

NATIONAL BANK
OF BELGIUM



REPORT 1978

NATIONAL BANK OF BELGIUM

LIMITED COMPANY
BRUSSELS TRADE REGISTER No. 22,300



REPORT

*on the activities of the year 1978
presented to the General Meeting
on 26th February 1979*

REPORT

presented by the Governor in the name of the

COUNCIL OF REGENCY

A Glossary of Names as used
in this and previous Reports of the National
Bank is printed at the end of the text.

Even though the growth rate of the volume of the United States' gross national product declined from about 5 p.c. in 1977 to around 4 p.c. in 1978, it still remains higher than that of the countries of the European Economic Community, which, however, rose from 2.3 to 2.8 p.c. In Japan it seems that the economic expansion was somewhat greater in 1978 than in 1977.

*Economic and
financial
situation.*

This disparity between the rate of growth of the United States and that of the other countries of the Organisation for Economic Cooperation and Development as a whole is reflected in the respective movements of employment, prices and the external account of these different areas. The unemployment rate rose in nearly all the European countries and in Japan; on the contrary, it went on declining in the United States; this improvement reflects not only sustained demand but also a very slow improvement in productivity. The movement of the latter contributed to the rise in U.S. costs per unit of output; furthermore, the depreciation of the rate for the dollar pushed up the prices of imported products and, lastly, certain domestic agricultural products became more expensive. Inflation therefore speeded up, whereas the reserve movement was recorded in many of the countries of the European Economic Community.

The balances of current transactions reflect, even more than do the respective unemployment rates or domestic prices, the divergences in the cyclical movement between countries. While the major European countries which had incurred substantial current deficits during the years 1974 to 1976 corrected them in 1977 or 1978 and while the countries which had current surpluses, except for the Benelux countries, consolidated or strengthened their position, the United States accumulated, over the two years 1977 and 1978, a current deficit of over \$ 30 billion, almost equivalent to the surplus achieved by Japan during the same years. Nevertheless, despite these bilateral tensions within the group, the member countries of the Organisation for Economic Cooperation and Development as a whole regained equilibrium on current account in 1978; in 1977 the deficit was still \$ 27 billion; the counterpart of this improvement

lies in a contraction by two-thirds in the surplus of the countries of the Organisation of Petroleum Exporting Countries and an increase in the deficit of the other developing countries.

The incidence on exchange rates of the current balance of payments disequilibria was amplified in 1978 by destabilising capital movements. Four currencies were subject, on the foreign exchange markets, to pressures strong enough to bring about, despite massive interventions by the central banks, substantial changes in the rates : the yen, the Swiss franc and the German mark upwards and the U.S. dollar downwards.

Belgium's economic growth followed, a little behind, that of the major European countries. The real increase in the gross national product rose from 1.2 p.c. in 1977 to just over 2 p.c. in 1978. Even this slight speeding-up of the rate of growth from year to year in our country is partly attributable to the expansion in the public services brought about by the increase in the number of unemployed persons given work in the public administrations and by the introduction of the special temporary staff. The general level of economic activity does, however, appear to have recovered slightly in the second half of the year, during which there was an increase in production connected with a revival of foreign demand for intermediate goods and building materials.

Measured in terms of volume, that is, at constant prices, the major categories of domestic expenditure show the following changes from 1977 to 1978. Public investment and consumption increased fairly sharply. Total household expenditure is now only benefiting by a slower expansion : consumption increased less than the 1978 gross national product; house-building decreased. Enterprises' fixed capital investment showed a recovery, after three years of decline : nevertheless it is still directed more particularly towards the so-called « market » services — that is, those other than the gratuitous public services — and the electricity sector, while it declined once more in actual manufacturing industry as a whole, where there are still large unutilised production capacities. Altogether, domestic demand, including stockbuilding, increased less than the gross national product in 1978; consequently, likewise measured in terms of constant prices, net supplies of goods and services to foreign countries improved.

Production rose less than productivity in the primary and secondary sectors as a whole, so that the number of persons employed in these fell

again; this contraction had already been observed during the preceding three years, even during the cyclical revival in 1976. This reduction in employment was offset half by the expansion in the population employed in the « market » services sector and half by the increase in employment in the government services in the broad sense of the term. Thus, on balance, employment remained stable in 1978, as in 1977. The worsening of unemployment during each of these two years was therefore equal to the increase in the total working population; in 1978 it had less effect than previously on workers of extreme ages — that is, the youngest and the oldest — probably owing to the effect of the measures adopted by the Government with regard to the organisation of training periods and early retirement; in the total number of normally capable persons wholly unemployed, the proportion of women is still close to two-thirds.

The persistence of excesses of applications for employment over vacancies, the structural difficulties encountered by certain industrial sectors and the weakening, due among other things to the appreciation of the Belgian franc, of the impulses from abroad pushing up prices, are factors which contributed to a considerable slowing-down of the rate of increase of wages in industry. The gross average hourly earnings of workers in industry and transport went up by 6.2 p.c. from September 1977 to September 1978, against 9.6 p.c. during the preceding twelve months; the rate had not been so moderate for ten years; when these same gross earnings are expressed in real terms, it is found that their average rise, for 1978, was approximately equal to that in the volume of the gross national product, whereas it had exceeded it the previous year. As for the total gross wages, again expressed in real terms, paid to the industrial workers still in employment, the increase in these would appear to have been less than that in hourly earnings, owing to the reduction in the number of hours worked in the building industry.

Assuming, as is probable, that its terms of trade have not deteriorated, industry will have slightly increased its profit margin per unit of output in 1978, as in 1977.

The disparities between Belgium and foreign countries in current costs per unit of output, corrected to eliminate variations in exchange rates, appear to have developed favourably once again.

Like that in labour costs, the rise in consumer prices also slowed down : it was 3.9 p.c. from December 1977 to December 1978, against

6.3 p.c. during the preceding twelve months. The increase came closer to that recorded in the Federal Republic of Germany, which, however, still remains lower; it is of the same order of magnitude as in the Netherlands, but smaller than in the other countries of the Community.

With regard to external payments, there would appear to have been a reduction in the Belgian-Luxembourg Economic Union's deficit on the balance of current transactions. Calculated on a transactions basis — that is, excluding capital movements due to changes in the timing of payments — the negative balance appears to have decreased from Fr. 30 billion for the first nine months of 1977 to about Fr. 13 billion for the same period of 1978, which is the last period for which statistics adjusted for capital movements are available. This recovery, primarily in the current balance of Belgium, is due to the marked contraction in the deficit left by the importing and exporting of goods. Consequently the pressures which, from the middle of the year onwards, were exerted on the Belgian franc were not due to a basic deterioration but to seasonal causes and above all to capital movements brought about by psychological factors. The Bank had to intervene in order to keep the exchange rates within the limits laid down by the Basle agreements. During the period July-October, recourse to the foreign exchange reserves, also reinforced by Treasury borrowing abroad, reached Fr. 52 billion; it was the reduction in non-residents' balances in Belgian francs with the monetary institutions, which had greatly increased in the first half of the year, that contributed most to this loss of reserves; the other factors which operated in the same direction were the seasonal deterioration in the current balance, the increase in net commercial claims on foreign countries and the building-up, by residents, of deposits abroad or in foreign currencies with monetary institutions of the Belgian-Luxembourg Economic Union. After the realignment on 16th October of the central rates within the « snake », which entailed a formal revaluation of the German mark by 2 p.c. in relation to the Belgian franc, the tensions on the foreign exchange markets gradually eased; it was possible for the Bank's foreign exchange reserves to be replenished to the extent of Fr. 12 billion. Over the year as a whole they decreased by only Fr. 16 billion, since they had gone up by Fr. 24 billion during the first half.

The foreign exchange crisis aggravated the difficulties which the public authorities were already encountering in the first half of the year in financing their deficit. Despite an increase in fiscal and parafiscal

revenue which was maintained at practically the same rate as in the previous year, partly thanks to the double levying of the additional municipal income tax, and despite a slowing-down of the rate of growth in expenditure, the public authorities' net financial requirements rose further in 1978, having represented 7.2 p.c. of the gross national product, against 7 p.c. in 1977. In the first six months, in order to meet its financing needs, which are particularly heavy during this period of the year, the Treasury had been obliged not only to make almost continuous use of its direct credit margin at the Bank but also to have regular recourse to the mechanism whereby the latter grants special assistance to the Securities Regulation Fund in order to enable it to subscribe to Treasury certificates. By reducing supply on the market for short-term funds, the foreign exchange crisis of July-October at times intensified the Treasury's indirect recourse to the Bank : not only did the former sell to the latter foreign currencies to the value of Fr. 12 billion which it had borrowed abroad but it also had recourse to the above-mentioned special assistance mechanism; the limit which the Bank's Council of Regency set to this assistance reached a maximum of Fr. 50 billion following an increase decided upon in July for seasonal reasons; not until the end of September was it possible to reduce this limit again to Fr. 30 billion.

During the last foreign exchange crisis, however, as during the previous ones, the outflows of foreign currencies were not offset, on balance, in the Bank's assets, by financing of the Treasury; it was the intermediaries' recourse to advances from and rediscounting at the Bank that grew, and this movement took place well in advance of the imposition on the financial intermediaries of the requirement that they should hold a minimum portfolio of public paper.

The cost of this assistance given by the Bank was only very slightly raised, namely by 0.52 p.c., between the end of June and the end of September; at that time the weighted rate for discounts and advances was 6.02 p.c. For at the time when strains became apparent on the foreign exchange markets the Bank was pursuing a policy of lowering interest rates, evidenced by a reduction in its official rates, which went down from 9 p.c. at the time of the December 1977 foreign exchange crisis to 5.50 p.c. in March 1978, and by concomitant adjustments of its special rates. This policy was being pursued not so much in the hope of stimulating investment by enterprises, since these are not very sensitive to the credit-cost incentive alone, as in order to lighten the financial

burdens weighing on their profits. The last foreign exchange crisis proved to have had two causes : the first, chronologically, was a marked and prolonged bout of weakness of the U.S. dollar in relation to the German mark, which was pushed up; the second, reinforcing and then replacing the first, was speculation on the alterations in exchange rates which might take place in connection with the creation, planned for 1st January 1979, of a European Monetary System. The last-mentioned speculation was thus based on prospects which were not of an extremely short-term nature, and this special feature had implications for monetary policy : on the one hand, the crisis was not at first very acute, so that it was not necessary to resort to major measures straight away to keep it in check; on the other hand, there was a danger that it would continue for several months, and throughout this period the measures taken to combat it would run counter to the above-mentioned aim of reducing the financial burden on enterprises. It was thus neither useful nor desirable to act too quickly : not until October, therefore, was a set of measures adopted — then, moreover, not being maintained beyond the planned date, namely the end of the year — with a view to curbing recourse by enterprises to credits which could be used for financing the building-up of short-term claims on foreign countries; these measures, influencing the availability of these credits, at the same time reinforced the effects of the increases in the Bank's rates; these raised the weighted average rate for the Bank's assistance to the financial intermediaries to 7.24 p.c. at the beginning of November.

The Bank endeavoured to confine this rise in rates to the sections of the financial markets where a rise was necessary; it succeeded, as during the previous foreign exchange crisis at the end of 1977. It pushed up money market rates; these do not affect savers, but they do, indirectly, influence the cost of short-term bank lending; the latter, as also the rate for interbank loans, can exert an influence on international movements of short-term funds. Money market rates are particularly sensitive : not only do they give an amplified reflection of the changes in total supply of and demand for funds in other, larger sections, but they are also subject to special pressures, such as, for instance, the seasonal tightening of liquidity towards the end of the year. It was the tensions connected with this which, after the foreign exchange market had steadied again, slowed down, and even delayed, the subsidence of the rates that had gone up. With regard to the financial intermediaries' resources, only the rate paid on large deposits — held primarily by large enterprises, both resident

and non-resident — reacted to the rise; all the other creditor rates, which affect a public which has few dealings on the foreign exchange markets, remained unchanged; with regard to these intermediaries' assets, only short-term rates were raised — especially, as has been seen, those paid by, on the one hand, the Treasury, and, on the other hand, enterprises, to finance their working funds.

With regard to long-term rates, which are relatively little affected by the Bank's monetary action, it was obvious that, even after the decline which took place in 1977 and the first half of 1978, they were still very high compared with earlier periods, in view of the economic situation and the slowing-down of the price rise : real rates were becoming substantially positive again. The Bank pointed this out several times, while expressing the opinion that these rates, which are very important for house-building, for certain exports and for the profitability of enterprises, could be lowered. Nevertheless, the public authorities' last bond issues of the year were made at rates above the level to which they had fallen at the end of the first half-year. When the terms, even more favourable for the subscriber, of the January 1979 Government loan became known, all the financial intermediaries' creditor rates were raised in turn; the increases spread over the whole scale, including the shortest terms. The Bank has expressed the hope that these increases will not be mechanically applied to debtor rates; it also trusts that a downward movement of interest rates can be set in motion again in the coming months.

Generally speaking, movements on the foreign exchange markets everywhere presented the monetary authorities with problems of choice which some might have thought to have been solved since the floating of currencies.

*Monetary policy,
exchange rates
and inflation.*

The high level of economic activity and the appearance of substantial balance of payments deficits on current account in the United States had not been accompanied, during the year 1977 and the first months of 1978, by any very marked rise in interest rates. The speeding-up of the price rise had, on the contrary, led to the appearance of less attractive, and even negative, real short-term yields. In some European countries, on the other hand, where the current account of the balance of payments was becoming increasingly positive, the slowing-down of the rate of inflation during the same periods had not been reflected in a corresponding lowering of interest

rates. Consequently the nominal interest rate differentials in favour of the dollar proved totally inadequate, in view of the anticipations concerning the movement of current balances and prices, to stimulate capital movements which would offset the U.S. current deficit and to prevent an adjustment of exchange rates. On the contrary, these interest rate differentials brought about international shifts of funds which accentuated the effect produced on exchange rates by the current deficits of the United States and the current surpluses of other countries.

The resultant exchange rate fluctuations were well beyond what would have been called for by the development of the disparities in the competitive position of the economies in question : for they reflected, on the one hand, current disequilibria which were partly the result of cyclical time-lags and, on the other hand, destabilising capital flows. When, during certain periods, these movements assumed proportions which were no longer acceptable, either because the decline in the rate for the dollar had the effect of accentuating, in the United States, inflationary pressures due to domestic factors, or because the rises in the rates for the currencies of other countries appeared liable to have destabilising effects on certain activities of these countries, measures were taken to try to curb them. These measures consisted of slight adjustments of interest rates and above all of purchases of dollars against national currencies by central banks. These purchases, which, during the first three quarters as a whole, exceeded the amount of the United States' current deficit, did not put a stop either to the depreciation of the dollar or to the appreciation of the strong currencies. These chain reactions were only halted, and then slightly reversed, at the end of November, after the United States had, on the one hand, concluded reciprocal credit agreements between central banks with its main trading partners and, on the other hand, adopted a series of domestic measures designed to make investment in the United States more attractive and to combat inflation : these measures included a fairly substantial raising of interest rates, as is evidenced by the pushing-up of the discount rate to the exceptional level of 9.50 p.c., and a recommendation to limit increases in wages and other incomes and, furthermore, the announcement of a reduction in the budget deficit.

In essence, the events which took place in 1978 and during the preceding years show that it is dangerous to rely on market forces alone to finance current disequilibria or correct them by adjustments of exchange rates, irrespective of whether or not these disequilibria are the result of

fundamental developments. Once they have been set in motion, exchange rate movements lead to others, fuelled by capital movements, since the latter have nearly always proved to be destabilising.

Whether it be a deficit or a surplus, when the current disequilibrium is fundamental it cannot be eliminated without a domestic policy of regulation of demand and incomes, unless one is to accept interactions between the exchange rate and inflation, which are « vicious » when they move continuously towards depreciation and accelerate the rate of inflation, or « virtuous » when they slow it down through successive appreciations. This type of recovery policy was applied by some European countries, particularly the United Kingdom and Italy, after the hopes which they had placed in the re-equilibrating power of foreign exchange rates alone had several times been disappointed. Not only did these countries impose upon themselves a stringent budgetary, monetary and incomes policy, for long enough to bring about the transfer of real resources to foreign countries which was necessary in order to eliminate their current deficit, but, furthermore, they subsequently pursued a cautious counter-cyclical policy in order to avoid jeopardising the recovery achieved in their external situation.

When the current disequilibrium is not fundamental, but accidental, or when it is due to non-synchronisation of the trend of economic activity in the various countries — and this phase difference is favourable in itself because it prevents a run-away rise in world prices of raw materials — there are good reasons for financing this deficit; for its origins do not justify its being combated by policies of demand regulation or attempts to eliminate it by exchange rate adjustments, which are dangerous because they are liable to become uncontrollable. The type of financing obviously needs to be chosen : it may be preferable to adjust short-term interest rates so as to bring about re-equilibrating capital flows or, on the contrary, to resort to official financing, that is, interventions by the authorities to regulate the supply of funds on the foreign exchange markets. Such interventions presuppose, in the case of the deficit countries, the existence of adequate foreign exchange reserves and credit facilities and, in the case of the surplus countries, that the monetary authorities have at their disposal the instruments required in order to neutralise, if necessary, the effect of the growth in the central bank's external assets on the liquidity of the financial intermediaries. Both these methods of financing, either by the markets in response to interest rate policies or by recourse to credit

facilities, furthermore require effective international monetary coordination or cooperation.

The relations between monetary policy, the exchange rate and inflation become still more complicated when, on top of or even in the absence of current disequilibria, international shifts of funds take place. In the present economic environment, that is, so long as national currencies and policies continue to exist in the face of the growing internationalisation of economies and financial markets, it is impossible, unless the whole operation of our economies is to be hampered, to prevent capital from shifting in order to enjoy the benefit of higher yields or expected exchange rate appreciations, however destabilising these capital movements may be. Now it is obvious that coexistence of freedom, either de facto or de jure, of capital movements, fixed exchange rates, stability of exchange reserves and autonomy of monetary policy is an impossibility. A choice therefore has to be made between three adjustment variables : the exchange rate, the interest rate and the foreign exchange reserves; it has to be decided which of these variables it is possible or preferable to subordinate to the others, in other words, which is the one whose fluctuations are least harmful to the economy.

A small economy which is very open with regard both to goods and services and to capital cannot disregard the exchange rate for its currency and let it float at the mercy of capital movements. It has thus been sufficiently proved that, in a country like Belgium, where the import content of final demand is very high and where, in addition, there are practices which almost automatically link most incomes to the movement of prices, a fall in the exchange rate would be very quickly reflected in a parallel upward movement of most prices and costs in the economy. In certain circumstances the rises in costs and prices could even exceed the initial percentage fall in the exchange rate. Conversely, a small country, even if it has a substantial surplus on the current account of its balance of payments, could not bear excessive appreciations of its currency due to capital movements without these appreciations leading to economically unjustified changes in the distribution of activities and employment within the country. There is thus a well-founded reason for this concern for international monetary cooperation which is displayed by most small countries. They attach or try to attach their currencies to another currency or a set of other currencies. For this purpose they become members of a fixed exchange rate area, or endeavour,

independently, to stabilise the rate for their currency in relation to another or a basket of others, which they choose in the light of the importance for them, as trading partners, of the countries to which these currencies belong, or in the light of the economic policies pursued by these countries. Thus, in the case of Belgium, if the institutional « snake » agreements had not existed, the exchange rate policy would not have been very different from what it has actually been. For the authorities would have had to make sure that the weighted average exchange rate of the currency not only did not depreciate but, moreover, developed in such a way as to protect the country against imported inflation : this condition would not have been fulfilled if the weighted average rate for the Belgian franc had just remained stable, that is, if it had in fact moved partly in response to the rates for the strong currencies, but also, inevitably, in response to the rates for the weak currencies, swept along by surges of domestic inflation. In any case, the maintenance of a weighted average rate which protects the national economy against the propagation of foreign inflations could only be ensured by the authorities choosing, as an anchor for the Belgian franc, a basket of currencies which would have been approximately those of our « snake » partners.

But, in these open economies, the exchange reserves and the credit facilities may be inadequate to meet the pressures which capital movements can exert on the rate for the currency. The mass of funds which economic agents can shift from one currency to another may be a multiple of the reserves, even if the national currency is not widely held abroad. The operation of a dual foreign exchange market, as in the Belgian-Luxembourg Economic Union, does not completely protect the reserves from shifts of funds, since the regulated market, on which the central bank intervenes, includes the substantial capital movements connected with commercial transactions. It is therefore primarily by measures of monetary policy — a policy of short-term interest rates supported, if necessary, by quantitative credit control — that these countries can solve the problem created by capital movements. Choice of this option means that short-term interest rate policy must primarily promote, when necessary, the attainment of the aims of exchange rate policy; that is, during periods of exchange rate crisis, the fundamental conflict between the domestic and external aims of interest rate policy must be resolved in favour of the latter. This priority will be all the more justified because, in the different countries, international capital movements respond better and faster than domestic expenditure to the

stimuli emanating from changes in short-term interest rates. It is at present a well-known fact, in most countries, that the various categories of expenditure of enterprises and individuals change mainly in response to factors quite different from short-term interest rates.

The problems which arise for small open economies also arise, but in slightly different terms, for the larger and more closed economies. In these economies, too, there are links between monetary policy, the exchange rate and the rate of inflation, but the effects of these interactions may take longer to become apparent; it has consequently seemed less damaging to postpone the choices required for ensuring the stability of the factor whose fluctuations have the most disequilibrating effect on the economy. This possibility which certain countries have had, or have thought they had, of remaining indifferent for longer than others to the movement of the exchange rates for their currencies has not been conducive to international coordination, essential though it is, of the policies pursued. Ultimately, however, it has become obvious that even the largest and most closed economy could not completely disregard the exchange rate for its currency and that the instability of the rates for the major currencies entailed more serious disadvantages than advantages for the international community as a whole.

*The floating
of currencies.*

Consequently, after some six years of more or less general floating of currencies, it may be useful to re-examine critically the traditional line of argument in favour of this system. Admittedly, the gradual replacement of a system of fixed exchange rates by a system of floating rates was not decided upon as a result of joint deliberation leading to the conclusion that it was necessary to abandon a defective system in favour of another which theory showed to be superior. The change-over took place under the pressure of circumstances and particularly of the tensions which had built up on the foreign exchange markets as a result of the current deficit of the United States and because of divergent economic trends; these tensions could no longer be kept in check by the financing mechanisms created at Bretton Woods. But the abandonment of the old rules was accepted all the more easily in many cases because the new system was presented as being capable of bringing about a more painless adjustment of the external imbalance — an illusion which was partly fostered by the criticisms levelled against fixed parities in the economic literature.

The theoretical argument against the latter was usually based on the following three propositions. The system of stable exchange rates encourages speculation; the adjustment mechanisms whose operation it presupposes no longer work properly; it forces monetary policies to sacrifice domestic equilibrium to that of foreign payments.

Firstly, under a system of fixed parities, the changes in parities are necessarily of a certain size and consequently very profitable to the shrewd speculator who has placed his bets correctly; as for the risk to the speculator who is not so shrewd, this is generously confined to the small differences between the upper and lower intervention rates. The system thus encourages speculation and, with it, foreign exchange rate crises, and fear of these generates a predilection on the part of the system for devaluations and/or restrictive policies : a country which has exhausted its reserves and credit facilities has no alternative but to devalue its currency or adopt restrictive measures, or both; conversely, a country which is accumulating reserves and is capable of neutralising their effect on domestic liquidity can refrain from changing either the parity of its currency or its economic policy. It was shown that things would be quite different under a system of floating rates. Here the cost of miscalculation would not be subject to any limits and unsuccessful speculation would be heavily penalised, resulting in much greater caution; or, alternatively, speculative transactions aggravating the effects of an observed foreign payments deficit would be counterbalanced by a stabilising speculation in the opposite direction which would anticipate the automatic correction of temporary deteriorations and would affect the foreign exchange markets accordingly. On balance, speculation under a system of floating rates would be less destabilising than under a system of fixed parities.

The second set of criticisms of fixed parities was based on the observed fact that, in our economies, incomes had become rigid against any downward movement. This rigidity, by precluding any lowering of prices or contraction in domestic expenditure in deficit countries, prevented these from making available the exportable surpluses, the competitive real resources, whose sale abroad was necessary in order to correct the deficit. Finally the countries in question suffered an increase in unemployment, due to the disappearance of non-competitive activities, and were obliged to resort to a substantial devaluation of their currencies. In short, the combination of this lack of downward flexibility of incomes and of the

maintenance of fixed parities had the effect of prolonging the disequilibria; these ultimately necessitated far-reaching parity changes which in turn provoked retaliatory measures by the countries' trading partners, resulting in a slowing-down of growth and trade. As the domestic wage and price structure no longer had any downward flexibility, it was advisable to resort, for commercial relations with foreign countries, to the system of floating rates which allowed flexible adjustments of a single price, namely that of the national currency.

The third type of argument against the system of fixed parities was centred on the lack of autonomy of economic and monetary policy which it entailed. This system, which made big inroads on the foreign exchange reserves, at least in the deficit countries, determined the direction of these policies without leaving any latitude. Furthermore, fixed exchange rates were not the right instrument for reconciling the relations between growth and prices, widely differing as they were from one country to another, at the international level. The system of floating rates therefore appeared preferable : it removed the unpleasant necessity of taking action to restore equilibrium in foreign payments, since that equilibrium would always be automatically ensured by the variation in exchange rates; freed of this external constraint, the authorities would be able to pursue the domestic aims which they deemed most appropriate. True, the protagonists of floating rates never claimed that the authorities' freedom of action would become unlimited. For, by its power — assumed to be unailing — of rapidly readjusting current disequilibria, the system of floating rates was supposed to remove the possibility of countries living for a long time above or below their means; it would no longer be feasible to allow a disequilibrium between domestic demand and resources to continue : the appearance of a deficit, for instance, would set in motion a transfer of real resources to foreign countries, induced by exchange rate movements, and this correction would have a contracting effect on the resources remaining available for satisfying domestic demand; undoubtedly, in the state of full employment of the 1960s, the proponents of this doctrine recognised that the authorities could not ignore this contraction; but, all in all, they were of the opinion that those responsible for economic policy would have more elbow room than under a system of fixed parities.

Events have proved that these assertions ought to have been coupled with many reservations.

It is obvious that speculation has not had a stabilising effect. The rates for some currencies have undergone wide and sometimes sudden fluctuations, often without any major change having taken place in the fundamental economic conditions of the countries in question. Such movements can only be explained by the effect of unidirectional anticipations and by the fact that general market behaviour follows the lead given by a few operators. For in fact, whatever the exchange rate system in force, these lines of behaviour seem to be strongly influenced by disequilibria in the current account of the balance of payments, irrespective of their cause; this does not, however, apply to the case of the Belgian-Luxembourg Economic Union. Anticipations of price rises, based on the recent trend, also appear to have become a motive force behind speculative unrest in recent years. Once set in motion, the chain reactions by which exchange rates are swept along usually only stop after very substantial upward or downward movements, or after the situation has been taken in hand again by the authorities, who display, by massive interventions and measures of monetary policy, their determination to halt the slide of exchange rate relationships.

Nor has the floating of currencies given any proof of its worth as a means of remedying the downward rigidity of costs and thus as a force for quickly restoring the equilibrium of the balance of current payments. As the years have passed, events have invalidated the two assumptions on which the arguments asserting the curative virtues of floating rates had been founded. The first assumption was that recipients of incomes were victims of the money illusion : faced with price rises, they would be satisfied with unchanged or only partly adjusted nominal incomes. Now experience has shown that the increases in the prices of imported products following rises in the rates for foreign currencies have been quickly passed on — just like any other autonomous price increase — to all the costs and prices in an economy, even where there was no formal link between incomes and the movement of prices. Thus the price differentials created by fluctuations in exchange rates are short-lived or remain only small. The second assumption was that these price differentials and the resultant changes in the terms of trade would bring about adjustments in the volume of demand which would compensate, or even more than compensate, for the effect of these changes in the terms of trade on the balance of current transactions. This essential argument, so frequently invoked in support of all exchange rate manipulations, is also disproved by actual events : in reality, even when a price differential has been

maintained, the reactions in the volume of demand have been considerably smaller in extent and less rapid than had been forecast with the aid of econometric calculations, which were unfortunately on the optimistic side. All in all, the therapeutic properties of exchange rate variations for economies suffering from external disequilibria have turned out to be less evident than the repercussions of these variations on domestic prices, particularly in open economies.

Thus the reality of recent years prompts the empirical observation that exchange rate fluctuations, rather than solving the existing problems, have created new ones, and that they have been particularly subject to amplification through speculation when the markets have been left to themselves. It is moreover clear that, in all the industrialised countries, the authorities have retained or ultimately reassumed control over the rates for their currencies. The hope that the authorities' autonomy of choice would be increased by floating has therefore not been fulfilled. The opinion is even gaining ground that this autonomy might perhaps, when all is said and done, be more limited under a system of fluctuating exchange rates.

The fact remains that the international order of Bretton Woods has been replaced by a chaos in which each country can decide, with too great a degree of independence, to switch over from floating to a precarious stabilisation of the rates for its currency, or vice versa.

Nevertheless, it would be impossible to revert, even by stages, to an international system in which countries would undertake to maintain fixed parities and only to change them in exceptional cases, without account being taken of the underlying causes of the dislocation and subsequent collapse of the system which operated for a quarter of a century after the war. An objective analysis of the origins of this breakdown would probably confirm, in more general terms, the lessons which emerge from the vicissitudes of floating exchange rates. It would thus become clear that no organisation of international monetary relations can correctly ensure the continuous and regular functioning of payments, the development of trade between nations and, ultimately, the prosperity of each of them, if these nations, including and above all the largest ones, do not subject themselves to the discipline of domestic equilibria, failing which there is no safeguard against prolonged external disequilibria, the causes of radical disruptions.

Having become aware of the risks of a policy of floating and realising, furthermore, that the integration of their economies is incompatible with discretionary actions decided upon completely independently by each partner, the member countries of the European Economic Community agreed to establish among themselves an institutional system designed to bring about greater coordination of the exchange relationships between their currencies.

The Community countries had in fact already attempted to create an area of monetary stability among themselves. In April 1972 the so-called « Basle agreement », concluded between the central banks in implementation of a decision by the Community authorities, had reduced the maximum difference between the exchange rates for the currencies in question at any time from 4.5 to 2.25 p.c., i.e. a margin equal to that which was applied in relation to the U.S. dollar. This agreement had admittedly been maintained at the time when, in March 1973, the present period of more general floating of currencies began. But the vicissitudes of their economic situation and external accounts, accentuated by the rise in the price of oil, had successively induced several countries to suspend their adherence to the Basle agreement. In 1978 the only members of the Community still applying the so-called « snake » agreement were the Federal Republic of Germany, the Benelux countries and Denmark.

The European Council, which met in Bremen on 6th and 7th July, considered that the degree of recovery achieved in the external situation of several countries created conditions conducive to an effort to widen and strengthen the area of fixed exchange rates represented by the « snake » currencies. At Brussels, on 4th and 5th December, the Council took the decisions of principle necessary for the creation of a European Monetary System.

As in the case of the « snake », the European Monetary System will be composed of currencies which will be linked to each other by fixed but adjustable exchange rates and which will float jointly in relation to third currencies. But the new structure will be based on a European currency unit, called the « ECU », composed of a basket of currencies whose weights will be determined on the basis of economic criteria. The ECU will have many roles : it will serve as the numéraire, as a point of reference for detecting divergences between Community currencies

and as a common denominator for the central banks' debts to and claims on the European Monetary Cooperation Fund; the reserve assets built up with the latter will be expressed in ECUs, and will themselves be called « ECUs »; an initial part of these assets will be provided by the central banks contributing to the Fund one-fifth of their gold and dollar reserves.

The central rates for the different currencies will establish the grid of bilateral parities around which will be fixed the permitted fluctuation margins and thus the compulsory intervention rates. At the limits of the permitted fluctuation margins the interventions will take place, as in the « snake », by the sale of the strong Community currency or currencies against the purchase of the weak Community currency or currencies. These interventions will be backed, at the time when they take place, by reciprocal credits in ECUs at very short term, which may be prolonged by short and medium-term support, the volume of which will have been considerably increased. The new system will bring in a considerable innovation by introducing a divergence indicator whose purpose will be to give rise to policy reactions by the member countries. Crossing of the agreed « divergence threshold » for a currency will oblige the country concerned to take measures designed to reduce the tensions on the foreign exchange markets and/or to enter into consultation with its partners. The new mechanism could thus serve to make the constraints upon the various countries more symmetrical, because its effects will be triggered both for currencies displaying an upward trend and for those which decline.

To enable this project — an ambitious one when implemented — to produce lasting effects, it will be essential that the operation of this large fixed exchange rate area shall be buttressed by economic policies characterised by a willingness to subordinate national action to the Community purpose. Admittedly, the variations in economic activity will never be perfectly synchronous within the Community, nor, perhaps, is it desirable that they should be. Temporary disequilibria will therefore undoubtedly disturb the national foreign exchange markets; when these are due to the effect of cyclical or accidental variables, it will be right for them to be financed rather than countered. But it is equally obvious that if the economic policies of each of the Community countries were to differ fundamentally from each other for too long in their inspiration and aims, and if the foreign exchange policies with regard to the floating

currencies were to be contradictory, the movements of the internal and external values of the partner countries' currencies would always inevitably be inconsistent; the area of monetary stability would then be stable in name only.

This necessary consistency of policies will not be easily achieved so long as these policies are decided upon in the various countries by Governments which are primarily answerable for their decisions to national authorities, and in particular the national electorates. The technical arrangements which may be adopted to promote the monetary unification of Europe are ultimately only a means of contributing to the attainment of wider, more fundamental and longer-term aims. These aims can only be set and achieved with the consensus, expressed with absolute clarity and renewed as the measures are implemented, of the supreme political authorities of autonomous States. In other words, the introduction, desired by the European Council, of a coordinated monetary system, recognised as being a necessary aid to economic integration, absolutely logically postulates, on the part of these authorities, a willingness to move closer together representing the beginnings of a form of political union among the countries of the Community.

Until such time as the political foundations of this area of European monetary stability have become consolidated, it will only survive, in the coming years, if each country is willing and able to make the internal adjustments required for the fundamental preservation of its external equilibrium. The latter does not actually represent an artificial constraint which the authorities would be imposing upon themselves in a desire to display their Community spirit. It is facts that demand the maintenance of this external equilibrium, in each of the member countries, and this requirement is more imperative the smaller the countries concerned. In any case, whether the countries act in a spirit of international cooperation or are impelled by purely national considerations, there is no way, in the long run, of escaping this imperative requirement of external equilibrium. There is, in particular, no painless solution through the manipulation of exchange rates. Either the fundamental adjustments are made in good time and their success makes it unnecessary to run the risks of an alteration in exchange rates; or the adjustments are delayed and these hesitations make it inevitable to resort to exchange rate alterations whose success depends on supporting measures which merely bring about, with a time-lag, the necessary adjustments.

Certain fundamental adjustments must figure, in the coming years, among the foremost concerns of all those who hold a share of economic responsibility in our country.

In this connection the substantial progress already made in the battle against inflation is very satisfactory, even though it is partly due to cyclical circumstances.

These same circumstances, on the other hand, have led to a deferment of the reorganisation of the public finances, the need for which has been emphasised in many quarters and on many occasions. Recommendations and declarations of intent have not prevented the public authorities' expenditure from continuing to rise faster than the national product and the budget deficit of these authorities from growing from 6.6 p.c. of the national product in 1976 to 7.2 p.c. in 1978, despite a further increase in the fiscal and parafiscal burden. The sharp increase in expenditure and in the deficit shows that the funds spent have not had any significant effect on the level of activity and raises questions with regard to the « opportunity cost » and effectiveness of some expenditure items. An analysis of these aspects could be based on a necessary re-examination, in the light of the facts, of the accepted doctrines with regard to the counter-cyclical effect of budgetary policies.

These considerations and the danger which would be represented by the continuance, during a period of recovery, of the trends of recent years, induced the Government to make the reorganisation of the public finances a priority objective; it announced its determination to limit the growth in the Central Government's expenditure, and the budget which it submitted for the 1979 financial year bore witness to a first effort in this direction. However, this attempt would lose part of its significance if such results as were achieved were to be offset by an aggravation of the deficit of the other State sectors, namely social security and local authorities.

With regard to the 1978 budget, the necessary supplementary appropriations, including for the payment of unemployment benefits, were offset by cuts in the expenditure of various departments. With regard to the future, the Economic and Budgetary Reform Law (Anti-Crisis Law) of 5th August 1978 provided for certain specific reforms, to be carried out in most cases by Royal Decrees issued under special powers. Among these decrees, those which were to introduce various reforms with regard

to social security could not be adopted by the Government before 31st December 1978, as was required in many cases by the law. And yet these reforms are essential, because the social security subsidies have for several years been one of the main factors pushing up government expenditure and, in the absence of reforms, the same would inevitably be true in the future. It is likewise essential that the rules laid down by the Anti-Crisis Law for the 1979 budget be observed : the object of these rules is to stabilise the volume of expenditure unconnected with the economic crisis and to restructure total government expenditure for the benefit of those outlays which will encourage industrial renewal.

Efforts to renew the fabric of economic activity are necessary for two reasons. On the one hand, some important economic sectors which generated growth supply goods for which world demand is undergoing a relative decline or which are now produced by geographical areas enjoying comparative cost advantages. On the other hand, it is absolutely certain that demand for jobs, connected with the growth of the working population, will increase in the next few years; absorption of this additional demand by excessive development of non-market services would in the medium term, under the present economic régime, add to the burdens weighing on the other sectors. A new industrial policy must therefore be applied. Its main lines have been set forth in a government report to Parliament. Among the main objectives of this policy mention may be made of restructuring and modernisation of the traditional sectors in the light of the new international division of labour, specialisation by diversification towards « sophisticated » products with a high value added in relation to their volume and a substantial technological content, widening of the markets for the products and promotion and reorientation of applied industrial research.

Priority aims have thus been defined; the concrete ways of achieving them still need to be specified : in theory there are many of them, the conceivable lines of action ranging from the mere granting of tax incentives to the creation of public enterprises. Whatever measures are finally decided upon, the essential requirement for effective implementation of the policy envisaged is that there shall be a real consistency between them, in other words, that they shall be integrated in an overall strategy. This necessarily calls for choices between several possibilities of action and several methods of implementation. It is therefore desirable to select, for modernisation and development, activities with the greatest chances

of success, while accepting at the same time that uncompetitive enterprises without any future cannot just be kept alive at any price; similarly, certain lines of action may be effective provided they are pursued on a sufficiently large scale, that is, on a national or, more and more often, European scale.

The necessary economic recovery therefore demands that all economic and social forces shall combine their efforts in the interests of all.

24th January 1979.

Reference periods :

Unless otherwise indicated, when data for different years are compared in this Report, they all relate to the same period of each of the years in question.

Conventional signs :

—	The datum does not exist
...	zero or negligible quantity
n.a.	not available
<i>p</i>	provisional
<i>e</i>	estimate
p.c.	per cent

1 billion = 1,000,000,000.

INTERNATIONAL ECONOMIC AND FINANCIAL TREND.

Five years have passed since the world economy was shaken by the quadrupling, within a short time, of the price of oil, the culmination of a general upsurge of raw material prices brought about by a synchronous overheating of world economic conditions in 1972-1973.

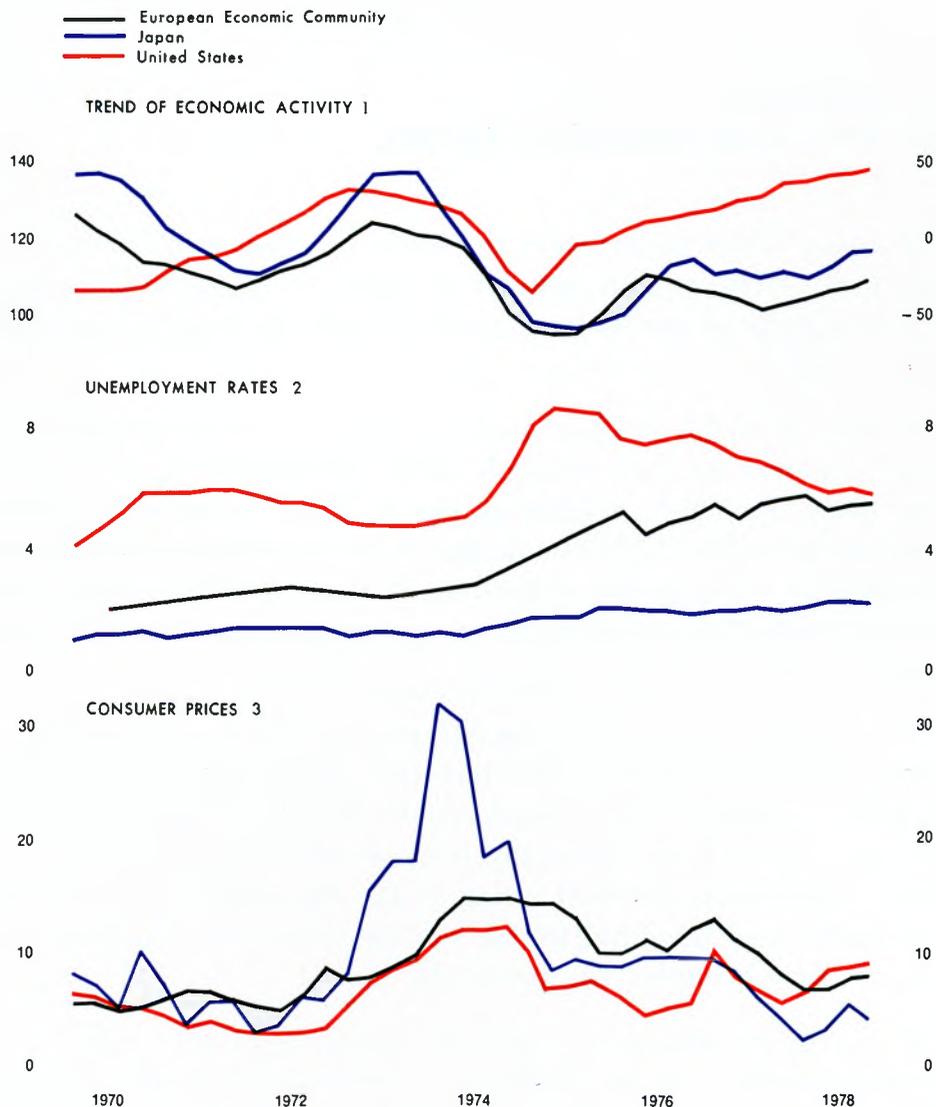
As a result of this shock, a number of disruptions of equilibrium had become apparent or had suddenly been aggravated in most of the industrialised countries : a runaway rise in domestic prices, a cessation of economic growth in 1974 and a decline in 1975, an appreciable worsening of the deficits of the public authorities, a sharp rise in unemployment, a general dislocation of world flows of current transactions and more marked divergences of exchange rates.

At the end of 1978 it is possible to place on record indisputable progress towards recovery. Inflation has considerably slowed down; growth has resumed; in the industrialised countries the problem of the public finances no longer generally presents the disquieting appearance which it had initially assumed owing to the spectacular rise in deficits, and unemployment is tending to stabilise; the swelling of the oil-exporting countries' current surplus has practically ceased.

However, the recovery is far from being complete. Inflation has not been overcome : the rise in consumer prices is still more than double the average for the 1960s; economic growth is still considerably below the 4.9 p.c. recorded as the annual average in the member countries of the Organisation for Economic Cooperation and Development for the period 1960-1973 and offers little prospect of any substantial reduction of unemployment, which still persists at the extremely high level of about 16 million in the above-mentioned area; the process of adjustment of the various countries' current account balances is far from having been completed and exchange rates have not reacquired sufficient stability.

Chart 1.

TREND OF ECONOMIC ACTIVITY, UNEMPLOYMENT RATES AND CONSUMER PRICES



Sources : Trend of economic activity : European Economic Community; The Bank of Japan; U.S. Department of Commerce. Unemployment rates : European Economic Community; Organisation for Economic Cooperation and Development. Consumer prices : Organisation for Economic Cooperation and Development; Prime Minister's Office; U.S. Department of Commerce.

1 European Economic Community : Appraisal of total order book (net percentages of replies indicating, respectively, « Above » and « Below » normal); excluding Denmark; including the Netherlands from November 1972, Ireland from May 1976, the United Kingdom from October 1977; right-hand scale. Japan : Appraisal of all industries concerning the « state of business » (net percentage of replies indicating, respectively, « Favourable » and « Unfavourable »); right-hand scale. United States : Synthetic curve of twelve cyclical indicators (index 1967 = 100); left-hand scale. Monthly averages per quarter; last period : average for October-November for the European Economic Community and the United States, and October for Japan.

2 As a percentage of total labour. The data for the different geographical units are not fully comparable with each other; with certain reservations, however, they can be used to study the trend of unemployment in each area separately. European Economic Community : annual figures up to 1975, subsequently monthly averages per quarter; last period : average for October-November. Japan : monthly averages per quarter, seasonally adjusted; last period : average for October-November. United States : monthly averages per quarter, seasonally adjusted.

3 Percentage change compared with the level reached six months earlier, on an annual basis, seasonally adjusted; monthly averages per quarter; last period : average for October-November.

Just as they had displayed the various symptoms of an exceptional crisis in different degrees, the major countries and economic areas have since followed divergent courses, depending on the not only economic but also socio-political factors which determine the priorities and choices of their policies. It is felt, however, that they have nowhere succeeded in re-establishing a truly satisfactory balance between the major domestic aims — growth, employment, prices — and the external aims — balance of payments, exchange rates, terms of trade.

The United States had, fairly quickly, succeeded in reviving growth and appreciably reducing unemployment. But it is now faced by a new upsurge of inflation, an unprecedented external deficit and a more marked depreciation of its currency in relation to those of other industrialised countries.

Japan was one of the first countries to experience a revival in growth. Furthermore, by an aggressive export policy, it transformed its current balance of payments deficit into a surplus which is growing from year to year — a fact which, moreover, was inevitably a source of trouble for a number of other countries. But the growth rates, although very appreciable, namely about 6 p.c., fell far short of the pre-crisis figures and, parallel with this, visible or concealed unemployment, continuing to rise, reached a historically very high level.

In the European Economic Community inflation was greatly reduced — while still remaining excessive in some countries — and external equilibrium on current account was practically restored, although at the price of very slow growth and record unemployment, despite the departure of foreign workers; for several countries there came on top of this a considerable loss of real wealth due to the substantial depreciation of the exchange rates for their currencies.

Other countries, including those of Northern Europe and Austria, found themselves isolated in their efforts to sustain domestic demand and employment and could not do other than defer the necessary adjustments. For some of them there is a danger that these adjustments will be prolonged and aggravated by the burden of heavy foreign indebtedness, accepted as the price of the priorities assigned to the objectives of growth and employment.

The synchronism of the movements of economic activity which had characterised the overheated phase of 1972-1973 continued in 1974 and

1975, during the crisis, and also in 1976, especially the first half of the year, in a marked international recovery, very largely due to the replenishing of stocks and the stimulating effects of the public finances.

