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REPORT

*on the activities of the year 1986
presented to the General Meeting
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REPORT

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COUNCIL OF REGENCY

A list of Names as used
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International environment

At the beginning of 1986 two important assumptions had been built into the short-term forecasts for the industrialised economies. One was the weakness of the dollar in relation to the strong currencies; the other was that the price of mineral oils and other energy products would remain far below the previous peaks. Both these assumptions proved to be correct. But their confirmation did not have such positive and rapid effects as had been expected. The forecasters had correctly foreseen the dual array of forces to which the world economy would be subjected: the first group of these, operating in the countries and sectors of activity which would derive advantage from the changes, would stimulate world growth; the second group, on the other hand, affecting other countries and sectors, would slow down growth. The predictions had, however, overestimated both the time-lag in the reaction to the adverse developments and the repercussions of the favourable changes.

It is well known that, in the field of economic phenomena, the reactions brought about by two impulses which are identical but opposite in direction differ in their intensity and rapidity. Thus, the two waves of increases in the prices of energy products had, at the time, immediately triggered two upsurges of cost inflation in the industrialised countries: these were attributable to the substantial increase in the value of an important input, but also to the over-speedy adjustments of other prices. On the other hand, the fall, rapid though it was, in the prices of the same products propagated itself much more slowly than their rise, although it took place in a climate which was already characterised by disinflation.

*Price of mineral oils
and world growth*

Growth was not accelerated by the fall in the price of oil. As the slackening of expansion in the industrialised countries had taken place after the oil shock of 1973, this had been regarded as being mainly responsible for the break, whereas the much more obscure role played by the structural changes which have taken place in the world economy since the 1960s was much less clearly recognised. Hence the hope that a sharp drop in the cost of energy products would lead to renewed faster growth in the industrialised countries.

Now the first raising of oil prices had swollen the foreign earnings of the producing countries; most of them had taken advantage of this new purchasing power in order to speed up their development; others had instead saved the additional income earned from foreign countries, and the financial resources which they had built up thanks to their current account surplus, distributed by the « recycling of oil dollars », had served to meet the needs of other developing countries; the industrialised importing countries, for their part, were generally rich enough to bear, with the aid of their reserves, or of their extensive borrowing powers, the external deficit brought about by the oil bill and their policy of stabilisation of domestic income. The behaviour of these three categories of countries had combined to weaken the deflationary effects of the sudden worsening of world trade on world demand.

The recent reversal in this trade occurred in a profoundly changed international environment. Many producing countries had become heavily indebted, as their domestic expenditure had increased proportionally more than the inflow of oil earnings; during the last few years they have had to make efforts to curb their imports; the worsening of international trade to their disadvantage is forcing them to persevere in this effort. The developing non-oil-producing countries, for their part, struggling with a heavy burden of foreign debt, had been obliged to curtail their domestic demand, and the lightening of their energy costs did not relieve them of this necessity. Many Eastern European countries, too, were forced to put their foreign accounts in order by cutting down their purchases abroad. As for the newly industrialised countries, their socio-political structure acts as a brake on the passing-on to the consumer of the growth in their real income, and consequently the volume of their imports increases only slowly. Among the old industrialised countries, the United States was endeavouring to reduce the Federal budget deficit; at the same time it was trying to cut down its foreign deficit, relying on the weakening of the dollar exchange rate to make its domestic products more competitive. Japan, whose prosperity had become heavily dependent on foreign demand, was quite unable to restructure whole sections of its industry within a short space of time : the domestic market, which could only be expanded through a fundamental change in income distribution, could not quickly take the place of the foreign markets and absorb the surpluses of the exporting companies. Other industrialised countries, which had suffered both from inflation and from a current account balance of payments deficit,

had set themselves the tasks of eliminating the former in order to combat the latter; restoration of the balance of their foreign account seemed to them to be the best way of raising the level of employment. Still other countries pursued an exceedingly cautious policy in order to quiet their fears of restimulating the process of demand inflation.

Thus an entire group of countries, under the pressure of renewed, or stronger, constraints, were undertaking or stepping up a readjustment effort, while others, whose comfortable position was further improved, continued to pursue austerity policies. Clearly, national aims were inspired by the same maxims. Cut to the same pattern everywhere, the policies of some of them aimed at reducing the foreign deficit, while others placed the emphasis on maintaining an adequate surplus. National policies created a fabric of world-wide behaviour which lacked internal consistency. But consistency was restored by events, at the cost of a weakening of the growth factors.

Altogether, the expansion in the volume of world imports was smaller than in the previous year, having been only just over 4 p.c. in 1986 — that is, only half the 1984 rate.

Admittedly the expansion phase, albeit accompanied by the persistence of high unemployment, continued for the fourth year in succession in the industrialised member countries of the Organisation for Economic Co-operation and Development as a whole. But the growth in their overall gross domestic product slowed down, from 3 p.c. in 1985 to 2.5 p.c. in 1986. This overall figure does not, of course, mean that the slowing-down took place in all the countries. The decline particularly affected the economies which are large producers of oil or other raw materials — the United Kingdom, Canada, Australia, New Zealand — and the country whose currency had appreciated most, Japan. But very few industrialised countries saw any significant speeding-up of expansion.

*Industrialised
countries*

Nevertheless, with a few exceptions (including the United Kingdom and Canada) the industrialised countries enjoyed an increase in their real income per unit of output. This growth reflects, within the economies, the improvement in the terms of trade of the oil-importing countries. On the one hand, these countries benefited by the fact that the dollar price per barrel, on average over the year, was nearly 40 p.c. lower than in 1985. Except for the United States and some countries

whose monetary unit followed the dollar in its depreciation, these industrialised countries had a second advantage : the raising of the dollar prices of non-energy industrial raw materials and foodstuffs was much smaller than the fall of the U.S. dollar against their currencies. On the other hand, the average export prices applied by the industrialised countries declined much less than those of their purchases abroad. Countries which are large importers of energy products and whose monetary units appreciated naturally combined, in their terms of trade, the advantages of these changes; this applied to, among the major countries, Japan, the Federal Republic of Germany, Italy and France. But the United States itself also gained, because, although the dollar exchange rate declined on average, it rose against the currencies of various newly industrialised countries which are important trading partners for the United States; furthermore, some industrialised countries which are suppliers of the United States agreed to reductions in their selling prices in order to consolidate their penetration of the American market; lastly, the dollar price of imports of mineral oils by the United States fell. Altogether, the member countries of the Organisation for Economic Co-operation and Development as a whole derived, from the change in trading conditions, additional real income equivalent to about 0.8 p.c. of their 1986 gross national product. The counterpart was, of course, a loss for the countries which are exporters of oil or of other raw materials as a whole, and for the countries of Eastern Europe.

The foreign markets of the member countries of the Organisation for Economic Co-operation and Development thus contracted in 1986. Furthermore, the rise in their imports speeded up, partly owing to replenishment of stocks of petroleum products, having amounted to about 8 p.c. Consequently their balance of trade in goods and services, while improving in nominal terms, deteriorated in terms of volume; net exports of goods and services made a negative contribution to the growth in the gross domestic product of these countries as a whole and of each of the main countries in particular.

Economic growth was brought about by domestic demand.

In the United States and Japan the increase in total domestic demand remained of the same order of magnitude as in the previous year, about 3.5 p.c. However, the movement of the various categories of expenditure in these two countries differed. In the former, the increase in public expenditure in real terms slowed down; the greatest

stimulus to activity was provided by a further growth in consumption and investment by households and by replenishment of stocks. In the latter, on the other hand, the public authorities' expenditure, which declined in 1985, increased again, while the rate of expansion of expenditure by individuals remained unchanged. In both countries, investment by companies was less brisk than in 1985 : in the United States this was partly owing to the abandonment of development projects in the oil sector and in Japan it was influenced by the gloomier prospects of the exporting companies, some of whose markets had contracted and whose competitiveness had been impaired by the rise in the exchange rate for the yen.

While public expenditure did not develop in the same way from 1985 to 1986 in the two main industrialised countries, their budget policies were more similar, to judge by the final deficits. In each of the two countries the balance to be financed, 3.4 p.c. of the gross domestic product in the United States and 1.5 p.c. in Japan, was practically unchanged in 1986. Disregarding the cyclical influences on the public authorities' deficit in order to isolate its, as it were, « structural » component, which most reflects budgetary policy decisions, one finds, for the United States, that the expansionary impulse generated by that component during the last few years was still operating in 1986, but much more weakly; in Japan, the restrictive action continued, even though it was less severe. In neither of the two countries was budgetary policy deliberately used as an instrument for reviving domestic demand in 1986.

None of the four major European countries reorientated its budgetary policy in order to make up for the weakening of the impulses which had previously emanated from the United States. In the Federal Republic of Germany the public deficit remained unchanged at 1 p.c. of the gross domestic product; in France and the United Kingdom the percentage rose very slightly to around 3 p.c.; in Italy, where the imbalance was much more pronounced, the percentage fell, although still remaining in the region of 12.5 p.c. Thus the authorities of these European countries relied for their economic growth on the reactions of households and companies to the expected improvement in their real incomes. Actually, in each of them, and particularly in the Federal Republic of Germany, consumption by households speeded up; but investment by companies and house-building did not expand significantly, and even slowed down in some cases.

The growth achieved was not great enough to bring about any significant fall in unemployment in the industrialised countries. Admittedly, employment continued to grow there slightly. But, owing to the movement of the working population, this increase in employment did not give rise to more than a small reduction in the unemployment rate in the United States, where it averaged 7 p.c., and did not prevent this rate from remaining at the high level of 11.8 p.c. in the member countries of the European Economic Community; in Japan, where the rate has always been particularly low, it rose slightly to 2.8 p.c.

While the group of industrialised countries achieved only rather mediocre results in 1986 as regards unemployment, its performance was better in combating inflation. That applied particularly to consumer prices, the rise in which slowed down everywhere; in the Federal Republic of Germany they actually fell. There have been no comparable developments since the 1960s. The extent of the decline of 1986 was not the same everywhere : it was smaller in the countries which have allowed their monetary unit to depreciate, in those where energy products have relatively less weight in the consumption basket, and in those where the domestic components of costs and prices offered more resistance to downward pressures. In any case, the recent development has not generally widened the disparities in the extent of inflation from country to country, which had been considerable at the beginning of the 1980s.

This slackening of the upward movement of consumer prices in the industrialised countries in 1986 was mainly imported from the rest of the world. The deflators of the gross domestic products, which reflect the movement of purely domestic costs, including the gross profit margins of enterprises, in fact either generally rose more than consumer prices or turned down, where they did so, to a much smaller extent.

This greater rigidity of domestic costs explains why the average export prices of the industrialised countries fell less in 1986 than average import prices, as has been emphasised above.

Not all the industrialised countries recorded an improvement in the current account of their balance of payments in 1986. The most striking example is that of the United States : the deterioration of its foreign trade in terms of volume, which persisted despite the substantial depreciation of the dollar, outweighed the beneficial effect of prices. Canada,

a large exporter of agricultural products and raw materials and, among the member countries of the European Economic Community, the United Kingdom, a supplier of oil, and Denmark, owing to the large rise in its domestic expenditure, also witnessed a worsening of their foreign account. As the counterpart to the widening of the deficits of these countries and of the oil-producing countries, the current account surpluses of, above all, Japan and the Federal Republic of Germany increased, as did those of the newly industrialised countries and other European countries, the deficits of France and Italy were replaced by surpluses and the adverse balance of the non-oil-producing low or middle income countries was reduced.

Within the group of industrialised countries, the divergences in the development of the external imbalances were therefore further accentuated, especially between the major economies. Japan's surplus reached 4.2 p.c. of the gross national product and that of the Federal Republic of Germany, 3.6 p.c. The United States' deficit was 3.3 p.c. One reason for this divergence between the United States and Japan is perhaps the fact that Japan's growth rate fell below that of the American economy in 1986; but this explanation does not hold good for Germany. With regard to the variations in the exchange rates for the three countries' monetary units, these were not in a direction capable of explaining the widely divergent changes in their foreign accounts : from February 1985 to December 1986 the weighted average exchange rate for the yen rose by about 33 p.c., despite the slight decline which took place last autumn, that for the German mark rose by 20 p.c., while that for the dollar fell by 27 p.c.

The volume of foreign capital invested on the American market increased further in 1986, even though many predictions and authoritative spokesmen were pessimistic about the future development of the exchange rate for the dollar, the optimistic forecasts about the progress of the American economy were not entirely borne out by events and the differential on the Euro-currency market between interest rates on investments in dollars and those in strong currencies narrowed. Demand for dollars was no doubt stimulated in 1986, as in the previous year, by its depreciation. But this demand was there and helped to slow down the dollar's decline. It may, admittedly, have come from countries whose currency depreciated against the dollar. It is more important to note, furthermore, that part of it emanated in 1986 from monetary authorities, especially those of Japan, desirous of controlling the upward

drift of their currencies ; net purchases of dollars by central banks were as large their previous year's net sales.

Against all the currencies whose market exchange rates are governed by the principles of the European Monetary System, the value of the dollar fell more than is indicated by its weighted average exchange rate. This fall created certain strains within the System : the strongest currencies, in greater demand, strengthened further. Consequently, and also for other reasons more specifically connected with the foreign exchange policy decisions of the new French Government, a general readjustment of the central rates in the European Monetary System took place on 6th April : the central rates for the German mark and the guilder were raised by 3 p.c., those for the Belgian and Luxembourg francs and the Danish crown by 1 p.c., those for the lira and the Irish pound remained unchanged, while that for the French franc was lowered by 3 p.c. The worsening of the current account of the United Kingdom's balance of payments was reflected in the floating of sterling exchange rates : the depreciation of the pound which had begun towards the middle of 1985 continued in 1986, with an interruption from March to May ; from July 1985 to December 1986 the weighted average exchange rate for the pound sterling fell by 18 p.c. Owing to the importance of their country's trade with the United Kingdom, the Irish authorities could not abstain from reacting to this weakening of sterling : in August the central rate for the Irish pound was lowered by 8 p.c. in relation to the other currencies of the European Monetary System. During the last weeks of the year a further weakening of the dollar, the social unrest in France and rumours and statements about a revaluation of the German mark revived latent strains in the foreign exchange relationships between member countries of the European Monetary System. The disturbances were accentuated during the early days of January 1987 ; a further realignment of the central rates was decided upon on the 11th of that month ; the German mark and the guilder were revalued by 3 p.c. and the Belgian and Luxembourg francs by 2 p.c. against the French franc, the Italian lira, the Danish crown and the Irish pound.

The slowing-down of inflation made possible a further lowering of nominal interest rates, which was also desirable in view of the cyclical trend. Almost everywhere monetary policy allowed or assisted the spontaneous downward movement of interest rates. Various countries had fixed the tolerable limits to the growth in the « aggregates », those

stocks of financial assets labelled « money » or « quasi-money », variations in which were, on the one hand, regarded as being controllable by the authorities and, on the other hand, assumed to foreshadow the nominal growth in the national product; where the limits were overstepped, the authorities did not take any severe corrective measures.

The downward movement of short-term interest rates was interrupted, at the beginning of the year, by a brief rise in the European countries whose foreign exchange markets were the scene of the strains which led to the April realignment. The decline was then resumed, but stopped during the last months of the year. Various European countries widened the differential between their short-term interest rates and the rate on investments in German marks, in an endeavour to reduce the pressure indirectly exerted on their foreign exchange markets by the strength of that currency. The American authorities, for their part, were reluctant to bring about any further narrowing of the differential between their own short-term interest rates and the rate on assets in German marks. This was because, despite the suggestions from foreign countries, the Bundesbank, emphasising its concern about the expansion of domestic liquidity, refrained from any further downward adjustment of the level of short-term rates.

Long-term rates declined everywhere, most markedly in the markets where they had remained relatively high in 1985. As in the case of short-term rates, the decline slowed down during the last months of the year. In some countries the authorities themselves were reluctant to assist the movement, because they observed an expansion of the net outflows of long-term funds to foreign markets where the nominal interest rates were still relatively high or into assets denominated in currencies which were expected to appreciate. In many countries investors had also been increasingly reluctant to build up long-term assets at the yield levels obtainable; their wait-and-see attitude had led to a preference for shorter-term investments. And yet real interest rates were particularly high in all countries, at least when calculated in relation to the past rise in consumer prices; but it is possible that in many countries most small investors, already accustomed to being offered high nominal rates, paid more attention to the visible reduction in these than to the less perceptible improvement in real yields and reacted to the former rather than to the latter; furthermore, the requirements of investors regarding nominal long-term rates are influenced by expectations concerning inflation; these may have been based more on the

increase in domestic costs — which is statistically summarised in the deflator of the gross domestic product — rather than on consumer prices alone; the scepticism about the continuation of disinflation was furthermore supported by the fears expressed by various monetary authorities.

Be that as it may, the change in the trend of interest rates during the last few months did not prevent their average level from having been lower in 1986 than in 1985 in the industrialised countries.

Developing countries

This decline in the interest rates of the rich countries and the fall in the exchange rate for the dollar lightened the debt burden of the developing countries. Moreover, those among them which are oil importers benefited by an improvement in their terms of trade and, as these countries continued to make a recovery effort, their current account balance of payments deficit was reduced. The oil-exporting developing countries, on the other hand, were hit by the collapse of oil prices and, as a group, suffered a sharp worsening of their current account balance of payments situation : their combined deficit rose from \$ 7.5 billion in 1985 to around \$ 65 billion in 1986; the losses of export earnings were so great that, in order to offset them by imports, they would have had to exert intolerable pressure on domestic demand. Those of these countries which had the burdens of an enormous debt to bear found it impossible to meet the service of that debt from their own resources. In the particularly difficult case of Mexico, foreign aid was organised in accordance with the proposals put forward the previous year by the American Secretary of the Treasury, known as the « Baker Plan »; the International Monetary Fund, the World Bank, other official organisations and commercial banks of several countries simultaneously granted Mexico credit lines; the extent of these facilities and their utilisation will depend on the movement of that country's export earnings, the aim being to protect the adjustment policy which Mexico had previously undertaken to pursue from certain external shocks. Generally speaking, the difficulties of most of the developing countries continue to be a problem which is not only financial but also economic.

Economic and financial developments in Belgium

Compared with those of other industrialised countries, the Belgian economy can doubtless be said to be exceptionally wide open inter-

nationally. Whether this openness is measured on the basis of the proportion of available resources — total national production plus imports — that is supplied by foreign countries or, alternatively, by the proportion of these available resources that is sold in foreign markets, it is found that this proportion, close to 45 p.c., is much greater than in the case of the other industrialised countries, not only the largest among them but even those with economies of comparable size to that of Belgium. During the 1960s the developments in the structure of its activities induced the Belgian economy to participate, more than others, in the internationalisation process which was at that time speeded up by the creation of the European Common Market.

Its dependence enabled Belgium to derive advantage, on the one hand, from the continuation of growth in the industrialised countries as a whole and, on the other hand, from the fall in the prices of energy products, of which it is a large importer.

The fall in the average import price of goods and services was not only the most spectacular of the developments from 1985 to 1986 but also the driving force behind them. This fall amounted to about 11 p.c., and was thus greater than the average decline in the other industrialised countries; it was also larger than any fall of the same nature by which the country benefited during any of the past thirty years. The extent of this fall is attributable not only to the decline in oil prices but also to the movement of the dollar prices for various raw materials, the slowing-down of inflation in the countries which supply Belgium with manufactured products and the appreciation of the weighted average exchange rate for the Belgian franc. Prices

The result of this fall was that the decline in consumer prices continued and was more pronounced, from year to year, than in Belgium's main trading partners. The average annual rise in these prices decreased in Belgium from 4.9 p.c. in 1985 to 1.3 p.c. in 1986; from year-end to year-end it was only 0.6 p.c. But this overall movement conceals significant individual developments. In the case of the prices of energy products — petroleum products, coal, gas and electricity — the turn-round was particularly marked; they were not burdened, as in some European countries, by a raising of taxes; most of them are fixed on the basis of parameters agreed with the authorities; their average rise had been 5.4 p.c. in 1985; their average fall amounted to 19.6 p.c. in 1986. For the « foodstuffs » group the average rise was only

1.9 p.c., against 3.4 p.c. the previous year; the slackening is due to the decrease in the prices of imported products and of some domestic products. « Other products », despite their large import content, still rose in price by 5.6 p.c., against 5.9 p.c. in 1985, and their upward movement only slowed down during the last months of the year. In the case of services the average price increase was 5.2 p.c., somewhat greater than in 1985, although the movement slowed down in the second half of the year. Thus the rise in the consumer prices of large categories of goods and services — with the exception of energy products and foodstuffs — remained rapid in Belgium, and more pronounced than that for the same categories in the main European countries, except Italy and the United Kingdom.

The falls in frontier prices expressed in Belgian francs were thus not always passed on everywhere or fully. The passing-on process was impeded by rigidities, resistances to downward adjustment — some attributable to control procedures — and by practices restricting price competition. A shock whose impact ought to have slowed down the tendential upward movement of the level of domestic prices — a level which is an important factor determining the subsequent development of costs — was somewhat lessened by domestic factors, or weakened by the time-lags in the occurrence of its effects. To some extent advantage was taken of the fall in frontier prices in order to expand profit margins both in production and in distribution, or even on imports, especially when the sales and activities in question were sheltered from foreign competition. There is nothing new about this retention: it had already been observed in the second half of the 1970s, at the time when the average exchange rate for the Belgian franc had risen. The lack of symmetry which is too generally found in the speed at which rises and falls in import prices are passed on is not advantageous for the development of the Belgian economy's general costs.

These observations are confirmed by a comparison between the rise in the deflator of the gross domestic product and the increase in consumer prices. It has been seen that in most of the oil-importing industrialised countries the former had risen more than the latter, or had continued to rise when the latter were falling. But the difference between the two was greater in Belgium than elsewhere in 1986; furthermore, the increase in the deflator — 4.6 p.c. — exceeded the average — 3.1 p.c. — for the eight main trading partners.

The causes of this rapid rise in Belgian domestic costs can be analysed by measuring the effect of the rises in each of the categories of costs on the prices of total expenditure (domestic expenditure and exports). Labour costs per unit of output appear to have increased by only 0.8 p.c., or less than a quarter of their movement in 1985; indirect taxes net of subsidies appear to have gone up by 2.7 p.c., or about a third of the 1985 percentage; the « other components » of domestic costs appear to have risen by approximately 11 p.c. in 1986, against 7 p.c. in 1985; these « other components », a residual item, consist mainly of the gross operating surplus of companies and the entrepreneurial income of self-employed persons. A comparison between the data for Belgium and those for the eight main industrialised countries indicates that, during the year under review, labour costs per unit of output, expressed in the national currency, increased considerably less in Belgium than elsewhere, while « other » domestic costs appear to have gone up three times as much.

It has already been emphasised that the terms of trade of the industrialised countries improved in 1986. Belgium, too, benefited by this : the fall in its average export prices expressed in the national currency amounted to 6.9 p.c., while its average import prices, as has been seen, went down by 11.1 p.c.

All other things being equal, an improvement in the terms of trade has the effect of increasing the real income per unit of output available for domestic expenditure. In Belgium this gain in income benefited all categories of income in 1986, although the extent of the increases differed fairly considerably.

Incomes of
individuals and
companies

Because of the time-lag introduced in 1983 in the linking of wages to the index of consumer prices, the average of the former for 1986 rose more than that for the latter : at constant prices, compensation per employee — including social charges — appears to have risen by about 1 p.c., whereas it had fallen for each of the preceding five years. Influenced, furthermore, by a slight improvement in the volume of employment, total gross compensation appears to have increased by about 1.6 p.c. The rise in other primary incomes of individuals was greater; at constant prices the entrepreneurial income of self-employed persons appears to have gone up by about 9 p.c., against 1.5 p.c. in 1985; except in the case of farmers and horticulturists, it benefited both by the widening of unit margins and by the increase in sales; income

from property appears to have risen by 6.4 p.c. in real terms against 5.1 p.c. in 1985 : yield rates deflated by the index of consumer prices went up and, furthermore, Belgian investors received new interest on the substantial stock of long-term financial assets built up by them in 1985. The total increase in the primary income of individuals in 1986, 3.7 p.c. in real terms, was the greatest in the last ten years. The balance available for consumption and saving appears to have increased slightly more still, the net levies made by the public authorities on these primary incomes having increased less than the incomes themselves.

The advantages derived from the improvement in the terms of trade were greater still for companies. The fall in the prices of imported products substantially reduced cost prices, not only through its mechanical effect but also, indirectly, by helping to slow down the rise in labour costs. From the sales angle, the reductions only applied to average export prices ; average domestic selling prices appeared to have risen a little further. Consequently, profit margins appear to have been widened by about 16 p.c. and, as sales appear to have expanded again, the gross operating surplus of companies appears to have risen by 20 p.c., against 14 p.c. in 1985. The part of this surplus which companies have to use in order to pay net incomes from property to other sectors decreased in 1986 : the net indebtedness of companies has declined during the last few years and interest rates have fallen more recently. Furthermore, the rise in the direct taxes paid by companies was three times smaller than that in their gross operating surplus after payment of incomes on property. The direct fiscal levy was thus lightened for companies during the year under review. This change was partly fortuitous : companies benefited by larger net refunds in 1986 when the taxes on previous years were assessed ; but it was also the result of the granting to companies of various tax reliefs, including the scheme applied to co-ordination centres. On balance, the net disposable income of companies, that is, their gross profits placed to reserve (hence including depreciation), appears to have increased by about 34 p.c.

Expenditure and
domestic product

The rise in the purchasing power of individuals led to a recovery of private consumption ; in volume this appears to have increased by 3 p.c. against 1.5 p.c. in 1985. Purchases of goods, including motor cars, rose more than those of services.

Gross capital formation by enterprises was a still more dynamic component of demand. Stocks, which had been run down during the

preceding three years, appear to have been built up again as a result not only of the growth in production but also of the accumulation of reserves of energy products by users taking advantage of the low prices. But the main expansion was in gross fixed capital formation by companies — up by 7.6 p.c. against 3.9 p.c. in 1985 — and in that by one-man businesses, which increased; this investment was stepped up in services and above all in manufacturing industry, where the largely utilised production capacities needed to be expanded; it was reduced, on the other hand, in the electricity sector, where the programme of installation of nuclear power stations was nearing completion.

Expenditure by individuals on new dwellings appears to have risen by a little over 4 p.c.; the rise in the year under review again appears to have been solely attributable to the building of dwellings other than social housing: the restrictions imposed on the National Housing Company by the regional supervisory authorities again obliged it appreciably to reduce the activity of the approved companies.

For the sixth year in succession the public authorities appear to have cut down their own capital investment. They also saved on their current purchases of goods and services; on the other hand, their direct expenses in respect of wages, salaries and pensions, the chief component of public consumption, appear to have risen slightly, as in 1985.

Altogether the growth in domestic expenditure in 1986 appears to have amounted to 3 p.c., a rate of expansion which had not been reached for seven years.

As during the last few years, the growth in the volume of sales of goods and services to foreign countries, stimulated by the internationalisation of markets, exceeded that in domestic expenditure, having amounted to 4.4 p.c. Belgium appears to have increased the volume of its exports more than the other industrialised countries; but the lead gained by the Belgian economy is partly attributable to fortuitous factors which contributed, as will be seen further on, to the increase in the activity and exports of the oil refineries.

Altogether, final expenditure appears to have increased by 3.7 p.c., compared with 1.6 p.c. in 1985. As the speeding-up from year to year is due to the growth in items of domestic expenditure which have a large import content (purchases of cars, formation of stocks of petro-

leum products and capital investment by enterprises), the increase in the volume of imports of goods and services (6.2 p.c.) was more than proportional to that in final expenditure and greatly exceeded that in 1985 (1.9 p.c.). As in the other industrialised countries, it also exceeded that in the volume of exports of goods and services. In Belgium the net balance of international transactions in goods and services in terms of volume therefore made a negative contribution to the rise in the gross domestic product, which was generally also the case in the other industrialised countries. It was the growth in domestic expenditure — and above all the greater dynamism than elsewhere of investment expenditure by enterprises — that fortunately sustained the rate of growth of the Belgian economy : having quickened from 1.5 p.c. the previous year to 2.1 p.c. in 1986, this rate appears to have come close to those observed in the European Economic Community as a whole, the United States and Japan.

Production and
employment

The expansion in final expenditure led to a further increase in the overall level of activity, but this increase was far from general.

The industries which produce certain categories of consumer goods benefited by a general strengthening of demand. Production of capital goods other than telecommunications equipment did not recover, while that in the metallurgical industry declined further. The expansion of activity in the chemical and paper industries continued, but once again at a slower rate. In the coal mines, which were hampered in particular by the industrial disputes in the second quarter, the tonnages mined were further reduced. Electricity generation was adversely affected by the maintenance work carried out at several nuclear power stations, and activity in the gas industry by the use of other sources of industrial energy, which had become less expensive. The greatest increase in the volume of production from year to year was achieved by the oil refineries : this sector's activity, down in 1985 owing to the temporary stoppage of a refinery, benefited in 1986 both by the resumption of operation by that unit and by the very pronounced recovery in consumption of finished petroleum products, as well as by the transfer to a Belgian producer of orders placed with a refinery in the Netherlands which was temporarily out of action. The revival in building activity was due to the demand for buildings from companies and the further increase in expenditure on housing by individuals. In agriculture, output of both vegetable and animal products remained at the rather low level recorded in 1985. Since the beginning of the 1980s the value added by

— both market and non-market — services has not risen as fast as previously; this trend continued in 1986.

Services nevertheless again created jobs, but less than in 1985, partly owing to the reform measures adopted by the public transport undertakings. In industry, on the other hand, where productivity gains again exceeded the increase in the value added, there were further redundancies, but the number of jobs lost was smaller than in 1985. The opposite was the case in the building sector, where employment increased for the first time since 1979. In all sectors combined, the number of jobs created from June 1985 to June 1986 — namely 25,000 — was slightly below the 1985 figure, despite the faster growth. It is possible that, as time went on, legislative measures adopted in order to promote recruitment became less stimulating; furthermore, enterprises waited to see what obligations they might have to assume under the new collective agreements.

According to the records, the working population decreased by a few thousand units. The population of working age declined for the first time, and furthermore the overall activity rate underwent little change. This stability is, however, more apparent than real; it is the result of the application of regulations: older unemployed persons are being gradually eliminated from the working population in accordance with the government measures adopted at the end of 1984. Thus, officially recorded unemployment fell by 40,000 units from June 1984 to June 1985 and by only 28,000 units during the subsequent twelve months; but, if this formal elimination of older unemployed persons is disregarded, the direction of the change is reversed: the actual reduction in unemployment was greater during the second period — 7,000 units — than during the first — 2,000 units. Unemployment recorded in accordance with the definition given in the regulations and measured on the basis of seasonally adjusted data reached 12.7 p.c. of the working population at the end of 1985 and 12.3 p.c. in November 1986; on the latter date the male unemployment rate was 8.5 p.c. and the female rate 17.7 p.c. To a certain extent the decline in 1986 is due to the fact that a larger number of unemployed persons — particularly women — accepted a part-time job.

Consolidation of the accounts of the public authorities — the national government, communities and regions, local authorities, autonomous funds and organisations and social security institutions — Public finance

makes it possible to gain a fairly accurate idea of the development of their financial situation. If, on the other hand, the analysis is made at the level of the sub-sectors, certain difficulties are encountered owing to the shifts which take place in the allocations to the budgets of these sub-sectors and also owing to the debudgetisation practices, as well as because of the extent of intrasectoral transfers. Thus, the Treasury's net financial deficit, as shown in its monthly statements, amounted in 1986 to Fr. 556 billion, against Fr. 571 billion in 1985, while the deficit of the public authorities as a whole — the balance of all kinds of revenue and expenditure — worsened : it can be estimated at Fr. 573 billion for 1986, against Fr. 554 billion the previous year. Even so, that deficit became smaller in relation to the gross national product, the proportion represented by it having declined to 11.2 p.c., or 0.4 p.c. less than the previous year; measured by this ratio, this balance has in fact been declining without interruption since the first years of the decade, during which it averaged 15.3 p.c.

Total fiscal and parafiscal revenue appears to have increased by 3.5 p.c. The elasticity of revenue to the flows of income and expenditure on which it is based was slight; for at the same time the primary gross incomes, expressed in nominal terms, of individuals and companies rose by about 8 p.c. and expenditure on private consumption by around 4.5 p.c. There are various reasons for this weak reaction; personal income tax was lightened by the law of 1st August 1985, which provided in particular for a 2 p.c. indexation of tax scales; revenue from social security contributions, while on the one hand expanded thanks to the very large increase in the entrepreneurial income of self-employed persons, was on the other hand not increased in most cases by the payment of a 2 p.c. indexation tranche of earned incomes, because the rise in consumer prices did not reach that percentage. Compensation of employees, on which a progressive tax is levied, increased less than income from property, part of which is subject to a flat-rate tax, and also less than the entrepreneurial income of self-employed persons; the tax on the income of companies, in which the greatest proportional increase took place, is only slightly progressive and, furthermore, the taxation of companies was reduced as a result of various measures which have already been mentioned.

Non-fiscal and non-parafiscal revenue decreased, partly because the decline in interest rates reduced the revenue which the Treasury obtains from its share in the proceeds of the operations of the Bank.

Altogether, the public authorities appear to have had 3 p.c. of additional revenue at their disposal in 1986.

Total public expenditure appears to have increased at very nearly the same rate. However, the change from year to year differed widely between the various categories of expenditure.

The increase in « net expenditure on goods and services » was much better controlled than that of the total : it amounted to only 1.6 p.c. ; the slackening of the price rise relieved the public authorities of the need to apply the indexation clauses for wages ; the national government and the local authorities also took measures to curb the growth both in their labour costs and in their current purchases of goods and services. « Current transfers to individuals » increased slightly more than the total : the measures of the so-called « Val-Duchesse Plan » which are designed to keep the growth in the various health insurance costs in check produced only limited effects in 1986. « Unemployment and job-creation » expenditure rose further, by 4.6 p.c. : while the number of persons receiving benefit fell, the public authorities' programmes for giving work to the unemployed and also the third labour circuit were extended. The contraction of 1.4 p.c. in « subsidies to enterprises » was mainly accounted for by public enterprises, which previous measures adopted by the Government and those of the « Val-Duchesse » programme induced to reform their operating accounts. Two categories of current expenditure increased further, by about 10 p.c. : « current transfers to the rest of the world », the amount of which is small, reflected the increase in the part — raised from 1 to 1.4 p.c. — of the value added tax which is transferred to the European Economic Community ; the other, obviously much more important than the former, is the interest burden borne by the public authorities ; new domestic borrowing in fact took place to a greater extent, in the year under review, in the form of short-term borrowings the charges on which were payable during the same year, and, furthermore, the average interest rate on the outstanding amount of the debts did not decline to the same extent as current interest rates, because it is still burdened by the high interest rates on old loans ; conversely, with regard to its liabilities in foreign currencies, the Treasury took action to renew a substantial proportion of its debt on less expensive terms by taking advantage of the new instruments introduced on foreign money and capital markets. The interest charges borne by the Treasury were reduced by Fr. 6 billion under the provisions of a protocol agreement

concluded in August between the Government and the institutional investors; the latter agreed to subscribe each year, up till 1990, for regularisation loans with a term of eight years; those of these loans which are issued before 1990 will bear interest, during the first four years, at a rate slightly below the market rate; the amount of these loans is determined by the Protocol and corresponds, in theory, to the difference between the interest charge which the Treasury would have to pay on a group of old loans and that which it would have owed if these loans had been issued at the rate of 8 p.c.; henceforth the government revenue derived from subscription for these regularisation loans will be counterbalanced by the interest which they finance, via a third-party fund; these interest charges, which are no longer a burden on the government budgets, are recorded here, in accordance with the national accounting standards, in the expenditure of the public authorities as a whole; they do in fact affect their financial deficit.

