Report of the Deutsche Bundesbank

for the Year 1973

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Johannes Tüngeler
Carl Wagenhöfer

Members of the Directorate of the Deutsche Bundesbank and of the Boards of Management of the Land Central Banks

Members as at April 1, 1974

of the Directorate of the Deutsche Bundesbank

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Dr. Hans Georg Emde
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Note: In order to expedite publication of the English version of this Report the following sections contained in the German original have been omitted:

Part A	Bank supervision, monetary and foreign exchange policy regulations of the Deutsche Bundesbank and permits under the Currency Act
Part C	Fund for the Purchase of Equalisation Claims
Appendices to Parts B and C	Nos. 1, 3, 4 and 5

Contents

The German original went to press on April 4, 1974

Part A: General part

The economy and the currency in 1973

I. Economic trends and central bank policy

For the Bundesbank, 1973 was a year of hard struggle for more price stability. It pursued this policy in close collaboration with the Federal Government. Their joint efforts failed to achieve a satisfactory measure of success, mainly because massive disturbances from abroad threatened, and in the end completely undid, such progress as had been made. The Bundesbank suffered its first setback very early in 1973, when the international monetary system was shaken by a new crisis. In the Federal Republic of Germany associated waves of speculation speedily burst all the dams erected against external constraints and unduly enlarged the liquidity of trade and industry. However, the floating of the exchange rate of the Deutsche Mark against the dollar paved the way for a stability-oriented monetary policy by the Bundesbank. The restrictive course which was then adopted, and which was soon reinforced by parallel measures of fiscal policy, was fully effective for about six months. The results of this policy became increasingly plain as time went by: the excessive strains in the economy diminished and conditions on the markets – gradually including the labour market – eased. In the early autumn there were signs of a turning point in the upward trend of prices; the goal of stability policy for 1973 seemed to be within reach.

The outbreak of the oil crisis in October 1973 brought this period of combating inflation to an abrupt end. Although the worst fears regarding the oil shortage ultimately proved groundless, the fact of a new, irreversible upsurge in prices remained. In these circumstances the final outcome of economic policy in 1973 was much less favourable than might have been expected prior to the oil crisis. In particular, the original aim of moderating the uptrend of prices was not achieved; in fact, at the end of 1973 the growth rate of most price indices was higher than at the beginning of the year. While production grew in a wholly satisfactory manner throughout 1973, the output curve levelled off in the course of the year, and in various sectors employment declined. In the balance of payments field, too, there was evidence of a change of trend under the influence of the oil crisis. The large current surpluses (which rose again in 1973) are likely to decrease in the longer run owing to the mounting cost of crude oil. The external value of the Deutsche Mark at first fell fairly sharply, then increased again and finally was only a little below the level of last summer.

The oil-producing countries' striving for a larger share in the national product and national income of the industrial countries need not necessarily result in a further acceleration of the pace of price rises. Whether this occurs depends in every country very greatly on whether it is made easier or more difficult to pass on the higher prices of these (and other) major imports – in other words, on whether the intensification of the international distribution struggle triggered off by the oil-producing countries' price agreement is followed by an intensification of the domestic struggle for the distribution of the national income, which in real terms is hardly growing. The aim of the Bundesbank's policy, in full agreement with the Federal Government, is to restrict the scope for passing on the higher prices as far as possible from the monetary angle. This is not in marked conflict with other goals of domestic economic policy; such a conflict is the easier to avoid, the more all participants in the economic process – in conformity with the overall course of economic policy – for their part give priority to the fight against inflation and act accordingly.

1. Growing risk of inflation at the beginning of 1973

Monetary crisis at beginning of year results in massive inflows of foreign exchange ...

The unrest on international exchange markets, which threatened to jeopardise the success of the domestic stabilisation policy once again, started at the end of January 1973. At that time Italy and Switzerland took new protective measures against external constraints, but the nervousness on the exchange markets, far from being allayed, grew into a general flight from the U.S. dollar. The principal alternative currency for dollar holders outside the United States was, as on previous occasions, the Deutsche Mark. The rate of the dollar consequently dropped swiftly to the lower intervention point in Germany, so that, under the agreements then still in effect with the IMF, the Bundesbank was forced to make massive supporting purchases. Although the Federal Government tightened the controls on capital movements considerably at the beginning of February – borrowing abroad and the acquisition of German shares by foreigners were made subject to authorisation – this made no significant difference to the exchange inflow. Even the 10 % devaluation of the U.S. dollar on February 12 and the floating of the Japanese yen shortly afterwards brought little calm to the exchange markets. Confidence in the U.S. currency remained low; at the end of February and the beginning of March the dollar rate could be held at the lower intervention point only by large dollar purchases by the Bundesbank. The mandatory interventions on the exchange market enlarged the Bundesbank's gross monetary reserves between the end of February and the beginning of March 1973 by no less than DM 24 billion. None of the earlier waves of speculation had even remotely approached this scale, never before had the adverse effects of the involuntary creation of central bank money and the expansion of international liquidity been so great.

... and sharp increase in the liquidity of trade and industry

In Germany the influx of foreign funds led to a sharp increase in the liquidity of trade and industry. By means of restrictive measures in February and March 1973 the Bundesbank was able to neutralise in a comparatively short time the rise in bank liquidity resulting from the transfer of the incoming foreign exchange from non-banks via banks to the Bundesbank. However, this only prevented domestic monetary expansion from being enhanced still further by a greater supply of bank credit, while the steep growth of non-banks' money holdings – the primary effect – was not reversed. The money stock rose unusually strongly, in fact, in the first few months of 1973; between the end of December 1972 and the end of March 1973 the seasonally adjusted money and quasi-money stock went up at an annual rate of no less than 28 %.

Mounting cyclical pressures

The expansion of the money stock was accompanied by an increase in aggregate demand in Germany. Foreign demand for German products also went up very steeply, and enterprises' propensity to invest continued to rise. Under the pressure of growing demand, production was considerably expanded. The spare capacity which had developed in the previous year under calmer business conditions dwindled rapidly and the scope for further economic growth shrank. Bottlenecks soon arose in various sectors, and particularly on the labour market. As the cyclical pressures intensified, enterprises' cost situation deteriorated perceptibly, partly because the first settlements in the new wage round – while not anticipating the incipient boom – contained distinctly larger increases than in 1972, and partly because wage costs were pushed up sharply by higher overtime pay and bonus payments above agreed rates.

Danger of new wave of price rises

The fact that the economy was being increasingly overstretched by domestic and foreign demand and the lack of monetary brakes was also attested by the acceleration of the pace of price rises at the beginning of the year. In December 1972 consumer prices had already been 6.3 % higher than a year before – a record price increase rate, except for the period of the Korea crisis in 1950/51. Further surges of inflation appeared inescapable, in view of the growing cyclical pressures and the excess liquidity of trade and industry, unless the counter-inflationary course of economic policy was intensified. As early as March 1973 the Bundesbank did in fact adopt a highly restrictive course with some prospect of success, and in May there followed a programme of no less severe counter-inflationary fiscal measures.

2. Effective monetary policy through control of the central bank money stock

(a) Changed conditions for monetary policy

Floating of exchange rate against the dollar essential precondition for successful monetary policy

The essential precondition for effective monetary policy was created when the Bundesbank was released from the obligation to intervene in favour of the U.S. dollar. As will be explained below (page 19), the Federal Government took this decision jointly with the other members of the European Communities with effect from March 19, 1973. At the same time the Community countries (with the exception of Italy, the United Kingdom and Ireland), along with Norway and Sweden, agreed to let the exchange rates of their currencies fluctuate in relation to each other within a narrow margin only ("the snake"). Although the Bundesbank thus remained under a certain obligation to intervene, the resultant foreign exchange purchases were much smaller than at the time of mandatory intervention against the U.S. dollar; accordingly, the extent to which the restrictive course pursued by the Bundesbank could be undermined by external influences was limited.

Banks' free liquid reserves practically exhausted from March onwards

Prior to the speculative wave of February/March 1973 the Bundesbank, by its restrictive policy, had reduced banks' free liquid reserves – i. e. the excess balances plus the liquid assets that can be converted into central bank money at any time (potential central bank money) – to a very low level. With the floating of the exchange rate against the U.S. dollar, the banks' balances and money market investment abroad lost their quality of being potential central bank money, for they could no longer be sold to the Bundesbank unless the latter was prepared to purchase them – and thus to create central bank money. In order to neutralise the bank liquidity deriving from the foreign exchange inflows of February and March, the Bundesbank raised the minimum reserve ratios and limited the utilisation of rediscount quotas, which had previously been almost 90 %, to 60 %. Together with the minimum reserve of almost 100 % on the growth of banks' external liabilities and the absorption of liquidity and purchasing power through the first tranche of the Federal Government's stability loan, these measures resulted in the banks' free liquid reserves contracting to near zero in the spring of 1973; since then the Bundesbank has taken care that no significant amounts of free liquid reserves have been created.

The issue of banks' free liquid reserves

Until this drastic change took place, banks had, in the free liquid reserves, an expansion potential (of the order of DM 20 billion and more) which enabled them to meet on their own the central bank money needs associated with any extension of their balance sheets, that is to say, of loans and deposits. The free liquid reserves were originally designed to assist the individual banks in providing for the necessary liquidity, but at the same time they formed a kind of "last" reserve which the banks did not want to touch. Over a period of roughly twenty years it was to be observed that the nearer the free liquid reserves came to such a minimum level, the more the banks curbed their lending so as to prevent a further reduction of the liquid reserves. But when in 1971 and in the second half of 1972 banks continued to expand their lending as strongly as ever despite a severe shortage of free liquid reserves, it became evident that, in view of the full development of national and international money markets, banks now regarded the free liquid reserves not as a necessary reserve, but rather as an unused expansion potential permitting a further, and even perhaps a stronger, growth of lending. Faced with this change in behaviour, the Bundesbank for its part could do no other than eliminate the free liquid reserves almost completely. This could be done without jeopardising the solvency of any bank that was managed with the necessary prudence and care. After a year without significant free liquid reserves there can be no doubt that the banks are nonetheless in a position adequately to safeguard their operating liquidity.

(b) New approach for credit policy

Changed basis of monetary policy: direct control over the central bank money stock

With the elimination of the free liquid reserves the Bundesbank's monetary policy was placed on a new footing. In principle, the central bank now controls the creation of central bank money directly, whereas previously it had done so only indirectly via the free liquid reserves. If last year's monetary policy was felt by the banks to be harsh and radical, the reason was that the Bundesbank made central bank money available only on a much reduced scale. This shifted the supply/demand relationships on all markets on which the banks procure money. The most conspicuous change occurred on the market for day-to-day money, where the banks primarily try to make good deficiencies in their required minimum reserves. If other banks have corresponding excess reserves, a balance can be reached on the money market without any particular swings in interest rates. There is now no such automatic limit for the day-to-day money rate as there used to be in the shape of the highest rate for Bundesbank credit, the lombard rate. Since the banks are now unable to use free liquid reserves and, moreover, the Bundesbank stopped granting "normal" lombard credit at the beginning of June 1973, the day-to-day money rate may rise steeply if excesses and deficiencies in minimum reserve accounts cannot be balanced on the money market.

The Bundesbank can, however, prevent interest rate movements from reaching extremes by providing ad hoc central bank money for meeting minimum reserve requirements.

New ways of providing central bank money

The fine tuning of the central bank money stock called for new techniques. In April 1973 the Bundesbank for the first time declared its readiness to buy bills of exchange on the open market, subject to an undertaking by the banks to repurchase them after ten days. It used this instrument again later in 1973. The difference between purchase price and selling price was related to the market rates; it corresponded to interest rates of between 11 % and 16 % p.a. However, not even this could prevent very short-term fluctuations in the day-to-day money rate. In April and July, for instance, day-to-day money rates of 20 % p.a., and in one extreme case as much as 40 % p.a., had to be paid for a few days. Even though these rates applied for a few days only, it appeared advisable to limit such fluctuations, to which the public attached undue importance. Accordingly, the Bundesbank offered special lombard credit — at the rate of 13 % — for the first time in November; the Bank may demand the repayment of such credit on the next business day whenever it discontinues this facility. On the other hand, the Bundesbank also occasionally took action against the glut of money which occurred when at short notice the banks' central bank balances were larger than needed for minimum reserve purposes. The Bank did so in August and October by offering Treasury bills running for very short periods (five and ten days) at rates close to the central bank discount rate, which has been 7 % since June 1, 1973.

Difficulties in procuring central bank money curb monetary expansion

Although the Bundesbank enabled the banks as a whole to comply with their minimum reserve requirements by taking the first-mentioned measures, this was not because it was prepared to sanction unreservedly the monetary expansion which had caused the reserve requirement to increase. The smaller the supply of central bank money is kept, the slower is the longer-term growth of currency circulation and bank deposits, and hence of the minimum reserve requirements. On the other hand, it is an undisputed fact that in the very short term the amount of the banks' minimum reserve requirements is largely predetermined.[1] On an overall view, the Bundesbank cannot ignore this when controlling the central bank money stock. It has, however, to ensure that the banks cannot delude themselves into thinking that liquidity needed owing to strong credit expansion will always be provided by the central bank. The high money market rates of March and April last year had the desired warning effect in this respect, as was soon shown by the deceleration of the rise in the central bank money stock — i.e. currency in circulation and minimum reserves on domestic liabilities. Seasonally adjusted, the central bank money stock grew at an annual rate of only 5.7 % between May and the end of the year, against 12.4 % in the first four months of 1973. All in all, the central bank money stock rose by DM 7.0 billion or 7.9 % in 1973, compared with DM 10.9 billion (14.1 %) in 1972 (see the chart opposite). As the growth of the central bank money stock slowed down in 1973 — and at the beginning of 1974 — it became possible to bring monetary expansion under control and to diminish the excess money supply.

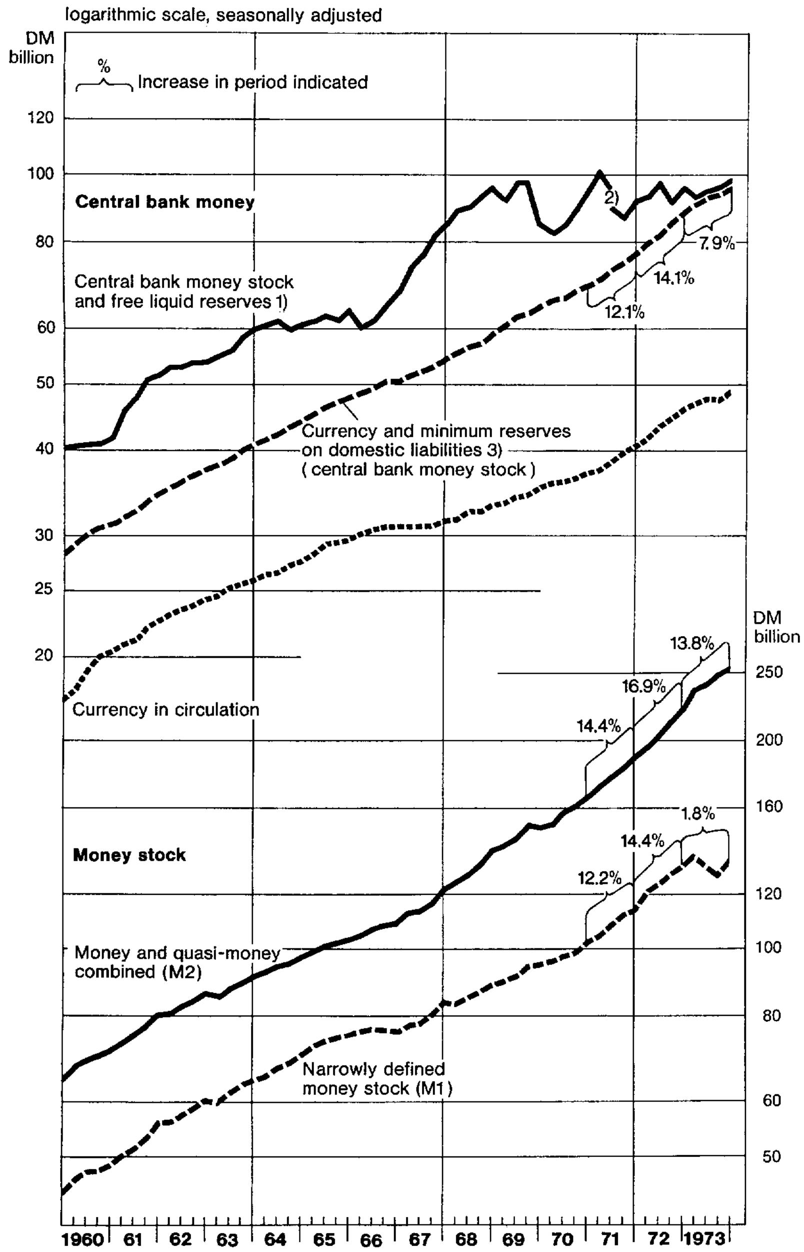
(c) Repercussions on bank business

Growing competition in banks' deposit business

As the tensions on the market for central bank money persisted, the banks' competition for deposits intensified, because an increase in non-bank customers' deposits can for a single bank be a full substitute for recourse to Bundesbank credit (this does not, of course, apply to the banking system as a whole, since additional central bank money can on balance only be provided by the Bundesbank and not by other banks or by non-banks). The cost of procuring money went up considerably, especially on the market for time deposits, which is traditionally the chief arena of competition between the banks for non-banks' funds because bank-customer relations in the time deposit field are less rigid than in the field of sight and savings deposits. However, competition for other forms of deposit likewise grew, particularly as there were considerable shifts from sight and

1 The reserve required for a month is determined by the liabilities recorded between the 16th day of the preceding month and the 15th day of the current month.

Central bank money and money stock



1) Excess balances (difference between required minimum reserves and banks' central bank balances), domestic money market paper, unused central bank credit quotas and - until June 1971 - banks' money market investment abroad.- 2) Redefinition of free liquid reserves and change to average calculation.- 3) At constant reserve ratios; base: Jan. 1974.

savings deposits to time deposits. Between end-March and end-October 1973 sight and time deposits declined substantially (by DM 5.5 billion and DM 3.6 billion, respectively), whereas time deposits went up by DM 30.6 billion. The comparable figures for the same period of 1972 show how unusual these shifts in the banks' balance sheets were: in 1972 time deposits rose by DM 13.8 billion, and thus by not very much more than savings deposits (DM 13.0 billion) or sight deposits (DM 9.3 billion).

Negative interest rate margins in some areas

The maximum rates paid by banks on time deposits exceeded the preferential rates charged for loans in the summer months, so that for certain transactions a negative interest rate margin formed. Some large-scale customers exploited this situation by drawing on former assurances of credit and lending the funds thus borrowed to another bank at higher interest. Although these credit arbitrage dealings were on no great scale, the very fact that such "roundabout" transactions

Record of monetary policy measures

1973	
January 11	The Bundesbank raises the discount rate to 5 % and the lombard rate to 7 % with effect from January 12. It also decides to cut rediscount quotas by 10 % as from April 1.
February 1–9	During the dollar crisis the Bundesbank buys $ 5.9 billion for a total of DM 18.6 billion.
February 2	The Federal Government adopts further measures to safeguard the economy against external constraints.
February 7	The Bundesbank decides that until further notice the banks may use not more than 60 % of the rediscount quotas granted to them. The effective cut is DM 6.9 billion.
February 12	The U.S. dollar is devalued by 10 %.
February 22	The Bundestag raises the statutory ceiling for the cash deposit ratio to 100 %.
March 1	Renewed monetary unrest; the Bundesbank has to take in $ 2.7 billion, equivalent to DM 7.5 billion. The foreign currency exchanges are closed from March 2 to March 18. To absorb the liquidity that has flowed to banks, the Bundesbank raises the minimum reserve ratios for domestic liabilities with effect from March 1; the ratios for sight and time deposits are increased by 15 % of their previous level and those for savings deposits by 7½ % (amount of liquidity neutralised: about DM 5 billion).
March 19	The Federal Republic of Germany, France, Denmark and the Benelux countries start the "joint float"; they are joined by Norway and Sweden. The Deutsche Mark is revalued by 3 % against the special drawing right.
April 16	For the first time the Bundesbank applies a new instrument of fine tuning in credit policy: it buys trade bills under repurchase agreement on the open market for a limited period.
May 3	The Bundesbank raises the discount rate to 6 % and the lombard rate to 8 % with effect from May 4.
May 30	The Bundesbank raises the discount rate to 7 % and the lombard rate to 9 % with effect from June 1; lombard credit is not in general granted for the time being.
June 14	The Federal Government decides to introduce mandatory authorisation for the sale to non-residents of claims on residents.
June 26	With effect from July 1 the Bundesbank reduces by 25 % the base amount for calculating the increase in external liabilities subject to reserve requirements (amount of liquidity neutralised: about DM 1.5 billion).
June 29	The Federal Government decides to revalue the Deutsche Mark by 5.5 % against the special drawing right with immediate effect.
July 19	In agreement with the Federal Government, the Bundesbank revokes the combined non-resident quotas for shares and bonds it had granted to the banks, and authorises separate non-resident quotas only.
August 13	The Bundesbank for the first time sells Treasury bills running for fixed periods of five and ten days to banks in order to moderate the swings in interest rates on the money market.
October 4	With effect from October 1 the Bundesbank reduces by 15 % the base amount for calculating the increase in external liabilities subject to reserve requirements (amount of liquidity neutralised: about DM 0.6 billion). Moreover, with effect from October 5 it lowers the limit on the use of rediscount quotas to 45 % for banks with more than DM 100 million of capital and reserves on August 31, 1973, and to 55 % for banks with more than DM 50 million, but not more than DM 100 million, of capital and reserves on that date. For other banks the limit remains unchanged at 60 % (amount of liquidity neutralised: about DM 1.1 billion). It also raises, with effect from November 1, the minimum reserve ratios for sight and time liabilities subject to reserve requirements to residents by 3 % of the level of September 1973 (amount of liquidity neutralised: about DM 1.0 billion).
November 26	The Bundesbank for the first time grants special lombard credit at call in order to reduce the swings in interest rates on the money market.
November 29	The Bundesbank raises the limits on the use of rediscount quotas uniformly by 15 % (increase in liquidity: about DM 1.2 billion).
1974	
January 11	To offset the withdrawal of liquidity from the banks due to the Bundesbank's foreign exchange sales since the beginning of December, the Bundesbank lowers the required minimum reserves by about DM 4.5 billion retroactively from January 1. Specifically, the 60 % reserve on increases in external liabilities is removed; the ratios for domestic liabilities are reduced by 5 % of their previous level and those for external liabilities by 5 percentage points. On the other hand, special lombard credit is not granted after January 11.
January 21	France leaves the "joint float".
January 30	The Federal Government, in agreement with the Bundesbank, lifts with effect from February 1 the greater part of the administrative restrictions introduced to bar undesired capital inflows from abroad. In addition, the cash deposit requirement for external liabilities is reduced by lowering the deposit ratio from 50 % to 20 % and by raising the exemption limit from DM 50,000 to DM 100,000.

Record of economic and fiscal policy measures

1973 January 1	The European Community is enlarged by the accession of the United Kingdom, Ireland and Denmark.
February 17	The Federal Government adopts the 1973 Annual Economic Report, in which it announces, among other things, that it intends to levy a stability surcharge on income tax and corporation tax and to raise the rate of petroleum tax (both measures as from July 1, 1973), to float a stability loan and to suspend diminishing balance depreciation on certain buildings.
May 9	The Federal Government adopts a second stability programme, providing, inter alia, for the levying of a stability surcharge on income taxes affecting all persons with an annual income of at least DM 24,000 (single) or DM 48,000 (married), the levying of an 11 % investment tax, the suspension of favourable depreciation terms for movable assets and residential buildings, the spreading of expenditure on joint projects, additional cuts in other Federal expenditure except expenditure to which the Federal Government is legally committed, and a statutory order under section 19 of the Stability and Growth Act to reduce the net borrowing shown in the budget estimates by DM 5.5 billion.
June 20	The 1973 Federal budget is passed by the Bundestag (final budget volume: DM 120.2 billion; increase over the actual 1972 figure: 9.6 %).
June 27	A majority of the Fiscal Planning Council agree to the proposal of the Federal Finance Minister to limit the growth of expenditure in the overall public budget for 1974 to 10.9 %.
September 5	The Federal Government adopts the draft Federal budget for 1974 and the fiscal plan up to 1977. The 1974 budget volume is DM 134.4 billion (a rise of 10.5 % over the 1973 budget estimates).
October 16	Outbreak of the "oil crisis", during which the main oil-producing countries curtail deliveries to major industrial countries — in some cases only temporarily — and raise prices drastically. By the beginning of 1974 the price of crude oil imported into Germany is three times as high as at the beginning of 1973.
November 19	A majority of the Council of Experts for Assessing Overall Economic Trends advocate the retention of the monetary and fiscal restrictions.
December 5	The Federal Government decides to abandon its original plan to spread the funds earmarked for joint projects.
December 19	The Federal Government eases the restriction programme of February and May and decides, among other things, to suspend investment tax and readmit diminishing balance depreciation on certain goods ordered after November 30, 1973, to reintroduce the special depreciation allowances under section 7 (b) of the Income Tax Act for residential buildings permission to construct which is applied for after December 31, 1973, and to resume in full the discontinued or reduced credit programmes of the ERP Special Fund and the Reconstruction Loan Corporation, in particular for the benefit of small and medium-sized firms. The temporary stability surcharge is retained. Programmes to stimulate business activity are to be prepared as a precautionary measure.
1974 February 6	The Federal Government adopts the 1974 Annual Economic Report, confirming the course taken in December 1973, a course which on the one hand limits the scope for price and cost increases and on the other selectively counteracts any falls in employment. In pursuance of this policy the Federal Government decides to implement — in 1974 only — a "special programme for areas with particular structural problems" involving nearly DM 1 billion of expenditure by the central, regional and local authorities.

were possible showed that the banks at that time attached much more importance to an inflow of funds in deposit business than to an outflow of funds in lending business, since the "purchase price" of additional funds was sometimes higher than the "selling price" they could obtain. The banks were thus compelled to cut down their lending activity, both for reasons of profitability and for reasons of solvency.

Banking groups affected in different degrees by shortage of funds

The individual banking groups were affected in varying degrees by the general shortage of money, depending on the structure of their liabilities-side business. The worst hit were those banks — mostly smaller ones — which traditionally obtain a large part of their funds by borrowing from other banks, because no-one had liquidity in abundance any longer. At times the volume of interbank lending declined in absolute terms. Expiring agreements were often renewed only at much higher rates of interest, if at all. It also became evident that not every interbank claim is as liquid as it looks in formal terms, an experience which, it appears, had rather been lost sight of in the years of plentiful liquidity. But even the institutions with extensive savings deposit business, which on past experience were largely immune from liquidity shortages, found that deposits which they were expecting, and which were already largely included in their arrangements, might occasionally not be made. The fact that the banks, and more particularly the savings banks, only partly adjusted the rate of interest payable on savings deposits to the general uptrend of interest rates, since they were unable to raise the interest rates charged for long-term loans to the same extent, had an adverse impact in this context. In the three-tier system of savings banks and cooperative banks the liquidity difficulties during the first phase of the restrictive policy were felt especially by the superordinate institutions, which by tradition largely relieved the local institutions of liquidity problems. The superordinate institutions then had to try to pass on their experience to the local savings banks and cooperative banks. The banks which are more dependent on savings deposits endeavoured to retain their interest-rate-conscious customers by transferring savings deposits to time accounts or to induce them to buy higher-yielding savings bonds. Later on, additional interest on savings deposits in the form of "bonuses" was granted retroactively, or even agreed in advance, in a fairly large number of cases; then, of course, there is not always a guarantee that the market is transparent for the saver.

At the beginning of the period of more severe restriction, the banking groups whose credit business with non-banks was curtailed the least were those which were able to recall interbank loans, i. e. primarily the big banks, but also some of the savings banks and credit cooperatives. Later on, the central giro institutions, which previously — as mentioned — had been hit by the withdrawal of interbank money, were particularly successful in procuring scarce funds because they hold an especially strong position as issuers on the security market. As shown in the table on page 13, the market for "other bank bonds", which are chiefly issued by central giro institutions, was more buoyant than ever, while the volume of funds raised on the bond market as a whole went down. One of the reasons for the large sales of "other bank bonds" was that precisely these securities had been bought for quite some time by foreign investors, even though such paper could only be purchased within "non-resident quotas" — a restriction which, however, was circumvented in some instances. Another factor which may have been of importance was that the central giro institutions made more use than the other banks of the possibility of issuing bonds running for less than four years, a way of procuring funds that affords a competitive advantage in that, under present legislation, no minimum reserves can be required for the money obtained. The Bundesbank's desire to close this loophole — besides some others — in the law governing minimum reserves on liabilities has so far not met with a positive response.

Adjustment of lending business delayed because of large credit assurances

In credit business many banks were slow to adjust their interest rates to the higher cost of procuring money. The underlying reason was that during the period of abundant liquidity the banks had promised credit very freely, sometimes indeed at fixed interest rates. Once before, at the end of 1969 and the beginning of 1970, the obligation to keep such promises under entirely different market conditions had made it difficult for many banks to adapt themselves quickly to the changed

Lending to domestic non-banks,* by banking group

Change during period indicated (decrease: –)

	1972		1973					
			Total		March to July		Aug. to Dec.	
Banking group	DM bn	%	DM bn	%	DM bn	%	DM bn	%
Commercial banks	26.6	21.1	9.6	6.3	6.7	4.4	3.4	2.1
Big banks	9.2	17.5	3.9	6.4	7.0	11.8	– 0.4	– 0.6
Regional banks and other commercial banks	12.4	21.4	5.3	7.5	2.8	4.1	2.8	3.8
Branches of foreign banks	3.6	84.8	0.9	11.0	– 1.6	–17.2	1.2	15.6
Private bankers	1.4	12.2	– 0.5	– 4.1	– 1.5	–10.7	– 0.2	– 1.9
Savings bank sector	33.0	15.4	31.1	11.9	12.1	4.6	14.8	5.4
Central giro institutions 1	13.2	16.1	16.2	15.1	5.2	4.8	9.5	8.4
Savings banks	19.8	14.9	14.9	9.8	6.9	4.5	5.3	3.3
Cooperative sector	10.6	19.5	7.1	10.8	3.4	5.1	3.0	4.2
Central institutions of credit cooperatives 2	0.8	13.2	0.5	7.3	– 0.0	– 0.6	0.6	8.3
Credit cooperatives	9.8	20.4	6.6	11.3	3.4	5.8	2.4	3.7
Mortgage banks	12.1	11.1	11.4	10.5	3.9	3.4	5.8	4.9
Instalment sales financing institutions	1.5	16.4	1.5	13.5	0.7	6.2	0.7	6.3
Banks with special functions	4.0	12.5	3.0	8.4	0.6	1.6	1.5	4.0
Postal giro and postal savings bank offices	1.2	17.7	1.2	15.4	– 0.2	– 2.5	0.4	4.9
All banks	89.0	16.1	64.9	10.1	27.2	4.2	29.6	4.4

* Excluding lending against Treasury bills, security holdings, equalisation and covering claims. – 1 Including Deutsche Girozentrale. – 2 Including Deutsche Genossenschaftskasse.

situation. The large volume of credit assurances and the delay in adjusting the cost of credit meant that the credit expansion did not initially slacken very much after the adoption of a more restrictive monetary policy in March/April. Statistics on banks' assurances of credit are available only for one field, which, while no doubt subject to special influences, may be indicative of the trends in other areas: the housing mortgage loans promised by savings banks and mortgage banks. Seasonally adjusted, the mortgage loans promised by these institutions dropped in March below the level they had stood at for eighteen months; from the middle of the year they were only about half as large as in the period before the restrictive policy was intensified. The volume of outpayments did not fall until after mid-year, and declined at a much slower pace. It is also of interest in this connection that the savings banks reduced their assurances of credit more than the mortgage banks. Owing to the persistently heavy demand for securities, mortgage banks generally encountered no great difficulties in procuring funds as long as they were able to pass on the cost in their lending business. By contrast, savings banks received substantially fewer savings deposits, so that the resources at their disposal for lending were smaller.

Restriction reflected in lending rates

It was not until the summer that the banks' lending rates reached a level that distinctly lessened the demand for credit. Although the inflationary expectations which for a long time had stimulated a flight into the "bricks and mortar Mark" – yield becoming a secondary consideration – were in general as strong as ever, interest costs had become a factor that could no longer be disregarded. In addition, the supply of real property, especially owner-occupied apartments, far exceeded the demand (inflated though it was), so that price expectations gradually reversed. If an enterprise ignored this change in the trend and counted on the construction boom continuing, this could lead – as examples showed – to a rapid collapse. Once lending rates had been adjusted to the higher cost of procuring money, these special transitional difficulties were overcome. The chief reason for the adjustment process taking such a relatively long time in 1973 was that the banks had evidently not made sufficient allowance for the possibility of the inflationary monetary expansion being slowed down and in many cases considered the increase in interest rates as a passing phenomenon; quite often they expressed this opinion to their customers, and thus delayed adaptation to the new situation.

(d) Reduced monetary expansion

Slower growth of monetary aggregates

The restrictive monetary policy last year did in fact slow down the monetary expansion considerably. Bank lending to domestic non-banks rose by 10 % or roughly DM 68 billion in 1973; this was over a fifth less than in 1972. In the first quarter of 1973 credit expansion was higher than a year before, but thereafter it fell short of the 1972 figures, particularly in the last quarter. It was important that the moderation of domestic credit expansion was not offset by an increase in borrowing abroad. True, capital imports continued even after the floating of the exchange rate against the U.S. dollar, but from then on they were smaller than a year earlier – quite apart from the fact that around the turn of the year 1973/74 there were net capital exports. Short-term lending in Germany was reduced most, but after a certain lag credit expansion slackened distinctly in the long-term field too.

This was partly attributable to the smaller accrual of longer-term funds. Monetary capital formation with banks came to about DM 50 billion in 1973, against DM 61 billion in 1972. Owing to the interest-induced shifts among bank deposits in favour of time deposits, however, the delimitation of monetary capital formation raised particular problems in 1973. In the definition chosen, which excludes shorter-term time deposits, the decline in monetary capital formation was primarily due to the fact that savings deposits did not grow in 1973, except for the interest credited at the end of the year. On the other hand, sales of bank savings bonds and bank bonds were larger than in 1972, which compensated the banks to some extent.

The money stock in the broader definition[1] (M_2) increased almost as much in 1973 as in 1972 (by 14 % against 17 %). This can be largely ascribed, however, to the massive speculative inflows in February and March. In the last three quarters it rose far less than during the same period of the previous year. But whereas in 1972 the money stock in the narrower sense (currency and sight deposits = M_1) expanded at about the same rate as the broadly defined money stock, in 1973 the money stock in the narrower definition grew very slowly (by 2 % against 14 % in 1972). The impact of monetary policy in 1973 cannot be adequately assessed on the basis of either of these definitions on its own. Given the particular conditions prevailing in 1973, the effects of monetary policy can probably be gauged more accurately if savings deposits at statutory notice are included; this group of fairly liquid funds grew by about 9 % in 1973, against more than 14 % in 1972. This rate of expansion is not very different from that of the central bank money stock, the monetary aggregate which is controlled directly by the central bank; the latter rose by 8 % in 1973, compared with 14 % in 1972.

(e) Problems posed by the rising interest rates on the capital market

Restraint in credit demand on the capital market as well

On the bond market there was a marked rise in the interest rate on capital under the influence of the restrictive monetary policy. At the beginning of 1973 it already stood at a level which by previous standards was regarded as very high (8.6 %) but it rose even higher from April onwards, reaching a peak of about 10.3 % in July. Subsequently the rate of interest on capital dropped slightly again under the impact of increasing shifts of funds out of lower-yielding investments, such as savings deposits. The bond and share markets proved quite receptive to new issues. All in all, DM 25 billion (net) of domestic bonds were sold in 1973, while new share issues yielded DM 3.5 billion; although the sales of bonds were appreciably smaller than in the record year of 1972 (DM 34 billion), this was chiefly because it had become more difficult for foreigners to acquire domestic fixed interest securities.

