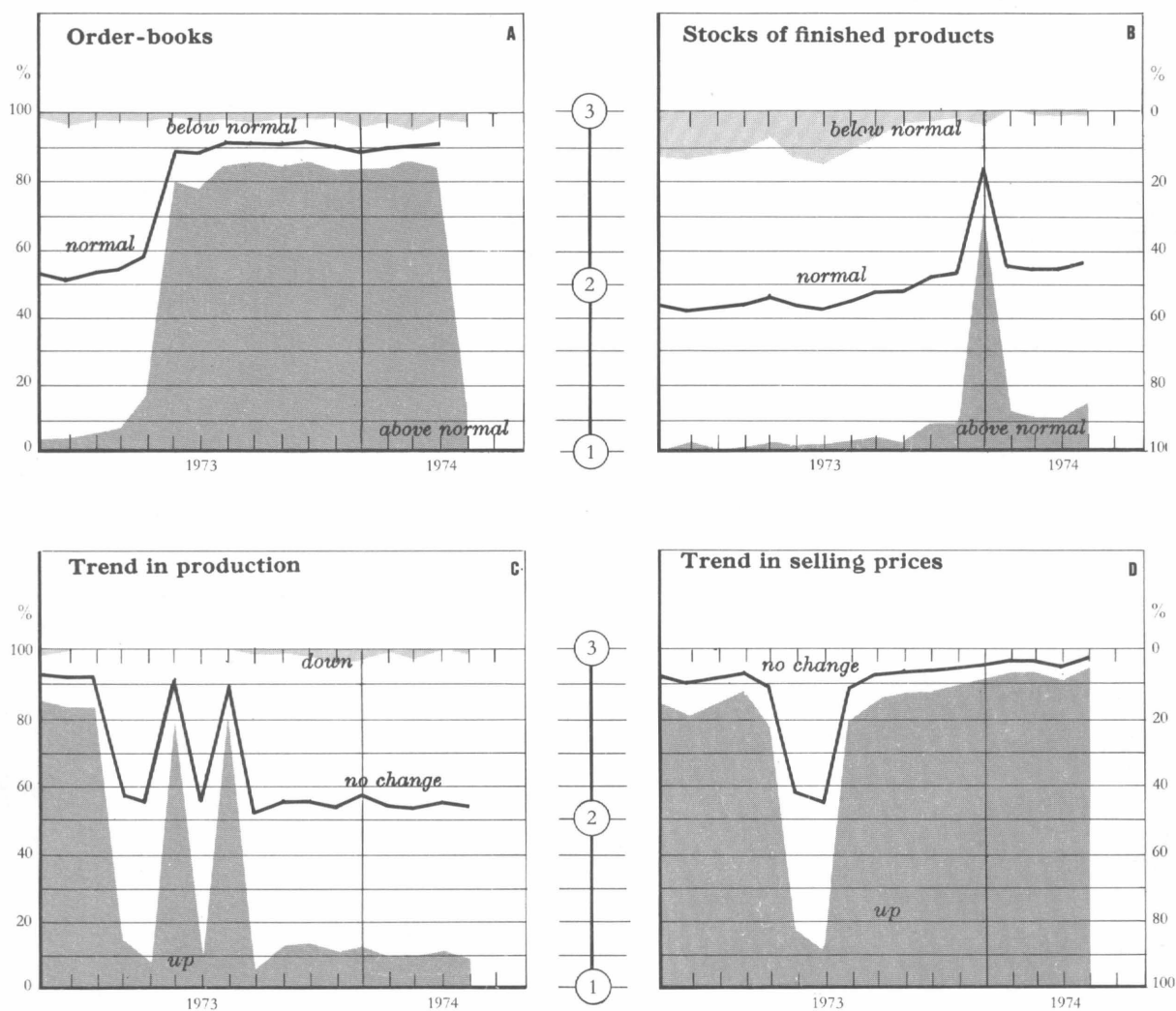
<sup>2</sup> Forecasts.

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

*Note :*

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

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to the questions in the EEC business survey, carried out in Grand Duchy of Luxembourg by STATEC.

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

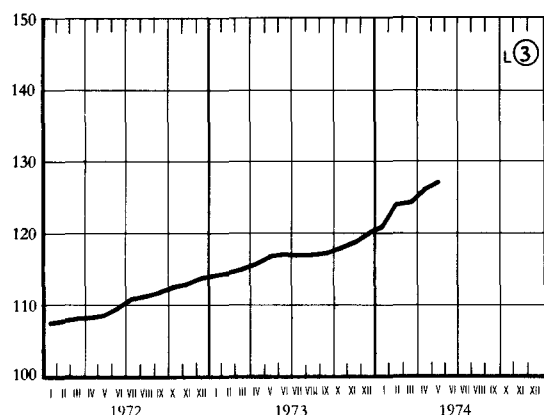
The black curves, the scale for which is given between the graphs, show the figures obtained by adding together the percentages weighted as follows :

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



## Consumer prices

1970 = 100



## 2. Outlook

In the months ahead the tendency for world trade to slow down is likely to have some

restraining influence on economic growth in Luxembourg. Nevertheless, in view of the relatively favourable pattern of exports, the upward trend in the economy will probably be more persistent than in other member countries.

Exports of iron and steel products will continue to benefit from the favourable business situation created, it appears, by the firm trend of world demand for steel, itself boosted by major investment projects in the energy sector. Exports of consumer goods and plant and machinery may be less buoyant during the year. As a result, there may be a temporary slackening in the expansion of total exports that will probably be more marked in terms of volume than in terms of value.

### The Central Government Budget

	1973	1974	1973	1974
	Budget estimates			
	Mrd Flbg		Change on the preceding year's outturn	
Expenditure <sup>1</sup>	16.5	18.9	+ 16.2	+ 14.5
of which :				
— current expenditure	12.2	14.4	+ 13.0	+ 18.0
— capital expenditure <sup>2</sup>	4.3	4.5	+ 26.5	+ 4.7
Revenue <sup>3</sup>	14.7	17.9	+ 21.5	+ 21.8
of which :				
— direct taxes	13.4	16.4	+ 20.7	+ 22.4
Net borrowing requirement <sup>1</sup>	- 1.8	- 1.0	—	—

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

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

<sup>3</sup> Excluding borrowing.

*Note :*

The figures in this table are based on the national budgets and are not recalculated on the basis of Community definitions.

In the months ahead, domestic demand will reflect differing trends. Residential construction, public sector *investment* and capital spending by the iron and steel industry should maintain their buoyancy. In other branches of industry, by contrast, extension of capacity is likely to be curbed by lack of demand or shortages of raw material.

Private consumers' expenditure, boosted at the beginning of the year by soaring incomes, should also show less dynamic progress in the second half of the year.

All in all, there is reason to expect a temporary fall-off in the growth of both *production* and *employment*, combined perhaps, with some relaxation in capacity utilization rates.

As in Belgium, the upward movement of *prices*, after acceleration in the first half of the year, may gradually slow down. Nevertheless, given the effect of the sliding wage scale—with a threshold based on a six-month moving average—on wage cost, the inflationary trends could influence the evolution of prices well beyond the end of the year.

### Major economic policy measures

November 1973:

— The Grand Ducal Decree of 7 November 1973 regulated the sale, stocking and use of petroleum products.

— A number of regulations made provision for petrol stations to close at the weekend, and for speed limits to be imposed.

— A Grand Ducal Decree dated 27 November 1973 laid down the procedure for implementing the law of 28 July 1973 promoting economic expansion, and in particular specified which financial bodies might be used.

— A law dated 27 November authorized the setting up of a limited company to supply the Grand Duchy with natural gas; the Government was authorized to acquire a Lfrs 5 million interest in it.

December:

— In the event of supplies being endangered, the law of 20 December 1973 empowered the Minister of Economic Affairs, for a period up to 31 December 1974, to regulate the market for liquid and solid fuels, and to make requisitions. The previous Grand Ducal Decree which had had more limited scope was repealed.

— Government revenue and expenditure, as laid down in the law of 27 December 1973 on the budget for the 1974 financial year, will be Lfrs 20,200 million and Lfrs 20,060 million respectively; compared with the 1973 budget, this represents a 19.9% increase in revenue and a 17.5% increase in expenditure.

January 1974:

— The negative interest applied to non-residents' Bfrs accounts was suspended with effect from 1 January 1974.

— Retail butchers' cash margins were frozen with effect from 16 January 1974.

— The Belgo-Luxembourg Foreign Exchange Institute lifted the ban on payment by the banks of interest on convertible non-resident deposits; such accounts may be held for one year.

February:

— Following discussions in the Bank Control Board, the Bank Control Commission decided to maintain in force the measures restricting mortgage lending until 30 June 1974.

April:

— The worker participation law was passed. It provides for the establishment of joint works councils in firms having at least 150 employees and for workers participation in boards of management of firms which have a minimum of 1,000 employees or are at least 25% state financed. Worker participation was fixed at 50% in the first case and 1/3 in the second.



