

OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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RETOUR BUREAU 706

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

APRIL 1968

BASIC STATISTICS BELGIUM

THE LAND

Area (1 000 sq.km)	30.5	Main urban areas (1965) inhabitants:	
Agricultural area (1966) (1 000 sq.km)	15.9	Brussels	1 065 900
		Antwerp	666 700
		Liège	452 700

THE PEOPLE

Population (1966)	9 556 380	Net immigration (1966)	21 067
Number of inhabitants per sq.km (1966)	313	Total labour force (1966)	3 838 000
Population, net natural increase:		Wage and salary earners in agriculture (1966)	15 500
Yearly average (1964-1966)	42 486	Wage and salary earners in manufacturing industries (1966)	1 084 000
Yearly rate per 1 000 inhabitants (1966)	3.78		

PRODUCTION

Gross national product (1966), billions of Belgian francs	900.9	National expenditure (1966) billions of Belgian francs:	
Gross national product per head (1966) US \$	1 891	Private consumption	588.5
Gross fixed investment:		Public consumption	121.0
Percentage of GNP (1966)	21.5	Gross fixed asset formation	194.1
Per head (1966) US \$	406	Net exports	-10.1

THE GOVERNMENT

Current government expenditure on goods and services (1966):		Composition of the House of Representatives:	%
Percentage of GNP	13.4	Christian-Social Party	33
Current government revenues (1966), % of GNP	31.7	Social Party	28
Central Government debt, 31-12-1967, Billions of Belgian francs	528.9	Liberal Party	22
		Communist Party	2
		Others	15
		Last election: 1968	
		Next election: 1972	

LIVING STANDARDS

Calories per head, per day (BLEU) 1964-1965)	3 150	Number of private cars per 1 000 inhabitants (1966)	140
Consumption of electricity per head 1966 (kWh)	2 240	Number of telephones per 1 000 inhabitants (1966)	155
		Number of TV sets per 1 000 inhabitants (1966)	163

FOREIGN TRADE

Exports:		Imports:	
Main exports 1967 (% of total exports (BLEU):		Main imports in 1967 (percentage of total imports) (BLEU):	
Base metals	29	Machinery and equipment	14
Machinery and Equipment	10	Minerals	13
Textiles	13	Base metals	14
Transport Equipment	10	Textiles	9

THE CURRENCY

Monetary unit: Belgian franc.

Currency units per US dollar: 50

BASIC STATISTICS LUXEMBOURG

THE LAND

Area (sq.km)	2 586	Major city:	
Agricultural area (1967) sq.km)	1 355	Luxembourg (1966) inhab.	77 055
Woodland (1955, sq.km)	840		

THE PEOPLE

Population (1966)	334 790	Total labour force (1966)	130 687
Number of inhabitants per sq.km (1966)	129	Wage and salary workers in agriculture (1966)	1 150
Population, net natural increase (1960-1966):	1 267	Wage and salary workers in industry (1966)	52 860
Yearly average			
Per 1 000 inhabitants	3,9		
Net immigration (average 1960-1965)	3 104		

PRODUCTION

Gross national product (1964), millions of Lux. francs	31 596	Gross national product at factor cost by origin (1964):	
Gross national product per head, US \$	1 900	Agriculture	6.3
Gross fixed investment (average 1962-64):		Mining and quarrying	2.0
Percentage of GNP	32.1	Manufacturing	40.9
Per head US \$	696	Construction	8.8
		Other	42.0

THE GOVERNMENT

Public consumption (1964), percentage of GNP	11.1	Composition of the Chamber:	%
Current government revenue (1964) percentage of GNP	33.7	Christian Social Party	39
Central Government debt, December 31st, 1966 (Billion Lux. Frs)	10.7	Workers Socialist Party	38
		Democratic Party	11
		Communist Party	9
		Others	3
		Last election: 1964.	
		Next election: 1969	

LIVING STANDARDS

Gross average hourly earnings (1965), Lux. francs	61	Number of telephones per 1 000 inhabitants (1966)	224
Number of private cars per 1 000 inhabitants (1966)	187	Number of TV sets per 1 000 inhabitants (1967)	117

THE CURRENCY

Monetary unit: Luxembourg franc	Currency units per US dollar: 50
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ECONOMIC SURVEYS BY THE OECD

BELGIUM-LUXEMBOURG
ECONOMIC UNION

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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.

The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.

This document was approved
by the Economic and Development Review Committee
in April 1968.

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INTRODUCTION

The previous OECD survey of the Belgium-Luxembourg economy¹, which was based on data covering the first half of 1967, found that the slowdown in growth that had started in 1965 and continued in 1966 became even more pronounced in 1967. The results now known for the whole of last year confirm this finding. The growth in the gross national product will have been little more than 2 per cent, and most of that is due to a change from a net deficit to a net surplus in foreign demand, domestic demand having risen hardly at all. Unemployment rose steeply ; the overall level of industrial production remained unchanged compared with 1966, but showed some signs of improvement at the end of the year.

In 1968 the weakness of the main components of domestic demand seems likely to continue, with the sole exception of demand for stocks. But the revival in foreign demand which began to show from the final months of 1967 onwards should have a stimulating effect on the economy, which is heavily dependent on exports. Given, however, the considerable margins of productive capacity lying idle at present, a reinforcement of reflationary economic policy would still appear to be desirable.

The economic out-turn for 1967, general business trends during the latter half of that year and the economic policy measures taken then are examined in Part I of the present survey. Prospects for 1968 are analysed in Part II. The economic situation of the Grand Duchy of Luxembourg is reviewed in Part III, and finally the economic policy problems now being faced in Belgium are discussed in the Conclusions.

1 Published in November 1967

I TRENDS IN THE BELGIAN ECONOMY IN 1967

The main components of demand

As yet only provisional estimates are available for the national accounts for 1967, and these are summarised in Table 1. They provide a clear picture of slowdown in economic growth. It is striking to note that this slowdown occurred in spite of an increase in the volume of exports of goods and services larger than in 1966, and of a wide swing from deficit to surplus in the balance on foreign transactions, as well as of a substantial increase in public spending. But these factors were not enough to offset the sluggishness of private domestic demand, which had already been apparent in 1966.

The increase in private consumption in 1967 is provisionally estimated at 5 per cent by value and 2 per cent by volume (as against 7 per cent by value and 3 per cent by volume in 1966). These figures may in fact exaggerate to some extent the actual rise in private consumption. The index for the production of non-durable consumer goods has remained more or less at the same level as in 1966. The index for consumer durables has shown a year to year decline of the order of 1%. Furthermore, the import-export balance for consumer goods—for textiles and motor vehicles at any rate—improved significantly in 1967. The index of department stores sales for the year as a whole shows an increase of no more than 3.2 per cent, which is roughly equivalent to the average rise in retail prices. These figures would tend to suggest that the slight rise in private consumption in 1967 was chiefly attributable to the demand for services¹.

