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Recent Economic Developments in Germany,
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Recent Economic Developments in Germany, September-December 1963Summary

The economic picture continued to brighten in Germany as the underlying business expansion, apparent earlier in the year, broadened.^{1/} During the year of 1963 the German economy experienced a more balanced growth than it has since 1959 and also a more balanced one than its neighboring countries. An upswing in export demand sparked a revival of investment demand. Inflationary pressures lessened throughout the year, with wage demands more moderate than in preceding years, although the labor market remained tight. Continued expansion in output reflected higher productivity increases from earlier investments in labor saving equipment. Consequently the pressure on profit margins was reduced and the investment climate became more favorable.

During the course of 1963, a substantial German balance of payments surplus re-emerged: the eleven month total was \$1 billion compared with a \$16 million deficit in 1962. Slightly less than half of this improvement came from an increase in the trade surplus and slightly more than half reflected heavier private capital inflows (primarily large foreign investments in German long-term bonds).

Official and private forecasts for 1964 anticipate a continued strengthening of the underlying healthy factors. The Economic Ministry's Economic Report for 1964 estimates that real GNP in 1964 will grow by 4.5 per cent as compared with 3 per cent in 1963. An improved investment climate and a further expansion of foreign demand are expected. With imports growing less rapidly than in 1963, the estimates foresee a further substantial improvement in Germany's trade surplus. Wage and price pressures are expected to continue to moderate: important wage contracts in 1963, written for more than a twelve-month period, are not due to be renegotiated until later in the year, while further productivity advances are expected.

^{1/} See "Recent Economic Developments in Germany, June-September 1963," dated October 17, 1963.

How rapidly inflationary threats will develop out of the continuing domestic expansion and the external payments surplus remain the main concern about economic prospects for 1964. Pressures on the labor market and on industrial capacity provide only limited tolerances for further expansion in supply: in fact, a 4 per cent increase in productivity is the basis for the Economic Ministry's estimate of a 4.5 per cent growth in supply availabilities for 1964. This degree of utilization provides very little margin to absorb a further general expansion in demands on German resources, should they develop over the coming months from home and foreign sources.

Industrial output grows at quickened pace

The pace of output expansion quickened noticeably during the second half of 1963. Industrial output, after seasonal adjustment, rose at an average monthly rate of just over 1 per cent between August and November, compared with an 0.9 per cent average rate of growth during the summer months. (See Table 1.)

Output continued to rise in most economic sectors. The main exceptions were the building (already at capacity) and the food, beverages and tobacco industries. The continuing growth, at an accelerating rate, of capital goods output underlined the broadened base of the German expansion. Earlier in the year capital goods output had actually fallen off considerably, largely because of hesitant home demand. Some of this slack had earlier been taken up by brisk foreign demand, which recently was reinforced by reviving domestic purchasing. Not until August 1963 did output of capital goods regain the 387 point level reached in November 1962.^{1/} (See Table 1.) Output of consumer goods, on the other hand, continued to grow comparatively slowly, although steadily. This reflects to a large extent the slowdown in the rise of consumption demand which has become apparent since mid-1961 when immigration into Germany from East Germany was virtually stopped.

^{1/} In June 1963 the index actually reached 399, but this was only a rebound from the low May output, which was held down by the metal worker strike.

Table 1. Germany: Industrial Production 1962-November 1963
(1950=100, seasonally adjusted)

	<u>All industries</u>	<u>Basic & Producers goods</u>	<u>Capital goods</u>	<u>Consumers goods</u>	<u>Food, beverages and tobacco</u>	<u>Building</u>
<u>1962</u>						
February	269	279	372	228	228	228
May	272	291	372	231	227	260
August	280	300	380	234	238	275
November	285	300	387	239	241	272
<u>1963</u>						
February	264	271	359	221	238	124
May	283	309	369	235	249	301
June	295	322	399	240	248	343
August	291	319	383	241	247	314
September	292	318	390	242	245	309
October <u>1/</u>	296	323	391	246	248	307
November <u>1/</u>	301	333	406	246	242	309

1/ Preliminary.

Source: Bundesbank, Monthly Report.

