

**Commission of the
European
Communities**

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



**2
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The economic situation in the Community

Quarterly survey

This publication appears quarterly. Numbers 2 (June) and 4 (December) are surveys by the Commission of the European Communities of recent developments in and the outlook for the economic situation in the Community as a whole and in each of the Member States. They do not contain economic policy recommendations or guidelines, but are limited in this area to a statement of the conjunctural policy problems arising at Community level and in the various Member States. Number 3 (October) reproduces the Commission proposal for the annual report on the economic situation in the Community. This report, which the Council adopts in the autumn of each year in accordance with its decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States, establishes the economic policy guidelines to be followed by the Member States in the year that follows. Number 1 (March) reproduces the text of a communication by the Commission to the Council concerning the adjustment of these guidelines for the current year. It contains in addition a summary account of the economic policies pursued in the previous year, and a report on the application of the Council decision on the attainment of a high degree of convergence of the economic policies of the Member States and on the conformity of the policies pursued with the objectives set.

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**COMMISSION OF THE
EUROPEAN COMMUNITIES**

The Economic Situation in the Community

JUNE 1976

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The publication of this report is the responsibility of the Commission's departments. The writing of the report was completed on 2 June 1976.

I. The overall situation

The general recovery in the economic situation under way in the Community since the summer of 1975 has been further consolidated. The growing confidence of the economic agents, the reversal of the movement in stocks and the continuing influence of the expansionary programmes have buoyed up economic trends and improved the climate for investment in several Member States. In addition world demand has continued to expand. The revival in industrial production has led to the making up of more than half of the losses in output from the peak reached in 1974. In most of the Member States this recovery has been reflected in an improvement in the labour market and an end to the rise in unemployment.

On top of the appreciable differences between countries in the intensity of the economic recovery there are even more marked disparities in prices and balance of payments developments, which can be partly explained by the varying degree of success in efforts to moderate domestic cost pressures. But they are also due to the fact that the recent rises in world prices are having different effects from one country to another, which have been amplified by exchange rate movements. The slowdown in inflation achieved last year in the Community has been followed by an appreciable acceleration in the first half of 1976, despite substantial productivity gains. On the other hand, the sharp deterioration in the Community's trade balance which occurred in the second half of last year has since moderated somewhat, as the recovery of exports to non-member countries has gained strength. Moreover, the improvement in the economic situation has been accompanied by monetary disturbances which, in several Member States, have made a less expansionary, or even restrictive, economic policy stance necessary.

The crucial problem facing the Community in the months ahead will be to protect the economic recovery, and the improvement it should bring to the labour market, from the damaging influence of a further worsening in inflation. To the extent that inflation can be effectively controlled and that the upturn in the world economic situation carries on, the recovery in demand and output should continue in all the Member States, with the exception of Italy, and should lead to a further improvement in the climate for investment. For 1976 as a whole, the Community's real gross domestic product could grow by some 4½%, a rate about one percentage point higher than that forecast last autumn. It is not very likely, however, that the recovery can lead in most of the countries to the creation of enough new jobs to absorb unemployment significantly before the end of 1976. This result, which is most unsatisfactory, must be looked at in the light of the excessive inflation rate now predicted for 1976 in several countries, which in the Community as a whole would take the rise in consumer prices to 11% on a year-on-year basis. In these conditions, it is important that the recovery proceeds at a moderate steady pace. Only in this way can the Community be protected, on the one hand, from the cumulative effects of too rapid a revival, which would imply early and abrupt changes in the stance of economic policies, and, on the other hand, from the expansion running out of steam due to the rate of investment being too low. On the external side, a worsening of the terms of trade during the second half of the year could lead to a further widening of the trade deficits of several Member States. For the year as a whole the deterioration in the Community's balance of payments on current account could rise to about 5 000 million dollars.

A. Economic policy problems in the Community

The dangers for the recovery and the cohesion of the Community

1.1. The recovery has now got under way in most of the industrialized countries of the West. The pessimistic predictions last year that the upswing would not last, that the pattern of the business cycle had changed and that demand management policies would prove ineffective appear to have been robbed of their substance by actual events. Already there are those who argue that the stimulus given by the industrialized countries' reflationary policies will lead again to an uncontrolled boom on a world-scale and the reinforcement of inflation.

The large industrialized countries were the first to start recovering from the recession and they did so in the middle of last year. Very strong financial and monetary policy measures to stimulate the economy, growing confidence, the release of pent-up consumer demand and

the switch in the stock cycle have boosted domestic and external purchasing and production in general. In the United States, Japan, the Federal Republic of Germany and France, production is now growing as rapidly as it contracted during the recession. The sharp rise in domestic demand has led to a renewed expansion of world trade, which is now gathering more and more momentum. This growth in international trade which is mainly due to the revival in the industrialized countries, above all will help those countries which, because of balance of payments considerations or because they were drawn into the recession at a later stage, are behind in the general recovery.

With a few exceptions, the countries of the Community in the first half of 1976 climbed back to the previous maximum level of total production, reached towards the middle of 1974. This level will be clearly exceeded between now and the end of the year, although there will still be a certain gap from the long-term growth path. The

Community pacemakers, namely the Federal Republic of Germany and France, are providing an important stimulus which is already being felt by the Benelux countries and even by the United Kingdom. However, in Italy the upswing can be expected to be held effectively in check by the restrictive measures and the climate of political uncertainty. On the average for the year the Community's real gross domestic product for 1976 could well grow by 4½% compared with the previous year, some 1% higher than was expected in the autumn. Likewise the labour market situation is beginning to improve: short-time working has fallen substantially and vacancies are again rising. Nevertheless the number of wholly unemployed has only fallen slowly up till now.

However, it is too early to assume that the serious impact of persistent inflation and the deep rupture inflicted by the recession is yet made good. Nor can one as yet be certain that the recovery in the Community can be sustained. It is to be expected that, whatever happens, the growth rates in production in the initial phase of the upturn cannot continue when the demand generated by private consumption and the restocking process resumes normal proportions. However, there are two other factors which may constitute a threat to the strength and duration of the new upturn in the Community, namely the hesitant growth of private investment demand in the business sector and the first signs of renewed price rises, discernible in many Member States right from the onset of the recovery.

The drop in the investment ratio which was recorded long before the recession in the Federal Republic of Germany, in the Netherlands and in Italy and which became general in 1974 and 1975 resulted from a complex set of factors: the accentuation of exchange rate risks and risks concerning commercial policy, the weakening of profits and the growth in costs and finally growing uncertainty about the direction of structural change. Although capacity utilization and profitability have recently improved in many cases and will continue to do so, there is some doubt as to whether a cyclical improvement in profit levels, following the exceptional deterioration during the recession, will be sufficient to provide a spontaneous and lasting stimulus to private investment. Yet high investment growth rates are necessary to sustain the dynamism of the recovery as a prerequisite for the future growth of real incomes and the creation of new jobs.

Inflation has flared up again for a number of quite different reasons: an excess supply of money, rapid increases in labour costs in the countries with built-in adjustment arrangements, increases in prices in certain sectors with strongly expanding demand, in the world prices of raw materials, in controlled prices and the prices of agricultural goods, and finally the impact of the depreciation of the currencies of certain Member States since the beginning of the year on import and domestic prices. It is very disquieting to note that in most Member States the rate of increase of consumer prices has been rising since the end of last year and the Community

average reached 13% at an annual rate during the first four months of the year, against 9% in the second half of 1975.

During the next few months, the impact of the budgets in most Community countries will tend to be less expansionary. As the counter-cyclical measures work themselves through, they lead to a slow-down in the rate of growth of expenditure, while the recovery of economic activity results in an increase in the rate of growth of tax receipts. Monetary policy in the coming months will be in something of a dilemma. The currency disturbances of recent months have led some Member States to reverse the expansionary monetary policy they had hitherto pursued. Monetary policy will have to be fairly restrictive in all those countries where the balance of payments position is in danger who are threatened by a new upsurge of inflation. The significance of structural inflation in the Community countries, the new increases in world commodity markets, the rises in prices of manufactured goods, together with worries about the effects of too rapid a recovery could shortly lead the economic policy makers in the leading countries to restrain the money supply again. A substantial increase in interest rates in the United States and the Federal Republic of Germany will lead to new problems for the Community countries who have to deal with monetary instability or where the recovery has only just got under way.

1.2. Since 1973 and more particularly in 1975, the discrepancies between the performances of the Community economies have become appreciably more marked. The tendency for the major economic variables such as incomes, costs and prices to vary widely from country to country has been reflected in the different paths of Member States' currencies, which to a certain extent of late have even over-compensated for divergences in those variables. The imbalance in economic developments and the instability of expectations have been a continuous source of renewed monetary unrest and again provided fresh impetus to inflation. Also, with the economies of the Member States steadily drifting further apart no further progress has been made towards economic and monetary union in recent years and indeed the Community's modest achievements in the sphere have been jeopardized.

Looking back (see graph B), it can also be seen that the tendency for the major economic variables to diverge was much weaker in the 1960s than in the period 1973 to 1975. The average annual growth rate for consumer prices over the period 1963-1972 was between 4 and 6%, while it varied between 6½ and 16% over the period 1973-75; in the same periods growth rates for unit labour costs in industry varied between 3 and 7% and 8 and 22% respectively. Another striking feature is that the growth rates of the overall economic indicators (earnings per employee, wage costs and consumer prices) in all Member States were still fairly close together during the 1973 boom. They did not begin to drift apart until 1974 but the divergences seriously increased in 1975.

Over the period 1973-75 the divergences in the development of gross income per capita, unit labour costs and consumer prices in the Member States can be summarized as follows:

- the highest increases were recorded in Italy, the United Kingdom and Ireland;
- the lowest increases were in the Federal Republic of Germany;
- France, the Benelux countries and Denmark lay somewhere between these two extremes.

There is little chance of any major reduction in 1976 in the divergences between Member States. If anything, the Member States are tending to move even further apart in terms of price and cost developments since inflationary pressures in the Federal Republic of Germany are further weakening while they are likely to worsen again in Italy. One encouraging sign is the improvement — which should be rapid — in the United Kingdom where the annual growth rate of gross incomes and labour costs is likely to fall by half and that of consumer prices by one third in 1976.

Differences in Member States' rates of inflation of from 5 to 20% are totally incompatible with relative currency stability. It would, however, be oversimplifying matters to imagine that differences in rates of inflation can be made good by corresponding exchange rate adjustments. Differences in consumer prices are a very inadequate yardstick for the assessment of realistic exchange rate adjustments. Other indicators, such as comparisons of the development of labour costs per unit of output or export prices give only an approximate indication of changes in a country's ability to compete on world markets, which is also dependent on other factors, both economic and non-economic.

Divergences in the rates of increase of prices and costs in the period 1973 to 1975, expressed in national currencies, have on the whole been offset by changes in exchange rates between Member States. Yet the rapid depreciation of certain Community currencies in the early months of 1976 has more than offset these disparities. It is noteworthy that the most recent depreciations are

anticipating difference in price and cost inflation and no longer merely a result of past higher-than-average price and cost increases.

Recent experience has suggested that macro-economic divergences between Member States could become permanent, i.e. the Community is in danger of breaking up into a number of economic and monetary zones. In those Member States whose currency has depreciated the increase in import prices aggravates domestic inflation. This prevents the reallocation of real resources to export industries so that further deterioration in the balance of payments situation will perpetuate the chain reaction of exchange rate adjustments and inflation.

1.3. This vicious circle cannot be broken either by a sustained classical demand management policy by itself or by introducing import controls by themselves alone. Mastery of inflation, improvement in the employment situation, redirection of resources towards investment and exports are all goals which necessitate cooperation between management, unions and the government. It must be brought home as clearly as possible to both unions and managements that if cost-push inflation is given further impetus from exaggerated wage demands and if firms seize every opportunity to raise prices, the prospects of a lasting recovery and a rapid improvement in the employment situation will be compromised. Moderation in wage and profit demands is particularly necessary in those countries where the upturn has been delayed and where the balance of payments and prices situations are deteriorating. A steady coordinated expansion at the Community level should make it possible to avoid overall restrictive monetary and budgetary measures from the early stages of the recovery. The Tripartite Conferences organized in the Community framework represent an effort to push ahead, at the Community level, with the coordination of economic goals and actions. The realization of further progress towards European economic integration depends to a considerable extent on the success of this cooperations between employers, employees, the governments of the Member States and the Commission of the European Communities.

B. The world economic situation

1. Continued recovery in activity

The revival in *economic activity* under way since before the middle of 1975 in the developed countries outside the Community became more broadly based in the first part of 1976. Influenced by expansionary policies, the US economy continued its rapid growth, and production in Japan began a strong rise again in the first quarter of the year; in Canada output has been expanding steadily, and in several of the smaller developed countries outside the Community the trough in activity has been passed and output is growing again. Apart from in the USA, where

unemployment has been declining for almost a year, unemployment rates remain at close to peak levels in most countries.

Domestic rates of *inflation* have eased further in several countries in recent months (see Table 1). However, there has recently been a strong upward movement in commodity spot prices, especially for the principal non-ferrous metals and for coffee and cocoa. According to 'The Economist' index in dollars, non-oil commodity prices at the middle of May were 17% higher than the average for 1975. This rise no doubt partly reflects

speculative pressures associated with the disturbances on the foreign exchange markets, but, despite the existence of huge stocks for some materials, may also be the first reaction to a recovery in demand for raw materials from the industrial countries.

Although *world trade* fell very steeply in volume terms in 1975 as a whole, it had already started a noticeable recovery in the final months of that year. In the first part of 1976 rapid expansion in world trade has continued; US imports have kept on rising strongly, and the imports of a number of other developed countries outside the Community have also begun to expand again. Imports of the OPEC countries, although still growing, have been rising much more slowly since last summer than during the boom period of 1974 and early 1975. Imports by the state-trading countries have also slowed down. For the non-oil-producing developing countries, which were cutting back their imports in the second half of last year, imports seem to have steadied and may even have started to rise again recently.

In the *United States* there has been sustained vigorous growth of real output and some further deceleration in the pace of inflation. Real GNP rose by 1.2% in the fourth quarter of last year and by a little more than 2% in the first quarter of 1976. With real personal disposable income rising steadily, private consumption expenditure has continued to grow rapidly, especially on durable goods. Business fixed investment showed a stronger pattern in recent months, no doubt influenced by the improved profitability situation and the generally more optimistic economic climate. The liquidation of stocks which had continued at a much reduced rate towards the end of 1975, was reversed in the early months of this year.

By April of this year industrial production had climbed some 11.5% above the trough reached in April 1975, and the degree of capacity utilization in industry rose

substantially. Employment has reacted more quickly and more strongly to the increase in activity than expected from the experience of previous cycles, pushing the unemployment rate down to 7.5% in April from the peak of 9.2% in May 1975.

The easing in the rate of increase in consumer prices is mainly due to lower food prices and to some cuts in energy prices, following legislation fixing ceilings. The increase in the price of other categories of goods and services has not slowed.

The recovery in the domestic economy has been accompanied by a rapid expansion of imports which in the first quarter, together with a drop in exports, mainly of agricultural products, led to a trade deficit (on a customs basis) of \$ 0.9 milliard compared with large surpluses of \$ 3.1 milliard and \$ 3.0 milliard in the third and fourth quarters of last year.

A slow recovery has been under way in *Canada* since the spring of 1975. Real GNP rose by 0.4% in the final quarter of last year, and output has continued to rise gradually in the early months of 1976. Consumers' expenditure has become firmer and there has also been a revival in business fixed investment. Since the introduction of the government's anti-inflation programme last October there has been some deceleration in the rate of increase of consumer prices, but this still remains much higher than in the United States. There was a substantial current account deficit in Canada in 1975 as a whole of Cdn. \$ 5.1 milliard, but in the early months of 1976 exports, especially to the USA, picked up more strongly than imports and the trade deficit narrowed.

In *Japan* output grew only slowly in the second half of 1975. An increase in real GNP of 0.4% was recorded in the final quarter, but there was no growth in industrial production between July and December (Cf. Table 5).

TABLE 1
Changes in Consumer Prices in Major Non-EEC Countries since 1973

	Dec. 1973	June 1974	Dec. 1974	June 1975	Oct. 1975	1975		1976				Apr. 1975
	June 1974	Dec. 1974	June 1975	Dec. 1975	Apr. 1976	Nov	Dec.	Jan.	Feb.	March	April	Apr. 1976
	Half-yearly % increase					% increase on preceding month						% increase
U.S.A.	6.1	5.8	3.3	3.5	2.2	0.6	0.4	0.4	0.1	0.2	0.4	6.0
Canada	6.5	5.4	4.7	4.7	2.8	1.0	0.1	0.6	0.3	0.4	0.4	8.9
Japan	12.5	8.4	4.7	2.8	4.8	- 0.7	- 0.1	1.8	0.7	0.4	2.7	9.3
Community	7.8	6.4	7.5	4.0	5.9	0.8	0.6	1.0	1.1	1.0	1.3	11.2

Source: Commission's Departments.

Since the beginning of 1976, however, output has been expanding strongly. The main stimulus has come from exports rather than domestic demand, which, with the exception of residential construction and some elements of government expenditure, remains sluggish. Imports have shown only moderate growth and the trade surplus has widened again so far this year. Despite some recent acceleration in wholesale prices, the annual increase in consumer prices has steadied at under 10%.

The *other developed countries* outside the Community felt the effects of the world recession later than the larger economies, and are also lagging behind in moving into the recovery phase. However, since the beginning of 1976 there have been indications in several countries — Austria, Norway, Spain, Switzerland — of a revival in activity, and most countries now seem to have reached or already passed the trough. An upturn in export demand, in particular from the Community countries, is starting to provide an expansionary stimulus in some cases, but this group of countries as a whole is still recording substantial trade deficits. Although progress has been made in many countries, performance on the prices front is still very variable, with the increase in consumer prices over the last twelve months ranging from 2% in Switzerland to 16% in Spain and 18% in Finland.

2. Bright prospects for the rest of the year

In the months ahead the recovery in *economic activity* should proceed at a sustained pace in the United States and Japan and should gather speed in Canada. More and more of the smaller developed countries outside the

Community can be expected to return to a growth path before the end of the year, although in those countries with large balance of payments deficits and still high rates of inflation government policy will necessarily remain cautious and expansion may be only gradual.

After a fall in the real GNP of the non-EEC developed countries of 0.8% in 1975, an increase of a little more than 5½% in 1976 is forecast. The strongest growth is expected in the United States, followed by Canada, Japan and Norway (see Table 2).

The recent surge in non-oil commodity *prices* has been in part due to special factors; while further increases can be expected during the remainder of this year as demand strengthens, they should be at a more gradual rate. In most industrial countries increases in material costs should, in part at least, be offset by productivity gains as utilization of capacity improves and by more realistic wage settlements, but there may not be much room in general for further significant gains in restraining inflation. The decision taken by the OPEC countries at the end of May to hold the price of oil steady until the end of this year should, nevertheless, be helpful in this respect.

The growth in the volume of *world trade* should accelerate gradually during the rest of this year as more of the smaller developed countries embark on a phase of expansion and growth is consolidated in the larger economies. Imports by the OPEC countries are likely to rise more rapidly than those of the other groups of countries, but will be less dynamic than in the past two years as absorptive capacities come closer to saturation.

TABLE 2
GDP and imports in the non-EEC developed countries
(% change on preceding year)

	Real GDP ²					Volume of imports (goods)				
	1968-1972 average _{3 4}	1973 ₄	1974 ₄	1975 ₄	1976 ₅	1968-1972 average ₃	1973 ₄	1974 ₄	1975 ₄	1976 ₅
USA	3.1	5.3	- 1.8	- 2.0	7	10.4	4.9	- 3.4	-11.3	17
Canada	5.0	6.9	2.8	0.2	5	8.7	12.1	10.0	- 5	12
Japan	10.3	9.9	- 1.2	2.0	5	12.0	28.0	- 0.7	-13.9	9
Other developed countries ¹	5.3	5.6	3.7	0.2	2½	8.6	14	11	- 6½	5½
Total developed countries ¹	4.5	6.0	- 0.4	- 0.8	5½	9.7	13	3½	- 9½	11
Community	4.7	5.3	2.1	- 2½	4½	10.6	12	- 1½	- 5	9

¹ Excluding EEC.

² Real GNP for USA, Canada and Japan.

³ Geometric mean of the change from 1967 to 1972.

⁴ Source national statistics

⁵ Estimates by Commission's Departments

The imports of the non-oil-producing developing countries should start rising again in the months ahead when the volume of their exports to the industrial countries recovers and the prices of their commodity exports become firmer, but on a year-on-year basis imports in 1976 are unlikely to show any growth in volume. In the centrally planned economies imports are also expected to lack vigour, influenced by the shortage in these countries' holdings of convertible currencies and by the hiatus in import demand which usually occurs at the beginning of new five-year plans.

Taken as a whole the volume of world imports (excluding EEC imports) is forecast to rise by some 8% in 1976, after a decline of 3% last year. Imports by the Community should be at least as buoyant and should contribute substantially to the expansion in world trade. Including Community imports, world trade may rise by about 8-9% this year (see Table 3). For the first year since 1971 the year-on-year increase in the volume of world trade will be greater than the increase in prices, and in general the pattern of development of world trade will tend to return to its pre-oil-crisis structure.

TABLE 3
Volume of World Trade

	Shares in EEC exports, % (1975)	Volume of imports (goods) (% change on preceding year)				
		1968-1972 average 1 2	1973 2	1974 2	1975 3	1976 3
Total developed countries (excluding EEC)	49.1	9.7	13	3½	- 9½	11
OPEC countries	15.3	7.0	11	38	45	20
Other developing countries	23.8	7.0	11	13	- 6	—
Centrally planned economies	11.8	7.6	12	10	6	4
World (excluding EEC)	100.0	8.6	12½	9	- 3	8
Community		10.6	12	- 1½	- 5	9
World (including EEC)		9.3	12	5½	- 4	8½

1 Geometric mean of the change from 1967 to 1972

2 Source: national statistics and UN.

3 Estimates by Commission's Departments.

In the United States the growth of activity during the rest of the year should continue at a pace not much slower than that experienced since the end of the third quarter of 1975. Influenced by further tax measures, increases in employment and hours worked, and a general improvement in consumer confidence, there is likely to be sustained growth in private consumption expenditure. The recovery in business fixed investment should gather momentum and the rebuilding of stocks now under way should proceed. The record level of industrial production of November 1973 is likely to be reached towards the end of 1976.

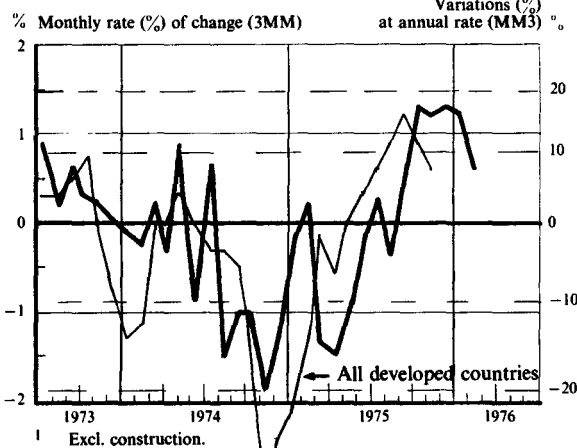
The inflationary climate in the United States could deteriorate a little in the months ahead, influenced by the present round of wage settlements, the rise in world commodity prices and stronger demand pressures. Unemployment should continue to decline slowly. Imports will go on increasing, but probably not as rapidly as in recent months, and non-agricultural exports should soon start to benefit from the recovery in world trade,

thus preventing any further serious deterioration in the trade balance.

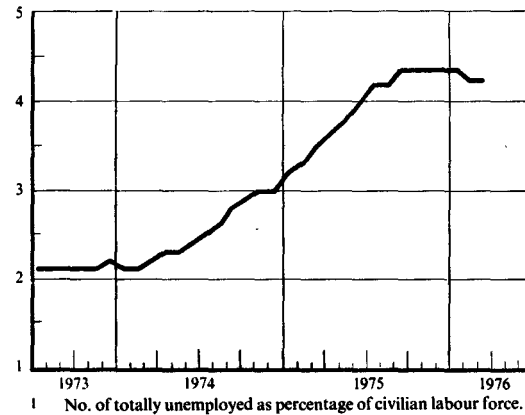
Led by growth in consumers' expenditure, an end to stock liquidation and an improved export performance, output in *Canada* should rise more rapidly during the remainder of 1976. The Canadian balance of payments should also benefit from the expected strengthening of commodity prices.

The economic recovery in *Japan* should become more broadly based in the months ahead. The 8-9% wage increases granted in this year's spring wage round will not add much to real incomes, but a decline in the savings ratio could nevertheless lead to a more vigorous expansion of consumers' expenditure. There are indications from business surveys that a revival in investment will get under way later in the year. The main growth component in the next few months, however, could continue to be exports, which will enable the trade balance to stay clearly in surplus.

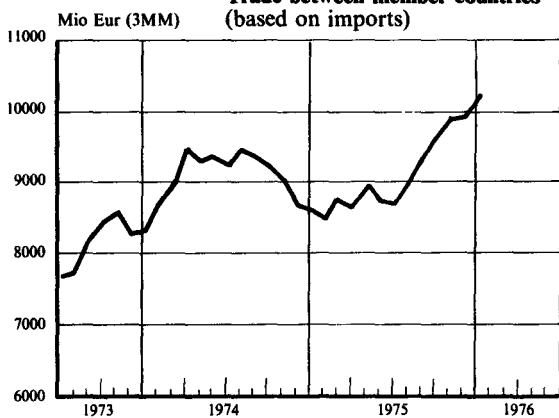
Industrial production* 1



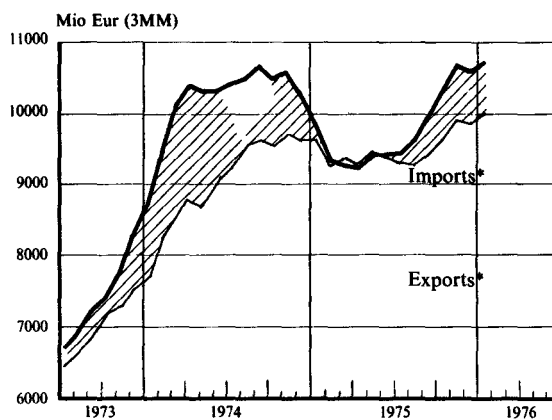
% Unemployment rate1



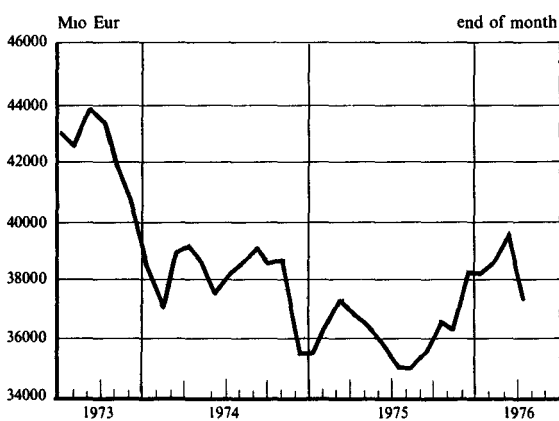
Trade between member countries* (based on imports)



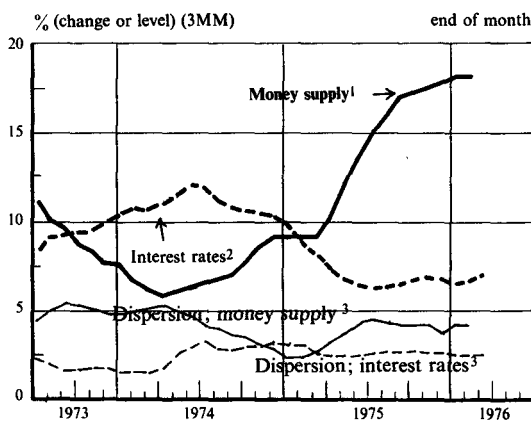
Balance of trade*



Foreign exchange reserves 1



Money supply and interest rates



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

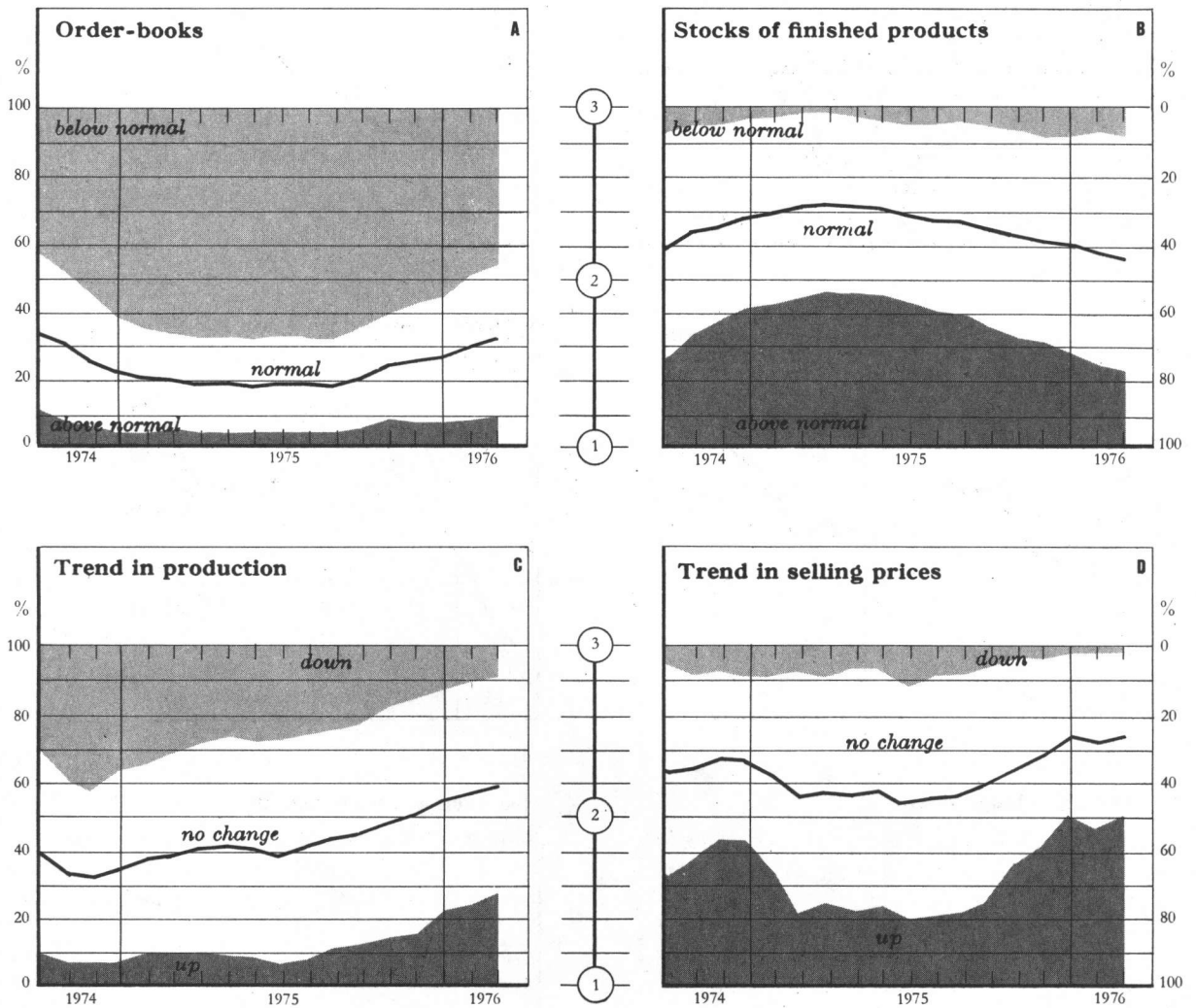
1 Arithmetic mean of the rates of change over the previous 12 months of money supply (M1) in member countries.

2 Arithmetic mean of call money rates (except Denmark)

3 Average deviation between the average for the Community and country observations.

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

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

TABLE 4

Balance of payments on current account in the non-EEC developed countries

(US \$ 1 000 million)

	1968-1972 average 2	1973 2	1974 2	1975 2	1976 3
USA	- 3.4	0.3	- 3.4	11.9	- 4½
Canada	- 0.0	0.0	- 1.7	- 5.0	- 4
Japan	3.5	- 0.1	- 4.7	- 0.7	3
Other developed countries 1	- 1.3	1.5	- 15.4	- 15.5	- 12½
Total developed countries 1	- 1.2	1.7	- 26.2	- 9.3	- 18
Community	4.8	1.3	- 11.8	0.6	- 4.7

1 Excluding EEC.

2 Source: national statistics and IMF

3 Estimates of Commission's Departments

C. The economic situation in the Community

1. Recent developments

(a) Revival of demand and production, improvement beginning in employment

Since last summer the Community has experienced an economic recovery comparable in intensity with past phases of economic upswing. The only component of demand to have lagged behind is real fixed investment, the fall in which in 1974 and 1975 was the first in the post-war period. The revival began earlier and is stronger in some countries than in others, and its scale also varies with the sector of activity. In most of the countries, it is continuing to be sustained by the delayed effects of the expansionary economic policy stance adopted in 1975. The improvement in the economic situation, which tended to have a favourable impact on the labour market, was accompanied by monetary unrest and evidence of prices reacting more rapidly than normal to the consolidation of demand.

The revival in activity was touched off by a recovery in domestic demand and has also been sustained, since last summer, by the revival of Community exports to non-member countries, which has continued in recent months, but has been least pronounced in Denmark and the Netherlands. The recovery of the United States economy has entailed a quite vigorous expansion of Community sales to that country. But exports to other developed countries, where the recovery in activity has often been rather later than in the United States, have shown little buoyancy. This is particularly true for sales to Japan. The increase in deliveries to the OPEC countries has slowed down, with sales by the Federal Republic of Germany

especially hit; exports to state-trading countries showed a similar trend. In contrast, sales to nonoil producing developing countries have picked up a little in recent months, after being rather depressed in the second half of 1975.

After slowing down very significantly until mid-1975, *private consumers' expenditure* has played a key role in the Community's economic recovery, and in recent months has further sustained activity appreciably. However, its strong tendency to expand has moderated in most of the Member States, in particular in the Benelux countries and France. In general the revival of consumption has been helped, in most of the member countries, by the continued rise in real personal disposable income. Although the increase in wage rates in real terms seems to have tended to slacken in several countries, the slowdown has been at least partly offset by an increase in activity (total number of hours worked) and by a further rise in transfer incomes. Furthermore there seems to have been a continuing tendency for the propensity to save to decline from the exceptionally high levels it had reached during the crisis. This is explainable in a few countries, notably Italy, by renewed inflationary expectations. The increase in expenditure has related mainly to durables, the purchase of which had been postponed for many months, and to certain services, in particular tourism. Purchases of motor cars have again increased appreciably in all the Member States: in the Community as a whole, the year-to-year increase in the period January-March was 21.5%.

The turn-round in the *stock* cycle continued to provide a major stimulus to the expansion of domestic demand in the first half of 1976. Destocking came to an end during

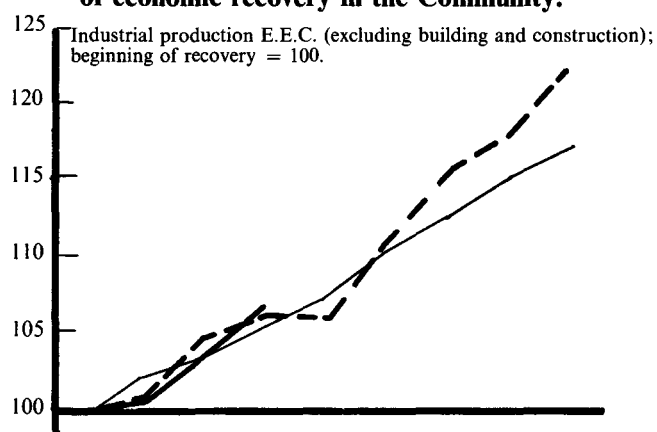
1975 and a restocking process has begun in several industries. This process has recently been extended to raw materials, intermediate products — restocking of which has moreover been stimulated by the upward movement of prices and the improved production outlook — as well as finished products, especially consumer goods.

Fixed investment in money terms might well have begun a modest revival recently. The recovery has probably already been reflected in a halt to the sharp drop in the volume of this category of expenditure, which had been apparent until last autumn. While the fall in capacity utilization rates and the recession-induced squeeze on self-financing have depressed the propensity to invest of many firms, demand for small and medium-sized plant and machinery intended primarily for rationalization and replacement investment has picked up to a certain extent in several countries. This has been helped by the improved economic outlook, by the easier credit facilities sometimes allowed by the authorities and, in a growing number of cases, by a recovery in the cash position of firms. After a long period of recession, demand in the building industry has also tended to turn up in several Member States. This improvement, mainly attributable to the expansionary programmes put into operation last year, has above all been evident in the public works sectors and in the United Kingdom in residential construction.

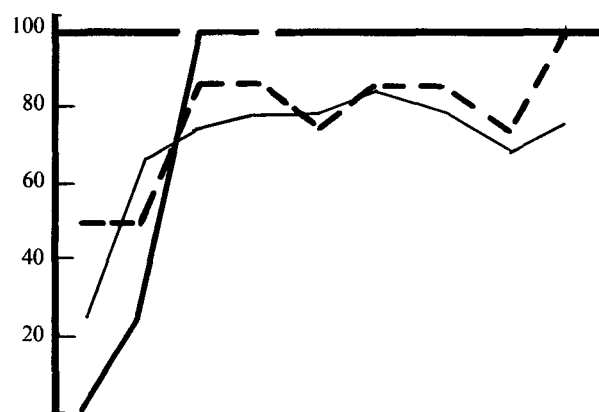
Through the revival in production, the growth of demand has generated a rise in capacity utilization rates and a lengthening of delivery dates in certain industries. However, no major difficulties in obtaining supplies, in raising finance or in recruiting labour have so far hindered the advance of internal supply. For the Community as a whole, and according to provisional estimates, *gross domestic product* in real terms increased, in the first half of 1976, at an annual rate higher than 6%, against a rise of some 2½% in the second half of 1975.

In early spring, 1976, the SOEC seasonally adjusted index of *industrial production* (excluding building and construction) reached a level over 5% higher than the average for the preceding year and 8% higher than the low recorded in 1975 (Cf. Table 5). The earliest expansion was recorded in the Federal Republic of Germany, France and Italy. Elsewhere the revival set in with a slight time-lag, starting latest in those countries where the improvement has been mainly due to foreign demand, namely the United Kingdom, Ireland and Luxembourg. In total it appears that the recovery has in the end affected more countries than in previous cycles (Cf. Graph A). On a sectoral view, it seems that production picked up first in the consumer goods sector, then in the producer goods and lastly in the capital goods sector, where its improvement is still hesitant. Although all branches of industry have seen their output expand, particularly encouraging results have been recorded in the motor and steel industries, where the decline had often been sharpest. After a prolonged depression, the building and construction industry has benefited from a certain revival since the end of 1975.

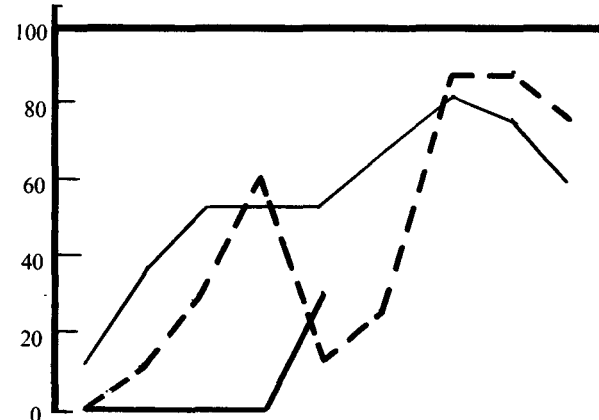
Development of industrial production and unemployment during phases of economic recovery in the Community.



Proportion of Member States in which production growing (%).



Proportion of Member States in which unemployment declining (%).



0 1 2 3 4 5 6 7 8

Quarters from turning point

— 1958-73 Average of quarterly data
 - - - 1967-69
 — 1975-76

TABLE 5

Changes in Industrial Production

Country	% change on average of preceding year				Min 1975		March 1976 Min 1975	% change on average of preceding quarter												March 1975 March 1976
	1968- 1972	1973	1974	1975	Month	Index 1970 = 100		1974			1975			1976			% change			
							III	IV	I	II	III	IV	I							
F.R. of Germany	6.9	7.3	- 0.9	- 6.2	April	99.8	8.3	- 2.7	- 3.2	- 1.7	- 3.6	1.6	3.4	2.3	- 1.4					
France	7.6	7.6	2.6	- 8.8	May	107.5	15.0	- 1.9	- 3.7	- 4.3	- 2.6	0.1	3.8	4.3	7.7					
Ireland	6.3	10.3	2.8	:	August	113.5	:	- 2.4	- 2.0	- 2.3	- 0.4	- 1.6	:	:	:					
Italy	3.4	9.8	3.8	- 8.8	May	101.7	15.6	- 1.8	- 9.1	0.0	- 3.8	2.6	1.1	3.5	7.4					
Netherlands	9.9	6.1	3.2	- 5.0	August	112.0	10.8	0.0	- 1.3	- 2.9	- 3.5	0.1	5.2	2.2	0.8					
Belgium	5.7	6.1	4.6	- 10.7	September	104.1	33.2	- 1.7	- 3.7	- 4.4	- 3.0	- 3.8	2.9	7.7	6.6					
Luxembourg	3.5	11.8	3.9	- 22.0	August	60.9	109.2	- 2.5	- 5.3	- 8.7	- 9.0	- 12.1	14.1	4.3	- 3.0					
United Kingdom	2.4	8.4	- 2.5	- 4.8	September	99.4	6.6	- 0.9	- 1.2	- 0.1	- 5.5	0.6	0.7	1.5	- 2.8					
Community	5.8	7.5	0.6	- 6.9	May	104.5	7.9	- 1.6	- 3.7	- 1.6	- 3.7	0.3	3.0	3.1	1.9					
U.S.A.	2.9	9.0	- 0.6	- 8.9	April	103.0	10.6	0	- 3.3	- 8.0	- 1.2	3.5	2.9	2.2	9.6					
Japan	10.9	15.7	- 3.1	- 10.9	February	104.4	12.4	- 3.7	- 6.0	- 8.5	4.0	2.9	0.3	4.1	14.3					

1 Excluding construction, and for France the food, drink and tobacco industry, seasonally adjusted

2 Geometric mean of the change between 1967 and 1972.

3 Expressed at annual rates.

Source: SOEC, USA and Japan: national statistics

Reliance on the large productivity reserves accumulated during the crisis has lessened the impact of the recovery on the Community's *labour market*. However, since the reduction in numbers employed has come to an end in several Member States and there are signs that recruitment is beginning to pick up in some of them, the rise in unemployment has been checked. Between September 1975 and March 1976 the seasonally adjusted number of wholly unemployed for the Community as a whole was little changed, whereas, over the previous six months, the number of unemployed had risen by one million to reach 4.7 million. In March the unemployment rate for the Community as a whole was some 4.3%, compared with 3.4% a year earlier and 4.4% in September 1975 (seasonally adjusted number of wholly unemployed as a proportion of the labour force) (Cf. Table 6). The number of hours worked per week has also generally tended to increase and the number of people on short-time working has fallen distinctly, from a peak of 2 million in 1975 to about 1½ million at the end of last winter. Tendencies on the labour market have varied from one country to another, the countries still faced with the greatest difficulties being Italy, Ireland and Belgium, where unemployment has gone on rising.

(b) *Widening divergences in prices, costs and external position*

A new upturn in import and producers' prices has checked the process of moderation of *inflation* which had been developing in the Community up to last autumn, and has been reflected in increasingly divergent trends between countries. The impact of the new depreciation in the currencies of four member countries, which began in early 1976, on these countries' import prices has been all the greater because they had already been more severely affected by the rise in commodity prices on world markets. Admittedly, the Member States with appreciating currencies have been able to shield themselves more or less effectively from these exogenous factors. However, at the production stage, all the Member States have in recent months, and in degrees which varied from one country to another, experienced an acceleration or a revival in the upward movement of prices. The exceptional surge of unit labour costs evident until 1975 (See Graph B) has obviously been a factor here. Although there has recently been a tendency for the rise in wage costs to slow, and despite the generally high degree of responsiveness of supply, firms in several sectors, particularly the intermediate goods sector, seem already to have taken advantage of the scope offered by the revival of demand to restore or even increase their profit margins.

At *consumer price* level, the upward movement of producer prices has as yet had no major impact in any Community country, except as far as foodstuffs are concerned; in general the rise in consumer prices for industrial products has remained smaller than the rise for goods and services as a whole. The countries hardest hit by the new outbreak of inflation have been Italy and Ireland, where the effects of the rapid increase in the cost of services and imported products have been reinforced

by heavier taxation and the impact of seasonal factors. But to a lesser degree there has also been a tendency for inflationary pressures to revive in France, the Netherlands, Denmark and Luxembourg; exceptional factors contributed to this in some cases. Differences in inflation rates have tended to widen, the annual rate of inflation over the last six months ranging from 6½% in the Federal Republic of Germany to 21½% in Italy. For the Community as a whole, consumer prices between October and April probably rose at an annual rate of over 12%, compared with about 11% in the six preceding months and only 9% in the second half of 1975 (Cf. Table 7).

The revival in the Community's *imports* was vigorous in the closing months of 1975 and has remained so since the beginning of this year, despite a slight slackening in some Member States. This growth in value is partly attributable to the 10% oil rise introduced last October and to a hardening of commodity prices. But it is also clear that, particularly under the impact of restocking, the volume of imports has increased appreciably after the exceptional fall which had occurred up to last summer. Owing to the buoyant growth of exports, the deficit on the Community's *trade balance* widened less than in the second half of 1975. There has, however, been an appreciable worsening in the trade balances of Italy, Denmark and Ireland; on the other hand, the deficits of the United Kingdom and France have tended to narrow and Germany's surplus has if anything increased.

Intra-Community trade has been a particularly buoyant factor in recent months. Imports from the other member countries have risen fastest in the Federal Republic of Germany and France. Purchases by Denmark, the Belgoluxembourg Economic Union and Ireland have also climbed sharply. The countries with a particularly good export performance have been the Federal Republic of Germany and the United Kingdom.

(c) *More cautious short-term economic policy*

From the end of 1975 onwards, external constraints forced the Governments of several Member States to move towards a less expansionary economic policy. The new policy stance at the same time reflected a concern to prevent the economic recovery from being jeopardized by a new bout of inflation. The adjustments related mainly to monetary policy.

Exchange markets in the Community were thrown into turmoil in the early months of 1976, only in part due to economic factors. Despite massive intervention on foreign exchange markets, the relative stability of exchange rates experienced in 1975 was disrupted, first by the suspension of official quotations of foreign currencies in Italy from 21 January to 1 March following strong pressure on the lire, then by the slide of sterling since March and the pressure on the French franc which, on 15 March, led to the franc's withdrawal from the Community exchange rate system. For the Community as a whole, official net reserves fell by 2 200 million dollars in the first quarter. Tighter monetary and interest rate policies in Belgium

TABLE 6

The development of unemployment in the Community

Country	Rates of total unemployment ^{1 2}										Rates of partial unemployment ^{1 3}				
	1974			1975				1976			1973	1974	1975		1976
	March	June	September	December	March	June	September	December	March	April	December	December	December	March	March
Denmark	0.7	1.6	2.5	2.8	4.0	4.2	4.6	4.3	4.1	:	:	:	:	:	:
F.R. of Germany	1.8	2.1	2.6	3.1	3.9	4.2	4.3	4.3	4.1	4.1	0.6	2.7	2.8	3.1	1.9
France	1.9	2.1	2.5	3.1	3.3	3.9	4.3	4.1	4.1	:	0.3	1.9	1.7	1.2	1.2
Ireland	5.8	6.1	6.7	7.8	9.0	9.1	9.2	10.1	9.8	9.8	± 0	0.5	0.3	0.7	0.2
Italy	2.6	2.9	3.1	2.9	3.2	3.5	3.6	3.9	:	:	2.1 ⁴	2.9 ⁴	2.5 ⁴	:	:
Netherlands	2.6	2.8	3.0	3.5	3.8	4.0	4.4	4.4	4.3	4.2	0.3	0.7	1.1	:	:
Belgium	2.7	2.9	3.2	3.6	4.3	5.1	5.6	5.9	6.1	6.2	2.6	2.8	3.5	3.3	2.9
Luxembourg	0	0	0	0.1	0.1	0.1	0.2	0.3	0.3	:	0	0	0.7	:	:
United Kingdom	2.3	2.6	2.7	2.8	3.1	3.9	4.9	4.8	5.0	4.7	0.03	0.1 ⁶	0.1	0.3	:
Community	(2.2)	(2.4)	(2.8)	(3.0)	(3.5)	(4.0)	(4.4)	(4.4)	(4.3)	:	:	:	:	:	:

: No data available.

