

Third Annual Report of the European Payments Union (1953)

Caption: In 1953, the third annual report published by the European Payments Union (EPU) reviews the activities carried out by the organisation in its member states.

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AUSTRIA

18. When the Union was established, Austria's quota was fixed at 70 million u/a, but an arrangement was concluded by which, during the first financial year, Austria's quota would be blocked and her deficits covered by an initial credit balance of 80 million u/a. For the second financial year, Austria's debit quota was again blocked and her deficits were for the most part settled with Special Resources allotted by the Government of the United States. From July 1950 to 30th June 1952, Austria consistently incurred net monthly deficits, and her net cumulative deficit amounted to 142 million u/a at 30th June 1952 settled as to 80 and 45 million by the use of her initial balance and Special Resources respectively, and as to 17 million by payments in gold to the Union drawn from her own resources.

19. The position of Austria was reversed during the third financial year, and by 30th June 1953 the net cumulative deficit had been reduced to 100 million u/a. This improvement of 42 million enabled Austria to recover the gold she had paid to the Union (17 million u/a) and to obtain a cumulative accounting surplus with the Union of 25 million u/a, of which 20 million were settled by a credit granted to the Union and 5 million by a payment made by the Union in gold.

20. The favourable trend in Austria's balance of payments with the Union is attributable mainly to non-commercial transactions with the E.P.U. area, which produced a net surplus of 68.2 million u/a at the end of 1952 as compared with a deficit of 11.6 for 1951. Austria's trade balance vis-à-vis the E.P.U. area also improved, showing a deficit of 46 million u/a for 1952 as against a deficit of 81 million for 1951. This improvement was mainly the result of the decline in imports, which fell from 107 million u/a for the 1st quarter of 1952 to 90 million for the 1st quarter of 1953. During the same period, exports rose until the 4th quarter of 1952, when they reached the figure of \$98 million. For the 1st quarter of 1953, they were about \$80 million. The fall in exports recorded since December 1952 is attributable more to the fall in prices than to any decline in volume. In fact, the index of the average value of exports (1950 = 100) fell from 159 for the 1st quarter of 1952 to 129 for January-February 1953, whilst over the same period; the index for the average value of imports fell by only 1%.

21. The balance of current payments with the dollar area, although still showing a considerable deficit, improved to some extent in 1952 as compared with 1951, the annual debit balance falling from 92 million u/a to 50 million u/a. From December 1951 to December 1952 the assets of the Central Bank in gold and in dollars increased by 34 million u/a, inclusive of gold paid by the Union and Aid received.

22. As from the beginning of 1952, the Austrian Government put into force a number of measures relating to taxation and restriction of credit in order to combat the inflation which had been prevalent since the war. However, it was seen that at the same time as internal financial stability was restored there was a halt in expansion of industrial production, which by 1951 had reached 165 % of its 1937 level.

23. On 30th April 1953, the Austrian Government announced that the schilling-dollar parity had been fixed at the uniform rate of 26 schillings to the dollar. This terminated the system of multiple exchange rates under which commercial transactions took place at the rate of 21.36 schillings to the dollar, and non-commercial transactions at 26 schillings to the dollar. This measure, which came into force on 4th May, should result in a rise in exports provided always that the necessary measures are taken to avoid any corresponding rise in prices. It is unlikely that this measure will have any incidence on the level of imports which has already been fairly low since October 1952.

24. In view of the improvement in the position of Austria in the Union, the Austrian Government informed the O.E.E.C. that it did not wish its quota again to be blocked in 1953-54. The Austrian Government at the same time informed the Organization of the measures it had taken to ensure financial stability in Austria, as well as of its intention to free part of its imports. It is for this reason that when the Union was prolonged as from 1st July 1953, Austria's debit quota became available. Henceforth, therefore, Austria may receive credit from the Union if her cumulative accounting position is again reversed, but she no longer benefits in respect

of liberalization of trade from the derogations for which provision is made in favour of certain debtors. The liberalization measures on imports announced were formally adopted at the end of June. They relate to 31% of Austria's imports on private account if the reference year used is 1948, and to 35% if the reference year used is 1952. Most of these measures came into force on 1st July but, in the case of certain products, they will come into force not later than 1st December 1953.