Table 2. Germany: New Orders Received by Industry, 1962-November 1963
(1954 turnover = 100; seasonally adjusted)

	<u>All industries^{1/}</u>	<u>Domestic orders</u>	<u>Foreign orders</u>	<u>Basic industries</u>	<u>Capital goods</u>	<u>Consumers goods</u>
<u>1962</u>						
February	206	198	239	186	252	168
May	214	207	249	192	268	169
August	207	199	241	191	247	172
November	208	200	242	190	252	168
<u>1963</u>						
February	196	184	258	169	245	167
May	225	210	289	208	278	169
August	215	203	282	196	268	170
September	218	208	267	196	265	183
October	240	225	317	214	298	192
November <u>2/</u>	229	207	317	207	275	174

1/ Excludes mining, construction, food and power.

2/ Preliminary.

Source: Bundesbank, Monthly Report.

Industrial demand continues to grow; inflationary pressures reduced

The expectation that industrial output will continue to grow at a healthy rate is supported by the steady expansion of the inflow of new orders to industry. (See Table 2.) Although the month-to-month fluctuations, even after seasonal adjustment, are erratic, there can be no doubt about the general uptrend. The inflow of new orders from abroad still remains the fastest growing factor but the year-to-year rise in new orders for capital goods and for all domestic goods indicates a general rise in domestic orders as well.

Output and demand relatively balanced

Apparently, the rising industrial demand has been accommodated without producing a noticeable strain on supply availabilities. In part demand has risen fastest primarily in the export and capital goods sectors where spare capacity existed: the slack in these areas reflected both the decline in export order backlog after the 1961 revaluation and reduced domestic investment. Price pressures in general continued to moderate in the face of the accelerated growth in aggregate demand. In the July-December, 1963 period, gross national product rose at a better than expected year-to-year rate of about 5 per cent, in real terms, (the same as in 1962), but the GNP deflator is estimated to have increased by only 2.7 per cent in 1963 compared with 4 per cent in 1962.

For 1963 as a whole, gross national product rose by 3 per cent compared with 4.4 per cent in the preceding year. But the slowdown was concentrated entirely in the first part of the year, when bad weather and some hesitancy about the general economic climate combined temporarily to halt further expansion. Exports emerged as the major expansionary force during the year growing considerably faster than in the preceding year. (See Table 3.) Consumption demand provided broad support for the continuing growth in aggregate demand, but it was much less of a new stimulus than in

Table 3. Germany: Gross National Product 1962-1964
(Current prices, percentage change over preceding year, and DM millions)

	<u>1962</u>	<u>1963</u> ^{1/}	<u>1964</u> ^{1/}	<u>1964</u> ^{1/} <u>DM millions</u>
Consumption				
Private	+ 9.0%	+ 5.4%	+ 5.8%	226.8
Public	+14.2	+11.0	+ 7.2	63.0
Total	<u>+10.0</u>	<u>+ 6.6</u>	<u>+ 6.1</u>	<u>289.8</u>
Gross Investment				
Equipment	+ 9.4	+ 2.6	+ 4.4	47.7
Construction	+13.1	+ 7.2	+10.9	53.9
Total ^{2/}	<u>+ 9.7</u>	<u>+ 5.1</u>	<u>+ 7.3</u>	<u>107.2</u>
Exports	<u>+ 4.7</u>	<u>+ 6.6</u>	<u>+ 7.2</u>	<u>78.8</u>
Less Imports	<u>+10.6</u>	<u>+ 7.4</u>	<u>+ 7.0</u>	<u>75.0</u>
Total GNP	<u>+ 8.8</u>	<u>+ 6.0</u>	<u>+ 6.4</u>	<u>400.8</u>
Price change	+ 4.4	+ 3.0	+ 1.9	
Real GNP	<u>+ 4.4</u>	<u>+ 3.0</u>	<u>+ 4.5</u>	^{3/} <u>302.4</u>

^{1/} Estimates.

^{2/} Includes equipment, construction and inventory change.

^{3/} 1954 prices.

Source: Economics Ministry, Economic Report for 1964.

