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**Interactions between the External Economy and the
Fiscal and Monetary Policy of the Federal Republic
of Germany, in View of Stabilization Policy**

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**1. Interactions between the external economy and fiscal and
monetary policy**

The development of the German economy in the past decades has been marked by continuing internationalization. Trade and financial ties with foreign countries have been growing and gaining strength. This development does not only concern the business world; economic policy must adapt its decisions to worldwide conditions. This is especially true for stability oriented policy (in short: stabilization policy), which is directed at keeping a constant price level and maintaining high employment. Obviously other fields of policy, like the issues of economic growth, structural change or redistribution, are also being influenced by foreign developments. However, the following considerations will only deal with the most important problems of stabilization which confront fiscal and monetary policy in an open economy like the Federal Republic of Germany.

The following interactions between the external economy and fiscal and monetary policy, as means of stabilization policy, may be distinguished:

- Firstly, the effectiveness of internally oriented stabilization policy measures is strongly dependent on external economic conditions. A tight monetary policy, for example, is nearly impossible with fixed exchange rates.

- Secondly, external economic disruptions of the internal economic development may be countered by fiscal or monetary measures. We may point to the rise of the price of oil or the transmission of high and rising interest rates from the United States of America to the rest of the world.
- Thirdly, influencing external economic factors may be a policy goal. The central bank of Germany, for instance, has often tried to influence the exchange rate even after the transition to flexible exchange rates.

Before we deal with the importance of these aspects for the federal policy, we think it necessary to recall the most important developments in foreign economic relations of the Federal Republic of Germany.

2. Development of foreign economic relations since the introduction of full convertibility

2.1 The development of the international monetary system¹

Most western industrialized countries declared convertibility of their currencies in 1958. Foreign trade relations were characterized by far-reaching liberalizations of goods and services transactions and increasingly free capital movement in the following years. The Bretton-Woods-System of fixed exchange rates formed the constitutional framework, which obliged the members of the International Monetary Fund to defend the exchange rates they had agreed upon by intervening on the foreign-exchange markets. Devaluations and revaluations were only provided for fundamental disequilibria in the balance of payments. The Bretton-Woods-System experienced its crucial crisis, caused by an

¹ See C. Köhler: Geldwirtschaft, Zweiter Band: Zahlungsbilanz und Wechselkurs, Berlin 1979, p. 342-355

ever increasing balance of payments deficits of Great Britain and especially the USA, at the end of the sixties. Confidence in the Gold-Dollar standard was lost and international cooperation on currency policy ceased. The German central bank finally stopped intervening on the currency markets to keep a fixed Dollar parity in 1973. Other countries followed suit. The Bretton-Woods-System had collapsed.

In the following years the European Community tried to keep up a system of fixed exchange rates between its members. By 1978 the European Monetary System was institutionalized. It now works on the same principles as the Bretton-Woods-System, except for allowing a broader range of fluctuation and more frequent adaptations of exchange rates. Since then a dual exchange rate system, with fixed rates in the EC and floating rates with the outside world, has existed in Europe.

2.2 Import and export quota show an uphill trend

The grave changes in the worldwide monetary system did not have any influence on the continuing trend of internationalization of the German economy. The quota of imports and exports of goods and services (including earned and unearned income) in relation to the national product rose from approximately 20 % in the early sixties to more than 30 % since the beginning of the eighties. This enormous growth took place in three steps, each of which was marked by an expansiory expanding phase and then a consolidating phase (see table 1).

2.3 Balance of current accounts, exchange rates and terms of trade

While import and export quotas allow us to draw conclusions about the long-term structural change of an economy, changes in the balance of current accounts give us an initial clue of foreign impacts on the state of the economy. Changes in the balance of current accounts have influenced production and employment in the Federal Republic of Germany on a large scale in the past, as the figures in table 2 show. The economic upswing in the years 1967 and 1968 may be traced back to an export boom. The surplus in the balance of current accounts rose approximately 10 billion DM above that of 1966. The economic downswing of 1974/75 was inversely marked by a reduction of the balance of current accounts surplus by 16 billion DM - resulting from the first oil crisis. Likewise, during the stagnatory phase between 1979 and 1981 considerable deficits occurred in the balance of current accounts, while the economic revival in the following years can be attributed to growing exports.

