

European

**Communities** 

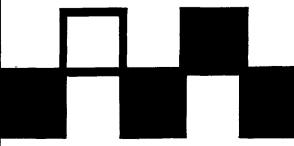
Commission

DirectorateGeneral
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and Financial
Affairs

The economic situation in the Community

4

1972



Quarterly survey

Commission of the European Communities
Directorate-General for Economic and Financial Affairs
Directorate for National Economies and Economic Trends

Rue de la Loi 200, 1040 Brussels

# EUROPEAN COMMUNITIES

COMMISSION

# The Economic Situation in the Community

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# I. THE OVERALL SITUATION

After accelerating sharply at the beginning of the year, the economic upswing in the Community continued in the summer. Exports to non-member countries were still rising vigorously, though at a somewhat slower pace. The expansion of internal demand in money terms even gathered slight additional speed, especially in gross fixed asset formation; in most member countries there was for instance an appreciable improvement in the propensity to invest shown by entrepreneurs. The growth of private consumers' expenditure also gained distinctly in strength towards the middle of the year.

Internal supply of goods continued to expand appreciably. In most member countries, however, the growth of industrial production has been more subdued since the second quarter. The employment situation stabilized.

Although imports went on rising, the Community's balance of trade with non-member countries remained in large surplus.

The upward movement of prices has tended to accelerate in recent months, particularly that of consumer prices.

The economic upswing can be expected to continue in the months abead. The growth of capital spending in particular is likely to gather additional speed. Private consumers' expenditure, too, will go on providing a vigorous stimulus. The trade surplus may shrink a little. For the time being there is little hope of the upward thrust of costs and prices slackening significantly.

# A. Recent developments

In the summer and early autumn economic activity in the Community was still rising. The employment situation improved, while the upsurge of costs and prices continued.

#### 1. The world economic situation

With economic growth gaining in strength in the industrialized countries generally, world trade expanded appreciably.

In the United States, growth continued at a faster pace. In the second quarter of 1972, real gross national product rose by 2.3%, compared with 1.6% in the first. Private consumers' expenditure climbed sharply as personal incomes showed a considerable advance which in turn was largely a result of the rise in employment and the continued upward movement of wages. Gross fixed asset formation was an increasingly important factor in expansion. In residential construction, which in 1971 had already been helping to sustain economic activity, expansion remained vigorous, and investment in plant and machinery distinctly recovered. Since the spring the business upswing has also been stimulated by a drive to replenish stocks.

Industrial production continued to expand appreciably, with its index in August 1972 up 8.2% on a year earlier; but despite a significant rise in employment, especially in industry, the unemployment rate (in August 5.5% of the labour force) fell only a little. The upward thrust of prices slackened very distinctly. In the second quarter, the GNP deflator rose by a mere 0.5%, compared with 1.3% in the first. Consumer prices showed a tendency to stabilize and were in August 1972 2.9% higher than a year earlier.

There was still a strong tendency to seek supplies from abroad, despite the impact of the devaluation of the dollar. Only towards the middle of the year were there signs that visible imports might be stabilizing. As the improvement in the trend of exports did not set in until the beginning of the year, the trade deficit remained heavy; it amounted to some \$4 300

million in the first seven months, compared with \$893 million in the same period last year. This was due in no small measure to the deterioration in the terms of trade. With the capital account improving, however, the payments deficit on an official reserve transactions basis was down considerably, falling from \$17 900 in the second half of 1971 to \$4 100 million in the first half of 1972.

In Canada, growth continued to be rapid yet was accompanied by a revival of inflationary tendencies. Exports remained at a high level, and private consumers' expenditure rose distinctly as a result of the sharp increase in personal incomes.

In the other industrialised countries outside the Community including the acceding countries—discussed in detail in Chapter III—the business upswing already under way at the beginning of the year, tended to gain in strength. This is particularly true of Austria, Switzerland and Sweden. The main boost to expansion in these countries came from exports, whose growth accelerated distinctly. Private consumers' expenditure, and in some countries residential construction, were likewise particularly dynamic components of final demand.

The trend of the developing countries' imports in recent months cannot be assessed with any accuracy, the information available being still very incomplete. It would seem, however, that after the slowdown in the second half of 1971 these imports have picked up again, helped by several factors that have had a favourable impact on these countries' foreign exchange reserves and their ability to import.

Raw material prices, for one thing, continued to show a firm tendency in the first half of 1972, partly offsetting the effects produced on the developing countries' terms of trade by the realignment of currency parities agreed in December 1971. The faster growth of demand for raw materials from the industrialized countries, of which there had already been signs in the second half of 1971, was likewise reflected in an increase in the export earnings of the developing countries.

# 2. The economic situation in the Community

After accelerating very distinctly in the early months of the year, the pace of growth of the Community's exports to non-member countries was only a little slower in the second quarter. Once allowance is made for seasonal variations, the Community's visible exports in this second quarter were 6% up in terms of value on the first, which had itself been 6.5% above the final quarter of 1971. The slowdown is no doubt attributable to fortuitous factors (especially the dock strike in the United States) and to a weakening of the stimulus provided at the beginning of the year by the execution of orders postponed because of the monetary events.

The expansion of internal demand gathered speed slightly, especially in gross fixed asset formation. The propensity of entrepreneurs to invest improved in view of the better sales outlook at home and abroad and probably also because of the impending enlargement of the Common Market. Although the possibilities for self-financing and profit margins have not yet widened to any significant extent, the results of

the business surveys carried out in the Community suggest that in the countries where at the end of 1971 corporate investment had been expected to decline, it will slacken less sharply and that in the other countries its expansion will accelerate. The rapid growth of economic activity led at the same time to replenishment of stocks of raw materials and semi-manufactures, demand for which had been particularly sluggish in the second half of 1971.

Building investment has been expanding at a somewhat slower pace since the spring, after rising sharply in the early months of the year owing to the unusually good weather. Expansion in residential construction, however, continued fairly rapidly; the execution of public building projects even accelerated in a number of countries, especially France, Belgium and Germany; in the Community as a whole, expenditure on industrial and commercial building projects, however, has so far shown little if any rise.

Private consumers' expenditure picked up quite distincly, following the slowdown recorded in the closing months of 1971 and at the beginning

Industrial production in the Community<sup>1</sup>
(% change on corresponding period of previous years)<sup>2</sup>

		070	0 1971		1971								1972			
	1	970				I		11	:	Ш		IV		I		11
Community	+	6.2	+	2.3	+	3.1	+	1.7	+	1.8	+	2.5	+	3.1	+	4.7
of which:																
Germany	+	6.3	+	1.3	+	3.1	+	1.7	+	0.7	_	0.4	+	0.6	+	1.7
France	+	5.5	+	5.7	+	4.4	+	3.4	+	7.4	+	7.7	+	6.9	+	8
Italy	+	6.7	_	3.1	_	1.7	_	4.0	_	6.3	_	0.5	+	0.5	+	3.8
Netherlands	+	10.5	+	6.9	+	8.5	+	6.6	+	5.7	+	6.7	+	6.8	+	9.6
Belgium	+	2.3	+	2.6	+	4.3	+	0.6	+	2.1	+	1.8	+	3.5	+	11.8
Luxembourg	-	0.4	_	1.5	_	8.0	_	2.0	+	1.0	+	4.0	+	1.9	+	2

<sup>&</sup>lt;sup>1</sup> Excluding construction, food, beverages and tobacco.

Calculated on the basis of the unadjusted indices of the Statistical Office of the European Communities.

of 1972 in all Community countries except France. There was, for instance, an increase in the propensity to consume, helped by some improvement in the employment situation and by the fact that, in some countries, the upward movement of wages did not slacken further.

Gross domestic product, which in the early months of the year had been growing vigorously throughout the Community, reached a high level. In the second quarter, however, the advance slackened in most member countries, mainly because of the disappearance of fortuitous factors. Industrial production, for instance, which between the fourth quarter of 1971 and the first quarter of 1972 had shown a seasonally adjusted rise of 2.4%, expanded by no more than some 1.2% in the second quarter, and probably maintained this pace in the third. Capacity utilization rates were still highest in the consumer goods industries. In the capital goods industries, especialy structural steelwork and mechanical engineering, by contrast, the degree of capacity utilization remained comparatively low but it has been rising again of late.

The growth of production was at any rate sufficient to reinforce the tendency for the employment situation to stabilize, a tendency which at the beginning of the year had been due mainly to unusually good weather. Short-time working fell considerably in the countries where it had been most in evidence, especially Italy and Germany. Germany also registered a fresh inflow of foreign workers. In all member countries unemployment in the third quarter was nevertheless still higher than a year earlier. In some member countries the trend on the labour market is also increasingly a reflection of structural maladjustment, unemployment being heavily concentrated in certain regions and a large proportion of the unemployed being young people looking for their first job.

Imports from non-member countries went up further, mainly as a result of stronger demand for raw materials and semi-manufactures. Intra-Community trade remained buoyant, especially in the products of primary processing and in consumer durables.

The improvement in the Community's balance of trade with non-member countries (cif-fob, seasonally adjusted, on a transactions basis), registered at the beginning of the year as a result of the faster expansion of exports, continued in the spring; it was helped by the improvement in the terms of trade resulting from the realignment of parities decided in Washington last December.

Community trade
(% change on preceding quarter)1

	1971									1972				
		I		II		Ш		IV	I			II		
Imports from non-member countries	+	1.0	_	0.3	-	0.5	+	0.6	+	4.5	+	1.5		
Exports to non-member countries  Intra-Community trade (on an imports	+	4.3	+	1.1	+	3.6	_	1.6	+	6.5	+	5.9		
basis)	+	2.9	+	0.9	+	4.7	+	4.3	+	4.9	+	2.5		

<sup>&</sup>lt;sup>1</sup> On the basis of the seasonally adjusted figures of the Statistical Office of the European Communities.

The upward movement of prices remained lively throughout the Community, despite the comparatively high elasticity of internal supply. The rise in consumer prices has even gathered speed in the past few months. Costs continued to

climb rapidly and the advance of wages remained vigorous. Prices for agricultural products once again went up considerably, and public utility charges were raised in most member countries.

#### Consumer prices

(% increase)

		19	71			Between Sep-					
	I	II	III	IV	I	II	III	tember 1971 and Sep-			
		During the quarter									
Germany	2.5	1.1	0.8	1.3	2.1	1.1	1.6	6.2			
France	1.3	2.6	1.3	1.4	1.3	1.5	2.0	6.3			
Italy	1.1	1.0	1.2	1.3	1.2	1.7	2.0	6.3			
Belgium	3.0	1.9	1.7	1.5	2.5	1.9	1.3	7.4			
Netherlands	1.8	1.0	1.7	1.0	1.1	1.5	1.6	5.4			
Luxembourg	2.2	1.1	0.6	1.5	1.0	1.7	1.6	5.9			

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

Towards the middle of the year the Community's foreign exchange markets were again seriously disrupted by destabilizing movements of capital. In June sterling came under heavy speculative pressure, which on 23 June reached such proportions that the British authorities decided, after an increase in Bank rate, that they would for the time being cease to intervene at the limits of 2.25% on either side of the parity of sterling, would suspend participation in the agreement on narrower margins of fluctuation between the currencies of the enlarged Community, and would impose restrictions on capital movements.

At the Council meeting of 26 June 1972 the Community countries decided to comply with the obligations undertaken in December 1971 at Washington and to maintain the agreement on narrower margins.

Given the weakness of the dollar and the scale on which capital started to flow in immediately after the decision by the British authorities, all member countries took measures to curb the inflow of capital and neutralize its impact on domestic liquidity. These measures are discussed in detail in Part II of this Survey, which deals with the individual countries. Similar measures were also taken by some non-member countries, especially Switzerland and Japan.

Although there were no major surpluses on current account, the Community's overall balance of payments was in large surplus in the second quarter of 1972 and at the beginning of the third quarter. Between the end of March and the end of August 1972 official gross gold and foreign exchange reserves (including reserve position in IMF and special drawing rights) rose by 6 800 million units of account; in Germany alone reserves went up by 4 700 million units of account. The net foreign exchange position of the commercial banks, by contrast, deteriorated in the Community.

The inflow of liquidity from abroad contributed to an easier situation on the Communty's money markets. The need to forestall a fresh inflow of foreign capital prompted the monetary authorities of some countries to pursue a policy of relatively low money market rates. Interest rates on the Eurodallar market and especially in New York were thus comparatively low in the second quarter and early summer while forward dollars were traded at a considerable discount. Since then, interest rates on the New York money market and on the Eurodollar market have edged up again. September also brought a hardening of the rate for dollars. In most countries the cash transactions of the public authorities were having an expensionary influence on domestic liquidity. Bank lending to business was also climbing steeply in all Community countries. This combination of factors produced a very sharp expansion of the money supply in the Community.

Long-term interest rates hardened in some member countries. This was probably in part because investors exercised some caution, the improvement in the business situation and the persistently strong upward thrust of prices holding out little hope of an early dowturn in long-term interest rates. In Germany there was the additional factor that the authorities imposed restrictions on the purchase by non-residents of domestic bonds.

# Demand for and supply of goods and services

	19691		197	01 2		197	12 4			197	23 4	
	At current prices in '000 million			% ci	hang	e on	prec	eding	year			
	u.a. <sup>5</sup>	Volume		Value	Volume		Value		Volume		Va	ılue
Gross fixed asset formation	101.9	+	8.2	+ 18.3	+	2.6	+	9.7	+	1½	+	7
Public current expenditure on goods and services	60.2	+	3.8	+ 11.5	+	4.8	+	16.8	+	3	+	10½
Private consumers' expenditure	253.0	+	6.1	+ 10.8	+	4.8	+	10.4	+	4½	+	10
Gross Community product	430.1	+	5.6	+ 12.2	+	<b>3</b> .3	+	10.1	+	31/2	+	9½
Balance exports less imports (in '000 million units of account) <sup>5</sup>	+ 5.3		+	4.6		+	6.3			+	8	

<sup>&</sup>lt;sup>1</sup> Statistical Office of the European Communities (SOEC); General Statistics 1972, No. 6.

#### Note

<sup>&</sup>lt;sup>2</sup> Actual results.

<sup>&</sup>lt;sup>3</sup> Forecasts.

<sup>&</sup>lt;sup>4</sup> Based on Community totals of the aggregates of the individual member countries at the central rates fixed in Washington on 18 December 1971.

<sup>&</sup>lt;sup>5</sup> 1 u.a. = 1 unit of account = 0.888671 g of fine gold.

<sup>(</sup>a) The difference between the figures for demand and those for supply is accounted for by movements in stocks and differences in treatment of the balance of exports less imports.

<sup>(</sup>b) The forecasts are approximations based on certain hypotheses generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

## **B.** Outlook

#### 1. Outlook for world economic activity

The improvement in world economic activity is likely to continue in the months ahead, leading to faster growth of world trade.

In the United States, expansion will probably remain very lively, backed up by a gradually rising propensity to invest of enterprises, a stronger drive to build up stocks, a favourable trend in residential construction and an expansion of private consumers' expenditure owing to the continued rise in employment and wages. The restraining effect exerted on real growth by the heavy external deficit may slacken during the months ahead.

The very strong expansion in the second quarter suggests that the growth in real gross national product from 1971 to 1972 will be at least 6%. Given the sharp advances in productivity, the rise in employment will probably be quite slow and the unemployment rate is likely to fall only gradually. The expansion in the money supply may remain comparatively moderate, as the monetary authorities are anxious to avoid a revival of inflationary strains. Together with the growing buoyancy of the economy, this attitude may lead to a strengthening in the upward tendency of interest rates.

In Canada, the economic situation in the months ahead will bear all the marks of a continued upswing in activity. This is because the faster expansion in the United States and the gradual recovery of demand on important export markets will have a stimulating effect on the whole Canadian economy. The expansion of domestic demand may also gather additional momentum, mainly thanks to the expected recovery in private investment. Imports will maintain their rapid upward movement.

The economic outlook in the acceding countries is discussed in Part III of this Survey. It generally points to a continuation, if not acceleration, of economic expansion, but also to the persistence of the strong upward thrust of costs and prices.

In the other industrialized countries of Western Europe and in Japan, conditions until the end of 1972 and the beginning of 1973 will probably be mainly favourable to faster economic growth and a more vigorous rise in imports.

In the developing countries, the propensity to import can be expected to strengthen gradually, helped mainly by the continued rise in raw material prices and the favourable effects of the faster growth of demand in the industrialized countries.

With import demand from the state-trading countries also likely to go up, the Community's exports to non-member countries will, all in all, continue to grow fairly rapidly, even though the appreciation of the Community currencies is expected to produce a slight fall in the Community's market share. There may however be a restrainting influence in the shape of a tendency to put off purchases until 1 April 1973, when the 20% cut in customs duties on industrial products will take effect within the enlarged Community and in relations with the non-acceding EFTA countries.

# 2. The likely trend of economic activity in the Community

After picking up in the first quarter and expanding more slowly in the second economic activity is likely to regain vigour in the autumn and winter.

This hope applies to most components of overall demand and is based mainly on the latest trend in new orders and the results of the business surveys carried out among heads of enterprises, which point clearly to a noticeable rise in sales.

Capital spending in particular is increasingly likely to expand at a faster pace. In France, investment programmes have been revised upwards; the survey carried out in June 1972 suggests that private industry intends to spend 10% more on building and plant and machinery than in 1971, while as recently as last autumn an increase of no more than 5% had been assumed. In Germany and the Benelux countries, too, there is evidence of a slight increase in the propensity to invest. There is even a chance of managements revising their capital

projects once again in the months ahead as the general business climate continues to improve and the enlargement of the Community draws closer.

The trend in building permits suggests that the expansion in building investment will gain in vigour. The number of permits for industrial and commercial building projects has gone up recently in Germany and Italy, in the latter country especially those issued to public undertakings; this suggests that building activity will rise at the end of 1972 and the beginning of 1973. Residential construction too can be expected to expand further in most Community countries, to judge by the trend of housing permits in the first half of the year.

An additional factor is that recent wage awards and current wage negotiations do not point to a slowdown in the expansion of private consumers' expenditure, especially since the number of persons in paid employment and the number of hours actually worked are likely to rise. In Italy, private consumer spending may even show a somewhat firmer upward tendency, owing to the conclusion of a large number of wage agreements, and the impending introduction of value added tax.

This being the expected trend of demand, the growth of internal production is likely to gain in vigour towards the end of the year, especially in the basic materials and capital goods industries, where the elasticity of production is greatest. But the consumer goods industry too will see further progress.

The vigorous expansion of production is likely to engender a faster rise of employment in the second half of the year and a progressive decline in short-time working, especially in the industries manufacturing consumer goods and working for export. In most member countries, unemployment will probably show an increasing tendency to flatten out.

The strengthening of internal demand, the effects of the currency alignments on the competitiveness of the Community's industries, and the high degree of capacity utilization in some industries are likely to entail an acceleration in the expansion of imports and intra-Community trade.

The increase in imports from non-member countries may be sufficiently vigorous for the trade surplus to shrink.

The vigorous rate at which demand is currently expected to expand will not be helpful in dampening the upward thrust of prices, especially in those member countries where capacity utilization did not decline significantly during the business slowdown. This aspect is all the more important as there is still little hope of any appreciable slowdown in the rise of unit costs, despite the expected advances in productivity. With more collective wage agreements coming up for renewal, and given the results of the latest negotiations, the upward movement in wage costs might well gain in strength in several member countries.

#### Major economic policy measures

June

(1) At its meeting of 25 June 1972 in Luxembourg the Council of the European Communities reaffirmed its determination to comply with the obligations undertaken on 18 December 1971 in Washington and to continue operating the system of reduced margins of fluctuation between Community currencies. In view of the special situation on the foreign exchange market created by the UK decision to allow the rate of exchange of sterling to float, the Banca d'Italia was authorized to intervene for a time in dollars in order to maintain the intra-Community spread of 2.25%.

(2) The Council gave its agreement to the extension, from 1 January 1973, of the generalized preferences to Cuba, Bhutan and Fiji, Bangladesh, Bahrain and Qatar, Ras al Khaïma and the Persian Gulf States, Oman, Sikkim, Western Samoa and Tonga.

July

(1) The agreements between the European Community and the member countries of the European Free Trade Area which have not applied for Community membership (Austria, Finland, Iceland, Portugal, Sweden, Switzerland) were signed on 22 July 1972. These agreements provide in particular for free trade

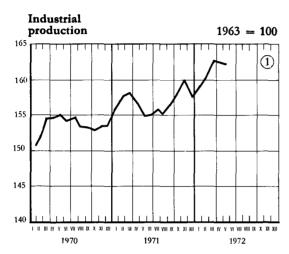
in industrial products, with tariffs to be cut at the same pace as envisaged in the Accession Treaty; the first tariff cut (20%) will thus take effect on 1 April 1973.

(2) The second Council Directive on the harmonization and extension of the exemptions from duty applicable in international travel entered into force.

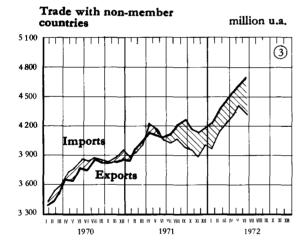
September

At their meeting of 12 September 1972 in Rome, the Ministers of Economics and Finance of the enlarged Community stated their intention to adopt on 30 and 31 October 1972 detailed measures to combat inflation in the various fields which lend themselves to effective and realistic short-term action.

