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MONTHLY REPORTS
OF THE
BANK DEUTSCHER LÄNDER

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The Economic Situation in the Western German
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Money and Credit

Money Supply

The impression of a certain tightness of money which marked the economic situation for the first time in January after months of plentiful or even too plentiful money supply has continued during the past weeks. To an increasing extent the economy was complaining about the short supply of credit. From various sides the Bank deutscher Länder was requested to relax the credit restrictions or even to facilitate the granting of

(1) Closed on 23 March 1949¹ -

bank credits. These suggestions, however, were often coupled with the intention to overbridge by means of bank credits the lack of long-term credits for carrying out investments and for substituting capital stock. In many cases capital stock is no longer adequate to business requirements. The lack of capital, however, cannot be remedied by short-term bank credits. Apart from objections with regard to currency policy, short-term credit which in practice is tied up on long terms, will always produce high costs and financial insecurity for enterprises and the grave disadvantage of imperiling the banks' liquidity. For this reason and also for considerations with regard to the general business situation, which are dealt with in detail in the last paragraph of this report - the Bank deutscher Länder considers it unadvisable to abandon the course of comparatively strict control of bank credit taken in November 1948. Even the decision taken on 22 March 1949 concerning the abolition of the so-called rationing of credits, has only brought a change in the form but not in the principles of the restrictive policy regarding credits of business banks.

Nevertheless, the rationing of credits, i.e. the restriction, on principle, of bank credits to the volume of 31 October 1948, was not meant as a rigid measure and was not carried out as such. On the contrary, in November 1948, the Board of Directors had declared that the exceeding of credit limits would be admissible when necessary in the interest of certain urgent credit requirements, such as financing of foreign trade and storages ordered by governmental agencies. The expansion of the credit volume since October 1948 was thus not at all in contradiction to the credit directives issued but to a considerable extent in line with the elastic handling of the credit restrictions as planned from the beginning. (1)

After a temporary interruption from the end of December until the end of January, credits granted by business banks again increased substantially in February. According to the monthly

(1) The statement of the Board of Directors, of 20 March 1949, i.e., reads as follows: "The credit restrictions of the bank of issue affect only short-term credit and can, therefore, not be made responsible for the lack of long-term credits. More-

over, the restrictions were not meant as a rigid measure and have not been carried out as such as is shown by the considerable increase in the credit volume since their introduction. They were not meant as measures for an indefinite period either and it is hoped that they will prove to be more and more dispensable."

banking statistics, short-term credits to "non-banks" increased by 368 million DM, as compared with 213 million DM in January, and thus totalled 5 265 million DM. By 15 March, credits granted by the 112 weekly reporting institutions increased an additional 41 million DM.

In February, and, according to the weekly banking statistics, also in March, the expansion of bank credits exclusively benefited the economy and not public authorities. In this connection it is noteworthy that from the end of January until the end of March, current account and acceptance credits granted by 112 weekly reporting financial institutions comprising the most important commercial banks increased considerably, i.e., by about 200 million DM, whereas credits granted through discounting bills of exchange decreased absolutely (by about 40 per cent) and relatively (from 42 per cent to 36 per cent).

The increase in current account and acceptance credits probably reflects the growing importance of import financing which is mostly made in the form of acceptance credits. The decrease in credits against commercial bills - in which the banks are particularly interested in as much as such credits increase their secondary liquidity regardless of a possible reduction of the minimum reserve - permits the conclusion that the need of the economy for genuine credits for merchandise transactions which are self-liquidating and for which commercial bills are, therefore, the appropriate medium for financing has been fully satisfied on the whole even under the credit restrictions.

In view of the liquid situation of public budgets, credits granted to public authorities played a rôle neither in February nor during the first two weeks in March. Credits granted to public authorities by 112 weekly reporting financial institutions after slight fluctuations, show, on 15 March approximately the same amount as on 31 January.

Credits granted to "non-banks" by the central bank system showed a slight downward trend also in February. Cash advances to public

authorities decreased by 20 million DM whereas credits to the economy (these credits are granted by the Land Central Banks in the French Zone only) slightly increased by 2 million DM. Total direct credits of the Bank deutscher Länder and the Land Central Banks to the economy and public authorities thus amounted to 69 million DM by the end of February as compared with 85 million DM by the end of January. By the end of the month, the credit balance of the four accounts for the settlement of foreign transactions maintained with the Bank deutscher Länder dropped to about the figure of the end of the preceding month after it had temporarily increased to a considerable extent during the reporting month; on 28 February it amounted to 152 million DM. By mid-March, however, the credit balance of the accounts for the settlement of foreign transactions as well as the amount of Länder treasury bills (the latter increased by 20 million DM with one Land Central Bank) again increased slightly.

The creation of credit by the business banks and the central bank system totalled about 350 million DM in February. It was thus 200 million DM higher than in January. By the end of February, total short-term bank credits including the net contribution of the Bank deutscher Länder to the financing of foreign trade amounted to roughly 5.5 billion DM and by mid-March, had further increased.

The progressive conversion of Reichsmark-deposits with financial institutions only slightly added to the increase in money supply during February. According to the monthly banking statistics, RM-deposits of financial institutions subject to conversion decreased by 120 million DM. It can be presumed, however, that the decrease is not fully due to actual conversion into DM-deposits but also partly to cancellation of amounts which proved to be no longer eligible for conversion. In addition, the dissolution of the blocked account pursuant to the fourth Currency Law (Decision of Blocked Account) made further progress. According to the provisions of the law, $2/3$ of the 88 million DM decrease in the blocked account will have accrued to the free account whereas $1/3$ has been transferred to the investment account.

On the whole, the available volume of money again increased in February by about 600 million DM due to creation of credit, conversion of old currency credit balances and dissolution of the blocked account. By the end of February, it amounted to roughly 18 billion DM. To this amount 0.6 billion DM blocked deposits (blocked account and investment account) are to be added.

The distribution of the volume of money into bank deposits and bank notes ⁽¹⁾ did not change substantially in February since bank deposits as well as bank notes in circulation increased. During February, deposits of "non-bank customers" on free account with the approximately 3 600 financial institutions included in the monthly banking statistics rose by 488 million DM to 9 906 million DM; bank notes in circulation increased by 49 million DM to 6 216 million DM. During the first two weeks in March, the composition of the volume of money changed in that bank deposits of "non-bank customers" further increased (by 157 million DM with 112 weekly reporting financial institutions alone) whereas the amount of notes in circulation, after having slightly increased, considerably dropped during the second week in March, i.e. by 246 million DM to 6 005 million DM.

