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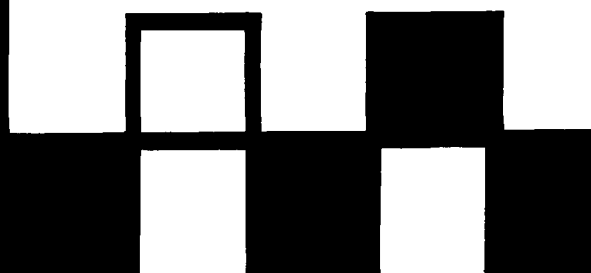
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**Directorate-
General
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Affairs**

**The economic situation
in the Community**

2

1971



Quarterly survey

**Commission of the European Communities
Directorate-General for Economic and Financial Affairs
Directorate for National Economies and Economic Trends
Rue de la Loi 200, 1040 Brussels**

EUROPEAN COMMUNITIES

COMMISSION

**The Economic Situation
in the Community**

JUNE 1971

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I. THE OVERALL SITUATION

While economic activity in the Community has received little stimulus from abroad in recent months, buoyant domestic demand, especially private consumption, has allowed a faster rate of production growth. The labour market has eased little in most member countries.

Cost pressures have remained strong and have led increasingly to price increases both at the producer level and in the cost of living.

The trade balance of the Community has been on a mildly deteriorating trend. On the other hand, Central Bank gold and currency reserves have risen unusually quickly as a result of large, mainly speculative, capital inflows. These have contributed to a marked increase in domestic liquidity.

In the coming months domestic demand in the Community, and in particular private consumption expenditure, is likely to continue its strong expansion and to underpin production growth. Even though pressures inherent in the business trend are unlikely to be increased as a result of this, it is to be feared that price and cost increases in all countries of the Community will exceed significantly the guidelines contained in the third medium-term economic policy programme.

A. Short-term economic policy

Taking account of both the current economic situation in the Community as analysed in the following sections, and of economic prospects, and taking into account notably the continuing strong inflationary tendencies and special problems resulting from the floating of the currencies of some member countries, the Commission of the European Communities submitted to the Council on 2 June 1971 a memorandum on the guidelines for short-term economic policy, which communicates essential features of economic budgets and quantitative guidelines for public budgets in 1972. The Commission has in this document developed the following guidelines for short-term economic policy in the Community:

1. It is necessary to pursue a policy which makes it possible to continue the realisation of the economic and monetary union as defined in the Council decision of 22 March 1971, and to abrogate as soon as possible the emergency exchange parity measures which were taken by Germany and the Netherlands in May as a means of combating speculation.

2. Moderation of cost and price pressures must be the main aim for all countries of the Community. While, in fact, prospects for growth and employment seem in general to be satisfactory, present forecasts show that the rate of price increase in the Community remains a cause for anxiety (5% in 1971, 4.5% in 1972). In these circumstances the guidelines adopted in the third medium-term economic policy programme can only be realised with an unusually marked reduction of the rate of price increase and, therefore, of economic activity from 1973 onwards. It is true that, since price developments expected for 1972 show no significant differences from one country to another, no distortions are to be feared within the Community. If present trends continue, however, the Community would clearly move away from its declared objectives of growth and stability. Determined measures are, therefore, necessary at an early stage if the objectives set for the period 1971-1975 are to be attained to the greatest possible extent.

3. The return to balanced growth depends on the fiscal, monetary and market regulation policies pursued by the public authorities and the behaviour of workers and employers with respect to the development of prices and incomes.

In order to restore stability without too great risks for growth and employment, official policies and behaviour of the two sides of industry should develop in such a way that, from now until the end of 1972,

- (i) the price rise can be reduced progressively to an annual average rate of 3 to 3.5%, so that it does not much exceed the upper limit of the range foreseen in the third medium-term economic policy programme,
- (ii) the growth of incomes does not exceed an annual rate of 6 to 7%.

4. The required management of domestic demand implies that money and credit policies must be more restrictive than until present, as soon as appropriate measures against the too large inflow of short-term capital have increased the effectiveness of control of domestic liquidity in the Member States.

In the field of public finances the Member States must make an effort so that, according to country, they achieve either a balance in the overall budget or at least a reduction of the deficit. In any case, the budget should be so managed that an increase in inflationary pressures is avoided.

For 1972 the rule for budget policy should be, according to the country concerned, either a balanced budget or extra efforts to put public finances on a sound footing. To this end, growth of public expenditure should in no country exceed the expected increase in nominal gross national product.

Should it appear necessary to carry out new programmes of infrastructure investment or action of a social nature, these must be made conditional either on a reduction in expenditures of lower priority, or on financing by an

increase in income. Even in the latter case, however, the increase in expenditure should exceed the increase in nominal gross national product only to a limited extent, so that it remains consistent with the restoration of basic equilibria. Moreover, a reduction in the financial deficit should make possible a limitation of resort to the capital market. Furthermore, creation of liquidity through public financing operations, which would run counter to the desired direction of money and credit policy, is to be avoided.

As far as Italy is concerned, taking account of the current economic situation in that country, these guidelines should be applied only when economic activity has returned to its

normal course and utilisation of production capacities has returned to a satisfactory level.

5. It is appropriate to carry out at an accelerated pace all measures conducive to an increase in productive capacity and to assure a better distribution of productive resources. It would be relevant, in particular, to improve vocational training and the mobility of labour, to intensify competition and to relocate investments towards regions with labour reserves.

At its meeting of 15 June 1971 the Council of the European Communities endorsed the general conclusions of the Memorandum of 2 June 1971, with the German delegation making some reservations about point 1.

B. Recent developments

1. The world economy

In the first few months of 1971, the exchange of goods and services with non-member countries had a moderating impact on the economic activity of the Community. Short-term capital operations with third countries, however, had strong expansive effects on domestic liquidity.

The exports of the Community to non-member countries increased only slightly in value between the fourth quarter of 1970 and the first quarter of 1971. Given the increase in export prices, the volume of exports actually stagnated.

The slowing down in the growth of exports of the Community is the more striking since the world economy, which had been developing very weakly in the second half of 1970, had already shown signs of recovery.

Economic activity in the United States increased significantly; the real national product rose in the first quarter of 1971 by 1.8%, after a 1% fall in the second half of 1970. Even though a catch-up on production losses following the strike in the motor car industry contributed significantly to this change in trend, it remains clear that the American economy is at the beginning of a new period of expansion.

The strong development of residential construction, the increase in purchases by State and local authorities and the recovery in retail trade turnover point to a gradual spread of expansive forces in the economy.

Apart from the growth of production in the motor car industry, the acceleration of economic activity has been most marked in the services sector. Industrial activity has risen only moderately in the first four months of this year. The index of industrial production (seasonably adjusted) rose by 1.8% in the first five months, and in May was still 1% below its level for the corresponding period of the previous year. At the same time employment in industry fell further. The

unemployment ratio remained, therefore, at a high level (about 6%).

The price climate has improved significantly. The index of consumer prices increased by only 0.9% in the first four months of 1971, against 2.1% in the corresponding period of the previous year. The rapid growth of wages has continued; but as a result of substantial productivity increases, unit wage costs grew more slowly in the first quarter, so that the profit situation of enterprises improved substantially.

The overall balance of payments registered in the first quarter a record deficit of \$5 000 million (on a basis of official settlements), against \$3 200 million in the final quarter of 1970. An important determinant of this marked deterioration was the fact that American banks continued to pay back credits which they had earlier taken up with subsidiaries in European countries.

In the United Kingdom the economy is again going through a phase of weak development, resulting on the one hand from the stagnation of real domestic demand and on the other hand from a reduction in the volume of exports. This development is characterised by the reduction of industrial production of 1.2% between the final quarter of 1970 and the first quarter of 1971. This resulted in part from long strikes in certain sectors. In April production rose 2.2%, but still lay 1.1% below the level at the corresponding period of the previous year. The sharp increase in wage costs has caused enterprises to increase their selling prices substantially and to reduce employment. This process is reflected in a faster rate of increase of consumer prices. From January to April they rose by 5%, and in the latter month exceeded the April 1970 level by 9.4%. Unemployment rose further and, in May, on a seasonally adjusted basis affected 3.2% of the labour force.

As a result of the marked increase in imports, the trade balance for the first quarter of 1971 showed a deficit of £78 million, against a

Visible exports to non-member countries

(Values and % changes on preceding year)

	1970						1971
	million u.a. ¹	Full year	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
All non-member countries	45 198	+ 15	+ 16.5	+ 15	+ 15	+ 15	+ 14
of which :							
Industrialized countries ²	29 836	+ 16.5	+ 20	+ 15.5	+ 16.5	+ 15.5	.
including :							
United States	6 633	+ 11.5	+ 22.5	— 1.5	+ 10	+ 17	.
EFTA	14 884	+ 16.5	+ 18	+ 20.5	+ 14	+ 11.5	.
United Kingdom	3 667	+ 9	+ 4.5	+ 10	+ 6	+ 14	.
Developing countries ³	11 546	+ 13	+ 8.5	+ 15.5	+ 12	+ 16	.
including :							
Associated overseas countries and territories	3 253	+ 18.5	+ 10.5	+ 16.5	+ 28	+ 21	.
Other countries ⁴	3 817	+ 12	+ 18	+ 12.5	+ 12	+ 6.5	.

Source : Statistical Office of the European Communities (S.O.E.C.).

¹ 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US\$1 at the official exchange rate.

² Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

³ Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

⁴ Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC and other exports.

surplus of £54 million in the final quarter of 1970 (seasonally adjusted figures). This deterioration occurred in spite of a substantial improvement in the terms of trade, resulting from strong increase in export prices—12% at an annual rate between the final quarter of 1970 and the first quarter of 1971. In volume exports have stagnated since the summer of 1970.

Economic activity slowed down in the Scandinavian countries. In other important industrial countries, as in Switzerland and Austria, the rate of growth fell back. In Japan, on the other hand, there has been a

slight revival of industrial production, which had stagnated since mid-1970.

2. Economic trends in the Community

(a) Domestic demand

Overall domestic demand remained strong. Its growth in almost all countries of the Community accelerated in comparison to the second half of 1970. In Italy, on the other hand, the trend continued weak.

Industrial production in the Community¹

(% changes on preceding year)²

	1969	1970	1969		1970				1971
			3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
Community	+ 11.9	+ 6.3	+ 9.6	+ 6.4	+ 9.3	+ 6.2	+ 4.8	+ 4.8	+ 3 ³
of which :									
Germany	+ 14.1	+ 5.7	+ 12.0	+ 11.6	+ 8.3	+ 8.1	+ 5.6	+ 13.0	+ 3.2
France	+ 14.1	+ 5.6	+ 9.0	+ 4.5	+ 8.5	+ 4.7	+ 4.1	+ 4.5	+ 3.1
Italy	+ 2.1	+ 6.7	+ 1.2	— 8.3	+ 5.6	+ 1.5	+ 4.1	+ 16.6	— 2.1
Netherlands	+ 12.9	+ 10.5	+ 13.6	+ 13.2	+ 14.9	+ 10.7	+ 9.5	+ 7.3	+ 8.1
Belgium	+ 10.6	+ 5.5	+ 9.0	+ 10.0	+ 4.2	+ 7.9	+ 4.2	+ 5.7	—
Luxembourg	+ 13.5	+ 0.4	+ 11.1	+ 11.1	+ 6.6	+ 5.1	— 1.7	— 9.0	— 8.0

¹ Excluding construction and food, beverages and tobacco.

² Calculated on the basis of the unadjusted indices of the S.O.E.C.

³ Estimates.

The expansion of gross fixed investment remained substantial, although it had lost some impetus in the course of 1970. As a result of the unusually favourable climatic conditions of last winter, it was even possible to accelerate the execution of construction investment.

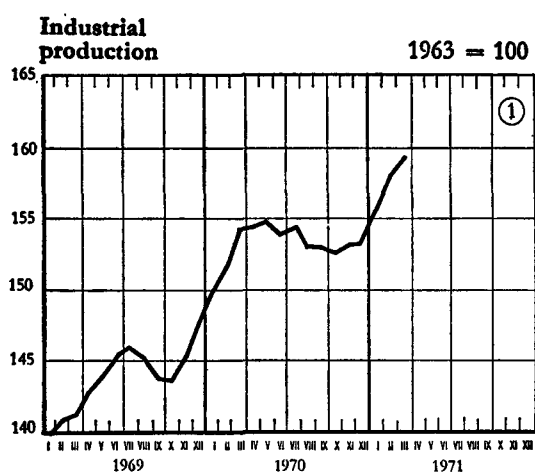
During the early months of the year and in connection with the recovery of world prices for certain raw materials, reduction in stock levels, which had resulted from slowing down in industrial production in 1970, came to a halt, notably in the case of raw materials and semi-manufactures.

Although the accelerating increase in consumer prices had a significant braking impact on the increase in the standard of living, growth of private consumption expenditure continued to provide the most important impulse for expansion in the economy. In-

comes of households rose strongly in the first quarter of 1971 as a result of the continued high wage increases. Moreover, the savings ratio of households in certain countries of the Community, notably in France, was rather weak. In most countries of the Community, then, retail sales, especially those of durable goods, have increased rapidly.

(b) Production and employment

In the course of the first quarter of 1971, economic activity has increased at an accelerating rate in most countries of the Community. The seasonally adjusted index of industrial production in the Community, which had fallen back in the second quarter of 1970, and had stagnated in the third quarter, increased in the fourth quarter by 2.5% and in the first quarter of 1971 by more than 3%. This acceleration resulted in part from the unusually favourable weather conditions.



The strengthening of the expansion was most marked in Germany, France and Holland, while there was a clear revival in Luxembourg. The expiration of the temporary suspension of degressive depreciation allowances and the recent reduction of the investment tax resulted in Germany in a stronger development of the order inflow for plant and machinery; the run-down of raw material and semi-finished goods stocks was carried no further. Private consumption remained on a clearly expansive trend. In France, too, private consumption was an important factor in the expansion. In this case its effect was strengthened by a strongly accelerated increase in public expenditure.

Visible imports from non-member countries

(Values and % changes on preceding year)

	1970						1971
	Million u.a. ¹	Full year	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
All non-member countries	45 621	+ 16	+ 17.5	+ 17.5	+ 16	+ 14.5	+ 12.5
of which :							
Industrialized countries ²	26 411	+ 18.5	+ 23.5	+ 19.5	+ 17	+ 15.5	.
including :							
United States	9 038	+ 23	+ 41	+ 19.5	+ 17	+ 20	.
EFTA	10 715	+ 13	+ 11	+ 16	+ 15	+ 10	.
United Kingdom	4 009	+ 11.5	+ 11.5	+ 17.5	+ 9	+ 9.5	.
Developing countries ³	16 105	+ 13	+ 9.5	+ 14.5	+ 15	+ 14	.
including :							
Associated overseas countries and territories	3 517	+ 10	+ 15	+ 9	+ 13	+ 1.5	.
Latin America	3 591	+ 13.5	+ 7	+ 23	+ 17	+ 6.5	.
Other countries ⁴	3 105	+ 11.5	+ 15.5	+ 13.5	+ 9	+ 9.5	.

Source: Statistical Office of the European Communities (S.O.E.C.).

¹ 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US\$1 at the official exchange rate.

² Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

³ Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

⁴ Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC and other imports.

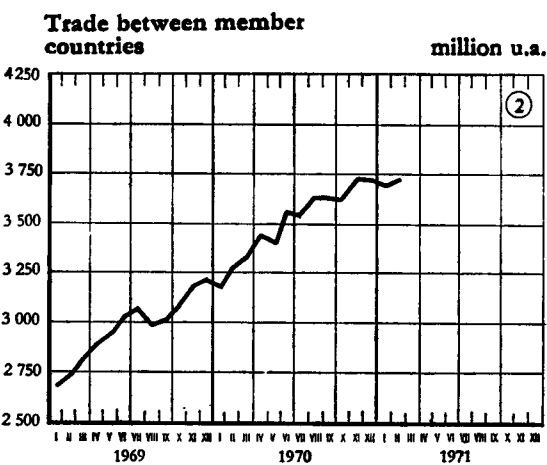
In the Benelux countries industrial production increased significantly; in all three countries this reflected mainly the development of domestic demand. In Luxembourg this revival was also helped by better conditions in export markets for steel products.

In Italy the expansion of industrial production, which had still been proceeding in the fourth quarter of 1970, did not continue into the first quarter of 1971; this must have resulted to a large extent from the disturbed social climate which had a significant influence on economic activity.

Overall pressures on the labour market in those countries, in which they were already very marked, have until now not been further aggravated as a result of the faster pace of expansion; in France they have produced a slight drop in unemployment.

Imports from third countries showed no significant reaction to the faster expansion of internal demand. Since imports increased more rapidly than exports, however, the trade balance of the Community deteriorated somewhat.

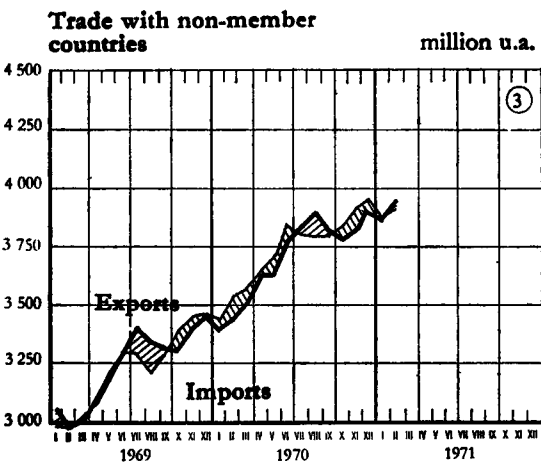
Intra-Community trade, which was tending to stagnate at the end of 1970, has revived since the beginning of 1971. On the other hand



Italy's purchases, measured by the value of imports, have shown a reduction since autumn last year, which is due to the weakening of

the economic activity in that country. Purchases by the Netherlands seem, even though in a less marked manner, to be following a similar course. On the other hand, imports from the Community by France, which had stagnated at the end of 1970, have revived since the beginning of 1971, reflecting the acceleration in growth of domestic demand, notably expenditure by private households. Expansive impulses on intra-Community trade date mainly from dynamic demand in Germany and, to a lesser extent, from the Belgo-Luxembourg Economic Union.

Most countries of the Community registered a surplus in the current balance of payments (Germany, Belgo-Luxembourg Economic Union, Italy). In France the current balance



was almost in balance, while the Netherlands registered a substantial deficit, which resulted from the still persisting marked imbalance between supply and demand.

(c) *Cost and price developments*

The rapid cost and price rise remains in all countries a reason for grave concern. Although imbalances between supply and demand have been reduced in most member countries, this has been reflected until now neither in the cost of living nor in wage costs. On the contrary, in the winter and in early spring, consumer prices rose in almost all member countries at an accelerating rate.

Prices for industrial products have risen especially quickly. This clearly characterises

Index of consumer prices¹

(changes in %)

	April 1970 August 1970	August 1970 December 1970	December 1970 April 1971	April 1970 April 1971
Germany	+ 0.4	+ 1.4	+ 2.9	+ 4.8
France	+ 1.4	+ 1.5	+ 2.1	+ 5.1
Italy	+ 1.0	+ 2.2	+ 1.5	+ 4.7
Netherlands	+ 1.7	+ 1.1	+ 4.5	+ 7.5
Belgium	+ 0.8	+ 0.6	+ 2.3	+ 3.7
Luxembourg	+ 0.8	+ 1.4	+ 2.4	+ 4.6

¹ National figures used as basis for this table are merely illustrative. For statistical reasons the way in which they reflect the evolution of the level of consumer prices is not uniform for all member countries.

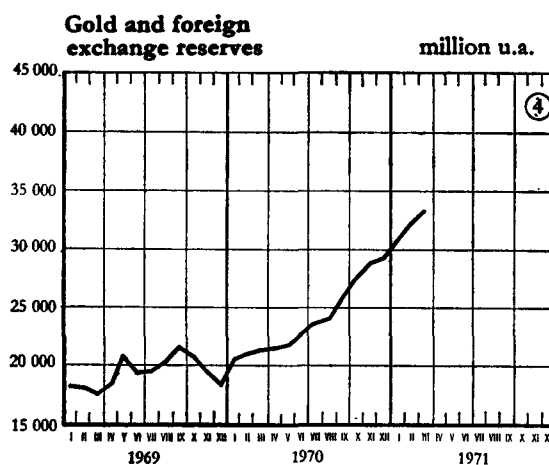
a particularly unfavourable price situation since in this sector prices generally react relatively quickly to a better balance between overall demand and supply.

While a variety of factors have contributed to this development, the price rise has taken, to an increasing extent, the form of cost inflation. With productivity increases slower, wage costs during the first quarter rose as quickly as at the end of 1970, i.e. at an annual rate of 12%.

It would be false, however, to examine cost and price developments separately from the potential and prospects for demand expansion. Since these remain in general favourable, the firm conviction has developed that economic activity and employment will remain at a high level; this leads to increased wage demands and enables enterprises to pass on cost increases in prices without needing seriously to fear a loss in competitiveness. Moreover, when expectations are such, wages and prices drive each other up, since the two sides of industry attempt to defend their share in national income or to increase it.

(d) *Money and capital markets*

It cannot be doubted that the great flexibility of the monetary framework has permitted the financing without which the process described above could not have been carried through.



In the final quarter of 1970 the volume of money in the Community as a whole increased by more than 10%; this percentage was much exceeded in Germany and in Italy. In the first quarter of 1971 there was indeed some slowing down, but this was to a large extent

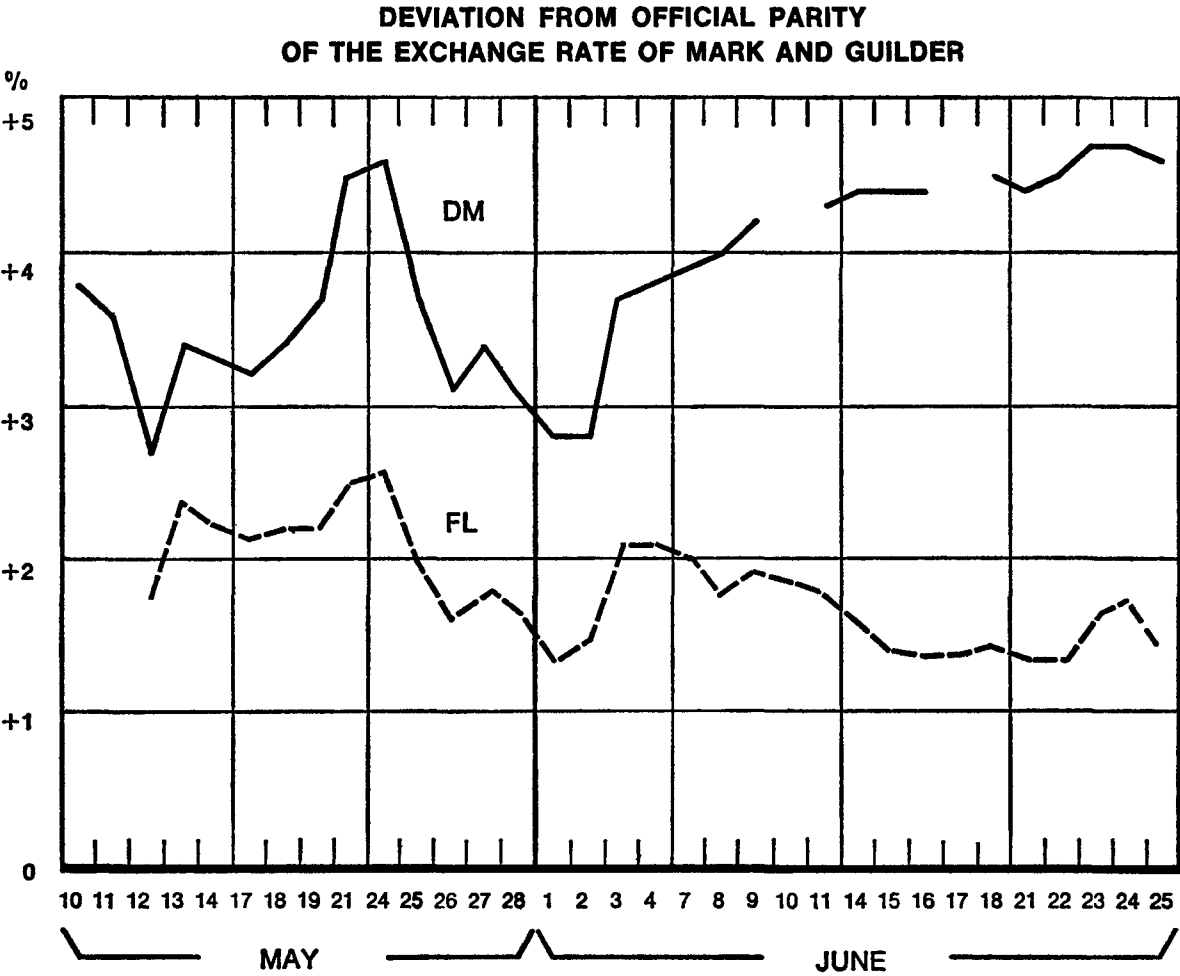
seasonal. In the member countries in which it was considered necessary to dampen the expansion in domestic demand further, the inflow of short-term capital nullified the effectiveness of credit policy. This was the case either because of the taking up of direct credits by enterprises abroad, or because of an increase in bank liquidity whose effects on the credit potential of the banks could not be sufficiently damped down by use of the classical instruments.