1 As a result of disparities in definition, unemployment rates cannot be compared between countries.

2 The number of totally unemployed as % of civilian labour force; seasonally adjusted data; Italy: ISTAT figures

3 The number of partially unemployed as % of civilian labour force

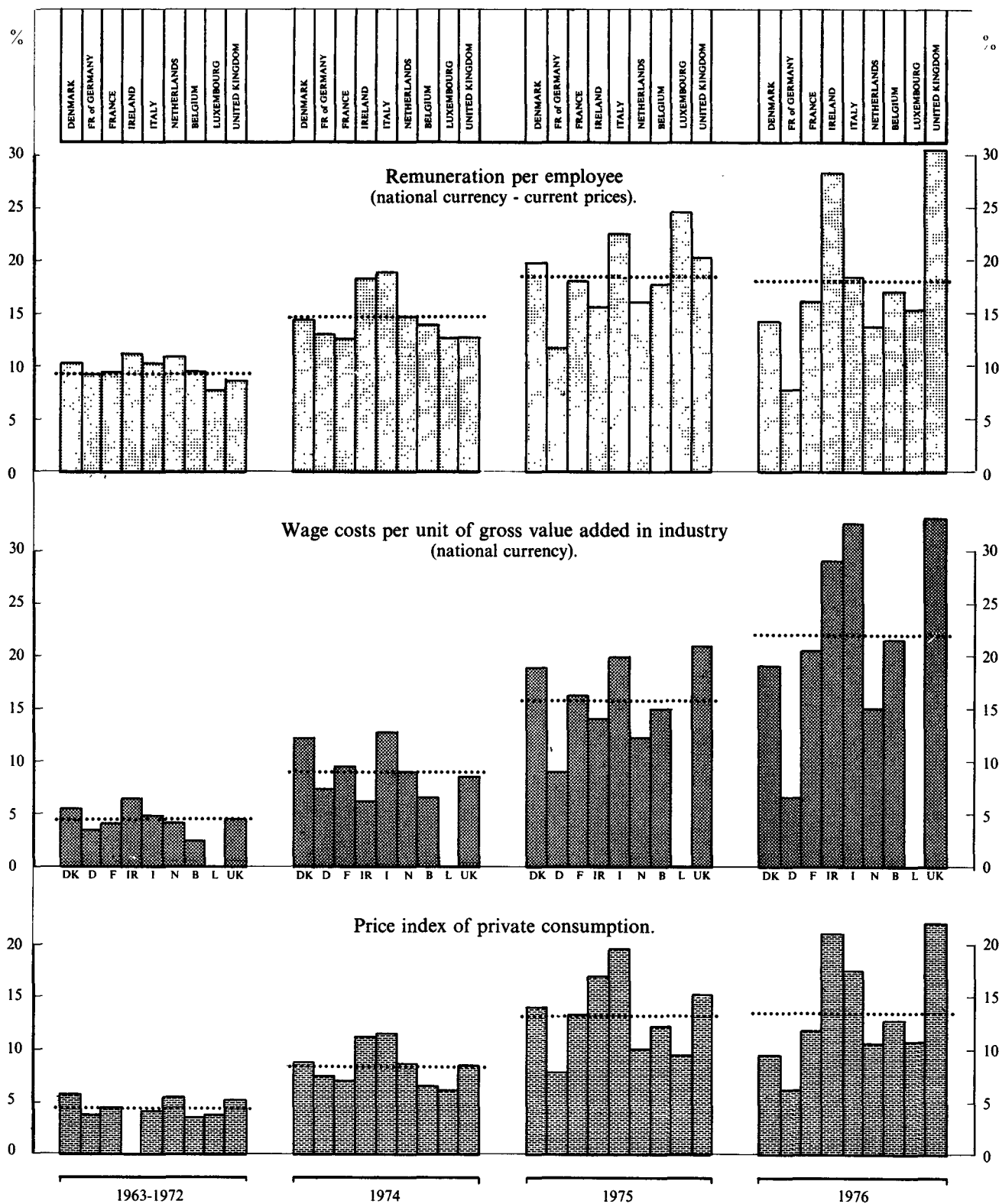
4 January.

5 Except for France: February, Belgium, January.

6 November

Source: SOEC and national sources.

Comparative development of earnings per employee, wage costs per unit of output in industry and consumer prices.



..... arithmetic average.

Source: SOEC and Commission's departments.

TABLE 7

Changes in consumer prices in the Community since 1973

Country	De- cember 1973 June 1974	June 1974 De- cember 1974	De- cember 1974 June 1975	June 1975 De- cember 1975	Oc- tober 1975 April 1976	1975				1976				April 1975 April 1976
	Half-yearly ¹ % increase					Nov- ember	Dec- ember	January	February	March	April	% increase on preceding month		
Denmark	7.9	7.0	3.4	0.8	7.7	1.6	0.1	0.6	0.7	4.3	(0.3)	8.8		
F.R. of Germany	3.5	2.3	4.1	1.3	3.2	0.3	0.3	0.8	0.7	0.4	0.6	5.2		
France	8.4	6.3	5.1	4.3	4.9	0.6	0.6	1.1	0.7	0.9	0.9	9.6		
Ireland ¹	10.4	8.7	14.6	2.0	10.3 ³	2.82			7.32			16.14		
Italy	10.9	12.3	-6.0	5.0	10.2	1.1	0.8	1.1	2.2	2.0	2.6	15.3		
Netherlands	5.5	5.0	4.7	4.1	5.2	0.4	0.2	0.6	0.9	0.9	2.1	9.8		
Belgium	8.3	6.8	5.3	5.5	4.5	1.1	0.5	0.9	0.3	0.6	0.9	9.7		
Luxembourg	6.1	4.9	5.5	5.1	5.1	0.8	0.6	1.5	0.5	0.2	1.4	10.4		
United Kingdom	10.8	7.5	17.3	6.4	7.7	1.2	1.2	1.3	1.3	0.5	1.9	18.9		
Community	7.8	6.4	7.5	4.4	5.9	0.8	0.6	1.0	1.1	1.0	1.3	11.2		

¹ Changes calculated from indices relating to the middle of each quarter

² Quarterly variation

³ Variation August 1975 — February 1976

⁴ Variation February 1975 — February 1976.

Source: Commission's Departments

TABLE 8

Key Indicators

Community	Unit	1968-1972 average ^{4 5}	1973 ⁵	1974 ⁵	1975 ⁶	1976 ⁶
Gross domestic product; volume	% change	4.7	5.3	2.0	- 2.5	4.5
of which: Industry ¹		5.8	7.5	0.6	- 6.9	7.0
Gross domestic product in volume per person in employment	% change	4.4	4.2	2.0	- 1.2	5.0
Total employment (number of persons) ²	% change	0.3	1.1	0.0	- 1.3	- 0.5
— Independent entrepreneurs		- 2.2	- 1.4	- 1.7	- 2.0	- 1.2
— Wage and salary earners in company sector		0.8	1.6	0.4	- 1.1	- 0.3
Unemployment	as % of labour force	2.1	2.1	2.5	3.9	4.4
Compensation of employees per wage and salary earner	% change	11.0	13.4	16.3	15.4	13.6
Price index of private consumption ³	% change	5.2	8.3	12.6	12.4	11.0
Current account balance ³	1 000 million \$	+ 4.8	+ 1.3	- 11.8	+ 0.6	- 4.7

¹ Excluding building and construction

² Domestic concept

³ National accounts concept on annual basis.

⁴ Geometric mean of the change from 1967 to 1972; unemployment and current account balance: arithmetic mean over the five years.

⁵ Source: SOEC

⁶ Estimates of Commission's Departments

and Denmark, however, helped to check speculation on a possible revaluation of the German mark after the French franc left the Community snake. In Italy, measures were taken to curb the export of capital; in addition with the Commission's approval, under Article 108 (3) of the Treaty, the Italian authorities introduced with effect from 6 May, for a period of three months, a scheme subjecting

all purchases of foreign currency, except those for the import of wheat, to the lodging, for a period of 90 days, of non-interest bearing deposit equivalent to half the amount of the transaction concerned.

The table below shows recent changes in the exchange rates of Community currencies.¹

**Changes in the exchange rates of Member States' currencies
between December 1975 and April 1976**

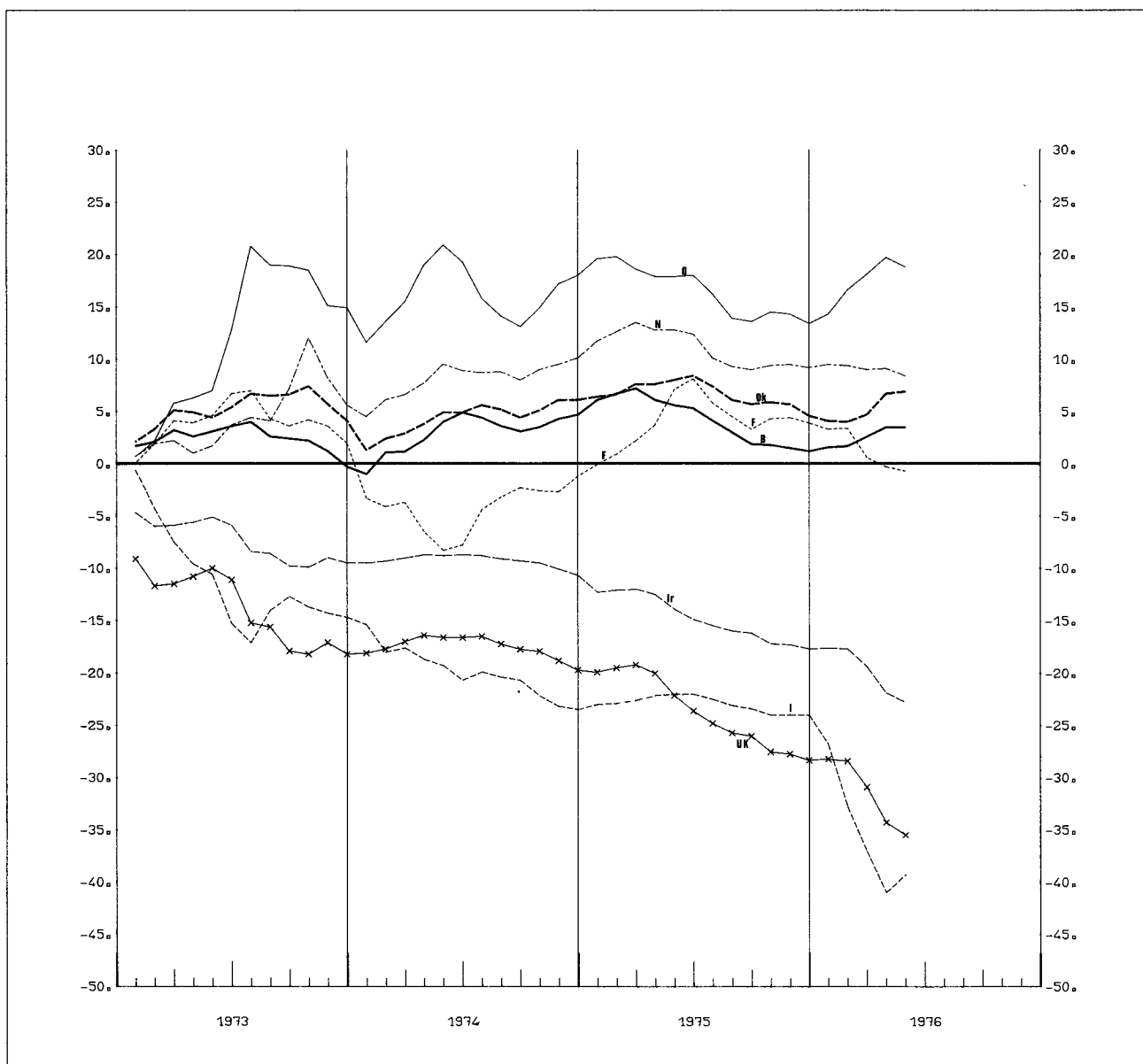
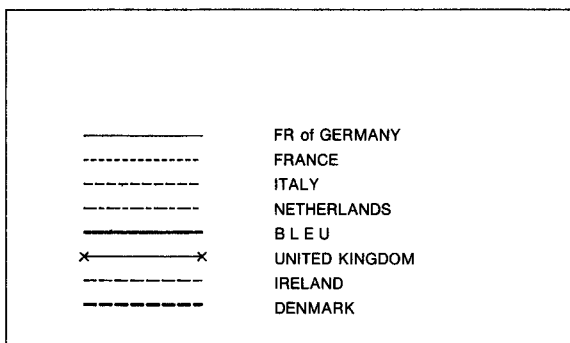
(% change in monthly average)

	Appreciation			Depreciation	
	trade weighted	against the US \$		trade weighted	against the US \$
FR of Germany	+ 6.2	+ 3.4	France	- 3.6	- 4.5
BLEU	+ 2.4	+ 1.4	Ireland	- 4.7	- 8.6
Denmark	+ 2.3	+ 1.8	United Kingdom	- 8.3	- 8.6
Netherlands	+ 0.1	+ 0.1	Italy	- 22.5	- 22.3

¹ Cf. also Graph C.

**Weighted appreciation or depreciation
of the currencies of member states in**

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



Most Community countries are now pursuing restrictive *monetary policy* measures. In Italy, the compulsory reserve ratio was increased at the beginning of February and at the end of the month the period for lodging the second tranche of compulsory bank reserves was shortened while the easier terms for financing short-term export credits, introduced in August 1975, were suspended. In Belgium, the rules governing banks' access to rediscount credit were temporarily tightened during March and April. In France, the norms laid down at the beginning of May for the growth of bank lending in the second half of 1976 could, overall, have a slightly restrictive effect. In addition, the maximum repayment period for consumer credit was cut at the end of March. The National Bank in Denmark reduced the banks' refinancing margin for the second quarter of 1976. In the Federal Republic of Germany, the extra liquidity resulting from the large influx of foreign currency in March and April was largely mopped up by means of a two-stage increase, on 1 May and 1 June respectively, in the compulsory reserve ratio for banks. Last December the Bundesbank announced that, as in 1975, it would aim to limit growth in the central bank money stock in 1976 to about 8%.

The sharp growth in the *money supply* (notes and coin and sight deposits) was maintained on the whole during the first quarter of 1976; it even gathered additional momentum in France, Italy and particularly in Denmark. In the United Kingdom, the money supply also started to expand again after marking time for a few months. In the Federal Republic of Germany, on the other hand, there was evidence of some slowdown. Generally speaking, public sector transactions continued to have an appreciable expansionary influence on the growth of liquidity. Lending to persons grew somewhat more sharply in a number of Member States in the first quarter, especially in the Federal Republic of Germany, although it is too early to talk of a widespread sustained recovery. In the United Kingdom, where special deposits were cut from 3± to 2% in January, lending to industry actually dropped. In Denmark, the ceiling on bank lending was again raised by 3% in February.

The monetary authorities in a number of Member States have had to raise short-term *interest rates* to support their currencies. The result has been a temporary halt in the general decline in interest rates in the Community, which had been going on for about eighteen months. In Italy,

TABLE 9

Demand for and supply of goods and services

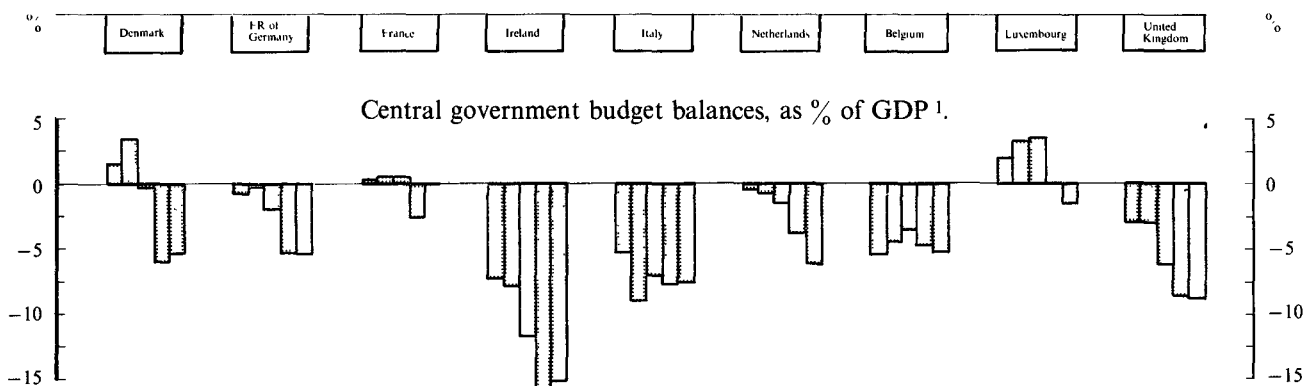
Community	1973 ²	1974 ²			1975 ³			1976 ³		
	At curr prices 1000 million Eur	% change on preceding year								
		Vol	Price	Val	Vol	Price	Val	Vol	Price	Val
Private consumption	504.2	1.5	12.6	14.2	1.7	12.4	14.3	3	11	14½
Public consumption	121.1	3.5	14.7	18.7	3.4	14.2	18.0	2½	10½	13
Gross fixed asset formation	193.3	- 2.4	14.6	11.9	- 5.6	11.4	5.2	½	9½	10½
Domestic final uses (excluding change in stocks)	818.6	0.7	13.6	14.4	0.4	12.5	12.9	2½	10½	13½
Domestic final uses (including change in stocks)	831.3	0.2	13.8	14.0	- 2.2	12.4	9.9	4½	10½	15½
Exports ¹	199.7	8.9	24.0	35.0	- 5.1			8½		
Imports ²	194.0	2.7	36.8	40.5	- 5.2			8½		
Gross domestic product at market prices	837.0	2.0	10.5	12.7	- 2.5	14.0	11.1	4½	10	15
		Contribution to % change in gross domestic product								
Domestic final uses (excluding change in stocks)		0.8			0.2			2.6		
Change in stocks		- 0.5			- 2.6			2.0		
Balance of exports and imports ¹		1.7			- 0.1			- 0.1		

¹ Goods and services

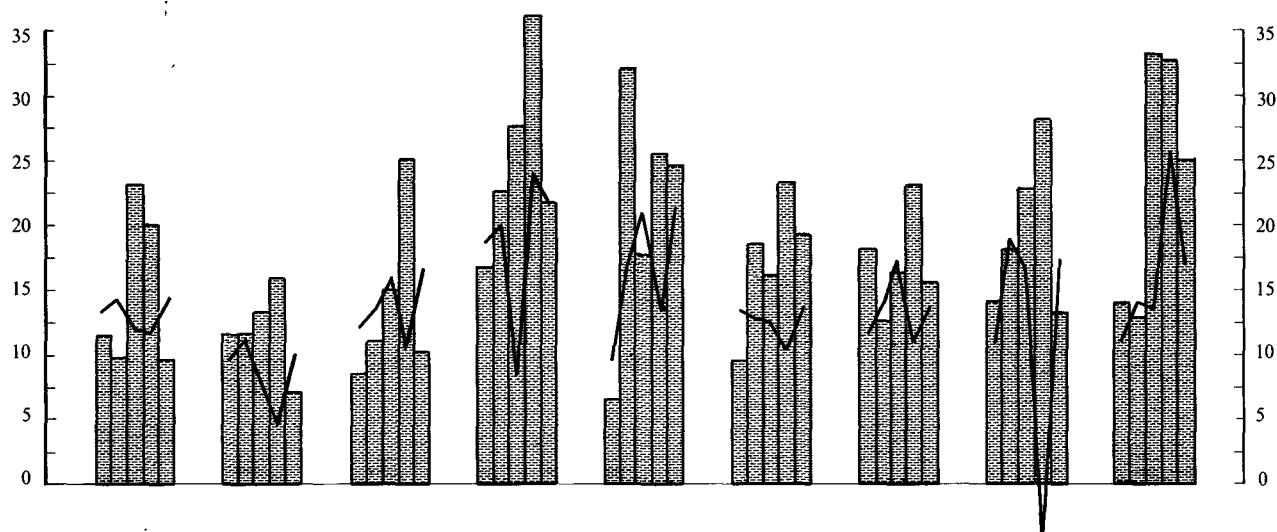
² Source: SOEC

³ Estimates of Commission's Departments.

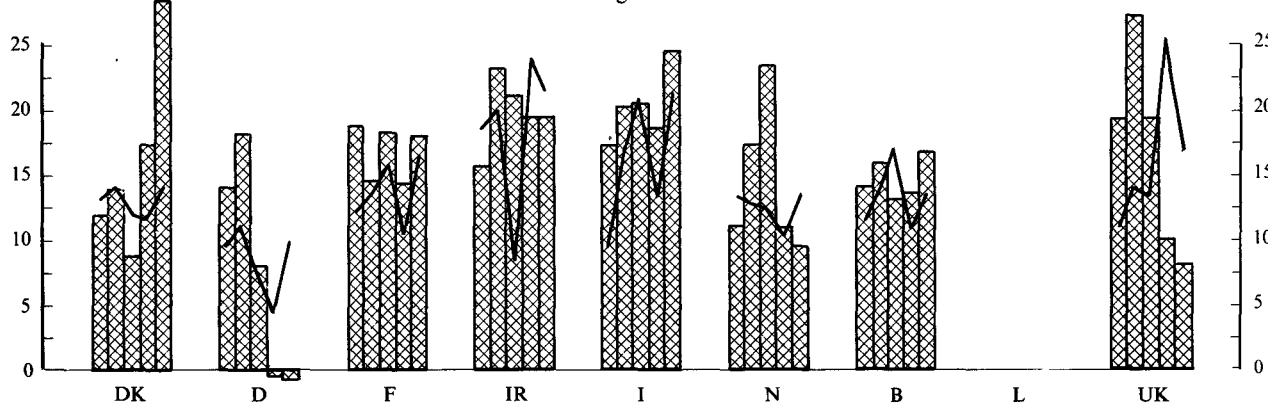
Indicators on monetary and budgetary developments.



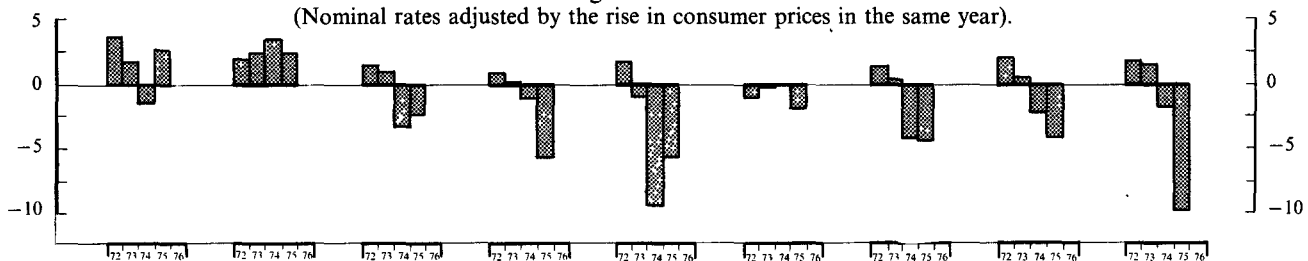
Rate of growth of central government expenditure (% change on preceding year);
 ——— = rate of growth of nominal GDP.



Rate of growth of money supply (M_2 or M_3) (% change on preceding year)²;
 ——— = rate of growth of nominal GDP.



Real long-term interest rates
 (Nominal rates adjusted by the rise in consumer prices in the same year).



¹ United Kingdom and Denmark: financial year (April/March).

² 1976: average of available months.

the discount rate was raised in three stages between February and mid-March from 6% to 12%; in Belgium and in Denmark it went up by 1% during the second half of March reaching 7% and 8.5% respectively. In the United Kingdom the minimum lending rate rose from 9% to 10.5% in April, and then to 11.5% in May, while the Bank of England's policy since last November had been to encourage a decline in interest rates. In most Member States long-term rates too have shown an upward movement recently. In Belgium and in Denmark, the rise began in the autumn of 1975 and in Italy and the United Kingdom it set in vigorously in February and March. In the Federal Republic of Germany, long-term interest rates, which had fallen appreciably since last December, have been climbing again since May.

At the beginning of 1976 *budgetary policy* was still geared towards expansion. In the Federal Republic of Germany firms were authorized in January to offset losses against tax liabilities for previous financial years. In Italy, a number of minor cuts in direct taxes were introduced. The French Government decided that half of the corporation tax due on 15 March would not be collected until the middle of the year. In Belgium, the tax incentives to investment introduced last summer were extended by six months, to the end of June. From March onwards a number of Member States switched to a restrictive budgetary policy. In March, the Italian Government raised the rate of indirect taxation on a wide range of products. Ireland and Belgium also announced increases in some indirect taxes. In addition, Ireland and Italy agreed to limit their budget deficits, complying with one of the conditions for obtaining a Community loan.

In most Member States the public authorities have continued to propound, with varying degrees of success, moderation in the growth of *incomes and prices*. The most restrictive stance in this respect is in the United Kingdom, where agreement has been reached limiting the increase in wages and salaries in the twelve month period starting in August to 4.5% on average, thanks to proposals from the authorities for income tax cuts.

2. Sustained recovery in the second half of the year

Judging from the appreciable rise in leading indicators, the present upswing seems sufficiently strong to continue over the next few months. This will undoubtedly bring in its wake some improvement on the labour market in most Member States. Nevertheless the risk of a fresh upsurge in internally generated inflationary pressures, the rise in world market prices and the monetary upheavals will all prove an impediment to the process of recovery and Community cohesion in the coming months.

Boosted by the recovery in more and more developed non-member countries, Community *exports* should gather increasing momentum between now and the end of the year. Exports to European non-member countries in particular should expand again in the coming months, while exports to the United States may well grow a little more slowly than recently. A major stimulus to export

growth should come from trade between Member States, which, for the first time since 1973, should keep on expanding more rapidly than deliveries to non-member countries.

Turning to internal demand, *private consumers' expenditure* should continue to stimulate production growth, does not disrupt the behaviour of households. With real personal disposable income likely to slow in certain Member States and to remain steady — or even fall slightly — in the United Kingdom, Italy and Ireland, the subsequent drop in the savings ratio will undoubtedly have a decisive influence on the growth of private consumers' expenditure. In this context, an important stimulus will probably be provided by the slow improvement in the employment situation currently expected in most Member States.

Stockbuilding will probably give a further boost to activity in the period up to the end of the year. Provided a fresh bout of inflation on world markets can be avoided, this stimulatory effect will tend to weaken as the process of replenishing stocks is completed and stocks have been adjusted to the progress of sales.

The present improvement in the investment climate is unlikely to bring about an appreciable increase in the volume of *fixed investment* as early as the second half of the year. Helped by the economic upswing, business fixed investment in the Community seems nevertheless set to pick up a little, reflecting the expected trend in the Federal Republic of Germany, France, Denmark and Ireland. In the other Member States, the investment climate will take longer to improve, mainly because of the relatively sharp rise in wage costs, monetary restrictions or non-economic factors. Taking the average for 1976, business investment in these countries is even likely to fall once again. Generally speaking, the propensity to invest in extension projects in the Community will remain weak given the substantial amount of unused capacity in a number of industries; this is particularly true in the case of multinational firms, which are at present attracted by more favourable conditions and prospects in other industrialized countries, especially in the United States.¹ In most Member States, the prospects for growth in residential construction seem fairly bright, with the likelihood of a renewed increase in interest rates acting in some cases as an additional incentive to investment. Public investment may well tend to stabilize, reflecting in some countries a more cautious State budgetary policy and the financing problems of local authorities.

These assumptions about the trend of demand outlined above point to renewed growth of the Community's real *gross domestic product* in the second half of the year at an annual rate of the order of 4½%. The somewhat less buoyant trend of industrial production should be offset to a great extent by the expected improvement in construction and also in services, particularly in tourism and transport. If harvests are normal, the growth rate for

¹ See Annex for a comparison of wage cost trends in the Community countries and the United States.

1976 may be slightly higher than so far expected, reaching about 4½% as against a drop of 2½% last year (see Tables 9 + 10). The dispersion of the growth rates of the various countries around the average rate will be somewhat wider than previously forecast, because of the stronger performance expected notably for the Federal Republic of Germany and France, and the less favourable trend likely to be experienced by Italy, the only

Community country where there is any fear of activity slackening in the second half of the year. According to the incomplete information available at present, economic expansion should continue in 1977 at a rate close to the long-term rate of growth. Consequently, there is little chance of the growth lost through the crisis being offset by next year, particularly in those Member States faced with balance of payments constraints.

TABLE 10
Changes in the principal macro-economic aggregates in the Community ¹

	Gross domestic product (volume)					Consumer prices ²				
	% changes on preceding year									
	Average 1968-1972 ³	1973	1974	1975	1976	Average 1968-1972 ³	1973	1974	1975	1976
Denmark	4.8	3.0	1.6	- 1.1	5.0	5.6	8.5	15.0	9.6	9
F.R. of Germany	5.5	5.1	0.6	- 3.5	6.0	3.8	7.0	7.3	6.1	5
France	5.7	5.6	3.9	- 2.0	6.0	5.3	7.2	13.7	11.8	10½
Ireland	5.2	5.4	0.4	- 1.5	3.0	7.5	11.0	17.3	21.0	17
Italy	3.9	6.8	3.4	- 3.7	1½	5.1	12.1	19.6	17.4	20½
Netherlands	5.7	4.1	2.9	- 0.7	4.0	6.0	8.8	10.0	10.4	9½
Belgium	5.4	6.3	3.9	- 1.3	3½	3.5	6.3	12.3	12.8	10½
Luxembourg	4.3	7.5	4.4	- 7.7	4.0	3.9	6.1	9.5	10.7	9½
United Kingdom	2.2	5.6	0.3	- 1.6	2½	5.6	8.75	15.2	22.0	15½
Community	4.7	5.3	2.0	- 2.5	4½	5.2	8.3	12.6	12.4	11
	Number of unemployed as a % of the total labour force ⁴					Balance on current account (1 000 million \$) ^{5 6}				
	Average 1968-1972	1973	1974	1975	1976	Average 1968-1972	1973	1974	1975	1976
	Denmark	1.3	0.8	2.1	4.7	4.4	0.3	- 0.5	- 1.0	- 0.5	- 1.3
F.R. of Germany	0.8	1.0	2.2	4.1	3.8	1.4	4.3	9.7	3.1	2.2
France	2.0	2.1	2.3	3.8	4.1	0.3	- 0.7	- 5.9	- 0.2	- 3.9
Ireland	5.7	5.9	5.7	8.0	10.0	- 0.2	- 0.2	- 0.7	- 0.1	- 0.6
Italy	3.4	3.5	2.9	3.3	3.8	2.0	- 2.5	- 7.8	- 0.5	- 0.8
Netherlands	1.6	2.4	3.0	4.3	4.7	0.1	1.8	1.6	1.6	2.2
Belgium	2.3	2.4	2.5	4.4	5.3	0.6	1.1	0.9	1.0	0.8
Luxembourg	0	—	—	0.8	0.6					
United Kingdom	2.9	2.5	2.4	3.8	5.0	0.9	- 2.0	- 8.6	- 3.8	- 3.3
Community	2.1	2.1	2.5	3.9	4.4	4.8	1.3	- 11.8	0.6	- 4.7

¹ 1968-1974: actuals, 1975: estimates, 1976: forecasts by the services of the Commission.

² On a national accounts basis.

³ Geometric mean of the change from 1967 and 1972.

⁴ As a result of disparities in definition, unemployment statistics cannot be compared between countries but only reflect developments within each country.

⁵ Sum of components may not exactly equal total because of rounding differences.

⁶ Under the hypothesis that exchange rates will remain at their level in April 1976.

Source: Commission's Departments

In the Community as a whole continued expansion should lead to a further reduction in underemployment in the second half of the year and a slight increase in the numbers in paid *employment* due largely to demand in the services sector. Trends in the various countries will be determined mainly by the changes in the labour supply and the strength of the recovery, notably that in fixed investment. Generally speaking, the prospects for an improvement in the labour market situation and absorption of the growth in the labour force will be brightest in those countries where the claims of the

various socio-economic groups are most closely in line with the realities of the macro-economic situation. Overall, the number of wholly unemployed may well level out, except in Italy, where it is likely to rise. In the Community as a whole the unemployment rate will probably be 4.4% on average in 1976 as against 3.9% last year (see Table 10).

Despite the generally fairly high degree of elasticity of internal supply, there is likely to be a deterioration on the prices front between now and the end of the year in several

TABLE II
Main monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1974	116.3	116.9	116.5	116.7	116.2	120.2	116.6	115.3	114.8	112.9	112.3	108.5
	1975	108.9	109.5	109.1	104.9	104.6	106.5	104.6	105.5	105.4	106.7	109.9	108.9
	1976	111.4	113.7	111.4									
Orders	1974	+ 1	+ 1	0	- 2	- 5	- 9	-13	-24	-31	-39	-48	-56
	1975	-59	-60	-62	-62	-63	-62	-62	-63	-59	-51	-49	-47
	1976	-40	-36										
Unemployment rate	1974	2.1	2.1	2.2	2.3	2.3	2.4	2.5	2.6	2.8	2.9	3.0	3.0
	1975	3.2	3.3	3.5	3.7	3.8	4.0	4.2	4.2	4.4	4.4	4.4	4.4
	1976	4.4	4.3	4.3									
Consumer prices	1974	1.3	1.4	1.2	1.7	1.1	1.0	1.0	0.7	1.2	1.3	1.2	0.8
	1975	1.3	1.0	0.9	1.6	1.4	0.9	0.5	0.4	0.8	0.8	0.8	0.6
	1976	1.0	1.1	1.0	1.3								
Intra-Community trade (million Eur)	1974	8 803	8 423	9 006	9 550	9 822	8 476	9 924	9 283	9 402	9 549	8 775	8 700
	1975	8 723	8 631	7 916	9 543	8 383	8 766	8 939	8 981	9 772	9 606	9 449	10 433
	1976	9 848	10 248										
Exports of goods (million Eur)	1974	7 997	8 120	8 543	8 862	9 209	8 290	9 724	9 642	9 418	9 854	9 434	9 997
	1975	9 645	9 451	8 711	9 734	9 112	9 294	9 547	9 174	9 445	9 899	9 485	10 251
	1976	9 904	9 741										
Imports of goods (million Eur)	1974	9 041	9 402	10 238	10 659	10 552	10 098	10 632	10 719	10 324	11 161	10 238	10 570
	1975	10 045	9 009	8 842	9 959	8 908	9 356	9 961	9 046	10 043	10 857	10 133	11 411
	1976	10 563	10 456										
Trade balance (million Eur)	1974	-1 044	-1 282	-1 695	-1 797	-1 343	-1 808	-908	-1 077	-906	-1 307	-804	-1 573
	1975	- 400	+ 442	- 131	- 225	+ 204	- 62	-414	+ 128	-598	-1 958	-648	-1 160
	1976	- 659	- 715										
Gross official reserves (gold excl., million Eur)	1974	38 341	37 098	39 008	39 168	38 690	37 659	38 255	38 542	39 147	38 649	38 792	35 561
	1975	35 596	36 375	37 336	36 985	36 553	35 971	35 053	35 044	35 755	36 620	36 362	38 358
	1976	38 274	38 505	39 843	37 289								
Exchange rate 1 Eur = ...\$	1974	1.14	1.18	1.22	1.26	1.29	1.27	1.28	1.25	1.23	1.26	1.29	1.31
	1975	1.36	1.39	1.41	1.38	1.39	1.39	1.32	1.27	1.24	1.25	1.25	1.24
	1976	1.24	1.25	1.24	1.25								

: No data available.

Source: SOEC and Commission's Departments

Industrial production: excluding building and construction; seasonally adjusted.

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

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

Consumer prices: change from preceding month

Intra-Community trade: on imports basis, seasonally adjusted

External trade: trade with non-member countries; seasonally adjusted.

TABLE 12

Community trade balance 1974, 1975 and 1976¹

Mio Eur

Monthly average

Balance of With respect of	Year	FR of Germany	France	Italy	Nether- lands	BLEU	United Kingdom	Ireland	Den- mark
	INTRA EEC								
FR of Germany	74		- 152	- 109	+ 82	- 36	- 136	- 9	- 55
	75		- 98	- 5	+ 144	- 22	- 96	- 1	- 54
	76		- 125	- 35	+ 208	- 28	- 107	+ 1	- 55
France	74	+ 167		- 103	+ 58	+ 34	- 66	- 8	- 7
	75	+ 99		- 32	+ 58	+ 9	- 62	- 3	- 7
	76	+ 174		- 29	+ 107	+ 46	- 29	- 6	- 5
Italy	74	+ 97	+ 93		+ 42	+ 10	- 35	- 3	+ 5
	75	- 27	+ 18		+ 35	- 2	- 35	- 0	+ 9
	76	+ 58	+ 68		+ 64	+ 6	- 34	- 0	+ 17
Netherlands	74	- 45	- 34	- 27		+ 3	- 36	- 2	- 23
	75	- 92	- 43	- 21		- 14	- 30	+ 4	- 23
	76	- 183	- 74	- 49		+ 36	- 107	+ 3	- 28
BLEU	74	+ 43	- 12	- 16	- 3		+ 38	+ 0	- 16
	75	+ 27	+ 11	- 2	+ 14		+ 28	+ 3	- 14
	76	+ 33	- 20	- 8	- 36		+ 20	+ 3	- 20
United Kingdom	74	+ 125	+ 43	+ 22	+ 80	- 13		- 19	+ 16
	75	+ 82	+ 52	+ 20	+ 75	- 3		- 6	+ 36
	76	+ 100	+ 5	+ 8	+ 84	- 30		- 43	+ 10
Ireland	74	+ 8	+ 6	+ 2	+ 4	+ 1	+ 31		+ 2
	75	- 2	+ 1	- 1	+ 2	- 1	+ 21		+ 1
	76	- 2	+ 2	- 2	- 1	- 3	+ 43		+ 2
Denmark	74	+ 57	+ 4	- 7	+ 22	+ 12	- 20	- 2	
	75	+ 48	+ 5	- 10	+ 22	+ 14	- 23	- 1	
	76	+ 91	+ 4	- 12	+ 29	+ 17	- 4	- 1	
EEC Total	74	+ 452	- 52	- 238	+ 285	+ 11	- 224	- 43	- 78
	75	+ 135	- 54	- 51	+ 320	- 19	- 197	- 4	- 52
	76	+ 271	- 140	- 127	+ 455	+ 44	- 218	- 43	- 79
EXTRA EEC									
USA	74	+ 87	- 128	- 54	- 110	- 23	- 117	- 0	- 10
	75	- 28	- 128	- 67	- 157	- 49	- 131	- 5	- 10
	76	- 106	- 147	- 45	- 160	- 54	- 83	- 3	- 5
Japan	74	- 12	- 32	- 8	- 16	- 8	- 44	- 2	- 11
	75	- 50	- 39	- 10	- 22	- 17	- 56	- 3	- 6
	76	- 42	- 33	- 14	- 20	- 20	- 40	- 4	- 15
OPEC ²	74	- 288	- 372	- 451	- 284	- 138	- 491	- 16	- 58
	75	- 94	- 301	- 262	- 228	- 76	- 178	- 9	- 21
	76	:	:	:	:	:	:	:	:
Other	74	+ 1 094	+ 120	+ 43	+ 110	+ 60	- 157	- 18	+ 12
	75	+ 999	+ 389	+ 165	+ 98	+ 41	- 34	- 15	- 15
	76	:	:	:	:	:	:	:	:
EXTRA EEC Total	74	+ 881	- 412	- 470	- 300	- 109	- 809	- 36	- 67
	75	+ 827	- 79	- 174	- 309	- 101	- 399	- 32	- 52
	76	+ 457	- 338	- 299	- 411	- 146	- 367	- 39	- 101
WORLD	74	+ 1 333	- 464	- 708	- 15	- 98	- 1 033	- 79	- 145
	75	+ 962	- 133	- 225	+ 11	- 120	- 596	- 36	- 104
	76	+ 728	- 478	- 426	+ 44	- 102	- 585	- 82	- 180

¹ 1976: January and February only² OPEC. Includes Algeria, Abu Dhabi, Dubai, Ecuador, Gabon, Indonesia, Iran, Iraq, Katar, Kuwait, Nigeria, Saudi Arabia and Venezuela

: No data available

Source: SOEC and Commission's Departments.

Member States. Moreover, the wide differences between the various countries may well persist or even increase further despite efforts aimed at stabilization. The impact of existing or expected differences in the rate of cost rises, particularly in import prices, unit wage costs and the cost of finance, could be compounded by the continuing instability in exchange rates. In addition, Member States' policies on taxation and public services charges will continue to have a varying impact on prices, the structural rigidity of which has scarcely eased. At the consumer level, the more or less brisk acceleration expected in the second half of the year in several Member States (Italy, France, Belgium and Denmark) and the maintenance, or even in some cases the slight slowing, in the present rate of increase in the other countries will probably mean an average rate of price increase for the Community as a whole of some 11% in 1976, as against 12.4% in 1975 (see Table 10).

Imports will probably continue to grow rapidly in the coming months as the recovery within the Community is consolidated. There will no doubt be a steady expansion in purchases of raw materials and consumer goods, while the trend of imports of capital goods, although more vigorous than before, will probably not be very buoyant. The comparatively less rapid growth of exports combined with a gradual worsening in the terms of trade induced by the upward movement of world prices and the depreciation of certain currencies may well lead to a further widening of the *trade deficit* and the *external deficit* of several Member States by the end of the year. For the Community as a whole the balance of payments on current account may well deteriorate between 1975 and 1976 by more than 5 000 million dollars (see Table 10). The fact that this deterioration will be spread unevenly among the various countries highlights the importance of what remains to be done in several Member States by way of adapting economic structures to the new international situation in the field of energy and raw materials.

Major economic policy measures

December 1975:

- The European Council, meeting in Rome on 1 and 2 December, reaffirmed the need to maintain close coordination between the economic policies of the Member States in order to consolidate economic recovery and to raise the level of employment.
- At the same meeting, the European Council agreed to make every effort to ensure prompt ratification of the Treaty setting up a European Court of Auditors, signed in Brussels on 22 July, so that the Court could start its work this year.
- On 18 December, the Council, acting on a proposal from the Commission, adopted a decision extending for a period of eight years, i.e., until 31 December 1979, the medium-term-financial assistance machinery. It also adopted a Directive adapting the conditions governing the grant of medium-term financial assistance to Italy.

January 1976:

- On 1 January a further 20% reduction in import duties between the original members of the Community and the new Member States came into force.

February:

- At its meeting of 16 February, the Council adopted a resolution to the effect that the Commission should consult it again on the level of prices before introducing a system of minimum prices for steel products.

March:

- At its meeting of 15 March, the Council authorized the Commission to conclude borrowing arrangements with a number of syndicates of international banks with a view to granting a 1 000 million dollar loan to Italy and a 300 million dollar loan to Ireland. It also laid down the economic policy conditions to be complied with by these countries in connection with the granting of the loans.
- The Council, in accordance with its Decision on the attainment of a high degree of convergence of the economic policies of the Member States, conducted its first quarterly examination of the economic situation in the Community and gave its approval to the proposal for a Decision concerning the adjustment of economic policy guidelines for 1976, the text of which was annexed to the Commission Communication of 3 March 1976.

April:

- At its meeting of 1 and 2 April in Luxembourg, the European Council asked the Commission to present proposals on the unemployment problem for the Tripartite Conference (Council, Commission and the social partners), which should take place before the summer holidays.

II. The situation in each of the Community countries

Denmark

The conjunctural improvement which began in the autumn due to the acceleration in private consumption and growth in the construction sector has accelerated in the past few months. On account of the stronger world demand, exports have now started to increase. The unemployment rate, although still high, has fallen slightly. The rise in prices seems to have moderated but the current balance of payments deficit has risen sharply.

In conjunction with an increased dynamism of exports, the recovery should continue in the months to come and result in a slow improvement in employment. The underlying factors causing price increases will still be strong and the external position should continue to remain difficult.

1. Recent developments

After a recessionary phase from the middle of 1974 to autumn of 1975 the Danish economy more recently has experienced a fairly rapid recovery, due principally to the stimulatory measures taken by the authorities, in particular at the beginning of September 1975. However, the foundations of this recovery were based essentially on internal demand and have only recently spread to exports because of the improvement in the world conjunctural situation. The unemployment rate has shown a tendency to fall slightly. Price increases appear to have slowed down since the beginning of the year. The balance of payments has deteriorated substantially.

Contrary to the majority of other Community countries, total Danish *exports*¹ remained weak until the spring due to the effect of the following factors: the pronounced decline in sales of agricultural produce because of the modest harvest in 1975, the moderate demand from important trading partners, in particular Sweden and the United Kingdom, and increased competition on international markets. These have resulted in an increase of only 0.9% in export values in the first quarter on the preceding period. More recently the recovery in industrial exports appears to have accelerated and spread even to deliveries of capital goods.

Domestic demand has continued to strengthen. The pick-up in sales on the home market since last autumn as well as the measures taken at that time to stimulate *investment* have encouraged firms to invest. The construction sector, notably residential buildings, was the first to react favourably to the incentives given since the beginning of 1975. Thus, the number of housing starts, which grew strongly in the fourth quarter of 1975, continued to increase rapidly in the first quarter of this year. Next in line, industrial investment, which had experienced a substantial fall, improved progressively, as can be seen from the latest results of the surveys among managements. On the basis of partial indicators it appears that the capital equipment sector saw large increases. Finally, after the stock depletion observed in numerous sectors, a reconstitution phase seems to have begun.

Private consumption, which benefited from the important stimulatory measures taken last September, has been the driving force of the recovery in demand since the autumn. The temporary reduction of 5% in VAT (applied up to the end of February) has brought about substantial purchase of numerous consumer durables which had been put off during the recessionary period. In addition, disposable incomes have increased as a consequence of salary increases in September 1975 (+ 3%) and March (+ 5%) to which must be added the supplementary effect of certain measures, in particular the repayment at the beginning of the autumn of sums transferred by individuals under the obligatory savings scheme. Finally, the savings ratio is likely to be considerably less given the temporary incentive of cheaper goods as well as the relative improvement in the employment outlook. The deseasonalized index of the volume of retail sales grew by nearly 14% during the period October to February as against the five previous months of stagnation. In this same period the number of new car registrations increased by 34%. On the other hand, public consumption is likely to have continued moderately.

Production reacted favourably to this growth in demand, as is shown by the substantial increase in the index of industrial sales (excluding resales) since the last quarter of 1975 (+ 12% in the first quarter of 1976 on the preceding year). The consumer durables industry and construction have been particularly dynamic. Agricultural production has in total remained stagnant.

Employment has tended to stabilize. Numbers at work have scarcely changed in manufacturing industry, and some increase has been noted in the construction sector, in particular in house building. The number of unfilled vacancies has continued to grow sharply. The unemployment rate has fallen since the beginning of the year; the number of insured unemployed,¹ corrected for seasonal factors, was 101 400 in March or 4.1% of the labour force instead of 110 100 and 4.5% respectively in September last.

After some acceleration in the fourth quarter due mainly to the effect of increases in rents and possibly also to increases in retailers profit margins, the rise in prices has

¹ Excluding ships and aircraft.

¹ SOEC figures.

moderated a little. In the first four months of 1976 the consumer prices index¹ registered an increase of 2.7% instead of 3.2% in the preceding period, which corresponds to an annual rate of the order of 8.3% as against 9.9%.

The acceleration in internal demand and the fall in the level of stocks, as a result of the stimulatory measures of last September, have, since this period, led to an increased need for *imports*, in particular of consumer goods. In the first quarter their increase in value was 4.2% over the final quarter of 1975.

As exports have only increased recently the *trade balance* has deteriorated sharply. For the first quarter the deficit reached 4 500 million kroner, which is nearly twice that recorded for the same period last year.

The deterioration in the current balance of payments accentuated and although medium and long-term capital inflows were large, total reserves fell sharply and reached 4 800 million kroner at the end of April as against 6 200 million kroner at the end of January.

Budgetary policy has since September last played a very

active role. On the revenue side the smaller receipts resulting from the lowering of value added tax have been compensated for by additional receipts caused by the recovery in private consumption.

