

**Commission of the
European
Communities**

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



**4
1976**

The economic situation in the Community

Quarterly survey

This publication appears quarterly. Numbers 2 (June) and 4 (December) are surveys by the Commission of the European Communities of recent developments in and the outlook for the economic situation in the Community as a whole and in each of the Member States. They do not contain economic policy recommendations or guidelines, but are limited in this area to a statement of the conjunctural policy problems arising at Community level and in the various Member States. Number 3 (October) reproduces the Commission proposal for the annual report on the economic situation in the Community. This report, which the Council adopts in the fourth quarter of each year, establishes the economic policy guidelines to be followed by the Member States in the year that follows. Number 1 (March) reproduces the text of a communication by the Commission to the Council concerning the adjustment of these guidelines for the current year. It contains in addition a summary account of the economic policies pursued in the previous year, and a report on the application of the Council decision on the attainment of a high degree of convergence of the economic policies of the Member States and on the conformity of the policies pursued with the objectives set.

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

C O R R I G E N D U M

The economic situation in the Community No 4-1976

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European Communities

Brussels 29 October 1976

Economic Policy Committee



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**COMMISSION OF THE
EUROPEAN COMMUNITIES**

The Economic Situation in the Community

DECEMBER 1976

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I — The overall situation

In the autumn gradual expansion took the place of the pause which had hit the recovery in economic activity in the Community since the spring. This resulted from developments varying appreciably from one country to another. While external demand grew at a slower rate everywhere, domestic expansionary factors were only at work in some Member States. In the other countries of the Community, real domestic demand remained weak, influenced by a pronounced slowing down in the rebuilding of stocks, by a renewed acceleration in the increase in prices and by a more restrictive economic policy stance. For 1976 as a whole the Community's real gross domestic product will rise by about 4.5%, compared with a fall of 2.2% in 1975. This recovery has only made limited inroads into the substantial spare capacity available and has at the most allowed some limitation of the deteriorating trend in the labour market. The number of wholly unemployed has remained high throughout the year and the tendency for short-term working to decline has even been reversed during the autumn. The unemployment rate (wholly unemployed) will average about 4.5% in 1976, against 4% in 1975.

Increasingly serious constraints have been the result, for most Member States, of the combination of a variety of negative factors: the limited recovery in demand from outside the Community, the rise in world commodity prices, unfavourable weather, and lastly the difficulty of reducing costs and cutting budget deficits. Divergences resulting from the variable degree to which these constraints have been felt have been accentuated, in regard to prices and the balance of payments, by large movements in exchange rates. In spite of the success achieved by a growing number of Member States — and more especially the Federal Republic of Germany — in the fight against inflation, the rise in domestic prices in the Community tended to be rekindled during the second half of the year. The rise in consumer prices in 1976 as a whole is likely to exceed 10% for the Community on average, against 12.5% in 1975. On the external side the Community's trade balance deteriorated strongly until the autumn. The current account, despite the continued large surpluses of the Federal Republic of Germany and the Netherlands, is likely to be in deficit by some \$9.5 billion for the year as a whole, compared with the small surplus of a \$0.5 billion in 1975.

The outlook for 1977 is most uncertain. Disparities in the situation from one country to another both in respect of equilibrium conditions and also in relation to other factors, especially the development of production, are bound to restrain the rate of economic growth for the Community as a whole. However, to the extent that the stabilization policies undertaken by the Member States in deficit bring positive results and that the trend of economic activity does not weaken too much in the surplus countries, both within and outside the Community, then the rate of growth of the real gross domestic product of the Community should be about 3% in 1977. The labour market will be all the more affected by the weakness of this expansion, since it will be largely due, in most Member States, to insufficient fixed investment. A slight rise in the unemployment rate over 1976 cannot be ruled out. There is some reason, on the other hand, to expect a certain slowing in inflation, especially if the countries in the least favourable position in this respect manage despite the new rise in the oil price to make substantial progress during the year. In any case, as regards more particularly the rise in consumer prices, current developments can only result in an insufficient moderation and disparities will remain excessive. Externally, although a deterioration in the terms of trade is likely, a sharp narrowing of deficit positions is forecast: for the Community as a whole the current account deficit should show a clear improvement.

A — Economic policy problems in the Community Difficult current situation and divergent prospects

1. The economic upswing has levelled out distinctly in all industrialized countries since the summer of 1976. This spell of slower economic growth has lasted longer than originally expected, and it is to be feared that the underlying expansionary forces will not be strong enough to allow the current recovery to move into a self-sustaining phase.

Although industrial production in the Community picked up again after the summer break and almost regained the peak reached in 1974, other economic indicators in many cases pointed downward again in the second half of 1976. In most member countries, the balance of payments

deteriorated further, and in some of them the current account deficit for 1976 as a whole reached the level of the crisis year 1974; unemployment was virtually unchanged from its previous year's level; since the summer months the upward movement of consumer prices has quickened again in Italy and the United Kingdom; it has slackened, on the other hand, in the Federal Republic of Germany and the Benelux countries. The latest business and consumer surveys point to a cautious or even pessimistic assessment of the prospects for the future.

2. The slower expansion in the volume of world trade, the sluggish trend of private and public consumption,

flagging investment demand and the disappearance of the stimulus provided by restocking will enable the Community's real gross domestic product to grow only modestly in 1977, with the rates for the individual member countries varying widely.¹ On unchanged economic policies the macro-economic growth targets in the Annual Report on the Economic Situation in the Community² will be difficult to meet. Additional efforts will need to be made in the areas of overall economic management and cooperation between the two sides of industry if the target inflation rates indicated in the Report are to be achieved.

Past experience has, in any case, led to a realization in all Member States that sustained economic growth, a substantial reduction in unemployment and greater stability in international monetary relationships can in the long run be secured only if a greater degree of price stability is achieved.

Uncertain trend in world trade...

3. The outlook for Member States' economies will remain uncertain in 1977 since the expansion of world trade and the revival in investment are still by no means assured.

The forecasts prepared both by the OECD and by the Commission's departments suggest that the volume of world trade will expand by 6.5% in 1977, as against 11% and 10% respectively in 1976.³ For the developed countries as a group the growth rate for the volume of trade may actually be down by almost half. Moreover, for most member countries the buoyancy of exports depends to a major extent on the level of economic activity in the other member countries and hence on intra-Community trade. But faced with domestic and external imbalances, several member countries (Italy, France, the United Kingdom and Denmark) were forced to take measures intended to check imports and reduce their substantial payments deficits. These measures are bound to weaken

the stimuli provided to the economies of the other member countries. It would, therefore, be baleful if each member country were to rely unduly on export-led growth.

...and renewed widening of the gap between member countries

4. In 1974, the Community had a record current account deficit of more than \$11 billion, spread very unevenly between the member countries. In the recession year of 1975, the current account returned to equilibrium and the disparities between the surplus and the deficit countries were reduced. However, as the economic upswing got under way and as a result of a number of special factors (including the drought), the Community's total deficit again rose at an alarming rate in 1976. At the same time, marked divergences reappeared between the surplus and the deficit countries, with the latter experiencing a three-fold increase in their deficit compared with 1975.

The disruptive force of such persistent payments discrepancies within the Community is very dangerous. The limits to financing deficits of the order experienced in the past through borrowing from the private banking sector are close to being reached.

In some Member States, interest payments on foreign debts already constitute a heavy burden. Borrowing possibilities with international and European institutions have been largely exhausted. Further currency devaluations provide only a limited answer to the problem of adjustment; in many cases, they actually tend to lead to

¹ See Table 10

² The estimates for 1977 given here (Table 8-10) are probability forecasts based on current economic policies (as at December 1976). By contrast, the forecasts in the Annual Report were normative in character

³ See Table 2. OECD forecast is for the increase in the volume of exports of all OECD member countries.

Current account trends since the oil crisis

(US \$ '000 million)

Country	1974	1975	1976 ¹	1977 ¹
Surplus countries (FR Germany, Netherlands, Belgium, Luxembourg)	12	5½	5½	7½
Deficit countries (Denmark, France, Ireland, Italy, United Kingdom)	-23½	- 5	-15	- 7
Community	-11½	½	- 9½	—
Other developed countries	-24½	- 9	-16½	-25½
of which: USA	- 3.6	11.7	- 1½	- 5
Japan	- 4.7	- 0.7	3	—

¹ Estimates by the Commission's departments (1977, based on November 1976 exchange rates).

further deterioration and to spark off a renewed bout of inflation. In 1977, therefore, determined efforts to promote the adjustment process by achieving better balance of payments harmony at international and European levels cannot be delayed any longer.

5. What is more, the trends and forecasts for 1977 point to continuing and perhaps even wider cost and price divergences in the Community. The slowdown in inflation and calmer price trend in the first half of 1976 have given way since the summer to renewed

acceleration,¹ caused either by currency depreciation or by increases in indirect taxes or excise duties, public service charges and administered prices. Assuming unchanged economic policies and given the — in many cases automatic — wage adjustment arrangements, consumer prices in the Community countries could show the following overall increases in 1977:

¹ See Annex I.

Implicit price index of private consumption

(in national currency)

Country	1974-1976	1977	1974-1977
	Annual average growth rate		Cumulative growth
United Kingdom and Ireland	18–18.5%	14 and 15%	89 and 90%
Italy		20%	93%
Netherlands, Luxembourg, Denmark, Belgium, France		7.5–8.5%	43–50%
FR Germany	6%	4%	24%
Community	11.7%	9½%	52%
USA	7.8%	5½%	32%

1976 and 1977 Estimates of Commission's departments, based on unchanged economic policies.

During the last three years the rise in consumer prices in the United Kingdom, Ireland and Italy has been at a rate three times as fast as in the Federal Republic of Germany, and in the other Member States almost twice as fast. These disparities will continue in 1977 or become even more pronounced. Such a situation is becoming unacceptable within the Community.

The tasks for economic policy in 1977

6. The tasks which economic policy must face up to in 1977 will be about the same in all the Member States:

- (i) to continue to limit the rate of inflation, to reduce inflationary expectations and to improve the convergence in cost and price trends within the Community;
- (ii) to embark in earnest upon the adjustment process to reach greater equilibrium in the balance of payments, at world level and in the Community;
- (iii) to encourage the propensity to invest of businesses to strengthen the factors for expansion;
- (iv) initially, to cut unemployment by applying a policy which takes account of structural changes in the European economies in the medium-term outlook.

In view of the marked divergences between the balance of

payments situations and price and cost trends in the member countries, it is absolutely essential that short-term economic and stabilization policies be differentiated in an appropriate manner. The European Council meeting held in The Hague on 29 and 30 November 1976 endorsed the basic ideas for action put forward by the Commission:

- The deficit countries must follow a vigorous policy in the monetary, fiscal and incomes field, so as to reduce balance of payments deficits and the inflation rate, to break the link between currency depreciation and price rises, and thus to restore confidence as quickly as possible.
- Those countries which are not subject to external constraints and which can anticipate a further reduction in price increases must ensure that domestic demand grows. Thus they will support the efforts of the deficit countries, which, unless there is a recovery in external demand, could achieve success only at the price of a distinct downturn in economic activity and growing unemployment.

The foundations for durable growth and a significant reduction in unemployment in the years ahead can only be established by concerted action of this kind, which must be bolstered by cooperation at the widest international level.

B — The world economic situation

1. The recovery more hesitant

The upswing in world *economic activity* weakened during the summer quarter and has not since regained its earlier vigour. Output in the United States and Japan rose more slowly during the third quarter, and in both these countries and in Canada there were falls in industrial production at the beginning of the autumn, while in most of the other developed countries outside the Community output moved ahead only gradually. A pattern generally observable is that the growth in aggregate demand slowed due to the coming to an end of a period of rapid stock reaccumulation and of High consumers' expenditure on durable goods and, in some countries, of strong external demand. At the same time a far smaller contribution to the growth of aggregate demand came from government expenditure in real terms in 1976 than in the previous year, and fixed investment still lacked strength, with the exception of the residential construction sector in a few countries.

Despite the recent slower growth, real GNP in the non-EEC developed countries is still expected to have risen by almost 5.5% in 1976 as a whole.¹

With the rate of increase in output below potential, there was a tendency in the second half of 1976 for *Unemployment* to rise again in the main non-member countries after an improvement earlier in the year, and there was little reduction in the number out of work in other countries.

During the summer months the increase in consumer *prices* eased in a number of countries, helped in part by the movement of food prices. The rise in commodity spot prices, which had been surprisingly strong during the first half of the year, came to an end in July. Since then world markets have tended to fall back and then to stabilize and subsequently to become firmer again with some commodities, such as coffee and cocoa climbing strongly. At mid-December 'The Economist' index of non-oil commodity prices in dollars was at a record level, just higher than in July and about 42% above its trough in the summer of 1975.

The volume of *world trade* appears to have expanded more slowly from the middle of 1976. The growth had been very rapid during the first half, when imports by the developed countries outside the Community rose in real terms at an annual rate of some 15% over the previous half-year. Since then the rate of expansion of non-EEC developed countries' import has moderated and the increase in volume in the second half of the year seems to have been about 11% at an annual rate. Meanwhile, imports by the non-oil-producing developing countries have not shown much strength and imports by the State-trading countries may even have been falling recently in real terms. The OPEC countries are continuing to expand their purchases, but probably at a rate no greater than 15%. In 1976 as a whole the volume of world imports (excluding EEC imports) seems likely to have risen by about 8.5% after a fall of some 3% in 1975.

The recovery in the *United States* has been moving ahead more gradually since the late spring. The rise of 2.2% in real GNP in the first quarter of 1976 was followed by increases of 1.1% and 0.9% in the second and third quarters respectively. Private consumption expenditure has risen less rapidly, as expenditure on automobiles has tended to stabilize. Residential investment has been expanding vigorously, and business fixed investment has shown some recovery from the very depressed levels during the recession. Stocks are still being added to, but stockbuilding has been making a much smaller contribution to growth than earlier. Industrial production has also been rising much more gradually; it increased by 0.5% per month between May and August and then fell back slightly in September and October, but there was some recovery in November. This recent evolution can partly be explained by special factors such as strikes in the automobile industry, but there is no doubt that production has basically lost its earlier momentum. There has been a corresponding deterioration in the labour market; the seasonally-adjusted unemployment rate climbed back up to 8.1% in November after having fallen to 7.3% in May. Consumer prices have been rising at a steady but gradual rate during this year, and in November were some 5% higher than a year earlier. The overall price increase has been restrained for the most part by steady food prices. The trade deficit (on a customs basis) widened again substantially in the third quarter to \$2.4 billion from \$0.2 billion in the second quarter. Imports rose very strongly during the months at the middle of the year, but thereafter increased more slowly; exports started growing again in the spring after a period of decline.

In *Canada* the recovery has also become more hesitant. Real GNP showed almost no change in the second quarter, after a rapid 2.7% rise in the first quarter, but this was largely due to the erratic movement of stockbuilding, since final domestic demand in fact grew somewhat more strongly. In the third quarter industrial production fell back by 0.5%, but real GNP recorded a 0.8% increase. The unemployment rate has been fluctuating, but it has shown no clear tendency to decline; it reached a record 7.6% in October and then fell slightly in November. Considerable progress has been made in restraining price rises since the anti-inflation campaign was introduced a year ago. In the twelve months to November consumer prices rose by 5.6%, well within the 8% target set for the first year of the policy, but again partly due to help from food prices. Canadian exports benefitted from strong demand from the United States during 1976 enabling a small trade surplus to be recorded in total during the first three quarters, but the deficit on invisibles widened appreciably, resulting in little improvement in the current account deficit from the previous year.

Output in *Japan* has also moved ahead more sluggishly in

¹ See Table 2.

TABLE I
Changes in consumer prices in major non-EEC countries ¹

	% change on preceding year				Half yearly change in %				% change on preceding month															
	1973		1974		1975		Nov 1975 Nov 1976		Nov 1975 May 1976		May 1976 Nov. 1976		June		July		August		September		October		November	
USA	8.5	12.2	7.0	4.8	2.2	2.6	0.5	0.6	0.5	0.5	0.4	0.5	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	
Canada	14.1	12.4	9.6	5.6	2.7	2.8	0.5	0.4	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.7	0.3	0.3	
Japan ³	19.1	21.9	7.6	:	4.9	2.9	0.3	0.6	0.6	0.6	2.9	0.3	0.6	- 0.9	2.7	0.4	0.4	0.4	0.4	0.4	0.4	:	:	
Community ²	9.5	14.8	11.8	10.9	6.1	4.6	0.4	0.3	0.8	1.0	1.2	0.4	0.3	0.8	1.0	1.2	1.0	1.2	1.0	1.2	0.9	0.9	0.9	

¹ Data relate to the last month of each period

² Community average of changes in consumer prices in Member States, weighted according to private consumption in 1970

³ Japan, April 1976 on October 1975 and October 1976 on April 1976

No data available

Source: National Statistics

TABLE 2
Output and trade in the world economy
(% change on preceding year)

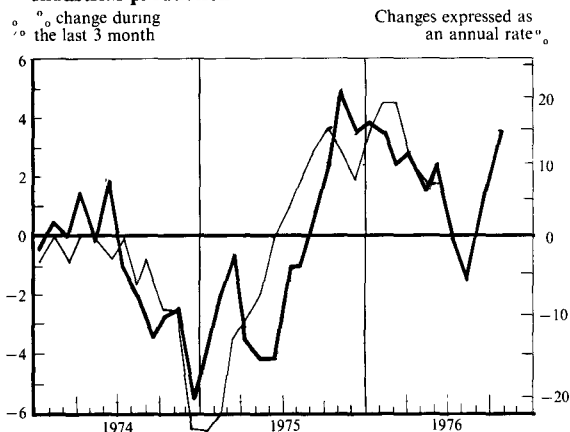
	Real GNP 1					Volume of imports (goods)				
	1969-1973 average ²	1974	1975	1976	1977	1969-1973 average ²	1974	1975	1976	1977
USA	3.3	- 1.7	- 1.8	6 1/4	5	6.9	- 3.4	- 11.3	21	8
Canada	5.3	2.8	0.6	4 3/4	4	10.0	10.0	- 5.2	10	8
Japan	9.6	- 1.2	2.1	6	6	14.9	- 0.7	- 13.9	8	10
Other developed countries (excl. EEC)	6.0	3.7	0.4	2 1/2	3	8.9	11	- 8	5 1/2	5 1/2
Total developed countries (excl. EEC)	4.6	- 0.4	- 0.5	5 1/2	4 1/2	9.2	3 1/2	- 10	11 1/2	7 1/2
EEC	4.8	1.7	- 2.2	4 1/2	3	10.3	- 1 1/2	- 5	12 1/2	5
Total developed countries (incl. EEC)	4.7	0.3	- 1.0	5	4	9.8	1	- 7 1/2	12 1/2	6 1/2
OPEC countries										
Other developing countries										
Centrally planned economies										
World (excl. EEC)										
World (incl. EEC)										

1 Real GNP for USA, Canada and Japan.

2 Compound growth rate between 1968 and 1973.

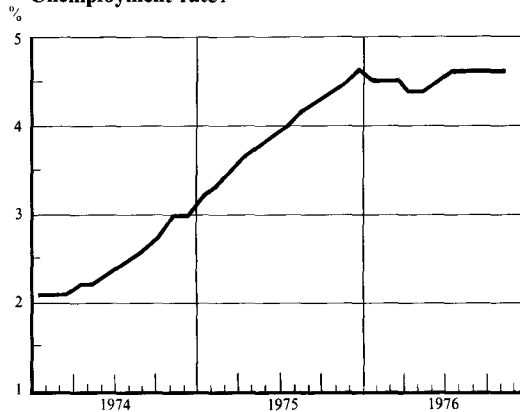
Sources: National statistics and Commission's Departments

Industrial production* 1



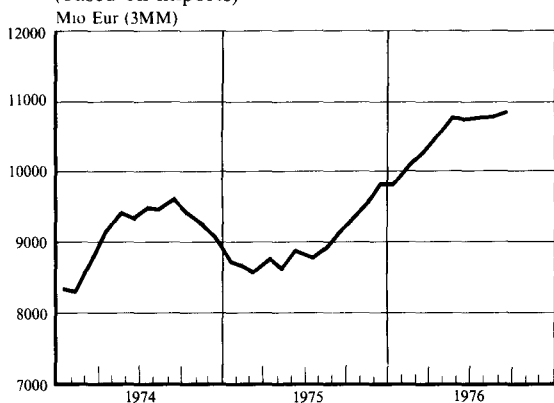
1 Excl construction

Unemployment rate 1

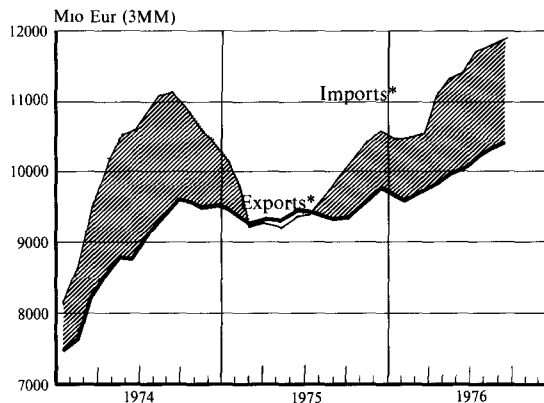


1 No. of totally unemployed as percentage of civilian labour force

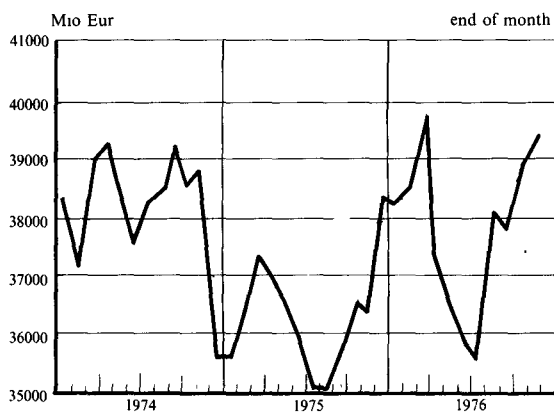
Trade between member countries* (based on imports)



Balance of trade*

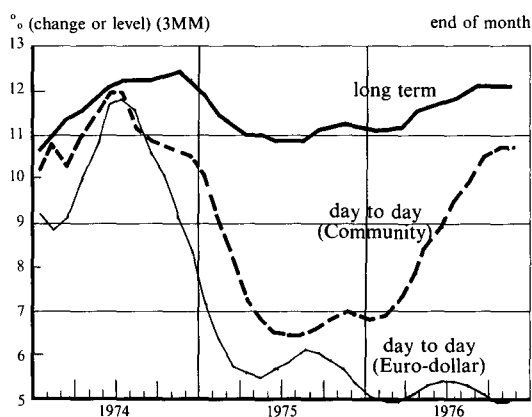


Foreign exchange reserves 1



1 Gross foreign exchange reserves including S.D.R.'s and reserve position at I.M.F.; excl. gold.

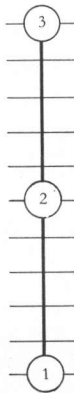
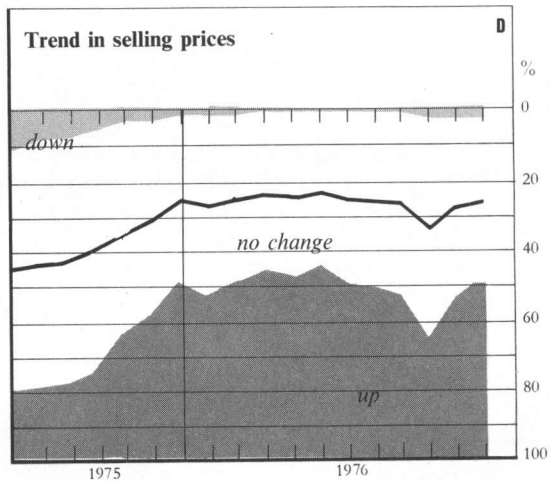
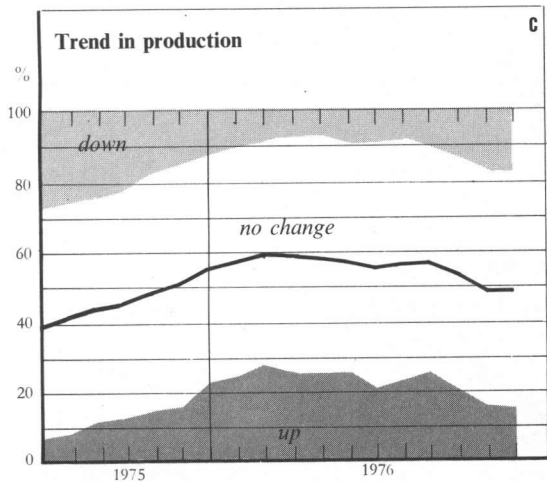
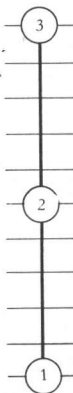
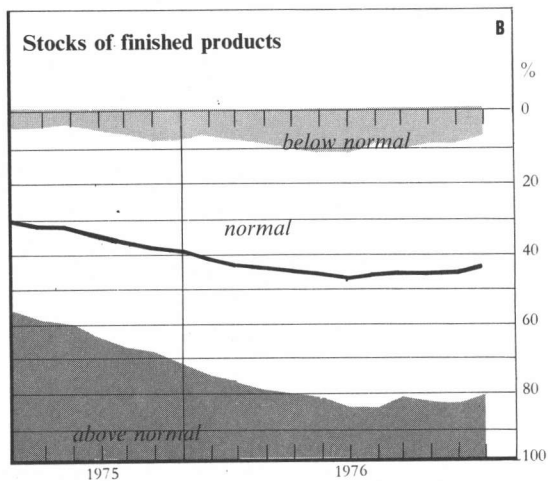
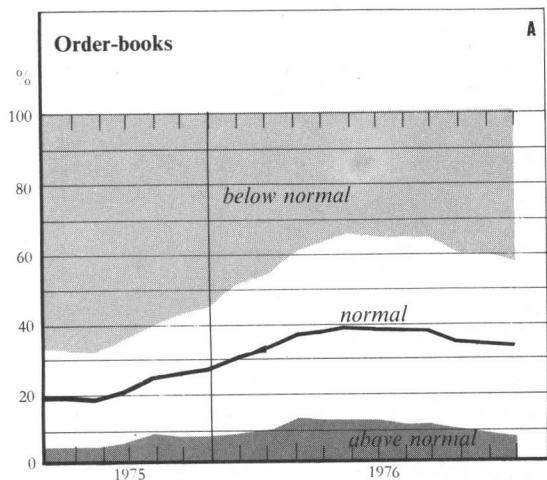
Interest rates (1)



1 Arithmetic mean of Member Countries

*: Seasonally adjusted figures.
3MM: Three month moving average.
Source: services of the Commission.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to questions in the EEC business survey, carried out in the countries of the original Community, Ireland and, for "Trend in production" the United Kingdom.

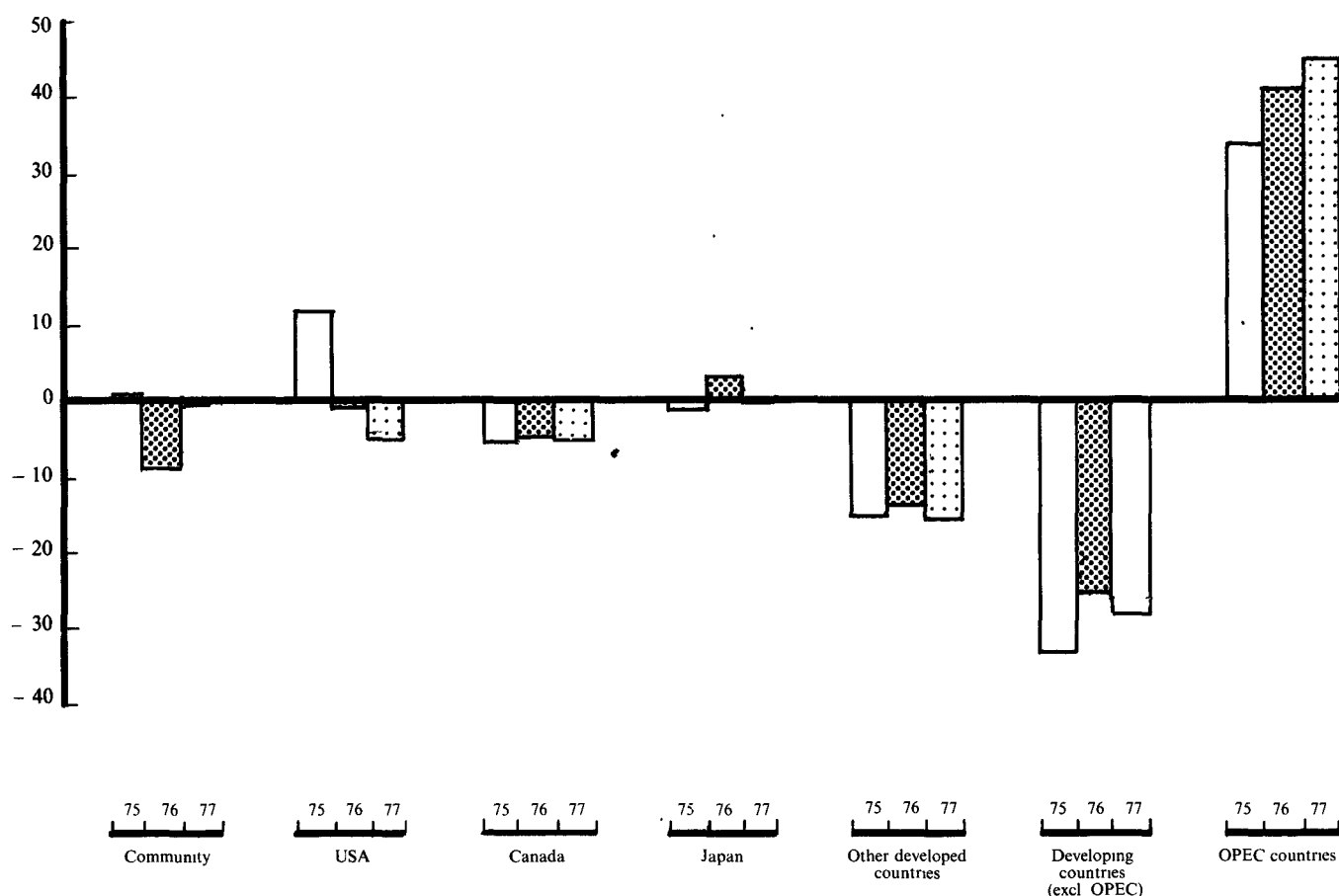
GRAPHS A, B, C and D: The three zones (grey, white and black) show the percentages of the three different answers.

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

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

Mrd \$

Balance of payments on current account



Source: Commission's Departments.

recent months after a period of very rapid expansion and a boom in exports in the early part of the year. Real GNP rose by 3.2% in the first quarter, by 1.3% in the second, and then by only 0.3% in the third quarter. Industrial production declined in August and September, but after steadying in October, started to grow again in November. Japanese exports have been rising more slowly after the very strong surge at the beginning of the year, and there was some recovery in imports during the summer months; the trade balance remains in considerable surplus, however, which could reach \$9 billion on a balance of payments basis in 1976 as a whole.

The *other developed countries* outside the Community present a mixed picture. Most of them lagged behind the larger economies, but had begun the recovery from recession by the spring of 1976. However, with a few exceptions, such as Austria and Norway, output has generally not risen very strongly during the year. Some of these countries are constrained by serious balance of payments and inflation problems (Australia and New Zealand, Spain and Portugal). At the other extreme Switzerland is currently showing almost no rise in

consumer prices over the last twelve months and has a large current account surplus.

2. Growth prospects lack strength

It seems likely that during the early months of 1977 *economic activity* should move ahead a little more vigorously after the period of hesitancy in the last few months. A strengthening in business fixed investment, especially in the United States, and a firmer tone in private consumer's expenditure should help the recovery to continue on its way, but at a rate clearly much more gradual than during the initial upsurge from recession. It is probable that the expansionary economic policy measures, which will be applied in the United States and Japan should help to maintain the growth of activity. However, in the United States and also in Canada growth during 1977 can be expected to be slower than in 1976 as a whole, but there may be some slight acceleration in some of the smaller countries such as Switzerland and in Scandinavia.¹

¹ See Table 2.

Although a measured pace of recovery can be judged the most likely prospect, it must be admitted that, with the precarious state of business and consumer confidence, the 'pause' in the world economy which has so far been assumed to be temporary could turn into a period inadequate growth. The increase in oil prices decided by the OPEC governments in December (a 10% rise from January 1977 and a further 5% rise from July in dollar terms for 11 of the OPEC States, a 5% rise from January for Saudi Arabia and the United Arab Emirates) will worsen the balance of payments difficulties faced by a number of countries, both within and outside the Community,¹ and is likely to reinforce the contractionary factors already at work.

The prospects for non-oil commodity prices in 1977 are a little more favourable now than they were a few months ago. Good harvests in most areas of the world have increased grain supplies and the price of wheat and other

grains is likely to remain weak for a number of months to come. With stockbuilding proceeding at a more orderly pace there should be no excess demand pressures on the main industrial raw material markets.

The volume of *world trade* should also move ahead a little faster during the months immediately ahead. Imports by the non-EEC developed countries are not expected to rise as quickly as in 1976 as a whole, principally due to a slowing in the imports of the United States. Demand from the other areas of the world, however, should be somewhat stronger than in 1976. In total the volume of world imports (excluding EEC imports) is likely to rise appreciably more slowly in the course of 1977 than during 1976.²

¹ See Table 2.

² See Graph A.

C — The economic situation in the Community

1. Recent developments

The economic recovery in the Community lost a great deal of momentum during the second half of 1976. Although production picked up slightly in the autumn following the summer lull, the business climate has remained depressed, so much so that there has been some further worsening in the overall employment situation. Furthermore, inflationary pressures have intensified in those Member States whose currencies have depreciated. On the external front, import demand from the main customer countries has increased more slowly than during the first half of the year. The Community's trade balance went on deteriorating sharply and unrest on the foreign exchange markets continued, at least until October. In these circumstances, further stabilization measures have had to be taken in most Member States.

(a) *Insufficient progress in fighting inflation and unemployment.*

During the second half of 1976, the main factors influencing the domestic level of prices differed in effect from one country to another, resulting in new divergences.¹ The pressure of demand has tended to have a diminishing influence almost everywhere, as shown by the results of the surveys of business opinion and of consumers. At the same time, the fairly general process of moderation in the upsurge of wage costs per unit of output has slackened distinctly during the year. The rise in world prices made itself felt more strongly and its effects were often accentuated by falling exchange rates. In addition, public service charges were put up in several Member States and there was upward pressure on the prices of some foodstuffs throughout the Community. All in all, the factors making for a slowdown in the rate of

price increases have led to a clear tendency towards stabilization in the Federal Republic of Germany and to a marked reduction in inflation in the Benelux countries, whereas factors making for more rapid price inflation have predominated in most other Member States. In the Community as a whole, the rise in consumer prices at an annual rate reached 12.7% between August and November as against 6.2% between May and August.

Although the improvement in productivity has slowed, the gradual slackening in demand has led to further difficulties on the *labour market*. Adjusted for seasonal variations, the unemployment rate for the Community as a whole (the number of wholly unemployed as a proportion of the civilian labour force) has admittedly remained relatively stable since July.² It was 4.6% in November (compared with 4.5% a year earlier), with the number of wholly unemployed standing at 4.9 million (compared with 4.7 million in November 1975). In several Member States, however, the tendency for the numbers working short-time to decline appears to have been reversed since the middle of the year. Moreover, the seasonally-adjusted number of job vacancies continued to develop hesitantly.

Despite the gradually improving trend in several member countries up until the third quarter, *employment* in the Community as a whole at the end of the summer was still appreciably below the level reached before the recession.³ Owing to the low level of activity there has been a particularly marked decline in employment in the

¹ See Table 3 and Annex 1.

² See Table 4 and Graph B.

³ See Graph C.

TABLE 3
Changes in consumer prices in the Community¹

	% change on preceding year				Half yearly change in %		% change on preceding month							
	1973	1974	1975	Nov 1975 Nov 1976		Nov 1975 May 1976	May 1976 Nov 1976	May	June	July	August	September	October	November
				1973	1974									
Denmark	12.6	15.5	14.3	12.8	7.2	5.3	1.0	- 0.2	0.1	0.7	2.5	1.1	1.1	1.1
FR Germany	7.9	5.8	5.4	3.8	3.2	0.5	0.4	0.3	- 0.4	0.4	0.0	0.1	0.1	0.2
France	8.5	15.2	9.6	10.1	4.8	5.0	0.7	0.4	1.0	0.7	1.1	0.9	0.9	0.8
Ireland ²	12.6	20.0	16.8	20.6	14.0	5.8	6.2			1.5				4.2
Italy	12.5	24.5	11.2	21.3	11.2	9.1	2.0	0.5	0.5	1.1	1.7	2.9	2.9	2.2
Netherlands	8.2	10.9	9.1	8.5	5.2	3.2	0.4	0.0	- 0.5	1.1	1.1	1.3	1.3	0.1
Belgium	7.3	15.7	11.0	7.6	4.2	3.3	0.7	0.2	0.8	0.4	1.3	0.2	0.2	0.4
Luxembourg	6.1	11.2	10.9	8.3	5.0	3.2	0.6	0.1	0.8	0.8	0.1	0.8	0.8	0.6
United Kingdom	10.6	19.1	24.9	15.0	7.6	6.8	1.1	0.5	0.2	1.4	1.3	1.9	1.9	1.4
Community ³	9.5	14.8	11.8	10.9	6.1	4.6	0.9	0.4	0.3	0.8	1.0	1.2	1.2	0.9

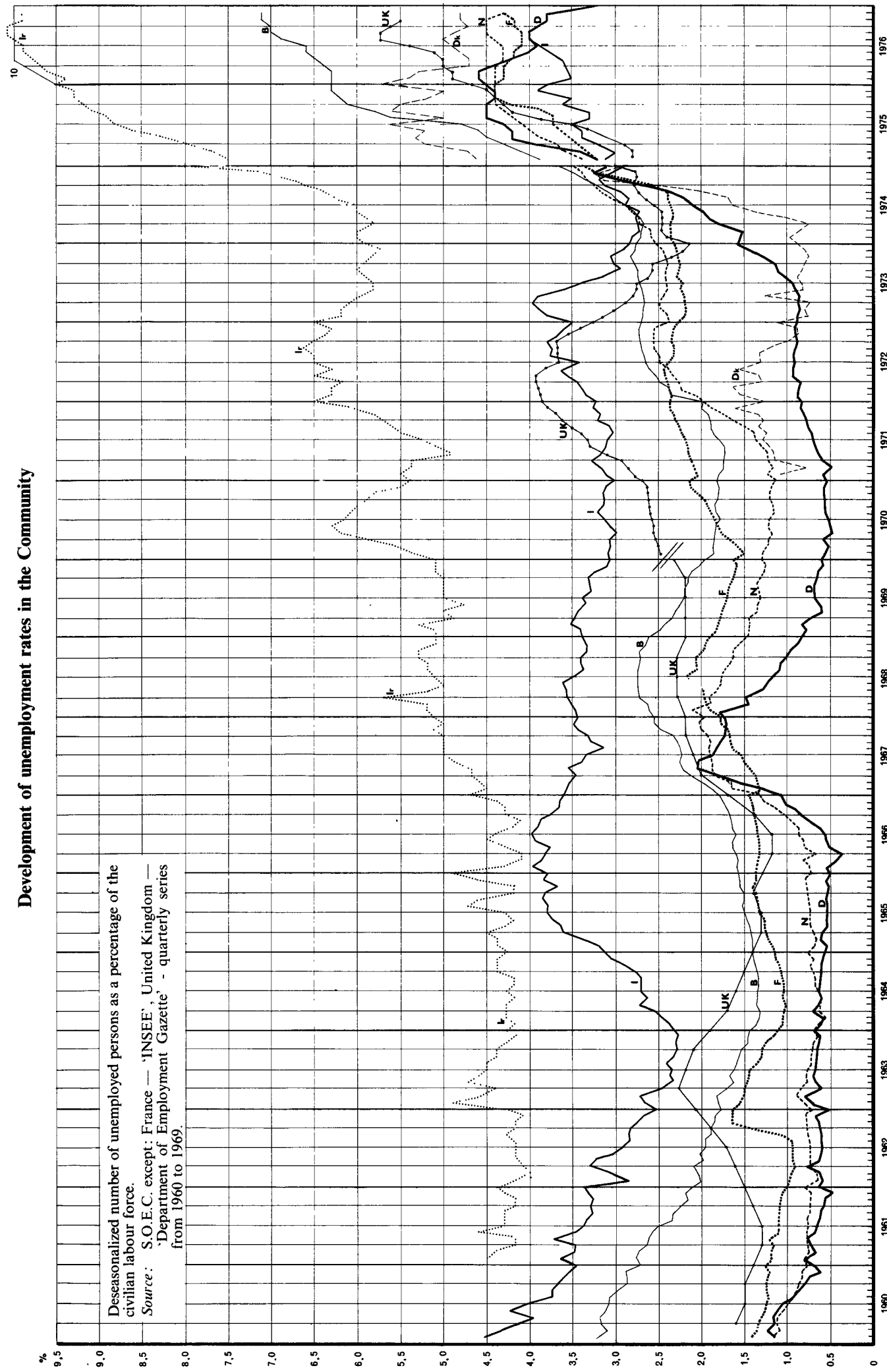
¹ Data relate to the last month of each period

² Ireland: quarterly data.

³ Community: average of changes in consumer prices in member countries, weighted according to the structure of private consumption in 1970

Source: SOEC and Commission's Departments

Development of unemployment rates in the Community



building and construction industry compared with last year, notably in the United Kingdom and Italy.

In the autumn, persons under twenty-five still accounted for well over a third of the total number of wholly unemployed in the Community. Unemployed women accounted for more than 50% of the total figure in Belgium, France and the Federal Republic of Germany, and between 30% and 40% in the other Member States (except for Ireland where their share was only 19%). A year-on-year comparison shows that, except in Ireland and Italy, the number of unemployed women has greatly increased as a proportion of the total number of unemployed.

(b) *Different trends in the main components of aggregate demand.*

In most Member States, the expansion of the various components of final demand has been rather hesitant since the spring, while the contribution from stockbuilding has weakened appreciably.

Exports to non-member countries, which had picked up well towards the end of 1975, increased only gradually during the first half of 1976 and in seasonally-adjusted values, measured in Eur, were only 3% higher than in the second half of 1975. This sluggish rate of expansion, which persisted throughout the second half of the year, was largely the result of the slackening of economic growth in the major non-member countries. Although several Member States increased their exports to the United States in 1976, sales to non-member western European countries (with the exception of Austria) lacked buoyancy. Deliveries to state-trading countries have generally been weak, with actual falls in some cases, in sharp contrast to the sustained expansion they had shown during the world recession. Although the growth of exports to non-oil-producing developing countries has only been very moderate, sales to OPEC countries have increased at a fairly steady pace.

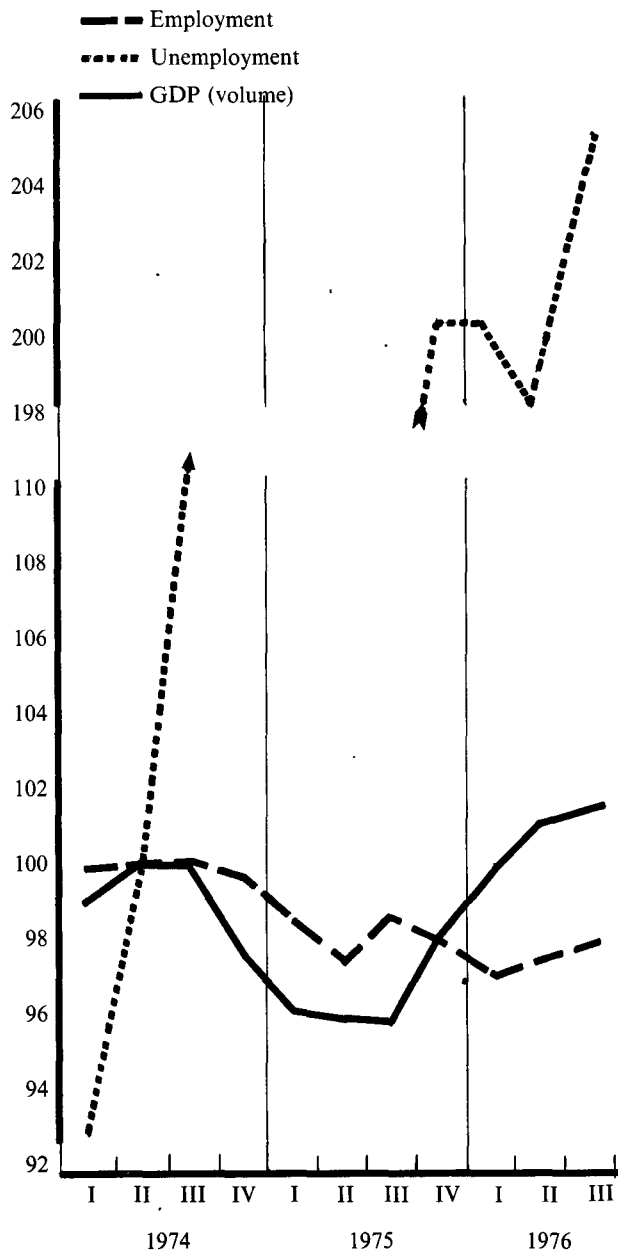
Following the rapid rebuilding of *stocks* up until last winter, firms have been increasingly cautious in this regard. This behaviour can be explained by a number of reasons: the moderate increase in the world prices of several raw materials, the slackening of final demand and the tightening of monetary policy in several Member States. Market difficulties in the steel sector have already led to an involuntary accumulation of stocks, particularly in the hands of dealers.

In addition to their cautious attitude towards stockbuilding, firms have generally remained hesitant about expenditure on fixed *investment*. Although, in many countries and in many sectors, profits have tended to improve and there seems to be no further tendency towards a decline in investment, only in the Federal Republic of Germany and in Denmark has this trend led to any appreciable increase in orders, notably in the field of rationalization investment. Apart from in the Netherlands, residential construction has scarcely risen and

GRAPH C

Development of the labour market in the Community in the recession and the recovery

(Indices 2nd quarter 1974 = 100)



Seasonally-adjusted (except for employment) quarterly data. Source: Commission's Departments.

public investment has even declined in volume terms in most Community countries.

