

REPORT _____



1997

National Bank of Belgium



REPORT



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National Bank of Belgium



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REPORT PRESENTED BY THE GOVERNOR ON BEHALF OF THE COUNCIL OF REGENCY¹

INTERNATIONAL ENVIRONMENT

The world economic situation presented a mixed picture at the end of 1997. Stimulated by a strongly performing American economy and with the business revival gathering pace in Europe, economic growth in the OECD area as a whole rose slightly further, from 2.8 p.c. in 1996 to 3 p.c. in 1997. Against this, however, was the weak economic performance of Japan, aggravated by the spreading consequences of the financial crisis in a number of Asian emerging industrial countries. In Japan the growth rate therefore fell off sharply from 3.5 p.c. in 1996 to barely 0.5 p.c. in 1997. The turmoil which developed worldwide on the financial markets as a result of the Asian crisis is undoubtedly casting a shadow over the growth prospects for 1998. To what extent these increased risks will materialise largely depends, however, on the policy response to the destabilising forces which have come to light.

The spectacular growth experienced by a number of South-East Asian countries during the last decade was to a great extent due to strong investment activity and to the expansion of their foreign trade, which were, however, accompanied by growing deficits on their current accounts. These developments were made possible by the plentiful contribution of resources from abroad. Foreign direct and portfolio investors were in fact attracted by the combination of high yields and apparently limited exchange rate risks as a result of the pegging of many Asian currencies to the dollar. For the same reason domestic enterprises

chose to take up loans in dollars, without covering themselves sufficiently against the exchange risk. However, the sharp appreciation of the dollar from 1995 onwards eroded the competitiveness of these countries. As a result, their exports came under pressure while their imports went on increasing, leading to a further aggravation of their balance of payments problems and revealing considerable industrial overcapacity. In several of these countries, furthermore, there was an excessive and insufficiently controlled expansion of bank lending for the benefit of the speculative real estate sector, large-scale infrastructure projects and associated industrial conglomerates, in the course of which the local financial institutions exposed themselves to considerable risks.

When, around the middle of 1997, market sentiment regarding some of these dynamic Asian economies suddenly changed, that gave rise to a succession of sharp currency depreciations and equity market declines, which starkly revealed the fragility of their financial systems. For a while it looked as if the crisis would remain a regional problem, but, as the financial problems spread to countries of much greater economic weight, such as Korea, it was increasingly realised that the risk of propagation of the contagion in the rest of the world was not imaginary.

In order to stem these heightened system risks, the international community, led by the IMF and the World Bank, has once more come to the rescue with substantial support packages. However, these credits can, and must, only offer temporary relief, by enabling the beneficiary countries to meet their short-term commitments and take the most urgent rehabilitation measures. At the same time it

¹ One regent was unable to concur with a number of views expressed on the pages 17 to 20 of this preface.

should be ensured that, in addition to the assistance from official quarters, the private banking sector, too, shoulders its responsibility for safeguarding the international financial order. While government regulation and supervision can contribute to the control and transparency of credit risks, it would be morally unacceptable that those who actually take these risks should not ultimately have to bear their consequences.

In order to re-establish healthier economic and financial conditions in the countries affected, which still undoubtedly possess substantial growth potential, the primary need is for the adoption of decisive consolidation and restructuring measures at home. A suitable proportioning of their budgetary and monetary policy can make an important contribution to the restoration of macroeconomic equilibrium and must be aimed at, among other things, reducing reliance on external saving, preventing excessive currency depreciations and combating the inflationary consequences of the depreciations which have already taken place. In addition, there is an urgent need for structural reforms in the financial sector, for more appropriate prudential supervision in that field and for transparent governance structures in both the public and the private sector.

Even apart from the consequences of the Asian crisis, it was already clear that, owing to the disappointing domestic demand in 1997, Japanese economic growth would slow down considerably to around 1 p.c.; more recently these growth estimates have been adjusted further downwards to about 0.5 p.c. The fragility of the economic recovery in Japan is also highlighted by the fact that the scope for boosting the economy via the traditional monetary and budgetary channels has become very limited. For some time now, the Japanese monetary authorities have been pursuing a very easy monetary policy with particularly low interest rates which leave little room for further reductions. While that has admittedly contributed to the downward correction of the effective exchange rate for the yen and to the improvement in the Japanese trade balance, it has done little to benefit domestic spending. After an expansionary budget policy

had been pursued for several years without any lasting success, priority was given from the end of 1996 onwards — partly owing to the structural deterioration in the Japanese public finances — to consolidation. In view of the sharp slowing of growth, the Japanese Government decided at the end of 1997 to change its course again and introduce new stimulation measures, but this time with greater emphasis on tax reforms and deregulation to the advantage of small and medium-sized enterprises and the building sector.

The persistent problems of the Japanese financial sector also came to the fore again as a result of the financial crisis and the wave of depreciations in East Asia. This additional uncertainty factor threatens to make the economic recovery in Japan still more fragile and makes it harder to arrive at a proper policy mix.

The precarious economic situation of Japan and other Asian countries contrasts with that of the United States and Europe. The American economy again performed particularly strongly in the past year. In comparison with 1996, economic growth increased on average by a full percentage point to 3.8 p.c., the highest figure since 1988. According to the traditional standards, the American economy is thereby clearly above its trend growth potential. Contrary to expectations, wage and price developments have nevertheless remained particularly muted, which appears to indicate that the imminent inflation risks have up to now been averted by compensatory supply-side factors. On the domestic plane these include the strong financial position and brisk investment activity of enterprises and the rising productivity, whereas elsewhere in the world there was still enough spare capacity to meet the strongly growing demand from the United States without any upward pressure on prices. The appreciation of the dollar actually led to falling import prices and thus gave rise to an improvement in the terms of trade which constituted a counterpoise to the worsening of the trade balance in volume terms. The large and persistent current account deficit of the United States — which stood at 2.1 p.c. of GDP last year — does however remain a weak point, as the savings deficit of

such a large economy is a burden on the resources which could otherwise have been used productively elsewhere in the world.

The strong economic performance of the United States is partly attributable to the cautious macroeconomic policy which is being pursued there. Over the last few years a steady reduction of both the actual and the cyclically-adjusted budget deficits has thus been achieved. In the year under review the overall government account was actually balanced. While the intention is to create some margin for tax reductions in the near future, at the same time the White House and Congress have agreed to aim at achieving a budget surplus by 2002.

Against this background of virtually balanced public finances and the absence of clear inflationary tensions, the Federal Reserve was able to maintain almost a status quo in its monetary policy. Only in March was the Federal funds rate raised slightly by a quarter percentage point to 5.5 p.c. Nevertheless, the monetary authorities have continued to keep a close watch on financial and economic developments and, in particular, have expressed their concern about the exuberant price movements on the stock markets.

Particularly in countries such as the United States, where share ownership is widely spread and where the flourishing economy tends to reduce investors' risk perception, such developments can give rise to a specific form of inflationary pressure. For capital gains, whether realised or not, may induce households to incur additional expenditure on consumption, while enterprises can attract risk capital more easily and cheaply for financing their investment projects. The danger that an economy which is already running flat out will thus become overheated is not imaginary. In so far as the price adjustments and the greater volatility that dominated stock market developments in the second half of 1997 helped to make investors more cautious, these perhaps had a salutary effect.

In the European Union the recovery of growth, which had already started in 1996,

strengthened further. Impelled by the combination of vigorous foreign demand and the improved competitiveness of the European export sector due to the appreciation of the dollar, exports were the major growth factor practically all over Europe. Gradually the recovery also received more support from domestic expenditure. Under the stimulus of encouraging sales and profit prospects and against the background of low interest-rate levels and rising utilisation rates, enterprises in most EU countries have stepped up their investment activity. In a few large countries, however, such as Germany, France and Italy, investment by enterprises got going hesitantly and is expected to make a significant contribution to GDP growth only from 1998 onwards.

Increasingly, households, too, appear to be regaining their confidence. That has been clearest in those countries where the recovery is already further advanced and where the growth in employment and the rise in real disposable income are inducing households to step up their consumption spending. Generally those are also the countries where the rehabilitation of the public finances was tackled earlier, or more vigorously. Illustrative examples are Denmark, Ireland, the Netherlands, Finland and the United Kingdom. Their experience teaches that sustained and credible budgetary efforts do not necessarily have a deflationary effect but, on the contrary, help to create a climate of confidence which generally has a positive impact on economic growth and employment more quickly than expected. It was again in Germany and France that, partly owing to the high and still increasing unemployment, private consumption lagged far behind. According to recent indicators, however, a turnaround is in the offing there, too.

The quickening of growth in the European Union, from an average of 1.7 p.c. in 1996 to 2.6 p.c. in 1997, was thus rather unevenly spread among the individual Member States. Nevertheless, the underlying motive forces behind the recovery are generally operating in the same direction. The gradual strengthening of the domestic demand components — in

the course of which investment is preceding the picking-up of household expenditure — thus offers the prospect, in the coming two years, of sustained growth with moderate inflation risks. In addition, most EU countries have made good progress in the achievement of a more balanced policy mix.

In view of the convergence requirements laid down for participation in monetary union, quite a number of Member States have made additional efforts to reduce their budget deficits. Thus, for the Union as a whole, the average public deficit last year fell below the 3 p.c. norm; it is estimated to have amounted to 2.6 p.c. of GDP, against 4.2 p.c., still, in 1996. This overall satisfactory outcome does not alter the fact that in some countries the public finances were still under pressure from disappointing domestic economic developments and high unemployment figures. That applies particularly to Germany, France and Italy, where the public deficit in 1997 was brought down to around the 3 p.c. limit only with difficulty and partly thanks to special measures of a temporary or non-recurrent nature. The ongoing economic recovery offers a suitable opportunity for taking, where necessary, supplementary structural rehabilitation measures in order to put the public finances on a sustainably sound footing. Where the consolidation process is already well advanced, it might be sufficient to allow the endogenous budgetary dynamics to work their way through in order to create, over time, the required scope for more flexible use of the budgetary instrument.

The convergence efforts made on the plane of inflation and public finances have also borne fruit in the financial sphere. Evidence of this is provided both by the striking convergence of long-term and short-term interest rates towards historically low levels for many countries and by the stable exchange rate relationships within the European exchange rate mechanism.

Although price developments in the European Union remained generally favourable during the year under review, the monetary authorities' policy reactions did not run par-

allel everywhere. Owing to the quite long period which elapses between the time when a policy change is decided upon and the point when these measures actually begin to take effect in the real economy, central banks tend to be led more by expected future inflationary risks than by present price developments. That explains why a few central banks of countries where the business cycle was already further advanced, more specifically those of the United Kingdom, Ireland and to a certain extent also Finland and the Netherlands, took a more restrictive policy course or at least acted earlier. In the Southern European countries, on the contrary, where the disinflation process is still going on, it was possible for the gradual relaxation of monetary policy to be continued, so that short-term interest rates there converged further towards the much lower interest levels prevailing in the core countries of the European exchange rate mechanism.

In this last group of countries, where the tone is set by Germany, it was not until mid-October that a policy adjustment — albeit moderate — was decided upon. Against the background of faster-than-expected growth and an appreciated dollar exchange rate, six central banks decided to jointly raise their key interest rates by 20 to 30 basis points to bring them — in most cases — to an equal level of 3.3 p.c. At least as important as these interest-rate changes themselves, which represented rather a correction from a fairly expansionary monetary policy stance to a more neutral policy course, was the fact that it was a common and aligned initiative by a large group of countries which, individually and on the basis of purely domestic considerations, might have acted otherwise. This concerted action could therefore rightly be viewed as a foreshadowing of the common monetary policy such as will be pursued in the future euro area. Because, as stated, monetary policy measures only produce their effects with a time-lag, the policy course taken at present will in fact be a determining factor for the maintenance of price stability in the third stage and thus also for the reputation and credibility of the future European Central Bank.

PROGRESS TOWARDS ECONOMIC AND MONETARY UNION

The European Union is preparing to enter the third and final stage of Economic and Monetary Union (EMU) on 1st January 1999. What is expected to be a large group of countries will then renounce their monetary sovereignty and introduce a new, common currency — the euro. That is an unprecedented challenge which is sometimes still viewed with amazement outside Europe. For it means that monetary instruments such as the exchange rate and the level of interest rates will no longer be available for purely domestic purposes. That partial loss of national policy autonomy does not, however, need to pose any unsurmountable problems, provided that the economic characteristics of the participating countries are sufficiently attuned to each other, that macroeconomic policy within the monetary union is appropriately co-ordinated and that the necessary discipline and flexibility are displayed in other policy areas.

In order to give shape to the first condition it was laid down from the outset that the countries wishing to participate in monetary union must beforehand have achieved a high degree of economic and monetary stability. The well-known convergence criteria have been formulated for this purpose. Around the beginning of May, the European Council, in the composition of the heads of state and of government, will decide which Member States are ready to enter monetary union. There is no point in anticipating this decision here, particularly as the relevant Treaty provisions leave some room for judgment in assessing compliance with some of these criteria and as, more generally, the durability of the degree of convergence achieved also needs to be evaluated. Nonetheless, account being taken of the considerable progress made by nearly all the Member States last year, there is a good chance that the great majority of the Member States that are willing to participate will be able to do so right from the start. This opinion also appears to be increasingly subscribed to by the financial markets. Apart

from in Greece, Sweden and the United Kingdom, long-term interest rates lay at the end of 1997, in all Member States, within a narrow band of 40 basis points around the German level and, with the exception of the Irish punt, all currencies participating in the European exchange rate mechanism have been moving for some time within very narrow margins vis-à-vis their central rates with the German mark.

Participation by a few Member States which had a less strong tradition regarding price stability needs not necessarily be an impediment to the smooth functioning of monetary union. If they are subject to the disciplining effect of monetary union from the outset, that could benefit the viability and stability of the single market as a whole. Furthermore, it must be borne in mind that most of these countries have by now reached an inflation level which is comparable to or even lower than that in Germany and some other hard-core countries. There is thus no reason to assume that their participation would introduce an inflationary bias in the euro zone which would oblige the European Central Bank (ECB) to pursue a more restrictive monetary policy than would otherwise have been the case.

A second important question is to what extent the countries adopting the euro may be subject to asymmetrical shocks and what means they still possess for combating them, if need be. In that connection it should first of all be observed that, owing to the interweaving of the European economies, cyclical movements have already become a good deal more synchronous, although — as became apparent again last year — differences in the economic cycles can nevertheless still occur. The expectation is, however, that the convergence within the monetary union will increase still further on this point, too. Moreover, the economic integration in the European Union, contrary to, for instance, in the United States,

appears to have led to diversification of the regional economic structures rather than to specialisation. Together with the attainment of a high degree of internal monetary stability, these are developments which may appreciably reduce the vulnerability of the euro zone to asymmetrical shocks.

This does not alter the fact that, within EMU, as within the frontiers of each country individually, divergent economic developments can still occur. It will no longer be possible to resort, in order to deal with these, to a differentiated use of the monetary policy instruments (interest rates and exchange rates); though it should be recalled that in relatively open economies the effectiveness of these instruments is already greatly restricted anyhow. The burden of adjustment will thus come to lie even more than hitherto on appropriate budgetary and economic policies. In this connection, it will be necessary to seek to bring about consistent cost developments in the participating countries, which calls for properly functioning labour and goods markets, as well as the adoption of structural measures.

On the plane of budgetary policy there is a simultaneous need for more cyclical scope for manoeuvre and better co-ordination with monetary policy, in order to create a consistent policy mix. That is precisely the aim of the Stability and Growth Pact, on which a final agreement was reached at the European summit in Amsterdam at the end of June 1997. By that pact the Member States undertake to keep their budgets close to balance on average over the medium term, in order to create scope for allowing them to fluctuate according to cyclical requirements in the shorter term. In this way the so-called automatic stabilisers could be allowed to play their anti-cyclical role without the deficit — save in exceptional circumstances — exceeding the reference value of 3 p.c. of GDP.

Economic integration and the single currency will also have a bearing on the frame of reference within which the national governments operate. That framework will increasingly acquire a European dimension of which

the policy-makers will have to take account when setting tax rates, regulating labour relations or influencing business activity. More generally, there will be increased pressure for seeking to achieve greater efficiency in public expenditure and revenue. That process, while salutary in itself, might however turn into unhealthy fiscal and social competition. There is therefore a need for increased co-ordination and harmonisation, especially in order to prevent the proper operation of the internal market from being disturbed, the revenue base of the Member States from being eroded — thus jeopardising the process of budgetary consolidation — and the fiscal and parafiscal burden from weighing too lopsidedly on the least mobile factor of production, namely labour. A first, albeit very partial, step in this direction was taken when the Ecofin Council adopted a « code of conduct » for company taxation.

Like budgetary policy, employment policy also continues to belong primarily to the sphere of responsibility of the national authorities. However, while budgetary policy is already subject to concrete and strict multilateral surveillance procedures, the employment problem has up to the present only been addressed by general declarations of intent and non-binding policy recommendations. This discrepancy partly reflects a lack of agreement on the strategy to be pursued in combating unemployment, both between the Member States and within the Member States themselves. Owing to the extent and the structural roots of the unemployment problem, which has important implications for the public finances, there is however the danger that over time it may jeopardise the cohesion of EMU itself. The decision taken at the Amsterdam summit to make employment policy a matter of common concern and to work out procedures for closer surveillance of the Member States' policies must therefore certainly be considered valuable. That initiative was appropriately followed up at the extraordinary employment summit in Luxembourg in November 1997. It was decided there to introduce a co-ordinated employment strategy which is very similar to the method that is being followed for economic convergence. Thus, the Member States are

required to draw up, every year, a multiannual action plan for employment in which they translate the guidelines established by the Council into concrete national objectives and measures. These action plans and the associated follow-up reports will subsequently form the subject of an annual multilateral surveillance procedure.

Undoubtedly EMU will further tighten the economic and financial bonds between the Member States, make competition keener and stimulate structural adjustments. Even more than in the past, Member States' economic policies will thus have cross-border effects and play their part in determining the inflation prospects and the overall monetary situation in the euro zone, and therefore also the external value of the euro. All this calls for intensification of economic policy co-ordination and of the common surveillance of that policy. At the Luxembourg summit a number of arrangements have already been made to this end. The increased interdependence of budgetary and monetary policy moreover argues in favour of a dialogue between the Ecofin Council and the ECB in the third stage. Provided that it does not detract from the ECB's primary task, namely the maintenance of price stability for the euro zone as a whole, such a dialogue is likely to strengthen, rather than weaken, the independent status of the ECB.

These more politically tinged questions must not, however, cause it to be lost sight of that considerable progress was also made last year with regard to the many practical preparations for the introduction of the euro and the transition to a single monetary policy. Thus, the European Monetary Institute completed the specification of the operational and logistic framework which the European System of Central Banks (ESCB) needs in order to perform its tasks properly. An important milestone in this respect was the publication, in September 1997, of the «General documentation on ESCB monetary policy instruments and procedures», in which a detailed description is given of how the ESCB will implement monetary policy in the third stage. At the moment, the preparation of the asso-

ciated legal documents and ECB regulations is being completed. The creation of a high-performance information and telecommunications network for the exchange and processing of the complex information flows within the ESCB is also making good progress.

The remaining task is to make sure that the transition to the third stage of EMU takes place as smoothly as possible. The ongoing recovery of economic activity in Europe, coupled with, on the whole, moderate inflation prospects, offers a favourable starting position. Ensuring a credible start of EMU also requires that the conversion rates at which the national currencies will be locked into the euro shall be in accordance with the economic fundamentals of the participating countries. The fact that nearly all the currencies participating in the exchange rate mechanism have by now moved spontaneously towards their bilateral central rates indicates that the financial markets look upon these parities as a valid foreshadowing of the definitive conversion rates.

At the informal meeting of the Ecofin Council which took place in Mondorf-les-Bains, Luxembourg, in September 1997, the ministers of finance and the central bank governors agreed that the bilateral exchange rates which will serve as the basis for determining the conversion rates for the euro shall be announced immediately after the decision concerning the countries participating in EMU, i.e. on 3rd May 1998. This measure is aimed at helping to prevent the occurrence, during the interim period between the decision on the composition of EMU and its actual start on 1st January 1999, of continued speculation on the rates at which the participating currencies will be locked in. This will lead, *de facto*, to a sort of pre-monetary union, in which the national central banks will have to closely attune their monetary policies to each other. With regard, in particular, to interest-rate policy during the interim period, a delicate balancing exercise will be required in order to steer short-term money market rates in each Member State towards the common level which, at the beginning of the third stage, offers the best guarantees for

the maintenance of price stability in the euro zone as a whole. What that level will be is difficult to predict at present, as inflation prospects may undergo further changes in the course of 1998. The aim must, however, be to give the euro the same credibility as the strongest currencies have now, so that short-term interest rates should be able to converge not so much towards an average but rather towards the lowest possible level.

During the coming months the national central banks will also have to consider their future external reserve requirements. At present the external reserves held by the European Union as a whole are about three times as great as those of the United States. Upon the introduction of the euro, a part of these, which is now still denominated in European currencies, will be automatically converted into euros and thus into domestic assets. The remaining amount will, however, be amply sufficient to meet the real needs.

It should have become clear from the foregoing that the economic and institutional foundations for making the euro an intrinsically stable and sound currency are in place. It is now incumbent on the policy-makers to ensure, by the maintenance of a healthy policy mix, that EMU shall actually become a zone of internal stability, with lastingly lower interest rates.

But Europe is not, of course, alone in the world. Because the euro area will be a large and relatively closed economy whose weight

in the world economy and whose degree of openness will be comparable to those of the United States, the external value of the euro — in other words, its exchange rate vis-à-vis other major currencies such as the dollar and the yen — will however be of subordinate importance for domestic price developments and will thus not constitute a decisive policy variable for the ECB, either. Some observers consider that they can deduce from this that more «internal» stability in Europe might possibly go hand in hand with more «external» instability. Against this, however, there is the fact that the endeavour to achieve a balanced policy mix, consisting of the combination of a monetary policy aimed at internal price stability and an orthodox budgetary policy, is also clearly present in the United States, for example. Moreover, with the arrival of the euro the dollar will doubtless lose part of its dominance in international trade, on the financial markets and as a reserve currency. That means that the exchange rate for the dollar against the euro will probably become a more important economic factor for the United States than is now the case for the dollar rate in relation to the separate European currencies. This shift towards a multipolar international financial system might thus smooth the way towards closer monetary and economic co-operation at world level. Leaving aside exchange rate fluctuations connected with fortuitous factors or with divergent cyclical developments between the big economic areas, the outcome as regards the external volatility of the euro might well turn out to be better than expected.

ECONOMIC DEVELOPMENTS IN BELGIUM

Growth and inflation

Developments as regards economic activity and prices were satisfactory in 1997, partly thanks to the orthodox macroeconomic policies pursued in Belgium as in other countries of the European Union. The tendencies revealed the previous year persisted in many respects.

Thus the expansion, which had become more vigorous again in 1996, continued and strengthened in 1997. Annual GDP increased by 2.7 p.c. The growth in exports and in investment by enterprises remained high, while that in private consumption accelerated further and investment in housing picked up again. By the substantial contribution of domestic expenditure to growth, of around 2 percentage points, Belgium's situation came closer to that of the Netherlands, whereas in Germany, and especially in France, the expansion was still to a great extent based on net exports of goods and services.

During the last few years, Belgian enterprises have been able to derive full advantage from the strengthening of foreign demand. The growth in their exports and, more recently, the revival in their domestic sales, which have pushed up the degree of utilisation of production capacities to a record level, as well as the continuous improvement in their average profitability and the fall in long-term interest rates, have induced enterprises to step up their fixed capital formation. A factor tending to strengthen potential growth, this sharp expansion in investment, which has spread to the service sector, is set to continue: the conditions for it remain present in terms of demand, average profitability and credit costs; furthermore, the global financial structure of companies has improved steadily during the last five years.

The behaviour of individuals also bears the marks of the policies of monetary stability,

budgetary consolidation and wage moderation. With a growth rate of 2.1 p.c., private consumption in 1997 increased considerably more than disposable household income, which went up by about 0.7 p.c. in real terms. This further fall in the savings ratio can only partly be attributed to the decline in the share of incomes from property, of which a larger proportion is saved than is the case with earned income, and to wealth effects connected with the rise in share prices, which are traditionally weak in Belgium. It thus doubtless also reflects an increase in confidence connected with the improved prospects regarding employment and the public finances. This strengthening of confidence and the relatively low level of mortgage lending rates since the end of 1995 have furthermore contributed to the revival of expenditure on housing.

The economic growth has not until now been accompanied by any resurgence of inflation. The rise in the consumer price index was actually held down to 1.6 p.c. in 1997, representing a slackening of 0.5 percentage point, which was mainly due to smaller increases in indirect taxes. Underlying inflation, measured by the movement of this index excluding the incidence of changes in indirect taxation and of the most volatile prices, was only 1.3 p.c. Since 1994 it has remained constantly between 1 and 2 p.c., a level generally regarded as corresponding to price stability. This result has been achieved mainly thanks to the absence of increases in unit labour costs in enterprises. Vigilance is still necessary, however: as the utilisation of the economy's production capacities increases, the rise in import prices, largely due to the appreciation of the dollar, should not be allowed to push up domestic prices.

Employment

The fall in unemployment, defined as the number of unemployed persons actually look-

ing for a job, continued in 1997, but rather slowly: the unemployment rate stabilised at first and only started to decline again from September onwards.

In December 1997 the unemployment rate in Belgium, at 9.3 p.c. according to the provisional data, was lower than those observed in France and Germany but higher than that of the Netherlands. This rate, which is arrived at on the basis of harmonised EC surveys, does not include persons who have ceased to be active job-seekers and does not provide a proper measure of the burden which the deficiencies of the labour market impose on the public finances, especially in the form of benefit payments to non-job-seeking unemployed persons and persons taking early retirement. The ratio between the number of employed persons and the population of working age was only 56.3 p.c. in mid-1997, against about 60 p.c. in the neighbouring countries and over 70 p.c. in several other OECD countries, such as the United States, Japan, the United Kingdom and Denmark.

As in most European countries, promoting employment is a priority in Belgium. That it is not sufficient to await the effects of the cyclical upswing has become a widely shared conviction, supported both by observation of the past and by analysis of the composition of the unemployed population. Although its labour-intensiveness has improved since the mid-1980s, economic growth has seldom enabled net job creations in enterprises to exceed the growth in the labour force, measured before early retirements; this has only been the case in 1988, 1989 and 1995. Moreover, the employment rate of the population of working age, which has reached a low in 1984, has risen by only 2.3 percentage points since then. Also the high proportion of long-term unemployment, which went on increasing in 1997, and the disparities in unemployment rates according to region, sex and level of skill or experience suggest that the problem cannot be solved by the general growth in activity alone.

It is not the intention here to describe in detail the many elements of a global employ-

ment-promotion strategy, which, in Luxembourg in November 1997, the European Council grouped around four main lines of action: improving employability, developing entrepreneurship, encouraging adaptability of businesses and their employees, to enable the labour market to respond to economic changes, and strengthening equal opportunities policy. But the importance and complementarity of a framework which favours economic dynamism, of moderation of labour costs, of a raising of levels of skills and of certain forms of redistribution of work are worthy of emphasis.

A context of macroeconomic stability is essential for the development of the spirit of enterprise and of job-creating investment. The experience of the 1970s shows in particular that to act in favour of employment to the detriment of the consolidation of the public finances would be a short-sighted policy. Monetary and budgetary discipline, which will be the rule in the European monetary union, is conducive to limiting uncertainties, keeping long-term interest rates as low as possible and creating a climate of confidence. Economic dynamism should furthermore be stimulated by structural reforms conferring sufficient flexibility on the markets for goods and services, by support for research and development efforts and by simplification of the administrative burdens imposed on enterprises, especially small and medium-sized ones.

Moderation of the rise in labour costs, together with redistribution of work, remains the key to stepping up the employment-intensiveness of growth. For it curbs the replacement of labour by other factors of production and allows the development of additional services, including for the satisfaction of new social needs. Moreover, in-depth analysis of past developments shows that it does not harm growth: the pressure on demand which might result from a slower increase in the disposable income of individuals is actually counterbalanced by the expansion of sales abroad and the reorientation of domestic demand towards resident enterprises resulting from the strengthening of their competitive position, as well as by the improvement in

the confidence of consumers as the employment prospects become better.

Since 1994, the rise in labour costs has been modest in Belgium, while unit labour costs have remained almost stable. But this moderation has been due to direct government intervention in wage formation and, secondarily, to reductions in social security contributions. In November 1996, in implementation of the law on the promotion of employment and the preventive safeguarding of competitiveness and in the absence of an agreement between the social partners at national level, the government fixed the maximum nominal rise in labour costs per hour at 6.1 p.c. for the years 1997 and 1998 as a whole, taking into account the expected movement in the reference countries, i.e. Germany, France and the Netherlands. The social agreements appear to have complied with this limit, and the collectively agreed wage adjustments, which had been ruled out in 1995 and 1996, appear to have given rise to a real increase of only 0.8 p.c. in 1997. Account being taken of indexations, wage drift — mainly resulting from scale increases — and the development of employers' social security contributions, labour costs per full-time equivalent in enterprises appear to have gone up by 2.9 p.c. in nominal terms in 1997, i.e. a rise similar to that in the neighbouring countries.

It is crucial that the promotion of employment shall continue to guide collective bargaining in future, preferably without direct government intervention. Furthermore, the authorities could envisage, in an appropriately designed form, further reductions in employers' social security contributions or, more generally, in the fiscal and parafiscal charges on labour, in order to bring them down to the level of the three neighbouring countries. These reductions should not, however, take the place of wage moderation or jeopardise the attainment of the budgetary targets. The latter condition requires that initiatives for which no budgetary margins have been provided shall be accompanied by compensatory measures. The automatic repercussions on the public budgets of a lowering of the compul-

sory levies must not be overestimated: a compensation must therefore be found for about three quarters of this lowering, in the form of reductions in expenditure or new revenues. In choosing such measures, account must be taken of the international environment. It is precisely in order to prevent fiscal and parafiscal burdens from weighing too exclusively on the labour factor, whose mobility is relatively low, that Belgium wishes to see a greater degree of fiscal and social harmonisation in Europe.

The relationship between labour costs and employment can be illustrated by a sectoral analysis. In comparison with the three neighbouring countries, employment in Belgium decreased less from 1990 to 1994 in industry but increased considerably less in the market services sector. This is doubtless not unconnected with the movement of relative costs: in Belgium, total hourly labour costs did not rise less in services than in industry, whereas that was the case in the three neighbouring countries. In future, a more balanced distribution of the reductions in social contributions between industry and services would be favourable for employment, stimulating activity and its labour-intensiveness in the latter sector.

While general moderation of labour costs is an indispensable prerequisite for increasing employment, it is also important that at the microeconomic level these direct and indirect costs should approach the marginal productivities in value, in order to limit the risks of exclusion from the labour market.

Owing both to technological progress and to the growing internationalisation of economies, the risk of unemployment is most acute for the least skilled workers. Consequently, the improvement of vocational skills can make an essential contribution to reducing unemployment in the medium term. In this connection mention may be made of the upgrading of secondary technical education, the development of formulas for apprenticeship, linked work and education and continued training. Various so-called « active » measures for integrating young unemployed persons in working life, especially by offering

them a first work experience, and for the reintegration of the long-term unemployed, should also be stepped up, in accordance with the recommendations of the Luxembourg European Council.

Lastly, certain forms of redistribution of work can help to reduce unemployment, provided that they do not entail either loss of competitiveness or worsening of the public finances. In 1997, the government authorities gave further encouragement, especially by means of financial incentives, for contractual formulas which permit the matching of the needs of enterprises and the personal aspirations of some workers, such as part-time working, career interruption and half-time early retirement, as well as for social agreements providing for a redistribution of work. The reduction in working hours is a long-term process which must not be interrupted, but whose concrete continuance will probably necessitate the adoption of new organisation forms permitting an increasingly marked dissociation of the working hours of individuals and the periods of activity of firms. Experiments in this field are deserving of encouragement; however, a general speeding-up of the process will benefit employment only if it entails hardly any increase in unit labour costs. In this connection it should also be borne in mind that the annual working hours of a full-time worker are already shorter in Belgium than on average in each of the three neighbouring countries. Part-time working, for its part, is less widespread in Belgium and might continue to expand rapidly.

Public finances

The net financing requirement of general government amounted last year to 2.3 p.c. of GDP. That is not only much better than what the convergence criteria require for joining EMU, but the deficit thus also remained more than half a percentage point below the target which the government had set for itself. The debt ratio, too, fell again, to 123 p.c. of GDP, bringing the total reduction over the last four years to about 12 percentage points — a fall which in fact is increasingly becoming a self-fuelling process.

In more than one respect these are remarkable results, which could only be achieved thanks to persevering consolidation efforts, even when the economic situation — as in 1993 and 1996 — was adverse, and despite unfavourable developments in the macroeconomic composition of income and expenditure. Government revenues have thus been slowed down in recent years by the wage moderation policy, which has been one of the reasons why the share in national income of earned incomes, which are relatively the most heavily taxed, has decreased by 3 percentage points since 1993. A similar effect has occurred under the influence of the relative decline in household expenditure to the advantage of net exports, which has depressed revenues from indirect taxes.

Had it not been for the negative influence of the above-mentioned macroeconomic shifts and for the adverse impact of the business cycle, the primary budget balance would have improved by nearly 4 percentage points of GDP over the five-year period between 1992 and 1997. That figure gives a good indication of the structural adjustment which took place during this period. Around three quarters of it was made at the beginning of that period, when drastic structural rehabilitation measures were taken, whose impact increased further thanks to the more favourable economic context of the following years.

During the same period the interest charges on the public debt also decreased year on year, by altogether 2.8 percentage points of GDP. This development is primarily attributable to the pronounced fall in both short-term and long-term interest rates in recent years. In part the Belgian budget thus benefited from the international trend towards disinflation which was accompanied by an easing of monetary policy and a decrease in the inflation premium inherent in long-term interest rates. The downward movement of interest rates during the last few years also, however, contained a specifically Belgian element which may be attributed in particular to the successful pegging of the franc to the German mark and the credibility of the budgetary consolidation. The steady reduction of

the interest charges on the public debt thus also has an important structural component.

As it may be assumed that a policy mix aimed at stability will also prevail within the future monetary union, there is no reason to suppose that long-term interest rates in Belgium would rise again to their levels of the 1980s. The more favourable interest-rate conditions which are expected to exist within monetary union should incite the government to accelerate the repayment of the part of its foreign-currency debt that will not be automatically converted into euros; this would at the same time confirm one of the guiding principles on which the management of the public debt has been based since 1993. Furthermore, it should be emphasised that the reduction of the interest charges has been coupled, since the early 1990s, with a significant improvement in the maturity structure of the public debt. Continuation of this strategy can make an important contribution to the controllability of the public finances in so far as the interest and redemption charges would become less dependent on fortuitous external circumstances and thus also easier to predict.

The consolidation of the public finances which has been carried out in Belgium also contrasts favourably with the results achieved elsewhere in Europe.

During the last five years the total public deficit in Belgium has decreased by over 4.5 percentage points of GDP, against an average of only 2.5 percentage points for the European Union as a whole. Also, unlike in some other Member States, this was not a last-minute operation: during the year under review a further deficit reduction of 0.9 percentage point was sufficient to bring the Belgian budget deficit down to 2.3 p.c. of GDP, whereas for the European Union as a whole additional savings amounting to 1.6 percentage point of GDP were required in order just to get down to 2.6 p.c. This relative performance becomes even more striking in the light of the cyclically adjusted or structural budget balance, as calculated by, among other bodies, the European Commission. Between 1992

and 1997 the Belgian structural deficit decreased by 6.3 percentage points to 1.9 p.c. of GDP, whereas the European average fell by only 3.5 percentage points, to 2.1 p.c. of GDP.

Although Belgium still has the highest debt ratio in the European Union, there has already for four years been a clear downward tendency averaging about 3 percentage points of GDP per year. In the European Union as a whole, on the other hand, the debt ratio went on rising uninterruptedly until 1996, a first modest fall of about half a percentage point of GDP having been recorded only in 1997. There are thus abundant indications that the fiscal consolidation in Belgium is already more lasting and sustainable than in many other Member States of the EU.

It would however be premature to conclude from this that the degree of consolidation achieved is also already sufficient to enable us to cope, without any danger of new derailments, with the vicissitudes of the international financial situation and cyclical movements. As a member of EMU, Belgium will furthermore have to meet the requirements of the Stability and Growth Pact. These imply that, viewed over a longer period, budgetary policy must provide for a sufficient buffer to ensure that normal cyclical fluctuations — down to a negative GDP growth of 0.75 p.c. — shall not at any time result in a budget deficit of more than 3 p.c. of GDP.

Provided that the strategy of continued budgetary consolidation as outlined by the government in December 1996 in the new Belgian convergence plan is strictly adhered to, it must be possible to create the required room of manoeuvre in the course of a few years and without this necessitating any further drastic policy interventions. This strategy means that the aggregated primary surplus of the federal government and the social security system must be maintained at least at its 1997 level and that the communities, regions and local authorities combined must endeavour to balance their budgets by the year 2000. Under these circumstances it will be

possible, mainly through endogenous savings in interest charges, to reduce the public deficit further, within a relatively short period, to around 1.5 p.c. of GDP, which in principle ought to be sufficient to prevent normal cyclical fluctuations from causing the 3 p.c. limit to be exceeded.

In order to sustain a sufficiently strong downward movement of interest charges and the public debt, it would be wise, however, to keep the primary surplus at the level reached for somewhat longer. Only then would it prove possible to change a policy of strict budget control into discretionary policy margins which should in due course create the scope and the resources for lessening the fiscal and parafiscal pressure, for stimulating employment and for meeting the needs of an ageing population. Moreover, persevering budgetary consolidation is highly desirable in order to boost the confidence of consumers and businesses. Should any tendency to slacken the reins already develop in the near future, there would then be a grave risk that even a slight economic setback would make it necessary to resort again to draconian economy measures, which would be disastrous for the regained credibility of budgetary policy.

Anyhow, these considerations need not deter the policy-makers from endeavouring, within the existing budgetary limits, to make expenditure more future-oriented and revenue more labour-friendly. Within EMU, the economic expediency of government action will in fact become an important factor whereby the participating Member States can differentiate themselves from each other. A labour-friendly tax system, infrastructural facilities and the level of education of the labour force are all structural environmental factors which enable a country to perform well economically.

Monetary and financial developments

The aim of maintaining a close link with the anchor currency of the European exchange rate mechanism, formulated in 1990, was achieved better than ever in 1997, since the exchange rate for the franc vis-à-vis the German mark rarely deviated by more than

0.1 p.c. from its central rate. The latter, which has been unchanged since 1987, thus appears to be an equilibrium exchange rate and could foreshadow the irrevocable bilateral conversion rate which will be fixed in May 1998 and applied from 1st January 1999 onwards.

Interest rates, too, remained close to the German reference values. Limited and temporary deviations in short-term rates did however appear, first in February and March, owing to political uncertainties and until the completion of the budgetary control procedure, and subsequently from July to October, as a result of very slight pressures on the franc, the tightening of interest rate policy in the Netherlands and probably also the relative strength of demand in Belgium. By its management of money market liquidity, the Bank kept in line with these spontaneous rate rises when it considered them to be appropriate.

The official rates, for their part, were not raised until 9th October 1997, in concert with the central banks of Germany, France, the Netherlands, Austria and Denmark. The Bank's central rate, which had not been changed since August 1996, was increased from 3 to 3.3 p.c. This slight tightening, in the monetary zone composed of these countries, of an interest rate policy which had until then been relatively expansionary, was of a preventive nature. In view of the length of time which it takes for the impulses imparted by monetary policy to work their way through, central banks in fact have to act pre-emptively, guided by the observation of many leading indicators of price movements, some of which may have the status of a publicly announced intermediate objective. The rise in import prices caused by the depreciation of the effective exchange rates for the currencies in question, the shrinking of output gaps in line with the acceleration of growth and the high liquidity ratio of the German economy all pointed to increased risks of future inflation.

While short-term interest rates thus moved upwards, long-term rates on the contrary declined, causing the slope of the yield curve

to flatten. In particular, the raising of the official rates in October 1997 had only a weak and brief knock-on effect on bond yields. Although the decline in long-term rates in the last quarter can be partly attributed to the increased attractiveness of bonds in view of the uncertainties affecting the share markets, it probably also reflects, more fundamentally, a renewed lessening of inflationary expectations, indicating that the central banks' preventive action was appropriate. Evidence shows that in Belgium long-term rates have a much more significant incidence on activity than short-term rates.

Belgian and German long-term yield rates moved parallel with each other. The slight strains which occurred episodically on the Belgian money market did not in fact spread to the bond market, where the interest-rate differential vis-à-vis ten-year German bonds remained most of the time between 5 and 15 basis points. In Belgium as in France, the Netherlands or Austria, the tiny differential observed in 1997 is in accordance with the forecasts based on the past relation between this interest-rate differential and other variables such as inflation, real short-term interest rates, the current account balance and the budget deficit. The advent of monetary union as such seems to have influenced it only marginally.

The incidence of the current account surplus on interest-rate differentials vis-à-vis the reference country can be expressed in various ways: first, such a surplus tends to reduce the premium connected with the depreciation risk, as it may be regarded by financial operators as a sign of satisfactory competitiveness; secondly, it creates a net supply of foreign currencies against francs on the foreign exchange market, which warrants interest rates bringing about compensatory capital outflows; and finally, it tends to limit the proportion of claims in francs in the portfolios of residents and non-residents, thus reducing the risk premium required for the holding of such assets. During the first nine months of 1997, the BLEU's current account surplus expanded further, under the influence of an improvement in the degree of coverage in volume of

goods imports by goods exports, to about 5 p.c. of GDP. This development is entirely attributable to the current transactions of Belgium, which have shown a surplus since 1986. This surplus has actually been greater than the public deficit since 1995.

The net foreign claims thus accumulated by Belgium are estimated to have reached around Fr. 1,900 billion at the end of September 1997, or over one fifth of annual GDP. They are the resultant of net financial assets of individuals put at Fr. 18,900 billion and net financial liabilities of general government and companies of the order of Fr. 10,200 and 6,800 billion respectively. This clearly illustrates that the Belgian public debt is primarily a domestic problem.

European monetary union will however present new challenges for the managers of this debt, as for all financial operators. The existence of different currencies is a factor leading to segmentation of the financial markets, which is bound to disappear in the euro zone, thus stimulating competition. On the bond market, the disappearance of the exchange rate risk will not prevent the persistence of interest-rate differentials, depending on the assessment of credit risks and of the degree of liquidity. In order to familiarise foreign investors with Belgian public debt, the Treasury accompanied the issuing, from November 1997 onwards, of a new linear bond line in francs, intended to become the benchmark loan of the Belgian market, with a twin series of linear bonds denominated in French francs and in German marks, issued within the framework of a globally stable foreign currency debt. These three loans will be merged into a single line in euros on 1st January 1999.

Credit institutions, which are most directly concerned with the changeover to monetary union, are making the technical preparations for offering banking services in euros from the outset in 1999 and are adjusting their strategy in view of the future environment. Thus, faced with the intensification of competition which has already been observable during the last few years, many of them are extending their

activities beyond traditional banking intermediation. Furthermore, some are trying to develop a specialisation while others are aiming at an increase in scale. Mergers or closer associations occurred at both national and international level. Similar considerations are leading to regroupings of other financial operators and of stock exchanges.

In addition to financial institutions, the various sectors of the Belgian economy, both private and public, are preparing for the introduction of the European single currency under the auspices of the General Commission for the Euro, created by the Government in November 1996 for the purpose of stimulating and co-ordinating the initiatives with all the players involved. These preparations relate both to the transitional phase, which will extend from 1st January 1999 until 31st December 2001, and the definitive régime, which will be applicable from 2002. The work within the Commission and its various working groups consists in specifying and implementing the financial guidelines of the national changeover plan which the Government approved in 1996 and in widening them to embrace other aspects.

The Bank itself is continuing to prepare for its integration in the European System of Central Banks. It will participate in both the preparation and the implementation of the decisions of the Governing Council of the ECB, as the guiding principle of the organisation of the ESCB's monetary policy will be the absolute centralisation of decisions and a far-reaching decentralisation of their execution. When the ECB has made the main choices concerning the instruments and procedures for its monetary policy, the Bank may envisage, after consultation with the credit institutions, introducing some of the planned changes in the operational framework a few months in advance, in order to allow its counterparties to familiarise themselves with the new system. Such an exercise would be particularly useful if the ECB were to decide to use compulsory reserves with an averaging provision. In such a system, the reserves which the credit institutions are required to hold with the central bank could fluctuate from day to day and absorb liquidity shocks, thus helping to stabilise money market rates without it being necessary for the central bank to intervene in the money market as frequently as is the case at present in Belgium.

CONCLUSION

The present situation gives a further illustration of the importance of policies aimed at the maintenance of the major financial equilibria and of a framework of stability in which the markets can thrive : monetary orthodoxy and budgetary consolidation are bearing fruit in Europe and in the United States, while many Asian countries are having to suffer today from a financial fragility whose origin is to be found in an excess of optimism in the past.

Obviously, stability in Europe will be reinforced by EMU, which will create a large zone within which exchange rate fluctuations will have disappeared and where the keys to monetary policy will be entrusted to an autonomous institution charged with the task of preventing any resurgence of inflation. Belgium, prepared by the successful anchoring of the franc to the German mark and particularly little subject to specific shocks, will naturally find its place within it. In the meantime, as was already the case in 1997, the national central banks — whose action will produce its results largely after 1st January 1999 — will closely co-ordinate their policies. This does not call, however, for over-hasty closing of the remaining short-term interest-rate differentials, as control of inflation ought to be sufficiently ensured in each of the participating countries. It is indeed of the utmost importance that the European Central Bank shall be endowed with a high degree of credibility when it assumes its duties.

By reducing its budget deficit to below the crucial 3 p.c. criterion, Belgium took a decisive step last year on the road towards lastingly sound public finances. That is certainly good reason for satisfaction, provided that there is a determination to consolidate the progress made. The Pact for Stability and Growth formally subscribed to by our country contains the appropriate guidelines for this. For it must not be forgotten that the expected further reduction of the public deficit in 1998

and 1999 depends not only on the budgetary policy pursued but also on the favourable growth prospects and the continuation of the present low levels of interest rates.

In the next few years the main focus must continue to be on further deficit reduction, to ensure that the «reverse snowball effect» of falling interest charges and a declining debt ratio shall gather sufficient momentum to result automatically — that is, without any need for additional rounds of economising — in structural policy margins.

Indeed, the experience gained at the end of the last decade showed that premature loosening of the budgetary reins soon takes its toll. In order to determine whether the degree of budgetary consolidation achieved is really sustainable, one must look further than the actual budget deficit. If non-structural budgetary margins were used in order to increase expenditure or allow tax reductions — without compensating measures being provided for at the same time — then there is the danger that even a slight economic setback would lead again to the reappearance of mounting structural deficits.

Belgium's accession to monetary union and the consolidation of the public finances will make it possible to concentrate on promoting employment. While the economic outlook is favourable, it must be ensured that the growth in economic activity shall result in the creation of more jobs and not merely push up wages. The main responsibility for this lies with the social partners. The Government, for its part, must see to it that the legal and regulatory framework and the composition of public revenue and expenditure are as conducive as possible to lasting job creation, notably by stimulating economic dynamism, by improving the employability of the unemployed and by lightening indirect labour costs, in particular for low-skilled labour. Such an employment-promotion policy would not,

however, be successful if it jeopardised the budgetary objectives. Another indispensable condition for a lasting expansion of employment is that the competitiveness of resident enterprises must not be endangered. Lastly, account must be taken of the diversity both of the labour market situation and of the phenomenon of unemployment, especially in terms of geographical areas and levels of skills. To ignore these differences would greatly reduce the impact of the measures

adopted, which, in many cases, would produce only windfall effects without causing any change in behaviour. Resolute action fulfilling these three conditions must be taken to enable the largest possible number of people to participate in economic activity, thus reconciling efficiency and social fairness.

Brussels, 28th January 1998



Board of Directors :

1. A. Verplaetse, *Governor*
2. W. Fraeys, *Vice-Governor*
3. J.-P. Pauwels, *Director*
4. G. Quaden, *Director*
5. J.-J. Rey, *Director*
6. R. Reynders, *Director*
7. M. De Wachter, *Secretary*





Regents and Government Commissioner :

seated, from left to right :

T. Vandeputte, R. Ramaekers, W. Peirens.

standing, from left to right :

G. Brouhns, Government Commissioner, Baron Delruelle, Ch. Dumolin, M. Nollet, Ph. Wilmès, E. Wymeersch, N. Devisch, F. Martou.

LIST OF ABBREVIATIONS

BIS	Bank for International Settlements
BLEU	Belgian-Luxembourg Economic Union
CTEC	Clearing Transactions Exchange Centre of the Belgian Financial System
EASDAQ	European Association of Securities Dealers Automated Quotation
EC	European Commission
ECB	European Central Bank
ECOFIN	Council of Ministers for Economic Affairs and Finance
ELLIPS	Electronic Large-value Interbank Payment System
EMI	European Monetary Institute
EMS	European Monetary System
EMU	Economic and Monetary Union
ESCB	European System of Central Banks
EU	European Union
FPC	Federal Participation Company
GDP	Gross domestic product
GNP	Gross national product
HWWA	Hamburgisches Welt-Wirtschafts-Archiv
IMF	International Monetary Fund
MEA	Ministry of Economic Affairs
MEL	Ministry of Employment and Labour
MIM	Inter-professional Market
NAI	National Accounts Institute
NASDAQ	National Association of Securities Dealers Automated Quotation (United States)
NBB	National Bank of Belgium
NEMO	National Employment Office
NSI	National Statistical Institute
NSSO	National Social Security Office
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
ORBEM	Brussels Regional Employment Office
RGI	Rediscount and Guarantee Institute
SDR	Special Drawing Right
SICAFI	Société d'investissements à capital fixe en biens immobiliers (fixed-capital company for investment in immovable property)
SICAV	Société d'investissement à capital variable (variable-capital investment company)
TARGET	Trans-European Automated Real-time Gross-settlement Express Transfer

UCIT	Undertaking for collective investment in transferable securities
US	United States
VAT	Value added tax

Economic and financial developments

Preliminary remarks

Unless otherwise indicated, when data are compared from year to year, they all relate to the same period of each of the years in question.

In the tables, the totals shown may differ from the sum of the items owing to rounding.

In order to make it possible to describe the development of various important economic data relating to Belgium in the year 1997 as a whole, it was necessary to make estimates, as the statistical material for that year is inevitably still very fragmentary. In the tables and charts these estimates, which were arrived at in January 1998, are marked by the sign « e ». They represent mere orders of magnitude intended to demonstrate more clearly the major trends which already seem to be emerging.

For the years prior to 1997 the official national accounts data have been included in the Report as they stand. However, in order to enable the trend of certain items to be more clearly seen, the statistical adjustments, which have the effect of reconciling the various approaches adopted in the national accounts, have generally not been applied to these items, as is done by the National Accounts Institute, but have been isolated.

The breakdown of the financial accounts between individuals and companies is largely based on data from the credit institutions with which they carry out the majority of their investment and financing transactions. The information on the basis of which the other financial transactions of the private sector — including transactions with foreign countries and purchases of securities — can be broken down are however much more fragmentary. The most important statistic which can be used for this purpose, namely the globalisation of the annual accounts of enterprises drawn up by the Central Balance Sheet Office, is in fact incomplete, provides solely annual data and is available only with a delay of several months. It was therefore necessary, in a number of cases, to base the calculations on assumptions, and various estimates had to be made.

Conventional signs

—	the datum does not exist or is meaningless
...	zero or negligible quantity
n.	not available
p.c.	per cent
p.m.	pro memoria
e	estimate by the Bank.

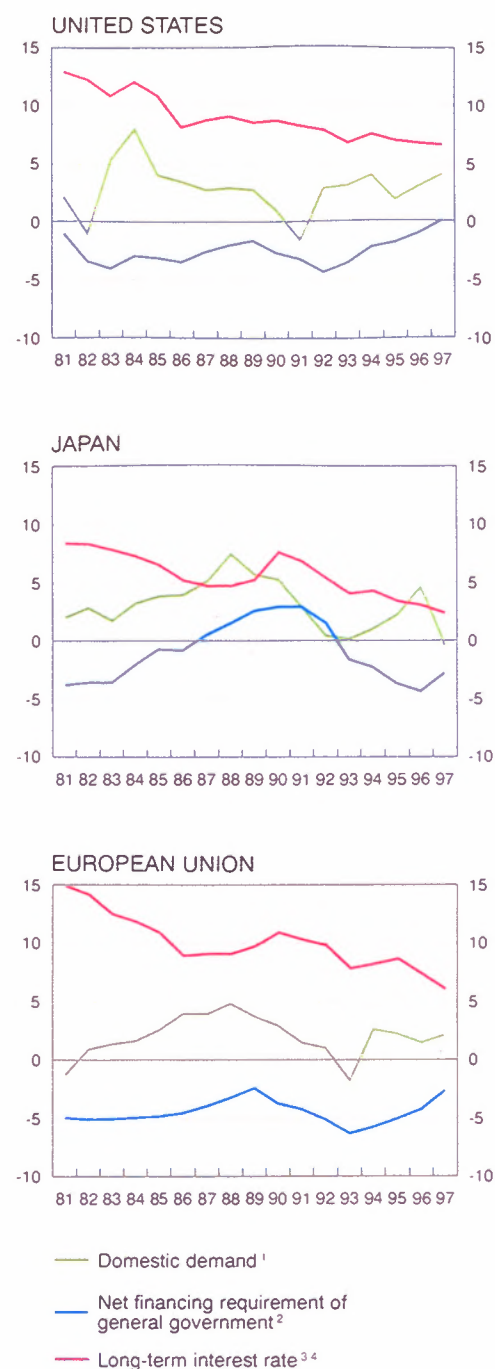
1. INTERNATIONAL ENVIRONMENT

1.1 MAIN ECONOMIC DEVELOPMENTS

In the OECD countries as a whole, growth strengthened further in 1997 to reach 3 p.c., the highest rate of growth since the start of the decade. However, the movements were not uniform in the various countries or regions, nor did the growth have the same origin. Activity remained consistently dynamic in the United States, where the expansion, sustained by domestic demand, accelerated further in a context of low inflation. In the EU countries the recovery was again largely export-driven, but domestic spending also picked up during the year. In contrast, in Japan the growth, which was very vigorous in 1996, weakened during the year under review. The financial crisis in South-East Asia was only a secondary factor in this downturn, which was due primarily to a fall in domestic demand.

These movements occurred in the context of a judicious economic policy mix which, since the beginning of the 1990s, has aimed at gradually achieving a more balanced macroeconomic environment. Major progress has thus been made in restoring a sound budget in the United States and Europe. Monetary policies have been geared more to controlling inflation, an area in which remarkable results have been achieved. Together with fiscal consolidation, they have permitted a general decline in long-term interest rates, conducive to growth. These tendencies have also been accompanied by an exceptionally balanced expansion phase in the United States and a steady economic recovery in the EU countries. However, even though the conditions necessary for sustained growth are present in Europe, the recovery will not be sufficient to bring any significant reduction in unemployment, which is largely structural. The governments have therefore decided to step up the labour market reforms as part of a

CHART 1 — MACROECONOMIC POLICIES



Sources : OECD, EC.

¹ Percentage changes at constant prices compared to the previous year.

² Percentages of GDP; EU excluding Luxembourg.

³ Yield of public sector bonds.

⁴ EU : weighted geometric average.

more harmonised strategy at European level. Structural problems are also hampering the Japanese economy, which is heavily dependent on the soundness of the financial system, which, after seven years, is still suffering from the effects of the speculative bubble concerning asset prices. Thus, as in several of Asia's dynamic economies, the restructuring of the financial sector has become a priority there.

Activity

In the United States growth was steady, even surpassing the rate achieved during each of the preceding five years in the current cyclical expansion phase. This strong growth is due to the vigour of private consumption, which has been stimulated by both rising employment and higher real wages, and probably also by a wealth effect related to the rise in share prices. It also has its origins in the demand generated by enterprises, which have substantially increased their investment in fixed capital, particularly telecommunications equipment, and have been rebuilding their stocks. In view of the very buoyant domestic demand, the external balance has continued to make a negative contribution to growth despite a marked rise in exports.

In most European countries, where the process of economic recovery had marked time in 1995 and in the first few months of 1996, there has since been a constant expansion in activity. In 1997 growth in the EU as a whole reached an average of 2.6 p.c., against 1.7 p.c. the previous year. In the United Kingdom, which is farthest advanced in the business cycle, the expansion was based on strong growth of private consumption and business investment. On the other hand, in most other European countries, especially Germany and France, activity was still being driven mainly by exports, whose growth accelerated, and, in some cases, by the rebuilding of stocks. However, final domestic demand, sustained by an increase in business investment due

TABLE 1 — EXPENDITURE

(Percentage contributions to the change in GDP at constant prices)

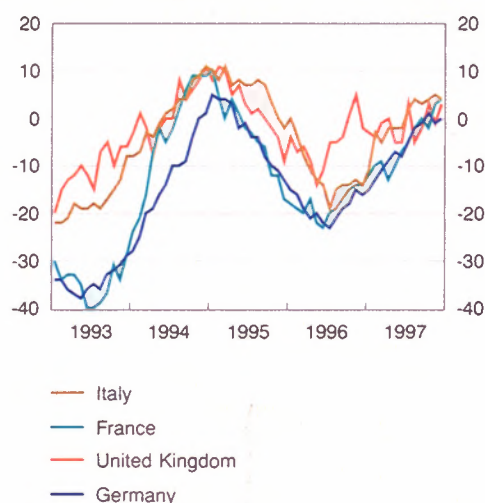
	1995	1996	1997
United States			
Private consumption	1.7	1.8	2.2
Investment in housing	-0.2	0.2	0.1
Public expenditure .....	...	0.1	0.2
Investment by enterprises	0.9	1.0	1.2
Change in stocks	-0.5	...	0.5
Net exports	0.1	-0.2	-0.5
GDP	2.0	2.8	3.8
Japan			
Private consumption	1.2	1.7	0.8
Investment in housing	-0.3	0.7	-0.7
Public expenditure	0.4	1.1	-1.2
Investment by enterprises	0.6	1.0	0.6
Change in stocks	0.3	-0.1	-0.1
Net exports	-0.8	-0.9	1.0
GDP	1.4	3.5	0.5
European Union			
Private consumption	1.1	1.2	1.2
Investment in housing	0.1	...	0.1
Public expenditure	0.1	0.1	0.1
Investment by enterprises	0.7	0.4	0.5
Change in stocks	0.2	-0.3	0.1
Net exports	0.3	0.3	0.5
GDP	2.5	1.7	2.6
of which : Germany	1.8	1.4	2.4
France	2.1	1.5	2.3
Italy	2.9	0.7	1.3
United Kingdom	2.7	2.3	3.4

Source : OECD.

largely to better competitiveness, bounced back strongly during 1997.

In Japan the recovery which had begun at the end of 1995 was not sustained. The strong growth in 1996 had resulted partly from temporary factors due to a government recovery programme. The tightening of budgetary policy caused a break in the trend in 1997 which made itself felt in two ways : public investment expenditure was severely pruned and the increase in indirect taxes, which had been expected, caused a fall in household consumption immediately on its introduction in April 1997; the annual average growth rate of household consumption thus slowed down considerably. The fragility of the Japanese recovery is also

CHART 2 — CYCLICAL INDICATORS OF THE MAIN EU COUNTRIES¹



Source : I.C.

¹ Synthetic confidence indicators in industry.

due partly to the adverse effect, on the confidence of enterprises and households, of the restructuring which is still going on in the financial and industrial sectors and to the financial crisis in the South-East Asian countries. Thus, domestic spending dropped back, but the contribution to growth made by the external balance became positive again.

Foreign transactions

The vigorous expansion in industrial countries helped to boost international transactions in 1997, but imports by countries outside the OECD area ceased to provide the same momentum as they had done in the early 1990s. This slowdown is partly connected with developments in some South-East Asian countries.

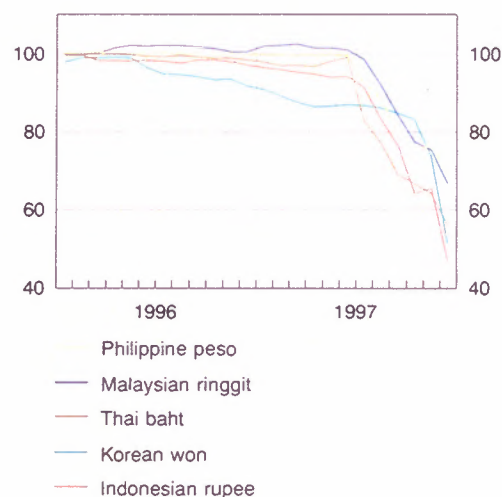
The very rapid expansion of the economies in that region had for some years been accompanied by spectacular growth in their foreign trade. However, in several countries,

especially Malaysia, the Philippines, Indonesia and above all Thailand, where the financial crisis began, these developments had been accompanied by the emergence of fundamental disequilibria, including large current account deficits. These deficits increased, in particular, owing to a loss of competitiveness due to the appreciation of the dollar, the reference currency in several countries, and the decline in the price of certain exports. Thanks to attractive yields, these countries had received large inflows of capital which made them more vulnerable. When investors' confidence was shaken, notably because the weakness of the financial systems became increasingly apparent, the capital flows were reversed, causing the currencies to depreciate sharply.

Faced with this crisis, the governments progressively implemented macroeconomic stabilisation programmes which began to depress domestic demand and hence imports. The developments which affected these economies spread contagiously, in

CHART 3 — EXCHANGE RATES, VIS-A-VIS THE US DOLLAR, FOR THE CURRENCIES OF SOME SOUTH-EAST ASIAN COUNTRIES

(Indices December 1995 = 100)



Source : Financial Times.

varying degrees, to the foreign exchange and stock markets and affected the growth and balance of payments of the other countries in the region, notably South Korea.

Despite the increasingly global economy, this crisis had little impact in 1997 on the traditional industrial countries, at least those belonging to other parts of the world. Although the Asian countries have indeed increased their share of world trade significantly over the past two decades, that has more to do with the progress of regional integration than with the expansion of trade with the rest of the world. In 1996, the Asian countries, excluding Japan, accounted for 38 p.c. of this region's trade and 41 p.c. of Japan's, but their share of US and EU trade was 22 p.c. and 7 p.c. respectively. In reality, these percentages probably underestimate the potential impact of the crisis in Asia, since they cannot take account of indirect effects via trade links between other regions of the world. The effect of this crisis on the growth of the industrial countries as a whole was probably fairly slight in 1997, having amounted to only 0.3 percentage point according to the OECD Secretariat. However, the effect is unevenly distributed among the member countries of that organisation, being most felt by Japan and the other Pacific countries. As regards the effect of this crisis on the current account balance

of the traditional industrial countries, it appears to have amounted, for each of the three leading OECD economies, to no more than one tenth of a point of GDP, but it could increase later.

Despite the crisis in South-East Asia, Japan enjoyed very sustained growth in its sales markets. Also, as the erosion of market shares which had continued unabated since 1985 came to an end, and as, furthermore, domestic demand was weak, the rate of coverage of imports by exports expressed at constant prices increased substantially. The ensuing improvement in the trade balance was, however, cancelled out by the deterioration in the terms of trade resulting from the sharp depreciation of the yen since mid-1995. The increase in the trade surplus, together with that in the surplus produced by income from direct and portfolio investment, helped to swell Japan's current account surplus, which had been shrinking for the previous three years.

The current account surplus of the EU countries taken as a whole increased for the fourth year in succession, mainly because domestic demand remained weaker in that region than in its trading partners. This movement is particularly marked in Germany and France, but is also found in varying degrees in the majority of the member countries.

Conversely, the United States' current account deficit worsened. The balance of income from direct and portfolio investment deteriorated once again, owing to the growth in the net foreign debt resulting from the accumulation of large and expanding current account deficits.

Moreover, despite strong expansion of sales markets which boosted exports of goods, the trade deficit increased owing to the appreciation of the dollar, but also and primarily because of the relatively dynamic domestic demand.

The relative positions in the economic cycle thus helped to accentuate the external

TABLE 2 — IMPORTANCE OF THE ASIAN COUNTRIES EXCLUDING JAPAN IN THE FOREIGN TRADE OF FOUR MAJOR ECONOMIES

(Percentages of the total in 1996)

	Exports	Imports	Average
Asian countries excluding Japan	41	36	38
Japan	44	38	41
United States	19	24	22
European Union	7	8	7

Source : IMF.

TABLE 3 — CURRENT ACCOUNTS OF THE MAIN REGIONS OF THE WORLD

	Billions of US dollars					Percentages of GDP	
	1993	1994	1995	1996	1997	1996	1997
United States	-91	-134	-129	-148	-171	-1.9	-2.1
Japan	132	131	110	66	92	1.4	2.2
European Union	9	24	51	92	115	1.1	1.4
Asia ^{1,2}	-20	-9	-38	-51	-39	n.	n.
of which : South Korea, Indonesia, Malaysia, Philippines, Thailand	-13	-22	-38	-54	-34	n.	n.
Latin America ²	-42	-53	-36	-46	-58	n.	n.
of which : Mexico	-23	-30	-2	-2	-7	-0.6	-1.6
Other countries	-54	-21	-17	13	-6	n.	n.

Source : OECD.

¹ Excluding Japan.² Excluding the OPEC member countries. However, Indonesia was included among the Asian countries.

imbalances in the OECD area even though the terms of trade were moving in a direction favourable to adjustment.

Costs and prices

Owing to the fall in energy prices, which was particularly marked at the end of the year, the overall index of the dollar prices of raw materials and basic products was down by 1.7 p.c. on average in 1997. But it was the much sharper movements of exchange rates that played a decisive role in the variations in the foreign trade prices of the industrial countries. Thus, the dollar showed a weighted average appreciation of 8.4 p.c. over the year as a whole, while the mark depreciated on average by 4.7 p.c. and the yen by 4.4 p.c.

Import prices in the United States declined by 4.5 p.c. in 1997. The appreciation of the dollar therefore helped to control inflation in an economy where the rate of production capacity utilisation has risen to a very high level and the unemployment rate is particularly low. The increase in compensation per employee tended to speed up,

from 3 p.c. in 1996 to 4.2 p.c. in 1997, but this acceleration was almost entirely offset by greater productivity gains, so that the increase in unit labour costs was only slightly accentuated. These movements once again curbed the rise in consumer prices, bringing it down from 2.9 p.c. in 1996 to 2.3 p.c. in 1997.

In Japan the increase in import prices caused by the depreciation of the yen slowed down compared to the previous year, though it still reached 6.1 p.c. in 1997. Unit labour costs, which had fallen in 1996, increased by 1.9 p.c. during the year under review, as a result of a slight acceleration in compensation per employee but above all because of a decline in productivity due to the downturn in the economy. These developments and the raising of indirect taxes caused consumer prices to rise by 1.7 p.c. in 1997, whereas they had remained practically stable over the two preceding years.

In the EU countries as a whole, inflation measured by the rise in consumer prices was reduced from 2.4 p.c. in 1996 to 1.7 p.c. in 1997. The main reason for the slackening is the slowing of the rise in unit

TABLE 4 — CONSUMER PRICES

(Percentage changes compared with the previous year)

	1996	1997 ¹		
		p.m.		
		Unit labour costs in enterprises ²	Import prices	
United States	2.9	2.3	2.3	-4.5
Japan	0.1	1.7	1.9	6.1
European Union ³	2.4	1.7	1.1	1.7
of which : Germany	1.2	1.5	-1.7	2.8
France	2.1	1.3	0.5	1.8
Italy	4.0	1.9	2.7	2.3
United Kingdom	2.5	1.9	2.9	-5.9

Sources : OECD, EC.

¹ In the case of consumer prices, percentage changes in the average for the first eleven months of 1997 compared with the average for the first eleven months of 1996, except for the United States (twelve months).² Industrial and service enterprises in the private and public sectors.³ Harmonised consumer prices.

labour costs, since the increase in import prices quickened owing to the depreciation of the mark and of most European currencies. The United Kingdom is the exception to this general trend in that the slackening of inflation in that country was accompanied by an acceleration of the rise in unit labour costs, and was due solely to the substantial fall in import prices brought about by the appreciation of the pound, by an annual average of 16.3 p.c.

1.2 MACROECONOMIC POLICIES

In an environment where inflation was still kept under control, there was little change in the orientation of monetary policy in the major economies in 1997. Furthermore, great progress has been made in the restoration of sound finances and, except in the United States, that progress has actually been gathering momentum. As far as the European countries are concerned, economic policies have continued to be geared to EMU and have led to greater

convergence of interest rates and public deficits.

Monetary and exchange rate policy in the main countries

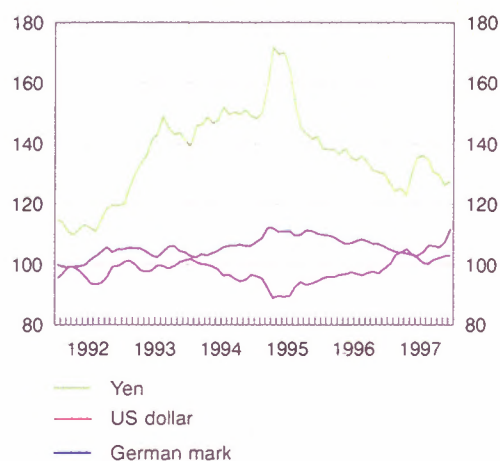
While remaining at different levels, owing to the divergent cyclical contexts, short-term interest rates were relatively stable in the three major economies in 1997. American rates tended to edge up slightly in the first half year, and German rates did so in the second.