While the inflow of currency was for a period mainly determined by interest differentials, a speculative element became important at the end of April/beginning of May. Speculation on a Deutsche Mark revaluation resulted in an extraordinarily strong currency inflow into the Community. This consisted almost exclusively of Dollars. The greater part of this flow went to Germany. The Bundesbank had, on 4 May, to take up \$1 400 million

and in the first two hours of dealing on 5 May had to take up a further \$1 000 million. The German monetary authorities found themselves compelled from then on to close the exchange market. Within the Community the Benelux countries followed the German example.

On 8 and 9 May 1971, the measures to contain these speculative movements were discussed at a special meeting of the Council of the European Communities. These consultations led to a Council resolution the text of which is reproduced at the end of this chapter.

Following the Council meeting, Germany and the Netherlands, in accordance with the possibility foreseen in the Council resolution, temporarily suspended intervention at the limits for fluctuation of the Dollar which had been accepted till then; the Belgian monetary



authorities decided among other things, no longer to support the Dollar on the free currency market. For trade in agricultural products, the Council issued a regulation on 12 May 1971, according to which any Member State whose exchange rate lies more than 2.5% above parity for a certain period, can levy a compensatory amount on the import of certain agricultural products from member countries and also from third countries.

The movements in the exchange rate of the Dutch Guilder and the Deutsche Mark, which took place in the following weeks, were mainly determined by forces in the free mar-

ket. It was only in June that the Bundesbank began again to offer Dollars on the market.

The development of interest rates on the Eurodollar market shows that even immediately after the freeing of the Deutsche Mark and Guilder exchange rates there was still a strong preference for holding Deutsche Marks, rather than Dollars. The interest rates for Eurodollars, which had risen strongly before and during the closure of the exchange markets, reaching 7.5% for three-month money, fell back only little by mid-May (three-month-money to 7%) and rose again towards the end of the month and at the beginning of June.

Demand for and supply of goods and services

	1968 ¹	1969 ^{2 5}		1970 ^{3 6}		1971 ^{4 6}	
	At current prices in '000 million u.a. ⁷	% change on preceding year					
		Volume	Value	Volume	Value	Volume	Value
Gross fixed asset formation	89.2	+ 9.6	+ 15.8	+ 8	+ 18	+ 4	+ 9½
Public current expenditure on goods and services	54.4	+ 3.9	+ 11.0	+ 3½	+ 11	+ 4	+ 13
Private consumers' expenditure	229.0	+ 7.0	+ 11.4	+ 6½	+ 11	+ 5	+ 0
Gross Community product	384.6	+ 7.3	+ 12.4	+ 5½	+ 12	+ 4	+ 9½
Balance exports less imports (in '000 million units of account) ⁷	+ 7.1		+ 5.3		+ 4.2		+ 3.6

¹ Statistical Office of the European Communities (S.O.E.C.), National Accounts 1959-1969, 1970 Edition.

² Actual results.

³ Estimates.

⁴ Forecasts.

⁵ Community totals of the aggregates of the individual member countries at official exchange rates of 1963.

⁶ Community totals of the aggregates of the individual member countries at official exchange rates of 1970.

⁷ 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US\$1 at the official exchange rate.

Note :

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

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

It was not until the beginning of June¹ that Dollars began to leave Germany again; by 23 June, the outflow reached the equivalent of some DM6 000 million. On the other hand, the United States, at the end of May, absorbed \$500 million from the Eurodollar market through the sale of three-month promissory notes; at the same time it renewed earlier engagements of this kind. In several member countries, but especially in Germany, restrictive monetary and fiscal measures were taken in order to neutralize the effects of the excessive liquidity inflow from abroad. In Germany, the Federal Government and the Länder have blocked budget expenditures and the authorisation to enter into new commitments. Moreover, the payment of interest on bank deposits of non-residents and the purchase of domestic money-market paper

by foreigners and the pledging of domestic bonds with foreigners were made subject to authorisation. On 1 June, the Bundesbank increased minimum reserve requirements. In this way it absorbed DM5 000 million of bank liquidity. Rates on the German money market, which had for a time fallen to $\frac{1}{2}\%$, then rose sharply again. On 15 June, day-to-day money was traded at 6.75%.

In the Netherlands, where fluctuations in the exchange rate were weaker than in Germany, no special accompanying monetary measures were taken. Certain commercial banks, however, ceased to pay interest on non-resident accounts. France also attempted to combat an excessive inflow of liquidity with restrictive monetary measures. On 13 May, the discount rate was increased from 6.5 to 6.75%. Moreover, with effect from 6 May, minimum reserve requirements were raised in each case by one percentage point.

¹ Closing date for the present report.

C. Economic outlook in the second half of 1971

1. Prospects for the world economy

The revival of the world economy could gradually gain strength in the second half of 1971. A decisive factor could be the consolidation of the upswing in the United States. Although the latest surveys show that investment activity of enterprises in that country is likely more or less to stagnate, the development of private consumption might strengthen. Moreover, expansive impulses are likely to emanate from the strong development of residential construction and from expenditure by the Federal State and local authorities.

Given the rapid cost and price increase and the large number of labour disputes, prospects for the United Kingdom are, on the other hand, particularly uncertain. It is, however, possible that economic activity could revive slightly if in the second half of the year production losses resulting from strikes drop back to a more normal level. The budget for the fiscal year 1970/71 is in any case intended to provide a stimulus to economic activity. Real private consumption could, then, in spite of the probably continuing strong price rise and high unemployment, again rise. This would result notably from the reduction in direct taxes and the increase in social security payments. On the other hand, with the strong pressure on the self-financing ratio of enterprises continuing, investments—with the exception of residential construction—are likely to increase only little. The revival of activity in the United States could influence exports favourably. This is on the condition that export prices, which have risen much more rapidly, especially in recent months, than in most other industrialized countries, have not already produced a reduction in the competitiveness of the United Kingdom. With a rapid increase in domestic demand linked to a strong increase in prices on domestic markets which favours imports, resort to foreign supply is likely to remain substantial.

In other industrialized countries economic activity is likely to show a variety of trends. In Canada and Japan it may tend to accelerate,

while in most EFTA countries the slowing down of the expansion will probably continue.

The again stronger world market prices for certain raw materials, above all price rises for oil, and the no longer weak trend of raw material purchases will have a favourable effect on the current balance of payments of developing countries and on their capacity to import.

If one considers finally that the continuing increase in Community imports in itself constitutes an important expansionary factor for the world economy, this should overall develop more favourably in the second half year than in the first.

The exports of the Community might, therefore, receive rather stronger impulses, especially if one considers that Switzerland and Austria have increased the exchange parities of their currencies. In any case the last named measures are likely, above all, to prove to the advantage of the tourist trade of some member countries.

2. Prospects in the Community

The actions on exchange rates taken by several countries of the Community were directed mainly against the speculative capital inflows which took place at the beginning of May and through which the scope for action in taking domestic stabilisation measures was substantially reduced.

An important element of uncertainty has been introduced into foreign trade through the abolition of the duty to intervene in currency markets by the monetary authorities in Germany and the Netherlands. The extent to which this will be reflected in the volume and value of foreign trade remains difficult to predict. If the exchange rate moves more strongly above parity than had been possible with the original band-width, the carrying-out of existing contracts in coming months could, as a result of the improvement in the terms of trade expressed in national currency, even produce a certain improvement in the current

balance of payments in Germany and the Netherlands. Those of other member countries would, then, probably deteriorate somewhat. Given the uncertainty about the future development of exchange rates, it is possible that importers, in circumstances of such a development of exchange rates, will not pass on possible price reductions for the time being. If one assumes that the abolition of the duty to intervene by central banks will only be of short duration, the effect on trade with non-member countries and on intra-Community trade will only be very limited and other macro-economic data will influence the flow of goods much more strongly.

For this reason the development of Community exports to non-member countries should, given better prospects for the world economy, show again a clear upward movement. The main characteristic of economic developments in the second half of the year will be again the strong expansion of private consumption and, in some member countries, also the buoyant expansion of business investment.

Disposable income of private households will, again, rise rapidly in all Member States. In some countries their savings ratio could also fall back, a development related, above all, to the strong price increase.

Fixed investment in industry

(% change on preceding year's value) *

	Actual outlay in 1969	Plans for 1970	Estimated outlay in 1970	Plans for 1971
Germany	+ 40	+ 17	+ 24	+ 3
France	+ 24	+ 21	+ 34	+ 18
Italy	+ 14	+ 42	+ 48	+ 38
Belgium	+ 35	—	+ 56	+ 7
Luxembourg	+ 108	+ 57	+ 59	+ 47

* Compiled from the results of the business investment survey carried out in the Community. The survey covers most branches of industry with the exception of mining and quarrying, food, beverages and tobacco, but generally excludes investment by public enterprises such as railways, postal services and electricity companies. The definitions of investment is that of the national accounts.

Conditions of equilibrium will remain fragile in all member countries. Because of strong cost pressure one can, in particular, hardly expect any marked reduction in the rate of price increase before the end of this year. The Community trade balance will probably tend to deteriorate. On the other hand there is reason to hope that the inflow of short-term capital from third countries will calm down or may even give way to a movement in the opposite direction.

Major economic policy measures

During its session of 8 and 9 May 1971, the Council adopted the following resolution:

(1) The Council of Ministers notes that the present situation and the balance of payments prospects of the Member States do not justify any change in their parities and records the determination of the Governments of the Member States to maintain these parities.

(2) Faced with excessive inflows of capital into certain countries of the Community, the Council, despite the incompatibility under normal conditions of a system of internal floating exchange rates with the smooth functioning of the Community, is prepared to envisage that in certain circumstances these countries may, for a limited period, widen the fluctuation margins of the exchange rates of their currencies in relation to their present parities.

(3) Such action will be supported by appropriate measures aimed at discouraging excessive inflows of capital and at neutralizing their repercussions on the internal monetary situation; the Council will discuss these measures before 1 July 1971.

(4) With a view to avoiding recourse to unilateral measures aimed at meeting any disturbances in trade

in agricultural products, the Council will forthwith adopt appropriate measures in accordance with Article 103 of the Treaty.

On 11 and 12 May the Council issued a regulation applicable to the agricultural sector. In conformity with this regulation a member country, which permits for its currency an exchange rate higher than the upper limit of the band of fluctuation fixed by the International Monetary Fund, is authorised to levy compensatory amounts on imports, according to the methods and with application to the products agreed by common accord. No compensatory amount can be levied, however, unless the difference between the parity declared to the International Monetary Fund and the effective current exchange rate of the currency compared to the United States Dollar does not exceed 2.5%.

Community

TABLE 1: Basic data 1969

	Communi- ty	Ger- many	France	Italy	Nether- lands	Bel- gium	Luxem- burg ¹
Total area ('000 sq. km.)	1 167.5	248.5	551.2	301.2	33.5	30.5	2.6
Total population ('000)	188 147	60 842	50 345	54 090	12 873	(9 646)	(339)
Density of population per sq. km.	161	245	91	176	384	(316)	(131)
Numbers in employment ('000)	74 196	26 822	19 967	18 871	4 625	3 772	(140.4)
Numbers in employment, break- down by main sector (%):							
Agriculture	13	9.5	15.0	21.3	7.4	5.1	(11.6)
Industry	44	48.2	40.6	42.7	40.2	42.5	(45.7)
Services	43	42.3	44.4	36.0	52.4	52.4	(42.7)
Share of gross domestic product (%):							
Agriculture	.	4.3	5.8	11.3	7.0	5.3	5.3 ¹
Industry	.	52.1	47.7	38.9	41.6	41.6	52.0 ¹
Services	.	43.6	46.5	49.8	51.4	53.1	42.7 ¹
In % of gross domestic product:							
Private consumers' expenditure	.	55.4	60.5	63.4	56.1	62.6	(55.4)
Public current expenditure on goods and services	.	15.6	12.3	13.4	15.7	14.2	(10.9)
Gross fixed asset formation	.	24.3	25.4	20.5	25.6	21.4	(25.5)
Total exports	.	23.5	14.5	20.5	45.1	41.7	78.6 ¹
Total imports	.	21.0	15.2	18.1	45.2	41.5	73.2 ¹

¹ 1968

TABLE 2: Key indicators

	% change by volume on preceding year					Volume indices (1963 = 100)
	1965	1966	1967	1968	1969	1969
Gross Community product	+ 4.9	+ 4.3	+ 3.2	+ 5.9	+ 7.1	136
Industrial production	+ 4.1	+ 5.0	+ 1.4	+ 8.8	+ 11.6	144
Visible imports	+ 5.0	+ 6.8	+ 0.6	+ 11.5	+ 16.0	156
Private customers' expenditure	+ 5.0	+ 4.7	+ 3.7	+ 4.9	+ 6.9	134
Gross fixed asset formation	+ 3.2	+ 4.5	+ 1.0	+ 7.1	+ 9.6	140
Visible exports	+ 11.0	+ 8.4	+ 7.7	+ 13.1	+ 6.9	171
Intra-Community visible trade	+ 12.2	+ 10.9	+ 6.1	+ 18.9	+ 22.6	218
Gross product per capita	+ 3.6	+ 3.4	+ 2.6	+ 5.3	+ 6.3	129

TABLE 3: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	137	142	146	150	151	152	135	115	146	150	158	154
	1970	149	156	160	160	163	158	142	118	155	160	165	160
	1971	156	161	162									
Imports from non-member countries (cif, million u.a.)	1969	3 175	2 793	3 105	3 233	3 321	3 376	3 259	2 858	3 365	3 637	3 407	3 636
	1970	3 664	3 397	3 608	3 959	3 735	4 000	3 780	3 376	3 812	3 892	4 099	4 280
	1971	3 676	3 913	4 405									
Exports to non-member countries (fob, million u.a.)	1969	2 886	2 745	3 261	3 306	3 295	3 296	3 584	2 801	3 225	3 729	3 425	3 658
	1970	3 285	3 349	3 742	3 828	3 589	3 949	3 984	3 322	3 703	4 099	3 853	4 432
	1971	3 550	3 830	4 471									
Balance of trade (million u.a.)	1969	- 289	- 48	+ 156	+ 23	- 26	- 80	+ 325	- 57	- 140	+ 92	+ 18	+ 22
	1970	- 379	- 48	+ 134	- 131	- 146	- 51	+ 204	- 54	- 109	+ 207	- 246	+ 152
	1971	- 126	- 83	+ 66									
Intra-Community trade (million u.a.)	1969	2 696	2 727	3 057	3 043	3 013	3 101	3 157	2 415	3 089	3 554	3 144	3 242
	1970	3 140	3 284	3 604	3 782	3 247	3 861	3 655	2 949	3 719	3 900	3 847	3 830
	1971	3 369	3 786	4 459									

NOTES TO GRAPHS AND TABLES

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

Germany: SOEC; Statistisches Bundesamt.

France: SOEC.

Italy: Relazione generale sulla situazione economica del Paese (1969).

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

Belgium: SOEC; Ministère de l'emploi et du travail;

Luxembourg: SOEC.

Conversion into units of account (1 u.a. = 0.888671 g of fine gold = US\$1) at the official exchange rates.

Graph 1

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

Graph 2

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

Graph 3

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

Graph 4

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

Community

Table 1

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

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

Breakdown by agriculture, industry and services at factor cost; for Luxembourg, 1967 figures.

Shares of the major aggregates in the gross domestic product at market prices.

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

Table 2

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

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

Exports (fob) to non-member countries, as shown by foreign trade statistics.

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

Table 3

See note to Table 2.

II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES

A. Germany

At the beginning of the summer, the main characteristics of the economic situation in Germany remained marked excess demand pressure and a deteriorating price climate. Since wages were continuing to increase at a rapid rate, cost pressures remained strong, and enterprises made full use of whatever scope still existed for price increases. On the labour market, however, some reduction of pressure became apparent.

1. The economic situation

The slackening of activity, which had begun in mid-1970, did not continue into the first few months of 1971.

The order inflow for investment goods again began to show a slight upward trend. This reflected the fact that it was possible to pass on cost increases in prices, and that enterprises were able to accumulate substantial liquidity through the inflow of funds from abroad. Moreover, improved tax incentives for the procurement of investment goods played a role. Exports have continued to rise significantly in the last few months. The main impulse to expansion has remained, however, private consumption, reflecting continuing rapid growth of disposable incomes.

Industrial production has increased at an accelerating pace. Year on year it rose by 3.8% in the first quarter of 1971 and by as much as 5.9% in the month of April. The labour market remained under pressure; the unemployment rate amounted, at the end of May 1971, to 0.7% of the labour force.

The continuing disequilibrium between internal supply and demand resulted in a marked expansion of imports, mainly those of investment and consumption goods.

Wage and salary increases have continued very high. In the first quarter, earnings per employed person showed an increase of some 14% on one year earlier. Cost pressure has

resulted in a substantial increase in the prices of industrial products. In May, the year on year price increase for these amounted to 5.2%. Consumer prices showed a 3.3% increase in May, compared with last December, and a 4.9% increase compared with one year earlier.

Even though the trade balance still showed a large surplus in the first four months of 1971 (DM4 700 million against DM4 100 million in the same period of 1970), the surplus on current account was very modest (DM81 million).

Growth of gold and currency reserves has been exceptionally large. Until early spring, this was due mainly to an unprecedented inflow of short-term capital resulting from a substantial interest rate differential against international markets. Subsequently, a strong wave of speculation aggravated this development.

2. Economic policy

The excessive inflow of currency led the German Government to decide on 9 May 1971, for a limited period, on a widening of the margins of fluctuation of the Deutsche Mark in relation to its parity.

At the same time, the Federal authorities took a series of fiscal measures intended to dampen domestic demand, in particular by limiting

Demand for and supply of goods and services

	1968 ¹	1969 ¹		1970 ¹		1971 ²	
	At current prices (in DM '000 million)	% change on preceding year					
		Volume ⁴	Value	Volume ⁴	Value	Volume ⁵	Value
Exports ³	123.8	+ 12.6	+ 14.5	+ 9.0	+ 11.9	+ 6½	+ 9
Gross fixed asset formation	124.8	+ 12.1	+ 17.2	+ 10.7	+ 23.1	+ 3	+ 9½
Public consumption	84.4	+ 4.2	+ 11.7	+ 2.9	+ 12.8	+ 4½	+ 13½
Private consumption	301.1	+ 8.0	+ 10.8	+ 7.3	+ 11.4	+ 5	+ 9½
Gross national product	538.9	+ 8.1	+ 11.9	+ 4.9	+ 12.6	+ 3½	+ 9½
Imports ³	106.2	+ 16.7	+ 19.4	+ 16.1	+ 15.9	+ 7½	+ 10

¹ Federal Statistical Office, "Wirtschaft und Statistik", No. 2/1971.

² Forecasts.

³ Goods, services and factor incomes.

⁴ At 1962 prices.

⁵ At preceding year's prices.

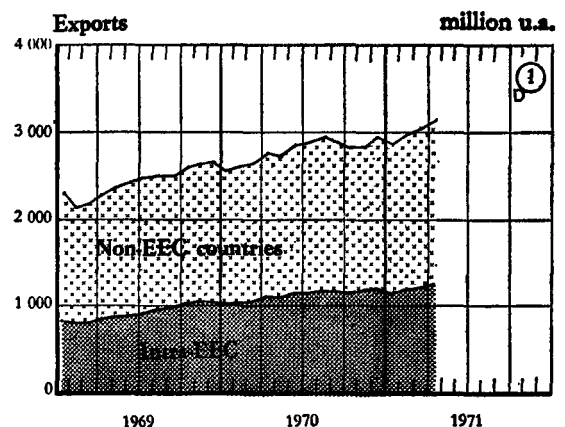
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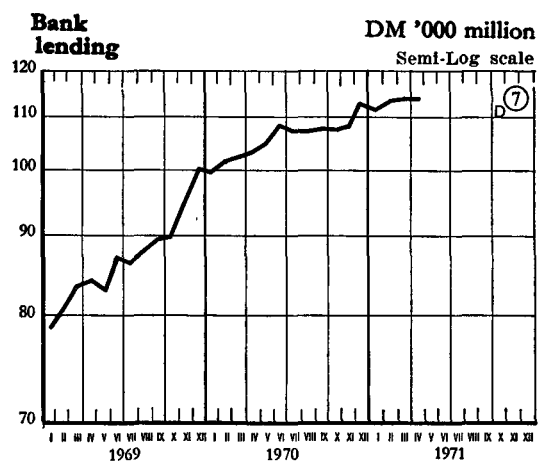
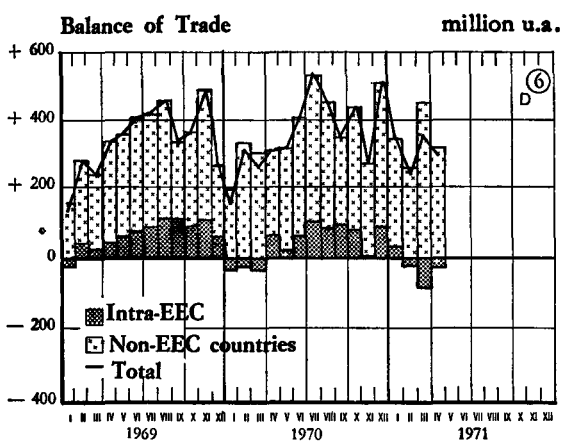
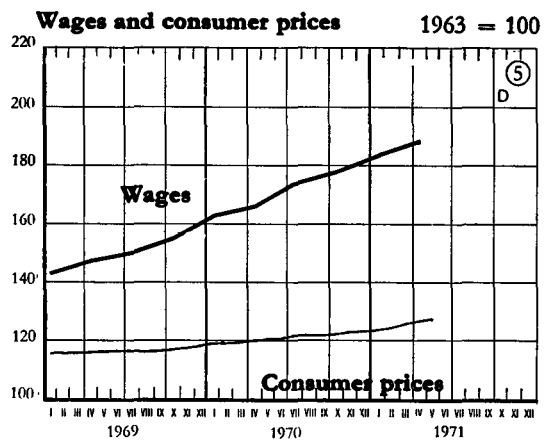
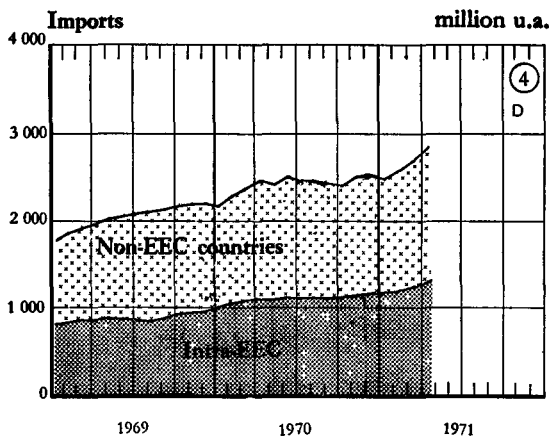
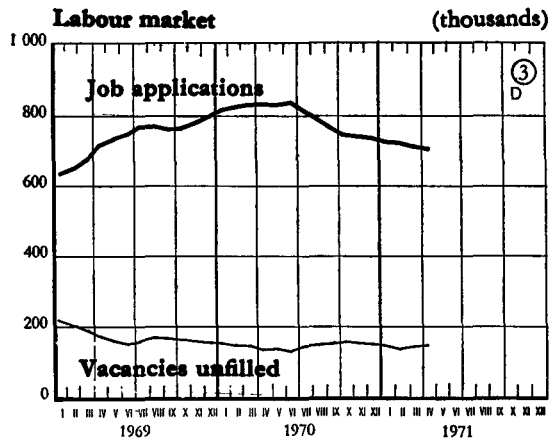
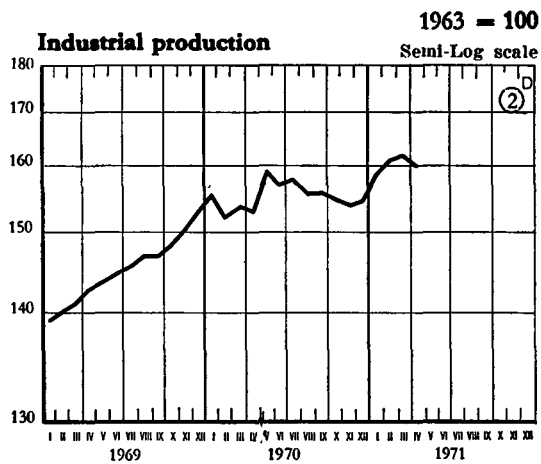
(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

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

Federal expenditure—which had risen at a very high year-on-year rate (18%) in the first quarter of 1971—, by reducing recourse to credit and by freezing tax income above budgeted levels in a cyclical equalisation fund. Analogous measures have been taken by the Länder.