The expansion of *private consumption*, which was already tending to moderate as from the second quarter, showed little vigour during the second half of the year. Household expenditure in real terms has increased to only a limited extent almost everywhere; in some countries, such as Italy

TABLE 4

Unemployment

(a) Number of unemployed persons (as % of the civilian labour force) ^{1,2}

Country	Annual average •				1975				1976			
	1973	1974	1975		March	June	September	December	March	June	September	November
	Denmark	1.0	2.1	5.2		5.2	5.6	5.5	5.7	4.8	4.8	4.8
FR Germany	1.0	2.2	4.2		3.9	4.3	4.5	4.5	4.4	3.9	3.9	3.8
France	1.8	2.2	3.8		3.4	3.7	4.2	4.4	4.3	4.1	4.2	4.3
Ireland	5.9	6.2	8.7		8.0	8.8	9.2	9.5	9.7	9.9	9.9	9.7
Italy	3.4	2.8	3.4		3.2	3.5	3.6	3.8	3.6	4.0	:	:
Netherlands	2.4	2.7	4.1		3.7	4.1	4.4	4.4	4.4	4.3	4.5	4.3
Belgium	2.9	3.1	5.2		4.3	4.8	6.1	6.3	6.4	6.6	7.0	7.1
Luxembourg	—	—	0.2		0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3
United Kingdom	2.5	2.3	3.8		2.9	3.5	4.3	5.5	5.0	5.4	5.6	5.5 ³
Community	2.1	2.5	4.0		3.5	3.9	4.3	4.7	4.5	4.5	4.6	4.6

(b) Vacancies (as % of the number of unemployed persons) ⁴

Country	Annual average				1975				1976			
	1973	1974	1975		March	June	September	December	March	June	September	November
	Denmark	44.3	5.5	0.8		0.6	1.1	0.9	0.7	1.6	2.4	1.6
FR Germany	209.1	52.4	21.7		24.4	19.0	17.8	18.7	20.7	23.6	21.5	24.8
France	63.9	41.1	13.0		14.7	10.3	9.8	10.9	12.3	13.7	14.0	12.9
Netherlands	57.3	51.4	24.2		29.6	20.9	18.6	19.2	20.6	19.8	20.0	24.6
Belgium	13.2	11.4	2.1		2.7	1.0	1.0	1.4	1.5	1.4	1.5	1.5
United Kingdom	63.9	49.2	15.3		26.6	15.0	10.5	7.1	8.9	7.6	8.3	8.6 ⁵

¹ Total number of registered unemployed, insured or uninsured, having already held a job or seeking their first job. United Kingdom adult students are excluded² Seasonally adjusted series except for Italy ISTAT figures; as a result of disparities of definition, data cannot be compared between countries³ United Kingdom: October.⁴ Seasonally adjusted series. Statistics not available for Ireland and negligible for Italy and Luxembourg⁵ Denmark and United Kingdom: October

Data not available

Source: SOEC and Commissions' Departments.

and the United Kingdom, it has even tended to decline. The growth in real disposable income of households has shown a clear slackening in most Member States due to the more moderate trend in income from wages and transfer payments and to the rise in prices, which accelerated after the summer in a number of cases. Although in some countries — and particularly in France — the incomes of farmers have declined as a result of the drought, in other sectors non-wage incomes have grown appreciably (e.g. in the Federal Republic of Germany.) Generally, the savings ratio, which had again fallen throughout the Community during the first half of the year, probably showed no further fall during the second half, partly because of the greater caution over spending shown by households.¹

(c) *Deterioration in the trade balance, despite weakness of activity*

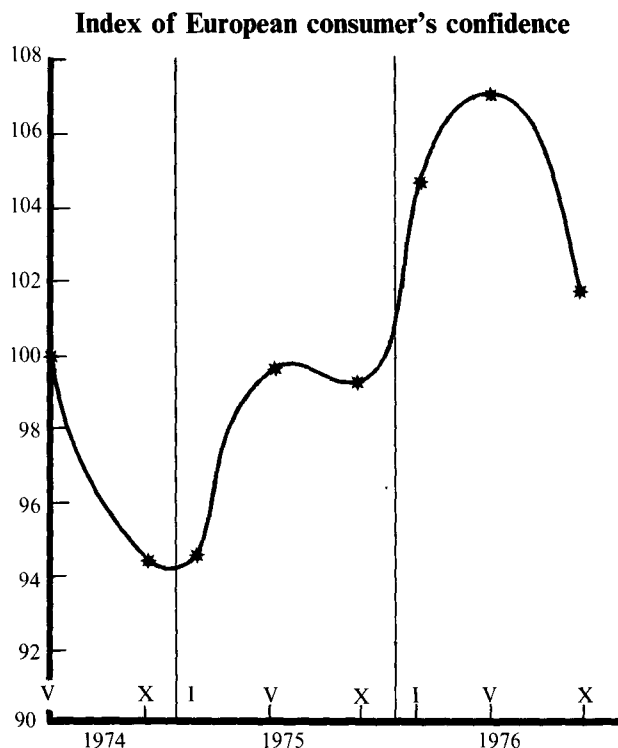
Restocking, the recovery in private consumption, particularly of consumer durables, and the quite brisk expansion of external trade had caused *total production* in the Community to rise substantially up to the spring. These factors weakened in the second quarter and lost even further momentum in the summer from the moment when economic policy in some Member States began to curb activity to a considerable extent on occasion. Preliminary information on developments in the autumn suggests that this weakness may have been overcome, but industrial production has only picked up again in some Member States. In any case, up to October the contraction in *industrial production* recorded during the recession had not been entirely made good.² According to the index prepared by the Statistical Office of the European Communities, industrial production in the Community in October was nevertheless about 13% up on its lowest point during the recession. In spite of some improvement, at least up until the spring, the rate of capacity utilization has hardly risen above 80%; the countries most successful in moving towards the rate of capacity utilization reached before the recession have been France, the Netherlands and the Federal Republic of Germany.

The upswing had been sharpest in the basic materials and producer goods industries, but the recovery in these sectors slowed down in the summer mainly as a result of the fall-off in the steel industry. While production of consumer goods rose significantly thanks notably to the buoyancy of the motor industry, the trend was much more hesitant in the capital goods industries. In building and construction activity continued to weaken.

Although growth in the services sectors has not been very rapid, it seems to have provided some boost to total output, particularly through tourism and transport. With agricultural production showing a fall in a number of Member States owing to the prolonged drought, real *gross domestic product* in the Community as a whole will probably rise by almost 4.5% between 1975 and 1976.³

In the second half of 1975 and in early 1976, *intra-*

GRAPH D



The index of European consumer's confidence is compiled by taking the arithmetic average of the weighted balances of answers to questions asked about the five following topics in the survey carried out three times a year in the Community: general economic situation in the past and the future, past and future financial situation of households, appropriate time to make purchases.

Source: Commission's Departments.

Community trade was the most dynamic component of the Community's foreign trade. However, it lost momentum in the summer. In a number of Member States, the value of imports from other Community countries actually declined, while in the other countries except France its rate of growth slowed down; overall, intra-Community trade therefore appears to have expanded much less rapidly than trade with non-member countries. After the summer, however, there may have been a slight strengthening.

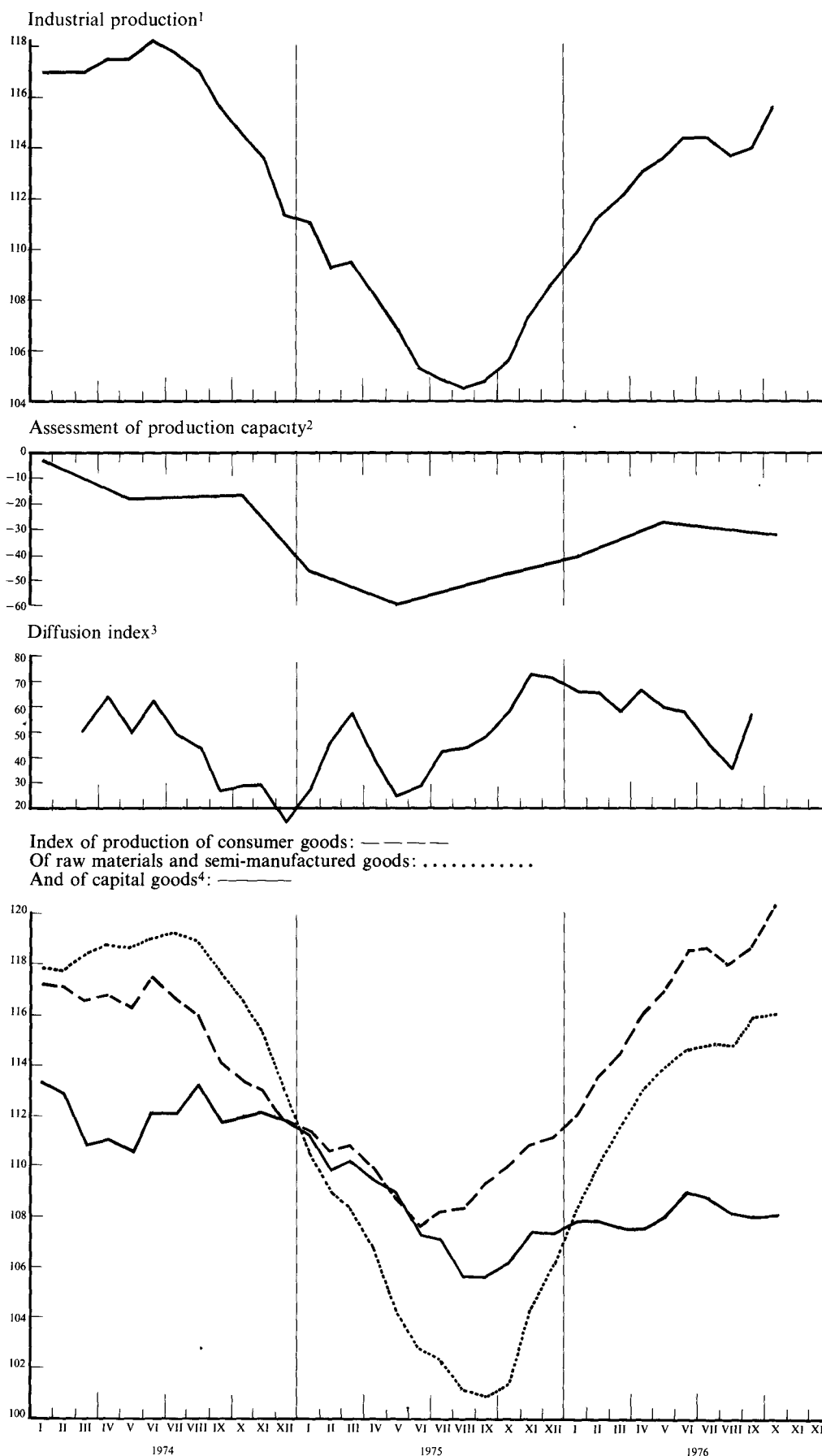
Although the restocking process was almost at an end and there was a general slowing down in economic growth, Community *imports* from non-member countries continued to grow quite briskly after the first half of 1976. In France in particular the increase in imports continued apace, mainly because of the effects of the drought. Imports in the Federal Republic of Germany and the Belgo-Luxembourg Economic Union also rose strongly. In general, the expansion of imports from non-member countries appears to have strengthened further in the

¹ See Graph D.

² See Table 5 and Graph E.

³ See Table 8.

Industrial activity



¹ Seasonally-adjusted industrial production, excluding building and construction. Three-month moving average. 1970 = 100.
² Results from Community business survey. Difference between the percentage replying 'more than sufficient capacity' (here given a - sign) and the percentage replying 'insufficient capacity' (here given a + sign).
³ The number of industrial sectors in which seasonally-adjusted production is rising as an unweighted proportion of the total of 16 sectors for which data are available and which cover about 70% of the total production in the Community.
⁴ Seasonally-adjusted. 3 month moving average. 1970 = 100.
 Source: SOEC and services of the Commission.

TABLE 5

Changes in industrial production¹
(seasonally adjusted)

Countries	% change on preceding year				% change on preceding half year		% change on preceding months									
	1973	1974	1975		Oct. 1975 Oct. 1976	1 Sem. 2 Sem. 1975	2 Sem. 1 Sem. 1976	April	May	June	July	August	September	October		
		Annual average	January/ Oct. 1975	January/ Oct. 1976												
Denmark	3.2	:	:	:	:	:	:	:	:	:	:	:	:	:		
FR Germany	7.6	- 1.1	- 7.2	8.2	12.0	0.7	5.9	4.5	- 0.3	0.8	- 1.0	1.2	- 0.1	4.0		
France	6.8	- 3.2	- 8.1	9.6	10.1	0.5	6.1	1.0	- 0.5	0.8	- 0.5	0.4	4.9	3.5		
Ireland	10.3	3.0	- 6.7	:	:	- 0.2	7.1	:	:	:	:	:	:	:		
Italy	10.0	4.3	- 9.8	10.9	13.4	- 0.8	9.1	-	0.7	4.3	- 2.2	0.7	- 5.1	1.6		
Netherlands	6.1	3.4	- 5.6	6.5	8.9	- 1.0	5.6	1.1	- 0.2	0.2	- 1.5	1.2	2.8	0.2		
Belgium	6.3	4.0	- 10.6	8.7	21.5	- 3.6	9.4	6.4	- 2.4	2.6	- 5.8	3.1	3.9	4.0		
Luxembourg	12.0	3.8	- 22.9	7.5	20.8	- 11.1	13.0	2.8	8.7	- 3.3	- 8.0	0.4	14.1	3.2		
United Kingdom	8.7	- 3.1	- 5.1	0.9	2.9	- 3.9	3.1	1.0	1.4	- 3.7	- 2.3	- 0.9	0.7	0.0		
Community	7.7	0.6	- 7.4	7.0	10.2	- 0.6	6.1	2.0	0.5	- 0.1	- 0.7	- 0.9	3.0	1.4		
Investment goods	6.5	1.7	- 3.6	0.9	3.7	- 2.0	1.6	2.3	0.8	- 1.2	- 0.8	0.9	0.6	1.5		
Consumer goods	6.8	- 1.2	- 4.5	8.1	12.0	1.1	5.8	3.7	0.1	0.1	0.1	- 1.9	3.9	2.0		
Raw materials and producer goods	8.6	0.2	- 10.6	10.0	11.0	- 2.1	9.6	1.0	0.9	0.0	- 0.3	- 0.0	3.1	- 2.5		

¹ Excluding construction sector.

: Data not available

Source: SOEC.

TABLE 6
Development of balances of trade

(Million US dollars, seasonally adjusted)

Countries	1973	1974	1975	1974				1975				1976					
				I		II		III		IV		I		II		III	
Denmark	- 1 720	- 2 313	- 1 770	- 688	- 722	- 492	- 411	- 308	- 393	- 418	- 651	- 762	- 678	- 821			
FR Germany	+ 12 366	+ 19 645	+ 13 990	+ 5 112	+ 5 131	+ 4 532	+ 4 870	+ 4 838	+ 2 975	+ 3 181	+ 2 996	+ 3 519	+ 3 394	+ 3 275			
France	+ 1 435	- 3 373	+ 1 607	- 623	- 1 071	- 1 097	- 582	+ 584	+ 1 120	+ 495	- 592	- 446	- 254	- 1 532			
Ireland	- 625	- 1 159	- 714	- 248	- 379	- 362	- 170	- 227	- 184	- 174	- 129	- 305	- 173	- 225			
Italy	- 5 587	- 10 664	- 3 548	- 2 977	- 3 101	- 2 628	- 1 968	- 897	- 722	- 501	- 1 428	- 1 578	- 1 884	- 987			
Netherlands	+ 127	- 195	- 43	- 21	+ 13	- 193	+ 6	- 188	+ 261	- 211	+ 95	+ 252	- 261	- 42			
BLEU	+ 359	- 1 549	- 1 910	- 501	- 446	- 487	- 115	- 89	- 587	- 787	- 522	- 680	- 802	- 505			
United Kingdom	- 5 616	- 12 276	- 7 109	- 2 916	- 3 275	- 2 945	- 3 140	- 2 033	- 1 583	- 2 098	- 1 395	- 945	- 1 879	- 2 093			
Community ¹	- 4 458	- 19 735	- 5 070	- 4 466	- 6 574	- 5 276	- 3 419	- 172	- 395	- 2 313	- 3 324	- 3 239	- 4 757	- 5 363			

¹ Extra-Community trade only
Source: National Statistics and SOEC.

early months of the autumn, due to a large extent to oil purchases made in anticipation of a price increase.

Since the start of the upturn in production and trade in the summer of 1975, the Community's *trade balance* has steadily deteriorated.¹ This adverse movement continued in the third quarter of 1976; imports continued to rise faster than exports and the Community's trade deficit nearly matched the worst-ever figures recorded in mid-1974 during the oil crisis. While the trade deficit in France increased to record size and that in the United Kingdom widened from early spring onwards, the deterioration in Italy's trade balance was checked during the third quarter. The trade surplus in the Federal Republic of Germany, which had remained relatively stable for more than six months, grew larger towards the end of the summer. The worsening in the Community's trade balance in 1976 was mainly attributable to the fact that the volume of imports from non-member countries grew much more rapidly than exports to those countries; loss of market shares played only a very minor part. For the year as a whole, the Community's trade deficit (fob/cif) is expected to total some \$ 18 billion as against \$ 5.1 billion in 1975 and \$ 19.7 billion in 1974.

The Community's balance of payments on current account worsened to almost the same extent as the trade balance. However, due mainly to the increased indebtedness of the Member States in deficit, the foreign exchange reserves (excluding gold) of the Community reach almost 39 billion Eur, which was slightly higher than a year earlier.

2. Strengthening stabilization policy

During second half of 1976 economic policy in the Community was less expansionary or even neutral. In certain Member States a change in economic policy in an overall restrictive direction came in direct response to external economic pressures.

Between the spring and the autumn, *exchange rates* fluctuated sharply, in some cases on a hitherto unknown scale.² The period of relative calm which followed the disorderly movements in the spring was broken in the autumn by a sharp decline in the French franc, the lira and above all sterling. The authorities of the countries concerned took a firmer monetary policy line in an attempt to halt the depreciation of their currencies and to avert any excessive depletion of reserves. In the autumn the compulsory reserve ratio on bank deposits was raised in the United Kingdom and Italy, while in France the compulsory reserve requirement for bank lending was reintroduced after a fairly long break. Measures in the field of exchange rate policy were also taken, particularly in Italy.³

The strain which had persisted for some months within the 'snake' was dispelled when exchange rates were adjusted on 18 October, the mark being revalued by varying percentages against the other currencies in the scheme. The relationship between the dollar and the 'snake' currencies underwent a lasting change in the middle of the year for the first time since the autumn of 1975; between the end of July and the end of December, the European currencies concerned gained on average about 7% against the dollar.

In most Member States demand for personal *credit* has grown since the summer, particularly in the Netherlands, the United Kingdom and the Federal Republic of Germany. In France, on the other hand, demand has fallen off a little in recent months. In several Community countries, quantitative limits on bank lending have been tightened.

The expansionary impact of *budgetary policy* weakened in most Member States during 1976, mainly due to the

¹ See Table 6

² See Table 7 and Graph F

³ See Chapter E. Italy.

TABLE 7
Changes in exchange rates between December 1975 and December 1976

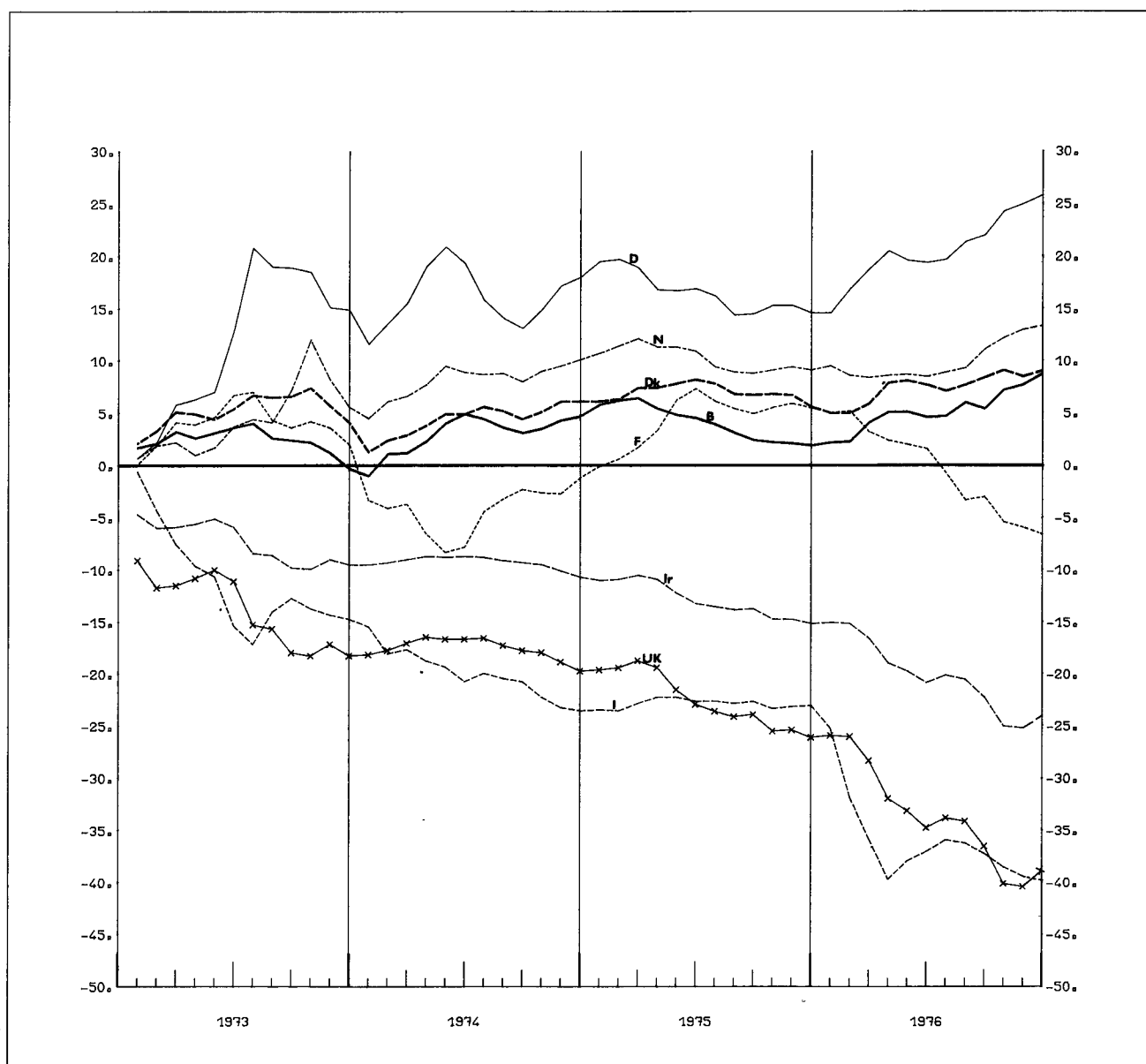
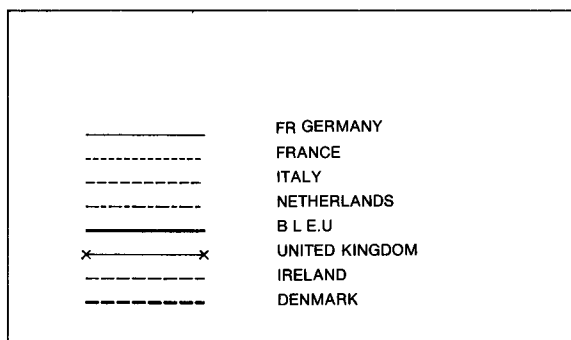
Countries	Appreciation		Countries	Depreciation	
	Weighted in accordance with the structure of foreign trade	Against US Dollar		Weighted in accordance with the structure of foreign trade	Against US dollar
FR Germany	+ 10.1	+ 10.0	Italy	- 20.9	- 21.3
Belgo/Luxembourg	+ 7.1	+ 8.6	United Kingdom	- 15.7	- 17.0
Denmark	+ 3.6	+ 5.4	Ireland	- 10.2	- 17.0
Netherlands	+ 4.2	+ 8.1	France	- 10.9	- 10.5

Source. Departments of the Commission

m %

**Weighted appreciation or depreciation
of the currencies of Member States in %**

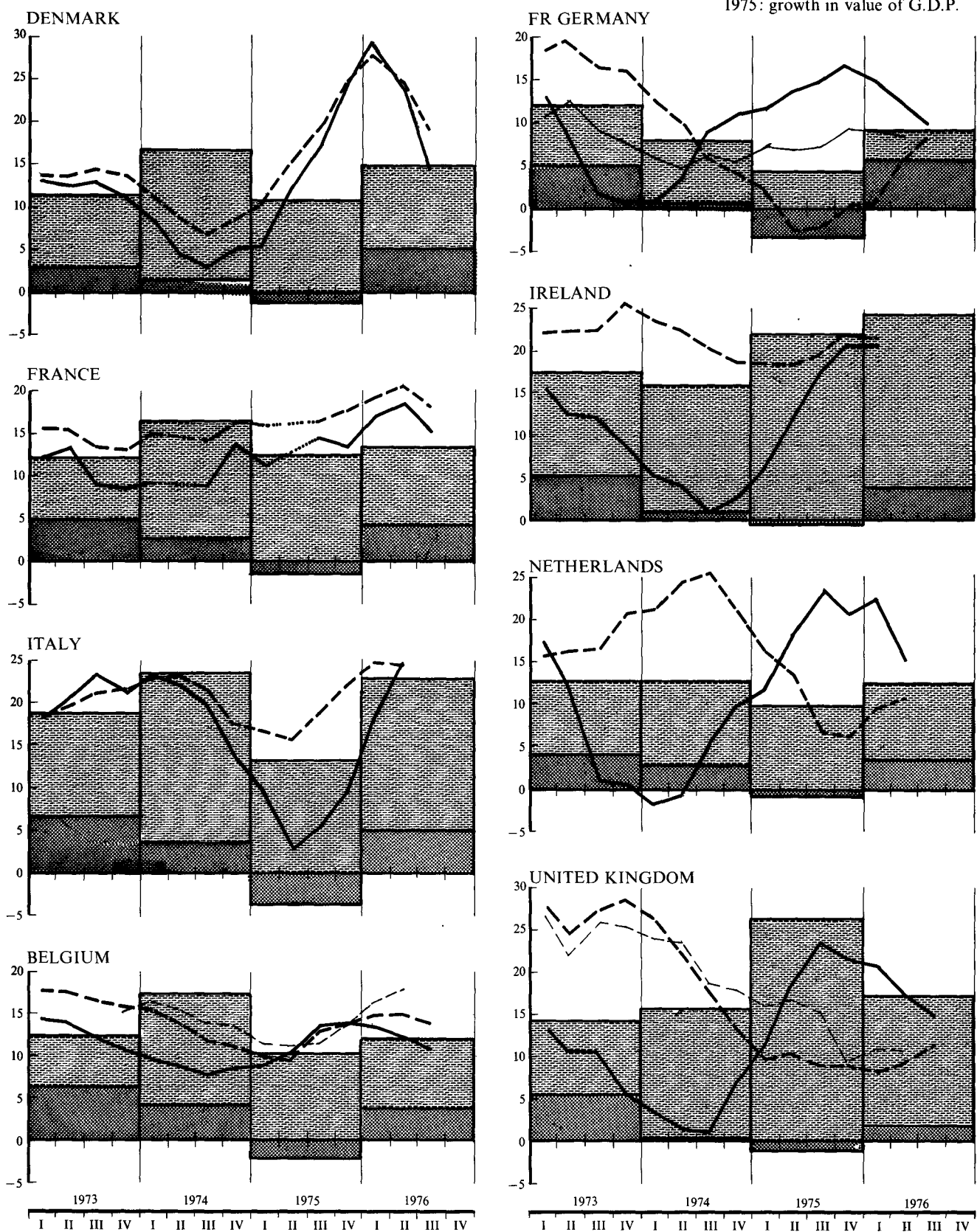
(Reference period: 'Smithsonian Agreement', December 1971; weighting according to the structure of foreign trade)



Evolution of monetary variables

— Notes and coins in circulation plus sight deposits (M_1)¹
 - - - M_1 plus near money (M_2 ; United Kingdom and Ireland: M_3)¹
 — Central bank money (F.R. of Germany)¹
 - - - Banks credits ^{2, 3}

■ % Change in volume of GDP
 ■ Increase in implicit prices of G.D.P., 1975: growth in value of G.D.P.



¹ % change in quarterly average on corresponding quarter of preceding year.
² % change of end of quarter figures on corresponding quarter of preceding year.
³ Belgium: Bank credits to the private sector; United Kingdom: domestic credit expansion.

Source: Commission's Departments.

working of built-in stabilizers; in some cases tax receipts were higher than forecast and in some countries the costs of unemployment benefits fell slightly. In the Federal Republic of Germany and Denmark, in particular, these built-in effects meant smaller budget deficits.

As a result of a variety of factors, in particular restrictive monetary measures, the *money supply* (notes and coins plus sight deposits) in almost all the Member States has been growing since last spring more slowly than at the end of 1975 and the beginning of 1976, when the expansion of this aggregate had reached its peak almost everywhere.¹ The average growth rate in the Community, in comparison with the corresponding period for 1975, was 19.3% in the first quarter of 1976, 18.6% in the second quarter and 12.8% in the third.

After climbing sharply in the spring, short-term *interest rates* rose again in the autumn in most Member States. At the end of October, the discount rate was 15% in Italy and the United Kingdom (MLR), 11% in Denmark, 9% in Belgium; these rates are higher than those recorded during the period when restrictions were most severe in 1974 and 1975. Since then, however, a new period of calm on the exchange markets has led to a reduction in discount rates in the United Kingdom, Denmark, the Netherlands, and Belgium. The average call-money rate for November 1976 was 4% above the lowest level, reached in January 1976 when the expansionary policy was discontinued. The upward trend of long-term rates, which had at times been very brisk from the spring onwards, was not generally maintained throughout the autumn. In the Federal Republic of Germany and in the Netherlands, long-term rates actually fell sharply.

In all the Member States economic policy is at present aimed at stability. In an attempt to reconcile this objective

with that of a gradual return to a high level of employment, Denmark, Ireland, Italy and France have supplemented their monetary and budgetary measures since last summer with new incomes policy measures (involving varying degrees of constraint) designed to curb cost and price rises during next year.

Under programmes to restore financial soundness, the governments of several Member States have adopted measures to limit their budget deficits in 1977. The Danish authorities decided in August to increase the taxes on certain important consumer items and to cut public expenditure. The measures taken in France in September to shift some of the burden of taxation from indirect to direct taxes will, as a net effect, also help to curb demand. The higher taxes and public service charges decided or announced in Italy during October, are likely to reduce the budget deficit substantially. In December the British government announced increases, with effect from the beginning of 1977, in various indirect taxes and substantial reductions in public expenditure for the next two financial years.

The effects of the more restrictive monetary policy stance adopted in most Member States should become more evident during the coming months. In France, the norms for the growth of bank lending, which have already exercised a restrictive effect during the second half of 1976, allow only a narrow margin for expansion in 1977, with the growth of lending by the big banks limited to 5% for the whole year. In Denmark, the 2% increase in the ceiling adopted at the end of August is not to be regarded as an expansionary measure. In Italy, quantitative limits

¹ See Graph C.

TABLE 8
Key indicators

EEC	Unit	1969-1973 average 4 5	1974 5	1975 5	1976 6	1977 6
Gross domestic product, volume	% change	4.8	1.7	- 2.2	4.3	3.0
of which: Industry ¹		3.9	1.6	- 6.2	6.5	3.0
Gross domestic product in volume per person in employment	% change	3.7	1.6	- 0.9	4.8	3.0
Total employment (number of persons) ²	% change	1.1	0.1	- 1.3	- 0.5	- 0.3
Unemployment	as % of labour force	2.3	2.6	4.0	4.5	4.9
Compensation of employees per wage and salary earner	% change	12	16.3	15.9	13.2	11.2
Price index of private consumption ³	% change	6.1	13.1	12.6	10.1	9.5
Current account balance ³	Mrd. \$	3.4	- 11.1	0.6	- 9.6	± 0

¹ Including construction.

² Domestic concept.

³ National accounts concept, on annual basis.

⁴ Geometric mean of the change from 1968 to 1973; unemployment and current account balance: arithmetic mean over the five years.

⁵ Source: SOEC.

⁶ Estimates of Commission's Departments

on large-scale lending operations were announced in mid-October; the maximum growth rate authorized between the end of June 1976 and the end of March 1977 is 11 %. In the United Kingdom, a quantitative control on the growth of interest-bearing bank deposits (the 'corset') was reintroduced in November after a absence of almost 2 years; this imposes strict limits on the growth of bank lending to the private sector.

3. Uncertain short-term outlook

The expansion of demand and production in the Community will probably remain only moderate in coming months, partly because world demand will not be strong following the latest oil price rise, and partly because of the impact on domestic demand of the necessary stabilization measures in operation in those Member States which have severe disequilibria to contend with.

There is expected to be some improvement in Community exports to non-member countries during the first half of 1977, but the rate of expansion will only reach the long-term average rate with difficulty. Sales to the United States should continue to increase and some of the markets in non-member countries in northern Europe and in oil-producing countries should strengthen. Deliveries to non-oil-producing developing countries are also expected to increase slightly more rapidly, while exports to State-trading countries should at least steady. All in all, Member States should achieve some increase in market shares, contrasting with the small losses suffered in 1976.

Over the months ahead, the relatively firm trend in final domestic demand expected in the Federal Republic of Germany and the Netherlands will only partly compensate for weak demand in other Member States and for the low rate of *stockbuilding* everywhere. This latter demand component is unlikely to make any further contribution to the growth of activity. Stocks of finished goods have reached a level which managements generally consider to be normal or even excessive in some cases. Stockbuilding policy has thus become more cautious in most countries, and in some sectors an effort is being made to reduce stocks because of the high financing costs.

By the time the specific measures introduced in 1975 to stimulate investment have ceased to have effect, the greater profitability of firms and the general economic outlook will probably not offer a stimulus sufficient to bring about a marked improvement in the *propensity to invest*. In most Member States, investment in rationalization and replacement projects will continue to be given priority, particularly where firms are operating well below capacity. As the latest survey of investment intentions in industry in the Community shows, the rate of expansion in the company sector in 1977 is not expected to exceed by much that of 1976, although this was itself very low. Investment in buildings and works—which has in many cases been given temporary government support—is likely to lose a good deal of momentum

in most Member States. This could be the case in the public works sector, particularly in the Federal Republic of Germany and Denmark. A slackening of activity in residential construction is also expected in several Member States over the months ahead.

Private consumption will again contribute very little to the growth of overall demand in the months to come. Although the continuation of the slow process of price stabilization will certainly help to restore consumer confidence in some countries, the factors which are currently holding private disposable income in check are unlikely to lose their force and may even be strengthened in countries where stabilization measures have recently been adopted, notably Italy, France and Denmark. Owing to the uncertainty of the economic outlook, furthermore, savings ratios are again likely to increase in some countries and thus influence the development of household expenditure. In these circumstances, trends in private consumers' expenditure will probably vary considerably from country to country, leading, in aggregate, to slow real growth in the next few months.

Corresponding to widening differences both between geographical regions and between industrial sectors, the expansion of *production* will remain moderate during the first half of 1977. In the light of shorter order books, the rise in industrial production will remain limited in the consumer goods sector and little progress is expected in the other sectors. Industrial activity generally should therefore show only a slight improvement during the first half of the year. If the second half of the year carries on in much the same way, the growth of real gross domestic product in the Community should average about 3 % for the year as a whole.¹ This outlook makes it very clear that a major effort will be needed to achieve the growth target — 4 % in real terms — set in the Annual Report on the economic situation in the Community.²

In view of the poor business climate, no improvement in trends on the *labour market* can be hoped for. In most industries, firms will have little difficulty in adapting to the moderate expansion of output without taking on additional workers. Indeed, short-time working could well tend to build up again in some sectors. In the Community taken as a whole the seasonally-adjusted unemployment rate for the wholly unemployed should, during the first half of 1977, show little change from the level reached at the end of 1976. What is more uncertain is how far economic trends in the Member States will enable any further increase in unemployment to be avoided from the middle of the year onwards; any such increase would bear particularly severely on school-leavers coming onto the market at that time.

The present rate of inflation could well slow a little in the next few months, but disparities in trends in *prices* at Community level will remain excessive. In the countries with balance of payments deficits, it seems still true that

¹ See Table 9.

² See Survey No 3/1976

TABLE 9

Demand for and supply of goods and services

EEC	1974 ²	1975 ³			1976 ³			1977 ³	
	At current prices	% change on preceding year							
		Vol	Price	Val	Vol	Price	Val	Vol	
Private consumption	560.0	1.6	12.6	14.2	3.2	10.1	13.6	2	
Public consumption	141.8	3.8	14.6	19.0	3.3	8.9	12.4	2½	
Gross fixed assets, formation	210.3	—	5.0	11.4	5.8	2.0	10.1	12.3	1
Domestic final uses (excluding change in stocks)	912.2	0.1	13.0	13.1	3.2	9.6	13.1	2	
Domestic final uses (including change in stocks)	925.2	—	2.2	12.7	10.5	4.8	9.8	15.1	2
Exports ¹	259.3	—	5.0	9.3	3.9	9.5	9.1	19.4	7
Imports ¹	261.9	—	4.8	5.1	0.0	11.5	11.0	23.8	4
Gross domestic product at market prices	922.6	—	2.2	14.3	11.7	4.3	9.3	13.9	3
Contribution to % change in gross domestic product									
Domestic final uses (excluding change in stocks)	912.2	0.1			3.2			2	
Change in stocks	13.0	—	2.3		1.5			—	
Balance of exports and imports ¹	— 2.6	—	0.1		— 0.4			1	

¹ Goods and services

² Source SOEC.

³ Estimates of Commission's Departments

no greater price stability can be achieved unless appropriate domestic adjustment policies are implemented and unless more orderly conditions are restored on the currency exchanges. The behaviour of unions and managements will also be of vital importance; their awareness of the need to create the conditions allowing a recovery in job-creating investment will probably constitute an additional reason for them to accept income and price moderation. If however economic policy remains unchanged, and taking account of the latest oil price rise, the overall increase in consumer prices in the Community cannot possibly be lower than 9.5% for 1977.¹ This rate would once again exceed the rate which will be recorded for the non-EEC developed countries as a group.

Imports will probably expand at a relatively modest pace in the first half of 1977. Some member countries have taken measures to adjust their payments deficits and any increase in their imports should in consequence remain small; this will probably be the case, in particular, in Italy, and, to a lesser degree, in the United Kingdom and in France. In other Member States, particularly the Federal Republic of Germany and the Netherlands, activity and imports are expected to move ahead somewhat more strongly, although at lower rates than in 1976. The slightly more buoyant prospects for exports than for

imports should allow the Community's *trade deficit* to narrow in the months ahead, with a relatively pronounced improvement in the case of Italy. However, it must be said that the new rise in the oil price is likely to accentuate the deterioration expected in the terms of trade and to hinder the adjustment process. Although, for the year as a whole, a marked improvement is expected in the Community's balance of payments, disparities between countries will still remain excessive.

Main economic policy measures

May 1976

— On 5 May, the Commission adopted a Decision authorizing the Italian Republic, under Article 108 (3) of the EEC Treaty, to introduce a 50% deposit requirement on all purchases of foreign currency and on transfers to external accounts.

June

— On 24 June, the Tripartite Conference, at which the Member States, the two sides of industry and the Commission were represented, expressed the resolve of all the participants to unify their efforts in order

- (i) to consolidate the economic recovery, so as to achieve growth while maintaining stability over the coming years;
- (ii) to create the conditions for full employment and further social progress

— At its meeting held on 29 and 30 June, the Council approved eighteen

¹ See Tables 8 and 10.

TABLE 10

Changes in the macro-economic aggregates in the Community ^a

	Gross domestic product (volume)				
	% change on preceding year				
	Average 1969-1973 ^c	1974	1975	1976	1977
Denmark	4.5	1.2	- 1.0	4.8	2
FR Germany	5.1	0.7	- 3.3	5.4	4
France	5.4	2.9	- 1.3	5.0	3
Ireland	4.7	0.1	- 0.5	3.5	2½
Italy	4.3	3.4	- 3.7	5.5	½
Netherlands	5.6	2.2	- 0.9	3.6	3½
Belgium	5.3	4.0	- 2.0	3.5	3
Luxembourg	4.9	3.4	- 7.7	2.9	3
United Kingdom	2.9	0.2	- 1.3	0.9	1.5
Community	4.8	1.7	- 2.2	4.3	3
	Consumer prices ^b				
	% change on preceding year				
	Average 1969-1973 ^c	1974	1975	1976	1977
Denmark	5.6	15.0	8.8	8.5	8½
FR Germany	4.8	7.3	6.1	4.5	4.0
France	6.3	13.9	11.4	9.3	8½
Ireland	8.9	15.7	21.3	18.0	15.0
Italy	6.4	20.2	17.4	17.5	20.0
Netherlands	7.2	9.9	10.5	9.4	7½
Belgium	4.2	12.9	12.1	8.3	8.0
Luxembourg	4.5	9.5	10.7	9.8	8.0
United Kingdom	7.0	16.8	23.1	15.5	14.0
Community	6.1	13.1	12.6	10.1	9½
	Number of unemployed as a % of total labour force ^d				
	Average 1969-1973 ^c	1974	1975	1976	1977
	Average 1969-1973 ^c	1974	1975	1976	1977
Denmark	1.1	2.0	5.0	5.0	5.6
FR Germany	0.8	2.2	4.1	4.1	3.7
France	2.6	2.8	4.1	4.5	5.1
Ireland	5.8	5.7	8.0	9.5	9.5
Italy	3.4	2.9	3.3	3.7	4.3
Netherlands	1.8	3.0	4.3	4.7	4.4
Belgium	2.2	2.6	4.5	6.1	6.6
United Kingdom	2.9	2.4	3.9	5.2	5.9
Community	2.3	2.6	4.0	4.5	4.9

^a 1969-1975 actuals. 1976 and 1977. forecasts.

^b On a national accounts basis

^c Geometric mean of annual changes between 1968 and 1973 (for France between 1970 and 1973); unemployment and current account: arithmetic mean of five years

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

Source SOEC and estimates of Commission's Departments

TABLE 11

Main monthly indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug.	Sept	Oct	Nov	Dec.
Industrial production (1970 = 100)	1974	115.9	117.6	117.5	117.5	117.4	119.7	116.3	115.1	115.3	113.1	112.3	108.8
	1975	108.9	109.6	109.6	105.5	105.3	105.0	104.4	104.2	105.8	106.9	109.3	109.4
	1976	111.0	113.2	111.9	114.1	114.7	114.6	113.8	112.8	116.2	117.8		
Orders	1974	+ 1	+ 1	0	- 2	- 5	- 9	-13	-24	-31	-39	-48	-56
	1975	-59	-60	-62	-62	-63	-62	-62	-63	-59	-51	-49	-47
	1976	-40	-36	-26	-25	-22	-23	-25	-24	-30	-31	-32	
Unemployment rate	1974	2.1	2.1	2.1	2.2	2.3	2.3	2.4	2.5	2.7	2.8	3.0	3.0
	1975	3.2	3.3	3.5	3.7	3.8	3.9	4.0	4.2	4.3	4.4	4.5	4.5
	1976	4.5	4.6	4.5	4.5	4.5	4.5	4.6	4.6	4.6	4.6	4.6	
Consumer prices	1974	1.3	1.4	1.2	1.7	1.1	1.0	1.0	0.7	1.2	1.3	1.2	0.8
	1975	1.3	1.0	0.9	1.6	1.4	0.9	0.5	0.4	0.8	0.8	0.8	0.6
	1976	1.0	1.1	1.0	1.3	0.9	0.4	0.3	0.8	1.0	1.2	0.9	
Intra-Community trade (million Eur)	1974	8 672	8 593	9 386	9 332	9 575	8 914	9 975	9 458	9 428	9 260	8 978	8 840
	1975	8 471	8 752	8 478	9 255	8 128	9 315	8 911	8 635	9 657	9 617	9 532	10 501
	1976	9 513	10 217	11 089	10 577	10 705	11 129	10 554	10 712	11 275			
Exports of goods (million Eur)	1974	7 792	8 100	8 760	8 797	8 985	8 708	9 629	9 736	9 577	9 608	9 468	9 768
	1975	9 281	9 355	9 146	9 675	9 153	9 824	9 533	9 038	9 537	9 740	9 512	10 165
	1976	9 410	9 354	10 440	9 693	9 840	10 504	10 213	10 378	10 722			
Imports of goods (million Eur)	1974	8 610	9 464	10 482	10 502	10 707	10 612	11 386	11 162	10 676	10 808	10 498	10 270
	1975	9 588	9 301	8 831	9 758	8 895	9 701	9 788	9 545	10 380	10 451	10 370	11 087
	1976	10 100	10 392	11 313	11 187	10 976	11 727	11 523	12 002	12 237			
Trade balance (million Eur)	1974	-818	-1 364	-1 722	-1 705	-1 722	-1 904	-1 757	-1 426	-1 099	-1 200	-1 030	-502
	1975	-307	54	315	- 83	258	123	- 255	- 507	- 843	- 711	- 858	-922
	1976	-690	-1 038	- 873	-1 494	-1 136	-1 223	-1 310	-1 624	-1 515			
Gross official reserves (gold excl., million Eur)	1974	38 341	37 098	39 008	39 167	38 691	37 659	38 256	38 543	39 147	38 651	38 792	35 560
	1975	35 594	36 372	37 335	36 983	36 553	35 970	35 060	35 046	35 756	36 645	36 364	38 289
	1976	38 213	38 494	39 855	37 295	36 598	35 892	35 625	38 038	37 882	38 923		
Exchange rate 1 Eur = . \$	1974	1.14	1.18	1.22	1.26	1.29	1.27	1.28	1.25	1.23	1.26	1.29	1.31
	1975	1.36	1.39	1.41	1.38	1.39	1.39	1.32	1.27	1.24	1.25	1.25	1.24
	1976	1.24	1.25	1.24	1.25	1.25	1.23	1.23	1.25	1.28	1.31	1.32	

No data available

Source: SOEC and Commission's Departments

Industrial production: excluding building and construction, seasonally adjusted

Orders: balance of above normal (+) and below normal (-) replies to business surveys

Unemployment rate: number of unemployed relative to civilian labour force, seasonally adjusted

Consumer prices: change from preceding month

Intra-Community trade: on imports basis, seasonally adjusted

External trade: trade with non-member countries, seasonally adjusted

Directives on the removal of technical barriers to trade in industrial products.

— At the same meeting, the Council adopted the decision on the signing of a framework agreement for commercial and economic cooperation between Canada and the Community.

— On 29 June, the Council adopted a Decision on the association of the Overseas Areas and Territories with the EEC, on a similar basis to that of the Lomé Convention

July:

— At its meeting held on 19 and 20 July, the Council agreed to the content of the package offer which the Community intends to put to Turkey. The offer covers agriculture, freedom of movement of workers, the development of the Association and the establishment of intensive economic and commercial cooperation.

— At the same meeting, the Council established the allocation of financial commitments by the Community to the Mashrek countries (Jordan, Egypt, Syria, Lebanon).

— On 21 July, the Commission adopted a Decision authorizing Italy to maintain until 5 November the deposit requirement which the Commission had authorized under its Decision of 5 May.

— On 26 July, the Council made its second annual review of the economic situation in the Community and adopted a Decision on the preparation of public budgets for 1977

— On 27 July, negotiations on Greece's accession to the Community were formally opened.

— On 27 July, the Council decided to extend for a further two-month period — that is, until 30 September — the total suspension of the customs duty on potatoes in order to cope with the problem of insufficient supplies.

August :

— On 25 August, the Council decided to suspend customs duties on a number of fresh or chilled vegetables until 30 September 1976.

September :

— On 9 September, to deal with the effects of the drought on agricultural production in 1976/77, the Council took further measures on customs duties, so as to facilitate imports.

— On 20 September, the Council discussed the economic situation in the Community on the basis of a working paper presented by the Commission and adopted a Decision enabling the Commission to transform part of the variable-interest loan it contracted last March on behalf of the Community into a fixed-interest loan.

— On the same date, the interim EEC-Portugal agreement was signed.

— On 24 September, the Commission adopted several Decisions authorizing Denmark and the United Kingdom to suspend customs duties on certain vegetables imported from non-member countries and from the other Community countries.

— On 29 September, the Commission adopted a Decision amending the Decision of 21 July 1976 authorizing the Italian Republic, under Article 108 (3) of the EEC Treaty, to maintain until 15 April 1977 the 50 % deposit requirement on all purchases of foreign currencies and on transfers of lire, to external accounts. The requirement will be gradually phased out in four stages and will be totally lifted on the date indicated.

October :

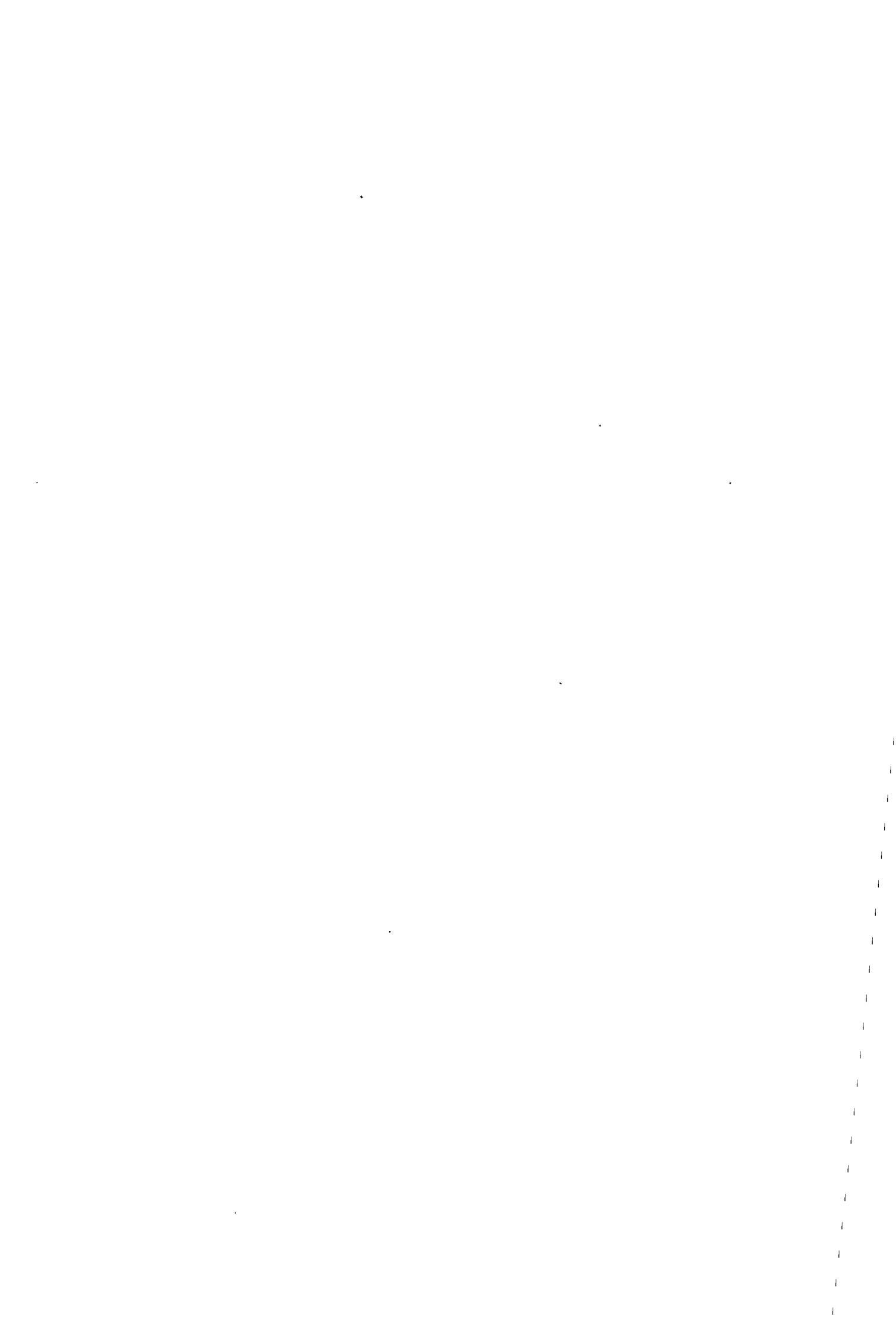
— At its meeting held on 4 and 5 October, the Council decided to devalue the Irish 'green' pound by 7.589 % with effect from 11 October.