The share of deposits of public authorities in the total bank deposits remained remarkably high during February. Public deposits amounting to 2 378 million DM by the end of February accounted for roughly one fourth of all non-bank deposits, that is the same as at the end of January. By mid-March, public deposits with 112 weekly reporting institutions further increased by 115 million DM to 1 410 million DM, thus reaching a new peak. In February, deposits of public authorities took to an increasing extent, the form of time deposits, i.e. 57 per cent by the end of February as compared with 51 per cent by the end of January. This trend continued with the 112 financial institutions during March. When adding the deposits of public authorities with the central bank system amounting to 1 484 million DM at the end of February (against 1 413 million DM at the end of January) it results that not less than about 22 per cent of the available volume of money - i.e. roughly 3.9 billion DM - have been deposited on bank accounts of public authorities by the end of February (as compared with roughly 3.6 billion DM or 20 per cent at the end of January).

(1) More exact: cash, since coins in circulation are included in the note circulation.

Velocity of Money Circulation

The accumulation of funds with public authorities is undoubtedly exceeding the limits which correspond to the normal requirements of liquidity of public treasuries. Apart from the termination of money creation through the currency laws and the slowing down of the increase in bank credits, the accumulation of public funds was probably one of the main reasons for the remarkable decrease in the velocity of money circulation which started in January and continued in February to a lesser degree. In order to obtain exact figures as to how conditions developed in this respect during the last two to three months, the velocity of bank deposits (excluding savings deposits) has been calculated on the basis of the weekly sample statistics of the 112 financial institutions which reveals the following picture:

Velocity of Circulation of Bank Deposits with 112 Financial Institutions

(in million DM)

	Oct	Nov	Dec	Jan	Feb
I. deposits of "öffentlich-rechtliche" (public) corporations on free account ¹⁾	739	1 002	1 077	1 241	1 326
deposits of other creditors on free account	1 497	1 598	1 724	1 763	1 851
total of bank deposits	2 236	2 600	2 801	3 004	3 177
II. total of cashless transactions in the calendar month	6 119	7 352	8 071	7 164	7 371
III. velocity of circulation of bank deposits in the calendar month (quotient II:I)	2.7	2.8	2.9	2.4	2.3

1) monthly average calculated from four key days

The amount of cashless transactions with the 112 financial institutions included in the sample statistics thus increased considerably during the period from October to December, i.e. by roughly one third. There was a marked decrease of more than 10 per cent in January, however, as compared with December. In February, this amount again showed a slight increase. The velocity figure which increased until the end of December and dropped considerably in January, showed a further decline in February. Though these ascertainties only concern a limited group of banks, there is no reason for assuming that the velocity of circulation of bank deposits with all financial institutions was substantially different. For the total volume of money some corrections will, of course, have to be made insofar as the velocity of cash may have developed differently from that of the bank money. It can be concluded from the impression of the relative short supply of the economy with money in February that the velocity of cash circulation slowed down to a greater extent than that of bank money. The fact that the increase in public deposits up to the first days of the last week in February was far greater than up to the end of February (plus 250 million DM as of 23 February) and that only in connection with apparently considerable cash disbursements made at the last day of the month - which caused almost a 1/2 billion DM increase in notes in circulation - public deposits again dropped considerably, was of considerable importance for the actual development of the monetary situation in the course of the month. Apart from the increase in public funds, the favourable development of savings transactions which, in its turn was in close connection with the gradual termination of the conversion of Reichsmark-deposits with the financial institutions undoubtedly added to the decline in the velocity of money circulation. According to experience, bank deposits resulting from the conversion are particularly unstable since especially converted savings accounts are usually withdrawn and spent to a considerable extent. By the end of February, 92 per cent of Reichsmark-deposits with financial institutions had been converted, whereby

it is noteworthy that this ascertainment is based on statistical reports of financial institutions on their "Reichsmark-liabilities not yet converted". Actually, a considerable part of these liabilities will probably not be subject to conversion at all. The termination of conversion will thus dry up a money source which, in the past, had produced money with an extraordinary high rate of velocity. The marked decrease in cash disbursements in savings transactions was probably greatly promoted by the termination of conversion. According to the monthly banking statistics, 78 million DM cash in-payments were made on savings accounts with all financial institutions during February, whereas cash withdrawals amounted to 101 million DM. Accordingly, the excess of cash withdrawals was 23 million DM in February as compared with 24 million DM in January and 210 million DM in October. When taking into account that contrary to withdrawals, in-payments on savings account can also be made cashless - during the last months, cash deposits were approximately fifty per cent of the total deposits - a considerable excess of deposits is likely to be expected for January as well as for February. For the first time since currency reform, an excess of deposits, even in cash transactions, with 112 financial institutions was recorded during the first week in March. In general, the impression prevails, that since the beginning of January, receipts on savings accounts with most savings banks considerably exceed withdrawals.

L i q u i d i t y o f B a n k s

As compared with January, the liquidity of banks underwent a noticeable limitation during February. The decrease in surplus reserves which in February averaged only 247 million DM (= 21 per cent of the reserve required) as compared with 383 million DM in January (= 33 per cent of the reserve required) was an indication for this development. At the last day of the month, the surplus reserves were even considerably lower due to the sharp increase in notes in circulation. The decrease

in deposits of financial institutions with the Land Central Banks during the last week in February amounted to 200 million DM, so that they were only 1 325 million DM as compared with 1 440 million DM at the end of the previous month. When basing the calculation on key days, the surplus reserves on 28 February, would have amounted only to about 13 per cent of the reserve required. By 7 March, they again increased to 23 per cent and to 28 per cent by 15 March.