Table 4. Germany: Labor Market 1961-1964
(in thousands)

	<u>1961</u>	<u>1962</u>	<u>1963</u> ^{1/}	<u>1964</u> ^{1/}
Labor force	26,770	26,960	27,110	27,195
Unemployed	180	150	180	155
Employed	26,590	26,810	26,930	27,040
Wage & salary earners	20,730	21,055	21,235	21,395
Domestic	20,255	20,420	20,435	20,495
Foreigners	475	635	800	900
Vacancies ^{2/}	536	549	545	n. a.

^{1/} Estimated.

^{2/} Vacancies excluding West Berlin, 1963 11-month average only.

n. a. - Not available.

Source: Economics Ministry, Economic Report for 1964; Bundesbank, Monthly Report.

the preceding year when it had risen by 10 per cent. Actually, the increase in private demand is estimated to have been slightly smaller than the growth rate of total GNP, reflecting the slowdown in the growth of incomes (with wage increases moderating and the labor force growing only slowly, see Table 4) and the considerable increase in the rate of savings of private households which characterized 1963. For 1963 as a whole the rate of savings is estimated to have increased to 9.3 per cent of disposable income from the 8.6 per cent level which prevailed in 1961 and 1962.^{1/}

Both the more moderate growth of consumption demand and the sluggishness of investment demand (particularly during the first part of the year) helped considerably towards the relieving of inflationary pressures and the acceleration of exports. Producers obviously intensified their efforts to sell abroad; furthermore, the less rosy business picture early in the year may also have been a determining factor in the final wage settlement for the metal workers, which was considerably more moderate than in preceding years and which became more or less the standard pattern for subsequent settlements. In addition, the lessening of inflationary pressures within Germany coincided with the intensification of inflationary pressures elsewhere in Europe, especially in France and Italy. Both outside and inside developments strengthened Germany's competitive position in international markets during the year.

Wage costs are continuing to moderate. Gross hourly earnings in industry in August, 1963 were 7.6 per cent above August 1962 (See Table 5); in May the year-to-year increase amounted to 8.7 per cent and in August 1962 it had been 13 per cent.

^{1/} This higher rate of personal savings may well be related to the very small increase in employment of German workers which in 1963 amounted to only 0.1 per cent as compared with 0.8 per cent in 1962. Workers just entering the labor force probably have a higher marginal propensity to consume than those already employed, while additions to the labor force of foreign workers mainly increases remittances abroad since basic consumption needs are generally provided centrally and expenditures of foreign workers probably are confined to non-durables.

Table 5. Germany: Prices and Wages, August 1962-November 1963
(Index numbers, 1958=100)

	1962		1 9 6 3					
	Aug.	Nov.	Feb.	May	Aug.	Sept.	Oct. a/	Nov. a/
<u>Producer Prices</u>								
Total industrial products	103.1	103.3	103.6	103.4	103.5	103.6	103.9	104.0
Investment goods b/	109.9	109.8	109.9	110.1	110.4	110.6	110.6	c/
Consumer goods b/	105.8	106.3	106.7	106.6	106.9	106.9	107.2	c/
<u>Consumer Prices</u>								
General index	108.6	108.8	112.5	112.4	110.9	111.3	112.1	112.5
Food	107.3	106.8	114.1	112.9	108.0	108.8	110.1	110.9
<u>Export Prices</u>								
General index	100.7	100.6	100.6	100.4	100.6	100.6	100.7	c/
Investment goods b/	107.4	107.3	107.4	107.3	107.7	107.7	107.8	c/
Consumer goods b/	100.9	100.9	101.3	101.2	101.3	101.3	101.3	c/
<u>Import Prices</u>								
General index	92.4	93.8	96.2	95.3	95.0	95.6	96.2	96.1
Investment goods b/	97.8	97.5	97.6	97.8	98.1	98.2	98.3	c/
Consumer goods b/	94.7	94.4	94.5	94.6	94.6	94.4	94.5	c/
<u>Earnings</u>								
Average hourly earnings in industry	143.3	145.8	147.2	151.6	154.1	c/	c/	c/

a/ Preliminary.

b/ Grouped according to end-use of goods.

c/ Not available.

Source: Statistisches Bundesamt, Wirtschaft und Statistik.