The regulations issued in this regard were designed to ensure that on balance no bonds at all were sold to foreigners; however, quite considerable amounts (estimated at DM 4 billion) were transferred to foreigners, either by circumventing the regulations or by violating them. The bond purchases of residents, on the other hand, were very high in 1973 – quite probably higher, indeed, than in 1972, though here, too, precise figures are lacking since all the statistics have been upset

1 Currency, sight deposits and time deposits with maturities of less than four years.

Monetary developments

Change during period indicated; billions of Deutsche Mark

Item		1970	1971	1972	1973	1972 1st half	1972 2nd half	1973 1st half	1973 2nd half
A. Principal monetary aggregates						Seasonally adjusted **1**			
Central bank money stock **2**	DM bn	+ 4.5	+ 8.6	+11.2	+ 7.1	+ 4.8	+ 6.1	+ 4.2	+ 2.8
	%	+ 6.7	+12.1	+14.0	+ 7.8	+12.7	+15.4	+ 9.6	+ 6.2
Money stock (M_1) **3**	DM bn	+ 8.7	+13.2	+17.5	+ 2.6	+ 9.3	+ 7.2	— 0.0	+ 2.6
	%	+ 8.7	+12.2	+14.4	+ 1.8	+16.8	+11.8	— 0.0	+ 3.9
Money stock and quasi-money (M_2) **4**	DM bn	+16.4	+25.0	+33.5	+32.0	+13.1	+19.1	+18.1	+13.2
	%	+10.5	+14.4	+16.9	+13.8	+14.3	+19.6	+16.9	+11.3
Bank lending to domestic non-banks **5**	DM bn	+51.9	+70.0	+89.0	+64.9	+43.2	+45.4	+39.8	+25.1
	%	+12.1	+14.5	+16.1	+10.1	+16.4	+16.0	+12.9	+ 7.6
B. Determinants of central bank money stock and free liquid reserves						Unadjusted			
(1) Bundesbank's net monetary reserves		+19.9	+14.8	+16.9	+27.2	+ 8.5	+ 8.4	+20.6	+ 6.6
(2) Net balances of domestic non-banks (increase: –)		— 3.4	— 5.1	+ 1.6	— 1.5	— 3.9	+ 5.5	— 4.3	+ 2.8
(3) Compulsory special reserves (increase: –)		— 7.8	— 2.0	— 9.6	— 5.1	+ 2.1	—11.7	— 5.0	— 0.1
(4) Quotas fixed for central bank credit		+ 4.8	— 1.3	— 5.1	—13.2	— 1.5	— 3.6	—13.3	+ 0.1
(5) Unspecified determinants		— 4.6	— 3.6	— 0.8	— 4.9	— 1.6	+ 0.8	— 1.8	— 3.1
Central bank money stock and free liquid reserves (total 1 to 5)		+ 8.9	+ 2.8	+ 3.0	+ 2.5	+ 3.6	— 0.6	— 3.8	+ 6.3
Central bank money stock **6**		+ 3.9	+ 7.2	+10.4	+ 6.9	+ 2.5	+ 7.9	+ 1.7	+ 5.2
Free liquid reserves **7**		+ 5.0	— 4.4	— 7.4	— 4.4	+ 1.1	— 8.5	— 5.5	+ 1.1
Memorandum item: Total of free liquid reserves at end of period		(32.5)	(14.8)	(7.3)	(3.0)	(15.9)	(7.3)	(1.8)	(3.0)
C. Determinants of money stock									
(1) Total lending by banks and Bundesbank		+50.5	+69.1	+86.4	+67.6	+36.1	+50.3	+33.1	+34.5
(2) Net external claims of banks and Bundesbank		+14.2	+11.5	+ 8.6	+26.7	+12.0	— 3.4	+19.9	+6.8
(3) Monetary capital formation with banks from domestic sources		+35.4	+46.4	+60.6	+51.0	+27.6	+33.0	+21.3	+29.7
(4) Unspecified determinants		—12.9	— 9.2	— 0.9	—11.3	—14.5	+13.6	—22.4	+11.1
Money stock and quasi-money (M_2) (1 plus 2 plus 4 less 3)		+16.4	+25.0	+33.5	+32.0	+ 6.0	+27.5	+ 9.3	+22.7
Currency		+ 2.2	+ 3.5	+ 5.5	+ 1.8	+ 2.4	+ 3.1	+ 0.5	+ 1.3
Sight deposits		+ 6.5	+ 9.7	+12.1	+ 0.8	+ 2.0	+10.1	— 6.5	+ 7.3
Time deposits for less than 4 years		+ 7.7	+11.8	+15.9	+29.4	+ 1.6	+14.3	+15.3	+14.1

1 Percentages expressed as annual rates. — **2** Currency and minimum reserve on domestic liabilities at constant reserve ratios (base: January 1974). — **3** Currency (excluding banks' cash holdings) and sight deposits of domestic non-banks. — **4** M_1 plus time deposits with maturities of less than four years (quasi-money). — **5** Excluding lending against Treasury bills and securities, and excluding equalisation and covering claims. — **6** Minimum reserve on domestic liabilities here calculated at current reserve ratios. — **7** Excess balances (difference between required minimum reserves and banks' central bank balances), domestic money market paper, unused central bank credit quotas and — until end-1970 — money market investment abroad.

by the uncertainty about the actual purchases of German bonds by foreigners. To begin with, non-banks were the main domestic buyers as other forms of investment, especially savings deposits, yielded a much lower return, particularly in the first and second quarters. Towards the end of the year, banks increased their security purchases, not least no doubt because the demand for credit had slackened.

Banks were much the largest issuers of bonds, accounting for roughly 85 % of total net bond sales in the Federal Republic of Germany in 1973. More than half (about DM 12 billion) were "other bank bonds", through which the central giro institutions, in particular, procured funds. Last year banks issued many more bonds than before in collective document form. Under present legislation this has the advantage for foreigners that the interest income from these bonds, which are not a constituent part of an issue, is exempt from coupon tax. In August 1973 the Bundesbank requested the issuers not to exploit this loophole in tax law any longer, but instead to make out at least two documents for each issue so that liability to coupon tax arises; this the issuers promised to do. In comparison with 1972 net sales of public authority bonds decreased sharply, from DM 7 billion to DM 4 billion. Only part of these issues were intended for financing the budget; a substantial amount (DM 2.5 billion) was issued solely in support of monetary policy. This amount consisted of the various tranches of the "loan to absorb liquidity and purchasing power", the proceeds of which were immobilised at the Bundesbank.

Rise in interest rates an adjustment to the growing erosion of the value of money

The rise in interest rates on the bond market from 8.5 % (yield on domestic bonds) to more than 10 % in the summer of 1973, and again from February 1974 onwards, was the outcome of a number of factors working in the same direction. At first it was undoubtedly of importance that, on the adoption of flexible exchange rates vis-à-vis the U.S. dollar and of the restrictive monetary policy this rendered possible, the domestic supply of capital contracted to a level more in line with domestic saving. In the further course of the year, and especially after the outbreak of the oil crisis in the late autumn, there was the additional fact that foreigners' interest in German bonds – and also in Deutsche Mark bonds of foreign issuers – declined. The economic position of the United States, and consequently of the dollar, was rated higher again by international investors in the new situation brought about by the oil crisis. The Deutsche Mark largely ceased to be a permanent candidate for revaluation. This, however, deprived the German bond market of the strong support it had hitherto been given by foreign demand, at least in so far as this demand was primarily based on exchange rate expectations rather than interest rates. The uptrend of interest rates was also encouraged by the fact that the assessment of the further inflationary trend changed in the course of 1973 and in early 1974. A clear indication of this was that radical changes in the situation, which strengthened expectations of inflation – i.e. the outbreak of the oil crisis in the late autumn of 1973 and the agreement on new pay rates in the public service in mid-February 1974 – imparted a new impetus to the upward movement of interest rates on the bond market, although this impetus need not be maintained.

Renaissance of interest rates' selective function

As regards the demand for capital, the high level of interest rates has meant a resurgence of the selective function of interest rates. Whereas the demand for capital was very strong and capital projects could be started and continued with a small real return whenever – as at the beginning of 1973, when the creation of money was imperfectly controlled and foreign capital was flowing in – interest rates were only slightly above the actual rates of inflation, all this changed as soon as long-term yields of 10 % and more became common. On the basis of this interest rate level, which promised continued real interest income for the investor, many capital projects no longer appeared worth while. At the same time the inducement to buy real assets diminished since the saver now had an alternative in the form of financial assets bearing high nominal interest – an investment which sometimes seemed more profitable and less exposed to risk than, for instance, the purchase of an apartment that might prove difficult to let, the purchase of a real estate investment fund unit, or the acquisition of other real assets yielding little or no income. This, together with other measures, reduced the danger of a mis-

Sales and purchases of securities *

Billions of Deutsche Mark, market value

Item	1969	1970	1971	1972	1973
Bonds					
Sales = total purchases	17.7	15.4	19.4	29.8	24.7
Sales					
(1) Domestic bonds 1	12.4	14.3	20.6	34.1	25.0
Bank bonds	12.3	11.9	14.9	26.1	21.4
Mortgage bonds	3.1	1.9	4.4	8.0	3.5
Communal bonds	7.3	7.7	7.1	12.9	4.2
Bonds of specialised banks	0.6	1.0	0.8	1.3	1.6
Other bank bonds	1.2	1.4	2.6	3.9	12.2
Public authority bonds	0.3	2.2	4.3	7.2	4.1
Industrial bonds	—0.2	0.2	1.4	0.8	—0.5
(2) Foreign bonds 2	5.4	1.0	—1.2	—4.3	—0.2
Purchases					
(1) Domestic purchasers	18.7	14.5	17.8	22.0	22.2
Banks	x 9.9	x 2.4	x 5.8	x 7.1	x 3.5
Bundesbank	x —0.5	—0.1	x 0.0	—0.4	—0.0
Non-banks	9.2	12.2	12.0	15.3	18.7
(2) Foreign purchasers	—1.0	0.8	1.6	7.7	x 2.5
Shares					
Sales = total purchases	8.6	6.3	6.9	5.9	5.7
Sales					
(1) Domestic shares	2.8	3.6	4.7	4.1	3.6
(2) Foreign equities 3	5.8	2.7	2.2	x 1.8	2.2
Purchases					
(1) Domestic purchasers	8.4	6.0	6.4	2.5	5.0
Banks	1.2	0.7	0.1	0.4	0.4
Non-banks	7.2	5.3	6.3	2.1	4.6
(2) Foreign purchasers	0.1	0.3	x 0.5	x 3.4	x 0.7

* Discrepancies in the totals are due to rounding. — 1 Net sales plus/less changes in issuers' holdings of own bonds. — 2 Net purchases (+) or net sales (—) of foreign bonds by residents. — 3 Net purchases (+) of foreign equities (including direct investments and investment fund units) by residents. — x Statistically adjusted.

direction of capital, which may easily occur under inflationary conditions if interest rates do not adjust themselves sufficiently (there was no lack of striking examples of this in 1972 and 1973).

Social hardships through sharply falling prices on the bond market

On the other hand, the strong rise in interest rates on the bond market resulted in severe losses for the holders of outstanding securities, including many individuals. These savers have been hit twofold by the inflationary trend: for one thing, in view of the relatively high rates of monetary erosion the real value of their investment income is very small, and in some cases even negative, especially as the entire nominal income remains liable to tax; for another, the falls in price depress the value that holders can obtain on selling an asset. This may mean serious social hardship, particularly for elderly people who are no longer at work. It may be assumed that quite a considerable part of the outstanding bonds with a nominal interest rate of 6 % p. a. and less are held by such persons, even though the bulk of such paper — on aggregate about DM 70 billion, or more than a quarter of the total of bonds outstanding — seems to be held by institutional investors (banks, insurance companies, pension funds).[1] These social hardships are, however, no reason for foregoing the policy of relatively high nominal interest rates which is so essential for stability, more particularly since this would be contrary to the interests of all holders of financial assets (deposits with banks, savings bonds, etc.) and purchasers of new bonds. Some issuers have already offered to redeem such paper prior to maturity. As a rule, a mortgage bank's low-interest-bearing securities, which quite often run for another thirty, forty and more years, are accompanied by low-interest loans running for much shorter periods, so that it is possible to redeem the bonds prematurely out of loan repayments; some of these repayments are in fact used in the manner here described. In addition, it

1 At end-1963, when new issues predominantly carried nominal interest of 6 %, roughly 18 % of the total amount of bonds outstanding was accounted for by households, 18 % by public authorities, enterprises and foreigners and 63 % by institutional investors.

Movement of interest rates since 1969

% per annum

Period	Bundesbank rates		Money market rates	Capital market rates	Bank interest rates 2					
					Lending rates			Deposit rates		
	Discount rate	Lombard rate	Three-month loans, Frankfurt 1	Yield on public authority bonds outstanding	Credits in current account 3	Discount credits 4	Mortgage loans secured by residential real estate 5	Time deposits (three months) 3	Savings deposits at statutory notice	Savings deposits at 12 months' notice
1969										
February	3.0	3.5	3.91	6.3	7.50	4.86	6.90	3.01	3.50	4.52
May	4.0	5.0	4.38	6.5	8.03	5.73	6.99	3.24	3.50	4.52
August	5.0	6.0	6.50	6.9	8.95	6.71	7.40	4.16	4.00	5.00
November	6.0	7.5	7.75	7.4	9.60	7.57	7.49	4.88	4.00	5.00
1970										
February	6.0	9.0	9.51	7.8	10.16	8.42	8.06	6.95	4.50	6.00
May	7.5	9.5	9.93	8.4	11.58	9.75	8.61	7.93	5.00	6.47
August	7.0	9.0	9.16	8.4	11.40	9.39	8.75	7.67	5.00	6.48
November	6.5	8.0	8.84	8.6	11.35	9.27	8.81	7.49	5.00	6.48
1971										
January	6.0	7.5	7.50	7.7	10.69	8.24	8.59	6.64	5.00	6.47
February	6.0	7.5	7.47	7.7	10.65	8.13	8.51	6.56	5.00	6.46
May	5.0	6.5	6.16	8.0	9.86	7.13	8.34	5.59	4.53	5.90
August	5.0	6.5	7.56	8.3	9.87	7.26	8.58	6.21	4.53	5.91
November	4.5	5.5	6.79	7.9	9.58	6.71	8.46	6.05	4.52	5.90
1972										
February	3.0	4.0	4.88	7.3	9.05	6.09	8.25	5.12	4.50	5.88
May	3.0	4.0	4.71	7.8	8.39	5.28	8.13	4.55	4.02	5.42
August	3.0	4.0	4.80	7.9	8.41	5.38	8.30	4.61	4.01	5.42
November	4.0	6.0	8.07	8.4	9.08	6.62	8.49	6.26	4.01	5.42
1973										
February	5.0	7.0	7.96	8.5	10.00	8.42	8.93	6.74	4.51	5.95
May	6.0	8.0	12.42	9.3	11.32	10.46	9.36	8.34	4.52	5.96
July	7.0	6 9.0	14.30	10.0	12.76	12.03	10.34	10.06	5.51	7.00
August	7.0	6 9.0	14.57	9.9	13.21	12.37	10.45	10.67	5.51	7.00
November	7.0	6 9.0	13.62	9.5	14.02	13.21	10.39	11.05	5.51	7.00
1974										
February	7.0	6 9.0	10.67	9.9	13.92	12.67	10.33	9.46	7 5.51	7 7.00

1 Unweighted monthly averages computed from daily quotations reported by Frankfurt banks. — 2 Average rates, calculated as the unweighted arithmetical mean of reported interest rates within the spread. The spread indicates the range within which 90 % of the reported interest rates fall after the 5 % of the reports with the highest rates and the 5 % with the lowest rates have been eliminated. — 3 Less than DM 1 million. — 4 Bills of DM 5,000 to less than DM 20,000 eligible for rediscount at the Bundesbank. — 5 Effective interest rate. — 6 Since June 1, 1973 lombard credit has not in principle been granted to the banks at the lombard rate. — 7 A survey carried out for the first time in the year under review revealed that, in addition to "normal" interest, bonuses of between 1 % and 5.5 % p. a. were granted for savings deposits at statutory notice, and bonuses of between 0.5 % and 3.8 % p. a. for savings deposits at agreed notice of 12 months.

would be desirable — and beneficial to an institution's standing as a security issuer — if profits arising when an institution repurchases its own issues on the market prior to maturity were passed to the original buyers of the securities, or at least to the particularly hard-hit persons in this group. Of course, this problem cannot be solved completely by the issuing institutions themselves. In the public debate on this matter it is often overlooked that the "winners", as opposed to the bond-holders who are the "losers", are in the last analysis those borrowers who took up the comparatively cheap loans of the issuing institutions, for which they now pay interest rates lying well below the rate of monetary erosion. Residential building and the public sector are prominent among these borrowers. In publicly assisted housebuilding, for instance, this situation frequently resulted in the rent for dwellings financed by mortgage loans from mortgage banks remaining unchanged as regards the interest to be paid, while the rent for dwellings financed by savings bank mortgage loans, with their variable, and recently higher, interest rates, had to be raised. Ultimately, then, the holders of old, low-interest-bearing bonds thus "subsidise" the tenants of houses financed at fixed interest rates — and quite often such tenants, at least if they are still at work, are in a more secure social position than the group of bond-holders mentioned above. This, however, is only one of the many examples of distortions in the distribution of income and wealth that result from a persistent inflationary process.

3. Fiscal policy on a stability course [1]

Extensive stability programme with a shift of emphasis to tax policy measures

Fiscal policy, together with restrictive monetary policy, helped to contain the boom and support the tendencies towards stabilisation in the economy in 1973. This required the bold use of instruments of fiscal policy, a step which the Federal Government resolved to take in the spring of 1973. In February the Federal Government had already announced a number of fiscal policy measures in its Annual Economic Report, but only three months later it proved necessary to enlarge this stability programme substantially because of the growing dangers of inflation. The second stability programme adopted by the Federal Government on May 9, 1973 endeavoured to reduce private demand, mainly by measures of tax policy. A stability surcharge of 10 % on corporation tax and income tax for a period of 12 months, affecting taxpayers in the higher income brackets, was intended to deprive some private consumers, and particularly the investors, of purchasing power. In addition, a temporary investment tax was introduced which in effect increased the cost of all capital projects by 11 %. The suspension of diminishing balance depreciation on movable assets and the reduction of investment allowances, which are mainly granted for regional policy reasons, tended in the same direction. Furthermore, diminishing balance depreciation on buildings was terminated and increased depreciation allowances under section 7 (b) of the Income Tax Act were suspended, the intention being to curtail construction demand. In particular, residential construction, which had been boosted by tax advantages and had expanded beyond the scale warranted by longer-term needs, was to be reduced. The feature common to all these measures was that they notably lowered the profitability of planned investments and encouraged the deferment of new projects. There is no doubt that this was largely achieved, especially as other influences, such as the increase in interest rate levels, operated in the same direction. The fact that the measures adopted under the second stability programme did not have a very pronounced effect on the cash position in 1973 is of minor importance. Only the stability surcharge brought in considerable receipts, at DM 1.6 billion in 1973 (and a further DM 2 billion is anticipated for 1974). In contrast, investment tax yielded little more than DM 0.3 billion in 1973, although from the outset receipts had been expected to reach a significant level only towards the end of the year. The other measures for curbing investments will not influence the cash position for about two years because of the time-lag between the earning of income and tax assessment.

Monetary policy was given direct support by the stability programme inasmuch as substantial funds were immobilised at the Bundesbank and thus unavailable to the banks. By the end of the year more than DM 1 billion of receipts from the stability surcharge and the investment tax were frozen at the Bundesbank. The Federal and Länder Governments also immobilised DM 0.7 billion of their general tax revenue. In addition, the social security funds increased their holdings of Bundesbank mobilisation and liquidity paper by DM 4.5 billion, thus keeping a considerable part of their investable funds out of circulation. The above-mentioned placing of a stability loan totalling DM 2.5 billion, the proceeds of which were likewise immobilised at the central bank, also had the effect of a restrictive open market policy on the part of the public authorities. Altogether, these transactions deprived the private sector, and thus also the banks, of about DM 9 billion of liquidity.

In spite of measures to curb spending ...

Although the main weight of the stability measures was clearly on the receipts side of the public authorities' budgets, attempts were also made to contain government demand to some extent. Planned Federal expenditure on joint projects was deferred, which is likely to have resulted in corresponding cuts in Länder spending as well. In addition, the Federal Government blocked 5 % of all ex-

1 A more complete survey of the public authorities' finances in 1973 and the outlook for 1974, also covering the various levels of government, appeared in the April Monthly Report of the Deutsche Bundesbank. The article takes the place of the detailed analysis hitherto published regularly in the Annual Report.

Public authorities' finances

Item	1970	1971	1972 pe	1973 pe	1970	1971	1972	1973 [5]
	Billions of Deutsche Mark				Percentage change on previous year			
I. Central, regional and local authorities								
(1) Expenditure								
Expenditure on personnel	61.3	73.1	81.5	93.5	+ 16.2	+ 19.2	+ 11.5	+ 15
Pensions and assistance grants	30.3	33.9	38.9	39.5	+ 8.2	+ 12.0	+ 14.6	+ 1.5
Fixed investments	31.9	37.3	39.3	42.5	+ 22.7	+ 17.1	+ 5.3	+ 8
Indirect investments [1]	15.0	17.8	18.8	21	+ 10.9	+ 18.3	+ 5.8	+ 12
Other expenditure	56.4	61.0	70.0	84	+ 7.3	+ 8.2	+ 14.6	+ 20
Total	194.9	223.1	248.5	280.5	+ 12.8	+ 14.5	+ 11.4	+ 13
of which: Federal Government [2]	87.0	97.5	110.2	123.5	+ 7.5	+ 12.0	[2] + 13.1	+ 12
Länder Governments	76.5	88.3	99.1	115	+ 15.4	+ 15.4	+ 12.3	+ 16
(2) Receipts (excluding special taxes)								
Tax revenue	154.1	172.4	197.0	225	+ 6.1	+ 11.9	+ 14.3	+ 14
Other receipts	31.0	34.9	39.3	45	+ 5.2	+ 12.5	+ 12.7	+ 14
Total	185.1	207.3	236.3	269.5	+ 5.9	+ 12.0	+ 14.0	+ 14
of which: Federal Government [2]	86.5	96.1	106.3	120	+ 4.9	+ 11.1	+ 10.6	+ 13
Länder Governments	73.3	82.8	97.8	112.5	+ 7.6	+ 13.0	+ 18.1	+ 15.5
(3) Cash surplus (+) or deficit (−) [3]	− 8.7	− 16.1	− 12.9	− 12	.	.	.	.
of which: Federal Government [2]	− 0.6	− 1.4	− 4.6	− 3.5	.	.	.	.
Länder Governments	− 2.1	− 5.7	− 1.3	− 3	.	.	.	.
(4) Special taxes [4]	+ 2.2	+ 3.7	− 5.6	+ 2	.	.	.	.
(5) Cash surplus (+) or deficit (−) including special taxes	− 6.5	− 12.4	− 18.5	− 10	.	.	.	.
II. Social security funds								
(1) Expenditure	81.2	92.9	107.7	125	+ 7.4	+ 14.4	+ 15.9	+ 16
(2) Receipts	86.0	97.8	113.0	131	+ 14.6	+ 13.8	+ 15.5	+ 16
(3) Cash surplus (+) or deficit (−)	+ 4.9	+ 4.8	+ 5.3	+ 6.5	.	.		.
III. Public authorities, total								
(1) Expenditure	264.1	302.9	340.8	390.5	+ 11.6	+ 14.7	+ 12.5	+ 14.5
(2) Receipts (excluding special taxes)	259.0	291.9	333.8	385.5	+ 8.8	+ 12.7	+ 14.3	+ 15.5
(3) Cash surplus (+) or deficit (−) including special taxes	− 1.6	− 7.6	− 13.2	− 3.5	.	.	.	.

1 Expenditure on investment grants to third parties, loans and trade investments. — 2 From 1972 onwards the Public Works Corporation and hospital financing have been included in the Federal budget. — 3 The discrepancy between the balance of receipts and expenditure and the cash deficit is due to special transactions. — 4 Levying and repayment of anticyclical surcharge, and receipts from stability surcharge and investment tax. — 5 Growth rates calculated on the basis of unrounded figures. — Discrepancies in the totals are due to rounding. — **pe** Partly estimated.

penditure appropriations other than those based on legal or international commitments, the intention being to reduce spending by DM 0.7 billion. At Länder Government level, too, measures to ensure restrictive budget management were introduced, in accordance with a recommendation of the Fiscal Planning Council. Finally, a limit (of DM 12 billion) was set for the central, regional and local authorities' borrowing, although the main object of this move was only to prevent spending from substantially exceeding the budget appropriations. In view of the disappointing outcome of previous efforts, no attempt was made to exert anticyclical effects through a more rigorous reduction of planned expenditure.

. . . continued large growth of expenditure

The total expenditure of the central, regional and local authorities in 1973 in fact rose by 13 % and thus more strongly than the nominal national product. The Fiscal Planning Council's intention of restricting the rise in spending to a more or less "cyclically neutral" rate of 10.5 % thus failed once again. Only consumption spending increased substantially more than the national product, particularly expenditure on personnel, which went up by 15 %. At the beginning of the year wages and salaries had been increased by about 8.5 %; in the autumn, the "Christmas bonus" was raised to a full month's pay, which on an annual basis meant a wage and salary increase of a further 2.5 %. The number of government employees also continued to grow fairly sharply (by an estimated 3 %). The rise in the central, regional and local authorities' capital expenditure, on the other hand, was below the average at an estimated 9 %. Thus the downward trend apparent since 1964 in the government's share in capital spending was resumed, after a short break in 1970/1. The share of public capital expenditure in the national product also declined further; in the year under review it was 6.9 % compared with 8 % in 1964. This tendency is not only contrary to the avowed political aim of increasing, first and foremost, such public capital expenditure as serves for the improvement of the infrastructure; it also contrasts with the growing tax burden on national income. To put it another way: although in 1973 the overall tax ratio reached a record level, at 24.3 %, the share of government capital formation in the national product declined; the disproportionately large increase in tax revenue was required – as in previous years – in order to finance the disproportionately large increase in government consumption expenditure. It should be noted, however, that this growth of consumption spending may involve capital formation in a broader sense – e. g. as a result of current expenditure in the education sector – which is not quantifiable.

Reduction in the deficit entirely due to special taxes

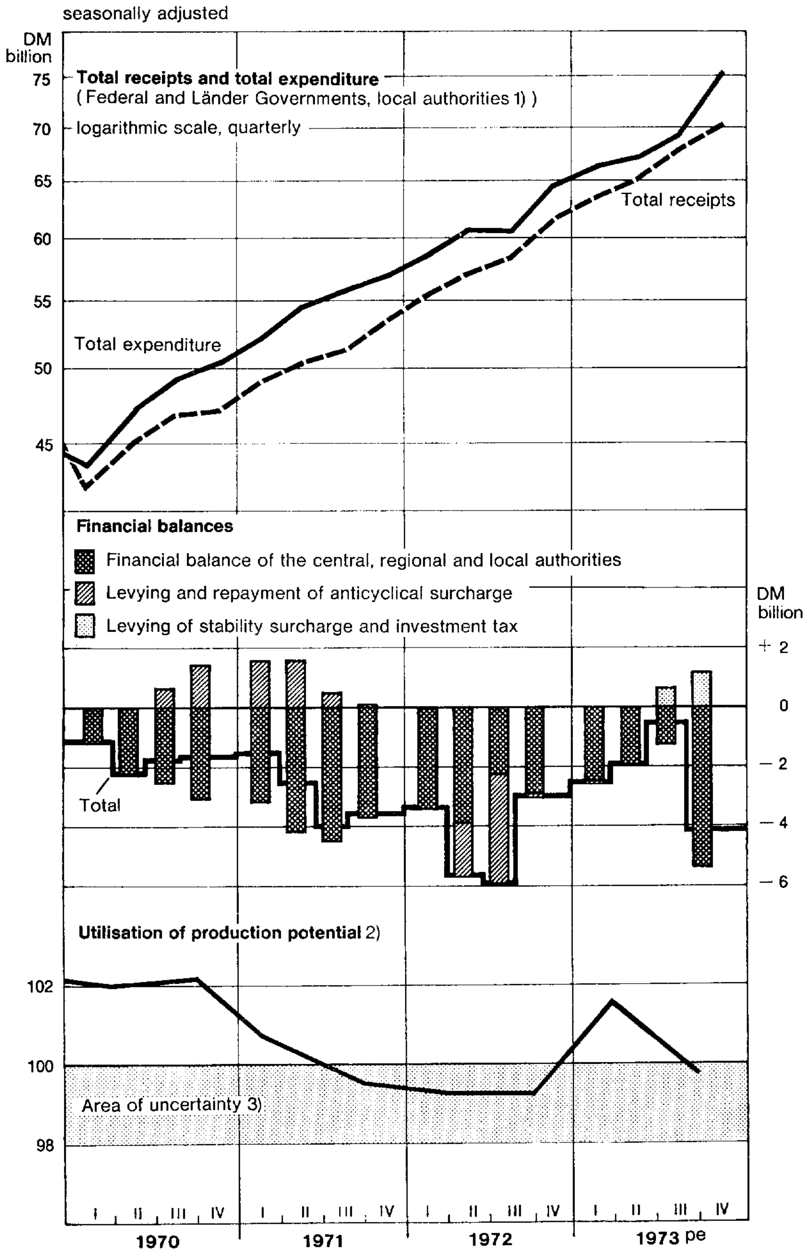
The central, regional and local authorities proper hardly exerted any restrictive effects of note. Not counting the special anticyclical taxes, the rise in spending, at 13 %, was little less than the rise in receipts, and the cash deficit was only about DM 1 billion below the level of the previous year (some DM 13 billion). Inclusive of the special taxes, the deficit of the central, regional and local authorities was held down to DM 10 billion last year after having reached the extremely high level of DM 18.5 billion in 1972. The contractionary reduction of DM 8.5 billion in the deficits was almost entirely due to the special measures; in 1972 the deficit had been enlarged by DM 5.5 billion by the repayment of the anticyclical surcharge, whereas in 1973 it was reduced by DM 2 billion by the levying of the stability surcharge and the investment tax. Since moreover there was an increase of about DM 1 billion in the surplus of the social security funds – whose receipts and expenditure expanded even more than those in the budgets of the central, regional and local authorities – the overall deficit of the public sector decreased by some DM 10 billion (or about 1 % of GNP). If account is also taken of the considerable restrictive impact of the stability programme on business decisions, and particularly on capital expenditure plans, the full extent of the public authorities' contribution to stability becomes plain.

Borrowing almost as high as a year before

Borrowing by the central, regional and local authorities, at DM 14.5 billion, reached almost the same level as in 1972 (DM 15 billion).[1] It thus exceeded the cash deficit in the budgets by DM 2.5 billion, primarily because the proceeds from the loan to absorb liquidity and purchasing power (DM 2.5 billion) were immobilised at the

1 The amounts for 1972 and 1973 include borrowing on behalf of the Federal Government for the purpose of financing hospitals (1972: DM 0.5 billion; 1973: DM 0.9 billion), and thus differ from the debt statistics.

Finances of the central, regional and local authorities



1) Local authorities estimated.- 2) Potential = 100.- 3) Attempt to depict the area of optimum overall production.- pe Partly estimated.

Bundesbank. If one also deducts the loans raised on behalf of the Federal Government by the Public Works Corporation and for the purpose of financing hospitals, borrowing by enterprises owned by local authorities and cash advances (because the debt restriction order did not apply to such credits either), it is seen that borrowing remained distinctly below the limit of DM 12 billion that had been set. As usual, most of the borrowing was in the form of borrower's note loans from banks. The amount raised for budget purposes by bond issues, at just on DM 1 billion, was barely half as large as a year before. In contrast to this, the total of Federal savings bonds outstanding, which in 1972 had increased by a record DM 2.5 billion, fell by more than DM 1 billion because the Government failed to bring the terms of this paper fully into line with interest rates on the capital market, which had risen sharply. Moreover, a relatively large amount of Bundesbank book credit was used towards the end of 1973, whereas at the end of 1972 it had hardly been required at all.

Indebtedness of central, regional and local authorities

Millions of Deutsche Mark

Item	End of year 1971	1972	1973 pe	Change during year 1971	1972	1973 pe
I. Borrowers						
1. Federal Government	48,764	51,595	2 56,186	+ 1,441	+ 2,831	2 + 4,592
2. Equalisation of Burdens Fund	6,560	6,342	5,886	— 263	— 218	— 456
3. ERP Special Fund	1,364	1,474	1,151	+ 68	+ 110	— 324
4. Loans raised by Public Works Corporation	2,747	3,236	3,701	+ 381	+ 489	+ 465
5. Länder Governments	33,037	36,963	39,462	+ 5,251	3 + 3,426	+ 2,498
6. Local authorities	47,927	55,984	63,000	+ 7,632	+ 8,057	+ 7,016
Total (1 to 6)	140,399	155,594	2 169,385	+14,509	+14,695	2 +13,791
II. Types of debt						
1. Book credits of Bundesbank	2,349	440	2,851	+ 15	— 1,909	+ 2,412
2. Money market paper	1,750	1,438	1,064	—	— 312	— 374
3. Securities 1	22,819	27,386	2 29,596	+ 2,118	+ 4,567	2+ 2,211
4. Bank advances	70,665	81,405	90,732	+11,141	3 +10,240	+ 9,327
5. Other debt	42,816	44,926	45,142	+ 1,235	+ 2,110	+ 216
Total (1 to 5)	140,399	155,594	2 169,385	+14,509	+14,695	2+13,791

1 Bonds, Federal savings bonds and medium-term notes. — 2 Including DM 2.5 billion of Federal stability loan. — 3 After elimination of increase of DM 500 million due to statistical factors. — pe Partly estimated. — Discrepancies in the totals are due to rounding.

Turning-point reached towards the end of the year

Towards the end of 1973 there was a marked change in the trend of the central, regional and local authorities' finances. While the cash deficit had fallen continuously in the first three quarters (seasonally adjusted), it climbed steeply in the fourth. On the one hand, expenditure accelerated sharply towards the end of the year, particularly in the field of personnel spending (because of the increase in the Christmas bonus); moreover, the original efforts to manage the budgets restrictively were largely abandoned in the last few months of the year on the first signs of a slackening of economic activity. On the other hand, receipts fell slightly short of the expectations still prevalent in the autumn. In conjunction with a much more liberal placing of orders for capital projects, the central, regional and local authorities again exerted an expansionary impact towards the end of 1973 and at the beginning of 1974, especially in such sectors as construction, where the slackening of economic activity had already progressed far and where capacities were available for public orders.

4. External safeguarding measures, exchange rate, and balance of payments [1]

Economic crisis in the spring of 1973 settled by floating the rate against the dollar

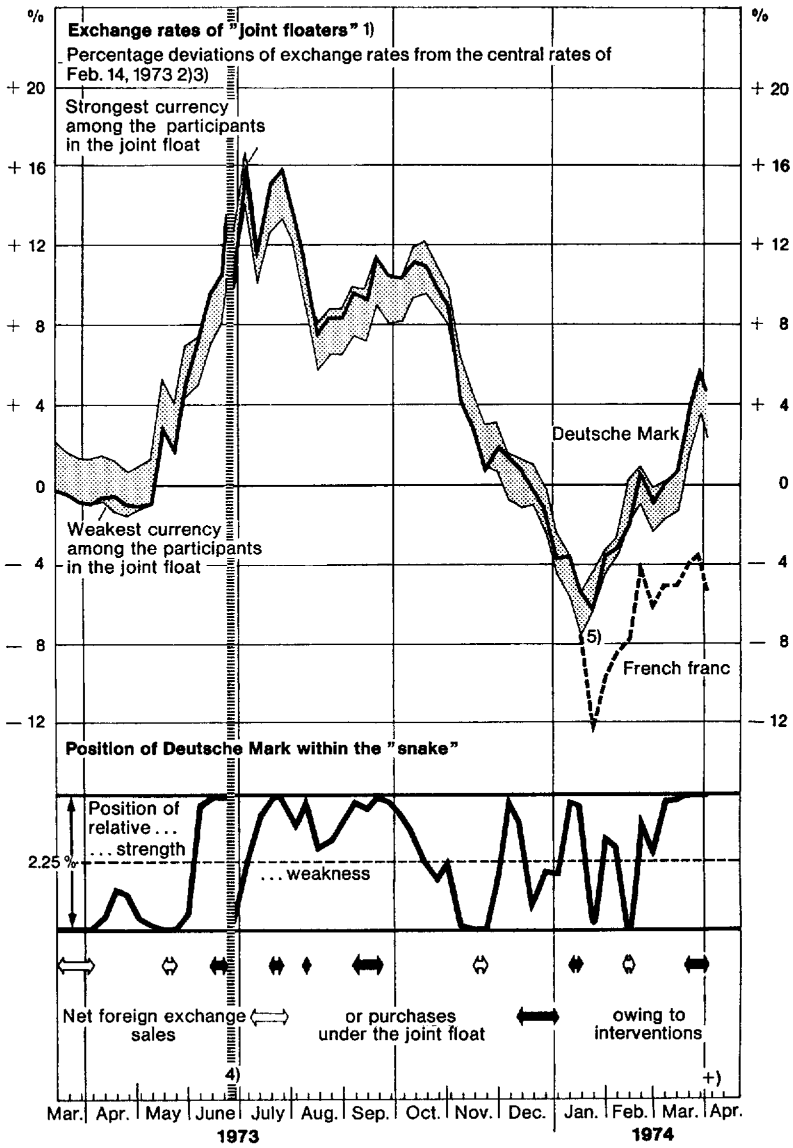
As explained at the beginning of this Report, the preconditions for a more stringent stability course in monetary and fiscal policy were only created by the introduction of adequate safeguards against external constraints. The decisive step in this direction was taken in March 1973 with the suspension of the obligation to intervene against the U.S. dollar — a step that was likewise taken by those industrial countries which, like Germany but unlike Canada, the United Kingdom, Switzerland, Italy and Japan, had been adhering to fixed exchange rates. Six EEC member countries,[2] along with Norway and Sweden, resolved to form the European monetary bloc, with mutual obligations to intervene; in order to facilitate its start, the Deutsche Mark was revalued by 3 % with effect from March 19, 1973. For the first time the new central rate of the Deutsche Mark was expressed in special drawing rights (DM 1 = SDR 0.294389). Since then the balancing of external payments has been effected much less by movements of central monetary reserves and much more by exchange rate fluctuations.

The suspension of the obligation to intervene did not, of course, mean that German monetary policy could be pursued quite regardless of developments in

1 A detailed review of the German balance of payments in 1973 was published in the Monthly Report of the Deutsche Bundesbank of March 1974, page 18. That article replaces the chapter on the balance of payments which was formerly included in the Annual Report of the Deutsche Bundesbank. It analyses, inter alia, the estimated breakdown of the greatly increased "balancing item" of the balance of payments. The present text is also based on these revised figures.

2 Belgium, Denmark, France, Germany, Luxembourg and the Netherlands.

Movement of exchange rates of the currencies participating in the European joint float



1) On March 19, 1973 six EEC countries (Belgium, Denmark, France, Germany, Luxembourg, Netherlands) together with Norway and Sweden started the joint float against the U.S. dollar (while retaining a common margin of fluctuation of 2.25 % against each other).- 2) Based on official rates: Friday figures.- 3) Deutsche Mark, guilder and Norwegian krone: percentage deviations as from March 19, 1973 from arithmetical dollar central rates.- 4) Deutsche Mark revalued on June 29, 1973.- 5) French franc floated with effect from January 21, 1974.- + Latest position: April 3, 1974.

foreign trade and payments. In the first place, the obligation to intervene continued to exist in relation to the participants in the joint float, that is, to a group of countries which, up to the withdrawal of France in January 1974, accounted for about 40 % of German foreign trade, and which still accounts for about 27 %. At times, especially in the spring and in September of 1973, exchange rate relationships in the European monetary bloc had to be defended by considerable Bundesbank interventions; in June/July 1973, for example, these amounted to about DM 6 billion. In the second place, the Bundesbank had to take into account that monetary policy now has a direct impact on exchange rate movements. If money is kept scarce and dear in Germany, a strong demand will arise for foreign money, which tends to revalue the Deutsche Mark. In the monetary bloc within the "snake" this may lead to tensions. In order that monetary policy could nevertheless be guided as far as possible by domestic economic requirements, Germany retained administrative measures to stem interest or liquidity-induced money and capital imports throughout 1973. Experience has shown, however, that such measures are fairly ineffective against purely speculative money movements and that they are ultimately of secondary importance under a system of floating exchange rates.