It is true that the development of surplus ^{reserves} alone is not a sufficient criterion to completely judge the liquidity of banks. If, for instance, a decrease in surplus reserves would be balanced by a corresponding decline in central bank credit, this would point more to a better functioning of the money market than to a reduction of the liquidity of banks. In February, however, the volume of the central bank system's credit to financial institutions did not decrease but increased by 60 million DM in total, so that it amounted to 1 559 million DM at the end of February. By 15 March, it had further increased to 1 681 million DM. The inter-bank indebtedness also increased in February which on the whole is likewise to be interpreted as an indication for stronger limitations of the leeway of liquidity. Credits to financial institutions increased by 71 million DM to 1 120 million DM and inter-bank liabilities by 56 million DM to 699 million DM. The increase in inter-bank credit balances with the 112 weekly reporting financial institutions by about 100 million DM to 724 million DM at the end of February shows that in some cases also precautionary measures for a higher liquidity had been taken. By 15 March, inter-bank credit balances and inter-bank liabilities of these 112 financial institutions slightly decreased whereas credits to financial institutions further increased.

At the end of February, the bill of exchange holdings which the banks, on principle, can use at any time to procure central bank money amounted to 1 046 million DM with the 112 weekly reporting financial institutions which are particularly active in credit transactions and were thus

slightly higher than the previous month's figure (972 million DM). By 15 March, however, they again dropped to 992 million DM. With regard to all banks, the bill of exchange holdings, amounting to 1 802 million DM at the end of February, were likewise somewhat higher than the figure at the end of January (+ 117 million DM). Own and outside bank acceptances together accounted for about one third of the holdings. As compared with deposits on free account (including deposits from financial institutions), the bill of exchange holdings of 112 financial institutions as of the middle of March were about 23 per cent as compared with 25 per cent at the end of January.

When considering such statistical overall statements, it always needs to be emphasized that the liquidity status of individual banks still varies very much. Accordingly, there are on the one hand banks in an unfavourable financial situation and on the other hand banks which so far had made only little or no use at all of the rediscount credit of Land Central Banks. Within the banking groups, there are also considerable differences. Of the total surplus reserves (monthly average of February), 41 per cent were held by the Girozentralen alone. One single institution, where certain exceptional conditions prevail, accounted for 86 per cent of these 41 per cent. Regional banks, especially state banks, accounted for a further 24.7 per cent and the successor institutions of the branch establishments of the large Berlin banks for 10.4 per cent.

Capital Market

In February, considerable amounts of money for a number of issues of long-term securities were again required from the capital market. Various mortgage banks issued new series of the usual 5 per cent type of bonds and municipal bonds which were generally offered for subscription at a rate of 98 per cent and - in most cases - at a ³³ years' term.

The purpose of issuing these bonds was in nearly all cases the providing of funds for the reconstruction of destroyed dwelling houses and for the building of new dwelling houses. For February, the Bank deutscher Länder ascertained a total of 46 million DM newly issued bonds and municipal bonds of which 5 million DM had been approved by the Länder but not yet released for subscription.

Apart from these issues of mortgage banks, a 25 million DM loan of the Rhein-Main-Donau A.G. at a 20 years' term was offered for subscription in February. This loan which is to serve the extension of water ways and hydroelectric plants is provided with a variable rate of discount, always being 1 per cent over the official rate.

As far as known to the Bank deutscher Länder, the total amount of long-term securities issued on the West-German capital market amounts to 157.5 million DM. The fact that nearly half of it could be offered for subscription alone in February may be regarded as a gratifying sign of the consolidation of conditions now also overlapping on the capital market.

According to information received some more small bond-issues of the above mentioned type were brought out in the first two weeks in March.

Stock exchange prices which during the first two thirds of February had remained practically unchanged and had, in some cases, even shown an upward trend were declining during the last third of the month. This decline affected shares as well as bonds and among the latter especially mortgage bonds and municipal bonds. The price decline of these old-issues provided with a 4 per cent nominal rate of interest continued during the first half of March. The average price of the 4 per cent mortgage bonds quoted on the six Western German stock exchanges (calculated by the Bank deutscher Länder) which at the end of January had amounted to 8.05 per cent and on 15 February to 8.24 per cent dropped to 8.03 per cent (end of February) and to 7.82 per cent (15 March). The fact that transactions in securities were at an exceptionally low level in February was characteristic for the present market tightness on the German stock exchanges. In Frankfurt, for instance, the total stock exchange turnover in fixed interest bearing securities and shares was approximately 1 million DM for the entire month of February, to which the turnover of about 1.9 million DM outside the stock exchange has to be added.

Public Finances

The development of the Länder finances which due to limited publicity is difficult to trace was marked by a stronger decrease in tax revenues in February. In January, tax revenues of the 11 Länder in the specified area amounting to 1.43 billion DM reached a peak.

Revenue of important Taxes in the Länder of the Combined Economic Area and the French Zone in million DM

Area and period	wages tax	assessed income tax	corporation tax	turnover tax	taxes on property and traf- fic total
Combined Economic Area 1)					
1948 July 2)	84,7	42,4	12,2	43,8	189,6
August	115,7	133,9	52,0	160,7	516,3
September	128,4	139,4	64,3	201,8	574,2
October	140,0	259,6	113,4	237,0	788,0
November	154,3	234,9	109,1	260,6	846,4
December	155,6	198,3	108,3	267,0	789,9
1949 January	163,4	323,0	150,9	309,6	1 065,4
February 3)	149,0	236,0	94,0	251,0	785,0
French Zone					
1949 January	15,5	41,4	13,2	34,1	122,3
February 3)	13,0	21,0	6,5	25,0	87,0

- 1) For Bavaria, always the period between the 26th of the previous month and the 25th of the current month, for Württemberg-Baden from 21st until 20th.
- 2) Including the period from 21 to 30 June 1948.
- 3) Preliminary data from reports of six Länder of the Combined Economic Area and two Länder of the French Zone.

It can be assumed that this decrease is chiefly due to seasonal fluctuations. The decline of about 70 million DM in the turnover tax is undoubtedly due to the fact that the volume of turnover in January (as known, the February revenue of the turnover tax is based on the volume of turnover in January) usually is considerably below the December level. As regards the decrease in other taxes, seasonal and accidental influences also play a role. The exceptionally high January revenue from the wages tax was probably influenced to a certain extent by Xmas bonuses paid in December. In the case of the assessed income tax and the corporation tax, it has to be considered that in February only part payments had to be made whereas in January the main payments were due. The revenue from the corporation tax, however, was considerably below the level of November 1943 when also only part payments had to be made. Here the change in the profit situation resulting from the price drop and other factors as well as a reduced solvency or willingness to pay presumably became apparent. It can also be assumed that the decrease in the turnover tax revenue already reflects a stronger holding back of buyers. It is difficult to decide whether similar business influences also played a role in the decrease in the wages tax. It is quite imaginable, however, that the decrease in working over-time as well as the decrease in employment recorded in January has influenced the tax revenue. Such influences can, however, not have been strong in view of the above mentioned other factors, which are purely seasonal or due to the payment technique and which are making for^a decrease.