The slower growth of private consumption is, to some extent, certainly linked up with the smaller increase in disposable incomes in 1967. Paid employment showed, for the year as a whole, a decrease in absolute terms, estimated at some 15 000 persons or about 0.6 per cent of total employment. The decline seems to have been more pronounced (between 1 and 2 per cent) in industry, for which however no figures covering the whole year are as yet available. On the other hand, the number employed in the services sector seems to have continued to expand (1.5 per cent per annum on an average over the previous ten years). In spite of this, and the considerable reduction in the number

1 Furthermore, Belgian national accounts include in private consumption changes in stocks on the level of distribution. Any increase in these in a period of recession will therefore appear as an increase in private consumption.

Table 1 Supply and Use of Resources

	Billions of B.Frs current prices				Volume increase %			
	1965	1966	1967 ¹	1968 ¹	1965	1966	1967 ¹	1968 ²
1 Private consumption	549.4	588.5	616.0	651.5	4.0	2.9	2.0	3.0
2 Public consumption	109.2	121.0	132.8	141.5	6.9	6.6	6.0	3.0
3 Gross fixed investment	177.8	194.2	204.2	215.5	3.5	5.8	1.3	2.8
of which:								
(i) dwellings	50.3	48.7			0.5	-7.8	-3.5	-1.5
other construction	57.6	68.3			-0.8	13.3		
machinery and equipment	69.9	77.2			8.6	8.2		
(ii) private investment	155.9	164.6	169.7	175.0	5.5	2.8	-0.8	0.7
public investment	21.9	29.6	34.5	40.5	-9.0	27.3	13.5	13.0
4 Change in stocks	3.9	7.3	0	5.0				
5 Domestic demand	839.3	911.0	953.0	1 013.5	3.3	4.4	(1.6)	(3.4)
6 Exports of goods and services ³	327.0	350.6	370.5	394.5	8.0	3.8	5.5	6.5
7 Total expenditure	1 166.3	1 261.6	1 323.5	1 408.0	4.7	4.2		
8 Imports of goods and services ³	319.0	355.2	361.5	388.0	7.6	7.9	2.5	6.5
9 GNP at market prices	847.3	906.4	962.0	1 020.0	3.6	2.7	(2.5)	(3.0)
10 Increase of GNP price deflator					5.0	4.1	3.5	3.0

1 Official estimates as of 1st March, 1968.

2 Official forecasts as of 1st March, 1968.

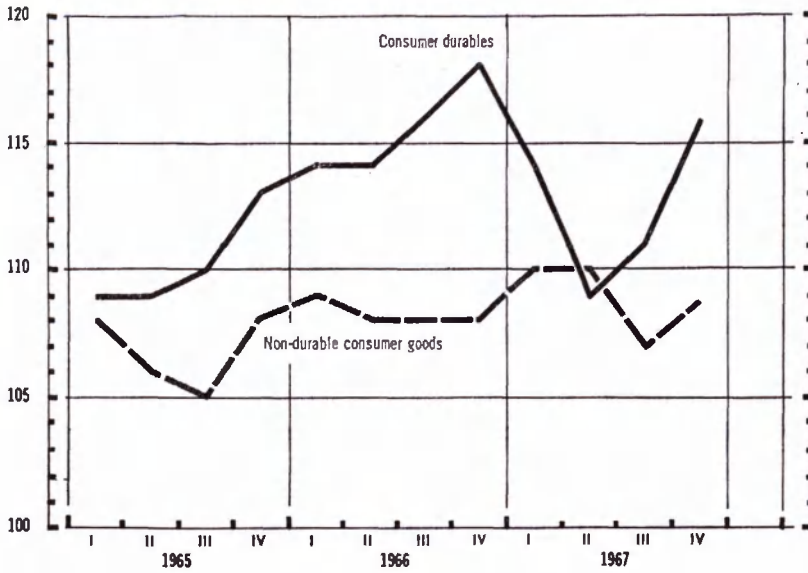
3 Including factor income.

Sources: 1965 and 1966 - INS National Accounts.

1967 and 1968 - Estimates of the Ministry of Economic Affairs.

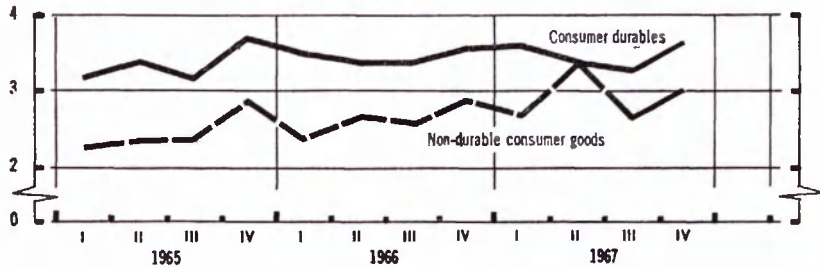
Diagram 1 Consumer Demand Indicators

INDUSTRIAL PRODUCTION (1963 = 100, seasonally adjusted)

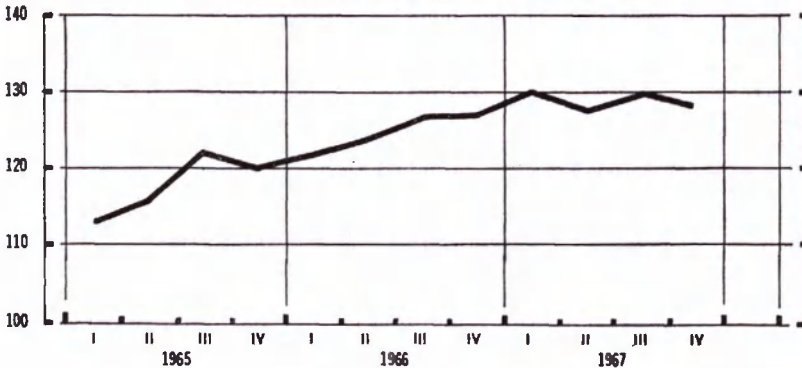


Billions of B.Fr.

IMPORTS (Value, billions of B.Fr. monthly rate)



DEPARTMENT STORE SALES (1963 = 100, seasonally adjusted)

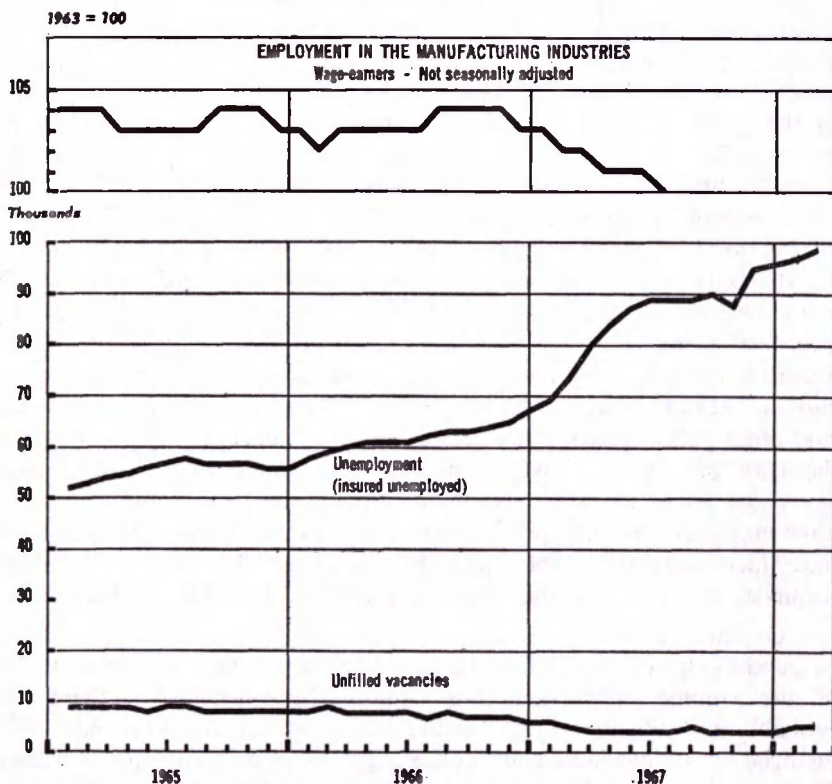


Source : Banque nationale de Belgique : Bulletin d'information et de documentation; OECD, Main Economic Indicators.

