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Recent Economic Developments in Germany -  
End of 1962 and Early 1963

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Recent Economic Developments in Germany - End of 1962 and Early 1963

Summary

The slight pick-up in business activity in Germany in the latter part of 1962 was brought to a halt in early 1963 by extremely severe winter weather. Output, particularly in building and the building supply industries, exports and retail sales were adversely affected.

With the warmer spring weather, however, a more than seasonal recovery may materialize. A brisk expansion is expected in the building industry, with its order backlogs even larger after the winter cut back in output. In this expansion, labor markets may tighten again and labor's bargaining position in the current wage round may be strengthened because of the attempts in the building industry to make up the lost time.

Prospects for 1963, according to official government forecasts, are for continued expansion, although at a slightly lower rate than in 1962. At the same time, both the Economics Ministry and the Bundesbank have warned that the continuation of current price and wage trends would threaten Germany's competitive position and, in the long run, its economic growth. Both called for restraint in public expenditures, particularly in aid to building activity. However, public construction demand will probably not be reduced in the current year: Federal budget expenditures for construction are unchanged for 1963 and the building industry has large order backlogs.

For the first time in ten years, the balance of payments was in deficit in 1962 because of structural changes, and not because of special governmental measures to reduce official reserve accruals. The principal factors contributing to this turn-around have been:

- a. A 50 per cent reduction in the trade balance (reflecting the encouragement of imports to check price and cost rises in Germany

and the 5 per cent revaluation in March 1961);

b. The shift from surplus to deficit on service account (reflecting heavier German tourist expenditures abroad and remittances by foreign workers); and

c. The low level of private capital inflow which halted after the "Berlin wall" crisis of August 1961 and had not materially recovered by the end of 1962.

Donations and official capital outflows continued on a large scale and were sufficient in 1962 to offset the payments surplus on private account.

However, a surplus, or at least a balance, in external payments may have emerged in the first quarter of 1963. Inflows on capital account contributed to this change. Short-term funds have been moving into the country, largely as a result of a continuing tightening of the liquidity of the commercial banks under the so-called "neutral" monetary policy of the Bundesbank. As a result banks are reported to be borrowing in foreign financial markets and have also been repatriating some of their own short-term funds. In addition, the recent weakness of sterling appears to have resulted in some shift of short-term funds into Germany. Finally, heavy participation of foreigners in recent German official bond issues has contributed to an inflow of long-term capital.

#### Weather curtails output

The exceptionally severe winter produced a fall in the index of industrial production (after seasonal adjustment) of 6 per cent between December 1962 and February 1963. (See Table 1.) Declines were registered in all major areas of industrial activity, with the exception of the food, beverages and tobacco sector. But the main downward factor was the 48 per cent drop in building and its effect on the building supplying industries. In February about 20.7 million mandays were lost in the building industry because of bad weather conditions and from November 1962 to the end of February the loss was about 52 million mandays, or 10 per cent of total mandays worked in 1961, compared with only 22.6 million mandays in the

Table 1. Germany: Industrial Production, seasonally adjusted  
(1950 = 100, end of period figures)

|         | <u>All Industries</u> | <u>Basic and Producers Goods</u> | <u>Capital Goods</u> | <u>Consumers Goods</u> | <u>Food, beverages and Tobacco</u> | <u>Building</u> |
|---------|-----------------------|----------------------------------|----------------------|------------------------|------------------------------------|-----------------|
| 1962    |                       |                                  |                      |                        |                                    |                 |
| I       | 258                   | 269                              | 353                  | 221                    | 220                                | 210             |
| II      | 278                   | 298                              | 370                  | 237                    | 231                                | 270             |
| III     | 275                   | 298                              | 369                  | 229                    | 236                                | 269             |
| Oct.    | 277                   | 293                              | 376                  | 242                    | 235                                | 264             |
| Nov.    | 281                   | 298                              | 387                  | 235                    | 242                                | 254             |
| Dec.    | 282                   | 295                              | 381                  | 241                    | 235                                | 250             |
| 1963    |                       |                                  |                      |                        |                                    |                 |
| Jan. a/ | 273                   | 278                              | 368                  | 235                    | 232                                | 171             |
| Feb. a/ | 265                   | 273                              | 360                  | 217                    | 240                                | 130             |

a/ Preliminary.

Source: Bundesbank Monthly Report.