Exchange rate movements up to the oil crisis

The scale of the fluctuations in the exchange rate of the Deutsche Mark, particularly against the U.S. dollar, was at first greater than previously envisaged. From mid-March to mid-May 1973 the external value of the Deutsche Mark against the U.S. dollar remained relatively stable, without major interventions by the Bundesbank and the U.S. monetary authorities, at a rate of about DM 2.83 per dollar, representing an appreciation of about 13 to 14 % of the Deutsche Mark against the central rate relationship of end-1972. But from mid-May to early July, under the influence of unfavourable news about economic and political developments in the United States, the rate of the dollar against the Deutsche Mark fell almost continuously to a low of DM 2.28; at that time the Deutsche Mark revaluation rate against the dollar reached 41 % compared with the central rate of end-1972. The dollar rate of the Deutsche Mark thus seemed to have lost touch with economic reality, not least with the price relationships between U.S. and German products. But this development was not confined to the Deutsche Mark. The exchange rates of the currencies participating in the joint float improved in a similar way. However, the Deutsche Mark also strengthened within the "snake". While at the beginning of the joint float the Deutsche Mark had for some time been the weakest currency within the "snake", it became the strongest in mid-June. How quickly Germany's situation could change again for the worse was revealed in the second half of June, when interventions in the form of Bundesbank purchases of "bloc" currencies and Deutsche Mark sales by the central banks of partner countries reached the sum of DM 4½ billion. In order to ease the situation the Federal Government decided on June 29, 1973 to revalue the Deutsche Mark (expressed in terms of special drawing rights) by 5.5 % with immediate effect, thus altering the central rate relationships vis-à-vis the other countries of the European monetary bloc accordingly. In addition, the administrative measures to restrict capital imports were tightened up again. Sales to non-residents of claims on residents were made subject to mandatory authorisation, and within the unused export quota arising in connection with the cash deposit scheme only foreign currency borrowing to cover exchange risks was approved. As a result of the two revaluations of March and June, together with the normal exchange rate fluctuations within the "snake", the external value of the Deutsche Mark against the currencies of the "joint floaters" at the end of July 1973 was 12 % greater than at the beginning of the year. Against all currencies the Deutsche Mark revaluation rate towards the end of July 1973, as compared with end-1972, came to the high figure of approximately 23 %.

Upward trend reverses at times

The appreciation of the Deutsche Mark reached its peak at the end of July, and from then on gave way at times to a movement in the opposite direction. The more realistic appraisal of the dollar on the international exchange markets owed something to the fact that major central banks, including the U.S. Federal Reserve System, decided to prevent extreme exchange rate fluctuations by intervening on the exchange market and to raise substantially the swap lines agreed with the U.S. Federal Reserve System in order to finance such operations. The resulting recovery of the dollar rate was soon underpinned by the swing from deficits to surpluses in the U.S. balance of trade and by a pronounced rise in U.S. interest rates. Interventions under the swap arrangements could therefore be kept on a small scale; of the US$ 2 billion swap line agreed upon with the Bundesbank, the Federal Reserve Bank of New York used DM 0.5 billion in July and DM 0.3 billion in September, but in each case was able to settle these liabilities one month later. Up to the outbreak of the oil crisis the dollar rate almost always stood at between DM 2.40 and DM 2.50 per U.S. dollar, with only minor variations. Within the European "currency snake" things were not quite so calm during these months. Especially in September there was speculation against the French franc in the course of which the Bundesbank's monetary reserves rose by the equivalent of about DM 4 billion owing to franc purchases by the Bundesbank and Deutsche Mark sales by the French central bank, which had acquired the Deutsche Mark from the Bundesbank in return for francs. The speculation against the French franc petered out when French interest rates were raised drastically. To contribute to the orderly development of exchange rate relationships within the European monetary bloc, the Dutch government revalued the guilder by 5 % on September 17, 1973, while the Norwegian government revalued the krone by 5 % on November 16, 1973.

The effects of the float and the revaluation

Releasing the Bundesbank from the obligation to intervene against the U.S. dollar, and later on also against the French franc, reduced the importation of inflation via inflows of money from abroad and thus created the basis for a stability-oriented domestic monetary policy. However, inflationary tendencies are transmitted not only through the liquidity mechanism but also through international connections between prices. Even under the system of flexible exchange rates Germany was unable to avoid this form of inflation entirely, but the repercussions of the world-wide inflation on prices in Germany were much smaller – at least up to the outbreak of the oil crisis – than they would have been without the revaluation of the Deutsche Mark. This was particularly evident in the case of imports. Expressed in Deutsche Mark, the unit values of imports in September 1973, i. e. directly prior to the Middle East crisis, were 3 % up on the year, but this increase was insignificant by comparison with the price rises in other countries, especially those on international raw material markets; furthermore, it was not larger, but smaller, than in the early months of 1973. These remarks applying to the short period of six months are incidentally also valid for the past ten years, during which the Deutsche Mark has appreciated by about 40 % against all currencies. The unit values of imports in September 1973 were therefore no higher than in 1962, that is, after the first revaluation of the Deutsche Mark. During the same period, i.e. since 1962, prices abroad have risen considerably; to quote an example, those of industrial raw materials, expressed in U.S. dollars, have gone up by 120 %.

It is difficult to judge to what extent the appreciation of the Deutsche Mark moderated the demand pull for German exports. At first glance, the actual trend of exports (which is dealt with in detail in the following section) suggests that prices were not the decisive factor for foreign buyers. On the other hand, it must be assumed that without this appreciation exports would have expanded even more. At all events it is safe to say that because of the revaluation German exporters raised their Deutsche Mark prices far less than they would otherwise have done, i.e. that without the revaluation they would have been able to accept even greater cost rises, especially wage increases. For example, in September 1973 the unit values of exports were only 1½ % higher than a year previously. In other words: during this period the expansion of exports in general involved a decrease, rather than an increase, in profit margins. But for the Deutsche Mark revaluation the contrary would have been the case, which would also have resulted indirectly in the importation of inflation.

Steep rise in the current surplus

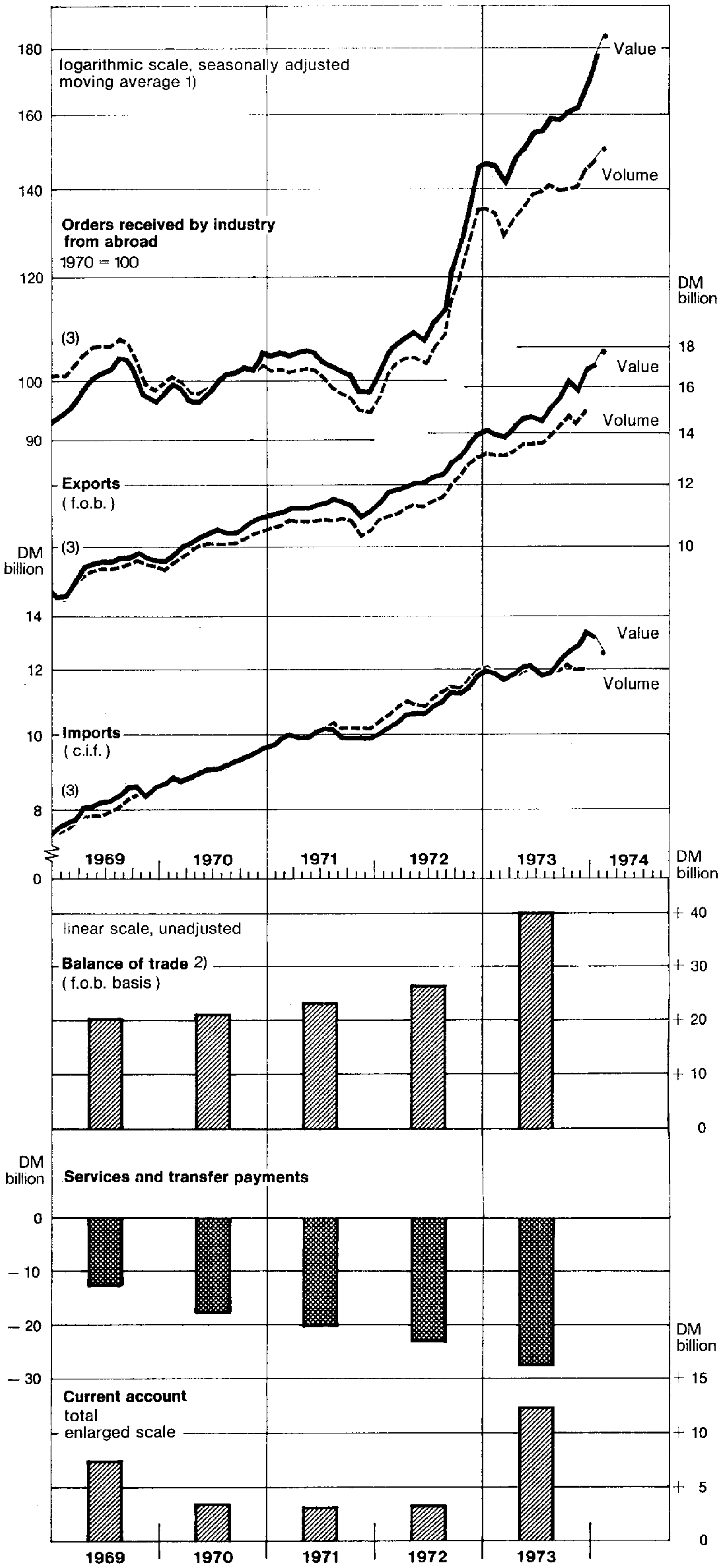
In view of these recognisable effects of the revaluation on prices, it may come as a surprise that Germany's current account (the combined balances of trade, services and transfer payments) continued to improve in 1973; the surplus rose to about DM 12½ billion, as against DM 3 to 3½ billion in each of the preceding three years. Foreign trade was mainly responsible for this. In the classification used here, according to which the freight and insurance costs of merchandise imports are allocated to services and not to merchandise transactions as in the foreign trade statistics of the Federal Statistical Office, the trade surplus rose by about DM 14 billion to DM 40 billion.[1] Although the deficits on services and transfer payments also went up (by almost DM 5 billion to DM 28 billion), this only partly offset the increase in the trade surplus.

Strong increase in exports

In terms of volume Germany's sales of goods on foreign markets in 1973 were approximately 18 % higher than a year before. As export prices went up by an average of almost 2 %, exports increased by about 20 % in value terms; they thus grew twice as much as in 1972 (10 %). The boom in export business was heralded in the autumn months of 1972 by an unusually strong upturn in foreign demand for German products, especially in the demand for capital goods. This probably owed

1 In accordance with international practice in compiling balances of payments, freight and insurance costs paid for imports of goods have been eliminated from the official import figures and included in expenditure on services. This regrouping of freight and insurance costs for imports, which leads in the statistics to an increase in the trade surplus on the one hand and a rise in the deficit on services on the other, does not affect the overall result of the current account.

Foreign demand, foreign trade and balance of payments



1) The length of the moving average (in months) is indicated in brackets beside each curve.- 2) Including balance of merchanting trade.- • = February 1974.

something to certain discrepancies between Germany and foreign countries as regards the phase of the cycle. In some other countries the upswing, especially in the capital investment field, was stronger than in Germany and was curbed less. Early in 1973 the tendency for exports to increase steeply was intensified by mounting unrest on the foreign exchange markets. The expectation of a further revaluation of the Deutsche Mark against other major currencies, especially against the U.S. dollar, led to a rise in foreign demand and to a speed-up in deliveries of exports, particularly in the capital goods sector. But these factors are not sufficient to account for the export boom completely, as hardly any other industrial country increased its export prices as much as Germany in the course of the year. It has been indicated that export unit values in 1973, calculated in Deutsche Mark, were an average of 2 % higher than a year previously; this means that because of the revaluation buyers in the rest of the world had to pay an average of about 14 % more in their currencies for German goods than a year before. In new contracts signed in the autumn of 1973 foreign importers had to accept rises of almost 30 % in prices in their own currencies. The absence of any recognisable reaction on the part of foreign buyers to these price rises testifies to the insatiable demand for goods which characterises many customer countries and which causes them to buy, regardless of price, wherever they think they can be certain of delivery. Ultimately, of course, this is only a reflection of the growing world-wide inflation, which seems to be increasingly impairing the operation of the price mechanism.

Growth of imports at first subdued

In 1973 Germany's imports of goods grew far less than its exports; in terms of value they increased by 13 %. Import unit values in 1973, however, were an average of about 5 % higher than in the preceding year (when they decreased by 2 %) despite the sometimes strong appreciation of the Deutsche Mark; this was due to the boom on the international raw material markets, which towards the end of the year owed much to the rise in the prices of crude oil and petroleum products. In terms of volume, therefore, the rise in imports, at 8 %, was relatively speaking only about half as large again as the growth of the real gross national product (+ 5½ %), whereas it had usually been two to three times as great in previous years. Apart from discrepancies in the phases of the cycle, exchange rate considerations are likely to have affected imports (like exports) until well into 1973, since expectations of another Deutsche Mark revaluation led importers to exercise restraint. In the spring and summer imports even decreased at times. This was probably attributable not only to the restraint in view of the possibility of further improvements in the exchange rate of the Deutsche Mark but also to the interest-induced rise in the cost of stockbuilding, and furthermore in no small degree to the fact that deliveries by traditionally important suppliers of industrial finished goods such as Italy and the United Kingdom were sometimes very limited. Under the influence of the oil crisis and the general boom in raw material prices the value of imports increased considerably in the autumn – seasonally adjusted, by no less than 10 % between the third and the fourth quarters of 1973.

Further rise in the deficit on services and transfer payments

Germany's external situation is not sufficiently described by reference to foreign trade alone, because Germany's importance as the world's largest importer of services also continued to grow in 1973. Inclusive of the freight and insurance costs of merchandise imports, imports of services in 1973 amounted to roughly DM 52 billion, which was DM 12 billion more than exports of services; in 1972 the deficit had been DM 9 billion. The main reason for the further growth of the deficit was the rise of about one third, to DM 11½ billion, in net expenditure on foreign travel. Spending by Germans travelling abroad increased by 19 % to DM 17.3 billion, whereas Germany's receipts from foreign visitors, at DM 5.8 billion, were somewhat lower than in 1972; to a large extent both trends are probably due to exchange rate changes and to the fact that in 1972 the Olympic Games resulted in more foreigners visiting Germany. A similar trend is apparent in the transfer payments account, the deficit on which in 1973, at about DM 16 billion, was DM 2 billion larger than in 1972.

Basic trends in capital transactions

External capital movements fell into three distinct phases in 1973: larger capital inflows during the first three months up to the floating of the Deutsche Mark against the dollar; continuous, though moderate, inflows in the period which followed; and

Main items of the balance of payments *

Millions of Deutsche Mark

Item	1966	1967	1968	1969	1970	1971	1972	1973
I. Current account								
1. Merchandise transactions								
Exports (f.o.b.) 1	80,557	86,950	99,445	113,288	124,932	135,620	148,660	177,985
Imports (f.o.b.) 1	68,932	66,303	76,807	93,063	103,627	113,258	122,995	138,677
Merchanting trade (net)	+ 200	+ 362	+ 65	+ 94	— 83	+ 932	+ 873	+ 1,009
Balance of trade	+11,825	+21,009	+22,703	+20,319	+21,222	+23,294	+26,538	+40,317
2. Services	— 5,042	— 4,581	— 3,535	— 4,071	— 7,878	— 8,682	— 9,153	—11,836
3. Transfer payments	— 6,295	— 6,422	— 7,312	— 8,750	— 9,759	—11,497	—14,037	—16,074
Balance on current account (1 plus 2 plus 3)	+ 488	+10,006	+11,856	+ 7,498	+ 3,585	+ 3,116	+ 3,349	+12,407
II. Capital account (outflow: –)								
1. Long-term capital transactions 2, 3								
Private long-term capital transactions								
Direct investment	+ 2,633	+ 2,019	+ 184	— 721	— 1,018	+ 249	+ 469	+ 370
German investment abroad	— 1,428	— 1,342	— 1,979	— 2,788	— 3,194	— 3,656	— 4,988	— 4,617
Foreign investment in Germany	+ 4,061	+ 3,361	+ 2,163	+ 2,067	+ 2,176	+ 3,905	+ 5,457	+ 4,987
Portfolio investment in securities	— 1,155	— 2,014	— 5,614	—10,721	— 683	+ 2,540	+14,746	+ 2,867
Foreign securities	— 819	— 1,395	— 5,627	— 9,513	— 2,021	+ 532	+ 4,037	+ 358
German securities	— 336	— 619	+ 13	— 1,208	+ 1,338	+ 2,008	—10,710	+ 2,509
Loans and advances	+ 1,032	— 1,146	— 4,083	— 9,285	+ 3,772	+ 6,566	+ 2,040	+ 7,720
German lending to other countries	— 368	— 755	— 4,393	—10,028	— 2,954	— 92	+ 2,047	+ 4,112
Foreign lending to Germany	+ 1,400	— 391	+ 310	+ 743	+ 6,726	+ 6,658	— 7	+ 3,608
Other transactions	— 321	— 299	— 359	— 476	— 544	— 675	— 958	— 723
Total	+ 2,189	— 1,440	— 9,872	—21,203	+ 1,527	+ 8,680	+16,297	+10,235
Official long-term capital transactions	— 2,531	— 1,490	— 1,329	— 1,837	— 2,461	— 2,387	— 1,457	— 2,144
Balance of long-term capital transactions	— 342	— 2,930	—11,201	—23,040	— 934	+ 6,293	+14,840	+ 8,090
2. Short-term capital transactions								
Banks	— 574	— 4,823	+ 2,455	+ 4,325	+ 7,927	+ 1,174	— 420	— 5,149
Enterprises 4	— 20	— 3,734	+ 1,436	+ 65	+ 8,454	+ 2,017	— 3,561	+ 8,679
Official 5	+ 337	— 361	+ 1,185	— 29	— 428	+ 1,038	+ 327	— 140
Balance of short-term capital transactions	— 257	— 8,918	+ 5,076	+ 4,361	+15,953	+ 4,229	— 3,654	+ 3,390
Overall balance of statistically recorded capital transactions	— 599	—11,848	— 6,125	—18,679	+15,019	+10,522	+11,186	+11,480
III. Balance of all statistically recorded transactions (I plus II)	— 111	— 1,842	+ 5,731	—11,181	+18,604	+13,638	+14,535	+23,887
IV. Balance of statistically unclassifiable transactions (balancing item) 6	+ 2,063	+ 1,702	+ 1,278	+ 919	+ 3,308	+ 2,720	+ 1,155	+ 2,541
V. Overall balance on current and capital accounts (III plus IV)	+ 1,952	— 140	+ 7,009	—10,262	+21,912	+16,358	+15,690	+26,428
VI. Contra-entry to changes in central monetary reserves due to the allocation of special drawing rights and depreciations 7	—	—	—	— 4,099	+ 738	— 5,369	— 496	—10,279
VII. Foreign exchange balance (surplus: +) 8	+ 1,952	— 140	+ 7,009	—14,361	+22,650	+10,989	+15,194	+16,149

* Discrepancies in the totals are due to rounding. — 1 Special trade including supplementary items. — 2 Capital transactions are classified as "Private" or "Official" according to the sector to which the German party concerned belongs. — 3 Classification of long-term capital transactions by "Direct investment", "Portfolio investment in securities", "Loans and advances" and "Other transactions" partly estimated. For further breakdown see table 9 ff. in the Statistical Supplements to the Monthly Reports of the Deutsche Bundesbank, Series 3, Balance of payments statistics. — 4 Contains transactions arising from trade credits, which are partly estimated (see the methodological notes appended to the article "The balance of payments of the Federal Republic of Germany in 1973" in the March 1974 Monthly Report, page 18). — 5 Chiefly the change in the Federal Government's assets resulting from prepayments for government imports and the change in the Federal Government's liabilities to the European Communities on so-called deposit accounts. — 6 Net errors and omissions on current and capital accounts — 7 See footnote 8. — 8 The foreign exchange balance (= change in Deutsche Bundesbank's monetary reserves) also contains the depreciation of the Deutsche Bundesbank's gold and foreign exchange positions expressed in Deutsche Mark due to the 9.3 % DM revaluation of October 27, 1969, the fixing of central rates in December 1971 (which resulted in the Deutsche Mark appreciating against the U.S. dollar by 13.6 %), the 10 % devaluation of the U.S. dollar of February 12, 1973 and the new valuations of December 1972 and December 1973. Besides, account has been taken of the rise in monetary reserves due to the allocation of DM 1,985 million of special drawing rights between 1970 and 1972. As these changes are not attributable to current or capital transactions, a contra-entry has been inserted under VI in order to square the overall balance of payments in arithmetical terms.

net capital outflows towards the end of the year under the influence of growing confidence in the U.S. dollar. This grouping shows that exchange rate expectations remained the principal determinant, but other factors, such as interest rate differentials, planned trade investments, etc., also played their part.

Sharp fluctuations in short-term capital transactions

These influences were most marked, of course, in the field of short-term capital movements. Large amounts of money flowed in from abroad in this sector prior to the suspension of the dollar interventions – almost DM 14 billion in February and March together. In the months immediately following, some of these funds flowed out again, while some were converted into long-term financial investments in Germany. Periods of weakness of certain currencies in the joint float led to further sporadic inflows of funds and purchases of foreign exchange by the central bank, though these were much smaller than before the rate against the dollar was floated. Under the influence of the oil crisis and the strengthening of the dollar rate, there was a net outflow of funds towards the end of the year; over the whole of 1973, therefore, short-term capital imports totalled only DM 3½ billion.

Especially large amounts accrued to the enterprises sector. Including trade credits, i.e. periods of credit granted and used and advance payments made and received in merchandise and service transactions with other countries, the inflow of funds to the enterprises sector in 1973 totalled about DM 9 billion. This owed very much to the fact that the utilisation of trade credits, provided the customary periods were not exceeded, was exempt from the cash deposit requirement, and from early February 1973 onwards also from mandatory authorisation.

In the banking sector there were particularly large inflows of funds during the monetary unrest in the spring of 1973. In the ensuing months some of this money flowed out again, but the greater part seems to have been used by the foreign owners for payments to domestic enterprises or for acquiring longer-term Deutsche Mark assets (which led to a reduction in the minimum reserves to be maintained by the banks). In October and November, when the exchange rate of the Deutsche Mark weakened, the dollar rate strengthened and the interest rates for Euro-Deutsche Mark went up, the banks exported money. Over the whole of 1973 bank transactions resulted in an outflow of slightly more than DM 5 billion. The final outcome of all short-term capital transactions in 1973 was therefore a relatively small influx of foreign exchange, mainly attributable to the money movements towards the end of the year.

Long-term capital imports substantially smaller than in 1972

A different result was produced by long-term capital transactions. Although capital movements in this field too varied in the above three phases, the ultimate outcome was a capital influx totalling DM 8 billion. Most of the inflow occurred during the first half of the year. As the dollar regained strength from early July on, the inflow of long-term funds decreased, and with the marked recovery of the dollar rate during the last few months of 1973 the inclination abroad to acquire Deutsche Mark assets diminished; in fact, there were net outflows of capital. The long-term capital imports mainly arose in connection with direct credits. Residents reduced their claims on foreigners and borrowed long-term capital abroad, primarily in the first few months of 1973, i.e. just before the external safeguarding measures were tightened up.

Security transactions were a further source of inflows from abroad. It seems that in 1973 non-residents built up their holdings of German securities by an estimated DM 2½ billion (compared with DM 11 billion in 1972), while Germans slightly reduced their holdings of foreign securities (over the year as a whole). The introduction of mandatory authorisation for the acquisition of domestic bonds by non-residents in mid-1972 and its extension to the acquisition of all German securities at the beginning of February 1973 slowed down the inflow of funds through these channels but was not able to stop it completely. As mentioned before, the "non-resident quotas" granted to German banks by the Bundesbank were sometimes misused. Towards the end of the year, when the rate of the Deutsche Mark against the dollar fell considerably, international investors found dollar assets more attractive than Deutsche Mark assets, so that during the last two months of 1973 German securities were on balance resold by non-residents. In view of this new

Monetary reserves of the Deutsche Bundesbank

Millions of Deutsche Mark

Item	Change (+: increase in assets, decrease in liabilities) 1971	1972	1973 1st qtr	1973 2nd to 4th qtrs	1973 Total	1st qtr 1974 p	Total at March 31, 1974 p
Reserve assets, total	+17,045	+16,390	+23,683	+ 1,714	+25,397	— 955	91,503
Gold	+ 353	+ 106	+ 26	+ 4	+ 30	+ 0	14,001
U.S. dollars	+15,222	+14,571	+23,866	— 717	+23,149	— 1,540	64,010
Other foreign exchange balances	+ 82	+ 36	— 30	+ 222	+ 192	+ 467	681
German reserve position in IMF and special drawing rights	+ 1,281	+ 1,504	— 151	+ 2,133	+ 1,982	— 57	8,297
Drawing rights within the gold tranche	+ 560	+ 200	— 151	+ 330	+ 179	— 110	3,776
Special drawing rights allocated	+ 627	+ 620	—	—	—	—	1,746
Special drawing rights acquired	+ 94	+ 684	—	+ 1,803	+ 1,803	+ 53	2,775
Claims on European Fund (FECOM) **1**	—	—	—	+ 60	+ 60	+ 161	221
Increase	(—)	(—)	(—)	(+ 9,561)	(+ 9,561)	(+ 529)	(—)
Decrease	(—)	(—)	(—)	(— 9,501)	(— 9,501)	(— 368)	(—)
Other reserve assets	+ 107	+ 173	— 28	+ 12	— 16	+ 14	4,293
External liabilities, total	— 60	— 80	— 3,811	+ 4,842	+ 1,031	+ 442	1,481
Liabilities to foreign central banks	— 343	— 78	— 3,714	+ 4,955	+ 1,241	+ 104	1,154
Liabilities to European Fund (FECOM) **1**	—	—	—	—	—	—	—
Increase	(—)	(—)	(—)	(— 654)	(— 654)	(—)	(—)
Decrease	(—)	(—)	(—)	(+ 654)	(+ 654)	(—)	(—)
Other external liabilities	+ 283	— 2	— 97	— 113	— 210	+ 338	327
(a) **Net monetary reserves** = Changes due to external current and capital transactions (plus allocation of special drawing rights)	+16,985	+16,310	+19,872	+ 6,556	+26,428	— 513	90,022
(b) Depreciation of monetary reserves	**2** —5,996	**3** —1,116	**4** —7,217	**5** —3,062	—10,279	—	..
(c) Net changes in monetary reserves as shown in the balance of payments under "Foreign exchange balance"	+10,989	+15,194	+12,655	+ 3,494	+16,149	— 513	..

1 Excluding transactions with Norway and Sweden, which are not members of the European Community and which, as participants in the European joint float, settle their claims and liabilities with their partners direct and not through the European Fund (FECOM = Fonds Européen de Coopération Monétaire). — **2** Arising from the fixing of central rates on December 21, 1971 (so-called Smithsonian Agreement). — **3** Caused by new valuation of gold holdings, drawing rights within the gold tranche and special drawing rights which was not carried out in December 1971 at the time of the fixing of central rates. — **4** Resulting from the 10 % dollar devaluation of February 12, 1973. — **5** Resulting from new valuation of the monetary reserves at the end of 1973. — **p** Provisional.

situation the authorisation requirement under section 23 of the Foreign Trade and Payments Act was rescinded at the end of January 1974; non-residents are now free to acquire any German shares and bonds, except bearer and order bonds which mature or may be returned within four years from the date of acquisition.

Much the greater part of the foreign exchange inflows in the first quarter

In 1973 overall external payments led to an inflow of foreign exchange to the Deutsche Bundesbank totalling DM 26.4 billion.[1] Much the greater part of this amount came in during February and March, when at the height of the dollar crisis the Bundesbank had to take in large quantities of dollars as a result of interventions on the spot market. Following the suspension of mandatory interventions against the U.S. dollar and the start of the European joint float, the only interventions required were those against jointly floating currencies, whenever a maximum difference of 2¼ % between one's own currency and that of a partner country was reached. Thus in June, July and September tensions within the "snake" led to purchases of jointly floating currencies by the Bundesbank and sales of Deutsche Mark by partner central banks; these foreign exchange purchases were, however, smaller than at the time of mandatory interventions against the dollar. Ever since the establishment of the European Fund for Monetary Co-operation (FECOM = Fonds Européen de Coopération Monétaire), which began work early in June 1973, interventions by member countries of the European

1 Owing to the devaluation of the U.S. dollar in February 1973 and the new valuation of the reserve positions at the end of the year, it was necessary to depreciate the monetary reserves by DM 10.3 billion in 1973, so that the foreign exchange balance shows a surplus of only DM 16.1 billion.

Economic Community under the joint float have led to claims on or liabilities to the Fund.[1] Bundesbank claims on the Fund arise from Bundesbank purchases of foreign exchange and from sales of Deutsche Mark by foreign central banks (which obtain this currency from the Bundesbank through swaps). Bundesbank liabilities to the Fund arise from Bundesbank sales of foreign exchange (which the Bank obtains through swaps) and from purchases of Deutsche Mark by foreign central banks; this was the case in November 1973, when the Deutsche Mark was at times in need of support. The Bundesbank's claims on and liabilities to the Fund are settled in accordance with the relevant agreements, which provide for settlement as a rule at the end of the month following the interventions. From the beginning of such settlement through the European Fund until end-1973 the Bundesbank acquired — cumulatively speaking — claims on the Fund equivalent to DM 9.6 billion, of which only DM 60 million had not been settled by December 31, 1973, i.e. had not been repaid by the surrender of reserve assets of other central banks. The Bundesbank's liabilities to the European Fund, also in cumulative terms, amounted to about DM 650 million; they had all been settled by the end of 1973. The bilateral swap facilities agreed upon with the U.S. central banking system were drawn on only to a small extent in 1973 by the Federal Reserve Bank of New York and in each case the amounts were repaid one month later (see page 21).

The Bundesbank's net monetary reserves amounted to DM 90.5 billion at the end of 1973; DM 65.6 billion consisted of U.S. dollar investments, DM 14.0 billion of gold, DM 4.5 billion of special drawing rights and DM 3.9 billion of drawing rights within the gold tranche in the International Monetary Fund. The gold was valued in accordance with current regulations, that is, at US$ 42.22 per ounce of fine gold; compared with the present market value, the gold holdings thus contain considerable latent reserves.

5. Easing of cyclical pressures in Germany

Stability policy causes cyclical pressures to ease

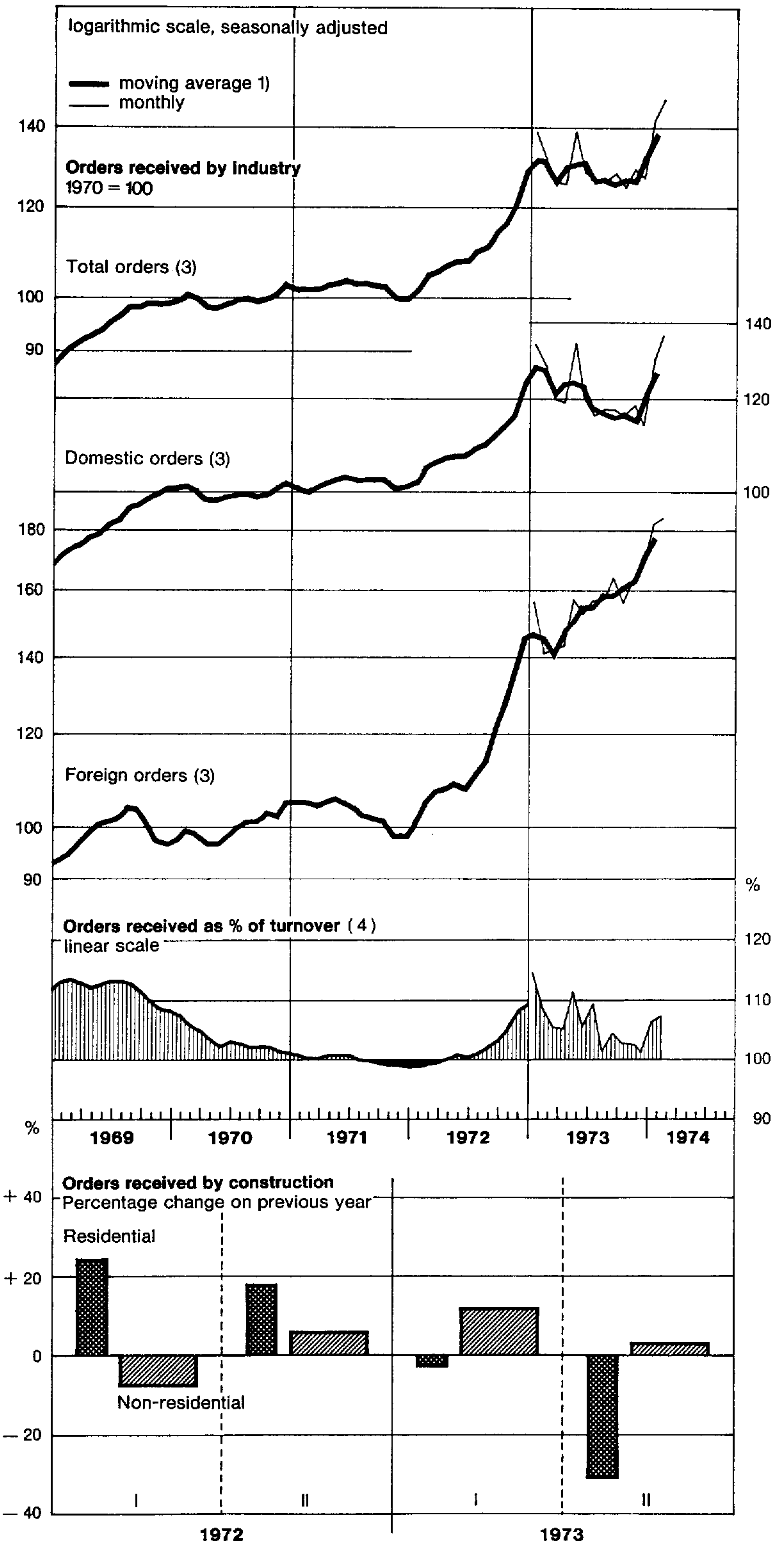
The severe cyclical pressures which characterised the economic situation until the spring of 1973 moderated under the influence of the stability policy initiated by the Federal Government and the Bundesbank. Although this policy, which has rightly been called the most determined attempt at stabilisation since the war, failed to achieve a satisfactory measure of success (not least owing to the oil crisis), it did reinforce the trend towards normalisation and remove the basis for inflationary excesses. The desired change in climate on domestic markets was already discernible towards mid-year. It is true that the announcement of the Federal Government's second stability programme early in May triggered off a flood of orders, because German investors wished to take advantage for as long as possible of the favourable depreciation terms then in effect and to avoid the burden of investment tax. In the following months, however, domestic demand slackened, partly because some of the orders had been advanced. The restrictive fiscal and monetary measures soon resulted in general restraint in the planning of new capital projects.

Curbing of demand particularly pronounced in construction

The demand for construction work was affected most. Not a few prospective clients postponed their projects because the favourable depreciation terms had been cancelled, and others abandoned them altogether as it became more and more apparent that some of the construction of recent years had been carried out in total disregard of the market situation; on the housing market this was reflected in the fact that newly built dwellings were no longer so easy to let or sell at a cost-covering price. Moreover, construction credit was at times virtually unobtainable, or at least substantially dearer owing to the higher cost of raising the funds. The public authorities, too, were slow to place new construction orders until the autumn in view of the restrictive budget management policy, and slowed down the building projects that had been started. But because of the large building backlog at the beginning of last year and the fairly steep rises in building prices in the first half of the year, expenditure on construction increased by 6 % in 1973 even

1 Norway and Sweden, which do not belong to the European Economic Community but are taking part in the joint float, settle their claims and liabilities direct with the partner central banks.

Orders received by industry and construction



1) The length of the moving average (in months) is indicated in brackets beside each curve.

though demand declined distinctly as the year proceeded. Even at constant prices, the total of construction work done almost regained the quite high level of the previous year. In the housing sector 714,000 dwellings were completed, or about 54,000 more than in 1972. Building output thus again far exceeded the estimated medium-term demand for housing. In the first few months of 1974, however, fewer residential buildings appear to have been started than a year earlier, and it may be assumed that fewer dwellings than in 1973 will be completed in the current year. In view of the not inconsiderable number of barely salable owner-occupied apartments and unlet flats, it is imperative that housing construction be reduced to the point where it matches the obviously lower demand. This of course puts the building industry to a severe test. Since the capital and reserves of building firms were rather small even in earlier times, any sharp decline in profitability such as accompanies a fall in capacity utilisation may quickly pose a threat to the firms' existence. This applies particularly in cases where at the same time liquidity becomes a more pressing problem because the claims on some clients – especially on property development companies, the number of which has increased steeply in recent years – may prove to be unenforceable owing to the wholly inadequate liability basis. In view of the special situation of the construction industry, the Federal Government decided towards the end of 1973 to speed up the placing of orders for capital projects – especially public buildings – envisaged in the budget, and to make extra funds available for publicly assisted housing construction. In addition, the special depreciation allowances for residential buildings under section 7 (b) of the Income Tax Act were reintroduced with effect from January 1, 1974.

Enterprises' propensity to invest perceptibly reduced

Domestic demand for industrial capital goods, which had expanded at the end of 1972 and early in 1973, was also reduced in the further course of the year. Admittedly, the low level of orders during the summer months was probably largely due to the fact that many firms had advanced their orders for capital goods at the beginning of May in order to escape the announced financial burdens. By the end of the year at the latest, however, the propensity to invest generally slackened; domestic orders received by German producers of capital goods (excluding vehicle construction) in the fourth quarter of 1973 were 3 % lower, seasonally adjusted, than in the first quarter. As the production periods were in some cases very long, deliveries of finished machinery and equipment remained at a high level until nearly the end of the year. Expenditure on machinery and equipment in 1973 rose by 4½ % and thus somewhat less steeply than originally planned by enterprises. Even so, the real capital stock of the German economy increased little less than in the preceding year (5½ %).