BELGIUM LUXEMBURG ECONOMIC UNION

25. During 1952-53, the cumulative accounting surplus of the Belgium-Luxembourg Economic Union was reduced by some 16 million u a. This is the first year since the signature of the first intra-European Payments Agreement that the B.L.E.U. has had an annual deficit in its payments with the E.P.U. area. On three occasions during the previous financial year, special measures were taken to settle the B.L.E.U. post-quota surpluses, and on 30th June 1952, when the Union was prolonged, measures were taken to adjust the position of the B.L.E.U. which was thus reduced from 789 to 416 million u/a. The Managing Board at the same time made special arrangements to settle any further surpluses that might arise during 1952-53: these took the form of a supplementary "rallonge" of 250 million u a in addition to a tranche of 85 million u a covering the post-quota surpluses recorded before 1st July 1952. The Governments of Belgium and Luxembourg had, however, taken a series of measures to limit their surplus with the Union, and these, together with the import restrictions imposed by France and the United Kingdom and changes in the world economic situation, caused the reduction in the creditor position of the B.L.E.U. in the Union.

26. The fall in monthly surpluses which had begun at the end of 1951 continued during 1952-53 and from December 1952 onwards there were, regular monthly deficits. During the first months of the financial year, the B.L.E.U. again recorded certain surpluses. These were followed by steadily increasing deficits. In May, the monthly position was almost in equilibrium and in June showed a small surplus, due to exceptional capital transactions, without which the B.L.E.U. would probably have had as large a deficit as in previous months. Moreover, the debts of Member countries vis-à-vis the B.L.E.U. outstanding at 30th June 1950 (See Annexe II) had been almost entirely paid by the end of 1952-53.

After allowing for a first repayment of 10 million u/a in respect of the special credit granted by the B.L.E.U. to the Union as part of the measures taken to adjust the B.L.E.U. position (see para. 25 above), the cumulative accounting surplus had been reduced to 400 million u/a by 30th June 1953.

27. The development of the position of the B.L.E.U. in the Union is explained by the reversal of the trade balance with the E.P.U. area, which changed from a monthly surplus of 27 million u/a during the first half of 1952 to a monthly deficit of 11 million u/a during the first quarter of 1953. This adverse trend is attributable mainly to relations with the sterling area, the Netherlands and France. In general, there was an increase in imports, accompanied by a fall in exports.

28. Monthly c.i.f imports of the B.L.E.U. (Metropolitan territory) from the E.P.U. area, which were about \$127 million during the first half of 1952, rose to \$140 million during the fourth quarter of 1952 and were \$138 million during the first quarter of 1953. This increase was due to the larger volume of imports. During the same period, there was a sharp fall in imports from the dollar area. The restrictions maintained on dollar imports up to the beginning of 1953, and the measures taken to encourage imports from Member countries, in accordance with the recommendations of the O.E.E.C., contributed to this trend.

29. Monthly exports from the Metropolitan territory to the E.P.U. countries, which still kept at an average of 154 million u/a during the first half of 1952, fell to an average of 122 million u/a during the first five months of 1953. This reduction is only partly explained by the fact that export prices fell by 14% between the beginning and the end of 1952. The measures taken to slow down exports to the E.P.U. area, combined with the import restrictions imposed by France and the United Kingdom, were important factors in this development. On the other hand, exports to the dollar area increased substantially: for the first five months of 1953 they were 45% above the figure for the corresponding period of 1952.

30. This reversal of the trade balance with the E.P.U. area took place at the same time as a slight slowing-

down in internal economic activity, as compared with the high level reached in 1951. From July 1952 to March 1953, the overall index of industrial production was lower than during the corresponding months of the previous financial year, mainly as a result of reduced activity in the export industries. From March to June 1953, the index was above its level for the corresponding period of 1952. Prices and wages showed some tendency to fall. From June 1952 to April 1953, wholesale prices fell by 5%, while retail prices are now slightly below the level of the summer of last year, after having risen slightly at the end of 1952. Since the beginning of 1953, taxation revenue has been less than estimated. In order to avoid an increase in the budget deficit and as a result of certain unforeseen expenditure which had to be added to the budget, the Government has found it necessary to postpone certain expenditure voted last year.

31. When the creditor position of the B.L.E.U. was growing rapidly, the Belgian and Luxemburg Governments adopted measures to reduce their surpluses. In view of the reversal of the trade balance with the E.P.U. area, they withdrew some of these measures successively. In July 1952, the proportion of the proceeds of exports to E.P.U. countries to be blocked for six months was reduced and a system was established by which these blocked assets could be mobilized on certain conditions; in February 1953, the export tax introduced at the end of November 1951 was abolished. Furthermore, the import tax was increased so that imports should carry the same burden of taxation as goods manufactured in Belgium, which are subject to a turnover tax: in the case of some products, the import tax is now 5%. In February 1953, the "Institut de Réescompte et de Garantie" slightly increased certain of its rediscount rates, thus reducing the general facilities that previously existed for credit transactions for exports to the dollar area and imports from the E.P.U. area. The bank rate was reduced from 3.25% to 3% in December 1952, while certain other interest rates of the Central Bank were also reduced in May 1953. However, the Belgian and Luxemburg Governments have not altered the provisions relieving exporters from their obligation to repatriate export proceeds in foreign exchange, and freeing all payments with the E.P.U. area.