In February, the expenditures of the Länder were lower than in December although perhaps not below the expenditures in January. Owing to this fact, the decrease in tax revenues could hardly have led to great deficits. Cash holdings of the 11 Länder of the specified area only slightly dropped during February and the increase in the indebtedness of two Länder, i.e. Schleswig-Holstein und Rhine-Palatinate, which are in an unfavourable financial situation remained comparatively limited. The deficit of the 11 Länder as a whole probably has not exceeded 25 to 30 million DM. Against this the eight Länder of the Combined Economic Area produced surpluses amounting to about 240 million DM during the period October to January, but

in December they also showed a considerable deficit.

It is, of course, not yet possible to judge how Länder finances will develop during the next months. Towards the end of the budget year, certain expenditures are generally accumulating. Moreover, the Länder are of the opinion that higher burdens may result from increased social expenditures or that their revenues may perhaps be reduced through the equalization of burdens. On the other hand, the present tax rates are so high that the Länder - in case of a continuance of the rising trend in business activities and an economical expenditure policy - could certainly achieve further high surpluses. The most appropriate use for these surpluses would be the financing of certain investments since a considerable part of the formation of capital is at present made through public budgets due to the high tax rates. In consequence of this situation, the Länder are at present thoroughly examining the question as to what amounts out of budget funds can be made available for financing investment projects.

No great deficits seem to have occurred in February in other public budgets. The Combined Economic Area was able to repay her cash credit to the Bank deutscher Länder - amounting to 28 mill. DM at the end of January - and to finance the emergency aid to Berlin from ordinary budget funds provided for this purpose - in February, 34 million DM banknotes had been transferred. Including an additional 20 million DM shipped to Berlin at the beginning of March, the total amount of the emergency aid budgeted with 215 million DM for the 1948/49 fiscal year has been nearly reached. In February, social insurances (unemployment fund) again recorded surpluses which were, however, somewhat lower than in January as can be concluded from the development of employment. These surpluses of the unemployment fund probably amounted to about 400 million DM during the period from 21 June 1948 to the end of February. For reasons of liquidity, only a small part of these funds has so far been made available for investment purposes. Should the employment situation stabilize, there would be no objections to using at least part of the current surpluses for financing certain investments, e.g. chiefly the social housing projects. As compared with the previous months, the situation in the

Gemeinde finances has probably not changed considerably; certain slight deficits could still be met by spending the first supply of new currency.

It can be assumed that, considering the budgets as a whole, there will have been slight surpluses rather than deficits in February. This assumption is confirmed by the development of public deposits with financial institutions although the increase and/or decrease of public funds does not exactly correspond to the surpluses or deficits of public budgets. In February, public funds deposited with business banks increased by 143.2 million DM and with the central bank system by 17.7 million DM, totalling 161 million DM. As compared with the average of the preceding months, the increase in public funds slowed down considerably.

Foreign Trade

In February, foreign trade of the Combined Economic Area - there are no data available for the French Zone - continued its upward trend which had temporarily been halted in January. According to information from the Statistical Office, especially imports increased. They amounted to 476 million DM and were thus nearly fifty per cent above the January level which had been exceptionally low. Of primary importance is the increase in imports of industrial raw materials. Its share in total imports increased from one fifth during the first half of 1948 and/or one fourth during the second half of 1948 to one third in February 1949. On the monthly average of January/February, total industrial imports were about 40 per cent higher than the monthly average of the second half of 1948 whereas food imports remained practically the same. Imports of finished goods also increased considerably. They were close to 8 per cent of total imports in February.

The increase in exports was lower since in January the decrease was comparatively small. On the average of the first two months of the current year, they were - the same as imports - above the level of the second half of 1948. The share of finished goods exports dropped to a small extent, that of raw materials exports to a considerable extent; thus, exports of semi-finished goods account for the main increase.

Despite the rise during the last months, Western Germany is still far from a "normal" foreign trade. This applies not only to the composition of exports in which the share of raw materials and semi-finished goods is still incomparably high (forced exports of coal, scrap and timber) but also to total imports and exports. In January and February, exports amounted to an annual rate of approximately 900 million Dollars. This is still about 2 million Dollars less than expected as target of the "long-term" program. Imports are still relatively low, especially in the industrial sector. When taking industrial imports during January and February 1949 as a basis, total 1949 imports would amount to a sum twice that of 1948. In volume terms however, (excluding price changes) industrial imports, ^{per head} of population, would reach not more than 75 per cent of corresponding imports of 1936 and less than 50 per cent of those of 1928.

Foreign Trade of the Combined Economic Area
in million DM

category of goods	monthly average		Jan 1949	Febr. 1949	monthly average Jan/Febr 1949
	first half of 1948	second half of 1948			
	I m p o r t				
Food Industry	124.5	179.6	147.0	219.0	183.0
Industrial Commodities	70.6	152.6	168.3	257.4	212.8
raw materials	39.2	82.7	75.6	154.6	115.1
semi-finished goods	24.3	51.2	65.3	67.2	66.2
finished goods	7.1	18.7	27.4	35.6	31.5
pre-manufactured products	4.4	16.9	11.9	19.0	15.5
end products	2.7	7.8	15.5	16.6	16.0
Total	195.1	332.2	315.3	476.4	395.8

Export

category of goods	monthly average		Jan 1949	Febr. 1949	monthly average Jan/Febr. 1949
	first half of 1948	second half of 1948			
Industry	4.6	3.5	12.4	8.8	10.6
Industrial commodities	76.2	218.5	241.5	267.7	254.6
Raw materials	21.9	54.4	55.5	51.4	53.4
Semi-finished goods	23.6	66.8	81.2	96.1	88.6
Finished goods	30.7	97.3	104.8	120.2	112.6
Pre-manufactured products	16.7	51.1	57.2	59.4	58.3
End products	14.0	46.2	47.6	60.8	54.3
Total	80.8	222.00	253.9	276.5	265.2

It is to be expected that according to the development of liabilities from letters of credit for current import transactions B-imports will further increase at a rapid rate. At present, these liabilities from letters of credit come close to the present holdings of foreign exchange of the Bank deutscher Länder. They increased from 258 million DM on 30 September and 652 million DM on 31 December 1948 to 831 million DM on ³¹January and 1023 million DM on 28 February 1949.