## **ECONOMIC INDICATORS**









# Community

TABLE 1: Basic data 1971

	Commu- nity 1)	Ger- many	France	Italy	Nether- lands 1)	Bel- gium ¹)	Luxem- bourg 1)
Total area ('000 sq. km.)	1 167.5	248.5	551.2	301.2	36.6	30.5	2.6
Total population ('000)	188 147	62 117	51 25 <b>0</b>	53 857	13 019	9 691	340
Density of population per sq. km.	161	250	93	179	356	318	131
Numbers in employment ('000)	74 196	27 173	20 585	18 893	4 678	3 842	(143.6)
Numbers in employment, break- down by main sector (%):							
Agriculture	13	8.2	13.5	19.3	7.3	(4.7)	(10.9)
Industry	44	48.6	40.5	43.7	41.2	(43.6)	(46.3)
Services	44	43.2	46.0	37.0	51.5	(51.7)	(42.8)
Share of gross domestic product (%):							
Agriculture		3.6 ¹)	5.7	9.7	6.2	4.5	(4.1)
Industry	•	52.9 <sup>1</sup> )	47.5	38.7	42.0	42.6	(56.9)
Services		43.5 ¹)	46.8	51.6	51.8	52.9	(39.0)
In % of gross domestic product : Private consumers' expenditure		54.3	<b>58.</b> 9	63.9	56.8	60.4	(55.7)
Public current expenditure on goods and services		17.0	12.4	14.2	16.1	14.0	(10.8)
Gross fixed asset formation		26.7	25.6	19.9	26.3	22.1	(25.6)
Total exports		22.6	16.8	21.1	48.3	44.4	(94.0)
Total imports		21.3	16.1	19.5	49•6	42.1	(86.6)

¹) **1**970

TABLE 2: Key indicators

		% change by volume on preceding year									
	1966	1967	1968	1969	1970	1969					
Gross Community product	+ 4.3	+ 3.2	+ 6.0	+ 7.3	+ 5.6	144					
Industrial production	+ 5.0	+ 1.3	+ 8.9	+ 11.9	+ 6.2	154					
Visible imports	+ 7.1	+ 0.8	+ 11.6	+ 12.6	+ 21.1	184					
Private customers' expenditure	+ 4.7	+ 3.7	+ 4.9	+ 7.0	+ 6.1	142					
Gross fixed asset formation	+ 4.5	+ 1.0	+ 7.4	+ 9.6	+ 8.2	152					
Visible exports	+ 8.3	+ 7.6	+ 13.5	+ 7.5	+ 9.3	188					
Intra-Community visible trade	+ 11.0	+ 5.7	+ 19.5	+ 22.5	+ 12.4	245					
Gross product per capita	+ 3.4	+ 2.6	+ 5.4	+ 6.4	+ 4.7	135					

#### Community

TABLE 3: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	Мау	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production	1970	149	156	160	160	163	157	142	118	155	160	165	160
(1963 = 100)	1971	156	161	162	164	162	163	146	118	161	167	170	160
	1972	161	165	168	173	170	170		ļ.				
Imports from non-member	1970	3 664	3 397	3 608	3 959	3 735	4 000	3 780	3 376	3 812	3 892	4 099	4 280
countries (cif, million u.a.)	1971	3 676	3 912	4 405	4 090	3 948	4 310	3 906	3 705	3 936	3 987	3 916	4 417
	1972	3 908	4 094	4 559	4 156	4 509	4 424	<b>3 9</b> 88					
Exports to non-member	1970	3 285	3 349	3 749	3 828	3 589	3 949	3 984	3 322	3 703	4 099	3 853	4 432
countries (fob, million u.a.)	1971	3 550	3 831	4 471	4 025	4 079	4 180	4 328	3 864	4 135	4 182	4 101	4 782
	1972	4 001	4 309	4 798	4 476	4 768	4 871	4 552					
Balance of trade	1970	- 379	- 48	+ 141	- 131	146	- 51	+ 204	- 54	109	+ 207	- 246	+ 152
(million u.a.)	1971	126	- 81	+ 66	- 65	+ 131	130	+ 422	+ 159	+ 199	+ 195	+ 185	+ 365
	1972	+ 93	+ 215	+ 239	+ 320	+259	+ 447	+ 564					
Intra-Community trade	1970	3 140	3 284	3 604	3 782	3 247	3 861	3 655	2 949	3 719	3 900	3 847	3 830
(million u.a.)	1971	3 369	3 786	4 459	3 967	3 920	4 103	3 995	3 448	4 073	4 398	4 252	4 388
	1972	4 029	4 403	4 984	4 470	4 692	4 861	4 180					

#### NOTES TO GRAPHS AND TABLES

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

Germany: SOEC; Statistisches Bundesamt.

France: SOEC.

Italy: Relazione generale sulla situazione economica del Paese (1971).

Netherlands : SOEC; Ministerie van Sociale Zaken en Volksgezondheid; Centraal Bureau voor de sta-

tistiek.

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

Conversion into units of account (1 u.a. = 0.888671 g fine gold).

#### Graph 1

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

#### Graph 2

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

#### Graph 3

Three-month moving averages of the seasonally adjusted value of exports to non-member countries (fob) and imports from these countries (cif), as shown by foreign trade statistics.

#### Graph 4

Three-month moving averages of the seasonally adjusted value of trade between member countries, as shown by foreign statistics on imports.

#### Table 1

Total population at mid-year; for Germany, estimated average for year; for Italy, average for year.

Resident population in employment at mid-year; for Germany, estimated average for year; for Italy, average for year less persons temporarily working abroad.

Percentage shares of the main economic sectors at factor cost.

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

#### Table 2

Industrial production, excluding construction, food, beverages and tobacco: index of the Statistical Office of the European Communities.

Imports (cif) from non-member countries, exports (fob) to non-member countries: as shown by foreign trade statistics.

Trade between member countries, on imports basis: as shown by foreign trade statistics.

#### Table 3

See note to Table 2.

# II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES

# A. Germany

#### 1. Recent developments

The pick-up in economic activity that had set in at the beginning of the year has continued slowly in recent months. While early in the year the trend of the economy had been influenced mainly by special factors, since the spring the previously, for the most part pessimistic, expectations of managements have tended to give way to a more sanguine assessment of the economic And so following a comparatively situation. short pause in growth, during which capacity utilization rates dropped by a limited extent only, there are signs of a fresh upswing, though at this initial stage it is still moderate, without the strong upward thrust of price having slackened so far.

The recovery of export demand continued, despite the considerable increase in the prices of German products on the export markets. In May-August, the seasonally adjusted value of visible exports was 2.3% higher than in the preceding four months and 7.1% up on a year earlier.

In domestic demand it was mainly expenditure on consumption that continued to give a boost to expansion. With spending on materials and on wages and salaries still rising vigorously, the public authorities' current expenditure in particular went on expanding rapidly, entailing an appreciable deterioration in the cash position of the central, regional and local authorities. Purchases by households remained buoyant, despite a sustained rise in the propensity to save. In April-July, retail sales were 5.5% up on the level of a year earlier. Spending on services, particularly tourist travel, probably expanded very rapidly in the summer. One of the contributory factors was that the repayment to pensioners of sickness insurance contributions and the repayment of the counter-cyclical surcharge on income taxe gave households an additional purchasing power of more than DM 5 000 million during this period. The upward movement of wages was still comparatively vigorous as the deceleration recorded at the end of last year did not continue. In the second quarter the level of actual wages and salaries was some 9½% higher than a year earlier, a rate of increase only

slightly lower than that registrered in the fourth quarter of 1971.

With the business climate improving, the propensity of enterprises to invest became firmer. In May-August, new domestic orders in the capital goods industry were 5.8% higher than in the same period last year. Building investment continued to climb rapidly, mainly thanks to the continued vigorous expansion in residential construction.

On the labour market the improvement in the business climate has not yet produced a rise in the numbers employed as enterprises, prompted by cost by cost considerations, have evidently been very cautious over recruiting additional labour and have so far confined themselves mainly to reducing what short-time working there still is. The number of unfilled vacancies declined further and unemployment went up slightly in the second quarter. At 1.3%, however, the seasonally adjusted unemployment rate was considerably lower in August than in comparable phases of earlier business cycles.

The expansion of supply has been falling off again since the spring. As had been expected, industrial production has been stagnant in the past few months, after rising briskly at the beginning of the year, boosted by the drive to clear the backlog due to the strike in the metal industry and by the unusually good weather. In May-August it was 1.8% higher than a year earlier. With economic activity at home gaining in vigour, visible imports went on rising. In May-August their increase over a year earlier was 6.4% in terms of value and as much as some 9% in terms of volume. Expansion was particularly lively in purchases of semi-manufactures and primary products.

Pressure on prices remained considerable. The upward movement of consumer prices continued at a faster pace, mainly because prices for food and services went up appreciably and public service charges were raised once again. In August, the cost-of-living index was 5.6% up on the same month a year earlier. The rise in the producer prices of industrial products, by contrast, was less pronounced, the year-to-year advance being 2.9% in August. Although the trade account continued to show large surpluses, the current account in the months from January

to August was almost in equilibrium as transfer payments and the deficit in tourism went up appreciably. While around the middle of the year there were again substantial inflows of speculative capital, slight outflows have been recorded since then. At the end of August the Bundesbank's foreign exchange reserves stood at DM 78 500 million.

In the period under review the Bundesbank took vigorous action to counter further increase in the economy's liquidity, freezing some DM 20 000 million. The expansion in the money supply nevertheless continued as lending was rising vigorously, the year-to-year advance in lending to business being 14.2% in August. At the end of August, the money supply was 13.2% higher than a year earlier.

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

	1969¹	197	701		197	′1¹			19	72²	
	At current prices (in DM		% c	hange	e on 1	prec	eding	year	•		
	'000 million)	Volume	Value	Vol	ume	Va	alue	Vo	lume	V	alue
Exports <sup>3</sup>	141.9	+ 9.0	+ 11.8	+	6.4	+	9.1	+	61/2	+	81/2
Gross fixed asset formation	146.2	+ 11.5	+ 23.9	+	4.5	+	12.1	+	1/2	+	5½
Public current expenditure on goods and services	95.1	+ 4.9	+ 14.6	+	7.3	+	19.8	+	3½	+	12
Private consumers' expenditure	333.1	+ 7.0	+ 10.8	+	5.5	+	10.9	+	31/2	+	9
Gross national product	605.2	+ 5.8	+ 13.3	+	2.8	+	10.7	+	2½	+	9
Imports <sup>3</sup>	127.1	+ 15.9	+ 16.0	+	9.7	+	10.5	+	7½	+	7

<sup>&</sup>lt;sup>1</sup> Federal Statistical Office, "Wirtschaft und Statistik", No. 9/1972

#### Note

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

#### 2. Outlook

The expansionary bias of the principal components of demand indicates that economic activity will pick up increasingly in the months ahead. Even though the advance is not expected to be as buoyant as in the preceding phase of upswing (1969/70), the narrow margin of spare capacity suggests that growing difficulties will be experienced in curbing the very lively thrust of prices. Much depends on success in restraining

the impact the wage trend will have on demand and costs and setting an appropriately tight line through monetary and budgetary policy.

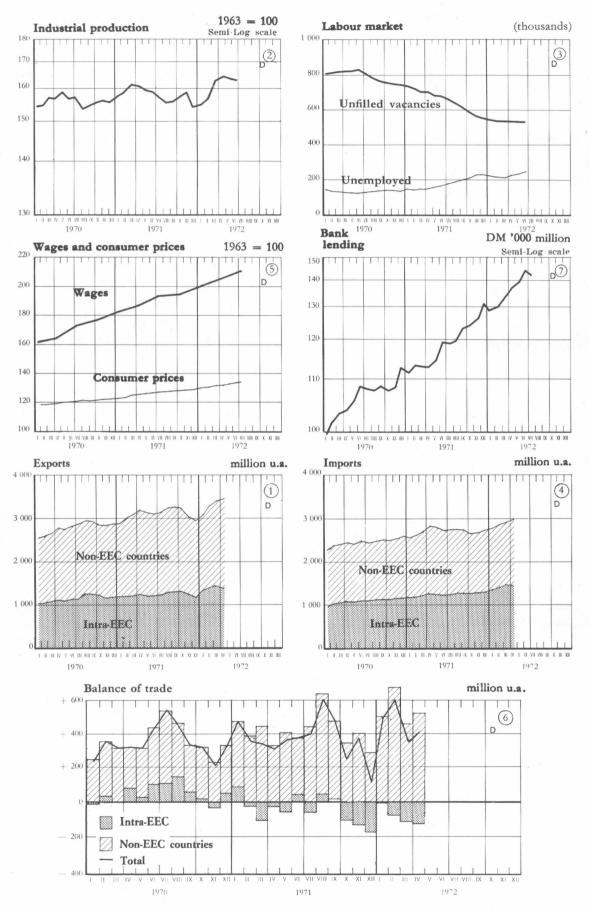
Although the competitiveness of German enterprises has suffered, export demand can be expected to gather additional speed in the near future, helped by the increasing buoyancy of the economic trend in the main importing countries, especially in North America and in the other Community countries. The public authorities

<sup>&</sup>lt;sup>2</sup> Estimates

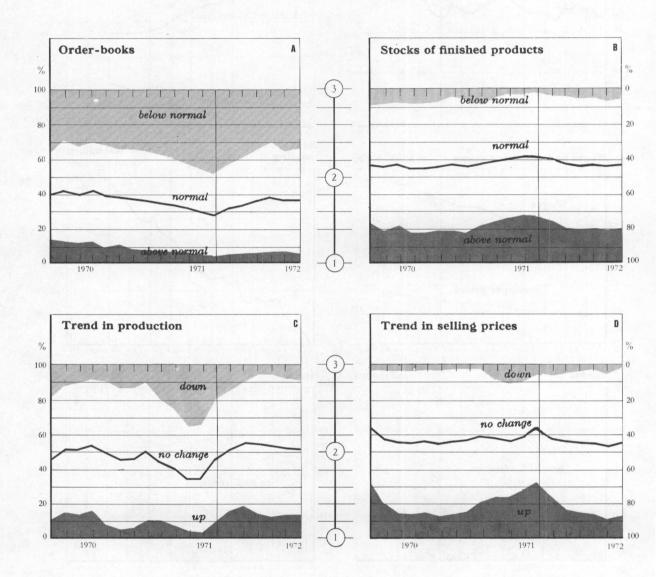
<sup>&</sup>lt;sup>8</sup> Goods, services and factor income.

<sup>(</sup>b) The estimates are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They are established and published on the sole responsibility of the Commission.

## **ECONOMIC INDICATORS**



## BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to questions in the EEC business survey, carried out in the German Federal Republic by the IFO-Institut. GRAPHS A, B, C and D: The three zones (gray, white and black) show the percentages of the three different answers.

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

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

are likely to continue providing expansionary stimuli to expenditure on consumption. Personal spending may likewise expand more vigorously. The rise in wages in any case will remain lively, and incomes of the self-employed too are likely to tend distinctly upwards. Stockbuilding by enterprises may also provide vigorous stimuli again. Investment in plant and machinery, by contrast, is expected to pick up at no more than a comparatively moderate rate until the end of the year, especially in industry. With prices still climbing briskly, expenditure on building will continue to expand rapidly. Building investment by the public authorities, for instance, is likely to maintain its distinct up-In residential construction, ward tendency. capacity will certainly remain under heavy strain, given the strength of demand.

This outlook for the trend of demand suggests that real gross national product may grow by  $2\frac{1}{2}$  to 3% in 1972. As the upswing gets under way enterprises will probably still be able to expand production by stepping up efficiency rather than by recruiting additional labour, but at a later stage they may have to make more calls again on the labour market. In the circumstances there is little hope of any spontaneous slackening in the upward movement of consumer prices. While visible trade is expected to continue producing fairly large surpluses even though the underlying tendency of imports is upwards, the high level of transfer payments and the deficit on services make it unlikely for the current account to show a favourable balance.

#### Major economic policy measures

#### April

(1) In mid-April the Bundestag's budget committee examined the 1972 Federal budget. Under new proposals by the Federal Government, total expenditure under the budget is DM 109 300 million, or about DM 2 700 million more than envisaged under the original draft budget. The increase over the 1971 budget is 11.4%. The net borrowing requirement comes to some DM 7 300 million, but the Federal Government's intention is to reduce this figure to DM 6 000 million through restrictive management of the budget.

(2) Wages and salaries in the chemical industry were put up, with retroactive effect from 1 April 1972, by an average of 6.4%.

#### Mav

- (1) On 1 May 1972 new arrangements entered into force to encourage building in winter. Building firms are to receive grants towards the purchase cost of equipment for winter work and towards additional current costs entailed by building in winter. During the three months covered by the scheme (16 December to 15 March) building workers are paid a winter supplement of DM 2 per working hour over and above their normal wage. The money will come from the Federal Labour Office and from a levy on building firms, payable from May 1972, amounting to 4 to 5% of the gross monthly wage and salary bill.
- (2) Wages and salaries in the textile industry were raised by a good 8% with retroactive effect from 1 May 1972. In addition, an asset-creating bonus of DM 26 per month will be granted from 1 January 1973, to be put up to DM 39 from 1 January 1975.
- (3) On 31 May 1972 the Central Bank Council of the Bundesbank decided to increase the minimum reserve ratio for domestic liabilities by 8% from 1 July 1972 and to cut rediscount quotas by 10%. These measures reduce the banks' free liquid reserves by some DM 4500 million, largely offsetting the expansion in the credit institutions' liquidity caused by the repayment of the counter-cyclical surcharge.

#### Tune

- (1) In mid-June the Federal Government decided to cut expenditure in the draft Federal budget for 1972 by DM 1 300 million in order to reduce the net borrowing requirement from DM 7 300 million to DM 6 000 million. This figure implies additional reductions in spending worth DM 1 300 million, but no concrete decisions were taken on where the cuts are to be made.
- (2) On 16 June 1972 the Central Capital Market Committee recommended that the next public and private loan issues should carry a coupon of 8% only and decided, in an effort to permit maintenance of this rate, to introduce sharp rationing of the flow of new loan issues.

- (3) On 21 June 1972 the Bundestag decided to put up war victims' pensions by 9.5% from 1 January 1973, involving an extra cost to the Federal Government of some DM 500 million a year.
- (4) At a joint meeting of the Financial Planning Council and the public authorities' Council on Economic Trends held on 28 June 1972, the Länder and local authorities stated their readiness to cut their net borrowing projects for 1972 by some DM 1600 million (the Länder by DM 1200 million, the local authorities by DM 400 million).
- (5) To strengthen the external safeguards, the Federal Government on 29 June 1972 agreed the following measures:
- (a) The limit below which loans raised abroad are not subject to the cash deposit requirement, up to now DM 2 million, was reduced to DM 0.5 million.
- (b) The transfer for consideration of claims to foreigners, hitherto exempt from the cash deposit requirement, was made subject to notification.
- (c) The sale to foreigners of fixed-interest securities, except foreign DM bonds, was made subject to authorization with immediate effect; this measure is to remain in force until statutory arrangements have been made to bring such transactions under the cash deposit requirement.
- (6) Supplementing these measures by the Federal Government, the Central Bank Council of the Bundesbank on the same day took the following decisions:
- (a) By amendment to the decision of 31 May 1972, the minimum reserve ratios for domestic liabilities were raised by 20%, instead of 8%, with effect from 1 July 1972.
- (b) The minimum reserve ratios applicable to the current level of foreign liabilities were raised with effect from 1 July 1972. The increase was from 31% to 40% for sight liabilities, from 22% to 35% for time liabilities and from 16% to 30% for savings deposits.
- (c) The minimum reserve ratio applicable to the growth of foreign liabilities was raised from 30% to 60% with effect from 1 July 1972.

- (d) The rediscount quotas of the credit institutions were cut by another 10% with effect from 1 August 1972.
- (e) The cash deposit rate was raised from 40% to 50% from 1 July 1972.

These measures reduce the liquid reserves of the credit institutions by an additional amount of some DM 8 000 million.

#### July

- (1) Coalminers' wages were put up by 7% from 1 July 1972 and a non-recurrent bonus of DM 40 was paid for June. The new collective agreement runs until 30 June 1973.
- (2) At the beginning of July the Bundesbank invited credit institutions to stop doing business that engendered inflows of money and capital into the Federal Republic and was not covered by the minimum reserve or cash deposit rules. In addition, the credit institutions were to refrain generally from facilitating avoidance of the deposit requirement by their customers and from recommending to them transactions that involved inflows of money from abroad.
- (3) On 13 July 1972 the Central Bank Council of the Bundesbank decided to raise the minimum reserve ratios for domestic liabilities once again; the increase, 10% with effect from 1 August 1972, reduced the commercial banks' liquid reserves by a further DM 3 000 million.

#### September

- (1) On 6 September 1972 the Federal Government adopted the principles for the 1973 budget and the medium-term finance plan until 1976. The expenditure planned for 1973 is DM 400 million, or 10.5% more than in 1972. To bring the budget into equilibrium, DM 1900 million is to be raised through tax increases and just under DM 5000 million through borrowing. The detailed decisions on the budget were reserved for the new Federal Government.
- (2) On 14 September 1972 the Financial Planning Council and the public authorities' Council on Economic Trends looked into the way in which the central, regional and local authorities' 1972 budgets had been implemented so far and discussed the basic assumptions for the drawing

up of the 1973 budgets and the extension of medium-term financial planning until 1976. It was found that net borrowing in 1972 by the Federal Government, Länder and local authorities will total DM 16 000 million, some DM 5 000 million of which is accounted for by the Federal Government. In the years from 1973 to 1976 public expenditure is not to rise much more than gross national product in money terms (8.5%). The two Councils therefore recommended to the Federal Government, Länder and local authorities an annual average rise in expenditure of 9%. The increase in spending by these authorities in 1973 is not to exceed 10.5% and net borrowing is not to be higher than in 1972.

