



ECONOMIC SURVEYS

BELGIUM-
LUXEMBOURG
ECONOMIC UNION

I. 2. b. 4.

ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

PARIS JULY 1965

ECONOMIC SURVEYS BY THE OECD

**BELGIUM-LUXEMBOURG
ECONOMIC-UNION**

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development was set up under a Convention signed in Paris on 14th December 1960 by the Member countries of the Organisation for European Economic Co-operation and by Canada and the United States. This Convention provides that the OECD shall promote policies designed :

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;*
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

The legal personality possessed by the Organisation for European Economic Co-operation continues in the OECD, which came into being on 30th September 1961.

The Members of OECD are: Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

This document was approved
by the Economic and Development Review Committee
in July 1965.

BASIC STATISTICS OF BELGIUM

THE LAND

Area (1,000 sq. km)	30,5	Main urban areas 1964 (inhabitants) :	
Agricultural area (1,000 sq. km) (1964)...	16,1	— Brussels	1.057.923
		— Antwerp	654.508
		— Liège	452.417

THE PEOPLE

Population (1964)	9.428.100	Net migration (1964)	48.945
Number of inhabitants per sq. km (1964)	309	Total labour force (1963)	3.694.400
Population net natural increase		Wage and salary earners in agriculture (1963)	23.300
— Yearly average (1963-64)	46.800	Wage and salary earners in manufacturing industries (1963)	1.111.700
— Yearly rate per 1,000 inhabitants (1963-64)	4.99		

PRODUCTION

Gross national product (1964) (billions of Belgian francs)	768,2	National expenditure (1964) (Billions of Belgian francs)	
Gross national product per head (1964) (U.S. \$)	1630	— Private consumption	512,4
Gross fixed investment, 1964 :		— Public consumption	97,5
— Percentage of G.N.P.	20,6	— Enterprises gross fixed asset formation	136,7
— Per head (U.S. \$)	336	— Gov. do.	21,7
		— Net exports	-0,1

THE GOVERNMENT

Current government expenditure on goods and services (1964). Percentage of G.N.P.	20,2	Composition of the house of representatives :	
Current government revenues (1964) (% of G.N.P.)	20,5	— Christian-Social Party	36%
Central Government debt, 31-12-1964 (Billions of Belgian francs)	428,8	— Socialist Party	30%
		— Liberal Party	23%
		— Communist Party	3%
		— Others	8%
		Last election : 1965	
		Next election : 1969	

LIVING STANDARDS

Calories per head, per day (B.L.E.U.) (1963-64)	3.075	Number of telephones per 1,000 inhabitants (1963)	144
Consumption of electricity per head, 1964 (kWh)	2.065	Number of T.V. sets per 1,000 inhabitants (1963)	129
Number of private cars per 1,000 inhabitants (1964)	123		

FOREIGN TRADE

Exports :		Imports :	
Main exports in 1964 (% of total exports) (B.L.E.U.) :		Main imports in 1964 (percentage of total imports) (B.L.E.U.) :	
— Base metals	29,5	— Minerals	14,8
— Textiles	15,2	— Machinery et equipment	14,1
— Machinery and Equipment	10,6	— Base metals	12,0
— Transport Equipment	7,9	— Textile fibre	11,8

THE CURRENCY

Monetary units : Belgian francs

Currency unit per U.S. Dollar : 50.

BASIC STATISTICS OF LUXEMBOURG

THE LAND

Area (sq.km)	2,586	Major city :	
Agricultural area (sq.km), 1964.....	1,353	Luxembourg (1964) inhab.....	77,000
Woodland, 1961 (sq.km).....	857		

THE PEOPLE

Population (1964).....	330,000	Net immigration (average 1958-63)..	2,641
Number of inhabitants per sq.km (1963).....	128	Total labour force (1964).....	134,700
Population net natural increase (1958-64) :		Wage and salary workers in agriculture (1964).....	893
— Yearly average.....	1,300	Wage and salary workers in manufacturing industry (1963).....	49,361
— Per 1,000 inhabitants.....	4,0		

PRODUCTION

Gross national product, 1962 (millions of lux. francs).....	25,796	Gross national product at factor cost by origin, 1962 :	
Gross national product per head, 1962 (U.S. \$)	1,592	— Agriculture	7,5%
Gross fixed investment (average 1955-62) :		— Mining and quarrying industries	2,5%
— Percentage of G.N.P.....	23,7	— Manufacturing industries	40,0%
— Per head (U.S. \$).....	346	— Construction.....	9,4%
		— Other	40,6%

THE GOVERNMENT

Current government expenditure on goods and services 1962 (percentage of G.N.P.)	28	Composition of the Chamber :	
Currency government revenues, 1962 (percentage of G.N.P.).....	34	— Christian-Social Party	39%
Central Government debt, December 31st, 1964 (% of Central Gov. revenue).....	118	— Workers-Socialist Party	38%
		— Democratic Party	11%
		— Communist Party	9%
		— Others	3%
		Last election : 1964	
		Next election : 1969	

LIVING STANDARDS

Gross average hourly earnings, 1964 (lux. francs).....	48,41	Number of telephones per 1,000 inhabitants (1964).....	162
Number of private cars per 1,000 inhabitants (1964)	169	Number of T.V. sets per 1,000 inhabitants (1964)	74

THE CURRENCY

Monetary unit : Luxembourg francs.	Currency unit per U.S. dollar	50
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INTRODUCTION

The Grand Duchy of Luxembourg covers an area of 2,586 sq.km and has a population of 330,000¹. Of the OECD countries it is the smallest in area while its population exceeds only that of Iceland. Furthermore, its economy reflects the preponderance of one industry (steel) which absorbs nearly 50 per cent of the workers employed in industry and accounts for some 70 per cent of the country's total exports. Since 1922 (the date of the establishment of the Belgo-Luxembourg Economic Union) Luxembourg's economy has been closely linked with that of Belgium.