Through the increase in imports so far achieved, the leeway of imports which the Combined Economic Area has attained by the satisfactory extension of her exports has been utilized far better than during the last months of 1948. This is reflected by the fact that the credit-balance in commercial foreign trade (excess of exports over B-imports) which on the monthly average of 1948 - regardless of urgent import requirements - amounted to not less than 42 million Dollars dropped to 39 million Dollars in January and to 19 million Dollars in February 1949 although the increase in exports continued. Foreign exchange receipts from exports also continued to rise. They amounted to 79 million Dollars on the monthly average of October/December 1948 to 86 million Dollars in January 1949 and 91 million Dollars in February 1949.

The new export procedure in force since 1 December 1948 brought about considerable improvement and much better control over all exports transactions. In particular, the technical settlement by the banks has been greatly improved. Originally, the exporter received the equivalent Mark-value of his exports completely independent of the foreign exchange receipts. He could demand the Mark-value as soon as he or his bank had received advice from the foreign collecting bank about the effected foreign exchange payment. Upon receipt of this advice, Mark-amounts had to be paid independent of the fact whether credit notes on the foreign exchange payments had been received or not. Even if the required documents were available, a settlement was in many cases impossible since in consideration of such an extraordinary procedure of settlement, errors with regard to ear-marking, amounts of invoice, etc, were not only unavoidable but even nearly the rule and required adequate time for clarification.

By introducing the new export procedure, a normal banking treatment of export proceeds was made possible insofar as all export transactions are settled in the form of purchasing foreign exchange. The Bank deutscher Länder purchases from the exporter the foreign exchange accruing from an export transaction at the buying rate of the Dollar quotation and effects the DM payment if the foreign exchange amount is received. This is a decisive step toward re-establishing more and more normal banking practices in the settlement of payments in the field of foreign transactions.

Money receipts and out-payments in foreign transactions continued to increase in February. Payments of importers developed as follows:

Payments of importers
in million DM

Monthly average and/or month	GARIOA-ERP-and STEG-imports	B-imports	total of imports
July-Sept 1948	171.5	52.3	223.8
Oct-Dec 1948	182.3	109.2	291.5
January 1949	184.3	132.4	316.7
February 1949	224.7	152.8	377.5

Payments to exporters as well as for special purposes by order of Military Governments amounted to about 390 million DM in February.

The Compensation carried through about the middle of February for the month of January - within the framework of the Paris Payment and Compensation Agreement of 16 October 1948 - has led for the Combined Economic Area to an adjustment of balances of far greater extent than in all the three preceding months. As a result of the compensation for January 1949 and for offsetting additional imports from the Combined Economic Area drawing-rights of 17.7 million Dollars were made available to other partner-countries, as compared with 5.6 million Dollars on the monthly average of October/December 1948. ECA, Washington, appropriated to the Combined Economic Area an equal amount of conditional aid. On the other hand, the Combined Economic Area received drawing-rights amounting only to 2.0 million Dollars.

The Paris Agreement stipulates that by 30 June 1949, the Combined Economic Area is to grant 108.8 million Dollars drawing-rights and to receive 98.6 million Dollars drawing-rights. According to the previous four compensations, 31.6 per cent of the drawing-rights to be granted have actually been made available, however, only 9.7 per cent of the drawing-rights to be given by the partner-countries could be utilized. For the comparatively short period until the end of the first Marshall-Plan year, the Combined Economic Area is entitled - provided that her accounts are developing correspondingly - to claim from its partner-countries drawing-rights, i.e. imports without foreign exchange payment, amounting to 89 million Dollars, which means an equivalent value of about 300 million DM. In the case of four of the six countries concerned, the Combined Economic Area was unable to make use of her drawing-rights, in another country only 4.4 per cent could so far be used and only in one country could the drawing-rights to which the Combined Economic Area is entitled to until 31 March 1949 be fully used. According to the development of foreign trade until now, the Combined Economic Area's claims for drawing-rights will be far more difficult to materialize than the corresponding claims of the partner-countries against the Combined Economic Area which amount to 74.4 million Dollars for the same period.

Drawing-rights can only be granted insofar as the Inter-European clearing, i.e. the compensation without drawing-rights, cannot be accomplished. Consequently, prior to the appropriation of drawing-rights, the agent in charge of the European-Clearing, i.e. the Bank for International Settlements in Basel, will check as to what extent the accounts permit a multilateral compensation by which debit and credit balances could be set off. By way of such a first category compensation, one debit balance accrued in one of the partner-countries as a result of import surpluses of the Combined Economic Area has been set off with an amount of 6.8 million Dollars against credit balances likewise amounting to 6.8 million Dollars in three other partner-countries. Apart from the Combined Economic Area and the creditor country where the debit balance has accrued, three other countries participated in this compensation. The possibility to utilize the drawing-rights which the Combined Economic Area is entitled to temporarily diminishes to the extent of compensations already made.

Production, Employment and Sale

During February, industrial production at present being watched not only with close attention but even with some concern maintained its comparatively high level reached in January. The production index calculated by the Department for Economics for the Combined Economic Area (data for the French Zone are not available) was as much as 79.6 (1935 = 100), thus showing decline of 1.4 points as compared with January. It has, however, to be borne in mind that February had one working day less than January. On the basis of working days, production even slightly increased.

Despite growing difficulties in the providing of funds for investment purposes, the production of the investment goods industries also showed an upward tendency. The production of rolling mill products, steel ingots, non-ferrous metals, machines and vehicles, the production of the electrical engineering as well as of the sawing and timber industries increased not only per working day but also with regard to the monthly output, so that the total index for the investment goods industries in February was even higher than in January. The decline of iron production remains within the limits corre-

sponding to the lower number of working days. Only the stone and earths industries which are largely dependent on the building trade show a stronger decrease in this group. Their production is now about 30 per cent below the level reached in October.