(3) On 21 September 1972 the Bundestag passed several laws on the reform of the social pension insurance scheme, bringing forward to 1 July 1972 the 9.5% increase in existing pensions originally planned for 1 January 1973. Calculated for the full year this represents an extra increase of some 5%; the introduction of

the flexible age limit enables insured persons to draw their pensions already from the age of 63 provided they have 35 years' entitlement to their credit. Persons working beyond the age of 63 and continuing to pay contributions may step up their pensions by 7.5% annually until the age of 67; in future, pensions will be calculated on the basis of a minimum income (75% of the average wage income). This means a higher pension for all beneficiaries having paid compulsory contributions during at least 25 years and having earned less than this average income; the self-employed and housewives may now also become voluntary members of the social pension insurance scheme.

#### October

The Bundesbank raised the discount rate from 3% to 3.5% and the rate for advances on securities from 4% to 5% with effect from 9 October 1972. At the same time some selling rates for short-term money market paper were raised by 0.5%, and others by 1%.

# Germany (FR)

TABLE 1: Key indicators

	1967	1968	1969	1970	1971	1971
			change by v			1963 = 100
Gross national product	- 0.2	+ 7.3	+ 8.0	+ 5.5	+ 2.8	145
Industrial production	- 2.5	+ 9.8	+ 10.6	+ 6.2	+ 2.4	154
Total imports	- 1.4	+ 14.7	+ 16.9	+ 15.2	+ 9.2	217
Private consumers' expenditure	+ 0.9	+ 3.8	+ 8.0	+ 6.9	+ 5.3	148
Public current expenditure on goods and services	+ 3.1	- 0.0	+ 5.6	+ 4.3	+ 6.1	128
Gross fixed asset formation	8.4	+ 8.0	+ 12.1	+ 11.5	+ 4.0	152
Total exports	+ 8.1	+ 13.4	+ 12.6	+ 8.1	+ 6.2	209
Gross national product per head of population	- 0.6	+ 6.8	+ 6.8	+ 4.2	+ 1.9	135
Gross national product per person in employment	+ 2.8	+ 7.1	+ 6.1	+ 4.0	+ 2.9	144
Gross income per employee	+ 3.4	+ 6.7	+ 9.7	+ 15.0	+ 12.6	198

TABLE 2: Indicators for internal and external equilibrium

	1967	1968	1969	1970	1971
Balance exports less imports					
in million units of account	+ 4 063	+ 4 488	+ 3 906	+ 3 046	+ 2 893
as percentage of GNP	+ 3.3	+ 3.3	+ 2.5	+ 1.6	+ 1.4
Unemployment rate	1.7	1.2	0.7	0.5	0.7
Prices to private consumers (% change on preceding year)	+ 1.8	+ 1.9	+ 2.5	+ 3.7	+ 5.3

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					1963 = 100	Million u.a.	% of totals
	1967	1968	1969	1970	1971	1971	1971	1971
Visible exports Total Intra-EEC To non-EEC countries	+ 8.0 + 9.4 + 7.2	$\begin{vmatrix} + & 14.3 \\ + & 16.7 \\ + & 12.9 \end{vmatrix}$	+ 16.9 + 23.9 + 12.8	+ 18.6	+14.0	267 287 255	39 040 15 647 23 393	100.0 40.1 59.9
Exports of food, beverages and tobacco Total Intra-EEC To non-EEC countries	+61.2	$\begin{array}{c c} + 21.8 \\ + 32.8 \\ + 9.4 \end{array}$	+ 31.0	+ 16.6	+ 22.2	442 637 320	1 275 708 568	3.3 1.8 1.5
Exports of raw materials, fuel and power Total Intra-EEC To non-EEC countries	+ 1.5	+ 10.7 + 10.6 + 11.5	+ 5.4	+ 20.1	+ 11.5	174 177 169	2 176 1 351 825	5.6 3.5 2.1
Exports of semi-finished and finished industrial goods Total Intra-EEC To non-EEC countries	+ 4.7	$\begin{vmatrix} + & 15.9 \\ + & 21.6 \\ + & 13.0 \end{vmatrix}$	+ 25.8	+ 18.6	+ 13.8	272 297 259	35 588 13 589 21 999	91.1 34.8 56.3
Visible imports Total Intra-EEC From non-EEC countries	- 1.0	$\begin{vmatrix} + & 16.1 \\ + & 21.7 \\ + & 12.5 \end{vmatrix}$	+ 30.0	+ 21.8	+ 20.8	264 371 210	34 341 16 088 18 253	100.0 46.8 53.2
Imports of food, beverages and tobacco Total Intra-EEC From non-EEC countries	+ 0.1	$\begin{vmatrix} + & 3.7 \\ + & 11.9 \\ - & 1.9 \end{vmatrix}$	+ 26.8	+ 12.6	+ 21.9	203 291 156	5 620 2 806 2 814	16.4 8.2 8.2
Imports of raw materials, fuel and power Total Intra-EEC From non-EEC countries	+ 9.4	+ 15.8 + 18.1 + 15.3	+ 23.3	+18.5	+ 22.0	200 315 180	7 212 1 729 5 483	21.0 5.0 16.0
Imports of semi-finished and finished industrial goods Total Intra-EEC From non-EEC countries	- 3.6	$\begin{vmatrix} + & 21.1 \\ + & 25.4 \\ + & 16.8 \end{vmatrix}$	+ 32.0	+ 24.8	+21.5	324 408 261	21 510 11 553 9 957	62.6 33.6 29.0

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	Мау	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970 1971 1972	154.7 163.1 162.7	157.2 162.3 161.6	159.6 159.2 164.3	153.8 162.1 167.6	163.8 159.5 161.1	151.5 157.7 158.6	155.6 159.2 166.2	154.2 152.1	155.2 159.1	157.6 162.0	156.5 156.2	153.7 146.2
New orders received (1963 = 100)	1970 1971 1972	177 180 185	185 184 194	180 199 198	184 187 188	169 183 195	182 189 202	178 182 181	175 182	180 184	170 173	179 181	184 178
Unemployed (1 000)	1970 1971 1972	147.7 169.5 222.7	137.5 146.8 227.6	153.0 167.2 217.6	130.1 168.8 242.0	135.1 171.5 244.7	140.8 176.7 243.5	149.7 169.2 266,4	153.9 199.4 268.8	152.3 207.6	154.3 222.0	156.5 239.9	145.2 231.8
Construction: permits for residential construction (1 000)	1970 1971 1972	49.7 53.3 64.5	50.2 56.7 62.4	47.5 57.6 63.0	51.7 55.7 63.3	48.9 60.6 63.8	51.0 62.0 70.7	54.2 58.7	52.9 63.4	52.8 61.6	47.4 56.8	50.5 61.0	48.4 59.9
Private consumers' expenditure: department store turnover (1963 = 100)	1970 1971 1972	182.8 210.2 228.6	175.0 200.1 240.7	183.6 205.2 240.1	182.7 217.0 216.0	184.8 207.2 234.5	196.7 219.1	202.7 226.0	194.5 215.2	205.4 233.6	200.2 214.8	197.3 231.7	205.9 229.4
Consumer prices (1963 = 100)	1970 1971 1972	119.1 123.5 130.7	119.3 124.5 131.3	119.8 125.3 132.1	120.1 125.9 132.3	120.3 126.2 132.6	120.7 126.7 133.5	120.7 127.2 134.3	120.6 127.1 134.3	120.6 127.7	$121.2 \\ 128.3$	121.8 128.9	122.3 129.3
Visible imports (million u.a.)	1970 1971 1972	2 322 2 356 2 732	2 419 2 848 3 076	2 368 2 928 3 065	2 612 2 786 2 846	2 333 2 630 3 176	2 478 2 776 3 039	2 519 2 828 2 755	2 402 2 602	2 555 2 706	2 486 2 650	2 639 2 742	2 680 2 897
Visible exports (million u.a.)	1970 1971 1972	2 560 2 837 3 163	2 792 3 219 3 587	2 687 3 300 3 507	2 940 3 097 3 343	2 654 2 990 3 569	2 927 3 139 3 554	3 079 3 228 3 327	2 873 3 183	2 888 3 201	2 804 2 943	2 850 3 022	3 010 3 092
Balance of trade (million u.a.)	1970 1971 1972	$^{+\ 238}_{+\ 481}_{+\ 431}$	+ 373 + 371 + 511	+ 319 + 372 + 442	+ 328 + 311 + 497	+ 321 + 359 + 393	+ 449 + 362 + 515	+ 560 + 400 + 572	+ 471 + 581	+ 333 + 495	+ 318 + 293	+ 211 + 280	+ 330 + 195
Official gold and foreign exchange reserves (million u.a.)	1970 1971 1972	6 455 13 411 17 113	6 616 14 252 17 794	6 765 15 201 17 734	6 893 16 138 17 789	7 212 18 400 17 845	8 215 16 207 20 389	9 378 16 603 22 446	9 643 16 335 22 252	10 700 16 561	11 283 16 818	12 961 16 981	13 009 16 552
Money supply (DM '000 million)	1970 1971 1972	95.5 103.8 117.1	95.5 104.4 117.5	96.4 105.3 121.0	96.0 107.1 122.7	97.0 109.7 120.5	98.1 109.5 126.0	99.7 112.9 128.0	99.5 113.0	99,1 112,4	99.2 113.3	100.4 114.4	102,4 114,7

#### Germany (FR)

#### NOTES TO GRAPHS AND TABLES

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

Conversion into units of account (1 u.a. = 0.888671 g of fine gold).

#### Graph 1

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

#### Graph 2

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

#### Graph 3

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

#### Graph 4

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

#### Grath '

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

#### Graph 6

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

#### Graph 7

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

#### Table 1

Gross national product at market prices.

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

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

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

#### Table 2

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

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

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

#### Table 3

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

#### Table 4

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

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

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

Construction: seasonally adjusted number of dwellings authorized.

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

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

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

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

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

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

#### B. France

#### 1. Recent developments

At the beginning of the second half of 1972, the main features of the economic situation in France were a lively expansion of demand in money terms, a substantial growth of production and persistently strong wage and price inflation.

Export demand still provided vigorous stimuli, the value of visible exports in June-August being 11.0% up on a year earlier. domestic demand, too, appears to have become more buoyant still. All indications, including in particular the results of the latest investment surveys in private industry, are that with sales expanding, capacity bottlenecks increasing and finance easier to obtain, corporate investment has of late resumed a more pronounced upward tendency, following a relatively quiet spell in the winter. Residential construction, too, has recovered distinctly, and investment by the public authorities has maintained its vigorous rise. Private consumer spending has probably been expanding again at an annual rate of 11 to 12%, after a short period of reaction to the unusually sharp increase at the beginning of the year. The upward movement of wage incomes has remained just as rapid and that of transfer incomes has probably gathered speed, while there may also have been a stronger rise in withdrawals from entrepreneurial income. Moreover, the propensity of households to save has, if anything, tended to decline, because of their growing readiness to borrow.

Industrial production has still been expanding briskly, despite a number of stoppages due to strikes and despite evidence of a growing shortage of plant capacity and manpower. According to the monthly INSEE index, which admittedly leaves the capital goods sector almost completely out of account, it was in the second quarter some 8% up on a year earlier. The number of employed persons rose distinctly. On the labour market at any rate there was a considerable increase in the number of unfilled vacancies while the rise in the number of persons seeking employment slackened.

With an annual rate averaging 11%, wage increases still considerably outstripped possible productivity gains. The results of the business

surveys in private industry suggest that the upsurge may even have gained additional strength in recent months, reaching an annual rate of nearly 12.5%. The upward thrust of prices remained very lively, but costs were not the only factor. Industrial producer prices, which under the so-called anti-increase agreements were allowed to go up by a limited margin only between September 1971 and March 1972. have since resumed a faster pace; agricultural producer prices have been climbing particularly rapidly in recent months, especially because of the absence of elasticity of supply on individual markets. Together with the increase in certain prices fixed by the authorities, especially in the services sector, this led to a rise in the cost of living, which according to the INSEE index of 295 items was 4.2% between the end of 1971 and August 1972, and as much as 6.1% in the year up to August.

To supplement domestic supply, there has been increased buying abroad, especially of consumer goods but of late also of raw materials and semi-manufactures. In June-August the volume of visible imports was some 8% higher than a year earlier. The deficit on the trade balance (cif-fob, seasonally adjusted) was nevertheless distinctly smaller than in the preceding months owing to the unusually sharp expansion of exports and a very favourable swing in the terms of trade. The current account, which had been in deficit at the beginning of the year, showed a surplus, small though it was. As there were also substantial inflows of capital, especially owing to the revival of currency speculation in sterling and the dollar, the overall balance of payments will probably have closed with a fairly substantial surplus in recent months. Official gross gold and foreign exchange reserves, at any rate, which had gone up by only 208 million u.a. between the end of December 1971 and the end of May 1972, rose by 848 million u.a. in June alone and by an additional 379 million u.a. in July. At the same time the net foreign exchange position of the commercial banks may also have improved significantly.

Although the Banque de France was trying to neutralize this increased inflow of liquidity from abroad by repeatedly putting up minimum reserve ratios, monetary expansion gathered some additional speed towards the middle of 1972, very rapid though it had already been. At the end of July, the increase in the money supply over a year earlier was some 13.5%, and getting on for 20% if holdings of nearmoney are included. This growth was helped by the substantial inflows of foreign exchange

but even more by the sharper expansion of lending. At the end of July, the volume of bank credit to business and private customers outstanding was nearly 22% higher than a year earlier. An additional factor was that since June the Treasury's cash operations, which had closed with surpluses from the beginning of the budget year, were again adding to liquidity.

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

	19691	1970¹		197	1 <sup>1</sup>	1972²					
	At current prices (in FF '000	rent % change on preceding year  ces FF									
	million)	Volume Val	lue	Volume	Value	Volume	Value				
Exports <sup>3</sup>	109.3	+ 17.2 + 2	6.4	+ 11.7	+ 14.9	+ 11½	+ 15½				
Gross fixed asset formation	183.2	+ 7.5 + 1	4.6	+ 5.0	+ 10.2	+ 6	+ 11½				
Public current expenditure on goods and services	90.1	+ 3.5 + 1	2.0	+ 3.5	+ 10.7	+ 3	+ 10½				
Private consumers' expenditure	433.9	+ 4.5 +	9.8	+ 6.0	+ 11.8	+ 6	+ 12				
Gross national product	734.0	+ 5.9 + 1	1.7	+ 5.0	+ 10.2	+ 5½	+ 11½				
Imports <sup>3</sup>	114.1	+ 8.3 + 1	8.1	+ 11.6	+ 13.1	+ 13	+ 16½				

<sup>&</sup>lt;sup>1</sup> Rapport sur les Comptes de la Nation 1971, Ministère de l'Economie et des Finances.

#### Note:

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

#### 2. Outlook

All the signs are that in the months ahead the expansion of demand will at least maintain its pace while the situation on the supply side is likely to tighten increasingly.

The vigour of domestic demand will be determined mainly by the speed and scale of the revival of entrepreneurs' propensity to invest. There is no lack of inducements to

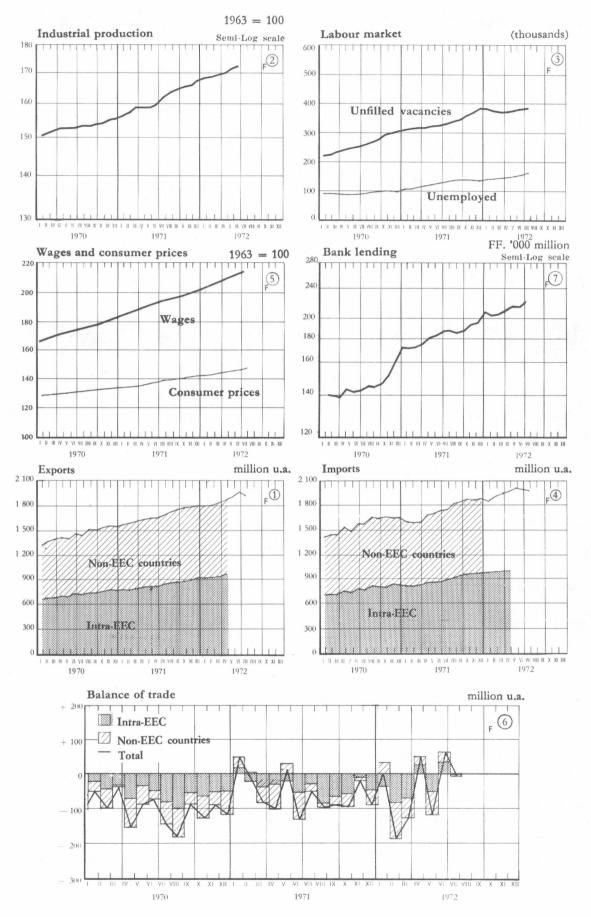
invest as the sales outlook on domestic and export markets is good, the pressure of costs continues unabated and, a particularly important factor, finance is easy to obtain. The expansion of capital spending by the public authorities is likely to accelerate, and spending on residential construction is expected to go up too. The trend of incomes is likely to reflect a faster rise in employment, a continued upsurge of wages, improved social insurance benefits and

<sup>&</sup>lt;sup>2</sup> Forecasts.

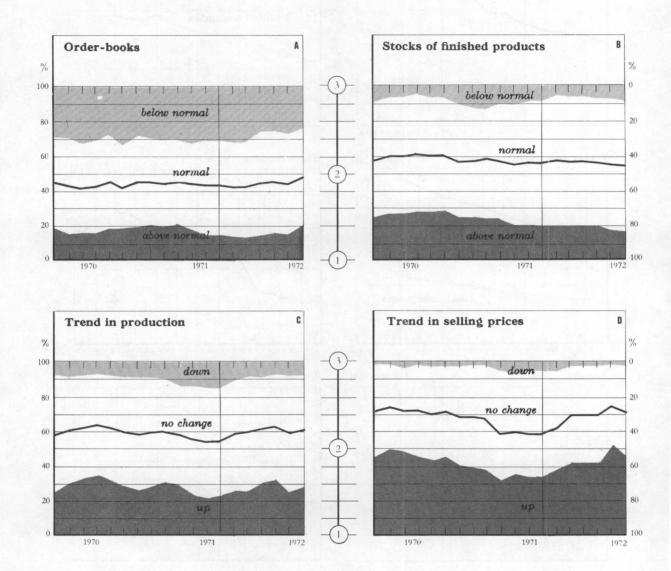
<sup>&</sup>lt;sup>8</sup> Goods, services and factor income.

<sup>(</sup>b) The forecasts are approximations based on certain hypotheses. They are established and published on the sole responsibility of the Commission.

# **ECONOMIC INDICATORS**



# BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

a sharper expansion of sales. The growth of consumer spending by households will therefore at least maintain its current pace, particularly since households still expect prices to go up sharply, making it unlikely that their propensity to save will increase.

Given the outlook for world economic activity, export demand should maintain its upward tendency. The unusually rapid pace registered in the spring and in early summer, however, is hardly likely to be maintained, even though the competitiveness of French industry does not yet appear to have been affected by the divergence between the trend of costs and prices at home and in major competing countries.

Increasing efforts will have to be made if domestic production is to keep up with this generally very expansionary, and possibly still faster, demand. At this stage already, plant capacities are heavily engaged, especially in the consumer and export-oriented sectors, and the labour market shows signs of structural inelasticity, the manpower available not having the right skills and the geographical distribution of the factors of production being unfavourable.

In the circumstances there is no hope of the upward movement in wages and prices slowing down in the months ahead; the propensity to import will remain high, and the balance of payments on current accounts will show no significant surpluses.

The main problem facing those responsible for economic policy therefore is to reduce the rate of price increase without curbing growth.

#### Major economic policy measures

# April

(1) Old-age, survivors' and invalidity pensions under the social insurance scheme were put up from 1 April, as every year. The increase was 11.5%, compared with 10.1% in 1971. Pensions payable in respect of industrial accidents and occcupational diseases had already been raised by the same rate with effect from 1 March.

- (2) Rates for goods transport by rail were raised generally by 3.8% from 1 April; the increase for express transport was 7.78%. Rates for transport by inland waterway were increased by an average of 4% from 13 April.
- (3) On 6 April the discount rate was lowered by a further 0.25% to 5.75%, following a cut from 6.5% to 6% on 13 January. The rate for advances on securities was reduced from 7.5% to 7.25%, while the preferential discount rate for medium-term claims arising from foreign business with non-member countries was left unchanged at 4.5%.
- (4) As part of the policy to promote residential construction, the rules on the granting of mortgage loans were eased at the beginning of April. The maximum period for which such loans may be granted was extended from 15 to 20 years and the share which the borrower is required to put up himself when buying, building or improving a dwelling, hitherto up to 50%, was fixed at a uniform 20%.
- (5) The first regulations to implement the law on the reform of apprentice training adopted in July 1971 were published in mid-April. The subjects covered include in particular (i) the establishment of training centres in which apprentices are to receive at least 360 hours per year of general and technical training; (ii) the period of apprenticeship, which is normally two years; (iii) apprentices' pay, which according to age ranges from at least 15% of the statutory minimum wage in the first half-year to a maximum of 55% in the fourth half-year of training; and (iv) the financing of apprentice training, to which enterprises make a contribution in the shape of a special levy of 0.5% on the wage bill.
- (6) The coupon of long-term loan issues, which had already been reduced by 0.25% from 1 April, was lowered by a further 0.25% at the end of April to stand at 8% for public loan issues and 8.25% for private debentures.
- (7) The Banque de France notified the commercial and foreign exchange banks of the maximum and minimum exchange rates of member countries' currencies at which it would intervene on the foreign exchange market from 24 April, in accordance with the agreement of 7 March 1972 on the narrowing of the margins of fluctuation of Community currencies.