Table 6. Germany: Merchandise Trade, 1962-November 1963
(seasonally adjusted, monthly averages, in billions of DM)

	Exports	Imports	Industrial goods imports	Trade Balance
<u>1962</u>				
I	4.33	a/ 4.11	a/ 2.89	a/ .22
II	4.46	a/ 4.09	a/ 2.80	a/ .37
III	4.45	4.19	3.02	.26
IV	4.39	4.20	3.09	.19
<u>1963</u>				
I	4.37	4.15	3.07	.22
II	4.83	4.35	3.26	.48
III	4.98	4.52	3.32	.46
September	4.93	4.65	3.49	.28
October	5.27	4.54	3.39	.73
November	5.12	4.41	b/	.71

a/ Change in import accounting procedure raised imports for the first quarter, 1962 by DM 0.124 billion (monthly rate) and those for April by a negligible amount.

b/ Not available.

Source: Bundesbank, Monthly Report.

Prices, on the other hand, have shown a slight upward tendency since the end of the summer. Industrial producer prices rose 0.5 per cent between August and November 1963 and 0.7 per cent over the year. But this movement was partly seasonal. The influence of wage increases on producer prices seems to be only slight, particularly because of continued increases in productivity. Export prices for investment goods rose also 0.5 per cent between August and November 1963: this may reflect both the growing order inflow from abroad and the price increases in neighboring countries. As exporters had been shaving prices earlier in order to retain export business, this slight upward movement was to be expected with the improvement in the demand situation.

The increase in consumer prices since the summer was partly seasonal and partly the result of higher coal prices following wage increases in the mining industry. By contrast, retail prices for manufactured consumption goods continued to hold steady.

Prospects bright for 1964

The year-end business assessments and forecasts for 1964 now available view the German economic situation optimistically. The Economic Ministry's Economic Report for 1964 foresees a 4.5 per cent rate of growth in real GNP for the current year and it has even been put at 5.5 per cent in the combined estimate of the six major economic research institutes. Trends apparent in 1963--the improved investment climate and continued growth in construction and export demand--are expected to continue in 1964. Investment in plant and equipment is estimated to rise by 4.4 per cent from only 2.6 per cent in 1963. A recent investment intentions survey conducted by the IFO-Institute revealed that industry expects to invest at least 5 per cent more than in 1963, primarily for rationalization purposes. An expected acceleration of the rise in construction in 1964 assumes no adverse weather hindrances as in 1963. The weather factor also contributed to the accelerated rate of 7.2 per cent estimated

for export growth, since exports in early 1963 were impeded both by the European winter and by the U.S. dock-strike. On exports, the research institutes expect sales to rise at the faster rate of 10 per cent established during the second half of 1963 (presumably because they put less faith than does the Economics Ministry in the success of the French and Italian stabilization programs). The Economics Ministry also expects that imports will grow less rapidly than in 1963. Consequently, regardless of which export estimate one adopts, a further substantial improvement in Germany's trade surplus is indicated for 1964.

Consumption demand is forecast to grow slightly less rapidly than total GNP because public consumption demand will slow down with military expenditures growing more slowly. Private consumption is estimated to grow a bit faster than in 1963, although wage increases should continue to remain moderate.

The Economic Ministry judges that demand and supply in 1964 will be more nearly in balance than at any time since the 1958/59 recession. The main increase in supply is to be made possible through a 4 per cent increase in productivity, from earlier investment in labor saving equipment. In addition, an increase in employment of 0.5 per cent (primarily because it is hoped that a further 100,000 foreign workers can be brought in) is to bring the total increase in supply availabilities for 1964 to 4.5 per cent. With nominal aggregate demand increasing by 6.4 per cent, the general price level is expected to rise 1.9 per cent, considerably less than the price rises of 4.4 and 3.0 per cent registered in 1962 and 1963, respectively.