Interest rates on three-month euro deposits denominated in US dollars went up from 5.4 p.c. in February to 5.7 p.c. in April before more or less stabilising. The rise in market rates was bolstered by the Federal Reserve, which on 25th March raised its target rates on Federal funds by 25 basis points, bringing it to 5.5 p.c., in order to avert the risk of a resurgence of inflation. Since that date the Federal Reserve has kept its interest rates unchanged.

The maintenance of a positive interest-rate spread in relation to the currencies of

CHART 4 — WEIGHTED AVERAGE EXCHANGE RATES

(Indices 1990 = 100, monthly averages)



Source : BIS.

the two other major economies helped the continuing appreciation of the dollar. This was particularly marked during the first four months of the year, since the markets were anticipating a raising of dollar interest rates and stable rates in the other currencies. These expectations faded in the spring, once it became apparent that inflation in the United States was under control. The dollar therefore fluctuated within narrower margins, except at the end of the year when, serving as a refuge currency in the face of the spreading financial crisis in South-East Asia, it appreciated considerably.

The rates on three-month euro-deposits in German marks hovered at just over 3 p.c. in the first half of 1997. They began to rise in the summer, notably because of the Bundesbank's decision to stop announcing the terms for the weekly repos one or more weeks in advance. The German central bank's aim in doing this was to increase its room for manoeuvre so as to be able to intervene more rapidly where necessary. On 9th October, in agreement with various European central banks, the Bundesbank decided to raise the repo rate from 3 to 3.3 p.c. — the first change in the official

rates since August 1996. The German central bank explained this move by the deterioration in the price situation, particularly following the rise of the US dollar against the mark. Monetary policy thus changed from being relatively expansionary to a more neutral stance, in order to avert the risk of renewed inflation.

As the counterpart, in particular, to the appreciation of the dollar, the mark depreciated on average. This development was also partly due to the doubts which emerged in the spring regarding the stability of the future single currency in a large union. However, these were gradually dispelled, while expectations concerning interest rates were reversed, leading to a slight recovery of the exchange rate for the mark.

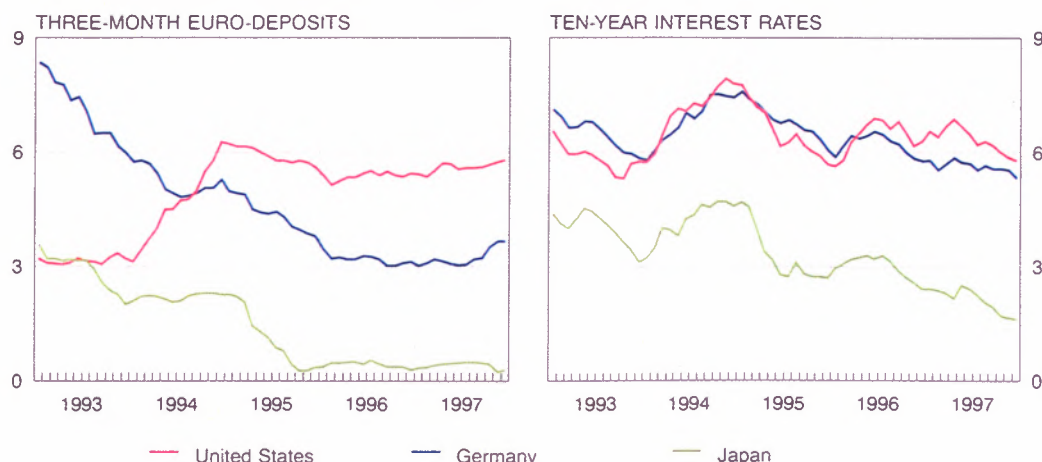
The rates on three-month euro-deposits denominated in yen remained stable. They crept up during the first half year from 0.35 to 0.5 p.c. under the influence of improved economic performance. They were then eroded slightly owing to a deteriorating economic situation, dropping to 0.3 p.c. in December. In the absence of inflationary risks and owing to the weak economic growth and the relative fragility of the financial system, the Japanese central bank maintained its discount rate at 0.5 p.c., the level which it had reached in September 1995.

After continuing to depreciate at the beginning of the year, the yen recovered between May and July owing to signs of an improvement in the situation — though these soon proved false. It then lost ground again despite the depreciation of the currencies of several South-East Asian countries.

Long-term rates increased in the United States at the beginning of the year, peaking at around 7 p.c. in April. They subsequently fell quite sharply owing to the downward revision of the inflation forecasts and an improvement in the budget prospects, dropping to 5.8 p.c. in December. Overall, German long-term interest rates

CHART 5 — SHORT-TERM AND LONG-TERM INTEREST RATES

(Monthly averages)



Sources : National data, NBB.

followed the trend of the equivalent American rates, rising early in the year and later dropping back. However, the fluctuations in the German rates were far less pronounced. This resulted in a widening of the rate differential, to about 1 p.c. in April, followed by a narrowing. In Japan, long-term rates fell back to very low levels in 1997; during September they dropped below 2 p.c.

Monetary and foreign exchange policy in the European Union

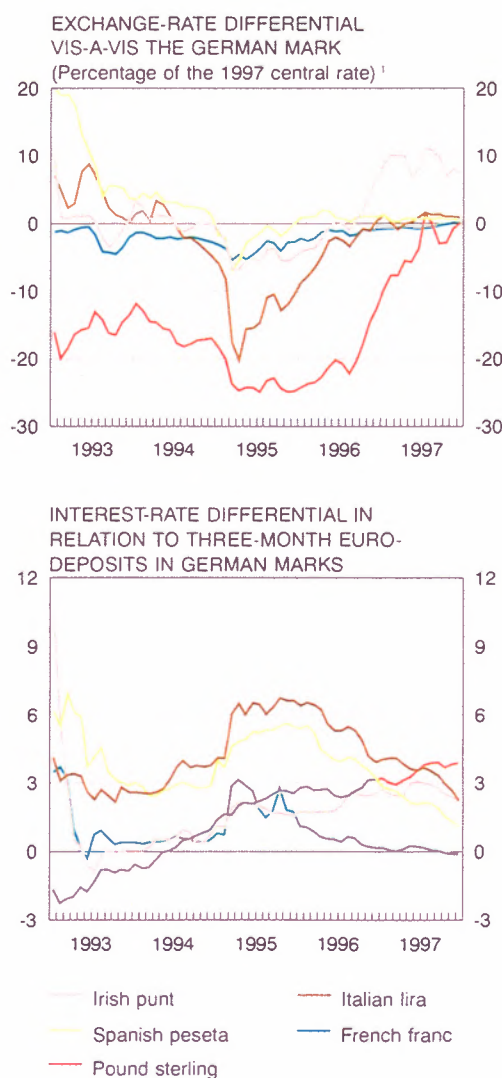
The convergence between the Member States of the European Union made considerable progress in the financial markets in 1997 : exchange rates remained close to the central rates, while interest-rate differentials in relation to the German mark, both short- and long-term, were eroded. The United Kingdom, whose currency and short-term interest rates went their own way, largely because the economic cycle was out of step with the other European countries, was the main exception.

Except as regards the Irish punt, the exchange rates of the currencies participating in the exchange rate mechanism of the European Monetary System fluctuated within narrow margins around the central rates. It was the currencies of the old narrow fluctuation band that generally occupied the lowest positions in the exchange rate mechanism : the French franc during most of the first ten months of the year, and later the group comprising the Dutch guilder, the German mark, the Austrian schilling and the Belgian franc. The larger interest premium on the Italian lira and the Spanish peseta went hand in hand with a high exchange rate, which was a further indication of the markets' confidence in the creation of a large Economic and Monetary Union in Europe.

The French franc suffered little disturbance from the legislative elections and the change of government in the spring. It strengthened from the summer onwards, so that from mid-October it exceeded its central rate against the mark for the first time since 1990. The Italian lira weakened at the beginning of the year owing to doubts about

CHART 6 — EXCHANGE RATES AND SHORT-TERM INTEREST RATES IN THE EUROPEAN UNION

(Monthly averages)



Source : NBB.

¹ For the pound sterling, percentage of the 1992 central rate.

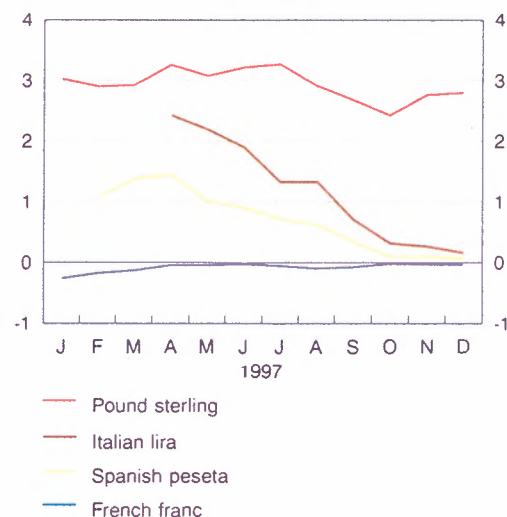
Italy's participation in Economic and Monetary Union. Following the approval of a budgetary package in March, however, it appreciated substantially, holding a position above its central rate against the German mark for the rest of the year. The Irish punt, following in the wake of sterling, was the exchange rate mechanism currency which saw by far the largest appreciation in 1997 :

it frequently exceeded its central rate against the mark by more than 10 p.c.

The stability on the exchange markets and the increased probability of a large monetary union contributed to growing convergence of short-term interest rates, which moved closer to the German rates. The differentials in short-term rates were further reduced particularly in Italy and Spain during 1997, narrowing respectively from 410 and 290 basis points in January to 225 and 110 basis points in December. These falls in rates in Italy and Spain were sustained by several cuts in the official rates. In the other main countries, short-term interest rates remained very close to the German rates.

The growing convergence on the financial markets also manifested itself in the movement of three-month futures for December 1998, the eve of monetary union. The differential vis-à-vis the German mark was virtually non-existent for the Belgian franc and the French franc during the year under review, while it was greatly reduced from May onwards for the Italian lira and

CHART 7 — DIFFERENTIAL VIS-A-VIS THE GERMAN MARK IN THE RATE ON THREE-MONTH FUTURES FOR DECEMBER 1998



Source : Reuters.

the Spanish peseta. Financial operators thus seem to expect that there is a good chance that Italy and Spain will participate in monetary union in 1999. Conversely, the differential remained large in the case of the pound sterling.

Fiscal policy

Nearly all the industrial countries consolidated their public finances during the year under review.

In Japan this is a recent development. Between 1992 and 1996 major economic recovery programmes had been implemented, creating a deficit and swelling the debt. Faced with this deteriorating situation in the public finances and in view of the rapidly ageing population, the Japanese authorities decided during 1996 to adopt a resolutely restrictive approach to budget management by setting targets up to 2003. The effects of this new policy were felt for the first time in 1997: despite the weakness of the economic situation, the net financing requirement was reduced to 2.8 p.c. against 4.4 p.c. in 1996.

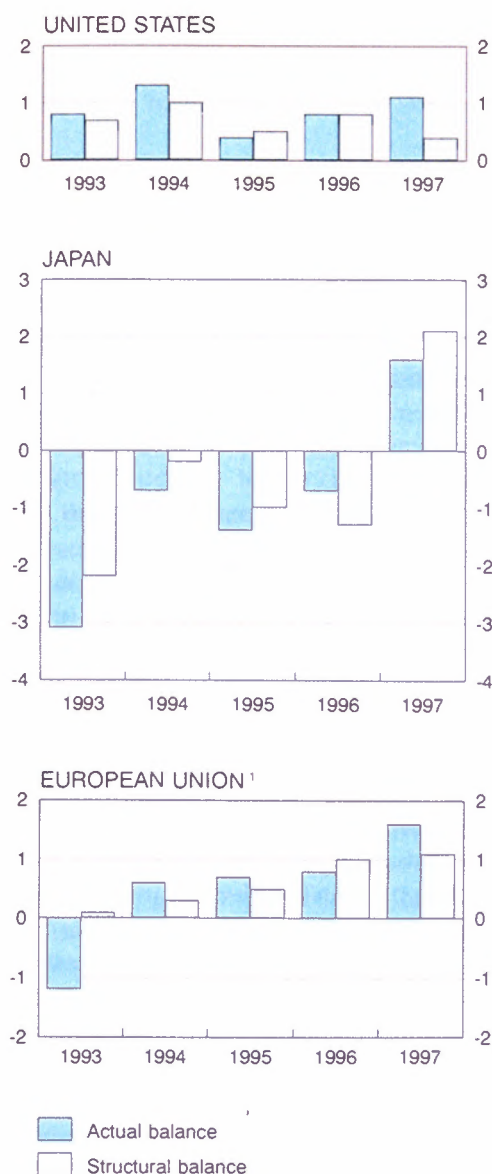
In the United States, on the other hand, the current budget consolidation forms part of a medium-term process launched by the «Omnibus Budget Reconciliation Act» of 1993. This programme has been implemented very consistently since then, although the effort to restore sound finances did slacken slightly during the year under review, as is shown by the development of the structural balance, i.e. the net financing requirement calculated exclusive of cyclical factors. This balance in fact improved by only 0.4 percentage point of GDP in 1997, against an average of 0.8 point over the preceding four years. But thanks to the excellent economic situation in the United States, the deficit was eliminated in 1997, whereas it still stood at 1.1 p.c. in 1996 and peaked at 4.4 p.c. in 1992.

The EU countries have also for some years been pursuing a deliberate strategy of

budgetary consolidation, underpinned in particular by the attainment of the objectives of the Treaty of Maastricht. Since 1993, the structural balance of these countries as a whole has improved every year. This trend was particularly marked in 1996

CHART 8 — CHANGES IN THE NET FINANCING REQUIREMENT OF GENERAL GOVERNMENT

(Percentages of GDP)



Source : OECD.

¹ Excluding Luxembourg.

and 1997, years in which the structural balance improved by around 1 percentage point of GDP per annum. This recent intensification of the consolidation effort is explained by the imminence of the third stage of EMU : in fact it is the 1997 figures that will be used to draw up the Commission and EMI reports at the beginning of 1998, on which the European Council will base its decision when indicating the Member States eligible to join this stage right at the start. Aided by a positive economic situation, the overall deficit of the EU countries as a whole contracted in 1997 for the fourth year in succession : from the peak of 6.4 p.c. of GDP reached in 1993, it dropped to 4.3 p.c. in 1996 and 2.7 p.c. in 1997.

Convergence in the European Union

This decline in the overall deficit of the EU as a whole was accompanied by a reduction in the spread of the budget balances of the member countries between 1991 and 1997. This convergence reflects the great success of the budgetary consolidation policies pursued by the Member States of the EU : with one exception, all the countries were able to reduce their net financing requirement to a level where they could fully satisfy the criterion set by the Treaty of Maastricht — namely a maximum of 3 p.c. of GDP — or only slightly higher.

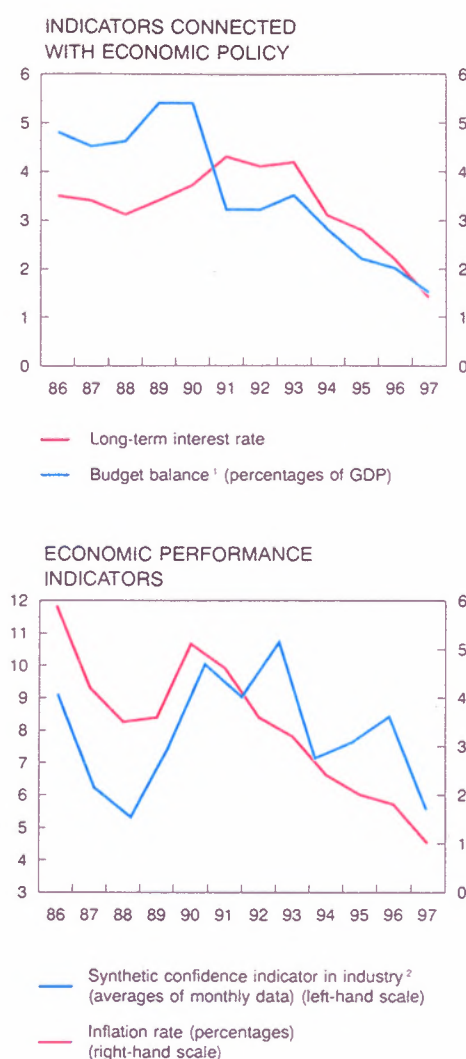
This contraction in the scale of the public deficits contributed to a reappraisal of the risk premiums incorporated in long-term interest rates. The decline in the rates is also due to the credibility of monetary policy, notably on account of the success in controlling inflation. In this area, the process of convergence, which had already begun during the 1980s, is unmistakable : the rate of dispersion in inflation measured by consumer prices also declined considerably between 1991 and 1997.

The relative level of long-term interest rates, which can be regarded as reflecting

the lasting nature of the convergence achieved by a Member State and of that country's participation in the EMS exchange rate mechanism, is also the subject of one of the criteria of the Treaty of Maastricht. According to the Treaty, the average nominal long-term interest rate of the country concerned must not have exceeded by more than two percentage points the rate observed in the three countries with the lowest

CHART 9 — CONVERGENCE OF SOME ECONOMIC INDICATORS IN THE EUROPEAN UNION

(Unweighted standard deviations of the indicators concerned)



Sources : EC, NBB.

¹ Excluding Luxembourg.

² Excluding Sweden and Finland.

levels of inflation. The efforts made in this area have produced results : throughout 1997, fourteen of the fifteen member countries fulfilled this criterion. This situation is in stark contrast to the picture which still prevailed at the beginning of the decade, confirming the reduction in the rate of dispersion of long-term interest rates in the EU countries, which in 1997 was down to around one third of the level which it was still attaining in 1991, the year in which the Treaty was concluded.

With regard to growth, the Treaty of Maastricht does not specify any convergence criterion. Even within a monetary union, there is in fact no reason why growth rates should be the same in all European countries, and differences are even desirable in that the regions lagging behind in their development must be able ultimately to catch up with the others. On the other hand, a close correlation between economic cycles may facilitate the pursuit of a common monetary policy. Such a tendency is already apparent : the rate of spread in cyclical movements measured by synthetic confidence indicators in industry has also been showing a marked decline since 1991.

1.3 EMPLOYMENT AND UNEMPLOYMENT

While substantial progress has been made in terms of convergence in the European Union, the same cannot be said of the labour markets. As regards the spread between unemployment rates in the European countries, which had increased sharply during the 1970s and 1980s, becoming fairly large, the most that can be said is that it has tended to stabilise. Furthermore, the differential between the average unemployment rate in the EU and those in the two other large economies has widened considerably, only partly reflecting the differences in the economic situation. The largely structural character of unemployment in Europe is also revealed by the level of long-term

unemployment, which averages over 5 p.c. of the labour force, and by the level of unemployment among young people, which is double that for adults.

The serious problem of under-employment in Europe therefore cannot be solved just by applying macroeconomic policies. As shown in section 1.1, the mix is in fact at present correctly balanced and conducive to growth. The mobility of European labour, for its part, is still low and progress can only be achieved gradually on this issue. This context will therefore demand, at national level, reform of the labour and product markets in order to allow costs to move in line with productivity gains and permit competitive price formation.

In view of this situation and in accordance with the conclusions of the Amsterdam European Council in June 1997, the Council's annual recommendations concerning the broad guidelines of economic policy placed the accent on the need to do more for employment. In particular, most of the Member States were advised to carry out structural reforms to that effect.

In the same context, an extraordinary European Council meeting on employment was held in Luxembourg in November 1997. It gave the starting signal for regular co-ordination of the employment policies pursued in the respective Member States. That co-ordination is to conform to common guidelines, with multilateral monitoring based on the submission of multiannual action plans by the Member States. The Council welcomed the Commission's communication concerning the guidelines for 1998, which centre on four main lines of action : improving employability, developing entrepreneurship, encouraging adaptability in businesses and their employees to enable the labour market to react to economic changes, and strengthening equal opportunities policies. On this last aspect, two recommendations were addressed to each Member State : firstly, to offer a new start, for instance in the form of training, retraining, work practice, a job or other employability

CHART 10 — UNEMPLOYMENT RATE IN THE COUNTRIES OF THE EUROPEAN UNION



Sources : EC, NBB.

¹ Difference between the unemployment rate in the EU and the average unemployment rate in the United States and Japan.² Unweighted standard deviation of the unemployment rates of the fifteen EU countries.

measure, to all young persons before they have reached six months of unemployment and to all unemployed adults before they have reached twelve months of unemployment; secondly, to increase the numbers of unemployed receiving active help to improve their employability, with the target of gradually achieving the average of the three most successful Member States, and at least 20 p.c.

During 1997, the accelerating economic growth in European countries was accompanied by a slight rise in employment, so that unemployment declined, albeit only very slightly. Expressed as a percentage of the labour force, it fell from 11.4 p.c. in 1996 to 11.3 p.c. in 1997 for the EU as a whole. This was, however, solely due to a substan-

tial fall in unemployment in the United Kingdom and in a few small countries. In contrast, the problem worsened in Germany, France, Italy and several other countries in continental Europe, where unemployment was already very high.

In Japan the numbers in work, which had not increased significantly over the preceding four years, went up by 1 p.c. in 1997. The new job creation, mainly in the enterprise sector, was accompanied by a corresponding increase in the labour force, so that the unemployment rate remained unchanged at 3.4 p.c.

In the United States employment grew by 2.2 p.c. during the year under review, the largest increase so far during the cyclical expansion phase. The unemployment rate dropped again, falling to 5 p.c. in 1997, its lowest level since the early 1970s.

TABLE 5 — UNEMPLOYMENT RATE

(Percentages of the labour force, annual averages)

	1995	1996	1997
United States	5.6	5.4	5.0
Japan	3.1	3.4	3.4
European Union	11.2	11.4	11.3
of which : Germany ...	9.4	10.3	11.4
France	11.5	12.3	12.4
Italy	12.0	12.1	12.3
United Kingdom	8.6	8.0	6.9

Source : OECD.

1.4 INTERNATIONAL CO-OPERATION

European integration

The preparations for the third stage of EMU continued during the year under review. Some important decisions were taken, particularly regarding the Stability and

Growth Pact, the operational framework for the ESCB, the legal status of the euro and the future exchange rate mechanism.

To avoid any relaxation of budgetary discipline during the third stage, a Stability and Growth Pact was concluded. A resolution was adopted by the European Council in June 1997, detailing the commitments entered into by the Member States, the Commission and the Council with a view to the prompt and rigorous implementation of the Treaty of Maastricht and this pact, and was supplemented by two regulations adopted by the Council in July 1997.

The first of these regulations relates to closer surveillance of budget situations and the surveillance and co-ordination of economic policies. It requires Member States to pursue the medium-term objective of achieving a budget situation which enables them to cope with normal cyclical fluctuations while always keeping the public deficit within the limits of the reference value of 3 p.c. of GDP. For this purpose, the Member States participating in the euro zone will have to submit stability programmes each year, detailing, in particular, the measures which will be taken to achieve that objective. The non-participating Member States will have to submit convergence programmes containing information similar to that in the stability programmes. As part of the multilateral surveillance provided for by the Treaty, the Council will monitor the implementation of these programmes and, when it detects any risk of derailment, will address a recommendation to the Member State concerned.

The second regulation aims to clarify and accelerate the implementation of the excessive-deficit procedure. First of all, its purpose is to define situations where the 3 p.c. reference value is temporarily exceeded for exceptional and temporary reasons : in such cases the excessive-deficit procedure need not be initiated. An excess is regarded as exceptional and temporary in two cases : automatically if it is accompanied by a decline of at least 2 p.c. in GDP, or subject

to the approval of the Council if it is accompanied by a decline in GDP of between 0.75 p.c. and 2 p.c. The same regulation also aims to accelerate the excessive-deficit procedure by specifying the times allowed between the different stages and to increase the deterrent effect of the sanctions which would be applied if a State failed to correct its excessive deficit situation within the specified time. To this end, it fixes the amount of the non-interest-bearing deposit which would be demanded of that State in such circumstances. This deposit is converted to a fine after two years unless the situation has been remedied in the meantime.

The operational framework of monetary policy in the third stage was also clarified during the year under review. The EMI published several reports on the subject containing a description of the strategies, instruments and procedures of monetary policy from which the ECB may choose, once it has been established. It also prepared recommendations which the ECB might address to the Council in order to enable the latter to specify, by a regulation, the conditions and limits of that institution's powers to collect statistics, prescribe compulsory reserves and impose sanctions in cases of failure to comply with its regulations and decisions.

As regards the legal status of the euro, a Council regulation adopted in June 1997 confirms that the euro will be substituted for the ecu at the rate of one-to-one and that the introduction of this new currency will not affect the continuity of contracts. It specifies the rules to be applied as regards the expression of conversion rates and the application of the rounding rules. The Member States also agreed on the text of a regulation which would have to be adopted after the countries participating in the euro have been designated. Under that regulation, the euro must become the currency of each participating Member State with effect from 1st January 1999 and, during a transitional period, the national currencies of these countries will be non-decimal subdivi-

sions of the euro. The regulation will also have to translate into legal terms the principles of «no compulsion, no prohibition» which are to govern the use of the euro during that period.

The European Council in Amsterdam also adopted a resolution establishing the exchange rate mechanism which will succeed the EMS exchange rate mechanism at the start of the third stage and will govern future monetary relations between the countries of the euro zone and the EU countries not belonging to it. Membership of this mechanism will be voluntary, but it is expected that all the EU countries outside the euro zone will participate in it. The central rates of those countries' currencies will be defined in relation to the euro, which will be the anchor of the new exchange rate system. The standard fluctuation margin will be 15 p.c., which does not preclude the possibility of a narrower margin for countries which so wish. In line with normal practice in the EMS, intervention at the margin will be automatic and unlimited in principle, while co-ordinated intervention within the margin will be possible. At the same time, the EMI prepared a draft agreement between the ECB and the national central banks of the «non-euro» countries, in order to specify the operating procedures to be applied within this exchange rate mechanism.

On the institutional plane, the year under review saw the signing in October 1997 of the Treaty of Amsterdam, making some amendments to the Treaty of Rome. A chapter on employment was thus introduced into the Treaty, as was the content of the social protocol which had been annexed to the Treaty of Maastricht.

International Monetary Fund

The key role of the IMF in the stability of the international monetary system was illustrated in 1997 by massive interventions on the part of that institution and by important decisions concerning it. The member

countries of the IMF reached an agreement whereby their quotas — which constitute the Fund's capital — will be increased by 45 p.c., or a total of SDR 65 billion. This eleventh quota increase is in addition to the doubling of the amounts which the Fund may borrow in the event of a crisis threatening the stability of the international monetary system: the New Arrangements to Borrow concluded at the end of 1996 added a further SDR 17 billion to the SDR 17 billion of the existing General Arrangements to Borrow.

It was also decided to double the amount of the SDR allocations, currently 21 billion, on the one hand in order to make them available to the countries which have joined the IMF since the last allocation in 1981, i.e. mainly the Central and Eastern European countries and the republics of the former Soviet Union, and on the other hand in order to bring the net cumulative allocations of all member countries up to the same ratio of 29.3 p.c. of their present quotas. The eleventh quota revision, the SDR allocations and the New Arrangements to Borrow will come into force when they have been ratified by an adequate majority of members.

Negotiations began with a view to adapting the Fund's Articles of Agreement to the reality of an international monetary system in which capital movements play a dominant role. The purpose of this amendment is to make the liberalisation of capital movements one of the Fund's objectives, thus enabling it to encourage member countries to move cautiously in that direction while ensuring that this development is based on appropriate policies, particularly in the macroeconomic and financial fields.

In addition to the financial support for the structural adjustment of many developing countries and countries in transition, the IMF played a central role in preparing adjustment programmes in Thailand, Indonesia and South Korea, in order to contain the financial crisis which has developed in those countries since last summer. Under the

emergency procedures devised following the financial crisis in Mexico in 1995, the IMF negotiated with these countries, within a very short space of time, financial assistance programmes for very large amounts, subject to strict conditions. Other countries, including Belgium, in the case of the programme for South Korea, the World Bank and the Asian Development Bank joined in by promising additional financial support.

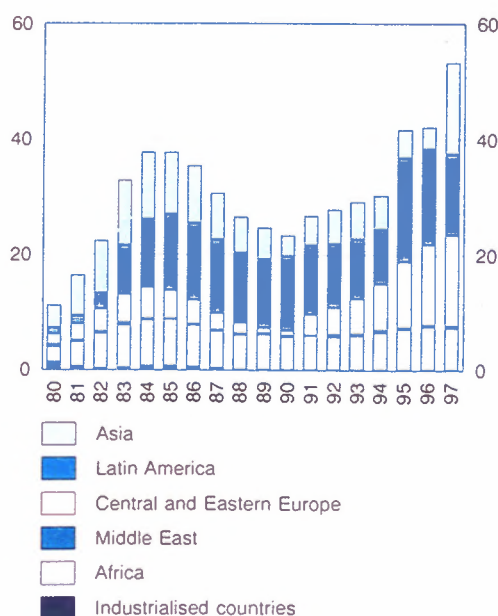
The IMF's participation in these financial assistance programmes in Asia increased the outstanding amount of the IMF's lending by more than 25 p.c. in 1997, bringing it up to over SDR 50 billion or more than double the level attained in the early 1990s. That level is also well above that recorded following the international debt crisis in the first half of the 1980s. The recent IMF interventions in Asia and that in favour of Mexico in 1995 have greatly accentuated the upward trend in the outstanding amount of the Fund's lending recorded following the support provided for the countries of Central and Eastern Europe in their transition to a market economy.

The financial systems of the emerging economies, which played a major role in the eruption of this financial crisis, had for some time been regarded as one of the weak links in the international monetary system. In the spring the Deputies of the Group of Ten published a report setting out a strategy devised with representatives of the newly industrialised countries for promoting financial stability in the emerging economies. At the same time the Basle Committee drew up basic principles for banking supervision, again in collaboration with the prudential authorities of emerging countries. The IMF and the World Bank adopted a common strategy for reinforcing the stability of the financial systems, including by monitoring the implementation of the basic principles drawn up by the Basle Committee.

The crisis in Asia also strengthened the Fund's desire to expand its surveillance of economic policies to include examining the

CHART 11 — GEOGRAPHICAL DISTRIBUTION OF LENDING BY THE INTERNATIONAL MONETARY FUND¹

(Billions of SDRs)



Source: IMF.

¹ Loans granted with the aid of the IMF's general resources and lending under the Structural Adjustment Facility and the Enhanced Structural Adjustment Facility.

quality of public management, concentrating its attention on shortcomings which are liable to affect a country's macroeconomic situation. The Fund also continued its efforts to improve the transparency of the economic policy situation of the member countries by publishing, with the agreement of the countries examined, press releases disclosing the opinion of its Executive Board following regular consultations with the authorities and developing a general standard for the circulation of data to all member countries. This general standard supplements the particularly demanding special standard established the previous year and aimed at countries borrowing on the international capital markets.

With the World Bank, the IMF has played a central role in implementing the initia-

tive, approved in 1996, for alleviating the debt burden of poor countries heavily in debt to bilateral official creditors and international financial institutions. Four countries have already been declared eligible and will

have their foreign debt substantially reduced, provided that they continue their adjustment under the financial assistance programmes of the IMF and the World Bank.

2. ACTIVITY AND EMPLOYMENT

2.1 ACTIVITY

Growth in Belgium continued to benefit from very sustained expansion of foreign markets. It was also stimulated by a recovery in domestic spending, which grew by more than 2 p.c. for the first time since the start of the decade. Altogether, at constant prices, GDP increased by 2.7 p.c. in 1997 against 1.5 p.c. in 1996.

The rise in GDP was therefore slightly greater than in France or Germany. In those two countries the growth of domestic spending has not yet accelerated, as consumption and investment have hardly increased at all on average despite a recovery during the year. Although this relative sluggishness did to some extent slow down the expansion of Belgium's foreign markets, they nevertheless grew faster than in 1996, contributing to a marked rise, of 6.2 p.c., in exports. Even though this rise, plus the strong domestic demand, did boost imports, the contribution of net exports of goods and services to growth increased, attaining 0.7 percentage point.

While domestic spending recovered earlier in Belgium than in the two large

neighbouring countries, the expansion was much slower than in the Netherlands. This divergence is due both to private consumption and to investment by enterprises.

Stimulated by profits, which have risen sharply in recent years, and by the revival of activity, investment by enterprises grew by 3.8 p.c. at constant prices. However, this rate conceals differences in movement between the major branches of activity.

The growth of investment in manufacturing industry, which started in 1994, continued at a rate comparable to that of the previous year. In view of the strength of demand, that growth did not prevent a further rise in the rate of utilisation of production capacity, which reached an unprecedented level. For enterprises focusing mainly on foreign markets, more intensive use of production capacity probably also reflects a structural tendency. The need to be competitive and cut costs is leading to the optimisation of production processes, and this has contributed to changes in the way work is organised. Thus, production capacities are being used for a longer period per week : according to the results of the workforce survey conducted by the NSI, shift working and

TABLE 6 — EXPENDITURE AT CONSTANT PRICES IN BELGIUM AND THE NEIGHBOURING COUNTRIES IN 1997

(Percentage changes compared with the previous year)

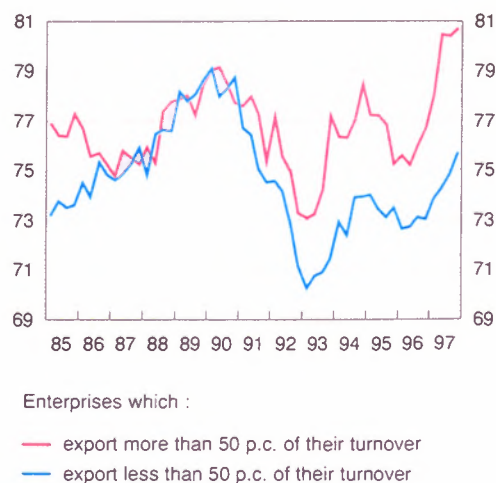
	GDP	Net exports ¹	Domestic expenditure	Gross fixed capital formation by enterprises	Private consumption
Belgium	2.7	0.7	2.3	3.8	2.1
Germany	2.4	1.1	1.3	1.9	0.9
France	2.3	1.4	0.9	0.5	0.6
Netherlands	3.2	-0.2	3.6	8.8	3.0

Sources : OECD, NBB.

¹ Contribution to growth of GDP.

CHART 12 — RATE OF UTILISATION OF PRODUCTION CAPACITIES IN MANUFACTURING INDUSTRY

(Seasonally adjusted data)



Source : NBB.

continuous working have increased considerably, as has week-end working, which increased by more than 10 p.c. between 1992 and 1996. In the non-manufacturing branches of industry, the development of investment was uneven, declining in the «electricity, gas and water» sector and expanding sharply in building and civil engineering.

After only modest growth in previous years, investment in market services expanded steadily. Geared more to the domestic market, service enterprises increased their investments as domestic demand showed signs of a more robust recovery. Also, particularly in the banking sector, investment expenditure was stimulated by the adaptation of data-processing equipment to the changeover to the euro and the third millennium. Furthermore, heavy expenditure by public enterprises also pushed up investment in transport and communications. Only hotel and catering enterprises further reduced their investment.

Altogether, the rate of investment by enterprises, i.e. the ratio between gross fixed capital formation and GDP, amounted to 11.2 p.c., which was close to the average for the past fifteen years. If the production facilities are to remain competitive and expand sufficiently to sustain higher growth and thus help to cushion the problems on the labour market, the rate of investment needs to increase further in the years ahead. The Government has already helped to improve the investment climate with a more balanced macroeconomic policy. That policy was supplemented by initiatives in favour of a more stable and transparent legal and administrative environment. Thus, at the end of 1997 the Government decided to apply the principle of the «fiscal ruling» to investments of both domestic and foreign origin amounting to Fr. 40 million or more. «Fiscal ruling» is a prior agreement concluded with the tax authorities, whereby enterprises are told the basis of assessment for the tax on the profits generated by their investments. A specific service will be set up to facilitate the implementation of this decision. It was also decided to develop the principles of «social ruling» and «economic ruling». The purpose of «social ruling» is to provide a legal guarantee of the exemptions from social security contributions granted on certain benefits, while «economic ruling» permits prior agreements relating to the implementation of certain provisions of the economic legislation. The Government also undertook to simplify the administrative obligations imposed on enterprises, particularly foreign investors. A network of contact points has also been set up to give small and medium-sized enterprises assistance in handling their administrative activities. An administrative simplification agency has also been established, with the task of encouraging, monitoring and coordinating the initiatives and activities of the various authorities in this field. The decision to introduce a «multi-function declaration» of data on pay and working hours, whereby employers will use a single declaration to notify the National Sc-

TABLE 7 — GDP AND MAIN CATEGORIES OF EXPENDITURE AT 1990 PRICES

(Percentage changes compared with the previous year)

	1994	1995	1996	1997 ^e
Private consumption ¹	1.4	1.4	1.6	2.1
p.m. Savings ratio ²	18.9	18.0	16.7	15.6
Public expenditure	2.0	...	0.2	2.8
Public consumption	1.6	0.9	1.8	1.0
Public investment	5.8	-8.3	-14.2	23.1
Housing	5.5	2.8	-4.0	3.0
Gross fixed capital formation by enterprises	-3.3	5.1	4.7	3.8
p.m. Rate of investment by enterprises ³	10.6	10.9	11.1	11.2
Total gross fixed capital formation ^{1,4}	-0.1	3.2	0.6	4.8
Change in stocks ⁵	0.3	...	-0.1	-0.1
Total domestic expenditure	1.4	1.7	1.4	2.3
Exports of goods and services	9.5	⁶	3.2	6.2
Total final expenditure	4.8	⁶	2.2	4.1
Imports of goods and services	8.2	⁶	2.8	5.5
p.m. Net exports of goods and services ⁵	1.1	0.7	0.4	0.7
GDP before statistical adjustments	2.5	2.4	1.7	2.9
Statistical adjustments ⁵ .....	...	-0.3	-0.3	-0.2
GDP	2.4	2.1	1.5	2.7
p.m. GDP at current prices (billions of francs)	7,762	8,056	8,305	8,649
GDP at constant prices (billions of 1990 francs) ..	6,814	6,955	7,056	7,248

Sources : NAI, NBB.

¹ Data excluding statistical adjustments. The latter are shown under a separate heading.² Percentages of disposable income.³ Percentages of GDP.⁴ Public investment, housing and gross fixed capital formation by enterprises.⁵ Contribution to the change in GDP.⁶ Owing to breaks in the gross flows of exports and imports between 1994 and 1995, caused by the introduction of a new data collection system for the compilation of the balance of payments and by the implementation of the recommendations made in the fifth edition of the IMF Balance of Payments Manual, the percentage change in 1995 has little significance.

cial Security Office of all data on employment, pay and working hours, will ultimately help to alleviate the burden of the many administrative formalities.

In 1997, individuals raised the level of their consumption expenditure by 2.1 p.c. in volume terms. This increase, the highest for five years, exceeded the rise in the real disposable income of households.

While it had been falling slightly on average over the three preceding years, the purchasing power of individuals increased by 0.7 p.c. This recovery is due to the rise in the two major categories of income.

However, income from property, where the propensity to save is higher, did not increase as fast as the other categories of income, so that its share in disposable income declined for the fourth consecutive year. As in the three previous years, this trend contributed to the decline in saving by individuals. The savings ratio, which came to around 15.6 p.c. of disposable income, is currently slightly below the average for the last fifteen years.

Wages and salaries, which play a dominant role in the development of private consumption, benefited from the rise in wages per person and the improvement in the labour market. In the short term, the

development of employment is the main factor determining changes in private consumption, notably because it influences the propensity for precautionary saving.

The restoration of household confidence was also reflected in the strong

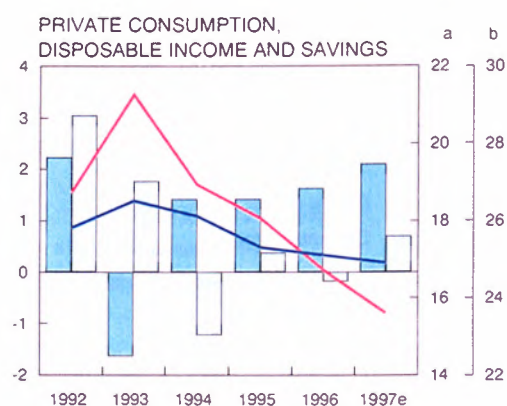
growth of purchases of durable goods, with the exception of vehicles. However, vehicle sales were higher than usual for years when the biennial motor show is not held. Expenditure on foreign travel also rose considerably.

The fall in mortgage interest rates which has persisted for over two years was one of the main factors which, after a certain time-lag, helped to strengthen demand for housing. Sales on the secondary market increased, as may be seen from the trend of registration fees. The associated expenditure on alterations also increased considerably. Finally, according to the trend of the volume of final plans drawn up by architects, which lags behind by nine months and was expanding strongly in 1996 and at the beginning of 1997, the demand for new housing has also picked up. Altogether, investment expenditure on housing increased by some 3 p.c. in 1997.

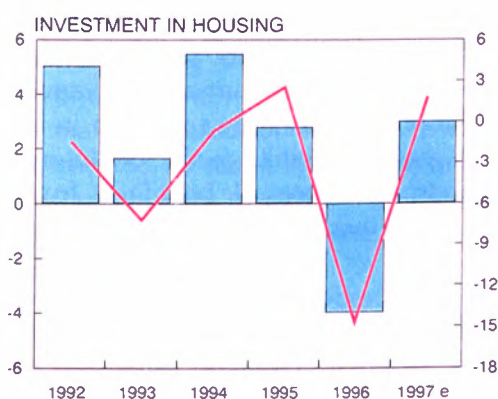
The growth of public consumption remained moderate, totalling 1 p.c. or 0.8 point less than the previous year. This rise is almost entirely attributable to the increase in the number of pensioners and the rise in compensation of employees at constant prices. In 1997 there was hardly any change at all in the other determinants, namely purchases of goods and services, which had increased in 1996, and the number of civil servants.

In contrast, public investment expanded sharply compared with the previous year. On the one hand, in 1996 it had contracted owing to the sale of federal government buildings, which, in accordance with the national accounts methodology, was deducted from gross fixed capital formation by general government. On the other hand, local authorities took advantage of the improvement in their financial situation due to the partial privatisation of Crédit Communal to carry out new investment projects. Despite this increase, public investment still only represents 1.4 p.c. of GDP in Belgium, a small proportion both in

CHART 13 — EXPENDITURE OF INDIVIDUALS



- Percentage changes in private consumption at constant prices (left-hand scale)
- Percentage changes in disposable income at constant prices (left-hand scale)
- Savings ratio of individuals (right-hand scale a)
- Income from property (net of tax, as a proportion of disposable income) (right-hand scale b)



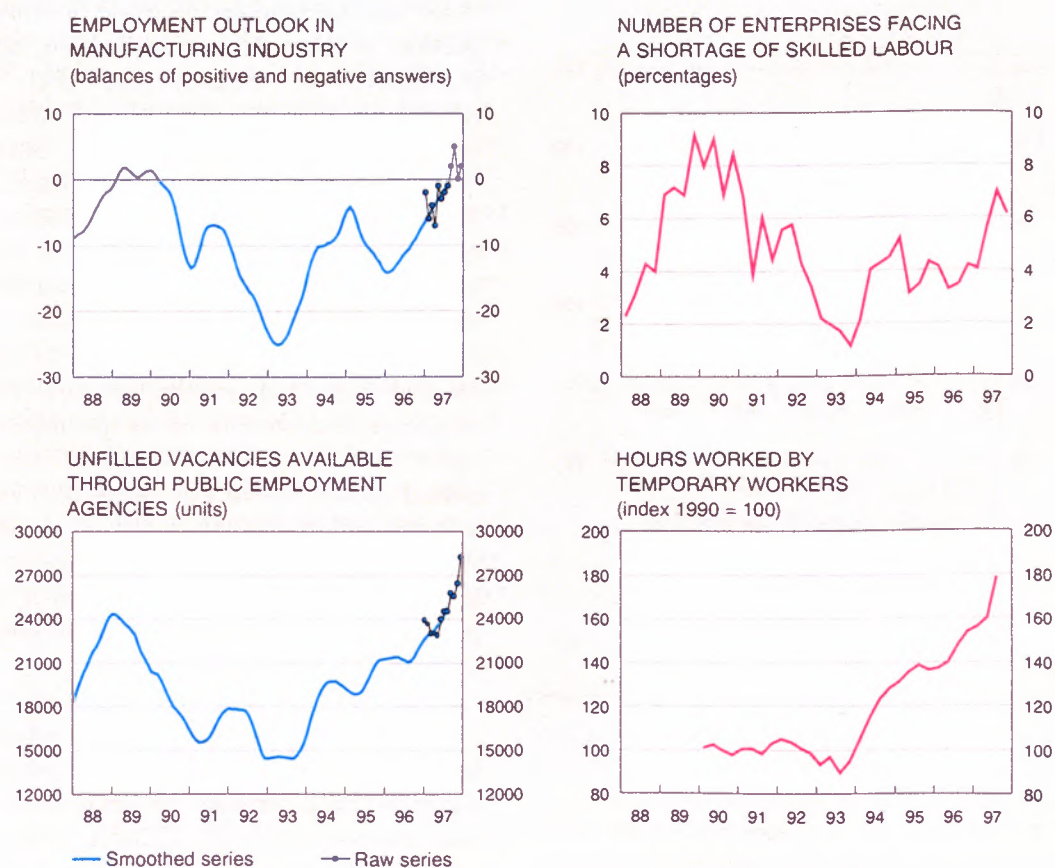
- Percentage changes in investment in housing at constant prices (left-hand scale)
- Volume of final plans for residential building drawn up by architects (right-hand scale)¹

Sources : NAI, NBB.

¹ Annual average of the balance of answers to the quarterly survey among architects, with a nine-month time-lag.

CHART 17 — INDICATORS OF THE DEVELOPMENT OF EMPLOYMENT

(Seasonally adjusted data)



Sources : NEMO, FOREM, ORBEM, VIDAB, Trade Association of Temporary Employment Agencies (Upedit), NBB.

There was also little change in the balance of frontier-zone workers, including officials of international institutions domiciled in Belgium.

The increase in the number of persons in work on 30th June 1997 compared with the previous year is therefore almost exclusively attributable to enterprises, where employment grew by 12,000 units, an increase of 0.4 p.c. On average over the year, the total number of jobs in enterprises increased by 0.8 p.c. For wage-earners only, the expansion was of the same order; half of it was due to the increase in the volume

of work and half to the redistribution of work.

As has been the case for more than twenty years, the reduction in the annual average period of employment per person was due mainly to the growth of part-time working; in 1997, this represented 16.8 p.c. of paid employment in Belgium. However, the proportion of part-time workers is still lower than in France and Germany, and in relation to the latter country, the average number of hours worked by part-timers in relation to full-time working was higher than in 1994, the latest year for which data are avail-

TABLE 8 — DEVELOPMENT OF EMPLOYMENT IN ENTERPRISES¹

	1993	1994	1995	1996 e	1997 e
Number of persons employed					
Data at 30th June					
Changes in thousands of units	-36	-24	21	18	12
Percentage changes	-1.1	-0.8	0.7	0.6	0.4
Annual averages					
Changes in thousands of units	-37	-21	15	15	23
Percentage changes	-1.2	-0.7	0.5	0.5	0.8
Annual average volume of work ²					
Percentage change	-1.8	-0.3	...	0.2	0.5

Sources : Ministry of Employment and Labour, INAMI, NSI, NBB.

¹ Including self-employed persons.² Data compiled by correcting the movement in the number of employed persons to take account of the movement of part-time working and temporary unemployment.

ble. These two factors are part of the reason why there has been less redistribution of work in Belgium. On the other hand, the annual number of hours worked by full-timers was well below that observed in the neighbouring countries, so that in Belgium the average number of hours worked per person was comparable to that recorded in Germany, and less than that in France. The situation is very different in the Netherlands. Full-time working hours are longer there than in the other countries, but part-time working is far more widespread, so that the aver-

age number of hours worked per person is the lowest.

Although no information is available for determining the movement of workforces by branch of activity during the year under review, it is probable that, continuing the trends observed for the past few years, jobs were created mainly in certain service branches.

Between 1987 and 1995, the number of persons employed fell by 10 p.c. in manufacturing industry and increased by

TABLE 9 — ANNUAL HOURS WORKED BY WAGE-EARNERS IN 1994

	Annual average hours worked per person ¹	Annual average hours worked per full-time job	Part-time jobs as a percentage of the total	Hours of work per part-time job compared with a full-time job (percentages)
Belgium	1,605	1,718	14.6	55.0
France	1,672	1,792	15.4	56.2
Germany	1,601	1,743	15.9	48.5
Netherlands	1,446	1,799	36.2	45.7

Source : EC, Labour force surveys.

¹ Total weighted according to the ratio between full-time and part-time jobs, the annual average hours worked per full-time job and the annual average hours worked per part-time job. This last figure is obtained by multiplying the hours worked full-time by the ratio between the hours worked per part-time job and those per full-time job.

over 10 p.c. in market services. However, these general trends do conceal some differences. Thus, enterprises in the food industry, paper and publishing, chemicals and plastics and electrical or precision engineering maintained or even increased their workforce. Conversely, in market services, employment did not increase in transport, retailing and financial services. The largest net job creations were recorded in services to enterprises, the health sector, cultural and leisure services and personal services.

Although net job creations occurred mainly in market services, in Belgium the expansion of the volume of work, i.e. the number of hours worked, was below the average in the three neighbouring countries during the period from 1987 to 1994. The discrepancy has increased since the early 1990s. In industry, on the other hand, job losses were comparable to those seen in the Netherlands, but well below those in France and Germany. These divergences are due firstly to differences in the trend of activity. Compared to neighbouring countries, Belgium has seen higher average growth of output in industry and lower growth in market services. In this last branch, however, activity has ceased to trail further behind in recent years, whereas net job creations in market services have continued to be less here than in the neighbouring countries. The more rapid growth of labour costs in market services in Belgium may have contributed to this trend, because enterprises have had to compensate for it by higher productivity gains. In Belgium, the trends in labour costs in market services and industry have been parallel, whereas in the neighbouring countries the increase has been less marked in the former.

Promoting employment is a priority for the government. Combined with measures to reinforce the stability of the macroeconomic framework, which is conducive to sustained growth, the labour policy has for several years been based on four main aspects: controlling and reducing labour

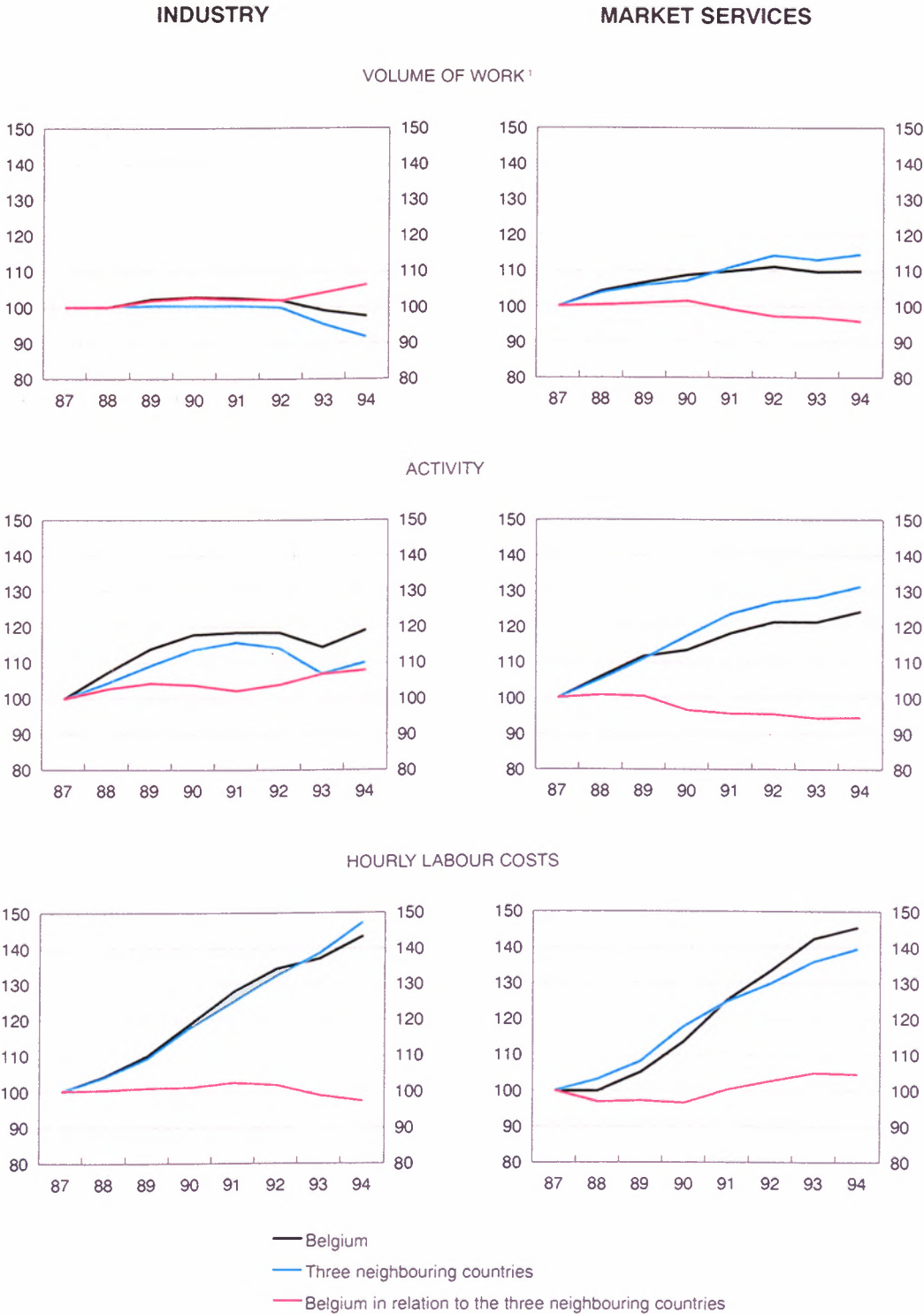
costs, encouraging the redistribution of work and greater flexibility of the labour market, specific measures for target groups and the development of jobs which meet the needs of society which are inadequately satisfied, if at all, by the traditional labour circuits. Thus, employment policy in Belgium fits in with the European strategy on the subject.

In 1997 the main innovations and adjustments concerned provisions regulating the reductions in employers' social security contributions and the reintegration of the long-term unemployed into the labour market.

As regards the reductions in contributions, the rules of the Maribel system were changed. Since 1st July 1997, reductions have depended on the number of manual workers and are no longer confined to industry, transport and horticulture. This change is in response to the objections made by the European Commission, which considered that the restriction on the number of branches of activity which could claim a reduction in contributions was liable to distort competition. Since 1st April, temporary reductions in contributions have also been allowed for small and medium-sized enterprises taking on a second or third worker; this is an extension of the «plus one» plan which has been operating since 1988 and was modified in 1994. A new system of employment agreements has also been drawn up for 1997 and 1998. Like the agreements in force in 1995 and 1996, this system makes it possible to grant reductions in contributions for net recruitments in enterprises which have concluded agreements on the redistribution of work. Compared to the previous ones, the new employment agreements require enterprises to select at least two employment promotion measures from among those proposed in a Royal Decree dated 24th February 1997, namely the right to a career interruption, voluntary part-time working, collective reduction of working hours, flexible hours, entitlement to a half-time early retirement pension and

CHART 18 — TREND OF THE VOLUME OF WORK, ACTIVITY AND LABOUR COSTS IN INDUSTRY AND MARKET SERVICES

(Indices 1987 = 100)



Sources : OECD, EC.

¹ Number of hours worked.

the introduction of a supplementary training scheme for workers during working hours. Furthermore, in order to limit the windfall effects — i.e. the granting of reductions for recruitments which would have taken place anyway — there is provision for verifying that the measures adopted are applicable in the enterprise, taking account of its workforce.

Two new measures have also been devised with the same idea as the employment agreements. On the one hand, in the case of the supplementary employment subsidy, reductions in contributions relate — as under the employment agreements — to an increase in the workforce in the enterprise, but are calculated in terms of gross quarterly pay and not on a flat-rate basis. On the other hand, since enterprises in difficulties or engaged in restructuring do not take on staff and therefore cannot benefit from the employment agreements, specific agreements offer them the chance to secure reductions if they avoid redundancies by reducing working hours.

In addition, a small number of experiments in linking reductions in working hours with lower contributions may be carried out. A system providing for a flat-rate reduction in contributions for each worker employed in the health and social services sectors has also been established. To take advantage of this last provision, the employer must be bound by a collective labour agreement or have entered into a framework agreement or mixed agreement which must guarantee that the whole of the reductions in contributions will be converted into additional recruitments.

The activation of unemployment benefits, i.e. their use as an instrument for integrating the unemployed into the labour market, has already been applied in several ways. Some applications are general in scope, such as the systems of subsidised working under contract by civil servants and the other government employment programmes, while others are aimed at the integration of specific groups, such as un-

employed persons who accept part-time work in order to escape from unemployment and who, on certain conditions, may be eligible for an income-supplementing benefit, or young people taken on under first-work-experience contracts. The Government has also decided to use the activation of unemployment benefits in favour of the long-term unemployed. In consultation with the regions and communities, the Federal Government has developed an occupational transition programme whereby local authorities take on the long-term unemployed, for a specific period, to carry out work which is currently neglected. Most of their pay will be financed via unemployment insurance. A similar scheme is planned for private employers. As in the case of local employment agencies, these programmes must meet needs which are not, or inadequately, met by the traditional labour market.

Labour force

The labour force increased by only 8,000 units between 30th June 1996 and 30th June 1997, or barely more than the small rise recorded in the preceding twelve months.

On the one hand, there was only a small increase in the population of working age. On the other hand, the overall activity rate only increased slightly.

The small increase in the total activity rate was due to the acceleration of early withdrawals from the labour market, owing to the relaxation of the rules relating to the scheme for older unemployed persons not seeking work at the beginning of 1996. This relaxation had the effect of increasing not only the number of potential beneficiaries on the date of its entry into force but also the numbers of persons satisfying the conditions for this scheme month by month. The first effect was absorbed in a few months during 1996. On the other hand, the second should continue until it

TABLE 10 — LABOUR FORCE

(Annual changes in thousands of units, data at 30th June)

	1993	1994	1995	1996 e	1997 e
Change in the labour force	35	8	21	6	8
p.m. Activity rate (percentages) ¹	63.8	63.9	64.2	64.2	64.3
Incidence of the change in the population of working age ²	7	6	1	...	3
Incidence of the change in the activity rate ³	28	2	20	6	5
Effects of early withdrawals from the labour market ⁴	5	6	6	-21	-14
Other effects ⁵	23	-4	14	27	19

Sources : Ministry of Employment and Labour, NSI, NEMO, NBB.

¹ Labour force as a percentage of the population aged 15 to 64 years.² Change in the population of working age multiplied by the activity rate.³ Change in the activity rate multiplied by the population of working age.⁴ Change in the number of persons taking early retirement and older unemployed persons not seeking work.⁵ Calculated as a difference, reflecting mainly the effects of structural, cyclical and demographic trends affecting the activity rate.

is offset by an increase in the number of older unemployed persons reaching normal retirement age.

The importance of the other schemes for withdrawing from working life declined. The fall in the numbers taking early retirement, which has been going on since April 1990, continued to the extent of 4,600 units between 30th June 1996 and 30th June 1997, while there was hardly any change in the number of people temporarily withdrawing from the labour market by complete career interruptions or interruptions of unemployment for family or social reasons.

Unemployment

The slight increase in employment observed between 30th June 1996 and 30th June 1997 would not normally have been enough to absorb the growth in the labour force. But, owing to the changes to the regulations relating to older unemployed persons and their effects in reducing the labour force, the numbers of unemployed job-seekers dropped by 4,000 units.

In order to highlight the influence of the fundamental factors which determined the trend of unemployment, i.e. those not resulting from changes in the regulations, it is necessary to add together the changes in the number of unemployed job-seekers and those in the number of older unemployed persons not seeking work, which has the effect of compensating for the shifts between these two categories.

Given the inertia of demographic and sociological data, the short-term changes in the movement in this series are due mainly to the cyclical profile of employment. Thus, the year-on-year change in the total number of unemployed job-seekers and older unemployed persons swung from a decrease of over 7,000 units in October 1996 to an increase of over 14,000 units in June 1997. This deterioration began at the time when the recovery of activity which started early in 1996 faltered somewhat, as can be seen from the synthetic curve of economic activity. It was only in the third quarter of 1997, or almost nine months after the end of the pause in the cycle, that the growth in unemployment stabilised, before slowing down during the final months of the year. This profile is also

found in the trend of short-term unemployment, the decline in which quickened in the final months of 1997. In contrast, long-term unemployment, including the older unemployed, continued to rise.

The improvement in the labour market led to a steady fall in the harmonised unemployment rate from September onwards, bringing it down to 9.3 p.c. in December 1997. That rate is calculated on the basis of the results of the workforce survey which the NSI conducts in the spring of each year using a common European methodology. This rate, which takes account of the real availability of job-seekers for the labour market, enables a comparison to be made between countries. During the year under review, the movement in the neighbouring countries differed. In Germany the upward movement seen since the beginning of 1995 continued uninterrupted. In France the unemployment rate remained stable throughout

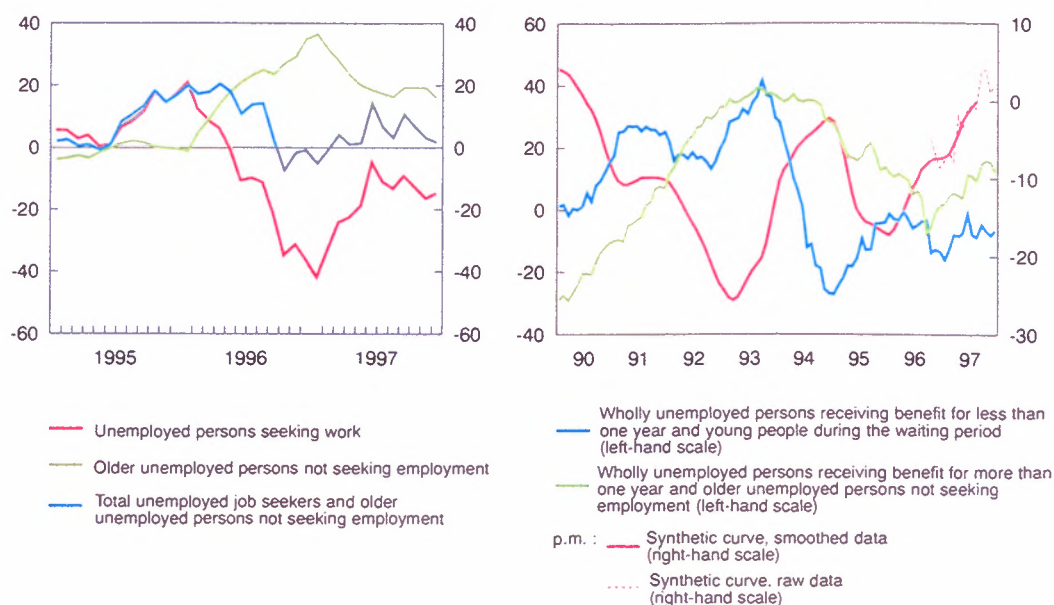
the year. In the Netherlands the decline which had started at the beginning of 1995 continued and in October the unemployment rate stood at 4.9 p.c., or well below the rates recorded in Germany and France, where the figures were 10 and 12.6 p.c. respectively.

The total unemployment rate conceals specific situations which differ greatly according to region, sex or the level of qualifications of job-seekers. Thus, analysis of jobs available through regional employment agencies reveals signs of shortages in certain skills, e.g. computer experts, engineers and certain technical occupations.

Conversely, certain groups are over-represented and are often unemployed for long periods. Thus, women are more at risk of being unemployed than men; although this ratio has been tending to fall over the past ten years, the female unemployment rate is still 70 p.c. higher than

CHART 19 — DEVELOPMENT OF UNEMPLOYMENT

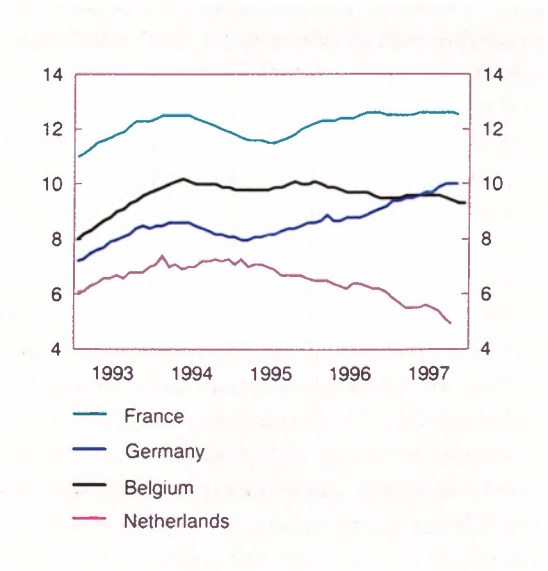
(Changes compared with the corresponding period of the previous year, thousands of units)



Sources : NEMO, NBB.

CHART 20 — INTERNATIONAL COMPARISON OF THE UNEMPLOYMENT RATE

(Unemployed job-seekers as percentages of the civilian labour force, seasonally adjusted monthly data)



Source : EC.

the rate for men. The level of education is also an important source of differences in terms of the risk of unemployment : in 1996, 58 p.c. of job-seekers had no more than a certificate of primary or lower secondary education, whereas this group represents 40 p.c. of the population of working age.

3. PRICES, COSTS AND INCOMES

3.1 INFLATION

Measured on the basis of the national consumer price index valid during the year under review, inflation amounted to 1.6 p.c. in 1997 against 2.1 p.c. in 1996. This slowing is almost entirely due to the smaller impact of increases in indirect taxation, the effect of which was only 0.2 p.c. in 1997 against 0.5 p.c. in 1996. The tax increases resulting from the 1997 budget were in fact confined to the raising of the excise duty on petrol and alcoholic beverages, whereas in 1996 the VAT rate was put up from 20.5 to 21 p.c. in addition to

an increase in the duty on petrol and a compensatory raising of the road tax on vehicles with diesel engines. Furthermore, the increases in excise duty in 1997 were partly offset by the reduction in the VAT rate on ornamental plants and cut flowers from 21 to 6 p.c.

Since most of these measures already came into force in October and November 1996, they had hardly any effect on the rate of inflation at the end of 1997. In December, that rate was only influenced by the increase in the excise duty on petrol, which came into force on 30th December 1996.

TABLE 11 — CONSUMER PRICES

(Percentage changes compared with the previous year)

	Total						Health index ¹	Underlying inflation ²
		Energy products	Food products	Other goods	Services	Rents		
1993	2.8	3.6	-0.8	2.8	3.8	5.3	—	2.9
1994	2.4	0.9	1.8	2.4	2.6	4.6	—	2.4
1995	1.5	-0.6	1.2	1.3	2.0	2.9	1.6	1.6
1996	2.1	6.1	0.6	1.2	2.3	2.5	1.7	1.7
1997	1.6	4.0	2.2	0.7	1.5	1.7	1.3	1.3
December 1996 ³	2.5	8.5	1.2	1.3	2.7	2.0	2.0	1.9
December 1997 ³	1.1	-0.1	2.9	0.3	1.2	1.6	1.1	1.2
<i>Changes excluding alterations in indirect taxation</i>								
1993	2.4	0.4	-0.7	2.9	3.7	5.3	—	2.9
1994	1.6	-2.4	1.7	1.4	2.2	4.6	—	1.8
1995	1.5	-0.8	1.2	1.3	2.0	2.9	1.6	1.6
1996	1.5	3.9	0.5	0.9	1.9	2.5	1.4	1.3
1997	1.4	2.7	1.8	0.8	1.4	1.7	1.4	1.3
December 1996 ³	2.0	6.7	0.6	1.1	2.2	2.0	1.8	1.5
December 1997 ³	1.1	-1.0	2.9	0.3	1.2	1.6	1.1	1.2

Sources : MEA, NBB.

¹ Inflation after exclusion of the repercussions of the rises in the prices of products which are considered to be harmful to health (namely tobacco, alcoholic beverages, petrol and diesel), of the energy contribution introduced by the law of 22nd July 1993 and of the excise-duty-compensating tax on diesel-engined vehicles introduced in January 1996.

² Inflation after exclusion of the influence of energy products, potatoes and fruit and vegetables.

³ Percentage changes compared with the corresponding month of the previous year.

If the changes in indirect taxes are disregarded, then prices rose by 1.4 p.c. in 1997, a rate close to that in 1995 and 1996. However, although the average pace of price rises has stabilised over the past three years, both the trend in the prices of the various product categories and the monthly pattern of inflation are more uneven.

The rise in the prices of services and the increase in rents, excluding the changes in indirect taxation, continued to slow down during the year under review. Furthermore, these two categories are the ones with the largest cumulative fall since 1993. In the case of services, that may be connected with the fact that price increases in this sector are particularly influenced by the development of labour costs, which has been the reason for the fall in inflation since 1993. For their part, rent increases have slowed down since 1994, because that is when the health index was introduced as the reference for indexing rents. That year, indexation was temporarily curbed because of the difference between the level of the overall index and the health index at the beginning of 1994. In the subsequent years the cumulative rise in the health index remained 0.6 p.c. below that in the overall index. The introduction of the health index therefore continued to have a moderating influence, which accentuated the general slowing of inflation. All in all, the indexation component of rents remained small in 1996 and 1997.