Except in the United States, where, during the next two years, growth remained steady and unemployment declined appreciably, this recovery hung fire in most of the industrialised countries. From 1977 onwards the tempo of economic activity became hesitant again in Japan and slow in Europe. Contrary to general expectations, household expenditure and, particularly, enterprises' investment in fixed assets were not revived for any length of time by the counter-cyclical public finance policy, which was furthermore restrained or prematurely interrupted by some countries. It is true that, in a depressive international context marked by the persistence of major sources of inflation and disturbed by the abandonment of the system of fixed exchange rates, the national authorities abstained from deliberately bringing about a marked revival of activity which would have placed their countries in a cyclical situation which would have been badly out of step with that of their main partners; they obviously feared that such a situation would have harmful effects on external and/or domestic equilibria which had been more or less painfully achieved and which they did not wish to see jeopardised again.

The fact that the United States was able to remain an exception in this respect for a certain length of time is attributable to the small degree of openness of its economy, which is moreover little dependent on others, and to the special position which it enjoyed from the point of view of its external relations, as the issuer of the main international reserve currency. And yet this country, too, is now having to reverse its policy by assigning top priority to the curbing of the price rise and to the external objectives, at the very time when its domestic economic activity is showing signs of slackening.

The non-synchronisation of economic developments since 1977 has had a moderating effect on the trend of raw material prices. On the other hand, the adverse influences emanating from the areas with a low level or declining trend of economic activity have counteracted, and even cancelled out, the multiplier effect of international trade emanating from the expanding areas. This is probably one reason why the faster growth in the United States has hardly produced the so-called locomotive effect, especially in the case of Europe.

Be this as it may, towards the middle of the year, following prolonged international consultations, the main western industrial countries decided, within the framework of a common strategy, to adopt concrete measures with a view to jointly reviving the world economy.

These measures produced scarcely any effects in 1978. Consequently, the year as a whole was fairly similar to the previous year.

As in 1977, the growth in the total gross national product of the member countries of the Organisation for Economic Cooperation and Development amounted to about 3.5 p.c. and was faster in the United States and above all in Japan than in Europe; recent indications, however, point to a speeding-up in most of the European countries and a slowing-down in the United States. In the developing countries, both oil-producing and non-oil-producing, growth would appear to have slackened somewhat.

Employment more or less stabilised in the industrial countries as a whole : it declined in the United States, where there was little or no increase in productivity, and, to a smaller extent, in the Federal Republic of Germany; it worsened in other member countries of the European Economic Community and in Northern Europe, despite the adoption of specific measures by many countries.

For the same group of countries, the rise in consumer prices was somewhat smaller than in the previous year, but in many cases it speeded up during the year. The convergence improved slightly owing to a reduction in the highest rates.

Substantial changes took place, on the other hand, in the field of external economic relations.

The balance of current transactions of the area of the member countries of the Organisation for Economic Cooperation and Development with the rest of the world practically returned to balance, whereas in 1977 it had shown a deficit of over \$ 25 billion. This movement can be regarded as favourable from the point of view of international relations, particularly insofar as it is due to the appreciable reduction in the deficit recorded by various countries in 1977 (in the case of the Scandinavian countries and Austria) or even to its complete disappearance (in the case of France); it is, however, also attributable to the fact that the surplus of some countries whose balance was already very strong was larger in 1978 than in 1977

(this was so in Switzerland, the Federal Republic of Germany and, above all, Japan). The deficit of the United States, which represented over half that of the whole area in 1977, increased further in absolute figures.

Table 1.

BALANCE OF CURRENT TRANSACTIONS WITH FOREIGN COUNTRIES ¹

(Billions of U.S. dollars)

	Average 1964-1973	1974	1975	1976	1977 <i>p</i>	1978 <i>c</i>
Organisation for Economic Cooperation and Development	+ 5.6	-28.0	+ 0.2	-19.0	-27.6	- 0.7
of which : United States	+ 2.1	+ 4.5	+18.4	+ 4.3	-15.3	-18.2
Japan	+ 1.9	- 4.7	- 0.7	+ 3.7	+10.9	+20.0
Federal Republic of Germany ...	+ 1.3	+ 9.8	+ 4.0	+ 3.8	+ 3.7	+ 6.0
United Kingdom .....	...	- 8.6	- 4.1	- 2.0	+ 0.5	- 0.5
France	- 0.3	- 6.0	- 0.1	- 6.1	- 3.3	+ 2.0
Italy	+ 1.4	- 8.0	- 0.8	- 2.8	+ 2.3	+ 5.5
Netherlands	+ 0.3	+ 2.1	+ 2.0	+ 2.7	+ 0.2	- 1.5
Belgian-Luxembourg Economic Union	+ 0.5	+ 0.6	+ 0.3	...	- 0.7	- 0.3
Switzerland	+ 0.2	+ 0.2	+ 2.6	+ 3.5	+ 3.4	+ 4.5
Austria	- 0.1	- 0.5	- 0.3	- 1.5	- 3.0	- 1.5
Scandinavian countries ²	- 0.4	- 3.0	- 4.5	- 8.1	-10.0	- 4.5
	Average 1970-1973					
Organisation of Petroleum-Exporting Countries	+ 2.4	+59.2	+27.2	+ 37.0	+31.5	+11.0
Other developing countries	- 7.9	-24.5	-38.5	- 26.0	-24.0	-34.0
Other countries	- 2.7	- 9.7	-18.5	- 12.7	-10.0	-10.7

Sources : Organisation for Economic Cooperation and Development. For the Belgian-Luxembourg Economic Union : National Bank of Belgium.

¹ Where the total of the balances of the different groups of countries is not equal to zero, this is due to statistical errors and imbalances, which can sometimes be substantial in view of the size of the gross flows of international transactions.

² Denmark, Norway and Sweden.

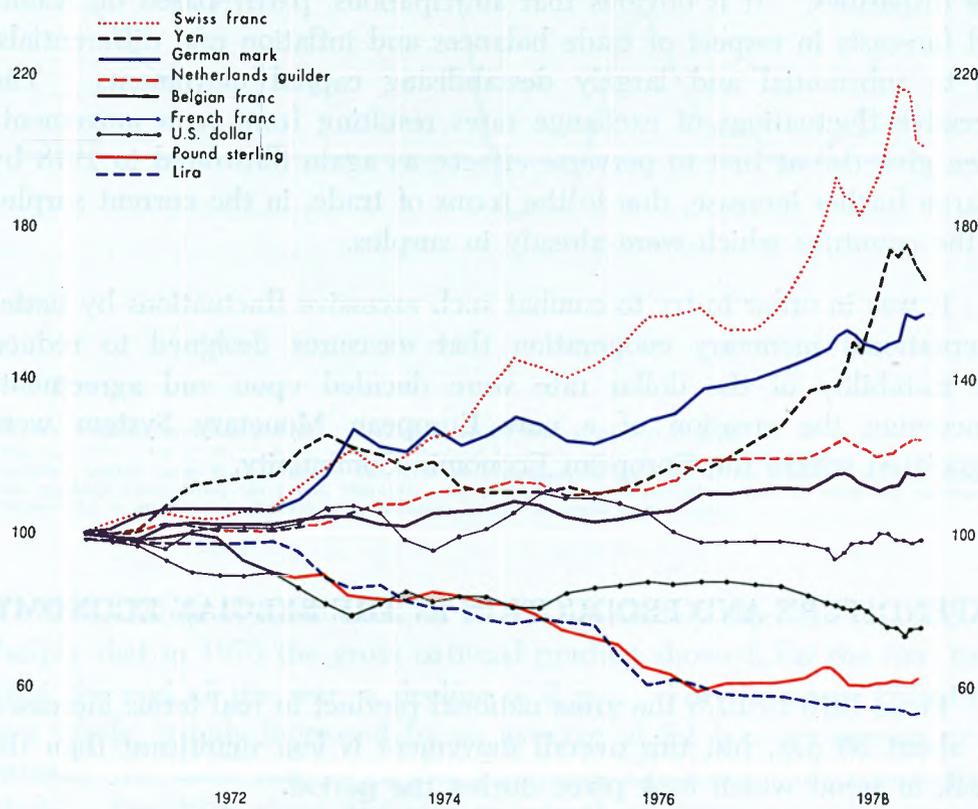
The surplus of the countries belonging to the Organisation of Petroleum Exporting Countries decreased further by about \$ 20 billion — amounting to only around \$ 10 billion, which is close, in real terms, to its 1973 level — and the deficit of the other developing countries would appear to have risen to nearly \$ 35 billion, or some \$ 10 billion more than in 1977. These variations are only subsidiarily due to the movement of the volumes of exports and imports; they are primarily attributable to the movement of the terms of trade : expressed in dollars, the export prices of the industrialised countries rose appreciably, unlike the prices of the raw materials, both energy sources and others, which account for the bulk of the developing countries' foreign sales.

Although the past year thus saw the disappearance of the remainder of what had for a time been the excessive element of the surplus of the oil-exporting countries, it must be said that the deficit of the other developing countries increased again and that, within the area of the Organisation for Economic Cooperation and Development, virtually in balance viewed as a whole, the national surpluses and deficits each totalled no less than \$ 40 billion, nearly half the deficit being accounted for by the United States and a similar proportion of the surplus being recorded for Japan.

Chart 2.

WEIGHTED AVERAGE EXCHANGE RATES FOR VARIOUS CURRENCIES

(Indices May 1970 = 100)



Source : International Monetary Fund.

With regard to exchange rates, the instability was not less than during the preceding years, although there was no lessening in the monetary authorities' interventions on the markets. During the year there was above all a pronounced upward movement of the weighted average rate for the yen and the Swiss franc, and a considerable decline on the part of the U.S. and Canadian dollars; a corrective reaction supervened, however, from November onwards, after the announcement that a number of technical measures would be adopted to enable the rate for the U.S. dollar to be kept under better control. Within the monetary « snake » it should be mentioned that in terms of European Monetary Units of Account the Norwegian crown was devalued by 8 p.c. in February and that in October the German mark was revalued by 2 p.c. in relation to the guilder and the Belgian franc and by 4 p.c. in relation to the Danish and Norwegian crowns; the last-mentioned currency left the « snake » on 12th December.

The wide fluctuations in exchange rates cannot be explained solely by the movement of current balances and of capital flows due to interest rate disparities. It is obvious that anticipations, partly based on results and forecasts in respect of trade balances and inflation rate differentials, led to substantial and largely destabilising capital movements. The excessive fluctuations of exchange rates resulting from such movements often give rise at first to perverse effects, as again illustrated in 1978 by a large further increase, due to the terms of trade, in the current surplus of the countries which were already in surplus.

It was in order to try to combat such excessive fluctuations by better international monetary cooperation that measures designed to reduce the instability of the dollar rate were decided upon and agreements concerning the creation of a new European Monetary System were negotiated within the European Economic Community.

EXPENDITURE AND PRODUCTION IN THE BELGIAN ECONOMY.

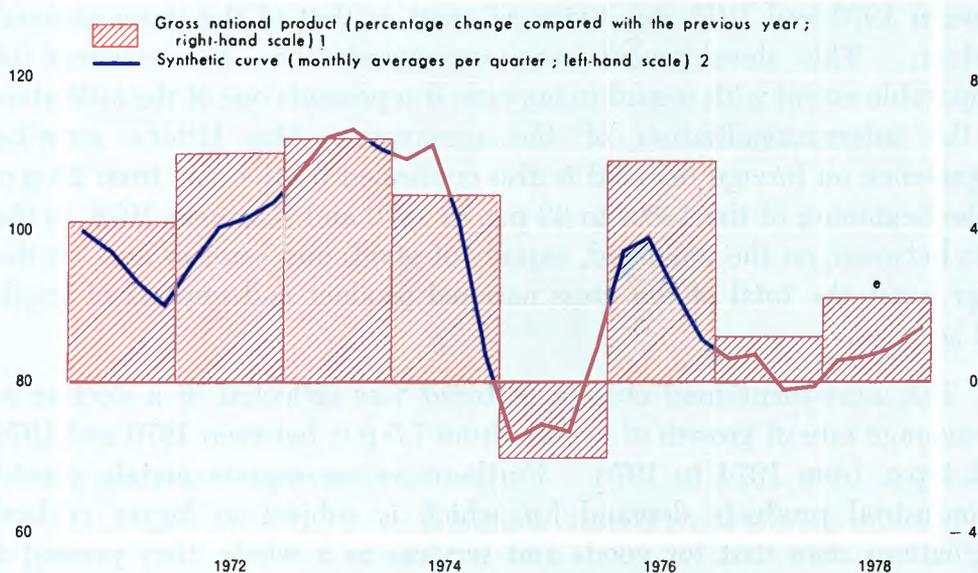
From 1970 to 1978 the gross national product in real terms increased by about 30 p.c., but this overall movement is less significant than the break in trend which took place during the period.

Economic growth was extremely vigorous from 1970 to 1974, the gross national product increasing on average at the rate of 5.5 p.c., as

during the four previous years, and exceeding the rate of 3.9 p.c. observed in the nine countries of the European Economic Community. This period can now be seen as the end of a long phase of exceptional prosperity.

Chart 3.

GROSS NATIONAL PRODUCT AT CONSTANT PRICES AND SYNTHETIC CURVE
OF THE MAIN RESULTS OF THE NATIONAL BANK OF BELGIUM'S
MONTHLY INQUIRIES



¹ Sources : National Statistical Institute. Calculations of the National Bank of Belgium.

² The numerical value of the synthetic curve is calculated from ten series of replies to the inquiries into the trend of economic activity made by the Bank. The level 100 corresponds to the mean of the monthly numerical values of the synthetic curve during the period 1968-1978. In principle, a numerical value above or below 100 corresponds, respectively, to an economic situation more favourable or less favourable than normal.

The change of trend came in 1974, immediately after the oil crisis, so sharply that in 1975 the gross national product showed, for the first time since the end of the war, a decline of 2 p.c. For the years 1974-1978 as a whole, it only increased by an average of 2.1 p.c. per annum or at virtually the same rate as in the European Economic Community as a whole. For 1978 alone, the rate of growth of Belgium's gross national product was even lower than that of the Community, namely about 2 p.c., against 2.6 p.c.

In the light of the recent movement of the synthetic curve of the main results of the Bank's monthly surveys, the fluctuations of which have accurately represented those in the gross national product, it is fair to say that the first half of 1978 was characterised by quasi-stagnation and that this was replaced, in the last months of the year, by a certain revival of economic activity.

a) *Expenditure.*

The rate of growth of the volume of **exports** of goods and services between 1970 and 1978 was twice as great as that of the gross national product. This development was accompanied by a movement of comparable extent with regard to imports; it represents one of the indicators of the internationalisation of the economy. The latter's growing dependence on foreign demand is also confirmed by the rise, from 25 p.c. at the beginning of the 1960s to 33 p.c. in 1970 and 37 p.c. in 1978, in the ratio between, on the one hand, exports of goods and services and, on the other hand, the total of the gross national product and imports of goods and services.

The afore-mentioned change of trend was reflected in a decline in the average rate of growth of exports from 7.5 p.c. between 1970 and 1974 to 2.4 p.c. from 1974 to 1978. Furthermore, as exports mainly consist of industrial products demand for which is subject to larger cyclical fluctuations than that for goods and services as a whole, they present a very marked cyclical profile.

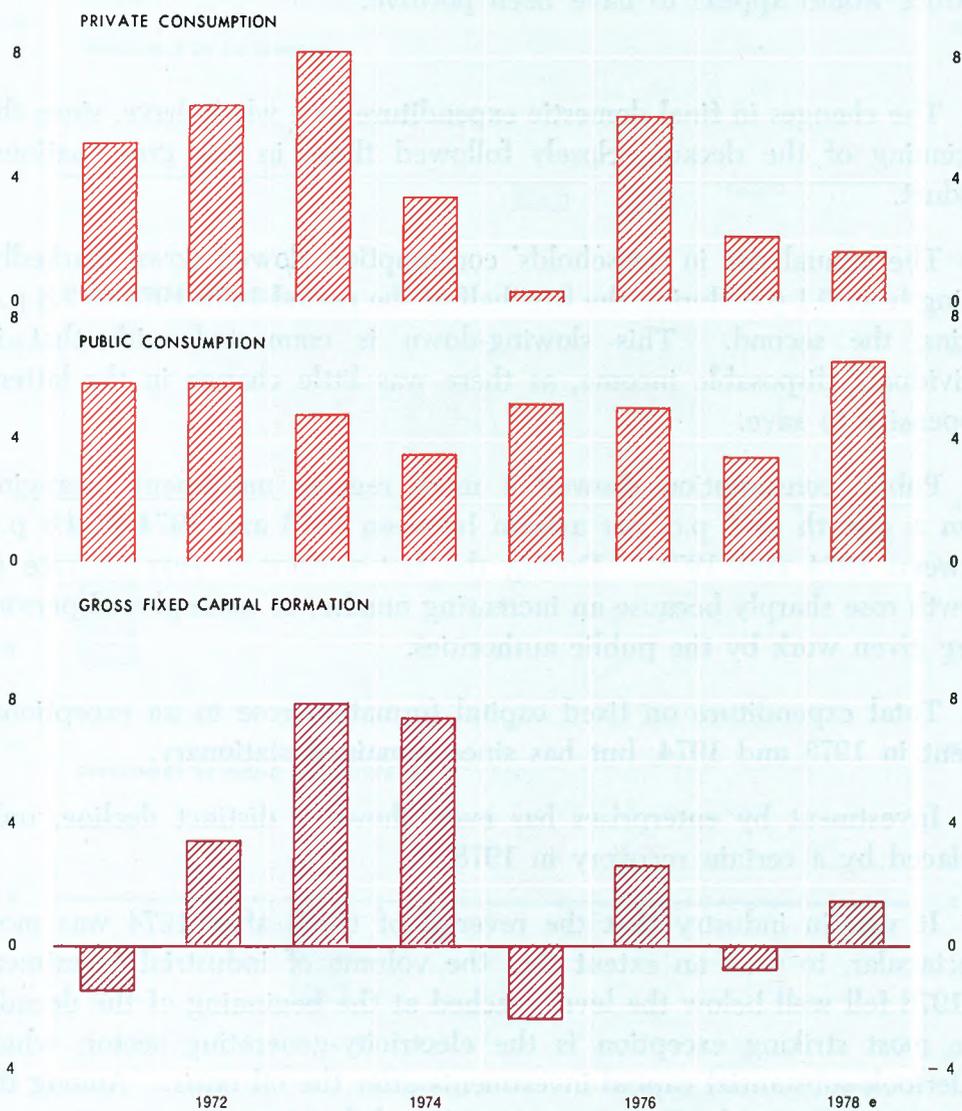
In 1978, total exports increased, according to the data which are already available, to a very modest extent, as in the previous year. The relative smallness of their rate of growth is probably attributable not only to the tendency of demand from the traditional trading partners but also to the structure of the supply of exportable products and their competitive position. We shall revert to these aspects in a later chapter of this report.

Since a large proportion of the primary inputs incorporated in exported goods and services, as in domestic expenditure, consists of imported goods and services, it is not surprising that the fluctuations in **imports** were synchronised with those of final expenditure. The percentage changes in the volume of imports were, furthermore, very close to those in the

Chart 4.

MAIN CATEGORIES OF FINAL DOMESTIC EXPENDITURE AT CONSTANT PRICES

(Percentage changes compared with previous year)



Sources : National Statistical Institute. Calculations of the National Bank of Belgium.

volume of exports, except that the years of high economic activity were generally characterised by a more pronounced growth in imports than in exports and, conversely, the years of low economic activity were marked by a less pronounced growth or a more pronounced decline in imports. Thus, in 1978, the rise in the latter was smaller than that in exports.

The excess, in 1970 prices, of exports over imports has not changed much since 1974; last year its contribution to the growth in the national product would appear to have been positive.

The changes in **final domestic expenditure** as a whole have, since the beginning of the decade, closely followed those in the gross national product.

The annual rise in households' consumption slowed down markedly, falling from 6.1 p.c. during the first half of the period 1970-1978 to 2.8 p.c. during the second. This slowing-down is connected with that in individuals' disposable income, as there was little change in the latter's propensity to save.

Public consumption showed a more regular movement, changing from a growth of 5 p.c. per annum between 1970 and 1974 to 4.8 p.c. between 1974 and 1978. During the last-mentioned year its rate of growth rose sharply because an increasing number of unemployed persons were given work by the public authorities.

Total expenditure on fixed capital formation rose to an exceptional extent in 1973 and 1974, but has since remained stationary.

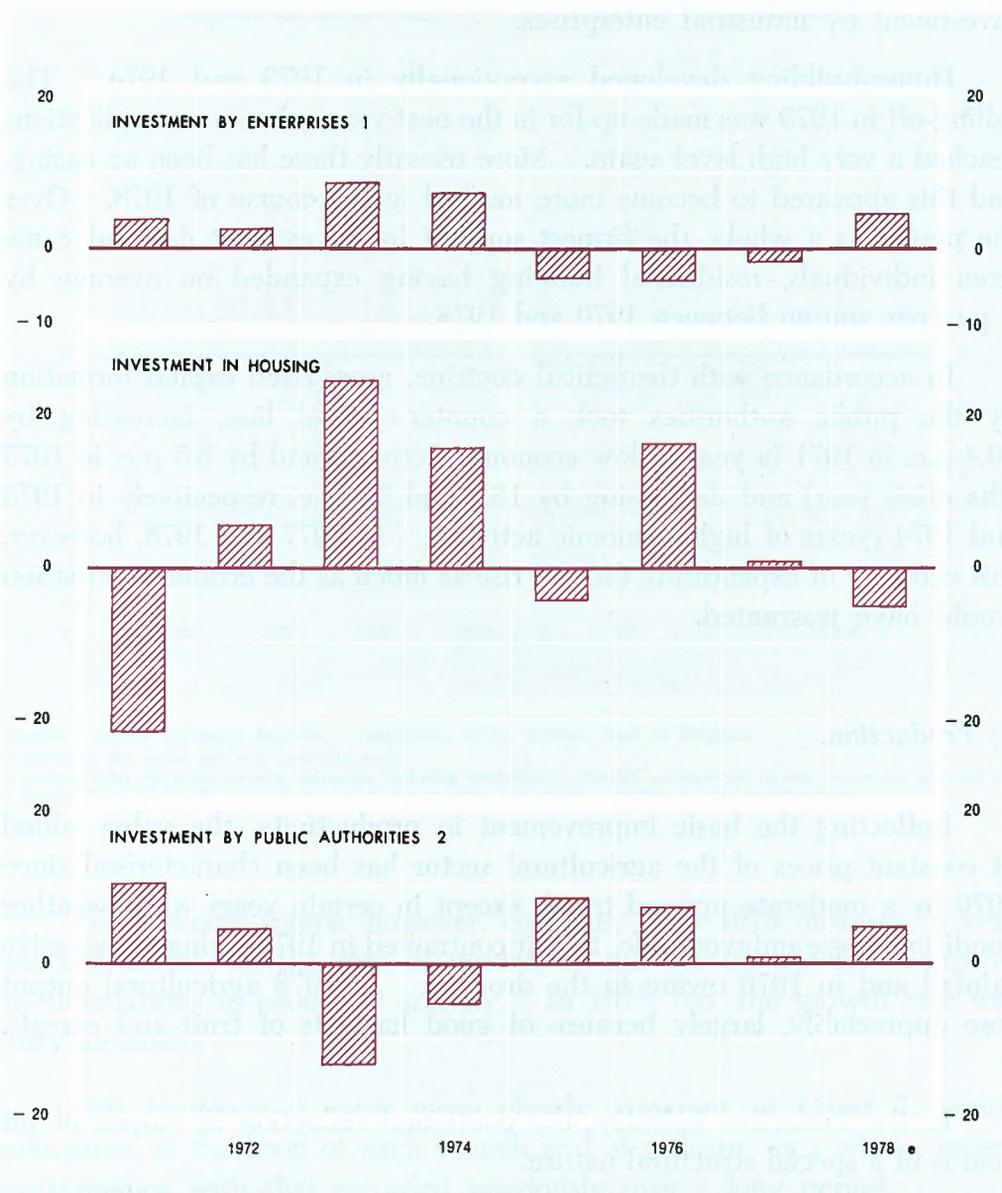
Investment by enterprises has even shown a distinct decline, only replaced by a certain recovery in 1978.

It was in industry that the reversal of trend after 1974 was most spectacular, to such an extent that the volume of industrial investment in 1978 fell well below the level reached at the beginning of the decade. The most striking exception is the electricity-generating sector, which undertook substantial capital investments after the oil crisis. Among the causes, common to the European countries, of the stagnation, mention may be made above all of the low rates of utilisation of production capacities and the unoptimistic anticipations about the future trend of demand, together with the decline in profits. It should also be noted that the

Chart 5.

GROSS FIXED CAPITAL FORMATION AT CONSTANT PRICES OF THE
MAIN TYPES OF ECONOMIC AGENTS

(Percentage changes compared with previous year)



Sources : National Statistical Institute. Calculations of the National Bank of Belgium.

1 Including public enterprises.

2 Including public and private education.

flow of foreign investment, whose contribution to growth was decisive during the 1960s and at the beginning of the 1970s, has contracted.

On the other hand, the growth in investment by the enterprises of the tertiary sector has continued, though at a slower rate, during recent years. In 1978 it would appear to have more than offset, mainly owing to the transport and communications sector, the further decrease in investment by industrial enterprises.

House-building developed exceptionally in 1973 and 1974. The falling-off in 1975 was made up for in the next year, when new applications reached a very high level again. More recently there has been an easing, and this appeared to become more marked in the course of 1978. Over the period as a whole, the firmest support for investment demand came from individuals, residential building having expanded on average by 6 p.c. per annum between 1970 and 1978.

In accordance with theoretical doctrine, gross fixed capital formation by the public authorities took a counter-cyclical line, increasing by 10.4 p.c. in 1971 (a year of low economic activity) and by 8.5 p.c. in 1975 (the crisis year) and decreasing by 13.4 and 5.2 p.c. respectively in 1973 and 1974 (years of high economic activity). In 1977 and 1978, however, this category of expenditure did not rise as much as the economic situation would have warranted.

b) *Production.*

Reflecting the basic improvement in productivity, the value added at constant prices of the **agricultural sector** has been characterised since 1970 by a moderate upward trend, except in certain years when weather conditions were unfavourable; thus it contracted in 1975 owing to excessive rainfall and in 1976 owing to the drought. In 1978 agricultural output rose appreciably, largely because of good harvests of fruit and cereals.

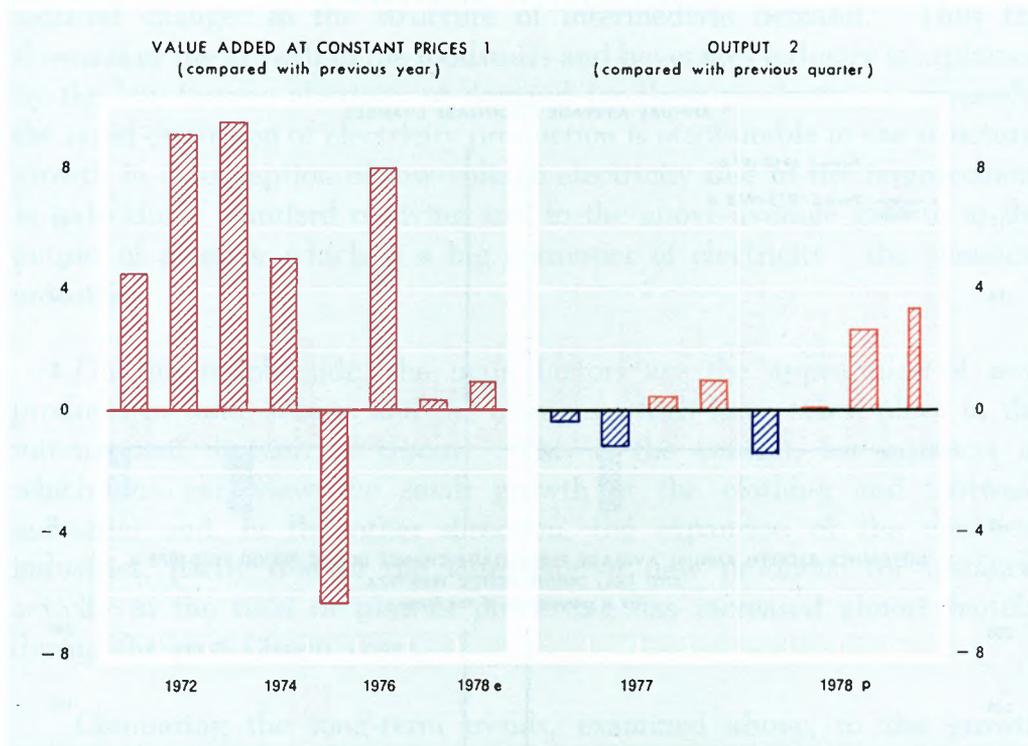
In the **extractive industry**, the continued reduction in output of pit coal is of a special structural nature.

The average rate of increase of the value added in the **manufacturing industries** was 3.5 p.c. for the period 1970-1978.

Chart 6.

VALUE ADDED AND OUTPUT OF MANUFACTURING INDUSTRIES

(Percentage changes)



Sources : National Statistical Institute. Calculations of the National Bank of Belgium.

1 Including the water, gas and electricity sector.

2 General index for manufacturing industries, including electricity. Monthly averages per quarter, seasonally adjusted and corrected for the length and composition of the months; last period : average for October-November.

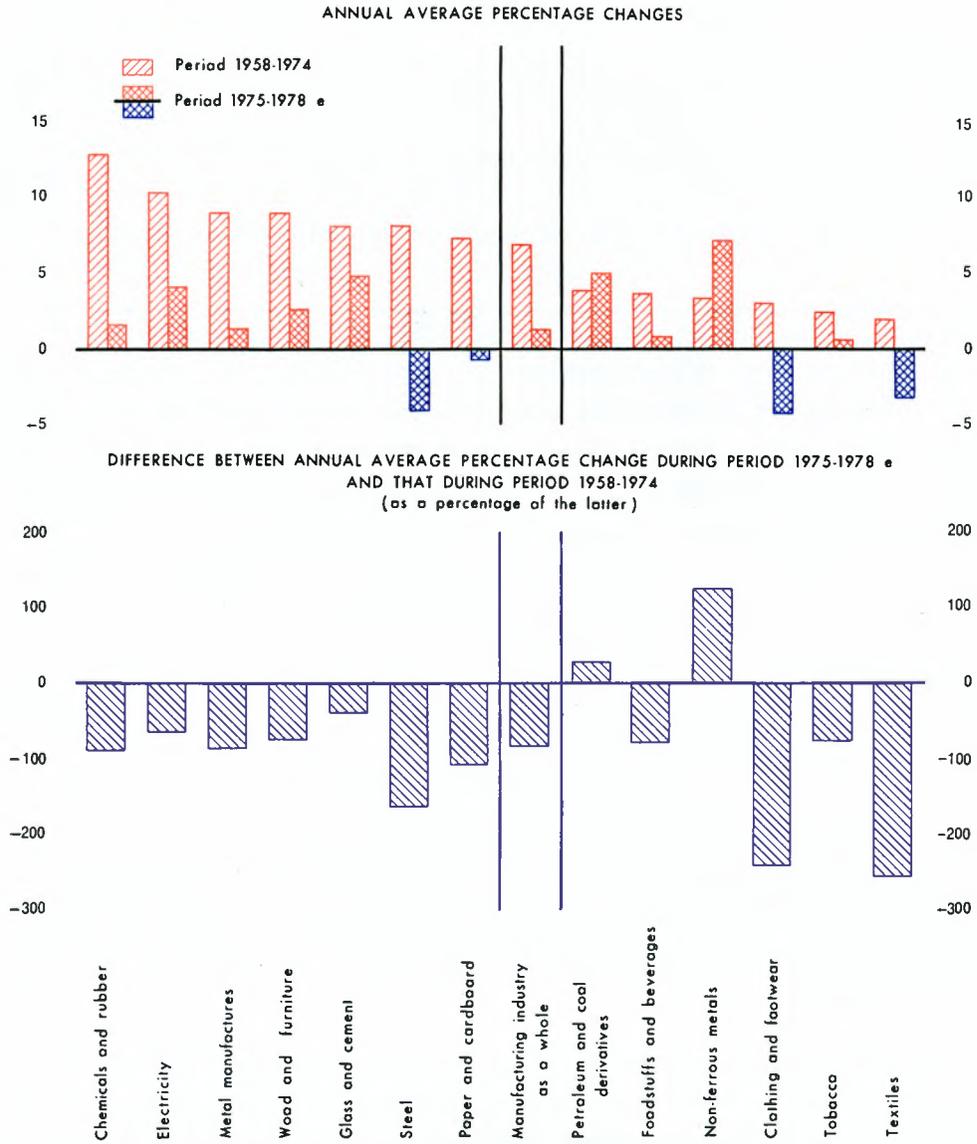
This average figure, however, conceals, from 1975 onwards, a very marked decline in the rate of growth of this sector, which is sensitive to fluctuations in economic activity. In 1978, too, the growth rate was very mediocre.

This tendency is even more clearly apparent in Chart 7, which compares, at the level of each branch and of industry as a whole, recent performance with that recorded previously over a long period.

From 1957 to 1974 the value added in manufacturing industries had increased by an average of over 6.5 p.c. per annum; its movement according

Chart 7.

VALUE ADDED AT CONSTANT PRICES OF MAIN MANUFACTURING INDUSTRIES



Sources : National Statistical Institute. Calculations of the National Bank of Belgium.

to branches had been very heterogeneous, reflecting structural changes in demand and supply.

On the demand side we find, on the one hand, changes in the structure of final demand, especially personal consumption, and, on the other hand, induced changes in the structure of intermediate demand. Thus the slowness of the growth in the foodstuffs and beverages industry is explained by the low income elasticity of demand for these products. Conversely, the rapid expansion of electricity production is attributable to the structural growth in consumption of low-voltage electricity due to the improvement in individuals' standard of living and to the above-average growth in the output of a sector which is a big consumer of electricity : the chemical industries.

On the supply side, the main factors are the appearance of new products in some sectors and the changes which have taken place in the international division of labour. This is the context, for instance, in which one can view the small growth of the clothing and footwear industries and, in the other direction, the expansion of the chemical industries, partly due to the launching of new products; for instance, activity in the field of plastics processing has increased almost tenfold during the past fifteen years.

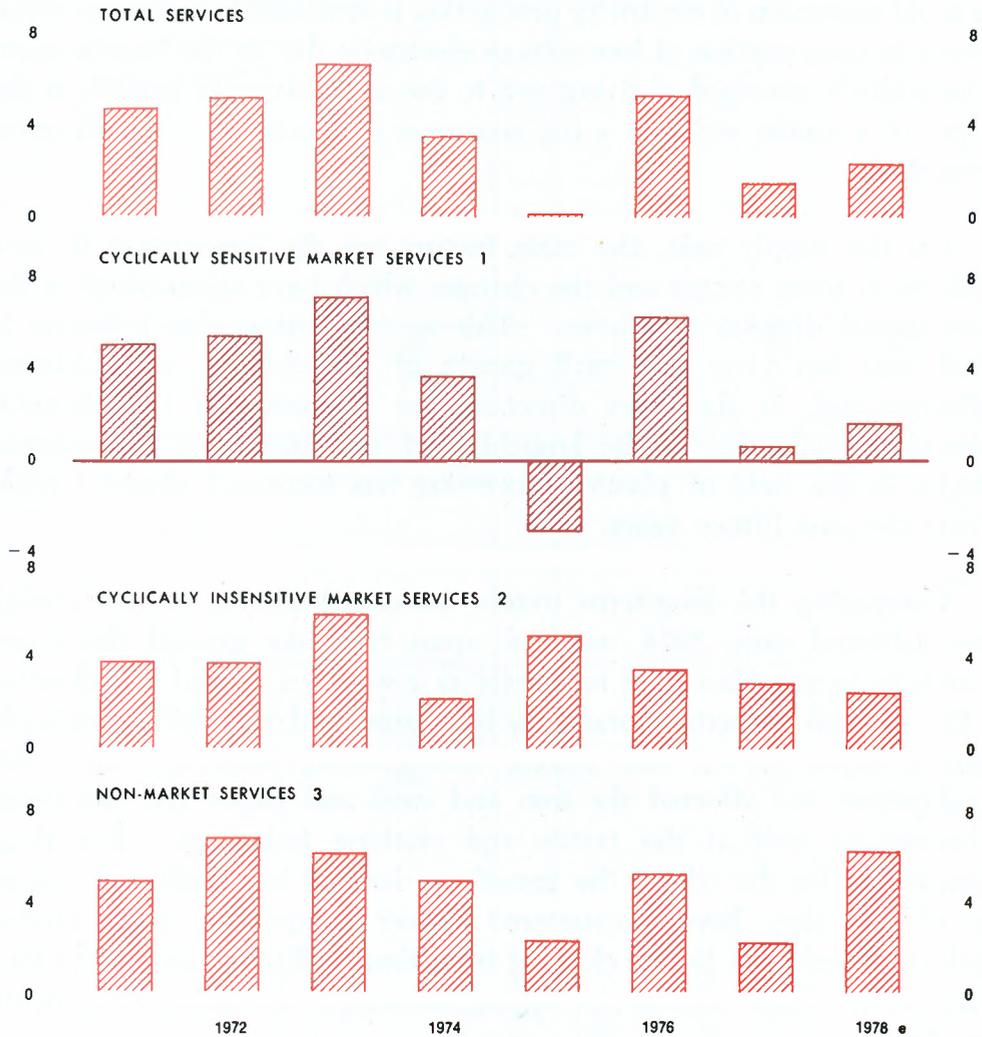
Comparing the long-term trends, examined above, to the growth rates achieved since 1974, we find, apart from the general slackening of activity in manufacturing industries as a whole, a radical deterioration in the position of certain branches, both among those which previously enjoyed rapid growth and among slow-growing branches, since this development has affected the iron and steel and paper and cardboard industries as well as the textile and clothing industries. For these branches, as for the others, the growth in demand has slackened, but on top of this they have encountered keener competition from foreign products : steel from Japan, clothing from Eastern Europe and South-East Asia, fabrics from various developing countries, newsprint from North America.

During the past year the situation remained more or less stationary in the paper and cardboard industry and the clothing industry, and went on deteriorating in the textile industries, while the implementation of the « Davignon Plan » and the incipient economic recovery in the second

Chart 8.

VALUE ADDED OF SERVICES AT CONSTANT PRICES

(Percentage changes compared with previous year)



Sources : National Statistical Institute. Calculations of the National Bank of Belgium.

1 Trade, transport and communications, financial services and other services rendered to enterprises.

2 Medical professions, residential real estate, insurance, services of domestic servants and household staff and other services rendered to individuals.

3 Services provided by the public authorities.

half of the year made possible a modest revival of activity in the iron and steel industry.

On the other hand, some other branches have made an appreciable contribution to growth since 1974; these are the non-ferrous metals industry and that concerned with the derivatives of petroleum and coal, and also two branches which had already been expanding vigorously before 1975 : power stations and the glass and cement industries. This favourable trend continued in 1978 for electricity and petroleum and coal derivatives, but was replaced by a fairly marked slackening of activity in the other two sectors.

In the **building industry** the average rate of growth from 1970 to 1978 was 3.1 p.c. A distinct cyclical sensitivity and a slowing-down of growth in recent years are detectable in the case of this sector, but the extent of these movements is smaller than in the manufacturing industries. The reduction in investment by enterprises already made itself felt during the 1975 recession, particularly in non-residential building, more especially industrial complexes and administrative and commercial buildings. More recently, demand for housing and for public works has also displayed a less sustained trend, which has affected the rate of activity; demand for non-residential buildings, on the other hand, revived somewhat from the beginning of 1978 onwards.

The value added of **services** other than those of the public authorities has shown an annual increase since 1970 of 3.4 p.c., i.e. slightly below that of the manufacturing industries. In the branches of trade, transport and communications, financial services and other services rendered to enterprises as a whole, demand is very sensitive to the state of activity in industry, whereas it is much more stable in the other branches (medical professions, residential real estate, insurance, domestic service and other services rendered to individuals). In 1978 the growth in the « market » services continued at a fairly steady rate.

With regard to the services provided by the public authorities (including education and the armed forces), these have increased at an average annual rate of 4.6 p.c. since 1970. In 1978 they showed a substantial expansion, partly as a result of the increase in the number of unemployed persons given work by the public authorities.

LABOUR MARKET.

Total demand for employment, measured by the working population, has for several years been much greater than supply, measured by the employed working population.

The resultant increase in unemployment has presented a problem which has been all the more difficult because it has become less and less possible to regard the slackenings of growth or declines in economic activity as the main explanatory variable. For unemployment already rose, although only slightly, during the period 1970-1974 as a whole, despite the rapid expansion of production described in the previous chapter. The divergence became more marked in the following years; thus in 1976, despite a very substantial growth in the gross national product, unemployment went on rising rapidly, even faster than in 1977 and 1978, in which years the growth rate became very low again. Other factors have therefore exerted a particular influence, some on the demand for jobs and others on the supply.

With regard to demand, the total working population, after having declined from 1930 to 1947, has risen steadily since then; furthermore, during the present decade, its annual increases have been considerably greater than in the 1960s. A first explanatory factor in this connection is the growth in the population of working age, that is, the number of persons aged from 15 to 64 : apart from the recovery in the birth rate in the post-war years, immigration of foreign workers, mainly due to overall and, or partial labour shortages, would appear to have played a by no means negligible role, which, however, cannot easily be assessed in net figures. A second factor is the rise in the average degree of activity of this population of working age; this rise is admittedly explained by the reduction in the age of the population concerned, mainly due to the decline in the relative importance of the category aged 50 and over, whose rate of activity is lower than that of the younger age groups; but, on the other hand, the rate of activity of men has decreased owing to the lengthening of the period of education and the lowering of the retirement age. Consequently, the real factor explaining this increase in the degree of activity is the additional supply of recorded female labour. The structural changes in demand for jobs obviously also had repercussions on the structure of the unemployed working population.

For its part, the supply of jobs has developed as follows during the present decade : an increase from 1970 to 1974, although smaller than that

Table 2.

EMPLOYMENT MARKET : TOTAL DEMAND AND SUPPLY

30th June	Total demand : Total working population ^c			Total supply : Employed working population ^c				Excess of demand over supply : Unemployed working population			Unemploy- ment rate ^c	Pro memoria : Other compul- sorily registered unemployed ²
	Men	Women	Total	Primary and secondary sectors	Tertiary sector	of which : Non- market services ¹	Total	Wholly unemployed persons receiving un- employment pay (g)	Voluntarily registered applicants for employment (h)	Total		
	(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (d) + (e)	(g)	(h)	(i) = (g) + (h)	(j) = (i) (c)	(thousands)	
(thousands)											(per cent)	(thousands)
1970	2,604	1,226	3,830	1,758	2,003	(491)	3,761	65	4	69	1.8	(3)
1971	2,612	1,252	3,864	1,743	2,054	(501)	3,797	63	4	67	1.7	(4)
1972	2,602	1,274	3,876	1,701	2,091	(516)	3,792	78	6	84	2.2	(7)
1973	2,612	1,314	3,926	1,698	2,141	(527)	3,839	82	5	87	2.2	(7)
1974	2,632	1,353	3,985	1,705	2,186	(538)	3,891	90	4	94	2.4	(7)
1975	2,628	1,375	4,003	1,630	2,205	(548)	3,835	162	6	168	4.2	(10)
1976	2,623	1,408	4,031	1,577	2,230	(562)	3,807	215	9	224	5.6	(14)
1977	2,612	1,444	4,056	1,530	2,269	(573)	3,799	247	10	257	6.3	(16)
1978 ^p	n.a.	n.a.	4,078	1,484	2,315	(595)	3,799	265	14	279	6.8	(21)

Sources : 1970 to 1977 : Ministry of Employment and Labour, National Employment Office, Planning Bureau; 1978 : calculations of the National Bank of Belgium based on data of the National Employment Office, the Ministry of Public Functions, the National Statistical Institute and the Planning Bureau.

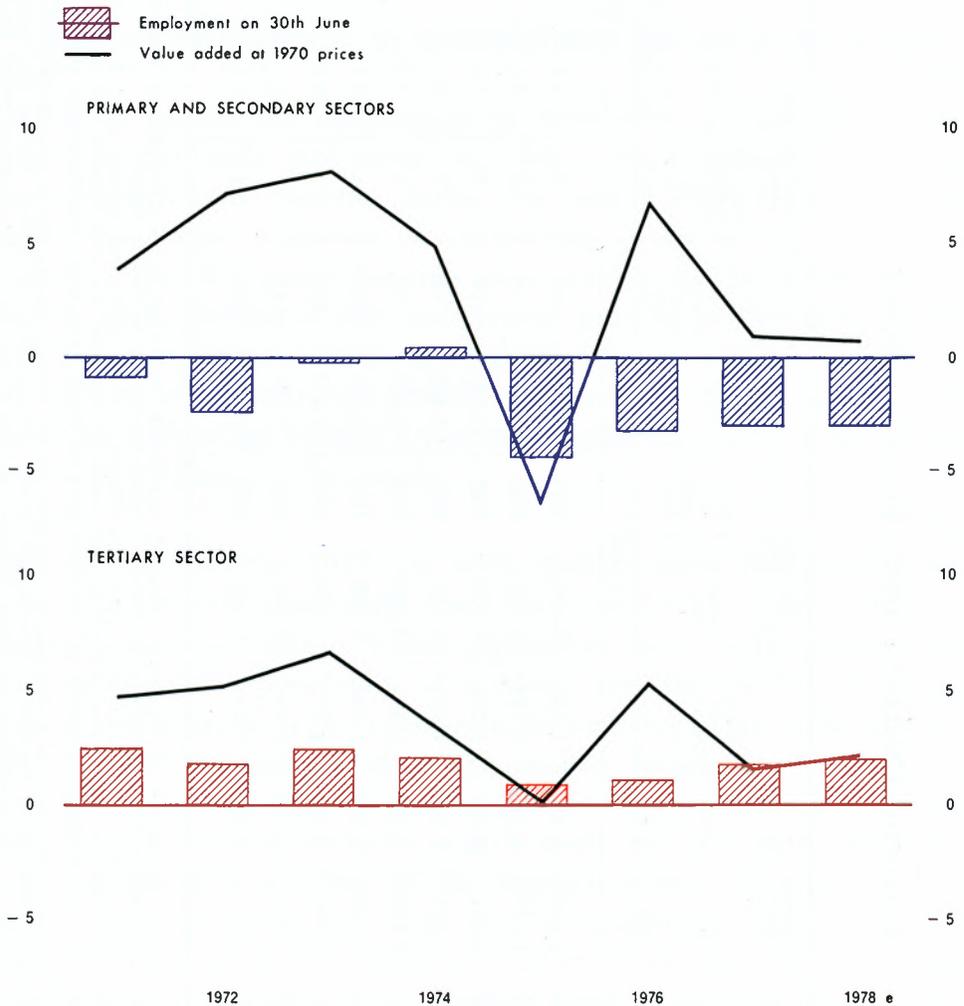
¹ This means employment corresponding to the following national accounts headings : public administration, education (public and private), armed forces (including compulsory national service). To these have been added the unemployed persons given work by the public authorities and those undergoing vocational training.