The following reasons sometimes make it difficult to conduct a survey of this country:

- i)* Its very small size is a factor liable to distort the significance of the usual statistical indicators. In Luxembourg it is not uncommon to observe annual growth rates of something like 30 per cent in respect of the demand for certain current commodities (such as motor vehicles).
- ii)* The fact that the steel industry plays such a major role may lead to certain errors in analysis. Because this industry dominates the Luxembourg economy there is a tendency to assess its current situation and prospects in terms of the international demand for steel. All the same it has to be remembered that the steel industry accounts for no more than between 25 and 30 per cent of the national product and employs less than one fifth of the active population. Furthermore, present economic policy is aiming to reduce these proportions by encouraging some diversification of the pattern of industry. This point will be reverted to later on.
- iii)* The union with Belgium makes it very difficult to analyse Luxembourg's foreign trade. Both countries share the same trade returns and balance of payments and although this is virtually no handicap when analysing the economy of Belgium whose volume of trade is about 11 times as great as that of Luxembourg, the trend and structure of Luxembourg's foreign trade are completely obscured.

1. As at 31st December 1964.

The recent trend of the Luxembourg economy has been fairly favourable owing to the recovery in world steel markets and to the first results of the policy of industrial reorganisation initiated in 1960. In 1964 growth was very rapid. Industrial production increased by 9 per cent in volume, output of crude steel by 13.1 per cent. At the same time prices came under considerable pressure as a result of higher domestic costs and increases in the prices of imported products. Corrective measures were taken, however, and these kept the actual price increases within comparatively reasonable limits. In 1965 the growth rate should be markedly slower owing to the stabilization of the steel market, whereas in 1966 the rate might well pick up again with the entry into service of two new chemical plants.

I. STRUCTURAL PROBLEMS

Population

The Grand Duchy of Luxembourg numbered 330,000 inhabitants at the end of 1964, i.e. 127.6 inhabitants per sq.km. The natural growth rate of the population is very slow (3.5 per thousand in 1963), but the migratory movements of foreign workers are very considerable (the rise in their numbers from one year to the next may range from one third to three times the natural increase in the population).

The total labour force was estimated at 133,600 persons as at 31st December, 1964¹, i.e. an activity rate of 42.4 per cent (41.6 per cent in terms of the national population). This rate, a low one compared with that attained in most industrial economies, reflects the ageing of the population due to the low natural increase over the past twenty years. The greater part (44 per cent) of the labour force is employed in industry, while the tertiary sector and agriculture absorb 39.6 per cent and 16.4 per cent respectively. Since the end of the war, the structure of the labour force has altered appreciably. There has been a movement of labour from agriculture to industry and, in particular, to the services sector.

The institutional and social pattern of the Grand Duchy of Luxembourg is influenced by three distinguishing factors:

- the major role played by the Government in social and economic life;
- the high degree of organisation among the trades and professions;
- integration with the Belgian economy.

1. 131,000 nationals, less 1,000 nationals employed abroad, plus 3,600 foreign workers employed in Luxembourg.

TABLE 1. STRUCTURE OF THE ACTIVE POPULATION¹

Thousands.

	1960	1961	1962	1963	1964
<i>Total employed</i>	133.7	134.4	135.5	135.8	137.8
Agriculture.....	21.9	21.2	20.5	20.0	19.3
Industry.....	58.9	59.4	60.6	61.2	62.7
Services.....	52.9	53.8	54.4	54.6	55.8
<i>Wage-earning and salaried</i>	94.2	95.7	97.4	98.0	100.4
Agriculture.....	1.8	1.8	1.6	1.4	1.2
Industry.....	53.1	53.7	55.0	55.6	57.1
Services.....	39.3	40.2	40.8	41.0	42.1
<i>Employers and self-employed</i>	22.4	21.9	21.5	21.2	21.0
Agriculture.....	8.3	7.9	7.6	7.3	7.0
Industry.....	5.0	4.9	4.8	4.8	4.8
Services.....	9.1	9.1	9.1	9.1	9.2
<i>Family helpers</i>	17.1	16.8	16.6	16.6	16.4
Agriculture.....	11.8	11.5	11.3	11.3	11.1
Industry.....	0.8	0.8	0.8	0.8	0.8
Services.....	4.5	4.5	4.5	4.5	4.5

1. Including persons working in Luxembourg and domiciled abroad, and excluding those working abroad but domiciled in Luxembourg.

The State plays a major part in economic activity. Public investment constitutes on average one fifth of total investment. In fact, the Government's influence is felt in all spheres: prices, credit, labour disputes, etc.