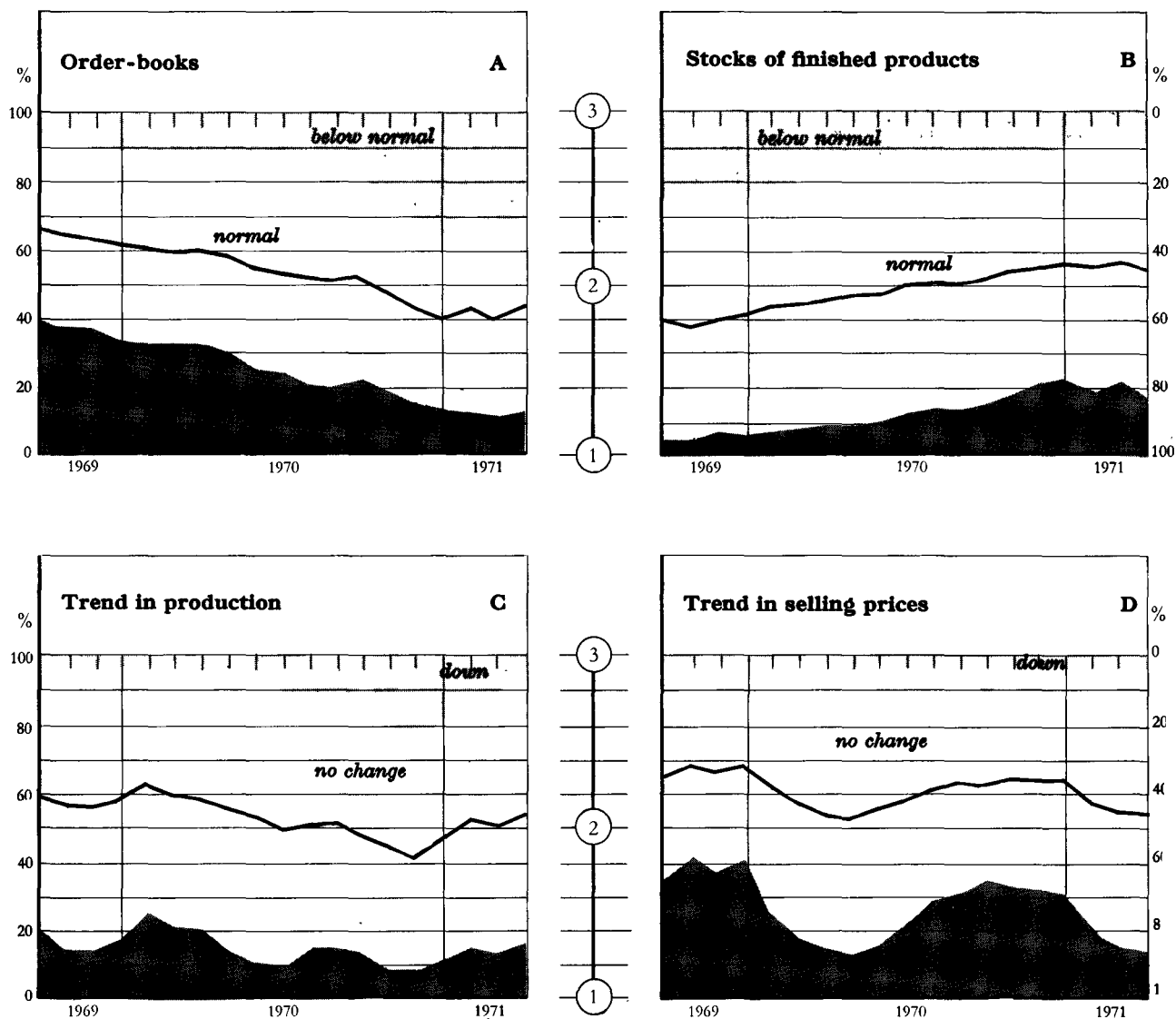
On the assumption that Germany will maintain the parity of the Deutsche Mark and will return to a fixed parity and to the former intervention points as soon as speculation has died down and the authorities have instruments for combating the speculative inflow of currency, the mechanical effects of the





Germany

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

fluctuations of the Deutsche Mark on foreign trade and on overall demand should be hardly significant.

In any case, since the surcharge on personal and corporate incomes has been abolished, overall demand and, in particular, private consumption will benefit from further fiscal impulses. Even if one takes account of the recent measures taken to limit expenditure, the increase in public expenditure for the year 1971 will remain superior to the value increase of gross national product. Moreover, private household demand will remain an important factor for expansion. Prospects for investment are, on the other hand, now more uncertain. Given the strong increase in costs, which has continued during recent months, one cannot expect a rapid stabilisation of prices.

In these circumstances, it would be appropriate to re-inforce fiscal policy measures by other actions. It would be necessary, in particular, for monetary policy to adopt a more restrictive course, notably by operating on the liquidity of the banking sector and of enterprises. The decision taken by the Bundesbank with effect from 2 June 1971 to increase by 15% the rate of minimum reserve requirements on Deutsche Mark liabilities, and to increase the rate applicable to foreign liabilities to double that fixed for domestic liabilities, constitutes a step in that direction. Should the recent trend towards higher interest rates on international markets continue, the level of interest rates might also be raised in Germany.

For the year 1972 the aim of greater stability in conditions of growth retains its priority character, given the prospect of a price increase markedly higher than that assumed in medium-term guidelines.

In order to moderate this increase, a policy of a balanced budget is required. Budget plans of the Federal authorities and the Länder for 1972 should, in any case, not include an increase in expenditure exceeding the rate of growth of gross national product in value, unless this increase be compensated by new revenue.

Moreover, re-imbursement of the "cyclical supplement" on personal and corporate income tax, as well as the freeing of amounts frozen in the fund for cyclical equalisation, should be envisaged only if there is a marked slowing down in the rate of price and cost increases.

3. The economic situation in West Berlin

The long observed parallel development of the fully integrated economies of Berlin and the Federal territory showed itself again clearly during the first quarter of 1971. The Berlin economy was, above all, characterised by a rapid expansion of consumption. As for production, its growth was substantial, as in the Federal territories.

As far as merchandise trade with the Federal territory is concerned, the increase in deliveries by Berlin enterprises, which reached 14%, was rather stronger than that of purchases. The trade balance with the Federal territory, therefore, showed a marked improvement. Foreign trade also stimulated economic growth. Exports developed more rapidly than did imports.

According to available indicators, the increase in investment expenditure by enterprises may have slowed down somewhat in the course of the first few months of 1971. However, the adoption mid-year of the new law relating to the promotion of the Berlin economy put an end to the uncertainty which had prevailed and enterprises' propensity to invest has strengthened since that time. The development of credits granted by the ERP fund, which is very significant in this respect, does not suggest, for the moment, a weakening in investment activity.

At the present moment, economic expansion is underpinned in large measure by the development of private consumption. Retail sales grew by more than 10% in the first quarter, compared with the same period one year earlier.

Faced with these impulses from demand, to which have been added strong construction

demand and a marked increase in consumption expenditure by public authorities, supply in Berlin has shown remarkable elasticity. On the year to year basis, industrial production showed a 3.5% increase in the first quarter. Pressures on the labour market have eased considerably. The unemployment rate amounted to 0.9% in the month of April, against 0.5% in the month of April 1970. Although a trend towards recession is not to be feared for the moment, the trend of industrial employment which, in the first quarter, showed a reduction of 2% year on year, as well as the slowing down in the order inflow in certain industrial sectors, suggest the need for increased vigilance on the part of the economic policy authorities.

Major economic policy measures

April

With effect from 1 April, the Bundesbank reduces the discount rate from 6 to 5% and the rate for advances against securities from 7.5 to 6.5%. Re-discount quotas for credit institutions are reduced by 10% from the same date. The Bundesbank is to become more active in open-market operations with the non-bank sector.

May

(1) Because of high Dollar inflows, the Bundesbank ceases to purchase currency from 5 May. The exchange markets are closed up to and including 7 May.

(2) The Federal Government approves on 9 May the result of negotiations of the special session of 8 and 9 May of the Council of the Communities, and requests that the Bundesbank interrupt provisionally its intervention on the exchange market (initiating a floating Deutsche Mark exchange rate). The compensatory frontier levy, instituted by the Council of Ministers in favour of German agriculture, is to be maintained for the whole period of the floating of the exchange rate.

(3) The Federal Government adopts, at the same time, the following domestic and external measures to which the Länder and communes, where management of their finances is concerned, have in the

interim given their approval within the Public Sector Economic Council and within the Financial Planning Council:

(a) In conformity with para. 23 of the Law on External Economic Relations, a Federal Government order is issued, restricting severely and with immediate effect movement of long and short term capital of non-residents to and from the Federal Republic; obligation to notify payment of interest on non-residents' assets as well as for the purchase of certain types of security (treasury bills, non-interest bearing treasury certificates, bills of exchange issued by offices for import and stocking, bank bills and certain types of domestic fixed interest securities).

(b) The restrictive fiscal policy of the Federal authorities is tightened thus: Ceilings for utilisation of budget appropriations are provisionally fixed at 60% for current expenditure (including military supplies and installations) and transfers to third parties, with the exception of legal and international obligations. For investment expenditure the ceiling is set at 70% (including investment incentive measures). In this way, the already existing blocked budget funds are increased by 10%. Expenditure in excess of these levels must have the approval of the Federal Minister for Economy and Finances. He is also empowered to subordinate to his authorisation payments and engagements referring to future financial years. The Länder will adopt a corresponding budget policy. The possible resulting reductions in expenditures are estimated at DM1 000 million for the Federal authorities and DM800 million for the Länder. The reductions resulting from restriction of expenditure authorisations are estimated at DM 2 000 - DM3 000 million for the Federal authorities and at DM1 500 - DM2 000 million for the Länder.

(c) Of tax receipts in excess of budget, the Federal authorities are to place up to DM 1 000 million and the Länder up to DM700 million in cyclical equalisation reserves.

(d) Net borrowing is limited by decree to DM1 000 million in the case of the Federal authorities, and to DM800 million in the case of the Länder (excluding Berlin). Current borrowing must be restricted to the greatest extent possible. Borrowing by the

communes should not exceed 90% of the amounts budgeted for 1971. In this way, planned borrowing by the communes could be reduced by DM500 million.

June

The Bundesbank increases, on 2 June, minimum reserve requirements on domestic liabilities by 15%. Reserve requirements on foreign liabilities are set

at double the new domestic rates. The incremental reserve for foreign liabilities remains unchanged. Through these measures, the liquidity of the banking system is reduced by about DM5 000 million. Moreover, open-market operations of the Bundesbank are widened: with immediate effect private individuals may also buy Bundesbank money market paper. Issue rates for treasury bills are reduced by $\frac{1}{2}\%$, and for non-interest bearing treasury certificates by $\frac{1}{4}\%$.

Germany

TABLE 1 : Key indicators

	1966	1967	1968	1969	1970	1970
	% change by volume on preceding year					1963=100
Gross national product	+ 2.9	- 0.3	+ 7.2	+ 8.1	+ 4.9	141
Industrial production	+ 2.5	- 2.4	+ 9.5	+ 10.4	+ 5.7	149
Total imports	+ 2.6	- 1.3	+ 14.6	+ 16.7	+ 16.1	200
Private consumers' expenditure	+ 3.7	+ 0.6	+ 4.0	+ 8.0	+ 7.3	141
Public current expenditure on goods and services	+ 2.1	+ 3.3	- 0.1	+ 4.2	+ 2.9	118
Gross fixed asset formation	+ 0.9	- 8.4	+ 8.0	+ 12.1	+ 10.7	145
Total exports	+ 10.7	+ 8.5	+ 13.0	+ 12.6	+ 9.0	198
Gross national product per head of population	+ 1.8	- 0.7	+ 6.6	+ 6.9	+ 3.7	134
Gross national product per person in employment	+ 3.2	+ 2.7	+ 7.0	+ 6.2	+ 3.5	139
	% change by value on preceding year					
Gross income per employee	+ 7.5	+ 3.4	+ 6.7	+ 9.6	+ 15.0	178

TABLE 2 : Indicators for internal and external equilibrium

	1966	1967	1968	1969	1970
Balance exports less imports					
in million units of account	+ 1 613	+ 4 063	+ 4 488	+ 3 906	+ 3 156
as percentage of GNP	+ 1.3	+ 3.3	+ 3.3	+ 2.5	+ 1.7
Unemployment rate	0.6	1.7	1.2	0.7	0.5
Prices to private consumers (% change on preceding year)	+ 3.5	+ 1.7	+ 1.8	+ 2.5	+ 3.8

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					1963 = 100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 12.5	+ 8.0	+ 14.3	+ 16.9	+ 17.7	234	34 195	100.0
Intra-EEC	+ 16.0	+ 9.4	+ 16.7	+ 23.9	+ 18.7	252	13 738	40.2
To non-EEC countries	+ 10.6	+ 7.2	+ 12.9	+ 12.8	+ 17.0	223	20 456	59.8
Exports of food, beverages and tobacco								
Total	- 2.0	+ 26.9	+ 21.8	+ 27.0	+ 27.6	370	1 066	3.1
Intra-EEC	+ 6.6	+ 61.2	+ 32.8	+ 31.0	+ 16.6	522	579	1.7
To non-EEC countries	- 7.3	+ 2.6	+ 9.4	+ 21.6	+ 43.7	275	487	1.4
Exports of raw materials, fuel and power								
Total	+ 7.1	+ 1.3	+ 10.7	+ 4.2	+ 19.0	156	1 946	5.7
Intra-EEC	+ 8.5	+ 1.5	+ 10.6	+ 5.4	+ 20.3	159	1 213	3.5
To non-EEC countries	+ 5.0	+ 0.4	+ 11.5	+ 2.4	+ 16.9	150	732	2.2
Exports of semi-finished and finished industrial goods								
Total	+ 13.8	+ 6.6	+ 15.9	+ 17.5	+ 17.7	239	31 183	91.2
Intra-EEC	+ 18.9	+ 4.7	+ 21.6	+ 25.8	+ 18.7	261	11 946	34.9
To non-EEC countries	+ 11.3	+ 7.6	+ 13.0	+ 13.0	+ 16.5	226	19 237	56.3
Visible imports								
Total	+ 3.2	- 3.7	+ 16.1	+ 23.7	+ 19.6	229	29 816	100.0
Intra-EEC	+ 4.2	- 1.0	+ 21.7	+ 30.0	+ 21.8	305	13 233	44.4
From non-EEC countries	+ 2.5	- 5.4	+ 12.5	+ 19.3	+ 17.9	191	16 583	55.6
Imports of food, beverages and tobacco								
Total	+ 2.4	- 4.2	+ 3.7	+ 16.7	+ 14.3	179	4 954	16.6
Intra-EEC	+ 6.8	+ 0.1	+ 11.9	+ 26.8	+ 12.6	239	2 303	7.7
From non-EEC countries	- 0.1	- 6.9	- 1.9	+ 9.0	+ 15.9	147	2 651	8.9
Imports of raw materials, fuel and power								
Total	+ 2.8	- 0.6	+ 15.8	+ 12.2	+ 13.6	184	6 617	22.2
Intra-EEC	+ 8.1	+ 9.4	+ 18.1	+ 23.3	+ 18.5	258	1 417	4.8
From non-EEC countries	+ 1.8	- 2.5	+ 15.3	+ 9.7	+ 12.3	171	5 200	17.4
Imports of semi-finished and finished industrial goods								
Total	+ 3.6	- 5.0	+ 21.1	+ 31.4	+ 23.5	274	18 246	61.2
Intra-EEC	+ 2.8	- 3.0	+ 25.4	+ 32.0	+ 24.8	236	9 514	31.9
From non-EEC countries	+ 4.3	- 6.9	+ 16.8	+ 30.7	+ 22.1	229	8 732	29.3

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	138.9	141.8	144.1	142.7	145.9	146.4	144.6	150.6	146.1	148.7	157.6	153.6
	1970	155.4	145.8	159.9	153.1	164.7	151.7	156.8	158.0	151.9	155.1	155.5	153.3
	1971	165.4	163.0	156.8	159.5								
New orders received (1963 = 100)	1969	163.0	161.6	166.2	169.3	168.0	166.1	176.6	174.8	177.6	179.6	171.9	170.9
	1970	176.6	185.3	179.5	184.3	169.0	182.4	178.5	176.1	180.3	173.6	177.6	185.2
	1971	178.5	181.2	196.9	189.8								
Unemployed (1 000)	1969	197.0	203.3	186.8	156.0	161.6	170.7	177.6	176.2	166.4	160.7	148.0	149.4
	1970	156.1	132.5	152.5	121.2	134.6	142.8	156.2	161.0	163.1	165.0	159.9	131.1
	1971	152.2	119.0	159.5	161.0								
Construction : permits for residential construction (1 000)	1969	43.4	47.2	44.8	45.6	47.2	48.1	48.4	45.6	47.0	49.5	48.7	44.1
	1970	48.8	50.7	46.0	52.4	47.3	51.5	55.4	54.4	54.5	49.4	50.6	46.7
	1971	49.8	55.9	54.6									
Private consumers' expenditure : department store turnover (1963 = 100)	1969	164.1	155.7	162.3	159.4	170.5	167.0	170.1	173.2	176.7	180.5	177.9	176.9
	1970	184.7	174.9	185.3	180.6	185.5	198.3	202.3	190.6	200.4	208.2	197.7	201.0
	1971	212.6	200.6	211.5	209.5								
Consumer prices (1963 = 100)	1969	115.1	115.4	115.5	115.7	115.9	116.2	116.1	115.8	116.1	116.5	117.0	117.6
	1970	119.1	119.3	119.8	120.1	120.3	120.7	120.7	120.6	120.6	121.2	121.8	122.3
	1971	123.5	124.3	125.3	125.9	126.3							
Visible imports (million u.a.)	1969	1 933	1 880	1 974	2 071	2 021	2 038	2 144	2 045	2 122	2 391	2 125	2 127
	1970	2 338	2 463	2 375	2 631	2 349	2 606	2 536	2 345	2 507	2 530	2 574	2 579
	1971	2 372	2 883	2 926	2 799								
Visible exports (million u.a.)	1969	2 073	2 155	2 219	2 403	2 380	2 445	2 558	2 478	2 456	2 786	2 616	2 480
	1970	2 498	2 767	2 639	2 935	2 650	3 016	3 083	2 787	2 883	2 965	2 844	3 104
	1971	2 720	3 125	3 293	3 088								
Balance of trade (million u.a.)	1969	+ 140	+ 276	+ 245	+ 332	+ 360	+ 407	+ 414	+ 434	+ 335	+ 395	+ 492	+ 354
	1970	+ 159	+ 304	+ 264	+ 304	+ 301	+ 410	+ 547	+ 442	+ 376	+ 435	+ 270	+ 525
	1971	+ 348	+ 242	+ 367	+ 289								
Official gold and foreign exchange reserves (million u.a.)	1969	7 722	7 560	7 280	7 807	10 591	9 108	9 129	9 697	11 128	9 640	7 741	5 981
	1970	6 455	6 616	6 765	6 893	7 219	8 215	9 378	9 643	10 700	11 283	12 961	13 009
	1971	18 411	14 253	15 202	16 137	18 398							
Money supply (DM '000 million)	1969	89.2	89.2	90.7	90.3	91.5	92.2	93.2	94.3	94.3	93.7	95.0	93.2
	1970	96.1	95.9	97.5	96.6	97.1	97.8	99.7	99.5	99.2	98.4	100.6	101.9
	1971	103.8	104.3	105.8									

Germany

NOTES TO GRAPHS AND TABLES

Source: Statistical Office of the European Communities (except as otherwise indicated).
Conversion into units of account (1 u.a. = 0.888671 g of fine gold = US\$ 1) at official exchange rates.

Graph 1

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

Graph 2

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

Graph 3

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

Graph 4

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

Graph 5

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

Graph 6

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

Graph 7

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

Table 1

Gross national product at market prices.

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

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

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

Table 2

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

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

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

Table 3

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

Table 4

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

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

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

Construction: seasonally adjusted number of dwellings authorized.

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

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

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

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

Official gold and foreign exchange reserves: gross reserves of gold and convertible currency with Bundesbank at end of month.

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

B. France

At the beginning of the summer, the French economy was characterised by a rapid expansion of domestic demand, notably private consumption, and by rapid development of production and employment. Since cost and price increases continued at a rapid rate, external equilibrium remained fragile, in spite of a sustained growth of exports.

1. The economic situation

The acceleration in the growth of domestic demand, which had got under way in the summer of 1970, was confirmed in recent months. Substantial growth of disposable incomes of households and the drop in the savings ratio, as well as a markedly expansive fiscal policy, had been the principal factors.

Industrial production has regained an annual rate of growth of about 9%. The labour market has shown a clear response; unemployment has again begun to fall, while situations vacant have risen.

The increase in costs and prices has continued at a rapid rate. During the first four months of 1971, the consumer price index (new index of 295 items) rose by 2.1%. During the same period, rates of hourly earnings in industry and commerce increased at an annual rate of almost 12%.

The deterioration in the trade balance, which occurred in the second half of 1970, gave way, in the first quarter of 1971, to an improvement allowing a slight surplus (fob-fob). Imports were unusually weak during the first few months of the year, while exports continued to expand. However, taking account of the negative result on the combined services' and transfers' balance, the current balance was in deficit. The overall balance of payments showed only a slight surplus; gross external

reserves of the monetary authorities increased in the first quarter, while the net currency position of commercial banks deteriorated.

As far as monetary developments are concerned, an exceptionally strong expansion of bank credit followed the relaxation of credit restrictions. Furthermore, treasury operations contributed to the growth of liquidity. At the end of March 1971, the volume of money exceeded the year earlier level by 17.2%.

During the second half of 1971, production and employment should develop at a fairly rapid rate, mainly under the impact of a strong expansion of consumption by households, stimulated by an increase in disposable income and perhaps even by a fall in the savings ratio. Private business investment projects suggest, in spite of the increase in costs, an upward trend in equipment investment, while investment expenditure by public administrations and industries will grow at a more rapid rate.

The problem of the rate of price and cost increase will not lose its gravity. It is to be feared that salary increases will continue substantially to exceed productivity increases, taking account of the relative monetary ease which facilitates the financing of increasing costs and passing on in their prices. The continued development of internal demand at a fairly rapid rate, or even an accelerated one, could have repercussions on the current balance of payments.

Demand for and supply of goods and services

	1968 ¹	1969 ¹		1970 ¹		1971 ²	
	At current prices (in FF '000 million)	% change on preceding year					
		Volume ¹	Value	Volume ⁴	Value	Volume ⁵	Value
Exports ³	89.8	+ 17.9	+ 22.9	+ 17.0	+ 25.9	+ 8½	+ 10
Gross fixed asset formation	157.2	+ 10.1	+ 17.1	+ 6.6	+ 14.5	+ 6	+ 11½
Public services	79.5	+ 4.4	+ 12.5	+ 3.8	+ 11.1	+ 3½	+ 11
Private consumption	385.5	+ 6.7	+ 14.0	+ 4.3	+ 9.7	+ 5½	+ 10½
Gross national product	629.8	+ 7.7	+ 16.2	+ 6.0	+ 12.0	+ 5½	+ 10½
Imports ³	89.3	+ 22.5	+ 28.1	+ 8.5	+ 18.8	+ 9	+ 11

¹ Comptes de la Nation 1970. Ministère de l'économie et des finances.

² Estimates.

³ Goods, services and factor incomes.

⁴ At 1963 prices.

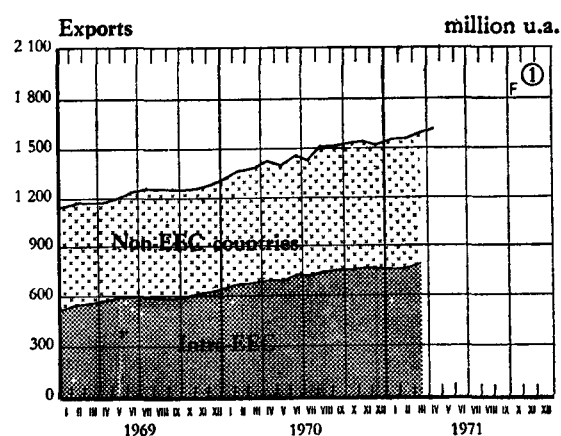
⁵ At preceding year's prices.

