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Monthly Report
of the
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The Economic Situation in the Federal Territory, 1)
during the months of August and September 1949

F o r e i g n T r a d e

By the establishment of the Federal Republic of Germany, which took place during the period under review, the economic life of the three Western zones of occupation has again been provided with a common basis under constitutional law, following the economic merger, effected as early as 1947, of the American and British Zones of occupation to form the "Combined Economic Area". With regard to the foreign trade relations of the Western German economic area, too, a significant event occurred during the period under review, in that on 29 September the new Federal Government, following repeated negotiations with the High Commissioners, announced that they had decided, upon suggestion of the Board of Directors of the Bank deutscher Länder, to fix the exchange rate of the DM at U.S. cents 23.8095, effective as of 19 September 0.00 hours, and that the Allied High Commission had not raised any objections to this rate.

Thereby the provisional DM-Dollar cross-rate of 30 U.S. cents to 1 DM, fixed by the Allied Military Governments on 1 May 1948, has been reduced by 20.6 per cent.

1) Closed on 12 October 1949

This measure was taken in view of the devaluation of the British pound sterling as of 19 September and the ensuing wave of exchange adjustments throughout the world. Hitherto, Western Germany had exported about two thirds of her total exports to Great Britain and to the countries more or less following the devaluation of the pound sterling, and had competed in third markets with some of them, particularly with Great Britain. Consequently German exports would have hopelessly lost ground, had Germany not followed the British action at least to a certain extent. Furthermore, however, the Allies had explicitly stated that the 30 cent rate was provisional, and it had been widely agreed that by this rate the DM was not inconsiderably over-valued as compared with the Dollar.

With regard to the most appropriate degree to which the exchange rate should be reduced, opinions were divergent, as neither the present nor the future price relations could be accurately judged and as in addition to export requirements it was necessary also to consider the repercussions on the home economy which a change in the rate for the DM against the Dollar would entail. After a careful consideration of all economic and political factors, the Board of Directors of the Bank deutscher Länder arrived at the decision to propose a new rate of 23.8 U.S. cents to 1 DM. As mentioned at the beginning, this rate was accepted by the Federal Government, after repeated discussions with the Allied authorities. During the period of negotiations concerning the new exchange rate and at the time it was finally fixed, the majority of retail purchasers as well as trade and industry demonstrated a high degree of discipline and understanding. During the first few days following the devaluation of sterling, there occurred some withdrawals from the banking institutions, it is true, and a temporary acceleration in buying was observed, particularly in the retail trade; but these symptoms subsided quickly, and upon the announcement of the new exchange rate economic activity again returned to normal. In the first week of October, the surplus of deposits on savings accounts regained the average level of the six weeks immediately preceding the devaluation of sterling, while the ^{economy's} demand for bank credit was even less. There

is no doubt that to a considerable extent this gratifying development was due to the fact that the German economy, on account of the prudent money and credit policy pursued since the currency reform, has very little "hot" money at its disposal and that the public trusted the Central Banking System would not permit the stability of the currency to be jeopardized.

Certainly, in adapting themselves to the new rate of exchange the economy and the Government are faced with a complex of difficult problems. In order to achieve further progress in exports, the German economy will have to make even greater endeavours towards increasing its efficiency. There is to be solved the problem of higher import prices, which arose as a consequence of the devaluation of the DM against the Dollar and other currencies that were not devalued at all or were devalued only to a lesser degree. The Federal Government decided not to permit the increased cost of food imports - which are particularly aggravating because most of the imported foodstuffs come from the dollar area - to affect domestic prices, but to keep the selling prices low, for the time being, by increasing the subsidy payments. According to preliminary statements of the Federal Ministry of Food and Agriculture, this will necessitate subsidy requirements totalling approximately DM 700 million net for the period 1 October 1949 through 30 June 1950, while up to now the subsidy requirement for the entire current harvest year had been estimated at approximately DM 400 million. Should Western Germany be granted the ceiling price of the International Wheat Agreement, the estimated subsidy would diminish not inconsiderably; but even in this case the subsidy payments will mean a heavy burden on the public budgets which are at present undergoing a considerable strain. The increase in prices of industrial imports, on the contrary, is to be borne by the domestic buyer. It remains to be seen to what extent this additional burden will affect prices. In general, however, foreign raw materials represent a relatively small percentage in the total costs of industrial production.

Exports of the Combined Economic Area (figures for the French Zone are not yet available)

Foreign Trade of the Combined
Economic Area

in million DM

	I m p o r t s					
	monthly average					
	1st half 1948	2nd half 1948	Jan/ March 1949	April/ June 1949	July 1949	August 1949
Food Industry	124.5	179.6	180.3	270.7	220.7	326.8
Industrial Commodities	70.6	152.6	231.9	333.9	320.7	373.6
raw-materials	39.2	82.7	125.6	174.7	152.5	167.0
semi-finish- ed goods	24.3	51.2	66.6	86.9	93.4	85.4
finished goods	7.1	18.7	39.7	72.3	74.8	121.2
pre-manu- factured products	4.4	10.9	21.8	28.2	36.3	29.1
end products	2.7	7.8	17.9	44.1	38.5	92.1
Total	195.1	332.2	412.2	604.6	541.4	700.4

	E x p o r t s					
	monthly average					
	1st half 1948	2nd half 1948	Jan/ March 1949	April/ June 1949	July 1949	August 1949
Food Industry	4.6	3.5	9.8	3.7	2.3	2.4
Industrial Commodities	76.2	218.5	270.1	301.9	306.8	301.0
raw-materials	21.9	54.4	56.6	60.6	69.2	66.0
semi-finish- ed goods	23.6	66.8	94.6	96.9	84.4	76.4
finished goods	30.7	97.3	118.9	144.4	153.2	158.6
pre-manu- factured products	16.7	51.1	60.5	64.4	70.4	74.1
end products	14.0	46.2	58.4	80.0	82.8	84.5
Total	80.8	222.0	279.9	305.6	309.1	303.4

again declined somewhat in August as compared with July. The August figure of DM 303.4 million is comparable to the monthly average of the second quarter, which itself had fallen short of the March 1949 level by about DM 8 million. In other words, exports have been stagnating for months.