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- (1) The statutory minimum growth wage (SMIC), put up last by 2.3% on 1 December 1971, was raised by 4.06% to FF4.10 an hour, to take account of the latest movement in prices and of general economic growth. Within a year the minimum wage was thus raised by 11.4%, or somewhat more rapidly than average hourly wage rates.
- (2) Railway fares were put up by 4.96% from 1 May. Fares on the Paris underground and suburban lines were not affected.
- (3) In an effort to stimulate the capital market and facilitate the acquisition of French securities by international unit trusts and foreign pension insurance funds, the Government decided at the beginning of May to extend the benefit of the tax credit system to those bodies provided they had their registered office in a Member State of the enlarged Community.
- (4) At the beginning of May foreign exchange controls were eased a little. All merchandise and service transactions (with the exception of tourism, wage and salary transfers and trade in notes) can now be handled by the official foreign exchange market, the rate applying therefore being that of the "commercial franc". The rules governing transfers by private individuals were also relaxed, the currency allowance for travellers was increased, the rules on foreign trade transactions were simplified and exemption from prior notification was granted for investments made abroad which involve amounts of up to FF1 million.
- (5) With effect from 18 May the Banque de France eased the obligation on commercial banks to purchase medium-term bills by lowering the rate from 14% to 12.5% of customers' deposits. This released some FF2 000 million worth of rediscountable paper, gave the commercial banks correspondingly greater scope for obtaining refinance from the central bank and indirectly caused pressures on the money market to ease somewhat, in line with the requirements of foreign trade and payments policy.
- (6) In mid-May the National Assembly approved a bill instituting the payment of an indemnity to craftsmen and traders over 60 whose income does not exceed a certain minimum and who are ready to give up business.

The money for this indemnity, which is to be paid from October 1972 for an initial period of five years, is to come from a special tax on the turnover and the sales areas of large retail businesses.

#### June

- (1) In order to encourage commercial banks to play a greater role in corporate financing by buying industrial bonds, these banks were allowed, from 1 June, to invest the prescribed proportion of customers' deposits no longer only in medium-term bills but also, up to a certain percentage, in certain fixed-interest securities of French issuers.
- (2) At the beginning of June some specialized credit institutions lowered the interest rate for long-term loans to finance capital projects by between 0.25 and 0.5%, bringing it down to 8.5%.
- (3) In view of the very rapid expansion of credit the Banque de France ordered an increase from 2% to 4%, with efect from 10 June, in the minimum reserves which the commercial banks and other financial institutions are required to hold with it in respect of the volume of credit outstanding, thereby immobilizing some FF1 600 million of liquidity.
- (4) To enable still better use to be made of the instruments to control liquidity, the Banque de France in Mid-June was authorized to raise the minimum reserve ratio applicable to the volume of credit outstanding to a level of up to 15% where necessary.
- (5) As part of the efforts to reduce the level of interest rates further, the rate for tax bills (obligations cautionnées), issued mainly by small and medium-sized firms to pay certain indirect taxes and covered by a bank guarantee, was reduced from 7% to 6.5% with effect from 12 June.
- (6) In mid-June the Government announced that further public enterprises in banking, insurance and the aviation industry would give their employees a share in profits by issuing free shares. In 1970, Renault had distributed some 4.5% of its share capital amongst its employees, to be followed by the State-owned mortgage bank Crédit foncier de France, which distributed about 1%.

- (7) In mid-June the Renault management announced that the possibilities of promotion for unskilled workers would be improved considerably and that the lowest rates on the pay scale would be abolished, with the result that from 1 July no worker would be earning less than FF1 500 (including supplements) a month.
- (8) As part of the new policy since 1 April 1972 aimed at gradually eliminating price controls (see Quarterly Survey No. 2/1972, p. 46) it was decided that prices may be formed freely again from 15 June in certain industries that face stiff domestic or foreign competition (including the first stage of metalworking, the building materials industry, electrical engineering and electronics, chemicals, wood and furniture).
- (9) At the end of June the Government announced additional measures to assist the young unemployed: payment of an interim allowance equal to 80 % of the unemployment benefit for up to three months after the end of training, and the granting of a "mobility premium" if work is taken up outside the home region.

### July

- (1) With effect from 1 July the statutory minimum growth wage (SMIC) was put up by a further 4.88% to FF4.30 an hour. With the average working week in industry currently being 44 hours, this brought the monthly minimum wage up to FF838.
- (2) The reform of family allowances approved by the National Assembly at the end of November 1971 (see Quarterly Survey No. 1/1972, p. 51) entered into force on 1 July. It involves in particular an increase in allowances to mothers not gainfully employed, introduces for the first time special allowances for working mothers putting their children in day-nurseries, and institutes an old-age pension for mothers.
- (3) Rents for certain classes of old dwellings were raised by up to 17% with effect from 1 July. Where the tenant's income does not exceed a certain amount, the maximum increase permissible is 12%.
- (4) To curb the rise in rents for business premises, a decree published at the beginning

- of July laid down details for fixing commercial rents when a lease is extended. Any increase will have to be made by reference to objective criteria such as the type and location of the business and the current rents for comparable premises; in addition, such an increase may not exceed an official coefficient published annually and calculated on the basis of the index of building costs and the consumer price index.
- (5) In mid-July, the prices for most types of cigarettes, cigars and tobacco were put up.
- (6) In an effort to counter the expansionary effect exerted on liquidity by the inflow of foreign money, the Banque de France ordered, with effect from 21 July, an increase in minimum reserves from 8% to 10% for sight deposits and from 3% to 5% for time deposits. The equivalent rates for deposits by non-residents went up to 12% and 6% respectively. As a result of this measure, about FF5 000 to 6 000 million is likely to be frozen with the central bank; this roughly matches the rise in official gold and foreign exchange reserves since the beginning of June.
- (7) At the end of July, the Government laid down the main lines for the draft of the 1973 Finance Act. Expenditure is to rise by some 11%, or only a little more than the expected increase in gross domestic production in terms of money. About FF2 000 million worth of appropriations are, for the time being, to be frozen in the economic contingency fund and are to be released only to the extent that the economic situation in 1973 so requires. Despite the introduction of various tax concessions the proposed increase in revenue is to be sufficient to permit the presentation of a balanced budget.

### August

- (1) Domestic and industrial gas and electricity rates were put up by an average of 4% with effect from 1 August.
- (2) Family alowances were raised by 6% from 1 August, compared with 5.3% on 1 August 1971.
- (3) To promote exports, interest rates were lowered for export credit granted for periods of seven years or more in connection with contracts concluded after 15 September 1972; the cut

was from 6.67% to 6.35% for credit allowed to suppliers and from 6.83% to 6.50% for credit allowed to buyers.

(4) On 30 August the Government took the following measures to dampen the rise in prices: steps to ensure a better flow of supplies to the foodstuffs markets, especially the meat market; supervision of compliance with the agreements, running until 31 March, on prices of manufactured products and services; commitment by the Government not to increase public service charges until 31 March 1973; proposals to the other EEC countries on coordinated action to combat the upward tendency of prices.

## September

(1) Promoted by the rapid expansion of bank lending, the Banque de France fixed the minimum reserve ratio for the growth of credit extended from 5 April 1972 onwards at 15%; this was the maximum rate fixed by the Conseil national du Crédit in June.

- (2) The Government submitted a social plan involving in particular: the elimination of regional differentials in family allowances; reduction from 65 to 55 of the age from which widows are entitled to draw survivor's benefit under the social security scheme; increase in pensions for destitute old people; improvement in the calculation of retirement pensions under the social security system; a faster increase for the minimum wage (SMIC) than for other wages. The cost of these measures is estimated at FF2 500 million a year.
- (3) Adoption of a number of measures concerning foreign workers: recruitment, legal status and housing.
- (4) Approval was given to a draft regulation to increase the salaries of Government officials from 1 October 1972 and to put up their retirement pensions.
- (5) Extension of legal claim to employees' shares to 130 000 employees of the State-owned banks and insurance companies.

TABLE 1: Key indicators

	1967	1968	1969	1960	1971	1971					
			change by v		1	1963 = 100					
Gross national product	+ 5.0	+ 5.0	+ 7.7	+ 5.9	+ 5.0	156					
Industrial production	+ 4.7	+ 5.4	+ 8.5	+ 6.8	+ 5.0	165					
Total imports	+ 8.0	+ 12.1	+ 21.7	+ 8.3	+ 11.6	237					
Private consumers' expenditure	+ 5.4	+ 4.6	+ 6.4	+ 4.5	+ 6.0	150					
Public current expenditure on goods and services	+ 4.0	+ 4.6	+ 4.9	+ 3.5	+ 3.5	133					
Gross fixed asset formation	+ 6.2	+ 5.5	+ 10.9	+ 7.5	+ 5.0	186					
Total exports	+ 7.6	+ 9.5	+ 17.7	+ 17.2	+ 11.7	238					
Gross national product per head of population	+ 4.2	+ 4.2	+ 6.9	+ 4.9	+ 4.0	145					
Gross national product per person in employment	+ 4.6	+ 5.1	+ 6.0	+ 4.4	+ 4.3	146					
		% change by value on preceding year									
Gross income per employee	+ 6.2	+ 12.5	+ 11.3	+ 10.1	+ 10.1	199					

TABLE 2: Indicators for internal and external equilibrium

	1	1967	1	1968		1969		1970		971
Balance exports less imports										
in million u.a.	+	452	+	81	_	830	+	724	+ 1	293
as percentage of GNP	+	0.4	+	0.06	_	0.6	+	0.5	+	0.8
Unemployment rate		2.1		1.8		1.6		1.7		2.1
price index of private consumers' expenditure (% change on preceding year)	+	2.8	+	4.7	+	7.0	+	5.1	+	5.5

# France

TABLE 3: Foreign trade (at current prices)

		% change	on prec	eding yes	ır	1963 = 100	Million u.a.	% of totals
	1967	1968	1969	1970	1971	1971	1971	1971
Visible exports Total Intra-EEC To non-EEC countries	+ 4.5 + 2.0 + 6.3	+ 11.4 + 16.0 + 8.1	+ 17.4 + 30.6 + 7.5	+ 19.2 + 21.7 + 16.9	$\left  egin{array}{c} + \ 14.6 \ + \ 16.0 \ + \ 13.2 \end{array} \right $	252 325 206	20 326 10 049 10 277	100.0 49.4 50.6
Exports of food, beverages and tobacco Total Intra-EEC To non-EEC countries	+ 2.9 + 6.0 - 0.1	+ 19.8 + 26.6 + 12.8	+ 20.8 + 41.9 - 3.3	+ 6.0 + 1.8 + 13.2	+ 26.9 + 31.4 + 20.3	274 448 168	3 442 2 137 1 305	16.9 10.5 6.4
Exports of raw materials, fuel and power Total Intra-EEC To non-EEC countries	- 3.7 - 3.7 - 3.6	+ 1.6 + 0.9 + 2.6	+ 10.6 + 19.9 - 3.5	$\begin{vmatrix} + & 12.1 \\ + & 14.2 \\ + & 7.9 \end{vmatrix}$	+ 7.0 + 3.6 + 13.8	155 172 131	1 492 964 528	7.3 4.7 2 6
Exports of semi-finished and finished industrial goods Total Intra-EEC To non-EEC countries	+ 2.2	+ 10.9 + 16.2 + 7.8	+29.0	+ 29.7	+ 13.8	261 329 224	15 392 6 948 8 444	75.8 34.2 41.6
Visible imports Total Intra-EEC From non-EEC countries	+ 4.6 + 10.7 + 0.2	$\begin{vmatrix} + & 12.5 \\ + & 23.1 \\ + & 4.4 \end{vmatrix}$	+ 23.7 + 31.3 + 16.7	+ 9.9 + 6.5 + 13.3	+ 11.3 + 13.9 + 8.8	241 337 188	21 063 10 541 10 522	100.0 50.0 50.0
Imports of food, beverages and tobacco Total Intra-EEC From non-EEC countries	$\begin{vmatrix} - & 2.6 \\ + & 16.6 \\ - & 7.4 \end{vmatrix}$	$\begin{array}{c c} + & 2.7 \\ + & 31.8 \\ - & 6.4 \end{array}$	+ 19.5 + 33.4 + 13.5	+ 6.9 + 3.9 + 8.4	+ 4.1 + 14.3 - 0.9	165 339 127	2 555 931 1 624	12.1 4.4 7.7
Imports of raw materials, fuel and power Total Intra-EEC From non-EEC countries	+ 0.3 - 2.3 + 0.8	+ 3.6 + 14.2 + 1.7	+ 10.6 + 11.4 + 10.5	+ 11.9 + 9.0 + 12.5	+ 15.0 + 17.2 + 14.6	168 171 167	5 175 858 4 317	24.6 4.1 20.5
Imports of semi-finished and finished industrial goods Total Intra-EEC From non-EEC countries	+ 9.0 + 12.0	+ 19.6 + 23.3 + 13.3	+ 30.3 + 33.3	+ 9.8 + 6.6	+ 11.4 + 13.5	326 372 263	13 333 8 752 4 581	63.3 41.6 21.7

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	Мау	June	July	Aug.	Sept.	Oet.	Nov.	Dec.
Industrial production (1963 = 100)	1970 1971 1972	150.3 153.0 166.4	150.7 155.7 164.8	150.7 158.0 166.7	151.4 154.8 165.3	119.2 154.1 168.9	148.2 156.7 168.3	150.6 160.2	144.2 159.3	152.0 164.3	151.2 162.2	119.9 161.9	151.8 164.2
Number of persons seeking employment (1 000)	1970 1971 1972	221,4 305,3 365,4	227.2 303.3 365.0	233.3 308.2 364.9	241.3 315.2 375.2	246.9 322.6 375.9	252.9 329.5 375.0	262.6 340.4 387.4	274.1 347.6 398.2	285.9 359.4	297.2 369.9	303.7 372.7	304.9 373.5
Construction: building permits issued for housing (1 000)	1970 1971 1972	45.3 48.7 (59.4)	52.1 54.0 (48.3)	48.8 67.4 (48.5)	51.2 51.7 (47.5)	42.6 48.5 (55.0)	53.0 62.2	45.2 52.5	42.7 48.4	51.8 52.1	39.4 53.8	43.6 60.2	75.8 (69.1)
Private consumers' expenditure: turnover of department stores (1963 = 100)	1970 1971 1972	166.0 178.1 181.8	161.2 178.5 192.1	162.4 175.8 194.0	168.1 183.7 177.1	175.5 173.4 185.6	169.4 185.8 193.1	171.5 179.4	175.4 176.1	171.5 177.2	175.5 177.8	171.4 189.2	173.8 183.1
Consumer prices (1963 = 100)	1970 1971 1972	128.0 134.2 141.8	$^{128.6}_{134.8}_{142.6}$	129.0 135.4 143.2	129.6 136.2 143.7	130.1 137.1 144.5	130.7 137.6 145.2	130.9 138.2 146.5	131.4 138.8 147.2	132.0 139.4	132.6 140.2	133.0 140.7	133.4 141.4
Visible imports (milion u.a.)	1970 1971 1972	1 434 1 491 1 754	1 488 1 617 2 017	1 431 1 741 2 034	1 660 1 706 1 831	1 406 1 642 2 129	1 663 1 798 1 978	1 563 1 749 1 814	1 682 1 858 (1 929)	1 656 1 851	1 631 1 858	1 657 1 836	1 686 1 917
Visible exports (million u.a.)	1970 1971 1972	1 385 1 516 1 739	1 389 1 595 1 830	1 397 1 672 1 919	1 503 1 629 1 897	1 323 1 652 1 972	1 595 1 678 2 024	1 415 1 698 1 775	1 507 1 757 (1 869)	1 572 1 754	1 501 1 761	1 574 1 813	1 569 1 839
Balance of trade (million u.a.)	1970 1971 1972	- 49 + 25 - 15	- 99 - 22 - 187	- 34 - 69 - 115	- 157 - 77 + 66	- 83 + 10 - 157	- 68 - 120 + 46	- 148 - 51 - 39	- 175 - 101 (- 60)	- 34 - 97	- 130 - 97	- 83 - 23	- 117 - 78
Official gold and foreign exchange reserves (million u.a.)	1970 1971 1972	4 050 5 346 7 748	4 122 5 404 7 804	4 126 5 487 7 802	4 197 5 559 7 798	4 307 5 626 7 809	4 447 5 653 8 657	4 657 6 150 9 144	4 713 7 626 9 176	4 743 7 308	4 784 7 270	4 957 7 492	4 960 7 601
Money supply (FF '000 million)	1970 1971 1972	205.7 228.7 254.0	206.3 232.2 254.8	207.4 234.5 262.2	207.2 232.1 259.6	207.3 236.4 (262.6)	208.0 240.4 (271.4)	209.5 243.4 (275.6)	211.7 243.2	213.3 245.3	219.7 250.5	223.2 250.9	227.8 253.5

#### NOTES TO GRAPHS AND TABLES

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

#### Graph 1

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

#### Graph 2

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

#### Graph 3

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

#### Graph 4

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

#### Graph 5

Wages and consumer prices; index of hourly wage rates, all activities, all regions; national index of consumer prices for 1969 and 1970: 259 items; from January 1971 new index of 295 items.

#### Graph 6

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

## Graph 7

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

#### Table 1

Source: "Rapport sur les comptes de la Nation 1970". Ministère de l'Économie et des Finances.

GNP at market prices (new series on 1962 basis).

Industrial production: value added by industry.

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

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

## Table 2

Source: "Rapport sur les comptes de la Nation 1970". Ministère de l'Économie et des Finances.

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

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

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

### Table 3

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

### Table 4

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

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

Construction: seasonally adjusted number of dwellings authorized.

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

Consumer prices: national index of 259 items in 1969 and 1970; new index of 295 items since January 1971.

Imports cif, exports fob, adjusted for seasonal variations.

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

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

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

# C. Italy

## 1. Recent developments

After a vigorous pick up towards the end of 1971 and then a renewed fairly weak tendency in the early months of 1972, economic activity became chiefly expansionary again at the beginning of the summer. The impression is therefore increasingly that the business cycle is past its trough and has started on a fresh upswing, though still cautiously and to an extent that varies with the sector.

Exports of goods and services maintained their distinct upward trend. In June-July, visible exports were 22 % higher than a year earlier.

The improvement in the business situation is due in large measure to the greater buoyancy of domestic demand. Stockbuilding in particular is likely to have provided more vigorous stimuli again. Building and construction, though still very sluggish, also may have continued to pick up a little, both in residential construction and, more particularly, in industrial building. The monthly business surveys suggest that investment in plant and machinery may likewise be tending upwards again.

Private consumer's expenditure apparently maintained its steady expansion, helped by further increases in hourly wages and probably also by a resumption of the rise in the number of hours worked per person. Once again, however, this expansion may have been slower than that of disposable incomes so that the savings ratio went up further.

Supply in real terms rose distinctly. In June-July, industrial production moved up appreciably again and was some 3 ½ % higher per working day than a year earlier. During the same period, visible imports, which likewise tended distinctly upwards, were some 16 ½ % higher in value than a year earlier.

The employment situation was determined by conflicting tendencies. While the average number of hours worked per person was probably rising, the number of unemployed too, was on the increase.

The upward movement of prices accelerated distinctly. In August, wholesale prices were

3.6 % and consumer prices 6 % up on August 1971.

The balance on current account (as defined by the Exchange Office) showed its first deficit for the year in July, chiefly as a result of advance payments made by importers. The overall balance of payments, however, remained in surplus thanks to the floating of a loan on the international capital market. Official net gold and foreign exchange reserves, which had been declining since October 1971 owing to substantial repayments of foreign debts and money exports by the commercial banks, have been rising again since July, when they stood at Lit. 3 701 000 million.

Although payments transactions with abroad had a restrictive influence until June, liquidity remained decidedly ample. The money supply was 17.5 % higher than a year earlier. The level of interest rates slipped back slightly.

### 2. Outlook

The economic outlook for the remainder of the year and for the early months of 1973 as outlined below is based on the uncertain, though perfectly feasible, assumption that this autumn's round of wage negotiations, the largest ever in Italy, will entail comparatively small losses of production only and that, with value added tax definitely entering into force on 1 January 1973, overall demand will be favourably affected by the disappearance of the factors of uncertainty that resulted from the repeated postponement. In this context it has been assumed that, apart from short setbacks, both the propensity to invest and the propensity to consume will recover. Should these assumptions fail to come true, there is a danger that the economic trend will again be very unsatisfactory and once again lag behind the guide figures of the third Mediumterm Economic Policy Programme.

On these assumptions, the expansion of exports is expected to continue particulary as the business situation in the major purchasing countries appears to be improving more and more.

Among the factors suggesting that propensity to invest will recover, despite the strains expected

## Demand for and supply of goods and services

	1969¹	1970¹	19711	1972²
	At current prices (in Lit	% c	hange on preceding	year
	'000 million)	Volume <sup>4</sup> Value	Volume <sup>4</sup> Value	Volume <sup>5</sup> Value
Exports <sup>3</sup>	10 545	+ 6.6 + 11.9	+ 6.5 + 12.6	+ 8½ + 12½
Gross fixed asset formation	10 700	+ 3.4 + 15.0	- 4.9 + 1.6	$-1 + 3\frac{1}{2}$
Public current expenditure on goods and services	6 898	+ 1.9 + 6.7	+ 4.2 + 21.2	+ 3½ + 8½
Private consumers' expenditure	32 836	+ 7.8 + 13.5	+ 2.6 + 7.9	$+ 4\frac{1}{2} + 10$
Gross national product	52 091	+ 4.9 + 11.8	+ 1.4 + 8.1	+ 3½ + 9½
Imports <sup>3</sup>	9 340	+ 17.5 + 22.4	+ 0.5 + 7.4	$+ 9\frac{1}{2} + 12$

- <sup>1</sup> Relazione generale sulla situazione economica del Paese (1971).
- <sup>2</sup> Estimates.
- <sup>8</sup> Goods, services and factor income.
- 4 At 1963 prices.
- <sup>5</sup> At preceding year's prices.