Also the consumer goods industries, in general, maintained their level of production with the exception of leather and shoes. In nearly all other branches of consumers goods, the production increased not only per working day but also with regard to the monthly output.

The group of general production goods, however, showed a downward trend. The production of power and gas was particularly affected by this decline. It is, however, quite obvious that this decrease has nothing to do with the "shortage of money" but is only due to the inadequate water supply of the hydroelectric power plants and partly also to the unsatisfactory coal supply. February hardcoal production of 7.9 million tons was somewhat lower than that of January (8.2 million tons.) This decrease is due to the fact that February had one working day less. The output per manshift underground increased to 1.36 tons as compared with January (1.33 tons) and December (1.27 tons). The number of unemployed again increased in February but the increase of somewhat over 100 000 for the total specified area was only half as high as in January. During the second half of February, the increase was only 23 000. The fact that Bavaria, Schleswig-Holstein, and Lower-Saxony again accounted for the greatest part of this increase confirms that unemployment is largely dependent on special difficulties of individual Länder, i.e. the refugee problem, in particular. At the end of February, the above mentioned three Länder accounted for almost three fourths of the total number of unemployed in the specified area (1 073 000) although their share in the total number of workers, employees and officials is only 39 per cent and their share in the total population only 40 per cent. The relation between unemployed and employed is thus about 12 - 19 per cent whereas in a highly industrialised Land as Northrhine-Westphalia the

corresponding percentage was only 3 per cent. The rate of employment in Bavaria has, during the last weeks, been strongly affected by the unsatisfactory power supply. During February, short time work continued to be of no importance nearly everywhere. The number of vacancies registered at the labour offices in February likewise decreased slightly, younger as well as skilled workers were still in demand. When judging the extent of unemployment, it has to be borne in mind that - though the seriousness of the situation shall not be denied - the present rise probably does not reflect a corresponding decrease in employment since there is no doubt that, forced by present conditions, more and more people are seeking employment. On the other hand, a possible decrease in the number of employed does not necessarily mean a corresponding decline in production since the present situation, to a growing extent, forces the economy to economize with manpower and ~~and~~ increase labour efficiency i.e. present production can, therefore, be achieved with less manpower.

That the rise in production has slowed down recently and has even come to a standstill is largely due to the fact that whenever a certain level of production is reached, a further increase is all the more difficult. In some industries there are no more idle productive capacities and unless this situation is remedied by new investments, certain bottlenecks are unavoidable. The low elasticity of coal and power production is a particularly noticeable handicap at present. It will be difficult to widen these bottlenecks without making comprehensive investments the financing of which seems to be secured now. In some industrial branches the lack of raw materials of special machine parts and manufacturing tools and equipment represents a strong limiting factor. In the textile industry, for instance, there is a lack of thread (due to the well-known bottle-neck in spinning mills, in the electrical engineering industry there ^{is} a lack of transformer plates, in the iron-, ~~h-~~ and metal-goods industries a lack of tin sheets and in the electric bulb industry a lack of certain implements. Further, paper and paper products for packing purposes are also in very short supply.

At least up to February the development in the investment goods industries shows that the difficulties in the financing of investments in general had only a limited effect on production, except for the building market. Seasonal fluctuations obviously seem to have played a role in this respect. From various areas, for instance from Bavaria, information has been received that a noticeable seasonal revival has set in again. Nevertheless investment financing still remains a key problem of future business development and it must again and again be emphasized that, from the view point of currency as well as banking policy, it cannot be solved by expanding short-term bank credits. By means of public funds, the gradually beginning formation of savings capital and the funds becoming available through the Reconstruction Loan Bank, it will be possible to counteract the decline in production which may arise from the cancellation of orders which was partly of a considerable extent.

Unemployment in the Western German Specified Area
in 1 000

A r e a	1948			1949		February, percent- of wor- tage kers, em- of po- ployees, pulation and of- tial	
	May	August	De- cember	Jan	Febr		
Bavaria	148,0	270,0	227,1	300,8	344,6	12,6	3,8
Württbg.-Baden	28.1	31.7	25.0	33.7	39.5	3.3	1.0
Hesse	40.6	65.1	61.1	79.4	89.0	6.9	2.1
Bremen	8.7	10.4	11.5	13.5	14.7	6.4	2.8
Northrhine- Westphalia	125.3	157.1	106.2	124.6	127.4	3.0	1.0
Lower-Saxony	57.7	123.4	171.0	213.2	236.9	11.5	3.5
Schleswig-Holst.	18.6	81.7	114.8	140.6	155.4	19.0	5.7
Hamburg	12.1	28.8	26.2	32.0	34.8	5.8	2.3
Combined Econo- mic Area	439.1	768.2	742.9	937.8	1042.3	7.9	2.5
Baden	3.0	4.3	4.3	4.9	5.0	1.5	0.4
Württemberg- Hohenzollern	1.1	2.3	2.0	2.2	2.9	0.9	0.3
Rhine-Palatinate	5.0	9.5	10.4	18.0	22.8	3.2	0.8
French Zone	9.1	16.1	16.7	25.1	30.7	2.2	0.6
3 Western Zones	448.2	784.3	759.6	962.9	1073.0	7.4	2.3

It cannot be denied that production of some branches, also of consumer goods, has reached certain limits with regard to salability. On the one hand, this results from the increased holding back on the part of the buyers during the last weeks which is due partly to the revived incentive to save and partly to further price decreases being expected and profits having declined. During January, the rates of retail turnover probably decreased more than corresponded to seasonal fluctuations and have hardly recovered since then. For this reason, merchants are very cautious in their transactions and orders dropped considerably in many branches. Despite this development, the industry had so far avoided large cuts in production which can only be explained by the fact that the firms still have a rather high number of unfilled orders on their books from the period of excessive demand during the last months of 1948. To a certain degree, this holding back of buyers will be only temporary since when considering the unsatisfactory supply of most households with durable consumer goods a replenishment will probably soon become inevitable. The now beginning spring season alone could bring about a change in this respect especially if simultaneously further price reductions strengthen the actual purchasing power of incomes. But much will depend on the future development of incomes, that is whether a large decrease in production of the investment goods industries and its unavoidable effect on employment will be prevented. Lastly the solution of the problem of investment financing will also determine the further development of consumer goods industries.