of work permits granted to immigrants (14 200 in 1967 compared with 19 400 in 1966), there was a sharp and fast rise in unemployment in the course of the year. In December 1967, 96 000 were wholly unemployed (2.8 per cent of those insured against unemployment) as against 67 000 (1.6 per cent) at the end of December 1966 (seasonally adjusted figures). Partial unemployment increased in comparable proportion. At the same time the number of unfilled vacancies remained very low throughout the year. No figures are available for the number of hours worked, but there seems to have been a perceptible decline of perhaps 1 to 2 per cent.

The almost complete relaxation of the labour market—already clear in 1966—continued to hold back the rate of increase in wage levels. These had, in 1966, still risen by almost 10 per cent, which was indeed

Diagram 2 Employment and Unemployment
Monthly averages, seasonally adjusted



Source : OECD, Main Economic Indicators.

due, to a large extent, to the effects of the sliding scale linking hourly wages to retail prices. The rate of increase gradually slowed down in 1967, and in December of that year the wage level was only 6.1 per cent higher than in December 1966. Again this figure includes the effect of automatic adjustments due to the sliding scale. The extra amount of the increase in earnings over the rise in retail prices (also an indicator of the purchasing power of the hourly wage) declined from 5.6 per cent in 1966 over 1965 to 3.8 per cent in 1967. Allowing for the decline in employment and the number of hours worked, it seems that the current increase in the total wage bill, in terms of purchasing power, should not now be much over an annual rate of 1 per cent. However, for 1967 as a whole compared to 1966 the picture is different because of the trend in wages in the course of 1966. The year to year increase in the total wage bill from one year to another should be of the order of 6 per cent, or about 3 per cent in real terms.

No precise figures are available for the other components of disposable income. Total farm income, (which in any case accounts for only a small proportion of national income), is likely to have risen significantly, possibly by as much as 5 per cent (with an increase in the volume of production provisionally estimated at 10 per cent, a drop of 3.5 per cent in the prices received by farmers, and a rise of 1.7 per cent in the prices paid by farmers). The incomes of other social groups, although probably affected by the general economic climate, are nevertheless likely to have benefited from the persistent increase in the relative importance of the services sector. With regard to the influence of public finance on disposable income formation, two factors have probably worked in conflicting directions. The very rapid increase in recent years in current transfers from general government and Social Security to the private sector is likely to have been even accelerated, owing in particular to the rise in unemployment. On the other hand the growth of tax revenues and other public authority levies was also very substantial (10 per cent in the case of Central Government revenue). Since total receipts from taxes and levies are about twice as much as the total transfers, the net amount raised by the public sector on private sector incomes must have increased appreciably, probably more rapidly than gross private incomes, thus reducing the rate of growth in disposable incomes.

Overall, however, the growth of total disposable incomes, in terms of purchasing power, is likely to have been appreciably larger than that of the volume of private consumption. In other words there was probably a significant increase in the rate of saving by households. The financial figures available confirm this suggestion (see paragraph 21 below). The saving was probably precautionary, owing to wage-earners' uncertainty about future employment trends.

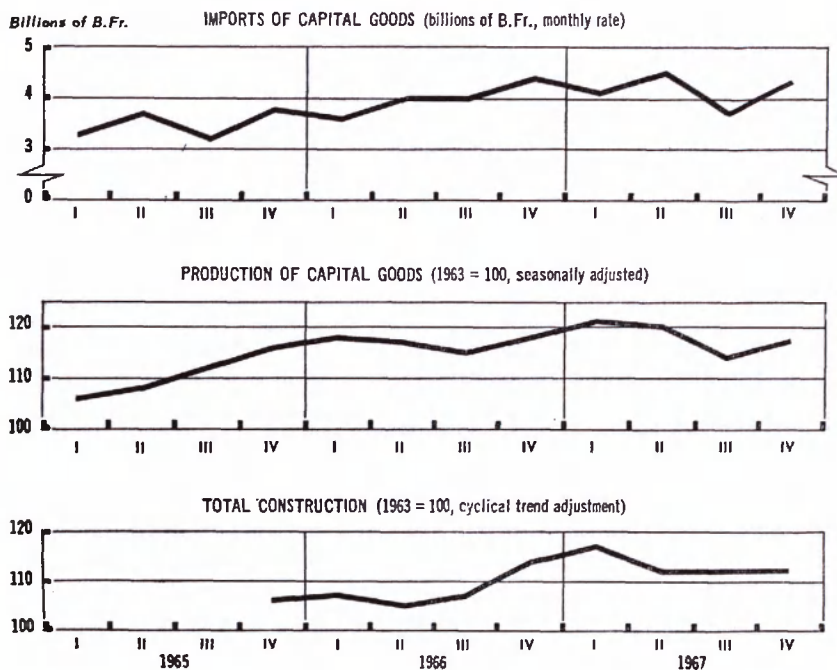
There was an absolute decline in total private investment in 1967. This was due primarily to changes in the level of stocks. These had risen fairly sharply in 1966 (B. Frs. 7.3 billion, or 0.8 per cent of gross national product) for reasons which are not fully clear. It seems that there had been some accumulation of unsold stocks, especially at the distribution stage, but a steep rise in imports, particularly of raw materials, took place at the same time. In 1967 the overall increase in stocks seems to have been nil. There was a very sharp decline in imports of raw materials (8 per cent, i.e. B. Frs. 4.5 billion, for the year). Bearing in mind the stability of industrial production, this movement probably reflects a sizeable reduction in the stocks of raw materials held by industry. It is also likely that farm stocks rose appreciably. It is difficult to estimate the trend in stocks of finished products. Firms' replies to the business surveys show that the level of stocks was considered higher than normal all the year round, with a slight improvement, however, from the second quarter of the year on.

Private productive investment, which in volume terms had increased by 7 per cent in 1966, seems to have levelled off in 1967. However, there was a marked difference between the first half of the year, during which the upward trend from the previous year seems to have continued, and the second half, when there was a fairly sharp decline in investment activity. In the first half of 1967 production of capital goods was still up by 2.5 per cent over the corresponding period in 1966, but fell back by about the same percentage in the second half-year. A roughly similar trend was followed by net imports of machinery and equipment. Bearing in mind the general level of business activity and the margins of idle productive capacity, there is nothing surprising about this abrupt reversal of trend. What does require explanation is the general upsurge in 1966 and the first half of 1967. This seems to have been caused to a large extent by the establishment of new foreign firms in Belgium (investment by these firms accounted for about 15 per cent of gross private productive investment and, of course, an appreciably larger proportion of net investment). It must be noted that the standstill in fixed investment in 1967 occurred in spite of a considerable increase in the number of projects supported, in one way or another, by the Government. The value of these projects rose from B. Frs. 17 billion in 1966 to 31 billion in 1967, out of a total figure for private productive investment of some 115 billion, a good deal of which is, by its nature, ineligible for government support.