### Note.

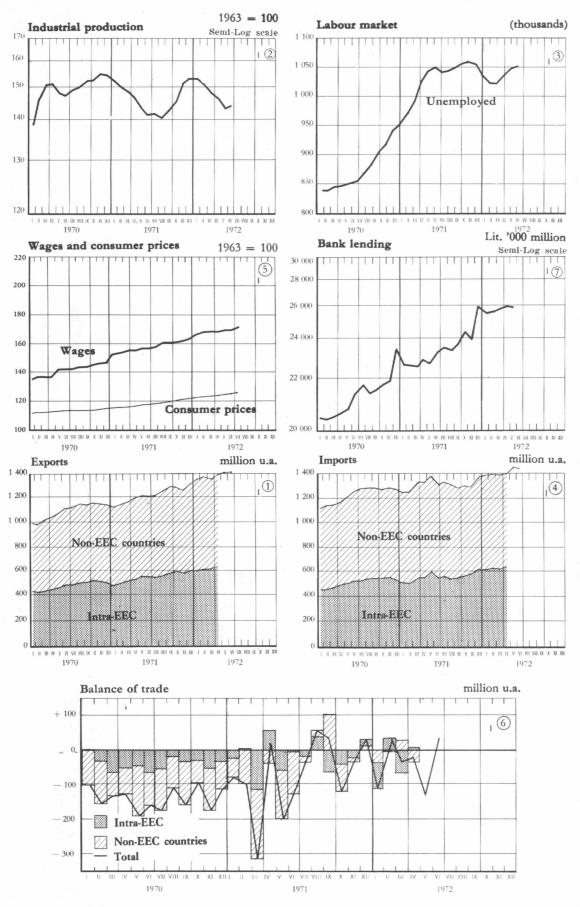
(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks. (b) The estimates are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They are established and published on the sole responsibility of the Commission.

to be produced by the wage negotiations, are the improvement in the psychological climate which, though by no means very pronounced yet, has been coming about for some time past; the favourable outlook for the trend of export and domestic demand; the increasingly inescapable pressure to rationalize the production apparatus in order to be able to stand up to foreign competition; the ample supply of credit; and last but not least the stimuli that will be provided by the exemption from turnover tax applicable to investments since May.

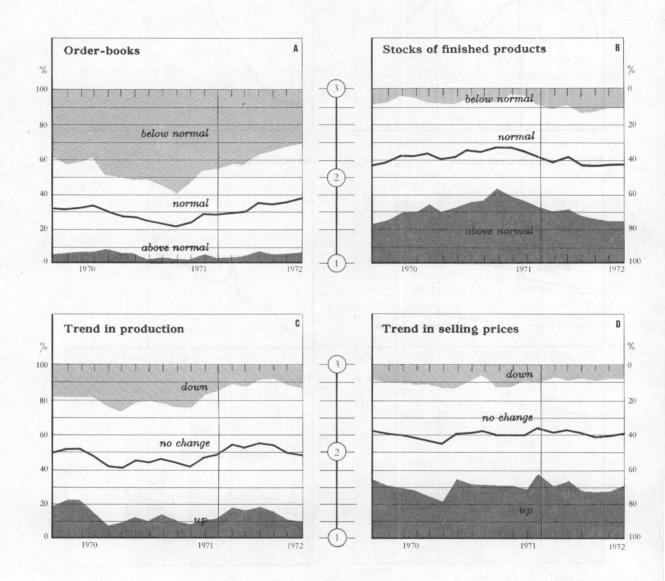
Private consumer's expenditure, too, is likely to grow for a number of reasons, including in particular the recent increase in pensions, the rise in wages and salaries that the wage negotiations are expected to bring, and the tendency to make certain purchases ahead of the impending introduction of value added tax.

There is a danger that the upward movement of prices will accelerate although the insufficient degree of utilization of manpower and plant capacity should normally permit fairly strain-free satisfaction of rising demand, even under the working conditions that have prevailed for several years. This is because the more buoyant expansion of demand may prompt entrepreneurs to put up prices in order to improve their profits, which have been severely eroded by the cost increase of the past few years and will be squeezed further as a result of the impending wage negotiations. The change-over to value added tax could lead to additional price adjustments even though some consumer goods

# **ECONOMIC INDICATORS**



# BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

previously exempt from turnover tax will benefit from an arrangement under which the proposed new tax rates will be phased in over fairly long periods.

## Major economic policy measures

## April

- (1) With effect from 10 April the discount rate and the rate for advances against securities were again lowered (from 4.5% to 4% and from 4% to 3.5% respectively); the surcharge of a maximum of 1.5 percentage points, payable in certain cases since 1969 but in practice hardly applied for some considerable time, was maintained. At the same time the maximum periods for time deposits held by the banks with the Banca d'Italia were reduced from six months to eight days, and the interest payable on these deposits lowered from 2.75% to 1%.
- (2) At the end of the month the Council of Ministers of the European Communities agreed to authorize Italy to postpone the introduction of the VAT system until 1 January 1973. The Italian Government in return undertook to make further cuts, with effect from 1 July 1972, in the rates of compensatory tax on imports and the rates of refund on exports, provided these rates exceeded 4%, with the cuts ranging from 10 to 15% depending on the level of the rates.
- (3) Towards the end of the month the Government tabled a bill putting up pensions from 1 July; this included in particular an increase of some 20% in minimum pensions for wage and salary earners and a 50% increase in social security pensions, which are payable to all citizens of 65 and over who have no claim to other pensions or assistance. With effect from the same date the minimum pensions for the self-employed (craftsmen etc.) were put up by 21.5%, as part of the gradual alignment on wage and salary earners' pensions decided upon in April 1969. These measures are liable to entail a considerable increase in the public authorities' deficit.

## May

(1) The maximum period allowed for advance payments in respect of imports of goods and services was extended to 90 days as from 20 May,

- following a reduction to 30 days in February 1972 to improve the pattern of leads and lags. (At the beginning of January 1971 the maximum period allowed for the deferred payment of exports had already been extended from the 120 days applicable since February 1970 to 360 days).
- (2) Towards the end of the month a decree law was issued which among other things postponed the entry into force of value added tax from 1 July 1972 to 1 January 1973 and laid down reduced rates for the compensatory tax on imports and the refunds on exports with effect from 1 July. As a transitional measure it also introduced tax concessions in respect of investments made between 26 May and 31 December 1972: investment in plant and machinery (or purchases of goods and services needed for the manufacture of plant and machinery) and, to promote stockbuilding, part of the purchases of goods by industrial firms, by wholesalers and by retailers (2%, 5% and 10% respectively) were exempted from turnover tax (IGE). In addition, tax concessions were granted, under certain conditions, where capital gains realized by companies selling part of their assets were reinvested in plant and machinery within two The gross shortfall in government revenue in 1972 resulting from these tax concessions was put at Lit. 240 000 million.

### Tune

- (1) With the lira under pressure as a result of the sterling crisis, the Council of Ministers of the European Communities on 25 June authorized the Banca d'Italia to intervene for a time in dollars in order to maintain the intra-Community spread of 2.25%.
- (2) With effect from 27 June lira banknotes may no longer be credited to the accounts of foreign banks. This measure is intended to help stem illegal exports of capital.

### Tuly

(1) At the beginning of the month, the tax concessions in respect of certain petroleum products were extended until the end of September for reasons of price policy. The periods within which work on certain types of housing must be started and completed in order to qualify for tax concessions were extended. The arrangements under which the Government takes over

part of the social security contributions payable by small and medium-sized industrial firms and craft enterprises were extended for one year.

- (2) At the beginning of the month a number of US banks granted IMI, the state-controlled financial institute, a loan of \$250 million, and negotiations were held on an additional loan of the same size. The rate of interest is variable and is to move 0.75 percentage points above the interest rate ruling on the short-term Eurodallar market in London.
- (3) Having incorporated some amendments, Parliament at the end of the month approved the decree law on taxation issued in May (see above). The amendments relate in particular to the date for the entry into force of the proposed new direct taxes (1 January 1974 instead of 1 January 1973; an appreciable increase in the current tax-free allowances for the calculation of income tax (richezza mobile) for 1973; application of a lower rate of VAT to foodstuffs at present exempt from turnover tax.
- (4) Towards the end of the month the Government tabled a number of bills which, besides providing for additional investments in the railways, introduce in particular improvements in social security benefits for agricultural workers, unemployed persons and workers on short-time, and include new tax and credit measures for the benefit of enterprises wishing to reorganize and restructure or change over to some other production.
- (5) The draft budget for 1973 was submitted to Parliament on 31 July. Revenue, excluding proceeds from loans floated, is to go up by 10.8% (compared with 9.7% in the 1972 budget), and expenditure, excluding redemption of debts, is to grow by 16.6% (compared with 11.5%); the deficit is Lit. 3 054 000 million (as against Lit. 1956 000 million in 1972). The share of current expenditure in total budget expenditure rises further, and the part of Government expenditure to be financed initially outside the budget increases once again (from Lit. 986 000 million to Lit. 1 198 000 million). With these expenditures and the further sharp increase in the deficit of the state-owned enterprises taken into account, the budget deficit comes to Lit. 5 194 000 million (compared with Lit. 3 728 000 million in 1972).

### August

- (1) At the beginning of the month a first tranche of Lit. 400 000 million was transferred to the Cassa per il Mezzogiorno, the infrastructure projects in Southern Italy and the islands to be financed with this amount having been approved as "special projects" by CIPE, the Inter-Ministerial Committee for Economic Programming.
- (2) Towards the middle of the month the Government decided to restructure telephone rates with effect from 1 October 1972. According to the Ministry for Telecommunications this will entail an average increase of 5% in telephone costs.
- (3) Towards the middle of the month the Banca d'Italia authorized certain commercial banks, previously allowed to engage in short-term lending only, to grant up to 8% of their total deposits for periods of between 18 months and 5 years in order to cope with the growing demand from small firms for this type of finance.
- (4) Towards the end of the month, Parliament decided to extend the measures to stimulate activity in residential construction until 31 December 1975.

## September

- (1) At the beginning of the month the Finance Minister decided to exempt bonds issued by IRI (Institute for Industrial Reconstruction) and by some other public enterprises, from all inheritance tax.
- (2) On 11 September Italy's partners in the Common Market agreed to extend until the end of 1975 the agreement of 25 June under which the Banca d'Italia may intervene in dollars to maintain the intra-Community spread of the lira.
- (3) Towards the middle of the month the Government set up a committee of ministers to look after consumer affairs, for example by taking measures to inform and advise consumers. To combat the upward thrust of prices, the Government tabled a bill under which easier credit is to be granted to finance mergers, take-overs, etc. in the distributive trades in order to step up productivity in that sector.

TABLE 1: Key indicators

	1967	1968	1969	1970	1971	1971				
			hange by vo			Indices 1963 = 100				
Gross national product	+ 6.8	+ 6.4	+ 5.7	+ 4.9	+ 1.4	144.3				
Industrial production	+ 8.7	+ 9.4	+ 6.9	+ 6.2	- 1.3	150.3				
Total imports	+ 12.7	+ 7.3	+ 21.6	+ 17.5	+ 0.5	170.7				
Private consumers' expenditure	+ 7.1	+ 4.9	+ 6.1	+ 7.8	+ 2.6	188.8				
Public current expenditure on goods and services	+ 4.3	+ 4.1	+ 3.1	+ 1.9	+ 4.2	132.2				
Gross fixed asset formation	+ 11.8	+ 9.7	+ 8.0	+ 3.4	- 4.9	115.9				
Total exports	+ 6.7	+ 15.3	+ 13.6	+ 6.6	+ 6.5	241.0				
Gross national product per head of population	+ 6.0	+ 5.8	+ 5.1	+ 4.2	+ 0.7	133.9				
Gross national product per person in employment	+ 5.7	+ 6.7	+ 7.0	+ 4.7	+ 1.7	148.9				
		% change by value on preceding year								
Gross income per employee	+ 8.5	+ 7.4	+ 7.6	+ 15.1	+ 12.9	212.6				

TABLE 2: Indicators for internal and external equilibrium

	1967	1968	1969	1970	1971
Balance exports less imports					
in million u.a.	+ 1 235	+ 2 288	+ 1 928	+ 582	+ 1 597
as percentage of GNP	+ 1.8	+ 3.0	+ 2.3	+ 0.6	+ 1.6
Unemployment rate	3.5	3.5	3.4	3.1	3.1
consumer prices (% change on preceding year)	+ 2.9	+ 1.5	+ 2.9	+ 5.3	+ 5.2

# Italy

TABLE 3: Foreign trade (at current prices)

		% change	on prec	eding yea	ır	Indices 1963 = 100	Million u.a.	% of totals
	1967	1968	1969	1970	1971	1971	1971	1971
Visible exports Total Intra-EEC To non-EEC countries	+ 3.3	+ 17.0 + 20.9 + 14.5	+ 22.2	+ 13.6	+17.9	297 373 255	14 974 6 688 8 286	100.0 44.7 53.3
Exports of food, beverages and tobacco Total Intra-EEC To non-EEC countries	+ 4.7 - 1.7 + 12.4	- 3.7 - 1.3 - 6.1	$\begin{vmatrix} + & 15.6 \\ + & 21.4 \\ + & 9.3 \end{vmatrix}$	+ 9.2 + 5.7 + 13.4	$+\ 16.2 \\ +\ 24.9 \\ +\ 6.3$	185 223 151	1 276 727 549	8.5 4.8 3.7
Exports of raw materials, fuel and power Total Intra-EEC To non-EEC countries	+ 15.9	$\begin{array}{c c} + 14.1 \\ + 14.7 \\ + 13.7 \end{array}$	- 2.0	+ 9.6	+15.0	246 330 215	1 163 421 742	7.8 2.8 5.0
Exports of semi-finished and finished industrial goods Total Intra-EEC To non-EEC countries	+ 3.2	$\begin{array}{c c} + 20.0 \\ + 25.4 \\ + 16.7 \end{array}$	+24.9	+ 15.0	+ 17.3	323 414 275	12 535 5 540 6 995	83.7 37.0 46.7
Visible imports Total Intra-EEC From non-EEC countries	+ 12.9 + 21.5 + 8.8	+ 4.3 + 9.1 + 1.8	+ 21.4 + 29.9 + 16.6	+27.4	+ 9.3		15 830 6 716 9 114	100.0 42.4 57.6
Imports of food, beverages and tobacco Total Intra-EEC From non-EEC countries	+ 26.6	$\begin{array}{c c} + & 8.5 \\ + & 29.0 \\ + & 0.9 \end{array}$	+ 26.8	+ 20.9	+ 32.4	227 523 162	3 009 1 257 1 752	19.0 7.9 11.1
Imports of raw materials, fuel and power Total Intra-EEC From non-EEC countries	+ 13.7 + 14.2 + 13.6	+ 1.0 - 3.0 + 1.7	+ 13.0 + 20.6 + 11.8	+16.6	+ 4.2	196 228 192	5 089 728 4 361	32.2 4.6 27.6
Imports of semi-finished and finished industrial goods Total Intra-EEC From non-EEC countries	$+\ 18.8 \\ +\ 22.3 \\ +\ 14.5$	+ 8.6 + 8.1 + 9.2	+ 31.0 + 32.4 + 29.0	+ 30.8	- 0.5 + 5.2 - 8.3	213 247 176	7 731 4 731 3 000	48 8 29.9 18.9

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970 1971 1972	149.0 147.5 150.4	150.5 147.3 147.8	148.7 144.3 142.9	148.1 139.9 143.8	146.0 141.2 147.3	146.7 141.5 147.9	152.4 141.9 144.8	153.9 143.3	152.6 146.8	152.7 150.1	158.0 157.2	150.7 151.9
Unemployed (1 000)	1970 1971 1972		838.4 1 012.7 1 043.6		850.3 1 045.8 1 057.5	859.5 1 044.6 1 060.0	866.6 1 047.2 1 063.1		896.1 1 036.0	918.4 1 049.8	929.5 1 042.5	958.4 1 042.2	964.8 1 028.2
Construction: permits for residential construction (1 000)	1970 1971 1972	26.0 24.5 25.0	24.1 23.6 25.4	24.1 24.3 28.3	24.8 27.0 26.9	24.9 24.4	24.3 28.4	23.7 27.8	20.9 25.5	22.6 23.3	23.8 25.2	23.5 31.4	32.8 51.2
Private consumers' expenditure: department store turnover (1963 = 100)	1970 1971 1972	186.4 200.6 205.1	181.9 199.4 225.2	196.4 195.4 235.1	173.8 210.8 190.1	170.9 198.2 221.4	196.3 192.8	192.6 196.7	196.6 195.5	194.6 219.5	212.4 208.4	190.4 213.7	198.5 207.0
Consumer prices (1963 = 100)	1970 1971 1972	125.1 131.8 138.0	126.1 132.3 138.7	126.6 132.8 139.1	127.2 133.2 139.4	127.7 134.0 140.6	128.0 134.1 141.4	128.2 134.5 141.9	$128.4 \\ 134.7 \\ 142.8$	129.2 135.6	129.8 136.9	130.8 136.9	131.2 137.4
Visible imports (million u.a.)	1971	1 228.1 1 218.9 1 374.4	1 335.9	1 490.5	1 174.4	1 417.7	1 283.5		1 318.5				
Visible exports (million u.a.)	1971	1 084.4 1 114.6 1 273.7	1 211.7	1 180.3	1 196.6	1 255.6	1 156.2		1 326.7				
Balance of trade (million u.a.)	1970 1971 1972	- 143.7 - 104.3 - 100.7	$-164.1 \\ -124.2 \\ +10.2$	- 131.5 - 310.2 - 46.5	$ \begin{array}{r} -124.9 \\ +22.2 \\ -18.3 \end{array} $	- 162.1	- 127.3	- 179.2 - 4.8 (- 61 7)	+ 8.2		- 70.6 - 109.9		- 93.6 + 61.7
Official gold and foreign exchange reserves (Lit. '000 million)	1970 1971 1972	2 786 3 532 3 880	2 465 3 648 3 840	2 467 3 746 3 789	2 452 3 855 3 750	2 730 3 807 3 758	2 646 3 746 3 663	2 582 3 760 3 701	2 641 4 039 (3 830)	2 757 4 125	2 985 4 104	3 065 3 974	3 295 3 884
Money supply (Lit. '000 million)	1970 1971 1972	23 839 30 416 35 742	24 122 30 120 35 597	24 689 30 534 36 266	24 896 31 007 36 995	25 538 31 455 37 392	26 117 32 084 37 686	26 522 32 545	26 660 32 531	27 247 33 138	27 811 33 547	28 452 33 883	31 108 36 905

#### NOTES TO GRAPHS AND TABLES

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

### Graph 1

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

#### Graph 2

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

#### Graph 3

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

## Graph 4

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

#### Graph 5

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

### Graph 6

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

#### Grath 7

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

### Table 1

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

GNP at market prices.

Industrial production: value added by industry at factor cost.

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

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

## Table 2

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

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

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

### Table 3

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

### Table 4

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

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

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

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

Consumer prices: unadjusted index.

Imports cif, exports fob, adjusted for seasonal variations.

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

Official gold and foreign exchange reserves (net); source Ufficio Italiano dei Cambi; position at end of month. Gold and gold assets assimilated to gold continue to be calculated on the preceding parity.

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

		·	

# D. Netherlands

## 1. Recent developments

The tendency for economic activity in the Netherlands to recover, apparent since the end of 1971, has probably slowed down a little in recent months. Inflationary strains have still been very heavy although productivity gains have resumed a more vigourous upward movement.

This temporary slowdown in economic activity appears to have been due mainly to the fall-off in the growth of export demand. All in all, the value of visible exports in June-August was 6.8% higher than a year earlier.<sup>1</sup>

Import demand, which had been growing at a faster pace since the end of 1971, also appears to have been somewhat less buoyant. Gross fixed asset formation, too, may have had an inhibiting effect. The announcement that from 1973 investment would be completely exempt from value added tax has, if anything, curbed the propensity to invest of enterprises, sluggish though it had been already. Expenditure on residential construction, by contrast, expanded slightly faster, while the tendency for public investment to decline has slackened a little, not least as a result of the programme to reduce unemployment. At the same time the expansion of private consumers' expenditure appears to have slowed down, owing to the growth propensity of households to save since April. The increase in wage incomes was still very sharp; since the beginning of the year, wages per worker have been rising at an annual rate of some 12½%. Although total employment declined further, transfer incomes continued to climb considerably, and in mid-year the "wobble" tax, or fiscal regulator, was lowered from 5% to 3%. Public current expenditure on goods and services also maintained its rapid growth.

Domestic supply and particularly activity in building and construction reflected the slower movement of demand. According to the CBS index, industrial production in the second quarter was nevertheless still some 9% higher than a year earlier. The growth of imports has likewise tended to weaken since April. In June-August, imports were only 0.8% higher in terms of value than a year earlier. <sup>2</sup>

The deterioration in the situation on the labour market has eased off since the spring as the fall in the number of unfilled vacancies and the rise in unemployment have slowed down appreciably. In August, the unemployment rate stood at 2.7%.

The price climate has remained very unfavourable in recent months. Wholesale prices have been rising again since the middle of 1972, and consumer prices have maintained their very distinct upward movement, owing mainly to an unusually sharp increase in the price of services. In August, the consumer price index was 7.4% higher than a year earlier.

The less lively expansion of exports, coupled with a comparatively moderate fall in imports, led to a distinct slowdown, if not halt, in the vigorous tendency towards improvement of the trade account and also in the progress of the external balance of goods and services. overall balance of payments in the first half-year closed with a surplus of more than Fl. 1 600 million, despite the deficit on long-term private capital transactions. The heavy inflow of shortterm capital resulting from the speculation in sterling was reflected in a sharp rise in official gold and foreign exchange reserves; after climbing by Fl. 1 800 million in the first half-year already, they expanded by a further Fl. 1 600 million in July alone.