- a) In matters affecting prices a series of legislative texts dating from the immediate post-war period and subsequently amended from time to time entitle the State to exercise supervision over a wide field. An order (arrêté) of 8th November, 1944, established a Prices Board. This order was superseded by the Act (loi) of 30th June, 1961, the purpose of which was to fix, control and supervise purchase and selling prices, together with prices in respect of production, manufacture, etc. with the exception of fees, salaries, wages and prices fixed by certain bodies designated by special legislation. Attached to the Prices Board is an Advisory Prices Committee whose membership comprises representatives of consumers and producers in industry, commerce and craft trades. The responsible Minister, or the Prices Board, may put before the Committee all questions connected with price fixing. Furthermore, under the ministerial order (arrêté ministériel) of 13-11-1956 the Prices Board must be notified of any increase. Those which exceed 5 per cent of the prices obtaining

on 30-10-1956 have first to be authorised by the Prices Board. In respect of a limited list of products the same authorisation is required for any increase. The authorities also have powers to fix maximum prices an price margins from which there are no exemptions. (In 1964 maximum price margins were fixed in respect of certain electrical household goods and foodstuffs.)

- b) Credit policy is exercised chiefly through the Savings Bank, a public institution which fulfils the role of both Central Bank and Treasury. The influence exerted by the Savings Bank on the other banks derives largely, however, from the fact that the volume of its transactions is almost as large as that of all the other Luxembourg banks taken together.
- c) Labour disputes are fairly infrequent. Wage levels are fixed by agreements relating to individual industries or firms. In addition, the system of indexing, now becoming more widespread, automatically adjusts wage levels to the cost of living trend. However, in cases where disagreements do arise, the Office National de Conciliation comprising representatives of the Government and trade associations, endeavours to find a solution¹.

Since 1963, the statistical service of the Ministry for Economic Affairs (STATEC) has been drawing up economic budgets; it is now beginning to prepare estimates for 1970 which should serve as a basis for economic programming. Moreover, various contacts have been made between the Minister for Economic Affairs and the trade associations with a view to formulating an incomes policy.

A feature of Luxembourg's social structure is the high degree of organisation among the various trades: a large proportion (50 per cent) of wage-earning and salaried employees are members of trade unions, whether they belong to the socialist union (CGT) which is the most powerful, to the Christian or Communist trade unions or to a federation of employees or civil servants. On the producers' side the major unions are the Farmers' Union, the Chamber of Craft Trades, the Federation of Industry and the Federation of Commerce. These groups of employees and employers exert varying degrees of influence on the political parties.

Luxembourg's economy has close institutional links with that of Belgium. The BLEU dates from 1922 while the common European institutions (the ECSC established in 1952 and the EEC established in 1958) have merely strengthened the ties that have existed between the two countries since 1922. Customs duties between Luxembourg and Belgium have been abolished and the currency for the two countries is, in principle,

1. In 1959 the Government called in a professor from a foreign university to propose a solution to a labour dispute.

the same¹. Belgian and Luxembourg nationals have equal rights in tendering contracts for supplies or services with the Government and the Communes. Belgians have the same rights as Luxembourg nationals in regard to taking up paid employment or engaging in a business or trade. Nevertheless the political institutions remain autonomous, and the formulation of economic policy in the two countries is done for the most part independently.

This is doubtless why, in spite of the abolition of customs barriers, and the mobility of production factors between Luxembourg and Belgium, etc., the two countries do not yet share a common economy. Other reasons are the natural or historical backgrounds which have shaped the social and economic structures of the two countries differently, and the fact that mobility of production factors can never be complete.

Economic structures

The Luxembourg economy is distinguished by the following features:

- the diminishing importance of agriculture;
- the predominant contribution of the steel industry to industrial activity;
- heavy reliance on foreign trade both with regard to supplies and production uses;
- in conjunction with the last two factors, the liability to extreme fluctuations in economic conditions.

The agricultural sector is playing a steadily decreasing role in the Luxembourg economy. Its share of the national product fell from about 12 per cent in 1947 to 7.5 per cent in 1962, while during the same period the agricultural labour force declined from 25.9 per cent to 15.5 per cent of the total active population. For some ten years now the trend has been to concentrate and modernise farms. The number of holdings of over 2 hectares decreased by 28 per cent between 1950 and 1963, while the average area of each increased from 12.1 hectares to 16.3 hectares. In the period 1953-63 the number of farm tractors rose from 2,816 to 7,120.

The steel industry still dominates all others in Luxembourg. Its output by value represents between 25 and 30 per cent of the gross national product. There are three companies producing steel, the chief of which, ARBED, accounts for nearly 60 per cent of Luxembourg's output. The industry is largely self-financing (the last ARBED issue dates from 1931). The companies come under strong influence from abroad. Since, however,

1. The Belgian franc and Luxembourg franc have the same exchange parity, but although Belgian currency circulates freely in Luxembourg. The reverse does not hold good and Belgian tradesmen, for instance, may always refuse to accept Luxembourg currency.

the capital is very widely spread and a relatively small share of it is held by major Shareholders, it is difficult to specify the total extent of this foreign influence.