The increase in basic rents in excess of indexation has been slowing down uninterruptedly since 1992, actually falling to virtually zero in 1997. Under the law of 20th February 1991, the basic rent may be freely determined whenever a new lease is signed. The law of 13th April 1997, which supplements the said law on rents, restricts that possibility to some extent when several short-term leases are concluded in succession with different tenants, and in each case the leases have been terminated by the lessor. Under the law of 20th February 1991 the basic rent may only be reviewed

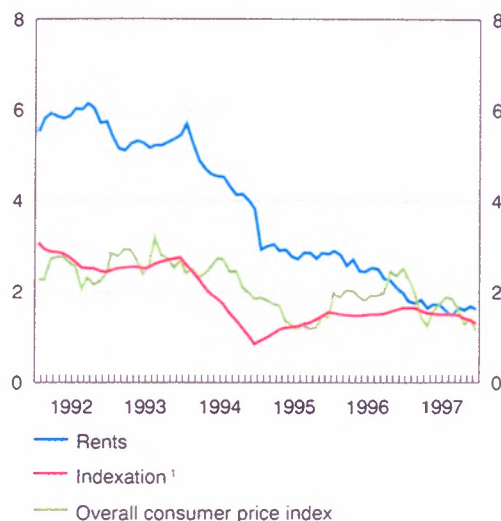
at the end of a three-year period in each case. If the lessor and the tenant cannot reach agreement, the magistrate may authorise a rent increase or reduction if the plaintiff can show that the rental value of the dwelling has changed significantly as a result of new circumstances or renovation.

Most of these legal provisions have already been in force for some years and thus have nothing to do with the fact that basic rents have risen less rapidly of late. That applies equally to the changes provided for by the law of 13th April 1997, because at that time the rise in basic rents had already ceased to outstrip the permitted indexation. That development therefore seems largely due to market mechanisms, particularly the reduction in real interest rates and the slowing of price rises on the property market.

If the changes in indirect taxation are disregarded, the rise in prices of goods

CHART 21 — RENTS

(Percentage changes compared with the corresponding month of the previous year)



Sources : MAE, NBB.

¹ Estimate based on the assumption that one-twelfth of rents are indexed each month.

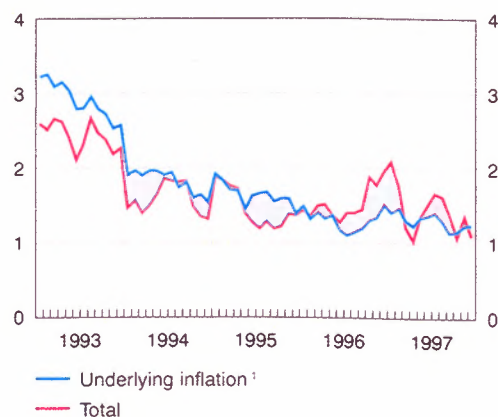
other than energy products and foodstuffs stabilised, while the prices of the latter rose faster. That was particularly true of meat, partly because of the smaller supply owing to swine fever. Coffee and fish prices also went up. As often happens, the erratic movement of the prices of vegetables and fruit in 1997 were one of the factors behind the variable monthly pattern of inflation. Thus, vegetables and fruit became substantially dearer in January, July, September and November and a great deal cheaper in March and April.

The resulting monthly fluctuations in inflation, disregarding the changes in indirect taxation, were further accentuated by the movement of energy prices. The price of crude oil had risen, during the final quarter of 1996 and at the beginning of 1997, reaching around 24 dollars a barrel. When the factors which had pushed up this price — namely the severe winter, the low level of stocks and the boycott against Iraq — had disappeared, it dropped back during the year. As a result of the OPEC decision to raise the production ceiling from January 1998, the price had even fallen to the very low level of 16.5 dollars per barrel at the end of December. In August, however, there was a sharp rise in the consumer prices of energy products owing to the strength of the dollar during that month and temporary factors which caused petrol to be in short supply. Overall, the decline in the price of crude oil was largely counterbalanced by the appreciation of the dollar, so that, if the increases in excise duty are disregarded, energy prices were hardly any lower in December 1997 than they had been a year earlier.

Leaving aside not only the impact of changes in indirect taxation but also the changes in prices of energy products, potatoes, vegetables and fruit, a yardstick is obtained which is thought to provide a better indication of the fundamental trend of inflation than the overall index. Measured in this way, underlying inflation gives the monetary authorities, in particular,

CHART 22 — CONSUMER PRICES, EXCLUDING THE REPERCUSSIONS OF INDIRECT TAXATION

(Percentage changes compared with the corresponding month of the previous year)



Sources : MEA, NBB.

¹ Inflation after exclusion of the changes in the prices of energy products, potatoes and fruit and vegetables.

more relevant signals for the policy to be adopted. After having fallen between 1993 and 1995, underlying inflation continued to fluctuate within a narrow margin, from 1.1 to 1.5 p.c., from January 1996 onwards. In 1997, as in 1996, it averaged 1.3 p.c.

All in all, inflation in Belgium has for some time now been at a level generally regarded as corresponding to price stability, as it is widely accepted that the rise in the consumer price index normally overestimates the real rate of inflation. That is mainly due to the following three factors.

First, the movement of the prices taken into account in calculating the index is generally insufficiently adjusted for changes in product quality, so that the rise in the consumer price index not only reflects a price increase but also shows to some extent that the average quality of the basket of products considered has improved. However, it is very difficult in practice to

construct an index that does not suffer from this «quality deviation».

Furthermore, it usually takes quite a time before new products are included in the consumer price index, while their prices generally fall markedly during the period following their introduction on the market. The overestimation of the inflation rate caused by failure to take account of the whole of these price falls is generally called the new product bias.

Finally, the use of fixed weighting coefficients in compiling the consumer price index — a «Laspeyres index» — means that account is not taken of the substitution between products which, in relative terms, have become more expensive and those which have become cheaper. The same applies to substitution between outlets caused by the fact that the consumer tends to favour the distribution channels offering the lowest prices. The substitution bias therefore corresponds to the overestimation of inflation due to the fact that, over a period of time, products and/or outlets which have become relatively more expensive are over-represented.

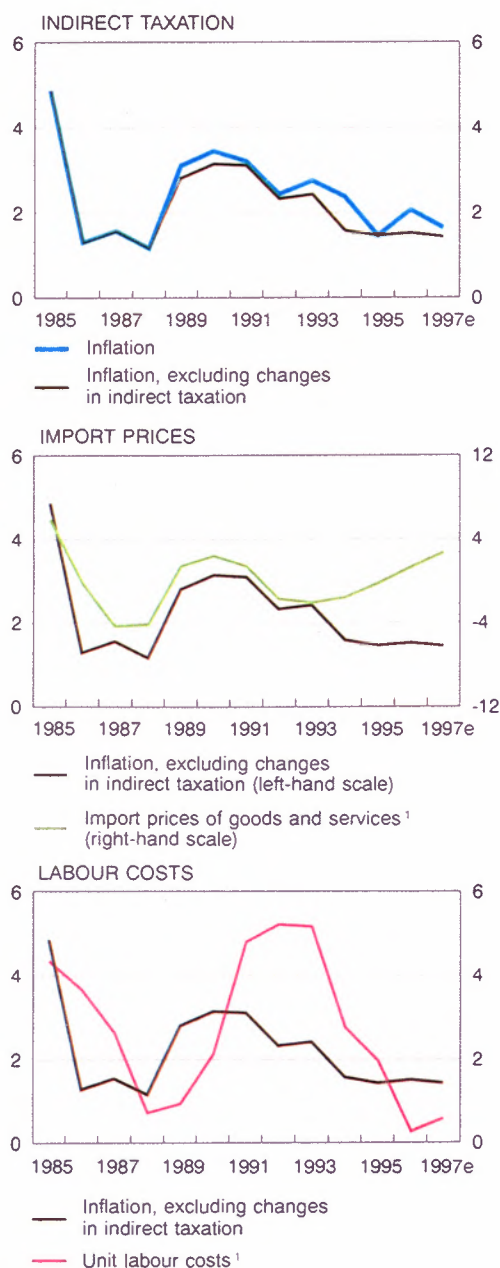
In January 1998 a new national consumer price index came into use in Belgium, with 1996 as the base year. This could slightly moderate the effects of the new product bias and the substitution bias, since many products which have recently gained a more important place in the pattern of private consumption have been added to the basket of goods and since the weighting coefficients are based on the household budget survey conducted by the NSI between June 1995 and May 1996. For its part, the weighting of the index applicable during the year under review is based on the household budget survey covering the period from May 1987 to April 1988.

The Belgian consumer price index harmonised at European level, which, in accordance with the relevant European directives, has been published since March

1997, foreshadows to a significant extent the new national index, because its coverage is almost 94 p.c. of that of the new national index, and it is also based on the

CHART 23 — INFLATION AND MAIN DETERMINANTS

(Percentage changes compared with the previous year)



Sources : MEA, NAI, NBB.

¹ Three-year moving average.

results of the latest household budget survey. In addition, the weighting of that index was influenced in a discretionary manner by the introduction of a new definition of the prices for certain products, such as medical care and insurance, and of the share of expenditure on housing. At European level it was decided, among other things, that imputed rents would not be included in the harmonised index numbers, because in the short term it did not seem feasible to harmonise the existing national practices. The requirement that the coverage of the harmonised index must be exhaustive was exchanged, as it were, for the need to harmonise the statistical methods used. Like the harmonised index numbers, the weighting of the new national index also excludes imputed rents for owner-occupied dwellings. On the other hand, a weighting coefficient which takes account of both actual and imputed rents was applied to the recorded movement of actual rents in the index in force during the year under review.

While there is a link between the movement of inflation and that of costs, there is a delay before cost increases are reflected in higher prices. Thus, up to and including in 1993 the turning points of inflation correspond roughly to those of the three-year moving average of the trend of import prices, which was in turn influenced by the changes in prices charged abroad and by the effective exchange rate for the franc.

The impact of unit labour costs was less apparent until 1993. Between 1985 and 1989, wage formation, via the indexation mechanism, was mainly determined by the movement of prices. At the beginning of the 1990s, the substantial increases in labour costs did not produce inflationary pressures: owing to the downturn in the economy during this period and the appreciation of the effective exchange rate for the franc, it was probably difficult for the rise in labour costs to be passed on to consumers, resulting in shrinking profit margins on goods and services for private consumption.

From 1994 onwards, on the other hand, the trend of labour costs did have a noticeable impact on inflation. The slower pace of increases in unit labour costs — due primarily to the wage restraint imposed by the Government — was in fact the reason for the fall in inflation in 1994 and 1995, and also prevented the rise in import prices in 1996 and 1997, due to the appreciation of the dollar, from pushing up inflation. As the rise in unit labour costs ceased to slow down in 1997 and, in contrast, the rise in import prices quickened, the stability of inflation during the year under review was perhaps accompanied by a degree of pressure on profit margins on goods and services for private consumption.

The fall in inflation seen in Belgium since the early 1990s is in line with the general trend in the EU in recent years. As the rate of inflation has slowed, the inflation rates of the Member States have also converged, in just the same way as the divergence increased when inflation was accelerating. As a result of these movements, in 1997 inflation in the EU Member States, with the exception of Greece, was below the reference value set by the Treaty of Maastricht. That reference value corresponds to 1.5 p.c. above the average of the inflation rates achieved by the three, at most, best performing countries. In both 1996 and 1997 it fluctuated between 2.5 and 2.7 p.c.

An examination of the degree to which the Maastricht inflation criterion was met in the past — and such an exercise is purely theoretical — shows that the Netherlands as well as Germany and Austria, except during the period immediately following German reunification, have been fulfilling the criterion for a long time. Belgium and Luxembourg exceeded the reference value only after the first oil shock and after the devaluation of the franc in 1982. In many countries, including France, inflation fell below the reference value in the late 1980s or early 1990s. For Italy, Spain and Portugal, 1997 was the year in which the infla-

tion rate converged with that of the best-performing European countries.

3.2 COSTS IN ENTERPRISES

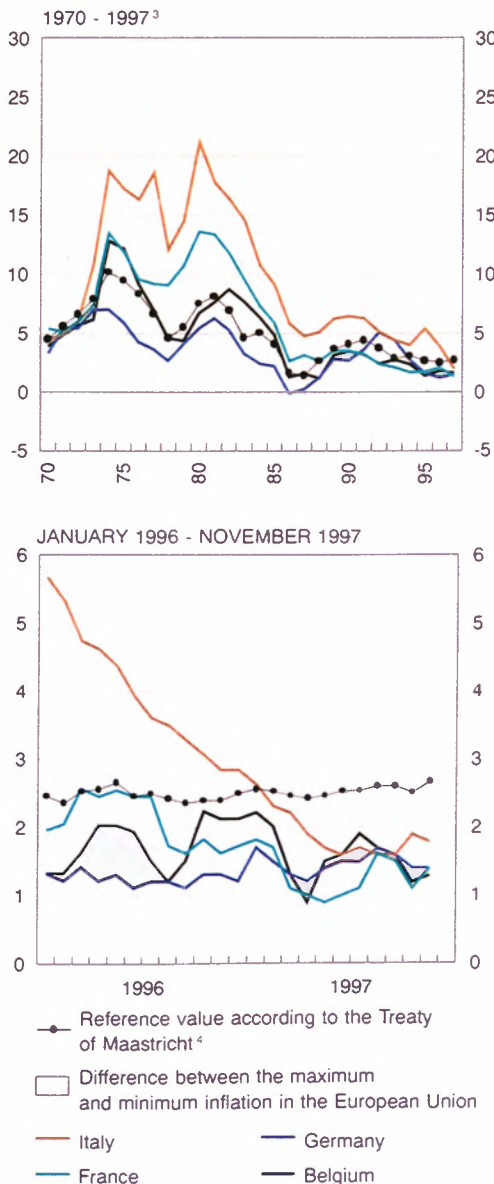
During the year under review, the law of 26th July 1996 on employment promotion and the preventive safeguarding of competitiveness was applied to wage formation for the first time. The provisions of this law have already been commented upon in the Bank's Report for the year 1996. It should be remembered that this law calls upon the social partners to conclude an inter-trade agreement which lays down a maximum rise in labour costs per full-time equivalent in nominal terms, adjusted if appropriate for any changes in collectively agreed annual working hours. This maximum must take account of the expected increase in labour costs in the three main trading partners. It must be observed in negotiating the biennial wage agreements both at national and sectoral level and at enterprise level, and must not be exceeded in individual agreements either. If management and labour fail to reach agreement, the Government must fix this maximum. As the social partners were unable to reach agreement, a Royal Decree dated 20th December 1996 set this maximum for 1997 and 1998 combined at 6.1 p.c.

On expiry of the negotiation period which had been set for the joint committees and sub-committees and for individual enterprises, and which had been extended to the end of June 1997, labour agreements were signed in respect of roughly three quarters of private-sector employees. The National Economic Council, which, in accordance with the provisions of the law, has to draw up a technical report on the movement of labour costs, concluded in September 1997 that the average rise in labour costs in the three neighbouring countries had not been exceeded and therefore saw no reason to apply the adjustment mechanisms provided for by the law.

That evaluation was largely based on estimates not just for the partner countries

CHART 24 — CONVERGENCE OF INFLATION IN THE EUROPEAN UNION¹

(Index numbers of consumer prices², percentage changes compared with the previous year)



Sources : EC, NBB.

¹ The 15 Member States of the European Union for the whole of the period.

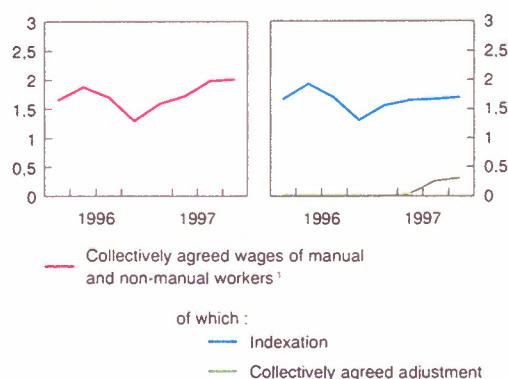
² National index numbers up till and including 1994, interim index numbers in 1995 and harmonised index numbers from 1996 onwards.

³ First eleven months.

⁴ Theoretical exercise.

CHART 25 — COLLECTIVELY AGREED WAGES OF MANUAL AND NON-MANUAL WORKERS

(Percentage changes compared with the corresponding quarter of the previous year)



Sources : MEL, NSSO.

¹ Weighted average based on the relative share of manual and non-manual workers in total wages and salaries.

but also for Belgium. On the one hand, it is difficult to make an accurate assessment of the effect of the agreements. On the other hand, there are hardly any indicators available on the recent trend in labour costs. The index of collectively agreed wages published by the Ministry of Employment and Labour does offer some indications on the trend of nominal gross pay under the collective labour agreements. Nevertheless, although that index is based on the provisions of such agreements concluded by the various joint committees, it is still only a partial indicator of the trend of labour costs. Factors such as increases agreed upon at enterprise level, wage drift and employers' social security contributions are not included. Nor does it include the movement of labour costs for employees not covered by a collective agreement, or for those of public enterprises.

Nevertheless, this statistic does provide valuable information. In 1997, the collectively agreed wages of manual and non-manual workers went up by 1.8 p.c. The rise was fairly slow at the beginning of the year, but it speeded up later, chiefly be-

cause most sectoral agreements were only concluded during the year and the resulting collectively agreed wage increases could not be implemented until afterwards.

Partly on the basis of these data, the increase in gross compensation per full-time equivalent for the year as a whole is estimated at 2.8 p.c. The influence of the wage indexations was apparently only 1.5 p.c., while 0.8 p.c. is due to the agreed increases. In the absence of reliable data, the labour cost increase attributable to wage drift is traditionally estimated at 0.5 p.c.

In 1997, total labour costs per full-time employee increased by 2.9 p.c. Although employers' social security contributions declined further as a proportion of GDP, they still accounted for 0.1 p.c. of the rise in those costs. However, the increase in these contributions does not indicate any departure from the policy which has been pursued for several years of reducing employers' costs, since the scope of various existing measures has been expanded. The effect of this was neutralised during the year under review, however, by the tightening up of the previously very flexible conditions governing eligibility for the reduced rate of contributions under the employment promotion agreements. Moreover, the range of pay and welfare benefits on which social security contributions are levied has been extended in a number of clearly defined cases : from 1997, social security contributions must be paid on company vehicles and student labour.

Comparison of the labour cost increase per full-time equivalent with that in the neighbouring countries may be distorted by differences in the movement of hours worked. It is therefore more relevant to compare the movement of hourly wage costs. For Belgium, the increase estimated in this way was 2.5 p.c. and for the neighbouring countries it was 3.1 p.c., representing a slight reduction of the 2.5 p.c. differential which had developed since 1987.

TABLE 12 — LABOUR COSTS IN ENTERPRISES¹

(Percentage changes compared with the previous year)

	1991	1992	1993	1994	1995	1996	1997 e
Gross compensation per full-time employee	8.8	6.3	5.2	2.4	3.3	1.4	2.8
Increase resulting from :							
Indexations	3.5	2.7	2.6	1.4	1.5	1.4	1.5
Wage increase under collective agreements	2.3	2.3	0.9	1.4	...	...	0.8
Wage drift ²	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other factors ³	2.2	0.7	1.2	-0.9	1.3	-0.6	...
Employers' social security contributions ⁴	0.3	...	0.1	-0.4	...	-0.2	0.1
Labour costs per full-time employee	9.1	6.3	5.3	2.0	3.3	1.1	2.9
Productivity per full-time employee	2.5	2.4	-0.1	2.7	1.8	1.0	2.5
Unit labour costs ⁵	6.4	3.9	5.4	-0.8	1.5	0.1	0.4

Sources : NAI, NBB.

¹ Private and public enterprises. All the data are calculated without taking account of the possible influence of the statistical adjustments whereby the three approaches of the national accounts are reconciled.² This item is an overall estimate and consists mainly of the scale increases.³ This item includes increases granted by enterprises over and above collectively agreed or scale adjustments, the effect of changes in the composition of the working population, the difference between estimated and actual wage indexations, the difference between the estimated and actual effect of the collectively agreed wage increases, and errors and omissions.⁴ Contribution to the increase in labour costs per full-time employee.⁵ Per unit of value added, at constant prices.

As unit labour costs have risen faster in Belgium than in the three principal trading partners since 1987, the level of unit labour costs in 1997 according to the available provisional data, appears to have been almost the same as the average in the three partner countries.

TABLE 13 — HOURLY WAGE COSTS IN ENTERPRISES IN BELGIUM AND THE THREE NEIGHBOURING COUNTRIES¹

(Data in national currencies)

	Indices 1996 (1987 = 100)	1997 e (percentage changes compared with 1996)
Belgium ²	146.3	2.5
Average of the three neighbouring countries	142.7	3.1
Disparity	102.5	-0.6

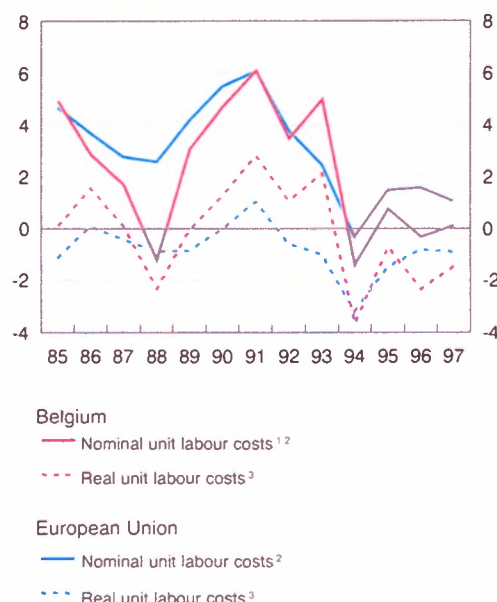
Sources : OECD, NBB.

¹ Germany, France and the Netherlands.² For the purpose of international comparison, the data for Belgium were compiled on the basis of a methodology identical to that of the other countries and therefore differ from those in Table 12.

Although the rise in unit labour costs has slowed in recent years, this phenomenon is not peculiar to Belgium. Since 1992 the increase has also slackened in the Member States of the European Union as a whole, because almost all the EU countries have made an effort to moderate labour costs. There are various factors involved here. The globalisation of the world economy has greatly intensified since the end of the 1980s, increasing the pressure of international competition. The substantial progress made towards Economic and Monetary Union has also brought about a strong movement towards convergence, with even greater emphasis on controlling inflation. The fall in the level of inflation and hence in the expected rate of inflation has had a moderating effect on nominal wage demands. The high unemployment in most EU countries may well also have had something to do with that. However, in Belgium more than in the other EU countries, the wage moderation since 1994 has been brought about by direct government intervention, keeping unit labour costs relatively stable for the past four years. In

CHART 26 — UNIT LABOUR COSTS IN ENTERPRISES
IN BELGIUM AND IN THE
EUROPEAN UNION

(Percentage changes compared with the previous year)



Source : OECD.

¹ For the purpose of international comparison, the data for Belgium were compiled on the basis of a methodology identical to that of the other countries and therefore differ from those in Table 12.

² Expressed in national currencies. A comparison of the movement in Belgium with that in the European Union therefore does not lend itself to an appraisal of competitiveness.

³ Data deflated on the basis of the consumer price index.

contrast, in the EU as a whole they were again pushed up by the quickening of the rise in labour costs per employee.

Wage moderation not only curbed inflation, as was shown in section 3.1, but also boosted the gross operating surplus per unit sold, which should normally make investment more attractive.

In order to investigate the link between labour costs and profitability, it is better to consider real unit labour costs. An increase in nominal unit labour costs will in fact only reduce the profit margin if price rises do not keep pace with those costs. If the market conditions permit a corresponding price increase, the gross operating result per unit of

output will not change. Such a situation may arise if an enterprise takes advantage of favourable price trends on the international market as a price-taker, or if a firm dominates the market, or if it belongs to a sector less exposed to foreign competition, as is the case for many services.

In the EU as a whole, real unit labour costs have declined every year since 1992. In Belgium that trend did not begin until 1994, but in that year, as in 1996 and 1997, the decline was greater, so that the movement of real unit labour costs had a more positive influence on the gross operating surplus in Belgium than in the EU as a whole.

The gross operating surplus per unit sold of companies is influenced not only by real unit labour costs but also by a second factor, namely the movement of the terms of trade in the broad sense, i.e. the relative change in selling prices and import prices. If market conditions make it possible to increase selling prices by more than the rise in the prices of imported goods and services, the gross operating surplus per unit sold will rise, and vice versa.

In practice, however, the two determinants are not entirely independent of one another. If the terms of trade have a positive effect on profitability, then it is generally found that, on the other hand, real unit labour costs tend to rise. The fluctuations in business profit margins are therefore largely due to the interaction between the changes in the terms of trade and those in real unit labour costs — which do not always cancel one another out. The link is not perfect, however, as the movement of the gross operating surplus per unit sold by self-employed persons and of indirect taxes after deduction of subsidies also plays a role.

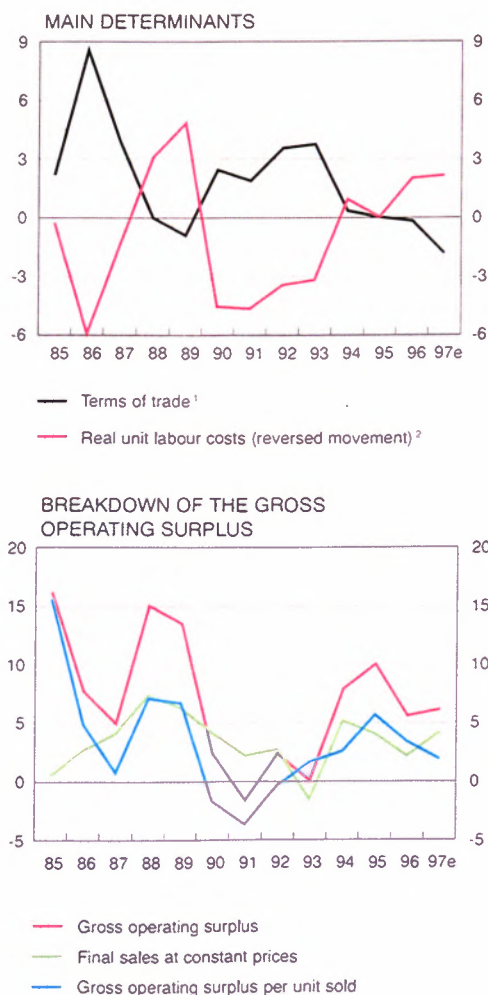
The fact that the gross operating surplus per unit sold improved in 1997 for the fifth year in a row is therefore primarily due to the favourable trend of real unit labour costs. However, owing to the dete-

rioration in the terms of trade, the increase was less than in 1996.

Since the volume increase in final sales accelerated both on the domestic market and for exports, the total gross operating surplus of companies nevertheless grew larger.

CHART 27 — GROSS OPERATING SURPLUS OF COMPANIES

(Percentage changes compared with the previous year)



Sources : NAI, NBB.

¹ Defined as the ratio between the unit price of final sales and the prices of imported goods and services.

² Unlike in Chart 26, unit labour costs are not deflated on the basis of consumer prices but using unit selling prices. The curve was also reversed to show that a fall in real unit labour costs has a favourable impact on the gross operating surplus of companies, and vice versa.

Profits as measured on the basis of primary income, i.e. after payment of interest charges and dividends but before tax, climbed by over 8 p.c. Since the net current transfers from companies to other sectors — mainly taxes — increased sharply, the disposable income of companies nevertheless grew more slowly than in 1996. However, that income as a percentage of national income, i.e. the company savings ratio, continued to rise.

3.3 INCOMES OF INDIVIDUALS

Generally speaking, the distribution of national income among the various sectors continued to change in 1997, in line with the tendencies already apparent in recent years. The share of the disposable incomes received by individuals fell from 79 p.c. in 1993 to less than 73 p.c. in 1997. This decline was only partly offset by the increase in the relative share of companies in income, so that the main counterpart was an increase in general government's share of disposable income. As a result of the budgetary consolidation measures taken in recent years, that share has gradually risen from 9.5 p.c. in 1993 to 13.8 p.c. in 1997.

Although the disposable income of individuals increased by less than national income, there was still some acceleration, as in 1997 it grew by 2.4 p.c., against 1.9 p.c. during the two preceding years. In real terms that income increased by 0.7 p.c. in 1997, reflecting a rise in household purchasing power, whereas this had declined slightly on average during the previous three years.

Unlike in 1996, the growth in the disposable income of individuals lagged behind the growth in their primary income. As a result of the measures taken to keep social security expenditure under firmer control, transfers received by individuals did not rise as fast as their total primary incomes, while transfers to general govern-

TABLE 14 — INCOME OF COMPANIES AT CURRENT PRICES¹

(Percentage changes compared with the previous year)

	1991	1992	1993	1994	1995	1996	1997 e
Gross operating surplus	-1.6	2.3	0.1	7.9	10.0	5.6	6.2
p.m. Percentages of value added of companies ²	25.2	24.5	24.1	24.8	26.2	26.7	27.2
Net income from property paid to other sectors	17.8	6.2	-13.0	-1.9	2.8	1.0	-2.1
Primary income	-7.1	1.0	5.0	10.9	12.0	6.8	8.1
Net current transfers to other sectors	6.7	-11.5	29.0	23.7	18.4	5.2	16.0
Disposable income	-9.3	3.3	1.1	8.4	10.5	7.1	6.2
p.m. Percentages of GNP	10.6	10.4	10.1	10.5	11.1	11.5	11.8

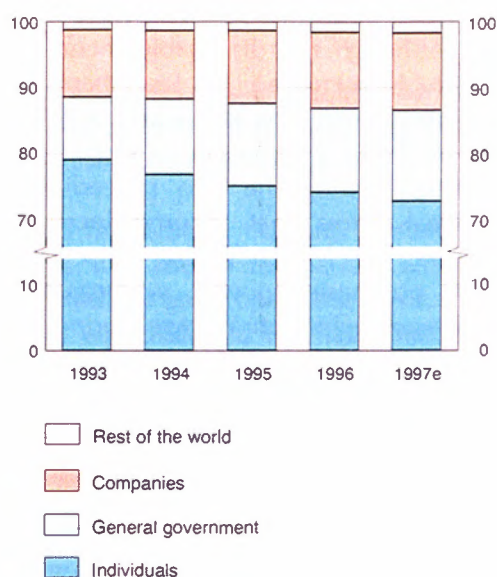
Sources : NAI, NBB.

¹ Including depreciation and the statistical adjustments whereby the three approaches of the national accounts are reconciled.² Added value of enterprises minus the gross operating surplus of self-employed persons.

ment — mainly direct taxes and social security contributions — increased at roughly the same rate as earned income.

CHART 28 — DISPOSABLE INCOMES OF THE VARIOUS SECTORS

(Percentages of gross national income)



Sources : NAI, NBB.

Wages and salaries — the principal component of primary incomes — rose by 3.4 p.c. in 1997, against just 1.4 p.c. in 1996. This acceleration was brought about by various factors : paid employment in full-time equivalent expanded slightly in 1997 after remaining stable in 1996, pay increases under collective agreements were permitted again after a two-year wage freeze and the end-of-year bonus for 1996 of some civil servants was paid at the beginning of 1997.

In contrast, the incomes of self-employed persons grew slightly less rapidly in 1997 than during the previous year, rising by only 3.4 p.c. compared to 3.7 p.c. This slowing down affected certain members of the liberal professions, particularly in the health care sector, and also farmers, mainly because of the combined effect of the movement of the volume of output of animal and vegetable products and the decline in fruit, vegetable and egg prices. On the other hand, traders' income benefited from the acceleration of private consumption.

After remaining stable in 1996, the incomes which individuals derived from their assets increased by 1.2 p.c. in 1997. This change is due not to the trend of

TABLE 15 — INCOMES OF INDIVIDUALS AT CURRENT PRICES¹

(Percentage changes compared with the previous year)

	1994	1995	1996	1997 e
Primary income	2.3	2.2	1.3	2.9
Earned income	2.9	3.1	1.8	3.4
Wages and salaries ²	2.6	3.5	1.4	3.4
Incomes of self-employed persons	4.4	0.9	3.7	3.4
Incomes from property	0.7	-0.1	...	1.2
Interest income	-3.8	-6.6	-2.7	-2.4
Other income from property ³	5.9	6.7	2.5	4.3
Net current transfers paid	15.4	5.5	-3.7	7.2
of which : Transfers paid to general government	5.9	4.0	1.6	3.5
Transfers received from general government	3.0	4.2	3.6	2.2
Disposable income	1.0	1.9	1.9	2.4
p.m. At constant prices ⁴	-1.3	0.4	-0.1	0.7

Sources : NAT, NBB.

¹ Including depreciation but disregarding the statistical adjustments whereby the three approaches of the national accounts are reconciled.² Compensation paid by enterprises and general government, including employers' social security contributions, and civil service pensions.³ Mainly rents, dividends, fees and gifts, partnership incomes and depreciation. This item also comprises the difference between individuals' interest earnings estimated by the Bank and included in the «interest earnings» item and those shown in total incomes from property as calculated by the NAT.⁴ Data deflated by means of the consumer price index.

interest earnings, which continued to fall at roughly the same rate as in the previous year, but to that of other incomes from property. The latter, comprising mainly rents and dividends, increased by 4.3 p.c. against 2.5 p.c. a year earlier. It is true that the growth in net incomes from immovable property slowed down despite the lower mortgage charges following the fall in interest rates. However, the dividends paid out by Belgian companies increased in 1997, whereas they had stagnated the year before. The amount of dividends paid out by Belgian companies during any given year depends not only on the profits made in the previous year but also on the policy which enterprises adopt for the allocation of those profits. Thus, the dividends paid in 1996 had not increased despite the marked rise in profits recorded in 1995, because companies as a whole had carried forward a higher proportion of their profit to the following financial year. In so doing, they were able to increase the amount of the dividends distributed during the year under review, despite the smallness of the rise in their profits in 1996.

The structural growth in the outstanding amount of financial investments by households was not sufficient to offset the contraction in interest incomes due to the decline in yields. However, this movement slowed down, and the fall in short-term rates was actually interrupted during the year. It was therefore mainly the falls in capital market interest rates which took place during preceding years that continued to depress interest incomes, as higher-yield investments made several years ago were renewed. Thus, the average rate of interest which individuals obtained on their assets at more than one year appears to have been around 6.6 p.c. in 1997, compared with 7.1 p.c. in 1996.

The two factors which determine interest earnings are not independent, because the movement of yields is itself liable to influence the volume of investments. Thus, a decline in interest rates may encourage individuals to step up their current consumption at the expense of future consumption in so far as the remuneration of savings declines. In Belgium, however, this

TABLE 16 — DETERMINANTS OF THE MOVEMENT OF INTEREST INCOMES RECEIVED BY INDIVIDUALS

	1994	1995	1996	1997 e
Outstanding amounts on which interest incomes are received (indices 1994 = 100) ¹				
Assets at up to one year	100.0	92.8	94.7	96.4
Assets at over one year	100.0	108.7	120.7	126.9
Total	100.0	101.2	108.3	112.4
Weighted average interest rate (percentages) ²				
Assets at up to one year	4.5	3.8	2.9	2.8
Assets at over one year	8.2	7.6	7.1	6.6
Total	6.4	5.9	5.4	5.1
Interest incomes (indices 1994 = 100)				
Assets at up to one year	100.0	78.8	61.4	60.0
Assets at over one year	100.0	100.7	105.6	103.0
Total	100.0	93.4	90.9	88.7

Source : NBB.

¹ These indices do not reflect the outstanding amount of interest-bearing assets at the end of the year under review, but the outstanding amount which served as the basis for the calculation of interest incomes. This is, for the short term, the annual average of the outstanding amounts and, for the long term, the outstanding amounts at the end of the previous period.

² These rates correspond, for the short term, to the annual average for the period and, for the long term, to a moving average over several years. They are weighted on the basis of the asset categories.

substitution effect is counterbalanced by a large income effect which limits the growth of present consumption, since the income which households derive from their financial investments suffers directly from the fall in interest rates.

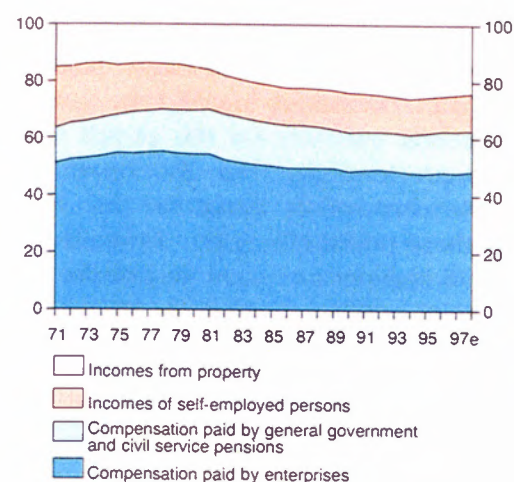
As stated in Chapter 6, the financial assets of households have grown rapidly during the past two decades; in 1997 they amounted to around 220 p.c. of GDP, a much higher percentage than in the neighbouring countries. This has led to a marked increase in the share of total income from property in the primary income of individuals. Despite a slight contraction since 1994, this proportion was 24 p.c. in 1997, whereas it was only 15 p.c. in the early 1970s, so that the total income of households has become more sensitive to changes in interest rates.

Although it has had a negative effect on income, the recent decline in interest rates has nevertheless also caused a rise in the prices of securities held in portfolios, which has been more pronounced the more distant the maturity of these assets. Share prices have risen sharply, and that

has helped to increase the value of households' assets. Operating in the opposite direction to the income effect, this wealth effect may have been a factor stimulating private consumption.

CHART 29 — MAIN CATEGORIES OF PRIMARY INCOME OF INDIVIDUALS

(Percentages of total primary income)



Sources : NAI, NBB.

The wealth effect is often regarded as one of the major channels whereby wide fluctuations in stock market prices may affect the economy. This transmission mechanism could become more important if there is an increase in shareholding by individuals. In recent years the proportion of shares in the financial assets of households — whether these shares are held directly or indirectly — has remained far more stable in most of the continental European countries than in the Anglo-Saxon countries. This applies particularly in Belgium, where it increased by only 3.2 percentage points between 1986 and 1996, rising from 10.7 to 13.9 p.c. In contrast, in the United Kingdom and the United States the expansion of the activities of institutional investors has caused the latter to increase substantially their purchases of shares on behalf of individuals. Thus, at the end of 1996, the total shareholdings of households represented almost 40 p.c. of their financial assets in the United States and 50 p.c. in the United Kingdom.

TABLE 17 — PROPORTION OF SHARES IN THE FINANCIAL ASSETS OF HOUSEHOLDS

(Percentages of total financial assets)

	Directly held ¹	Indirectly held ²	Total
1986			
United States	12.0	8.0	20.0
United Kingdom ...	13.3	28.0	41.3
Germany	6.7	3.0	9.7
France ³	11.9	3.8	15.7
Belgium	8.5	2.2	10.7
1996			
United States	18.8	17.4	36.2
United Kingdom ...	16.4	34.1	50.5
Germany	6.0	5.6	11.6
France	7.0	4.2	11.2
Belgium	10.3	3.6	13.9

Sources : OECD, UK Office for National Statistics, Deutsche Bundesbank, Banque de France, NBB.

¹ Data relating to listed shares only for France and Belgium and to all shares, listed or unlisted, for the United States, the United Kingdom and Germany. The statistics of these three countries do not in fact permit any distinction between the two types of shares.

² Indirect shareholdings were estimated by multiplying the proportion of assets invested with the various categories of institutional investors by the percentage of the asset portfolio of these investors which is invested in shares.

³ Data relating to 1988.

4. PUBLIC FINANCES

4.1 MAIN LINES OF FISCAL POLICY

In order to meet the convergence criteria laid down in the Treaty on European Union, the Government had set itself a dual aim for 1997 with regard to the public finances. On the one hand, the net financing requirement was to be reduced to 2.9 p.c. of GDP. On the other hand, the public debt was to decrease by 10 percentage points of GDP between 1993 and 1997. Both aims were fully achieved: the deficit amounted to only 2.3 p.c. of GDP, while the debt fell to 123 p.c. of GDP, which is about 12 percentage points lower than in 1993. The considerable budgetary rehabilitation efforts made during the last few years were thus crowned with success during the year under review.

In order to continue the consolidation of the public finances until the year 2000, a new convergence programme was drawn up in December 1996. This plan, which was favourably received by the Council of Ministers of the European Union, is based on two budgetary norms. On the one hand, the Federal Government undertook to stabilise the primary surplus of Entity I, that is, the federal government and the social security system, at least at the high level reached in 1997. On the other hand, the regions and communities formally undertook to comply with the recommendations of the Superior Finance Council, namely to balance the budget for Entity II, i.e. the regions, communities and local authorities combined, in the year 2000. Attainment of these two norms will lead to a slight increase in the primary surplus of general government as a whole, so that, in accordance with the national accounts methodology, it will be brought up to 5.9 p.c. of GDP in the year 2000.

Thus the public debt and the interest charges were to decrease automatically and

the financing requirement would be reduced in the course of a few years to 1.5 p.c. of GDP. With a structural deficit of this size it is possible, under normal circumstances, for the repercussions of changes in the cyclical situation to be absorbed without the financing requirement rising above 3 p.c. of GDP. The Pact for Stability and Growth, which was designed with a view to the third stage of Economic and Monetary Union, furthermore stipulates that, on pain of sanctions, the public deficit may exceed this limit only temporarily and under exceptional circumstances. An economic recession may constitute such an exception, but only if GDP in terms of volume contracts by at least 0.75 p.c.

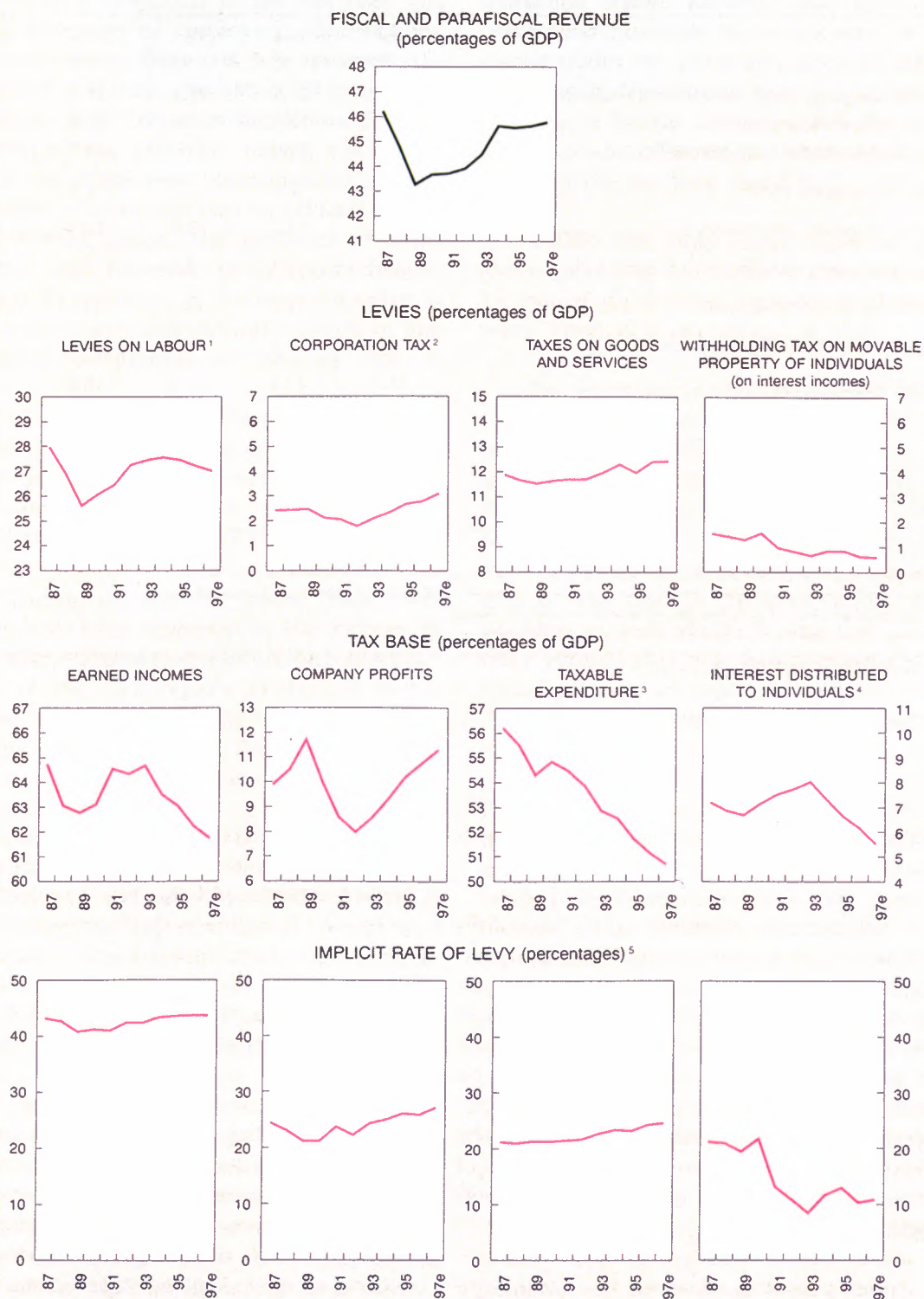
If the primary deficit is maintained after the year 2000 at the high level then reached, the debt and the interest charges will continue to decline. Such a policy will in the long run create room for manoeuvre which can be used for, among other things, lightening the burden on labour costs or increasing certain items of expenditure connected with the ageing of the population or with improving the quality of the government infrastructure.

4.2 REVENUE, EXPENDITURE AND FINANCING REQUIREMENT

Revenue

The total fiscal and parafiscal burden has remained virtually unchanged during the last three years: in 1997 it amounted to 45.8 p.c. of GDP. Previously, however, this burden had fluctuated considerably. In the second half of the 1980s, revenue had decreased by about 3 percentage points of GDP. This fall was largely reversed at the beginning of the present decade, and by

CHART 30 — FISCAL AND PARAFISCAL REVENUE : MAIN DETERMINANTS



Sources : NAI, NBB.

¹ Personal income tax (excluding withholding tax on income from movable and immovable property) and social security contributions.² Tax on company profits.³ Private consumption in Belgium, excluding non-taxable expenditure (chiefly health care and rents).⁴ Interest on assets invested in Belgium.⁵ Levies as percentage of the tax base.

TABLE 18 — REVENUE¹ OF GENERAL GOVERNMENT

(Percentages of GDP)

	1993	1994	1995	1996	1997 e
Levies weighing chiefly on earned incomes	27.4	27.6	27.5	27.2	27.0
Personal income tax ²	12.0	12.5	12.5	12.5	12.5
Social security contributions ³	15.4	15.0	15.0	14.7	14.5
Tax on company profits ⁴	2.1	2.3	2.7	2.8	3.1
Taxes on goods and services	12.0	12.3	12.0	12.4	12.4
Levies on other incomes and on assets ⁵	3.0	3.4	3.5	3.2	3.2
Fiscal and para-fiscal revenue	44.5	45.6	45.5	45.6	45.8
Non-fiscal and non-para-fiscal revenue	1.5	1.5	1.2	1.3	1.2
Total revenue	46.0	47.1	46.8	46.9	47.0
Federal government	17.8	18.2	17.5	17.6	17.4
Communities and regions	10.8	10.9	11.2	11.3	11.5
Local authorities	6.0	6.3	6.5	6.3	6.3
Social security	19.5	19.9	19.7	19.5	19.4

Sources : NAI, NBB.

¹ The data for general government are consolidated, i.e. they do not take account of transfers between sub-sectors.² Mainly withholding tax on earned income, advance payments, assessments and additional centimes on personal income tax.³ Total social contributions, including the special social security contribution.⁴ Mainly advance payments, assessments and withholding tax on interest income.⁵ Mainly the withholding tax on income from movable property of individuals, the withholding tax on income from immovable property (including the additional centimes), death duties and registration fees.

1994 revenue had increased by 2.3 percentage points.

Government revenues can be subdivided into four major categories : levies on earned incomes, on company profits, on goods and services and on income from movable and immovable property. The share of each revenue category in GDP can be explained, on the basis of the national accounts, by two elements : the share of the tax base in GDP and the implicit rate of levy, that is, the levies expressed as percentages of their tax base.

The proceeds of taxes on earned income, expressed as a percentage of GDP, has undergone sharp fluctuations during the last ten years, largely as a result of the changes in the share of that income in the national income. These movements were in turn negatively correlated with the econom-

ic cycle : a sharp growth at the end of the 1980s, a recession in the early years of the present decade and recently a growth rate more closely in line with the trend. Furthermore, from 1993 onwards, the wage moderation policy depressed the movement of earned income, the share of which in GDP declined by about 3 percentage points.

The incidence of the fluctuations in the share of the tax base during the last ten years has been sometimes strengthened and sometimes lessened by that of the discretionary measures. While the tax reforms of the second half of the 1980s had led to a decline of over 2 percentage points in the rate of tax on earned income, this rose again as a result of a further consolidation of the public finance, to the level at which it had stood in 1987. Since 1994 the fiscal pressure on earned income has only increased very slightly.

In 1997 the share of the levies on earned income in GDP decreased owing to the further reduction in the tax base and new lowerings of employers' contributions. For one thing, from 1st July onwards, the Maribel operation was extended in order to conform with European legislation. Furthermore, a new provision linking the reductions in employers' contributions to the creation of new jobs was introduced for the non-market sector. The incidence of these factors was, however, partly counterbalanced by an extension of the non-indexation of most tax scales and the introduction of employers' contributions on company cars.

Unlike levies on labour, which were in 1997 1 percentage point of GDP below the level reached ten years earlier, corporation tax was higher. In 1997 it increased by 0.3 percentage point of GDP.

During the last five years, these revenues have been bolstered by the increase in the share of profits in GDP, which has been one of the counterparts to the fall in the share of earned income. Viewed over a longer period, however, the share of profits has remained virtually constant, and the rise in revenue is therefore solely due to an increase in the implicit rate of levy. The restriction or abolition of certain fiscal expenditures, and also measures aimed at countering the improper use of several legal provisions, have contributed to this increase.

Taxes on goods and services have also, as a percentage of GDP, moved upward during the 1990s, despite an almost uninterrupted decline in the share of expenditure on private consumption and housing. This relative decrease benefited the share of net exports, which do not generate any indirect taxes. The higher level of tax revenues has therefore been solely due to the changes in the implicit rate of levy. Whereas it was more or less stable before 1992, it has risen by about 3 percentage points since then as a result of the raising of some rates and introduction of new levies, such as the excise-compensating tax on diesel vehicles.

During the year under review, the share of taxes on goods and services in GDP remained stable. Revenue was admittedly influenced positively by an increase in the excise duties on petrol and alcoholic beverages and by the introduction of a tax on the delivery of bearer securities, but the effect of these was offset by the decrease in the share of the tax base in GDP.

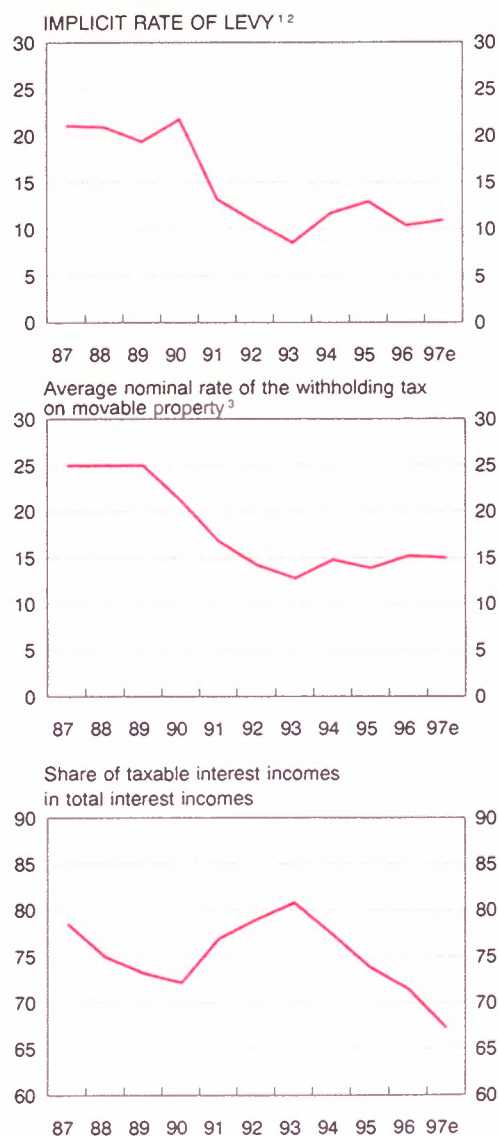
Unlike the other levies, revenue from the withholding tax on the interest incomes of individuals showed a pronounced downward trend as a percentage of GDP.

The decrease in the tax burden on interest incomes from assets invested in Belgium partly reflects the reduction in the average nominal rate of the withholding tax. This rate, which was 25 p.c. before 1990, has decreased as a result of the growing importance of the share of new assets subject to the rate of 10 p.c. in the total portfolio of individuals. It thus fell to less than 13 p.c. in 1993, before gradually increasing again, to reach 15 p.c. in 1996. The decrease in the tax pressure is furthermore attributable to a change in the composition of the portfolio of financial assets of individuals. Despite a rise at the beginning of the 1990s the share of taxable interest incomes in total interest incomes has been eroded, in comparison with the previous decade, to the benefit of tax-exempt interest incomes, that is, those from regulated savings deposits and investments via capitalisation SICAVs. These developments are due to the changes in the rate of the withholding tax, but also to the level of the interest rates on savings deposits, which has become relatively high compared with those applicable to other forms of investment.

The withholding tax on interest income is only one component of the levies on property and on incomes from property. In 1997, despite the slight decline in revenue from the withholding tax on interest incomes, the total of these levies has remained stable in relation to GDP. Revenue from the withholding tax on income from immovable property (the bulk of which is

**CHART 31 — TAX PRESSURE ON INTEREST INCOMES
FROM ASSETS INVESTED IN BELGIUM BY
INDIVIDUALS**

(Percentages)



Sources : NAI, NBB.

¹ Withholding tax on income from movable property as a percentage of the interest incomes on assets invested in Belgium by individuals.

² In addition to the two factors included here, the rate of levy is also temporarily influenced by changes in the timing of the collection of interest (chiefly connected with capitalisation bonds).

³ Weighted average of the various rates in force. For interest on assets built up before 1st March 1990, the rate of the withholding tax is 25 p.c. (25.75 p.c. between 26th July 1993 and 31st December 1995). For interest on assets built up from 1st March 1990 onwards, the rate was 10 p.c. until 26th July 1993, 10.30 p.c. between 26th July 1993 and 31st December 1993, 13.39 p.c. in 1994 and 1995 and has been 15 p.c. since 1st January 1996.

refunded to the local authorities) and registration fees, which had been exceptionally

low in 1996, in fact rose considerably during the year under review.

In 1997, non-fiscal and non-parafiscal revenue was negatively influenced by the smaller payments by the Bank to the Treasury following the transfer, in 1996, of the capital gains on arbitrage transactions of assets in gold against currencies. The reduction in these payments was, however, counterbalanced by an equivalent decrease in the interest charges.

Altogether, the revenues of general government as a whole increased by 0.1 percentage point of GDP. The revenues of the communities and regions rose again unlike those of the federal government and the social security system.

Expenditure excluding interest charges

Expressed as a percentage of GDP, the expenditure excluding interest charges of general government decreased once more, from 41.6 p.c. in 1996 to 41.3 p.c. in 1997. Since 1993, the year during which it reached its highest level since the beginning of the 1990s, this expenditure has declined by more than 1 percentage point of GDP. Most of the categories of expenditure are now at lower levels than they were then.

Deflated by the consumer price index, primary expenditure increased by 1.8 p.c. in 1997. After having shown an exceptionally small rise in 1996, it thus resumed a growth rate closer to that of the preceding years.

Admittedly, the level of public expenditure had been depressed in 1996 owing to specific non-recurrent factors. Firstly, the characteristics of the indexation mechanism had slowed down the real growth in compensation of employees and social allowances. Secondly, expenditure on compensation of employees had been reduced by the postponement, to the beginning of 1997, of the end-of-year bonuses of the employees of the Federal Government and certain federat-

ed entities. Thirdly, capital investment expenditure had contracted owing to the sale of federal government buildings which, in accordance with the methodology of the national accounts, is deducted from gross capital investment. Lastly, the level of other capital expenditure had been influenced downwards, as in 1995, by the granting of an operating licence for a mobile telephone network, which, according to this methodology, also has to be deducted from expenditure.

In 1997, compensation of employees reattained a growth rate comparable to that of the years 1994 and 1995, while capital expenditure, which had been exceptionally low in 1996, increased substantially. The large rise in gross fixed capital formation in

1997 was also due to the recovery of the local authorities' investment expenditure, which had contracted sharply during the two preceding years compared with the highest level, reached in 1994. Local authorities in fact took advantage of the improvement in their financial situation due to the partial privatisation of Crédit Communal to carry out investment projects.

Current net purchases of goods and services, whose share in GDP has decreased greatly since the mid-1980s, remained stable in real terms.

Subsidies to enterprises fell by 7.1 p.c. owing to a reduction in the sums paid to public enterprises.

TABLE 19 — PRIMARY EXPENDITURE¹ OF GENERAL GOVERNMENT

	Percentages of GDP					Percentage changes at constant prices ²			
	1993	1994	1995	1996	1997 e	1994	1995	1996	1997 e
Compensation of employees	9.3	9.3	9.3	9.2	9.2	2.8	2.5	-0.7	2.5
Current net purchases of goods and services ..	2.2	2.2	2.1	2.1	2.1	-1.1	-0.1	2.2	-0.2
Current transfers to individuals	24.9	24.4	24.5	24.7	24.2	0.6	2.7	1.5	0.6
Pensions and early retirement pensions ³	9.6	9.5	9.5	9.5	9.4	0.8	2.5	0.9	1.0
Unemployment benefits and career interruptions	2.4	2.3	2.2	2.2	2.2	-1.0	-3.7	3.3	-0.2
Sickness and disability allowances	1.3	1.3	1.2	1.2	1.2	-1.8	0.7	0.4	-0.2
Health care	5.7	5.6	5.9	6.1	6.0	0.4	7.4	4.3	0.3
Family allowances	2.1	2.0	2.0	2.0	2.0	-0.7	1.2	1.7	0.5
Other current transfers to individuals ⁴	3.7	3.7	3.7	3.6	3.5	3.2	1.5	-1.8	0.8
Subsidies to enterprises	2.0	1.9	1.9	1.9	1.7	0.1	0.3	2.1	-7.1
Current transfers to the rest of the world	1.6	1.7	1.5	1.7	1.8	7.7	-7.0	10.7	8.6
Gross fixed capital formation	1.5	1.6	1.4	1.2	1.4	6.5	-7.8	-15.7	23.4
Other capital expenditure	1.0	0.9	0.9	0.9	1.0	-3.8	1.7	0.1	11.2
Total primary expenditure	42.4	42.0	41.7	41.6	41.3	1.4	1.6	0.8	1.8
Federal government	13.9	13.8	13.2	12.9	12.6	1.3	-1.9	-1.5	0.6
Communities and regions	11.2	11.3	11.5	11.4	11.4	3.3	4.3	0.3	2.4
Local authorities	5.6	5.7	5.6	5.6	5.7	4.0	-0.3	0.8	4.2
Social security	19.9	19.4	19.5	19.6	19.2	...	2.5	1.8	0.5
GDP						2.4	2.1	1.5	2.7

Sources : NAI, NBB.

¹ Expenditure excluding interest charges. For general government as a whole the data are consolidated, that is, they exclude transfers between sub-sectors.

² With the exception of GDP, the data are deflated by the consumer price index.

³ Including the guaranteed income for old people.

⁴ This item consists mainly of public expenditure in respect of industrial accidents, occupational diseases, minimum social subsistence benefit, benefits to handicapped persons, subsidies to non-profit-making bodies serving households and pensions to victims of war.

Current transfers to individuals went up by only 0.6 p.c. in 1997, against 1.5 p.c. the previous year. The slowing was particularly marked in the health care sector and in that of unemployment benefits and career interruptions.

The growth in health expenditure was curbed by measures costing Fr. 30 billion adopted when the 1997 budget was drawn up and at the end of 1996, in order to slow down their increase, which was particularly rapid in 1995 and 1996. These provisions concerned, among other things, the freezing of certain fees and scales of charges as at 31st December 1996, a 3 p.c. reduction in certain fees and the limitation of the refunding of certain pharmaceutical and hospitalisation costs.

As in 1996, expenditure on unemployment benefits and career interruptions was adversely influenced by the change in the composition by category of the persons receiving the benefits: the share of older unemployed persons, whose average benefit is higher than the average benefit of all persons receiving benefit, increased. However, unlike in the previous year, the resultant size in expenditure was counterbalanced by the slight decline in the number of beneficiaries.

Current transfers to the rest of the world rose by 8.6 p.c. in 1997. These transfers consist chiefly of the payments made by the Federal Government to the budget of the European Union. During the last few years their zigzag movement has been attributable to revisions of the calculation of the contribution in respect of the resource based on GNP.

Altogether, during each of the last four years, the real growth in primary expenditure remained appreciably below that of GDP. General government is thus continuing to keep the growth on its expenditure structurally under control.

In 1997 it was the Federal Government and the social security system that were

most successful in keeping down the growth in their primary expenditure, as was actually the case, for the former, during the preceding years. Between 1993 and 1997, federal expenditure contracted by 1.3 percentage point of GDP, thus complying with the budgetary norm which limits its increase to the degree of inflation.

As a result of measures taken mainly in the health care sector, social security expenditure was more successfully controlled than in 1995 and 1996. In four years it decreased by 0.7 percentage point of GDP.

During the same period, the expenditure of the communities and regions increased in relation to GDP. However, its growth rate slowed down compared with what it was at the beginning of the 1990s. In future this expenditure should furthermore remain under control, as these entities have undertaken to comply with the recommendations of the Superior Finance Council concerning the permitted deficits.

Lastly, the growth in the local authorities' expenditure was strong in 1997, having been stimulated by the increase in their investment.

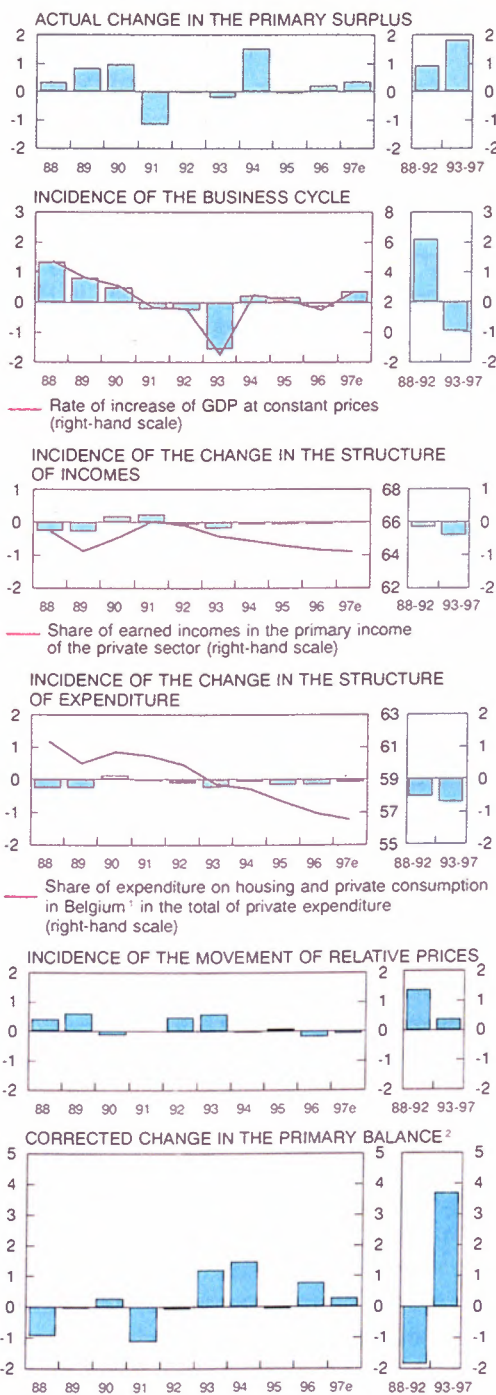
Primary balance

As a result of the reduction in expenditure excluding interest charges and the slight increase in revenue, the primary surplus grew in relation to GDP, reaching 5.6 p.c. in 1997. It has thus gone up by 1.8 percentage points of GDP during the last five years, making a major contribution to the consolidation of the public finances. The development of this balance since 1992 is attributable to several factors.

The economic cycle brought about a spontaneous deterioration of the public accounts by 1 percentage point of GDP between 1992 and 1997. The adverse influence of the poor state of business activity on these accounts was felt most of all during

CHART 32 — ACTUAL AND CORRECTED CHANGES IN THE PRIMARY SURPLUS

(Percentages of GDP)



Sources : NAI, NBB.

¹ Excluding non-taxable expenditure, i.e. chiefly health care and rents.² In 1997 the change in the primary surplus was also adjusted to take account of the incidence of the decrease in the Bank's payments to the Treasury in connection with the transfer of capital gains on gold. This operation reduced the primary balance and the interest charges at the same time and therefore had no incidence on the financing requirement of general government.

the recession of 1993. During the following years the state of activity was, if anything, slightly favourable, since average economic growth was over 2 p.c., that is, the level generally regarded as 'being neutral for assessing the incidence of the economic cycle on the public accounts.

The changes in the macroeconomic structure of income and expenditure have also been a burden on the public finances during the last few years. Thus, everything else being equal, the reduction in the share of earned incomes, that is, the most heavily taxed incomes, in the total of the private sector's primary incomes eroded public revenue by about 0.4 percentage point of GDP between 1992 and 1997. During the same period, the reduction in the share of private expenditure subject to indirect taxes, that is, private consumption and expenditure on housing, also played a part in reducing revenue by 0.7 percentage point of GDP.

The difference between the movement of the deflator of GDP and that of consumer prices mechanically affects the movement of the primary balance, expressed as a percentage of GDP. This difference played a significant role only in 1993. The rise in consumer prices had in fact been considerably smaller than that in GDP, owing to the marked improvement in the terms of trade. As most items of primary expenditure are linked to consumer prices, the ratio of primary expenditure to GDP had automatically decreased, and this had led to an improvement in the primary balance.

The primary balance corrected to exclude the incidence of these factors connected with the economic environment finally increased by nearly 4 percentage points between 1992 and 1997. This rise chiefly reflects the consolidation policy which the Government pursued, even when the business cycle was unfavourable, as was the case in 1993. The improvement in the primary surplus during the last five years is consequently totally different in nature from the smaller improvement which characteris-

ed the period 1988 to 1992. At that time, the public finances had benefited from the good business situation and the favourable movement of relative prices. Corrected to eliminate the incidence of these factors, the structural balance had not improved but, on the contrary, had worsened considerably.

In 1997 the positive effect of the economic situation on the public accounts was partly counterbalanced by the negative effect of the changes in the distribution and allocation of the national income. The development of the primary surplus was also influenced downwards to the extent of 0.1 percentage point of GDP by the contraction in the payments made by the Bank to the Treasury following the transfer of the capital gains obtained as a result of arbitrage of assets in gold against assets in foreign currencies. As the capital gains transferred had been used to reduce the foreign currency debt, this transaction did not change the financing requirement of general government, since the decrease in the receipts from the Bank was cancelled out by an almost equivalent reduction in interest charges.

Corrected to eliminate the incidence of the aforementioned factors, the primary surplus appears to have increased by 0.3 per-

centage point of GDP in 1997, continuing the trend of the last few years.

Interest charges

Year after year since 1993 the interest charges of general government as a whole, expressed in billions of francs, have decreased. In 1997 the reduction amounted to about Fr. 20 billion. As a percentage of GDP, interest charges totalled 7.9 p.c., or 2.8 percentage points less than in 1993.

As the greater part of the public debt is borne by the Treasury, the movement of the interest payments of general government as a whole largely corresponds to that of the Treasury's interest charges, which declined to about the same extent.

Their movement is chiefly determined by four elements, namely the increase in the debt, the movement of interest rates, the changes in the financing structure and technical factors mainly connected with the awarding of linear bonds by tender. The last-mentioned two elements have to be taken into consideration because interest charges are recorded in the accounts on a cash basis and not on a transactions basis.

TABLE 20 — THE TREASURY'S INTEREST CHARGES

(Billions of francs)

	1993	1994	1995	1996	1997 e
Change	16	-23	-58	-20	-21
Incidence of (e)					
the deficit	38	34	27	24	17
the interest rates	-34	-76	-58	-53	-22
the financing structure ¹	26	24	-45	30	-2
technical factors ²	-13	-6	18	-20	-5
the repayment of the foreign currency debt ³	—	—	—	—	-9

Sources : NAI, NBB.