While public sector transactions in the second quarter had a less expansionary influence than a year earlier, domestic liquidity maintained its rapid growth owing to the balance of payments trend and the acceleration in the increase of short-term bank lending to business and private customers. At the end of June, the rise in the money supply over a year earlier was 18.5%, or some 11% if near-money is included.

The ample supply of liquidity was reflected in decidedly weak interest rates on the money markets.

Excluding deliveries to the Belgo-Luxembourg Economic Union.

<sup>2</sup> Excluding purchases from the Belgo-Luxembourg Economic Union.

	19691	19'	70¹	19	711	197	<sup>'</sup> 2²
	At current prices (in F1.		% c	hange on j	preceding	year	
	million)	Volume	Value	Volume	Value	Volume	Value
Exports <sup>3</sup>	49.70	+ 13.2	+ 18.9	+ 11.2	+ 13.2	+ 9	+ 10½
Gross fixed asset formation	24.80	+ 7.8	+ 16.7	+ 2.0	+ 12.4	- 3½	+ 4
Public current expenditure on goods and services	16.57	+ 4.8	+ 13.9	+ 3.5	+ 17.7	+ 2	+ 11½
Private consumers' expenditure	59.49	+ 7.3	+ 12.1	+ 3.1	+ 11.2	+ 4½	+ 12
Gross national product	103.82	+ 5.9	+ 11.6	+ 4.2	+ 12.4	+ 4	+ 12½
Imports <sup>3</sup>	49.26	+ 15.1	+ 22.5	+ 6.7	+ 11.4	+ 6½	+ 6½

<sup>&</sup>lt;sup>1</sup> Centraal Planbureau; C.P.B.

#### Note

- (a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
- (b) The forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They are established and published on the sole responsibility of the Commission.

### 2. Outlook

Many indications are that demand will continue to pick up a little in the months ahead, with the main boost probably coming from exports, private consumers' expenditure, and investment by the public authorities. The conditions for better domestic equilibrium appear to remain exeedingly insecure.

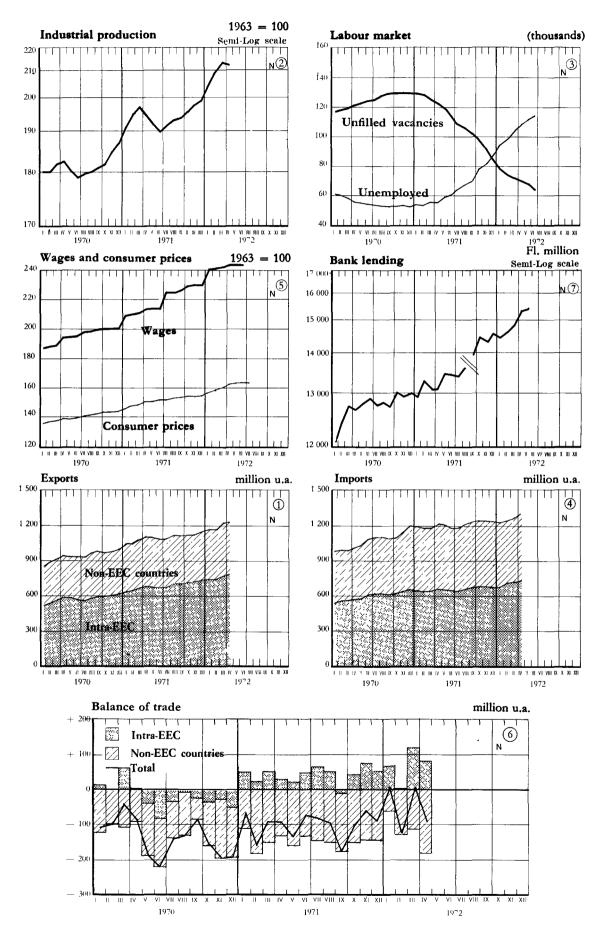
Exports from the Netherlands will probably expand quite considerably, thanks to the trend of export demand which is thought to be more favourable than expected originally, and especially as a result of the greater vigour of demand from the other Community countries. The volume of supply available for export and the dynamism of the export industries should be sufficient to offset at least part of the loss of competitiveness resulting from the comparatively sharp surge in production costs.

With the trend of exports firmer and profit margins widening slightly, the prospensity of enterprises to invest may improve in some sectors, especially after 1 January 1973, when the investments will be made that had been postponed pending the definitive removal of value added tax on capital spending. Another reason why gross fixed asset formation generally will probably expand appreciably in the months ahead is that investment plans will remain expansionary in residential construction and are picking up in the public sector. Private consumers' expenditure is also likely to resume a buoyant trend as households drop some of the caution they had exercised in spending. Incomes will continue to climb considerably, especially as a result of the almost general linking of wages and transfer incomes to the cost of living, and because of some increase in economic activity.

<sup>&</sup>lt;sup>2</sup> Forecasts.

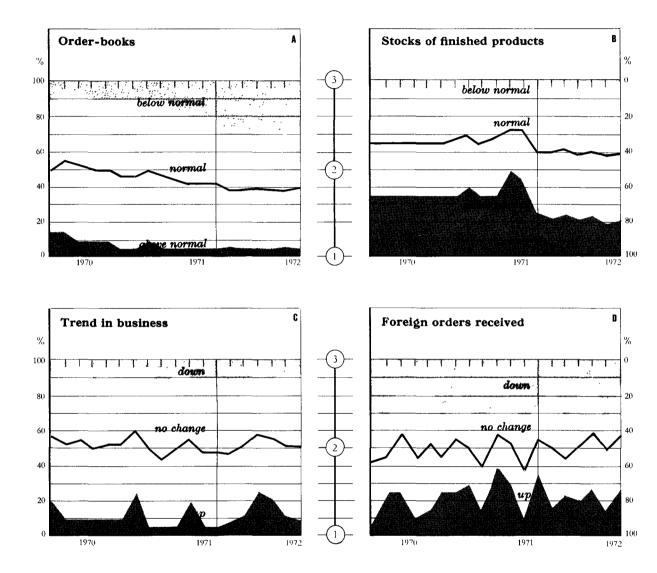
<sup>&</sup>lt;sup>3</sup> Goods, services and factor incomes.

# **ECONOMIC INDICATORS**



### **Netherlands**

# BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

 ${\bf Note: The \, survey \, includes \, construction \, but \, not \, paper, \, petroleum, \, non-metallic \, minerals.}$ 

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

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

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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".
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The faster expansion of demand suggests that the trend of domestic supply will be comparatively favourable in the months ahead and will, for the time being, not be inhibited by any significant bottlenecks in production.

In the next few months and probably also in 1973 there is nevertheless an unusually great danger that the upsurge in wages and prices will continue at an unduly rapid pace and that in structural terms the external balance of goods and services will remain insufficient.

In view of the threat to the competitive position of the country and to jobs, the Government and both sides of industry are endeavouring to eliminate this danger. However, joint efforts in this direction can be successful only if all other economic policy instruments are being used with the same objective in mind.

### Major economic policy measures

### April 1972

- (1) Controlled rents were put up by 6%.
- (2) The Economics Minister asked the Economic and Social Council (SER) to deliver an opinion on a bill on the selective regulation of corporate investment.
- (3) The Minister of Residential Construction and Regional Planning informed Parliament of the rents and rent subsidization policy to be pursued until 1975. The Economic and Social Council was asked to deliver an opinion on the subject.
- (4) The rules on the floating by non-residents of medium-term loans denominated in guilders through channels other than the stock exchange were eased.
- (5) With effect from 26 April 1972 the Nederlandsche Bank removed the restrictions, suspended since March 1972, on the expansion of short-term bank lending to the regional and local authorities.

# May

(1) Central financing of the local authorities through the Bank van Nederlandsche Gemeenten was made somewhat more flexible. From 1 May 1972 the ceiling of Fl. 1 500 million was raised by Fl. 360 million, calculated for the full

- year. This extra amount is earmarked for the purchase and development of land for residential construction.
- (2) Three tax bills were tabled on the encouragement of save-as-you-earn schemes, the grant of a tax-free allowance for property income, and the building up of tax-free old-age reserves by the self-employed.
- (3) The restrictions on consumer credit (personal loans) granted by the financial institutions were extended until 1 October 1972, while the measures taken in 1969 in respect of hire purchase were maintained.
- (4) The Nederlandsche Bank reached agreement with the banks on the raising of the ceiling on long-term export financing from Fl. 250 million to Fl. 400 million.
- (5) The Benelux Convention on the unification of excise duties was signed. From 1 January 1973 all excise duty formalities within the three Benelux countries will be eliminated.
- (6) The Committee of Ministers of the Benelux Economic Union decided to consult each other regularly and exchange views on their countries' budgetary policy in the framework of the budgetary consultations held at the level of the European Communities.

### Tune

- (1) The Nederlandsche Bank asked the commercial and agricultural banks to restrict, in accordance with the rules already in force, the granting of personal loans.
- (2) A bill was tabled to introduce from 1973 a single income tax schedule under which the tax-free allowance is determined exclusively by the composition of the family. Tax rates range from 24% for the first Fl. 10 000 of income net of the tax-free allowance, to 70% for income above Fl. 125 000 net of the tax-free allowance. The income of gainfully employed married women is to be taxed separately. Family allowances will no longer be taken into account in calculating the taxable amount, which implies a reduction in the tax-free allowance for children.

### July

(1) The rate of the "wobble tax", or fiscal regulator, was reduced from 5% to 3% with effect from 1 July 1972.

- (2) From 1 July 1972 the minimum wage and the various social security benefits were raised by 5.75%. The minimum wage is now Fl. 860.60 a month, Fl. 198.60 a week, or Fl. 39.72 a day.
- (3) A second programme to combat rising unemployment was announced officially. Under this programme, a total or Fl. 606 million is to be spent in two stages: Fl. 431 million immediately, and Fl. 175 million in September if warranted by the outlook for the unemployment trend in 1973.
- (4) With effect from 1 July a levy was introduced on fuel causing air pollution.
- (5) Tabling of a bill to regulate financial transactions with abroad.
- (6) Special depreciation for sea-going vessels, temporarily suspended, was reintroduced with effect from 15 July 1972.
- (7) Faced with new speculative inflows of capital, the Nederlandsche Bank took the following measures with effect from 17 July 1972:
- (a) In the absence of authorization from the Central Bank, loans raised by residents to finance the import of goods may no longer exceed the periods customary in the sector concerned;
- (b) In the absence of authorization from the Central Bank, residents may no longer accept advance payment for exports of goods where such payment is not customary in the sector concerned; customary advance payments that total more than Fl. 250 000 must be notified to the Bank;
- (c) The Central Bank as a matter of principle no longer grants authorization for the raising by residents of financial loans abroad, not even for long-term intragroup loans.
- (8) Tabling for a bill amending the unemployment act and the unemployment insurance act and providing for the payment of an extra allowance to any person taking up work for which the pay is lower than the daily wage on the basis of which the unemployment benefit is calculated, or would have been calculated if that person had had a right to unemployment benefit had the work not been taken up.
- (9) With the growth in tax revenue expected to be structurally weaker in the years ahead, the Minister of the Interior informed the local

authorities that in 1973 and the following years the allocations from the local authorities fund would likewise rise at a weaker rate than hitherto.

# August

- (1) Tabling of a bill extending the investment allowance for sea-going vessels, currently 5% a year for a period of two years, to 5% a year for a period of five years, with effect from 15 June 1972.
- (2) With effect from 24 August 1972 the obligation to obtain a building permit was abolished, except for building projects of enterprises involving a cost of more than Fl. 100 000 and carried out in the provinces of Noord-Holland, Zuid-Holland and Utrecht.
- (3) Tabling of a bill concerning the adoption and implementation of the Benelux Convention on the unification of excise duties.

## September

- (1) A number of postage rates were put up considerably from 1 September 1972.
- (2) On 6 September the Nederlandsche Bank decided to reintroduce the minimum reserve system under which commercial banks, agricultural credit banks and the Post Office are required to hold interest-free minimum reserves with the Central Bank; this system had already been in force from 22 March 1954 to 22 September 1963.
- (3) On 7 September the Government decided to implement phase two, announced in June, of the work procurement programme, under which the eight provinces excluding the Holland conurbation are to receive Government contracts worth Fl. 175 million.
- (4) The Nederlandsche Bank from 8 September lowered its interest rates by one percentage point, reducing the discount rate to 3% in the third cut this year.
- (5) On 8 September the Nederlandsche Bank fixed the minimum reserve ratio introduced on 22 September at 2% of deposits.
- (6) On 22 September the Government tabled the budget estimates for 1973. Government expenditure in 1973 is to rise by 11.6% to

Fl. 43 100 million, and Government revenue by 10.6% to Fl. 40 100 million. The budget deficit is estimated at Fl. 2966 million, compared with an expected deficit of Fl. 2354 million in the current year. The Government proposed a number of amendments to tax legislation: recasting of the excise duty system in compliance with the Benelux Convention; abolition of value added tax on investment (1972: 4.62%); increase in value added tax rates (from 14% to 16% and from 4% to 5%); increase in the special excise duty on passenger cars from 15% to 17%; lowering of the counter-cyclical surcharge from 4% to 0%; introduction of a new wage and income tax scale; partial adjustment

of wage and income tax for the effects of inflation; increase in the rate of corporation tax from 46% to 48%; increase in the rate of wealth tax from 0.6% to 0.7%; increase in motor vehicle tax. The tax burden is to fall by 0.2 points to 29.6%, while the share of social security contributions is to go up by one percentage point to 18.2%, with the result that the total burden on national income will increase from 47.0% to 47.8%.

### October

Railway passenger fares were raised by an average of 10% from 1 October.

# Netherlands

TABLE 1: Key indicators

	1966	1967	1968	1969	1970	1970				
		% change by volume on preceding year								
Gross domestic product	+ 5.5	+ 7.1		+ 6.3	+ 4.5	159				
Industrial production	+ 5.5	+ 10.5	+ 8	+ 7.5	+ 6	180				
Total imports	+ 6.3	+ 13.0	+ 14.2	+ 13.9	+ 6.0	217				
Private consumers' expenditure	+ 5.2	+ 6.9		+ 7.4	+ 3.0	157				
Public current expenditure on goods and services	+ 2.9	+ 2.4		+ 5.8	+ 13.6	126				
Gross fixed asset formation	+ 8.1	+ 11.0		+ 8.3	+ 1.7	174				
Total exports	+ 6.9	+ 13.0	+ 15.5	+ 12.0	+ 11.0	222				
Gross domestic product per head of population	+ 4.3	+ 6.0		+ 5.0	+ 3.3	145				
Gross domestic product per person in employment	+ 5.0	+ 6.1		+ 5.2	+ 4.0	148				
Gross income per employee	+ 9.2	+ 8.7	· _ ·	+ 11.7	+ 13.4	246				

 $TABLE\ 2$ : Indicators for internal and external equilibrium

	1	967	1	968	1	969	1	970	1	971
Balance exports less imports										
in million u.a.	+	23	+	158	+	121	-	345	_	77
as percentage of GNP	+	0.1	+	0.6	+	0.4	_	1.1	_	0.2
Unemployment rate		2.0		1.9		1.4		1.2		1.5
prices to private consumers (% change on preceding year)	+	3.4	+	2.5	+	6.5	+	4.5	+	8.0

TABLE 3: Foreign trade (at current prices)

		% chang	e on prec	eding yea	ır	Indices 1963 = 100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports Total Intra-EEC To non-EEC countries	+ 5.0 + 5.3 + 6.0	3 + 7.9 3 + 6.7 9 + 9.4	+ 14.5 + 19.7 + 8.2	+ 19.6 + 25.1 + 12.1	+ 18.3 + 22.0 + 12.7	238 276 193	11 789 7 312 4 478	100 62.0 38.0
Exports of food, beverages and tobacco Total Intra-EEC To non-EEC countries	+ 0.3 - 0.5 + 1.6	$\begin{vmatrix} + & 9.9 \\ + & 9.6 \\ + & 10.5 \end{vmatrix}$	+ 15.9  + 22.1  + 6.1	+ 15.4 + 19.6 + 7.8	$+\ 18.5 \\ +\ 22.8 \\ +\ 9.8$	216 264 153	2 738 1 902 836	23.2 16.1 7.1
Exports of raw materials, fuel and power Total Intra-EEC To non-EEC countries	I- 0.	7 + 10.7	$\left  egin{array}{l} + 12.8 \\ + 22.5 \\ + 1.7 \end{array} \right $	+ 26.0	$+\ 31.8 \\ +\ 34.8 \\ +\ 27.2$	232 265 192	2 164 1 353 811	18.4 11.5 6.9
Exports of semi-finished and finished industrial goods Total Intra-EEC To non-EEC countries	+ 9.3 + 9.6 + 9.6	$\begin{vmatrix} + & 6.6 \\ + & 4.5 \\ + & 9.0 \end{vmatrix}$	+ 14.4 + 17.8 + 10.6	+ 21.1 + 27.5 + 13.4	+ 14.5 + 17.9 + 10.0	254 291 215	6 887 4 057 2 831	58.4 34.4 24.0
Visible imports Total Intra-EEC From non-EEC countries	+ 8.7	$\begin{vmatrix} + & 4.0 \\ + & 5.0 \\ + & 2.9 \end{vmatrix}$	+ 11.5 + 13.2 + 9.5	+ 17.3 + 19.2 + 15.0	+ 23.0 + 22.1 + 24.1	224 243 205	13 395 7 484 5 911	100 55.9 44.1
Imports of food, beverages and tobacco Total Intra-EEC From non-EEC countries	+ 8.8	3 + 22.7	+ 9.7 + 28.1 + 3.2	+ 49.4	+ 5.1	205 405 161	1 686 607 1 079	12.6 4.5 8.1
Imports of raw materials, fuel and power Total Intra-EEC From non-EEC countries	+ 0.9 + 7.7 - 0.9	$\begin{vmatrix} + & 5.2 \\ + & 9.9 \\ + & 3.9 \end{vmatrix}$	+ 8.6 + 4.8 + 9.7	+ 13.8 + 3.0 + 16.9	$+\ 24.3 \\ +\ 7.1 \\ +\ 28.7$	194 155 205	2 747 475 2 272	20.5 3.5 17.0
Imports of semi-finished and finished industrial goods Total Intra-EEC From non-EEC countries	+ 10.4 + 8.8 + 14.7	$\begin{vmatrix} + & 2.2 \\ + & 3.3 \\ - & 0.3 \end{vmatrix}$	+ 12.8 + 12.9 + 12.6	+ 18.1 + 18.1 + 18.1	+ 24.5 + 25.3 + 22.5	248 252 239	8 962 6 402 2 560	66.9 47.8 19.1

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	Мау	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970 1971 1972	180 6 198.6 216.5	179.4 193.8 210.7	181.7 193.2 198.9	180.7 190.5 214.2	179.6 192.5 209.5	177.6 189.5 205.5	187.4 193.2 208.8	178.6 194.5	181,7 194,2	186.2 199.7	186.4 200.1	186.9 194.9
Unemployed (1 000)	1970 1971 1972	59.5 57.5 95.0	58.3 55.0 103.8	55.8 57.1 106.9	55.6 57.9 113.7	56.7 62.0 117.2	56.1 66.0 121.2	53.6 67.0 120.4	54.1 71.1	55.4 76.9	55.7 82.3	54.7 90.1	53.9 92.1
Construction: permits for residential construction (1 000)	1970 1971 1972	10 085 11 932 15 377	10 637 9 582 13 066	10 969 10 212 12 308	9 912 12 406 12 823	10 587 10 324 14 897	11 716 11 564 13 067	15 400 11 910 15 175	11 799 11 059	13 465 11 945	12 110 10 657	9 752 1 204	10 457 12 688
Private consumers' expen- diture: department store turnover (1963 == 100)	1970 1971 1972	209 218	213 233	213 225	213 235	226 233	209 256	228 237	215 271	224 242	244 253	203 242	239 251
Consumer prices (1963 = 100)	1970 1971 1972	136.6 145.3 157.7	137.9 147.4 158.9	139.3 148.5 160.3	139.9 150.4 162.5	139.8 150.8 162.9	140.5 151.3 163.3	$140.9 \\ 151.7 \\ 162.8$	142.3 153.0 164.0	143.3 154.3	143.8 155.7	143.8 155.5	143.9 156.4
Visible imports (million u.s.)	1970 1971 1972	1 002 1 103 1 163	1 053 1 232 1 302	993 1 284 1 339	1 079 1 201 1 276	1 125 1 171 1 267	1 137 1 215 1 301	1 146 1 193 1 165	1 111 1 243	1 117 1 313	1 108 1 229	1 262 1 238	1 255 1 272
Visible exports (million u.a.)	1970 1971 1972	904 1 048 1 174	944 1 088 1 190	923 1 148 1 312	998 1 111 1 189	932 1 045 1 303	960 1 132 1 272	992 1 113 1 087	969 1 159	1 042 1 139	977 1 132	1 071 1 183	1 068 1 191
Balance of trade (million u.a.)	1970 1971 1972	- 98 - 55 11	- 109 - 144 - 112	- 70 - 136 - 27	- 81 - 90 - 87	- 183 - 126 36	- 177 - 83 - 29	- 154 - 80 - 78	- 142 - 84	- 75 - 174	- 131 - 97	- 191 - 55	- 187 - 81
Official gold and foreign exchange reserves (million u.a.)	1970 1971 1972	2 676 3 339 3 615	2 673 3 529 3 701	2 670 3 543 4 082	2 611 3 394 4 041	2 657 3 540 4 027	2 683 3 492 4 094	2 799 3 476 4 581	2 943 3 488 4 570	2 990 3 585	3 246 3 564	3 242 3 527	3 235 3 568
Money supply (million u.a.)	1970 1971 1972	6 496 7 484 8 681	6 528 7 583 8 755	6 631 7 657 9 338	6 693 7 893 9 539	6 784 8 193 9 706	6 741 7 983	6 901 8 127	7 014 8 127	7 052 8 268	7 120 8 321	7 219 8 336	7 238 8 552

### Netherlands

### NOTES TO GRAPHS AND TABLES

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

#### Graph 1

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

### Graph 2

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

#### Graph 3

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

### Graph 4

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

#### Graph 5

Wages and consumer prices: indices of gross hourly earnings in industry (excluding mining, quarrying and construction); index of agreed wages. Cost-of-living index, source: CBS.