32. At 30th June 1953, it was decided that the various arrangements applied in 1952-53 for the settlement of any B.L.E.U. post-quota surpluses should be replaced by a "rallonge" of \$75 million for the year 1953-54.

December 1952. It should also be noted that in February 1953 the travel allowances in foreign exchange granted to tourists were increased from the equivalent of Danish Kr. 750 to Danish Kr. 2,000 per person per annum (i. e. from 108 to 290 u/a approximately).

35. Contrary to the trend in her balance of payments vis-à-vis the E.P.U., Denmark's trade balance with the dollar area improved, changing from a deficit of \$2.4 million for the third quarter of 1952 to a surplus of \$2.3 million for the first quarter of 1953. This improvement is attributable not only to a reduction in imports, resulting from a falling-off in demand, but also to increased exports to the United States and to American troops stationed in Germany. Income from these sources was augmented by other transactions payable in dollars. Denmark's net assets in dollars increased from 27.6 million in July 1952 to 72.5 million in December 1952. This increase in her reserves enabled Denmark in January 1953 to waive the privilege granted her, when the Union was prolonged in June 1952, to postpone the additional payments of gold due under the new gold/credit scale applicable to debtors after 1st July 1952. During the time that this improvement in the dollar position took place; United States economic aid was coming to an end falling from \$60 million in 1951 to \$8.7 million in 1952. Nevertheless, the level of Denmark's reserves is still low in relation to her quota.

FRANCE

36. France, having incurred a series of deficits after April 1951, showed a marked improvement in her position in the Union at the end of 1951-52 and the April/June quarter showed a surplus of 24 million u/a. This improvement was most likely due to the severe restrictions applied to imports as well as to the favourable trend of the world economic situation; however, it also reflected the efforts made by the French Government to halt the rise in prices and restore confidence in the currency. This improvement was only temporary; as from July 1952, the French monthly position again showed a deficit and continued to do so throughout 1952-53.

The net cumulative deficit, which was 408 million u/a at the beginning of 1952-53, reached 825 million u/a at 30th June 1953. By the end of October 1952, it exceeded the limit of the quota (520 million u/a) with the result that subsequent deficits had to be settled wholly in gold and dollars. Although the deficits of April and May were settled by the use of Special Resources amounting to 889 million allotted by the United States Government, France had nevertheless to pay 291 million u/a to the Union in gold or dollars during the course of the year. The monthly deficit which was lower during the first two months of the financial year on account of seasonal factors, averaged 48 million u/a over the last four months of 1952, reaching a maximum of 71 million u/a in December. The monthly average was again lower during the first quarter of 1953, but again rose to 46 million u/a during the April/June quarter.

37. To analyze the trend of the trade balance of the franc area with the E.P.U. area, and more especially to assess the effects of changes in the world economic situation and the restrictions on imports, Metropolitan France and her Overseas Territories must be treated separately. The falling off in world demand for basic commodities affected both the value and volume of Overseas Territories' exports to the E.P.U. area. On the other hand, Overseas Territories' imports remained relatively stable as, unlike those of Metropolitan France, the import regulations of the Overseas Territories were not changed. The trade surplus of the French Overseas Territories with the E.P.U. area consequently declined.

38. In the case of Metropolitan France, the terms of trade moved more favourably. The fall in the prices of imports was largely responsible for the decline in the value of the imports of Metropolitan France from the E.P.U. area; the restrictions on imports which were intensified in April 1953 and the falling off in internal demand also contributed to this decline.

The value of the exports of Metropolitan France to the E.P.U. area rose slowly during the period under review, as a result both of measures taken by the Government to encourage exports and of measures taken by France's partners, more particularly those intended to increase imports from France in accordance with the recommendations of the Organization.

As a result, the trade deficit of Metropolitan France with the E.P.U. area fell from a monthly average of 71 million u/a during the first half of 1952 to 31 million during the second half of 1952; however, it again rose to 45 million at the beginning of 1953. It should be noted that this deficit is mainly attributable to the deficit incurred with the sterling area, where there are still important restrictions on imports, whereas France had surpluses on her visible trade with most other countries of the E.P.U. area.