Altogether, the rise in the public authorities' current expenditure — 4.3 p.c. — exceeded that in revenue. The difference was met by restriction of capital expenditure, which was reduced by 7.7 p.c.; further cuts were made in the local authorities' investments, and the assistance given to the mixed investment companies was reduced to modest amounts.

Surplus of
individuals and
companies

The overall financial accounts of the Belgian economy show, in 1986, a domestic financial surplus: from the ex post macroeconomic angle, the public authorities' financial deficit was more than covered by the financial surpluses recorded by individuals and companies.

The propensity to save of individuals appears to have increased, altogether representing 16.3 p.c. of disposable income. Although individuals devoted a slightly larger proportion of these savings to financing investment in fixed assets, the sector's purely financial net savings — that is, its net financing capacity — also appears to have risen to over 10 p.c. of disposable income, or just under 8 p.c. of the gross national product. The absolute value of this net supply of funds from individuals can be estimated at around Fr. 400 billion.

Although the public authorities made less capital transfers to them, companies were able, in 1986, thanks to the expansion in their gross income, to incur heavier investment expenditure and build up more financial savings; their financing capacity appears to have represented

5.4 p.c. of the gross national product, against 4.1 p.c. in 1985, or, in absolute terms, an amount that can be estimated at nearly Fr. 275 billion.

The surplus of the financial savings of individuals and companies over the public authorities' net financing requirements — 2.1 p.c. of the gross national product — was lent to the rest of the world; it constituted the overall counterpart to the Belgian economy's current account balance of payments surplus in 1986.

For the Belgian-Luxembourg Economic Union as a whole, the current account balance of payments surplus — on a transactions basis — appears to have amounted to about Fr. 150 billion, against Fr. 40 billion the previous year. The increase was chiefly due to transactions in goods. The explanations of the movements of these transactions given earlier in connection with Belgium naturally apply to the two countries combined; the effects of the considerable improvement in the terms of trade outweighed those of the deterioration in the volume of trade.

Balance of
payments of the
Belgian-Luxembourg
Economic Union

The net income derived from transactions in services appears to have been greater than in 1985. Expenditure on tourism by residents increased, while that of foreigners declined: there was therefore an increase in the constantly adverse balance of this category of services. On the other hand, the net inflows produced by the operating expenditure of the international institutions situated within the territory of Belgium and the Grand Duchy of Luxembourg increased further. Since the end of the 1970s, income and expenditure in respect of direct and portfolio investment had left a deficit; in 1986 they resulted in a slight surplus; the decline of short-term interest rates abroad and the weakening of the exchange rate for the dollar reduced the interest burden on the public authorities' foreign currency debt.

The substantial net expenditure which results each year from transfer payments rose, mainly owing to the increase in the payments made to the European Economic Community.

There was a further expansion in private capital transactions. They gave rise during the year under review to substantial net outflows, the amount of which appears to have been around Fr. 185 billion for the year as a whole. The movement in 1986 represented a reversal of trend;

since the beginning of the decade the adverse balance of private capital movements had, if anything, been tending to decrease; its movement had been in line with the gradual recovery of the current account of the balance of payments; in 1986, on the other hand, the considerable improvement in the latter was accompanied by a considerable expansion in net outflows of funds, which exceeded the substantial current account surplus.

Net purchases of foreign securities by residents other than banks, which had amounted to Fr. 118 billion in 1985, rose to about Fr. 170 billion for the year 1986 as a whole. Investments in foreign shares reached an exceptionally high figure: for the first ten months these purchases totalled Fr. 20 billion. The change in the behaviour of investors was sudden; the reasons for it are to be found in the hope of further rises in share prices, in the expansion of the activity of unit trusts within the territory of the Economic Union, in an improvement in the information given to the public, in a growing concern for confidentiality, in the disappearance at the end of 1985 of the tax reliefs provided by the so-called « De Clercq » section of Royal Decree n° 15 of 9th March 1982 or in a more general desire for diversification of risks. The trend was not, incidentally, peculiar to savers in the Economic Union: purchases of Belgian shares by foreigners, amounting to Fr. 24 billion during the first ten months of 1986, also reached an unusually high level. The development of the flows of purchases of bonds was less well-balanced; residents had already bought Fr. 94 billion's worth of bonds denominated in foreign currencies during the first ten months of the year; in the portfolios of bonds — denominated in francs and in foreign currencies — built up by Belgian individuals and enterprises during this period, the proportion represented by foreign currency securities rose in 1986 to about 40 p.c. of the total. Admittedly the factors which induced residents to invest in foreign bonds during the preceding years were still exerting their effects in 1986; this has been discussed in connection with purchases of foreign shares; mention must also be made of the attraction exerted by the more complex types of securities than traditional bonds, of which a greater supply became available on the « Euro »-markets, and, furthermore, of the substantial issues seeking lenders on the international markets. But the inclination of Belgian and Luxembourg investors in favour of long-term assets in foreign currencies was perhaps also due to specific causes in 1986. The first is the direction given to long-term

interest rates on the domestic primary market; the downward movement of rates on issue during the second quarter was facilitated by a substantial formation of financial savings the extent of which — estimated earlier — easily sufficed to meet the requirements of borrowers. This lowering would perhaps have been appropriate in a closed economy; but, taking place as it did in a market which operates in a system of communicating vessels with foreign centres, this reduction, which brought long-term interest rates, net of the withholding tax on income from financial assets, down to a level lower than that on investments in strong currencies of the European Monetary System, was bound to lead to outflows of funds; furthermore, the low level, in comparison with yields abroad, of Belgian interest rates gave no hope of further falls — on the contrary. The second reason for the aversion to the bonds of the Belgian public authorities was the rumour that the contractual status of the public authorities' debts to residents might be changed by a unilateral decision of the authorities; these alarms furthermore played a part in stimulating demand for bonds, although denominated in francs, offered for subscription by foreign borrowers, including international institutions; investments of this type made by residents in 1986 amounted to about Fr. 30 billion.

There was hardly any increase, on the other hand, in purchases by non-residents of bonds denominated in francs issued by Belgian or Luxembourg public authorities or institutions: these amounted to Fr. 12 billion for the first ten months of 1986 against Fr. 10 billion for the whole of the previous year.

Direct investments abroad by resident companies expanded: for the first ten months of 1986 they reached a net amount of Fr. 38 billion, against Fr. 14 billion for the whole of the previous year. This increase was due not so much to greater participation by enterprises in the Economic Union in the equity of foreign companies but rather to large loans made by them to affiliated foreign companies, whereas in 1985 these financial transactions had resulted in net inflows of funds to resident enterprises; the movement of interest rate differentials perhaps contributed to this turn-round, too. The last-mentioned factor furthermore had the same effects on the flow of loans between foreign companies and their parent establishments in the Economic Union: this flow, too, reversed, as foreign companies demanded repayment of advances which they had previously made. Direct investments by non-residents in the form of acquisitions of holdings of the capital of

enterprises resident in the Economic Union declined, partly because the new capital endowments provided by parent companies to subsidiary banking establishments situated in the Grand Duchy were smaller during the year under review.

For the year as a whole the deficit left by transactions in securities was therefore worsened by the adverse balance of direct investments and, furthermore, by various other movements of funds, including some long-term movements. Moreover, in 1986, the public sector other than the Treasury made net repayments — of about Fr. 30 billion — on its foreign liabilities in foreign currencies and in francs.

The overall deficit resulting from all these long-term capital transactions with foreign countries could not be met by net inflows of short-term capital. For the year as a whole these heterogeneous flows, some in foreign currencies and others in francs, decided upon for various reasons in some cases by foreigners and in other cases by residents, appear to have been more or less in balance.

Movements of short-term funds took place in fits and starts during the first half of the year. The strains on the foreign exchange markets prior to the taking of the decision, on 6th April, to realign the central rates within the European Monetary System first of all caused outflows of nearly Fr. 90 billion; these were due to forward sales of francs by non-residents and to withdrawals made by them from their balances in francs, although the short-term interest rate differential in favour of the franc in relation to the strong European currencies had widened to 4 or 5 p.c.; at the same time residents were, on the other hand, reducing their net assets in foreign currencies, both spot and forward, by making forward sales of certain currencies the exchange rates for which were enhanced by a substantial forward premium. After the realignment, the flow of short-term transactions in francs undertaken by non-residents reversed and inflows were recorded, despite a very marked reduction in the interest rate differential; these inflows counterbalanced the previous outflows; residents, for their part, further reduced their spot and forward assets in foreign currencies. The movements were much less spectacular during the second half of the year; the increase in assets in francs held by non-residents continued slowly, until the last weeks; at the same time, however, foreign enterprises were obtaining credits in francs from resident banks or placing private bond loans with them; this recourse to the Belgian and Luxembourg financial intermediaries

was prompted by the level of interest rates on the domestic market; residents' spot and forward assets in foreign currencies fluctuated within fairly narrow limits. Over the year as a whole, non-residents' combined net and forward assets in francs decreased by about Fr. 40 billion, but the reduction in residents' net assets in foreign currencies led to an inflow of about Fr. 110 billion. The increase in the Belgian and Luxembourg banks' own assets in foreign currencies represented a net outflow of about Fr. 60 billion, against Fr. 42 billion in 1985; those of these assets which they hold as the counterpart to capital endowments received from parent companies, or to provisions formed against a possible default by foreign debtors, did not increase any more than in 1985, but there was a rise in the net assets in ECUs held by the banks, which had decreased in 1985. Lastly, the stock of commercial claims resulting from deferred payment in respect of foreign trade transactions increased further; the accumulation of these claims speeded up during the last weeks of the year, as speculation on changes in central rates led to a lengthening of payment periods.

Since, for the year as a whole, the adverse balance in respect of all movements of funds at all terms was greater than the current surplus, the overall shortfall on the foreign exchange market resulted in a net demand for foreign currencies, which had to be met either by drawings on the Bank's foreign exchange reserves or by further borrowing by the Treasury in foreign currencies.

The Bank, whose net foreign assets had been very heavily drawn upon throughout the period of large foreign deficits, preferred to protect its reserves in 1986. They were actually strengthened by Fr. 7.2 billion; a large proportion of this increase came from the proceeds of the Bank's foreign investments.

The amounts required in order to meet the deficit on the foreign exchange markets were therefore provided by loans contracted by the Treasury abroad, the amount of which — Fr. 72 billion — was higher than in 1985 — Fr. 34 billion; it still fell far short of the considerable mass of net assets — claims minus liabilities — which other Belgian and Luxembourg economic agents accumulated during the year under review; this could not be otherwise, since the Belgian economy — and a fortiori the Economic Union — provided the rest of the world in 1986 with a net loan corresponding to the surplus on the current account of its balance of payments.

Foreign exchange
rates

Despite the expansion of net private capital exports, the premium on foreign currencies on the free foreign exchange market continued to fluctuate within fairly narrow limits : 0.5 to 1.5 p.c. This was because, on the one hand, the supply on the free market was fed again in 1986 by those foreign currency earnings on current transactions which, under the regulations, may be sold on either of the two markets : this applies to income from direct and portfolio investment abroad; on the other hand, the Bank's purchases of foreign currencies on the free market were much smaller than in the previous year.

The decline in the exchange rates for the dollar and the pound sterling, and also for those currencies which move in line with them, led to a rise in the weighted average exchange rate for the Belgian franc of about 8 p.c. since December 1985; in comparison with March 1985, when the dollar began to fall, the appreciation of the Belgian franc amounted to about 14 p.c.

Domestic money
and capital markets

The development of purchases of foreign currency securities by Belgian investors is not the reflection of any general preference for long-term financial assets; on the contrary : total demand by individuals and enterprises for such assets weakened in 1986; there was therefore an appreciable reduction in the formation of assets in Belgian francs at over one year : for the first ten months of 1986 it amounted to only Fr. 142 billion, a much lower figure than that for the corresponding period of 1985 (Fr. 252 billion), during which the course of interest rates and the expected decline in rates had stimulated medium- and long-term investment. Investors became hesitant in the second quarter of 1986, after the fall in interest rates, and continued to be so until the end of the year. This aversion of lenders to long-term investments in Belgian francs led to a reduction in the supply of new bonds; the Government increased the interval between its issues and, contrary to its normal practice, refrained from issuing any loan in the second quarter; the success of such a loan appeared all the more uncertain because the yields offered by bonds quoted on the stock exchange had recovered; a raising of the rate on a new loan would have been the signal for a general movement of domestic creditor and debtor rates. The continuous issues of notes on tap by which the financial intermediaries constantly raise funds suffered even more from the reluctance of investors. These did not, however, display any aversion to the bonds in francs issued, in Belgium and the Grand Duchy, by private enterprises

and especially by international institutions; the reasons for this exception were mentioned earlier.

The financial savings provided on the domestic market were directed, after the first quarter, towards short-term investments, pending a recovery of long-term rates; over the first ten months of 1986, assets at up to one year, in francs, held by enterprises and individuals increased by Fr. 273 billion, against Fr. 170 billion for the same period of the previous year. The fragmentary data available for the last two months indicate that this preference for short-term investments continued, to the advantage of time deposits and deposits on deposit and savings books. Cash holdings in the form of bank-notes also increased, which had not been the case since 1983.

Altogether — that is, account being taken of all assets formed in foreign currencies, the increase in which in 1986 has already been emphasised — the mass of financial assets formed by individuals and companies during that year expanded appreciably: while it had been about Fr. 570 billion for the first ten months of 1985, it amounted to around Fr. 790 billion for the same period of the year under review. This rise is primarily attributable to the increase, pointed out earlier, in the financial surplus of each of the two sectors in question, the financial savings of which, directly or indirectly, met the deficit of the Belgian public authorities and that of the rest of the world. A second explanatory factor is the larger growth, in 1986, in the amount of intrasectoral claims and debts: households and companies had recourse, to a greater extent than in the previous year, to external resources which were provided directly or indirectly by other households or other companies. The recourse of the latter to the funds provided by the « rest of the world » sector decreased, as has already been stated.

Recourse by households to credit had fallen to a very low level during the last five years; it had increased again in 1985, and this movement became more marked in 1986. During the first ten months, households borrowed Fr. 74 billion, against Fr. 39 billion during the same period of 1985; the increase in disposable incomes, which was particularly pronounced for some socio-professional categories, and the decline in mortgage interest rates to a lower level than had been known since the 1970s, must have induced households to decide to borrow in order to buy or build dwellings. At the same time, the speeding-up of purchases of consumer goods, especially cars, resulted in greater recourse to hire-purchase credit.

Whereas, for companies as a whole, profits placed to reserve grew more than their capital expenditure, enterprises resorted to external financing to a greater extent than in 1985 : Fr. 117 billion for the first ten months, against Fr. 78 billion for the same period of 1985 ; this indicates that they — or some of them — accumulated a particularly large stock of financial assets. Their increased demand for funds was directed towards the domestic markets ; there was a slight increase in public share issues ; there was a much greater expansion in recourse to investment credits ; the rates for these credits had fallen and some of the tax provisions concerning co-ordination centres still further reduced the interest burden. There was a smaller rise in the utilisation of credit at shorter terms than in the previous year, during which expectations of a decline in long-term interest rates had induced enterprises to resort temporarily to bridging loans ; these were consolidated after the fall in interest rates.

The methods whereby the public authorities financed their deficit changed in just the opposite direction. These had much greater recourse to the money market than in 1985 and relied much less on the other sections of the domestic financial market. The reasons for this change were explained earlier ; it should be added that, like the public, the financial intermediaries as a whole displayed a preference for short-term investments : compared with 1985 their portfolios of securities at over one year increased less than the funds which they raised at medium term ; as, furthermore, they raised more short-term funds than in 1985, the financial intermediaries were able not only to meet the increased requirements of enterprises and households but also to expand their portfolio of certificates by Fr. 263 billion, compared with Fr. 76 billion in 1985. They refrained — save in very exceptional cases — from resorting to rediscounting at the Bank in order to finance their holdings of public paper, because the differential between the yield on the latter and the effective cost of rediscounting remained negative.

At the end of the year the financial intermediaries' balance sheets bore witness to the very high level of their liquidity ; their holdings of public paper at up to one year and the available margins on their rediscount facilities at the Bank, combined, had further increased, reaching Fr. 1,266 billion.

Interest rates

The interest rates on Treasury certificates had already begun to move downwards at the beginning of the second quarter of 1984 and

the movement had continued, with a few interruptions. The most pronounced recovery took place right at the end of 1985 : the preliminaries to the April realignment created severe strains on the foreign exchange markets of several member countries of the European Monetary System ; in the Belgian-Luxembourg Economic Union, too, the foreign exchange market was disturbed by short-term capital outflows, the extent of which has been mentioned. The rate on three-month Treasury certificates, raised from 8.60 to 9.75 p.c. in December 1985, remained unchanged throughout the first quarter. After the Ootmarsum decisions, the reversal of the flow of short-term funds allowed the downward movement of interest rates to be resumed and speeded up ; that on three-month paper was lowered in June to 7.35 p.c., the lowest level recorded since September 1978. During the second half of the year the Bank, in agreement with the Treasury, kept this guiding interest rate unchanged. The differentials in favour of assets in Belgian francs in comparison with the yields on comparable investments in various foreign currencies had generally decreased. This narrowing of the differential was accentuated during the last months of the year, when, on the Euro-currency markets, the rates on investments in, among other currencies, dollars and guilders began to rise again slowly ; at the same time the interest rates for other European currencies — sterling, the French franc and the Danish crown — were rising, widening the differential between these interest rates and the Belgian rates. Observing that large outflows of long-term capital were taking place, the Bank thought it desirable, as far as possible, to prevent this movement from spreading to short-term funds. In December it raised the rate on three-month certificates slightly to 7.40 p.c. It reacted more strongly after the flurry in the markets of the European Monetary System brought about by the combination of a number of factors ; the Bank and the Treasury decided to reduce the yield differentials between short-term investments in francs and in other currencies, which had widened : on 6th January 1987 the rates for the various certificates at very short and short terms were raised ; for three-month paper the increase was 0.50 p.c.

The movements of the interest rates on certificates, which serve as a guide for the money market, influenced, outside that market, the rates in large sections of the short-term market. The effect of this interaction was added to by the changes in the Bank's rates for discounts and advances ; in line with the decisions of principle of May 1985, the Bank, throughout 1986, attuned the development of its interest rate scale to

the movement of the rate on three-month certificates, while making sure that the former remained slightly above the latter; the last change was made on 8th January 1987, when the discount rate, which had been 8 p.c. since the end of May 1986, was raised to 8.5 p.c.

If the raising of the most sensitive rates during the early months of 1986 is disregarded, the basic trend of the yields on the various categories of financial assets on the domestic money and capital markets was downwards.

The creditor rates on deposits at short terms declined; those which react most directly to money market signals were reduced, according to their terms, by 1 to 2.75 p.c., during the first nine months of the year, while the so-called « standard » rates on small deposits declined by 0.75 to 1 p.c. at the same time. The basic rate on deposits on savings books, subject to regulation by the supervisory authorities since the end of 1983, adjusted downwards several times during the year, was thus brought down from 5.25 p.c. at the end of 1985 to 4 p.c. a year later. As these regulations did not apply to the fixing of the fidelity bonus which is added to the afore-mentioned rate in order to determine the remuneration on balances held in savings books for at least a year, some intermediaries, taking advantage of the fact that the interest earned on balances in savings books is exempt, up to a certain amount, from the withholding tax on income from financial assets, granted substantial fidelity bonuses; if, under the pressure of competition, this practice were to become general, the net remuneration on a substantial body of balances held on savings books for at least a year would be higher than that on notes with the same term; the lowering of the interest rates on the latter, already impeded in 1985, would have become even more difficult; in order to remedy this stalemate, which was due to a tax discrimination, the authorities extended the regulations to cover the fixing of fidelity and growth bonuses; the Royal Decree of 13th March limited the amount of these bonuses to 35 p.c. of the basic rate. Thus freed, the hierarchy of rates paid on notes was quickly lowered; the rates on the five-year notes of the public credit institutions, which compete most with the public authorities' bond issues, fell from 10 p.c. at the end of 1985 to 7 p.c. at the end of April; they remained unchanged thereafter until the beginning of 1987.

At this level, the rates for notes were far below those offered by the Government on its loans in the second half of the year. The reasons

why the Government had to allow an improvement of these yields during the year have been explained earlier. These yields had at first been very markedly reduced : whereas the last government loan of 1985 still brought the individual investor 9.87 p.c., that which was issued by the Telegraphs and Telephones Board at the end of April offered only 7.38 p.c. for the individual, or 5.56 p.c. after deduction of the withholding tax on income from financial assets ; the terms of the September and December government loans were then improved somewhat : the yield offered by the latter to the individual investor was fixed at 7.97 p.c. for the six-year term, or 6.02 p.c. after deduction of tax at source. The public credit institutions, which had raised less and less funds by the issue of notes, were allowed to increase the remuneration on these, in turn : on 8th January 1987 these rates, except for the one-year rate, were raised according to a progressive scale, which put the yield on the five-year note at 7.60 p.c., or 5.70 p.c. after deduction of tax.

The debtor rates charged by the financial intermediaries for their various forms of credit generally followed the downward movement of creditor rates. The level of the « guiding » rates for short-term bank lending was lowered, depending on the categories, by 1.5 to 2.25 p.c. ; at the beginning of 1987, however, these rates were raised again by 0.50 to 1 p.c. owing to the hardening of money market rates. The decrease in the cost of the investment credits and mortgage loans granted by the public credit institutions amounted to 2.5 p.c. ; this reduction had to be partly cancelled out at the beginning of 1987, after the readjustment of the rates on notes ; this led to an increase of 0.50 and 0.25 p.c., respectively, on these two types of credit.

Monetary policy

Interest rates remained the Bank's most important policy instrument ; the circumstances did not warrant the use of restrictive measures aimed at reducing the creation of liquidity or counteracting the activation of existing liquidity.

Production in fact adapted itself flexibly to the recovery in expenditure, and the faster increase in the volume of imports was due to the fact that demand was directed more towards categories of products with a high import content. The rise, in value, of the current account balance

of payments surplus is attributable to the change in the terms of trade and is not in any way due to demand inflation of foreign origin. The already very large mass represented by the savings of households and enterprises expanded further; demand for credit from these sectors, although reviving, remained, in terms of constant francs, at levels well below those of the last years of the preceding decade. Even the public authorities' deficit, substantial though it remained, was much smaller than the financial surpluses of residents.

Should different circumstances ever call for action to restrict credit, the Bank does in fact possess the means with which it was provided by the law of 28th December 1973 and which it has already employed on several occasions.

However, the gradual integration of national financial markets in an overall transnational entity reduces the impact of quantitative restrictive measures applied in a single country unless its monetary policy can be co-ordinated with others. Furthermore, within the national money and capital markets themselves, the so-called « disintermediation movement », which has not gone far up to the present in Belgium, might make further progress. It has the effect of making financing circuits less transparent, and diverts part of the flow of credit which the financial intermediaries used to distribute via channels in which its volume can be regulated by the central bank.

These disintermediation practices are already more widespread in some countries which, unlike Belgium, had centred their policies on the control of monetary aggregates. In these countries, too, there have been more and more innovations, devising new forms of financial assets which are good substitutes for the monetary instrument whose functions they fulfil. In a number of these countries, and in others, where, furthermore, investors preferred, in 1986, temporarily to hold more short-term assets while awaiting the respective movements of long-term and short-term interest rates, a number of aggregates adopted as targets of monetary policy were swollen by a mass of inactive assets. All these changes, some of which have been incorporated in the functional organisation of the markets while others were only accidental, have had the ultimate effect of loosening the link between this or that aggregate and the national product in monetary terms; the greater fluctuations in the income velocity of money or liquidity, which it was hoped to be able to calculate and counterbalance, have become less foreseeable. The

control exercised via these aggregates has lost some of its effectiveness. Those central banks which had adopted the method of fixing and announcing intermediate targets in advance have not, however, abandoned this practice; for, on the basis of the theory of rational expectations, this practice was also designed to change the pro-inflationary lines of behaviour of economic agents, by reassuring them as to the monetary authorities' determination to adhere strictly to the line adopted; confidence having thus been established, abandonment of the announcement of quantitative targets would revive inflationary expectations. But the authorities of several countries, ostensibly continuing to apply the method, have actually reverted to an interest rate policy; the variations in interest rates are no longer the inevitable result of the demand for funds encountering, on the market, a supply the increase in which is subject to limitation in its most flexible part; the present policies of these countries have conferred again on interest rates the value of an aim in itself; their changes are kept under control; with regard to the development of the mass of liquidity, an important datum whose changes no monetary authority fails to supervise, it has once more become a beacon, but also an instrument for influencing interest rates. Furthermore, the monetary authorities of many countries appear to have directed their policies more according to, on the one hand, the rate of growth and, on the other hand, the exchange rate and the country's external balance, without therefore ceasing to pay attention to current and expected domestic price movements.

The return to a policy of explicit interest rate control, the final aims of which have again become more diverse, is reviving old disputes about the objectives to be attained. In the United States, the desire to sustain growth and to reduce the current account balance of payments deficit by allowing the dollar exchange rate to slide, on the one hand, made a lowering of interest rates desirable; on the other hand, the fear of adversely affecting capital movements so strongly as to cause the dollar to make a hard landing and also revive inflation were counter-indications.

In the case of Belgium the developments which have been described show that these latent conflicts, which make policy choices difficult and decisions always controversial, are present here, too. If the aim was to lighten the burdens of the public debt, to counteract the effect of other factors on building activity, to encourage enterprises to invest in capital goods rather than financial assets, to support security prices on the

secondary market, then it was appropriate to maintain and even accelerate, as much as possible, the externally induced decline in interest rates; if, on the other hand, the aim was to keep the exchange rate for the Belgian franc firm, in order to enable the imported disinflation to have the greatest possible effect on domestic prices and costs, and if it was therefore important to prevent capital outflows from disturbing the foreign exchange market, the desirable course was to fix interest rates at a level at which they would shelter the domestic money and capital markets from the high nominal rates offered for investments in other, weak, foreign currencies and from the yields on assets in currencies whose repeated revaluations gave promise of further appreciations; if the last-mentioned objectives were adopted, the various interest rate differentials, adjusted in order to allow for the relative strength and weakness of the currencies, became, for monetary policy, a constraint which prevented it from being shaped, entirely independently, on the basis of domestic factors alone.

No deity marks out the course of the complex processes which, in the medium term, determine the consequences of a decision made with a view to the attainment of an immediate aim; no deity establishes an order of priorities from which it is impossible to deviate. Urged, on the one hand, by those who were most keenly aware of the domestic aims, cautioned, on the other hand, by the recommendations from international organisations and circles, and itself accurately recording a host of data and indications, the Bank imposed on short-term interest rates the movements which have been described above, endeavouring to lower their level as far as the external situation allowed. More mindful than others, owing to its functions, of the requirements of external equilibrium and knowing that, throughout the greater part of the 1980s, the rise in import prices, accentuated by the depreciation of the franc until mid-1983, was the main factor pushing up domestic prices and costs, it endeavoured to keep the exchange rate for the franc stable. It tried to protect it from the tremors during the last weeks of the year. The results which it achieved perhaps prevented last-moment developments from undermining the arguments which the Government was able to put forward on the occasion of the realignment of the European Monetary System on 11th January 1987; the central rate for the Belgian franc was raised by 1.54 p.c. against the ECU.

The policy pursued by central banks with regard to the movements of funds to or from foreign countries cannot, however, be said to be

all-powerful. For its influence mainly affects the yields on short-term funds; furthermore and above all, other factors may be so powerful that a raising of interest rates cannot counterbalance them. This is particularly the case in periods of large-scale movements of funds induced by the conviction of speculators that they can make a quick capital gain. When the expectations about exchange rates become consistent and general, the raising of interest rates which is still possible is too little: it undeniably imposes a certain penalty on any one who withdraws his funds from the domestic market; it may make the most hesitant even more so; but it cannot halt the headlong movement. Therefore, the most effective way in which central banks can prevent the development of an overall imbalance of capital transactions is by a long-term preventive, rather than curative, line of action. This course of action is more difficult for the central bank to pursue in small, very open economies; because, when this type of imbalance appears, the central bank has to obtain acceptance, in the national economy, of the principle that interest rate adjustments can no longer be decided upon mainly on the basis of domestic data but have to be attuned to the policies of dominant countries. While it is true that the financial markets of the largest countries have also participated in the internationalisation process during the last few decades, this phenomenon has been less generally felt there than in the smallest countries. Jealous of their sovereignty, the authorities of the large countries have been able to retain a greater degree of independence in their policy decisions, which they have continued to make mainly in the light of domestic aims. Consequently, despite repeated consultations, it has not been possible to achieve sufficient co-ordination of national policies and their results may have lacked consistency.

For some decades there has been a tendency for economies, even the largest, to become more open. In all of them, activities which previously enjoyed a de facto geographical protection are exposed to foreign competition. Variations in exchange rates therefore pose new problems and can no longer be disregarded. The history of the vicissitudes of the dollar and of their repercussions on the domestic economy during the last few years provides practical lessons which might perhaps justify revisions of economic theory. The system of floating exchange rates which the United States adopted in 1973 was supposed, theoretically, to create greater scope for an independent domestic economic policy. A disturbance of the external balance would be automatically

corrected by exchange rate movements : the readjustments of demand for and supply of foreign currencies would take place through the interplay of price elasticities, which were assumed to be considerable and in the right direction ; these readjustments, while tending to restore external equilibrium, would at the same time narrow the range of fluctuation of exchange rates.

The demonstrations of the theory have sometimes failed to incorporate the idea of a reaction time-lag and have often argued in terms of current transactions, demand elasticities also being assumed to have a regulating effect on the supply of and demand for foreign currencies resulting from capital movements. Events showed that the adoption of a system of floating exchange rates did not place a country in the same position as a closed economy, that the rise in exchange rates did not put a stop to capital inflows as long as investors expected the movement to continue, that this rise caused a worsening of the balance of current transactions and hence also impaired domestic activity and, lastly, that the readjustments necessary for correcting these disturbances were slow, painful and furthermore unreliable in their effects. The reversal of the trajectory of the dollar rate which started in February 1985 did not prevent a further worsening of the current account balance of payments deficit. The deterioration had been taking place for too long to be explained by the classical J-curve describing the movement of the amount of this deficit during the periods following a lowering of the exchange rate for a currency. It seems to be attributable, rather, to the resistances encountered by the readjustments ; foreign suppliers and domestic importers, both benefiting by previous changes, try to hold on to their new market shares ; consumer habits have changed and enterprises have found new suppliers of capital goods : a number of activities, faced with keener competition, have withered away, revealing a previously painless structural weakening ; sheltered sectors, some with relatively low productivity, have developed. In other countries, in danger of losing in the United States the market shares which they had won because of the dear dollar, the national authorities have not been able to abstain from adopting measures to support the competitiveness of their exporters, even while advocating the correction of the dual imbalance of the American economy, namely that of the Federal finances and that of the current account of the balance of payments. Thus, interconnections not contemplated in the theory have established a logical link between all the phases, ranging from the triggering of large-scale capital

movements — partly brought about by psychological factors — to the worsening of conditions of activity in unsheltered sectors of the American economy. The dynamics of the process were visible; the extent of the deterioration was not inevitable. Left to itself, the movement perhaps contributed to growth in other industrialised countries, both old and new, and to the expansion of financial activities. But, nowadays, the courses taken by readjustment are ambiguous; in any case, it seems probable that if the entire weight of the efforts and reversals is borne by American economic policy alone, the remedy, whether via demand deflation or via a return to protectionism, is liable to affect other economies, both rich and poor, to upset the financial markets and, ultimately, to have a disruptive effect on world economic conditions. And yet, owing to the interdependence of the economies, an economic revival can only be brought about through forms of co-operation which entail the pursuit of common aims and go much further than the co-ordination of monetary policies.

This need for consistency is even greater in the case of the countries of the European Economic Community, if they really set themselves the ambitious aim of creating by 1992 — as they have decided to in principle — a great common market within which goods, persons, services and capital can move absolutely freely. The first stages of the implementation of this plan would consist of the abolition of the last obstacles to capital movements. The planned programme for this dismantling of existing restrictions would be carried out in two phases. The first has already been the subject of a directive, adopted by the Council in November 1986, which is to enter into force in February 1987; it concerns long-term commercial credits and the purchase and admission of medium- and long-term securities in domestic financial markets. The second phase will relate to financial loans and movements of short-term funds; the implementation of this second phase will entail the abolition of discriminatory regulations and of the dual foreign exchange market, which is to be replaced by a single free market in which the fixing of exchange rates will be governed by the principles of the European Monetary System.

The merging, into a great European financial centre, of the various national money and capital markets is of course completely in line with the integration of the twelve economies and it seems logical first of all to accelerate a freeing which, both *de facto* and *de jure*, is already far advanced. The fact remains, however, that the integration of the finan-

cial markets is not based on an institutional and political organisation which operates under the same conditions as, for instance, the American market. In the latter there is, on the one hand, a single and identical monetary unit, a body which regulates the decisions of twelve central banks which all operate under the same legislation, a standardised financial asset with the same debtor and expressed in the same currency, spread and negotiable throughout the territory, namely the Federal debt, a single fundamental budget policy, and the same set of built-in stabilisers and allocations whereby incomes from prosperous areas are transferred to the backward areas; in short, there is in the American economy a problem of readjustment, or financing, of regional balances of payments. In Europe, on the other hand, there is the much more complex problem of twelve national balances of payments, each of which influences the domestic economy and determines the fate of a specific monetary unit managed by monetary authorities who are responsible to their government and, beyond the government, to the representatives of the nation; twelve separate economies with different structures, institutions and behaviour; twelve populations attached to their own regions and languages and hoping for local development and employment.