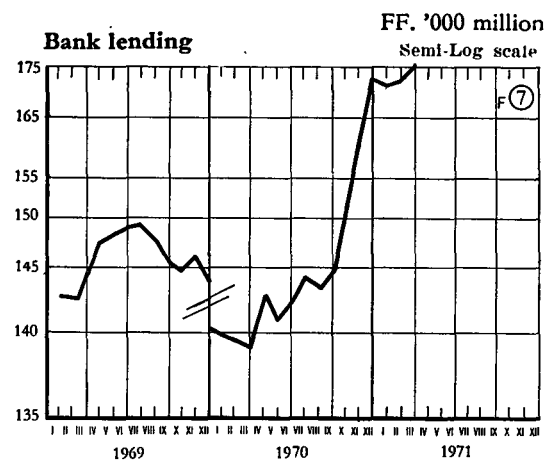
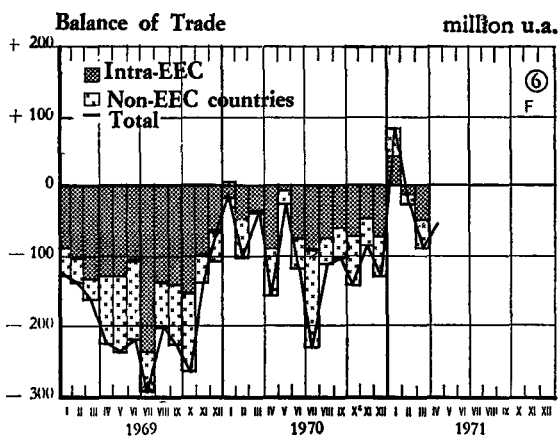
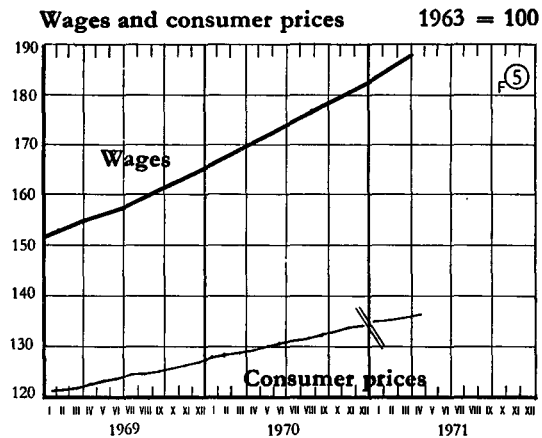
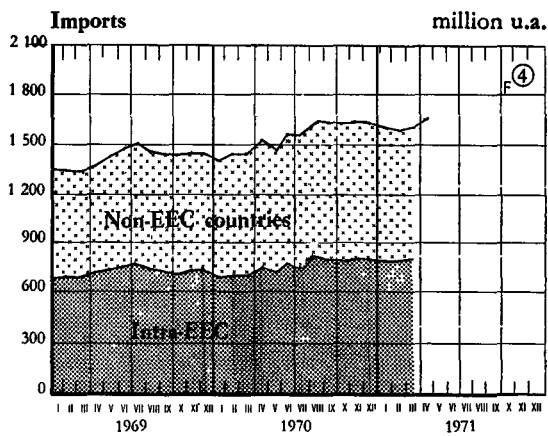
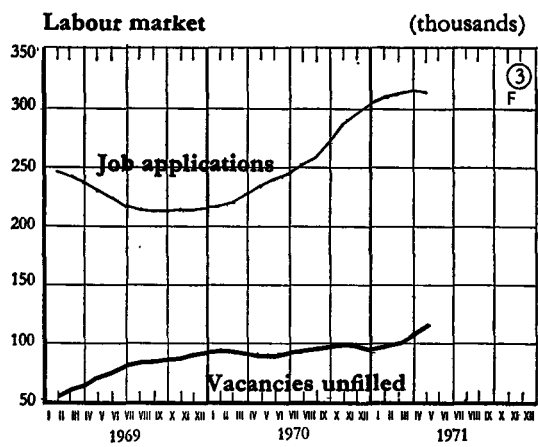
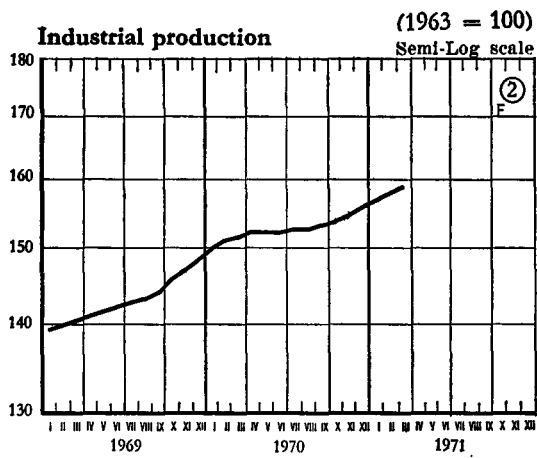
Note :

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

2. Economic policy

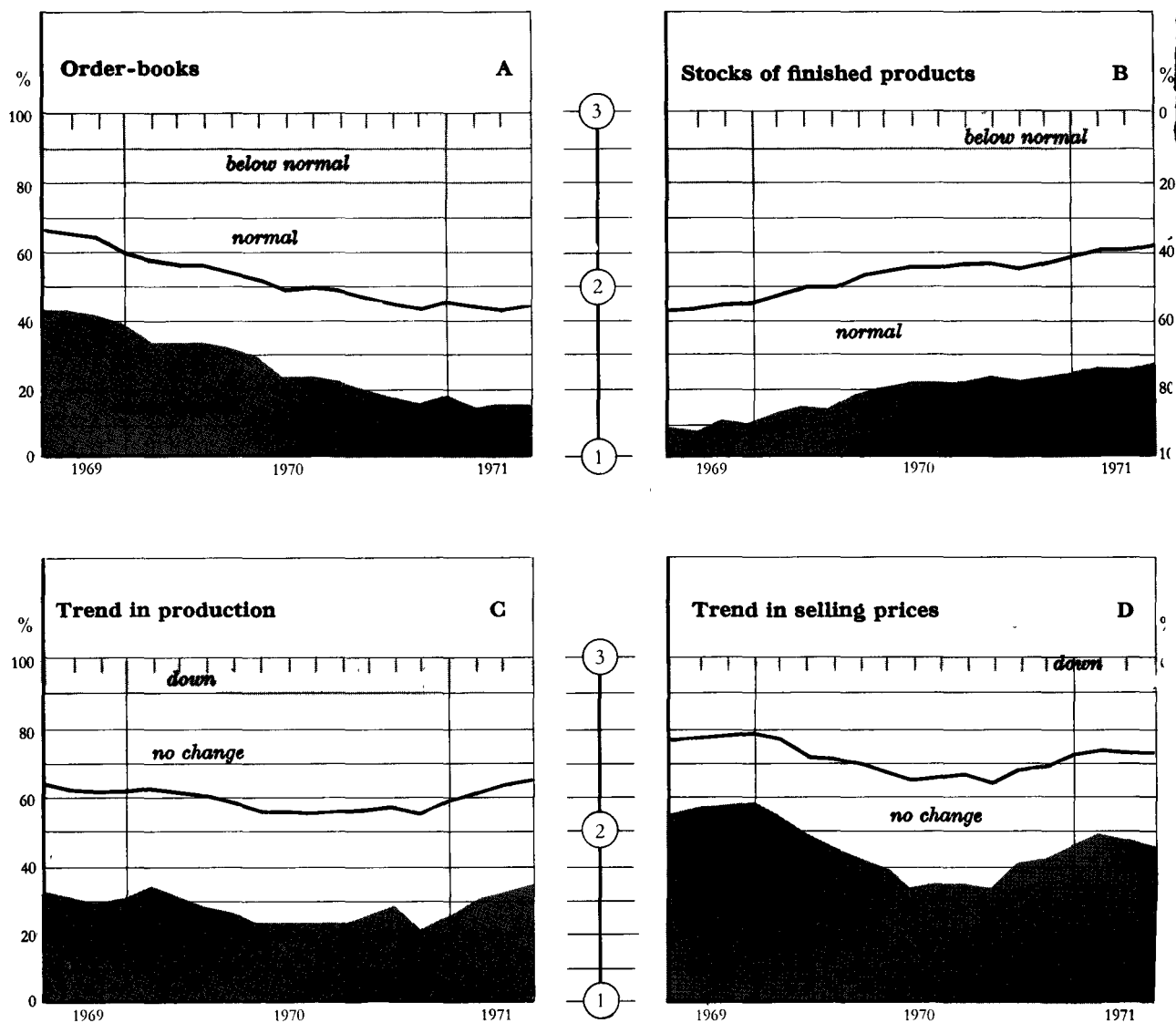
Action intended to avoid too rapid an expansion of internal demand appears, then, to be necessary. Management of public finances, which was characterised in the first quarter by a cash deficit of more than FF6 000 million must be such as even now to produce the balance on budget operations originally foreseen for the year 1971 taken as a whole. This implies, in coming months, an effort to restrain expenditure. Furthermore, surpluses in tax revenues above budgeted levels, which may result from inflationary pressures, should be neutralised to the greatest extent possible.





France

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

The restrictive direction of monetary policy must be maintained and even re-inforced. The increase in the discount rate, decided on 13 May 1971, and the increase in the minimum reserve ratio, constitute important steps in this direction. Furthermore, should the expansion of expenditure by households continue at its current rate, a more cautious policy in the field of consumer credit might become necessary.

The efforts by the authorities responsible for economic policy to stabilize costs and prices would be doomed to failure if growth of wages and salaries continued at the rate of recent months. In this case, application of certain provisions contained in wage agreements would threaten to weigh on the development of prices in 1972.

An active policy of savings incentives would constitute an important moderating element on private consumption by limiting as much as possible the reduction in the overall savings ratio of households, which threatens to continue into 1972. One might, in this respect, envisage the creation of new incentives for medium and long term saving.

Prospects for expansion in 1972 appear satisfactory. According to first estimates, the rate of growth of gross national product in volume and the unemployment rate will be close to the guidelines adopted in the third medium-term economic policy programme. On the other hand, the indicators of economic equilibrium will still diverge markedly from these guidelines. This is the case in particular for price developments. A slowing down in the rate of price increase remains, then, a priority objective for 1972.

Restraint in credit and public finance policy remains, therefore, indispensable, not only because of its economic effects, but also because of the impact which it would have on inflationary expectations.

It would be appropriate, notably during preparation of the draft Finance Law for 1972, to safeguard a balanced budget. It would be appropriate, also, to attempt to hold the rate of growth of public expenditure below the expected increase in nominal gross national product.

Relaxation of fiscal policy should be envisaged only in the case of a marked reduction in the rate of cost and price increases.

Major economic policy measures

March

Exchange control is further relaxed in mid-March. The currency allowance for foreign tourism is increased to the equivalent of FF2 000 (against FF1 500 previously) per person and journey, for a maximum of two journeys annually. The allowance for the export of French bank-notes remains at FF500 per journey. Obligatory domiciliation with an approved banking institute is abolished for settlement operations on imports or exports when their amount is less than FF10 000. Furthermore, the banks are allowed a greater liberty of action in the technical methods of their operations relating to foreign trade.

April

(1) The Bank of France modifies, with effect from 1 April, the system of compulsory reserves by the commercial banks: it reduces the rate of these reserves from 7.5 to 7.25% for sight liabilities, and from 2.5 to 2.25% for time deposits. At the same time, however, it imposes on banks and other financial institutions the obligation to set up a reserve against credit equal to 0.25% of credit exceeding 80% of the amount outstanding on 5 January 1971. These measures are not intended to modify the total amount of compulsory reserves held with the Bank of France, but only, through a first application of the new system of minimum reserves (see Quarterly Survey No. 1-1971, page 51), to carry out a redistribution towards a more equitable sharing of the burden between banks and financial institutions.

(2) On 1 April, various social security benefits are improved, notably old age pensions and pensions granted to accident victims, as well as supplementary payments for unemployment. At the same time, the guaranteed minimum wage (SMIC) is increased by 1.38%.

(3) During April, exchange control is again relaxed. Arbitrage operations on foreign commodity markets, which until then had to a large

extent been forbidden, are again authorised generally for all commodities traded in France on forward markets, on condition that each arbitrage operation be the counterpart to an operation carried out on a French market. Residents travelling abroad may again utilize credit cards for the purchase of goods and services up to half the amount of the normal currency allocation (up to FF1 000 for tourist journeys and FF2 000 for business journeys).

May

(1) Given the very rapid monetary expansion, the Bank of France increases, with effect from 6 May, the rate of compulsory reserves of commercial banks from 7.25 to 8.25% for sight deposits, and from 2.25 to 3.25% for time deposits and deposits by foreign banking institutions. Compulsory reserves applicable to credits are not changed. The liquidity margin of the banks, which had risen sharply during previous months, mainly as a result of the continued inflow of currency, should, therefore, be reduced by about FF1 900 million.

(2) Following the monetary crisis, which culminated in the decision to allow the exchange rates of the Deutschmark and the Florin to float temporarily, the monetary authorities adopt in May various measures designed to protect the French currency against speculative capital movements and to brake more effectively the expansion of domestic liquidity. Thus, from 13 May, the discount rate is increased from 6.5 to 6.75%, and the rate for

advances against securities from 8% to 8.25%; the preferential discount rate applicable to medium-term liabilities resulting from transactions with non-member countries is allowed to remain at 4.5%. From 21 May, the rate for compulsory reserves is increased from 8.25% to 9.25% for sight deposits, and from 3.25% to 4.25% for time deposits, from 0.25% to 0.50% for credits and from 3.25% to 9.25% for deposits from foreign banking institutions; these measures represent a reduction of about FF2 000 million in bank liquidity. The Bank of France is authorised to increase compulsory reserves applicable to deposits by non-residents to 100%, should the need arise, and to limit or even forbid the remuneration of such deposits.

(3) The National Assembly votes, in mid-May, a draft law instituting a system of monthly payment of income tax. The new system, which is not compulsory as far as the taxpayer is concerned, consists of payments of ten equal monthly instalments, the balance being paid in one or two monthly payments; it is due to come into force on 1 January 1972 in a limited number of departments.

June

The Government submits to the National Assembly, at the beginning of June, several draft laws concerning the reform of vocational training. They are intended, notably, to place on an equal footing scientific and technical education, to modernise apprenticeship and to improve facilities for permanent vocational training.

TABLE 1 : Key indicators

	1966	1967	1968	1969	1970	1970
	% change by volume on preceding year					Indices 1963=100
Gross national product	+ 5.6	+ 5.0	+ 4.6	+ 7.7	+ 6.0	148
Industrial production	+ 7.4	+ 4.6	+ 4.7	+ 9.8	+ 7.1	157
Total imports	+ 13.9	+ 8.0	+ 12.8	+ 22.5	+ 8.5	215
Private consumers' expenditure	+ 4.8	+ 5.4	+ 5.5	+ 6.7	+ 4.3	143
Public current expenditure on goods and services	+ 2.3	+ 4.1	+ 5.1	+ 4.4	+ 3.8	129
Gross fixed asset formation	+ 8.4	+ 6.1	+ 6.6	+ 10.1	+ 6.6	176
Total exports	+ 8.4	+ 7.5	+ 10.0	+ 17.0	+ 17.0	213
Gross national product per head of population	+ 4.7	+ 4.2	+ 3.8	+ 6.8	+ 5.1	139
Gross national product per person in employment	+ 4.8	+ 4.6	+ 4.6	+ 5.8	+ 4.4	140
	% change by value on preceding year					
Gross income per employee	+ 6.1	+ 6.7	+ 11.6	+ 12.0	+ 9.4	181

TABLE 2 : Indicators for internal and external equilibrium

	1966	1967	1968	1969	1970
Balance exports less imports					
in million u.a.	+ 344	+ 446	+ 101	- 792	+ 558
as percentage of GNP	0.3	0.4	0.08	0.6	0.4
Unemployment rate	1.4	1.8	2.1	1.7	1.7
consumer prices (% change on preceding year)	+ 3.0	+ 2.8	+ 4.9	+ 6.8	+ 5.2

France

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					1963 = 100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 8,3	+ 4,5	+ 11,4	+ 17,4	+ 18,8	219	17 676	100,0
Intra-EEC	+ 12,0	+ 2,0	+ 16,0	+ 30,6	+ 20,9	278	8 606	48,7
To non-EEC countries	+ 5,8	+ 6,3	+ 8,2	+ 7,5	+ 16,8	182	9 070	51,3
Exports of food, beverages and tobacco								
Total	+ 7,5	+ 2,9	+ 19,8	+ 20,8	+ 6,0	216	2 711	15,3
Intra-EEC	+ 19,4	+ 6,0	+ 26,6	+ 41,9	+ 1,7	341	1 626	9,2
To non-EEC countries	- 2,0	- 0,1	+ 12,8	- 3,3	+ 13,2	140	1 085	6,1
Exports of raw materials, fuel and power								
Total	+ 7,3	- 3,7	+ 1,6	+ 10,6	+ 11,7	149	1 390	7,9
Intra-EEC	+ 7,4	- 3,7	+ 0,9	+ 19,9	+ 13,7	184	926	5,2
To non-EEC countries	+ 7,2	- 3,6	+ 2,6	- 3,5	+ 7,9	107	464	2,7
Exports of semi-finished and finished industrial goods								
Total	+ 8,7	+ 6,1	+ 11,1	+ 17,5	+ 22,5	230	13 575	76,8
Intra-EEC	+ 11,2	+ 2,3	+ 16,2	+ 29,0	+ 23,7	287	6 054	34,3
To non-EEC countries	+ 7,2	+ 8,5	+ 8,1	+ 10,2	+ 18,0	199	7 521	42,5
Visible imports								
Total	+ 14,6	+ 4,5	+ 12,5	+ 27,7	+ 9,8	217	18 913	100,0
Intra-EEC	+ 20,8	+ 10,7	+ 23,1	+ 31,3	+ 6,5	295	9 252	48,9
From non-EEC countries	+ 10,5	+ 0,2	+ 4,4	+ 16,7	+ 13,2	173	9 661	51,1
Imports of food, beverages and tobacco								
Total	+ 8,4	- 2,6	+ 2,7	+ 19,6	+ 6,8	158	2 453	13,0
Intra-EEC	+ 1,3	+ 16,6	+ 31,8	+ 33,4	+ 3,9	296	814	4,3
From non-EEC countries	+ 10,3	- 7,4	- 6,4	+ 13,5	+ 8,4	128	1 639	8,7
Imports of raw materials, fuel and power								
Total	+ 5,9	+ 0,3	+ 3,6	+ 10,6	+ 4,5	136	4 202	22,2
Intra-EEC	+ 9,5	- 2,3	+ 14,2	+ 11,4	+ 8,7	146	730	3,9
From non-EEC countries	+ 5,3	+ 0,8	+ 1,7	+ 10,5	+ 3,7	134	3 472	18,3
Imports of semi-finished and finished industrial goods								
Total	+ 22,0	+ 9,0	+ 19,6	+ 30,3	+ 12,4	300	12 258	64,8
Intra-EEC	+ 25,0	+ 12,0	+ 23,3	+ 33,3	+ 6,5	328	7 708	40,7
From non-EEC countries	+ 17,7	+ 4,4	+ 13,3	+ 24,6	+ 23,9	261	4 550	24,1

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	144.1	140.5	139.4	142.2	142.0	132.5	145.4	139.4	143.9	145.5	143.4	150.0
	1970	154.8	152.9	152.3	150.7	145.4	137.7	151.7	144.9	154.7	152.3	150.9	154.4
	1971	158.6	157.1	(160)									
Number of persons seeking employment (1 000)	1969	242.7	237.9	231.0	224.1	221.4	215.5	217.5	218.1	217.4	218.4	216.6	218.7
	1970	220.7	227.3	233.0	241.5	246.0	251.3	261.3	271.3	285.1	297.4	307.3	306.8
	1971	315.7	313.5	312.8	(312.5)								
Construction: building permits issued for housing (1 000)	1969	51.0	46.9	44.1	46.6	50.5	51.9	56.2	50.0	58.1	53.6	39.1	50.2
	1970	41.9	50.6	48.3	49.3	45.7	56.9	44.7	46.4	51.3			
	1971												
Private consumers' expenditure: turnover of department stores (1963 = 100)	1969	146.3	139.2	143.0	139.0	150.9	138.6	146.1	153.4	137.5	143.0	144.1	147.9
	1970	153.2	141.1	139.7	138.3	142.0	141.0	144.0	143.6	142.5	156.2	144.0	
	1971												
Consumer prices (1963 = 100)	1969	121.1	121.5	122.1	122.7	123.2	123.6	124.2	124.5	125.1	125.9	126.5	126.9
	1970	127.9	128.5	129.0	129.6	130.3	131.0	131.5	131.7	132.3	132.8	133.3	133.6
	1971	134.6	135.3	(135.8)	(136.6)								
Visible imports (million u.a.)	1969	1 362.4	1 316.9	1 272.8	1 469.6	1 460.5	1 472.9	1 573.9	1 379.4	1 462.7	1 539.1	1 374.1	1 404.4
	1970	1 431.9	1 485.5	1 404.9	1 666.4	1 341.7	1 691.2	1 661.1	1 624.8	1 673.6	1 629.1	1 655.4	1 674.2
	1971	1 485.0	1 611.2	1 721.6	(1 707)								
Visible exports (million u.a.)	1969	1 229.1	1 179.0	1 107.7	1 237.8	1 231.6	1 249.7	1 282.3	1 203.4	1 240.2	1 266.9	1 237.7	1 298.9
	1970	1 421.0	1 385.0	1 369.4	1 510.7	1 319.4	1 576.2	1 426.0	1 518.0	1 571.3	1 486.6	1 570.3	1 547.4
	1971	1 570.1	1 590.9	1 633.6	(1 649)								
Balance of trade (million u.a.)	1969	- 133.3	- 137.9	- 165.1	- 231.8	- 228.9	- 223.2	- 291.6	- 176.0	- 222.5	- 272.2	- 136.4	- 105.5
	1970	- 10.9	- 100.5	- 35.5	- 155.7	- 22.3	- 115.0	- 235.1	- 106.8	- 102.3	- 142.5	- 85.1	- 126.8
	1971	+ 85.1	- 20.3	- 88.0	(- 58)								
Official gold and foreign exchange reserves (million u.a.)	1969	4 215	4 125	3 986	3 774	3 636	3 610	3 594	3 781	4 006	3 913	3 989	3 833
	1970	3 885	3 957	3 961	4 032	4 142	4 282	4 492	4 546	4 576	4 617	4 789	4 789
	1971	5 007	5 057	5 140	5 211	5 277							
Money supply (FF '000 million)	1969	207.9	210.6	212.6	214.5	211.4	212.4	212.4	213.3	213.6	211.8	213.2	209.2
	1970	204.6	205.8	207.5	209.1	208.1	208.4	209.1	211.2	212.8	219.7	223.8	228.4
	1971	(227.7)	(232.1)										

NOTES TO GRAPHS AND TABLES

Source : Statistical Office of the European Communities (except as otherwise indicated). Conversion into units of account (1 u.a. = 0,888671 g of fine gold = US \$ 1) at the official exchange rate.

Graph 1

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

Graph 2

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

Graph 3

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

Graph 4

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

Graph 5

Wages and consumer prices; index of hourly wage rates, all activities, all regions; national index of consumer prices (259 items).

Graph 6

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

Graph 7

Bank lending; Source : Conseil National du Cr dit; short-term loans (up to 2 years) from monetary institutions to business and private customers; end of period figures.

Table 1

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

Industrial production: value added by industry.

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

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

Table 2

Source : " Rapport sur les comptes de la Nation 1969. " Minist re de l'Economie et des Finances — Paris.

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

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

Consumer prices: implicit price index of private consumption computed from the national accounts.

Table 3

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

Table 4

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

Number of persons seeking employment: seasonally adjusted figures, position at end of month.

Construction: seasonally adjusted number of dwellings authorized.

Private consumers' expenditure: seasonally adjusted indices of department store turnovers, constant samples.

Consumer prices: national index of 259 items.

Imports cif, exports fob, adjusted for seasonal variations.

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

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

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

C. Italy

During the first few months of the year, overall economic activity was weak, although there were marked differences between sectors. Continuation of the labour disputes of the last 18 months has resulted in not only new production losses but also an increasingly marked slowing down in the expansion of demand. The economic climate reflected moreover, the effects of the continuing trend towards recession which has occurred in the residential construction sector.

1. The economic situation

Economic activity and domestic demand remained weak during the first few months of 1971. Numerous sporadic interruptions of work have had widespread effects, not only on production, but also on the development of domestic and foreign demand. Households are showing a certain restraint in their expenditures; heads of firms see little incentive to carry out their investment programs, given the low level of capacity utilisation and the risks which threaten the profitability of their activities; disruptions in the chains of production and distribution are often resulting in an involuntary accumulation of stocks of finished products and a market reduction in raw material stocks. Exports have made some progress, but losses suffered on foreign markets since the autumn of 1969 have not been made good. As far as residential construction is concerned, there has been no sign of recovery from the recession which began in mid-1970.

In these conditions industrial production has remained more or less stationary in the first quarter: during this period it was about 2.6% below the level reached in the same period of 1970. Employment has remained stable, while unemployment has continued to increase gradually.

Mainly as a result of cost pressure, the rate of price increase remains rapid, in spite of some slowing down at the consumer level; it reached 1.5% between December 1970 and March 1971.

The virtual stagnation in economic activity has resulted in a reduction in imports as well as a slight trend towards improvement in the trade balance and an increase in the surplus on current account. Given the large inflow of capital, official gold and currency reserves increased by Lit.560 000 million in the first quarter of 1971.

Although reflecting the development of demand, the growth of bank credit has been very moderate, an inflow of foreign capital and the deficit on treasury operations have led to a strong increase in the volume of money. In March 1971, this exceeded the level reached one year earlier by 20.6%.

Economic prospects remain largely dominated by the development of labour relations. It is clear that the restoration of normal relations between employers and workers would be conducive to a rapid improvement in the situation and to a recovery in activity, except in the case of construction, given the weakness expected in the market for residential construction. Private consumption could respond quickly, the more so since the introduction of value added tax, on 1 January 1972, is likely to induce anticipatory purchases and that, otherwise, disposable income of households is likely to increase substantially as a result of the considerable increase in public sector wages and salaries.

On the other hand, the development of prices is unlikely to be satisfactory since increases

Demand for and supply of goods and services

	1968 ¹	1969 ¹		1970 ¹		1971 ²	
	At current prices (in Lit '000 million)	% change on preceding year					
		Volume ⁴	Value	Volume ⁴	Value	Volume ⁵	Value
Exports ³	9 119	+ 13.8	+ 15.9	+ 6.0	+ 11.6	+ 7½	+ 10½
Gross fixed asset formation	9 322	+ 8.0	+ 14.7	+ 3.8	+ 15.3	+ 1½	+ 4½
Public consumption	6 382	+ 3.3	+ 8.3	+ 3.2	+ 7.1	+ 4½	+ 15
Private consumption	30 066	+ 6.3	+ 9.4	+ 8.0	+ 13.2	+ 5½	+ 10½
Gross national product	47 280	+ 5.9	+ 10.3	+ 5.1	+ 11.7	+ 4	+ 8½
Imports ³	7 689	+ 20.6	+ 21.5	+ 17.2	+ 22.0	+ 5½	+ 11

¹ Relazione generale sulla situazione economica del Paese (1970).

