

EUROPEAN ECONOMIC COMMUNITY

**FIFTH REPORT ON THE ACTIVITIES
OF THE MONETARY COMMITTEE**

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CONTENTS

Introduction

Chapter I: General activities – co-ordination of monetary policies

Chapter II: Activities in special fields

Section I: The unit of account

Section II: Liberalization of capital movements

Chapter III: Internal and external position of the Member States

Section I: General

*Section II: Position in the individual countries and main findings
of the Committee*

Section III: Outlook

Annex

INTRODUCTION

The purpose of this report is to give a general picture of the activities of the Monetary Committee of the European Economic Community in 1962.

The Monetary Committee was set up under Article 105 (2) of the Treaty of Rome in order to promote the co-ordination of the Member States' monetary policies to the extent necessary for the efficient functioning of the Common Market.

The second paragraph of Article 7 of the Monetary Committee's Statute, stipulating that "the appointment of the chairman or of a vice-chairman may only be renewed once", was withdrawn by an EEC Council decision of 2 April 1962, and the Committee has reappointed its officers as follows: Chairman, Jonkheer E. van Lennep, Treasurer-General in the Netherlands Ministry of Finance; Vice-Chairmen, M. P. Calvet, senior Vice-Governor of the Banque de France and Dr. O. Emminger, a Member of the Direktorium of the Deutsche Bundesbank.

The Monetary Committee held 10 sessions in 1962. A list of the members is attached to this report.

Chapter I

GENERAL ACTIVITIES – CO-ORDINATION OF MONETARY POLICIES

1. In 1962 the Monetary Committee continued the work assigned to it in the Treaty of Rome, by which it was set up to promote the co-ordination of the monetary policies pursued in the Member States and so to contribute to the gradual establishment and the efficient functioning to the Common Market. The work has been carried out both within the Community, so as to forestall as far as possible the development of any elements of strain which might lead to balance-of-payments crises, and in relations with non-member countries, so as to enable the Community to make its contribution to world monetary equilibrium.
2. The co-ordination of monetary policies within the Common Market was facilitated by the fairly satisfactory development of general business trends. As is explained in Chapter III, the rate of growth in several member countries was less rapid than in 1961, but the loss of momentum was also accompanied by an easing of symptoms of "over-heating" and this gives more latitude for combating the upward trend in production costs. As a result of a distinct deterioration in trade balances, the Community's surplus on current payments with non-member countries was substantially smaller than in 1961 and this decline made its contribution not only to equilibrium within the Community but also to the re-establishment of equilibrium in international payments.
3. Accordingly, the Committee, in its periodic reviews of the situation in the member countries could limit the scope of its action to recommending measures of limited range aimed at the progressive re-establishment of external equilibrium and the consolidation of balances conditions at home.

Experience in the last five years shows, moreover, that in preparing their decisions the authorities in the member countries are guided more and more by the need to harmonize monetary policy measures. The result of this has been that intervention by co-ordinating bodies – in particular the Monetary Committee – has been concerned only with a small number of specific situations. It is true that since the entry into force of the Treaty circumstances have, by and large, been propitious; but it is also true that a growing determination to co-ordinate activity has helped to limit the number and size of the problems which have arisen. It may be hoped, too, that the experience gained in this field and the improvements and adjustments made to the instruments of monetary policy in recent years will mean that any difficulties which occur can be overcome more easily, with the result that recourse to safeguard clauses and to the mutual assistance provided for in the Treaty will only be necessary in quite exceptional cases.

4. However, further progress in the field of monetary co-ordination is desirable and possible. The liberalization of trade, the partial elimination of obstacles to capital movements, the introduction of a common agricultural policy and, in more general terms, the advance towards economic integration must be backed by more pervasive harmonization of monetary policies. In its Memorandum on the Action Programme for the Second Stage the European Commission echoes the Committee's previous reports in stressing the importance of monetary policy with regard both to the co-ordination of economic policies and to the maintenance of fixed relationships in exchange rates.

5. The Committee considers that the effort at co-ordination should extend beyond the work of the central banks. In present circumstances budgetary policy sometimes has similar and perhaps more decisive importance in monetary development: a large part of the national income passes through the hands of the public authorities, and the surpluses and deficits on public budgets together with the methods of covering deficits are bound to have their impact on liquidity trends at home and on the monetary situation as a whole. If monetary policy in the broad sense is to be really effective, the policy of each central bank must be closely co-ordinated with budgetary policy in the individual Member States and even at Community level. So far the Member States have seldom succeeded in harmonizing credit and budgetary measures sufficiently for these instruments of policy to produce the full impact they could have on the economic situation. The main reason for these difficulties is that budgetary policy is subject to parliamentary control and to delays in implementation, and cannot therefore be adapted to economic exigencies with the requisite elasticity and speed. However this may be, the co-ordination of monetary policies should go hand in hand with the same kind of co-ordination in the sector of public finance.

These problems have been considered by the Economic Policy Committee and by the Monetary Committee, which have studied the conditions under which the public authorities can act on budget and tax matters, and more generally the weapons available to combat both a recession and mounting prices. The close co-operation between these two Committees is strengthened by the fact that the Chairman of the Monetary Committee is an ex officio member of the Economic Policy Committee.