November :

— On 8 November, the Council reaffirmed the need for a greater convergence of economic policies and for a narrowing of differences in the economic situation of the Member States. To this end, it undertook to adopt the IVth Medium-Term Programme which must, however, be finalized with detailed proposals, but to which the policies of each State should conform. The Council invited the Monetary Committee to monitor the achievement of the monetary policy objectives and to propose, where necessary, the appropriate solutions. The Council asked the Monetary Committee and the Committee of Central Bank Governors to examine more thoroughly the Dutch proposals for greater stability in exchange rates within the Community, with a view to making them operational, and to report back before the end of the year

— On 22 November the Council adopted the Annual Report on the economic situation in the Community and established the economic policy guidelines for 1977. The Council authorized the Commission to open negotiations for the issue of a Community loan the proceeds of which are to be allocated to the Republic of Italy to compensate for the withdrawal of the United Kingdom from the medium-term financial assistance granted by the Community to Italy

— The European Council on 29 and 30 November, following a thorough examination of the economic situation in the Community was in agreement with the opinion expressed in the Communication from the Commission — that no general realignment of economic policies was required. The Member States in deficit should pursue a vigorous policy to reduce disequilibria, while the other Member States should take care to develop their domestic demand.



II — The situation in each of the Community countries

A — Denmark

Mainly as a result of the more restrictive line adopted in economic policy last August, and in spite of an appreciable increase in exports, there has been a slight slowing down in economic growth. Inflation has tended to flare up again, whereas the current balance of payments deficit has been reduced slightly.

In view of the foreseeable decline in private consumption, activity should develop only slowly over the months ahead, particularly if the outlook for exports should deteriorate. The employment situation could worsen and the upward pressures on prices will undoubtedly remain strong. Finally, the balance of payments deficit, while remaining very large, should decrease somewhat.

1. Recent developments

After a period of marked recovery between the Autumn of 1975 and the Spring of 1976, the Danish economy seems to have entered a phase of slower growth. This is mainly due to the fact that the tendency for private consumer expenditure to level off, observed since the spring, was reinforced during the summer by a more restrictive economic policy. In addition, the growth of the residential construction sector has been slightly more moderate. Overall, GDP in real terms should grow by some 5% for the year as a whole. The employment situation, which had shown a gradual improvement since the autumn of 1975, has stagnated over the last few months. The slowdown in the economy has not so far been reflected in a fall in import values, which have remained very high, and the deterioration in the balance of payments has continued.

The tendency for industrial *exports* to accelerate, evident since the spring, has given way in the autumn to a more moderate development, reflecting the recent weakening of demand on certain important markets; from August to October, their seasonally adjusted growth rate in value terms was only 0.6%, as against 5.3% for the previous three months. Although sales of industrial products are still developing relatively favourably, agricultural exports have fallen, particularly in volume terms, as a result of the weather conditions during the summer.

As can be seen from the results of the latest business surveys, *investment* in industry, helped by stimulatory measures introduced in the autumn of 1975, has increased considerably, not only in the capital goods sector, but also in industrial buildings. On the other hand, activity in residential construction, which had accelerated until the Spring, has since slowed down, mainly as a result of increased interest rates and a restrictive credit policy. The number of housing starts, which in the second quarter had fallen by 34% compared with the first quarter, decreased by a further 2% in the third quarter. Restocking appears to have slowed down during the last few months.

After having stabilized at a high level from the Spring onwards following the withdrawal of the temporary

reduction in VAT, *private consumption* has tended to decline since the summer. During the period from August to October, the seasonally adjusted index of the volume of retail sales fell 0.7% compared with the previous three months. This slowdown is mainly due to the measures taken at the end of August to curb consumer demand, particularly the large increase in taxes on certain consumer goods, on petrol and on private cars (increase in registration tax on road vehicles). Thus, the number of new car registrations decreased by nearly 42% in September and October as compared with July-August. In addition, wage and salary increases continued to moderate slightly. Furthermore, the fall in the savings rate observed since the beginning of the year could well have been reversed recently, as the outlook for incomes and employment became less favourable.

Industrial *production*, which up to autumn had increased appreciably as a result of the need to rebuild stocks of consumer goods, and of the growth in investment, seems more recently to have slowed down. Agricultural production weakened somewhat, partly as a result of the relatively mediocre harvests.

Employment has stabilized over recent months, as can be seen from the numbers at work in industry during the summer. The number of unfilled vacancies has tended to fall sharply. After a fall between December 1975 and April last, the seasonally adjusted number of insured unemployed persons stabilized and more recently exhibited some slight upward tendency; in November it reached 119 700 (5.3% of the labour force), as against 118 000 (5.2%) in August. The unemployment rate has remained considerably higher for women.

After having levelled off between May and July, partly as a result of seasonal factors (fall in vegetable prices), *price* increases have accelerated, mainly because of the increase in taxes introduced on certain products in August. In November, the consumer price index was up 12.8%¹ over the same period last year.

Despite a slight downturn in domestic demand, *imports* have continued to rise sharply, as a result of large-scale purchases of raw materials and semi-finished products.

From August to October, their increase in value was 7.8% over the previous three months.

As a result, the *trade balance* has deteriorated further; for the period August to October, the deficit was DKr 5 200 million, as against 3 600 million for May to July. However, with services developing more favourably, the balance of payments on current account has improved slightly; it showed a DKr 2 300 million deficit for the third quarter as against DKr 2 500 million for the previous quarter. For the year as a whole, the deficit should exceed DKr 10 000 million. After the contraction caused in September and October by the monetary disturbances, net reserves of gold and foreign exchange held by the monetary authorities grew strongly in November to reach DKr 6 000 million as against DKr 4 000 million in September.

Budgetary policy has become considerably more restrictive since the end of August following the increase in the tax burden and cutbacks in public expenditure.² The draft budget presented on 25 November reflects the desire of the authorities to reduce the budgetary stimulus to the economy.

Due to the level of the balance of payments deficit, *monetary policy* has aimed essentially at limiting the growth of domestic liquidity. Thus, the growth of money supply (M2) has slowed down significantly over the last few months; in October, its annual growth rate was 12.7% compared with 25.4% last May. The aim of credit policy has been to reinforce the restrictions imposed on

banks and other credit institutions so as to encourage firms to borrow abroad. The credit ceiling, which was kept unchanged from the end of February to the end of August was only raised by 2% in September and a further 2% in December. At the beginning of October, the discount rate was increased from 8.5% to 11% so as to halt reserve losses caused by disturbances on the exchange market. After the realignment of the kroner with respect to the other 'snake' currencies on 18 October, the net outflow of capital has been reversed and this has permitted a fall in the discount rate, which was brought down from 11 to 10% at the beginning of December.

There have been numerous developments in *prices and incomes policy*. The measures adopted last August include, in particular, a strengthening of price control and a limitation of wage and salary increases (6% for each of the two coming years) to be observed in the renewal of collective agreements in March 1977. New legal provisions passed in Parliament on 4 December, provide among other things for a freeze on prices and rents from 1 December 1976 to 1 March 1977, as well as a freeze of salaries until the coming into operation of the new agreements.

¹ This figure is, however, influenced by the particularly low index for October 1975 due to the temporary reduction in VAT. It should be noted, however, that from October 1975 to February 1976, the index is affected by the temporary reduction in VAT. In addition, the index for November 1976 which includes rents has been inflated by increases in July.

² See list of economic policy measures in the Annex to this chapter

TABLE 1
Key indicators

Denmark	Unit	1969-1973 average ^{5 6}	1974 ⁶	1975 ⁶	1976 ⁷
Gross domestic product; volume	% change	4.5	1.2	- 1.0	5.1
of which: Industry ¹		5.7	2.4	- 5.2	7.5
Gross domestic product in volume per person in employment	% change	3.5	1.1	1.7	5.0
Total employment (number of persons) ²	% change	1.0	0.1	- 2.7	0.1
— Independent entrepreneurs		- 2.4	- 2.9	1.1	- 1.0
— Wage and salary earners in company sector		- 0.2	- 1.3	- 6.4	- 0.2
— General Government		6.7	6.1	3.1	1.5
Unemployment ³	as % of labour force	1.1	2.0	5.0	5.0
Compensation of employees per wage and salary earner	% change	11.5	18.0	13.6	11.0
Price index of private consumption ⁴	% change	5.6	15.0	8.8	8.5
Current account balance ⁴	DKr '000 million	- 2.9	- 6.0	- 3.3	- 11.0

¹ Excluding construction but including repairs and maintenance

² Domestic concept

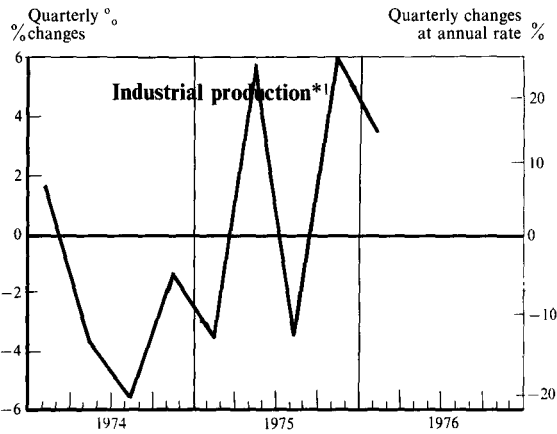
³ Up to end of 1972 insured unemployed only Since 1973 total number of registered unemployed

⁴ National accounts concept, on annual basis

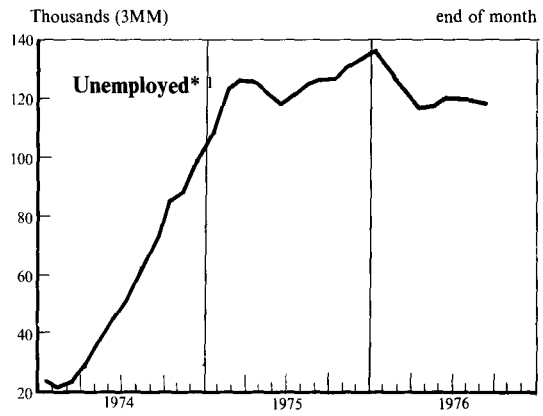
⁵ Geometric mean of the change from 1968 to 1973, unemployment and current account balance arithmetic mean over the five years

⁶ Source Danmarks Statistik.

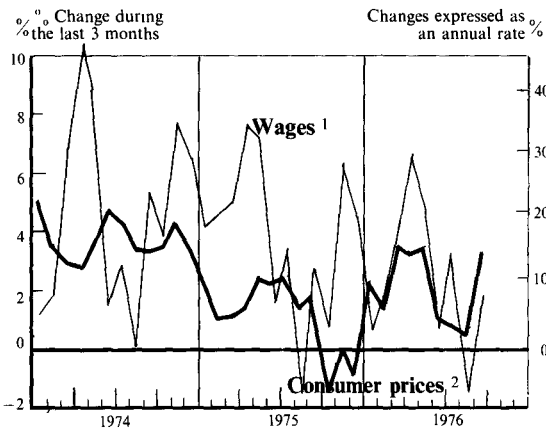
⁷ Estimates of Commission's Departments.



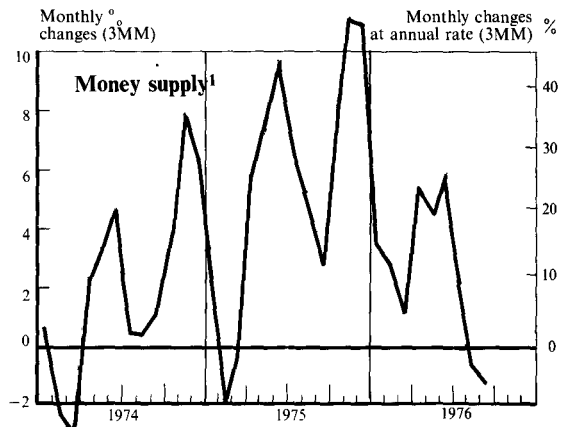
¹ Volume of sales, manuf industry
Source Danmarks Statistik



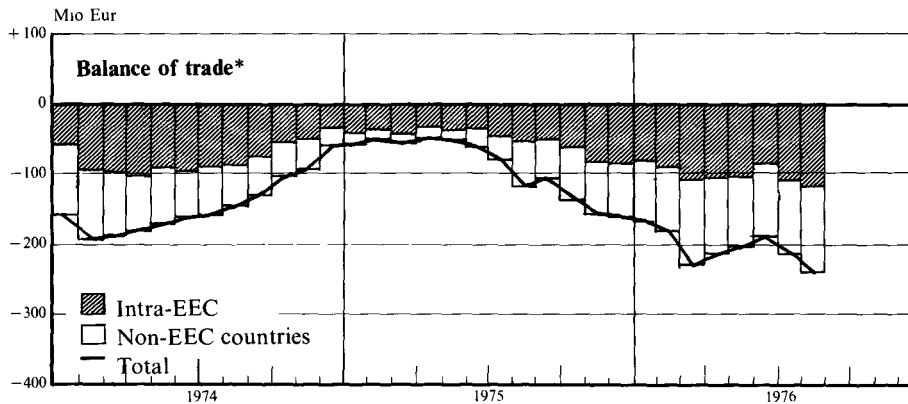
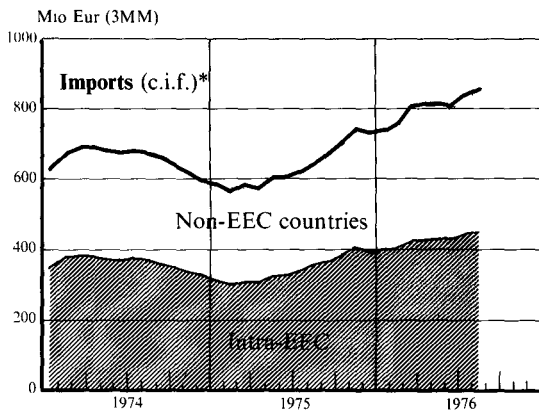
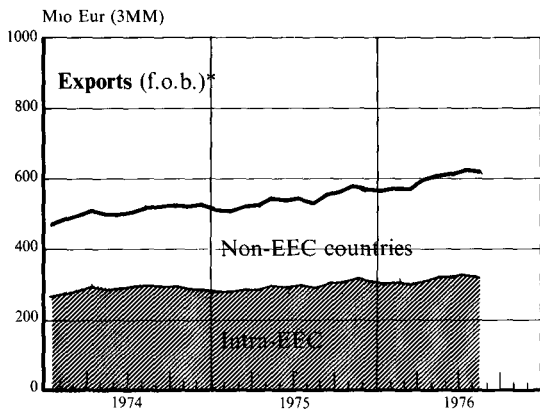
¹ Insured unemployed



¹ Hourly earnings in industry
² Including changes in indirect taxation, in particular the reduction in V A T from October 1975 to February 1976
Source Danmarks Statistik



¹ Money and near-money (M2)
Source Danmarks Statistik



* seasonally adjusted figures
A: three month moving average.
ce: SOEC except where otherwise indicated.

2. Outlook

The expansion in economic activity will remain fairly slow during the coming months, with the more restrictive fiscal policy resulting in an appreciable weakening of consumer demand. In addition, despite the recent extension of stimulatory measures, the trend of private investment could prove to be less dynamic than was anticipated in the middle of the year. Its trend will depend on export prospects which, more recently, have tended to deteriorate. If this development continues, the growth of GDP is unlikely to exceed 2% in real terms for 1977.

Exports of industrial products should only grow slowly in

the coming months. Indeed the negative effect resulting from the slowdown in activity and the weakening of import demand from certain important markets, in particular from the other members of the Community, has been accentuated by the appreciation of the Danish krone against the currencies of those countries which are floating. It is to be feared that these factors will only be partially compensated for by the favourable effects of the depreciation of the Danish krone against the currencies of the countries in the 'Snake',¹ and by the still buoyant purchases of Scandinavian partner countries. In addition, there should be hardly any growth in exports of agricultural produce.

TABLE 2

Demand for and supply of goods and services

Denmark	1974 ²	1975 ²			1976 ³			1977 ³
	At curr prices DKr '000 million	% change on preceding year						
		Vol	Price	Value	Vol	Price	Value	Vol.
Private consumption	104.1	5.0	8.8	14.2	6.0	8.5	15.0	1.0
Public consumption	43.3	4.7	13.9	19.2	3.5	8.8	12.6	1.5
Gross fixed asset formation	40.7	- 10.7	11.6	- 0.5	10.1	6.5	17.3	2.5
— Enterprises	21.4	- 14.4	10.7	- 5.2	12.5	6.0	19.3	8.5
— Dwellings	9.5	- 18.0	11.1	- 8.8	13.0	7.5	21.5	- 5.0
— General Government	9.8	4.3	13.2	18.1	4.5	6.0	10.8	- 2.5
Domestic final uses (excluding change in stocks)	188.1	1.5	10.5	12.2	6.2	7.8	14.5	1.5
Domestic final uses (including change in stocks)	191.2	- 2.1	10.8	8.5	8.4	8.2	17.3	1.0
Exports ¹	66.1	- 2.1	8.3	6.1	4.7	8.5	13.6	5.5
Imports ¹	71.0	- 5.0	5.8	0.4	15.1	6.0	22.0	2.5
Gross domestic product at market prices	186.4	- 1.0	11.8	10.7	4.8	9.1	14.3	2.0
Contribution to percentage change in gross domestic product								
Domestic final uses (excluding change in stocks)	188.1	1.5		12.3	6.3		15.2	1.3
Change in stocks	3.1	- 3.7		- 3.5	2.1		2.2	- 0.6
Balance of exports and imports ¹	- 4.9	1.2		2.0	- 3.6		- 3.0	0.9

¹ Goods and services.

² Source: Danmarks Statistik

³ Estimates of Commission's Departments.

Domestic demand should contract appreciably. Despite the recent extension of some stimulatory measures, capital investment, which is influenced strongly by the outlook for sales on external markets, could moderate in the coming months. Restocking could continue to slow down. In the construction sector, activity will probably mark time, particularly in residential construction, mainly as a result of the strict conditions governing the granting of loans and the high level of interest rates. In addition, public spending cuts should have an adverse effect on the construction of public buildings.

The most noticeable slowdown should be in consumers' expenditure. Disposable incomes will be affected by the implicit freeze on wage and salary increases up to 1 March and then by the limits on increases which will result from the agreements for the period March 1977-March 1977 passed in August by parliament. Moreover, in view of th

¹ In mid-October, the Danish krone was devalued by 6% against German mark, by 4% against the Benelux currencies and by 3% against the Swedish krona.

TABLE 3
Main economic indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Industrial production (1970 = 100)	1974	111	113	124	112	114	112	77	114	115	116	108	94
	1975	96	97	99	103	99	107	75	105	116	120	110	107
	1976	99	108	123	112	113	126	79	123	(133)	(122)		
Unemployed* (1 000)	1974	20.8	25.4	17.0	27.6	43.2	44.4	49.0	63.3	73.3	88.1	92.4	84.1
	1975	124.1	121.2	131.9	129.4	119.1	118.6	120.1	126.9	128.2	126.3	126.9	146.6
	1976	133.8	132.5	119.9	118.1	118.8	120.0	124.5	118.0	119.2	119.5	119.7	
Construction*	1974	3 231	2 921	2 067	3 231	1 615	2 233	1 603	1 479	1 574	1 283	1 397	1 493
	1975	1 999	2 122	1 760	2 196	2 815	2 660	2 995	2 734	2 699	2 990	3 791	3 307
	1976	3 248	3 738	5 854	2 249	2 429	3 019	3 109	2 905	2 712	1 787	2 985	
Private consumers' expenditure* (1970 = 100)	1974	141.6	142.4	140.0	145.6	148.8	143.2	146.4	145.6	144.8	148.8	150.4	148.8
	1975	157.6	160.0	158.4	160.0	159.2	164.8	165.6	164.8	162.4	176.8	176.8	176.0
	1976	177.6	202.4	170.4	184.0	177.6	190.4	189.6	190.4	192.0	189.6		
Consumer prices (1970 = 100)	1974	133.6	134.0	135.1	137.4	139.2	141.6	143.3	144.2	146.6	148.5	150.5	151.5
	1975	151.7	152.1	153.2	153.9	155.8	156.7	157.5	158.0	159.4	155.4	157.9	158.0
	1976	158.9	160.0	167.0	167.5	169.2	168.8	168.9	170.1	174.3	176.2	178.2	
Visible imports* (million Eur)	1974	666.4	669.4	718.0	702.1	671.4	659.2	692.0	688.3	649.5	637.3	618.5	602.0
	1975	571.9	587.4	540.9	633.2	559.1	624.3	637.0	621.9	696.9	702.2	729.4	802.9
	1976	657.6	757.9	864.9	798.3	774.7	865.1	772.4	881.6	916.5	816.0		
Visible exports* (million Eur)	1974	462.2	491.0	525.0	506.7	521.2	498.5	509.9	556.0	524.0	512.9	558.1	516.3
	1975	519.1	522.5	504.4	574.3	517.0	576.8	533.6	537.1	531.3	631.4	557.2	578.4
	1976	578.4	557.9	601.8	577.2	616.9	632.8	600.9	640.3	611.3	554.9		
Balance of trade* (million Eur)	1974	-204.2	-178.4	-193.0	-195.4	-150.2	-160.7	-182.1	-132.3	-125.5	-124.4	-60.4	-85.7
	1975	-52.8	-64.9	-36.5	-58.9	-42.1	-47.5	-103.4	-84.8	-165.6	-70.8	-172.2	-224.5
	1976	-79.2	-200.0	-263.1	-221.1	-157.8	-232.3	-171.5	-241.3	-305.2	-261.1		
Foreign exchange reserves (million Eur)	1974	997	974	921	892	925	884	876	867	848	871	978	939
	1975	896	825	792	774	753	745	783	800	874	829	857	757
	1976	817	799	674	635	563	632	733	760	535	552	724	
Money supply (million Eur)	1974	5 077	5 001	4 954	5 198	5 182	5 319	5 181	5 162	5 337	5 370	5 649	5 722
	1975	5 210	5 219	5 423	5 659	5 683	6 303	6 184	6 012	6 259	6 711	6 914	7 224
	1976	6 693	6 901	6 868	7 123	7 197	7 462	7 126	6 863	7 099	7 041		

() Provisional

. . . Not available

* Seasonally adjusted

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

Conversion into Eur see table 853 in 'General Statistics' of the SOEC

— Industrial production: volume of sales in manufacturing industry, Danmarks Statistik

— Unemployment: Number of registered unemployed

— Construction: number of dwellings authorized

— Private consumers' expenditure: Retail Sales Index, in value, Danmarks Statistik

— Consumer prices: Consumer price index, including VAT

— Imports: cif, exports: fob

— Balance of trade: difference between figures of exports and imports

— Foreign exchange reserves: not reserves of convertible currency, holdings in special drawing rights and reserve position at the IMF, position at end of month, Danmarks Nationalbank

— Money supply: notes and coins in circulation and sight deposits at post giro accounts, commercial and major savings banks, position at end of month, Danmarks Nationalbank

... less favourable outlook for growth and employment, the savings ratio could tend to rise.

... industrial production will probably slow down a little, particularly in industries orientated towards the domestic market and more especially in the consumer goods industries. Consequently, there could be a slight fall in employment and some increase in the unemployment rate.

The numerous underlying factors pushing up prices will continue to influence developments in this area in particular after the removal of the temporary freeze on 1 March. The effects of increases resulting from fiscal policy and rises in food prices will be boosted by increases in import prices, in particular of oil products. This means that the rate of inflation for 1977 as a whole could well be the same as for 1976 (+ 8.5%).

Following the slowdown in domestic demand, there should be a gradual decrease in *imports*. Nevertheless, in view of the foreseeable deterioration in the terms of trade, the current balance of payments deficit should remain considerable (of the order of DKr 9 000 million).

Consequently, the main economic policy problem will be to ensure substantial progress in improving the balance of payments, which is at present the most pressing constraint. Achieving this implies that world demand must be sufficiently dynamic to allow substantial growth in exports so as to offset the slowdown in domestic demand and not impede the pursuit of the targets set for growth and employment. It also presupposes that the renewal of wage agreements within the framework laid down will result in the more moderate cost trends required in the longer term in order to improve the competitiveness of Danish products and bring about sufficient transfer of resources abroad.

Major economic policy measures

June 1976

— The Central Bank decided to leave the lending ceiling unchanged for the coming months.

August:

— Mainly with a view to curbing the rise in money incomes and costs in the following two years, reining back sharply consumer demand and improving the employment situation, the Danish Parliament adopted the following measures.

- wage increases will have to be limited to an average, excluding cost-of-living portions, of 2% in 1977/78 and 1978/79 (during the periods for which wage agreements normally run),
- wages will remain linked to the cost-of-living index, but at most only one 'portion' will be paid each half year during this two-year period (one portion is equal to DKr 0.6 or about 1.7% of the average hourly wage in industry). Any additional portion due under the indexation arrangements will be paid by the Government into the Supplementary Pension Fund and credited to employee's individual accounts,
- survivor's benefit, disability and old-age pensions will be adjusted in line with the planned increase in wages (i.e. 2% annually) and will continue to be linked to the cost-of-living index;
- the same arrangements will apply to other incomes, particularly the incomes of the self-employed (fees, charges, dividends, remuneration etc.) but there will be special rules for certain categories of income (interest, dividends);
- price and profit controls will be tightened;
- income tax will be reduced slightly. The tax threshold for individuals

will be raised by DKr 500 in 1977/78, which will cost some DKr 700 million in lost revenue:

- taxes on a number of consumer goods (tobacco, alcohol, beer, wine, coffee, tea, sugar) and on cars and petrol will be raised for periods ranging between twenty-four and thirty months. These increases will yield around DKr 4 000 million in a full year;
- public expenditure will be cut by DKr 2 000 million in the financial year 1977/78 and by DKr 3 000 million in the financial year 1978/79. The overall cut will be DKr 500 million more than envisaged in September 1975 in the reflationary package adopted at the time;
- State subsidies totalling not more than DKr 100 million may be granted for insulating, improving and renewing heating installations and for other energy-saving measures in existing buildings,
- the temporary measures adopted in September 1975 to help finance construction were extended until the end of March 1978;
- a package of specific measures was also adopted. It includes, for industry, tax reliefs on plant and machinery, specific subsidies to boost productivity, a higher ceiling on loans to assist regional development, State guarantees for loans to small and medium-sized businesses; energy-saving measures to sustain employment (vocational training and retraining, extension of certain public works schemes, restrictions on overtime working, etc.)

September:

— The credit ceiling was raised by 2% to DKr 92 000 million.

October:

— The discount rate was put up from 8.5% to 11% with effect from 5 October.

— On 18 October, the Danish crown was devalued by 6% against the mark, 4% against the Belgian and Luxembourg francs and the guilder and by 3% against the Swedish and Norwegian crowns.

November:

— Due to the drought in 1976, Parliament authorized guarantees for loans to farmers up to an overall amount of DKr 200 million until 1 August 1977. Loans of up to DKr 100 000 can be given to all farmers whose harvest was less than 60% of the average for the years 1973 and 1974.

December:

— On 4 December, Parliament adopted prices and incomes policy measures, the principal being:

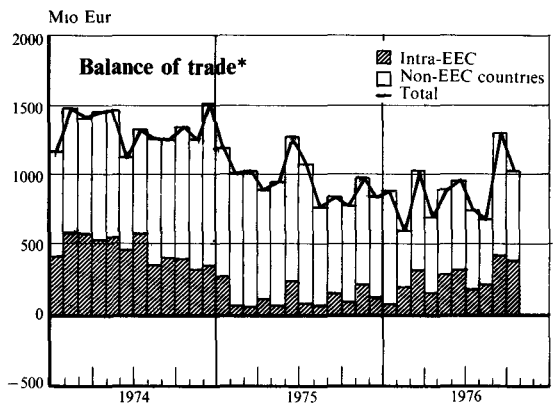
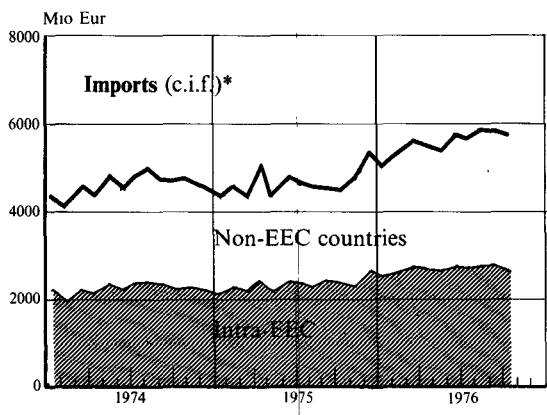
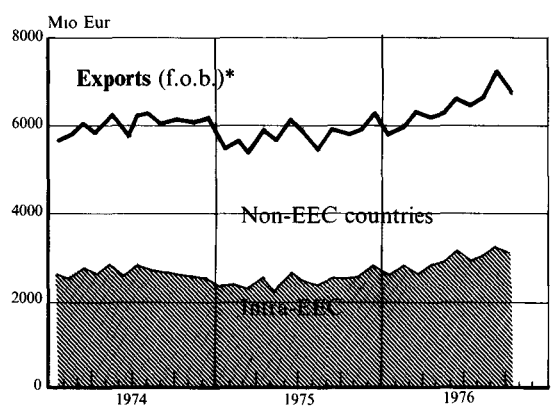
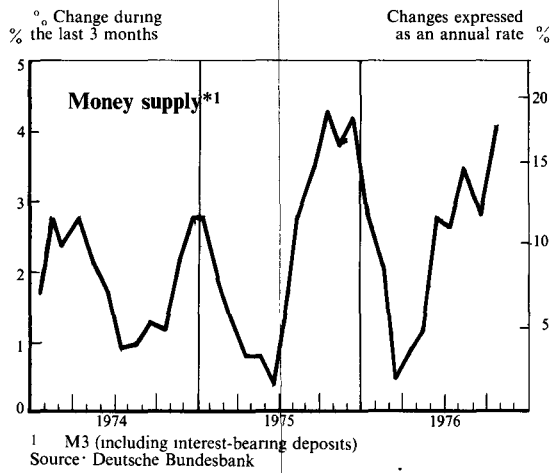
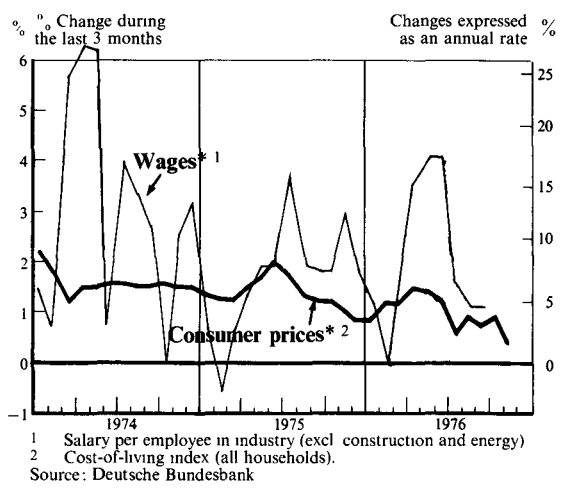
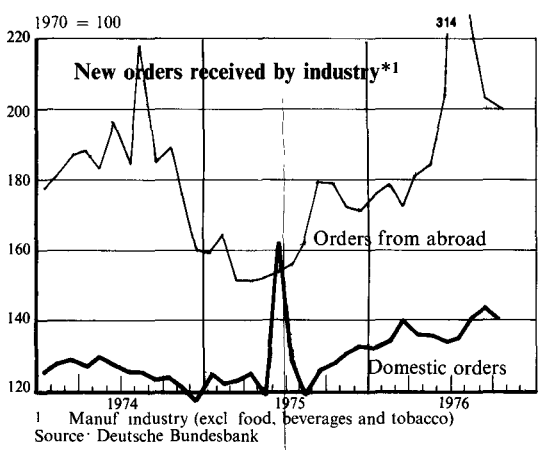
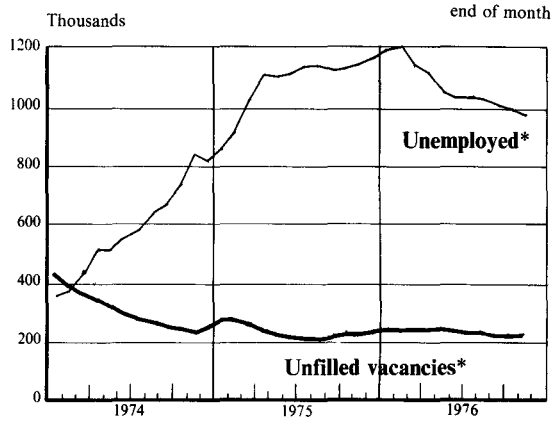
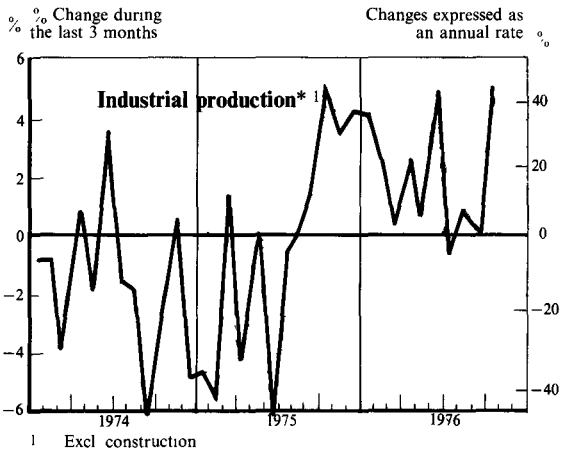
- a temporary freeze on prices from 1 December to 1 March 1977, exceptions being provided to take account of increases in prices of imported new materials and semi-finished goods;
 - a freeze on rents in the same period,
 - strict regulation of wage and salary increases within the framework of the present agreements (up to 1 March 1977) and a ban on their incorporation by heads of firms in selling prices.
- The discount rate decreased from 11 to 10% with effect from 7 December.
- The Central Bank and the Mortgage Credit Council agreed to restrict total lending to DKr 30 000 million in 1977, which implies an increase of 6% in 1976.
- The credit ceiling was raised by 2% to about Dkr 93 800 million from 9 December.

B — Federal Republic of Germany

The economic upswing in the Federal Republic of Germany gathered momentum again in the autumn of 1976. Export demand, whose trend had been appreciably overstated for a time through the award of some large contracts in the summer, maintained its buoyancy. Domestic demand, particularly for capital goods, expanded at a more rapid rate. Output was slow to pick up, rising slightly above the level reached in the spring. There was little, if any, further decline in the underlying rate of unemployment. The rate of price increases was decidedly moderate.

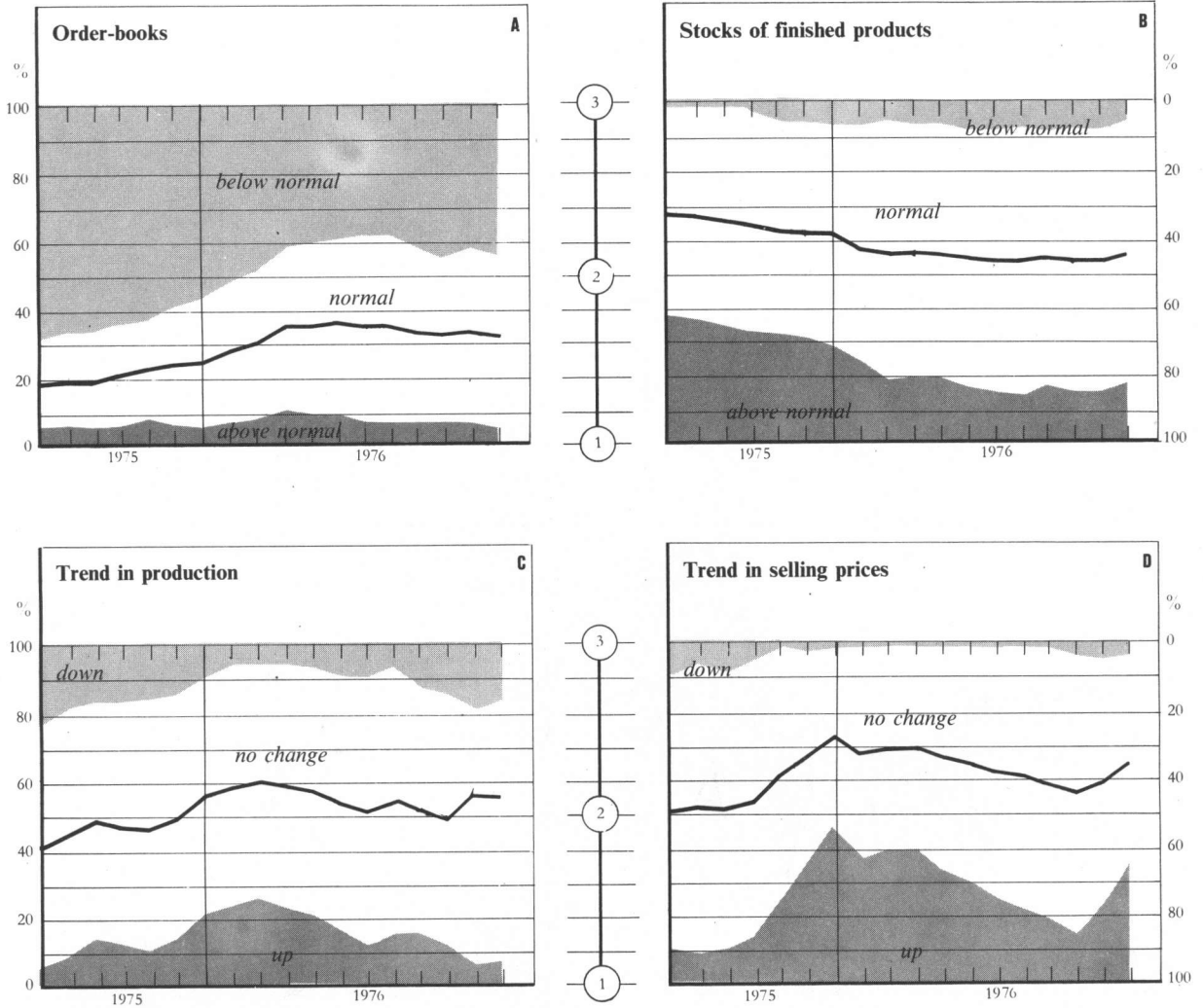
Economic trends in the months ahead will continue to be heavily influenced by the performance of export demand. In this respect, the balance of payments problems experienced by some of the Federal Republic's important trade partners are a major element of uncertainty. On the domestic side, as there are still large productivity reserves, there is little chance of unemployment declining significantly even if economic activity accelerates. The price climate should remain relatively favourable.

Federal Republic of Germany



*: seasonally adjusted.
Source: SOEC except where otherwise indicated.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

1. Recent developments

The expansionary forces in the economy have strengthened again in recent months, with the buoyant growth of export demand continuing to determine the trend. Domestic demand, particularly for plant and machinery, has also shown some improvement recently. The generally moderate expansion in demand has led to a slight recovery in output, which has been marking time since the spring. The margin of unused capacity in industry has remained fairly substantial curbing the decline in unemployment. The upward movement of consumer prices eased significantly.

Merchandise exports continued to climb rapidly. In terms of value, they were 15.5% up in the first ten months of the year on a year earlier. While the brisk expansion in exports to the other countries of the Community, to the other industrialized countries in Europe and to the OPEC countries persisted, exports to the United States, to state-trading countries and to developing countries continued at about their summer levels. The steady appreciation of the German mark has clearly prevented exporters from putting up their prices further.

Business investment in plant and machinery has staged a significant recovery recently. However, it is still difficult to tell whether this signals a lasting improvement in the propensity to invest. By contrast, commercial and industrial *investment in building and construction* has continued to decline, following the spurt triggered by the investment premium. In residential construction, too, demand fell from the level it had reached in the early months of the year under the impact of the support programmes. Demand in the public building sector remained particularly sluggish. The stimuli provided by stockbuilding have probably become much weaker than they were in the initial phase of recovery.

Private consumption, which had marked time since the spring, picked up a little in the autumn. In terms of value, retail sales in the first ten months of the year were 6.8% higher than in the same period last year; in real terms, this still gave an increase of 2.8%, thanks to the relatively favourable price trend. Sales of new cars, which had remained buoyant for almost two years, again rose at an above-average rate. In the eleven months to November, the total number of new registrations was 9.4% up on the corresponding 1975 figure.

The level of consumption probably reflected not only the persistently high propensity to save, but also the comparatively modest size of the increase in wage and salary incomes. The gross wage and salary bill in industry in the first nine months of the year was indeed only 5.0% higher than in the corresponding period of the previous year. Wage and salary earners' disposable incomes probably increased at an even slower rate, since deductions in the same period rose at more than double the pace of gross earnings.

Industrial production which had been flat since the spring expanded somewhat more rapidly again, especially

in the consumer goods sector. In the first ten months of the year output in industry as a whole was on average 7.8% up on the same period a year earlier. With production picking up, the margin of unused capacity in manufacturing contracted a little. In October, firms were working at 81.2% of their full capacity, compared with 79.6% in July and 80.2% in April.

Owing to the relatively large amounts of unused capacity the pick-up in production was not strong enough to produce any significant improvement in the situation on the *labour market*. By the end of November, unemployment had risen — roughly in line with the normal seasonal movement — to 984 700, or 4.3% of all employees. After the holiday break, the number of persons on short time also rose once again, to total 167 700 in November, by which time the number of unfilled vacancies had fallen to 202 100.

Merchandise imports which had been expanding sharply until the autumn, have of late tailed off significantly. In the period January-October their value was on average 20.1% higher than a year earlier. Imports of capital goods continued to climb at a rate slightly above-average. In the first ten months of the year, they were 21.5% up on the same period in 1975, when the increase for the year had averaged over 20%.

Although the slower increase in industry's costs at the beginning of the upswing was not maintained, the *overall increase in prices* was kept to a relatively low rate. Industrial producer prices in October were 4.6% higher than a year earlier. The cost-of-living index has virtually marked time since June partly under the impact of seasonal factors and the downward trend in import prices and in November its year to year increase was down to 3.7%.

In the period January-October, the *trade balance* showed a surplus of DM 28 300 million, DM 2 500 million less than a year earlier. The overall deficit on services and transfers narrowed and so the current account surplus actually widened a little. Intervention on the foreign exchange markets resulted in substantial inflows of capital (mainly short-term), which abated only after the German mark's central rates in the European exchange rate scheme had been adjusted on 18 October. At the end of November, the gross gold and foreign exchange reserves held by the Bundesbank totalled DM 95 900 million.

In the field of *public budgets*, the revival generated greater inflows of revenue while spending policy was cautious. The curbs on the rise in expenditure again fell mainly on public investment, which will probably be a good deal lower this year than last. The total public authority deficit in 1976 could run to some DM 50 000 million, an improvement of around DM 10 000 over 1975.

As a result of the sharp rise in bank lending to the business sector and of substantial inflows of foreign exchange, *monetary expansion* has accelerated considerably in recent months. In October, the central bank money stock

was 9.6% larger than twelve months earlier. As a result, the money supply target set by the Bundesbank for 1976

will probably be slightly exceeded. Interest rates on the bond market eased further.

TABLE 1
Key indicators

FR Germany	Unit	1969-1973 average ^{4 5}	1974 ⁵	1975 ⁵	1976 ⁶
Gross domestic product: volume	% change	5.1	0.7	- 3.3	5.4
of which: Industry ¹		5.8	0.7	- 5.7	8.1
Gross domestic product in volume per person in employment	% change	4.4	2.6	0.0	6.5
Total employment (number of persons) ²	% change	- 0.6	- 1.9	- 3.3	- 1.1
— Independent entrepreneurs		- 2.8	- 2.0	- 3.3	- 2.6
— Wage and salary earners in company sector		1.0	- 2.9	- 4.5	- 1.1
— General Government		3.4	3.7	1.8	0.5
Unemployment	as % of labour force	0.8	2.2	4.1	4.1
Compensation of employees per wage and salary earner	% change	11.9	11.4	7.0	7.3
Price index of private consumption ³	% change	4.8	7.3	6.1	4.5
Current account balance ³	Mio DM	3 652	24 520	8 880	7 510

¹ Excluding construction

² Domestic concept.

³ National accounts concept, on annual basis

⁴ Geometric mean of the change from 1968 to 1973, unemployment and current account balance: arithmetic mean over the five years

⁵ Source: Federal Statistical Office 'National Accounts', Series I

⁶ Estimates of Commission's Departments

2. Outlook

In the months ahead, the propensity to invest will probably improve further and consumer demand is expected to pick up. Domestic demand, however, is not expected to be as buoyant as in previous upswings of the economic cycle. The considerable amount of unused capacity will still impede investment and employment. Moreover, given the need to reduce structural deficits, public budgets will have an increasingly contractionary impact. Consequently, export demand will remain the main determinant of the business trend.

However, there is little chance of the average growth in exports for 1977 being as rapid as in 1976. The competitive position of Germany's export industry will no doubt remain relatively strong since the appreciation of the German mark contrasts with a domestic price and cost trend that is much more favourable than in most of the country's industrialized trading partners, but the expansion in world trade will probably slacken noticeably. There is particular uncertainty about the extent to which the internal and external difficulties experienced by major trading partners in the Community will affect German exports. In addition, the mounting external indebtedness of state-trading countries and non-oil developing countries will increasingly set limits to any further expansion in their purchases. The large contracts

received in the summer, which cover fairly long periods, should, however, underpin activity.

With the recovery continuing and firm's profit situation remaining favourable, the *investment climate* will probably improve further.

However, on account of the persistently large amounts of unused capacity, investment is not expected to expand at a particularly rapid rate. Investment in plant and machinery will probably serve mainly to replace old equipment and to rationalize. This will probably entail a further increase in imports. Building investment is likely to continue to rise in real terms, but only slightly. Thanks to the volume of new orders generated by the investment premium and by other financial incentives, output in industrial and commercial building and in residential construction will probably continue to rise. Building investment by the public authorities, on the other hand, is likely to show a further fall in real terms as a result of the difficult financial situation, particularly that of the local authorities. Stockbuilding should produce little, if any, additional stimulus.

The expected recovery in *private consumption* will probably be relatively modest since, with the employment situation still precarious, consumers will only slowly abandon their reluctance to spend; nor is the incomes trend expected to provide any significant stimuli.

Public consumption is, if anything, likely to grow at a somewhat slower rate owing to the efforts to trim public budgets.

Given the foreseeable trend of demand (see Table 2), real *gross domestic product* is expected to grow by an average

of 4-4.5% in 1977. This will probably be achieved largely through the expected rise in productivity. As a result, the overall employment situation will not improve significantly, and there will still be wide differences between industries. Unemployment will remain high, while the number of foreign workers will probably continue to fall.