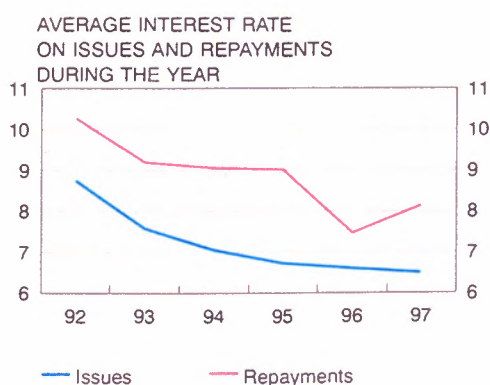
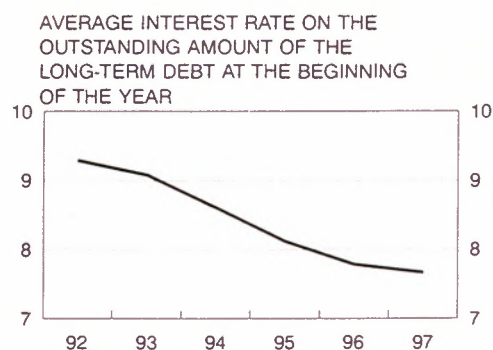
¹ Calculated as a balance, this factor comprises, essentially, the incidence of the changes in the relative shares of short-term and long-term financing of the deficit.

² Factors mainly connected with the tendering mechanism for linear bonds.

³ This factor reflects the fall in interest charges connected with the allocation, for the redemption of the short-term debt denominated in foreign currencies, of the capital gains made by the Bank on arbitrage transactions of gold against currencies.

CHART 33 — AVERAGE INTEREST RATE ON THE LONG-TERM DEBT IN FRANCS

(Percentages)



Sources : Ministry of Finance, NBB.

The main cause of the decline in the Treasury's interest payments continues to be the lower level of interest rates, even though this element was considerably less important during the year under review than during the preceding years.

With regard to long-term interest rates, as the rates on the new bonds issued in 1996 were again appreciably lower than those of the redeemed securities, the average rate on the outstanding amount of the long-term debt in francs continued to decline, though at a slower pace than during the last few years.

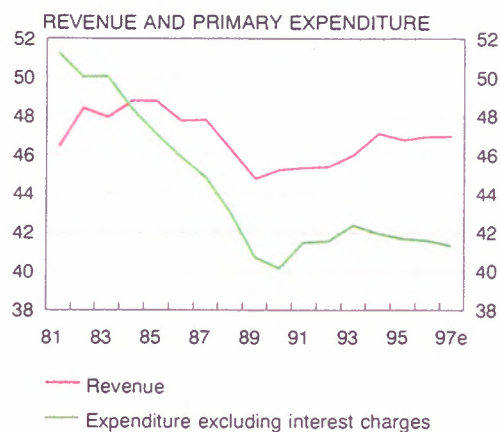
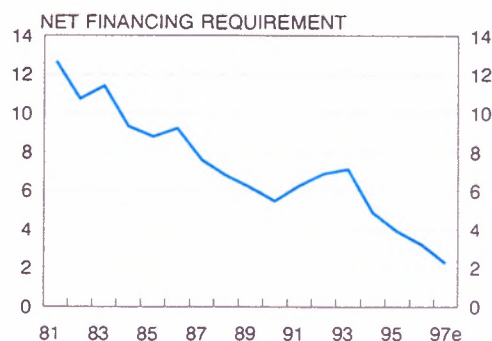
The favourable incidence of the falling interest rates was strengthened by that resulting from technical factors. In particular, compared with 1996, an appreciably more

advantageous balance was recorded for the issue premiums which are allocated to the year under review.

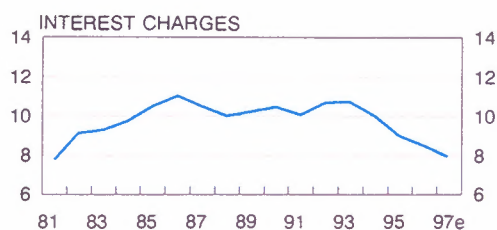
Interest charges furthermore decreased as a result of the allocation of the capital gains made by the Bank in connection with

CHART 34 — MOVEMENT OF THE NET FINANCING REQUIREMENT SINCE THE BEGINNING OF THE 1980s

(Percentages of GDP)



Sources : NAI, NBB.



the arbitrage transactions of assets in gold against foreign currencies. These capital gains were used at the end of 1996 to reduce the short-term debt in foreign currencies by about Fr. 220 billion, which led to a reduction in interest payments of the order of Fr. 9 billion during the year under review.

The reduction in interest charges was however once again slowed down by the increase in the debt resulting from the deficit, which led to a rise of about Fr. 17 billion in the Treasury's interest charges in 1997. Owing to the continuation of the consolidation of the public finances, this amount was once more appreciably smaller than the previous year's figure.

Unlike during the preceding years, the financing structure had hardly any effect on interest charges in 1997.

Net financing requirement and debt

The net financing requirement of general government was reduced in 1997 to 2.3 p.c. of GDP, that is, to a level 0.7 percentage point below the maximum norm

fixed by the Treaty of Maastricht. Whereas it was over 12 p.c. of GDP in 1981, the deficit decreased almost uninterruptedly until 1990, when it reached 5.5 p.c. It then grew again owing to a relaxation of budgetary discipline, reaching in 1992 a level of nearly 7 p.c., at which it was held, thanks to the government measures, during the recession of 1993. Since then, the downward trend has resumed.

Public revenue and interest charges have fluctuated widely since the beginning of the 1980s. However, their level in 1997 is hardly any different from that at the beginning of the period. Consequently, the trend improvement of about 10 percentage points of GDP in the financing requirement between 1981 and 1997 was solely due to the fall in primary expenditure. This was not, however, linear. It was very pronounced during the 1980s and more moderate in the period which followed the budgetary easing at the beginning of the 1990s and during the 1993 recession.

Since 1992, when it reached 7 percentage points of GDP, the net financing requirement of general government as a whole decreased by 4.6 percentage points, of which 2.8 points are attributable to the

TABLE 21 — NET FINANCING REQUIREMENT AND DEBT OF GENERAL GOVERNMENT

(Percentages of GDP)

	1992	1993	1994	1995	1996	1997 e
Revenue	45.4	46.0	47.1	46.8	46.9	47.0
Expenditure excluding interest charges	41.6	42.4	42.0	41.7	41.6	41.3
Primary surplus	3.8	3.6	5.1	5.1	5.3	5.6
Interest charges	10.7	10.7	10.0	9.0	8.5	7.9
Net financing requirement (—) or capacity	–6.9	–7.1	–4.9	–3.9	–3.2	–2.3
General government	–6.1	–6.2	–4.8	–4.0	–3.0	–2.5
Communities and regions	–0.9	–0.6	–0.7	–0.7	–0.5	–0.2
Local authorities	0.2	–0.2	...	0.4	0.2	0.2
Social security	–0.1	–0.1	0.7	0.4	...	0.2
Debt at end of period	129.0	135.2	133.5	131.3	126.9	123.0

Sources : NAI, NBB.

decline in interest charges and 1.8 points to the rise in the primary surplus. The federal government has made the largest contribution to this improvement in the public finances in recent years, partly because, being by far the most heavily indebted sector, it has benefited more from the fall in interest rates. During the last two years, the deficit of the communities and regions has also contracted appreciably. This is because the revenue which they receive in accordance with the financing laws has continued to rise rapidly, while the growth in their expenditure has slowed down.

Compared with its maximum level, the consolidated gross debt of general government as a whole has decreased by about 12 percentage points of GDP, from 135.2 p.c. in 1993 to 123 p.c. in 1997. About half of this fall is endogenously connected with the budgetary balance and economic growth. In 1997, this endogenous character of the reduction in the ratio of the debt to GDP became more marked.

In future, if the primary surplus and the differential between the implicit interest rate on the debt and the rate of nominal GDP growth remain constant, the endogenous decrease in the debt will speed up.

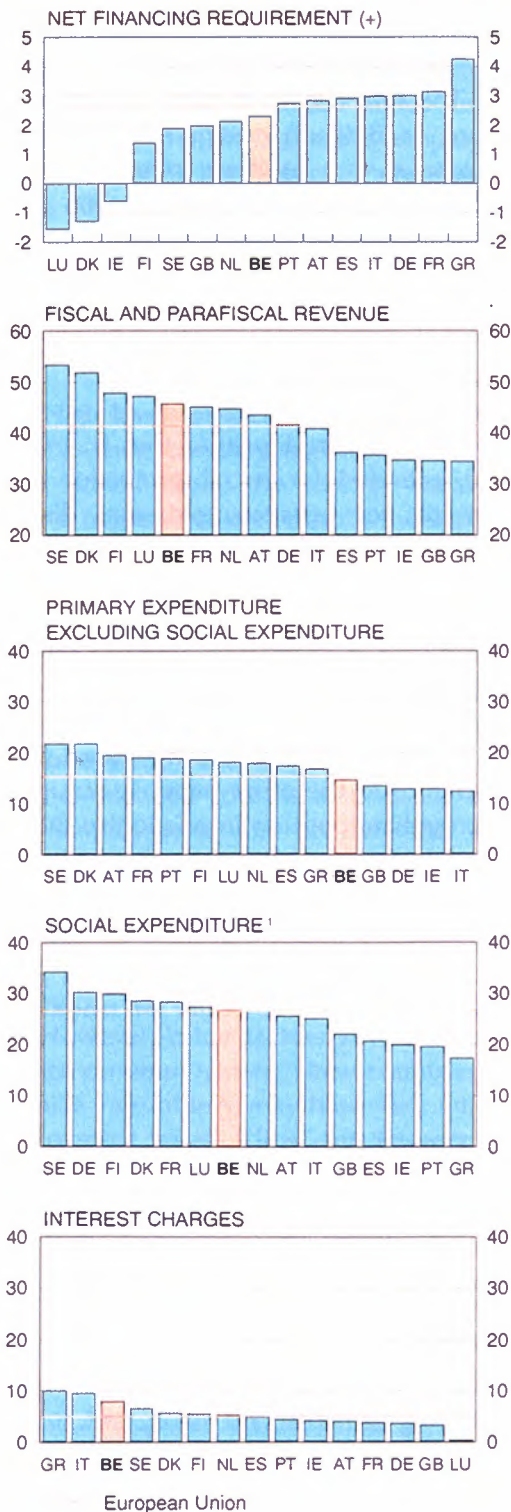
4.3 INTERNATIONAL COMPARISON

Belgium's net financing requirement expressed as a percentage of GDP, which came to 2.3 p.c., was slightly below the European average in 1997. The high level of interest charges, which, owing to the considerable size of the Belgian public debt, represent about three percentage points of GDP more than they do average in the European Union, was in fact counterbalanced by a larger primary surplus, due chiefly to higher fiscal and parafiscal revenue, but also to slightly lower primary expenditure.

At 45.8 p.c. of GDP, the rate of levy in Belgium is lower than that of the Scandina-

CHART 35 — NET FINANCING REQUIREMENT, REVENUE AND EXPENDITURE IN THE COUNTRIES OF THE EU IN 1997

(Percentages of GDP)



Sources : EC, OECD, NBB.

¹ Harmonised OECD concept, which is different from the current transfers to individuals recorded in the national accounts.

vian countries, close to that of France or the Netherlands and higher than that of Austria, Germany and Italy. It markedly exceeds the level in the United Kingdom and in the four countries whose per capita income is lowest - Spain, Portugal, Ireland and Greece.

The lower level of total primary expenditure in Belgium compared with the EU average is due to items other than social expenditure, chiefly lower public investment. These other items of primary expenditure are higher in Belgium than those observed in Germany, but considerably lower than in the Netherlands and, more still, than in France.

Social expenditure — that is, expenditure intended for social protection in the case of, for instance, old age, disability, sickness or unemployment — amounts in Belgium to 26.7 p.c. of GDP, a ratio similar to that observed on average in Europe. As in the case of levies, the Belgian level greatly exceeds that of the United Kingdom and the four least prosperous countries, where social expenditure represents about 20 p.c. of GDP. On the other hand, it occupies an intermediate position in relation to the other countries : it is higher than that of Italy and

Austria, equal to that of the Netherlands and lower than that observed in France (28.3 p.c.), Germany (30.2 p.c.) and the Scandinavian countries.

From one OECD country to another, the differentials in the level of social expenditure primarily reflect policy choices, but they appear, to a certain extent, to stem also from the age structure of the population. Social expenditure is in fact highest in Sweden, where the proportion of old people — over 17 p.c. — is also largest. On

CHART 37 — POVERTY, SOCIAL EXPENDITURE AND EMPLOYMENT

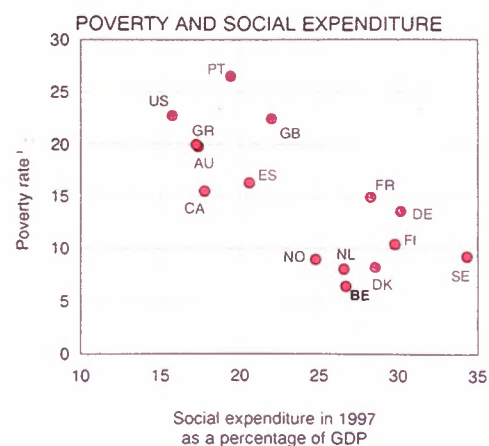
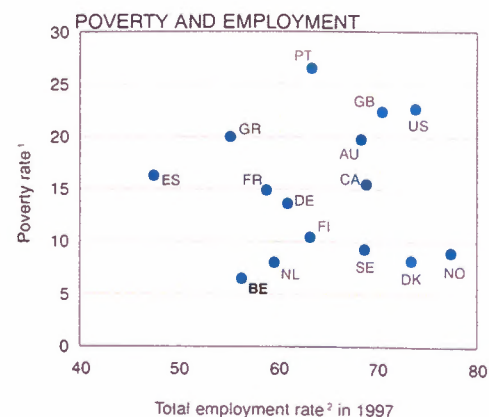
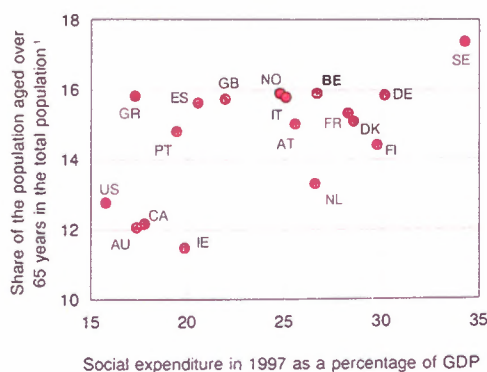


CHART 36 — SOCIAL EXPENDITURE AND DEMOGRAPHY



Sources : OECD, NBB.

¹ 1996 or the most recent available year.

Sources : OECD, EC, Centrum voor Sociaal Beleid, NBB.

¹ Percentage of households whose income is below half the average family income (end of the 1980s or beginning of the 1990s).

² Total employment as a percentage of the population of working age.

the contrary, the United States, Canada, Australia and Ireland, where the level of social expenditure is among the lowest, are precisely the countries where the proportion of old people in the population, at about 12 p.c., is the lowest. This correlation prompts the prediction that, other things being equal, the ageing of the population will exert pressures on the future development of social expenditure.

Combined with other factors, high levels of social expenditure are generally associated with a low poverty rate, defined as the percentage of households whose income is less than half of the average family income of the country in question. This relative approach does not, however, give any indication as to the absolute level of poverty, which is calculated with reference to a universal measure of the basic needs to be met.

On the one hand, the countries, including the Benelux countries, where social expenditure is high — between 25 and 35 p.c. of GDP — present relative poverty rates of less than 10 p.c. On the other hand, the Anglo-Saxon countries and those of Southern Europe, where the share of social expenditure in GDP is lowest, have

much higher poverty rates. They range from over 15 p.c. in Spain and Canada to about 25 p.c. in the United States and Portugal.

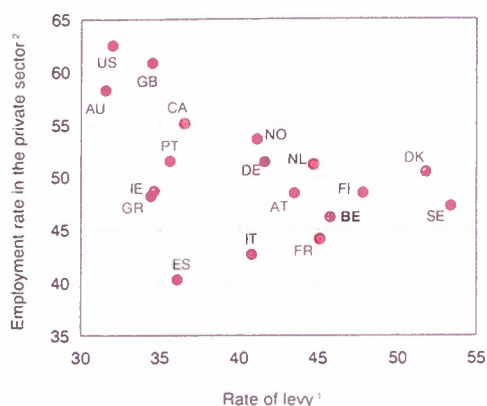
The highest poverty rates are not necessarily found in the countries where labour market problems are particularly acute. On the contrary, in the United States and the United Kingdom, for example, employment rates are among the highest. More generally, there does not appear to be any relationship between poverty rates and employment rates, a fact which contrasts with the correlation observed between social expenditure and poverty.

High levels of social expenditure usually have as their corollary high fiscal and para-fiscal levies. Now, the size of these may have a negative effect on both the supply of and the demand for labour, whereas a high level of social benefits is liable to deter part of the labour force from seeking a job. A certain negative correlation is therefore observable between the rate of levy and the employment rate in the private sector: on the one hand, the Anglo-Saxon countries have a relatively low fiscal pressure and a high employment rate; on the other hand, most of the Scandinavian countries, Belgium and France have a high fiscal and para-fiscal pressure and a relatively low employment rate.

However, other factors also exert an influence on employment, since countries with a similar rate of levy may have very different employment rates. Thus, for instance, the employment rate, measured as the number of employed persons in the private sector, is about 45 p.c. in Belgium and France, while it is over 50 p.c. in the Netherlands, although these three countries display similar rates of levy. The difference is still more marked in a number of countries where the rate of levy is of the order of 35 p.c. of GDP: the employment rate there ranges from about 40 p.c. to over 60 p.c.

Furthermore, in the case of Belgium, a higher fiscal and para-fiscal pressure and certain expenditure items — such as investment

CHART 38 — LEVIES AND EMPLOYMENT IN 1997



Sources : OECD, EC, NBB.

¹ Fiscal and para-fiscal revenue as a percentage of GDP.

² Employment in the private sector as a percentage of the population of working age.

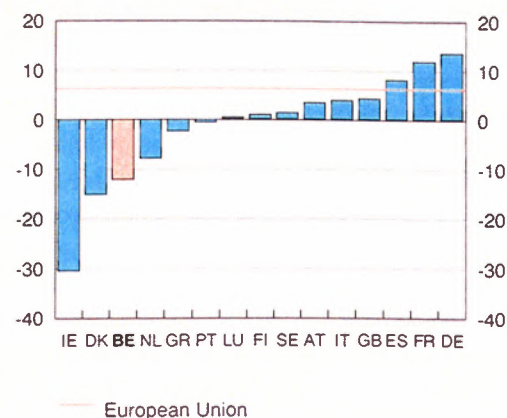
expenditure — which are lower than those in other European countries constitute the counterparts to the burden resulting from a much larger debt. This situation is reflected in a considerably higher primary surplus in Belgium than in the European Union, since in 1997 it amounted to 5.6 and 1.2 p.c. of GDP respectively. The primary surplus is, in Belgium, large enough to lead to an automatic decrease in the debt and in interest charges, which is not the case, on average, in the Union.

The development of the debt between 1993 and 1997 is an illustration of this. In Belgium, the dynamics of the development of the debt in fact helped to reduce the country's indebtedness by 12.2 p.c. of GDP, whereas in the European Union, on average, the debt increased by 6.4 p.c. of GDP.

This dynamic development of the debt means that in Belgium, with the policy remaining unchanged, the financing requirement will in the long run reach a balanced state; this automatic development will not,

CHART 39 — CHANGE IN THE PUBLIC DEBT BETWEEN 1993 AND 1997 IN THE COUNTRIES OF THE EU

(Percentages of GDP)



Sources : EC, NBB.

¹ Consolidated gross debt.

however, take place in the European Union as a whole.

5. BALANCE OF PAYMENTS AND EXCHANGE RATES

5.1 THE CURRENT ACCOUNT IN THE MACROECONOMIC CONTEXT

Despite the changing cyclical situation, the Belgian economy achieved a surplus in its current transactions with foreign countries for the twelfth year in succession. For 1997 it is estimated at 4.6 p.c. of GDP.

On the one hand, this persistent and growing surplus is closely connected with the high and increasing saving ratio of the Belgian economy, i.e., general government, individuals and companies combined. Between 1983, the year in which it reached a low, and 1997 the saving ratio rose from 12.2 to 22.7 p.c. of GDP. Nevertheless, it was still, in 1997, 2.7 percentage points below the average for the period 1970-1973, before the first oil crisis. Such a difference is observable in the case both of individuals and of general government, but not in that of companies, whose saving

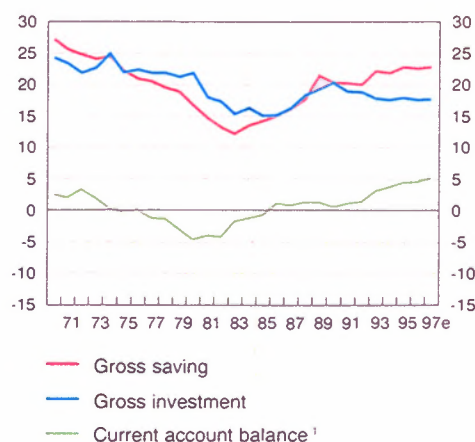
ratio, on the contrary, was 2.5 p.c. above the average.

On the other hand, while the investment ratio did in fact rise again at the end of the 1980s, it did not quite keep pace with the development of the saving ratio. From 1991 onwards the investment ratio actually declined, so that in 1997 it was 5.3 percentage points below the average for 1970-1973. All sectors contributed to this relative weakness: individuals to the extent of 0.4 percentage point and companies and general government to the extent of 2.3 and 2.7 percentage points respectively.

The saving and investment ratios were partly influenced by the economic policy. The consolidation of the public finances led both to a decrease in the negative saving of general government and to a fall in public investment. The saving and investment behaviour of individuals and companies was also partly attributable to the economic policy, but was furthermore due to reactions to autonomous changes in the economic context and to expectations concerning the future. The growth in the share of companies in the country's disposable income, or its reflection, the rise in their saving expressed as a percentage of GDP, was not accompanied by an increase in their propensity to invest. The latter ought to increase, however, in response to the rise in the rate of utilisation of production capacities, the favourable growth prospects at world level and the measures aimed at stimulating investment, outlined in Chapter 2.

CHART 40 — SAVING AND INVESTMENT IN BELGIUM

(Percentages of GDP)



Sources : NAI, NBB.

¹ Based on the national accounts.

5.2 CURRENT TRANSACTIONS OF BELGIUM

Belgium's current account surplus amounted, during the first nine months of

TABLE 22 — CURRENT ACCOUNT OF BELGIUM

(Balances, billions of francs)

	1995	1996	First nine months	
			1996	1997
Goods and services	330	321	244	270
Goods	328	320	241	266
Services	2	2	3	5
Travel	-103	-113	-93	-92
Other services	105	114	96	96
Incomes	121	140	96	102
Current transfers	-118	-120	-98	-108
Current transactions	332	341	242	264
p.m. Percentages of GDP	4.1	4.1		

Source : NBB.

the year under review, to Fr. 264 billion, which represents an expansion of Fr. 22 billion compared with the corresponding period of 1996.

Goods

The rate of growth of goods exports in value compared with the previous year showed a sharp rise since the beginning of 1996; it amounted to 12.8 p.c. during the third quarter of 1997, whereas it had fallen to 3.1 p.c. in the first quarter of 1996. The rate of growth of goods imports showed a broadly similar movement. Consequently, the increase in Belgium's trade balance, of Fr. 25 billion during the first nine months of 1997, was mainly due to a level effect, as the trade balance already showed a substantial surplus in 1996. The rise in exports and imports is attributable to the development of merchandise flows in terms both of prices and volumes.

Parallel with the appreciation of the dollar, the rise in foreign trade prices has quickened during the last two years, as is reflected notably in the more pronounced increase observable in the case of products

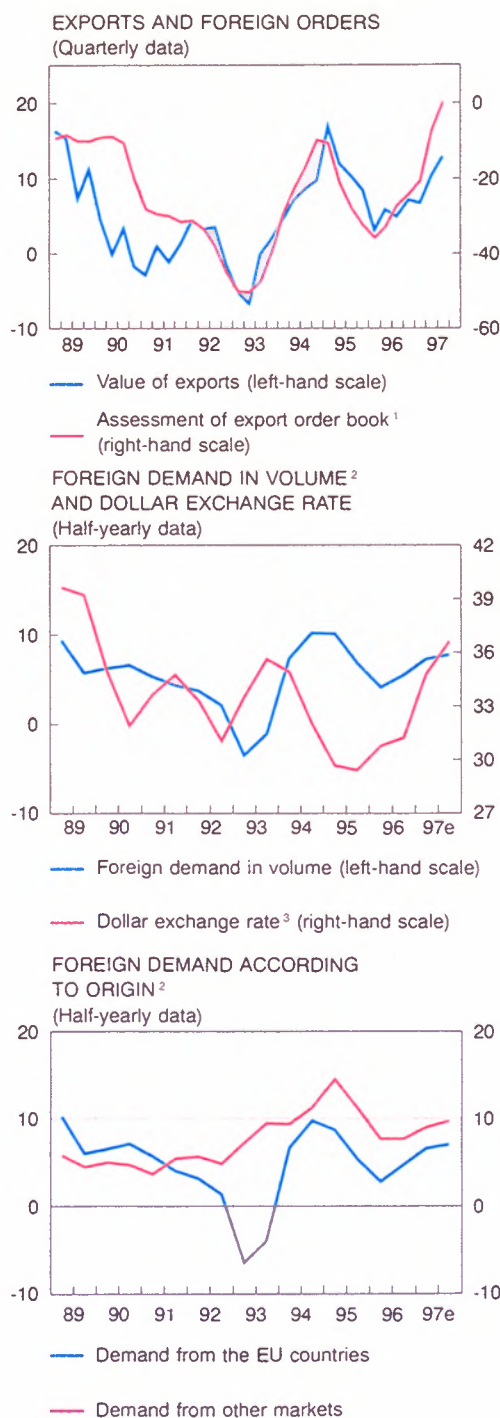
whose prices are usually fixed in dollars, namely oil, a large proportion of industrial raw materials and diamonds. However, the movement of the dollar prices of these products had more a moderating effect. That was the case, in particular, with the price of crude oil, which, after the peaks reached in the winter of 1996, fell back sharply during the year under review.

The rise in the prices of manufactured products expressed in francs also quickened, partly owing to the passing on of the higher costs, expressed in francs, of energy products and industrial raw materials. This price rise was furthermore attributable to the fact that, on both the import side and the export side, trade in manufactured goods takes place partly in dollars.

Overall, the rise in import prices accelerated from 2.1 p.c. in 1996 to 5.1 p.c. during the first nine months of 1997 and that of exports speeded up from 1.9 to 4.7 p.c. In accordance with the tendency observed in the past, the appreciation of the dollar weighed more heavily on the rate of increase of import prices than on that of export prices, so that a slight worsening of the terms of trade was recorded during the first nine months of 1997, as in 1996.

CHART 41 — GOODS EXPORTS OF BELGIUM AND DETERMINANTS

(Percentage changes compared with the corresponding period of the previous year, unless otherwise stated)



Sources : OECD, NBB.

¹ Balance of positive and negative answers according to the monthly business surveys (smoothed data).

² Average increase in volume of the imports of the trading partners, weighted to take account of the geographical composition of Belgium's exports.

³ Expressed in francs.

The growth in the volume of foreign trade also speeded up considerably. At constant prices the increase in Belgian goods exports appears to have amounted to 5 p.c. during the first nine months of 1997, against 3.2 p.c. in 1996. This quickening was due to that in foreign demand: the average increase in the volume of the imports of the trading partners, weighted to take account of the geographical composition of Belgium's exports, in fact accelerated without interruption during the last three half-years, after having reached a low point in the first half of 1996. As has already been the case for some years, the growth in imports was stronger in the non-EU countries. Between 1996 and 1997, demand from the United States, Canada and Mexico expanded further. In addition to the strength of domestic demand in the NAFTA zone, the appreciation of the dollar probably contributed to this. The direct repercussions of this development on Belgium's exports remained limited, however, as these markets account for less than 5 p.c. of total exports.

The financial crisis in South-East Asia which began in the middle of the year did not have any major effects on Belgium's exports during the first nine months of 1997. Only a small proportion of exports — especially if diamonds are disregarded — go to these countries. This parameter could, however, underestimate the risk of propagation of the Asian crisis in two ways. On the one hand, exports are also affected indirectly, in so far as developments in South-East Asia cause a shrinking of demand from Belgium's trading partners which have developed closer trade relations with that region. That is the case, for instance, with the EU as a whole and even more with the United States and Japan. Furthermore, in view of the depreciation of the currencies of the South-East Asian countries, Belgian producers will be faced with tougher competition from these countries on the Belgian market, but perhaps above all on third markets.

On the other hand, the share of exports in final expenditure is much greater

TABLE 23 — PARAMETERS FOR ASSESSING THE DIRECT INCIDENCE OF THE FINANCIAL CRISIS IN SOUTH-EAST ASIA

(Percentages of the total in 1995, unless otherwise stated)

	B.I.E.U. ¹	EU	United States	Japan
Share in total exports of goods				
Exports to South-East Asia ²	1.3	2.5	8.5	19.2
Exports to Mexico	0.1	0.3	7.9	0.8
Share in final expenditure				
Exports to South-East Asia ²	0.5	0.5	0.6	1.6
Exports to Mexico	0.1	0.1	0.6	0.1
Change in exchange rates ³				
Currencies of the South-East Asian countries ²	-39.6	-38.9	-47.1	-39.5
Mexican Peso	-67.2	-65.6	-59.7	-62.9

Sources : OECD, Financial Times, NBB.

¹ Exports of goods excluding diamonds.² Indonesia, South Korea, Malaysia, Philippines and Thailand.³ Percentage changes between the end of 1996 and the end of 1997 for the currencies of the countries of South-East Asia and between the beginning of 1994 and the end of 1995 for the Mexican peso.

in Belgium than in the EU or the United States. If this fact is taken into consideration — in other words, if exports to South-East Asia are expressed as a percentage of final expenditure — then the importance of this region for Belgium is as great as it is for the EU as a whole and hardly any less than it is for the United States. Nevertheless, it is still well below 1 p.c. of final expenditure.

Whatever criterion is adopted, the importance of South-East Asia is, both for Belgium and for the EU, considerably greater than that of Mexico, a country which, at the end of 1994 and the beginning of 1995, had also suffered a serious financial crisis, which did not fail to have consequences for the industrialised world. That crisis, however, had taken place in a general economic climate which was much more unfavourable as far as Europe is concerned. At the time of the Mexican crisis the dollar had in fact depreciated sharply vis-à-vis a number of European currencies, while long-term interest rates had risen. In 1997 the opposite took place, both for the dollar and for long-term interest rates, while the components of domestic demand in the EU showed signs of recovery.

The growth in the volume of the imports of the Member States of the EU, which take about three-quarters of Belgium's exports, also speeded up in 1997. For a number of these countries, such as the Netherlands and Denmark, this development is connected with an earlier revival of domestic demand. For most of the other countries, such as Germany and France, the growth in the volume of imports was primarily due to the strength of demand for the products which they export, especially demand from the NAFTA zone. Belgian exports therefore benefited mostly in an indirect way from this strong demand. Thus the appreciation of the dollar in 1997 exerted an upward influence on the movement of exports not only in price but also in volume.

As for exports, the increase in the volume of imports speeded up in the year under review. During the first nine months of 1997 the volume of imports appears to have grown by 4.6 p.c., a rate which, however, appears to have been slightly lower than that of the growth in the volume of exports. On balance, the rate of coverage in volume appears to have gone on increasing. In view of the appreciable quickening, in 1997, of domestic demand

in Belgium, this increase is appreciably less attributable to the relative movement of demand than during the period 1993-1996. In 1997, the positive contribution of foreign merchandise trade to the growth in GDP therefore appears to be due rather to the appreciation of the dollar and to the fact that Belgian exports are relatively specialised in cyclically sensitive products.

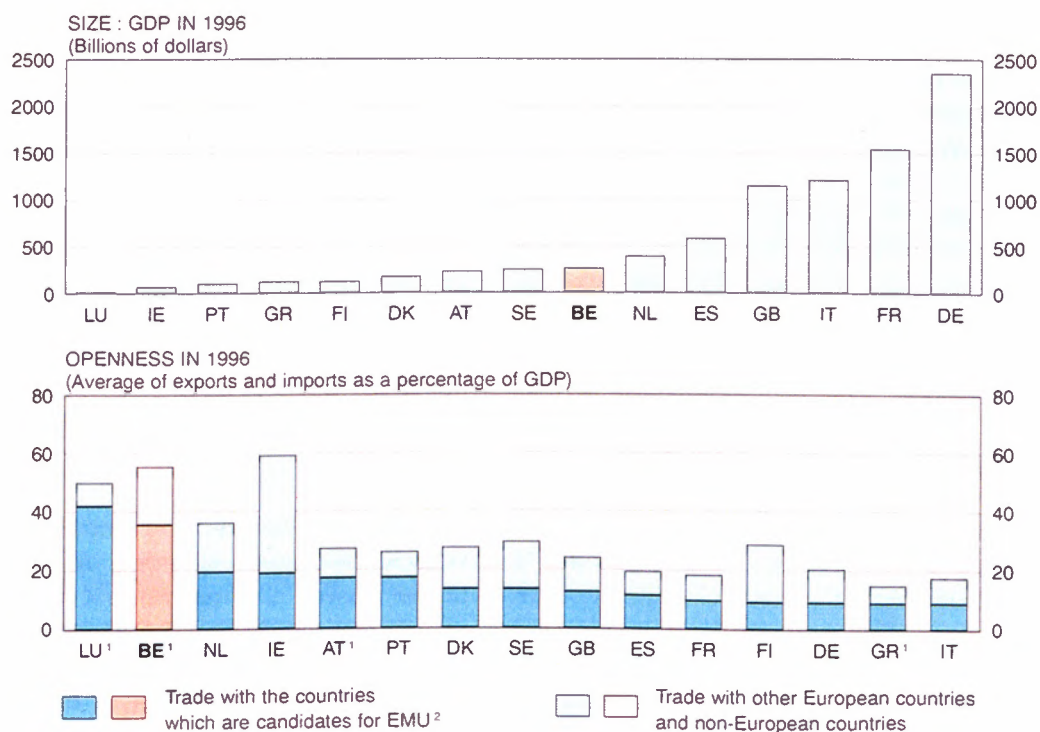
Implications of EMU

Small economies, such as Belgium, are strongly affected by developments abroad, as they are generally characterised by a high degree of openness. This link between the size of an economy and its degree of openness can be demonstrated to some

extent in Europe, even though other factors, such as the geographical situation and the extent of direct investment, partly determine the degree of openness. In the case of Belgium, the Netherlands and Ireland, these factors have clearly played an important role, because, in a classification by degree of openness, these countries rank higher than they would have done in a classification based on the size of the economies. By their openness, these small economies have succeeded in making better use of their comparative advantages and in deriving benefit from economies of scale which they would never have been able to achieve on their national market alone.

However, a high degree of openness inevitably has as its corollary the fact that a considerable proportion of the turnover

CHART 42 — SIZE AND OPENNESS OF THE ECONOMIES OF THE EU

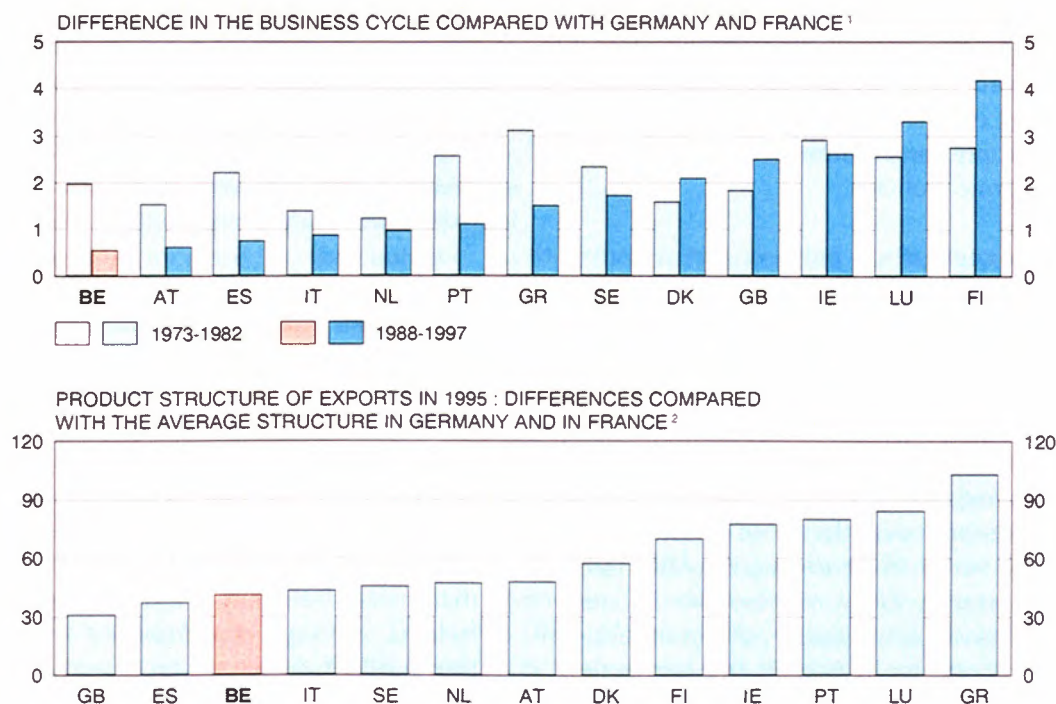


Sources : OECD, Statec, NBB.

¹ Data for the year 1995.

² EU excluding the countries which have expressed the desire not to participate in EMU from the outset, namely Denmark, the United Kingdom and Sweden.

CHART 43 — EXPOSURE OF THE EU MEMBER STATES TO ASYMMETRICAL SHOCKS



Sources : OECD, NBB.

¹ Standard deviation, over a period of ten years, of the growth differentials compared with Germany and France.

² Sum of the absolute values of the differentials between, on the one hand, the percentage shares, for a given country, of the sections of the harmonised system in its total foreign trade and, on the other hand, the corresponding average shares for Germany and France.

and costs of enterprises is expressed in foreign currencies, leading to by no means negligible transaction costs and exchange risks. The forthcoming creation of EMU should lead to the disappearance of the costs and risks relating to trade flows with the countries which will participate in this union. In relative terms, the advantage will be greatest for Luxembourg and for Belgium, for which the share of trade with the EMU candidates is greatest as a percentage of GDP.

On the other hand, the countries participating in EMU will no longer be able to pursue national monetary and foreign exchange policies. The abandonment of these economic policy instruments is liable, theoretically, to complicate the response to asymmetrical shocks. While it is not possible to determine to what extent the coun-

tries of the EU will be exposed to such shocks in future, examination of the past does provide indications with regard to, more particularly, the synchronisation of the business cycle and the product structure of exports.

With regard to the business cycle, a study has been made to determine to what extent the growth in the GDP of a Member State has diverged from that recorded on average in the two largest economies of the EU, namely Germany and France, for two periods each covering ten years, namely the most recent period, from 1988 to 1997, and a more distant period, from 1973 to 1982. For these two periods the standard deviation of the growth differential with Germany and France has been calculated for the thirteen other Member States of the EU. The more this standard

deviation increases, the more the cyclical pattern of a country deviates from that of Germany and France. In other words, in the countries where the standard deviation is high, the growth in GDP has been influenced more by asymmetrical shocks, resulting either from autonomous movements of supply or demand or from divergent economic policies.

A comparison between the two periods shows that for most of the countries the cyclical differential compared with Germany and France was greater during the period 1973-1982, when there was hardly any co-ordination of economic policies in the EU, than during the period 1988-1997. The conditions for the creation of a monetary union have therefore become appreciably better there during the latter period. Furthermore, EMU will itself further reduce the risk of divergences of economic policies. If one looks only at the last period, it is apparent that Belgium's GDP has most closely followed the cyclical pattern of Germany and France. That of Luxembourg, on the contrary, has deviated greatly from it. This is undoubtedly due to the Luxembourg economy's high degree of specialisation — connected with its small size — in three major branches, namely financial services, metallurgy and the rubber and plastics industry.

The differences between the product structure of the exports of a Member State of the EU, on the one hand, and this structure in Germany and France, on the other hand, can also provide indications of the vulnerability to asymmetrical shocks. When the composition of a country's exports diverges greatly from the composition of the exports of Germany and France, the incidence for the economy of the country in question of sectoral shocks — such as an increase in production costs or a decrease in demand in a particular sector — may in fact differ greatly from the effect produced in Germany and in France. The differences in the product structure compared with Germany and France have been measured, for the exports of the thirteen other Mem-

ber States of the EU, by the sum of the absolute values of the differences between the percentage share of each section of the harmonised system of the foreign trade statistics of a given country and the corresponding average share for Germany and France. The higher this sum, the more the product structure of a country's exports diverges from the average structure of Germany and France.

Also according to this indicator, Belgium ranks among the countries which diverge least from the structure prevailing in Germany and France, despite a relative specialisation in diamonds and textiles and in products of the metallurgical industry and the chemical and petrochemical industries and a relative under-representation of machines and transport equipment other than road transport vehicles. For Finland, Ireland, Portugal, Luxembourg and Greece the product structure of exports diverges, on the other hand, fairly considerably from those of Germany and France, because these countries are highly specialised in one or more product categories: paper and wood in Finland, data-processing and office automation equipment in Ireland, textiles in Portugal, products of the metallurgical industry and the rubber and plastics industries in Luxembourg and textiles and foodstuffs in Greece.

Services

Belgium's services account showed, at the end of the first nine months of the year under review, a modest positive balance, as in 1995 and 1996. Travel generally results in a substantial deficit, which, during the first nine months of the year, amounted to Fr. 92 billion, or Fr. 1 billion less than in 1996. Excluding travel, the balance of services showed a surplus of Fr. 96 billion for the first nine months of 1997. But this balance, too, did not increase compared with the corresponding period of 1996.

The stability of this balance is due to large but mutually offsetting rises in the

flows of receipts and expenditure. These flows increased for the first nine months of 1997 as a whole a little less rapidly than receipts and expenditure in respect of transactions in goods. With regard to trade in goods, the almost synchronous movement of the flows of receipts and expenditure, which reflects the fact that Belgium's exports consist largely of goods which have been previously imported, nevertheless led to a further increase in the balance on goods through the level effect. This effect operates less in the case of transactions in services, because the balance is much smaller and the correlation between the flow of receipts and expenditure is more limited than for trade in goods. The cyclical upturn in transactions in services did not

take place until after that in transactions in goods, that is, only at the end of 1996. This revival was observable chiefly in transport and in services between associated enterprises.

Incomes and current transfers

A current account surplus gives rise, in the case of Belgium — which, thanks to the growing current account surpluses which it has achieved since 1986, already possesses substantial net claims on foreign countries — to a further growth in foreign assets. These new assets, in the form of direct, portfolio or other investments, in turn generate a net income and thus lead, other things being equal, to an improvement in the current account balance. This self-fuelling effect also influenced the current account surplus during the year under review. On top of this volume effect there was also the positive effect of the movements of interest rates and exchange rates.

The deficit in respect of current transfers increased somewhat further, chiefly owing to the raising of the contribution to the budget of the European Union calculated on the basis of GNP. The refunds received from the European Agricultural Guidance and Guarantee Fund declined slightly, mainly because, compared with previous years, it was less profitable for non-residents to export from Belgian ports. The variations in exchange rates between the different European currencies were in fact small, so that the advantage resulting from the payment of the refunds in one or other of the strong currencies was not sufficient to compensate for the additional transport costs. The decrease in the refunds received for account of non-residents did not, however, affect the balance of current transfers, because it had as its counterpart an equivalent reduction in the transfers made by the Belgian Intervention and Refund Bureau to the foreign exporters in question.

CHART 44 — TRANSACTIONS IN GOODS AND SERVICES OF BELGIUM

(Percentage changes compared with the corresponding quarter of the previous year)

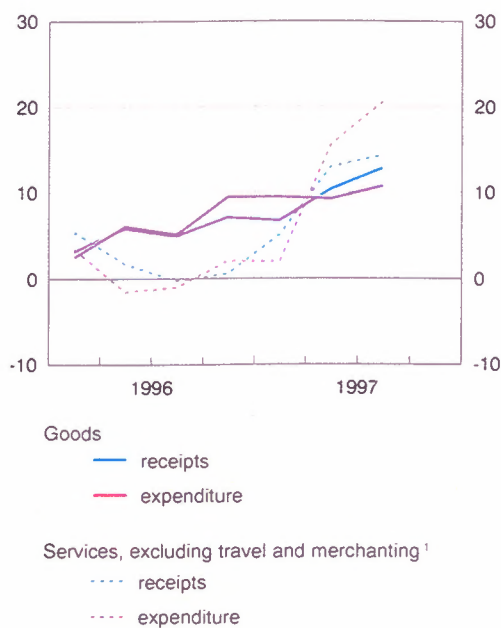


TABLE 24 — CURRENT ACCOUNT OF THE BLEU

(Balances, billions of francs)

	1995	1996	First nine months	
			1996	1997
Goods and services	352	345	264	294
Goods	279	263	197	226
Services	73	82	67	68
Travel	-88	-98	-83	-81
Other services	160	179	150	148
Incomes	201	218	165	169
Current transfers	-127	-129	-105	-115
Current transactions	425	433	325	348
p.m. Percentages of GDP	5.0	4.9		

Source : NBB.

5.3 CURRENT TRANSACTIONS OF THE BLEU

The current account balance of the Belgian-Luxembourg Economic Union, which reached Fr. 348 billion during the first nine months of the year under review, is the result, apart from statistical errors, of the addition of those of Belgium and Luxembourg. The current account surplus of Luxembourg increased only slightly compared with the same period of the previous year. The rise in the current account surplus, of Fr. 23 billion, is therefore largely attributable to the development of the current account balance of Belgium, which has been commented upon in section 5.2.

The large current account surplus of the BLEU, which represents about 5 p.c. of the overall GDP of the two countries, is the result of the large surpluses produced by transactions in goods and services and by incomes, while current transfers on the other hand, showed a negative balance. This structure is very close to that of the current account of Belgium. However, the surplus on transactions in services is much greater for the BLEU than for Belgium, owing to the good results achieved by

Luxembourg in this field, especially in financial services

5.4 CAPITAL AND FINANCIAL TRANSACTIONS OF THE BLEU

For the first time since the reform of the data-collection system for the compilation of the balance of payments, which came into force on 1st January 1995, it is possible for the analysis of the financial account to be based on the complete presentation of the balance of payments according to the methodology of the fifth edition of the IMF Manual. These data must, however, be interpreted with reservations, since several factors which are specific to the BLEU lead to an increase in the volume and complexity of capital movements with foreign countries and thus make the compilation of the balance of payments a difficult matter. These are, more particularly, the presence on the territory of the BLEU of major financial centres and of clearing houses which operate worldwide, and also the existence, in Belgium and Luxembourg, of tax provisions which are attractive to companies specialising in fi-

TABLE 25 — BALANCE OF PAYMENTS OF THE BLEU ^{1,2}

(Balances, billions of francs)

	1995	1996	First nine months	
			1996	1997
Current account	425	433	325	348
Capital account	11	5	4	13
Financial account	-367	-439	-305	-313
Direct investment	-36	178	187	159
Portfolio investment	-94	482	348	321
Other investment	-231	-1 082	-809	-746
Reserve assets	-7	-18	-31	-46
Errors and omissions	-69	1	-24	-48

Source : NBB.

¹ Minus sign : current account deficit, increase in claims on foreign countries or decrease in liabilities.² The presentation differs from that of the IMF because the portfolio assets and liabilities of resident credit institutions and liabilities in the form of general government securities in foreign currencies have been excluded from portfolio investment and appear under other investment.

financial transactions, such as the co-ordination centres and Luxembourg holding companies.

Capital transfers

Capital transfers, which constitute the most important component of the capital account, represent the counterpart to the provision, free of charge, of capital goods or funds for the acquisition of these goods, and to debt forgiveness. During the first nine months of 1997 the capital account closed with net inflows of Fr. 13 billion, against Fr. 4 billion during the corresponding period of 1996. Capital transfers went up because of a compensation payment made by the Netherlands in respect of the choice of the route for the future high-speed railway line between Antwerp and the Dutch frontier.

Direct investment

The BLEU's direct investment transactions have in the past produced considerable surpluses which have contributed to the increase in the supply of foreign currencies left by the current account surplus. These

data receive special attention, because they reflect the decisions of enterprises to create or take over companies in economies of which they are not residents and thus give an idea of the extent to which production activities are shifted from country to country or come under foreign influence. Direct investments as recorded in the balance of payments, in accordance with the fifth edition of the IMF Manual, are the only data which make it possible to study these worldwide movements on a harmonised basis. They are therefore adopted by other international institutions, such as the OECD and the United Nations, and thus often used for comparing the movements of the BLEU's direct investments with those of other countries.

These data are not, however, the most relevant for an analysis of direct investment from and in the BLEU. The IMF definition includes not only investment in equity, in so far as the transaction exceeds 10 p.c. of the capital of the company in which the investment is made, but also all other financial transactions, whatever their nature, between enterprises between which a direct investment relationship is established. As financial intermediation between the members of multinational groups is one of

the main activities of many enterprises established in the BLEU, direct investments entering and leaving the BLEU are greatly increased by these financial transactions. The balance of these loans between associated enterprises is also generally rather variable. That is why investments in equity, i.e. contributions to equity made in connection with the formation or expansion of companies, acquisition of shareholdings and takeovers, are the only ones dealt with below.

This more restrictive definition of direct investment does, however, call for some further comments. On the one hand, investment in equity which is a financial concept, often has only a very limited influence on creation of activities and jobs, as for instance in the case of takeovers of companies without further consequences or of investments in holding companies and co-ordination centres. On the other hand, investment in equity which is recorded in the balance of payments may in some cases underestimate the extent of investments in fixed capital, which are of decisive impor-

tance for the creation of activities and jobs, in so far as they are financed by foreign or local borrowing.

Direct equity investment flows at world level, which followed the development of GDP and foreign trade until the mid-1980s, have shown exceptional growth since then. In the space of just over ten years they have quadrupled, whereas foreign trade has become two and a half times greater and world output has doubled in nominal terms.

This development is due to several factors. The first is undoubtedly the liberalisation of capital movements. Many countries have also adopted deregulation policies leading to privatisations and the abolition of some monopolies, especially in services. International globalisation and the opening-up of new markets have furthermore encouraged enterprises to reconsider their sales and production strategies and to undertake direct investments in order to expand or retain market shares or gain access to new markets. Location factors connected

TABLE 26 — DIRECT INVESTMENT OF THE BLEU¹

(Billions of francs)

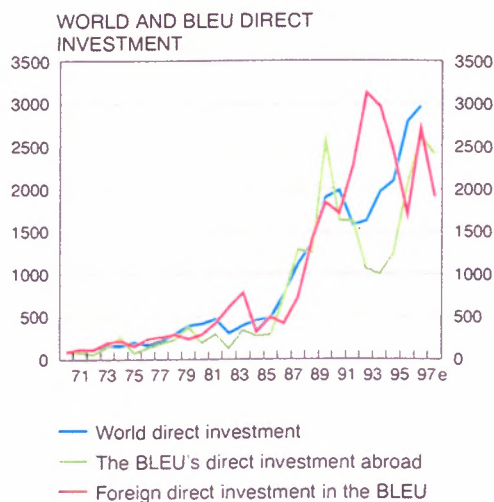
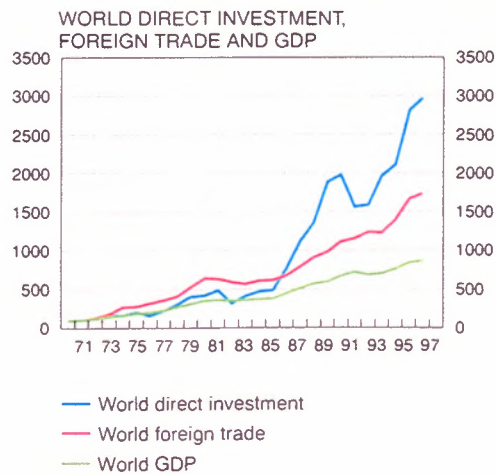
	1995	1996	First nine months	
			1996	1997
Investment in equity capital	42	109	96	19
Net investment from abroad				
Investment	213	446	321	221
of which in co-ordination centres	68	94	50	71
Disinvestment	-39	-169	-102	-121
of which by co-ordination centres	-2	-71	-23	-20
Balance	174	277	219	99
Net investment abroad				
Investment	-200	-255	-174	-222
Desinvestment	67	88	51	142
Balance	-132	-167	-123	-80
Net loans between affiliated enterprises	-78	69	91	139
Total	-36	178	187	159

Source : NBB.

¹ Minus sign : direct investment of the BLEU abroad or disinvestment by foreign countries in the BLEU.

CHART 45 — DIRECT INVESTMENT¹, FOREIGN TRADE AND GDP

(Indices 1970 = 100)



Sources : IMF, UNCTAD, NBB.

¹ Direct investment in company capital.

with production costs and taxation systems seem, however, to be gaining in importance. Lastly, competition between countries has been heightened through various fiscal advantages and subsidies and other measures adopted to attract foreign direct investment.

Direct investment from and to the BLEU has participated in this globalisation

movement. During the last ten years, investment from abroad has grown at an annual average rate of 20 p.c., and that to foreign countries by 13 p.c. At the beginning of the 1990s foreign investment in the BLEU increased faster than world investment, whereas the BLEU's investment abroad decreased. Belgium and Luxembourg therefore appear to have benefited more from the international expansion of enterprises than they have contributed to it. The BLEU's share in total investment in the member countries of the EU, between 1990 and 1995, represented on average 8.5 p.c., or a larger proportion than its contribution to Community GDP (3.2 p.c.). On the other hand, the BLEU's share in total direct investment by the countries of the EU amounted to only 2.5 p.c.

The BLEU has always had a positive attitude towards foreign investment. Furthermore, it derives advantage from a geographical situation in the heart of the European market, from the presence of several European and international institutions, and from suitable transport and communication infrastructures. These factors, together with the skilled labour, the use of several languages and the adoption of specific legislative measures encouraging the establishment of new activities of centralisation of financial flows and flows of goods and services, have contributed to the attractiveness of the BLEU within the EU, especially at the time of the investment wave which preceded the creation of the single European market. The high labour costs in the BLEU are admittedly an element which is weighed against the other factors, but they do not always appear to have been decisive in investment decisions.

The large share of foreign countries in the shareholdership of Belgian and Luxembourg enterprises has possibly contributed to the relative weakness of the BLEU's equity investment abroad. The financing of the external growth of multinational groups is provided more by the parent company than by subsidiaries established abroad, even though some of them occasionally

play a role as intermediaries in the financing of investment. The preponderance of family shareholdership in small and medium-sized enterprises may also have played a role.

Belgium has played a large part in the development of direct investment from and to the BLEU. Since the beginning of the 1980s, according to some estimates, it appears to have received, on average, nearly four-fifths of total foreign investment in the BLEU and to have accounted for three-quarters of the BLEU's investment abroad.

The decline in net equity investment by foreigners in the BLEU in 1997 does not seem to be in accordance with the trend observed in the past. It is primarily due to the sharp rise in disinvestment, already observable, it is true, at the end of 1996, which may sometimes amount to several tens of billions of francs per transaction. In particular, in 1997 a Belgian company was

liquidated by its foreign shareholders and at the same time its holding in the capital of a non-resident company was sold. This transaction led to the recording of a disinvestment by the BLEU abroad and by foreign countries in the BLEU, in excess of Fr. 40 billion. Since 1996, too, there has been a partial decapitalisation of a number of co-ordination centres, even though in net terms the capital contributions to these co-ordination centres are still continuing to increase. These disinvestments, which are prompted more by financial considerations, do not seem to indicate a waning of interest in Belgium which might lead to losses of activity and jobs.

In accordance with the general tendency at world level, foreign direct investment in the BLEU is mainly concentrated in services. During the 1990s investment in this branch is estimated to have represented around 85 p.c. of total investment, one-third of the investment being attributable to

TABLE 27 — SECTORAL BREAKDOWN OF THE BLEU'S DIRECT EQUITY INVESTMENT^{1,2}

(Balances, billions of francs)

	Direct investment from abroad			Direct investment abroad		
	1995	1996	First nine months of 1997	1995	1996	First nine months of 1997
Industry	21	20	3	-33	-54	-41
Services	114	189	60	-81	-97	-10
Trade	8	14	3	-6	-15	-1
Hotels and restaurants .....	...	-10	...	8	...	...
Transport and communication	8	83	1	-1	-6	...
Financial intermediation ³	25	69	48	-64	-70	-37
Real estate, renting and auxiliary services to enterprises	8	10	-43	-10	-6	29
Co-ordination centres ⁴	66	23	51	-	-	-
Other sectors and indeterminate	29	57	30	-18	-10 ⁵	-21
Total ⁵	164	266	94	-124	-161	-72

Source : NBB.

¹ Minus sign : direct investment of the BLEU in foreign countries or disinvestment of foreign countries in the BLEU.

² According to the resident sector which is the counterparty in the transaction.

³ Comprising holding companies, including the Luxembourg holding companies governed by the law of 31st July 1929, insurance companies and financial auxiliaries.

⁴ The equity investment in foreign countries which was assigned to the co-ordination centres at the time of recording has been reclassified on the basis of the activity of the parent company.

⁵ Excluding investment in real estate.

TABLE 28 — GEOGRAPHICAL STRUCTURE OF THE BLEU'S DIRECT EQUITY INVESTMENT¹

(Balances, billions of francs)

	Direct investment by foreign countries			Direct investment in foreign countries		
	1995	1996	First nine months of 1997	1995	1996	First nine months of 1997
European Union	122	188	31	-97	-116	-21
of which : Germany	21	13	-2	-17	-5	36
France	18	25	-3	-24	-69	-1
Italy	6	45	27	-4	-7	-25
Netherlands	48	45	27	-37	-26	-12
United Kingdom	22	29	-22	-7	-1	-8
Canada	9	1	11	-19	-2	...
United States	12	35	23	2	-5	-19
Japan	1	...	2	1	...	...
Singapore .....	...	20	14	...	-3	...
Switzerland	17	10	4	-4	-14	-5
Total ²	164	266	94	-124	-161	-72

Source : NBB.

¹ Minus sign : direct investment of the BLEU in foreign countries or disinvestment of foreign countries in the BLEU.² Excluding investment in real estate.

the capitalisation of the co-ordination centres. In 1997 net investment in services was influenced by the aforementioned disinvestment transactions, the effects of which appear under the heading real estate services, renting and ancillary services to enterprises. Although industry accounts for a larger share of the BLEU's investment abroad, the financial intermediation branches generally remain predominant.

The importance of the financial intermediation sector in the BLEU's inward and outward investment reflect, on the one hand, the restructuring of the banking and insurance sector in Europe in connection with the preparation for EMU and, on the other hand, the intermediation role played by Luxembourg holding companies. The capital of the co-ordination centres has increased year on year. This development is connected with the growing attention paid to covering risks by means of equity. Furthermore, the parent companies do not systematically stand surety for all the funds borrowed by subsidiaries. The equity of the

co-ordination centres can therefore provide a financial basis which makes it possible to obtain the best credit terms for the members of the group. Generally, a large proportion of the financial resources derived from the capitalisation of the co-ordination centres returns abroad in the form of loans to members of the group.

In 1997 substantial disinvestment changed the geographical breakdown, causing it to deviate from the tendency usually observed. Generally speaking, the geographical breakdown of the direct investment flows of the BLEU with foreign countries is similar to that of foreign trade. Thus, during the last ten years the EU accounted for nearly 80 and 60 p.c. respectively of total inward and outward direct investment. The geographical orientation of direct investment in Europe is in fact often explained by proximity, cultural and linguistic affinities or the prior existence of commercial relations. The share of the United States in investment from and to the BLEU is however twice as great as the

share of that country in the BLEU's foreign trade. The extent of these direct investment relationships is probably partly due to the BLEU's specialisation in financial activities and its central position within the EU, as well as to the expansion of some large Belgian industrial and commercial groups in the United States during the last few years.

Portfolio investment

Unlike in the preceding years, the transactions of the BLEU's collective investment undertakings with foreign investors, and their investments abroad on behalf of the latter, are no longer eliminated from portfolio investment. This change in method resulted from the implementation of the fifth edition of the IMF's Balance of Payments Manual and from the harmonisation of the methodology of the balance of payments of the countries which are preparing

for EMU. Furthermore, the liberalisation of capital movements worldwide has made the collection of data necessary for distinguishing between the investments made by these undertakings for account of non-residents and those made for account of residents more complex. Consequently, the formation of assets and liabilities has increased substantially in comparison with previous presentations of the balance of payments. The around 1,500 Belgian and Luxembourg UCITs in fact constitute the turntable for very substantial financial flows between the BLEU and the rest of the world.

Luxembourg undertakings whose promoters are non-residents of the BLEU, that is, on 31st December 1996, 1,249 UCITs, collect the bulk of their funds outside Belgium and Luxembourg. These capital inflows represent a considerable volume, which increased further in 1997, to reach Fr. 1,198 billion during the first nine

TABLE 29 — PORTFOLIO INVESTMENT OF THE BLEU¹

(Balances, billions of francs)

	1995	1996	First nine months	
			1996	1997
Assets of non-bank residents	-118	-760	-686	-1,106
Equity securities	-132	-111	-98	-583
Assets of the UCITs	-98	-105	-105	-477
Assets of other residents	-34	-6	7	-106
Bonds, money market instruments and derivatives	14	-649	-588	-523
Liabilities of non-bank residents ²	24	1,243	1,034	1,427
Private non-bank sector	-22	1,197	938	1,405
Equity securities	190	1,061	845	1,286
of which units of UCITs	204	992	759	1,198
Bonds, money market instruments and derivatives ..	-212	136	93	119
General government	46	46	96	22
Linear bonds	85	2	24	-49
Treasury certificates	-38	44	72	71
Total	-94	482	348	321

Source : NBB.

¹ Minus sign : increase in assets on foreign countries or decrease in liabilities.

² Excluding the foreign currency liabilities of general government.

months of the year, against Fr. 759 billion in 1996.

This development is in line with what was observed in 1996, after the relative aversion to shares of UCITs displayed by investors following the substantial capital losses incurred in 1994. The return to favour of UCIT shares is primarily attributable to the interest aroused by those specialising in investment in equity, as stock exchange quotations had risen again appreciably at the end of 1996 and the stock exchange climate was considered favourable. The funds collected by UCITs outside the BLEU are invested only to a small extent on the Belgian and Luxembourg financial markets; for the most part they are reinvested outside the BLEU. Acquisitions of foreign shares by UCITs thus more than quadrupled compared with the corresponding period of 1996, reaching Fr. 477 billion. This movement is also partly attributable, however, to the increased interest of Belgian individuals in shares, a type of investment which entails a certain risk and for which they resorted largely to investment funds. Direct acquisitions of foreign shares by residents were also substantial, however, and reached Fr. 106 billion. They are probably partly attributable to transactions by companies for portfolio investment purposes or in connection with equity investment.

As, furthermore, monetary UCITs had little success in 1997 owing to the low level of short-term interest rates, the remainder of the funds gathered by UCITs was invested in foreign bonds, recorded among portfolio assets. The balance of the transactions of UCITs with and for account of non-residents would therefore appear to have influenced the balance of portfolio investments to a lesser extent in 1997. In 1996, on the contrary, monetary UCITs, whose investments are partly recorded under the heading «other investment», had been more in demand.

The appreciable rise in portfolio investment by non-bank residents, which went up

from Fr. 686 billion in 1996 to Fr. 1,106 billion in 1997, must therefore be viewed in this context. As the partial figures of the LMI and the Belgian Association of Collective Investment Undertakings show that the UCITs' investments in foreign bonds were appreciably less in 1997 than the amount of over Fr. 800 billion recorded in the balance of payments, residents also probably made direct acquisitions, to an even greater extent than in 1996. The widening of the positive differential of long-term interest rates in dollars vis-à-vis those in Belgian francs and the considerable appreciation of the dollar probably provide part of the explanation for this development. The search for higher yields furthermore induced investors to accept greater exchange risks and to turn to other sectors of the bond market such as those of the pond sterling and the Danish krone as well as currencies such as the Czech koruna and the South African rand. The lira, for its part, benefited, from the middle of the year onwards, from the more optimistic market expectations regarding Italy's participation in EMU.

The investments of non-residents in Treasury certificates issued by the Belgian government were rather volatile, as investors did not hesitate to take advantage of a temporary widening of the short-term interest-rate differential vis-à-vis the German mark. Thus, in 1997, the outstanding amount of certificates in the portfolios of non-residents increased chiefly in February, when the differential increased by 25 basis points, to 0.29 p.c., and in August and September, just after the differential reached a peak — of 54 basis points — during the last days of July. The outstanding amount of non-residents' certificate portfolios thus doubled between the end of December 1996 and the end of February 1997, rising from Fr. 69 billion to 138 billion. It decreased again after that, to Fr. 40 billion at the end of July, and amounted to Fr. 139 billion at the end of September.

On the other hand, non-residents reduced their portfolios of linear bonds by Fr. 49 billion at the end of the first nine

months of the year. The reduced interest in linear bonds, already observed in 1996, is attributable to the virtual disappearance of the interest-rate differential vis-à-vis the rates for bonds in German marks, and to the low level of interest rates, albeit stable on average over the year, which offered little prospect of capital gains. The decrease in the share of linear bonds held by non-residents in the total outstanding amount reflects this lack of interest. This share, which was still 6.9 p.c. in December 1995, was down to 5.5 p.c. in September 1997.

Other investments

Other investments are a residual category of the financial account, showing assets and liabilities of very different kinds, whose movement is determined by heterogeneous factors.

Among the assets and liabilities of the non-bank private sector, net commercial claims showed strong growth during the first nine months of the year, parallel with that of foreign trade. Furthermore, transactions relating to deposits, the granting and

contracting of loans and other assets and liabilities resulted, on balance, in net capital outflows of Fr. 406 billion. These transactions are mainly influenced, on the one hand, by the deposits made by residents, including by collective investment undertakings, within the framework of their asset management, and, on the other hand, by transfers made by resident enterprises from operating accounts abroad, the use of which has increased owing to the globalisation of the economy and the virtual absence of exchange risks between most European currencies. Thus, the balance left by the other investments of the non-bank private sector was influenced, during the first nine months of 1997, by the repatriation of funds from these accounts, for which the nature of the underlying transaction has not yet been reported.

The other net investments of general government consist of the change in assets and liabilities in foreign currencies and, to a lesser extent, in francs, except for the securities issued in francs by the Treasury, which are included in portfolio investments. In 1997, general government's liabilities in the form of securities in foreign

TABLE 30 — OTHER INVESTMENTS OF THE BLEU¹

(Balances, billions of francs)

	1995	1996	First nine months	
			1996	1997
Non-bank private sector	-422	-691	-488	-466
Commercial claims	6	2	-20	-61
Deposits, loans and other assets and liabilities	-428	-693	-468	-406
General government ²	35	-146	-48	11
Credit institutions ³	150	-231	-259	-290
Monetary authorities	6	-14	-15	-1
Total	-231	-1,082	-809	-746

Source : NBB.

¹ Minus sign : increase in assets on foreign countries or decrease in liabilities.

² Including liabilities in the form of securities in foreign currencies.

³ Including assets and liabilities in the form of securities.

currencies underwent hardly any change. The balance of the item therefore corresponds to the net change in general government's deposits and loans in francs and in foreign currencies, connected with, among other things, transactions with international organisations and loans from foreign banks.

The net investments of credit institutions stem chiefly from their function as intermediaries between resident and non-resident creditors and debtors. Thus, their net liabilities in francs vis-à-vis non-residents increased by Fr. 229 billion during the first nine months of the year, against a decrease of Fr. 116 billion during the corresponding period of 1996. Moreover, their net assets in foreign currencies rose by Fr. 453 billion, or more than in 1996. This rise represented, among other things, the counterpart to the increase in net liabilities in foreign currencies vis-à-vis resident customers, the decrease in claims in foreign currencies on general government and the decrease in their forward liabilities, including the forward transactions concluded with the Bank within the framework of monetary and foreign exchange policy.

The liabilities of the monetary authorities consist of the credit balances of international organisations and foreign central and private banks on their accounts with the Bank. They underwent hardly any change during the first nine months of the year. Against this, the Bank's reserve assets, which form the last item of the financial account, increased by Fr. 46 billion.

5.5 EXCHANGE RATES

The weighted average exchange rate for the franc, which provides a summary indication of the development of the franc vis-à-vis the currencies of the main competitors of resident producers on the domestic and foreign markets, depreciated on average by 4 p.c. in 1997 compared with 1996. The

movement which started in 1995 therefore continued. In view of the objective of stability of the franc vis-à-vis the German mark, this depreciation chiefly reflects that of the mark in relation to the pound sterling and the US dollar, as well as, albeit to a smaller extent than in 1996, vis-à-vis the Italian lira. The crisis on the South-East Asian foreign exchange markets did not, on the other hand, have any notable influence on the weighted average exchange rate for the franc. The countries in question are not very important competitors of Belgium, and the wave of depreciations did not begin until the middle of the year.

Compared with 1987, the year of the last general realignment of parities within the EMS, the external value of the franc has, on average, appreciated by 4.7 p.c. This movement is almost identical to that of the German mark and the guilder, which have appreciated by 5.9 and 4 p.c. respectively since 1987. Between April 1995, when it had reached its highest level in relation to the leading currencies, and December 1997, however, the exchange rate for the franc depreciated by 7.3 p.c.