TABLE 1: Key indicators

	1968	1969	1970	1971	1972	1972
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	+ 5.3	+ 7.7	+ 3.5	+ 0.7	+ 3.5	136
Industrial production	+ 7.4	+ 11.4	+ 2.4	± 0	+ 3.9	140
Total imports	+ 9.6	+ 9.6	+ 5.3	+ 1.2	+ 3.7	144
Private consumers' expenditure	+ 3.7	+ 4.8	+ 5.5	+ 4.0	+ 4.2	140
Public current expenditure on goods and services	+ 4.0	+ 3.3	+ 2.2	+ 1.5	+ 4.0	128
Gross fixed asset formation	- 5.6	+ 7.6	+ 16.4	+ 8.0	+ 4.0	115
Total exports	+ 13.5	+ 12.1	+ 1.3	- 4.0	+ 4.0	151
Gross national product per head of population	+ 4.9	+ 7.1	+ 3.1	- 0.8	+ 2.5	127
Gross national product per person in employment	+ 5.0	+ 6.5	+ 1.0	- 1.8	+ 1.2	122
	% change by value on preceding year					
Gross income per employee	+ 5.4	+ 6.2	+ 12.0	(+ 9.6)	(+ 10.8)	198

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	145.9	141.2	144.4	146.3	145.9	150.1	158.7	149.5
	1974	156.4	163.9	166.7									
Unfilled vacancies	1972	543	626	531	433	435	459	459	512	515	558	688	568
	1973	736	714	801	697	654	698	601	532	665	653	638	608
	1974	669	675	712	709								
Consumer prices (1963 = 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	121.8	123.6	124.4	126.0	127.2							

## **Luxembourg**

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

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

#### *Graph 1*

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

#### *Graph 2*

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

#### *Graph 3*

Consumer prices; source: STATEC.

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#### *Table 1*

GNP at market prices.

Industrial production: value added by industry.

Exports and imports: goods, services and factor income.

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

#### *Table 2*

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

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

Consumer prices: not adjusted for seasonal variations.

## H. United Kingdom

*Developments in the United Kingdom during the first half of 1974 were heavily shadowed by the impact of the three day week on output, expenditure and the balance of payments. Reflecting these developments and the large increase in oil import prices, the current account of the balance of payments worsened considerably. The rate of price increase also accelerated as the immediate effects of higher oil costs worked their way through. As pressures on the labour market eased, the number of unemployed rose somewhat.*

*Prospects for the remainder of the year are for a recovery of output and expenditure, although for the year as a whole GDP will register a decline over the level of the previous year. A reduction of the current account deficit is to be expected during the second half of the year.*

### 1. Recent developments

Since the end of December 1973, the economy has been operating under unusual constraints which makes it particularly difficult to assess the underlying trends. As a result of industrial disputes and a period of uncertainty relating to energy supplies, the Government felt obliged in December to introduce a three day week for most of industry. This short-time working caused a substantial fall in the level of industrial output, estimated at a maximum of some 20% during the first ten weeks of 1974. As incomes and expenditure fell less than output, the economy was confronted by a temporary bout of excess demand, met to a large extent by a rundown of stocks and probably some rise in imports. The already rapid upsurge in prices gained further momentum largely following the increase in petroleum prices; labour shortages, however, eased considerably during this period. After the resumption of normal working on 11th March, following the election of the Labour Government, production recovered rapidly.

The strong trend of growth in *exports* of goods continued during the first half of 1974. On an

overseas trade statistics basis, the value of exports rose further in the opening months of the year to reach a level in the first five months 33% above the corresponding period of the previous year. Price and volume indicators for this period are not yet available; however, it appears that much of this increase was due to rising export prices, although the increase in the volume of exports was also substantial. Recent indicators show that an increasing proportion of total exports is going to EEC-member-countries.

The amount of *fixed capital formation* in manufacturing industry which had been recovering strongly during 1973, rose by a further 1% according to provisional figures in the first quarter of 1974 despite the effect of three-day-working. Investment in the distributive and service industries was unchanged in the first quarter. Private housing construction, however, has fallen markedly since the beginning of the year as a result both of capacity and demand constraints. The supply of mortgage funds has dried up, leading to a rise in the stock of unsold completed new dwellings, and a marked fall in

private housing starts; in the three months February to April these were 48% below the same period of 1973. On the other hand, the gradual downward trend in public housing starts throughout 1973 appears to have been reversed in the early months of 1974; in the three months February to April, public housing starts were 15½% above the same period of 1973.

During the first quarter, there was a substantial drawdown of stocks of finished goods to meet the excess demand prevailing at the time.

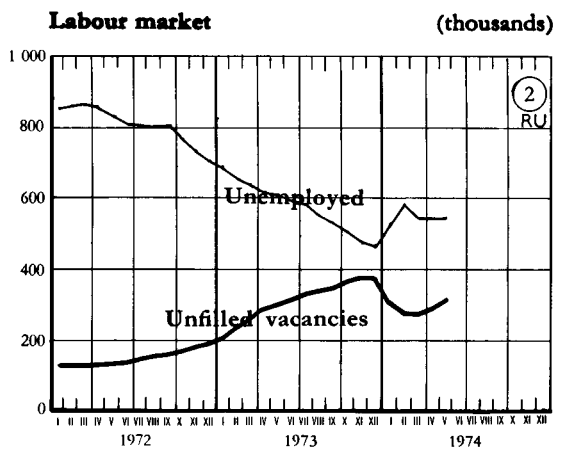
Mostly as a result of the effects of the three day week, there was a reduction in *consumers' expenditure* of 1% in real terms during the first quarter as against the fourth quarter of 1973, mainly on account of sales of durables. New car registrations in the first quarter fell by some 13% and were 32% lower than a year ago.

Estimates for the first quarter 1974 suggest a fall in average earnings of approximately 1%, largely as a result of the three day week. However, the underlying upward trend is more clearly seen in the figure for March 1974 which recorded a year on year increase of 14%.

*Domestic output* is estimated to have fallen by about 5% in the first quarter of 1974 as against the fourth quarter of the previous year, as a result of the miners' strike and the limitations on commercial and industrial activity. The index of industrial production fell by only

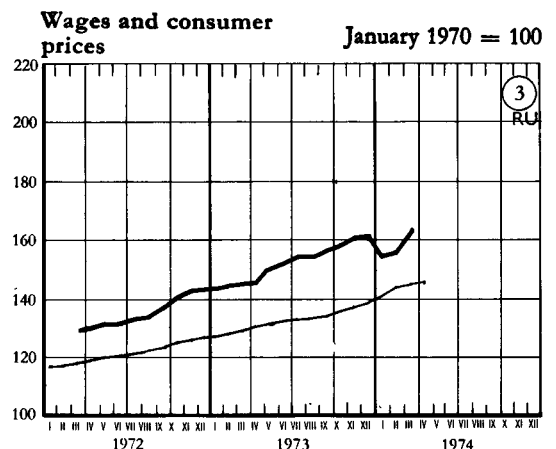
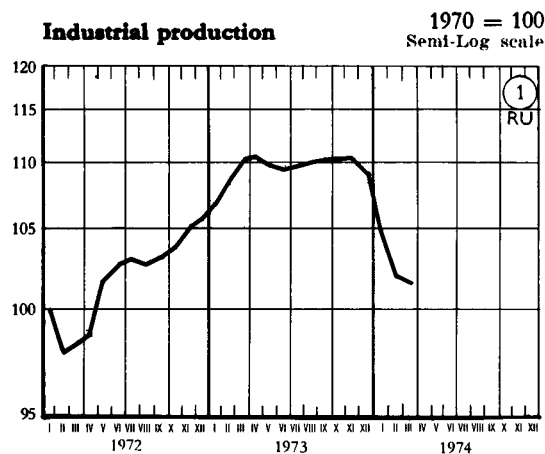
6½% between these two periods, but as this index is based on delivery rather than production data, it tends to underestimate the actual fall in industrial output.

The fall in *employment* which became apparent at the turn of the year, continued during the first half of 1974. However, the full effects of short-time working on the labour market were not apparent from the statistics of wholly unemployed and the number of workers temporarily stopped is estimated to have reached 1,600,000 during the period. By February, the



total number of unemployed in the UK reached 570,000, equivalent to 2.5% of all employees and it has remained around this level since.

By April 1974, wholesale output *prices* had increased by 24% over the previous twelve



months. Output prices are expected to continue to increase substantially as increases in the wholesale prices of basic materials and fuels purchases by manufacturing industry work their way through; in April 1974, the price index of these inputs was 60% above its level of the previous year, although the rise between January and April was under 3%. The rate of increase in retail prices continued to accelerate. The average monthly rise in the retail price index for the first quarter of 1974 was 1.5%, compared to an average monthly increase of 0.8% during 1973, the difference being largely due to the effects of higher oil prices. In April 1974, the all-items index rose by 3.4% over the level in March, due in part to the effects of the Budget tax changes, giving an increase of 15.2% over the previous twelve months. The rate of increase between November 1973 and April 1974 was such as to activate three times the threshold clause.

The already rapid rise in *imports* of goods was given further impetus early in 1974 by the imbalance between demand and supply resulting from the effects of the three day week and particularly of the increase in oil import prices. During the first five months, the value of imports was 59.0% above the same period a year earlier.