Table 2. Germany: Labor Market (excluding Berlin)  
(End of period figures)

|   | 1961 | 1962 |      |      |      | 1963   |        |        |        |
|---|------|------|------|------|------|--------|--------|--------|--------|
|   | IV   | I    | II   | III  | IV   | Jan.   | Feb.   | Jan.   | Feb.   |
| Labor force (millions)                  | 21.0 | 21.1 | 21.3 | 21.4 | 21.4 | a/21.0 | a/21.1 | a/21.4 | a/21.4 |
| Employment (millions)                   | 20.8 | 20.9 | 21.2 | 21.3 | 21.2 | a/20.8 | a/20.8 | a/21.0 | a/21.0 |
| Unemployed (thousands)                  | 223  | 190  | 88   | 83   | 219  | 268    | 257    | 393    | 401    |
| Unemployment as per cent of labor force | 1.1  | 0.9  | 0.4  | 0.4  | 1.0  | a/ 1.3 | a/ 1.2 | a/ 1.8 | a/ 1.9 |
| Vacancies                               | 417  | 581  | 598  | 580  | 406  | 505    | 554    | 436    | 477    |
| Vacancies as per cent of unemployed     | 187  | 306  | 680  | 699  | 185  | 188    | 216    | 111    | 119    |

a/ Estimated.

Source: Statistisches Bundesamt and Federal Reserve Board staff.

comparable 1961/62 period.

With the reduction in industrial production, strains on the labor market eased in January and February. The number of unemployed rose from 219,000 in December to 401,000 in February and the unemployment rate was 1.9 per cent. (See Table 2.) In February 1962, when weather conditions also were unfavorable, unemployment was only 257,200 and the unemployment rate was estimated at 1.2 per cent. The 477,000 vacancies in February were not much higher than the number of unemployed, while in 1962 vacancies ranged between two and seven times as high as the number of unemployed.

New orders received by the basic industries, which depend strongly on the building trades, reflected the weather but total new orders in January and February were only fractionally below their year-ago level. (See Table 3.) As in preceding months, orders received by the consumer goods industries were either higher or only fractionally below the year-ago level, while orders received by the capital goods industries were consistently lower than in the preceding year. The earlier trend of more new orders from foreign than from domestic customers also continued into early 1963.

Retail sales, which had been buoyant in October and November, have been sluggish since, reflecting the prolonged cold spell.

The unseasonably bad weather makes it difficult to ascertain whether the differentiation in the rates of growth among industry sectors apparent in the fall of 1962 have continued. However, the January new order figures still suggest that the consumer goods sectors, particularly the automobile industry, continue to show healthy growth rates, while the capital goods sector remained sluggish. (See Table 3.)

The gross national product, in current prices, rose on an annual basis by 9 per cent in the fourth quarter of 1962, (see Table 4), largely because of a 16.5 per cent rise in public consumption and a 11.5 per cent growth in construction, aided by government demand. In the fourth quarter the year-to-year increase in real

Table 3. Germany: New orders received by industry  
(1954 turnover = 100, end of period figures)

|      | <u>All industries</u> <sup>a/</sup> | <u>Foreign orders</u> | <u>Domestic orders</u> | <u>Basic industries</u> | <u>Capital Goods</u> | <u>Consumers Goods</u> |
|------|-------------------------------------|-----------------------|------------------------|-------------------------|----------------------|------------------------|
| 1961 |                                     |                       |                        |                         |                      |                        |
| IV   | 193                                 | 243                   | 183                    | 164                     | 252                  | 155                    |
| 1962 |                                     |                       |                        |                         |                      |                        |
| I    | 214                                 | 261                   | 205                    | 188                     | 271                  | 173                    |
| II   | 208                                 | 236                   | 203                    | 200                     | 247                  | 166                    |
| III  | 206                                 | 230                   | 201                    | 188                     | 245                  | 179                    |
| Oct. | 231                                 | 263                   | 224                    | 203                     | 268                  | 220                    |
| Nov. | 221                                 | 265                   | 212                    | 191                     | 265                  | 203                    |
| Dec. | 188                                 | 240                   | 177                    | 162                     | 240                  | 153                    |
| 1963 |                                     |                       |                        |                         |                      |                        |
| Jan. | 199                                 | 257                   | 187                    | 173                     | 256                  | 157                    |
| Feb. | 185                                 | 251                   | 172                    | 158                     | 244                  | 142                    |

a/ Excludes mining, construction, food and power.  
Source: Statistisches Bundesamt.