TABLE 2. SUPPLY AND USE OF RESOURCES

	<i>Per cent.</i>		
	1963	1964	1965 ¹
A. SUPPLY:			
Gross national product	52.5	52.3	53.2
Total imports	47.5	47.7	46.8
Total resources	100	100	100
B. USE:			
Private consumption	31.5	31.0	32.4
Public consumption	7.3	6.9	7.0
Gross fixed asset formation	18.0	16.4	14.6
<i>of which:</i> Building	8.5	8.8	8.9
Equipment	9.5	7.6	5.7
Change in stocks	-1.0	0	0
Total exports	44.2	45.7	46.0
Total uses	100	100	100

1. Forecast.

Source: Estimates made in connection with economic budgets and subject to revision.

Luxembourg is still extremely dependent on foreign trade both for its supplies and for outlets for its products. Since 1960 imports have constituted an average of 45 per cent of available resources, whereas exports have accounted for 49 per cent of the uses of these resources, which means that the trade balance has always shown a surplus. Reasons have been given above for the difficulty in obtaining Luxembourg's external trade figures. However, statistics of import and export licences offer a rough idea of the pattern of foreign trade by areas and by commodities. The pattern by areas shows that Belgium is the largest market for exports (20 per cent) and an even larger source of imports (36 per cent). Germany also provides 36 per cent of imports. Where exports are concerned, the statistics would seem to indicate that the proportion absorbed by the EEC as a whole has increased since 1958. It is now something like 70 per cent. On the imports side, the EEC supplies 90 per cent. The pattern of external trade by commodities reveals the large share of imports taken up by mineral products (31.9 per cent), mainly coke and ores, and by machinery and equipment (17.5 per cent). An overwhelming proportion of exports (76.9 per cent) is of metals both worked and unworked, steel products alone representing 70 per cent of total sales.

TABLE 3. EXTERNAL TRADE BY COMMODITIES IN 1963
(ACCORDING TO CUSTOMS RETURNS)

Millions of L.Fr.

	IMPORTS	EXPORTS
1. Live animals; animal products	2.0	1.6
2. Vegetable products	3.0	0.8
3. Animal and vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes	0.5	—
4. Prepared foodstuffs; beverages, spirits and vinegar; tobacco ...	5.9	3.0
5. Mineral products	31.9	1.2
6. Products of the chemical and allied industries	4.7	3.3
7. Artificial resins and plastic materials, cellulose esters and ethers and articles thereof; rubber, synthetic rubbers, factice and articles thereof	2.7	5.1
8. Raw hides and skins, leather, furskins and articles thereof; sad- dlery and harness; travel goods, handbags and the like; articles of gut (other than silk-worm gut)	0.6	0.2
9. Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto and of other plaiting materials; basketware and wickerwork	1.0	0.6
10. Paper-making material; paper and paperboard and articles there- of	2.0	0.5
11. Textiles and textile articles	7.6	1.0
12. Footwear, headgear, umbrellas, sunshades, whips, ridingcrops and parts thereof; prepared feathers and down and articles made therewith; artificial flowers; articles of human hair; fans	1.3	0.2
13. Articles of stone, of plaster, of cement, of asbestos, of mica and of similar materials; ceramic products; glass and glassware ...	2.0	1.4
14. Pearls, precious and semi-precious stones, precious metals, rolled precious metals, and articles thereof; imitation jewellery; coin ...	10.01	76.9
15. Base metals and articles of base metal	17.5	3.5
16. Machinery and mechanical appliances; electrical equipment; parts thereof	5.0	0.5
17. Vehicles, aircraft and parts thereof; vessels and certain associated transport equipment	0.7	—
18. Optical, photographic, cinematographic, measuring, checking, precision, medical and surgical instruments and apparatus; clocks and watches; musical instruments, sound recorders and reproducers; parts thereof	2.0	0.2
19. Arms and ammunition; parts thereof	—	—
20. Miscellaneous manufactured articles	—	—
21. Works of art, collectors' pieces, and antiques	100.0	100.0
Total		

Luxembourg's dependence on the outside world has a twofold implication. Where the uses of resources are concerned two thirds of total exports consist of a single commodity, steel, external demand for which is subject to marked fluctuations in volume and in price. Years of declining demand for this commodity (as in 1959 and 1962) are therefore years of recession for the Luxembourg economy, while periods of heavy external demand (which may be due not only to internal boom conditions but to political or social contingencies such as the strike in the United States

steel industry) result in brisk internal expansion (as in 1959-1960, 1963-1964). With regard to the supply of resources, the Luxembourg economy has become highly susceptible to the inflationary pressures experienced by the supplying countries. The reason for this is that imports make up 45 per cent of total resources and their value is more than 80 per cent of that of the gross national product. Further, because almost all the suppliers are concentrated in a single area of the world, the EEC, any rise in prices in one of the Common Market countries is liable to have an immediate effect on Luxembourg prices. These conditions make it extremely difficult to pursue counter-cyclical policies in Luxembourg. They also explain why the Luxembourg authorities have instituted a system of strict price control which seems, moreover, to have worked satisfactorily during the last decade.