Over a long period, according to the purchasing-power parity theory, fluctuations in the nominal effective exchange rate reflect the inflation differential between two countries. The real effective exchange rate for a currency ought thus to remain tendentially constant, even though it may sometimes deviate appreciably and for fairly long periods from this equilibrium level.

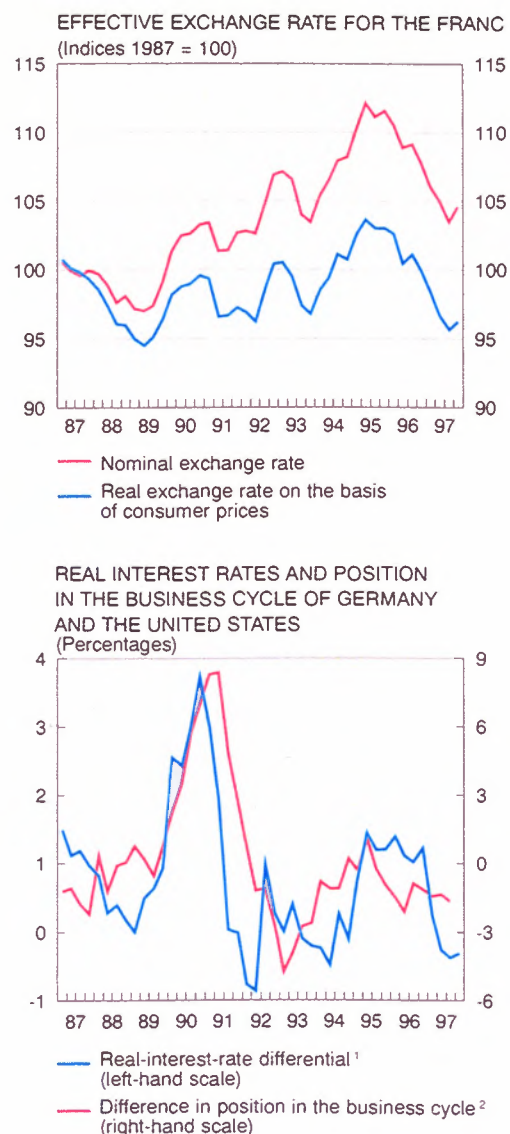
This real exchange rate can be measured in different ways depending on the cost and price indices used: unit labour costs, unit export values, wholesale prices or consumer prices. The use of the consumer price index for calculating the real exchange rate is often preferred in empirical studies. This is because wholesale or foreign trade prices are frequently determined by the international market and do not always provide correct information about the competitive position of enterprises, as the profit margin absorbs the

changes in input costs. That is why an indicator of input costs is often used for calculating the real exchange rate. Labour costs are, however, a too restricted cost concept, which, if the currency appreciates, tends to overestimate the worsening of the competitive position of enterprises, because these costs take account of only one category of inputs. The consumer price index can thus be regarded as a proxy for the development of the costs of all inputs, in so far as it incorporates the prices of services and imports and partly determines the development of labour costs.

The short-term fluctuations of the real exchange rate can be linked to the differential of real interest rates, an appreciation being brought about by a positive interest-rate differential vis-à-vis the other currencies. This differential is itself influenced by the respective position of the economies in the business cycle, because the widening of the real-growth differential is reflected in an increase in the differential of long-term interest rates.

Account being taken of the policy of stability of the franc vis-à-vis the German mark, the real exchange rate for the franc is largely determined by the differential of real long-term interest rates between Germany and the United States. Thus, the depreciation of the German mark and the franc, in 1996 and 1997, can be related to the movement of the long-term real-interest-rate differential in favour of the US dollar. On average over 1997 as a whole, the real exchange rate for the franc depreciated by 3.3 p.c. compared with its 1987 level.

CHART 46 — EFFECTIVE EXCHANGE RATE FOR THE FRANC



Sources : BIS, EC, OCED.

¹ Real long-term interest rate differential between Germany and the United States.

² Difference between the growth rate of GDP at constant prices compared with the corresponding quarter of the previous year in Germany and the United States.

6. FINANCIAL ACCOUNTS AND FINANCIAL MARKETS

6.1 OVERALL VIEW

For more than a decade the three major domestic sectors of the economy, namely individuals, companies and general government, have, overall, systematically generated a net financing capacity which they have been able to place at the disposal of non-residents. After having averaged one per cent of GDP until the beginning of the 1980s, the net borrowing of the rest of the world from Belgium subsequently increased, reaching about 5.1 p.c. in 1997.

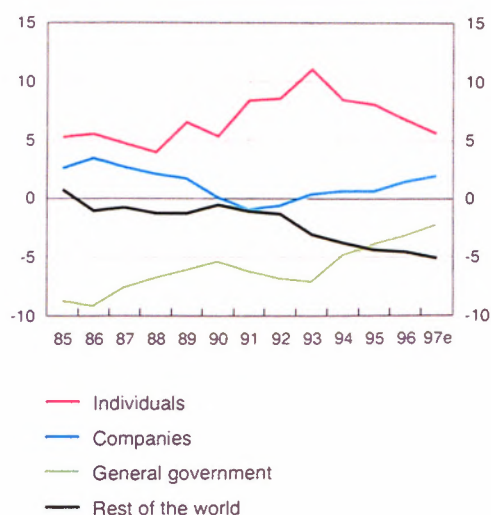
This increase, which reflects the widening of Belgium's current account surplus, has been coupled with a lessening of the budget deficit. Since 1995 the rest of the world has in fact replaced general government as the main beneficiary of the finan-

cial contribution from the sectors with a surplus. The difference between the two net borrowers actually grew during the last two years. In 1997 the financing requirement of general government was only 2.3 p.c. of GDP, which is nearly 3 percentage points below the level of the net new liabilities of the rest of the world vis-à-vis Belgium.

This gradual shift between the two major debtor sectors was accompanied, during the recent period, by a similar movement between the other two sectors. After having reached a peak of 11 p.c. of GDP in 1993, the net financing capacity of individuals represented only 5.6 p.c. in 1997. Parallel with this, the increase in the gross income of companies was reflected, in the absence of an equivalent increase in investment, in

CHART 47 — NET FINANCING REQUIREMENT (–) OR CAPACITY OF THE MAJOR SECTORS

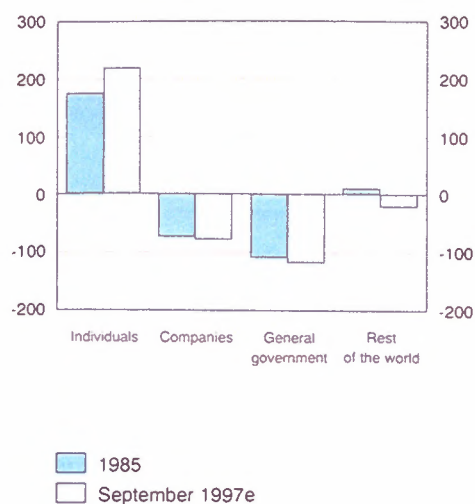
(Percentages of GDP)



Sources : NAI, NBB.

CHART 48 — NET FINANCIAL POSITION OF THE MAJOR SECTORS¹

(Percentages of GDP)



Source : NBB.

¹ Listed shares have been valued on the basis of stock exchange capitalisation. The outstanding amount of unlisted shares has been estimated from the equity of the companies in question.

a rise in their net financing capacity from 0.3 p.c. of GDP in 1993 to 1.9 p.c. in 1997.

These changes in the direction of net financial flows, pronounced though they may have been during the last two years, have sometimes been only partly reflected in changes in the financial positions of the various sectors. The best-known example is that of general government. The sustained rehabilitation effort made by the public authorities led only after a time-lag to a reduction in the public debt, which, in net terms, represented about 118 p.c. of GDP at the end of September 1997.

A similar time-lag is observable for companies, whose net financial liabilities increased between 1985 and 1997, whereas the sector regularly generated a net financing capacity during that period. This growth in liabilities is largely attributable to

the effect of the rise in stock exchange prices on the valuation of shares, which are the main financing instrument of companies. The fluctuations in share prices and other prices on the financial markets also affect the position of the other sectors. Thus, the increase in the net financial position of individuals, from 175 p.c. of GDP in 1985 to around 220 p.c. at the end of the third quarter of 1997, is the consequence not only of the accumulation of their financing capacities but also of the rise in stock exchange prices. The development of the net financial position of the rest of the world vis-à-vis Belgium has also been influenced by the fluctuation of the exchange rate for the franc. Unlike reciprocal claims and debts between domestic sectors, which are mainly denominated in francs, those accumulated on non-residents in fact include a substantial proportion of financial instruments expressed in foreign currencies.

TABLE 31 — FINANCIAL CLAIMS AND LIABILITIES OF THE BELGIAN ECONOMY AT THE END OF SEPTEMBER 1997 e

(Outstanding amounts, billions of francs)

	Individuals	Companies	General government	Rest of the world	Total
Financial assets	22,427	12,329	956	12,028	47,740
With Belgian credit institutions ^{1 2}	9,510	3,150	227	4,358	17,246
With institutional investors operating on the Belgian market ³	4,901	380	17	...	5,298
In the form of securities acquired direct from the final borrowers	7,379	6,167	417	5,772	19,735
Via other channels ⁴	636	2,632	295	1,898	5,461
Financial liabilities	3,486	19,146	11,204	13,903	47,740
To Belgian credit institutions ^{1 2}	2,831	3,799	6,493	4,124	17,246
To institutional investors operating on the Belgian market ³	293	1,574	1,880	1,552	5,298
In the form of securities placed direct with the final investors	—	11,467	2,737	5,531	19,735
Via other channels ⁴	363	2,307	94	2,697	5,461
Financial balance	18,941	−6,817	−10,249	−1,876	

Source : NBB.

¹ Including the NBB, the Securities Regulation Fund, the Monetary Fund, the RGI and the Postal Cheque Office.

² For the interbank transactions which Belgian credit institutions carry out with their foreign correspondents, only the balance is taken into account, in order to avoid exaggerating the size of the gross flows taking place via this channel.

³ Units and other securities of collective investment undertakings and insurance notes marketed in Belgium, and also technical reserves of Belgian insurance companies and pension funds.

⁴ The figures include assets and liabilities with foreign credit institutions, as well as the direct financing transactions which it has been possible to record between domestic sectors or with the rest of the world in forms other than securities.

At the end of September 1997 the value of the net financial claims held by individuals on the other sectors was estimated at about Fr. 18,900 billion. These resources were mainly devoted to the financing of general government, whose net debt amounted to Fr. 10,200 billion, and to the financing of companies, whose net financial liabilities were estimated at over Fr. 6,800 billion, the balance, nearly Fr. 1,900 billion, representing the debtor position of the rest of the world vis-à-vis Belgium.

The activity of the markets and the financial intermediaries cannot be measured merely by reference to these net balances, because each sector is simultaneously a creditor and a debtor, owing to the coexistence of economic agents with a surplus and others with a deficit, and to the great variety of financial strategies pursued. These various financing transactions can, in turn, take place via several chan-

nels. Foremost among these are, on the one hand, the direct issuing of securities in francs or in foreign currencies to the final investors, which, at about Fr. 19,700 billion, represent 41 p.c. of the outstanding amounts and, on the other hand, Belgian credit institutions, which manage about Fr. 17,200 billion, or 36 p.c. of these outstanding amounts. The relative position of these two channels is however greatly dependent on the variations in stock exchange prices, which directly influence the valuation of shares. The balance is distributed more or less equally between institutional investors and the residual channels, which include, in particular, foreign credit institutions.

This overall structure cannot, however, be transposed to each sector. Thus, individuals build up over 40 p.c. of their financial assets with credit institutions and allocate only a quarter of them to the direct acquisition of securities, largely in the form of

TABLE 32 — INVESTMENT AND FINANCING CHANNELS OF THE BELGIAN ECONOMY
DURING THE FIRST NINE MONTHS OF 1997 ^e

(Changes, billions of francs)

	Individuals	Companies	General government	Rest of the world	Total
Formation of financial assets	667	422	13	656	1,758
With Belgian credit institutions ^{1,2}	127	150	65	453	795
With institutional investors operating on the Belgian market ³	448	15	...	...	464
In the form of securities acquired direct from the final borrowers	301	105	-24	57	439
Via other channels ⁴	-210	152	-28	146	60
New financial liabilities	207	346	255	950	1,758
To Belgian credit institutions ^{1,2}	193	68	107	427	795
To institutional investors operating on the Belgian market ³	38	25	168	233	464
In the form of securities placed direct with the final investors	—	129	-2	312	439
Via other channels ⁴	-25	124	-18	-21	60
Financial balance ⁵	460	76	-242	-294	

Source : NBB.

^{1,2,3,4} See the corresponding notes to Table 31.

⁵ The balances of the financial accounts do not correspond to the financing capacities or requirements as recorded in the real accounts, owing to the differences between the dates of recording of the transactions in these two accounts, statistical adjustments or errors and omissions. Thus, for example, the financial accounts cannot, for lack of data, record most of the claims and debts resulting from transactions in goods and services between sectors.

shares issued by unlisted family securities. Conversely, companies and the rest of the world hold about half of their financial assets in the form of securities, mainly shareholdings.

The same breakdown applies to liabilities. Individuals mainly contract debts to Belgian banks, whereas securities placed direct with the final investors are the main financing channel of companies and the rest of the world. The structure of general government's liabilities is very different. Three-quarters of its financial debt is held by financial intermediaries, credit institutions and institutional investors, which themselves mainly obtain their funds from individuals. Over 90 p.c. of the resources gathered by institutional investors operating on the Belgian market in fact come from households, which also account for more than half of the funds collected by Belgian credit institutions.

During the first nine months of the year, the financial flows passing via credit institutions remained very substantial, having represented, at Fr. 795 billion, nearly 45 p.c. of new portfolio investments or financing transactions. On the other hand, transactions in securities carried out direct between final borrowers and final investors represented only 25 p.c. of formation of financial assets or new financial liabilities, which is slightly less than the proportion

accounted for by institutional investors. This proportionally smaller contribution of securities is mainly attributable to the redemption, by general government, of securities held direct by the final investors.

The credit institutions collected a substantial proportion of their resources from the rest of the world, because the share of funds coming from individuals decreased. The financial savings of the latter sector were in fact mainly placed with institutional investors and in the form of securities acquired from the final borrowers.

6.2 FINANCIAL ACCOUNTS

Individuals

The decrease in the saving ratio and the rise in investment in housing reduced the net financing capacity of individuals. This fall was reflected particularly in a sharp rise in the new liabilities contracted by households, which went up from Fr. 172 billion in 1996 to Fr. 207 billion for just the first nine months of 1997.

This movement is mainly attributable to the growth in mortgage loans, the outstanding amount of which increased by Fr.

TABLE 33 — FORMATION OF ASSETS AND NEW FINANCIAL LIABILITIES OF INDIVIDUALS

(Billions of francs)

	1993	1994	1995	1996	First nine months of 1997
Formation of financial assets	877	1,026	852	964	667
New financial liabilities	84	181	69	172	207
of which mortgage loans	123	135	82	115	143
Financial balance ¹	793	846	783	791	460

Source : NBB.

¹ See note 5 to Table 32.

TABLE 34 — STRUCTURE OF THE FORMATION OF FINANCIAL ASSETS BY INDIVIDUALS

(Billions of francs)

	1993	1994	1995	1996	First nine months of 1997
At up to one year	315	-18	15	105	-37
Sight deposits, notes and coins	101	13	23	12	86
Savings deposits	37	446	403	432	204
Time deposits	-56	-70	-260	-272	-232
Units of monetary UCITs ¹	-17	-11	-18	-25	-58
Securities	249	-395	-134	-42	-36
At over one year	512	929	865	778	615
Deposits and fixed-interest securities	-111	646	555	286	31
Units of UCITs in bonds ¹	429	-11	44	45	71
Shares	-35	26	-13	47	78
Units of UCITs in shares ¹	71	59	15	94	156
Units of other UCITs ¹	48	73	32	71	111
Technical reserves with insurance companies and pension funds ²	111	134	232	236	168
Other assets ³	50	116	-28	80	89
Total	877	1,026	852	964	667

Source : NBB.

¹ Units and securities of collective investment undertakings marketed in Belgium.² Including insurance notes marketed in Belgium.³ Direct financing transactions which it has been possible to record between domestic sectors or with the rest of the world in forms other than securities, and assets whose maturity is not known.

143 billion in the first three quarters of 1997. This increase in new mortgage loans was mainly due to the recovery, after a year of decline, in the building of new dwellings, together with still very brisk activity in the market for existing housing.

On the other hand, the indebtedness of individuals in the form of flat-rate loans increased by about the same amount as in 1996, sales of new cars, which are the main category of transactions financed by this type of credit, having been less affected in 1997 than in the past by the fact that the motor show is not held in odd years.

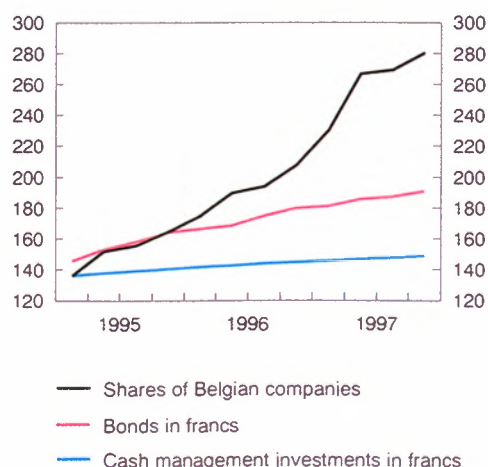
Investments by individuals were concentrated, more than in 1996, on securities at over one year. Within this asset category, however, investors changed their choices, showing a distinct preference for shares at the expense of bonds.

The success of investments in venture capital in fact represents the most striking feature of the development during the year. As both short-term and long-term interest rates remained very low, the sharp rises in stock exchange prices during the greater part of 1997 caused individuals to prefer investments in shares.

Although direct purchases of shares increased considerably, to nearly Fr. 80 billion during the first nine months of 1997, investors chiefly favoured transactions via specialised UCITs. Investments with these bodies appear to have amounted to Fr. 156 billion during the period under review, against Fr 94 billion for the year 1996 as a whole. This increased recourse to UCITs reflects the decision of many investors, attracted by stock market yields, to resort to the services of professional asset managers and gain the advantage of extensive geo-

CHART 49 — YIELD INDICES OF COLLECTIVE INVESTMENT UNDERTAKINGS¹

(Indices 1st January 1991 = 100, end-of-period data)



Source : Belgian Municipal Credit Institution.

¹ These indices measure the movement of the inventory value of capitalisation units of collective investment undertakings specialising in bonds and shares and in cash management investments, weighted by the outstanding amount of the capital managed. They thus incorporate both changes in the prices of the underlying assets and, where appropriate, the capitalisation of the income generated by these assets.

graphical and sectoral diversification without having to employ substantial amounts of funds. It is also due to the growing number of products offered by undertakings of a type which has recently come into being, index funds, the performance of which is linked to the movement of stock market indices. These units can offer capital protection and are sometimes even provided with a so-called ratchet mechanism, which makes it possible, in various ways, to safeguard the results obtained.

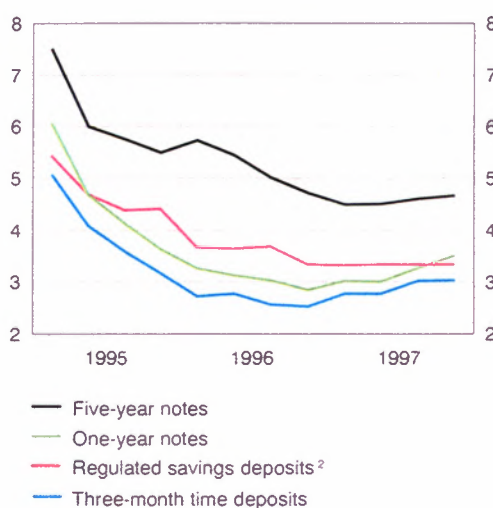
New long-term fixed-interest investments represented only Fr. 31 billion during the first three quarters. A classification by type of issuer reveals, however, larger movements which partly offset each other. Thus, individuals reduced their portfolios of notes, while their acquisitions of government notes did not counterbalance the re-

demptions of old loans. On the other hand, net purchases of foreign bonds appear to have continued to increase strongly. These investments reflect a desire to diversify portfolios or to obtain higher nominal yields, even though this may mean having to bear the exchange risks associated with less stable currencies or the insolvency risks of less well-known borrowers. Similar considerations appear to have played a part in connection with investments in UCITs specialising in bonds, which also attracted greater interest again.

Among the other categories of long-term assets, purchases of units of other UCITs, including notably mixed institutions and pension-savings funds, which invest in both shares and bonds, also increased substantially during the first nine months of 1997. On the other hand, new investments with insurance companies suffered from the falling-off of interest in insurance notes.

CHART 50 — INTEREST RATES ON INVESTMENTS WITH BANKS¹

(End-of-period data)



Source : NBB.

¹ Rates obtained from a survey among the main credit institutions, weighted by the market share of each of these institutions.

² Gross fictitious rate, including the fidelity bonus, calculated from the net rate in order to make it comparable with the gross yield on assets which are not exempt from the withholding tax on income from movable assets.

The lessening of the interest of individuals in financial assets at up to one year took place at a time when the interruption of the decline in interest rates was favourable for the adoption of short-term positions, which enable their holders to await any rise in bond interest rates, while benefiting immediately from the rise in money market rates. The yield of time deposits, monetary UCITs or one-year notes was apparently considered insufficient in comparison with the potential capital gains on investments in shares.

Among short-term assets, investors again gave preference to regulated savings deposits, even though the comparative interest rate advantage of this investment compared with the other assets at up to one year declined gradually during the year. The outstanding amount of these deposits in fact rose by Fr. 204 billion during the first nine months of 1997 — still a considerably greater increase than those in the other categories of financial assets.

Furthermore, with an outstanding amount of Fr. 3,400 billion, these savings deposits represent 15 p.c. of the total financial assets of households. By offering the advantage of exemption from the withholding tax, they constitute not only an attractive product for the investment of small amounts but also, as illustrated by section 6.3, an advantageous financing source for credit institutions. The government, by a Royal Decree of 13th October 1997, made it possible to build up savings deposits in ecus enjoying a tax exemption régime identical to that granted to traditional saving deposits denominated in francs.

Sight deposits and banknotes are the other category of short-term investments that showed a fairly large increase during the period under review. This rise in investments in assets which bear little or no interest is attributable to the low opportunity cost entailed by the holding of assets available on demand compared with the advantages associated with their liquidity.

Companies

Companies recorded a fairly large increase in their profits in 1997. This was reflected in the growth in their disposable income, which, combining undistributed profits and depreciation, constitutes the bulk of enterprises' means of self-financing.

The improvement in growth prospects was also reflected in an increase in investment, which, however, fell short of that in disposable income, so that companies were able to generate a net financing capacity of 1.9 p.c. in 1997. This movement was characterised, during the first nine months of the year, both by a smaller increase in new liabilities, which declined from Fr. 427 to 346 billion, and by an increase in the formation of financial assets, which went up from Fr. 332 to 422 billion.

The formation of assets largely took the form of commercial loans and long-term credits granted, in particular, to the parent companies of enterprises and of co-ordination centres established in Belgium. Deposits with Belgian banks and the share portfolio were no longer, as they had been in 1996, influenced by exceptional factors. It will be recalled that the sale of Belgacom shares to foreign companies had given rise, during that year, to a reduction in the portfolio of securities held, on behalf of the State, by the Federal Participation Company and to the temporary investment of the proceeds of this sale in bank deposits.

New liabilities other than in the form of shares decreased markedly. The fall was particularly pronounced in the case of credits from Belgian banks, which reached only Fr. 45 billion during the first three quarters of 1997 against Fr. 114 billion in 1996. The fact that these new liabilities took the form of foreign currency loans at up to one year suggests that companies probably wished to take advantage of the negative interest-rate differential which prevailed, for part of the year, between some EMS currencies and the franc.

TABLE 35 — FORMATION OF FINANCIAL ASSETS AND NEW FINANCIAL LIABILITIES BY COMPANIES¹

(Billions of francs)

	1993	1994	1995	1996	First nine months	
					1996	1997
Formation of financial assets	545	194	382	412	332	422
Belgian and foreign shares	15	105	85	-38	-41	91
Deposits with Belgian credit institutions	60	-45	58	259	196	123
Other assets	470	134	238	191	177	207
New liabilities	561	357	493	573	427	346
Issuing of shares	269	261	251	226	156	203
of which listed shares	18	32	9	82	41	67
Credits granted by Belgian credit institutions	-34	78	64	140	114	45
Other liabilities	326	18	179	208	157	97
Financial balance ²	-17	-163	-112	-161	-95	76

Source : NBB.

¹ Credit institutions and institutional investors are in principle excluded from the company sector, as they are treated like pure financial intermediaries, whose assets are assumed to be identical to their financial liabilities. This treatment means, however, that the transactions of these institutions which are not directly linked with their role as financial intermediaries but are associated with their other entrepreneurial activities are recorded in the company sector.

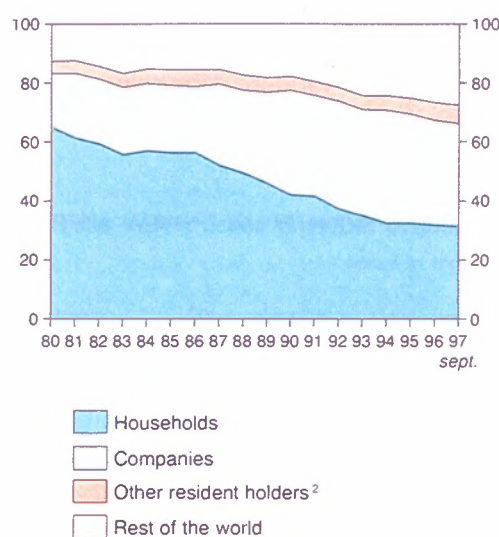
² See note 5 to Table 32.

Share issues, on the other hand, increased, having risen from Fr. 156 billion during the first three quarters of 1996 to Fr. 203 billion in 1997. A substantial proportion of these issues was placed with other companies, as is indicated by the amount of acquisitions of shares by this sector, which reached Fr. 91 billion during the first nine months of 1997. A comparison between the two figures thus highlights the extent of participations between enterprises.

This phenomenon is often accentuated by exchanges of shares in connection with cross-participations or holding structures. While such transactions are not recorded in financial flows, because they do not give rise to a transfer of funds, they nevertheless influence the shareholdership of the companies. Thus, the share of Belgian companies in the capital of other Belgian enterprises increased from 18 p.c. in December 1980 to 35 p.c. at the end of September 1997. However, the holding of Belgian shares by foreign countries also rose considerably, from 13 to 28 p.c., during the same period. As a result of this double movement, individuals, who still held by far

CHART 51 — SHAREHOLDERSHIP STRUCTURE OF BELGIAN COMPANIES¹

(Percentages of the total outstanding amount at 31st December)



Source : NBB.

¹ Shareholdership structure of the outstanding amount of listed and unlisted shares issued by non-financial companies, insurance companies, portfolio companies and credit institutions. Listed shares have been valued on the basis of the stock market capitalisation. The outstanding amount of unlisted shares has been estimated from the equity of the companies in question.

² Collective investment undertakings governed by Belgian or foreign law making public issues in Belgium, credit institutions, insurance companies and pension funds.

the greater part of the capital of Belgian companies in 1981, owned only 32 p.c. of that capital at the end of September 1997.

General government

The continuation of the budgetary consolidation was reflected in a further reduction in general government's recourse to the capital market. Thus during the first nine months of 1997, that sector's financial deficit amounted to Fr. 242 billion, against Fr. 426 billion during the corresponding period of 1996. As the accounts of the State, which undergo pronounced seasonal variations, again resulted in a surplus in the last quarter, the financial balance for the year 1997 as a whole should amount to about half of what it was in 1994.

The deficit was financed exclusively in francs, as the outstanding amount of the foreign currency debt did not change during the first nine months of the year. This stability of liabilities in foreign currencies contrasts with the reductions which took place during the preceding three years, especially in 1996, following the repayment to the Treasury, by the Bank, of the capital gains made on the arbitrage transactions of gold against foreign currencies.

The distribution of the public debt between the national currency and foreign currencies will be changed by the introduction of the euro. This will take the place not only of the franc but also of several of the other currencies in which the Treasury has contracted liabilities. About 40 p.c. of the public foreign currency debt is in fact denominated in German marks, French francs and guilders.

In the meantime, the Treasury has decided to use this part of the foreign currency debt in order to improve the promotion of Belgian linear bonds abroad. Parallel with the launch, in October, of the new linear bond line in francs which was intended to become the next benchmark of the Belgian market, it made, in November, a first series of issues of linear bonds in marks and in French francs, currencies which have a more international character than the Belgian franc. The three loans have identical maturities and interest rates; they can consequently be merged in a single euro line on 1st January 1999.

General government's net recourse to the financial market was not only confined to the franc compartment. It was also limited to the short-term segment alone, in-

TABLE 36 — FORMATION OF FINANCIAL ASSETS AND NEW FINANCIAL LIABILITIES BY GENERAL GOVERNMENT
(Billions of francs)

	1993	1994	1995	1996	First nine months	
					1996	1997
Formation of financial assets	127	-77	-77	-130	-31	13
New financial liabilities	676	316	241	123	395	255
In francs	227	468	503	457	508	256
At up to one year	-218	488	-359	185	245	276
At over one year	445	-20	862	271	263	-20
In foreign currencies	449	-152	-262	-334	-113	-1
At up to one year	439	-223	-323	-209	2	24
At over one year	10	71	61	-125	-116	-25
Financial balance ¹	-549	-392	-318	-253	-426	-242

Source : NBB.

¹ See note 5 to Table 32.

debtedness in francs at over one year having in fact decreased. This choice of exclusively money market financing was reflected in a large increase in new short-term liabilities, which rose by Fr. 276 billion during the first nine months of 1997.

6.3 FINANCIAL MARKETS

Financial intermediaries

While still fairly well in the lead as the main category of financial institutions operating on the Belgian market, credit institutions have to contend with the growth of new forms of intermediation. The new funds collected by institutional investors have in fact systematically increased during the last three years. In 1995 this expansion had been chiefly based on the spread of insurance notes, which, on certain conditions, are exempt from the withholding tax on income from movable assets. The conditions to be fulfilled in order to obtain this exemption having been made more restrictive, the increase in the activity of institutional investors resulted mainly, in 1996

and 1997, from the renewed attractiveness of UCITs.

Investors displayed interest above all in share UCITs, and especially in index UCITs, which reflect the movement of prices in specific geographical or sectoral markets. The diversification possibilities offered by UCITs were further extended by a Royal Decree of 18th April 1997 permitting the creation of investment funds (Prifonds) and investment companies (Pricafs), which invest a substantial proportion of their portfolios in shares issued by unlisted companies and enterprises with high growth potential.

As the financial transactions carried out by credit institutions and by institutional investors are often rather different in nature, a comparison of the aggregated data, especially when expressed in flows, can give only an approximate idea of the changes in the market shares of these two categories of institutions. It is probably more meaningful to look at the shifts between the channels used for the two aspects of the main form of intermediation engaged in on the Belgian financial market, namely the collection of the savings of individuals with a view to the financing of general government.

TABLE 37 — FINANCIAL TRANSACTIONS CARRIED OUT VIA BELGIAN BANKS AND INSTITUTIONAL INVESTORS OPERATING ON THE BELGIAN MARKET

(Changes in billions of francs)

	1994	1995	1996	First nine months		Outstanding amount at the end of September
				1996	1997	1997
Credit institutions ¹	870	688	697	984	795	17,246
Institutional investors ²	271	309	449 e	373 e	464 e	5,298 e
Collective investment undertakings	128	72	203	180	290	2,701
Pension funds and insurance companies	143	237	246 e	193 e	174 e	2,598 e

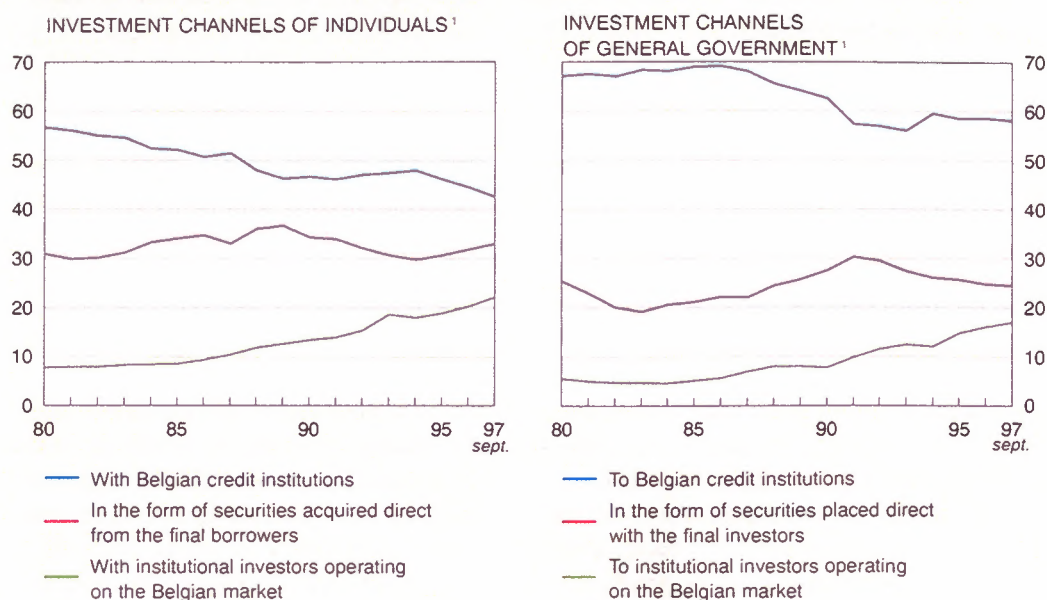
Sources : Belgian Association of Collective Investment Undertakings, Banking and Financial Commission, Belgian Association of Pension Funds, Insurance Supervision Office, Luxembourg Insurance Commissariat, NBB.

¹ In order not to exaggerate the volume of the flows passing via this channel, interbank transactions between Belgian credit institutions have been excluded, while those carried out with foreign banks have been recorded only in their net amount.

² Including collective investment undertakings governed by foreign law operating in Belgium, and the insurance notes issued by the Luxembourg subsidiaries of Belgian institutions.

CHART 52 — CHANNELS USED FOR THE INVESTMENTS OF INDIVIDUALS AND THE FINANCING OF GENERAL GOVERNMENT

(Percentages of the total end-of-period outstanding amount)



Source : NBB.

¹ The total of the three channels mentioned is not equal to 100 because of the existence of residual methods of investment and financing.

The proportion of the outstanding amount of the investments of individuals made with Belgian credit institutions fell from 57 p.c. at the end of 1980 to 42 p.c. at the end of September 1997. This decrease had as its counterpart a considerable expansion in the role of institutional investors, which increased their market share from 8 to 22 p.c. during the same period.

The movements were less pronounced in the case of the financing of general government, nearly 60 p.c. of which is still provided by Belgian banks. On this market, the relative decline of credit institutions began at the end of the 1980s and quickened at the beginning of the 1990s, at the time of the reform of the financial markets, which was accompanied by a revival in direct subscriptions for securities by the final investors. The last-mentioned movement has been reversed since then, with individuals displaying preference for acquisitions made via institutional investors,

which, at the end of September 1997, held 17 p.c. of the public debt, against 5 p.c. at the end of 1980.

Credit institutions are faced not only by a decrease in their relative share in intermediation activity. They are also having to adapt to various developments which affect the interest margin which they obtain on this activity.

In relation to the balance sheet total, the interest margin appears small, having amounted to only 1.10 p.c. during the first nine months of 1997. This datum is however misleading, in so far as the balance sheet of Belgian banks is swollen by a substantial outstanding amount of interbank and foreign currency transactions which generate only tiny margins. The bulk of the banks' interest incomes therefore comes from transactions in francs with non-bank customers, the share of which in the balance sheet is, however, tending to de-

crease, having declined, between 1993 and 1997, from 47.2 to 42.6 p.c. on the assets side and from 43.7 to 37.7 p.c. on the liabilities side.

Calculated in relation to this more limited base, the average yield differential between assets and liabilities is greater, though still rather narrow. It reached only 2.25 p.c. during the first three quarters of 1997, a sign of the keen competition between credit institutions in deposit collection and lending. This phenomenon is not peculiar to Belgium, but is also observable in the neighbouring countries.

Between 1993 and 1996 the banks succeeded in countering the downward pressure on their overall margin, thanks to the rise in the interest incomes obtained on their maturity transformation operations. This activity of conversion of short-term liabilities into long-term assets is traditionally very profitable during a period of gen-

eral decline of interest rates, since such a movement has a direct repercussion on the yield of liabilities at under one year but affects that of fixed-rate claims at over one year only as these are renewed.

The decline in interest rates, which was faster for the shorter maturities, furthermore induced the financial intermediaries to step up this transformation activity. They thus used a growing proportion of sight and savings deposits for the financing of assets at over one year, taking advantage of the relative insensitivity of these deposits to changes in interest rates. This is evidenced by the widening of the differential between the outstanding amount of assets and liabilities at over one year vis-à-vis non-bank customers, which, in relation to the balance sheet total, rose from 5.8 p.c. in 1993 to 9.9 p.c. during the first nine months of 1997. Furthermore, the banks did not confine themselves to conversions between durations less than and more than one year.

TABLE 38 — MAIN DETERMINANTS OF THE INTEREST MARGIN OF BELGIAN CREDIT INSTITUTIONS¹

(Annual averages, percentages)

	Share in balance sheet total			Implicit interest rate		
	1993	1996	First nine months of 1997	1993	1996	First nine months of 1997
Assets in francs vis-à-vis non-bank customers						
Predominantly at up to one year	23.8	21.7	20.3	9.11	5.94	5.38
Predominantly at over one year	23.4	23.3	22.3	8.94	7.37	6.83
Total	47.2	45.0	42.6	9.03	6.68	6.14
Liabilities in francs vis-à-vis non-bank customers						
Predominantly at up to one year	26.1	26.2	25.2	5.87	3.00	2.76
Predominantly at over one year	17.6	14.3	12.4	8.33	6.47	6.17
Total	43.7	40.6	37.7	6.86	4.23	3.89
Difference between assets and liabilities in francs vis-à-vis non-bank customers						
Predominantly at over one year	-2.3	-4.5	-4.9	3.24	2.94	2.62
Predominantly at over one year	5.8	9.0	9.9	0.61	0.90	0.66
Total	3.5	4.4	4.9	2.17	2.45	2.25
p.m. Implicit interest-rate differential between total assets and total liabilities				1.25	1.23	1.10

Source : NBB.

¹ As the available accounting data do not make it possible to distinguish exhaustively between interest payments relating, respectively, to assets and liabilities at up to one year and at over one year, some choices were made. In particular, deposits and fixed-term advances, combined, were regarded as being predominantly at up to one year.

Within each of these two market compartments, the transformation operations were also carried out over the whole range of maturities, from very short to short term or from medium to long term.

The positive effects on the interest margin of these shifts in maturity patterns are of course temporary and are bound to disappear as the banks are obliged to reinvest their maturing long-term assets at lower interest rates. This process clearly took place in the segment of transactions at over one year. It was possible for the liabilities collected predominantly in the form of three-year and five-year notes to be renewed at lower rates more quickly than the assets, because the latter contain a substantial proportion of very-long-term public securities or fixed-rate mortgage loans. This difference in the rate of renewal of transactions gave rise, during the initial stage of the decline in interest rates, to a widening of the yield differential between assets and liabilities in francs at over one year, which went up from 0.61 p.c. in 1993 to 0.90 p.c. in 1996. In a second phase, the average yields on long-term assets and liabilities moved closer together again, and this mechanism was speeded up by requests for renegotiation of contracts, including mortgage loans. The difference between the implicit rates on assets and liabilities at over one year thus shrank to 0.66 p.c. during the first three quarters of 1997.

In the short-term segment, the decline of interest rates had the additional effect of reducing the advantage which the banks derive from collecting resources which bear no interest or are only remunerated at rates far below those obtainable on the market. The average interest-rate differential between short-term assets and liabilities in francs vis-à-vis non-bank customers, which was still 3.24 p.c. in 1993, thus gradually decreased. This movement speeded up in 1997, the differential having narrowed from 2.94 to 2.62 p.c..

These various movements already led, between 1996 and the first nine months of

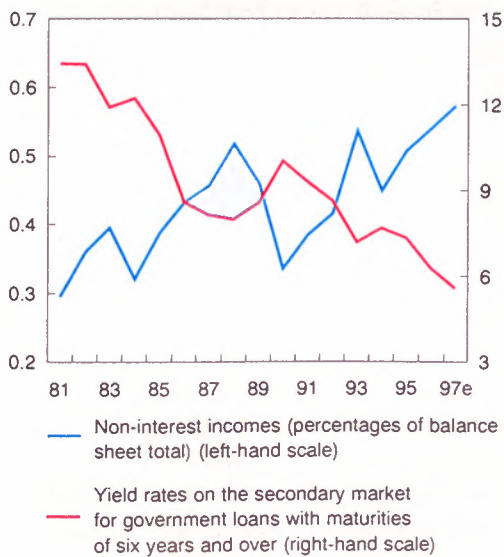
1997, to a reduction in the margin from 2.45 to 2.25 p.c. for transactions in francs with non-bank customers and from 1.23 to 1.10 p.c. for total assets. These trends will probably continue, especially as the net interest incomes earned by credit institutions should also be affected, in the long run, by the entry into force of the law of 10th July 1997 concerning the value dates for bank transactions. This law reduces the maximum period between the debiting of the principal's account and the crediting of the beneficiary's account to two days on 1st January 1999 and to one day by the year 2001.

The abolition of the value-date system as an indirect method of remunerating payment services and, more generally, the pressures on the intermediation margin of credit institutions induce these to develop other income sources. It is found, however, that these other receipts, too, are sensitive to changes in yields, because, since 1981, they have systematically moved in the opposite direction to that of long-term rates. This dependence has been very marked during the recent period. The pronounced decline in long-term rates has been accompanied by a steady rise in incomes, excluding the interest margin, expressed as a percentage of the banks' total assets, with the sole exception of the year 1994, which was, precisely, marked by a temporary rise in interest rates.

This link with the movement of long-term interest rates is direct for the capital gains made on the sales of portfolio securities. It is also reflected, however, in the result of trading transactions or, again, in the commission received on the sale of units of UCITs, two activities which are generally stimulated by a decline in rates.

UCITs are one of the principal means used by the banks to generate new receipts to take the place of net interest incomes. Thus, undertakings for investment in claims make it possible to carry out securitisation transactions, consisting of removing some credits from the assets side of the balance

CHART 53 — NON-INTEREST INCOMES OF BANKS AND LONG-TERM INTEREST RATES



Source : NBB.

sheet. Five operations of this type were carried out in 1997, totalling altogether Fr. 55 billion. They related both to loans for the purchase of social or residential housing and to claims resulting from car financing transactions. In order to enable transactions of this type to be carried out more quickly and at less expense, a change in the regulations was introduced by the Royal Decree of 8th July introducing certain implementing measures relating to undertakings for investment in claims, which makes it possible to securitise claims via private issues.

In liabilities management the sale of units of UCITs is viewed by credit institutions as a way of limiting the effects, on their incomes, of the bank disintermediation process commented on above. A similar strategy is also pursued by the distribution of life insurance policies. Thus, in 1995, 39 p.c. of life insurance policies were marketed via banks. If only new contracts, which give a truer reflection of the gradual shifts between distribution chan-

nels, are considered, the share of credit institutions actually rises to 60 p.c.

These convergences between various categories of financial activities are not, however, a one-way traffic. Thus, the development of insurance notes and accounts also offers insurance companies a means of marketing products comparable to the notes and savings deposits offered by credit institutions. In more and more cases, the synergies between these two types of functions are exploited through alliances between enterprises, which may even go so far as to assume the form of « bancassurance » consortiums.

The departitioning between the various types of activity is accompanied by a gradual desegmentation of the national markets. Under the General Agreement on Trade in Services and under the aegis of the World Trade Organisation, an important agreement concerning financial services was concluded in December 1997. Thereby, 102 countries have undertaken, in varying degrees, to open up their banking, insurance and investment service sectors to foreign competition.

At European level, the convergences between the markets will be further reinforced by the introduction of the euro, which is inducing financial organisations to re-examine their overall development strategies. While some institutions choose to concentrate on specific activity niches, others aim at an increase in scale by means of acquisitions, alliances or mergers. Many operations of this type took place in Belgium in 1997, and several of them were of a cross-border nature.

On a more operational plane, EMU will affect the conduct of a large number of the financial intermediaries' traditional activities. These will henceforth be carried out in a much more competitive environment, which will no longer benefit from the natural protection afforded by national currencies. The volume of foreign exchange transactions should decrease, while the

conditions governing the rendering of payment services will be radically transformed.

Lastly, the introduction of the euro will also require many measures of a more technical nature, including, in particular, the adaptation of means of payment, the transformation of settlement and clearing systems, the incidence of the euro on the functioning of the financial markets or arrangements for the exchanging of information between financial institutions, with customers and with the supervisory authorities. The Belgian financial intermediaries have actively prepared for these changes. In particular, thanks to the work done, in consultation with the Treasury under the aegis of the FIN EURO group of the General Commission for the Euro, Belgium is one of the EU countries which are farthest advanced in the process of transition to the euro.

Security market

Activity in the primary market for securities in francs fell off fairly markedly, the

volume of net issues having shrunk from Fr. 696 billion during the first nine months of 1996 to Fr. 519 billion in 1997. This large decrease is attributable to general government alone, as issues by companies, in contrast, rose slightly.

For the reasons stated in section 6.2, recourse to the capital market by general government was concentrated on the short-term segment. This financing structure was particularly pronounced at the beginning of the year. During the last months of 1997 the more hesitant movement of stock market prices, combined with the uncertainties created by the financial crisis in South-East Asia, appears to have caused investors to turn to riskless investments. This change of attitude appears to have found expression notably in the different results achieved through the four successive issues of government notes made in 1997. While the total amount raised during the first two subscription periods in March and June was only Fr. 17 billion, the tranches issued in September and December enabled the Treasury to gather Fr. 31 billion, Fr. 19 billion of

TABLE 39 — NET ISSUES OF SECURITIES IN FRANCS BY COMPANIES AND GENERAL GOVERNMENT

(Billions of francs)

	1993	1994	1995	1996	First nine months	
					1996	1997
Companies	293	246	312	244	173	200
Shares ¹	271	269	257	246	157	205
Listed shares ²	28	45	10	100	43	74
Unlisted shares	243	224	246	145	114	131
Fixed-interest securities	22	-23	56	-2	17	-4
General government ³	76	328	584	469	523	319
Treasury certificates	-217	431	-354	175	235	267
Bonds	294	-103	938	293	288	52
Total	369	574	897	713	696	519

Sources : Banking and Financial Commission, NBB.

¹ These figures differ from those in Table 35 because they include the issues made by credit institutions and the issues of real estate certificates.

² Including the franc equivalent of issues in US dollars, on EASDAQ, by Belgian companies.

³ Including commercial paper issued by the communities and regions and the social security system.

which was brought in by the December issue alone. In view of these results, the investment target arrived at by negotiation between the banking consortium and the Treasury, namely to obtain a sum of Fr. 54 billion for the four issues to be made between June 1997 and March 1998, seems to be attainable.

The increase in net issues by companies was accompanied by a certain shift between the various categories of securities. The already very narrow compartment of fixed-interest securities dwindled further. While the outstanding amount of commercial paper at up to one year increased, in an environment characterised by relatively low short-term interest rates, that of securities at over one year decreased, so that, on balance, companies made net repayments of Fr. 4 billion.

Recourse to venture capital, on the other hand, increased considerably. Public issues, in particular, benefited, during the greater part of the year, from the sharp rise in stock market prices, which helped to make this type of financing less expensive. Several large companies also had recourse to stock exchange issues to finance the restructurings, mergers or acquisitions which they are undertaking at present, partly in view of the prospect of Economic and Monetary Union. Some of these operations took the form of stock exchange flotations, leading to the replacement of unlisted shares by listed ones.

A substitution of this type took place owing to the formation, in November 1996, of the Dexia holding company, which set the seal on the strategic alliance between the Belgian Municipal Credit Company and Crédit Local de France. This operation, which had already accounted for a substantial proportion of the amount of public issues in 1996, gave rise to the introduction of a new capital tranche on the Brussels Stock Exchange in the year under review. This second transaction, which took place in June 1997, involved 15 p.c. of Dexia's capital, i.e. Fr. 21 bil-

lion. On the other hand, in the last quarter of the year, the sale on behalf of the government, by the Federal Participation Company, of a further 24.7 p.c. tranche of the capital of the General Savings and Pensions Fund did not lead to a stock exchange flotation because all these shares were acquired by the Fortis group.

The stock exchange listing of previously unlisted shares was also stimulated by the creation of EASDAQ and EuroNM, two markets designed for enterprises with high growth potential. The expansion of activity on these two markets will in future be boosted by the provisions of a Royal Decree of 18th April 1997 which creates a legal basis for the activity of collective investment undertakings specialising in the acquisition of shareholdings in companies with strong growth potential. Apart from unlisted companies, only enterprises listed on EASDAQ and EuroNM, or on similar markets, can benefit from the legal framework created by this decree — which should constitute an additional incentive to companies to enter one of these stock markets.

The development of activity on the secondary market largely reflected that on the primary market. Thus, the average volume of transactions in dematerialised bonds remained more or less unchanged. This stabilisation was, furthermore, achieved only through a further growth in repurchase agreements alone, as spot purchase transactions, on the contrary, fell off sharply. These two movements were, admittedly, partly influenced by the possibility, offered since 15th November 1995 by the clearing system, of cancelling the repurchase agreements of customers whose accounts do not show a sufficiently large credit balance. This measure set in motion a movement, which strengthened further in 1997, of substitution of repurchase agreements for transactions which were previously carried out in the form of purchases and resales. This shift does not, however, on its own, fully explain the marked decrease in spot purchases, the causes of which also includ-

CHART 54 — VOLUME OF TRANSACTIONS ON THE SECONDARY MARKET

(Monthly averages, billions of francs)



Sources : Société de la bourse de valeurs mobilières de Bruxelles, NBB.

¹ Linear bonds and classical dematerialised bonds.² Including security swaps and purchase and resale transactions. The latter, whose spot and forward components are legally separate, are in fact repurchase agreements in the economic sense of the term.

ed the low volatility of long-term interest rates in 1997 and, above all, the narrowing of the interest-rate differential with Germany.

These two factors operated less for short periods to maturity, so that spot purchases on the secondary market for Treasury certificates increased in 1997. Activity in that segment was furthermore strengthened by greater recourse than in the past to Treasury certificates as the underlying instrument for repurchase agreements.

The maintenance of a sufficient volume of transactions on the secondary market for public debt securities is an important challenge on the eve of the introduction of the single currency. The disappearance of exchange risks between the participating countries and the absence of significant country risks will in fact help to make liquidity the main differentiation criterion for public debt securities within EMU. Various initiatives taken in recent years are aimed at heightening the attractiveness of the Belgian public debt market.

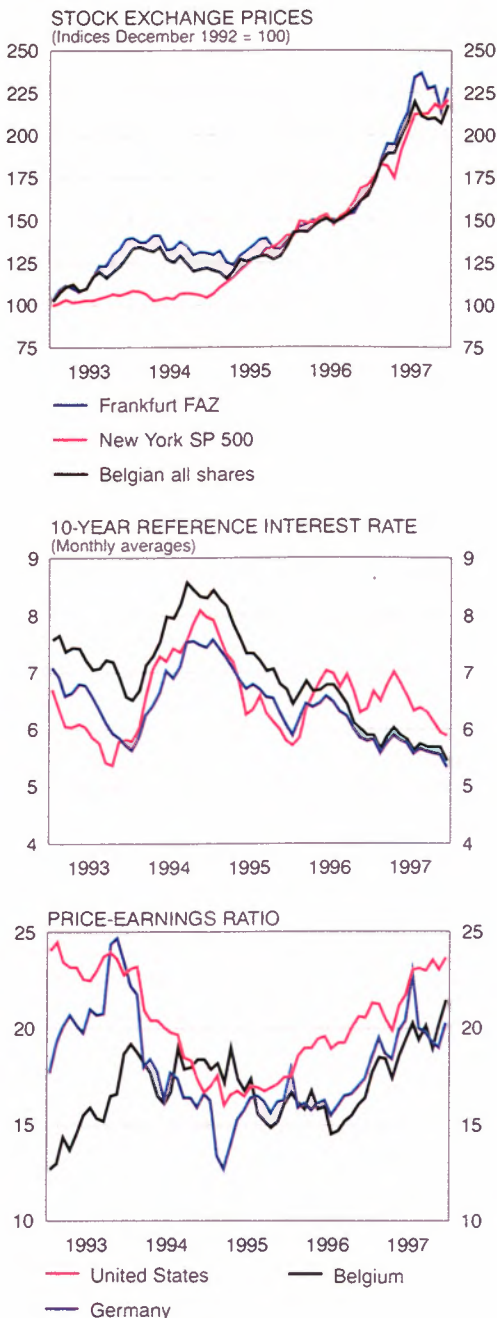
Thus the Treasury already decided in 1996 to convert all the existing linear bond lines into euros on 1st January 1999. As stated in section 6.2, it also held the first tendering sessions for linear bonds in French francs and marks at the end of 1997. It furthermore chose to concentrate the maturities of the linear bonds on two dates, 28th March and 28th September, and to extend the possibility of negotiating the interest and principal separately to the whole of this category of securities. This splitting of the coupon and the scrip enables professional investors, particularly insurance companies and pension funds, to take full advantage of the movements of interest rates which may take place in each segment of the yield curve.

The method of operation of the market for Belgian public debt securities is also affected by the possibilities of « remote access » introduced in implementation of the European directive concerning investment services in the field of securities. Advantage was already taken of this directive, in 1997, by two primary dealers, to transfer

their transactions in linear bonds and Treasury certificates to London. This transfer

induced the Bank to simplify the procedures for access to its clearing system for public debt securities for banks situated in other EU countries.

CHART 55 — MOVEMENT OF STOCK EXCHANGE PRICES AND THEIR DETERMINANTS



Sources : National stock exchanges, Société de la bourse de valeurs mobilières de Bruxelles, Kredietbank, Datastream, NBB.

Remote access also strengthens the movement of integration of European stock markets. Thus, a partnership agreement was recently concluded between the Brussels, Amsterdam and Luxembourg stock exchanges. In Belgium, the Brussels and Antwerp stock exchanges have merged, and the terms and conditions for closer co-operation between the Brussels Stock Exchange, Belfox and the Clearing Transaction Exchange Centre of the Belgian Financial System (CTEC) have been finalised.

On the secondary market of the Brussels Stock Exchange, the amount of share transactions by Belgian companies expanded greatly in 1997, although it still represents only a fraction of the volume recorded in the corresponding segment of the market for public securities. This growth, which is all the more significant because it follows four years of continuous increase, is largely attributable to the sharp rise in the prices of Belgian shares during the first half of the year under review.

At the end of this rising phase, prices in Belgium reached their highest level on 28th July. Since that date the Belgian market, like foreign markets, has experienced a period of greater uncertainty. The shocks on a number of stock exchanges in South-East Asia have undoubtedly proved to be contagious. However, independently of this specific factor, the much more hesitant movement of prices on all stock exchanges in the industrialised countries seems to reflect the feeling of a growing number of operators that share prices are becoming difficult to justify on the basis of their fundamental determinants alone.

Making a judgement on this subject on the basis of the stock exchange in Belgium is all the more misleading because knock-on effects often play a very important role, as is evidenced by the very close link which

has existed in recent years between share price movements on the Belgian, German and American stock markets.

True, a number of developments have been common to all the industrialised countries. Thus, the decline in long-term interest rates since 1994 has been general and has given strong support to stock market prices. This element has indisputably played a role in Belgium, where the fall in capital market yields has been more pronounced than in Germany and the United States. This movement has prompted a downward revision of the capitalisation rate used by investors to update the future profits of companies.

The influence of this second major determinant of share prices is often measured by the ratio between the stock exchange price and the most recent profit figures. This is, however, an inaccurate indicator, in that current profits do not necessarily foreshadow future results. Traditionally it is in the initial phase of an economic recovery that the rise in this ratio tends to be greatest, because it is at this stage of the cycle that the discrepancy between present and future profits is greatest. This mechanism operated fairly clearly in Belgium and Germany both after the cyclical trough at the

end of 1992 and during the recent quickening of growth.

Even though the sometimes considerable differences in balance sheet structures or the accounting or tax treatment of profits make international comparisons of price-earnings ratios a very difficult matter, the development recently observed in the United States appears to be harder to explain. After several years of continuous expansion of activity, this ratio is approaching the high level achieved at the end of 1992, at the beginning of the recovery. This situation can only be explained by the level of long-term rates, which is not fundamentally different from that which prevailed at that time.

More structural reasons are also put forward to explain the level of prices. Changes in organisational methods and more intensive use of production capacities have, it is said, improved the reaction speed of companies and their ability to withstand cyclical fluctuations. Furthermore, the interest of investors in equity investments is said to have increased owing to better risk perception and a lengthening of the investment horizon, now that portfolio investments are increasingly being looked upon as a complement to statutory pensions.

7. MONETARY AND EXCHANGE RATE POLICY

7.1 MAIN DEVELOPMENTS

It was in an environment of closely converging exchange and interest rates in Europe that the Bank pursued its monetary policy centred on the stability of the Belgian franc in relation to the German mark. The exchange rate and interest rate differentials in relation to the German reference values remained very small.

In particular, the Belgian franc, together with the Austrian schilling, was the currency showing the least fluctuation in its exchange rate against the German mark, and on average over the year as a whole, it was the one which deviated least from the central rate. In absolute value, the differentials in relation to the central rate rarely exceeded 0.1 p.c. Continuing the movement which took place in 1996, the premium on the franc disappeared at the beginning of the year, giving way to a small discount. The movement of the Dutch guilder was similar : this currency also returned to its central rate against the mark and remained within 0.1 p.c. of it from July 1997 onwards.

As in the Netherlands, the short-term interest rate differential vis-à-vis deposits in German marks became positive for the greater part of 1997.

However, the rise at the end of February 1997 was specific to Belgium and was connected with political uncertainties. By its liquidity management, the Bank supported the spontaneous movement in money market rates in order to prevent any weakening of the franc's position. These tensions disappeared after the completion of the budgetary control.

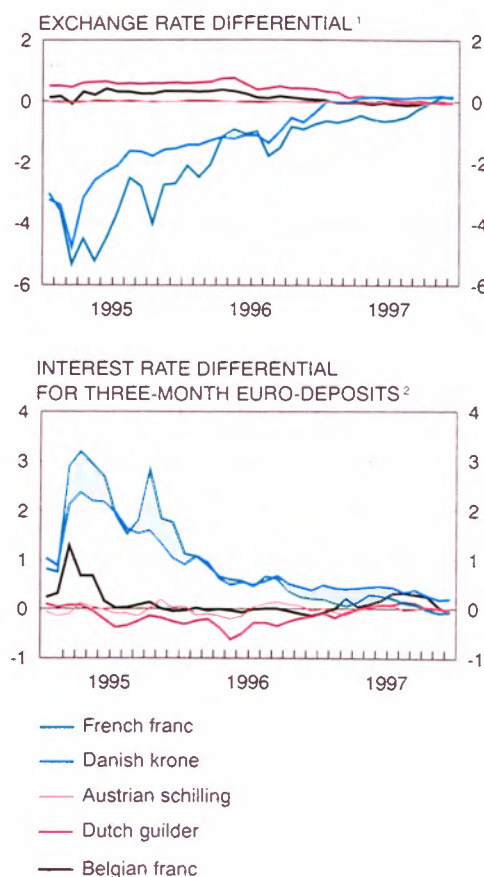
From May to August 1997 the widening of the short-term interest rate differential paralleled that observed in the Netherlands, although it was more pronounced.

The market appears to have reacted to very weak pressures on the franc, the tightening of the interest rate policy by the Nederlandsche Bank and possibly the relatively strong cyclical upturn in Belgium. The Bank used its liquidity policy to support this reaction, in view of the priority accorded to the exchange rate objective.

On 9th October 1997 the Bank raised its interest rates at the same time as the

CHART 56 — EXCHANGE RATE AND INTEREST RATE DIFFERENTIALS VIS-A-VIS THE GERMAN MARK

(Monthly averages)



Source : NBB.

¹ As percentages of the central rate vis-à-vis the German mark.

² Vis-à-vis the rate on 3-month euro-deposits in German marks.

central banks of Germany, France, the Netherlands, Austria and Denmark. In a context of accelerating growth and after a marked rise in the exchange rate for the US dollar, monetary policy switched from a relatively expansionary stance to a more neutral position in order to prevent any resurgence of inflation.

A further, very temporary, rise in the short-term interest rate differential vis-à-vis the German money market rate occurred in the first half of October. Considering it unjustified, the Bank countered it by relaxing its liquidity policy. By mid-November the three-month interest rate differential had disappeared.

The slight tensions which developed on the money market during the year did not extend to the bond market, where long-term yields remained very close to the German rates and showed a downward trend.

7.2 USE OF THE INSTRUMENTS OF MONETARY POLICY

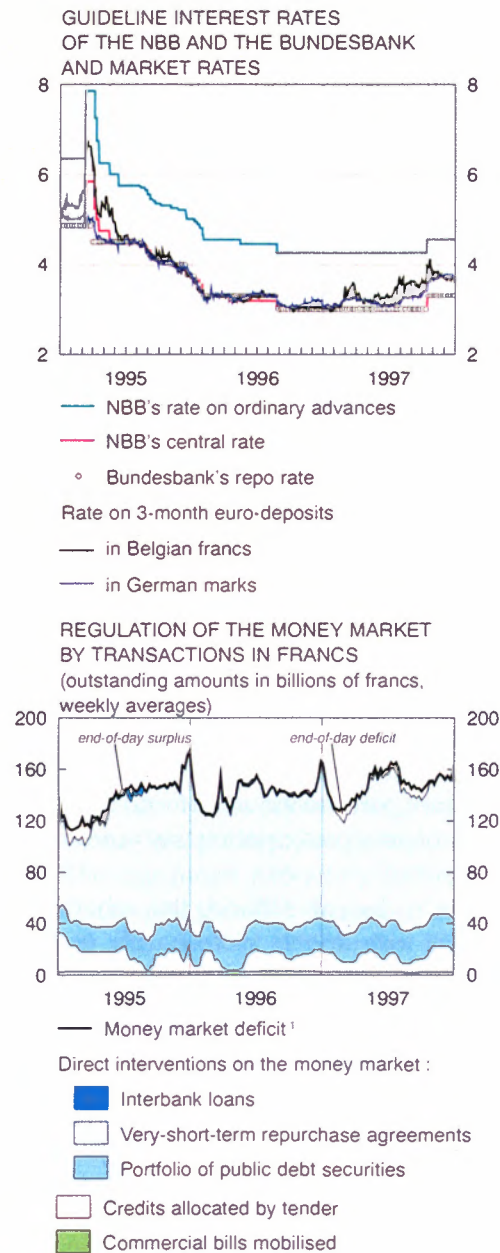
Interest rate policy

The rates which the Bank raised on 9th October 1997 had remained unchanged since 22nd August 1996. In line with the Bundesbank's repo rate, the Bank's central rate was raised by 30 basis points to 3.30 p.c. The rate for current account advances within the credit lines and the RGI's rates for end-of-day surpluses were also increased by 30 basis points. As for the discount rate, whose value is more symbolic, this was increased to 2.75 p.c. or by 25 basis points, as was the Nederlandsche Bank's rate on advances.

Liquidity management

In 1997 the Bank's liquidity management was slightly restrictive most of the

CHART 57 — CONDUCT OF MONETARY POLICY



Source : NBB.

¹ After contangoing of foreign currencies against francs and issuing of certificates of deposit.

time. For much of the year the Bank aimed to obtain end-of-day deficits. These were generally modest, reaching their highest levels in February and March and from mid-July to the beginning of October.

Changing of the volume of its daily very-short-term repurchase agreement transactions was the Bank's main way of responding to changes in the money market deficit, caused by seasonal fluctuations in demand for banknotes, and thus creating the desired degree of shortage, prompting credit institutions to resort to end-of-day advances. These daily transactions were conducted via a quick tender procedure for the primary dealers and the funds were allocated by the «American» method. In order to spread its assistance more effectively, the Bank often set a maximum on the amounts offered per counterparty.

Also, unlike in 1996, the Bank nearly always received plenty of offers in the weekly credit tenders, conducted at a pre-announced rate identical with the central rate, so that changes in the amount of the credit thus granted could serve as a signal, particularly when this amount was reduced from Fr. 15 to 7 billion in July and raised from Fr. 10 to 20 billion in October. Moreover, in most cases the Bank limited the amount of individual offers to the credit line of the participating institutions.

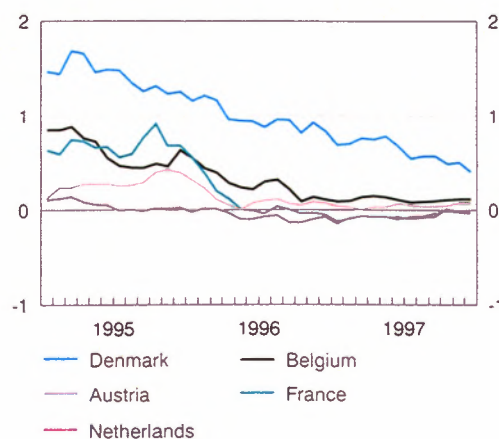
On the other hand, the other monetary policy instruments were hardly used at all: the portfolio of public debt securities acquired on the secondary market remained stable throughout the year, credit institutions made little use of the possibility of mobilising commercial bills and interbank loans were exceptional and limited.

7.3 LONG-TERM INTEREST RATES

The slight tensions which appeared on the Belgian money market had no effect on long-term yields, a sign that they were regarded as temporary. Throughout the year under review, the long-term interest rate differential vis-à-vis Germany for the ten-year benchmark bonds fluctuated around ten basis points, the level which it had reached in October 1996. This small differ-

CHART 58 — TEN-YEAR INTEREST RATE DIFFERENTIALS¹
VIS-A-VIS GERMANY

(Monthly averages)



Source: BIS.

¹ Benchmark loans.

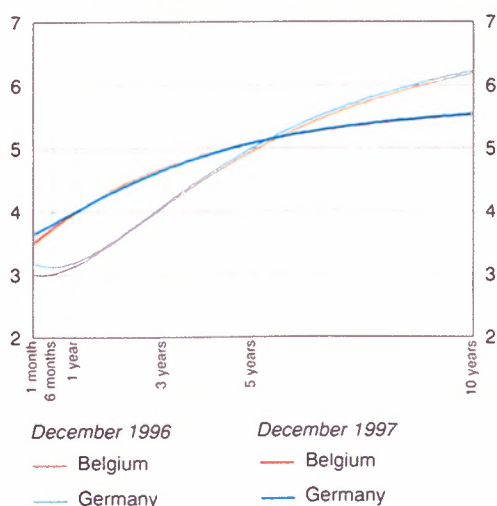
ential is connected with the impending monetary union, and particularly to the soundness of the fundamentals of the Belgian economy.

The situation in Belgium differed hardly at all from that in the other countries where the long-term interest rate differential vis-à-vis Germany was close to zero at the end of 1996. On the other hand, in Denmark the long-term rate continued to incorporate a premium due to that country's decision not to participate in monetary union from the outset. Although it had declined steadily since May 1995, the differential vis-à-vis the corresponding German rate was still around 40 basis points in December 1997, a level comparable to that of Italy and slightly higher than those of Spain and Portugal at the same time. These last three countries benefited from the growing credibility of their participation in monetary union.

Remaining close to the German rates, Belgian ten-year interest rates declined slightly. On average, they were around 5.8 p.c., against 6.5 p.c. in 1996. The effect of the raising of the official rates on

CHART 59 — YIELD CURVES IN BELGIUM AND GERMANY¹

(Monthly averages)



Source : NBB.

¹ Continuous spot yield curves calculated on the basis of the interest rates for euro-deposits at up to one year and those for interest rate swaps for over one year.

9th October 1997 was subsequently totally absorbed.

Between December 1996 and December 1997 the Belgian yield curve flattened out slightly owing to the combined effects of the rise in short-term rates and the fall in long-term rates. Calculated on the basis of interbank transactions, the Belgian and German curves remained very similar.

7.4 MONETARY POLICY OF THE EUROPEAN SYSTEM OF CENTRAL BANKS

Since 1990, as the franc is pegged to the German mark, the Bank's interest rate policy has conformed to that of the Bundesbank, except when it is necessary to respond to the temporary tensions which arise from time to time on the foreign

exchange market. Thus, the BLEU followed Austria and the Netherlands, and preceded France and the other countries participating in the EMS exchange rate mechanism, in aligning monetary conditions with those prevailing in Germany. The start of the third stage of EMU on 1st January 1999 will mark the changeover from these monetary policies, increasingly closely linked by « asymmetrical co-ordination », to the single monetary policy. From that date onwards, the European System of Central Banks (ESCB), consisting of the European Central Bank (ECB) and the national central banks, will conduct monetary policy in the euro zone completely autonomously.

The orientation of monetary policy will be decided by the Governing Council of the ECB, composed of the members of the Executive Board of the ECB and the governors of the central banks of the EU Member States participating in the monetary union. Under Article 105 of the Treaty establishing the European Community, the primary objective will be to maintain price stability. The Treaty does not, however, specify how that objective is to be pursued. The European Monetary Institute has selected certain possible strategies and has prepared the choices which the ECB will have to make.