39. Consequently, the developments in the trade balance of the franc area with the E.P.U. area do not explain the deterioration of France's position in the Union. The size of the French deficit was increased by movements caused by lack of confidence in the currency. Repatriation of export earnings is delayed, whereas importers pay as soon as they can. Similarly, the earnings of the tourist industry in foreign exchange, normally a favourable factor in the balance of payments, are considerably less than they would be if the foreign exchange of tourists was not negotiated outside the official market.

Although in 1952-53 France received an increased amount of dollars in respect of offshore purchases and of the local expenditure of the American armed forces, there was also a deficit on the overall balance of current payments of the franc area.

40. It seems, therefore, that the external financial situation of France can only be permanently restored by internal action. Thus in March 1953 the Council of the O.E.E.C. again recommended the French Government to take all appropriate measures to enable a progressive return to the liberalization of imports. Throughout 1952-53 the French Government pursued the policy of stabilization initiated in February 1952. The French Government in particular maintained restrictions on credit, and efforts were continued to bring down domestic prices by "shock" imports and the encouragement of voluntary price reductions. These measures, together with good harvests and the fall in world prices, caused a slight fall in the index of wholesale prices, and helped to keep retail prices stable during the period in question. Wages, which are tied to the cost-of-living index, have remained unchanged. The increase in note circulation and bank credit was

considerably less than in previous years and seems to have been caused mainly by the requirements of the public sector. The budget deficit is still considerable, this being largely explained by heavy military expenditure and by Government financing of investment, the capital market being too narrow to offer more than limited facilities. The position of the French Treasury became more and more difficult during the first half of 1953 and made it necessary to have recourse to renewed advances from the Bank of France.

41. The stabilization of domestic prices was accompanied by a halt in expansion of production, and during the last twelve months a slight contraction of economic activity has been noted, particularly in the sector of consumer goods. Unemployment, while still low, has nevertheless risen.

The falling off in internal demand both in Metropolitan France and in her Overseas Territories may have stimulated exports, which were also encouraged by a number of special measures (the refund of certain fiscal and social charges and the granting of special credit facilities). However, the level of French prices and increasing competition abroad leave only limited scope for an increase in French exports. In fact it seems that it will not be possible for France to improve her position in the Union appreciably, nor for restrictions on her imports to be relaxed, until French production has become more competitive. Finally, renewed confidence in the currency would put a break on speculative movements and considerably improve France's position in the Union.

GERMANY

42. During the 19 months following March 1951 (which month was the peak of Germany's severe payments crisis) until September 1952, Germany continuously had monthly surpluses with the Union; the cumulative accounting surplus of Germany had by then reached nearly 90% of her quota. At this juncture, the Board examined the German position in the Union and recommended the Council of the Organization to allot a "rallonge" of 100 million u/a to Germany, within which post-quota surpluses would be settled as to 50 % in gold and 50 % in credit.

43. Germany did not, in fact, exhaust her quota until May 1953, on account of deficits for the months of October, November and December 1952, which reduced her cumulative accounting surplus by 65 million u/a. These deficits were caused by purchases in sterling, under the United Kingdom's "Commodity Arbitrage Scheme", of raw materials and foodstuffs originating in the dollar area (See Chapter II, paragraphs 119 and 120). The large German surpluses for May and June of 1953 involved use of the "rallonge" up to 77 million u/a. At the end of 1952-53, Germany was the largest creditor of the Union, and had a credit outstanding to the Union of 340 million u/a.

44. The main reason for the present creditor position of Germany is her trade surplus with the E.P.U. area which amounted to 205 million u/a for the second half of 1952, and to 233 million u/a for the first half of 1953 (as against 324 million u/a and 291 million u/a for the corresponding half-yearly periods of the previous financial year). During 1952-53, Germany gradually extended her liberalization measures, and her percentage of liberalization had increased from 79 % to 91 % by April 1953. In the second half of 1952 as well as in the first half of 1953, the value of imports from the E.P.U. area was considerably higher than in the corresponding half-yearly periods of the previous financial year. The value of exports to the E.P.U. area also increased, though over the first half of 1952 and the first half of 1953 this increase was very slight.