As explained in the last Monthly Report, the stagnation is chiefly due to the decline in coke and scrap exports, to which was added a slight decrease in coal exports during August. It is also significant in this connection that the lumber exports of the Combined Economic Area - in contrast to the French Zone, where they are still substantial - virtually came to an end in the past few months when the 30 cent rate had to be applied to all lumber exports. August exports of finished goods, however, exceeded the July level as well as that attained in the monthly average for the second quarter. As compared with the very favourable May figure, it is true, finished goods exports did not increase either; this applies particularly to end products. Their share in total exports was 27.3 per cent in the months of July and August 1949, as against 52.9 per cent in 1936.

During August, Imports of the Combined Economic Area increased very considerably. Aggregating DM 700.4 million, they almost regained the peak level reached in May. Particularly large (nearly 50 per cent) was the increase in imports for the food industry; but imports of finished goods also were considerably higher than at any time during the past few months, which is chiefly due to the delivery of railway carriages ordered abroad by the Bundesbahn some time ago. Imports of industrial raw materials likewise slightly exceeded those of July, though still falling somewhat short of the average of the second quarter.

The proportion of commercial imports¹⁾ to total imports continued to be very high in August as contrasted to imports financed by foreign aid. This is in particular due to the fact that ECA imports remained relatively low. In August, they totalled \$ 37.5 million as against \$ 30.7 million in July and \$ 31.3 million in the monthly average of the second quarter 1949.

1) Imports paid for by means of export proceeds.

Status of Delivery Programs for WCA Imports
to the
Combined Economic Area as of 31 August 1949

in million dollars

Delivery Programs of which : delivered outstanding or other :	Delivery Programs for 1st Marshall Plan Year April 1948 - June 1949				Preliminary Delivery Programs for the 2nd Marshall Plan Year July 1949 - June 1950				Total				
	Food sec- tor	Indu- stri- al sec- tor	Total	Freight charges	Food sec- tor	Indu- stri- al sector	Total	Freight charges	Food sec- tor	Indu- stri- al sector	Total	Freight charges	Total
(unauthorized, but not yet delivered)	184.2	267.1	451.3	41.5	38.7	70.9	109.6	9.6	222.9	304.0	526.9	51.1	578.0
(authorized, but not yet delivered)	172.2	157.4	329.6	21.9	4.4	-	4.4	-	176.6	157.4	334.0	21.9	355.9
(authorized, but not yet delivered)	12.0	109.7	121.7	19.6	34.3	36.9	71.2	9.6	46.3	146.6	192.9	29.2	222.1
(authorized, but not yet delivered)	12.0	44.2	56.2	5.0	11.8	1.7	13.5	-	23.8	45.9	69.7	5.0	74.7
(authorized, but not yet delivered)	-	65.0	65.0	14.6	-	12.9	12.9	6.3	-	77.9	77.9	20.9	98.8
(authorized, but not yet delivered)	-	0.5	0.5	-	22.5	22.3	44.8	3.3	22.5	22.8	45.3	3.3	48.6

The status of ECA deliveries to the Combined Economic Area as of 31 August is shown in the table on page 6.

According to this table, arrears on 31 August as compared with the schedule for the first Marshall Plan year were \$ 141.3 million, i.e., almost 30 per cent of the deliveries scheduled. In addition, there are arrears in the deliveries to the French Zone amounting to \$ 29.1 million. For account of the second Marshall Plan year, only \$ 4.4 million had been imported to the Combined Economic Area by 31 August.

As ECA aid for the second year, about \$ 110 million (\$ 85.2 million thereof for the Combined Economic Area) were provisionally allocated to Western Germany for the first three months (July through September). This amount corresponds roughly to one third of the sum (\$ 348.2 million¹⁾) proposed by the OEEC for the period 1 July 1949 through 30 June 1950. Full allocation of this sum, however, cannot be expected, as the aggregate amount appropriated for ECA aid by the U.S. Congress is \$ 150 million below the sum on which is based the allocation schedule which was established by the OEEC in Paris early in September.

Money movements via the accounts for the settlement of foreign transactions maintained with the Bank deutscher Länder were again characterized, during August and September, by a pronounced increase in inpayments. The latter amounted to DM 702 million in August and to DM 906 million in September, as compared with only DM 564 million in July and DM 475 million in the monthly average of the second quarter. Inpayments for the individual groups of imports (commercial imports, and GARIOA and ECA imports) developed as follows:

1) Cf. "Monthly Reports of the BdL", August 1949, page 37

Monthly average, or month respectively	Inpayments of Importers			Outpay- ments
	Total	Commercial Imports	ECA + GARIOA Imports	
	in million DM			
1st quarter 1949	397.0	167.9	229.1	412.9
2nd quarter "	474.6	229.8	244.8	597.9
July "	554.3	405.6	158.7	501.5
August "	702.1	488.3	213.8	454.1
September "	905.8	488.0	417.8	556.7

When considering the inpayments for GARIOA and ECA imports effected in September, it has to be borne in mind that on 6 September the ERP accounts of the French Zone in the amount of DM 166.7 million, previously maintained with the Landeszentralbank of Baden, were transferred to the Bank deutscher Länder. Still, even without this transfer the inpayments for deferred imports total DM 251.1 million in September as compared with DM 213.8 million in August.