² Other compulsorily registered unemployed comprise : young registered applicants for employment during the 75 days preceding their eligibility for unemployment benefits, unemployed persons given part-time work, unemployed persons previously doing voluntary part-time work, partially unemployed persons after a certain period of unemployment, wholly unemployed persons given work in a sheltered workshop, penalised fully unemployed persons temporarily ineligible for unemployment benefits, persons presented by the Public Social Assistance Centres, certain persons looked after by the National Fund for the Rehabilitation of Handicapped Persons. This column includes both employed and unemployed applicants for employment : the former already appear in the employed working population; the latter, the increase in whose number accounts for the greater part of the rise in the total, do not appear anywhere; it is not, however, possible to distinguish between the two categories.

Chart 9.

EMPLOYMENT AND VALUE ADDED AT CONSTANT PRICES

(Percentage changes compared with previous year)



Sources : Ministry of Employment and Labour, National Employment Office, National Statistical Institute, Planning Bureau. Calculations of the National Bank of Belgium.

in demand, followed by a contraction in absolute terms. During the first period, characterised by a rapid growth in production, the tertiary sector, which includes the non-market services in addition to the services paid for by the users, was still able to create jobs to a sufficient extent to offset the structural decline in the primary and secondary sectors; in these

sectors the increase in measurable productivity greatly exceeded the growth, large though it was, in production; this was not the case with services. From 1974 to 1977, on the other hand, the slower net growth of employment in the tertiary sector, at least in the market services, no longer provided an adequate counterpoise to the faster net disappearance of jobs in the primary sector, where the value added produced decreased at the same time as measurable productivity stabilised, and in the secondary sector, where the rise in productivity, although slower, was still considerably faster than that in the value added produced. The fall in employment in the secondary sector between 1974 and 1977 was in fact general, except in the building industry and in the water, gas and electricity sector, where it was still possible to increase employment; in absolute figures, the fall was sharpest in the textile and ready-made-clothing industries and the metal-manufacturing industry, as well as in the iron and steel industry and the foodstuffs, beverages and tobacco, paper and non-metallic minerals industries.

There is sure to be a further expansion in the demand for employment in the coming years, as the population of working age will continue to grow, while the rate of participation of women will probably go on rising. This expansion will not necessarily lead to a rise in the unemployed population. However, the supply of jobs will not increase sufficiently, in response to the greater demand, unless appropriate measures are taken and a favourable climate created. With regard to the measures, the Government, in a report submitted to Parliament, has outlined a new industrial policy, the main options of which have already been discussed.

The tertiary sector, which remains the most promising for the creation of jobs, would also benefit, indirectly but indubitably, from such a policy. This would avoid the expansion of expensive non-market services, which, though doubtless appropriate as a temporary remedy, is a solution fraught with danger if it becomes permanent, because, under our present economic régime, it would add to the burdens weighing on the other sectors to such an extent as to impede their growth.

Creation of jobs does not, however, in itself constitute a sufficient guarantee of the re-establishment of a better balance in the labour market. For the overall imbalance of that market, which consists of juxtaposed isolated compartments, may be due to the fact that the individual segments — sectoral, vocational, geographical — of supply and demand are ill-matched to each other. These disparities, which are inevitable to a certain

extent, seem to exist even in the present situation, as would appear evident from the labour shortages in certain trades or the disinclination of applicants with regard to certain jobs. They can constitute a serious obstacle to the improvement of the labour market and therefore warrant action with a view to a better matching of the various compartments of demand for jobs with those of supply. There can be many such lines of action, pursuing more or less distant aims; they naturally have to do with the training of young people and with further training or redeployment courses for adults; but they also include corrective measures of an economic nature, such as those designed to restore the attractiveness of certain activities which are unpopular at the moment and to bring the income scale into line with the requirements for a better balance of the labour market.

In any case, the re-establishment of conditions which will permit or facilitate the lasting creation of new jobs, and the restructuring of demand for jobs, depend on lines of action which will only produce results gradually. In the meantime, the public authorities have endeavoured to provide an immediate remedy to the unemployment problem. Thus, the measures whose direct incidence can be evaluated have consisted, on the one hand, of a reduction of the demand for jobs through an extension of the early retirement system and the introduction of the special early retirement scheme for older unemployed persons and, on the other hand, of increasing employment by putting more unemployed people to work in the public administrations, extending the possibilities of in-service training for young people and introducing the special temporary staff. The incidence of these measures was much greater in 1978 than in 1977, as they involved about 72,000 persons, namely 28,000 removed from the labour market and 44,000 given work, against about 35,000 in 1977.

It is difficult to estimate the ultimate effects of these specific measures and to assess the extent to which they are capable of narrowing the gap between the overall supply of and demand for jobs, which had tended to widen under the influence of the slackening of real growth and the continued operation of the longer-term factors. Altogether, 320,000 members of the working population were unemployed at the end of the year, against 312,000 a year earlier, the total working population having continued to rise, whereas there was scarcely any change in the supply of jobs; the unemployment rate was thus 7.8 p.c. of the total working population and 11.9 p.c. of the total number of persons insured against unemployment. The number of unemployed tended to stabilise, however, during the year.

On the other hand, partial unemployment, which only relates to the employed working population and a large proportion of which remains sensitive to cyclical fluctuations, declined appreciably after the first quarter, and especially in the second half of the year, as the revival of activity which started at the end of 1977 was finally resumed after a fairly long period of hesitation; for the first eleven months, the daily average of partial unemployment was 67,000 persons, or very nearly the same number as in the previous year.

INCOMES.

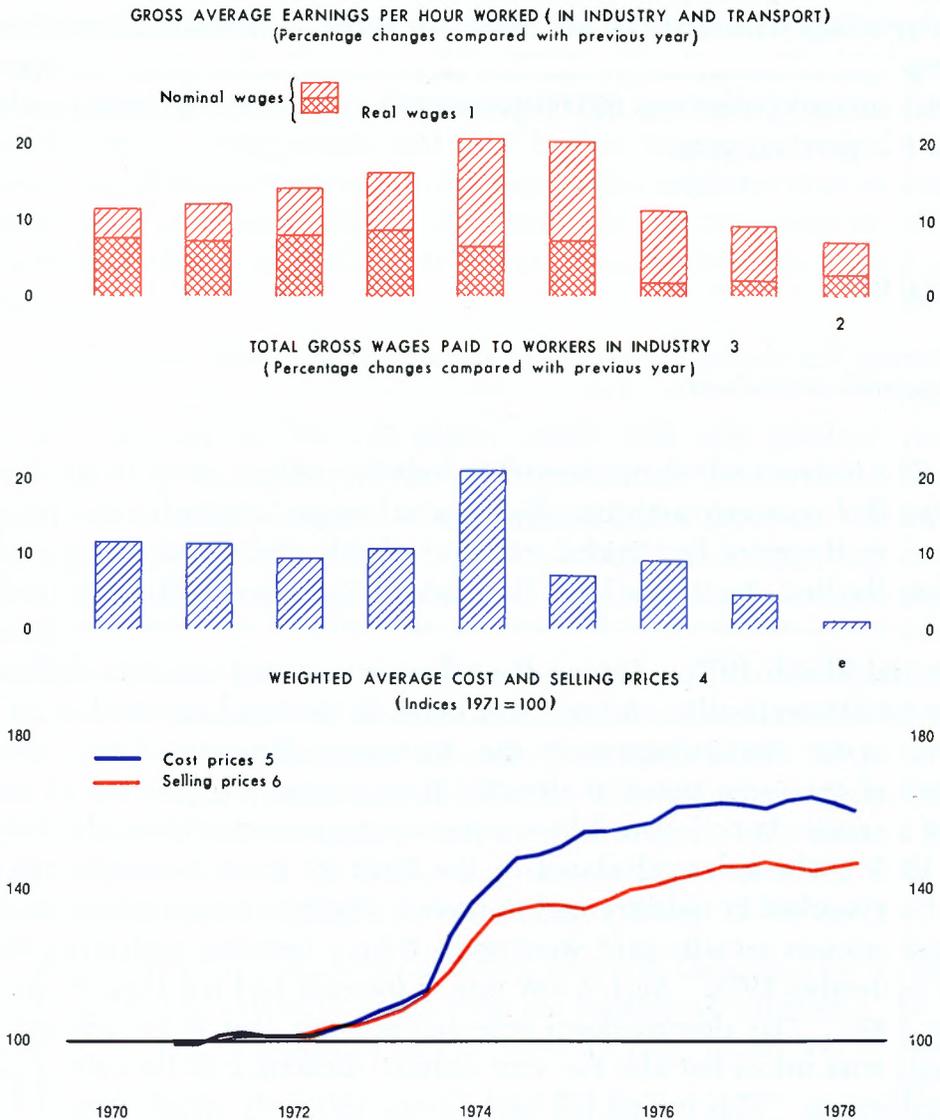
a) *Incomes in industry.*

The incomes which are earned in industry reflect, more than others, the trend of economic activity. For nominal wages in industry the last ten years can therefore be divided into two clearly distinguishable periods. During the first, starting in 1969, their rate of increase steadily rose, finally reaching a quite exceptional maximum of nearly 28 p.c. between March 1974 and March 1975. During the subsequent period this rate declined almost uninterruptedly. A very clear break in the trend occurred in 1976, partly under the influence of the Economic Recovery Law, which contained measures aimed at directly discouraging the granting of new wage increases in collective labour agreements concluded after 31st October 1975. The index calculated by the Bank for gross average earnings per hour worked in industry and transport, which in principle include all earned incomes actually paid, went up by 6.2 p.c. between September 1977 and September 1978. Such a low rate of increase had not been recorded since 1968. This slowing-down reflected not only that in the movement of consumer prices but also the very distinct slackening of the rate of rise of real wages. This in fact fell back from a relatively steady annual rate of about 7.5 p.c. during the period 1970-1974 to 2 p.c. for the years 1976 to 1978.

The movement of gross hourly earnings is not representative of the trend of total wages in industry, since this depends on the number of hours worked. A large gap developed between the two magnitudes in 1975 when the economic recession became more acute and enterprises were forced to make a rationalisation effort in view of their increasing cost

Chart 10.

INCOMES IN INDUSTRY



1 Nominal wages deflated by the index of consumer prices.

2 Percentage changes in the first three quarters of 1978 compared with the first three quarters of 1977.

3 Sources : National Social Insurance Office. For 1978 : calculations of the National Bank of Belgium.

4 Sources : Labour cost per unit of output : Economic Research Institute of the Catholic University of Louvain. Average unit value of imported producer goods : National Statistical Institute. Calculations of the National Bank of Belgium. Wholesale prices of finished industrial goods : Ministry of Economic Affairs. Average unit value of exports : National Statistical Institute. Calculations of the National Bank of Belgium. Weighting coefficients : European Economic Community. Calculations of the National Bank of Belgium.

5 Weighted average of the labour cost per unit of output (wages and salaries in industry) and of the average unit value of imported producer goods (quarterly data).

6 Weighted average of the wholesale prices of finished industrial products (monthly averages per quarter) and of the average unit value of exports (quarterly data).

burden. During the period 1970-1977, gross average earnings per hour worked in industry and transport, based on the sample covered by the statistics, increased on average by 15.3 p.c. per annum, whereas, according to the data of the National Social Insurance Office, total gross wages paid in industry as a whole went up by only 10.7 p.c. In 1972 and 1973 the gap was mainly due to the reduction in working hours per employed worker; from 1975 onwards, on the other hand, the main cause was the decrease in the volume of work done owing to redundancies. For 1978 the increase in total gross wages paid in industry will not have exceeded 1 p.c., mainly owing to the reduction in the number of hours worked in the building sector.

The labour cost per unit of output showed a maximum increase of 20.8 p.c. in 1975, but did not go up much after that, partly owing to the improvement in productivity, which was particularly large in 1976.

Average import prices constitute another important element of industrial cost prices. The almost constant appreciation of the effective exchange rate for the Belgian franc moderated the rise in the average unit value of imported producer goods; at the end of the period studied, this was actually replaced by a slight decline.

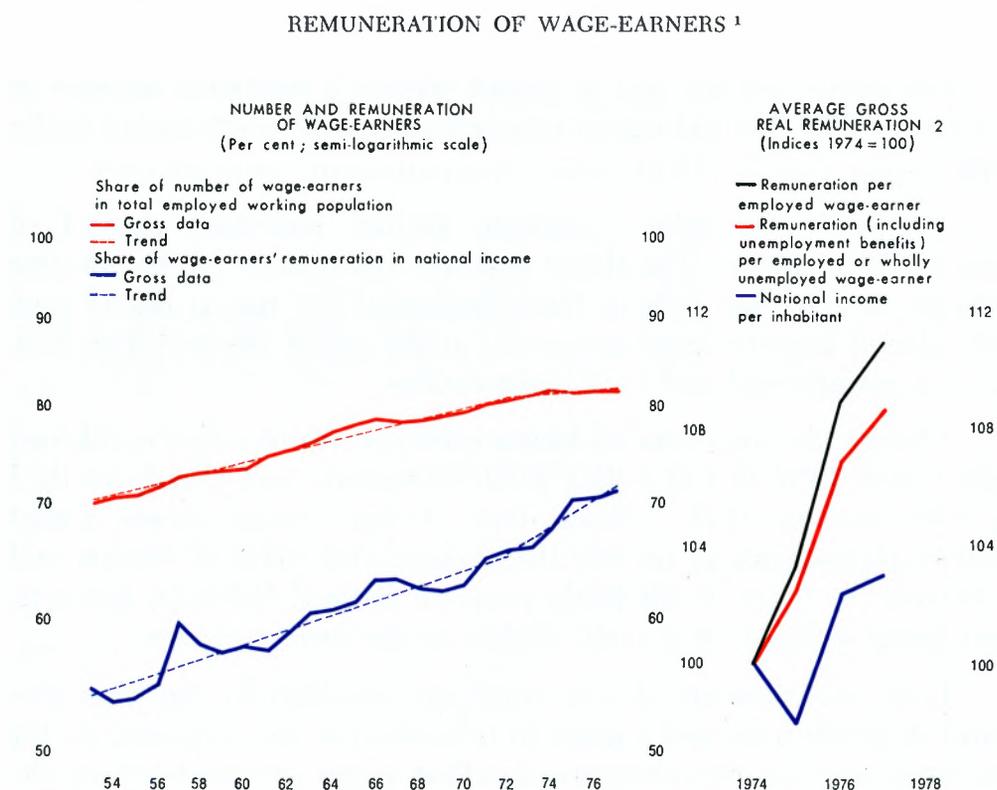
Whereas the rate of rise of labour costs per unit of output quickened further until 1975, that of selling prices in industry had already reached its maximum in 1974. Since then it has slowed down almost uninterruptedly both as regards the average unit value of exports and as regards the index of wholesale prices of finished industrial products, even being replaced by a slight decline in the case of exports.

If the two elements of cost prices are weighted by the respective shares of labour costs and imports in the industrial cost structure, on the one hand, and the two elements of selling prices are weighted by the respective shares of the domestic and foreign markets in total industrial sales, on the other, we obtain an indicator of the trend of the profit margin. Estimated in this way, the profit margin in industry would appear to have already narrowed in the course of 1974, but especially in the second half of 1975, subsequently improving again somewhat during the next three years. In 1975 this movement was coupled with a reduction in the volume of sales of industrial products. After the recovery in 1976, this volume only showed a slight increase, so that the growth in gross nominal profits for industry as a whole remained limited during the last two years.

b) *Incomes in the economy as a whole.*

Widening the scope to embrace all gross incomes, before tax, recorded by the national accounts since 1953 we find that the **remuneration of wage-earners**, including the workers' and employers' social security contributions, has increased faster than the national income.

Chart 11.



Sources : Remuneration of wage-earners : National Statistical Institute. Working population : Ministry of Employment and Labour. Calculations of the National Bank of Belgium.

¹ Pay given as wages or salaries by any employer to individuals usually resident in Belgium and social insurance contributions.

² Deflated by the index of consumer prices.

For a long period this development was mainly due to the fact that the number of employed wage and salary earners represented a growing proportion of the working population. A change began to appear, however, after the last economic crisis : remuneration per employed wage

and salary earner is growing faster than per capita national income. Of course, only those wage and salary earners who have been able to continue participating in the working process have benefited by this relative improvement; from 1974 to 1977 the average remuneration, including unemployment benefits, of employed wage and salary earners and unemployed persons rose by only 8.7 p.c. in real terms, against 11 p.c. for employed wage and salary earners alone.

During the period 1970-1977 the income of the category of « self-employed persons » increased on average by 8.1 p.c. per annum in nominal terms. But the spread of the various groups around this average was very wide : on the one hand 5.4 p.c. for the total income of farmers and on the other hand 14.1 p.c. for that of the liberal professions. True, the number of farmers would appear to have decreased by about one-third, whereas the number of persons practising the liberal professions rose. The incomes of tradesmen and artisans represent more than half the total income of self-employed persons, and went up by 7.3 p.c.

In real terms — deflated by the index of consumer prices — the rise in the incomes of the liberal professions was fastest during the period 1970-1973, averaging about 7 p.c. per annum; since then this rate has declined by about one-half. The real incomes of tradesmen and artisans remained virtually unchanged between 1970 and 1974 and fell by 3.8 p.c. during the recession year 1975; after remaining stationary in 1976 and despite a rise of 3.1 p.c. in 1977, these incomes had still not reattained, during the last-mentioned year, their 1970 level. The remaining negative difference was even larger for the total real income of farmers; this is attributable, despite the modest growth in agricultural output which has been mentioned earlier, to the movement of the indices of prices received and costs paid by farmers, on the one hand, and the index of consumer prices, on the other. Between 1970 and 1977 the costs paid rose more than the prices received — by 67.9 p.c. against only 45.2 p.c. — and the index of consumer prices went up even more.

For 1978 no precise data are yet available concerning the incomes of self-employed persons, except farmers. Farmers' incomes felt the impact of an average decrease of 4.3 p.c. in prices received compared with those of the previous year, while there was a slight rise in the index of costs paid; conversely, they benefited by a growth in output; in real

terms they would appear to have stabilised at the rather low level of 1977.

During the period 1970-1977, **income from personal property** rose, in nominal terms, by an average of 13.4 p.c. per annum. This rise was mainly due to the increase in income from fixed-interest investments, whose share in total income from personal property, after having grown uninterruptedly, rose in 1977 to 55.3 p.c., against only 43 p.c. in 1970. Individuals' income from rents rose less than the above category; the same applied, from 1975 onwards, to income from dividends and profit shares; in 1975 the latter even declined by 3.2 p.c.; in 1976 and 1977 they rose by 12.7 and 6.5 p.c. respectively.

In 1978, just as in the previous year, income from short-term fixed-interest investments in Belgian francs felt the effect of a reduction in interest rates. But income from medium-term notes and bonds rose again, owing to the increase in their total outstanding amount during the previous year; furthermore, the average yield of outstanding long-term investments went on rising slightly. According to a sample survey of Belgian companies, net dividend payments increased by 5.8 p.c.

Companies' undistributed profits, after tax, underwent large fluctuations, which followed, while also greatly accentuating, the changes in the trend of economic activity. According to the national accounts their average annual rate of increase was only 0.3 p.c. in nominal terms during the period 1970-1977. After substantial rises of about 36 p.c. in each of the years 1972 and 1973, they showed a tendency to decline in 1974. The next year was catastrophic : the reform of the system of advance tax payments and the companies' desire not to reduce the payment of dividends too suddenly, combined with the particularly severe effects of the recession, led to a decrease of 66.8 p.c. In 1976, thanks to the economic recovery and the moderate level of dividends, companies' undistributed profits reattained their nominal level of 1972; but the movement was already reversed again in 1977, the falling-off in activity causing a reduction of 9.6 p.c. in profits placed to reserve.

The profits of non-industrial enterprises were better protected against economic vicissitudes than those of industrial enterprises and therefore fared better than these, especially in 1975 and 1977.

PRICES.

For the first time since the Korean war, the rise in **consumer prices** assumed, in 1974 and 1975, the appearance of open inflation, after the rather slow acceleration observable since 1969. But the reversal of trend which took place subsequently reduced the rate of rise again from 13 p.c. — the average annual rate for each of the two above-mentioned years — to 3.9 p.c. between December 1977 and December 1978. While the latter rate is somewhat higher than that of the Federal Republic of Germany, it is hardly any different from that of the Netherlands and appreciably below that of the other main countries of the European Economic Community, as well as of the United States.

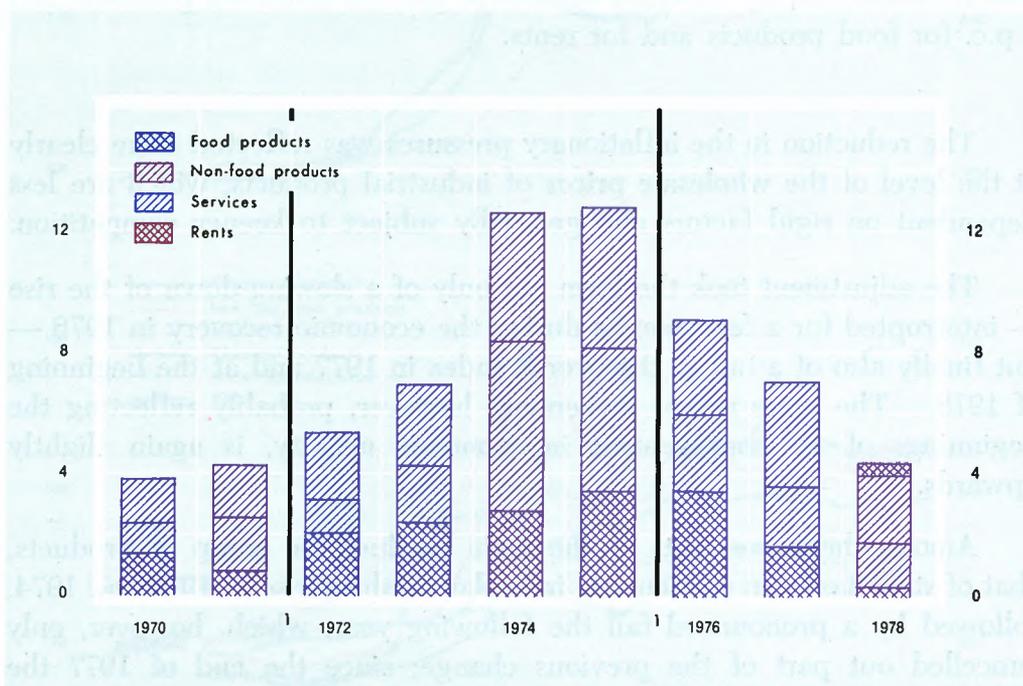
A breakdown of the official index reveals heterogenous movements.

Chart 12.

CONSUMER PRICES

Contribution of each category

(Percentage growth compared with previous year)



Sources : Ministry of Economic Affairs. Calculations of the National Bank of Belgium.
1 Changes in weighting.

For non-food products, which represent 43 p.c. of the index, the rise was only 3.3 p.c. for 1978, against 4.6 p.c. the previous year.

The rise in the prices of food products, which are more sensitive to the vicissitudes of the world markets and furthermore affected by the country's unstable weather conditions, only really began to slow down from the second quarter of 1977 onwards, after having been influenced by, among other things, the erratic movements of the prices of potatoes and coffee. Since May 1978 the index has remained stable.

Services, for their part, exert a structural upward pressure on the index, since incomes increase in this sector as they do in the economy as a whole, whereas many of its branches achieve smaller rises in productivity. Admittedly, after the inflationary upsurge mentioned at the beginning of the chapter, a certain slackening of the rise in service prices became apparent, but this was not equal, either in continuity or in extent, to that which took place in the case of the other main components of the index : on average for 1978, prices of services still went up by 8.3 p.c., against 11.3 p.c. the previous year.

Thus, of the total change in the index of consumer prices, 51 p.c. was accounted for by services, against 33 p.c. for non-food products and 8 p.c. for food products and for rents.

The reduction in the inflationary pressures was reflected more clearly at the level of the **wholesale prices** of industrial products, which are less dependent on rigid factors and generally subject to keener competition.

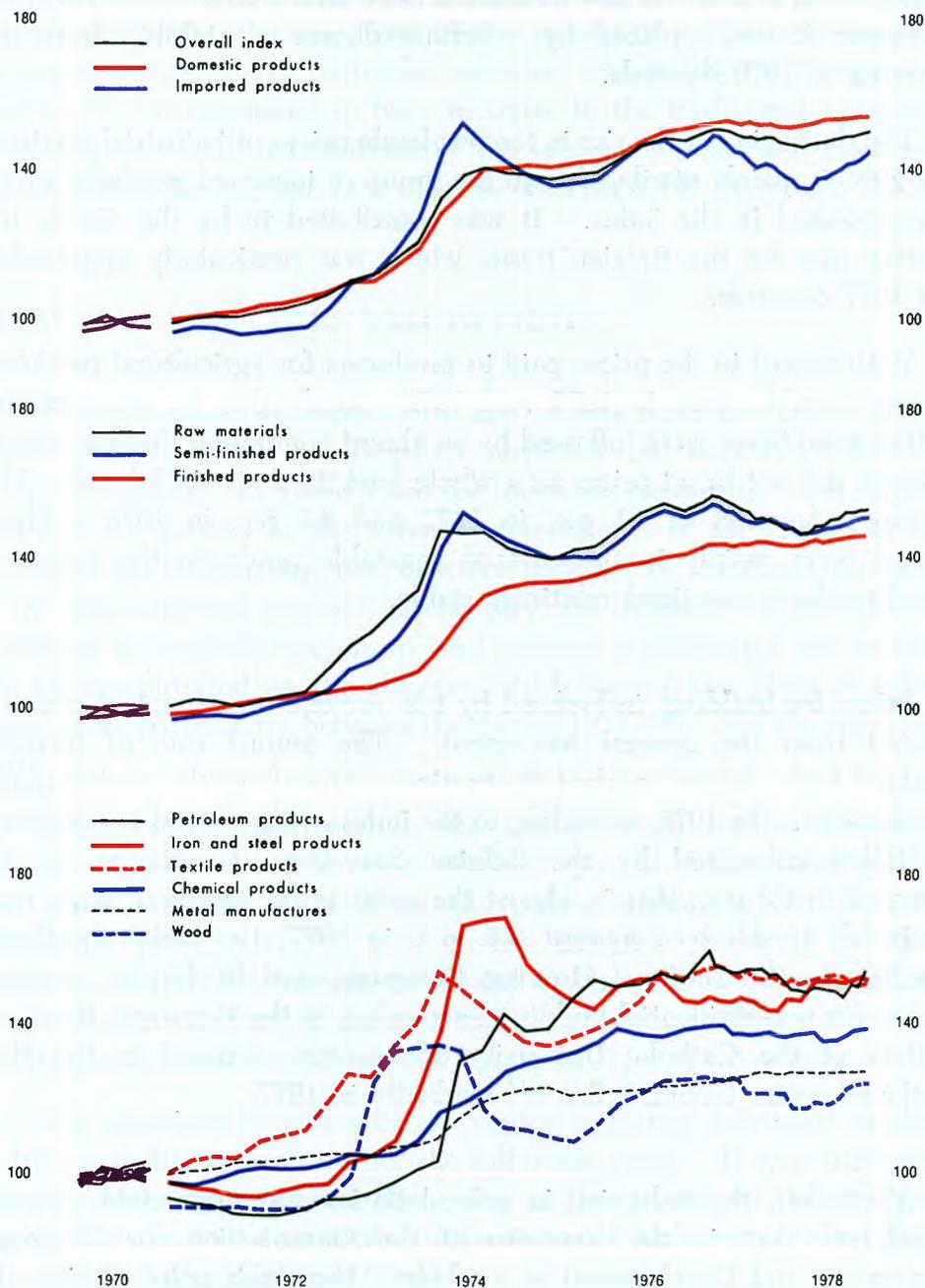
The adjustment took the form not only of a slowing-down of the rise — interrupted for a few months during the economic recovery in 1976 — but finally also of a fall in the overall index in 1977 and at the beginning of 1978. The more recent movement, however, probably reflecting the beginnings of an improvement in economic activity, is again slightly upwards.

Among the movements of the main products or group of products, that of steel has been particularly irregular : a sharp rise in 1973 and 1974, followed by a pronounced fall the following year, which, however, only cancelled out part of the previous change; since the end of 1977 the safeguarding measures decided upon by the European Community and a recovery in demand gave rise to an upward tendency. The prices of

Chart 13.

WHOLESALE PRICES OF INDUSTRIAL PRODUCTS ¹

(Indices 1970 = 100)



Source : Ministry of Economic Affairs.

¹ 1970 to 1976 : monthly averages per quarter. 1977 and 1978 : monthly data. 1970 : indices calculated on the basis of prices including sales taxes. Subsequently : indices calculated on the basis of prices net of value-added tax.

textiles and wood, which had gone up about a year before those of the other groups of products, already declined again in the first half of 1974, but textile prices climbed once more to their previous maximum. After their rise in 1974, the prices of petroleum products remained fairly stable. For chemical products and, more still, metal manufactures, the upward movement was less pronounced, but continued somewhat longer; for the latter, indeed, it went on slowly, after a brief interruption, until 1978; for the former it was replaced by a certain degree of stability from the beginning of 1976 onwards.

The slackening of the rise in the wholesale prices of industrial products since 1975 is mainly attributable to the group of imported products which is incorporated in the index. It was contributed to by the rise in the effective rate for the Belgian franc, which was particularly appreciable from 1977 onwards.

With regard to the prices paid to producers for agricultural products, the considerable rises in 1975 and 1976, mainly due to extraordinary weather conditions, were followed by an almost continuous decline, which, however, did not bring prices as a whole back to their 1975 level. The decrease amounted to 7.1 p.c. in 1977 and 4.2 p.c. in 1978. These changes were mainly in the case of vegetable products; the prices of animal products remained relatively stable.

Prices for building, influenced by this sector's own trend of activity, deviated from the general movement. The annual rate of increase remained high, despite marked fluctuations, throughout the period under consideration. In 1978, according to the index of the cost of constructing a building calculated by the Belgian Surveyors' Association, it still amounted to 9.3 p.c., that is, almost the same as the previous year's rate. But it fell to 4.3 p.c., against 8.5 p.c. in 1977, for social dwellings, according to the National Housing Company, and to 4.6 p.c., against 6.3 p.c., for non-residential buildings, according to the Economic Research Institute of the Catholic University of Louvain, demand in the last-mentioned sector having fallen off markedly in 1977.

Altogether, the reduction in price inflation was appreciably greater in Belgium than in the countries of the Organisation for Economic Cooperation and Development as a whole. From this point of view the

policy of keeping the franc within the monetary « snake » was undoubtedly a trump card; among other things it reduced the effect which — sometimes very large — price increases which took place in some foreign countries could have had on prices in Belgian francs, both directly, by causing a rise in the prices of imported products, and indirectly, by adding to the cost burden via the index-linking which is enjoyed, de jure or de facto, by most categories of incomes. The poor state of economic activity also contributed to the slowing-down of the price rise. This was constantly supported by general or particular measures adopted by the Government; thus in 1978 it continued to have recourse to the traditional instruments of price policy and to restriction of the raising of rents, and resolved to put an end to the free and easy attitude with regard to the public finances.

FINANCIAL SURPLUSES AND DEFICITS.

The movements of expenditure and income described above brought about changes in the net financial surpluses and deficits of the main economic sectors. In Table 3 and the following comments, these surpluses and deficits, as well as the « real » components of the capital account (savings, capital formation, etc.) of which they are the resultants, are related to the gross national product; in this way, the incidence of the structural expansion in nominal expenditure and incomes is eliminated and attention can be concentrated on the changes which have taken place in relative terms, more particularly between the period 1971-1974 and the subsequent years.

During the former period, the net financial surplus formed by enterprises and individuals as a whole (7 p.c. of the national product) was made available not only to the public authorities but also, in a substantial proportion (2.2 p.c. of the national product), to foreign countries, which here include the Grand Duchy of Luxembourg, contrary to the practice adopted in the next chapter concerning the transactions of the Belgian-Luxembourg Economic Union with foreign countries.

This substantial net lending to foreign countries decreased markedly in 1974 and disappeared during the following years. It was attributable not only to the pronounced slackening of the growth in the volume of exports but also to the worsening of the terms of trade, which also affected the other industrialised countries.

Table 3.

CAPITAL ACCOUNT OF THE MAIN ECONOMIC SECTORS ¹

(Percentages of gross national product at current prices)

	1971	1972	1973	1974	1975	1976	1977 <i>c</i>	1978 <i>e</i>	Average 1971-1974	Average 1975-1978 <i>e</i>
<i>A. Rest of the world :</i>										
1. Balance of current transactions with Belgium ²	- 2.3	- 3.9	- 2.3	- 0.8	- 0.5	- 0.1	+ 0.8	+ 0.6	- 2.3	+ 0.2
2. Net capital transfers from Belgium ³	+ 0.1	+ 0.2	+ 0.1	+ 0.1	+ 0.1	+ 0.1	+ 0.1	+ 0.1	+ 0.1	+ 0.1
3. Net lending to (+) or borrowing from (-) Belgium (= 1. + 2.) ⁴	- 2.2	- 3.7	- 2.2	- 0.7	- 0.4	...	+ 0.9	+ 0.7	- 2.2	+ 0.3
<i>B. Public authorities :</i>										
1. Gross savings (net savings and depreciation)	+ 2.0	+ 1.0	+ 0.9	+ 1.7	- 0.4	- 1.1	- 1.4	- 1.6	+ 1.4	- 1.1
2. Net capital transfers to other sectors ³ ...	- 1.7	- 1.7	- 2.0	- 1.9	- 1.9	- 2.0	- 2.3	- 2.3	- 1.8	- 2.1
3. Capital resources (= 1. + 2.)	+ 0.3	- 0.7	- 1.1	- 0.2	- 2.3	- 3.1	- 3.7	- 3.9	- 0.4	- 3.2
4. Gross capital formation	+ 4.3	+ 4.3	+ 3.6	+ 3.3	+ 3.6	+ 3.7	+ 3.5	+ 3.4	+ 3.9	+ 3.6
5. Statistical adjustment	+ 0.2	...	+ 0.6	- 0.5	+ 0.1	+ 0.2	+ 0.2	+ 0.1	+ 0.1	+ 0.1
6. Net financial deficit (= 3. - 4. + 5.) ...	- 3.8	- 5.0	- 4.1	- 4.0	- 5.8	- 6.6	- 7.0	- 7.2	- 4.2	- 6.7
<i>C. Enterprises and individuals :</i>										
1. Gross savings (net savings and depreciation)	+23.3	+24.3	+23.7	+23.6	+22.4	+23.0	+22.1	+22.3	+23.7	+22.5
2. Net capital transfers from other sectors ³ ...	+ 1.6	+ 1.5	+ 1.9	+ 1.8	+ 1.8	+ 1.9	+ 2.2	+ 2.2	+ 1.7	+ 2.0
3. Capital resources (= 1. + 2.)	+24.9	+25.8	+25.6	+25.4	+24.2	+24.9	+24.3	+24.5	+25.4	+24.5
4. Gross capital formation ⁵	+18.7	+17.1	+18.7	+21.2	+17.9	+18.1	+18.0	+17.9	+18.9	+18.0
5. Statistical adjustment	+ 0.9	+ 0.4	- 0.6	+ 1.2	+ 1.0	+ 0.7	+ 0.4	+ 0.6	+ 0.5	+ 0.7
6. Net financial surplus (= 3. - 4. + 5.)	+ 7.1	+ 9.1	+ 6.3	+ 5.4	+ 7.3	+ 7.5	+ 6.7	+ 7.2	+ 7.0	+ 7.2
of which : Increase in liabilities	(- 7.6)	(- 8.6)	(- 9.5)	(- 8.8)	(- 9.0)	(-10.1)	(- 9.6)	(- 8.8)	(- 8.6)	(- 9.4)
Increase in claims	(+14.7)	(+17.7)	(+15.8)	(+14.2)	(+16.3)	(+17.6)	(+16.3)	(+16.0)	(+15.6)	(+16.6)
<i>D. Statistical adjustment</i> ⁶	- 1.1	- 0.4	...	- 0.7	- 1.1	- 0.9	- 0.6	- 0.7	- 0.6	- 0.8

Sources : 1971 to 1977 : National Statistical Institute; Statistical Office of the European Communities, National Accounts. Calculations of the National Bank of Belgium.

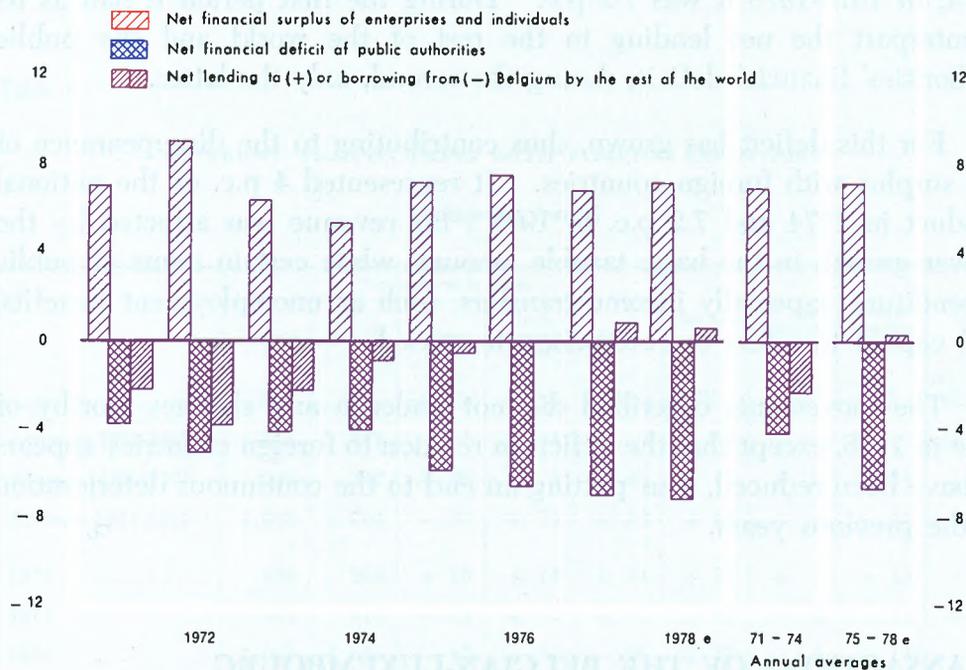
¹ See Annex 6, Table 1.² A positive balance of current transactions (transactions relating to goods, services and income transfers) of the rest of the world (including the Grand Duchy of Luxembourg) with Belgium means a deficit of Belgium in its current transactions with foreign countries; a negative balance of the rest of the world means a surplus in Belgium's current transactions with foreign countries.³ Capital transfers are unrequited movements of funds for financing direct or portfolio investments.⁴ Net lending by the rest of the world (+) means a deficit in respect of Belgium's combined current transactions and capital transfers with foreign countries; net borrowing by the rest of the world (-) means a surplus for Belgium with foreign countries in respect of these same transactions.⁵ Enterprises' investment in fixed capital and stocks and house-building.⁶ An adjustment which has to be made to the net financial deficit or surplus of the domestic sectors (B.6. + C.6.) to make this equal, as it must be by definition, to the net lending or borrowing by the rest of the world (A.3.).

These external factors and their derived effects on domestic demand constitute a set of circumstances which have played a part in bringing about the state of crisis with which Belgium — like many other industrialised countries — has had to contend since 1975.

Chart 14.

FINANCIAL SURPLUSES AND DEFICITS ¹

(As percentages of gross national product at current prices)



¹ See Table 3.

One of these derived effects is brought out by Table 3 : gross capital formation by enterprises and individuals, although sustained by investment in housing, declined from 18.9 p.c. of the national product in 1971-1974 to 18 p.c. in 1975-1978, owing to the reduction in investment by enterprises, affected as they were by, among other things, the poor state of and mediocre prospects for foreign and domestic demand.

Another movement which is apparent from Table 3 could, theoretically, be regarded, unlike that described above, as having helped to sustain economic activity : the gross savings of enterprises and individuals declined from 23.7 p.c. of the national product in 1971-1974 to 22.5 p.c. in 1975-1978. It should be noted, however, that this movement is solely due to the reduction in the gross savings of companies; now this could quite well have contributed to the decline in enterprises' investments whose deflationary role has just been emphasised. The net effect of the movement in question is therefore uncertain.

As both the savings and the capital formation of enterprises and individuals decreased, their net financial surplus underwent no appreciable change; we have seen that it was 7 p.c. of the national product in 1971-1974; in 1975-1978 it was 7.2 p.c. During the first period it had as its counterpart the net lending to the rest of the world and the public authorities' financial deficit; during the second, only the latter.

For this deficit has grown, thus contributing to the disappearance of the surplus with foreign countries. It represented 4 p.c. of the national product in 1974 and 7.2 p.c. in 1978 : tax revenue was affected by the slower growth in the basic taxable amount, while certain items of public expenditure, especially income transfers, such as unemployment benefits, and capital transfers to enterprises, increased.

The movements described did not undergo any changes worthy of note in 1978, except that the deficit in relation to foreign countries appears to have been reduced, thus putting an end to the continuous deterioration of the previous years.

TRANSACTIONS OF THE BELGIAN-LUXEMBOURG ECONOMIC UNION WITH FOREIGN COUNTRIES.

If we look at the general picture of **current transactions** with foreign countries over a relatively long period — since the mid-1960s — we see considerable changes; the slight surpluses which, as a whole, had predominated until 1969 rose, during the years 1970-1973, to exceptionally high levels, after which they gradually declined, being replaced from 1976 onwards by deficits. During the first nine months of 1978, however, although there was still a deficit, the situation improved.

This marked deterioration of the balance of current transactions is attributable to the swing-round of the balance of foreign trade to a large deficit. As calculated here, this foreign trade represents transactions, that is, the value of the physical movements of goods at the time when they cross the frontier, and not payments, that is, the monetary transfers, generally taking place with a certain time-lag, to which these transactions give rise. The movements observed therefore take no account — and this is important from the point of view of economic analysis — of the changes in the stock of commercial claims on foreign countries connected with the actual development of trade flows and the variations, whether speculative or not, in the timing of payments. The changes in the afore-mentioned claims are recorded with capital transactions and therefore do not affect the current balance.

Table 4.

CURRENT TRANSACTIONS WITH FOREIGN COUNTRIES ¹

(Billions of francs)

	Transactions in goods					Services 4	Private transfers 5	Public transfers 6	Grand total (i) = (e) + (f) + (g) + (h)
	Exports 2	Imports 2	Balance	Third- country trade 3	Total				
	(a)	(b)	(c) = (a) - (b)	(d)	(e) = (c) + (d)				
Average 1965-1969	315	314	+ 1	+ 4	+ 5	+ 4	- 3	+ 6	
Average 1970-1973	582	542	+ 40	+ 5	+ 45	+ 9	+ 2	+ 45	
Average 1974-1977 ⁷	1,033	1,064	- 31	+ 19	- 12	+ 33	- 4	+ 2	
1974	976	966	+ 10	+ 14	+ 24	+ 15	+ 1	+ 25	
1975	902	916	- 14	+ 17	+ 3	+ 28	- 3	+ 9	
1976	1,049	1,096	- 47	+ 21	- 26	+ 43	- 6	- 2	
1977 ⁷	1,206	1,281	- 75	+ 26	- 49	+ 46	- 7	- 26	
1977 First 9 m. ⁷	900	965	- 65	+ 20	- 45	+ 32	- 5	- 30	
1978 First 9 m. ^p	973	1,005	- 32	+ 8	- 24	+ 27	- 5	- 13	

¹ Balance of transactions, except for the items « Exports » and « Imports ».

² Estimated actual transactions. Including commission processing and non-monetary gold.

³ Goods bought and resold abroad by residents. From 1976, estimated actual transactions.

⁴ See Annex 6, Table 5.

⁵ This item mainly consists, on the expenditure side, of funds transferred to their countries of origin by foreign workers living in the Belgian-Luxembourg Economic Union and, on the receipts side, of remuneration available in Belgium to Belgians working abroad for the purpose of technical assistance.

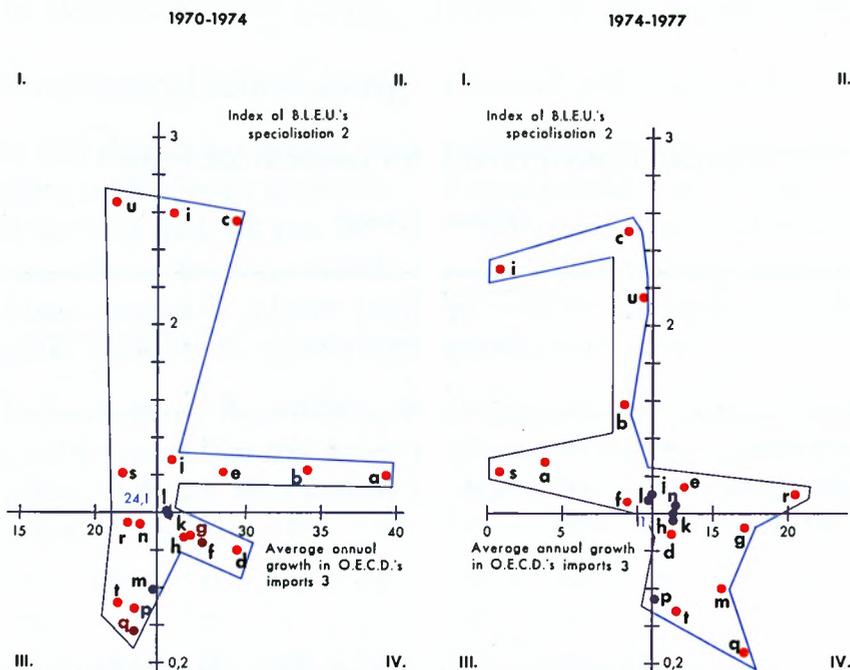
⁶ This item mainly consists, on the expenditure side, of technical assistance and of Government contributions to European institutions and, on the receipts side, of the payments made by the European Agricultural Guidance and Guarantee Fund to resident farmers.

⁷ Including, since 1977, transactions paid for by offsetting.

The exceptional trade surpluses of the years 1970-1973 had been largely of a structural nature and had been connected with the expansion in direct foreign investment : multinational corporations had established in this country large, technologically advanced production units which were to a great extent oriented towards foreign markets. Since then, various factors have combined to eliminate the above-mentioned trade surpluses.

Chart 15.