Monetary policy has still been to neutralize the effects on internal liquidity of the strong increase of the Government deficit. The money supply (M2) grew rapidly since December and in April the annual rate of growth was 26.2%, as against 25.5% at the end of 1975. After the authorization (covering up to 10 000 million kroner) received in March the National Bank has since April begun selling Government bonds and short-term securities in order to mop up in total the deficit forecast for the financial year 1976/77. The discount rate was raised by 1% to 8½% on 18 March. Short-term in particular and also long-term interest rates have increased sharply since the beginning of 1976. Within the framework of the agreement reached last November between the National Bank and the Council of the mortgage credit institutions, to limit the amount of loans up to the end of 1976, credit policy became more restrictive. The disturbances which affected the exchange markets in the early months of 1976 resulted in a slight appreciation of the Danish kroner (+ 2.3% from December to April on a trade weighted basis).

¹ Excluding the changes in indirect taxes.

TABLE I
Key indicators

Denmark	Unit	1968-1972 average ^{5 6}	1973 ⁶	1974 ⁶	1975 ⁷	1976 ⁷
Gross domestic product; volume	% change	4.8	3.0	1.6	- 1.1	5.2
of which: Industry ¹		6.5	3.1	2.1	- 7.0	9.5
Gross domestic product in volume per person in employment	% change	4.2	3.1	2.0	- 0.3	4.7
Total employment (number of persons) ²	% change	0.6	- 0.1	- 0.3	- 0.8	0.5
— Independent entrepreneurs		- 2.5	- 3.0	- 0.6	- 3.0	- 1.0
— Wage and salary earners in company sector		- 0.2	- 2.4	- 2.2	- 2.6	0.3
— General Government		6.7	9.1	4.7	3.3	2.0
Unemployment ³	as % of labour force	1.3	0.9	2.1	5.0	4.7
Compensation of employees per wage and salary earner	% change	10.3	18.4	21.1	14.5	12.5
Price index of private consumption ⁴	% change	5.6	8.5	15.0	9.6	9.1
Current account balance ⁴	Dkr '000 million	- 2.7	- 3.2	- 6.6	- 2.2	- 8.0

¹ Excluding construction but including repairs and maintenance

² Domestic concept

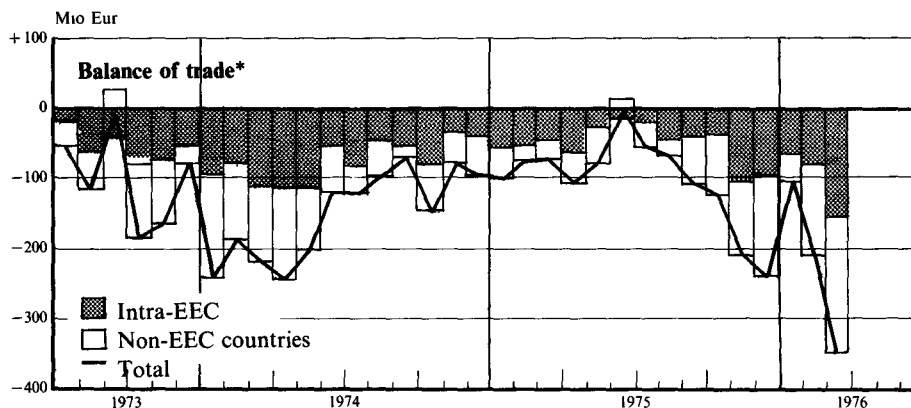
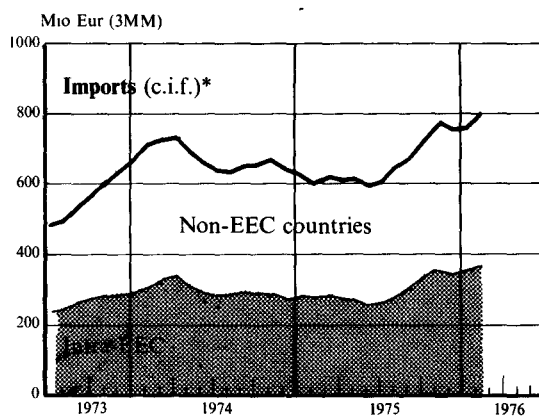
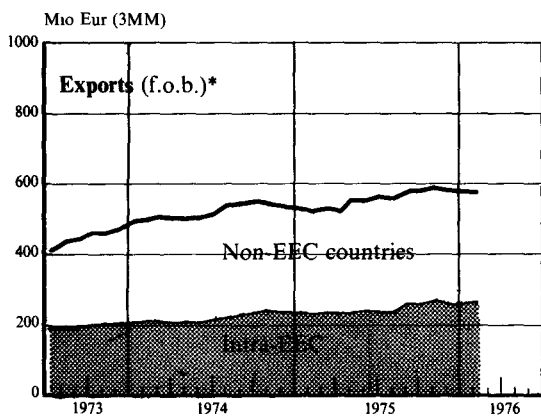
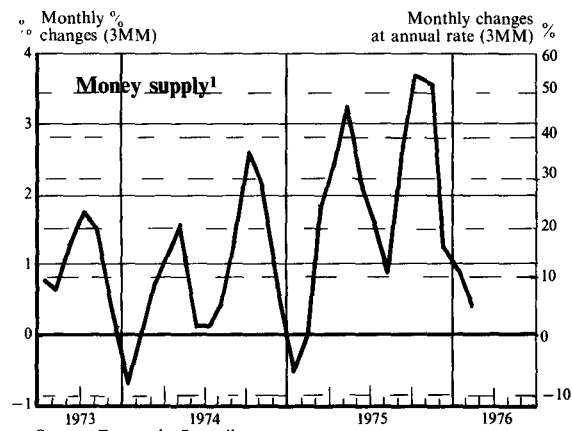
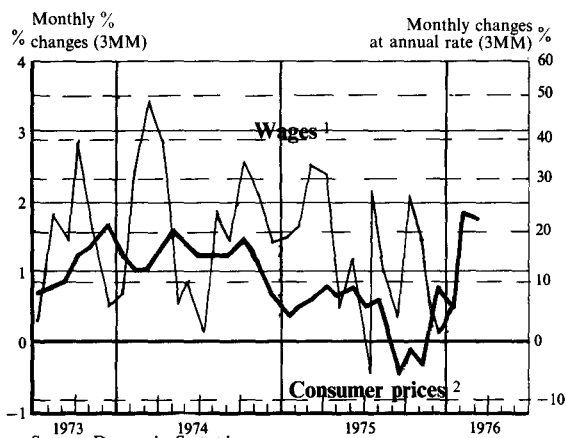
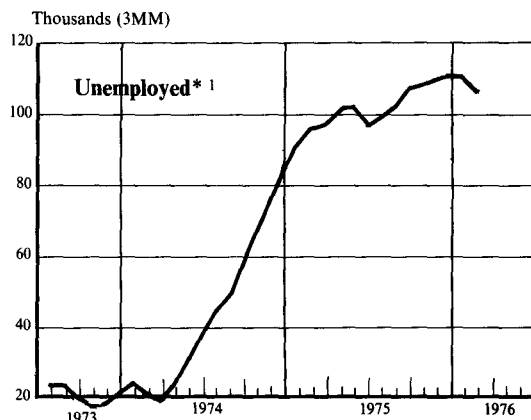
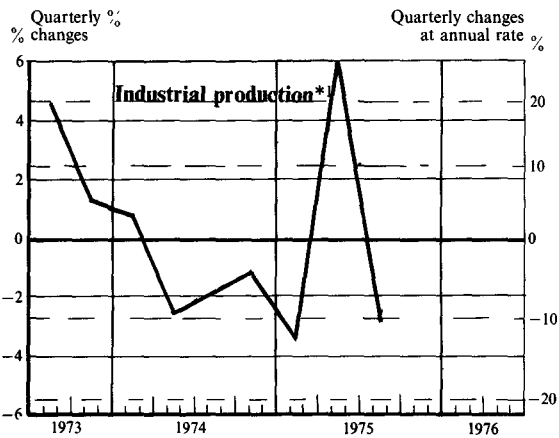
³ Up to the end of 1972 insured unemployed only. Since 1973 total number of registered unemployed

⁴ National accounts concept

⁵ Geometric mean of the change from 1967 to 1972, unemployment and current account balance arithmetic mean over the five years

⁶ Source: Danmarks Statistik

⁷ Estimates of Commission's Departments



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

2. Outlook

The recovery in internal demand, which has been more rapid and more pronounced than in the majority of other Community countries, should be consolidated over the next few months due primarily to a further improvement in the investment propensity which should compensate for the eventual temporary levelling off of private consumption after the progress in past months. It can equally be foreseen that a more dynamic development of exports will take place based on the strengthening expected in the principal world markets and the increases already recorded in order books. Under these conditions, the rate of growth of the Danish economy could be over 5% in 1976.

Exports should develop more rapidly in the coming months, mainly because of the acceleration of demand from the Federal Republic of Germany and from other community countries. The diversified structure of Danish sales should also represent a considerable advantage in this acceleration phase in foreign demand. As the Swedish market is likely to be slightly stronger than foreseen, these factors in total should compensate for the negative effect on competitiveness in export markets of the appreciation of the Danish krone since the beginning of the year.

Internal demand should continue to grow rapidly as can be seen from the latest surveys as well as from the state of

order books in industry. Capital investment will undoubtedly make additional progress due both to improvements in sales prospects on external markets and the continuing effect of the stimulatory measures taken last September which continue in operation up to the end of 1976. In addition, the stock replenishment cycle could accentuate not only for raw materials because of the acceleration in production but also for finished goods, given the increased needs caused by the buying spree of the last few months. The construction sector, particularly residential, could conversely experience some slowdown because of the increased cost of financing¹ caused by the rise in interest rates as well as the suppression of certain incentives (tax and credit).

After a slowdown in the spring, already shown by the large fall in retail sales in March, in reaction to the anticipatory purchases made up to the abolition of the reduction in VAT, *consumer expenditure* should then stabilize up to the end of the year. Indeed, disposable incomes will be influenced favourably by the increases in salaries in March last within the framework of the legislation in the spring of 1975, as well as by the effect of the easing of direct taxation. In addition, the more favourable outlook for growth and employment should be reflected in a persistent tendency towards a reduction in the savings ratio.

¹ See Report 4 1974.

TABLE 2

Demand for and supply of goods and services

Denmark	1973 ²	1974 ²			1975 ³			1976 ³		
	At curr prices Dkr '000 mio	% change on preceding year								
		Vol	Price	Val	Vol	Price	Val	Vol	Price	Val
Private consumption	94.6	- 3.5	15.0	11.0	5.5	9.6	15.6	5.5	9.1	15.1
Public consumption	36.3	2.6	18.3	21.2	4.0	13.1	17.7	2.5	10.0	12.8
Gross fixed asset formation	38.1	- 9.7	18.0	6.6	- 12.8	11.6	- 2.7	11.0	7.5	19.2
Domestic final uses (excluding change in stocks)	169.0	- 3.4	16.1	12.2	1.3	10.8	12.2	5.8	9.1	15.4
Domestic final uses (including change in stocks)	170.4	- 1.2	14.4	13.1	- 2.3	11.1	8.6	7.9	9.1	17.7
Exports ¹	52.9	5.1	19.6	25.7	- 1.9	9.0	6.9	5.0	7.0	12.5
Imports ¹	55.9	- 3.5	33.2	28.4	- 5.1	4.5	- 0.8	12.0	7.0	20.0
Gross domestic product at market prices	167.4	1.6	10.2	11.9	- 1.1	12.8	11.6	5.5	9.1	15.1
Contribution to percentage change in GDP										
Domestic final uses (excluding change in stocks)	169.0	- 3.6		12.3	1.3		12.3	5.9		15.6
Change in stocks	1.4	2.2		1.0	- 3.6		- 3.5	2.0		2.1
Balance of exports and imports ¹	- 3.0	2.8		- 1.4	1.3		2.8	- 2.3		- 2.6

¹ Goods and services

² Source: Danmarks Statistik.

³ Estimates of Commission's Departments

Especially due to the hypothesis concerning the acceleration of external demand, *production* should make additional progress in the course of the coming months. The recovery already observed in the consumer goods sector should be accentuated and extend also to producer goods output. The employment situation should experience some improvement: unemployment could fall slightly but still remain at a relatively high level.

After the absorbing into *prices* of those increases consequent to the abolition in March of the VAT reduction, the underlying factors leading to higher prices will remain important up to the end of the year. Higher

rents in July will be reinforced by the effects of increases in imported raw materials. This trend however may be slowed down by the measures taken within the framework of the budget to limit price rises.

Given the improvement expected in overall demand and the continuation of restocking, *imports* will remain high for the rest of the year. Even taking into account a recovery in exports and some favourable movement in the terms of trade the trade balance should still register a substantial deficit. The current balance of payment positions could however improve a little up to the end of the year.

TABLE 3

The central government budget

Denmark	1975/1976			1976/1977	
	Original budget		Provisional outturn	Original budget	
	Dkr mill	% change ²	Dkr mill.	Dkr mill.	% change ²
Expenditure	67 933	10.6	72 495	79 386	16.9
Revenue	62 055	- 4.7	60 255	66 815	7.7
of which:					
— direct taxes	28 526	- 16.2	27 755	31 655	11.0
— indirect taxes	31 324	7.6	30 200	33 100	5.7
Net borrowing requirement	- 5 878		- 12 240	- 12 571	

¹ Disregarding debt extinction.

² On the preceding year's original budget.

Note.

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

The degree of external imbalance at present constitutes a worrying problem for *economic policy* in so far as it increases the burden of external debt and limits the room for manoeuvre of the authorities. Such a development threatens to make a restraining of domestic demand inevitable in a still delicate conjunctural phase with unemployment at a high level. Thus, a leading role will fall on incomes policy in order to moderate the rise in prices and salaries and lead to a substantial improvement in production costs.¹ This objective is all the more necessary since it would enable the unfavourable results obtained since the beginning of the decade to be corrected and to alleviate the balance of payments by a transfer of resources towards the export and import substitution sectors.

Major economic policy measures

November 1975:

— The Central Bank and the Mortgage Credit Council agreed to restrict

¹ In this respect the Parliament adopted in September 1975 a two-year programme aimed at achieving the realization of this objective.

total lending to Dkr 29 500 million in the period from 15 December 1975 to the end of 1976, implying a reduction of about 15% compared with 1975.

— The Minister of Finance submitted the budget proposals for 1976/77 to the Danish Parliament. The budget shows a deficit to be financed of Dkr 16 500 million against a deficit of Dkr 10 500 million in 1975/76.

December:

— Unemployment benefits were raised from Dkr 160 to Dkr 173 per day for full-time insured workers.

— The Parliament adopted State subsidies for projects designed to achieve major reductions in pollution. Subsidies of up to 25% of firms' investment costs may be granted until the end of 1980.

— The Committee regulating civil servants' salaries as laid down in the legislation of March 1975, has decided that civil servants (around 400 000) will only get half of the wage drift in the private sector. The first adjustment of 1% increase will take place on 1 April 1976. The following two adjustments — October 1976 and April 1977 — may exceed the increase of 1% in April 1976.

January 1976:

— Customs duties between Denmark and the other Member States of the Community were cut by a further 20% with effect from 1 January.

February:

— The Danish Parliament agreed on a compensation to the business sector for one of the two cost-of-living portions released by the January

TABLE 4

Main economic indicators

	Year	Jan.	Feb.	Mar	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov	Dec
Industrial production (1970 = 100)	1974	111	113	124	112	114	112	77	114	115	116	108	94
	1975	96	97	99	103	99	107	75	105	116	120	110	107
	1976	99	(107)	(122)	.	.	.	.	.	.	.	.	.
Unemployed* (1 000)	1974	23.5	19.6	17.3	21.7	31.8	39.4	43.6	48.9	59.5	73.4	79.0	79.7
	1975	102.2	91.0	99.8	103.4	101.3	99.8	91.3	107.0	109.7	110.7	108.1	113.5
	1976	112.5	107.7	101.4	.	.	.	.	.	.	.	.	.
Construction:	1974	3 104	2 407	2 590	3 294	1 690	2 760	1 113	1 224	1 939	1 690	1 070	1 384
	1975	1 915	1 723	2 141	2 379	2 925	3 263	2 271	2 363	3 181	3 564	3 464	3 182
	1976	3 121	3 224	6 734	.	.	.	.	.	.	.	.	.
Private consumers' expenditure* (1970 = 100)	1974	141.6	142.4	140.0	145.6	148.8	143.2	146.4	145.6	144.8	148.8	150.4	148.8
	1975	167.6	160.0	158.4	160.0	159.2	164.8	165.6	164.0	160.0	178.4	177.6	174.4
	1976	178.4	204.8	171.2	.	.	.	.	.	.	.	.	.
Consumer prices (1970 = 100)	1974	133.6	134.0	135.1	137.4	139.2	141.6	143.3	144.2	146.6	148.5	150.5	151.5
	1975	151.7	152.1	153.2	153.9	155.8	156.7	157.5	158.0	159.4	155.4	157.9	158.0
	1976	158.9	160.0	167.0	.	.	.	.	.	.	.	.	.
Visible imports* (million Eur)	1974	712.4	697.6	721.7	733.8	695.4	618.2	642.2	637.1	608.1	694.6	639.6	618.1
	1975	631.4	613.8	558.6	677.3	567.9	579.3	627.5	604.3	662.4	768.9	764.0	820.8
	1976	708.4	773.5	918.0	.	.	.	.	.	.	.	.	.
Visible exports* (million Eur)	1974	470.8	504.8	505.5	492.4	493.0	496.1	519.5	536.1	546.2	554.2	556.8	519.0
	1975	527.8	538.4	484.1	565.7	490.5	576.3	559.8	532.1	549.7	645.7	552.4	578.8
	1976	607.6	564.5	570.6	.	.	.	.	.	.	.	.	.
Balance of trade* (million Eur)	1974	-241.6	-192.8	-216.2	-241.4	-202.4	-122.1	-122.7	-101.0	-61.9	-140.4	-82.8	-99.1
	1975	-103.6	-75.4	-74.5	-111.6	-77.4	-3.0	-67.7	-72.2	-112.7	-123.2	-211.6	-242.0
	1976	-100.8	-209.0	-347.4	.	.	.	.	.	.	.	.	.
Foreign exchange reserves (million Eur)	1974	997	974	921	892	925	884	876	867	848	871	978	939
	1975	896	825	792	774	753	745	783	800	874	829	857	757
	1976	817	799	674	(648)	.	.	.	.	.	.	.	.
Money supply (million Eur)	1974	5 077	5 001	4 954	5 198	5 182	5 319	5 181	5 162	5 337	5 370	5 649	5 722
	1975	5 210	5 219	5 423	5 659	5 683	6 303	6 184	6 012	6 259	6 711	6 914	7 224
	1976	6 693	6 901	6 868	.	.	.	.	.	.	.	.	.

() Provisional

· Not available.

* Seasonally adjusted

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

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

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

— Unemployment: Number of insured unemployed

— Construction: number of dwellings authorized, Danmarks Statistik

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

— Consumer prices: Consumer price index, including VAT

— Imports cf. exports: fob

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

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

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

wage-regulating price index. The subsidy is Dkr 1 252.80 per wage and salary earner for the period 1 March 1976 to 28 February 1977. The total costs for the Exchequer will be about Dkr 1 300 million.

— The curb the effects of the high deficit on the budget for the fiscal year 1976/77 the Government was authorized to float a Dkr 19 000 million loan on the domestic market.

— The credit ceiling was raised by 3%, from 23 February to about Dkr 86 000 million.

— The Profit Freeze Act adopted in March 1975 was eased. Firms may

now increase gross profits by the amount covering increases in rents, transport costs etc.

March

— The discount rate was raised by 1% to 8½%, with effect from 18 March.

— The budget 1976/77, which implies a deficit to be financed of Dkr 18 500 million, was adopted in the Folketing on 31 March.

April

— The maximum unemployment benefit raised by Dkr 11 to Dkr 184 per day for insured unemployed.

Federal Republic of Germany

In the Federal Republic of Germany, the underlying expansionary forces strengthened further in the spring. With the general improvement in the business climate, domestic demand as well as export demand picked up significantly. In spite of moderate wage and salary increases, private consumption rose steadily. Although at first stimulated by the effects of the counter-cyclical programmes introduced since 1974, investment finally developed increasing momentum of its own. Unemployment fell more sharply than is the seasonal norm and short-time working declined substantially.

In the coming months, the effects of the expansionary measures taken will wear off while the endogenous growth factors will gather momentum. The propensity to invest in particular could well be stimulated by a favourable trend in costs and profits. The economy is expected to go on expanding, though no longer as rapidly as in the initial phase.

1. Recent developments

In the early months of the year, the economic recovery continued in the Federal Republic of Germany. Overall demand and production expanded briskly, making up most of the ground lost last year. On the labour market, the rapid upturn in production led to a slight fall in unemployment and especially to a substantial decline in short-time working. Moderate wage awards helped to consolidate the expansionary forces.

As a result of the progressive improvement in the economies of her trading partners, *merchandise exports* showed a further sharp increase. The value of exports in the months January to April was, on average, a clear 12% up on a year earlier, exceeding for the first time the record level recorded in 1974. Exports to other Community countries and to the OPEC countries were particularly brisk, while those to State-trading countries and to developing countries stabilized at a high level. Exports of consumer goods and intermediate products in particular gathered additional momentum. With the vigorous expansion in demand, export prices began to show a slight upward tendency once more.

Business *investment demand* was probably still very largely influenced by the investment premium. The continuing revival of investment in plant and machinery, however, also points to a spontaneous improvement in the propensity to invest. The situation also improved distinctly in commercial and industrial building, although after the investment premium had come to an end the number of buildings authorized fell again slightly. In residential construction, too, the upswing in activity — from a very low base — continued. This trend was undoubtedly helped by the measures taken in the summer of 1975 and by the easier terms on which finance was available. However, following the very sharp expansion in the wake of the Government's special programmes, new public-sector orders for buildings dropped sharply again in the first few months of the year. Finally, restocking should continue to provide a stimulus to production.

The revival in *private consumption* persisted. First quarter retail sales were 9.5% higher in terms of value, and 5% higher in real terms, than a year earlier. In particular, the

demand for new motor vehicles remained very buoyant. Sales of new private cars in the first quarter were 28% higher than in the first quarter of 1975. There was also brisk demand for other consumer durables. This development, which was accompanied by a decline in the propensity to save, probably reflected the growing confidence of consumers in the future of the economy.

In the first quarter, the trend of incomes provided little if any stimulus because of the continued seasonal drop in employment and the moderate level and postponement of important wage settlements. The gross wage and salary bill in industry hardly rose compared with the corresponding period a year earlier. In addition, the growth in disposable income was adversely affected by increases in certain social security contributions and by the continued high rates of taxation.

Industrial production continued to expand vigorously in almost all sectors. Production in mechanical engineering has been marking time so far, and output in mining had to be cut further. In the first quarter, total production was 3.3% up on a year earlier, when the low point of the recession had almost been reached. Thanks to the more rapid expansion in output, capacity utilization in manufacturing improved noticeably; it amounted to 82.2% of normal total capacity in April as against a low point of 76% in the summer of 1975. Activity in the building industry was hampered by poor weather at the beginning of the year.

The situation on the *labour market* eased a great deal. The number of unemployed at the end of April stood at 1 093 700 or 4.8% of wage and salary earners, which means that the drop was sharper than that normally caused by the revival of activity in the spring. The expansionary forces in the economy have as yet had little if any impact on the labour market for office and administrative personnel. The decline in short-time working was particularly impressive. By mid-May, the number of workers on short time was down to 355 500. Demand for labour also continued to increase. The number of vacancies notified to employment offices totalled 252 100 at the end of April.

The sharp expansion in demand again provided a stimulus to *imports*. In the period January-April, the

value of merchandise imports was 19.4% higher than the admittedly very low figure recorded in the corresponding period a year earlier. As a result of the rapid recovery in production and the consequent movement in stocks, imports of intermediate products rose at a particularly brisk pace. However, sales of imported finished goods also continued to expand vigorously.

Price and cost trends in trade and industry were again favourably influenced by substantial productivity gains. Admittedly, industrial producer prices hardened again but, at 3.5%, the increase in the twelve months to April, was still relatively modest. Agricultural producer prices, on the other hand, climbed by 17.7% in the year to April. The sharp increase in food prices has been the main reason why the cost-of-living index has ceased to slow down further in recent months. In April, the index was 5.2% higher than a year earlier.

Owing to the stronger growth in imports, the *trade surplus* in the period January-April was appreciably lower than in the first four months of 1975 (DM 10 800 million as against DM 13 400 million). Since the aggregate deficits in services and transfers were virtually unchanged, the current account surplus fell accordingly. Long-term capital movements continued to show a deficit in the first few months of the year. In March there was a large inflow

of short-term capital as a result of the currency unrest. Mainly on account of intervention operations under the Community exchange rate system, the Bundesbank's net foreign assets rose substantially, to stand at DM 92 800 million by the end of April.

The strong economic recovery and the more cautious spending policy aimed at in the 1976 Budget (see Table 3) helped to improve the *Federal Government's financial position* in the early months of the year. In the same period, in addition to its current requirements, the Federal Government covered a substantial proportion of the financial deficit to be expected this year. The relatively large cash surpluses temporarily led to a sharp rise in balances held with the Bundesbank; as a result, *monetary expansion* did not gather pace in spite of the heavy inflows of foreign exchange in March. However, as the public authorities' balances were gradually run down, the money supply later expanded more rapidly again. At the beginning of May, the Bundesbank moved to counter this development and raised its minimum reserve requirements. Taking the average for the months January-April, the money supply M3 (stock of money and near-money, and savings deposits subject to the legal period of notice) was 9.4% above the level of a year earlier. As the supply of liquidity in the economy was relatively ample, short-term and long-term interest rates eased further.

TABLE 1
Key indicators

FR of Germany	Unit	1968-1972 average ^{4 5}	1973 ⁵	1974 ⁵	1975 ⁵	1976 ⁶
Gross domestic product; volume	% change	5.5	5.1	0.6	- 3.5	5.9
of which: Industry ¹		6.7	6.4	- 0.4	- 5.9	8.3
Gross domestic product in volume per person in employment	% change	4.9	4.8	2.5	- 0.3	6.8
Total employment (number of persons) ²	% change	0.6	0.3	- 1.9	- 3.2	- 0.8
- Independent entrepreneurs		- 2.9	- 1.7	- 2.0	- 2.7	- 2.0
- Wage and salary earners in company sector		0.9	0.2	- 2.9	- 4.5 ⁶	- 0.8
- General Government		3.0	3.0	3.4	+ 1.5 ⁶	0.5
Unemployment	as % of labour force	0.8	1.0	2.2	4.1	3.8
Compensation of employees per wage and salary earner	% change	10.7	12.9	11.7	7.6	8.6
Price index of private consumption ³	% change	3.8	7.0	7.3	6.1	5.0
Current account balance ³	DM '000 million	4.0	8.9	23.9	7.7	5.6

¹ Excluding construction

² Domestic concept

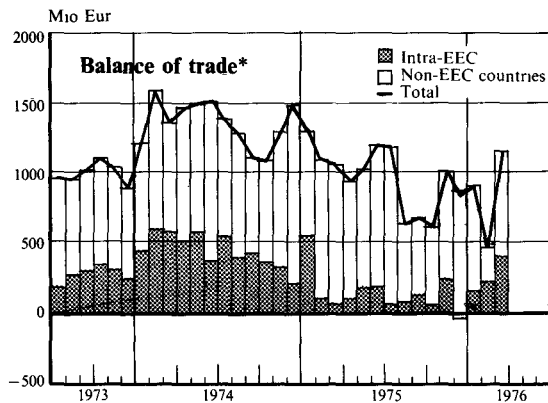
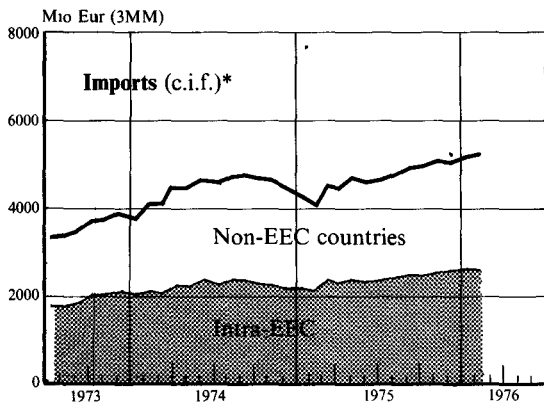
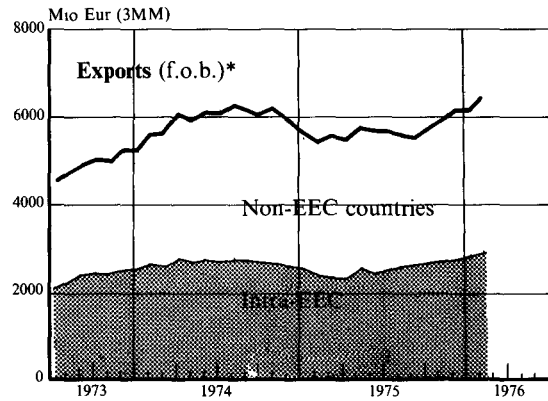
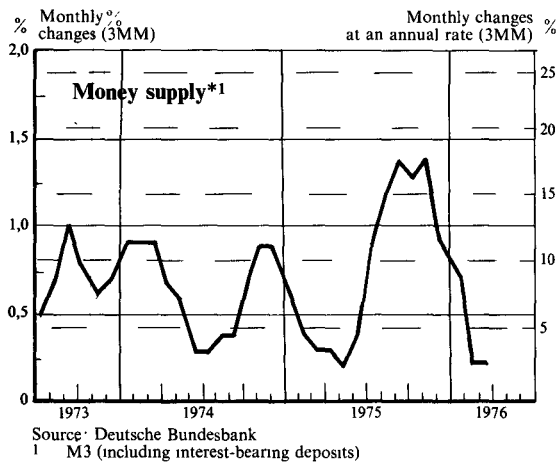
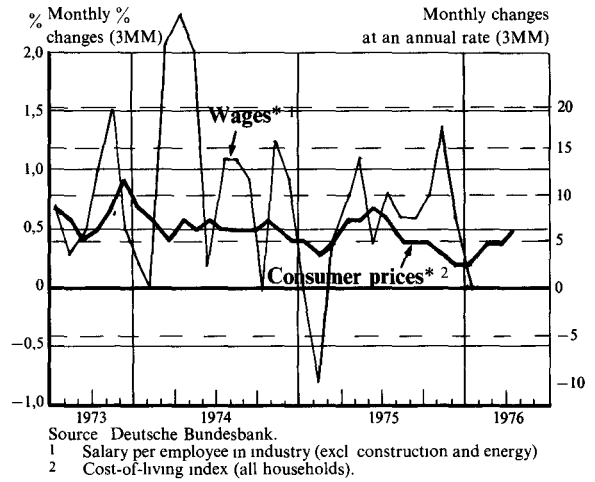
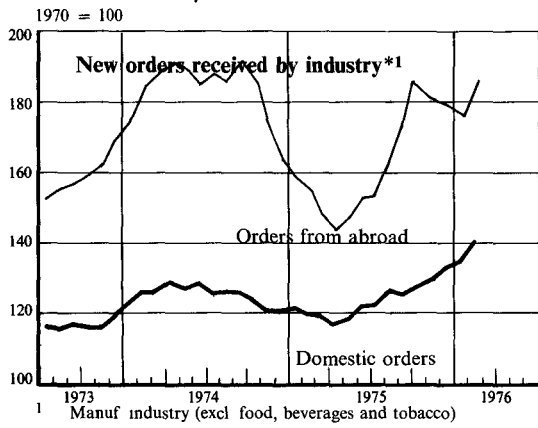
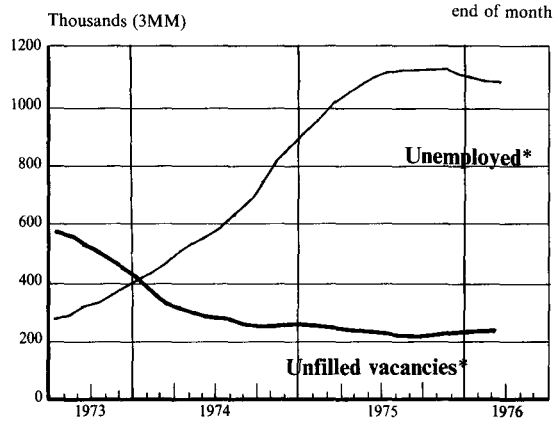
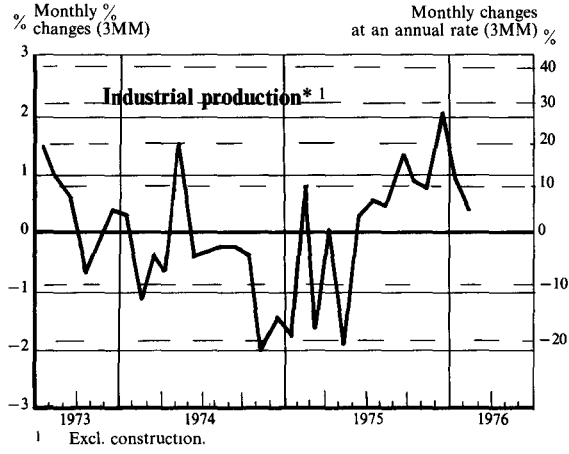
³ National accounts concept, on annual basis

⁴ Geometric mean of the change from 1967 to 1972, unemployment and current account balance: arithmetic mean over the five years.

⁵ Source: Federal Statistical Office 'National Accounts 1975', Series 1

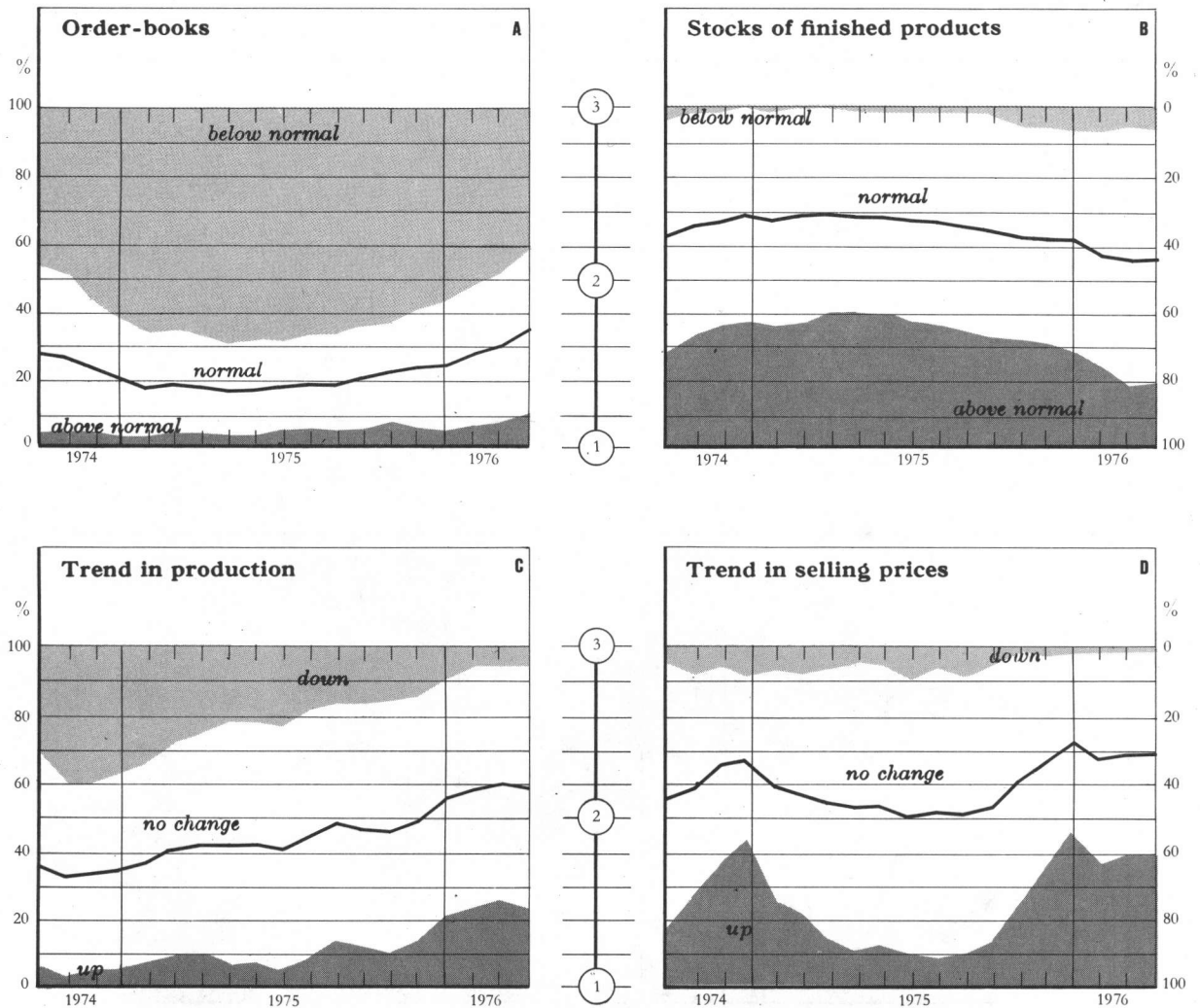
⁶ Estimates of Commission's Departments

Federal Republic of Germany



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

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

2. Outlook

The rapid economic recovery will probably cause economic activity to develop sufficient momentum of its own to ensure continuing growth in the coming months, when the effects of the reflationary measures become progressively weaker. However, the initial fast pace of the upturn is unlikely to be sustained throughout the year.

The buoyancy of the rate of growth in the months ahead will continue to be largely determined by developments in *export demand*. The increasingly rapid economic revival expected in Germany's major trading partners and the still significant price and cost advantages enjoyed in spite of the appreciation of the mark hold out excellent prospects for German exports.

The after-effects of the investment premium on *capital spending* will gradually wear off. In particular, investment in plant and machinery might slow down temporarily in the second half of the year since numerous investment programmes had been brought forward, as shown once more by the most recent surveys. The much improved sales prospects, favourable terms of financing and, above all, the appreciable impact of the economic upturn of firms' profit and loss accounts suggest, however, that the

propensity to invest will increase noticeably. Building investment will probably expand slightly in real terms after several years of sharp decline. Production is expected to pick up vigorously in commercial and industrial building particularly, the periods for which the investment premium is granted being more generous in this sector. The main boost to residential construction will come from the housing modernization programme, from which the finishing trade will benefit most. As a result of the tight financial position of the Federal, Land and local authorities, public sector building activity will probably only just reach last year's level. Finally, the stimuli provided by the movement in the stockcycle could well weaken considerably in the second half of the year.

Overall, *expenditure on consumption* will probably continue to expand briskly. The cutbacks to be made by the public authorities will be acting as a brake on the growth of government consumption. By contrast, as employment rises and the propensity to save declines further, private consumption is likely, if anything, to gather additional momentum.

The foreseeable trends in the various components of demand (see Table 2) should enable the *real gross*

TABLE 2

Demand for and supply of goods and services

FR of Germany	1973 ²	1974 ²			1975 ²			1976 ³		
	At curr prices (DM '000 million)	% change on preceding year								
		Vol	Price	Val	Vol	Price	Val	Vol	Price	Val
Private consumption	495.7	0.2	7.3	7.5	2.2	6.1	8.4	4.1	5.0	9.3
Public consumption	168.3	4.7	12.3	17.7	3.3	8.2	11.8	2.4	5.0	7.5
Gross fixed asset formation	228.6	- 8.1	6.6	- 2.1	- 4.8	2.9	- 2.1	5.4	3.0	8.5
— Enterprises	137.0	- 9.5	3.9	- 3.7	- 4.3	3.7	- 0.8	8.9	3.7	12.9
— Dwellings	58.8	- 16.3	6.9	- 10.5	- 12.9	2.6	- 10.6	0	2.0	2.0
— General Government	32.8	11.1	8.2	20.2	2.6	2.4	5.1	0	2.0	2.0
Domestic final uses (excluding change in stocks)	892.3	- 1.4	8.5	7.0	0.6	6.1	6.7	4.0	4.6	8.8
Domestic final uses (including change in stocks)	902.2	- 2.6	8.8	6.0	0.2	6.1	6.2	5.8	4.5	10.5
Exports ¹	215.9	13.4	16.4	32.0	- 9.0	7.7	- 2.0	11.1	3.3	14.7
Imports ¹	191.0	3.9	22.5	27.3	1.3	2.9	4.2	11.3	5.9	17.6
Gross domestic product at market prices	927.6	0.6	7.0	7.6	- 3.5	8.2	4.4	5.9	3.8	9.9
Contribution to percentage change in GDP										
Domestic final uses (excluding change in stocks)	892.3	- 1.3		6.7	0.6		6.4	4.0		8.6
Change in stocks	9.6	- 1.2		- 0.9	- 0.4		- 0.4	1.7		1.7
Balance of exports and imports ¹	25.4	+ 3.2		1.8	- 3.7		- 1.6	0.2		- 0.4

¹ Goods and services.

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

³ Estimates of Commission's Departments.

domestic product to expand by an average of about 6% in 1976.

With productivity expected to show further significant gains, *employment* will rise only gradually and unemployment will, therefore, remain at a relatively high level. However, regional and qualitative disparities between the supply of and demand for labour might become more marked as the recovery gathers pace.

Given the expected growth rate, *imports* are set to

accelerate distinctly so that, coupled with the likely deterioration in the terms of trade, the *external surplus* might be slightly smaller than last year.

The distinctly moderate nature of wage settlements and the sharp increase in productivity should make for a further decline in the *rate of price increases*, at least in manufacturing. Any deceleration of the rise in the cost-of-living will, however, also depend on a slackening in the very rapid upsurge in prices of agricultural products.

TABLE 3

The federal budget

FR of Germany	1975			1976	
	Budget 5		Provisional outturn	Budget	
	DM '000 million	% changes 3	DM '000 million	DM '000 million	% changes
Expenditure 1	155.1 4	+ 9.6	156.3	164.0 4	+ 5.7
of which:					
— current expenditure	127.1	+ 9.0	128.5	139.8	+ 10.0
— capital expenditure 2	28.7	+ 13.0	27.8	26.3	— 8.4
Revenue	129.4	— 2.8	123.2	131.3	+ 1.4
of which:					
— direct taxes	57.2	— 7.7	49.5	53.1	— 7.2
— indirect taxes	68.6	+ 1.8	69.7	73.8	+ 7.6
Net borrowing requirement 1	— 25.7		— 33.1	— 32.7	

1 Disregarding debt extinction.

2 Including participation and loans.

3 Figures for 1974 have been adjusted to make them comparable with the 1975 figures, following the introduction of the new regulation for family allowances.

4 Including an overall spending cut to be made during the fiscal year (1975: DM 720 million; 1976: DM 2 000 million).

5 Without supplementary budget

Note

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

The official stance adopted in the field of budgetary policy and also monetary and credit policy has set the stage for a consolidation of economic growth together with greater price stability. If the growth factors are to strengthen further it will be essential for the propensity to invest to continue to pick up. The moderate wage and salary increases agreed for this year will be of a major assistance here. They should be accompanied by restraint on prices to help avert fresh disputes over the distribution of national income and curb as far as possible inflationary pressures as the expansionary forces gather further momentum.

Major economic policy measures

December 1975:

— On 18 December the Bundesbank decided to limit the growth in the central bank money stock in 1976 to an average of 8% for the year.

January 1976:

— On 20 January the Federal Government decided on a number of improvements to the State export credit insurance system: under the scheme covering export credits the portion of the risk to be borne by the exporter or the banks was reduced from 20 to 15% in the case of economic risks and from 15 to 10% in the case of political risks. When granting certain credits the banks can ask to have their share of the risk reduced, but not below 5%; in such cases they may not pass on the remaining share to the exporter or cover it elsewhere.

— On 28 January the Federal Government adopted the 1976 annual economic report which sets out the economic policy objectives and general economic guidelines for 1976. The Federal Government is aiming at a growth rate in real GNP of between 4 and 5% and a reduction in consumer price increase to 5-4½%. The average unemployment rate is estimated at about 4½%, only slightly lower than in 1975.

— On 30 January the Bundestag passed a law amending the banking law. The emphasis is on improvements in deposit protection, an extension of banking supervision and tighter limits on the risks which banks may assume. In future individual large loans may not exceed 75% of a credit institution's liable capital, the five largest loans three times and all large loans together eight times its liable capital.

TABLE 4

Main economic indicators

	Year	Jan	Feb	Mar	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production* (1970 = 100)	1974	113.9	114.9	113.9	112.9	112.5	119.3	111.5	111.6	112.3	108.8	110.6	105.3
	1975	104.9	105.3	108.9	99.8	105.1	103.0	100.2	107.4	105.1	105.4	109.7	107.9
	1976	110.8	112.5	107.4									
New orders received* (1970 = 100)	1974	138	141	143	143	144	143	138	145	137	139	134	127
	1975	134	132	129	133	127	160	134	128	138	139	140	141
	1976	149	149	152									
Of which: New domestic orders in capital goods industry	1974	116	122	121	115	121	112	111	113	110	112	110	111
	1975	127	122	122	127	117	210	137	113	125	120	125	128
	1976	134	135	143									
Unemployed* (000)	1974	407	415	480	517	521	552	590	641	686	761	834	864
	1975	904	956	1 027	1 087	1 084	1 106	1 138	1 147	1 133	1 148	1 148	1 142
	1976	1 105	1 119	1 103	1 093								
Unfilled vacancies* (000)	1974	417	371	339	328	306	293	294	294	270	260	267	276
	1975	271	264	256	245	235	229	221	221	214	219	223	232
	1976	234	222	235	236								
Construction permits for residential construction* (000)	1974	43.5	37.4	36.9	34.9	38.1	31.1	34.1	33.1	32.9	34.6	29.2	34.2
	1975	30.3	30.3	29.6	29.4	27.0	30.9	28.2	28.3	31.8	33.2	36.5	33.4
	1976	(37.9)	(36.4)	(34.0)									
Private consumers' expenditure turnover of retail trade* (1970 = 100)	1974	135	134	134	136	137	135	138	138	139	142	139	137
	1975	144	147	147	147	146	151	148	150	152	154	156	150
	1976	156	161	155									
Consumer prices* (1970 = 100)	1974	123.4	124.3	124.7	125.4	126.3	126.8	127.4	128.3	128.7	129.4	130.1	130.5
	1975	131.0	131.5	132.1	133.1	134.0	135.0	135.3	135.8	136.5	137.0	137.1	137.5
	1976	137.9	138.6	139.1	140.0								
Visible imports* (million Eur)	1974	4 528	3 798	4 445	4 548	4 857	4 437	4 933	5 058	4 470	4 988	4 834	4 612
	1975	4 359	4 420	4 065	5 204	4 263	4 788	4 752	4 657	5 087	5 192	4 933	5 375
	1976	5 168	5 243	5 617									
Visible exports* (million Eur)	1974	5 754	5 426	5 820	6 023	6 360	5 448	6 355	6 327	5 868	6 063	6 120	6 109
	1975	5 656	5 523	5 122	6 131	5 295	5 968	5 934	5 303	5 761	5 815	5 942	6 225
	1976	6 086	5 964	6 793									
Balance of trade* (million Eur)	1974	1 226	1 268	1 375	1 475	1 503	1 011	1 422	1 269	1 098	1 075	1 286	1 497
	1975	1 297	1 103	1 057	927	1 032	1 180	1 182	646	674	623	1 009	850
	1976	918	711	1 167									
Official gold and foreign exchange reserves (DM 000 million)	1974	89.6	89.2	91.5	93.8	95.6	94.9	94.1	92.5	90.8	89.3	90.6	83.4
	1975	84.8	86.8	87.8	85.8	85.0	83.8	82.4	81.8	81.3	82.4	81.6	86.4
	1976	86.4	88.4	96.4	95.5								
Money supply* (DM 000 million)	1974	406.4	410.1	412.2	417.7	418.7	419.1	421.3	422.8	424.7	426.5	431.9	436.6
	1975	438.4	439.9	442.4	441.9	443.3	444.2	447.7	455.6	459.7	467.0	472.9	479.0
	1976	480.1	483.0	481.2	484.3								

() Provisional

. Not available.

* Seasonally adjusted.

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

Conversion into Eur: see Table 853 in "General Statistical" of the SOEC

— Industrial production, excluding construction.

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

— Unfilled vacancies: position at end of month

— Construction: number of dwellings authorized.

— Private consumer's expenditure: Total retail trade; value index. Source: Deutsche Bundesbank.