#### Graph 6

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

#### Graph 7

Bank lending: short-term bank loans, not adjusted for seasonal variations; position at end of month.

### Table 1

Source: Nationale Rekeningen 1971, CBS.

GDP at market prices.

Industrial production: value added by industry inclusive construction.

Total exports and imports: goods and services.

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

### Table 2

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

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

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

### Table 3

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

### Table 4

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

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

Construction: seasonally adjusted number of dwellings authorized.

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

Consumer prices: cost of living index, not adjusted for seasonal variations.

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

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

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

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

# E. Belgo-Luxembourg Economic Union

# **Belgium**

## 1. Recent developments

The economy has continued to recover in recent months while the conditions determining domestic equilibrium have if anything tended to deteriorate again.

Export demand maintained its lively growth. Visible exports in June-August were 8.5 % up on a year earlier. In the field of domestic demand, appreciable stimuli were provided by demand from the public authorities and, to a lesser extend, by demand from households. Fixed investment by enterprises, on the other hand, was affected by great caution over the implementation of new programmes. On balance capital spending by enterprises even appears to have declined. Public investment in building and construction, by contrast, went on expanding rapidly, and demand picked up in residential construction, too. The growth of public current expenditure on goods and services gathered The upsurge in disposable incomes, especially wage incomes — in June hourly earnings in industry were some 12% higher than a year earlier—coupled with a slight increase in the propensity to consume, lent additional strength to the expansion of private consumer spending, particularly on certain consumer durables.

Production continued to expand at a fairly brisk pace. In April-June, the INS index of industrial production (excluding building and construction) showed it to be 6.2 % higher than a year earlier. The rate of utilization of plant capacity has improved a little since the beginning of the year. Unemployment, on the other hand, maintained its slight upward tendency; in August, the unemployment rate (seasonally adjusted number of unemployed as a percentage of the civilian labour force) was 2.6%, compared with 2 % at the beginning of the year.

The price trend remained distinctly upward. For consumer prices the pace even accelerated further, with the key probably lying in the impact which the persistent rise in wage costs was having on prices for services, and in the more rapid increase in food prices. In the first

eight months, the consumer price index climbed by 4.3 %. In September, it was 5.4 % higher than a year earlier.

The comparatively rapid growth of exports was reflected in a fresh improvement in the external balance of goods and services, at least on an official cash transactions basis. The overall balance of payments of the Belgo-Luxembourg Economic Union showed a distinct tendency to improve, despite the deficit on capital account due among other things to the slackening of the net foreign exchange inflow in the field of direct investment. In the first eight months, there was surplus of Bfrs. 11 800 million, compared with a surplus of Bfrs. 19 000 million in the corresponding period of the previous year.

With the expansion of bank lending also continuing at a comparatively rapid pace, the money supply rose considerably. At the end of July, it was 11.6 % higher than a year earlier. In June and July the sterling crisis touched off considerable inflows of capital from abroad; under an agreement with the commercial banks, about Bfrs. 10 000 million worth of liquidity inflow from abroad was frozen with the Central Bank at the end of July. Interest rates on the money market have shown a slightly rising tendency while medium- and long-term interest rates have continued to fall a little in recent months.

## 2. Outlook

The business upswing will probably persist in the next few months but the difficulties experienced in controlling the upsurge in costs and prices are, if anything, likely to grow further.

The expansion of exports will probably be sharper than expected originally. Belgian exporters, whose competitive position is still comparatively favourable, should be able to take full advantage of the improvement in the sales prospects on their export markets. The expansion of domestic demand, too, will no doubt gain in vigour. The growth of investment in

## Demand for and supply of goods and services

	19691	19691 19701			711	197	72²
	At current prices (in Bfrs		% c	hange on	preceding	year	
	'000 million)	Volume V	alue	Volume	Value	Volume	Value
Exports <sup>3</sup>	520.9	+ 11.5 +	18.2	+ 8.1	+ 10.1	+ 8	+ 9½
Gross fixed asset formation	240.5	+ 7.4 +	20.4	- 2.8	+ 6.0	+ 2½	+ 10
Public current expenditure on goods and services	159.1	+ 3.1 +	9.6	+ 4.8	+ 14.0	+ 7	+ 14
Private consumers' expenditure	720.2	+ 4.3 +	7.0	+ 4.6	+ 10.5	+ 4½	+ 9½
Gross national product	1 160.0	+ 6.2 +	11.5	+ 3.7	+ 9.6	+ 4	+ 9½
Imports <sup>3</sup>	503.4	+ 8.6 +	14.4	+ 6.2	+ 10.1	+ 9½	+ 11

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

### Note:

- (a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
- (b) The forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They are established and published on the sole responsibility of the Commission.

residential construction, for instance, may strengthen before the end of the year, owing to the boost given by the Government. At the same time the investment climate in the corporate sector may well improve gradually, helped mainly by the rise in the rate of utilization of plant capacity. Private consumers' expenditure likewise will probably expand at a lively pace, particularly since the propensity to consume is also likely to go on rising distinctly as the business upswing gathers speed and the inflationary tendencies persist. Lastly, economic activity will continue to be stimulated in considerable measure by the transactions of the public authorities, despite the need to contain the hitherto particularly rapid increase in the deficit on the Central Government budget.

In the circumstances, the growth of production, especially industrial production, may continue.

The same is true of imports, but with the export outlook favourable, the surplus on goods and services is likely to remain at a high level.

The conditions for better domestic equilibrium will hardly improve in the next few months. In particular, there is reason to fear that the upward thrust of costs will continue to affect domestic prices, with the firmer trend of overall demand making it easier to pass on costs to users and consumers.

## Major economic policy measures

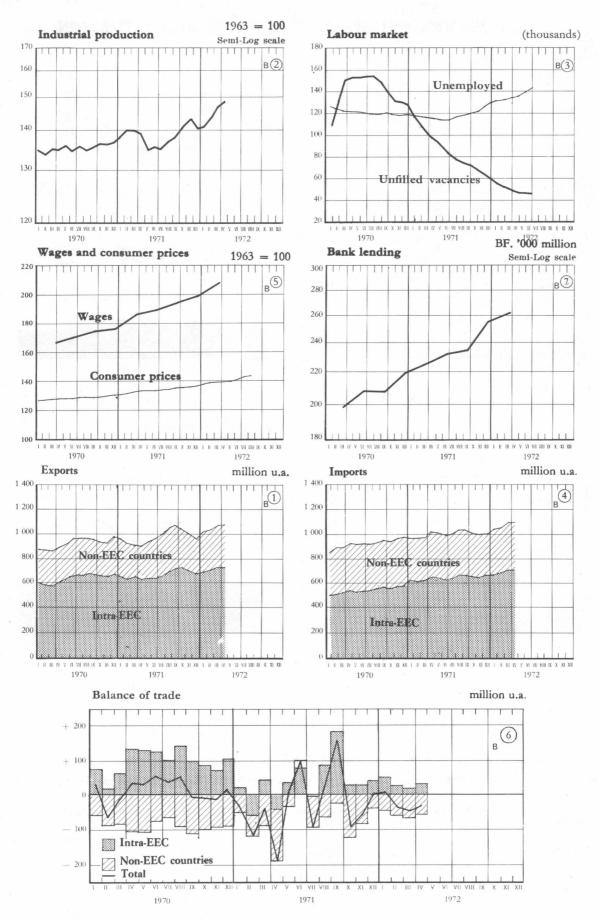
# April:

(1) The salary increases in public administration entered into force; the cost to the public purse in 1972 is estimated at some Bfrs 14 500 million.

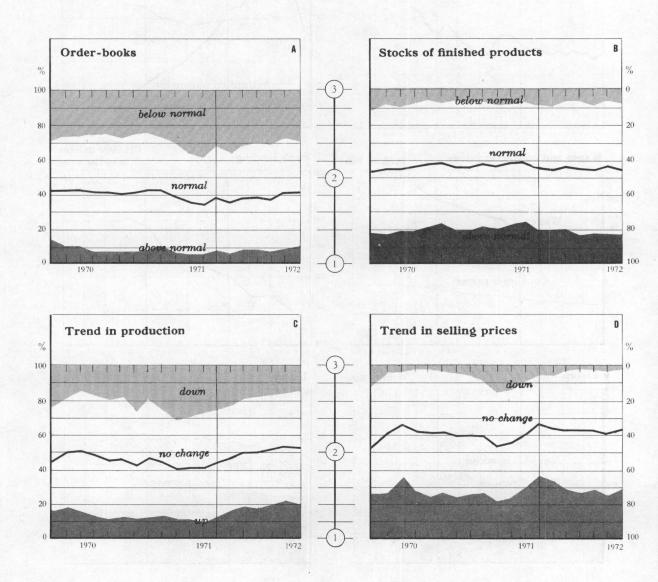
<sup>&</sup>lt;sup>2</sup> Forecasts.

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

# **ECONOMIC INDICATORS**



# BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

by 0.03 for the answer "above normal", or "up";

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

- (2) A counter-cyclical supplement was granted to the premiums for the building, purchase and modernization of dwellings; the building premium payable in respect of applications filed between 1 April and 31 December 1972 was thus raised by a uniform Bfrs. 40 000.
- (3) Hire purchase regulations were relaxed; the statutory minimum deposit was lowered by 15 % and the repayment periods were extended.
- (4) The rules governing the notification of price increases were eased and simplified. Enterprises with a turnover of less than Bfrs. 5 million are no longer required to notify price increases in advance.
- (5) It was decided that in September all beneficiaries of family allowances were to be paid an additional month's allowance.
- (6) As part of the policy to stimulate economic activity, the Caisse Générale d'Epargne et de Retraite increased the funds made available for the construction of publicly assisted housing from Bfrs. 4 000 million to Bfrs. 5 000 million.
- (7) The Belgo-Luxembourg Exchange Institute gave details on the scope of the measures of 9 March 1972 to curb the inflow of capital through banks, which were required in particular to see that their overall foreign exchange position (spot and forward) remained at a moderate level.
- (8) The Government took a number of measures to assist small and medium-sized enterprises: employment premium, export promotion, less stringent application of the laws on expansion, and extension of these laws to small and medium-sized firms in the distributive trades and to hotels and restaurants.

### May:

- (1) Measures were taken to promote the construction, purchase and conversion of medium-sized dwellings.
- (2) The Governments of the Benelux countries concluded a convention on the harmonization of excise duties.
- (3) The Committee of Ministers of the Benelux Economic Union reached agreement on the preparations to coordinate budgetary policies, account being taken of the consultations between the member countries of the European Commu-

nities. Before the end of the second quarter the authorities of the three countries are to examine jointly the main lines for the following year's budgets and to discuss the draft budgets before the end of September.

### June:

- (1) The Office National du Ducroire was authorized to provide cover for exchange risks resulting from exchange rate fluctuations affecting contracts for the export of capital goods to non-member countries where such contracts take more than two years to execute.
- (2) Adoption of a law reducing capital duty from 2.5 % to 2 % and abolishing the stamp duty on subscription to securities.
- (3) Publication of a decree authorizing the grant of additional regional aids, in accordance with the law on economic expansion.
- (4) Postage rates, telephone charges and the prices of bread were raised from 1 June.
- (5) Publication of the law on the 10% surcharge on corporation tax and on the corporation tax payable by foreign companies.

## Tuly:

- (1) An increase in certain railway rates entered into force on 1 July. Ordinary season tickets went up by 10% and passenger fares by 14.75%.
- (2) The old-age pension for the self-employed was raised. From 1 July it is Bfrs. 65 000 for married men and will go up to Bfrs. 70 000 in 1974.
- (3) Publication of the law approving the change in the parity of the Belgian franc, in practice effective since 18 December 1971 (+ 2.75%), and redistributing responsibilities for monetary matters. The right to change the parity of the franc now lies with the Government, which is required to inform Parliament immediately of any such change.
- (4) The Banque Nationale and the Banking Commission concluded an agreement with the Belgian commercial banks under which the latter were to pay part of their convertible Belgian franc deposits into blocked accounts with the Banque Nationale. This measure was designed to siphon off part of the excess liquidity created

in the preceding weeks through massive inflows of dollars. The amount frozen was to come to Bfrs. 10 000 million, or some 25% of the convertible franc deposits lodged with these banks. The agreement contained a special clause to ensure that the assistance given to the public sector by the banks would not be diminished. Furthermore, the Banque Nationale reduced, with effect from 28 July 1972, the upper limits for rediscount and certification from 9 % to 8 % of the banks' funds.

(5) Publication of the law increasing, with effect from 1 April 1972, the tax on slot machines of the type used in amusement arcades, cafés, etc.

### August:

- (1) The amount of interest income from savings deposits that is exempt from personal income tax was raised from Bfrs. 7 500 to Bfrs. 10 000 as from the 1973 budget year.
- (2) The Government approved an order by the Banking Commission amending the rules concerning the banks' own capital.
- (3) Publication of the law approving the "Main Lines of the Plan" (1971-75). The five-year plan for public investment is binding on the authorities and each year must be translated into action through the budget.
- (4) The Government took a number of measures to ensure stricter collection of value added tax in various sectors of the economy.

(5) The Minister of the Interior invited the local authorities to limit their expenditure and finance it from extra tax revenue. Payment of Central Government subsidies will be restricted to such local authorities as have observed certain minimum levels in fixing their taxes.

### September:

- (1) The rate of value added tax applicable to beverages consumed at home (except milk and spirits) was raised from 6% to 14% from 1 September. Radio and television licences were put up by varying amounts retroactively from 1 April.
- (2) The maximum sales value of a house for the purchase of which a government-backed, low-interest loan may be granted, was raised by Bfrs. 100 000, as was the maximum for the loan.
- (3) The tax-free allowance for old-age pensions of households was raised to Bfrs. 85 000 for 1971 and Bfrs. 90 000 for 1972, by means of standard deductions.
- (4) A number of measures were taken in the price field, including the fixing of minimum prices for mineral water sold to the consumer and an increase in cigarette prices.
- (5) To finance part of the expenditure of the Road Fund, the Government decided to put up excise duties on petrol and on other petroleum products from 25 September. This is expected to yield some Bfrs. 4 500 million of extra revenue a year.

TABLE 1: Key indicators

	1967	1968	1969	1970	1971	1971				
		% change by volume on preceding year								
Gross national product	+ 3.9	+ 4.2	+ 7.1	+ 6.2	+ 3.7	146				
Industrial production	+ 2.2	+ 5.5	+ 11.7	+ 6.6	+ 3.0	160				
Total imports	+ 3.5	+ 13.6	+ 15.9	+ 8.6	+ 6.2	201				
Private consumers' expenditure	+ 2.7	+ 5.7	+ 6.2	+ 4.3	+ 4.6	140				
Public current expenditure on goods and services	+ 6.0	+ 3.7	+ 6.3	+ 3.1	+ 4.8	144				
Gross fixed asset formation	+ 2.6	- 2.3	+ 5.6	+ 9.8	- 3.1	140				
Total exports	+ 6.7	+ 13.8	+ 15.9	+ 11.5	+ 8.1	211				
Gross national product per head of population	+ 3.4	+ 3.9	+ 6.8	+ 5.9	+ 3.3	140				
Gross national product per person in employment	+ 4.4	+ 4.2	+ 5.3	+ 4.5	+ 2.7	138				
	% change by value on preceding year									
Gross income per employee	+ 7.4	+ 6.1	+ 8.5	9.7	+ 12.7	199				

TABLE 2: Indicators for internal and external equilibrium

	1	967	1	968	1	969	1	970	1	971
Balance exports less imports										
in million u.a.	+	180	+	197	+	360	+	822		906
as percentage of GNP	+	0.9	+	0.9	+	1.5	+	3.1		3.1
Unemployment rate		2.3		2.8		2.3		1.9		1.9
prices to private consumers (% change on preceding year)	+	2.5	+	2.3	+	2.6	+	2.7	+	5.7

# Belgium

TABLE 3: Foreign trade (at current prices)

		% change	on prec	eding yes	ır	Indices 1963 = 100	Million u.a.	% of totals
	1967	1968	1969	1970	1971	1971	1971	1971
Visible exports Total Intra-EEC To non-EEC countries	+ 3.2	+ 18.5	+29.5	+ 15.2 + 16.9 + 11.6	+ 4.2	250 282 201	12 077 8 286 3 792	100 68.6 31.4
Exports of food, beverages and tobacco Total Intra-EEC To non-EEC countries	+ 25.7	+ 24.6	+27.1	+ 19.6 + 16.9 + 35.3	+ 11.7	348 379 230	1 072 870 201	8.9 7.2 1.7
Exports of raw materials, fuel and power Total Intra-EEC To non-EEC countries	- 3.6	+ 10.8	+ 21.4 + 21.3 + 21.7	+ 4.6	- 5.7	135 138 131	799 495 304	6.6 4.1 2.5
Exports of semi-finished and finished industrial goods Total Intra-EEC To non-EEC countries	+ 1.9	+ 18.7	+ 30.3	+ 15.9 + 17.4 + 12.6	+ 4.5	262 297 208	10 206 6 921 3 287	84.5 57.3 27.2
Visible imports Total Intra-EEC From non-EEC countries	0 - 0.6 + 0.6	+ 14.8	+ 25.3	+ 13.6 + 16.4 + 9.8	+ 18.5	245 295 190	12 537 7 924 4 613	100 0 63.2 36.8
Imports of food, beverages and tobacco Total Intra-EEC From non-EEC countries	+ 11.8	+ 24.0	+ 23.3	+ 17.1 + 20.4 + 13.1	+ 14.7	246 372 167	1 512 886 626	12.1 7.1 5.0
Imports of raw materials, fuel and power Total Intra-EEC From non-EEC countries	- 5.5	+ 17.6	+ 15.3	+ 11.7 + 12.0 + 11.5	+ 16.0	180 204 166	2 516 1 017 1 499	20.1 8.1 12.0
Imports of semi-finished and finished industrial goods Total Intra-EEC From non-EEC countries	- 1.1	+ 13.0	+ 24.2 + 28.0 + 17.9	+ 13.6 + 16.8 + 7.9	+ 12.7 + 19.5 - 1.0	276 311 217	8 495 6 010 2 485	67.8 47.9 19.8

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1970 1971 1972	130.1 141.3 146.1	132.9 140.4 142.1	136.9 135.7 141.9	132.6 138.5 153.5	141.3 131.3 155.1	133.0 138.0 151.0	135.5 138.5 138.7	136.4 135.5	134.6 141.4	137.8 144.9	135.2 139.1	138.2 137.5
Unemployed (1 000)	1970 1971 1972	73.3 69.1 78.6	72.8 67.9 79.0	72.5 67.3 81.2	71.6 67.0 83.0	70.1 67.7 85.0	71.7 69.2 87.9	70.1 71.0 89.5	70.9 72.2 90.6	70.8 72.9	70.3 73.9	69.1 77.0	69.9 76.5
Construction: permits for residential construction (1 000)	1970 1971 1972	3 211 2 731 3 693	3 288 2 048 4 165	2 905 2 267 4 420	3 490 2 101 4 566	2 819 1 971	2 567 2 611	2 567 2 611	2 551 2 855	2 875 2 310	2 530 2 810	2 254 2 873	3 101 2 453
Private consumers' expenditure: department store turnover (1963 = 100)	1970 1971 1972	158 167 186	156 169 195	158 161 203	156 173 183	160 166 192	158 177	164 182	158 181	165 180	179 187	163 180	182 183
Consumer prices (1963 = 100)	1970 1971 1972	126.73 130.81 138.02	127.12 131.83 138.75	127.85 132.39 138.93	128.33 133.07 139.42	128.35 133.40 139.67	128.40 133.68 141.03	129.07 134.50 142.07	129.34 135.01 142.32	129.30 135.95 143.27	129.53 136.32	129.91 136.79	130.13 137.38
Visible imports (million u.a.)	1970 1971 1972	847 921.0 1 044.8			1 020 1 045.5 1 041.6		945 1 014.0 1 159.5	1 006 1 025.5 996.1	895 1 025.0	1 019 1 022.3	928 1 005.0	982 1 017.9	1 017 1 021.0
Visible exports (million u.a.)	1970 1971 1972	879 884.4 1 049.8		903 1 026.3 1 136.4	1 019 885.1 1 030.7		1 008 1 078.7 1 269.3	995 988.9 1 024.1	1 983 961.1	984 1 146.8	933 940.2	979 963.7	1 036 1 026.6
Balance of trade (million u.a.)	1970 1971 1972		- 25 - 110.6 - 29.6	+ 30 - 4.1 - 32.3	- 1 - 60.4 - 10.9	+ 44 + 11.6 + 134.4	+ 63 + 64.7 + 109.8	- 11 - 36.6 + 28	88 - 63.9	- 35 +124.5	+ 5 - 64.8	- 3 - 54.2	19 + 5.6
Official gold and foreign exchange reserves (million u.a.)	1970 1971 1972	2 479 3 119 3 445	2 504 3 125 3 564	2 537 3 083 3 537	2 564 3 105 3 507	2 581 3 307 3 430	2 605 3 205 3 698	2 723 3 298 3 846	2 750 3 449 3 901	2 797 3 433	2 842 3 343	2 894 3 341	2 854 3 349
Money supply (million u.a.)	1970 1971 1972	7 692 8 439 9 103	7 749 8 432 9 510	7 864 8 411 9 735	7 903 8 487 9 845	7 892 8 620 9 703	7 890 8 678 10 078	7 987 8 825	7 911 8 808	7 989 8 940	8 096 9 009	8 078 9 062	8 22 <b>4</b> 9 336

### NOTES TO GRAPHS AND TABLES

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

Conversion into units of account (1 u.a. = 0.888671 g of fine gold).