For ten years now the growth pattern of the Luxembourg economy has been marked by alternate phases of rapid expansion and decline, although, as has already been pointed out, the usual significance of "growth rates" was somewhat distorted by the country's small size. The fact still remains however that these marked fluctuations generally reflect the ups and downs of the internal economic situation. Thus while an annual growth rate of 7 per cent in industrial production was recorded between 1953 and 1956, a decline of 6 per cent was observed in 1958 and one of 4 per cent in 1962, these fluctuations being closely linked with the trend of the steel industry. It should be noted moreover that throughout these

TABLE 4. INDUSTRIAL PRODUCTION INDICES FROM 1958 TO 1965
MONTHLY AVERAGES

1947 = 100

	WEIGHT- ING	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
General index.....	100	173	185	188	180	188	205	211	202	204	223
Mining and quarrying .	6.38	287	301	312	268	258	271	289	251	265	253
Beverages and tobacco.	3.84	124	139	165	179	204	215	235	206	215	210
Chemicals	4.86	176	196	196	178	160	182	190	190	192	193
Non-metallic ore pro- ducts.....	3.88	178	190	194	193	189	215	235	240	229	252
Iron and steel	63.37	182	196	197	190	205	226	231	222	222	251
Metal manufactures ...	7.99	93	96	97	97	93	93	95	93	89	85
Building and construc- tion index ¹	Monthly average (1956 = 100)		100	110	112	97	90	100	102	91	97

1. Index based on the number of man hours.

very wide economic swings, monetary stability has been fairly well maintained. From 1953 to 1963 the annual rise in the cost-of-living index¹ was less than 1 per cent, largely as a result of the policy of price control initiated by the Government. During the same period wage incomes rose annually by 5 per cent on average in conditions of virtually constant overemployment.

Economic Policy problems

Some of these problems have already been mentioned in the section dealing with social and institutional structures. The following paragraphs will be mainly concerned with describing the lines which the policy of industrial reorganisation has taken of late.

For some years now the economic policy of the authorities has aimed at making production more diversified so that the national economy may be less directly dependent on international fluctuations in the demand for steel. This policy finds expression in an enabling Act (*loi-cadre*) of 2nd June, 1962, designed to "institute and co-ordinate measures to improve the structure and regional equilibrium of the national economy and to promote economic expansion". The Act provides for various types of measure (capital subsidies, tax relief, favourable interest rates, acquisition and development of sites and buildings, etc.) applicable separately or in combination with entrepreneurs who agree to transform their productive activity or to set up firms in the sectors covered by the act. By virtue of an order (*arrêté*) of 19th December, 1964, the measures prescribed by the enabling Act have been extended until 1966.

There can be no doubt that this policy has already produced results. Since 1962 there has been a concentration of investment in the chemical industry (which is becoming one of the major industries in the economy: its output rose from about 4.86 per cent of gross value added in industrial production in 1947 to 6.47 per cent² in 1963). Furthermore, in the chemical, food and precision engineering industries, new firms, most of them medium-sized, have been financed by foreign capital (mainly American).

To conclude this brief analysis of the pattern of the Luxembourg economy, the following are the major problems which face the authorities in the coming years:

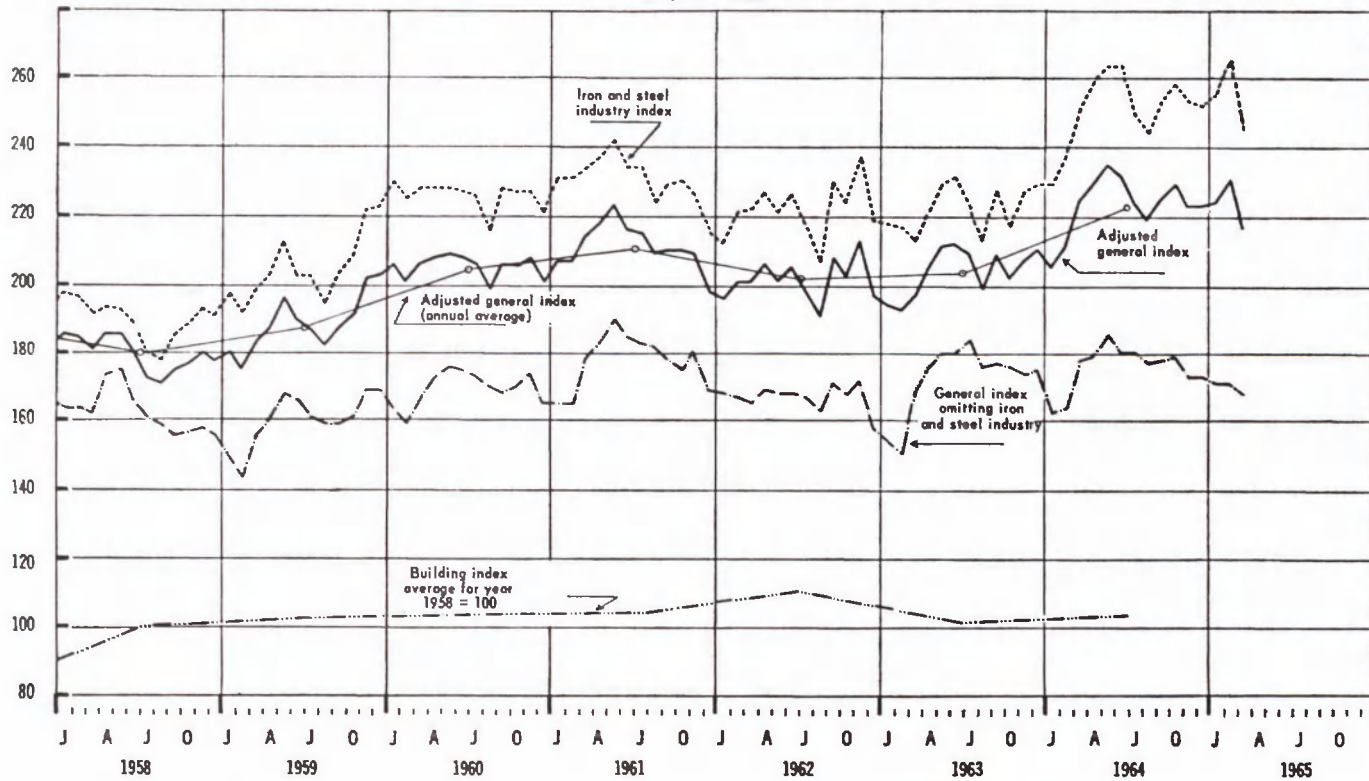
- In the short term, the dangers of inflation associated with the employment position (lack of skilled labour) and more especially with imports (the rising price trends in Common Market countries). Maintenance or even tightening of the present system of price