In this entity, which history has fragmented by establishing political, social and economic partitions, the creation of a large area in which capital will move freely, if it is to be anything other than a formal project, peppered with safeguarding clauses which deprive it of its entire substance, will only be a useful step towards integration if the decision to undertake it generates a unanimous determination to create the conditions for its success. It is easy to state the principle of convergence of economic policies; it is more difficult to give it concrete meaning and to agree on the dosage which, collectively and individually, the member countries must accept for the various factors in their choices of aims: costs, prices, employment, growth, foreign exchange rate, approximation of levels of development and real incomes. It is even more difficult to create a framework which will ensure that capital movements will be conducive to equilibrium and not disruptive, and that the flows will be from the areas rich in savings to the areas whose development needs to be speeded up. Taking timely action to remedy fundamental imbalances which give rise to shifts of funds, and also preventing fortuitous movements, is not, of course, the responsibility of monetary policies alone, but these policies, too, must contribute to them. If they do not agree on their aims, if they bring about, or allow, shocks from

inside or outside the area, if they allow situations to develop the correction of which upsets the foreign exchange relationships between the Member States, creating new difficulties rather than removing them, the system of free capital movements which has encouraged these developments and facilitated their repercussions will be denounced by the countries which feel they have been their victims.

If the strong and the weaker countries were to fail to achieve a sufficient degree of consensus, to agree on the choice of common aims, to adopt, jointly, measures to reduce the causes of disequilibrating movements of funds, to bring into play mechanisms which counteract the effects of the inflows and outflows which nevertheless take place, and if, furthermore, the efforts made to maintain stability and make corrective adjustments were not fairly distributed — in short, if the freeing of capital movements were to lead to disorders and to create, in some countries, the frustrating feeling of not being helped — the plan would be in danger of failing. What would then have to be placed on record would not be a step towards unification but, on the contrary, before long, a disintegration.

Prospects of the Belgian economy in an evolving environment

All forecasts nowadays are subject to a greater degree of uncertainty. During the quarter century which followed World War II, the margin of error of predictions had remained fairly narrow : despite the ups and downs, developments followed a fairly steady trend line and their substrate changed only slowly. For the last fifteen years, on the other hand, the world economy has been in a state of increasingly rapid change. The environment has been fundamentally transformed for the United States and Europe. The upward and downward movements of powerful parameters, such as the price of oil and the exchange rates for major currencies, have led to unprecedented shocks, and imbalances have become greater. Even the remedies which have been adopted — in some cases in order to support employment, sometimes in order to restore external equilibrium and often in order to combat inflation — have not only had positive results but have also created other instabilities at world level.

During this period a large number of developing or semi-industrialised countries have incurred extraordinarily large debts. The service of

these debts, the burden of which is not lightened by the substantial incomes from private foreign assets, has greatly restricted the freedom of action of these countries; among these, the producers of raw materials suffer additionally from the slackening of growth in the industrialised countries and the food producers are adversely affected by the tendencies of rich countries towards agricultural protectionism.

Japan, whose industry has made enormous productivity advances, has expanded at a rate with which the old countries have been unable to keep pace and has deprived the latter of part of the world market for manufactured products. The permanent financial deficit of Japanese companies — due to their dynamism — and that of the public authorities have been easily met, with a margin to spare, by an exceptionally large volume of household savings. A structural demand deflation situation has made it easy for Japan to maintain its current account balance of payments surplus.

The industries of the newly industrialised countries, foreign enclaves in economies with a low level of domestic purchasing power, have provided these with an efficient superstructure which sells its products in foreign markets, partly won from the old countries.

Since the middle of the 1970s, the growth of the United States has, on average, continued at a faster rate than that of Europe; but the competitiveness of the American economy abroad has been handicapped by a relative weakening of its general productivity compared with that of its Asiatic and even European competitors. American growth has been based solely on the expansion of domestic demand; this has been sustained by the very low saving propensity of American households; their financial surplus, even when combined with that of companies, has not been sufficient to meet the deficit incurred by the public authorities during the last five years, although this deficit has represented only 3 to 3.5 p.c. of the gross national product. The American authorities' declared intention of remedying the dual imbalance of the economy and the deterioration of its competitiveness is a factor adding to the uncertainty about the world economic trend. A net reduction in public expenditure would in fact weaken domestic demand in the United States, all other things remaining equal, and more particularly if there were no further decline in the saving propensity of households; a slackening of growth would accentuate the repercussions, hitherto delayed, of the past depreciation of the dollar. Consequently, a reduction

in the United States' foreign deficit, which has to be financed with funds from abroad, would have economic repercussions on demand in the rest of the world, owing to the absolute amount reached by this deficit, even though it represents only 3.3 p.c. of the American national product.

On this assumption, growth in Europe would become even more dependent on domestic demand than in 1986. That demand was stimulated in 1986 by the movement of the terms of trade, but it is not certain that this improvement can continue; average oil prices might stop falling, or even rise. A further depreciation of the dollar, while perhaps advantageous for European terms of trade, would be detrimental to the volume of net exports. Furthermore, Europeans have expressed a desire to see a return to greater stability of foreign exchange rates; should it not prove possible to achieve a sufficiently wide degree of international agreement to reduce the present instability, the Europeans could not bring this about alone unless their central banks decided, in implementation of concerted policies, to increase their interventions on the foreign exchange market in a co-ordinated manner. But Europe may fear the reactions of Japan and the countries of South-East Asia to a tightening of the American market, which might induce these countries not to stimulate their domestic markets but to design their foreign exchange policies in such a way as to increase their penetration of the Europeans' markets. Now that the prospects for the immediate future are becoming blurred, the strongest countries of the European Economic Community are also hesitating to restimulate their domestic demand; at the same time, the weaker countries in the Community are not abandoning their aim of reducing their handicaps in relation to the former. Thus the European Economic Community — a still fragmented economic area, hampered by internal disparities which are further accentuated by a number of external shocks — is impeded in its progress towards a unification which would make its future less dependent.

In this Community the Belgian economy has suffered some setbacks since the mid-1970s. This has not been in its economic growth, which has continued at the same rate as in other countries, thanks to the faster expansion of its industrial production and its public services. But in the field of employment, capital investment, exports and the productivity of services Belgium has fallen behind, and the ground lost has not been made up despite the progress achieved in 1986; its industries have, however, gained a lead in productivity over their competitors in the Community.

Nevertheless, the Belgian economy has become still more prosperous, even though this progress has been unevenly distributed; it is still one of the countries where the disposable income of households is highest in relation to the national income; on the other hand, the income which is available to the public authorities, after transfer expenditure, in order to meet their own expenditure on consumption and investment remains low, despite the fact that the tax burden is among the heaviest. The proportion of the national product which is devoted to consumption as a whole, both private and public, is higher in Belgium than in most other countries. It is also true that the Belgian economy derived particularly great advantage from the movement of world prices last year, as has been repeatedly emphasised; the improvement in its terms of trade was great enough to enable it to increase the value of its current account surplus in relation to the rest of the world without having to transfer a larger volume of goods and services abroad : thus, it was able to devote the proceeds of its increased activity to its own consumption and investment.

It has been stressed that the conditions governing the formation of domestic prices make the Belgian economy's competitive position vulnerable. It has been shown that the rapid adjustment of domestic prices to imported rises and their slower reaction to downward movements of foreign origin strengthened the upward trend of consumer prices; if energy prices are excluded from their index, these prices had risen, on average, by 4 p.c. during the years 1978 to 1980 and by 7.3 p.c. during the years 1981 to 1983; in 1986 they rose by a further 4.4 p.c., despite the small increase in labour costs per unit of output, the improvement in the exchange rate for the franc and the fall in energy costs. This rigidity may be attributable to the expansion of the tertiary sector, which was faster in Belgium, but with a slower increase in productivity than in the other countries of the Community as a whole; the internal terms of trade of services in relation to manufacturing industry improved more than elsewhere. In any case, the movement of consumer prices tends in the long run, as everywhere else, to push up the compensation of employees, whether or not this is index-linked; the legal constraints which have curbed the rise in wages and salaries for five years will be less severe from 1987 onwards. If there were to be cumulative increases in profit margins, prices and wages, the costs of activities exposed to competition would immediately be affected by new burdens, either directly through the raising of the selling prices of the

other sectors or indirectly through the rise in nominal wages. Enterprises exposed to competition would not always be able to pass on these burdens to their own selling prices, particularly if the quality of the products offered were to put their sellers in a price-taker position. The competitiveness of these enterprises would decline so sharply as to endanger the continuance of their activities. That danger has been more and more clearly recognised by the countries which might be exposed to it and the stability of foreign exchange rates has assumed greater importance among their economic policy aims.

The outflows, on the initiative of residents, of private capital of all kinds which are recorded in the balance of payments of the Economic Union have increased steadily since the beginning of the 1970s; at that time, inflows of foreign capital approximately counterbalanced capital exports, but the former remained almost unchanged throughout the subsequent period. All other things being equal, these net outflows restrict supply on the domestic money and capital markets; they are a factor tending to push up interest rates, the effects of which cannot be counteracted unless the central bank is willing to offer, at unchanged interest rates, the funds which it is obliged to create, to offset the outflows, for the money market or directly in favour of the Treasury; but such an accommodating policy releases the brake which the flights of capital had themselves applied by pushing interest rates up. It has been seen that in 1986 net outflows of funds not only absorbed the entire current account surplus but also necessitated further borrowing abroad by the public authorities. Thus, overall, the net debt to the rest of the world of these authorities and of some public bodies, together with the financial intermediaries, remained greater than the value, at market exchange rates, of the Bank's net foreign assets. Admittedly the debt in question is only an increasingly small fraction of the value of the external assets which residents — households and enterprises other than financial intermediaries — hold in the form of deposits and of portfolios of shares and bonds. But the table showing the foreign financial balance brings out the extent of the debts much more strikingly than the amount of the assets: the latter are much less clearly apparent than the former, which are commented upon in financial and stock exchange circles in Belgium and abroad and which attract the attention of the international institutions. There is no doubt that the national economy must pay the charges on these debts, while the repatriation of the earnings on private assets which are managed in complete

freedom is more uncertain. The fact nevertheless remains that the foreign balance of the national economy cannot be assessed without looking at the assets as well as the liabilities and without taking into account the inflow of financial incomes at the same time as the outflow of the corresponding expenditure; otherwise the assessments are liable to be on the pessimistic side.

With regard to the public finances, the level of expenditure and hence that of revenue are still a matter of great concern, owing to the repercussions of both on the allocation of factors, on the general productivity of the economy, on the distribution of income and on costs, and because of the divergent reactions which they cause in the behaviour of economic agents, who are much more sensitive to the inconvenience of taxation than to the advantages which they derive, directly or indirectly, from the expenditure. There is no doubt that the effort to reduce the public authorities' deficit must be continued. At the moment its size is felt to be a weakness of the national economy and hence throws doubt on the soundness of the currency; its persistence in future, under different economic conditions, would again make it a disruptive factor; in the meantime it would be self-perpetuating owing to the excessive extent of the debt burdens. An improvement of the public finances is a matter for the political authorities; the Government intends to put a stop to the budgetary drift. But the task of ministers is not made any easier when commentators confine themselves to presenting the public authorities' indebtedness as a net debt of the population, whereas in fact there can never be liabilities without claims: the public authorities' liabilities have as their counterpart claims on the State held by residents, either directly or indirectly, via the financial intermediaries; it has already been said that the amount of the public debt to foreign countries is actually not as great as that of residents' total claims on foreign countries. Comments have also been made on the interest charges on the public debt, disregarding the fact that they have a counterpoise: the flow of interest paid provides an income from property to those who, either directly or otherwise, are the public authorities' final creditors. It has furthermore been said that tax burdens are a drain on the economy's incomes, whereas the economy benefits by the respending of these funds and, furthermore, by the expenditure corresponding to the deficit. These excessively alarmist presentations of the facts are not helpful to the authorities' efforts, because they may create excessive anxiety which is liable to shake confidence in the currency.

For decades the phenomenon of the extension of the role of the State has been fairly general in European countries. It has particularly been a characteristic of Belgium; furthermore, in order to gain a more precise idea of the extent of the public authorities' expenditure as a proportion of the national product, one should add to that expenditure the substantial subsidies which Belgian governments, like those of other countries, have become accustomed to granting in a discriminatory manner, in the form of tax reliefs, and which are referred to by the term « tax expenditure ». Most fortunately, the upward business trend during the last four years and, more recently, the decline in interest rates and the fall in import prices have greatly reinforced the effects of the economy measures decided upon since 1982 : the relative extent of the public authorities' financial deficit has decreased. The process of rehabilitation is to be speeded up, from 1987 onwards, when the programme of measures, the principle of which was adopted by the Government in May 1986, starts to be implemented. The actual impact which the proposed economies will have on total expenditure is still difficult to assess. Firstly, the extent of the cuts which will actually be made in the course of 1987 can as yet only be surmised; the same is true, a fortiori, of the extent of the losses of revenue which the public authorities will suffer owing to the repercussions of the measures taken. Secondly, it is not known what will be the reactions of the households whose available income is, directly or indirectly, affected by the curtailment of public expenditure; for they may reduce their propensity to financial saving in order to stabilise the level of their consumption and investment; the changes of behaviour in this respect will probably differ according to the extent of their disposable income. The restrictive effect on domestic demand will ultimately depend on the changes in the overall propensity to form financial savings. It is therefore not certain that the abundance of the latter, which had facilitated the meeting of the public authorities' deficit, will continue.

With regard to how the other determinants of demand may be expected to develop, all the uncertainties which have been mentioned make the assumptions on which estimates of their changes can be based extremely precarious. The improvement in the terms of trade will probably not continue at the same rate, but that which took place last year might still produce delayed effects. If the slowing-down of inflation were to slacken, or even stop, an increase in the real income of households — an important factor for the development of con-

sumption — could only take place if there were a larger rise in nominal incomes; this itself could in fact bring about an upward movement of consumer prices which would cancel it out. The initial figures concerning industrial investment suggest that this will continue to increase. The demand from the rest of the world by which the Belgian economy will benefit will depend not only on the growth of the world economy, the rate of which, to judge by the most recent forecasts, might remain at the present level, but also on the changes in market shares. In this connection the recent past suggests that Belgian producers will have to make further efforts to strengthen their position. Over a number of recent years Belgian exporters have been hampered, in comparison with their European competitors, by the decline in the average selling prices which they have had to accept, without thereby succeeding in increasing the volume of their exports to the same extent as the other countries of the Community. The more detailed analyses reveal the persistence of the handicaps resulting both from the composition of the basket of products offered by Belgian exporters and from a weakness in competitiveness which has no longer been attributable in recent years to the relative movement of labour costs per unit of output.

All in all, the factors which sustain growth in Belgium might weaken. While estimates of the growth rate in 1987 differ, most of the forecasts suggest that it will be slower than during the year under review. Everyone expects a slower rise in domestic expenditure; some are counting on a greater contribution from net exports of goods and services. Consequently, if the international environment were to deteriorate, Belgian economic policy would be faced with a difficult choice; it would either have to decide to accept a weakening in domestic growth, which would jeopardise the chances of keeping up the level of employment, or it would try to loosen the reins, at the risk of bringing about a decrease in the current account surplus; the latter would then no longer be sufficient to counterbalance the net capital outflows, if the rise in these, which has already been in progress for a long time, continued.

The reorganisation of the public finances, which, as mentioned earlier, is necessary, while cutting back overall expenditure, does not by itself release any forces leading to an expansion in other expenditure. This reform, although it is a necessary condition for a strengthening of the national economy, is not sufficient to bring it about.

It is in the expansion of domestic investment that the best way of ensuring future growth and employment is to be sought. During the decade from the early 1970s onwards, profits placed to reserve by companies declined in relation to the national product in Belgium, whereas they were increasing in the other countries of the Community. Capital investment by companies developed similarly. Belgian manufacturing industry, however, increased its capital investment more than was the case in the other countries of the Community, but this effort was aimed much more at improving productivity than at expanding installed capacities. On the other hand, the adverse economic conditions in the second half of the 1970s and the increase in costs led to the closing-down of marginal enterprises and the abandonment by others of their least profitable activities. The national economy became an importer of products which had previously been produced at home, and the import content of domestic expenditure therefore increased. During the current decade the rise in the available incomes — gross savings — of companies has speeded up, from 6.6 p.c. of the gross national product in 1981 to 11.5 p.c. in 1986; the same has not been true of investment in fixed assets, the relative importance of which has remained practically unchanged. Self-financing margins, largely restored, have led to an increase in the financing capacity of companies, which has been used in order to accumulate financial assets; some of these assets have been in the form of direct investments in foreign enterprises. Although profitability has been improved and the financial structure of enterprises strengthened, and although the public, partly thanks to tax exemptions, has become exceptionally attracted by investments in risk capital, thus facilitating share issues, the initiatives taken have not fulfilled the expectations. Furthermore, capital investment has continued to be largely devoted to rationalisation measures; only in 1986 did it make a greater contribution to the expansion of installed capacities and the creation of jobs.

Viewed in terms of a firm's future, investment decisions naturally have their microeconomic rationality: the profitability and continued viability of the enterprise are strengthened by mergers, take-overs, acquisition of interests and the creation of establishments abroad, all of which make an indisputable indirect contribution to the strength of the national economy.

But this does not solve the general problem of the Belgian economy. One cannot disregard the development of the major macroeconomic

data, the interconnections of which link the safeguarding of external equilibrium with the maintenance of employment and of the population's standard of living. Internationalisation, which makes domestic expenditure increasingly dependent on supplies from abroad, forces the Belgian economy to develop, at the same time, corresponding activities producing goods and services whereby it can earn sufficient foreign exchange. The country's material future cannot escape this constraint; this requires that its structures be strengthened, in order to eliminate the handicaps observed, consolidate what has been gained and thus give the country the power to make an even greater contribution to the construction of Europe.

In this wide-open economy, permeable to the changes which are transforming the world economy, increasingly integrated in a great entity in which no supranational authority is responsible for the future of the Belgians, it is they themselves and all their leaders who still have the duty of ensuring economic progress, the guarantor of the social well-being and the security of the majority of the population.

28th January 1987.

*Economic
and financial developments*

INTRODUCTION

1. General presentation

The detailed description of economic and financial developments is presented, in this Report, according to a system similar to that adopted in 1985.

The eight chapters, covering the main variables which are considered, are grouped in four parts, dealing respectively with international developments, economic developments in Belgium, the transactions of the Belgian-Luxembourg Economic Union with foreign countries and financial developments in Belgium.

Each part, which comprises one or more chapters, is introduced by basic information describing, in broad outline, the subjects dealt with in that part, the reasons why various statistics were chosen and, in a certain number of cases, how they should be interpreted and any reservations which apply to them. It is therefore essential to read this information in order properly to understand the comments in the various chapters and the way in which the various tables and charts link up with each other.

The commentary on each of the chapters is subdivided into sections (numbered by a roman numeral referring to the chapter followed by an arabic numeral showing the order of the section in that chapter), the analysis contained in which starts out from a basic table or chart which presents the principal phenomena relating to the subject of the section and bears the same number as the section. Each section, contains, in succession, a commentary on the main developments observed, the basic table or chart and, lastly, a set of the various more detailed tables or charts which are necessary for the purpose of illustrating or supporting one or other of the specific aspects appearing in the commentary or the basic table or chart.

The description of economic and financial developments is immediately followed, in this Report, by two annexes.

The first annex consists of a « Glossary of the main terms used », which gives a definition of the main economic concepts or entities (classified in alphabetical order) appearing in the eight preceding chapters. Printing of a word (or group of words) in italics in these chapters or in the annexes indicates that this term is defined in the glossary.

Interested readers will find in the second annex, « Method of establishment of the data appearing in the tables and charts », all the sources and methods of calculation and, where appropriate, the estimating methods used by the Bank for compiling the various tables or charts.

Three general remarks are called for with regard to a number of tables or charts : the gross data from various sources outside or within the Bank have been processed by the Bank for the purpose of presentation ; in various tables the totals shown may differ from the sum of the items owing to rounding ; lastly, whenever a datum is accompanied by the sign *e*, it is an estimate made by the Bank.

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3. Periods

Unless otherwise indicated, when data for different years are compared in the economic and financial developments, they all relate to the same period of each of the years in question.

4. Conventional signs

— the datum does not exist or is meaningless

... zero or negligible quantity

n. not available

p.c. per cent

p.m. pro memoria

p provisional

e estimate by the Bank : in order to make it possible to describe the development of various important economic data relating to Belgium in the year 1986 as a whole, it was necessary to make many estimates, as the statistical material for that year is inevitably still very fragmentary. Nevertheless, so as to bring out more clearly the interconnections between these various data for 1986 themselves and those with the figures for earlier years, the figures for 1986 have been shown in the tables and quoted in the text to the nearest decimal point (percentages) or the nearest billion francs. This should not cause it to be overlooked that they represent mere orders of magnitude solely intended to demonstrate more clearly the major trends which already seem to be emerging.

Bank the National Bank of Belgium is called the Bank in the text of the commentaries and annexes and the National Bank of Belgium in the legends of the tables and charts.

1 billion = 1,000,000,000

FIRST PART

INTERNATIONAL DEVELOPMENTS

Basic information

a) In 1986 the substantial decline in the prices of many raw materials — chiefly oil — had a very great effect on the movement of various important economic variables all over the world. As the raw material prices presented in Chart I. 1 are expressed in U.S. dollars, so that their movement is determined by, among other things, that of the exchange rate for that currency, the *weighted average rate* for the dollar is also shown in this chart.

b) The sharp fall in the price of a raw material as important as oil primarily changes the relative prices of the foreign trade of the various countries or areas.

The *terms of trade* will improve in the case of net importers of energy, the extent of the improvement being greater the larger the share of imports of energy products in total imports; they will deteriorate for net exporters of energy.

With regard to domestic production costs, the movement of which is summarised by that of the *deflator* of the *gross domestic product*, a given fall in the price of energy will have an immediate mechanical effect in the case of the producing countries where this price is one of the components of domestic costs.

Furthermore, in all user countries, the fall in the price of energy — either the import price or the production price — will exert a downward influence on the movement of the prices of the various categories of *final expenditure*. This influence will be more or less marked depending on the importance of energy in the overall production costs of these various categories. In turn, the slowing-down of the measured rate of inflation may have repercussions on all domestic costs, other than energy, depending on the reactions of the economic agents for whom these costs also represent incomes (wage- and salary-earners, *public authorities*, enterprises) : the fall in the price of energy may thus indirectly influence the deflator of the gross domestic product.

Table I. 1.1 presents a comparison, for the various countries or areas and for the last three years, of the percentage changes in the terms of trade and in the deflator of the gross domestic product. For the deflator, however, the data are not available for the areas other than the Organisation for Economic Co-operation and Development.

Among the items of final expenditure, private consumption is certainly one of the categories whose price movement calls for special attention, since this category of expenditure generally absorbs the greater part of the gross domestic product. The movement of consumer prices in the industrialised countries is shown in Chart I. 1.2. It should be pointed out, however, that Charts I. 1 and I. 1.2 are not designed in the same way. The former presents indices and makes it possible to follow the movement of raw material prices from quarter to quarter. The latter shows the rates of increase in relation to the levels which the indices had reached a year earlier; this presentation makes it possible to eliminate erratic variations; it implies that the data are influenced by the movements during the last four quarters and not during the last quarter alone.

c) The changes in the *gross domestic product* at constant prices shown in Table I. 2 reflect the development of the volume of economic activity and also that of the various components of this aggregate, namely the various types of domestic expenditure and net exports (exports less imports) of goods and services. The *contributions* of each of these categories of expenditure to the changes in the gross domestic product in 1985 and 1986, in the six major industrialised countries of the Organisation for Economic Co-operation and Development, are shown in Table I. 2.2.

d) The development of economic activity in each of the countries belonging to the Organisation for Economic Co-operation and Development obviously exerted an influence on the exports of the other member countries and of the countries outside the area, but it was at the same time affected by the changes in the activity of these countries, especially via their imports. Table I. 2.1 shows the development of merchandise imports at constant prices.

e) The development of economic activity influenced that of unemployment. But an important role was also played by other factors, such as the continuance of the increase in the *working population*, the movements of the apparent *productivity* of labour and the measures decided upon in some countries to alleviate the social and budgetary consequences of unemployment. The statistical data on unemployment presented in Chart I. 2.3 are from the respective national (United States and Japan) or international (European Economic Community) sources. It is therefore possible that these data may not be comparable with each

other in all respects, especially as developments in each of the countries considered in isolation may be influenced by measures of the above-mentioned type or, in some cases, by purely administrative changes in the definitions used or the methods by which the data are recorded.

f) The above-mentioned developments may, depending on the case concerned, be the cause or the effect of the changes in the *public authorities'* revenue and expenditure. In this connection, Table I. 2.4 presents a picture of the movements of the public authorities' *net financing requirements* as percentages of the *gross domestic product* in the seven main industrialised countries of the Organisation for Economic Co-operation and Development and also in the Netherlands and Belgium.

g) Reciprocal influences also operate between the developments already described and each country's current transactions with the rest of the world. The balances of these transactions, mentioned in Table I. 3, are all expressed in a common currency, namely the U.S. dollar. This enables the balances for each country or group of countries to be compared and added together. This means, however, that the changes in the balances in the course of time are partly due to fluctuations in the exchange rates for the currencies of the countries concerned in relation to the dollar, which may give a distorted picture of the real movements of these balances in the national currencies. In 1986 the dollar depreciated substantially in relation to the currencies of most of the member countries of the Organisation for Economic Co-operation and Development; consequently, even if the balances of the current transactions of these countries had remained unchanged in the national currencies, they would have become larger in terms of dollars. In order to avoid this disadvantage for 1986 and permit a better comparison with 1985, the last column of Table I. 3 shows, alongside the 1986 balances in dollars at that year's exchange rates, the same balances in dollars but at the exchange rates which applied in 1985.

As the current account surplus of a country is inevitably accompanied by an equivalent current account deficit of other countries, the total of the net current account positions at world level should in theory be zero. It is found, however, that the balance of current account transactions at world level, as recorded by statistical surveys, regularly shows a deficit and that this statistical error has become substantial since 1981.

h) The developing countries, except those belonging to the Organisation of Petroleum Exporting Countries, showed structural deficits in the current account of their balance of payments throughout the period covered by Table I. 3. These deficits are bringing about a continuous increase in their indebtedness to foreign countries and hence in the accompanying financial burdens, that is, redemption and interest payments. Table I. 3.1 presents information concerning both the absolute and the relative extent of these countries' foreign debt (item 1) — on a gross basis, that is, without deduction of their foreign assets and particularly their official reserves — and the resultant financial charges, showing, in the latter case, the proportion of annual export earnings which has to be allocated for the service of the foreign debt (item 3). The table also presents the main characteristics of the structure of this debt (item 2).

i) A surplus or deficit in respect of current transactions with foreign countries inevitably has as its counterpart a net outflow or inflow of capital, including the changes in the official foreign exchange reserves. When, at given *ex ante* prices, equilibrium between these capital movements and the balance of current transactions is not achieved, exchange rate changes will ultimately have to bring it about. Chart I. 3.2 shows the movement of the *weighted average exchange rates* for some major currencies.

j) It is difficult to examine the foregoing developments without taking into account the monetary policies pursued and the movement of interest rates. Chart I. 3.3 presents a summary of the interest rates on deposits in the main Euro-currencies.

k) In order to gain an idea of the real yield which a given nominal interest rate in a country represents for the domestic investor, one should be able to correct this rate according to the inflation anticipated by the investor during the period of his investment. It would also be necessary to take into account the tax levied on the investor's income. It is not, however, possible to make calculations of this type accurately on the basis of the available data. An approximate idea of the real yield before tax can nevertheless be obtained by comparing the interest rate with the inflation recorded at the same time, on the assumption that the latter gives an indication of expected future inflation. But this assumption does not invariably prove to be justified: for instance, during a period when there is a sudden slackening in the price rise, as

was the case in 1986 owing to the movement of the price of energy, expected inflation may differ appreciably from the inflation recorded. That is one reason why it appears appropriate to examine the movement of interest rates and inflation over a long period. Chart I. 3.4 presents a comparison, for a number of industrialised countries, of the movements since 1962 in long-term before-tax yield rates and inflation rates, the latter being measured by the rise in consumer prices recorded on an annual basis. These data should be interpreted with caution. An international comparison of absolute « real » rates has hardly any meaning; the only thing that counts is their chronological development within each country, provided that there is no significant change in the actual level of taxation.

1) Most of the tables and charts used in the first part include, for the sake of comparison, the data for Belgium. However, these data are not as a rule the subject of any specific comment, because they are fully discussed in the next three parts.

CHAPTER I

INTERNATIONAL DEVELOPMENTS

I. 1 Raw material prices

a) The development of world demand for oil and the sharp increase in production of this raw material in the countries which are not members of the Organisation of Petroleum Exporting Countries have gradually led, in recent years, to a situation which induced that organisation to abandon, on 9th December 1985, its policy of supporting oil prices in favour of defence of its market shares.

As a result of this decision the price of oil, which had been relatively stable for a period of two and a half years, fell particularly sharply in 1986 (Chart I. 1) : the price per barrel, which was still around \$ 28 at the end of 1985, was reduced by nearly a half in a year. The fall was particularly rapid during the second quarter, and in July the price per barrel actually reached a low of \$ 10 for a short time. Afterwards it rose again somewhat to stabilise at around \$ 14, mainly as a result of the agreement reached in August for two months between the member countries of OPEC and subsequently extended, aimed at the reintroduction of production quotas ; the agreement of 20th December 1986 fixed a more ambitious target of \$ 18.

For a correct assessment of the consequences of the reduction of oil prices for world trade it must also be borne in mind that these prices are expressed in U.S. dollars : the decline in the *weighted average exchange rate* for that currency during the year therefore amplified this phenomenon, in contrast to what had taken place during earlier periods of decline in oil prices, for instance from 1982 to 1984.

The development of the prices of energy products somewhat overshadowed the movements of the prices of certain other raw materials ; this movement was not, however, unimportant. The trend of the prices of food raw materials, which had been downward since the middle of 1984, mainly owing to supply surpluses reflecting favourable weather conditions but, more still, the improvement in production capacities in some developing countries, temporarily turned upward towards the end of 1985 and at the beginning of 1986, chiefly because of a rise in the quotations for sugar and coffee. Subsequently a further decline brought the price index in dollars, by the end of 1986, down to a level slightly below that reached a year earlier. In the end, only the prices of non-energy industrial raw materials registered a certain rise in 1986, at least in terms of dollars ; they would appear to have been influenced

by the prospect of a limitation of production of certain animal and vegetable raw materials (voluntary reductions in livestock for wool production and in areas devoted to cotton-growing).

b) The above-mentioned fall in the prices of oil and certain other raw materials appears to have brought about a redistribution of incomes in the world in the opposite direction to that caused by the oil crises of 1973-1974 and 1980-1981.

This decline in fact strongly influenced the import prices of the industrialised countries and, as export prices did not fall to the same extent, the *terms of trade* appear to have improved by 5.5 p.c. in 1986 for the members of the Organisation for Economic Co-operation and Development as a whole (Table I. 1.1). This development was most marked in Japan, the Federal Republic of Germany, France and Italy, countries where the share of energy raw materials in imports is relatively large. The improvement thus recorded for the members of the industrialised area as a whole contrasts with the very considerable deterioration in the terms of trade of the members of the Organisation of Petroleum Exporting Countries, the other oil-producing developing countries and the « other countries », that is, mainly centrally-planned economies. Some industrialised countries which are large oil exporters, such as Canada and the United Kingdom, also saw a deterioration in their position.

Despite its extent, the fall in energy prices does not seem to have had any very market effect on other production costs as a whole in the industrialised countries.

Thus the rise in the *deflator of the gross domestic product* appears to have slackened very slightly — going down from 4.3 in 1985 to 3.8 p.c. — in the member countries of the Organisation for Economic Co-operation and Development as a whole. This slowing-down is in fact partly attributable to the presence of major oil-producing countries (the United Kingdom, Canada, the United States) for which the price of energy is a domestic cost a fall in which automatically influences the movement of the deflator of the gross domestic product in the same direction. In the other countries the rate of rise of this deflator only appears to have slackened appreciably where inflation was still rapid (France, Italy,...). It appears to have speeded up, on the other hand, in the Federal Republic of Germany and Japan.

c) Thus, in the absence of any significant reduction in the rate of increase of domestic costs, the slackening of inflation in the industrialised countries in 1986 is primarily attributable to the decline in energy prices, mainly during the first half of the year. In the member countries of the Organisation for Economic Co-operation and Development as a whole the rise in consumer prices amounted in November 1986 to only 2.2 p.c., the lowest percentage for over twenty years (Chart I. 1.2).