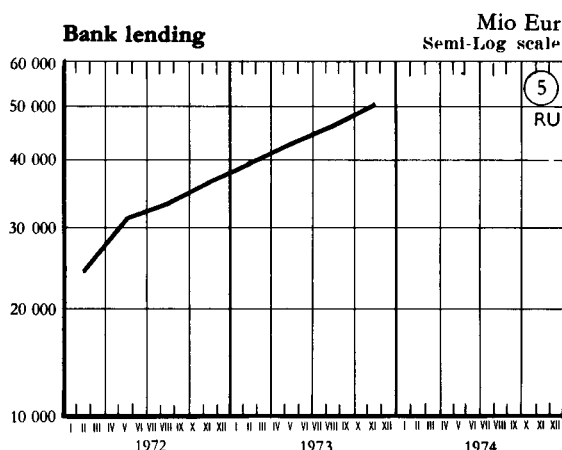
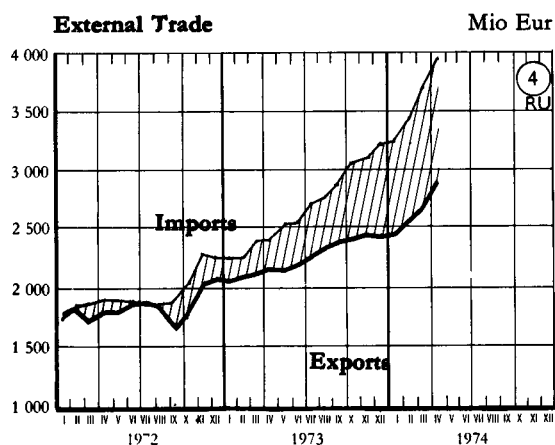
The visible *trade deficit* widened further to a record £ 2,159 million for the first five months of 1974. The growing surplus on invisibles was insufficient to prevent a continued deterior-

ation of the balance of payments current account, which recorded a deficit of £ 1,644 million in the first five months (\$ 3,820 million) <sup>(1)</sup>.

Despite some renewed pressure on the pound during the period of industrial disruption at the beginning of the year, the value of the pound during the first six months of 1974 was on average generally higher than during the last quarter of 1973. In early June 1974, the effective depreciation from Smithsonian parities was 17%.

*Official reserves* amounted to \$ 6,920 million at the end of May 1974, representing a net rise of \$ 444 million over the end 1973 figure, after including public sector foreign borrowing of nearly \$ 1,600 million.

Figures for the first four months of 1974 indicate that the rate of expansion of the broadly defined *money supply* (M3) has slowed down; the increase over the four months was reduced to 4.3%, with an increase during April of only



0.2%. This slowing down was attributed to the effects of the supplementary deposits scheme introduced in December 1973, as well as to a marked deceleration in lending to the private sector, and to increased official sales of gilt-edged stocks to the general public.

1 Converted at average of daily exchange rates.

*Demand for and supply of goods and services*

	1971	1972		1973 <sup>(1)</sup>		1974 <sup>(2)</sup>	
	At current market prices £ million	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	14,073	+ 2.7	+ 5.3	+ 8.4	+ 24.3	+ 9	+ 28
Gross domestic fixed capital formation	10,101	+ 1.7	+ 11.8	+ 4.3	+ 20.5	- 4	+ 11½
Public authorities current expenditure	10,433	+ 3.9	+ 13.6	+ 3.8	+ 12.8	+ ½	+ 15½
Private consumers' expenditure	34,820	+ 6.0	+ 13.0	+ 4.5	+ 13.4	- 1	+ 13½
Gross national product	56,780	+ 2.5	+ 10.2	+ 5.6	+ 13.7	- 1½	+ 10
Imports <sup>3</sup>	12,666	+ 9.4	+ 13.2	+ 11.7	+ 35.8	+ 6	+ 37

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

<sup>2</sup> Forecasts.

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

*Note :*

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

## 2. Outlook

Owing to the impact of the recovery from the three day week on the main aggregates of output and expenditure, it will not be easy to assess the underlying trend of the economy for some time to come. However, as a result of this catching-up, a fairly rapid rate of expansion is to be expected during the second half of 1974 with a subsequent slowing down during the first months of 1975. For the year as a whole though, major components of GDP will register a decline in real terms over 1973 levels. It must be pointed out that these projections are based on unchanged policies.

The outlook for *exports* in the second half of 1974 and into 1975 remains distinctly promising, especially as the volume response of exports

due to the depreciation of the pound sterling since the middle of 1972 should be coming through with increasing strength. However, such prospects rest on the assumption that other countries do not resort to policies aimed at restricting foreign trade. The competitive edge afforded to British exporters by devaluation should enable them to increase their prices and their profit margins somewhat.

While some recovery of total fixed *investment* is foreseen during the second half of 1974, a significant reduction in real terms is to be expected for the year as a whole compared with 1973, due mainly to the fall in the volume of investment in dwellings. Some growth in other private fixed investment is foreseen for 1974 as a whole, though with the tight squeeze on corporate liquidity, the path is likely to show

*The Central Government Budget*

	1973/1974		1974/1975	
	Budget estimate	Provisional outturn	Budget estimates	
	Mio £		Mio £	% change on the preceding year's outturn
Expenditure <sup>1</sup>	26 586	26 229	31 310	+ 19.4
of which:				
— current expenditure	21 660	22 382	26 629	+ 19.0
— capital expenditure <sup>2</sup>	4 926	3 847	4 681	+ 21.7
Revenue	22 939	24 155	29 785	+ 23.3
of which:				
— direct taxes	9 498	9 507	13 033	+ 37.1
— indirect taxes	7 457	7 456	9 012	+ 20.9
Net borrowing requirement <sup>1</sup>	3 996	2 423	1 525	—

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

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

*Note :*

The figures in this table are based on the national budgets and are not recalculated on the basis of Community definitions.

a slowing down towards the end of the year. A factor of possible uncertainty affecting investment decisions, and also export prospects, will be the Government's position concerning the renegotiation of the terms of British entry into the Community. Largely due to the effects of the public expenditure cuts announced in December 1973, little real growth in public investment can be foreseen in 1974. However, an important element of stimulus during the second half of 1974 should be the replenishment of *stocks* following the substantial rundown during

the first half of the year as a result of the three day week.

After being depressed during the first half of 1974, *private consumption* should rise quite strongly in the second half of the year, in part due to the rebound effects of the three day week and to a continued underlying rise in nominal incomes, partly the result of the implementation of the indexation clauses contained in Stage Three of the previous Government's anti-inflation policy.

Total *output* is expected to rise strongly in the second half of 1974 as a result of the recovery from the effects of the three day week. However, for the year as a whole, the volume of GDP is estimated to register a decline of around 1½ per cent. During the course of the year a gradual rise in unemployment seems very likely.

The rapid recovery of output foreseen for the second half of 1974, and the sharp rise in stockbuilding, are expected to result in a fairly sustained rise in the volume of *imports*, which, however, should slow down at a later stage. Some substitution effects could also be expected between imports and domestically produced goods, mainly manufactures, due to the depreciation of sterling. The sharp deterioration in the terms of trade that occurred during the first half of 1974 (estimated at around 10 per cent as compared with the average for 1973) is not expected to continue in the second half and by the end of 1974 the terms of trade should be moving in the United Kingdom's favour. Although the current account of the balance of payments is estimated to register a definite improvement in the second half of 1974 over the record deficit of the first half, the outcome for the year as a whole is still for a very substantial current account deficit, equivalent to nearly 5 per cent of estimated GDP.

The outlook for *prices* is not likely to show any improvement in the immediate future as rising wage costs and the indirect effects of the higher oil prices, as well as of the higher prices of other imported raw materials, work their way fully through the economy. Furthermore, the effects of the rise in the prices charged by major nationalized industries (as announced in the Budget) and of the threshold agreements will also reflect themselves in the retail price index during the second half of 1974. The major problems confronting the United Kingdom authorities in the months ahead remain therefore inflation and the balance of payments. While the growth of output is expected to recover in the second half of 1974 the rate of inflation is likely to remain high. The current account of the balance of payments is expected to improve, after the very substantial deficit in the first half year, as the impact of the three day week begins to wear off and the terms of trade gradually move in favour of the United Kingdom.

## Major economic policy measures

November 1973:

— On 12 November the Government announced a reduction from 1 April 1974 in the proportion of local authority rates to be paid by households. In addition about three million households will receive assistance from the Government with their rates payments.

— On 13 November the Bank of England raised its minimum lending rate to 13%, suspending the formula by which the rate is normally fixed. The Bank also announced a call for a further 2% Special Deposits from the banks and finance houses, to be effected in equal stages of 0.5% on 28 November, 12 December, 27 December and 2 January.

— On 20 November, under its emergency powers, the Government ordered a cut of 10% in fuel deliveries to all except certain priority users. Also, a Bill was introduced which would give the Government wider powers over the supply and distribution of all the major sources of energy.

— The Government introduced on 21 November a Bill to provide compensation to the Post Office, gas and electricity industries for their price restraint during the Counter-Inflation policy.