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

— Imports cif, exports fob, values

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

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

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

February

— On 9 February the Federal Government granted the Federal Labour Office DM 235 million for specific measures to combat unemployment among certain groups of the population (young people, elderly workers and those who are difficult to place).

— On 12 February the Bundestag adopted a loss carry-back provision to be inserted in the present earnings tax law and enabling losses of up to DM 5 million recorded in one year to be offset for tax purposes against the previous year's profits. The new rules will take effect from 1975 and include all types of income. The existing rules on carry-forward will apply in future to all taxpayers. The 1976 cost of the new arrangements, in terms of lost revenue, is estimated at DM 300 million.

March

— On 18 March, the Bundestag passed the law on worker participation. Under this law, supervisory boards of companies with more than 2 000 employees will, from 1 July onwards, be composed of equal numbers of owners' and workers' representatives. In the event of a tie, the Chairman, who will normally be appointed by the shareholders, has the casting vote.

— Wages and salaries in the metalworking industry were raised by 5.4%. The new rates came into force between 1 January and 1 April and, in some

collective-agreement areas, compensatory flat-rate amounts of between DM 60 and DM 110 per month were paid to cover the periods from 1 January until the dates on which the new rates became effective.

April

— On 12 April, public service employers and unions agreed to raise workers' and employees' monthly incomes by 5%, yet not less than DM 85, backdated to 1 February. Officials will be granted a similar increase with effect from 1 January 1976.

May

— A new juvenile labour protection law came into force on 1 May. Under this law, the minimum age at which young persons can take up employment was raised from fourteen to fifteen. The law also contains provisions governing the maximum number of working hours for young people.

— The federal Bank decided, on 4 May, to increase the ratio of compulsory reserves to certain qualifying liabilities by 5% with retrospective effect from 1 May and by a further 5% to take effect from 1 June. The effect of this measure is to reduce, by about DM 4 000 million, bank liquidity which had grown considerably as a result of the inflow of foreign currency during the first quarter of the year.

France

Although private consumption stabilized early in the year, the recovery in the economy has spread to most sectors and industries. The key factors have been the vigour of exports and a substantial spurt in business demand. Even though imports necessarily increased sharply, the trade deficit has fallen. Unemployment has not yet started to fall despite the strong increase in unfilled vacancies.

An increasing number of sectors could well be working at full capacity again by the end of the year. A rapid reduction in cyclical unemployment and possibly a return to balance of trade equilibrium may be expected. There is reason to fear, however, that these improvements will prove short-lived. For they will have been due, in part, to the stimulating effect of an inflation which has intensified with the first signs of recovery.

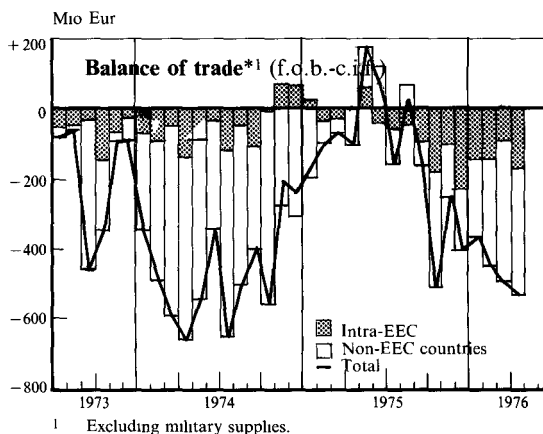
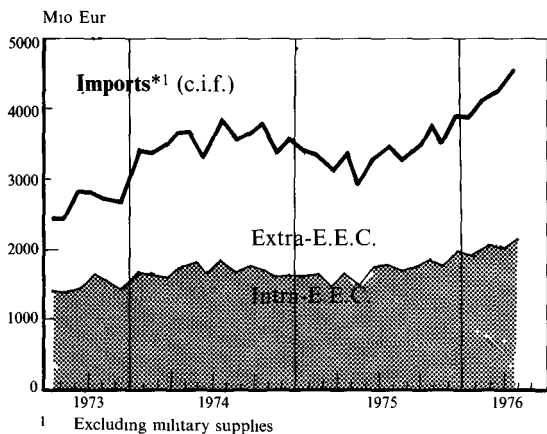
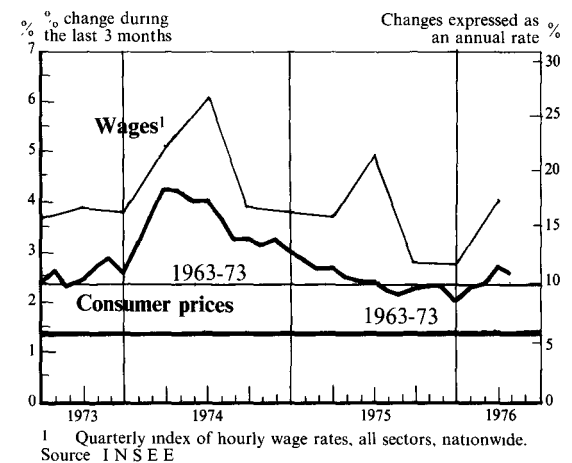
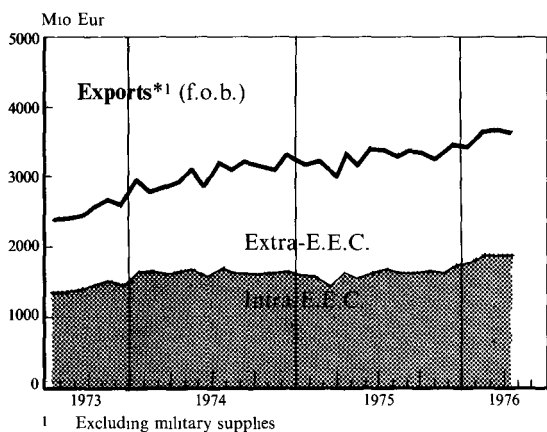
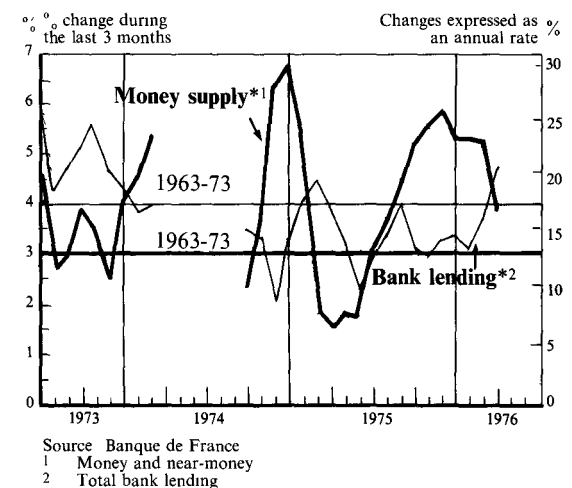
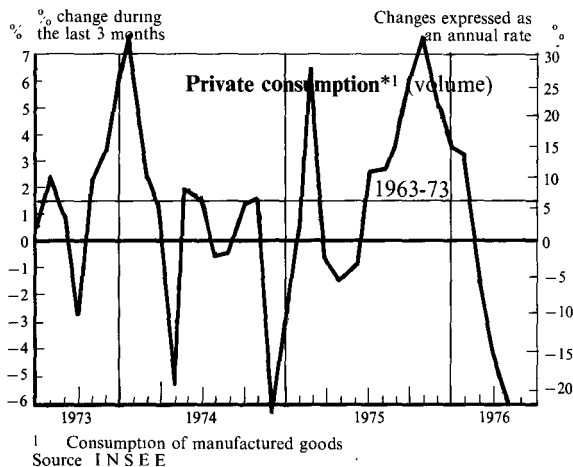
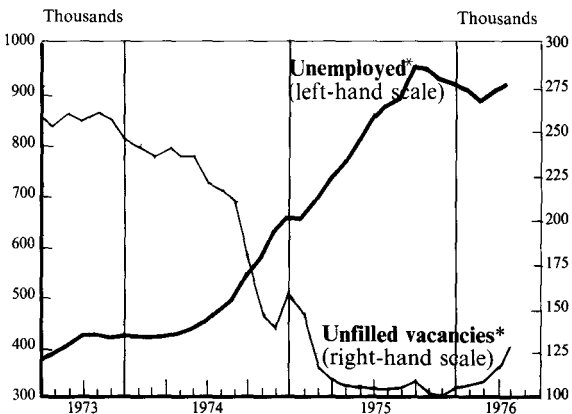
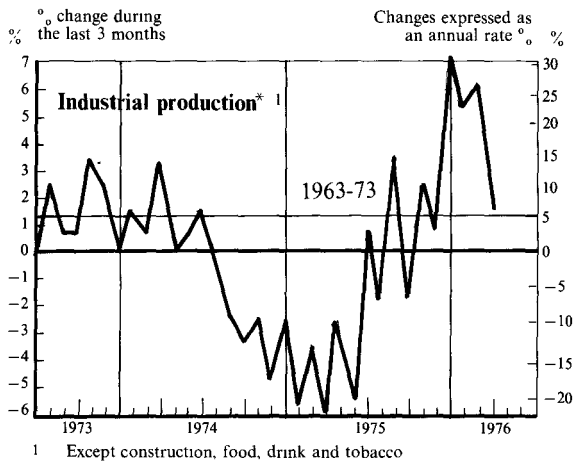
1. Recent developments

The strengthening of the recovery in output and the refloating of the franc have been the main features of the first half of the year.

The recovery in industrial output during the period has gathered momentum and broadened at a rate which can be compared with the extreme rate of slowdown of activity during the recession (see graphs). The unprecedented scale of the turnaround can be explained as follows. The last recession was remarkable for its suddenness and severity rather than for its length, which was much the same as that of 1958. On the other hand, the recovery in 1959 was moderated by the implementation of a restrictive programme in December 1958; in contrast, the recovery which began in the summer of 1975 and became rapid in the spring of 1976 was still being boosted by the reflationary measures decided in September 1975: the use (announced last April) of the Economic and Social Development Fund (FDES) to give further support to a number of industries which had begun to recover unaided is one example. Finally, in 1959, the economic trends in the main trading countries were still somewhat out of phase, whilst in the autumn of 1975, they were almost exactly in step and this proved a powerful stimulus to the revival of intra-Community trade.

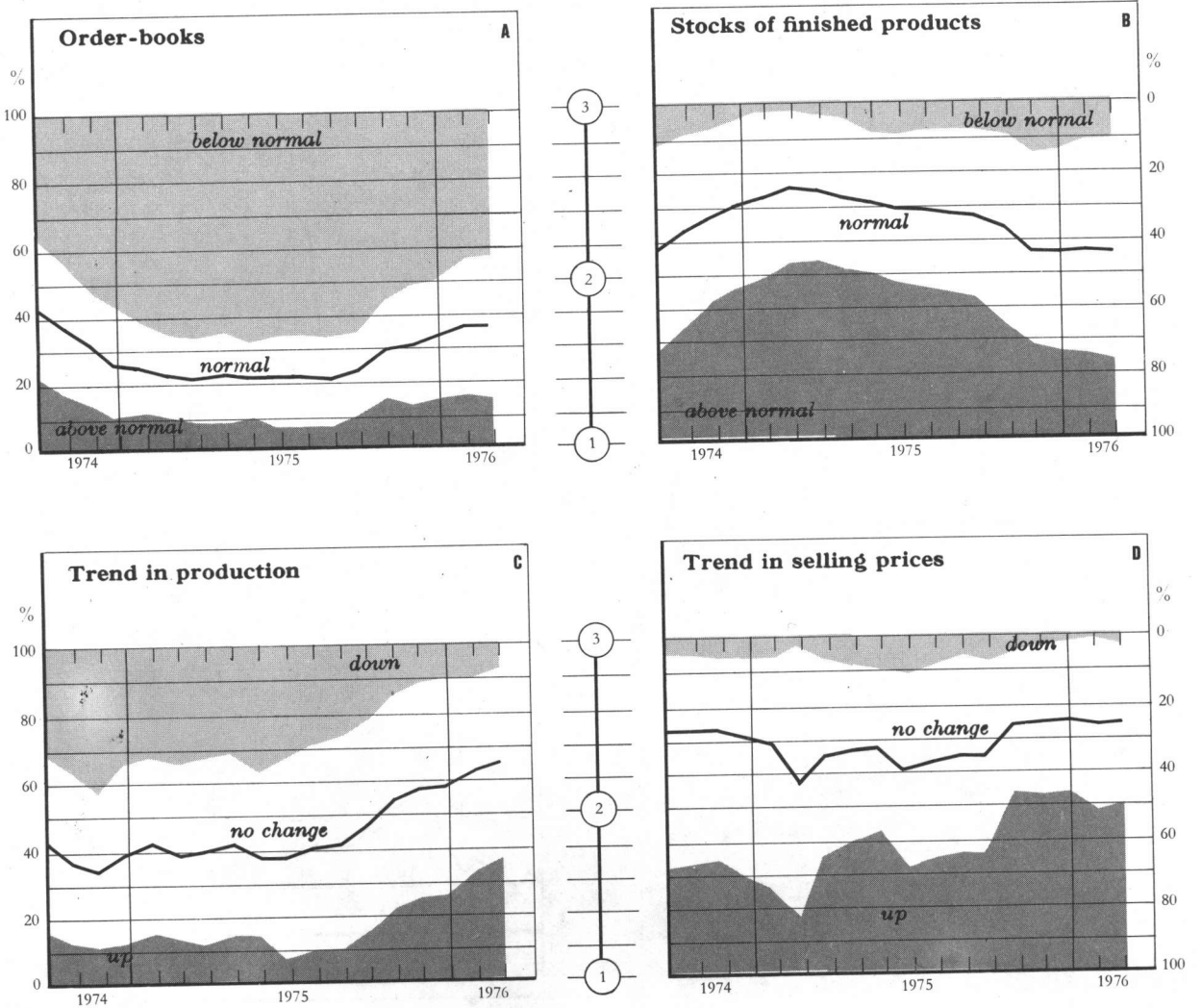
In terms of volume, private consumption stabilized early in the year. The slowdown, or indeed the drop, in demand for manufactured goods which can be interpreted as a pause in the high level of expenditure, was associated with shifts in expenditure towards other categories of goods and services. This development has not impaired the vigour of production, since aggregate demand has been maintained by demand in other spheres.

The upturn in domestic demand, excluding private consumption, has been as strong as the setback in the summer of 1974. The overall trend is, however, the net effect of contrasting movements: it is clear from surveys carried out that a slight fall in productive investment in the private sector can be expected for the full year, in spite of incentives adopted in 1975; on the other hand, activity in public works and residential construction should revert to something like normal. Finally, the reconstitution of stocks, which began in 1975 in respect of several categories of consumer goods, has gradually spread to other areas. The surge in business demand has been made possible by a substantial improvement in the financial position of the firms, achieved by the rapid absorption of spare capacity, which has led to substantial productivity gains. On this point, it now seems certain that the sharp fall in productivity per man/hour in industry (about 8%)



* Seasonally adjusted.
Source: S.O.E.C., except where otherwise stated.

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

during the recession has been almost entirely made good in the first half of 1976, except in the capital goods sector. The swift upturn in output has been achieved by a return to normal working hours for those already employed: the number of *unemployed* has thus remained high. Nevertheless, the number of unfilled vacancies has increased by 25% between December 1975 and April 1976.

The recovery in overall *export demand*, confirmed at the end of 1975, has also been marked during the first half of 1976. The value of exports, in national currency, increased, between December 1975 and April 1976, at an annual rate of nearly 50%. Demand from third countries (United States, Spain) has been brisk, although falling short of the exceptional overall figure. It is noteworthy that it was during this very period of rapid export growth, while French exporters of manufactures were still expanding their shares of world markets (in terms of value), that the franc dropped in value on the exchanges.

Several factors taken together serve to explain the decline of the *franc*, which since it left the European monetary 'snake' has settled at a level 5 to 6% below its previous central rate.

First of all, *imports* have been growing very rapidly since June 1975. The worsening of the *trade balance*, however, ended in the first quarter. On the basis of customs returns (fob-fob, seasonally adjusted), the deficit was held to

FF 2 000 million (compared with FF 2 600 million in the fourth quarter of 1975). However, the current account deficit, which reached FF 2 000 million in the fourth quarter of 1975 is estimated to have reached FF 4 000 million in the first quarter of 1976 (adjusted figures).

Secondly, despite the oil crisis, hourly wage rates in real terms have continued to increase; in the first quarter of 1976, they still rose at an annual rate of nearly 5%. This naturally meant a heavy increase in wage costs (see page 90). In 1975, however, wage costs were still lower, in terms of comparative levels, than those being borne by France's major trading competitors. These discrepancies in wage cost levels are further evidence of the substantial differences which persist between the major industrial economies both in terms of economic structure and managerial methods. If one considers, for example, the role played by stock variations in the recession (see Table 2 for each country), it is clear that in 1974 and 1975 French firms showed much less foresight as regards stock management. Differences, as between countries, in wage cost trends since 1970 have affected French firms in very different ways according to type of firm: the traditional industries, which for twenty years have failed to hold off foreign competition although their labour costs are the lowest in France, have certainly been badly hurt by the relatively more rapid rise in low wages. The more limited number of firms in the export business, on the other hand, have, by and large, passed on the increases without

TABLE 1
Key indicators

France	Unit	1968-1972 average ^{4 5}	1973 ⁵	1974 ⁵	1975 ⁶	1976 ⁶
Gross domestic product; volume	% change	5.7	5.6	3.9	- 2.0	6.0
of which: Industry ¹		6.4	5.9	2.8	- 7.3	10.0
Gross domestic product in volume per person in employment	% change	4.9	4.2	2.9	- 3.2	5.6
Total employment (number of persons) ²	% change	0.8	1.3	1.0	- 1.2	0.4
— Independent entrepreneurs		- 2.5	- 2.6	- 2.5	- 3.0	- 2.5
— Wage and salary earners in company sector		2.1	2.2	1.9	- 1.8	0.6
— General Government		2.4	2.4	1.7	3.0	2.8
Unemployment	as % of labour force	2.0	2.1	2.3	3.8	4.1
Compensation of employees per wage and salary earner	% change	10.8	12.4	17.7	15.0	15.7
Price index of private consumption ³	% change	5.3	7.2	13.7	11.8	10.5
Current account balance ³	Mrd FF	- 4.9	- 5.3	- 33.7	- 1	- 18

¹ Excluding construction.

² Domestic concept.

³ National accounts concept.

⁴ Geometric mean of the change from 1967 to 1972; unemployment and current account balance: arithmetic mean over the five years.

⁵ Source: SOEC.

⁶ Estimates of Commissions's Departments.

difficulty in their prices. Finally, the particularly unfavourable position in 1975 was partly due to labour hoarding—whether on a voluntary or compulsory basis—during a period of recession, which was less the case in other comparable countries. The converse effect could therefore automatically favour French firms in 1976.

Thirdly, after an almost uninterrupted slowdown since February, the rise in consumer prices became more marked at the beginning of the year. Seasonal factors and the automatic effect of postponing public sector price rises from the Autumn of 1975 to the beginning of 1976 are to some extent responsible. Nevertheless, the tendency for price rises to accelerate, discernible as the recovery got under way, has been confirmed during the first half of 1976.

Fourthly, until the end of 1975, the authorities were mainly concerned with supporting the recovery which started in the early summer; the fight against inflation was not therefore made a priority of monetary policy. During the last few months, there has been a slight deceleration in the rate of expansion of the money supply (see graph). This fact is principally due to a reduced rate of growth of Treasury debt, reflecting the appreciable increase in VAT receipts, boosted by the recovery; but it is, above all, due to the fall in net official reserves

(FF 1.3 billion in January, 4.1 in February, 8.1 in March). At the same time, lending to trade and industry continued to expand firmly.

Fifthly, the steady fall of interest rates in 1975 speeded up in the autumn when the discount rate was lowered from 9.5 to 8%; the gap between the rate for one-month money on the French money market and that on the Eurodollar market closed rapidly and, in December 1975, the rates were 6.5% and 6% respectively.

Last but not least, it is quite possible that in a period of reforms, not all of which were welcome to all economic groups, internal pressure may have strengthened the latent external pressure weighing on the franc, especially as the public was not yet fully aware of the recovery in exports and in economic activity. The decline in net official reserves in the first quarter of 1976 represents altogether 13.5% of the amount held immediately previously, a movement matching that between August and November 1968.

2. Outlook

The outlook for exports in coming months remains favourable. Demand from the Federal Republic of Germany, the Benelux countries, the United States and Spain, accounting for about 40% of exports in 1975, will gradually revert to normal as economic activity in these

TABLE 2

Demand for and supply of goods and services

France	1973 ²	1974 ²			1975 ³			1976 ³		
	At current prices Mrd FF	% change on preceding year								
		Vol.	Price	Val.	Vol.	Price	Val.	Vol.	Price	Val.
Private consumption	677.5	4.3	13.7	18.6	3.8	11.8	16.0	5	10.5	16
Public consumption	139.0	3.5	14.4	18.4	4.2	11.6	16.3	2.5	11	14
Gross fixed asset formation	294.1	3.1	15.4	19.0	- 5.8	11.6	5.1	2	9	11
Domestic final uses (excluding change in stocks)	1 077.7	3.4	12.7	16.5	1.4	11.7	13.3	4	10.5	15
Domestic final uses (including change in stocks)	1 135.9	3.2	14.5	18.2	- 3.3	11.6	7.9	7	10.5	18
Exports ¹	201.4	15.6	23.6	42.9	- 3.7	5.5	0.6	8	8	17
Imports ¹	193.9	12.7	40.0	57.5	- 9.6	0.7	- 9.0	13	10	25
Gross domestic product at market prices	1 108.7	3.8	11.4	15.7	- 2.0	12.8	10.5	6	10	16.5
Contribution to percentage change in gross domestic product										
Domestic final uses (excluding change in stocks)	1 077.7	3.8	18.2	1.5	13.3	4.2	15.1			
Change in stocks	23.5	- 0.5	- 0.1	- 4.7	- 5.3	2.8	2.8			
Balance of exports and imports ¹	7.5	0.6	- 2.3	1.3	2.5	- 1.0	- 1.4			

¹ Goods and services

² Source: Rapport sur les comptes de la Nation 1974. Ministère de l'Economie et des Finances.

³ Estimates of Commission's Departments.

countries builds up to levels closer to long-term trends; this will also apply in respect of sales to Switzerland and the United Kingdom, though here the process will take longer. On the basis of past experience (the 1969 devaluation and the weakness of the franc in the first half of 1974), it is likely that France's share in value, expressed in dollars, in world exports of manufactures will start to pick up once again towards the end of the year, the perverse effect of the depreciation of the franc having by then worked itself out. However, export firms will doubtless come under very heavy pressure from the domestic market and the terms they will be proposing to their foreign customers will deteriorate more rapidly than those offered by their main competitors, who will be operating under more favourable conditions.

Overall domestic demand will remain firm, though the situation will vary appreciably from component to component. There is little evidence to suggest that *consumption* will further weaken in the second half of the year. The minimum assumption seems to be that the average rate of growth will be a little lower than the long-term rate: even when the crisis was at its severest, real disposable income of households was still increasing and the atmosphere generated by the recovery should now sharply reduce precautionary saving; on the other hand, the wave of purchases of durable goods at the end of 1975 is unlikely to occur again, were it only because of the official measures to curtail consumer credit adopted in February 1975.

Productive investment should begin to grow again and firms will probably continue to build up depleted *stocks*,

though at a slower rate. Firms could well face cash difficulties once again as the period of relatively easy productivity gains draws to a close; moreover, the finances of companies will come under pressure from the Treasury as taxes earlier postponed become due on certain dates.

The delay in the implementation of investment programmes, due partly to managements' scepticism as to the vigour and durability of the recovery, suggests that in certain sectors the expansion of industrial *production* could be curbed towards the end of the year by a shortage of production capacity. Similarly at the year-end a reduction in *employment* is likely; by then the unadjusted number of persons seeking employment could well have dipped below 850 000. This figure, which seems very high for a period of vigorous economic activity, cannot be compared to those of earlier periods of rapid growth. For example, the indicator used reflects the increased mobility of manpower in recent years. Moreover, while young people between 18 and 25 years of age account for only 25% of the working population, they will account for nearly 50% of the number of job-seekers at the end of the year (against 40% in 1973), a fact which emphasizes the structural problem created by the present inappropriate distribution of occupational skills.

Several uncertain factors make it particularly difficult to assess the future development of the *trade balance*; it is true that the gap which developed in 1975 between the recovery of *imports* and that of *exports* should now gradually be closed. However, with most firms working near capacity, it may well prove necessary to step up

TABLE 3

The central government budget

France	1975			1976	
	Original budget		Provisional outturn	Original budget	
	FF Mrd	% change ⁵		FF Mrd	FF Mrd	% change^{5}
Expenditure ¹	269.5	+ 18.1	292.7	306.2	+ 13.6
of which:					
— current expenditure	232.3	+ 19.6	237.8	264.7	+ 13.9
— capital expenditure	37.2	+ 10.1	54.9	41.5	+ 11.6
Revenue ³	269.5	+ 18.0	253.1	306.2	+ 13.6
of which:					
— direct taxes	102.6	+ 30.7	95.3	125.9	+ 22.7
— indirect taxes	136.7	+ 7.9	126.9	147.5	+ 7.9
Net borrowing requirement	0		- 39.6	0	

¹ Disregarding debt extinction.

² General budget: specific appropriation accounts: loan accounts and balance on other specific accounts.

³ General budget: specific appropriation and loan accounts, after deduction of tax repayments and reliefs.

⁴ Second revised Finance Act.

⁵ On the preceding year's original budget.

TABLE 4

Main economic indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production* (1970 = 100)	1974	125	126	124	125	127	126	125	124	122	122	118	119
	1975	115	114	112	112	108	113	110	112	111	113	113	119
	1976	119	120	121									
Unemployment* (1 000)	1974	422.2	420.8	421.9	426.4	437.7	455.2	478.8	496.2	547.1	586.6	633.6	662.9
	1975	661.1	694.2	738.2	776.5	814.8	859.0	885.6	896.6	957.5	954.1	929.3	920.5
	1976	896.0	893.9	913.0	918.5								
Vacancies* (1 000)	1974	241.4	236.1	241.2	236.0	236.2	219.1	216.2	211.3	170.7	144.2	138.0	165.7
	1975	146.3	119.6	109.1	105.7	104.9	104.4	103.4	104.5	108.4	100.8	100.6	104.0
	1976	106.0	108.8	120.2	129.1								
Private consumption: manufactured goods consumption* (1963 FF '000 million)	1974	14.35	13.66	13.36	13.61	13.84	13.59	13.54	13.89	13.76	13.76	13.01	13.32
	1975	13.81	13.87	13.22	13.63	13.75	13.58	14.00	14.24	14.42	15.10	14.95	14.92
	1976	15.59	14.69	14.31	(14.65)								
Consumer prices (1970 = 100)	1974	127.4	129.1	130.6	132.7	134.3	135.8	137.5	138.6	140.1	141.8	143.1	144.3
	1975	145.9	147.0	148.2	149.5	150.6	151.7	152.8	153.8	155.1	156.3	157.3	158.2
	1976	159.9	161.0	162.4	163.9								
Wages and salaries (1962 = 100)	1974	286.5			301.1			319.6			332.0		
	1975	344.6			357.4			374.7			385.3		
	1976	395.7			(411.5)								
Visible imports* (million Eur)	1974	3 325	3 306	3 463	3 619	3 634	3 254	3 852	3 562	3 626	3 152	3 320	3 585
	1975	3 379	3 322	3 063	3 439	2 944	3 306	3 489	3 276	3 493	3 839	3 496	3 903
	1976	3 852	4 116	4 191	4 204								
Visible exports* (million Eur)	1974	2 978	2 801	2 867	2 951	3 085	2 908	3 199	3 073	3 223	3 178	3 119	3 346
	1975	3 201	3 224	3 007	3 340	3 132	3 381	3 330	3 295	3 336	3 329	3 256	3 498
	1976	3 479	3 667	3 700	3 677								
Balance of trade* (million Eur)	1974	-347	-505	-596	-668	-549	-346	-653	-489	-403	-574	-201	-239
	1975	-178	-98	-56	-99	+188	+75	-159	+19	-157	-510	-240	-405
	1976	-373	-449	-491	-527								
Gross official reserves (FF '000 million)	1974	38.13	37.34	37.42	37.42	37.49	37.60	38.28	39.17	39.61	41.24	41.37	40.38
	1975	95.92	96.49	97.37	98.52	100.52	100.21	93.19	94.59	95.57	99.66	101.79	100.98
	1976	99.72	95.62	94.75	88.40								
Bank lending* (FF '000 million)	1974	553.0	560.1	:	:	:	595.3	601.3	615.2	616.2	621.4	627.8	636.7
	1975	646.7	655.9	661.4	667.7	670.9	681.4	690.6	698.0	702.6	711.6	720.1	(725.9)
	1976	(733.4)	(746.9)	(760.0)									
Money supply (M ₁)* (FF '000 million)	1974	316.2	318.4	:	:	:	335.7	330.8	331.0	332.4	338.7	356.0	362.0
	1975	355.1	353.5	359.5	354.4	357.1	366.4	373.3	379.1	386.4	390.0	397.8	(407.2)
	1976	(412.4)	(419.4)	(421.7)									
Money and near money (M ₂)* (FF '000 million)	1974	559.4	565.9	:	:	:	595.8	598.2	603.3	609.5	620.4	641.5	650.7
	1975	653.9	660.2	661.3	666.6	671.9	681.5	691.9	703.0	716.7	731.0	744.1	(754.4)
	1976	(769.8)	(782.7)	(783.8)									

() Provisional.

· Not available

* Seasonally adjusted

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

Conversion into Eur of SOEC see Table 853 of "General Statistics".

- Industrial production, excluding construction, food, beverages and tobacco: coverage about 50% of the comprehensive annual index.
- Unemployment: unsatisfied job requests at month-end
- Vacancies: unfilled vacancies at month-end.
- Private consumption: volume of consumption of manufactured goods; coverage: about 40% of the quarterly index which covers all goods and services. Source: INSEE.
- Consumer prices: index covering 295 items
- Wages and salaries: index of hourly wage rates, all sectors, nationwide, as at first day of quarter. Source: INSEE
- Imports cif, exports fob, excluding military supplies.
- Balance of trade: difference between the seasonally adjusted values of imports and exports.
- Gross official reserves: gold and foreign exchange reserves, SDR's and position at IMF.
- Bank lending: total bank lending, position at end of month. Source: Banque de France
- Money supply: fiduciary circulation (total notes and coin in circulation, excluding notes and coin held by the Banque de France) plus sight deposits (deposits made with the Banque de France by private persons or enterprises, deposits with the Post Office giro or with public accountants, plus sight deposits relating to the activities of certain financing institutions in metropolitan France). Position at end of month Source: Banque de France.
- Money and near money: position at end of month Source: Banque de France

imports and this could make the achievement of equilibrium, even at today's prices, more difficult at a time when it is by no means certain that the terms of trade may not deteriorate again. Nevertheless for the year as a whole the dynamism of exports will more than compensate for the further growth in expenditure on energy products induced by the recovery (10 000 million francs in total).

Since it is unlikely that in the near future there will be any substantial change in the behaviour of the main economic groups, there is little reason to expect any spontaneous slowdown in price and *wage* movements. There is a general view, on both sides of industry, that only vigorous growth of private consumption can stimulate economic development, and only the depreciation of the franc can achieve external competitiveness. It should also be noted that the very uneven distribution of wage rates in France, is probably a reflection of major differences in levels of skill. The policy pursued in recent years to narrow the differentials by boosting low pay levels no longer seems efficacious: increases in the guaranteed minimum hourly wage rate ('SMIC') have in recent years definitely tended to force up other hourly wage rates, after a time-lag of about nine months.

The same applies to consumer *prices*, the upward movement of which will probably not slow down. Indeed it is quite possible that by the end of the year the rate of increase will once again be above 10%: apart from the structural causes of inflation, which the recessionary phase will have done nothing to dispel and, apart from internal and external short-term factors, prices will be under pressure in coming months as a result of weaker competition from abroad and the increase in the cost of imported items following the depreciation of the franc.

It is quite likely that the rate of inflation will be twice as high as that in other major exporting countries, and this is bound to jeopardize the gains that will be made in the second half of the year, especially with regard to employment. In particular, the increases in prices and wages since the beginning of the year create the conditions for new pressures on the franc, if only from abroad. Recourse to a more severe policy, particularly in the monetary area, seems to be the only answer in the short-run. Indeed, the existing stance of economic policy (return to a more restrictive budgetary policy and credit limitations) is justified by the current situation; but if this policy is not pursued with sufficient force, continuity and

determination, there is a grave risk that the French economy will progressively suffer the vicious circle of rising inflation rates and worsening terms of trade.

Major economic policy measures

December 1975.

— To make good a deficit assessed at FF 9 000 million for 1976, employer's and employees' social security contributions will be raised by about 1.5%, and the Central Government will make a grant of FF 2 000 million.

January 1976:

— The minimum hourly rate ('SMIC') was raised from FF 7.71 to FF 7.89, representing an increase of 2.3% since the last change on 1 October 1975.

— Pensions paid by the social security scheme were increased by 8.3% and the old-age minimum rate was raised from FF 20 to FF 22 per day.

February:

— Compensation paid to workers on short time at the rate of 50% of the gross hourly wage was extended until 15 September 1976.

— The Central Government's share in the compensation paid to workers on short time was increased by 20%, and public unemployment compensation was increased by 12.5%.

March:

— The franc was withdrawn from the group of European currencies linked by the agreement on narrow margins.

— The advance corporation tax payment for 1976, which should have been made before 15 March, was reduced by 50%, the balance to be paid only on 15 December. (Firms must still, however, pay on 15 April 1976 the last advance payment postponed since 15 September 1975 and the balance due for 1975.)

— Regulations concerning producers' prices for a number of industrial items were liberalized. Trade margins on imported items resold without further processing were frozen at the level of 12 March 1976.

— The maximum period of hire-purchasing financing for individuals was reduced from 30 to 24 months for motor cars and from 24 to 21 months for other consumer items.

April:

— The minimum hourly wage rate ('SMIC') was raised from FF 7.89 to FF 8.08, representing an increase of 2.4% since the last change on 1 January.

— The scheme for job-creation incentive premiums was extended, for artisan-type firms, until 31 December 1976.

— The June 1976 measures designed to help young people seeking their first job were extended to all job-seekers between 17 and 25 years of age, and Central Government financial aid was increased and extended. At the same time, arrangements enabling firms to conclude fixed-duration work contracts were extended to cover additional cases.

May:

— Taking the last quarter of 1975 as 100, credit subject to limitation—about 80% of all credit allocated—may not exceed 117 for the large banks (against 113 in June 1976), 121 for small and medium-sized banks (against 117), 132 for consumer credit establishments (against 127) and 142 for short-term export credit (against 134).

Ireland

After a recessionary phase which stretched from the spring of 1974 to the autumn of 1975 the Irish economy appears, more recently, to have registered an upturn which is tending to accelerate. As a result, the current balance of payments deficit has worsened markedly. The unemployment rate, moreover, remains high. The progress observed in the fight against inflation in the second half of 1975 has not continued.

The improvement in activity should strengthen in the coming months by an improvement in external demand and investment. Price developments will remain worrying and the external deficit should increase still further.

1. Recent developments

The Irish economy, which, since the middle of 1974 was in recession, entering the cycle later than other Member States, seems now to have moved into a recovery phase which began towards the end of 1975. The more satisfactory level of activity has not been reflected in a reduction of unemployment. At the same time the rate of inflation has tended to accelerate, and the balance of payments is deteriorating progressively.

Exports in the past few months have fallen quite markedly: from January to April the total value of exports, corrected for seasonal variations, fell by nearly 3% in comparison with the four previous months. Given the persistent rise in export prices the reduction in volume is likely to have been considerably more. Nevertheless, this unfavourable performance is due basically to the fall in agricultural sales since the beginning of the year, because of the fall in the cattle stocks resulting from the exceptionally high exports in the second half of 1975. In contrast, exports of industrial products have continued to progress.

Internal demand has firmed up a little. The less and the more favourable financial position of companies have led to some improvement in the *investment* climate in the private sector. Given the degree of capacity utilization, it will, however, follow some way behind the conjunctural recovery. The latest surveys carried out among managements show some increase in order books for those firms producing capital goods. In the past few months the recessionary trend observed since the middle of 1974 in the construction sector appears to have ended. Sales of cement, which had fallen rapidly for a number of

months, increased from the autumn. In addition, the number of housing starts has remained high. Judging from the latest budgetary figures concerning capital expenditure, public authority investment seems to have been more dynamic.

Consumers' expenditure has recovered substantially since the end of the summer due to the concerted effect of a certain number of factors: the favourable effect of the June budgetary measures, a tendency towards a reduction in the savings ratio as well as the need for replacement of durables spurred on by the likelihood and the actuality of a harsh budget early this year. From December to February the index of retail sales, seasonally adjusted, grew by 9.5% over the three preceding months to reach a level nearly 33% above that of a year earlier. In volume the growth has been of the order of 3½%. Despite the increase in prices of petrol, new car registrations have increased very rapidly, and in the first four months of 1976 were 35% higher than in the last four months of 1975.

Industrial production, after levelling off in the third quarter, has since recorded a recovery, in particular in the textile and apparel sectors. Its level is, however, still a good deal below that of the first quarter of 1974, the last period the growth recorded before the recession. Agricultural production is likely to have grown over the past few months, in particular in the milk products and pig sectors. Tourism has continued to benefit from an increased number of visitors.

The *employment* situation continues to pose problems despite a recent tendency towards some stabilization. The number out of work, seasonally adjusted, has continued

TABLE 1

Key indicators

Ireland	Unit	1968-1972 average 4 5	1973 5	1974 5	1975 6	1976 6
Gross domestic product; volume	% change	5.2	5.4	0.4	- 1.5	3.0
of which: Industry 1		6.1	11.6	2.8	- 6.0	5.5
Gross domestic product in volume per person in employment	% change	5.5	4.9	- 0.3	0.5	5.0
Total employment (number of persons) 2	% change	- 0.3	0.5	0.7	- 2.0	- 2.0
Unemployment	as % of labour force	5.7	5.9	5.7	8.0	10.0
Compensation of employees per wage and salary earner	% change	15.2	18.4	17.6	28.0	15.5
Price index of private consumption 3	% change	7.5	11.0	17.3	21.0	17.0
Current account balance 3	£ mio.	- 54.0	- 78.1	- 288.0	- 15.0	- 300.0

1 Value added at constant prices, including construction

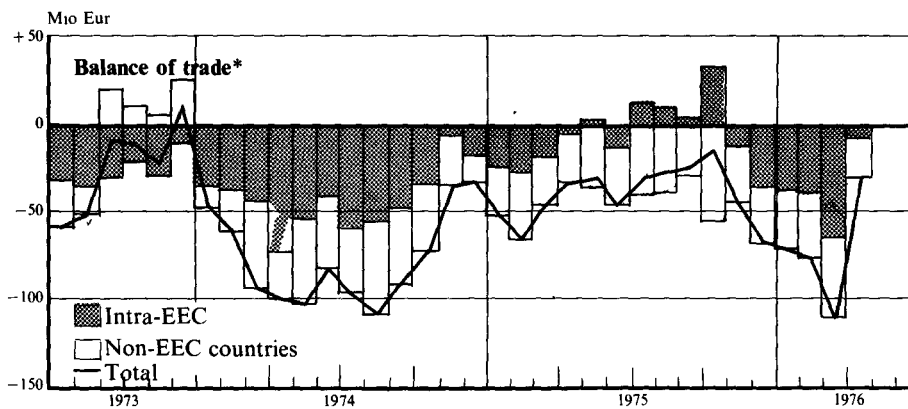
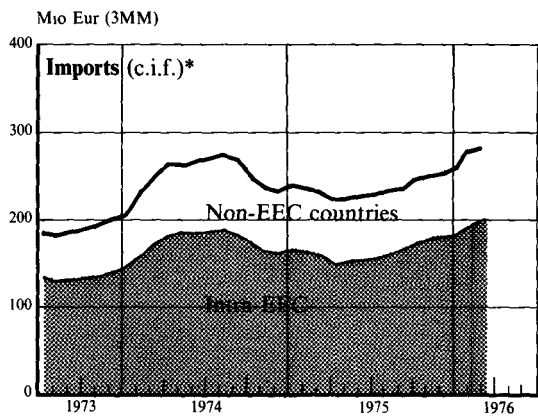
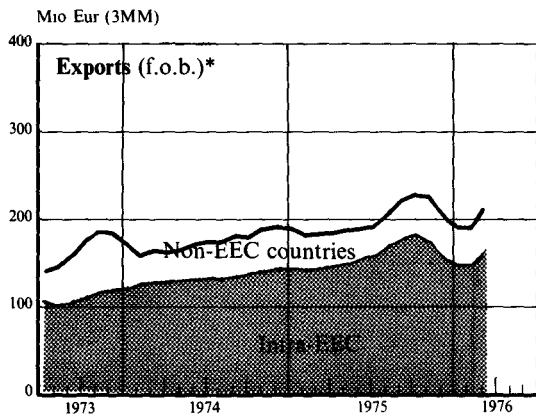
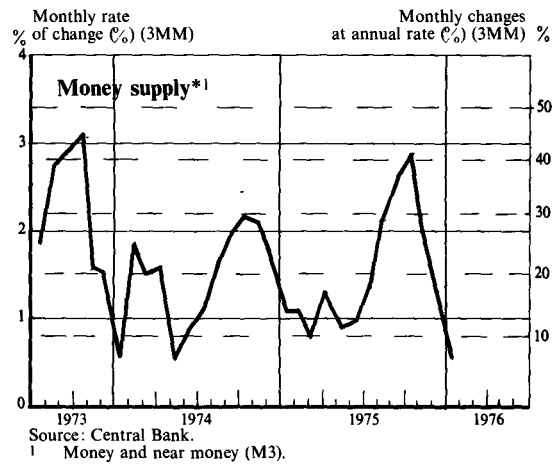
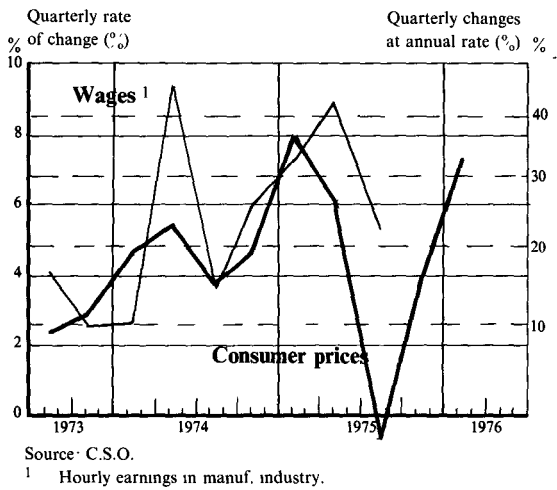
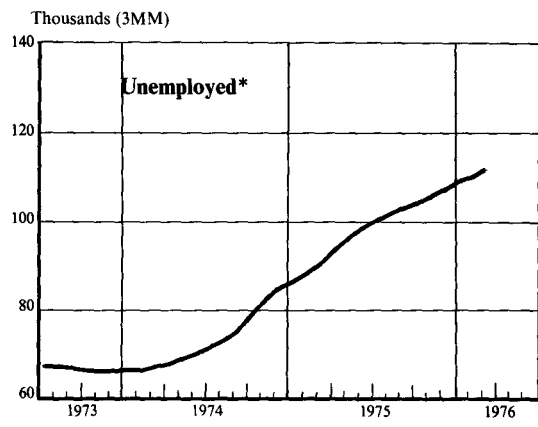
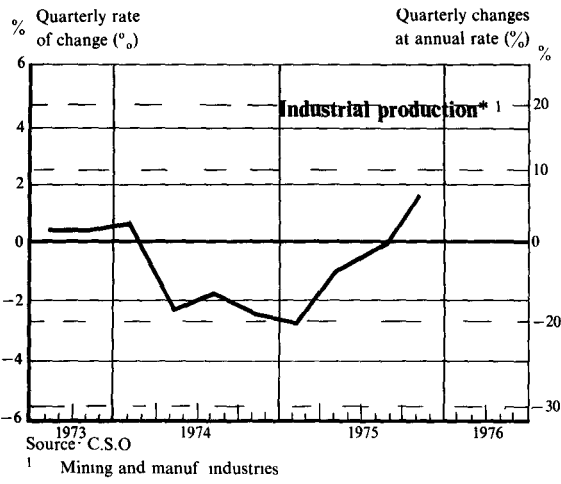
2 Domestic concept, mid-April.

3 National accounts concept.

4 Geometric mean of the change from 1967 to 1972, unemployment and current account balance arithmetic mean over the five years

5 Source: CSO.

6 Estimates of Commission's Departments.



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

to increase and reached 111 400 in April, representing nearly 10% of the labour force. Despite some rays of improvement in construction, the number unemployed in this sector remains very high.

The rise in *prices* has accelerated sharply since the autumn. The rise in prices of some current consumer items (drink, tobacco and petrol) resulting from the alteration of indirect tax rates in December and January has been supplemented by autonomous increases in prices of food products (beef and potatoes) and other non-durable goods. In addition, substantial rises in public sector charges have come into effect since the beginning of the year. The consumer price index¹ in mid-February recorded an increase of 7.3% over the preceding quarter and was 16.1% higher than the previous year.

Due to the stimulating effect of the recovery and the need for a reconstitution of stocks, *imports* have in the course of the past few months experienced a particularly rapid development: from January to April their rate of growth in value was 13% up on the previous four months. Purchases from EEC member countries, with the exception of the Federal Republic of Germany and Belgium, have shown the most progress.

As a result of this growth of imports, the weakness of

exports and the depreciation of sterling, the *trade balance* has deteriorated markedly. From January to April the deficit reached £183 million, more than double the figure for the preceding four months. The current *balance of payments* should equally be in substantial deficit. Large borrowing abroad has increased official external reserves which at the end of April were at £761 million, £85 million higher than in December 1975. The monetary disturbances since the beginning of the year have led to a depreciation¹ of the Irish pound of around 5%, considerably less than the UK depreciation.

As a result of the budget of last January, *budgetary policy* has been more restrictive over the past few months. A serious effort has been made to restrict the growth of current spending, but the recently proposed national pay agreement may compromise this development.

Monetary policy has overall been relatively easy. The commercial banks' interest rates were lowered by 1 1/4% in February in order to reduce the margin which had grown up between corresponding rates in the UK. The increase in the money supply in February remained close to 20%. The rate of growth of bank lending to the private sector has tended to accelerate since the beginning of the year.

¹ The Central Statistics Office, now publishes a new index excluding indirect tax increases. In addition the index has recently been re-weighted.

¹ On a trade-weighted basis.

TABLE 2

Demand for and supply of goods and services

Ireland	1973 2	1974 2			1975 3			1976 3		
	At curr prices £ mio	% change on preceding year								
		Vol	Price	Val	Vol	Price	Val	Vol	Price	Val
Private consumption	1 776	- 2.3	17.3	14.6	- 1	21	20	3.5	17	21
Public consumption	403	6.4	18.0	25.6	2	35	37.5	2	20	22
Gross fixed asset formation	591	- 3.4	25.6	21.3	- 5	20	14	1	20	21
Domestic final uses (excluding change in stocks)	2 770	- 1.4	19.3	17.6	- 1.5	23.5	21.5	2.5	18.5	21.5
Domestic final uses (including change in stocks)	2 844	- 1.6	19.3	17.4	- 7.5	23	14	7	18.5	26.5
Exports ¹	1 017	0.9	22.2	23.3	6	20	27	3	17	20.5
Imports ¹	1 208	- 3.7	47.4	41.9	- 7.5	15	6.5	10.5	18.5	31
Gross domestic product at market prices	2 653	0.4	8.1	8.5	- 1.5	26	24	3	17.5	21.5
Contribution to percentage change in GDP										
Domestic final uses (excluding change in stocks)	2 770	- 1.5		18.4	- 1.6		24.2	3.0		23.6
Change in stocks	74	- 0.3		0.2	- 7.0		- 8.1	4.5		4.6
Balance of exports and imports ¹	- 191	2.0		- 10.1	7.1		7.9	- 4.2		- 6.8

¹ Goods and services

² Source 'Review of 1974 and outlook for 1975'

³ Estimates of Commission's Departments.

2. Outlook

The recovery in the economy should gather force in the coming months, in conjunction with the improvement in external demand, in particular that of the United Kingdom and other Community countries, for which the growth forecasts appear more favourable now than at first expected. The strength of the recovery will depend, however, on the development of private consumption which up to the present has been the principal driving force of the upturn and which could be affected adversely by last January's budget. If this is the case, the improvement in the propensity to invest may be held back. In total, the rate of growth of gross domestic product, in real terms, should be around 3% for 1976 as a whole.