Chart I. 1

RAW MATERIAL PRICES AND WEIGHTED AVERAGE EXCHANGE RATE FOR THE U.S. DOLLAR

(Indices 1978 = 100)

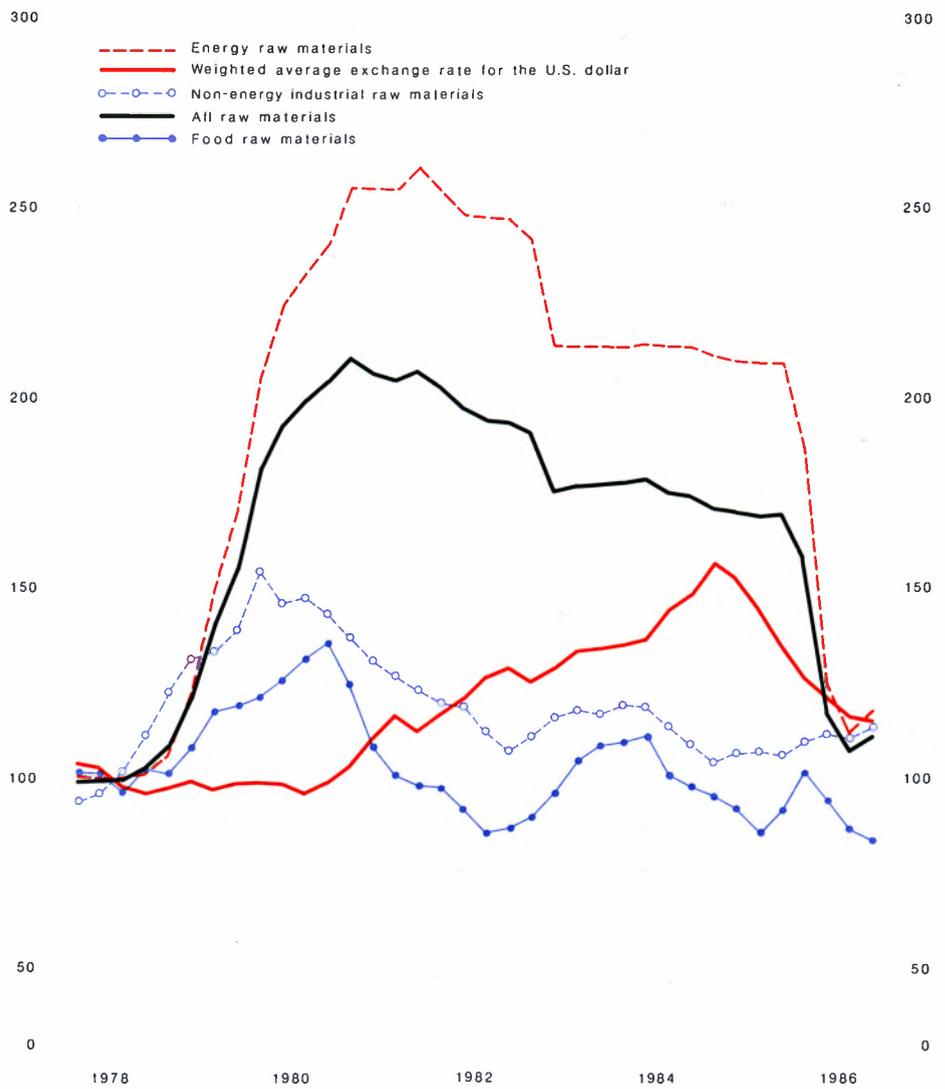


Table I. 1.1

DEFLATOR OF THE GROSS DOMESTIC PRODUCT AND TERMS OF TRADE

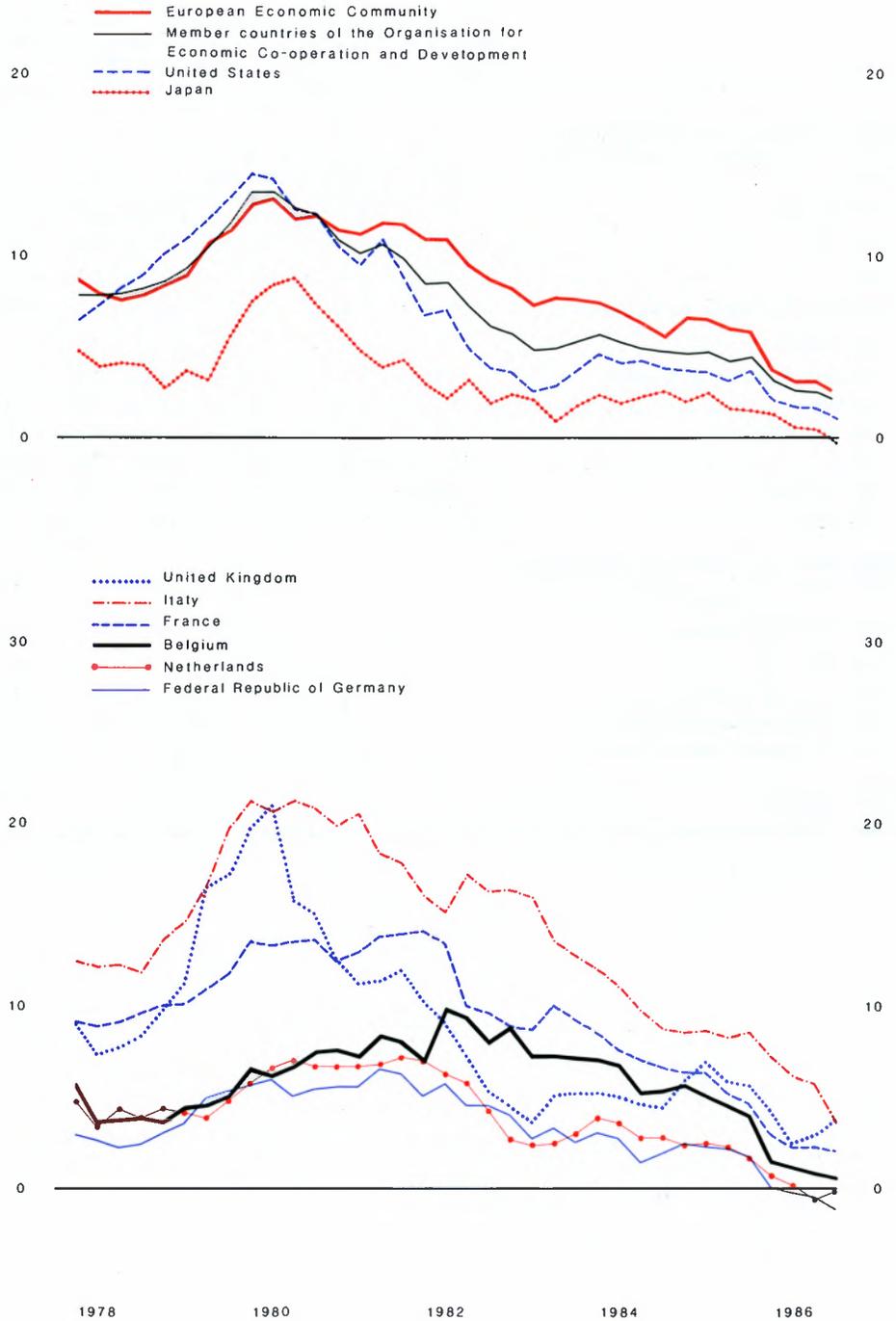
(Percentage changes compared with previous year)

	1984		1985		1986	
	Deflator of gross domestic product	Terms of trade	Deflator of gross domestic product	Terms of trade	Deflator of gross domestic product	Terms of trade
Member countries of the Organisation for Economic Co-operation and Development	+ 4.7	- 0.5	+ 4.3	+ 1.3	+ 3.8	+ 5.5
United States	+ 3.9	- 0.3	+ 3.4	+ 1.8	+ 2.8	+ 5.3
Canada	+ 3.6	- 3.7	+ 3.3	- 2.4	+ 2.5	- 4.9
Japan	+ 1.3	+ 2.4	+ 1.7	+ 3.7	+ 2.3	+ 30.0
European Economic Community	+ 6.1	- 1.4	+ 5.7	+ 1.3	+ 5.3	+ 7.2
of which :						
Federal Republic of Germany	+ 1.9	- 2.3	+ 2.2	+ 1.4	+ 3.0	+ 13.4
France	+ 7.2	+ 0.5	+ 5.8	+ 3.2	+ 5.0	+ 11.1
United Kingdom	+ 4.2	- 2.8	+ 5.8	+ 1.0	+ 3.5	- 5.2
Italy	+ 10.8	- 1.5	+ 8.8	+ 1.6	+ 7.8	+ 11.6
Netherlands	+ 0.8	+ 0.9	+ 1.9	+ 0.4	+ 0.3	+ 3.0
Belgium	+ 5.5	+ 0.1	+ 5.1	+ 0.9	+ 4.6 ^e	+ 6.0 ^e
Organisation of Petroleum Exporting Countries	n.	+ 1.6	n.	- 0.8	n.	- 42.6
Other developing countries	n.	+ 2.1	n.	- 2.3	n.	- 1.4
of which :						
Oil-producing countries	n.	+ 0.8	n.	- 6.3	n.	- 32.7
Newly industrialised countries	n.	+ 1.7	n.	+ 0.3	n.	+ 7.0
Low and middle income countries ..	n.	+ 2.8	n.	- 4.1	n.	+ 2.9
Other countries	n.	+ 1.1	n.	+ 1.1	n.	- 10.2

Chart I. 1.2

CONSUMER PRICES

(Percentage changes compared with the previous year)



I. 2 Gross domestic product at constant prices

a) The fall in oil prices appears to have had, for the world economy, not only advantages but also certain disadvantages, which may initially have been underestimated. While economic growth in the member countries of the Organisation for Economic Co-operation and Development had still been estimated at about 3 p.c. in the spring, this forecast subsequently had to be adjusted downwards : for the area as a whole the *gross domestic product* finally appears to have increased by only 2.5 p.c. in 1986 against 3 p.c. in 1985 (Table I. 2). The slackening of growth thus recorded appears to have taken place chiefly in Canada, Japan and the United Kingdom. On the other hand, the rate of growth appears to have been faster than in the previous year in most of the member countries of the European Economic Community, while it seems to have stabilised in the United States.

These somewhat disappointing results are connected with the fairly marked reductions in the imports of the member countries of the Organisation of Petroleum Exporting Countries, the other developing countries (except the newly industrialised countries) and the centrally-planned economies (Table I. 2.1). Whereas for the member countries of the Organisation of Petroleum Exporting Countries this reduction in imports was a continuation of the trend of the previous years (although for the year as a whole it was more marked than in 1985), it represented a break in the development of the other groups of countries. For the other oil-producing developing countries and the centrally-planned economies, this is obviously largely due to the fall in oil prices; a part was certainly also played by other factors, especially the continuing threat represented by these countries' debt situation, together with the relative decline in the prices of non-energy raw materials as compared with those of finished products. In the member countries of the Organisation for Economic Co-operation and Development, on the other hand, imports of goods appear to have increased more than in 1985, partly owing to a growth in imports of energy products; this phenomenon appears to have been particularly pronounced during the first half of the year, when the accentuation of the fall in prices stimulated rapid replenishment of stocks. Altogether, these divergent movements appear to have resulted in a growth in world imports of 4.2 p.c., against 4.7 p.c. in 1985.

b) The *contribution* of foreign demand to growth in the industrialised countries would appear to have been much smaller during the year under review than in 1985 (Table I. 2.2, item 2.1). Only the exports of the United States, which had declined in 1985, appear to have made a more positive contribution to growth. The improvement in that country's competitive position due to the depreciation of the dollar was probably the preponderant factor, but in the other major industrialised countries, faced not only by a slackening of the growth of their foreign markets but also, in most cases, by a deterioration in their competitive position resulting from the appreciation of their currencies, exports appear to have fallen off all along the line. As imports appear to have generally increased more than in 1985, the contribution of net exports to growth appears to have decreased everywhere (items 2.2 and 2.3).

The expansion in domestic expenditure, on the other hand, appears to have been greater (item 1.4). In the United States and Japan its contribution to growth appears to have been virtually the same as in 1985, and in the four major European countries it appears to have been distinctly greater. Except in Japan, private consumption and stockbuilding appear to have been the main factors behind these developments, whereas the contribution of fixed investment by enterprises appears to have declined in many countries. In the United States the last-mentioned phenomenon was amplified by the abandonment of a series of oil-prospecting investment projects which had become unprofitable.

The growth in private consumption would appear to be mainly attributable to an increase in the *real disposable income* of *individuals*, due to a general slackening of inflation and, in the case of the Federal Republic of Germany, a number of tax reliefs. As already pointed out, stockbuilding was mainly accounted for by petroleum products.

In Japan the contribution of domestic expenditure to growth remained unchanged only thanks to the expansion in public expenditure, mainly on investment.

c) In the main industrialised countries the growth was not sufficiently strong in 1986 to have any beneficial influence on unemployment : expressed as a percentage of the *working population*, unemployment showed only insignificant changes (Chart I. 2.3).

d) The budgetary policy pursued in the seven main industrialised countries as a whole appears to have generated only weak impulses in

one direction or the other in 1986. The *public authorities' net financing requirements*, expressed as percentages of the *gross domestic product*, appear as a whole to have remained unchanged (Table I. 2.4). This stability is also to be found in the case of some major countries : in the United States, despite a decision gradually to reduce the Federal budget deficit, in Japan, where the afore-mentioned increase in public investment and the introduction of tax incentives for residential building and capital investment by *companies* appear to have been counterbalanced by an increase in the surplus of the social security system, and in the Federal Republic of Germany. The worsening observed in the United Kingdom was due to the contraction in oil revenue, and in France it appears to have been attributable to an increase in financial assistance to private and public enterprises and to the general application of the reduction in corporation tax. The deficit decreased, on the other hand, in Canada, mainly owing to a reduction in investment expenditure, and in Italy, where the taxes on petroleum products were raised and a number of rehabilitation measures appear to have produced their effects.

Table I. 2

GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

(Percentage changes compared with the previous year or half-year)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1985		1986	
										1st half	2nd half	1st half	2nd half
Member countries of the Organisation for Economic Co-operation and Development	+ 4.1	+ 3.0	+ 1.2	+ 1.6	- 0.6	+ 2.6	+ 4.7	+ 3.0	+ 2.5	+ 2.1	+ 3.2	+ 2.1	+ 2.5
United States	+ 5.1	+ 2.0	...	+ 2.1	- 2.5	+ 3.4	+ 6.6	+ 2.7	+ 2.6	+ 1.7	+ 3.2	+ 2.6	+ 2.3
Canada	+ 3.9	+ 3.4	+ 1.0	+ 4.0	- 4.3	+ 2.8	+ 5.4	+ 4.0	+ 3.0	+ 4.0	+ 3.8	+ 3.6	+ 1.5
Japan	+ 5.1	+ 5.2	+ 4.4	+ 3.9	+ 2.8	+ 3.2	+ 5.0	+ 4.5	+ 2.2	+ 4.7	+ 4.2	+ 1.1	+ 2.3
European Economic Community	+ 3.1	+ 3.2	+ 1.0	- 0.2	+ 0.5	+ 1.4	+ 2.3	+ 2.4	+ 2.5	+ 1.2	+ 2.5	+ 1.7	+ 3.5
of which :													
Federal Republic of Germany	+ 2.9	+ 4.2	+ 1.4	+ 0.2	- 0.6	+ 1.5	+ 2.7	+ 2.5	+ 2.8	- 0.2	+ 4.5	+ 0.6	+ 5.8
France	+ 3.8	+ 3.3	+ 1.1	+ 0.5	+ 1.8	+ 0.7	+ 1.5	+ 1.4	+ 2.0	...	+ 3.3	+ 1.3	+ 2.3
United Kingdom	+ 3.5	+ 2.2	- 2.3	- 1.2	+ 1.0	+ 3.8	+ 2.2	+ 3.5	+ 2.3	+ 4.0	+ 1.6	+ 2.3	+ 3.0
Italy	+ 2.7	+ 4.9	+ 3.9	+ 0.2	- 0.5	- 0.2	+ 2.8	+ 2.3	+ 2.4	+ 1.8	+ 2.3	+ 2.0	+ 3.3
Netherlands	+ 2.5	+ 2.4	+ 0.9	- 0.7	- 1.4	+ 1.4	+ 2.4	+ 1.8	+ 1.5	n.	n.	n.	n.
Belgium	+ 3.1	+ 2.1	+ 3.9	- 1.4	+ 1.8	- 0.3	+ 1.6	+ 1.5	+ 2.1 <i>e</i>	n.	n.	n.	n.

Table I. 2.1

MERCHANDISE IMPORTS AT CONSTANT PRICES

(Percentage changes compared with the previous year or half-year)

	1984	1985	1986	1985		1986	
				1st half	2nd half	1st half	2nd half
Member countries of the Organisation for Economic Co-operation and Development	+ 11.4	+ 5.8	+ 7.8	+ 4.4	+ 6.0	+ 8.9	+ 7.3
Organisation of Petroleum Exporting Countries	- 5.9	- 10.2	- 14.5	- 5.4	- 19.4	- 9.8	- 18.3
Other developing countries	+ 6.4	+ 4.9	- 2.2	+ 4.0	+ 2.2	- 5.7	+ 0.6
of which :							
Oil-producing countries	+ 7.7	+ 3.5	- 13.3	n.	n.	n.	n.
Newly industrialised countries .	+ 7.4	+ 0.3	+ 3.1	n.	n.	n.	n.
Low and middle income countries	+ 4.3	+ 12.6	- 5.0	n.	n.	n.	n.
Other countries	+ 5.0	+ 8.7	- 5.2	+ 15.0	+ 7.7	- 10.0	- 7.3
Total	+ 8.8	+ 4.7	+ 4.2	+ 4.1	+ 3.7	+ 4.4	+ 4.2

Table I. 2.2

CONTRIBUTION OF THE VARIOUS EXPENDITURE CATEGORIES¹
TO THE PERCENTAGE CHANGES IN THE GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

	United States		Japan		Federal Republic of Germany		France		United Kingdom		Italy	
	1985	1986	1985	1986	1985	1986	1985	1986	1985	1986	1985	1986
<i>1. Domestic expenditure :</i>												
1.1 Private consumption	+ 2.2	+ 2.6	+ 1.6	+ 1.6	+ 1.0	+ 2.5	+ 1.6	+ 2.2	+ 2.1	+ 2.7	+ 1.2	+ 1.5
1.2 Public expenditure	+ 1.3	+ 0.6	- 0.3	+ 0.9	+ 0.4	+ 0.4	+ 0.2	+ 0.3	- 0.6	+ 0.4	+ 0.3	+ 0.4
1.3 Gross capital formation of individuals and companies :												
1.31 House-building	+ 0.2	+ 0.4	+ 0.2	+ 0.3	- 0.7	- 0.1	- 0.1	- 0.1	- 0.1	+ 0.2	...	...
1.32 Other fixed capital formation	+ 1.1	- 0.2	+ 2.0	+ 1.0	+ 0.6	+ 0.8	+ 0.7	+ 0.9	+ 1.1	+ 0.1	+ 0.8	+ 0.1
1.33 Changes in stocks	- 1.4	+ 0.3	+ 0.1	- 0.3	+ 0.1	+ 0.5	- 0.3	+ 0.4	+ 0.3	+ 0.1	...	+ 0.6
1.34 Total	- 0.1	+ 0.5	+ 2.3	+ 1.0	...	+ 1.2	+ 0.3	+ 1.2	+ 1.3	+ 0.4	+ 0.8	+ 0.7
1.4 Total domestic expenditure (1.1 + 1.2 + 1.34)	+ 3.4	+ 3.6	+ 3.6	+ 3.5	+ 1.4	+ 4.1	+ 2.1	+ 3.7	+ 2.8	+ 3.5	+ 2.3	+ 2.6
<i>2. Net exports of goods and services :</i>												
2.1 Exports	- 0.2	+ 0.3	+ 1.1	- 1.1	+ 2.4	+ 0.1	+ 0.6	+ 0.1	+ 1.8	+ 0.2	+ 2.1	+ 1.5
2.2 Imports ²	- 0.5	- 1.3	- 0.1	- 0.3	- 1.3	- 1.3	- 1.3	- 1.7	- 0.8	- 1.2	- 2.1	- 1.7
2.3 Net exports (2.1 + 2.2)	- 0.7	- 1.0	+ 1.0	- 1.4	+ 1.1	- 1.2	- 0.7	- 1.6	+ 1.0	- 1.0	...	- 0.2
<i>3. Gross domestic product (1.4 + 2.3) .</i>	+ 2.7	+ 2.6	+ 4.5	+ 2.2	+ 2.5	+ 2.8	+ 1.4	+ 2.0	+ 3.5	+ 2.3	+ 2.3	+ 2.4

¹ Percentage change in a category of expenditure during a period multiplied by the share of that category in the previous year's gross domestic product.

² Minus sign = increase in imports, i.e. negative contribution to the change in the gross domestic product.

Chart I. 2.3

UNEMPLOYMENT RATE

(Percentage of working population)

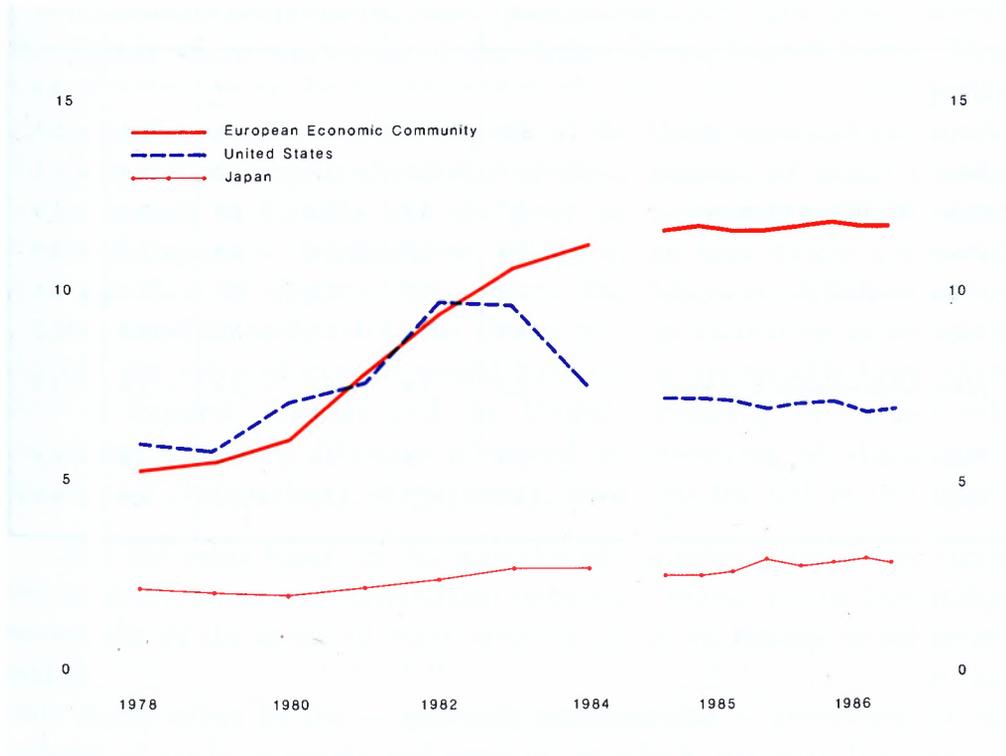


Table I. 2.4

PUBLIC AUTHORITIES' NET FINANCING REQUIREMENT

(Percentages of gross domestic product)

	1981	1982	1983	1984	1985	1986
United States	- 1.0	- 3.5	- 3.8	- 2.7	- 3.4	- 3.4
Canada	- 1.5	- 5.7	- 6.6	- 6.6	- 6.6	- 5.4
Japan	- 3.8	- 3.6	- 3.7	- 2.2	- 1.4	- 1.5
Federal Republic of Germany	- 3.7	- 3.3	- 2.5	- 1.9	- 1.1	- 1.0
France	- 1,8	- 2,7	- 3,1	- 2,9	- 2,6	- 2,9
United Kingdom	- 2.8	- 2.3	- 3.6	- 3.9	- 2.6	- 3.1
Italy	-11.9	-12.6	-11.7	-13.0	-14.0	-12.5
Above seven countries as a whole	- 2.5	- 3.9	- 4.1	- 3.4	- 3.4	- 3.4
Netherlands	- 5.4	- 7.0	- 6.4	- 6.4	- 5.2	- 6.5
Belgium	-13.6	-11.7	-12.0	-10.0	- 8.9	- 9.0 <i>e</i>

I. 3 Balance of current transactions with foreign countries

a) Expressed in 1985 dollars, the deficit on current transactions of the member countries of the Organisation for Economic Co-operation and Development as a whole appears to have amounted to \$ 59 billion in 1986, against \$ 57.5 billion the previous year (Table I. 3).

Examination shows that this quasi-stabilisation took place despite the further sharp worsening of the deficit of the United States. That country's foreign trade deteriorated further in terms of volume, partly owing to the reduction in the imports of the Latin American countries, the depreciation against the dollar of the currencies of major trading partners such as Canada and the price concessions granted by some Japanese exporters. Furthermore, owing to its very extent compared with the flow of imports and exports, the American deficit tends to expand autonomously : for this deficit to stop increasing in terms of dollars, the value of exports would have to rise appreciably faster than that of imports. Canada and the United Kingdom, two major oil-exporting countries, likewise witnessed a worsening of the current account of their balance of payments, owing to the fall in oil prices.

On the other hand, in the majority of the other member countries the balances of current transactions improved, thanks to the favourable movement of the *terms of trade* resulting from the decline in oil prices and the depreciation of the dollar. These favourable factors were in fact only partly offset by the — generally unfavourable — movement of the volume of trade in goods and services, to which attention has already been drawn in point b) of section I. 2.

The net result of these movements in 1986 was a further worsening of the imbalances of current transactions between the major industrialised countries : the very substantial deficit of the United States became even larger, while Japan and the Federal Republic of Germany further increased their substantial surpluses.

b) The members of the Organisation of Petroleum Exporting Countries, after having had a current deficit in 1982, had succeeded in gradually reducing this by cutting down the volume of their imports. In 1986, however, an even more drastic contraction in imports was still insufficient to counterbalance the pronounced decrease in export earnings brought about by the fall in oil prices, and their deficit therefore grew considerably.

The other developing countries as a whole suffered from the decline in the prices of a number of basic products, but the interest burden on their foreign debt was reduced thanks to the depreciation of the dollar and the easing of international interest rates; furthermore many of them benefited by the fall in oil prices and some also reduced the volume of their imports. On balance the current account deficit of this category of countries appears to have contracted markedly. This favourable development does not, however, appear to have taken place everywhere: whereas the newly industrialised countries appear to have achieved a large increase in their current account surplus and the group of low and middle income developing countries succeeded in reducing its deficit, the current account of the oil-producing non-OPEC countries appears to have worsened considerably.

c) In 1986 the foreign debt of the developing countries appears to have increased further: the ratio between the outstanding amount of the debt and exports of goods and services appears to have risen further, to around 174 p.c. (Table I. 3.1, item 1.2). It was mainly the debtor countries whose export earnings are heavily dependent on oil that experienced an appreciable increase in their foreign debt. Mexico, for instance, had some very difficult moments in 1986. The financial support package finally worked out for that country represents the first practical outcome of the « Baker Plan » of 1985: the granting by both official and private creditors of financing facilities on fairly flexible terms as the counterpart to the adoption of economic reforms which promote both adjustment and growth.

It will also be seen that the increase in the foreign debt, expressed in dollars (item 1.1), exceeded the deficit on current transactions: that is because part of that debt is expressed in currencies which appreciated in relation to the dollar; furthermore, it is quite possible that some developing countries which achieved surpluses on their current transactions used them to build up claims on foreign countries.

From 1983 onwards the structure of the foreign debt of the developing countries had steadily improved from year to year, and this improvement continued in 1986. The share of the short-term debt appears to have shrunk further to 13.9 p.c., while that of the long-term debt contracted to official organisations appears to have increased to 36.2 p.c. (items 2.1 and 2.21). The last-mentioned category consists of loans the cost of which is lower than that of those obtained from private creditors or at short term.

As a result of this structural improvement, but also thanks to the decline in international interest rates, the ratio between interest charges and export earnings appears to have fallen markedly (item 3.1). On the other hand, the total cost of the service of the foreign debt appears to have increased further, owing to the increase in the burden of redemption payments (item 3.3 and 3.2).

d) In 1986 the decline in the *weighted average exchange rate* for the dollar, which had started in March 1985, continued almost without interruption (Chart I. 3.2). The worsening of the American current account deficit and the narrowing of the interest rate differential in favour of short-term investments in dollars compared with the corresponding investments in other major Euro-currencies were probably the main reasons for this. The pound sterling, too, depreciated as a result of the fall in oil prices.

The exchange rates for the other major currencies rose. The weighted average exchange rate for the yen actually went up by over 20 p.c. during the first nine months, mainly owing to the steadily growing Japanese current account surplus. The appreciation of the yen stopped during the last quarter of the year and on 31st October the American and Japanese monetary authorities announced to the markets that in their opinion the exchange rate between the yen and the dollar had reached a satisfactory equilibrium. At the same time the Japanese discount rate was lowered from 3.5 to 3 p.c.

In the European Monetary System, two readjustments were made in 1986. On 6th April the German mark and the Dutch guilder were both revalued by 3 p.c., while the French franc was devalued to the same extent; the Belgian and Luxembourg francs and the Danish crown, for their part, were revalued by 1 p.c. Subsequently, Ireland came under pressure owing to the depreciation of the currency of its main trading partner — the United Kingdom — and on 2nd August the Irish pound was devalued by 8 p.c. in relation to the other currencies in the System. The steady decline in the rate for the dollar created strains within the System and the central banks deemed it appropriate to intervene in order to safeguard the stability of the foreign exchange markets.

e) The movement of short-term interest rates was rather heterogeneous (Chart I. 3.3). The rate for the Euro-dollar declined, mainly owing to the more accommodating monetary policy pursued in the

United States, which was partly reflected in several reductions in the discount rate. Following this, short-term interest rates also declined in Japan. On the other hand, in the Federal Republic of Germany, the Netherlands and Switzerland, where they were already very low, they underwent hardly any change. The Euro-French franc and, to a smaller extent, the Euro-Belgian franc rose at the beginning of the year owing to the strains within the European Monetary System. In the United Kingdom, too, a temporary upward movement of interest rates took place during the early months of 1986 because of the depreciation of the pound sterling. Subsequently, interest rates declined markedly in these three countries, but this movement gradually ceased and towards the end of the year it was in fact replaced in France and the United Kingdom by a rise due to the monetary authorities' concern about the maintenance of external equilibrium.

f) Long-term interest rates displayed a downward trend during the first half of the year both in the United States and in most of the member countries of the European Economic Community; subsequently they tended to stabilise or even rise slightly (Chart I. 3.4). The downward movement seems to have been attributable to more optimistic expectations concerning inflation and to the easing of the United States' monetary policy in anticipation of a reduction in that country's budget deficit.

As inflation, measured by the change in consumer prices, generally declined more than long-term interest rates, the positive differential between interest rates and inflation widened. It is quite possible, of course, that this widening overestimates the increase in « real » yields in so far as expectations about inflation — based, for instance, on the movement of domestic costs — would appear, in a large number of countries, to have exceeded the present particularly small rise in consumer prices. It seems, however, looking at a longer period, the figures for which are less affected by temporary distortions, that the 1980s have up to the present been characterised everywhere, except in the Federal Republic of Germany, by much higher « real » interest rates than previously.

g) The European Economic Community took a further step in 1986 along the road towards a common European financial market. The directive adopted in this connection provides for the liberalisation of a number of capital transactions, especially long-term commercial credits and transactions in securities.

Table I. 3

BALANCE OF CURRENT TRANSACTIONS WITH FOREIGN COUNTRIES

(Billions of U.S. dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1986 in 1985 dollars
Member countries of the Organisation for Economic Co-operation and Development	+ 11.8	- 28.9	- 68.6	- 26.7	- 28.8	- 28.0	- 65.8	- 57.5	- 19.7	- 59.0
United States	- 15.4	- 1.0	+ 1.9	+ 6.3	- 9.1	- 46.6	-106.5	-117.7	-138.0	-138.0
Canada	- 4.3	- 4.2	- 1.0	- 5.1	+ 2.4	+ 2.4	+ 2.6	- 0.4	- 6.8	- 6.9
United Kingdom	+ 1.9	- 1.6	+ 7.2	+ 12.5	+ 7.0	+ 4.8	+ 2.1	+ 4.6	- 0.3	- 0.2
Australia	- 4.5	- 2.8	- 4.0	- 8.5	- 8.2	- 5.9	- 8.5	- 8.6	- 9.8	- 10.2
Denmark	- 1.5	- 2.9	- 2.5	- 1.8	- 2.2	- 1.2	- 1.6	- 2.7	- 4.3	- 3.3
Federal Republic of Germany	+ 9.0	- 6.0	- 15.7	- 5.2	+ 4.1	+ 4.1	+ 7.0	+ 13.2	+ 32.5	+ 24.1
Japan	+ 16.5	- 8.8	- 10.7	+ 4.8	+ 6.8	+ 20.8	+ 35.0	+ 49.2	+ 81.8	+ 57.8
Italy	+ 6.2	+ 5.5	- 9.7	- 8.1	- 5.5	+ 0.8	- 2.9	- 4.2	+ 4.8	+ 3.7
France	+ 7.0	+ 5.2	- 4.2	- 4.7	- 12.1	- 4.7	- 0.8	- 0.2	+ 3.8	+ 2.9
Belgian-Luxembourg Economic Union	- 0.8	- 3.1	- 4.9	- 4.2	- 2.4	- 0.4	...	+ 0.7	+ 3.3 ^e	+ 2.5 ^e
Spain	+ 1.6	+ 1.1	- 5.1	- 4.8	- 4.2	- 2.5	+ 2.0	+ 2.7	+ 4.8	+ 3.9
Switzerland	+ 4.4	+ 2.4	- 0.5	+ 2.7	+ 4.0	+ 3.8	+ 4.4	+ 5.2	+ 7.8	+ 5.7
Netherlands	- 1.5	- 2.1	- 2.9	+ 2.8	+ 3.6	+ 3.7	+ 5.0	+ 5.2	+ 7.3	+ 5.4
Austria	- 0.6	- 1.1	- 1.7	- 1.3	+ 0.5	+ 0.2	- 0.2	...	...	...
Organisation of Petroleum Exporting Countries ..	- 3.0	+ 57.0	+106.0	+ 47.0	- 22.0	- 11.0	- 10.0	- 5.0	- 51.0	—
Other developing countries	- 27.2	- 43.9	- 65.2	- 85.1	- 67.4	- 34.5	- 22.2	- 20.4	- 7.2	—
Oil-producing countries	- 1.9	- 0.7	- 0.2	- 13.2	- 11.9	- 0.3	+ 0.7	- 2.4	- 15.0	—
Newly industrialised countries	- 8.7	- 21.7	- 30.3	- 35.2	- 32.3	- 13.7	- 1.6	+ 12.5	+ 24.0	—
Low and middle income countries	- 16.6	- 21.5	- 34.7	- 36.7	- 23.2	- 20.5	- 21.3	- 30.5	- 16.2	—
Other countries	- 3.6	- 0.2	- 2.2	+ 0.2	+ 7.9	+ 10.9	+ 12.9	+ 4.1	+ 0.2	—
Total	- 22.0	- 16.0	- 30.0	- 64.6	-110.3	- 62.6	- 85.1	- 78.8	- 77.7	—

Table I. 3.1

FOREIGN DEBT OF THE DEVELOPING COUNTRIES¹

	1978	1979	1980	1981	1982	1983	1984	1985	1986
1. <i>Outstanding debt</i> :									
1.1 in billions of U.S. dollars	344.7	410.9	494.6	583.2	670.6	712.3	753.9	813.8	861.9
1.2 as percentages of exports of goods and services	132.1	122.5	115.5	128.0	153.5	161.3	155.8	169.9	174.2
2. <i>Structure of debt</i> :									
(percentages of outstanding debt)									
2.1 Short-term debt	17.8	16.6	19.3	20.0	20.8	17.2	16.5	14.5	13.9
2.2 Long-term debt :									
2.21 to official organisations	34.5	33.5	32.3	31.3	30.5	32.0	32.8	34.6	36.2
2.22 to private creditors	47.7	49.9	48.4	48.7	48.7	50.8	50.7	50.9	49.9
2.23 total (2.21 + 2.22)	82.2	83.4	80.7	80.0	79.2	82.8	83.5	85.5	86.1
3. <i>Debt charges</i> :									
(percentages of exports of goods and services)									
3.1 Interest payments	6.9	7.8	9.0	11.8	14.6	13.5	13.5	13.4	12.4
3.2 Redemption payments	12.2	11.7	8.9	9.6	10.3	8.1	8.9	9.2	11.1
3.3 Total charges (3.1 + 3.2)	19.1	19.5	17.9	21.4	24.8	21.6	22.4	22.6	23.5

¹ Excluding most of the members of the Organisation of Petroleum Exporting Countries.

