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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

CIA/OER/S-07675-75

30 October 1975

MEMORANDUM FOR: Mr. James Carnes
International Security Affairs
Department of Defense

SUBJECT : Economic Summary for Greece, Belgium, Luxembourg

Enclosed is the background information you requested for Secretary Schlesinger on the economies of Belgium, Luxembourg, and Greece. If we can provide any additional information or answer any questions you may have please

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Attachments:
As stated

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Belgium

The Tindemans government expects Belgium to remain in the grips of recession at least through early 1976. Real GNP growth will likely be zero this year. Joblessness has climbed rapidly to a current 6.6%, placing ever increasing burdens on the unemployment compensation system. Rising unemployment payments already have necessitated one unscheduled increase in this year's government budget. The 1976 budget has been predicated on a much lower rate of unemployment and will likely come in for revision. Inflation, now at a 15% annual rate, is worsening, driven by escalating wages. Industrial production is well down from last year, especially in steel, and industry in general is operating at only 75% of capacity.

Brussels has proposed a plan that would continue the recent price freeze and hold down wages. The plan also calls for increased aid to labor-intensive industries, more government jobs for the unemployed, and some financial aid to industry. At present, labor organizations oppose the program and are continuing to block its acceptance. Even should labor aquiesce, it is doubtful the plan is strong enough to have much impact.

In first half 1975, the trade deficit fell to $260 million from $1.1 billion in first half 1974. Although the value of exports fell by 2.7% in this period, imports declined even more, dropping 7.6%.

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Luxembourg

The heavy dependence of Luxembourg's economy on those of West Germany and Belgium has contributed heavily to the 7.5% decline in GNP now estimated for 1975. Inflation has stabilized at a high 10.7% annual rate. The steel industry, which exports 95% of its output and accounts for 25% of GNP, is seriously depressed. Luxembourg's steel production was 22.9% lower in the first seven months of 1975 than in the like period in 1974, while steel output in the rest of Europe was down only 15.4%. Luxembourg's construction industry was off by 19.3%, and output in other manufacturing industries was down 11.4%. The government feels it can do little to revive the economy on its own. The only measure taken so far has been the launching of small scale public works projects to generate orders for steel. Officials are resigned to rising unemployment and reduced working hours until general recovery in Europe takes place.

Greece

Economic activity in Greece has been improving slowly since early 1975 especially in the agricultural and construction sectors. After declining by 2.1% in 1974, GNP will likely increase 2% this year. Government policy has been only mildly expansionary because of Athens' fear of rekindling inflation. Price increases have been slowed and are now running at 13% (annual rate), less than the government's target of 15% and

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about half the mid-1974 level. The employment picture stabilized in mid-year but will likely worsen as workers return from abroad.

The 1975 trade deficit will be about $3 billion, up from $2.8 billion in 1974. Exports rose in the first half by 19% while imports -- over twice as large -- increased by 7%. Although improved invisible earnings from tourism, shipping, and foreign workers have been an offsetting factor, the deficit on current account will likely rise this year by 9% to $1.35 billion. Athens has attracted enough foreign capital to offset half the shortfall and has arranged for enough official borrowing from abroad to cover the rest.

First half 1976 should show some improvement in output without much deterioration in the fight against inflation. Real GNP next year should grow close to 3%. The trade picture will likely remain the same as in 1975. The trade deficit will probably be the same size as this year while some small improvement could be expected in the current account.

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