Industrial exports should once again grow more rapidly. Indeed, sales to the United Kingdom should accelerate and deliveries to other Community countries and the United States will be encouraged both by their internal demand picture and the stimulus given by the depreciation of sterling. On the other hand, agricultural exports should only progress moderately in value and decline in volume on account of the number of animals available for export and the restocking cycle.

Internal demand should continue to develop but at a slower level than in the past few months. The investment propensity undoubtedly will strengthen. Investment in industry should, given the improvement in the general picture and outlook, benefit from the plans put into cold storage in the recessionary phase. In addition, foreign and

particularly American investment should begin to accelerate. Given the substantial growth in capital expenditure for the public sector foreseen in the January budget, half in industry and the remainder principally in agriculture and the energy sector, investment in these areas should be stimulated. On the other hand, residential construction is unlikely to increase.

Consumers' expenditure should develop more slowly than at the beginning of the recovery phase. Real purchasing power will be affected by the indirect tax increases in the January budget. In addition, the proposed new National Pay Agreement, which does not provide for any increases before the summer, should, at most, result in the maintenance of real incomes. Thus, the support of consumers' expenditure will depend to a large extent on a further reduction in the savings ratio which still remains high. Public consumption should progress more rapidly than foreseen before the new pay proposals.

As a result of the expected strengthening of demand, industrial production should reach again the level achieved before the beginning of the recession.

Employment should also improve with the pick up in activity. However, given the necessity for mopping up the strong increases in the labour force, the unemployment rate will fall more slowly than in the corresponding phase of previous recoveries; the number registered as out of work will undoubtedly remain above 100 000.

The inflation rate should not slow down by very much and for the year as a whole the rise in prices could be of the order of 17%. Added to the effects of the new pay

TABLE 3

The central government budget

Ireland	1975			1976	
	Original budget		Provisional outturn	Original budget	
	£ mio	% change 4	£ mio	£ mio	% change 4
Expenditure ¹	1 562	29.0	1 680	2 043	30.8
of which:					
— current expenditure	1 252	33.0	1 350	1 683	34.4
— capital expenditure ²	310	14.8	330	360	16.1
Revenue ³	1 129	25.6	1 099	1 364	20.8
of which:					
— direct taxes	390	32.2	375	462	18.5
— indirect taxes	581	24.7	551	688	18.4
Net borrowing requirement	- 433		- 581	- 697	

¹ Disregarding debt extinction

² Excluding loans to the Intervention Agency.

³ Excluding reimbursements of loans by the Intervention Agency.

⁴ On the preceding year's original budget.

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

TABLE 4

Main economic indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug.	Sept	Oct	Nov.	Dec.
Industrial production* (1970 = 100)	1973		118.1			118.8			119.1			119.4	
	1974		126.1			123.3			121.1			118.3	
	1975		115.1			113.9			113.9			(115.8)	
Unemployed* (1 000)	1974	65.7	66.0	65.1	66.6	67.8	68.4	69.7	71.1	74.1	74.4	77.3	80.3
	1975	85.3	87.3	90.2	94.2	97.3	99.5	100.7	102.6	103.1	104.4	105.5	109.7
	1976	108.6	110.0	110.6	111.4								
Construction*	1973	3 604	5 302	4 213	1 068	1 818	1 282	1 768	1 976	2 544	2 227	2 091	2 026
	1974	2 399	1 642	3 369	2 476	2 163	2 098	2 023	2 121	2 282	1 891	1 904	1 868
	1975	1 830	1 646	2 190	2 195	1 720	2 463	1 842	2 081	2 158	1 703	1 739	2 290
Private consumers' expenditure* (1970 = 100)	1974	152.3	159.3	156.6	165.2	161.9	163.5	167.9	169.9	166.9	172.0	176.1	175.6
	1975	179.2	178.7	181.8	183.5	196.6	189.0	195.8	194.9	203.1	208.0	212.1	231.8
	1976	219.0											
Consumer prices (1970 = 100)	1974		143.5			151.5			157.3			164.5	
	1975		177.7			188.5			187.1			192.2	
	1976		206.3										
Visible imports* (million Eur)	1974	210.7	228.9	255.2	275.7	269.2	251.5	281.5	283.8	259.3	258.9	225.3	226.5
	1975	249.7	249.9	200.3	237.0	225.3	208.6	241.4	225.1	239.7	244.2	261.1	263.0
	1976	254.6	273.0	300.3	269.5								
Visible exports* (million Eur)	1974	163.2	167.1	164.8	175.0	165.2	171.3	186.4	174.2	168.4	188.0	191.2	193.1
	1975	196.2	185.5	155.1	199.9	192.2	163.1	208.7	197.5	208.5	257.8	214.7	197.7
	1976	184.9	198.8	192.8	238.9								
Balance of Trade* (million Eur)	1974	-47.5	-61.8	-90.4	-100.7	-104.0	-80.2	-95.1	-109.6	-90.9	-70.9	-34.1	-33.4
	1975	-53.5	-64.4	-45.2	-37.1	-33.1	-45.5	-32.7	-27.6	-31.2	+13.6	-46.4	-65.3
	1976	-69.7	-74.2	-107.5	-30.6								
Official foreign exchange reserves (million Eur)	1974	816	761	809	759	762	732	818	924	870	881	873	862
	1975	822	809	798	799	821	853	900	890	948	908	938	1 092
	1976	1 194	1 165	1 194	1 109								
Money supply (million Eur)	1974	1 017	960	1 021	971	937	960	952	966	994	968	971	998
	1975	950	920	966	963	939	976	961	1 004	1 069	1 040	1 050	1 106
	1976	1 080	1 068										

() Provisional

Not available

* Seasonally adjusted

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

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

— Industrial production CSO, Mining and manufacturing industry

— Unemployment: Number of registered unemployed

— Construction: Total of dwellings begun or authorized

— Private consumers' expenditure: Retail Sales Index in value.

— Consumer prices CSO: Consumer price index

— Visible trade: Imports cif, exports fob

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

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

— Money Supply: Currency and current accounts

agreement will be those resulting from the application of equal pay as well as increases in employers' social insurance contributions. In addition, the rise in import prices will be further aggravated by the depreciation of the pound.

This final factor as well as the growing need for imported semi-finished goods for domestic production in this phase

of recovery will be reflected in rapid *import* growth. Thus, a substantial deterioration can be expected in the trade balance and a balance of payments deficit of roughly the same order of magnitude as in 1974 (£300 million) is likely. Despite the favourable effect of the Community loan of \$ 300 million approved last February, the official reserves will undoubtedly rise less rapidly than previously.

The essential problems of the Irish economy will thus continue to be very much the same. Although the consolidation of the recovery seems probable and although such a development will make the employment situation less acute, the constraints facing economic policy will remain pressing. In the absence of a consensus on a more restrictive line on incomes, the development of costs and prices runs the risk of holding back exports, which up to recently have been aided by the substantial deterioration in the pound, and leading to a balance of payments deficit which is difficult to bear. This chain of events will make inevitable additional increases in taxation to channel resources towards firms. In addition, successes in incomes policies in important partner countries will make greater discipline in this area even more necessary.

Major economic policy measures

November 1975:

- Irish Banks' Standing Committee announced an increase in lending rates, effective from the close of business on 20 November.
- The Building Societies increased their mortgage rates by 1% to 12½% following the termination of the Government interest rate subsidy.

December:

- The Taoiseach announced that the Government advocates a pay restraint policy until the end of 1976.
- The Department of Local Government announced that housing grants are to be restricted to applicants eligible for local authority supplementary grants, i.e. those earning less than £45 a week.

January 1976:

- Customs duties between Ireland and other Member States of the Community and with EFTA countries were cut by a further 20% with effect from 1 January.
- Following a decision by the Commission, the rates of tariffs on

imported shoes with leather uppers, due to be reduced on 1 January, were maintained at 9% for imports from the UK and 18.5% from other EEC and EFTA countries. Charges on other suppliers formerly fixed at 17.2% will be 23%. These rates will remain in force for six months.

— The Government decided to implement — on a marriage differentiated basis — the final phase of equal pay to public service employees effective from 1 January.

— The Minister for Finance introduced the annual budget on 28 January. The main points were:

- social welfare payment will be increased by 10% from 1 April;
- the maximum unemployment benefit has been fixed at 85% of net previous earnings. The benefit for farmers on smallholdings has been reduced;
- substantial increases in indirect taxes were imposed to give a total yield of £106 million;
- personal income tax allowance increased by up to 10%;
- date of payment for self-employed brought forward three months and 'Pay-as-you-earn' system introduced for civil servants;
- extension of special tax relief for stock replacement;
- the Government's public capital programme for 1976 is estimated to cost £596.3 million, 27.5% higher than the amount spent last year

February:

— Finance Ministers of the EEC agreed that Ireland should be granted a £150 million loan over a 5-year period.

— The Associated Banks announced that the interest rates on their lending and deposits will be reduced by 1¼%.

March:

— Negotiations for a 1976 National Pay Agreement broke down on 24 March. The Taoiseach asked the two sides to meet again.

April:

— The Irish Building Societies' Association announced that the mortgage rate on house purchase loans will be reduced from 12.50% to 11.85% in May 1976.

— Contribution rates for Social Welfare Insurance were increased on 5 April.

— A draft National Pay Agreement produced by the Employer-Labour Conference provides for a pay pause of two months, an increase of £2 + 3%, and after five months a further rise of the same magnitude. The agreement will last for 13½ months.

Italy

Italy's economy reached its low point in the last third of 1975 and since then has been on a distinctly rising trend. In the early months of 1976, the growth of economic activity was sustained mainly by private consumption and stockbuilding, while exports tended to decline in the period January-April, after a rapid upswing towards the end of last year. The numbers in employment, which had remained virtually stable last year, fell slightly. The faster upsurge in prices and the deterioration in the balance of payments continued and, together with non-economic factors, led to an extremely rapid depreciation of the lira.

Although the trend of economic activity is likely to slacken again in the second half of the year, real gross domestic product — which had declined in the previous year — might well grow by about 1½% between 1975 and 1976.

1. Recent developments

The economic recovery, which got under way in the fourth quarter of 1975, continued in the early months of 1976.

Exports showed an underlying fall, mainly because of a certain wait-and-see attitude on the part of exporters in the face of the persistent depreciation of the lira, but even so their value in the first four months was 23½% up on a year earlier. The increase in terms of volume was

considerably smaller. Above-average rates of growth were recorded in exports of motorcars and textiles and in deliveries to oil-producing countries and to the other Community countries.

According to the mostly qualitative, and incomplete indicators available so far, the trend of domestic demand was distinctly upward in the period January to April. In the area of investment demand, this was undoubtedly true for stockbuilding, although the movement was probably no longer quite as strong as in the fourth quarter of last year.

In addition, pressure to rationalize may again have led to some increase in capital expenditure on plant and machinery. Building investment, on the other hand, clearly maintained its downward tendency.

In the early months of 1976, private consumers' expenditure rose vigorously. Consumer durables, such as motor vehicles and household appliances, were in particularly strong demand, considerable need to replace these having evidently built up last year. The general impression is that the propensity to consume has been strengthened by the expectation that the upsurge in prices will gather further momentum.

The ISTAT indices — seasonally adjusted by ISCO — suggest that industrial production in the first quarter again grew distinctly (by about 3½% compared with the level of the three previous months). The unadjusted index was thus 5.9% up on a year earlier, after a year-on-year drop of 1.2% in the fourth quarter of 1975 and a fall of 9.2% for 1975 as a whole. Preliminary information shows that in the first quarter the seasonally adjusted production of consumer goods and intermediate products, and of gas and electricity, expanded particularly vigorously. As the trend of industrial production has been pointing up since last autumn and because of weak investment activity, the ISCO-Mondo Economic business surveys indicate that the degree of utilization of industrial production capacity increased, for the first time in more than one and a half years, moving from 68% in the fourth quarter of 1975 to 71.7% in the first quarter of 1976.

According to the customs returns seasonally adjusted by ISCO, the value of imports in the first four months was over 8% higher than the preceding four month period. It should be borne in mind that the level recorded in December was unusually high for various reasons (speculation against the lira, method of collecting statistics). In the period January-April, imports, not seasonally adjusted, were over 39% up on the level of the corresponding period of 1975. Above-average growth rates were evident in imports of motor cars, textiles and chemicals.

In spite of the rising production curve, the weakness on the labour market persisted. The numbers employed — which had remained remarkably stable during last year — tended to fall at the beginning of 1976, especially in building, agriculture and industry. In the services sector, by contrast, they rose once again. Since the numbers employed fell more sharply than the labour force, the number of unemployed (source: ISTAT) went up according to the Banca d'Italia's seasonally adjusted calculations. At 681 000 it was 12.9% higher in January 1976 than a year earlier. The proportion of young people in the number of unemployed again grew, reaching almost two-thirds in January. The unemployment rate averaged 3.5%¹ for the country as a whole and was no less than 5.2% in Southern Italy and the islands; in these parts of the country unemployment rate among women stood

¹ 4.7%, if half the underemployed are also taken into account.

TABLE 1
Key indicators

Italy	Unit	1968-1972 average ^{4 5}	1973 ⁵	1974 ⁵	1975 ⁵	1976 ⁶
Gross domestic product; volume	% change	3.9	6.8	3.4	— 3.7	1.6
of which: Industry ¹	% change	4.9	10.3	4.9	— 9.7	3.3
Gross domestic product in volume per person in employment	% change	4.5	5.8	1.2	— 4.2	2.3
Total employment (number of persons) ²	% change	— 0.6	0.9	1.5	— 0.1	— 0.7
— Self-employed		— 3.9	— 1.5	0.1	— 1.0	0
— Employed		1.2	1.9	2.1	0.2	— 1.0
Unemployed	as % of labour force	3.4	3.5	2.9	3.3	3.8
Compensation of employees per wage and salary earner	% change	11.9	19.2	21.4	19.5	20.2
Price index of private consumption ³	% change	5.1	12.1	20.2	17.4	20.5
Current account balance ³	Lit. '000 Million	1 234	— 1 574	— 5 179	— 344	— 700

¹ Excluding building and construction

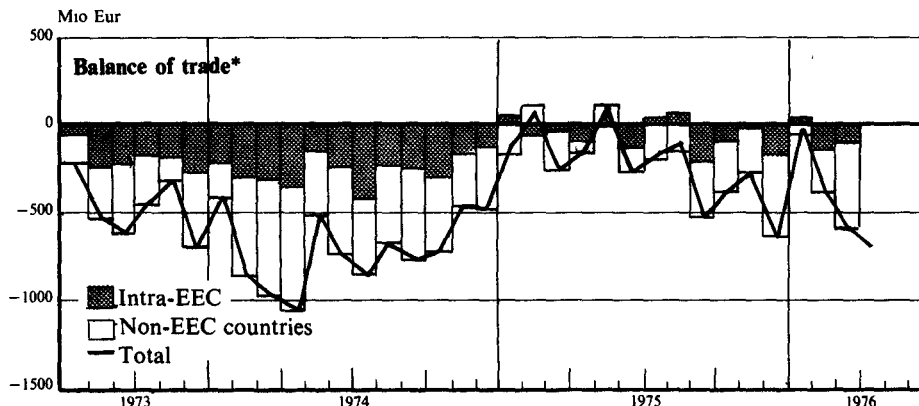
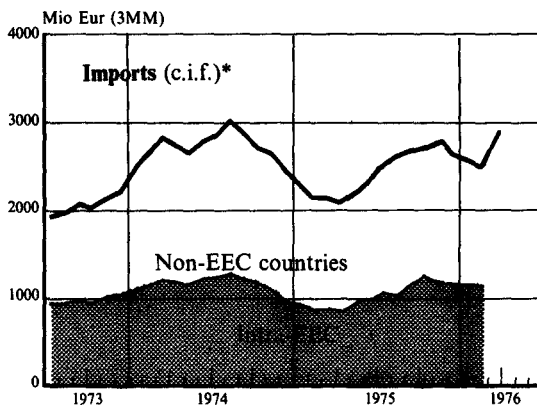
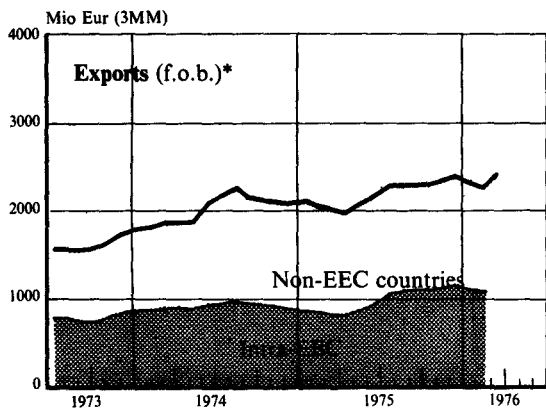
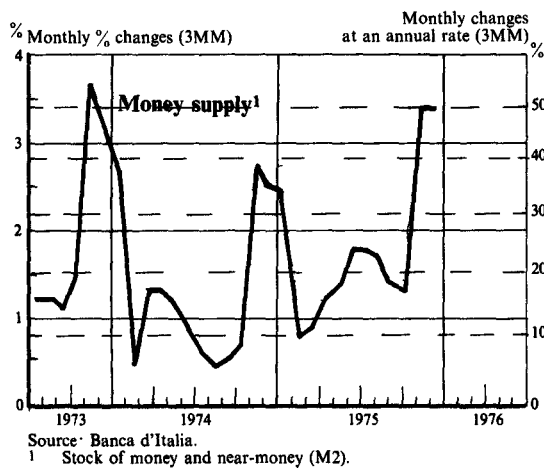
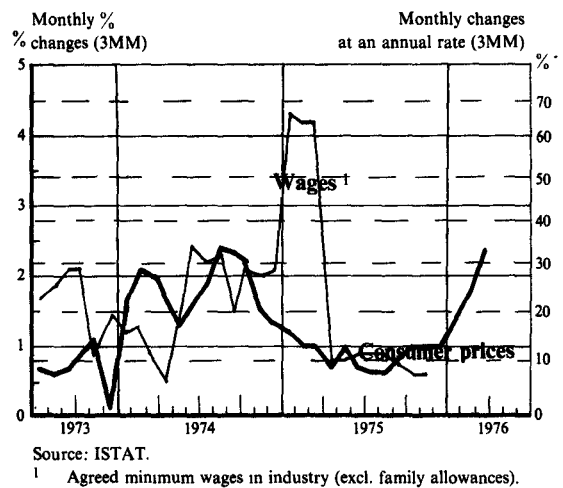
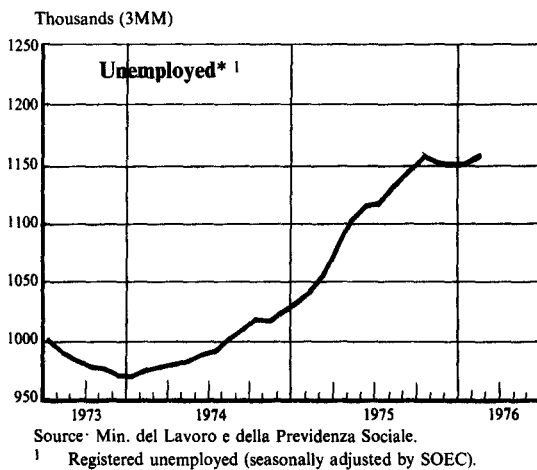
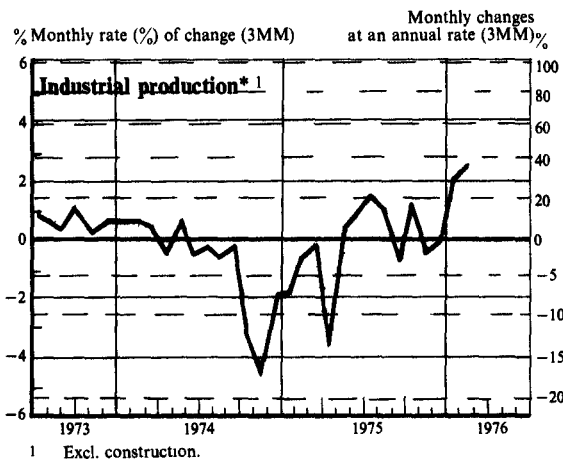
² Domestic concept

³ National accounts concept; on annual basis

⁴ Geometric mean of the change from 1967 to 1972, unemployment and current account balance arithmetic mean over the five years

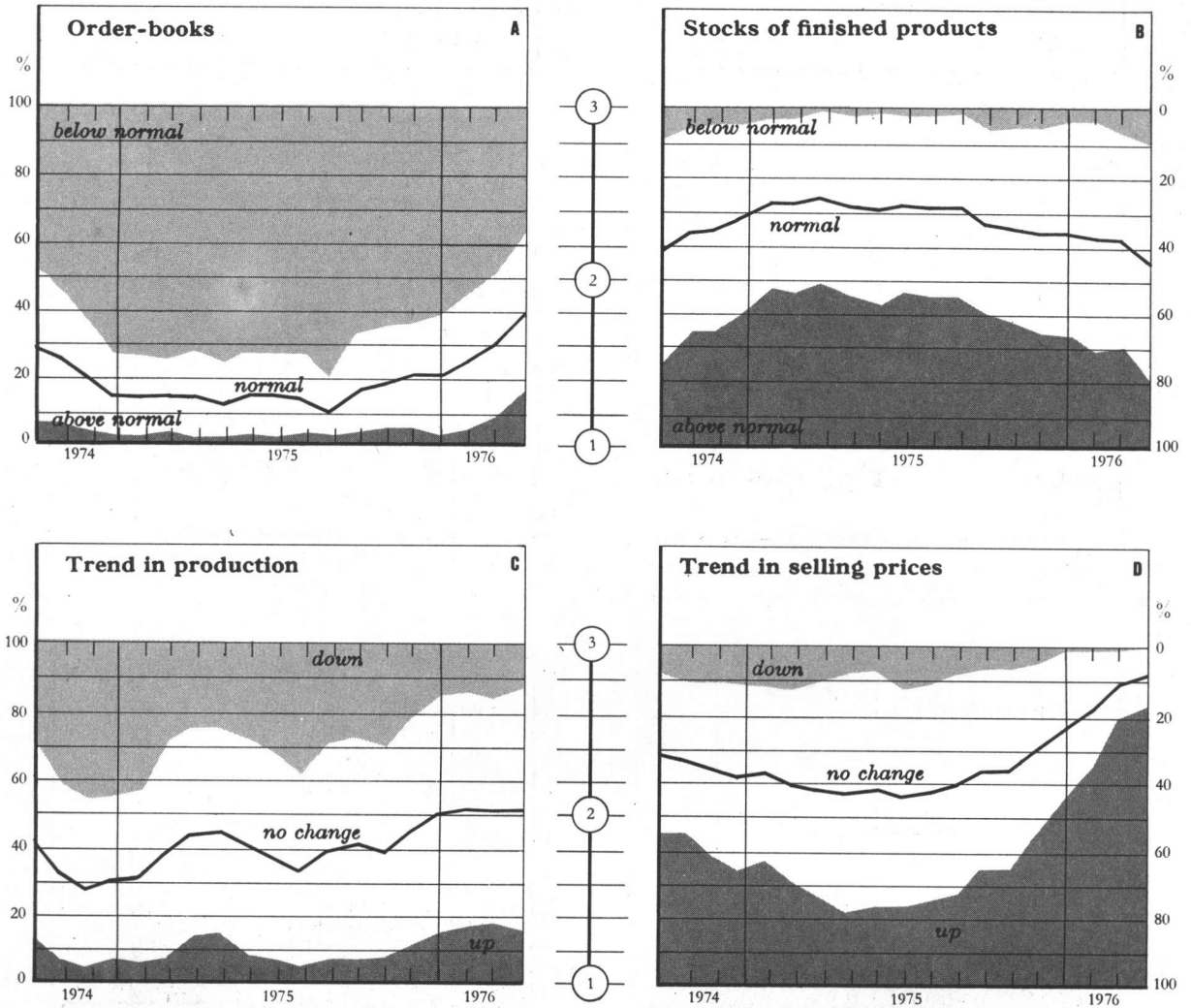
⁵ Source: Relazione Generale sulla situazione economica del Paese; 1975

⁶ Estimates of Commission's Departments



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

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

at 6.6%. The number of persons on short time dropped below the level of a year earlier (by 12.2% in January) for the first time in quite a long period, but, because of the declining numbers employed, the level of employment¹ is likely to have fallen further.

The upward movement of *prices*, which had quickened significantly again since last summer and autumn, gained considerably more momentum in the early months of 1976 than is usual for the season, although the growth-rate of average unit wage costs had been declining towards the end of last year. Apart from increases in administered prices this was caused by the expansion of demand and, in particular, the higher cost of imports resulting from the rapid depreciation of the lira and the rise in some international commodity prices. The monthly rate of increase in consumer prices was 1.1% in January, 2.2% in February, 2.0% in March and 2.6% in April; the corresponding increases in wholesale prices were 1.7%, 3.1%, 4.6% and 5.2%. In April consumer prices were 15.4% and wholesale prices 20.2% higher than in the corresponding period in 1975. On an annual basis, the corresponding rates in the six-month period February-July 1975 had been 10% and just under 1% respectively.

External equilibrium also deteriorated further in the early months of 1976. Contributory factors were the trends in visible trade, in service transactions and, in particular, in capital movements. The deterioration in the balance of service transactions was probably partly attributable to hidden exports of capital. The unfavourable trend of the balance of payments on current account was, however, primarily a result of the swing in the terms of trade caused by currency depreciation. Despite the decidedly restrictive monetary and credit policy pursued by the authorities since February, and despite the Banca d'Italia's interventions on the foreign exchange market, the lira depreciated between the end of 1975 and the end of May 1976 by 16½%, almost as much as the fall in the three-year period from February 1973 to December 1975 (20½%). However, due principally to the three month non-interest bearing cash deposit corresponding to 50% of foreign currency purchases for lira, the external value of the Italian currency has strengthened considerably since 6 March. The balance of payments showed a deficit of Lit. 2 128 000 million in the first four months of 1976 (Lit. 862 000 million in the fourth quarter of 1975, and Lit. 148 000 million in the period January-April 1975). On the other hand the (net) official gold and foreign exchange reserves in this period increased by Lit. 77 000 million, firstly because the commercial banks imported money on a substantial scale, and secondly because the monetary authorities obtained a \$ 500 million medium-term loan from the Bundesbank, drew the \$ 1 000 million Community loan granted to Italy and suspended their interventions on the foreign exchange market from 21 January to 1 March.

After an unusually sharp expansion in the fourth quarter

¹ Number of persons employed multiplied by the number of hours worked per employee.

of 1975, the *monetary base*¹ again grew in the period January-April 1976, contrary to the normal seasonal movement. This is all the more remarkable because the balance of payments showed a heavy deficit and the authorities' monetary and credit policy since February had followed a markedly restrictive line. These factors were, however, far outweighed by the expansionary influence of the Treasury's transactions. Demand for credit remained unusually high in January and March, notably on account of the government crisis and speculative stockbuilding. *Bank liquidity* contracted particularly as a result of the decision to raise the minimum reserve ratio and a marked increase in the general public's liquidity. In the circumstances the *level of interest rates*, particularly short-term interest rates, rose sharply especially since the cost of refinancing from the Banca d'Italia had been put up by no less than six percentage points (to between 12 and 15%) February-March. The yield on bonds issued by the institutions lending on goods and securities rose from 10.7% last December to 13.2% in April. Interest rate on interbank balances rose from 8.3% in December to some 17½% in May; the prime rate was 18.4% in that month. As a result of the slide in the prices of securities which paralleled this trend and owing to the persistent flight of capital abroad, activity on the *capital market* was very weak. Share prices fell to a level equivalent to that of some twenty years ago. In the second half of April prices rallied again after the authorities had tightened the conditions for forward sales of shares.

In the fourth quarter of 1975 and to lesser extent in the first three months of 1976, cash transactions under the *central government* budget produced a very large deficit as expenditure rose sharply while revenue fell off, a trend which continued in April. Although the other Treasury operations showed a somewhat more favourable trend the Treasury's total net borrowing requirement in the six months to the end of March 1976 reached Lit. 7 200 000 million (Lit. 4 200 000 million a year earlier).

2. Outlook

The forecasts of economic developments until the end of the year are based on a number of assumptions, the main one being that the required restrictive economic policy will be substantially maintained and that this policy, combined with the present climate of political uncertainty, will have a marked adverse effect on economic activity in the second half of the year. Production should continue to rise until the middle of the year, however, especially as it can reasonably be assumed that the revival of world trade, which has been apparent for some time now, will gather additional momentum this year.

In the circumstances, the volume of *exports* will probably rise briskly, accelerating in the course of the year. This is all the more likely as the economic recovery discernible in

¹ This central variable in Italian monetary and credit policy essentially covers notes and coin in circulation and assets convertible into central bank money at short term.

TABLE 2

Demand for and supply of goods and services

Italy	1973 ²	1974 ²			1975 ²			1976 ³		
	At curr prices Lit. '000 million	% change on preceding year								
		Vol	Price	Val	Vol.	Price	Val.	Vol.	Price	Val.
Private consumption	53 457	2.5	20.2	23.2	- 1.8	17.4	15.3	1	20½	21½
Public consumption	11 754	2.1	16.7	19.2	0.8	10.0	10.9	1	20½	22
Gross fixed asset formation	17 156	3.7	28.4	33.1	- 12.7	19.5	4.3	- 8	21½	12
— Building and construction	9 668	1.3	30.1	31.8	- 9.0	19.7	8.9	- 8	20	10½
— Plant and machinery	7 488	- 17.4	19.2	- 1.5	- 17.4	19.2	- 1.5	- 7½	24	14½
Domestic final uses (excluding change in stocks)	82 367	2.7	21.4	24.7	- 3.7	16.5	12.2	- 1	21	20
Domestic final uses (including change in stocks)	85 002	1.9	21.7	24.0	- 6.4	15.4	8.0	½	21	21½
Exports ¹	15 241	10.0	36.4	50.1	3.1	11.4	14.9	9	23	34
Imports ¹	18 100	2.0	57.2	60.3	- 10.0	6.3	- 4.3	4½	27½	33½
Gross domestic product at market prices	82 143	3.4	16.8	20.8	- 3.7	17.5	13.2	1½	19½	21½
Contribution to percentage change in GDP										
Domestic final uses (excluding change in stocks)	82 367	2.6		24.8	- 3.6		12.6	- 0.8		20.0
Change in stocks	2 635	- 0.7		0	- 2.7		- 4.1	1.5		1.6
Balance of exports and imports ¹	- 2 859	1.5		- 4.0	2.6		4.7	0.9		- 0.3

¹ Goods and services

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

³ Estimates of Commission's Departments.

most countries is mainly consumption-led and it is consumer goods which account for a particularly high proportion of Italian exports. Last year's depreciation of the lira, although relatively small, should also have positive effects on the volume of exports, and the very sharp fall in the value of the lira since January could begin to have a similar effect towards the end of 1976. In addition, Italian firms normally step up their export drive when demand at home weakens and this will probably be the case in the second half of the year. Finally, the depreciation of the lira in the first half of the year may well have given a boost to exports in terms of value (expressed in lira), particularly in the second quarter.

Despite the favourable outlook for export demand and the improvement in company profits brought about by the depreciation of the lira and despite the need for rationalization and re-equipment investment, the volume of investment demand will probably fall in the second half of the year. A number of factors point to this: the political uncertainty, the restrictive monetary and credit policy, the poorer prospects for the trend of production and the low level of capacity utilization.

Although incomes have improved substantially following the conclusion of major new-wage agreements, many factors suggest that *private* consumption in real terms will

be sluggish in the second half of the year. These include the expected very sharp price rises, the increase in the burden of taxation, and notably a decline in the propensity to consume as a result of the more subdued economic trend and because of anticipatory buying during the first half of 1976.

On these assumptions and taking into account the level reached at the end of last year, the present forecast is that *real gross domestic product* in 1976 will probably be about 1½% up on 1975. The growth rate for *imports* is likely to be appreciably higher. The employment situation will probably remain unsatisfactory.

Prices will undoubtedly rise very sharply once again, mainly as a result of the substantial fall in the value of the lira, the continued rise in commodity prices and the reintroduction of the non-interest-bearing cash deposit for imports. Owing to the swing in the terms of trade brought about by the depreciation of the lira, the balance of payments on current account will probably deteriorate again appreciably.

Consequently, the most pressing task of short-term economic policy will probably be to stem any further depreciation of the lira, as this stimulates inflation both directly and indirectly, has a negative effect initially on

TABLE 3

The central government budget

Italy	1975			1976	
	Original budget		Provisional outturn	Original budget	
	Lit. '000 000 million	% change ⁴	Lit. '000 000 million	Lit. '000 000 million	% change ⁴
Expenditure ¹	27.5	+ 15.9	38.5	35.2	+ 28.3
of which:					
— current expenditure	23.3	+ 19.8	28.7	29.1	+ 24.9
— capital expenditure ²	4.2	— 1.9	9.8	6.1	+ 47.3
Revenue ³	22.2	+ 30.5	24.4	26.0	+ 17.4
of which:					
— direct taxes	5.5	+ 29.1	7.7	9.6	+ 74.0
— indirect taxes	14.9	+ 25.7	12.0	13.9	— 6.9
Net borrowing requirement ^{1 3}	— 5.3		— 14.1	— 9.2	

¹ Disregarding debt extinction.

² Including participations, advances and loans

³ Excluding loan proceeds.

⁴ On the preceding year's original budget.

Note.

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

the balance of payments on current account and as excessive depreciation distorts the conditions of competition within the Community. The fall in the value of the lira since the beginning of the year is undoubtedly mainly attributable to psychological factors, so that economic policy must aim at restoring confidence. In order to safeguard future growth in production and employment, emphasis should therefore be placed on boosting firms' propensity to invest. In addition, efforts must be made, together with the two sides of industry, to raise productivity per employee by improving discipline at work, while at the same time moderating wage rises. Only in this way can the balance of payments deficit on current account be reduced in the longer term. Tight control of liquidity and strict limits on the public deficit and public expenditure are also necessary. Expansionary measures to support employment should be selective and confined to those components of demand which have a low import content (e.g. investment in building and construction) or to those production sectors the development of which would have a positive effect on the balance of payments (e.g. agriculture).

Major economic policy measures

December 1975:

— At the beginning of the month, employees working for the railways, the post office and State monopolies were awarded an increase of Lit. 20 000 a month. A large number of civil servants obtained similar increases as from 1 July.

— Towards the end of the month, the requirement for banks to invest in fixed-yield securities 30% of the growth of their customers' deposits was extended to cover the first half of 1976.

January 1976:

— With effect from 5 January, the maximum period for payment to be observed in trade in goods and services was increased from 30 to 60 days for advance payments on imports and from 90 to 120 days for payment after delivery on exports

— On 21 January, the monetary authorities decided to suspend official quotation of foreign currency in lira.

— This was followed soon afterwards by a major issue (Lit. 3 000 000 million) of ordinary treasury bills intended to absorb some of the banking system's surplus liquidity.

February:

— With effect from 2 February, the discount rate and the rate for advances against securities were raised from 6 to 7%. Since the maximum supplement which can be added to these rates in the event of certain limits being exceeded remains unchanged (3%), the cost of refinancing could in future amount to 10%. The latter had been reduced on several occasions, in December 1974, and in May and September 1975.

— On 4 February, in order to contain pressure on the lira and slow down the flight of capital, the Government adopted the following measures:

— The rate for banks' minimum reserve requirements was increased from 15 to 15.75% of deposits, which should enable bank liquidity to be reduced by some Lit. 900 000 million in 1976. This increase applies either to the stock of deposits existing at the end of 1975, or to the variation in deposits in 1976. The additional reserves (Lit. 750 000 million) relating to the stock of deposits are to be paid in two instalments, in February and April 1976.

— The period for converting into lira sums deposited in accounts denominated in foreign currencies is reduced to 15 days. Previously, the period could vary, depending on the case, from 30 to 60 days.

— Emigrant workers will be able to open special foreign currency accounts with Italian banks. This measure is intended primarily to attract an influx of foreign currency into Italy

— On 24 February, to deal with the rapid fall in the value of the lira, the Government took the following measures:

— With effect from 25 February, the discount rate and the rate for advances against securities were increased from 7 to 8%. The maximum supplement (3%) which could be added to these rates remained unchanged.

TABLE 4

Main economic indicators

	Year	Jan.	Feb.	Mar	Apr	May	June	July	Aug	Sept.	Oct	Nov.	Dec
Industrial production (1970 = 100)	1974	122.8	122.5	121.0	123.9	121.0	123.3	122.3	120.1	121.6	114.9	108.8	105.7
	1975	108.5	114.5	106.6	107.9	101.6	107.3	110.6	106.7	108.4	109.9	111.3	108.1
	1976	108.0	117.8	114.8									
Unemployed (1 000)	1974	971.5	969.1	981.3	980.2	981.2	989.1	1 004.0	992.7	1 016.3	1 017.8	1 020.0	1 012.5
	1975	1 034.7	1 043.9	1 050.0	1 085.4	1 106.0	1 119.1	1 120.3	1 111.8	1 164.6	1 159.6	1 155.5	1 144.4
	1976	1 153.4	1 156.4	1 175.9									
Total employed (1 000)	1974	18 855	18 841	18 832	18 840	18 842	18 882	18 911	18 920	18 934	19 021	19 018	19 013
	1975	19 055	19 059	19 078	18 867	18 874	18 925	18 977	18 976	18 979	19 026	19 030	19 032
	1976	18 794	18 800	18 807									
Construction: permits for residential construction (1 000)	1974	33.7	28.3	30.1	28.5	26.2	25.1	25.3	22.4	22.2	23.6	21.2	7.6
	1975	29.1	19.5	15.6	16.3								
	1976												
Private consumers' expenditure: retail sales (1970 = 100)	1974	173.0	177.8	175.0	183.0	179.0	182.8	193.2	196.7	197.0	204.2	195.5	196.3
	1975	192.0	199.9	207.7	187.6	202.8	205.3	208.2	203.8	210.8	213.7	213.4	227.2
	1976	226.7	229.5										
Consumer prices (1970 = 100)	1974	131.5	134.3	137.8	139.5	141.5	143.5	146.4	149.6	153.9	156.8	159.8	161.1
	1975	163.2	165.6	165.8	168.0	169.4	170.7	171.4	172.5	173.9	175.8	177.8	179.2
	1976	181.1	185.1	188.8	193.8								
Visible imports (million Eur)	1974	2 238.6	2 653.7	2 863.0	3 004.2	2 414.1	2 609.8	3 358.9	2 745.6	2 918.0	2 872.8	2 416.8	2 613.8
	1975	2 171.4	2 010.9	2 205.9	2 171.3	1 897.6	2 536.2	2 467.3	2 442.3	2 864.7	2 707.6	2 618.5	3 041.6
	1976	2 439.2	2 477.9										
Visible exports (million Eur)	1974	1 816.5	1 805.6	1 873.9	1 966.5	1 893.3	1 875.1	2 487.0	2 065.4	2 137.4	2 137.2	1 970.7	2 122.4
	1975	2 061.1	2 057.0	1 950.4	2 011.5	1 970.1	2 273.5	2 293.3	2 322.4	2 342.3	2 318.4	2 354.5	2 417.9
	1976	2 404.0	2 096.9										
Balance of trade (million Eur)	1974	-422.1	-848.1	-989.1	-1 037.7	-520.8	-734.7	-871.9	-680.2	-780.6	-735.6	-446.1	-491.4
	1975	-110.3	+ 46.1	-255.5	- 159.8	+ 72.5	-262.7	-174.0	-119.9	-522.4	-389.2	-264.0	-623.7
	1976	- 35.2	-381.0										
Official foreign exchange reserves (million Eur)	1974	2 093	1 467	2 496	2 084	1 469	1 307	1 638	1 632	3 396	2 753	2 278	2 550
	1975	2 223	2 155	2 267	2 422	2 289	2 290	1 569	1 337	1 998	1 817	1 466	1 128
	1976	909	841	1 157	1 242								
Monetary base (Lit. '000 million)	1974	31 087	31 283	31 823	32 236	32 356	33 166	33 662	33 306	33 041	33 043	32 872	35 546
	1975	34 765	34 730	35 127	35 243	35 815	36 433	37 498	37 911	39 130	39 589	39 247	42 418
	1976	41 643	42 121	43 247									

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

Conversion into Eur (1 Eur = 0.0888671 g of fine gold).

- Industrial production, excluding construction: adjusted for seasonal variations
- Unemployed: series provided by the Ministero del Lavoro e della Previdenza Sociale, adjusted for seasonal variations by the Statistical Office of the European Communities
- Total employment: number of persons in employment according to a quarterly survey, the figures are seasonally-adjusted and partly interpolated
- Construction: dwellings authorized in the provincial capitals and in other communes of 20 000 or more inhabitants, figures adjusted for seasonal variations.
- Private consumers' expenditure: value index of the turnover of major retail outlets, adjusted for seasonal variations
- Consumer prices: unadjusted index
- Imports cif, exports fob, adjusted for seasonal variations
- Balance of trade: difference between values of exports and imports, seasonally adjusted.
- Official gold and foreign exchange reserves: position at end of month
- Gold assets assimilated to gold continue to be calculated on the preceding parity
- Monetary base: Includes, in particular, the fiduciary issue; sight deposits with the Banca d'Italia, the Treasury and the savings and loans bank, deposits with the Post office; unused facilities for ordinary advances with the Banca d'Italia: unused liquid assets abroad, in convertible currencies, that banks can freely use

- The refinancing facilities introduced last August in respect of short-term loans for exports of goods were suspended in view of the fact that they had been a considerable factor in the expansion of the monetary base.
- It was decided that payment of the second instalment of the minimum reserves should be brought forward to March (see above)

- Towards the end of the month, tighter restrictions were imposed on amounts of foreign currency which could be taken out of the country: the maximum amounts of foreign currency per person per year which Italian residents travelling abroad could take out of the country remained restricted to the equivalent of Lit. 500 000. The amount held in cash, however, must not in future exceed the equivalent of Lit. 65 000.

March:

— On the first of the month, official quotation of foreign currencies against the lira was resumed in Italy.

— On 4 March, the Government decided to introduce the following measures:

— strict penal sanctions for frauds involving excessive amounts of foreign currency being taken out of the country;

— speeding up of collection of taxes with increased penalties for late payments;

— increased rates of VAT for a number of luxury goods (perfumes, food specialities, etc.), mainly of foreign origin.

— On 12 March, prices for petroleum products were increased again. The price of petrol (super) went up from Lit. 315 to Lit. 350 a litre (+ 11.7%).

— On 15 March, the Council of Ministers of the European Communities granted Italy a medium-term loan of \$ 1 000 million. The loan was accompanied by a number of economic policy conditions. The Government undertook, for the 1976 calendar year, to limit central government expenditure to Lit. 39 700 000 million, the deficit on treasury transactions to Lit. 13 800 000 million, the financing of this deficit by the monetary authorities to Lit. 5 700 000 million, and the growth in total domestic lending to Lit. 29 500 000 million.

— With effect from 18 March, the discount rate and the rate for advances against securities went up from 8 to 12%. This increase is the largest to have been introduced in the post-war period. The cost of refinancing is now twice as high as at the beginning of the year.

— On 17 March, the Government introduced a series of measures intended to increase the tax yield by some Lit. 1 500 000 million in twelve months. The measures include the following provisions in particular:

— Prices for petroleum products were increased once again as a result of an increase in the taxes on them; the price for one litre of petrol (super) thus went up to Lit. 400 (+ 14.3%).

— A substantial increase was added to the tax charge on a number of alcoholic products.

— Increases were imposed on some rates of VAT, particularly those on motor vehicles and on products consumed in bars and restaurants.

— The tax on interest arising from bank deposits was increased from 15 to 16%, a portion of the tax due for 1976 must be paid in advance in July.

— On the same date, the Italian Exchange Office introduced provisions requiring banks to finance advance payments on imports by means of loans denominated in foreign currencies and not in lira as previously. This measure should slow down the run on foreign currency on the Italian exchange market by encouraging banks to incur foreign debts. Because of the exchange risk it should also discourage advance payments on imports. At the same time, the volume of transactions on the Italian forward exchange market is held to the level recorded on 17 March 1976; in addition, this ceiling will be reduced by 10% before 31 March and by 15% at the most before 15 April.

April:

— On the 14 April, the 'National Commission for Companies and the

Stock Exchange' (CONSOB) decided that as from 20 April, fixed-term or option sales of quoted shares will be subject to the securities in question or a sum equal to 90% of their value being deposited. The aim of this measure is to restrain bear speculation and thus to maintain share prices.

— On 15 April, the Government introduced a further price increase for petroleum products other than petrol. The increases varied from 3 to 23% and were highest for products used by industry.

-- Between 15 April and 1 May, the main collective agreements, which had run out at the end of 1975 in industry, were renewed for three years. These agreements provide in some cases for a certain degree of staggering in wage and salary increases. The latter should result in a rise of 3-4% in 1976 in the total amount of wages and salaries. Measures against absenteeism have been included in nearly all the agreements.

— On 27 April, during the tender of ordinary treasury bills, the actual yield amounted to 17.7% as against 16.3% and 12.5% in March and February respectively.

May:

— In agreement with the Commission of the European Communities, the Italian authorities decided that as from 6 May any transaction involving the purchase of foreign currency would require a non-interest-bearing cash deposit in lira to be lodged with the Banca d'Italia for a three-month period, the deposit being equal to 50% of the amount of the transaction. The aim of this measure is to counter speculation against the lira.

— At about the same date, and with the same objective in mind, the Government introduced the following measures:

— Italian exporters who allowed foreign customers periods for payment of up to 120 days after delivery were required, as from 7 May, to finance 30% of the value of their sales immediately in foreign currency;

— at the same time, the maximum period for converting into lira sums deposited in foreign currency accounts was again reduced, from 15 to 7 days;

— a number of technical provisions aimed at discouraging speculation against the lira were further tightened.

— On 9 May, the new Law to assist the 'Mezzogiorno' came into force. It covers the period 1976-1980 and provides in particular for:

— budget appropriations of Lit. 16 000 000 million, with Lit. 950 000 million earmarked for 1976 and Lit. 1 500 000 million for 1977; as far as the 1976 financial year is concerned, these appropriations will result in only a very slight increase in the central government deficit, since they will be almost wholly offset by a reduction in other expenditure;

— the setting up of a Standing Parliamentary Committee to monitor the planning and carrying out of investment in the 'Mezzogiorno';

— exemption from a number of social security contributions so as to promote employment in the 'Mezzogiorno'.

— Towards the middle of the month, the Government decided on a further extension of the rent freeze which will now run until 31 December 1976.

Netherlands

Economic activity turned up vigorously in the closing months of 1975, but this movement has not been maintained since the beginning of 1976, the growth of production slowing down appreciably. Unemployment, nevertheless, tended to level off. The change was partly attributable to the weather. In more recent months the economy probably improved again.

Unemployment is unlikely to show any significant fall this year. The upward movement of consumer prices may slow down a little. The surplus on the balance of payments on current account will probably be substantially larger than in 1975.

1. Recent developments

After the rapid increase in economic activity between the third and fourth quarters of 1975, growth came to a temporary halt in the first quarter of 1976. This may have

been partly due to the exceptional weather conditions, but there was also a slight slowdown in the expansion of some components of demand related, notably, to the stockcycle at home and abroad.

TABLE 1
Key indicators

Netherlands	Unit	1968-1972 average ⁴ 5	1973 ⁵	1974 ⁵	1975 ⁶	1976 ⁶
Gross domestic product; volume of which: Industry ¹	% change	5.7 8.2	4.1 5.6	2.9 2.8	- 0.7 - 5	4.1 7
Gross domestic product in volume per person in employment	% change	5.0	3.9	2.9	0.6	4.7
Total employment (Number of persons) ²	% change	0.7	0.2	- 0.1	- 1.3	- 0.5
— Independent entrepreneurs		- 1.6	- 1.5	- 1.5	- 1.1	- 1.1
— Wage and salary earners in company		1.0	0.4	- 0.1	- 2.0	- 0.8
— General Government		2.3	1.0	1.6	1.8	1.4
Unemployment	as % of. labour force	1.6	2.4	3.0	4.3	4.7
Compensation of employees per wage and salary earner	% change	12.1	14.6	15.8	13.5	11.5
Price index of private consumption ³	% change	6.0	8.8	10.0	10.4	9.5
Current account balance ³	in Fl '000 million	0.4	6.4	5.5	4.1	7.0

¹ Excluding construction

² Domestic concept

³ National accounts concept

⁴ Geometric mean of the change from 1967 to 1972; unemployment and current account balance arithmetic mean over the five years

⁵ Source: CBS; CPB and Nederlandsche Bank

⁶ Estimates of Commission's Departments.