"Involuntary" stock-building increases

The greater the threat to the continuance of the upswing and the steeper the rise in the cost of finance, the more intensive were enterprises' endeavours to keep their stocks as small as possible. These endeavours were not always successful, especially in the branches in which sales to final consumers slowed down, such as the textile and clothing industry and later, under the impact of the oil crisis, the motor industry. It also appears that some raw materials were stocked in excess of current requirements towards the end of the year since further shortages and price rises were expected. Over the whole of 1973 the ratio of expenditure on stocks to the aggregate gross national product was therefore in fact larger than a year earlier.

Expansion of private consumption slows down as the year proceeds

Unlike fixed capital formation, private consumption continued to show an upward trend in 1973, even though the expansion of consumption expenditure, which had been exceedingly strong at the beginning of last year, slackened as the year went on. This was primarily reflected in a declining propensity to buy the goods supplied by the retail trade; the rise in spending on food, drink and tobacco, for instance, in the second half of 1973 was distinctly smaller than before, and the demand for textiles and clothing was definitely weak; the result was a rapid deterioration in the earnings and sales position not only of the distributive trades but also of domestic producers, who had already had structural difficulties to contend with for quite some time. Consumers also progressively reduced their purchases of motor vehicles, the main causes being the steeply rising cost of running a car and the very high rates of interest charged for loans to finance the purchase of a motor vehicle. Outside the retail trade, expenditure on services of various kinds, rent, and in particular foreign travel, which offered good value in view of the Deutsche Mark revaluation, continued to go up sharply in the second half of 1973. There was also a steep increase towards the end of the year in spending on petrol and heating oil, firstly because of the drastic rise in the prices of these products, and secondly as a result of precautionary purchases since a serious short-

Basic data on economic trends in the Federal Republic of Germany

Item	Unit	1970	1971	1972	1973	Percentage change on previous year 1970	1971	1972	1973
Overall demand									
Private consumption	DM billion	369.0	408.7	447.7	494.6	+10.8	+10.8	+ 9.5	+10.5
Government consumption	DM billion	109.0	130.6	146.9	169.7	+14.6	+19.8	+12.5	+15.5
Fixed capital formation	DM billion	181.1	203.1	215.6	226.8	+23.9	+12.2	+ 6.1	+ 5.2
Machinery and equipment	DM billion	82.9	91.1	92.5	96.6	+23.9	+ 9.9	+ 1.5	+ 4.4
Buildings	DM billion	98.2	112.0	123.1	130.2	+23.8	+14.1	+ 9.9	+ 5.8
Expenditure on stocks	DM billion	+15.3	+ 5.4	+ 4.4	+ 9.6	.	.	.	.
Domestic expenditure	DM billion	674.4	747.9	814.6	900.7	+14.2	+10.9	+ 8.9	+10.6
Net exports of goods and services 1	DM billion	+11.2	+12.2	+15.2	+25.5	.	.	.	.
Exports	DM billion	158.6	174.2	190.1	226.3	+11.8	+ 9.9	+ 9.1	+19.1
Imports	DM billion	147.4	162.0	174.9	200.8	+16.0	+ 9.9	+ 8.0	+14.8
Gross national product at current prices	DM billion	685.6	760.1	829.7	926.2	+13.3	+10.9	+ 9.2	+11.6
Memorandum item:									
Orders received by industry	1970 = 100	100	102.5	110.6	128.3	+ 4.8	+ 2.5	+ 7.9	+16.0
Foreign orders	1970 = 100	100	102.1	109.1	120.4	+ 5.8	+ 2.1	+ 6.9	+10.3
Domestic orders	1970 = 100	100	103.4	115.1	153.6	+ 1.1	+ 3.4	+11.4	+33.4
Income									
Gross wage and salary income	DM billion	353.2	400.2	439.0	498.3	+17.7	+13.3	+ 9.7	+13.5
Memorandum item:									
Gross wages and salaries per employee	DM thousand	(13.8)	(15.4)	(16.8)	(18.9)	(+14.7)	(+11.8)	(+ 9.3)	(+12.0)
Gross property and entrepreneurial income	DM billion	176.0	183.7	195.7	214.4	+ 9.7	+ 4.4	+ 6.5	+ 9.6
National income	DM billion	529.2	583.9	634.7	712.8	+14.9	+10.3	+ 8.7	+12.3
Wage ratio 2	%	66.7	68.5	69.2	69.9	.	.	.	.
Domestic production and employment									
Gross national product at 1962 prices	DM billion	529.4	543.9	560.4	590.1	+ 5.8	+ 2.7	+ 3.0	+ 5.3
Memorandum item:									
Industrial production (excluding construction)	1962 = 100	158.1	161.0	167.1	179.5	+ 6.0	+ 1.8	+ 3.8	+ 7.4
Total number of man-hours worked	1962 = 100	95.9	95.1	93.9	93.2	+ 1.2	— 0.8	— 1.3	— 0.7
Employed persons of whom	Thousands	26,668	26,650	26,463	26,462	+ 1.2	— 0.1	— 0.7	— 0.0
Wage and salary earners	Thousands	22,246	22,396	22,340	22,463	+ 2.3	+ 0.7	— 0.3	+ 0.6
Memorandum item:									
Foreign workers	Thousands	1,807	2,128	2,284	2,484	+32.3	+17.8	+ 7.3	+ 8.7
Unemployed	Thousands	148.8	185.1	246.4	273.5	—16.7	+24.4	+33.1	+11.0
Vacancies	Thousands	794.8	648.1	545.8	572.1	+ 6.4	—18.5	—15.8	+ 4.8
Unemployment ratio 3	%	0.7	0.9	1.1	1.3	.	.	.	.
Real GNP per man-hour worked (productivity)	1962 = 100	153.3	158.8	165.7	175.8	+ 4.5	+ 3.5	+ 4.4	+ 6.0
Unit labour costs in the economy as a whole 4	1962 = 100	126.6	137.7	145.1	154.4	+ 9.7	+ 8.8	+ 5.4	+ 6.4
Prices									
GNP deflator	1962 = 100	129.5	139.7	148.1	157.0	+ 7.1	+ 7.9	+ 5.9	+ 6.0
Cost of living index for all households	1970 = 100	100	105.3	111.1	118.8	+ 3.4	+ 5.3	+ 5.5	+ 6.9
Producer prices of industrial products	1962 = 100	107.5	112.5	116.1	123.8	+ 5.9	+ 4.7	+ 3.2	+ 6.6
Overall level of construction prices	1962 = 100	138.1	151.1	158.1	166.9	+16.2	+ 9.4	+ 4.6	+ 5.6

1 Balance of merchandise and service transactions with the rest of the world (including GDR); data from 1971 onwards revised owing to inclusion of external merchandise and service transactions which were not previously shown separately in the balance of payments. — 2 Wage and salary income as a percentage of national income. — 3 Unemployed as a percentage of wage and salary earners. — 4 Index of gross wages and salaries per employee divided by index of real GNP per employed person. — The data from the National Accounts are provisional.

age of petroleum products was widely expected. In all, households spent 10½ % more on consumption in 1973 than in the preceding year. Their consumption expenditure thus rose somewhat less than the aggregate nominal gross national product, so that the consumption ratio went down from 54 % to 53½ %.

Households' propensity to save improves in the second half of the year

The slight slackening of consumption in the course of 1973 was accompanied by an increase in saving, although the saving ratio, at an annual average of 13½ %, did not regain the level of the previous year, which had been very high owing to the repayment of the anticyclical surcharge. More than at the beginning of the year, the yields on some forms of investment were now such as to promise not only compensation for the expected decline in the value of money but also a significant real rate of interest. In the second half of the year, for instance, the yield on private three-month deposits in time accounts at banks was 10½ %, that on bank savings bonds about 9 %, and that on fixed interest securities at times around 10 %. The majority of private savers, admittedly, received much less income from their financial investments. On average, households' existing stock of financial assets (excluding currency and sight deposits) appears to have yielded hardly more than 5½ % interest in 1973, and thus distinctly less than the simultaneous rate of price increase (some 7 %). Another factor that tended to curb consumption was the high interest rates for consumer credits, the outstanding amount of which increased no further in the second half of 1973.

Much more than proportional rise in government consumption expenditure

Government purchases of goods and services expanded especially strongly in 1973; they were 15½ % higher than a year before and thus, as noted, rose more than proportionally to aggregate demand. Only where they constituted expenditure on materials did these purchases directly augment the demand for goods; but more than half of government consumption consists of expenditure on personnel, which affects demand only indirectly through private consumption.

Foreign demand as strong as ever

During the period of gradually slackening domestic demand from the early summer of 1973 onwards, foreign demand lost little of its momentum. Between April and December 1973 German industry received about 30 % more foreign orders than a year earlier in terms of value, and about 20 % more in terms of volume. While the backlog of domestic orders shrank at times, the total of foreign orders on hand continued to rise. At the end of the year the backlog of foreign orders, in volume terms, roughly corresponded to the turnover of 4½ months. As already described (see page 22) the demand pull from abroad could not be checked, even by the appreciation of the Deutsche Mark; in these circumstances aggregate demand could only gradually be reduced to a level consistent with a normal degree of capacity utilisation.

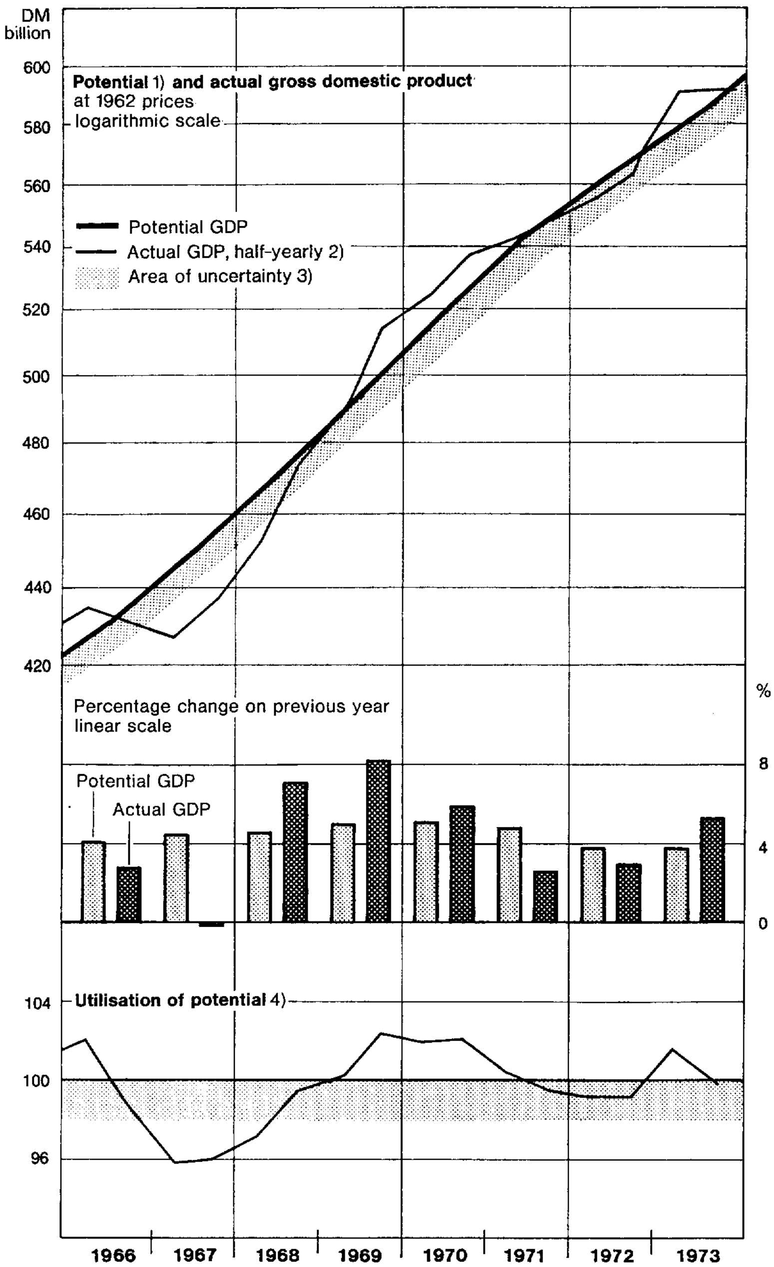
Little growth of output from the spring onwards

While domestic production was able to keep pace with domestic and foreign demand in the first few months of 1973, in the ensuing period capacity limits increasingly impeded the expansion of output. In addition, the various branches were hit to different degrees by the initial effects of the tougher stability policy. Although productive capacities and labour were released in several cases, the extent to which they could be used elsewhere to expand production was limited. The real gross national product, which grew especially fast in the first quarter owing to the good weather, rose little further during the rest of the year. Even so, it exceeded the level of the previous year by an annual average of 5½ % – 6 % in the first half and 4½ % in the second. The production potential, which went up by almost 4 % in 1973, was utilised to a far more than "optimum" extent in the first part of the year; it was only in the second half of 1973 that the use of capacity dropped back to the zone of "optimum" utilisation in which hopes of stabilising prices and costs may be entertained.

Growth of output due solely to great increase in productivity

The vigorous expansion of domestic output, particularly in the first few months of the year, was accompanied by a strong increase in productivity due to greater utilisation of existing capacities and considerable success in industrial rationalisation. Productivity in the economy as a whole – measured in terms of real GNP per man-hour – rose by 6 % in 1973 (against 4½ % in 1972); needless to say, such progress cannot be repeated year after year.

Potential and actual national product

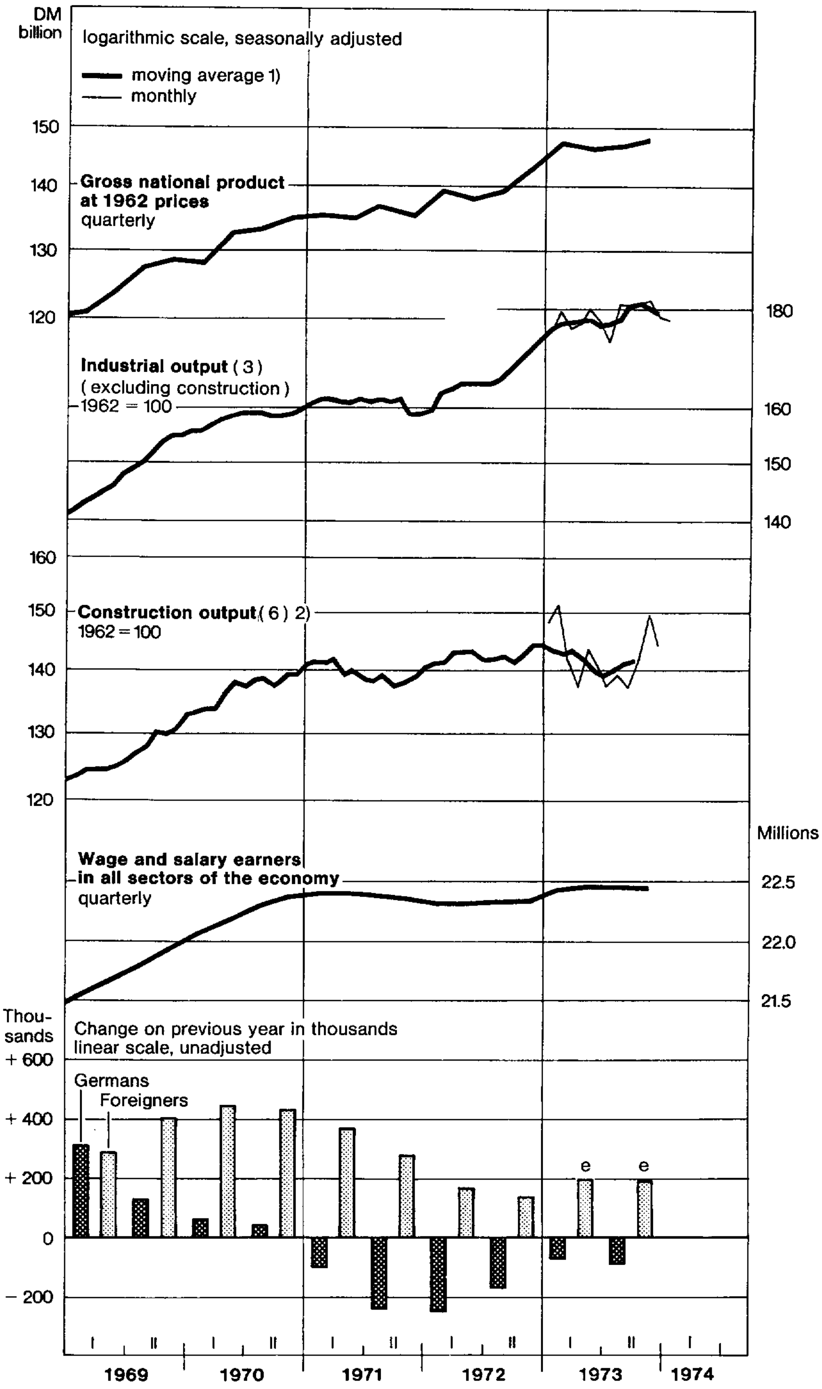


1) Calculated by Bundesbank (see "Production potential in the Federal Republic of Germany" in Monthly Report of the Deutsche Bundesbank, October 1973).- 2) Half-yearly data extrapolated to yield annual figures.- 3) Attempt to depict the area of optimum overall production.- 4) Potential=100.

Conditions on labour market gradually ease

The more business expectations deteriorated under the impact of the restrictive policy, the more cautious enterprises became in their staff arrangements. As a result, conditions on the labour market, where the strains had at first intensified in the early months of last year, gradually began to ease. The number of vacancies, as an indicator of the unsatisfied demand for labour, dropped – seasonally adjusted – from the first quarter onwards, though at first only slowly. In the second half of the year, when the effects of the fiscal and monetary stabilisation measures became more noticeable, there were some instances of short-time working and of the release of labour in excess of normal staff turnover. For one thing, enterprises made more intensive efforts to cut down their office and administrative personnel; for another, employees were dismissed in those industries which were experiencing sales difficulties or suffering from greatly increased cost pressure owing to the excessive rises in pay rates. This applied in particular to the textile, clothing and footwear industry. Labour was also released in the distribu-

Production and labour market



1) The length of the moving average (in months) is indicated in brackets beside each curve.- 2) Additionally adjusted for unusual weather conditions in winter.- e Estimated by Federal Labour Office, Nuremberg.

tive trades and in some service fields. After adjustment for seasonal influences, unemployment grew steadily during 1973, but without reaching alarming proportions. Over the whole year the unemployment ratio averaged 1.3 %. Even at the end of the year the number of unemployed, seasonally adjusted, was no larger than the number of registered vacancies.

Change in the pattern of unemployment

The unemployment ratio thus grew slightly by comparison with previous years. To a large extent, however, this was due to the fact that the pattern of unemployment has changed substantially over time. In 1973, for instance, the proportion of women in the total of unemployed persons increased relatively steeply, partly because the industries particularly hit by the easing of cyclical pressures employed many women who were unwilling to work in other localities owing to their family ties, and who moreover were only interested in part-time work, which is not available everywhere in equal measure. The number of older – and in some cases infirm – persons for whom it is more difficult to find work also seems to have risen. Not a few of these persons appear to have little interest in obtaining a job because, in addition to unemployment benefit, they receive payments under enterprises' social security schemes until they reach retirement age. The larger number of university graduates seeking their first job must also be included among the structural components of unemployment. Finally, since the recruitment of foreign workers from non-EEC countries was discontinued foreign workers already living in Germany have more inducement not to return to their home country if they are temporarily out of work, but instead to remain in Germany so as not to lose their qualification for re-employment.

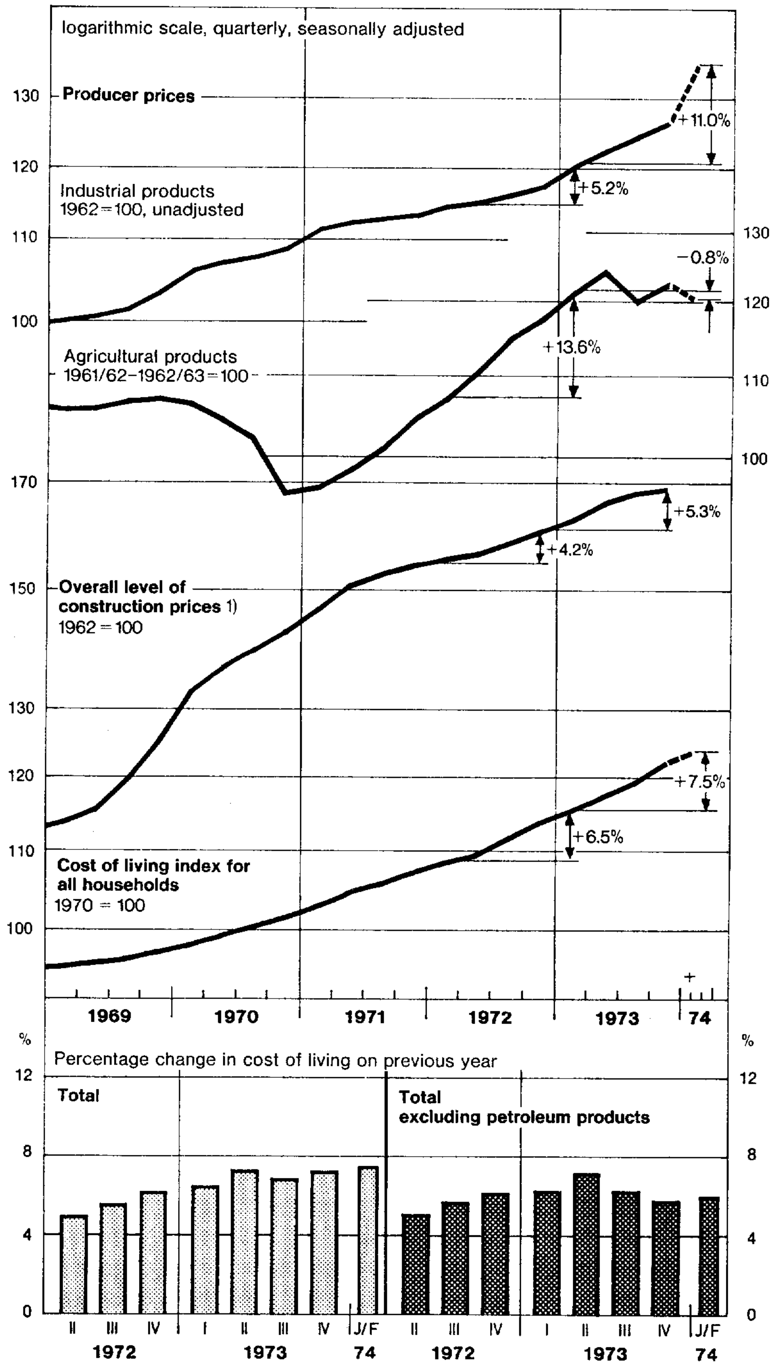
Level of employment remains high

In spite of the easing of strains on the labour market, the number of wage and salary earners in all sectors of the economy again rose slightly, rather than fell, on the preceding year. Although, in keeping with the continuing decline in the labour potential in Germany, the number of German employees decreased in 1973 from quarter to quarter (by an annual average of some 80,000), the number of foreign workers rose to a far greater extent, by an annual average of about 200,000. When the recruitment of foreign employees was stopped towards the end of 1973, approximately 2½ million foreign workers were living in Germany, some 50,000 of whom were unemployed. The Federal Government banned the recruitment of new workers primarily in view of labour market conditions; recruitment could therefore easily be resumed if the labour market situation were to change. However, several official pronouncements (such as the action programme for the employment of foreigners approved by the Federal Cabinet in June 1973) suggest that the social problems posed by any further growth in the employment of foreign workers are being increasingly recognised; these problems have already led to difficult situations, particularly in the conurbations, and have thus indicated the limits to absorption and integration. For general economic policy, restrictions on the number of foreigners working in Germany would of course mean that the growth rates of earlier years, which were reached only with the rise in the number of foreign workers, could no longer form a target for the future. The possible growth of the national product must now be rated lower owing to the reduction of the domestic labour supply, but this does not necessarily mean that the real national product per head of population will also grow more slowly than before.

Increasing wage tensions in the course of the year

During 1973 and at the beginning of 1974 wages did not react perceptibly to the signs of relaxation on the labour market. The relatively modest wage rises of early 1973 were followed by two-figure pay rate increases from the spring onwards. Later on in the year, as order books were full and as it was expected that extra costs could easily be passed on in prices, many employers were prepared – sometime under the influence of "spontaneous" strikes – to pay "cost of living bonuses" and other allowances on top of the agreed pay increases. This applied particularly in those industries where, as noted, relatively modest wage settlements had been negotiated at the beginning of the year. For employees in the iron and steel industry, for instance, such a "cost of living bonus" was formally agreed between management and labour. In the public service, a full thirteenth month's salary at Christmas (instead of two thirds of a month's pay) was conceded for the first time after mid-year. The pressures on the wage front intensified, although the moderating effects of the stabilisation policy became increasingly plain, and there were signs of prices steadying. There was thus a recognisable danger of wage movements becoming more and more independent, i.e. of their losing touch with the economic trend. Towards the end of the year pay rates in the economy as a whole were 10½ % higher than a year before (on a monthly basis), and actual earnings were up by as much as 13 %. Wages and salaries thus increased much more sharply than productivity, and as a result unit labour costs climbed considerably. In the fourth quarter of 1973 they were about 9 % up on the year throughout the economy, compared with 6 % in the third quarter and 5 % in the first half-year. A further indication of the steep rise in cost pressure in 1973 is the fact that the wage ratio (the ratio of wage and salary income to national income) in the second half of 1973 was 1½ percentage points higher than in the

Prices



1) Calculated by Bundesbank.- + January/February 1974.

same period of 1972, whereas in the first half of 1973 it had been at the same level as a year previously. Over the whole year, the wage ratio, at some 70 %, was almost one percentage point higher than a year earlier. Even after adjustment for changes in the structure of employees (for years, self-employed persons have been changing to employee status), the wage ratio reached a new peak last year; it was foreseeable that such a shift in the distribution of income would have an effect on enterprises' price policy.

Conditions unpropitious for policy of curbing prices

Until the oil crisis, the primary objective of economic policy last year — an objective, moreover, which appeared quite realistic — had been to change the direction of the trend of prices. From the outset, however, conditions were not very propitious for rapid success in endeavours to achieve more price stability. The vigorous expansion of aggregate demand in the first few months created scope for price increases which could not be narrowed quickly. At the same time the cost pressure mounted as the year proceeded – not only, as explained, in the case of labour costs, but also in the case of the purchase prices of raw materials, which climbed steeply throughout the year owing to the boom on world raw material markets. Until well into the autumn of last year the effects of this boom on the German economy were mitigated by the revaluation of the Deutsche Mark, but they were by no means fully offset.

Producer prices hardly respond to restrictive measures . . .

In fact, the uptrend of prices at the producer stage accelerated; the producer prices of industrial products, which in December 1972 had been 4.3 % up on the previous year, were 6.9 % higher than a year earlier in September 1973 (i.e. before the oil crisis). In the basic and producer goods industries the price rises were particularly steep owing to world market conditions; but in September finished capital goods too were about 5 %, and finished consumer goods (excluding heating oil) about 6 %, dearer than a year before. Virtually no reaction to the moderating of demand – in particular the demand for capital goods – due to the restrictive measures was perceptible at that time. The situation was different in the case of construction prices, which had risen relatively fast in the first half of 1973 but now went up more slowly because the demand for building work was slackening; in some sectors of the building industry prices even dropped in the autumn. In the second half of 1973 the trend of agricultural prices also changed in view of the new crop; the steep rises which had been the rule until then gave way to price reductions, some of which were larger than usual at that time of year.

. . . but slower rise of construction prices . . .

. . . and consumer prices

This had substantial effects on consumer prices, which up to the middle of the year had increased at a faster pace, mostly as a result of the rising farm prices, but which went up more slowly from the summer of 1973 onwards. In June 1973 the cost of living index for all households was 7.6 % higher than a year earlier, but by September the year-on-year growth had declined to 6.2 %.

Germany again at the rear of the "inflation convoy" in the autumn

Notwithstanding the high degree of monetary erosion in the autumn of 1973, Germany remained the last ship in the "inflation convoy". With an increase of 6.2 % in the cost of living in September, Germany was at the bottom of the scale of price rises in leading industrial countries; the weighted average of these rises at that time was 8.5 %. In 1972, by contrast, the increase in consumer prices in Germany, at 5.5 %, had been distinctly steeper than in the other industrial countries (4.4 %). Considering the inflationary pressures at the outset and the short period that had elapsed since the introduction of an efficacious restrictive policy, and also considering that prices react to cyclical changes only after a lag, a more satisfactory result was hardly to be expected up to then.

6. The oil crisis creates a new situation

Outbreak of the oil crisis in October

A new situation in the fight against price rises in the Federal Republic of Germany was created by the outbreak of the oil crisis. In mid-October, after comparatively lengthy and fruitless negotiations with the large oil companies, the oil-producing countries belonging to OPEC decided on a drastic unilateral increase in crude oil prices. The situation was aggravated by the fact that the group of Arab oil-producing states on the Persian Gulf and in North Africa (OAPEC) threatened in addition to reduce oil supplies in order to put political pressure on the western industrial countries in the Middle East conflict, and also, of course, in order to improve the chances of increasing crude oil prices. Although this threat was toned down at the end of November, and although some non-Arab oil-producing countries were prepared to step up their crude oil exports, fears were widespread that the intended cuts in deliveries would lead to a serious world-wide bottleneck in energy and raw material supplies. The huge increase in the price of petroleum – on December 23, 1973 the OAPEC countries raised their crude oil sales prices, with effect from January 1974, to three times the level ruling before the oil crisis – at first seemed to many people to be the lesser evil by comparison.

Initial effects of the oil crisis in Germany

The threat of supply difficulties and the abrupt rise in prices on the oil market caused an atmosphere of crisis in Germany too; this was understandable, if only because Germany had been obtaining about 70 % of its petroleum imports from the OAPEC countries. It was feared that any major cuts in deliveries would very soon lead to considerable falls in production and employment in those branches of the economy which are heavily dependent on oil; hoarding by private and industrial oil consumers aggravated the situation and rapidly pushed up the prices of certain petroleum products. Because of uncertainty as to future supplies of petroleum products, domestic sales of passenger cars became more and more sluggish, so that a number of manufacturers were obliged to cut back production towards the end of the year and to start short-time working. This trend was intensified by the fact that the measures taken by the Federal Government to conserve petroleum and petroleum products mainly affected motor vehicle users. A temporary ban was introduced on Sunday driving, and the speed limits imposed at the same time remained in force until mid-March 1974. As the effects of the oil crisis and of the dependence on imported raw materials on the economic position of Germany in relation to the United States were held to be particularly serious, especially in the longer run, the rate of the Deutsche Mark against the U.S. dollar soon weakened substantially. The lowest point was reached on January 8, 1974, when the U.S. dollar was quoted at DM 2.88. In relation to the central rates of end-1972 the revaluation rate of the Deutsche Mark against all currencies was then only 9 %, compared with 18 % before the outbreak of the oil crisis and 23 % at the peak in July 1973.

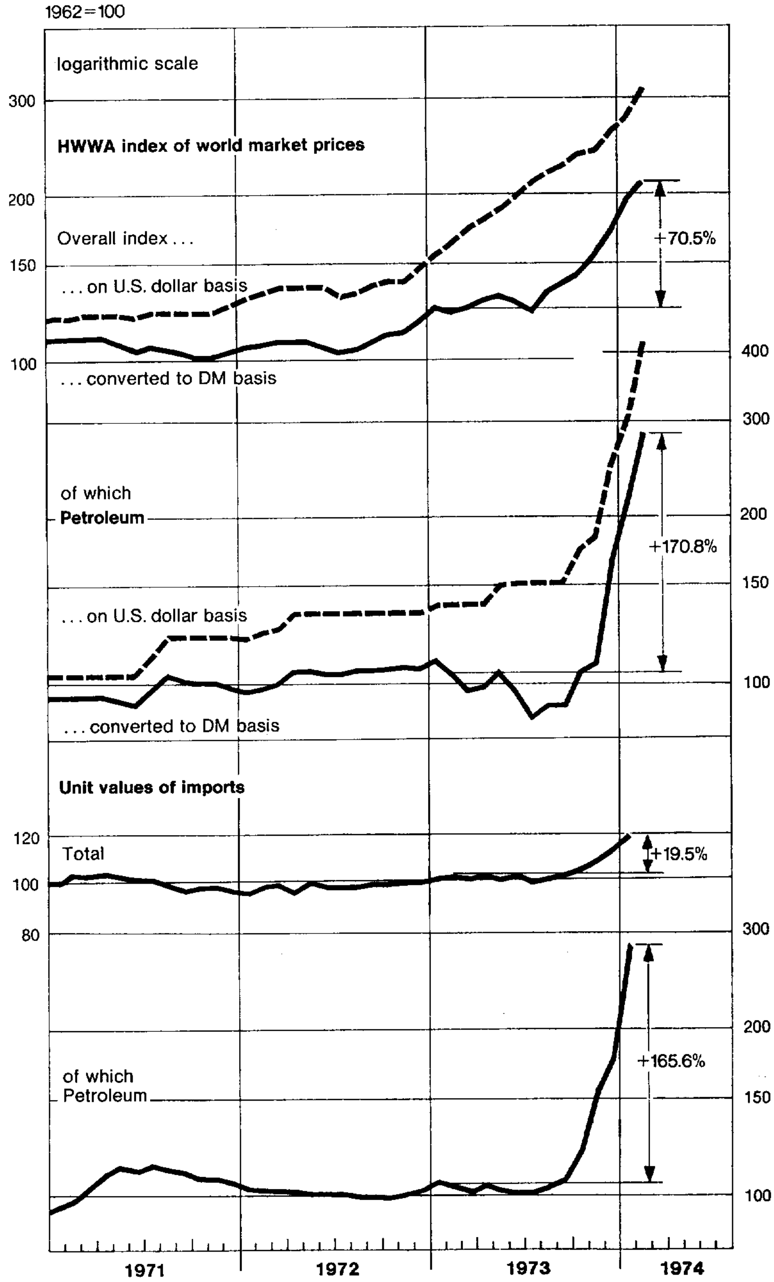
Restrictive programme adapted to the changed situation

The declining demand in the motor industry and the slackening of activity in construction and other spheres gave rise to fears of major economic setbacks in these sectors and also in certain regions. On December 19, 1973 the Federal Government therefore decided to abandon some of the main points of the stability programme of May while maintaining a generally restrictive line in economic policy. In particular, investment tax was abolished with effect from December 1, 1973, diminishing balance depreciation on movable assets was permitted again from the same date, and special depreciation allowances on residential buildings under section 7 (b) of the Income Tax Act were readmitted from January 1, 1974. A number of other measures, such as the decision not to spread expenditure on joint projects and ERP budget funds and the decision to instruct the Reconstruction Loan Corporation to resume in full its discontinued credit programmes, were taken with the intention of assisting certain sectors of small and medium-scale industry by means of additional orders and loans at favourable interest rates. On the other hand, the stability surcharge on income and corporation tax, the receipts from which are immobilised at the Bundesbank, was retained. The Federal Government also expressed the wish that the restrictive course of monetary and credit policy be continued.

Oil supply position eases after the turn of the year

At the beginning of 1974 the economy, in which uncertainty and pessimism had been widespread since the outbreak of the oil crisis, experienced a surprising change inasmuch as the supply situation on the oil market eased progressively. In the first place, the shortfall in crude oil imports in January was markedly smaller than had been expected. Furthermore, the measures ordered by the Federal Government to conserve oil were not without success; towards the end of the year they reduced petrol consumption by motor vehicles to a level substantially below that of the preceding year. Pressures on the market were also unexpectedly relieved by the fact that the consumption of heating oil was comparatively low as a result of the relatively warm winter. While the quantitative problem arising from the oil crisis was thus decisively mitigated (apart from a few minor bottlenecks), the steep rise in the price of petroleum and the danger of this inflationary surge spreading rapidly to all sectors of the economy remained. It appears that the prices envisaged by the oil-producing countries were not always realised in the market, and in some cases prices were even adjusted downwards quite considerably; even so, the increase in the cost of oil and oil products remained very serious. The Deutsche Mark price of a ton of imported crude oil (c.i.f.) rose in February to DM 227, which was three times as much as a year before (DM 75).

World market and import prices



The generally depressed mood which had seriously affected planning in trade and industry in the last two months of 1973 and had led to a considerable drop in demand in some branches gave way to rather more optimism with the improvement in oil supplies. The orders received by domestic industry, which had stagnated during the oil crisis, now went up again in almost all fields. The cancellation of the restrictive fiscal measures by the Federal Government worked in the same direction, especially as a "special programme for areas with particular structural problems" was also adopted; if the expected participation of the Länder Governments and local authorities is included, this programme is designed to provide DM 900 million of additional investments. Households' propensity to buy also increased. In particular, more cars were bought again, though sales did not regain the level of the previous year.

Economic situation viewed with more optimism

Foreign demand remains at a high level

Another important factor influencing the overall trend in demand was that foreign orders went up steeply at the beginning of the new year and continued greatly to exceed export deliveries. Furthermore, large surpluses were again recorded in merchandise transactions with foreign countries in spite of the very high level of imports due to the explosion of petroleum prices. The foreign trade position, which — at least to begin with — was as strong as ever, influenced the exchange rate of the Deutsche Mark. After reaching its lowest point on January 8, when the revaluation rate of the Deutsche Mark against all other currencies and compared with the level of rates at end-1972 was only 9 %, it recovered steadily in the ensuing period. By the beginning of April the revaluation rate had risen again to 18 %. In these weeks and months of rapid increase in the prices of imported raw materials, other countries had to take different steps in the foreign trade and payments field. France, for example, decided on January 19, 1974 to let the franc float and thus left the "snake". Since then the Deutsche Mark has been valued about 8 % higher than the French franc on the foreign exchange market.