The fact that in September inpayments for commercial imports, in spite of the upward trend they had shown for some time, did not exceed those of August, is due to the circumstance that from 20 to 29 September foreign exchange dealings were suspended by the BdL in view of the imminent alteration in the exchange rate and that advance DM payments, which importers made during this period without a letter of credit having been opened by 17 September, were returned. Inpayments nevertheless still reached the remarkable amount of DM 488 million, i.e., on the average of 10-day periods they considerably exceeded the level of the preceding month; this is due on the one hand to the fact that importers, as had partly been the case in August, endeavoured to acquit themselves of outstanding liabilities as quickly as possible, in order to avoid any losses in the event of an alteration in the exchange rate. This factor, however, is only

to be considered with regard to commercial imports for which inpayments were made against letters of credit under the former import procedure, for according to the new method of settlement, which has been in force since 15 July 1949, "DM payments have no debt-settling effect before the letter of credit has been established or the foreign exchange order has been placed" (Bulletin No. 140 of the Foreign Department of the Bank deutscher Länder). Thus, the continuing strong increase in inpayments for commercial imports is undoubtedly due to the continuous increase in current commercial imports. This increase is also manifested in the further decrease in the foreign exchange holdings of the Bank deutscher Länder, a decrease totalling DM 458 million from the end of May through the end of September; the August decline amounting to DM 99 million and the September decline to DM 133 million.

DM outpayments via the accounts for the settlement of foreign transactions also considerably increased in September as compared with August (see table on page 8), exclusively due to outpayments from the counterpart funds, while outpayments to exporters have declined.

If we strike the balance of inpayments and outpayments, it becomes evident that since last July the accounts for the settlement of foreign transactions show considerable surpluses of inpayments. Including the transfer of the ERP accounts of the French Zone to the Bank deutscher Länder, inpayments totalled DM 659.9 million in the period July to September, turning the credit balance on foreign accounts as a whole into a debit balance which at the end of September amounted to DM 45.6 million. The last remnants of the expansive effect, with regard to monetary policy, exerted by the money flows via the foreign accounts up to the end of June have thus disappeared.

M o n e y a n d C r e d i t

In September, too, the money market continued to be affected by the tightening factors which, as was demonstrated in the last Monthly Report, had brought about an increasing stiffening of the market since the end of June. Symptomatic of this stiffening, in particular, was the increased borrowing from the Central Banking System by the banking institutions. Totalling DM 2,086 million on 30 September, it reached a new peak, exceeding the corresponding figures for the end of August and the end of June by DM 283 million and DM 868 million respectively. If the credit balances and the indebtedness of the banking institutions with the Central Banking System are set off against each other, there remains an increase in net indebtedness by approximately DM 471 million; as compared with 30 June, the net indebtedness had increased by no less than DM 1,058 million by the end of September.

This development was caused, in the first place, by the continuously strong decline in the creation of money by the Central Banking System for purposes other than refinancing, particularly by the large surplus of payments on the accounts for the settlement of foreign transactions with the Bank deutscher Länder. During September, the aggregate amount of direct creation of money and credit by the Central Banking System decreased from DM 545 million to DM 191 million, i.e. by more than DM 350 million. The amount of direct loans granted to public authorities has changed but little, but the former credit balance of the accounts for the settlement of foreign transactions maintained with the Bank deutscher Länder, which stood on June 30th at DM 593 million and at the end of August amounted to DM 307 million, has very recently turned into a debit balance of DM 46 million. The credit balances of the Foreign Trade Banks on loro accounts, which accumulate from the full payment of the equivalents for foreign letters of credit applied for, increased by DM 86 million to DM 266 million in September. The second essential cause of the increase in the net indebtedness of the banking institutions to the Central Banking System was the amount of

currency in circulation, which in September continued to increase, viz., by DM 231 million to DM 7,453 million. As contrasted to these two factors, which considerably tighten the liquidity of the banking institutions, only the decrease (DM 122 million) in deposits of customers other than banks in the Central Banking System had a relaxing effect.

Under the influence of the factors described above, the money market, due to the lack of supply, showed very little turnover up to mid-September, apart from that connected with the daily compensation of fractional amounts. By the middle of the month, a transitory relaxation was observed, which was due chiefly to the fact that the reduction of the minimum reserve announced in mid-September was effective retroactively as of 1 September. Since the basis for the computation of the legal minimum reserves is the monthly average of the reserves maintained, the banking institutions were able to allow their reserves to fall below the average during the last half of the month. Moreover, the suspension of foreign exchange dealings from 19 through 30 September considerably decreased the strong withdrawal of liquidity which had resulted from the former high surplus of inpayments on the accounts for the settlement of foreign transactions maintained with the Bank deutscher Länder. Therefore, the last day of September was unusually easy for the banks, which were in but few instances compelled to increase their borrowing from the Central Banking System above the mid-September level, but were able to meet the considerable requests of the market for cash almost completely by recourse to their reserves. Call money continued to be offered at 3 1/4 per cent at the end of the month. Early in October, the stiffening tendencies again prevailed in the money market.