The volume of *merchandise exports*, following vigorous growth in the fourth quarter, thus expanded more slowly, both to EEC and non-EEC countries. Export prices went on rising distinctly in the first quarter.

There was also a fall-off in *domestic demand*. The volume of business investment after an increase in the fourth quarter is likely to have declined anew. Because of the cold weather, activity in residential construction and in public-sector building and civil engineering was somewhat hampered in the first two months of the year, but has probably quickened again since. Industrial stocks of finished products tended to fall further. At the end of March, however, a balance of 31% of firms still considered them as too high.

After growing briskly in the fourth quarter of 1975, overall *private consumption* has made only little further progress (in volume terms). Transfer incomes continued to rise markedly. However, because of the government decision to limit the advance in wage and salary incomes per employee to between 8.5% and 9% for 1976 as a whole and to require — with a few exceptions — wage increases in the first half of the year to be confined to compensation for the rise in consumer prices, overall real personal disposable income rose relatively slowly.

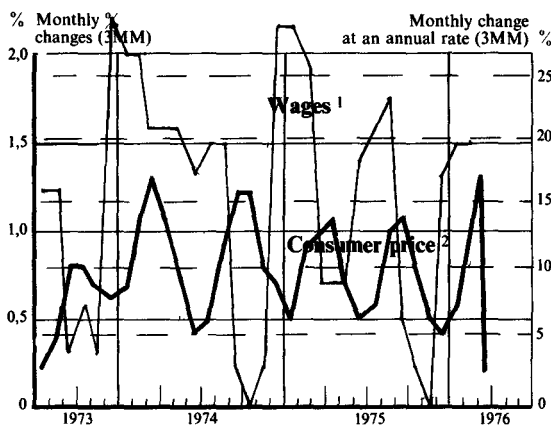
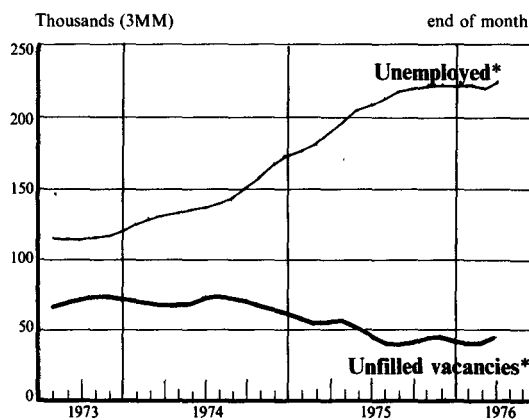
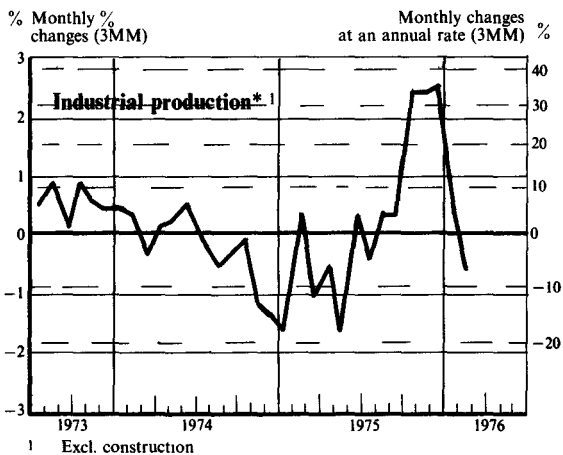
The sluggishness of overall demand noticeably curbed the growth of *production*. There was hardly any further rise in total industrial production from fourth quarter 1975 to

first quarter of the current year. Apart from fluctuations caused by the weather, building activity remained sluggish. Activity in the services sector probably also expanded only slowly.

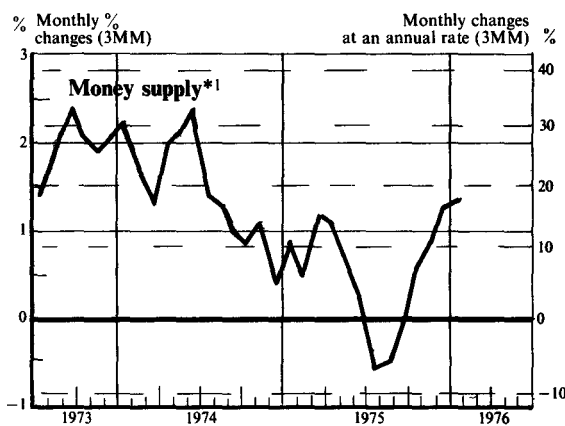
There are faint, and still very tentative signs that the *employment situation* is improving. The total number of unemployed has shown no further rise since the end of 1975, partly, though, as a result of a change in the recording method. For some months the increased demand for manpower has been reflected in the higher number of unfilled vacancies.

As in the case of exports, the expansion of *imports* was temporarily interrupted, mainly because of the slower growth of industrial production and declining gross fixed asset formation. The seasonally adjusted volume of merchandise imports in the first quarter was significantly down on the previous quarter. Import prices, by contrast, have gone on rising distinctly. The fall in the volume of imports resulted in a further improvement in the trade balance and a considerable increase in the balance of payments surplus on current account. Despite outflows of capital, the official foreign exchange reserves tended to increase further in the first quarter.

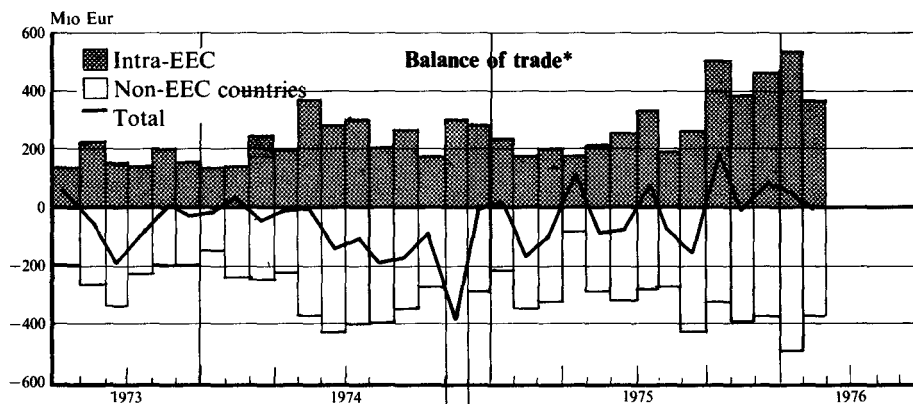
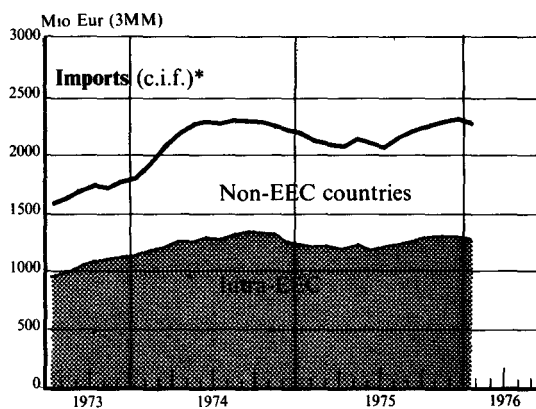
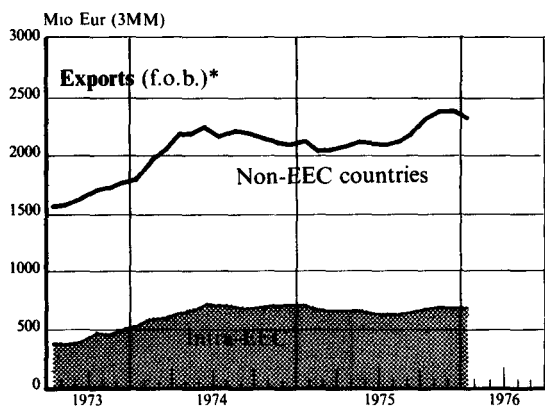
The growth in the domestic *money supply* has probably gathered momentum since the beginning of the year. At the end of February however, the money supply (including near money) was only 9.1% higher than a year



Source: CBS.
 1 Agreed hourly wages in private sector
 2 Wage- and salary-earner households.

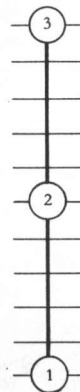
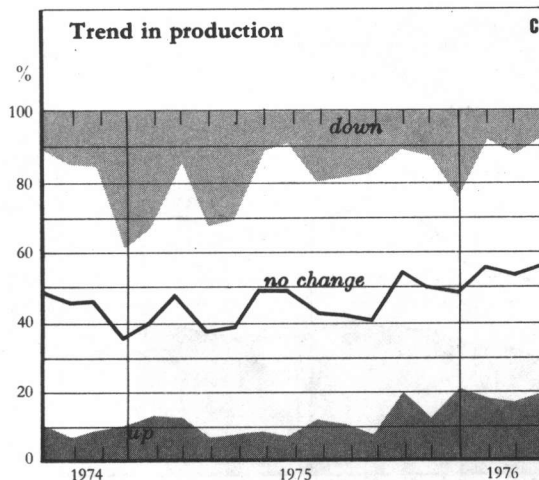
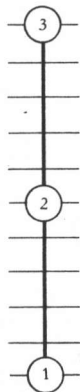
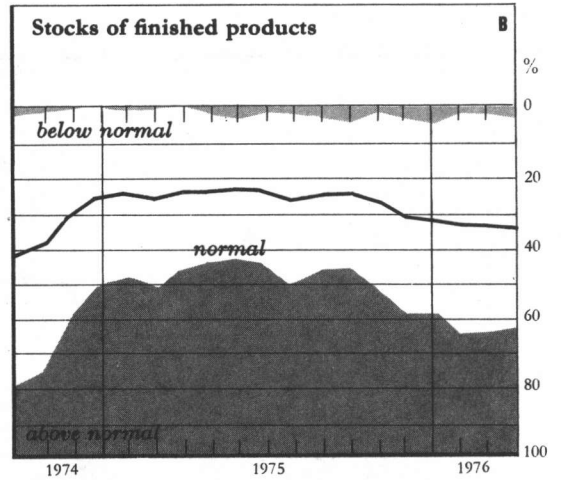
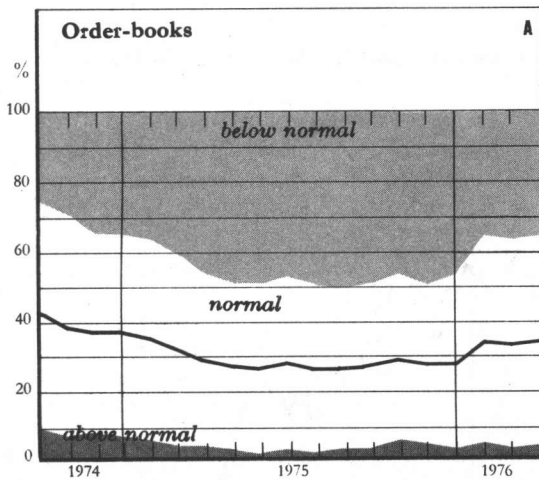


Source: CBS
 1 Stock of money and near-money (M2)



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

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

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

earlier. The decline in long-term interest rates was interrupted in March, while short-term interest rates maintained their downward tendency.

The upward movement of *consumer prices* was very fast in the first months of 1976. Between December and April the price index for private consumption (employees' household) rose by 4.7% — mainly as a result of the sharp increase in food prices — reaching a level 9.8% higher than a year earlier. With slower increase in agreed hourly wages and, in particular, greater productivity gains, the pressure of wage costs has eased somewhat. On the other hand, the advance in producer prices of industrial raw materials and semi-manufactures has again accelerated, as it has in other countries.

2. Outlook

With overall demand expected to pick up a little, the expansionary stimuli should strengthen further in the next few months. The rise in production, however, will probably be distinctly slower than in earlier phases of economic upswing.

After the slow advance between the fourth quarter of 1975 and the first quarter of 1976, *exports* are likely to

grow somewhat faster. Rapid expansion is under way in major Community markets, especially in Germany, and this will stimulate Dutch merchandise exports both directly and indirectly. The new upward tendency in export prices is unlikely to show any early slackening. The export price for natural gas will increase further and, given the improvement in demand, prices for industrial products are also expected to go up.

In the area of *domestic demand*, the only significant boost to production will probably come from changes in stocks.

Gross *fixed asset formation* will grow only slightly in the second half of 1976. In particular, the propensity to invest of enterprises is likely to remain relatively weak as capacity utilization rates are still too low at present and as the profit situation continues to be poor. Apart from an upswing due to the weather, there is little prospect of a buoyant trend in residential construction, public building and civil engineering. Changes in stockbuilding, on the other hand, will probably provide positive stimuli to production and imports in the second half of the year.

In connection with the planned two point increase in the standard rate of value added tax from 1 October and possible anticipatory buying by households, the trend of *private consumption* may not be very steady in the second

TABLE 2

Demand for and supply of goods and services

Netherlands	1973 ²	1974 ²			1975 ³			1976 ³		
	At curr prices in Fl '000 million	% change on preceding year								
		Vol.	Price	Val	Vol.	Price	Val	Vol.	Price	Val.
Private consumption	92.25	2.6	10.0	12.9	3.5	10.4	14.3	3	9.5	12.5
Public consumption	27.42	0.4	15.9	16.4	4.2	12.6	17.3	3	11	14.5
Gross fixed asset formation	38.71	- 5.4	12.4	6.3	- 3.7	11.1	7.0	- 3.5	8.5	4.5
— Enterprises	21.76	- 1.8	11.1	9.0	- 4.0	12.3	7.8	- 7	8	0.5
— Dwellings	10.61	- 12.7	14.3	- 0.2	- 6.9	9.5	2.0	0	9	9
— General Government	6.34	- 5.2	14.0	8.1	1.9	9.7	11.8	2	8.5	11
Domestic final uses (excluding change in stocks)	150.38	0.3	11.6	11.9	1.9	11.0	13.1	1.5	9.5	11
Domestic final uses (including change in stocks)	159.92	1.1	11.7	13.0	- 1.1	11.1	9.8	3.5	9.5	13.5
Exports ¹	82.85	2.8	25.6	29.1	- 3.5	5.0	1.4	8	7.5	16
Imports ¹	77.39	- 0.7	32.4	31.4	- 4.3	4.6	0.0	7	7.5	15
Gross domestic product at market prices	165.38	2.9	9.4	12.5	- 0.7	11.1	10.3	4.1	9.4	13.9
Contribution to percentage change in gross domestic product										
Domestic final uses (excluding change in stocks)	158.38	0.3		11.4	1.8		12.5	1.5		10.9
Change in stocks	1.54	0.8		1.2	- 2.9		- 3.0	1.9		1.9
Balance of exports and imports	5.46	1.8		- 0.1	0.4		0.8	0.8		1.1

¹ Goods and services.

² Source: CBS, CPB and Nederlandsche Bank.

³ Estimates of Commission's Departments.

TABLE 3

The central government budget

Netherlands	1975			1976	
	Original budget		Provisional outturn	Original budget	
	in Fl '000 million ⁵	% change ⁴	in Fl '000 million	in Fl '000 million	% change ⁴
Expenditure ^{1,2}	62.5	22.8	64.8	77.3	23.7
of which:					
— current expenditure	50.3	25.1	52.5	63.2	25.6
— capital expenditure ³	12.2	13.0	12.3	14.1	15.6
Revenue	58.9	20.4	57.1	63.6	8.0
of which:					
— direct taxes	30.0	18.6	28.9	29.7	- 1.0
— indirect taxes	19.4	13.5	18.7	21.5	10.8
Net borrowing requirement	- 3.6		- 7.7	- 13.7	

¹ Including 'Wegenfonds'.

² Disregarding debt extinction.

³ Including participations and loans.

⁴ On the preceding year's original budget

⁵ Excluding the effect of the measures from 16.11.1974; 20.2.1975 and 22.4.1975.

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

half of the year. Real disposable income of households being unlikely to rise much, if at all, in the course of the year, private consumption may trend to stagnate during this period.

After the slowdown in the early months of 1976, production is likely to expand more rapidly. Industrial production should benefit from the faster growth of merchandise exports and the turn-round in the stock cycle for finished products. Apart from the revival caused by the weather in the spring, total production in building, however, will probably grow only slowly, showing the same tendency as production in other parts of the enterprise sector. Real gross domestic product is expected to grow by some 3.5% to 4% in 1976.

Even though the expansion of production in this phase of the upswing will lead to quite large productivity gains, the employment situation should begin to improve. However, it is doubtful whether this improvement will be sufficient to bring about a reduction in unemployment.

Owing to the slow expansion of domestic demand, the growth of imports is likely to be relatively slow compared with the rate in Germany and France. However, given a fresh upswing in industrial production and increased efforts to build up stocks in semi-manufactures, the volume of merchandise imports will grow more sharply in the second half of the year than in the past winter months. At any rate import prices will probably rise faster. The trade balance, which showed a surplus in the first quarter, will probably deteriorate again to some extent. With the net position on services and factor incomes improving,

the balance of payments surplus on current account will be appreciably larger than in 1975.

Following a slow rise in the summer months domestic prices will on the whole gather additional momentum in the autumn. Over and above the faster rise in the prices of industrial goods which has already occurred, especially at wholesale level, and which will work through to the consumer price index, there will be the effect of the higher value added tax due to become effective from 1 October. On average, for the year as a whole, consumer prices should nevertheless show a slower rise than the year before.

Despite the general improvement in the economic situation and the strong boost provided by the various general and selective measures, economic policy in the Netherlands is still faced with the same problems as earlier: to simultaneously combat unemployment, slow down inflation and improve the propensity to invest. A solution to the various problems and an improvement of the employment situation can only be attained in the medium term and within the framework of a concerted Community growth policy which keeps price and wage increases within narrow limits.

Major economic policy measures

November 1975:

— A draft law was tabled on the employment of foreign workers which basically provides for a change over from the present system requiring foreign workers to hold work permits to a system requiring employers to hold so-called employment permits. The number of such permits will be limited in the case of undertakings employing more than twenty foreign workers.

TABLE 4

Main economic indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production* (1970 = 100)	1974	121	122	123	120	123	124	123	124	123	122	122	116
	1975	115	115	118	113	114	114	109	111	114	116	122	120
	1976	121	120	118									
Unemployed* (1 000)	1974	127.2	128.5	131.0	130.7	133.6	136.7	142.6	147.5	150.7	155.8	162.6	171.6
	1975	172.8	183.1	189.9	199.8	202.9	208.3	214.9	217.9	219.2	218.6	220.6	221.1
	1976	215.3	223.9	219.2	220.2								
Permits for residential construction* (1 000)	1974	9.8	11.2	12.1	8.8	10.8	9.3	10.5	8.6	8.4	9.3	9.3	10.6
	1975	11.4	8.8	9.2	9.8	9.1	11.8	7.4	12.9	7.7	9.0	8.4	9.2
	1976	9.5	9.7	8.7									
Retail turnover* (1970 = 100)	1973	127.7	130.0	134.1	128.1	133.3	140.1	131.4	140.4	136.3	137.8	141.9	142.0
	1974	142.7	145.1	143.1	146.1	150.4	148.1	151.9	158.0	149.5	157.8	162.0	154.0
	1975	160.0	158.9	162.1	163.1	171.3	160.1	165.0	166.5	173.7	181.2	175.3	189.2
Consumer prices (1969 = 100)	1974	135.1	136.4	138.4	140.2	140.8	141.3	141.8	142.9	145.1	147.0	148.1	148.7
	1975	150.1	150.5	152.7	154.6	155.5	155.8	156.7	158.2	160.2	161.6	162.0	162.3
	1976	163.2	164.7	166.3	169.8								
Visible imports (million Fl)	1974	6 326	6 276	7 466	7 310	7 667	7 360	7 710	6 969	7 761	8 139	7 302	7 164
	1975	7 506	6 850	7 306	7 030	7 034	7 315	6 577	5 962	7 781	7 960	7 980	8 086
	1976	7 518	7 370	(9 053)									
Visible exports (million Fl)	1974	6 581	6 438	7 395	7 469	7 902	7 454	7 662	6 672	7 751	8 080	7 371	7 214
	1975	7 751	6 850	6 953	7 874	7 062	7 524	6 541	5 979	7 491	8 579	8 043	7 947
	1976	8 113	7 757	(9 406)									
Balance of trade (million Fl)	1974	+255	+162	- 71	+159	+235	+ 94	-48	-297	- 10	- 59	+69	+ 50
	1975	+245	0	-353	+844	+ 28	+209	-36	+ 17	-290	+619	+63	-139
	1976	+595	+387	(+353)									
Official gold and foreign exchange reserves (million Fl)	1974	17 225	17 419	16 897	15 957	16 106	15 532	15 825	16 772	18 723	19 410	19 532	18 742
	1975	18 873	18 682	18 432	18 415	17 992	17 634	18 452	19 222	19 463	19 829	19 861	19 997
	1976	19 825	21 366	20 522	(20 004)								
Money supply* (million Fl)	1974	59 737	60 832	61 393	62 138	64 499	65 342	66 625	67 262	67 827	68 725	69 105	70 036
	1975	69 521	70 809	70 949	71 915	73 086	72 506	72 354	71 845	71 485	72 429	73 087	73 402
	1976	75 356	76 099										

() Provisional figure.

: Not available.

* Seasonally adjusted.

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

— Industrial production: excluding construction. Source: CBS.

— Unemployed: end-of-month figures. Source: CBS.

— Number of dwellings authorized.

— Value index of retail turnover.

— Consumer prices: wage-and salary-earner households. Source: CBS.

— Imports cif, exports fob: value. Source: CBS.

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

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

— Money supply: Stock of money and near money at end of month. Source: CBS.

— Corporation tax was cut by one percentage point for 1975

December:

— Presentation to the Second Chamber of a memorandum concerning new measures under the socio-economic policy to be pursued in 1976. Owing to the gloomier labour market prospects and the pace of price increases, the government, in an effort to boost employment, is pressing for a policy designed to limit the 1976 increase in the wage and salary bill to between 8½ and 9% and to bring down the annual rate of price increases from its current level of 10% to 6% by the end of 1976. To this end, the government will lay down rules concerning wage and income formation and will pursue a stringent prices policy. The increase in the top rate of

VAT was deferred from 1 July 1976 to 1 October 1976. Wage-cost subsidies amounting to Fl 100 million will be paid to labour-intensive firms which employ a large number of persons earning the statutory minimum wage.

— Publication of a Decree fixing wages and other conditions of employment pursuant to Articles 10 and 11 of the Wage Formation Act. The Decree provides that pay fixed under collective agreements is to be frozen at the level prevailing at the end of November for a period of six months following the date of expiry of such agreements. The only exception allowed is the lagged indexation, applied under collective agreements, of wages to the price increases recorded in 1975.

— Publication of the 1976 price regulation for goods and services and of

the 1976 regulation on the notification of changes in the prices of goods and services. Subject to a number of amendments, the stringent prices policy of previous years will be maintained in force.

— Publication of the General Incapacity for Work Act (AAW), under which residents aged eighteen and over who are incapacitated for work are normally entitled to a benefit. If the degree of incapacity for work is 80% or more, this benefit, which is intended as a basic benefit, will be equal to the net pension received under the general old-age insurance scheme (AOW). The act will enter into force on 1 October 1976.

— Announcement that the ban on the payment of interest on non-residents' deposits would be lifted as of 1 January 1976. The ban, which was introduced on 9 March 1972 to stem inflows of speculative capital into the Netherlands, had already been eased on several occasions.

— It was announced that a payment of Fl 600 (Fl 1000 in 1975) in respect of each production job covered by collective agreements would be made in 1976 to firms in the ready-made clothing industry. The conditions governing payment of this sum remain unchanged: maintenance throughout the year of a workforce equal to at least 90% of that employed at the beginning of the year.

January 1976 :

— The statutory minimum wage was raised by 7.16%.

— Net benefits under the general old-age scheme and under the general survivor's insurance scheme were increased by 6.1%. As from 1 January these benefits are subject to wage- and income tax.

— All other social security benefits were raised by some 7%.

February :

— The discount rate was cut from 4½% to 4%, with effect from 2 February.

— In a memorandum presented to the Second Chamber, the Minister for Social Affairs announced that a sum of Fl 650 million would be made available to promote activity in the building industry. This scheme comes under the Fl 3 000 million inflationary programme for 1976.

— The Central Government is raising funds on the borrowers' note market. The issues must satisfy the following conditions: (a) they must not lead to any market disturbance; (b) Central Government borrowing in the form of public loan issues must be hampered as little as possible; (c) they should compete as little as possible with regional and local government borrowing operations on the capital market.

— The provisions of the Wage Decree of 3 December 1975 were eased. The Minister for Social Affairs approved further exemptions in respect of a number of labour contracts.

April :

— The tax on petrol was raised on 1 April by 2 cents to 48 cents per litre.

— Yearly revision of dwelling rents on 1 April. As was the case in 1975, the rise is generally 8%. Furthermore a system of rent revision will be started to take account of the quality of dwellings.

Belgo-Luxembourg Economic Union

Belgium

The economic recovery which began in the fourth quarter of 1975, continued in the first quarter of 1976. After running level for a time, unemployment rose again in April and the rate of consumer price increases slackened only slightly. The external balance was in deficit in January-February, owing to the time-lag between the recovery of imports and that of exports, but subsequently improved again.

After climbing rapidly in the first half of the year production will probably grow more slowly in the second half. Unemployment is expected to fall only gradually and, in the present situation, any slackening in consumer price rises seems increasingly unlikely.

1. Recent developments

The recovery, which got under way after last summer, became more widespread during the early months of 1976 and is now also affecting sectors such as the iron and steel industry which was somewhat out of step with the general economic trend in the Community.

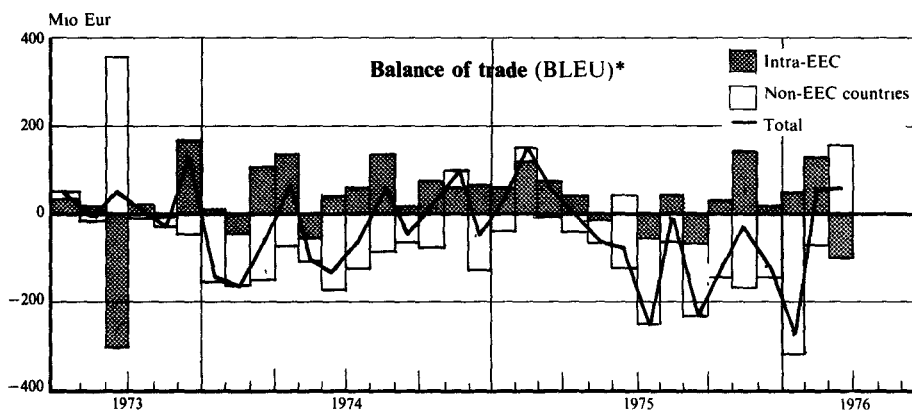
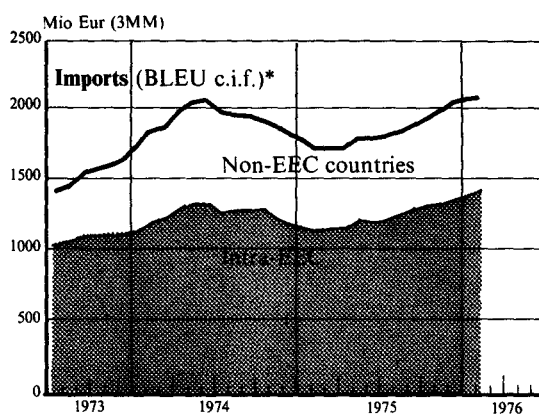
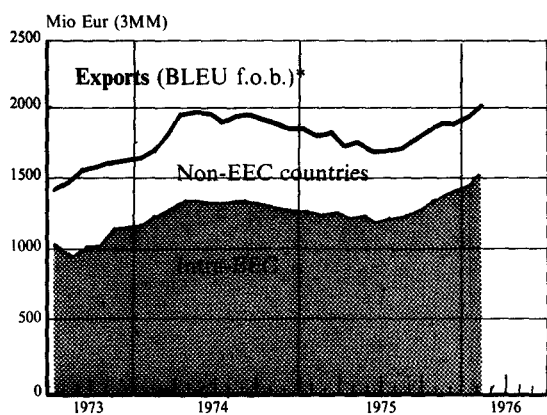
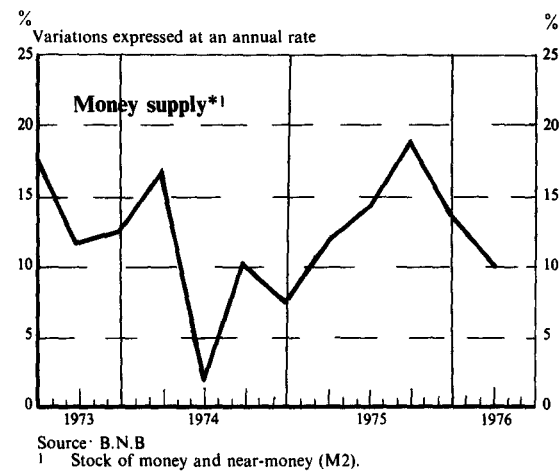
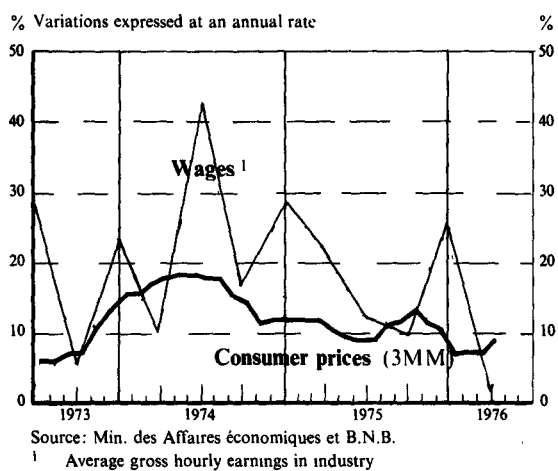
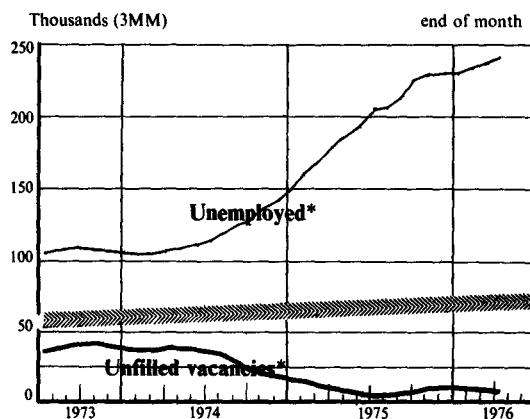
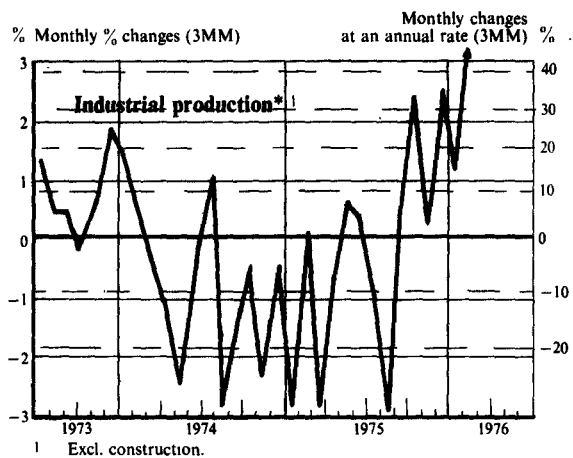
The revival in demand mainly took the form of a rapid growth of *exports* to other Community countries, which for the period January-March were substantially higher in value (21%) than a year earlier. Exports to non-member countries, however, were appreciably below the January-March 1975 level (10.5). Overall, the seasonally adjusted value of exports was 5.8% up on the average for the fourth quarter. The volume of exports was 11% higher than the corresponding 1975 level.

Despite the fall already recorded in 1975, total *investment* has undoubtedly continued to contract in real terms in 1976. A look at sales by Belgian industry, imports of plant and machinery and new permits for industrial or commercial building suggest that business investment declined despite the stimulatory measures taken by the Government. Activity in private residential construction

remained buoyant. The Government's decision to commit all the appropriations entered in the budget brought about an increase in public investment. Many firms, particularly those geared to exporting, have had to replenish their stocks of raw materials and intermediate goods in order to maintain a normal rate of production while industry has continued to run down its stocks of finished products.

Following a period of stagnation in mid-1975, *consumers' expenditure* picked up in the fourth quarter, helped by a decline in the propensity to save while real disposable incomes hardly rose. The rapid recovery of retail sales in the fourth quarter was sustained in 1976. In January-February, retail sales were 2.5% (volume) and 12.9% (value) higher than in the corresponding period in 1975. Demand for consumer durables, particularly new private cars, was very brisk.

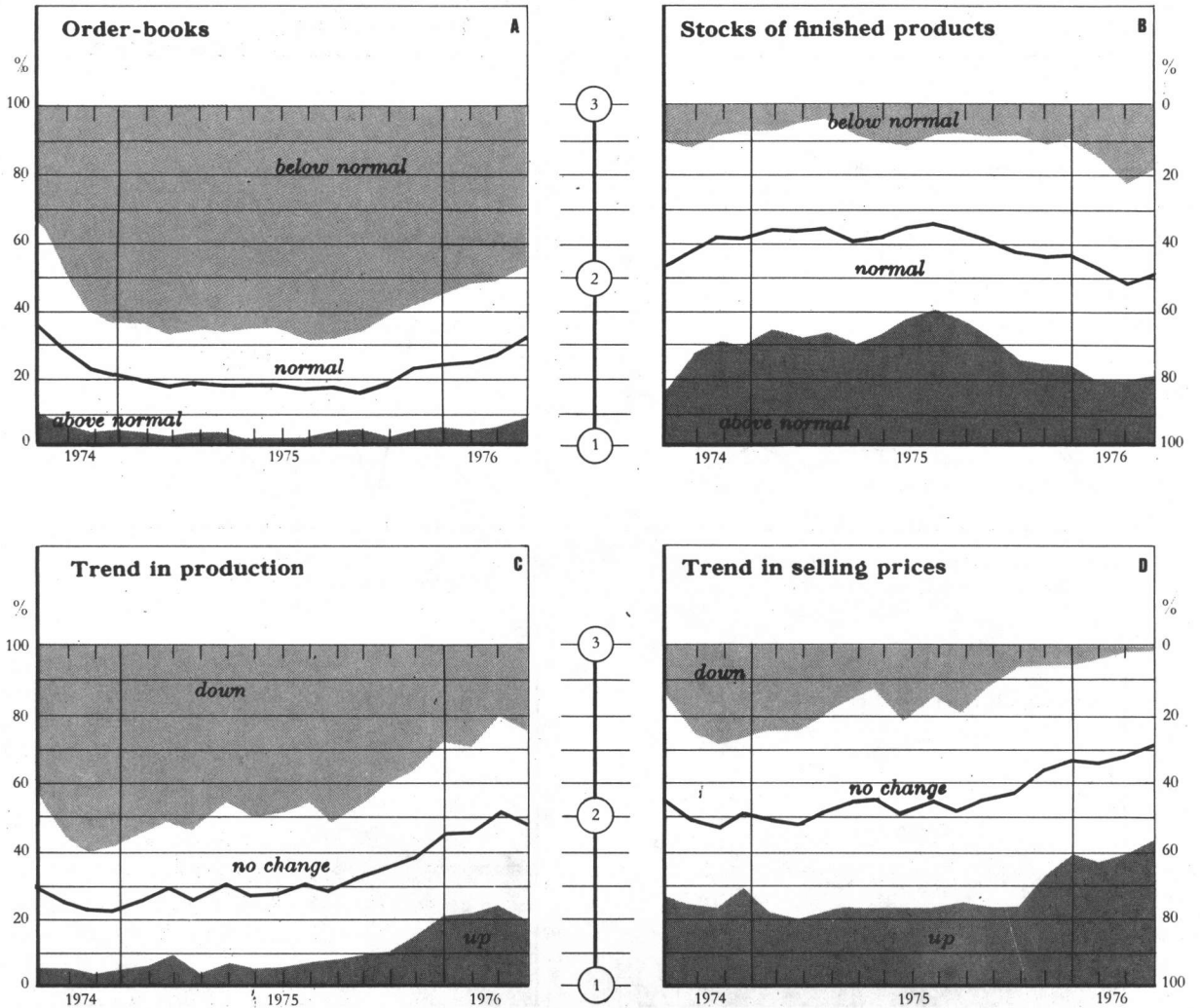
By the beginning of 1976, stocks of finished products in industry had fallen below what is considered to be an acceptable level, so that a marked rise in production was clearly necessary both to meet demand and to halt the depletion of stocks. The seasonally-adjusted average of the index of industrial production for the first quarter of



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

Belgium

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

TABLE 1

Key indicators

Belgium	Unit	1968-1973 average ^{4 5}	1973 ⁵	1974 ⁵	1975 ⁶	1976 ⁶
Gross domestic product; volume	% change	5.4	6.3	3.9	- 1.3	3.7
of which: Industry ¹		8.1	7.1	4.3	- 7.5	6.0
Gross domestic product in volume per person in employment	% change	4.6	4.9	2.4	- 2.0	3.0
Total employment (number of persons) ²	% change	0.9	1.3	1.5	- 1.3	- 0.2
— Independent entrepreneurs		- 1.5	- 1.5	- 1.2	- 1.6	- 1.3
— Wage and salary earners in company sector		1.4	1.8	1.8	- 2.0	- 0.5
— General Government		2.2	2.1	3.3	2.4	2.0
Unemployment	as % of labour force	2.3	2.4	2.5	4.4	5.3
Compensation of employees per wage and salary earner	% change	10.0	13.4	17.5	16.7	13.3
Price index of private consumption ³	% change	3.5	6.3	12.3	12.8	10.3
Current account balance ³	in Bfrs '000 million	30.4	44.1	32.2	42.6	33.7

¹ Excluding construction.

² Domestic concept.

³ National accounts concept.

⁴ Geometric mean of the change from 1967 to 1972; unemployment and current account balance, arithmetic mean over the five years.

⁵ Source: INS National accounts.

⁶ Estimates of Commission's Departments

1976 was 8.5% higher than in the fourth quarter of 1975 and 3.4% up on the corresponding period last year. The increase was sharpest in the consumer durables sector, largely as a result of the recovery in the motor industry.

The *labour market* situation remained gloomy on the whole. Despite an increase in production, unemployment, which had levelled out in late 1975 and early 1976, again rose slightly. The seasonally adjusted unemployment rate (number of wholly unemployed as a percentage of the labour force) reached 6.2% at the end of April. While the number of unfilled vacancies fell in the early months of the year, the number of new job vacancies notified rose very sharply.

The brisk rise in registrations of private cars meant a substantial increase in *imports* of transport equipment. The poor harvest in 1975 led to a sharp growth in imports of agricultural products and the recovery of industrial production was accompanied by an appreciable expansion in imports of intermediate goods, raw materials and oil, although imports of the latter were temporarily curbed in February-March as a result of strikes in the oil industry. Customs returns suggest that the trade balance improved in February-March.

The BLEU *overall balance of payments* (statistics from the Banque Nationale) closed with a deficit of Bfrs 5 000 million in January-February as against a surplus of Bfrs 20 400 million in January-February 1975, the swing being

due to a deterioration in the balance of payments on current account; net merchandise exports showed a deficit of Bfrs 12 400 million compared with a surplus of Bfrs 7 500 million a year earlier, reflecting leads and lags and more buoyant imports.

The rise in the *consumer price* index slackened somewhat on average, the year-on-year rate of increase falling to 9.6% in May. Prices of food stuffs rose more rapidly than those of other goods and services. The rate of increase in wholesale prices, particularly for agricultural products, raw materials and intermediate goods, was very rapid in the first quarter.

The trend of the *monetary aggregates* was marked on the one hand by a revival of demand for credit, due mainly to the upturn in economic activity and restocking and, on the other, by erratic movements in the international markets which forced the authorities to take defensive measures, which were subsequently relaxed to allow expansion to continue. Interest rates continued to rise, with the long-term rate in April standing at around 10% (gross, rate for borrowing by the RTT (telephone and telegraph service)) compared with just over 8% in Germany and the Netherlands. Over the period January-March the Treasury borrowing requirement was in excess of Bfrs 80 000 million (as against Bfrs 65 000 million in 1975), Bfrs 55 000 million of which was covered by consolidated debt issue and the rest by short-term borrowing.

TABLE 2
Demand for and supply of goods and services

Belgium	1973 ²	1974 ²			1975 ³			1976 ³		
	At curr. price Bfrs '000 million	% change on preceding year								
		Vol.	Price	Val	Vol.	Price	Val.	Vol.	Price	Val.
Private consumption	1 075.2	2.7	12.3	15.3	1.0	12.8	13.9	3.0	10.3	13.6
Public consumption	263.7	2.7	16.0	19.1	5.4	16.5	22.7	2.8	11.1	14.2
Gross fixed asset formation	377.0	6.1	16.2	23.3	- 3.2	12.9	9.3	- 0.3	10.5	10.2
— Enterprises	220.2	6.8	14.4	22.1	- 6.2	11.6	4.6	- 3.8	9.8	5.6
— Dwellings	97.6	10.7	19.4	32.2	3.0	15.0	18.4	2.0	11.5	13.7
— General Government	59.2	- 4.0	17.8	13.0	- 3.0	14.0	10.6	8.4	11.0	20.3
Domestic final uses (excluding change in stocks)	1 715.9	3.4	13.7	17.6	0.7	13.4	14.2	2.2	10.5	12.9
Domestic final uses (including change in stocks)	1 742.2	3.9	13.9	18.4	- 2.3	13.5	10.9	3.6	10.5	14.5
Exports ¹	846.5	8.1	23.7	33.7	- 7.0	5.6	- 1.8	6.6	8.0	15.1
Imports ¹	810.7	8.5	26.5	37.3	- 9.0	7.2	- 2.5	6.6	9.1	16.3
Gross domestic product at market prices	1 778.0	3.9	12.7	17.0	- 1.3	12.6	11.1	3.7	9.9	14.0
Contribution to percentage change in gross domestic product										
Domestic final uses (excluding change in stocks)	1 715.9	3.4		17.0	0.7		13.5	2.2		12.9
Change in stocks	26.3	0.6		1.0	- 3.0		- 2.9	1.4		1.4
Balance of exports and imports ¹	35.8	0		- 0.9	1.0		0.4	0.1		- 0.4

¹ Goods and services.

² Source: INS National accounts

³ Estimates of Commission's Departments.

2. Outlook

As some of the factors making for recovery are technical and temporary in nature, the rapid upswing in the first half of the year will be followed by more subdued growth after the summer. The rate of growth will still undoubtedly be insufficient to bring about any notable improvement in the situation on the labour market. The price-wage cost spiral may well be given a new twist.

One of the effects of the recovery in export demand has been to push up prices, so that the value of *exports* should rise steadily throughout the year. The recovery in the volume of exports may turn out to be somewhat slower than during previous upswings as markets shares may have been lost.

During this phase of the recovery, *domestic demand* seems unlikely to give any great boost to activity. Insufficient capacity utilization and the problems of profitability facing new firms will probably curb productive *investment*. Residential construction may well be fairly buoyant, however, as a result of the stimulatory effect of the temporary increase in building premiums (until February 1976) and the substantial increase in appropriations for subsidized housing. In the public works sector the commitment of appropriations will

continue to have an effect throughout the year. The running down of stocks of finished products will probably come to a halt and there may be a tendency for stocks at factories to rise.

Growth of *real personal disposable income* may well be fairly slow in the coming months, as the measures to moderate the rise in incomes provided for in the economic recovery law will continue to have an appreciable restraining effect until the end of the year. In addition, despite partial indexation of the tax scales, fiscal drag will entail a higher rate of direct taxation. Personal disposable income in money terms will therefore probably only just keep ahead of price increases. In contrast, the propensity to save is likely to weaken somewhat because of the continuing high rate of inflation, so that a rise in the rate of increase of *consumers' expenditure* is possible. There will probably be some slackening in the growth of public consumption if the measures adopted as part of the financial stringency plan (plan de sobriété) are, in fact, applied in the coming months.

After recovering briskly in the spring as the level of *production* was adjusted to keep pace with demand and as destocking thus ended, industrial production will probably expand more slowly, although its growth between 1975 and 1976 should average 7%. Assuming

TABLE 3

The central government budget

Belgium	1975			1976	
	Original budget ²		Provisional outturn	Original budget ²	
	in Bfrs '000 million	% change ⁴	in Bfrs '000 million	in Bfrs '000 million	% change ⁴
Expenditure ¹	721.3	21.8	761.9	850.8	18.0
of which:					
— current expenditure	620.1	26.7	663.3	31.9	18.0
— capital expenditure	101.2	- 0.8	98.6	118.9	17.5
Revenue	643.8	26.5	637.8	726.1	12.8
of which:					
— direct taxes	348.4	35.8	354.2	415.7	19.3
— indirect taxes	267.7	15.8	253.5	280.7	4.9
Net borrowing requirement	- 77.1		- 124.1	- 124.7	

¹ Disregarding debt extinction.

² Draft budget

³ Including participation, loans and advances

⁴ On the preceding year's original budget

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

more modest expansion in the other sectors, the average growth rate of gross domestic product, in real terms, will probably be about 3.7%.

The outlook for *employment* is not very satisfactory. Industry still has room for a substantial increase in production before there is any need for taking on additional labour. The growth in employment in the tertiary sector will probably be modest. *Unemployment* will therefore remain at a high level for the rest of the year and a decline could hardly occur until after the summer, this tendency being, moreover, adversely affected by the arrival on the labour market of young people leaving school or university and the continuing high level of unemployment among women.

Helped by the upswing in activity, *imports* will continue to rise at a rate which should be close to that of exports. For the year as a whole the balance of payments surplus on current account will probably be smaller than in 1975, although there should be an underlying improvement in the course of the year.

There is unlikely to be any slackening in the rate of consumer *price* increases, given the substantial rises in public transport charges scheduled for the spring and summer, the many applications for price increases submitted to the Prices Commission and the upward trend in commodity prices and wholesale prices of industrial products.

The authorities will thus have to cope throughout the year with persistent unemployment and the social problems this creates, together with inflation which, if not cured, could become a permanent feature and could reduce the

prospects of any longer-term improvement in the employment situation. Therefore, the principal problem of *economic policy* will be to combine short-term support for demand with measures designed to reduce price and cost inflation. Such a policy is unlikely to be successful unless it has the support of the major socio-professional groupings.

Major economic policy measures

January 1976:

— The guaranteed income for old people and the subsistence income were increased by a standard amount.

— The 2% additional regional aid provided for in the law on economic expansion and the tax adjustments to encourage additional investment were extended until 30 June.

— The standard rules governing prior notification of price increases were tightened with effect from 1 January by the introduction of a system featuring two deadlines. Under the new rules, price rises must be notified three months in advance to the price agency. After consulting the Prices Commission, the Minister for Economic Affairs then sends a recommendation to the firm or industry concerned before the three-month period has elapsed (first deadline). If the firm or industry accepts the Minister's recommendation, the price increase can then be applied immediately. If it does not agree, the price increase must be notified two months before it is implemented (second deadline). During this second period, the Minister for Economic Affairs may impose an individual price (for a period of six months) or a collective price.

— The financial intermediaries decide to put up interest rates on medium-term notes and time deposits by between 0.25% and 0.75% depending on the maturity. Interest rates on mortgage loans and on investment loans were raised by between 0.25% and 0.50%.

— The Government decided to release 40% of the commitment appropriations for the 1976 investment programme for the period from January to April, bringing the total funds released for the programme to Bfrs 60 000 million (of which Bfrs 45 000 million are for national projects) to which are to be added transfers totalling Bfrs 12 000 million from 1975. The comparable figure in 1975 was Bfrs 44 000 million.