TABLE 2
Demand for and supply of goods and services

FR of Germany	1974 ²	1975 ²			1976 ³			1977 ³
	At curr prices Mrd DM	% change on preceding year						
		Vol	Price	Value	Vol	Price	Value	Vol
Private consumption	532.95	2.6	6.1	8.9	3.4	4.5	8.1	3.9
Public consumption	198.24	3.9	7.4	11.6	2.6	3.6	6.3	2.5
Gross fixed asset formation	223.89	- 4.1	2.9	- 1.3	4.4	2.4	7.0	3.5
— Enterprises	131.98	- 3.3	4.0	0.6	7.5	2.5	10.2	5.3
— Dwellings	52.65	- 12.4	2.5	- 10.2	3.2	6.5	2.0	.
— General Government	39.26	2.0	2.3	4.3	- 5.8	2.9	- 3.1	- 1.3
Domestic final uses (excluding change in stocks)	955.08	1.1	6.0	7.1	3.5	3.9	7.5	3.5
Domestic final uses (including change in stocks)	957.18	0.4	6.4	6.4	5.6	3.4	9.2	3.8
Exports ¹	284.86	- 8.8	7.8	- 1.7	12.3	1.6	14.2	7.7
Imports ¹	212.38	1.4	2.9	4.3	12.5	3.6	16.6	7.6
Gross domestic product at market prices	999.66	- 3.3	8.2	4.6	5.4	3.1	8.7	3.9
Contribution to percentage change in gross domestic product								
Domestic final uses (excluding change in stocks)	955.08	1.0		6.7	3.4		7.3	3.4
Change in stocks	2.10	- 0.7		- 0.6	2.0		1.7	0.3
Balance of exports and imports ¹	42.18	- 3.6		- 1.5	- 0		- 0.2	0.2

¹ Goods and services

² Source: Federal Statistical Office 'National Accounts 1975', Series 1

³ Estimates of Commission's Departments

With overall demand slowing down markedly, the *growth in imports* will also lose a great deal of momentum. In spite of the less vigorous expansion in exports and a slight deterioration in the terms of trade, there will therefore be an *external surplus* of roughly the same order of magnitude as this year.

The *price climate* will remain relatively favourable. However, it will probably be more difficult to make any further progress in stabilizing prices since the gap between cost increases and productivity gains in industry will widen again.

Given the heavier dependence of the German economy on exports and the risks this entails, there will be an even greater need than in the past for domestic demand to

make an increased contribution to economic activity. This will have to be achieved largely through a more rapid growth in business investment, which is now also essential if new jobs are to be created. Efforts along these lines would be helped by moderate wage settlements.

Major economic policy measures

May 1976:

— On 20 May the Bundestag adopted the 1976 budget which, with expenditure at DM 164 100 million (5% up on the previous year's budget) and revenue at DM 131 300 million, closes with a financial deficit of DM 32 800 million.

June.

— One 3 June 1976 the 19th Pension Adjustment Law was promulgated.

TABLE 3

Main economic indicators

	Year	Jan.	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov.	Dec
Industrial production* (1970 = 100)	1974	112.9	115.0	114.9	113.8	112.9	119.1	112.1	110.9	111.9	109.9	111.3	106.5
	1975	104.8	104.9	108.2	100.6	104.9	101.5	100.1	104.9	103.1	105.0	108.6	107.4
	1976	109.4	111.4	107.7	112.5	112.2	113.1	111.9	113.3	113.2	116.8		
New orders received* (1970 = 100)	1974	137	141	143	142	144	143	139	147	137	139	134	128
	1975	133	132	129	132	127	159	135	129	138	139	141	142
	1976	145	144	149	147	147	150	175	160	158	153		
Of which New domestic orders in capital goods industry*	1974	115	122	121	114	122	112	110	113	110	113	111	113
	1975	125	122	123	125	118	209	135	114	125	121	126	131
	1976	128	130	135	134	128	125	131	145	145			
Unemployed* (000)	1974	358.6	378.5	439.5	516.4	515.1	542.7	585.0	632.2	671.2	745.9	832.4	816.2
	1975	859.1	920.9	1 028.3	1 100.2	1 094.3	1 109.7	1 139.5	1 143.0	1 131.7	1 147.6	1 154.9	1 179.7
	1976	1 193.7	1 202.5	1 142.2	1 107.6	1 042.0	1 031.6	1 036.5	1 032.0	1 007.5	1 000.2	984.7	
Unfilled vacancies* (000)	1974	425.4	393.0	364.3	349.4	323.2	298.4	276.0	262.8	241.9	245.5	239.2	248.5
	1975	258.9	258.6	250.6	238.1	225.8	215.8	213.0	213.9	209.1	213.1	213.8	221.0
	1976	226.6	223.5	235.7	237.1	245.0	242.7	241.0	232.4	216.5	232.9	244.0	
Construction permits for residential construction* (000)	1974	42.6	37.2	36.6	34.1	37.0	28.8	30.9	29.5	29.8	32.1	27.7	34.8
	1975	30.8	31.9	29.1	29.2	26.3	29.3	26.9	27.1	30.5	31.2	35.6	34.1
	1976	37.9	39.4	35.4	35.5	34.1	33.8	31.1					
Private consumers' expenditure turnover of retail trade* (1970 = 100)	1974	135	134	134	136	137	135	138	138	139	142	139	137
	1975	143	147	147	147	145	150	148	150	152	154	156	151
	1976	156	161	156	156	157	158	156	159	163	160		
Consumer prices* (1970 = 100)	1974	123.5	124.4	124.8	125.4	126.3	126.8	127.4	128.2	128.6	129.4	130.1	130.6
	1975	131.1	131.6	132.2	133.1	133.9	134.9	135.3	135.7	136.5	136.9	137.2	137.6
	1976	130.0	138.7	139.3	140.1	140.6	141.0	140.8	141.9	142.0	142.1	142.3	
Visible imports* (million Eur)	1974	4 388	4 056	4 635	4 390	4 857	4 519	4 897	5 004	4 743	4 714	4 760	4 630
	1975	4 311	4 647	4 324	5 046	4 294	4 872	4 718	4 600	5 063	5 007	4 864	5 425
	1976	5 020	5 390	5 696	5 520	5 462	5 764	5 756	5 934	5 936	5 733		
Visible exports* (million Eur)	1974	5 525	5 340	6 023	5 836	6 282	5 631	6 217	6 239	6 011	6 067	6 022	6 165
	1975	5 490	5 639	5 345	5 938	5 235	6 156	5 795	5 386	5 904	5 786	5 846	6 297
	1976	5 815	5 989	6 720	6 221	6 361	6 707	6 509	6 607	7 236	6 742		
Balance of trade* (million Eur)	1974	1 138	1 485	1 393	1 445	1 456	1 112	1 320	1 258	1 253	1 353	1 247	1 513
	1975	1 193	1 002	1 021	892	942	1 284	1 077	786	841	779	983	872
	1976	795	599	1 024	701	899	944	753	673	1 300	1 009		
Official gold and foreign exchange reserves (DM 000 million)	1974	89.6	89.2	91.5	93.8	95.6	94.9	94.1	92.5	90.8	89.3	90.6	83.4
	1975	84.8	86.8	87.8	85.8	85.0	83.8	82.4	81.8	81.3	82.4	81.6	86.4
	1976	86.4	88.4	96.4	95.5	93.6	92.8	91.9	95.1	96.8	98.8	95.9	
Money supply* (DM 000 million)	1974	406.4	410.1	412.2	417.7	418.7	419.1	421.3	422.8	424.7	426.5	431.9	436.6
	1975	438.4	439.9	442.4	441.9	443.3	444.2	447.7	455.6	459.7	467.0	472.9	479.0
	1976	480.1	483.0	481.2	484.3	488.6	494.7	497.5	505.6	508.6	517.8	519.9	

() Provisional

. Not available

* Seasonally adjusted

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

Conversion into Eur. see Table 853 in 'General Statistical' of the SOEC

— Industrial production, excluding construction

— New orders received manufacturing industry (excluding food, beverages and tobacco) value index. source: Deutsche Bundesbank

— Unfilled vacancies position at end of month

— Construction number of dwellings authorized

— Private consumer's expenditure Total retail trade, value index source: Deutsche Bundesbank

— Consumer prices cost-of-living index (all households) source: Deutsche Bundesbank

— Imports cif, exports fob, values

— Balance of trade difference between the seasonally adjusted values of imports and exports

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

— Money supply M3 (including interest-bearing deposits): position at end of month source: Deutsche Bundesbank.

This law increases retirement pensions under the statutory insurance scheme by 11 % from 1 July 1976, payments under the statutory accident insurance scheme by 7 % from 1 January 1977, and payments from the old-age assistance fund for farmers by 11 % from 1 January 1977.

— On 4 June the Bundestag and Bundesrat passed the Law amending the Tobacco Tax Law and the Spirits Monopoly Law. This increases the excise duty on tobacco by 18 % and the excise duty on spirits by 20 % from 1 January 1977, with the extra revenue expected to total some DM 1 300 million. The Bundesrat rejected the increase in value added tax from 1 January 1977.

— On 25 June the Bundestag and Bundesrat passed the corporation tax reform law which abolishes the double taxation of shares. From 1 January 1977, distributed company profits will be taxed only at the shareholder's personal rate of income tax while retained profits will be taxed at 56 %.

July:

— On 1 July the new law on worker participation in the management of large firms came into force. Under this law, the supervisory boards of companies with more than 2 000 employees will be composed of equal numbers of shareholders' and workers' representatives. The law must be fully applied in all the firms concerned by the summer of 1978.

— On 9 July a statutory scheme came into force extending protection against wrongful dismissal to those employees under 18 years who are not working under a vocational training contract.

September:

— From 1 September new rules on children's allowances came into force: unemployed young people between 18 and 23 years may now be paid children's allowances if they are not drawing unemployment pay or unemployment relief.

— On 23 September the Federal Labour Office made an extra DM 50 million available for expenditure on measures to promote the taking up of work and DM 265 million for work procurement schemes.

October:

— On 8 October the Federal Labour Office unanimously adopted its budget for 1977; this budget amounts to DM 17 000 million and has still to be approved by the Federal Government. Because of the improvement in

the economy, the appropriation for unemployment pay, at DM 6 600 million, is DM 900 million less than in 1976. To improve the regional mobility of the labour force, the appropriations to encourage the taking up of work were increased to DM 310 million, which is DM 80 million more than in 1976.

— On 18 October the central rate of the German mark in the European snake of jointly floating currencies was changed: the DM was revalued by 2 % against the Dutch guilder and the Belgian and Luxembourg francs, by 3 % against the Norwegian krone and the Swedish krona and by 6 % against the Danish krone.

— On 30 October agreements were signed between employers and workers in the metal-working industry providing for higher benefits under the scheme to promote personal asset formation and higher special payments by firms. These improvements will cost firms an extra DM 1 700 million in 1977, or 1.7 % of total wage costs.

November:

— On 10 November the Federal Government approved a DM 430 million programme to combat unemployment by promoting the reemployment of the longer-term unemployed, in particular elderly workers, women and young people.

December

— On 8 December steel industry employers and workers agreed on a 6 % increase in agreed wages from 1 November 1976, a one-day extension of paid annual holidays and an increase in asset-creating benefits from DM 312 to DM 468 annually. The total cost of this settlement to the steel industry is some 7 %.

— On 16 December the Central Bank Council of the Bundesbank announced its monetary policy target for 1977. It aims to hold the growth in the central bank money stock to 8 %, comparing the average for 1977 with that for 1976. In view of the sharp expansion recorded in the closing months of 1976 this average rate means that the central bank money stock would be allowed to grow by 6-7 % during the year from the 4th quarter of 1976 to the 4th quarter of 1977. The monetary growth target is based on a general economic target projection of 5 % for the growth in real GNP, 3.5 % for the GNP deflator, and just under 4 % for the rate of increase in consumer prices.

C — France

From mid-1976 onwards, the French economy entered a phase of stagnation in economic activity, despite sustained growth in industrial production during the third quarter. The slowdown in expansion is basically due to the powerful deflationary effect of the behaviour of producers and consumers in the face of a high level of cost inflation. The sudden deterioration in the trade deficit is largely due to the worsening of the terms of trade.

In the present situation, only moderate economic growth can be expected for the first half of 1977, while unemployment will continue to give cause for concern. An upturn in the economy can be expected only if there is some improvement in the investment climate. This will depend on how far price and cost increases slow down. A slowdown in inflation could also lead to a gradual reduction in the external deficit.

1. General assessment and economic policy pursued

Following the recasting of economic policy which began last September, the French economy is at present going through a phase of adjustment, made necessary by the persistence of inflation and by the effects of the oil crisis. There was a danger that the trends which had emerged during the summer might seriously jeopardize the conditions for subsequent growth; this meant that it was necessary to:

- reverse once and for all the path of inflation which had been boosted by numerous factors during the summer, had shown no signs of weakening during the recession and had indeed recently gained momentum;
- restore the external situation, which had deteriorated as a result partly of the unfavourable weather conditions which had led to an unbalance in the volume of trade, but also as a result of the depreciation of the French franc; these two factors together produced a current payments deficit in 1976 which was higher than the 1974 deficit.

Fighting inflation, stabilizing the franc and restoring external equilibrium were therefore made the prime objectives in the programme introduced on 22 September 1976. Its main points were as follows¹:

- a freeze of most consumer prices during the last quarter of 1976, followed by a return to a system of monitored prices and a reduction of VAT for basic consumer items;
- the introduction of official guidelines for increases in prices and wage and non-wage incomes: only low wages and salaries and transfer incomes were allowed to increase faster than prices; for average wages and salaries, 1977 was to mark a halt in the growth of purchasing power;
- a ceiling was set for the value of oil imports

(irrespective of changes in the factors determining their cost), the domestic selling price of oil was increased and measures aimed at reducing consumption were tightened;

- a number of measures were introduced to support economic activity (loans to small and medium-sized firms, increases in depreciation allowance rates, and the setting up of a counter-cyclical action fund);
- provisions governing credit ceilings were tightened for 1977 and a target was set for the growth of the money supply; in immediate terms, the defence of the franc was seen as a prime monetary policy objective.

¹ See also "Main economic policy measures" annexed to this chapter.

TABLE I
Key indicators

France	Unit	1970-1973 average ^{4,5}	1974 ⁵	1975 ⁵	1976 ⁶
Gross domestic product; volume	% change	5.4	2.9	— 1.3	4½
of which: Industry ¹		5.6	3.7	— 5.5	10
Gross domestic product in volume per person in employment	% change	4.5	2.1	— 0.2	5½
Total employment (number of persons) ²	% change	0.9	0.7	— 1.5	— 1
— Independent entrepreneurs		— 2.7	— 2.5	— 2.4	— 3
— Wage and salary earners in company sector		1.6	1.4	— 2.0	— ½
— General Government		2.8	2.1	2.2	2
Unemployment	as % of labour force	2.6	2.8	4.1	4½
Compensation of employees per wage and salary earner	% change	11.5	16.5	17.3	:
Price index of private consumption ³	% change	6.3	13.9	11.4	9½
Current account balance ³	FF '000 million ¹	1.9	— 28.8	— 0.3	— 32

¹ Construction excluded

² Domestic concept

³ National accounts concept, on annual basis.

⁴ Geometric mean of the change from 1970 to 1973, unemployment and current account balance arithmetic mean over the five years

⁵ Source: SOEC and Services of the Commission

⁶ Estimates of Commission's Departments

No data available

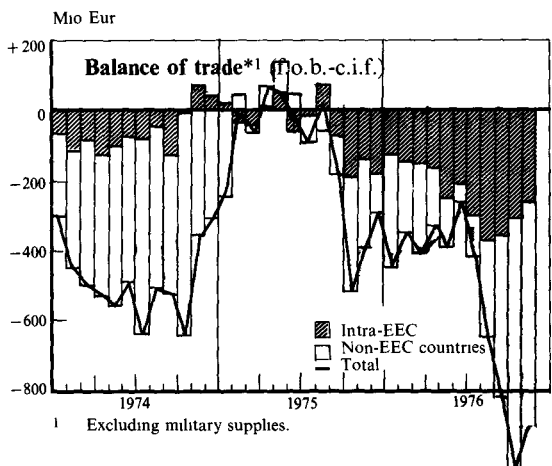
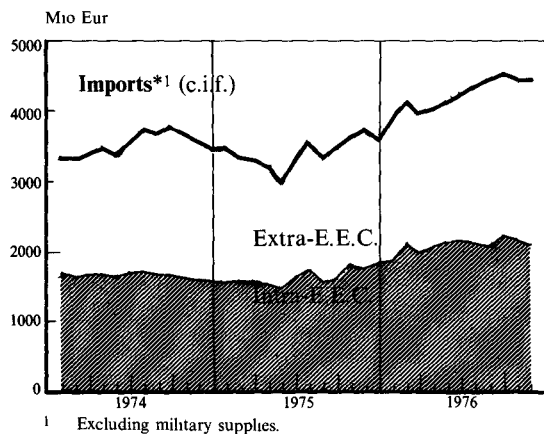
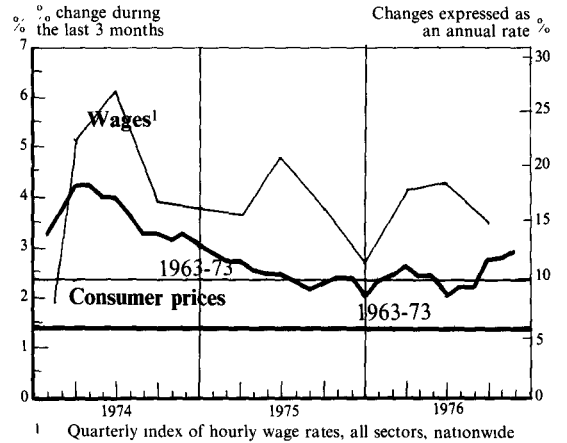
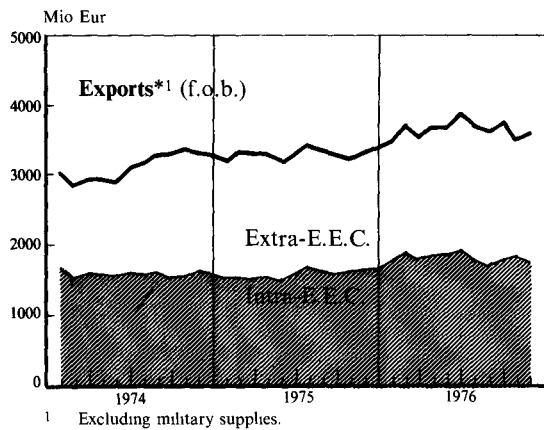
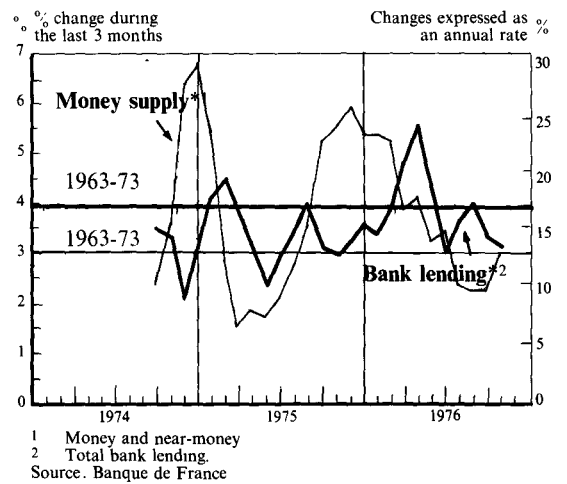
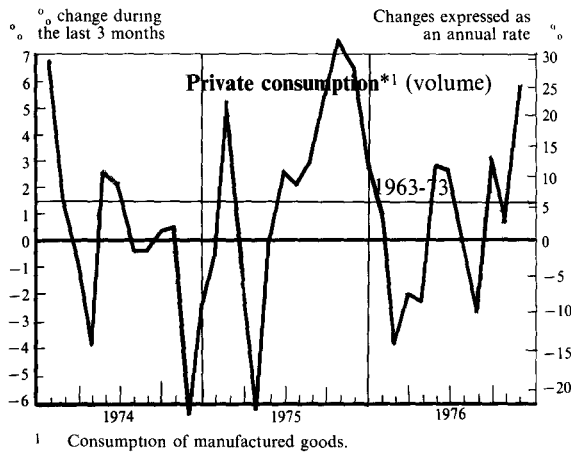
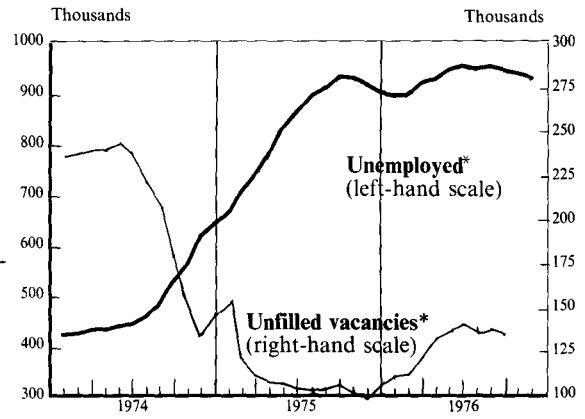
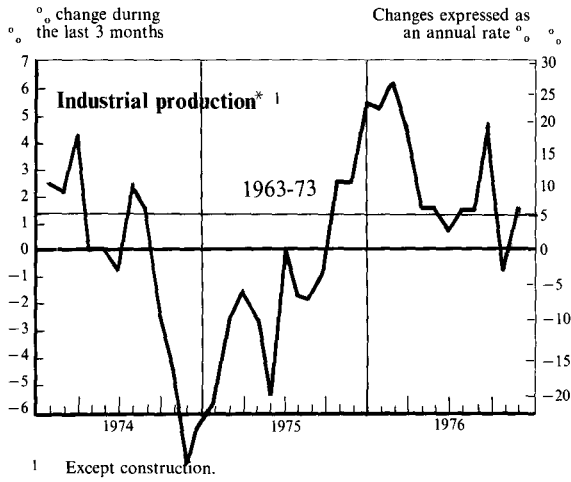
2. Recent developments

The deterioration in the external situation is the result of various factors.

Between June and October, after a period of continuing strong growth during the first two quarters, *exports* of goods showed hardly any increase in money terms, which means that they were falling in volume terms. This trend is partly the result of the slowdown in world demand, but it is more particularly due to the effects of the drought which considerably reduced exports of agricultural produce and foodstuffs. At the same time, the high rate of

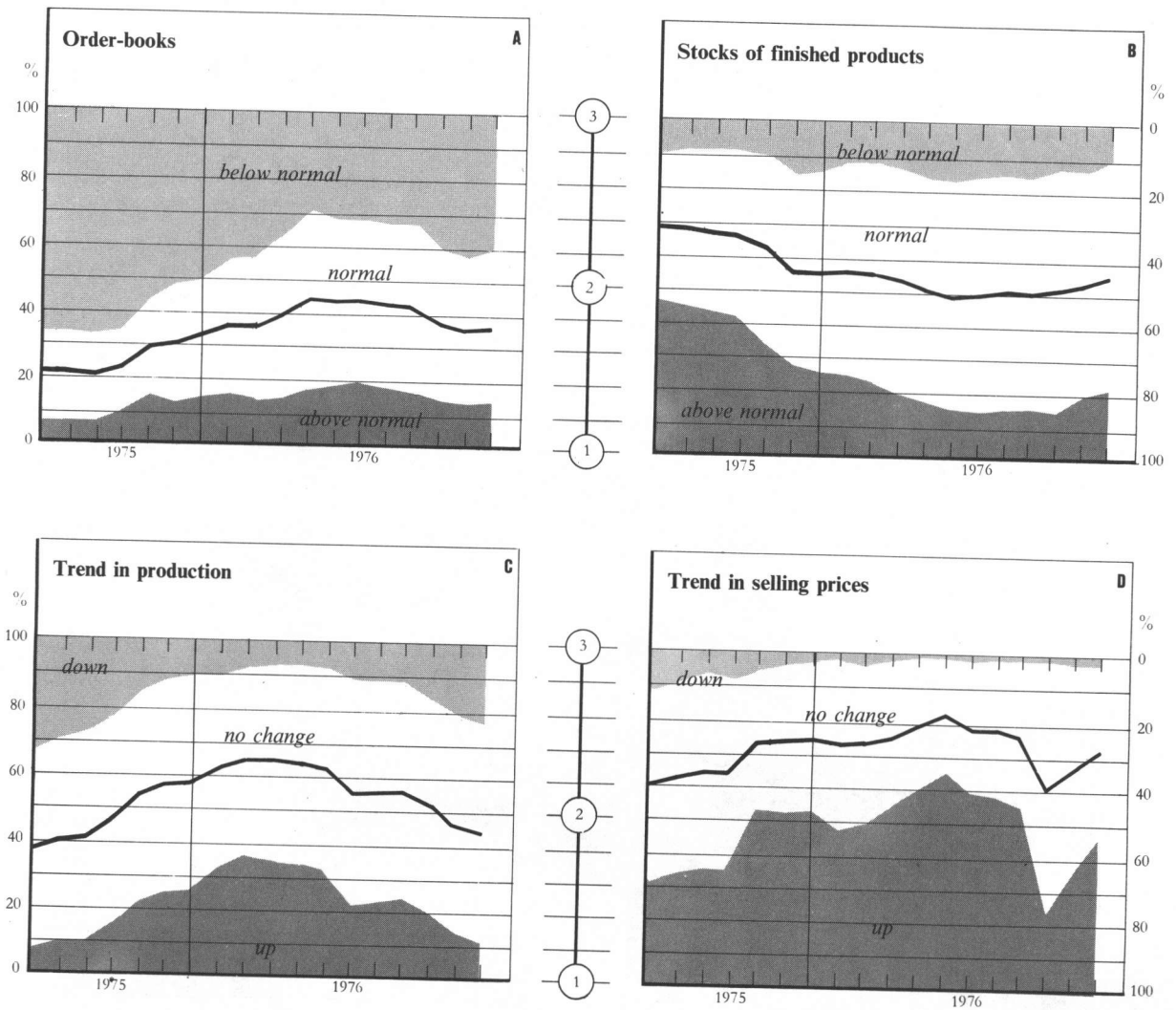
increase in *imports* of goods further accelerated after the middle of the year. The rapid growth in the volume of imports was mainly due to oil imports (as a result of the drought and in anticipation of price increases) and imports of agricultural produce and foodstuffs; however, purchases of consumer and capital goods also rose sharply.

For the first eleven months of the year, the deficit on the *trade balance* stood at more than FF 18 000 million (fob-cif). The tendency for the situation to deteriorate was very marked, since, in seasonally adjusted terms, the deficit increased from FF 1 200 million in the second quarter to FF 7 500 million in the third quarter. This deterioration is



*: Seasonally adjusted.
Source: INSEE, except where otherwise stated.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

due both to the rapid increase in prices for imports of raw materials and to the depreciation of the franc which, in weighted terms, amounted to about 11% between December 1975 and November 1976.

After slowing down somewhat during the second quarter, the rise in *consumer prices* accelerated once again; for the year as a whole, it will be of the order of 10%. This substantial increase is largely due to price rises for foodstuffs and services. The situation in the fourth quarter is more difficult to judge, since the trend of the index is dominated by the effect of the recent measures (widespread price freeze, large increase in petroleum product prices in November, etc.); however, a tendency towards a slowdown seems to have emerged recently.

The growth of production and demand was close to that observed in most of the other Member States. The period of recovery was followed by a slowdown in *industrial production* in the spring of 1976, though there were signs that it was picking up again in September. This situation reflects a very wide variety of trends: there was rapid growth in the consumer and capital goods industries, while activity slowed down for intermediate goods. By October, the index of industrial production had reverted to the level it had reached in July and recent business surveys do not point to any appreciable increase in production. Building and public works have, by contrast, continued to show an increase in activity, due perhaps to the impact of special government orders placed under the recovery plan of September 1975. Despite this fairly sluggish overall trend, the *number of job seekers* (seasonally adjusted) has fallen fairly steadily from 967 000 in June to 931 000 in November.

Private consumption has continued to expand, though its growth in volume terms remains below its long-term rate; the growth in the purchasing power of households slowed down considerably during the first half of 1976, though a little less rapidly in the third quarter.

The volume of *investment* has probably grown a little during the second half of the year. The evolution of demand for light equipment has probably remained favourable. Until November, stock levels were considered near normal in most sectors. By contrast, demand for housing, industrial buildings and public works will probably have declined markedly by the end of the year. The development of demand on the part of firms is due to several factors. In the first place, the sectors using their production capacity to the full account for only some 25% of value-added in industry as a whole. Secondly, during the fourth quarter, at a time of general uncertainty when order books were running down, the financial situation of firms deteriorated as a result of increased wage and social security costs following the introduction of the price freeze. Finally, demands were made on cash resources by exceptional tax payment dates. In this situation, there have been few firms prepared to take the risk of increasing their financial commitments, especially since *interest rates* have risen considerably since July. Nevertheless, between June and September, bank loans to

the economy rose by 12% a year and the growth in the *money supply* (M2) reverted to a rate of 9% a year.

3. Outlook

The stabilization measures introduced last autumn will make themselves felt only gradually. A return to balance of payments equilibrium depends partly on foreign demand, while the slowing down of inflation and the stabilization of the rate for the franc depend mainly on the behaviour of the two sides of industry.

In the first half of 1977, the growth of exports of industrial products should recover at a moderate rate, comparable to the rate of growth of world trade, and this should have at least some stimulating effect on industrial activity. Exports of agricultural produce and foodstuffs, on the other hand, could well continue to suffer from the effects of the 1976 drought.

The level of *imports* should fall over the months ahead, and there could even be a decrease in terms of volume as a result of the slackness of overall demand and large-scale purchases carried out in 1976 in anticipation of price increases. Consequently, the *trade deficit* should decrease during the first half of the year. The scale of this decrease remains a matter of uncertainty, however, being dependent on a slowdown in price rises, production costs on the domestic market and the cost of imported products.

The pressure on *prices* once the price freeze comes to an end will be abated by the lowering of the standard rate of VAT and will subsequently be tempered by price controls and the keenness of international competition. The full weight of these factors will be restricted to manufactured products, where price rises have in any case been relatively moderate since early 1975. However, the freeze on public service charges during the first quarter will act as a sharp brake on the growth of service prices. For the year as a whole, the official norm for price rises could be more or less respected. With regard to *wages and salaries*, the concessions which firms are prepared to grant will inevitably be seriously restricted by the slowdown in the growth of productivity gains and by the reintroduction of the countercyclical levy. Finally, with the implementation of the current guidelines, the growth of credit and *money supply* will be less expansionary than in 1976.

The growth of *domestic demand* will probably remain moderate. While sudden turnaround can be ruled out, if only because of the present cautious attitude of *firms* with regard to stock management, the factors which restricted the growth of demand on the part of firms during the second half of 1976 will continue to have a restraining influence. All in all, the wait-and-see attitude of managements could thus persist in early 1977. However, with some sectors receiving investment support under the September 1976 measures, and with investment programmes already planned by public enterprises, investment expenditure could show a slight increase in overall terms during the first half of the year. *Private consumption* should also continue to show limited growth. The

TABLE 2

Demand for and supply of goods and services

France	1974 ²	1975 ²			1976 ³			1977 ³
	At curr prices/Mrd FF	% change on preceding year						
		Vol.	Price	Value	Vol.	Price	Value	Vol.
Private consumption	779.7	3.3	11.3	15.0	4.0	9.3	13.7	3.7
Public consumption	173.2	2.8	16.8	20.1	4.2	7.6	12.1	2.6
Gross fixed asset formation	315.6	- 4.3	11.7	6.9	0.8	10.1	11.0	- 1.2
Domestic final uses (excluding change in stocks)	1 268.5	1.4	12.1	13.7	3.3	9.2	12.8	2.4
Domestic final uses (including change in stocks)	1 294.3	- 1.9	11.4	10.2	5.2	9.2	14.9	2.1
Exports ¹	262.7	- 3.7	7.1	3.1	10.7	9.5	21.2	7.7
Imports ¹	279.5	- 7.0	- 0.5	- 7.5	15.5	11.2	28.4	3.6
Gross domestic product at market prices	1 277.5	- 1.3	14.1	12.6	4.3	8.9	13.6	2.9
		Contribution to % change in gross domestic product						
Domestic final uses (excluding change in stocks)	1 268.5	1.3		13.6	3.3		12.9	2.4
Change in stocks	25.8	- 3.2		- 3.3	1.8		1.8	- 0.3
Balance of exports and imports ¹	- 16.8	0.6		+ 2.3	- 0.8		- 1.1	+ 0.8

¹ Goods and services.

² Source: SOEC.

³ Estimates of Commission's Departments.

proportion of their budgets which private consumers can spend on energy products will be considerably restricted by the expected rise in domestic oil prices, since this is an area where the volume of demand is difficult to reduce. On the other hand, private consumption is likely to be stimulated by the shifting of purchasing power from the higher wage and salary earners with a relatively marked propensity to save (their incomes should be frozen or severely held back) towards those categories of households which have the most marked propensity to consume (minimum wages and social security benefits will increase rapidly). *Public consumption* will help to bolster up domestic demand.

Industrial production will probably expand during the first half of the year, but the annual average growth rate should hardly exceed 2.5%. The growth rate of GDP is nevertheless likely to reach some 3%. This is because the foreseeable depressed state of activity in building and public works could be offset by a high level of agricultural production, which was running at nearly 20% below its trend level in 1976. On the whole, there is every reason to anticipate an increase in *unemployment*, though this might be reduced by voluntary withdrawals from the labour force.

The basis for lasting growth now exists. In order to consolidate it in 1977, the domestic causes of inflation, which have produced structural and behavioural distortions, will first have to be eliminated. In the present economic situation, measures to boost the economy and employment should be avoided over the next few months, so as not to jeopardize the efforts already made and the results achieved by the recent measures. While the current short-term policy must be pursued, it needs to be accompanied by the structural reforms outlined recently, particularly in the field of fairer taxation, the distribution of incomes, the protection of small savers and the elimination of economic rent situation which restrict competition or productivity gains.

Main economic policy measures

June 1976.

— With a view to consolidating the Treasury debt, the Government floated a FF 2 500 million fifteen-year loan carrying an interest rate of 10%.

— Parliament adopted a draft amended Finance Act for 1976: increased appropriations amounting FF. 2 500 million were covered by an economy programme totalling the same amount.

TABLE 3

Main economic indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Industrial production (1)* (1970 = 100)	1974	125	126	124	125	126	125	128	128	122	122	117	114
	1975	115	114	112	112	108	112	110	110	111	114	113	117
	1976	120	120	122	122	122	123	124	124	129	123		
Industrial production (2)* (1970 = 100)	1974	118	122	117	116	118	119	117	117	113	113	111	107
	1975	109	112	107	106	104	106	104	104	105	108	109	108
	1976	112	114	112	114	113	114	112	112	118	116		
Unemployment* (1 000)	1974	422.3	426.7	429.0	429.8	435.4	448.9	468.1	488.9	528.7	575.3	622.0	649.8
	1975	676.2	707.9	739.9	784.4	826.8	877.0	900.0	910.7	933.1	928.1	913.3	905.6
	1976	899.6	901.4	920.7	929.4	953.1	966.7	950.1	951.7	941.2	935.4	931.4	
Vacancies* (1 000)	1974	229.9	230.2	234.4	236.3	243.3	236.0	219.8	207.6	179.5	154.0	132.7	144.4
	1975	154.0	121.7	110.7	106.0	105.7	103.3	102.5	102.7	105.3	101.2	99.2	106.6
	1976	110.2	110.1	121.9	129.4	134.4	138.7	134.0	135.5	131.2	116.8	108.0	
Private consumption - manufactured goods consumption* (1963 FF'000 MILLION)	1974	14.07	13.43	13.25	13.53	13.79	13.53	13.48	13.75	13.58	13.53	12.86	13.26
	1975	13.44	13.53	13.04	13.42	13.54	13.38	13.70	13.95	14.13	14.76	14.82	14.50
	1976	14.91	14.24	14.20	14.58	14.66	14.59	14.56	14.23	15.08	(14.50)		
Consumer prices (1970 = 100)	1974	127.4	129.1	130.6	132.7	134.3	135.8	137.5	138.6	140.1	141.8	143.1	144.3
	1975	145.9	147.0	148.2	149.5	150.6	151.7	152.8	153.8	155.1	156.3	157.3	158.2
	1976	159.9	161.0	162.4	163.8	164.9	165.6	167.2	168.4	170.2	171.8	173.2	
Wages and salaries (1962 = 100)	1974	286.5			301.1			319.6			332.0		
	1975	344.6			357.4			374.7			385.3		
	1976	395.7			411.9			429.2			443.8		
Visible imports* (million Eur)	1974	3 307	3 311	3 437	3 470	3 418	3 556	3 755	3 729	3 773	3 676	3 539	3 489
	1975	3 410	3 319	3 287	3 178	2 980	3 315	3 544	3 334	3 477	3 728	3 777	3 706
	1976	3 951	4 099	3 986	4 006	4 078	4 168	4 327	4 275	4 554	4 499	4 501	
Visible exports* (million Eur)	1974	3 011	2 865	2 942	2 946	2 866	3 075	3 128	3 229	3 259	3 036	3 262	3 229
	1975	3 185	3 311	3 232	3 249	3 123	3 306	3 453	3 352	3 293	3 207	3 387	3 413
	1976	3 503	3 751	3 576	3 676	3 685	3 905	3 713	3 627	3 735	3 465	3 597	
Balance of trade* (million Eur)	1974	-296	-446	-495	-524	-552	-481	-627	-500	-514	-640	-277	-260
	1975	-225	-8	-55	+71	+143	-9	-91	+18	-184	-521	-390	-293
	1976	-448	-348	-410	-330	-393	-263	-614	-648	-819	-1 034	-904	
Gross official reserves (FF '000 million)	1974	38.13	37.34	37.42	37.42	37.49	37.60	38.28	39.17	39.61	41.24	41.37	40.38
	1975	95.92	96.49	97.37	98.52	100.52	100.21	93.19	94.59	95.57	99.66	101.79	100.98
	1976	99.71	95.62	94.75	88.39	88.21	89.65	85.51	85.21	85.33	86.49	86.52	
Bank lending* (FF 'million)	1974	553.0	560.1				595.3	601.3	615.2	616.2	621.4	627.8	636.7
	1975	646.7	655.9	661.4	667.7	670.9	681.4	690.6	698.0	702.6	711.6	720.1	727.6
	1976	735.1	748.0	762.4	776.3	779.4	785.1	805.3	809.5	816.3	830.6		
Money supply (M ₁)* (FF '000 million)	1974	316.2	318.4				335.7	330.8	331.0	332.4	338.7	356.0	361.9
	1975	355.1	353.5	359.5	354.4	357.1	366.4	373.3	379.1	386.3	390.0	397.8	406.9
	1976	412.5	419.5	421.6	425.5	424.9	427.8	434.6	436.0	434.8			
Money and near money (M ₂)* (FF '000 million)	1974	559.4	565.9				595.8	598.2	603.3	609.5	620.4	641.5	650.7
	1975	653.9	660.2	661.3	666.6	671.9	681.5	691.9	703.0	716.7	731.0	744.1	754.6
	1976	769.5	782.8	784.1	801.0	808.2	811.1	819.5	825.7	828.5	844.1		
L T interest rates	1974	10.21	10.48	10.69	10.75	10.80	11.45	11.40	11.40	11.38	11.14	11.17	11.21
	1975	10.90	10.69	10.34	10.36	10.31	10.21	10.20	10.11	10.10	10.15	10.19	10.18
	1976	10.16	10.16	10.29	10.24	10.19	10.37	10.51	10.61	10.56	10.95	10.94	11.04

() Provisional
Not available

* Seasonally adjusted

Source: INSEE (except as otherwise indicated)

Conversion into Eur see Table 853 of "general Statistics" of SOEC

- Industrial production (1) - excluding construction and public works, about 50% of the comprehensive annual index
- Industrial production (2) - including construction and public works, about 75% of the comprehensive annual index
- Unemployment - unsatisfied job requests at month-end
- Vacancies - unfilled vacancies at month-end
- Private consumption - volume of consumption of manufactured goods, coverage about 40% of the quarterly index which covers all goods and services
- Consumer prices - index covering 295 items
- Wages and salaries - index of hourly wage rates, all sectors, nationwide, as at first day of quarter
- Imports cif, exports fob, excluding military supplies
- Balance of trade - difference between the seasonally adjusted values of imports and exports
- Gross official reserves - gold and foreign exchange reserves, SDR's and position at IMF Source: SOEC
- Bank lending - total bank lending, position at end of month Source: Banque de France
- 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 Source: Banque de France
- Money and near money - position at end of month Source: Banque de France
- L T interest rates - yield on bonds issued by the public and semi-public sectors

July:

— The minimum hourly rate (SMIC) was raised from FF 8.08 to FF 8.58, representing an increase of 6.2% since the last change on 1 April.

— The discount rate was raised from 8% to 9.5%. Banks increased their base rates from 8.80% to 9.20%.

— Parliament adopted the law on the taxation of capital gains. This extends personal income tax base to include capital gains realized on the disposal of certain property and securities. The new arrangements will apply to sales of property as from 1 January 1977 and to securities as from 1 January 1978.

September:

— The Government tabled a second draft amended Finance Act for 1976 providing for equal amounts of additional expenditure and revenue. The additional expenditure is accounted for by subsidies to the social security funds (FF 2 400 million) and to farmers affected by the drought (FF 5 500 million) and by an increase in salaries and pensions totalling FF 1 500 million. The additional revenue will come from higher rates of personal income tax, corporation tax and road tax, and from an increase in the price of motor fuels.

— The Government adopted an anti-inflationary plan. The official target for price rises in 1977 was fixed at 6.5%. For 1976, most prices were frozen until 31 December at the level they had reached on 15 September, in the case of public service charges, the freeze was to apply until 1 April 1977. On 1 January 1977, the standard rate of VAT is to be cut from 20% to 17.6% and the counter-inflation levy reintroduced. On the *incomes* front, a norm for wage and non-wage rises of 6.5% was set for 1977; salaries of more than FF 24 000 a month were to be frozen and the growth of salaries of between FF 18 000 and FF 24 000 a month restricted to 3.25%; by contrast, no norm was imposed on the growth of the minimum hourly rate (SMIC) and social security benefits. With regard to *external equilibrium*, net imports of petrol and refined petroleum products are not to exceed a

ceiling of FF 55 000 million in 1977. For this purpose, taxes on oil and petrol were raised as from November, and measures to ration domestic oil and heavy oil are to be introduced in 1977. In addition, tax measures favouring energy saving are to be extended. Finally, productive investment by exporting firms will continue to receive support through loans on favourable terms. In order to support economic activity the depreciation allowance rates are to be raised half a point in 1977; a State-backed national loan of FF 3 500 was issued in October to finance investment by small and medium-sized firms at a subsidized rate of 8.5%; investment by public enterprises is to go up 14.8% from 1976 to 1977; finally, a countercyclical action fund of FF 2,500 million will be available to finance public infrastructure schemes. *Public expenditure* is to increase by 13.7% as compared with the initial budget for 1976, this rate being in line with the expected rate for the growth of gross domestic product in value terms. Direct taxes are to be increased and final revenue is expected to balance anticipated expenditure. Finally, with regard to *monetary policy*, growth in the money supply (M2) is to be held to 12.5% in 1977 and credit ceilings are to be tightened, the rate of increase was fixed at 5% for large banks, 8% for small and medium-sized banks, 10% for consumer credit, and 12% for short-term export credits. The Banque de France raised the discount rate from 9.5% to 10.5%; the banks' base rate was raised from 9.2% to 9.6%. In October, the Banque de France reintroduced the ordinary reserve requirement at a rate of 0.5% for loans outstanding. The reserves ratio applicable to sight deposits remained unchanged at 2%.

October:

— The minimum hourly rate (SMIC) was raised from FF 8.58 to FF 8.76, representing an increase of 2.1% since the last change on 1 July.

December:

— The minimum hourly rate (SMIC) was raised from FF 8.76 to FF 8.94 representing an increase of 2.1% since the last change on 1 October.

— Parliament adopted the third draft amended Finance Act for 1976 (increasing the deficit by around 8 000 million).

D — Ireland

The Irish economy seems to have entered into a slower phase of growth since the middle of the year, despite the dynamism of industrial exports. Unemployment remains high. The inflation rate has tended to accelerate and the current balance of payments is, as expected, disimproving.

Economic activity could slow down a little further in the coming months, due to some weakening in domestic purchases and the less rapid development of external demand. The underlying factors pushing up prices will remain important in the first half of the year until the favourable effects of an incomes policy make themselves felt. The current balance of payments deficit is unlikely to improve.

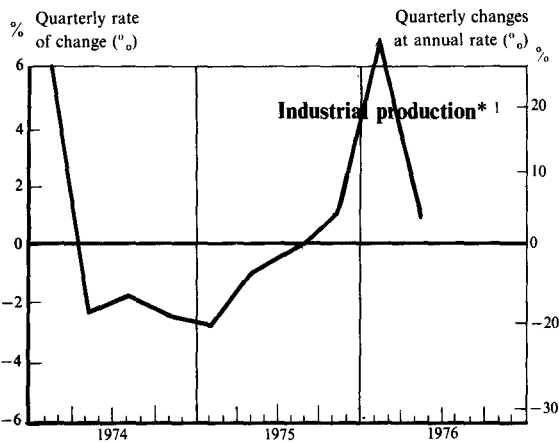
1. Recent developments

After a strong expansion in the first half of 1976, due to the effects of the rapid development of industrial exports and personal consumption, the Irish economy more recently has entered into a phase of more moderate growth. Although it is difficult to measure the importance of certain exceptional factors (e.g. the bank dispute) this slowdown is due primarily to the temporary weakening in the summer of private consumption and the relatively sluggish investment performance climate. Accordingly the unemployment rate has remained high. After the improvement noted in 1975, because of the effects of the recession and exceptional agricultural exports, the current balance of payments is now running a higher deficit.

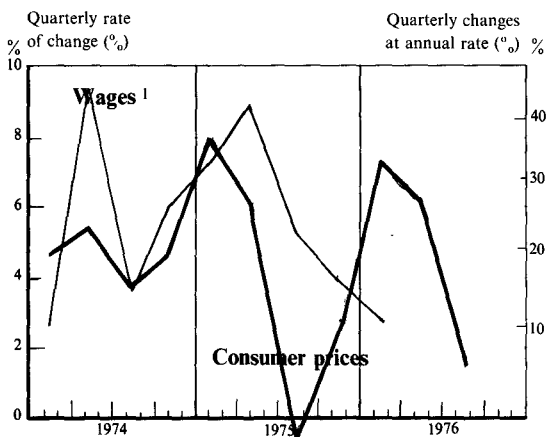
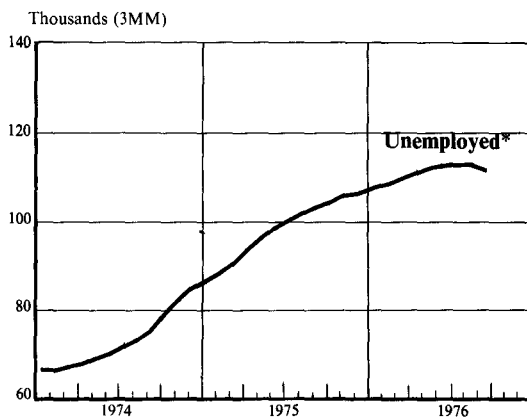
Despite the slowdown in activity and import demand in major trading partners, industrial exports have been relatively dynamic over recent months. Their growth rate

in value, seasonally adjusted, was 20% in the period July-October on the previous four months. This performance is linked with an acceleration of sales to non-member states of the Community, in particular to Japan and oil-producing countries as well as inside the Community to the Federal Republic of Germany. It thus reflects the improvement in the competitive position of Irish products on markets other than that of the United Kingdom, as a result of the rapid depreciation in the pound (19% from January to November against the dollar). The slowdown in deliveries abroad of agricultural produce until October, was partially due to the building up of stocks in anticipation of an adjustment in the 'green' pound, but the major constraint in 1976 was on the supply side in the cattle sector.