IMPORTS OF THE COUNTRIES OF THE ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT AND SPECIALISATION, BY PRODUCTS ¹, OF THE BELGIAN-LUXEMBOURG ECONOMIC UNION'S EXPORTS OF MANUFACTURED PRODUCTS *



¹ According to the (revised) Standard International Trade Classification. The letters refer to the following products : a. Organic chemicals; b. plastic materials; c. manufactured fertilisers; d. rubber; e. wood and furniture; f. toilet and cleaning products; g. telecommunications apparatus; h. miscellaneous chemical products; i. iron and steel; j. fabrics and clothing; k. manufactured articles n.e.s.; l. other manufactures of metal; m. scientific equipment; n. medicinal and pharmaceutical products; p. miscellaneous machines; q. leather and footwear; r. motor vehicles; s. non-ferrous metals; t. transport equipment other than motor vehicles; u. glass. See Annex 6, Table 4.

² Quotient of the share of exports of a specific manufactured product in the total of the Belgian-Luxembourg Economic Union's exports of manufactured products divided by the share of the same product in the imports of manufactured products of the countries of the Organisation for Economic Cooperation and Development, excluding the B.L.E.U.

³ In percentages. Excluding the B.L.E.U.

* Zone I. : Below-average expansion of demand; high B.L.E.U. specialisation.

Zone II. : Above-average expansion of demand; high B.L.E.U. specialisation.

Zone III. : Below-average expansion of demand; low B.L.E.U. specialisation.

Zone IV. : Above-average expansion of demand; low B.L.E.U. specialisation.

Firstly, the terms of trade ¹ have deteriorated, mainly owing to the quadrupling of the price of crude oil and the persistent weakness of world prices for certain products, such as steel and non-ferrous metals, of which the Belgian-Luxembourg Economic Union remains a large exporter. This worsening of the terms of trade, very serious in 1974 and 1975, means that the same balance with foreign countries can only be achieved by exporting a larger volume of goods for the same volume of imports, which reduces the real resources available for domestic expenditure. During the last three years the deterioration has not gone any further.

Secondly, the Belgian-Luxembourg Economic Union still appears to rely too much, for its exports, on products for which demand from the countries of the Organisation for Economic Cooperation and Development has progressed very little since 1974. To illustrate this statement Chart 15 shows the relation, for the periods 1970-1974 and 1974-1977, between the rates of growth of the imports of the member countries of the above-mentioned Organisation of various categories of manufactured products and the indices of specialisation of the corresponding exports of the Economic Union. The constellation of dots thus obtained makes it possible to see, for each of the two above-mentioned periods, the extent to which the composition of the Economic Union's exports is adapted to the structure and expansion of demand in the countries of the Organisation. Thus, a concentration of dots in the areas of the chart numbered I and IV indicates that world demand has not increased much for the products in which the Economic Union specialises to a great extent and has expanded more for the other products; such a relationship, which is unsatisfactory from the point of view of the possibilities of development of the Economic Union's exports, was observed during the period 1974-1977. On the other hand, during the years 1970-1974, the products in which the Economic Union greatly specialises had benefited by expanding world demand.

A third explanation of the deterioration in foreign trade is to be found in the effects of the new international division of labour, particularly on the Economic Union. For, on the one hand, the developing countries are exporting more and more products (steel, textiles) which represent a larger proportion (24 p.c. in 1977) of the Union's exports of manufactured products than of those of the neighbouring industrialised countries (14 p.c.);

¹ See Annex 6, Table 3.

on the other hand, demand from the developing countries shows the greatest progress for products — such as machines and means of transport — whose export share is smaller in the case of the Economic Union (31 p.c.) than in that of the above-mentioned industrialised countries (45 p.c.).

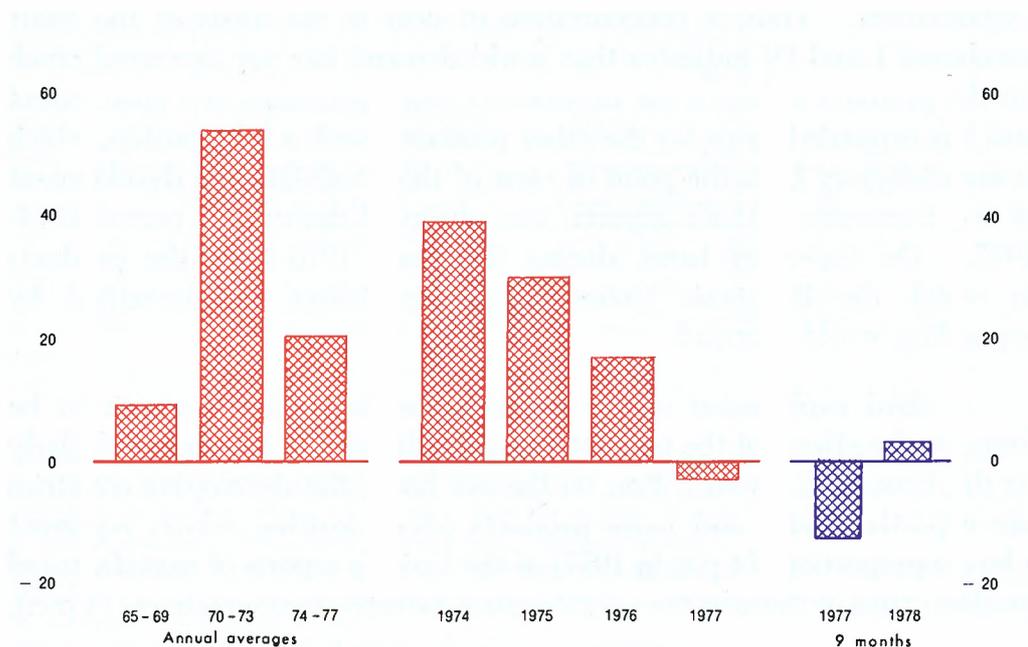
In addition to exports and imports, the current transactions recorded in the balance of payments include third-country merchandise trade, services and transfers.

The surpluses produced each year by third-country transactions, that is, purchases and resales of goods abroad by residents, increased from an average of about Fr. 4 to 5 billion during the period 1965-1973 to over Fr. 25 billion in 1977, as a result of the growth in the number and size of the transactions carried out and of the rise in prices.

Chart 16.

TRANSACTIONS IN GOODS AND SERVICES WITH FOREIGN COUNTRIES ¹

(Billions of francs)



¹ See Table 4, total of columns (e) and (f).

The surplus in respect of transactions in services¹ rose much faster still : from an annual average of about Fr. 4 billion during the period 1965-1969 to over Fr. 45 billion in 1977. Income from direct and portfolio investments and the operating expenses of the international institutions located in the Belgian-Luxembourg Economic Union were the main sources of growth in the net receipts, while, on the expenditure side, tourist travel abroad gave rise to growing deficits.

In 1978, for the first nine months as a whole, the foreign trade deficit declined, while still remaining substantial; it fell from Fr. 65 to 32 billion.

On the other hand, the surpluses left by third-country trade and services decreased, partly on account, with regard to the latter, of the decline in the net receipts in respect of contracting work carried out by Belgian and Luxembourg firms abroad; these receipts had, it is true, been particularly high in 1977 owing to payment for major works carried out in the oil-producing countries.

Capital transactions are shown in Tables 5 and 6. Those of the private sector, which appear in Table 5, include, in addition to spot transactions with foreign countries (which are the only ones recorded in the usual presentation of the balance of payments), residents' transactions in foreign currencies with domestic monetary institutions and forward transactions.

Viewed first of all from a long-term point of view, the private sector's capital transactions resulted in a net deficit during most of the years 1970 to 1977. On average the deficit amounted to Fr. 7 billion per annum during the first sub-period distinguished (1970-1973) and to Fr. 11 billion during the second sub-period (1974-1977). The separation of the two foreign exchange markets in no way prevents part of these capital transactions from being carried out via the regulated market, hence being able to influence the Bank's foreign exchange reserves; this is the case with the changes in claims connected with commercial transactions abroad, the movements of non-residents' balances on convertible accounts or again the movements of the banks' spot position

¹ See Annex 6, Table 5.

Table 5.

SPOT AND FORWARD CAPITAL TRANSACTIONS OF THE PRIVATE SECTOR

(Billions of francs)

	Average 1970- 1973	Average 1974- 1977	1974	1975	1976	1977	1977 First 9 months	1978 <i>p</i>		
								First 6 months	3rd quarter	First 9 months
1. Transactions of private enterprises and individuals with foreign countries :										
1.1 Foreign direct and portfolio investments in B.L.E.U.	+27	+45	+42	+41	+43	+53	+41	+17	+12	+29
of which :										
1.11 Direct investments	(+21)	(+37)	(+42)	(+34)	(+31)	(+40)	(+31)	(+15)	(+ 9)	(+24)
1.2 Direct and portfolio investments in foreign countries	-39	-48	-46	-48	-44	-52	-30	-21	-17	-38
of which :										
1.21 Securities	(-27)	(-21)	(-15)	(-36)	(-13)	(-18)	(-12)	(- 7)	(- 7)	(-14)
1.22 Making (-) or withdrawal (+) of deposits	(- 3)	(-13)	(-12)	(- 3)	(-18)	(-17)	(- 8)	(- 5)	(- 8)	(-13)
1.23 Direct investments	(- 7)	(-11)	(-14)	(- 5)	(-11)	(-13)	(- 7)	(- 6)	(- 1)	(- 7)
Total 1. ...	-12	- 3	- 4	- 7	- 1	+ 1	+11	- 4	- 5	- 9
2. Spot and forward transactions of private enterprises and individuals in foreign currencies with Belgian and Luxembourg banks ¹	+ 6	- 2	-10	-13	...	+16	+20	+21	- 7	+14
3. Changes in net commercial claims on foreign countries ²	- 8	- 4	...	+ 9	-21	- 6	+ 8	-14	- 2	-16
4. Transactions of non-residents in Belgian and Luxembourg francs with Belgian and Luxembourg monetary institutions :										
4.1 Net spot assets ³	+ 9	+ 7	+ 7	+10	+ 4	+ 6	+24	+25	-22	+ 3
4.2 Net forward assets ³ .....	...	- 5	-10	+10	- 9	- 8	-14	- 4	...	- 4
Total 4. ...	+ 9	+ 2	- 3	+20	- 5	- 2	+10	+21	-22	- 1
5. Movement in the spot and forward position in foreign currencies of Belgian and Luxembourg banks ⁴	- 2	- 4	+ 4	- 7	- 8	- 5	- 3	- 1	+ 6	+ 5
Total 1. to 5. ...	- 7	-11	-13	+ 2	-35	+ 4	+46	+23	-30	- 7

1 Plus sign : decrease in net assets of private enterprises and individuals; minus sign : increase.

2 Plus sign : decrease in claims; minus sign : increase.

3 Plus sign : increase in net assets of non-residents; minus sign : decrease.

4 Plus sign : decrease in net assets of banks; minus sign : increase.

in foreign currencies belonging to the regulated market. Furthermore, any « ex ante » disequilibrium on the free market sets in motion a movement of rates which gives rise to compensatory transactions or causes a shift, from one market to the other, of transactions for which the regulations leave the choice of market open; this type of switching has an indirect effect on the Bank's foreign exchange reserves. Consequently, in order to offset the effect of the structural deficit in respect of private capital movements on these reserves, it is important that current transactions should leave an adequate surplus — this was the case until 1975 — or, if not, that financing should take place by means of long-term borrowing abroad by the public sector.

Be this as it may, the relative stability, from one period to the other, of the deficits left by all the afore-mentioned capital transactions conceals divergent movements at the level of the different categories of transactions recorded.

With regard, first of all, to the transactions of private enterprises and individuals with foreign countries (item 1 of Table 5), the average annual deficit left by these transactions decreased, from the one period to the other, from Fr. 12 to 3 billion. For in fact the growth in direct foreign investments in the Belgian-Luxembourg Economic Union and, to a smaller extent, the reduction in purchases of foreign securities by residents more than offset the increase in the outflows of funds for direct investment and, above all, in the formation of deposits abroad.

Inflows of foreign capital for direct investment was of a structural nature, connected with the investment decisions and financing of the big multinational corporations. After having risen very rapidly and almost uninterruptedly until 1974, they subsequently tended to slacken, primarily owing to the decline in net lending to resident enterprises, chiefly by foreign parent companies. Portfolio investments abroad were subject to more varied influences. For, apart from the desire to diversify financial assets and leaving aside tax reasons, which give a permanent character to the demand for foreign securities on the part of the Belgian and Luxembourg public, cyclical, speculative and institutional factors (interest rate differentials between the domestic and foreign markets, the movement of stock exchange quotations at the major financial centres, the rate of Euro-issues) exerted a strong influence, at certain times, on this demand. Consequently, there were substantial outflows of funds, amounting to Fr. 36 billion in 1975; since that year, however, these outflows

have decreased appreciably, probably under the influence of the uncertainty about stock exchange quotations and exchange rates. They were, it is true, replaced by increased outflows of short-term funds for the formation of deposits abroad, reflecting the change in attitude towards the Belgian franc during the last few years, compared with the period 1970-1973, when it was expected to appreciate. Residents' direct investments abroad also increased, from the one period to the other, although to a much smaller extent; they mainly took the form of participations in companies.

Like the formation of deposits, the other categories of short-term capital transactions of the private sector, considered as a whole, were influenced mainly by factors connected with monetary conditions and anticipations about exchange rates; they were therefore characterised by instability. This was the case with residents' transactions in foreign currencies (item 2 of Table 5) — and with non-residents' transactions in Belgian francs (item 4) — with Belgian and Luxembourg banks, and with the changes in commercial credits due to leads and lags. On average, residents reduced their net claims in foreign currencies with banks during the period 1970-1973, and on the other hand increased them — to a small extent, admittedly — during the years 1974-1977, thus displaying a preference, during these years, for certain currencies. For their part, non-residents also, from the one period to the other, showed a similar change in attitude towards the franc : whereas they had increased their net spot claims in francs during the period 1970-1973, without feeling the need to arrange forward cover, they did provide cover to a considerable extent, by net forward sales of francs, for the additional spot claims which they formed during the years 1974 to 1977. As for total commercial credits (item 3 of Table 5), these on average left negative balances during each of the two periods distinguished; among these credits, those provided by Creditexport for the refinancing of export transactions at over two years increased, from the one period to the other, while the other credits declined.

With regard to the developments which took place in 1978, it is found that the total capital transactions of the private sector first of all resulted in a surplus of Fr. 23 billion in the first half-year followed by a deficit of Fr. 30 billion in the third quarter, against a surplus of Fr. 46 billion for the first nine months of 1977 and of only Fr. 4 billion for the last-mentioned year as a whole. These figures give a clear picture of the contrasting

movements by which these periods were characterised : a reversal of speculative behaviour towards the end of 1976 and at the beginning of 1977 and 1978, after the unrest of the preceding foreign exchange crises; a new foreign exchange crisis during the third quarter of 1978.

During the first nine months of that year, inflows of foreign capital for direct investment (item 1.11 of Table 5) decreased as a result of the reduction in the loans granted, mainly by parent companies, to resident private enterprises, probably in connection with changes in the financing conditions of enterprises.

The movement of transactions in foreign currencies between residents and domestic monetary institutions (item 2), just like that of non-residents' transactions in francs with these institutions (item 4), reflected the unrest on the foreign exchange markets during the third quarter. Thus, private enterprises and individuals increased their net spot and forward claims in foreign currencies with banks by Fr. 7 billion during the months July to September; in the first half of the year, on the contrary, they had reduced these claims by Fr. 21 billion. But it was mainly in non-residents' transactions in francs with the monetary institutions that speculative movements took place : these transactions left a deficit of Fr. 22 billion during the above-mentioned three months, against a surplus of Fr. 21 billion in the first half-year; this surplus, it is true, offset the deficit — likewise speculative — of Fr. 12 billion which had been recorded in the last quarter of 1977. With regard to net commercial claims on foreign countries, which are particularly affected by speculative movements, these rose by Fr. 14 and 2 billion respectively during the first half-year and the third quarter, whereas in 1977 they had decreased by Fr. 8 billion for the period as a whole.

Owing to the strains on the foreign exchange markets, the Bank decided, after consultation with the banking sector, to put into effect again, from 7th August, the agreement concluded with the banks in October 1976 whereby the latter charge, on their — exceptional — advances on convertible accounts to their foreign correspondents, a debtor interest rate corresponding to the real day-to-day cost of the convertible Belgian franc on the forward market. The purpose of this measure is to prevent certain foreign correspondents from being tempted, during periods of strain, to misuse, for the purpose of assuming a foreign exchange position against the Belgian franc, credits which are in principle granted to them for very short periods.

Table 6.

SPOT CAPITAL TRANSACTIONS OF THE PUBLIC SECTOR

(Billions of francs)

	Average 1970-1973	Average 1974-1977	1974	1975	1976	1977	1977 First 9 months	1978 <i>p</i>		
								First 6 months	3rd quarter	First 9 months
1. Transactions of public authorities :										
1.1 with foreign countries ...	- 7	- 3	- 4	- 4	- 3	...	...	+ 1	+ 7	+ 8
1.2 in foreign currencies with Belgian and Lu- xembourg banks ¹	- 9	...	...	...	+ 1	- 2	- 1	- 1	+ 1	...
Total 1. ...	- 16	- 3	- 4	- 4	- 2	- 2	- 1	...	+ 8	+ 8
2. Transactions of public enter- prises ² with foreign coun- tries	- 2	+ 3	- 1	...	+ 9	+ 3	+ 3	+ 1	- 4	- 3
Total 1. + 2. ...	- 18	...	- 5	- 4	+ 7	+ 1	+ 2	+ 1	+ 4	+ 5

¹ Plus sign : increase in indebtedness in foreign currencies to banks; minus sign : decrease.

² Financial intermediaries and public operating organisations.

As already stated, the capital transactions of the public sector as a whole are shown separately in Table 6. They display a very markedly divergent movement : the large deficits of the period 1970-1973 were succeeded, from 1976 onwards, by — admittedly smaller — surpluses. The former mainly reflected the gradual reduction in the Government debt to foreign countries (item 1.1 of Table 6) and to resident banks (item 1.2). The latter were attributable in 1976 and 1977 to public enterprises, which had benefited by subscriptions for bonds by oil-producing countries, whereas in 1978 the surpluses were due to loans taken up abroad, for the first time in a very long period, by the Treasury.

Altogether, the current and capital transactions described above resulted on balance — allowance being made for errors and omissions — in surpluses during the years 1970 to 1975 and in deficits from 1976 onwards. This movement reflected that in the balance of current transactions. For the first nine months of 1978, however, the deterioration in the overall balance was due not to current transactions but to a sudden reversal of the balance in respect of capital transactions, despite the inflows of funds due to the above-mentioned Treasury loans abroad. These transactions as a whole had as their counterpart corresponding movements in the Bank's foreign exchange reserves. Furthermore, owing to the fact that the Treasury arranged forward cover with the Bank for its loans contracted abroad, the foreign currencies to be delivered at forward dates by the Bank to the public sector — mentioned « pro memoria » in Table 7 — increased by Fr. 7 billion. Lastly, the net position in foreign currencies, both of the Bank and of the Treasury, resulting from the latter's loans, is on balance unchanged; all that remains is a debt in Belgian francs of the Treasury to the Bank, corresponding to the latter's obligation to deliver foreign currencies to the Treasury at forward dates. Nor is there any change in the position of the Belgian economy as a whole in relation to foreign countries, since the debt incurred by the Treasury has as its counterpart the acquisition of a claim by the Bank.

The statistical data available for the month of October do not make it possible to estimate current transactions completely on a transactions basis. Consequently, the figures for current transactions are affected by capital movements corresponding to the changes in the timing of payments. Thus these transactions resulted on balance in a deficit of Fr. 13 billion,

Table 7.

SUMMARY OF TRANSACTIONS

(Billions of francs)

	Average 1970-1973	Average 1974-1977	1974	1975	1976	1977	1977 First 9 months	1978 p		
								First 6 months	3rd quarter	First 9 months
1. Current transactions ¹	+ 45	+ 2	+ 25	+ 9	- 2	- 26	- 30	...	- 13	- 13
2. Capital transactions :										
2.1 Spot and forward transactions of private sector ²	- 7	- 11	- 13	+ 2	- 35	+ 4	+ 46	+ 23	- 30	- 7
2.2 Spot transactions of public sector ³	- 18	...	- 5	- 4	+ 7	+ 1	+ 2	+ 1	+ 4	+ 5
Total 2. ...	- 25	- 11	- 18	- 2	- 28	+ 5	+ 48	+ 24	- 26	- 2
3. Errors and omissions	+ 1	+ 8	+ 5	+ 11	+ 5	+ 12	+ 1	...	+ 1	+ 1
4. (= 1. to 3.) Total corresponding to the movement in the National Bank of Belgium's exchange reserves ⁴	+ 21	- 1	+ 12	+ 18	- 25	- 9	+ 19	+ 24	- 38	- 14
<i>Pro memoria</i> : Foreign currencies to be delivered at forward dates by the National Bank of Belgium to the public sector (increase - ; decrease +) ⁵	(+ 7)	(+ 1)	(+ 1)	(+ 1)	(...)	(...)	(...)	(...)	(- 7)	(- 7)

¹ See Table 4.² See Table 5.³ See Table 6.⁴ See Annex 6, Table 7, column (f).⁵ These currencies are included, with the other foreign currencies to be delivered at forward dates by the Bank, in the figures in column (g) of Table 7 of Annex 6.

mainly due to merchandise operations. With regard to capital transactions shown as such, these gave rise to a net outflow of Fr. 4 billion, despite inflows due to the loans obtained by the Treasury abroad. This outflow is partly attributable to an increase in the commercial claims on foreign countries which it has been possible to record.

With regard to the situation on the foreign exchange markets¹ between 1970 and 1977 the average rate for the Belgian franc weighted by imports on the regulated market appreciated by about 17 p.c. This appreciation helped, thanks to its effect on import prices (these rose on average by 7 p.c. per annum during the period in question, against 8 p.c. for all the industrialised countries), to curb domestic inflation. On the plane of the international competitiveness of exports, the rise in the weighted average rate for the Belgian franc as calculated by the International Monetary Fund was partly offset by a less rapid rise in Belgium than abroad in wages and, above all, prices. The result was that relative unit labour costs, corrected for exchange rate variations and measured over the whole of the period 1970-1977, went up by only 4 p.c., and relative wholesale prices by less than 1 p.c. This divergence in movement between labour costs and prices may reflect a smaller relative rise in the other cost components, particularly the cost of imported producer goods, and/or a deterioration in profit margins in Belgium compared with those of the other countries in question.

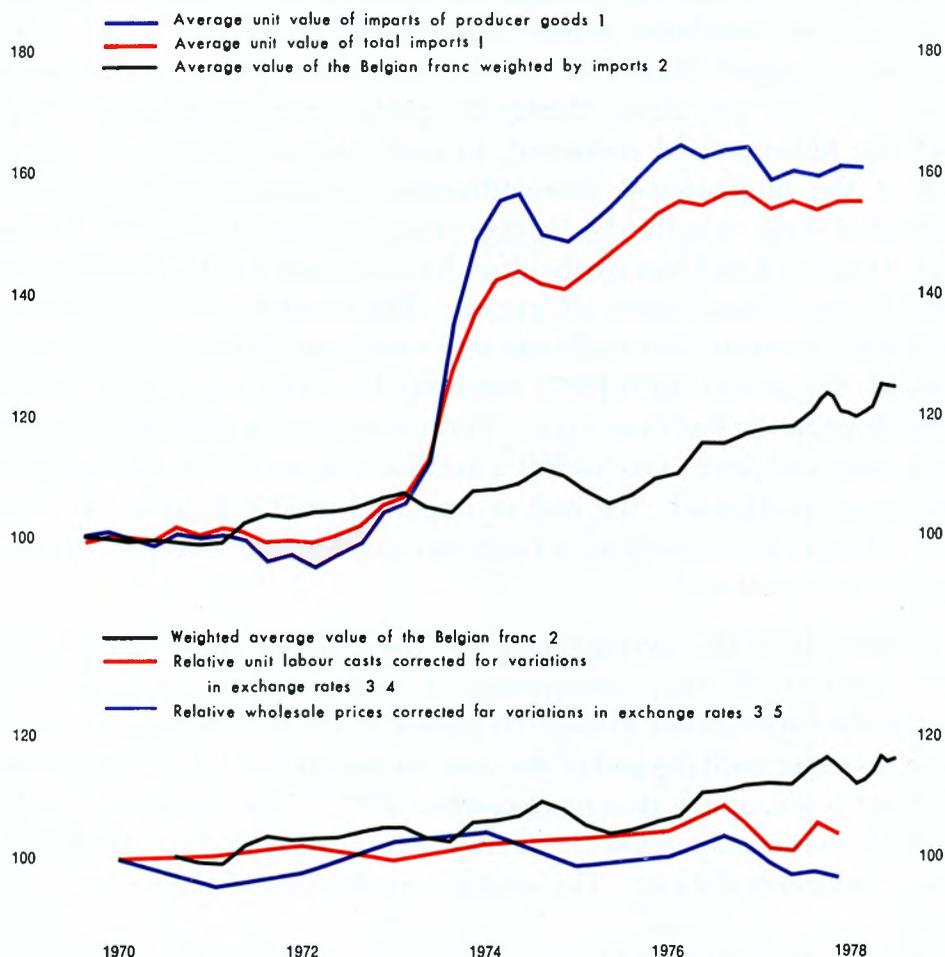
During 1978 the average rate for the Belgian franc weighted by imports first of all rose; subsequently it declined from April until July owing to the appreciation, during this period, of the French franc; after that it went up again until the end of the year, so that its level during December was about 4 p.c. above that in December 1977. This movement mainly reflects the weakening of the U.S. dollar, connected with the United States' external payments deficit. The massive conversions of dollars into other currencies and particularly into German marks created strains within the « snake ». These led, in October, to a realignment of the central rates, resulting in different degrees of revaluation of the German mark (+ 4 p.c.) and the Benelux currencies (+ 2 p.c.) in relation to the European Monetary Unit of Account. Consequently, the central rate for the German mark was raised by 2 p.c. in relation to the Belgian franc, but its rate in Brussels remained for a while below its previous ceiling rate.

¹ See Annex 6, Table 8.

Chart 17.

WEIGHTED AVERAGE VALUES OF THE BELGIAN FRANC, LABOUR COSTS AND PRICES

(Indices 1970 = 100)



Sources : Average unit value of imports : National Statistical Institute. Calculations of the National Bank of Belgium.
 Average value of the Belgian franc weighted by imports : calculations of the National Bank of Belgium.
 Weighted average value of the Belgian franc, unit labour costs and wholesale prices : International Monetary Fund. Calculations of the National Bank of Belgium.

1 1970 to 1978 : quarterly data.

2 1970 to 1977 : quarterly data. 1978 : monthly data.

3 1970 to 1976 : annual data. 1977 and 1978 : monthly data.

4 This is the quotient of Belgium's index of labour costs per unit of output divided by the weighted geometrical average of the corresponding indices of thirteen other industrial countries. The last-mentioned indices were corrected for the variations in the exchange rate for the Belgian franc.

5 The index in question here is that of wholesale prices of finished products. For the calculation, see note 4.

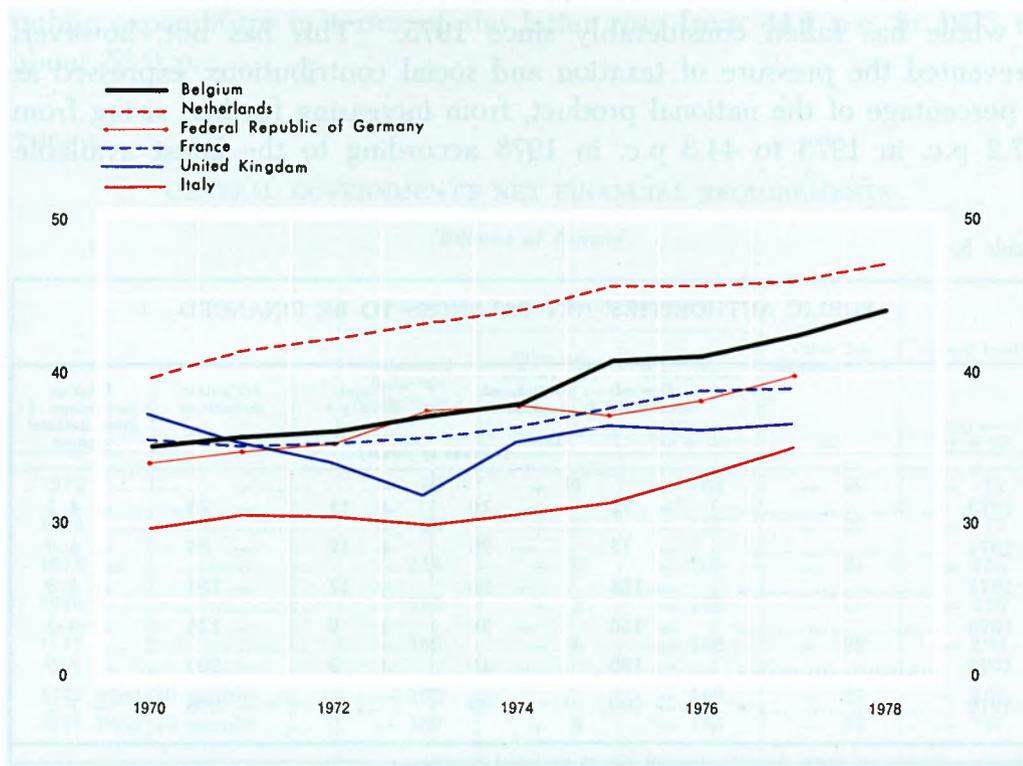
On the free market in 1978 the rates for foreign currencies, expressed in francs, hardly differed, until June, from those on the regulated market. From July onwards, however, owing to the strains on the regulated market, the free rate for the dollar, expressed in daily averages per month, showed a premium which reached 5.6 p.c. in October. Subsequently this premium largely disappeared.

PUBLIC FINANCES.

The « Reports of the technical working party entrusted with the task of formulating proposals for curbing the deficit in the State's finances in the immediate future » — otherwise referred to as the « Van Houtte

Chart 18.

FISCAL AND PARAFISCAL ¹ CHARGES AS A PERCENTAGE OF GROSS NATIONAL PRODUCT



Sources : Statistical Office of the European Communities, Fiscal Statistics 1970-1976; Organisation for Economic Cooperation and Development, public revenue statistics of the member countries of the Organisation for Economic Cooperation and Development 1965-1976.

¹ Taxes and social contributions imposed by and/or for the benefit of the Central Government, the local authorities, the social security institutions and the institutions of the European Communities. Cash data. 1977 : provisional data, 1978 : estimates.

Report » — published in 1976 highlighted the main weaknesses characterising the public finances, namely : the poorly controlled growth in expenditure, particularly current expenditure, the increasing fiscal and parafiscal burden and the swelling of budget deficits. The data which have become available since then provide sufficient evidence that the repercussions of recent economic developments have accentuated some of these characteristics, and more particularly the extent of the budget deficit of the public authorities as a whole.

With regard to revenue, the weakening of economic growth and the lessening of the rate of inflation have slowed down the nominal increase in the fiscal and parafiscal tax base. Furthermore, under the present circumstances, the scope for discretionary increases in rates of taxation appears to be limited and, when such increases have nevertheless been introduced, they in fact seem to have given rise to changes in behaviour on the part of the taxpayers concerned which have meant that the expected revenue from these sources has not been obtained. Consequently, the rate of growth of the fiscal and parafiscal revenue of the public sector as a whole has fallen considerably since 1975. This has not, however, prevented the pressure of taxation and social contributions, expressed as a percentage of the national product, from increasing further, rising from 37.2 p.c. in 1973 to 44.3 p.c. in 1978 according to the latest available

Table 8.

PUBLIC AUTHORITIES' NET BALANCES TO BE FINANCED

	Central Government ²	Local authorities ³	Social security ⁴	All public authorities	Total as percentage of gross national product
	<i>(billions of francs)</i>				
1973	- 71	- 16	+ 14	- 73	- 4.1
1974	- 77	- 20	+ 12	- 85	- 4.0
1975	- 130	- 23	+ 17	- 136	- 5.8
1976	- 156	- 29	+ 9	- 176	- 6.6
1977	- 190	- 19	+ 9	- 200	- 7.0
1978 <i>e</i>	- 200	- 20	...	- 220	- 7.2

Source : Ministry of Social Security, General Report on Social Security.

¹ The minus sign indicates a financial deficit and the plus sign a financial surplus.

² See Table 9.

³ Net public loan issues and changes in net liabilities to the Belgian Municipal Credit Institution, less « Government-share » loans, and to the other financial intermediaries.

⁴ Receipts, including income transfers from the Central Government, less social security expenditure for wage and salary earners and the self-employed.

estimates. It seems, however, that after 1975 a certain tendency towards a slowing-down of the phenomenon has become apparent; this slowing-down would have been even more pronounced had it not been for the specific increase in the tax burden in 1978 — by about 1.7 p.c. — which was largely due to the double non-recurrent levying of the additional income tax for the benefit of the local administrations.

With regard to public expenditure, this, too, has been affected by the repercussions of the mediocre performance of the economy. Leaving aside redemption of the debt, the expenditure of the public authorities as a whole more than doubled between 1973 and 1978, that is, in the space of five years. It is true that this movement is in part purely nominal. The rate of increase first of all speeded up, reaching a maximum of 24.2 p.c. in 1975, when the cyclical reversal and the considerable price inflation made themselves felt simultaneously; after that it gradually slowed down, declining to about 10 p.c. in 1978, mainly owing to the slowing-down of inflation. This rate of increase nevertheless every year exceeded that of the gross national product, so that the relative extent of public expenditure in terms of the latter rose from 44.1 p.c. in 1973 to about 53.9 p.c.

Table 9.

CENTRAL GOVERNMENT'S NET FINANCIAL REQUIREMENTS

(Billions of francs)

	Net requirements met by the Treasury 1			Other net requirements 4	Grand total
	Balance of budgetary transactions 2	Other net inflows (+) or outflows (-) of funds 3	Net outflows		
(a)	(b)	(c) = (a) + (b)	(d)	(e) = (c) + (d)	
1973	- 62	+ 11	- 51	- 20	- 71
1974	- 58	+ 1	- 57	- 20	- 77
1975	- 114	+ 5	- 109	- 21	- 130
1976	- 132	- 1	- 133	- 23	- 156
1977	- 162	- 6	- 168	- 22	- 190
1977 First 10 months	- 168	...	- 168	- 18	- 186
1978 First 10 months	- 189	+ 4	- 185	- 12	- 197

1 Source : Ministry of Finance.

2 See Table 10.

3 Movement in funds of third parties and other Treasury transactions, excluding inflows and outflows resulting from changes in the national debt.

4 These amounts correspond to the net increase in the debudgetised debt borne by the Central Government, i.e. to the prefunding of certain central-government expenditure provided direct by autonomous organisations and institutions.

Equally disquieting is the continuous expansion of the share of current expenditure to the detriment of that of capital expenditure, which declined to about 11.2 p.c. in 1978, against 12.6 p.c. in 1973 and an average of 15.6 p.c. for the period 1960-1972.

On balance, the movement of revenue and expenditure led to an appreciable worsening of the deficit of the public authorities : their net financing requirements, which amounted in 1970 to 3.1 p.c. of the gross national product, have risen continuously from year to year and in 1978 represented about Fr. 220 billion, or 7.2 p.c. of the gross national product, which is slightly higher than the figure for the previous year.

Table 10.

TREASURY RECEIPTS AND EXPENDITURE RESULTING FROM THE
EXECUTION OF BUDGETARY TRANSACTIONS ¹

(Billions of francs)

	Current transactions ²			Capital transactions			Overall balance	
	Receipts	Expenditure	Balance	Receipts	Expenditure ³	<i>Pro memoria</i> : Budget expenditure + cash expenditure in respect of investments in the debudgetised sector ⁴		Balance
	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(f)	(g) = (d) - (e)	(h) = (c) + (g)
1973	430	434	- 4	6	64	(72)	- 58	- 62
1974	513	514	- 1	6	63	(81)	- 57	- 58
1975	609	652	- 43	8	79	(91)	- 71	-114
1976	696	751	- 55	8	85	(108)	- 77	-132
1977	785	861	- 76	9	95	(119)	- 86	-162
1977 First 10 months	641	737	- 96	7	79	(100)	- 72	-168
1978 First 10 months	725	835	-110	8	87	(105)	- 79	-189

Source : Ministry of Finance, Treasury Administration.

¹ Receipts and expenditure actually effected in each period, whatever the fiscal year to which they relate, internal transfers being excluded.

² Including current revenues collected by the Central Government but assigned to various funds and organisations, as well as the expenditure which these funds and organisations financed by means of these revenues, which did not appear among budget transactions up to 1977 but were reincorporated in the government budget in 1978.

³ Including the expenditure of the Road Fund.

⁴ The budget data in column (e) have been adapted in two respects in order to bring out the movement of the Central Government's capital expenditure : firstly, the disbursements in respect of investments in the « debudgetised sector » have been added (these include the works carried out by the Associations of Local Authorities for Motorways, the works on the Albert Canal and the Brussels-Rupel Canal and the part of the local authorities' investments subsidised by the State but prefinanced by the Belgian Municipal Credit Institution); secondly, the refunds of the sales tax included in stocks as at 31st December 1970, which do not represent genuine capital transactions, have been eliminated from the data for the years 1973 to 1975.

This proportion illustrates the extent of the deficit in recent years. The size of the deficit is, however, due more to the operation of the automatic stabilisers than to discretionary impulses emanating from budgetary policy. On the revenue side, the slackening in the growth of the income of the public authorities was not expected; on the expenditure side, the endogenous increase in current expenditure is accounted for particularly by transfers, while the traditional counter-cyclical role of capital expenditure — and above all of public investment — decreased appreciably, as has been shown above.

The afore-mentioned growth in the financial deficit of the public authorities as a whole was primarily due to the large expansion in the deficit of the Central Government, which rose from Fr. 71 billion in 1973 to nearly Fr. 200 billion.

The rate of increase of taxes levied for the benefit of the Treasury slowed down distinctly after 1975, when the effects of the smaller economic growth — already apparent in 1975 — were no longer offset by the nominal expansion of taxable incomes due to the inflationary pressure which had characterised the period 1973-1975 but subsequently eased. In 1978, however, despite the net slowing-down of the nominal rise in the national product, the rate of expansion of tax revenue remained, as a whole, at a level hardly any lower than that of 1977, namely 13.3 p.c. for the first ten months of the year, against 14.6 p.c. the previous year.

Various discretionary measures as well as other factors of a technico-administrative nature influenced this result. Thus, the yield of the main category of indirect taxes, namely the value-added tax and stamp duties, rose faster (12 p.c., against 10.8 p.c.). Had it not been, however, for the favourable effect of technical factors — the constitution and repayment of tax credits — and discretionary factors — changes in the rates of tax applicable to certain goods and services — this rate of increase would have been distinctly lower. Likewise, various factors hardly related to the trend of economic activity or of prices played a part in bringing about an improvement in the yield of direct taxes based on assessment : the inadequate amount of the tax deducted at source on the nominally increased incomes of previous years, and the speeding-up and extension of the assessment of the substituting incomes, which ought in fact to have taken place in 1977 but could only, for administrative reasons, be fully applied last year. Lastly, the slackening of the growth in revenue

connected with the Preliminary Income Tax (from 20.1 to 16.6 p.c.) would have been more marked had it not been for the incorporation in this category of the additional municipal income tax for 1978.

The rate of increase of **current Government expenditure**, which had reached a maximum of 27 p.c. in 1975, under the influence of a high rate of inflation and a marked expansion in certain expenditure items connected with the crisis, fell again in the following years to about 15 p.c. and to 13.4 p.c. for the first ten months of 1978. Allowing for the slackening of the price rises, this relative stability actually represents a speeding-up of the growth in expenditure expressed in constant prices.

Although it is far from being the only category concerned, expenditure connected with unemployment and the creation of additional jobs is most clearly affected by the consequences of the economic crisis : the total amount of direct measures of State intervention in unemployed benefits and expenditure on early retirement pensions, in-service training of young people, etc. — which were extended to form the so-called « Spitaels Plan » — was increased almost fivefold in 1975, when it reached Fr. 25 billion; it continued to increase at a very high rate during the following years and amounted to about Fr. 68 billion in 1978. The total of direct expenditure connected with unemployment borne by the public authorities as a whole, hence including social security, actually amounted to about Fr. 90 billion; furthermore, this figure does not include certain State interventions for the purpose of compensating, for instance, for the losses of health insurance and pension scheme contributions resulting from the growth in the number of unemployed.

Other categories of current expenditure have also increased distinctly faster than the average in recent years; for instance, the State's participation in meeting the operating losses of the Belgian National Railways Company and the tram companies and the subsidies to the Special Municipalities Fund, the Economic Expansion Fund and the Road Fund. The growth in the interest burden on the national debt has also speeded up considerably, owing both to the increase in budget deficits and to the rise in interest rates. The increase in the State's expenditure on consumption (personnel expenses, purchases of goods and services), on the other hand, has remained below average.

Total outpayments in respect of capital expenditure to be borne by the Treasury and in respect of the investments of the debudgetised sector¹ showed an increasingly rapid rise from 1973 to 1976, which subsequently, however, slowed down considerably from 18.1 p.c. in 1976 to 10.6 p.c. in 1977. For the first ten months of 1978 the increase was only 4.9 p.c. The last-mentioned slackening is due to two main causes. Firstly, a distinct slowing-down of the movement of the two categories of capital expenditure which had shown the greatest growth during the period 1973-1977, namely capital transfers to other sectors (including subsidies to enterprises and for the investments of the local authorities, the private education system and the private hospital establishments) and « advances and participations » (largely for financing of the railways, metropolitan railways and shipbuilding, as well as for the loans granted by way of aid to the developing countries). A second interesting recent phenomenon is the considerable lagging-behind of the outpayments in respect of investments compared with the commitment programmes, the actual execution of these programmes having fallen considerably behind, especially during the early months of the year, probably because of the administrative or technical difficulties in the execution of certain important projects. Whereas the commitment programmes adopted by the budgetary and debudgetised sectors indicated that there would be an increase of 24.8 p.c. for 1978 as a whole, outpayments, on the other hand, decreased by 3 p.c. for the first ten months of the year.

Since 1970 the Treasury had no longer had recourse to foreign-currency loans for meeting its financial requirements; on the contrary, the balance remaining due on these loans had been reduced year by year, leaving only Fr. 3.4 billion of long-term debt at the end of 1977. The Treasury's acute financing requirements resulting from the above-mentioned deficit encountered, during the autumn months of 1978, a tightening of the money market caused by the strained situation on the foreign exchange market. The extent and duration of these requirements made it impossible to cover them completely by indirect financing of the Treasury via the « special assistance » granted by the Bank to the Securities Regulation Fund; the Treasury therefore had recourse, as during the 1960s, to borrowing in foreign currencies, to a total amount of Fr. 12.5 billion.

¹ After elimination of the refunds of sales taxes still included as at 31st December 1970 in existing stocks, which are not to be regarded as genuine capital expenditure (see column (f) of Table 10).

Table 11.

MEETING OF CENTRAL GOVERNMENT'S NET FINANCIAL REQUIREMENTS

(Changes in billions of francs)

	Debt in Belgian francs							Grand total 1
	Debt in foreign currencies	Direct and indirect recourse to the National Bank of Belgium			Other debts		Total	
		Treasury certificates held by the Bank (margin)	Treasury certificates held by the Securities Regulation Fund and financed by advances from the Bank	Total	Floating	Consolidated		
(a)	(b)	(c)	(d) = (b) + (c)	(e)	(f)	(g) = (d) + (e) + (f)	(h) = (a) + (g)	
1973	- 4	- 1	- 2	- 3	- 8	+ 86	+ 75	+ 71
1974	- 2	+ 5	...	+ 5	+ 5	+ 69	+ 79	+ 77
1975	- 2	- 1	+ 3	+ 2	+ 29	+101	+132	+130
1976	- 1	+ 16	+ 1	+ 17	+ 39	+101	+157	+156
1977 .....	...	+ 16	- 1	+ 15	+ 1	+174	+190	+190
1977 First 10 months .....	...	- 14	- 4	- 18	+ 26	+178	+186	+186
1978 First 10 months	+ 12	...	+ 18	+ 18	+ 35	+132	+185	+197

1 The figures in this column are the same as those in Table 9, but of opposite sign. See also Annex 6, Tables 9 and 10.

The net contracting of debt in Belgian francs, for its part, had risen from Fr. 75 billion in 1973 to Fr. 190 billion in 1977 and stabilised, for the first ten months of 1978, at its 1977 level. The growth in the consolidated debt has been by far the largest source of financing of the Central Government, but, since 1976, the Treasury has also had to resort substantially both to short-term financing from the financial intermediaries and to the credit facilities, direct or indirect, placed at its disposal by the Bank : in 1978 it used almost without interruption the whole of its direct credit margin and was furthermore obliged, most of the time, to have recourse to the Securities Regulation Fund, whose subscriptions to Treasury certificates had to be financed by recourse to that institution's special facility for advances from the Bank. The limit on this special assistance by the Bank to the Securities Stabilisation Fund, initially fixed at Fr. 15 billion, was adjusted on several occasions, sometimes downwards and sometimes upwards, especially in response to the seasonal variations

in the Treasury's situation; in July 1978 it reached a maximum of Fr. 50 billion, after which it was lowered in two stages to Fr. 30 billion.

The developments described above caused the Government to regard the **reorientation and reform of public expenditure** as a priority aim. This political aim was further elaborated in the Law of 5th August 1978 concerning Economic and Budgetary Reforms (Anti-crisis Law) and in the Government budget for 1979.

A fundamental idea underlying these measures was that the excessive budget deficits left the Government without any freedom of action for ensuring the financing of a purposeful policy aimed at reviving the economy and increasing employment. Furthermore, in view of the level already reached by the fiscal and parafiscal pressure, it was quite clear that any further addition to the tax burden was liable to give rise to unhealthy phenomena of tax evasion, economic malthusianism and passing-on of the tax burden, coupled with rises in costs which could have an adverse effect on the Belgian economy's competitive position, the climate of investment and employment. It therefore appeared that the desired improvement should first of all be sought in a limitation of the growth in Government expenditure, as had also been advocated in the « Van Houtte Report ».

The Anti-crisis Law therefore, among other measures, granted the Government general and temporary powers with a view to limiting the growth in State expenditure, both within the framework of the execution of the 1978 budget and in the preparation and execution of the 1979 budget. It may be emphasised in this connection that, with regard to the adjusted budget of current expenditure for 1978, the necessary supplementary appropriations — required mainly owing to the rise in unemployment benefits — were as a whole offset by reductions in appropriations under other budget items. To achieve this result, the Government, among other things, established a norm the object of which was a reduction, averaging 2 p.c., in the expenditure of the various departments compared with the appropriations included in the initial 1978 budget. For the initial 1979 budget, a general norm was furthermore established by the Anti-crisis Law itself; with a few exceptions, this norm is designed to limit the rate of growth of public expenditure to the foreseeable rise in the index of consumer prices.