45. The highly competitive position of Germany is confirmed by the position of her over-all balance of trade, on which there was a surplus of 139 million u/a for the second half of 1952, this surplus increasing to 207 million u/a for the first half of 1953. This favourable development in Germany's balance of trade is due largely to a considerable improvement in the terms of trade; the index, which had been rising continuously since the middle of 1951, was, during the second half of 1952, on an average 13 points higher than in the first half of 1952. This improvement seems to have come to an end, as the downward trend of import prices has ceased, whereas export prices are beginning to fall. Germany has still a deficit on her trade balance with the dollar area, but this deficit fell from a monthly average of \$60 million in the first quarter of 1952 to \$30 million in the last quarter and to \$10 million in the first half of 1953. As a result of this favourable trend in

Germany's forcing trade position, the foreign exchange reserves of the "Bank Deutscher Länder" increased considerably. Gold and dollar reserves, which amounted to 265 million u/a at the end of 1951, had risen to 636 million by the end of 1952 and to about 720 by the end of March 1953.

46. When the Board considered the German position in the E.P.U. in the autumn on 1952, it was expected that the London Debt Agreements would be concluded and put into force within a relatively short time. The amortization and interest transfers would certainly have reduced Germany's surpluses with the Union during the first half of 1953. Unfortunately, there was delay in the coming into force of these agreements with the result that transfers due for the period 1st January 1953 onwards have not yet been made, and will take place later. There are, however, reasons to hope that the coming into force of these agreements will not be delayed beyond the summer of 1953. This should mean that the German Government should be able to authorize also the transfer of income on other capital not covered by the London Debt Agreements and still subject to restrictions. It should be noted that during 1952-53 the German Government extended its liberalization measures in respect of current invisible transactions other than those connected with capital items and, in particular, increased the travel allowance for tourists from DM. 500 to DM. 800 per person per year.

47. The favourable development of Germany's position in the E.P.U. during 1952-53 took place against a background of high overall economic activity, increasing production and decreasing unemployment in Germany. Nevertheless, in January and February 1953, production fell in certain sectors. Wholesale prices and the cost of living were stable and even showed some tendency to decline. Wage increases were accompanied by increases in productivity.

48. The strict financial policy adopted at the time of the payments crisis during the winter of 1951 helped Germany to achieve her present position in the E.P.U. However, during 1952-53 a series of steps were taken to relax the monetary policy. As from the middle of 1952 the discount rate was lowered on three occasions and became 3.5% in June 1953 - the lowest rate since the monetary reform - as against 4 % before the payments crisis. All restrictions on credit were lifted and the minimum reserves required of private banks were reduced.

49. When the E.P.U. Agreement was prolonged for 1953-54, the Council of the Organization decided, on the recommendation of the Board, to increase from 100 to 150 million u/a the "rallonge" within which Germany's surpluses beyond the quota would be settled.

GREECE

50. The net deficit of Greece in the E.P.U. was only 28 million u/a in 1952-53 as compared with 83 million u/a in 1951-52 and 140 million u/a in 1950-51. This deficit was settled with Special Resources allotted to Greece by the United States Government. The Greek debtor quota has been blocked from the start of the Union's operation.

The reduction in the deficit of Greece in the E.P.U. and the marked improvement in the overall balance of payments of Greece between 1951-52 and 1952-53 are both explained by the same factors.

51. In the first place, there was an improvement in the trade balance. During the first three quarters of the year 1952-53, total c.i.f. imports were 237 million u a, while total f.o.b. exports were 94 million u/a (i.e. a trade deficit of 143 million u/a) whereas the figures for the corresponding period of 1951-52 were 272 and 89 respectively (deficit: 183 million u a). As regards trade with the E.P.U. area, imports from July 1952 to March 1953 were 171 million u/a, and exports 69 million u/a and the trade deficit 102 million u a, as compared with 179, 67 and 112 million u/a.

The improvement in the balance of payments was much greater than the decline in the trade deficit, both overall as well as vis-à-vis the E.P.U. area. In Greece's relations with the E.P.U. area, the payments deficit was 36.5 million u a less during the first 9 months of 1952-53 than during the corresponding period of 1951-52, whereas the trade deficit fell by only 10 million u a. This difference is accounted for partly by an

increase in current invisible earnings and a reduction in payments made in advance by Greece.

52. Although Greek exports increased during the year under review, the reduction in the trade deficit is primarily explained by a fall in imports, for which there are various reasons. Firstly, direct and indirect import restrictions were maintained and reinforced during the second half of 1952. As a result of the 1952 harvest, a record for grain, it was possible to reduce imports of foodstuffs. The anti-inflationary measures adopted, in particular the credit restrictions, brought about a slowing-down in economic activity which began during the second quarter of 1952 and continued until March 1953; these measures led to a considerable reduction in private stocks and imports for current production, and also probably resulted in a fall in private investment, which was accompanied by a fall in public investment. Finally, the abolition of rationing, instead of increasing demand for imported goods, in fact led to a reduction in government stocks of essential goods, the value of this reduction being put at \$11 million. To sum up, the gap between supply and demand was substantially narrowed over the whole economy.