Table 4. Germany: Gross National Product 1962  
(Current prices, per cent change from preceding year)

|                  | Year  | 1962 |      |      |      |
|------------------|-------|------|------|------|------|
|                  |       | I    | II   | III  | IV   |
| Consumption      |       |      |      |      |      |
| Private          | 8.9   | 8.5  | 12   | 8    | 7.5  |
| Public           | 14.2  | 12   | 10   | 18   | 16.5 |
| Total            | 9.9   | 9    | 11.5 | 10   | 9    |
| Gross investment |       |      |      |      |      |
| Construction     | 13.8  | 1    | 20.5 | 16.5 | 14   |
| Equipment        | 7.8   | 10   | 6.5  | 7    | 7.5  |
| Inventory change | -12.1 | 11   | -50  | -7   | --   |
| Total            | 9.2   | 6.5  | 8    | 11   | 11.5 |
| Exports          | 4.7   | 3    | 3    | 6    | 7    |
| Less Imports     | 9.8   | 11   | 9    | 10.5 | 9    |
| Total GNP        | 8.5   | 6.5  | 9    | 9    | 9    |

Source: Deutsches Institut fuer Wirtschaftsforschung.

gross national product was 5.5 per cent compared with 5 per cent in the third quarter.

Price rises moderate in late 1962

Producer prices, which had risen rather fast at the beginning of 1962, were relatively stable through the second half of 1962 and the beginning of 1963.

(See Table 5.) Keen competition from abroad, moderation in wage increases and the rise in productivity which became evident in the latter part of 1962 contributed to this stability, especially in the investment goods industry. Continuing strong demand, pushed up producer prices for consumer goods by 1 per cent between September 1962 and January 1963.

On the other hand, consumer prices rose 2.6 per cent between September 1962 and January 1963 and 3.6 per cent between January 1962 and January 1963. A 3.5 per cent increase in food prices and large increases in fuel prices between the fall of 1962 and January 1963 were accounted for by the cold weather and by normal seasonal factors. Effective January 1, rail and postal rates were raised and rents went up as part of the program to decontrol older housing units.

Building costs in February were 7 per cent above their year-ago level, and are likely to continue upward in spite of the government's curbs on building demand. The bad weather added to the already substantial backlog in the building industry. Wage negotiations for 1.3 million construction workers currently underway may be affected by the enlarged order backlog.

Wages in industry continued to rise in the last quarter of 1962. Average hourly earnings were up by 2.6 per cent after rising somewhat less in the third quarter. But in the second half of 1962 they rose by only 3.5 per cent compared with a 6.0 per cent rise in the first six months. Increases in hourly wage rates also averaged lower in the latter part of 1962 however, hourly wage rates do not take into account the reduction from 44 to 43 hours in the work week which became

Table 5. Germany: Prices and Wages  
(Index numbers, 1958 = 100, end of quarter figures)

|  | 1961  |       |       |       | 1962  |       |       |       | 1963  |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|  | I     | II    | III   | IV    | I     | II    | III   | IV    | Jan.  |
| <b>Producer Prices</b>                 |       |       |       |       |       |       |       |       |       |
| Total industrial products              | 101.8 | 101.6 | 102.0 | 102.3 | 102.8 | 103.1 | 103.2 | 103.4 | 103.5 |
| Investment goods industry              | 103.0 | 103.2 | 104.2 | 104.5 | 106.1 | 107.3 | 107.4 | 107.4 | 107.3 |
| Consumer goods industry                | 103.8 | 103.6 | 103.9 | 104.4 | 104.9 | 104.8 | 105.1 | 105.6 | 106.1 |
| <b>Consumer Prices</b>                 |       |       |       |       |       |       |       |       |       |
| General index                          | 104.1 | 105.6 | 105.3 | 106.3 | 108.1 | 109.8 | 108.3 | 109.4 | 111.1 |
| Food                                   | 102.4 | 105.5 | 103.6 | 104.7 | 107.9 | 111.5 | 106.3 | 108.3 | 111.0 |
| <b>Export Prices</b>                   |       |       |       |       |       |       |       |       |       |
| General index                          | 100.4 | 100.0 | 100.0 | 100.1 | 100.5 | 100.6 | 100.7 | 100.5 | 100.4 |
| Investment goods                       | 103.4 | 103.7 | 104.5 | 105.1 | 106.3 | 107.1 | 107.3 | 107.2 | 107.0 |
| <b>Import Prices</b>                   |       |       |       |       |       |       |       |       |       |
| General index                          | 94.7  | 94.2  | 93.2  | 93.6  | 94.7  | 93.7  | 92.3  | 94.4  | 95.3  |
| Investment goods                       | 96.8  | 96.3  | 96.4  | 96.9  | 99.4  | 98.2  | 98.1  | 97.8  | 97.5  |
| <b>Earnings</b>                        |       |       |       |       |       |       |       |       |       |
| Average hourly earnings in industry 1/ | 122   | 124   | 129   | 133   | 137   | 141   | 143   | 146   | n.a.  |