TABLE 4

Main economic indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production* (1970 = 100)	1974	122.4	122.9	122.3	121.2	119.1	131.3	120.1	122.0	120.1	116.0	120.4	111.7
	1975	114.0	110.4	112.0	104.5	107.8	113.8	105.2	104.5	104.1	106.6	112.0	104.2
	1976	114.2	115.4	(120.5)									
Unemployed* (1 000)	1974	106.4	106.2	105.8	107.0	109.4	112.7	116.7	120.1	126.1	132.9	137.8	144.4
	1975	150.9	158.9	168.0	176.9	185.1	193.1	200.6	208.6	217.7	233.3	235.2	235.5
	1976	234.6	236.0	240.6	244.7								
Construction: Permits for residential construction*	1973	5 809	7 172	7 502	6 698	8 189	6 698	6 321	6 414	7 586	6 524	7 797	6 325
	1974	6 977	7 288	7 479	7 129	9 723	7 342	9 754	6 776	7 301	5 305	6 558	5 920
	1975	5 114	6 224	6 066	5 734	5 716	6 506	5 323	5 489	7 067	5 885	7 934	8 475
Private consumption: Retail turnover* (1970 = 100)	1974	129.1	127.3	127.1	130.4	130.4	125.5	126.5	126.3	124.6	130.9	122.1	127.9
	1975	132.0	127.2	128.8	132.9	128.7	125.4	125.0	125.8	129.6	135.0	123.8	135.0
	1976	134.0	(131.7)										
Consumer prices (1970 = 100)	1974	123.3	124.9	126.4	128.2	130.1	132.0	133.8	135.6	137.4	138.6	140.0	141.0
	1975	142.5	144.1	145.1	146.7	147.9	148.5	149.9	151.0	152.3	154.1	155.7	156.5
	1976	158.0	158.5	159.5	161.0	162.2							
Visible imports (billion Bfrs)	1974	88.6	89.2	96.2	99.5	108.9	100.4	96.9	90.7	97.6	106.3	93.5	92.9
	1975	90.2	88.7	92.3	98.7	88.5	97.1	85.5	77.4	99.6	111.0	97.7	100.5
	1976	102.4	98.9	112.2									
Visible exports (billion Bfrs)	1974	82.6	75.7	95.0	97.3	101.4	93.1	97.7	75.9	92.8	105.3	91.8	91.3
	1975	91.2	87.4	89.4	91.0	83.1	89.7	82.7	63.3	86.8	99.7	93.4	99.3
	1976	90.1	95.5	111.8									
Balance of trade (billion Bfrs)	1974	- 5.9	-13.5	- 1.2	-2.2	-7.5	-7.3	+0.8	-14.8	- 4.8	-1.0	-1.7	-1.6
	1975	+ 1.0	-1.3	-2.8	-7.7	-5.4	-7.4	-2.8	-14.1	-12.8	-11.3	-4.3	-1.3
	1976	-12.3	-3.4	-0.3									
Official gold and foreign exchange reserves (billion Bfrs)	1974	192.2	192.1	192.7	190.5	185.0	186.2	195.9	198.4	206.2	213.9	218.1	213.7
	1975	217.4	223.1	224.9	226.6	230.9	234.1	236.2	238.2	234.6	235.9	234.3	235.3
	1976	223.0	218.4	216.0	208.1	(205.4)							
Money supply* (billion Bfrs)	1974			928.6			932.6			956.0			973.2
	1975			1 001.3			1 035.6			1 081.6			1 117.1
	1976			1 144.1									

: Not available.

() Provisional figure.

* Seasonally adjusted.

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

— Industrial production, excluding construction.

— Unemployed, end-of-month figures.

— Construction: number of residential buildings authorized.

— Private consumption: volume index of retail turnover.

— Consumer prices: all households.

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

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

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

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

— Retail prices of potatoes were frozen and the withholding of potato supplies and potato exporting without licence were prohibited.

February:

— On 11 February, the Banque Nationale adopted a range of measures to curb the outflow of capital. The base rate remains at 6% for bills of less than 120 days. By contrast, the system of rediscount ceilings which had first been applied on 8 July 1974 and abolished on 31 March, was reintroduced.

March:

— The Finance Ministers of the three Benelux countries decided to

abolish, with effect from 15 March, the margin of fluctuation laid down in the Agreement of 23 August 1971 concerning the 'mini-snake'.

— On 15 March, the Banque Nationale adopted a package of measures: the discount rate for sub-ceiling B was raised from 7 to 8%; the rate charged to the IRG (the Guarantee and Rediscount Institute) by the Banque Nationale for paper not set against the rediscount ceilings was put up from 7.5% to 8%; the Banque Nationale also raised the rate charged on advances outside the quota to 8%; the special credit line which the IRG has with the Banque Nationale was reduced from Bfrs 13 000 million to Bfrs 5 000 million; the rate used for calculating the rediscount ceilings was lowered from 5.25% to 4.75%.

— With effect from 18 March, the discount rate and the rate on advances

charged by the Banque Nationale were raised from 6% to 7%. The other rates, which had been increased on 15 March by between 0.5% and 1% were raised to 9%, as was the rate charged on advances exceeding the monthly quota.

— The banks' basic lending rates for discount credit and cash advances were raised, in several stages, from 8.75% and 9.00% respectively to 10.25% on 27 March. In the period from October 1975 to March 1976, the rates had stood at 7.75% and 8.50% respectively.

— The Banque Nationale and the Belgian Bankers' Association concluded an agreement under which the banks undertook to maintain a definite proportion of their Belgian franc resources in the form of public-sector paper as long as the pressures on the Belgian franc persisted.

April:

— The law concerning economic recovery measures and containing six chapters, two of which deal specifically with aspects of an incomes policy, was published and the principal measures were as follows:

— the growth of incomes to be curbed by freezing dividend levels for 1976, limiting directors' fees for 1975 to 75% of their previous level, and prohibiting increases in the charges, scales, rates and fees of the liberal professions, and in all rents.

— the index-linked arrangements to be maintained but their effects to be suspended between 1 April and 31 December 1976 in respect of the portion of monthly wages and salaries in excess of Bfrs 40 250.

— the right of the two sides of industry to free and independent wage bargaining to be reaffirmed. To promote solidarity between successful and ailing industries and to help moderate new wage claims, workers will have to pay, during a period of nine months following the conclusion of a collective agreement, 50% of the increase obtained to the Solidarity Fund, which is to finance the early retirement scheme. In addition, employers will have to pay a similar amount into the Fund. Additional pay increases granted by firms will not be accepted as justifying price increases.

— a temporary special levy equivalent to one-tenth of corporation tax to be charged on companies whose profits for 1975 are at least 10% up on the average for the years 1972 to 1974; this levy is to be paid into the Solidarity Fund. Companies whose investment in 1976 represents at least 110% of the reference profit level will be exempt.

— all schemes linking industrial and commercial prices to the retail price index or another index to be prohibited.

— the other chapters deal with providing employment for young people by organizing training periods, with the early retirement scheme, the redistribution of the burden of social security contributions by lowering certain contributions, the promotion of exports, and changes in the law on economic expansion.

— The law setting up a new public holding company was published. It amends the statutes of the National Investment Corporation (SNI) and sets out the conditions governing State participation.

— The financial intermediaries raised interest rates paid on customers' deposits by between 0.25% and 1% depending on the term. The interest rate payable on five-year medium-term notes, for instance, was increased from 8.75% to 9.50%. At the same time, the interest rate on mortgage loans was put up from 10.5% to 11%.

— Sizeable increases in public transport charges were announced.

Luxembourg

Helped by an upturn in export demand, the economic recovery, which began in the autumn of 1975, has continued during the first few months of this year. The growth in domestic demand has been hesitant, while the situation on the labour market has remained depressed. Price rises have slackened somewhat.

After accelerating sharply in the first half of the year, the growth of export demand may well slacken in the second half, whereas domestic demand will probably be a little more buoyant. Employment is unlikely to pick up before next year.

1. Recent developments

Production in Luxembourg has gathered momentum in recent months in response to the sharp upswing in the economies of the country's main trading partners.

— The Finance Minister decided that, with effect from 1 May, employers would be authorized to reduce by a standard amount deductions from gross wages and salaries not exceeding Bfrs 38 567 per month. This decision, which is expected to cost the Treasury Bfrs 2 000 million, was taken pending the vote on the law adjusting tax scales for low and middle income workers.

— The Government fixed the total amount of commitment appropriations available for public investment in the period from May to August. This represents an average of 25% of total funds under the 1976 programme, compared with 40% released for the first four months of the year. As a selective move, only 22.5% of the direct investment appropriations have so far been released.

— When examining the supplementary appropriations for the 1976 budget, the Government put forward a programme of restraint consisting of seven sections involving changes to laws and regulations concerning taxation, public transport, sickness insurance, unemployment, State education and national defence.

— Under the law on economic recovery, rents were frozen from 1 April to 31 December. A Royal Decree does, however, permit an increase of 7.5%, applicable as of 1 April 1976, in the case of rents frozen in 1975.

— The rate of interest on mortgage loans by financial institutions was raised by 0.50%, bringing the rate charged by the CGER (the principal savings bank) up to 10.5%. The interest rate on investment loans was increased from 10.25% to 11.15% per year.

— The national Bank announced measures reflecting an easing of monetary policy. Thus, the rate of interest for advances on collateral which exceed the monthly quota was lowered from 10% to 9%. The special margin allowed by the Banque Nationale to the IRG for the discounting of bills which do not fall within the rediscount limits, was increased from Bfrs 3 000 million to Bfrs 10 000 million. In addition, the limit on the extent to which the monthly quota of advances may be exceeded was abolished.

— An easing of the proportion of funds which have to be invested in public debt was decided. As from 30 April, this proportion will not apply to any increase in the resources of the intermediate financial institutions.

— A reduction was announced in short-term interest rates charged by banks on discount and acceptance credits.

May:

— The Government introduced selective restrictive measures concerning the construction industry. Maximum mortgage lending ratios were lowered and were varied according to the market value of the construction.

— A temporary agreement was reached between the Government and the public servants' trade unions. This agreement includes an increase of Bfrs 1 500 in the holiday allowance, and the application, with effect from 1 February 1976, of the system of accelerated indexation of salaries. In future, salaries will be adjusted one month after the index reaches a triggering point, instead of the previous average time-lag of two months. The Government estimates the cost of this agreement to be just over Bfrs 1 000 million.

— The Government is to delay the payment of unemployment benefit to young people leaving school next June by extending, from 3 to 6 months, the qualifying period of registration as being available for work.

— Rates of interest charged by banks were lowered by 0.50%.

The growth in *export demand*, which was already felt by the new industries in the second half of 1975, spread to the entire manufacturing sector at the beginning of 1976. The inflow of new orders and deliveries of iron and steel products to the original member countries of the ECSC

TABLE 1

Key indicators

Luxembourg	Unit	1968-1972 average ^{4 5}	1973 ⁵	1974 ⁵	1975 ⁶	1976 ⁶
Gross domestic product; volume	% change	4.3	7.5	4.4	— 7.7	4.2
of which: Industry ¹		5	12	5	— 18.2	9.1
Gross domestic product in volume per person in employment	% change	2.4	5.3	1.8	— 7	5
Total employment (number of persons) ²	% change	1.8	2.1	2.5	— 1.5	— 0.6
— Independent entrepreneurs	:		— 2.4	— 2.5	— 2.5	— 2.2
— Wage and salary earners in company sector	:		3.1	3.8	— 1.6	— 0.6
— General Government	:		2.2	1.5	1.4	1.4
Unemployment	as % of labour force	0	—	—	0.8	0.6
Compensation of employees per wage and salary earner	% change	8.4	12.3	20.6	15	12.9
Price index of private consumption ³	% change	3.9	6.1	9.5	10.7	9.5
Current account balance ³	Mio Lfrs	2 876	4 665	5 442	— 5 800	— 2 400

.. not available.

¹ Excluding construction

² Domestic concept, theoretical unemployment excluded.

³ National accounts concept

⁴ Geometric mean of the change from 1967 to 1972, unemployment and current account balance arithmetic mean over the five years.

⁵ Source: Statec

⁶ Estimates of Commission's Departments

recovered appreciably in the first quarter, while deliveries to other markets remained well below the previous year's level. The other exporting industries have continued to enjoy buoyant demand so that total merchandise exports should have moved up sharply although with some delay.

Domestic demand on the other hand has remained sluggish. With the exception of the steel industry which has been granted State aid, the decline in business investment has continued. Moreover, the growth rate of public investment has slowed down after rising sharply last year. Judging from the available information demand for housing is still sluggish, both for houses or bungalows and flats. The fall in stocks seems to have continued, though at a very modest rate. Some replenishment of raw materials may already be under way.

As a result of the slow growth in real incomes, *private consumption* was somewhat depressed in late 1975 and early 1976: government employees received no new increases, and the impact of the recent renewal of major collective wage agreements (for example that for steel workers) will hardly be felt before June.

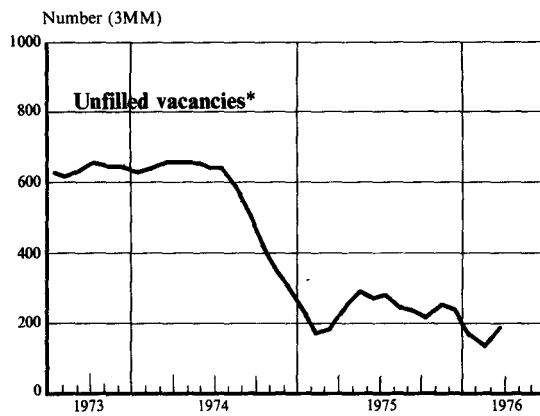
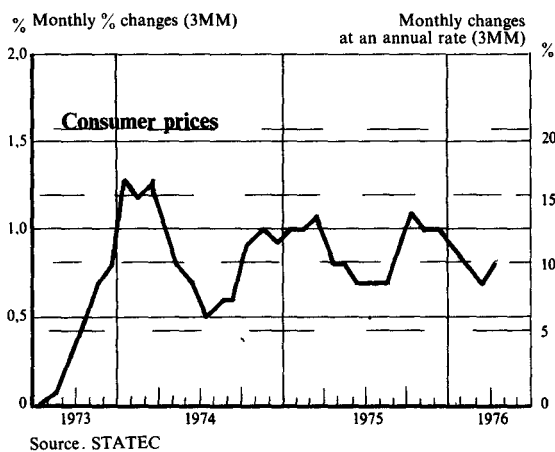
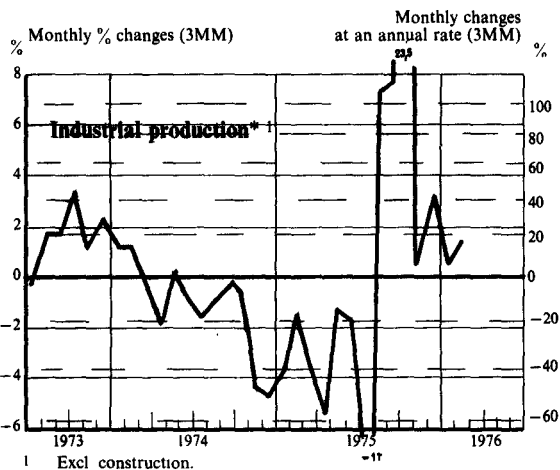
After showing signs of hesitation towards the end of 1975, *production* is now more firmly on an upward trend. Although the seasonally adjusted index of industrial production for the first quarter was still some 4.9% below the level a year ago, it was 4.4% higher than the average for the fourth quarter of 1975. For the steel industry the corresponding figures were -9.5% and +4.3%. Activity

in building and construction remained depressed, except in the public sector which, like certain tertiary branches, showed more vigour.

As expected, the recovery of production had little if any impact on demand for labour. The numbers employed in industry and the number of vacancies were well below last year's level. The number of foreign workers (including those crossing the border daily) in industry (about half the work force) fell, as did the numbers of workers from Luxembourg. This had a restraining effect on immigration, which will probably be lower than emigration in 1976 as well as in 1975.

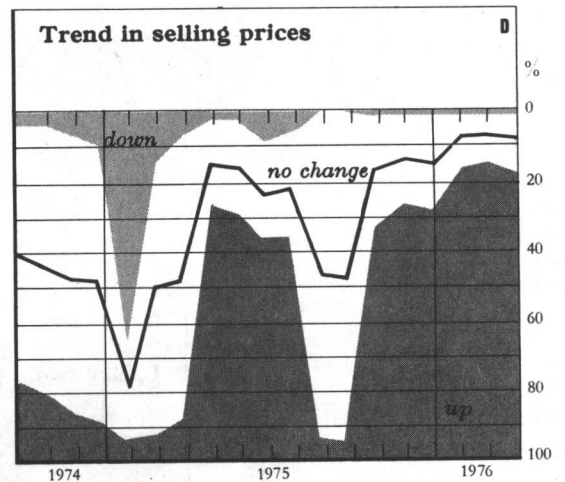
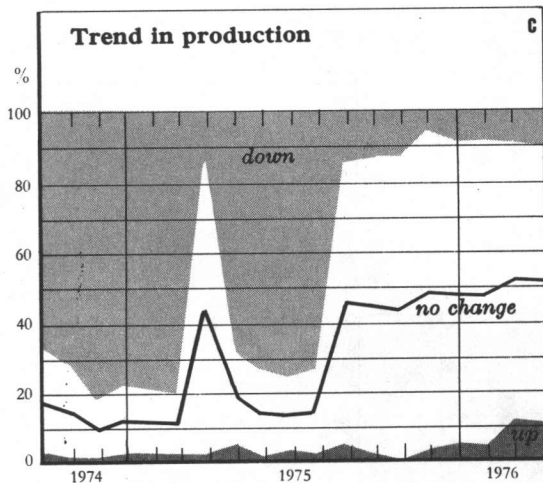
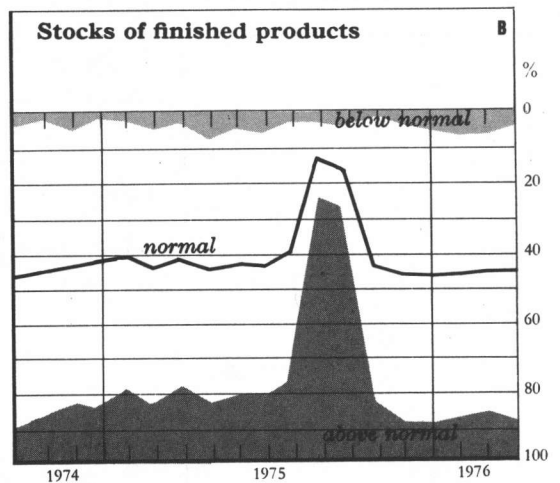
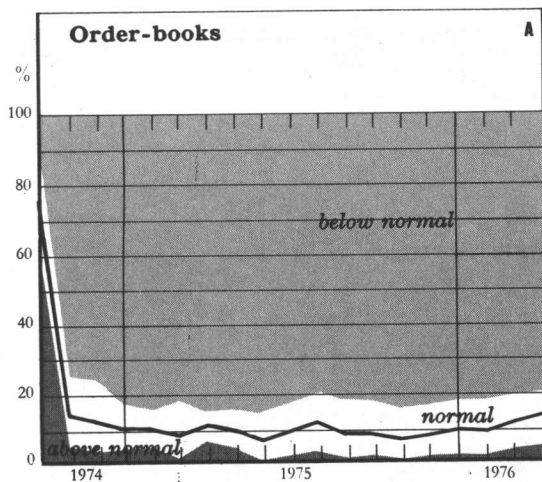
After climbing sharply at the beginning of the year, *consumer prices* rose more slowly through May. These fluctuations were due above all to the price of foodstuffs, for which the year-to-year increase was in May definitely higher (14.1%) than for the general index (10.4%).

Business transacted by financial and banking institutions, both on international markets and on the domestic market, expanded briskly. At the end of March the aggregate balance sheet totals of banking and savings institutions were 36% up on the corresponding period last year. At the end of January, savings book deposits (mainly domestic) were about 25% higher than twelve months earlier. In April, however, withdrawals seem to have exceeded deposits. In order to cover additional financial requirements (see Table 3) the State, in January, issued a loan to the amount of 1 000 million francs.



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

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

TABLE 2

Demand for and supply of goods and services

Luxembourg	1973 ²	1974 ³			1975 ³			1976 ³		
	At curr. prices Mio LFRs	% change on preceding year								
		Vol.	Price	Val	Vol.	Price	Val	Vol.	Price	Val
Private consumption	37 810	6.8	9.5	17	2.1	10.7	13	2.3	9.5	12
Public consumption	8 085	2.6	20.8	24	3.1	18	21.7	1.4	13.1	14.7
Gross fixed asset formation	20 037	- 7	13.3	5.4	- 7.2	14.4	1.4	- 2.5	14.1	11.3
— Enterprises	11 659	- 15.2	9.4	- 7.3	- 9.2	11.9	1.6	- 2.7	13	10
— Dwellings	4 328	1.7	18.1	23.9	- 15	17.5	- 0.1	- 5	16	10.2
— General Government	4 050	7.3	17.4	26	5.1	16.4	22.3	0	14.7	14.7
Domestic final uses (excluding change in stocks)	65 932	2.1	12	14.3	- 0.5	12.8	12.2	0.9	11.2	12.2
Domestic final uses (including change in stocks)	66 157	4	11.7	16.2	- 2	12.7	10.4	1.1	11.2	12.4
Exports ¹	60 382	5	22.8	29	- 15.5	- 4.4	- 19.3	7.9	9.3	17.9
Imports ¹	55 439	5.8	22.7	29.8	- 10.1	5.9	- 4.8	3.7	7.8	11.8
Gross domestic product at market prices	71 100	3.5	12.5	16.5	- 7.7	3.6	- 4.3	4.2	12.6	17.3
Contribution to percentage change in gross domestic product										
Domestic final uses (excluding change in stocks)	65 932	1.9		13.3	- 0.4		11.2	1		13.1
Change in stocks	225	1.8		1.8	- 1.5		- 1.5	0.2		0.2
Balance of exports and imports	4 943	- 0.2		1.4	- 5.8		- 14	3		4

¹ Goods and services² Source: Statec.³ Estimates of Commission's Departments

2. Outlook

Following a rapid upswing in the first half of the year, economic growth will probably slacken in the second half.

The appreciable expansion in *export demand* in recent months seems to have been due largely to technical factors, i.e. restocking at all levels of the production and distribution process. As the prospects for a recovery of fixed investment in Luxembourg's main export markets are still uncertain, exports will probably lose momentum again once the restocking process is over.

Domestic demand is unlikely to give any major stimulus either to economic activity at home or to imports. While the implementation of a major new *investment* programme in the steel industry and the modernization of commercial vehicle fleets are factors for expansion, construction of new industrial buildings will probably remain depressed. This is also likely to be the case in dwelling construction, available indicators giving little prospects for a strengthening of activity. By contrast, public works may show some expansion in volume terms.

After more or less stagnating during the first half of the year, *private consumption* may well expand again somewhat in the second. Certain collective wage

agreements and an increase in the number of hours worked should make possible some increase in real personal disposable income. For the year as a whole, however, private consumption is unlikely to grow by more than 2%. The growth in public consumption may well be lower than in 1975.

As exports are a major determinant, the growth of industrial *production* will probably lose momentum in the course of the year, but the average rate of increase between 1975 and 1976 will probably still be around 12%. As expansion in the other sectors is likely to remain more subdued, the total gross domestic product should rise by about 4.2%.

The recovery of production will be the first step in bringing a return to normal in the *employment situation* in that special works programmes and short-time working will be gradually phased out. Moreover, in building and construction a decline of employment seems possible. Consequently, the numbers in employment will probably remain depressed throughout the year, even if the tertiary sector might see some further increase.

The overall rate of increase of the *consumer price* index will probably remain substantial, due in particular to price rises of certain food products and services. Year on

TABLE 3

The general government budget ¹

Luxembourg	1975		1976	
	Original budget ⁴		Original budget ⁴	
	Mrd Lfrs	% change ⁵	Mrd Lfrs	% change ⁵
Expenditure ²	23.8	24.6	29.3	23.1
of which:				
— current expenditure	18.4	27.8	22.8	23.9
— capital expenditure ³	5.4	14.9	6.5	20.4
Revenue	23.7	32.4	27.1	14.3
of which:				
— direct taxes	13.6	46.2	15.9	16.9
— indirect taxes	8.2	17.1	9.0	9.8
Net borrowing requirement	- 0.1		- 2.2	

¹ Community definitions.

² Disregarding debt extinction.

³ Including participations, loans and advances

⁴ Draft budget.

⁵ On the preceding year's original budget.

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

year 1976 may see an increase of around 10% over 1975.

Through a policy of selective intervention, hammered out in wide-ranging consultations, the Luxembourg authorities have succeeded in mitigating the social effects of the economic crises. This was not achieved without an increase of central government borrowing requirement, so that one of the main tasks of those responsible for economic policy will be to restore equilibrium, a task

which can probably only be completed in the medium term, particularly if, as seems likely, the trend rate of growth in the next few years is lower than in the 1960s.

Major economic policy measures

December 1975:

— The temporary tax assistance for investment provided for in the law of 9 April 1973 was extended for a period of two years.

TABLE 4

Main economic indicators

	Year	Jan	Feb	Mar	Apr	May	June	July	Aug.	Sept	Oct.	Nov.	Dec.
Industrial production* (1970 = 100)	1974	122.6	127.8	120.8	121.7	121.1	122.8	120.5	115.8	120.4	118.2	112.6	106.0
	1975	103.7	102.7	101.9	94.3	88.7	97.9	90.0	60.6	95.7	88.0	97.8	95.4
	1976	95.2	99.1	99.2									
Unfilled vacancies*	1974	669	601	692	730	625	622	685	600	464	432	393	403
	1975	236	101	195	281	275	292	222	294	191	204	248	285
	1976	158	75	223	(258)								
Consumer prices (1970 = 100)	1974	121.3	123.6	124.4	126.0	127.2	127.5	128.9	129.2	129.9	131.2	132.7	133.7
	1975	134.6	136.6	137.5	139.2	140.1	141.1	142.3	142.9	144.0	146.2	147.4	148.3
	1976	150.5	151.3	151.6									

() Provisional figure

· Not available

* Seasonally adjusted

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

— Industrial production, excluding construction.

— Unfilled vacancies: end-of-month figures.

— Consumer prices: all households

— The Government meeting in council set up a commission to study the problems in the building and construction industry and to coordinate measures to help the industry.

— Self-employed persons' sickness insurance contributions were fixed at 5.6% of their income (with a ceiling of four times the minimum wage); the new rate for pensioners is 4.4%.

— At the end of December, the central government budget for the 1976 financial year was adopted by Parliament. It provides for revenue totalling Lfrs 30 500 million, of which Lfrs 29 600 million will be ordinary revenue and Lfrs 900 million extraordinary revenue, and expenditure totalling Lfrs 30 800 million, of which Lfrs 26 700 million will be on current and Lfrs 4 000 million on capital account.

January 1976:

— Issue of a Government loan of Lfrs 1 000 million for twelve years at 7.75%. The issue price of 100% was payable in full on 30 January.

February:

— At the beginning of February, a draft law on unemployment insurance was adopted by the Government. It provides for the payment of unemployment benefit equal to 80% of the previous wage or salary, up to a limit of 250% of the minimum wage during the first six months and 200% during the subsequent six months. To be eligible for this benefit, a person must have worked for twenty-six weeks. The Fund to administer this measure is planned to be financed as follows:

- an employers' contribution equal to 0.25% of the wage and salary bill;
- a 2.5% increase in income tax;
- a 1% increase in corporation tax;
- repayable central government advances.

— The Fund's assets are not to be allowed to fall below Lfrs 750 million or to

exceed Lfrs 1 500 million, the annual contribution being fixed at Lfrs 450 million.

— The premium paid to encourage owners of unprofitable businesses in the small craft industries and in the distributive trades to cease trading was raised from Lfrs 120 000 to Lfrs 160 000.

— The Office National du Travail (National Labour Office) was renamed the Administration de l'Emploi (Employment Board) with responsibility for promoting optimum utilization of the labour force in line with the economic and social policies pursued. This involves monitoring the situation and developments on the labour market, matching job vacancies with job applications and organizing the recruitment of foreign workers and vocational guidance of young people, in addition to assisting the redeployment and re-employment of workers. A National Employment Commission composed of representatives of the ministerial departments concerned and of delegates from the employers' and workers' organizations was set up at the Ministry of Labour and Social Security.

— On the investment front, an agreement was concluded between the Government and the iron and steel industry authorizing the latter, with effect from the 1974 financial year, to write off its equipment more rapidly, i.e. over ten years instead of twelve-and-a-half years.

March:

— The law of 11 March 1976 lays down the conditions governing the grant of direct State aid to the press in the form of a subsidy per page of non-advertising matter.

— A Ministerial decree of 11 March 1976 freezes cash profit margins for the retail sale of beef, pork, veal and delicatessen products as at 1 March 1976.

— The Grand-Ducal Regulation of 18 March 1976 sets a maximum price (Lfrs 11 per kg) and a maximum profit margin (Lfrs 1.5 per kg) for retail sales of potatoes.

United Kingdom¹

The recovery in economic activity, which began in late 1975, gathered strength during the first half of 1976 due to expanding exports and a turnaround in stockbuilding. At the same time, there has been a marked slowdown in the growth of unemployment, to which the Government's measures to support employment have significantly contributed. The growth of average earnings continued to decelerate, partly as a result of the voluntary limit on pay increases, and helped to slow down the rate of inflation. There was a significant reduction in the balance of payments current deficit, despite the adverse effect on import prices of a further depreciation of sterling in the period March to May.

Prospects for the second half of the year are for a continuation of export-led growth, with domestic demand remaining subdued. Little further fall in the rate of increase of prices is foreseen, although some deceleration in wage inflation should occur. A temporary widening of the current account deficit is to be expected as adverse movement in the terms of trade will probably more than offset, in the short run, the gains from the continued movement of real resources into net exports.

1. Recent developments²

Since the fourth quarter of 1975, the level of output in the United Kingdom has moved into a definite upward trend. At the same time, there has been a slow-down in the growth in unemployment, the rate of inflation has dropped markedly from the very high levels recorded in the first half of 1975, and there has been an improvement in the balance of trade. Despite these encouraging developments, the state of the economy remained far from satisfactory. There was a sharp depreciation in sterling in March, April and May reflecting uncertainty as

to the form of the next stage of incomes policy to begin in August 1976 and anxiety about the size of the public sector borrowing requirement for the financial year 1976/1977.

Gross domestic product, which reached its lowest point in the third quarter of 1975, rose in real terms by 1.3% in the fourth quarter and by a further 1.1% in the first quarter of 1976. The main factors contributing to this recovery were a marked shift of resources into net exports and a fall in the rate of destocking.

The volume of *exports* started to rise in the fourth quarter of 1975 and in the six months to April 1976 showed an increase of 12.1% (at an annual rate) over the preceding six months. In value terms, the highest growth rate was recorded for exports to the Community, (an annual rate of + 50% in the 6 months to April). The United

¹ This text was finalized at the end of May and, therefore, takes no account of the sharp movements in the sterling exchange rate occurring thereafter.

² Unless otherwise stated, this analysis is based on seasonally adjusted data.

TABLE 1

Key indicators

United Kingdom	Unit	1968-1972 average ^{4 5}	1973 ⁵	1974 ⁵	1975 ⁵	1976 ⁶
Gross domestic product; volume	% change	2.2	5.6	0.3	- 1.6	2.4
of which: Industry ¹		2.2	7.2	- 3.7	- 5.0	2.8
Gross domestic product in volume per person in employment	% change	2.7	3.3	- 0.3	- 1.0	3.0
Total employment (number of persons) ²	% change	- 0.5	2.2	0.6	- 0.6	- 0.6
— Independent entrepreneurs		1.6	1.7	- 0.3	- 0.1	0.0
— Wage and salary earners in company sector		- 1.3	2.5	0.5	:	:
— General Government		1.9	2.1	0.8	:	:
Unemployment	as % of labour force	2.9	2.5	2.4	3.8	5.0
Compensation of employees per wage and salary earner	% change	9.8	12.4	20.6	30.1	16.0
Price index of private consumption ³	% change	5.6	8.75	15.45	22.0	15.5
Current account balance ³	£ '000 million	0.4	- 0.8	- 3.7	- 1.7	- 1.8

: Not available

¹ All industries² Domestic concept³ National accounts concept; on annual basis.⁴ Geometric mean of the change from 1967 to 1972. unemployment and current account balance: arithmetic mean over the five years.⁵ Source: Central Statistical Office.⁶ Estimates of Commission's Departments.

Kingdom's share of world trade in manufactures, which rose in 1975, was at least maintained in early 1976.

The volume of *consumers' expenditure* recovered in the first quarter of 1976 (+ 1.0% on the previous quarter), partly as a result of increased expenditure on durable goods caused by the relaxation in December 1975 of restrictions on consumer credit. Total real personal disposable income is expected to show a further modest decline and the savings ratio to fall slightly. During the second quarter, however, the growth in consumption is unlikely to have been maintained.

In the first half of 1976, *public consumption* in real terms is estimated to grow at an annual rate of only 2%, a sharp deceleration when compared with the strong rise that occurred in the preceding half year.

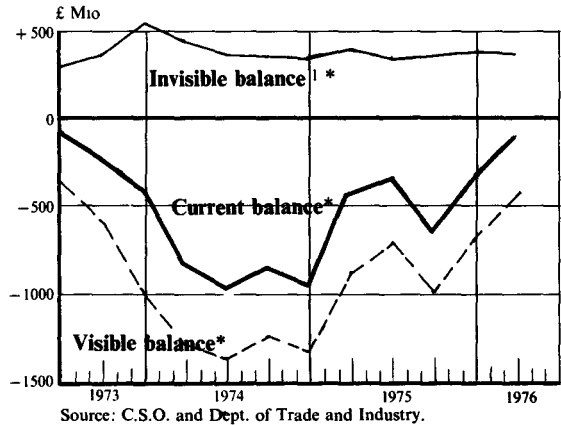
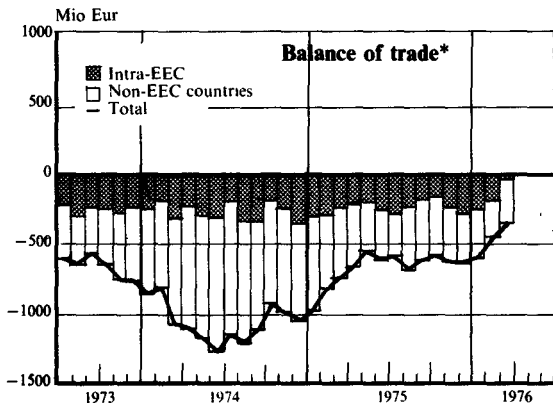
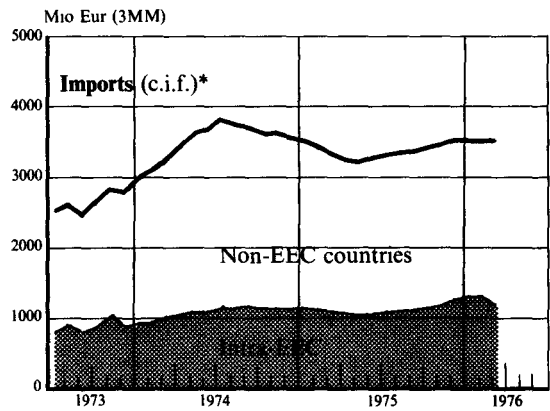
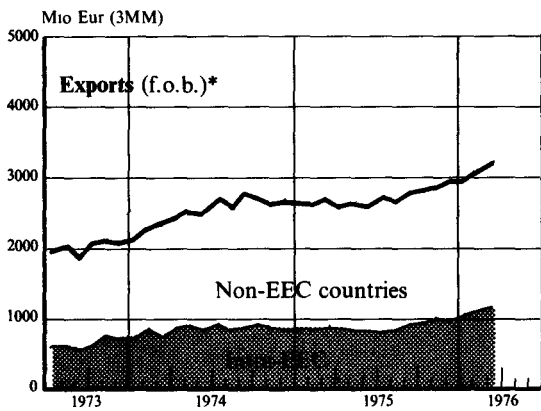
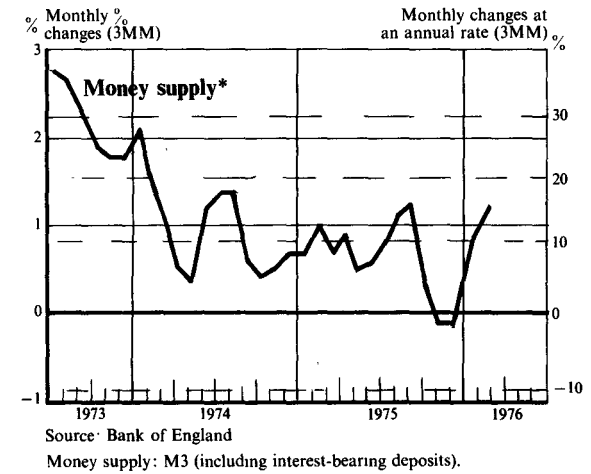
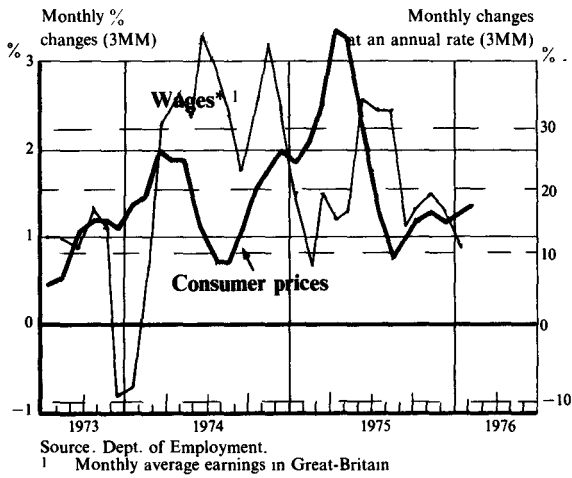
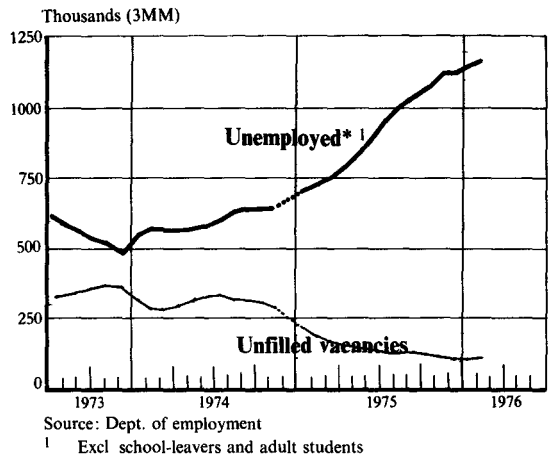
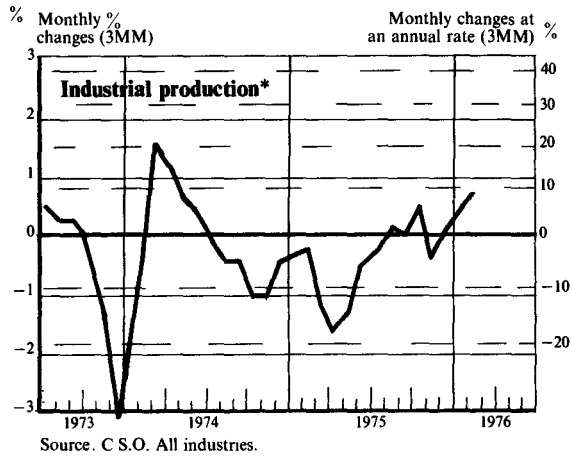
The downward trend in *fixed investment*, which became established in 1975, continued in the early months of 1976, despite the buoyancy of investment in dwellings. There appears to have been a further slight fall in manufacturing investment, a trend which will only be reversed once the expansion of industrial production is well under way. The very rapid rundown of *stocks* which occurred in 1975, particularly in manufacturing industry, probably came to an end in the first half of 1976. Indeed, some modest rebuilding of stocks may well have occurred in certain sectors of the economy.

There has been a substantial increase in industrial activity; between the fourth quarter of 1975 and the first quarter of 1976, the index of *industrial production* rose at an annual rate of 5.3%, to reach a level 2.6% higher than in August 1975, the lowest point in the present recession. The recovery was concentrated firstly in the intermediate goods industries and only more recently affected consumer goods industries.

In recent months the level of *unemployment*¹ (equivalent, in May, to 5.4% of all employees) appears to have stabilized rather sooner than the recent upturn in production might have suggested. Apparently, the Government's short-term measures for supporting employment have been effective. In addition, it appears that the expansion in economic activity is causing firms to defer redundancies. Indeed, other labour market indicators, in particular for vacancies and short-time working, point to some strengthening of the demand for labour.

During the latter part of 1975 and in early 1976, the fall in the rate of *inflation*² has been marked. In the six months to April 1976, the retail price index rose at an annual rate of 16.0 against a rate of 21.8% in the previous six months. In

¹ Excluding school-leavers and adult students.² The figures in this paragraph are not seasonally adjusted.



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

contrast to this favourable movement, which was partly the result of a sharp deceleration in the rise of unit labour costs, the index of materials and fuel purchased by manufacturing industry, which covers about one-third of industry's costs, rose at an annual rate of 27.3% in the six months to April 1976 compared with 28.1% in the preceding six months; these high figures were largely the result of the depreciation of sterling and increases in world prices of certain primary products, including oil.

The growth of earnings continued to slow down in the first quarter of the year. In the six months to March 1976, *average earnings* increased at an annual rate of 13.9%, a substantial fall from the annual rate of 25.0% recorded in the preceding six months. This deceleration was largely due to the success of the Government's incomes policy. The impact of the recession on hours worked was only noticeable between the first and second quarters of last year with, if anything, a slight upward trend since then.

The *balance of trade* improved dramatically in the first four months of 1976. There was a substantial increase in export volume, resulting from the recovery in world trade and from the effects of previous depreciations of sterling. At the same time, the volume of imports fell back. During the first quarter, the terms of trade remained virtually

unchanged from their end-1975 level, but deteriorated sharply thereafter thus partly offsetting the contribution of the growth in the volume of exports to the balance of trade. None the less, the overall trade balance, for the first half of the year, should show a distinct improvement on the deficit of £ 1.7 billion recorded for the second half of 1975. With a continuing surplus of about £ 120 million per month on the invisibles account, there should also be a further improvement in the current balance between the same two periods.

Partly as a result of great pressure on the sterling exchange rate in March and April, *official reserves* fell by \$ 581 million during the first four months of 1976 even after inclusion of public sector foreign currency borrowing of \$ 1 145 million and after drawing \$ 1 174 million (SDR 1 billion) from the IMF oil facility.

During a period of considerable international currency disorder, the sterling *exchange rate* remained relatively stable until the first week of March 1976. However, foreign confidence became increasingly affected by the implications for the public sector borrowing requirement and the money supply of the Government's plans for public expenditure (announced in February) and by the uncertainty surrounding the next stage of incomes policy.

TABLE 2
Demand for and supply of goods and services

United Kingdom	1973 ²	1974 ²			1975 ²			1976 ³		
	At current prices £ mio.	% change on preceding year								
		Vol	Price	Val	Vol	Price	Val	Vol.	Price	Val.
Private consumption	45 085	- 0.1	15.4	14.2	- 0.3	22.0	21.6	- 1.0	15.5	14.3
Public consumption	13 340	2.9	21.9	25.4	3.3	31.8	36.2	3.2	13.8	17.4
Gross fixed asset formation	13 815	- 2.0	20.0	17.6	- 0.5	24.4	23.8	- 2.1	15.0	12.6
— Enterprises	8 236	- 3.8	17.8	13.3	- 3.0	26.1	22.3	:	:	:
— Dwellings	2 710	- 4.8	21.3	15.5	5.6	20.5	27.3	:	:	:
— General Government	2 869	0.7	24.9	24.0	3.2	21.8	25.7	:	:	:
Domestic final uses (excluding change in stocks)	27 240	- 0.5	17.6	17.0	3.5	17.9	22.0	- 0.4	18.6	18.1
Domestic final uses (including change in stocks)	73 301	- 1.3	18.2	16.7	- 1.9	24.3	21.9	1.1	15.1	16.4
Exports ¹	16 831	6.9	23.7	32.2	- 4.6	21.6	16.1	7.5	17.5	26.3
Imports ¹	18 612	0.2	43.8	44.1	- 5.7	12.2	5.8	2.7	20.8	24.1
Gross domestic product at market prices	71 520	0.3	13.0	13.3	- 1.6	27.7	25.6	2.4	14.1	16.7
Contribution to % change in gross domestic product										
Domestic final uses (excluding change in stocks)	72 240	- 0.5	—	+ 17.1	+ 0.4	—	26.0	- 0.3	—	+ 15.2
Change in stocks	1 061	- 0.8	—	0.0	- 2.6	—	- 2.9	+ 1.5	—	+ 1.6
Balance of exports and imports ¹	- 1 781	+ 1.6	—	- 3.9	+ 0.6	—	+ 2.5	+ 1.2	—	0.0

: Not available.

¹ Goods and services.

² Source: Central Statistical Office

³ Estimates of Commission's Departments.

TABLE 3

The central government budget

United Kingdom	1975/1976			1976/1977	
	Original Budget		Provisional outturn	Original budget	
	£ mio	% change ⁴	£ mio	£ mio	% change ⁴
Expenditure ¹	43 671	+ 39.5	46 405	54 544	+ 24.9
of which:					
— current expenditure	37 918	+ 42.4	39 422	45 817	+ 20.8
— capital expenditure ²	5 753	+ 22.9	6 983	8 727	+ 51.7
Revenue	35 844	+ 20.3	37 585	44 118	+ 23.1
of which:					
— direct taxes ³	22 709	+ 24.4	24 173	28 117	+ 23.8
— indirect taxes	13 135	+ 13.9	13 412	16 001	+ 21.8
Net borrowing requirement	7 827	—	8 820	10 426	—

¹ Disregarding debt extinction.

² Including loans and advances.

³ Including social security contributions etc.

⁴ On the preceding year's original budget

Note The figures in this table are based on the national budgets.

The Budget proposals introduced on 6 April¹ confirmed the view that the borrowing requirement would remain, in any case, at a very high level. Pressure on sterling increased considerably and the effective depreciation from Smithsonian parities widened by 13.7% between end-February and end-May 1976, more than offsetting recent differences in inflation rates between the UK and its major competitors.

Another factor behind this movement of the exchange rate was the reaction of the authorities to the slow growth of the *money supply* in the winter of 1975/76, when interest rates fell quite rapidly. Although concern has been expressed that the effect on the money supply of the very large public sector borrowing requirement (which turned out to be as high as £ 10.8 billion in the fiscal year 1975/76), the high level of the personal sector's savings and the lack of company sector demand for funds eased the problem of financing the requirement, and there was, in fact, little growth in the money supply. During the six months to April 1976, the supply of money on the broad definition (M3) grew at an annual rate of only 7.3%. In the same period, the money supply on the narrow definition (M1) grew at an annual rate of 16.6%, still below the likely growth in nominal GDP. The possibility that such a slow growth in the money supply might prolong the recession, combined with the continuing need to reduce the cost of financing the government debt, led to this policy of reducing short-term interest rates from the end of 1975, a strategy which was facilitated by the fall in American rates. In response to the exchange rate crisis,

however, the authorities raised the Minimum Lending Rate by 1.5% to 10.5% on 23 April, and by a further 1% on 21 May 1976.

2. Outlook

The outlook is for a slower rate of expansion in the second half of the year; gross domestic product in real terms is unlikely to rise by more than 1½% above the level estimated for the first half of the year. There is likely to be little decline in the level of unemployment given the time lag before an increase in output leads to a fall in unemployment. The lag may well have been lengthened by the Government's measures to support employment through the trough of the recession. This would suggest that, compared with similar points in previous business cycles, there is a greater reserve of labour within firms which must be absorbed first before the expansion of activity has a substantial impact on the number of unemployed.

The growth in output will be based largely on two factors. Firstly, *export* volume should continue to grow rapidly during the second half of 1976 in response to the expansion of world trade and the price competitiveness of UK exports, giving, for the year as a whole, a growth rate of at least 7%. Secondly, in the latter part of the year, there is likely to be some rebuilding of *stocks* as the recovery gathers momentum.

Private consumption in real terms is expected to grow only slowly from the low level of the second quarter of the year. This recovery will mainly be a result of a revival of consumer confidence, following the slowdown of the rate of inflation. Real personal disposable income is expected

¹ For details, see 'Major economic policy measures', below; for a summary of the effects on the Central Government's accounts, see Table 3.