Even if incomes do not decrease, numerous industries will, however, have to reckon in the future with limits to the sale of their products which, ⁱⁿ the long run, will disappear only to the extent to which incomes increase or prices drop. The general situation of short supply prevailing at the end of the previous year has been overcome in many branches, partly on account of lower expenditures and partly because of considerable increases in production. Due to the present relationship between prices and incomes, the market for a growing number of goods is saturated

ed or even over-saturated. This, for instance, applies to electric household appliances, aluminum crockery, steel goods, household machines, to working and children shoes and will probably apply very soon ^{to} all kinds of shoes, cosmetics, etc. In all these cases, the market has changed into a "buyers' market". When trying to get an idea - based on the budgets of workers and employees - as to what extent demand is at present already being met through such "buyers' markets", i.e. markets with a tendency to supplies exceeding demand, the following can be stated, whereby large divergencies between the individual Länder as well as between villages and towns have to be taken into consideration. At present "buyers' markets" probably account for about 40 per cent of total expenditures of consumers for commodities and private services, markets with continuing under-supply for 25 per cent and expenditures for which a precise classification is not yet possible for the remaining 35 per cent. It has, however, always to be born in mind that the level of real incomes still restricts the living standard considerably and that a high percentage of the population, particularly the numerous refugees who still have not been able to establish themselves within the economy of the specified area, can hardly satisfy their most vital needs. Therefore, demand will, undoubtedly, still be very reactive to price reductions.

Prices and Wages

The adjustment of prices to market conditions has made further progress during the past weeks. The increased holding back on the part of the buyers and the extension of regular supply eliminate the black market more and more. Many black market prices are at present not much higher than legal prices. On the legal market, particularly retail prices of industrial commodities have so far fallen. Gradually, factory-prices are also declining although to a smaller extent because they have risen less than retail prices since currency reform. Raw material prices have so far not dropped to any extent (except hides, skins and caoutchouc). Due to the unfavourable development of

production costs, prices have risen recently in some fields (e.g. artificial silk) or are about to rise (iron). This means that the pressure on prices - as before - affects in the first place the profit margin of retail and wholesale trade but to an increasing extent also the profit margin of the processing industries. In many cases, these margins are still very high.

At present further price reductions in the field of finished goods will be effected by the announcement that considerable imports of finished goods are to be sold at foreign prices which are partly substantially lower than domestic prices. This applies especially to textiles and garments. In addition, the raw material stocks which have been replenished or are rapidly growing due to high imports force the industry to intensify by price reductions their efforts to sell their products.

After in numerous cases temporary cost of living bonuses had been introduced during the past months by agreements between employees and employers, a number of tariff contracts now have been denounced and wage increases have been demanded (up to 30 per cent). Even on the part of the employees there is no consensus of opinion as to whether or not demands and fights for higher wages are opportune in view of the downward trend of prices and the growing unemployment. Higher wages would counteract price reductions from which fixed salary earners, recipients of social annuities, and similar groups mainly expect an increase in their real purchasing power. In the long run, great importance is to be attached to the development of productivity. The productive capacity per worker has already improved since currency reform but, according to estimates, it is still about 30 per cent below the 1936 level. The improvement since currency reform can be explained by an increase in the number of hours worked per head of personnel as well as by a higher rate of working performance per hour. Even if for many reasons (high percentage of elderly workers, obsolete machinery etc) it cannot be expected for a long time that the former level of performance will be reached again in all fields of the economy efforts should be made to eliminate as soon as possible a considerable part of the still existing difference in order

to achieve low costs and prices, on the one hand and high real incomes and the formation of capital on the other hand.

Overall Situation and Credit Policy

The picture of the present economic situation given in this report shows that the economy in spite of the shorter money supply it has had to put up with for some time had not to subject itself to restrictions of any extent during the past weeks. On the contrary, in many respects the economy is showing distinct signs of recovery and normalization. In many fields, however, particularly in the investment goods industries, the situation is still unstable and requires close attention.

One of the gratifying events of the development during the past weeks is, on the one hand, that production in February - the last month for which data are available - could not only fully maintain the level reached in January but has probably even increased somewhat. The fact that also the investment goods industries are included in this favourable development proves that the economy still has a strong impulse of expansion quite natural with regard to the reconstruction requirements and that, to a certain extent, the economy will always manage to practise this impulse of expansion even under difficult conditions of financing.

The considerably improved supply of commodities is a further favourable symptom. For weeks, the consumer has found better supplied stores and dealers as well as manufacturers have found suppliers again who are prepared to make deliveries. This is partly due to increased production which in its turn results to a high degree from substantially higher imports, especially from the foreign aid granted by the Marshall-Plan. But it is also largely due to the fact that - caused by the growing financial strains of enterprises commodities now being produced are actually offered and no longer hoarded. If the economy sees its main task in providing an ample supply of commodities, then it is now undoubtedly more efficient

than at the time of money surplus when goods to an increasing extent, were withheld from the market and thereby the supply situation became more restrained despite increasing production.

Supply, however, has not only improved in volume but, at the same time, has become easier. In another paragraph of this report, it has been pointed out that for about 40 per cent of consumers' expenditures, supply is already exceeding demand and for a further 35 per cent of expenditures "buyers' markets" are coming into existence. This means that for an increasing part of the markets control may be abolished and ration cards, allocation and red-tape dispensed with. It is true that the basis of this process is a still comparatively low level of incomes. Nobody will be able to maintain, however, that the income of the great mass of the population has decreased during the past weeks in its real purchasing power. Owing to the improved market conditions and the gradual reduction of prices workers and employees can now afford greater expenditures than a few months ago without waiting in lines and without "special connections". They react upon this change with a greater zeal and, as the gratifying increase in savings deposits shows, with a noticeable revival of thriftiness.

On the other hand, it must, however, not be overlooked that in certain sectors of the economy orders have considerably decreased thus initiating a rather unsatisfactory development. In various industries^a considerable part of employment is only based on the comparatively large amount of orders which had accumulated during the last months of 1948 under the influence of the boom psychosis and the still limited possibilities of production at that time. But these orders are now rapidly dwindling due to the small number of new orders and the cancellation of old ones. The fact that production has maintained its level so far should not be over-estimated in its prognostic significance. Should new orders not increase in the near future, restrictions in production will in some sectors be inevitable sooner or later.