6. Moreover, synchronization of monetary policies will become all the more vital as capital movements are further liberalized. Now, real integration of the capital markets would mean, among other things, that firms in each member country had free access to savings in other member countries. This is not yet quite the case; for although the directives adopted by the Council in 1960 and 1962 liberalized for all EEC countries capital movements for use in direct investment, portfolio investments, capital transactions connected with commercial transactions and capital transactions of a personal nature, it should be remembered that transfers of capital for financial reasons have been liberalized by only three Member States (Belgium, Luxembourg and the Federal Republic of Germany) and are still subject in the other countries to what are in some cases severe controls. In certain of these other countries it is felt that progress towards greater flexibility is still possible, but that conditions for complete liberalization

are not yet ripe with the Common Market at its present stage of development. The pursuit of liberalization is therefore hampered by certain obstacles arising mainly from the fact that within the framework of the general objectives fixed by the Treaty the Member States use different instruments and methods in applying their economic policies.

It is interesting to note that although there is still considerable progress to be made, there was a real reduction in the gap between medium and short-term interest rates in 1962, and that apart from the relatively low rates charged on the Netherlands market long-term interest rates no longer differ to any great extent from one country to another.

7. In more general terms, the question arises as to whether a closer co-ordination of monetary policies means that all countries must take similar decisions simultaneously. Although the Committee considers it very desirable that the central banks' means of action should be strengthened and brought closer into line, it considers – as stated at the end of its 1962 inventory of the instruments of monetary policy available to the various member countries – that what matters at the present stage of economic integration is not so much that measures should be identical as that they should tend in the same direction and that they should be effective. It has noted with interest that the Van Campen report, made on behalf of the European Parliament's Economic and Financial Committee, reaches similar conclusions.

The Committee wishes to stress that the economic policies of the member countries have moved considerably closer and that certain important conditions for a real co-ordination of monetary policies are already fulfilled – notably convertibility of the currencies of the six countries and liberalization within the EEC of the main financial transactions. Moreover the endeavour to achieve co-ordination, which has not always been given the attention it deserves, is continuing not only within the Monetary Committee but also in quarterly conferences of the Finance Ministers, which are attended by the Chairman of the Monetary Committee, and in talks between the governors of the Member States' central banks held when there is a meeting of the Bank for International Settlements. In this way the intentions expressed in general terms by Articles 103, 104 and 105 of the Treaty have already been translated into practice to quite a considerable extent, through recourse to various empirical devices. For a fuller attainment of the Treaty's objectives it would be desirable from now on to plan more systematic arrangements for mutual consultation before decisions are taken on the main lines of internal and external monetary policies. This in fact is an approach which the Committee has already adopted.

8. Necessary as it is within the Community if economic integration is to be gradually completed, close co-ordination of monetary policies is also indispensable in relations with non-member countries because of the considerable role played by the Member States in international trade.

Here the essential problem is the persistent disequilibrium which troubles the balance of payments. From the end of 1957 to the end of 1962 the official

gold and foreign exchange of the six Community countries rose from \$7.8 billion to \$16.8 billion, whereas United States reserves dwindled over the same period from \$22.8 billion to \$16 billion and those of the United Kingdom stagnated at a relatively low level.

The situation, however, improved a little in 1962 : the United States' balance-of-payments deficit shrank slightly, the United Kingdom was able to repay its 1961 drawings on the International Monetary Fund (IMF) before the due date and the official gold and foreign exchange reserves of the EEC countries increased by only \$ 580 million as against \$ 1 200 million in 1961.

The economic trend in the EEC and certain measures taken by the Member States have undoubtedly made their contribution to this tentative improvement in the international monetary situation.

9. The easing in the strain experienced in international monetary relations has stemmed in part from the play of market forces : economic expansion in the Community has been accompanied by a marked growth in imports, a distinct decline in trade surpluses and a general rise in production costs and prices. The consequence has been a certain adjustment of the trading positions of the EEC countries in relation to those of the United States and of Great Britain.

10. In 1962, as in previous years the EEC countries took a series of measures which also helped to improve the situation : advance redemption of external debts by France, Italy and the Netherlands (nearly \$860 million altogether), arms purchases from the United States by certain countries so as to offset in part the costs of maintaining American troops in Europe, the conclusion of support agreements between the United States monetary authorities and those of the countries of Continental Europe ; and financial aid to the developing countries. In addition, European currencies were again in heavy demand, as in the past, in drawings on the International Monetary Fund, notably for the drawing made by Canada.

11. It should, however, be pointed out that the improvement in the international situation took place at a period when the rate of economic expansion in America was relatively low. The persistence of a low rate of progress makes it difficult to strengthen confidence in the dollar. A higher long-term rate of expansion of the American economy would seem in any case to be essential. It would not necessarily lead to a deterioration in the balance of payments, provided fuller use of resources did not jeopardize the stability of production costs and of prices on the home market. The decline in the surplus on trade which could occur in a period of more rapid expansion ought not to harm the United States's balance of external payments provided it is accompanied by a reduction in the net exports of short and long-term private capital which have been a major factor in the deterioration of this balance ; this reduction would reflect the increased attraction of the home market and higher interest rates. The Committee would therefore like to stress the fact that whether the problem of the American balance-of-payments deficits is solved or not depends mainly on the measures adopted and the policy pursued by the United States to re-establish the balance of their external

payments and by using the appropriate instruments of economic policy to achieve a rate of economic expansion which would be both higher and lasting.