As of 3 October 1949, the new regulation of I n t e r - L ä n - d e r T r a n s f e r s became effective. As is well known, this concerns the coming into force of Article III, para 12 of the Law Concerning the Establishment of a Bank deutscher

Liquidity Status of the Banks
in million DM

Date	Central Bank credit raised by the Financial institutions (excl. Zentralbank Berlin)	Credit balances of financial institutions on giro accounts with the Central Banking System (excl. Zentralbank Berlin)	Net credit balances (+) with or net indebtedness (-) to the Central Banking System	Bill Holdings (excluding own acceptances in portfolio)		Credit Balances on nostro accounts (including credit balances on postal cheque accounts)	
				monthly reporting banks	weekly reporting banks		monthly reporting banks
30 April	1,567	1,451	- 116	1,476	829	1,414	739
31 May	1,353	1,467	+ 114	1,686	994	1,691	865
30 June	1,213	1,271	+ 58	1,868	1,080	1,626	822
31 July	1,427	1,106	- 321	1,918	1,164	1,566	798
30 August	1,798	1,140	- 658	1,911	1,080	1,764	798
15 September	2,068	1,180	- 888	-	1,005	-	832
30 September	2,081	957	- 1,124	-	1,097	-	970

Länder (Military Government Law No. 60), reading as follows:

"a) The Bank shall assume and effect all banking transfers which result from the orders of third parties and which are transfers over Land boundaries. Credit institutions must execute all such transfers through their accounts with the Land Central Banks.

b) The Bank may permit exceptions to this provision."

In the new regulation, which is being carried out according to the announcement published in the *Öffentlicher Anzeiger für das Vereinigte Wirtschaftsgebiet* (Official Gazette for the Combined Economic Area), issue of 7 July 1949, use is made of the exception granted under sub-para b), in that the regulation does not interfere with the course of transfers from the branch office to the head office, or of affiliated banking institutions to their head institutions (Girozentralen, Girokassen). The transfer amounts crossing Land boundaries have first to be forwarded by the aforementioned head institutions to the Landeszentralbanken. Nevertheless, to a certain extent the new regulation affects certain banking institutions adversely insofar as their liquidity is reduced.

In spite of the stiffening of the money market, no decline in the relatively large credit expansion of the banks was to be observed in August and in the first half of September. On the contrary, the short-term loans granted by the commercial banks¹⁾ to customers other than banks totalled DM 566 million²⁾ in August, thus having

1) Including savings banks and credit cooperatives.

2) Increase according to monthly banking statistics DM 892 mill.
Included therein for the first time, and therefore to be disregarded when computing the monthly increase:
Foreign exchange loans of the RM period 267
Financial institutions newly included in the statistics 59 " 326 "

Total DM 566 mill.

increased even more markedly than in July, and in September the increase was smaller than in August probably because of the fact only that beginning at mid-September there was a transitory decline in the credit requirements for import payments. The further credit expansion by the commercial banks is due, in all probability, to the considerable credit requirement of importers, which in turn was caused by the new import procedure and by a large increase in letters of credit being established. Probably the general assumption that in the case of a devaluation of the pound sterling against the "hard" currencies the DM rate would be reduced as well, led to a stimulation of inpayments for imports. In any case, when the Bank deutscher Länder, as of 19 September, ceased to accept inpayments of the importers, the credit expansion with the 112 weekly reporting banks promptly declined, and in the fourth week of the month the level of bank credit outstanding even decreased slightly. Evidently, however, the financing of the harvest also contributed to the increased credit requirements. This is demonstrated, inter alia, by the fact that short-term credits of the rural Zentralkassen to customers other than banks, following a perceptible decline in May and June, with an increase of 21 per cent again showed a considerable expansion in August.

As had been the case in the preceding months, in August as well as in September the aggregate credits granted by the commercial banks were far in excess of the formation of deposits. Thus the newly granted credits were partly reflected in the increase in the currency in circulation, but partly - as described above - they resulted in an increase in the debit balances on the accounts for the settlement of foreign transactions with the Bank deutscher Länder - which accounts to a certain extent also consist of

Weekly Increase in Short-Term Credits Granted
by the 112 Weekly Reporting Banks
(excluding inter-bank credits)

Weekly average, or week respectively	total	Business enterprises and private persons	Public authorities
1st quarter	+ 22.5	+ 21.0	+ 1.5
2nd quarter	+ 24.4	+ 22.6	+ 1.8
July	+ 36.0	+ 33.5	+ 2.5
August	+ 53.0	+ 44.8	+ 8.2
September	+ 35.4	+ 32.7	+ 2.7
1st week of Sept.	+ 23.5	+ 32.8	- 9.3
2nd week of Sept.	+ 91.2	+ 68.2	+ 23.0
3rd week of Sept.	+ 11.3	+ 35.4	- 24.1
4th week of Sept.	+ 15.6	- 5.8	+ 21.4

deposits -, i.e., a decline in the creation of money which up to the end of June had been connected with the money movements via these accounts. In total, commercial bank deposits of customers other than banks (including blocked accounts and investment accounts), excluding the DM equivalents for foreign letters of credit already paid by the banks to the Bank deutscher Länder, have increased by approximately DM 300 million during August, and for September the increase in deposits is estimated to be approximately DM 220 million. With the Central Banking System, however, deposits of customers other than banks showed a downward trend during August and September. In September, the credit balances of public authorities on giro accounts (including sold equalization claims) fell by DM 185 million. Taking into consideration this decline and the fact that the amount of notes in circulation continued to increase during August as well as during September, a computation shows the total volume of money.

to have increased by well over DM 300 million to DM 21.2 billion in August, and by another estimated DM 300 million in September.