Thus changes in the balance of current accounts have had stabilizing as well as destabilizing effects. Despite strong fluctuations, the balance of current accounts trends towards surpluses. Germany shares this permanent build-up of wealth against foreign countries with Japan.

Changes in the balance of current accounts alone, however, are not sufficient to size up the influence of external factors on the state of the economy, because these changes also include changes in the terms of trade, which in turn react to changes in the levels of prices as well as variations of exchanges rates. To be able to judge the real impact on production, employment and the amount of goods available, one has to consider the changes of the terms of trade at the same time as those of the balance of current accounts. Evaluations of the impact on production and employment will be otherwise misleading. The deterioration

of the terms of trade between 1979 and 1981, for example, from 106,8 to 93,4 (see table 2), had far stronger stabilizing effects on the level of employment after 1980 than was evident from the changes of the balance of current accounts.

2.4 Changes in the foreign exchange reserves of the German central bank

Apart from their impact on demand and employment, repercussions of external factors on the domestic supply of money are of special interest from a stability oriented point of view. These can be monitored through the balance of foreign-exchange payments which reflects the changes in net foreign assets of the central bank. If the central bank buys foreign currency, it enlarges the monetary base, selling reduces it. These actions have had strong influence on the supply of money - not only during times of fixed exchange rates.

The balance of foreign-exchange payments showed a surplus of between 11 and 23 billion DM each year between 1970 and 1973. Before the Bretton-Woods-System came to an end, the central bank had to cope with a speculative inflow of foreign currency and had to supply the economy with enormous amounts of high-powered money, all against its monetary goals. After the introduction of flexible exchange rates, the influence of foreign factors greatly declined, despite the obligation to intervene on behalf of the European Monetary System. Nevertheless, there were still grave fluctuations, as for instance in 1980, when the balance of foreign-exchange payments ran a deficit of 25,7 billion DM, caused by measures to stabilize the exchange rate against the Dollar (see table 2).

3. Monetary policy under external influences

3.1 Dependence on the external economy during times of fixed exchange rates

Until 1973 the central bank had to stabilize the exchange rate by intervening on the foreign-exchange market. As the German experience shows, internally oriented monetary policy is inefficient under these conditions due to repercussions from the outside. This can be seen with great clarity at the beginning of the seventies. The commercial banks had a secondary liquidity by drawing back on foreign deposits and debts to such an extent that the central bank could no longer effectively control the expansion of the monetary base. Restrictive monetary policy had to be abandoned because of the huge inflow of foreign currency. The elasticity of the money supply in the relevant range was nearly infinite. As in the end the demand for money² solely determined the quantity of money, the central bank could not prevent the rise of inflation rates, which was caused by the economically destabilizing behavior of the public sector and the labor unions.

External disturbances caused additional problems for monetary policy. The persistent deficit in the balance of payments of the USA shook confidence in the value of the Dollar and sparked off unbridled speculation against the leading currency. This caused an enormous inflow of foreign currency into suspected revaluation-countries. The German central bank tried to neutralize the inflow of liquidity by changing the minimum required reserves and its open-market policy with non-banks. At the same time it attempted to stop the inflow of foreign currency by forward exchange

² See A. Oberhauser: Liquiditätstheorie des Geldes als Gegenkonzept zum Monetarismus, in: Kredit und Kapital, Volume 10, 1977, p. 207-232

transactions. However, these measures proved fruitless due to the lack of external back-up by flexible exchange rates.

3.2 Flexible exchange rates, restrictive monetary policy and stabilization crisis

The introduction of flexible exchange rates completely reshaped the range of action of monetary policy. Having been freed from the duty to intervene on the foreign-exchange market, the German central bank could, in the short run, reduce the liquid reserves of the commercial banks to nearly zero, by drastically raising the minimum required reserves and shortening the rediscount quota. This depleted the high-powered money potential of the commercial banks - a completely new experience for the German banking system. The commercial banks could from then on increase their volume of business only to that extent, to which the central bank provided them with high-powered money.³

Nevertheless, the central bank still had to remain aware of the external factors and consider their - mostly, but certainly not always supportive - influence on monetary measures. Contractive measures, for instance, will induce a revaluation, expansive ones a devaluation of the DM, changing the balance of current accounts in the desired direction. This has been confirmed by experience since 1973. As described in economic theory (J-curve effect), the surplus of the balance of current accounts still grew in 1974, despite the revaluation of the DM induced by a restrictive economic policy, and was then first sharply reduced in 1975 (see table 2).