December:

— On 5 December, further measures were introduced to cut petrol and electricity consumption, including a compulsory speed limit on road traffic and limitations on office heating.

— On 13 December, the Prime Minister announced further stringent measures designed to achieve a reduction of 20% in electricity consumption. These included restricting the use of electricity by factories, offices and shops to only three consecutive days per week, except for priority consumers such as emergency and medical services, and food production and distribution.

— On 17 December, the Chancellor announced a series of fiscal and monetary measures, which included:



- cuts in planned public expenditure amounting to £ 1,200 millions for 1974/75, based on a reduction of 20% of capital expenditure and 10% of current expenditure on goods and services (excluding staff costs); the principal exception being investment in energy industries and public sector housing. Sectors contributing the largest cuts would be nationalized industries (£ 264 millions), roads and transportation (£ 212 millions), education and arts (£ 182 millions) and defence (£ 178 millions);
- a 10% surcharge on surtax payers' liability for 1972/73;
- increased taxation of gains arising from land development and property transactions;
- the re-imposition of consumer credit controls;
- the introduction of a new system under which banks and deposit-taking finance houses would be required to make interest-free special deposits should their interest-bearing liabilities (on a 3-months moving average basis), increase by over 8 per cent in the following six months. In view of these arrangements it has been decided to revoke the calls for special deposits, each of 0.5 per cent eligible liabilities, (amounting to about £ 300 millions) which would have been made on 27 December 1973 and 2 January 1974;
- the clearing banks have been asked to make their base rates more flexible in order to limit arbitrage operations, which contributed substantially in the recent past to exceptionally large increases in the money supply (M3).

#### January 1974:

- On 4 January, Minimum Lending Rate fell to 12.75% from the record level of 13% fixed on 13 November 1973;
- On 31 January, the Bank of England announced the release of about £ 150 millions (0.5% of eligible liabilities) of the special deposits held on behalf of banks and finance houses, in order to ease the liquidity position of the banking system during the economic crisis.

#### February:

- On 1 February, Minimum Lending Rate fell from 12.75% to 12.5%.
- On 11 February, maximum prices were increased by 35-60% for industrial oils, and by 20% for petrol.
- In order to maintain maximum possible levels of supplies of coal and steel to industrial consumers, the Government announced a ban on exports of coal, iron and steel as from 18 February. In addition, coal merchants have been asked to reduce deliveries to private households by 50%.
- Parliament was dissolved on 8 February, and a General Election was held on 28 February, which resulted in a new minority Government led by Mr Harold Wilson.

#### March:

- On 8 March, the Government announced a "freeze" on all residential rents.
- As a result of the settlement of the miners' dispute, restrictions on the use of electricity by factories, offices and shops were lifted on 11 March thereby ending the "three day working week".
- On 18 March, the Department of Trade announced partial relaxation (notably in respect of ferro-alloys, tubes, pipes, and castings and forgings in the rough state) of the restrictions on exports of iron and steel products.
- The Secretary of State for Prices and Consumer Protection announced, on 20 March, the introduction of a subsidy (costing £ 21 million per year) designed to avoid an increase in the price of most types of bread.
- On 21 March, the Government announced the ending of restrictions on the supply of fuel-oil to industry, on heating and lighting in offices, and on the use of electricity for advertising.
- A Price Commission order was made on 22 March which reduced the maximum gross profit margins allowed to large food retailers (i.e. with annual turnover of £ 250,000 or more) by one-tenth, as from 1 April. Companies with a net profit margin of less than 1.5% were excluded from the Order.

— On 25 March, details were issued by the Government of proposed changes in price control policy. The main provisions were:

- to establish a minimum three-month delay between consecutive price increases;
- to cut by one-tenth the maximum gross profit margins of all distributors;
- to prevent retailers increasing the price of goods already on display.

Additionally, new legislation is to be introduced to enable the Government to fix maximum prices for certain products of special importance to low-income households, and to limit or prevent price increases even where normally permissible under the Price and Pay Code.

— The Budget for the financial year 1974-75 was announced on 26 March. The rise in public expenditure was forecast at 17%, compared with 25% for receipts. The public sector borrowing requirement was estimated to fall from the provisional outturn of £ 4,276 million for the previous year to £ 2,733 million. The principal points from the Budget Statement were:

- an increase in basic rate income tax to 33%, and in the tax on investment income, coupled with higher tax-free allowances;
- corporation tax is to be raised to 52%, and payments of advanced corporation tax were increased by more than 50%;
- the coverage of value added tax was extended (to include petrol, amongst other things), and duties on alcohol and tobacco were increased;
- retirement pensions and other social security benefits are to be increased, to be financed partly by increased social security contributions;
- food subsidies totalling £ 500 million are to be introduced in 1974/75;
- a wide range of prices of public sector products and services are to be increased during the year;
- improved terms are to be offered on National Savings investments;
- exchange control requirements were tight-

tened on outward direct and portfolio investment and disinvestment;

— the Government has arranged for a loan of \$ 2,500 million from the Eurodollar market, and the swap facilities with the U.S. Federal Reserve Bank have been increased to \$ 3,000 million.

— On 28 March, the Price Commission made an order which reduced the maximum permitted gross profit margin allowed to food wholesalers by one tenth, with effect from 1 April. The Order would not apply to companies with a net profit margin of less than 1.5%.

April:

— The consumer subsidy on butter (introduced in May 1973) was increased with effect from 1 April, at an additional cost of £ 33 million.

— The Government introduced, on 3 April, a Prices Bill which would extend the powers of the Price Commission to restrict prices, (including setting maximum prices of certain products), and would introduce compulsory unit pricing. The Bill also provided for the eventual abolition of the Pay Board, and for the authorisation of expenditure totalling £ 700 million on food subsidies.

— On 4 April, the Bank of England announced the release of £ 297 million (1% of eligible liabilities) of the special deposits it held on behalf of the commercial banks and finance houses, in an attempt to reduce pressure on liquidity and facilitate a reduction of interest rates. The release was made in two equal stages (on 8 April, and on 16 April) and reduced the amount of special deposits held to 3.5% of eligible liabilities.

— On 5 April, the Bank of England's Minimum Lending Rate fell by  $\frac{1}{4}$ % to  $12\frac{1}{4}$ %. Also, the Government offered loans of up to £ 100 million a month to building societies in an attempt to prevent an increase in the rate of interest charged on housing loans.

— On 11 April, the Bank of England's minimum lending rate was reduced by a further  $\frac{1}{4}$ % to 12%. Also, the Government announced the removal of existing limits on the amounts that local authorities were permitted to use as loans for house purchase.

— The Bank of England announced on 18 April the release of a further £ 149 million ( $\frac{1}{2}\%$  of eligible liabilities) of special deposits.

— The Secretary of State for Prices and Consumer Protection announced, on 29 April, the introduction of a subsidy on certain varieties of cheese at a cost of £ 20 million. The Minister of State at the Department of Industry announced that the Regional Employment Premium would continue to be paid beyond September, the original data for phasing-out announced by the previous Government.

— The Government introduced on 30 April, a Bill to repeal the Industrial Relations Act 1971, and to abolish the institutions established under that Act. Also, the Bank of England announced the extension for a further six months of the control scheme (introduced on 17 December 1973) applicable to banks' interest-bearing de-

posits, and a target annual growth rate of 17% was introduced.

May:

— The Government announced, on 9 May, an increase in the rate of bread subsidy, and its extension to include small loaves, at an estimated cost of £ 36 million in a full year.

— On 24 May, the Bank of England's Minimum Lending Rate fell by  $\frac{1}{4}\%$  to  $11\frac{3}{4}\%$ .

— The Government announced on 23 May that the standstill on business rents, imposed in November 1972, would continue until May 1975.

— On 31 May, the Post Office announced details of increased postal charges designed to increase revenue by £ 70 million a year.

## United Kingdom

TABLE 1: Key indicators

	1969	1970	1971	1972	1973	1973
	% change by volume on preceding year					Indices 1970 = 100
Gross national product	+ 1.4	+ 2.0	+ 2.5	+ 2.5	+ 5.6	110.9
Industrial production	+ 2.7	+ 0.3	+ 0.3	+ 1.9	+ 7.1	109.7
Total imports	+ 3.7	+ 4.1	+ 4.5	+ 9.4	+ 11.7	127.7
Private consumers' expenditure	+ 0.2	+ 2.5	+ 2.7	+ 6.0	+ 4.5	113.6
Public current expenditure on goods and services	- 1.4	+ 1.6	+ 3.1	+ 3.9	+ 3.8	111.2
Gross fixed asset formation	+ 1.0	+ 2.0	+ 0.5	+ 1.7	+ 4.3	106.7
Total exports	+ 10.1	+ 4.6	+ 7.2	+ 2.7	+ 8.4	119.4
Gross national product per head of population	+ 1.0	+ 1.8	+ 2.2	+ 2.1	+ 5.3	109.9
Gross national product per person in employment	+ 1.5	+ 2.7	+ 4.3	+ 2.1	+ 4.3	111.2
	% change by value on preceding year					
Gross income per employee	+ 7.1	+ 12.5	+ 12.6	+ 11.3	+ 12.8	141.5