Gradual removal of controls on capital transactions

The increasing strength of the Deutsche Mark on the foreign exchange market caused the plans drawn up in the preceding period of weakness for largely removing the controls on capital transactions to appear in a new light. The Federal Government and the Bundesbank therefore agreed on a phased approach in this matter. The first relaxation was the dropping of the authorisation requirement under section 23 of the Foreign Trade and Payments Act for various forms of capital imports, especially for sales of fixed interest securities with maturities in excess of four years to non-residents. The cash deposit scheme was retained, but the deposit ratio was reduced to 20 %, a level which has since normally been sufficient to eliminate the interest rate advantage of borrowing abroad. The cash deposit and the minimum reserve on the banks' external liabilities at least prevent large quantities of money from flowing in from abroad for purely interest rate reasons. Another argument in favour of retaining the cash deposit is that, on past experience, access to the Euro-money market and its lower interest rates is chiefly available to large enterprises and usually barred to smaller ones, so that the latter feel the full force of domestic monetary policy. But if the situation on the foreign exchange markets should prove to be more stable than has seemed likely until now, this administrative interest rate barrier to external transactions could be dispensed with, particularly as under a system of largely free exchange rates capital inflows need not lead to an increase in the Bundesbank's foreign exchange reserves, but should tend to produce rising exchange rates.

Deteriorating price trend

In spite of the decrease in cyclical strains, the price situation in Germany deteriorated pronouncedly at the beginning of 1974. The main cause of the wave of price increases in industry at the beginning of 1974, which resulted in prices being 10.3 % higher in January than a year before (and as much as 11.7 % in February), was growing cost pressure deriving from the rise in the price of imported raw materials, especially crude oil. This fresh price surge at the producer stage has hardly worked through to consumer prices yet, as distributors have obviously not been able to pass on the increased purchase prices to consumers immediately, or in full. The year-on-year rise in consumer prices in February this year, at 7.6 %, was in fact slightly smaller than at the end of 1973.

First wage settlements complicate the situation

The price situation has been aggravated by the recent wage decisions. Wage increases of 12 to 14 % (including subsidiary agreements), such as were conceded in the public service and for employees in the metal industry, are out of tune with the efforts to achieve more domestic stability. Enterprises are not able to offset these higher costs by increasing productivity (the rise in productivity will amount to no more than 4 or 5 % per working hour), nor can they even approximately absorb them in their profit margins. As early as 1972, as shown by the Bundesbank's balance sheet investigations, the profit ratio of many enterprises came to only about 2 % of turnover. If they wish to avoid losses, enterprises must try to raise their prices, and as they are all more or less facing the same situation, they will presumably no longer find this difficult to do as far as their competitive position is concerned. This also seems to confirm the observation that in recent weeks and months the prices of goods produced by certain industries were raised at about the same time and by about the same percentages, or at least that such

Consumer prices in selected countries

Percentage change in the cost of living index on previous year

Country	1971	1972	1973	1973 3rd qtr	1973 4th qtr	1974 Jan./Feb.
Belgium	+ 4.3	+ 5.4	+ 7.0	+ 6.8	+ 7.0	+ 7.9
Denmark	+ 5.8	+ 6.6	p + 9.4	+ 9.6	p +11.6	+14.6
France	+ 5.3	+ 6.1	+ 7.3	+ 7.6	+ 8.3	+10.9
Italy	+ 4.8	+ 5.7	+10.8	+11.6	+11.7	p +12.6
Netherlands	+ 7.5	+ 7.8	+ 8.0	+ 8.2	+ 8.0	p + 8.2
United Kingdom	+ 9.4	+ 7.1	+ 9.2	+ 9.2	+10.3	p +13.2
EEC countries, total **1**	+ 6.5	+ 6.4	+ 8.7	+ 9.0	+ 9.6	pe +11.8
Austria	+ 4.7	+ 6.3	+ 7.6	+ 6.9	+ 7.6	p + 8.3
Norway	+ 6.2	+ 7.2	+ 7.5	+ 7.0	+ 7.5	+ 8.7
Sweden	+ 7.4	+ 6.0	+ 6.7	+ 6.5	+ 7.7	3 + 8.4
Switzerland	+ 6.6	+ 6.7	+ 8.7	+ 8.3	+10.8	+10.8
United States	+ 4.3	+ 3.3	+ 6.2	+ 6.9	+ 8.4	+ 9.7
Canada	+ 2.9	+ 4.8	+ 7.6	+ 8.2	+ 9.0	+ 9.3
Japan	+ 6.1	+ 4.5	+11.7	+12.9	+16.4	p +24.1
Selected countries, total **2**	+ 5.1	+ 4.4	+ 7.6	+ 8.1	+ 9.6	pe +11.8
Compare:						
Federal Republic of Germany	+ 5.3	+ 5.5	+ 6.9	+ 6.9	+ 7.3	+ 7.5

1 Excluding Federal Republic of Germany and Luxembourg, including Ireland. — **2** Weighted with the share of these countries in the 1970 GNP of the OECD countries. — **3** January. — **p** Provisional. — **pe** Partly estimated.

increases were announced by industrial associations. The fact is, however, that market resistance to sharp price increases is considerable, and perhaps greater than suspected when the rises were announced. Owing to the revaluation, foreign goods are in some cases comparatively cheap, and as long as money is scarce and expensive the expansion of domestic demand is likely to be limited. As a result of this pincer movement between rising costs and less steeply rising earnings some enterprises must introduce short-time working or dismiss part of their staff in order to cope to some extent with the situation.

Whatever method enterprises choose to cushion the excessive cost pressure, employees' real income, taken as a whole, cannot in the last analysis increase more than production. Indeed, the scope for distribution has been narrowed by the fact that the oil-producing countries, by raising the price of oil so drastically, have asserted additional claims which for 1974 can be estimated at 1.5 to 2 % of Germany's gross national product. To put it another way, the effect of the oil-induced price increases on the private standard of living cannot be offset by simultaneously raising all wages, which are other production costs, to a greater extent. At least for the time being the effects of the oil crisis on prices are an incontrovertible fact which has caused the distribution of income between Germany and foreign countries to shift in favour of the latter. The various domestic social groups can of course try to shake this burden off and pass it on to the rest of the population. However, given the interdependence of the domestic formation of income these attempts cannot be successful, except in the short term. But there is reason to fear that with the intensification of the domestic distribution struggle the value of money will diminish further, in other words that the income distribution ratios will change little, while in wealth distribution the positions of the owners of real assets and the owners of financial assets, which are already very far apart, will diverge even further.

7. Outlook for the rest of 1974

Further rise in aggregate demand

All the available evidence suggests that aggregate demand will increase in the further course of 1974, though less strongly than in 1973. One of the main stimuli will be foreign demand. New export orders, and the large backlog of orders on hand, will in all probability cause exports to rise steeply. The rise will presumably be large enough to prevent the entire current account from sliding into deficit in spite of the additional burdens imposed on the import side by oil prices. Among the components of domestic demand, it appears that the public authorities will have a highly expansive effect. At present it is to be expected that the expenditure of the central, regional and local authorities will go up very sharply – not only spending on personnel but now also capital expenditure. The extra deprivative effects of the central, regional and local authorities' current receipts will be much smaller than the additional demand on the expenditure side. The deficit of the central, regional and local authorities will probably be some DM 9 billion greater than in 1973. If the social security funds are included, the expansive effect of the increase in the public authorities' cash deficit must be put even higher, namely at over 1 % of the gross national product, even if no contingency programmes are put into effect. Households' consumer demand is also likely to go up quite steeply, particularly as average wage and salary income will probably grow more strongly, thus offsetting the effects of the slight fall in the number of employees and hours worked, a fall which tends to reduce incomes. Enterprises' capital investment plans, too, have so far mostly been pointing upwards. The weak point of the economy this year will presumably be construction expenditure, especially because of the decrease in residential building. This may be ascribed to past excesses, which make it imperative to bring residential building into line with the housing demand which can realistically be expected. Although this structural adjustment in the construction sector is unavoidable, this does not mean that the demand for housing will necessarily fall below anticipated longer-term requirements for any length of time. The suspension of investment tax, the reintroduction of depreciation allowances under section 7 (b) of the Income Tax Act and the increase in government financial aid for publicly assisted housebuilding all tend to counteract any such fall; these special measures mitigate the problems of adaptation in the present adjustment phase. On the other hand, it would not be justifiable to ease financing conditions by reversing monetary policy with a view to speeding up a reduction of interest rates; this would generally facilitate the passing on of price rises, intensify the upward trend of prices and again jeopardise the success of stability policy.

Little growth in production

In view of the expected level of aggregate demand, it is probable that production will again increase in 1974, though only a little. Given the marked differences in business activity – declining output especially in the construction sector and the motor industry, but growth in most other branches – it may take some time before the expansive forces in production gain the upper hand. The available scope for production will be largely used up, apart from fluctuations in timing; at all events, present evidence suggests that serious unemployment is not to be expected. Even if the prospects for employment and growth in 1974 do not conform to the ideal picture of steady economic development, the deviations from the medium-term growth trend are comparatively small, at least in relation to the highly undesirable developments in the field of prices. The increase rate of consumer prices is already greater than it was last year (6.9 %), and every inflationary stimulus exerted by economic policy or by employers and employed threatens to push up the rate of currency erosion still further.

Fighting inflation the foremost task of economic policy in 1974

The main concern of economic policy in the rest of 1974 must therefore be to ensure that no further scope arises for inflation. The basic course of the Bundesbank's monetary policy is thus predetermined, in full agreement with the Federal Government and the aims of economic policy formulated in the Annual Economic Report for 1974. As in 1973, the Bundesbank will endeavour to control the central bank money stock in such a way that the supply of money and credit can expand to the extent consistent with stability-oriented economic growth. As far as can be judged, this policy appears to be safeguarded against external constraints.

On the domestic credit markets the pattern of interest rates has been changing since the beginning of the year, as some of the rates for short and medium-term credit transactions have declined slightly whereas long-term interest rates have been rising since February. The relationship between interest rates for different periods has therefore become somewhat more normal. One of the reasons for the recent change in interest rate expectations has undoubtedly been that major price rises are still feared, not least because of the large wage and salary increases agreed in February. Although at the time this Report went to press interest rates were tending to rise throughout the world, this does not mean that the overall level of interest rates in Germany is bound to climb further; in fact, there are signs of a mutual accommodation. The longer-term factors governing the interest rate on capital do not imply that a rise in interest rates is inevitable, because on the one hand saving remains at a fairly high level, while on the other the demand for credit is not only, as in the public sector, increasing but in certain areas, particularly in residential building, is clearly declining. There is, however, some friction on the credit markets at present which prevents the latest trends in credit demand and monetary capital formation from having their full effect. An important point in this connection is that investors, disquieted by the price falls of 1973, prefer short and medium-term investments without a price risk to investments in securities. But as confidence in the prevailing level of security prices returns – and this is the more likely to occur, the more the conviction grows that the domestic price increases will not accelerate – this friction will disappear, and the conditions for financing long-term capital projects will again become more transparent. This would seem to be desirable not least because it is the task of economic policy not only to continue the counter-inflationary policy with determination but also to reduce as far as possible the dangers to employment which are emerging in certain sectors of the economy. These dangers are largely the direct or indirect result of distortions and structural problems attributable to inflation. If the root of the trouble is inflation and the mentality engendered by it, however, it cannot be remedied by means of more money, i.e. by more inflation. Although some of the advice currently proffered in public on the subject of fiscal and monetary policy ultimately amounts to this, the principle must be adhered to: inflation cannot be countered by still more inflation.

II. International monetary trends and monetary policy

1. General survey

Increase in world trade with soaring commodity prices

The world economy has been exposed to considerable monetary strains and pressures in the period under review. It is therefore the more remarkable that world trade expanded extremely rapidly in 1973, not only in value but also in volume. The negative aspect of this expansion was an enormous increase in the prices of major internationally traded commodities. It came as a consequence of the overextension of world resources that was caused by the simultaneous boom in almost all industrial countries and intensified by accidental factors such as poor harvests and other shortfalls in output, but it was also a result of the world-wide creation of excess liquidity. The explosion in commodity and food prices was even greater than in the Korea boom of 1950/51; it is one of the reasons why the industrial countries are now suffering the highest rate of inflation since the Second World War.

The monetary crisis of February and March 1973, which was described in detail in the 1972 Annual Report, resulted in a shifting of funds between major countries and currencies on an unprecedented scale. In the recipient countries, these movements undermined monetary policy as well as the efforts to achieve stability and – particularly where they represented a flight from the dollar or led to reserve creation via the Euro-markets – they contributed to a further inflation of the already excessive amounts of international liquidity.

Massive inflows of funds make world-wide "floating" unavoidable

The immediate outcome of this monetary crisis was the abandonment of dollar support within fixed intervention points. This inaugurated the period of *"floating"*, i.e. of more or less freely fluctuating exchange rates, in relation to the U.S. dollar, as well as in relation to most of the other major currencies. It implied a departure from important principles of the Bretton Woods system.

Allowing exchange rates to float has certainly freed the international monetary system to a large extent from the world-wide monetary crisis associated with speculative movements of funds, but it has caused other problems. While it seemed initially that "floating" would merely imply a relatively limited interim period preceding the transition to a reformed system of "fixed but adjustable parities", the revolution in the world's balance of payments perspectives owing to the *abrupt rise in the price of oil* at the end of 1973 and the related uncertainties have made it probable that the world economy will have to live for years to come with much more flexible exchange rates than in the past. This prospect has also set new points of reference for the reform of the international monetary system, on which the "Committee of Twenty" of the International Monetary Fund has been working during the period under review.

European joint float not free from tensions

After support for the dollar had been abandoned, a group of currencies – mainly EEC currencies – in Europe maintained mutual intervention within relatively narrow margins of fluctuation (± 2.25 %), thus forming a bloc of jointly floating currencies (the so-called "snake"). At first this European bloc of currencies was a stabilising factor in so far as it initially ensured relatively stable exchange rate relationships for about 40 % of German foreign trade. It was not entirely free from tensions, however, so that several exchange rates within the bloc had to be changed, including that of the Deutsche Mark at the end of June 1973. In January 1974, finally, the monetary bloc suffered a considerable loss in importance owing to the departure of the French franc. At present (April 1974) the bloc comprises only the Deutsche Mark, the Benelux currencies, and the currencies of Denmark, Norway and Sweden. The fact that three major EEC currencies are floating individually at the moment has dampened the hopes that lasting progress towards monetary union will be possible in the foreseeable future by way of stabilising parities and reducing margins of fluctuation.

Comeback of the dollar

A positive development of far-reaching importance was the *comeback of the dollar* in the second half of 1973. This eliminated a very substantial disruptive element in the world monetary system. In the beginning, this recovery resulted mainly from a swing in the U.S. balance of trade and payments. From November 1973 onwards it was strengthened by the expectation that at least in the long run

Effective exchange rate changes of major currencies against all currencies since the beginning of the joint float, in relation to the end of 1971 *

* Based on the official spot rates (Friday figures) in Frankfurt am Main in relation to the central rates of the realignment of December 18, 1971. The weights were chosen in accordance with the regional pattern of the average foreign trade turnover (exports + imports) of the individual countries, classified by countries of origin and countries of destination, in 1970-1972.- + Latest position: April 3, 1974.

the United States would be able to cope with the energy crisis better than most other industrial countries.

The Deutsche Mark and the dollar on opposite sides of the scales

Up to the middle of 1973, when the U.S. dollar was still under pressure owing to the U.S. balance of payments deficit and the resultant crisis of confidence, the *Deutsche Mark* was, as it were, on the opposite side of the scales to the U.S. dollar. As the main currency of refuge it attracted enormous amounts of foreign money until the beginning of March 1973; from the beginning of the float in March 1973 up to July 1973 it was subject to the strongest upward pressure of all currencies. From August 1973 onwards the rate of appreciation of the Deutsche Mark on the exchange markets declined, with some fluctuations, as the dollar recovered. Towards the end of 1973 the computed parity relationship vis-à-vis the dollar of DM 2.67, which had resulted from the various parity adjustments of the dollar and the Deutsche Mark vis-à-vis gold or the SDR unit in the IMF, was re-attained. At the beginning of 1974 the Deutsche Mark even fell considerably below this figure for a while, but by the time this Report was finalised at the beginning of April 1974 it had roughly regained its level of late autumn 1973. In the European joint float the Deutsche Mark was predominantly the strongest currency, after an initial period of weakness in April and May 1973. According to the rules of the European bloc of currencies the Bundesbank therefore at times had to take in considerable amounts of the currencies of other participating countries – i.e. the equivalent of over DM 10 billion between June and September 1973. To this extent German monetary policy thus failed to achieve complete autonomy despite the freely floating exchange rate against the dollar and other major currencies, quite apart from the fact that a country which is as closely integrated in international trade and payments as Germany can never divorce itself entirely from the price and monetary relationships with the other parts of the world economy.

Deutsche Mark revaluations to ease the pressures on the European bloc of currencies

Even after the fundamental correction brought about by suspension of dollar support on March 2, 1973, German *exchange rate and foreign exchange policy* was, in the period under review, again confronted with the necessity to take important decisions on the central rate of the Deutsche Mark and on intervention policy in the exchange market. The decisions taken on the central rate of the Deutsche Mark – *revaluations* of 3 % in March and 5.5 % at the end of June 1973 – were of direct substantive significance only for the relationship between the Deutsche Mark and the other currencies in the European bloc, since against the dollar and the other currencies floating freely vis-à-vis the Deutsche Mark the movement of exchange rates resulted from market forces rather than from the interrelationship of central rates. Both the decisions to revalue were expressly intended to reduce tensions inside the EEC "snake": the first in order to facilitate the launching of the joint float, and the second to ease the pressures on the "snake" following massive speculative movements out of some partner currencies into the Deutsche Mark.

Intervention policies on the exchange market had a major bearing on the relationship to the U.S. dollar. The decision adopted on July 8, 1973, on the initiative of Germany, by the Central Bank Governors of the countries participating in the European bloc of currencies to intervene on the dollar market in cooperation with the Americans in order to maintain "orderly market conditions" was a turning point in the literal sense of the term. The beginning of these coordinated interventions, which in the main were limited to the relationship between the Deutsche Mark and the U.S. dollar, led to an immediate reversal in the valuation of the dollar despite their relatively small scale – a sure sign that the right moment had come. The rate of DM 2.28 per U.S. dollar quoted on July 9 immediately before the start of the interventions – as against a central rate relationship of DM 3.22 six months earlier – marked the lowest point in the movements of the dollar on the exchange markets. Afterwards, too, cooperation between German and U.S. monetary authorities concerning interventions on the dollar market proved to be important for the exchange rate development of the dollar vis-à-vis the European currencies.

2. Exchange rate adjustment as an instrument of balance of payments policy

Changes in the international balance of payments structure

Substantial changes occurred in the period under review in the world's balance of payments structure. In the course of 1973 the United States evolved with surprising rapidity from a deficit to a surplus country, while Japan, which had previously been the country in the most extreme surplus position in the world economy, abruptly became the main deficit country. At the same time in Europe the balances of trade and payments of the United Kingdom and Italy deteriorated to an alarming degree although they had floated their exchange rates. By contrast, Germany, which had in the past recorded enormous capital inflows but had produced very modest surpluses indeed on current account in the years 1970 to 1972, again suddenly found itself with huge current surpluses in the second half of 1973 and in the first few months of the present year, notwithstanding all the Deutsche Mark revaluations (see the following table).

Despite the fundamental change in the balance of payments perspectives for the entire world as a result of the abrupt rise in oil prices at the end of 1973, the different starting positions as reflected in the balance of payments of the major countries at the end of 1973 are still of substantive importance for further develop-

Current balances of selected countries*

Billions of U.S. dollars

Country	1969	1970	1971	1972	1973 **2**
United States	— 1.1	+ 0.4	— 2.8	— 8.4	+ 3.0
EEC countries					
Germany (Federal Republic)	+ 1.9	+ 1.0	+ 0.9	+ 1.0	+ 4.7
France	— 1.6	+ 0.1	+ 0.5	+ 0.3	— 0.2
United Kingdom	+ 1.1	+ 1.7	+ 2.6	+ 0.2	— 3.6
Italy **1**	+ 2.4	+ 0.9	+ 2.0	+ 2.5	— 2.2
Belgium-Luxembourg	+ 0.5	+ 0.8	+ 0.5	+ 1.3	+ 1.1
Netherlands	+ 0.0	— 0.5	— 0.2	+ 1.1	+ 1.8
Denmark	— 0.4	— 0.5	— 0.4	— 0.1	— 0.7
Ireland	— 0.2	— 0.2	— 0.2	— 0.1	— 0.2
All EEC countries	+ 3.7	+ 3.3	+ 5.7	+ 6.2	+ 0.7
All old EEC countries	+ 3.2	+ 2.3	+ 3.7	+ 6.2	+ 5.2
Canada	— 0.9	+ 1.0	+ 0.3	— 0.6	— 0.3
Japan	+ 2.1	+ 2.0	+ 5.8	+ 6.6	— 0.1
Total	+ 3.8	+ 6.7	+ 9.0	+ 3.8	+ 3.3

* Balances of merchandise trade, services, and private and official transfers (transactions basis). — **1** Excluding net commercial gold imports, which have risen extremely steeply since 1971 for speculative reasons. — **2** Partly estimated. — Sources: National statistics and OECD.

ments. The extent to which the transformation recorded in the payments balances was determined by the exchange rate adjustments of the last 2½ years is another matter of interest. It may be asked whether recent balance of payments trends have been in conformity with the traditional text-book ideas on the effect of exchange rate adjustments.

Smithsonian Agreement of December 1971 inadequate

The first internationally coordinated application of the instrument of exchange rate adjustment was the *Smithsonian Agreement of December 1971.* The main target of this Agreement was to eliminate the overvaluation of the U.S. dollar in order to restore thoroughly the current account of the U.S. balance of payments. The realignment of exchange rates between the dollar on the one hand and the Deutsche Mark and the yen on the other was certainly considerable: against the Deutsche Mark a dollar devaluation of 12 %, against the yen one of 14.4 %. Vis-à-vis the currencies of all leading industrial countries, however, the dollar devaluation was only about 10 % on a weighted average, and against all currencies in the world as little as 6.7 %.

This exchange rate adjustment turned out to be too timid to have the powerful impact on the U.S. trade balance and current account that was needed to restore confidence in the dollar rapidly and to alter trade flows. Although there were signs of a change for the better in the U.S. trade balance and current account in the second half of 1972, the deficit for the whole of that year was still far higher than that of the year before.

Second round of exchange rate adjustments in 1973 effective for the United States and Japan . . .

For this reason, a *second round of exchange rate adjustments* took place in the wake of the monetary crisis of February/March 1973. Another devaluation of the dollar by 10 % in February 1973, the simultaneous floating of the yen, the 3 % revaluation of the Deutsche Mark in the middle of March and the subsequent strong upward float of the European "snake" and other European currencies (such as the Swiss franc) had led by July 1973 to a far more pronounced realignment of exchange rates than that achieved by the Smithsonian Agreement of 1971 (see the table overleaf).

In the case of the *United States* and *Japan* the subsequent development of the current account and the balance of payments as a whole can almost be termed dramatic. The swing to surpluses on the U.S. current account and the disappearance of the preceding extremely large Japanese current surpluses came about much faster than most experts had expected. In neither case, however, can the extent of the reversal be wholly, or even perhaps predominantly, ascribed to the exchange rate adjustment. The improvement in the U.S. trade balance and

Changes in major exchange rates

Effective exchange rate changes against the 16 major currencies quoted in Frankfurt am Main

Currency	Changes due to Smithsonian Agreement of December 1971 1	Changes in exchange rates from end-1971 to July 1973 2	from July 1973 to end-March 1974	from end-1971 to end-March 1974
U.S. dollar	— 9.8	— 10.3	+ 4.2	— 6.6
Deutsche Mark	+ 4.5	+ 19.0	— 0.8	+ 18.0
Swiss franc	+ 4.0	+ 17.4	— 1.4	+ 15.8
Yen	+ 12.6	+ 13.9	— 4.3	+ 9.0
Norwegian krone	— 1.3	+ 11.0	+ 0.4	+ 11.4
Netherlands guilder	+ 1.1	+ 2.8	+ 3.9	+ 6.8
Danish krone	— 1.2	+ 8.9	— 2.7	+ 5.9
Belgian franc	+ 1.4	+ 4.6	— 2.8	+ 1.7
Swedish krona	— 1.1	+ 2.5	— 3.2	— 0.8
French franc	— 1.4	+ 8.8	— 11.4	— 3.6
Pound sterling	+ 0.4	— 16.2	— 0.0	— 16.2
Italian lira	— 2.0	— 18.6	+ 1.1	— 17.7

1 As measured by the changes in parities; in the case of the Canadian dollar, which has been floating since end-May 1970, use has been made of the appreciation rate against the U.S. dollar which results from a comparison of the market rate of December 17, 1971 with the former dollar parity. — 2 As measured by the market rates of July 9, 1973 in relation to the central rates of end-December 1971.

current account owed far more — at least in its early phase — to the rise in world agricultural prices, which resulted in soaring U.S. export receipts from agricultural products. But U.S. foreign trade in industrial products also picked up very strongly in the course of 1973, both in value and in volume; the strong improvement in the U.S. competitive position as a result of the shifts in exchange rates thus became apparent very quickly in this field. In the case of Japan, besides the steep appreciation of the yen (in relation to the parities existing at the beginning of 1970, the appreciation of the yen at its peak in March 1973 was 38 % against the dollar and 32 % against the average of all principal currencies), it was above all the extremely expansive course of economic policy, together with the explosive rise in Japanese import prices in the second half of 1973, that caused the rapid decline in the Japanese current surplus. The liberalisation of Japanese capital exports that came about under the pressure of the balance of payments surpluses led, in addition, to a deficit on capital account of no less than $ 10 billion in 1973 — with the result that the overall balance of payments closed with a deficit of similar size. The fact that Japan has thus changed during one year from the principal surplus country into the main deficit country of the world economy may thus be characterised as a case of "over-adjustment". This was due, however, much more to domestic factors than to the exchange rate adjustment of the yen.

... but not for the United Kingdom and Italy

In contrast to these two cases, the adjustment mechanism has up to now failed in the case of three major European countries in spite of substantial changes in exchange rates. Both in the United Kingdom and Italy as deficit countries and in the Federal Republic of Germany as a surplus country the balances of trade and the balances on current account moved contrary to all the rules and expectations during 1973. It is highly questionable whether this can only be attributed to the well-known "perverse" initial effect of an exchange rate adjustment (the so-called J-curve effect), according to which a devaluation at first burdens the balance of trade while a revaluation relieves it, until trade has adjusted to the new price relationships in volume terms as well. It was probably more important that, although the two deficit countries *Italy* and the *United Kingdom* became more price competitive as a result of the depreciation of their currencies, they could not exploit this advantage because they were unable to supply larger quantities of goods abroad at their competitive prices or to cut down their imports in keeping with the improved competitiveness of domestic producers on the home market. In fact, imports of industrial products in particular rose steeply in both countries, a clear sign that the pull of unduly expansive domestic demand was compensating without difficulty the price handicap imposed on imports by the exchange rate adjustment.

Basic data from the U.S. balance of payments

Billions of U.S. dollars

Item	Annual average 1960–67	1968	1969	1970	1971	1972	1973
Trade balance	+ 4.9	+ 0.6	+ 0.6	+ 2.2	— 2.7	— 6.9	+ 0.7
Current balance	+ 3.1	— 0.4	— 1.1	+ 0.4	— 2.8	— 8.4	+ 3.0
Long-term capital movements	— 4.4	— 1.0	— 2.0	— 3.4	— 6.8	— 1.5	— 1.8
Basic balance	— 1.3	— 1.4	— 3.0	— 3.0	— 9.6	— 9.8	+ 1.2
Short-term capital movements (including errors and omissions)	— 0.6	+ 3.1	+ 5.8	— 7.7	—20.9	— 1.2	— 6.5
of which: Change in short-term external position of U.S. commercial banks (net outflow of money = —)	1 (+ 0.5)	(+ 3.7)	(+ 7.8)	(— 7.4)	(— 9.1)	(+ 2.4)	(— 0.5)
Overall balance of payments 2							
(a) Official reserve transactions	— 1.9	+ 1.6	+ 2.7	—10.7	—30.5	—11.1	— 5.3
(b) Liquidity balance 3	— 2.9	— 1.6	— 6.1	— 4.7	—22.7	—14.6	— 7.8

1 Annual average 1961—1967. — 2 Excluding the following allocations of special drawing rights: 1970 about SDR 0.9 billion; 1971 about SDR 0.7 billion; 1972 about SDR 0.7 billion. — 3 Change in official reserve assets and in net liquid external liabilities. — Sources: Survey of Current Business, BIS.

Germany a special case

The opposite applied in the case of the *Federal Republic of Germany.* Between the beginning of 1971 and the peak in July 1973 the Deutsche Mark appreciated by 60 % against the dollar and by 24 % against the average of the world's 16 principal currencies. Thereafter this weighted rate of appreciation decreased considerably, but at the end of March 1974 it stood at 23 % again. The exceptionally steep rise in the value of the Deutsche Mark did not prevent the German trade balance and current account from improving to an astonishing degree from mid-1973. This was apparently due in the main to the combination of two circumstances: on the one hand, an increasing demand pull from abroad for goods, fostered by general inflation in the world and also by the temporary withdrawal from the market of major suppliers of industrial products such as Italy and the United Kingdom; on the other hand, the willingness and ability of German industry to supply foreign markets at relatively short notice, the disposition to export being enhanced by the cyclical slowdown on the German domestic market since mid-1973. Germany improved its trade balance considerably, even with the devaluing countries Italy and the United Kingdom, despite the massive appreciation of the Deutsche Mark against the pound sterling and the lira of over 35 % (end-March 1974 against end-1971). The price handicap facing German exporters as a result of the Deutsche Mark appreciation has so far been outweighed in many — though by no means all — areas by the above combination of circumstances. It remains to be seen how German foreign trade will develop once the ability of its major European competitors to supply goods has returned to normal and once the burden of the increase in oil prices is fully felt on the import side.

Lessons of the changes in exchange rates

The experience gained in the last two years with the instrument of exchange rate adjustment suggests a number of provisional conclusions:

- First, if a really deep-seated ("fundamental") and persistent disequilibrium in the current account of the balance of payments is to be corrected, the exchange rate adjustment must be large enough to stimulate or enforce a swift correction of export and import patterns that are not in conformity with balance of payments needs.

- Second, deficit countries can reap the full benefit of an exchange rate adjustment only if it is backed by a stability-oriented domestic economic policy.

- Third, the price handicap imposed by the appreciation of a currency can apparently be overcome with relative ease by the demand pull for goods in an inflation-prone world economy.

3. Impact of the oil crisis

The abrupt increase in oil prices . . .

In the foreseeable future international balance of payments relationships will be determined by the effects of the sudden leap in oil prices. It has been estimated by the OECD and the IMF that if current prices are maintained the oil-producing countries as a group will have a current account surplus of the order of $ 50 billion in 1974, even on the assumption that their imports rise considerably. For the industrial countries in the OECD this would mean that they will run a current account deficit of between $ 30 and 40 billion on aggregate, whereas until recently they have had a combined surplus, albeit a fairly small one. For the developing countries the rise in oil prices might lead to an increase in their aggregate deficit on current account of $ 9 to 10 billion; the poorer among them, with no sources of primary products of their own, are likely to find this an additional burden that they can hardly shoulder.

. . . raises difficult financing and monetary problems

Such a sudden and massive change in the structure of the world's balance of payments, even if it does not quite assume the predicted proportions, raises numerous difficult questions. What balance of payments policy and, in particular, what exchange rate policy are the countries so suddenly plunged into deficit to pursue? How are the payments deficits to be financed before the current accounts vis-à-vis the oil-producing countries can be balanced – a process which will perhaps take many years? How will the oil-producing countries invest the billions accruing to them in such profusion? What will be the impact on international money and capital markets – especially the Euro-markets – and on international liquidity? How will it be possible, in cooperation with the oil-producing countries, to direct the investment of their foreign exchange surpluses in such a way that, first, these surpluses will benefit countries really needing help and, second, disruptions of the international monetary system can be kept to a minimum? Will the transfer of vast amounts of foreign exchange to the oil-producing countries lead to a general shortage of monetary reserves in the rest of the world, or will the anticipated investment of oil billions on the Euro-money markets result in a flood of international liquidity? Will the initial reduction in purchasing power caused by the excessive oil prices really give rise internationally to the frequently invoked "deflationary gap" of 1.5 to 2 % of the world's national product, or will the inflationary impact – higher wages and salaries, more public sector deficit spending, increased international borrowing by deficit countries, and inflationary expansion of the Euro-markets – of the soaring oil prices prevail? The search for satisfactory answers to these questions will dominate the international debate on monetary policy for the foreseeable future.

As regards the financing of the additional foreign exchange expenditure arising from the increase in oil prices, the Federal Republic of Germany, like perhaps half a dozen other industrial countries, has no immediate difficulties to fear. The additional burden on Germany, estimated at about DM 17 billion per year, can in all probability be borne without deficits necessarily arising in the current account. In such a situation, incidentally, the value of having relatively high and liquid monetary reserves becomes particularly clear.

New uncertainties in the balance of payments and currency structure delay reform of the international monetary system

The uncertainty about balance of payments prospects and the possibility that the international volume of volatile short-terms funds will increase even further make an early return to a system of fixed (but adjustable) exchange rate parities seem unlikely. The Managing Director of the International Monetary Fund confirmed this explicitly when in January 1974, shortly after the second massive increase in oil prices, he observed in a speech: "In the present situation, a large measure of floating is unavoidable and indeed desirable."

This has for the time being removed the basis of a substantial part of the present work on the reform of the international monetary system. The reason is that principal items of this plan for reform, such as convertibility into primary assets, a reserve indicator to guide balance of payments policy, a multi-currency intervention system to maintain stable exchange rates, etc., only make sense under a system of fixed parities, or relate expressly to such a system. The consolidation of the dollar overhang has also been rendered meaningless by the latest developments. The work on reform will therefore concentrate on other aspects that have moved into focus under the new circumstances, e.g. ground rules for coordinated floating and their supervision by a reformed IMF, or a new definition of the value of special drawing rights to ensure their usability also under a regime of generally floating exchange rates. Thus, the international monetary system will advance not through the introduction of comprehensive new models but — as, indeed, since 1971 — piecemeal and step by step under the pressure of necessity.

4. Obstacles on the way towards EEC economic and monetary union

Oil crisis also impedes progress towards European monetary union

The uncertainty of balance of payments prospects as a result of the increase in oil prices has also affected monetary relations inside the European Economic Community. Within the Community it will now be even harder than before to maintain fixed parity relationships in the long run. Even prior to the oil crisis some Community countries, i.e. Italy and the United Kingdom, had moved so far from the other member countries in their cost, price, and demand trends that they had to leave the European bloc of currencies. On January 19, 1974 France followed suit, with the explanation that, first, a reform of the monetary system and a worldwide return to stable parities was no longer likely in the next few years in view of the new situation, and second, that speculative attacks on the French currency would have to be cushioned more than in the past by exchange rate movements rather than the use of monetary reserves, since in future its reserves would be urgently needed to settle its oil-induced deficits.

"Mini-snake" as centre of exchange rate stability

The currencies remaining in the European bloc — those of the Federal Republic of Germany, the Benelux countries and Denmark, joined as before by the non-EEC countries Norway and Sweden — represent a last island of exchange rate stability. However, the material importance of this group of currencies has diminished greatly for Germany, since only 27 % of German foreign trade (compared with a former 40 %) is transacted within it. This proportion is larger for other member countries. The chance that within this group there will be fewer tensions than in a larger one is mainly based on the relative strength of the balance of payments position of most of these countries (see the table below).

Current balances of the countries participating in the European joint float

Transactions basis; billions of U.S. dollars

Country	1969	1970	1971	1972	1973 **2**
Countries participating in the joint float	+ 1.9	+ 0.3	+ 0.5	+ 3.5	+ 7.7
EEC countries	+ 2.0	+ 0.8	+ 0.8	+ 3.3	+ 6.9
Germany (Federal Republic)	+ 1.9	+ 1.0	+ 0.9	+ 1.0	+ 4.7
Belgium-Luxembourg	+ 0.5	+ 0.8	+ 0.5	+ 1.3	+ 1.1
Netherlands	+ 0.0	— 0.5	— 0.2	+ 1.1	+ 1.8
Denmark	— 0.4	— 0.5	— 0.4	— 0.1	— 0.7
Non-EEC countries	— 0.1	— 0.5	— 0.3	+ 0.2	+ 0.8
Norway	+ 0.1	— 0.2	— 0.5	— 0.1	— 0.3
Sweden	— 0.2	— 0.3	+ 0.2	+ 0.3	+ 1.1
Other EEC countries	+ 1.7	+ 2.5	+ 4.9	+ 2.9	— 6.2
France	— 1.6	+ 0.1	+ 0.5	+ 0.3	— 0.2
United Kingdom	+ 1.1	+ 1.7	+ 2.6	+ 0.2	— 3.6
Italy **1**	+ 2.4	+ 0.9	+ 2.0	+ 2.5	— 2.2
Ireland	— 0.2	— 0.2	— 0.2	— 0.1	— 0.2

1 Excluding net commercial gold imports, which have risen extremely steeply since 1971 for speculative reasons. — **2** Partly estimated. — Sources: National statistics and OECD.

Much will also depend on whether the members of this "mini-snake" will be able to pursue effectively coordinated monetary and fiscal policies. But even then it can certainly not be ruled out that tensions within this bloc of currencies may also be caused from outside, for instance by uncontrollable movements of foreign funds.

Comparison of the facilities for short-term monetary assistance in the EEC in operation since March 12, 1974 with the former facilities

Millions of units of account 1

Central bank	Facilities in operation since March 12, 1974: Debtor quotas	Facilities in operation since March 12, 1974: Creditor quotas	Former facilities: Debtor and creditor quotas
Deutsche Bundesbank	600	1,200	300
Banque de France	600	1,200	300
Bank of England	600	1,200	300
Banca d'Italia	400	800	200
Banque Nationale de Belgique	200	400	100
Nederlandsche Bank	200	400	100
Danmarks Nationalbank	90	180	45
Central Bank of Ireland	35	70	17.5
Total quotas	2,725	5,450	1,362.5
Rallonge	1,500	1,500	1,362.5
Total	4,225	6,950	2,725.0

1 1 unit of account = US$ 1.20635.