The Economics Ministry points out that economic policy in 1964 will have to deal with two main problems. On the internal side, price and wage increases have moderated considerably in 1963; a large part of recent price increases has been the result of government action in the field of agricultural policy, rent-decontrol and pricing of government services. Price developments in the private sector are expected

to be relatively moderate; further Government action to upset this stability is not expected. Only in the building sector are supply factors so strained that strong inflationary pressures could arise. But, on the external side, the renewed payments surpluses threaten to have an unhealthy effect on domestic liquidity. In this area, the Economics Ministry recommended that the Government scrutinize carefully any legislative proposals which could have export-promoting or import-reducing effects. This admonishment is particularly interesting in view of the recent passage of a bill which increased turnover tax rebates on certain exports (see page 11) and the German support given to the High Authority of the Steel and Coal Community in its decision to raise steel tariffs to 9 per cent. The level prevailing in Germany currently is 4-5 per cent.

Trade balance continues to increase

The concern of the Economics Ministry regarding the growing surplus on trade account is supported by the latest figures. October-November exports rose by 4.4 per cent over the third quarter average (after-seasonal adjustment), while imports, actually decreased by 0.8 per cent (because of a decline in government imports of military equipment). (See Table 6.) As a result, the October-November trade balance was more than 50 per cent larger than the already high third quarter trade surplus. For the ten-months period January-October, 1963 the trade surplus amounted to DM 4.1 billion (\$1 billion) as compared with DM 3 billion for the corresponding period of 1962.

In general, Germany appears to have benefited most from its improvement in competitive position vis-a-vis France and Italy, its trade balance with France improving by DM 0.5 billion and that with Italy by DM 1 billion between January-October 1962 and 1963. But, more interestingly for the development of future trends, the growth rate of German exports to non-industrial countries has improved by about 4.4

per cent in the third quarter after declining 2.2 per cent in the first half. (See Table 7.) This may mark the beginning of the impact of foreign-exchange accruals of primary producing countries upon their purchases of industrial goods--a trend expected to continue in 1964. On a year-to-year basis, German exports to these countries (other than EEC, EFTA, North America and the Eastern bloc countries) were 2.2 per cent below the preceding year's level during the first half of 1963, but since July have been above the 1962 levels. The improvement in the German trade position with these countries points to the continuing interest of German exporters in these markets despite the ease of selling in France and Italy.

Beginning in 1964 German exporters of a number of selected industrial products, including steel, will find it slightly easier to compete in international markets. The German Upper House passed a bill in December which raised turnover tax rebates on export sales from the existing range of 1 to 3 per cent to a range of 4 to 5 per cent retroactive to July 31, 1963 for a list of some 200 industrial items. The total increase in tax rebates is estimated to cost the Government about \$30 million or about 7 per cent of the total payment of \$450 million for tax rebates in 1962. The steel industry is expected to benefit by about \$10 million annually from this measure which raises rebates on most steel products from 3 per cent to 4 per cent. The other industries benefiting mainly from the bill are the textile and leather industries.

From June 1, 1963, it will be recalled, importers found their competitive position on the German market somewhat more difficult as the Government then raised the turnover equalization tax on imports. At the same time some reductions were to have been made on the tax levied on some agricultural imports. However, the then proposed reductions have run into opposition and have not as yet been put into effect. These export and import measures merely add to Germany's trade surplus and have the same effects on Germany's international competitive position as an equivalent devaluation of the D-mark.