The sharp decline in residential construction observed in 1966 (—8 per cent by volume) continued in 1967. The number of building permits issued during the first eleven months of 1967 was 16.1 per cent

OECD Economic Surveys

Diagram 3 Investment Demand Indicators



Source : Banque nationale de Belgique; Bulletin d'information et de documentation; INS Bulletin de statistique; OECD, Main Economic Indicators.

down on the corresponding period in 1966. This coincided with a 10 per cent decrease in the number of residential buildings completed.

The growth of public sector demand, although stronger than that of the other components of domestic demand, was somewhat slower than in 1966. In value terms public consumption rose by 6 per cent and public investment by 13.5 per cent (as against 6.6 and 32 per cent respectively in 1966).

In national accounting terms net external demand for goods and services would appear to have been the mainstay of economic activity. Current transactions in goods and services, on which there was a deficit of B. Frs. 4.6 billion in 1966, showed a surplus of the order of B. Frs. 9 billion in 1967. The swing in the external account is the equivalent of 1.5 per cent of gross national product. It would be wrong, however, to rest content with this overall, retrospective view. The real trend over time was rather as follows. After making very slow headway in 1966

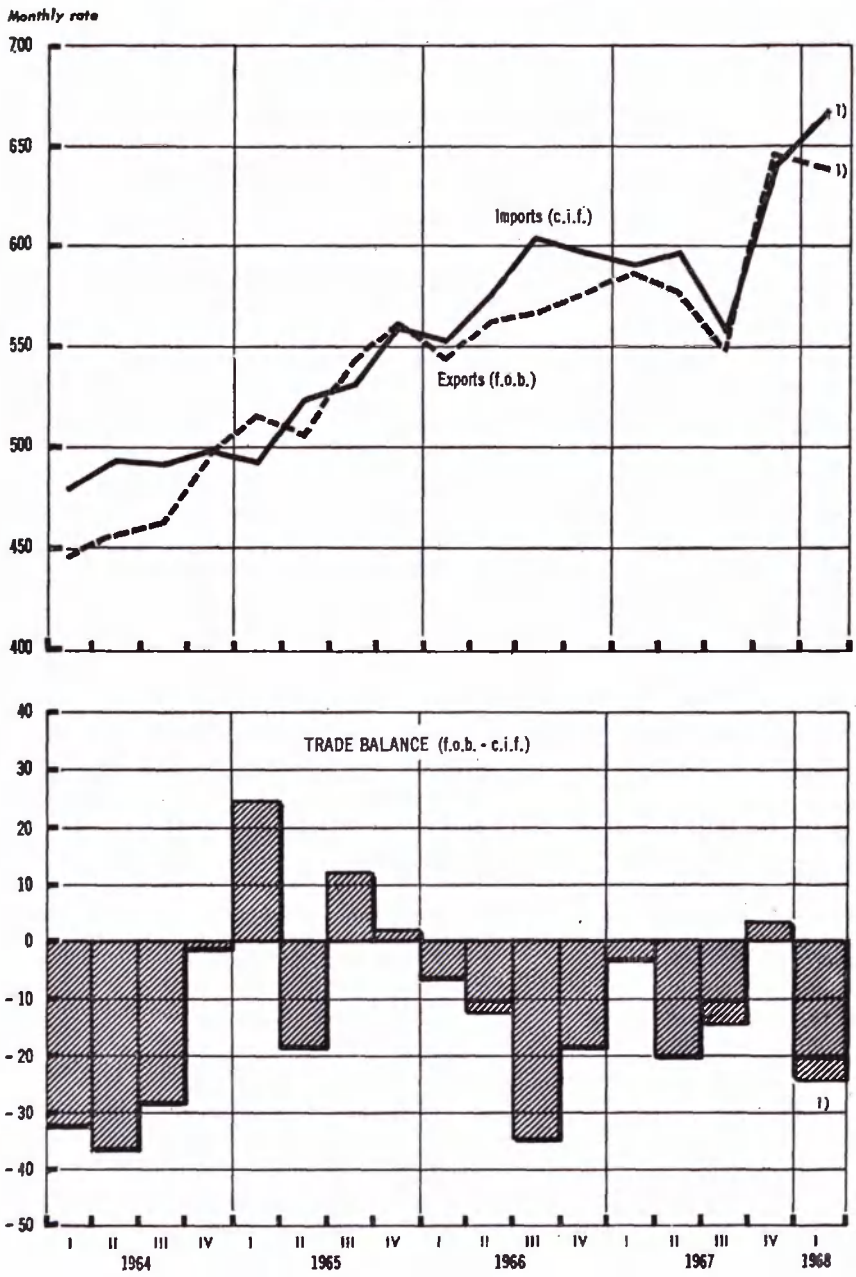
and the first quarter of 1967, exports declined in the second quarter and still further in the third¹. At the same time the sluggishness of external and internal demand completely halted the growth of imports after the third quarter of 1966. This was followed by signs of a slight decline, which became strongly pronounced in the third quarter of 1967. The swing from deficit to surplus on external account thus acted as a built-in stabilizer, being essentially the result of the weakness of total demand which strongly affected imports. The effect was all the greater in that much of the increase in imports in 1966 was linked with changes in stocks, which, as already seen, underwent a reversal of trend in 1967. In the fourth quarter of 1967 exports made a strong recovery (+11.4 per cent compared with the same quarter in 1966), and imports followed suit almost immediately (+7.6 per cent between the same two periods).

The trend of exports was, of course, essentially determined by cyclical developments in the principal trading partners of the BLEU, particularly the Federal Republic of Germany and the Netherlands. Exports to these two countries declined absolutely in the first nine months of 1967 but picked up strongly in the fourth quarter. Exports to the United States also fell, while those to France and the United Kingdom made slower headway. On the other hand, exports to Italy went up by almost 25 per cent. The geographical breakdown of exports showed no significant change. The breakdown by product categories reveals a vigorous growth, in spite of general world trade conditions, in exports of chemical products (+13 per cent for the whole year). Where imports are concerned, the most important aspects are the decline in imports of raw materials already mentioned, and the continuance of a fairly appreciable growth, at any rate during the first part of the year, in imports of capital goods.

As can be seen from Table 2, about three-quarters of the total improvement (of about \$ 310 million) in the balance on transactions in goods and services between 1966 and 1967 is due to the emergence of a trade surplus, the remainder being attributable to the balance on services and factor incomes. Capital movements, for their part, have moved into surplus from their deficit position in 1966. The large increase in outflows of public funds connected with repayments of the public debt in foreign exchange and direct investment by Belgium and Luxembourg abroad was more than offset by a considerable increase in the inflow of foreign capital, particularly in the form of direct investment. Overall, the balance of payments shows a surplus of \$ 286 million.