Fresh attempt to coordinate economic and monetary policies more effectively

The standstill or even setback on the way to an EEC monetary union with stable internal parity relationships is at least partly attributable to the fact that no real progress has as yet been made in harmonising economic and fiscal policies. The more dubious future prospects are, particularly in the sphere of balance of payments and monetary relations, the stronger will be the tendency of member countries to resort to nationally oriented measures. But at least an attempt has been made to introduce some institutional improvements in order to promote the coordination and harmonisation of economic and monetary policies in member countries. Thus, in February 1974 the Council of Ministers of the European Communities took a number of decisions which launched a kind of interim stage, transitional between the first and second stage, of the economic and monetary union. They comprised:

– a decision on the attainment of a high degree of convergence of the economic policies of the EEC member states;

– a directive on stability, growth, and full employment in the Community;

– a decision setting up an economic policy committee;

– a decision on the enlargement of short-term monetary assistance.

For the monetary policies and cooperation of the central banks, the following aspects of these decisions are of direct importance:

1. By the decision on convergence, the procedure for advance consultations in the event of parity changes, which was arranged as far back as 1964, is brought into line with the new situation now prevailing in the international monetary system. Moreover, current coordination of monetary policies is to be strengthened.

2. The directive on stability, growth and full employment in the Community requires, inter alia, that member states equip their monetary authorities within 12 months with a number of instruments, except where they already possess them. These include:

   – in addition to the minimum reserve on bank deposits, the "imposition or modification of reserve ratios applying to the credit granted by monetary institutions";

   – "recourse to an open market policy with wide scope for action including the use, as necessary, of short, medium and long-term securities".

Enlargement of short-term monetary assistance

3. In accordance with the resolution on the enlargement of short-term monetary assistance, the total volume for lending was raised from 2,725 million units of account (= about $ 3.3 billion) to 4,225 million units of account (= about $ 5.1 billion); no change was made in the terms (three months with one extension) or the procedures for lending (which include special consultations in the Monetary Committee on the economic situation of the borrowing country after drawing on the loan).

In March 1974, the Italian central bank was the first to draw on the short-term monetary assistance after having received a standby commitment by the other central banks of member countries in June 1973. In conformity with this credit arrangement, it obtained a loan amounting to 1.56 billion units of account, or about US$ 1.88 billion, from the other countries, in the form of a transfer of U.S. dollar balances. The Deutsche Bundesbank contributed 403 million units of account, or US$ 486.5 million, to this loan to the Italian central bank.

Part B: Notes on the Deutsche Bundesbank's annual accounts for 1973

1. Legal bases, classification and valuation

Legal bases, accounting system and annual accounts

The provisions regarding the Bank's accounting system and the annual accounts (section 26 of the Deutsche Bundesbank Act of July 26, 1957 – Bundesbank Act – Federal Law Gazette I, page 745) remained the same as in the previous year.

Classification of annual accounts

The classification of the annual balance sheet and the designation of the balance sheet items largely correspond to the classification scheme used for the weekly return. As last year, the individual asset items are not grouped in the same way as in the return in view of the different purposes served by the balance sheet.

To the assets side of the balance sheet has been added the item

23. Adjusting item for new valuation of monetary reserves and other foreign exchange positions – balance sheet loss –

and to the profit and loss account the item

7. Depreciation on monetary reserves and other foreign exchange positions
   7.1. due to devaluation of the U.S. dollar in February 1973
   7.2. Other.

On the liabilities side of the balance sheet the tax receipts immobilised on special accounts by the Federal and Länder Governments under the stability programmes are shown in a new item as follows:

4. Special deposits of Federal and Länder Governments
   4.1. Federal Government
   4.2. Länder Governments
   4.3. Anticyclical surcharge on income taxes.

Valuation

The provisions of the Companies Act (Aktiengesetz) were taken into account mutatis mutandis in the valuation (section 26, Bundesbank Act).

2. Conversion account

The combined conversion account of the institutions amalgamated to form the Deutsche Bundesbank is attached to the German original of this Report as Appendix 1.

Through the corrections of the partial conversion accounts for the Bank deutscher Länder and the Land Central Banks, which now give the position shown by the books at December 31, 1973, the Bank's title to allocation of equalisation claims rose by DM 46,889.16 to DM 8,103,709,491.31; the claim on the Federal Government arising from the non-interest-bearing debt certificate issued in connection with the currency conversion in Berlin remained unchanged at DM 547,168,481.20 during the year under review.

3. Annual accounts

The notes on the annual accounts for 1973, which are attached to this Report as an Appendix, will as usual follow the order of the items in the balance sheet and profit and loss account. At the same time a report is rendered on the Bank's activities during 1973.

Balance sheet

At December 31, 1973 total assets had increased by DM 15,624.4 million, compared with end-1972, to DM 128,239.0 million.

Comparison of balance sheet figures

Millions of Deutsche Mark

Assets	December 31 1972	December 31 1973
Gold	13,970.9	14,001.2
Balances with foreign banks and money market investment abroad	52,221.0	65,819.2
Other investment abroad	1,993.0	1,808.3
Reserve position in the International Monetary Fund and special drawing rights		
Drawing rights within gold tranche	3,899.6	3,886.4
Loans under General Arrangements to Borrow	—	—
Special drawing rights	2,812.6	4,467.5
Loans and other claims on the rest of the world		
Loans to World Bank	2,465.2	2,471.4
Other claims	21.7	—
Foreign notes and coins	3.6	4.4
Foreign bills of exchange	1,185.2	460.1
Domestic bills of exchange	17,847.0	10,434.9
Lombard loans	1,145.9	320.8
Cash advances (book credits)	439.5	2,851.4
Treasury bills and discountable Treasury bonds 1	317.6	300.0
Equalisation claims on Federal Government and non-interest-bearing debt certificate in respect of Berlin		
Equalisation claims	8,135.8	8,136.0
Non-interest-bearing debt certificate	547.2	547.2
Securities	52.8	25.4
German coins	344.3	583.9
Balances on postal giro account	525.4	465.5
Other claims	641.3	685.7
Land and buildings	479.0	576.2
Equipment	24.8	32.3
Items in course of settlement	2,777.2	2,744.6
Other assets	743.9	821.5
Prepaid expenses and deferred income	20.1	21.9
Adjusting item for new valuation of monetary reserves and other foreign exchange positions — balance sheet loss —	—	6,773.2
Total	112,614.6	128,239.0

Liabilities	December 31 1972	December 31 1973
Bank notes in circulation	44,503.5	46,246.9
Deposits of banks	46,388.3	51,913.4
Deposits of public authorities		
Federal Government	96.5	204.2
Equalisation of Burdens Fund and ERP Special Fund	197.3	174.3
Länder Governments	2,543.2	2,402.8
Other public depositors	58.3	51.1
Special deposits of Federal and Länder Governments		
Federal Government	2,500.0	6,145.6
Länder Governments	1,436.5	2,150.4
Anticyclical surcharge on income taxes	251.4	169.9
Deposits of other German depositors		
Federal Railways	5.0	15.6
Federal Post Office	2,703.3	2,455.1
Other depositors	505.4	460.8
Balances on cash deposit special accounts	1,336.0	244.3
Liabilities for mobilisation and liquidity paper sold	4,464.8	9,859.8
Liabilities in respect of foreign business	915.8	918.1
Contra-entry to special drawing rights allocated	1,855.0	1,746.4
Provisions	1,296.0	1,488.5
Other liabilities	52.2	52.9
Deferred expenses and accrued income	286.9	319.7
Capital	290.0	290.0
Reserves	929.2	929.2
Total	112,614.6	128,239.0

1 Including Treasury bills and discountable Treasury bonds shown in asset item "Loans to Federal Railways and Federal Post Office".

Assets

Gold

The balance sheet value of gold, expressed in Deutsche Mark, remained unchanged in comparison with a year earlier; it was not affected by the devaluation of the U.S. dollar in February 1973. The balance sheet valuation as at end-1973 is based on the gold parity of the U.S. dollar (one ounce of fine gold = US$ 42.2222) and the conversion into Deutsche Mark at the lower intervention point of the U.S. dollar on February 14, 1973 (1 US$ = DM 2.835).

On December 31, 1973 the gold holding, at DM 14,001.2 million, was DM 30.3 million up on the year. This was mainly due to the increase resulting from the liquidation of the European Fund (within the European Monetary Agreement) on December 31, 1972.

Balances with foreign banks and money market investment abroad

Balances with foreign banks and money market investment abroad amounted to DM 65,819.2 million at December 31, 1973 (DM 52,221.0 million at December 31, 1972).

Foreign exchange deals

The Bank's turnover in foreign exchange spot deals (foreign currency against Deutsche Mark) amounted to DM 51,159.0 million in the year under review, against DM 29,618.7 million in 1972; the number of deals increased from 5,111 in the previous year to 6,453. Such deals comprised

	1972		1973	
	Number	DM million	Number	DM million
Purchases	1,788	21,306.2	2,964	33,797.7
Sales	3,323	8,312.5	3,489	17,361.3
	5,111	29,618.7	6,453	51,159.0.

The bulk of the turnover was once again in U.S. dollars.

In addition, during the year under review the Bank effected 309 cross deals (one foreign currency against another foreign currency) totalling the equivalent of DM 2,097.1 million, as against 355 deals totalling the equivalent of DM 1,853.9 million in the previous year. Furthermore, 434 U.S. dollar inter-centre switch transactions amounting to US$ 41.7 million were concluded, as against 597 transactions amounting to US$ 75.1 million in the previous year.

To cover exchange risks in connection with export claims, US$ 63.6 million of U.S. dollar forward transactions with maturities of up to two years were concluded with German exporters during the year under review; at December 31, 1973 outstanding commitments totalled US$ 41.0 million.

Sale of foreign cheques

During 1973 3,490 (1972: 3,439) foreign cheques made out to order worth DM 197.0 million (1972: DM 175.6 million) were sold.

In the same period the Bank sold 13,051 traveller's cheques worth DM 1.4 million, compared with 14,575 worth DM 1.7 million in the year before.

Other investment abroad

The DM 1,808.3 million of claims shown in the item "Other investment abroad" at December 31, 1973 (1972: DM 1,993 million) were all denominated in foreign currencies.

Reserve position in the International Monetary Fund and special drawing rights

Drawing rights within gold tranche

At December 31, 1973 the drawing rights within the gold tranche amounted to DM 3,886.4 million. The new valuation at the central rate of the Deutsche Mark resulted in a depreciation of DM 192.3 million. Otherwise the change on the preceding year is attributable to other members' Deutsche Mark drawings totalling DM 1,031.6 million, against which there were Deutsche Mark repayments and other transactions of similar effect totalling DM 852.5 million. The holding of drawing rights within the gold tranche is the difference between the German quota of SDR 1,600 million (SDR 1 = 0.888671 gramme of fine gold) and the Deutsche Mark balances at the disposal of the IMF equivalent to SDR 393.0 million.

Loans under General Arrangements to Borrow

In 1973 no loans were granted to the International Monetary Fund under the General Arrangements to Borrow (GAB) of October 24, 1962.

Special drawing rights

Holding of special drawing rights (SDRs) at December 31, 1973 amounted to DM 4,467.5 million (end-1972: DM 2,812.6 million). The new valuation at the central rate resulted in a depreciation of DM 39.3 million for the SDRs acquired by the Bank against payment. The contra-entry on the liabilities side was reduced by DM 108.6 million, the amount by which the allocated SDRs depreciated. The increase on the year was due, in particular, to the Bank's acquisition of SDRs under Community settlement arrangements.

Loans and other claims on the rest of the world

Loans to World Bank

At end-1973 loans to the World Bank were shown at DM 2,471.4 million (end-1972: DM 2,465.2 million).

Other claims

The DM 21.7 million claim of the Federal Government arising from participation in the European Fund and transferred to the Bank, which was shown in this sub-item last year, was repaid in gold on January 10, 1973 after the liquidation of the European Fund.

Foreign notes and coins

Purchases and sales

At DM 4.4 million the holding of foreign notes and coins at the end of 1973 was DM 0.8 million larger than at December 31, 1972. During the year under review the Bank effected 47,780 purchases of foreign notes and coins (1972: 43,574) and 24,512 sales of foreign notes and coins (1972: 21,163).

Foreign bills of exchange

Purchases

At the close of 1973 the holding of foreign bills arising from purchases within Germany was DM 460.1 million, as compared with DM 1,185.2 million at December 31, 1972.

Purchases of foreign bills of exchange in the Land Central Bank areas

Land Central Bank	1972 Number	1972 DM mn	1973 Number	1973 DM mn
Baden-Württemberg	24,047	842.1	20,242	460.3
Bavaria	14,788	1,060.7	9,799	351.7
Berlin	544	175.2	281	15.7
Bremen	1,748	167.6	923	57.4
Hamburg	5,505	1,225.5	3,732	230.5
Hesse	11,750	1,209.0	6,936	452.1
Lower Saxony	3,480	233.6	2,285	85.8
North Rhine-Westphalia	21,013	1,403.1	13,708	511.8
Rhineland-Palatinate	6,296	369.4	3,695	182.1
Saarland	2,623	476.8	2,573	157.0
Schleswig-Holstein	721	45.5	379	17.5
Total	92,515	7,208.5	64,553	2,521.9

The share of Deutsche Mark bills in the total value of foreign bills purchased averaged about 64% in 1973, against about 66% in 1972.

Foreign commission business

The Bank took in the following for realisation on a commission basis:

	1972 Number	1973 Number
Bills, cheques, etc.	9,344	10,094
Foreign notes and coins	5,559	6,013
	14,903	16,107.

Domestic bills of exchange

The Bank's holding of domestic bills in 1973 was notably smaller than in the year before. Taking the average of all return days, it came to DM 11,947 million (1972: DM 16,737 million). At the end of 1973 the Bank held domestic bills worth DM 10,434.9 million (end-1972: DM 17,847.0 million).

As in earlier years, most of the bills were acquired in rediscount transactions with banks. But since rediscount quotas were cut several times in 1973, or recourse to them was restricted, the part of the Bank's bill holding based on rediscount transactions declined considerably. Conversely, recourse to the facility granted to the Export Credit Company for rediscounting bills within Limit B — i. e. outside the rediscount quotas — was again greater than a year earlier.

	Dec. 31, 1972 DM million	Dec. 31, 1973 DM million
The domestic bill holding comprised		
Domestic bills purchased by way of discount	16,293.3	9,271.8
Import and Storage Agency bills	324.6	291.0
Prime bankers' acceptances taken in the course of open market operations	1,229.1	872.1
	17,847.0	10,434.9.

Purchases of domestic bills of exchange in the Land Central Bank areas

Land Central Bank	1972 '000	1972 DM mn	1973 1 '000	1973 1 DM mn
Baden-Württemberg	463	12,459.1	345	9,651.0
Bavaria	312	12,530.6	265	9,837.8
Berlin	22	2,736.1	19	1,497.1
Bremen	49	1,954.0	33	1,296.3
Hamburg	115	8,072.0	137	5,887.3
Hesse	283	25,280.9	263	28,343.9
Lower Saxony	149	5,789.1	139	3,999.9
North Rhine-Westphalia	549	25,645.3	416	19,010.5
Rhineland-Palatinate	80	2,760.3	67	2,278.0
Saarland	20	1,408.4	13	1,142.7
Schleswig-Holstein	57	1,858.7	45	1,400.6
Total	2,099	100,494.5	1,742	84,345.1

1 Including domestic bills bought in open market operations under repurchase agreement, which will be dealt with below.

The average amount of the bills purchased in 1973 was DM 48,406, compared with DM 47,877 in 1972.

Of the bills purchased, the following were returned and charged, in the absence of payment, to the parties presenting them for rediscount:

	1972 Number	1972 DM million	1973 Number	1973 DM million
	6,006	33.6	6,685	46.0
as % of the total purchased	0.29	0.03	0.38	0.05.

Discount rate

The Bundesbank's discount rate for domestic and foreign bills in the year under review stood at 4½% until January 11, at 5% from January 12, at 6% from May 4 and 7% from June 1.

Storage Agency bills

The Bank's open market operations in Storage Agency bills again exceeded the previous year's figure. Larger purchases with a nominal value of DM 2,923.5 million (1972: DM 1,654.8 million) were accompanied by resales out of the Bank's holding prior to maturity with a nominal value of DM 1,439.2 million (1972: DM 1,302.3 million). DM 1,517.9 million of Storage Agency bills were kept in the Bank's portfolio until redemption; this was many times the 1972 figure (DM 27.9 million). At December 31, 1973 the Bank's portfolio totalled DM 291.0 million (end-1972: DM 324.6 million).

Prime bankers' acceptances

Even though the Central Bank Council reduced, with effect from August 1, 1973, the total amount of prime bankers' acceptances the Bank may purchase in open market operations, the volume of such paper presented was again greater than a year earlier owing to the tightness of the money market. The Bank acquired a total of DM 7,128.6 million of prime bankers' acceptances from the Privatdiskont-Aktiengesellschaft in the year under review (1972: DM 5,417.7 million). It was, however, able to resell a major part of these acceptances to the market via the broker (DM 2,014.6 million against DM 1,376.8 million in 1972), the decisive factor being that the Bank, in agreement with the Privatdiskont-Aktiengesellschaft, offered relatively higher interest rates than in earlier years. DM 5,471.0 million (1972: DM 3,670.8 million) of prime bankers' acceptances out of the Bank's holding were presented for payment on maturity; at December 31, 1973 DM 872.1 million (end-1972: DM 1,229.1 million) of prime bankers' acceptances stemming from open market operations were held by the Bank.

A further lowering of the ceiling up to which the Bundesbank may purchase prime bankers' acceptances in the open market came into force on January 1, 1974.

Open market operations in bills under repurchase agreement

In 1973 the Bank for the first time conducted open market operations with banks in bills under repurchase agreement. The Bank offered this facility for a few days or weeks only in periods when the need for central bank assistance was particularly great (six times in all). During these periods the Bank acquired – outside the rediscount quotas – trade bills at market rates, subject to the condition that the banks lodging the bills had to repurchase them after, as a rule, ten days. The Bank's maximum bill holding from such open market operations amounted to DM 4,526 million (on April 25, 1973); at the end of the year the Bank held no bills from open market operations under repurchase agreement.

The buying and selling rates for open market operations in bills under repurchase agreement were fixed at such a level that the difference corresponded to an interest rate of between 11 % and 16 % p. a. in each case.

Domestic commission business

Domestic bills, cheques and the like were taken on a commission basis as follows:

	Number	DM million
1972	64,535	746.9
1973	68,935	782.9.

Lombard loans

Taking the average of all the return dates of the year under review, the Bundesbank granted DM 801 million of lombard loans to banks (1972: DM 959 million). As in preceding years, such loans were subject to marked fluctuations, the largest amounts having been granted in March and April. From June 1, 1973 onwards, the Bank in general extended no more lombard loans, for credit policy reasons. However, to mitigate extreme pressures on the money market, the Bank declared its readiness temporarily to grant lombard credit at a special lombard rate (special lombard credit) from November 26, 1973.

Lombard loans in the Land Central Bank areas

Millions of Deutsche Mark

Land Central Bank	Lombard loans granted		Outstanding on	
	1972	1973 1	Dec. 31, 1972	Dec. 31, 1973 2
Baden-Württemberg	9,024.4	7,516.1	239.3	32.5
Bavaria	7,127.7	5,061.5	61.1	21.4
Berlin	1,467.2	780.7	13.0	—
Bremen	1,331.6	1,083.5	1.3	6.0
Hamburg	7,211.3	5,255.4	12.0	14.0
Hesse	51,848.8	31,533.0	332.5	132.5
Lower Saxony	4,017.0	2,560.4	86.8	23.5
North Rhine-Westphalia	22,567.3	13,918.1	293.7	50.0
Rhineland-Palatinate	2,512.4	1,694.3	73.0	38.2
Saarland	727.6	466.5	22.6	2.7
Schleswig-Holstein	1,873.3	1,464.3	10.6	—
Total	109,708.6	71,333.8	1,145.9	320.8

1 Including special lombard credit. – 2 Special lombard credit only.

Lombard rate and special lombard rate

In the year under review the lombard rate was 6½ % until January 11; from January 12 it stood at 7 %, from May 4 at 8 % and from June 1 at 9 %. The special lombard rate of 13 % was effective from November 26, 1973 until the end of the year.

Cash advances (book credits)
Federal Government
Equalisation of Burdens Fund
Länder Governments

Section 20 (1) 1 of the Bundesbank Act lays down the following credit ceilings:

	DM million
for the Federal Government	6,000
for the Federal Railways	600
for the Federal Post Office	400
for the Equalisation of Burdens Fund	200
for the ERP Special Fund	50

for the Länder Governments DM 40 per inhabitant; for Berlin, Bremen and Hamburg DM 80 per inhabitant.

Treasury bills which the Bank holds in its own portfolio or which it has promised to purchase are to be counted towards the credit ceilings, in addition to the book credits.

Cash advances (book credits)

Millions of Deutsche Mark

Borrower	December 31, 1972	December 31, 1973
Federal Government	320.3	2,720.9
Equalisation of Burdens Fund	47.9	130.5
Länder Governments		
Berlin	54.2	—
Rhineland-Palatinate	17.1	—
Total	439.5	2,851.4

No book credits to the Federal Railways and Federal Post Office were outstanding at December 31, 1973; such credits are shown together with claims resulting from the purchase of Treasury bills and discountable Treasury bonds in the asset item "Loans to Federal Railways and Federal Post Office".

Interest rate

Throughout the year the rate of interest on book credits was equal to the Bundesbank's discount rate.

Treasury bills and discountable Treasury bonds
Federal Government
Länder Governments

The Bank continued its regulating operations on the market for public authority money market paper on behalf of the issuers. The greater part of the Bank's open market operations in money market paper was again in mobilisation and liquidity paper (sections 42 and 42 (a), Bundesbank Act), as described separately below.

The outstanding amount of discountable Federal Treasury bonds type "B" (which serve for the financing of the budget) declined further from DM 1,400 million (end-1972) to DM 1,025 million (end-December 1973); redemptions came to DM 900 million and new issues to DM 525 million. Among the new "B" type discountable Federal Treasury bonds there was for the first time a small amount (DM 25 million) of paper which, under the terms of issue, cannot be resold to the Bundesbank prior to maturity, and which carries higher interest rates instead (discountable Treasury bonds marked "BN"). The German Federal Railways issued more Treasury bills in the year under review than in 1972 (DM 500 million against DM 100 million). After redemptions of DM 300 million the amount outstanding at December 31, 1973 was DM 300 million (end-1972: DM 100 million). The Federal Railways' discountable Treasury bonds which fell due during 1973 (DM 269 million) were renewed. On the other hand, the discountable Treasury bonds of the German Federal Post Office which were outstanding at the end of 1972 (DM 237.6 million) were redeemed, and no new paper of this kind was issued.

At December 31, 1973 the outstanding total of money market paper issued for the account of the Federal Government and its special funds was DM 1,725 million (end-1972: DM 2,137.6 million). Of that amount, DM 300 million of Treasury bills of the German Federal Railways was held in the Bundesbank's portfolio (end-1972: DM 317.6 million of Treasury bills and discountable Treasury bonds of the Railways and the Post Office); this item is shown on the assets side under "Loans to Federal Railways and Federal Post Office". Further details will be found in the table overleaf.

No money market paper issued by the Länder Governments was outstanding in 1973.

Money market paper issued for account of Federal Government and Federal special funds

Millions of Deutsche Mark

Category of paper	Outstanding on Dec. 31, 1972	in 1973 Issued	Redeemed	Outstanding on Dec. 31, 1973
Discountable Treasury bonds of the Federal Republic of Germany "B" and "BN" 1	1,400.0	525.0	900.0	1,025.0
Treasury bills of the German Federal Railways	100.0	500.0	300.0	300.0
Discountable Treasury bonds of the German Federal Railways	400.0	269.0	269.0	400.0
Discountable Treasury bonds of the German Federal Post Office	237.6	—	237.6	—
Total	2,137.6	1,294.0	1,706.6	1,725.0

1 "B" and "BN" have been added to distinguish these debt instruments from the mobilisation and liquidity paper dealt with below.

Equalisation claims on Federal Government and non-interest-bearing debt certificate in respect of Berlin Equalisation claims

	Dec. 31, 1972 DM million	Dec. 31, 1973 DM million
Equalisation claims arising from own conversion account		
Bank deutscher Länder	5,504.4	5,504.4
Land Central Banks	2,599.2	2,599.3
	8,103.6	8,103.7
Conversion of Berlin pre-capitulation balances	30.7	30.8
Conversion of RM balances at banks in the Eastern Sector of Berlin	1.5	1.5
	8,135.8	8,136.0.

The slight increase, of DM 46.9 thousand, in the equalisation claims arising from the Bank's own conversion account is explained in the combined conversion account of the institutions amalgamated to form the Deutsche Bundesbank, as shown by the books at December 31, 1973, which account is attached to the German original of this Report as Appendix 1. The equalisation claims belonging to the Bank in respect of its own conversion account, of the conversion of Berlin pre-capitulation balances and of the conversion of RM balances at banks in the Eastern Sector of Berlin, as shown by the books at December 31, 1972, are inscribed in the government stock registers.

Non-interest-bearing debt certificate

In 1973 the Bank's claim on the Federal Government in respect of the currency conversion in Berlin remained unchanged at DM 547.2 million.

Loans to Federal Railways and Federal Post Office

See the comments on the items "Cash advances (book credits)" and "Treasury bills and discountable Treasury bonds".

Securities

The Bank's holding of securities at end-December 1973 amounted to DM 25.4 million (end-1972: DM 52.8 million). It mainly comprised bond issues of the Federal Republic of Germany, the German Federal Railways and the German Federal Post Office, and a small amount of other domestic bonds.

Issue of bonds

In 1973 fourteen new bond issues of the Federal Government, the Federal Railways and the Federal Post Office totalling DM 7,900 million (1972: nine issues amounting to DM 3,380 million) were offered for sale. Thirteen issues were launched under the auspices of the Federal Bond Consortium, which is under the direction of the Bank and which placed DM 6,450 million; DM 1,450 million (1972: DM 350 million) was reserved for the issuers' own institutions (mainly welfare institutions), for longer-term price support operations and for use in connection with the Bundesbank's open market policy.

One tranche of DM 250 million was sold by the Bank direct on all German stock exchanges. Three issues totalling DM 2,500 million — including the directly sold tranche just referred to — were intended to absorb liquidity and purchasing power; the proceeds of these were immobilised at the Bank.

Bonds of the Federal Republic of Germany, German Federal Railways and German Federal Post Office issued in 1973

Issuer	Amount issued: Total DM mn	Amount issued: of which sold through Federal Bond Consortium DM mn	Nominal interest rate % (yield)	Issue price %	Start of sales 1973
German Federal Railways	400	360	8½ (8.61)	99.25	Jan. 19
Federal Republic of Germany	500	450	8½ (8.57)	99.50	Feb. 15
Federal Republic of Germany 1	1,500	1,450	8½ (8.55)	99.75	Mar. 12
German Federal Post Office	420	360	10 (10.00)	100	July 4
Federal Republic of Germany 1	750	500	10 (10.00)	100	July 16
German Federal Railways	440	360	10 (10.00)	100	Aug. 20
German Federal Post Office	500	360	10 (9.80)	101	Aug. 29
Federal Republic of Germany	500	450	10 (9.75)	101.25	Sep. 7
Federal Republic of Germany 1	250	—	10 (9.72)	2 101.50	Sep. 12
German Federal Railways	440	360	10 (9.92)	100.50	Oct. 15
German Federal Post Office	500	400	10 (9.81)	101	Oct. 24
Federal Republic of Germany	600	500	10 (9.64)	101.75	Oct. 30
Federal Republic of Germany	600	500	9½ (9.41)	100.50	Nov. 13
German Federal Post Office	500	400	9½ (9.38)	100.75	Nov. 23

1 Bond issue to absorb liquidity and purchasing power. — 2 Stock exchange introduction price.

With the assistance of the Bank, DM 934.5 million (gross) of Federal savings bonds were sold to private investors through banks in 1973 (1972: DM 2,690.7 million). During the same period DM 2,125.8 million (1972: DM 76.6 million) of savings bonds from former tranches were resold to the issuer before maturity, so that the outstanding amount of Federal savings bonds diminished from DM 4,203.5 million (end-1972) to DM 3,012.2 million on December 31, 1973.

Issue of Federal savings bonds

In the year under review the interest paid on the Federal savings bonds offered for sale was raised on two occasions (as from June 4 and October 29), to keep them in line with the changed market conditions; the yield on the bonds sold at the end of the year was 8.98 % for type A and 9.21 % for type B.

Gross sales, interest rates and yields of Federal savings bonds in 1973

Issues	Sales period 1973	Gross sales in millions of Deutsche Mark: Federal savings bonds A 1	Federal savings bonds B 2	Total	Interest rate (%) in/and yields (%) after ... year after issue: 1st	2nd	3rd	4th	5th	6th	7th
					Year						
1973/1	Jan. 2—May 25	217.9	197.0	414.9	6.5 6.50	7.5 6.98	7.5 7.14	8.0 7.33	8.5 7.53	9.0 7.73	
1973/2					6.5 6.50	7.5 7.00	7.5 7.16	8.0 7.37	8.5 7.60	9.0 7.83	9.0 7.99
1973/3	June 4—Oct. 19	144.3	122.2	266.5	7.0 7.00	8.5 7.72	8.5 7.96	8.5 8.08	9.0 8.24	9.5 8.41	
1973/4					7.0 7.00	8.5 7.75	8.5 8.00	8.5 8.12	9.0 8.30	9.5 8.50	10.0 8.71
1973/5	Oct. 29—Dec. 31	127.0	126.1	253.1	7.5 7.50	9.0 8.22	9.0 8.46	9.5 8.69	9.5 8.82	10.0 8.98	
1973/6					7.5 7.50	9.0 8.25	9.0 8.50	9.5 8.75	9.5 8.90	10.0 9.08	10.0 9.21
Total	Jan. 2—Dec. 31	489.2	445.3	934.5							

1 With yearly payment of interest. — 2 With accrual of interest.

Through the agency of the Bank DM 426.5 million of Treasury bonds (medium-term notes) of the German Federal Post Office were sold by tender during 1973. There were two tranches, running for four years and carrying a nominal interest rate of 8¼ % and 8 %, respectively.

Issue of medium-term notes

Treasury bonds (medium-term notes) sold by tender through the agency of the Bundesbank in 1973

Issuer	Amount DM mn	Interest rate %	Running for ... years	Selling price %	Yield on sale %	Month of sale
German Federal Post Office	268.6	8¼	4	99⅜	8.44	February
German Federal Post Office	157.9	8	4	98½	8.46	February

Admission to stock exchange dealings

Besides the above-mentioned issues of the Federal Republic of Germany, the German Federal Railways and the German Federal Post Office, the Bank introduced the 8 % bond issue of the Reconstruction Loan Corporation of 1972 for official dealings on all German stock exchanges.

In addition, the Bank introduced the medium-term notes issued by the German Federal Post Office, and nine series of medium-term notes of the Reconstruction Loan Corporation, for regulated unofficial dealings on the stock exchange.

Price support operations

In the year under review, as in preceding years, the Bank undertook price support for the account of the issuers in respect of bonds issued by the Federal Government and its special funds, one Land Government, the Reconstruction Loan Corporation and the Equalisation of Burdens Bank.

The Bank as paying agent for bonds

As paying agent principally for bonds of the Federal Government and its special funds the Bank paid or presented for redemption 13,085,830 interest coupons and matured bonds during 1973 (1972: 10,912,072).

The Bank as conversion and paying agent for external bonds

In its capacity as paying agent for the external bonds of the Federal Republic of Germany the Bank paid 88,581 interest coupons and matured bonds during the year under review (1972: 215,293); in 1973 241,543 interest coupons and matured bonds (1972: 1,412,263) were presented to foreign agents for redemption.

German coins

The Bank's holding of German coins amounted to DM 583.9 million at the close of 1973 (end-1972: DM 344.3 million). In 1973 the Federal Government was credited with DM 877.0 million for coins taken over from the Mints, and debited with DM 351.0 million for coins no longer fit for circulation. Altogether in the years 1948 to 1973 the Bank took over coins amounting to DM 5,819.9 million, and cashed, to the debit of the Federal Government, DM 508.3 million of coins which were no longer fit to circulate or had been called in.

The total amount of coins in circulation at the end of 1973 divided by the number of inhabitants of the Federal Republic of Germany including the Land of Berlin at September 30, 1973 (62.1 million) yields the figure of DM 76.13 per head of population (1972: DM 71.86).

In the year under review two DM 5 commemorative coins (Copernicus and the Frankfurt National Assembly) and the DM 2 coins showing the head of Professor Theodor Heuss were put into circulation, while the DM 2 coins with the head of Max Planck were called in. Fairly large numbers of the DM 2 Adenauer coins, the issue of which was announced in December 1970, were also put into circulation.

Balances on postal giro account

The postal giro account balances at December 31, 1973, including the branches' transfers in transit to the postal giro account of the Bank (Central Office) at Frankfurt am Main, totalled DM 465.5 million (1972: DM 525.4 million). Each day the Bank's credit balances on that account and on the postal giro account of the Land Central Bank in Berlin, in rounded amounts, are offset against the giro balances of the Central Cash Office of the Federal Post Office and the Postal Giro Office Berlin (West).

Postal giro transactions with third parties

Area	1972				1973			
	Transfers received from third parties		Transfers made to third parties		Transfers received from third parties		Transfers made to third parties	
	Number	DM mn	Number	DM mn	Number	DM mn	Number	DM mn
Land Central Bank								
Baden-Württemberg	85,097	13,670.0	15,480	923.0	89,494	15,172.6	16,169	1,054.0
Bavaria	82,449	13,279.0	11,151	2,782.1	85,753	15,049.5	12,195	3,168.5
Berlin	20,829	2,317.4	4,655	539.3	24,553	2,398.7	5,106	812.7
Bremen	13,973	1610.4	1,419	0.5	12,394	532.8	1,323	0.2
Hamburg	47,606	9,257.0	1,643	74.6	56,044	10,967.4	1,929	45.8
Hesse	49,797	7,335.3	5,850	1,194.2	53,396	7,915.8	9,186	1,115.3
Lower Saxony	68,098	5,089.1	6,896	669.7	74,357	5,802.9	7,172	865.3
North Rhine-Westphalia	132,550	18,559.6	17,490	3,923.1	126,764	19,017.0	17,234	4,043.2
Rhineland-Palatinate	39,028	2,597.4	5,741	76.5	37,438	2,829.1	5,914	138.3
Saarland	5,286	1,482.0	2,549	0.7	4,779	1,670.0	1,194	0.1
Schleswig-Holstein	4,355	112.2	2,396	12.8	4,117	140.0	2,604	11.1
Total	549,068	74,309.4	75,270	10,196.5	569,089	81,495.8	80,026	11,254.5
Bundesbank — Central Office —	13,938	3,708.1	3,145	3.2	14,004	1,532.0	3,472	3.7
Grand total	563,006	78,017.5	78,415	10,199.7	583,093	83,027.8	83,498	11,258.2

Other claims

Other claims are shown at DM 685.7 million (1972: DM 641.3 million). They include, inter alia, the balance resulting from the settlement of intra-German accounts (DM 613.3 million against DM 580.6 million in 1972).

Turnover on the relevant sub-accounts amounted to:

	1972 DM million	1973 DM million
West/East deliveries and services	2,487.5	2,680.0
East/West deliveries and services	2,343.0	2,643.9
	4,830.5	5,323.9.

Land and buildings; equipment

With additions of DM 134.1 million and depreciation of DM 36.9 million, land and buildings are shown at DM 576.2 million. Equipment increased to DM 32.3 million after additions of DM 21.9 million and depreciation of DM 14.4 million. The new building of the Central Office in Frankfurt, which was largely in use at the end of 1972, was completed and fully occupied during the year under review.

Items in course of settlement

The balance sheet item "Items in course of settlement" mainly comprises the intercity credit and debit transfers that were proceeding inside the Bank at the close of the year as well as the cheques and debit transfer orders in course of clearing. At December 31, 1973, there was a net claim of DM 2,744.6 million, as against one of DM 2,777.2 million at the end of 1972.

Other assets

Of the DM 821.5 million (end-1972: DM 743.9 million) shown in the item "Other assets", DM 815.6 million (end-1972: DM 735.9 million) represents interest falling due in 1974, but assignable to the profit and loss account for the year under review, on funds employed abroad and on securities.

Prepaid expenses and deferred income

The prepaid expenses and deferred income comprise salary and pension payments made in the year under review but relating to 1974.

Adjusting item for new valuation of monetary reserves and other foreign exchange positions — balance sheet loss —

See the note on page 73 of this Report.

Bank notes in circulation

The circulation of bank notes rose from DM 44,503.5 million at the end of 1972 to DM 46,246.9 million at December 31, 1973.

Currency

Millions of Deutsche Mark

End of year	Bank notes	Federal coins	Currency total
1968	32,499.0	2,443.6	34,942.6
1969	34,616.5	2,657.9	37,274.4
1970	36,479.7	3,008.7	39,488.4
1971	39,493.8	3,665.3	43,159.1
1972	44,503.5	4,441.2	48,944.7
1973	46,246.9	4,727.6	50,974.5

The denominations of the bank notes and Federal coins in circulation are shown in Appendix 4 to the German original of this Report.

In 1973 DM 19,126 million of new Bundesbank notes of various denominations were taken over from the printing offices and put into circulation or made ready for that purpose.

Details of bank notes (including small money tokens) which were destroyed, being no longer fit for circulation or having been called in, are:

	1968	1969	1970	1971	1972	1973
Number (millions)	323.8	306.7	343.5	377.3	363.1	460.1
Value (DM million)	10,110.9	10,105.5	11,306.3	12,184.5	12,693.8	16,528.0.

Whereas the number and value of counterfeit Deutsche Mark notes detained in payments continued to decline during the year under review, the number and value of Federal coins thus detained rose again in comparison with the year before.