TABLE 2: Indicators for internal and external equilibrium

	1969	1970	1971	1972	1973
Balance: exports less imports					
in millions Eur	+ 1,505	+ 2,258	+ 3,377	+ 1,164	- 2,506
as percentage of GNP	1.3	1.8	2.5	0.8	3.5
Unemployment rate	2.5	2.6	3.5	3.9	2.7
Prices to private consumers (% change on preceding year)	+ 5.7	+ 5.8	+ 8.2	+ 6.7	+ 8.6

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1970=100	Million Eur	% of totals
	1969	1970	1971	1972	1973			
<b>Visible exports</b>								
<b>Total</b>	+ 14.1	+ 9.8	+ 13.9	+ 6.2	+ 27.6	154.3	29,846	100.0
<b>Intra-EEC</b>	+ 18.7	+ 14.1	+ 12.9	+ 10.6	+ 37.1	171.2	9,672	32.4
<b>Extra-EEC</b>	+ 12.3	+ 8.2	+ 14.3	+ 4.4	+ 23.5	147.3	20,174	67.6
<b>Exports of food, beverages and tobacco</b>	+ 5.5	+ 13.3	+ 14.3	+ 12.3	+ 32.4	170.0	2,097	7.0
<b>Exports of raw materials, fuel and power</b>	+ 5.6	+ 13.5	+ 7.3	+ 9.0	+ 43.0	167.2	1,925	6.5
<b>Exports of semi-finished and finished industrial goods and miscellaneous goods</b>	+ 15.3	+ 9.3	+ 14.3	+ 5.5	+ 26.2	152.3	25,824	86.5
<b>Visible imports</b>								
<b>Total</b>	+ 5.3	+ 8.7	+ 8.7	+ 13.4	+ 42.3	175.4	38,050	100.0
<b>Intra-EEC</b>	+ 4.3	+ 13.5	+ 19.5	+ 20.8	+ 47.7	213.1	12,473	32.8
<b>Extra-EEC</b>	+ 5.6	+ 7.0	+ 4.7	+ 10.3	+ 39.9	161.5	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	+ 43.9	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	99.8	93.3	101.4	101.5	103.0	103.5	102.2	102.0	104.4	105.4	105.9	106.0
	1973	108.5	110.6	111.6	109.0	108.9	110.0	110.3	109.7	110.8	110.8	109.8	105.9
	1974	99.4	101.1	104.7									
<b>Unemployment (000)</b>	1972	900.1	906.5	911.6	911.9	873.4	845.5	846.4	846.5	850.1	814.8	791.4	761.9
	1973	736.2	693.5	663.4	648.7	630.3	621.5	608.9	594.8	574.3	542.1	516.9	502.4
	1974	562.2	576.3	572.6	573.4	575.3							
<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	25.0									
<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	133.8									
<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								
<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	2 426	2 760	2 902	3 062								
<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	3 360	3 790	3 989	4 001								
<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	- 934	- 1 030	- 1 087	- 939								
<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	5 210	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							
<b>Money supply (million Eur)</b>	1972	48 168	48 048	49 200	51 552	52 368	54 384	55 512	55 920	57 048	57 768	58 512	60 168
	1973	61 512	63 384	64 368	65 112	65 376	66 960	69 576	71 064	72 792	74 640	75 600	77 568
	1974	79 248	80 304	80 712									

## United Kingdom

### 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).

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#### Table 1

Gross national product at market prices (d).

Index of industrial production (all industries) (1970 = 100) (a).

Total imports and exports of goods, services and factor incomes (d).

Total population at end-June (not seasonally adjusted) (e).

Persons in employment : working population excluding the unemployed (b + f).

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, services and factor incomes (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).

## Trends in Industrial Labour Costs

### A. INTRODUCTION: METHODS

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

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

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

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

It would have been more appropriate to use the trend of gross incomes and gross value added at constant prices per hour worked, but this could not be done because the statistics on the number of hours worked in the Community countries are incomplete. Consequently, these two items could only be calculated per employee.

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

As in previous years, the survey gives figures for the trend in *labour costs adjusted for changes in official exchange rates*. Because of the dollar devaluation in 1971, these calculations are now based on the rates of exchange of the various national currencies against the European unit of account (EUR) <sup>(1)</sup>. For most of 1971, when most European currencies fluctuated on the foreign exchange markets, conversion into units of account was made by reference to the market rates. From 21 December 1971, conversion into units of account has been effected on the basis of the central rates laid down in Washington on 19 December 1971. These calculations show that in spite of the revaluation of some Community currencies in December 1971, the increase in 1972 was quite moderate and less than that based on the national currencies. This is because in 1971 the gap between the market rates and the EUR parity was wider than the gap resulting from the new exchange rate relationships laid down in Washington in December 1971. From 1972 onwards, in view of the fact that sterling and the lira were floating, an adjustment was made

1 One unit of account = 0,88867088 g of fine gold = one IMF Special Drawing Right.

on the basis of market rates; in the case of the lira, this adjustment was based on the commercial rate.

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

For all countries covered in this Annex, the 1973 figures are based wholly or partly on estimates.

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

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

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

With regard to the figures for the number of wage and salary earners in industry, for Denmark a linear interpolation has had to be made on the basis of the results of surveys carried out in 1960, 1965, 1967 and 1969; for the other years, the results of the annual surveys carried out from 1969 onwards were used. For Ireland, figures were also based on the results of annual surveys of wage and salary earners by sector.

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

This difference between value added and industrial production (as used for production indices) appears most clearly in the *implicit price index for gross value added*. In this index, two essential factors affecting actual market prices are not taken into account,

namely, firm-to-firm supplies within industry and supplies from other sectors, including abroad. The trend of the implicit price index therefore differs from the trend of market prices to an extent which varies from country to country, since the proportion of value added in industrial output also varies.

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

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

## B. DEVELOPMENTS in 1973

In the Community generally, industrial labour costs per unit of gross value added climbed sharply in 1973, and in most member countries their pace actually quickened distinctly compared with the preceding year. In terms of national currencies the acceleration was particularly marked in Italy (13% in 1973 as against 5.5% in 1972), Belgium (7.5% as against 5.4% in 1972), Denmark (8.9% as against 5.6% in 1972), the Netherlands (7.5% as against 4.6% in 1972) and France (8% as against 6.3% in 1972). In Germany, the rate of increase was the same in 1973 as in 1972, i.e. about 6%. By contrast, a slowing down was recorded in Ireland, where the increase in labour costs was 10.5% in 1973 compared with 13.4% in 1972, and in the United Kingdom, where the increase was 5% compared with 9.8% in 1972. As in the preceding year, the rise in industrial labour costs per unit of gross value added was slower in the United States than in the Community, the rate being about 2.5%—scarcely higher than in 1972 (2.1%).

If account is taken of the changes in the rates of exchange against the EUR, the increase in labour costs per unit of gross value added in Germany and the Netherlands, both of which



revalued their currencies in 1973, appears to have been somewhat faster than that based on the national currencies. For Denmark, France and Belgium the two methods of calculation yield parallel movements while labour costs calculated in terms of EUR show a markedly slower rise in Italy and a decline in Ireland and the United Kingdom. Comparing the figures with those for 1972, it can be seen that in terms of EUR the rise in labour costs accelerated sharply in Denmark (9% as against 3.3% in 1972), Germany (11% as against 5% in 1972), France (7.5% as against 5.5% in 1972) and the Netherlands (8.8% as against 3.9% in 1972). In Italy the upward movement continued steadily at a rate of about 3%. A drop occurred in Ireland and the United Kingdom, reaching 1.5% and 6% respectively, while in 1972 the figures had shown increases of 6.9% and 3.6% respectively. In the United States, the depreciation of the dollar during much of the year resulted in a decline in labour costs, in terms of EUR, of 6.8% (following a fall of 5.7% in 1972).

In general, the acceleration in the rise of industrial labour costs per unit of gross value added in the Community was due mainly to a much faster increase in per capita income from employment.

The growth of per capita income from employment in industry was very rapid throughout the Community in 1973, reaching 21% in Italy, 18.5% in Ireland, 15.5% in Belgium, 14% in the Netherlands, 13% in France, 12% in Germany and the United Kingdom and 11.5% in Denmark. Compared with 1972, these rates represent a faster rise in every country with the exception of Ireland and the United Kingdom, where the advance slowed down a little. In the United States, by contrast, per capita income from employment in industry went up much

more slowly than in the Community countries, at 7.5% (as against 7% in 1972).