² Forecasts.

³ Goods, services and factor incomes.

⁴ At 1963 prices.

⁵ At preceding year's prices.

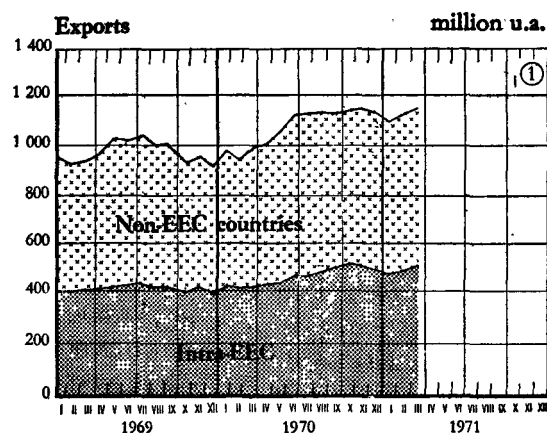
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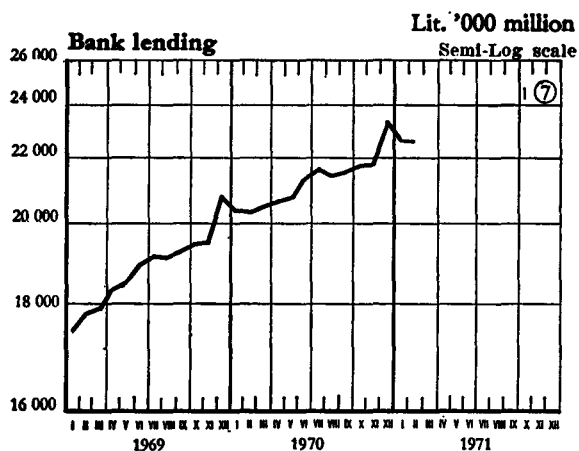
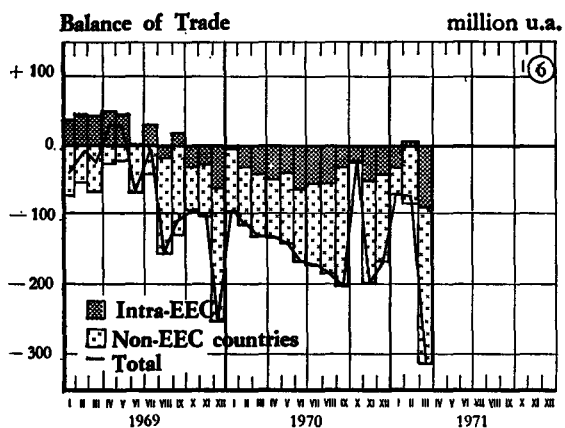
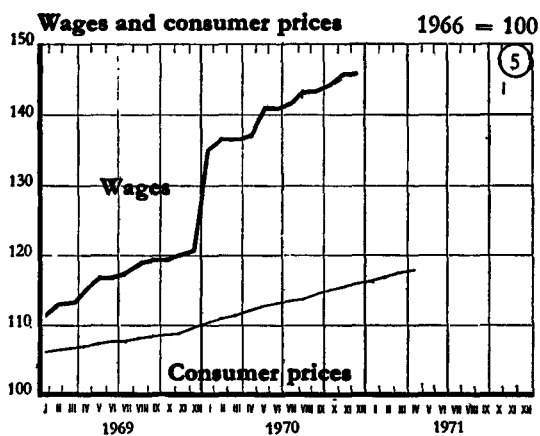
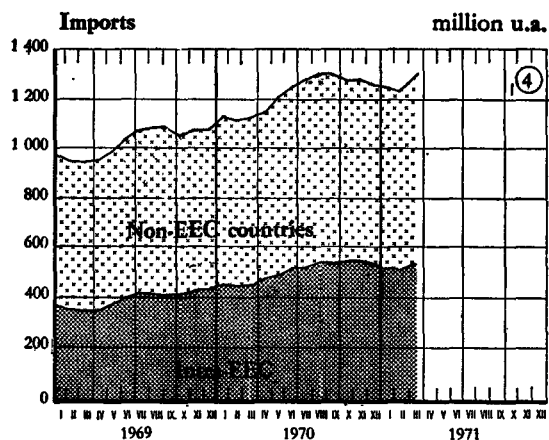
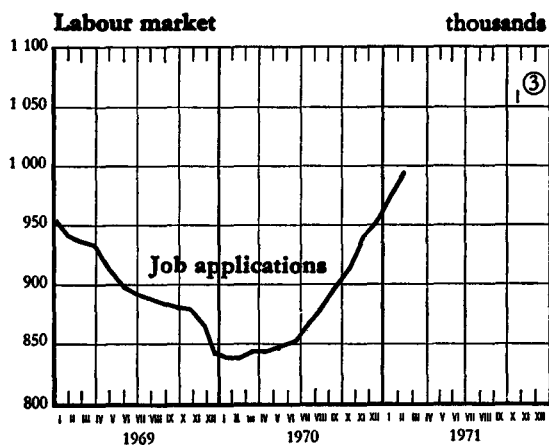
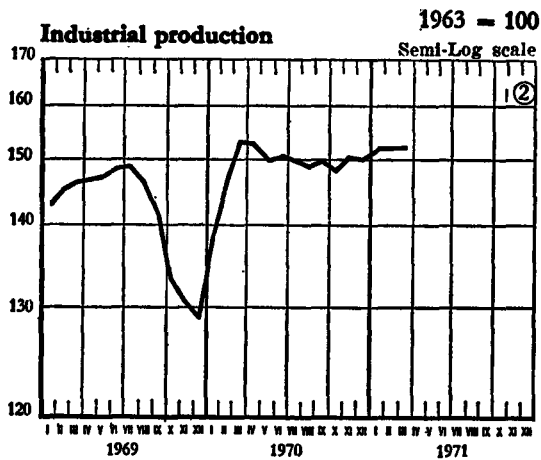
(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

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

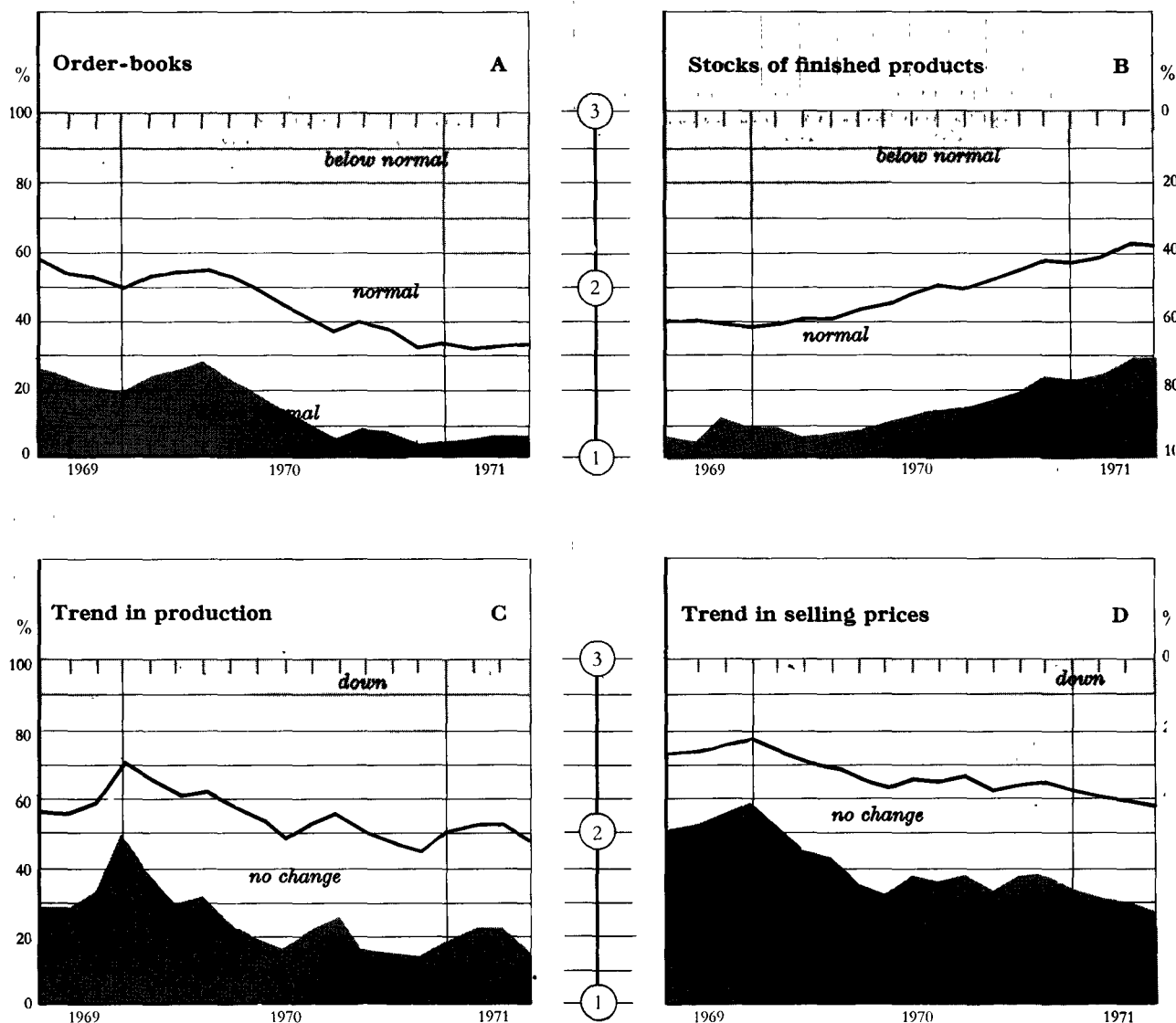
in wage costs and in the prices of certain imported raw materials (notably crude oil) will, no doubt, be reflected in selling prices. A recovery in economic activity would be accompanied by an increase in the level of imports.

On the other hand, were the political situation to remain disturbed and labour relations difficult, one would have to fear that not only would economic activity and employment be affected, but that conditions of equilibrium would be seriously compromised.





BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

2. Economic policy

Return to growth in conditions of stability depends, therefore, essentially on a lasting normalisation of management/worker relations. As soon as that condition is fulfilled, public authorities will be able to take measures to stimulate and underpin economic activity, taking care at the same time, to limit the extent and duration of the measures, in order to preserve the basic equilibria in the longer term.

This implies, notably, that fiscal operations should exert a less expansive impact on the economy as soon as utilization of productive capacity has reached satisfactory level. The authorities should give high priority to expenditure related to investment, notably in construction, given the particularly low level of activity in this sector.

Furthermore, it would be appropriate to finance the budget deficit by greater recourse to real savings rather than by creation of money. Given the abundance of liquidity, which characterises the Italian economy at the moment, and the risk resulting from this for balanced growth, it would be appropriate to place a strict limit on the growth of the volume of money. Maintenance of a relatively low rate of interest seems, however, to be desirable as long as demand for credit in the private sector remains moderate.

In order to mitigate the effect on prices of the introduction of value added tax, planned for 1 January 1972, it would be appropriate for the Italian authorities to pursue an active price policy based notably on experience gained in the matter by other member countries. A temporary reduction of the rates for staple products, an effort to inform public opinion and monitoring of price developments can all be envisaged. It would seem opportune, moreover, to refrain from increases in public sector tariffs and in regulated prices towards the end of 1971 and at the beginning of 1972.

It would be helpful, moreover, to provide incentives for private saving and to favorize its use for the balanced development of the economy. To this end, provision of construction premia—notably for purchases of houses—and fiscal incentives for certain other

forms of long-term saving, as well as the creation of Italian investment funds, are worthy of consideration.

Given that the expansion of the Italian economy will, without doubt, be relatively weak in 1971, it is desirable that the rate of growth of gross national product in 1972 should be close to the upper end of the range adopted in the third medium-term economic policy programme, i.e. 6%.

In order to favour price stability, it would be appropriate, in the draft budget for 1972, to reduce the cash deficit which has been especially high in recent years.

Major economic policy measures

March

(1) *Following official ministerial authorisation, the price of newspapers was increased on 1 March.*

(2) *Towards the middle of the month, the Government put forward a draft law which would institute new regulations for residential construction. This was inspired by considerations of social welfare policy. The project is intended, through the creation of appropriate financing mechanisms and by accelerating administrative procedures, to produce a revival in residential construction, financed by public authorities (which, in spite of many efforts by the Government, did not represent, in the last few years, more than 5% of total investments in residential construction), as well as the construction of social housing ("edilizia convenzionata"). Apart from that objective—which naturally could not be attained except in the rather long term—residential construction in the private sector must be stimulated by a further extension of tax advantages.*

(3) *Towards mid-March, the ministerial committee for economic programming (CIPE) decides to suspend restrictions on the granting of certain tax advantages designed to encourage investment—restrictions which had been introduced in January for projects to be carried out in regions with a high concentration of industry—and it extends the benefit of these advantages to the tourist sector.*

(4) *Towards the end of the month, the Government institutes a draft law according to the terms of which the capital of the industrial group IRI, con-*

trolled by the State, will be increased by Lit.900 000 million, to be phased over the years 1971 to 1975.

April

(1) By decision of the Government, the maximum prices of cement are increased by between 5.5 and 6.7% on 1 April.

(2) The discount rate of the Bank of Italy, which had been increased in August 1969 and then in March 1970, is reduced from 5.5% to 5.0% with effect from 5 April. The supplement of 1.5 points applicable since 1 July 1969 to most securities, is retained. The cost of re-financed credit with the Bank of Italy had already been reduced in January by a similar amount in the rate for advances against securities.

(3) Towards the middle of the month, the Government decides to supply a dotation Funds at disposal of ENEL, the national enterprise producing electricity.

(3bis) Also towards mid-April, the Government proposes an increase of Lit. 50 000 million in funds available for export credit. Moreover, funds destined for the granting of corresponding interest subsidies were to be increased by Lit.4 500 million annually until 1985.

(4) During the second half of the month, 14 banks agree to carry out a slight reduction (0.5 points) in the rate of interest.

May

(1) With effect from 13 May taxes on import, manufacture and certain types of use of petrol and

heating oil are reduced slightly, but in certain cases only for the remainder of 1971. This measure which, according to official estimates, could result in a drop in tax revenue of Lit.84 000 million is intended to reduce the effect on the level of domestic prices of the increase in crude oil prices which occurred in previous months.

(2) In the middle of the month, the ministerial Committee for credit and savings decides to convert, by the issue of long-term paper and for an amount of Lit.550 000 million, the short-term assets held by credit institutions with respect to the Provinces and Communes. The long-term paper represents liabilities of the Deposit and Loan Bank under the control of the Minister of the Treasury.

(3) In mid-May also, the authorities recognise a crisis situation in the textile industry, and that legal conditions, therefore, exist for the application of special State support measures, notably those in favour of workers in this sector.

June

At the beginning of the month there entered into force a law including certain provisions intended to support the business situation in the construction sector and which, because of its urgency, had been partly removed from the draft law mentioned above for the month of March: an acceleration of public works; a placing at the disposition of communes of the necessary credits Lit.100 000 million) covered, in most cases, by State guarantee; promotion of construction of social housing, notably by the granting of allocations and by further extensions in the periods for certain tax concessions.

TABLE 1: Key indicators

	1966	1967	1968	1969	1970	1970
	% change by volume on preceding year					1963=100
Gross national product	+ 5.9	+ 6.8	+ 6.0	+ 5.9	+ 5.1	142
Industrial production	+ 7.4	+ 8.7	+ 8.7	+ 7.0	+ 6.4	151
Total imports	+ 13.7	+ 12.6	+ 7.5	+ 20.6	+ 17.2	189
Private consumers' expenditure	+ 6.8	+ 7.1	+ 4.7	+ 6.3	+ 8.0	145
Public current expenditure on goods and services	+ 3.2	+ 4.3	+ 4.1	+ 3.3	+ 3.2	129
Gross fixed asset formation	+ 4.0	+ 11.8	+ 7.7	+ 8.0	+ 3.8	122
Total exports	+ 13.2	+ 6.7	+ 15.4	+ 13.8	+ 6.0	225
Gross national product per head of population	+ 5.1	+ 6.0	+ 5.4	+ 5.1	+ 4.8	132
Gross national product per person in employment	7.4	+ 5.7	+ 6.0	+ 7.0	+ 4.6	144
	% change by value on preceding year					
Gross income per employee	+ 7.9	+ 8.5	+ 7.1	+ 8.8	+ 13.7	188

TABLE 2: Indicators for internal and external equilibrium

	1966	1967	1968	1969	1970
Balance exports less imports					
in million u.a.	+ 1 723	+ 1 235	+ 2 274	+ 1 963	+ 637
as percentage of GNP	+ 2.7	+ 1.8	+ 3.0	+ 2.4	+ 0.7
Unemployment rate	3.9	3.5	3.5	3.4	3.1
price index of private consumers' expenditure (% change on preceding year)	+ 2.9	+ 3.0	+ 1.6	+ 2.9	+ 4.8

Italy

TABLE 3: Foreign trade (at current prices)

	% change on preceding year					Indices 1963 = 100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 11.7	+ 8.3	+ 17.0	+ 15.2	+ 12.6	262	13 207	100.0
Intra-EEC	+ 12.8	+ 3.3	+ 20.9	+ 22.2	+ 13.6	316	5 660	42.9
To non-EEC countries	+ 11.0	+ 11.6	+ 14.5	+ 10.5	+ 11.9	232	7 547	57.1
Exports of food, beverages and tobacco								
Total	+ 1.5	+ 4.7	- 3.7	+ 15.6	+ 9.2	160	1 098	8.8
Intra-EEC	+ 0.4	- 1.7	- 1.3	+ 21.4	+ 5.7	179	582	4.4
To non-EEC countries	+ 2.8	+ 12.4	- 6.1	+ 9.3	+ 13.4	142	516	3.9
Exports of raw materials, fuel and power								
Total	+ 10.6	+ 9.1	+ 14.1	+ 1.4	+ 10.3	209	990	7.5
Intra-EEC	+ 21.5	+ 15.9	+ 14.7	- 2.0	+ 9.6	287	366	2.8
To non-EEC countries	+ 5.2	+ 5.3	+ 13.7	+ 3.6	+ 10.6	181	624	4.7
Exports of semi-finished and finished industrial goods								
Total	+ 13.4	+ 8.8	+ 20.0	+ 16.7	+ 13.2	286	11 119	84.2
Intra-EEC	+ 14.6	+ 3.2	+ 25.4	+ 24.9	+ 15.0	352	4 712	35.7
To non-EEC countries	+ 12.6	+ 12.4	+ 16.7	+ 11.5	+ 11.9	252	6 407	48.5
Visible imports								
Total	+ 16.7	+ 12.9	+ 4.3	+ 21.4	+ 19.4	197	14 865	100.0
Intra-EEC	+ 21.6	+ 21.5	+ 9.1	+ 29.9	+ 27.4	248	6 140	41.8
From non-EEC countries	+ 14.4	+ 8.8	+ 1.8	+ 16.6	+ 14.3	172	8 725	58.7
Imports of food, beverages and tobacco								
Total	+ 9.7	+ 0.7	+ 8.5	+ 14.9	+ 18.0	189	2 499	16.8
Intra-EEC	+ 13.5	+ 26.6	+ 29.0	+ 26.8	+ 20.9	397	954	6.4
From non-EEC countries	+ 8.7	- 6.4	+ 0.9	+ 9.2	+ 8.1	143	1 545	10.4
Imports of raw materials, fuel and power								
Total	+ 15.1	+ 13.7	+ 1.0	+ 13.0	+ 11.8	180	4 663	31.4
Intra-EEC	+ 18.2	+ 14.2	- 3.0	+ 20.6	+ 16.6	219	697	4.7
From non-EEC countries	+ 14.6	+ 13.6	+ 1.7	+ 11.8	+ 11.0	174	3 966	26.7
Imports of semi-finished and finished industrial goods								
Total	+ 22.0	+ 18.8	+ 8.6	+ 31.0	+ 27.1	213	7 704	51.8
Intra-EEC	+ 24.2	+ 22.3	+ 8.1	+ 32.4	+ 30.8	284	4 439	30.2
From non-EEC countries	+ 19.4	+ 14.5	+ 9.2	+ 29.0	+ 22.2	188	3 215	21.6

TABLE 4: Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	146.1	143.9	147.3	147.7	145.0	151.5	150.0	136.6	137.6	127.5	126.5	133.3
	1970	152.7	154.1	153.1	150.0	146.6	149.8	153.0	144.1	152.7	147.6	151.2	151.3
	1971	152.7	151.5	151.4									
Unemployed (1 000)	1969	933.8	938.7	915.3	895.8	883.0	896.6	883.3	875.3	879.5	868.4	844.7	828.6
	1970	847.4	844.0	847.7	845.6	850.2	863.1	878.0	890.6	930.0	939.0	962.0	953.6
	1971	1 007.3	1 027.1										
Construction: permits for residential construction (1 000)	1969	19.4	21.4	23.3	21.4	25.3	22.8	25.1	22.6	25.8	25.3	24.5	24.4
	1970	17.0	22.3	24.6	25.3	27.5	24.8	27.0	21.5	23.2	24.5	24.1	38.4
	1971	13.9											
Private consumers' expendi- ture: department store turnover (1963 = 100)	1969	137.9	150.3	146.8	154.1	149.7	149.6	159.5	159.9	152.2	155.0	161.1	156.7
	1970	155.1	150.6	164.4	159.7	182.0	162.7	174.6	182.2	183.2	174.3	169.2	185.5
	1971	182.1	177.1	198.4	170.8	170.2	195.1	198.9	197.6	202.0	212.9	189.2	206.6
Consumer prices (1963 = 100)	1969	119.9	120.1	120.6	121.1	121.4	121.8	123.1	122.9	123.1	123.4	124.1	124.6
	1970	125.1	126.1	126.6	127.2	127.7	128.0	128.2	128.4	129.2	129.8	130.8	131.3
	1971	131.8	132.3	132.8	133.2								
Visible imports (million u.a.)	1969	972.8	940.1	934.1	995.7	1 046.7	1 078.2	1 093.4	1 076.2	1 108.8	1 007.4	1 110.8	1 114.2
	1970	1 175.0	1 058.6	1 143.0	1 250.9	1 252.9	1 320.4	1 311.2	1 287.1	1 336.8	1 218.9	1 333.3	1 253.4
	1971	1 165.5	1 267.0	1 495.2									
Visible exports (million u.a.)	1969	936.9	935.4	912.4	1 025.0	1 075.8	1 008.6	1 085.8	921.4	995.7	913.6	1 007.5	860.4
	1970	1 079.2	943.4	1 012.1	1 119.4	1 114.0	1 156.2	1 141.6	1 104.6	1 135.2	1 198.9	1 134.9	1 088.5
	1971	1 095.8	1 191.5	1 178.7									
Balance of trade (million u.a.)	1969	- 35.9	- 4.6	- 21.7	+ 29.3	+ 29.1	- 69.6	- 7.6	- 154.8	- 113.1	- 93.8	- 103.3	- 253.8
	1970	- 95.8	- 115.2	- 130.9	- 131.5	- 138.9	- 164.2	- 169.6	- 182.5	- 201.6	- 20.0	- 198.4	- 164.9
	1971	- 69.7	- 75.5	- 316.5									
Official gold and foreign exchange reserves (net million u.a.)	1969	4 727	4 636	4 493	4 571	4 366	4 514	4 582	4 686	4 547	4 566	4 668	4 696
	1970	4 457	3 943	3 947	3 923	4 368	4 233	4 130	4 226	4 411	4 776	4 903	5 271
	1971	5 652	5 836	5 994	6 174								
Money supply (Lit. '000 million)	1969	20 440	20 379	20 836	20 845	21 282	21 558	21 590	21 681	22 138	22 351	22 831	24 388
	1970	23 839	24 122	24 689	24 896	25 538	26 117	26 522	26 660	27 247	27 811	28 452	31 108
	1971	30 416	30 120	29 781									

NOTES TO GRAPHS AND TABLES

Source : Statistical Office of the European Communities (except as otherwise indicated).
Conversion into units of account (1 u.a. = 0.888671 g of fine gold = US\$ 1) at official exchange rates.

Graph 1

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

Graph 2

Industrial production (excluding construction, food, beverages and tobacco) : indices adjusted for seasonal variations; three months moving averages.

Graph 3

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

Graph 4

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

Graph 5

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

Graph 6

Merchandise trade balance : difference between the figures for seasonally adjusted exports and seasonally adjusted imports.

Graph 7

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

Table 1

Source for 1968 and 1969 : Relazione generale sulla situazione economica del Paese (1970).

GNP at market prices.

Industrial production : value added by industry at factor cost.

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

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

Table 2

Net exports : goods, services and factor income.

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

Source ISTAT.

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

Table 3

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

Table 4

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

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

Construction : dwellings authorized in the provincial capitals and in other communes with more than 20 000 inhabitants; figures not seasonally adjusted.

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

Consumer prices : unadjusted index.

Imports cif, exports fob; adjusted for seasonal variations.

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

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

Money supply : notes and coin in circulation excluding cash holdings of the Treasury. Sight deposits of non-banking sector with credit institutions, bank drafts in circulation (whether *vaglia* or *assegni*) issued by the Banca d'Italia and other banks and credit institutions; position at end of month.