12. It is also open to the countries of the EEC to give some help in re-establishing equilibrium in international payments. True, the efforts to be made in this direction should not take the form of an attempt to eliminate balance-of-payments surpluses through a reckless increase in costs and wages in Community countries. They should rather be designed to lead to the elimination of artificial factors in trade such as certain arrangements by which aid to underdeveloped countries is tied to the export of goods, to a liberal commercial policy towards non-member countries, to the advance repayment of external debts and to measures facilitating capital movements.

13. This year as in the past the various measures designed to improve the international payments situation were submitted before being implemented for discussion in the Committee, which has been endeavouring to establish a common approach to the more important monetary problems facing the world. This effort to achieve co-ordination can be found in most of the questions submitted for examination to the Board of Governors of the International Monetary Fund, to Working Party No. 3 of the OECD Economic Policy Committee and to the Board of Management of the European Monetary Agreement. For instance, the Monetary Committee has discussed matters such as swap credit agreements between the United States' Federal Reserves System and certain European central banks, the selection of currencies for drawings on and repayments to the International Monetary Fund, and the conditions for the extension of the European Monetary Agreement.

14. The Committee has given consideration to the problem of improving the international monetary system, for it recognizes the existence of difficulties facing the "key currencies". It has therefore examined the proposals made in various quarters for a reform of current arrangements, and is actively studying the problem, though for the moment its studies are still at the theoretical stage.

Chapitre II

ACTIVITIES IN SPECIAL FIELDS

Section I

THE UNIT OF ACCOUNT

15. At the request either of the Council or of the Commission, the Monetary Committee has on several occasions in the last few years gone into the problems involved in expressing in monetary terms the rights and commitments which emerge from the implementation of the Treaty of Rome.

The Committee considered that as long as there was no common currency these problems could only be solved by reference to a unit of account.

The unit of account however has several functions :

- a) It serves as a common denominator for the expression of certain rights and commitments among member countries ;
- b) It safeguards the value of Community assets against the consequences of monetary manipulation ;
- c) It maintains at a fixed level the member countries' respective shares in Community expenditure despite possible changes in exchange rates.

16. The definition of any unit of account must contain two main elements : the reference to a standard measure of value, and the establishment of a procedure for reviewing this standard measure (or, under certain circumstances, for adapting the counterpart in national currencies of the rights and commitments concerned). In view of the particular problems to be solved in the various fields of Community activity where resort must be had to a unit of account, different solutions may be needed in differing cases, especially in connection with the review or adaptation procedure. However, to prevent the adoption of conflicting solutions, the Monetary Committee should be consulted whenever the Community has to cope with this kind of problem in the future.

17. The first consultation of the Monetary Committee on this subject took place in February 1960. The problem was the definition of a unit of account for the financial transactions of the EEC and of the EAEC, and the Committee decided

in favour of a standard unit of account based on a given weight of fine gold (0.88867088 grams), a weight corresponding to that of the United States dollar as defined in 1934. The Committee also considered that since the unit of account was to be standard, provision should be made by which the commitments themselves rather than the unit of account could in certain circumstances be varied.

In 1962 it was twice called on to give opinions first with regard to the definition of a unit of account for financial aid transactions and technical co-operation in support of the Associated African States and Madagascar, and secondly with regard to a draft regulation on the exchange rates and the unit of account to be used for transactions under the common agricultural policy. For the implementation of this policy it was also necessary to lay down what exchange rates should be used in applying certain regulations.

A. The unit of account in the Convention between the Member States and the Associated African States and Madagascar

18. The following are the principal considerations guiding the definition of the unit of account in the Convention of Association with African States and Madagascar :

In the first place, the unit of account must enable the scale of contribution by each member country to be maintained; it must also, as far as possible, ensure the stability of the aid granted to the associated countries and of the commitments corresponding to the loans; lastly, it must ensure the maintenance of the percentages of aid distribution between the receiving countries as agreed at the outset.

19. On the basis of the opinion given by the Committee, it was decided that the contributions promised by the member countries and the aid expected by the associated countries should be expressed in units of account with the same weight of fine gold as the unit of account used in the financial regulations. If one or more of the Member States' parities is altered, the balances of the contributions converted into the respective national currency or currencies will be raised in the case of a devaluation or cut for a revaluation pro rata. The scale of contributions agreed at the outset — in units of account — will remain unchanged. The volume of aid will be adjusted to meet the changes in total contributions.

However, in order to obviate any arbitrary variation in the real value of financial aid granted to the Associated States in the case of a uniform change in relation to gold occurring in the value of all the currencies, the Convention provides that the weight of gold in this unit of account is to be altered in inverse ratio to the change. If there were to be devaluation or revaluation and one or more Member States did not fall in line with the general adjustment of parities in relation to gold, or did not do so completely, the Council would have to examine

the consequences of this situation and adopt the necessary measures on the basis of a proposal from the Commission and after consulting the Monetary Committee.