The growth rate of gross value added (at constant prices) per employee in industry was not significantly higher in 1973 than in 1972; it accelerated in Ireland (7.5% as against 1.3% in 1973), Italy and the United Kingdom (7% as against 5.6% and 4.2% respectively in 1972) and Germany (6% as against 4.9% in 1972) and remained virtually unchanged in Belgium (at some 7.5%) and France (at about 5%). The growth of gross value added per employee slackened in Denmark, where it did not exceed 2.5% (as against 9% in 1972), and in the Netherlands, where it was 6.5% (as against 8.7% in 1972). These figures result from the fairly sharp recovery of industrial employment in 1973, which followed the pick-up of economic activity in the second half of 1972: the number of wage and salary earners in industry rose by 4% in Denmark (against a decline of 2.5% in 1972), by 3% in Ireland (against an increase of 3.8% in 1972), by 2% in France (against 0.7% in 1972), by 0.5% in Germany, Italy and the United Kingdom (against declines of 1.7%, 1.6% and 2.8% respectively in 1972). In the Netherlands and Belgium, the number of wage and salary earners fell once again in 1973, but at a slower rate than in 1972 (a fall of 1% in the Netherlands compared with 3.6% in 1972, and of 0.5% in Belgium compared with 1.5% in 1972). In the United States, gross value added per employee in industry increased by about 5% in 1973, i.e. at the same rate as in 1972; the numbers employed, however, rose more strongly in 1973 than in the preceding year (by 3.8% as against 2.8%).

The longer-term trend in industrial labour costs per unit of gross value added is illustrated in the attached table. Changes from 1969 onwards are given.

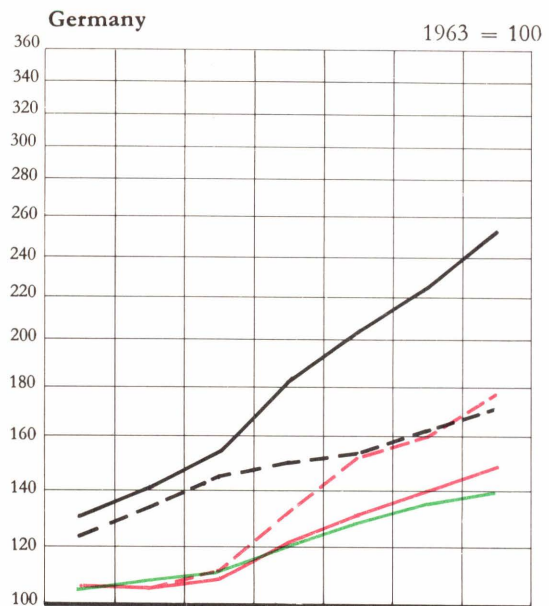
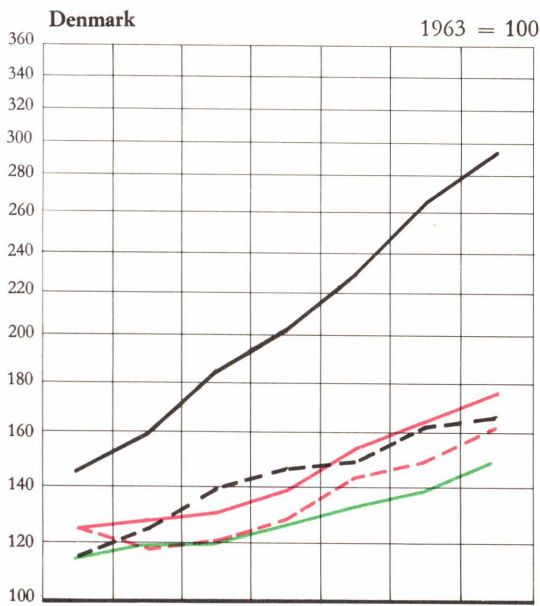
TABLE 2

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

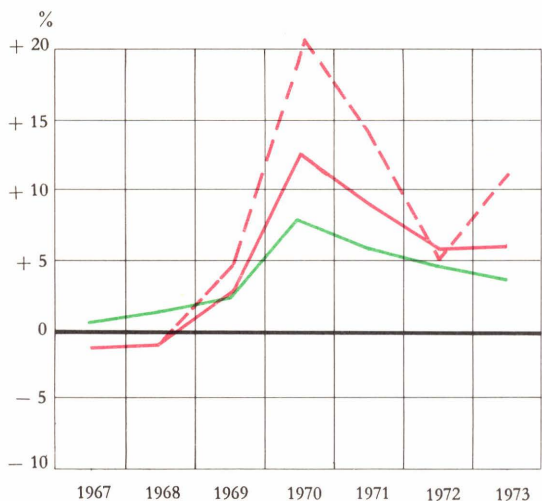
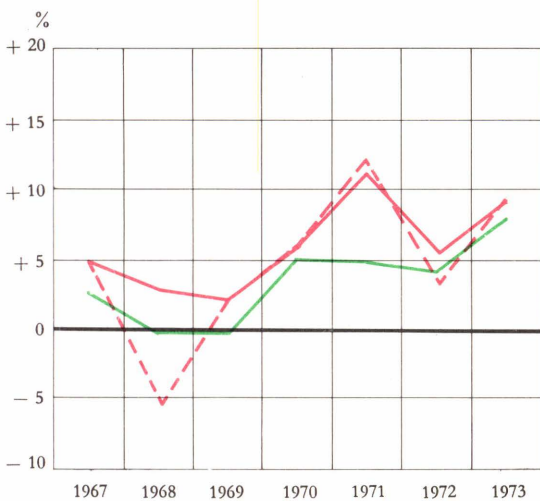
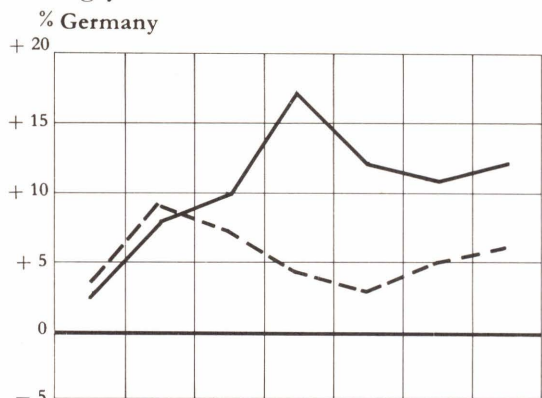
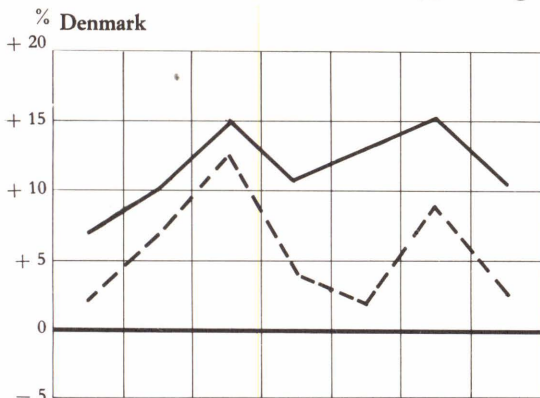
	% change on preceding year						1969 to 1973 % change in national currencies	1969-1973 % change in Eur
	Figures in national currencies			in Eur <sup>(1)</sup>				
	1971	1972	1973	1971	1972	1973		
Denmark	10.8	5.6	8.9	12.1	3.3	9	35	23
Germany	8.7	5.7	6	14.3	5.0	11	37	64
France	6.1	6.3	8	6.9	5.5	7.7	27	12 ½
Ireland	10.6	13.4	10.5	12.3	6.9	— 1.5	54½	32 ½
Italy	12.2	5.5	13	13.5	3.0	3.2	53	38 ½
Netherlands	6.5	4.6	7.5	10.2	3.9	8.8	26 ½	31 ½
Belgium	9.0	5.4	8	12.2	5.2	7.5	25 ½	29
United Kingdom	5.9	9.8	5	7.9	3.6	— 6.1	35	0
United States	1.0	2.1	2.4	0.7	— 5.7	— 6.8	12	— 6

<sup>1</sup> Calculated on the basis of figures in national currencies adjusted for changes in exchange rates against the EUR.

# LABOUR COSTS IN INDUSTRY

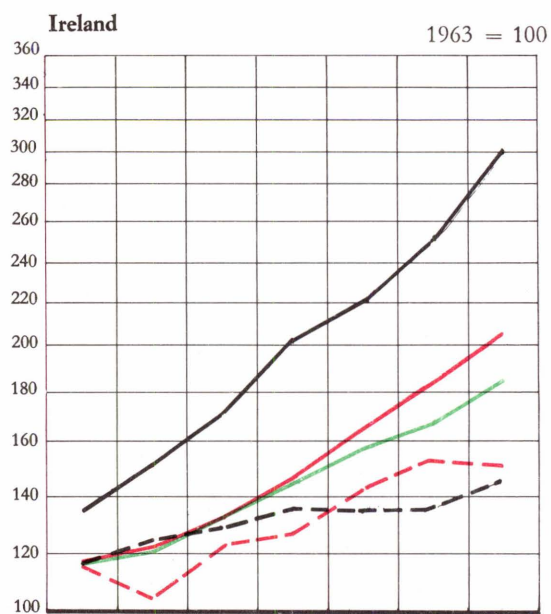
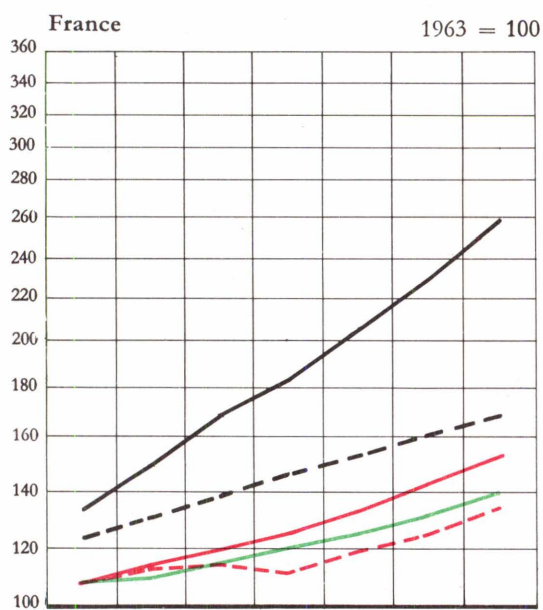