1. It is true that the present index is not sufficiently representative. A new index is being prepared and will probably be in use as from 1966.

2. The figure for 1963 does not take these firms into account.

GRAND DUCHY OF LUXEMBOURG
INDUSTRIAL PRODUCTION INDICES
1947 = 100

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control and the possible inauguration of an incomes policy should mitigate the effects produced by this situation.

- In the medium term industrial conversion and further integration with Europe. As regards the first point, it must be noted that the steel industry continues to predominate despite the efforts at diversification attempted by the enabling Act, and it will probably take several years for the effects of this Act to show results in reducing Luxembourg's dependence on the outside world. With regard to the second point, it is likely that closer integration with the EEC will mean that efforts to modernise agriculture will have to be continued and speeded up.
- In the long term, the most disquieting problem is the demographic situation. The present ageing of the population and the reliance on foreign labour might, if they continue, raise serious problems for the Luxembourg economy. These problems will arise from the impossibility of obtaining sufficient manpower (especially since difficulties in recruiting foreign labour will increase), and from the financial charges (Social Security in particular) which will devolve on an active population which relatively will grow steadily smaller.

II. RECENT ECONOMIC TRENDS AND SHORT-TERM PROSPECTS

Trends in 1964

In 1964 the volume of the gross national product increased by 6 per cent as against 1 per cent the previous year. This is mainly due to the favourable situation in regard to international demand for steel products. Exports rose by 15 per cent by value and by 12 to 13 per cent by volume (exports of steel products likewise rose by 13 per cent). Internal demand also grew rapidly. Owing to the appreciable increase in wages (+ 12 per cent) and employment (+ 2.4 per cent)¹ consumer demand made considerable headway, the most notable advances being recorded in sales of consumer durables. Investment, on the other hand, rose slightly in 1964, the sharp increase recorded in the new industries and in the public sector being partially offset by a decline in investment in the steel industry. Investment in the building industry grew rapidly (+ 9 per cent in volume).

1. This was made possible by increased recruitment of foreign labour, notably from Italy.

There was considerable pressure on prices because of rising demand and costs, the increase in direct and indirect taxation and higher prices for imported goods. The cost-of-living index rose by 3.1 per cent as against 2.9 per cent in 1963 and 0.9 per cent in 1962.

Public finance requirements were met as usual without major difficulties. The financial year for 1964 (which runs from January 1964 to May 1965) will certainly result in a balance on ordinary budget revenue and expenditure. A loan of L.Fr. 400 million raised in early 1964 will be used to cover extraordinary budget expenditure during the year.

Prospects for 1965 and 1966

Following the marked expansion of the Luxembourg economy in 1964, a slower rate of growth may be expected for 1965 or even a levelling off of the main economic aggregates. External demand for steel is still very buoyant but annual output is not likely to exceed the level reached in 1964. The bulk of the growth should therefore take place in the other sectors and especially the new industries. The level of private consumption should continue to rise slightly, and the same should be true of public consumption. On the other hand a reduction in volume and even in value of gross fixed asset formation is expected. Investment in industry will probably decline since nearly all the major projects were carried out in 1964. It is also unlikely that the building industry will make any appreciable headway owing to the rise in costs and the full utilisation of production factors. Public investment should be at the same level as in the previous year. Prices and wages should continue to rise and there might well be some deterioration in the terms of trade. In short the level of equilibrium should be slightly above that of last year, the growth in the GNP being estimated at about 1 per cent in volume. In 1966, unless there is a marked deterioration in steel sales, the Luxembourg economy should make further advances owing chiefly to the output from two new chemical plants.

CONCLUSIONS

In 1964 Luxembourg's economy experienced a period of rapid growth due largely to the favourable trend in international demand for steel. Owing to the measures for limiting price increases introduced by the authorities this trend brought about no serious internal disequilibrium. The years 1965 and 1966 will probably be a period of much slower growth, if not of stagnation, owing to the deterioration of the steel market situation.