Savings Deposits continued to develop relatively favourably during August. The surplus of inpayments, amounting to DM 82.4 million, showed a slight decline as against that of the preceding month (DM 87.0 million), but such a decline is not unusual during the principal vacation season. The development of savings, however, seems to have sustained a somewhat sharper, though but transitory reaction due to the uneasiness caused by the currency devaluations abroad. For the first time for months, the 112 weekly reporting banks - with which only 15 per cent of all savings deposits, it is true, are maintained, but with little fluctuation so far - reported an excess of withdrawals in savings transactions amounting to DM 0.9 million. As early as in the fourth week of September, however, there was again a surplus of deposits of DM 1.4 million. This was less than the average monthly accruals in July and August (DM 3.3 million).

It is gratifying to note that the banking institutions were able to grant medium and long-term credits to a somewhat greater extent than in the preceding month. Of the aggregate amount of approx. DM 153 million¹⁾, DM 56 million came from the Reconstruction Loan Corporation to which funds from the Unemployment Insurance Fund had been made available in the amount of DM 18 million. The remaining DM 97 million were granted by other banking institutions - in the first place by mortgage banks, savings banks, and Girozentralen - but also by the public authorities through the medium of banking institutions. The release of GARIOA counterpart funds was limited to DM 10 million during August, apart from the continuing settlement of the contracted foreign deliveries for the Railway, which are paid from GARIOA funds and which were reported on at an earlier date²⁾. The aforementioned DM 10 million were

1) This figure is not to be found in the monthly banking statistics, because the Reconstruction Loan Corporation and some other special institutions granting long-term credits were included in the statistics for the first time in August.

2) "Monthly Reports of the BdL", May 1949, page 13

given to the Reconstruction Loan Corporation for the purpose of industrial credits.

At the present time it is impossible to state conclusively the total amount of medium and long-term credits granted by the banking institutions during September. The Reconstruction Loan Corporation granted DM 45 million in long-term credits: DM 20 million for the continuation of the power program, DM 12 million for housing construction for the occupation powers, DM 12 million for industry, and smaller amounts for mining and agriculture. For these purposes, it received another DM 20 million from GARIOA funds. Thus, the Reconstruction Loan Corporation has granted, up to 30 September, an aggregate amount of DM 334 million long-term credits; DM 22 million of the monies already released from counterpart funds not having been utilized to that time. The Industriebank A.G. Düsseldorf, to which DM 50 million of the proceeds of the treasury bills recently issued by the former Combined Economic Area had been channeled, has granted credits of DM 7.7 million, and the Wirtschaftsaufbaukasse Schleswig-Holstein, to which DM 20 million were promised from the same source, has granted DM 0.3 million.

At mid-September, amounts from the ERP counterpart funds were released for the first time. In the French Zone, of the DM 57 million released, DM 40 million are scheduled for the Railway, DM 14 million for power plants, DM 2 million for the extension of the Ludwigshafen port, and DM 1 million for the construction of gas mains. By the end of September, the Finanzierungs A.G. Speyer had granted credits of DM 6.5 million from the above amount, mostly to the Federal Railway. In addition from the ERP counterpart funds of the Bizone DM 94 million were also released. Of this amount, DM 44 million are scheduled for the Berlin power plant (Bewag), and DM 50 million for the coal mining industry in the Bizone.

As is well known, late in August, the Board of Directors, in order to facilitate investment financing, had decided to purchase equalization claims, in anticipation of future savings,

in order to enable the banking institutions to grant medium-term credits for export financing, and long-term investment credits secured by mortgages. The Bank deutscher Länder is scheduled to purchase DM 100 million of equalization claims for the purpose of granting export credits and DM 200 million for granting investment credits. The equalization claims have to be repurchased by the banking institutions in a specified way, according to the accrual of ultimate means for financing purposes (savings deposits) or upon receipt of the export proceeds respectively. As the resolution of the Board of Directors was approved by the Allied Authorities at mid-September only, the measure is still in its initial stage.

In August the sale of securities, particularly of fixed-interest-bearing securities, has fallen somewhat short of the average of the preceding months. Of the fixed-interest-bearing issues, some of which had been offered for subscription some time ago, about DM 23 million were placed in August. Only two fixed-interest-bearing industrial bond issues totalling DM 36.5 million were newly floated; DM 30.5 million of this amount are scheduled to serve as security for credits of the Reconstruction Loan Corporation. In addition, another DM 14.5 million mortgage bonds and DM 4 million municipal bonds of issues previously approved were released for subscription. In order to promote to the greatest extent possible the utilization of the investment accounts - which still amount to well over DM 300 million - for purposes of current capital investment, the Board of Directors in mid-September decided to generally declare eligible for purchase with credit balances on investment accounts such fixed-interest-bearing securities which were either issued upon approval of the Bank deutscher Länder or, subsequent to coming into force of the Capital Transactions Ordinance, are issued in accordance with the provisions of said Law. Pursuant to Regulation No. 4 under Military Government Law No. 65, investment accounts of several persons may now be consolidated for the purpose of subscribing to loans. Until now the new DM mortgage bonds and municipal bonds introduced at the stock exchange for the first time in

September easily maintained their rates of issue, while the rates for old fixed-interest-bearing issues showed a slight upward trend, and stock prices went up somewhat more considerably.