Counterfeits discovered

Year	Notes		Coins	
	Number	Thousands of DM	Number	Thousands of DM
1968	1,202	45.5	10,941	44.6
1969	1,769	84.9	11,621	48.2
1970	4,772	243.0	10,902	46.4
1971	2,978	186.4	9,064	37.0
1972	1,848	124.2	7,487	29.5
1973	1,090	65.4	10,077	34.0

Deposits of banks

Banks' deposits on giro account principally comprise the minimum reserves to be maintained with the Bank. The sub-item "Other" contains deposits of domestic banks on U.S. dollar accounts. Compared with 1972, banks' deposits changed as follows:

Deposits of banks	Dec. 31, 1972 DM million	Dec. 31, 1973 DM million
On giro account	46,364.4	51,891.8
Other	23.9	21.6
	46,388.3	51,913.4.

Deposits of public authorities

The item "Deposits of public authorities" comprises public authorities' current balances. These deposits showed the following year-on-year changes:

	Dec. 31, 1972 DM million	Dec. 31, 1973 DM million
Federal Government	96.5	204.2
Equalisation of Burdens Fund and ERP Special Fund	197.3	174.3
Länder Governments	2,543.2	2,402.8
Other public depositors	58.3	51.1
	2,895.3	2,832.4.

The special deposits which in 1972 were shown in this item and the tax receipts immobilised on special accounts during 1973 have been included in the following item "Special deposits of Federal and Länder Governments".

Special deposits of Federal and Länder Governments

Specifically, the Federal and Länder Governments' special deposits changed as follows:

	Dec. 31, 1972 DM million	Dec. 31, 1972 DM million	Dec. 31, 1973 DM million	Dec. 31, 1973 DM million
Federal Government				
Anticyclical reserves from 1969 to 1971	2,500.0		2,500.0	
Stability surcharge	–		388.6	
Investment tax	–		147.0	
Immobilisation of tax receipts	–		610.0	
Stability loan	–	2,500.0	2,500.0	6,145.6
Länder Governments				
Anticyclical reserves from 1969 to 1971	1,436.5		1,436.5	
Stability surcharge	–		545.5	
Investment tax	–		88.4	
Immobilisation of tax receipts	–	1,436.5	80.0	2,150.4
Anticyclical surcharge on income taxes		251.4		169.9
		4,187.9		8,465.9.

Deposits of other German depositors

The deposits of other German depositors were made up as follows:

	Dec. 31, 1972 DM million	Dec. 31, 1973 DM million
Federal Railways	5.0	15.6
Federal Post Office (incl. postal giro and postal savings bank offices)	2,703.3	2,455.1
Other depositors	505.4	460.8
	3,213.7	2,931.5.

Giro transactions, simplified cheque and debit transfer order collections

In the turnover on giro accounts, the percentage of cashless settlements was:

	Number	Amount
1972	99.63	97.92
1973	99.57	98.14.

Annual turnover on giro accounts of the Deutsche Bundesbank

Turnover	1972 Number of transactions '000	1972 Total amount DM million	1972 Average amount DM '000	1973 Number of transactions 1 '000	1973 Total amount DM million	1973 Average amount DM '000
(a) Credits						
Cash payments	1,013	132,504	130.8	1,107	146,869	132.7
Settlement with account-holders	7,866	2,110,124	268.3	7,979	2,442,075	306.1
Local transfers	17,390	2,031,549	116.8	18,009	2,612,964	145.1
Intercity transfers	66,556	1,676,061	25.2	68,085	2,067,775	30.4
Cheque and debit transfer order collections (total lodged)	269,736	645,663	2.4	317,075	778,206	2.5
Total	362,561	6,595,901	—	412,255	8,047,889	—
(b) Debits						
Cash payments	1,422	141,316	99.4	1,431	153,053	107.0
Settlement with account-holders	4,487	2,096,027	467.1	4,620	2,421,917	524.2
Local transfers	17,390	2,031,549	116.8	18,009	2,612,964	145.1
Intercity transfers	63,580	1,671,575	26.3	62,702	2,073,923	33.1
Cheque and debit transfer order collections (total paid)	213,545	643,565	3.0	98,695	778,171	7.9
Total	300,424	6,584,032	—	185,457	8,040,028	—
(c) as % of total turnover (credits and debits)		%			%	
Cash payments		2.08			1.86	
Settlement with account-holders		31.91			30.23	
Local transfers		30.83			32.48	
Intercity transfers		25.40			25.75	
Cheque and debit transfer order collections (total lodged and paid)		9.78			9.68	
		100.00			100.00	

1 For 1973, in the case of cheque and debit transfer order collections (total paid), number of items.

In the year under review the development of six computer centres for cashless payments (Berlin, Hamburg, Düsseldorf/Neuss, Frankfurt, Stuttgart, Munich), which had been started in 1971, was completed. These computer centres processed automatically a large part of the paper presented for collection under the simplified cheque and debit transfer order collection procedure in 1973; the automation was extended during the year, and by December 1973 the proportion processed automatically was roughly 65 %. The automated processing of credit transfers was also begun in the year under review.

Balances on cash deposit special accounts

The balances on the cash deposit special accounts, amounting to DM 244.3 million at December 31, 1973, comprise the amounts required for December 1973, amounts paid in for earlier months, particularly owing to notifications of liability, and prepayments for January and February 1974. On the first business day of December (December 3) DM 351.6 million was paid into cash deposit special accounts to remain there for the whole of the month (including DM 180.2 million paid in arrears and DM 168.2 million for the reference month of October 1973). The relatively small amount of the deposits for October is a consequence of the restrictive application of the authorisation requirement for borrowing abroad introduced on February 5, 1973 (section 52, Foreign Trade and Payments Order).

Liabilities for mobilisation and liquidity paper sold

In pursuance of its open market policy the Bank availed itself more frequently than before of the facilities afforded by sections 42 and 42 (a) of the Bundesbank Act for selling Treasury bills and discountable Treasury bonds as mobilisation and liquidity paper (the proceeds being immobilised until the maturity of the paper).

The discount granted on Treasury bonds (the so-called "selling rate"), which determines the yield of the paper, was raised in several stages in support of the restrictive credit policy. In addition, from January 1973 a standardised type of discountable Treasury bond, not returnable before maturity and particularly easy to process, was offered – mainly to private buyers – under the designation "Bundesbank Treasury bond". Moreover, the range of discountable Treasury bonds not included in the money market regulating arrangements (i. e. not redeemable prior to maturity) was enlarged by adding paper running for three months. Owing to the sales to private investors, and especially to sales to the social security funds, the outstanding total of discountable Treasury bonds of the non-redeemable type soared during 1973; the increase in the purchases of the social security funds was largely due to their voluntary undertaking to immobilise liquid reserves under the Federal Government's second stability programme. In the year under review DM 9,669.5 million (1972: DM 4,386.2 million) of discountable mobilisation and liquidity Treasury bonds were sold, so that, after redemptions totalling DM 3,296.3 million (1972: DM 8,099.7 million), the amount outstanding at December 31, 1973 was DM 7,947 million (end-1972: DM 1,573.8 million).

Under its short-term money market regulating arrangements the Bank for the first time sold Treasury bills running for fixed periods of about five and ten days to domestic banks. Consequently, the turnover in Treasury bills rose steeply (sales: DM 22.8 billion against DM 13.6 billion in 1972; redemptions: DM 23.8 billion against DM 11.9 billion in 1972).

In 1973 total turnover in mobilisation and liquidity paper grew strongly over the 1972 level, sales coming to DM 32,507.3 million and redemptions to DM 27,112.3 million (1972: DM 17,956.1 million and DM 19,968.3 million, respectively). The total outstanding at December 31, 1973 was DM 9,859.8 million (end-1972: DM 4,464.8 million).

Mobilisation and liquidity paper sold and redeemed

Millions of Deutsche Mark

	1972	1973		
Category of paper	Outstanding on Dec. 31	Sold	Redeemed	Outstanding on Dec. 31
Treasury bills (running for up to 90 days)	2,891.0	22,837.8	23,816.0	1,912.8
Discountable Treasury bonds (running for 3 to 24 months)	1,573.8	9,669.5	3,296.3	7,947.0
Total	4,464.8	32,507.3	27,112.3	9,859.8

Liabilities in respect of foreign business

The liabilities in respect of foreign business comprised

	Dec. 31, 1972		Dec. 31, 1973	
	DM million	DM million	DM million	DM million
Deposits of foreign depositors				
Banks	729.8		644.8	
Other depositors	168.4	898.2	90.3	735.1
Other				
Provision of cover for credits by				
non-residents	0.1		0.3	
residents	17.1		20.7	
	17.2		21.0	
Miscellaneous liabilities	0.4	17.6	162.0	183.0
		915.8		918.1.

Contra-entry to special drawing rights allocated

The contra-entry to the special drawing rights allocated by the International Monetary Fund and shown on the assets side is equal to the allocations of SDRs to the Federal Republic of Germany on January 1, 1970 to 1972, totalling SDR 542.4 million = DM 1,746.4 million.

Provision for pension liabilities

After withdrawal of DM 71 million for the payment of pensions and widows' and orphans' allowances and an allocation of DM 221 million, the provision for pension liabilities is shown at DM 1,170 million.

Other provisions

The provision for covering hazards inherent in domestic and foreign business was raised by DM 24 million to DM 300 million. A reserve of DM 18.5 million was formed, to the debit of the depreciation requirement for the new valuation of monetary reserves and other foreign exchange positions, to cover any exchange losses arising from U.S. dollar forward transactions with German exporters which were not yet settled at the end of 1973 (see page 57 of this Report). At the end of 1973 aggregate other provisions are shown at DM 318.5 million; this is DM 42.5 million higher than at the end of 1972.

Other liabilities

The "Other liabilities" are shown at December 31, 1973 at DM 52.9 million, against DM 52.2 million at the end of 1972.

Deferred expenses and accrued income

In the same way as previously, the deferred expenses and accrued income (DM 319.7 million for 1973; DM 286.9 million for 1972) mainly comprise interest received in the year under review, but relating to the next year, on foreign and domestic commercial and Treasury bills.

Capital

The capital of the Bank remained unchanged at DM 290 million (section 2, Bundesbank Act); it is held by the Federal Government.

Reserves

The legal reserve and the other reserves are shown unchanged at DM 847.3 million and DM 81.9 million, respectively.

Contingent liabilities and claims

The contingent liabilities and claims at December 31, 1973 amounted to DM 3.3 million (end-1972: DM 1.2 million).

Comparison of expenditure and receipts

Millions of Deutsche Mark

Expenditure	1972	1973	Receipts	1972	1973
Interest on mobilisation and liquidity paper	235.6	1,115.6	Interest on money employed abroad	2,859.6	4,338.2
Other interest	3.0	4.5	Loans to domestic banks	657.3	866.5
	238.6	1,120.1	Equalisation claims	244.1	244.1
Administrative costs			Securities, Treasury bills and Treasury bonds	20.4	30.1
Personnel	375.3	426.7			
Materials	71.3	88.0	Other interest	11.6	36.7
Note printing	51.1	56.2		3,793.0	5,515.6
Depreciation on fixed assets	30.2	51.3	Fees	6.5	7.6
Transfer to provisions			Other receipts	33.5	25.8
Pension liabilities	62.9	221.0		3,833.0	5,549.0
Other	—	24.0			
Pension payments in respect of Reichsbank	35.3	36.1	Loss	—	6,773.2
Other expenditure	17.9	20.0			
	882.6	2,043.4			
Depreciation on monetary reserves and other foreign exchange positions	—	10,278.8			
Annual surplus	2,950.4	—			
Total	3,833.0	12,322.2	Total	3,833.0	12,322.2

Receipts

Interest

	1972 DM million	1973 DM million
The interest received amounted to	3,793.0	5,515.6.
After deduction of the interest paid out, namely	238.6	1,120.1,
interest receipts are shown in the profit and loss account at	3,554.4	4,395.5.

The interest received on funds employed abroad increased by DM 1,478.6 million to DM 4,338.2 million in 1973. Receipts from lending to German banks – domestic bills, lombard loans and foreign bills bought in Germany – amounted to DM 866.5 million in the year under review (1972: DM 657.3 million). Interest on equalisation claims remained unchanged at DM 244.1 million. Other interest income came to DM 66.8 million (1972: DM 32.0 million).

Except for a fractional amount of DM 4.5 million (1972: DM 3.0 million), the interest paid out, at DM 1,120.1 million (1972: DM 238.6 million), was paid on Treasury bills and discountable Treasury bonds of the Federal Government (mobilisation and liquidity paper pursuant to sections 42 and 42 (a), Bundesbank Act), which were sold on a much larger scale in the year under review.

Fees

DM 7.6 million of fees were received in the year under review (1972: DM 6.5 million).

Other receipts

"Other receipts" are shown at DM 25.8 million (1972: DM 33.5 million).

Expenditure

Administrative costs
Personnel

The administrative costs in respect of personnel rose in comparison with the previous year owing to the statutory or negotiated pay increases for established employees ("officials") and unestablished salary and wage earners by DM 51.4 million to DM 426.7 million. The Bank's staff decreased in number by 15 during 1973.

Number of persons employed in the Bundesbank

	Beginning of 1973					Beginning of 1974				
				of whom					of whom	
	Central Office	Land Central Banks	Total	male	female	Central Office	Land Central Banks	Total	male	female
Established officials	678	4,562	5,240*)	5,117	123	683	4,669	5,352*)	5,209	143
Salaried employees	1,477	6,450	7,927*)	3,076	4,851	1,548	6,213	7,761*)	3,128	4,633
Wage earners	157	845	1,002*)	151	851	178	863	1,041*)	161	880
Total	2,312	11,857	14,169	8,344	5,825	2,409	11,745	14,154	8,498	5,656

* of whom, working part time	Beginning of 1973	Beginning of 1974
Established officials, female	1	1
Salaried employees	223	281
Wage earners	760	778

The payments to serving members of the Directorate of the Bank and the Central Bank Council amounted to DM 5,073,084.75 in the year under review. Former members of those bodies and of the Board of Directors and Board of Managers of the Bank deutscher Länder, and the Boards of Management of the Land Central Banks, including their surviving dependants, received payments totalling DM 3,637,397.82.

Changes in staff regulations

On August 23, 1973, with the agreement of the Federal Government, the Central Bank Council decided to change the regulations relating to the prior training and careers of established employees of the Deutsche Bundesbank and to modify the Deutsche Bundesbank's staff regulations. The changes came into force on January 1, 1974 and were published in the Federal Advertiser of January 22, 1974. The main object of the changes is to introduce a three-year period of training for the executive class for school leavers (holders of the "Abitur"); the former method of entry (only through a full commercial apprenticeship followed by a one-year period of training in the Bank) is to be retained. This new arrangement enables the Bank to engage Abitur-holders as potential members of the executive class immediately after they have left school. In addition, a new scale of examination marks was included in the Bank's career regulations, in conformity with the revised Federal career regulations.

In connection with the aforementioned changes the Central Bank Council, with the agreement of the Federal Minister of the Interior and the cooperation of the Federal staff council, approved amendments to the training and examination regulations for careers in the administrative, executive and clerical classes on November 14, 1973. In the Federal Advertiser of January 25, 1974 attention was drawn to the publication of the amendments to the training and examination regulations in the Bulletin of the Deutsche Bundesbank.

The Bank again concluded a number of pay agreements for its unestablished employees which brought their legal position into line with that of the Federal Government's unestablished staff.

Administrative costs
Materials

The administrative costs in respect of materials rose from DM 71.3 million in 1972 to DM 88 million.

Note printing

The expenditure on note printing mounted, as compared with 1972, by DM 5.1 million to DM 56.2 million.

Depreciation and transfers to provisions

The depreciation on land and buildings and on equipment, as well as the transfers to provisions, were discussed in connection with the respective balance sheet items.

Pension payments in respect of Reichsbank

The payments to members of the former Deutsche Reichsbank and other persons to whom the Act concerning Section 131 of the Basic Law applies, and for whom the Bank is required to provide in accordance with section 41, Bundesbank Act, amounted in the year under review to DM 36.1 million (1972: DM 35.3 million).

Other expenditure

"Other expenditure" is shown at DM 20.0 million (1972: DM 17.9 million).

Depreciation on monetary reserves and other foreign exchange positions

	DM million
The new valuation of the U.S. dollar position in February 1973 resulted in a loss of	7,216.8,
which has been shown in the Bundesbank returns in a separate item since February 15, 1973. The new valuation of monetary reserves and other foreign exchange positions in the 1973 annual accounts requires further depreciation of	3,062.0.
The resultant overall loss of	10,278.8
was reduced by the operating surplus for 1973 of	3,505.6
to	6,773.2.

This amount is shown in the balance sheet, asset item 23, as the adjusting item for new valuation of monetary reserves and other foreign exchange positions — balance sheet loss.

Frankfurt am Main, April 1974

Deutsche Bundesbank
The Directorate
Dr. Klasen Dr. Emminger
Dr. Emde Dr. Gocht Dr. Irmler Lucht Dr. Schlesinger Tüngeler

Report of the Central Bank Council

The annual accounts of the Deutsche Bundesbank for 1973, the combined conversion account of the institutions amalgamated to form the Deutsche Bundesbank as shown by the books at December 31, 1973, and the Report on the Fund for the Purchase of Equalisation Claims as at December 31, 1973, have been audited by the auditing companies Treuarbeit Aktiengesellschaft of Frankfurt am Main and Dr. Wollert – Dr. Elmendorff KG of Düsseldorf, whom the Central Bank Council had appointed to be auditors in accordance with section 26 of the Bundesbank Act.

In their notes of certification the auditors have unreservedly confirmed that the annual accounts for 1973, the bookkeeping and the conversion account as shown by the books at December 31, 1973, are in accordance with legal provisions and that the Fund for the Purchase of Equalisation Claims has been properly administered.

The Central Bank Council approved the annual accounts for 1973 on April 4, 1974. At the same time it confirmed the conversion accounts for the Bank deutscher Länder and the Land Central Banks as well as the combined conversion account of the institutions amalgamated to form the Deutsche Bundesbank as shown by the books at December 31, 1973, and approved the Report on the Fund for the Purchase of Equalisation Claims as at December 31, 1973.

Since the publication of the Report for the Year 1972 the following changes have taken place in the Central Bank Council and the Directorate of the Deutsche Bundesbank.

Retired from service

as at the close of April 30, 1973
the President of the Land Central Bank in Schleswig-Holstein
Herr Otto Kähler,

as at the close of February 14, 1974
the President of the Land Central Bank in Hesse
Herr Leopold W. Bröker.

Reappointed

with effect from March 1, 1974
Herr Werner Lucht
Member of the Directorate of the Deutsche Bundesbank.

Newly appointed

with effect from May 1, 1973
Dr. Johann Baptist Schöllhorn
to be President of the Land Central Bank in Schleswig-Holstein,

with effect from February 21, 1974
Dr. Alfred Härtl
to be President of the Land Central Bank in Hesse.

The Central Bank Council, acting also on behalf of the Directorate and of the Boards of Management of the Land Central Banks, expresses to the entire staff of the Deutsche Bundesbank its thanks for their loyal and understanding cooperation during the year 1973. The Council likewise wishes to record its appreciation of the excellent collaboration with the staff representative committees.

Frankfurt am Main, April 1974

Dr. Karl Klasen
President of the Deutsche Bundesbank

Appendix to Part B

Balance sheet of the Deutsche Bundesbank as at December 31, 1973

Assets

	DM	DM	DM
1. Gold			14,001,228,918.50
2. Balances with foreign banks and money market investment abroad			65,819,172,814.83
3. Other investment abroad			1,808,256,000.50
4. Reserve position in the International Monetary Fund and special drawing rights			
4.1. Drawing rights within gold tranche		3,886,395,217.85	
4.2. Loans under General Arrangements to Borrow		—	
4.3. Special drawing rights		4,467,521,152.16	8,353,916,370.01
5. Loans and other claims on the rest of the world			
5.1. Loans to World Bank		2,471,385,804.25	
5.2. Other claims		—	2,471,385,804.25
6. Foreign notes and coins			4,410,789.76
7. Foreign bills of exchange			460,159,946.96
8. Domestic bills of exchange			10,434,899,373.26
9. Lombard loans			320,767,900.—
10. Cash advances (book credits)			
10.1. Federal Government		2,720,900,000.—	
10.2. Equalisation of Burdens Fund		130,500,000.—	
10.3. Länder Governments		—	2,851,400,000.—
11. Treasury bills and discountable Treasury bonds			
11.1. Federal Government		—	
11.2. Länder Governments		—	—
12. Equalisation claims on Federal Government and non-interest-bearing debt certificate in respect of Berlin			
12.1. Equalisation claims		8,135,997,621.05	
12.2. Non-interest-bearing debt certificate		547,168,481.20	8,683,166,102.25
13. Loans to Federal Railways and Federal Post Office			
13.1. Cash advances (book credits)		—	
13.2. Treasury bills and discountable Treasury bonds		300,000,000.—	300,000,000.—
14. Securities			25,400,256.45
15. German coins			583,933,959.10
16. Balances on postal giro account			465,488,585.61
17. Other claims			685,698,715.20
18. Land and buildings			576,250,579.90
19. Equipment			32,258,142.—
20. Items in course of settlement			2,744,560,756.44
21. Other assets			821,543,342.23
22. Prepaid expenses and deferred income			21,887,736.63
23. Adjusting item for new valuation of monetary reserves and other foreign exchange positions – balance sheet loss –			
Depreciation in 1973	10,278,820,166.93		
less operating surplus	3,505,591,489.85		6,773,228,677.08
Right of recourse in respect of contingent liabilities		3,269,246.65	
			128,239,014,770.96

	DM	DM
1. Bank notes in circulation		46,246,864,320.—
2. Deposits of banks		
2.1. on giro account	51,891,752,857.81	
2.2. Other	21,621,914.34	51,913,374,772.15
3. Deposits of public authorities		
3.1. Federal Government	204,178,999.87	
3.2. Equalisation of Burdens Fund and ERP Special Fund	174,301,207.93	
3.3. Länder Governments	2,402,777,747.31	
3.4. Other public depositors	51,122,086.78	2,832,380,041.89
4. Special deposits of Federal and Länder Governments		
4.1. Federal Government	6,145,571,719.20	
4.2. Länder Governments	2,150,423,203.45	
4.3. Anticyclical surcharge on income taxes	169,876,743.87	8,465,871,666.52
5. Deposits of other German depositors		
5.1. Federal Railways	15,593,082.98	
5.2. Federal Post Office (incl. postal giro and postal savings bank offices)	2,455,109,189.12	
5.3. Other depositors	460,775,763.96	2,931,478,036.06
6. Balances on cash deposit special accounts		244,332,408.18
7. Liabilities for mobilisation and liquidity paper sold		9,859,842,000.—
8. Liabilities in respect of foreign business		
8.1. Deposits of foreign depositors	735,130,289.14	
8.2. Other	183,035,407.74	918,165,696.88
9. Contra-entry to special drawing rights allocated		1,746,408,672.—
10. Provisions for		
10.1. Pension liabilities	1,170,000,000.—	
10.2. Other purposes	318,532,000.—	1,488,532,000.—
11. Other liabilities		52,870,924.02
12. Deferred expenses and accrued income		319,676,432.95
13. Capital		290,000,000.—
14. Reserves		
14.1. Legal reserve	847,300,000.—	
14.2. Other reserves	81,917,800.31	929,217,800.31
Contingent liabilities	3,269,246.65	
		128,239,014,770.96

Profit and loss account of the Deutsche Bundesbank for the year 1973

Expenditure

	DM	DM
1. Administrative costs		
1.1. Personnel	426,670,012.22	
1.2. Materials	88,029,565.45	514,699,577.67
2. Note printing		56,208,415.96
3. Depreciation		
3.1. on land and buildings	36,887,891.01	
3.2. on equipment	14,415,009.78	51,302,900.79
4. Transfer to provisions		
4.1. Pension liabilities	220,960,276.39	
4.2. Other	24,039,745.79	245,000,022.18
5. Pension payments in respect of Reichsbank		36,142,668.55
6. Other expenditure		19,962,192.46
7. Depreciation on monetary reserves and other foreign exchange positions		
7.1. due to devaluation of the U.S. dollar in February 1973	7,216,760,620.80	
7.2. Other	3,062,059,546.13	10,278,820,166.93
		11,202,135,944.54

Receipts

	DM
1. Interest	4,395,521,295.96
2. Fees	7,618,762.32
3. Other receipts	25,767,209.18
4. Loss	6,773,228,677.08
	11,202,135,944.54

Deutsche Bundesbank
The Directorate
Dr. Klasen Dr. Emminger
Dr. Emde Dr. Gocht Dr. Irmler Lucht Dr. Schlesinger Tüngeler

Our audit, which was duly carried out, shows the bookkeeping and the annual accounts to be in accordance with the law and the Bank's by-laws.

Frankfurt am Main, February 28, 1974

Treuarbeit Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Scholz (Certified Auditor) Dr. Haufschild (Certified Auditor)

D. Wollert — Dr. Elmendorff KG
Wirtschaftsprüfungsgesellschaft

Dr. Bargmann (Certified Auditor) Thoennes (Certified Auditor)

Tables accompanying the article "The annual accounts of partnerships and sole proprietorships for 1974"

Balance sheet and profit and loss account of sole proprietorships by branch of economic activity *

Item	All enterprises		of which									
			Manufacturing		of which							
					Extraction and processing of stones and earths		Steel and light metal construction		Mechanical engineering		Electrical engineering	
	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974
I. Balance sheet	as % of balance sheet total											
Assets												
Non-financial assets												
Fixed assets	32.2	31.4	43.1	40.1	56.2	48.4	25.2	22.6	40.0	35.5	35.3	33.2
Stocks	23.4	24.3	23.9	25.3	10.4	15.9	17.0	14.3	24.7	27.2	23.1	26.0
Total	55.6	55.7	67.1	65.4	66.6	64.3	42.1	36.8	64.7	62.7	58.5	59.1
Financial assets												
Cash **5**	3.3	3.1	3.1	2.4	4.0	1.7	3.6	2.1	3.8	3.0	4.3	3.5
Claims	37.8	36.6	26.8	28.3	26.0	29.0	52.2	59.2	29.0	31.3	35.4	34.4
short-term	36.9	35.6	25.6	26.8	23.5	27.3	51.4	58.1	28.2	30.6	34.7	33.4
long-term	0.9	1.0	1.3	1.5	2.5	1.7	0.8	1.2	0.8	0.7	0.8	1.0
Securities	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.6	0.4	0.1	0.5
Trade investments	1.0	1.6	1.3	1.6	1.2	1.5	0.3	0.2	0.4	0.9	0.5	0.4
Total	42.1	41.5	31.3	32.4	31.2	32.3	56.2	61.5	33.8	35.6	40.3	38.8
Other assets **6**	2.2	2.8	1.7	2.2	2.2	3.5	1.6	1.7	1.5	1.6	1.2	2.0
Balance sheet total	100	100	100	100	100	100	100	100	100	100	100	100
Liabilities												
Own funds												
Capital	21.0	19.2	25.2	23.0	24.1	19.5	16.7	13.3	30.1	26.3	31.4	26.4
Reserves **7**	0.5	0.7	0.8	0.8	0.4	0.2	0.2	0.1	2.0	1.9	0.4	0.8
Total	21.6	19.8	26.1	23.9	24.5	19.8	17.0	13.4	32.1	28.2	31.8	27.3
Borrowed funds												
Debt	71.7	73.6	64.5	67.6	60.6	69.4	76.6	80.7	57.7	62.8	57.4	62.0
short-term	56.0	55.6	45.1	47.0	40.0	43.8	64.5	69.4	41.9	44.5	40.2	46.5
long-term	15.7	18.0	19.4	20.6	20.6	25.6	12.1	11.4	15.8	18.4	17.2	15.5
Provisions	4.2	4.5	6.4	6.4	13.0	9.3	4.5	4.1	7.5	6.6	8.1	7.9
Total	75.9	78.1	70.9	74.0	73.6	78.7	81.0	84.9	65.2	69.5	65.4	70.0
Other liabilities	2.5	2.0	3.0	2.1	1.8	1.5	2.0	1.7	2.7	2.3	2.7	2.8
of which Accumulated depreciation reserves	1.6	1.3	2.0	1.3	0.9	1.1	1.2	1.0	1.5	1.4	1.5	1.4
Balance sheet total	100	100	100	100	100	100	100	100	100	100	100	100
do in DM billion	181.8	180.7	58.5	57.9	2.8	2.9	3.0	3.1	4.1	4.1	1.7	1.8
	as % of amplified gross earnings											
II. Profit and loss account												
Costs												
Wages **8**	47.3	47.9	49.4	51.5	37.0	41.3	59.8	63.5	54.7	58.5	55.8	57.7
Depreciation **9**	7.9	7.3	8.3	7.6	15.7	14.0	4.9	4.7	6.3	5.2	5.5	5.0
Taxes	3.4	2.8	3.8	2.9	2.8	2.4	2.3	1.8	2.6	2.4	2.7	2.2
Other costs	29.7	32.7	27.4	30.5	34.6	37.7	22.0	23.8	23.8	25.0	22.9	25.9
of which Interest costs	4.0	6.5	3.6	6.0	3.3	6.5	2.7	4.5	2.7	4.3	2.7	4.1
Total	88.3	90.6	89.0	92.5	90.0	95.3	89.1	93.8	87.4	91.0	86.9	90.9
Annual surplus **10**	11.7	9.4	11.0	7.5	10.0	4.7	11.0	6.2	12.6	9.0	13.1	9.1
Memorandum item: Annual surplus before tax	15.1	12.2	14.9	10.4	12.8	7.0	13.2	8.0	15.2	11.3	15.8	11.4
Amplified gross earnings												
Gross earnings	94.0	93.5	95.5	95.6	95.9	94.0	96.3	96.2	96.5	96.5	95.8	94.3
Other income	6.0	6.5	4.5	4.4	4.1	6.0	3.7	3.8	3.5	3.5	4.2	5.7
of which Interest income	0.6	0.9	0.4	0.6	0.3	0.5	0.3	0.5	0.3	0.7	0.4	0.5
Total	100	100	100	100	100	100	100	100	100	100	100	100
Memorandum item: Turnover in DM billion	343.9	357.5	99.6	102.0	3.7	3.5	3.9	4.0	6.2	6.4	3.1	3.5

* Extrapolated figures. — **1** Including locksmithing, welding, grinding and forging. — **2** Including upholstery and soft furnishing trade. — **3** Excluding tobacco processing. — **4** Including intermediaries. — **5** Notes and coins, bank and postal giro balances. — **6** Including adjustments to capital

Metal goods production 1		Wood processing		Textile industry 2		Clothing industry		Food, drink and tobacco industry 3		Construction		Wholesale trade 4		Retail trade	
1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974
47.2	46.2	41.4	42.4	41.5	37.6	29.2	28.1	48.0	46.2	20.1	20.9	21.5	19.4	32.5	33.3
23.4	25.1	20.6	21.8	30.2	33.5	43.9	43.4	24.9	25.3	5.2	5.0	30.0	32.2	39.1	39.7
70.7	71.3	62.0	64.1	71.7	71.1	73.1	71.6	73.0	71.6	25.3	26.0	51.5	51.7	71.5	73.1
3.5	2.5	3.1	1.9	3.3	1.6	2.9	3.0	2.7	2.4	2.4	2.9	4.2	4.4	3.7	3.2
24.1	23.7	32.6	31.2	22.7	24.2	21.1	22.3	21.9	22.5	69.6	67.1	40.4	39.9	21.5	19.6
23.5	23.1	32.0	30.9	21.5	23.0	20.5	21.5	19.7	19.7	69.2	66.4	39.5	39.0	20.5	18.7
0.6	0.6	0.5	0.4	1.2	1.2	0.6	0.8	2.2	2.8	0.5	0.7	0.9	1.0	1.0	0.9
0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.1	0.2	0.1	0.0	0.3	0.3	0.0	0.0
0.3	0.4	0.3	0.2	1.2	1.4	1.6	1.3	0.7	1.0	0.4	0.3	1.5	1.6	0.8	0.9
28.0	26.7	36.0	33.4	27.2	27.1	25.7	26.6	25.4	26.1	72.5	70.4	46.5	46.3	26.0	23.7
1.4	2.0	2.0	2.5	1.1	1.8	1.1	1.8	1.6	2.4	2.2	3.6	2.0	2.0	2.5	3.2
100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
30.9	27.7	23.6	20.4	28.1	24.4	23.7	21.3	23.8	24.2	10.7	9.8	22.2	21.3	24.3	22.5
0.5	0.9	0.2	0.1	1.3	1.6	1.8	2.1	1.1	0.9	0.1	0.1	0.8	1.5	0.2	0.2
31.4	28.7	23.8	20.5	29.5	25.9	25.4	23.3	24.9	25.1	10.9	9.9	23.1	22.9	24.5	22.7
61.4	65.4	69.6	73.4	62.8	65.8	68.1	70.4	69.0	69.6	83.2	84.2	71.0	70.7	70.9	73.4
41.7	42.8	50.7	50.9	44.9	45.6	51.5	52.1	46.5	47.6	75.2	74.7	59.1	59.7	51.0	51.0
19.7	22.6	18.9	22.5	18.0	20.2	16.7	18.4	22.5	22.0	7.9	9.6	12.0	11.0	19.9	22.4
4.7	3.9	3.9	4.0	5.0	5.9	4.2	4.0	4.0	3.5	3.7	3.7	3.1	3.7	2.6	2.4
66.1	69.3	73.6	77.4	67.8	71.7	72.4	74.4	73.0	73.1	86.8	87.9	74.1	74.4	73.5	75.8
2.5	2.1	2.6	2.1	2.7	2.3	2.2	2.2	2.1	1.9	2.3	2.2	2.8	2.7	1.9	1.5
1.5	1.2	1.2	1.4	1.3	1.3	1.1	1.6	1.2	1.2	1.1	1.3	2.1	2.2	1.2	1.0
100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
4.5	4.6	6.1	6.7	2.4	1.9	2.4	2.2	15.6	14.9	42.0	37.8	30.3	29.6	43.9	44.4
52.8	55.6	51.5	53.2	53.9	51.9	59.4	58.5	35.9	38.1	59.4	61.5	33.7	32.7	42.6	42.9
7.7	7.7	7.3	7.3	8.0	6.8	4.3	4.1	11.5	10.6	8.6	7.8	6.0	5.2	5.8	5.5
2.7	2.1	2.2	1.9	2.3	1.9	2.2	2.1	8.8	6.0	1.9	1.8	4.7	3.7	2.9	2.8
23.7	26.7	27.3	30.8	25.3	32.1	23.4	27.2	33.6	39.7	21.8	24.1	38.8	42.6	34.5	36.3
3.1	5.1	3.4	5.8	3.5	5.9	3.9	6.4	4.5	8.2	2.4	4.0	6.1	9.5	5.3	7.8
86.8	92.1	88.3	93.2	89.4	92.6	89.3	91.9	89.8	94.3	91.7	95.2	83.3	84.2	85.8	87.5
13.2	7.9	11.7	6.8	10.6	7.4	10.7	8.1	10.2	5.7	8.3	4.8	16.7	15.8	14.2	12.5
15.9	10.0	13.9	8.7	12.8	9.2	12.8	10.2	19.0	11.6	10.2	6.5	21.4	19.5	17.1	15.3
96.4	96.9	96.1	95.9	94.0	93.9	94.8	94.5	95.4	95.9	96.1	95.5	88.4	87.9	92.3	92.3
3.6	3.1	3.9	4.1	6.0	6.1	5.2	5.5	4.6	4.1	3.9	4.5	11.6	12.1	7.7	7.7
0.2	0.3	0.3	0.3	0.5	0.7	0.4	0.9	0.3	0.6	0.2	0.4	1.7	2.8	0.8	0.7
100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
7.8	8.0	10.0	10.4	4.2	3.6	5.0	4.5	30.7	31.2	44.5	43.6	85.9	93.1	100.8	104.0

account. — 7 Including profit carried forward. — 8 Wages, salaries, social security contributions and fringe benefits. — 9 On fixed assets. — 10 Published profits plus changes in reserves less losses shown. Discrepancies in the totals are due to rounding.