#### Graph 1

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

### Graph 2

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

#### Graph 3

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

#### Graph 4

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

#### Graph 5

Wages and consumer prices (not adjusted for seasonal variations): agreed wages for manual workers, all branches, source: Ministère du Travail et de l'Emploi; consumer prices, source: Ministère des Affaires Économiques.

## Graph 6

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

#### Graph 7

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

#### Table 1

GNP at market prices.

Industrial production: value added by industry.

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

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

### Table 2

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

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

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

## Table 3

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

### Table 4

Industrial production, excluding construction, food, beverages and tobacco: adjusted for seasonal variations. Unemployed: end-of-month figures, adjusted for seasonal variations.

Construction: seasonally adjusted number of residential buildings authorized.

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

Consumer prices: not adjusted for seasonal variations.

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

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

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

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

## Luxembourg

#### 1. Recent developments

The improvement in the business climate has continued in recent months. The firmer trend of demand for steel inside and outside the Community was a major contributing factor. Domestic demand also went on expanding. Although capital sending by enterprises has hardly risen, investment by the public authorities, especially expenditure on residential construction, appears to have gone up signifi-The growth of private consumers' expenditure, though somewhat slower than in the preceding period of boom, remained comparatively rapid. This growth was due mainly to the steady increase in employment and the rise in money wages. Another factor was that under the new sliding wage-scale, wage earners were granted on 1 May 1972 a slice of 1.5 % in advance, and that salaries in public administration were put up in July.

The expansion of overall demand was reflected in a progressive improvement of production. In May-July the index of industrial production was 2.1 % higher than a year earlier, while building activity rose by 1.5 %. The tendency for the situation on the labour market to ease continued, thanks to the persistent inflow of foreign workers.

Domestic prices still pointed unmistakably upwards although the rise in wage costs probably did not accelerate further. At the beginning of August, consumer prices were 4.9 % higher than a year earlier.

## Demand for and supply of goods and services

	19691	19701	19711	1972²					
	At current prices (in Lfrs	rrent % change on preceding year prices a Lifts							
	million)	Volume Value	Volume Value	Volume Value					
Exports <sup>3</sup>	38 525	+ 1.5 + 13.7	- 4 - 8	+ 4½ + 8½					
Gross fixed asset formation	10 456	+ 11.3 + 23.0	+ 8 + 19	+ 1½ + 7½					
Public current expenditure on goods and services	4 857	+ 1.5 + 12.2	+ 1½ + 12½	+ 1½ + 11½					
Private consumers' expenditure	24 810	+ 8.0 + 13.0	+ 4 + 9	+ 4½ + 9½					
Gross national product	44 515	+ 3.3 + 11.8	+ ½ + 2	+ 3 + 9					
Imports <sup>3</sup>	34 266	+ 6.2 + 17.8	+ ½ + 3½	+ 4 + 8½					

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

#### Note:

<sup>&</sup>lt;sup>2</sup> Forecasts.

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

<sup>(</sup>a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

<sup>(</sup>b) The forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They are established and published on the sole responsibility of the Commission.

#### 2. Outlook

The recent tendency for export demand to improve, especially demand for products of the steel industry, may continue in the months ahead, entailing a quite vigorous, and perhaps even slightly faster, growth in exports from Luxembourg.

The expansion of domestic demand, on the other hand, will probably tend to slow down a little. While the sharp rise in building permits, especially for residential construction, points to a continued rise in investment, corporate purchases of plant and machinery will probably flatten out gradually. The results of the industrial investment survey at any rate suggests that in 1972 capital spending in terms of money will go up less sharply than in 1971. Personal incomes will rise a little less rapidly, mainly owing to the time schedule for agreed wage increases in major sectors. But helped by a number of factors, including the tax reliefs due to enter into force at the beginning of 1973 and the expected improvement in the employment situation, the increase in personal incomes should still contribute to a comparatively vigorous expansion in private consumers' expenditure.

Given this outlook, production will probably go up fairly considerably, with growth unlikely to be held back by a shortage of labour either in certain occupations or with certain skills.

The main problem which those responsible for economic policy are currently faced with is the persistent strong upsurge in prices, which is being aggravated by the increasing prices of imported goods.

## Major economic policy measures

## April:

Pensions were raised and adjusted to the level of average earnings in 1970.

## May:

(1) A new sliding wage scale entered into force on 1 May. The thresholds of 2.5 percentage points were replaced by thresholds of 2.5 % and wage earners benefited from a consolidated advance of 1.5 %.

- (2) The minimum monthly wage raised from Lfrs. 7 875 to Lfrs. 8 104.
- (3) The three Benelux countries signed a convention on the unification of excise duties. Luxembourg is required to revise its excise duties on petrol and fuel oil for domestic heating within one year and its excise duties on beer, lemonade and cigarettes within two years.
- (4) Several measures were taken to fix prices, especially those for milk, pharmaceuticals and manufactured tobacco.
- (5) The Council of Ministers of the Economic Union of the Benelux countries concluded an agreement on preparations to coordinate budgetary policy.

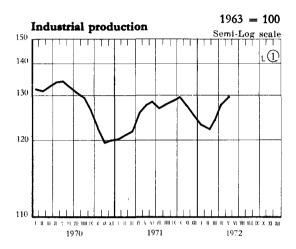
## July:

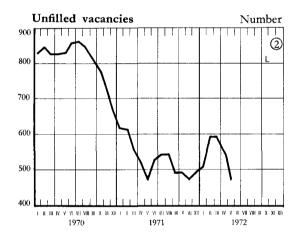
- (1) The Government approved an increase in the rates of motor vehicle insurance and the introduction of the bonus and penalty system from 1 July.
- (2) Wages and salaries in the public sector were put up by 4 % from 1 July.
- (3) An immigration service was set up, which among other things is to encourage and assist action and social activities for the benefit of immigrants, to help find accommodation for immigrants and to create and manage reception and social centres.

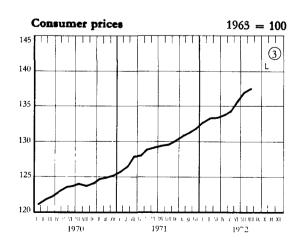
#### September:

The Government tabled the bill on the budget for 1973. The rise in total expenditure under the initial plan is estimated at 17.8 %. It results from a 12.2 % increase in ordinary expenditure and a 68.2% increase in extraordinary expenditure. The rise in extraordinary expenditure is due primarily to the allocation of Lfrs. 480 million to the Road Fund. Assuming that GNP will go up by more than 8.5%, ordinary revenue will rise by 19.8%. Lfrs. 800 million is to be borrowed, compared with Lfrs. 850 million in 1972. In the field of taxation, the draft budget provides for the following: advance adjustment of the personal income tax scale to the price trend (- Lfrs. 160 million); abolition of the charges on radio and television sets (- Lfrs. 18.5 million); harmonization of the excise duty on mineral oil (+ Lfrs. 75 million) and of the

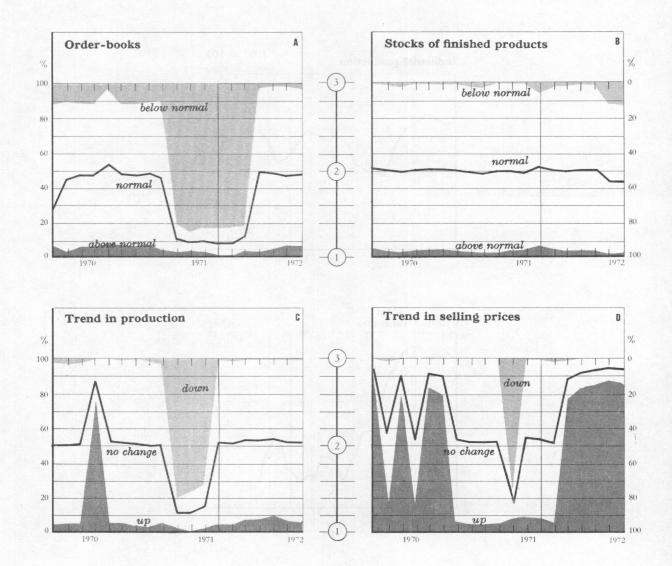
# **ECONOMIC INDICATORS**







## BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



Answers to the questions in the EEC business survey, carried out in Grand Duchy of Luxembourg by STATEC. GRAPHS A, B, C and D: The three zones (gray, white and black) show the percentages of the three different answers.

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

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

excise duty on processed tobacco (+ Lfrs. 20 million) under arrangements in the Benelux Economic Union; increases in a number of postage rates (+ Lfrs. 20 million); maintenance for an unlimited period of the standard rate of VAT at 10% and of the reduced rate at 5%;

maintenance for 1973 of the reduced VAT rate of 2% on deliveries and imports of certain essentials and of the reduced rate of 5% on a number of other products. In future these temporary waivers maye be modified by Grand-Ducal Decree.

## Luxembourg

TABLE 1: Key indicators

	1967	1968	1969	1970	1971	1971
		Indices 1963 = 100				
Gross national product	+ 0.2	+ 5.3	+ 7.7	+ 3.7	+ 0.7	132
Industrial production	_ 2.1	+ 7.4	+ 11.4	+ 3.3		.
Total imports	- 4.8	+ 9.6	+ 9.5	(+ 8.7)	(+ 0.3)	142
Private consumers' expenditure	0	+ 3.7	+ 4.8	+ 4.6	+ 4.0	133
Public current expenditure on goods and services	+ 3.6	+ 4.0	+ 3.3	+ 2.2	+ 1.5	123
Gross fixed asset formation	- 9.3	- 5.6	+ 7.6	+ 14.2	+ 8.0	108
Total exports	- 1.7	+ 13.4	+ 12.1	(+ 1.5)	(- 4.0)	146
Gross national product per head of population	+ 0.1	+ 4.9	+ 7.1	+ 3.6	- 1.1	124
Gross national product per person in employment	+ 1.5	+ 5.1	+ 6.7	+ 1.6	- 1.6	124
	% change by value on preceding year					and the second
Gross income per employee	+ 3.6	+ 5.4	+ 6.2	+ 12.1	· .	•

TABLE 2: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	Мау	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production	1970	131.1	132.5	134.0	131.3	131.5	130.1	129.0	128.8	122.7	116.2	121.2	124.6
(1963 = 100)	1971	118.0	124.5	122.8	127.6	128.1	127.2	124.9	130.9	129.4	126.7	126.2	123.5
	1972	122.5	124.0	125.9	130.6	128.9	130.9	128.4					
Unfilled vacancies	1970	807	876	786	842	875	819	897	853	756	751	670	644
	1971	522	651	498	422	471	604	487	511	476	503	479	544
	1972	544	681	537	418	431	448						
Consumer prices (1963 = 100)	1970	121.21	121.98	122.21	122.74	128.38	123.72	124.20	123.84	124.35	124.74	124.95	125.23
	1971	126.06	126.91	128.04	128.15	129.09	129.37	129.48	129.62	130.22	131.09	131.63	132.14
	1972	132.80	133.21	133.43	133.70	134.21	135.69	136.82	137.27	137.81			
									<u> </u>				

#### NOTES TO GRAPHS AND TABLES

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

#### Graph 1

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

#### Graph 2

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

### Graph 3

Consumer prices; source: STATEC.

#### Table 1

GNP at market prices.

Industrial production: value added by industry.

Exports and imports: goods and services.

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

#### Table 2

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

Unfilled vacancies: seasonally adjusted end-of-month figures.

Construction: seasonally adjusted number of residential buildings authorized.

Consumer prices: not adjusted for seasonal variations.

# III. THE SITUATION IN EACH OF THE ACCEDING COUNTRIES

## A. Denmark

#### 1. Recent developments

The revival of economic activity of which there were signs at the beginning of the year has continued in recent months, helped by the faster expansion of export demand and a more pronounced upward trend of domestic demand.

Exports showed a distinct upswing, boosted by the strengthening of the country's competitive position as a result of a certain depreciation of the Danish krone, relative to other currencies and by increased demand on major markets. In the first six months of 1972 exports were more than 20% up on a year earlier in terms of value. Deliveries to Germany and Sweden in particular accelerated sharply. Not only did exports of industrial products continue to climb rapidly, but exports of agricultural products (30% of total exports) likewise resumed a lively upward tendency, following the very sluggish advance registered in the past few years.

Domestic demand, apart from corporate investment, strengthened appreciably. Residential construction in particular expanded very rapidly; an important factor here was the plan to introduce new rules from 1 July on the refund of VAT. Building starts in the first half of the year were 61% up on a year earlier. Private consumers' expenditure also grew briskly, helped by the persistent sharp rise in wages and an increase in the numbers employed. The seasonally adjusted number of unemployed fell only little. At 4% the unemployment rate is still comparatively high.

As a result of this firmer trend in demand the growth of domestic supply gained additional momentum. Industrial production appears to have been stepped up in the industries that work mainly for export. Agricultural production, on the other hand, showed little if any progress. All in all, the growth of GNP in 1972 could reach 4% in real terms, a much higher rate than expected at the beginning of the year.

During the first half of the year, imports rose only slowly, especially because many purchases were postponed as the import surcharge was to be reduced from 10% to 7% on 1 July, and because of the weak trend of demand for capital goods.

The upward movement of prices continued at a rapid pace; in June, the consumer price index was 6.4% up on the same month of 1971. This trend reflects in particular the effects of the sharp wage increases in 1971 and the higher price to be paid for imports as a result of the revaluation of the currencies of major supplier countries.

With exports gathering speed and imports expanding at a sluggish rate, the trade balance improved appreciably. As there was also a large inflow of capital, gold and foreign exchange reserves went up considerably in the first half of the year. The inflow of foreign capital was one of the factors in the rapid expansion of the money supply. In April the monetary authorities therefore decided to impose for the time being a 3% ceiling on the growth of promises of credit given to the private sector by the commercial banks and the savings banks.

Following the favourable outcome of the referendum on EEC membership, the Danish authorities on 10 October decided to rejoin the scheme under which the countries of the enlarged Common Market are to keep their exchange rates to within 2.25% of one another.

#### 2. Outlook

General economic activity is likely to gain further vigour in the months ahead. Export demand will provide expansionary stimuli, helped in particular by the progressive improvement in the business situation of the industrialized countries and by the enlargement of the Community.

Domestic demand should likewise prove to be more buoyant. True, orders in residential construction are expected to slow down when the new tax arrangements come into force. Given the sharp rise in new building in the first half of the year, however, housing investment will probably remain at a high level. As a result of the favourable outcome of the referendum on accession to the EEC, the growth of investment in agriculture and manufacturing industry can also be expected to gain vigourously. An add-

itional factor is that measures have been taken to encourage investment in the backward regions. To judge by the current plans and programmes, capital spending by the public authorities will no doubt still rise sharply. Lastly, the growth of private consumers' expenditure may accelerate even if the recent tendency towards a rise in the propensity to save continues. This is because most collective wage agreements come up for renewal in the spring of 1973; with local strains on the labour market and prices going up, this could bring sharp wage increases.

There will probably be a further rise in the numbers employed, but the unemployment rate could be in the 3½ to 4% range at the beginning of 1973, which is still higher than the long-term objective pursued by the Danish Government.

This being the foreseeable trend of overall demand, imports should rise quite vigorously, even though some importers may postpone their purchases until 1 April 1973, when the import surcharge will be abolished. The trade balance may deteriorate again, especially after that date.

## B. Ireland

#### 1. Recent developments

The pick up of economic activity which started at the beginning of the year appears to have consolidated further in recent months, but spare capacity has not yet been reduced significantly. The growth of overall demand made fresh, though initially still slow, progress. Exports in the second quarter of 1972 went up appreciably although workers in the electricity power stations were on strike in April. The expansion of domestic demand accelerated. consumers' expenditure rose, helped mainly by the persistent sharp increase in wages and the easier terms for consumer credit since November. Public expenditure on consumption climbed further. Corporate investment in plant and machinery, however, was quite sluggish in the first half of the year, especially as a number of projects had been shelved pending the referendum on accession to the Community. Building investment too showed little if any increase in the first half of the year.

Production in manufacturing, which in the first quarter of 1972 was seasonally adjusted 2 to 3% higher than in the fourth quarter of 1971, has continued to rise since then. Production in agriculture made good progress, while the growth of real value added in the services sector was overshadowed by the weak tendency in the tourist trade.

Unemployment has risen further in recent months; in mid-July, 7.7% of the workers qualifiable for unemployment insurance were registered as unemployed.

Despite this situation on the labour market, the upsurge of wages and prices continued almost unabated. In May, the consumer price index was 8% higher than a year earlier.

The growth of imports has gathered speed in recent months, leaving out of account imports of ships and aircraift. The trade deficit in the first half of 1972 was £111 million or £26 million less than in the first half of 1971. Developments on the foreign exchange markets and the importance of the UK market to Ireland prompted the Irish authorities on 23 June to withdraw for a time from the agreement on narrower margins of

exchange rate fluctuation concluded with the countries of the enlarged Community, and also to cease to maintain the 2.25% limit to fluctuation on either side of official parity agreed upon in Washington in December 1971.

#### 2. Outlook

There is reason to believe that the business situation will improve further in the months ahead, with the main contribution probably coming from export demand and public spending. Given the major role played by foreign trade, for exports account for some 40 % of gross national product, general economic activity is strongly influenced by any improvement in sales opportunities on export markets. expected acceleration of growth in the United Kingdom is therefore likely to have a favourable effect on the Irish economy, and the de facto devaluation of the pound should help to strengthen the competitiveness of Irish products on other important export markets. Under the budgetary decisions taken in April, Government expenditure too will tend to go up more rapidly than it has done so far. The growth of private consumers' expenditure may also quicken a little as incomes are expected to climb rapidly. Corporate investment will be stimulated by the measures taken under the 1972/73 budget, especially the heavy expenditure planned in the "Public Capital Programme", and by entry into the Community.

Even though growth is expected to accelerate in the second half of the year, the rise in real gross national product for the full year 1972 will not be much higher than 3 %. The upward movement of prices will probably remain comparatively rapid, one of the reasons being the impact on domestic prices of the devaluation of the pound.

As economic growth accelerates, the pressure to import will also increase. Coupled with the deterioration in the terms of trade, this is likely to lead to a larger trade deficit in the months ahead. In the overall balance of payments, this deterioration may be offset by a net inflow of capital.



## C. United Kingdom

## 1. Recent developments

The recovery in economic activity has made further progress in recent months, helped by the efforts to make good the production losses caused by the strikes in the first quarter, and by the generally more pronounced upward trend of domestic demand. In the second quarter of 1972, seasonally adjusted exports were 3.5% higher than in the first quarter, but this was due largely to the end of the strikes and the drive to clear the backlog of deliveries; the increase over the second quarter of 1971 was only 0.5%. As export prices in terms of sterling went up sharply, the volume of visible exports may have declined during the first half of the year, notwithstanding the revival of demand in export markets.

The expansion of domestic demand became firmer. Private consumers' expenditure went up more rapidly, notably as a result of the tax measures taken under the 1972/73 budget (especially income tax relief), and of the rise in employment. Gross fixed asset formation continued to grow, but this was due mainly to a sharp expansion in demand for new housing; fixed investment by enterprises ran almost level.

Industrial production has made vigourous progress since April; in July it was 4.5% up on the level of a year earlier. There was a slow improvement in the employment situation: in August, the unemployment rate was 3.6% of the labour force, compared with 3.8% at the beginning of the year.

The upward movement of consumer prices, which had slowed down in the first quarter owing mainly to the cut in purchase tax in the Summer of 1971 and to the agreement on price restraint concluded with the Confederation of British Industry, has gathered speed again a little in the past few months. In July 1972, the retail price index was 5.8% higher than a year earlier.

Imports, which had risen sharply in the first quarter of 1972, hardly showed any further underlying growth in the second quarter, enabling the trade deficit to shrink a little. For the first half-year as a whole, however, imports showed a distinct upward tendency, associated with the more vigourous growth in general economic ac-

tivity and especially the drive to replenish stocks. The balance of payments on current account continued in substantial surplus.

However, speculative movements of capital prompted the Bank of England to put up Bank rate from 5% to 6% on 22 June. On 23 June, the authorities decided to allow the exchange rate of sterling to float for a time, and also temporarily to withdraw from the agreement on narrower margins of fluctuation for EEC currencies.

#### 2. Outlook

The business upswing is likely to continue in the months ahead, mainly because of the expansionary budget measures, which will show their full effect in the second half of the year.

Exports will expand more rapidly as the growth of demand in major overseas markets accelerates and as the de facto devaluation of sterling strengthens British industry's competitiveness, which had deteriorated owing to the sharp increase in export prices in terms of sterling, especially since the middle of 1971.

The expansion of domestic demand is likely to gather strenght. The trend of private consumers' expenditure will be stimulated by the sharp growth in disposable incomes resulting from tax reliefs and from the considerable wage increases granted in major branches of the economy. The growth of public consumption, on the other hand, will probably slow down. Gross fixed asset formation, too, may go up quite slowly, for while the nationalized industries are expected to step up investment more vigorously, private industrial investment on building and on plant and machinery will probably advance only a little. Investment in residential construction will maintain its quite vigourous rise, but the rate of increase may flatten out somewhat.

Production will probably continue to grow at an appreciable pace, and the numbers employed will go up. All in all, real gross national product in 1972 is likely to rise by  $3\frac{1}{2}\%$ .

Given the buoyancy of domestic demand, the pressure to import will remain strong. Coupled

with the fact that de facto devaluation is having a direct impact on import prices, this is expected to produce some deterioration in the trade balance. Despite the recent efforts by the authorities to combat inflation more vigourously, the rise in wages and salaries will continue to be a cause for concern.