TABLE 4

Main economic indicators

	Year	Jan.	Feb.	Mar	Apr	May	June	July	Aug.	Sept	Oct.	Nov	Dec.
Industrial production (1970 = 100)	1974	102.2	103.8	105.9	107.6	107.6	108.6	108.9	108.9	107.2	105.7	105.5	102.9
	1975	105.5	105.0	103.4	101.1	99.1	99.1	100.1	98.5	100.0	100.2	100.2	98.8
	1976	100.7	101.6	101.0									
Unemployment (000)	1974	565.1	579.3	574.2	573.0	574.9	590.4	605.5	625.4	632.8	636.8	643.5	-
	1975	713.0	740.1	760.5	798.3	850.3	893.5	968.2	997.4	1 034.4	1 088.7	1 133.0	1 174.6
	1976	1 210.5	1 232.4	1 226.7	1 233.8								
Construction: Housing starts (000)	1974	21.7	23.3	24.8	21.8	21.7	21.5	18.0	21.1	20.1	19.7	19.5	18.6
	1975	25.9	25.9	24.0	22.9	26.0	25.4	27.3	28.1	28.3	29.7	30.9	28.0
	1976	32.6	28.8	29.5									
Average earnings (1970 = 100)	1974	154.1	156.8	164.3	164.7	169.6	176.2	181.8	185.5	189.2	191.8	200.8	208.3
	1975	206.2	209.9	212.8	215.4	217.7	221.2	231.6	234.0	237.9	239.5	243.5	248.6
	1976	248.8	249.7	253.9									
Private consumers' expenditure: value of retail sales (1971 = 100)	1974	134.7	137.0	138.4	138.9	138.7	143.5	147.3	150.9	153.8	155.7	159.8	158.9
	1975	165.9	165.7	165.9	183.9	166.9	171.1	175.3	175.8	179.2	177.8	180.8	186.4
	1976	193.2	189.6	188.3									
Retail prices (January 1974 = 100)	1974	100.0	101.7	102.6	106.1	107.6	108.7	109.7	109.8	111.0	113.2	115.2	116.9
	1975	119.9	121.9	124.3	129.1	134.5	137.1	138.5	139.3	140.5	142.5	144.2	146.0
	1976	147.9	149.8	150.6	153.5								
Wholesale prices ¹ (1970 = 100)	1974	209.5	213.1	215.0	215.4	214.0	211.7	212.3	213.7	212.8	220.1	223.8	222.5
	1975	222.1	218.8	221.9	222.9	226.2	227.7	233.2	241.4	243.2	252.3	256.7	259.0
	1976	261.0	263.5	273.7	284.7								
Wholesale prices ² (1970 = 100)	1974	134.2	138.5	142.3	146.4	149.0	151.2	153.5	156.1	158.6	162.2	164.8	167.6
	1975	173.0	175.9	179.2	182.5	187.3	189.0	191.7	193.5	194.9	197.0	198.9	201.5
	1976	204.8	207.3	208.5	211.2								
Exports (million Eur)	1974	2 023	2 303	2 594	2 464	2 449	2 594	2 541	2 651	2 757	2 591	2 420	2 571
	1975	2 705	2 671	2 596	2 716	2 667	2 583	2 926	2 660	2 886	3 048	2 548	3 078
	1976	2 908	3 095	3 520	3 603								
Imports (million Eur)	1974	2 773	3 129	3 282	2 268	3 333	3 414	3 384	3 323	3 494	3 458	3 471	3 252
	1975	3 761	3 364	2 901	3 485	3 110	3 193	3 596	3 506	3 276	3 760	3 262	3 599
	1976	3 476	3 629	3 529	4 040								
Balance of trade (million Eur)	1974	- 750	-826	-688	-804	-884	-820	-843	-672	-737	-867	-1 051	-681
	1975	-1 056	-693	-305	-769	-443	-610	-670	-846	-390	-712	- 714	-521
	1976	-568	-534	- 9	-437								
Terms of trade	1974	79.9	74.4	73.2	73.0	72.9	73.6	73.9	74.9	76.1	75.6	76.3	76.0
	1975	76.2	77.2	77.2	79.1	80.2	81.4	81.6	81.7	82.1	81.0	80.8	80.3
	1976	81.0	81.3	81.3	80.2								
Exchange rate	1974	82.74	82.45	82.46	83.01	83.02	83.01	83.04	82.60	82.22	81.84	80.44	79.04
	1975	78.47	78.32	78.54	78.05	76.31	73.22	72.44	73.14	71.90	71.14	70.44	69.92
	1976	70.01	69.95	67.08	63.19	60.40							
Official foreign exchange reserves (million Eur)	1974	2 986	2 795	3 105	3 418	3 328	3 212	3 178	3 266	3 415	3 594	3 665	2 954
	1975	2 908	3 036	3 043	3 052	2 590	2 382	2 419	2 287	2 195	2 733	2 668	2 564
	1976	3 336	3 447	2 714	2 015								
Money supply (million Eur)	1974	24 307	23 298	23 243	24 023	23 229	23 455	23 918	23 979	24 147	24 382	24 054	24 278
	1975	23 727	23 186	23 605	24 552	25 105	25 133	25 866	26 374	26 832	26 495	26 334	26 962
	1976	26 187	26 824	26 363									

Not available

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

Seasonally adjusted unless otherwise stated

Key to sources:

- (a) Central Statistical Office
- (b) Department of Employment
- (c) Bank of England
- (d) Ministry of Health and Social Services (Northern Ireland)
- (e) Department of Trade and Industry
- (f) Department of the Environment
- (g) Statistical Office of the European Communities

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

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

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

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

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

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

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

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

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

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

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

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

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

to show little change in the outlook period even after inclusion of the announced conditional changes in taxation and the increase in current transfers. Together, these movements point to some further fall in the savings ratio.

There will be a slight fall in *fixed investment* between 1975 and 1976, but investment intentions surveys point to a recovery in capital expenditure by manufacturing industry towards the end of the year. The rapid growth in recent years of investment connected with North Sea oil will slow down markedly in 1976. The outlook for investment in dwellings is for continued buoyancy in the private sector but for some stabilization in the public sector.

The strong increase in export volume expected in 1976 is likely to be accompanied by only modest growth in the volume of imports despite some restocking as the recovery gets under way. However, these favourable volume movements may be offset by a deterioration in the terms of trade which could still be very marked although a growing proportion of exports is invoiced in foreign currencies. Thus, the overall deficit on the *current account* of the balance of payments will widen in the second half of the year as compared with the first half notwithstanding the contribution from North Sea oil. For the year as a whole, the current account deficit will probably be close to the 1975 figure of £ 1.7 billion.

The rate of price and wage *inflation* in the outlook period will be greatly affected both by the Government's incomes policy and the recent fall in the sterling exchange rate. Taking account of the likely outcome of the negotiations following the Chancellor's Budget proposals for a much lower pay limit, the annual rate of increase in average earnings from August 1976 onwards could well fall to about 7%, despite some wage drift which is likely to occur with higher levels of economic activity. Such a rate of increase in average earnings, coupled with a continued expansion of output, points to a significant deceleration of *unit labour costs* which will ultimately improve the underlying rate of inflation. None the less, the recent sharp fall in the value of the pound, and the rise in commodity prices suggest that, by the end of 1976, the year on year rate of inflation, measured in terms of the retail price index, will probably be greater than 12%.

The outlook for the *money supply* is for a faster rate of growth than in the recent past as there may be growing difficulties in financing the public sector borrowing requirement from the non-bank private sector. Such difficulties would mainly result from the expected increase in the demand for funds from the company sector and the assumed fall in the personal savings ratio.

The central objective of the UK Government's economic *policy* must be to reduce further the rate of inflation. To this end, a satisfactory arrangement for the next stage of incomes policy is vital. At the same time the public sector deficit should be reduced when the expected strengthening of the upswing is confirmed. Only in this way can the basis for a sustained economic expansion be ensured.

Major economic policy measures and decisions

December 1975:

- On 17 December the Chancellor announced a package of import restrictions coupled with relaxations of hire purchase control and measures to alleviate unemployment; the main features are as follows:
 - quotas to be imposed on imports of cotton-yarn from Spain and of cotton-yarn and man-made fibre fabrics from Portugal. Discussions to take place with Eastern European countries on levels of exports of men's woollen suits and voluntary restraints by these countries on footwear exports;
 - Steel stockbuilding: £ 70 m to be made available for the British Steel Corporation stockbuilding scheme;
 - In addition, surveillance arrangements on imports of colour TV sets, colour TV tubes and small monochrome TV sets to be introduced from 1 January 1976.
 - Hire purchase deposits reduced to 20% (from 33 1/3%) and repayment periods increased to 30 months (24 months) for most consumer durables, but not cars.
 - Employment; £ 14.5m extra for job creation schemes and temporary employment subsidy.

January 1976:

- Customs duties between the United Kingdom and other Member States of the Community were cut by a further 20%, with effect from 1 January.
 - On 15 January the Bank of England announced that 1% of special deposits would be temporarily released to prevent pressure on short-term interest rates. Funds were redeposited with the Bank on 10 February when the main tax payments had been made.
 - It was announced on 28 January that a scheme had been agreed to hold retail price rises to 5% on a range of goods (accounting for between 15 and 20% of consumer expenditure).

February:

- On 12 February the Chancellor announced further measures aimed at reducing unemployment including:
 - extending the period of entitlement to the Temporary Employment Subsidy from 6 to 12 months and lowering the qualifying number of jobs to be saved from 25 to 10;
 - a further allocation of £ 30 million to the Job Creation Scheme;
 - provision of extra training schemes by the Manpower Services Commission;
 - a further £ 55 million to be made available under the Industry Act for modernization and restructuring in industry;
 - the construction industry to be aided by a further £ 50 million expenditure on public sector housing projects to be completed before April 1977.
- The Government's White Paper on public expenditure was published on 19 February. The projected levels of spending on programmes for the financial years 1975/76 and 1976/77 are £ 1 600 million and £ 500 million higher respectively than those presented in the previous public expenditure White Paper (at 1975 Survey prices). From 1977/78 onwards, the level of spending on programmes is projected to be virtually stable so that resources are made available for increased exports and investment.
- On 26 February the Government made its first 'participation agreements' to acquire a major interest in North Sea oil developments.

March:

- Rises in steel prices of 10%, effective from 1 April, were announced on 2 March.
- At a meeting of EEC Agriculture Ministers on 6 March it was decided that guaranteed prices for farmers in 1976 would be 14% above the 1975 level. It is estimated that this will add 2 1/4% to retail food prices by the end of 1976.

April:

- The Budget for the financial year 1976/77 was announced on 6 April. Compared with the previous financial year, and taking account of the tax allowances conditional on a satisfactory wage increase figure, the rise in total public receipts was forecast at 13.2% compared with 16.8% for expenditure. The public sector borrowing requirement was estimated to rise from the provisional outturn for 1975/76 of £ 10 773 million to £ 11 962 million. The principal points from the Budget were:

- increased tax-free allowances for taxpayers over 65 years and for families with children, to take effect immediately at a cost of £ 360 million in a full year. The Chancellor also proposed further changes in personal tax allowances and higher-rate thresholds (at an estimated cost of £ 920 million) but has made these conditional on agreement being reached on a new lower pay limit of around 3%;
 - retirement pensions and social security benefits are to be raised in November;
 - in the field of indirect taxation, the highest rate of value added tax is to be reduced from 25% to 12½% (on most electrical and photographic goods, furs and jewellery) at a cost of £ 360 million in a year which were more than counterbalanced by increases in revenue duties on petrol, alcoholic drinks and tobacco goods amounting to £ 695 million;
 - the scheme providing relief in respect of Corporation Tax for excessive stock appreciation due to inflation is to continue and is to become permanent in 2 years' time. In addition, smaller companies are to be aided by a raising of profit limits (from £ 25 000 to £ 30 000) below which the lower rate of corporation tax applies;
 - an additional £ 40 million is to be made available to assist capital investment in particular industries;
 - the Temporary Employment Subsidy is to be doubled from £ 10 to £ 20 per head and the scheme extended to the end of 1976.
- On 29 April the Secretary of State for Industry announced that proposed increases in certain postal charges, to be effective from 7 June, would be cut from 25% to 13%.
- May:*
- On 4 May it was announced that the first credit tranche standby with the IMF of some £ 440 million would be drawn in May.
 - The Government and the Trades Union Congress reached an agreement on 5 May concerning the next stage of incomes policy which will come into force in August. The main points of the agreement are as follows:
 - wages will rise by 5% with a minimum increase of £ 2.50 and a maximum of £ 4, the effect being to increase the total pay bill by about 4.5%;
 - no consolidation into basic wage rates of the present £ 6 increase nor of the new increases;
 - contractual annual increments to be allowed;
 - some relaxation of the present Price Code is envisaged to encourage investment, (details remain to be negotiated with both sides of industry);
 - changes in personal tax allowances proposed in the Budget to be implemented in full.

III. Annex: Trends in industrial labour costs

In 1975, wages in the Community were still rising very briskly and production declined, so that the upward movement of *labour costs per unit of gross value added in industry, including construction*¹ gathered momentum. The only exceptions were Denmark, where the very rapid rate of increase was the same as that recorded in 1974, and the Federal Republic of Germany, where labour costs in fact grew more slowly.

The results of the calculation made in *national currencies* are shown in Table 1. It will be noted that, as in 1974, Italy and the United Kingdom were the countries in which labour costs rose most; secondly, the acceleration compared with the preceding year and especially compared with 1973 was particularly marked in Ireland. In France the trend was more moderate in 1975, as in the previous year, and the trend in Belgium was almost exactly parallel. In the Netherlands, the acceleration in the rise in labour costs over the same years was less pronounced. In the Federal Republic of Germany, where the increase in 1974 was already the lowest, a further slowdown was recorded in 1975. In the United States the upward movement quickened slightly in 1975; however, it was still less rapid than in the Community countries, with the exception of the Federal Republic of Germany.

Divergences in the trend of unit labour costs between Community countries became more marked in 1975. Moreover, if the cumulative change between 1973 and 1975, i.e. since the beginning of the last expansion/recession cycle is considered, it is clear that the differences between the respective positions of the various Member States have grown appreciably. In most of the countries the cumulative change has ranged from 40 to 60% over a three-year period. It was distinctly above this range in Italy and the United Kingdom, where it reached 80 and 74% respectively, and was smallest in the Federal Republic of Germany, where it amounted to 24%. In the United States, the rise over the three years was no more than about 21%.

In 1975, the rise in *wages and salaries per person employed* slowed down significantly in the Community, to a degree which varied with each Member State (cf. Table 2). Ireland and the United Kingdom were exceptions to this trend because the effect on the annual average of the measures of restraint adopted in these countries during the year was only slight. The surge of wages and salaries per person employed nevertheless remained very strong in all the countries, far exceeding the rise recorded in the United States. It will be seen that the cumulative increase over the last three years reached 80% in Italy, 77% in the United Kingdom, 71% in Ireland, 67% in Denmark, 58½% in Belgium, 57% in France, 52½% in the Netherlands and

35% in the Federal Republic of Germany. In the United States it was 24½%.

This large increase over the last three years has not enabled the countries with the lowest per capita income to catch up with the highest levels in the Community. On the contrary, after conversion of wages and salaries per person employed into dollars for 1973 and 1975, the levels reached in Ireland, the United Kingdom and Italy, which were already among the lowest in 1973, fall even further short, in 1975, of pay levels in the best-paying Community countries. In the United States there was a distinct relative fall in the level of wages and salaries per person employed: in 1973 this was almost 40% above the highest levels in the Community, while by 1975 the gap had narrowed to some 10%.

The spurt in labour costs in the Community in 1975 was largely due to the sharp fall in productivity per person employed (cf. Table 2). Whereas in 1974 *gross value added per person employed* in industry still made some progress in all the Member States except the United Kingdom, it declined almost everywhere in 1975, the Federal Republic of Germany being the only Community country where an increase — and then only a very slight one — was recorded. The fall was sharpest in Italy (– 8.9%), but it was also appreciable in France (– 4%) and Belgium (– 3%). Admittedly, in these countries the decline in *gross value added* in industry was particularly severe, especially in Italy (– 9%); but the fall in employment was less pronounced in these countries than in the other Member States (– 0.3% in Italy, – 3% in France, whereas the reduction was – 7.5% in Denmark, – 7% in the Federal Republic of Germany and – 9% in the United States). Legal requirements curtailing redundancies go far to account for this. However, the spread in short-time working and the reduction in hours worked have not been taken into account in these calculations, and this reduces the significance of the above figures.

In all the Community countries, company profits have been falling since 1970, since the rise in the implicit price index has been less rapid than that in the index of labour costs per unit of gross value added. This tendency became more marked in 1975, although the upward movement in the price index was particularly vigorous in that year (24% in the United Kingdom, 19.6% in Italy, 18% in Ireland, 13.3% in Belgium, 12% in France, 7.5% in Denmark, 6.5% in the Netherlands and 6% in the Federal Republic of Germany). In the United States, the increase in prices (9% in 1975) slightly exceeded the increase in unit labour costs, as it had in 1974.

Differences in the rate of increase of unit labour costs may be regarded as an indicator of changes in the degree of competitiveness of the economies on world markets.

¹ See notes on methods in the last part of this Annex.

TABLE 1
Labour costs in industry per unit of gross value added at constant prices
(Including construction)

Country	% change on preceding year							1973-1975 Cumulative change in dollars ¹
	In national currency			In dollars ¹			1975	
	1973	1974	1975	1973	1974	1975		
	Average annual change 1963-1972	1973	1974	1975	1973	1974	1975	1973-1975 Cumulative change in national currency
Denmark	5.5	12.2	18.9	19.0	29.5	18.0	26.3	59
FR of Germany	3.6	7.3	9.0	6.5	28.0	12.5	11.8	24½
France	4.1	9.5	16.1	21.5	24.0	7.7	36.2	54½
Ireland	6.6	6.1	14.0	29.0	3.9	9.0	22.2	56½
Italy	4.8	12.8	19.9	32.5	12.9	7.4	31.8	79
Netherlands	4.1	9.0	12.3	15.0	25.2	16.8	22.5	41
Belgium	2.4	6.5	14.9	21.5	20.2	15.0	28.9	49
United Kingdom	4.6	8.5	20.9	33.0	6.3	15.5	25.9	74½
United States	2.8	3.1	7.9	8.8	3.1	7.9	8.8	21

¹ Calculated on the basis of figures in national currencies adjusted for exchange rate variations in relation to the dollar.

TABLE 2

Wages and salaries per person employed, gross value added per person employed, persons in paid employment in industry

(% annual change)

Country	Wages and salaries per person employed				Gross value added per person employed				Persons in paid employment			
	(Including construction) 1											
	Average annual change 1963-1972	1973	1974	1975	Average annual change 1963-1972	1973	1974	1975	Average annual change 1963-1972	1973	1974	1975
Denmark	11.0	16.1	21.5	18.5	5.2	3.6	2.1	-0.8	0.8	-0.8	-2.6	-7.5
FR of Germany	9.1	13.2	11.4	7.0	5.3	5.4	2.3	0.5	0	0.1	-3.5	-7
France	10.0	13.3	18.9	16.5	5.7	3.4	2.4	-4	0.7	1.5	1.0	-3
Ireland	11.2	16.2	15.0	28.5	4.2	9.5	0.8	-0.5	1.3	1.9	1.9	-5.5
Italy	9.9	21.4	22.9	20.7	4.9	7.6	2.6	-8.9	0.3	0.4	1.7	-0.3
Netherlands	13.0	15.9	16.0	13.5	8.2	6.2	3.3	-1.5	-0.8	-1.4	-2	-4
Belgium	8.8	13.5	18.3	18.0	6.2	6.6	2.9	-3	-0.1	0.4	1.1	-4.8
United Kingdom	8.9	15.3	17.0	31.5	4.1	6.3	-3.3	-1	-1.1	1.1	0	-3.5
United States	5.7	6.5	7.6	8.8	2.8	3.3	-0.3	0	1.5	5.5	0	-9

1 Calculated on the basis of figures in national currencies

However, any undue increase in labour costs may be partly offset by currency depreciation in a system of floating exchange rates or by devaluation in a system of fixed exchange rates. If the results of the calculation made in national currencies are adjusted for changes in exchange rates (conversion into dollars), it is clear that this was often the case before 1975. However, in 1975 (cf. Table 1), despite the extent of the depreciation of sterling, the increase in labour costs expressed in dollars was much faster in Ireland and the United Kingdom than in previous years. The acceleration in Italy was even stronger, since the results of the calculation in national currency were only slightly altered by the adjustment for

exchange rate changes. For the first time, the upward movement of labour costs in the Federal Republic of Germany was only slightly aggravated by the appreciation of the mark and remained distinctly less pronounced than in the other Community countries. But as the impact of exchange rates changes in 1975 greatly added to the increase in unit labour costs in France and Belgium, the competitive position of these countries in relation to the Federal Republic of Germany sharply deteriorated. Lastly, in the United States, where the rise had already been more moderate than in the Community countries until 1974, the trend diverged even further in 1975 from that observed in the nine countries.

Notes on methods

The *definitions and methods of calculation* used in this survey are as follows:

Gross income from employment is defined as wages, salaries and social insurance contributions. For Belgium, however, separate figures corresponding to this definition are still not available for income from employment by economic sector; in this case, therefore, the index given by the Banque nationale de Belgique for average gross hourly earnings has been used, corrected in aggregate by the index of hours worked.

In Denmark, Ireland and the United Kingdom, no market-price figures are published for gross value added at constant prices, broken down by economic sector; for these countries, therefore, factor-cost data have been used. The same is true for Italy up to and including 1969; in the years that follow a series calculated in market prices at constant prices according to the ESA system of national accounts has been used. For the calculation of gross value added at constant prices, 1970 has been chosen as the base year. It would have been more appropriate to use the trend of gross incomes and gross value added at constant prices per hour worked, but this could not be done because the statistics on the number of hours worked in the Community countries are incomplete. Consequently, these two items could only be calculated per employee.

Labour costs per unit of gross value added at constant prices were calculated by dividing the index of the wage bill by the index of gross value added at constant prices. These figures can also be obtained by dividing the wage bill per person employed by gross value added per person employed.

As in previous years, the survey gives figures for the trend in *labour costs adjusted for changes in exchange rates*. Until 1971, the calculation was made on the basis of parities declared to the International Monetary Fund. Since 1971 the data have been converted into dollars using market rates.

The *implicit price index* is obtained by dividing gross value added at current prices by gross value added at constant prices.

The figures relating to 1975 are based wholly or partly on estimates.

The following should be said about the *significance of the series* used:

As far as possible the statistical data have been taken from national accounts, in order to ensure a sufficient degree of international comparability. In this connection, however, it should be remembered that only the trends in the indices are internationally comparable.

Use of the national accounts means that only annual figures can be used. Changes in the course of the year are only partly reflected in the annual figures concerned, and they also affect the results for the following year. This makes it more difficult to judge short-term trends in particular.

With regard to the figures for the number of wage and salary earners in industry, it was necessary in the case of Denmark to make estimates by linear interpolation between the results of surveys carried out in 1960, 1965, 1967 and 1969; for all the following years it was possible to use the results of surveys which have been effected annually since 1969. In the case of Ireland, the results of annual surveys on salaried employment by sector have also been used.

The concept of *value added* differs from that of industrial production as generally applied in calculating monthly indices of industrial production.

This difference between value added and industrial production (as used for production indices) appears most clearly in the *implicit price index for gross value added*. In this index, two essential factors affecting actual market prices are not taken into account, namely, firm-to-firm

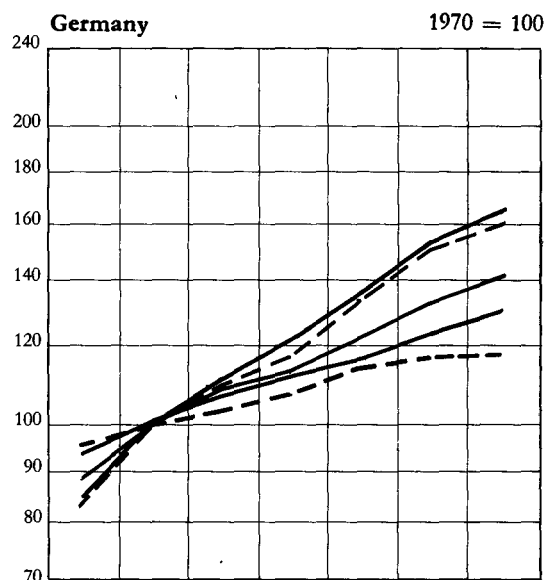
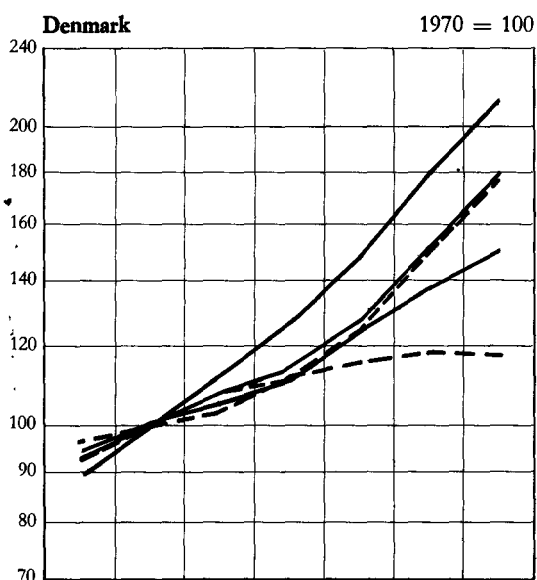
supplies within industry and supplies from other sectors, including abroad. The trend of the implicit price index therefore differs from the trend of market prices; the extent varies from country to country, since the proportion of value added in industrial output also varies.

Gross income from employment in industry does not include all wages contained in the market prices, i.e. it

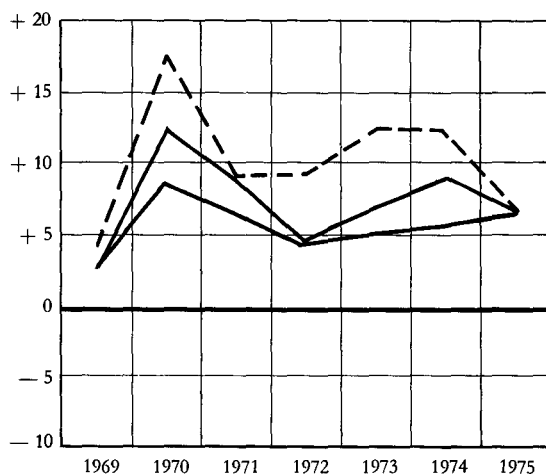
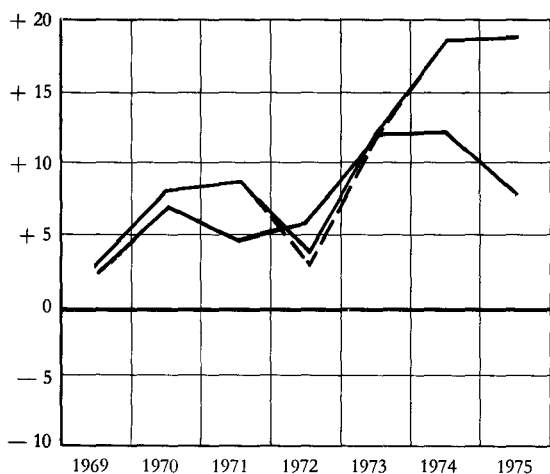
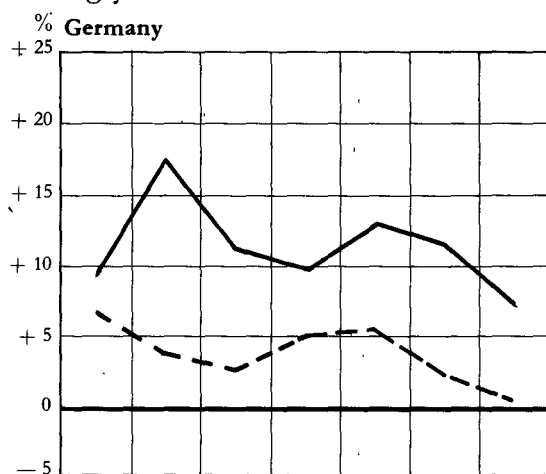
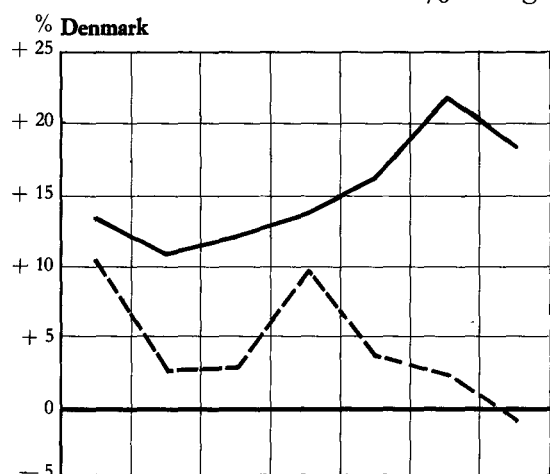
excludes wages paid in respect of goods and services supplied to industry by other domestic sectors.

These remarks show that the series which follow must be used cautiously. They are not internationally comparable as they stand, and their development in time is different from that of series the data of which are based not on value added but on gross production.

LABOUR COSTS IN INDUSTRY

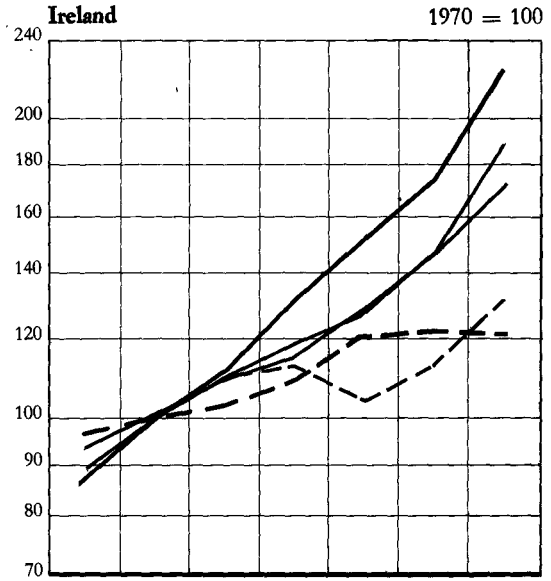
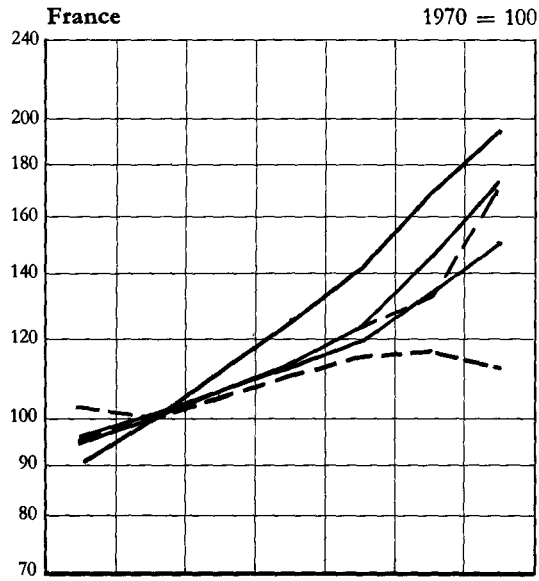


% change on preceding year

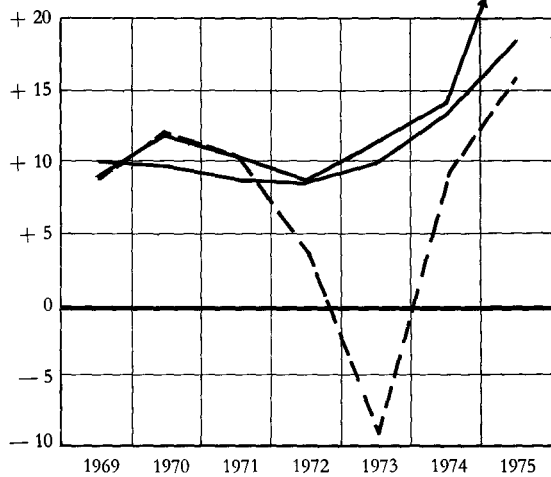
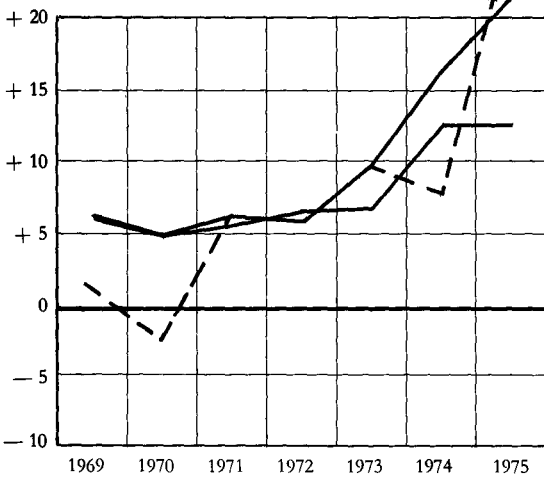
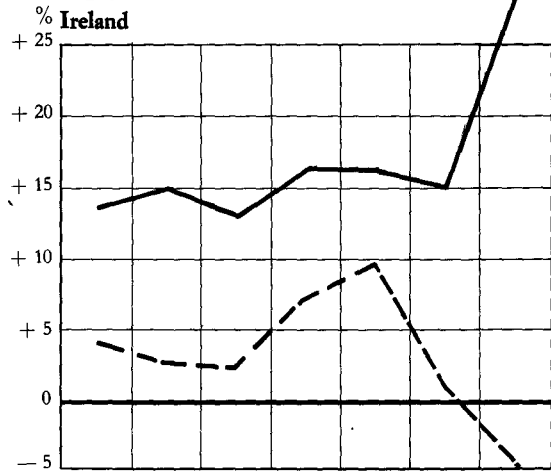
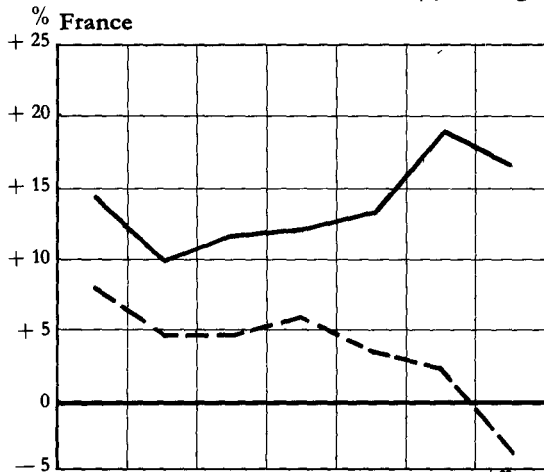


- Income from employment per head*
- Gross value added (at constant prices) per employee*
- Labour costs per unit of gross value added (at constant prices)*
- Labour costs per unit of gross value added (at constant prices) corrected to account for changes in official exchange rates*
- Implicit price index of gross value added*

LABOUR COSTS IN INDUSTRY

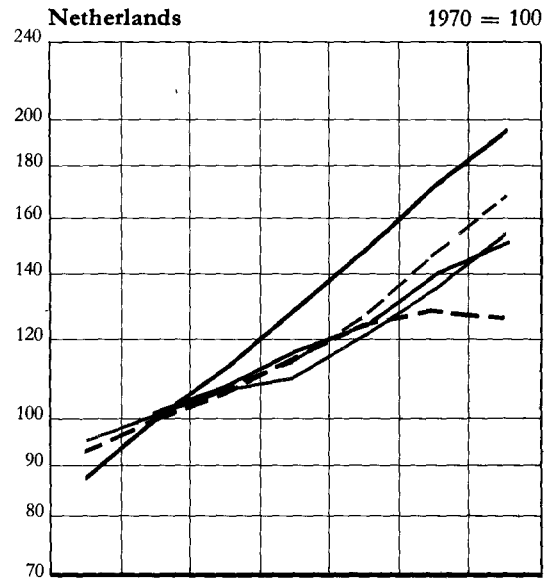
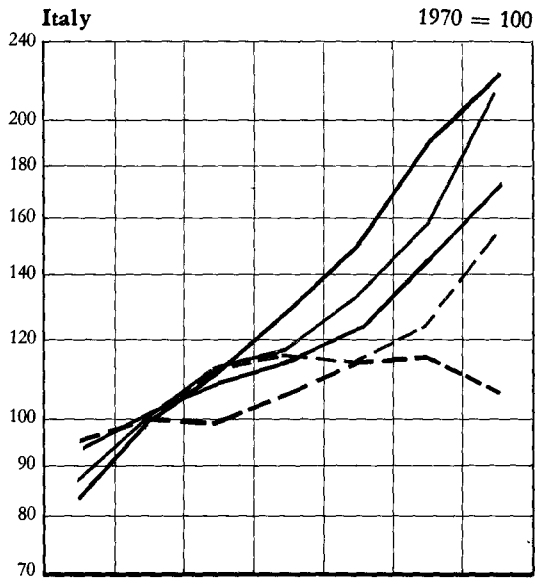


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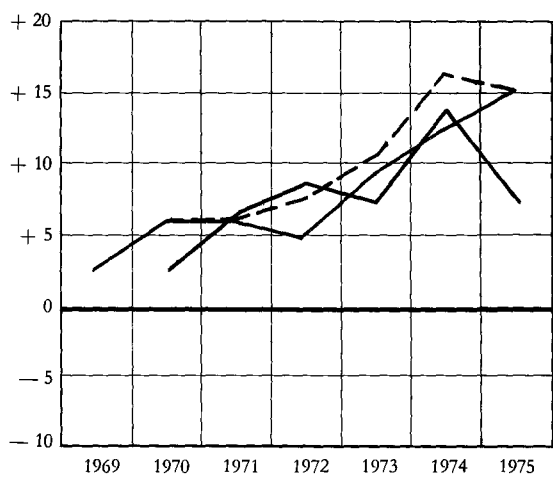
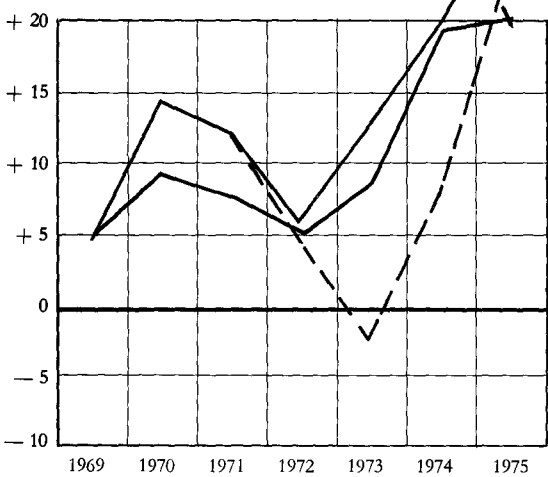
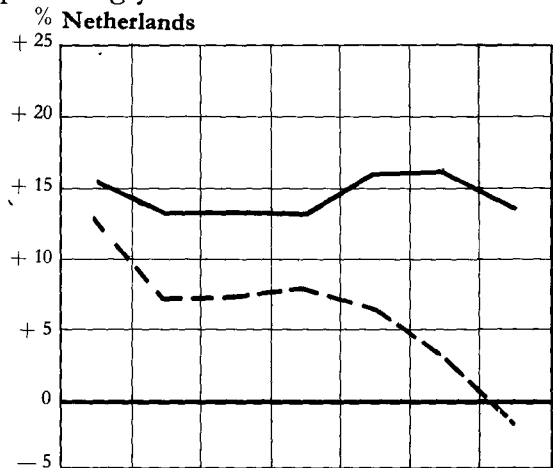
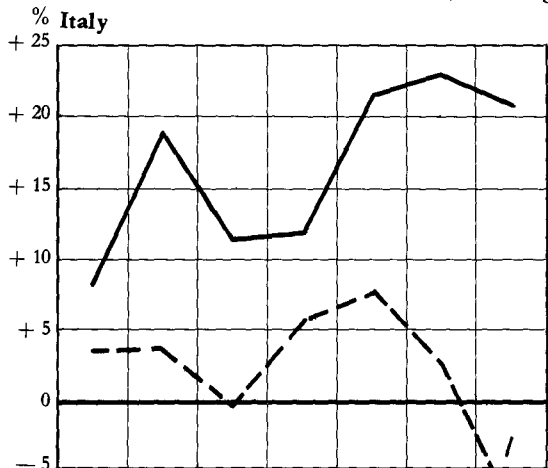


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- *Labour costs per unit of gross value added (at constant prices)*
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- *Implicit price index of gross value added*

LABOUR COSTS IN INDUSTRY

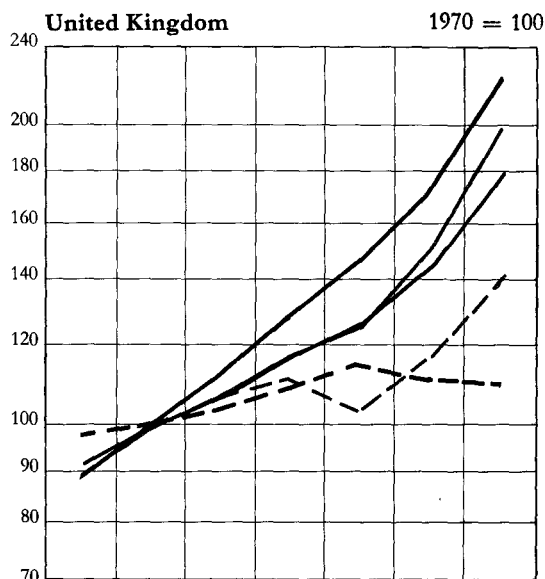
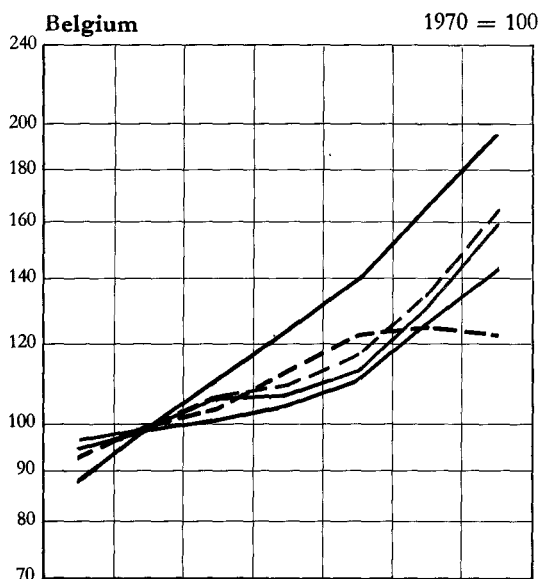


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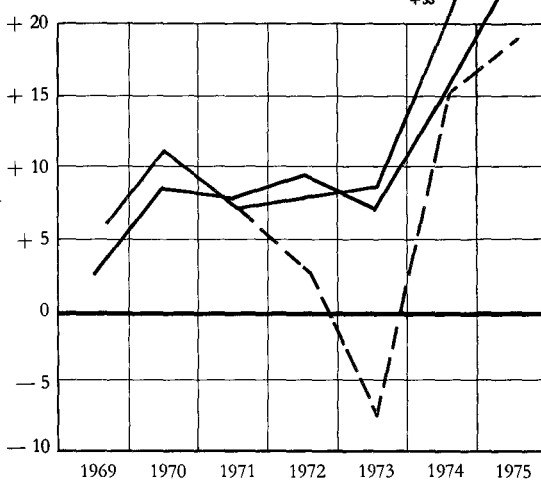
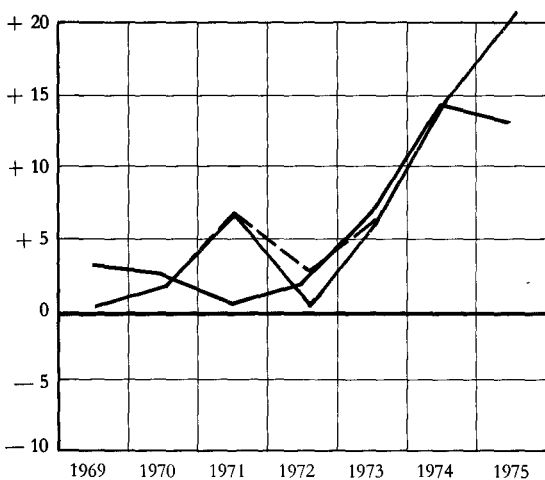
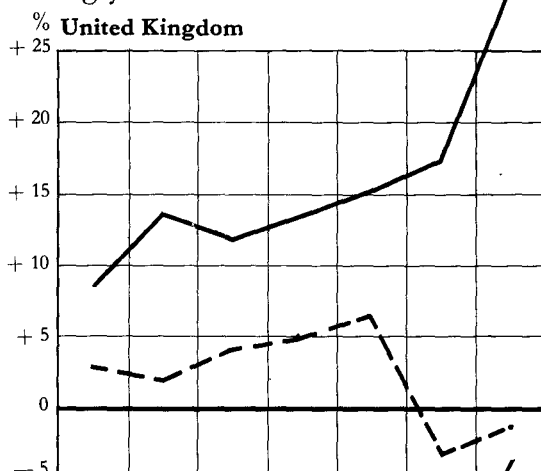
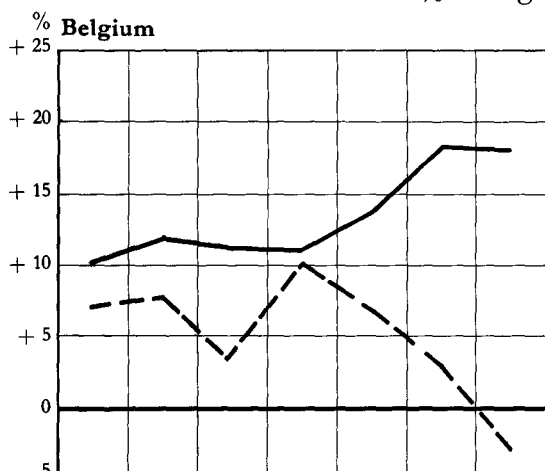


- *Income from employment per head*
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LABOUR COSTS IN INDUSTRY

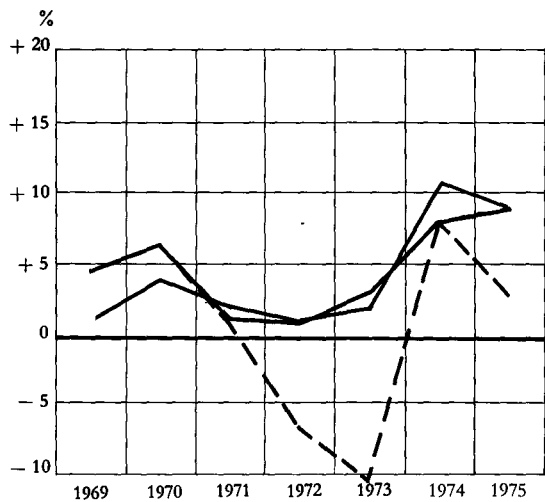
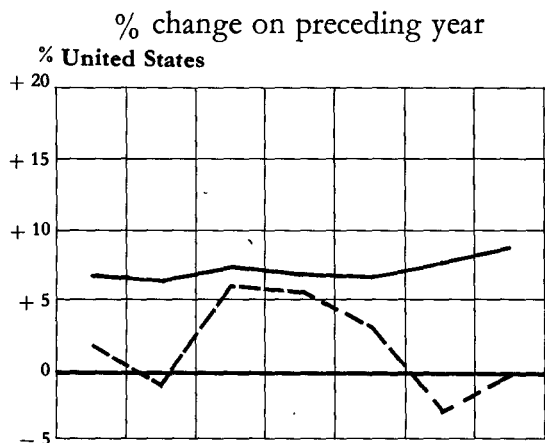
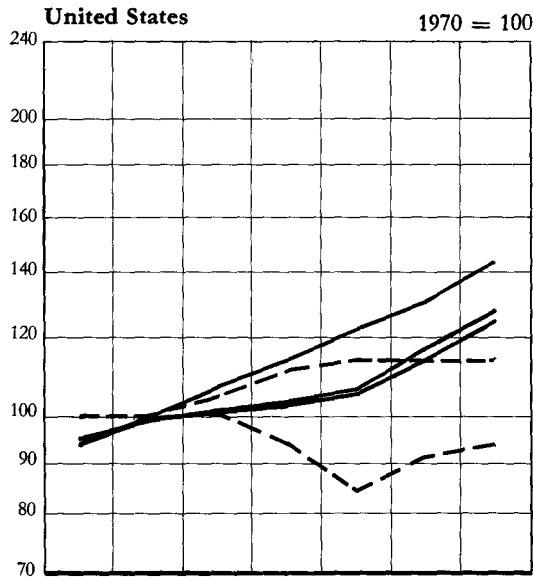


% change on preceding year



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LABOUR COSTS IN INDUSTRY



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