In order to make available for reconstruction purposes additional means - beyond the bond issues brought out so far - the Reconstruction Loan Corporation in September offered for subscription for the first time two loans, viz., a 5 1/2 per cent loan enjoying limited tax privileges and proceeds of which shall be used for the reconstruction of industry and agriculture, and a 3 1/2 per cent tax-exempt loan, proceeds of which are to be used exclusively for housing. The 5 1/2 per cent loan, for which a maximum amount of DM 100 million has been fixed, enjoys tax relief - as is usual for mortgage bonds and municipal bonds being granted tax remissions - in such a way that the expenditure incurred for purchasing the loan may be deducted from the taxable income within the limit of the maximum amounts authorized as special expenditure. In the case of the 3 1/2 per cent loan, however, the loan interest is tax-free, and, moreover, the loan amounts are not subject to property tax nor to trade tax (Gewerbekapitalsteuer), inheritance tax, or tax on gifts. Whereas the usual taxation relief, as is also granted in the case of the 5 1/2 per cent loan, is made conditional upon the bonds being held for 3 years, there is no such provision in the case of the tax-exempt 3 1/2 per cent loan. DM 50 million of the 5 1/2 per cent loan were guaranteed by a banking syndicate.

Early in September, the Industriekreditbank in Düsseldorf was authorized to offer for subscription the first DM 50 million of its scheduled DM 150 million loan, which runs for 12 years, yields 5 1/2 per cent and is issued at the price of 98 per cent. The proceeds from this loan are scheduled to be used for granting medium and long-term credits to small and medium-sized establishments of industry, handicraft, and commerce.

Public Finance

As was to be expected, in August - the last month for which data are available - the tax revenue of the Länder decreased as compared with July with its principal tax date. The total decrease amounts to about DM 140 million; taxes on income, property and turnover dropped by almost DM 200 million whereas the revenue derived from customs duties and excises increased by nearly DM 60 million due mainly to larger imports. As may be seen from the table below, however, the August tax revenue on income, property and turnover was even lower than that of May, the last month with comparable tax dates. In particular, the yields of the assessed income tax and the corporation tax were lower, whereas the revenue derived from the wages tax and the turnover tax continued to increase slightly. The decrease in the assessed income tax and the corporation tax is undoubtedly connected, to a certain extent, with changes in the payment technique, viz., a more pronounced shifting to quarterly payments and dispensing with the monthly instalment payments introduced under the currency reform.

Tax Revenue in the Federal Territory

May and August = months with comparable dates of payment

Types of Tax	1949					August May = 100
	April	May	June	July	August	
	in million DM					
1. Total of Taxes on Income, Property and Turnover	992.0	884.3	836.9	1026.9	835.4	94.5
thereof:						
Wages Tax	159.2	169.1	171.9	173.8	175.6	103.3
Assessed Income Tax	303.0	226.6	166.9	285.2	163.5	72.2
Corporation Tax	167.9	121.2	98.7	177.8	97.1	79.9
Turnover Tax	300.9	314.9	313.6	317.6	323.3	102.7
2. Excises and Customs Duties	292.1	342.1	362.6	308.6	364.8	106.6
3. Total of Tax Revenue	284.1	1226.3	1199.5	1335.6	1200.2	97.9

1.) Difference due to rounding off.

Source: Department for Finance, and Finance Ministries of the Länder of the French Zone.

In addition, in the case of the assessed income tax an important consideration was the fact that the taxation relief granted at the end of April 1949 (incentives to saving in the form of increased allowances for special expenses, accelerated writing-off of fixed assets (movables), and certain tax benefits for individual entrepreneurs and partnerships whose taxable income exceeds DM 30,000) resulted in certain losses in tax revenue. In the French Zone, where the above-mentioned tax relief has so far not been granted, such a loss has not developed, although otherwise the trend of tax revenues has evolved just about parallel to that in the Combined Economic Area.

Revenue derived from the Assessed Income Tax
In the Combined Economic Area and in the French Zone

Total Revenue accrued during the following months	Combined Economic Area	French Zone	Federal Territory
April/May 1949 million DM	469.8	59.9	529.7
July/August 1949 million DM	388.6	60.1	448.7
percentage of the revenue of April/May	82.7	100.3	84.7

On the whole, it will hardly be an over-estimation to anticipate the decrease in revenue from the assessed income tax resulting from the amendment of the tax laws at about 15 per cent. More accurate estimates will not be possible until the September results are available.

There are no statistical data available on recent expenditures. The last figures cover the period from 1 July 1948 to 31 March 1949 when a total of approximately DM 10.9 billion was spent by the Länder. By 30 June 1949, this amount had probably increased to approximately DM 15.5 billion; it must be

borne in mind, however, that expenditures retroactively charged to the fiscal year which expired on 31 March played an important part in this increase. As compared with these expenditures, the tax revenues of the Länder amount to DM 14.8 billion annually, based on the level of the past three months. At the present time, the total revenue accruing to the Länder amounts to approximately DM 16.4 billion annually, excluding the revenues derived from the customs duties, the coffee tax and the tea tax (annual rate approximately DM 600 million at present), which are to be transferred to the Federal Government, and including the remaining ordinary revenues (approximately DM 2.2 billion annually). As compared with the level of expenditures of the second quarter, a certain margin would thus still exist.

Certain Länder expenditures, however, have continued to increase during the past few months. In detail, these increased expenditures consist of the subsidies for food imports to be paid as of March 1949, the contributions to the social insurances which were raised in June, and the increased investment expenditures which the Länder had agreed, in June, to make in the third calendar quarter. As compared with these increases in expenditures, to date only a minor decrease in occupation costs and related expenditures could be recorded as noteworthy economies.