B. The unit of account in the common agricultural policy

20. The Council of Ministers considered it necessary to prevent as far as possible any alteration in the parity of one or more currencies from affecting the proper application of the common agricultural regulations, particularly in respect of those Community components which must be standard for all the member countries even before the end of the transitional period. For this purpose, the sluice-gate prices for certain imports from non-member countries must be adapted at once if the parity of one or more currencies is changed, as must also the sums representing a protective margin or protective level uniformly applicable throughout the member countries.

21. The Monetary Committee considered that the best way to ensure adaptation was to define these elements in terms of units of account.

On the other hand defining the levies in terms of units of account would not, the Committee found, ensure immediate adaptation of the level of protection if currency parities were changed. Since the size of the levies during the transitional period is not the same throughout the Community, the Committee could see no reason for, or advantage in, expressing them in units of account.

*C. Rates of exchange to be used
in connection with the common agricultural policy*

22. Since the unit of account is a weight of gold, the problem arose under the common agricultural policy of the currency parities to be used to convert into national currencies sums given in units of account, and vice versa.

In July 1962 the Council had submitted to the Monetary Committee a request for an opinion on a draft regulation concerning the exchange rates to be used in connection with the common agricultural policy. This regulation provided that where transactions required the expression in one currency of sums given in another, the exchange rate to be used was that corresponding to the parity notified to, and recognized by, the IMF. The Monetary Committee considered that this arrangement was satisfactory from the angle of general monetary policy and that it had the advantages of clarity, stability in the calculation of the levies, and the maintenance of a certain flexibility in actual commercial transactions.

23. However, as a temporary measure the exchange rates recorded on the most representative exchange market or markets might be used if variations in the effective exchange rate on the exchange markets subject to the control of national monetary authorities endangered the working of the common agricultural policy, even though they remained within the limits fixed by IMF rules. In the Committee's opinion such a procedure could only be adopted in exceptional cases for which it was proved that without it the common agricultural policy would be very seriously hampered.

The same procedure would be followed in the case of the currencies of countries which had not notified a parity to, or whose parity as notified was not recognized by, the IMF.

Section II

LIBERALIZATION OF CAPITAL MOVEMENTS

24. After obtaining the Monetary Committee's opinion the Council, acting on a proposal from the Commission, adopted on 18 December 1962 the second directive for the implementation of Article 67 of the Treaty. The purpose of the directive is to amend and widen the liberalization measures taken in 1960 under the first directive.

Thus, transactions by residents in Member States affecting foreign securities dealt in on a stock exchange were freed from the major restriction left by the first directive; this restriction, contained in Article 2 (3) of the directive, provided that the right of residents to acquire foreign securities could be temporarily limited to financial institutions and to enterprises acquiring the securities of foreign companies having objects similar to their own. Consequently, action must now be taken to extend to all classes of residents the right to buy and sell such securities.

In addition, the second directive has extended the liberalization of capital movements to new sectors. It requires the Member States to authorize the transfer of capital from one Member State to another where an enterprise in one Member State needs this capital to finance the supply of services. It also provides for the abolition of quantitative restrictions on certain capital movements of a personal nature and requires Member States to liberalize certain capital movements of lesser importance.

25. Now that these two directives, which constitute the Member States' minimum commitments in this field, have entered into force, the situation is as follows:

- a) Unconditional liberalization in all Member States of such items as direct and real estate investment, certain capital movements of a personal nature, and capital movements connected with the financing of commercial

transactions and the supply of services where the capital constitutes a short or medium-term loan and a resident participates in the transaction.

- b) Unconditional liberalization in all the Member States, if necessary by general licence, of dealings in stock exchange securities and the physical movement of the securities other than investment trust shares and bonds issued on a foreign market and denominated in the national currency.

26. Other capital movements, notably issues of securities on the capital markets, loans and financial-type credits, long-term credits linked with commercial transactions or the supply of services and dealings in securities outside the stock exchanges, have been accorded unconditional liberalization only in Belgium, Luxembourg and in the Federal Republic of Germany.

It should in conclusion be noted that the unification of the Italian and of the French foreign exchange markets means that arrangements for capital transfers are now the same in all the member countries except the Netherlands, where dealings in securities are carried out on a special market, and in the B.L.E.U., where transfers of private capital are generally carried out on the free market.

27. In accordance with Article 4 of the First Directive pursuant to Article 67 of the Treaty of Rome, the Monetary Committee has carried out a second annual review of the restrictions on capital movements between the Member States.

With regard to the problem of free markets for foreign exchange, the Committee has found that in 1962 exchange rates varied less than 1% in the B.L.E.U. The Committee has not therefore thought it useful, for the time being, to specify what variations – in terms of duration and amplitude – would be considered as incompatible with the first directive. It has, however, come to the conclusion, that studies ought to be undertaken jointly with the B.L.E.U. authorities in order to find and introduce at the earliest opportunity solutions which are acceptable in principle and establish a more homogeneous situation within the EEC, particularly with respect to the transfer to those types of capital listed in schedule A to the first directive as amended by the second directive. The Committee has expressed its preference for a merger of the two B.L.E.U. markets.

28. In addition the Committee has studied the question of legislative and administrative obstacles, and although strictly speaking these are not within its purview, has made certain general recommendations which would make further progress towards the more complete liberalization of capital movements possible.