The Anti-crisis Law furthermore provided for a number of more specific reforms, to be implemented in most cases by Royal Decrees issued by virtue of special powers, which related to, among other things, certain items of State expenditure in the social field. Several of these measures have in the meantime come into force; others still have to be implemented. Lastly, various measures, such as the announced reforms with regard to social security, were not carried out in time owing to the political developments of the last few months : for, in many cases, the law required that the necessary decrees should be issued by the Government before 31st December 1978.

ALLOCATION OF THE SAVINGS AND FINANCING OF THE INVESTMENTS OF INDIVIDUALS AND ENTERPRISES.

The structurally large net financing capacity of the sector of individuals and enterprises as a whole is the result of two opposite situations : the capital resources of individuals, including one-man businesses, substantially exceed their gross capital formation, while there is a reverse relationship in the case of enterprises; the former therefore have a fairly considerable net financing capacity, while the latter have net financing requirements.

With regard, first of all, to individuals, we find that their rate of gross saving hardly changed between the first and the second phase of the period 1971-1978, although these two sub-periods differ radically. The same was not true, however, of their gross capital formation, that is, essentially, their expenditure on house-building : expressed as a percentage of their disposable income, this gross formation increased on average from 8.8 p.c. during the period 1971-1974 to 10.3 p.c. during the following four years. Consequently the resources which, on balance, they made available to the other sectors, expressed in the same way, declined slightly : from an average of 12.6 p.c. for the first period to 10.9 p.c. for the second.

From the point of view of the behaviour of enterprises, the two periods present different pictures : unlike that of individuals, their rate of gross saving — including depreciation allowances and profits placed to reserve — declined after the oil crisis, but since at the same time their rate of gross capital formation fell more still, their net financial requirements, account

Table 12.

CAPITAL ACCOUNT OF INDIVIDUALS AND ENTERPRISES
(Annual averages)

A. Individuals	Billions of francs		Percentage of disposable income		B. Enterprises	Billions of francs		Percentage of gross national product	
	1971-1974	1975-1978 ^e	1971-1974	1975-1978 ^e		1971-1974	1975-1978 ^e	1971-1974	1975-1978 ^e
1. Disposable income	1,302	2,102	100.0	100.0	1. Gross savings	141	182	8.2	6.7
2. Consumption	1,033	1,670	79.3	79.4	2. Capital transfers	21	42	1.2	1.5
3. Gross savings (= 1. - 2.)	269	432	20.7	20.6	3. Capital resources (= 1. + 2.) ...	162	224	9.4	8.2
4. Capital transfers	9	14	0.7	0.6	4. Gross capital formation	216	277	12.5	10.1
5. Capital resources (= 3. + 4.) ...	278	446	21.4	21.2	5. Net financing requirements (= 3. - 4.)	- 54	- 53	- 3.1	- 1.9
6. Gross capital formation	114	216	8.8	10.3	<i>Pro memoria</i> : Gross national product	1,729	2,736	100.0	100.0
7. Net financing capacity (= 5. - 6.)	164	230	12.6	10.9					

Sources : National Statistical Institute; Statistical Office of the European Communities. Calculations of the National Bank of Belgium.

being taken also of the net capital transfers received from the public authorities, were on average lower during the years 1975-1978 than during the four previous years (1.9 p.c. of the gross national product, against 3.1 p.c.).

In 1978 the behaviour of individuals and enterprises did not undergo any significant changes in comparison with the three previous years : individuals' net financing capacity, expressed as a percentage of their disposable income, and enterprises' net financial requirements, expressed as a percentage of the gross national product, remained at the average level reached during the period 1975-1978.

The movement of the net financial saving of individuals and enterprises, defined as being the difference between the formation of financial assets and the new indebtedness of these respective sectors, exactly reflects, on the financial plane, the transactions carried out in the real sphere.

a) *Indebtedness of individuals and enterprises.*

Expressed as a percentage of the gross national product, the growth in the financial liabilities of individuals, excluding one-man businesses, became much faster, rising from an average of 2.2 p.c. for the period 1971-1974 to 3.2 p.c. for the period 1975-1978.

This movement was dominated to a large extent by the financing of expenditure on building, the development of which has already been described. On top of this there came, from 1976 onwards, a large expansion in recourse to consumer credit.

In 1978, the indebtedness of individuals increased more slowly than in the previous year.

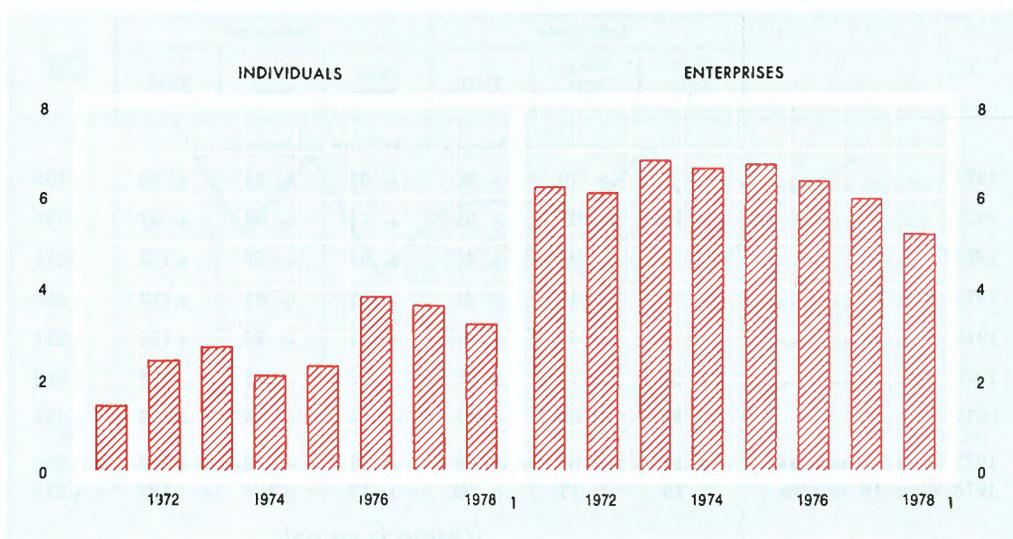
The growth in the indebtedness of enterprises, including one-man businesses, which had been speeding up for many years, reached a maximum in 1973-1975 : expressed as a percentage of the gross national product, it only amounted to 5.2 p.c. in 1978, against 6.7 p.c. in 1975. This decline obviously reflects the reduction in net financial requirements described earlier; in some cases, moreover, borrowing limits were doubtless reached.

The composition of the growth in the indebtedness of enterprises changed : the share of long-term debts in the total, which still averaged 56 p.c. during the years 1971-1972, had fallen to under 52 p.c. for 1977. The relative slackening of gross capital formation after 1974 played a preponderant role in this connection. At the beginning of the last quarter of 1978, however, the decrease in the share of long-term debts was interrupted.

Chart 19.

FINANCIAL LIABILITIES OF INDIVIDUALS AND ENTERPRISES

(Changes as percentages of gross national product at current prices)



1 Changes in financial liabilities in the first nine months extrapolated for the whole year.

The tendency towards a reduction in the relative extent of long-term indebtedness was sometimes speeded up and sometimes slowed down by fortuitous and temporary shifts. One of these was the substantial increase in short-term liabilities during periods of speculation — which have become relatively frequent since the beginning of 1976 — against the Belgian franc. For in fact, in order to finance the growth in their net commercial claims on foreign countries and possibly in other financial assets in foreign currencies, enterprises increased their recourse to domestic short-term credit. During the periods of easing which followed the crises on the foreign exchange markets, this recourse returned to normal. Such irregular

movements were observable in the first and third quarters of 1976 and in the last quarter of 1977. In order to counter this speculative recourse to short-term credit, the monetary authorities adopted ad hoc measures during each crisis. Thus, in connection with the speculative movements in the second half of 1978, the Bank among other things addressed to the financial intermediaries, on 23rd October, a monetary policy recommendation which will be discussed further on.

Table 13.

FINANCIAL LIABILITIES OF INDIVIDUALS AND ENTERPRISES

Approximate classification according to the debtor and the duration of the liabilities

	Individuals			Enterprises			Grand total
	Short term 1	Long term 2	Total	Short term	Long term	Total	
<i>(Changes in billions of francs)</i>							
1971	+ 1	+ 19	+ 20	+ 37	+ 51	+ 88	+108
1972	+ 10	+ 29	+ 39	+ 44	+ 53	+ 97	+136
1973	+ 9	+ 39	+ 48	+ 54	+ 69	+123	+171
1974	+ 5	+ 41	+ 46	+ 58	+ 81	+139	+185
1975	+ 9	+ 46	+ 55	+ 74	+ 82	+156	+211
1976	+ 26	+ 74	+100	+ 62	+106	+168	+268
1977	+ 23	+ 80	+103	+ 83	+ 89	+172	+275
1977 First 10 months .	+ 19	+ 69	+ 88	e + 47	e + 73	e +120	e +208
1978 First 10 months .	+ 15	+ 77	+ 92	e + 18	e +105	e +123	e +215
<i>(Changes in per cent)</i>							
1977 First 10 months .	+ 22	+ 15	+ 16	e+ 8	e+ 8	e+ 8	e + 10
1978 First 10 months .	+ 14	+ 14	+ 14	e+ 3	e+ 10	e+ 8	e + 9
<i>(Outstanding amounts in billions of francs)</i>							
1978 31st October	124	612	736	e 652	e1,110	e1,762	e 2,498

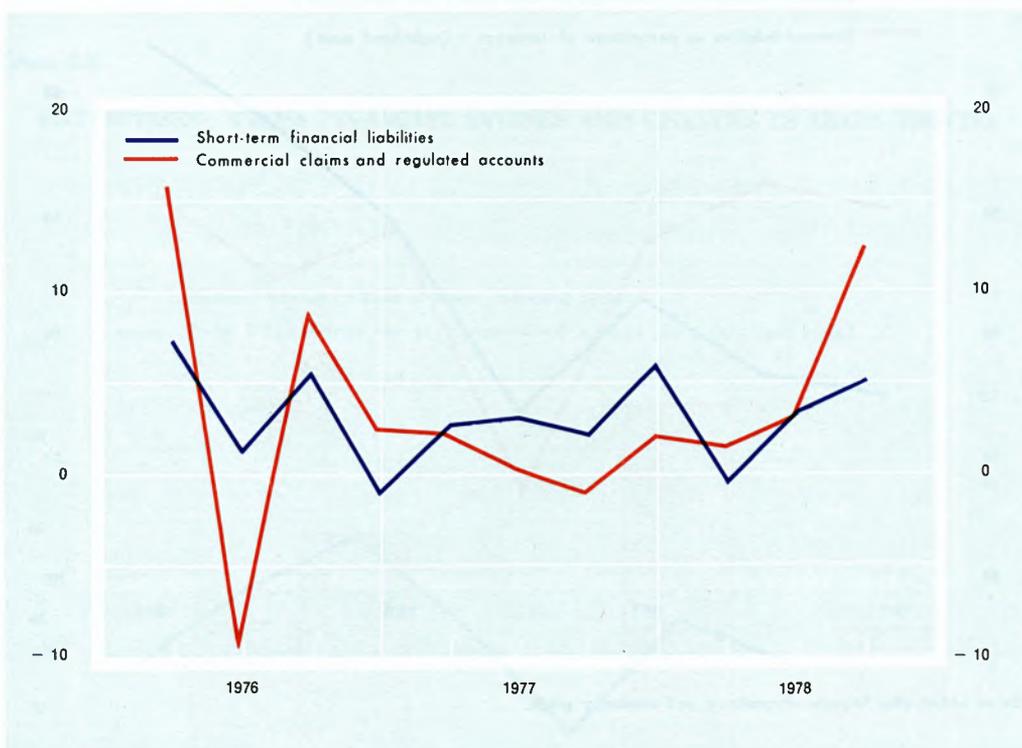
1 Mainly liabilities in the form of consumer credit.
2 Housing loans.

A comparison of the growth in enterprises' financial liabilities with their gross formation of savings over a number of years reveals a distinct deterioration in their financial structure : gross savings formation, on average 25 p.c. greater than the growth in financial liabilities during the period 1971-1974, has, since the beginning of the economic crisis, been at about the same level as the growth in debts. This phenomenon continued

Chart 20.

ENTERPRISES : SHORT-TERM FINANCIAL LIABILITIES TO BELGIAN FINANCIAL INTERMEDIARIES AND OUTSTANDING AMOUNT OF NET COMMERCIAL CLAIMS ON FOREIGN COUNTRIES ¹ AND OF REGULATED CREDITOR ACCOUNTS IN FOREIGN CURRENCIES ²

(Percentage changes compared with amount outstanding at end of previous quarter ³)



¹ Credits financed by exporting enterprises or granted to importing enterprises.

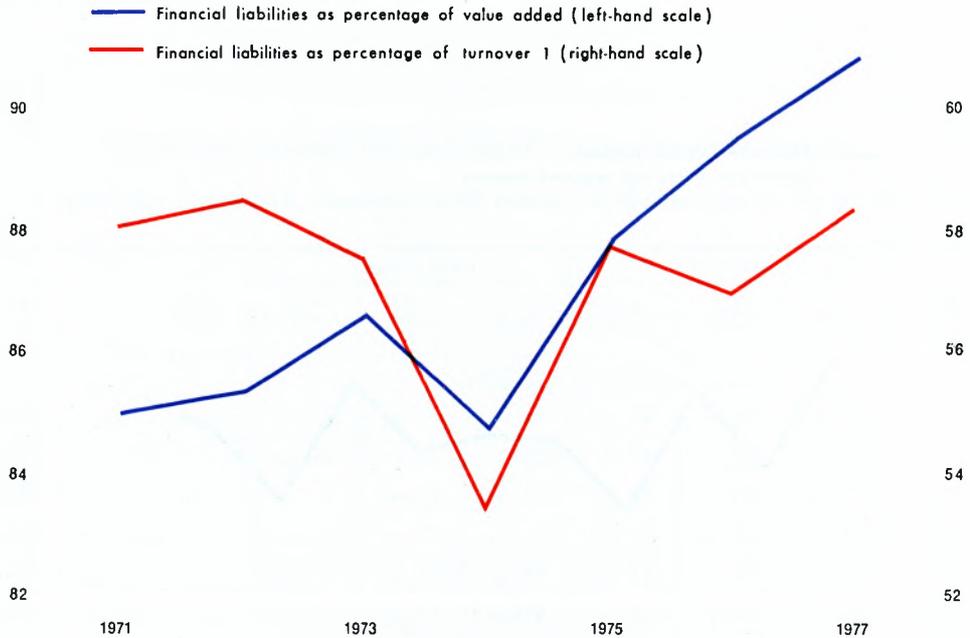
² These are the accounts with Belgian and Luxembourg banks.

³ Seasonally adjusted data.

in 1978. Another symptom of the deterioration lies in the increase in gross indebtedness expressed as a percentage of the value added of non-financial enterprises : this ratio rose from 85 p.c. in 1971 to 91 p.c. in 1977. If, on the other hand, we compare this same indebtedness with the turnover, which is assumed to be equal to the value added plus imports of producer and consumer goods (two components which have increased much faster than the value added), the ratio remains more or less stable. Working in opposite directions, two tendencies probably cancelled each other out : a growth in the amount of the debts of the manufacturing industries in

Chart 21.

ENTERPRISES : FINANCIAL LIABILITIES AS A PERCENTAGE
OF VALUE ADDED AND OF TURNOVER



1 Value added plus imports of producer and consumer goods.

relation to their turnover estimated as indicated above and the opposite movement in the other sectors, including the commercial sector and that of other non-financial services.

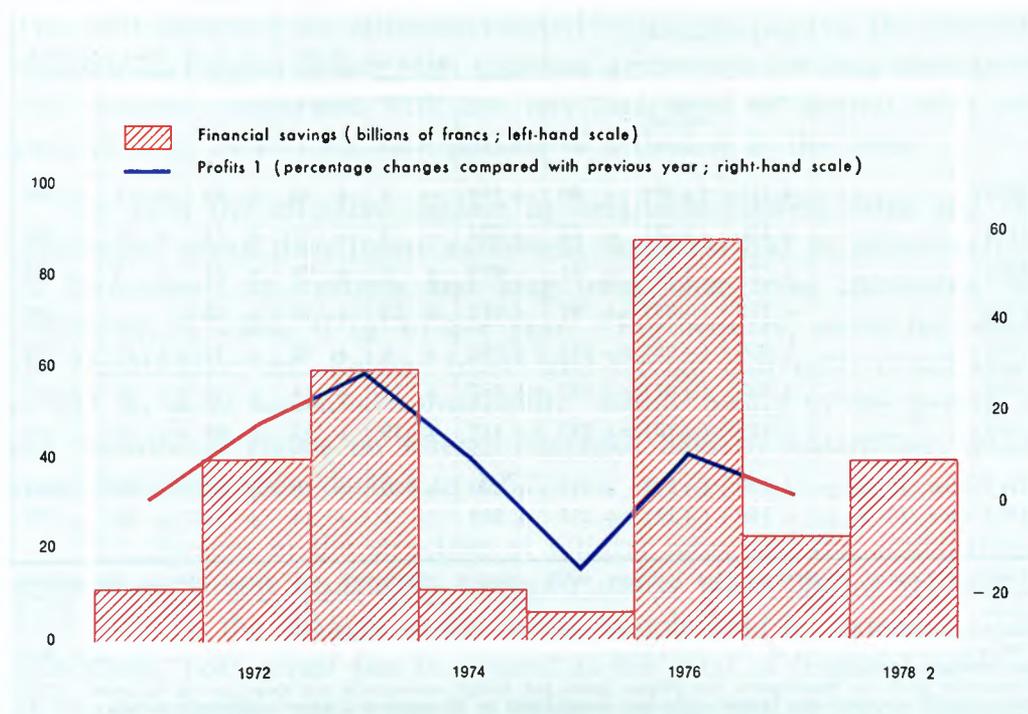
b) *Formation of financial assets by enterprises and individuals.*

On the basis of the statistical material available at present, a breakdown between the financial savings of enterprises and those of individuals, including one-man businesses, cannot be accurately made. Nevertheless, the orders of magnitude which emerge from the analyses are definitely of interest.

Thus, Chart 22 clearly reveals the relation between the formation of financial assets by enterprises and the fluctuations in their profits, which, in turn, show a movement pretty well parallel with that of the trend of economic activity; pending subsequent different uses of the profits they have made, such as capital investments or debt redemption, enterprises among other things build up financial assets, which to a great extent take the form of large deposits.

Chart 22.

ENTERPRISES : GROSS FINANCIAL SAVINGS AND CHANGES IN GROSS PROFITS



¹ Source : National Statistical Institute.

² Financial savings : amount formed in the first nine months extrapolated for the whole year.

With regard to individuals, their rate of gross financial saving (defined as the ratio between their formation of financial assets and their disposable income) rose from an average of 18.3 p.c. during the period 1971-1974 to 20.6 p.c. during the next four years. The net rate of saving of individuals, that is, the share of their disposable income withheld from consumption, nevertheless underwent little change, as has been stated at the beginning of this chapter. The divergence is not surprising : on

the one hand, some individuals have had increasing recourse to credit in order to keep their expenditure on consumption at the desired level, with the result that their rate of net saving has declined; on the other hand, the mass of other individuals have, in line with the increase in their disposable income, devoted a larger proportion of this income to the formation of financial assets.

Table 14.

FINANCIAL ASSETS HELD BY ENTERPRISES AND INDIVIDUALS ¹
(Changes in billions of francs)

	Assets in Belgian francs ²				Assets in foreign currencies			Other assets ⁴	Grand total
	At up to one year		At over one year	Total	At up to one year (Deposits)	At over one year (Securities) ³	Total		
	Total	of which : Cash holdings							
1971	+ 114	(+36)	+ 68	+ 182	- 3	+ 22	+ 19	+ 7	+ 208
1972	+ 168	(+65)	+ 62	+ 230	- 2	+ 33	+ 31	+ 19	+ 280
1973	+ 171	(+32)	+ 81	+ 252	+ 6	+ 25	+ 31	+ 2	+ 285
1974	+ 175	(+34)	+ 97	+ 272	+ 13	+ 15	+ 28	...	+ 300
1975	+ 218	(+92)	p+ 113	p+ 331	+ 8	+ 32	+ 40	p+ 11	p+ 382
1976	+ 235	(+37)	p+ 152	p+ 387	+ 12	+ 14	+ 26	p+ 55	p+ 468
1977	+ 187	(+73)	p+ 230	p+ 417	+ 19	+ 17	+ 36	p+ 13	p+ 466
1977 First 10 m. p	+ 102	(+52)	+ 218	+ 320	+ 9	+ 13	+ 22	+ 43	+ 385
1978 First 10 m. p	+ 138	(+11)	+ 155	+ 293	+ 1	+ 14	+ 15	+ 69	+ 377

¹ Excluding financial intermediaries but including public operating organisations and certain financial intermediaries which could not be excluded for 1978 : life assurance companies, employers' liability insurance companies and pension funds.

² See Annex 6, Table 11.

³ Net purchases by residents of the Belgium-Luxembourg Economic Union; the share of Luxembourg savings in these net purchases is small.

⁴ Assets for which the classification into Belgian francs and foreign currencies is not known or has no point. These are primarily net commercial claims on foreign countries held by enterprises and direct investments abroad.

The composition of the total financial assets built up by individuals and enterprises changed during the period both as regards the currencies in which the investments are made and as regards the term of the investments.

With regard to the choice of assets as between those in Belgian francs and those in foreign currencies, the level of interest rates does not appear to be the decisive factor. The share of assets in foreign currencies in total assets in Belgian francs and in foreign currencies

declined very substantially, falling from an average of 10.1 p.c. during the period 1971-1974 to 7.8 p.c. during the years 1975-1977. The depreciation of some currencies in relation to the Belgian franc and the growing uncertainty about the future development of exchange relationships reduced the attractiveness of assets in foreign currencies, particularly long-term assets.

As far as claims in Belgian francs are concerned, the new assets constituted took the form of investments at up to one year much more than that of longer-term investments. There is only one exception to this : the year 1977. That was also the only year during which the formation of assets at up to one year was less than in the previous year. This shift illustrates the influence exerted by interest rates on the structure of assets in Belgian francs : the investors' preference for long-term assets was obviously connected with the very high level of interest rates and perhaps even more with anticipations of a decline in the rates.

In 1978 the effective decline in long-term interest rates and the uncertainty about their future movement doubtless had an adverse effect on investments at medium and long term, once more increasing the proportion of assets at up to one year. Furthermore, assets for which the classification into Belgian francs and foreign currencies is not known or has no point increased substantially, mainly owing to the growth in net commercial claims on foreign countries held by enterprises, which contrasted with their decline in 1977.

The changes in the structure of interest rates and the anticipations about them largely explain the irregular course taken, during the period 1971-1977, by the changes in the money supply held by enterprises and individuals, both when this is defined as the total of financial assets at up to one year (M_2) and when it is defined as the total of notes, Treasury coin and sight deposits with the financial intermediaries (M_1). This lack of stability applied both to the relative share of M_1 and M_2 in the total constitution of financial assets and to their ratio to the national income. For the above-mentioned relative share of M_1 and M_2 varied, during the period in question, between a minimum of 8 p.c. and a maximum of 24 p.c. for M_1 and between a minimum of 39 p.c. and a maximum of 60 p.c. for M_2 . As for the ratio between the national income and the money supply, which actually reflects the income velocity of M_1 and M_2 , its effective value fluctuated, during the period in question, between 94 and 106 p.c. of its trend value.

With regard to the composition of cash holdings (M_1), the proportion of notes and coin in the total decreased from 49.5 p.c. at the end of 1971 to 45.4 p.c. at the end of October 1978. If it were assumed that this proportion had remained unchanged since 1972, the note and coin circulation would amount, for an equivalent total of cash holdings, not to Fr. 342 billion but to Fr. 373 billion; the difference between these two figures indicates the extent of the cash holdings whose loss was avoided by the financial intermediaries thanks to the structural change in the composition of the demand for money.

FINANCIAL INTERMEDIARIES.

In comparison with the market situation prevailing in the mid-1960s, the shares of the three main categories of financial intermediaries in the total of the assets built up with them and the liabilities contracted to them by enterprises and individuals have changed considerably : the combined market share of the banks and of the private savings banks and mortgage and capital-accumulation companies has expanded at the expense of that of the public-sector financial intermediaries.

The movements which have taken place in this respect cannot be dissociated from the changes in the composition of assets and liabilities according to economic categories. Thus, for instance, the share of short-term liabilities in the total debts of enterprises and individuals has increased, enabling the banks specialising in this type of credit to expand their market share. In Table 15 the influence of this factor appears in the column entitled « Calculated market share » : the percentages represent the market shares which each category of intermediaries would have obtained on the assumption that its share in each of the different categories of financial assets and liabilities separately had remained unchanged compared with the period 1963-1965.

The difference between the effective market shares and the « calculated » shares constitutes an indicator of the specific development of the actual competitive position of each group of financial intermediaries; if it is positive, the category in question has fundamentally strengthened its position, and vice versa. Now we find in this field widely divergent movements, connected with a set of factors, the most important of which

Table 15.

**MARKET SHARES OF BANKS, OF PUBLIC-SECTOR FINANCIAL INTERMEDIARIES AND OF PRIVATE SAVINGS BANKS
AND MORTGAGE AND CAPITAL-ACCUMULATION COMPANIES IN THE FINANCIAL ASSETS FORMED
AND FINANCIAL LIABILITIES CONTRACTED WITH THEM BY INDIVIDUALS AND ENTERPRISES**

(Percentages of total of these assets or liabilities)

End of period	Banks			Public-sector financial intermediaries 1			Private savings banks and mortgage and capital-accumulation companies 2		
	Market share	Calculated market share 3	Difference	Market share	Calculated market share 3	Difference	Market share	Calculated market share 3	Difference
<i>A. Financial assets :</i>									
Average of 1963-1964-1965	33.6			54.6			11.8		
1970	36.9	34.1	+ 2.8	48.8	54.1	- 5.3	14.3	11.8	+ 2.5
1975	38.6	33.3	+ 5.3	45.0	54.5	- 9.5	16.4	12.2	+ 4.2
1976	39.2	33.2	+ 6.0	44.1	54.5	-10.4	16.7	12.3	+ 4.4
1977	38.8	32.0	+ 6.8	44.6	55.5	-10.9	16.6	12.5	+ 4.1
1977 October	38.5	32.2	+ 6.3	45.0	55.4	-10.4	16.5	12.4	+ 4.1
1978 October	38.7	31.9	+ 6.8	44.4	55.5	-11.1	16.9	12.6	+ 4.3
<i>B. Financial liabilities 4 :</i>									
Average of 1963-1964-1965	33.5			54.1			12.4		
1970	35.4	35.6	- 0.2	51.6	53.1	- 1.5	13.0	11.3	+ 1.7
1975	40.8	40.3	+ 0.5	45.6	48.8	- 3.2	13.6	10.9	+ 2.7
1976	40.7	40.3	+ 0.4	45.4	48.8	- 3.4	13.9	10.9	+ 3.0
1977	41.6	41.1	+ 0.5	44.7	47.9	- 3.2	13.7	11.0	+ 2.7
1977 October	41.0	40.1	+ 0.9	45.1	48.8	- 3.7	13.9	11.1	+ 2.8
1978 October	40.9	39.6	+ 1.3	45.0	49.0	- 4.0	14.1	11.4	+ 2.7

1 Excluding the National Bank of Belgium and the Monetary Fund.

2 The mortgage and capital-accumulation companies are only included in the financial assets.

3 The « calculated » market shares are those obtained by assuming that the shares of the different categories of financial intermediaries in the major categories of financial assets (sight deposits, deposits on ordinary deposit or savings books, other financial assets at up to one year, financial assets at over one year) and liabilities (short-term liabilities, individuals' long-term liabilities, enterprises' long-term liabilities) have remained the same as in the base period 1963-1965; the changes in them are then only due to shifts in the composition of the total assets and liabilities.

4 Excluding the liabilities of the public operating organisations; it may be assumed that there is practically no competition between the different categories of financial intermediaries in the granting of credits to these organisations.

has been the different degree of adaptation of the various groups of financial intermediaries to the diversification and growth of the requirements of individuals, particularly by an effort of despecialisation and geographical dispersal. With regard to attracting the financial savings of individuals and enterprises, both the banks and the group composed of the private savings banks and mortgage and capital-accumulation companies gained ground at the expense of the public-sector financial intermediaries; the position of the latter also deteriorated, although to a smaller extent, on the credit market (outstanding amounts used), mainly to the benefit of the private savings banks.

CREDITOR AND DEBTOR INTEREST RATES.

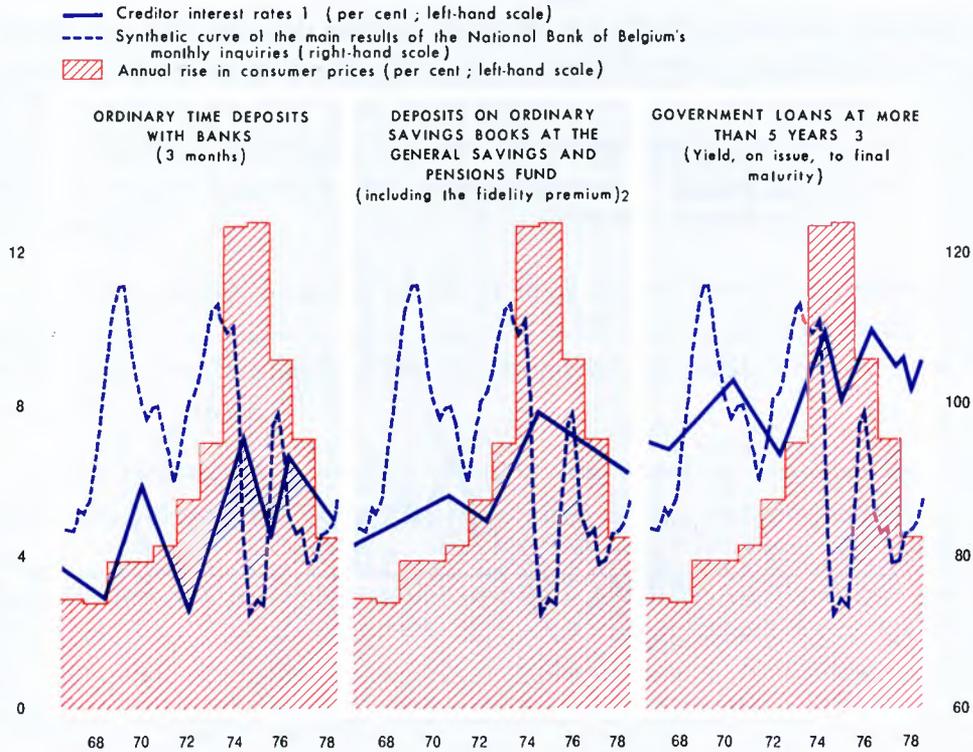
The movement of interest rates clearly reflected, although with a time-lag of a few months, the interconnection between the real and financial sectors. It was characterised by a cyclical pattern which fairly closely followed that which emerges from the synthetic curve of the trend of activity compiled by the Bank. In assessing the degree of parallelism, one must of course make allowance for the fact that the phases of strain or easing on the financial markets generally occurred six to twelve months after they had been announced by the synthetic curve, which incidentally is a few months ahead of the movement of production and the gross national product.

The cyclical factor alone cannot, however, provide a complete explanation of the movement of interest rates during the last few years. For in the period 1967-1975 a tendency towards a raising of rates became apparent throughout the different phases of the business cycle : the appreciable quickening of the price rise during this period in fact led to the gradual incorporation in interest rates of an « inflation premium » designed to compensate — although sometimes incompletely — for the effects of monetary erosion on incomes from portfolio investments and at the same time to reduce the real advantage accruing to borrowers.

Lastly, in the case of a small country heavily dependent on foreign economies, like Belgium, the movement of domestic interest rates is obviously influenced by foreign rates : the rates ruling on the international financial markets — the Euro-markets — or those applied by the country's

Chart 23.

CREDITOR INTEREST RATES, STATE OF ECONOMIC ACTIVITY
AND RISE IN PRICES



¹ The line does not indicate all the rates which have been in force, but links up the minimum and maximum rates for each period in such a way as to bring out the main trends. Rates before deduction of taxes at source. See Annex 6, Table 16.

² Gross fictitious rate; as income from deposits on ordinary savings books is at present exempt from tax up to Fr. 15,000 per year, their actual rate is not comparable with the rates shown in the other charts; the gross fictitious rate provides a valid basis of comparison in the case of the individual who pays, on the income from his other investments, neither more nor less than the tax deducted at source.

³ Including the loans of the Road Fund.

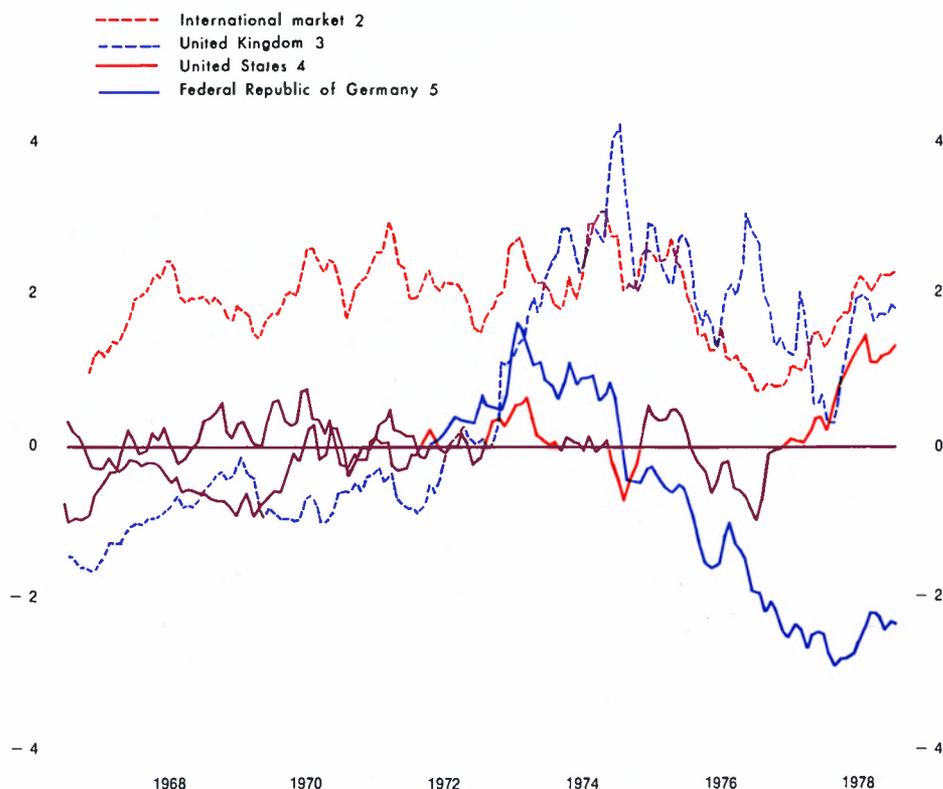
main economic partners sweep the Belgian rates along in their movements, and it is extremely difficult for monetary and financial policy to break this spontaneous link for any length of time without running the risk of the appearance of serious disequilibria on the capital account of the balance of payments.

Adaptation to a dominating influence with regard to interest rates does not, however, lead to a uniform level. For the nature of the link between domestic rates and those prevailing abroad has changed appreciably in recent years, partly owing to the dislocation of the

Chart 24.

DIFFERENCES BETWEEN BELGIAN
AND FOREIGN LONG-TERM YIELD RATES ¹

(Per cent)



Sources : International market : Bondtrade. United Kingdom : Bank of England. Calculations of the National Bank of Belgium. United States : Federal Reserve Bulletin. Federal Republic of Germany : Financial Statistics of the Organisation for Economic Cooperation and Development. Calculations of the National Bank of Belgium.

¹ Foreign rates of yield minus stock exchange yield on Belgian Government bonds at over 5 years. Rates after any deduction of tax at source, i.e. for Belgium : preliminary tax on personal property of 20 p.c.; for the United Kingdom : variable basic rate of income tax; for the Federal Republic of Germany : coupon tax of 25 p.c. See Annex 6, Table 17.

² Yield on dollar Euro-bonds at over 7 years.

³ Yield on government bonds on the secondary market (20 years).

⁴ Yield on Federal Government bonds on the secondary market (10 years and over).

⁵ Yield on public-sector bonds on the secondary market.

international monetary system and the resultant growing uncertainty about the movement of the exchange rates for the leading currencies. With regard more particularly to short-term rates, the movements of the interest rates relating to certain currencies considered as being particularly sound

and above all the prospects concerning the short-term behaviour of the exchange rates for these currencies have increasingly constituted a major factor influencing domestic rates, mainly because of the substantial shifts of funds which they can cause. For long-term rates, which are of greater interest to the general public, there is no doubt that the differences between the rates of yield after tax — which were considerably larger in 1977-1978 than they had been up to 1971 — are assessed by the investor making allowance for the exchange profit or loss which can result from the fact that the bond acquired is denominated in this or that currency.

On the purely domestic plane, it does indeed seem that, since 1976, certain factors of rigidity have impeded a decline in interest rates which would have been called for by the trend of economic activity and the movement of prices.

Thus, towards the middle of 1978, the level of interest rates was appreciably above that which had prevailed during certain periods in the past — such as, for instance, the first quarters of 1968 and 1972 — characterised by a fairly similar cyclical situation and rise in prices. With regard to creditor rates, this difference ranged from 1 p.c. for short-term financial assets to 2 p.c. for long-term assets; for debtor rates it amounted to nearly 2 p.c., at both short and long term.

One should admittedly be very cautious in making such assessments of recent situations by reference to the past : for a price rise of 5 p.c., for instance, does not necessarily have the same influence on the behaviour of economic agents depending on whether it is a new phenomenon or whether, on the contrary, it forms part of the usual economic outlook, or falls within a movement of acceleration or deceleration. Furthermore, one must not overlook the fact that Belgium, like, for that matter, the world economy, has experienced profound upheavals since 1973.

Even allowing for these reservations, the above-mentioned differences appeared to indicate that the downward movement of rates could have been faster and more pronounced than it actually was. Such a development would have been useful, not so much in order to revive economic activity — since, on the one hand, demand for real goods generally seems to be fairly insensitive to the movement of interest rates and since, on the other hand, an upsurge of domestic economic activity, isolated on the international plane, would have been very quickly reflected

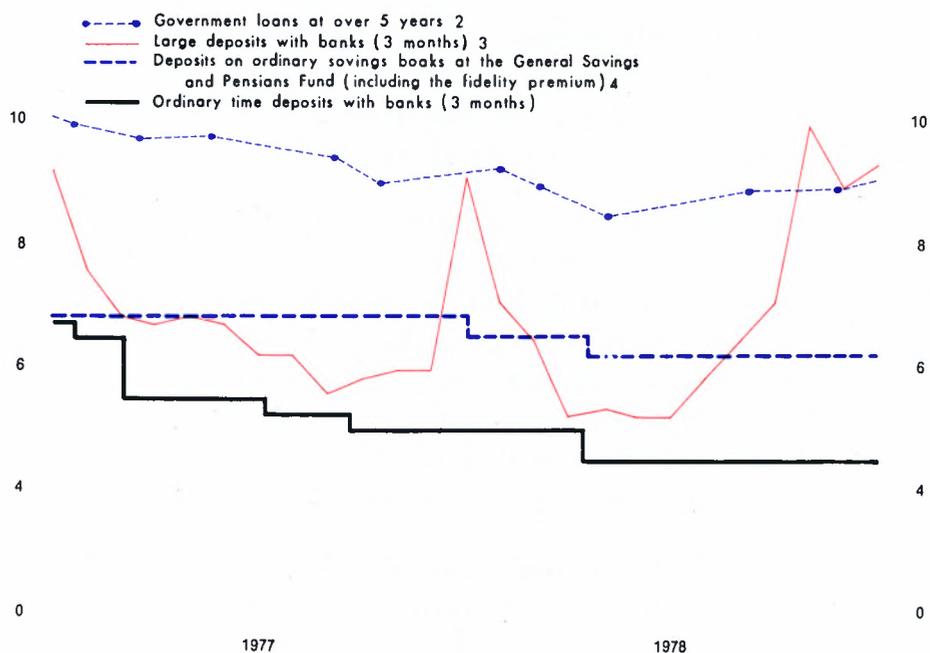
in a substantial worsening of the current balance of payments deficit — as in order to limit the increase in the financial burden of enterprises. For the share of this burden in total production costs went up from 4.2 to 5 p.c. between 1970 and 1977 owing to the general rise in short- and long-term interest rates.

The tensions on the foreign exchange markets were accompanied each time by a rise in the sensitive rates on the money market — the only participants in which are the financial intermediaries — and in the rates for large deposits and non-residents' deposits in Belgian francs,

Chart 25.

RECENT TREND OF SOME CREDITOR RATES ¹

(Per cent)



¹ Rates before deduction of taxes at source. See Annex 6, Table 16.

² Yield, on issue, to final maturity. Including the loans of the Road Fund.

³ Indicative rates for deposits from Fr. 5 to 20 million.

⁴ Fictitious gross rate : as income from deposits on ordinary savings books is at present exempt from tax up to Fr. 15,000 per year, their actual rate is not comparable with the other rates shown in the chart. The gross fictitious rate provides a valid basis of comparison in the case of an individual who pays, on the income from his other investments, neither more nor less than the tax deducted at source.

which are closely linked with them. Accordingly, the debtor rates applied to short-term credits to enterprises, which largely depend on the cost of the funds obtained by the banks, especially on the money market and in the form of large deposits and non-residents' deposits, were also raised. This adjustment was not impeded by the monetary authorities, owing to the importance, already emphasised, of such credits in the financing of speculative capital outflows. But — and this is an essential point — the other interest rates, including long-term debtor rates, were to a very great extent spared from these sudden temporary movements.

Generally, moreover, it had always been possible for the sensitive short-term rates, which had risen during earlier periods of tension on the foreign exchange markets, to be reduced again later to their former level, or even to a still lower level, once the crisis was past. Thus the rise in certain rates which took place at the end of 1977 was more than cancelled out when, during the early months of last year, the foreign exchange market had settled down again. The beginnings of such a decline had become apparent after the foreign exchange crisis of July-October 1978; it was counteracted, however, by the strains connected with the end-of-year payments.

MONEY MARKET AND MONETARY POLICY.

The break between two periods was also clearly marked in the development of the money market in the 1970s.

From 1970 to 1974, the substantial balance of payments surpluses provided the financial intermediaries with foreign currencies which were sold to the Bank against cash holdings in francs. These ample resources substantially exceeded the amount of notes required by enterprises and individuals. The financial intermediaries were obliged, by conventions or recommendations, to use part of these excess funds to form a monetary reserve at the Bank; they lent another part of them to the Treasury, which was thus able to reduce its recourse to the Bank.

During the second period, from 1975 to 1978, demand for notes continued to grow normally, while the foreign exchange reserves decreased owing to the deterioration in the current account of the balance of payments. Despite the freeing of the monetary reserve, the Bank's

assistance to the Treasury and the financial intermediaries increased considerably, especially, in the case of the latter, during the foreign exchange crises.

Table 16.

LIABILITIES OF THE NATIONAL BANK OF BELGIUM AND THEIR
MAIN COUNTERPARTS

(Changes in billions of francs)

	Liabilities		Total	Counterparts			
	Notes in circulation	Monetary reserve		Foreign exchange reserves ¹	Direct and indirect assistance to the Treasury ²	Commercial bills and advances against pledged security	Net miscellaneous items
1970-1974	+ 73	+21	+94	+134	-48	+14	- 6
1975-1978	+104	-21	+83	- 43	+60	+63	+ 3
of which : Periods of foreign exchange crisis ³	(+ 9)	(—)	(+ 9)	(-176)	(+76)	(+88)	(+21)
Other periods	(+ 95)	(-21)	(+74)	(+133)	(-16)	(-25)	(-18)

¹ Less the changes in the outstanding amount of the Belgian Treasury's foreign exchange certificates.

² This item comprises the changes in the outstanding amounts of the Treasury certificates held by the Bank, of Treasury certificates held by the Securities Regulation Fund and financed by advances from the Bank and of Belgian Treasury's foreign exchange certificates.

³ February-March 1976, July-September 1976, November-December 1977, July-October 1978.

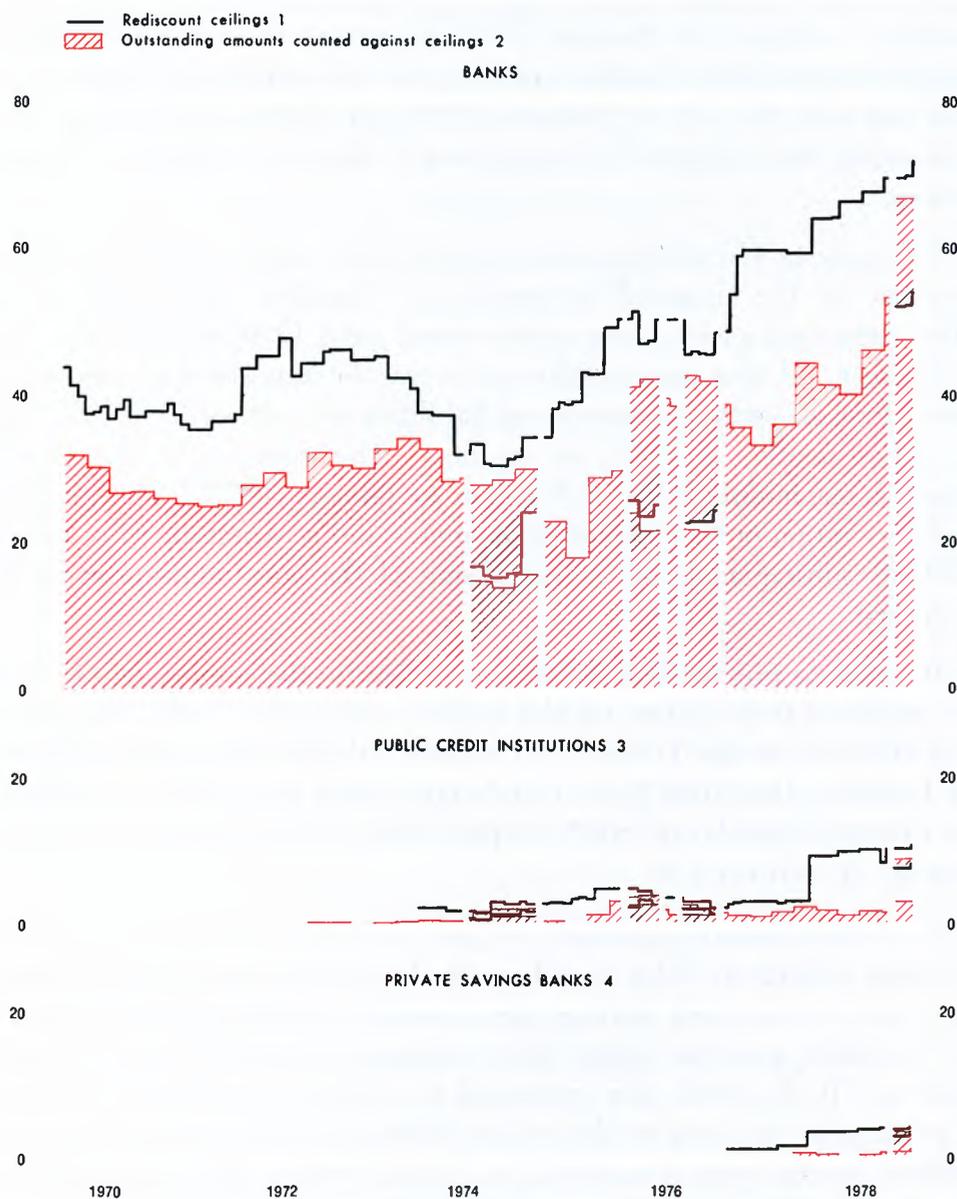
Generally speaking, the monetary authorities' policy had to run counter to the influence of the market factors. During the first period, characterised not only by balance of payments surpluses but also, overall, by boom conditions and an acceleration of inflation, this policy was mainly restrictive. During the second period, domestic aims called for an expansionary monetary policy, which, however, could not be adhered to during the foreign exchange crises.