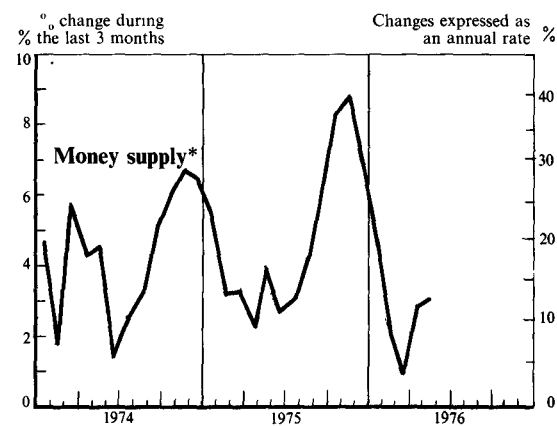
Domestic demand has slowed down somewhat. On the basis of the results of the latest enquiries among heads of firms, investment in the private sector has not increased over the past few months, undoubtedly due to the rapid



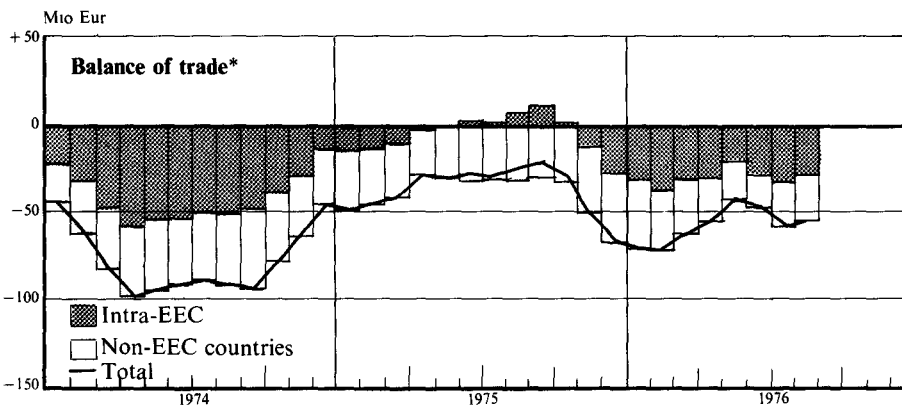
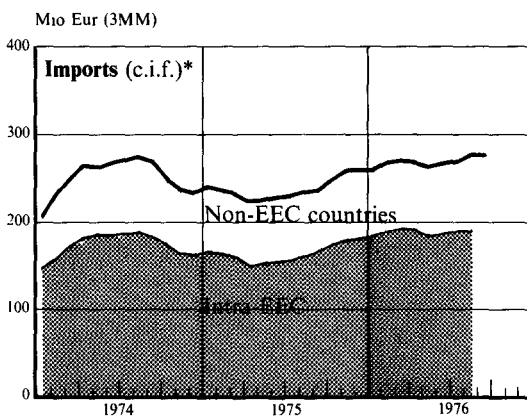
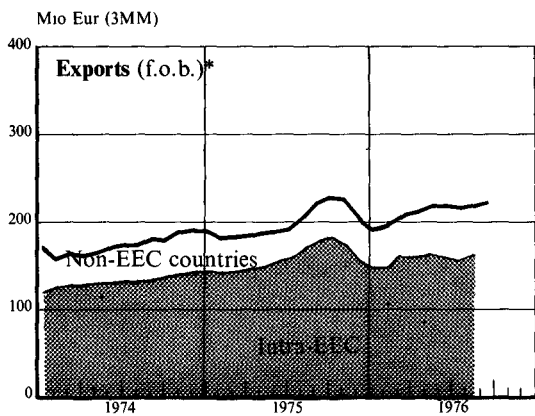
1 Mining and manuf industries
Source: C.S.O



1 Hourly earnings in manuf industry.
Source: C.S.O

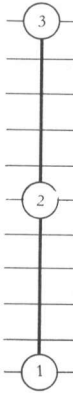
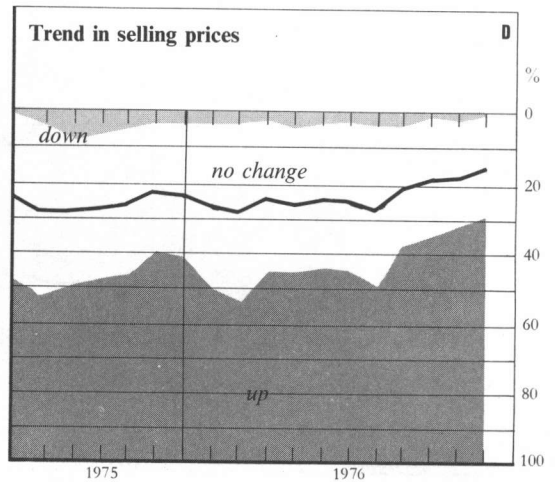
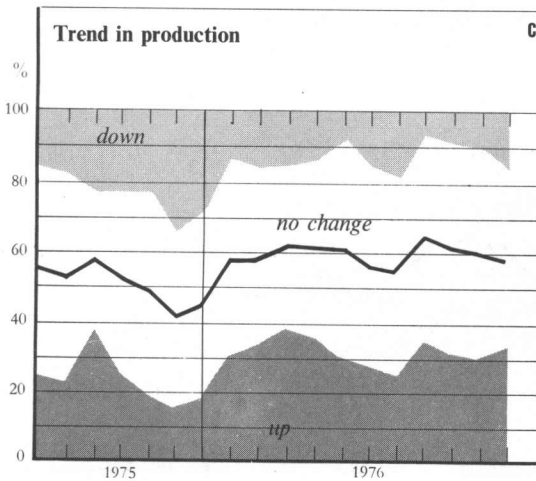
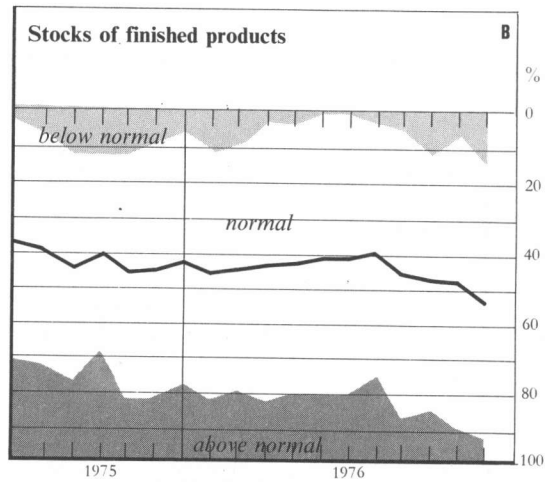
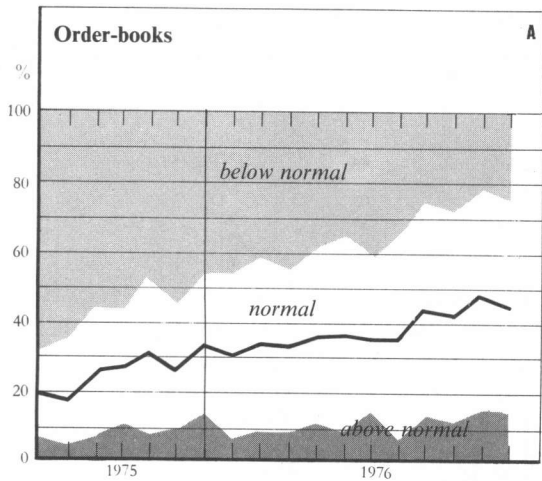


1 Money and near money (M3).
Source: Central Bank



*:Seasonally adjusted.
3MM: three month moving average.
Source: SOEC except where otherwise indicated.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to questions in the EEC business survey, carried out in Ireland by the CII-ESRI.

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

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

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

rise in interest rates and the uncertain outlook with regard to wage movements. In contrast, activity in the construction sector seems to be recovering, as is suggested by the increase in cement sales¹ (+ 7% in the third on the preceding quarter).

Following rapid progress in the second half of 1975 which continued into the Spring of 1976 under the stimulus of buying in anticipation of indirect tax increases, household consumption then slowed down substantially, this trend being aggravated by the bank strike and the prolonged negotiations leading to an interim National Pay Agreement. However, a recovery has appeared recently (as is shown by the substantial increase in retail sales in September) mainly due to retrospective wage increase payments in September and October but also to a certain need for the reconstitution of durable stocks.

In conjunction with this development in demand, industrial production has been growing again in recent months, after some pause in the summer, as is indicated by the latest industrial surveys. In contrast to other Community members, agricultural production has been helped by favourable climatic conditions and milk production has again increased but supply constraints will entail a sharp fall in cattle production. Tourism has had a difficult year, the growth in the number of continental visitors only just about compensating for losses from the United Kingdom.

The employment position has improved; in the second quarter the numbers employed in industry were 2 300 higher than in the previous period although still

remaining substantially below the level attained at the beginning of 1974. The seasonally adjusted total of unemployed, which increased during the summer months, has fallen slightly more recently (in November they reached 110 300 or around 9.5% of the labour force), undoubtedly due to the growth in production in the first half of the year and also to the effect of certain specific measures.¹ However, some structural factors have continued to influence the labour market and in particular the number of unemployed school leavers remains an important problem. In addition, the unemployment rate for women according to the live register statistics is particularly high, even without taking account of the fact that this measure tends to understate the number actually unemployed.

After a lull in the summer, the rise in prices has again accelerated as a result of the effects of rising import prices and the devaluation in the parity of the 'green' pound (7.5% in October). At mid-November, the index of consumer prices rose by 4.2% on the mid-August figure and was 20.6% above the November 1975 level.

The depreciation of the Irish pound, which has been particularly rapid (about 10% from January to November),² as well as the increased needs for imports of raw materials and partly finished goods have contributed to inflate the value of imports; in August-November they

¹ Some of this increase may have been due to buying in anticipation of rises in cement prices

¹ Premiums for firms taking on workers from the unemployment register and increased training programmes.

² On a trade weighted basis.

TABLE 1
Key indicators

Ireland	Unit	1969-1973 average ^{4 5}	1974 ⁵	1975 ⁵	1976 ⁶
Gross domestic product; volume	% change	4.7	0.1	- 0.5	3.7
of which: Industry ¹		5.9	2.9	- 6.2	12.0
Gross domestic product in volume per person in employment	% change	4.9	- 0.7	1.3	4.7
Total employment (number of persons) ²	% change	- 0.2	0.8	- 1.8	- 1.0
Unemployment	as % of labour force	5.8	5.7	8.0	9.5
Compensation of employees per wage and salary earner	% change	15.8	17.0	24.6	18.0
Price index of private consumption ³	% change	8.9	15.7	21.3	18.5
Current account balance ³	£ million	- 66.4	- 287.7	- 15.0	- 200.0

¹ Value added at constant prices, including construction

² Domestic concept, mid-April

³ National accounts concept, on annual basis

⁴ Geometric mean of the change from 1968 to 1973; unemployment and current account balance arithmetic mean over the five years

⁵ Source: CSO

⁶ Estimates of Commission's Departments

grew in value by 17.9% over the previous four months.

This development, added to the deterioration in the terms of trade, has led to a worsening in the *trade balance* which reached £168 million in the aforementioned period. Because of external borrowing and the flow back to the banking system of funds held abroad during the bank strike, official external reserves increased; in November they stood at £920 million as against £647 million at the end of July.

Budgetary policy has not altered in the past few months. However, even taking account of the public service salary increases, the latest estimates put the borrowing requirement at less than initially foreseen because of the supplementary receipts linked to the conjunctural recovery.

Monetary policy has been strongly influenced by recent trends in interest rates which rose by nearly 3% in October.¹ The bank dispute during the summer (which in addition has led to the non-availability of monetary statistics) resulted in a large increase in private lending through the use of overdraft permissions. The greater need for working capital in firms has contributed to this trend. As a result, however, of a slower growth rate in

lending to the public sector it is likely that the growth in the money supply for 1976 as a whole will be below 20%.

2. Outlook

At the present time many uncertainties still arise concerning the short-term outlook, notably in so far as foreign demand and developments in prices and incomes are concerned. It is, however, probable that growth will slow down a little further in the coming months. This is firstly due to the deterioration in the outlook for export market growth in a number of important partner countries and secondly to the fact that domestic demand will undoubtedly be affected by the necessity to restrain the rises in personal incomes. On the other hand, the agricultural sector should, because of progress in output and incomes, have a supportive effect. However, in total, the rate of growth of gross domestic product, which in 1977 is unlikely to exceed 2.5% in real terms, compared to 3.5% in 1976, will remain substantially below the capacity rate.

Industrial *exports* will continue to grow but at a slightly

¹ Long-term interest rates for first class borrowers increased from 12.25 to 14.75% in October

TABLE 2
Demand for and supply of goods and services

Ireland	1974 ²	1975 ²			1976 ³			1977 ³
	At curr. prices £ mio	% change on preceding year						
		Vol.	Price	Value	Vol.	Price	Value	Vol.
Private consumption	2 023	- 2.5	21.3	18.2	2.5	18.0	21.0	0
Public consumption	530	2.5	33.1	36.4	1.0	20.5	21.7	0
Gross fixed asset formation	723	- 5.5	18.4	11.9	2.0	18.0	20.4	3.0
Domestic final uses (excluding change in stocks)	3 276	- 2.4	22.7	19.8	2.1	18.5	21.0	0.5
Domestic final uses (including change in stocks)	3 335	- 9.3	23.9	12.3	7.7	18.4	27.5	1.5
Exports ¹	1 284	5.6	19.0	25.7	9.0	21.0	31.8	6.5
Imports ¹	1 719	- 13.1	21.3	5.4	17.0	18.0	38.0	4.0
Gross domestic product at market prices	2 900	- 0.5	22.9	22.3	3.5	19.9	24.1	2.5
Contribution to % change in gross domestic product								
Domestic final uses (excluding change in stocks)	3 276	- 2.7		22.3	2.3		23.2	0.7
Change in stocks	59	- 8.0		8.2	5.7		5.9	0.7
Balance of exports and imports ¹	- 435	10.2		8.2	- 4.6		- 4.9	0.9

¹ Goods and services.

² Source: Economic Review and Outlook — July, 1976.

³ Estimates of Commission's Departments

TABLE 3

Main economic indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Industrial production* (1970 = 100)	1974		126.4			123.5			121.4			118.2	
	1975		115.0			114.2			114.2			115.3	
	1976		123.4			124.4							
Unemployed* (1 000)	1974	65.3	65.8	65.3	66.9	67.7	68.1	69.1	70.3	73.1	74.1	77.7	80.4
	1975	86.0	88.0	91.0	94.6	97.3	99.6	101.7	103.4	104.7	105.6	106.4	108.2
	1976	106.2	108.0	109.5	111.2	111.1	111.0	112.9	112.7	111.4	110.7	110.3	
Construction*	1973	3 501	4 945	4 229	1 670	2 127	1 271	1 900	2 079	2 750	2 333	2 027	2 019
	1974	2 164	1 157	2 741	2 833	2 310	2 102	2 110	2 215	2 407	2 078	1 875	1 951
	1975	1 646	1 223	1 536	2 451	1 839	2 403	1 886	2 135	2 187	1 888	1 757	2 451
Private consumers' expenditure* (1970 = 100)	1974	152.8	157.5	155.8	165.3	161.3	163.0	168.0	168.6	170.8	171.7	175.6	176.6
	1975	179.8	177.0	180.9	183.2	194.7	189.1	195.6	193.9	206.0	207.4	211.2	226.6
	1976	221.9	232.5	218.1	230.1	232.6	238.3	229.6	225.3	252.1			
Consumer prices (1970 = 100)	1974		143.5			151.5			157.3			164.5	
	1975		177.7			188.5			187.1			192.2	
	1976		206.3			219.1			222.4			231.8	
Visible imports* (million Eur)	1974	204.5	222.5	268.6	268.9	269.9	263.6	273.3	277.2	268.0	258.7	231.8	244.0
	1975	240.7	241.7	204.8	226.3	218.3	221.4	233.6	219.9	250.0	249.4	266.2	278.5
	1976	245.4	263.1	292.8	257.0	255.4	279.7	267.9	272.1	293.4	266.9	310.0	
Visible exports* (million Eur)	1974	164.6	164.5	175.1	169.4	167.5	181.7	183.7	180.2	175.4	166.4	183.8	192.3
	1975	201.3	185.8	165.5	196.4	198.3	177.7	210.4	196.1	221.5	241.0	210.5	190.9
	1976	189.2	197.6	202.0	222.6	216.2	224.0	218.9	203.0	242.9	228.8	226.0	
Balance of Trade* (million Eur)	1974	-39.9	-58.0	-93.5	-99.5	-102.4	-81.8	-89.6	-97.0	-92.6	-92.3	-48.0	-51.7
	1975	-39.5	-55.9	-39.3	-29.9	-20.0	-43.7	-23.2	-23.8	-28.5	-8.5	-55.7	-87.6
	1976	-58.2	-65.5	-90.9	-34.4	-39.2	-55.7	-49.0	-69.1	-50.5	-38.2	-84.0	
Official foreign exchange reserves (million Eur)	1974	816	761	809	759	762	732	818	924	870	881	873	862
	1975	822	809	798	799	821	853	900	890	948	908	938	1 092
	1976	1 194	1 165	1 194	1 109	1 068	979	927	954	1 061	968	1 130	
Money supply (million Eur)	1974	1 017	960	1 021	971	937	960	952	966	994	968	971	998
	1975	950	920	966	963	939	976	961	1 004	1 069	1 040	1 050	1 106
	1976	1 080	1 068	1 039	984	966					926		

() Provisional figure

Not available

* Seasonally adjusted

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

Conversion into Eur see Table 853 in 'General Statistics' of the SOEC.

— Industrial production CSO, Mining and manufacturing industry.

— Unemployment Number of registered unemployed

— Construction Total of dwellings begun or authorized

— Private consumers' expenditure Retail Sales Index in value

— Visible trade Imports cif, exports fob

— Balance of trade difference between values of imports and exports

— Official Foreign Exchange Reserves, Official External Reserves, Monetary Authorities' reserves of convertible currency, holdings of special drawing rights and reserve position in the IMF

— Money Supply Currency and current accounts

less rapid rate. Despite the improvement in their competitive position with respect to a number of trading partners, as a result of the depreciation of the pound, Irish sales will be dampened by the slowdown expected in imports of Community countries, in particular of the United Kingdom. On the other hand, deliveries of agricultural products should grow rapidly.

Internal demand should weaken. Certain factors (under-

utilized capacity and uncertainties with regard to wages) create the risk that the development of business investment will be slower than initially hoped for. However, the recovery already noted in the construction sector could continue and be reinforced by the expected slackening of interest rates.

After some strengthening in the final months of 1976 private consumption should slow down again in the first

half of 1977 given that the development of incomes will be influenced by the official objective of reducing the gap between the growth of Irish wages and salaries and the rates of growth in principal partner countries. In addition, in this period, disposable incomes will be affected by the rises in prices resulting from the lagged impact of monetary depreciation. *Public consumption* is unlikely to exert a stimulative effect on account of the necessity of containing the net borrowing requirement of the public sector.

As a result of this development in demand substantial progress in industrial *production* cannot be expected. The most competitive sectors geared towards exports should, however, grow fairly rapidly.

Employment, which will be influenced by the results of the incomes policy, should improve. Nevertheless, unemployment could remain close to the present level, given the increase in the labour force and the fall in the agricultural population.

The rise in *prices* should continue to remain high in the first half of 1977 and will still be substantially higher than the Community average. Indeed, some time will be needed before the upward underlying tendencies observed towards the end of 1976 have worked themselves through. In addition, the increase in import and agricultural prices will exercise an adverse effect on inflation rates.

In conjunction with the moderation in demand and production, the growth of *imports* should slow down distinctly. Nevertheless, given in particular the deterioration in the terms of trade, the deficit of the current balance of payments in 1977 could be high at about £250 million as against £200 million in 1976.

Consequently, the most urgent problem for the Irish economy is still to curb the growth of nominal incomes, since this is a basic condition for improving the competitiveness of firms, increasing exports and avoiding any worsening of unemployment in 1977. Achieving this is made essential by the fact that the international situation could well prove less favourable than anticipated, with increased competition on world markets as a result. In addition, economic policy constraints, especially the need to improve the public finance situation, and the restricted role of monetary policy, place particular restraints on the means at present available to the authorities to achieve the essential objective of reducing costs and the inflation rate. This makes the introduction of a strict incomes policy, understood and accepted by the social partners, all the more urgent. The burden of this adjustment however should not fall exclusively on the industrial sector but should also affect agriculture, given the past and foreseeable developments in farming incomes.

Major economic policy measures

May 1976:

— The Minister for Industry and Commerce introduced a new system of

price controls on 8 May. The main effects of the change was to release small firms from detailed control and to increase the degree of scrutiny into price increase applications from large manufacturers and traders. Under the revised system a business with a turnover of more than £250 000 a year will still have to give the statutory two months notice of intention to raise prices.

— The Central Bank waived the regulation requiring Irish Commercial banks bringing in funds from abroad to deposit 50% of such funds with it.

— The Minister for Labour extended the premium employment programme to the end of the year at increased rates. The weekly subsidy paid to employers who take on additional workers from the unemployment register will now be £15.

June:

— Irish Banks Standing Committee announced an increase of 0.75% in interest rates from the close of business on 4 June 1976

— The Minister for Industry and Commerce signed three further exclusive off-shore petroleum exploration licences.

— The Redundancy Payments (Weekly Payments) Order 1976 made by the Minister for Labour to give effect to a Government decision that an unemployed person's after tax income from benefits should not exceed 85% of the average net weekly earnings he had received prior to unemployment. The new limit applied to those who became unemployed after 21 June.

— The Associated Banks closed because of an industrial dispute.

— Legislation freezing bank officials' pay at present levels until the end of July 1976 came into force.

July:

— The draft national pay agreement was rejected by a delegate conference of the Irish Congress of Trade Unions.

— An increase of 5% in electricity charges was approved by the Government on the recommendation of the National Prices Commission.

August:

— The Minister for Labour revoked an order controlling bank salaries.

— The Industrial Development Authority announced that it had established a grant aid policy for on-shore industries serving off-shore exploration and development projects aimed at involving the Irish industrial sector and attracting to Ireland overseas companies with worldwide interests in the offshore energy sector.

September:

— The Associated Banks reopened to the public on 6 September.

— An interim pay agreement proposed by the Irish Employers' Confederation of between £3 and £5 a week — depending on present basic pay — was accepted by a delegate conference of the trade unions. The increases are those provided for in the first phase of the rejected national pay agreement and apply for five months. The restrictive conditions in the earlier draft were dropped. Pay policy for 1977 and 1978 will be discussed in the context of discussions on an economic and social programme.

— The Green Paper (discussion paper) on the Irish economy was published. The document contains proposals for measures to create confidence (including income restraint, a plan for economic growth and short term measures to reduce unemployment), to mobilize enterprise in the public sector and to promote productivity by associating employees with firms.

October:

— The Irish Banks Standing Committee announced an increase of 1.25% in interest rates from the close of business on 5 October.

— The Ministers for Agriculture of the EEC announced a devaluation of 7.5% in the Irish "green" pound effective from 11 October.

— The Minister for Finance announced the creation of four tranches of Government stock valued in cash terms at £72 million.

— The Irish Banks Standing Committee announced an increase of between 0.75 and 1.5% in interest rates from the close of business on 27 October.

— The Minister for Social Welfare increased certain social welfare payments by 5%. The cost of these increases for 1976 will be approximately £3 million.

November :

— The Minister for Finance announced the creation of four tranches of Government stock with a cash value of £48 million

— The Central Bank announced an increase of the rediscount rate from 11.5% to 14.5% to take effect from 3 November.

December :

— Following a decision by the Council of EEC Agricultural Minister on 22 December, the Irish 'green' pound will be devalued by 8% with effect from 17 January 1977

E — Italy

The rapid progress in production achieved since the end of the recession was consolidated during the summer and early autumn of last year. While the export trend went on rising, domestic demand weakened. Employment was still tending to improve, although the number of unemployed also increased. In late summer and early autumn, domestic and external equilibrium conditions deteriorated once again.

Economic activity in the first half of 1977 is likely to be affected by the direct consequences of the government's reform programme. Real gross product will probably grow slightly in 1977.

1. Recent developments

The third quarter and early autumn of 1976 saw a consolidation of the very rapid progress in production which had got under way in the closing months of 1975, following a period of recession which had lasted for over a year. After short-lived improvement in the early summer months, domestic and external equilibrium conditions again deteriorated sharply.

The *export boom* in the second quarter of last year, which was to some extent, admittedly, a matter of recovering ground previously lost, gave way in the summer months to a distinctly slower trend. The ISCO seasonally-adjusted figures show that the value of visible exports increased by 6.5% from the second to the third quarter. Adjusted for price changes, growth was somewhat smaller. In October, exports rose again quite briskly. The value of exports in the period from July to October was no less than 38.5% up on a year earlier (up 34% in the period January — October 1976). Sales to other Community countries were particularly buoyant. As for the export of services, tourism was markedly expansionary: receipts of foreign exchange in the third quarter were almost 41% up on the level during the third quarter of 1975 — itself unusually high because of the Holy Year.

According to the indicators (mostly qualitative) available so far, the trend of domestic demand, growing sharply from the last four months of 1975 onwards, lacked vigour in the period from July to October last year. However, this is likely to have been a passing phase of consolidation: the results of the Forum survey on the whole of the second half of 1976, carried out by 'Mondo Economico' tend to support this view, as does other evidence.

In the area of *investment demand*, management's efforts to build up depleted stocks had for some time been making an important contribution to expansion, but in the period under review this seems no longer to have been the case. Building investment too moved slightly downward. On the other hand, the curve of capital expenditure on plant and machinery may well have maintained the upward tendency which it has shown since the closing months of 1975.

The expansion in *private consumption*, which had been decidedly lively in the first half-year of 1976, tended to slow down in the following three or four months. In terms of volume, growth of this demand component may well have ceased altogether. This was evidently mainly due to a slackening of demand for consumer durables.

After nine months' vigorous recovery, the expansion of *industrial production* (seasonally adjusted) slowed down in the period July to October 1976. According to ISCO calculations, the seasonally-adjusted index of production in September was back to the level recorded before the period of recession (lasting more than a year) which began in the spring of 1974. Industrial production in the period July to October was 11.9% up on a year earlier (up 10.3% in the period January-October 1976). The degree of utilization of industrial production capacity increased further, moving from 68% in December 1975 to 75% in September 1976.

According to the customs returns seasonally adjusted by ISCO, the value of imports (in Lit.) during the period under review fell somewhat short of the figure for the preceding four months, after a mostly very vigorous upward trend for over a year. In the period July — October visible *imports* were 43% up on the 1975 figure (up 44% in the period January-October).

In the summer months of last, the *labour market* showed evidence of conflicting trends. On the one hand, the number employed increased distinctly, just as it had in the second quarter; in July it was 2.4% higher than a year earlier (source: ISTAT quarterly sample surveys). The average hours worked per person in paid employment also rose further: for example in July-September in industrial firms with 500 or more employees, they were 4% up on a year earlier. On the other hand, the number of unemployed also rose, since the labour force expanded sharply, mainly as a result of a large influx of school-leavers and women. For July, the ISTAT sample surveys put the number of unemployed at 776 000 i.e. 3.8% of the labour force and almost a fifth more than in July 1975. The assumption that, on average, persons on short time were working half-time raises the unemployment rate from 3.8% to 4.6%. According to the Banca d'Italia's

TABLE 1

Key indicators

Italy	Unit	1969-1973 average ^{4 5}	1974 ⁵	1975 ⁵	1976 ⁶
Gross domestic product; volume	% change	4.3	3.4	— 3.7	5½
of which: Industry ¹		4.6	4.9	— 9.2	10
Gross domestic product in volume per person in employment	% change	4.6	1.2	— 4.2	5
Total employment (number of persons) ²	% change	— 0.3	1.5	— 0.1	½
— Independent entrepreneurs		— 3.8	0.1	— 1.0	— ½
— Wage and salary earners in company sector		1.3	2.1	0.2	1
Unemployment	as % of labour force	3.4	2.9	3.3	3½
Compensation of employees per wage and salary earner	% change	13.0	22.3	19.8	20
Price index of private consumption ³	% change	6.4	20.2	17.4	17½
Current account balance ³	Lit '000 million	596	—5 179	— 361	—2 200

¹ Excluding building and construction

² Domestic concept

³ National accounts concept, on annual basis

⁴ Geometric mean of the change from 1868 to 1973⁹ unemployment and current account balance arithmetic mean over the five years

⁵ Source ISTAT or "Relazione Generale sulla situazione del Paese, 1975"

⁶ Estimate of Commission's Departments

calculations, young people accounted for about half of the seasonally-adjusted increase in the number of unemployed in July; this group's share in the total number of unemployed therefore rose further (to almost two-thirds).

The upward movement of *prices* remained steep. It is true that from May onwards last year it flattened out for a few months because of seasonal factors and under the influence of a slight *de facto* revaluation of the lira. But since August/September there have been signs of a definite tendency for prices to rise faster once again, partly because average unit wage costs have been rising more rapidly and the lira has again weakened; this tendency was considerably reinforced in October by increases in several indirect taxes and in numerous public utility charges and administered prices. In October, wholesale prices were 30% and consumer prices 20% higher than a year earlier.

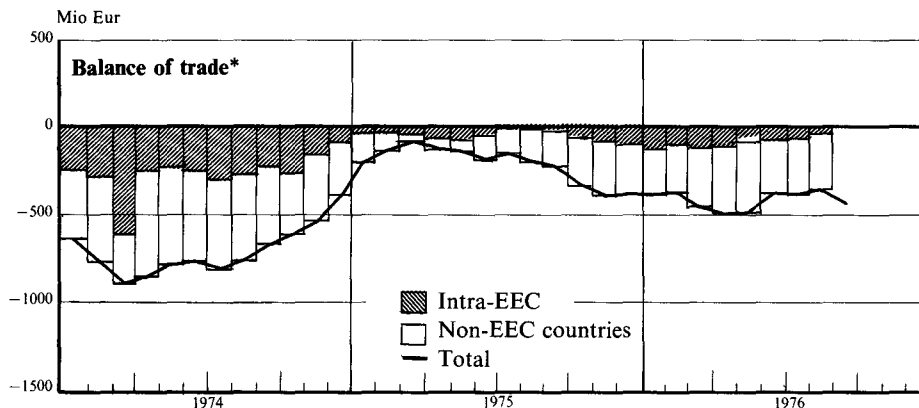
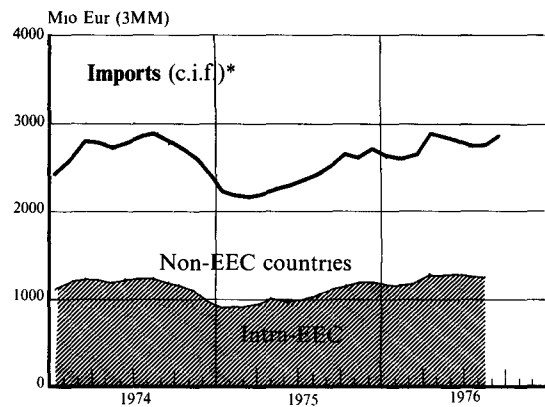
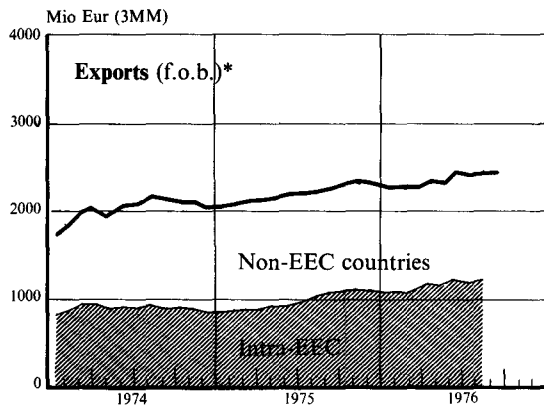
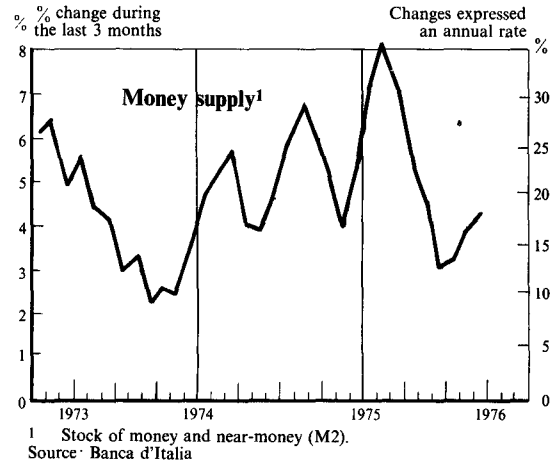
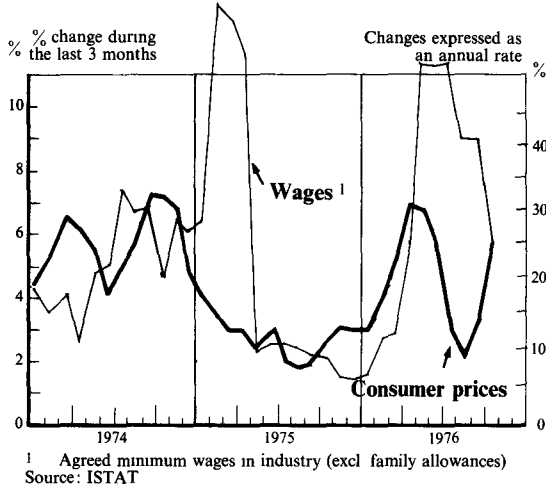
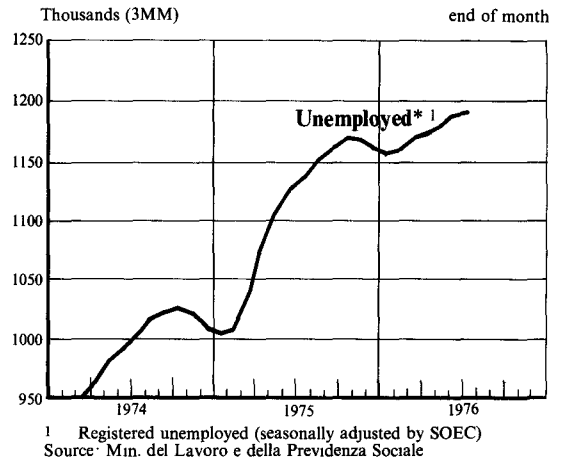
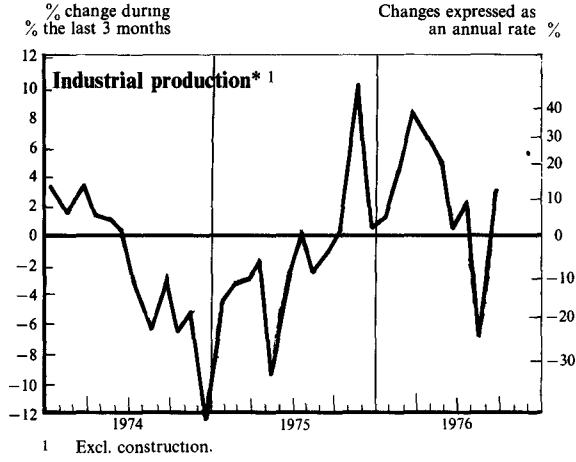
The overall *balance of payments* — still heavily in deficit in the first half-year of 1976 — yielded a surplus of no less than Lit. 1 228 000 million in July/August, thus showing an improvement far greater than is normal for the season. Contributory factors included rising visible exports and declining imports, a temporary improvement in the terms of trade, the favourable tourism trend; and, on capital account, an improvement in the pattern of leads and lags, linked with the introduction in May of the non-interest-bearing cash deposit on purchases of foreign currency. But by September, as a result of unfavourable seasonal factors and widespread exchange rate speculation, the overall balance of payments was again showing a heavy

deficit (Lit. 649 000 million). On 1 October, the trade-weighted depreciation of the lira was almost 4% more than at the beginning of September and approximately 20% lower than at the beginning of the year. After the introduction of a special tax on purchases of foreign currency in particular (see the list of measures below), the rate tended distinctly to regain strength. In October, the balance of payments showed an (admittedly small) deficit of Lit. 76 000 million. Although the monetary authorities repaid \$ 500 million out of the \$ 2 000 million loan granted by the Bundesbank in September 1974, the increase in the official gold and foreign exchange reserves (which brought the total to Lit. 3 388 000 million) exceeded to the overall surplus of Lit. 503 000 million achieved in the balance of payments, since the commercial banks imported funds on a substantial scale. According to provisional information, the balance of payments developed favourably in November.

Despite the effects of the cash deposit on purchase of foreign currency in restricting liquidity, and despite the Banca d'Italia's very restrictive line on refinancing credit, the *monetary base*¹ expanded sharply in July-August as well, because these factors were outweighed by the expansionary effects of the balance of payments surplus and in particular the rapidly widening Treasury deficit.

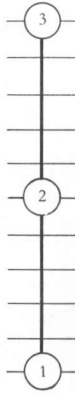
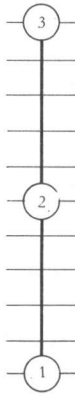
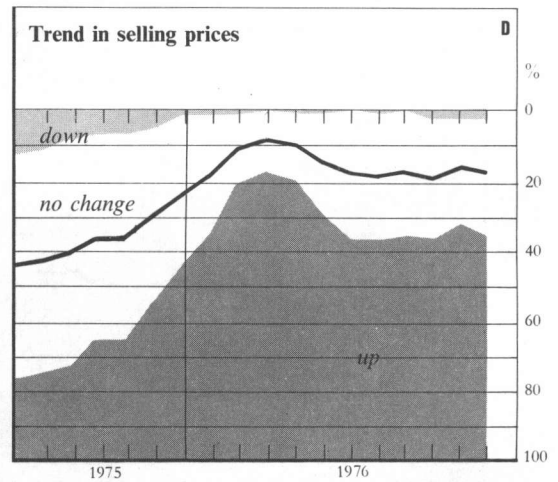
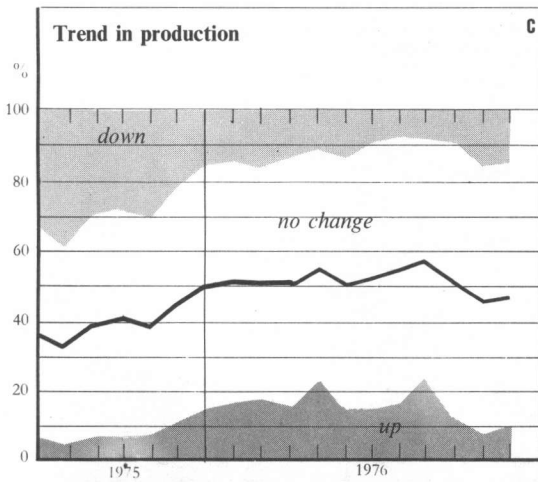
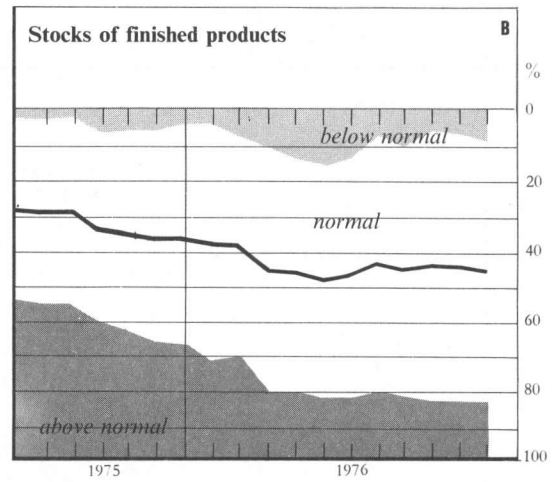
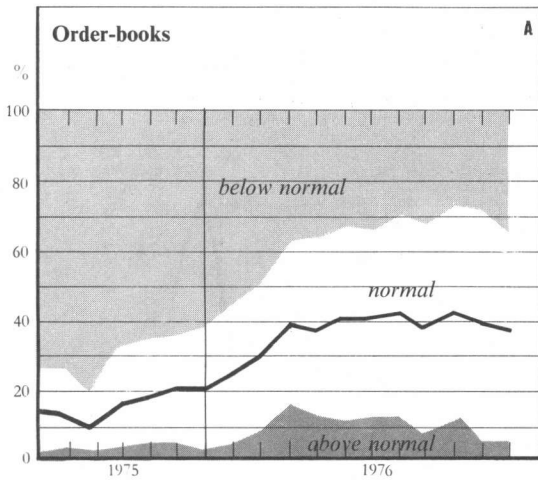
Net *bank liquidity* also grew vigorously, although the commercial banks increased their holdings of Treasury bills. In September the monetary base and bank liquidity

¹ Mainly notes and coins in circulation and assets convertible into central bank money at short term.



*: Seasonally adjusted figures.
3MM: three month moving average.
Source: SOEC except where otherwise indicated.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

contracted again as a result of the balance of payments deficit. The decline in bank liquidity was also due to the fact that the commercial banks invested idle balances in Treasury bills on a considerable scale. However, mainly as a result of a large deficit on Treasury transactions, the monetary base and, to a lesser extent, bank liquidity increased again in the period October-November. *Interest rates*, which were still rising sharply in the first half of the year, fell in July-August and — though less rapidly — in September as well. Interest rates on interbank balances fell from 19.7% in June to 16.5% in August and to 16.1% in September; in the following two months, however, they rose again slightly (to just over 17%). The yield on bonds issued by the institutions lending on goods and securities fell from 13.5% in June to 12.9% in August, to rise again slightly in September and October (to 13.1% and 14.3% respectively). The Treasury's growing requirements and a very vigorous increase in the demand for credit from the commercial banks — partly to finance the cash deposit — meant that the total volume of domestic lending in the period July — October expanded far beyond the interim target agreed when the Community loan was granted in March.

As for cash transactions under the *central government*

budget, in the third quarter of 1976 current transfer payments and in particular capital subsidies gathered momentum, and the ban on aggregating family incomes for tax purposes led to revenue losses. On the other hand, the other Treasury operations showed a favourable trend. In the period January — September the total *Treasury deficit*, which includes the cash deficit under the central government budget, amounted to Lit. 9 530 000 million, as against Lit. 9 053 000 million a year earlier.

2. Outlook

The forecasts of economic developments until mid-1977 are based mainly on the assumption that the expansion in world trade will continue, although at a slower rate, and that the implementation to the Italian Government's austerity programme announced in the autumn will have the effect of curbing domestic demand.

On these assumptions, *exports* will continue to forge ahead, especially since Italy's competitive position has been improved by the approximately 15% *de facto* depreciation of the lira between 1975 and 1976. In addition, Italian firms normally step up their export drive when demand at home weakens.

TABLE 2

Demand for and supply of goods and services

Italy	1974 2	1975 2			1976 3			1977 3
	At curr prices Lit. '000 million	% change on preceding year						
		Vol	Price	Value	Vol.	Price	Value	Vol.
Private consumption	66 108	— 1.8	17.4	15.3	4	17½	21½	— ½
Public consumption	13 737	0.8	10.0	10.9	2	17½	20	1
Gross fixed asset formation	22 831	— 12.7	19.5	4.3	1	20½	22	— 2
— Building and construction	12 745	— 9.0	19.7	8.9	0	21	21	— 1
— Plant and machinery	10 086	— 17.4	19.2	— 1.5	2½	20	22½	— 3
Domestic final uses (excluding change in stocks)	102 676	— 3.7	16.5	12.2	4	18	23	— ½
Domestic final uses (including change in stocks)	105 387	— 6.4	15.4	8.0	5½	18	24½	— 1½
Exports 1	22 871	3.1	11.4	14.9	11	18	31	8
Imports 1	29 019	— 10.0	6.3	— 4.3	10	24	36½	0
Gross domestic product at market prices	99 239	— 3.7	17.5	13.2	5½	16½	23	½
Contribution to % change in gross domestic product								
Domestic final uses (excluding change in stocks)	102 676	— 3.6		12.6	3		22	— ½
Change in stocks	2 711	— 2.7		— 4.1	2½		3	— 1
Balance of exports and imports 1	— 6 148	2.6		4.7	0		— 2	2

1 Goods and services.

2 Source: "Relazione Generale sulla situazione economica del Paese (1975)"

3 Estimates of Commission's Departments.

TABLE 3

Main economic indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct.	Nov	Dec
Industrial production (1970 = 100)	1974	123.9	122.0	123.5	125.7	123.2	124.0	121.8	115.5	121.2	114.2	109.6	106.0
	1975	109.3	112.9	108.8	107.7	102.5	106.3	108.0	100.2	107.3	108.2	110.8	108.1
	1976	109.5	115.9	117.7	116.9	121.9	119.2	120.0	113.9	124.7	122.7		
Unemployed (1 000)	1974	944.4	935.1	950.5	970.2	979.7	992.4	1 007.7	1 015.3	1 027.9	1 024.8	1 020.2	1 006.9
	1975	996.7	1 010.4	1 023.4	1 079.1	1 112.8	1 131.0	1 141.2	1 140.7	1 175.3	1 171.7	1 169.0	1 163.5
	1976	1 151.4	1 156.2	1 172.2	1 171.2	1 182.7	1 184.2	1 201.6	1 191.8	1 209.5	1 178.5		
Construction permits for residential construction (1 000)	1974	35 250.4	28 856.2	31 103.3	29 814.0	28 990.7	26 774.2	27 031.6	21 688.7	21 746.3	23 156.2	19 499.9	11 978.7
	1975	23 864.8	17 319.3	15 613.2	16 289.4								
	1976												
Private consumers' expenditure retail sales (1970 = 100)	1974	175.7	178.3	174.6	188.6	182.8	184.9	194.6	192.9	191.9	204.8	192.7	203.2
	1975	190.3	195.0	204.0	193.5	203.9	203.5	207.7	200.5	203.7	209.0	207.2	217.3
	1976	224.6	225.3	222.4	243.1	235.2	249.2	238.2	251.8	256.6	260.6		
Consumer prices (1970 = 100)	1974	131.5	134.3	137.8	139.5	141.5	143.5	146.4	149.6	153.9	156.8	159.8	161.1
	1975	163.2	165.2	165.8	168.0	169.4	170.7	171.4	172.5	173.9	175.8	177.8	179.2
	1976	181.1	185.1	188.8	193.8	197.7	198.6	199.6	201.8	205.2	211.1	215.7	
Visible imports (million Eur)	1974	2 323.3	2 653.2	2 957.8	3 006.6	2 630.6	2 575.2	3 205.0	2 821.0	2 689.9	2 820.4	2 594.1	2 381.1
	1975	2 277.2	2 022.3	2 349.0	2 163.8	2 198.3	2 489.1	2 313.1	2 320.2	2 661.0	2 637.9	2 782.2	2 930.0
	1976	2 534.0	2 489.5	2 912.6	2 770.2	3 045.8	2 856.2	2 703.6	2 876.3	2 870.9	2 960.7	3 351.8	
Visible exports (million Eur)	1974	1 746.9	1 796.0	2 057.3	2 057.7	1 913.6	1 866.4	2 286.3	2 030.3	2 102.1	2 138.4	2 020.7	2 058.5
	1975	1 975.5	2 039.0	2 176.4	2 099.4	2 031.8	2 263.6	2 127.1	2 255.0	2 306.6	2 339.8	2 403.6	2 405.5
	1976	2 261.5	2 104.3	2 451.6	2 243.6	2 561.5	2 387.3	2 512.7	2 375.0	2 478.5	2 541.0	2 657.2	
Balance of trade (million Eur)	1974	-576.4	-857.2	-900.5	-948.8	-716.9	-708.8	-918.7	-790.7	-587.8	-681.9	-573.4	-322.6
	1975	-301.7	16.7	-172.6	-64.5	-166.5	-225.5	-186.0	-65.2	-354.4	-298.1	-378.6	-524.5
	1976	-272.4	-385.2	-461.0	-526.6	-484.3	-468.8	-190.9	-501.3	-392.4	-419.8	-694.6	
Official foreign exchange reserves (million Eur)	1974	2 093	1 467	2 496	2 083	1 469	1 307	1 638	1 632	3 396	2 753	2 278	2 548
	1975	2 223	2 155	2 267	2 422	2 275	2 290	1 569	1 337	1 998	1 839	1 466	1 057
	1976	848	830	1 169	1 246	1 137	1 420	2 195	2 293	1 290	1 471	2 287	2 420
Monetary base (Lit '000 million)	1974	31 087	31 283	31 823	32 236	32 356	33 166	33 662	33 306	33 041	33 043	32 872	35 546
	1975	34 765	34 730	35 127	35 243	35 815	36 436	37 500	37 914	39 132	39 592	39 257	42 439
	1976	41 774	42 455	43 413	43 630	43 958	44 861	45 393	45 679	45 043	46 972	47 255	

Source: Statistical Office of the European Communities (except as otherwise indicated)
Conversion into Eur (1 Eur = 0.0888671 g of fine gold)

- Industrial production, excluding construction: 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 the turnover of major retail outlets, adjusted for seasonal variations
- Consumer prices: unadjusted index
- Imports cif, exports fob, adjusted for seasonal variations
- Balance of trade: difference between values of exports and imports, seasonally adjusted
- Official gold and foreign exchange reserves: position at end of month
- Gold assets assimilated to gold continue to be calculated on the preceding parity
- Monetary base: Includes, in particular, the fiduciary issue, sight deposits with the Banca d'Italia, the Treasury and the savings and loans bank, deposits with the Post office, unused facilities for ordinary advances with the Banca d'Italia, unused liquid assets abroad, in convertible currencies, that banks can freely use

Investment demand in volume terms will probably take quite a sluggish course at first. It is true that the export outlook is good and that the fairly favourable profits trend in 1976 and the fact that capacity utilization is rising again should influence the propensity to invest. The aim of the government's austerity programme is also to switch resources from consumption to investment. But in-

evitably it will be quite a long time before the planned investment incentives become effective. Nor are the plans at present under discussion in Parliament for industrial reorganization and conversion likely to make any substantial contribution to the propensity to invest in the short term, and investment is indeed likely to suffer from the poor outlook for consumption.

For it is probable that consumption demand in terms of volume will tend to fall for a while under the impact of the increase in numerous public utility charges, indirect taxes and administered prices, and the intended increase in direct taxes. This assumption is all the more reasonable because the propensity to save might well increase owing to the renewed uncertainty in the employment outlook.

On these assumptions and provided that economic activity is once again making good progress towards the end of 1977, *real gross domestic product* will probably grow by about 0,5% in 1977.