1/ February, May, August and November.

n.a. - not available

Source: Statistisches Bundesamt: Wirtschaft und Statistik

effective for the building industry in the last quarter of 1962.

The 1963 wage round was started off with regional increases of 6 per cent in the clothing industry and 8 per cent in the chemical industry. The metal workers union, which generally sets the pace in industrial bargaining agreements, is asking for an 8 per cent pay increase. The Government, in recommending that wage increases should not exceed productivity increases, is in a particularly sensitive position as wage agreements for about 1.5 million government workers are to be renegotiated.

#### German financial markets tighten in early 1963

German financial markets in the first quarter of 1963 continued to show the effects of the gradual tightening of commercial bank liquidity which prevailed during the past year. Money market rates at Frankfurt remained contra-seasonally high in January and February and rose further in March in anticipation of the mid-March tax date. The market continued tight even after the passing of the March 15th tax date; day-to-day money rates rose from a low of 2 per cent at the end of January to a high of 3-3/4 per cent at the end of March.

The gradual reduction in bank liquidity has also been reflected in the virtual withdrawal of the banks as purchasers from the capital markets. In order to ease their position, the banks are reported to have been borrowing both from the Bundesbank and from foreign sources.

During the first quarter of this year, the Federal Government and its agencies have been the most active borrowers in the capital market. In January, a DM 400 million Federal Government loan was placed, followed by a DM 200 million loan floated by the Credit Institute for Reconstruction, a DM 150 million loan by the Equalization of Burdens Fund, a DM 210 million loan by the postal authorities and a DM 265 million bond issue by the Federal Railways. Finally, a Federal loan of DM 500 million has been announced for the beginning of April. Thus the public authorities will have taken up DM 1.7 billion during the first four months of the

year. All the loans floated were taken up readily by investors and there has been heavy foreign participation because German bond yields (at around 6 per cent) are the highest in Europe except for Austria.

The shifting of funds from the stock market to the bond market and lower profits and dividends in some industrial sectors are thought to account for the weakness on the stock market. German stock prices fell 4 per cent in January and 5.5 per cent in February, but rose again by 4 per cent in March.

#### Public sector finances remain restrictive in 1962

During 1962, fiscal policy remained restrictive even though the tax receipts of the Federal and Laender governments rose less and expenditures more than in previous years. The Federal budget shifted on a cash basis from a surplus of DM 1.9 billion in 1961 to a deficit of DM 1.7 billion in 1962. Adjusted for Federal Government payments abroad (which in 1962 amounted to approximately DM 4-1/4 billion), the domestic surplus was reduced from DM 5.5 billion in 1961 to about DM 2.5 billion in 1962.

For 1963, the Federal deficit is budgeted at DM 1.8 billion compared with an estimated deficit of DM 1.5 billion for 1962. Because receipts have been estimated conservatively, it is likely that expected increases in expenditure will not materially enlarge the actual deficit. It is expected that the rise in government spending in 1963 should continue to exceed the estimated growth rate of gross national product.

#### Government sees continued growth for 1963

In a first official report on the economic outlook, the Economics Ministry 1/ sees shortage of manpower the main limiting factor in the rate of growth

1/ German authorities have decided to institute a regular system of annual assessments of the economic position of the past year and prospects for future.

These reports are to be prepared by an independent Commission which has not yet been organized; hence, the Economics Ministry was directed to prepare the first report.