With the object of directly controlling the expansion of the credits granted by the financial intermediaries, the monetary authorities had recourse to direct limitation of these credits. From 1970 to 1974 this instrument was used in connection with the trend of economic activity. After it had been put into operation in 1969, during a phase of vigorous economic expansion, its application was gradually made more flexible from the fourth quarter of 1970 onwards, and discontinued at the end of September 1971. Following their exceptional growth, credits were

Chart 26.

FINANCIAL INTERMEDIARIES' REDISCOUNT CEILINGS

(Billions of francs)



1 End-of-month data. From 8th July 1974 to 31st March 1975, from 12th February to 16th June 1976, from 23rd July to 19th December 1976 and from 12th October 1978, the ceilings were divided into sub-ceilings A (lower part of chart) and B (upper part).

2 Daily averages per quarter. From 1970 to June 1974 the amounts counted against the ceilings included the amount of certified bills and other bills which were rediscountable at the National Bank of Belgium and actually mobilised at the latter or on the market outside the National Bank, together with that of bills with visa, whether rediscounted or not, with less than two years to run. From July 1974 onwards only the amount of rediscountable bills actually mobilised is counted against the ceilings; this change of procedure is explained by the fact that, since April 1974, no new visas have been granted.

3 The system of rediscount ceilings for the public credit institutions has only existed since July 1972.

4 The system of rediscount ceilings for the private savings banks has only existed since March 1975. For 1975 and 1976 : small amounts.

once more subjected to limitation from April 1974 until the end of April 1975, in order to reinforce the expected effects of the influence exerted on the liquidity of the financial intermediaries. After that, the monetary authorities did not resort again to direct limitation of credit expansion until October 1978, when, no longer for cyclical reasons but in order to support the foreign exchange policy, they imposed on the financial intermediaries norms applying to the growth, at the end of November and the end of December 1978, in credits liable to be used for financing the formation by enterprises of short-term claims on foreign countries ¹.

The monetary authorities also pursued their aims by regulating the movement of the financial intermediaries' liquidity. In view of the context described earlier, they endeavoured from 1970 to 1974 to reduce this liquidity. A first means of doing this was the imposition of a monetary reserve, first on certain categories of liabilities with effect from July 1972 and, subsequently, in 1973, on credits. The amount of the reserve reached a maximum of Fr. 37.5 billion in January 1974. The prospect of a deterioration in the balance of payments and a worsening of economic conditions subsequently led to the easing of the constraints imposed by this system.

In order to prevent the institutions subject to the reserve requirement from reducing their claims on the public sector, thus forcing the Bank, by its advances to the Treasury, to replenish the financial intermediaries' cash holdings, the latter had to undertake, from July 1972, to maintain their existing portfolio of public paper and to devote part of their new resources to increasing it.

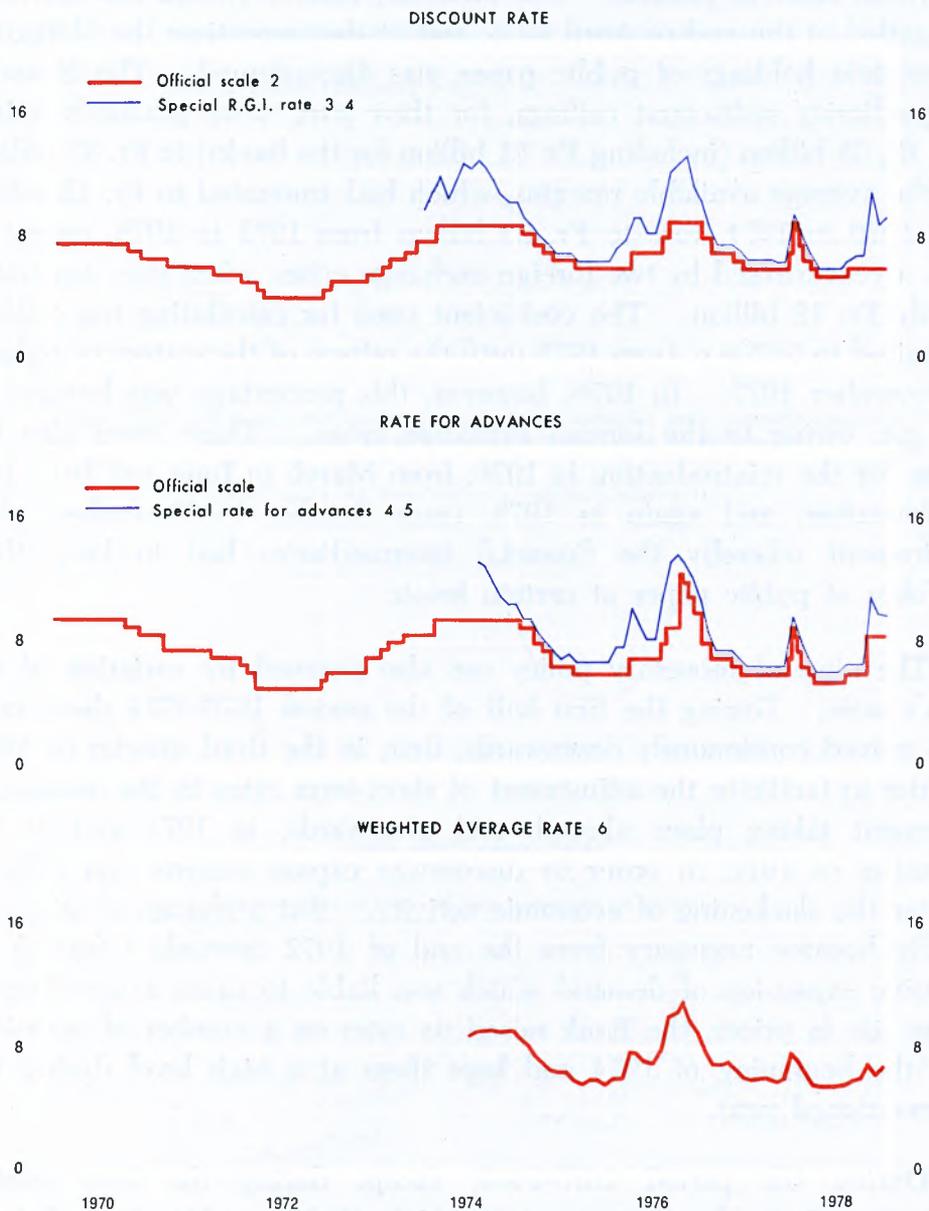
The other means employed by the Bank was the changing of the rediscount ceilings in order to reduce the banks' potential cash holdings : from 1970 to 1974 their ceilings were lowered from Fr. 38 to 31 billion; their available margins under these ceilings narrowed from Fr. 11 to 5 billion. If the Bank had continued to apply to the banks' resources the percentage in force at the end of 1969, the year during which the system of ceilings was introduced, the ceilings would have gradually risen from Fr. 51 billion in 1970 to Fr. 94 billion in 1974. But the Bank reduced the percentage in question, stage by stage, from 12 p.c. at the end of 1969 to 4 p.c. in 1974.

¹ See Annex 7.

Chart 27.

RATES OF THE NATIONAL BANK OF BELGIUM ¹

(Per cent)



¹ See Annex 6, Tables 18 and 19.

² Bills accepted payable at a bank (from 8th July 1974 to 31st March 1975, from 12th February to 16th June 1976, from 29th July to 19th December 1976 and from 12th October 1978 : bills counted against rediscount sub-ceiling A).

³ Rate applied by the National Bank of Belgium when the Rediscount and Guarantee Institute makes use of its rediscounting facility at the Bank, within a fixed limit, for paper not counted against the financial intermediaries' rediscount ceilings.

⁴ Rate ruling at end of months. This rate can change from day to day within a range fixed by the Council of Regency of the National Bank of Belgium.

⁵ Rates at which daily utilisations are charged when the monthly quota has been exhausted.

⁶ Average cost of recourse to the National Bank of Belgium for the financial intermediaries which directly or indirectly finance credits to enterprises and individuals : this cost is calculated by taking the mean of the different rates weighted by the outstanding amount of the financing obtained by these intermediaries at these rates. Rates ruling at end of months. The weighted average rate has only been calculated since July 1974.

From 1975 to 1978 the Bank's policy was, on the whole, to help to increase the financial intermediaries' liquidity. For it was important to compensate for the tightening of funds caused by the disappearance of the current balance of payments surplus and to stimulate economic activity as much as possible. The monetary reserve system was therefore dismantled at the end of April 1975, and at the same time the obligation to maintain holdings of public paper was discontinued. The financial intermediaries' rediscount ceilings, for their part, were gradually raised from Fr. 35 billion (including Fr. 31 billion for the banks) to Fr. 87 billion, and the average available margins, which had amounted to Fr. 12 billion from 1970 to 1974, rose to Fr. 23 billion from 1975 to 1978, except in 1976, a year marked by two foreign exchange crises, when they amounted to only Fr. 12 billion. The coefficient used for calculating the ceilings was raised to 5.25 p.c. from 1975 until the reform of the system of ceilings in November 1977. In 1976, however, this percentage was lowered to 4.25 p.c. owing to the foreign exchange crises. These were also the reason for the reintroduction in 1976, from March to June and from July to November, and again in 1978, from October to December, of a requirement whereby the financial intermediaries had to keep their portfolios of public paper at certain levels.

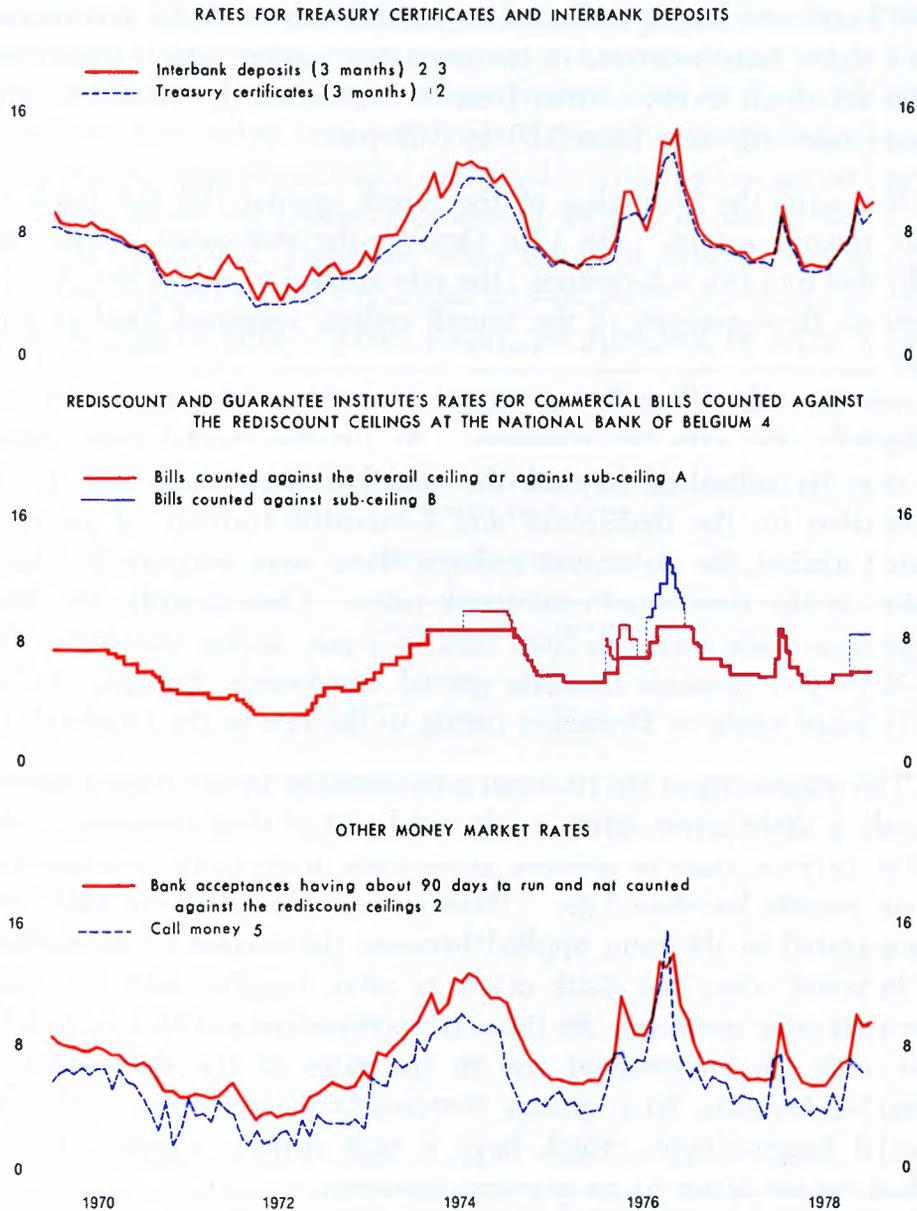
The aims of monetary policy are also pursued by variation of the Bank's rates. During the first half of the period 1970-1974 these rates were moved continuously downwards, first, in the third quarter of 1970, in order to facilitate the adjustment of short-term rates to the downward movement taking place abroad, and afterwards, in 1971 and at the beginning of 1972, in order to discourage capital inflows and help to counter the slackening of economic activity. But a change of direction already became necessary from the end of 1972 onwards : fearing an excessive expansion of demand which was liable to cause a speeding-up of the rise in prices, the Bank raised its rates on a number of occasions until the beginning of 1974 and kept them at a high level during the last-mentioned year.

During the period 1975-1978, except during the four foreign exchange crises, the first two of which (February-March and July-September 1976) strongly influenced the movement of rates in 1976, the Bank's rates moved downwards. In 1978, after the third crisis (the last weeks of 1977), these rates declined rapidly : from the end of 1977 to the end of March 1978, the Bank's weighted average rate fell from 7.73

Chart 28.

MONEY MARKET RATES ¹

(Per cent)



¹ See Annex 6, Table 20.

² Rates ruling at end of month.

³ Before July 1978 : Euro-Belgian franc deposits (3 months).

⁴ Until 31st May 1970, from 28th October 1978 to 1st January 1976, from 30th January 1976 to 9th March 1978, from 17th to 23rd March 1978 and from 12th October 1978 : not more than 120 days to maturity. From 24th March to 11th October 1978 : from 31 to 120 days to maturity. For other periods : from 61 to 120 days to maturity.

⁵ Daily averages per month.

to 5.51 p.c., at which level it remained until the end of June. During the fourth foreign exchange crisis, which began in July 1978, the Bank did not think it necessary to react immediately by sharply raising its rates. This was a crisis which was partly caused by the prospect of the establishment of the European Monetary System at the beginning of 1979 and was largely reflected in withdrawals made by non-residents from Belgian franc accounts of the regulated market, which had reached particularly high levels. From June to September the Bank's weighted average rate only rose from 5.50 to 6.02 p.c.

Not until the beginning of the fourth quarter did the Bank take more vigorous action. On 12th October the rediscount ceilings were subdivided into two sub-ceilings : the rate applied to sub-ceiling A, which represents three-quarters of the overall ceiling, remained fixed at 6 p.c., which had been the Bank's official discount rate since 27th July, but the rate for sub-ceiling B was raised from 6 to 8.5 p.c., as was also, incidentally, the rate for advances. As for the special rates, namely the rate for advances beyond the monthly quota and that for the mobilisation by the Rediscount and Guarantee Institute of paper not counted against the rediscount ceilings, these were temporarily fixed in relation to the three-month interbank rates. Consequently, the Bank's weighted average rate rose from 6.02 to 7 p.c. during October. From mid-November onwards this rate moved downwards, but this tendency was reversed again in December owing to the rise in the interbank rate.

The refinancing of the financial intermediaries by the Bank admittedly has only a slight direct effect on the total cost of their resources. From 1970 to 1978 the share of recourse to the Bank in the banks' total resources was on average less than 5 p.c. However, any change in the Bank's rates is propagated to the rates applied between the financial intermediaries. For instance, when the Bank raises its rates, together with or without other restrictive measures, the financial intermediaries with a cash deficit, faced with the concomitant rise in the rates of the Rediscount and Guarantee Institute, have greater recourse to the resources of the other financial intermediaries which have a cash surplus, causing the rates applied by the latter to be adjusted upwards.

Table 17 shows that, in comparison with the financial intermediaries' total recourse to each other, the extent of the banks' net indebtedness to the other financial intermediaries is relatively small. Consequently, a rise in the Bank's rates, which leads to a raising of the rates applied

between financial intermediaries, can only have a slight direct effect on the total cost of the banks' resources. But the rates applied between financial intermediaries determine those on large deposits and on non-residents' deposits in Belgian francs. In this roundabout way the Bank not only indirectly exerts a definite influence on inflows and outflows of short-term funds but also brings pressure to bear on the cost of nearly one-quarter of the banks' total resources. Ultimately the net resources which the banks obtain at the money market rates have, in relation to the total of their other resources (sight deposits, ordinary time deposits, deposit books, medium-term notes and bonds), a real and moreover growing importance, since the former represented 24 p.c. of the latter in 1970 and 41 p.c. in 1978. Therefore, when the Bank brings about a change in the rates applied between financial intermediaries, it actually influences the banks' debtor rates. Thus, during the first half of 1978, a fall of

Table 17.

BELGIAN FINANCIAL INTERMEDIARIES' CLAIMS ON EACH OTHER AT UP TO ONE YEAR ¹

(Billions of francs)

Averages ²	Gross claims of all intermediaries on each other					Net claims of banks on the other intermediaries ⁴
	Call money loans	Certificates of the Securities Regulation Fund	Commercial paper acquired from other intermediaries ³	Other claims	Total	
1970	7	9	16	15	47	— 5
1971	7	11	19	19	56	— 9
1972	7	12	18	25	62	— 9
1973	9	15	14	39	77	— 8
1974	10	12	12	50	84	— 7
1975	12	17	23	50	102	— 17
1976	10	22	16	63	111	— 6
1977	12	17	20	75	124	— 10
1978 First 10 months	11	12	23	75	121	— 17

¹ Banks, public credit institutions, private savings banks, Securities Regulation Fund and Rediscount and Guarantee Institute.

² These averages have been calculated by taking once the amounts outstanding at the beginning and end of the period and twice the amounts outstanding at the end of the intermediate quarters (end of intermediate months in 1978).

³ This item shows the commercial paper acquired as portfolio investment by the banks, the public credit institutions and the private savings banks, as well as the commercial bills and bank acceptances placed with the Rediscount and Guarantee Institute, excluding the part financed by recourse to rediscounting at the National Bank of Belgium.

⁴ These net claims of the banks are obtained by deducting from their gross claims, shown in the preceding columns, their gross liabilities to the other financial intermediaries. The minus sign shows that gross liabilities are greater than gross claims.

2.23 points in the Bank's weighted average rate had as its counterpart a fall of 2 points in the banks' rate for ordinary overdrafts, while from July to October 1978 a rise of 1.5 point in the former rate was accompanied by a rise of 2.25 points in the latter. It will be seen that the pressure applied by the Bank met with more response upwards than downwards. True, the rise in the weighted average rate during the period July-October 1978 was impeded by the limited extent (0.5 point) of the raising of rates for the discounting of paper counted against the overall ceiling, and then against sub-ceiling A, which represents a large proportion of the banks' recourse to the Bank, but only a small percentage of their total resources. The asymmetry had, however, already been observed previously, at least in the form of a certain time-lag. For a lowering of debtor rates usually

Table 18.

BANKS' RESOURCES AND USES IN BELGIAN FRANCS WHOSE REMUNERATION DEPENDS ON MONEY MARKET CONDITIONS

Averages ¹	Resources whose remuneration depends on money market conditions					Treasury certificates	Balance of resources and uses whose remuneration depends on money market conditions	Other resources ⁵	Column (c) as percentage of column (d)
	Recourse to the National Bank of Belgium ²	Net indebtedness to the other financial intermediaries ³	Large deposits	Net indebtedness in Belgian francs to non-residents ⁴	Total				
					(a)	(b)	(c) = (a) - (b)	(d)	
	(billions of francs)								
1970	12	5	47	32	96	20	76	321	23.7
1971	4	9	49	47	109	24	85	373	22.8
1972	26	9	54	61	150	21	129	440	29.3
1973	40	8	80	91	219	21	198	530	37.4
1974	58	7	111	133	309	24	285	606	47.0
1975	19	17	106	145	287	23	264	675	39.1
1976	81	6	122	143	352	33	319	782	40.8
1977	71	10	147	161	389	42	347	893	38.9
1978 First 10 m. ...	86	17	151	168	422	26	396	973	40.7

¹ These averages have been calculated by taking once the amounts outstanding at the beginning and end of the period and twice the amounts outstanding at the end of the intermediate quarters (end of intermediate months in 1978).

² This item comprises, apart from advances to the banks against the security of public paper, commercial bills and bank acceptances presented for rediscounting at the Bank by the banks either directly or through the Rediscount and Guarantee Institute.

³ The figures in this column are the same as those in the last column of Table 17, but of opposite sign.

⁴ Including the banks, head offices, branches and agencies located in the Grand Duchy of Luxembourg.

⁵ Sight deposits, ordinary time deposits, deposit books, medium-term notes and bonds.

leads to a narrowing of the banks' gross margin for their services as intermediaries, while a raising of these rates generally has the opposite effect.

Table 19.

**PUBLIC CREDIT INSTITUTIONS' AND PRIVATE SAVINGS BANKS' USES
AND RESOURCES IN BELGIAN FRANCS WHOSE REMUNERATION DEPENDS
ON MONEY MARKET CONDITIONS**

Averages ¹	Uses whose remuneration depends on money market conditions				Resources whose remuneration depends on money market conditions (Large deposits) (b)	Other resources ² (c)	Column (b) as percentage of column (a)	Column (b) as percentage of column (c)
	Commercial paper acquired as portfolio investment	Net claims on the other financial intermediaries	Treasury certificates	Total (a)				
	(billions of francs)							
1970	10	6	30	46	16	506	34.8	3.2
1971	14	7	43	64	20	583	31.3	3.4
1972	13	11	40	64	19	675	29.7	2.8
1973	10	14	35	59	23	768	39.0	3.0
1974	9	13	26	48	31	863	64.6	3.6
1975	13	20	50	83	34	1,018	41.0	3.3
1976	11	17	42	70	38	1,175	54.3	3.2
1977	14	15	71	100	52	1,332	52.0	3.9
1978 First 10 months	16	16	76	108	52	1,492	48.1	3.5

¹ These averages have been calculated by taking once the amounts outstanding at the beginning and end of the period and twice the amounts outstanding at the end of the intermediate quarters (end of intermediate months in 1978).

² Sight deposits, ordinary time deposits, savings books, medium-term notes and bonds.

On the other hand, the effect of changes in the Bank's rates on the cost of the resources of the public credit institutions and private savings banks is obviously slight, because the resources which these institutions obtain at money market rates represent only 3 or 4 p.c. of their other resources. Furthermore, this effect is more than offset by that on the yield of the investments for which the funds are used : for the financial intermediaries in question have more uses of funds than resources whose remuneration depends on money market conditions. Consequently these intermediaries' debtor rates, and especially their long-term rates, are influenced not by the Bank's rates but by the rates of yield of Government loans, which determine the rates of their medium-term notes and bonds, and by the rates paid on savings books.

Annual accounts

BALANCE SHEET AS AT 31ST DECEMBER, 1978

ASSETS		
Gold Holding		72,531,856,180
International Monetary Fund :		
Quota		19,407,130,813
Loans		689,904,242
Special Drawing Rights		20,150,684,966
Foreign Currencies		106,125,914,908
Foreign Currencies and Gold Receivable		—
International Agreements		392,877,724
Advance to the I.M.F.		9,374,341,908
European Monetary Cooperation Fund		—
E.E.C. : Medium-term Financial Assistance		—
Debtors in respect of Foreign Exchange and Gold at Forward Dates		11,889,124,048
Commercial Bills		78,992,684,358
Advances against Pledged Security :		
Institutions governed by a Special Law	14,171,938,565	
Banks	2,046,118,934	
Enterprises and Individuals	561,398,845	16,779,456,344
Public Securities :		
Belgian Public Securities		37,000,000,000
Luxembourg Public Securities		—
Special Assistance to the Securities Regulation Fund		15,950,000,000
Treasury Notes and Coin		418,983,755
Balances at the Postal Cheque Office :		
A Account		2,046,304
B Account		2,018,465,275
Consolidated Claim on the Government		34,000,000,000
Provisional Adjustment resulting from the Law of 3rd July 1972		3,450,349,538
Items Receivable		9,152,128,283
Public Long-term Securities		6,498,177,771
Premises, Furniture and Equipment		2,150,033,756
Securities of the Staff Pensions Fund		10,293,470,659
Transitory Assets		1,554,677,600
Total Assets		458,822,308,432

LIABILITIES

Bank Notes in Circulation		359,902,982,500
Current and Sundry Accounts :		
Public Treasury, Ordinary Account	2,809,305	
Institutions governed by a Special Law	2,933,289,697	
Banks in Belgium	389,737,960	
Enterprises and Individuals	733,219,308	
Banks in Foreign Countries, Ordinary Accounts	1,149,990,251	
Items Payable	<u>3,256,139,752</u>	8,465,186,273
International Agreements :		
Financial Assistance Agreements		2,018,465,275
Other Agreements		350,414,687
International Monetary Fund :		
Special Drawing Rights, Net Cumulative Allocation		10,186,198,565
European Monetary Cooperation Fund		26,702,945,622
Monetary Reserve :		
Belgium		365,000,000
Grand Duchy of Luxembourg		—
Foreign Currencies and Gold to be Delivered		16,206,781,685
Staff Pensions Fund		10,293,470,659
Transitory Liabilities		16,458,014,087
Capital		400,000,000
Reserve Fund :		
Statutory Reserve		1,299,729,547
Extraordinary Reserve		3,436,331,016
Account for Depreciation of Premises, Furniture and Equipment		2,028,678,853
Net Profit for Distribution		708,109,663
Total Liabilities		<u>458,822,308,432</u>

PROFIT AND LOSS ACCOUNT AS AT 31ST DECEMBER, 1978

DEBIT

Government's Share :

Discounts and Advances	3,582,225,861	
Transactions with Foreign Countries	3,014,235,391	6,596,461,252

General Expenses :

Remunerations and Social Charges	3,536,260,018	
Other Expenses	322,672,577	

3,858,932,595

less :

Expenses to be borne by Others	543,555,615	3,315,376,980
--	-------------	---------------

Taxes		1,647,014,164
-----------------	--	---------------

Depreciation of Premises, Furniture and Equipment		172,540,296
---	--	-------------

Additional Grant to the Staff Pensions Fund		350,000,000
---	--	-------------

Transfers to Reserves and Provisions as :

Extraordinary Reserve	702,000,000	
Provision against Sundry Contingencies	500,000,000	1,202,000,000

Net Profit for Distribution		708,109,663
---------------------------------------	--	-------------

13,991,502,355

CREDIT

Proceeds of Discount and Advance Operations		6,824,571,084
---	--	---------------

Proceeds of Transactions with Foreign Countries		6,386,766,817
---	--	---------------

Proceeds of Public Long-term Securities		536,785,750
---	--	-------------

Fees for Safe Custody, Commissions and Allowances		191,014,121
---	--	-------------

Sundry Receipts		52,364,583
---------------------------	--	------------

13,991,502,355

MEMORANDUM ACCOUNTS AS AT 31ST DECEMBER, 1978

Ministers of National Education :			
Balance for their account at the Postal Cheque Office (Education legislation)			23,392,035,503
Documentary Credits Opened			47,503,975
Visa » of Acceptances relating to Exports and Imports			5,526,789,119
International Institution benefiting by a Commitment of the National Bank			1,411,704,000
Guarantees given on behalf of the Staff			659,416,423
Securities received by way of Guarantee :			
Cover for advance limits against pledged security	48,317,379,200		
Guarantees given by persons lodging bills for discount	1,686,898		
Securities provided by borrowers of call money	22,782,184,000		
Sundry security commitments	85,469,048		
Other guarantees	614,996,855		71,801,716,001
Guarantee Certificates received from the Public Treasury			900,000,000
Items for Collection			2,183,089,308
Deposits of Securities and Sundry Items :			
International Monetary Fund	19,540,000,000		
International Development Association	4,064,447,834		
Asian Development Bank	377,671,250		
Inter American Development Bank	306,122,596		
African Development Fund	11,000,000		
Other Deposits	328,666,164,040		352,965,405,720
Public Treasury :			
Sundry Securities owned by the Government :			
<i>Preference Shares of the Belgian National Railways Co.</i>	5,000,000,000		
<i>Ordinary Shares of the Belgian National Railways Co.</i>	1,000,000,000		
<i>Participating Debentures of the Belgian National Railways Co.</i>	638,305,187		
<i>Treasury Bill of the Government of the Grand Duchy of Luxembourg (Belgian Luxemb. Agreement)</i>	847,908,376		
<i>4.50 % Certificates of the National Housing Co.</i>	3,517,180,000		
<i>4.50 % Certificates of the National Land Co.</i>	155,641,000		
Sundry Items :			
— <i>Earmarked for the Monetary Fund</i>	994,841,135		
— <i>Others</i>	4,031,527,722	16,185,403,420	
Sundry Items for which the Government is the Depository :			
<i>Items lodged by outside parties</i>	76,590,878,994		
<i>Service of the Registered Debt</i>	476,616,037,800		
<i>Deposit and Consignment Office</i>	5,494,427,693		
<i>Items lodged by way of guarantee</i>	14,287,840,743	572,989,185,230	
Items to be delivered		123,941,958,191	713,116,546,841
Securities Regulation Fund			38,285,847,447
General Savings and Pensions Fund :			
Sight or short-term investments	1,647,186,638		
Guarantee deposits	808,477,037		2,455,663,675

DIVIDEND DECLARED FOR THE YEAR 1978

First Dividend, Total Fr.	24,000,000
Second Dividend, Total Fr.	<u>448,500,000</u>
Total . . Fr.	472,500,000

on 400,000 shares, that is per share a dividend of Fr. 1,181.25

Coupon No. 177 will be payable with effect from 1st March 1979 at the rate of Fr. 945 free of Preliminary Tax on Personal Property.

Since the Net Dividend amounts to Fr. 945, the taxable income per share to be declared by individuals for tax purposes is Fr. 1,724.625¹, including the tax relief and the Preliminary Tax on Personal Property.

The Council of Regency :

Marcel D'HAEZE, *Vice-Governor*,
 Roland BEAUVOIS, *Director*,
 Elisabeth MALAISE, *Director*,
 Henri VLOEBERGHS, *Director*,
 René EWALENKO, *Director*,
 Georges JANSON, *Director*,
 Hendrik CAPPUYNS, *Regent*,
 Roger RAMAEKERS, *Regent*,
 Raymond PULINCKX, *Regent*,
 Charles HURIAUX, *Regent*,
 Jozef HOUTHUYS, *Regent*,
 William FRAEYS, *Regent*,
 Georges DEBUNNE, *Regent*,
 Philippe MOUREAUX, *Regent*,
 Luc AERTS, *Regent*.

The Governor,
 Cecil de STRYCKER.

¹ To be shown in Section IV of individuals' tax declaration :

Income from shares Fr.	945.00
Tax relief $\frac{945 \times 57.5}{100}$ Fr.	543.375
Preliminary Tax on Personal Property $\frac{945 \times 1}{4}$ Fr.	<u>236.25</u>
	1,724.625

Annexes

BALANCE SHEETS COMPARED AS AT

ASSETS	1974	1975	1976	1977	1978
Gold Holding	71,821.2	71,821.2	71,821.2	72,295.0	72,531.9
International Monetary Fund :					
Quota	24,866.2	26,343.1	29,883.3	26,718.0	19,407.1
Loans	—	—	—	1,467.8	689.9
Special Drawing Rights	28,425.7	29,946.6	19,334.4	19,808.8	20,150.7
Foreign Currencies	88,619.5	107,146.9	84,025.0	101,161.0	106,125.9
Foreign Currencies and Gold Receivable	—	—	—	—	—
International Agreements	—	10.4	153.0	444.1	392.9
Advance to the I.M.F.	—	2,428.5	9,731.4	9,731.4	9,374.3
European Monetary Cooperation Fund	—	—	—	—	—
E.E.C. : Medium-term Financial Assistance	6,538.2	6,538.2	6,538.2	6,538.2	—
Debtors in respect of Foreign Exchange and Gold at Forward Dates	13,470.1	11,914.1	—	—	11,889.1
Commercial Bills	32,157.5	22,161.3	45,259.8	59,670.3	78,992.7
Advances against Pledged Security :					
Institutions governed by a Special Law	434.7	3,313.2	4,035.8	7,815.4	14,171.9
Banks	165.4	—	97.7	49.0	2,046.1
Enterprises and Individuals	22.5	23.0	21.8	15.5	561.4
	622.6	3,336.2	4,155.3	7,879.9	16,779.4
Public Securities :					
Belgian Public Securities	5,125.0	4,225.0	20,575.0	37,000.0	37,000.0
Luxembourg Public Securities	—	—	—	—	—
Special Assistance to the Securities Regulation Fund	—	—	—	2,800.0	15,950.0
Treasury Notes and Coin	378.7	409.1	400.8	366.3	419.0
Balances at the Postal Cheque Office	1.9	1.7	—	—	—
A Account	—	—	1.1	2.1	2.0
B Account	—	—	2,477.3	2,446.1	2,018.5
Consolidated Claim on the Government	34,000.0	34,000.0	34,000.0	34,000.0	34,000.0
Special Treasury Bills	861.6	800.0	600.0	400.0	—
Provisional Adjustment resulting from the Law of 3rd July 1972	3,450.4	3,450.4	3,450.4	3,450.4	3,450.4
Items Receivable	1,683.4	996.4	845.0	2,241.1	9,152.1
Public Long-term Securities	4,831.2	5,273.9	5,534.7	6,066.6	6,498.2
Premises, Furniture and Equipment	2,197.4	2,195.9	2,195.6	2,191.5	2,150.0
Securities of the Staff Pensions Fund	5,454.4	6,481.5	7,753.6	9,043.8	10,293.5
Transitory Assets	1,134.4	1,301.8	928.4	1,207.4	1,554.7
	325,639.4	340,782.2	349,663.5	406,929.8	458,822.3

LIABILITIES	1974	1975	1976	1977	1978
Bank Notes in Circulation	256,103.6	288,380.8	307,197.4	335,404.5	359,903.0
Current and Sundry Accounts :					
Public Treasury :					
Ordinary Account	23.6	10.3	8.6	6.5	2.8
Exceptional Counter-Cyclical Tax	7.0	7.0	7.0	7.0	
Institutions governed by a Special Law	118.3	203.4	292.8	207.3	2,933.3
Banks in Belgium	858.3	723.4	639.8	504.1	389.7
Enterprises and Individuals	719.8	762.6	895.2	833.8	733.2
Banks in Foreign Countries, Ordinary Accounts	422.1	394.7	564.9	861.0	1,150.0
Items Payable	3,655.2	2,336.0	2,138.9	1,998.2	3,256.2
	5,804.3	4,437.4	4,547.2	4,417.9	8,465.2
International Agreements :	2,628.9	3,222.8			
Financial Assistance Agreements			2,477.3	2,446.1	2,018.5
Other Agreements			354.2	376.4	350.4
International Monetary Fund :					
Special Drawing Rights, Net Cumulative Allocation	10,186.2	10,186.2	10,186.2	10,186.2	10,186.2
European Monetary Cooperation Fund	—	—	—	23,441.5	26,702.9
Monetary Reserve :					
Belgium	20,746.0	—	—	—	365.0
Grand Duchy of Luxembourg	300.0	—	—	—	—
Foreign Currencies and Gold to be Delivered	11,082.2	12,072.2	36.9	28.3	16,206.8
Staff Pensions Fund	5,454.4	6,481.5	7,753.6	9,043.8	10,293.5
Transitory Liabilities	7,523.2	9,929.2	10,462.3	14,475.1	16,458.0
Capital	400.0	400.0	400.0	400.0	400.0
Reserve Fund :					
Statutory Reserve	1,057.8	1,115.1	1,172.8	1,234.7	1,299.7
Extraordinary Reserve	1,686.0	1,890.9	2,361.3	2,734.3	3,436.3
Account for Depreciation of Premises, Furniture and Equipment	2,072.9	2,071.7	2,071.3	2,067.5	2,028.7
Net Profit for Distribution	593.9	594.4	643.0	673.5	708.1
	325,639.4	340,782.2	349,663.5	406,929.8	458,822.3

PROFIT AND LOSS ACCOUNTS COMPARED

DEBIT	1974	1975	1976	1977	1978
Government's Share :					
Discounts and Advances	2,586.3	626.3	3,678.2	2,389.3	3,582.2
Transactions with Foreign Countries	3,819.5	3,167.0	1,960.5	2,582.4	3,014.3
Monetary Reserve	678.0	197.3	0.4	—	—
	7,083.8	3,990.6	5,645.1	4,971.7	6,596.5
General Expenses :					
Remunerations and Social Charges	2,021.4	2,487.5	2,972.0	3,314.5	3,536.2
Other Expenses	195.0	260.1	315.1	298.3	322.7
	2,216.4	2,747.6	3,287.1	3,612.8	3,858.9
<i>less :</i>					
Expenses to be borne by Others	— 270.5	— 401.5	— 399.3	— 420.9	— 543.5
	1,945.9	2,346.1	2,887.8	3,191.9	3,315.4
Taxes	724.0	897.5	1,316.3	1,210.1	1,647.0
Depreciation of Premises, Furniture and Equipment	82.4	190.0	83.9	172.8	172.5
Additional Grant to the Staff Pensions Fund	498.0	525.0	620.0	500.0	350.0
Transfers to Reserves and Provisions :					
— Extraordinary Reserve	377.3	204.8	470.5	373.0	702.0
— Provision for Premises, Furniture and Equipment	—	—	125.0	73.5	—
— Provision against Sundry Contingencies	150.0	100.0	200.0	200.0	500.0
— Centenary Fund	—	10.0	—	—	—
Net Profit for Distribution	593.9	594.4	643.0	673.5	708.1
	11,455.3	8,858.4	11,991.6	11,366.5	13,991.5

CREDIT	1974	1975	1976	1977	1978
Proceeds of Discount and Advance Operations	3,892.0	1,086.5	5,698.8	4,343.7	6,824.6
Proceeds of Transactions with Foreign Countries	6,971.4	7,185.6	5,661.3	6,331.1	6,386.8
Proceeds of Public Long-term Securities	346.2	388.4	423.1	468.9	536.8
Fees for Safe Custody, Commissions and Allowances	211.1	184.6	187.3	191.3	191.0
Sundry Receipts	27.7	12.2	18.7	31.5	52.3
Drawings on Transitory Liabilities Items :					
— Provision for Building of Premises and Purchasing of Furniture and Equipment	6.9	1.1	2.4	—	—
	11,455.3	8,858.4	11,991.6	11,366.5	13,991.5

MISCELLANEOUS INFORMATION

	1974	1975	1976	1977	1978
Gross dividend declared per share	993.75	993.75	1,075.00	1,125.00	1,181.25
Preliminary tax on personal property retained per share	198.75	198.75	215.00	225.00	236.25
Net dividend declared per share	795.00	795.00	860.00	900.00	945.00
Taxable income per share to be declared by individuals for tax purposes	1,351.50	1,450.88	1,569.50	1,642.50	1,724.63

WEEKLY RETURNS
PUBLISHED IN THE « MONITEUR BELGE » DURING 1978

WEEKLY RETURNS PUBLISHED IN THE « MONITEUR BELGE » DURING 1978 *

(Millions of francs)

ASSETS

DATE	Gold holding	International Monetary Fund :			Foreign currencies	Foreign currencies and gold receivable	International agreements	Advance to the I.M.F.	European Monetary Cooperation Fund	E.E.C. : Medium-term financial assistance	Debtors in respect of foreign exchange and gold at forward dates	Commercial bills	Advances against pledged security	Public securities :		Special assistance to the Securities Regulation Fund	Treasury notes and coin	Balances at the Postal Cheque Office		Consolidated claim on the Government	Special Treasury bills	Provisional adjustment resulting from the Law of 3rd July, 1972	Public long-term securities	Premises, furniture and equipment	Securities of the Staff Pensions Fund	Sundries	TOTAL ASSETS
		Quota	Loans	Special drawing rights										Belgian public securities	Luxembourg public securities			A Account	B Account								
2 January 1978	72.295	26.718	1.468	19.809	101.134	...	519	9.731	...	6.538	...	56.021	7.936	37.000	...	5.100	359	2	2.446	34.000	600	3.450	6.067	2.196	8.938	7.398	409.725
9 "	72.295	26.718	1.468	19.809	101.150	...	503	9.731	...	6.538	...	56.376	9.546	36.525	...	...	352	1	2.400	34.000	600	3.450	6.067	2.196	8.918	7.346	405.989
16 "	72.295	26.718	1.468	19.809	102.610	...	616	9.731	...	6.538	...	50.745	11.983	32.425	...	...	391	1	2.398	34.000	600	3.450	6.067	2.196	8.920	7.701	400.662
23 "	72.295	26.718	1.468	19.809	103.526	...	402	9.731	...	6.538	...	49.708	6.182	30.875	...	...	435	2	2.395	34.000	600	3.450	6.066	2.196	8.945	8.302	393.643
30 "	72.295	26.717	1.468	19.809	102.956	...	256	9.731	...	6.538	...	47.385	4.040	30.875	...	...	466	2	2.620	34.000	400	3.450	6.499	2.191	9.456	2.886	384.040
6 February	72.295	26.715	1.468	19.809	103.011	...	211	9.731	...	6.538	...	46.644	401	37.000	...	2.725	465	2	2.525	34.000	400	3.450	6.500	2.191	9.666	3.013	388.760
13 "	72.295	26.715	1.468	19.809	103.130	...	280	9.731	...	6.538	...	29.488	348	37.000	...	15.025	481	2	2.650	34.000	400	3.450	6.500	2.191	9.666	2.900	384.067
20 "	72.295	26.715	1.468	19.809	103.246	...	465	9.731	...	6.538	...	50.368	543	28.750	...	...	496	2	2.599	34.000	400	3.450	6.501	2.191	9.743	2.953	382.263
27 "	72.295	26.715	1.468	19.809	103.474	...	551	9.731	...	6.538	...	41.259	531	34.400	...	...	510	1	2.577	34.000	400	3.450	6.501	2.191	9.792	3.004	379.197
6 March	72.295	24.769	1.468	19.809	105.087	...	498	9.731	...	6.538	...	41.736	221	37.000	...	4.650	485	2	2.550	34.000	400	3.450	6.501	2.191	9.859	3.199	386.439
13 "	72.295	24.769	1.468	19.809	105.379	...	520	9.731	...	6.538	...	34.398	566	37.000	...	6.882	492	2	2.829	34.000	400	3.450	6.501	2.191	9.859	3.195	382.274
20 "	72.295	24.769	1.468	19.809	107.087	...	499	9.731	...	4.904	...	41.715	447	33.900	...	...	491	1	2.819	34.000	400	3.450	6.501	2.191	9.859	3.545	379.881
24 "	72.295	24.769	1.468	19.809	107.998	...	484	9.731	...	4.904	...	33.509	342	37.000	...	...	509	2	2.818	34.000	400	3.450	6.501	2.191	9.883	3.468	375.531
3 April	72.295	24.669	1.468	19.809	108.289	...	667	9.731	...	4.904	...	27.071	157	37.000	...	9.150	477	1	2.805	34.000	400	3.450	6.501	2.191	9.900	3.688	378.623
10 "	72.295	21.659	1.468	19.809	111.102	...	609	9.731	...	4.904	...	27.030	75	37.000	...	10.139	479	1	2.792	34.000	400	3.450	6.501	2.191	9.887	3.818	379.340
17 "	72.295	21.659	1.468	19.809	111.313	...	424	9.731	...	4.904	...	31.253	32	37.000	...	3.550	474	1	2.774	34.000	400	3.450	6.501	2.191	9.913	3.920	377.062
24 "	72.295	21.659	1.468	19.809	111.497	...	686	9.731	...	4.904	...	33.051	74	37.000	...	1.275	484	1	2.755	34.000	400	3.450	6.501	2.191	9.919	3.866	377.016
2 May	72.295	21.675	1.468	19.809	111.422	...	542	9.731	...	4.904	...	39.843	1.470	37.000	...	3.175	445	2	2.731	34.000	400	3.450	6.501	2.191	9.920	5.068	388.042
8 "	72.295	22.377	1.468	19.809	111.688	...	682	9.731	...	4.904	...	34.587	29	37.000	...	11.015	406	2	2.728	34.000	400	3.450	6.501	2.191	9.956	4.155	389.374
12 "	72.295	22.377	1.468	19.809	111.922	...	690	9.731	...	4.904	...	28.740	20	37.000	...	19.020	375	2	2.727	34.000	400	3.450	6.501	2.191	9.981	4.369	391.972
22 "	72.295	22.049	1.468	19.809	112.009	...	677	9.731	...	4.904	...	42.602	103	37.000	...	4.663	420	1	2.711	34.000	400	3.450	6.501	2.191	9.993	4.705	391.682
29 "	72.295	21.562	1.468	20.151	111.376	...	678	9.731	...	4.904	...	42.029	118	37.000	...	5.177	436	1	2.686	34.000	400	3.450	6.501	2.191	9.993	5.448	391.595
5 June	72.295	21.076	1.468	20.151	110.652	...	706	9.731	...	4.904	...	39.716	9	37.000	...	19.221	422	1	2.661	34.000	400	3.450	6.501	2.191	9.981	5.327	401.863
12 "	72.295	21.076	1.468	20.151	111.261	...	540	9.731	...	4.904	...	31.935	31	37.000	...	24.092	443	2	2.606	34.000	400	3.450	6.501	2.191	9.989	4.942	399.008
19 "	72.295	21.076	1.468	20.151	111.339	...	666	9.731	...	3.269	...	25.876	1.519	37.000	...	29.775	438	2	2.593	34.000	400	3.450	6.501	2.191	10.024	4.886	398.650
26 "	72.295	21.076	1.468	20.151	111.366	...	632	9.731	...	3.269	...	30.473	4.518	37.000	...	26.625	436	2	2.592	34.000	400	3.450	6.501	2.191	10.025	4.838	403.039
3 July	72.295	21.044	1.468	20.151	109.324	...	688	9.731	...	3.269	...	25.867	4.823	37.000	...	39.825	417	2	2.567	34.000	400	3.450	6.501	2.191	10.026	6.136	411.175
10 "	72.295	21.044	1.468	20.151	100.721	...	655	9.731	...	3.269	...	29.460	5.156	37.000	...	41.125	485	1	2.551	34.000	400	3.450	6.501	2.191	10.010	9.618	411.282
17 "	72.295	21.044	1.468	20.151	98.686	...	579	9.731	...	3.269	...	41.184	3.949	37.000	...	28.700	552	1	2.510	34.000	400	3.450	6.501	2.191	10.021	6.724	404.406
24 "	72.295	21.044	1.468	20.151	96.050	...	761	9.731	...	3.269	...	42.435	3.638	37.000	...	25.475	569	1	2.508	34.000	400	3.450	6.501	2.191	10.033	6.454	399.424
31 "	72.295	20.337	1.277	20.151	92.413	...	699	9.731	...	3.269	...	35.655	2.848	37.000	...	35.475	588	1	2.438	34.000	400	3.450	6.501	2.191	10.033	6.548	397.300
7 August	72.295	20.354	1.277	20.151	92.666	...	740	9.731	...	3.269	...	44.448	4.068	37.000	...	34.650	553	1	2.424	34.000	400	3.450	6.497	2.191	10.015	10.147	410.327
11 "	72.295	20.354	1.277	20.151	92.713	...	654	9.731	...	3.269	...	61.622	4.135	37.000	...	21.725	529	1	2.420	34.000	400	3.450	6.497	2.191	10.015	11.242	415.671
21 "	72.295	20.354	1.277	20.151	89.939	...	503	9.731	...	3.269	...	61.808	11.314	37.000	...	19.800	527	2	2.489	34.000	400	3.450	6.497	2.191	10.015	5.410	412.422
28 "	72.295	20.309	1.277	20.151	87.531	...	409	9.731	...	3.269	...	60.780	5.417	37.000	...	23.625	547	1	2.487	34.000	400	3.450	6.497	2.191	10.015	6.573	407.955
4 September	72.295	19.725	1.277	20.151	86.525	...	600	9.731	...	3.269	...	59.976	4.977	37.000	...	33.400	513	1	2.486	34.000	400	3.450	6.497	2.191	10.015	5.577	414.056
11 "	72.295	19.725	1.277	20.151	87.331	...	650	9.731	...	3.269	...	56.228	3.155	37.000	...	34.775	517	1	2.389	34.000	400	3.450	6.447	2.191	9.993	5.542	410.517
18 "	72.295	19.725	1.277	20.151	90.917	...	531	9.731	...	1.635	...	50.816	3.509	37.000	...	35.750	508	2	2.338	34.000	400	3.450	6.447	2.191	9.993	7.558	410.224
25 "	72.295	19.725	1.277	20.151	91.094	...	470	9.731	...	1.635	...	58.683	8.708	37.000	...	26.075	522	2	2.336	34.000	400	3.450	6.501	2.191	9.993	6.908	413.147
2 October	72.295	19.725	1.277	20.151	98.966	...	291	9.731	...	...	...	60.481	7.158	37.000	...	29.975	498	1	2.292	34.000	400	3.450	6.501	2.191	9.993	11.048	435.194
9 "	72.295	19.725	1.277	20.151	105.059	...	327	9.731	...	...	...	70.282	6.123	37.000	...	25.775	492	1	2.231	34.000	400	3.450	6.501	2.191	9.972	9.323	448.522
16 "	72.295	19.496	1.277	20.151	105.655	...	391	9.731	...	...	...	71.769	13.565	37.000	...	18.550	509	2	2.230	34.000	400	3.450	6.501	2.191	9.972	10.786	452.137
23 "	72.295	19.496	1.277	20.151	105.973	...	136	9.731	...	...	...	76.447	7.609	37.000	...	20.775	518	2	2.206	34.000	400	3.450	6.501	2.191	9.972	6.436	448.782
30 "	72.295	19.644	690	20.151	106.566	...	536	9.731	...	...	...	77.357	8.048	37.000	...	21.125	515	2	2.118	34.000	400	3.450	6.501	2.191	9.972	6.872	451.380
6 November	72.295	19.644	690	20.151	106.580	...	191	9.731	...	...	...	77.205	16.417	37.000	...	12.250	473	2									