Chapter III

INTERNAL AND EXTERNAL POSITION OF THE MEMBER STATES

Section I

GENERAL

29. Economic expansion continued in 1962, though at a slightly slower tempo than in 1961. The Community's gross product showed a year-to-year increase in real terms of about 4.5 %, which compares with 5.2 % for 1961 and 7.1 % for 1960. In 1961 decline in growth rates had been mainly due to the emergence of material obstacles, notably the exhaustion of manpower reserves in the Netherlands and in the Federal Republic of Germany. But in 1962 the weakening of certain factors in demand also seems to have acted as a brake on expansion.

30. The slowdown in expansion was due essentially to the weakness apparent in the growth rate of fixed investment by enterprises. Public consumption and the consumption of households, on the other hand, increased a little more than in 1961, owing to the very rapid expansion of the total wage bill in most of the member countries and to the expansion - which was still substantial - of other classes of income. In most of the countries, dearer farm produce and wage increases which ran ahead of advances in productivity combined to thwart the attainment of stable prices.

31. A substantial increase in imports reduced the disequilibrium which had emerged in 1961 when domestic supplies were unable to keep pace with the boom in demand. In the first place, intra-Community trade increased in volume by 13 % in 1962, which brought the total increase over the figure for 1957 to 85 %. Secondly, imports from non-member countries increased considerably - by 8 % in both value and volume. On the other hand, there was hardly any increase in exports to these countries. This, and in particular the trend followed by the Federal Republic's imports and exports of goods, produced a distinct deterioration in the balance of trade : a deficit of \$1.3 billion was recorded in 1962, whereas imports and exports of goods had in 1961 still been more or less in equilibrium. Despite a probable improvement in invisible transactions, the surplus on goods and services will probably prove to have been appreciably lower than in 1961. However, despite further advance repayment of external

debts, there is every reason to expect that the final figures for the year will reveal a balance-of-payments surplus. All this produced an increase in the member countries' official gold and foreign exchange reserves of \$ 0.58 billion, compared with \$1.2 billion in 1961 and \$ 3.3 billion in 1960.

Section II

POSITION IN THE INDIVIDUAL COUNTRIES AND MAIN FINDINGS OF THE COMMITTEE

FEDERAL REPUBLIC OF GERMANY

32. In its Fourth Report the Monetary Committee drew attention to the change from a surplus to a deficit in the Federal Republic's balance of payments. The new trend was maintained and strengthened in 1962, though the overall deficit is not so far a cause for concern.

33. In view of the heavy strain under which the economy is working, particularly with regard to the supply of labour, the growth of industrial production in the Federal Republic of Germany remained appreciable. After making rather modest progress in the first six months, the rate of expansion improved in the latter months of the year. The increase in real gross national product was about 4 % for 1962, as compared with 5.5 % for 1961.

The shortage of manpower remained acute throughout the year and it became increasingly difficult to recruit labour abroad. Strain on the labour market was reflected in the trend of hourly wages in industry, which, in the first three quarters of 1962 were about 12 % up on the corresponding figure for 1961. But despite the very rapid progress in wages and in consumer demand, the prices of industrial products remained fairly stable from May onwards. The increase in the cost-of-living index was mainly due to the higher cost of services and food.

34. Since mid-1961 the balance of payments had ceased to show a surplus, initiating a trend that became more marked in 1962. The surplus on trade, which had been DM 6.6 billion in 1961, was only DM 3.5 billion in 1962. This was accompanied by a growing deficit on services - DM 1 billion in 1962 as against DM 0.1 billion in 1961 - due mainly to an increase in tourist spending and transfers of wages abroad. Total transactions on current account showed a deficit of about DM 1 300 million as against a surplus of DM 3 000 million for 1961. The deficit on the basic balance was of approximately the same order, since for both years long-term capital movements were nearly in balance. If transactions with the International Monetary Fund - which showed a surplus of

DM 0.5 billion - are left out of account, the same trend was shown by short-term capital movements in 1962; when a slight surplus on errors and omissions is taken into account, the total result was a fall of some DM 0.6 billion in the Bundesbank's official foreign exchange reserves.

35. The disappearance of the balance-of-payments surplus, combined with the internal effects of the cash transactions of the public authorities led to a tightening of bank liquidity which the Bundesbank made no attempt to counter as it had done in 1961. This probably helped to slow down the rate of expansion of short-term credit. On the other hand, the granting of medium and long-term credit made more rapid progress in 1962 than in 1961.

36. In view of the way in which the whole supply and demand situation is expected to develop in 1963, it would seem that, despite great differences in the degree of strain from one sector to another, there is a danger that equilibrium will be achieved only at the cost of rather higher prices and a further deterioration in the balance on current account.

37. The Monetary Committee considers that, given the high level of reserves, such a development in the balance of payments would involve no risk in the immediate future and would help to improve the world balance-of-payments situation. Steps should, however, be taken to ensure that the development of prices does not, in the long term, lead to a deterioration of the Federal Republic's competitive position, such as would result from any excessive increase in prices and wages. Moreover any measures intended to curb demand should be selective rather than general, since trends already vary fairly widely in different sectors.

FRANCE

38. In its Fourth Report, the Monetary Committee advised some caution in the pursuit of monetary and financial policy, stressing the need to avoid stimulating the upward price trend, since this might undermine internal stability and, in the long run, affect the balance-of-payments situation.