D. Netherlands

Demand pressure on resources has remained strong in recent months, while the push of wage costs grew much stronger towards mid-year. The high rate of increase of domestic prices has been aggravated by a continued fast rise in prices of imported goods. This development has also contributed to a continued substantial deficit in the balance of payments.

1. The economic situation

During the first half of 1971, pressure on resources has persisted in the Netherlands, although demand pressure has not been quite as strong as in 1970. The development of private consumption has certainly tended to moderate somewhat, but as much by way of reaction to speculative purchases carried out at the end of 1970, as reflecting the temporary slow-down in wage increases, following stabilisation measures taken at the same time. Moreover, it is possible that enterprises' investment in plant and equipment, as well as stockbuilding, has shown a less buoyant expansion. On the other hand, construction investment has been strongly stimulated by exceptionally favourable climatic conditions. While exports have reflected, since the summer 1970, the reduced dynamism of the world economy, they have continued to develop at a fairly rapid rate.

Domestic production growth accelerated in the first few months of 1971; more recently, a clearer differentiation between sectors seems to have led to a certain moderation in the rate of expansion. During the first quarter industrial production exceeded the level reached one year earlier by 7.6%. On the labour market, the slight tendency to relaxation has continued, as is shown notably by the drop in the number of jobs vacant. In April the unemployment rate amounted to 1.3% against 1.2% in April 1970.

The rise of consumer prices has become more marked since the end of last year. In April,

the consumer price index exceeded the level reached at the end of December 1970 by 4.5%.

The deterioration in the current balance of payments has continued. In the first quarter, the deficit reached Fl.625 million, against Fl.230 million one year previously. The persistent influx of capital has, however, produced during the same period an increase in official gold and currency reserves of Fl.1 104 million.

The expansion of short-term bank credit to enterprises and to private individuals has remained within the limits fixed by the monetary authorities. Also, although operations by public administrations have had an expansionary effect, the degree of liquidity of the economy (primary and secondary liquidity in relation to national income) has diminished slightly during the first quarter. At the end of March 1971, the volume of money exceeded the level registered one year earlier by 15.8%.

The measures adopted by the Dutch Government on exchange rates on 9 May 1971 seem unlikely to have a significant influence on the development of the economy during the second half of 1971, taking account of their temporary character and the importance of Dutch trade with Germany. In the absence of new stabilisation measures, conditions of equilibrium will remain fragile. While the growth of fixed investment by enterprises will again tend to weaken, the catch-up movement in salary increases expected during the second half of the year—following the expiration of

Demand for and supply of goods and services

	1968 ¹	1969 ¹		1970 ²		1971 ³	
	At current prices (in Fl. '000 million)	% change on preceding year					
		Volume ⁵	Value	Volume ⁵	Value	Volume ⁶	Value
Exports ⁴	42.06	+ 15.6	+ 17.5	+ 12½	+ 18½	+ 9	+ 11
Gross fixed asset formation	24.18	+ 0.6	+ 7.9	+ 7	+ 15½	+ 6	+ 12½
Public consumption	14.33	+ 1.7	+ 11.8	+ 3½	+ 12½	+ 3	+ 14
Private consumption	51.67	+ 4.0	+ 10.5	+ 7½	+ 11½	+ 5	+ 11½
Gross national product	91.87	+ 5.1	+ 11.4	+ 6	+ 11	+ 4	+ 11
Imports ⁴	41.47	+ 14.5	+ 18.4	+ 14½	+ 22	+ 8½	+ 11

¹ Centraal Bureau voor de Statistiek.

² CPB estimates.

³ Forecasts.

⁴ Goods, services and factor incomes.

⁵ At 1963 prices.

⁶ At preceding year's prices.

Note :

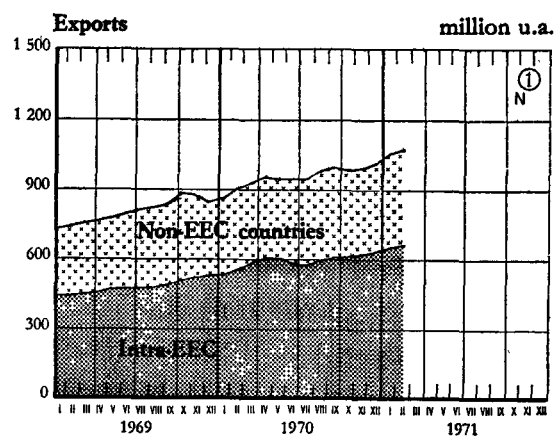
(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

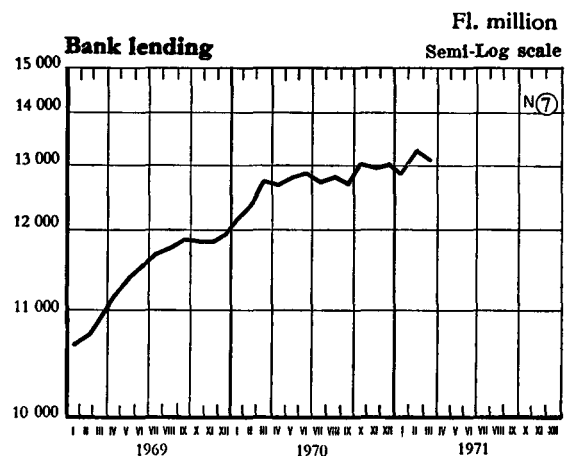
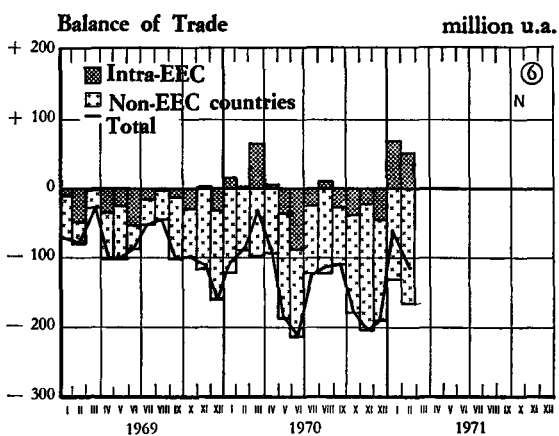
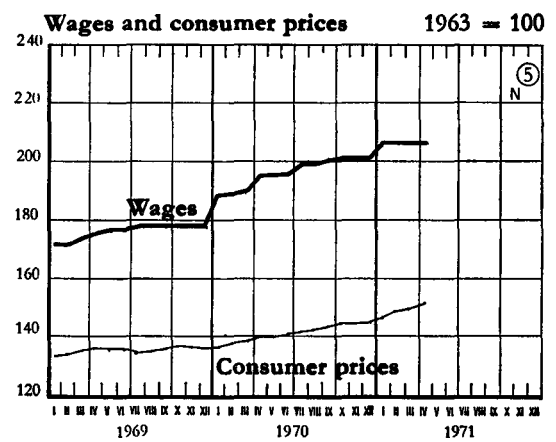
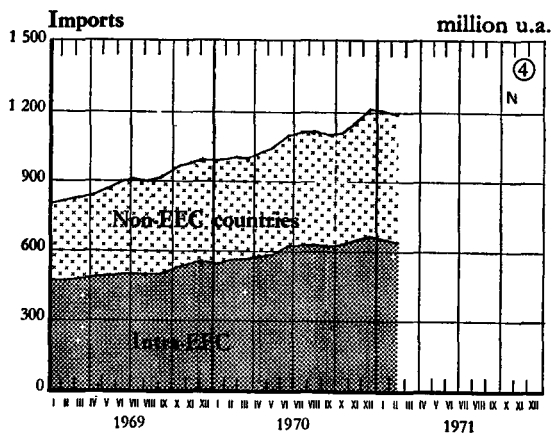
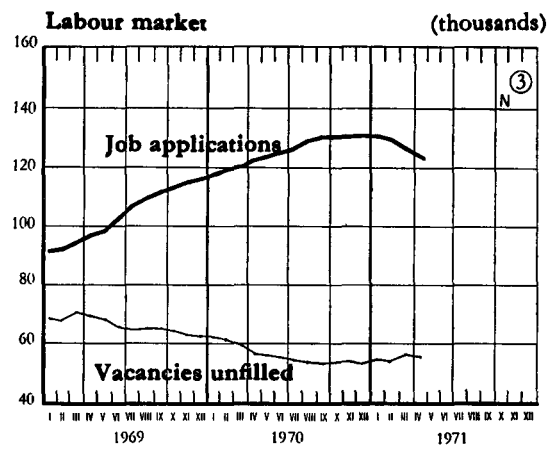
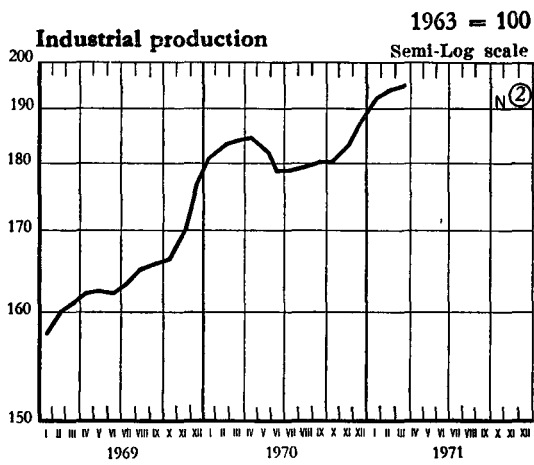
(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries, but are established and published on the sole responsibility of the Commission.

measures of restraint—should produce a significantly more rapid growth of private consumption expenditure. Furthermore, demand abroad might again become more dynamic after the summer.

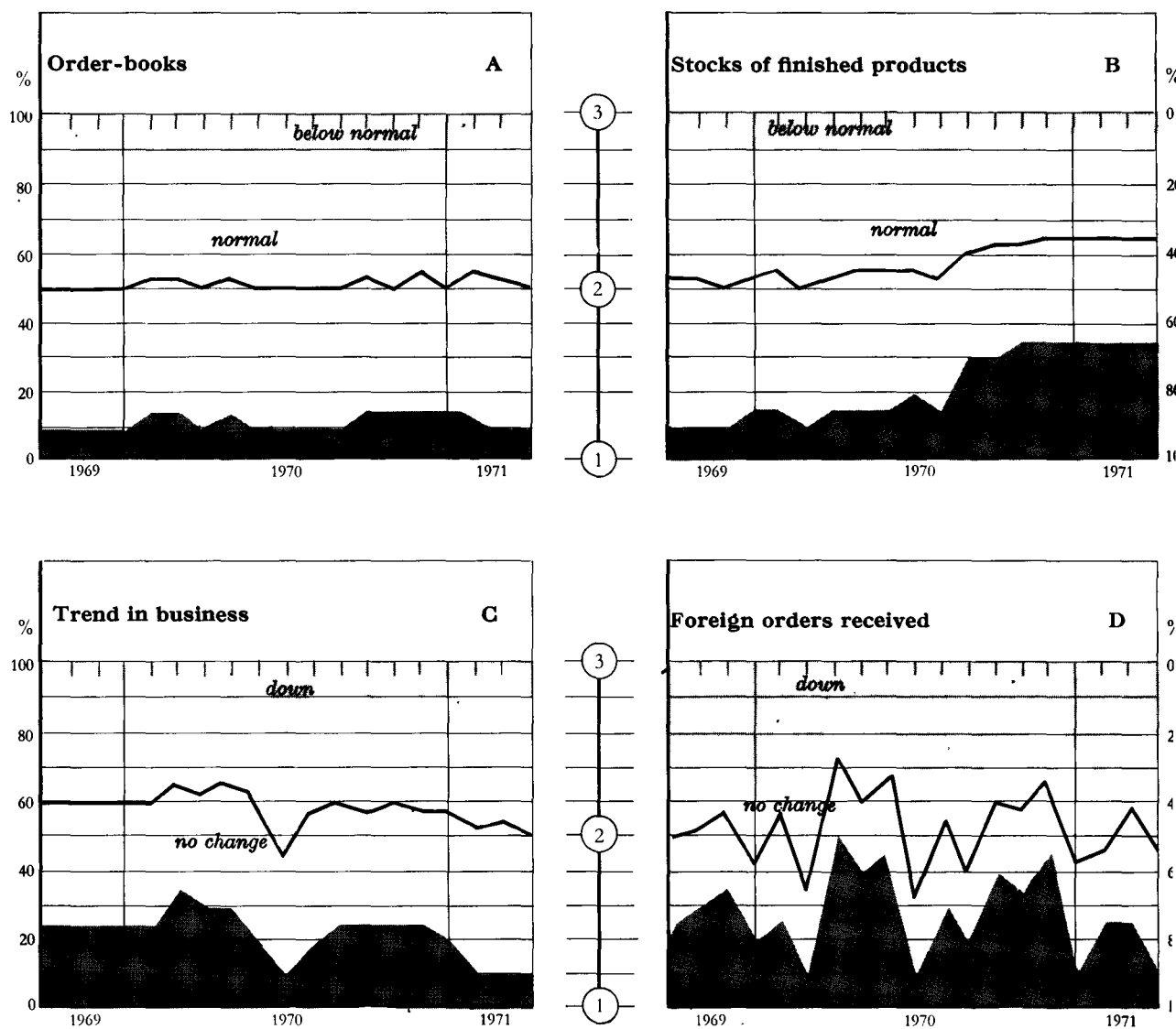
On these assumptions, production will continue to expand, and one must expect that the propensity to import will remain high.

The continuing push of production costs will entail continuing marked pressure on domestic prices. The current balance of payments will probably remain in deficit.





BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

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

2. Economic policy

It is a matter of the highest importance for the domestic economy that the self re-inforcing process of inflationary pressures should be interrupted, since this threatens to compromise external equilibrium for a long period and, as a consequence, the Dutch economy's growth potential.

Given the continuing serious nature of pressure in the economy, more intensive use of the classical tools of demand management would be appropriate. In the first place, if one wishes to avoid an increase in the tax burden, which is already higher than in other countries of the Community, a detailed examination of the priority of various types of public expenditure should make it possible to decide on a reduction in credits. This could influence significantly the growth of expenditure in the second half year, in such a way as to reduce their increase to the limits foreseen in the revised budget (12.5% compared with the budget forecasts for 1970). A parallel action should be undertaken at the local authority level through a programme of strict limitation of the funds to which these administrations are allowed access.

At the same time, the monetary authorities could benefit from the new conditions on international markets to make their restrictive policies more effective.

Pursuit of restrictive policies by the public authorities appears to be the more important, since it should encourage the two sides of industry to maintain their collaboration in efforts towards stabilisation at the end of the period of wage and salary moderation, which came into force at the beginning of 1971.

The persistence of disequilibria during such a long period implies, for the re-establishment of balanced growth, the necessity of tenacious and prolonged action. Preliminary forecasts for 1972 suggest, however, as much in the field of prices as from the point of view of the external balance, a continuing wide divergence from medium-term quantitative guidelines.

The 1972 draft budget should be drawn up with the emphasis on consolidation of fundamental equilibria and should include a clear reduction in the impulse emanating from public finances.

Major economic policy measures

March

Measures for the restriction of short-term credit to the private sector by the commercial and agricultural banks, as well as by the post office, are extended for the months of March and April 1971. The increase authorised is 2%, compared with the average level reached during the final quarter of 1970.

April

(1) The Government approves the draft law concerning the annual correction for the effects of inflation on wage and income tax scales.

(2) Pensions are increased retro-actively to 1 March 1971; family allowances are increased.

(3) Following the reduction of interest rates in international markets and inflows of capital from abroad, the Nederlandsche Bank reduces the discount rate from 6 to 5.5% with effect from 5 April.

(4) In the memorandum to the Second Chamber on the subject of execution of the State budget for 1971, the Minister of Finance estimates that, thanks to stabilisation measures, the budget deficit will amount this year to Fl.1 710 million, against the 2 062 million originally foreseen.

May

(1) The measures for the restriction of short-term bank credit to the private sector are extended for the period May/August 1971. As in 1970, the expansion authorised is fixed at 1% of the average level reached during the final quarter of the preceding year.

(2) It is decided to increase wages and salaries in public administrations by 4.5% from 1 July.

(3) In a note on the memorandum prepared by the Central Planning Bureau on the subject of "Economic Prospects for the years 1972 to 1975", the Economic and Social Council recommends that all efforts should be concentrated as a first priority in 1971 and 1972 on policy measures directed

against inflation and deficit financing of public expenditure.

(4) Following the session of the Council of the European Communities and an analogous decision by the German Government, the Dutch authorities maintain the parity of the Florin, but decide to increase temporarily the band within which it can fluctuate, with effect from 10 May.

(5) Certain banking institutions announce that they will no longer pay interest on Florin deposits by foreign banks and non-residents.

(6) Various measures are taken in the field of price policy (a cut in the price of heating oil, an increase in the price of petrol, cigarettes, newspapers, hairdressers' charges, building prices and railway fares etc.).

TABLE 1 : Key indicators

	1965	1966	1967	1968	1969	1969
	% change by volume on preceding year					Indices 1963=100
Gross national product	+ 5.4	+ 2.6	+ 5.8	+ 6.7	+ 5.1	140
Industrial production	+ 6.3	+ 5.9	+ 5.7	+ 10.6	+ 8.2	158
Total imports	+ 6.5	+ 7.3	+ 6.7	+ 13.2	+ 14.5	181
Private consumers' expenditure	+ 7.4	+ 3.4	+ 5.2	+ 5.9	+ 4.0	136
Public current expenditure on goods and services	+ 1.6	+ 1.6	+ 2.8	+ 1.2	+ 1.7	111
Gross fixed asset formation	+ 4.9	+ 8.5	+ 8.1	+ 11.6	+ 0.6	163
Total exports	+ 7.6	+ 5.2	+ 7.8	+ 12.3	+ 15.6	177
Gross national product per head of population	+ 4.0	+ 1.2	+ 4.6	+ 5.6	+ 3.9	130
Gross national product per person in employment	+ 4.5	+ 1.8	+ 6.1	+ 5.8	+ 3.6	132
	% change by value on preceding year					
Gross income per employee	+ 11.7	+ 11.1	+ 9.2	+ 8.7	+ 11.2	191

TABLE 2 : Indicators for internal and external equilibrium

	1965	1966	1967	1968	1969
Balance exports less imports					
in million u.a.	+ 76	- 135	+ 23	+ 163	+ 91
as percentage of GNP	+ 0.4	- 0.6	+ 0.1	+ 0.6	+ 0.3
Unemployment rate	0.8	1.0	2.0	1.9	1.5
prices to private consumers (% change on preceding year)	+ 4.2	+ 5.4	+ 3.4	+ 2.6	+ 6.3

Netherlands

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1963=100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 5.6	+ 7.9	+ 14.5	+ 19.6	+ 18.3	238	11 789	100
Intra-EEC	+ 5.3	+ 6.7	+ 19.7	+ 25.1	+ 22.0	276	7 312	62.0
To non-EEC countries	+ 6.0	+ 9.4	+ 8.2	+ 12.1	+ 12.7	193	4 478	38.0
Exports of food, beverages and tobacco								
Total	+ 0.3	+ 9.9	+ 15.9	+ 15.4	+ 18.5	216	2 738	23.2
Intra-EEC	- 0.2	+ 9.6	+ 22.1	+ 19.6	+ 22.8	264	1 902	16.1
To non-EEC countries	+ 1.0	+ 10.5	+ 6.1	+ 7.8	+ 9.8	153	836	7.1
Exports of raw materials, fuel and power								
Total	- 0.4	+ 10.1	+ 12.8	+ 20.0	+ 31.8	232	2 164	18.4
Intra-EEC	- 0.7	+ 10.7	+ 22.5	+ 26.0	+ 34.8	265	1 353	11.5
To non-EEC countries	- 0.1	+ 9.5	+ 1.7	+ 11.7	+ 27.2	192	811	6.9
Exports of semi-finished and finished industrial goods								
Total	+ 9.7	+ 6.6	+ 14.4	+ 21.1	+ 14.5	254	6 887	58.4
Intra-EEC	+ 9.8	+ 4.5	+ 17.8	+ 27.5	+ 17.9	291	4 057	34.4
To non-EEC countries	+ 9.6	+ 9.0	+ 10.6	+ 13.4	+ 10.0	215	2 831	24.0
Visible imports								
Total	+ 7.5	+ 4.0	+ 11.5	+ 17.3	+ 23.0	224	13 395	100
Intra-EEC	+ 8.7	+ 5.0	+ 13.2	+ 19.2	+ 22.1	243	7 484	55.9
From non-EEC countries	+ 6.0	+ 2.9	+ 9.5	+ 15.0	+ 24.1	205	5 911	44.1
Imports of food, beverages and tobacco								
Total	+ 3.9	+ 11.3	+ 9.7	+ 19.0	+ 13.5	205	1 686	12.6
Intra-EEC	+ 8.8	+ 22.7	+ 28.1	+ 49.4	+ 5.1	405	607	4.5
From non-EEC countries	+ 2.5	+ 7.6	+ 3.2	+ 5.4	+ 18.8	161	1 079	8.1
Imports of raw materials, fuel and power								
Total	+ 0.9	+ 5.2	+ 8.6	+ 13.8	+ 24.3	194	2 747	20.5
Intra-EEC	+ 7.7	+ 9.9	+ 4.8	+ 3.0	+ 7.1	155	475	3.5
From non-EEC countries	- 0.9	+ 3.9	+ 9.7	+ 16.9	+ 28.7	205	2 272	17.0
Imports of semi-finished and finished industrial goods								
Total	+ 10.5	+ 2.2	+ 12.8	+ 18.1	+ 24.5	248	8 962	66.9
Intra-EEC	+ 8.8	+ 3.3	+ 12.9	+ 18.1	+ 25.3	252	6 402	47.8
From non-EEC countries	+ 14.7	- 0.3	+ 12.6	+ 18.1	+ 22.5	239	2 560	19.1

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	156.2	159.7	161.4	160.2	162.0	161.8	165.1	164.8	163.2	167.5	176.8	180.9
	1970	180.2	183.5	184.9	182.7	177.6	175.6	183.9	179.4	177.2	183.9	187.1	192.1
	1971	198.2	199.8										
Unemployed (1 000)	1969	70.2	69.6	70.9	67.5	64.9	63.9	64.6	65.8	64.0	63.4	62.2	63.7
	1970	62.4	57.5	57.0	55.6	57.0	56.6	53.2	53.9	55.6	56.6	54.7	51.5
	1971	59.0	53.5	58.4	57.6								
Construction : permits for residential construction (1 000)	1969	9 893	8 959	12 663	11 359	10 793	9 869	6 864	14 422	11 121	9 424	10 450	12 821
	1970	10 988	7 495	12 373	10 701	10 541	11 451	12 557	14 398	13 342	12 261	9 929	8 888
	1971	14 664	6 985	10 576									
Private consumers' expendi- ture : department store turnover (1963 = 100)	1969	170	191	196	192	210	198	186	206	197	202	200	222
	1970	208	214	215	210	226	217	215	217	222	246	208	249
	1971	218											
Consumer prices (1963 = 100)	1969	132.3	133.4	134.4	135.6	135.4	135.4	134.2	134.9	135.8	136.4	136.2	136.1
	1970	136.6	137.9	139.3	139.9	139.8	140.5	140.9	142.3	143.3	143.8	143.8	143.9
	1971	145.3	147.4	148.5	150.4								
Visible imports (million u.a.)	1969	816.8	845.9	821.4	883.5	916.5	907.5	894.3	912.5	976.0	1 015.2	966.2	1 031.7
	1970	1 003.9	1 045.6	985.3	1 081.1	1 116.8	1 167.7	1 109.9	1 117.2	1 119.0	1 129.4	1 264.1	1 256.8
	1971	1 105.0	1 222.5										
Visible exports (million u.a.)	1969	745.2	766.4	797.6	780.3	815.9	823.7	839.8	864.2	837.7	916.3	851.9	875.0
	1970	900.3	952.1	946.4	994.3	928.7	953.7	988.8	1 010.0	1 013.9	952.1	1 062.4	1 065.1
	1971	1 044.5	1 105.1										
Balance of trade (million u.a.)	1969	- 71.6	- 79.5	- 23.8	- 103.2	- 100.6	- 83.8	- 54.5	- 48.3	- 102.3	- 98.9	- 114.3	- 156.7
	1970	- 103.6	- 93.5	- 38.9	- 86.8	- 188.1	- 214.0	- 121.1	- 107.2	- 105.1	- 177.3	- 201.7	- 191.7
	1971	- 60.5	- 117.4										
Official gold and foreign exchange reserves (million u.a.)	1969	1 892	1 937	1 954	1 981	2 046	1 965	2 031	1 999	2 005	2 502	2 235	2 090
	1970	2 126	2 096	2 108	2 046	2 018	2 038	2 131	2 267	2 359	2 622	2 593	2 552
	1971	2 359	2 552	2 685	2 594								
Money supply (million u.a.)	1969	6 066	6 065	6 076	6 071	6 175	6 191	6 163	6 197	6 234	6 465	6 414	6 486
	1970	6 505	6 486	6 645	6 698	6 842	6 804	6 915	6 932	7 057	7 147	7 198	7 227
	1971	7 474	7 536										

NOTES TO GRAPHS AND TABLES

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

Conversion into units of account (1 u.a. = 0.888671 g of fine gold = US\$ 1) at the official exchange rates.