In the next few weeks, the Länder will be burdened to a certain extent by the obligation to pre-finance the payments to be made under the Ordinance to Alleviate Social Hardship (Immediate Aid Ordinance)¹⁾. For this purpose, the financially weak Länder will, of necessity, have to raise new loans. In Hesse, an issue of treasury bills for this purpose is already under way. The personnel expenditures of the Länder are likewise increasing, since in some of the Länder the 6 per cent reduction of service and subsistence emoluments of civil servants and employees in public service, decreed under the 1st Emergency Order on Salary Reductions of 1931, has already been rescinded.

In addition, an increase in the expenditures for subsidies to

1) Cf. "Monthly Reports of the Bank deutscher Länder" August 1949, pages 22 to 26.

be paid on food imports is to be expected due to the new fixing of the exchange rate for the DM against the dollar. The degree of the additional burden on public budgets can not yet be determined; according to preliminary information from the Federal Minister for Food and Agriculture, however, a subsidy requirement up to DM 700 million is expected for the period from 1 October 1949 to 30 June 1950, whereas for the third quarter 1949 subsidy expenditures of approximately DM 175 million had been provided for, DM 98 million of which were to be borne by the Combined Economic Area. It is possible that in the future the Federal Government will take over the burden of subsidies; but in fact even in this case the required funds would have to be raised by the Länder by way of additional contributions ("Matrikularbeiträge").

In connection with the additional burdens described above, however, consideration is to be given to the fact that some Länder still have rather considerable cash holdings. With the Central Banking System alone, on 30 September the Länder maintained DM 164.9 million deposits (including deposits of Gemeinden in Hamburg and Bremen), to which amount must be added investments amounting to DM 383.4 million, consisting of equalization claims and treasury bills, which can be realized at any time. In addition several Länder have not inconsiderable deposits with the commercial banks. These funds are largely concentrated with the financially strong Länder; on the other hand, indebtedness of the financially weak Länder is gradually increasing. In August, bank borrowing by the Länder rose by DM 25.9 million, and the indebtedness incurred in the money market by DM 7.5 million.

The expenditures of the Federal Government have so far been financed only via the budget of the Combined Economic Area. For the period 1 October 1949 to 31 March 1950, a so-called "transition budget" was established which practically, however, differs but little from the bizonal budget in its last form. This budget provides for revenues amounting to approximately DM 730 million and expenditures of approximately DM 780 million (excluding the

funds for subsidies on food imports), and is composed of essentially the same revenue sources and expenditures as the bizonal budget. The deficit amounting to approximately DM 50 million is to be covered by contributions ("Matrikularbeiträge") of the Länder.

P r o d u c t i o n a n d M a r k e t s

In August, the index of industrial production in the Combined Economic Area, as calculated by the Department for Economics almost made good the July decrease. Amounting to 91 per cent of the 1936 level, it equalled the highest post-war peak per calendar month reached so far. Calculated per working day, however, it amounted to only 87 per cent of the 1936 level and thus was still slightly below the level reached in May and June (88 per cent of the average of 1936). The production of consumers' goods, in general, showed a considerably more favourable trend than the production of investment goods. In the latter case, the development was varied and in several industries, e.g. machine building, precision machinery and optical equipment, considerable decreases per working day were recorded. Since building activity is only represented in the production index by a few important building materials, it may be assumed that its total volume has increased to a larger extent than is reflected by the figures of the production of building materials.

The weekly distribution of electric power by the public utilities continued to rise strongly in September, and during the past few weeks has reached this year's peak. The output of coal per working day likewise increased, although the planned level was not quite attained. In comparison, iron and steel output (per working day) dropped by 4.9 and 5.4 per cent respectively, although the supply of coal and electric power, which in the past was a strongly limiting factor in this industry, has considerably improved. The production of rolling mills likewise dropped. The decrease is presumably due to the shrinkage of incoming orders since April 1949 which, in fact, caused a great

disproportion between deliveries and orders in iron and steel production during the period June to August.

The increase in employment is a symptom of the stimulation of the economy which was generally noticeable during the past few months. The number of wage and salary earners in the Federal Territory rose from 13,488 million to 13,604 million from the end of June to the end of September, i.e., by 116,000. In the second quarter, the increase had amounted to 41,000 only. Pending the receipt of detailed statistics, it cannot yet be estimated to what extent the development of employment in the various branches of the economy and in the individual occupation groups deviates from one another. It remains to be seen to what degree those branches of the economy which benefited from the seasonal trend shared in the total increase.

Although the degree of employment increased, unemployment also continued to rise. The increase in September, amounting to only 5,800, however, was - the same as in August - considerably lower than in July (19,500). Moreover, this increase again affected women only, whereas the number of unemployed males slightly decreased again. The increase in employment since the end of March 1949 clearly shows that the increase in unemployment during the last half year is due only to the influx of new labour. As may be taken from the following table, however, during the last few months the majority of persons seeking work found employment. In the case of the influx of new labour, the question of refugees coming from the East still plays a role. Recently, the Federal Minister of Economics estimated the labour immigrating into the Federal Territory at about 30 - 40,000 monthly.