39. The increase in the rate of economic expansion was fairly distinct in 1962. Industrial production (up by about 6 %), the recovery of farm output and the development of services combined to produce a 6.3 % increase in the gross domestic product. This compares with a figure of 4.2 % for 1961.

Home demand was the main factor in this expansion. Consumption increased more rapidly than in 1961, the return of more than 700 000 French persons from Algeria and rapidly climbing wages and salaries (at some 12 % the rise was even steeper than in 1961) combined to raise the volume of consumption for the full year by over 6.5 %. Moreover, gross fixed asset formation continued at a fair pace (more than 7 % in volume, compared with 10 % in 1961).

Despite advances in productivity, production costs rose : building costs and the price of machinery were cases in point. The increase was moderate for most consumer goods, but the rise in prices for food and services was more pronounced, leading to an almost uninterrupted increase in the cost of living, which on average was 4 % higher than in 1961.

40. External demand made hardly any contribution to economic expansion, for although commodity exports to countries outside the franc area were up 10.2 %, they dropped by 21.6 % inside the franc area, with the result that the overall figures showed a year-to-year increase of only 1.9 %.

Since the rise in imports was more pronounced while the rise in exports was less rapid, the trade balance tended to deteriorate towards the end of the year. None the less, the basic balance for the full year showed a surplus as large as in 1961 (about \$ 1.2 billion). Despite heavy redemption of foreign debt (\$ 681 million, including \$ 591 million in advance repayments), official gold and foreign exchange reserves increased again, this time by \$ 671 million, bringing the total at the end of the year to \$ 3.6 billion.

41. The surpluses on the balance of payments and the repatriation of capital from the franc area considerably strengthened the liquidity of the home market : the total of sight deposits in the banks increased during the year by more than 22 % (against 18 % in 1961) and the volume of bank advances by more than 17 %. But symptoms of strain having emerged during the last months of 1962 and early in 1963 (further increases in wages and in the cost of living, deterioration in the balance of trade), the monetary authorities took measures in February 1963 to put a brake on bank advances (the special system of minimum reserves or "coefficient de trésorerie" was raised to 35 %, and a limit placed on the rate of expansion of bank loans).

42. The Monetary Committee considers that the upward trend of costs and prices might, if it continued, jeopardize the balance of the French economy both at home and abroad; it notes that co-ordinated credit and income operations have been undertaken in order to re-stabilize the situation. The Committee will also watch with interest the work being done to improve the functioning of the institutions through which savings are channelled into the capital market; this is intended to make possible both the investment needed for continued expansion and the gradual opening of the French market to foreign issues.

ITALY

43. The Italian economy continued to expand in 1962 at a fairly high rate, though not so high as in 1960 and in 1961. The gross national product at constant prices was about 6 % higher in 1962 than in the previous year, whereas the corresponding figures for 1961 and 1960 had been 8 % and about 7 % respectively.

44. The slowdown in the rate of expansion was due, on the supply side, to the effects of the bad weather on farm output and to the protracted strikes which

affected industrial output and, on the demand side, to the less lively expansion of foreign demand and of private and public investment. The increase in private consumption, which reflected the appreciable wage increases, was the main factor in the expansion recorded in 1962.

In contrast with previous years, when the economy had been expanding against a background of virtual price stability, 1962 saw an appreciable increase in the cost of living, mainly because wage increases rose faster than productivity and food prices were up.

45. The deficit on trade, which, in the first six months of 1962, had scarcely exceeded that in the corresponding period of 1961, grew considerably in the second half of the year. However, the higher surplus on services in the same period all but offset the deterioration on trade, with the result that the surplus on current account was about \$0.4 billion, as against \$0.5 billion in 1961. In capital transactions, the Italian Government - as the Monetary Committee had hoped in its last report - exported \$185 million to the United States as advance debt redemption and maintained its policy of liberalizing capital movements.

46. In its last report, the Monetary Committee recalled its earlier conclusion that there were no grounds of internal or external equilibrium why an expansionary policy should not be pursued. It was even desirable that such a policy should lead to a fall in balance-of-payments surpluses.

The Committee considers that in view of Italy's present and foreseeable balance-of-payments situation, the authorities should, unless the needs of the internal economy absorb all available funds, favour exports of capital in particular by further advance repayments of external debt.

The Monetary Committee welcomes recent measures to reform the money and capital markets. These measures have placed at the disposal of the Italian authorities instruments which are both more efficient and more in line with those available to the other Common Market countries.

NETHERLANDS

-47. In its Fourth Report, the Monetary Committee pointed out that there was undoubtedly a possibility that the rise in wages might exceed the limits contemplated, and that this would inevitably threaten domestic stability at home and external balance.

48. Economic expansion in the Netherlands was more rapid between 1961 and 1962 than between 1960 and 1961. Although the gross national product increased by nearly 3 % - a rate of progress slightly higher than that recorded in 1961 - it should be observed that its growth was affected by the unfavourable trend in net factor income received from abroad : the gross domestic product by itself increased in terms of volume by 3.5 %, against something over 2 % in 1961.