53. In addition to the various measures taken to bring export prices into line with world prices, there was the devaluation of the drachma on 9th April to Dr. 30,000 = \$ 1 (as compared with Dr. 15,000 = \$ 1 previously). This made it possible to abandon the practice of different rates for different types of transaction, and will probably have a marked effect on imports and exports. At the same time, quantitative restrictions on imports were, as an experiment, withdrawn on goods representing approximately 90% of Greek imports from the E.P.U. area.

54. So far, there has been no marked effect on prices; the rise in retail prices did not exceed 10% between the beginning of April and the end of June, and the salary and wage increases granted, to take effect from 1st July, will be of much the same order. However, the rise in wholesale prices seems to have been much more considerable. Devaluation does not yet appear to have affected the trade balance, but it has resulted in a considerable increase in invisible earnings. It has probably been to some extent responsible for the recovery in industrial production since April.

55. When the Union was prolonged, the Council of the O.E.E.C., at the request of the Greek Government and on the proposal of the Managing Board decided that Greece's quota should again be blocked in 1953-54.

[...]

ITALY

59. Of all the creditor positions in the Union during the previous financial year, none was as radically reversed in 1952-53 as that of Italy. In October 1951, in face of the increase in Italy's cumulative surplus in the Union, the Managing Board decided to recommend to the Council of the O.E.E.C. that Italy should be allotted a "rallonge" of 100 million u/a for the settlement of any surpluses which might arise beyond the quota before the measures taken by the Italian Government to reduce its creditor position could take full effect. By February 1952 the cumulative accounting surplus of Italy had reached its maximum of 251 million u/a. As from the following month Italy incurred deficits, and by 1st July 1952 the surplus was only 209 million (4 million beyond the quota). On 30th June 1953 Italy's cumulative accounting position showed a deficit of 12 million u/a. Monthly settlements of the United Kingdom's debt (See Annex II) commenced as from 1st September 1952 on the basis of a formula suggested by the Managing Board. Under this head nearly 35 million u/a were paid to Italy up to 30th June 1953.

60. The average monthly deficits increased from 1 million u/a for the third quarter of 1952 to 26 million for the first half of 1953. More than half of these deficits is attributable to the deficit with the sterling area, more than one fifth to the deficit with Germany and the balance mainly to the relations with the Netherlands and Turkey. The bilateral position with France, which showed a surplus up to December 1952, showed a slight deficit for the first six months of 1953. Despite the heavy deficits incurred, Italy maintained her percentage of liberalization at 99%. At the end of 1952 the Council of the O.E.E.C. recommended all Member countries to do all they could to adjust their commercial policies so as to facilitate an increase in Italian exports.

61. The change in Italy's position in the E.P.U. since July 1952 is explained mainly by the deterioration in her trade balance, due especially to the restrictions imposed by France and the United Kingdom. Aggregate exports to the E.P.U. area, however, showed a slight increase. They increased substantially to Germany and Switzerland. On the other hand, imports from the E.P.U. area, which were facilitated by almost total liberalization, rose considerably, particularly those from the sterling area and Germany as well as those from Turkey due to imports of wheat. Lastly, there seems to have been some reduction in the net surplus on invisible transactions with the E.P.U. area.

62. The deficit in Italy's trade balance with the E.P.U. area corresponded to a marked reorientation of the geographical pattern of Italian trade. Thus nearly 40% of the increase in her trade deficit with the E.P.U. area was offset by a marked decline in her trade deficit with the rest of the world. On the basis of the customs returns, imports from the E.P.U. area increased by 254 million u/a during the period 1st July 1952 to 31st May 1953 as compared with the same period of the previous year, whereas imports from other countries decreased by 198 million u/a. At the same time, while exports to the E.P.U. area declined by 184 million u/a, exports to the rest of the world only declined by 34 million u/a. The trade deficit with North America was somewhat reduced as the result of a decline in imports. Certain imports from the dollar area, more especially coal, were switched to the E.P.U. area.