Chart I. 3.2

WEIGHTED AVERAGE EXCHANGE RATES FOR VARIOUS CURRENCIES

(Indices 1978 = 100)

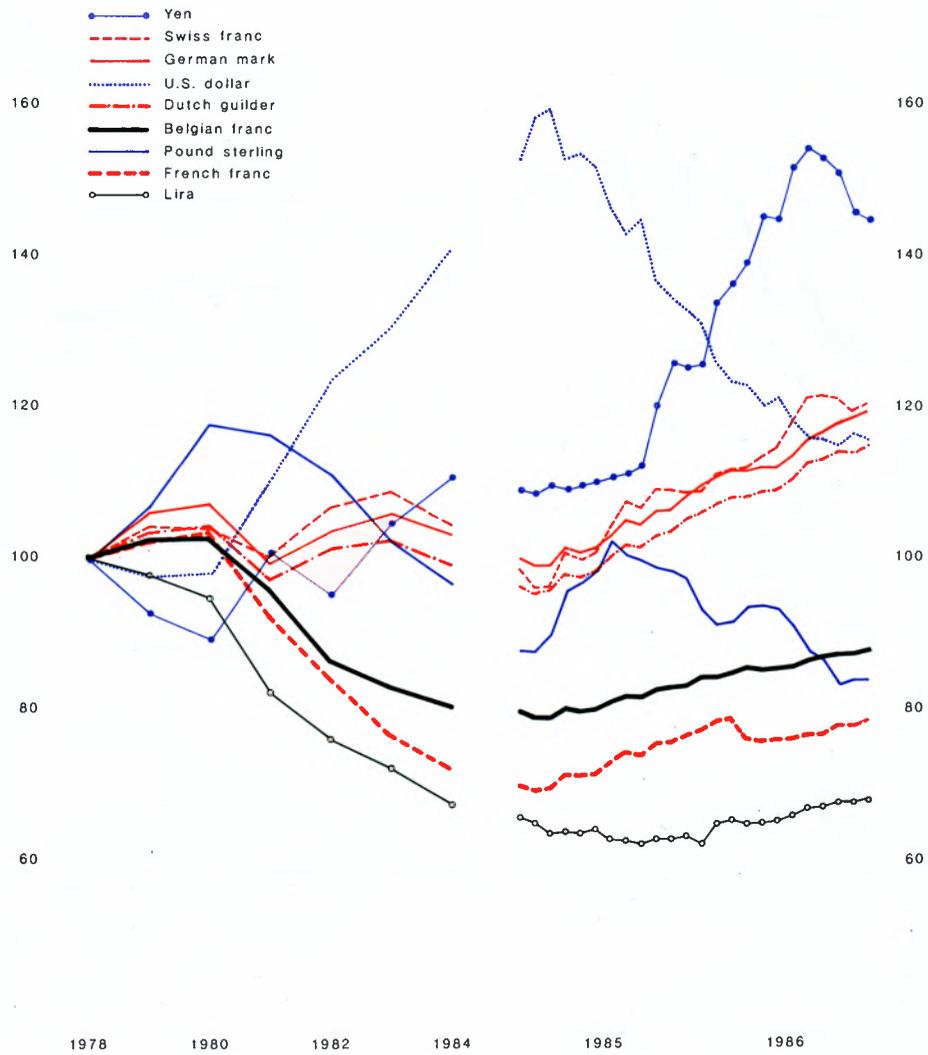


Chart I. 3.3

INTEREST RATES ON THREE-MONTH DEPOSITS IN EURO-CURRENCIES

(Percentages)

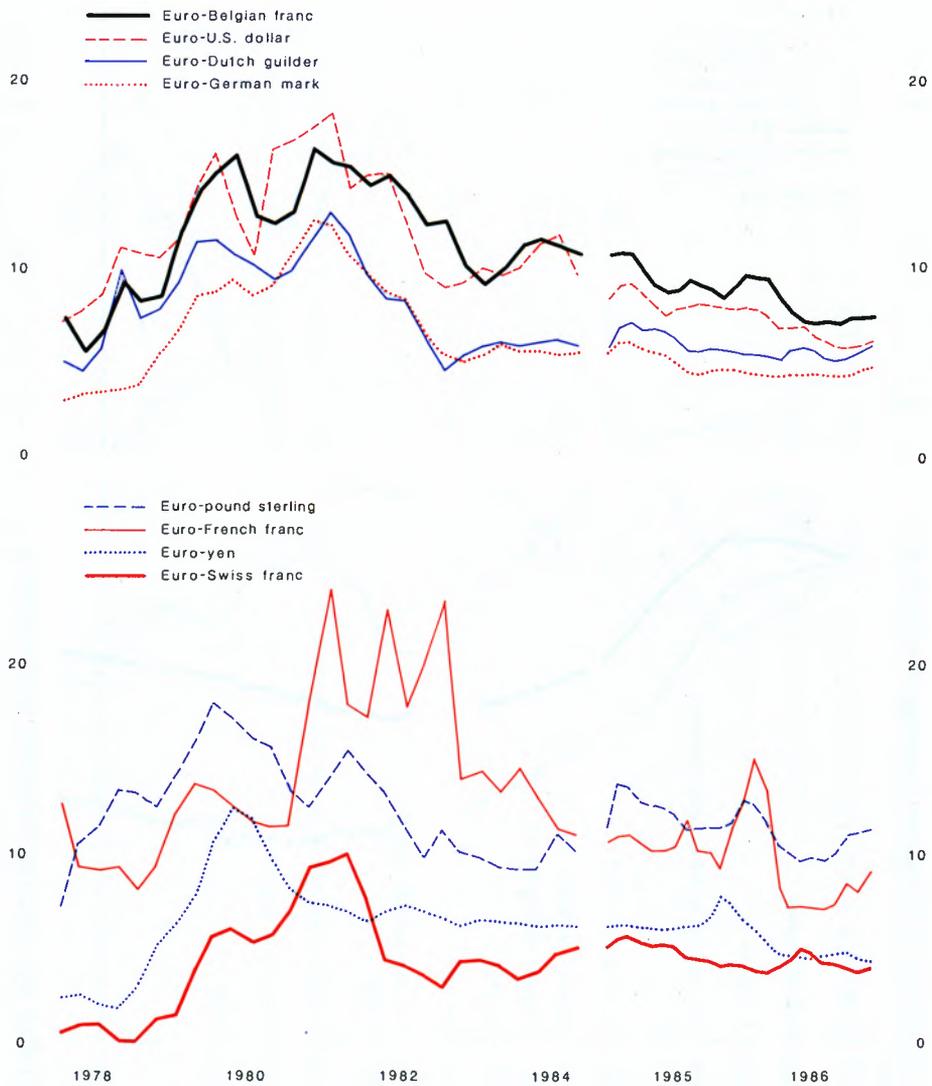
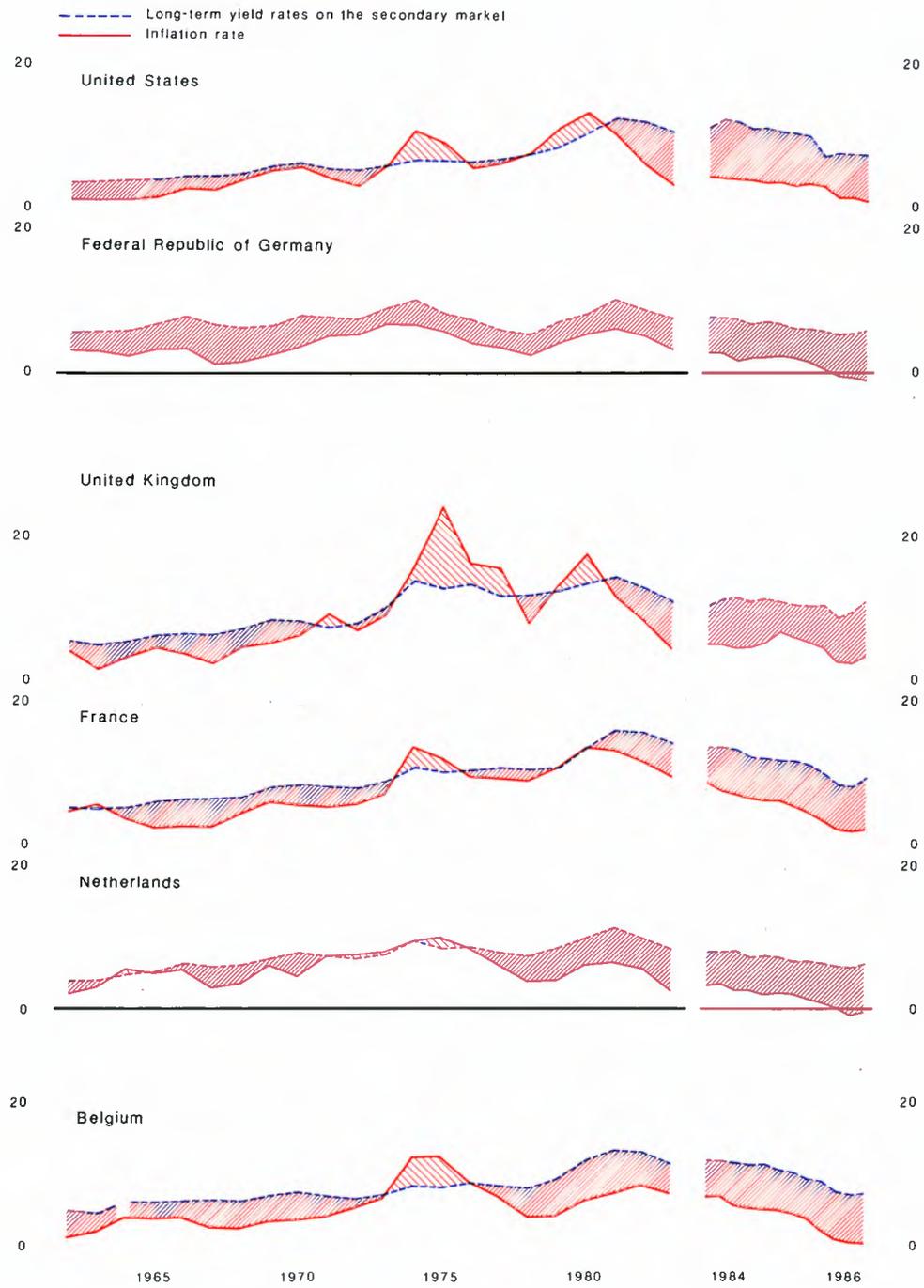


Chart I. 3.4

LONG-TERM YIELD RATES AND INFLATION RATE



SECOND PART

ECONOMIC DEVELOPMENTS IN BELGIUM

Basic information

a) The second part, the purpose of which is to describe the course of economic activity and prices in Belgium, is mainly based on the national accounts, it being understood that for 1986 these were estimated by the Bank. The movement of the *gross national product* is then examined from the three traditional points of view (expenditure, production and incomes).

b) Chapter II, which is mainly devoted to movements at constant prices, first of all describes the way in which the various categories of expenditure developed and contributed to the change in the *gross national product*. It then discusses the *value added* in the various branches. Lastly, it examines how the development of activity and that of other factors, especially demand for employment, influenced unemployment.

The chronological consistency of the movements of demand for employment and unemployment (items 1 and 3 of Table II. 3 respectively) has been impaired since 1985 by the influence of the Royal Decree of 29th December 1984. This decree allows unemployed persons over 55 years of age, and also unemployed persons aged over 50 with reduced ability to work, to choose, subject to clearly defined conditions, no longer to be regarded as job-seekers. These persons continue to be entitled to unemployment benefits but are exempted from the daily check. As unemployed persons who opt for this status are no longer job-seekers, they have no longer been included, since 1985, in the unemployment figures and have therefore also been deducted from the *working population*. This had in fact already been done for persons benefiting by the various early retirement schemes. However, the persons belonging to these two categories still form part of the population of working age (men aged 15 to 64 and women aged 15 to 59), so that their withdrawal from the working population has an effect on activity rates (item 2 of Table II. 3.1). It should also be pointed out that, in the employment figures (item 2 of Table II. 3), part-time jobs, the number of which was around 365,000 in 1985, and partly unemployed persons (whose activity is temporarily suspended) are counted in the same way as full-time jobs. Consequently, for a correct assessment of the development of employment, account must also be taken of the movements of these two categories, included, pro memoria (*p.m.*) in item 2 of Table II. 3.

Chart II. 3.3 shows by dotted lines what would have been the unemployment rate in the absence of the Decree of 29th December 1984, in order to enable the developments to be commented upon on the basis of chronologically homogeneous data.

c) The main purpose of Chapter III is to describe and explain the movement of prices in Belgium, including by comparing it, where appropriate, with that which took place in the main foreign countries; no attempt is made, on the other hand, to give an account of the development of the Belgian economy's position as regards its competitiveness in terms of prices, as this aspect is dealt with in the third part, which is devoted to the transactions of the Belgian-Luxembourg Economic Union with foreign countries.

With regard to the *deflators*, the changes in which are shown in Table III. 1, it should be noted that those relating to *final expenditure* and its components (items 1 to 6) reflect, in varying degrees, both the movement of Belgian costs and that of foreign costs expressed in francs. On the other hand, the deflator of imports (item 7) has no direct influence on that of the *gross domestic product* (item 8), since the latter reflects the price movements of the *value added* of the Belgian economy and thus, in theory, the average movement of domestic costs, even though these may have been indirectly influenced by foreign prices.

The purpose of Table III. 2, which presents the *gross national product* from the point of view of expenditure at current prices, is to make the link — by means of the deflators shown in Table III. 1 — between the movements at constant prices commented upon in Chapter II and those in Table V. 1 concerning the transactions of the various sectors, which are at current prices because the incomes of some sectors can only be expressed in this way. The comments on Table III. 2.1 furthermore bring out the differences in the movement, compared with the gross national product, of the main categories of expenditure depending on whether they are expressed at current or constant prices.

d) Chapter IV describes how incomes were distributed among the various sectors.

A fairly thorough analysis, the results of which are presented in Table IV. 1.3, was made of the factors which determined the develop-

ment of the *gross operating surplus* of *companies*, i.e. that of their final sales at constant prices and that of their unit profit margin, the latter being determined in turn by the movement of the various components of selling prices, on the one hand, and cost prices, on the other. This surplus, together with other factors shown in Table IV. 1.4, contributes to the formation of the *disposable income* of companies. Net incomes from property paid to other sectors (item 4) comprises, among other things, the difference between interest paid and interest received, interest payments made by one company to another cancelling each other out. In the breakdown between financial intermediaries (item 4.1) and other companies (4.2), however, net interest payments by the latter to the former are shown.

The *gross primary income* and the disposable income of the *public authorities* are mentioned in Table IV. 1 with the income of the other sectors in order to record all the incomes which contribute to the formation of the *gross national product*. In national accounting, these two concepts of « income of the public authorities » have a logical content by their definition, which is itself consistent with that of the incomes of the other sectors. As, however, they are of little economic significance in themselves, their movement will not be commented upon.

e) Chapter V, lastly, summarises the expenditure of the various domestic sectors — consumption and *gross capital formation*, which are to be found in Table III. 2 — and their *disposable incomes* — which are shown in Table IV. 1 — thus making it possible, after incorporation of net capital *transfers*, to determine their *net financing capacities* and *requirements*. The development of the *public authorities'* main transactions is in fact described on the basis of Table V. 2, in which those authorities' revenue and expenditure are considered in a wider sense, corresponding to the definitions in budgetary practice, which shows the gross flows of revenue and expenditure; this more detailed breakdown enables them to be more accurately analysed.

By adding together the net financing capacities and requirements of the domestic sectors one obtains an overall total which, theoretically, corresponds in principle to the net lending to or borrowing from the rest of the world recorded in the national accounts, or to the net amount of current transactions in the balance of payments. This is, of course, a figure relating to the Belgian economy alone and not to the Belgian-Luxembourg Economic Union.

The details necessary for an analysis can only be obtained, however, by using the figures for the Union's current balance of payments. This is analysed in the third part; it differs, however, from the overall balance for the Belgian domestic sectors for two main reasons : on the one hand, it disregards Belgium's transactions with Luxembourg, but takes into account Luxembourg's transactions with third countries; on the other hand, it does not record among current transactions certain transactions which are included in the real accounts commented upon in the second part, while, conversely, it does record as services certain other transactions which are not included in these real accounts. Furthermore, the balance of payments data for 1986 were compiled with the aid of more recent information than that used by the National Statistical Institute in compiling the provisional national accounts for 1985.

CHAPTER II

**EXPENDITURE,
PRODUCTION AND EMPLOYMENT**

II. 1 Gross national product and main categories of expenditure at constant prices

a) The growth in the *gross domestic product* (item 8 of Table II. 1) appears to have increased from 1.5 p.c. in 1985 to 2.1 p.c. in 1986. This acceleration was due to the movement of domestic expenditure, which appears to have risen by 3.1 p.c. against 1.3 p.c. in 1985 (item 4), and more particularly of that of private consumption (item 1) and of *gross capital formation* (item 3).

The growth in exports of goods and services (item 5) also speeded up — from 2.2 to 4.4 p.c. — mainly owing to a fortuitous expansion in the volume of exports of refined petroleum [explained under point c) of section II. 2]. Altogether, the increase in *final expenditure* (item 6) appears to have amounted to 3.7 p.c. in 1986, against 1.6 p.c. the previous year. The rate of increase of imports of goods and services would, however, appear to have quickened even more, from 1.9 p.c. in 1985 to 6.2 p.c. in 1986 (item 7). The substantial increase in imports in 1986 is mainly attributable to the very nature of the most dynamic components of final demand : these include exports (especially of oil), private consumption (chiefly of goods and particularly of cars) and gross capital formation, that is, expenditure items with a particularly high import content. This much sharper rise than that in exports had an adverse effect on the rate of growth of the gross domestic product : net exports of goods and services would thus appear to have slowed this down by 0.9 p.c., whereas they had still made a positive contribution of 0.3 p.c. in 1985 (item 7, *p.m.*).

b) The speeding-up of the rise in private consumption from 1.5 to 3 p.c. in 1986 (item 1 of Table II. 1) was doubtless connected with the growth — appreciably greater than in 1985 — in the *disposable income* at constant prices of *individuals*. The rise in the rate of saving of individuals which normally results from the delay in the adjustment of consumption to sudden improvements in disposable income in fact remained limited. The greatest expansion in 1986 was in private purchases of goods (Chart II. 1.1) and, among these, especially in purchases of new cars, doubtless influenced by the fall in petrol prices, by the ageing of the stock of motor vehicles and perhaps by the reduction in the charges applied to hire-purchase sales, which rose markedly in 1986. Consumption of services, on the other hand, appears to have

increased only moderately, by 0.8 p.c. against 2 p.c. in 1985, mainly because consumption of « medical and allied services » appears to have stabilised and the use of public transport appears to have declined.

c) *Public consumption* (item 2 of Table II. 1) appears to have risen by 0.4 p.c., whereas it had still grown by 1.5 p.c. in 1985. This slackening was due to the slight reduction in current purchases of goods and services from other sectors, which had still increased in 1985. Consumption of the *value added* (primarily remuneration of personnel, including pensions) generated by the *public authorities (non-market services)* would appear, on the other hand, to have increased to nearly the same extent as in the previous year (see item 5 of Table II. 2).

d) *Gross capital formation by individuals* (item 3.1 of Table II. 1) would appear to have risen by 5.2 p.c., or by more than the 4.2 p.c. recorded in 1985.

Investment by one-man businesses — up by about 7.4 p.c. against 3.9 p.c. in 1985 — would appear to have been particularly dynamic, except in agriculture, forestry and fishing; it was perhaps stimulated by the rise in the income at constant prices of one-man businesses.

Expenditure on housing would appear to have increased somewhat less in 1986 — by 4.3 p.c. — than in 1985 — 5.1 p.c. The growth in expenditure on new housing was, however, supported during part of these two years by the expectation that the temporary lowering to 6 p.c. (instead of 17) of the rate of the *value added* tax was going to come to an end; this, after having been announced and then postponed several times, finally took place on 1st August. In 1986 the substantial increase, at constant prices, in the *disposable income* of individuals and the continuance of the decline in long-term interest rates also probably stimulated this expenditure. But its expansion was slowed down by a further substantial contraction in the building of social dwellings, mainly owing to the restrictions imposed on the National Housing Company by the regional supervisory authorities. Expenditure on conversion work, to which the above-mentioned increase in the rate of value added tax does not apply, would appear to have increased fairly substantially.

e) *Gross capital formation by companies* (item 3.2 of Table II. 1) would appear to have risen by 10.8 p.c.; in 1985 the increase was only

1.6 p.c. This appreciable growth was due to a substantial rise in investment in fixed assets and to the change in stocks, which, unlike during the three preceding years, appears to have increased again. This increase in stocks appears to have applied mainly to energy products, the prices of which fell sharply; it was probably also attributable to the faster expansion in industrial production, which made it necessary to accumulate intermediate inputs and increased the volume of goods in course of production.

The growth in investment in fixed assets by companies appears to have risen from 3.9 p.c. in 1985 to 7.6 p.c. in 1986. In manufacturing industry this investment would appear to have increased as much as 13 p.c., against 5.7 p.c. in 1985; it probably benefited in that sector by the high level of activity and the increase in the degree of utilisation of production capacities, which at the end of 1985 reached its highest level in the present business cycle, which traditionally encourages investment in expansion. The growth in investment by service companies also appears to have speeded up. On the other hand, gross fixed capital formation appears to have declined considerably in the mineral-extracting industries and the water and gas industries and also in the electricity industry, where the expansion programme for nuclear power stations adopted during the previous years was nearing completion.

f) The decline in *gross capital formation* by the *public authorities* (item 3.3 of Table II. 1), which had reached at least 10 p.c. during each of the two preceding years, appears to have slowed down — to 4.1 p.c. — in 1986. The local authorities appear to have economised further, while gross capital formation by the national government appears to have remained unchanged.

g) The deficit left by payments and receipts of factor incomes abroad appears to have decreased in 1986. Thus, unlike during the previous year, the balance of these payments appears to have exerted a positive influence on the growth in the *gross national product* (item 9 of Table II. 1), which consequently seems to have been a little larger than that in the *gross domestic product*, namely 2.3 p.c. (1.3 p.c. in 1985). The improvement in the balance of factor incomes is due to the decrease in net interest payments abroad resulting from the movement of the balance of Belgium's total current transactions with foreign countries, which became substantially positive in 1986, and from the general decline in interest rates.

h) Thanks to its speeding-up in 1986, the rate of growth of the Belgian *gross domestic product* appears to have moved appreciably closer to those recorded in the member countries of the European Economic Community as a whole, in the United States and in Japan, while still, as in the two preceding years, remaining below them (Table II. 1.2). In 1986 this relative weakness of the growth of the Belgian economy was due to total expenditure on consumption by *individuals* and *public authorities*. The increase in *gross capital formation*, on the other hand, would appear to have been greater in Belgium than in the other countries mentioned, while the negative *contribution* of net exports of goods and services, at constant prices, to the increase in the gross domestic product would appear to have been of the same order of magnitude in Belgium as in these countries.

Table II. 1

GROSS NATIONAL PRODUCT AND MAIN EXPENDITURE CATEGORIES AT CONSTANT PRICES

(Percentage changes compared with previous year)

	1978	1979	1980	1981	1982	1983	1984	1985	1986 <i>e</i>
1. Private consumption	+ 2.8	+ 4.5	+ 1.8	- 0.2	+ 1.1	- 1.6	+ 1.1	+ 1.5	+ 3.0
2. Public consumption	+ 5.9	+ 2.7	+ 1.6	+ 1.2	- 1.6	- 0.1	+ 0.5	+ 1.5	+ 0.4
3. Gross capital formation	+ 2.5	...	+ 4.4	-20.1	- 0.3	- 8.2	+ 5.8	- 0.1	+ 6.8
3.1 Individuals	+ 6.5	-11.1	- 2.4	-35.4	- 5.2	- 1.8	...	+ 4.2	+ 5.2
(of which : housing)	(+ 6.1)	(-13.1)	(- 1.2)	(-40.9)	(- 6.5)	(- 2.8)	(- 0.5)	(+ 5.1)	(+ 4.3)
3.2 Companies	+ 0.5	+10.2	+ 8.8	-13.6	+ 6.6	-12.4	+16.0	+ 1.6	+10.8
(of which : fixed assets)	(+ 1.1)	(+ 3.5)	(+ 9.5)	(- 4.0)	(+ 3.9)	(- 4.4)	(+ 8.0)	(+ 3.9)	(+ 7.6)
3.3 Public authorities	- 2.4	+ 5.3	+ 8.7	- 5.6	- 8.8	- 6.7	-10.0	-12.3	- 4.1
4. Total domestic expenditure	+ 3.3	+ 3.2	+ 2.3	- 4.1	+ 0.3	- 2.5	+ 1.7	+ 1.3	+ 3.1
5. Exports of goods and services	+ 3.7	+ 8.0	+ 4.5	+ 3.3	+ 2.1	+ 3.1	+ 4.4	+ 2.2	+ 4.4
6. Total final expenditure	+ 3.4	+ 4.9	+ 3.1	- 1.4	+ 1.0	- 0.3	+ 2.8	+ 1.6	+ 3.7
7. Imports of goods and services	+ 3.9	+ 9.5	+ 1.9	- 1.4	- 0.3	- 0.3	+ 4.8	+ 1.9	+ 6.2
<i>p.m.</i> Net exports of goods and services ¹	- 0.3	- 1.2	+ 1.5	+ 2.9	+ 1.5	+ 2.1	- 0.1	+ 0.3	- 0.9
8. Gross domestic product	+ 3.1	+ 2.1	+ 3.9	- 1.4	+ 1.8	- 0.3	+ 1.6	+ 1.5	+ 2.1
9. Net factor incomes ¹	- 0.1	- 0.4	- 0.4	- 0.1	- 0.3	+ 0.1	+ 0.2	- 0.1	+ 0.1
10. Gross national product	+ 3.0	+ 1.7	+ 3.5	- 1.5	+ 1.5	- 0.2	+ 1.9	+ 1.3	+ 2.3

¹ Contribution to the growth in the gross national product.

Chart II. 1.1

PRIVATE CONSUMPTION AT CONSTANT PRICES OF GOODS SOLD BY RETAILERS

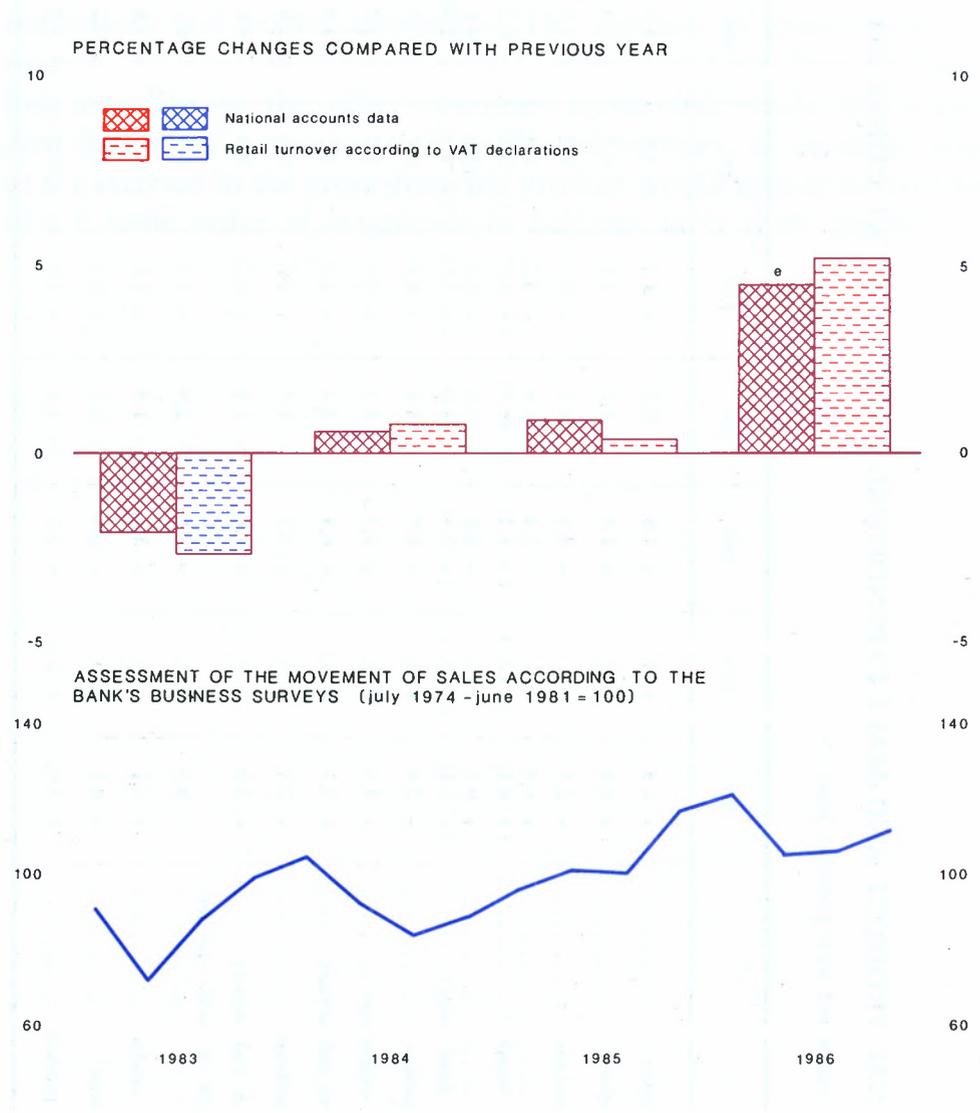


Table II. 1.2

GROSS DOMESTIC PRODUCT AND MAIN CATEGORIES OF EXPENDITURE AT CONSTANT PRICES :
INTERNATIONAL COMPARISON

(Percentage changes compared with previous year)

	Belgium			European Economic Community			United States			Japan		
	1984	1985	1986 e	1984	1985	1986	1984	1985	1986	1984	1985	1986
1. Private consumption	+ 1.1	+ 1.5	+ 3.0	+ 1.3	+ 2.3	+ 3.6	+ 4.4	+ 3.5	+ 4.0	+ 2.8	+ 2.7	+ 2.9
2. Public consumption	+ 0.5	+ 1.5	+ 0.4	+ 1.5	+ 1.6	+ 1.7	+ 4.3	+ 6.8	+ 2.8	+ 2.5	+ 2.6	+ 7.0
3. Gross capital formation	+ 5.8	- 0.1	+ 6.8	+ 3.4	+ 2.4	+ 5.2	+31.2	- 0.3	+ 3.0	+ 6.3	+ 5.6	+ 4.2
3.1 Housing	- 0.5	+ 5.1	+ 4.3	n.	n.	n.	+13.2	+ 3.9	+ 8.7	- 2.2	+ 3.2	+ 6.5
3.2 Enterprises	+13.9	+ 1.7	+10.4	n.	n.	n.	+34.8	- 1.8	+ 0.9	+14.3	+12.1	+ 4.1
(of which : fixed assets)	(+ 7.3)	(+ 3.9)	(+ 7.6)	n.	n.	n.	(+19.5)	(+ 9.3)	(- 1.3)	(+11.0)	(+11.9)	(+ 5.8)
3.3 Public authorities	-10.0	-12.3	- 4.1	n.	n.	n.	n.	n.	n.	- 3.0	- 6.9	+ 3.0
4. Total domestic expenditure	+ 1.7	+ 1.3	+ 3.1	+ 1.7	+ 2.2	+ 3.6	+ 8.5	+ 3.4	+ 3.6	+ 3.8	+ 3.6	+ 3.7
5. Exports of goods and services	+ 4.4	+ 2.2	+ 4.4	+ 7.7	+ 5.6	+ 1.7	+ 6.2	- 2.0	+ 2.5	+17.5	+ 5.9	- 5.8
6. Imports of goods and services	+ 4.8	+ 1.9	+ 6.2	+ 5.8	+ 5.3	+ 5.3	+22.8	+ 3.8	+10.2	+11.1	+ 0.7	+ 2.1
<i>p.m.</i> Net exports of goods and services ¹	- 0.1	+ 0.3	- 0.9	+ 0.6	+ 0.2	- 1.1	- 1.9	- 0.7	- 1.0	+ 1.3	+ 1.0	- 1.5
7. Gross domestic product	+ 1.6	+ 1.5	+ 2.1	+ 2.3	+ 2.4	+ 2.5	+ 6.6	+ 2.7	+ 2.6	+ 5.0	+ 4.5	+ 2.2

¹ Contribution to the growth in the gross domestic product.

II. 2 Value added at constant prices of the various branches of activity

a) It was the faster rate of expansion than in 1985 of the *value added* in building, industry and, to a smaller extent, *market services* that was reflected in the speeding-up of the rate of rise of the *gross domestic product*, which, as has been seen, appears to have amounted to 2.1 p.c. during the year under review against 1.5 p.c. the previous year (Table II. 2). On the other hand, the rate of growth in agriculture, forestry and fishing, and also in *non-market services*, appears to have undergone hardly any change.

b) The value added in agriculture, forestry and fishing appears to have increased by 1 p.c. during the year under review (item 1), owing to the expansion in production of both vegetable products — except sugar beet and potatoes — and animal products — although there was a fall in production of beef.

c) The increase in the value added in industry would appear to have been solely due to manufacturing industry (item 2). The value added of the branch « Electricity, gas and water » would in fact appear to have remained stable, while that of the mineral-extracting industry appears to have decreased appreciably. The rise in production of electricity would appear to have been adversely influenced by the ten-yearly maintenance work carried out in a nuclear power station during the second half of the year, which seems to have had the effect of making the balance of imports and exports of electricity negative from the summer onwards. Production and distribution of gas appears to have decreased in absolute terms owing to the preference displayed by industry during the year under review for other energy sources, because of the relative price movements. The reduction in the value added of the mineral-extracting industry is attributable to lower production of coal, mainly due to the social unrest in the mines during the second quarter.

— Production in manufacturing industry increased much faster than during the previous year. After having stagnated between the last quarter of 1985 and the first quarter of 1986, it rose appreciably during the second quarter and increased further during the third. For the first ten months of the year as a whole the rise amounts to 3.2 p.c. against 1.3 p.c. (Table II. 2.1). A slight slackening appears to have taken place towards the end of the year under review.