49. The recovery in the rate of growth was due mainly to the fact that there was no repetition of the general and very sharp reduction in the working week but also to the greater elasticity of supply at home resulting from the heavy investment made in the last few years. Home demand, by and large, remained strong, whereas gross fixed asset formation increased at a lower rate than in 1961. Private consumption expanded at the same rate as the year before, household incomes having made noteworthy progress as a result of wage increases, the cut in taxes on wages and incomes, and the increased numbers in paid employment. Despite increased supply at home, the price level rose slightly because of higher costs per unit of output and in higher prices for farm produce.

50. Exports made appreciable progress in 1962. For this reason the sharp deterioration of the trade balance recorded in 1961 was not repeated in 1962; as the rate of progress of both imports and exports was about the same and import prices eased slightly, the deficit on trade was slightly smaller than in 1961. However, owing to an appreciable growth in purchases of services and a noteworthy fall - partly for fortuitous reasons - in factor income from abroad the surplus on current account should be slightly smaller in 1962 at about \$ 140 million. Repayments of external debt were not as heavy in 1962 as in 1961, and foreign issues on the Dutch capital market totalled Fl. 230 million as against Fl. 536 million in 1961. The overall balance of payments showed a deficit of about \$ 50 million; if transactions with the IMF are included, the Central Bank's gold and foreign exchange reserves fell by \$ 14 million.

51. The financial transactions of the public authorities helped to increase liquidity; the increase due to the expansion in loans to enterprises was, however, smaller than in 1961 because of restrictive measures taken by the Central Bank and of the raising of Bank Rate from 3.5 % to 4 % in April 1962. These measures were, however, withdrawn early in 1963. Bank Rate was reduced to 3.5 %, as there had been no undue expansion in the volume of credit, cyclical strains were tending to ease, and prevailing conditions made it seem advisable to bring Bank Rate into line with rates in other countries.

52. The Monetary Committee welcomes the choice by the Dutch authorities of flexible instruments of monetary policy enabling them to effect adjustments as and when necessary. It is well aware that the authorities have a twofold problem with which to cope : they must keep wage trends within the limits desirable from the angle of economic policy, and they must also take up a position allowing adequate ground for manoeuvre, so that they can counter any decline in investment demand should this become necessary.

BELGIUM

53. In its Fourth Report the Monetary Committee observed that in general more saving was still needed if the Belgian economy was to reach and sustain the level of expansion and investment planned, and that the best way to do this was through the creation of public savings.

Despite a shortage of skilled manpower in certain sectors of the economy, the rate of growth of economic activity was slightly higher in 1962 than in 1961 : gross national product at constant prices increased by about 4% for 1962, compared with 3.7% for 1961.

54. By and large home demand increased less vigorously than in 1961 ; the expansion of investment lost momentum, while private consumers' expenditure continued at much the same pace as in the previous year, with a tendency to gather pace in the last six months. This contrasted with public consumer demand, which increased distinctly more rapidly than in 1961, mainly because of the pay rise granted to civil servants. Despite the fact that wages increased more rapidly than in 1961, production costs, on the whole, do not seem to have increased appreciably, since once more productivity, too, improved appreciably. The general price level remained virtually stable, the increase in the retail price index during the first half of the year having been due mainly to higher prices for farm produce.

55. Demand from abroad was the most important factor in the growth of general demand. Exports in terms of value increased by about 10%, and the increase was most marked in sales to the other Community countries. Since the increase in imports was smaller (7%), there was a considerable improvement in the trade balance. There was also an improvement on services, with the result that the balance of transactions in goods and services showed a larger surplus in 1962 than in 1961. Capital transactions showed a deficit, mainly due to a net outflow of official capital under two headings : servicing of the guaranteed Congolese debt and redemption of short-term external debt. The 1962 balance-of-payments surplus was consequently larger than in 1961. Since the net foreign exchange holdings of the Banque Nationale fell by about \$35 million, those of the commercial banks must have improved considerably.

56. Mainly as a result of the monetary reform of 1 January 1962 and of the surplus on current transactions with abroad, liquidity remained abundant on the money and capital markets. This in turn led to a general lowering of interest rates, encouraged by the monetary authorities, who themselves cut Bank Rate from 4.5% to 3.5% in four stages.

57. The Monetary Committee notes that in 1962 the expansion of the Belgian economy continued to be satisfactory without jeopardizing the stability of prices. The improved budgetary situation and the surplus on current transactions with abroad made possible a very appreciable cut in short-term external debt, while developments at home meant that full employment was maintained. At the same time, appreciable progress is still being made in structural improvement. While nothing should be done that might undermine Belgium's competitive position — which price and wage policy in recent years has done much to improve — it would be wise to strengthen current efforts to increase the flexibility of the financial system and to create genuine public savings enabling part of public investment to be financed out of ordinary revenue.

THE GRAND DUCHY OF LUXEMBOURG

58. The Luxembourg economy stagnated in 1962. Industrial production declined a little (by 4.5%) and this may well have engendered a slight contraction in the gross domestic product at constant prices when compared with 1961. This trend is attributable to the weakening of demand from abroad, particularly for iron and steel products. The expansion of home demand also lost some momentum during the year.

59. As economic growth had been relatively weak for many years, more vigorous measures were taken to spur it on. The Government's cash position continued to be comparatively strong and it was possible, as the last report noted, to build up reserves with which to finance anticyclical action. The Committee welcomes the Luxembourg authorities' efforts in this field and the measures by which they propose to strengthen short-term economic policy within the bounds set by the situation of the labour market and to stimulate such investment as is likely to reduce the country's dependence on the world iron and steel market.