Graph 1

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

Graph 2

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

Graph 3

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

Graph 4

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

Graph 5

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

Graph 6

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

Graph 7

Bank lending : short-term bank loans; end-of-period figures.

Table 1

GNP at market prices.

Industrial production: value added by industry.

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

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

Table 2

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

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

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

Table 3

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

Table 4

Industrial production: adjusted for seasonal variations, excluding construction and foodstuffs.

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

Construction: seasonally adjusted number of dwellings authorized.

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

Consumer prices: not adjusted for seasonal variations.

Imports cif, exports fob; conversion at official exchange rates; figures adjusted for seasonal variations.

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

Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange at end of month.

Money supply: notes and coin in circulation excluding cash holdings of monetary institutions, plus sight deposits with credit institutions; seasonally adjusted end-of-month figures.

E. Belgo-Luxembourg Economic Union

Belgium

After the disappearance of special factors which had temporarily stimulated economic activity at the beginning of 1971, it seems that the trend towards a slowdown in the growth of overall demand has again become dominant during the spring. Pressure on costs has, however, remained unabated; it will seriously affect price developments during the next few months.

1. The economic situation

The expansion of demand, which was rather marked at the beginning of 1971, has slowed down somewhat during recent months. The development of exports is less strong than it was. Domestic demand has remained strong overall, but it appears to have suffered a dampening impact as a result of normalisation of stock levels. On the other hand, private consumption expenditure, which had slowed down at the beginning of the year, has begun again to expand rather rapidly. Increases in salary rates in several sectors and the bringing forward of increases related to sliding scales resulted in an increase in hourly earnings of the order of 13% year on year. Moreover, fixed investment has, without doubt, continued to develop quite rapidly, partly as a result of the effect on construction activity of exceptionally favourable weather conditions.

The growth of domestic demand accelerated slightly at the beginning of 1971; in January/February, industrial production was even 11.1% above its level one year earlier. The labour market has continued to ease very slightly, as is shown by the persisting reduction in jobs vacant. In April/May 1971, the unemployment rate was rather below its level one year earlier (1.9%).

Mainly as a result of the introduction of value added tax, the consumer price index

rose by 2.5% from December 1970 to May 1971.

The overall balance of payments continued to show a large surplus in the first quarter of 1971, in spite of a slight drop in the positive balance on current payments. Net foreign assets of the monetary authorities increased by Bfrs.6 000 million in January/March. The continued inflow of capital from abroad was not completely reflected in the level of liquidity in the economy for the reason that the public authorities took action to reduce the monetary financing of public administration, because of the less rapid growth of bank credit granted to firms and individuals. At the end of March, the volume of money exceeded the level reached one year earlier by only 7%.

In the second half of 1971, the trend of the development of overall demand is unlikely to show any great change. Exports to non-member countries are likely to develop with hesitation. The slowdown in the growth of fixed investment will be another factor moderating growth of domestic demand. On the other hand, growth of private consumption will return to quite a rapid rate, paralleling the strong increase in disposable incomes of households. On the whole, domestic supply should show a moderate development.

The increase in consumer prices in the course of the next few months will be probably quite

Demand for and supply of goods and services

	1968 ¹	1969 ¹		1970 ²		1971 ³	
	At current prices (in Bfrs '000 million)	% change on preceding year					
		Volume ⁵	Value	Volume ⁵	Value	Volume ⁶	Value
Exports ⁴	422.0	+ 15.6	+ 21.1	+ 11½	+ 16	+ 8½	+ 10½
Gross fixed asset formation	218.2	+ 7.1	+ 11.4	+ 5½	+ 11½	+ 5	+ 12
Public consumption	144.0	+ 7.5	+ 12.2	+ 5	+ 10	+ 4½	+ 12½
Private consumption	660.7	+ 5.5	+ 7.7	+ 5½	+ 9	+ 4	+ 10½
Gross national product	1 036.9	+ 6.5	+ 10.3	+ 5½	+ 10	+ 4	+ 10½
Imports ⁴	418.8	+ 15.8	+ 19.8	+ 10½	+ 15	+ 9½	+ 12

¹ Institut national de Statistique (I.N.S.).

² Estimates.

³ Forecasts.

⁴ Goods, services and factor incomes.

⁵ At 1963 prices.

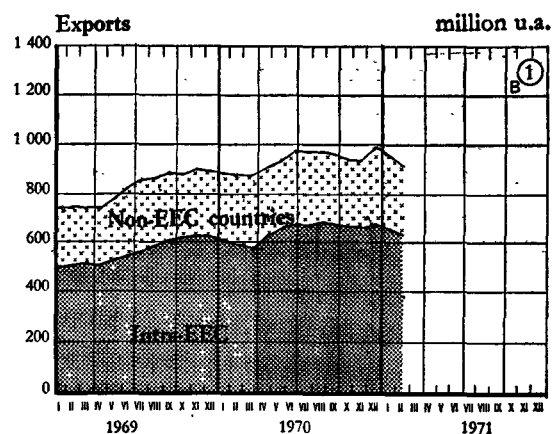
⁶ At preceding year's prices.

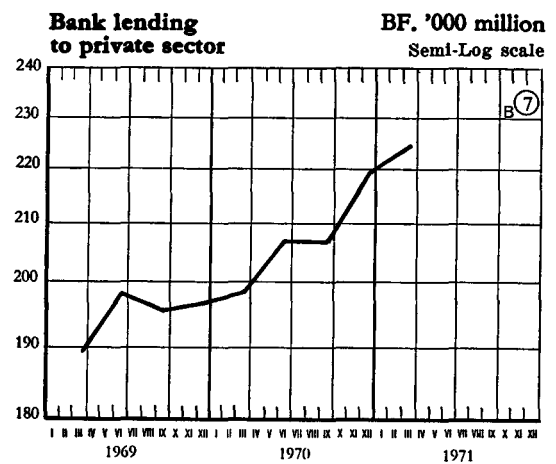
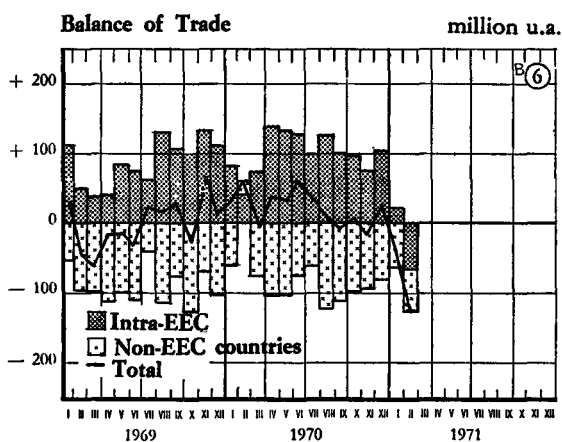
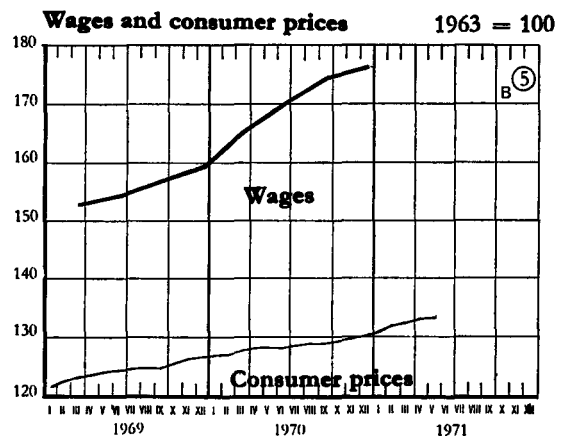
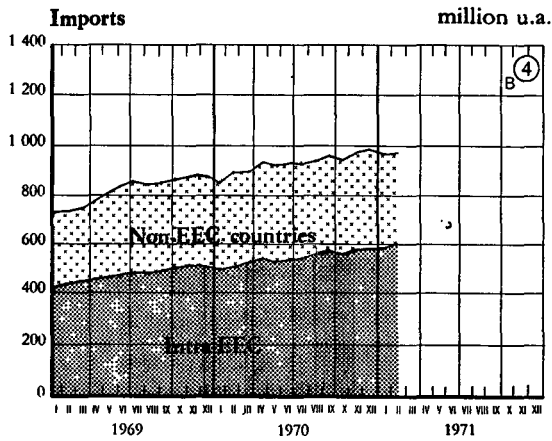
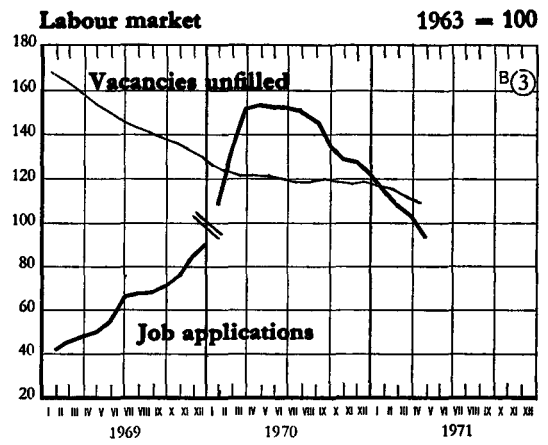
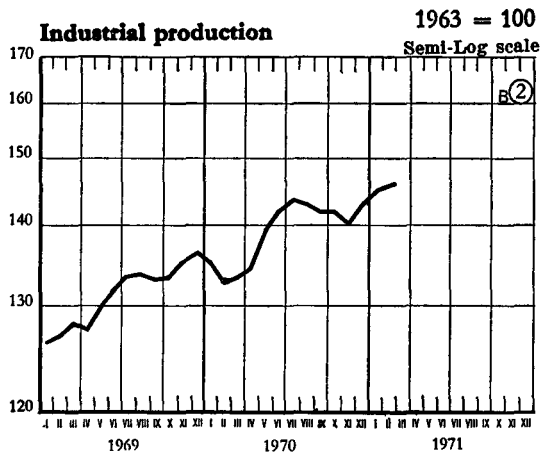
Note :

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

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

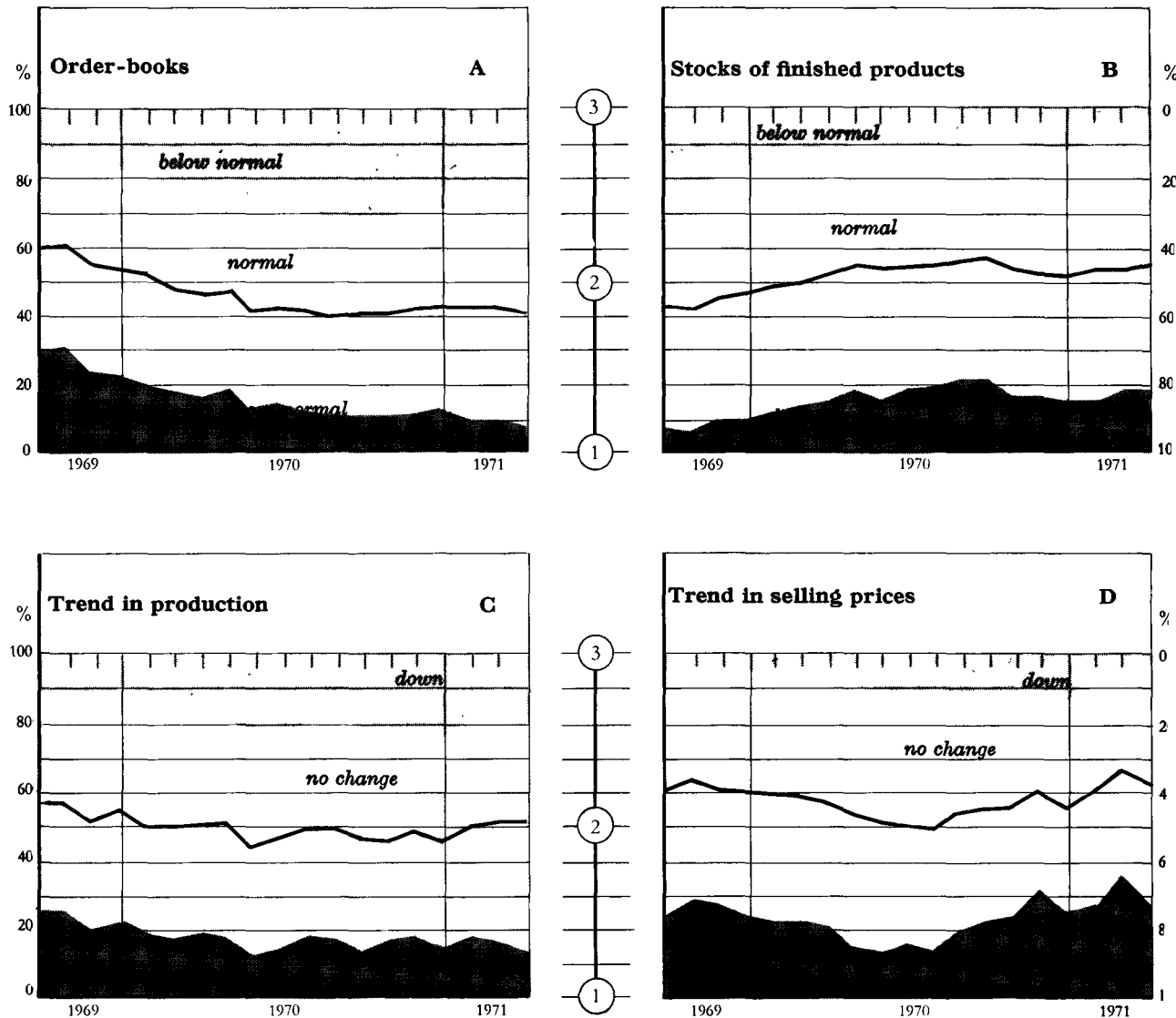
fast, not only as a result of continued cost pressure, but also as a result of numerous price adjustments which should be gradually permitted by the authorities after the strict control exercised over them until the spring. A faster growth of imports would bring a substantial reduction in the current balance of payments surplus in the second half of the year.





Belgium

BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

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

2. Economic policy

Moderation of the rate of cost and price rises should constitute a primary objective in the next few months.

Measures to this end might include notably a reduction in the high public budget deficit. Taking account of new expenditure, which is automatic after 1 July, following agreements on public sector wages and salaries, a corresponding reduction implies a net cut in expenditure of a lower priority, of recourse to tax increases by means affecting the development of consumer prices to the least possible extent.

Likewise, it should be appropriate to adopt a more restrictive direction for monetary policy and to sharpen its impact by improving the instruments by which the Central Bank controls growth of liquidity of the banking system and in the economy.

Given the firm determination of public authorities to curb inflationary trends, a corresponding attitude on the part of employers and trades unions is needed. They should show greater moderation in their wage and price demands.

Tentative forecasts for 1972 admittedly show that growth of employment will remain slightly below the guidelines adopted in the third medium-term economic policy programme. Efforts intended on a short-term view to compensate these slight deviations would risk weakening the competitive position of a very open economy. It would be appropriate, rather, to pursue a policy intended to stabilise costs and prices since they are likely to rise much in excess of the medium-term guidelines. For this reason, efforts to reduce the budget deficit should be continued with energy in 1972.

Major economic policy measures

March

(1) On 25 March 1971, the Central Bank reduces the discount rate from 6.5% to 6.0%, while other official interest rates are reduced by 1 point. Restrictions on short-term bank credit to firms

and to private individuals are prolonged until the end of September 1971. The growth of consumer credit is limited to 9% in June, and to 12% in September, compared with September 1970. The authorised expansion of short-term credit granted by non-bank organisations is fixed at 9% of the ceiling imposed for the month of September 1970. Furthermore, the Central Bank reduces the discount and visa ceiling of the banks and invites them to limit their recourse to foreign borrowing.

(2) In order to take account of the exceptional situation resulting from the introduction of the VAT, the Belgian Government decides to advance from 1 May to 1 April the adjustment to the consumer price index of social security benefits and of public sector wages and salaries. Likewise, the employers' organisations recommend firms to advance by one month salary increases linked to the consumer price index.

(3) An agreement of principle is concluded between the Government and representatives of civil servants with a view to an increase in civil service wages and salaries from 1 July and within the framework of the social program foreseen for this sector.

April

(1) The rate of export tax is reduced from 1.75% to 0.50% for a wide range of products.

(2) Various measures are taken in the field of prices: the prolongation for an unlimited period of the order imposing a reduction of 3% on the price of beef and pork; postponement until 1 July of the application of the increase in excise taxes (*droits d'accises*) on mineral waters and lemonade; prolongation of the reduction in VAT rates for certain products (coal, coke etc.); temporary freezing of telephone charges and railfares; fixing of the consumer price of milk; conclusion of new programmed contracts with the non-ferrous metal sector and that of household electric goods.

(3) The Government announces to the National Committee for Economic Growth various measures intended to cover the social security deficit: an increase of 0.5% in employers' contributions to unemployment insurance and an increase in salary ceilings for compulsory contributions; an increase in employers' contributions to disablement insurance; raising of the ceiling for contributions to sickness insurance and imputation of the extra charges to the

employers. Most of these measures were to enter into force on 1 July 1971. Other measures, intended to reduce the burden of the I.N.A.M.I., are also envisaged.

(4) An agreement of principle is reached between employers and employees on a programme of phased benefits (*programmation sociale interprofessionnelle*) for 1971 and 1972. It includes notably an increase of 5% in retirement pensions in the private sector from 1 January 1972, an achievement in 1975 of the forty hour week (42 hours in 1972) and the four weeks of holidays (two days extra per year from 1972), as well as a higher contribution by employers to transport costs.

May

(1) Mainly in order to produce a further reduction in the currency debt of the Treasury, an agreement is reached with the banks and various financial institutions. According to the terms of this agreement, which is valid until 30 November 1971, the banks commit themselves to invest in public funds and securities half the increase in their liquid funds in Belgian francs.

(2) A draft law confers on the Minister of economic affairs supplementary powers on price control. According to the new regulations, the Minister will be able to fix, for a period of six months, the maximum price of a product or a service at the level of the individual firm.

(3) The law to encourage mergers and splits of companies is published.

(4) The Belgian Government, following the session of the Council of the European Communities, decides not to allow the Belgian franc to float. In agreement with the Luxembourg authorities, however, it modifies the regulations of the Belgo-Luxembourg Exchange Institution with respect to the double exchange market in a way as to confine the

regulated market to the transactions in goods and services and the free market to capital transactions. To this end, the minimum exchange rate on the free market is abolished and the two markets are insulated from each other. Moreover, the Belgo-Luxembourg Exchange Institution forbids the banks to pay interest on Belgian franc deposits belonging to foreigners. The Government also announces a series of anti-inflationary measures intended notably to mitigate the effect of increases in the prices of German and Dutch products.

(5) The Government reduces from five to two months the period during which application for a decision on price increases can be delayed. As a result of the large number of price increase applications pending, the authorities will submit to the Price Commission only files on the most important increases. In other cases the decision of the Minister will be taken without previous consultation.

(6) The Council of ministers approves the draft law unifying the various schemes for indexation of civil service pay, social security benefits and pensions.

(7) A draft law is submitted which modifies the system of personal taxation in order to reduce the progressive effect of taxation resulting from nominal increases in incomes. These measures would be applied during 1972-1975. In total they would result in a loss to the State of Bfrs.4 800 million of income.

June

(1) It is decided to reduce the prices of certain pharmaceutical products.

(2) The Central Bank takes certain measures intended, by setting up non-interest bearing deposits with the Central Bank, to prevent the banks from increasing their net currency position or their foreign position in Belgian francs.

TABLE 1 : Key indicators

	1965	1966	1967	1968	1969	1969
	% change by volume on preceding year					Indices 1963 = 100
Gross national product	+ 3.8	+ 2.9	+ 3.8	+ 3.6	+ 6.5	131
Industrial production	+ 2.7	+ 4.9	+ 2.1	+ 4.1	+ 8.1	137
Total imports	+ 6.6	+ 8.1	+ 3.4	+ 13.2	+ 15.8	173
Private consumers' expenditure	+ 4.4	+ 3.3	+ 2.4	+ 5.7	+ 5.5	127
Public current expenditure on goods and services	+ 5.6	+ 4.1	+ 6.0	+ 4.0	+ 7.5	136
Gross fixed asset formation	+ 3.9	+ 6.4	+ 2.5	— 2.2	+ 7.1	134
Total exports	+ 7.7	+ 3.8	+ 6.7	+ 11.8	+ 15.6	171
Gross national product per head of population	+ 2.9	+ 2.2	+ 3.2	+ 3.1	+ 6.2	126
Gross national product per person in employment	+ 3.5	+ 2.5	+ 4.3	+ 3.6	+ 4.8	127
	% change by value on preceding year					
Gross income per employee	+ 9.5	+ 8.9	+ 7.1	+ 6.4	+ 8.4	162

TABLE 2 : Indicators for internal and external equilibrium

	1965	1966	1967	1968	1969
Balance exports less imports					
in million u.a.	+ 162	— 48	+ 176	+ 64	+ 186
as percentage of GNP	+ 1.0	— 0.3	+ 0.9	+ 0.3	+ 0.8
Unemployment rate	1.5	1.7	2.3	2.8	2.3
prices to private consumers (% change on preceding year)	+ 4.3	+ 4.3	+ 2.6	+ 2.1	+ 2.1

Belgium

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year					Indices 1963 = 100	Million u.a.	% of totals
	1966	1967	1968	1969	1970	1970	1970	1970
Visible exports								
Total	+ 5.2	+ 3.0	+ 16.0	+ 23.3	+ 15.2	240	11 591	100
Intra-EEC	+ 6.1	+ 3.2	+ 18.5	+ 29.5	+ 16.9	270	7 946	68.6
To non-EEC countries	+ 3.9	+ 2.5	+ 11.7	+ 12.1	+ 11.6	192	3 645	31.4
Exports of food, beverages and tobacco								
Total	+ 8.4	+ 18.8	+ 15.5	+ 21.8	+ 19.6	294	932	8.0
Intra-EEC	+ 5.4	+ 25.7	+ 24.6	+ 27.1	+ 18.9	338	778	6.7
To non-EEC countries	+ 17.1	+ 1.3	- 13.4	- 1.8	+ 35.3	175	154	1.3
Exports of raw materials, fuel and power								
Total	+ 0.5	- 2.4	+ 13.4	+ 21.4	+ 0.1	143	841	7.3
Intra-EEC	+ 1.5	- 3.6	+ 10.8	+ 21.3	+ 4.6	146	524	4.5
To non-EEC countries	- 1.0	- 0.5	+ 17.4	+ 21.7	- 6.4	137	317	2.7
Exports of semi-finished and finished industrial goods								
Total	+ 7.7	+ 2.3	+ 16.4	+ 23.6	+ 15.9	257	9 818	84.7
Intra-EEC	+ 9.8	+ 1.9	+ 18.7	+ 30.3	+ 17.4	239	6 644	57.3
To non-EEC countries	+ 4.2	+ 2.9	+ 12.8	+ 11.8	+ 12.6	209	3 174	27.4
Visible imports								
Total	+ 12.6	0	+ 16.1	+ 19.9	+ 13.6	222	11 347	100
Intra-EEC	+ 15.4	- 0.6	+ 14.8	+ 25.3	+ 16.4	249	6 677	58.8
From non-EEC countries	+ 9.1	+ 0.6	+ 17.8	+ 13.3	+ 9.8	192	4 670	41.2
Imports of food, beverages and tobacco								
Total	+ 8.1	+ 10.0	+ 2.8	+ 14.9	+ 17.1	221	1 357	12.0
Intra-EEC	+ 10.6	+ 11.8	+ 24.0	+ 23.3	+ 20.4	324	772	6.8
From non-EEC countries	+ 6.4	+ 8.6	- 13.1	+ 5.8	+ 13.1	156	585	5.2
Imports of raw materials, fuel and power								
Total	+ 1.1	- 2.1	+ 22.8	+ 11.3	+ 11.7	175	2 450	21.6
Intra-EEC	+ 5.2	- 5.5	+ 17.6	+ 15.3	+ 12.0	176	876	7.7
From non-EEC countries	- 1.3	- 0.2	+ 25.7	+ 9.1	+ 11.5	174	1 574	13.9
Imports of semi-finished and finished industrial goods								
Total	+ 18.3	- 1.1	+ 16.7	+ 24.2	+ 13.6	245	7 540	66.4
Intra-EEC	+ 18.4	- 1.1	+ 13.0	+ 28.0	+ 16.8	260	5 029	44.3
From non-EEC countries	+ 18.1	- 1.2	+ 23.6	+ 17.9	+ 7.9	219	2 511	22.1

TABLE 4 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1969	127.5	125.9	130.5	126.2	134.3	135.4	132.8	136.1	131.9	132.4	140.8	134.9
	1970	129.4	132.6	136.4	134.6	147.0	142.3	142.1	143.6	139.0	141.7	138.8	148.4
	1971	146.6											
Unemployed (1 000)	1969	95.3	93.8	90.4	88.5	86.3	84.2	84.1	82.1	81.0	79.1	76.8	76.5
	1970	71.5	71.9	72.2	72.2	71.3	69.4	71.9	70.4	70.3	70.6	69.8	71.6
	1971	69.7	68.3	67.6									
Construction : permits for residential construction (1 000)	1969	3 229	3 657	3 100	4 264	4 006	4 361	4 593	3 947	3 975	3 198	3 213	3 460
	1970	3 043	2 894	2 403	3 806	2 713	2 789	2 960	3 020	2 908	2 550	2 534	
	1971												
Private consumers' expen- diture : department store turnover (1963 = 100)	1969	144	137	145	142	159	145	144	154	145	149	148	156
	1970	157	154	153	156	165	162	163	157	163	174	164	192
	1971												
Consumer prices (1963 = 100)	1969	121.44	121.96	122.62	122.95	123.32	123.65	124.10	124.28	124.64	125.14	125.70	126.20
	1970	126.73	127.12	127.85	128.33	128.35	128.40	129.07	129.34	129.30	129.53	129.91	130.13
	1971	130.81	131.83	132.39	133.07	133.40							
Visible imports (million u.a.)	1969	773.7	736.8	765.4	811.8	833.0	861.1	893.2	809.6	868.0	915.4	829.7	860.6
	1970	841.9	940.6	866.2	1 022.0	860.9	935.0	1 030.8	897.8	979.8	971.9	984.7	1 009.2
	1971	909.7	989.5										
Visible exports (million u.a.)	1969	837.7	694.4	707.9	797.5	819.8	831.1	917.8	825.7	900.8	896.2	901.5	875.7
	1970	871.3	873.7	857.8	1 060.6	894.1	998.1	1 066.7	951.3	973.7	967.7	970.1	1 030.4
	1971	874.6	866.5										
Balance of trade (million u.a.)	1969	+ 64.0	- 42.4	- 57.5	- 14.3	- 13.2	- 30.0	+ 24.6	+ 16.1	+ 32.8	- 19.2	+ 71.8	+ 15.1
	1970	+ 29.4	- 66.9	- 8.4	+ 38.6	+ 33.2	+ 63.1	+ 35.9	+ 53.5	- 6.1	- 4.3	- 14.6	+ 21.2
	1971	- 35.1	- 123.0										
Official gold and foreign exchange reserves (million u.a.)	1969	1 898	1 890	1 880	1 950	2 000	2 024	2 032	2 100	2 106	2 202	2 200	2 232
	1970	2 240	2 232	2 250	2 270	2 178	2 196	2 280	2 302	2 360	2 406	2 458	2 250
	1971	2 318	2 326	2 310	2 370								
Money supply (million u.a.)	1969	7 390	7 522	7 532	7 560	7 551	7 594	7 512	7 532	7 480	7 524	7 486	7 527
	1970	7 710	7 742	7 835	7 964	7 934	7 966	8 019	7 910	7 988	8 022	7 966	8 187
	1971	8 463	8 415	8 430									

NOTES TO GRAPHS AND TABLES

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

Conversion into units of account (1 u.a. = 0.888671 g of fine gold = US\$ 1) at the official exchange rates.