— A more detailed examination of the movement of production in manufacturing industry during the first ten months of 1986 shows that, unlike during the previous year, the industries which grew most were those producing consumer goods. There were in fact considerable increases in production in the clothing and footwear industry, the wood industry and, to a smaller extent, the food and beverages industries. The oil-refining industry achieved a particularly large increase in production; this movement was partly due to accidental factors, as some refineries which had been temporarily closed down during the previous year were operating in 1986 and, furthermore, the refining activity of a production unit situated in the Netherlands was temporarily transferred to Belgium in the second quarter of 1986; the increase in refinery production was also due, however, to a revival in demand for petroleum products brought about by the pronounced fall in their prices. The metal-working industry recorded a substantial increase, but this was due to developments which differed from product to product: the assembling of motor vehicles and electrical engineering enjoyed high growth rates, the expansion of the latter having been largely attributable to the putting into operation of a consumer goods production line employing laser technology and also to vigorous activity in the production of telecommunication equipment; the trend of output of most other products, including other capital goods, was less favourable. Furthermore, the previous year's slowing-down of activity in the chemical and rubber industries continued.

In some industries production remained more or less unchanged. Production in the textile industry was slowed down during the year under review by a reduction in sales of household textiles and carpets in some oil-exporting countries and the United States. The non-metallic mineral products industry suffered a slight decline in output, partly owing to the further slackening of road and civil engineering work, which consumes large quantities of building materials.

Production fell off markedly in basic metallurgy. The slowing-down of oil prospecting and the shipbuilding recession counterbalanced the expansion in demand from the motor industry in the European market, while large-scale exporting of steel became more difficult, partly owing to the depreciation of the dollar and the widening of the range of products subject to quantitative restrictions in some major foreign markets.

d) The value added in the building industry (Table II. 2, item 3) would appear to have increased in 1986 by 3 p.c. owing to the rise in investment by *companies* in non-residential buildings and, to a smaller extent, by *individuals* in housing. On the other hand, as has just been mentioned, the volume of road and civil engineering work decreased further.

e) The value added of *market services* (item 4) appears to have increased in 1986 at the same rate as the *gross domestic product*. The growth would appear to have been mainly accounted for by trade, including garages, and by rents. The value added of transport and communications, adversely influenced by the railway strikes during the first half of the year, appears to have increased slightly and that of medical services appears to have remained unchanged, as did that of hotels, restaurants and cafes.

f) The value added of *non-market services* (item 5) would appear to have increased by 1 p.c. during the year under review. The decline in the number of civil servants would in fact appear to have been more than counterbalanced by the increase in the number of pensions for which the Treasury and the local authorities are directly responsible, and also by the rise in the number of unemployed persons given work and of persons recruited in the third labour circuit.

Table II. 2

VALUE ADDED AT CONSTANT PRICES OF THE VARIOUS
BRANCHES OF ACTIVITY

(Percentage changes compared with previous year)

	1978	1979	1980	1981	1982	1983	1984	1985	1986 <i>e</i>
Gross domestic product ¹	+ 3.1	+ 2.1	+ 3.9	- 1.4	+ 1.8	-- 0.3	+ 1.6	+ 1.5	+ 2.1
of which :									
1. Agriculture, forestry and fishing	+11.6	+ 0.4	+ 4.2	+ 4.7	+ 5.0	- 1.7	+ 8.7	+ 1.0	+ 1.0
2. Industry	+ 2.1	+ 3.5	+ 2.4	- 0.9	+ 3.0	+ 1.8	+ 1.9	+ 1.3	+ 2.8
3. Building	+ 0.9	- 3.4	+ 4.7	-18.9	- 3.7	- 4.6	- 3.3	+ 0.6	+ 3.0
4. Market services ...	+ 3.1	+ 3.6	+ 2.8	- 0.1	+ 2.1	- 0.9	+ 2.2	+ 1.6	+ 2.2
5. Non-market services	+ 4.9	+ 3.5	+ 2.6	+ 1.2	- 0.8	- 0.1	+ 0.9	+ 1.1	+ 1.0

¹ Including various items which cannot be broken down by branches of activity, and also statistical adjustments.

Table II. 2.1

INDUSTRIAL PRODUCTION

(Percentage changes compared with previous year)

	1983	1984	1985	First ten months	
				1985	1986
Industry as a whole	+ 1.8	+ 2.7	+ 1.5	+ 1.5	+ 2.9
Mineral-extracting industry	- 5.9	+ 1.2	- 6.4	- 4.9	-11.1
Electricity and water industries	+ 3.3	+ 3.3	+ 4.7	+ 3.9	+ 3.4
Manufacturing industry	+ 1.9	+ 2.6	+ 1.4	+ 1.3	+ 3.2
of which :					
Metal-working industry	+ 2.6	...	+ 4.0	+ 4.1	+ 5.1
Basic metallurgy	+ 2.2	+ 8.6	- 1.4	- 1.1	- 4.4
Chemical industry and rubber industry	+ 3.9	+ 5.7	+ 3.3	+ 3.2	+ 2.6
Food and beverage industries	+ 1.0	+ 3.1	+ 1.5	+ 2.4	+ 3.2
Textile industry	+ 7.6	+ 0.8	- 0.3	- 0.7	+ 1.3
Non-metallic mineral product industry	- 5.1	+ 4.6	- 8.8	- 9.5	- 0.1
Wood industry	- 2.7	- 1.7	+ 0.7	- 0.6	+ 6.2
Manufacturing of clothing and footwear	- 0.8	- 4.7	- 1.7	- 2.4	+11.7
Paper and board industry	+ 3.0	+ 5.9	+ 1.2	+ 2.2	+ 1.0
Oil refining	-16.0	- 5.6	-13.1	-16.6	+45.9

II. 3 Supply of and demand for employment

a) In 1986, for the first time since 1960, the demographic trend no longer appears to have contributed to the increase in the demand for employment. The male population of working age appears to have stopped growing, thus displaying, in turn, the virtual stability which had been observed in the case of the female population since the beginning of the 1980s (item 1 of Table II. 3.1). These developments are mainly attributable to the fact that women and men reaching the age when they are assumed to be no longer working (60 and 65 respectively) have in turn become more numerous since they have belonged to the high-birth-rate years that followed World War I and no longer, as previously, to the less numerous generation born during that war.

On the other hand, the divergence between the activity rates of the sexes appears to have continued in 1986 (item 2). The growth in the female activity rate persisted, while the male rate went on declining. However, the effect of the fall in the male activity rate was much weaker than in the preceding years; its decrease would appear to have been solely due to the measures adopted by the authorities in order to withdraw certain categories of persons from the *working population*, since, had it not been for these, the male rate would have risen.

b) As a result of the above-mentioned developments, the male *working population* would appear to have undergone a further decrease in 1986, which was only partly offset by the continuing growth in the female working population. On balance, the working population (item 3) would appear, as in 1985, to have decreased during the year under review (by 3,000 units). As in the previous year, this decrease is entirely attributable to the above-mentioned measures. Thus, since 30th June 1985, 21,000 older non-job-seeking unemployed persons and 8,000 persons taking early retirement have been removed from the working population.

c) The substantial rise in the supply of employment in 1985 (28,000 units), which contrasted with the losses recorded since 1980, appears to have continued in 1986, but at a somewhat slower rate (25,000 units) (item 2 of Table II. 3).

d) This slowing-down is due to the supply of employment in enterprises. The new jobs created by these appear to have fallen from 21,000

to 17,000 in 1986, despite the speeding-up of the growth in *value added* referred to in section II. 2 (Table II. 3.2). This divergence of movements would appear to have been due to *market services*, within which public transport actually appears to have shown a certain decline in employment. In industry the faster growth in activity was not sufficient to prevent the continuance of the downward trend of employment, but this was nevertheless somewhat less pronounced than in 1985. Lastly, in building, the substantial increase in activity appears to have been coupled with a growth in employment, the first since 1979. In all branches of activity, except agriculture, forestry and fishing, the apparent *productivity* of labour appears to have increased faster than in the previous year, as it traditionally does in periods of faster growth.

As in the previous year, the supply of additional jobs in *non-market services* amounted to about 8,000 units. This creation was solely due to the increase in the number of jobless persons given work by the *public authorities* and to the extension of the third labour circuit. As in 1985, part-time working within the framework of special job-creation programmes increased considerably.

e) The recorded increase in employment together with the decline in the *working population* described above brought about a reduction in unemployment (item 3 of Table II. 3). Even without the above-mentioned change in the regulations concerning older unemployed persons, the number of unemployed would have gone down by 7,300 units between June 1985 and June 1986, against 1,500 the previous year. Furthermore, partial unemployment decreased in 1986 (-4,000 units), albeit to a smaller extent than during the preceding twelve months (-20,000 units).

The seasonally adjusted monthly data (Chart II. 3.3) show that the steady reduction in the unemployment rate continued during the first half of the year under review, but that there was a certain reversal of this tendency towards the summer followed by a hesitant movement at the end of the year. Unemployment amounted to 12.3 p.c. of the working population in November 1986 against 12.7 p.c. at the end of 1985. The male unemployment rate declined from 8.9 to 8.5 p.c. and the female rate from 18.4 to 17.7 p.c. The favourable trend of female unemployment was due, more than in the case of men, to an increase in the number of unemployed persons who accepted a part-time job.

Table II. 3

DEMAND FOR AND SUPPLY OF EMPLOYMENT

(Changes, in thousands)

	1978	1979	1980	1981	1982	1983	1984	1985	1986
1. Demand for employment (working population)	+ 25	+ 59	+ 16	+ 17	+ 25	+ 16	+ 1	- 12	- 3 e
2. Supply of employment (employment)									
by :									
2.1 enterprises :									
— agriculture, forestry and fishing	- 4	...	- 6	- 3	- 3	- 1	...	- 1	... e
— industry	- 42	- 27	- 20	- 48	- 32	- 20	- 9	- 13	- 9 e
— building	- 4	+ 2	- 9	- 30	- 23	- 19	- 14	...	+ 2 e
— market services	+ 22	+ 36	+ 24	+ 2	+ 2	+ 6	+ 16	+ 36	+ 24 e
Total	- 28	+ 12	- 11	- 78	- 55	- 33	- 6	+ 21	+ 17 e
2.2 non-market services	+ 30	+ 33	+ 10	+ 3	+ 6	- 6	+ 8	+ 7	+ 8 e
2.3 foreign countries	- 1	- 1	- 1	- 1	- 1	...	- 1	...	... e
Grand total	+ 1	+ 45	- 2	- 76	- 50	- 39	...	+ 28	+ 25 e
p.m. 1. Part-time employment	(n. )	( n. )	( n. )	( n. )	( n. )	( n. )	(+ 47)	(+ 48)	(+ 50) e
2. Partial unemployment	(n.)	(- 13)	(+ 7)	(+ 20)	(- 8)	(+ 5)	(+ 6)	(- 20)	(- 4)
3. Unemployment (1 - 2) :									
Men	+ 8	- 1	+ 5	+ 60	+ 44	+ 31	- 3	- 31	- 21
Women	+ 16	+ 15	+ 13	+ 33	+ 31	+ 24	+ 4	- 8	- 7
Total	+ 24	+ 14	+ 18	+ 93	+ 74	+ 55	+ 1	- 40	- 28

Table II. 3.1

DEMAND FOR EMPLOYMENT (WORKING POPULATION)

(Changes, in thousands)

	1978	1979	1980	1981	1982	1983	1984	1985	1986
1. Demand attributable to the development of the population of working age :									
Men	+ 16	+ 16	+ 12	+ 14	+ 22	+ 19	+ 13	+ 6	- 2 e
Women	+ 19	+ 16	+ 5	- 1	+ 1	...	- 1	- 1	- 2 e
Total	+ 36	+ 32	+ 17	+ 12	+ 23	+ 19	+ 13	+ 5	- 4 e
2. Demand attributable to the development of the activity rate :									
Men	- 23	- 1	- 23	- 25	- 28	- 28	- 31	- 36	- 17 e
of which incidence of :									
— persons taking early retirement	(- 14)	(- 12)	(- 8)	(- 13)	(- 15)	(- 16)	(- 13)	(- 8)	(- 10)
— older unemployed persons not seeking jobs ...	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(- 25)	(- 13)
Women	+ 13	+ 27	+ 22	+ 30	+ 29	+ 25	+ 20	+ 18	+ 18 e
of which incidence of :									
— persons taking early retirement	(- 5)	(- 8)	(- 3)	(- 3)	(- 3)	(- 1)	(+ 1)	(+ 3)	(+ 2)
— older unemployed persons not seeking jobs ...	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(- 13)	(- 7)
Total	- 10	+ 26	- 1	+ 5	+ 1	- 3	- 12	- 17	+ 1 e
of which incidence of :									
— persons taking early retirement	(- 18)	(- 20)	(- 12)	(- 15)	(- 18)	(- 18)	(- 11)	(- 5)	(- 8)
— older unemployed persons not seeking jobs ...	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(- 38)	(- 21)
3. Total demand (1 + 2) :									
Men	- 7	+ 15	- 11	- 11	- 6	- 9	- 18	- 30	- 19 e
Women	+ 33	+ 44	+ 27	+ 28	+ 30	+ 25	+ 19	+ 18	+ 16 e
Total	+ 25	+ 59	+ 16	+ 17	+ 25	+ 16	+ 1	- 12	- 3 e

Table II. 3.2

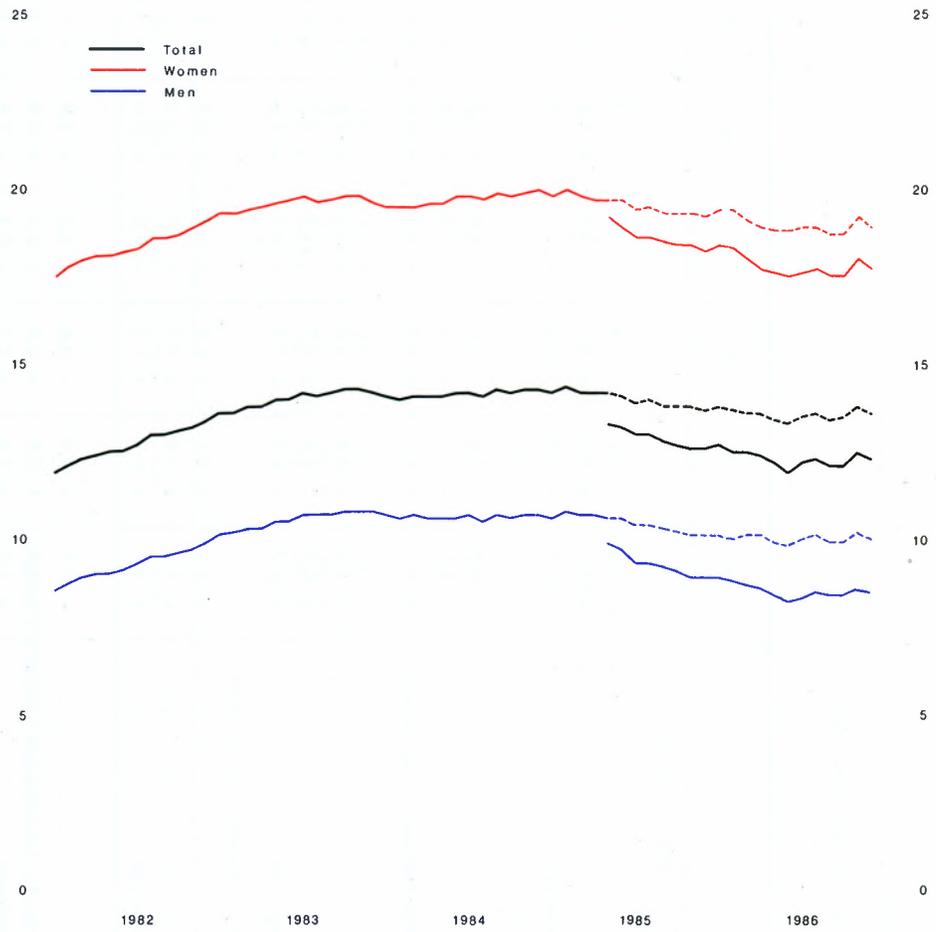
EMPLOYMENT, VALUE ADDED AND PRODUCTIVITY IN ENTERPRISES

(Percentage changes compared with previous year)

	1978	1979	1980	1981	1982	1983	1984	1985	1986 <i>e</i>
<i>Agriculture, forestry and fishing :</i>									
Employment	- 3.3	+ 0.1	- 5.4	- 2.4	- 2.3	- 0.7	...	- 1.1	...
Value added	+11.6	+ 0.4	+ 4.2	+ 4.7	+ 5.0	- 1.7	+ 8.7	+ 1.0	+ 1.0
Value added per person employed	+15.4	+ 0.3	+10.2	+ 7.3	+ 7.4	- 1.1	+ 8.7	+ 2.1	+ 1.0
<i>Industry :</i>									
Employment	- 3.9	- 2.6	- 2.0	- 4.8	- 3.4	- 2.2	- 1.1	- 1.5	- 1.0
Value added	+ 2.1	+ 3.5	+ 2.4	- 0.9	+ 3.0	+ 1.8	+ 1.9	+ 1.3	+ 2.8
Value added per person employed	+ 6.3	+ 6.3	+ 4.4	+ 4.2	+ 6.6	+ 4.1	+ 3.0	+ 2.9	+ 3.9
<i>Building :</i>									
Employment	- 1.3	+ 0.8	- 3.0	-10.3	- 8.8	- 8.0	- 6.3	- 0.2	+ 1.0
Value added	+ 0.9	- 3.4	+ 4.7	-18.9	- 3.7	- 4.6	- 3.3	+ 0.6	+ 3.0
Value added per person employed	+ 2.2	- 4.2	+ 7.9	- 9.7	+ 5.6	+ 3.7	+ 3.2	+ 0.8	+ 2.0
<i>Market services :</i>									
Employment	+ 1.3	+ 2.1	+ 1.4	+ 0.1	+ 0.1	+ 0.4	+ 0.9	+ 2.0	+ 1.3
Value added	+ 3.0	+ 3.6	+ 2.7	- 0.5	+ 2.1	- 1.2	+ 2.2	+ 1.5	+ 2.2
Value added per person employed	+ 1.7	+ 1.4	+ 1.3	- 0.6	+ 2.0	- 1.6	+ 1.2	- 0.4	+ 0.9
<i>Total enterprises :</i>									
Employment	- 0.9	+ 0.4	- 0.4	- 2.5	- 1.8	- 1.1	- 0.2	+ 0.7	+ 0.6
Value added	+ 2.8	+ 2.8	+ 2.8	- 2.1	+ 2.0	- 0.5	+ 1.9	+ 1.4	+ 2.4
Value added per person employed	+ 3.7	+ 2.4	+ 3.2	+ 0.4	+ 3.9	+ 0.6	+ 2.1	+ 0.7	+ 1.8

Chart II. 3.3

UNEMPLOYMENT RATE ¹
(Percentages of working population)



¹ From April 1985 : disregarding unemployed persons opting for the status defined by the Royal Decree of 29th December 1984.
Dotted lines : including these unemployed persons.
Data adjusted for seasonal variations.

CHAPTER III

PRICES

III. 1 Deflators of the gross national product and the main categories of expenditure

a) The rise in the *deflator* of private consumption, which, after reaching a peak of 8.1 p.c. in 1981, had gradually fallen to 4.8 p.c. in 1985, appears to have slowed down sharply in 1986, to 1.4 p.c. (item 1 of Table III. 1). The increase in the average of the monthly indices of consumer prices (part A of Table III. 1.1) showed a similar development, going down from 4.9 to 1.3 p.c. ; not since 1962 has the rate of inflation been so low.

A comparison of the *contributions* of the main categories of products and services to the rise in the overall index [part A.2) of Table III. 1.1] shows that the marked slowing-down from 1985 to 1986 is very localised ; it was due to the large fall, after the previous year's still substantial increase, in the prices of energy products and, to a much smaller extent, to the curbing of the rise in the prices of foodstuffs. The contribution of « other products », services and rents to the movement of the overall index was, on the other hand, as a whole, of the same order of magnitude as in 1985.

During the year under review the prices of energy products fell by 19.6 p.c., whereas they had gone up by 5.4 p.c. in 1985 [part A.1) of Table III. 1.1]. This reduction, primarily due to petroleum products and gas, is explained both by the collapse of oil prices on the international markets and by the decline in the exchange rate for the dollar in Belgian francs.

The slackening of the rise in the price of foodstuffs continued, albeit less markedly than in 1985, thus helping to slow down by 0.4 p.c. the rise in the overall index of consumer prices [part A.2) of Table III. 1.1]. This further slowing-down, which was particularly pronounced for fruit and vegetables, took place mainly during the second half of the year (part B of Table III. 1.1). It was due, on the one hand, to the decline, in Belgian francs, in the prices of imported food raw materials and, on the other hand, to the reduction of about 7 p.c. in the prices of locally produced commodities, chiefly vegetables and meat, owing to the good harvests made possible by the favourable weather conditions, the surplus supply of beef, veal and pigmeat and the decline in costs.

The rise in the prices of « other products » (5.6 p.c.) and of services (5.2 p.c.) was appreciably greater than that in the overall index; compared with the 1985 rises it only slackened very slightly for the former and even speeded up for the latter [part A.1) of Table III. 1.1]. This movement contrasts with the slowing-down of the rise, or even the decline, in the main cost factors in the economy (*labour costs per unit of output*, import prices of energy products, raw materials and other products, interest rates). However, during the second half of the year for services and, to a smaller extent, during the fourth quarter for « other products », the price rises appear to have slowed down [part B.2) of Table III. 1.1].

The rise in consumer prices also slackened on average in eight other industrialised countries (upper part of Chart III. 1.2). This slowing-down was, however, less marked than in Belgium, mainly owing to smaller reductions in the prices of energy products — in some countries because the taxation on the latter was increased — and to the lower weights of these products in the consumer price indices. The difference, which had become disadvantageous to Belgium in 1982, had become largest in 1983 and had gradually decreased since then, thus became favourable again in 1986.

b) The rise in 1986 in the deflator of *public consumption* appears to have been smaller than in the previous year: 2.1 p.c. against 4.6 p.c. (item 2 of Table III. 1). This slowing-down would appear to be chiefly the reflection of the smaller upward movement of the index of the payment of wages and salaries by the *public authorities*, owing to the slowing-down of the rise in consumer prices.

c) The rise in the deflator of *gross capital formation* also appears to have slackened, from 3.4 p.c. in 1985 to 2.6 p.c. in 1986 (item 3). This slackening appears to have taken place in investment in the form of fixed assets by *companies* and in gross capital formation by the *public authorities*; it also seems to have been due to the movement of the prices of building materials and of *labour costs*. While the last-mentioned two factors also influenced the rise in the price of dwellings, the latter appears, on the other hand, to have quickened (6.1 p.c. in 1986 against 5.4 p.c. in 1985) owing to the raising from 6 to 17 p.c. of the rate of the *value added* tax applicable, from 1st August 1986 onwards, to the greater part of residential housing.

d) The deflators of foreign trade, after having gone up from 2 to 3 p.c. in 1985, would appear to have fallen considerably : by 6.9 p.c. for exports of goods and services and by 11.1 p.c. for imports (items 5 and 7). It was the first time, since the publication of the national accounts by the National Statistical Institute began (1953), that such a large decrease in the deflator of imports of goods and services had been recorded.

The considerable rise in the *weighted average exchange rate* for the Belgian franc and the smallness of the rise, or the decline, in world prices, chiefly for energy products and raw materials, strongly influenced import prices. The second of these factors played a smaller role for exports — mainly because the share of energy products in them is smaller — so that, after years of limited fluctuations in one direction or the other, a considerable improvement in the *terms of trade* appears to have been recorded in 1986 (item *p.m.*).

e) The deflator of *final expenditure*, which reflects the movement of all the domestic and foreign costs incorporated in this expenditure, appears to have gone down by 2 p.c., against a rise of 3.9 p.c. in 1985 (item 6).

This reversal seems to have been mainly due to foreign costs (lower part of Table III. 1.3). The *contribution* of import prices, which was still positive in 1985 (0.9 p.c.), appears to have become negative to the extent of 4.7 p.c. in 1986, while the contribution of total domestic costs appears to have decreased only slightly. The reduction, from 1985 to 1986, in the contribution of *labour costs* (and of indirect taxes net of subsidies) would appear to have been largely counterbalanced by the increase in the contribution of the other components of domestic costs, especially the *gross operating surplus* of *companies* and the entrepreneurial incomes of self-employed persons.

f) The fact that the slowing-down of inflation in 1986 thus appears to be mainly attributable to the movement of import prices in Belgian francs also emerges from the movement of the deflator of the *gross domestic product*, which, as was explained in point c) of the basic information, reflects, in theory, that of domestic costs : the rise in this deflator appears to have slowed down only slightly, from 5.1 p.c. in 1985 to 4.6 p.c. in 1986 (item 8 of Table III. 1).

A comparison of the rise in the deflator of the gross domestic product in Belgium and in eight other industrialised countries (middle part of Chart III. 1.2) shows that the differential to the disadvantage of Belgium, after having slightly narrowed during the two preceding years, appears to have stabilised in 1986 at 1.6 points; thus there would not appear to have been, here, a favourable reversal similar to that which is indicated by the rates of rise in consumer prices (upper part of chart). This stabilisation took place despite the fact that the rise in *labour costs* appears to have slowed down more in Belgium than, on average, in the eight foreign countries considered (lower part), this favourable development having in fact been counterbalanced by the relative movement of the other domestic costs.

Table III. 1

DEFLATORS OF THE GROSS NATIONAL PRODUCT AND OF THE MAIN CATEGORIES OF EXPENDITURE

(Percentage changes compared with previous year)

	1978	1979	1980	1981	1982	1983	1984	1985	1986 <i>e</i>
1. Private consumption	+ 4.1	+ 3.9	+ 6.3	+ 8.1	+ 7.4	+ 7.3	+ 6.5	+ 4.8	+ 1.4
2. Public consumption	+ 5.0	+ 5.3	+ 7.7	+ 7.9	+ 7.0	+ 2.9	+ 4.7	+ 4.6	+ 2.1
3. Gross capital formation	+ 4.1	+ 4.8	+ 5.6	+ 6.2	+ 5.6	+ 3.7	+ 3.8	+ 3.4	+ 2.6
3.1 Individuals	+ 5.4	+ 5.6	+ 7.3	+ 4.4	+ 2.9	+ 4.4	+ 4.3	+ 4.7	+ 4.9
(of which : dwellings)	(+ 6.0)	(+ 5.8)	(+ 8.5)	(+ 4.6)	(+ 1.2)	(+ 3.9)	(+ 4.7)	(+ 5.4)	(+ 6.1)
3.2 Companies	+ 2.4	+ 3.5	+ 3.8	+ 5.8	+ 5.5	+ 3.6	+ 3.8	+ 3.0	+ 2.2
(of which : fixed assets)	(+ 3.2)	(+ 3.9)	(+ 2.9)	(+ 4.3)	(+ 6.9)	(+ 5.0)	(+ 3.4)	(+ 3.4)	(+ 2.0)
3.3 Public authorities	+ 5.4	+ 5.0	+ 6.3	+ 9.4	+ 9.8	+ 3.1	+ 3.9	+ 3.8	+ 0.8
4. Total domestic expenditure	+ 4.3	+ 4.4	+ 6.4	+ 7.7	+ 7.0	+ 6.0	+ 5.7	+ 4.6	+ 1.7
5. Exports of goods and services	+ 1.0	+ 9.1	+ 9.1	+ 9.4	+13.1	+ 7.3	+ 7.9	+ 2.8	- 6.9
6. Total final expenditure	+ 3.2	+ 5.9	+ 7.3	+ 8.4	+ 9.4	+ 6.6	+ 6.7	+ 3.9	- 2.0
7. Imports of goods and services	+ 1.0	+ 8.9	+13.6	+13.7	+13.0	+ 7.1	+ 8.1	+ 2.1	-11.1
<i>p.m.</i> Terms of trade .....	...	+ 0.2	- 4.0	- 3.8	...	+ 0.2	- 0.2	+ 0.7	+ 4.7
8. Gross domestic product = gross national product	+ 4.3	+ 4.6	+ 3.7	+ 5.1	+ 7.0	+ 6.3	+ 5.5	+ 5.1	+ 4.6

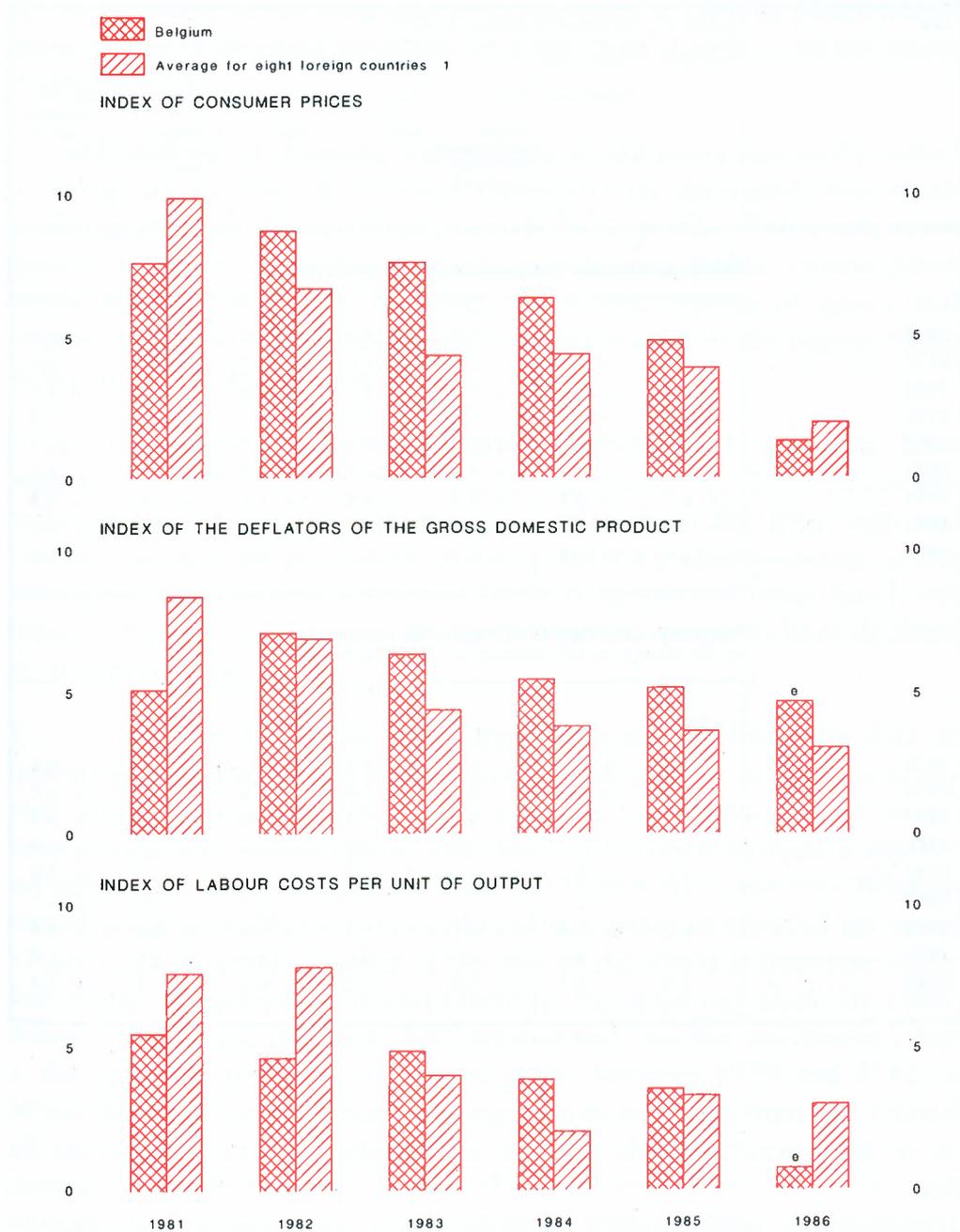
Table III. 1.1

CONSUMER PRICES

	Overall index	Breakdown by categories				
	(a)	Energy products (b)	Food products (c)	Other products (d)	Services (e)	Rents (f)
A. ANNUAL DATA						
1) Percentage changes compared with previous year						
1978	+ 4.5	+ 1.2	+ 1.5	+ 3.9	+ 8.3	+ 7.2
1979	+ 4.5	+ 17.4	+ 0.5	+ 2.8	+ 5.5	+ 6.0
1980	+ 6.6	+ 27.9	+ 3.6	+ 3.0	+ 5.7	+ 7.6
1981	+ 7.6	+ 21.1	+ 6.0	+ 4.9	+ 5.9	+ 10.2
1982	+ 8.7	+ 14.8	+ 9.5	+ 7.0	+ 7.1	+ 8.1
1983	+ 7.7	+ 3.3	+ 8.4	+ 8.6	+ 7.9	+ 9.0
1984	+ 6.3	+ 5.3	+ 7.9	+ 6.4	+ 5.3	+ 7.3
1985	+ 4.9	+ 5.4	+ 3.4	+ 5.9	+ 4.7	+ 5.0
1986	+ 1.3	- 19.6	+ 1.9	+ 5.6	+ 5.2	+ 3.7
2) Percentage contribution of each of the categories to the change in the overall index						
1978	+ 4.5	+ 0.1	+ 0.4	+ 1.2	+ 2.4	+ 0.4
1979	+ 4.5	+ 1.5	+ 0.1	+ 0.9	+ 1.7	+ 0.3
1980	+ 6.6	+ 2.7	+ 0.9	+ 0.9	+ 1.7	+ 0.4
1981	+ 7.6	+ 2.5	+ 1.4	+ 1.5	+ 1.7	+ 0.5
1982	+ 8.7	+ 1.9	+ 2.2	+ 2.1	+ 2.1	+ 0.4
1983	+ 7.7	+ 0.5	+ 1.9	+ 2.5	+ 2.3	+ 0.5
1984	+ 6.3	+ 0.7	+ 1.8	+ 1.9	+ 1.5	+ 0.4
1985	+ 4.9	+ 0.7	+ 0.8	+ 1.8	+ 1.3	+ 0.3
1986	+ 1.3	- 2.5	+ 0.4	+ 1.7	+ 1.5	+ 0.2
B. QUARTERLY DATA						
Percentage changes compared with previous quarter (expressed on annual basis)						
1) Gross data						
1986 1st quarter ..	+ 0.9	- 31.9	+ 6.1	+ 6.0	+ 6.4	+ 9.9
2nd quarter ..	+ 0.5	- 30.6	+ 4.2	+ 6.1	+ 5.6	+ 2.2
3rd quarter ..	+ 0.7	- 23.5	+ 0.8	+ 4.1	+ 6.7	+ 1.0
4th quarter ..	+ 0.5	- 6.7	- 1.7	+ 5.1	- 0.4	+ 1.5
2) Data adjusted for seasonal variations						
1986 1st quarter ..	+ 0.2	- 27.3	+ 3.4	+ 5.1	+ 5.9	- 0.7
2nd quarter ..	+ 0.4	- 29.2	+ 4.2	+ 5.7	+ 5.2	+ 5.4
3rd quarter ..	+ 0.5	- 25.6	+ 0.3	+ 5.9	+ 3.9	+ 4.4
4th quarter ..	+ 1.6	- 11.8	+ 1.7	+ 4.7	+ 3.2	+ 5.3

Chart III. 1.2

PRICES AND COSTS IN NATIONAL CURRENCY IN BELGIUM AND ABROAD
(Percentage changes compared with previous year)



¹ United States, Canada, Japan, Federal Republic of Germany, France, United Kingdom, Italy, Netherlands.