Section III

OUTLOOK

60. The outlook for economic development as described in the economic budgets of the Member States suggests that the overall growth of fixed investment should continue at much the same rate. Productive investment by enterprises will advance more slowly than in 1962, but new housing and, in particular, public investment will do more than before to stimulate the economy. Private consumption will increase slightly less rapidly in 1963 than in 1962, since a slight slowdown is to be expected in the growth rate of the incomes of households, particularly income wages. Consumer expenditure by the public authorities is also likely to advance less rapidly than in 1962.

61. Although the forecasts being made for business activity throughout the world are fairly cautious, the Community's exports to the rest of the world should grow a little more rapidly than in 1962. Imports, on the other hand, are expected to increase much less than they did last year. With a surplus expected on services, the Community's surplus on current transactions with the rest of the world should remain much what it was in 1962.

All in all, therefore, the rate of expansion of the Community's gross product in 1963 should be roughly the same as it was in 1962. None the less, the outlook here is blurred by a degree of uncertainty. The diagnosis and cure of the upward

trend of prices and costs are proving to be a matter of some difficulty for various member countries. If the usual methods failed to check this trend, it might become necessary to curtail the expansion of overall demand so as to avoid undermining internal stability and competitive capacity on world markets. In addition, the outlook for international economic relations might well be affected not only by the way in which costs and prices develop in the principal countries, but also, as in recent years, by disturbances due to short-term capital movements stimulated by the uncertainty still obtaining in the field of international payments.

ANNEX

THE COMMITTEE : MEMBERS AND ALTERNATES

Chairman :

Jonkheer mr. E. van LENNEP Thesaurier-generaal bij het Ministerie van Financiën
(The Hague)

Vice-Chairmen :

M. P. CALVET Premier sous-gouverneur de la Banque de France
(Paris)

Dr O. EMMINGER Mitglied des Direktoriums der Deutschen Bundesbank
(Frankfurt/Main)

Members :

Dr P. BAFFI Direttore generale della Banca d'Italia (Rome)
(until 7 January 1963)

Dr P. BASTIAN Commissaire du gouvernement (Luxembourg)

Dr F. BOBBA Director General for Economic and Financial Affairs
in the EEC Commission (Brussels)

M. A. de LATTRE Directeur des finances extérieures (Paris)

M. M. D^HAEZE Directeur général de l'administration de la trésorerie
(from 1 February 1963) et de la dette publique (Brussels)

M. F. DE VOGHEL Vice-gouverneur de la Banque Nationale de Belgique
(Brussels)

Prof. Avv. A. GAMBINO (Rome)

Dr L. GLESKE Director in the Directorate General for Economic and
Financial Affairs in the EEC Commission (Brussels)

Dr R. GOCHT Ministerialdirigent, Bundesministerium für Wirtschaft
(Bonn)

M. J. HEINEN Conseiller de direction à la Caisse d'épargne de
l'Etat (Luxembourg)

Prof. S. POSTHUMA	Directeur der Nederlandsche Bank (Amsterdam)
Dr A. VERNUCCI <i>(from 7 January 1963)</i>	Direttore generale dell'Ufficio italiano dei cambi (Rome)
M. M. WILLIOT <i>(until 1 February 1963)</i>	Directeur general de la trésorerie au ministère des finances (Brussels)

Chairman of the alternates:

Mr A. W. R. Baron MACKAY	Onderdirecteur der Nederlandsche Bank (Amsterdam)
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Alternates:

Dr H. BONUS	Ministerialrat, Bundesministerium der Finanzen (Bonn)
M. F. BOYER de la GIRODAY <i>(from 24 May 1962)</i>	Head of Division in the Directorate General for Economic and Financial Affairs in the EEC Commission (Brussels)
Dr M. GARDINALI	Ispettore generale delle Valute, Ministero commercio estero (Rome)
M. P. ESTEVA	Sous-directeur au ministère des finances (Paris)
M. H. FOURNIER	Directeur général des études et du crédit de la Banque de France (Paris)
Drs. J. GROOTERS	Financial Attaché in the Netherlands Mission to EEC and Euratom (Brussels)
M. R. LOMBA	Chef du service des relations financières avec l'étranger au ministère des finances (Brussels)
Prof. F. MASERA <i>(from 7 January 1963)</i>	Capo del servizio studi di economia internazionale della Banca d'Italia (Rome)
Prof. J. MERTENS de WILMARS	Onderdirecteur der Nationale Bank van België (Brussels)
Dr G. SCHLEIMINGER	Bankdirektor, Abteilungsleiter in der Deutschen Bundesbank (Frankfurt/Main)
M. M. SCHMIT	Chef du service du budget (Luxembourg)
Dr H. STEFFE	Director in the Directorate General for Economic and Financial Affairs in the EEC Commission (Brussels)
Dr A. VERNUCCI <i>(until 7 January 1963)</i>	Condirettore dell'Ufficio italiano dei cambi (Rome)
M. R. WEBER	Membre du Comité de direction de la Caisse d'épargne de l'Etat (Luxembourg)

Secretariat:

M. R. de KERGORLAY
Dr H. BURGARD