Table 7. Germany: Changes in Foreign Trade by Region, January-October 1963

	<u>Percentage Change 1962 to 1963</u>				<u>Jan.-Oct. 1963 (DM mns.)</u>
	<u>Jan.-Oct.</u>	<u>Jan.-June</u>	<u>July-Sept.</u>	<u>Oct.</u>	
<u>Exports to:</u>					
EEC	+16.7%	+10.8%	+23.7%	+29.7%	18,021
France	+17.1	+14.6	17.3	+32.2	5,221
Italy	+30.4	+27.3	53.3	+41.7	4,377
EFTA	+ 4.9	+ 4.6	5.1	+19.6	13,997
U. K.	+10.5	+10.8	2.1	+22.4	1,786
North America	+ 6.4	+ 4.7	10.5	+ 4.1	3,865
U. S.	+ 8.4	+ 9.5	10.0	+ 4.5	3,432
Eastern bloc	- 8.2	-13.4	- 2.6	- 5.0	1,474
Other countries	<u>+ 1.4</u>	<u>- 2.2</u>	<u>4.4</u>	<u>+14.0</u>	<u>9,656</u>
Total exports	+ 7.9	+ 4.6	+11.6	+15.3	47,013
<u>Imports from:</u>					
EEC	+ 7.1	+10.1	+10.1	+ 8.2	14,959
France	+ 5.1	+ 3.3	+10.1	+ 4.2	4,553
Italy	- 0.8	+ 4.5	+15.1	+10.1	3,076
EFTA	+ 4.1	+ 3.4	+ 5.5	+ 4.2	8,876
U. K.	+ 8.3	+11.3	+11.2	- 7.0	2,069
North America	+14.9	+15.9	+ 9.3	+27.9	7,273
U. S.	+18.2	+20.9	+10.6	+26.8	6,719
Eastern bloc	- 0.6	- 3.3	+ 6.2	--	1,742
Other countries	<u>--</u>	<u>- 4.6</u>	<u>+ 6.8</u>	<u>+11.1</u>	<u>10,032</u>
Total imports	+ 5.6	+ 3.9	+ 8.1	+ 8.2	42,882

Source: Bundesbank, Monthly Report.

Balance of payments surplus grows

With the larger trade surplus and heavier private capital inflows, a substantial German balance of payments surplus re-emerged during the course of 1963: the eleven-month surplus was \$1 billion compared with a \$16 million deficit in 1962. (See Table 8.) For 1963, the surplus on goods and services amounted to DM 4.0 billion or \$1 billion (almost twice the amount earned in the corresponding period of 1962), the private capital inflow to DM 4.1 billion (or almost double the 1962 figure) and official payments abroad to about DM 4.0 billion (same as last year). An increase in net purchases of German securities by foreigners, concentrated in purchases of long-term government bonds, was largely responsible for the improved capital account. Purchases of long-term bonds by foreigners amounted to DM 1.4 billion during the first three quarters of 1963 as compared with only DM 0.5 billion during the corresponding period of 1962.

Reserve position improved

For 1963 as a whole, German over-all reserves increased by an estimated \$890 million (See Table 9) as compared with a decrease of \$183 million in 1962. Gold and foreign exchange holdings of the Bundesbank increased by \$655 million during the year (they declined by \$94 million in 1962). Commercial banks holdings of foreign exchange assets are tentatively estimated to have increased by about \$200 million during 1963, although it is difficult to determine the actual changes until the statistics on the commercial banks' year-end window dressing become available.

The D-mark was in active demand during the entire period under review (See Table 10). During the last two months of 1963, the upward movement was reinforced by German commercial banks sales of foreign assets for window-dressing purposes. Again in 1963, the Bundesbank attempted to stem this repatriation by offering to

Table 8. Germany: Balance of Payments 1962-November 1963
(in millions of DM)

	Jan. - Nov.		1963				
	1962	1962	I	II	III	Oct.	Nov.
1. GOODS & SERVICES							
Trade balance	b/ 3,018	5,055	572	1,265	1,558	820	840
Services	- 960	-1,088	53	- 471	- 878	29	179
Total	<u>2,058</u>	<u>3,967</u>	<u>625</u>	<u>794</u>	<u>680</u>	<u>849</u>	<u>1,019</u>
2. OFFICIAL PAYMENTS							
Donations	-3,165	-3,124	-931	- 911	- 845	-215	-222
Long-term capital	- 754	- 789	- 96	- 256	- 88	-120	-229
Short-term capital	- 103	- 88	219	100	141	- 23	-525
Total	<u>-4,022</u>	<u>-4,001</u>	<u>-808</u>	<u>-1,067</u>	<u>-792</u>	<u>-358</u>	<u>-976</u>
3. PRIVATE CAPITAL							
Securities transactions							
Foreign purchases 1/			700	731	703		
German purchases	996	3,037				315	273
(increase-) 2/			-161	- 48	- 100		
Other long-term			205	268	151		
Short-term 3/	- 124	1,043	78	278	205	495	- 13
Errors and omissions	1,027	25	183	286	309	-533	-220
Total	<u>1,899</u>	<u>4,105</u>	<u>1,005</u>	<u>1,515</u>	<u>1,268</u>	<u>277</u>	<u>40</u>
SURPLUS OR DEFICIT (-)	<u>- 65</u>	<u>4,071</u>	<u>822</u>	<u>1,242</u>	<u>1,156</u>	<u>768</u>	<u>83</u>
Financed by:							
1. COMMERCIAL BANKS							
Foreign Exchange Assets							
(increase-)	- 721	-1,492	-891	- 224	- 248	-594	465
2. RESERVE MOVEMENTS							
Drawing rights on IMF							
(increase-)	480	- 129	- 9	--	- 100	- 12	- 8
Bundesbank liabilities	39	- 53	77	- 9	- 121	- 63	63
Gold and foreign exchange (increase-)	267	-2,397	1	-1,009	- 687	- 99	-603
Total	<u>786</u>	<u>-2,579</u>	<u>69</u>	<u>-1,018</u>	<u>- 908</u>	<u>-174</u>	<u>-548</u>
TOTAL FINANCING	<u>65</u>	<u>-4,071</u>	<u>-822</u>	<u>-1,242</u>	<u>-1,156</u>	<u>-768</u>	<u>- 83</u>