There can thus be no doubt that despite the efforts at industrial conversion undertaken by the Government — which, moreover, are beginning to produce results — the Luxembourg economy is still very vulnerable to international fluctuations in the demand for a single commodity, steel. If the inevitable hazards of such extreme dependence are to be avoided the authorities will certainly have to maintain during the coming years their policy of diversifying industrial activities and modernising agriculture. This policy will doubtless have better chance of success if it is integrated into an overall economic programme.

In the long term the demographic problem seems to present the most cause for concern. The present ageing of the population, the reliance on foreign labour and the heavy financial burden of supporting a large proportion of inactive persons, all threaten to render the Luxembourg economy even more vulnerable to international fluctuations and to the hazards of internal disequilibria. It would therefore seem vital that the authorities adopt in the near future a demographic policy aimed at reversing current trends (in particular by raising the family allowances, granting tax concessions to large families, etc.).

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STATISTICAL ANNEX

TABLE I. PRODUCTION, EMPLOYMENT

	UNIT OF BASE	1963	1964
INDUSTRIAL PRODUCTION INDICES¹:			
1. General (non-adjusted)	1953 = 100	154	164
2. General (seasonally adjusted)	Monthly average	154	164
3. Mining	seasonally	71	70
4. Textiles	adjusted	147	148
5. Chemical products	—	204	224
6. Basic metals	—	165	189
7. Metal product	—	201	207
BUILDING ACTIVITY :			
8. Licences granted	Total for the period	46,475	56,011
9. Buildings completed	1953 = 100	34,604	41,277
10. Railway freight (inland)	Standard months	78	70
EMPLOYMENT INDICES²:			
11. Industries as a whole	1953 = 100	98	100
12. Fuel and energy	Non-adjusted	55	55
13. Primary metals	Monthly averages	107	108
14. Metal products	—	125	130
15. Chemical products	—	112	110
16. Textiles	—	85	85
17. Food	—	98	98
18. Total employment in industry, in constructions and transport	—	97	99
UNEMPLOYMENT:			
19. Wholly unemployed ³ M	Thousands	42.1	35.9
20. Wholly unemployed ³ F	Monthly averages	17.0	14.5
21. Wholly unemployed ³ T	—	59.1	50.4
22. Partial and casual unemployment ³ M	—	43.8	19.8
23. Partial and casual unemployment ³ F	—	6.4	6.9
24. Partial and casual unemployment ³ T	—	50.2	26.7
25. Total unemployment	Thousands	109.3	77.1
26. Wholly unemployed ³	Monthly averages	33	26
27. Unfilled vacancies ³	seasonally adjusted	17	13

1. Statistical Bulletins of the Institut National de Statistiques.

2. Service mensuel de Conjoncture de l'Institut de Recherches économiques, politiques et sociales de l'Université de Louvain.

3. OECD Statistical Bulletins.

AND OTHER BUSINESS INDICATORS

1963				1964				1965	
1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	APRIL
143	154	151	166	160	165	154	176	167	171
149	153	156	161	164	162	163	168	170	169
72	71	70	72	72	70	69	70	68	69
144	148	148	150	153	152	146	141	140	140
197	202	206	210	216	220	223	237	249	249
160	162	167	172	178	184	193	202	200	202
187	196	206	214	211	200	201	218	220	220
11,481	12,730	11,427	10,837	14,796	15,822	12,666	12,728		
6,731	8,681	9,029	10,163	8,159	9,569	10,610	12,939		
79	80	72	80	68	73	66	75	63	67
96	97	98	99	99	99	100	101		
55	54	54	55	55	55	55	55	54	
106	106	108	108	106	106	108	112	112	
122	125	127	128	128	128	131	133		
113	113	112	110	109	110	109	110		
84	85	86	87	87	86	85	84	82	
95	96	100	102	96	96	100	99		
93	97	98	99	98	99	100	100		
33.6	39.2	36.1	39.5	41.1	33.5	31.4	37.5	53.6	37.6
21.1	16.3	14.6	15.8	16.2	13.4	12.9	15.4	17.6	16.6
74.7	55.5	50.7	55.3	57.3	46.9	44.4	52.9	71.2	54.2
126.5	8.5	6.5	33.5	44.1	6.8	5.9	24.4	60.8	10.8
9.7	5.7	4.2	6.0	6.3	5.8	5.6	10.4	10.8	7.6
136.2	14.2	10.7	39.5	50.4	12.6	11.4	34.8	71.6	18.4
210.9	69.7	61.4	94.8	107.7	59.5	55.8	87.6	132.4	72.6
39	33	30	28	27	26	25	27	31	31
16	18	17	19	17	14	12	10	9	8

TABLE II. WAGES

	UNIT OR BASE	1963	1964
1. Index of wages and allowances in industry and transport (including mining). Base: married man with 2 children ¹ ..	1953 = 100 End of period	157,7	174,9
2. Consumer price index (official)	—	115	119,8
3. Wholesale price index	—	102,1	106,5

1. Service mensuel de conjoncture de l'Institut de Recherches économiques, sociales et politiques de l'Université de Louvain.