The EMI has also defined more precisely the operating framework of the future monetary policy, while leaving a number of options open. This framework will be submitted to the ECB for a decision. As required by the Treaty, it will adhere to the principle of an open market economy with free competition, favouring an efficient allocation of resources.

As regards the organisation of the conduct of monetary policy, the general principle will be that of total centralisation of decisions and a very high degree of decentralisation of their implementation. The Bank will be involved in the preparation of the decisions of the Governing Council of the ECB and will take part in their implementation.

The monetary policy strategy of the ESCB

Just as price stability is accepted as the ultimate objective of monetary policy in all Member States of the European Union, the central banks seem to have reached a consensus on the principal qualities of an effective strategy for monetary policy: it needs to be geared to the medium term and must take account of the long transmission times for any impetus given by the central bank; it must include announcing clear objectives, which provide a basis for expectations and enable the public to judge the decisions taken by the central bank, while leaving the latter sufficient room for manoeuvre; it must be adapted to the economic and financial environment, and particularly to the characteristics of the transmission process of monetary policy. There are at present three types of strategy meeting these requirements in the various European Union countries: monetary targeting, as in Germany, direct inflation targeting, a strategy employed notably in the United Kingdom, and exchange rate targeting, pursued by the majority of countries, including Belgium.

The last-mentioned strategy will certainly not be adopted by the ESCB. It is appropriate to open economies which have close links with a large country whose central bank pursues a credible monetary policy. But the context of the future common monetary policy will be very different: the euro zone will in fact be far less open than the European countries taken individually. In terms of openness it will be comparable to the United States or Japan. A strategy centred on an internal objective will therefore be more suitable for maintaining price stability.

The two strategies chosen by the EMI, namely monetary targeting and direct inflation targeting, have important features in common: they pursue the same ultimate aim, i.e. price stability; they are both forward-looking; they include announcing objectives offering a clear guide for the infla-

tion expectations of economic agents; lastly, both strategies use a wide range of indicators in practice to check whether the monetary policy stance is appropriate. The essential difference between these two strategies lies in the role of the monetary aggregates.

A policy based on an inflation target places direct emphasis on the central bank's responsibility for achieving and maintaining price stability and unequivocally allows all available information to be taken into account in predicting the movement of prices.

In the case of a monetary targeting, a crucial role is played by the movement of the monetary aggregates. This strategy, currently applied in the ERM anchor country, emphasises that inflation is a monetary phenomenon, clearly assigns responsibility for it to the central bank and allows the latter's

TABLE 40 — OPENNESS OF THE COUNTRIES OF THE EUROPEAN UNION IN 1996

(Average exports and imports of goods, percentages of GDP)

Greece	15.1
Italy	17.7
France	18.3
Spain	19.3
Germany	20.3
United Kingdom	24.0
Portugal	25.8
Austria	27.1
Denmark	27.5
Finland	28.7
Sweden	29.4
Netherlands	36.2
BLEU	55.8
Ireland	59.2
European Union :	
including intra-EU trade	23.0
not including intra-EU trade	8.7
p.m. United States	9.6
Japan	8.3

Sources : OECD, NBB.

action to be assessed in the light of easily observable developments over which it has more direct control. The demand for money must be sufficiently stable for such a policy to be effective.

Whatever the chosen strategy, the ESCB will have to define more precisely the ultimate objective of price stability laid down by the Treaty, monitor a series of economic and financial variables — among which the monetary aggregates will hold a key position — in order to evaluate future inflation risks, forecast price trends and analyse the process whereby its actions are transmitted. By mid-1998 it will have the necessary statistical and analytical infrastructure for that purpose. The ESCB will also draw up a policy on communication with the public, which will include announcing its objectives, explaining the reasons for its decisions and publishing monetary policy data and analyses.

The ESCB's monetary policy instruments and procedures

As regards the instruments and procedures of monetary policy, there has also been perceptible, growing convergence between central banks in the European Union for quite some time already. Regulatory instruments have lost much of their importance. Nowadays, monetary policy is applied mainly via instruments which conform to market mechanisms, and the central banks influence interest and exchange rates by their interaction with the financial operators. Also, open market operations whereby the central bank injects liquidity into the money market, particularly in the form of repurchase agreements in respect of securities, have supplanted the standing credit facilities which the financial institutions are free to use. Furthermore, the central banks are tending to choose certain money market interest rates as their operating target, rather than quantitative variables such as the outstanding amount of the monetary base. The differences between countries mainly concern the existence of compulsory mon-

etary reserves, the rules concerning such reserves and the frequency of open market operations.

The operating framework prepared for the ESCB takes account of the aforementioned common tendencies. Above all, it will have to enable the ESCB to steer money market interest rates and limit their volatility, and to give out uniform signals within the euro zone regarding monetary policy intentions. Via the operation of the TARGET system of cross-border payments, the arbitrages carried out by financial operators will help to ensure uniform interest rates on the interbank market in the euro zone.

Open market operations, generally conducted in the form of tender procedures organised for the whole area and accessible to a large number of counterparties, will be the main instruments of the ESCB's monetary policy. In addition, two standing facilities, namely a credit facility and a deposit facility, will be available to credit institutions and their rates will form a corridor within which overnight interest rates can fluctuate. Lastly, the ECB can decide to impose compulsory monetary reserves.

The open market operations will be used to guide market rates, manage liquidity and send out signals concerning the orientation of monetary policy. They will take place on the initiative of the ECB, which will determine how they are carried out. They may be divided into four categories according to their objective. The main monetary policy transactions will be the regular provision of liquidity through tenders in the form of repurchase agreements or collateralised loans, once a week for a two-week period. There will also be longer-term refinancing operations on a smaller scale. They will take the same form but will be conducted monthly for a three-month period. In principle, they will not be intended to give out signals to the market and the ECB should accept the interest rates offered by the market. The ESCB may also carry out fine-tuning operations, in particular to moderate the impact on interest rates

TABLE 41 — MONETARY POLICY INSTRUMENTS AVAILABLE TO THE ESCB

	Instruments increasing liquidity	Instruments reducing liquidity
Open market operations		
Main refinancing operations	Repurchase agreements or collateralised loans	—
Longer-term refinancing operations	Repurchase agreements or collateralised loans	—
Fine-tuning operations	Repurchase agreements or collateralised loans Foreign exchange swaps Outright purchases of securities	Repurchase agreements Foreign exchange swaps Collection of fixed-term deposits Outright sales of securities
Structural operations	Repurchase agreements or collateralised loans Outright purchases of securities	Issuance of debt certificates Outright sales of securities
Standing facilities		
Marginal credit facility	Repurchase agreements or collateralised loans	—
Deposit facility	—	Deposits
Compulsory reserves		
	—	Compulsory reserves

Source : EMI.

of unexpected fluctuations in liquidity. These operations will mainly take the form of repurchase agreements or collateralised loans, but outright purchases or sales of securities, foreign exchange swaps and the collection of fixed-term deposits may also be used. Finally, the ESCB may influence the structural liquidity position of the banking sector by issuing debt certificates, arranging repurchase agreements or collateralised loans, or by outright purchases or sales of securities.

The standing facilities will be used to provide and absorb overnight liquidity, to send out signals regarding the general stance of monetary policy and to bound very-short-term market interest rates. Credit institutions will have access to two standing facilities which they may use on their own initiative. They will be able to obtain overnight liquidity from the national central banks. Normally, access to this facility will

be unlimited provided that sufficient eligible assets are available as collateral. The interest rate on the marginal lending facility will normally be a ceiling for the overnight market interest rate. Credit institutions will also be able to make overnight deposits with the national central banks. In principle, access to this facility will also be unlimited. The interest rate on the deposit facility will normally constitute a floor for the overnight market interest rate.

The credit supplied by the ESCB, both in the form of open market operations and via the standing lending facility, will be subject to adequate collateral. For this purpose, the ESCB will draw up lists of public and private financial instruments which will generally be accepted as collateral throughout the euro zone. ESCB counterparties established in a euro zone country and wishing to obtain credit via their national central bank will be able to use, as collat-

eral, assets held in another country in that zone.

The EMI is also preparing a system to enable the ECB to impose minimum reserves. A system of compulsory reserves could be especially useful for stabilising money market rates. It would in fact be the average amount of the daily reserves held for one month by each institution which is obliged to maintain reserves, which would have to reach the threshold set. In this way, these reserves could fluctuate and be used as a buffer to absorb liquidity shocks due, for example, to changes in demand for banknotes, in foreign exchange reserves and in deposits by public authorities with the national central banks; the volatility of interest rates can thereby be reduced without any need to narrow the band formed by the rates on the standing facilities or to resort to frequent fine-tuning operations. The system of minimum reserves could also be used to create or increase a structural liquidity deficit and, maybe, also, to help control monetary expansion. It would apply to credit institutions in the euro zone in accordance with uniform rules. The basis for the reserve would be calculated from data concerning the liabilities of the institutions required to maintain reserves, declared in accordance with the ECB's system of monetary and banking statistics. The ECB may decide to pay interest on the reserves.

Lastly, the ESCB will also be authorised to intervene on the foreign exchange markets. For this purpose it will use the foreign exchange reserves which the national central banks will transfer to the ECB. The carrying out of the foreign exchange interventions decided on by the ECB may be centralised or decentralised.

The statutes of the ESCB and the ECB provide a transfer of foreign exchange reserves to the ECB up to a maximum of 50 billion euros, or about 0.7 p.c. of the European Union's GDP, part of which will consist of gold assets. However, the national central banks will continue to manage other

TABLE 42 — FOREIGN EXCHANGE RESERVES OF THE EUROPEAN UNION COUNTRIES AT THE END OF 1996¹

(Percentages of GDP)

France	3.7
United Kingdom	4.0
Germany	5.0
Italy	5.8
Finland	6.1
BLEU	8.0
Sweden	8.3
Denmark	8.5
Netherlands	10.1
Spain	11.0
Austria	11.7
Ireland	12.4
Greece	15.3
Portugal	20.4
European Union	6.3
p.m. United States	2.1
Japan	4.9

Sources : IMF, NBB.

¹ IMF reserve positions and foreign currency and gold assets at market rates.

reserve assets. Altogether, the foreign exchange reserves will therefore exceed 0.7 p.c. of GDP, but will be well below the 6.3 p.c. recorded at the end of 1996 : the proportion of the present reserves which is denominated in the currencies of countries participating in monetary union will be automatically converted to domestic assets in euros at the start of the third stage of EMU ; the ESCB, which will not pursue a policy centred on the exchange rate, will actually require smaller reserves than the total of those currently held by the national central banks.

Since the implementation of the common monetary policy will be largely decentralised, the Bank will play a full role in it. The national central banks will in fact continue to act as partners of the credit institutions located in their country. Thus, when tenders are organised for the whole euro zone, which will be the most widely used

procedure, the central banks will therefore collect the bids from credit institutions, forward them to the ECB — which will decide on rates and volumes — and administer the resulting payments.

Since the 1991 reform the Bank has used most of the monetary policy instru-

ments which the ESCB could employ, except for the minimum reserves. For both the Bank and its counterparties, the main differences could therefore lie in the introduction of such reserves and the much lower frequency and smaller scale of operations for fine-tuning the liquidity of the money market.

TABLE 1 — SUMMARY OF MACROECONOMIC DEVELOPMENTS IN SOME EU COUNTRIES

	Belgium		Germany		France		Italy		United Kingdom		Spain		Netherlands	
	1996	1997 ^e	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997
Expenditure at constant prices	<i>(Percentage contributions to the change in GDP)</i>													
Private consumption	1.0 ¹	1.3 ¹	0.7	0.5	1.3	0.4	0.5	1.2	2.1	2.7	1.2	1.9	1.8	1.8
Public expenditure .....	...	0.4	0.2	0.1	0.2	0.3	0.2	...	-0.1	-0.5	-0.6	0.1	0.3	0.6
Private investment	0.3	0.6	-0.1	0.3	-0.1	...	0.1	...	0.9	1.4	0.8	0.9	1.1	1.4
of which formation of non-residential fixed capital	0.5	0.4	-0.1	0.2	-0.1	0.1	0.2	...	0.9	1.2	0.8	0.8	1.1	1.1
Total domestic expenditure	1.3 ¹	2.2 ¹	0.7	1.3	1.0	0.9	0.2	1.3	2.7	3.8	1.4	2.7	3.3	3.4
Exports	2.5	5.0	1.2	2.8	1.4	2.8	-0.1	1.3	2.0	1.9	2.9	3.6	2.8	3.6
Imports	-2.1	-4.3	-0.6	-1.7	-0.8	-1.3	0.6	-1.2	-2.4	-2.3	-2.0	-3.1	-2.8	-3.8
Foreign balance	0.4	0.7	0.6	1.1	0.6	1.4	0.5	0.1	-0.5	-0.3	0.9	0.5	...	-0.2
GDP	1.5	2.7	1.4	2.4	1.5	2.3	0.7	1.3	2.3	3.4	2.3	3.2	3.3	3.2
Inflation²	<i>(Percentage changes compared with the previous year)</i>													
Harmonised consumer price index	1.8	1.6	1.2	1.5	2.1	1.3	4.0	1.9	2.5	1.9	3.6	1.9	1.5	2.0
Unemployment³	<i>(Percentages of the labour force)</i>													
Number of unemployed (EC data)	9.8	9.5	8.9	9.7	12.4	12.6	12.0	12.1	8.2	7.2	22.2	20.9	6.3	5.5
Public finance	<i>(Percentages of GDP)</i>													
Net financing requirement (-) of general government	-3.2	-2.3	-3.4	-3.0	-4.1	-3.1	-6.8	-3.0	-4.9	-2.0	-4.7	-2.9	-2.3	-2.1
Balance of payments	<i>(Percentages of GDP)</i>													
Balance of current transactions	4.1	4.6	-0.6	-0.3	1.3	2.3	3.4	3.6	-0.1	0.3	0.3	0.8	6.3	6.2

Sources : NAI, MEA, NBB for Belgium; OECD and EC for other countries.

¹ Data excluding statistical adjustments.² Average for 11 months for 1997.³ Average for 11 months, except for Belgium : 12 months, Italy : 7 months, Netherlands : 10 months.

TABLE II — GNP AND MAIN CATEGORIES OF EXPENDITURE AT 1990 PRICES

(Percentage changes compared with the previous year)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 e
Private consumption ¹	3.3	3.1	3.7	2.4	2.2	-1.6	1.4	1.4	1.6	2.1
Public expenditure	-0.3	-3.8	-0.8	2.5	0.9	1.6	2.0	...	0.2	2.8
Public consumption	-0.9	-0.9	-0.5	2.0	0.1	1.2	1.6	0.9	1.8	1.0
Public investment	4.6	-26.0	-4.7	8.6	9.5	5.2	5.8	-8.3	-14.2	23.1
Housing	25.0	17.6	8.2	-9.1	5.0	1.7	5.5	2.8	-4.0	3.0
Gross fixed capital formation by enterprises	15.4	15.3	11.8	-4.2	-1.0	-6.7	-3.3	5.1	4.7	3.8
p.m. Total gross fixed capital formation ^{1,2}	16.4	11.4	9.6	-4.7	1.3	-3.6	-0.1	3.2	0.6	4.8
Change in stocks ^{1,3}	0.2	-0.3	-0.2	0.1	0.1	-0.2	0.3	...	-0.1	-0.1
Total domestic expenditure	5.0	3.7	4.0	1.0	1.8	-1.8	1.4	1.7	1.4	2.3
Exports of goods and services	9.1	8.2	4.3	3.1	3.5	-0.7	9.5	⁴	3.2	6.2
Total final expenditure	6.6	5.5	4.1	1.9	2.5	-1.3	4.8	⁴	2.2	4.1
Imports of goods and services	9.7	9.4	4.9	2.8	4.1	-0.7	8.2	⁴	2.8	5.5
p.m. Net exports of goods and services ³	-0.1	-0.5	-0.3	0.3	-0.3	...	1.1	0.7	0.4	0.7
GDP before statistical adjustments	4.7	3.1	3.6	1.2	1.4	-1.7	2.5	2.4	1.7	2.9
Statistical adjustments ³ .....	...	0.5	-0.6	0.4	0.1	0.2	...	-0.3	-0.3	-0.2
GDP	4.7	3.6	3.0	1.6	1.5	-1.5	2.4	2.1	1.5	2.7
Net factor incomes ³ .....	...	0.1	-0.4	0.5	-0.2	1.0	0.2	0.4	0.2	0.1
GNP	4.7	3.7	2.7	2.1	1.3	-0.5	2.6	2.4	1.6	2.8

Sources : NAI, NBB.

¹ Data excluding statistical adjustments. The latter are shown as a separate item.² Public investment, housing and gross fixed capital formation by enterprises.³ Contribution to the change in GNP.⁴ Owing to breaks in the gross flows of exports and imports between 1994 and 1995, caused by the introduction of a new data-collection system in the compilation of the balance of payments and by the application of the recommendations of the fifth edition of the IMF's Balance of Payments Manual, the percentage change in 1995 is of little significance.

TABLE III — DEFLATORS OF GNP AND OF THE MAIN CATEGORIES OF EXPENDITURE

(Percentage changes compared with the previous year)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 e
Private consumption ¹	1.6	3.1	3.4	3.3	2.7	2.9	2.7	1.5	2.0	1.6
Public expenditure	1.2	4.2	4.2	5.0	3.7	4.3	3.0	3.0	0.6	2.3
Public consumption	1.0	4.1	4.3	5.3	3.7	4.6	3.0	3.0	0.5	2.5
Public investment	2.3	4.8	2.3	1.5	3.3	1.7	3.0	1.9	0.6	1.8
Housing	2.3	5.2	2.9	1.7	4.3	2.5	3.0	2.2	1.6	1.8
Gross fixed capital formation by enterprises	1.9	4.0	2.7	2.3	2.3	1.2	1.6	1.5	0.7	0.7
p.m. Total gross fixed capital formation ^{1,2}	2.0	4.4	2.8	2.1	2.9	1.6	2.2	1.7	0.9	1.1
Total domestic expenditure	1.6	3.6	3.4	3.4	2.9	3.0	2.7	1.9	1.5	1.6
Exports of goods and services	3.7	6.9	-1.5	-0.7	-1.2	-1.2	0.3	0.6	1.7	4.1
Total final expenditure	2.4	5.0	1.3	1.7	1.2	1.3	1.5	1.2	1.5	2.5
Imports of goods and services	2.2	6.5	-1.5	-0.6	-2.9	-2.6	0.9	1.0	2.0	4.5
p.m. Terms of trade	(1.4)	(0.4)	(...)	(-0.1)	(1.8)	(1.5)	(-0.6)	(-0.4)	(-0.3)	(-0.4)
GDP before statistical adjustments	2.5	3.9	3.3	3.2	4.0	3.7	2.2	1.5	1.3	1.4
GDP = GNP	2.1	4.6	3.1	3.2	3.6	4.2	2.3	1.7	1.6	1.4

Sources : NAI, NBB.

¹ Data excluding statistical adjustments. The latter are shown as a separate item.

² Public investment, housing and gross fixed capital formation by enterprises.

TABLE IV — GNP AND MAIN CATEGORIES OF EXPENDITURE AT CURRENT PRICES

(Billions of francs)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 e
Private consumption ¹	3,660	3,892	4,173	4,417	4,637	4,696	4,892	5,036	5,217	5,411
Public expenditure	970	972	1,004	1,080	1,130	1,197	1,258	1,295	1,306	1,373
Public consumption	859	886	920	988	1,025	1,086	1,136	1,181	1,208	1,250
Public investment	111	86	84	92	105	112	122	114	98	123
Housing	256	317	353	327	358	373	405	426	415	435
Gross fixed capital formation by enterprises	646	776	891	874	886	836	822	877	925	966
p.m. Total gross fixed capital formation ^{1,2}	1,014	1,179	1,328	1,293	1,348	1,321	1,349	1,417	1,438	1,524
Change in stocks ¹	24	11	-1	4	10	-4	17	25	18	5
Total domestic expenditure	5,557	5,968	6,420	6,701	7,020	7,098	7,394	7,658	7,881	8,191
Exports of goods and services	3,758	4,348	4,464	4,573	4,678	4,592	5,043	5,418	5,688	6,286
Total final expenditure	9,315	10,316	10,884	11,274	11,698	11,690	12,436	13,076	13,569	14,476
Imports of goods and services	3,589	4,182	4,319	4,413	4,462	4,312	4,710	5,049	5,295	5,840
p.m. Net exports of goods and services	169	166	146	160	216	280	332	370	393	446
GDP before statistical adjustments	5,726	6,134	6,565	6,860	7,236	7,378	7,726	8,028	8,274	8,636
Statistical adjustments	-40	29	-15	6	-14	32	36	28	31	13
GDP	5,686	6,163	6,550	6,867	7,222	7,410	7,762	8,056	8,305	8,649
Net factor incomes	-19	-11	-34	-1	-15	58	76	106	123	135
GNP	5,668	6,152	6,516	6,865	7,207	7,468	7,838	8,161	8,428	8,784

Sources : NAI, NBB.

¹ Data excluding statistical adjustments. The latter are shown as a separate item.² Public investment, housing and gross fixed capital formation by enterprises.

TABLE V — VALUE ADDED OF THE VARIOUS BRANCHES OF ACTIVITY AT 1990 PRICES

(Percentage changes compared with the previous year)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	p.m. Percentages of 1996 GDP
Agriculture, forestry and fisheries	5.4	1.6	-2.8	6.0	9.9	4.8	-6.4	0.5	-4.3	1.9
Industry	5.1	5.6	2.3	0.1	-0.4	-2.9	4.3	3.4	0.6	24.1
Mineral-extracting industry	0.9	8.2	8.9	-0.2	13.8	-14.5	12.9	10.8	-0.9	0.3
Electricity, gas, water	5.6	0.7	3.3	4.3	0.6	-0.1	1.4	4.6	4.0	2.7
Manufacturing industry ¹	5.0	6.2	2.1	-0.4	-0.7	-3.1	4.5	3.1	0.2	21.1
of which :										
Non-metallic minerals	15.6	8.9	-0.7	-6.7	9.6	0.3	4.4	4.0	-4.1	0.9
Wood and furniture	5.3	8.2	3.3	1.5	-6.1	-4.7	0.1	2.8	-1.5	0.8
Iron and steel	11.1	-0.8	-0.3	-0.9	-8.7	-4.7	6.7	2.9	-7.0	0.9
Non-ferrous metals	11.0	6.9	3.0	-7.8	-1.7	-4.6	9.4	11.1	1.8	0.6
Metal-working industry	2.6	8.1	3.0	-3.4	-4.0	-5.6	5.5	0.2	...	5.9
Paper, printing, publishing	13.6	8.6	2.2	-2.7	0.9	4.5	4.5	0.6	-1.6	1.4
Chemicals and rubber	7.0	5.0	1.2	3.7	5.1	-3.8	7.6	7.2	4.3	3.8
Textiles, clothing and footwear	-1.5	13.5	6.6	-3.3	2.0	...	0.9	-5.4	-4.7	1.3
Food, beverages, tobacco	1.2	4.3	-1.5	3.5	-1.0	-0.4	2.5	4.4	2.9	4.2
Building industry	13.8	4.1	5.7	1.5	2.9	-4.1	2.2	1.1	-2.3	4.9
Market services ²	4.7	4.1	1.8	3.4	2.1	0.1	1.9	1.8	3.1	53.5
of which :										
Wholesale and retail trade	0.9	-1.2	2.7	3.8	0.7	...	0.4	-1.8	-3.3	9.2
Distribution of petroleum products	4.0	-3.3	0.9	4.9	3.4	0.1	3.1	1.1	3.7	2.5
Financial services	6.1	5.0	-8.2	5.5	5.0	9.1	1.3	5.6	14.8	5.5
Rents	2.5	2.5	2.4	2.5	1.4	1.4	1.5	1.5	1.5	7.5
Transport and communications	9.1	4.8	5.9	3.1	1.6	-1.3	3.5	0.8	1.7	7.8
Other services to enterprises	10.4	17.9	0.9	3.0	4.3	0.4	2.3	6.7	7.5	6.4
Medical professions	6.5	7.5	4.9	0.9	3.8	-2.8	-1.5	2.4	-0.1	2.6
Hotels and catering and various services to households	5.6	5.4	3.3	1.4	-0.3	-1.6	1.0	1.2	4.5	7.6
Non-market services	-0.2	1.0	0.7	1.7	2.3	1.0	2.1	1.2	1.5	12.0
GDP before statistical adjustments ³	4.7	4.1	2.5	1.9	1.5	-1.3	2.4	1.8	1.2	
Statistical adjustments ⁴ .....	...	-0.5	0.6	-0.4	...	-0.2	...	0.3	0.2	
GDP after statistical adjustments ³	4.7	3.6	3.0	1.6	1.5	-1.5	2.4	2.1	1.5	100.0

Sources : NAI, NBB.

¹ Garages are recorded under market services.² Services which are not provided by general government.³ Including various items which cannot be broken down among the branches of activity.⁴ Contribution to the change in GDP.

TABLE VI — DEMAND FOR AND SUPPLY OF EMPLOYMENT

(Thousands of units on 30th June)

	1988	1989	1990	1991	1992	1993	1994	1995	1996 e	1997 e
1. Demand for employment (net labour force)										
1.1 Population of working age ¹	6,678	6,674	6,674	6,675	6,682	6,694	6,703	6,704	6,703	6,708
Men	3,357	3,357	3,358	3,360	3,365	3,372	3,378	3,377		
Women	3,322	3,318	3,316	3,315	3,316	3,321	3,325	3,326		
1.2 Gross labour force ²	4,376	4,417	4,477	4,510	4,533	4,544	4,536	4,548	4,573	4,587
Men	2,611	2,624	2,636	2,640	2,633	2,627	2,616	2,606		
Women	1,765	1,793	1,842	1,871	1,899	1,917	1,920	1,941		
1.3 Beneficiaries of early or temporary withdrawal schemes ^{3,4}	250	273	298	300	295	272	255	247	266	272
Men	186	192	195	193	189	185	179	172		
Women	64	81	103	107	106	87	76	75		
1.4 Net labour force (1.2 - 1.3) ⁵	4,126	4,144	4,179	4,210	4,237	4,273	4,280	4,301	4,307	4,315
Men	2,425	2,432	2,440	2,447	2,444	2,442	2,436	2,435		
Women	1,701	1,712	1,739	1,763	1,793	1,830	1,844	1,866		
p.m. Net activity rate (1.4 as percentage of 1.1)	(61.8)	(62.1)	(62.6)	(63.1)	(63.4)	(63.8)	(63.9)	(64.1)	(64.2)	(64.3)
Men	(72.2)	(72.5)	(72.7)	(72.8)	(72.6)	(72.4)	(72.1)	(72.1)		
Women	(51.2)	(51.6)	(52.4)	(53.2)	(54.1)	(55.1)	(55.5)	(56.1)		
2. Supply of employment (employment)										
2.1 Enterprises	2,997	3,056	3,103	3,119	3,105	3,069	3,046	3,066	3,084	3,097
Employees	2,342	2,391	2,428	2,435	2,420	2,370	2,351	2,367	2,379	2,386
Self-employed persons	655	666	675	684	685	699	695	699	706	711
2.2 General government ⁶	657	655	661	650	648	644	631	629	628	629
Traditional jobs	574	570	577	570	563	560	547	544	543	544
Special programmes	83	85	85	81	85	84	84	85	85	85
2.3 Frontier workers (balance)	49	48	50	50	48	48	50	50	50	49
2.4 Grand total	3,702	3,760	3,815	3,819	3,802	3,761	3,726	3,746	3,762	3,774
Men	2,256	2,283	2,298	2,288	2,263	2,225	2,197	2,196		
Women	1,446	1,478	1,517	1,531	1,538	1,536	1,529	1,549		
3. Unemployment (1.4 - 2.4) ⁴	424	384	365	391	436	511	554	555	545	541
3.1 Men	170	149	143	159	181	217	239	238	233	235
3.2 Women	255	235	222	232	255	294	315	317	312	306

Sources : MEL, NEMO, NSI, NBB.

¹ Men and women aged 15 to 64.² Persons holding a job, unemployed job-seekers and beneficiaries of early or temporary withdrawal schemes.³ Persons who have retired early, older unemployed persons not seeking employment, persons who have completely interrupted their occupational careers and persons who have interrupted unemployment for social or family reasons.⁴ The conditions of access to the scheme for older unemployed persons not seeking employment, introduced under the Royal Decree of 29th December 1994, were relaxed from 1st January 1996 in implementation of the multiannual plan for employment. This change led in 1996 and 1997 to a substantial increase in this category of unemployed persons and introduced a series break both in the statistics on beneficiaries of the early or temporary retirement schemes, which include them, and in the unemployment statistics, which exclude them.⁵ Persons holding a job and unemployed job-seekers.⁶ Persons employed in government departments, teaching, the armed forces including persons doing national service, and persons given employment under special job-creation schemes : unemployed persons given work by general government, special temporary staff, third labour circuit, subsidised persons under contract, PRIME employment programme (regional projects for insertion in the labour market) of the Walloon region and unemployed persons given full-time work in replacement of career interruptions.

TABLE VII — CONSUMER PRICES

(Percentage changes compared with the previous year)

	Overall index						Health index ¹	Underlying inflation ²
		Energy products	Food products	Other goods	Services	Rents		
1988	1.2	-3.4	...	2.5	1.5	3.6	—	1.9
1989	3.1	6.5	3.1	2.5	2.6	3.7	—	2.7
1990	3.5	6.8	3.7	2.6	3.2	3.2	—	2.9
1991	3.2	2.6	2.0	3.0	4.4	3.0	—	3.3
1992	2.4	-1.1	-0.1	2.4	4.2	5.9	—	3.2
1993	2.8	3.6	-0.8	2.8	3.8	5.3	—	2.9
1994	2.4	0.9	1.8	2.4	2.6	4.6	—	2.4
1995	1.5	-0.6	1.2	1.3	2.0	2.9	1.6	1.6
1996	2.1	6.1	0.6	1.2	2.3	2.5	1.7	1.7
1997	1.6	4.0	2.2	0.7	1.5	1.7	1.3	1.3

Sources : MEA, NBB.

¹ Inflation after exclusion of the repercussions of the rises in the prices of products which are considered to be harmful to health (namely tobacco, alcoholic beverages, petrol and diesel), of the energy contribution introduced by the law of 22nd July 1993 and of the excise-duty-compensating tax on diesel-engined vehicles introduced in January 1996.

² Inflation after exclusion of the influence of energy products, potatoes and fruit and vegetables.

TABLE VIII — INCOMES OF THE VARIOUS SECTORS AT CURRENT PRICES

(Billions of francs)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 e
Individuals ¹										
Primary income	4,735	5,162	5,536	5,953	6,305	6,557	6,709	6,860	6,951	7,149
Wages and salaries	2,997	3,208	3,449	3,719	3,915	4,043	4,147	4,293	4,351	4,499
Income from one-man businesses	650	721	751	778	802	820	856	864	896	926
Income from property	1,088	1,234	1,337	1,455	1,588	1,693	1,706	1,703	1,704	1,724
Net current transfers ²	-531	-487	-587	-567	-622	-606	-699	-738	-711	-762
To (-) general government ²	-507	-462	-546	-527	-585	-565	-652	-675	-646	-697
Transfers received	1,355	1,439	1,523	1,656	1,762	1,841	1,897	1,977	2,049	2,094
Social benefits	1,047	1,098	1,164	1,269	1,356	1,409	1,439	1,499	1,556	1,588
Other transfers	308	340	359	388	405	432	458	478	493	506
Transfers paid	1,862	1,900	2,069	2,183	2,347	2,407	2,549	2,651	2,695	2,790
Social contributions	866	918	986	1,067	1,142	1,192	1,211	1,250	1,260	1,295
Direct taxes	860	848	938	957	1,038	1,032	1,148	1,202	1,225	1,278
Other transfers	137	135	145	159	167	183	189	200	210	217
To (-) other sectors ²	-23	-26	-41	-41	-37	-41	-48	-63	-65	-65
Disposable income	4,204	4,675	4,949	5,385	5,683	5,950	6,010	6,122	6,240	6,387
p.m. At constant prices (percentage changes compared with the previous year) ³	(4.0)	(7.8)	(2.3)	(5.4)	(3.0)	(1.9)	(-1.3)	(0.4)	(-0.1)	(0.7)
Companies ¹										
Primary income	838	954	923	859	867	912	1,010	1,131	1,208	1,306
Current transfers to (-) other sectors ²	-139	-147	-126	-134	-119	-153	-190	-224	-236	-274
Disposable income	699	807	797	725	748	759	820	907	972	1,032
General government ¹										
Primary income	21	51	26	51	21	49	111	169	272	331
Current transfers from (+) other sectors ²	600	565	651	631	652	664	783	853	808	880
Disposable income	621	617	677	682	673	713	894	1,022	1,079	1,211
Rest of the world										
Disposable income	70	69	62	71	89	95	106	110	139	156
GNP before statistical adjustments	5,594	6,167	6,485	6,862	7,193	7,518	7,830	8,160	8,431	8,786
Statistical adjustments	73	-15	31	3	15	-50	8	1	-2	-2
GNP after statistical adjustments	5,668	6,152	6,516	6,865	7,207	7,468	7,838	8,161	8,428	8,784

Sources : NAI, NBB.

¹ Including depreciation, but excluding the statistical adjustments whereby the three national accounts approaches are reconciled.² These are net amounts, i.e. the difference between transfers received from other sectors and transfers paid to other sectors.³ Data deflated by the consumer price index.

TABLE IX — SUMMARY OF THE TRANSACTIONS OF THE MAJOR SECTORS OF THE ECONOMY AT CURRENT PRICES

(Billions of francs)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 e
1. Individuals										
1.1 Disposable income	4,204	4,675	4,949	5,385	5,683	5,950	6,010	6,122	6,240	6,387
1.2 Change in mathematical retirement pension reserves	13	15	13	15	11	15	18	19	21	20
1.3 Consumption	3,660	3,892	4,173	4,417	4,637	4,696	4,892	5,036	5,217	5,411
1.4 Gross saving (1.1 + 1.2 - 1.3)	557	797	789	983	1,056	1,270	1,136	1,105	1,044	996
p.m. Percentage of disposable income	13.2	17.1	16.0	18.3	18.6	21.3	18.9	18.0	16.7	15.6
1.5 Capital transfers ¹	2	-1	-6	-8	-5	-6	-4	43	8	10
1.6 Gross capital formation	334	398	438	401	438	449	480	499	493	518
1.7 Net financing capacity (1.4 + 1.5 - 1.6)	225	398	346	574	614	815	653	648	559	488
2. Companies										
2.1 Disposable income	699	807	797	725	748	759	820	907	972	1,032
2.2 Change in mathematical retirement pension reserves	-13	-15	-13	-15	-11	-15	-18	-19	-21	-20
2.3 Gross saving (2.1 + 2.2)	686	792	784	710	738	744	802	888	951	1,012
2.4 Capital transfers ¹	25	17	24	26	30	35	8	-13	32	43
2.5 Gross capital formation	593	706	805	803	815	756	765	828	864	888
2.6 Net financing requirement (-) or capacity (2.3 + 2.4 - 2.5)	118	103	2	-67	-47	22	46	47	119	167
3. General government										
3.1 Disposable income	621	617	677	682	673	713	894	1,022	1,079	1,211
3.2 Consumption	859	886	920	988	1,025	1,086	1,136	1,181	1,208	1,250
3.3 Gross saving (3.1 - 3.2)	-238	-269	-243	-306	-353	-372	-242	-160	-129	-39
3.4 Capital transfers ¹	-37	-26	-32	-31	-40	-43	-16	-42	-40	-38
3.5 Gross capital formation	111	86	84	92	105	112	122	114	98	123
3.6 Net financing requirement (-) (3.3 + 3.4 - 3.5) ...	-386	-381	-359	-429	-498	-527	-380	-316	-267	-199
4. Statistical adjustments	113	-44	46	-3	29	-82	-29	-27	-33	-15
5. Total of domestic sectors										
5.1 Net financing capacity (1.7 + 2.6 + 3.6 + 4)	71	76	36	75	98	228	291	353	378	440

Sources : NAI, NBB.

N.B. Excluding general government's lending and equity investment. The data relating to the transactions of individuals and companies are considered excluding any statistical adjustments. The total of these various adjustments is recorded in item 4.

¹ These are net amounts, i.e. the difference between transfers received from other sectors and transfers paid to other sectors.

TABLE X — REVENUE, EXPENDITURE AND NET FINANCING REQUIREMENT OF GENERAL GOVERNMENT

(Billions of francs)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 e
Revenue	2,629	2,758	2,960	3,111	3,276	3,406	3,655	3,767	3,895	4,061
Fiscal and para-fiscal revenue	2,550	2,666	2,860	3,001	3,170	3,297	3,541	3,669	3,789	3,959
Levies weighing chiefly on earned incomes	1,531	1,579	1,707	1,816	1,968	2,034	2,139	2,211	2,258	2,336
Personal income tax ¹	703	700	762	793	872	892	974	1,005	1,036	1,078
Social security contributions ²	828	879	944	1,023	1,095	1,142	1,165	1,206	1,223	1,257
Taxes on profits of companies ³	138	153	139	140	129	155	182	215	232	267
Levies on other income and in respect of property ⁴	219	223	252	241	230	222	266	279	269	280
Taxes on goods and services	663	710	762	803	844	886	954	964	1,031	1,076
Non-fiscal and non-para-fiscal revenue	79	92	100	110	105	109	114	98	106	101
Expenditure excluding interest charges	2,448	2,510	2,633	2,849	3,002	3,140	3,258	3,359	3,457	3,575
Current transfers to individuals	1,355	1,439	1,523	1,656	1,762	1,841	1,897	1,977	2,049	2,094
Pensions	488	510	540	583	617	653	675	705	726	746
Private sector pensions	364	380	403	433	459	480	495	514	529	543
Civil service pensions	124	130	137	151	159	173	180	191	196	203
Early retirement pensions	45	45	48	51	53	51	52	52	54	54
Old persons' guaranteed income	9	9	9	10	10	10	10	9	9	9
Unemployment benefits	124	122	125	143	152	170	174	170	179	182
Career interruptions	3	4	5	5	6	7	6	5	6	6
Sickness and disability insurance benefits	80	84	89	95	97	98	98	100	103	104
Health care	282	303	330	373	412	426	438	477	508	517
Family allowances	129	136	137	143	148	153	156	160	166	170
Other	196	225	239	254	266	274	289	298	298	306
Other primary expenditure	1,093	1,071	1,109	1,192	1,240	1,299	1,361	1,382	1,408	1,481
Compensations	512	543	571	613	647	686	721	750	761	792
Net current purchases of goods and services	174	163	160	169	160	165	167	169	176	179
Subsidies to enterprises	144	133	144	151	150	147	151	154	160	151
Current transfers to the rest of the world	98	98	99	114	114	118	130	122	138	153
Gross capital formation	111	86	84	92	105	112	122	114	98	123
Other capital expenditure	54	49	51	53	64	71	70	73	74	84
Net amount excluding interest charges	182	248	327	262	274	266	397	408	438	486
Interest charges	568	629	686	692	771	793	777	723	705	685
Net financing requirement (—)	—386	—381	—359	—429	—498	—527	—380	—316	—267	—199

Sources : NAI, NBB.

¹ Mainly withholding tax on earned income, advance payments, assessments and additional centimes on personal income tax.² Total social contributions, including the special social security contribution.³ Advance payments, assessments and withholding tax on income from movable property.⁴ Mainly withholding tax on income from movable property payable by individuals, the withholding tax on income from immovable property (including additional centimes), death duties and registration fees.

TABLE XI — EXPENDITURE OF GENERAL GOVERNMENT

(Percentages of GDP)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 e
Expenditure excluding interest charges	43.0	40.7	40.2	41.5	41.6	42.4	42.0	41.7	41.6	41.3
Current transfers to individuals	23.8	23.3	23.3	24.1	24.4	24.9	24.4	24.5	24.7	24.2
Replacement incomes ¹	14.1	13.4	13.3	13.8	13.8	14.2	13.9	13.8	13.8	13.6
of which : Pensions, early retirement pensions and guaranteed income of old people	9.5	9.2	9.1	9.4	9.4	9.6	9.5	9.5	9.5	9.4
Unemployment benefits and career interruptions	2.2	2.0	2.0	2.2	2.2	2.4	2.3	2.2	2.2	2.2
Sickness and disability insurance benefits	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.2	1.2	1.2
Other transfers to individuals ²	9.7	9.9	9.9	10.3	10.6	10.7	10.5	10.7	10.8	10.6
of which : Health care	5.0	4.9	5.0	5.4	5.7	5.7	5.6	5.9	6.1	6.0
Family allowances	2.3	2.2	2.1	2.1	2.1	2.1	2.0	2.0	2.0	2.0
Other primary expenditure	19.2	17.4	16.9	17.4	17.2	17.5	17.5	17.2	17.0	17.1
Compensations	9.0	8.8	8.7	8.9	9.0	9.3	9.3	9.3	9.2	9.2
Net current purchases of goods and services	3.1	2.6	2.4	2.5	2.2	2.2	2.2	2.1	2.1	2.1
Subsidies to enterprises	2.5	2.2	2.2	2.2	2.1	2.0	1.9	1.9	1.9	1.7
Current transfers to the rest of the world	1.7	1.6	1.5	1.7	1.6	1.6	1.7	1.5	1.7	1.8
Gross capital formation	2.0	1.4	1.3	1.3	1.4	1.5	1.6	1.4	1.2	1.4
Other capital expenditure	1.0	0.8	0.8	0.8	0.9	1.0	0.9	0.9	0.9	1.0
Interest charges	10.0	10.2	10.5	10.1	10.7	10.7	10.0	9.0	8.5	7.9
Total expenditures	53.0	50.9	50.7	51.6	52.2	53.1	52.0	50.7	50.1	49.3

Sources : NAI, NBB.

¹ Apart from the three main sub-categories mentioned in the table, this item also includes the expenditure of general government in respect of industrial accidents, occupational diseases and the minimum social subsistence resources.

² Apart from the two main sub-categories mentioned in the table, this item also includes the allowances to handicapped persons, the subsidies of non-profit-making associations serving households and the pensions to victims of war.

TABLE XII — NET FINANCING REQUIREMENT (–) OR CAPACITY OF GENERAL GOVERNMENT AND OF ITS SUB-SECTORS

(Billions of francs)

	Central government			Local authorities	Social security	General government		
	Total	Federal government	Communities and regions			Total ¹	Entity I ²	Entity II ³
	(a)	(b)	(c)	(d)	(e)	(f) = (a) + (d) + (e)	(g) = (b) + (e)	(h) = (c) + (d)
1988	–412	—	—	–24	50	–386	—	—
1989	–431	–446	15	2	48	–381	–398	17
1990	–398	–368	–30	8	31	–359	–337	–22
1991	–429	–370	–58	20	–21	–429	–391	–38
1992	–506	–438	–68	16	–7	–498	–446	–52
1993	–505	–458	–47	–13	–10	–527	–468	–60
1994	–432	–376	–55	2	51	–380	–326	–54
1995	–375	–321	–54	31	28	–316	–293	–23
1996	–289	–250	–39	20	2	–267	–248	–19
1997 e	–235	–214	–20	14	21	–199	–193	–6

Sources : NAI, NBB.

¹ Concept used for the implementation of the convergence criteria defined in the Treaty on the European Union.² Entity I : federal government and social security.³ Entity II : communities and regions and local authorities.

TABLE XIII — OUTSTANDING AMOUNT OF GENERAL GOVERNMENT'S DEBT

(End of period, billions of francs)

	Official debt of the Treasury				Grand total	Gross consolidated debt of general government ¹
	In foreign currencies	In Belgian francs		Total		
		At up to one year	At over one year			
	(a)	(b)	(c)	(d) = (b) + (c)	(e) = (a) + (d)	(f)
1988	1,087	1,660	3,615	5,275	6,362	7,330
1989	1,131	1,830	3,827	5,657	6,788	7,749
1990	1,112	1,926	4,187	6,113	7,225	8,236
1991	1,107	1,912	4,732	6,644	7,751	8,753
1992	1,011	1,923	5,355	7,278	8,289	9,315
1993	1,520	1,702	5,852	7,553	9,073	10,015
1994	1,349	2,190	5,796	7,986	9,336	10,362
1995	1,085	1,738	6,706	8,444	9,530	10,573
1996	734	1,873	6,999	8,872	9,606	10,539
1997	784	1,932	7,089	9,021	9,806	10,640 e

Sources : Ministry of Finance, NBB.

¹ Concept used for the implementation of the convergence criteria defined in the Treaty on the European Union.

TABLE XIVA — CURRENT TRANSACTIONS OF BELGIUM¹ ON A TRANSACTIONS BASIS

(Billions of francs)

	1995			1996			First nine months 1997		
	Credits	Debits	Balances	Credits	Debits	Balances	Credits	Debits	Balances
Goods and services	5,336	5,006	330	5,594	5,273	321	4,533	4,263	270
Goods	4,449	4,122	328	4,682	4,362	320	3,782	3,516	266
General merchandise	4,322	4,084	238	4,543	4,317	226	3,680	3,484	196
Commission processing	99	19	80	111	23	88	82	14	67
Repairs to goods	7	7	...	8	10	-2	4	7	-3
Purchases of goods in ports	16	8	8	17	10	6	14	9	5
Non-monetary gold	6	3	2	3	1	1	3	1	1
Services	886	885	2	913	911	2	751	747	5
Transport	290	224	66	285	229	56	232	192	40
Travel	152	254	-103	165	277	-113	130	222	-92
Communications	18	10	8	22	13	10	22	14	8
Building	19	20	-1	22	19	3	24	22	2
Insurance	16	24	-7	16	19	-3	12	14	-2
Financial services	48	47	1	48	49	...	38	38	...
Data-processing and information services	20	15	6	23	18	6	24	17	7
Fees and licence dues	16	33	-17	20	35	-15	14	26	-12
Other services to enterprises	252	228	23	251	223	28	209	181	29
of which merchanting (net)	—	—	-3	—	—	-1	—	—	10
Personal, cultural and leisure services	8	12	-4	8	11	-2	7	8	-1
Services provided or received by general government, not included elsewhere	48	18	30	53	20	34	40	14	26
Incomes	1,114	993	121	983	844	140	764	661	102
Compensation of employees	134	31	103	141	33	108	105	25	79
Income from direct and portfolio investment	980	962	18	843	811	32	659	636	23
Current transfers	197	315	-118	193	313	-120	146	254	-108
General government	84	176	-92	68	161	-93	49	135	-86
Other sectors	113	139	-26	125	152	-27	98	119	-22
Total current transactions on a transactions basis	6,647	6,315	332	6,772	6,431	341	5,442	5,178	264

Source : NBB.

¹ Belgium's transactions comprise transactions with third countries as well as those with Luxembourg. The difference between the balances of the BLEU and those of Belgium therefore correspond, apart from any statistical deviations, to Luxembourg's balances both vis-à-vis third countries and vis-à-vis Belgium. This reasoning is not applicable, however, to the gross flows, since, while the bilateral balances between Belgium and Luxembourg are equal except for the sign, this is not the case for the flows, as the credits of the one are equal to the debits of the other, and vice versa.

TABLE XIVb — CURRENT TRANSACTIONS OF THE BLEU ON A TRANSACTIONS BASIS

(Billions of francs)

	1995			1996			First nine months		
							1997		
	Credits	Debits	Balances	Credits	Debits	Balances	Credits	Debits	Balances
Goods and services	5,620	5,268	352	5,896	5,551	345	4,776	4,482	294
Goods	4,558	4,279	279	4,772	4,509	263	3,848	3,622	226
General merchandise	4,418	4,227	192	4,622	4,444	177	3,736	3,571	165
Commission processing	99	23	76	113	32	81	82	23	59
Repairs to goods	7	8	-1	8	10	-3	4	8	-3
Purchases of goods in ports	16	9	7	17	11	6	14	11	3
Non-monetary gold	18	13	5	13	11	2	12	10	2
Services	1,062	989	73	1,124	1,042	82	928	860	68
Transport	296	230	66	296	237	59	242	199	43
Travel	184	272	-88	199	297	-98	157	237	-81
Communications	27	12	16	35	14	22	33	14	18
Building	19	22	-3	22	22	...	24	24	...
Insurance	24	24	...	25	24	1	19	17	1
Financial services	126	81	45	136	88	48	120	84	36
Data-processing and information services	21	16	5	23	19	4	24	18	6
Fees and licence dues	17	34	-17	21	37	-15	16	29	-13
Other services to enterprises	287	257	30	298	263	35	243	208	34
of which merchanting (net)	—	—	...	—	—	7	—	—	14
Personal, cultural and leisure services	10	23	-13	13	22	-8	11	17	-6
Services provided or received by general government, not included elsewhere	50	18	32	54	20	34	41	14	27
Incomes	2,153	1,953	201	1,893	1,675	218	1,473	1,304	169
Compensation of employees	132	73	59	139	80	59	104	61	43
Income from direct and portfolio investment	2,021	1,879	142	1,754	1,595	159	1,370	1,243	127
Current transfers	228	356	-127	226	356	-129	172	286	-115
General government	99	195	-96	84	181	-97	60	150	-90
Other sectors	129	161	-32	143	175	-33	111	136	-25
Total current transactions on a transactions basis	8,002	7,577	425	8,015	7,582	433	6,421	6,073	348

Source : NBB.

TABLE XV — CAPITAL AND FINANCIAL ACCOUNT OF THE BLEU ACCORDING TO THE STANDARD COMPONENTS OF THE IMF LAYOUT

(Balances, billions of francs)

	1995	1996	First nine months	
			1996	1997
Capital account	11	5	4	13
Capital transfers	6	5	5	15
Purchases and sales of non-financial non-produced assets	5	...	-1	-2
Financial account	-367	-439	-305	-313
Direct investment	-36	178	187	159
Of the BLEU abroad	-348	-259	-156	-115
Equity capital	-132	-167	-123	-80
Other transactions	-215	-92	-34	-35
Of foreign countries in the BLEU	311	437	343	273
Equity capital	174	277	219	99
Other transactions	137	161	125	174
Portfolio investment	-662	-376	-69	78
Assets	-807	-1,511	-1,089	-1,432
Equity securities	-98	-105	-87	-627
Credit institutions	34	6	11	-43
Other sectors	-132	-111	-98	-583
Bonds, money market instruments and derivative products	-709	-1,406	-1,002	-805
Credit institutions	-723	-757	-414	-282
Other sectors	14	-649	-588	-523
Liabilities	146	1,136	1,020	1,510
Equity securities	190	1,061	845	1,286
Bonds, money market instruments and derivative products	-44	75	174	224
General government	75	-88	64	22
of which in francs	46	46	96	22
Credit institutions	93	26	18	84
Other sectors	-212	136	93	119
Other financial transactions	337	-224	-392	-504
Assets	-656	-440	-833	-1,875
Trade credits	-4	-11	-17	-66
Loans, deposits and other assets	-652	-430	-815	-1,809
General government	-2	-11	-9	-7
Credit institutions	-535	317	-325	-1,392
Other sectors	-115	-735	-482	-410
Liabilities	994	217	441	1,371
Trade credits	10	13	-3	5
Loans, deposits and other liabilities	984	204	443	1,366
Monetary authorities	6	-14	-15	-1
General government	9	-1	-7	18
Credit institutions	1,282	177	452	1,344
Other sectors	-313	42	14	4
The NBB's reserve assets	-7	-18	-31	-46
Total capital and financial account	-356	-434	-301	-300

Source : NBB.

Minus sign : increase in assets or decrease in liabilities of residents.

TABLE XVI — INDICATIVE EXCHANGE RATES¹

(Quotations in Belgian francs, annual averages)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
German mark	20.94	20.96	20.68	20.59	20.59	20.90	20.61	20.58	20.58	20.63
French franc	6.17	6.18	6.14	6.06	6.07	6.10	6.02	5.91	6.05	6.13
Dutch guilder	18.60	18.58	18.35	18.27	18.28	18.60	18.37	18.37	18.37	18.33
Pound sterling	65.37	64.55	59.47	60.23	56.64	51.90	51.15	46.56	48.35	58.59
US dollar	36.81	39.43	33.41	34.18	32.12	34.57	33.43	29.51	30.96	35.78
Italian lira (100)	2.83	2.87	2.79	2.75	2.62	2.20	2.07	1.81	2.01	2.10
Japanese yen (100)	28.70	28.63	23.14	25.40	25.36	31.24	32.70	31.48	28.47	29.64
Spanish peseta (100)	31.57	33.27	32.79	32.87	31.46	27.22	24.96	23.66	24.45	24.43
Swedish krona	6.00	6.11	5.64	5.65	5.53	4.44	4.33	4.14	4.62	4.69
Swiss franc	25.14	24.11	24.09	23.83	22.89	23.41	24.46	24.95	25.08	24.66
Austrian schilling	2.98	2.98	2.94	2.93	2.93	2.97	2.93	2.92	2.93	2.93
Irish punt	55.99	55.85	55.26	54.99	54.67	50.62	49.98	47.29	49.56	54.24
Danish krone	5.46	5.39	5.40	5.34	5.33	5.33	5.26	5.26	5.34	5.42
Finnish markka	8.78	9.18	8.73	8.45	7.19	6.05	6.41	6.75	6.74	6.89
Canadian dollar	29.95	33.30	28.63	29.84	26.60	26.79	24.50	21.50	22.70	25.85
Portuguese escudo (100)	25.52	25.02	23.44	23.64	23.81	21.53	20.14	19.66	20.07	20.41
Norwegian krone	5.64	5.71	5.34	5.27	5.17	4.87	4.74	4.65	4.79	5.06
Australian dollar	—	—	—	26.61	23.62	23.48	24.45	21.89	24.24	26.59
Greek drachma (100) ¹	25.94	24.29	21.11	18.76	16.87	15.07	13.78	12.73	12.86	13.10
New Zealand dollar	—	—	—	19.76	17.28	18.72	19.83	19.35	21.29	23.69
Ecu	43.42	43.35	42.50	42.26	41.54	40.40	39.55	38.12	38.77	40.41
p.m. Effective exchange rate for the Belgian franc ² (1985 = 100)	(106.6)	(105.8)	(110.9)	(110.6)	(112.8)	(113.6)	(115.5)	(120.1)	(117.9)	(113.2)

Source : NBB.

¹ Until 31st December 1990 : official exchange rates fixed by the bankers meeting at the Brussels Clearing House. Since 1991 : indicative exchange rates.² Weighted by the importance of the OECD countries, except Iceland, Turkey, Mexico, Hungary, Poland, the Czech Republic and South Korea, as competitors of resident producers of manufactured goods on all markets combined.

TABLE XVII — INVESTMENT AND FINANCING CHANNELS OF THE BELGIAN ECONOMY

(Changes, billions of francs)

	1994					1995					1996				
	Individuals	Companies ¹	General government	Rest of the world	Total	Individuals	Companies ¹	General government	Rest of the world	Total	Individuals	Companies ¹	General government	Rest of the world	Total
Formation of financial assets	1,026	194	-77	484	1,628	852	382	-77	890	2,046	964	412	-130	568	1,814
With Belgian credit institutions ^{2,3}	448	76	-43	389	870	165	68	-136	591	688	311	376	-278	288	697
With institutional investors operating on the Belgian market ⁴ ...	246	17	8	...	271	306	-1	5	...	309	420	34	-5	...	449
In the form of securities acquired direct from the final borrowers	113	116	-47	296	479	342	64	72	236	713	369	-48	147	221	689
Via other channels ⁵	219	-15	5	-201	8	39	251	-17	63	336	-137	50	7	59	-22
New financial liabilities	181	357	316	775	1,628	69	493	241	1,243	2,046	172	573	123	945	1,814
To Belgian institutions ^{2,3}	183	62	544	82	870	82	81	24	501	688	174	160	78	284	697
To institutional investors operating on the Belgian market ⁴	-2	61	64	147	271	-3	18	301	-6	309	-1	116	147	188	449
In the form of securities placed direct with the final investors ..	-	208	-103	374	479	-	239	34	441	713	-	141	-37	584	689
Via other channels ⁵ .....	...	25	-189	173	8	-9	156	-118	307	336	-1	156	-66	-111	-22
Financial balances ⁶	846	-163	-392	-291		783	-112	-318	-353		791	-161	-253	-378	

Source : NBB.

¹ Credit institutions and institutional investors are in principle eliminated from the companies sector because they are treated as pure financial intermediaries whose financial assets are assumed to be identical with their financial liabilities. This treatment means, however, that the transactions of these institutions which are not directly linked with their role as financial intermediaries but are associated with their other entrepreneurial activities are recorded in the companies sector.

² Including the NBB, the Securities Regulation Fund, the Monetary Fund, the RGI and the Postal Cheque Office.

³ For the interbank transactions which Belgian credit institutions carry out with their foreign correspondents, only the balance is shown in the table, in order to avoid exaggerating the size of the gross flows passing via this channel.

⁴ Units and other securities of collective investment undertakings and also insurance bonds marketed in Belgium and technical reserves of Belgian insurance companies and pension funds.

⁵ The figures comprise assets and liabilities with foreign credit institutions, and also direct financing transactions which it has been possible to record between domestic sectors or with the rest of the world other than in the form of securities.

⁶ The balances of the financial accounts do not correspond to the financing capacities or requirements as recorded in the real accounts, owing to the differences between the dates of recording of the transactions in these two accounts, statistical adjustments or errors and omissions. Thus, for example, the financial accounts cannot, for lack of data, record most of the claims and debts resulting from transactions in goods and services between sectors.

TABLE XVIII — FORMATION OF FINANCIAL ASSETS BY AND NEW FINANCIAL LIABILITIES OF INDIVIDUALS

(Billions of francs)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	First nine months		p.m. Outstanding amount at the end of September 1997
										1996	1997	
Formation of financial assets	922	997	974	1,033	1,047	877	1,026	852	964	901	667	22,427
With credit institutions or by direct purchase of securities	588	747	935	660	691	185	665	574	463	470	130	17,642
Assets at up to one year	208	429	192	244	434	331	-7	33	130	121	21	6,062
Notes and sight deposits	42	65	4	5	-22	101	13	23	12	63	86	1,163
Savings deposits	183	188	-255	-87	-32	37	446	403	432	305	204	3,404
Time deposits	-31	93	353	157	400	-56	-70	-260	-272	-162	-232	1,273
Securities	13	83	90	169	89	249	-395	-134	-42	-85	-36	224
Assets at over one year	381	318	743	417	257	-146	672	542	333	349	109	11,580
Time deposits	-9	-12	...	7	-6	12	38	62	7	4	24	252
Fixed-interest securities	395	220	592	329	179	-123	608	493	279	341	7	6,588
Shares	-4	110	152	81	84	-35	26	-13	47	4	78	4,740
Via institutional investors	291	247	46	217	329	642	246	306	420	337	448	4,901
Collective investment undertakings ¹	190	160	-45	103	231	531	111	73	184	152	280	2,491
Insurance companies and pension funds ²	101	87	91	114	99	111	134	232	236	185	168	2,410
Other assets ³	43	2	-7	156	26	50	116	-28	80	93	89	-116
New financial liabilities	201	274	194	166	160	84	181	69	172	112	207	3,486
At up to one year	34	55	13	31	...	-33	5	-15	13	-19	-16	288
At over one year	167	219	182	134	160	117	176	84	160	131	223	3,198
of which : Mortgage loans	105	153	115	84	104	123	135	82	115	83	143	2,252
Fixed-term advances	34	37	38	28	34	-8	38	8	30	26	53	597
Consumer credits	28	29	28	22	19	2	3	-4	17	24	27	335
Financial balances ⁴	721	723	780	867	887	793	846	783	791	789	460	18,941

Source : NBB.

¹ Units and securities of collective investment undertakings marketed in Belgium.² Technical reserves of Belgian insurance companies and pensions funds, and insurance notes marketed in Belgium.³ Direct financing transactions which it has been possible to record between domestic sectors or with the rest of the world other than in the form of securities whose maturity is not known. Including, for the outstanding amounts, the statistical adjustments brought about by the methods of valuing share portfolios.⁴ See note 6 to Table XVII.

TABLE XIX — FORMATION OF FINANCIAL ASSETS BY AND NEW FINANCIAL LIABILITIES OF COMPANIES¹

(Billions of francs)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	First nine months		p.m. Outstanding amount at the end of September 1997
										1996	1997	
Formation of financial assets	465	811	490	448	550	545	194	382	412	332	422	12,329
At up to one year	187	168	164	173	-131	327	133	110	372	345	279	2,347
Notes, coins and sight deposits	41	47	9	24	12	29	-9	90	83	45	78	763
Other deposits	87	123	152	19	-24	290	23	17	167	123	107	1,465
Other	59	-1	3	130	-119	7	119	3	121	177	94	120
At over one year	144	335	308	328	484	96	114	290	-13	-71	159	8,878
Shares	62	200	206	147	128	15	105	85	-38	-41	91	6,782
Fixed-interest securities .....	...	32	-25	31	71	-4	-6	-19	-19	-19	8	164
Other	83	102	127	149	285	85	14	224	44	-11	60	1,932
Other ²	135	308	18	-52	197	122	-52	-19	53	58	-16	1,104
New financial liabilities	605	1,025	841	786	821	561	357	493	573	427	346	19,146
At up to one year	167	264	68	182	-157	-19	52	95	160	170	85	1,881
Commercial paper	—	—	—	3	18	15	34	12	23	37	36	154
To credit institutions	140	249	68	135	-188	-64	33	76	141	126	44	1,460
To other sectors	27	15	...	44	13	30	-15	7	-4	7	5	266
At over one year	415	614	718	648	881	458	285	440	380	236	310	16,615
Shares	217	324	457	403	443	269	261	251	226	156	203	11,997
Fixed-interest securities	-1	14	-27	21	-9	6	-56	43	-27	-21	-31	591
Other	198	277	289	223	447	182	79	147	180	101	138	4,027
Other ²	23	146	55	-43	96	122	21	-42	34	21	-49	651
Financial balances ³	-139	-214	-351	-338	-270	-17	-163	-112	-161	-95	76	-6,817

Source : NBB.

¹ See note 1 to Table XVII.² See note 3 to Table XVIII.³ See note 6 to Table XVII.

TABLE XX — FORMATION OF FINANCIAL ASSETS AND NEW FINANCIAL LIABILITIES BY GENERAL GOVERNMENT

(Billions of francs)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	First nine months	
										1996	1997
Formation of financial assets ¹	88	72	91	142	58	127	-77	-77	-130	-31	13
At up to one year	26	45	50	68	3	104	-86	-100	56	-60	18
At over one year	62	26	41	74	54	23	10	23	-186	29	-5
New financial liabilities	492	498	485	596	576	676	316	241	123	395	255
In francs	473	430	506	610	689	227	468	503	457	508	256
At up to one year	9	211	92	13	-10	-218	488	-359	185	245	276
At over one year	464	219	414	597	699	445	-20	862	271	263	-20
In foreign currencies	19	68	-22	-13	-113	449	-152	-262	-334	-113	-1
At up to one year	-27	34	-27	-44	-96	439	-223	-323	-209	2	24
At over one year	47	34	5	31	-17	10	71	61	-125	-116	-25
Financial balances ²	-404	-426	-393	-455	-518	-549	-392	-318	-253	-426	-242

Source : NBB.

¹ Including lending and equity investment.

² The financial deficit differs from the net financing requirement — the concept used in Tables X and XII — mainly owing to the differences in the dates of the recording of the transactions between the two approaches and to imperfections in the recording of the data.

TABLE XXI — BALANCE SHEET STRUCTURE OF BELGIAN CREDIT INSTITUTIONS¹

(Changes in the outstanding amounts, billions of francs)

	1994		1995		1996		First nine months 1997		p.m. Outstanding amounts at the end of September 1997	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
By counterpart										
Individuals	183	448	82	165	174	311	193	127	2,831	9,510
Companies ²	62	76	81	68	160	376	68	150	3,799	3,150
General government	544	-43	24	-136	78	-278	107	65	6,493	227
Rest of the world ²	451	758	889	979	236	239	1,215	1,241	11,215	11,449
of which foreign credit institutions	396	368	426	634	-54	-16	883	787	6,915	8,507
Sub-total	1,240	1,240	1,076	1,076	648	648	1,583	1,583	24,338	24,338
Belgian credit institutions	83	83	526	526	818	818	136	136	3,488	3,488
Total	1,322	1,322	1,601	1,601	1,466	1,466	1,719	1,719	27,825	27,825
By maturity										
At up to one year ³	1,012	693	660	1,108	642	1,371	1,367	1,853	14,155	21,319
At over one year	311	630	942	494	824	95	352	-133	13,671	6,506

Source : NBB.

¹ Including the NBB, the Securities Regulation Fund, the Monetary Fund, the RGI and the Postal Cheque Office.² Transactions carried out with foreign collective investment undertakings and insurance companies which have made public issues in Belgium of, respectively, units and insurance certificates have been reclassified in the companies sector.³ Including fixed-term advances at over one year with a variable interest rate.

TABLE XXII — INVESTMENTS MADE BY RESIDENTS WITH INSTITUTIONAL INVESTORS OPERATING ON THE BELGIAN MARKET

(Changes in the outstanding amounts, billions of francs)

	Collective investment undertakings ¹	Pension funds	Insurance companies : life branches ²	Insurance companies : other branches	Total
1988	192	19	72	18	300
1989	164	7	69	19	259
1990	- 39	8	68	25	62
1991	133	20	79	25	257
1992	272	14	69	26	381
1993	537	13	83	24	657
1994	128	7	114	22	271
1995	72	18	207	12	309
1996	203	25	196	26	449
First nine months					
1996	180		193 e		373
1997 e	290		174		464
p.m. Outstanding amount at the end of September 1997 e	2,701		2,597		5,298

Sources : BBA, Banking and Financial Commission, Belgian Pension Funds Association, Insurance Supervision Office, Luxembourg Insurance Commissariat, NBB.

¹ Including collective investment undertakings governed by foreign law and operating in Belgium.

² Including insurance notes issued by Luxembourg insurance companies which have made public issues in Belgium.

TABLE XXIII — NET ISSUES OF SECURITIES IN FRANCS BY COMPANIES AND GENERAL GOVERNMENT

(Billions of francs)

	Companies					General government ¹			Grand total
	Fixed-interest securities	Shares ^{1,2}			Total	Treasury certificates	Bonds	Total	
		Listed shares	Unlisted shares	Total					
1988	— 1	47	175	222	221	31	447	478	699
1989	14	110	262	372	386	149	94	243	629
1990	— 27	18	447	465	438	112	361	472	910
1991	25	41	368	409	433	— 14	523	508	942
1992	9	16	435	451	460	— 37	661	625	1,085
1993	22	28	243	271	293	— 217	294	76	369
1994	— 23	45	224	269	246	431	— 103	328	574
1995	56	10	246	257	312	— 354	938	584	897
1996	— 2	100	145	246	244	175	293	469	713
First nine months									
1996	17	43	114	157	173	235	288	523	696
1997	— 4	74	131	205	200	267	52	319	519
p.m. Outstanding amount at the end of September 1997	723	4,936	8,802 e	13,738	14,461	2,000	7,093	9,093	23,554

Sources : Banking and Financial Commission, NBB.

¹ Public and private share issues, including shares issued by credit institutions, the exercise of warrants and issues of real estate certificates.² Issues are valued on the basis of the recordings of the documents relating to the formation of companies or to capital increases or reductions published in the Moniteur belge.³ Including Treasury bills issued by the communities and regions and the social security system.

TABLE XXIV — MAIN INTEREST RATES

(End-of-quarter rates)

		Three-month money markets rates		Rates of the reference linear bond	Creditor rates ¹			Debtor rates ¹			
		Treasury certificates	Interbank market		Regulated savings deposits ²	Three-month time deposits	Five-year notes	Overdrafts	Six-month fixed-term advances	Five-year investment credits	Mortgage loans
1993	I	8.22	8.22	7.42	5.73	7.53	6.73	11.98	8.86	8.29	7.91
	II	6.65	6.69	6.99	5.48	6.11	6.48	10.61	7.55	7.54	7.72
	III	9.37	9.44	7.38	5.48	8.16	6.02	13.02	9.34	8.32	7.69
	IV	6.73	6.81	6.33	5.47	6.08	5.76	10.78	7.28	7.32	7.27
1994	I	6.12	6.13	7.19	4.48	5.55	5.85	9.91	7.53	7.64	6.97
	II	5.45	5.50	7.78	4.31	4.77	6.89	9.29	6.57	8.49	7.97
	III	5.26	5.33	8.50	4.61	4.50	7.54	9.26	6.55	9.42	8.74
	IV	5.23	5.25	8.34	4.62	4.52	7.50	8.79	6.26	9.24	8.81
1995	I	5.64	5.69	8.05	4.72	5.08	7.51	9.69	6.60	9.36	8.41
	II	4.65	4.69	7.55	4.07	4.08	6.01	8.29	5.60	8.07	7.75
	III	4.27	4.30	7.19	3.80	3.59	5.76	8.01	5.19	7.75	7.20
	IV	3.71	3.73	6.69	3.82	3.16	5.50	7.75	4.54	7.34	6.63
1996	I	3.28	3.33	6.80	3.12	2.71	5.73	7.30	4.32	7.22	6.31
	II	3.27	3.30	6.80	3.10	2.77	5.45	7.28	4.38	7.25	6.42
	III	3.04	3.06	6.23	3.13	2.55	5.02	7.00	3.98	6.75	6.41
	IV	3.04	3.04	5.86	2.84	2.51	4.72	7.02	4.01	6.29	5.64
1997	I	3.33	3.34	5.96	2.82	2.76	4.50	7.02	4.31	6.53	5.05
	II	3.27	3.30	5.75	2.83	2.77	4.51	7.02	4.22	6.23	5.49
	III	3.60	3.63	5.61	2.84	3.01	4.61	7.01	4.65	6.42	5.48
	IV	3.60	3.62	5.39	2.84	3.03	4.67	7.26	4.76	6.49	5.88

Source : NBB.