The numbers *employed* will probably show little if any increase until mid-1977, and only towards the end of 1977 can definite progress be expected on this front. The number of unemployed will probably rise in 1977 as compared with 1976.

The upsurge in *prices* will gather considerable momentum in late 1976 and early 1977, mainly owing to the increases in public utility charges and taxes. As 1977 continues it is likely to slacken distinctly but will still be very vigorous. The easing of the upsurge in prices in 1977 will partly depend on the results of the current negotiations between the two sides of industry and the Government, aimed at achieving a satisfactory trend in wage and salary costs and productivity. The *current balance of payments* will doubtless improve considerably in the course of 1977; for the year as a whole, it may well be in equilibrium or even show a surplus.

If the conditions governing lasting growth of production and employment are to be restored, those responsible for *economic policy* should pursue two objectives. First, short-term economic policy action initiated in October, mainly to improve the balance of payments, must be pressed forward energetically. This requires not only a rigorous credit policy, a curb on consumer demand and lower public financing deficits, but also a considerably slower upward movement in average unit wage costs. In this connection, a change in the sliding scale systems of wages is indispensable, especially since increases in public activity charges and in indirect taxes have been the main measures used by the authorities to curtail the purchasing power of households. Secondly, and at the same time — within the framework of the commitments entered into by the Italian Government when the Community's medium-term financial assistance was granted two years ago — measures should be introduced or implemented to eliminate the structural defects which threaten Italy's competitiveness in world trade. These include increasing labour mobility and productivity; modernizing and where necessary recasting the production programme, and an energetic and thorough rationalization of the public sector.

Major economic policy measures

June 1976

— On 4 June, the obligation on banks to invest part of their assets in fixed interest securities was extended for another half-year, to the end of

1976. However, additional purchases of these securities must in future be equivalent to 42% of the increase in deposits, compared with 30% in the first half-year.

— On 15 June, prices for petroleum products (other than petrol) were lowered following the lira's slight appreciation in May. The cut varied from one product to another, but did not exceed 5.5%.

July:

— From 5 July, for the first time in 1976, short-term interest rates showed some tendency to fall

— On 30 July, the draft central government budget for 1977 (budget on an appropriations basis) was presented. Revenue, excluding borrowings, is 37.2% up on the estimates in the draft budget for 1976 (against a rise of 17.4% in 1976). Expenditure, excluding redemption of debts, is to grow by 26.0% (against 28.3%). When borrowings and redemption of debts are included, the central government deficit comes to Lit. 9 849 000 million (lit. 469 000 million less than the previous year). Current expenditure is to rise by 24.8% (against 24.9%), with its relative share of total budgetary expenditure increasing slightly, after decreasing in the draft 1976 budget. The increase in capital expenditure is still very large (up 31.7%), although smaller than the previous year (47.3%). Taking into account the fresh increase in the various State undertakings' operating deficits, the overall deficit will be Lit. 11 466 000 million, i.e. Lit. 50 000 million less than the previous year

August:

— On 10 August, the three-month period granted by a Law introduced at the end of April to persons wishing to repatriate (without declaring the amount and, consequently, without legal proceedings being taken) capital that had been exported illegally, was extended until 19 November. This date was subsequently extended until 3 December. Thereafter, residents in possession of illegally expatriated capital abroad must declare and repatriate it according to the procedures laid down by the Law of 8 October concerning currency offenses.

September:

— On 3 September, the Bundesbank renewed the \$ 2 000 million credit line granted to the Banca d'Italia in September 1974.

— On 11 September, a ministerial decree came into force obliging traders to affix a revenue stamp to certain products sold in the retail trade. This measure is intended to combat evasion of VAT.

— Towards the middle of the month, the Government presented Parliament with a draft law amending the method of calculating tax owed by spouses on their incomes prior to 1975, the practice of determining tax liability by aggregating the spouses' incomes, followed up to 1975, having been declared unconstitutional in July. Subsequently, (at the end of October) the Government tabled another draft law completely reforming legislation on the taxation of family incomes. All in all, the changes made would cost several hundred thousand million lire a year in lost tax receipts.

— On 18 September, in order to finance aid to the victims of the Friuli earthquake, the Government imposed an exceptional tax on motor cars with medium and large-capacity engines and introduced a special duty on betting.

— On 28 September, the monetary authorities decided to require banks to make an exceptional addition to minimum reserves. The amount involved was Lit. 550 000 million, equivalent to 0.5% of bank deposits at the end of June.

— On 28 September, the Government presented a draft law directed towards industrial reorganization and conversion. The proposed measures are intended to produce a lasting improvement in the balance of payments by increasing productivity and raising the technological level of industry.

— On 29 September, the Commission of the European Communities decided that the 50% deposit to be lodged since May 1976 in respect of all purchases of foreign currency (see Quarterly Report 2/1976, p. 61) should be phased out between 15 October 1976 and 15 April 1977.

— Towards the end of the month, the Government announced an austerity programme intended to improve the balance of payments by curbing consumer demand and the growth of unit costs. In particular, by increasing public utility charges, taxes and controlled prices, the personal sector's purchasing power was to be reduced by some Lit. 4 000 000 million, an amount equivalent to some 2.5% of the money GDP forecast for 1977.

October:

— On 1 October, the Government increased the prices of petroleum products other than petrol by amounts varying between 0.8 and 6.3%. The taxes on tobacco were also raised.

— On the same day, following fresh speculation against the lira, the Government adopted the following monetary measures

- (i) the discount rate and the rate for advances against securities were raised from 12 to 15% as from 4 October. Taking into account the additional charges due when certain limits are exceeded, the cost of refinancing could in future amount to 18%.
- (ii) Italian exporters who granted foreign customers deferred payment terms for up to 120 days were required to purchase immediately foreign currency worth 50% (previously 30%) of their claims on these customers.
- (iii) A 10% surcharge was imposed, up to 15 October, on most purchases of foreign currency by Italian residents.

— On 8 October, the following decisions were made under the austerity programme announced a week earlier:

- (a) The tax on petrol was raised, by Decree Law, by Lit. 100 per litre, this brought the price of premium grade petrol to Lit. 500 a litre and of regular grade petrol to Lit. 485 a litre. To lessen the impact on low incomes, it was decided to reduce road tax on cars with small- and medium-capacity engines and to increase it on cars with large-capacity engines. A special surtax was introduced on diesel-engined vehicles. In addition, when the Decree Law was ratified by Parliament, a Lit. 24 000 tax loan was granted to persons with annual incomes of less than Lit. 6 million.
- (b) The prices of a number of other petroleum products were raised once again (by 25% for certain products).
- (c) Increased charges were decided for the following services (Decree of 12 October): railways (up 10% from 1 December), postage (up 13.3% for letters), telegrams and telexes (up 11% on average).
- (d) Under a Decree Law of 11 October, to be ratified by Parliament within two months, sliding-scale wage increases in respect of wages and salaries of over Lit. 8 million a year will be paid entirely in the form of ten-year bonds which are non-negotiable for five years. For wages and salaries between Lit. 6 million and Lit. 8 million a year, 50% of the increases will be paid in this form. The scheme is to last for two years. This system of forced saving should yield some Lit. 900 000 million in 1977, to be used to finance small and medium-sized enterprises. However, see the measure introduced on 9 December.
- (e) To ensure a more regular production cycle and reduce absenteeism caused by taking extra days after mid-week holidays, the Government proposed to Parliament that seven religious and civil holidays should be abolished, and two other civil holidays should be made to fall on Sundays. Employers and unions are to negotiate the terms for carrying these days over to the paid annual holidays.
- (f) The flat-rate tax on dividends ('cedolare secca') was raised from 30 to 50%. This rate applies only to shareholders who, in order to preserve their anonymity, opt for this type of tax instead of including dividends received in their tax returns.

— On 13 October, drawings by banks on credit lines denominated in lira made available to foreign customers, in the form of temporary overdrafts and loan accounts, were suspended.

— On 15 October, the Government decided to impose selective ceilings on bank lending. Lending by credit institutions to all customers whose

borrowings reach or exceed Lit. 100 million (Lit. 30 million if the borrower is a financial institution) may not grow, in comparison to the end of June 1976, by more than: 7% up to the end of November 1976; 11% up to the end of December 1976; 10% up to the end of January 1977; 11% up to the end of February 1977; 11% up to the end of March 1977.

— On the same day, the monetary authorities adopted the following measures to support the lira:

- (i) the present ceilings on banks' forward transactions were lowered by 50%;
- (ii) the ceilings on foreign currency accounts were also to be lowered by 50% (by 22 October);
- (iii) a foreign currency paid into correspondence accounts ('conti valutari di giro') — which are used mainly to pay for imports — must in future be used within two days (instead of five) following the payment.

— Also on 15 October, the Government approved a decree law intended to combat speculation in the distributive trades. It provides for severe penalties for traders and manufacturers who cause shortages in mass-market items with the intention of forcing up prices.

— On 23 October, the Government decided to increase electricity charges (up 15%) and telephone charges (up 25%) and the price of fertilizers (up 12%). The flat-rate surtax on electricity consumption was also raised.

— The surtax on purchases of foreign currency was reintroduced with effect from 25 October, though at a reduced rate (7%) and the maximum period of application was extended to 18 February 1977.

— On 29 October, prices for some petroleum products, excluding petrol, were raised once again. The increases vary between 1% and 11% for the various products involved.

— On the same day, the Government adopted a draft law intended to facilitate the employment of young people, especially in the Mezzogiorno. Its aim is to create about 420 000 new jobs (300 000 in the firms sector) and will probably require an additional Lit. 400 000 million in central government expenditure.

November:

— On 10 November, the President of the Council announced the following budgetary policy and incomes measures in Parliament:

- (i) each September from now on, self-employed workers and companies must make an income tax prepayment amounting to 75% of the tax paid for the previous year; for 1977, the first year in which it will apply, this measure should bring in an additional Lit. 1 500 000 million in tax revenue;
- (ii) registration taxes, stamp duties and various other dues were to be increased (Lit. 500 000 million in additional tax revenue in 1977);
- (iii) cadastral duty was raised (Lit. 200 000 million in additional revenue).

— On 30 November, the Government increased the prices of natural gas for domestic use, cement (+ 10.5%) and detergent products (+ 21%).

December:

— On 9 December, the Decree Law of 11 October requiring some sliding-scale wage increases to be invested in medium-term paper over the next two years (forced saving), was ratified by Parliament with some amendments. The amendments included reducing the two-year period to nineteen months, the granting of ordinary Treasury Bills instead of ten-year bonds and the extension of the measure to include the professions, if the persons concerned are employed by public institutions.

F — Netherlands

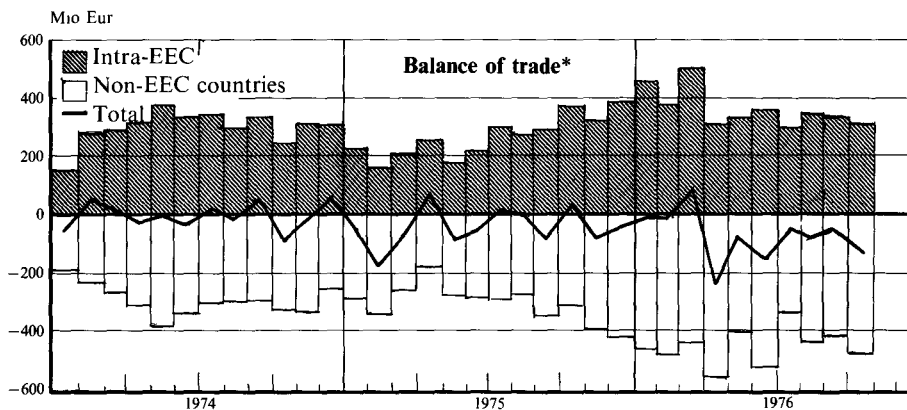
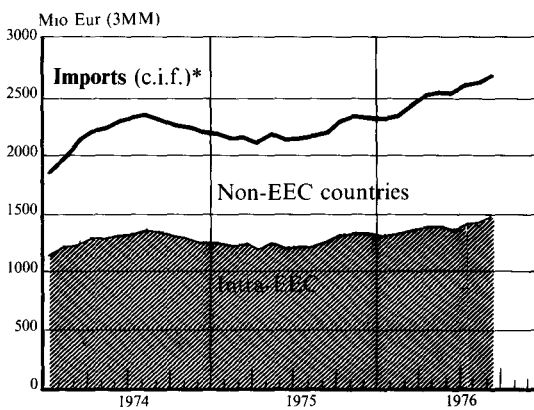
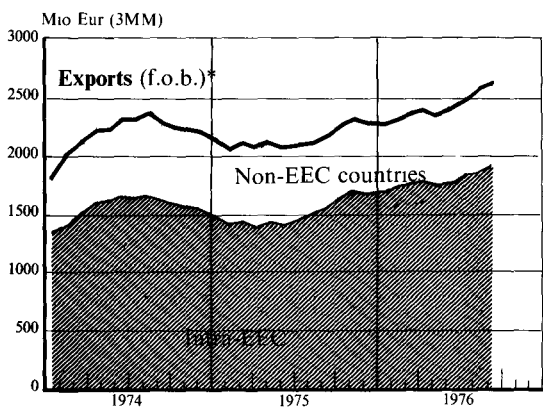
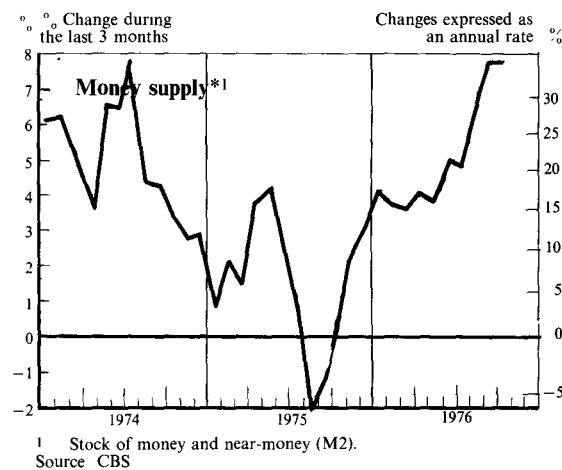
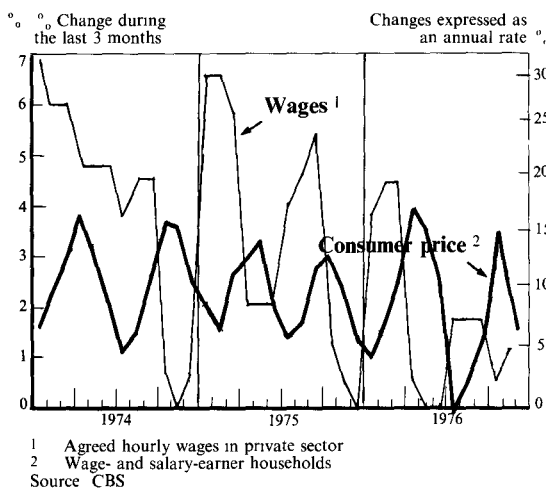
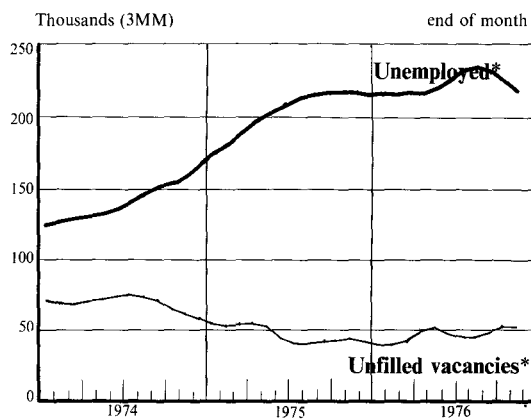
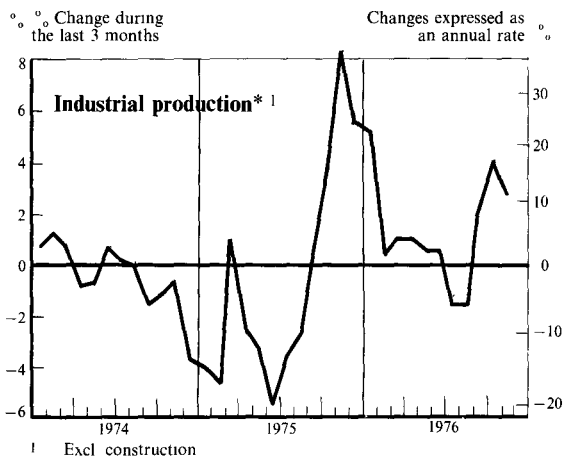
After a period of little growth during most of 1976, economic activity picked up, at least temporarily, in September-October. The upward trend in costs and prices has slackened appreciably. Unemployment has fallen in recent months.

The expansionary stimuli are unlikely to strengthen in the immediate future. Consequently the employment situation can in the short run only be expected to improve slowly. However, consumer price rises will probably go on losing momentum. The balance of payments on current account will again be in appreciable surplus in 1977.

1. Recent developments

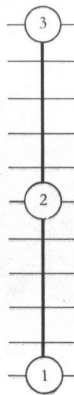
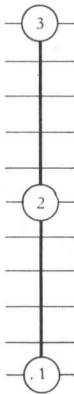
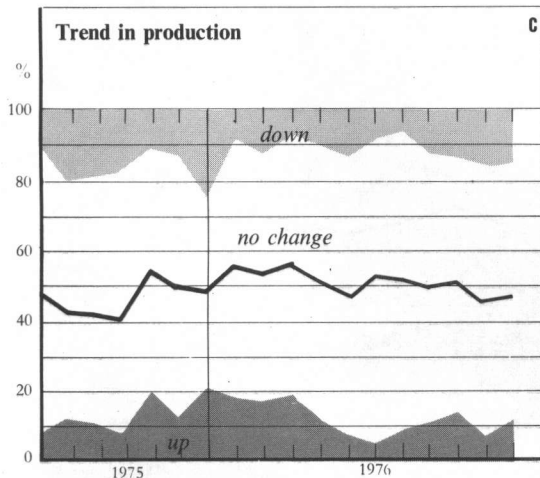
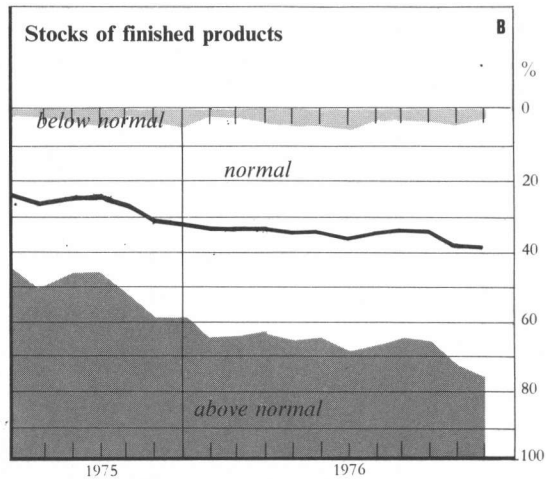
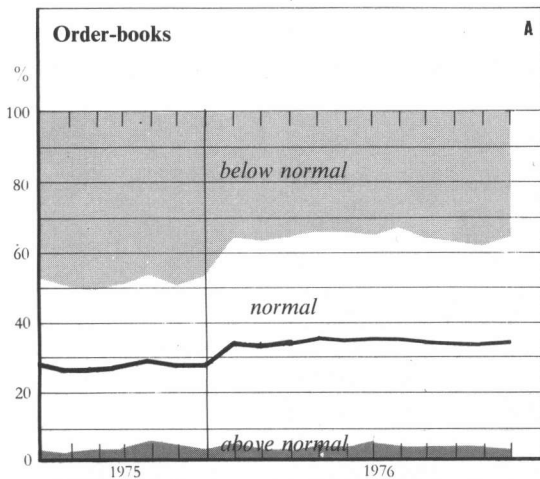
After a rather flat development during the first eight months of 1976 a certain revival of activity — at least in

the industrial sector — has taken place. Thus, in September-October on average, production in manufacturing industry on a seasonally adjusted basis, rose by some 5.5% on the preceding two months and was up by



*: Seasonally adjusted figures.
3MM: Three month moving average.
Source: SOEC except where otherwise indicated.

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

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

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

about 9% on a year earlier. The deterioration of the employment situation seems to have been brought to at least a temporary halt. At the end of November the seasonally adjusted number of unemployed stood at 217 600 (4.5% of the labour force) 21 500 down from at the end of August. Partly as a result of the increase in the standard rate of VAT from 16% to 18% on 1 October, the consumer price index (employees' households) rose by 1.4% in October compared with a monthly average of 0.5% for the preceding three months; in November it was 8.5% higher than a year earlier. Merchandise exports in the first nine months of 1976 were around 21%, and merchandise imports around 19% higher, than in the corresponding period last year. The surplus on current account for 1976 will probably be in the region of Fl 6 000 million, compared with Fl 4200 million in 1975.

A number of restrictive *monetary* measures were taken in early 1976; the discount rate of the Nederlandsche Bank was raised in several steps from 4% (February-June) to 7% in August and the penal rate of interest for exceeding the discount quota was doubled. Following the adjustment of parities within the 'snake', demand for guilders increased appreciably so that domestic liquidity towards the end of 1976 was influenced by a large inflow of short-term capital. In response to this development, the

Nederlandsche Bank, on 29 November reduced the discount rate by 1 point to 6%.

Economic policy, which during the last two or three years has been dominated by short-term considerations, will in 1977 place greater emphasis on dealing with the medium-term problems of growth and employment. This re-orientation of policy by the Government was prompted by reassessments of medium term economic prospects made by the Centraal Planbureau¹ 1976.

According to the CPB forecasts, which assumed unchanged policies and the attainment of declared policy objectives, projected public expenditure in the period 1976-1980 could be covered only if total taxes and social security contributions (including certain non-tax revenues) as a proportion of the net national product rose by 1.7% a year. Such a redistribution of income would hardly leave room for increases in the real disposable income of the active population. The annual growth rate of real net national product would be only about 3% and the number of unemployed, excluding the cyclical component would reach some 260 000 persons.

¹ 'Macro-economische Verkenning 1980' and 'De Nederlandse Economie in 1980' Centraal Planbureau, The Hague 1976, contain full details of the forecasts

TABLE 1

Key indicators

Netherlands	Unit	1969-1973 average ⁴ 5	1974 ⁵	1975 ⁵	1976 ⁶
Gross domestic product: volume	% change	+ 5.6	+ 2.2	- 0.9	+ 3.6
of which: Industry ¹	% change	+ 7.5	+ 3.5	- 4	+ 6
Gross domestic product in volume per person in employment	% change	+ 5.0	+ 2.3	0.0	+ 3.9
Total employment (number of persons) ²	% change	+ 0.5	- 0.1	- 0.9	- 0.6
— Independent entrepreneurs	% change	- 1.3	- 1.5	- 2.1	- 2.0
— Wage and salary earners in company sector	% change	+ 0.7	- 0.1	- 1.1	- 0.8
— General Government	% change	+ 2.2	+ 1.6	+ 1.6	+ 2.1
Unemployment	as % of labour force	1.8	3.0	4.3	4.7
Compensation of employees per wage and salary earner	% change	+ 13.4	+ 15.6	+ 13.5	+ 9.5
Price index of private consumption ³	% change	+ 7.2	+ 9.9	+ 10.5	+ 9.4
Current account balance ³	Fl '000 million	+ 1.7	+ 5.5	+ 4.1	+ 6.0

¹ Excluding construction

² Domestic concept

³ National accounts concept

⁴ Geometric mean of the change from 1968 to 1973, unemployment and current account balance arithmetic mean over the five years

⁵ Source CBS, CPB

⁶ Estimates of Commission's Departments

With a view to raising the medium-term growth rate of net national product to 3.75%, limiting structural unemployment in 1980 to 150 000 and, at the same time, making possible a certain rise in the real disposable income for the so-called modal employee, the Government decided

in 1976 on the following changes in the orientation of budgetary and economic policy:

- the annual growth of taxes and social security contributions as a proportion of net national product to be limited to 1%;

- new measures to be taken to promote business investment;
- the increase of wage costs to be curbed by subsidizing the social security system.

The central government budget for 1977 already reflects the new medium-term course of economic policy. Some of the measures of short-term support to investment (mainly fiscal allowances) previously introduced are having an effect throughout 1977, but will be supplemented by expenditure under the new programmes to the tune of about 50% of the full yearly amount assumed to be allocated to these purposes. In addition, certain tax reliefs will be made permanent. According to the budget these modifications will result in an increase in the so-called structural central government deficit from 1.7% in 1976 to 3.9% in 1977. The actual budget deficit (excluding debt redemption) in 1977 should total some Fl 12 800 million or 5.5% of net national product, compared with 5.8% in 1976. As in 1975 and 1976 the central government budget deficit will probably be financed in part by borrowing on the money market.

Any improvement in the medium-term prospects for growth and employment is conditional not only on an appropriate budgetary policy but also on an improvement in the cost situation of firms. To curb cost inflation the Netherlands Government has aimed in 1976 through various *incomes policy* measures at moderating the rise in domestic costs and prices. The most recent wage formation law expired at the end of 1976 and the last weeks of the year saw the resumption of sector-by-sector wage negotiations in the private sector, the initial bids being equivalent to some 8% increase in wages per employee claimed by the unions and some 5.5% offered by the employers.

2. Outlook

Economic activity is expected to grow only moderately in 1977. The fall in unemployment will tend to be slow while the rate of increase in domestic prices will probably continue to slacken. The surplus on current account will be even higher than in 1976.

According to forecasts of the growth of various *export* markets, the rate of expansion of foreign demand is likely to fall below the rate experienced in 1976. Moreover, the rise in export prices will slacken significantly because of increased international competition, the appreciation of the Guilder and the slower rise in farm prices due to better harvest. Overall, merchandise exports should, nevertheless, continue to expand at a good rate in value as well as in volume terms.

Domestic demand, on the other hand may show some deceleration in the months ahead, reflecting mainly slower rate of inventory formation. Excluding inventory formation, a certain acceleration may, indeed, take place.

After falling some 3% in 1976, real *gross fixed asset formation*, particularly in the business sector, is thus likely to increase somewhat. Although capacity utilization rates will remain fairly low and demand is not forecast to be

particularly buoyant, the changes and increases in investment incentives planned by the Government should bring about some improvement in the propensity to invest. Total business investment (excluding residential construction) should increase by around 6% in terms of volume. Construction of new dwellings could begin to show a firmer trend after the sharp fall in the two previous years. The trend of building permits at any rate points to a strengthening of demand in this sector. The volume of public investment in 1977, however, may fall as the work procurement programmes introduced in the past two years gradually come to an end.

Stockbuilding, which made a major contribution to the growth of overall demand in 1976, is likely to exert a much weaker impact in 1977.

Because of the sluggish growth of real personal disposable incomes, *private consumption* is likely to rise only moderately. In terms of volume there may even be a fall between the third and fourth quarters of 1976 as a reaction from the spending spree which preceded the increase in the standard rate of VAT on 1 October. At the beginning of 1977, the volume of private consumption will resume an upward trend. The growth rate of *public consumption*, estimated at around 4% for 1976, will probably be much lower in 1977 (see Table 2).

Total final domestic expenditure excluding inventory formation should grow by about 2% in volume in 1977, compared with 1% in 1976. However, total domestic demand will probably increase more slowly, especially since stockbuilding is unlikely to provide a smaller contribution than in 1976. On the whole, real *gross domestic product* is likely to grow by around 3.5% — the same rate as in 1976.

Given the outlook for production, there is little chance of an appreciable increase in *employment* in the business sector. After the drop in the autumn of 1976, unemployment will tend to decline only slowly.

Merchandise imports, which rose sharply in volume in 1976, boosted mainly by investment in stocks of raw materials and semi-manufactures, will expand more slowly in 1977. Despite a deterioration in the terms of trade and in increasing deficit on transfer payments, the surplus on current account will rise once again, to around Fl 7 000 million (Fl 6 000 million in 1976).

It is quite possible that the upward movement of domestic costs and *prices* will continue to slow down, provided import prices do not accelerate again and that productivity growth is maintained. Between May and November 1976 the consumer price index, excluding an estimated impact of the increase in the VAT rate, rose by only 4.8% at annual rate. This slowdown being partly due to seasonal factors, the rate of increase is likely to be somewhat higher in the months ahead but should nevertheless, for 1977 as a whole, fall significantly below the corresponding figure for 1976.

In accordance with the recommendations of the Council, Dutch economic policy in 1977, while still relying upon

TABLE 2

Demand for and supply of goods and services

Netherlands	1974 ²	1975 ²			1976 ³			1977 ³
	At curr. prices in Fl '000 milhon	% change on preceding year						
		Vol.	Price	Value	Vol.	Price	Value	Vol.
Private consumption	104.93	+ 3.0	+ 10.5	+ 13.9	+ 2.5	+ 9.4	+ 12.2	+ 2
Public consumption	32.18	+ 2.6	+ 12.2	+ 15.1	+ 4.5	+ 9	+ 13.5	+ 1½
Gross fixed asset formation	41.14	- 3.8	+ 10.3	+ 6.1	- 3	+ 8.5	+ 5.5	+ 3
— Enterprises	23.86	- 4.7	+ 10.9	+ 5.7	- 6.5	+ 8	+ 1	+ 5½
— Dwellings	10.45	- 6.8	+ 9.6	+ 2.0	+ 0	+ 9.5	+ 9.5	+ 2
— General Government	6.83	+ 4.0	+ 9.4	+ 13.8	+ 4	+ 9.5	+ 14	- 4
Domestic final uses (excluding change in stocks)	178.25	+ 1.4	+ 10.8	+ 12.3	+ 1.7	+ 9.1	+ 11.0	+ 2
Domestic final uses (including change in stocks)	181.75	- 1.4	+ 10.8	+ 9.3	+ 3.1	+ 9.1	+ 12.5	+ 2½
Exports ¹	107.57	- 2.9	+ 4.7	+ 1.6	+ 10	+ 6.5	+ 17	+ 6½
Imports ¹	102.21	- 3.9	+ 4.4	+ 0.3	+ 9.5	+ 6.5	+ 16.5	+ 4½
Gross domestic product at market prices	187.11	- 0.9	+ 10.7	+ 9.8	+ 3.6	+ 9.0	+ 13.0	+ 3.6
Contribution to percentage change in gross domestic product								
Domestic final uses (excluding change in stocks)	178.25	+ 1.3		+ 11.7	+ 1.6		+ 10.7	+ 1.9
Change in stocks	+ 3.50	- 2.6		- 2.7	+ 1.4		+ 1.4	+ 0.5
Balance of exports and imports ¹	+ 5.38	+ 0.4		+ 0.7	+ 0.6		+ 0.9	+ 1.1

¹ Goods and services

² Source: CBS, CPB

³ Estimates of Commission's Departments.

the effects of general expansionary measures taken in previous years, will put greater emphasis upon selective measures to promote investment and employment. However, the new orientation of budgetary policy while representing a necessary condition for improving the medium-term outlook for the Dutch economy is unlikely to succeed unless accompanied by parallel efforts on behalf of the social partners to bring about a marked slowdown of the rise in costs and prices and an improvement of the profitability of productive investment.

Major economic policy measures

March 1976

— The Benelux monetary authorities decided to increase the 1.5% margin of fluctuation for their currencies within the 'mini-snake' to 2.25%; the margin applied in the European 'snake'.

— Publication of a regulation on the employment of handicapped persons (1976) (an employer recruiting a handicapped person can obtain a wage-cost subsidy and compensation for the adjustment costs).

April:

— Government letter to the Second Chamber on measures to support ocean shipping under a fleet replacement programme. It was proposed to suspend capital allowances for two years and to replace them by investment premiums. This scheme would also benefit the Dutch shipbuilding industry. Wherever possible, new ships had to be ordered

from Dutch shipyards. A Ministerial Decree of 28 June 1976 fixed the premium at $5 \times 4.75\%$.

May:

— Publication of a regulation on the granting of subsidies in connection with the increase in the statutory minimum wage for 1976. The aim was to ensure the rise in the statutory minimum wage on 1 January—which, on average, exceeded the wage agreement by 2.5%—did not impose too heavy a burden on labour-intensive enterprises with many minimum wage earners on their payroll, thereby jeopardizing jobs.

June:

— The Nederlandsche Bank raised the discount rate in two steps from 4% to 5%.

— Publication of an outline scheme designed to assist and speed up the restructuring process in the clothing industry through loans from the Nationale Investeringsbank at normal rates of interest and junior-ranking loans from the Nederlandse Herstructureringsmaatschappij (NEHEM) amounting to 20% of the investment costs under an approved restructuring plan.

— The investment allowance for industrial and commercial buildings was raised from $2 \times 8\%$ to $2 \times 12\%$ and for plant and machinery from $2 \times 4\%$ to $2 \times 8\%$ pending the entry into force of the new investment aid-programme on 1 April 1977.

— The Government presented a memorandum to the Second Chamber on the national welfare scheme and employment. With a view to reducing structural unemployment, curbing inflation and increasing real growth in national income to at least 3.75% a year, the Government proposed that the annual rise in the burden of taxes, social security premiums and certain non tax revenues over the period 1977-80 should be held to 1% of national

TABLE 3

Main economic indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Industrial production* (1970 = 100)	1974	121	122	123	120	123	124	123	124	123	122	122	116
	1975	115	115	118	113	114	114	109	111	114	116	122	120
	1976	120	120	121	121	121	122	119	120	126	124		
Unemployed* (1 000)	1974	127.2	128.5	131.0	130.7	133.6	136.7	142.8	147.5	150.7	155.8	162.6	171.6
	1975	172.8	183.1	189.9	199.8	202.9	208.3	214.9	217.9	219.2	218.6	220.6	221.1
	1976	215.3	223.9	219.2	220.2	222.8	228.8	233.3	239.1	232.3	223.8	217.6	(212)
Permits for residential construction* (1 000)	1974	9.4	11.1	11.8	9.0	10.5	9.2	10.9	8.4	8.7	10.4	9.4	10.1
	1975	10.8	8.5	9.2	10.0	9.5	10.8	8.1	13.0	7.4	10.0	8.7	8.2
	1976	9.7	10.2	8.3	10.0	9.6	10.2	9.1	12.6	10.6	10.4	8.9	
Retail turnover* (1970 = 100)	1974	140.5	141.5	142.6	147.5	152.4	147.7	152.1	158.5	149.7	157.4	161.0	153.5
	1975	160.1	159.1	161.2	164.6	171.7	161.5	166.5	165.5	173.1	180.0	174.3	182.0
	1976	179.1	176.3	176.9	187.8	180.3	186.0	189.5	186.5	200.2			
Consumer prices (1969 = 100)	1974	135.1	136.4	138.4	140.2	140.8	141.3	141.8	142.9	145.1	147.0	148.1	148.7
	1975	150.1	150.5	152.7	154.6	155.5	155.8	156.7	158.2	160.2	161.6	162.0	162.3
	1976	163.2	164.7	166.3	169.8	170.4	170.4	169.6	171.4	173.2	175.6	175.8	175.8
Visible imports (million Fl)	1974	6 326	6 276	7 466	7 310	7 667	7 360	7 710	6 969	7 761	8 139	7 302	7 164
	1975	7 506	6 850	7 306	7 030	7 034	7 308	6 566	5 961	7 784	7 930	7 967	8 086
	1976	7 518	7 370	8 901	8 712	8 048	8 717	7 991	8 320	8 661	9 679		
Visible exports (million Fl)	1974	6 581	6 438	7 395	7 469	7 902	7 454	7 662	6 672	7 751	8 080	7 371	7 214
	1975	7 751	6 850	6 953	7 874	7 062	7 523	6 541	5 979	7 491	8 578	8 043	7 947
	1976	8 113	7 757	9 477	8 677	8 488	8 705	8 146	8 099	9 127	9 240		
Balance of trade (million Fl)	1974	+255	+162	-71	+159	+235	+94	-48	-297	-10	-59	+69	+50
	1975	+245	0	-353	+844	+28	+215	-25	+18	-293	+648	+76	-139
	1976	+595	+387	+576	-35	+440	-12	+155	-221	+466	-439		
Official gold and foreign exchange reserves (million Fl)	1974	17 225	17 419	16 897	15 957	16 106	15 532	15 825	16 772	18 723	19 410	19 532	18 742
	1975	18 873	18 682	18 432	18 415	17 992	17 634	18 452	19 222	19 463	19 829	19 861	19 997
	1976	19 825	21 366	20 522	19 981	19 599	17 586	17 465	17 691	17 832	18 506	(19 475)	(19 700)
Money supply* (million Fl)	1974	59 685	60 660	61 305	62 063	64 406	65 443	66 705	67 395	67 980	68 711	69 120	69 996
	1975	69 400	70 631	70 946	71 921	73 141	72 674	72 479	72 175	71 999	72 963	73 754	74 143
	1976	76 103	76 682	76 852	78 999	78 992	80 618	82 812	84 946	86 914	89 236		

() Provisional figure

Not available

* Seasonally adjusted

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

- Industrial production excluding construction Source: CBS
- Unemployed end-of-month figures Source: CBS
- Number of dwellings authorized
- Value index of retail turnover
- Consumer prices wage-and salary-earner households Source: CBS
- Imports cif, exports fob value Source: CBS
- Balance of trade difference between figures for imports and exports
- Official gold and foreign exchange reserves gross reserves of gold and foreign exchange in the Nederlandsche Bank at end of month Source: CBS
- Money supply Stock of money and near money at end of month Source: CBS

income. In practical terms this means that the rise in Government expenditure in 1977 and 1980 would have to be Fl 990 million and Fl 2 980 million lower than the figures in the multiannual forecasts, that the increase in social security expenditure in 1977 and 1980 would have to be Fl 1 678 million and Fl 5 765 million lower than it would have been on unchanged policies, and that the structural budget deficit would go up by the amount of the temporary tax concessions granted this year.

— Publication of new scheme for subsidizing good-quality and reasonable priced rented dwellings. A subsidy of Fl 500 per dwellings will normally be granted towards planning costs and a maximum subsidy of Fl 4 000 per dwelling will be available towards buildings costs.

— The Government presented a memorandum to the Second Chamber

on the subject of selective growth (economic structure memorandum). The memorandum contained, *inter alia*, a supplementary programme designed to maintain and create jobs through measures (mainly investment premiums paid through an investment account at the Central Bank) costing an extra Fl 2 000 million in 1977 and Fl 2 800 million (at 1978 prices) in 1978, 1979 and 1980; there would be further relief for trade and industry of Fl 400 million in 1977 and Fl 2 100 million (at 1978 prices) in 1987, 1979 and 1980 through the transfer to the Government of the cost of social security contributions and through a changeover, from 1978, to a more favourable method of computing taxable profits. In addition to these measures, which would raise the Government's structural financial deficit by 1% of national income, the Government planned, from April 1977, to replace the present structural investment aid programme, which

relies on tax relief amounting to about Fl 1 500 million, by investment premiums (also payable via an investment account).

July

— The statutory minimum wage was raised from 1 July 1976. By way of derogation from the normal indexation rules (which would have given a 5.4% rise), the minimum wage for employees aged 23 and over was increased by Fl 30 to Fl 1 470.30 per month.

— Social security benefits were raised from 1 July 1976 in line with the movement in wages. Benefits under the general old-age insurance scheme and under the general survivor's insurance scheme went up to Fl 1 117 per month for married persons and widows with children and to Fl 762.50 per month for unmarried persons and widows without children.

— Publication of a regulation on the suspension of the levy provided for under the selective investment law.

— Publication of the regulation on conditions of employment in the second half of 1976. Employees will receive a wage supplement of Fl 30 per month which will not be taken into account in calculating other allowances. The wage supplement will be paid out six months after cost-of-living compensation has been granted under the regulation of 2 December 1975 fixing wages and other conditions of employment, and from 1 July if no cost-of-living compensation has been granted.

— A circular was sent to local and provincial authorities informing them that, unless approval had already been obtained, they could make no increases in public service charges until 1 January 1977. Transport charges were, however, excluded. In 1977, the rise in public service charges should not exceed 7%.

— An amendment was published to the regulation on financial incentives for the construction of rented dwellings (1975). There will be a 6-monthly

adjustment of subsidies to rising building costs, and subsidies for higher building costs will taper off less sharply. The limit up to which subsidies are available was considerably raised.

August:

— The Nederlandsche Bank raised the discount rate and other interest rates in three steps by 2% and 2.5% respectively. The rate of discount on bills of exchange thus reached 7% on 20 August.

— Publication of four measures to combat unemployment among young people. The existing schemes, which provided for employment subsidies to be paid in respect of young people required to attend school on a part-time basis and for transitional measures regarding young unemployed persons, were extended. A new scheme was introduced under which employers recruiting young persons who had been unemployed for a fairly long period qualify for a temporary wage-cost subsidy from 1 September. Furthermore a regulation on the vocational training of young people will be published under which firms which employ and give practical training to a school-leaver can obtain a weekly subsidy of Fl 80 towards the training costs.

September:

— Under the 1977 budget, central government expenditure will rise to about Fl 86 600 million in 1977, an increase of 11.0% on the expected outturn for 1976 and of 11.2% on the 1975 budget. On the same comparison, revenue is to increase by 11.8% and 14.6% respectively. The budget deficit (excluding debt redemption) therefore totals Fl 12 800 million, equal to 5.5% of the forecast net national product (expected outturn in 1976: 5.8%). The budget makes allowance for most of the changes in medium-term budgetary policy announced during 1976.

G — Belgo-Luxembourg Economic Union

Belgium

The recovery in economic activity, from the low point reached in the summer of 1975, has lost momentum since mid-1976. Despite the rapid growth in production during the first six months, the total number of registered unemployed continued to rise. The upward trend of consumer prices has gradually moderated. The balance of payments has continued to show a deficit.

The current outlook shows little prospect of any recovery, in the short-term, of domestic or foreign demand. Unemployment will not fall in the near future. The slowdown in the rate of consumer price increases could well continue and might even accelerate.

1. Recent developments

Belgium has found it more difficult to recover from the 1975 recession than its neighbours. As the upswing gradually got under way, it became apparent that a number of industries were more severely handicapped than had previously been the case and that unemployment now had a very large structural component.

After expanding fairly sharply from the fourth quarter of 1975 onwards, *exports* contracted in the middle of the year, with this trend being more marked in the case of exports to other Community countries than to non-member countries. Imports, which had begun to pick-up earlier, also slackened after the beginning of last summer. For the first nine months of the year, the current account of the *balance of payments* showed a deficit of FB 26 600 million, compared with a surplus of FB 18 500 million the previous year; this was the result of an appreciable deterioration in the balance of visible trade.

Investment by firms has fallen in volume terms. Although

residential construction in general has been enjoying boom conditions, fewer large blocks of flats are being built. After a phase of replenishment of stocks of raw materials to levels essential for normal production, the rate of stockbuilding has slackened.

The rate of growth of *private consumption* slowed down after the summer. As a result of a significant deceleration in the rate of growth of average earnings and of a further fall in employment, private disposable income has, indeed, grown only very slowly.

The rate of *consumer price* rises has gradually slackened in the course of the year. In November, the consumer price index was 7.6% above the level of November 1975.

The *labour market* situation has further deteriorated. At the end of November 1976, the number of registered unemployed (seasonally adjusted) totalled 285 000 or 7.1% of the labour force. Of the 251 000 wholly unemployed (unadjusted) receiving benefit at that time (15.7% up on November 1975), 194 000 were fit for

general work (a rise of 21%), 123 000 women (a rise of 33%) and 71 000 men (a rise of 4.3%). In contrast, the number of unfilled vacancies has been rising slightly since April.

With economic trends fluctuating widely and given the unusually uncertain outlook, it has been no easy matter for the authorities to define general economic policy guidelines, especially as what was already a very heavy budgetary deficit has constituted a major obstacle to the introduction of a firm counter-cyclical policy. *Budgetary policy* has therefore been fairly restrictive. Although the deficit on the 1976 budget was heavier than expected, this was mainly due to the increasing burden of social transfer payments under existing laws (unemployment benefits). As for the measures introduced to support demand, these related mainly to public investment. According to the draft central government budget for 1977, there is likely to be a slowdown in the rate of growth of public investment and some cuts in current expenditure, with the result that support for overall demand should fall somewhat short of that provided in 1976.

In 1976, the main objective of monetary policy has been to defend the Belgian franc with the aim of stabilizing domestic prices by maintaining the monetary snake. Central bank interest rates have thus been adjusted several times during the year. Overall, bank liquidity has remained tight, leading to a rise in short-term interest

rates. Medium- and long-term rates have remained at a high but fairly stable level. After the adjustment of parities within the 'snake', the restrictive measures were partly relaxed, whereupon conditions on the money market eased.

Until 1973, the rate of consumer price rises in Belgium was well below the Community average and even lower than in Germany. However, over the period 1974-76, the Belgian price index rose by an average of 11.5%, compared with 6.1% in Germany and 11.5% for the Community. As the continuing upward trend of prices and wage costs seriously threatens the competitive position of firms as well as investment and employment, curbing inflation has been and remains one of the central objectives of economic policy. The Government therefore introduced a series of measures under the economic recovery law aimed at curbing the growth of incomes. In addition, the Government decided not to include the temporary increase in the price of certain fruits and vegetables in the consumer price index for July and August. As these income policy measures are valid only until the end of 1976, a draft law was proposed in December which aimed at controlling certain prices including, in particular, rents for accommodation. This draft law did not propose any measure which would directly affect wages and salaries; developments in this area in 1977 will be determined by pay negotiations in individual sectors and industries.

TABLE 1
Key indicators

Belgium	Unit	1969-1973 average ^{4 5}	1974 ⁵	1975 ⁵	1976 ⁶
Gross domestic product; volume	% change	5.3	+ 4.0	- 2.0	+ 3.5
of which: Industry ¹		8.5	2.6	- 6.4	6.0
Gross domestic product in volume per person in employment	% change	4.6	2.5	- 0.9	4.5
Total employment ²	% change	1.1	+ 0.9	- 1.5	- 1.5
— Independent entrepreneurs		- 1.8	- 3.7	- 1.8	- 1.4
— Wage and salary earners in company sector		1.7	+ 1.8	- 2.3	- 2.4
— General Government		2.5	2.3	3.0	2.2
Unemployment	as % of labour force	2.2	2.6	4.5	6.1
Compensation of employees per wage and salary earner	% change	11.3	16.9	15.6	12.6
Price index of private consumption ³	% change	4.2	12.9	12.1	8.3
Current account balance ³	FB '000 million—	37.7	19.9	13.8	- 7.4

¹ Excluding construction

² Domestic concept.

³ National accounts concept.