63. Despite the deterioration of her position with the E.P.U., there have been very definite signs of an improvement in the general economic position of Italy since the end of 1952. The continuous rise in Italian imports which affected the E.P.U. area only, reflects a recovery in economic activity and possibly renewed stock-piling since the middle of 1952. Industrial production for the period 1st July 1952 to 31st March 1953 was 4% higher than during the corresponding period of the previous year, and this recovery took place without affecting internal financial stability. Prices and wages showed only a slight tendency to rise. The budget situation has also improved and a loan issued in January 1953 seems to have met with a favourable reception, which is a sign of the Italian public's confidence in the currency.

Thus, Italy's position in the E.P.U., whilst in itself disquieting, should not be considered separately from Italy's general situation. Italy's position in the E.P.U. has resulted more especially from difficulties encountered by Italian exports to countries which have imposed quantitative restrictions, and from the liberalization policy followed by the Italian Government. Nevertheless, this policy has, it would seem, had satisfactory results by stimulating the Italian economy and by making it possible for Italy to keep her prices competitive on the world market.

THE NETHERLANDS

64. During 1951-52, the position of the Netherlands in the Union was reversed, and in place of a debtor position there was a considerable creditor position by the end of that year. After discussions with the Managing Board, the Netherlands Government informed the Organization that as his trend was so pronounced, it had decided to adopt a more flexible monetary policy. It considered, however, that the improvement in its position in the Union was due partly to temporary factors and that it was possible that during the first half of 1953, when these factors had ceased to operate and the rearmament programme had begun to produce its full effect, the position of the Netherlands in the Union would deteriorate.

In fact, the creditor position continued to increase during 1952-53 although at a slower rate than in the previous financial year, and in March 1953 the cumulative accounting position exceeded the quota, necessitating a partial use of the "rallonge" which had been allotted to the Netherlands. However, as the Netherlands incurred a slight deficit in the Union during June, by 30th June 1953 the cumulative accounting position had been brought down to 379 million u/a (24 million u/ above the quota).

Two factors helped to check the increase in the Netherlands surplus: the purchase in pounds sterling of dollar goods under the United Kingdom's "Commodity Arbitrage Scheme" (See Chapter II, paragraphs 119 and 120), and the deficit position of Indonesia vis-à-vis Member countries as a whole. At the end of the year the rate of the monthly surpluses fell owing, in particular in May, to the reimbursement of consolidated

debts to Belgium, and in June to transfers relating to the placing of Belgian short-term Treasury Bonds on the Netherlands market.

65. The trade balance of the Netherlands (Metropolitan territory) vis-à-vis the E.P.U. area has shown signs of improvement. Exports increased slightly whilst imports declined in value as the result both of the fall in the prices of goods imported and of a slight fall in the volume of imports. Stocks have ceased to rise and have even fallen slightly. The surplus on the overall trade balance of the florin area has not changed appreciably as compared with the level to which it fell at the end of 1951-52 after the extraordinarily high level reached at the beginning of that period. The deficit on invisible transactions of the florin area in the E.P.U. has only changed slightly during the year.

The percentage of imports freed was raised to 82% in January 1953 and 92 % in May; it is possible that these new measures have not yet given their full results. Certain measures have also been taken with regard to invisibles; in particular in June 1953 the travel allowance for tourists in foreign exchange was fixed at the equivalent of Fls. 1,000 (i.e. approximately 260 u/a.) for each journey.

66. In 1952, for the first time since the war, the overall balance of current payments of the florin area showed a surplus for the year which more than offset the deficits of the three previous years. During the second half of the year there was a surplus with the dollar area; Indonesia's operations with the rest of the world contributed to this favourable development. From 1st July 1952 to 30th June 1953, the foreign exchange reserves of the Central Bank increased by \$382 million (of which 270 million in gold).

67. In the light of the favourable trend in the balance of payments since the end of 1951, the Netherlands was able to relax progressively the financial and monetary measures previously adopted to correct the external disequilibrium. During 1952-53 the discount rate was lowered on two occasions, and a bill for the reduction of taxation was placed before Parliament with the intention of increasing the development of industrialization and also of offsetting to some extent the proposed rise in rents on 1st January 1954. Since September, there has been a considerable expansion in business generally in contrast to the stagnation noted during the first half of 1952. Production of consumer goods and the volume of private consumption have risen appreciably. Despite an increase in the population, as from February 1953 the previous year's increase in unemployment has been absorbed as a result of the new measures taken in 1952 to increase employment, as well as of the work done to repair the damage caused by the January floods.

68. The economic development and the creditor trend of the Netherlands should, it is thought, continue during the coming financial year. However, according to the Netherlands experts, the monthly surpluses in the Union should be less than during 1952-53. In the light of these estimates, the Council of the O.E.E.C., on the recommendation of the Managing Board, decided to renew the "rallonge" of 100 million u/a allotted for the previous year.