1 It should be noted, however, that foreign trade during this quarter was disrupted by the strike of customs officials.

Diagram 4 Foreign Trade
 Millions of dollars. Customs Statistics, Monthly Averages
 Seasonally adjusted figures



1 January-February (average).

Source : OECD, Main Economic Indicators.

BLEU

almost entirely reflected in increased net foreign holdings by the National Bank (\$ 2,738 million at the end of December 1967). In contrast to their significant decline in 1966, the commercial banks' net foreign holdings remained virtually steady in 1967.

Table 2 The BLEU Balance of Payments
Million dollars

	1965	1966	1967
CURRENT TRANSACTIONS:			
1 Exports ¹	5 070	5 328	5 666
2 Imports ¹	5 118	5 660	5 744
Balance	-48	-332	-78
3 Other merchandise transactions ² , net	+156	+238	+212
Total merchandise transactions	+108	-94	+134
4 Services and factor incomes, net	+42	+16	+96
Total goods and services transactions	+150	-78	+230
5 Private transfers, net	+50	+32	+32
6 Official transfers, net	-48	-50	-54
Total current transactions	+152	-96	+208
CAPITAL MOVEMENTS:			
7 Official, net	-110	-50	-146
8 Public enterprises and non-monetary institutions, net	+42	+34	+34
9 Private sector, total	+98	-36	+156
(a) Outflows	-88	-192	-150
of which: portfolio investment	-42	-130	-106
direct investment	-40	-8	-52
(b) Inflows	+186	+156	+306
of which: portfolio investment	+10	-5	+54
direct investment	+142	+140	+230
Total capital movements	+30	-52	+44
10 Errors and omissions	-12	+20	+34
OVERALL BALANCE	+170	-128	+286
11 FINANCING:			
Refinancing outside monetary institutions of commercial credit to abroad (increase:—)	+24	-22	+54
Movement of net external assets of monetary institutions:			
National Bank	+160	+34	+248
Commercial banks	-14	-140	-16

1 Cif figures in part.

2 Contract work, arbitrage transactions, non-monetary gold.

Source: Banque Nationale de Belgique: Bulletin d'information et de documentation.

Adjustment of the economy to the slackening of demand

The effect of the slowdown in demand was particularly marked in the case of industrial production, which over the year 1967 as a whole made virtually no headway at all. A slight rise in the production index (seasonally adjusted) in the first quarter was followed by a downturn that gained momentum up to the third quarter. The index showed a recovery in the autumn, however. Certain industries, such as chemicals and steel, managed to make some headway either by switching to new lines of production or because international demand remained buoyant. By contrast, textiles, wood and leather products and non-ferrous metals were hit particularly hard by the general worsening of business conditions. Construction, sustained by the very considerable volume of public works, increased its production in volume terms by 2 per cent, in spite of the decline in housing investment and the standstill in industrial construction. Particularly favourable weather conditions in the summer agricultural output contributed to a rise in agricultural output by some 10 per cent in volume. The long-term trend towards the expansion of the services sector, reflected in the steady rise in its employment, does not seem to have been adversely affected by the prevailing economic conditions. Overall, the volume of the gross domestic product must have increased by about 2.5 per cent in 1967, almost half this increase being attributable to services and about one-quarter to good harvests. The repercussions of these trends on employment have been described above (page 8).

The slowdown in demand seems to have had a relatively smaller effect on prices. The GNP price deflator, which rose by 4.1 per cent in 1966, went up by another 3.5 per cent in 1967. The continued rise at such a rate is all the more remarkable in that in 1967 import prices fell (—0.5 per cent as against +3 per cent in 1966), the rate of increase of wages was slower, and agricultural producer prices declined. However, from the fourth quarter of 1966 to the fourth quarter of 1967 the index of retail prices rose by 3.2 per cent almost as much as during the corresponding period in 1965-1966 (3.5 per cent).

A striking fact is that the slackening of economic activity over the last few years does not seem to have in any way improved the supply elasticity of the Belgian economy (see Table 3). Whereas, with the exception of 1967, the growth of imports has absorbed each year since 1961 a relatively stable proportion (about one-third) of the increase in nominal demand, the ratio between increases in the volume of production on the one hand, and increases in domestic prices on the other, has been steadily diminishing. The upward movement of prices in 1963 and 1964, when a high percentage of productive capacity was

Table 3 Growth of Total Demand and its Effect
Annual increases, in billions of Belgian francs

	1961	%	1962	%	1963	%	1964	%	1965	%	1966	%	1967 Estimate	1968 %	Forecast	%
NOMINAL DEMAND:																
1 Domestic	35.3	68	38.1	69	54.6	73	79.9	66	61.1	66	70.7	75	42.1	68	60.5	72
2 Foreign ¹	16.6	32	16.9	31	20.6	27	40.8	34	32.0	34	23.6	25	19.9	32	24.0	28
3 Total (=4+5+6)	51.9	100	55.0	100	72.5	100	120.7	100	93.1	100	94.3	100	62.0	100	84.5	100
EFFECTS:																
4 Volume increase of GNP	26.8	52	34.7	63	28.1	37	45.0	37	25.2	27	20.0	21	22.7	37	29.0	34
5 Effect of price increases ²	6.7	13	7.2	13	19.2	26	38.8	32	42.9	46	39.1	42	32.9	53	29.0	34
6 Increase of imports ¹	18.4	35	13.1	24	27.9	37	36.9	31	25.0	27	35.2	37	6.3	10	26.5	32
7 Change ³ in foreign balance (=2-6)	-1.8	-5	+3.8	9	-7.3	-15	+3.9	5	+7.0	10	-11.6	-20	13.6	24	-2.5	-4

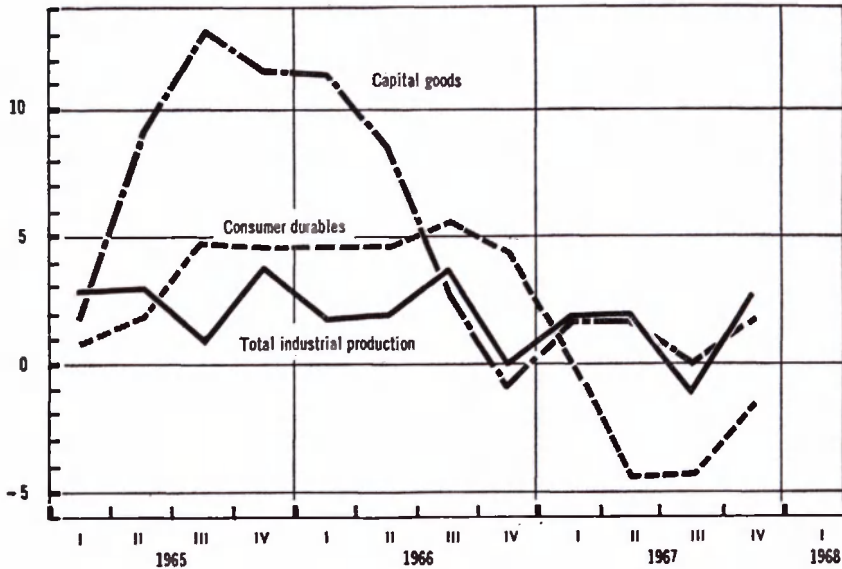
1 Goods, services and factor income.