⁴ Geometric mean of the change from 1968 to 1973, unemployment and current account balance: arithmetic mean over the five years

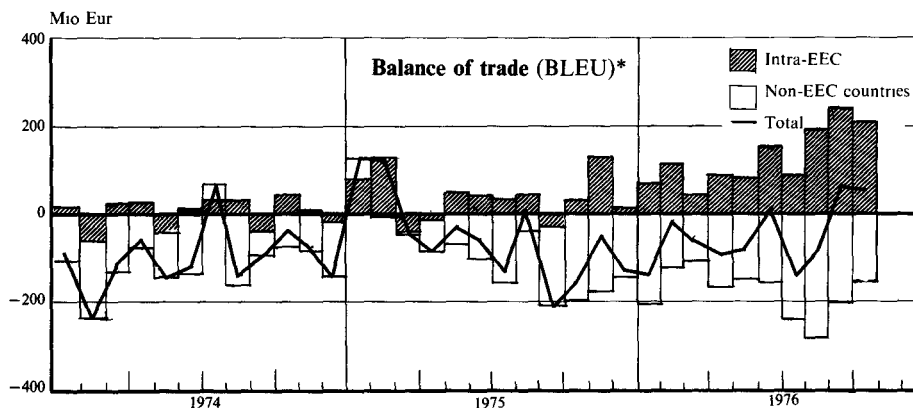
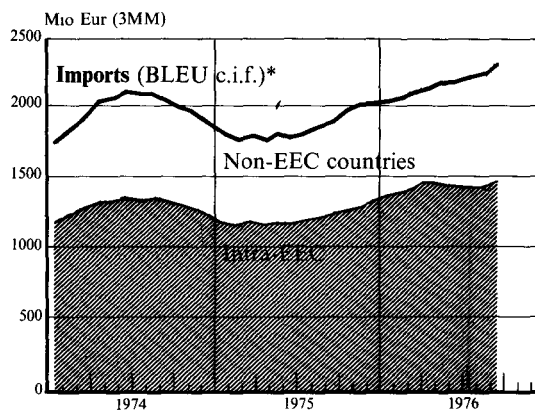
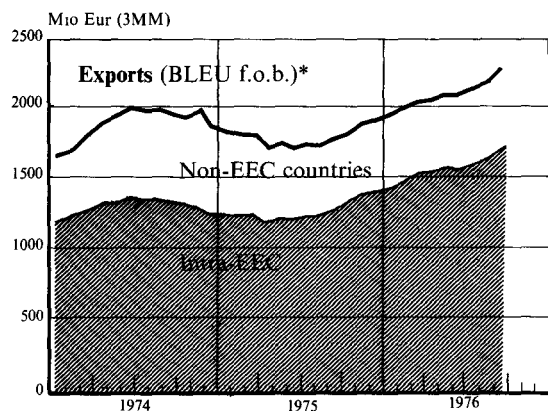
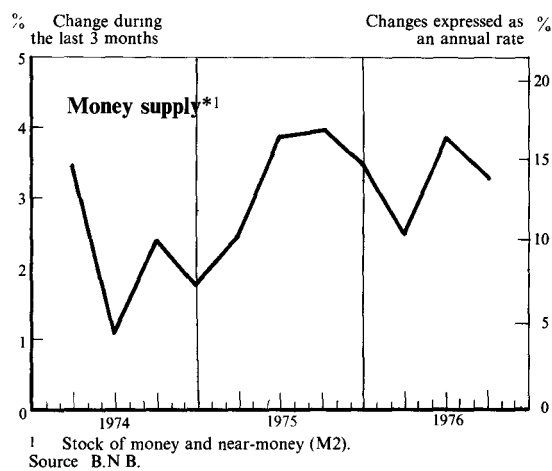
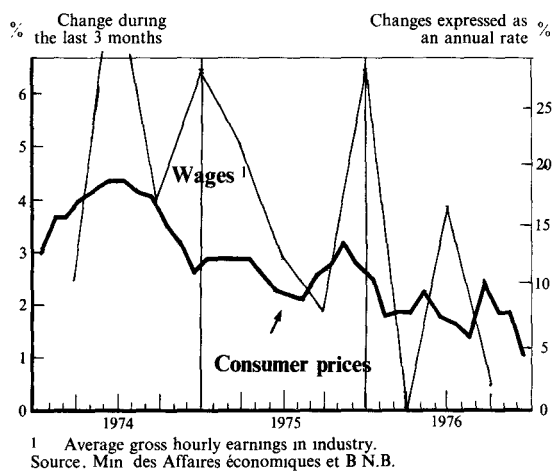
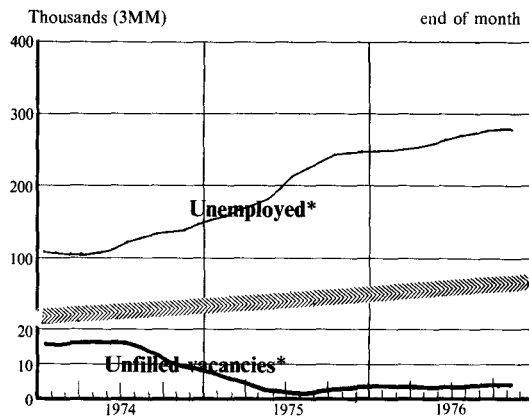
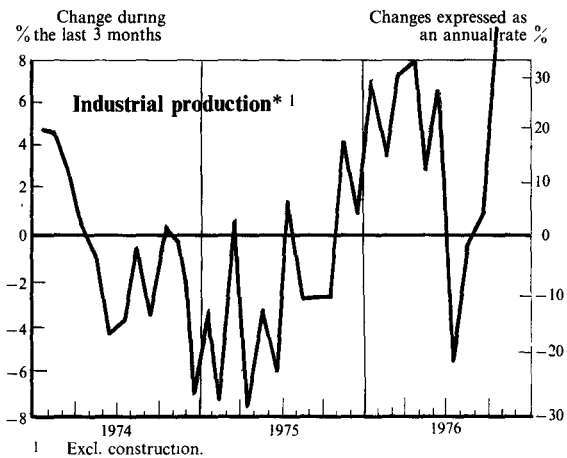
⁵ Source: Institut national de Statistique, National accounts.

⁶ Estimates of Commission's Departments.

2. Outlook

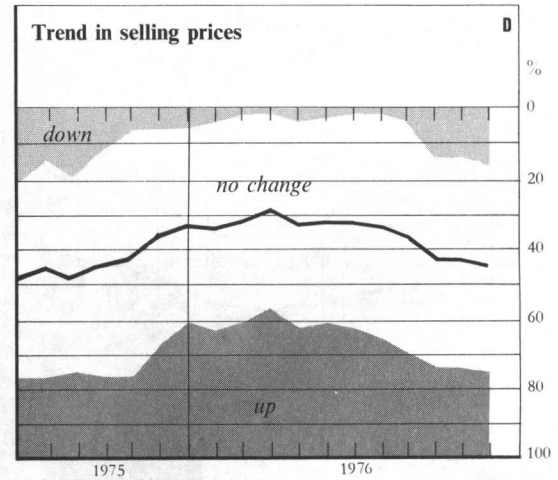
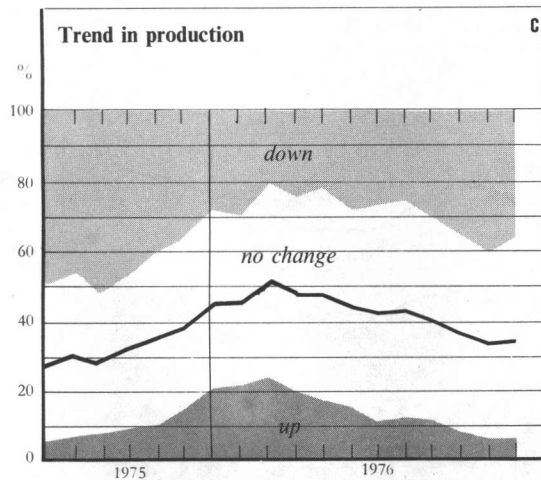
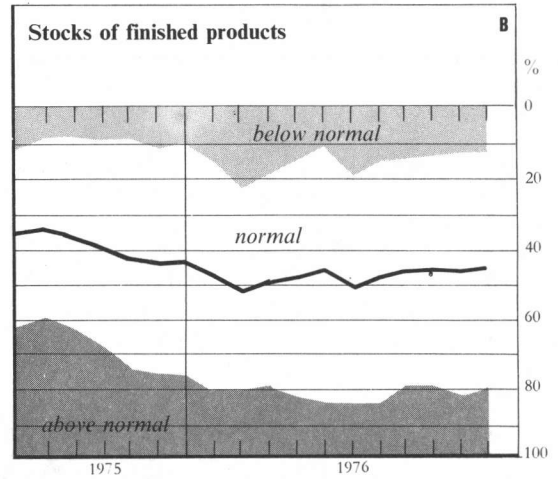
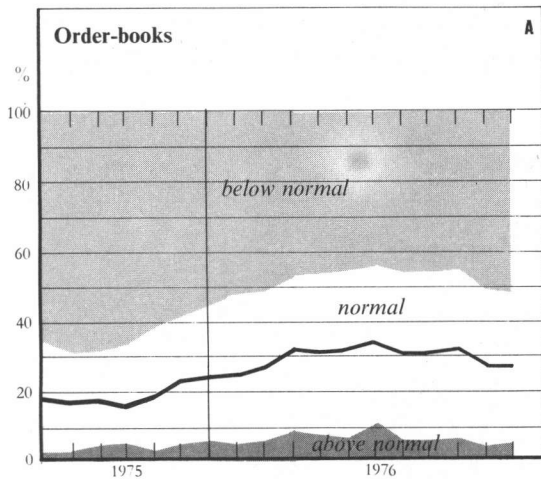
There are no signs that the tendency for economic activity

to level out will change in the coming months. The rate of expansion of gross domestic product may therefore be insufficient to bring about any reduction in unemployment.



*: Seasonally adjusted figures.
3MM: three month moving average.
Source: SOEC except where otherwise indicated.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

ment and any increase in the degree of capacity utilization. The upward trend of consumer prices will probably continue to slacken, particularly if the increase in wage costs were to remain at the fairly modest rate recorded in the second half of 1976.

In the light of present growth prospects for imports by Belgium's main customers, there is unlikely to be any sharp rise in the volume of *exports* in the short term. Furthermore, keener competition, particularly from non member countries, will probably hold export prices down. Exports in terms of value are likely to continue to expand only to a fairly limited extent in the coming months.

Domestic demand is unlikely to provide any appreciable stimulus to economic activity. At best, *fixed investment* by firms will remain more or less stagnant in terms of volume, as the degree of capacity utilization has peaked out at a relatively low level. In addition, high interest rates on the capital market will also curb the demand for credit and the rise in the prices of plant and machinery will not make their financing any easier. The restrictions on mortgage lending introduced in 1976 will again slow down residential construction whilst public investment, according to the Budget figures, after expanding in terms

of volume by 8.5% between 1975 and 1976, should grow at a somewhat slower rate in 1977.

Just like the rapid upswing at the beginning of the year, the present slackening of activity seems closely linked to *stockbuilding* developments both at home and abroad. As it is estimated that the level of stocks of finished products is now higher than normal, there is unlikely to be any major restocking during the coming months, especially as the financial situation of firms, after improving in the second half of 1975 and the first half of 1976, seems to have deteriorated again in recent months.

Private consumption trends will not suffice by themselves to revive activity. As the employment trend and the growth of real per capita wages and salaries have been sluggish, real disposable income of households will grow only slowly.

Imports of goods, which at the beginning of 1976 had expanded as firms replenished their stocks of raw materials and the demand for consumer durables (particularly private cars) gathered strength, will probably grow more slowly in 1977. Therefore, the current account balance should show only a slight improvement in 1977.

TABLE 2

Demand for and supply of goods and services

Belgium	1974 ²	1975 ²			1976 ³			1977 ³
	At curr prices in FB '000 million	% change on preceding year						
		Vol	Price	Value	Vol	Price	Value	Vol
Private consumption	1 244.5	0.8	12.1	13.0	3.3	8.3	11.9	3.0
Public consumption	312.9	7.2	16.9	25.3	4.1	10.4	14.9	3.3
Gross fixed asset formation	468.0	— 3.3	11.0	7.4	— 0.8	10.2	9.4	1.5
— Enterprises	273.8	— 4.2	9.8	5.2	— 6.0	9.0	2.3	1.6
— Dwellings	129.6	— 5.9	14.8	8.0	+ 5.0	12.0	17.6	0
— General Government	64.5	6.2	8.9	15.7	8.6	11.0	20.6	4.1
Domestic final uses (excluding change in stocks)	2 025.4	0.8	12.6	13.6	2.5	9.1	11.8	2.7
Domestic final uses (including change in stocks)	2 073.1	— 2.3	13.0	10.4	3.9	9.1	13.3	2.8
Exports ¹	1 116.4	— 9.3	4.9	— 4.9	7.2	6.7	14.4	6.8
Imports ¹	1 109.2	— 9.9	6.2	— 4.4	8.1	7.9	16.7	6.1
Gross domestic product at market prices	2 080.3	— 2.0	12.4	10.1	3.5	8.5	12.2	3.0
Contribution to percentage change in gross domestic product								
Domestic final uses (excluding change in stocks)	2 025.4	0.8		13.2	2.5		11.9	2.7
Change in stocks	+ 47.7	— 3.1		— 2.8	1.3		1.4	0.1
Balance of exports and imports ¹	+ 7.2	0.3		— 0.3	— 0.3		— 1.0	0.3

¹ Goods and services

² Source: Institut national de Statistique, National Accounts

³ Estimates of Commission's Departments

TABLE 3

Main economic indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct.	Nov.	Dec.
Industrial production* (1970 = 100)	1974	121.2	123.3	122.9	121.7	122.0	128.1	117.0	121.4	121.1	117.4	121.1	112.7
	1975	113.7	112.4	113.5	105.0	108.9	106.7	106.6	105.9	104.7	104.0	110.3	105.0
	1976	111.3	114.1	112.2	120.2	118.4	120.8	114.2	117.1	121.5	126.5		
Unemployed* (1 000)	1974	108.7	107.6	106.0	106.4	106.4	109.2	127.6	131.2	135.9	137.5	142.3	148.0
	1975	155.6	163.9	171.3	179.2	184.2	191.0	220.5	231.6	240.9	244.7	249.1	251.0
	1976	251.6	252.1	254.5	257.7	263.0	264.8	276.2	279.4	277.9	281.8	284.6	278.8
Construction. Permits for residential construction*	1974	7 992	7 476	7 330	8 416	8 937	7 491	9 721	7 472	7 328	5 738	5 579	5 809
	1975	5 855	6 142	5 726	6 061	4 842	6 301	5 231	6 096	6 888	6 301	7 143	8 168
	1976	7 676	8 182	8 138	7 192	7 886	8 227	6 610	8 484				
Private consumption Retail turnover* (1970 = 100)	1974	127.0	125.8	124.7	130.1	129.6	125.5	127.9	127.1	124.3	130.2	125.4	128.0
	1975	130.4	126.5	126.2	132.7	128.5	125.1	126.9	128.5	129.3	133.7	127.6	132.3
	1976	133.6	132.3	131.1	136.8	128.7	(133.0)	(135.4)	(132.7)	(135.2)			
Consumer prices (1970 = 100)	1974	123.3	124.9	126.4	128.2	130.1	132.0	133.8	135.6	137.4	138.6	140.0	141.0
	1975	142.5	144.1	145.1	146.7	147.9	148.5	149.9	151.0	152.3	154.1	155.7	156.5
	1976	158.0	158.5	159.5	161.0	162.2	162.4	163.7	164.4	166.5	166.9	167.5	168.4
Visible imports* (billion FB)	1974	86.30	89.87	93.12	95.96	104.70	98.38	103.68	101.12	98.93	97.10	96.26	95.13
	1975	87.94	89.37	89.21	95.23	84.30	95.17	92.35	87.84	101.09	101.87	100.18	106.38
	1976	102.04	101.99	112.43	113.04	108.09	118.03	109.30	112.61	115.98	(109.7)		
Visible exports* (billion FB)	1974	82.64	79.64	88.68	93.57	98.51	92.75	99.28	95.16	93.80	95.09	91.84	87.56
	1975	91.23	91.60	83.90	87.63	80.18	89.38	84.31	82.53	87.81	88.99	93.63	95.69
	1976	90.24	97.76	103.62	99.90	98.96	111.64	96.27	105.06	116.99	(112.6)		
Balance of trade (billion FB)	1974	- 3.66	-10.23	-4.44	- 2.39	-6.19	-5.63	- 4.40	-5.96	- 5.13	- 2.01	-4.42	- 7.57
	1975	+ 3.29	+ 2.23	-5.31	- 7.60	-4.12	-5.79	- 8.04	-5.31	-13.28	-12.88	-6.55	-10.69
	1976	-11.80	- 4.23	-8.81	-13.14	-9.13	-6.39	-13.03	-7.55	+ 1.01	(+ 2.9)		
Official gold and foreign exchange reserves (billion FB)	1974	192.2	192.1	192.7	190.5	185.0	186.2	195.9	198.4	206.2	213.9	218.1	213.7
	1975	217.4	223.1	224.9	226.6	230.9	234.1	236.2	238.2	234.6	235.9	234.3	235.3
	1976	223.0	218.4	216.0	208.2	207.8	207.2	200.5	199.4	185.7	185.5	(195.0)	(203.0)
Money supply* (billion FB)	1974			924.7			934.5			956.7			973.6
	1975			997.9			1 036.8			1 078.7			1 116.4
	1976			1 144.1			1 188.3			1 227.2			

Not available.

() Provisional figure

* Seasonally adjusted

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

— Industrial production, excluding construction

— Unemployed end-of-month figures

— Construction number of residential buildings authorized

— Private consumption volume index of retail turnover

— Consumer prices all households

— BLEU Imports cif, exports fob value. Source: INS

— BLEU Balance of trade difference between figures for imports and exports

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

— Money supply. Stock of money and near-money at end of quarter Source: BNB

With these prospects for domestic and external demand, *gross domestic product* is likely to grow by about 3% in 1977 compared with 3.5% in 1976. Industrial production will probably increase by around 3% compared with 6.0% in 1976.

There is unlikely to be any improvement on the *labour market* in the immediate future. The total number of registered unemployed may well rise slightly at the beginning of 1977, but one cannot rule out the beginning

of a fall in unemployment among men during the second half of the year.

Virtually the whole impact of the slackening of the upward trend of unit wage costs as a result of increased productivity and a definite slowdown in the growth of per capita wages and salaries, which helped to curb consumer *price increases*, seems to have been felt already. This pattern is unlikely to continue if import prices rise or if productivity gains revert to a very low rate. At all events,

the outcome of negotiations at a sectoral level on new collective wage and salary agreements will have an important bearing on the chances of curbing inflation and improving the employment situation.

Although there seems a fairly good prospect that price rises will slacken, the growth rate of GDP in 1977 may well lag behind the rate of expansion of productive capacity and could well prove insufficient to provide more jobs. The substantial level of unemployment, much of it structural, will remain a *major problem of economic policy*. In the longer term, inflation must slacken, the competitive position at international level (particularly with non member countries) must improve and investment must revive, before there can be any lasting increase in the level of employment.

Major economic policy measures

June 1976:

— The new consumer price index came into force on 1 June. It contains 358 items compared with 149 in the old index. The weighting of the different groups of items has also been changed, so that food products now account for 25.15% instead of 30%, non-food products for 42.79% instead of 40% and services for 27.06% instead of 30%; rents have been included as a new item (5%).

— On 2 June the Banque Nationale repealed, ahead of schedule, the rules on the re-employment ratio, which it had reintroduced on 22 May 1976.

— With effect from 14 June, the Banque nationale lowered the rate for the rediscount of paper under sub-ceiling B from 8% to 7%, which brought it down to the official discount rate. The division into sub-ceilings was abolished three days later.

— On 18 June the Belgo-Luxemburg Exchange Institute changed its instructions to banks on the limit on spot foreign exchange positions on the regulated market.

July:

— Social security charges affecting 142 000 small- and medium-sized enterprises were to be reduced somewhat.

— The Government decided not to include the effect of changes in fruit, vegetable and potato prices in the consumer price index for the July-September period.

— On 23 July, the Banque Nationale took several measures to restrict credit: the discount rate and the rate for advances against securities and advances on current account were raised from 7% to 8%, rediscount ceilings and ceilings for advances to banks were subdivided into a sub-ceiling A and a sub-ceiling B, the rediscount ceiling was lowered by about 10%, from 4.75% to 4.25% of banks' eligible resources; the re-employment ratio, discontinued on 2 June, was reintroduced, requiring financial intermediaries to maintain intact the proportion of their assets previously invested in public debt.

— On 30 July the Banque Nationale tightened credit further. The rate for the rediscount of paper set against sub-ceiling B was raised from 9.5% to 10%.

August:

— The Government adopted the draft budget for 1977. Current expenditure amounts to FB 836 700 million, 12% up on the 1976 adjusted budget, and 16% on the original budget. GNP is expected to grow by 14.2%. Current revenue was fixed at FB 836 700 million, of which FB 812 900 million is tax revenue. On capital account, expenditure amounts to FB 110 000 million and revenue to FB 8 900 million. Total commitment appropriations under the 1977 public investment programme for the sector covered by the budget, the sector not covered by the budget and the semi-public institutions amount to FB 165 900 million, an increase of some 15%.

— The package of measures required to implement the 1977 budget was to be covered by a programme law. The measures include: additional

efforts to improve the collection of taxes (estimated to bring in an extra FB 7 000 million); a one franc increase in the price of a packet of cigarettes from 1 January (additional revenue estimated at FB 700 million); full tax relief for supplementary and new investment, with other types of investment still bearing VAT at 5%.

— In connection with the 1977 budget the Government decided on several measures to stimulate employment:

— the public investment programme will amount to FB 165 900 million, as against FB 151 300 million in 1976;

— the system of compulsory training periods for young people will be extended to the end of 1977;

— the early retirement age is lowered to 60 years for men and to 55 years for women. The experiment is extended for a year (to the end of 1977);

— the number of people receiving vocational training and the number of unemployed given jobs with the public authorities will be increased.

— firms employing additional labour will for six months be exempt from employers' social security contribution in respect of the net increase in their workforce.

— From 13 August the Banque Nationale raised its base rates. The discount rate for the banks' sub-ceiling A was raised from 8% to 9%, and that for sub-ceiling B from 10% to 11%.

— On 23 August the financial intermediaries raised interest rates for time deposit accounts by between 0.50% and 0.75% depending on the term. The interest payable on a six-month deposit, for instance, will be 6.25% compared with 5.75% previously.

— The rules restricting mortgage lending to a specified proportion of the market value of property, except for middle-range subsidized housing, were extended, subject to some adjustments, until the end of September 1976.

September:

— With effect from 6 September the Banque Nationale raised certain interest rates. The rate for sub-ceiling B was put up from 11% to 11.5% and the rate charged on advances against collateral outside the quota was raised from 13.0% to 13.5%.

— The Government decided to extend, subject to some adjustments, for a further four-month period (until 31 January 1977) the rules severely restricting the lending ratios on the market value of property pledged against mortgage loans.

— With effect from 8 September the banks decided to raise by 1% the base rates on cash advances.

— The trade unions, employers' organizations and the Government concluded an agreement which provided in particular that the neutralization period for fruit and vegetable prices would be reduced from three to two months; thus the September price index would be published as calculated on the normal basis. Compensation for the neutralization would be paid only to recipients of social security benefits (cost FB 150 million).

— From 20 September the banks raised interest rates payable on short-term deposits (15 days to 6 months) by between 0.75% and 1% percentage point.

October:

— The Banque Nationale raised its interest rates. The official rate for current-account advances was raised from 9% to 12.5% from 1 October, while the special rate for advances outside the quota was put up from 13.5% to 15%. The banks raised interest rates for cash advances from 13% to 14.5% (base rate) and for discount credit from 13.5% to 15%.

— The Finance Ministers of the countries participating in the European monetary agreement agreed on 18 October to adjust the parities of the 'snake' currencies. Taking the Belgo-Luxembourg franc and the Dutch guilder as a point of reference, it was decided to revalue the German mark by 2%.

— The Government approved the draft programme containing the following taxation provisions in particular:

— the indexation of taxation of low and middle incomes. The adjustment takes account of a 9.5% annual inflation rate;

— full tax relief for supplementary investment or investment intended for new firms made during the next five quarters. Other investment will still be taxed at 5% or 6%;

— measures to combat the non-payment of radio and TV licences by introducing a new method of determining the fees owing (licences issued by residence).

November:

— The central bank lowered, in several stages, the interest rate for current account advances and the special discount rate for items falling under sub-ceiling B (from 15% to 10.5%).

— The commercial banks decided several times during the month to lower their interest rates, by between 0.5% to 1.0%, charged on short-term credit.

December:

— The central bank decided not to prolong the validity of the re-employment ratio beyond its expiry date of 30 November; thus, commercial banks are not required, after 1 December, to keep a given proportion of their funds in State funds.

— For the fifth time since the end of October, the Banque nationale reduced on 9 December, the majority of its rates of interest which are applied to financial intermediaries

— The commercial banks decided to lower their interest rates for short-term credits by between 0.25% and 0.50%.

— The Government introduced in Parliament a draft law concerning the maintenance of employment, purchasing power and the competitiveness of the economy, which is intended to replace, on 1 January, the law for economic recovery. This proposal contains, in particular, a provision permitting an increase for the whole of 1977, of up to 8.5% in rents, dividends, professional fees and other similar payments. In addition, unrestricted collective bargaining and the full indexation of wages and salaries will once again be permitted.

Luxembourg

After accelerating sharply in the first half of the year, the pace of recovery slackened appreciably from the beginning of the third quarter onwards. Exports, for example, have shown little further improvement, either in terms of volume or of value, and the situation on the labour market is also no better than before. The increase in consumer prices is now rather slower. The external deficit remains heavy.

The available indicators offer little hope of a rapid upturn in the economy in the months ahead. With many firms running below capacity the number of persons in paid employment is not likely to increase. The pace of consumer price rises should slacken slightly.

1. Recent developments

After a 7.7% fall in 1975, gross domestic product in Luxembourg is expected to increase by some 3% in volume terms in 1976. However, the rapid recovery noted in the first half of the year has slackened considerably. There has been hardly any improvement in unemployment and there is still an external deficit.

Exports, which had benefited from increased orders early in the year from customers replenishing depleted stocks, have been less buoyant since the summer. Orders for rolled steel products, for example, were 6% higher in the first ten months of 1976 compared with the same period last year. However, deliveries, which had fluctuated less, increased by only 0.7% over the same period. All in all, the *trade deficit* has remained heavy particularly as a result of a persistent weakness of export prices, especially of steel products.

Overall *domestic demand* has fallen in volume terms compared with last year.

Fixed investment has remained very depressed, even though support measures have averted any substantial fall in activity in the building and construction industry. Raw materials for industries manufacturing intermediate goods accounted for much of the continuing growth in stocks.

Although *private consumption*, like *public consumption*, will not have increased as rapidly in 1976 as in 1975, it will still have been buoyant, particularly as regards purchases of durable goods. For example, purchases of cars in the first eleven months were 10.7% up on the same period last year.

For the first ten months of 1976, STATEC's *industrial*

production index (adjusted for the number of working days) showed a 8% increase over the corresponding period in 1975. According to the seasonally adjusted index, however, a 3.5% fall was recorded in the third quarter compared with rises of 3.7% and 8.1% respectively in the first and second quarters.

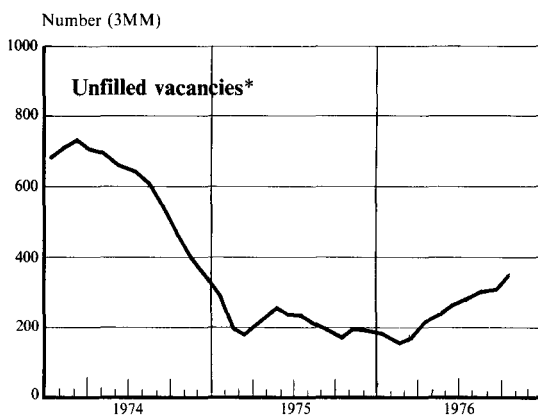
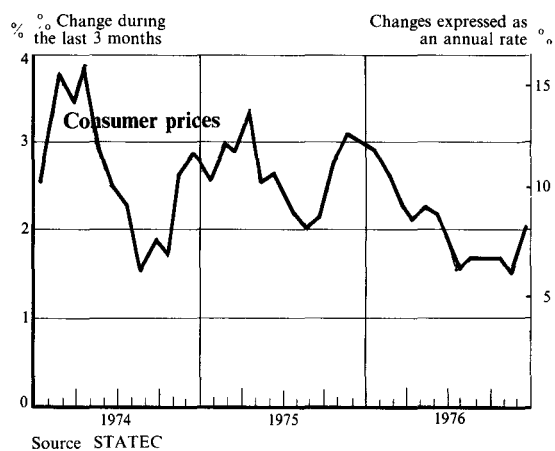
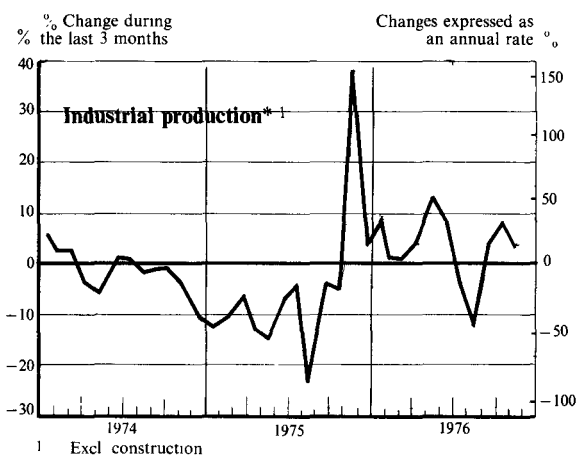
Despite a relatively rapid rise in the prices of some foodstuffs, the upward movement of *consumer prices* has, in general, lost momentum, in recent months in November the increase over the last twelve months was 8.3%.

The *increase in job vacancies*, together with an almost 3% fall over eight months in the number of persons in paid employment compared with the average figure last year, would suggest that structural problems — concerning, admittedly, only a very small proportion of the total labour market — are appearing in addition to the cyclical contraction in employment.

The absence of any further immigration of foreign workers, which might even have resulted in a certain net emigration, has served to slow down, to a certain extent, the growth of unemployment without, however, hiding the difficulties created, as in other countries, by the arrival of young people on the labour market.

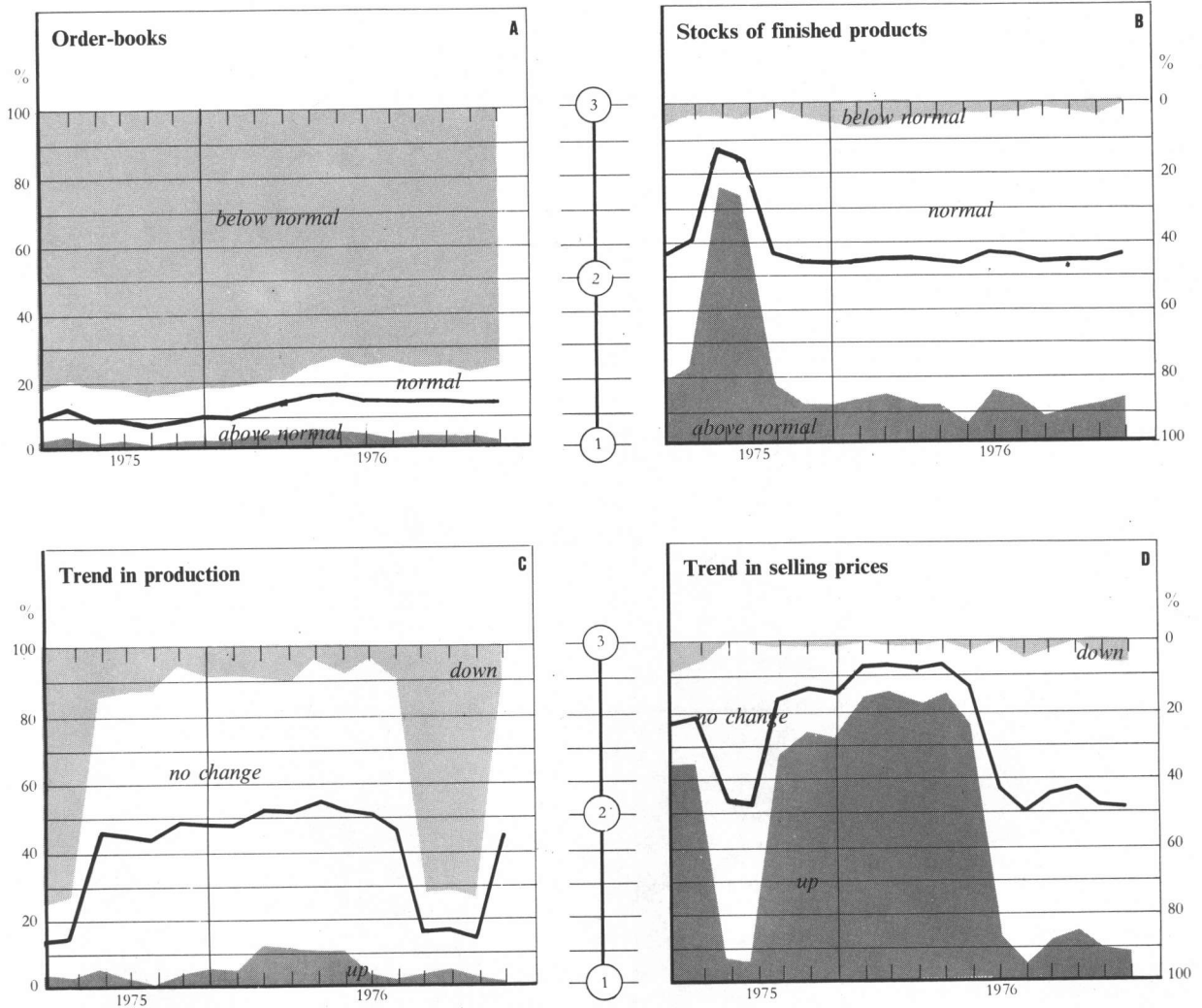
Luxembourg is more exposed to world-wide economic disturbances than larger countries and has no economic policy instruments with which to influence directly the level of economic activity and to stabilize its development. Rather than attempt to arrest the decline in the overall level of production and demand, therefore, the authorities responsible for *economic policy* have tried to reduce its repercussions on employment and on the standard of living.

However, measures have been taken to help the building



*: Seasonally adjusted figures.
 3MM: three month moving average.
 Source: SOEC except where otherwise indicated.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

TABLE 1
Key indicators

Luxembourg	Unit	1969-1973 average ^{4 5}	1974 ⁵	1975 ⁶	1976 ⁶
Gross domestic product; volume	% change	4.9	3.4	— 7.7	2.9
of which: Industry ¹	:	:	4	— 17.7	7.1
Gross domestic product in volume per person in employment	% change	3.9	0.9	— 7.9	4.6
Total employment (number of persons) ²	% change	2.5	2.5	0.2	— 1.6
— Independent entrepreneurs		— 1.6	— 2.5	— 2.4	— 2.2
— Wage and salary earners in company sector		3.6	+ 3.5	+ 0.7	— 1.5
— General Government		2.2	1.5	2.9	1.5
Unemployment	as % of labour force	0	0	0.2	0.4
Compensation of employees per wage and salary earner	% change	13.5	22	14.1	10.4
Price index of private consumption ³	% change	4.5	9.5	10.7	9.8
Current account balance ³	Mio Flux	3 720	7 867	—3 619	—3 035

¹ Excluding construction

² Domestic concept, theoretical unemployment excluded.

³ National accounts concept.

⁴ Geometric mean of the change from 1968 to 1973; unemployment and current account balance arithmetic mean over the five years

⁵ Source: Statec

⁶ Estimates of Commission's Departments.

: No date available

and construction industry through an investment programme in the public works and buildings. New unemployment benefit arrangements have also been introduced financed initially by budget appropriations and later on by employers' contributions. In view of the special difficulties facing the Luxemburg steel industry (output fell by more than 25% in 1975), several measures have been taken designed either to avert redundancies (short-time working and special public works duties for some 2 000 steelworkers) or (in 1976) to get investment under way once again in this sector.

The extent and duration of the crisis have led the Luxembourg authorities to reduce the medium-term rate of growth used as a basis for estimates in the preparation of draft budgets. The general aim of these exercises is to adapt expenditure to the underlying trend in revenue. Thus, according to the draft central government budget for 1977, presented in October 1976, the medium-term rate of growth of gross domestic product in volume terms would now be about 3%, compared with an average real increase of 4.9% per annum from 1968 to 1973.

In the short-term, and in accordance with the decision of the EEC Council of Ministers, the draft 1977 budget is aimed at a neutral fiscal policy, with temporary expenditure relating to specific and selective support measures no longer being included in the new estimates.

2. Outlook

In Luxembourg, the rate of growth of gross domestic

product in 1977 is likely to be about the same as in 1976, that is approximately 3%. This will result from a sharp recovery in gross fixed asset formation and a more buoyant trend in private consumption. The external deficit, however, will probably remain heavy, partly because export prices will still be low.

In view of the appreciable slackening of orders in both the steel industry and the other industries, there is no immediate prospect of an *export* boom.

Domestic demand, however, may be slightly more buoyant in the months ahead.

Although the *investment* recovery will be mainly the result of operations by the big companies (particularly in the steel industry, which has announced major modernization programmes) the more stable trend in orders in the building sector and in building permits also seems to foretell a strengthening of demand for housing.

There may also be some increase — albeit an involuntary one — in *stocks* of finished products in the first months of next year.

Although *public consumption* in real terms is not likely to grow more rapidly than in 1976, private consumption may well rise more sharply at the beginning of 1977, particularly as a result of increases in wages and salaries in the last months of 1976 or on 1 January 1977 as well as the adjustment of tax scales to inflation on 1 January which may well lighten for a time the tax burden.

In view of the outlook for demand, and even supposing a

TABLE 2

Demand for and supply of goods and services

Luxembourg	1974 ²	1975 ²			1976 ³			1977 ³
	At curr prices Mio Flux	% change on preceding year						
		Vol	Price	Value	Vol	Price	Value	Vol
Private consumption	42 861	2	10.7	12.9	2	9.8	12	3.2
Public consumption	10 067	3.4	16.2	20.2	2	9.9	12.1	2
Gross fixed asset formation	23 214	- 10.1	13	1.6	- 4	8.7	4.3	6.9
— Enterprises	11 931	- 15.1	11.4	- 3.4	- 6.4	7.7	0.8	8.2
— Dwellings	6 084	- 12.5	15	+ 0.6	- 7	8.5	0.9	2.2
— General Government	5 199	4.1	13.9	18.6	1.8	10	13.5	1.2
Domestic final uses (excluding change in stocks)	76 142	- 1.5	12.1	10.4	0.2	9.6	9.8	3.4
Domestic final uses (including change in stocks)	78 042	- 0.7	11.7	10.7	- 1.1	9.4	8.3	2.3
Exports ¹	78 113	- 12.4	- 4.3	- 16.2	4.6	1.8	6.5	4.9
Imports ¹	71 105	- 5.4	5.6	- 0.1	- 0.4	5.8	5.4	4
Gross domestic product at market prices	85 050	- 7.7	2.9	- 5	2.9	6.3	9.4	3
Contribution to percentage change in gross domestic product								
Domestic final uses (excluding change in stocks)	76 142	- 1.4	+ 9.3	+ 0.2	+ 10.3	+ 3.6		
Change in stocks	1 900	+ 0.5	+ 0.5	- 1.4	- 1.4	- 1.1		
Balance of exports and imports	7 008	6.8	- 14.8	+ 4.1	+ 0.5	+ 0.5		

¹ Goods and services

² Source: Statec.

³ Estimates of Commission's Departments

more stable trend in orders over the months ahead, the trend of *production* will probably remain hesitant during the first half of 1977.

The trade deficit will remain rather large as a result of the slow growth of exports, both in volume and in value terms.

Finally, as far as *consumer prices* are concerned, the trend should be towards a further deceleration but, nevertheless, it must be expected that increases in certain charges, which were not permitted in recent months, will be reflected in movements of the index over the next few months.

In general, the basic economic policy *problems* will be to relate properly current developments to medium terms objectives and to establish guidelines for structural and industrial policy. Although the relative importance of the tertiary sector increased considerably during the recession, it is absolutely essential for Luxembourg that it should maintain a buoyant manufacturing industry and safeguard its competitiveness.

Major economic policy measures

April 1976

— The Grand-Ducal Regulation of 1 April 1976 set maximum selling prices for drinking milk, fresh cream and butter

May

— The Grand-Ducal Regulation of 15 May raised by some 30%, the thresholds for the exemption from tax of wage and salary earners' and pensioners' incomes from overtime or night-time or holiday working.

— The Grand-Ducal Regulation of 25 May 1976 set a maximum selling price for domestically produced wines.

June

— The law of 30 June 1976 (1) setting up an unemployment fund and (2) laying down rules for the granting of benefits to the wholly unemployed, provides that the unemployment fund, financed by special employers' contributions, 'solidarity' taxes and a contribution payable by the local authorities, shall cover the cost of benefits to the wholly unemployed, the organization of vocational training courses, subsidies to firms to compensate workers on short time and the implementation of special public works schemes. The Fund will be financed for one budget year at a time, depending on need. Benefits will be paid only wholly unemployed persons with twenty-six weeks' work to their credit. The benefits will equal 80% of the previous gross wage or salary, up to a limit of 250% of the guaranteed minimum wage for 182 calendar days and 200% thereafter.

TABLE 3

Main economic indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Industrial production* (1970 = 100)	1974	124.3	126.5	120.4	120.3	119.2	121.7	121.0	117.4	120.7	120.1	113.4	108.4
	1975	106.2	101.9	101.5	93.3	87.5	94.7	89.5	67.1	91.4	85.7	92.8	94.1
	1976	94.1	93.7	94.8	97.4	105.9	102.3	94.2	93.7	107.0	103.3	46.9	
Unfilled vacancies*	1974	719	705	728	755	659	640	660	589	559	440	379	398
	1975	263	158	164	241	247	260	191	237	190	160	166	264
	1976	156	139	183	181	279	211	268	328	310	303	482	
Consumer prices (1970 = 100)	1974	121.3	123.6	124.4	126.0	127.2	127.5	128.9	129.2	129.9	131.2	132.7	133.7
	1975	134.6	136.6	137.5	139.2	140.1	141.1	142.3	142.9	144.0	146.2	147.4	148.3
	1976	150.5	151.3	151.6	153.8	154.7	154.9	156.1	157.3	157.5	158.7	159.7	160.8

() Provisional figure

Not available

* Seasonally adjusted

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

-- Industrial production, excluding construction

— Unfilled vacancies: end-of-month figures

— Consumer prices: all households

July.

— Under the law of 6 July 1976 relating to social security, officials and other employees on sick leave will be paid a net allowance equal to the wage or salary which they would receive if they continued working, while contributions due under the relevant insurance scheme need not be paid while the illness lasts

— Shipping charges on the Moselle were raised by some 5% from 1 July 1976.

September.

— The Government meeting in council decided to extend by one year by Grand Ducal Regulation the powers to operate special public works schemes.

— The draft central government budget for 1977 was tabled in Parliament.

— A Grand-Ducal Regulation of 30 September authorizes the Government to undertake (under statemanagement) works of general interest

October.

— If counter-cyclical measures are taken into account, both for the year ahead and the current year, ordinary expenditure is to go up by 14.7% and extra-ordinary expenditure by 10.4% (a total increase of 14.2%) comparing the draft budget for 1977 with the final budget for 1976, while the increase in revenue will be 15.7% on current account and 9.5% on capital account, or 15.5% in all. One-third of the increase in expenditure is attributable to the operation of the sliding wage scale. The rest is due to an increase in the cost of servicing the public debt, to greater outlays on social insurance, local authorities and railways and to the adjustment of appropriations

H — United Kingdom

Developments in the UK economy during the second half of 1976 were characterized by a slowdown in economic activity, no further progress in reducing the rate of inflation, a deteriorating balance of payments and a further increase in the underlying level of unemployment. There was a continued loss of confidence in sterling which produced sharp downward movements in the exchange rate and put pressure on the reserves. This led the Government to request the IMF to make available its remaining credit tranches with the Fund. After long negotiations with the IMF, the Government announced on 15 December 1976 a range of budgetary and monetary measures including substantial cuts in public expenditure plans.

The outlook for the first half of 1977 is for a very modest rate of expansion, based almost entirely on the further growth of exports, together with some stockbuilding. There is likely to be a further rise in unemployment. Inflation will remain high in the opening months of the year. Some modest improvement in the current account deficit on the balance of payments is possible.

1. Recent developments*(1) Overall Assessment*

The United Kingdom's economic situation deteriorated in the second half of 1976; this has substantially altered the outlook for 1977.

The most important aspects of this decline in performance are:

- (a) a marked slowdown in the rate of economic expansion;
- (b) no further progress in reducing the underlying rate of price inflation;

TABLE 1
Key indicators

United Kingdom	Unit	1969-1973 average ⁴ 5	1975 ⁵	1975 ⁵	1976 ⁶
Gross domestic product; volume	% change	+ 2.9	+ 0.2	- 1.3	+ 0.9
of which: Industry ¹		+ 2.9	- 2.4	- 5.9	+ 1.5
Gross domestic product in volume per person in employment	% change	+ 2.8	- 0.2	- 0.6	+ 1.7
Total employment (number of persons) ²	% change	+ 0.1	+ 0.4	- 0.6	- 0.8
— Independent entrepreneurs		+ 1.8	- 1.1	0.0	:
— Wage and salary earners in company sector		- 0.6	+ 0.3	- 0.9	:
— General Government		+ 2.4	+ 1.2	+ 6.9	:
Unemployment	as % of labour force	+ 2.9	+ 2.4	+ 3.9	+ 5.2
Compensation of employees per wage and salary earner	% change	+ 11.1	+ 20.4	+ 30.6	+ 16.3
Price index of private consumption ³	% change	+ 7.0	+ 16.8	+ 23.1	+ 15.5
Current account balance ³	£ '000 million	+ 0.6	- 3.3	- 1.7	- 1.9

¹ Manufacturing industries

² Domestic concept.

³ National accounts concept, on annual basis

⁴ Geometric mean of the change from 1968 to 1973; unemployment and current account balance: arithmetic mean over the five years

⁵ Source: Central Statistical Office

⁶ Estimates of Commission's Departments

: No data available

(c) an excessive growth of the money supply in the summer and autumn, largely the result of difficulties in financing the Public Sector Borrowing Requirement (PSBR);

(d) a substantial deterioration in the external accounts.

These developments have both partly caused, and partly resulted from, a loss of confidence in sterling which has led to continual depreciations in the exchange rate, seriously threatening the Government's anti-inflation policy and its strategy for encouraging industrial expansion and investment. Indeed, between end-June and mid-December the effective exchange rate for sterling fell by 10.5%.

In response to these difficulties, the UK authorities took a number of measures designed to underpin their anti-inflation and growth strategies, their main thrust being to reduce substantially future levels of public sector borrowing and to maintain a firm grip on monetary expansion.

(2) Main Policy Decisions

Partly in an attempt to restore confidence in the foreign exchange markets, and partly to strengthen the UK Government's anti-inflation and growth policies, the Chancellor of the Exchequer announced, on 22 July, 1976 a set of measures designed to reduce the public sector deficit in the financial year 1977/78. These included cuts in planned expenditure totalling £1 billion and increases in indirect taxation, in the form of increased employers'

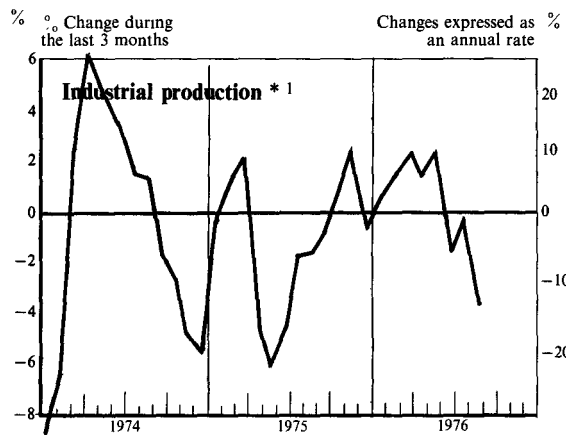
contributions, amounting to £900 million. In the light of the official forecasts for the development of the economy in 1977 available at that time, the Chancellor expected these measures to reduce the PSBR in 1977/78 by £1.5 billion to £9 billion (an estimated 6% of GDP). The Chancellor's announcement also included a commitment to allow the money supply as broadly defined (M3) to grow by no more than 12% during the financial year 1976/77.

Despite these measures, nervousness in the foreign exchange markets continued through the third quarter to the extent that, on 8 September, the Bank of England ceased to support the sterling exchange rate in order to prevent any further substantial fall in the official reserves.

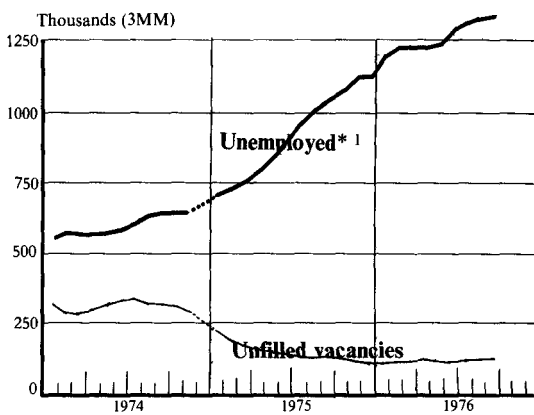
In a combined move designed to help steady the exchange rate and to enable the Government to finance the PSBR without recourse to excessive monetary expansion, the Bank of England raised its minimum lending rate on 10 September from 11.5% to 13% and called for special deposits on 16 September. Another call for special deposits was made on 8 October,¹ and the minimum lending rate was raised from 13% to a record 15%.