[...]

UNITED KINGDOM

96. The balance of payments position of the United Kingdom and the sterling area improved during the year 1952-53. At the end of 1951-52, the sterling area was still incurring large deficits in the E.P.U.; although there were considerable receipts in respect of United States Aid, these barely offset gold and dollar losses vis-à-vis other areas. Since September 1952, however, the sterling area has regularly had surpluses with the Union, and its gold and dollar reserves have increased appreciably. The cumulative accounting deficit in the Union fell from a peak figure of 1,222 million u/a (the quota being 1,060 million u/a) at the end of August 1952, to 764 million u/a at the end of June 1953. The gold and dollar reserves of the sterling area, which remained stable between the end of April and the end of August 1952, subsequently rose steadily from \$1,672 million to \$2,367 million at the end of June 1953.

97. This increase in reserves was caused mainly by changes in the payments position of the United Kingdom itself. Although the United Kingdom's surplus on current transactions with the rest of the world increased

only slightly between the first and second half of 1952, there were important changes in the geographical distribution of these transactions. The surplus with the rest of the sterling area fell considerably and the deficit with non-sterling countries was replaced by a small surplus. At the same time, the rest of the sterling area contributed largely to the increase in the sterling area's reserve by increasing its own gold and dollar surpluses, and changing its slight deficit with O.E.E.C. countries into a surplus.

98. When considering the sterling area's surpluses with the E.P.U. since September 1952, it must be remembered that in August, at a time when the United Kingdom was beyond its quota, the United Kingdom Government operated a "Commodity Arbitrage Scheme" (Cf. Chapter II, paragraphs 119 and 120), which allowed importers in other E.P.U. countries to purchase dollar commodities via the United Kingdom and pay for them through the Union. The United Kingdom thus granted British merchants licenses to buy \$172 million worth of dollar commodities for resale to E.P.U. countries. While making this increased payment to the dollar area, the United Kingdom was able to increase its surpluses with the Union by the same amount; these surpluses totalled, for the last five months of 1952, 313 million u/a.

99. Excluding the effects of this Scheme, the net monthly deficit of the sterling area in the Union, which averaged roughly 51 million u/a during the second quarter of 1952, fell to 30 million during the third quarter. It changed to a surplus of 45 million u/a during the last quarter of 1952, of 25 million during the first quarter of 1953, and of 22 million during the second quarter of the same year. The change in the figures for the second quarter is partly due to seasonal factors which are generally unfavourable to the sterling area's balance of payments at that time of the year.

100. The improvement in the United Kingdom's current balance of payments is mainly due to a reduction in the volume of imports and a fall in import prices; imports from non-sterling sources fell from £2,200 million in 1951 (f.o.b. value) to an annual rate of slightly less than £2,000 million during the first half and £1,400 million during the second half of 1952. During the first quarter of 1953, the volume of imports was again at the level of the second quarter of 1952, the lower value of imports being no doubt largely due to the very strict policy applied since November 1951. By March 1952, the liberalization percentage had been reduced from 90 to 44% and the tourist's travel allowance in foreign exchange had been reduced from £100 to £25 per year. In March 1953, however, the liberalization percentage was raised to 58% and the tourist's travel allowance in foreign exchange to £40 per annum. In a number of other sterling countries import restrictions were also tightened, on account of balance of payments difficulties, and are only now being gradually relaxed. The stricter monetary policy pursued over the last 18 months has helped considerably to strengthen the position of the United Kingdom, as has also the improvement in the terms of trade. In the other sterling countries, the fall in raw material prices, while considerably reducing export earnings, has reduced demand for imported goods, as a result of the fall in income.

101. The United Kingdom's overall trade deficit was considerably higher during the first six months of 1953 than during the last six months of 1952. The deficit with the E.P.U. area increased slightly owing to an increase in imports; on the other hand, there was no worsening of the trade deficit with the dollar area, exports to which increased slightly. During the first six months of 1953 the surplus on invisibles was at the same level as during the last six months of 1952, if interest payments made on American and Canadian loans in the latter period are excluded. The United Kingdom's overall balance of payments was less favourable during the first six months of 1953, than during the previous six months; but this deterioration is largely attributable to the balance of payments with other countries of the sterling area. The position of these countries vis-à-vis non-sterling countries improved slightly, though there was no appreciable change in their trade balance with other E.P.U. countries. Gold and dollar reserves have continued to increase.