2 Increase of GNP at current prices minus increase in volume.

3 The percentage in this case indicate the ratio of the change in the foreign balance to the increase of GNP at current prices.

Source: Calculations made by the Secretariat on the basis of, the Belgian national accounts and of the official estimates for 1967 and 1968.

Diagram 5 Industrial Production
 (Percentage changes compared with the previous year;
 seasonally adjusted series)



Source : OECD, Main Economic Indicators.

being utilised, is understandable. It is much more difficult to explain it from 1965 onwards. Admittedly the increases in indirect taxation at the end of 1965, and the advance in wage levels which continued into 1966 are part of the explanation. But the trend became more pronounced in 1967, when higher prices accounted for six-tenths of the increase in the value of the gross national product. It is not possible here to attempt any explanation of this phenomenon or to say how it will develop in the future. But, all things considered, it certainly seems that it was the boom years, when there was adequate utilisation of productive capacity, which provided the most satisfactory results as far as trends in prices are concerned.

Economic policy in 1967

Official monetary policy in 1967 aimed at providing the greatest possible stimulus to economic activity. The removal of credit restrictions in June, the successive lowering of the discount rate (down to 4 per

cent at end-October 1967), the easing of hire purchase terms, and increased flexibility in Roads Fund financing were the principal features of this policy.

The data available for 1967 show that the total money supply has grown slower than in 1966 and that its composition has changed considerably. As can be seen from Table 4, although the growth in liquid and near-liquid assets in 1967 was more or less of the same order as in 1966, there was nevertheless a slight reduction in the money supply proper and a considerable increase in near-liquid assets. This reflects the growth in the rate of saving mentioned earlier, and the corresponding reduction in household spending both on current consumption and on housing. This extra saving took the form of near-liquid assets; at the same time the non-banking sector increased its holdings of bonds. On the other hand, holdings of liquid assets by the general public grew much more slowly.

One essential change took place in 1967 with regard to the sources contributing to the increase in the supply of liquid funds. Whereas in 1966 the foreign transactions sector had acted as a deflationary factor, in 1967 it accounted for more than half the increase in liquidity. By contrast the public sector, which had considerable recourse to monetary financing in 1966, played a slightly deflationary role in this field in 1967 (adjusting for transactions in public securities). Treasury policy in this field was to finance the overall deficit by recourse to the capital market rather than to the banking system, and this must certainly have contributed to the resistance of long-term interest rates. Finally, credit to the private sector increased at a lower rate than in 1966 (15.7 % as against 20 % in 1966). There is little doubt that the growth of credit in the first half of the year was influenced by the fact that in that period investment by enterprises continued to increase. It is worth noting in this connection that the financing of investment by borrowing, particularly from the banks, has in the last few years accounted for a steadily increasing proportion of total financing¹.

Spontaneous factors and official monetary policy brought about a significant reduction in short-term interest rates. The call money rate fell from 4.23 per cent in December 1966 to 2.54 per cent in December 1967. The rates for three, four and even twelve-month bills followed roughly similar trends. But long-term rates hardly showed any tendency to decline. The return on public loans for more than five years

1 See the report of the Government Committee for the Study of Problems of Financing Economic Expansion: "Banque d'investissement et problèmes des capitaux à risque": Report and Annexes. Brussels, 1967. Annex IV.

Table 4 Changes in Liquid Assets and their Factors
Billions of Belgian francs

	1965	1966	1967	1966				1967			
				I	II	III	IV	I	II	III ¹	IV
1 Foreign transactions	13.2	-4.0	18.4 ¹	-0.3	...	-2.8	-0.9	5.0	5.6	3.0 ¹	4.8 ¹
2 Credit to enterprises and private individuals	15.9	20.0	26.0	2.3	4.0	4.7	9.0	4.8	6.6	2.9	11.7
3 Refinancing other than by monetary institutions ²	-2.8	3.5	-6.6	-0.5	1.6	2.1	0.3	-3.7	-3.3	-0.4	0.6
4 Financing of the public authorities ³	9.4	15.0	0.9 ¹	1.7	8.7	-7.0	11.6	-6.6	11.7	-0.2	-4.0 ¹
5 Cashing-in of public bills	-3.1	-1.7	-3.6 ¹	-1.3	-0.5	0.9	-0.8	-2.8	0.5	...	-1.3 ¹
6 Miscellaneous	0.1	1.2	-1.8	-1.1	0.4	0.7	1.2	-0.7	2.7	-3.4 ¹	-0.4
7 Total (= Change in the supply of money and near liquid assets)	32.7	34.0	33.3	0.8	14.2	-1.4	20.4	-4.0	23.8	2.1	11.4
8 Money supply	21.1	21.2	11.7	-4.0	14.8	-6.9	17.3	-13.0	21.1	-4.1	7.7
9 Near-liquid assets	11.6	12.8	21.6	4.8	-0.6	5.5	3.1	9.0	2.7	6.2	3.7

1 Provisional figures.

2 Refinancing of credit to enterprises and private individuals, including commercial credit to abroad (increase: —).

3 Including the balance of their capital transactions to abroad.

Source: Belgian Memorandum to the OECD.

NOTE: This table will be revised and extended later by the Belgian Authorities.

was 5.70 per cent at the end of 1967 (compared with 5.85 per cent a year earlier), and the new public loans raised in 1967 were issued at rates hardly lower than those of the previous year. The situation might have been different if the Treasury, confronted with what was certainly a very strong demand for long-term paper, had limited its supply of securities of this type.

Budget operations in 1967 are summarised in Table 5. It will be seen that ordinary expenditure increased by 8.7 per cent compared with 1966. If expenditure under the extraordinary budget and the Roads Fund is also taken into account, the increase is almost 11.3 per cent. The increase in ordinary receipts was 9.5 per cent. Of this increase (B. Frs. 19 billion), it is estimated that a considerable part is more apparent than real (3 billion corresponding to a shortfall in receipts in 1966, the aftermath of an increase in receipts due to anticipated purchases by consumers at the end of 1965). The new tax measures taken in 1967¹ also produced revenues of B. Frs. 2.4 billion. Ignoring these amounts, the "automatic" growth in receipts would thus be about 13.5 billion, or almost 7 per cent, a growth rate which remains higher than that of the gross national product at current prices.

Although the ordinary budget was more or less in balance in 1967, the Treasury deficit increased considerably because of the growth in expenditure under the extraordinary budget and the Roads Fund. As a result the net growth in the public debt (22.5 billion) was substantially higher than in 1966 (17.2 billion), but comparable to what it had been in 1965 and 1963. As already mentioned above, it is for the most part reflected in the increase in the consolidated debt.

In Table 6 the budgetary data (central government) are rearranged in accordance with national accounting concepts. In this form they show that the overall effect of public finance on the economy in 1967 must have been expansionary. Current saving by central government declined slightly, whilst its financial requirement increased because of higher capital expenditure. It is clear nevertheless that the expansionary effect would have been greater if the tax increases which took place in 1967 had not lessened the built-in stabilizer effect of the fluctuation in tax revenues.