During this phase of an internally oriented policy of tight money, the first oil crisis erupted. It was generally

³ D. Duwendag et al.: Geldtheorie und Geldpolitik, 2. Edition, Köln 1977, p. 287

expected that the rate of inflation would rise by about ten percent due to the hike in oil prices. During the wage negotiations in 1974, the labor unions sought to compensate this expected rise of prices by an equally high increase in wages. The employers accepted these demands believing that they would be able to pass the costs on through higher prices. These wage settlements were completely contrary to the goals and intentions of the monetary policy, which soon turned out to be quite disastrous.

The German central bank made use of its newly won action range and continued the policy of tight money, in order to try and keep the prices at bay. This course had a strong impact: Due to the limited supply of money, companies could only partially pass the higher costs on through their prices. They then reacted by reducing working hours and dismissals. The success of taming inflation had to be paid dearly for with unemployment. The expansive effects on employment from a temporary growing surplus of the balance of current accounts was not enough to bring about a counterbalance.

This unsatisfactory development may be explained by the fact that monetary policy cannot influence the actual cause of inflation, namely the increase in costs, but is only able to suppress changes in the level of prices indirectly and, with a considerable time lag, through unemployment. The central bank therefore risks a stability crisis if it acts against the inflationary expectations of social groups. A tight monetary policy is possible when it is protected from the outside by flexible exchange rates. However, with cost-induced inflation, this policy will not only influence prices, but also employment. Stagflation occurs.

3.3 Relief of monetary policy by revaluation

From 1975 to 1979 a real revaluation of the DM on the international foreign-exchange markets took place which hampered the international competitiveness of German industry. This - amplified by the second oil crisis - led to grave deficits in the German balance of current accounts over the next two years, and thereby, to externally caused impairment of production and employment. Because a further revaluation was expected to still increase the deficit, monetary policy had to answer the question of whether and how it could counter these external disturbances.

Real revaluations call for monetary actions especially when they occur suddenly and strongly. In those cases the central bank can limit the deflationary pressure of the exchange rate, without having to fear endangered price stability.⁴

The German central bank countered the rising exchange rate during the above mentioned period by allowing the monetary base to expand more than the 8 % that had been stipulated as the monetary goal. This did not, however, compensate the unemployment caused by the revaluation. At least it was shown during this period that money supply policy, when taking into account external influences, may be handled more flexibly than the strictly potential-oriented policy demanded by their advocates.

3.4 Monetary policy with rising interest rates in the U.S.A. and devaluation of the DM

While the rise in the real exchange value of the DM in the foregoing years was by no means coupled with a growing positive difference in interest levels, 1980 and especially

⁴ Sachverständigenrat: Jahresgutachten 1978/79, Stuttgart/Mainz 1978, l. 406

1981 showed a striking parallelism between the differences in interest levels and movement of the rates of exchange. The DM was devalued considerably while interest rates rose in the USA (see table 3). Obviously the rate of exchange had reached a level at which noone speculated on a revaluation that could have compensated the growing interest-gap. Capital owners interpreted the development of American interest rates as expression of an earnest attempt to stabilize the economy and not as a companion of accelerating inflation. The deficits in the balance of current accounts in the above mentioned years probably also contributed to the weaken confidence in the DM.

The oil-price-shock of 1979/80 and the subsequent devaluation would, in the eyes of the German central bank, endanger price stability from the outside. It then turned to a more restrictive policy, in order to counter the devaluation tendency and the resulting inflationary impulses. This orientation towards the exchange rate of the Dollar, while the economy was in low gear, was bound to come into conflict with the employment target. The internal rise in the rate of interest hampered private investment. The efforts to neutralize imported inflation had negative consequences on production and employment. This is a somewhat similar case to the above mentioned conflict of monetary policy with cost-induced price hikes.