Table 6. Germany: Gross National Product  
(Per cent change from preceding years, current prices)

|  | <u>1960</u> | <u>1961</u> | <u>1962<sup>a/</sup></u> | <u>1963<sup>b/</sup></u> |
|--|-------------|-------------|--------------------------|--------------------------|
| Private consumption expenditures                           | + 9.2       | + 9.8       | + 9.0                    | +6.2                     |
| Public consumption expenditures                            | +12.4       | +13.7       | +14.2                    | +8.9                     |
| Gross investment of which plant and equipment construction | +20.5       | +10.4       | + 8.6                    | +6.7                     |
|  | +17.8       | +14.7       | + 7.8                    | +4.0                     |
|  | +14.8       | +14.5       | +12.6                    | +8.6                     |
| Exports  | +14.6       | + 4.7       | + 5.2                    | +2.7                     |
| Less Imports   | +17.4       | + 6.8       | +10.1                    | +5.2                     |
| Gross National Product                                     | +12.0       | + 9.9       | + 8.5                    | +6.2                     |

a/ Preliminary.

b/ Estimated

Source: Report on the Economic Situation in 1962 and Prospects for 1963.

and the maintenance of price stability as the main concern for 1963. Although foreign and domestic demand has slackened somewhat, resource limitations remain the main obstacle to expansion: the fact that supply possibilities are now virtually limited to increases in productivity is recorded in the report as a basic change in Germany's present economic position.

During 1963, gross national product is expected to rise in real terms by 3.5 per cent (just a little less than in 1962) or 6.2 per cent in current prices (compared with 9.0 per cent in 1962), as may be seen in Table 6. Public spending and construction are to be the main expansionary factors; exports and private plant and equipment spending will grow more slowly than GNP. Imports will also grow at a much reduced rate in 1963.

In the labor market, the labor force is to increase by only 0.4 per cent and the average work week to decline by 1-1/2 per cent. The 1 per cent decline in total work time will be more than offset by an expected 3 per cent increase in productivity. Wages and salaries should rise more slowly than in 1962: by 6.8 per cent as compared with 10.6 per cent.

Further price rises are considered to be inevitable although they should be more moderate than in 1962. The report concludes with a warning that the first task of economic policy must be to bring money demand in balance with real supply because present wage and price trends cannot be continued without endangering German competitiveness and long-run economic growth.

This general assessment brings the thinking of the Economic Ministry in line with that of the Bundesbank. Last year there was a divergence of opinion. For 1963, price stability will be threatened by current wage demands, the enormous backlog in the building industry and continuing demand of the public authorities.

#### Foreign trade affected by weather

Although the inflow of new foreign orders turned up in the fourth quarter

of 1962, actual exports were sluggish during the first two months of 1963, largely reflecting the cold weather, and perhaps the U.S. dock strike. (See Table 7.) Imports also declined but they fell less than exports. Consequently, the trade surplus was further reduced from the relatively low \$76 million (monthly average) registered in the fourth quarter of 1962 to only \$41 million in February 1963. For 1962 as a whole the trade balance fell to \$978 million (annual rate) from \$1,742 million in 1961. Even after adjustment for a statistical change in the recording of imports, which would raise the 1962 trade balance by \$116 million, the 1962 export surplus was the lowest recorded since 1957.

The change in the structure of German foreign trade, reflecting the steadily growing importance of imports of finished manufactures of the past several years, continued in 1962. (See Table 8.) While total imports rose by 9.2 per cent, imports of finished manufactures rose by 26 per cent between the fourth quarters of 1961 and 1962. Although large deliveries of Government purchases of armaments abroad--mainly from the United States--contributed substantially to this rise, private imports of finished manufactures also continued to expand rapidly. This development has undoubtedly helped to restrain advances in domestic prices.

Table 8: Structure of German foreign trade 1960-62  
(Millions of DM)

|                            | Exports       |               |               | Imports       |               |               |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                            | 1960<br>IV    | 1961<br>IV    | 1962<br>IV    | 1960<br>IV    | 1961<br>IV    | 1962<br>IV    |
| Food, beverages & tobacco  | 299           | 279           | 313           | 3,020         | 3,654         | 3,518         |
| Raw materials              | 580           | 562           | 612           | 2,457         | 2,166         | 2,141         |
| Semi-finished manufactures | 1,408         | 1,341         | 1,224         | 2,128         | 1,815         | 2,036         |
| Finished manufactures      | 11,144        | 11,089        | 11,916        | 3,914         | 4,239         | 5,340         |
| Other <u>1/</u>            | 51            | 55            | 58            | 137           | 184           | 136           |
| <b>Total</b>               | <b>13,482</b> | <b>13,326</b> | <b>14,123</b> | <b>11,656</b> | <b>12,058</b> | <b>13,171</b> |

1/ Returns of merchandise and replacements.

Source: Ministry of Economics: Die Wirtschaftliche Lage in der Bundesrepublik Deutschland.