With a view to supporting the reserves and restoring confidence, the UK authorities announced, on 29 September, their intention of applying to the International Monetary Fund (IMF) for the UK's remain-

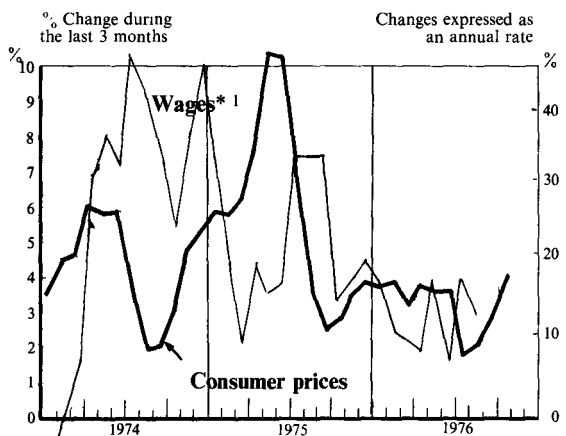
¹ In order to facilitate sales of Government debt, the second instalment of this payment, due on 15 November, was postponed for one month on 5 November and again for one month on 10 December



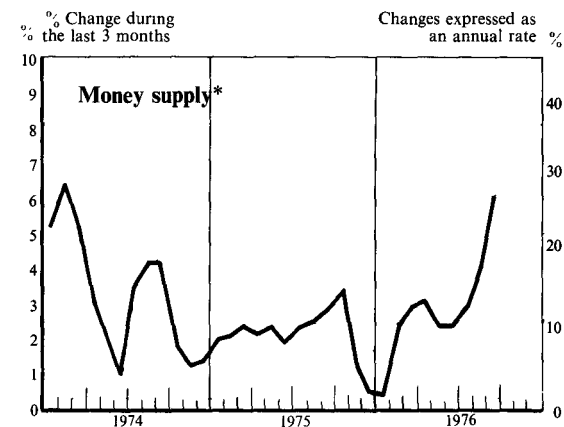
1) All industries
Source: C.S.O



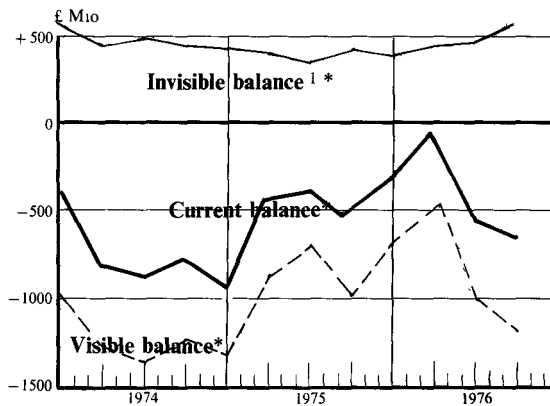
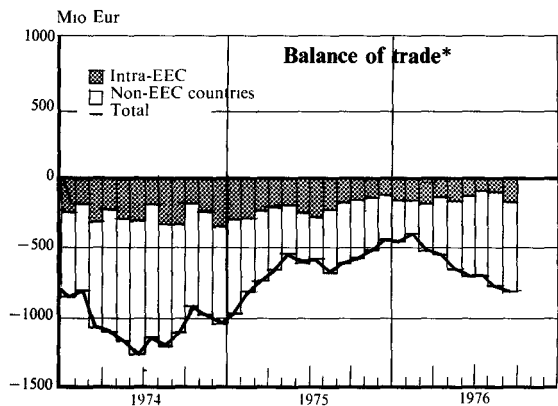
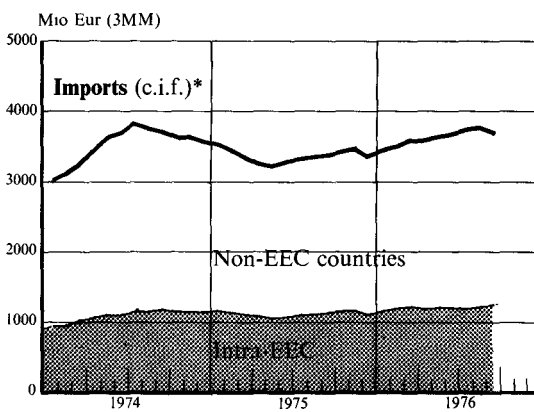
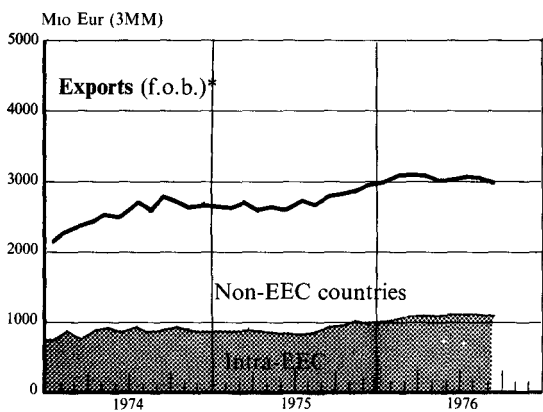
1 Excl. school-leavers and adult students
Source: Dept. of Employment



1 Monthly average earnings in Great Britain
Source: Dept. of Employment.



Money supply M3 (including interest-bearing deposits)
Source: Bank of England



1 Includes services, factor incomes and current transfers
Source: C.S.O. and Dept. of Trade and Industry.

*: Seasonally adjusted figures.
3MM: three month moving average.
Source: SOEC except where otherwise indicated.

ing credit tranches with the Fund to be made available. In response to the UK's request, negotiations between British and IMF officials about the economic policy targets the IMF would require as a condition for granting credit facilities began in early November and lasted until early December. The length of the negotiations reflected the UK Government's search for a balance point between policy targets that would be tough enough to restore domestic and overseas confidence but would not be so fierce as to force the economy deep into recession.

On 18 November the Government announced further measures to restrain the growth of the money supply, namely the imposition of severe restraints on the growth of the banks' interest bearing eligible liabilities — i.e. bank deposits.

The final set of budgetary and monetary measures that emerged from the negotiations with the IMF was presented to Parliament on 15 December by the Chancellor of the Exchequer and set out in the Government's Letter of Intent addressed to the IMF.

The measures proposed were for

- cuts in public expenditure in 1977/78 and 1978/79, which, together with other fiscal and financial adjustments, were designed to reduce the PSBR from the new forecast level of £10.5 billion in 1977/78 (on the basis of unchanged policies) to £8.7 billion and from £11.5 billion to £8.6 billion in 1978/79;
- the allocation of extra funds to support employment and encourage investment largely financed by increases in excise duties;
- the setting of specific targets for Domestic Credit Expansion in 1976/77 (£9 billion), 1977/78 (£7.7 billion) and 1978/79 (provisionally set at £6.0 billion).

(3) *Recent Trends in Detail*¹

The deficit on the current account of the *balance of payments* has deteriorated sharply since the Spring of 1976. During the six months to November 1976 the deficit widened to £1 281 million from the £444 million recorded in the previous six months. This adverse movement has been due to the lack of export growth after the second quarter of the year accompanied by a marked increase in the volume of imports. There has been little change in the terms of trade since early 1976.

The relative stability of the UK terms of trade during a period of rapid depreciation of the exchange rate suggests a marked change in the pricing behaviour of UK exporters. Instead of establishing significant price advantages in the overseas markets, they may be revising upwards their sterling prices more promptly than in the past. This might arise because exporters' profit margins are now rapidly eroded by domestic cost pressures and the increased cost of raw materials or because exporters prefer to take a greater proportion of the gain from depreciation in the form of increased profitability of exports compared with home sales, and a smaller proportion in immediate greater price competitiveness.

In the second quarter of 1976, the current account deficit of £0.5 billion (not seasonally adjusted) was accompanied by a substantial outward capital movement of £1.3 billion. In the third quarter there was a further significant, albeit smaller, outflow of capital (£0.4 billion). The combined current account deficit and the outward capital movement were financed to only a limited extent by drawing on the official reserves (— \$154 million). The modest fall in the level of the reserves is due partly to the authorities' more recent policy of avoiding costly exchange rate support operations, partly to extensive public sector foreign currency borrowing (\$847 million) and partly to further drawings from the \$5.3 billion standby credit arranged with Central Banks of the Group of Ten countries in June.

The fall in the value of the pound sterling, coupled with recent adverse movements of raw materials and food prices (partly reflecting effects of the summer drought) has prevented any further progress being made, in the second half of 1976, in reducing the rate of *inflation*. Indeed, the underlying change in the retail price index (all items, not seasonally adjusted) has remained close to 14% since November 1975. Nonetheless, no significant breaches in the UK Government's 4.5% voluntary pay policy have been reported and this should have continued to moderate significantly the rise in wage costs during the second half of 1976.

The *public sector borrowing requirement* during the second half of 1976 appeared to be moving well in line with the reduced official forecast made in July (£11.5 billion for fiscal year 1976/77). Its financing, however, became more difficult and was the principal factor behind the acceleration in the rate of expansion of the main monetary aggregates; a development inconsistent with the Government's target of 12% for the money supply as broadly defined (M3). In particular, during the three months to November, the latter grew at an annual rate of 17%. Warnings that difficulties of this kind might arise in the second half of 1976 have been a consistent theme of the Commission's assessments of the economic situation in the United Kingdom. The authorities' determination to limit the growth of the money supply to 12% for the financial year 1976/77 led to large increases in the minimum lending rate, coupled with calls for special deposits (for details, see 'Major Economic Policy Measures and Decisions', p. 59). These moves facilitated the sales of public sector debt to the non-bank private sector. As a result, the rate of growth of M3 slowed down substantially in the fourth quarter.

There has been no growth of *Gross Domestic Product* (GDP) since the first quarter of 1976, partly as a result of the adverse movements in export volumes already noted. During the six months to November 1976, export volumes rose by only 2.0% as compared with the previous six months, whereas import volume rose by 8.2%.

¹ Unless otherwise stated, this analysis is based on seasonally adjusted data

indicating a significant movement of resources out of the balance of trade. In addition, growth in private consumption between the first and second halves of 1976 has been modest, at most 1% at an annual rate (although there were signs of heavy pre-budget retail sales in the closing months of the year) and little change has occurred in the real level of public authorities' expenditure on goods and services. Movements in stocks appear to have contributed somewhat to sustaining the level of output. There has been a further fall in the volume of fixed investment between the two half years. The output indices confirm this slowdown in growth. Although the index of *industrial production* recovered strongly during the first half of 1976 from the low point of the recession reached in August 1975, there has been only a modest expansion between the first and second halves of 1976.

Despite occasional falls in the level of *unemployment*, the underlying upward trend showed no clear signs of deceleration. For the period May-October¹ the rate of unemployment was 5.5% compared with 5.1% during the previous six months. Employment, however, remained rather stable and there was a marked reduction in short-time working.

2. Outlook

The unabated high rate of inflation in the United Kingdom will continue to depress the level of real disposable income and to affect business confidence. This, together with the present expectations for sluggish growth in world trade in 1977, point to a slow rate of increase of economic activity in the months ahead. The budgetary and monetary measures announced by the UK Government, as the outcome of the negotiations with the IMF, should form an important element in restoring business and overseas confidence in the longer term though they are likely to depress activity somewhat in the short term. The outlook, therefore, is for a growth in GDP of at most 2% in 1977, although it must be stressed that as much as 1% of this growth rate may be accounted for by the impact of North Sea oil production. The growth of North Sea oil output will not have a significant impact on unemployment and there is no possibility of an improvement in the underlying level in the first half of 1977, even taking into account the additional measures for supporting employment announced on 15 December.

¹ No more recent figures are available as a result of industrial action

TABLE 2
Demand for and supply of goods and services

United Kingdom	1974 ²	1975 ²			1976 ³			1977 ³
	At current prices £ mio	% change on preceding year						
		Vol.	Price	Value	Vol.	Price	Value	Vol.
Private consumption	51 832	- 0.7	+ 23.1	+ 22.3	+ 0.6	+ 15.5	+ 16.2	- 0.8
Public consumption	16 578	+ 4.7	+ 32.0	+ 38.2	+ 2.8	+ 12.1	+ 15.2	+ 1.8
Gross fixed asset formation	16 633	- 1.2	+ 24.8	+ 23.3	- 3.5	+ 18.0	+ 13.9	- 3.6
— Enterprises	9 135	- 1.8	+ 28.3	+ 26.0	:	:	:	:
— Dwellings	3 167	+ 6.8	+ 20.8	+ 29.9	:	:	:	:
— General Government	4 331	- 5.3	+ 19.9	+ 13.5	:	:	:	.
Domestic final uses (excluding change in stocks)	85 043	+ 0.2	+ 25.3	+ 25.6	+ 0.3	+ 15.2	+ 15.5	- 0.8
Domestic final uses (including change in stocks)	86 187	- 2.1	+ 24.9	+ 22.3	+ 1.3	+ 15.2	+ 16.7	+ 0.4
Exports ¹	22 390	- 3.4	+ 20.7	+ 16.5	+ 5.9	+ 20.7	+ 27.8	+ 6.4
Imports ¹	26 718	- 6.6	+ 13.2	+ 5.7	+ 7.2	+ 17.4	+ 25.9	+ 2.6
Gross domestic product at market prices	81 859	- 1.3	+ 27.8	+ 26.2	+ 0.9	+ 16.0	+ 17.0	+ 1.4
Contribution to percentage change in gross domestic product								
Domestic final uses (excluding change in stocks)	85 043	+ 0.3	—	+ 26.5	+ 0.3	—	+ 16.1	- 0.8
Change in stocks	1 144	- 2.8	—	- 3.0	+ 1.1	—	+ 1.0	+ 1.2
Balance of exports and imports ¹	- 4 328	+ 1.2	—	+ 2.7	- 0.5	—	- 0.1	+ 1.0

¹ Goods and services

² Source Central Statistical Office

³ Estimates of Commission's Departments

TABLE 3

Main economic indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Industrial production (1970 = 100)	1974	102.2	103.8	105.9	107.6	107.6	108.6	108.9	108.9	107.2	105.7	105.5	102.9
	1975	105.5	105.0	103.3	101.5	99.8	99.7	100.0	98.4	100.3	100.6	100.7	99.8
	1976	101.2	102.5	102.0	102.1	104.3	100.0	101.7	100.8	102.4	102.5		
Unemployment (000)	1974	565.1	579.3	574.2	573.0	574.9	590.4	605.5	625.4	632.8	636.8	643.5	:
	1975	713.0	740.1	760.5	798.3	850.3	893.5	968.2	997.4	1 034.4	1 088.7	1 133.0	1 174.6
	1976	1 210.5	1 232.4	1 226.7	1 233.8	1 250.0	1 255.7	1 294.6	1 309.4	1 319.4			
Construction - Housing starts (000)	1974	21.7	23.3	24.8	21.8	21.7	21.5	18.0	21.1	20.1	19.7	19.5	18.6
	1975	25.8	26.0	24.1	23.0	26.1	25.5	27.4	28.1	28.3	29.8	30.8	28.8
	1976	32.4	28.8	30.4	28.6	29.5	27.6	29.5	28.5	27.5	21.5		
Average earnings (1970 = 100)	1974	154.1	156.8	164.3	164.7	169.6	176.2	181.8	185.5	189.2	191.8	200.8	208.3
	1975	206.2	209.9	212.8	215.4	217.7	221.2	231.6	234.0	237.9	239.5	243.5	248.6
	1976	248.8	249.7	254.0	253.8	259.8	258.3	263.9	267.7				
Private consumers' expenditure - value of retail sales (1971 = 100)	1974	134.7	137.0	138.4	138.9	138.7	143.5	147.3	150.9	153.8	155.7	159.8	158.9
	1975	165.9	165.7	165.9	183.9	166.9	171.1	175.3	175.8	179.2	177.8	180.8	186.4
	1976	193.2	189.6	188.3	195.3	192.1	194.2	199.9	204.3	206.9			
Retail prices (January 1974 = 100)	1974	100.0	101.7	102.6	106.1	107.6	108.7	109.7	109.8	111.0	113.2	115.2	116.9
	1975	119.9	121.9	124.3	129.1	134.5	137.1	138.5	139.3	140.5	142.5	144.2	146.0
	1976	147.9	149.8	150.6	153.5	155.2	156.0	156.3	158.5	160.6	163.5	165.8	
Wholesale prices ¹ (1970 = 100)	1974	209.5	213.1	215.0	215.4	214.0	211.7	212.3	213.7	212.8	220.1	223.8	222.5
	1975	222.1	218.8	221.9	222.9	226.2	227.7	233.2	241.4	243.2	252.2	256.7	259.5
	1976	261.5	263.9	274.2	286.3	292.0	299.6	302.0	303.9	314.4	327.8	331.9	
Wholesale prices ² (1970 = 100)	1974	134.2	138.5	142.3	146.4	149.0	151.2	153.5	156.1	158.6	162.2	164.8	167.6
	1975	173.0	175.9	179.2	182.5	187.3	189.0	191.7	193.5	194.9	197.0	198.9	201.5
	1976	204.8	207.3	208.6	211.5	214.8	217.0	219.8	223.4	226.3	229.9	233.8	
Exports (million Eur)	1974	2 023	2 303	2 594	2 464	2 449	2 594	2 541	2 651	2 757	2 591	2 420	2 571
	1975	2 705	2 671	2 596	2 716	2 667	2 583	2 926	2 660	2 886	3 048	2 548	3 078
	1976	2 908	3 095	3 520	3 603	2 836	3 239	2 956	3 061	3 154	2 751	2 756	
Imports (million Eur)	1974	2 773	3 129	3 282	3 268	3 333	3 414	3 384	3 323	3 494	3 458	3 471	3 252
	1975	3 761	3 364	2 901	3 485	3 110	3 193	3 596	3 506	3 276	3 760	3 262	3 599
	1976	3 476	3 629	3 529	4 040	3 438	3 924	3 784	3 666	3 942	3 445	3 658	
Balance of trade (million Eur)	1974	- 750	-826	-688	-804	-884	-820	-843	-672	-737	-867	-1 051	-681
	1975	-1 056	-693	-305	-769	-443	-610	-670	-846	-390	-712	- 714	-521
	1976	- 568	-534	- 9	-437	-602	-685	-828	-605	-788	-694	- 902	
Terms of trade	1974	79.9	74.4	73.2	73.0	72.9	73.6	73.9	74.9	76.1	75.6	76.3	76.0
	1975	76.2	77.2	77.2	79.1	80.2	81.4	81.6	81.7	82.1	81.0	80.8	80.3
	1976	81.0	81.3	81.3	80.2	79.5	79.8	79.5	80.8	80.6	79.1	78.4	
Exchange rate	1974	81.9	82.3	83.0	83.6	83.4	83.4	83.5	82.8	82.3	82.1	81.2	80.3
	1975	80.6	81.0	81.1	80.3	78.3	76.8	75.6	74.7	74.4	73.4	73.2	72.5
	1976	72.6	72.5	69.9	66.5	64.5	63.4	66.2	65.9	63.5	59.9	59.6	61.1
Official foreign exchange reserves (million Eur)	1974	2 986	2 795	3 105	3 418	3 328	3 212	3 178	3 266	3 415	3 594	3 665	2 954
	1975	2 908	3 036	3 043	3 052	2 590	2 382	2 419	2 287	2 195	2 733	2 668	2 564
	1976	3 336	3 447	2 714	2 015	2 278	2 184	2 245	3 592	3 780	3 328	3 647	2 957
Money supply (million Eur)	1974	24 307	23 298	23 243	24 023	23 229	23 455	23 918	23 979	24 147	24 382	24 054	24 278
	1975	23 727	23 186	23 605	24 552	25 105	25 133	25 866	26 374	26 832	26 495	26 334	26 962
	1976	26 187	26 824	26 363	25 638	25 196	24 864	25 857	24 385	25 090	25 391	25 467	

: Not available

Conversions into Eur - see Table 853 'General Statistics' of SOEC

Seasonally adjusted unless otherwise stated

Key to sources (a) Central Statistical Office

(b) Department of Employment.

(c) Bank of England

(d) Ministry of Health and Social Services (Northern Ireland).

(e) Department of Trade and Industry

(f) Department of the Environment.

(g) Statistical Office of the European Communities

— Index of industrial production (all industries) (1970 = 100) (a)

— Unemployment - wholly unemployed, excluding school-leavers and adult students (b + d)

— Construction - private and public housing starts in Great Britain (f)

— Average earnings - (all industries) Great Britain (b)

— Retail sales - index numbers of the value of sales at current prices (e)

— Retail price index (all items) (not seasonally adjusted) (b).

— Wholesale prices - (1) Input prices (all manufacturing industries) (not seasonally adjusted).

(2) Output prices (home sales, all manufactured products) (not seasonally adjusted) (a).

— Exports (fob) and imports (fob) of goods on a balance of payment basis (g)

— Balance of trade: difference between the seasonally adjusted figures of imports and exports (g).

— Exchange rate: effective exchange rate on Smithsonian basis. (19 December 1971 = 100) (g).

— Official foreign exchange reserves - end-month figures (not seasonally adjusted) comprising gold, IMF Special Drawing Rights, convertible currencies and, from July 1972, the UK's reserve position at the IMF. Before conversion into Eur, values have been converted into sterling at prevailing middle rates (c + g).

— Money supply: M3 (including interest-bearing deposits) (c + g)

The other components of demand making a significant contribution to growth will be relatively strong expansion in the volume of exports of goods and services other than oil (despite the slow growth in world trade) and a return to positive stockbuilding, which is now expected to occur through 1977.

Private consumption will continue to be constrained by the impact of inflation (the underlying rate of which is not expected to fall before the second quarter of 1977) on personal disposable income. Even allowing for a significant fall in the savings ratio, private consumption is unlikely to grow between the second half of 1976 and the first half of 1977. Taking the recent budgetary measures into account, public consumption is unlikely to make a contribution to the increase in demand.

On present budgetary and monetary policies, and particularly if interest rates remain at their current levels well into 1977, there is likely to be a further fall in both public and private sector investment and this trend will only be reversed once business confidence returns and a rapid expansion of manufacturing investment gets underway.

A modest reduction in the deficit of the current account of the balance of payments is possible in the first half of the year with further improvements in the second half when the impact of North Sea oil production should be considerable.

The principal problem facing the UK authorities remains the need for a marked reduction in the rate of inflation during 1977 so that overseas and domestic confidence in the UK economy is restored. Only in this way can the necessary improvements in long term growth and employment prospects take place. To this end, and taking an overall view, the recent budgetary and monetary measures announced by the Government are to be welcomed. However, it is also essential that the Government should obtain general agreement for some form of pay restraint to apply from July 1977 onwards.

Major economic policy measures and decisions

June 1976:

— On 7 June the Government announced that a standby credit of \$5.3 billion had been made available to the Bank of England by the central banks in the Group of Ten Countries (except Italy), Switzerland and by the Bank for International Settlements.

— A consultative document on modifications to the Price Code (Cmnd 6540) was published on 30 June. Proposals would increase corporate profitability, encourage new investment, higher output and more jobs. The modifications would add about one per cent to the retail price index over 12 months. The Government also published its general strategy for the second year of the attack on inflation, including the second stage of incomes policy based on limiting pay increases to an average of 4.5% in the 12 months to July 1977 (CMND 6507).

— On 21 July the Government approved the first £100 million tranche of investment funds for British Leyland with 70% being supplied by the National Enterprise Board and 30% under Section 8 of the Industry Act 1972.

— On 22 July the Chancellor of the Exchequer announced measures to reduce the public sector's claim on the nation's resources in 1977/78. The measures included:

- reductions in public expenditure in the fiscal year 1977/78 of £1 billion;
- reduction of the Public Sector Borrowing Requirement in 1977/78 to £9 billion or less;
- an addition of 2% to employers' national insurance contributions from 6 April 1977;
- investment relief under the Price Code to be increased from 35% to 50% and companies to be allowed to increase the amount of depreciation of their assets by a factor of 1.4% instead of 1.3% because of inflation;
- the Bank of England to renew its directional guidance to banks emphasising that lending must be directed to priority borrowing (exports, import saving, investment and working capital for productive industry).
- On 29 July the Civil Service Department announced savings of £95 million in civil service manpower in 1978/79 by cutting a total of 46 000 jobs over three years.

August:

- On 1 August stage two of the counter-inflation policy (including the 4.5% pay policy) began.
- On 3 August the Employment Secretary announced a package of short-term measures to alleviate unemployment among young people. The measures comprised:
 - a scheme under which the Manpower Services Commission will pay the wages of unemployed young people taken on temporarily by employers;
 - the replacement of the Recruitment Subsidy Scheme, from 1 October, by a Youth Employment Scheme under which the subsidy would be doubled to £10 per week;
 - the training of a further 3 000 young people within the existing budget of the Manpower Services Commission and a further £2.9 million grant for 19 advance factories in the regions
- On 9 August it was announced that the scheme to aid the machine tool industry would be widened to include smaller firms. The scheme provides £20 million of aid under Section 8 of the Industry Act 1972.

September:

- On 10 September the Bank of England minimum lending rate was increased from 11.5% to 13%.
- On 16 September the Bank of England tightened monetary policy by calling for an additional £350 million of special deposits from banks and finance houses, in two equal amounts on 28 September and 6 October, thereby raising the amount of deposits from 3% to 4% of eligible liabilities.
- On 23 September the Government announced the following measures to help reduce the level of unemployment:
 - an increase of £15 million (to £90 million) in the budget of the Job Creation Scheme for young people;
 - a further £6.6 million to be made available to the Training Services Agency for the training of young people.
 - a job-release scheme under which persons prepared to retire a year earlier than normal will be paid £23 per week, tax-free, for one year, providing that they are replaced, at some level within the company, by a person from the unemployment register.
- On 29 September the Government announced their intention of applying to the International Monetary Fund for the United Kingdom's remaining credit tranches to be made available.

October:

- On 8 October the Bank of England's minimum lending rate was raised from 13% to 15% and the Bank suspended the automatic formula determining the rate 'until such time as it is capable of being applied without reduction in the rate now established'. At the same time, the Bank called for further special deposits totalling £700 million from banks and finance houses, to be paid in equal instalments on 2 November and 15 November.
- On 11 October the Chancellor of the Exchequer announced an increase of 1 per cent in interest rates on national savings with effect from 1 January 1977.

November:

- On 5 November the Bank of England announced that it would postpone until 14 December the call for £350 million special deposits due to be paid on November 15.

— On 18 November the Bank of England announced the re-introduction of the supplementary special deposits scheme which had been suspended since 28 February 1975. Under the new arrangements, banks and finance houses are required to place non-interest-bearing supplementary deposits with the Bank of England if their interest-bearing eligible liabilities grow by more than 3% in the 6 months to May 1977 (from a level calculated as the average of the figures for August, September and October 1976) or by 0.5% per month for 2 further months. At the same time, changes were announced in exchange control regulations to prohibit the lending of sterling to residents of the overseas sterling area to finance trade with other countries.

December

— On 7 December it was announced that National Insurance contributions for the self-employed and persons earning more than £95 per week are to be increased with effect from April 1977. These increases will produce revenue of about £734 million in the next fiscal year.

— In order to meet the conditions required by the IMF for granting the UK access to its remaining credit facilities, totalling \$3.9 billion, the Chancellor of the Exchequer announced, on 15 December, a set of measures designed to reduce the volume of public expenditure and to support investment and employment in 1977/78 and 1978/79. The main measures were:

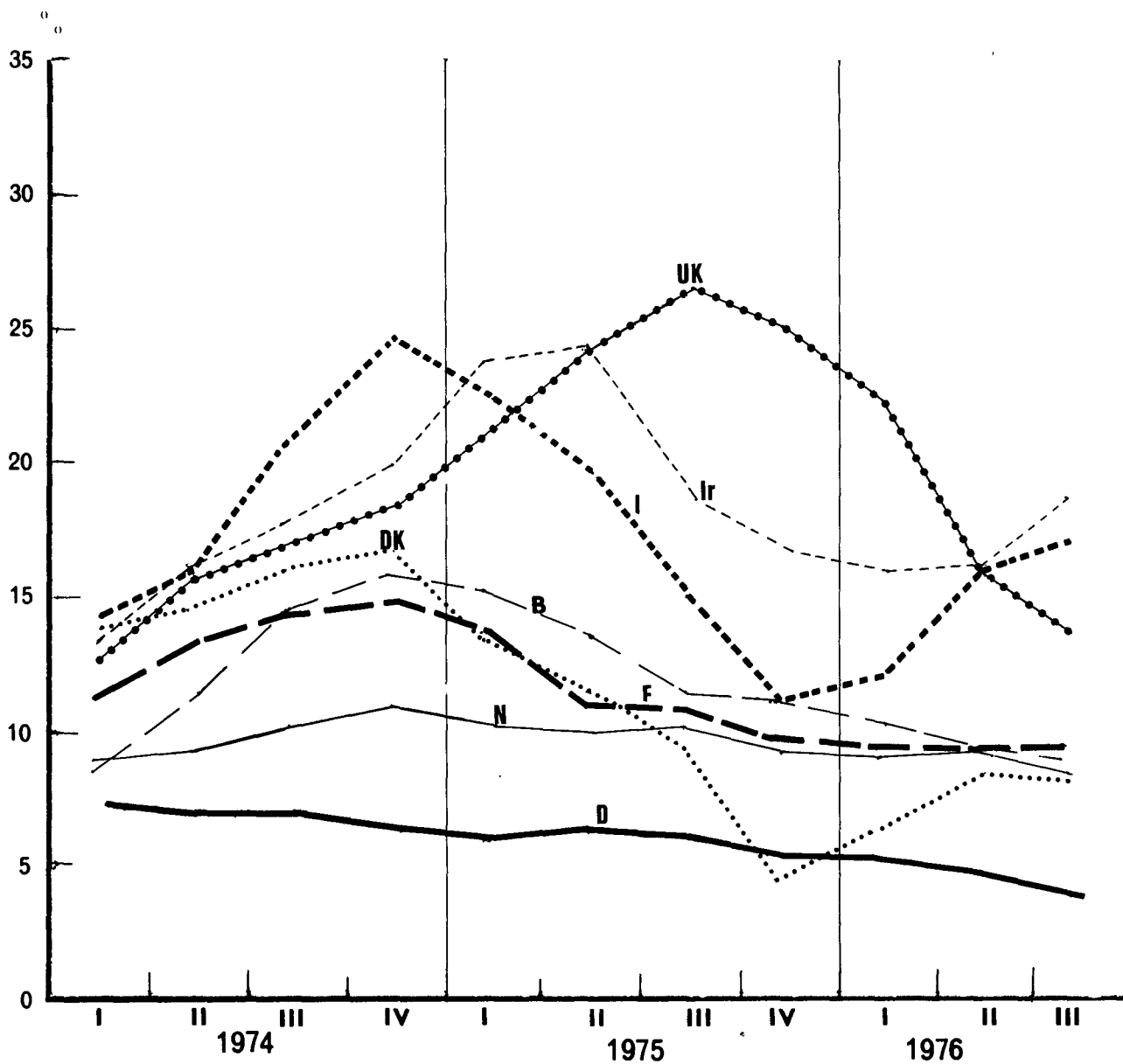
— cuts in public expenditure of £1 billion in fiscal 1977/78 and £1.5 billion in 1978/79, being the equivalent of reductions of 2% and 3% respectively below previously planned levels:

- the sale of part of the Government's shareholding in British Petroleum, calculated to yield £500 million;
- an increase of 10% in the revenue duties on tobacco and alcoholic drinks, giving an estimated increase in revenue of £50 million in 1976/77 and £280 million in 1977/78;
- an increase in expenditure of £80 million in each of the next two financial years to stimulate industrial investment and expansion;
- an increase in expenditure of £120 million on measures to reduce unemployment; the Temporary Employment Subsidy and Job Creation Scheme will be extended until the end of April 1977, and all schemes to support employment will be reviewed in the Spring of 1977;
- in addition to the measures noted above the Chancellor announced that he would take other, unspecified fiscal action to reduce the public sector borrowing requirement in 1978/79 by a further £0.5 billion (at 1976 prices).
- On the basis of these measures the Government has announced the following targets for:
 - (a) the public sector borrowing requirement:
 - of £8.7 billion in 1977/78 (6% of GDP)
 - of £8.6 billion in 1978/79 (5.25% of GDP)
 - (b) domestic credit expansion:
 - of £9.0 billion in 1976/77
 - of £7.7 billion in 1977/78
 - of £6.0 billion in 1978/79 (provisional target).

Diverging price and cost trends in the Community

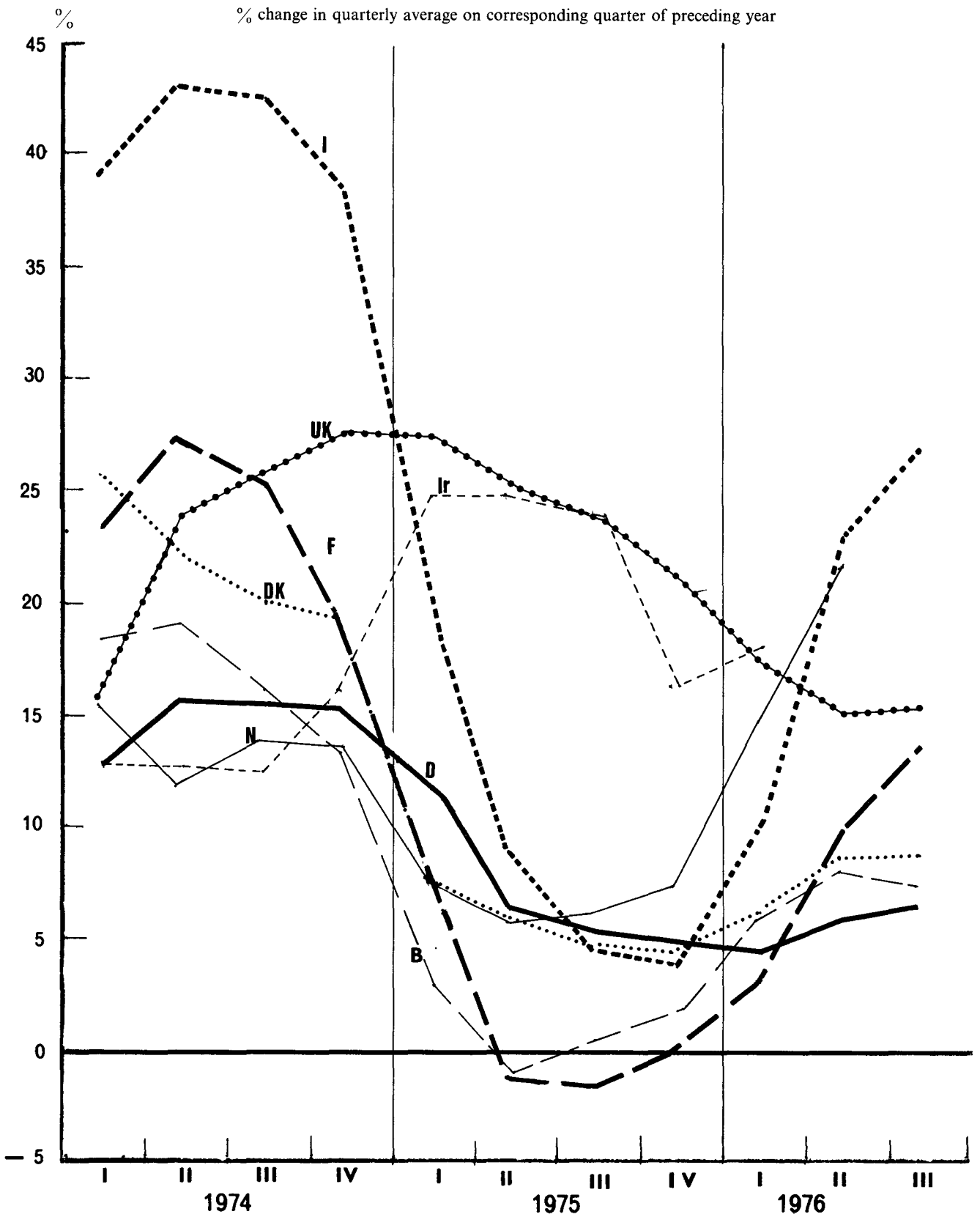
Consumer prices

% change in quarterly average on corresponding quarter of preceding year



Source: Commission's Departments.

Wholesale prices



Source: Commission's Departments.

In 1975 the anti-inflation policies in the different Member States helped to dampen down the rate of, and to narrow the disparities between, consumer price rises within the Community. The main exceptions to this development were the United Kingdom in 1975 and Italy in the following year. During 1976, the easing of inflation was most apparent in the Federal Republic of Germany; on the other hand, partly because of currency depreciation, the upward movement of prices became more pronounced in the countries where they had already been rising most rapidly — first in Italy and then in the United Kingdom and Ireland.

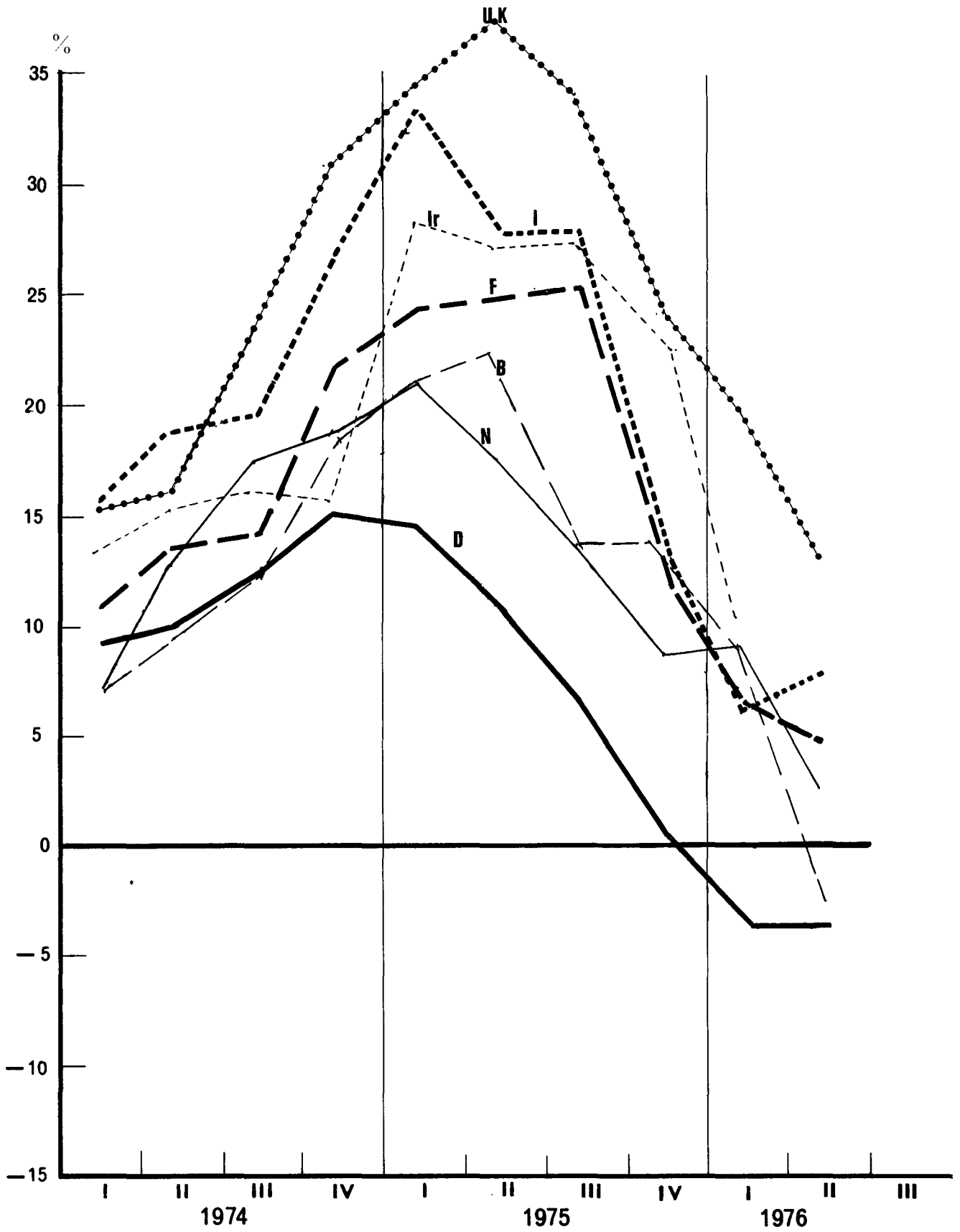
In the twelve months to mid-1975, the increase in wholesale prices was definitely tending to lose momentum. Since then, however, despite the easing of wage cost pressures strain has built up once more, mainly as a result of rising world commodity prices and of more expensive foodstuffs originating within the Community. Fresh divergences have emerged, largely due to the impact of exchange rate movements on import prices.

Since the middle of 1975, there has been a general deceleration in the increase in labour costs per unit of output, expressed in national currency, in the manufacturing industries of the Community. Moreover, the divergences in trend between countries, which had persistently widened up to the early part of 1975, have narrowed significantly since then. In most Member States, the upward movement of wages and salaries has lost some momentum since the first quarter of 1975, while industrial output has been staging a recovery. Although unit costs continued to climb in the United Kingdom, Italy and France, they fell in the Federal Republic of Germany first of all and later in the Netherlands. Since the second quarter of 1976, the disparities have again widened, partly under the impact of the lull — more marked in some countries than in others — in the expansion of industrial production.

If changes in labour costs per unit of output in manufacturing are adjusted to take account of trade-weighted changes in exchange rates (See Graph given in the text of the Survey), the trends in these costs will be seen to have moved a good deal towards alignment since 1975. The most rapid cost increases having apparently been more than offset by currency depreciation, costs can be considered to have declined everywhere during the first half of 1976. The only countries not to follow this almost general parallel movement in trends are Italy, where 'adjusted' labour costs fell sharply during the second quarter of 1976, and the Federal Republic of Germany, where the strong downward trend evident earlier on was reversed in the first quarter.

Wage costs per unit of output in manufacturing industry

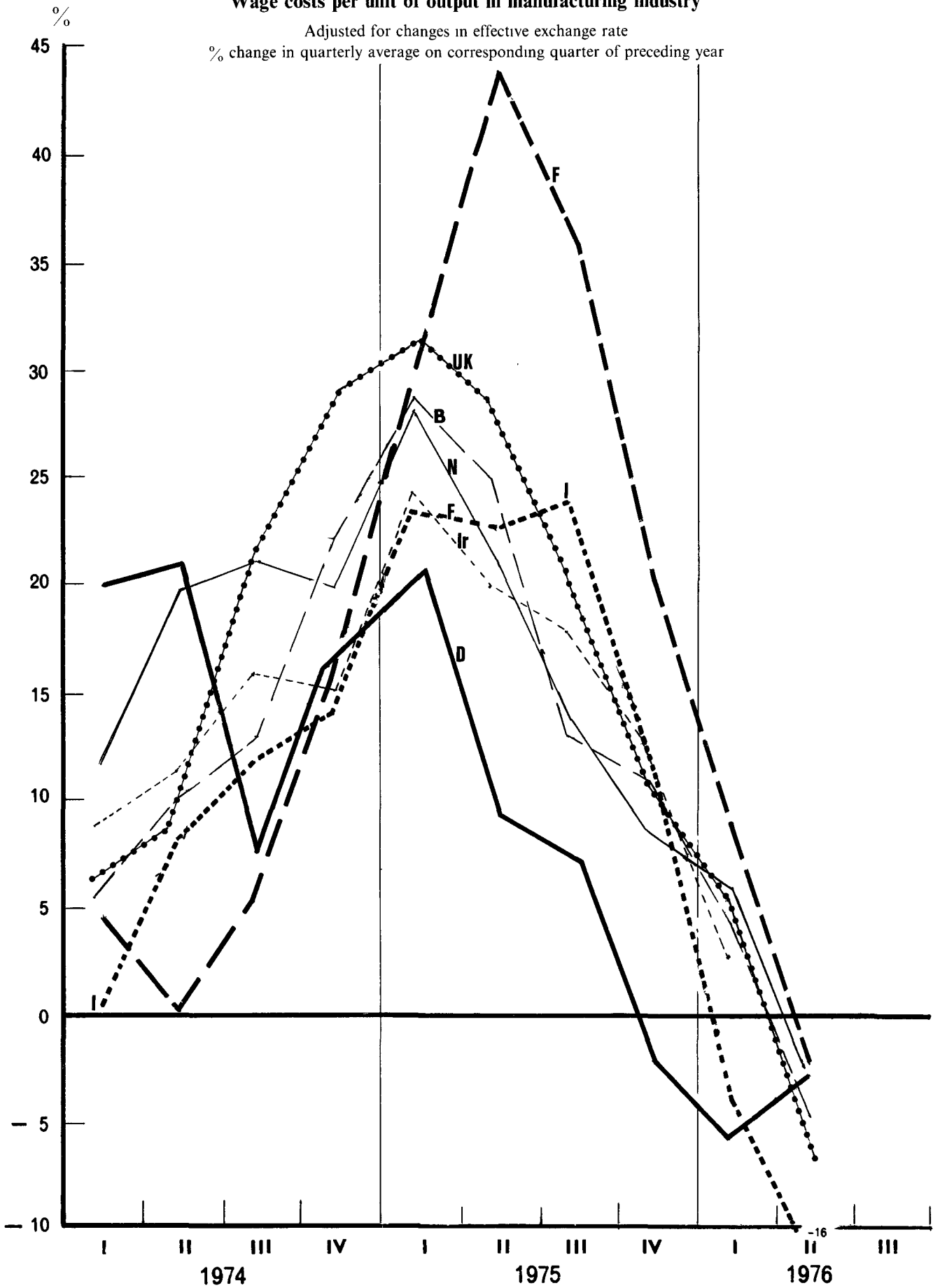
% change in quarterly average on corresponding quarter of preceding year



Source: Commission's Departments.

Wage costs per unit of output in manufacturing industry

Adjusted for changes in effective exchange rate
 % change in quarterly average on corresponding quarter of preceding year



Source: Commission's Departments.

Methodological note

The concept of labour costs per unit of output in manufacturing is defined as the ratio between the compensation of employees and gross value added in manufacturing. Compensation of employees is the cost to businesses of such 'compensation'; it thus covers all forms of remuneration paid to or in respect of employees: wages and salaries, bonuses and employers' contributions to social security funds. For most countries, however, the calculation has been based on series relating to gross hourly earnings per employee. In the case of France,

Ireland and Belgium, quarterly series have been used for wages and salaries. The sector referred to is manufacturing, except in the case of the Federal Republic of Germany, for which the energy industry is also included.

Sources: Federal Republic of Germany: Bundesbank;
Italy: Banca d'Italia;
United Kingdom: Central Statistical Office;
Other countries: Commission's departments.

Report to Council and Commission

1. At its meeting of 6 October 1976, on the basis of a memorandum from the Dutch members, the Economic Policy Committee examined the proposals contained in the declaration of the Dutch Minister of Finance to Council at its meeting of 26 July 1976, concerning the improvement of economic convergence in the Community.

2. The essential objective of the Dutch proposal is to ensure the efficient implementation of medium-term economic policy. This is of importance in their view because of increasing structural problems and in order to contribute to greater convergence of economic policies in the Community. This would be achieved by using the Fourth Programme as a point of reference for the formulation of national short- and medium-term economic policies by the Member States after weighing and, if necessary, adapting their national policy objectives and instruments against the Fourth Programme, both for individual Member States and for the Community as a whole. To give this process concrete form there would be continuous linking of the Annual Report on the economic situation to the medium-term programme. This would require that the medium-term programme was given a 'revolving' character, its objectives being up-dated, say every two or three years, in the light of results achieved to date.

3. The Committee was unanimous in accepting the underlying thesis and the objective of the Dutch proposal, namely that the Member States' agreed objective of a greater convergence of the economic policies could and should be promoted by their being put in the context of the Fourth Medium-term Programme. In this spirit, they agreed that it was desirable that short-term policies should be designed so as to be consistent with the achievement of the agreed medium-term objectives and policy. Discussion of short-term policies in the Committee during the period of the Fourth Medium-term Programme would be inspired by this point of view.

4. The members nominated by the Commission note that the Dutch proposals are designed to achieve a better application of the Council Decisions of 18 February 1974 concerning the achievement of a higher degree of convergence and of the Council Decision of 18 February 1974 setting up the Economic Policy Committee, as well as of the Directive concerning stability, growth and full employment, also of 18 February 1974.

5. The Committee understands that the Dutch members do not consider that any formal changes in machinery or

in the procedure of the Committee are needed for this purpose. This is also the view of the Committee itself.

6. Reservations were expressed by some members of the Committee about some aspects of the Dutch proposals. The following were the main points made in discussion:

- (i) It was felt that there should be a degree of flexibility in the profile of achievement on a Community or a national basis of the general objectives for production and inflation set out in the Fourth Medium-term Programme. In this context, it did not seem necessary to elaborate in advance time paths on a year-by-year basis in order to achieve the objectives of the Medium-term Programme.
- (ii) It was thought that coherent broad lines of policy rather than individual new measures should be monitored and discussed by the Committee against the background of the agreed objectives. It was necessary to guard against overloading the Committee with detail.
- (iii) The aim of the Dutch proposal would not be successfully achieved by trying to derive, in advance each year, quantified targets from the general and overall objectives stated in the Programme. It would be desirable therefore to analyse many points in much greater depth in order to provide a better point of reference for the policies conducted in the Member States.
- (iv) Some members doubted both the desirability and the practicality of the suggestion that allocations from the Community's various funds to projects and countries should be made subject to implementing medium-term economic policy.

7. Support was given to the idea that the Medium-term Programme should have a 'rolling' character. It would be appropriate to make a review of its character and objectives after say two to three years of the period had passed, to see if they show need of revision.

8. The Committee felt that in the time available to them they had not been able to explore the full implications of the Dutch proposals for their way of working. This note therefore records an immediate reaction. It is, however, the Committee's hope and its wish that their present work on problems of economic policy should be designed and carried out in conformity with the spirit and objectives of the Dutch proposals. They will thus be exploring, as time goes on, how the medium-term programme can be made to contribute to a better convergence of economic policies in the Member States.