The various economic policy measures, other than budgetary, taken in 1967 under the special powers were described in the previous OECD Survey². The principal ones, which aimed at stimulating investment

1 Described in the 1967 Survey, pages 18 and 19.

2 Pages 18 and 19.

Table 5 Budget Operations and the Treasury Position
Billions of Belgian francs

	1962	1963	1964	1965	1966	1967	1968*
CENTRAL GOVERNMENT BUDGET:							
<i>Ordinary budget:</i>							
Revenue	131.2	139.5	157.8	172.7	200.6	219.6	(240.6) ⁴
Expenditure	132.1	143.0	155.3	176.5	203.9	221.7	(240.7) ⁴
Balance	-0.8	-3.5	+2.5	-3.8	-3.3	-2.1	(-0.1) ⁴
<i>Extraordinary budget:</i>							
Revenue	0.5	0.5	0.3	0.6	0.6	0.2	0.6
Expenditure	17.8	22.1	24.2	25.5	24.6	28.5	35.8
Balance	-17.3	-21.6	-23.9	-25.0	-24.0	-28.3	35.2
Overall budget balance	-18.2	-25.1	-21.3	-28.8	-27.3	-30.4	
Fonds de Tiers	+1.4	-3.7	+0.3	-0.8	+3.0	+1.5	p.m.
Roads Fund	-2.8	-4.2	-5.9	-6.0	-6.1	-7.8	8.5
Change in cash position	+0.2	+0.2	-0.2	-0.1	-0.4	—	p.m.
Deficit	-19.4	-32.8	-27.1	-37.5	-30.8	-36.7	43.7
Amortization of the public debt (allowing for difference in exchange rates) ¹	+8.3	+11.0	+13.0	+14.4	+14.5	+15.6	18.7
Difference between nominal product and net product of the debt (issuing bonuses and commissions)	-0.8	-0.3	-0.6	-0.6	-0.7	-0.9	-1.0
Pacte scolaire [Education Agreement] (double counting)	+0.3	+0.4	—	+0.1	—	-0.3	—
Others	—	-0.2	-0.3	-0.3	-0.2	-0.2	—
Net change in public debt (excluding operations with the International Monetary Fund)	+11.6	+21.9	+15.0	+22.1	+17.2	+22.5	26.0 ³

1 Since the corresponding cash outlays are already included in ordinary budget expenditure they have to be subtracted from the Treasury deficit when calculating the net change in the public debt.

2 Based on programmes submitted to the Government in March 1968 (assuming 100 per cent implementation).

3 Not including bills accepted by the Roads Fund.

4 Original budget estimates.

Source: Belgian memorandum to the OECD.

BLEU

Table 6 Budget Operations of the Central Government. Economic Classification
Billions of Belgian francs

	1966 Actual	1967 Forecasts	1967 Estimates	1968 ¹ Forecasts
A CURRENT ACCOUNT:				
<i>Current revenue:</i>				
1 Indirect taxes	117.4	129.2	130.0	138.7
2 Direct taxes	72.8	77.8	81.2	90.2
3 Other revenue	6.6	4.5	8.1	6.7
4 Total	196.8	212.5	219.3	235.6
<i>Current expenditure:</i>				
5 On goods and services of which: salaries and social security contributions	64.9 (43.5)	66.8 (46.2)	73.8 (47.4)	74.9 (50.3)
6 Interest on the public debt	21.2	23.1	24.1	25.3
7 Transfers and subsidies:				
(a) To the rest of the public sector	67.3	77.9	75.4	78.8
(b) To other sectors	27.0	23.3	30.4	31.3
(c) To the rest of the world	3.3	4.0	4.4	5.8
8 Other expenditure	9.1	8.5	8.6	10.0
9 Total	192.8	203.6	216.7	226.2
10 Current saving of Central Government	3.9	8.9	2.6	9.4
B CAPITAL ACCOUNT:				
<i>Expenditure:</i>				
1 Investment (civilian)	19.4	24.0	24.2	29.6
2 Capital transfers:				
(a) To the rest of the public sector	1.5	5.0	2.1	2.3
(b) To other sectors	2.2	1.0	2.1	2.6
(c) To the rest of the world	1.6	2.1	2.0	1.4
3 Lending and participations	10.8	6.7	10.8	11.4
4 Total	35.5	38.8	41.2	47.3
5 Capital account receipts	4.6	4.2	4.9	6.9
6 Current saving	3.9	8.9	2.6	9.4
7 (=4-5-6) Overall financing needs	27.0	25.7	33.7	30.9
8 Amortization of the public debt	16.5	18.4	17.8	20.5

¹ The figures for 1968 do not take into account changes made in the first quarter of 1968 with regard to investment credit; these imply large changes in the final figures. See paragraph 32 below.

Source: Budget for 1968 (Exposé Général).

and improving its sectoral and regional distribution, seem to have helped substantially to amplify the effects of the policy pursued in recent years in this field. Investment programmes receiving government aid in 1967 totalled B. Frs. 31 billion, compared with 17 billion in the previous year. Of this total a larger proportion than in 1966 was devoted to redevelopment areas. As always in such cases, it is not possible to say how far government aid led to investment which would not otherwise have been made, but there is little doubt that it influenced substantially the regional distribution of investment and probably prevented a decrease in its total volume.

II ECONOMIC PROSPECTS IN 1968

Official forecasts of trends in the Belgian economy in 1968 are summarised in Table 1. The slight acceleration of growth in gross national product which they indicate is to be brought about by a moderate recovery in private investment which will be mainly due to an increase in stocks and a spontaneous upturn in consumer's demand. Total demand by the public sector will increase less than in 1967. As for external demand, exports are expected to grow somewhat faster than in 1967 owing to the upturn in world trade, but the increase in imports also foreseen is likely to offset the effects of this on overall demand. The forecasts even imply a decline in net external demand from B. Frs. 9 to 6.5 billion (at current prices).

If, as there are now grounds for hoping, a substantial recovery in general economic activity takes place in continental Europe in 1968, the growth in BLEU merchandise exports will probably exceed official forecasts. Allowing for the devaluation of the pound sterling and other currencies in November 1967, but also bearing in mind the strong upswing now in progress of imports into the Federal Republic of Germany, France, and the Netherlands, the growth in BLEU exports could well reach 9 to 10 per cent (by value). But the increase of imports into the BLEU is also likely to be considerable. The import content of Belgian production is very high, and in addition there will be a restocking of imported raw materials. Even if the rate of growth of imports were to remain 1 or 2 points below that of exports, this would absorb a considerable part of the effects of the increase in external demand. The recovery in world trade therefore seems likely to get the economy on the move again, but the outcome will ultimately depend on the behaviour of the main components of domestic demand.

At present these are behaving very sluggishly. Apart from stocks, prospects for private investment are hardly promising. The measures taken by the United States in January 1968 seem unlikely to affect the level of investment of American firms, which may be financed more than hitherto out of local funds. This is however, only one component of productive investment, which in any case was not expected to increase. As for investment by Belgian firms, the latest survey by the Banque Nationale (October 1967) indicated a considerable decline in planned investment for 1968 for the firms covered by the survey which did not include the chemicals or food industries (in particular). It is true that the figures provided by such a survey must not be taken too literally. Moreover, the general economic climate has certainly improved owing to the increase in exports. Nevertheless, the existence of very wide margins of idle capacity (estimated at 15 per cent for the industry at the end of 1967) will no doubt continue to hold back investment demand for a considerable time¹. Housing construction, on the basis of building permits (which decreased by 16.1 per cent during the first eleven months of 1967) is likely to continue to decline (by 1.5 per cent according to the official forecasts). All things considered, the most likely prospect is that fixed private investment will remain steady.