Bibliographical references : Bulletin statistique de la Banque Nationale de Belgique, 2^e trimestre 1996 : « Modifications au chapitre 19 : Taux d'intérêt ».Bulletin de la Banque Nationale de Belgique, LXIX^e année, n° 9, septembre 1994 : « Nouveau tableau relatif aux taux d'intérêt débiteurs et créditeurs appliqués par les établissements de crédit ».Bulletin de la Banque Nationale de Belgique, LXVI^e année, n° 5, mai 1991 : Révision du chapitre XIX « Taux d'escompte, d'intérêt et de rendement » de la partie « Statistiques » du Bulletin.¹ Rates obtained by means of a survey conducted among the main credit institutions and weighted by the market share of each of these institutions.² Basic rate plus fidelity bonus. Owing to a redefinition of the reference contract, the interest rate shown from January 1996 onwards is no longer fully comparable.

TABLE XXV — INTEREST RATES OF THE NATIONAL BANK OF BELGIUM AND THE REDISCOUNT AND GUARANTEE INSTITUTE

(Percentages)

Date of application of change	Discount rate	The Bank's central rate ¹	Rate for granting of credits by tender ²	Rate for current account advances		RGI's rate for daily closing surpluses	
				Within credit lines	Beyond credit lines	Ordinary tranche	Overstepping tranche ³
p.m. 1997 1st January	2.50	3.00	3.00	4.25	6.00	2.00	1.00
1997 10 October	2.75	3.30	—	4.55	"	2.30	1.30
13 October	"	"	3.30	"	"	"	"

Source : NBB.

Bibliographical reference : *Bulletin de la Banque Nationale de Belgique*, LXVI^e année, n° 5, mai 1991 : *Révision du chapitre XIX « Taux d'escompte, d'intérêt et de rendement » de la partie « Statistiques » du Bulletin*.¹ Rate applicable to the RGI's current account advances to the primary dealers and to the latter's deposits with the RGI, within individual lines, the total of which amounted, for all the primary dealers, to Fr. 4.6 billion at the end of 1997.² The dates shown correspond to the dates of the tenders (or transaction dates) and not to the settlement dates at the Clearing House (or value dates), which, save in exceptional cases, are two days after the tender dates. If there are no data, this means that there was no tender on that date.³ This rate applies to surpluses exceeding 5 p.c. of the credit lines allocated individually to the financial intermediaries.

TABLE XXVI — TRANSACTIONS OF THE NATIONAL BANK OF BELGIUM

(Changes in billions of francs)

	1992	1993	1994	1995	1996	1997
Transactions apart from regulation of the money market	22.7	-86.2	38.4	-23.7	226.0	-3.6
Increase (-) or decrease in the note circulation ¹	1.8	-10.0	22.9	-33.4	-19.2	-13.0
Increase or decrease (-) in the foreign exchange reserves ²	19.9	-74.5	9.5	8.4	15.7	22.2
Increase (-) or decrease in the deposit of the Belgian State ³	0.2	-1.0	0.3	...	-0.2	0.6
Increase (-) or decrease in the deposit of the Luxembourg State	—	-0.5	...	0.5	...	...
Miscellaneous net items	0.8	-0.2	5.7	0.8	229.7 ⁴	-13.4
Issuing of certificates of deposit (-)	—	—	—	—	-230.0	...
Adjusted balance	22.7	-86.2	38.4	-23.7	-4.0	-3.6
Regulation of the money market by other transactions in francs	-22.6	87.7	-43.6	31.9	0.4	-2.8
Mobilisation of commercial bills	-6.9	0.3	-1.6	-0.3	0.2	-0.1
Granting of credits by tender	-25.2	5.1	-0.1	-10.0	...	-5.0
Direct interventions on the money market	9.5	82.3	-41.9	42.2	0.2	2.3
Purchases or sales (-) of securities on the market	-0.3	15.0	-14.5	6.0	1.0	1.0
Very-short-term repurchase agreements	12.8	65.3	-25.4	36.2	-4.8	5.3
Interbank deposits or loans (-)	-3.0	2.0	-2.0	...	4.0	-4.0
Coverage or absorption (-) of residual money market balances	-0.1	-1.5	5.2	-8.2	3.6	6.4
Increase or decrease (-) in current account advances to the financial intermediaries	-0.1	0.2	2.0	-2.9	0.7	2.9
Increase (-) or decrease in the daily closing surpluses deposited with the NBB by the RGI .....	...	-1.7	3.2	-5.3	2.9	3.5

Source : NBB.

¹ Including banknotes which are no longer legal tender.² At market exchange rates and on the value date.³ Including, until their abolition on 1st July 1993, the increase or decrease (-) in advances to the State and the Securities Regulation Fund.⁴ Including the payment to the State of the capital gain on gold.

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The National Bank of Belgium as an Enterprise

INTRODUCTION

Apart from the traditional central bank activities — such as the implementation of monetary policy, the function of « lender of last resort » for credit institutions, the issuing of banknotes and the representation of our country within the framework of international monetary co-operation — the National Bank of Belgium performs a set of tasks which is much more extensive than in the case of most other central banks.

The activities which all central banks carry out are in fact supplemented, at the National Bank of Belgium, by a whole range of activities which have been described in this and/or previous enterprise reports. These activities include, among other things, an efficient settlement system for interbank payments, an extensive securities clearing system and the currency centres. Furthermore, unlike some other central banks, the National Bank of Belgium prints its banknotes itself, and its know-how in this field is also used for the production of commercial security documents. The existing structures for the collection, processing and publication of monetary and banking data — a task entrusted to all central banks — have been used to advantage in Belgium in order to compile other statistics of national interest, namely the business surveys, the national accounts and the foreign trade statistics. Furthermore, the legislator has entrusted the Bank with the task of managing the Central Balance Sheet Office, which centralises the annual accounts of around 225,000 companies as well as the data of the social balance sheets. The Bank is also responsible for running the Central Office for Credits to Enterprises and the Central Office for Credits to Individuals, whose purpose is to provide consumers with better protection against excessive indebtedness. Lastly, the Bank renders certain services, especially those of State Cashier, to the State free of charge.

As a result of the various tasks mentioned above, only 46 to 48 p.c. of the Bank's workforce, depending on the estimating method used, are assigned to tasks which will form part of the specific functions of the European System of Central Banks (ESCB).

Non-ESCB activities therefore occupy 52 to 54 p.c. of the Bank's staff. However, a number of these activities also generate substantial receipts. Thus, the recovery effect of the rendering of services to third parties is estimated, for the 1998 financial year, at over Fr. 2 billion, or 23 p.c. of general expenses. These recoveries are sometimes not taken into account in international comparisons designed to measure the efficiency of central banks.

I. ACTIVITIES

1. PRINTING AND ISSUING OF BANKNOTES

1.1 ISSUING POLICY

The National Bank designs and prints its notes itself. The renewal of the range of Belgian banknotes continued in 1997 with the launching, on 24th April, of the Fr. 1,000 note dedicated to Constant Permeke and that, on 19th June, of the Fr. 10,000 note paying homage to King Albert II and Queen Paola. Parallel with this, the corresponding denominations of the old generation ceased to be legal tender on 15th December 1997, but, like the other notes issued by the National Bank since 1944, they can still be exchanged at its counters.

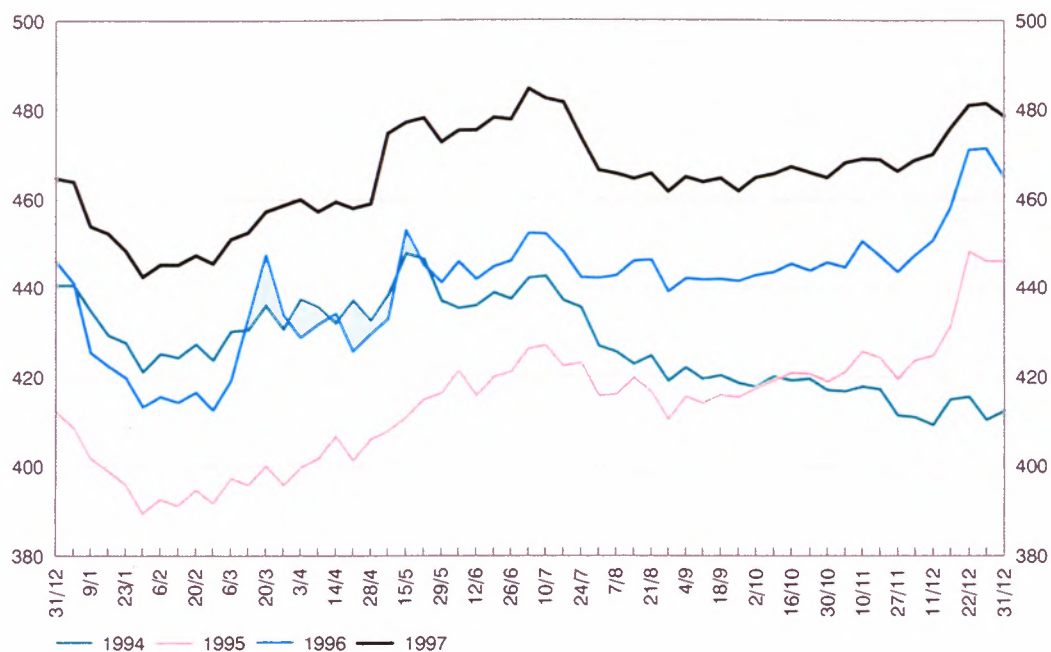
In 1998, after the issuing of the Fr. 500 note bearing the portrait of the surrealist painter René Magritte and the subsequent withdrawal of the Meunier-type Fr. 500 note, the Belgian public will have at its disposal a uniform series of six notes of modern design, provided with state-of-the-art security features. These notes will remain in circulation until they are replaced by the euro in 2002.

1.2 THE PUTTING INTO CIRCULATION OF THE BANK'S NOTES

The volume of banknotes put into circulation depends entirely on the demand from the financial institutions, which is in turn determined by the requirements of

CHART 1 — NOTES IN CIRCULATION

(Weekly outstanding amounts, in billions of francs)



NOTES IN CIRCULATION¹

(End-of-year figures)

	Value in billions of francs		Number in millions of notes	
	1996	1997	1996	1997
Fr. 10,000	225.7	220.1	22.5	22.0
Fr. 2,000	134.6	159.2	67.3	79.6
Fr. 1,000	75.0	68.6	75.0	68.6
Fr. 500	13.6	14.3	27.2	28.6
Fr. 200	4.9	5.6	24.5	28.0
Fr. 100	10.9	10.8	109.0	108.0
Total	464.7	478.6	325.5	334.8

¹ Including the notes in the financial intermediaries' cash holdings.

enterprises and individuals. As a means of payment, the banknote is in competition with other instruments. Owing to the great development and diversification of these, the relative share of the banknote in the money supply has tended to decrease. However, as is evidenced by the development of the outstanding amount in recent

CHART 2 — COMPOSITION OF THE NOTE CIRCULATION BY DENOMINATION

(End-of-year figures, as percentages of the total amount)

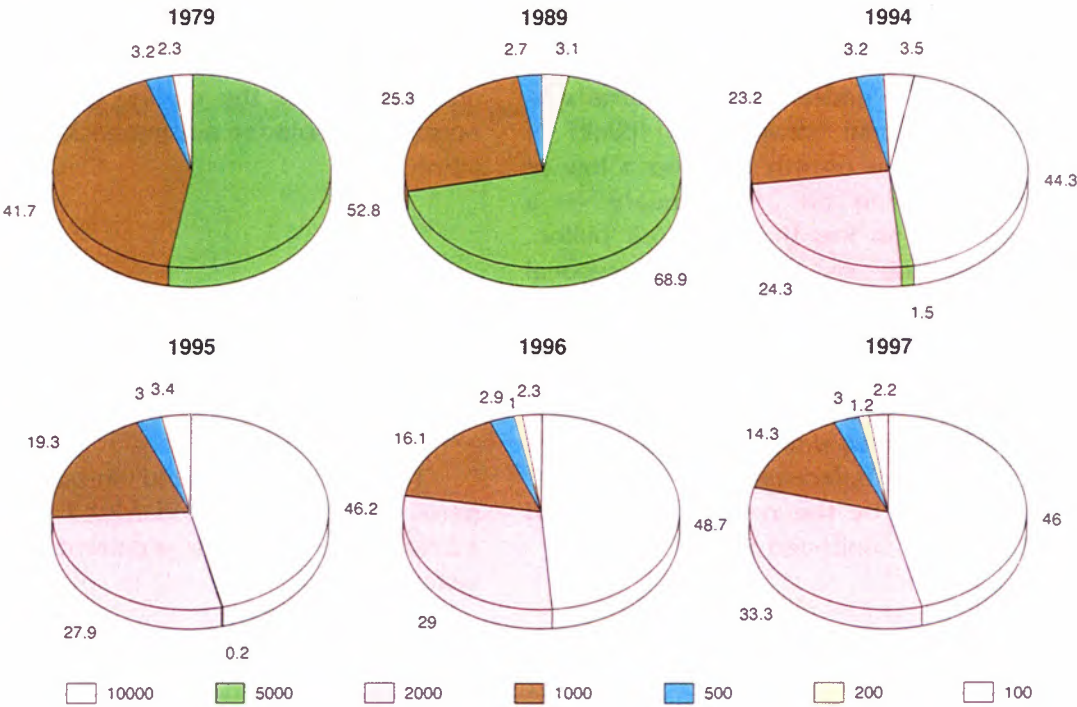
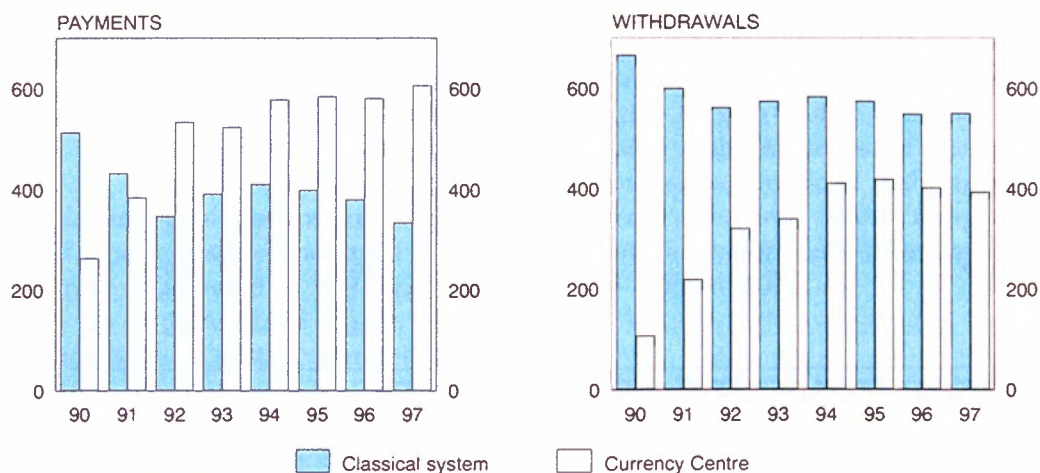


CHART 3 — PAYMENTS AND WITHDRAWALS OF NOTES (PROVINCES + BRUSSELS) MADE AT THE CURRENCY CENTRES AND BY THE TRADITIONAL SYSTEM

(Millions of notes)



years, the banknote is still widely used as a means of payment. Thus, at the end of 1997 the note circulation amounted to Fr. 478.6 billion, representing a rise of 3 p.c. compared with the previous year.

As usual, the outstanding amount of notes underwent considerable fluctuations during the year under the influence of seasonal factors: it reached a peak of Fr. 486.8 billion on 4th July and a low of Fr. 440.3 billion on 29th January — a difference of no less than Fr. 46.5 billion. The circulation also reached a seasonal peak at the end of the year.

The total number of notes in circulation increased by around 2.8 p.c. during the year under review, unlike in 1996, when it declined. The replacement of the smaller denominations by the new Fr. 2,000 and Fr. 200 notes continued in 1997.

1.3 SORTING OF NOTES

Every day the financial intermediaries draw notes from and pay notes to the Bank.

The notes paid in are checked and sorted by machines capable of dealing with between 50,000 and 70,000 notes per hour on average, depending on the type of equipment. These machines count the notes, check them for authenticity, sort them in accordance with the degree of wear, pack the notes which can be reused and provide for the on-line destruction of notes unsuitable for putting back into circulation.

1.4 METHOD OF WITHDRAWAL AND PAYING IN OF NOTES AND COINS

The withdrawals and in-payments of notes are made by standardised packets or «à la carte» by the «currency centre» system¹.

¹ This system is described in the 1991 Annual Report, p. 141.

Altogether, for all the Bank's establishments in Belgium combined, these operations involved 1,886 million notes in 1997.

With regard to coins¹, new arrangements came into force on 1st April 1997. Withdrawals and payments are made in the form of cartridges, whose packaging and processing are free of charge. However, payments may also be made in bags, but this is against payment of costs. No charge is made, however, for payments of less than 12 kilos of coins made by individuals.

2. INTERBANK PAYMENT SYSTEMS

Very many payments are made by means other than banknotes: cheques, transfers, domiciliations, credit cards, ... Furthermore, withdrawals by individuals are often made at ATMs.

Without being in a direct relationship with the public, the National Bank plays a major role in this field, and more specifically in the organisation and operation of

systems for processing and settling all these transactions. These systems have undergone major changes in recent years.

Since ELLIPS (Electronic Large Value Interbank Payment System) started to operate at the end of 1996, cashless interbank transfers in Belgium have for the most part been organised in two automated systems: ELLIPS, which is a gross settlement system mainly designed for processing large payments, and the CTEC (Clearing Transaction Exchange Centre of the Belgian Financial System), which is a net settlement system for retail payments. Only a limited number of transactions are still exchanged manually via CEMUC (Manual Exchange Centre), a system of the «postbox» type which has recently been established. Since the start of CEMUC, the presence of clearers at the Clearing House has no longer been compulsory. These changes have led to a considerable decline in the activities of the Clearing House.

The year 1997 was the first full year of operation of ELLIPS. In this system all transactions are finally settled, one by one. At first there was an obligation to process, via ELLIPS, all payments greater than Fr. 50 million. In order further to reduce the systemic risk in payment systems, it was decided to reduce this amount to Fr. 20 million at the beginning of June.

¹ Coins are minted by the Belgian Royal Mint and put into circulation by the National Bank of Belgium.

AMOUNTS AND NUMBERS OF TRANSACTIONS PROCESSED¹

(Daily averages)

	Amount (in billions of francs)			Number (in thousands of transactions)		
	ELLIPS	CTEC	Clearing house	ELLIPS	CTEC	Clearing house
1995	0	107	1,342	0	3,318	52
1996 (a)	0	123	1,253	0	3,412	45
1996 (b)	1,170	72	24	3.4	3,412	31
1997	1,376	74	22	3.8	3,537	28

¹ Account being taken of the starting of ELLIPS on 24th September 1996

— 1996 (a): period January-September 1996

— 1996 (b): period October-December 1996.

In comparison with the first months of operation — the fourth quarter of 1996 — the average amount recorded per day in ELLIPS increased by 15 p.c. in 1997, to Fr. 1,376 billion. The average number of transactions processed per day rose from 3,400 to 3,800.

In the meantime, the preparatory works, on both the technical and the operational plane, concerning the TARGET (Trans-european Automated Real-time Gross-settlement Express Transfer) system, the European payment system for large amounts, has been making good progress. In structure, TARGET is a decentralised network of the national gross settlement systems of the EU Member States. These national systems will be interconnected in a uniform manner, via the central banks and the Interlinking system. In Belgium, ELLIPS will form part of the TARGET system.

Through TARGET, making a payment between credit institutions established in different Member States will be practically as easy, quick and safe as for a payment

between two credit institutions in the same country.

In the CTEC (the net settlement system for payments less than Fr. 20 million), the number of transactions processed — about 3.5 million per day — and the amount of funds exchanged — averaging Fr. 74 billion per day — stabilised at the previous year's level.

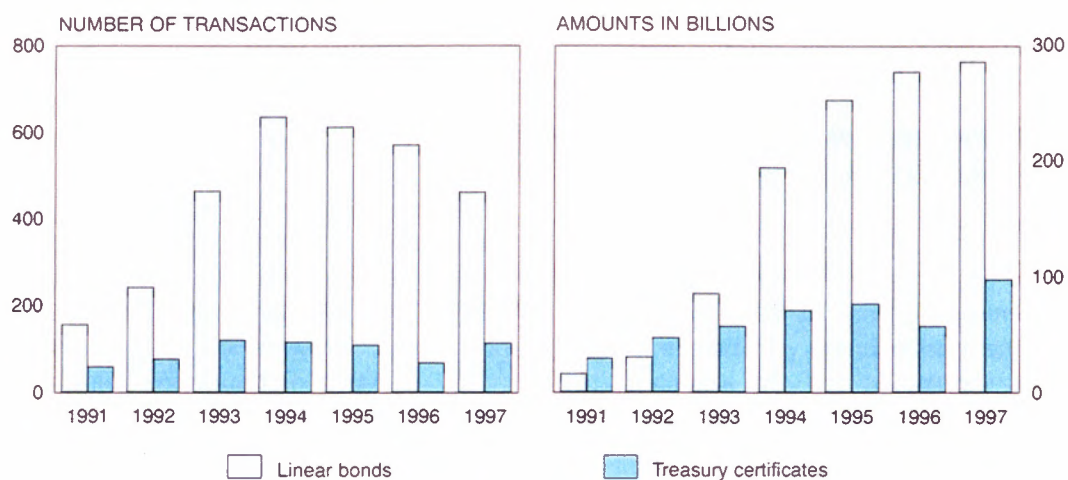
3. CLEARING

The clearing system is an offsetting system organised by the Bank for the purpose of settling the transactions on the primary and secondary securities market. It basically enables transactions in dematerialised securities, including, especially, in linear bonds and Treasury certificates, to be settled completely safely.

Its operation is based on the principle of double notification together with that of delivery against payment, which ensures the

CHART 4 — SECONDARY MARKET TRANSACTIONS SETTLED BY THE CLEARING SYSTEM¹

(Daily averages)



¹ Purchases, sales, repurchase agreements — except those carried out by the National Bank as part of its monetary policy — and free transfers.

simultaneity of the movements of securities and cash. An automatic securities borrowing system with the provision of a guarantee furthermore enables the participant to fulfil his delivery obligations.

With regard to the activities performed in the clearing system, notable features of the year 1997 were :

- an increase in the outstanding amount of Treasury bills in foreign currencies (dematerialised short-term securities issued by the State, for which the Bank plays the role of domiciliary institution), the Belgian franc equivalent of which rose from Fr. 53.8 billion at 31st December 1996 to Fr. 58.6 billion at the end of 1997;
- the addition of 5 new programmes of securities representing securitised claims (including in particular mortgage loans and car financing), the outstanding amount of which rose from Fr. 22.6 billion at the end of 1996 to Fr. 66.2 billion at 31st December 1997.

The accompanying chart shows the movement in 1997 of transactions on the secondary market for linear bonds and Treasury certificates settled by the clearing system.

4. SURVEILLANCE OF PAYMENT AND SECURITIES SETTLEMENT SYSTEMS

Surveillance of payment and securities settlement systems stems from the fundamental functions of a central bank : on the one hand, an efficient and safe payment system provides the guarantee of rapid transmission of monetary policy signals; on the other hand, prevention and controlling of the systemic risk are essential in view of its role as lender of last resort.

The formalisation of this task in the Bank's new organic law responds not only to a legal obligation to adapt the Bank's

Statutes to the requirements of the Treaty on European Union but also to the development of thinking on the international plane. The Group of Ten, especially in connection with the work which it has been doing for several years concerning systemic risk, has formulated a number of recommendations concerning payment and securities clearing systems. The EMI has also done some regulatory work in this field.

The Bank has taken internal organisation measures in order to perform this task. In particular, an «oversight» team has been created, its first task being to work out the standards applicable to the various systems.

5. ECONOMIC STUDIES AND STATISTICS

5.1 ECONOMIC STUDIES

The Bank's administrative bodies conduct monetary policy and perform an advisory function for the government authorities. This task calls for a coherent macroeconomic examination. For this purpose the Bank makes a continuing and thorough study of economic activity, and analyses a large amount of statistical material. The results of the Bank's quarterly econometric model, which is regularly updated, are also useful in this connection.

In 1997 the Bank answered many questions concerning the development of the Belgian economy and the conduct of monetary policy. The questions were asked in connection with :

- the periodic visits of the delegations from international organisations, including the IMF, the OECD and the European Commission;
- the collection of economic information by international rating agencies wishing to assess Belgium's sovereign solvency.

The Bank delegates representatives to attend various economic councils or permanent working parties in Belgium, such as the National Economic Council, the Public Debt Cell and the Superior Employment Council.

5.2 **BANKING STATISTICS**

In view of the new statistical requirements of the future European Central Bank, the content of the reports by credit institutions concerning their financial position has been basically changed. It is a matter, in particular, of giving more detailed information about financial instruments and the nature of the counterparties. The instructions were issued in the course of the summer and the new reporting will begin in May 1998. The EMI will thus possess suitable information before the start of the third stage. The EMI has extended the range of reporting institutions to include monetary financial institutions. In Belgium this category includes monetary collective investment undertakings (for instance, cash management SICAVs). Consequently, their return form will have to be adapted in accordance with the EMI's requirements. First contacts in this connection were made during the fourth quarter of the period under review.

5.3 **BUSINESS SURVEYS**

The automation project for publication and despatch in connection with the business surveys was completed in 1997. Henceforth it is possible to send, to each individual participant, only the information which is actually of interest to him. Furthermore, the form of the publications has been adapted to the participants' wishes.

Preparations for an in-depth adjustment of the surveys in the building industry had already been made in the course of 1996. From January 1997 onwards, a new questionnaire was also introduced and most of

the sub-sectors are now also questioned on a monthly basis.

It was decided, at European level, to follow the new NACE classification for the breakdown of goods by category in manufacturing industry. Concretely this means that the food industry and the graphics industry are henceforth included in the calculations. In order to avoid a methodological break, the statistical series for 1980 and the following years have been recalculated.

As in the two preceding years, a cross-border survey in the textile industry was again organised in the year under review in Flandre-Hainaut and Nord-Pas-de-Calais.

5.4 **NATIONAL ACCOUNTS**

As part of the reform of the Belgian statistical apparatus undertaken three years ago, the Bank took over two activities which had previously been entrusted to government departments: the compilation of the national accounts and of the foreign trade statistics.

In June the Bank published, on behalf of the National Accounts Institute (NAI), the aggregates and accounts of the 1996 national accounts relating to the years 1987-1996. A number of major changes have been introduced in order to make the national accounts system conform more closely to the European System of Integrated National Accounts (ESA 1979). The regional accounts, up to 1995, were also published during the year under review.

Preparations are in progress for the introduction of the new system of national and regional accounts (ESA 95), which is to be applied in all Member States from April 1999. Working parties have been set up in order to devise the presentation of the future system in co-operation with the associated institutions of the NAI. The Bank is participating in the development of new statistics which are intended to provide the

basic information for the new national accounts system.

5.5 FOREIGN TRADE

For the last three years the Bank has been responsible for carrying out this statistical activity on behalf of the NAI. The time thus seemed appropriate for evaluating the Intrastat system, a measure which also fits in with the general approach of Eurostat and the other Member States. It was found possible to reduce the work to be done by the declarants by raising the threshold for the declaration obligation and introducing simplifications in the statistical variables, without any notable loss of quality in the results. These reforms came into force on 1st January 1998. At the same time, the new declaration forms provide the possibility of, in due course, making the declarations in euros, so that no further adaptation is necessary for this purpose.

In order to offset, at the time of the monthly publication, the effect of answers not yet received, a new estimating method has been applied. A new quarterly survey covering the regional structure of Belgian exports has been added to the existing publications.

The foreign trade statistics are at present being published within the ten-week period laid down by the European regulations, so that the delay, which was still nine months when this activity was taken over by the Bank, has been completely eliminated.

5.6 BALANCE OF PAYMENTS

During the year under review, the efforts made in this field were concentrated on further improving the quality of the balance of payments statistics, adapting the list of transaction codes and launching the portfolio survey.

Through regular contacts and meetings with the suppliers of data and the trade associations, the Bank endeavoured to improve the quality of the daily and monthly reports from credit institutions and enterprises. Comparisons of recorded payments for goods with the foreign trade statistics and checking of the results of the direct investment survey against a number of headings of the annual accounts published by enterprises also had a positive effect on the quality of the balance of payments data.

The adaptation of the list of transaction codes is in line with the Bank's efforts to make the published balance of payments conform as closely as possible to the methodology laid down by the International Monetary Fund and meets the Bank's own statistical requirements. The new list at the same time makes it easier to reply to the questions put by the EMI and Eurostat.

A so-called «portfolio» survey was started in 1997, with a view to the survey which is carried out worldwide at the request of the IMF, which relates to the claims held abroad, in the form of securities, by the residents of each country: this task included, among other things, the drafting of survey forms and the relevant instructions, the choice of the potential participants and the sending out of documents. The results of this survey will provide useful information for calculating international investment positions and financial income flows with foreign countries and give the IMF the possibility of producing more complete statistics concerning international transactions in securities.

5.7 PUBLICATIONS

Apart from its Annual Report, the Bank's main publications are:

- the «Quarterly Statistical Bulletin» (an English version of which is being prepared);

- the « Economic Review », which appears three times per year;
- the « Economic Indicators for Belgium », which are published weekly;
- the publications concerning the national accounts and foreign trade produced on behalf of the NAI (see points 5.4 and 5.5 above).

The articles published in 1997 in the Economic Review concerned the balance of payments in 1996, the social balance sheet, also for 1996, the development of company results, the Belgian economy in 1997 and the operational framework of the future single monetary policy.

The statistical data are also made available through other channels. Thus, since as far back as 1990, a great mass of economic and financial statistics is accessible on-line via the Belgostat data base. The results of the business surveys are also disseminated in appropriate ways. Preparations have also been made in accordance with the IMF's « Special Data Dissemination Standard ». This project provides for dissemination of the methodology and the publication calendars of the main series of economic statistics. Since April 1997 it has been possible to consult Belgian information on this subject on the IMF's centralising website (<http://dsbb.imf.org>).

The Bank also publishes every week a balance sheet known as the « weekly statement of account ».

The Bank has, moreover, decided to create a site on the Internet network. In addition to the data which it already publishes on the IMF's site, it will use it to disseminate general information on its activities and those of the Central Balance Sheet Office.

5.8 SCIENTIFIC LIBRARY

The Bank's scientific library continued its modernisation efforts to adapt to tech-

nological developments in the field of information. Consultation of external data bases was stepped up considerably in 1997, as was also the exchange of information by electronic means with other libraries and documentation centres in Belgium and abroad.

6. STATE CASHIER

The State centralises its revenue and expenditure items by passing them through the current account which it holds with the Bank. This is the account in which the transactions carried out by the Bank on behalf of the State are recorded and to which the balance of those performed by the Post Office and the Postal Giro system is transferred. As the State Cashier, the Bank also carries out the issuing and redemption of government loans and the payment of interest on them.

7. SECURITIES REGULATION FUND

The Securities Regulation Fund guarantees, mainly for private investors, the liquidity of public loans when the daily fixing takes place at the Brussels Stock Exchange.

The turnover on the fixing market decreased from Fr. 18.7 billion in 1996 to Fr. 16.2 billion in 1997. The number of transactions fell to about 40,000, against 43,000 in 1996.

The Fund is also the market authority for the market outside the stock exchange in linear bonds, split securities and Treasury certificates. The delimitation of this market has been revised, so that transactions concluded outside Belgium can also take place on this market. In connection with the financial intermediaries' obligation to report their transactions, the Securities Regulation Fund endeavoured to improve

the representativeness of the statistics concerning the transparency of the market. A contribution by the participants in the market to meet the market authority's operating costs was also introduced. Reporting to the Banking and Financial Committee, as the second-line supervisor of the Fund's operation in its capacity as market authority, was started.

8. CENTRAL OFFICE FOR CREDITS TO ENTERPRISES

The Central Office for Credits to Enterprises records, by beneficiaries, the information concerning credits of Fr. 1 million and over granted by credit institutions; it lists both the amounts granted and those drawn. By offering participating institutions the possibility of consulting the data recorded, the Central Office represents an important aid for the assessment of the credit risks at the time of granting of the credit and during its subsequent management.

During the year under review, the Bank developed a data base in which the information published in the *Moniteur belge* relating to legal events (insolvencies, agreements with creditors decreed by court, criminal bankruptcies ...) is systematically recorded and updated. The possibility was provided of periodically making the information in question available to interested participating credit institutions.

9. CENTRAL OFFICE FOR CREDITS TO INDIVIDUALS

The purpose of the Central Office for Credits to Individuals, which has been operational since 1987, is to restrain any excessive growth in the indebtedness of individuals by providing the participating institutions with information about repayment

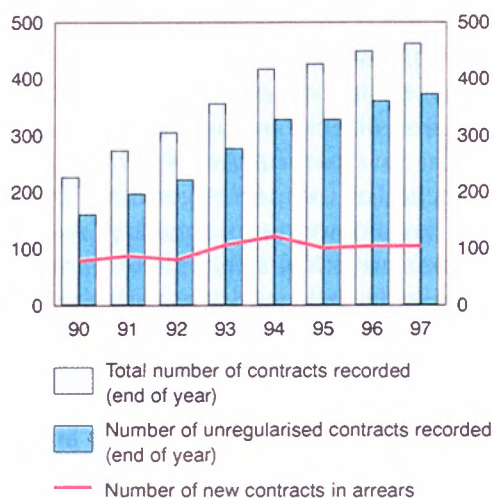
difficulties relating to consumer credit and mortgage loans granted for private purposes.

During the year under review, the number of contracts recorded increased by about 13,000 units, to 462,000 units. This net increase is the resultant of the recording of 104,000 new contracts in arrears and 91,000 deletions of regularised contracts. At the end of 1997, 363,000 persons were recorded at the Central Office, against 360,000 at the end of the previous year. The number of persons for whom more than one contract is recorded amounted at the end of 1997 to 129,000, or 35.5 p.c.

The number of consultations per working day reached 13,666 last year (against 12,785 in 1996). Practically all these consultations take place on-line. In 1997 an «affirmative» answer was given for around 6.8 p.c. of the total number of consultations. Affirmative answer means a reply for which the person to whom the consultation relates is actually recorded.

CHART 5 — DEVELOPMENT OF THE NUMBER OF CONTRACTS RECORDED BY THE CENTRAL OFFICE FOR CREDITS TO INDIVIDUALS

(In thousands)



During the year under review, the Bank concluded a reciprocal data base consultation agreement with the Dutch «Bureau kredietregistratie» (BKR). Since the beginning of November 1997, participants in the Central Office have been able to obtain information about payment arrears in respect of credit contracts recorded with the BKR and vice versa. In view of the principle of reciprocity, the exchange of data with the BKR, which uses a positive recording system, is confined to «negative» information, i.e. payment arrears.

10. CENTRAL BALANCE SHEET OFFICE

The functions entrusted to the Bank in order to enable it to collect and disseminate the annual accounts of enterprises were extended to the processing of social balance sheets, by the law of 22nd December 1995 containing measures relating to the implementation of the multiannual plan for employment.

By virtue of the Royal Decree of 4 August 1996 issued in implementation of the above-mentioned law, the social balance sheet has been an integral part of the annual accounts since the accounting year which started after 31st December 1995. The standardised forms published by the Bank have been adapted accordingly. Furthermore, the above-mentioned Royal Decree extended the compilation of a social balance sheet to enterprises which are not required to file annual accounts with the Bank (in particular, hospitals and the branches of companies governed by foreign law and of non-profit-making associations above a certain size); these have to file their social balance sheet with the Bank on a special form.

In 1997 about 223,000 annual accounts were filed with the Bank and over a thousand social balance sheets were submitted to it by enterprises not required to file annual accounts. The number of ac-

counts filed on diskettes rose further, to nearly 69 p.c. of the total number of filings made in 1997.

The data of the social balance sheet — to be completed by all enterprises with one or more workers on the payroll — were included in 45 p.c. of the annual accounts relating to an accounting year which started after 31st December 1995.

11. ACTIVITIES ON THE EUROPEAN AND INTERNATIONAL PLANE

11.1 PROGRESS TOWARDS ECONOMIC AND MONETARY UNION

The Bank participated very actively in the preparations for the third and last stage of Economic and Monetary Union. This work has been described earlier in this Report.

11.2 THE BANK'S CHANGEOVER TO THE EURO

Internal adaptations of the Bank

The Steering Committee called «The NBB in Stage III» created in 1996, is responsible for the preparation for the Bank's changeover to the euro, as an enterprise and as a future member of the European System of Central Banks.

On the proposal of this committee, the Bank opted, at the beginning of the year under review, for a «big bang» on 1st January 1999, i.e. a complete changeover to the euro at the beginning of the third stage, both as regards the Bank's own accounts and as regards transactions with the Belgian financial system and with the fiscal and social public departments. Nevertheless, interested parties who so desire will be able to continue receiving information in

Belgian francs during the transition period. Furthermore, during the same period, the Bank will continue to accept and process the information provided to it in Belgian francs, on the basis of the principle of « no prohibition, no compulsion ».

With a view to the implementation of this decision and the incorporation of the Bank as an operational entity within the ESCB, euro-projects — numbering about 45 — were identified and developed, each with its own timetable and degree of priority. Especially in the field of information technology, project leaders are faced with major challenges. It will also be necessary to work out a satisfactory solution in good time for the legal aspects and for questions relating to the Bank's internal organisation and/or its communication with the outside world.

Adaptation of the Bank's Organic Law

In anticipation of Monetary Union, the statutes of the central banks must be adapted in order, on the one hand, to ensure their compatibility with the Treaty on European Union and the Statutes of the ESCB and, on the other hand, to enable the national central banks to be integrated in the ESCB.

On 24th March 1997 the Council of State issued its opinion on the draft of a new Organic Law of the Bank, described in the preceding Report (pages 171 and 172), which was subsequently laid before Parliament (Parliamentary document 1061/1-96/97 of 4th June 1997).

The draft was adopted by the Lower House on 10th July and passed on to the Senate.

11.3 BELGIUM'S TRANSITION TO THE EURO

With a view to creating a permanent structure for ensuring the consistency of the

preparatory work for the introduction of the euro in Belgium, the Government set up a General Commission for the Euro responsible for co-ordinating all aspects of Belgium's transition to the euro in both the public and the private sector. A member of the Bank's Board of Directors was called upon to act as chairman and an advisor to the Board of Directors was appointed Assistant General Commissioner. The Bank made the necessary staff and logistical resources available to the Commission.

The Commission structured its work on the basis of the four main groups which cover, respectively, the transition to the euro of public departments, the financial sector, non-financial enterprises and individuals, as well as communication. The work started in January 1997 as soon as the Commission had become operational.

The preparatory work done by the government departments and co-ordinated by the ADMI EURO group resulted in the publication in July 1997 of the « Guidelines for the transition of public departments to the euro ». In accordance with the European timetable, these guidelines relate to two separate periods: the transitional regime, which extends from 1st January 1999 to 31st December 2001, and the final regime, which will be applicable from 2002 onwards.

During the transitional period, the government departments will continue to work internally in Belgian francs, but they must be able to accept the information transmitted to them, at the choice of those required to provide it, in Belgian francs or in euros. On 1st January 2002 the public departments will change over completely to the euro and, in principle, will henceforth only accept and process information denominated in the European currency.

The preparation of the whole of the financial sector is co-ordinated by the FIN EURO group. The work has been divided among five working sub-groups, each of which is responsible for studying specific

problems (banking aspects, financial markets, money of account, notes and coins, prudential oversight and reporting). A wide range of « recommendations » have been signed by the various Belgian players in the financial sector and were published by the Commission in November 1997.

The organisation of the changeover of the non-financial enterprise sector and the individuals sector to the euro is entrusted to a specific group, ECO EURO.

The general lines of action which are to guide the transition of these two sectors will be set forth in the « Economic guidelines of the national changeover plan », which is to appear at the beginning of 1998. They are the result of wide consultation among all the sectors concerned : trade organisations, consultative bodies ... These guidelines deal, in particular, with the problems posed by the transition to the euro in inter-enterprise relations and those between enterprises and consumers, relations with public authorities, individual labour relations and the legal continuity of contracts.

The various aspects of the dissemination of information on the euro which is necessary in order to keep consumers, civil servants, enterprises and the general public informed are looked after by the COM EURO COM group. An initial information campaign was carried out by the distribution of a leaflet which was initially addressed to all civil servants and subsequent-

ly made available, on a larger scale, to the general public. A communication plan was also drawn up in order to co-ordinate the various projects according to the target group and medium used (leaflets, advertisements, television campaigns ...). Furthermore, when it holds its plenary sessions, the Commission publishes its own newsletter, two numbers of which were published in 1997.

Lastly, an important aspect of the changeover from one currency to another is that of conversion and roundings. An ad hoc working group was set up in order to identify the main problems and formulate recommendations clarifying or supplementing the European Regulation on certain provisions concerning the introduction of the euro (Council Regulation of 17th June 1997). The working group produced a number of « recommendations », which were published by the General Commission for the Euro in November 1997.

11.4 OTHER INTERNATIONAL ACTIVITIES

The Bank participated, as in the preceding years, in the work of the various sections of the Group of Ten. This work related mainly to the macroprudential implications of the development of financial markets and the security of payment systems.

II. THE MEANS EMPLOYED

1. HUMAN RESOURCES

The Bank is continuing to pursue its policy of reducing its workforce. During the past year the workforce was reduced by 61 units, on the basis of natural departures. At the end of 1997 the Bank thus had, in nominal terms, a permanent workforce numbering 2,805 members. This figure does not include young trainees or other members of staff with a temporary employment contract. In terms of full-time jobs, the real workforce amounts to 2,599 units, representing a decrease of 54 units compared with the previous year. The difference between the nominal and real workforce is chiefly attributable to part-time working (under schemes ranging from 90 to 50 p.c.), resorted to by 23 p.c. of the staff.

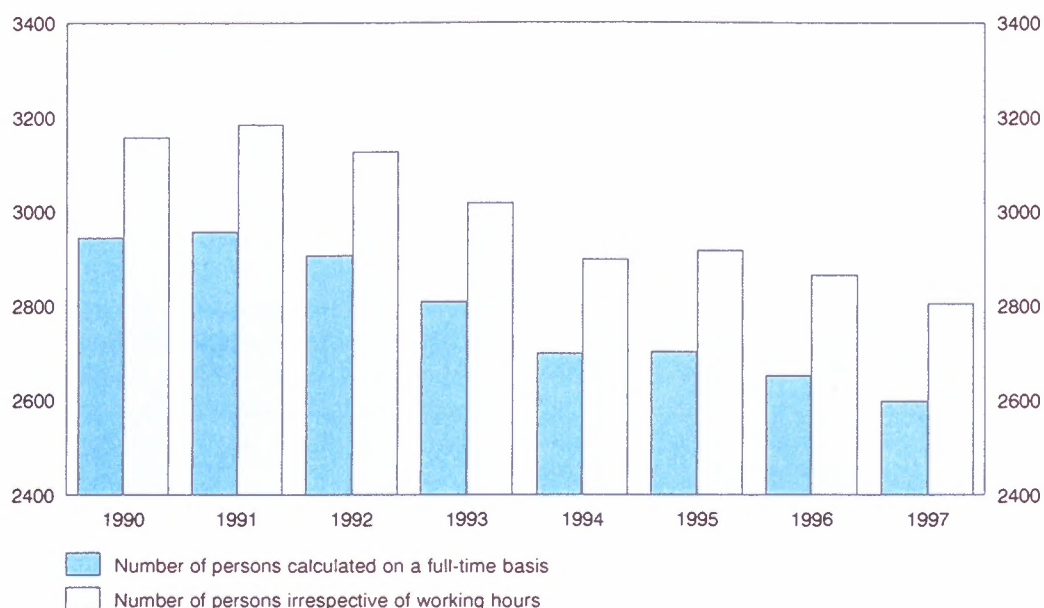
From 1992 to 1997 the staff, in nominal terms, decreased by 380 persons, de-

spite the recruitments necessitated in 1995 by the substantial extension of the Bank's statistical functions.

The Bank continued its efforts to rationalise and reorganise its tasks in a socially acceptable manner. Many low-skill functions are disappearing, while most other functions are having to be redefined. In general, the level of the required qualifications and skills is rising. The Bank is therefore making a great effort to retrain its staff on a permanent basis.

On average, each member of staff participated in 1997 in three days of training. The chief field involved is still data processing, accounting for 35 p.c. of the training courses attended. Next in order are two rapidly growing fields, namely banking and financial training courses (22 p.c.) and language courses (15 p.c.). Two thirds of the

CHART 6 — STAFF NUMBERS AT THE END OF THE YEAR



programmes are organised within the enterprise; the other training courses are entrusted to external bodies. New programmes concerning the introduction of the euro are enabling the staff to prepare for the major changes entailed by the third stage of Economic and Monetary Union.

In accordance with the law of 26th July 1996 concerning the promotion of employment and the preventive safeguarding of competitiveness, a new collective labour agreement, covering the period 1997-1998, was concluded on 27th June 1997 in the sector of public credit institutions (PCIs), to which the Bank belongs. Some of the measures and provisions of this collective labour agreement were translated, at the Bank's level, into an enterprise agreement concluded on 15th September 1997. As in the preceding years, the emphasis was placed on measures for job promotion and redistribution of work.

The Works Council met ten times during the past year. During these meetings, the employer provided the economic, financial and social information relating to the Bank, as required by law. Furthermore, the workers' representatives were regularly informed there of the major reorganisations taking place within the Bank, including those resulting from the preparation for European Monetary Union.

2. ORGANISATION AND DATA-PROCESSING WORK

The most outstanding data-processing developments related to the preparations for the conversion to the euro, the establishment of the infrastructure of the ESCB and the adaptation of programs with a view to the year 2000.

A particularly large amount of work was done in the following fields:

- the financial markets and preparation for the single monetary policy, as the Bank is responsible for ensuring, for each application, that its own internal systems fit properly into the European systems;
- the clearing system, in connection with which a consultation module will be made available to participants at the end of the first quarter of 1998;
- processing of the statistical data, some of the new developments concerning which have already been discussed above.

The changeover to the euro, and above all the setting up of the ESCB, have an important impact on the technical projects: integration of the technical solutions adopted for the EMI in the Bank's data-processing infrastructure requires major efforts, as regards interfacing of hardware and software, communication with the existing applications or the procedures to be employed for ensuring proper operational functioning of the systems installed.

Lastly, in order to meet the availability requirements laid down by the EMI for the TARGET project, a study was carried out in order to supplement the emergency plan by the establishment of an infrastructure for storing «supercritical» applications data on magnetic disk units located at one of the Bank's provincial agencies.

3. ACCOUNTING DATA-PROCESSING SYSTEM

The new accounting data-processing system acquired at the end of 1996, as part of the modernisation of the Bank's general accounting, was put into use at the end of the period under review. This reform was accompanied by a complete revision of the accounting plan, owing to the use of a multidimensional account coding which makes it possible to record accounting events in great detail.

4. AGENCY NETWORK

From 1974 to 1984, the number of the Bank's establishments outside Brussels was reduced from 43 to 23. Among the 23 remaining establishments, nine agencies

— with an average staff of about 20 each — were converted in 1993 and 1997 into representation offices. These offices, with a staff of 3 or 4 persons, provide only the services which the Bank renders to individuals, enterprises and non-financial institutions.

III. ADMINISTRATION AND SUPERVISION

The Bank learned, with deep regret, of the death, on 18th November 1997, of its Honorary Governor Robert Vandeputte.

Mr Vandeputte's remarkable abilities found expression in a long and most fascinating career in the academic and financial world.

From 1940 to 1981 he played a large part in our country's economic and financial policy. As chairman of the National Industrial Credit Company he was, from 1948 to 1971, the driving force behind the considerable development of that institution, which was entrusted with the granting of investment loans to enterprises. He was furthermore a member of the boards of directors and executive committees of many institutions. In particular, he was a regent of the Bank for seventeen years. In 1971 he accepted the post of Governor of our Institution, which he held until 1975. Indefatigable and entirely devoted to our country's service, he accepted in 1981, at the age of 73, the post of Minister of Finance, under very unfavourable circumstances.

Mr Vandeputte also published many works; even after the end of his active career, he remained a very productive author.

In the various posts which he held, his remarkable intellectual gifts, his unlimited capacity for work and his high sense of duty always found expression.

For four years he directed our Institution, displaying the mature judgement and far-sightedness for which he was well known. The Bank will remember him as a determined Governor who, with his strong leadership and independent judgement, was always mindful of the general interest and of the role which our Institution had to play in this connection.

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By a Royal Decree of 29th January 1997, the term of office of Governor Alfons Verplaetse was renewed for a period of one year starting on 19th February 1997, since on that date the Governor reached the age limit of 67 years and his term of office would therefore have expired.

The Board of Directors of the Bank for International Settlements chose Mr Verplaetse as chairman of the Board and president of the BIS, for a term of three years running from 1st July 1997.

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Director Frans Junius relinquished his post on 14th July 1997, having reached the age limit.

Mr Junius graduated in commercial and financial studies and in economics. In 1955 he entered the Research Department, in which he remained for over 22 years. During that period he was entrusted with important tasks, including the secretariat of the Government Commission for the study of the financial problems of economic expansion (better known as the de Voghel Commission) and of the Board of Public Credit Institutions. He was a member of the « Financial Markets » Committee of the Organisation for Economic Co-operation and Development and also took part in the work of several working groups and commissions set up by the national government or by the Monetary Committee of the European Economic Community.

He became Secretary of the Bank in 1978 and was appointed Director by the King in 1980.

Director Junius was responsible for, in particular, the Social Affairs Department and the Branches and Agencies Department. Since 1982 he has been a member of the Committee of the Securities Regulation Fund and of the Management Committee of the Rediscount and Guarantee Institute. He has also represented the Bank on the Board of Directors of the National Fund for Credit to Trade and Industry. He also holds posts at the « Vlaamse Economische Hogeschool » and the « Katholieke Universiteit Brussel ».

Our Institution has always been able to rely on him as a man of great integrity and extreme dedication, whose interests as an economist lay in monetary, financial and economic matters but who was also particularly concerned with social considerations and fairness.

The Boards paid tribute to his human personality, his sense of duty and his never-failing devotion to the Bank and its staff.

In gratitude for his outstanding services, Mr Junius was permitted by His Majesty the King to bear the honorary title of his post.

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In 1997 the Bank was also saddened to hear of the death of its Honorary Secretary René Magdonelle.

When he retired in 1972, Mr Magdonelle could look back on a very full career of 48 years in the Bank. In 1960 he was appointed Treasurer by the General Council and eight years later he became Secretary.

The Bank pays tribute to his memory with respect and gratitude for his great devotion in the operation of our Institution.

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Last year also saw the death of Honorary Regent Constant Boon, who was a member of the Boards from 1961 to 1976.

The Bank's bodies have lost, with him, a likeable person whose perspicacious but thoughtful judgements were greatly appreciated during his period of office.

The Boards will remember the stimulating experience of working with this courteous and able member.

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The Bank was saddened in 1997 by the death of three members of its staff : Mrs Maria De Meersman-De Boeck, Miss Nadia Lambeau and Mr Henri Otte.

The Bank will always remember them.

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The Bank wishes to express its gratitude to the members of the managerial and supervisory staff who reached the end of their careers :

Mr Jean-Victor Louis, Advisor to the Board of Directors, Mr Charles Lots, Department Advisor, Mr Jean-François Kervyn de Marcke ten Driessche, Head of Division, Mr Marcel Redant, Head of Division, and Mr Antoon Braeckman, system programmer with the rank of Assistant Advisor.

It also thanks the following members of the clerical staff whose careers came to an end during the past year :

Mrs Jeannine Van Lulle-Agneesens, Mr Léon Baarslag, Mr Achille Bartholomé, Mr Claude Bisoux, Mr Lucien Blyaert, Mr Joël Bollaert, Mr Hector Bousard, Mrs Marie-Rose Vercruysse-Buekens, Mr Michel Byloos, Mrs Annie Decancq-Claeys, Mr Roger Cornelis, Mr André Delbruyère, Mrs Christiane Borceux-De Neve, Mr Marc De Nutte, Mr August De Smet, Mrs Suzanne Plancke-Desmont, Mr Elien De Turck, Miss Mariette De Vleminck, Mr Karel Dotremont, Mr Jean Droogmans, Mr Louis Dublancq, Mrs Marie-Louise Dubois, Mr Claude Duroy, Mr Albert Foubert, Mr Pierre Gabriels, Mr Jacques Goffin, Mr Antoine Hesbois, Mr Willy Holderbeke, Mr Urbain Jans, Mr Hugo Janssens, Mr Michel Lambotte, Mr Emile Lejoly, Mr Jacques Matagne, Mr Antoon Mewis, Mr Claude Namurois, Mr Ivo Nix, Mr Joseph Pêcheur, Mr René Pirard, Mrs Monika Triest-Pletinckx, Mrs Emmanuelle Fiévet-Ponnet, Mrs Viviane Schraûwen, Mr André Seeuws, Mr Ferdinand Smeulders, Mrs Denise Timmermans-Souffriau, Mr Guido Steels, Mr Jozef Stessens, Mrs Georgette Wauters-Stoefs, Mr Franz Thiry, Mr André Van Breusegem, Mrs Marie-José De Boelpaep-Van Den Bergh, Mr Marcel Vandeplass, Mr Paul Van Kerckhove, Mrs Nicole Stiasteny-Van Rillaer, Mr Paul Vercauteren, Mr Guido Verhoeve, Mrs Gabriella Timmermans-Vermeersch.

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In accordance with Article 83 of the Statutes, the ordinary general meeting of shareholders was held on the last Monday of February, i.e. 24th February 1997.

The report on the activities of the financial year 1996 had been sent, within the period laid down by Article 41 of the Statutes, to the holders of shares which were the subject of a nominal entry or which had been deposited at the Bank.

The two largest shareholders present who did not form part of the Bank's administration were appointed scrutineers. They had the duty of checking whether the provisions of the Statutes concerning the publication of and participation in the meeting had been complied with. They established that this was the case.

As the first point on the agenda, the Governor reported on the operations of the financial year 1996 and went on to answer the questions put to him by the shareholders. In accordance with the legal provisions and regulations, the Bank's Works Council examined the annual information on Wednesday 19th February 1997. The Governor read out the report on this meeting to the general meeting.

The Governor then announced the names of the candidates for the offices of regent and censor which had expired or would become vacant at the end of the meeting. Lastly, he called upon the shareholders to vote.

The periods of office of Mr Willy Peirens, regent, presented by the most representative workers' organisations, and of regents Tony Vandeputte and Noël Devisch, presented by the most representative organisations of industry and agriculture, respectively, were renewed.

Mr Christian Dumolin, presented by the Minister of Finance, was elected regent, to succeed Mr Rik Van Aerschot, who was not eligible for re-election.

The meeting also renewed the term of office of Messrs Jacques Forest and Philippe Grulois, censors. It elected Mr Dominique Collinet as censor to succeed Mr Roger Mené, whose term of office could not be renewed.

The terms of office of all the officers elected will expire after the ordinary general meeting in February 2000.

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The Governor paid tribute to regent Van Aerschot and censor Mené for their valuable collaboration for 15 and 14 years respectively, and especially for their ability and great experience — each in his own field. As a token of esteem and gratitude, the meeting conferred upon them the honorary title of their posts.

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Baron Jacques Delruelle, regent, and Mr Hubert Detremmerie, chairman of the Board of Censors, reached the age limit of 67 in 1997. In accordance with Article 56 of the Statutes, the Bank asked the Minister of Finance to allow them to complete their current terms of office. The Minister granted this request. The terms of office in question will therefore expire at the end of the normal periods : that is, in February 1998 for regent Delruelle and one year later for censor Detremmerie.

ADMINISTRATION AND SUPERVISION

Governor : Mr Alfons VERPLAETSE.

Vice-Governor : Mr William FRAEYS.

Directors¹ : Messrs Jean-Pierre PAUWELS,
Guy QUADEN,
Jean-Jacques REY,
Robert REYNDERS.

Regents :

Messrs Roger RAMAEKERS,
Willy PEIRENS,
Tony VANDEPUTTE,
Philippe WILMES,
Eddy WYMEERSCH,
Noël DEVISCH,
François MARTOU,
Baron DELRUELLE,
Michel NOLLET,
Christian DUMOLIN².

Censors :

Messrs Hubert DETREMMERIE, chairman,
Christian D'HOOGH, secretary³,
Maurice CHARLOTEAUX,
Jacques FOREST,
Philippe GRULOIS,
Herman VERWILST,
Gérald FRERE,
Chevalier Paul BUYSSE,
Petrus THYS,
Baron COLLINET².

Secretary : Mrs Marcia DE WACHTER.

Treasurer : Mr Serge BERTHOLOME.

Government Commissioner : Mr Grégoire BROUHNS.

ADVISORS TO THE BOARD OF DIRECTORS

Messrs Jan MICHIELSEN,
Henri BARBE.

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AUDITORS⁴

Mr Pierre BERGER,
Mrs Danielle JACOBS.

¹ Director Junius relinquished his post on 14th July 1997.

² Mr Dumolin and Baron Collinet were elected by the ordinary general meeting of 24th February 1997 to replace, respectively, Messrs Rik Van Aerschot and Roger Mené, who were no longer eligible for re-election.

³ Elected as secretary by the Board of Censors at its meeting on 26th March 1997 to replace Mr Mené.

⁴ Appointed by the extraordinary general meeting of 20th November 1995 to assist the Works Council.

DEPARTMENTS AND SERVICES

Social Affairs Department — Mr J. LEEMANS, Assistant Director,
Personnel manager.

Wages and Social Affairs Administration

Head Mr A. REITER, Inspector-General.

Training

Head Mr J.-L. LION, Inspector-General,

Advisor Miss S. ZONIOS,

Head of Division Mr L. LAGAE.

Personnel Policy

Head Mr R. VAN KEYMEULEN, Inspector-General,

Heads of Division Messrs R. THIRION, M. DRION, G. VAN CAMP.

Medical Service

Head Doctor Mr A. DE LANDTSHEER,

Doctors Messrs V. DONS, C. VAN LAETHEM.

Data Exchange Department — Mr P. TELLIER, Assistant Director.

Central Balance Sheet Office

Head Mr A. LENAERT, Head of Division,

Advisor Mr C. RUBENS,

Heads of Division Mrs E. DE GROOTE,
Mrs C. SAPART-BUYDENS.

Central Credit Offices

Head Mr R. TROGH, Head of Division,

Head of Division Mrs G. DALL'AGLIO-TIMMERMANS.

Cashless Payments

Head Mr A. VAES, Head of Division,

Heads of Division Messrs V. DECONINCK, B. BOURTEMBOURG.

Accounting and Budgetary Control Department — Mr C. DEKEYSER, Assistant Director.

Accounting

Head Mr J. TAVERNIER, Head of Division,

Heads of Division Messrs M. HINCK, L. HENRY.

Budgetary Control

Head Mr J. VANDEUREN, Inspector-General,

Head of Division Mr R. VAN KEYMEULEN.

Equipment and General Services Department — Mr K. VANDENEEDE, Assistant Director.

Equipment and Technical Services

Head Mr P. LAUWERS, Inspector-General,

Architects Messrs J.-C. NAVEZ, J.-M. DE VOS,

Heads of Division Messrs H. DE TROYER, D. VANDEPUTTE.

General Services

Head	Mr A. KOZYNS, Inspector-General,
Head of Division	Mr J.-M. BRAET.

Research Department — Mr J. SMETS, Assistant Director.

Deputy Head of Department	Mr R. BEUTELS, Inspector-General.
Special Assignments	Mr W. VERTONGEN, Inspector-General.
Department Advisors	Mr A. NYSENS, Mrs A.-M. JOURDE-PEETERS, Messrs J.-J. VANHAELEN, E. JACOBS, J. CLAEYS, Mrs F. JACOBS-DONKERS, Messrs V. PERILLEUX, M. DOMBRECHT, T. TIMMERMANS,
Economists	Messrs M. MARECHAL, D. GOSSET, P. DELHEZ.
Documentation	
Head	Mr G. DE RIDDER, Inspector-General,
Head of Division	Mrs G. VAN QUATHEN-VAN HOVE.

Printing Department — Mr M. SALADE, Assistant Director.

Administrative Service	
Head	Mr Y. TIMMERMANS, Head of Division.
Prepress and Studies	
Head	Mr J.-C. GILLES, Head of Division.
Production and Engineering	
Head	Mr G. PONNET, Head of Division.

Financial Markets Department — Mr J. MICHELSEN, Advisor to the Board of Directors.

Department Advisor	Mr H. BUSSERS,
Head of Division	Mr Y. PIRLET.
Back Office	
Head	Mr F. DEPUYDT, Inspector-General,
Senior Analyst	Mrs S. LANCKSWEERT-MASKENS,
Head of Division	Mr F. WITHOFS.
Government Cashier	
Head	Mr H. SMISSAERT, Head of Division,
Heads of Division	Messrs R. VAN HEMELRIJCK, M. RUBENS.
Security Accounts	
Head	Mr W. STEPPE, Inspector-General,
Heads of Division	Messrs R. ROTHANS, L. EICHER.
Front Office	
Head	Mrs A. VAN DEN BERGE, Head of Division,
Advisors	Messrs N. VANDECAN, E. LAVIGNE,
Head of Division	Mr E. DE KOKER,
Senior Systems Engineer	Mrs M. GROGNARD-HUART.

Planning, Organisation and EDP Department — Mr H. BARBE, Advisor to the Board of Directors.

EDP Planning Unit	
Senior Analyst	Mrs A.-M. LEJEUNE.
Data Security Management	
Inspector-General	Mr A. HUET.
Electronic Centre	
Head	Mr L. DUFRESNE, Inspector-General,
Senior Systems Engineers	Messrs M. CHARLIER, L. ESPAGNET.
EDP Projects Development	
Head	Mr J.-P. HOYOS, Inspector-General,
Inspectors-General	Messrs P. LAUWERS, B. GROETEMBRIL,
Senior Analysts	Mrs H. VANDOORNE-VAN HECKE, Messrs J. FRANCOIS, J.-M. PLISNIER, E. DE SMET, M. DUCHATEAU,
Head of Division	Mr P. SAPART,
Senior Systems Engineer	Mr P. MARECHAL.
EDP Systems Infrastructure	
Head	Mr J. MOERMAN, Inspector-General,
Inspector-General	Mr G. VANGHELUWE,
Senior Systems Engineers	Messrs G. DUMAY, U. MOMMEN.
Organisation and Management Supervision	
Head	Mr L. JANSSENS, Head of Division,
Heads of Division	Messrs H. DEVRIESE, P. DE PICKER.

General Secretariat Department — Mr W. PLUYM, Assistant Director.

Inspector-General	Mr J. MAKART.
Secretariat	
Head	Mr M. VAN CAMPEN, Head of Division,
Head of Division	Mr J. CALLEBAUT.
Secretariat of the Board of Directors	
Head	Mr L. AELES, Head of Division.

General Statistics Department — Mr B. MEGANCK, Assistant Director.

Inspector-General	Mr G. POULLET.
Data Bank Unit	
Inspector-General	Mr A. WOUTERS,
Advisor	Mr J. PALATE.
Balance of Payments	
Head	Mr G. MELIS, Inspector-General,
Heads of Division	Messrs M. EECKHOUT, P. SARLET, R. DE BOECK, P. D'HAVE, B. VEREERTBRUGGHEN.

Foreign Trade Statistics

Head	Mr J. DAENEN, Head of Division,
Inspector-General	Mr D. VERMEIREN.

Financial and Economic Statistics

Head	Mr R. ACX, Head of Division,
Advisor	Mr H. SAUVENIERE,
Heads of Division	Messrs J. WIELEMANS, G. VAN GASTEL.

Services directly subordinate to a member of the Board of Directors

Internal Audit

Head	Mr J. HELFGOTT, Inspector-General,
Inspectors	Mrs J. MAESSEN-SIMAR, Messrs M. MATTENS, L. BODRANGHIEN.

Euro Unit

Heads of Division	Messrs J. DELPEREE, P. QUINTIN.
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Collections and Staff Library

Head	Miss C. LOGIE, Inspector-General,
Head of Division	Mr Y. RANDAXHE.

International Co-operation

Head	Mr P. VAN DER HAEGEN, Inspector-General,
Advisors	Mrs G. DURAY-BIRON, Messrs D. SERVAIS, J. MONT, P. LEFEVRE, D. OOMS, J. PISSENS.

Legal Service

Head	Mr J.-P. BRISE, Chief Advisor,
Advisors	Mr J. DE WOLF, Mrs A. de KERCHOVE d'OUSSELGHEM-del MARMOL, Mr D. DEVOS.

Services subordinate to the Treasurer

Head of Division	Mr E. COLMAN.
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Central Cash Office

Chief Cashier	Mr M. VAN BAELEN, Inspector-General,
Head of Division	Mr G. PIROT.

Safety, Hygiene and Embellishment of Working Environment

Head	Mr D. DENEE, Head of Division.
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Security Supervision

Head	Mr J.-P. DE JONGE, Head of Division.
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Branches and Agencies Department — Mr W. VAN DER PERRE, Assistant Director.

Heads of Division	Messrs P. BOBYR, P. BISSOT.
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Branches

Antwerpen

Administrator	Mr L. VAN DER VEKEN,
Inspector-General	Mr F. SERCKX,
Heads of Division	Messrs F. VAN NIEUWENHOVE, D. VANDEN BROECK, J. LIBENS.

Liège	
Administrator	Mr M. SIMAL,
Head of Division	Mrs J. SOUVEREYNS-ROUMA.
Luxembourg	
Administrator	Mr E. de LHONEUX,
Advisor	Mrs A. BILLON-JACQUEMART ¹ .

Agencies

Aalst	
Agent	Mr A. VERHELST.
Arlon	
Agent	Mrs J. DAUCHOT-DE BEER.
Brugge	
Agent	Mr P. TACK,
Head of Division	Mr P. BOGAERT.
Charleroi	
Agent	Mr Y. LEBLANC.
Kortrijk	
Agent	Mr L. MUYLAERT,
Head of Division	Mr J. PANNEEL.
Gent	
Agent	Mr J. VICTOR,
Head of Division	Mr P. VAN GYSEGEM.
Hasselt	
Agent	Mr T. DE ROOVER,
Head of Division	Mr R. MAES.
Leuven	
Agent	Mr L. GHEKIERE,
Head of Division	Mr M. JOOS.
Mons	
Agent	Mr R. COLSON.
Namur	
Acting Manager	Mr R. HAENECOUR.
Turnhout	
Agent	Mr M. DE GEYTER.

¹ Belongs to the staff of the Luxembourg Monetary Institute.

Representation Offices

Mechelen Manager	Mr G. MINNAERT.
Malmédy Manager	Mr J.-Y. BOULANGER.
Marche-en-Famenne Manager	Mr P. DENEUMOSTIER.
Oostende Manager	Mr J. BUSSCHE.
Roeselare Manager	Mr J. VANDERGUNST.
Sint-Niklaas Manager	Mr L. DE SAVEUR.
Tournai Manager	Mr J.-L. MALVOISIN.
Verviers Manager	Mr A. SMETS.
Wavre Manager	Mrs A. PEPIN-LEDENT.

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Office of Mr Di Rupo, Vice-Prime Minister and Minister for the Economy and Telecommunications,
Mrs F. LEPOIVRE-MASAI, Inspector-General.

Office of Mr Van Rompuy, Vice-Prime Minister and Minister for the Budget,
Mr H. FAMEREE, Department Advisor.

Office of Mr Maystadt, Vice-Prime Minister and Minister for Finance and Foreign Trade,
Mr G. TEMMERMAN, Head of Division.

Belgian Permanent Representation with the European Union,
Mr P. VIGNERON, Inspector-General.

Belgian Permanent Representation with the Organisation for Economic Co-operation and Development,
Paris,
Mr D. SLAATS, Advisor.

Office of the Belgian Executive Director with the International Monetary Fund, Washington,
Mr D. DACO, Advisor.

On mission on behalf of the International Monetary Fund at the Central Bank of Haiti,
Mr J.-C. PAUWELS, Inspector-General.

On mission at the National Bank of Cambodia,
Mr R. BEERENS, Head of Division.