Short-lived victories against inflation must be paid for with negative repercussions from the exchange-rate-conscious monetary policy on the state of the home economy. These repercussions may in the long run even endanger the aspired target of this policy, namely the stabilization of the exchange rate. If a policy of tight money induces a rise in interest rates, which impairs demand, production and employment at home, while the national product abroad expands (faster) at the same time, then earning prospects of capital investments abroad will be increasingly favorably

judged.⁵ This leads, as the German experience has shown, to an increase in net capital exports, which in turn tends to devalue the DM.

Considering this background, it is questionable whether or not monetary policy reacted adequately to the rising interest rates in the US and the resulting devaluation. If the strong Dollar had been mainly an expression of a different economic pace between the Federal Republic of Germany and the USA, then a more expansive economic policy, aiming at the unemployed, would have been more successful. Faster economic growth in the other countries would have tended to decline deficits in the balance of current accounts, net capital imports and the interest level in the USA - which would have stabilized the exchange rate of the Dollar.

3.5 High surpluses in the balance of current accounts with increasing interest gap

In spite of the monetary restrictions, the DM was devalued considerably, which improved the balance of current accounts quite rapidly after it hit bottom in 1980. Booming exports saw to it that production rose while unemployment stagnated, in spite of a fiscal policy seeking to reduce the budgetary deficit (see part IV). Inflation was curbed by a moderate wage policy. Due to its success in exports and in battling inflation, the Federal Republic could from 1981 onward, draw back step for step from the American level of interest.

The growing differences in interest rates did, however, lead to further devaluation of the DM against the Dollar (see table 3). Because this tendency continued for several years,

⁵ W. Filc: Dollarkursorientierung: Eine erfolglose Konzeption der Bundesbank, in: Wirtschaftsdienst 1984/IX, p. 445

the interest gap could hardly be explained by revaluation speculations concerning the DM. Furthermore the Dollar exchange rate did not agree with the difference in inflation rates.⁶ Because the expansive effects of the exchange rate on the economy were welcome at this stage, the German central bank abstained from monetary countermeasures in 1982/83. The internally oriented, slightly expansive monetary policy was, however, abandoned again in 1984 as the Dollar again rose sharply.

Once more it was feared, that rising import prices could endanger price stability. The problematic nature of the outward orientation of the central bank has been mentioned. The fruitless attempts to stabilize the exchange rate of the Dollar at the beginning of the eighties and the positive experience with unlinking from the American level of interest should have spoken against tightening the supply of money. There was an advantage with regard to inflation, therefore one could have reckoned with the trend of the exchange rate turning around, even with lower interest rates.

The chance to carry out monetary policy regardless of the rate of exchange was not taken in 1984/85. Only after the Dollar had lost in value considerably during 1985, did the German central bank reacted by carefully lowering the prime rate. The foregoing restrictions were, however, only partially recalled. Such conduct may lead to a hardening of the monetary framework in the long run, which would be contrary to the internal necessities.⁷

⁶ R. Pohl: Dollarkursschwankungen, Handelsströme und internationale Kapitalbeziehungen, in: Wirtschaftsdienst 1985/VI, p. 308

⁷ W. Filc: Dollarkursorientierung, op. cit., p. 445

3.6 Adaptions of exchange rates by synchronized measures of the central banks

The balance of current accounts'surplus for the Federal Republic had reached nearly 39 billion DM in 1985, which was almost twice the amount of the year before. The repeated improvement of the external economic situation helped to secure a notably higher notation of the DM on the foreign-exchange markets, especially against the generally weaker Dollar. The conference of the ministers of finance and the presidents of the central banks in New York on September 21./22.1985 led to a decline of the Dollar in leaps and bounds. This development continued in 1986 (see table 3).

The devaluation of the Dollar was made possible through synchronized Dollar-sales of the European central banks, the Bank of Japan and the American Federal Reserve Bank. Considering the enormous deficits in the American balance of current accounts, a devaluation of the Dollar was to be expected in any case. The interventions therefore did not try and push against the market development, but accelerated the necessary adaptionary process. This explains why the economically desirable adaptions of the exchange rates could be brought into effect quickly and lastingly.

Remembering earlier experiences with attempts to influence the value of the Dollar, which were less successful, some conclusions for currency policy may be drawn from the development in 1985/86:⁸

- Interventions on currency markets may strengthen an already visible trend, but will seldom be able to reserve one in the long run. Therefore they should only be used to give an additional push to the existing development.