WEEKLY RETURNS PUBLISHED IN THE « MONITEUR BELGE » DURING 1978 *

(Millions of francs)

LIABILITIES

Memorandum Account : Postal Cheque Office : Balance for account of the Ministers of National Education (Law of 11.7.1973 - Education legislation)	Notes in circulation	Current Accounts				International agreements		International Monetary Fund : Special drawing rights, net cumulative allocation	European Monetary Cooperation Fund	Monetary reserve		Foreign currencies and gold to be delivered	Staff Pensions Fund	Sundries	Capital, reserves and depreciation accounts ¹	TOTAL LIABILITIES	DATE
		Public Treasury		Banks in foreign countries, ordinary accounts	Sundry current accounts and items payable	Financial assistance agreements	Other agreements			Belgium	Grand Duchy of Luxembourg						
		Ordinary account	Exceptional counter-cyclical Tax														
19.989	335.331	18	7	954	2.115	2.446	370	10.186	23.441	...	...	28	8.938	19.824	6.067	409.725	2 January 1978
19.918	332.349	24	7	844	2.193	2.400	348	10.186	22.649	...	...	20	8.918	19.984	6.067	405.989	9 "
19.780	327.220	12	7	857	3.299	2.398	401	10.186	20.738	...	...	18	8.920	20.539	6.067	400.662	16 "
19.781	323.332	7	7	784	2.269	2.395	350	10.186	17.525	...	...	846	8.945	20.930	6.067	393.643	23 "
19.336	321.210	9	...	689	4.249	2.620	385	10.186	13.687	...	...	19	9.456	15.028	6.502	384.040	30 "
19.225	328.964	25	...	815	2.600	2.525	274	10.186	11.625	...	...	26	9.666	15.552	6.502	388.760	6 February
19.120	325.843	3	—	746	1.801	2.650	244	10.186	10.647	...	...	17	9.666	15.762	6.502	384.067	13 "
18.708	324.367	1	—	750	1.616	2.599	265	10.186	10.284	...	...	18	9.743	15.932	6.502	382.263	20 "
18.663	323.505	1	—	719	4.126	2.577	219	10.186	5.414	...	...	18	9.792	16.138	6.502	379.197	27 "
18.433	332.072	21	—	714	2.780	2.550	229	10.186	5.239	...	...	17	9.859	16.270	6.502	386.439	6 March
18.345	328.889	16	—	739	2.010	2.829	178	10.186	4.495	...	...	6	9.859	16.565	6.502	382.274	13 "
18.203	328.015	10	—	793	1.987	2.819	209	10.186	2.776	...	...	6	9.859	16.719	6.502	379.881	20 "
17.760	324.147	5	—	660	2.792	2.818	245	10.186	1.245	...	...	7	9.883	17.041	6.502	375.531	24 "
17.600	330.286	7	—	1.122	1.768	2.805	179	10.186	...	...	...	7	9.900	15.861	6.502	378.623	3 April
17.244	331.388	2	—	904	1.266	2.792	203	10.186	...	...	...	5	9.887	16.205	6.502	379.340	10 "
17.116	328.724	11	—	957	1.249	2.774	184	10.186	...	...	...	4	9.913	16.558	6.502	377.062	17 "
17.102	327.357	8	—	777	2.544	2.755	192	10.186	...	...	...	4	9.919	16.772	6.502	377.016	24 "
16.920	337.722	5	—	796	2.911	2.730	291	10.186	...	...	...	6	9.920	16.973	6.502	388.042	2 May
16.911	338.200	13	—	991	2.345	2.728	428	10.186	...	...	...	6	9.956	18.019	6.502	389.374	8 "
16.636	340.673	21	—	986	2.277	2.727	366	10.186	...	...	...	30	9.981	18.223	6.502	391.972	12 "
16.406	339.952	10	—	1.279	2.144	2.711	336	10.186	...	...	...	33	9.993	18.536	6.502	391.682	22 "
16.214	339.078	24	—	1.213	2.701	2.686	306	10.186	...	...	...	9	9.993	18.897	6.502	391.595	29 "
15.981	349.321	21	—	1.639	2.336	2.661	274	10.186	...	...	...	9	9.981	18.933	6.502	401.863	5 June
15.735	346.499	3	—	1.053	2.276	2.606	230	10.186	...	...	...	516	9.989	19.148	6.502	399.008	12 "
15.557	347.566	3	—	783	1.374	2.593	367	10.186	...	...	...	24	10.024	19.228	6.502	398.650	19 "
15.568	349.921	18	—	977	2.975	2.592	380	10.186	...	...	...	24	10.025	19.439	6.502	403.039	26 "
15.396	360.548	27	—	982	2.133	2.567	347	10.186	...	...	...	24	10.026	17.833	6.502	411.175	3 July
15.102	362.265	8	—	816	2.125	2.551	628	10.186	...	...	...	24	10.010	16.167	6.502	411.282	10 "
14.726	355.227	21	—	1.488	1.857	2.510	402	10.186	...	...	...	24	10.021	16.168	6.502	404.406	17 "
14.662	350.986	4	—	1.402	1.624	2.508	306	10.186	...	...	...	65	10.033	15.808	6.502	399.424	24 "
14.308	349.309	4	—	1.492	1.832	2.437	275	10.186	...	...	...	65	10.033	15.165	6.502	397.300	31 "
14.182	350.519	14	—	1.419	2.679	2.423	307	10.186	10.243	...	...	65	10.015	15.955	6.502	410.327	7 August
14.086	349.180	19	—	1.324	3.318	2.420	381	10.186	16.021	...	...	65	10.015	16.240	6.502	415.671	11 "
13.937	345.650	24	—	1.978	3.076	2.489	487	10.186	16.265	...	...	65	10.015	15.685	6.502	412.422	21 "
13.749	340.118	21	—	2.265	4.204	2.487	388	10.186	16.265	...	...	49	10.015	15.455	6.502	407.955	28 "
13.623	348.747	16	—	1.443	2.667	2.486	420	10.186	16.265	...	...	49	10.015	15.260	6.502	414.056	4 September
13.224	345.312	22	—	1.383	2.517	2.389	402	10.186	16.265	...	...	49	9.993	15.497	6.502	410.517	11 "
13.094	343.455	13	—	1.541	1.321	2.338	361	10.186	18.307	...	...	49	9.993	16.158	6.502	410.224	18 "
12.956	341.095	11	—	1.555	2.305	2.336	358	10.186	22.244	...	...	49	9.993	16.513	6.502	413.147	25 "
12.578	348.107	20	—	1.580	3.032	2.292	469	10.186	28.264	...	...	10.288	9.993	14.461	6.502	435.194	2 October
12.335	348.266	11	—	1.356	2.542	2.231	325	10.186	35.983	...	...	16.194	9.972	14.954	6.502	448.522	9 "
12.186	344.548	...	—	839	2.181	2.230	407	10.186	42.649	...	...	16.194	9.972	16.429	6.502	452.137	16 "
11.927	341.737	2	—	589	1.661	2.205	408	10.186	42.649	...	...	16.194	9.972	16.677	6.502	448.782	23 "
11.926	343.144	10	—	1.080	4.431	2.118	426	10.186	40.415	...	...	16.194	9.972	16.902	6.502	451.380	30 "
11.545	346.926	23	—	610	3.695	2.117	344	10.186	36.774	...	...	16.200	9.952	17.195	6.502	450.524	6 November
11.519	343.571	5	—	713	2.864	2.177	375	10.186	31.636	...	...	16.231	9.952	17.269	6.502	441.481	13 "
24.227	342.703	12	—	1.830	1.869	2.131	316	10.186	28.141	...	...	16.231	9.952	17.487	6.502	437.360	20 "
24.261	337.669	12	—	1.160	4.314	2.088	306	10.186	27.096	...	...	16.232	9.952	17.530	6.502	433.047	27 "
24.152	347.508	10	—	1.018	1.782	2.051	246	10.186	26.907	...	...	16.232	9.955	17.529	6.502	439.926	4 December
23.533	346.204	20	—	784	1.715	2.048	333	10.186	26.907	...	...	16.232	9.931	17.767	6.502	438.629	11 "
23.511	349.829	2	—	1.221	1.813	2.004	311	10.186	26.907	...	...	16.602	9.931	18.226	6.502	443.534	18 "
23.348	357.093	12	—	840	4.719	2.040	428	10.186	26.703	365	...	16.263	9.931	18.437	6.502	453.519	22 "
23.392	359.903	3	—	1.146	5.007	2.019	350	10.186	26.703	365	...	16.207	9.943	17.761	6.502	456.095	29 "

**STATEMENT OF THE PUBLIC LONG-TERM SECURITIES
CONSTITUTING, ON 31st DECEMBER, 1978,
THE BANK'S HOLDINGS**

Public long-term and other securities acquired in pursuance of the Statutes

7.50 p.c.	Belgian Loan 1969/87.
8.25 p.c.	Belgian Loans 1970/80, Amalgamated.
8.50 p.c.	Belgian Loan 1970/83.
8.50 p.c.	Belgian Loan 1971/84.
7.75 p.c.	Belgian Loan 1971/86.
7.25 - 7.50 p.c.	Belgian Loan 1971/80/87.
7.50 p.c.	Belgian Loan 1971/87.
7.25 p.c.	Belgian Loans 1972-1973/87, Amalgamated.
7 - 7.25 p.c.	Belgian Loan 1972/79/87.
7 - 7.25 p.c.	Belgian Loan 1973/81/87.
7.75 p.c.	Belgian Loan 1973/87.
8.25 p.c.	Belgian Loan 1974/88.
8 - 8.25 p.c.	Belgian Loan 1974/81/88.
9 p.c.	Belgian Loan 1974/82.
10 p.c.	Belgian Loan 1974/82.
10 - 9.75 p.c.	Belgian Loan 1975/81/85.
9 p.c.	Belgian Loan 1976/84.
10 p.c.	Belgian Loan 1976/84.
10 p.c.	Belgian Loan 1976/85.
10 p.c.	Belgian Loan 1977/85.
9.50 p.c.	Belgian Loan 1978/86.
8.50 p.c.	Belgian Loan 1978/85.
8.75 p.c.	Belgian Loan 1978/86.
4 p.c.	Belgian Premium Bonds 1941.
4 p.c.	War Damage 1923.
2 p.c.	National Foundation for Financing Scientific Research 1960/69 - 1990/99, 1st tranche.
2 p.c.	National Foundation for Financing Scientific Research 1960/69 - 1990/99, 2nd tranche.
2 p.c.	National Foundation for Financing Scientific Research 1960/69 - 1990/99, 3rd tranche.

2 p.c.	National Foundation for Financing Scientific Research 1960/69 - 1990/99, 4th tranche.
2 p.c.	National Foundation for Financing Scientific Research 1960/69 - 1990/99, 5th tranche.
2 p.c.	National Foundation for Financing Scientific Research 1960/69 - 1990/99, 6th tranche.
2 p.c.	National Foundation for Financing Scientific Research 1960/69 - 1990/99, 7th tranche.
2 p.c.	National Foundation for Financing Scientific Research 1960/69 - 1990/99, 8th tranche.
2 p.c.	National Foundation for Financing Scientific Research 1960/69 - 1990/99, 9th tranche.
2 p.c.	National Foundation for Financing Scientific Research 1960/69 - 1990/99, 10th tranche.
8.25 p.c.	Telegraphs and Telephones Board 1969/81.
8.50 p.c.	Telegraphs and Telephones Board 1970/84.
7.25 p.c.	Telegraphs and Telephones Board 1971/83.
7.75 p.c.	Telegraphs and Telephones Board 1973/85.
7.75 p.c.	Belgian National Railways Company 1971/85.
6.75 p.c.	National Fund for Credit to Trade and Industry 1968/88.
6.75 p.c.	National Industrial Credit Company 1968/88.
8.25 p.c.	National Industrial Credit Company 1969/80.
8.25 p.c.	National Industrial Credit Company 1970/90.
8 p.c.	National Industrial Credit Company 1971/91.
8 p.c.	National Industrial Credit Company 1971/79.
7.75 p.c.	Loan of the Association of Local Authorities for Motorway E3 1971/83.
7.75 p.c.	Loan of the Association of Local Authorities for Motorway E5 1971/83.
7.25 p.c.	Loans of the Association of Local Authorities for Motorway E3 1972-73/84, Amalgamated.
7.25 p.c.	Loan of the Association of Local Authorities for the Motorways of the Periphery of Brussels « B1 » 1973/85.
7.75 p.c.	City of Antwerp Loan 1971/82.
8 p.c.	City of Ghent Loan 1971/81.
7.75 p.c.	City of Liège Loan 1971/82.
8.75 p.c.	Brussels Canal and Maritime Installation Company Limited 1970/86.
	National Industrial Credit Company shares.
	National Investment Company shares.
	Bank for International Settlements shares :
	— Belgian Issue.
	— American Issue.
1st and 2nd tranches	— Esthonian Issue.
	— Latvian Issue.
	— Lithuanian Issue.
	3rd tranche of Belgian issue.
	Belgian National Railways Company Dividend Right Certificates.

ECONOMIC AND FINANCIAL STATISTICS

Table 1. Capital account of the main economic sectors

(Billions of francs)

	1971	1972	1973	1974	1975	1976	1977	1978 ^e	1977	1978
									First 10 months ¹	
A. Rest of the world :										
1. Balance of current transactions with Belgium ²	- 32	- 61	- 42	- 16	- 10	- 4	+ 24	+ 19	n.a.	n.a.
2. Net capital transfers from Belgium ³	+ 1	+ 3	+ 2	+ 2	+ 2	+ 3	+ 3	+ 4	n.a.	n.a.
3. Net lending to (+) or borrowing from (-) Belgium ⁴	- 31	- 58	- 40	- 14	- 8	- 1	+ 27	+ 23	+ 29	+ 32
B. Public authorities :										
1. Gross savings (net savings and depreciation)	+ 28	+ 15	+ 16	+ 35	- 9	- 29	- 41	- 48	n.a.	n.a.
2. Net capital transfers to other sectors ³	- 24	- 27	- 36	- 39	- 45	- 53	- 66	- 72	n.a.	n.a.
3. Capital resources (= 1. + 2.) ...	+ 4	- 12	- 20	- 4	- 54	- 82	-107	-120	n.a.	n.a.
4. Gross capital formation	+ 61	+ 68	+ 65	+ 71	+ 85	+ 98	+ 99	+105	n.a.	n.a.
5. Statistical adjustment	+ 3	...	+ 12	- 10	+ 3	+ 4	+ 6	+ 5	n.a.	n.a.
6. Net financial deficit (= 3. - 4. + 5.)	- 54	- 80	- 73	- 85	-136	-176	-200	-220	-203 ⁷	-196 ⁷
C. Enterprises and individuals :										
1. Gross savings (net savings and depreciation)	+330	+385	+426	+500	+524	+613	+634	+686	n.a.	n.a.
2. Net capital transfers from other sectors ³	+ 22	+ 24	+ 35	+ 37	+ 42	+ 51	+ 63	+ 68	n.a.	n.a.
3. Capital resources (= 1. + 2.)	+352	+409	+461	+537	+566	+664	+697	+754	n.a.	n.a.
4. Gross capital formation ⁵	+264	+271	+336	+448	+419	+483	+518	+552	n.a.	n.a.
5. Statistical adjustment	+ 12	+ 6	- 11	+ 26	+ 24	+ 19	+ 12	+ 18	n.a.	n.a.
6. Net financial surplus (= 3. - 4. + 5.)	+100	+144	+114	+115	+171	+200	+191	+220	+177	+162
of which : Increase in liabilities	(-108)	(-136)	(-171)	(-185)	(-211)	(-268)	(-275)	(-270)	(-208)	(-215)
Increase in claims	(+208)	(+280)	(+285)	(+300)	(+382)	(+468)	(+466)	(+490)	(+385)	(+377)
D. Statistical adjustment ⁶	- 15	- 6	- 1	- 16	- 27	- 23	- 18	- 23	- 3 ⁸	+ 2 ⁸
Pro memoria : Gross national product	(1,416)	(1,584)	(1,799)	(2,116)	(2,336)	(2,661)	(2,870 _e)	(3,075)	n.a.	n.a.

Sources : 1971 to 1977 : National Statistical Institute; Statistical Office of the European Communities, National Accounts. Calculations of the National Bank of Belgium.

¹ See Table 2 of this Annex.

² A positive balance of current transactions (transactions relating to goods, services and income transfers) of the rest of the world (including the Grand Duchy of Luxembourg) with Belgium means a deficit of Belgium in its current transactions with foreign countries; a negative balance of the rest of the world means a surplus in Belgium's current transactions with foreign countries.

³ Capital transfers are unrequited movements of funds for financing direct or portfolio investments.

⁴ Net lending by the rest of the world (+) means a deficit in respect of the whole of Belgium's current transactions and capital transfers with foreign countries; net borrowing by the rest of the world (-) means a surplus of Belgium with foreign countries for these same transactions.

⁵ Enterprises' investment in fixed capital and stocks and house-building.

⁶ An adjustment which has to be made to the net financial deficit or surplus of the domestic sectors (B. 6. + C. 6.) to make this equal, as it must be by a definition, to the net lending or borrowing by the rest of the world (A. 3.).

⁷ Excluding social security.

⁸ Including social security.

Table 2.

**Claims and liabilities of enterprises and individuals,
foreign countries and public authorities**

(Changes during the first ten months in billions of francs)

Sectors which built up the claims and contracted the liabilities	Total		Sectors with which the claims were built up and the liabilities contracted								
			Rest of the world (Capital movements of enterprises and individuals)		Belgium						
	1977				1978		Non-financial sectors ¹		Financial intermediaries other than mainly monetary ²		Mainly monetary institutions ³
			1977	1978			1977	1978	1977	1978	1977	1978	1977	1978
1. Enterprises and individuals :											
1.1 Gross claims	385	377	7	68	93	100	172	129	113	80	
1.2 Gross liabilities	208	215	30	26	10	24	90	113	78	52	
1.3 Net claims (= 1.1 - 1.2)	177	162	- 23	42	83	76	82	16	35	28	
2. Rest of the world : Net liabilities	- 29	- 32	—	—	- 24 ⁴	43 ⁴	- 4	- 1	- 1 ⁵	- 74 ⁵	
3. Public authorities ⁶ : Net liabilities	203	196	- ⁷	- ⁷	82	73	98	35	23	88	
4. Miscellaneous (including social security) and statistical adjustments	3	- 2	1	- 1	1	3	- 12	- 18	13	14	
5. = 2. + 3. + 4.	177	162	1	- 1	59	119	82	16	35	28	

¹ All domestic sectors, excluding the financial intermediaries included in the following columns.

² Not including life assurance companies, employers' liability insurance companies and pension funds.

³ Source : Bulletin of the National Bank of Belgium, Statistics, Table XIII-3.

⁴ These amounts correspond to those of item 1.3, column « Rest of the world (Capital movements of enterprises and individuals) », except for the amount of the statistical adjustment shown in item 4, same column.

⁵ Net external assets of the mainly monetary institutions, after statistical adjustment and disregarding the changes due to the public authorities' capital movements with foreign countries.

⁶ Excluding social security.

⁷ The public authorities' capital movements with the rest of the world are included among these authorities' net liabilities to the mainly monetary institutions.

Table 3.

**Unit import and export values and terms of trade
of the Belgian-Luxembourg Economic Union ***

(Indices 1970 = 100)

	Average unit values		Terms of trade ¹
	Imports	Exports	
Average 1970-1973	102.1	102.0	99.9
Average 1974-1977	147.9	143.2	96.8
1974	136.9	134.7	98.4
1975	144.4	139.8	96.8
1976	153.9	147.8	96.0
1977	156.2	150.5	96.4
1977 First 9 months	156.3	151.0	96.6
1978 First 9 months	155.7	149.7	96.1

* See the Bulletin of the National Bank of Belgium, Statistics, Table VIII-1.

Sources : National Statistical Institute. Calculations of the National Bank of Belgium.

$$^1 \text{ Terms of trade} = \frac{\text{average unit export values}}{\text{average unit import values}} \times 100.$$

Table 4.

**Imports of the countries of the Organisation for Economic Cooperation and Development
and specialisation, by products ¹, of the Belgian-Luxembourg Economic Union's exports of manufactured products**

	Average annual increase in O.E.C.D. imports ² 1970-1974 (per cent)	B.L.E.U. specialisation indices ³ 1972		Average annual increase in O.E.C.D. imports ² 1974-1977 (per cent)	B.L.E.U. specialisation indices ³ 1976
<i>Progressive products ⁴ :</i>			<i>Progressive products ⁴ :</i>		
a. Organic chemicals (512)	39.3	1.19	r. Motor vehicles (732)	20.5	1.09
b. Plastic materials (58)	34.1	1.22	q. Leather and footwear (61 and 85)	17.2	0.25
c. Manufactured fertilisers (56)	29.4	2.55	g. Telecommunications apparatus (724)	17.2	0.91
d. Rubber (62)	29.4	0.79	m. Scientific instruments (86)	15.6	0.59
e. Wood and furniture (63 and 82)	28.5	1.21	e. Wood and furniture (63 and 82)	13.2	1.13
f. Toilet and cleaning products (55)	27.2	0.83	t. Transport equipment other than motor vehicles (73 minus 732)	12.7	0.47
g. Telecommunications apparatus (724)	26.3	0.87	n. Medicinal and pharmaceutical products (54)	12.6	1.03
h. Miscellaneous chemical products (5 minus 512, 54, 55, 56, 58)	25.9	0.86	k. Manufactured articles n.e.s.	12.4	0.99
i. Iron and steel (67)	25.2	2.59	h. Miscellaneous chemical products (5 minus 512, 54, 55, 56, 58)	12.4	0.95
j. Fabrics and clothing (65 and 84)	25.1	1.27	d. Rubber (62)	12.3	0.88
k. Manufactured articles n.e.s.	24.9	0.98	p. Miscellaneous mach. (71 and 72, min. 724)	11.2	0.53
l. Other manufactures of metal (69)	24.8	1.00	Total progressive products ...	13.9	0.78
Total progressive products ...	26.5	1.31			
All manufactured products (5 to 8)	24.1	1.00	All manufactured products (5 to 8)	11.0	1.00
<i>Regressive products ⁵ :</i>			<i>Regressive products ⁵ :</i>		
m. Scientific instruments (86)	23.8	0.58	j. Fabrics and clothing (65 and 84)	11.0	1.09
n. Medicinal and pharmaceutical products (54)	23.0	0.93	l. Other manufactures of metal (69)	10.8	1.06
p. Miscellaneous mach. (71 and 72, min. 724)	22.7	0.48	u. Glass (664 and 665)	10.4	2.14
q. Leather and footwear (61 and 85)	22.6	0.36	c. Manufactured fertilisers (56)	9.4	2.49
r. Motor vehicles (732)	22.2	0.94	f. Toilet and cleaning products (55)	9.4	1.05
s. Non-ferrous metals (68)	21.8	1.20	b. Plastic materials (58)	9.2	1.57
t. Transport equipment other than motor vehicles (73 minus 732)	21.5	0.51	a. Organic chemicals (512)	3.8	1.26
u. Glass (664 and 665)	21.3	2.65	s. Non-ferrous metals (68)	0.8	1.21
Total regressive products ...	22.0	0.72	i. Iron and steel (67)	0.8	2.29
			Total regressive products ...	5.8	1.46

Sources : Organisation for Economic Cooperation and Development. Calculations of the National Bank of Belgium.

¹ According to the (revised) Standard International Trade Classification. The figures in brackets following the products are the numbers of the subdivisions of the above-mentioned Classification.

² Excluding the Belgian-Luxembourg Economic Union.

³ Quotient of the share of exports of a specific manufactured product in the total of the Belgian-Luxembourg Economic Union's total exports of manufactured products divided by the share of the same product in the total imports of manufactured products of the countries of the Organisation for Economic Cooperation and Development (excluding the Belgian-Luxembourg Economic Union).

⁴ Products the imports of which by the countries of the Organisation for Economic Cooperation and Development (excluding the Belgian-Luxembourg Economic Union) increase more rapidly than these countries' total imports of manufactured products.

⁵ Products the imports of which by the countries of the Organisation for Economic Cooperation and Development (excluding the Belgian-Luxembourg Economic Union) increase less rapidly than these countries' total imports of manufactured products.

Table 5.

**Services transactions of the Belgian-Luxembourg Economic Union
with foreign countries**

(Billions of francs)

	Freight and insurance for goods transport	Other transport costs ¹	Foreign travel	Portfolio and investment income	Transactions of public authorities not included elsewhere ²	Frontier workers	Contracting	Other services ³	Total
Average 1965-1969	+ 1	+ 1	- 6	+ 1	+ 2	+ 4	- 1	+ 2	+ 4
Average 1970-1973	+ 3	...	-12	+ 6	+ 5	+ 5	- 2	+ 4	+ 9
Average 1974-1977	+ 6	+ 1	-22	+18	+17	+ 6	+ 2	+ 5	+33
1974	+ 3	...	-18	+12	+13	+ 5	- 2	+ 2	+15
1975	+ 6	+ 1	-20	+16	+15	+ 6	- 3	+ 7	+28
1976	+ 8	...	-23	+23	+17	+ 6	+ 4	+ 8	+43
1977	+ 7	+ 2	-26	+19	+23	+ 6	+10	+ 5	+46
1977 First 9 months	+ 5	+ 3	-23	+14	+17	+ 4	+ 9	+ 3	+32
1978 First 9 months p	+ 6	...	-25	+16	+19	+ 4	+ 2	+ 5	+27

¹ Costs of passenger transport, port and customs charges, rental costs and cost of maintenance and repair of ships and aircraft, purchases and sales of supplies for ships and aircraft.

² This item mainly consists, on the receipts side, of the operating expenditure of international institutions located in the Belgian-Luxembourg Economic Union and, on the expenditure side, of military expenditure.

³ Fees for cinematographic films, patents and copyright, brokers' fees, commissions and miscellaneous commercial expenses, insurance premiums and compensation payments (excluding insurance on goods transport, shown with freight, and life assurance and credit and capital-accumulation insurance, included in capital transactions), etc.

Table 6.

**National Bank of Belgium : foreign exchange reserves and forward position
in foreign currencies and, in relation to foreign countries, in Belgian francs**

(Billions of francs)

At end of	Foreign exchange reserves						Forward position			Grand total	of which :		Annual changes in total of foreign exchange reserves ³	Annual changes in grand total ³
	Gold holding	Assets held at the International Monetary Fund ¹	Net claims on or liabilities to (-) the European Monetary Cooperation Fund	Spot foreign currencies	Spot Belgian francs ²	Total (f) = (a) + (b) + (c) + (d) + (e)	Foreign currencies	Belgian francs	Total		Position in foreign currencies	Position in Belgian francs		
1970	73	30	—	39	-1	141	-38	12	-26	115	(1)	(11)		
1971	77	51	—	35	-4	159	-36	27	- 9	150	(-1)	(23)	+ 14	+ 32
1972	75	52	—	53	-2	178	-22	21	- 1	177	(31)	(19)	+ 16	+ 24
1973	72	54	4	76	-3	203	-27	28	1	204	(49)	(25)	+ 36	+ 34
1974	72	53	...	95 ⁴	-3	217	-11	13	2	219	(84)	(10)	+ 12	+ 13
1975	72	59	...	114 ⁴	-4	241	-12	12	...	241	(102)	(8)	+ 18	+ 19
1976	72	59	...	90 ⁴	-3	218	...	...	...	218	(90)	(-3)	- 25	- 25
1977 Sept. ...	72	59	...	112 ⁴	-5	238	...	...	...	238	(112)	(-5)	+ 19 ⁵	+ 19 ⁵
Dec. ...	72	58	-23	108 ⁴	-4	211	...	...	...	211	(108)	(-4)	- 9	- 9
1978 June ...	72	52	...	114 ⁴	-4	234	...	...	...	234	(114)	(-4)	+ 24 ⁶	+ 24 ⁶
Sept. ...	72	51	-28	99	-5	189	- 7	...	- 7	182	(92)	(-5)	- 14 ⁵	- 21 ⁵
Dec. ...	72	50	-27	106	-5	196	-12	...	-12	184	(94)	(-5)	- 16	- 28

¹ These comprise a) the rights which are held by the Belgian Government as a member of the International Monetary Fund and which the National Bank of Belgium has been authorised, first by the law of 19th June 1959 and then by that of 9th June 1969, to show in its accounts as its own assets in consideration of its assuming liability for the obligations incumbent on the Belgian Government in that connection and b) the advances granted by the Bank for its own account to the Fund, under the « oil facility », under an agreement concluded with the Fund and approved by the Government.

² Difference between claims on foreign countries (other than acceptances representing exports) and liabilities to foreign countries, particularly to the central banks.

³ Not including the accounting changes, namely those resulting from a) the adjustments made to various assets and liabilities following the revaluation of the Swiss franc in 1971, the appreciation of the Belgian franc due to the decisions of the Washington Monetary Conference of 18th December 1971 and the devaluation of the U.S. dollar in 1973, b) the allocations of special drawing rights to Belgium in 1971 and 1972, and c) the changes in exchange rates which, since January 1974, may have affected the countervalue in Belgian francs of the changes in the outstanding amounts in foreign currencies.

⁴ Including the medium-term financial assistance which the Belgian Government granted to Italy under the directive of the Council of the European Communities adopted on 17th December 1974 and which is financed by the National Bank of Belgium on behalf of the Government in accordance with the Convention concluded on that date between the Government and the Bank.

⁵ Change in the first nine months.

⁶ Change in the first six months.

Table 7.

**National Bank of Belgium : foreign exchange reserves and forward position
in foreign currencies and, in relation to foreign countries, in Belgian francs ¹**

(Changes in billions of francs)

	Foreign exchange reserves						Forward position ²			Grand total	of which :	
	Gold holding	Assets held at the International Monetary Fund	Net claims on or liabilities to the E.M. C.F. ³	Spot foreign currencies	Spot Belgian francs	Total (f) = (e) + (h) + (c) + (d) + (e)	Foreign currencies	Belgian francs	Total (i) = (g) + (h)		(j) = (f) + (i)	Position in foreign currencies (k) = (d) + (g)	Position in Belgian francs (l) = (a) + (b)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Average 1970-1973	- 1	+ 9 ⁴	+ 1	+12	...	+21	+ 1	+ 6	+ 7	+28	(+13)	(+ 6)
Average 1974-1977	+ 1	- 7	+ 5	...	- 1	+ 7	- 6	+ 1	...	(+12)	(- 6)
1974	- 1	- 4	+18	- 1	+12	+15	-14	+ 1	+13	(+33)	(-15)
1975	+ 5	...	+14	- 1	+18	+ 1	...	+ 1	+19	(+15)	(- 1)
1976	+ 1	...	-26	...	-25	+12	-12	...	-25	(-14)	(-12)
1977	- 1	-24	+16	...	- 9	...	...	...	- 9	(+16)	(...)
1978	- 7	- 5	- 2	- 2	-16	-12	...	-12	-28	(-14)	(- 2)
1977 First 9 months	+20	- 1	+19	...	...	...	+19	(+20)	(- 1)
1978 First 6 months	- 4	+24	+ 5	- 1	+24	...	...	...	+24	(+ 5)	(- 1)
3rd quarter	- 1	-28	- 8	- 1	-38	- 7	...	- 7	-45	(-15)	(- 1)
First 9 months	- 5	- 4	- 3	- 2	-14	- 7	...	- 7	-21	(-10)	(- 2)

¹ Not including accounting changes. See Table 6 of this Annex, especially footnote ³.

² The plus sign indicates an increase in foreign currencies or Belgian francs receivable, or a decrease in foreign currencies or Belgian francs to be delivered, by the National Bank of Belgium; the minus sign indicates a decrease in foreign currencies or Belgian francs receivable, or an increase in foreign currencies or Belgian francs to be delivered, by the National Bank. The main forward transactions carried out by the National Bank are : 1° sales of foreign currencies against Belgian francs to foreign central banks to cover the exchange risk resulting from the holding of exchange reserves in foreign currencies; in this case the inclusion of forward transactions in the table reveals that certain claims apparently in foreign currencies are actually in Belgian francs [increase in column (d) offset by a decrease in column (g) and an increase in column (h)]; if there were only forward transactions of this type, the figures in columns (f) and (j) would be identical; 2° sales of foreign currencies to the public sector in view of forthcoming payments due on its debt in foreign currencies; in this case the inclusion of forward transactions in the table reveals that certain exchange reserves are now already virtually used up [increase in column (d) offset by a decrease in column (g)]; column (j) gives the variation in the exchange reserves remaining available, thus differing from column (f), which gives the apparent variation in these reserves.

³ The plus sign indicates an increase in net claims or a decrease in net liabilities; the minus sign indicates a decrease in net claims or an increase in net liabilities.

⁴ Not including the amount of the special drawing rights received by Belgium as an allocation.

Table 8.

Official Rates of Exchange Fixed by the Bankers meeting at the Brussels Clearing House

(Daily quotations in Belgian francs)

1978	1 U.S. dollar	1 German mark	100 Yens	1 French franc	1 pound sterling	100 Italian lire	1 Cana- dian dollar	1 Netherl. guilder	1 Swedish crown	1 Swiss franc	100 pesetas	1 Danish crown	100 Austrian schill.	1 Norwe- gian crown	1 Finnish mark	100 escudos	1 zaire
January																	
Highest	33.26	15.66	13.87	7.03	63.83	3.81	30.43	14.51	7.08	16.77	41.11	5.73	217.75	6.41	8.23	82.40	40.13
Lowest	32.18	15.46	13.53	6.91	62.97	3.74	29.39	14.43	6.99	16.17	40.20	5.65	215.40	6.35	8.13	81.30	39.56
Mean	32.84	15.51	13.64	6.96	63.50	3.77	29.83	14.47	7.04	16.52	40.73	5.69	216.17	6.38	8.18	81.88	39.88
February																	
Highest	32.79	15.70	13.59	6.90	63.89	3.80	29.55	14.58	7.05	17.60	40.61	5.74	218.50			81.75	39.76
Lowest	31.41	15.49	13.20	6.58	61.24	3.69	28.14	14.47	6.84	16.52	39.17	5.62	215.75	1	2	78.75	38.67
Mean	32.30	15.56	13.46	6.68	62.66	3.76	29.02	14.51	6.96	16.97	40.07	5.69	216.60			80.56	39.39
March																	
Highest	32.36	15.64	14.21	6.89	61.34	3.74	28.87	14.61	6.93	17.45	40.26	5.68	217.00	5.98	7.67	78.75	39.35
Lowest	31.11	15.54	13.13	6.53	58.46	3.66	27.78	14.51	6.82	16.29	39.06	5.64	215.60	5.89	7.55	76.85	38.43
Mean	31.66	15.57	13.68	6.72	60.44	3.70	28.16	14.56	6.88	16.69	39.59	5.66	216.21	5.94	7.60	77.95	38.93
April																	
Highest	32.42	15.68	14.50	7.01	59.13	3.73	28.60	14.65	6.99	17.04	40.11	5.71	217.75	5.96	7.66	77.50	39.50
Lowest	31.21	15.54	14.21	6.89	58.55	3.67	27.38	14.56	6.86	16.44	39.21	5.64	215.90	5.90	7.54	76.20	38.84
Mean	31.78	15.59	14.36	6.94	58.86	3.71	27.85	14.60	6.92	16.73	39.70	5.67	216.60	5.93	7.60	76.86	39.15
May																	
Highest	33.28	15.64	14.78	7.14	60.26	3.81	30.06	14.62	7.12	17.27	40.97	5.81	217.60	6.08	7.77		40.29
Lowest	32.26	15.56	14.33	7.00	59.05	3.72	28.62	14.55	6.99	16.45	39.90	5.70	216.40	5.98	7.64	3	39.50
Mean	32.88	15.60	14.55	7.07	59.74	3.78	29.43	14.59	7.07	16.75	40.55	5.77	217.07	6.04	7.69		39.96
June																	
Highest	32.96	15.77	16.00	7.28	60.88	3.83	29.52	14.66	7.16	17.65	41.55	5.81	219.50	6.08	7.72	72.10	40.50
Lowest	32.58	15.64	14.77	7.09	59.23	3.78	28.95	14.59	7.04	17.09	40.78	5.77	217.50	6.03	7.61	71.20	39.94
Mean	32.69	15.69	15.27	7.14	60.05	3.81	29.16	14.63	7.09	17.35	41.19	5.80	218.24	6.05	7.64	71.67	40.18
July																	
Highest	32.61	15.77	16.95	7.36	62.25	3.84	29.05	14.65	7.16	18.44	41.98	5.81	218.90	6.05	7.74	71.65	41.18
Lowest	32.12	15.75	15.94	7.25	60.54	3.80	28.44	14.55	7.10	17.71	41.37	5.75	218.60	5.99	7.67	70.73	40.23
Mean	32.37	15.76	16.22	7.29	61.31	3.82	28.79	14.60	7.13	17.96	41.72	5.78	218.77	6.00	7.71	71.24	40.47
August																	
Highest	32.27	15.77	17.33	7.37	62.07	3.83	28.37	14.61	7.16	19.28	42.83	5.80	218.85	6.02	7.75	71.15	40.71
Lowest	30.70	15.67	16.40	7.13	60.46	3.73	26.94	14.49	7.03	18.46	41.26	5.68	217.25	5.95	7.60	68.80	39.55
Mean	31.50	15.74	16.68	7.23	61.03	3.76	27.64	14.53	7.09	18.82	42.06	5.72	218.31	5.98	7.66	69.65	40.01
September																	
Highest	31.64	15.77	16.45	7.21	61.23	3.77	27.24	14.53	7.07	20.92	42.58	5.74	218.35	5.98	7.69	69.25	39.94
Lowest	30.45	15.73	16.18	6.99	60.28	3.70	25.89	14.50	6.94	19.25	42.03	5.69	217.58	5.94	7.58	67.25	39.03
Mean	31.06	15.76	16.35	7.12	60.81	3.74	26.67	14.51	7.02	19.78	42.31	5.72	217.94	5.96	7.63	68.50	39.59
October																	
Highest	30.49		16.16	7.05	60.08	3.71	25.67	14.56	6.92	19.33	42.36		217.65		7.57	67.20	39.14
Lowest	27.14	4	15.34	6.78	56.90	3.43	23.07	14.44	6.60	18.24	40.21	4	214.70	1	7.16	63.00	36.62
Mean	29.08		15.82	6.90	58.34	3.58	24.59	14.51	6.78	18.89	41.60		216.41		7.39	65.45	38.13
November																	
Highest	30.51	15.79	15.77	6.92	59.19	3.58	26.07	14.57	6.89	18.31	42.61	5.69	215.80	5.94	7.53	65.10	
Lowest	29.20	15.67	15.36	6.84	57.84	3.51	25.08	14.48	6.78	17.32	41.23	5.67	214.35	5.88	7.33	64.20	5
Mean	29.95	15.72	15.61	6.87	58.67	3.55	25.54	14.52	6.84	17.87	42.07	5.69	214.94	5.91	7.46	64.75	
December																	
Highest	30.67	16.00	15.45	6.92	59.51	3.60	26.28	14.66	6.90	17.90	42.91	5.69	218.75		7.56	65.60	29.56
Lowest	28.79	15.79	14.84	6.88	58.48	3.47	24.30	14.57	6.71	17.62	41.12	5.65	215.65	1	7.29	63.25	28.60
Mean	29.81	15.83	15.20	6.90	59.09	3.54	25.28	14.60	6.80	17.77	42.00	5.68	216.38		7.42	64.33	29.18
Year																	
Highest	33.28		17.33	7.37	63.89	3.84	30.43	14.66	7.16	20.92	42.91		219.50				
Lowest	27.14	4	13.13	6.53	56.90	3.43	23.07	14.43	6.60	16.17	39.06	4	214.35	1	2	3	5
Mean	31.49		15.08	6.99	60.39	3.71	27.66	14.55	6.97	17.69	41.14		216.97				

1 Norwegian crown

	February		October		December		Year			
	1st to 10th	13th to 28th	1st to 13th	16th to 31st	1st to 11th	12th to 31st	1st Jan. to 10th Feb.	13th Feb. to 13th Oct.	16th Oct. to 11th Dec.	12th to 31st Dec.
Highest	6.39	6.02	5.91	5.95	5.94	5.89	6.41	6.08	5.95	5.89
Lowest	6.36	5.93	5.93	5.81	5.89	5.74	6.35	5.89	5.82	5.74
Mean	6.37	5.97	5.94	5.86	5.91	5.81	6.38	5.98	5.89	5.81

4

		October		Year	
		1st to 13th	16th to 31st	1st Jan. to 13th Oct.	16th to 31st Dec.
German mark	Highest	15.77	15.84	15.77	16.00
	Lowest	15.75	15.70	15.46	15.67
	Mean	15.76	15.78	15.65	15.77
Danish crown	Highest	5.70	5.69	5.81	5.69
	Lowest	5.68	5.66	5.62	5.65
	Mean	5.69	5.67	5.72	5.68

2 Finnish mark

	February		Year	
	1st to 10th	13th to 28th	1st Jan. to 10th Feb.	13th to 31st Dec.
Highest	8.25	7.63	8.25	7.77
Lowest	8.18	7.44	8.13	7.16
Mean	8.21	7.57	8.19	7.58

3 Escudo

	May		Year	
	1st to 5th	8th to 31st	1st Jan. to 5th May	8th to 31st Dec.
Highest	77.00	73.00	82.40	73.00
Lowest	77.00	71.80	76.20	63.00
Mean	77.00	72.52	79.30	68.45

5 Zaire

	November		Year	
	10th to 27th	28th to 30th	1st Jan. to 31st Oct.	28th Nov. to 31st Dec.
Highest	31.37	29.45	41.18	29.56
Lowest	30.88	29.39	36.62	28.60
Mean	31.12	29.41	39.56	29.21

Quotation was suspended from 1st to 9th November.

Table 9.

Official national debt position *

(Billions of francs)

At end of	Direct debt						Indirect debt 2	Debt taken over from the Republic of Zaïre 3	Grand total 4
	in Belgian francs				in foreign currencies 1	Total			
	Consolidated	Medium term	Short term	Total					
1972	495	18	124	637	8	645	66	1	712
1973	559	16	120	695	6	701	63	1	765
1974	614	20	123	757	4	761	59	1	821
1975	682	17	140	839	4	843	85	...	928
1976	753	13	193	959	3	962	96	...	1,058
1977 October	873	6	226	1,105	3	1,108	120	...	1,228
December	865	6	236	1,107	3	1,110	119	...	1,229
1978 October	985	6	302	1,293	14	1,307	122	...	1,429
December	977	6	279	1,262	14	1,276	151	...	1,427

* See the Bulletin of the National Bank of Belgium, Statistics, table XVI-8.