Annual Accounts

BALANCE SHEET AS AT 31st DECEMBER 1997 (after distribution of profit)**ASSETS***(Thousands of francs)*

	1997	1996
Gold	164,497,473	181,708,771
Foreign currencies	461,995,428	411,377,683
Special Drawing Rights (SDRs)	18,067,367	15,946,013
Participation in the IMF	43,626,077	34,390,366
Loans to the IMF	—	—
Deposits with the IMF within the framework of the ESAF	8,966,574	8,283,942
Ecus	93,116,144	86,466,359
EMI : Very-short- and short-term financing	—	—
EC : Medium-term financial assistance	—	—
International agreements	3,350,381	3,194,130
Advances against pledged security	18,618,173	20,856,644
Commercial bills	2,827,772	2,853,483
Securities purchased in the market	25,890,121	24,911,996
Claims due to other interventions in the money market	129,025,000	127,733,098
Coin	517,153	418,454
Statutory investments (Art. 21)	50,817,726	48,815,407
Premises, equipment and furniture	12,627,299	12,733,138
Other assets	593,749	1,392,601
Regularisation accounts	7,600,339	9,783,734
TOTAL ASSETS	1,042,136,776	990,865,819

LIABILITIES

(Thousands of francs)

	1997	1996
Notes in circulation	478,637,986	464,675,449
Current accounts in francs	3,191,574	4,814,070
Deposit of the Belgian State	104,314	653,444
Deposit of the Luxembourg State	3,868	3,751
The Bank's certificates	230,000,000	230,000,000
Liabilities due to interventions in the money market	1,548,935	5,132,176
Current accounts in foreign currencies	—	7,356
Counterpart of allocations of SDRs	24,172,190	22,331,943
EMI : Very-short- and short-term financing	—	—
Unavailable reserve of capital gains on gold	—	1,133,583
Other liabilities	16,109,125	7,395,401
Regularisation accounts	2,020,919	1,511,451
Valuation differences on gold and foreign exchange	219,686,889	190,515,014
Provision for premises	1,248,981	1,305,981
Provision for contingencies	11,950,000	10,350,000
Capital	400,000	400,000
Reserve fund :	53,061,995	50,636,200
Statutory reserve	3,463,737	3,322,942
Extraordinary reserve	37,621,631	35,200,631
Account for depreciation of premises, equipment and furniture	11,976,627	12,112,627
TOTAL LIABILITIES	1,042,136,776	990,865,819

PROFIT AND LOSS ACCOUNT AS AT 31st DECEMBER 1997

(Thousands of francs)

	1997	1996
INCOME		
Proceeds of net interest-bearing assets	24,199,887	28,767,764
<i>Interest proceeds</i>	33,029,024	30,032,195
<i>Interest charges</i>	- 8,829,137	- 1,264,431
Proceeds of statutory investments	3,854,770	4,001,405
Commission	171,797	170,469
Amounts recovered from third parties	2,007,089	1,768,115
Drawings on provisions	57,000	42,050
Other proceeds	313,667	380,435
	30,604,210	35,130,238
EXPENSES		
State share	11,862,483	17,456,688
General expenditure :	8,646,463	8,464,858
<i>Remuneration and social costs</i>	6,939,561	6,884,976
<i>Other expenses</i>	1,706,902	1,579,882
Exceptional costs	—	1,554,788
Depreciation of premises, equipment and furniture	808,360	664,093
Provision for premises	—	20,000
Provision for contingencies	1,600,000	100,000
Taxes and dues	3,835,207	3,137,493
Net profit for distribution	3,851,697	3,732,318
	30,604,210	35,130,238

DISTRIBUTION OF PROFIT

(Thousands of francs)

	1997	1996
Profit to be appropriated	3,851,697	3,732,318
The profit is distributed as follows :		
Appropriation to the extraordinary reserve	2,421,000	2,330,000
Distribution of the balance in accordance with Article 38 of the Statutes :		
1. To the shareholders a first dividend of 6 % of the nominal capital	24,000	24,000
2. Of the amount in excess of this :		
a) 10 % to the statutory reserve	140,670	137,832
b) 8 % to the staff	112,536	110,265
3. Of the amount in excess of this :		
a) to the State, one fifth	230,698	226,044
b) to the shareholders, a second dividend	922,668	904,000
c) the balance to the statutory reserve	125	177

As the distribution of the profit was approved by the General Council on 28th January 1998, coupon No. 196 will be payable with effect from 1st March 1998 in the following manner :

	Gross amount per share before retention of the withholding tax	25 % withholding tax	Net amount
On the 400,000 shares	Fr. 2,366.67	Fr. 591.67	Fr. 1,775

OFF-BALANCE-SHEET ITEMS AS AT 31st DECEMBER 1997*(Thousands of francs)*

	1997	1996
Liabilities which could lead to a credit risk		
Firm undertakings to provide funds	59,893,668	69,188,936
Valuables and claims entrusted to the Institution		
For encashment	8,124	4,568
Assets managed on behalf of the Treasury	9,037,127	9,738,908
Assets managed on behalf of the EMI	89,056,032	85,525,398
Safe custody deposits	9,562,331,388	9,113,341,578

Explanatory notes to the annual accounts

BALANCE SHEET*(Thousands of francs)***ASSETS****GOLD**

Gold is valued at a price derived from market quotations in accordance with the method used by the EMI for swaps of gold against ecus. The price applied is either the average of the prices, translated into ecus, established at the two daily fixings of the London Stock Exchange during the second half of the year or the average of the two fixings on the penultimate working day of the year, if the last-mentioned average is lower than the former. The translation of the ecus into francs is carried out on the basis of the exchange rate for the ecu on the last working day of the year, as published by the European Commission.

The price of gold was thus fixed at Fr. 345,216.2083 per fine kilogram on 31st December 1997, against Fr. 381,336.0283 on 31st December 1996. The difference between the book value and the purchase value of gold is shown on the liabilities side of the balance sheet under the heading « Valuation differences on gold and foreign exchange ».

As at 31st December 1997 the gold sold spot to and repurchased forward from the EMI against ecus, but the management of which is still entrusted to the Bank, represents the equivalent of Fr. 41.1 billion.

Part of the gold holdings has been placed in the market, with full observance of the safety criterion.

FOREIGN CURRENCIES

Holdings in foreign currencies appear in the balance sheet at their equivalent in francs calculated at the indicative market rates on the last working day of the year as published by the Bank. The translation differences, i.e., respectively, the differences between the purchase price of these assets and their value at the above-mentioned rates, are recorded under the liabilities heading « Valuation differences on gold and foreign exchange ».

Compared with the previous year, the foreign currency holdings increased, on balance, by Fr. 50.6 billion. This rise is chiefly due to the collection of the proceeds of investments abroad. Furthermore, the net sales of foreign currencies to central banks and international institutions as well as the net sales on the foreign exchange market were more than counterbalanced by the purchase of foreign currencies against Belgian francs due to the non-renewal of forward claims in foreign currencies concluded previously with resident credit institutions. The outstanding amount of these forward claims, valued at market prices, was Fr. 230.9 billion on 31st December 1997, whereas it had totalled Fr. 348.7 billion at the end of the previous year.

Furthermore, the Bank, in implementation of the Royal Decree of 18th October 1996, made repayments of the government debt in foreign currencies by means of the balance remaining on 31st December 1996 of the capital gains realised up till 1st July 1996 in connection with the arbitrages of assets in gold against other external reserve elements.

On the balance sheet date the holdings consisted almost exclusively of currencies covered by the guarantee of the Belgian State.

The holdings entered in the name of the Bank abroad comprise, in addition to its own holdings as mentioned above, the assets managed on behalf of the Belgian State and the EMI. While the state receives the income from its assets, the income from the US dollars placed on behalf of the EMI is attributed to the Bank.

The holdings in foreign currencies are invested in time deposits, in easily negotiable foreign securities and in the form of repurchase agreements, account being taken of the criteria of safety, liquidity and yield.

On purchase, securities in foreign currencies are recorded at purchase price. A portion of the difference between the latter and the maturity value is, each year, in the profit and loss account, added to or subtracted from the interest produced by the securities, pro rata temporis of the residual life of the securities and by a linear method. In the balance sheet the securities are valued at their purchase price plus or minus the portion of that difference which has been imputed in the profit and loss account since the purchase of the securities.

SPECIAL DRAWING RIGHTS (SDRs)

Special Drawing Rights are reserve assets created ex nihilo by the IMF and allocated by it to its members. SDRs are used in transactions between official monetary authorities. The item undergoes changes as a result of the receipt and payment of interest and owing to transactions with other countries and with the Fund. The last allocation was made in 1981. In accordance with Article 6 of Decree-Law No. 5 of 1st May 1944 concerning the conditions of purchase and sale of gold and foreign currencies, as last amended by a law of 24th March 1978, the Bank shows Belgium's holdings of SDRs in its books as its own assets.

SDRs are valued in the balance sheet at the market rate as published by the IMF on the last working day of the year. On the balance sheet date this rate was Fr. 49.8143 for one SDR (Fr. 46.0219 at the end of 1996). Translation differences in respect of assets and liabilities expressed in SDRs are recorded under the heading « Valuation differences on gold and foreign exchange ».

The holding of SDRs in the Special Drawing Rights account reached SDR 362.7 million on 31st December 1997, against SDR 346.5 million a year earlier. The net use of the holding of SDRs on the balance sheet amounted to SDR 122.5 million.

PARTICIPATION IN THE IMF

The amount shown against this heading represents the equivalent in francs of Belgium's reserve tranche, that is, the rights possessed by the Belgian Government in its capacity

as a member of the IMF, which the Bank shows as its own assets by virtue of Article 6 of the aforementioned Decree-Law No. 5 of 1st May 1944. These rights correspond to the difference between Belgium's quota in the IMF, namely SDR 3,102.3 million, and the Fund's holdings of Belgian francs. They can be sold to the IMF at any time in order to obtain convertible currencies for financing a balance of payments deficit.

The change in these rights may also result from transactions carried out in Belgian francs, from the granting of credit by the IMF in favour of member countries faced with the same type of deficit or from the repayment of such credits by these countries, as well as from transactions in Belgian francs carried out by the Fund for its own account.

The reserve tranche is translated into francs at the same exchange rate as that used for holdings of SDRs. It amounted on the balance sheet date to SDR 875.8 million, against SDR 747.3 million a year earlier.

LOANS TO THE IMF

The purpose of this item is to record any claims held by the Bank on the Fund as a result of any loans granted to it on its own account, and also to record the Belgian State's claims on the IMF in the event of implementation of the General Arrangements to Borrow — by which the member countries of the Group of Ten undertook to provide the Fund with resources in the cases specified by these agreements. The last-mentioned claims would be shown in the Bank's accounts as its own assets in accordance with Article 6 of the aforementioned Decree-Law No. 5 of 1st May 1944. On the balance sheet date, as was the case a year earlier, there were no loans to the IMF.

DEPOSIT WITH THE IMF WITHIN THE FRAMEWORK OF THE ESAF

The amount shown under this heading is the equivalent of the SDRs which the Bank has paid into a special deposit account with the IMF in respect of Belgium's participation in the Enhanced Structural Adjustment Facility (ESAF). The purpose of this credit facility is to support the efforts of low-income developing countries which undertake macroeconomic and structural adjustment programmes.

The deposits are valued at the same exchange rate as that applied to holdings of SDRs. On the balance sheet date they amounted to SDR 180 million.

ECUS

These are the ecus which the Bank received in connection with the swap transactions whereby it contributed to the EMI 20 p.c. of its gold and of its gross holdings in US dollars, plus or minus the ecus purchased or transferred in respect of interest on the net position in ecus or in connection with transactions with other central banks of the European Union.

The ecus are valued on the balance sheet date at the market exchange rate of the last working day of the year, as published by the European Commission, namely Fr. 40.7675 for 1 ecu on 31st December 1997 against Fr. 40.1021 a year earlier.

Compared with the previous year, the holding of ecus increased by ECU 127.9 million, to ECU 2,284.1 million on 31st December 1997. This rise is due to the increase in the quantity of ecus made available to the Bank by the EMI, on the renewal of the swaps transactions, following the rise in the exchange rate for the US dollar, and to the Bank's larger contribution in dollars due to an increase in its reserves in that currency. This upward effect was partly counterbalanced by that due to the fall in the price of gold which is applied in these swaps.

On the balance sheet date, the Bank does not have a net position in ecus.

EMI : VERY-SHORT- AND SHORT-TERM FINANCING

The figures shown under this heading represent, where appropriate, the Bank's claim, expressed in ecus, on the EMI in respect of the very-short-term financing of interventions carried out either at the exchange rates for compulsory intervention in the foreign exchange mechanism of the European Monetary System or within the framework of special agreements concluded between participants in the EMS.

This item would also record any claims which the Bank may hold in respect of the short-term monetary support among the central banks of the Member States of the European Union.

INTERNATIONAL AGREEMENTS

This item is reserved for recording claims in francs on non-EU-countries with which Belgium has concluded payment agreements. The balances appearing under it represent the outstanding amount of the advances granted under these agreements, the execution of which is governed by the agreement of 15th June 1972 between the State and the Bank.

ADVANCES AGAINST PLEDGED SECURITY

The following are included under this heading :

	31-12-1997	31-12-1996
— Fixed-term advances against the pledging of public securities granted through the periodical allocation of credits by tender	14,625,000	19,775,000
— Daily closing credits granted to the financial intermediaries in the form of current account advances	3,993,173	1,081,644
— Other current account advances	—	—
Total	18,618,173	20,856,644

COMMERCIAL BILLS

The item consists of :

	31-12-1997	31-12-1996
— Commercial bills purchased under repurchase agreements in connection with the periodical granting of credits by tender	375,140	224,956
— Commercial bills mobilised at the official discount rate and counted against the credit institutions' individual mobilisation ceilings	2,452,632	2,628,527
Total	2,827,772	2,853,483

SECURITIES PURCHASED IN THE MARKET

This item records the Treasury certificates, bonds and other securities traded in the money or capital markets which the Bank acquired directly in these markets in pursuit of its open-market policy.

When purchased, the securities are recorded in the accounts at the purchase price. They are valued on the basis of their actuarial yield, calculated on purchase, account being taken of their redemption value at maturity. The difference (premium or discount) between the purchase price and the redemption value is carried to the profit and loss account pro rata temporis of the residual life of the securities as a constituent part of the interest produced by these securities. This difference is carried to the profit and loss account on an actuarial basis, account being taken of the real yield rate on purchase. These securities are recorded in the balance sheet at their purchase price plus or minus the portion of the said difference carried to the profit and loss account.

On the balance sheet date the Bank's securities portfolio contained only Treasury certificates. The market value of the portfolio was Fr. 25.9 billion.

CLAIMS DUE TO OTHER INTERVENTIONS IN THE MONEY MARKET

These are the claims which the Bank holds as a result of repurchase agreements in respect of public securities concluded within the framework of its open-market interventions or as a result of loans on the interbank market.

The amounts recorded in respect of the claims are those of the funds made available to the financial intermediaries.

On the balance sheet date, repurchase agreements amounted to Fr. 129 billion. On the same date there were no loans on the interbank market.

COINS

Coins are put into circulation by the Bank on behalf of the Treasury. Under an agreement concluded between the Minister of Finance and the Bank, the ceiling on the Bank's holding of coins is fixed at 10 p.c. of the coins in circulation on 31st December of the preceding year; it amounted to Fr. 2,191 million for the year 1997.

The terms and conditions of repayment in the event of overstepping of the contractual limit are governed by special provisions; these provisions did not have to be applied in 1997.

STATUTORY INVESTMENTS (ART. 21)

The securities which the Bank holds, under Article 21 of its Statutes, as the counterpart of its capital, reserves and depreciation accounts, are recorded under this heading. They consist of bills and securities referred to in Article 17, 1 of the Statutes and, subject to permission from the Minister of Finance, of securities representing the capital of financial institutions governed by special legal provisions or placed under the guarantee or supervision of the State, of shares of the BIS in Basle, and of all other securities necessary or useful for the performance of the Bank's functions.

On purchase, public securities are recorded in the accounts at their purchase price; they are recorded on the basis of their actuarial yield, calculated on purchase, account being taken of their redemption value at maturity. The difference (premium or discount) between the purchase price and the redemption value is carried to the profit and loss account pro rata temporis of the residual life of the securities as a constituent part of the interest produced by these securities. This difference is carried to the profit and loss account on an actuarial basis, account being taken of the real yield rate on purchase. These securities are recorded in the balance sheet at their purchase price plus or minus the portion of the said difference carried to the profit and loss account.

The shares are recorded in the balance sheet at their purchase price. The shares of the BIS are valued in francs on the basis of the exchange rate on the day of their purchase.

PREMISES, EQUIPMENT AND FURNITURE

Land, buildings, plant and tools, furniture and vehicles are shown in the accounts at their purchase value.

In 1997 the Bank's capital investments totalled Fr. 838.9 million, including ancillary costs. With the exception of land, they are written off in full in the year of purchase. An amount corresponding to the book value of the assets which were sold or whose use was discontinued was deducted from the « Premises, equipment and furniture » account.

OTHER ASSETS

The amounts recorded under this heading are commercial and other claims, stocks and work in progress in the Printing Works.

REGULARISATION ACCOUNTS

This item records expenses to be carried forward, accrued income and the other regularisation accounts.

BALANCE SHEET*(Thousands of francs)***LIABILITIES****NOTES IN CIRCULATION**

The amount of notes in circulation, expressed as a daily average, amounted to Fr. 465.6 billion in 1997, against Fr. 441.7 billion in 1996, corresponding to an increase of 5.4 p.c.

DEPOSIT OF THE BELGIAN STATE

By virtue of an agreement dated 17th June 1993 between the Belgian State and the Bank, the state deposit bears interest on the part which does not exceed Fr. 15 billion.

DEPOSIT OF THE LUXEMBOURG STATE

By virtue of an agreement dated 24th June 1993 between the Luxembourg State and the Bank, the deposit of the Luxembourg State bears interest on the part which does not exceed Fr. 507 million.

THE BANK'S CERTIFICATES

This heading records, at their nominal value, the dematerialised certificates of deposit which were issued by the Bank in 1996 under an agreement concluded with the primary dealers. These securities are recorded in the Bank's securities clearing system.

Two series of certificates, each for Fr. 115 billion, were issued with a variable interest rate, subject to revision every two and four months respectively. The securities will be redeemable at par on 31st December 1998.

LIABILITIES DUE TO INTERVENTIONS IN THE MONEY MARKET

The amounts recorded under this heading are commitments to repurchase public or private securities sold under so-called « reverse repurchase agreements », loans contracted by the Bank on the interbank market and daily closing surpluses of the financial intermediaries placed with the Bank via the RGI. The latter are the only amounts appearing under this heading on the balance sheet date.

COUNTERPART OF ALLOCATIONS OF SDRs

The amount represents the equivalent of the SDRs, recorded at the same rate as holdings of SDRs, which would have to be returned to the IMF if SDRs were cancelled, if the IMF's SDR Department were abolished or if Belgium decided to withdraw from it. This liability, of indeterminate duration, amounts to SDR 485.2 million.

UNAVAILABLE RESERVE OF CAPITAL GAINS ON GOLD

This item records the capital gains obtained by the Bank in connection with arbitrage transactions in gold against other external reserve elements. Under Article 20bis of the Organic Law of the Bank, these realised gains are recorded in a special unavailable reserve account; they are exempt from all taxes. In the event of liquidation of the Bank, the balance of this special account would be assigned to the State.

The Royal Decree of 18th October 1996 containing measures concerning the Bank in implementation of Articles 2 and 3, § 1, 1 and 6, of the law of 26th July 1996 for the purpose of fulfilling the budgetary conditions of Belgium's participation in the European Economic and Monetary Union makes a derogation from Article 20bis of the aforementioned Organic Law by stipulating that the amount as at 1st July 1996 of the said capital gains is to be paid to the Belgian State without prejudice to the rights which are recognised as being possessed by the Luxembourg State by virtue of the monetary association between the two States.

In accordance with the above-mentioned Royal Decree, the balance of the item remaining on 31st December 1996 was allocated in 1997 for the redemption of public debt loans in foreign currencies.

OTHER LIABILITIES

The amounts recorded under this heading are debts in respect of taxes and social contributions, and also the sums payable in respect of distribution of the profit in accordance with Article 38 of the Bank's Statutes. This same item includes the provisions formed in 1996 by the State with a view to the implementation of its guarantee connected with the execution by the Bank of the payment agreements concluded with foreign States.

REGULARISATION ACCOUNTS

This item comprises the amounts to be charged in respect of interest and tax payable and also the receipts to be carried forward.

VALUATION DIFFERENCES ON GOLD AND FOREIGN EXCHANGE

This account is credited or debited with the translation differences corresponding to the difference between, on the one hand, the book value, on the balance sheet date, of the net external reserve positions and, on the other hand, the value at the average cost price of these. The net realised foreign exchange gains on these positions are also shown under this heading. On the balance sheet date the amount of these profits was Fr. 6.3 billion.

Balance at the end of 1996	190,515,014
Movements :	
— Valuation differences in respect of gold	– 21,514,344
— Other valuation differences	<u>+ 50,686,219</u>
	+ 29,171,875
Balance at the end of 1997	<u>219,686,889</u>

PROVISION FOR PREMISES

The purpose of this provision is to enable the Bank to meet the expenses entailed by the execution of its programme of investment in new premises.

Balance at the end of 1996	1,305,981
Write-back	<u>– 57,000</u>
Balance at the end of 1997	1,248,981

PROVISION FOR CONTINGENCIES

This item consists of the Provident Fund which was created at the end of 1957 in view of the risks inherent in the Bank's activity and of the fluctuations to which its results are subject. The increase for 1997 incorporates an amount of Fr. 1.5 billion as a provision for costs in connection with the changeover to the euro.

Balance at the end of 1996	10,350,000
Increase	<u>1,600,000</u>
Balance at the end of 1997	11,950,000

CAPITAL

The capital of Fr. 400 million is divided into 400,000 registered or bearer shares of Fr. 1,000 each, of which 200,000 registered and untransferable shares are recorded in the name of the State.

RESERVE FUND

The Reserve Fund, provided for in Article 14 of the Bank's Statutes, consists of the Statutory Reserve, the Extraordinary Reserve and the Account for Depreciation of Premises, Equipment and Furniture.

The increase in the Statutory Reserve and the Extraordinary Reserve is the result of the distribution of the appropriated profit for the year just closed. The Account for Depreciation of Premises, Equipment and Furniture shows a decrease of Fr. 136 million, corresponding to the amount of the investments made in 1997, less an amount equivalent to the book value of assets sold or no longer used.

The tax-exempt part of the Extraordinary Reserve amounts to Fr. 575.8 million.

OFF-BALANCE-SHEET ITEMS*(Thousands of francs)***LIABILITIES WHICH MAY GIVE RISE TO A CREDIT RISK***Firm undertakings to make funds available*

These are undertakings to make funds available in respect of repurchase agreements and fixed-term advances with a value date later than the balance sheet date

59,893,668

VALUABLES AND CLAIMS ENTRUSTED TO THE INSTITUTION

For encashment 8,124

Assets administered on behalf of the Belgian State 9,037,127

— credit balances with the « Postcheque » in implementation of the financial assistance agreements financed by the Belgian State 2,782,475

— other assets 6,254,652

Assets administered on behalf of the EMI 89,056,032

Safe custody deposits 9,562,331,388

The securities (Treasury certificates, linear bonds, securities resulting from the splitting of linear bonds, Treasury bills, certificates of deposit, the Bank's certificates and certain classical loans) recorded under the securities clearing system and held on behalf of third parties appear under this heading.

PROFIT AND LOSS ACCOUNT*(Thousands of francs)***INCOME****PROCEEDS OF NET INTEREST-BEARING ASSETS**

	31-12-1997	31-12-1996
— Interest proceeds	33,029,024	30,032,195
— Interest charges	–8,829,137	–1,264,431
Total	24,199,887	28,767,764

The net interest-bearing assets comprise the total amount of the assets and liabilities the income and expenses in respect of which are subject to distribution between the State and the Bank in accordance with the conditions set forth under the expenditure heading « State share ».

Interest proceeds consist of those from investments abroad and those from credit transactions. The increase in these proceeds compared with the previous year is mainly attributable to investments abroad, the average volume of which increased. While the average yield on investments abroad remained at roughly the same level as in the previous year — the rise in yields on the US dollar having practically counterbalanced the downward movement of yields on assets in German marks — the sharp appreciation of the dollar in 1997 had a positive effect on interest incomes expressed in francs. The proceeds of credit transactions, for their part, show hardly any change compared with the previous year.

The interest charges are those in respect of the net use of the holding of SDRs and transactions with foreign countries, but also those relating to the deposits of the Belgian State and the Luxembourg State, to the investment with the Bank, via the RGI, of the financial intermediaries' end-of-day surpluses and those connected with the Bank's certificates. The latter were largely responsible for the substantial rise in interest charges in 1997.

PROCEEDS OF STATUTORY INVESTMENTS

The income from the statutory investments, acquired by the Bank under Article 21 of its Statutes, has decreased compared with the previous year. The fall in interest income was greater than the effect of the growth in the portfolio due to the transfers made to the Reserve Fund at the close of the preceding financial year.

COMMISSION

The commission received as remuneration for the Bank's services as financial intermediary and as custodian of valuables held as collateral is recorded under this heading.

AMOUNTS RECOVERED FROM THIRD PARTIES

These are amounts recovered in respect of delivery of goods and rendering of services to third parties in various fields such as :

- the Central Balance Sheet Office, the Central Office for Credit to Individuals and the Central Office for Credit to Enterprises;
- the currency centres and bond centres;
- the securities clearing system;
- the interbank payments systems : ELLIPS, the CTEC and the Clearing House;
- work done by the Printing Works;
- services rendered by the General Statistics Department.

DRAWINGS ON PROVISIONS

This item records the writing back of the « Provision for Premises » to the extent of the expenses incurred during the year under the programme of investment in new premises.

OTHER PROCEEDS

Other proceeds for the year 1997 consist chiefly of the proceeds of the disposal of used equipment and furniture, the sale of premises and other exceptional proceeds.

PROFIT AND LOSS ACCOUNT*(Thousands of francs)***EXPENSES****STATE SHARE**

This consists of the proceeds which accrue to the State before any imputation of costs (general expenses, exceptional costs, depreciation and taxes). These proceeds therefore do not include the funds which go to the Treasury in the distribution of the net profit.

By virtue of Article 20bis of the Organic Law the net income from the assets which form the counterpart to the capital gains obtained by the Bank through arbitrage transactions of assets in gold against other external reserve elements, entered in a special unavailable reserve account, is assigned to the State.

The distribution between the State and the Bank of the proceeds of the interest-bearing assets in francs is governed by Article 37 of the Bank's Statutes. By an agreement with the Government and as in previous years, this distribution system is extended to the Bank's interest-bearing external assets. Consequently, the proceeds of these assets and of the financial management transactions, less the costs relating to interest-bearing liabilities and to financial management transactions, in excess of 3 p.c. of the difference between the average amount of the interest-bearing assets and the interest-bearing liabilities, are assigned to the State.

Furthermore, the Bank pays annually to the State, in accordance with the law of 2nd January 1991, a sum of Fr. 986 million in order to compensate for the additional expenses resulting for the latter from the conversion of the State's consolidated debt to the Bank into freely negotiable securities.

GENERAL EXPENDITURE

	31-12-1997	31-12-1996
— Remuneration and social costs	6,939,561	6,884,976
— Other expenses	1,706,902	1,579,882
Total	8,646,463	8,464,858

Expenditure in respect of wages, salaries and social costs comprises the remuneration of the staff, the management, National Employment Office trainees, temporary staff and students, and also the pensions of former members of the management and the attendance fees of the members of the supervisory bodies. Expenditure in respect of temporary staff appears under the sub-item « Other expenses ».

In 1997 the average real workforce (including National Employment Office trainees and temporary staff), expressed in terms of full-time employment units, amounted to 2,775 units, against 2,881 units in 1996.

DEPRECIATION OF PREMISES, EQUIPMENT AND FURNITURE

The depreciation applied as at 31st December 1997 covers the following expenses :

— Premises and technical installations	56,606
— Renovation of premises	232,685
— Software and hardware	194,138
— Equipment for the Printing Works, technical services and offices ..	287,766
— Office furniture	37,165
Total	<u>808,360</u>

TAXES AND DUES

This heading covers, in addition to corporation tax, the withholding tax on income from financial assets and the withholding tax on income from immovable assets, the non-deductible part of VAT and regional, provincial and municipal taxes. The Bank shows in its accounts as costs relating to the year all taxes whatever their nature payable by it, less any tax repayments received during the same year. If, at the close of the year, the estimated amount of corporation tax shown under this heading exceeds imputable advance payments and withholding taxes, the additional amount due is recorded under the balance sheet heading « Other liabilities »; in the opposite case, the surplus is shown under the heading « Other assets ».

Brussels, 28th January 1998.

The Council of Regency :

Alfons VERPLAETSE,	Governor
William FRAEYS,	Vice-Governor
Jean-Pierre PAUWELS,	Director
Guy QUADEN,	Director
Jean-Jacques REY,	Director
Robert REYNDERS,	Director
Roger RAMAEKERS,	Regent
Willy PEIRENS,	Regent
Tony VANDEPUTTE,	Regent
Philippe WILMES,	Regent
Eddy WYMEERSCH,	Regent
Noël DEVISCH,	Regent
François MARTOU,	Regent
Baron DELRUELLE,	Regent
Michel NOLLET,	Regent
Christian DUMOLIN,	Regent

REPORT OF THE BOARD OF CENSORS FOR 1997

After the general meeting of the Bank's shareholders, which was held on 24th February 1997, the censors said goodbye to Mr Roger Mené, secretary of the Board, whose term of office expired. For an uninterrupted period of fourteen years Mr Mené sat on the Board of Censors and the General Council. From 29th March 1995 he held the office of secretary of the Board. The censors would like to thank Mr Mené for his great devotion, his pertinent contributions to the discussions and his expert opinions.

The general meeting of shareholders elected Mr Dominique Collinet to succeed Mr Mené. It also renewed the terms of office of Messrs Jacques Forest and Philippe Grulois.

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In accordance with the Statutes and the internal standing orders, the Board performs a monitoring and supervisory function : it has a right of surveillance over all the Bank's transactions and may ask to be shown the accounting entries ; it checks and approves the balance sheet and approves the budget for the following financial year.

As part of their duties, the censors checked the Bank's quarterly accounts during the year under review. First, the Board was given, for this purpose, a detailed report on the Bank's accounting position and results. Two members, assigned in turn, then satisfied themselves that the accounts give a true picture of the Bank's financial situation and results. To this end they examined a number of accounting documents selected by sampling, received explanations from the staff of the Accounting Department and were shown the results of the checks carried out on this subject by the Internal Audit Service.

The examination of the Bank's balance sheet closed as at 31st December is fully in line with the above-mentioned quarterly examinations. The Board first of all received comments from the Board of Directors on this balance sheet and the profit and loss account. It was then given an account of the checks carried out by the Internal Audit Service on the annual accounts as at 31st December. The Chairman of the Board also consulted the auditors about these matters. On the basis of these elements and of its own controls, the Board unanimously approved the Bank's annual accounts for 1997. In accordance with Article 35, paragraph 2, of the Bank's Statutes, the administration was thus given discharge.

Furthermore, the censors approved the Bank's budget for the financial year 1998. To this end they carried out an in-depth check and had a thorough discussion concerning the execution of the 1997 budget and the budget estimates for the financial year 1998.

As usual, the Board of Censors carried out its check on the Bank's other transactions by following the tasks performed by the Internal Audit Service. At the beginning of the year the Board received from that service a set of comments on the audits and inspections planned as part of the internal controls in the Bank's various risk areas. During the year under review the Internal Audit Service made detailed comments, for the Board, on its four quarterly reports ; in this case it gave a comprehensive account of the audits, inspections and investigations carried out and the recommendations made. The Board paid special attention both to the recommendations and remarks which are of considerable importance for the Bank and to how they are to be followed up and implemented in the Bank's various departments.

After having heard the explanations given by the Internal Audit Service, the members

of the Board had a discussion on the following specific subjects :

- auditing of the controls on access to the Central Cash Office ;
- auditing of the cover for the advances against pledged security granted by the Bank ;
- auditing of the Bank's purchasing procedures ;
- auditing of the Bank's counters which are open to the public.

In accordance with the usual procedures, members of the Board moreover participated in twelve inspections at the head office and nine in the provincial establishments. They were thus able to satisfy themselves personally as regards the competence of the Bank's staff, the appropriateness of the procedures for the correct performance of transactions and the scope of the inspections carried out by the Internal Audit Service.

Lastly, the Board of Censors learned about the Bank's changeover in the third stage

of EMU, including by hearing talks on the internationalisation of payments via the TARGET system and the developments concerning cashless payments in euros.

On the basis of its own observations and checks, of the various reports passed to it for information and of the answers given by the competent services to its many questions, the Board came to the conclusion that the internal audit function operated very well during the period under review.

The Board of Censors :

The Chairman,
Hubert DETREMMERIE.

Christian D'HOOGH, Secretary,
Maurice CHARLOTEAUX,
Jacques FOREST,
Philippe GRULOIS,
Herman VERWILST,
Gérald FRERE,
Chevalier Paul BUYSSE,
Petrus THYS,
Baron Dominique COLLINET.



Board of Censors :

seated, from left to right :

Ch. D'Hoogh, Secretary, H. Detremmerie, Chairman, P. Thys, G. Frère.

standing, from left to right :

M. Charloteaux, Chevalier Buysse, Ph. Grulois, J. Forest, H. Verwilt, Baron Collinet.

Annexes

COMPARISON OF BALANCE SHEETS
(After distribution of profit)

ASSETS

	1997	1996	1995	1994	1993
Gold	164,497.5	181,708.8	232,578.9	306,267.5	330,255.6
Foreign currencies	461,995.4	411,377.7	285,926.0	231,166.0	244,221.0
Special Drawing Rights (SDRs)	18,067.4	15,946.0	14,478.9	5,737.3	6,160.8
Participation in the IMF	43,626.1	34,390.4	29,547.5	25,856.6	27,673.1
Loans to the IMF	—	—	—	—	—
Deposit with the IMF within the frame- work of the ESAF	8,966.6	8,283.9	7,870.5	8,366.0	4,940.3
Ecus	93,116.1	86,466.4	118,874.2	148,081.3	148,023.2
EMI : Very-short- and short-term financing	—	—	—	—	—
EC : Medium-term financial assistance .	—	—	—	—	—
International agreements	3,350.4	3,194.1	3,335.1	3,491.4	3,303.6
Advances against pledged security . . .	18,618.2	20,856.6	19,437.1	32,347.3	30,101.4
Commercial bills	2,827.8	2,853.5	3,329.4	3,723.6	5,578.3
Securities purchased in the market . . .	25,890.1	24,912.0	23,855.3	17,860.9	32,436.5
Claims due to other interventions in the money market	129,025.0	127,733.1	128,472.6	92,330.6	119,669.3
Coin	517.2	418.5	954.5	1,102.5	1,202.8
Statutory investments (Art. 21)	50,817.7	48,815.4	46,694.2	43,753.8	40,365.8
Premises, equipment and furniture . . .	12,627.3	12,733.1	13,109.8	13,588.2	13,205.3
Other assets	593.7	1,392.6	397.4	3,339.3	4,446.6
Regularisation accounts	7,600.3	9,783.7	7,465.0	5,718.9	5,758.6
TOTAL ASSETS	1,042,136.8	990,865.8	936,326.4	942,731.2	1,017,342.2

AS AT 31st DECEMBER (Millions of francs)

LIABILITIES

	1997	1996	1995	1994	1993
Notes in circulation	478,638.0	464,675.4	445,836.7	412,189.7	440,603.1
Current accounts in francs	3,191.6	4,814.1	18,600.9	12,278.5	9,589.4
Deposit of the Belgian State	104.3	653.4	476.0	485.6	763.4
Deposit of the Luxembourg State	3.9	3.8	1.0	503.2	503.9
The Bank's certificates	230,000.0	230,000.0			
Liabilities due to interventions in the money market	1,548.9	5,132.2	8,061.7	3,047.3	6,045.8
Current accounts in foreign currencies .	—	7.4	0.4	9.6	7.5
Counterpart of allocations of SDRs . . .	24,172.2	22,331.9	21,217.4	22,553.3	23,972.5
EMI : Very-short- and short-term financing	—	—	—	—	—
Unavailable reserve of capital gains on gold	—	1,133.6	166,531.7	116,310.9	116,310.9
Other liabilities	16,109.1	7,395.3	1,934.9	2,106.4	2,339.6
Regularisation accounts	2,020.9	1,511.5	200.6	372.5	456.6
Valuation differences on gold and foreign exchange	219,686.9	190,515.0	212,918.9	314,859.2	361,965.4
Provision for tax burdens		—	15.1		
Provision for premises	1,249.0	1,306.0	1,313.0	956.0	778.0
Provision for contingencies	11,950.0	10,350.0	10,250.0	10,150.0	10,050.0
Capital	400.0	400.0	400.0	400.0	400.0
Reserve fund :	53,062.0	50,636.2	48,568.1	46,509.0	43,556.1
Statutory reserve	3,463.8	3,323.0	3,185.0	3,049.4	2,915.3
Extraordinary reserve	37,621.6	35,200.6	32,870.6	30,455.6	27,992.6
Account for depreciation of premises, equipment and furniture	11,976.6	12,112.6	12,512.5	13,004.0	12,648.2
TOTAL LIABILITIES	1,042,136.8	990,865.8	936,326.4	942,731.2	1,017,342.2

COMPARISON OF PROFIT AND LOSS ACCOUNTS AS AT 31st DECEMBER

(Millions of francs)

	1997	1996	1995	1994	1993
INCOME					
Proceeds of net interest-bearing assets .	24,199.9	28,767.8	27,595.3	22,144.9	33,328.6
<i>Interest proceeds</i>	33,029.0	30,032.2	28,444.9	23,276.4	34,951.7
<i>Interest charges</i>	-8,829.1	-1,264.4	-849.6	-1,131.5	-1,623.1
Proceeds of statutory investments . . .	3,854.8	4,001.4	3,608.5	3,778.7	3,846.3
Commission	171.8	170.5	262.9	163.1	169.5
Amounts recovered from third parties .	2,007.1	1,768.1	1,907.5	1,958.3	1,859.8
Drawings on provisions	57.0	42.1	43.0	292.0	471.0
Other proceeds	313.6	380.3	192.4	83.2	94.4
	30,604.2	35,130.2	33,609.6	28,420.2	39,769.6
EXPENSES					
State share	11,862.5	17,456.6	17,554.9	11,954.3	22,437.1
General expenditure :	8,646.4	8,464.9	8,308.5	8,297.0	8,095.7
<i>Remuneration and social costs</i>	6,939.5	6,885.0	6,853.5	6,784.7	6,781.4
<i>Other expenses</i>	1,706.9	1,579.9	1,455.0	1,512.3	1,314.3
Exceptional costs	—	1,554.8			
Depreciation of premises, equipment and furniture	808.4	664.1	671.3	1,115.2	1,560.5
Provision for tax burdens	—	—	15.1		
Provision for premises	—	20.0	400.0	470.0	310.0
Provision for contingencies	1,600.0	100.0	100.0	100.0	300.0
Taxes and dues	3,835.2	3,137.5	2,770.5	2,657.5	3,228.5
Net profit for distribution	3,851.7	3,732.3	3,789.3	3,826.2	3,837.8
	30,604.2	35,130.2	33,609.6	28,420.2	39,769.6

DIVIDEND

	1997	1996	1995	1994	1993
Net dividend allocated per share . . .	1,775.00	1,740.00	1,705.00	1,675.00	1,640.00
Withholding tax deducted per share .	591.67	580.00	568.33	580.89	568.75
Gross dividend allocated per share . .	2,366.67	2,320.00	2,273.33	2,255.89	2,208.75

**WEEKLY STATEMENTS PUBLISHED
IN THE « BELGISCH STAATSBAD — MONITEUR BELGE »
DURING 1997**

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBAD - MONITEUR BELGE »
DURING 1997 (Millions of francs)

ASSETS

DATES	Gold	Foreign currencies	Special Drawing Rights (SDRs)	Participation in the IMF	Loans to the IMF	Deposit with the IMF within the framework of the ESAF	Ecus	EMI : Very-short- and short-term financing	EC : Medium-term financial assistance
06 - 01 - 1997	181,709	431,503	15,946	34,390	—	8,284	86,466	—	—
13 - 01 - 1997	181,709	434,011	15,946	34,390	—	8,284	83,010	—	—
20 - 01 - 1997	181,709	434,315	15,946	34,390	—	8,284	83,010	—	—
27 - 01 - 1997	181,709	436,075	15,946	34,390	—	8,284	83,010	—	—
03 - 02 - 1997	181,709	438,282	15,949	33,654	—	8,284	83,010	—	—
10 - 02 - 1997	181,709	441,247	15,949	33,654	—	8,284	83,010	—	—
17 - 02 - 1997	181,709	442,446	15,949	33,654	—	8,284	83,010	—	—
24 - 02 - 1997	181,709	446,115	15,949	33,323	—	8,284	83,010	—	—
03 - 03 - 1997	181,709	447,467	15,949	33,208	—	8,284	83,010	—	—
10 - 03 - 1997	181,709	448,428	15,949	33,208	—	8,284	83,010	—	—
17 - 03 - 1997	181,709	450,197	16,126	32,609	—	8,284	83,010	—	—
24 - 03 - 1997	181,709	449,661	16,126	32,609	—	8,284	83,010	—	—
28 - 03 - 1997	181,709	450,457	16,126	32,609	—	8,284	83,010	—	—
07 - 04 - 1997	181,709	450,518	16,126	32,609	—	8,284	83,010	—	—
14 - 04 - 1997	181,709	441,776	16,126	32,609	—	8,284	93,825	—	—
21 - 04 - 1997	181,709	443,181	16,126	32,609	—	8,284	93,825	—	—
28 - 04 - 1997	181,709	445,106	16,126	32,609	—	8,284	93,825	—	—
05 - 05 - 1997	181,709	445,898	16,136	32,610	—	8,284	93,825	—	—
12 - 05 - 1997	181,709	446,242	16,136	32,610	—	8,284	93,825	—	—
16 - 05 - 1997	181,709	446,425	16,136	32,564	—	8,284	93,825	—	—
26 - 05 - 1997	181,709	446,687	16,303	32,564	—	8,284	93,825	—	—
02 - 06 - 1997	181,709	446,952	16,303	32,564	—	8,284	93,825	—	—
09 - 06 - 1997	181,709	447,508	16,303	32,564	—	8,284	93,825	—	—
16 - 06 - 1997	181,709	447,755	16,303	32,564	—	8,284	93,825	—	—
23 - 06 - 1997	181,709	447,514	16,303	32,564	—	8,284	93,825	—	—
30 - 06 - 1997	181,709	447,800	16,303	32,564	—	8,284	93,825	—	—
07 - 07 - 1997	181,709	448,256	16,311	32,564	—	8,284	93,825	—	—
14 - 07 - 1997	181,709	452,162	16,311	32,021	—	8,284	85,816	—	—
18 - 07 - 1997	181,709	452,486	16,311	32,021	—	8,284	85,816	—	—
28 - 07 - 1997	181,709	453,128	16,311	32,021	—	8,284	85,816	—	—
04 - 08 - 1997	181,709	454,011	16,315	32,021	—	8,284	85,816	—	—
11 - 08 - 1997	181,709	456,409	16,315	32,021	—	8,284	85,816	—	—
18 - 08 - 1997	181,709	455,646	16,315	32,021	—	8,284	85,816	—	—
25 - 08 - 1997	181,709	456,993	16,315	32,021	—	8,284	85,816	—	—
01 - 09 - 1997	181,709	456,327	16,490	32,021	—	8,284	85,816	—	—
08 - 09 - 1997	181,709	455,562	16,490	32,941	—	8,284	85,816	—	—
15 - 09 - 1997	181,709	457,193	16,490	32,941	—	8,284	85,816	—	—
22 - 09 - 1997	181,709	458,773	16,490	32,941	—	8,284	85,816	—	—
29 - 09 - 1997	181,709	459,264	16,490	32,941	—	8,284	85,816	—	—
06 - 10 - 1997	181,709	459,068	16,490	32,941	—	8,284	85,816	—	—
13 - 10 - 1997	181,709	450,566	16,490	32,941	—	8,284	91,596	—	—
20 - 10 - 1997	181,709	452,019	16,490	32,941	—	8,284	91,596	—	—
27 - 10 - 1997	181,709	453,170	16,490	32,941	—	8,284	91,596	—	—
31 - 10 - 1997	181,709	452,378	16,490	32,941	—	8,284	91,596	—	—
07 - 11 - 1997	181,709	450,677	16,499	32,941	—	8,284	91,596	—	—
17 - 11 - 1997	181,709	450,556	16,744	32,941	—	8,284	91,596	—	—
24 - 11 - 1997	181,709	452,186	16,684	32,941	—	8,284	91,596	—	—
01 - 12 - 1997	181,709	452,969	16,684	32,941	—	8,284	91,596	—	—
08 - 12 - 1997	181,709	454,069	16,684	32,941	—	8,284	91,596	—	—
15 - 12 - 1997	181,709	452,998	16,684	34,782	—	8,284	91,596	—	—
22 - 12 - 1997	181,709	449,913	16,684	40,305	—	8,284	91,596	—	—
29 - 12 - 1997	181,709	450,270	16,684	40,305	—	8,284	91,596	—	—

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBAD - MONITEUR BELGE »
DURING 1997 (Millions of francs)

ASSETS (continuation and end)

DATES	International agreements	Advances against pledged security	Commercial bills	Securities purchased in the market	Claims due to other interventions in the money market	Coin	Statutory investments (Art. 21)	Miscellaneous accounts ¹	TOTAL ASSETS
06 - 01 - 1997	3,194	14,727	3,178	24,897	120,651	466	48,968	13,902	988,281
13 - 01 - 1997	3,188	16,395	3,153	24,884	99,315	545	48,967	13,948	967,745
20 - 01 - 1997	3,199	16,060	3,017	24,872	99,711	575	48,968	13,931	967,987
27 - 01 - 1997	3,196	14,724	2,967	24,861	95,969	750	48,968	13,986	964,835
03 - 02 - 1997	3,347	16,031	3,017	24,851	93,074	1,026	51,035	13,904	967,173
10 - 02 - 1997	3,345	13,154	2,742	24,842	88,416	1,004	51,035	13,971	962,362
17 - 02 - 1997	3,345	13,445	2,821	24,835	90,486	1,067	51,035	14,023	966,109
24 - 02 - 1997	3,345	17,450	2,645	21,850	88,830	1,028	51,034	14,082	968,654
03 - 03 - 1997	3,343	14,745	2,621	21,348	93,716	1,008	51,034	14,118	971,560
10 - 03 - 1997	3,343	15,218	2,646	21,839	94,616	974	51,035	14,165	974,424
17 - 03 - 1997	3,343	14,069	2,667	23,822	96,681	927	51,035	14,218	978,697
24 - 03 - 1997	3,343	16,017	2,667	23,818	98,933	939	51,036	14,049	982,201
28 - 03 - 1997	3,348	8,695	2,638	23,815	107,578	982	51,036	13,995	984,282
07 - 04 - 1997	3,356	13,164	2,663	23,814	100,636	941	51,036	14,027	981,893
14 - 04 - 1997	3,356	16,282	2,490	23,813	101,851	993	51,036	13,748	987,898
21 - 04 - 1997	3,361	16,451	2,515	23,812	101,820	1,014	51,035	13,638	989,380
28 - 04 - 1997	3,361	16,892	2,515	23,811	98,975	982	51,035	13,728	988,958
05 - 05 - 1997	3,355	17,330	2,515	23,809	110,732	951	51,036	13,759	1,001,949
12 - 05 - 1997	3,355	23,821	2,546	25,794	106,113	874	51,036	13,791	1,006,136
16 - 05 - 1997	3,350	20,594	2,377	25,793	116,093	877	51,036	13,841	1,012,904
26 - 05 - 1997	3,350	18,678	2,397	25,793	114,177	996	51,036	13,729	1,009,528
02 - 06 - 1997	3,350	19,397	2,332	25,792	114,858	1,075	51,035	13,759	1,011,235
09 - 06 - 1997	3,351	15,843	2,143	25,792	117,482	1,112	51,035	13,754	1,010,705
16 - 06 - 1997	3,355	15,620	2,156	25,793	118,576	1,056	51,036	13,792	1,011,824
23 - 06 - 1997	3,355	17,298	2,311	25,794	119,889	1,089	51,036	13,856	1,014,827
30 - 06 - 1997	3,361	21,657	2,361	25,794	114,712	1,111	51,036	13,527	1,014,044
07 - 07 - 1997	3,331	17,763	2,336	25,795	121,756	1,086	51,035	13,445	1,017,496
14 - 07 - 1997	3,356	22,920	2,324	25,795	115,561	1,066	51,036	13,483	1,011,844
18 - 07 - 1997	3,356	22,879	2,299	25,793	114,830	1,011	51,036	13,530	1,011,361
28 - 07 - 1997	3,356	17,246	2,101	25,792	106,653	1,022	51,035	13,596	998,070
04 - 08 - 1997	3,356	13,180	2,101	25,790	115,444	1,036	51,035	13,646	1,003,744
11 - 08 - 1997	3,360	13,526	2,039	25,788	106,894	1,058	51,035	13,710	997,964
18 - 08 - 1997	3,357	14,405	2,025	25,787	109,423	852	51,035	13,575	1,000,250
25 - 08 - 1997	3,357	15,308	2,021	25,785	104,892	809	51,035	13,633	997,978
01 - 09 - 1997	3,358	16,030	1,993	25,783	107,749	810	51,035	13,696	1,001,101
08 - 09 - 1997	3,362	18,685	1,993	25,781	101,500	819	51,035	13,784	997,761
15 - 09 - 1997	3,362	18,126	1,902	25,780	101,581	843	51,036	13,841	998,904
22 - 09 - 1997	3,435	16,977	2,516	25,779	101,051	856	51,036	13,874	999,537
29 - 09 - 1997	3,435	15,864	2,523	25,778	98,678	857	51,035	13,727	996,401
06 - 10 - 1997	3,400	17,436	2,523	25,776	106,000	869	51,035	13,511	1,004,858
13 - 10 - 1997	3,455	16,846	2,524	25,774	106,000	845	51,035	13,572	1,001,637
20 - 10 - 1997	3,427	16,987	2,564	25,772	109,025	818	51,036	13,628	1,006,296
27 - 10 - 1997	3,457	22,338	2,590	25,770	102,050	800	51,036	13,613	1,005,844
31 - 10 - 1997	3,457	21,590	2,563	25,770	107,025	761	51,035	13,668	1,009,267
07 - 11 - 1997	3,462	21,225	2,557	25,769	111,000	730	51,036	13,633	1,011,118
17 - 11 - 1997	3,461	21,039	2,493	25,767	108,025	708	51,036	13,740	1,008,099
24 - 11 - 1997	3,461	20,884	2,518	25,766	106,000	718	51,036	13,794	1,007,577
01 - 12 - 1997	3,460	22,028	2,694	25,766	115,000	622	51,028	13,828	1,018,609
08 - 12 - 1997	3,460	21,465	2,719	25,766	104,000	642	51,028	13,790	1,008,153
15 - 12 - 1997	3,418	25,221	2,798	25,765	103,000	638	51,034	13,853	1,011,780
22 - 12 - 1997	3,343	19,880	2,630	25,764	115,000	598	51,035	13,864	1,020,605
29 - 12 - 1997	3,343	20,826	2,803	25,764	115,025	540	51,035	13,941	1,022,125

¹ Including premises, equipment and furniture.

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBLED - MONITEUR BELGE »
DURING 1997 (Millions of francs)

LIABILITIES

DATES	Notes in circulation	Current accounts in francs	Deposit of the Belgian State	Deposit of the Luxembourg State	The Bank's certificates	Liabilities due to interventions in the money market	Current accounts in foreign currencies	Counter-part of allocations of SDRs	EMI : Very-short and short-term financing	Unavailable reserve of surplus gains on gold	Valuation differences on gold and foreign exchange	Capital, reserves and depreciation accounts ¹	Miscellaneous accounts	TOTAL LIABILITIES
06-01-1997	460,943	4,826	11,081	4	230,000	4,874	52	22,332	—	1,134	189,755	48,968	14,312	988,281
13-01-1997	452,514	4,333	2,883	4	230,000	2,560	—	22,332	—	—	189,640	48,968	14,511	967,745
20-01-1997	453,325	4,253	2,333	4	230,000	2,748	1	22,332	—	—	189,594	48,968	14,429	967,987
27-01-1997	445,474	4,292	3,864	4	230,000	3,952	—	22,332	—	—	190,607	48,968	15,342	964,835
03-02-1997	444,332	9,070	2,801	4	230,000	2,398	19	22,332	—	—	191,527	51,036	13,654	967,173
10-02-1997	446,080	3,548	18	4	230,000	1,572	—	22,332	—	—	193,962	51,036	13,810	962,362
17-02-1997	447,045	4,489	91	4	230,000	1,987	—	22,332	—	—	194,905	51,036	14,220	966,109
24-02-1997	447,713	3,490	188	4	230,000	1,395	—	22,332	—	—	196,767	51,036	15,729	968,654
03-03-1997	449,088	3,867	78	4	230,000	2,002	7	22,332	—	—	197,043	51,036	16,103	971,560
10-03-1997	452,559	3,976	107	4	230,000	1,687	9	22,332	—	—	197,411	51,036	15,303	974,424
17-03-1997	455,771	3,659	200	4	230,000	1,590	10	22,332	—	—	198,081	51,036	16,014	978,697
24-03-1997	457,563	4,018	1,846	4	230,000	2,203	9	22,332	—	—	197,191	51,036	15,999	982,201
28-03-1997	462,216	3,246	297	4	230,000	2,568	—	22,332	—	—	197,177	51,036	15,406	984,282
07-04-1997	459,992	4,071	205	4	230,000	1,587	—	22,332	—	—	197,045	51,036	15,621	981,893
14-04-1997	459,367	5,107	260	4	230,000	2,015	1	22,332	—	—	202,898	51,036	14,878	987,898
21-04-1997	460,673	4,344	371	4	230,000	1,802	1	22,332	—	—	204,088	51,036	14,729	989,380
28-04-1997	458,937	4,021	83	4	230,000	1,472	1	22,332	—	—	205,604	51,036	15,468	988,958
05-05-1997	468,818	5,284	994	4	230,000	1,986	1	22,332	—	—	205,757	51,036	15,737	1,001,949
12-05-1997	473,794	4,196	690	4	230,000	2,337	—	22,332	—	—	205,857	51,036	15,890	1,006,136
16-05-1997	481,633	4,302	323	4	230,000	1,251	1	22,332	—	—	205,666	51,036	16,356	1,012,904
26-05-1997	474,702	4,611	67	4	230,000	5,006	7	22,332	—	—	205,015	51,036	16,748	1,009,528
02-06-1997	475,252	8,855	41	4	230,000	1,742	12	22,332	—	—	204,400	51,036	17,561	1,011,235
09-06-1997	476,253	5,509	23	4	230,000	3,139	—	22,332	—	—	204,832	51,036	17,577	1,010,705
16-06-1997	477,270	6,290	62	4	230,000	2,094	2	22,332	—	—	204,850	51,036	17,884	1,011,824
23-06-1997	478,697	4,366	146	4	230,000	5,329	—	22,332	—	—	204,195	51,036	18,722	1,014,827
30-06-1997	482,465	4,449	73	4	230,000	1,784	—	22,332	—	—	203,730	51,036	18,171	1,014,044
07-07-1997	484,340	4,426	70	4	230,000	4,070	—	22,332	—	—	203,721	51,036	17,497	1,017,496
14-07-1997	482,834	4,364	101	4	230,000	1,186	1	22,332	—	—	202,904	51,036	17,082	1,011,844
18-07-1997	482,943	4,489	67	4	230,000	855	—	22,332	—	—	203,163	51,036	16,472	1,011,361
28-07-1997	468,969	4,037	298	4	230,000	1,030	2	22,332	—	—	202,932	51,036	17,430	998,070
04-08-1997	467,165	9,742	6	4	230,000	2,018	—	22,332	—	—	203,014	51,036	18,427	1,003,744
11-08-1997	464,519	4,808	48	4	230,000	1,626	21	22,332	—	—	205,135	51,036	18,435	997,964
18-08-1997	468,353	4,352	34	4	230,000	1,457	—	22,332	—	—	204,091	51,036	18,591	1,000,250
25-08-1997	464,610	4,536	110	4	230,000	1,132	—	22,332	—	—	204,354	51,036	19,864	997,978
01-09-1997	464,922	7,550	43	4	230,000	1,494	—	22,332	—	—	203,327	51,036	20,393	1,001,101
08-09-1997	465,463	4,014	69	4	230,000	1,141	9	22,332	—	—	203,196	51,036	20,497	997,761
15-09-1997	465,105	3,970	37	4	230,000	1,376	9	22,332	—	—	204,208	51,036	20,827	998,904
22-09-1997	465,248	3,917	130	4	230,000	951	23	22,332	—	—	204,806	51,036	21,090	999,537
29-09-1997	461,614	3,944	7	4	230,000	876	10	22,332	—	—	205,084	51,036	21,494	996,401
06-10-1997	467,408	6,384	24	4	230,000	1,231	117	22,332	—	—	203,935	51,036	22,387	1,004,858
13-10-1997	466,928	3,698	36	4	230,000	813	98	22,332	—	—	205,016	51,036	21,676	1,001,637
20-10-1997	468,886	3,820	83	4	230,000	1,760	24	22,332	—	—	205,725	51,036	22,626	1,006,296
27-10-1997	464,580	3,905	2,230	4	230,000	2,182	—	22,332	—	—	206,569	51,036	23,006	1,005,844
31-10-1997	468,201	4,038	2,656	4	230,000	2,072	21	22,332	—	—	204,937	51,036	23,970	1,009,267
07-11-1997	470,034	4,678	3,951	4	230,000	3,218	—	22,332	—	—	203,019	51,036	22,846	1,011,118
17-11-1997	468,179	6,327	2,111	4	230,000	2,437	—	22,332	—	—	202,617	51,036	23,056	1,008,099
24-11-1997	468,184	5,467	1,534	4	230,000	2,296	—	22,332	—	—	203,504	51,036	23,220	1,007,577
01-12-1997	468,513	13,508	2,494	4	230,000	3,184	9	22,332	—	—	203,104	51,036	24,425	1,018,609
08-12-1997	469,835	5,014	57	4	230,000	1,341	—	22,332	—	—	203,906	51,036	24,628	1,008,153
15-12-1997	472,322	4,042	132	4	230,000	2,463	—	22,332	—	—	204,217	51,036	25,232	1,011,780
22-12-1997	481,051	3,961	339	4	230,000	988	4	22,332	—	—	205,705	51,036	25,185	1,020,605
29-12-1997	481,378	3,833	118	4	230,000	1,951	4	22,332	—	—	205,966	51,036	25,503	1,022,125

¹ Of which capital : Fr. 400 million.

**SHAREHOLDER STRUCTURE
OF THE NATIONAL BANK OF BELGIUM AS AT 31.12.1997**

(Pursuant to Article 4, § 2, paragraph 2, of the law of 2nd March 1989 concerning the disclosure of major shareholdings in companies listed on the Stock Exchange)

Holder of voting rights :	Belgian State represented by the Minister of Finance
Number of securities representing the capital :	200,000
Proportion of capital :	50 p.c.

LIST OF NAMES AS USED IN THIS AND PREVIOUS REPORTS OF THE NATIONAL BANK

Agricultural Fund	Fonds Agricole
Agricultural Investment Fund	Fonds d'investissement agricole
Airways Board	Régie des voies aériennes
Antwerp Port Administration	Administration du Port d'Anvers
Assistance Fund for the Financial Recovery of Municipalities	Fonds d'aide au redressement financier des communes
Association of Flemish Chambers of Commerce and Industry	Association des Chambres flamandes de commerce et d'industrie
Association of Local Authorities for the Building of Motorways	Association intercommunale pour la construction d'Autoroutes
Autonomous Funds	Fonds autonomes
Autonomous War Damage Fund	Caisse Autonome des Dommages de Guerre
Banking and Financial Commission (formerly Banking Commission)	Commission bancaire et financière (précédemment Commission bancaire)
Belgian Air Navigation Company (Sabena)	Société Anonyme Belge d'Exploitation de la Navigation Aérienne (Sabena)
Belgian Aluminium Syndicate	Syndicat Belge de l'Aluminium
Belgian Association of Collective Investment Undertakings	Association belge des organismes de placement collectif
Belgian Bankers' Association	Association Belge des Banques
Belgian Coal Mines Re-equipment Fund	Fonds de Rééquipement des Charbonnages Belges
Belgian-Congolese Amortisation and Management Fund	Fonds Belgo-Congolais d'Amortissement et de Gestion
Belgian-Luxembourg Economic Union (BLEU)	Union Economique Belgo-Luxembourgeoise (UEBL)
Belgian-Luxembourg Foreign Exchange Institute (BLFEI)	Institut Belgo-Luxembourgeois du Change
Belgian Municipal Credit Institution	Crédit Communal de Belgique
Belgian National Railways Company (BNRC)	Société Nationale des Chemins de fer belges (SNCB)
Belgian Office for Increasing Productivity	Office Belge pour l'Accroissement de la productivité
Belgian Pension Funds Association	Association Belge des Fonds de Pension
Belgian Petroleum Federation	Fédération pétrolière belge
Belgian Real Estate Credit Association	Association Belge du Crédit immobilier

Belgian Surveyors' Association	Association Belge des Experts
Belgian Trade Federation of Producers and Distributors of Electricity	Fédération Professionnelle des Producteurs et Distributeurs d'Electricité de Belgique
Benelux Economic Union	Union Economique Benelux
Board of Censors (of NBB)	Collège des censeurs (de la BNB)
Board of Directors (of NBB)	Comité de direction (de la BNB)
Bulletin of the National Bank of Belgium (formerly Information Bulletin of the National Bank of Belgium)	Bulletin de la Banque Nationale de Belgique (précédemment Bulletin d'Information et de Documentation de la Banque Nationale de Belgique)
Centenary Fund	Fonds du Centenaire
Central Balance Sheet Office	Centrale des Bilans
Central Consumer Credit Office	Centrale des crédits à la consommation
Central Office for Credits to Enterprises	Centrale des Crédits aux Entreprises
Central Office for Credits to Individuals	Centrale des Crédits aux Particuliers
Central Office for Mortgage Credit	Office Central de Crédit Hypothécaire
Central Office for Small Savings	Office Central de la Petite Epargne
Central Credit Office	Centrales des Crédits
Clearing House (at Brussels)	Chambre de Compensation (à Bruxelles)
Clearing Transaction Exchange Centre of the Belgian Financial System (CTEC)	Centre d'Echange d'Opérations à compenser du Système financier belge (CEC)
Code of taxes payable by stamp or in similar ways	Code des taxes assimilées au timbre
Committee of Control for Electricity	Comité de Contrôle de l'Electricité
Committee of Management for Electricity	Comité de Gestion de l'Electricité
Committee of the Brussels Stock Exchange	Commission de la Bourse de Bruxelles
Consultation Committee for Creditor Interest Rates	Comité de concertation des taux d'intérêt créditeurs
Consultative Committee for Co-ordinating Medium-Term Export Financing (« Cofinex »)	Comité Consultatif de Coordination du Financement à Moyen Terme des Exportations (Cofinex)
Consultative Council for External Trade	Conseil Consultatif pour le Commerce Extérieur
Council of Public Credit Institutions	Conseil des Institutions Publiques de Crédit
Council of Regency (of NBB)	Conseil de Régence (de la BNB)
Council of State	Conseil d'Etat
Creditexport Association	Association Creditexport
Department of Applied Economics at the Free University of Brussels	Département d'Economie appliquée de l'Université Libre de Bruxelles (DULBEA)

Department of National Education	Département de l'Éducation Nationale
Deposit and Consignment Office	Caisse des Dépôts et Consignations
Direct Taxes Department	Administration des Contributions directes
Economic Expansion and Regional Reconversion Fund	Fonds d'Expansion Economique et de Reconversion Régionale
Economic Research Institute [formerly Economic, Social and Political Research Institute (of Louvain University)]	Institut de Recherches Economiques [précédemment Institut de Recherches Economiques, Sociales et Politiques (de l'Université de Louvain)]
Energy Board	Administration de l'Energie
Excise Department (Ministry of Finance)	Service des Accises (Ministère des Finances)
Export Credit	Creditexport
External Trade Fund	Fonds du Commerce Extérieur
Federal Participation Company (FPC)	Société fédérale de participation (SFP)
Federation of Belgian Enterprises (formerly Federation of Belgian Industries)	Fédération des Entreprises de Belgique (précédemment Fédération des Industries Belges)
Federation of Chemical Industries	Fédération des Industries chimiques
Federation of Enterprises in the Metal Manufacturing Industries	Fédération des entreprises de l'industrie des fabrications métalliques
Fund for the Financial Balancing of the Social Security System	Fonds pour l'équilibre financier de la Sécurité Sociale
General Budget Statement	Exposé Général du Budget
General Commission for the Euro	Commissariat Général à l'euro
General Savings and Pensions Fund (GSPF)	Caisse Générale d'Épargne et de Retraite (CGER)
Housing Fund of the Large Families League	Fonds du Logement de la Ligue des Familles Nombreuses
Housing Institute	Institut du Logement
Industrial Promotion Office	Office de Promotion Industrielle
Information Bulletin of the Ministry of Finance	Bulletin de Documentation du Ministère des Finances
Inland Water Transport Regulating Office	Office Régulateur de la Navigation Intérieure
Insurance Supervision Office	Office de contrôle des assurances
Joint Committee of Banks and Bank Employees	Commission paritaire des banques
Luxembourg Insurance Commissariat	Commissariat aux assurances du Luxembourg
Luxembourg Monetary Institute	Institut monétaire Luxembourgeois
Ministry of Economic Affairs (MEA)	Ministère des Affaires Economiques (MAE)

Ministry of Agriculture	Ministère de l'Agriculture
Ministry of Employment and Labour	Ministère de l'Emploi et du Travail
Ministry of Finance	Ministère des Finances
Ministry of National Defence	Ministère de la Défense Nationale
Ministry of National Education	Ministère de l'Education Nationale
Ministry of the Civil Service	Ministère de la Fonction Publique
Ministry of Public Works	Ministère des Travaux Publics
Ministry of Social Security	Ministère de la Prévoyance Sociale
Monetary Fund	Fonds Monétaire
National Coal Mines Council	Conseil National des Charbonnages
National Committee for Economic Expansion	Comité National d'Expansion Economique
National Del Credere Office	Office National du Ducroire
National Economic Council	Conseil Central de l'Economie
National Employment Office (NEMO)	Office National de l'Emploi (ONEM)
National Foundation for Financing Scientific Research	Fondation Nationale pour le Financement de la Recherche Scientifique
National Fund for Credit to Trade and Industry	Caisse Nationale de Crédit Professionnel
National Fund for the Rehabilitation of Handicapped Persons	Fonds National pour le Reclassement des Handicapés
National Housing Company	Société Nationale du Logement
National Housing Fund	Fonds National du Logement
National Industrial Credit Company (NICC)	Société Nationale de Crédit à l'Industrie (SNCI)
National Institute for Agricultural Credit	Institut National de Crédit Agricole
National Investment Company	Société Nationale d'Investissement
National Labour Council	Conseil National du Travail
National Land Company (formerly National Smallholders' Company)	Société Nationale Terrienne (précédemment Société Nationale de la Petite Propriété Terrienne)
National Local Railways Company	Société Nationale des Chemins de Fer Vicinaux
National Joint Mines Commission	Commission Nationale Mixte des Mines
National Register of Physical Persons	Registre national des personnes physiques
National Sickness and Disability Insurance Institute	Institut National d'Assurance Maladie-Invalidité
National Social Insurance Office	Office National de Sécurité Sociale
National Statistical Institute (NSI)	Institut National de Statistique (INS)

National Water Distribution Company	Société Nationale des Distributions d'Eau
Nuclear Energy Research Centre	Centre d'Etudes de l'Energie Nucléaire
Planning Bureau	Bureau du Plan
Post Administration	Administration des Postes
Post Board	Régie des Postes
« Postcheque »	« Postcheque »
Postal Cheque Account (PCA)	Compte de Chèques Postaux (CCP)
Postal Cheque Office (PCO)	Office des Chèques Postaux (OCP)
Public Debt Ledger	Grand-Livre de la dette publique
Public Social Assistance Centres	Centres publics d'aide sociale
Rediscount and Guarantee Institute (RGI)	Institut de Réescompte et de Garantie (IRG)
Research Department (of the NBB)	Département des Etudes (de la BNB)
Road Fund	Fonds des Routes
Royal Society for Political Economy	Société Royale d'Economie Politique
Sabena (see Belgian Air Navigation Company)	Sabena (cf. Société Anonyme Belge d'Exploitation de la Navigation Aérienne)
Savings Bank Section of the General Savings and Pensions Fund	Caisse d'Epargne de la Caisse Générale d'Epargne et de Retraite
Sea Transport Administration	Administration des transports maritimes
Sea Transport Board	Régie des transports maritimes
Securities Deposit and Clearing Office of the Financial Sector	Caisse interprofessionnelle de Dépôts et de Virements de Titres
Securities Regulation Fund	Fonds des Rentes
Sinking Fund	Caisse d'Amortissement
Social Programming Agreement	Accord de programmation sociale
Solidarity Fund for Financing Early-Retirement Pensions	Fonds de solidarité de financement de la prépension
Special Municipalities Fund	Fonds spécial des communes
Staff Pensions Fund	Caisse de Pensions du Personnel
Superior Finance Council	Conseil Supérieur des Finances
Telegraphs and Telephones Board	Régie des Télégraphes et des Téléphones
Textile Industry Federation	Fédération de l'Industrie Textile
Town Planning Board	Administration de l'Urbanisme
Treasury and Public Debt Administration	Administration de la Trésorerie et de la Dette Publique
Union of Non-Ferrous Metal Industries	Union des Industries des Métaux Non Ferreux

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