Table 7. Germany: Merchandise Trade  
(Seasonally adjusted monthly averages in millions of U.S. dollars)

|                            | <u>Exports</u> | <u>Imports</u> | <u>Balance</u> |
|----------------------------|----------------|----------------|----------------|
| 1961                       |                |                |                |
| I                          | 1037           | 864            | +173           |
| II                         | 1071           | 917            | +154           |
| III                        | 1085           | 918            | +167           |
| IV                         | 1052           | 947            | +105           |
| 1962                       |                |                |                |
| I old series               | 1080           | 936            | +144           |
| I new series <sup>1/</sup> | 1080           | 986            | + 94           |
| II                         | 1110           | 1019           | + 91           |
| III                        | 1129           | 1021           | +108           |
| IV                         | 1117           | 1041           | + 76           |
| 1963                       |                |                |                |
| Jan.                       | 1047           | 975            | + 72           |
| Feb.                       | 1057           | 1016           | + 41           |

<sup>1/</sup> Change in import accounting procedure: as of April 1962, retroactive to January 1, goods in and those entering bonded warehouses included in imports in contrast with old procedure of recording goods as imports upon their departure from bonded warehouses.

Source: OECD

On a regional basis, exports to the United States, up 16 per cent, registered the largest rise during 1962, reflecting largely recovery from reduced sales in the United States as a result of the recession here. Exports to the other EEC countries rose by 13.5 per cent to become about 34 per cent of total German exports. On the other hand, exports to EFTA countries lost in relative importance as they rose only by 3.7 per cent but the German surplus with these countries still was larger than Germany's total trade surplus. (See Table 9.)

On the import side, with a 20 per cent rise, imports from the other EEC countries comprised 32 per cent of Germany's import trade. In addition, imports from the United States (partly because of large deliveries of armaments) and those from the EFTA countries rose more rapidly than in the preceding year.

Importers may find their competitive position somewhat more difficult later this year. The Bundestag has passed a bill adjusting the turnover equalization tax levied on imports upward by 2 percentage points on 95 industrial items (which comprised about 10 per cent of total 1961 imports). The rate increase is expected to become effective in June of this year following consultations with the EEC partners.

To promote exports, the Government has increased by between 5 and 10 percentage points the available cover for commercial and political risks under the government-sponsored export insurance program.

#### Balance of payments in deficit

The German balance of payments showed a deficit of DM 1,147 million in 1962, a deterioration of just over DM 7,000 million from the DM 5,856 million surplus of 1961. The surplus on private account fell from DM 9,404 million in 1961 to DM 3,769 million and was no longer sufficient to offset the deficit on government account.

More than half of the change was due to a deterioration of the current

Table 9. Germany: Merchandise Trade by Area  
(millions of DM)

|                        | 1961   |        | 1962   |        |        |        |        |        |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
|                        | I      | II     | III    | IV     | I      | II     | III    | IV     |
| <b>All areas</b>       |        |        |        |        |        |        |        |        |
| Exports                | 50,978 | 52,974 | 12,249 | 12,820 | 12,583 | 13,326 | 12,646 | 13,001 |
| Imports                | 44,363 | 49,499 | 10,329 | 11,113 | 10,863 | 12,058 | 12,030 | 12,031 |
| Balance                | 6,615  | 3,475  | 1,920  | 1,707  | 1,720  | 1,268  | 616    | 970    |
| <b>EEC countries</b>   |        |        |        |        |        |        |        |        |
| Exports                | 16,179 | 18,011 | 3,902  | 4,104  | 3,958  | 4,215  | 4,384  | 4,342  |
| Imports                | 13,779 | 15,970 | 3,080  | 3,446  | 3,557  | 3,696  | 3,754  | 3,959  |
| Balance                | 2,400  | 2,041  | 822    | 658    | 401    | 519    | 630    | 383    |
| <b>EFTA countries</b>  |        |        |        |        |        |        |        |        |
| Exports                | 14,423 | 14,715 | 3,391  | 3,657  | 3,598  | 3,777  | 3,473  | 3,700  |
| Imports                | 8,594  | 9,358  | 1,942  | 2,176  | 2,099  | 2,377  | 2,266  | 2,313  |
| Balance                | 5,829  | 5,317  | 1,449  | 1,481  | 1,499  | 1,400  | 1,207  | 1,387  |
| <b>United States</b>   |        |        |        |        |        |        |        |        |
| Exports                | 3,497  | 3,855  | 805    | 861    | 883    | 948    | 848    | 938    |
| Imports                | 6,099  | 7,026  | 1,501  | 1,517  | 1,371  | 1,710  | 1,630  | 1,743  |
| Balance                | -2,602 | -3,171 | -696   | -656   | -488   | -762   | -782   | -805   |
| <b>Other countries</b> |        |        |        |        |        |        |        |        |
| Exports                | 16,879 | 16,393 | 4,151  | 4,198  | 4,144  | 4,386  | 3,941  | 4,021  |
| Imports                | 15,891 | 17,105 | 3,806  | 3,974  | 3,836  | 4,275  | 4,380  | 4,016  |
| Balance                | 988    | -712   | 345    | 224    | 308    | 111    | -439   | 5      |