Table III. 1.3

DEFLATOR OF FINAL EXPENDITURE

Year	Deflator of final expenditure	Breakdown by category of costs					
		Foreign costs			Domestic costs		
		Import prices	(<i>p.m.</i> : Weighted average exchange rate for foreign currencies)	Total domestic costs	Labour costs per unit of output	Indirect taxes net of subsidies per unit of output	Other cost components per unit of output
(a)	(b)		(c)	(d)	(e)	(f)	
Percentage changes compared with previous year							
1978	+ 3.2	+ 1.0	(- 4.0)	+ 4.3	+ 4.2	+ 5.9	+ 4.0
1979	+ 5.9	+ 8.9	(- 2.6)	+ 4.6	+ 4.7	+ 4.1	+ 4.6
1980	+ 7.3	+13.6	(+ 0.3)	+ 3.7	+ 5.0	+ 2.9	+ 1.7
1981	+ 8.4	+13.7	(+ 7.6)	+ 5.1	+ 5.5	+ 5.2	+ 4.3
1982	+ 9.4	+13.0	(+11.4)	+ 7.0	+ 4.7	+10.8	+10.3
1983	+ 6.6	+ 7.1	(+ 3.4)	+ 6.3	+ 4.9	+ 5.4	+ 9.1
1984	+ 6.7	+ 8.1	(+ 0.3)	+ 5.5	+ 3.9	+ 2.6	+ 9.0
1985	+ 3.9	+ 2.1	(- 2.3)	+ 5.1	+ 3.6	+ 7.4	+ 7.1
1986 <i>e</i>	- 2.0	-11.1	(- 7.7)	+ 4.6	+ 0.8	+ 2.7	+11.3
Percentage contribution of each of the categories to the change in the deflator of final expenditure							
	= (b) + (c)			= (d) to (f)			
1978	+ 3.2	+ 0.4	(- 1.4)	+ 2.8	+ 1.6	+ 0.4	+ 0.8
1979	+ 5.9	+ 3.0	(- 0.9)	+ 2.9	+ 1.8	+ 0.2	+ 0.9
1980	+ 7.3	+ 5.0	(+ 0.1)	+ 2.3	+ 1.8	+ 0.2	+ 0.3
1981	+ 8.4	+ 5.2	(+ 2.9)	+ 3.2	+ 2.0	+ 0.3	+ 0.9
1982	+ 9.4	+ 5.2	(+ 4.6)	+ 4.2	+ 1.6	+ 0.6	+ 2.0
1983	+ 6.6	+ 2.9	(+ 1.4)	+ 3.7	+ 1.7	+ 0.3	+ 1.7
1984	+ 6.7	+ 3.4	(+ 0.1)	+ 3.3	+ 1.3	+ 0.2	+ 1.8
1985	+ 3.9	+ 0.9	(- 1.0)	+ 3.0	+ 1.2	+ 0.4	+ 1.4
1986 <i>e</i>	- 2.0	- 4.7	(- 3.2)	+ 2.7	+ 0.3	+ 0.1	+ 2.3

III. 2 Main categories of expenditure at current prices

a) As shown by Table III. 1, the rise in the *deflator* of domestic expenditure appears to have been very different from that in the deflator of the *gross national product*. In line with this change in relative prices, the development of the structure of expenditure at current prices would appear to have diverged markedly in 1986 from that at constant prices (Table III. 2.1).

b) The share of domestic expenditure in the *gross national product* at current prices (item A.4) would appear to have decreased substantially during the year under review, namely by 2 points. This contraction appears to have been due to both private and *public consumption* (items A.1 and A.2). On the other hand, net exports of goods and services appear to have gained in importance owing to the improvement in the *terms of trade* (item A.7).

c) At constant prices the movements during 1986 appear to have been diametrically opposite. Domestic expenditure at 1980 prices appears to have gained in importance in relation to the *gross national product*, namely by about 0.8 point (item B.4), chiefly owing to the substantial gross capital formation (item B.3). On the other hand, net exports of goods and services at constant prices appear to have declined by 0.9 point (item B.7).

d) Consequently, unlike what appears to emerge from the data at current prices, the national economy would appear to have actually used a larger proportion of its real resources for the purpose of investment and private consumption and hence to have transferred a smaller net amount to foreign countries. The fact that at the same time Belgium was able substantially to increase the relative share of nominal resources which it placed at the disposal of the rest of the world is therefore solely due to the considerable improvement in the *terms of trade* in 1986. When, in the past, the latter had deteriorated, similar movements, but in the opposite direction, had taken place. Between 1979 and 1981, a period during which the rise in energy prices resulting from the second oil shock produced its effects, the relative share of consumption at current prices had increased and that of net exports of goods and services had become even more negative, without these developments having been attributable to the volumes in question.

Table III. 2

MAIN CATEGORIES OF EXPENDITURE AT CURRENT PRICES

(Billions of francs)

	1978	1979	1980	1981	1982	1983	1984	1985	1986 <i>e</i>
1. Private consumption	1,893	2,055	2,223	2,398	2,603	2,749	2,959	3,149	3,289
2. Public consumption	544	588	643	703	741	761	800	850	872
3. Gross capital formation	655	686	757	642	675	642	705	729	799
3.1 Individuals	282	265	277	187	182	186	195	213	235
(of which : dwellings)	(228)	(210)	(225)	(139)	(131)	(133)	(138)	(153)	(170)
3.2 Companies	261	297	336	307	345	313	377	395	447
(of which : fixed assets)	(253)	(272)	(307)	(307)	(341)	(342)	(382)	(411)	(450)
3.3 Public authorities	112	124	144	148	148	143	133	121	117
4. Total domestic expenditure (1 to 3)	3,092	3,329	3,623	3,743	4,019	4,152	4,464	4,728	4,960
5. Exports of goods and services	1,551	1,826	2,082	2,352	2,715	3,004	3,385	3,557	3,458
6. Imports of goods and services	1,585	1,889	2,186	2,449	2,761	2,947	3,339	3,473	3,276
7. Net exports of goods and services (5 - 6)	- 34	- 63	- 104	- 97	- 46	+ 57	+ 46	+ 84	+ 182
8. Gross domestic product (4 + 7)	3,058	3,266	3,519	3,646	3,973	4,209	4,510	4,812	5,142
9. Net factor income	+ 10	- 4	- 18	- 23	- 39	- 36	- 27	- 35	- 30
10. Gross national product (8 + 9)	3,068	3,262	3,501	3,623	3,934	4,173	4,483	4,777	5,112

Table III. 2.1

MAIN CATEGORIES OF EXPENDITURE

(Percentages of gross national product)

	1978	1979	1980	1981	1982	1983	1984	1985	1986 e
<i>A. At current prices</i>									
1. Private consumption	61.7	63.0	63.5	66.2	66.2	65.9	66.0	65.9	64.3
2. Public consumption	17.7	18.0	18.4	19.4	18.8	18.2	17.9	17.8	17.1
3. Gross capital formation	21.4	21.0	21.6	17.7	17.2	15.4	15.7	15.3	15.6
3.1 Individuals	9.2	8.1	7.9	5.1	4.6	4.5	4.3	4.5	4.6
(of which : dwellings)	(7.4)	(6.4)	(6.4)	(3.8)	(3.3)	(3.2)	(3.1)	(3.2)	(3.3)
3.2 Companies	8.5	9.1	9.6	8.5	8.8	7.5	8.4	8.3	8.7
(of which : fixed assets)	(8.2)	(8.3)	(8.8)	(8.5)	(8.7)	(8.2)	(8.5)	(8.6)	(8.8)
3.3 Public authorities	3.7	3.8	4.1	4.1	3.8	3.4	3.0	2.5	2.3
4. Total domestic expenditure (1 to 3)	100.8	102.0	103.5	103.3	102.2	99.5	99.6	99.0	97.0
5. Exports of goods and services	50.6	56.0	59.4	64.9	69.0	72.0	75.5	74.4	67.7
6. Imports of goods and services	51.7	57.9	62.4	67.6	70.2	70.6	74.5	72.7	64.1
7. Net exports of goods and services (5 - 6)	- 1.1	- 1.9	- 3.0	- 2.7	- 1.2	+ 1.4	+ 1.0	+ 1.7	+ 3.6
8. Gross domestic product (4 + 7)	99.7	100.1	100.5	100.6	101.0	100.9	100.6	100.7	100.6
9. Net factor income	+ 0.3	- 0.1	- 0.5	- 0.6	- 1.0	- 0.9	- 0.6	- 0.7	- 0.6
10. Gross national product (8 + 9)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>B. At 1980 prices</i>									
1. Private consumption	62.8	64.5	63.5	64.3	64.1	63.2	62.7	62.9	63.3
2. Public consumption	18.5	18.7	18.4	18.9	18.3	18.3	18.1	18.1	17.8
3. Gross capital formation	21.8	21.4	21.6	17.5	17.2	15.9	16.5	16.2	16.9
3.1 Individuals	9.6	8.4	7.9	5.2	4.9	4.8	4.7	4.8	5.0
(of which : dwellings)	(7.9)	(6.7)	(6.4)	(3.9)	(3.5)	(3.5)	(3.4)	(3.5)	(3.6)
3.2 Companies	8.4	9.1	9.6	8.4	8.8	7.8	8.9	8.9	9.6
(of which : fixed assets)	(8.1)	(8.3)	(8.8)	(8.5)	(8.7)	(8.4)	(8.9)	(9.1)	(9.6)
3.3 Public authorities	3.8	3.9	4.1	3.9	3.5	3.3	2.9	2.5	2.3
4. Total domestic expenditure (1 to 3)	103.1	104.6	103.5	100.7	99.6	97.4	97.3	97.2	98.0
5. Exports of goods and services	55.4	58.9	59.4	62.4	62.8	64.9	66.5	67.0	68.5
6. Imports of goods and services	58.9	63.4	62.4	62.5	61.4	61.4	63.2	63.5	65.9
7. Net exports of goods and services (5 - 6)	- 3.5	- 4.5	- 3.0	- 0.1	+ 1.4	+ 3.5	+ 3.3	+ 3.5	+ 2.6
8. Gross domestic product (4 + 7)	99.6	100.1	100.5	100.6	101.0	100.9	100.6	100.7	100.6
9. Net factor income	+ 0.4	- 0.1	- 0.5	- 0.6	- 1.0	- 0.9	- 0.6	- 0.7	- 0.6
10. Gross national product (8 + 9)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

CHAPTER IV

INCOME

IV. 1 Income accounts of the various sectors

a) In terms of current prices, the *gross primary income of individuals* would appear to have increased by 5 p.c., that is, less than during the two preceding years (item 1.1 of Table IV. 1). This slowing-down was, however, solely due to the slackening of the rate of inflation (measured by the movement of consumer prices), since, at constant prices, the rate of growth would have reached 3.7 p.c., an appreciably higher level than the 1 to 1.5 p.c. recorded in 1984 and 1985 (item 1.4 of Table IV. 1.1). All three components of the primary income of individuals would appear to have contributed to this increase at constant prices, but it is the entrepreneurial income of self-employed persons (item 1.2) which appears to have risen most. The rise in *income from property* (item 1.3) would appear to have been fairly large, as during the two preceding years, while *compensation of employees* (item 1.1) appears to have increased to a moderate extent.

b) This rise in the *compensation of employees* at constant prices (1.6 p.c.) contrasts with the virtual stagnation observed in 1985. The difference is not due to a more favourable development of employment, which, on the contrary, appears to have increased slightly less than in 1985, but is attributable to changes in compensation per employee. The latter, which had declined in 1985 for the fifth year in succession, appears to have begun to rise again during the year under review (Chart IV. 1.2). The rise recorded, namely 1 p.c., may be regarded as relatively large in view of the maintenance by the Government of the measures for moderating incomes; furthermore, the increase in part-time working, comparable with that observed the previous year, continued to curb the growth in average compensation per employee. The average increase in compensation per employee over the year 1986 as a whole is primarily due to the indexation of wages applied during the second half of 1985 on the basis of the still relatively large rises in consumer prices which has been recorded in the first half of 1985. It thus seems that the mechanism whereby the adjustment of wages is linked to the average of the index for the last four months, which had been introduced in 1983 in order to slow down the growth in remuneration during a period of quickening inflation, has more recently had the effect of postponing the deceleration of the rate of growth of wages which ought normally to result from the slackening of inflation.

c) According to the still very incomplete data available, the income at constant prices of self-employed persons appears to have increased quite sharply (item 1.2 of Table IV. 1.1). This rise is mainly due to the increase in the income of tradesmen and artisans, attributable not only to the more favourable development of private consumption but above all to the widening of profit margins. Despite the increase in the overall volume of their production, farmers and horticulturists appear, on the other hand, to have suffered a decrease in their income : while the cost of their means of production decreased, this decline remained appreciably smaller than that in their selling prices.

d) The rate of increase, at current prices, of *income from property* accruing to *individuals* appears to have slowed down, but, owing to the slackening of inflation, the increase at constant prices (6.4 p.c.) appears to have remained greater than that in 1985 (item 1.3 of Table IV. 1.1). The smaller expansion at current prices is mainly attributable to the downward trend of interest rates both in 1985 and in 1986, which depressed the average yield on short-term and long-term portfolio investments as a whole. The incidence of the decline in interest rates on the income from long-term financial assets in Belgian francs was, however, largely offset by the sharp increase in 1985 in total holdings of these assets, which had the effect of increasing the collection of interest during the year under review on this category of investments.

e) During the year under review the rise, at constant prices, in the *disposable income* of *individuals* would appear to have been slightly greater than that in their *gross primary income*, namely 4.1 p.c. against 3.7 p.c. (items 3 and 1.4). Up by 0.6 p.c., net current *transfers* to other sectors would appear to have risen only slightly, in contrast to the large increases which took place in 1985 and, above all, in 1984 (item 2.3). The moderation of the rise in current transfers is due to various factors. Unlike in 1984 and 1985, the measure requiring employees of enterprises to pay to the *public authorities* the proceeds of a 2 p.c. indexation of wages and salaries and providing for a similar transfer by self-employed persons did not, owing to the pronounced slackening of inflation, have any appreciable effect on the total yield of social security contributions (item 2.13). For the same reasons the skipping of a 2 p.c. indexation of most allowances with the exception of the various minimum amounts was not applied in 1986, whereas it had produced its effects in 1984 and 1985. Lastly, in 1986 the increase

in direct taxes at constant prices, which remained relatively moderate in view of the distinctly more pronounced rise in gross primary income, was adversely influenced by a fixed 2 p.c. indexation of tax scales and by the reduction in the rates of tax on physical persons under the law of 1st August 1985. Both these measures form part of the first stage of a four-year plan for lightening the burden of taxation (item 2.14).

f) For the first time for many years, selling prices net of taxes (item A.1.3 of Table IV. 1.3) and cost prices per unit of output (item A.2.5) of *companies* would appear to have decreased. The reduction in the former (-2.9 p.c.) having, however, remained appreciably smaller than that in the latter (-5.1 p.c.), this appears to have led to a substantial increase, of 15.9 p.c., in the unit profit margin expressed in francs (item A.3). Consequently, as a percentage of the selling price, the unit profit margin of companies appears to have risen from 10.8 p.c. in 1985 to 12.9 p.c. in 1986.

However, the overall rise in selling prices and cost prices conceals widely divergent changes in their various components. The main factor behind these decreases was the sharp reduction in import prices, coupled with a very moderate increase in *labour costs* per person; the latter was brought about indirectly by the decline in import prices and facilitated by the maintenance of the measures for moderating incomes. The widening of the profit margin of companies was due to the fact that these factors pushing down costs or slowing down their rise were not fully passed on to selling prices. Furthermore, the movement of the latter was not the same for exports — the prices of which fell markedly — and for domestic selling prices, which still appear to have risen somewhat. An initial explanation of this discrepancy probably lies in the different composition of sales in the two markets, since domestic sales contain a relatively larger proportion of services, the cost prices of which include proportionally more domestic costs than those of goods. A second explanation might be the existence of keener competition in foreign markets, inducing companies to pass on these a larger proportion of the total reduction in cost prices than they had to do in the case of selling prices on the domestic market.

The widening of the profit margin, coupled with a rise of 4 p.c. in sales at constant prices (item B) appears to have led to an increase in the gross operating surplus of companies of 20.5 p.c. in 1986 against 13.9 p.c. in 1985 (item C).

The growth in the *disposable income* of companies (item 7 of Table IV. 1.4) would appear to have been much greater, even, than that in their operating surplus. This differential is due to two factors. Net payments of incomes on property to other sectors (item 4) — mainly individuals and foreign countries — appear to have decreased in 1986, primarily owing to the reduction in the interest charges of companies other than financial intermediaries due both to the decline in interest rates and to the improvement in their financial position, a factor leading to a contraction in their net indebtedness. Furthermore, despite a larger increase than in 1985 in the *gross primary income* of companies (item 5), the direct taxes paid by that sector (item 6) appear to have increased only at much the same rate as in the previous year. The reasons for this will be sought in section V. 2.

Table IV. 1

INCOME ACCOUNT OF THE VARIOUS SECTORS

(At current prices)

	1978	1979	1980	1981	1982	1983	1984		1985		1986 <i>e</i>	
	Billions of francs						Percentage changes	Billions of francs	Percentage changes	Billions of francs	Percentage changes	Billions of francs
1. <i>Individuals</i> :												
1.1 Gross primary income	2,574	2,749	2,991	3,163	3,420	3,632	+ 7.5	3,904	+ 6.4	4,153	+ 5.0	4,362
1.2 Current transfers to (-) the other sectors ¹	- 233	- 251	- 256	- 223	- 282	- 270	+ 33.0	- 359	+ 18.4	- 425	+ 1.9	- 433
1.3 Disposable income (1.1 + 1.2) ... <i>p.m. Percentage changes at constant prices</i>	2,341 (+ 2.5)	2,498 (+ 2.2)	2,735 (+ 2.7)	2,940 (- 0.1)	3,138 (- 1.8)	3,362 (- 0.5)	+ 5.4 (- 0.8)	3,545	+ 5.2 (+ 0.3)	3,728	+ 5.4 (+ 4.1)	3,929
2. <i>Companies</i> :												
2.1 Gross primary income	308	333	329	326	402	447	+ 15.7	517	+ 13.2	586	+ 28.0	750
2.2 Current transfers to (-) the public authorities	- 82	- 92	- 89	- 87	- 113	- 114	+ 18.4	- 135	+ 10.4	- 149	+ 10.1	- 164
2.3 Disposable income (2.1 + 2.2) ...	226	241	240	239	289	333	+ 14.7	382	+ 14.1	437	+ 34.1	586
3. <i>Public authorities</i> :												
3.1 Gross primary income	187	180	181	134	112	94	- 34.0	62	- 38.7	38	—	...
3.2 Current transfers from other sectors ¹	295	321	312	266	351	340	+ 33.8	456	+ 19.5	545	+ 3.3	563
3.3 Disposable income (3.1 + 3.2) ...	482	501	493	400	463	434	+ 19.1	518	+ 12.5	583	- 3.4	563
4. <i>Rest of the world</i> :												
4.1 Disposable income (= current transfers from other sectors ¹)	19	22	33	44	44	44	- 11.4	38	- 23.7	29	+ 17.2	34
5. <i>Gross national product</i> (1.1 + 2.1 + 3.1 or 1.3 + 2.3 + 3.3 + 4.1)	3,068	3,262	3,501	3,623	3,934	4,173	+ 7.4	4,483	+ 6.6	4,777	+ 7.0	5,112

¹ These are net amounts, i.e. the difference between transfers received from other sectors and transfers paid to other sectors.

Table IV. 1.1

INCOME ACCOUNT OF INDIVIDUALS

	1983	1984		1985		1986 <i>e</i>		Billions of francs at current prices		
	Billions of francs at current prices	Percentage changes compared with 1983		Billions of francs at current prices	Percentage changes compared with 1984		Percentage changes compared with 1985			
		at current prices	at constant prices		at current prices	at constant prices	at current prices		at constant prices	
1. Gross primary income :										
1.1 Compensation of employees	2,403	+ 5.5	- 0.8	2,536	+ 5.1	+ 0.2	2,665	+ 2.9	+ 1.6	2,742
1.2 Entrepreneurial income of self-employed persons	503	+ 6.4	+ 0.1	535	+ 6.5	+ 1.5	570	+10.5	+ 9.1	630
1.3 Income from property	726	+14.7	+ 7.9	833	+10.2	+ 5.1	918	+ 7.8	+ 6.4	990
1.4 Total (1.1 to 1.3)	3,632	+ 7.5	+ 1.1	3,904	+ 6.4	+ 1.4	4,153	+ 5.0	+ 3.7	4,362
2. Current transfers :										
2.1 To (-) and from public authorities :										
2.11 Social benefits received	867	+ 4.6	- 1.6	907	+ 4.2	- 0.7	945	+ 3.2	+ 1.9	975
2.12 Other transfers received	99	+10.1	+ 3.6	109	+ 6.4	+ 1.4	116	+ 5.2	+ 3.8	122
2.13 Social contributions paid	- 558	+13.4	+ 6.7	- 633	+11.5	+ 6.3	- 706	+ 4.0	+ 2.7	- 734
2.14 Direct taxes paid	- 669	+ 9.4	+ 2.9	- 732	+ 5.6	+ 0.7	- 773	+ 1.9	+ 0.6	- 788
2.15 Total (2.11 to 2.14)	- 261	+33.7	+25.8	- 349	+19.8	+14.2	- 418	+ 1.7	+ 0.4	- 425
2.2 To (-) and from the rest of the world ¹ ...	- 9	+11.1	+ 4.5	- 10	-30.0	-33.3	- 7	+14.3	+12.8	- 8
2.3 Total (2.15 + 2.2)	- 270	+33.0	+25.1	- 359	+18.4	+12.9	- 425	+ 1.9	+ 0.6	- 433
3. Disposable income (1.4 + 2.3)	3,362	+ 5.4	- 0.8	3,545	+ 5.2	+ 0.3	3,728	+ 5.4	+ 4.1	3,929

¹ These are net amounts, i.e. the difference between transfers received and transfers paid.

Chart IV. 1.2

PRIMARY INCOME : COMPENSATION OF EMPLOYEES

(Percentage changes compared with previous year, at constant prices)

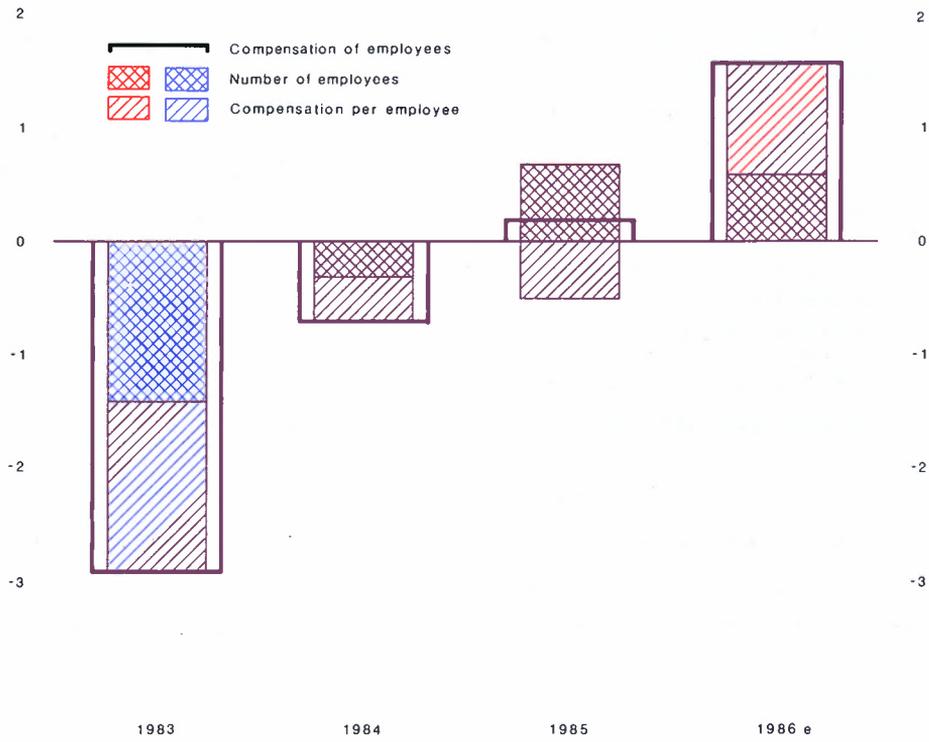


Table IV. 1.3

FACTORS CONTRIBUTING TO THE CHANGE IN THE GROSS
OPERATING SURPLUS OF COMPANIES BEFORE SUBSIDIES

(Percentage changes compared with previous year)

	1984	1985	1986 <i>e</i>
<i>A. Unit profit margin expressed in francs :</i>			
1. Selling prices excluding taxes :			
1.1 Exports of goods and services	+ 7.9	+ 2.8	- 6.9
1.2 Domestic sales	+ 6.4	+ 4.6	+ 1.5
1.3 Total	+ 7.3	+ 3.7	- 2.9
2. Cost prices :			
2.1 Labour costs per employee	+ 6.3	+ 4.4	+ 2.2
2.2 Imports of goods and services	+ 8.1	+ 2.1	- 11.1
2.3 Other costs	+ 5.7	+ 6.0	+ 10.1
2.4 Average cost price with unchanged productivity	+ 7.2	+ 3.2	- 4.7
2.5 Average cost price per unit of output	+ 6.5	+ 2.9	- 5.1
3. Unit profit margin expressed in francs	+ 14.3	+ 12.0	+ 15.9
<i>p.m. Unit profit margin as a percentage of the selling price (during the year in question)</i>	(10.0)	(10.8)	(12.9)
<i>B. Final sales at constant prices</i>	+ 3.1	+ 1.7	+ 4.0
<i>C. Gross operating surplus before subsidies</i>	+ 17.8	+ 13.9	+ 20.5

Table IV. 1.4

INCOME ACCOUNT OF COMPANIES

	1983		1984		1985		1986 <i>e</i>	
	Billions of francs	Percentage changes	Billions of francs	Percentage changes	Billions of francs	Percentage changes	Billions of francs	
1. Gross operating surplus before subsidies	545	+17.8	642	+13.9	731	+20.5	881	
2. Subsidies received	59	+13.6	67	+4.4	71	+5.6	75	
3. Gross operating surplus (1 + 2)	604	+17.4	709	+13.1	802	+19.2	956	
4. Net incomes from property paid to other sectors (-)	-157	+22.3	-192	+12.5	-216	-4.6	-206	
of which :								
4.1 Net incomes received by financial intermediaries .. <i>e</i>	(+ 97)	(+21.6)	(+118)	(+11.0)	(+131)	(+2.3)	(+134)	
4.2 Net incomes paid by other companies	(-254)	(+22.0)	(-310)	(+11.9)	(-347)	(-2.0)	(-340)	
5. Gross primary income (3 + 4)	447	+15.7	517	+13.2	586	+28.0	750	
6. Current transfers to (-) the public authorities	-114	+18.4	-135	+10.4	-149	+10.1	-164	
7. Disposable income (5 + 6) ...	333	+14.7	382	+14.1	437	+34.1	586	

CHAPTER V

MAJOR SECTORS OF THE ECONOMY

V. 1 Summary of the transactions of the major sectors of the economy

a) The domestic sectors as a whole, whose *net financing requirement*, expressed as a percentage of the *gross national product*, had reached 4.8 p.c. in 1981 and had continuously declined during the following years, appear to have shown a substantial *net financing capacity* in 1986 : 2.1 p.c., against 0.2 p.c. in 1985 (item 4.1 of Table V. 1.1). This considerable increase is connected with the improvement in the *terms of trade* mentioned in the preceding chapters ; it means that the *public authorities'* net financing requirement was more than covered by the net financing capacity of the other two domestic sectors, *individuals* and *companies*.

b) The decline in import prices, which is responsible for the improvement in the *terms of trade*, chiefly benefited *companies* for the reasons stated in Chapter IV concerning incomes : the share of their *disposable income* in the *gross national product* increased considerably (item 2.1). This increase was partly counterbalanced by a reduction in *capital transfers* from the *public authorities*, owing to the decrease in the assistance given by the latter to the *national sectors*, but, as *gross capital formation* by companies appears to have risen appreciably less than their disposable income, their *net financing capacity* (item 2.4) appears to have increased substantially again, from 4.1 p.c. in 1985 to 5.4 p.c.

c) The large increase in the share of the *disposable income* of *companies* in the *gross national product* had, as one of its counterparts, a movement in the opposite direction of that of *individuals* (item 1.1). The apparent decrease in the share of the latter in the gross national product is, however, solely the reflection of a movement of relative prices : the development of the nominal income of individuals depends on the movement of consumer prices — the very small rise in which in 1986, owing to the decline in import prices, has already been emphasised — whereas the change in the nominal value of the gross national product is affected by a *deflator* which depends on domestic costs alone ; that is why the nominal growth in the above-mentioned income was much smaller than that in the national product. But, if the two magnitudes are expressed in 1985 prices, it is found that the share of the disposable income of individuals — like that of their consumption,

which is subject to the same influences (see section III. 2) — actually appears to have increased in 1986 (items 1.1 and 1.2, *p.m.* column).

d) The *net financing requirement* of the *public authorities* (item 3.6) — the movement of which will be commented upon in detail later, in section V. 2 — appears to have slightly decreased again.

Table V. 1

SUMMARY OF THE TRANSACTIONS OF THE MAJOR SECTORS
OF THE ECONOMY AT CURRENT PRICES*(Billions of francs)*

	1978	1979	1980	1981	1982	1983	1984	1985	1986 <i>e</i>
<i>1. Individuals :</i>									
1.1 Disposable income	2,341	2,498	2,735	2,940	3,138	3,362	3,545	3,728	3,929
1.2 Consumption	1,893	2,055	2,223	2,398	2,603	2,749	2,959	3,149	3,289
1.3 Gross savings (1.1 - 1.2)	448	443	512	542	535	613	586	579	640
<i>(Percentages of disposable income)</i>	<i>(19.1)</i>	<i>(17.7)</i>	<i>(18.7)</i>	<i>(18.4)</i>	<i>(17.1)</i>	<i>(18.2)</i>	<i>(16.5)</i>	<i>(15.5)</i>	<i>(16.3)</i>
1.4 Capital transfers ¹	5	6	5	4	1	...	- 1	+ 1	...
1.5 Gross capital formation	282	265	277	187	182	186	195	213	235
1.6 Net financing capacity (1.3 + 1.4 - 1.5)	171	184	240	359	354	427	390	367	405
<i>(Percentages of disposable income)</i>	<i>(7.3)</i>	<i>(7.4)</i>	<i>(8.8)</i>	<i>(12.2)</i>	<i>(11.3)</i>	<i>(12.7)</i>	<i>(11.0)</i>	<i>(9.8)</i>	<i>(10.3)</i>
<i>2. Companies :</i>									
2.1 Disposable income = gross savings	226	241	240	239	289	333	382	437	586
2.2 Capital transfers ¹	56	61	98	132	129	144	118	154	135
2.3 Gross capital formation	261	297	336	307	345	313	377	395	447
2.4 Net financing capacity (2.1 + 2.2 - 2.3)	21	5	2	64	73	164	123	196	274
<i>3. Public authorities :</i>									
3.1 Disposable income	482	501	493	400	463	434	518	583	563
3.2 Consumption	544	588	643	703	741	761	800	850	872
3.3 Gross savings (3.1 - 3.2)	- 62	- 87	- 150	- 303	- 278	- 327	- 282	- 267	- 309
3.4 Capital transfers ¹	- 68	- 76	- 110	- 144	- 140	- 157	- 129	- 166	- 147
3.5 Gross capital formation	112	124	144	148	148	143	133	121	117
3.6 Net financing requirement (-) (3.3 + 3.4 - 3.5)	- 242	- 287	- 404	- 595	- 566	- 627	- 544	- 554	- 573
<i>4. Total of domestic sectors :</i>									
4.1 Net financing requirement (-) or capacity (1.6 + 2.4 + 3.6)	- 50	- 98	- 162	- 172	- 139	- 36	- 31	9	106

¹ These are net amounts, i.e. the difference between transfers received from other sectors and transfers paid to other sectors.

Table V. 1.1

SUMMARY OF THE TRANSACTIONS OF THE MAJOR SECTORS OF THE ECONOMY AT CURRENT PRICES
(Percentages of gross national product)

	1978	1979	1980	1981	1982	1983	1984	1985	1986 e	p.m. 1986 at 1985 prices e
1. Individuals :										
1.1 Disposable income	76.3	76.6	78.1	81.2	79.8	80.6	79.1	78.0	76.8	79.3
1.2 Consumption	61.7	63.0	63.5	66.2	66.2	65.9	66.0	65.9	64.3	66.4
1.3 Gross savings (1.1 - 1.2)	14.6	13.6	14.6	15.0	13.6	14.7	13.1	12.1	12.5	12.9
1.4 Capital transfers ¹	0.2	0.2	0.1	0.1	...	...	...	...	...	—
1.5 Gross capital formation	9.2	8.2	7.9	5.2	4.6	4.5	4.4	4.4	4.6	—
1.6 Net financing capacity (1.3 + 1.4 - 1.5)	5.6	5.6	6.8	9.9	9.0	10.2	8.7	7.7	7.9	—
2. Companies :										
2.1 Disposable income = gross savings	7.4	7.4	6.9	6.6	7.4	8.0	8.5	9.2	11.5	—
2.2 Capital transfers ¹	1.8	1.9	2.8	3.6	3.3	3.5	2.6	3.2	2.6	—
2.3 Gross capital formation	8.5	9.1	9.6	8.5	8.8	7.5	8.4	8.3	8.7	—
2.4 Net financing capacity (2.1 + 2.2 - 2.3)	0.7	0.2	0.1	1.7	1.9	4.0	2.7	4.1	5.4	—
3. Public authorities :										
3.1 Disposable income	15.7	15.4	14.1	11.1	11.7	10.4	11.5	12.2	11.0	—
3.2 Consumption	17.7	18.0	18.4	19.4	18.8	18.2	17.8	17.8	17.0	—
3.3 Gross savings (3.1 - 3.2)	- 2.0	- 2.6	- 4.3	- 8.3	- 7.1	- 7.8	- 6.3	- 5.6	- 6.0	—
3.4 Capital transfers ¹	- 2.3	- 2.4	- 3.1	- 4.0	- 3.5	- 3.8	- 2.8	- 3.5	- 2.9	—
3.5 Gross capital formation	3.6	3.8	4.1	4.1	3.8	3.4	3.0	2.5	2.3	—
3.6 Net financing requirement (-) (3.3 + 3.4 - 3.5) ..	- 7.9	- 8.8	-11.5	-16.4	-14.4	-15.0	-12.1	-11.6	-11.2	—
4. Total of domestic sectors :										
4.1 Net financing requirement (-) or capacity (1.6 + 2.4 + 3.6)	- 1.6	- 3.0	- 4.6	- 4.8	- 3.5	- 0.8	- 0.7	0.2	2.1	—

¹ These are net data, i.e. the difference between transfers received from other sectors and transfers paid to other sectors.