Source : Ministry of Finance, Treasury Administration.

- ¹ Not including the inter-governmental debts resulting from the 1914-1918 war.
- ² Debt in Belgian francs and in foreign currencies which has been issued by public organisations but in respect of which the interest and redemption are borne by the national debt budget.
- ³ Debt assumed by the Belgian Government under the Convention of 6th February 1965 between Belgium and the Republic of Zaïre, approved by the Law of 23rd April 1965. Not including the debt of the Belgian-Congolese Amortisation and Management Fund.
- ⁴ The changes between the end of one period and the other may be partly of an accounting nature. Item 2 in Table 10 of this Annex indicates the changes in the national debt which have not given rise to movements of funds for the Treasury.

Table 10.

**National debt and funds
used for meeting the Central Government's net financial requirements**

(Changes in billions of francs)

	1973	1974	1975	1976	1977	1977	1978
						(First 10 months)	
1. National debt ¹	+53	+56	+107	+130	+171	+170	+200
2. Transactions without movement of funds :							
a) Treasury Certificates held by the International Monetary Fund ²	(+ 1)	(- 1)	(- 2)	(- 3)	(+ 3)	(+ 2)	(+ 15)
b) The National Bank of Belgium's credit balance at the Postal Cheque Office for account of the Ministers of National Education ³	(- 2)	(-)	(-)	(-)	(-)	(-)	(-)
c) Miscellaneous	(+ 3)	(...)	(...)	(...)	(...)	(...)	(...)
Total 2 ...	+ 2	- 1	- 2	- 3	+ 3	+ 2	+ 15
3. Funds used to meet the Treasury's net financial requirements (= 1. - 2.)	+51	+57	+109	+133	+168	+168	+185
4. Debudgetised debt for the service of which the Central Government is responsible ⁴ ...	+20	+20	+21	+ 23	+ 22	+ 18	+ 12
5. Funds used to meet the Central Government's net financial requirements (= 3. + 4.)	+71	+77	+130	+156	+190	+186	+197

¹ According to Table 9 of this Annex.

² The giving of Treasury Certificates to the International Monetary Fund in part payment for the increases in Belgium's quota does not, by its very nature, lead to any receipt of funds by the Treasury; as for the other changes in the Fund's portfolio, connected with its transactions in Belgian francs, these are reflected, in accordance with the provisions of the existing laws and agreements, in receipts or payments for the National Bank of Belgium and not for the Treasury.

³ Until November 1973, that is, during the period when the Government's liability corresponding to this credit balance was included in the national debt. Changes in this credit balance have as their exact counterparts movements of the balance held by the Ministers of National Education at the Bank.

⁴ Debt to the financial intermediaries and direct recourse to the capital market, insofar as it has been possible to record them.

⁵ See Table 11, page 121.

Table 11.

Financial assets in Belgian francs held by enterprises and individuals *

(Changes in billions of francs)

	At up to one year						At over one year				Grand total
	Cash holdings	Deposits on ordinary deposit or savings books 1	Deposits at fixed date and at notice	Medium-term notes	Miscellaneous	Total	Medium-term notes and bonds 2	Deposits	Shares	Total	
1971	+ 36	+ 54	+ 13	+ 11	...	+114	+ 54	+ 11	+ 3	+ 68	+182
1972	+ 65	+ 88	+ 9	+ 5	+ 1	+168	+ 53	+ 8	+ 1	+ 62	+230
1973	+ 32	+ 70	+ 61	+ 8	...	+171	+ 75	+ 4	+ 2	+ 81	+252
1974	+ 34	+ 51	+ 83	+ 7	...	+175	+ 91	- 1	+ 7	+ 97	+272
1975	+ 92	+137	- 22	+ 9	+ 2	+218	<i>p</i> + 96	+ 13	+ 4	<i>p</i> +113	<i>p</i> +331
1976	+ 37	+106	+ 91	+ 5	- 4	+235	<i>p</i> +146	+ 3	+ 3	<i>p</i> +152	<i>p</i> +387
1977	+ 73	+103	+ 5	+ 5	+ 1	+187	<i>p</i> +213	+ 7	+ 10	<i>p</i> +230	<i>p</i> +417
1977 First 10 m. <i>p</i>	+ 52	+ 47	- 2	+ 2	+ 3	+102	+203	+ 6	+ 9	+218	+320
1978 First 10 m. <i>p</i>	+ 11	+ 53	+ 60	+ 10	+ 4	+138	+145	...	+ 10	+155	+293

* See the Bulletin of the National Bank of Belgium, Statistics, Tables XIII-4b, XV-9a and 4.

¹ See Table 12 of this Annex.

² See Tables 13, 14 and 15 of this Annex.

Table 12.

Deposits on ordinary deposit or savings books

(Changes in billions of francs)

	Institutions receiving deposits				Total
	Banks	General Savings and Pensions Fund	Private savings banks	Public financial credit intermediaries	
1971	+ 22	+ 16	+ 12	+ 4	+ 54
1972	+ 35	+ 23	+ 23	+ 7	+ 88
1973	+ 25	+ 19	+ 20	+ 6	+ 70
1974	+ 13	+ 18	+ 13	+ 7	+ 51
1975	+ 51	+ 36	+ 33	+ 17	+ 137
1976	+ 33	+ 27	+ 29	+ 17	+ 106
1977	+ 44	+ 24	+ 20	+ 15	+ 103
1977 First 10 months	+ 28	+ 7	+ 4	+ 8	+ 47
1978 First 10 months	+ 24	<i>p</i> + 8	+ 13	<i>p</i> + 8	<i>p</i> + 53

Table 13.

Outstanding amounts of bonds and notes at over one year in Belgian francs

Classified according to issuers

(Changes in billions of francs)

	Central Government 1	Other public authorities	Public financial intermediaries 2	Public operating organisations	Banks	Private savings banks, mortgage and capital accumulation companies 2	Others	Total
1971	+ 79	+ 2	+ 41	+ 10	+ 5	+ 5	+ 9	+151
1972	+ 95	+ 3	+ 27	+ 9	+ 5	+ 2	+ 26	+167
1973	+ 79	+ 2	+ 37	+ 6	+ 6	+ 7	+ 18	+155
1974	+ 66	- 1	+ 52	+ 10	+ 7	+ 12	+ 13	+159
1975	+ 92	+ 6	+ 53	+ 5	+ 10	+ 11	<i>p</i> + 28	<i>p</i> +205
1976	+ 91	+ 10	+ 66	+ 18	+ 16	+ 15	<i>p</i> + 13	<i>p</i> +229
1977	+159	+ 10	+147	+ 14	+ 30	+ 18	<i>p</i> + 9	<i>p</i> +387
1977 First 10 months ... <i>p</i>	+167	+ 10	+124	+ 15	+ 27	+ 17	+ 3	+363
1978 First 10 months ... <i>p</i>	+138	+ 6	+ 42	+ 24	+ 19	+ 12	+ 7	+248

¹ Direct and indirect debt and, insofar as it has been possible to record it, the debudgetised debt for the service of which the Central Government is responsible.

² Including savings bonds or certificates.

Table 14.

Outstanding amounts of bonds and notes at over one year in Belgian francs

Classified according to holders

(Changes in billions of francs)

	Mainly monetary institutions	Other financial intermediaries 1	Public authorities	Foreign countries c	Others 2	Total
1971	+ 49	+ 45	+ 2	+ 1	+ 54	+ 151
1972	+ 54	+ 58	+ 1	+ 1	+ 53	+ 167
1973	+ 49	+ 27	+ 3	+ 1	+ 75	+ 155
1974	+ 40	+ 26	+ 2	...	+ 91	+ 159
1975	+ 46	+ 62	+ 1	...	p + 96	p + 205
1976	+ 29	+ 43	+ 2	+ 9	p + 146	p + 229
1977	+ 91	+ 79	...	+ 4	p + 213	p + 387
1977 First 10 months p	+ 91	+ 66	...	+ 3	+ 203	+ 363
1978 First 10 months p	+ 41	+ 60	...	+ 2	+ 145	+ 248

¹ Excluding the net acquisitions of certain financial intermediaries the amount of which is not known for 1978, namely those of life assurance companies and employers' liability insurance companies and those of pension funds.

² The figures in this column have been calculated as a difference and mainly represent the net acquisitions of individuals and enterprises. See Table 15 of this Annex.

Table 18.

**Outstanding amounts of bonds and notes at over one year in Belgian francs
held by enterprises and individuals**

Classified according to issuers

(Changes in billions of francs)

	Central Govern- ment	Other public autho- rities	Public financial interme- diaries	Public operating organi- sations	Banks	Private savings banks, mortgage and capital accumu- lation companies	Others	Total
1971	+ 16	+ 1	+ 22	+ 1	+ 5	+ 5	+ 4	+ 54
1972	+ 20	+ 1	+ 13	+ 1	+ 5	+ 2	+ 11	+ 53
1973	+ 20	...	+ 30	+ 2	+ 6	+ 6	+ 11	+ 75
1974	+ 25	- 1	+ 37	+ 4	+ 7	+ 11	+ 8	+ 91
1975	+ 26	+ 2	+ 34	...	+ 9	+ 10	<i>p</i> + 15	<i>p</i> + 96
1976	+ 47	+ 2	+ 45	+ 14	+ 16	+ 14	<i>p</i> + 8	<i>p</i> +146
1977	+ 72	+ 4	+ 86	- 1	+ 30	+ 18	<i>p</i> + 4	<i>p</i> +213
1977 First 10 months ... <i>p</i>	+ 77	+ 4	+ 78	+ 2	+ 27	+ 17	- 2	+203
1978 First 10 months ... <i>p</i>	+ 64	+ 3	+ 29	+ 13	+ 18	+ 12	+ 6	+145

Table 16.

Creditor interest rates * 1

(Per cent)

At end of	Time deposits at banks (3 months)		Deposits on ordinary savings books at the General Savings and Pensions Fund 3		Average stock exchange yield on Government loans (at more than 5 years) 4
	Large deposits 2	Ordinary deposits	Effective rate	Gross fictitious rate	
1967	n.a.	3.60	3.50	4.38	6.58
1968	n.a.	3.00	3.50	4.38	6.65
1969	9.000	6.00	4.00	5.00	7.80
1970	6.875	5.50	4.50	5.63	7.79
1971	5.500	4.00	4.50	5.63	7.17
1972	5.250	3.00	4.00	5.00	7.21
1973	9.500	5.75	4.75	5.94	7.92
1974	10.500	7.00	6.25	7.81	9.03
1975	5.875	4.65	5.50	6.87	8.72
1976	9.250	6.75	5.50	6.87	9.22
1977 June	6.250	5.50	5.50	6.87	8.61
December	9.125	5.00	5.50	6.87	8.76
1978 January	7.125	5.00	5.25	6.56	8.71
February	6.500	5.00	5.25	6.56	8.54
March	5.250	5.00	5.25	6.56	8.30
April	5.375	4.50	5.00	6.25	8.25
May	5.250	4.50	5.00	6.25	8.22
June	5.250	4.50	5.00	6.25	8.22
July	5.875	4.50	5.00	6.25	8.25
August	6.500	4.50	5.00	6.25	8.45
September	7.125	4.50	5.00	6.25	8.40
October	10.000	4.50	5.00	6.25	8.62
November	9.000	4.50	5.00	6.25	8.69
December	9.375	4.50	5.00	6.25	8.80

* See the Bulletin of the National Bank of Belgium, Statistics, Tables XIX-5, 6 and 7.

1 Rates for investments in Belgian francs accessible to the general public; rates before deduction of tax at source.

2 Indicative rates for deposits of from Fr. 5 to 20 million.

3 Rates credited on amounts up to Fr. 500,000. They include the fidelity premium paid on amounts that remained on deposit from 16th January to 31st December. Since, up to a certain amount (at present Fr. 15,000 per year), the income from deposits on ordinary savings books is exempt from tax, their effective rate is not comparable with the rates shown in the table for other investments. The gross fictitious rate provides a valid basis of comparison in the case of an individual who pays, on the income from his other investments, neither more nor less than the tax deducted at source.

4 Yields at the start of the following year or the following month.

Table 17.

Belgian and foreign long-term yield rates ¹

(Per cent)

	Belgium : stock exchange yield of Government bonds at over 5 years ²	International market : yield of dollar Euro-bonds at over 7 years	United Kingdom : yield of Government bonds on the secondary market (20 years)	United States : yield of Federal Government bonds on the secondary market (10 years and over)	Federal Republic of Germany : yield of public-sector bonds on the secondary market
1967 December	5.3	7.2	4.3	5.4	5.1
1968 December	5.3	7.3	4.8	5.7	4.7
1969 December	6.2	8.0	5.4	6.8	5.7
1970 December	6.2	8.4	5.7	6.0	6.2
1971 December	5.7	7.7	4.9	5.6	5.9
1972 December	5.8	7.3	5.9	5.6	6.5
1973 December	6.3	8.4	8.8	6.4	7.2
1974 December	7.2	10.0	11.5	6.8	7.4
1975 December	7.0	9.0	9.6	7.2	6.2
1976 December	7.4	8.1	10.1	6.4	5.5
1977 June	6.9	8.0	8.1	7.0	4.6
December	7.0	8.3	7.4	7.2	4.3
1978 January	7.0	8.4	7.3	7.5	4.1
February	6.8	8.4	7.8	7.6	4.1
March	6.6	8.4	7.7	7.6	3.9
April	6.6	8.3	8.3	7.7	3.9
May	6.6	8.6	8.5	7.9	4.1
June	6.6	8.8	8.6	7.9	4.2
July	6.6	8.8	8.5	8.1	4.4
August	6.8	8.8	8.4	7.9	4.6
September	6.7	8.8	8.5	7.8	4.5
October	6.9	9.2	8.7	8.1	4.5
November	7.0	9.2	8.8	8.2	4.7
December	7.0	9.3	8.9	8.4	4.7

Sources : International market : Bondtrade. United Kingdom : Bank of England. Calculations of the National Bank of Belgium. United States : Federal Reserve Bulletin. Federal Republic of Germany : Financial Statistics of the Organisation for Economic Cooperation and Development. Calculations of the National Bank of Belgium.

¹ Rates after any deduction of tax at source, i.e. for Belgium : preliminary tax on personal property of 20 p.c.; for the United Kingdom : variable basic rate of income tax; for the Federal Republic of Germany : coupon tax of 25 p.c.

² Rates at the beginning of the year or of the next month.

Table 18.

National Bank of Belgium's official scale of discount and advance rates *

(Per cent)

	Discount 1		Advances in current account and loans against		
	Bills accepted payable at a bank, warrants and acceptances, bearing visa 2 or certified, representing foreign trade transactions	Other bills and promissory notes	Treasury Certificates and Securities Regulation Fund Certificates issued at up to 180 days 3	Treasury Certificates issued at over 180 days and up to 374 days 3	Other public securities 4
At end of					
1969	7.50	9.50	9.00	9.25	9.50
1970	6.50	8.50	8.00	8.25	8.50
1971	5.50	7.00	6.50	6.75	7.00
1972	5.00	6.00		6.00	
1973	7.75	8.50		8.50	
1974	8.75	9.50		9.50	
1975		6.00		6.00	
1976		9.00		10.00	
1977		9.00		9.00	
1978		6.00		8.50	
1978					
1st January - 4th January		9.00		9.00	
5th January - 18th January		8.50		8.50	
19th January - 1st February		7.50		7.50	
2nd February - 15th March		6.50		6.50	
16th March - 29th March		6.00		6.00	
30th March - 26th July ...		5.50		5.50	
27th July - 11th October ...		6.00		6.00	
12th October - 31st Decem.		6.00		8.50	

* See the Bulletin of the National Bank of Belgium, Statistics, Table XIX-1a.

¹ Rate for bills counted against the overall rediscount ceiling or against rediscount sub-ceiling A.

² The visa was abolished on 1st April 1974.

³ Maximum proportion advanced : 95 p.c.

⁴ Maximum proportion advanced : 80 p.c.

Table 19.

National Bank of Belgium's special rates and weighted average rate *

(Per cent)

At end of	Discounting of bills counted against sub-ceiling B ¹	Rediscount and Guarantee Institute's rediscount facility for mobilisation of paper not counted against rediscount ceilings ²	Advances above monthly quota allotted to banks, private savings banks and public credit institutions ³	Weighted average rate ⁴
1973	—	9.50	—	—
1974	9.50	10.00	10.25	9.18
1975	—	6.00	6.50	5.73
1976	—	10.00	10.50	9.06
1977 June	—	6.25	6.25	6.03
December	—	9.00	9.25	7.73
1978 January	—	7.50	7.75	7.27
February	—	6.50	6.75	6.46
March	—	5.50	5.75	5.51
April	—	5.50	5.75	5.50
May	—	5.50	5.75	5.50
June	—	5.50	5.75	5.50
July	—	6.00	6.25	5.69
August	—	6.50	6.25	5.95
September	—	6.50	6.25	6.02
October	8.50	10.70	10.70	7.00
November	8.50	8.50	9.55	6.44
December	8.50	9.00	9.50	6.89

* See the Bulletin of the National Bank of Belgium, Statistics, Tables XIX-1b and 1c.

¹ Rate which existed from 8th July 1974 to 31st March 1975, from 12th February to 16th June 1976, from 23rd July to 19th December 1976 and existing since 12th October 1978.

² Rate existing since 21st December 1973.

³ Rate existing since 8th July 1974.

⁴ Average cost of recourse to the National Bank of Belgium for the financial intermediaries which directly or indirectly finance credits to enterprises and individuals; this cost is calculated by taking the mean of the different rates weighted by the outstanding amount of the financing obtained by these intermediaries at these rates.

Table 20.

Money market rates *

(Per cent)

	Call money ¹	Treasury Certificates at very short term (8 months) ²	R.G.I. : Commercial bills counted against the rediscount ceilings at the National Bank of Belgium (up to 120 days) ^{2 3}		Bank acceptances having about 90 days to run and not counted against the rediscount ceilings, traded on the market outside the National Bank ²	Interbank deposits (8 months) ²
			against sub-ceiling A	against sub-ceiling B		
1970	6.25	6.95	6.00		7.00	n.a.
1971	3.70	4.80	4.45		5.65	n.a.
1972	2.48	4.50	4.90		5.40	n.a.
1973	4.81	7.65	7.65		9.50	10.16
1974	9.25	10.50	8.65	10.00	10.90	11.25
1975	4.63	6.05	5.25		5.80	6.50
1976	8.38	10.00	8.90		9.65	10.00
1977 June	6.02 ⁴	6.75	5.75		6.35	6.81
December	4.91 ⁵	9.25	8.75		9.50	9.75
1978 January	7.56	7.75	7.25		7.50	7.75
February	4.12	6.75	6.25		6.60	7.06
March	4.64	5.75	5.25		5.60	5.81
April	4.04	5.60	5.25		5.50	6.00
May	3.63	5.60	5.25		5.50	5.87
June	4.06	5.75	5.25		5.50	5.87
July	3.85	6.35	5.75		6.10	6.50
August	5.06	7.00	5.75		6.80	7.12
September	4.93	7.50	5.75		7.00	7.75
October	7.41	10.00	5.90	8.50	10.10	10.62
November	6.96	8.75	5.90	8.50	9.30	9.62
December	6.45	9.25	5.90	8.50	9.50	10.00

* See the Bulletin of the National Bank of Belgium, Statistics, Tables XIX-2, 3 and 4.

¹ Daily averages.² End of period.³ Until 22nd October 1973 and from 10th to 16th March 1978 : rate for transactions at from 61 to 120 days; from 24th March to 11th October 1978 : rate for transactions at from 31 to 120 days.⁴ First half-year.⁵ Second half-year.

**MONETARY POLICY RECOMMENDATION
OF 23rd OCTOBER 1978**

With a view to combating the strains on the foreign exchange market which had at that time reached a critical stage, the Bank, on 23rd October 1978, addressed to the main financial intermediaries a recommendation based on the law of 28th December 1973.

These strains were due to movements of short-term funds brought about by, among other things, the weakness of the dollar and anticipations concerning the establishment of a European Monetary System. In view of the fact that, during the previous foreign exchange crises, these movements of short-term funds — which, in particular, take the form of the building-up of commercial claims on foreign countries by enterprises in connection with foreign trade transactions — had often been financed by means of credits obtained from Belgian financial intermediaries, the banks, private savings banks and main public credit institutions were asked to ensure that credits liable to be used for this kind of financing, that is, in practice, short-term credits to enterprises located in the Belgian-Luxembourg Economic Union, did not increase excessively. Other credits to enterprises (i.e. primarily « Creditexport » credits, investment credits and leasing credits), credits for the purchase and building of dwellings, credits financing instalment sales and also credits to universities and university clinics were not made subject to any norm.

The norms for short-term credits to enterprises were fixed in such a way as not to impede economic activity : the rate of expansion allowed for the last quarter of 1978 corresponded, allowance being made for the length of the period and for seasonal factors, to the average recorded during the years 1974-1977, namely 15 p.c. per annum. It was felt that the expansion thus permitted would in fact be amply sufficient, since the rise in prices was distinctly slower than during the afore-mentioned

years and, partly because of this, the rate of increase of the credits in question had only amounted, during the first nine months of 1978, to 9 p.c. on an annual basis.

Concrete norms, adapted to the pattern of seasonal variations, were calculated for the end of November and December. In doing this it was necessary to take into account certain special phenomena. Thus, during a period of strain on the money market — such as that which occurred in 1978 because of the unrest on the foreign exchange market — there was found to be a decrease in the relative amount of « straight loans »¹; as these had become more expensive than ordinary overdrafts, the enterprises which previously resorted to them replaced them by credit of the latter type. Consequently, to prevent distortions between financial intermediaries, it was necessary to establish norms providing for a less than proportional total increase for straight loans and a more than proportional increase for « other short-term credits to enterprises ». The reference amount for the outstanding used amount of « straight loans » and for that of « other short-term credits to enterprises » was equal to the average of the outstanding amounts used at the end of July, August and September 1978. The total used outstanding amount of « straight loans » and of « other short-term credits to enterprises » could not exceed the following norms :

— at the end of November 1978 : the total of the reference amount of « straight loans », plus 1 p.c., and the reference amount of « other short-term credits to enterprises », plus 5.5 p.c.;

— at the end of December 1978 : the total of the reference amount of « straight loans », plus 1.5 p.c., and the reference amount of « other short-term credits to enterprises », plus 10 p.c.

For each financial intermediary the norms were at least equal to the total of the reference amount of « straight loans » and the reference amount of « other short-term credits to enterprises », plus Fr. 25 and 50 million at the end of November and the end of December 1978 respectively.

Any overstepping of the above-mentioned norms by the actual total used outstanding amount of « straight loans » and « other short-term credits to enterprises » gave rise to the formation, for one month and for an amount equal to the overstepping of the norm, of a monetary reserve taking the form of a balance on a special non-interest-bearing account at the Bank. Furthermore, the financial intermediaries for which an overstepping of the norm was recorded had to eliminate the excess within the shortest possible time. In addition, they had to furnish supporting evidence to the Bank, which reserved the right to reduce or discontinue their possibilities of recourse to its credit. There have been very few individual cases of overstepping of the limit thus recorded and their total amount has been very small.

Following the easing of conditions on the foreign exchange market and in order to enable short-term credits to enterprises to be more flexibly expanded, the Bank

¹ Loans on account, of fixed amount, to be used for a fixed period of up to one year.

decided on 22nd November to raise from 5.5 to 6 p.c. the increase applied to the reference amount of « other short-term credits to enterprises » for the purpose of calculation of the norm at the end of November.

The interventions which the Bank saw fit to make on the foreign exchange market in the third quarter and in October caused a tightening of the banks' cash position and hence a rise in interest rates on the money market. This helped to keep short-term funds in the Belgian-Luxembourg Economic Union. It would not have taken place, however, or at least would not have been so pronounced, if the financial intermediaries had reduced their portfolios of public short- and long-term paper, thus forcing the Bank to replenish their cash holdings by increasing its advances to the Treasury. That is why the financial intermediaries were asked to keep the total amount of their holdings of Belgian short- and long-term paper issued or guaranteed by the Government, the provinces or the municipalities at a level at least equal to a reference amount determined by the sum of the average daily amount, calculated on the basis of calendar days, of Treasury and Securities Regulation Fund certificates during the period from 25th to 29th September inclusive, and the amount of other short- and long-term public paper on 30th September.

If a financial intermediary's liabilities decreased in comparison with their amount on 30th September 1978, it was allowed to reduce the above-mentioned holdings, provided that it maintained between these holdings and its liabilities a ratio at least equal to the existing ratio between the reference amount of its portfolio of short- and long-term public paper, on the one hand, and its liabilities on 30th September, on the other.

Observance of the requirements thus imposed on the financial intermediaries to maintain a minimum portfolio of short- and long-term public paper was checked on three occasions. The amounts to which these checks applied were as follows :

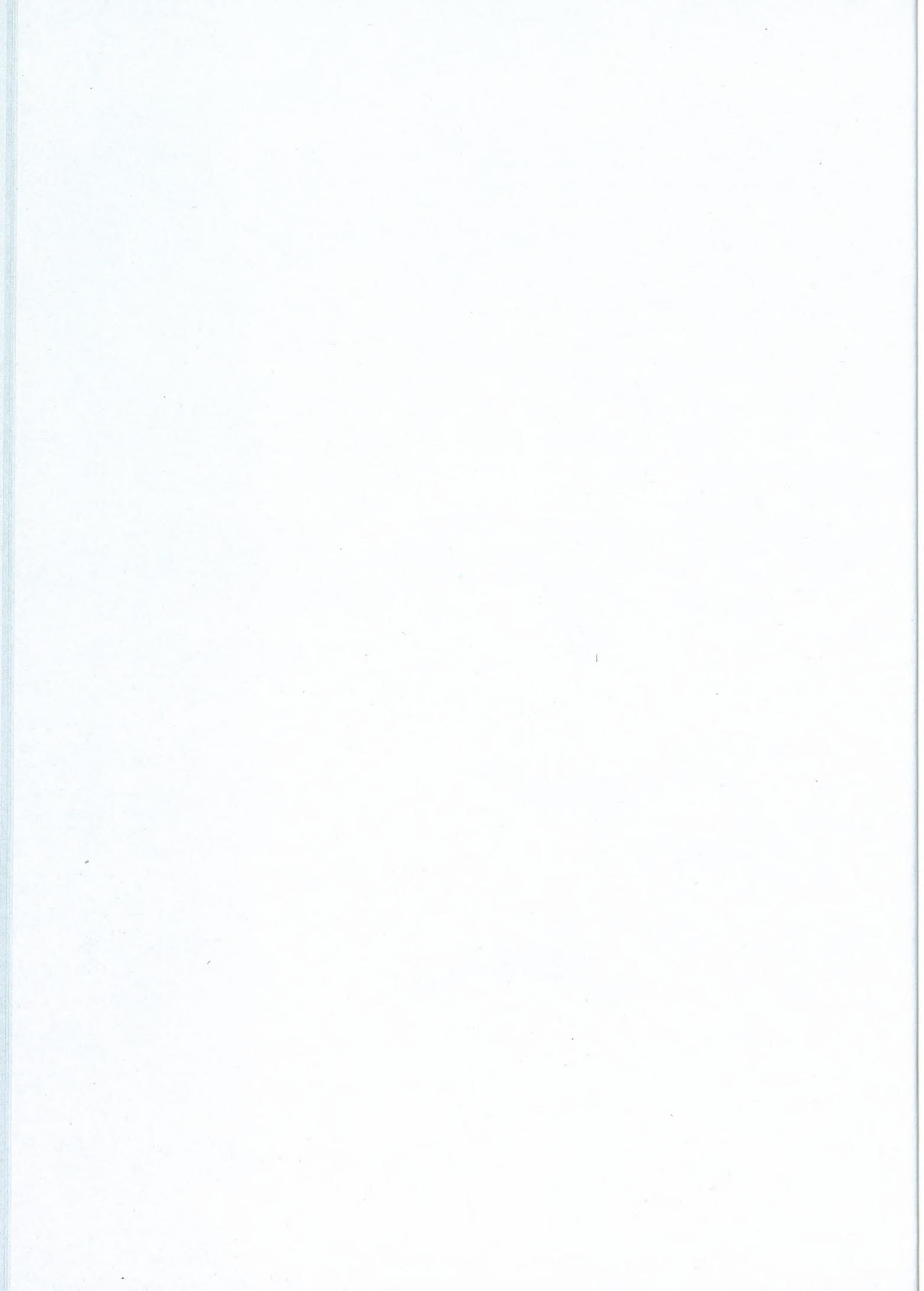
— first check : the sum of the average daily amount of Treasury and Securities Regulation Fund certificates during the period from 30th October to 3rd November inclusive and the amount of other short- and long-term public paper on 31st October;

— second check : the sum of the average daily amount of Treasury and Securities Regulation Fund certificates during the period from 4th to 8th December inclusive and the amount of other short- and long-term public paper on 30th November;

— third check : the sum of the average daily amount of Treasury and Securities Regulation Fund certificates during the period from 22nd to 28th December inclusive and the amount of other short- and long-term public paper on 31st December.

If, when a check was made, it was found that there was a shortfall in an institution's holdings of short- and long-term public paper, the institution had to form with the Bank for one month, in a special non-interest-bearing account, a reserve equal in amount to this shortfall. Only the second and third of the above-mentioned checks revealed one or other of these shortfalls, and their total amount was moreover small.

Through solidarity and because of the Luxembourg economy's interest in checking speculative outflows of short-term funds from the monetary area common to Belgium and Luxembourg, the Luxembourg Bank Control Commissioner on 20th October 1978 adopted similar measures for the Luxembourg banks.



GLOSSARY OF NAMES AS USED IN THIS AND PREVIOUS REPORTS OF THE NATIONAL BANK

Agricultural Fund	Fonds Agricole
Agricultural Investment Fund	Fonds d'investissement agricole
Antwerp Port Administration	Administration du Port d'Anvers
Asian Development Bank	Banque Asiatique de Développement
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
Bank Control Commissioner (Luxembourg)	Commissaire au contrôle des banques (Luxembourg)
Bank for International Settlements	Banque des Règlements Internationaux
Bank of Issue	Banque d'Emission
Banking Commission	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 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 (B.L.E.U.)	Union Economique Belgo-Luxembourgeoise (U.E.B.L.)
Belgian-Luxembourg Foreign Exchange Institute	Institut Belgo-Luxembourgeois du Change
Belgian Municipal Credit Institution	Crédit Communal de Belgique
Belgian National Railways Company (B.N.R.C.)	Société Nationale des Chemins de fer belges (S.N.C.F.B. ou S.N.C.B.)
Belgian Office for Increasing Productivity	Office Belge pour l'Accroissement de la Productivité
Belgian Petroleum Federation	Fédération pétrolière belge
Belgian Surveyors' Association	Association Belge des Experts
Benelux Economic Union	Union Economique Benelux

Benelux Intergovernmental Conference	Conférence intergouvernementale du Benelux
Board of Executive Directors (of I.M.F.)	Conseil d'Administration (du F.M.I.)
Board of Governors (of I.M.F.)	Conseil des Gouverneurs (du F.M.I.)
Board of Management (of E.M.A.)	Comité directeur (de l'A.M.E.)
Brussels Canal and Maritime Installation Company Limited	S.A. du Canal et des Installations Maritimes de Bruxelles
Brussels Entente	Entente de Bruxelles
Brussels Land Surveyors' Union	Union des Géomètres Experts de Bruxelles
Brussels Municipal Water Company	Compagnie Intercommunale Bruxelloise des Eaux
Brussels Universal and International Exhibition	Exposition Universelle et Internationale de Bruxelles
Budgetary Policy Committee (of the European Communities)	Comité de politique budgétaire (des Communautés Européennes)
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 Council of Economy	Conseil Central de l'Economie
Central Office for Mortgage Credit	Office Central de Crédit Hypothécaire
Central Office for Small Savings	Office Central de la Petite Epargne
Central Risks Office	Centrale des Risques
Chamber of Publicity Consultants' Bureaux	Chambre des Agences-Conseils en Publicité
Chamber of Representatives	Chambre des Représentants
Clearing House (at Brussels)	Chambre de Compensation (à Bruxelles)
Code of taxes payable by stamp or in similar ways	Code des taxes assimilées au timbre
Commercial Food Supply Office	Office Commercial du Ravitaillement (O.C.R.A.)
Commission of the European Communities	Commission des Communautés Européennes
Committee for the Study and Promotion of Exports of Small and Medium-sized Enterprises	Commission d'études pour la promotion des exportations de petites et moyennes entreprises
Committee of Control for Electricity	Comité de Contrôle de l'Electricité
Committee of Governors of the Central Banks	Comité des Gouverneurs des banques centrales
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 Coordinating Medium-Term Export Financing, known as « 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 Heads of Government	Conseil des Chefs de Gouvernement
Council of Public Credit Institutions	Conseil des Institutions Publiques de Crédit
Council of Regency	Conseil de Régence

Council of State	Conseil d'Etat
Council of the European Communities	Conseil des Communautés Européennes
Court of Justice	Cour de Justice
Creditexport Association	Association Creditexport
Currency Reform Loan	Emprunt de l'Assainissement monétaire
Department of Applied Economics at the Free University of Brussels	Département d'Economie appliquée de l'Université Libre de Bruxelles (D.U.L.B.E.A.)
Department of National Education	Département de l'Education Nationale
Deposit and Consignment Office	Caisse des Dépôts et Consignations
Direct Taxes Department	Administration des Contributions directes
Directing Committee (of N.B.B.)	Comité de Direction (de la B.N.B.)
General Division for Economics and Financial Affairs of the Commission of the European Communities	Direction générale des Affaires économiques et financières de la Commission des Communautés Européennes
Directorate General of Mines	Direction Générale des Mines
Directorate of the Coal Industry	Directoire de l'Industrie charbonnière
Discount Agency	Comptoir d'Escompte
Discount Committee	Comité d'Escompte
Economic and Social Committee	Comité Economique et Social
Commission (of the European Communities)	Commission (des Communautés Européennes)
Economic Expansion and Regional Reconversion Fund	Fonds d'Expansion Economique et de Reconversion Régionale
Economic Policy Committee (of the European Communities)	Comité de politique économique (des Communautés Européennes)
Economic Programming Office	Bureau de Programmation Economique
Economic Research Centre (of Louvain)	Centre de Recherches Economiques (de Louvain)
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
European Agricultural Guidance and Guarantee Fund (of the European Communities)	Fonds Européen d'Orientation et de Garantie Agricole (des Communautés Européennes)
European Agricultural Markets Organisation	Organisation Européenne des Marchés Agricoles
European Assembly	Assemblée européenne
European Atomic Energy Community (Euratom)	Communauté Européenne de l'Energie Atomique (Euratom)
European Coal and Steel Community (E.C.S.C.)	Communauté Européenne du Charbon et de l'Acier (C.E.C.A.)
European Communities	Communautés Européennes
European Development Fund (of the European Communities) (formerly Fund for the Development of Overseas Countries and Territories)	Fonds Européen de Développement (des Communautés Européennes) (précédemment Fonds de Développement pour les Pays et Territoires d'Outre-mer)
European Economic Community (E.E.C.)	Communauté Economique Européenne (C.E.E.)

European Free Trade Association	Association Européenne de Libre Echange
European Fund	Fonds Européen = Fonds de l'A.M.E.
European Investment Bank	Banque Européenne d'Investissement
European Monetary Agreement (E.M.A.)	Accord Monétaire Européen (A.M.E.)
European Monetary Cooperation Fund	Fonds européen de coopération monétaire
European Nuclear Energy Agency	Agence Européenne pour l'Energie Nucléaire
European Parliamentary Assembly	Assemblée Parlementaire Européenne
European Payments Union (E.P.U.)	Union Européenne de Paiement (U.E.P.)
European Regional Development Fund	Fonds européen de développement régional
European Social Fund (of the European Communities)	Fonds social européen (des Communautés Européennes)
Excise Department (Ministry of Finance)	Service des Accises (Ministère des Finances)
Export Credit	Creditexport
External Trade Fund	Fonds du Commerce Extérieur
Federation of Belgian Enterprises (formerly Federation of Belgian Industries)	Fédération des Entreprises de Belgique (précédem- ment 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 fabri- cations métalliques
Franco-Belgian Nuclear Energy Company of the Ardennes	Société Franco-Belge d'Energie Nucléaire des Ardennes
General Agreement on Tariffs and Trade (G.A.T.T.)	Accord Général sur les Tarifs douaniers et le Com- merce (G.A.T.T.)
General Arrangements to Borrow (I.M.F.)	Accords Généraux d'Emprunt (F.M.I.)
General Budget Statement	Exposé Général du Budget
General Savings and Pensions Fund (G.S.P.F.)	Caisse Générale d'Epargne et de Retraite (C.G.E.R.)
General Statistical Bulletin of the Statistical Office of the European Communities	Bulletin général de Statistiques de l'Office statisti- que des Communautés Européennes
Group of Twenty	Groupe des Vingt
High Authority (of E.C.S.C.)	Haute Autorité (de la C.E.C.A.)
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
Interim Committee (of I.M.F.)	Comité intérimaire (du F.M.I.)
International Bank for Reconstruction and Development (I.B.R.D.)	Banque Internationale pour la Reconstruction et le Développement (B.I.R.D.)
International Energy Agency	Agence internationale de l'énergie
International Development Association	Association Internationale de Développement
International Finance Corporation	Société Financière Internationale

International Lead and Zinc Study Group	Groupe d'Etudes International du Plomb et du Zinc
International Materials Conference	Conférence Internationale des Matières Premières
International Monetary Fund (I.M.F.)	Fonds Monétaire International (F.M.I.)
International Sugar Agreement	Accord International du Sucre
International Sugar Conference	Conférence Internationale des Sucres
International Tin Council	Conseil International de l'Etain
International Wheat Agreement	Accord International du Blé
Joint Committee of Banks and Bank Employees	Commission paritaire des banques
London Metal Exchange	Bourses des Métaux de Londres
Medium-term Economic Policy Committee (of the European Communities)	Comité de politique économique à moyen terme (des Communautés Européennes)
Minister of National Education	Ministre de l'Education Nationale
Ministry of Economic Affairs	Ministère des Affaires Economiques
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 Public Functions	Ministère de la Fonction Publique
Ministry of Public Works, Town Planning Board	Ministère des Travaux Publics, Administration de l'Urbanisme
Ministry of Social Security	Ministère de la Prévoyance Sociale
Monetary Committee (of the European Communities)	Comité Monétaire (des Communautés Européennes)
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 Employment Office (formerly National Employment and Unemployment Office)	Office National de l'Emploi (précédemment Office National du Placement et du Chômage)
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 (formerly National Cheap Dwellings Company)	Société Nationale du Logement (précédemment Société Nationale des Habitations et Logements à Bon Marché)
National Industrial Credit Company (N.I.C.C.)	Société Nationale de Crédit à l'Industrie (S.N.C.I.)
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 Mixed Mines Commission	Commission Nationale Mixte des Mines
National Sickness and Disablement Insurance Institute	Institut National d'Assurance Maladie-Invalidité
National Social Insurance Office	Office National de Sécurité Sociale
National Statistical Institute (N.S.I.)	Institut National de Statistique (I.N.S.)
National Water Distribution Company	Société Nationale des Distributions d'Eau
North Atlantic Treaty Organisation (N.A.T.O.)	Organisation du Traité de l'Atlantique-Nord (O.T.A.N.)
Nuclear Energy Research Centre	Centre d'Etudes de l'Energie Nucléaire
Oil facility (of I.M.F.)	Mécanisme pétrolier (du F.M.I.)
Organisation for Economic Cooperation and Development (O.E.C.D.) [formerly Organisation for European Economic Cooperation (O.E.E.C.)]	Organisation de Coopération et de Développement Economiques (O.C.D.E.) [précédemment Organi- sation Européenne de Coopération Economique (O.E.C.E.)]
Organisation of Petroleum Exporting Countries	Organisation des pays exportateurs de pétrole
Permanent Budget Equalisation Fund	Fonds Permanent d'Egalisation des Budgets
Planning Bureau	Bureau du Plan
Post Administration	Administration des Postes
Post Board	Régie des Postes
Postal Cheque Account (P.C.A.)	Compte de Chèques Postaux (C.C.P.)
Postal Cheque Office (P.C.O.)	Office des Chèques Postaux (O.C.P.)
Public Debt Sinking Fund	Fonds d'Amortissement de la Dette Publique
Public Social Assistance Centres	Centres publics d'aide sociale
Rediscount and Guarantee Institute (R.G.I.)	Institut de Réescompte et de Garantie (I.R.G.)
Regional Policy Committee	Comité de politique régionale
Research Department (of the National Bank of Belgium)	Département des Etudes (de la Banque Nationale de Belgique)
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 of the Grand Duchy of Luxembourg	Caisse d'Epargne du Grand-Duché de Luxembourg
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 Regulation Fund	Fonds des Rentes
Short-term Economic Policy Committee (of the European Communities)	Comité de politique conjoncturelle (des Commu- nautés Européennes)
Social Programming Agreement	Accord de programmation sociale
Solidarity Fund for Financing Early- Retirement Pensions	Fonds de solidarité de financement de la prépension

Special Agricultural Committee (of the European Communities)	Comité Spécial Agricole (des Communautés Européennes)
Special Council of Ministers (of E.C.S.C.)	Comité Spécial des Ministres (de la C.E.C.A.)
Special Municipalities Fund	Fonds spécial des communes
Staff Pensions Fund	Caisse de Pensions du Personnel
Statistical Office of the European Communities	Office statistique des Communautés européennes
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
Trust Fund (of I.M.F.)	Fonds fiduciaire (du F.M.I.)
Union of Non-Ferrous Metal Industries	Union des Industries des Métaux Non Ferreux
United Nations (Organisation of the)	Organisation des Nations Unies
Veterans' Endowment	Dotation des Combattants
Washington Monetary Conference	Conférence monétaire de Washington

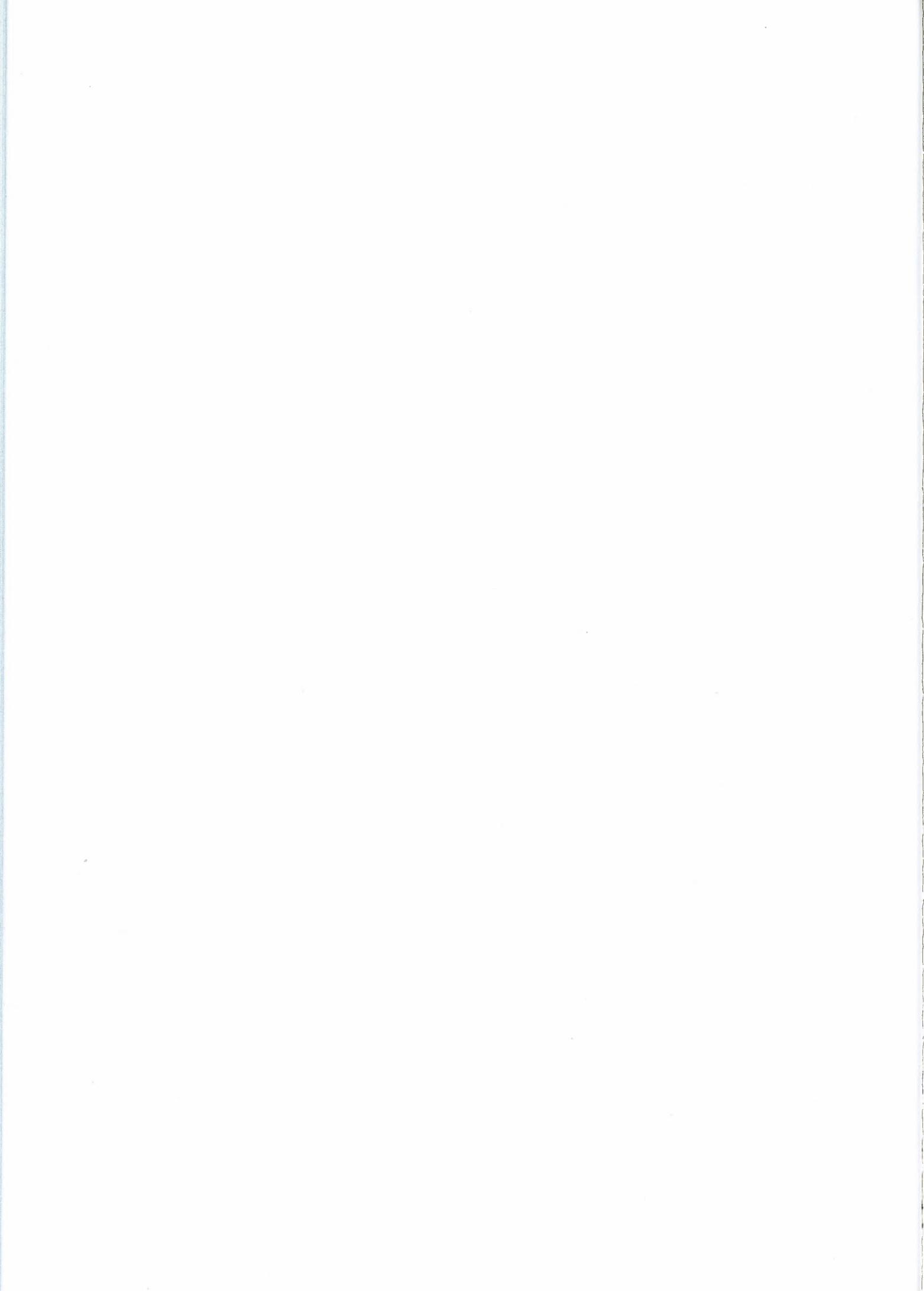
CONTENTS

	Pages
Report presented by the Governor in the name of the Council of Regency	IX
Economic and Financial Trend	1
International economic and financial trend	3
Expenditure and production in the Belgian economy	10
Labour market	22
Incomes	27
Prices	33
Financial surpluses and deficits	37
Transactions of the Belgian-Luxembourg Economic Union with foreign countries	40
Public finances	55
Allocation of the savings and financing of the investments of individuals and enterprises	64
Financial intermediaries	74
Creditor and debtor interest rates	76
Money market and monetary policy	81
Balance Sheet. — Profit and Loss Account — Memorandum Accounts. — Dividend declared for the year 1978	93

	Pages
Annexes	101
1 Balance Sheets compared as at 31st December 1974 to 1978	102
2 Profit and Loss Accounts compared as at 31st December 1974 to 1978	104
3 Miscellaneous information	107
4 Weekly returns published in the <i>Moniteur Belge</i> during 1978	—
5 Statement of the public long-term securities constituting, on 31st December 1978, the Bank's holdings	109
6 Economic and financial statistics	111
7 Monetary policy recommendation of 23rd October 1978	131
Glossary of names as used in this and previous reports of the National Bank	137

Translated from the French by

D.F. Long & Co. (Translations) Ltd. London SE1 6DQ



Printing Works
of the National Bank of Belgium
Boulevard de Berlaimont 56
1000 Brussels

Chief of the Printing Department
J. Van Droogenbroeck