TABLE III. MONEY

	UNIT OR BASE	1962
1. MONEY SUPPLY ¹	Billions of B.Fr. End of period	254.5
COMMERCIAL BANK DEPOSITS ¹ :		
2. Sight deposits and less than one month	—	76.8
3. Other deposits	—	54.2
SHORT-TERM CREDIT GRANTED TO THE ECONOMY ¹ :		
Credit to the private sector:		
4. By the Central Bank	—	13.1
5. By the Commercial Banks	—	70.0
6. Credit to Government by the Commercial Banks	—	88.5
SAVINGS:		
7. Deposits at the "Caisse générale d'Épargne et de retraite"	—	92.7
INTEREST RATES ² :		
8. Rediscount rate	Percentage End of period	3.50
9. Call money (day to day) rate	Average period	2.13
10. Interest on 6 months, Treasury bills	Percentage beginning of period	4,28
11. Interest on 5 to 20 years, Government loans	Percentage beginning of next period	4.96

1. OECD Statistical Bulletins, General statistics.

2. Bulletins d'Information et de documentation de la Banque nationale de Belgique.

AND PRICES

1963				1964				1965		
1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	APRIL	MAY
151.6	157.8	158.3	163.0	166.6	172.9	176.2	183.7	186.6		
114.6	114.3	115.5	117.5	117.6	119.9	120.9	122.2	122.9	123.1	124.6
101.0	101.1	102.1	105.6	106.8	105.8	106.6	107.5	106.9	107.0	108.4

AND BANKING

1963				1964				1965		
1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	APRIL	MAY
262.6	272.3	267.8	279.0	274.3	287.1	285.1	298.7	294.1	299.7	
79.9	84.2	81.9	86.7	86.6	88.6	87.3	95.2	95.2	96.0	
56.8	57.8	60.2	63.6	66.9	65.5	68.9	69.4	77.0	76.9	
0.3	2.8	8.0	10.9	6.4	9.9	9.6				
74.4	81.2	85.5	89.9	91.6	94.6	98.6	104.5			
92.8	97.8	98.1	97.8	100.5	102.9	101.0	102.3			
93.9	93.6	95.0	98.0	98.1	97.4	98.5	102.4	104.5	104.6	
3.50	3.50	4.0	4.25	4.25	4.25	4.75	4.75	4.75	4.75	
1.77	2.19	2.55	2.73	3.77	3.56	3.86	3.01	2.54	3.08	
3.36	3.45	3.57	4.07	4.75	4.95	5.15	5.40	5.15	5.20	
4.90	5.03	5.12	5.32	5.50	5.62	5.68	5.62	5.51	5.58	

TABLE IV.

	UNIT OR BASE	1963	1964
EXECUTION OF BUDGET			
Actual receipt and expenditure:			
1. Receipts	Billions of B.Fr.	140,0	158,4
2. Expenditure	Total	163,4	179,4
3. Balance	for the period	-23,4	-21,0
SITUATION OF PUBLIC DEBT:			
4. Consolidated internal debt	Billions of B.Fr.	261.6	276.9
5. Consolidated external debt	End of period	18.4	17.2
6. Medium and short term internal debt	—	108.6	103.7
7. Medium and short term external debt	—	28.1	31.0
8. Total debt	—	446.0	462.1

Bulletin de documentation du Ministère des Finances.

TABLE V. FOREIGN

	UNIT OR BASE	1963	1964
1. Net gold and foreign exchange held by the Central Bank.	Millions of \$	1,802	1,991
2. CIF imports	End of period		
2. CIF imports	End of period	426	494
3. FOB exports	Millions of \$	404	467
4. Trade balance	Monthly average	-22	-27
5. CIF imports	—	426	494
6. FOB exports	Millions of \$	404	467
7. Trade balance	Monthly average seasonally adjusted	-22	-27
INDICES:			
8. Volume : imports		129	144
9. Average value : imports	1960 = 100	100	102
10. Volume : exports		130	145
11. Average value : exports	—	98	101

1. OECD. Statistical Bulletins. General Statistics.

PUBLIC FINANCE

1963				1964				1965	
1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	2st QTR.
32,8	31,3	40,0	35,9	38,5	38,6	42,5	38,8	40,7	
44,8	36,9	37,9	43,8	45,8	47,6	41,3	44,7	52,4	
-12,0	(-) 5,6	2,1	(-) 7,9	-7,3	-9,0	+ 1,2	-5,9	-11,7	
254,6	254,0	256,7	261,6	270,1	275,4	273,9	276,9	283,8	
19,3	19,0	18,6	18,4	18,1	17,9	17,5	18,2	16,8	
112,7	113,7	109,2	108,6	103,0	100,3	98,2	102,8	107,3	
21,2	24,3	25,1	28,1	29,3	30,4	31,4	31,0	30,6	
435,2	438,4	436,8	446,0	449,6	457,9	454,5	462,1	471,7	

TRADE (BLEU) ¹

1963				1964				1965	
1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	2nd QTR.	3rd QTR.	4th QTR.	1st QTR.	APRIL
1.729	1.763	1.759	1.802	1.794	1.789	1.835	1.991		
380	419	429	476	481	507	471	516	488	552
365	414	399	439	458	470	435	507	531	507
-15	-6	-30	-38	-26	-38	-36	-9	+ 42	-45
374	407	421	437	470	497	491	490	481	544
363	405	426	425	456	452	461	493	523	483
-11	-1	+ 6	-12	-14	-46	-30	+ 4	+ 42	-61
116	125	122	135	143	147	135	150		
100	99	100	101	102	102	103	102		
116	130	122	130	145	147	133	155		
97	57	98	99	100	101	102	102		

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