The decrease in orders is coupled with the crisis of investment financing which is ultimately due to the fact that the organized capital market is still relatively unproductive despite the gradual increase in the savings activity—and the banks - not only on account of the restrictive policy of the central bank system but also for reasons of liquidity - no longer tie up their short-term funds for a longer period to the same extent as they did during the first months following currency reform. This has brought about a vacuum jeopardising the carrying out of various investment projects and so the employment level in a number of investment goods industries. Now, however, this vacuum is gradually being filled by the utilization of "counterpart funds".

The shrinkage of orders is, however, also partly due to the fact that the general boom psychosis during last fall has come to an end and manufacturers as well as consumers are spending money far less lavishly. Another factor is that owing to these high tax rates more and more money is accumulating with public authorities. A considerable part of public funds is lying idle for the time being. With regard to purchasing power, this tendency as well as the stronger holding back on the part of consumers has a similar effect as a savings process: certain parts of incomes accruing from current production are not being spent but, at least temporarily, used for the formation of reserves. In the long run, a real savings process may perhaps thus be initiated, i.e. the final appropriation of these

funds for investment purposes. For the time being, it has unfortunately to be stated that the strong need for liquidity which governs consumers as well as public authorities and enterprises often prevents the funds concerned from being converted into "capital", i.e. tied up on long term and thus being made available for adequate utilization by banks. In other words, money has largely been merely sterilized so far thus slowing down the velocity of money circulation, but no capital has been formed yet.

Nevertheless, the prospects of financing investments resulting from this situation are far more favourable than they were some time ago. In the first place, public authorities owing to their comparatively better liquidity status are in a position to take over the financing of some first-priority investment projects especially those which by their nature fall within the public domain. Nothing would, however, be more serious as if the sizable funds being at the disposal of public budgets on account of high tax rates which gravely impair the formation of other capital would not be utilized for reconstruction purposes but spent for consumption or other less important investments. The building of housing, the financing of refuge enterprises or local power plants and numerous similar undertakings are tasks which can only be fulfilled with the help of funds of public authorities.

In addition, the reduced propensity of the public to spend now makes it possible to support the imperiled financing of investments through certain well balanced monetary measures and thus to overbridge the aforementioned vacuum pending the revival of the normal capital market. This does not mean, however, to resume the financing of investments by short-term bank credits. Such a practice would be highly objectionable from the viewpoint of banks as well as their depositors and will therefore, not meet with approval of the central bank system. Moreover a renewed credit expansion of banks in favour of investment financing would not constitute a guarantee that the funds will be directed into channels where the economic demand is most urgent. Operational credit must also be in relatively short supply. In particular it would be quite inappropriate to try to ease by bank credits the strained money supply situation which arose in the consumers goods sector by sales difficulties. The entrepreneur must realise that his production is now again steered by the market. If he cannot sell his products he will have to endeavour to overcome these difficulties by price cuts or by reducing his production if production costs do not permit a further lowering of prices. In this manner only will it be

possible in the long run to utilize the scarce means of production with the utmost economy.

Accordingly, the Board of Directors has not rescinded the credit restrictions for the banks but only modified them¹⁾. The so-called "rationing" of bank credit, i.e. the limitation to the volume of credits existing on 31 October 1948, has been dropped. The strict requirements with regard to bills of exchange submitted for rediscount put in force on 16 November 1948 by the decision concerning restrictions are, however, still to be fulfilled. Therefore, financial institutions are expected to continue to apply a cautious policy with regard to credits and to grant credits only in those cases where a real economic need exists and the granting of credits complies with the principles of a sound banking policy established through long experience. In so far as these pre-requisites are given, bank credits shall be granted on a more generous scale.

If contrary to all expectations, credit creation by banks should exceed the reasonable limit, the Board of Directors expressly has reserved for itself the right to interfere by way of the traditional means of bank of issue policy, particularly the discount policy.

1) The press comment reads as follows: "The credit restrictions issued in November consisted of stricter provisions concerning the requirements to be fulfilled for bills of exchange submitted for discount and in the limitation of the credit volume of individual financial institutions. This rationing of credits had been rescinded by the Board of Directors in its meeting of 22 March 1949, since the development during the past weeks justified the assumption that this measure was no longer required and the financial institutions would act very cautiously in granting credits also without it. Thus, the abandonment of credit rationing does not mean that credit expansion would now be admitted but it is only the practical result from the concept that the short supply of money necessary for maintaining the stability of the DM can now be ensured by normal bank of issue practices, i.e. by a discount policy adjusted to the requirements for the time being and strict requirements for the quality of bills of exchange."

still

Although bank credits shall be strictly controlled for the above mentioned reasons, the Board of Directors, in its statement of 10 March has, however, welcomed the fact that large amounts of the "counterpart-funds" resulting from "deferred imports" will be released for investment purposes¹⁾. If the monetary expansion takes place along this line, there is a guarantee that the funds concerned will be used to their full extent for the most urgent investment requirements and at the same time the control over the extent of money supply will be maintained. The first steps into this direction have been taken. Further measures will probably follow in the near future although press reports on the immediate appropriation of a 1 billion DM investment credit granted by the Bank deutscher Länder is without foundation. It can be assumed that the difficulties in the investment sector of the economy will be overcome through closer cooperation of all agencies concerned and that nevertheless the stability of the currency will not be jeopardised anew. Consumers and savers can thus place the same confidence into the future development as the employee.

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- 1) The statement reads as follows: "The lack of long-term funds for financing important investments is certainly the most important reason for the rise of unemployment being observed during the past weeks. This lack cannot be remedied, however, by expanding short-term bank credits if most serious failure is to be prevented. The reconstruction of industry and destroyed housing cannot be financed by way of bills of exchange. The Bank deutscher Länder attaches the utmost importance and urgency to the problem of investment financing and is very much in favour of now making considerable amounts from accruing import funds available for the Reconstruction Loan Bank and thus taking an initial step which will not fail to have favourable effects on production and labour. It is, however, necessary that the rapidly increasing funds of public authorities be also made available for investment purposes as quick as possible and in the most appropriate manner and further that everything be done to effectively promote the capital market and the formation of savings."