a/ Preliminary.

b/ A change in import accounting procedure has resulted in approximately DM 400 million of goods in bonded warehouses being included in the first 4 months imports. This is offset in errors and omissions.

1/ Foreign purchases of German securities.

2/ German purchases of foreign securities.

3/ Includes commercial bank capital other than foreign exchange assets.

Source: Basic data from Bundesbank and International Financial Statistics rearranged by author.

Table 9. Germany: Changes in Reserve Position 1962-December 1963
(in millions of U.S. dollars)

	Jan. - Dec.		1 9 6 3					
	<u>1962</u>	<u>1963</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u> a/
A. Bundesbank gold and foreign exchange								
Gold	15	164	69	5	8	56	6	20
Foreign exchange	<u>-109</u>	<u>491</u>	<u>-70</u>	<u>248</u>	<u>163</u>	<u>-31</u>	<u>145</u>	<u>36</u>
Total	<u>- 94</u>	<u>655</u>	<u>- 1</u>	<u>253</u>	<u>171</u>	<u>25</u>	<u>151</u>	<u>56</u>
B. Drawing rights on IMF	-120	34	2	--	25	3	2	2
C. Commercial banks foreign exchange	<u>- 63</u>	<u>198</u>	<u>223</u>	<u>56</u>	<u>62</u>	<u>148</u>	<u>-116</u>	<u>-175</u>
Total A through C	<u>-183</u>	<u>887</u>	<u>224</u>	<u>309</u>	<u>258</u>	<u>176</u>	<u>37</u>	<u>-117</u>

a/ Estimated.

Source: IMF, International Financial Statistics; Bundesbank, Monthly Report.

Table 10. Germany: Exchange Rate in U.S. Cents per DM
1962 - December 1963

	Par value	25.000			
	Upper limit	25.188			
	Lower limit	24.875			
1962	January-March	25.017	1963	June	25.121
	April-June	25.018		July	25.109
	July-September	25.033		August	25.101
	October-December	24.981		September	25.121
				October	25.137
1963	January-March	24.991		November	25.154
	April-June	25.085		December	25.165
	July-September	25.110			
	October-December	25.152	1964	January (8 days)	25.155

Source: Federal Reserve Bulletin.

repurchase Treasury bills at advantageous rates; but the fluctuations of the exchange rate suggest that the Bundesbank was only partly successful in this operation. Since year-end, quotations for the D-mark have declined as a result of the unwinding of window-dressing operations and the Bundesbank has made dollars available to the market.

Federal budget and future capital inflows

The Government's financing of the budget deficit (and the cash needs of the railroads and other Federal agencies) has provided a continuing supply of government bonds at a 6 per cent coupon which attracted large foreign participation in 1963. The 1964 budget, which is based on the desire to contain inflationary pressures emanating from the government sector, holds total expenditures strictly to the level commensurate with the expected growth in GNP. The main increases in outlays are to be for military spending and the so-called "social package" of increased social benefits. Chancellor Erhard took on a fight with the politically important war veterans one year before the 1965 elections in his own concern over holding down budget expenditures.