Unemployment and Employment in the Federal Territory

Period	Increase (+) or Decrease (-) in the number of		
	Employed and Unemployed (increase in new labour)	Employed	Unemployed
	in 1 0 0 0		
1948 3rd quarter	+ 331.3	- 1.9	+ 333.2
4th "	+ 216.2	+ 240.8	- 24.6
1949 1st quarter	+ 117.4	- 291.4	+ 408.8
2nd "	+ 156.3	+ 41.4	+ 114.9
3rd "	+ 147.0	+ 116.0	+ 31.0
Changes from the Currency Reform until the end of September 1949	+ 968.2	+ 104.9	+ 863.3

There are no reliable data available on the t u r n o v e r s in the industrial sector and the retail trade for the immediate past. According to information from the retail trade, a certain rush to purchase occurred after the devaluation of the pound sterling, particularly with regard to durable consumers' goods. However, this wave ebbed after a few days and the alteration in the exchange rate of the DM effective as of 29 September has - as far as can be ascertained - exercised no marked influence on the public's propensity to purchase.

During the last few months, agricultural deliveries were exceptionally large. In July and August, the delivery of grain in the Combined Economic Area, amounting to 393,00 tons, was more than twice the deliveries of the respective months of 1948. Thus, by 31 August about 15.7 per cent of the grain delivery quota of 2.5 million tons required for the current harvest year had already been turned in, whereas in the previous year; - when the quota required was 630,000 tons higher - only 5.3 per cent had been delivered by the same date. In some cases, the mills had difficulty in handling the quantities offered.

In general, the delivery of live stock as well has been favourable during the past few months. In August, the supply of meat in the market, amounting to 31,500 tons, was twice that of the previous year. While at first the supply of pigs did not keep pace with the abnormally high supply of cattle, calves and sheep, in September the deliveries of pigs, in particular, developed very favourably, amounting to 94,510 pigs. This figure is twelve times that of the previous year. The milk supply is likewise good, since deliveries to dairies still maintained the high summer level. The supply of fruit and vegetables continued to be plentiful. The better quality produce sold well, while inferior qualities met only limited demand.

In general, food supplies are adequate to meet current demand. The preeminent role formerly played by ration tickets is to an ever increasing degree substituted by purchasing power, with the result that a further relaxation of rationing is contemplated. It must still be borne in mind, however, that the income of the broad mass of the population still permits but a very moderate food standard and the supply of food on hand would hardly be so great had not certain groups of income earners remained limited in their purchasing power. Apart from this, the domestic production of foodstuffs in Western Germany is still only sufficient to meet about 60 per cent of the present total demand despite the gratifying rise of production and despite calorific consumption still being generally low.

During the past few weeks, the price level continued to decrease slightly. Very few marked price increases were recorded, while on the other hand a number of prices were reduced in line with lower costs and better supplies. Such reductions could be found in the retail trade as well as in the industrial sector. In this connection, sharper foreign competition and, in some cases, dumping by the Eastern Zone played a role. Apart from these factors, seasonal influences on some food prices made themselves felt, particularly with regard to fruit and, in some cases, meat, too. The margin between the black market prices and the official prices for rationed

foodstuffs further diminished due to the influence of the above-mentioned increase in the supply. Examples of price reductions in the industrial sector are as follows:- rolling-mill products, semi-finished metal products, certain chemicals, cellulose wool, lacquers, tar paper, and paper. In general, the impression prevails that attempts are constantly being made to increase sales by making price reductions either through accepting lesser per unit returns or through rationalizing production.

Since the devaluation of the pound sterling, several branches of industry (particularly the textile industry) have been endeavouring to raise prices against marked resistance by buyers, particularly where goods with a higher percentage of foreign raw materials are concerned, and to change current contracts for this purpose. Such attempts, however, have broken down in some cases after a short time. Where this has not yet occurred, there is a strong resistance of the trade and the consumers against the contemplated price increases.

Export prices for coal have been subjected to a special regulation under the devaluation. Since the war, German coal exports were generally invoiced in dollars, and lately the prices more or less have been but slightly lower than the world market prices; calculated in DM, however, they considerably exceeded the domestic prices (which are controlled and do not quite cover the costs). The excess proceeds were supporting factors in the earnings of the mines, and the subsidies partly paid to coal mining would have had to be much higher without these additional proceeds. If the previous dollar export prices had been adhered to, those buyer countries which had reduced their exchange rate in comparison with the dollar after the devaluation of the pound sterling, would have had to pay a correspondingly higher price in their domestic currency for coal deliveries from Western Germany, while for the German industry the costs of the coal would have remained the same, and the export calculated in DM would have yielded

higher proceeds according to the change in the conversion ratio between the DM and the dollar. For this reason, the High Commissioners requested the German Government to either raise the domestic coal price to such an extent as to prevent the previous margin between the domestic prices and the export prices - calculated in DM - from being increased, or else to reduce the export prices to an appropriate extent. The first solution was not accepted by the Federal Government since during the critical period of devaluation, when prices had to be kept as stable as possible, particularly with regard to the relatively small degree of the German devaluation, the Government endeavoured to avoid everything which might have led to price increases. The Government instead agreed to maintain the previous coal export prices, calculated in DM, subject to a new examination by 1 January 1950, and thus to reduce them by an average of about 20.6 per cent calculated in dollars. The German supply situation was taken into account insofar as the price of coke, which is available in abundance, was calculated at 1 dollar less and the price of the relatively scarce coke coals at 1 dollar more than would result from a conversion of the previous prices (according to the devaluation). In addition, the expensive railroad freights for coal exports - a number of countries, such as Austria, Switzerland and Italy, receive the coal by rail - can now be included in the accounting, which means additional proceeds of 34 U.S. cents per ton for the total coal export.