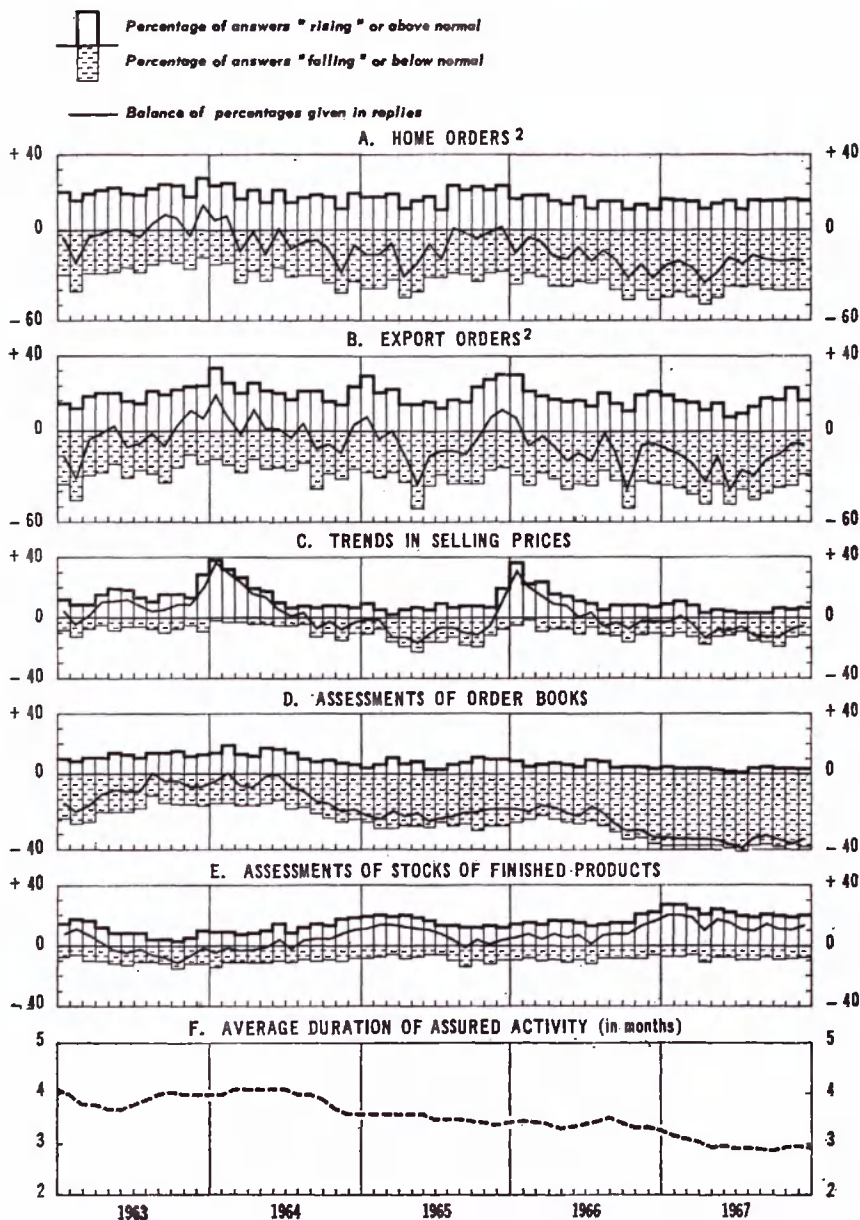
As regards private consumption, it is hard to see what factors could cause a substantial upturn. In view of potential productivity gains, and the negligible increase in industrial production over the last two years, it is practically certain that an appreciable time must elapse before a recovery in industrial production leads to any increase in employment. The most that can be expected therefore is that unemployment will remain steady at the level reached in March 1968 (about 100,000 wholly unemployed, seasonally adjusted) and this renders unlikely either an acceleration in wage increases or a fundamental change in households' behaviour. Under the 1968 budget moreover, the net increase in tax burden on the private sector will be more than 1 per cent of the income of households (the combined effect of tax increases introduced in 1967 and the more than proportional return from a progressive tax system). Under these conditions any upturn in private consumption compared with 1967 is likely to be negligible.

It also looks as if the role of the public sector in 1968 will continue to be expansionary (see Tables 5 and 6). The growth of current receipts is likely to remain about the same as that of current expenditure.

¹ In October 1967, 79 per cent of enterprises (as against 66 per cent one year earlier) considered insufficient demand to be the factor limiting their production (survey by the Banque Nationale).

OECD Economic Surveys

Diagram 6 Business Survey Results¹



1 The replies of participants are weighted according to the turnover and indicate for items A and B the change compared with the preceding month.

2 Adjusted for seasonal variations.

Source : Banque nationale de Belgique.

so that saving by the central government should not show any significant change. The increase in volume of public consumption should only be half of what it was in 1967 (3 instead of 6 per cent). But for public investment (extraordinary budget, Roads Fund and other non-budgetary expenditure), the opposite is true. Planned expenditure under this head shows, according to present estimates, a rise of 27 per cent over 1967. This means that the net increase in the public debt in 1968 is likely to be significantly more than in 1967 (26 instead of 22.5 billion).

A number of measures to stimulate the economy were decided in January 1968 in response to generally unsatisfactory internal trends and the need to counter the adverse effects of the devaluations of November 1967, the measures taken by the United States and the introduction of the added value tax in Germany. It was thus decided to increase spending commitments under the public works programme in the first quarter to 30 per cent of the total planned for the year (instead of 22.5 per cent, the proportion corresponding to the blocking of part of the appropriations mentioned above); to start immediately on a further 2 000 low-cost dwellings; to increase the margins of financial support for private investment; and to increase and extend tax rebates on exports and the compensatory taxes on imports. These steps were conceived of as a first round of measures which could have been added to or reduced as the situation developed. The government crisis which subsequently occurred made it impossible for the time being to take new decisions in this field. On 7th March the Banque Nationale again reduced the discount rate to 3.75 per cent.

On the other hand the ceiling of advances by the National Bank to the Government, which remained unchanged since 1948, will be raised from 10 to 16 billion francs as from 1st September 1968. This change is not motivated by short-term considerations; it is due to the continuous growth of the financial needs of the Treasury arising from the lags between receipts and expenditures within the fiscal year. Since 1948 these needs have increased three times as fast as ordinary receipts. The Government and the Bank have agreed that these advances should not acquire the character of a permanent borrowing line and that the ceiling of 16 billion could, if need be, change over three years by a percentage not exceeding one-third of the increase of ordinary receipts accruing to the Government since 1967. On the other hand, the means used in the past to implement anti-cyclical budgetary policies will continue to be available, in particular the open market operations of the *Fond des Rentes* and the financing of the Roads Fund according to the new rules introduced since September 1967, the National Bank having, in both cases, the possibility to support these operations.

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