⁸ W. Filc: Devisenmarktinterventionen zur Beeinflussung des Dollarkurses, in: Wirtschaftsdienst 1985/XII, p. 640

- Internationally synchronized measures with a signal function are more likely to succeed than isolated attempts of a single central bank, especially if the course of a major currency is to be influenced.
- It does not seem advisable to announce certain exchange rate targets, because this will lower the risk of foreign exchange and favor interest rate orientated capital movement. It would hardly be possible to unlink from a too high interest rate abroad any longer.
- Interventions on the foreign-exchange markets cannot replace the necessary harmonization of economic policy of the large industrial countries. The interventions will become untrustworthy if fundamental economic data continue to grow apart.

The devaluation of the Dollar has not yet led to a decline of the surplus in the German balance of current accounts. Due to the falling oil prices, this surplus has even grown. The expansiory effects on costs and demand due to less expensive energy imports could counter the contractionary impulse from the devaluation of the DM.

4. Relations between fiscal policy and the external economy

Fiscal policy and the financial economy are being influenced to a lesser degree by the external economy than monetary policy. This may be explained by the fact, that the relevant parameters of fiscal policy are only being affected indirectly, while those of monetary policy, like the monetary base, liquidity of banks and interest rates, are exposed to the direct influence of external events.

4.1 Externally influenced development of the state of the economy and the necessity for fiscal policy to act

Production and employment, volume and development of national product, are all being considerably influenced by the external economy, at least in such strongly internationally entwined economies like the Federal Republic or Japan. State revenue from taxes and social security contributions is, however, dependent not only on the volume, but also on the distribution and use of the (nominal) national product. Therefore it is no wonder, that fiscal policy will also be influenced to quite an extent by external factors.

The high growth-rates in exports in the fifties and sixties and the surpluses in the balance of current accounts caused by a low-valued DM probably were the strongest support for economic activity and growth. The first recession after the Second World War, that of 1966/67, was - if measured in quantitative effects on demand - rather overcome by a growing surplus in the balance of current accounts, than by the counter-cyclical measures of the government. Both actions complemented each other. Still, it must to be considered that the multiplier effects, which originate from public spending, are being reduced because part of demand falls on imported goods. This holds true especially for fixed exchange rates, while with flexible exchange rates this effect will at least be partially compensated by countering exchange rate adaptations.

As has been mentioned, the coaction of the growing balance of current accounts surpluses with terms of trade effects from the seventies and in the last few years has helped considerably to improve the state of the economy. In both periods the expansiory effects, which were supplied by the external economy, were, however, limited by the government's attempt to consolidate its budget and reduce the public deficit. This situation and the lack of coordination with wage policy are the reasons why the Federal Republic of

Germany has not been able to return to full employment since 1973. Unsatisfactory coordination of different areas of policy has been and still is the unsolved problem of German economic policy.

Opinions about adequate fiscal policy have diverged, though, strongly in the last years. Contrary to a demand-oriented policy and the locomotive-function, which the Americans want the Federal Republic of Germany to take, the government and quite a few economists believe in the policy of consolidating the budget - while expecting the economy to grow and reach full employment by itself. These expectations have been fulfilled only partially, in spite of growing net exports and booming investments. A lack of demand by the public sector acted contrary and prevented faster expansion. As soon as the revaluation of the DM takes full effect with imports and exports, further impairment must be feared, as Japan's monetary experience shows. The politicians do not realize, that additional public debt in a not fully employed economy, will, as long as it is being secured from the wage side, all in all consolidate itself (debt paradox).⁹ This implies at the same time, that reduction in public debt in the mentioned economic situation will only partially ease the burden on the public budget.

4.2 External influences on public income and spending

Apart from the viewpoint of the stabilization policy and the dependence of public income on the development of the national product, there are multiple interactions between the external economy and public income. In the present German taxsystem, surpluses in the balance of current accounts will tend to reduce public income, because exports

⁹ A. Oberhauser: Das Schuldenparadox, in: Jahrbücher für Nationalökonomie und Statistik, Volume 200, 1985, p. 333-348

are freed from net sales tax and no balancing takes place through the burdening of imports with net sales tax. Deficits in the balance of current accounts will, vice versa, reap additional income from sales tax.