% change on preceding year

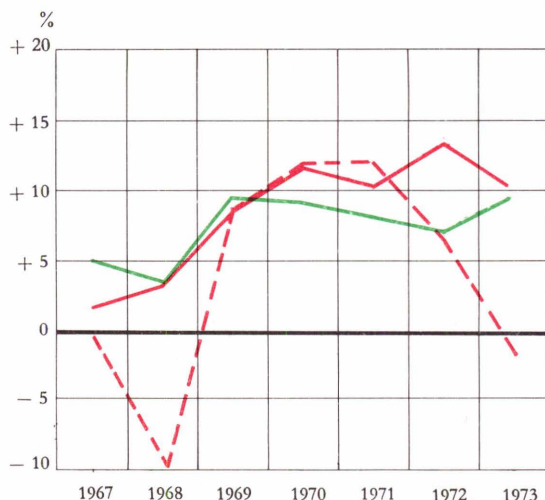
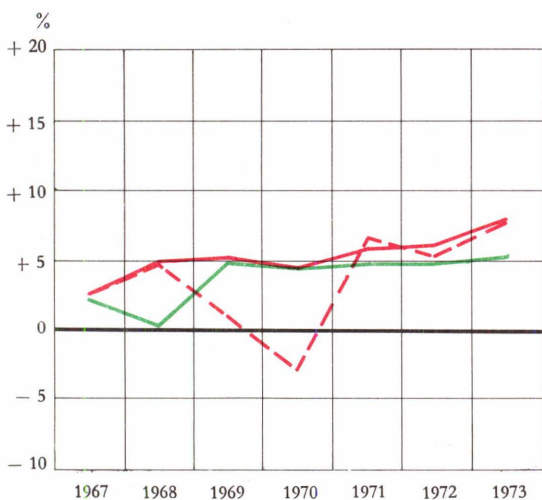
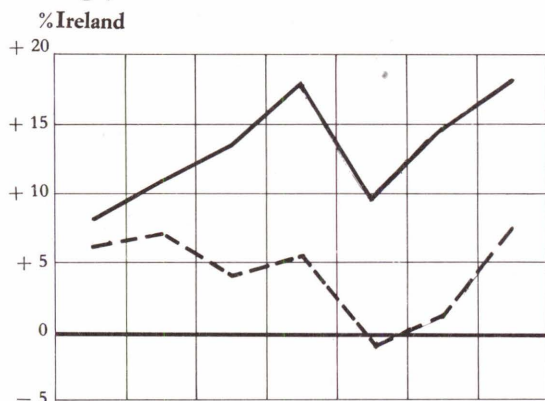
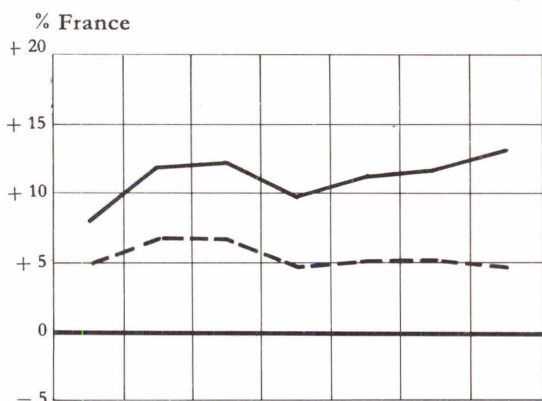


- Income from employment per head
- - - Gross value added (at constant prices) per employee
- Labour costs per unit of gross value added (at constant prices)
- - - Labour costs per unit of gross value added (at constant prices) corrected to account for changes in official exchange rates
- Implicit price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

# LABOUR COSTS IN INDUSTRY

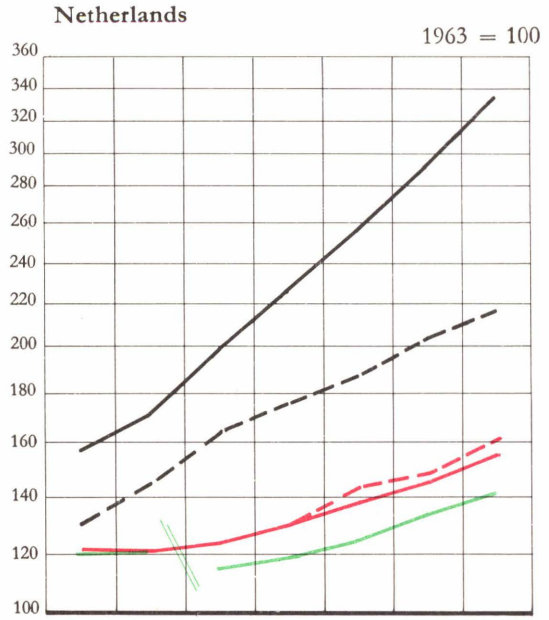
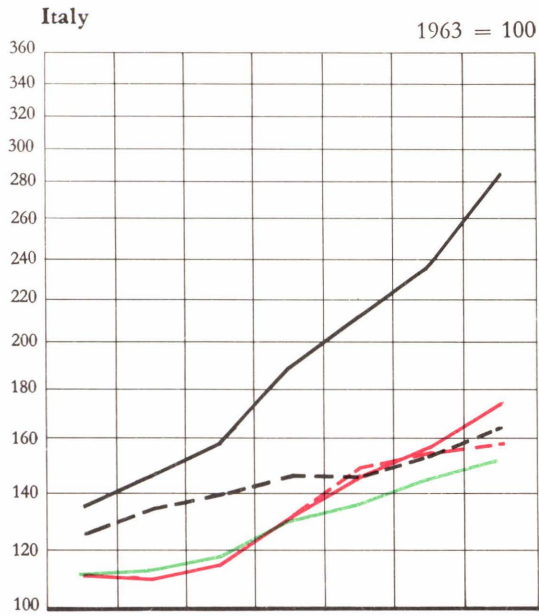


% change on preceding year

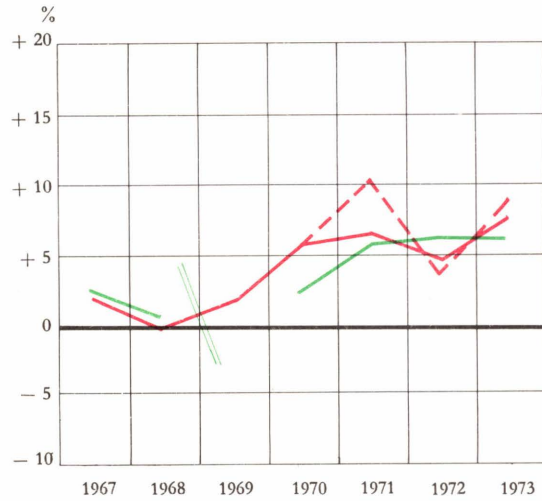
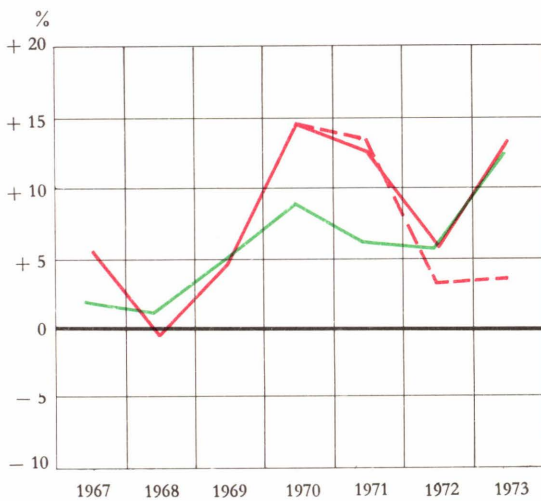
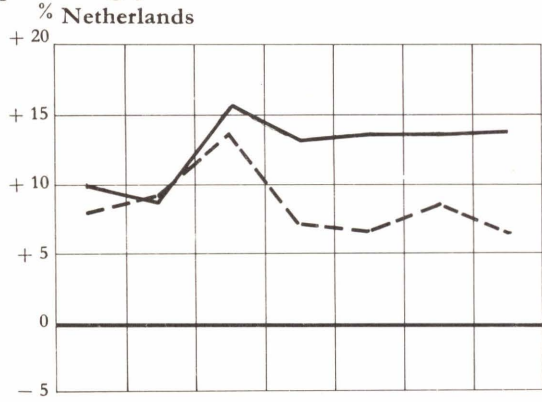
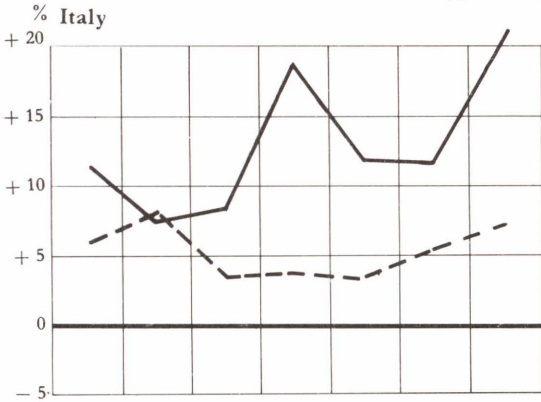