Graph 1

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

Graph 2

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

Graph 3

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

Graph 4

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

Graph 5

Wages and consumer prices: agreed wages for manual workers, all branches. Source: Ministère du Travail et de l'Emploi; consumer prices, source: Ministère des Affaires Economiques.

Graph 6

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

Graph 7

Bank lending : loans made by monetary institutions; end-of-period figures.

Table 1

GNP at market prices.

Industrial production : value added by industry.

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

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

Table 2

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

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

Consumer prices: implicit price index of private consumption computed from the national accounts.

Table 3

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

Table 4

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

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

Construction: seasonally adjusted number of residential buildings authorized.

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

Consumer prices: not adjusted for seasonal variations.

Imports cif, exports fob; conversion at official exchange rates; figures adjusted for seasonal variations.

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

Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange at end of month.

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

Luxembourg

A more favourable development of external demand and some slowing down in the growth of domestic demand have characterised the recent development of the Luxembourg economy. The excessive price rise which reflects, above all, the impact of exogenous or autonomous factors, will remain a priority problem for economic policy.

1. The economic situation

Since the beginning of 1971, economic activity in Luxembourg has tended to recover, notably as a result of increased activity in the steel industry. The development of exports has been influenced by strong demand from the United States. Export prices have become firmer. Since large projects linked with new industries and with the steel enterprises are near completion, the expansion of enterprise investment has moderated. Similarly, the trend in residential construction seems to have weakened. Following a slow-down at the beginning of the year, growth of private consumption may have accelerated somewhat, although its rate of growth has remained less rapid than in 1970.

There has been a sharp acceleration in the rate of consumer price increase since the beginning of 1971, in spite of the policy of price control applied by the authorities. The index increased by 2.4% between 1 January and 1 May.

Economic activity in Luxembourg in the second half of 1971 will be determined largely by the development of foreign demand for steel products. On the assumption that steel production in the United States will not be interrupted by strikes, Luxembourg exports are hardly likely to exceed their first half year level.

Given that the growth of main components of domestic demand will be slower, the in-

crease in production will be small. On these conditions signs of easing on the labour market are likely to become more definite.

Price inflation which will, without doubt, tend to moderate slightly will nevertheless remain strong.

2. Economic policy

As in other member countries, moderation of the rate of cost and price inflation must remain a priority objective. It would be appropriate, then, to pursue in 1971 prudent management of public finances and to phase over time certain investment expenditures by public administrations in order to avoid the persistence of strong pressure on prices, notably in the construction sector.

Expected growth of the world market for steel products does not allow one to forecast that growth of Luxembourg's gross national product in 1972 will quite reach the guidelines adopted for the whole period 1971-1975. Independently of the fact that it would be difficult to produce a significant influence on the development of production by domestic measures, the expected rise in prices and costs, of which the rate will significantly exceed the long-term objective, requires strict limitation of expenditure in the draft Budget for 1972.

Demand for and supply of goods and services

	1968 ¹	1969 ¹		1970 ²		1971 ³	
	At current prices (in Lfrs '000 million)	% change on preceding year					
		Volume ⁵	Value	Volume ⁵	Value	Volume ⁵	Value
Exports ⁴	30 808	+ 13.0	+ 22.0	+ 1½	+ 13½	+ 1½	+ 2
Gross fixed asset formation	9 528	+ 16.0	+ 24.7	+ 17½	+ 30	+ 2½	+ 9
Public consumption	4 546	+ 2.1	+ 5.7	+ 1½	+ 12	+ 2	+ 10½
Private consumption	23 163	+ 5.0	+ 7.4	+ 8	+ 13	+ 4½	+ 9
Gross national product	37 926	+ 7.0	+ 15.0	+ 3½	+ 12	+ 1½	+ 5½
Imports ⁴	29 919	+ 14.5	+ 18.8	+ 8½	+ 21	+ 4	+ 6

¹ Service central de la Statistique et des Etudes économiques (STATEC) Luxembourg.

² Estimates.

³ Forecasts.

⁴ Goods, services and factor incomes.

⁵ At preceding year's prices.

Note :

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

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

Major economic policy measures

March

The minimum guaranteed remuneration (salaire social minimum garanti) is increased from Lfrs. 7 400 to Lfrs. 7 547 per month.

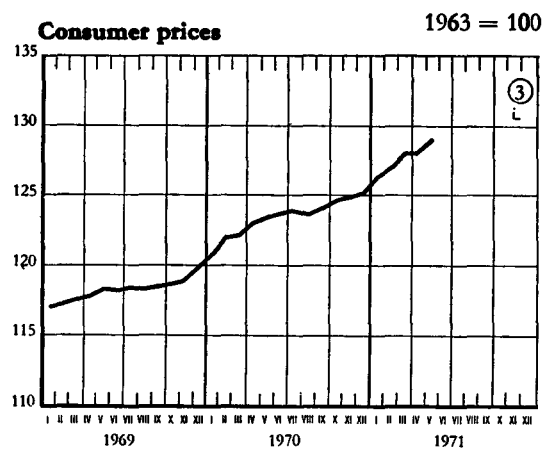
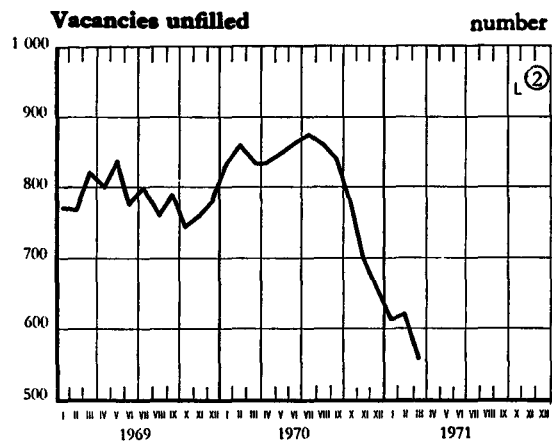
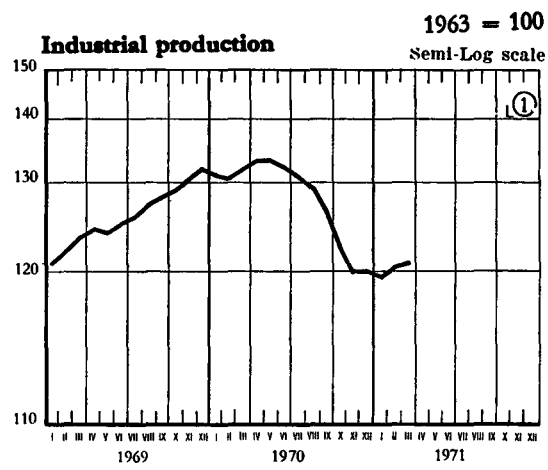
April

(1) A ministerial regulation is promulgated on the granting of subsidies to private individuals other than employers for the purpose of providing housing for foreign workers.

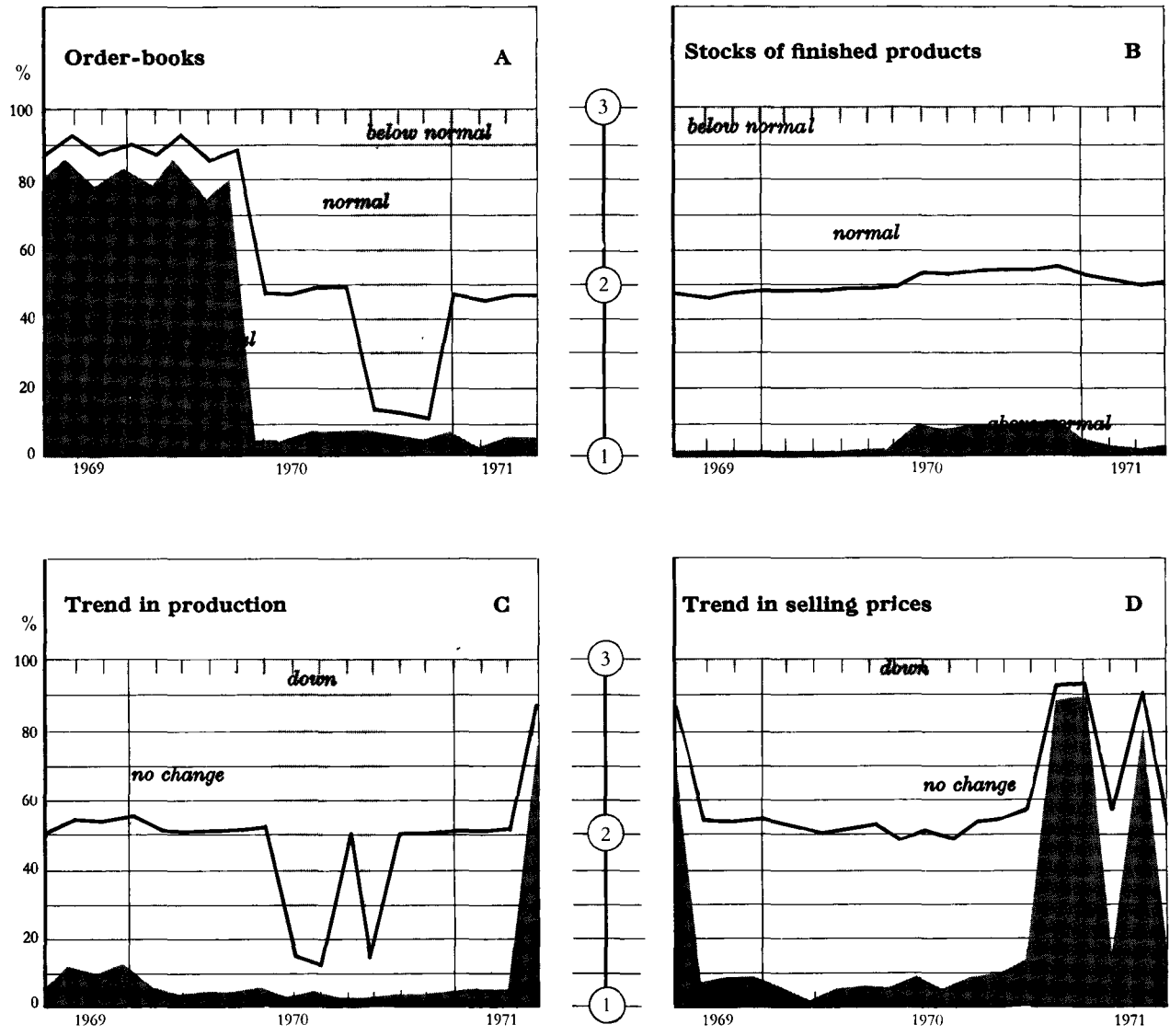
(2) A ministerial decree fixes the prices of certain pharmaceutical products of Belgian origin or provenance, as well as profit margins of wholesalers and chemists.

May

Following the session of the Council of the European Communities, the Luxembourg Government modifies, in agreement with the Belgian Government, the regulations of the Belgo-Luxembourg Exchange Institution concerning the double exchange market.



BUSINESSMEN'S VIEWS ON THE INDUSTRIAL SITUATION



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

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

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

TABLE 1 : Selected monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1968 = 100)	1969	122.1	123.4	125.5	124.6	122.6	127.8	126.1	127.4	130.7	129.8	133.8	132.4
	1970	127.1	132.4	136.0	132.4	132.6	130.9	129.0	127.7	122.7	116.2	121.2	122.6
	1971	114.3	124.5	125.1									
Unfilled vacancies	1969	890	744	829	823	855	656	879	743	744	739	778	835
	1970	868	874	757	863	910	811	911	859	753	720	624	631
	1971	574	649	470									
Construction : permits for residential construction	1969	16	23	11	20	11	58	26	27	15	35	27	20
	1970												
	1971												
Consumer prices (1963 = 100)	1969	116.96	117.08	117.30	117.57	118.08	117.94	118.26	118.11	118.31	118.39	118.77	120.03
	1970	121.21	121.98	122.21	122.74	123.38	123.72	124.20	123.84	124.35	124.74	124.95	125.23
	1971	126.06	126.91	128.04	128.15	129.09							

Luxembourg

NOTES TO GRAPHS AND TABLES

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

Graph 1

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

Graph 2

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

Graph 3

Consumer prices; source: STATEC.

Table

Industrial production: adjusted for seasonal variations, excluding construction and foodstuffs.

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

Construction: seasonally adjusted number of residential buildings authorized.

Consumer prices: not adjusted for seasonal variations.

Brussels, 19 May 1971

Opinion of the Short-term Economic Policy Committee

At its meeting on 17 and 18 May 1971 the Short-term Economic Policy Committee examined the economic situation in the Community at the beginning of 1971, the economic outlook for the second half of 1971 and for 1972 and the short-term economic policy problems which might arise in this period. The examination was based on the preliminary economic budgets of the Member States and on data provided by the services of the Commission.

The Committee's view was that in their short-term economic policies the Community countries should pursue the objective of establishing economic and monetary union as laid down in the Council resolution of 9 February 1971 and should also aim at lifting as quickly as possible the special measures concerning exchange rates which were taken in May to combat speculation.

The Committee was in broad agreement with the forecasts contained in the preliminary budgets, but did however stress that they indicated that the sharp rise in costs and prices would persist in all Member States. In its Opinion of 3 March 1971 the Committee had already drawn attention to the problems arising from the inflationary trends. It therefore reiterated its position on this matter and insisted on it even more as the foreseeable development was out of line with the quantitative guidelines laid down for prices in the third Medium-term Economic Policy Programme, to a degree that caused concern. Consequently the joint action of the Member States in the second half of 1971 should be directed towards bringing about a development which would be appreciably closer to these guidelines in 1972.

In order to bring to an end the excessive cost and price rises and to lessen the dangers

which the present development presents for full employment and continued satisfactory growth, the Member States must take vigorous and effective measures to stabilize their economies. An essential element in this plan must be the strict regulation of demand, in order to reduce the existing disequilibria and to support the efforts, which are at all events indispensable, to moderate price and income trends. The budget policy must be guided by the principle of equilibrium and must at least produce a reduction in the financing deficit. This means that all Member States must, if possible in 1971, but at all events in 1972, slow down the increase in public expenditure, put an end to tax revenue surpluses due to inflationary pressures, or, should it prove necessary, increase taxes. This policy should be vigorously pursued; should some plans for political and social reasons be considered urgent and priority be given to particular plans, then the effects must be offset by amending other elements of the public authorities' budget.

The policy being pursued in the United States for reviving the American economy seems to be achieving the desired results. This could have effects on international markets which, in view of the measures which have been or are to be taken to counter excessive capital inflows, would make it easier to intensify the restrictive monetary and credit policy which the Member States must in any case pursue.

There should also be a speeding up of the process of implementing all measures likely to increase the elasticity of production in the long term and to improve the distribution of productive resources. This involves vocational training, increased mobility of labour, intensification of competition and giving more consideration to the less developed regions

when situating investments, wherever this is necessary on economic and social grounds.

The Committee laid special emphasis on the fact that it would be too much to expect the authorities responsible for short-term economic policy to succeed in their efforts to achieve both growth and greater stability, if the two sides of industry do not direct their action towards these objectives and, for the sake of immediate advantages, consciously or unconsciously accept the longer term threats to growth and employment which would arrive from persistent cost and price rises. Should the present inflationary trends continue the result might be an excessive reduction in productive investment.

In the light of the above considerations the Committee felt that certain measures should be taken in the Member States :

GERMANY

The exchange rate measures adopted by the German Government on 9 May 1971 are valid only for a limited period. Supposing that Germany maintains the parity of the mark and returns to the old bands on either side of parity as soon as the speculation has calmed down or the monetary authorities have built up effective defences against speculative inflows of foreign currency, then the effects on foreign trade of fluctuations in the exchange rate of the mark would be limited. This would also create more room for manoeuvre for domestic economic policy. The most recent budgetary measures are a step in this direction. It must however be born in mind that in the second half of the year the public authorities will give an extra boost to overall demand when the counter-cyclical surcharge on income and corporation tax is dropped. At all events the rise in public expenditure for the whole of 1971 will still exceed the nominal growth rate for the gross national product. In addition the demand of private households will continue to exert heavy upward pressure. On the other hand the outlook for the investment climate in industry appears more uncertain. In view of the persistent sharp rises in costs in the past months, there can be no prospect of prices and unit costs being stabilized in the near future.

Consequently the Federal Government was on the right track in introducing, with the agreement of the Länder and local authorities, measures to reduce public expenditure and public demand. They will help in bringing the excessive rate of growth of public expenditure in the current financial year down to a respectable level.

The Government's action must also serve as a warning to the various social groups to align their income demands more with productivity advances in the economy. If they do not bring themselves into line, then it is to be feared that economic growth and improvements in the standard of living in 1972 will fall below a satisfactory level.

Provided there have been no changes in tax legislation, the increase in expenditure proposed in the budget estimates for 1972 should be somewhat smaller than the growth of the gross national product in nominal terms. The repayment of the counter-cyclical surcharge on income and corporation tax and the release of funds held in the counter-cyclical equalization reserve should be held over until price and cost developments have clearly settled down.

FRANCE

In view of the persistent rise in costs and prices and the precarious equilibrium of the current balance of payments, upset by a shift in the emphasis of expansion to home demand, it seems necessary in the coming months to apply a restrictive policy to domestic demand.

In this connection what would seem particularly necessary would be a more suitable control over public finances. The budgetary authorities must take care to see that they do in fact manage to balance the budget for the 1971 calendar year. Because of the time-lag between the flow of expenditure and the flow of receipts in the first quarter as a result of the unusually high level of transactions during the additional period (*"période complémentaire"*), expenditure will have to be handled very carefully if this aim is to be achieved.

The monetary and credit policy must also be further used to consolidate the fundamental equilibrium. The rise in the discount rate announced on 13 May 1971 and the measures taken later seem to be a useful step in this direction. The new device for controlling bank liquidity which the authorities possess since 1 April will mean that this policy can be intensified should it prove necessary.

The Government's efforts would however come to nothing, if all the groups concerned did not at the same time moderate their price and wage demands accordingly. If this does not happen then the price index clauses contained in some agreements might have a spiralling effect which would jeopardize prices in 1972. Moreover the continuation of a policy to encourage private saving might contribute both to a more balanced development of the economy and a better distribution of wealth.

When considering the options open for drawing up the 1972 budget estimates, it should be borne in mind that the budget must follow the principle of strict balance and that at the same time the increase in expenditure should be somewhat lower than the increase in the gross national product in nominal terms. Only if cost price increases slow down could any major tax reductions for households be considered.

ITALY

The unsettled political and social climate in Italy led to a situation in which neither supply nor demand could develop freely. While the return to a normal social climate is a *sine qua non* for increasing economic activity, the recovery should be accompanied by measures which will make the growth lasting. To this end an active budgetary policy could be developed which would initially set growth in motion and then later would help to maintain it. This policy would, however, have to be flexible enough to allow its effects to be diminished as soon as the rate of growth has caught up with production potential. Priority in this policy should be given to promoting investment, in particular in the construction industry. The public admini-

strations borrowing requirement, which is likely to be very high, should as far as possible be met from non-monetary resources. As part of this plan it would seem advisable initially to keep rates of interest at a relatively low level ; however care should be taken not to allow the liquidity in the economy to rise above the present level as the effects of this in the long run would no doubt be unfavourable.

In view of the introduction of value added tax on 1 January 1972 measures should be taken to prevent the tax from having any effect on prices other than mechanical ones (temporary lowering of rates for mass consumption goods, strict supervision of prices, and information campaigns). In order to produce a better balance between savings and consumption, measures should be taken to encourage saving and to improve the financing circuit ; they could include the granting of premiums on savings for building purposes and the creation of Italian investment funds.

Should there be an economic recovery in the coming months, the financing deficit which has been particularly high in past years should be reduced in the 1972 budget estimates. Any surplus tax revenue which might result from the tax reforms could be fed into a contingency fund, the role of which would be to support a harmonious economic development by counter-cyclical action.

NETHERLANDS

The exchange rate measures adopted by the Dutch Government on 9 May 1971 should not have any considerable influence on economic development in the second half of 1971, in view of their temporary nature and of the large amount of trade between the Netherlands and Germany. Unless there are fresh stabilization measures the conditions of equilibrium will remain precarious. There will probably again be a tendency for the growth in fixed investment by enterprises to slow down and the effects of probable wage increases to make up lost ground in the second half of the year when the restrictionary measures have expired, should lead to a considerably faster increase in private con-

sumer expenditure. In addition demand from abroad might develop a little more rapidly after summer.

Production too will expand rapidly and the strong propensity to import may well continue.

Because of the persistent upward movement of production costs the distinct pressure on domestic prices will continue. The current balance of payments will remain in deficit.

The Government which is to be formed after the April elections will face the priority task of bringing the Dutch economy back on to the path of more balanced growth. In the light of this it seems necessary in 1971 and even more so in 1972 not only to reduce the financing deficit by means of a strict budgetary policy but also to take immediate steps to slow down the rate of growth of public expenditure in comparison to that of the national product, until the situation is more balanced. One step should be to limit the financing resources available to the local authorities in order to slow down the rise in their expenditure. In the present circumstances an effort must be made to make the tight money policy more effective.

A policy of this kind would provide the various social groups with the necessary guide to make them moderate their wage and price demands ; for without this moderation the competitive position of the Dutch economy will be seriously affected and there can be no guarantee of satisfactory growth.

Furthermore an industrial policy aimed at creating a better regional balance in investment and labour—and which would consequently help in countering the overheating which is still prevalent in the western part of the country—would most likely improve the general conditions for economic growth.

In view of the importance of stabilizing prices and costs the deficit in the national budget estimates for 1972 should, as has already been stated, be reduced. The main aim should be to slow down the growth of expenditure, which requires amongst other things a gearing down of the machinery which links the rise in certain items of expen-

diture to the development in the private sector.

BELGIUM

The need to temper cost and price rises is still a priority problem in Belgium, which requires in its solution suitable domestic measures. In this connection one of the first objectives must be to reduce the high financing deficit in the national budget. In view of the foreseeable acceleration of certain current expenditure in the second half of 1971, in particular as a result of wage and salary payments to public officials and social transfers, additional tax increases and reductions in particular items of expenditure should be considered. It would also be unadvisable to mobilize in 1971 the conditional appropriations contained in the extraordinary budget.

In the monetary field, the tight money and credit policy must be continued and indeed made more effective by a control of the development of liquidity.

The efforts of the Government and Central Bank to guarantee satisfactory growth and greater stability will however prove fruitless if the various social groups cannot adopt an attitude compatible with these objectives.

In view of the fact that certain recent measures seem likely to increase the budget deficit considerably, a special effort should be made when drawing up the 1972 budget to reduce the pressure exerted on the economy by the State by means of measures involving both expenditure and revenue.

LUXEMBOURG

Just as in Belgium the need is to slow down cost and price increases. In the coming months the economy must be handled extremely cautiously ; expenditure from the investment fund could be spread out over a period of time.

In 1972 pressures exerted by the national budget should be moderated. However to avoid giving a further boost to the upward price movement, any appreciable increase in indirect taxation should be avoided.