In total, the budget suggests that the Treasury's borrowing needs will be about the same in 1964 as the DM 2.2 billion in 1963. The final settlement of the share the Federal Government is to obtain of income taxes collected jointly with the State Governments at 39 per cent (or one percentage point below that budgeted) may add a further DM 0.4 billion to this figure. If the Government continues to finance its deficit by long-term bond issues at the established 6 per cent rate, it can be expected that capital inflows also will continue. Early in January, a bond issue for DM 400 million was immediately oversubscribed, with heavy foreign participation despite requests to the banks that preferences should be given to domestic small investors.

Cash drain by public sector: commercial banks more liquid

Fiscal policy remained restrictive throughout 1963, as it had been in the past few years. However, public transactions withdrew less liquidity from the private sector during the second half, than in the first half, of 1963. For the first half, the combined cash surplus of the Federal Government and the Lander amounted to DM 1.7 billion. When the DM 2.6 billion of Federal government payments abroad are added, the drain on domestic liquidity from fiscal operations amounted to DM 4.3 billion for the first six months of 1963 compared with DM 3.9 billion for the entire year of 1962.

The large first-half government surplus, in part, reflected delays in outlays on government investment projects because of the bad winter weather. As a consequence, there was a marked acceleration of public spending in the third quarter. For this quarter, the Federal deficit was DM 1.8 billion or, adjusted for foreign transactions, DM 0.6 billion compared with a DM 0.1 billion deficit for the same period in 1962.

For the first nine months, therefore, the domestic government cash surplus was DM 3.7 billion in 1963 and DM 3.8 billion in 1962.

With the rising balance of payments surplus, the liquidity position of the commercial banks improved during 1963. Despite this easing, however, credit expansion to the private sector rose by only 10.9 per cent for the period January-November 1963 compared with a rise of 15.3 per cent for the same period a year earlier. (See Table 11.) The rate of credit expansion accelerated from about mid-year, particularly long-term credits to the construction industry.

Table 11. Germany: Change in Selected Bank Statistics ^{1/}
1961 - 1963
 (billions DM)

	1961		1962		1963			Actual Oct. 1963
	<u>first half</u>	<u>second half</u>	<u>first half</u>	<u>second half</u>	<u>I</u>	<u>II</u>	<u>III</u>	
Credit extended to private non-bank sector								
Short-term	+ 4.1	+2.1	+2.9	+ 0.5	+1.0	+2.0	-0.4	52.8
Medium-term	+ 2.3	+1.2	+1.2	+ 2.5	+0.6	+0.9	+0.4	19.1
Long-term	+12.1	+6.4	+5.3	+ 7.3	+2.0	+3.3	+4.1	99.8
Total	<u>+18.6</u>	<u>+9.6</u>	<u>+9.3</u>	<u>+10.4</u>	<u>+3.6</u>	<u>+6.2</u>	<u>+4.0</u>	<u>171.8</u>
Deposits received from non-bank customers								
Sight	- 0.5	+5.7	-1.7	- 5.3	-5.1	+2.4	+1.2	38.7
Time	+ 1.6	+0.1	+1.2	+ 0.5	+0.2	--	+0.2	24.0
Savings	+ 3.6	+3.7	+4.6	+ 4.7	+3.6	+1.5	+2.2	78.3
Total	<u>+ 4.8</u>	<u>+9.5</u>	<u>+4.1</u>	<u>+10.4</u>	<u>-1.2</u>	<u>+3.9</u>	<u>+3.6</u>	<u>141.0</u>
Commercial banks' foreign exchange assets ^{a/}	+ 3.5	-2.0	+1.3	- 1.6	+0.9	+0.2	+0.2	4.5
Borrowings at Bundesbank	- 0.9	+0.4	+0.1	+ 0.5	+0.8	+0.2	^{b/} -1.0	^{b/} 1.1

^{1/} Totals may not add due to rounding.

^{a/} Converted at prevailing parity rates.

^{b/} Not strictly comparable with data prior to August 1963.

Source: Bundesbank Monthly Report.