Balance sheet and profit and loss account of partnerships by branch of economic activity *

Item	All enterprises		of which: Manufacturing		of which: Chemical industry		Extraction and processing of stones and earths		Iron and steel production 1		Steel and light metal construction		Mechanical engineering		Road vehicle building	
	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974
I. Balance sheet	as % of balance sheet total															
Assets																
Non-financial assets																
Fixed assets	30.5	28.9	36.5	33.6	36.7	30.1	49.8	49.3	42.5	38.2	20.5	20.4	28.8	25.8	38.1	34.8
Stocks	22.9	25.3	25.5	28.5	22.5	26.2	10.9	11.1	24.3	27.7	19.2	21.6	28.2	32.0	28.2	31.4
Total	53.4	54.2	62.0	62.2	59.2	56.3	60.6	60.3	66.7	65.9	39.7	41.9	57.0	57.8	66.3	66.2
Financial assets																
Cash 6	4.5	3.9	4.3	3.1	4.1	2.6	3.8	2.7	3.2	2.8	8.3	7.1	5.4	3.9	3.2	2.6
Claims	37.5	36.5	28.5	28.6	29.8	27.5	29.4	29.2	25.9	27.1	48.6	45.1	32.3	32.9	27.6	27.9
short-term	35.9	34.6	26.8	26.7	28.0	25.5	27.1	26.5	24.3	25.6	47.6	43.8	30.8	31.3	26.2	26.4
long-term	1.5	1.9	1.6	1.8	1.9	2.0	2.3	2.8	1.6	1.5	1.0	1.3	1.4	1.6	1.5	1.5
Securities	0.5	0.4	0.6	0.5	0.6	0.2	0.4	0.2	0.4	0.7	0.9	1.2	0.7	0.3	0.2	0.1
Trade investments	2.3	2.5	2.8	3.1	5.0	11.8	3.1	2.8	2.0	1.8	0.9	1.5	3.4	3.3	1.4	1.6
Total	44.8	43.2	36.1	35.2	39.5	42.2	36.7	34.9	31.6	32.4	58.8	54.8	41.7	40.4	32.4	32.2
Other assets 7	1.9	2.6	1.9	2.6	1.3	1.5	2.7	4.7	1.7	1.7	1.5	3.2	1.3	1.8	1.3	1.6
Balance sheet total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Liabilities																
Own funds																
Capital	19.2	18.2	22.4	20.7	28.0	28.9	21.8	21.3	24.9	22.1	12.6	12.0	20.8	18.3	23.0	20.3
Reserves 8	1.8	2.0	2.4	2.7	3.0	4.5	1.3	1.0	1.8	2.4	0.9	1.0	1.4	1.8	2.9	2.4
Total	20.9	20.2	24.8	23.4	31.0	33.4	23.1	22.3	26.7	24.5	13.4	13.0	22.3	20.1	25.9	22.8
Borrowed funds																
Debt	68.8	69.0	63.2	64.1	53.3	48.3	65.6	65.7	63.3	64.9	75.0	76.6	61.4	63.8	61.4	65.3
short-term	47.1	47.6	37.7	39.9	32.8	32.7	38.6	37.0	36.7	38.9	57.6	59.7	35.3	39.7	31.1	37.1
long-term	21.7	21.4	25.4	24.3	20.5	15.6	27.1	28.7	26.6	26.0	17.4	16.9	26.1	24.1	30.3	28.2
Provisions	7.0	7.8	8.5	9.3	13.1	14.0	8.4	9.5	7.1	8.1	8.8	8.4	11.1	11.6	10.2	9.5
Total	75.9	76.8	71.7	73.4	66.4	62.3	74.0	75.2	70.4	73.0	83.8	85.0	72.5	75.5	71.6	74.8
Other liabilities	3.2	3.0	3.5	3.2	2.6	4.3	2.9	2.5	2.9	2.5	2.8	2.1	5.3	4.4	2.5	2.4
of which Accumulated depreciation reserves	1.5	1.5	1.3	1.4	1.0	1.1	1.4	1.3	1.1	1.2	1.2	1.2	1.6	1.6	1.0	1.0
Balance sheet total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
do in DM billion	274.1	315.4	150.1	175.1	6.9	10.0	9.5	9.8	6.8	8.2	5.8	7.0	21.4	25.0	4.5	4.6
II. Profit and loss account	as % of amplified gross earnings															
Costs																
Wages 9	48.5	50.2	50.4	52.7	45.5	46.4	37.8	42.2	58.1	56.5	57.0	63.6	55.0	58.5	61.1	62.6
Depreciation 10	7.0	6.4	7.1	6.6	6.9	6.3	13.5	13.5	8.1	7.1	4.5	4.5	5.4	4.8	6.3	5.4
Taxes	4.6	4.1	5.6	4.9	2.6	3.1	3.1	2.6	2.4	2.5	2.8	2.2	2.8	2.2	2.6	2.0
Other costs	29.6	32.5	27.0	29.6	35.7	37.4	33.3	36.5	23.9	24.6	23.8	25.5	24.7	27.5	21.3	23.6
of which Interest costs	3.2	5.0	3.0	4.7	2.7	4.0	3.3	5.4	3.4	4.4	1.9	3.7	3.2	4.9	3.0	4.7
Total	89.7	93.2	90.2	93.8	90.6	93.3	87.8	94.8	92.6	90.7	88.0	95.8	87.9	93.0	91.3	93.6
Annual surplus 11	10.3	6.8	9.8	6.2	9.4	6.6	12.2	5.2	7.4	9.3	11.9	4.2	12.1	7.0	8.7	6.4
Memorandum item: Annual surplus before tax	14.9	10.9	15.5	11.1	12.0	9.8	15.3	7.8	9.8	11.8	14.7	6.4	14.9	9.2	11.3	8.4
Amplified gross earnings																
Gross earnings	93.4	93.0	94.8	94.5	92.7	90.5	93.7	93.3	96.1	96.7	95.9	94.5	95.5	95.3	95.0	95.7
Other income	6.6	7.0	5.2	5.5	7.3	9.5	6.3	6.7	3.9	3.3	4.0	5.5	4.5	4.7	5.1	4.3
of which Interest income	0.7	1.0	0.6	0.8	0.5	0.7	0.5	0.8	0.5	0.6	0.7	1.2	1.0	1.4	0.8	0.9
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Memorandum item: Turnover in DM billion	514.0	650.0	241.3	300.4	10.7	15.1	13.8	14.3	10.5	15.3	7.8	9.1	28.6	34.9	8.1	8.7

* Extrapolated figures. — **1** Including steel moulding. — **2** Including locksmithing, welding, grinding and forging. — **3** Including upholstery and soft furnishing trade. — **4** Excluding tobacco processing. — **5** Including intermediaries. — **6** Notes and coins, bank and postal giro balances. — **7** Including adjustments to capital account. — **8** Including profit carried forward. — **9** Wages, salaries, social security contributions and

Electrical engineering		Metal goods production 2		Wood processing		Textile industry 3		Clothing industry		Food, drink and tobacco industry 4		Construction		Wholesale trade 5		Retail trade	
1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974
28.9	25.7	38.5	35.3	35.9	34.5	36.9	33.3	27.2	23.9	39.1	39.3	17.7	17.2	18.5	17.8	32.5	31.2
28.1	33.9	26.2	30.0	23.2	26.2	32.8	33.6	40.8	41.5	27.1	28.1	5.0	6.2	28.0	29.0	34.2	35.8
57.0	59.6	64.7	65.3	59.1	60.8	69.7	66.9	68.1	65.4	66.2	67.4	22.7	23.4	46.5	46.8	66.8	67.0
7.3	3.9	4.0	2.6	3.9	2.6	2.3	2.0	3.9	3.4	3.6	2.7	4.5	3.6	4.9	5.1	5.9	6.7
29.3	29.7	27.2	27.5	33.7	31.9	23.6	25.0	23.4	25.6	23.7	24.2	70.7	69.8	43.9	43.2	23.1	21.6
28.1	28.4	25.8	25.6	32.2	29.7	22.4	23.8	21.7	23.6	20.8	21.1	69.7	68.4	42.5	41.3	21.3	19.1
1.3	1.3	1.3	1.9	1.4	2.2	1.2	1.1	1.7	2.0	2.8	3.1	1.0	1.4	1.4	1.9	1.8	2.6
1.0	1.7	0.9	0.6	0.2	0.2	0.4	0.2	0.4	0.3	0.6	0.5	0.2	0.2	0.5	0.5	0.2	0.3
4.1	3.3	2.0	1.6	0.9	1.2	1.7	2.4	2.5	2.5	3.3	2.8	0.7	0.8	2.5	2.4	1.5	1.9
41.8	38.7	34.0	32.4	38.7	35.9	28.1	29.5	30.3	31.8	31.2	30.2	76.0	74.4	51.8	51.2	30.7	30.5
1.2	1.7	1.3	2.3	2.2	3.3	2.2	3.6	1.7	2.8	2.6	2.4	1.3	2.3	1.7	2.0	2.5	2.5
100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
23.4	20.0	25.6	22.3	20.1	18.3	24.2	21.5	21.3	19.3	21.1	19.7	8.5	7.9	17.8	16.6	20.1	22.5
1.9	2.0	3.7	3.4	1.1	0.9	2.7	3.1	1.9	1.2	3.8	3.2	0.5	0.5	1.5	2.0	0.9	0.6
25.4	22.1	29.3	25.7	21.2	19.2	26.9	24.6	23.1	20.5	24.8	22.9	9.0	8.4	19.3	18.7	21.1	23.1
58.3	61.8	59.4	63.2	68.0	70.4	63.8	65.9	68.0	70.4	66.4	67.5	83.0	83.0	73.0	73.2	69.8	67.3
32.7	40.8	30.8	34.7	39.8	42.6	38.6	39.5	42.5	45.0	43.7	44.6	72.1	72.1	56.1	56.6	44.5	42.7
25.6	21.0	28.5	28.5	28.1	27.8	25.2	26.4	25.5	25.4	22.7	22.9	10.9	11.0	16.9	16.6	25.3	24.5
12.6	12.8	8.1	8.2	6.8	7.0	5.6	6.3	6.1	6.3	5.4	6.5	5.9	6.5	4.5	5.2	5.6	7.2
70.9	74.6	67.4	71.3	74.7	77.4	69.4	72.2	74.1	76.7	71.8	74.0	88.9	89.5	77.5	78.4	75.4	74.5
3.8	3.4	3.3	3.0	4.0	3.4	3.7	3.2	2.8	2.8	3.3	3.1	2.1	2.1	3.1	3.0	3.5	2.4
1.1	1.2	1.1	1.2	1.8	1.8	1.1	1.1	1.2	1.3	1.8	1.7	1.1	1.1	2.2	2.2	1.7	0.9
100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
9.3	11.9	9.6	11.8	7.5	9.2	9.3	10.2	5.2	5.6	18.6	20.3	39.8	42.6	50.5	58.6	23.3	27.0
53.2	57.4	56.2	59.6	51.5	55.5	55.2	57.2	59.1	60.2	35.1	38.3	59.2	63.1	37.5	37.1	41.7	43.0
5.3	4.9	6.5	6.2	5.5	5.6	8.6	7.7	4.2	3.7	8.8	8.5	8.2	7.3	5.2	4.6	5.2	4.5
3.2	2.5	2.7	2.1	2.3	1.7	2.4	2.0	2.4	2.0	12.2	10.2	2.1	1.6	3.3	3.3	2.8	2.1
23.5	26.2	23.5	25.4	29.8	32.6	25.1	29.4	23.1	27.1	35.6	38.4	22.7	25.1	38.8	43.4	38.7	41.2
3.1	4.1	2.5	4.0	2.4	4.4	3.5	6.1	3.1	5.1	3.6	5.7	2.0	3.4	5.5	8.6	3.5	4.4
85.2	91.0	88.9	93.4	89.0	95.4	91.3	96.3	88.8	93.0	91.7	95.5	92.1	97.2	84.9	88.5	88.4	90.8
14.8	9.0	11.1	6.6	11.0	4.6	8.7	3.7	11.2	7.0	8.3	4.5	7.9	2.8	15.1	11.5	11.6	9.2
17.9	11.5	13.8	8.8	13.2	6.3	11.1	5.7	13.5	8.9	20.5	14.7	10.0	4.4	18.4	14.9	14.4	11.3
93.5	93.9	96.3	96.1	95.6	95.2	94.0	92.9	94.2	94.0	94.8	94.6	95.2	93.5	85.1	84.9	92.1	92.5
6.5	6.1	3.7	3.9	4.4	4.8	6.0	7.1	5.8	6.0	5.2	5.4	4.8	6.5	14.9	15.1	7.9	7.5
0.7	1.1	0.4	0.6	0.4	0.5	0.6	0.9	0.6	0.8	0.6	0.7	0.4	0.7	1.8	2.7	0.7	0.9
100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
14.8	19.6	15.2	19.9	13.8	16.4	15.2	17.2	10.7	11.5	35.8	45.6	40.5	47.1	150.9	197.6	64.7	83.8

fringe benefits. — **10** On fixed assets. — **11** Published profits plus changes in reserves less losses shown.
Discrepancies in the totals are due to rounding.

Balance sheet and profit and loss account of incorporated enterprises by branch of economic activity *

Item	All enterprises 1972	All enterprises 1974	of which: Manufacturing 1972	Manufacturing 1974	of which: Chemical industry 1972	Chemical industry 1974	Extraction and processing of stones and earths 1972	Extraction and processing of stones and earths 1974	Iron and steel production 1 1972	Iron and steel production 1 1974	Steel and light metal construction 1972	Steel and light metal construction 1974	Mechanical engineering 1972	Mechanical engineering 1974	Road vehicle building 1972	Road vehicle building 1974
I. Balance sheet	as % of balance sheet total															
Assets																
Non-financial assets																
Fixed assets	42.8	40.1	33.8	30.3	40.1	35.1	47.0	47.9	43.9	38.4	20.8	18.7	20.8	17.6	43.7	41.0
Stocks	16.0	18.2	21.1	24.3	14.0	19.3	11.9	13.9	15.2	18.0	26.4	27.4	28.4	29.7	21.1	24.8
Total	58.8	58.3	54.8	54.7	54.1	54.4	58.9	61.9	59.0	56.4	47.1	46.1	49.2	47.3	64.8	65.8
Financial assets																
Cash 6	4.3	3.4	4.8	3.3	5.1	4.9	5.1	3.2	1.6	2.0	4.7	2.5	3.7	2.5	9.4	2.5
Claims	26.8	28.2	28.6	30.0	21.8	23.1	23.7	21.5	24.6	28.1	43.2	45.5	39.2	42.8	18.6	20.5
short-term	24.9	26.6	26.8	28.5	20.5	22.0	22.0	19.6	22.1	26.4	41.5	44.5	38.1	42.1	17.0	19.0
long-term	1.9	1.7	1.8	1.6	1.3	1.1	1.7	1.8	2.5	1.7	1.7	1.1	1.1	0.7	1.5	1.5
Securities	0.9	1.1	1.1	1.3	0.8	1.0	0.7	0.7	0.3	0.1	1.5	0.9	1.1	0.8	0.9	1.1
Trade investments	8.1	7.8	9.7	9.3	17.8	16.3	10.6	10.5	13.7	13.0	2.2	2.8	6.0	5.6	6.0	6.9
Total	40.0	40.5	44.2	44.0	45.4	45.3	40.2	35.8	40.1	43.1	51.5	51.8	50.0	51.7	34.9	31.0
Other assets 7	1.2	1.3	1.0	1.4	0.5	0.3	1.0	2.3	0.8	0.4	1.4	2.1	0.8	1.0	0.3	3.2
Balance sheet total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Liabilities																
Own funds																
Capital	15.3	14.7	17.2	16.5	20.9	19.2	18.6	20.1	16.8	15.3	10.7	10.5	14.2	12.7	19.8	19.5
Reserves 8	11.9	11.9	14.1	13.9	19.8	19.6	14.9	13.3	14.7	16.0	7.9	7.0	10.0	8.9	19.8	18.9
Total	27.2	26.6	31.3	30.4	40.7	38.7	33.5	33.4	31.5	31.3	18.6	17.5	24.3	21.6	39.6	38.3
Borrowed funds																
Debt	48.9	48.5	50.5	49.8	42.7	41.5	45.2	45.7	50.4	48.7	66.0	70.0	57.7	61.2	33.3	33.5
short-term	30.1	31.4	32.0	33.9	18.9	21.9	28.1	26.5	22.9	24.8	54.2	59.4	43.4	50.0	23.6	22.8
long-term	18.8	17.1	18.5	15.9	23.7	19.6	17.1	19.1	27.5	23.9	11.8	10.6	14.3	11.2	9.7	10.7
Provisions	13.1	14.6	14.5	16.2	11.7	14.7	17.2	17.7	16.4	17.7	11.7	10.6	14.5	14.3	21.4	24.6
Total	62.0	63.1	64.9	66.0	54.3	56.2	62.4	63.4	66.8	66.4	77.7	80.6	72.2	75.5	54.7	58.0
Other liabilities	10.8	10.3	3.7	3.6	5.0	5.0	4.0	3.2	1.7	2.3	3.6	1.8	3.5	2.9	5.7	3.6
of which Accumulated depreciation reserves	8.2	7.8	0.7	0.7	0.3	0.3	0.5	0.5	0.6	0.6	1.4	0.7	1.0	0.9	0.5	0.7
Balance sheet total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
do in DM billion	492.5	570.8	299.1	352.3	48.4	56.8	6.3	6.7	33.9	42.2	6.0	7.4	40.9	49.4	24.2	27.3
II. Profit and loss account	as % of amplified gross earnings															
Costs																
Wages 9	47.5	48.3	48.7	49.9	40.9	41.9	38.2	44.4	55.7	50.2	63.2	66.4	59.3	60.6	55.9	65.3
Depreciation 10	9.4	8.7	8.7	7.8	12.1	10.3	13.7	13.4	12.8	10.3	4.6	4.4	6.5	5.5	11.2	10.6
Taxes 11	11.2	9.9	12.0	10.6	7.1	6.7	7.3	4.3	3.8	6.9	3.6	2.5	4.3	3.4	8.5	4.7
Other costs	28.5	30.5	27.1	29.4	34.4	35.9	35.7	37.4	26.0	28.0	25.6	26.4	27.2	28.6	19.2	20.9
of which Interest costs	3.5	4.4	3.2	4.0	4.1	3.7	2.8	4.4	5.5	5.6	2.6	4.7	3.9	5.2	1.2	1.6
Total	96.6	97.4	96.5	97.8	94.5	94.8	95.0	99.5	98.3	95.3	97.0	99.7	97.2	98.1	94.8	101.5
Annual surplus 12	3.4	2.6	3.5	2.2	5.5	5.2	5.0	0.5	1.7	4.7	3.0	0.3	2.8	1.9	5.2	— 1.5
Memorandum item: Annual surplus before tax	14.6	12.5	15.5	12.8	12.6	11.9	12.4	4.8	5.4	11.5	6.6	2.8	7.1	5.3	13.7	3.2
Amplified gross earnings																
Gross earnings	90.7	89.9	91.3	90.7	93.1	93.1	91.3	90.9	83.8	87.4	92.5	90.7	91.1	89.6	94.0	92.1
Other income	9.3	10.1	8.7	9.3	6.9	6.9	8.7	9.1	16.2	12.6	7.5	9.3	8.9	10.4	6.0	7.9
of which Interest income	1.3	1.8	1.3	1.7	1.0	1.3	0.9	1.1	1.9	2.4	1.4	1.7	2.1	2.5	1.1	1.5
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Memorandum item: Turnover in DM billion	575.6	763.3	368.9	487.8	46.8	70.6	7.1	7.7	31.7	53.6	7.1	8.9	41.6	49.5	45.5	48.8

* Extrapolated figures. — 1 Including steel moulding. — 2 Including locksmithing, welding, grinding and forging. — 3 Including upholstery and soft furnishing trade. — 4 Excluding tobacco processing. — 5 Including intermediaries. — 6 Notes and coins, bank and postal giro balances. — 7 Including adjustments to capital account. — 8 Including profit carried forward. — 9 Wages, salaries, social security contributions and

Electrical engineering		Metal goods production 2		Wood processing		Textile industry 3		Clothing industry		Food, drink and tobacco industry 4		Construction		Wholesale trade 5		Retail trade	
1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974
20.3	19.1	31.7	30.9	29.7	27.8	29.9	27.3	20.2	19.2	40.4	40.5	14.7	15.5	14.9	13.3	42.8	41.7
24.0	27.5	29.9	32.8	26.8	31.1	32.9	34.0	40.5	37.9	25.3	23.1	4.3	3.9	20.5	22.0	25.8	28.7
44.4	46.7	61.6	63.7	56.6	58.9	62.8	61.3	60.7	57.1	65.7	63.7	19.0	19.3	35.4	35.3	68.6	70.4
6.7	4.3	4.2	2.5	4.1	2.8	2.7	2.1	2.8	2.5	4.1	3.0	9.8	8.8	5.8	4.8	8.1	6.9
37.9	35.7	27.0	27.3	31.2	31.9	25.6	27.8	31.0	30.7	21.5	23.5	66.9	68.0	51.9	52.0	17.2	16.5
36.3	33.9	26.1	26.4	30.4	30.7	24.9	26.5	29.6	28.9	18.1	19.7	66.4	67.6	50.4	50.5	15.7	15.0
1.6	1.9	1.0	0.9	0.9	1.2	0.7	1.2	1.3	1.9	3.4	3.8	0.5	0.4	1.5	1.5	1.5	1.5
2.4	3.7	0.6	0.3	0.1	0.0	1.1	0.9	0.1	0.1	0.6	0.6	1.9	1.5	0.6	0.4	0.4	0.0
8.4	8.5	4.7	4.0	6.1	1.9	4.9	5.1	3.4	3.5	6.5	7.5	1.7	1.6	4.9	5.8	4.7	4.4
55.4	52.3	36.0	34.0	41.5	36.6	34.2	35.9	37.3	36.9	32.8	34.7	80.3	79.9	63.2	63.1	30.3	27.9
0.3	1.1	1.8	2.3	1.9	4.5	3.1	2.8	2.0	6.0	1.6	1.6	0.7	0.8	1.4	1.6	1.0	1.7
100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
12.9	13.1	19.4	20.0	12.8	14.7	17.7	17.4	20.2	22.8	17.5	18.8	4.9	5.4	11.2	10.8	17.3	15.4
13.6	12.6	15.4	13.6	14.6	11.4	12.4	11.9	12.9	9.6	16.3	16.1	6.5	6.0	7.3	7.2	18.0	19.0
26.5	25.6	34.7	33.7	27.4	26.1	30.1	29.3	33.1	32.4	33.8	34.9	11.4	11.3	18.5	18.1	35.4	34.4
50.4	48.9	48.1	47.1	58.8	58.8	55.1	56.8	55.0	57.7	48.5	45.8	74.1	74.9	71.5	71.3	51.0	51.7
33.8	34.7	33.1	33.9	41.6	43.0	40.3	43.2	40.7	45.7	35.8	33.5	68.9	69.5	63.5	64.3	33.1	36.0
16.6	14.2	14.9	13.2	17.2	15.8	14.8	13.5	14.4	11.9	12.7	12.4	5.2	5.4	8.0	7.0	17.9	15.7
19.5	21.8	12.9	15.0	10.0	11.1	10.2	10.0	8.6	7.4	12.7	14.3	11.5	11.6	6.7	7.5	10.0	11.0
70.0	70.8	61.0	62.2	68.8	69.9	65.3	66.8	63.6	65.1	61.2	60.1	85.6	86.5	78.2	78.8	61.0	62.7
3.5	3.6	4.3	4.2	3.9	4.1	4.6	3.9	3.2	2.5	5.0	4.9	3.0	2.1	3.3	3.2	3.6	2.9
0.6	0.6	1.0	1.4	1.1	1.2	1.0	1.3	0.5	0.5	0.9	1.1	1.0	0.5	1.4	1.5	0.3	0.7
100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
45.7	56.7	4.6	5.3	1.4	1.5	7.1	7.4	1.4	1.5	16.5	17.9	16.4	16.8	33.3	40.7	12.8	14.0
58.0	59.4	58.7	58.8	53.0	56.6	55.5	57.3	55.8	58.3	34.2	36.4	65.1	68.1	31.7	30.3	41.4	45.3
6.4	5.7	5.6	5.7	5.6	4.8	8.4	8.1	2.7	2.8	10.2	9.9	6.7	6.2	4.7	4.1	6.4	6.4
6.0	4.5	4.9	3.7	5.5	3.1	4.2	3.4	4.3	2.6	14.1	13.4	4.4	2.3	16.2	16.1	10.2	7.6
25.4	29.1	27.7	29.5	32.0	36.9	29.4	30.8	32.7	39.3	36.6	37.1	21.0	23.0	44.1	46.7	38.1	38.9
3.0	3.7	2.7	3.9	2.8	4.3	3.6	6.1	3.5	5.9	2.6	3.8	1.6	2.6	5.2	8.4	2.5	3.3
95.8	98.7	96.9	97.8	96.1	101.3	97.5	99.5	95.5	102.9	95.1	96.9	97.2	99.7	96.7	97.3	96.2	98.2
4.2	1.3	3.1	2.2	4.0	— 1.3	2.5	0.5	4.5	— 2.9	4.9	3.1	2.8	0.3	3.3	2.7	3.8	1.8
10.2	5.8	8.0	5.9	9.5	1.8	6.7	3.9	8.8	— 0.4	19.0	16.6	7.2	2.7	19.5	18.8	14.0	9.4
90.6	90.1	95.5	94.6	94.8	93.5	90.6	88.6	91.3	89.4	91.4	89.8	94.1	92.2	85.9	85.0	92.5	91.9
9.4	9.9	4.5	5.4	5.2	6.5	9.4	11.4	8.8	10.6	8.6	10.2	5.9	7.8	14.1	15.0	7.5	8.1
1.6	2.2	0.6	0.8	0.6	0.6	0.8	1.3	1.2	2.0	0.9	1.2	1.3	1.7	2.9	3.9	1.7	1.5
100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
54.0	70.7	6.6	8.4	2.2	2.6	10.8	12.0	2.7	2.8	29.2	33.8	15.0	16.8	94.2	132.7	33.9	40.3

fringe benefits. — **10** On fixed assets. — **11** Including corporation tax. —
12 Published profits plus changes in reserves less losses shown.
Discrepancies in the totals are due to rounding.

Selected ratios on enterprises by branch of economic activity and form of organisation *

Item	All enterprises		of which: Manufacturing		of which: Chemical industry		Extraction and processing of stones and earths		Iron and steel production 4		Steel and light metal construction		Mechanical engineering		Road vehicle building	
	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974
All enterprises covered																
Turnover as % of balance sheet total	144.7	157.8	137.3	149.8	104.8	129.9	128.0	125.8	103.0	135.2	127.3	126.6	113.8	114.5	185.0	179.4
Liquid funds 1 as % of short-term debt	87.1	84.8	90.1	85.6	128.6	119.0	84.5	77.5	97.1	105.1	93.0	82.8	98.3	88.9	100.1	86.8
Liquid funds 1 and stocks as % of short-term debt	135.5	137.7	154.6	154.9	200.1	204.6	116.4	115.6	162.3	177.0	129.2	120.8	166.8	152.9	183.0	181.6
Own funds 2 as % of fixed assets 3	68.6	69.0	78.0	80.4	97.1	107.1	51.8	47.0	68.8	77.6	69.9	60.3	95.8	97.1	83.2	79.3
Own funds 2 and long-term debt as % of fixed assets 3	126.6	128.6	136.8	139.3	156.3	163.3	98.2	98.5	131.2	140.6	136.5	127.4	170.0	169.7	116.4	115.4
Stocks as % of turnover	13.2	13.3	16.4	17.0	14.4	15.6	8.5	10.0	15.9	14.3	16.3	18.1	24.7	26.3	12.3	14.4
Short-term claims as % of turnover	20.5	18.7	19.2	18.2	20.4	17.3	18.9	17.9	21.6	19.3	36.5	35.7	31.0	33.4	10.4	11.3
Gross earnings as % of turnover	40.3	38.6	50.4	48.2	54.5	51.2	58.4	55.4	43.5	43.4	52.6	50.8	54.8	55.4	46.4	45.8
Annual surplus before tax as % of turnover	6.4	5.0	8.2	6.2	7.3	6.4	8.5	3.5	3.4	5.7	6.3	2.7	6.0	4.2	6.6	2.2
of which																
Partnerships																
Turnover as % of balance sheet total	187.5	206.1	160.7	171.5	154.1	150.1	145.4	145.1	154.6	185.9	135.4	131.0	133.7	139.9	179.5	188.6
Liquid funds 1 as % of short-term debt	86.9	81.6	83.9	76.1	99.6	86.7	81.2	79.4	76.1	74.8	98.7	87.2	104.4	89.4	94.8	78.4
Liquid funds 1 and stocks as % of short-term debt	135.5	134.8	151.5	147.7	168.3	166.7	109.3	109.2	142.2	146.0	132.1	123.3	184.3	170.0	185.4	163.1
Own funds 2 as % of fixed assets 3	64.6	63.4	64.3	63.6	82.4	108.1	42.9	37.3	59.9	60.5	59.9	49.5	74.2	73.0	65.8	61.9
Own funds 2 and long-term debt as % of fixed assets 3	136.6	138.3	134.7	136.5	138.4	160.4	97.8	95.9	122.8	128.6	144.9	132.6	165.3	167.3	145.3	142.9
Stocks as % of turnover	12.2	12.3	15.9	16.6	14.6	17.4	7.5	7.6	15.7	14.9	14.2	16.5	21.1	22.9	15.7	16.7
Short-term claims as % of turnover	19.2	16.8	16.7	15.6	18.1	17.0	18.7	18.2	15.7	13.8	35.1	33.4	23.1	22.4	14.6	14.0
Gross earnings as % of turnover	37.9	35.7	51.3	49.0	50.8	48.2	54.0	50.8	49.3	47.0	51.9	49.9	59.5	58.5	49.6	49.0
Annual surplus before tax as % of turnover	6.0	4.2	8.4	5.8	6.6	5.2	8.8	4.2	5.0	5.8	8.0	3.4	9.3	5.6	5.9	4.3
Sole proprietorships																
Turnover as % of balance sheet total	189.1	197.8	170.3	176.0	·	·	131.9	121.8	·	·	130.1	128.0	151.5	153.7	·	·
Liquid funds 1 as % of short-term debt	71.9	69.8	63.8	62.3	·	·	69.0	66.3	·	·	85.4	86.7	77.8	76.5	·	·
Liquid funds 1 and stocks as % of short-term debt	113.7	113.4	116.8	116.2	·	·	95.1	102.6	·	·	111.7	107.2	136.8	137.7	·	·
Own funds 2 as % of fixed assets 3	62.9	56.5	59.0	55.4	·	·	41.3	35.3	·	·	62.5	53.7	77.7	76.0	·	·
Own funds 2 and long-term debt as % of fixed assets 3	112.2	114.0	104.9	106.9	·	·	78.1	88.4	·	·	110.5	104.1	117.3	127.8	·	·
Stocks as % of turnover	12.4	12.3	14.0	14.4	·	·	7.9	13.1	·	·	13.0	11.1	16.3	17.7	·	·
Short-term claims as % of turnover	19.5	18.0	15.0	15.2	·	·	17.8	22.4	·	·	39.6	45.3	18.6	19.9	·	·
Gross earnings as % of turnover	35.3	33.6	46.5	44.8	·	·	67.7	60.8	·	·	54.5	51.8	59.1	59.9	·	·
Annual surplus before tax as % of turnover	5.7	4.4	7.2	4.9	·	·	9.0	4.5	·	·	7.5	4.3	9.3	7.0	·	·
Incorporated enterprises																
Turnover as % of balance sheet total	116.9	133.7	123.3	138.5	96.7	124.3	113.1	114.5	93.6	126.8	116.8	120.4	101.6	100.3	188.1	178.6
Liquid funds 1 as % of short-term debt	99.9	98.8	102.1	97.8	139.2	127.2	99.2	88.6	104.3	114.6	87.9	80.6	98.9	90.7	115.6	99.1
Liquid funds 1 and stocks as % of short-term debt	152.9	156.7	168.2	169.6	213.3	215.3	141.4	141.1	170.4	187.3	136.6	126.8	164.4	150.2	205.0	208.0
Own funds 2 as % of fixed assets 3	74.8	78.1	91.1	97.2	100.7	109.8	70.0	65.6	71.1	81.4	86.5	83.7	114.1	118.6	90.2	86.0
Own funds 2 and long-term debt as % of fixed assets 3	128.4	130.5	146.3	150.1	160.1	165.7	106.5	105.6	134.1	144.2	145.0	140.6	183.4	182.4	112.3	112.1
Stocks as % of turnover	13.7	13.6	17.1	17.6	14.5	15.5	10.5	12.2	16.2	14.2	22.6	22.8	27.9	29.6	11.2	13.9
Short-term claims as % of turnover	21.3	19.9	21.7	20.6	21.2	17.7	19.5	17.1	23.6	20.8	35.5	36.9	37.5	42.0	9.1	10.6
Gross earnings as % of turnover	44.1	41.4	50.5	47.9	55.8	51.9	59.5	56.6	40.9	41.8	50.7	48.9	51.3	52.7	46.6	45.4
Annual surplus before tax as % of turnover	7.1	5.7	8.6	6.8	7.5	6.6	8.0	3.0	2.7	5.5	3.6	1.5	4.0	3.1	6.8	1.6

* Extrapolated figures. — 1 Notes and coins, short-term claims and securities. — 2 Less adjustments to capital account. — 3 Less accumulated depreciation reserves. — 4 Including steel moulding. — 5 Including locksmithing, welding, grinding and forging. — 6 Including upholstery

Electrical engineering		Metal goods production 5		Wood processing		Textile industry 6		Clothing industry		Food, drink and tobacco industry 7		Construction		Wholesale trade 8		Retail trade	
1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974	1972	1974
125.4	131.9	158.1	166.3	166.5	160.2	158.6	166.2	200.6	197.8	174.2	191.2	101.3	106.5	257.3	284.3	236.2	244.3
128.9	113.0	90.1	78.6	80.1	69.0	66.8	65.8	61.8	59.6	56.6	56.3	101.5	99.2	81.7	79.1	55.8	50.5
200.7	191.5	169.0	160.9	131.9	124.9	147.5	146.1	155.1	146.2	120.1	119.9	108.3	106.8	128.1	128.2	132.1	130.6
119.2	117.7	78.1	74.4	56.7	47.3	76.2	76.9	94.4	88.1	62.8	61.3	51.3	41.2	99.1	100.5	68.4	64.0
202.0	193.6	140.2	139.1	122.5	116.4	135.9	143.1	175.9	178.1	108.8	108.6	101.3	97.8	170.3	174.6	132.8	131.7
19.5	21.4	16.7	17.9	13.8	16.0	20.2	20.1	20.5	20.5	14.7	13.3	4.9	5.1	10.4	10.0	14.7	14.7
28.0	25.1	16.1	15.2	19.0	18.3	14.8	14.9	11.8	12.4	10.8	10.0	67.4	63.0	16.2	14.4	8.6	7.4
54.5	54.0	56.9	55.0	52.6	52.3	46.3	43.9	46.5	45.7	39.5	36.8	60.2	55.9	16.7	16.0	27.7	28.6
6.9	4.1	7.3	4.8	6.9	3.4	4.7	2.5	5.8	3.4	7.6	5.6	6.1	2.9	3.7	3.0	4.7	3.9
158.9	165.0	159.5	168.3	183.5	178.0	162.9	167.7	204.5	204.6	192.8	224.4	101.8	110.6	299.0	337.0	278.3	310.2
111.5	83.4	99.6	83.1	91.4	76.3	65.1	65.9	61.2	60.6	57.4	54.2	103.1	100.0	85.3	82.8	61.5	60.9
197.4	166.6	184.5	169.8	149.6	137.9	150.1	150.8	157.3	152.8	119.5	117.2	110.1	108.6	135.2	134.1	138.4	144.7
84.9	81.0	73.8	67.7	54.9	47.8	68.3	64.5	80.7	76.7	59.6	54.6	46.7	38.4	98.8	96.8	58.9	67.5
174.2	163.3	148.2	148.9	133.6	128.7	136.9	143.9	175.0	183.6	119.3	114.2	108.7	102.3	190.9	190.6	137.0	146.5
17.7	20.6	16.4	17.8	12.6	14.7	20.2	20.0	20.0	20.3	14.1	12.5	4.9	5.6	9.4	8.6	12.3	11.5
17.7	17.2	16.2	15.2	17.6	16.7	13.7	14.2	10.6	11.5	10.8	9.4	68.5	61.8	14.2	12.3	7.7	6.1
54.3	52.8	57.1	54.8	52.2	51.2	47.2	44.6	46.8	45.9	38.4	34.7	55.6	50.3	14.2	13.4	27.1	28.3
10.4	6.5	8.2	5.0	7.2	3.4	5.6	2.7	6.7	4.4	8.3	5.4	5.8	2.4	3.1	2.3	4.2	3.5
176.4	188.5	171.3	175.3	162.8	154.1	174.9	188.2	210.3	206.9	197.1	209.3	106.0	115.4	283.5	314.1	229.8	234.1
97.2	80.3	65.0	60.0	69.4	64.4	55.3	53.8	45.8	46.9	48.4	46.7	95.3	92.9	74.5	73.2	47.5	43.0
154.9	136.2	121.1	118.7	110.0	107.2	122.7	127.3	131.0	130.4	102.0	100.0	102.2	99.6	125.3	127.3	124.0	120.9
88.0	77.4	65.4	58.8	54.1	44.2	70.0	66.3	84.8	78.3	49.9	50.2	46.9	34.3	100.9	110.0	70.2	60.1
136.9	124.2	107.6	108.0	99.9	97.6	113.6	120.2	141.8	144.0	96.9	98.0	86.6	80.5	156.6	167.0	131.6	127.5
13.1	13.8	13.7	14.3	12.6	14.1	17.3	17.8	20.9	21.0	12.6	12.1	4.9	4.4	10.6	10.3	17.0	17.0
19.6	17.7	13.7	13.2	19.7	20.0	12.3	12.2	9.8	10.4	10.0	9.4	65.2	57.5	13.9	12.4	8.9	8.0
52.5	51.0	54.8	54.3	51.1	51.6	48.6	47.0	44.5	44.1	34.0	30.7	61.3	56.1	16.4	15.0	25.6	26.9
8.6	6.1	9.0	5.6	7.4	4.7	6.6	4.6	6.0	4.8	6.8	3.7	6.5	3.8	4.0	3.3	4.7	4.5
118.2	124.7	146.5	158.0	158.9	180.0	151.4	161.6	188.8	185.9	176.6	188.9	91.4	100.2	283.1	325.7	264.2	287.5
134.0	120.6	93.2	85.8	83.0	77.8	71.0	68.4	80.3	68.7	63.8	69.8	113.3	112.1	89.4	86.6	73.2	61.0
204.9	199.9	183.3	182.5	147.5	150.0	152.5	147.0	179.8	151.7	134.4	138.9	119.6	117.7	121.6	120.8	151.3	140.6
130.4	129.9	105.6	104.3	87.1	79.1	92.3	100.2	156.4	139.8	81.3	84.0	76.5	69.1	118.1	127.4	81.1	78.9
212.7	204.7	153.1	147.7	145.3	135.8	142.4	150.8	227.9	202.2	113.1	114.9	113.0	104.1	172.4	180.9	123.1	116.5
20.3	22.1	20.4	20.8	16.9	17.3	21.7	21.0	21.4	20.4	14.3	12.2	4.8	3.8	7.2	6.8	9.8	10.0
30.7	27.2	17.8	16.7	19.1	17.0	16.4	16.4	15.7	15.5	10.2	10.5	72.7	67.5	17.8	15.5	5.9	5.2
54.4	54.3	54.9	52.9	52.4	50.4	44.3	41.5	44.9	43.9	42.9	39.7	56.5	49.9	13.9	12.8	29.5	27.6
6.2	3.5	4.6	3.3	5.3	1.0	3.3	1.8	4.3	— 0.2	8.9	7.3	4.3	1.4	3.1	2.8	4.5	2.8

and soft furnishing trade. — **7** Excluding tobacco processing. — **8** Including intermediaries.