Source: Statistisches Bundesamt: Wirtschaft und Statistik

balance. The trade surplus was about halved between 1961 and 1962 and the service account, which had been in approximate balance in 1961, showed a deficit of over DM 1,000 million last year, largely reflecting tourist spending and remittances by foreign workers. In addition, the net inflow of private short-term capital was almost negligible, while the outflow of official capital (with continuing large donations and other official payments, such as contributions to the EEC Development Fund and the International Development Fund) rose considerably. The Bundesbank, (on a reporting basis slightly different from the one used here) had reported balance of payments deficits only for two years since 1950, that is, DM 2.2 billion in 1959 and DM 1.9 billion in 1961. However, these earlier deficits were of a rather different nature: they were not the result of a deterioration in the current balance but arose solely from special official transactions--foreign debt prepayments by the Government and short-term capital outflows by commercial banks prompted by favorable foreign exchange cover provided to them by the Bundesbank. (See Table 10.)

The German reserve position was reduced by \$278 million between the end of 1961 and the end of 1962 (see Table 11). The Bundesbank's gold holdings slightly increased to 57 per cent of total reserves while foreign exchange assets fell by about \$100 million. Drawing rights on the IMF were reduced \$120 million mainly because of repayments of prior DM drawings to the Fund by the United Kingdom and Australia. Foreign exchange holdings of the commercial banks declined by about \$60 million.

Table 10. Germany: Balance of Payments, 1961 - 1962  
(in millions of DM)

|  | 1961  | 1962 <sup>a/</sup> | 1961  | 1962    |       |       |                  |
|--|-------|--------------------|-------|---------|-------|-------|------------------|
|  |       |                    | IV    | I       | II    | III   | IV <sup>a/</sup> |
| <b>1. GOODS &amp; SERVICES</b>             |       |                    |       |         |       |       |                  |
| Trade balance                              | 6491  | b/3397             | 1145  | b/ 524  | 846   | 1074  | 953              |
| Services                                   | - 10  | -1047              | - 39  | 247     | - 59  | - 863 | - 372            |
| Total                                      | 6481  | b/2350             | 1106  | b/ 771  | 787   | 211   | 581              |
| <b>2. OFFICIAL PAYMENTS</b>                |       |                    |       |         |       |       |                  |
| Donations                                  | -3483 | -3764              | -1012 | - 944   | -1012 | - 721 | -1087            |
| Long-term capital                          | 1201  | -1305              | - 728 | - 483   | - 68  | - 431 | - 323            |
| Short-term capital                         | -1266 | 153                | 277   | - 141   | - 225 | 221   | 298              |
| Total                                      | -3548 | -4916              | -1463 | -1568   | -1305 | - 931 | -1112            |
| <b>3. PRIVATE CAPITAL</b>                  |       |                    |       |         |       |       |                  |
| Securities transactions                    |       |                    |       |         |       |       |                  |
| Foreign purchases 1/                       | 1646  | 1600               | 238   | 523     | 198   | 358   | 521              |
| German purchases<br>(increase-) 2/         | - 199 | - 575              | - 37  | - 340   | - 168 | - 24  | - 43             |
| Other long-term                            | - 560 | 84                 | - 181 | 99      | 40    | 47    | - 102            |
| Short-term 3/                              | 1802  | 4                  | + 185 | - 582   | - 68  | 460   | 194              |
| Errors and omissions                       | 234   | b/ 306             | - 599 | b/ 1140 | 370   | - 363 | - 841            |
| Total                                      | 2923  | 1419               | - 394 | 840     | 372   | 478   | - 271            |
| SURPLUS OR DEFICIT (-)                     | +5856 | -1147              | - 751 | 43      | - 146 | - 242 | - 802            |
| <b>Financed by:</b>                        |       |                    |       |         |       |       |                  |
| <b>1. SPECIAL TRANSACTIONS</b>             |       |                    |       |         |       |       |                  |
| Loans to IBRD                              | - 880 | --                 | - 480 | --      | --    | --    | --               |
| Advance debt payment                       | -3125 | --                 | --    | --      | --    | --    | --               |
| <b>2. COMMERCIAL BANKS</b>                 |       |                    |       |         |       |       |                  |
| Foreign Exch. Assets<br>(increase-)        | -1463 | 268                | 1711  | -2384   | 1068  | 832   | 752              |
| <b>3. RESERVE MOVEMENTS</b>                |       |                    |       |         |       |       |                  |
| Drawing rights on IMF<br>(increase-)       | -1321 | 480                | 292   | 301     | - 140 | 247   | 72               |
| Bundesbank liabilities                     | - 91  | 19                 | - 352 | 228     | - 204 | 122   | - 127            |
| Gold and foreign ex-<br>change (increase-) | 1024  | 380                | - 420 | 1812    | - 578 | - 959 | 105              |
| Total                                      | - 388 | 879                | - 480 | 2341    | - 922 | - 590 | 50               |
| TOTAL FINANCING                            | -5856 | 1147               | 751   | - 43    | 146   | 242   | 802              |