These tax effects will be compensated more or less, if surpluses in the balance of current accounts are coupled with rising profits. This will happen if these surpluses do not lead to a decrease in private investment. In the Federal Republic of Germany growing surpluses in the balance of current accounts have almost always been coupled with an increase in investments, which led to a higher profit quota. Because profits are being taxed relatively more, this increased income from taxes.

Tax policy was also used while there were still fixed exchange rates, to balance the current accounts and to avoid variations in the exchange rate. The Big Coalition of 1968/69 tried to avoid a revaluation of the DM by levying a special sales tax on exports and granting a sales tax reimbursement for imports. The quarrel over these measures - K. Schiller, then minister of economic affairs was for revaluation, while F.J. Strauß, then minister of finance was against it - played its part in the break-up of this coalition. The revaluation of the DM, which followed after the election victory of the social-liberal-coalition, meant only a breather before the collapse of the Bretton-Woods-System.

Other measures of fiscal policy, as well as measures of monetary policy, were employed to try and keep capital imports out of the Federal Republic. In 1965, for instance, a coupon tax on income from interest of bonds held by foreigners was introduced. This proved unsuccessful, however, because international speculative capital cannot be deterred by taxes on earnings. The minimum necessary would have been a special tax on revaluation-profits.

Public spending will only influence the balance of payments to a small extent. The surpluses in the balance of current accounts of the Federal Republic of Germany have induced the Allies more than once to urge the German government to carry a larger piece of the costs of the stationing of troops in the Federal Republic. Moreover, during the times of fixed exchange rates, there was pressure to increase imports by public expenditure abroad, especially by buying equipment for the German army.

Even development aid was granted while keeping an eye on the balance of payments. It is possible to influence the balance of payments and internal demand to some extent by spending development aid either abroad or in the inland.

4.3 Public debt and international interest rate connections

The interrelationship between inland public debt and the international interest level is especially important. On the one hand public debt may influence the international level of interest. On the other hand the interest load that must be carried will depend on the interest level at home, which is influenced by the international level of interest.¹⁰

Experience in the Federal Republic of Germany and the USA, as well as other countries, shows, that higher public debt does not, against traditional conceptions, have to lead to higher interest and less debt need not lead to lower interest. Public debt in the Federal Republic of Germany, for example, has more than doubled from autumn 1974 to spring 1978, while capital market interest rates were halved; at the same time the quota of private investment rose. Prerequisite for such development is that private saving adapts to growing private investments, public debt and the balance of current accounts by changes in the

¹⁰ Excluding the country's foreign debt

national product and the distribution of income, especially by a growth in profits. Whether this happens, depends on monetary and wage policy.¹¹

It is therefore not possible to say in advance how interest rates will react to changes in public debt. Influences on interest rates, as well as effects on prices and production, by additional public debt are important for international capital movement. Apparent contradictions become explainable. Two examples may be quoted.

Due to the almost infinite elasticity of the money supply during fixed exchange rates, public debt could be expanded during the recession 1966/67, with declining interest rates, while the surplus of the balance of current accounts and thereafter private investment rose considerably. This caused an "explosion" of profits, which tempted the labor unions to enforce wage increases that were not balanced by an equal rise in the amount of goods available. This led to inflation at the beginning of the seventies. The changeover to flexible exchange rates in 1973 made restrictive monetary policy possible. This led to the formerly described stability crisis, which has not yet been overcome.

Inflation in the USA was also only stopped by exorbitant rises in interest rates and a stability crisis in the beginning of the eighties. The expansion of public debt and private investment led to exploding profits, despite the high deficit in the balance of current accounts. As has been shown, the German central bank did not think it possible to unlink from the rise in international interest rates. For the German government this meant that it had to accept a heavy burden of interest payments, not only for the new debt, but also, due to the short-termed nature of German

¹¹ A. Oberhauser: Änderungen in der Einkommensverteilung und Zinsbildung. Eine notwendige Ergänzung der Zinstheorie. This article will appear soon in the Festschrift for Claus Köhler.

government securities, soon enough for the whole of public debt. Interest payments by the public sector grew rapidly and thereby limited the fiscal action range of the governmental units severely.