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# LABOUR COSTS IN INDUSTRY

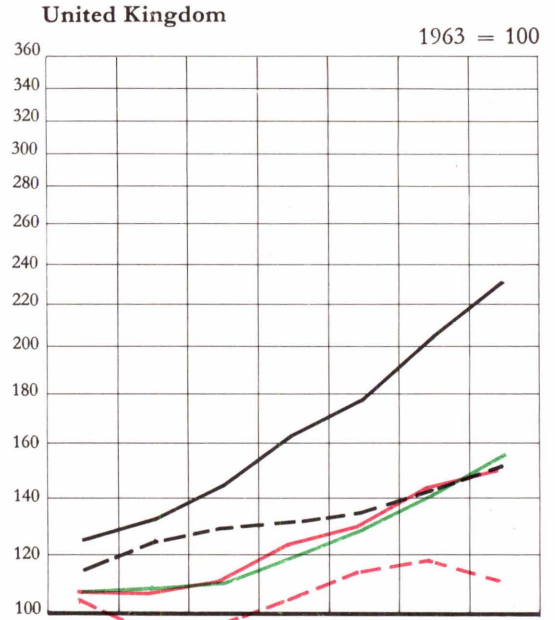
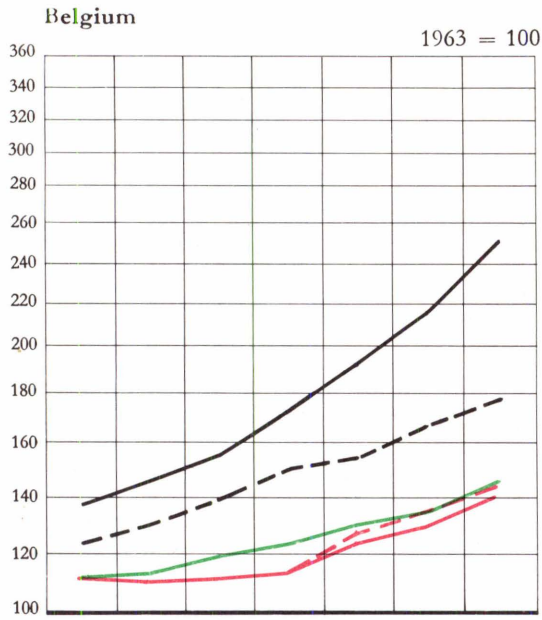


## % change on preceding year

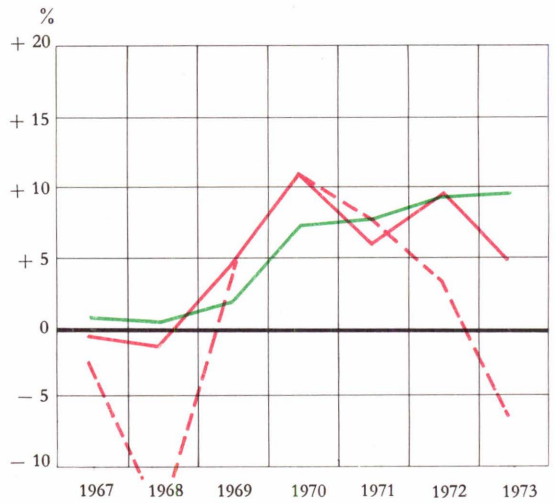
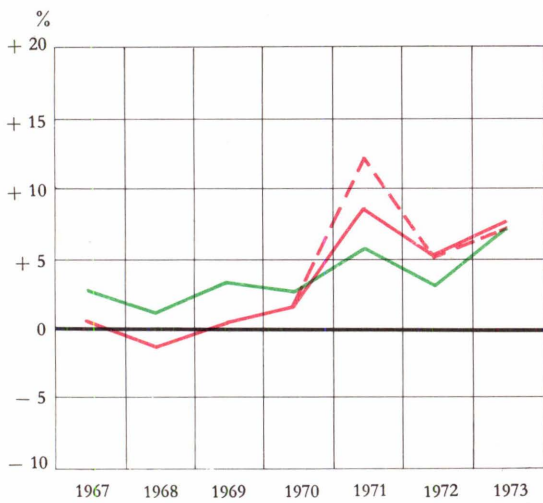
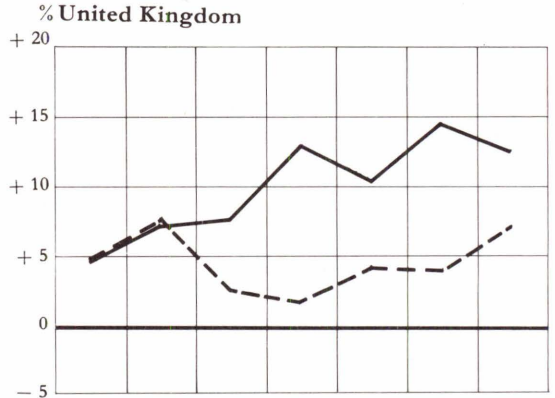
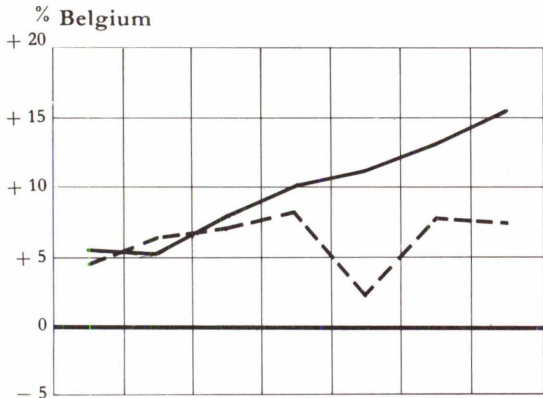


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# LABOUR COSTS IN INDUSTRY

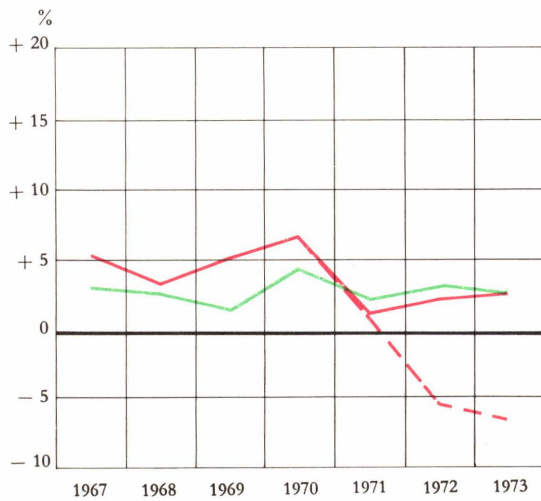
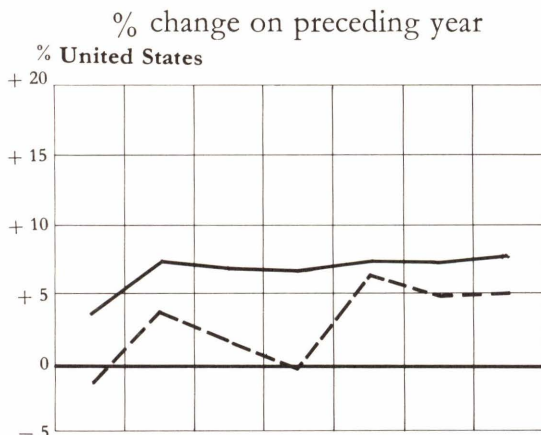
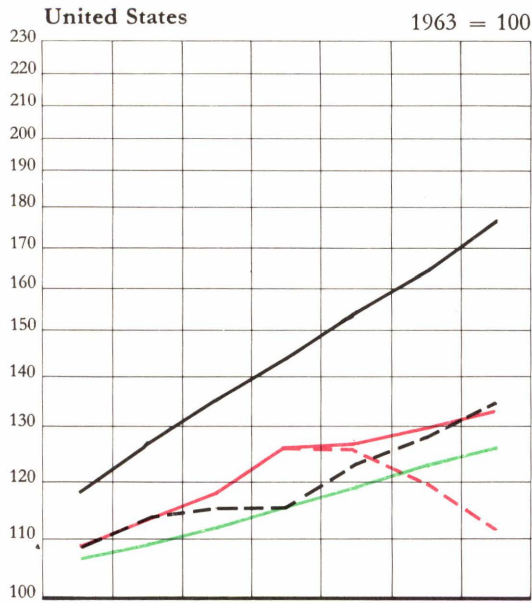


% change on preceding year



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

# LABOUR COSTS IN INDUSTRY



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