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 quarter 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 11. German Reserve Position, 1955-62  
(in millions of U.S. dollars, end  
of period figures)

|   | <u>1957</u>  | <u>1960</u>  | <u>1961</u>  | <u>1962</u>  | <u>1963</u><br>Feb. |
|---|--------------|--------------|--------------|--------------|---------------------|
| A. Bundesbank Gold and Foreign Exchange     |              |              |              |              |                     |
| Foreign Exchange                            | 2,573        | 3,766        | 2,878        | 2,768        | 2,587               |
| Gold  | <u>1,494</u> | <u>2,971</u> | <u>3,664</u> | <u>3,679</u> | <u>3,727</u>        |
| Total                                       | 5,114        | 6,737        | 6,542        | 6,447        | 6,314               |
| B. Drawing Rights on IMF                    | 413          | 1,096        | 1,425        | 1,305        | 1,307               |
| C. Commercial Banks                         |              |              |              |              |                     |
| Foreign Exchange                            | <u>185</u>   | <u>313</u>   | <u>695</u>   | <u>632</u>   | <u>800e</u>         |
| Total (A through C)                         | 5,712        | 8,146        | 8,662        | 8,384        | 8,421               |
| Gold as a percentage of Bundesbank reserves | 29           | 44           | 56           | 57           | 59                  |

e/ Estimated.

Source: I.M.F., International Financial Statistics; Deutsche Bundesbank, Monatsberichte.

D-mark fluctuates around parity

The D-mark was fairly stable on the world's exchange markets at around parity with the U.S. dollar. (See Table 12.) During October-November, the DM weakened slightly in terms of the dollar but with strong demand for the DM generated by the window-dressing of German banks over the year end, the exchange rate moved up again in December. In January, with the unwinding of the year-end operations, the rate moved lower again, to recover subsequently in March when the tighter money market induced the banks to bring funds back to Germany, and foreigners bought newly issued German bonds.

Table 12: Exchange Rate in U.S. Cents per DM  
(monthly averages)

| <u>1962</u> |                  | <u>1962</u> |             |
|-------------|------------------|-------------|-------------|
|             | January-June     | 25.018      | December    |
|             | July-September   | 25.033      | 25.031      |
|             | October-December | 24.981      |             |
|             |                  |             | <u>1963</u> |
| <u>1963</u> | January-March    | 24.991      | January     |
|             |                  |             | February    |
|             |                  |             | March       |
|             |                  |             | 24.966      |
|             |                  |             | 24.985      |
|             |                  |             | 25.023      |

Source: Federal Reserve Bulletin.

Indebtedness to the U.S.

German dollar indebtedness to the United States Government probably changed little in the last half of 1962. No payments of principal were reported, so that the only payments received were those for the servicing of the debt, which in June 1962 totalled about \$235 million. Indebtedness to commercial banks, on the other hand, was increased. German short-term liabilities rose by \$57 million to \$186 million, between June and December of 1962 and long-term debt rose by \$21 million to \$91 million between June and November 1962, the latest date for which figures are available. In addition, non-financial institutions reported claims on German customers of \$106 million at the end of September 1962.