5. Concluding remarks

It was the purpose of our deliberations to show that the external economy, monetary policy, and fiscal policy are entwined in many and close ways. We could only discuss the most important ones. Rational policy will always have to consider them. It would be a fallacy to think that the changeover from fixed to flexible exchange rates will make solely internally orientated stabilization and economic policy possible. This is even true for the USA, and much more for countries who are as internationally so strongly entwined as the Federal Republic of Germany and Japan.

Table 1: Export, Import and Net Exports

Year	Exports ¹	Imports ¹	Ex ./. Im
	in Percent of National Product		
1960	20,0	17,4	2,6
1961	19,1	16,9	2,2
1962	18,4	17,2	1,2
1963	18,9	17,4	1,5
1964	19,0	17,6	1,4
1965	19,0	19,0	0,1
1966	20,2	18,7	1,5
1967	21,6	18,0	3,5
1968	22,5	18,8	3,7
1969	23,0	20,0	2,9
1970	22,6	20,5	2,1
1971	22,6	20,6	2,0
1972	22,4	20,3	2,2
1973	23,6	20,5	3,1
1974	28,3	23,8	4,5
1975	26,3	23,4	2,9
1976	27,4	24,9	2,6
1977	27,2	24,7	2,4
1978	26,7	23,8	2,9
1979	27,0	26,2	0,8
1980	28,4	28,6	-0,2
1981	31,2	30,2	1,0
1982	32,4	30,1	2,3
1983 ²	31,4	29,1	2,3
1984 ²	33,5	30,6	2,9
1985 ²	35,2	31,3	3,9

1 Goods and services, including earned and unearned income

2 Preliminary results

Source: Sachverständigenrat

Table 2: Balance of Current Accounts, Balance on Capital Account, Balance of Foreign-Exchange Payments and Terms of Trade

Year	Balance of Current Account	Balance of Capital Account	Balance of Foreign- Exchange Payments ¹	Terms of Trade ²
	in Mill DM			
1960	4783	1272	8019	94,0
1961	3193	- 5009	- 2297	98,6
1962	- 1580	- 597	- 877	104,8
1963	991	620	2740	133,2
1964	524	- 1325	435	109,9
1965	- 6223	2142	- 1283	109,0
1966	488	- 599	1952	111,6
1967	10006	- 11848	- 140	115,8
1968	11856	- 6125	7009	115,2
1969	7498	- 18679	- 14361	114,4
1970	3183	15113	22650	117,0
1971	2770	10884	10986	120,0
1972	2731	11932	15195	123,0
1973	12354	13143	16149	120,4
1974	26581	- 25298	- 9136	109,2
1975	10024	- 13282	3260	114,9
1976	9859	- 337	1301	109,7
1977	9479	33	2570	108,6
1978	18002	5577	12185	112,9
1979	- 11030	10661	- 7288	106,8
1980	- 28479	3909	- 25730	100,0
1981	- 11740	8540	1278	93,4
1982	9867	- 4552	2667	96,9
1983	10574	- 15754	- 1644	98,5
1984	19894	- 32044	- 981	96,3
1985	38816	- 46817	- 1261	

1 Change in net foreign assets of German central bank. Valued in balance quotations from 1982.

2 Index of export-means in percent of index of import-means. 1980 = 100)

Source: Deutsche Bundesbank
Sachverständigenrat

Table 3: Foreign-Exchange Quotations, Interest Level, Difference in Interest Rates: FRG and USA

Year	Exchange Rate of US \$ in DM	Government Bond Yields		Difference in the Level of Interest between the USA and the FRG in Percentage Points
		FRG	USA	
1979	1,83	7,4	9,3	1,9
1980	1,82	8,5	11,4	2,9
1981	2,26	10,4	13,7	3,3
1982	2,43	9,0	12,9	3,9
1983	2,56	7,9	11,3	3,4
1984	2,85	7,8	12,5	4,7
1985	2,94	6,9	11,0	4,2
1985 March	3,31	7,6	12,1	4,5
June	3,06	6,9	10,6	3,7
Sept.	2,84	6,3	10,8	4,5
Dec.	2,51	6,5	9,8	3,3
1986 March	2,26	5,9		
June	2,24	5,9		

Source: Deutsche Bundesbank, International Financial Statistics