V. 2 Revenue, expenditure and net financing requirement (-) of the public authorities

a) The *net financing requirement* of the *public authorities* appears to have decreased from 11.6 p.c. of the *gross national product* in 1985 to 11.2 p.c. in 1986 (item 3 of Table V. 2.1). The tendency towards an improvement in the state of the public finances, which had started after 1981, thus appears to have continued during the year under review.

This further recovery is partly due to the general economic trend, and especially to the faster growth at constant prices, which, all other things remaining equal, supports the movement of revenue. It was also accentuated by the implementation of the fiscal adjustment plan put forward by the Government on 23rd May 1986. This so-called « Val-Duchesse Plan », the main aims of which chiefly related to 1987, would appear to have already produced its first effects in 1986. It consisted of a set of specific measures mainly designed to reduce, on the one hand, the public authorities' current expenditure and capital expenditure and, on the other hand, by a considerably smaller amount, their *tax expenditure* too. Part of these measures furthermore made it possible to achieve the additional savings which were to be obtained in 1986 under the multi-annual plan for the improvement of the public finances introduced by the preceding Government in March 1984.

The slight decline in the public authorities' net financing requirement expressed as a percentage of the gross national product would appear to be due to a larger decrease in their total expenditure than that in their total revenue, the former having declined from 61.1 to 58.8 p.c. (item 2.11) and the latter from 49.5 to 47.6 p.c. (item 1.7). This fairly appreciable decrease in both the revenue and the expenditure of the public authorities, as a percentage of the gross national product, is largely attributable to the considerable disparity between the rates of rise of the *deflator* of the gross national product and the index of consumer prices : most of the public authorities' revenue and expenditure is in fact directly or indirectly connected with the movement of consumer prices and, when these are expressed as a proportion of the gross national product, the deflator of which increased much more rapidly in 1986, they show, fairly automatically, a more or less general movement of relative contraction. That is why, in order to bring out

more clearly the fundamental factors underlying the movement of the main categories of revenue and expenditure in 1986, it was thought preferable to describe it on the basis of the percentage changes observed between 1985 and the year under review (last column of Table V. 2).

b) The fiscal and parafiscal revenue received by the public authorities appears to have increased by 3.5 p.c. in 1986 (item 1.5 of Table V. 2). If capital taxes, the amount of which has remained unchanged for many years, are disregarded, the rate of expansion of the various major categories of revenue appears to have been fairly uniform (items 1.1 to 1.3).

Direct taxes appear to have increased by 3.4 p.c. (item 1.1). The most rapid growth appears to have taken place in taxes paid by *companies*, which appear to have increased by about 10 p.c., whereas those from *individuals*, which constitute the greater part of direct taxes, appear to have risen by only about 2 p.c.

In comparison with the sharp increase in the *gross primary income* of companies, analysed in point f) of Chapter IV, and taking into account the reduction in their *tax expenditure* provided for by the Val-Duchesse Plan, the yield of taxes on companies in 1986 may — despite its growth — seem rather small. This apparently mediocre result is partly attributable to a very sharp rise in the net repayments which the public authorities had to make to companies in 1986 when the amounts of tax due on the income of other years were assessed. The rise in the taxes on the incomes for the year under review, that is, in the case of companies, mainly the payments on account which they make in advance, would appear to have amounted to about 18 p.c. The amount of these advance payments does not, however, make it possible to predict the actual amounts which will be finally payable by companies, later, when the tax due for 1986 is assessed. Secondly, a number of legal provisions concerning the taxation of companies may have contributed to limiting the expansion in the taxes paid by them in 1986. This might apply especially to the substantial tax reliefs granted to companies by the legislation on *co-ordination centres*, of which considerable advantage was taken. It is also quite possible that the sharp increase in their profits induced some companies to choose, to a greater extent than in the previous year, the faster of the various permitted depreciation systems, which would have had the effect of slowing down the increase in their taxable income.

With regard to direct taxes on individuals, the rise in these would appear to have been appreciably slowed down by the tax reliefs which resulted, under the law of 1st August 1985, from the application of the first phase of the four-year plan for reducing taxation, and especially from the 2 p.c. fixed indexation of the tax scales.

The increase of 3.4 p.c. in indirect taxes would appear to have been mainly due to the movement of the basis of assessment (item 1.2). The raising, at the beginning of August 1986, of the rate of the *value added* tax applicable to the greater part of residential housing — from 6 to 17 p.c. — would appear to have exerted only a very limited influence during the year under review.

The increase in social security contributions appears to have amounted to 3.9 p.c. (item 1.3). This rise, which would appear to have been faster than that in the *compensation of employees*, appears to have been stimulated, on the one hand, by the particularly vigorous growth in the incomes of self-employed persons and, on the other hand, by the increase in parafiscal levies connected with the general moderation of incomes provided for in the plan for the improvement of the public finances of March 1984. This increase appears to have been mainly due to the fact that the payments connected with the moderation of incomes scheduled for 1985 were, in 1986, made for the first time in the whole of the economy for a complete year. It nevertheless appears to have been much smaller than in the two preceding years; this was because, in most enterprises, the payment to the social security system of the proceeds of the first 2 p.c. indexation of earned incomes, which should have been made in 1986 for the third year in succession, was not made because such an indexation did not take place.

The fall in interest rates led to a considerable decrease in the revenue obtained by the Treasury from its share in the proceeds of the Bank's operations. This movement would appear to be the main factor responsible for a fall of 10.2 p.c. in non-fiscal and non-parafiscal revenue in 1986 (item 1.6). The growth in total revenue would consequently appear to have been reduced to 3 p.c. (item 1.7).

c) Total expenditure appears to have risen at the same rate as total revenue, namely 3.1 p.c. (item 2.11). This rise is the resultant of two changes in opposite directions: a contraction in capital expenditure, partly counterbalanced the expansion in current expenditure, which

appears to have amounted to 4.3 p.c. (item 2.7); as during the preceding years, the largest contribution to this expansion appears to have been made by interest charges.

Net expenditure on goods and services — which does not include the wages of persons given work by the public authorities under the job-creation programmes — appears to have increased in 1986 by 1.6 p.c. (item 2.1). The measures of the Val-Duchesse Plan and those taken by the local authorities in order to restore the balance of their budgets appear to have had a substantial curbing effect both on expenditure on personnel and on net purchases of goods. The relatively modest increase in net expenditure on goods and services is also attributable to the smallness of the rise in the prices of goods and services purchased by the public authorities and in the wages and salaries for which they are responsible. As no upward adjustment of the latter took place during 1986, they rose only to the extent of the effect, on their average level, of the adjustments brought about by the indexation mechanisms in 1985.

The rise in interest charges (item 2.2) appears to have remained substantial (10 p.c.), although smaller than in 1985, when it was more than 13 p.c. This slight slackening is obviously due to the pronounced fall in interest rates in Belgium and abroad and, to a smaller extent, to the considerable depreciation of the dollar, which reduced interest payments due in that currency.

Interest payments increased substantially in 1986 because the deficit on the year was met, to a greater extent than in 1985, by short-term borrowing; interest on these loans is generally payable in the year when they are contracted. The high rate of growth of the public authorities' liabilities also helped to bring about this increase. Lastly, the fall in interest rates had no effect on the loans which the public authorities had contracted, at medium and long term, at fixed interest rates during the preceding years. The average interest rate on their liabilities as a whole therefore remained high, this having been the main reason why interest charges again grew more than the *gross national product* at current prices. It was in order to reduce the burden imposed by these charges from the past on the *Treasury's total net balance to be financed* that a protocol agreement was concluded on 3rd August between the Government and the institutional investors [see also point d) of the basic information of the fourth part]. This agreement provided that, from

1st September 1986 until 1990, the difference between the total of the interest charges payable by the Treasury on a certain number of public debt bonds held by these investors and the payment which these would have obtained if the same bonds had been issued at a nominal interest rate of 8 p.c. would be the subject of a regularisation loan, issued by tranches with a term of eight years, for a total amount of Fr. 99 to 108 billion. During the first four years the paper representing this loan will take the form of « Treasury bills » and, from 1986 to 1989, these will be issued at a rate slightly below the market rate. During the third quarter of 1986 around Fr. 6 billion's worth of these « bills » were subscribed for by institutional investors.

Unemployment and job-creation expenditure appears to have increased by 4.6 p.c. (item 2.3). This increase, partly due to the effect on the average level of these payments of the indexation adjustments made in 1985, appears to be mainly attributable to the intensification of the programmes for employment of unemployed persons by the public authorities and of the third labour circuit. The effect of these factors appears to have been only partly offset by the decrease in the number of persons receiving unemployment benefit.

Current *transfers to individuals* recorded in item 2.4 appear to have risen by 3.8 p.c. This rise appears to be chiefly due to the rather large growth in pension expenditure and, more generally, to the incidence of the indexation adjustments made in 1985, which affected the average level of expenditure on transfers. The application of the measures of the Val-Duchesse Plan, especially those aimed at curbing the expenditure of the health insurance benefit branch, appears to have had only a minimal effect in 1986.

Subsidies to enterprises appear to have decreased in 1986 by 1.4 p.c. (item 2.5). This slight reduction seems to have been partly due to the reform efforts which the public authorities have required the public enterprises to make for the past few years and, once again, in connection with the Val-Duchesse Plan.

The marked expansion in current transfers to the rest of the world, which reached nearly 10 p.c., would appear to have been brought about by the raising — from 1 to 1.4 p.c. — of the ceiling for the assessment of the *value added* tax which has to be transferred to the European Economic Community (item 2.6).

The public authorities appear to have cut down their capital expenditure by 7.7 p.c. (item 2.10). This considerable reduction would appear to have been attributable both to *gross fixed capital formation* and to capital transfers.

Gross fixed capital formation appears to have decreased in 1986 for the fourth year in succession, so that its value at current prices was nearly 20 p.c. lower than at the beginning of the 1980s (item 2.8). This further contraction would appear to be the result of another very large reduction in local authorities' capital investment programmes.

The decrease in capital transfers appears to have been mainly due to the virtual disappearance of the assistance given to the mixed investment *companies*, referred to as « Invest Companies », which had contributed to their large rise in 1985, and to the decline in other forms of assistance to the *national sectors* (item 2.9); on the other hand, the assistance given by the public authorities to the public housing companies appears to have increased.

Table V. 2

REVENUE, EXPENDITURE AND NET FINANCING REQUIREMENT (-) OF THE PUBLIC AUTHORITIES

	1978	1979	1980	1981	1982	1983	1984	1985	1986 e		
	Billions of francs									Billions of francs	Percentage changes compared with 1985
1. Revenue :											
1.1 Direct taxes	553	608	631	655	768	783	867	921	952	+ 3.4	
1.2 Indirect taxes	385	412	437	458	504	539	563	593	613	+ 3.4	
1.3 Social security contributions	395	425	459	489	532	586	666	739	768	+ 3.9	
1.4 Capital taxes	11	13	13	13	12	13	13	13	13	...	
1.5 Total fiscal and para-fiscal revenue (1.1 to 1.4)	1,344	1,458	1,540	1,615	1,816	1,921	2,109	2,266	2,346	+ 3.5	
1.6 Non-fiscal and non-para-fiscal revenue	37	45	61	76	96	87	93	98	88	-10.2	
1.7 Grand total (1.5 + 1.6)	1,381	1,503	1,601	1,691	1,912	2,008	2,202	2,364	2,434	+ 3.0	
2. Expenditure :											
2.1 Net expenditure on goods and services	502	535	582	639	680	696	727	765	777	+ 1.6	
2.2 Interest charges	137	165	211	289	367	395	449	509	560	+10.0	
2.3 Unemployment and job-creation expenditure	84	103	122	154	166	191	203	215	225	+ 4.6	
2.4 Current transfers to individuals	570	620	662	725	777	833	881	922	957	+ 3.8	
2.5 Subsidies to enterprises	101	110	114	123	126	143	149	143	141	- 1.4	
2.6 Current transfers to the rest of the world ¹	38	44	47	51	62	64	62	64	70	+ 9.4	
2.7 Total current expenditure (2.1 to 2.6)	1,432	1,577	1,738	1,981	2,178	2,322	2,471	2,618	2,730	+ 4.3	
2.8 Gross fixed capital formation	112	124	144	148	148	143	133	121	117	- 3.3	
2.9 Capital transfers ¹	79	89	123	157	152	170	142	179	160	-10.6	
2.91 Net lending and equity investment	(39)	(45)	(80)	(103)	(109)	(127)	(96)	(128)	(110)	-14.1	
2.92 Other capital transfers	(40)	(44)	(43)	(54)	(43)	(43)	(46)	(51)	(50)	- 2.0	
2.10 Total capital expenditure (2.8 + 2.9)	191	213	267	305	300	313	275	300	277	- 7.7	
2.11 Grand total (2.7 + 2.10)	1,623	1,790	2,005	2,286	2,478	2,635	2,746	2,918	3,007	+ 3.1	
3. Net financing requirement (1.7 - 2.11)	-242	-287	-404	-595	-566	-627	-544	-554	-573	+ 3.4	

¹ These are net amounts, i.e. the difference between transfers paid by the public authorities to other sectors and transfers received from other sectors.

Table V. 2.1

REVENUE, EXPENDITURE AND NET FINANCING REQUIREMENT (-) OF THE PUBLIC AUTHORITIES

(As percentages of gross national product)

	1978	1979	1980	1981	1982	1983	1984	1985	1986 <i>e</i>
1. Revenue :									
1.1 Direct taxes	18.0	18.6	18.0	18.1	19.5	18.8	19.3	19.3	18.6
1.2 Indirect taxes	12.6	12.7	12.5	12.7	12.8	12.9	12.6	12.4	12.0
1.3 Social security contributions	12.9	13.0	13.1	13.5	13.5	14.0	14.8	15.5	15.1
1.4 Capital taxes	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.2
1.5 Total fiscal and parafiscal revenue (1.1 to 1.4)	43.8	44.7	44.0	44.6	46.1	46.0	47.0	47.5	45.9
1.6 Non-fiscal and non-parafiscal revenue	1.2	1.4	1.7	2.1	2.5	2.1	2.1	2.0	1.7
1.7 Grand total (1.5 + 1.6)	45.0	46.1	45.7	46.7	48.6	48.1	49.1	49.5	47.6
2. Expenditure :									
2.1 Net expenditure on goods and services	16.4	16.4	16.6	17.6	17.3	16.7	16.2	16.0	15.2
2.2 Interest charges	4.5	5.0	6.0	8.0	9.3	9.5	10.0	10.7	10.9
2.3 Unemployment and job-creation expenditure	2.7	3.2	3.5	4.2	4.2	4.6	4.5	4.5	4.4
2.4 Current transfers to individuals	18.6	19.0	18.9	20.1	19.8	19.9	19.7	19.3	18.7
2.5 Subsidies to enterprises	3.3	3.4	3.2	3.4	3.2	3.4	3.3	3.0	2.8
2.6 Current transfers to the rest of the world ¹	1.2	1.3	1.4	1.4	1.6	1.5	1.4	1.3	1.4
2.7 Total current expenditure (2.1 to 2.6)	46.7	48.3	49.6	54.7	55.4	55.6	55.1	54.8	53.4
2.8 Gross fixed capital formation	3.6	3.8	4.1	4.1	3.8	3.4	3.0	2.5	2.3
2.9 Capital transfers ¹	2.6	2.8	3.5	4.3	3.8	4.1	3.1	3.8	3.1
2.91 Net lending and equity investment	(1.3)	(1.4)	(2.3)	(2.8)	(2.7)	(3.0)	(2.1)	(2.7)	(2.2)
2.92 Other capital transfers	(1.3)	(1.4)	(1.2)	(1.5)	(1.1)	(1.1)	(1.0)	(1.1)	(0.9)
2.10 Total capital expenditure (2.8 + 2.9)	6.2	6.6	7.6	8.4	7.6	7.5	6.1	6.3	5.4
2.11 Grand total (2.7 + 2.10)	52.9	54.9	57.2	63.1	63.0	63.1	61.2	61.1	58.8
3. Net financing requirement (1.7 - 2.11)	- 7.9	- 8.8	-11.5	-16.4	-14.4	-15.0	-12.1	-11.6	-11.2

¹ These are net data, i.e. the difference between transfers made by the public authorities to other sectors and transfers received from other sectors.

THIRD PART

TRANSACTIONS
OF THE BELGIAN-LUXEMBOURG
ECONOMIC UNION WITH FOREIGN COUNTRIES

Basic information

a) This part describes the transactions of the Belgian-Luxembourg Economic Union with foreign countries. Table VI. 1 gives a summary of these in which the transactions are grouped in such a way as to show, « above the line », current transactions, the private sector's capital transactions and the *public sector's* transactions in francs and, « below the line », the public sector's capital transactions in foreign currencies and the movement of the Bank's net foreign exchange reserves. Table VI. 1 thus departs from the traditional presentation of the balance of payments of the Belgian-Luxembourg Economic Union, in which the public sector's capital transactions in foreign currencies are shown above the line, that is, among the movements the balance of which has to be financed in order to enable the foreign exchange market to be balanced in a system of fixed exchange rates; the reason for this is that, in addition to the movement of the foreign exchange reserves, these public sector borrowings (which appear in Table VI. 1 with a minus sign when there is an increase) have since 1979 been largely used for financing the deficit in respect of transactions of a relatively « autonomous » nature as a whole : current transactions, the private sector's capital transactions and the public sector's capital transactions in francs.

Among the various capital transactions shown above the line, those in respect of bonds have gained in importance since the beginning of the 1980s. The upper part of Chart VI. 1.1 compares net purchases of bonds denominated in foreign currencies by enterprises and individuals resident in the Belgian-Luxembourg Economic Union with those made by residents of two foreign countries : the Federal Republic of Germany and the Netherlands, which likewise enjoy freedom of capital movements. The middle part of the chart presents a comparison of the net purchases by non-residents of bonds issued in national currency by residents, including the public sector. The lower part, which presents the balance of the purchases shown in the two higher parts, thus indicates the extent to which the capital outflows resulting from the attraction exerted on residents by foreign-currency bonds are counter-balanced by the inflows resulting from similar behaviour by non-residents in favour of bonds in the national currency.

b) In accordance with the methodological recommendations of the International Monetary Fund, current transactions in the balance of payments of the Belgian-Luxembourg Economic Union are, in principle,

estimated on a *transactions basis*. For the period subsequent to the first quarter of the year under review, however, these data are not available and only those for current transactions on a *payments basis* are known. The last mentioned term is used to denote data such as those presented in Tables VI. 1 and VI. 2. These tables include not only the payments made during each period but also, in order to be as complete as possible, those of the transactions recorded in the balance of payments on a transactions basis that are most quickly reported, namely : exports which have given rise to commercial claims mobilised at banks and an estimate of *commission processing* and *third-country trade* transactions for which payment has not yet been made. For the sake of continuity of the statistical series, the said tables show the balance of current transactions on a payments basis, as thus defined, for the whole of the period covered.

c) In order to determine the extent to which the movement of transactions in goods is due to that in volume or to that in prices, it is necessary to resort to calculations made on the basis of the foreign trade statistics compiled by the National Statistical Institute with the aid of customs documents. Table VI. 2.1 presents the results of these calculations, not only for the total but also separately for trade in energy products and that in other products. It shows, in addition to the changes in unit values, export and import volumes and values (items 1.1 and 1.2, 2.1 and 2.2, 3.1 and 3.2 respectively), the movements of the *terms of trade* and the coverage ratios, in volume and in value, of imports by exports, to which these changes led (items 1.3, 2.3 and 3.3 respectively). When the value of imports is approximately equal to that of exports, a larger (smaller) percentage rise in the latter than in the former implies an improvement (a deterioration) in the balance in billions of francs. On the other hand, when the values of imports and exports differ from each other (which is the case for « Energy products » and, to a smaller extent, for « Other products »), the position is not necessarily the same, because a given percentage change then corresponds to a larger change in billions of francs in imports than in exports, or vice versa, which makes their economic interpretation less easy : the data concerning the movement of the terms of trade, the coverage ratio in volume and the coverage ratio in value for the categories « Energy products » and « Other products » have therefore been put in brackets in Table VI. 2.1.

d) With regard, more specifically, to the movement of the prices of manufactured products, Table VI. 2.2 presents some important data

for the Belgian-Luxembourg Economic Union and for the main foreign economies. These data concern the movement of unit export values in national currency and that of the *terms of trade* for manufactured products, as well as one of the factors which appears to partly determine the movement of these two magnitudes, namely the changes in the *weighted average exchange rate*. If, when the currency of a certain country appreciates in relation to that of another country, prices expressed in the currency of the exporting country were reduced in proportion to that appreciation in the case of the exports of the first country to the second and remained unchanged in the case of the exports of the second country to the first, changes in the weighted average exchange rates ought to have hardly any effect on the terms of trade. In practice it is generally found that these tend to move in the same direction as the weighted average exchange rate; this may be due to the desire of exporters in the country whose currency appreciates to avoid any excessive reduction, especially if the appreciation is substantial, in the income per unit sold expressed in the national currency; it may also be the result of adjustment time-lags due mainly to the execution of current contracts the prices of which — often denominated in various currencies — do not yet take into account the most recent developments of the rate of exchange.

In such cases the prices (in a common currency) of manufactured products may move differently from country to country, thus apparently affecting one of the elements of international competitiveness.

It should be recalled in this connection that there is no rigid or immediate link between the movement of competitiveness in prices and that of the market shares in volume won or lost by domestic producers. This is because prices are only one — albeit an important one — of the data which determine the choice of a supplier; that choice also depends on, among other things, the efficiency of the service, the quality and range of the products, the delivery terms and the payment conditions.

e) Still according to the methodological recommendations of the International Monetary Fund, balance of payments statistics should only record, as capital transactions, the spot transactions, both in francs and in foreign currencies, between residents of the Belgian-Luxembourg Economic Union and the rest of the world. However, some of these transactions — especially those of resident banks with the rest of the world — are carried out as the counterpart to transactions between

residents or forward foreign exchange transactions with residents and non-residents. For this reason, in this part, the presentation of the balance of payments of the Belgian-Luxembourg Economic Union deviates from the methods of recording advocated by the Fund and shows, in addition to the above-mentioned spot transactions with the rest of the world, the transactions of resident banks in foreign currencies with the main resident non-monetary sectors and their forward transactions in foreign currencies with these same residents and with non-residents.

The purpose of this presentation is to assign, in the tables which record capital transactions (Tables VI. 3 for the private sector and VI. 4 for the *public sector*), these transactions to the sector which took the initiative for them or benefited by them. Thus, for instance, when the Treasury places foreign currency certificates with a Belgian bank and the latter finances itself by borrowing from a foreign correspondent, this is recorded, in the presentation of the balance of payments in accordance with the recommendations of the International Monetary Fund, as a capital inflow in the banks' transactions, whereas, in the presentation adopted in this Report, the capital inflow is recorded (with a plus sign in Table VI. 4) among the transactions of the public sector. This latter method reflects the economic reality more accurately than the former, because it is the public sector which, via a resident bank, has borrowed from the rest of the world. Similarly, a resident bank may have reason to increase its net spot assets in foreign currencies because non-residents have sold francs forward to it. This outflow of spot bank capital is then actually due to the need to provide cover for transactions emanating from non-residents. Inclusion of forward operations in Table VI. 3 makes it possible to cancel out this capital outflow from banks and to attribute it to non-residents. However, while the presentation adopted in this Report differs, for the reason stated above, from that in accordance with the recommendations of the International Monetary Fund, it does not thereby change the total of capital transactions, which is identical in both presentations; only the breakdown of the transactions by items is different.

f) In the capital transactions of the private sector it is useful for the purpose of the commentary to make a distinction between short-term and long-term transactions, as the two are sensitive to interest rates or interest rate differentials whose development may differ greatly. Furthermore, short-term transactions are practically the only ones that are influenced by anticipations concerning the exchange rates for foreign

currencies, especially when a realignment within the European Monetary System is imminent, or, in certain circumstances [see the comments in point f) of section VI. 3], by an *intrinsic forward discount* of the Belgian franc.

The distinction between long term and short term is not, however, always made as such in Table VI. 3, because it is very difficult to arrive at accurately. In the commentary it has been assumed that the transactions shown against items 1, 2 and 3 were short-term transactions. It should be noted, however, that item 1 also includes commercial claims created in connection with sales of capital goods for which payment has to be made at medium and long term and that item 2 contains the long-term liabilities in francs of non-residents vis-à-vis Belgian and Luxembourg banks in the form of bonds; furthermore, the short-term part of the last-mentioned item is influenced not only by the factors mentioned in the previous paragraph but also by the fact that non-resident banks may be obliged to contract liabilities in francs as the counterpart to the proportion of these francs in the net loans in ECUs, at all terms, which they grant.

The transactions recorded in item 4 also consist mainly of short-term transactions; the balance of these transactions, however, is determined by factors other than those already mentioned. In principle this balance ought to be zero, because Belgian and Luxembourg banks are required, by the rules of the bodies responsible for the supervision of banks, not to assume any foreign exchange position, even foreign currency against foreign currency. If this is often far from being the case, that is because Belgian and Luxembourg banks, on the one hand, have to make investments as the counterpart to capital endowments received from foreign parent banks (recorded as capital inflows in item 6) and to provisions established for claims which may prove to be unrecoverable and, on the other hand, have a variable holding of net assets in ECUs. The reason for this is that, when these net holdings, which are entirely recorded in the accounts as holdings of foreign currencies, increase, the banks only cover them, in practice, by liabilities in foreign currencies to the extent of the share of these currencies in the ECU; item 4 then shows, all other things remaining equal, a negative balance owing to the share of the franc in the ECU.

The transactions appearing in item 5, for their part, are indisputably long-term transactions; in so far as they concern bonds denomina-

ted in foreign currencies, they can be influenced by the differentials between long-term interest rates in Belgian francs and in other currencies. Then again, item 6 includes, apart from substantial long-term transactions, a portion of short-term transactions the extent of which is difficult to assess; this is because, as shown by the details provided by Table VI. 3.1, in addition to non-residents' transactions in Belgian and Luxembourg private-sector securities and generally long-term loans granted by non-resident financial institutions, item 6 chiefly comprises direct investments in the Belgian-Luxembourg Economic Union and residents' direct investments abroad; now these direct investments are, in accordance with the recommendations of the International Monetary Fund, interpreted very broadly, being regarded as including, in addition to the formation, acquisition and extension of *companies*, loans between parent companies and subsidiaries which may give rise to substantial capital inflows and outflows and whose actual term is not known.

g) In order to prevent possible confusion, attention should be drawn to the fact that the capital transactions in foreign currencies of the *public sector* have opposite signs in item 5.1 of Table VI. 1 and in Table VI. 4 : in item 5.1 an increase in the public sector's liabilities is shown by a minus sign, so that, added to the movement of the foreign exchange reserves, it shall be equal to the balance of the transactions shown above the line; in Table VI. 4 it has a plus sign so as to indicate that it is a capital inflow.

h) There is a reciprocal influence between balance of payments transactions and foreign exchange rates. With regard to these rates, two items of information have been given. The first, appearing in the upper part of Chart VI. 6, is the index of the *weighted average exchange rate* for the Belgian franc, which summarises the latter's position in relation to all the other currencies and rises when this position improves; the second, appearing in Chart VI. 6.1, is the *divergence indicator*, which — at given central rates — in principle reflects the position of the franc in relation to the other currencies of the European Monetary System — but is also influenced by the volume of the central banks' interventions — and rises when this position deteriorates. In addition, the lower part of Chart VI. 6 shows the movement of the premium displayed by the rates for the foreign currencies on the free foreign exchange market in relation to those on the regulated market.

CHAPTER VI

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

VI. 1 Summary of the transactions of the Belgian-Luxembourg Economic Union with foreign countries

a) During the first ten months, current transactions on a *payments basis* showed a surplus of Fr. 113 billion, against only Fr. 12 billion the previous year (item 1.1 of Table VI. 1). The extent of the improvement of the current account which had been in progress since 1982 thus appears to have increased; in 1986 it was primarily due to that in the *terms of trade*, which benefited by the collapse of oil prices and the rise in the *weighted average exchange rate* for the franc. In view of these results and the still provisional and very fragmentary indications available regarding the movement during the last months of 1986, it can be estimated that current transactions on a *transactions basis*, which had left a surplus of Fr. 40 billion in 1985, produced one of about Fr. 150 billion for the year under review as a whole.

b) The deficit recorded in respect of the private sector's capital transactions — disregarding commercial claims arising from exports and imports and not mobilised at Belgian or Luxembourg banks — also expanded considerably, reaching Fr. 123 billion during the first ten months (item 2.2). This deficit was swollen, as was the case in several other countries, by substantial purchases of foreign shares by resident enterprises and *individuals*. Its extent was, however, again mainly determined by purchases of foreign currency bonds. For the first ten months of the year under review as a whole, the latter reached Fr. 94 billion, thus absorbing a large proportion of the surplus on current transactions. Expressed as a percentage of the *gross national product* they appear to have reached a level — 2 p.c. in 1986 — considerably higher than in the Federal Republic of Germany and the Netherlands, as was in fact the case throughout the period covered by Chart VI. 1.1 (upper part). During this period, purchases by non-residents of bonds denominated in francs underwent hardly any increase (middle part); they were in any case quite insufficient to cover the above-mentioned purchases of foreign currency bonds (lower part). In the Federal Republic of Germany and the Netherlands, on the other hand, the interest displayed by non-residents in bonds issued in the national currency, especially by the public sector, was usually sufficient — indeed more than sufficient — to cover the purchases of foreign currency bonds by residents; there has been a particularly pronounced increase in the attraction exerted by securities denominated in German marks since 1985.

c) In November and December for which a precise breakdown between current account transactions and capital transactions of the private sector is not yet available, the above-mentioned transactions as a whole, including errors and omissions, would appear to have shown a deficit of Fr. 31 billion, apparently entirely due to outflows of private sector funds.

d) For the year as a whole the total to be financed — which is primarily determined by the above-mentioned two categories of transactions — amounted to Fr. 30 billion (item 5 of Table VI. 1); this would indicate, therefore, that net outflows of private sector funds were greater than the substantial current account surplus.

e) The Bank's foreign exchange reserves increased, however, by Fr. 7 billion (item 5.2), thanks to a growth of Fr. 37 billion in the foreign currency debt of the *public sector* (item 5.1).

Table VI. 1

**SUMMARY OF THE TRANSACTIONS OF THE BELGIAN-LUXEMBOURG ECONOMIC UNION
WITH FOREIGN COUNTRIES**

(Balances in billions of francs)

	1978	1979	1980	1981	1982	1983	1984	1985	1986 <i>p</i>	1985		1986 <i>p</i>	
										First ten months	Nov.-Dec.	First ten months	Nov.-Dec.
1. <i>Current transactions on transactions basis</i> ¹	- 26	- 89	-145	-156	-110	- 22	- 3	+ 40	} - 36 ⁶	+ 51	- 11	n.	} - 31 ⁶
1.1 <i>Current transactions on payments basis</i>	(- 46)	(- 91)	(-165)	(-200)	(-113)	(- 43)	(- 2)	(+ 19)		(+ 12)	(+ 7)	(+113)	
2. <i>Capital transactions of the private sector</i> ² :													
2.1 <i>Commercial claims arising in connection with exports and imports and not mobilised at Belgian and Luxembourg banks</i>	- 20	- 2	- 20	- 44	- 3	- 21	+ 1	- 21		- 39	+ 18	n.	
2.2 <i>Other spot and forward transactions of the private sector</i>	+ 18	- 8	+ 32	-131	-160	- 65	- 95	- 58		- 41	- 17	-123	
Total 2 ...	- 2	- 10	+ 12	-175	-163	- 86	- 94	- 79	n.	- 80	+ 1	n.	n.
3. <i>Capital transactions, in francs, of the public sector</i> ²	- 2	- 3	- 2	...	- 12	- 1	+ 6	+ 5	+ 6	+ 2	+ 3	+ 9	- 3
4. <i>Errors and omissions</i>	+ 4	- 4	+ 6	- 23	- 20	- 28	+ 4	+ 1	n.	+ 3	- 2	+ 5	n.
5. <i>Total (1 + 2 + 3 + 4 = 1.1 + 2.2 + 3 + 4)</i>	- 26	-106	-129	-354	-305	-137	- 87	- 33	- 30	- 24	- 9	+ 4	- 34
<i>Financing of total :</i>													
5.1 <i>Spot capital transactions, in foreign currencies, of the public sector</i> ³	- 10	- 75	-156	-258	-267	-115	-154	- 25	- 37	- 7	- 18	- 3	- 34
5.2 <i>Movement in the National Bank of Belgium's net foreign exchange reserves</i> ⁴	- 16	- 31	+ 27	- 96	- 38	- 22	+ 67	- 8	+ 7	- 17	+ 9	+ 7	...
<i>p.m.</i> <i>Foreign currencies to be delivered at forward dates by the National Bank of Belgium to the public sector</i> ⁵	(- 12)	(- 8)	(+ 17)	(+ 2)	(...)	(...)	(...)	(...)	(...)	(- 10)	(+ 10)	(...)	(...)

¹ Plus sign : surplus; minus sign : deficit.

² Plus sign : capital inflows; minus sign : capital outflows.

³ Plus sign : capital outflows; minus sign : capital inflows.

⁴ Plus sign : increase in reserves; minus sign : decrease in reserves.

⁵ Plus sign : decrease; minus sign : increase.

⁶ Including errors and omissions.

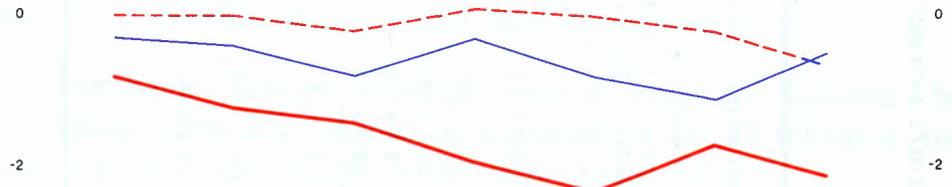
Chart VI. 1.1

CAPITAL TRANSACTIONS RELATING TO BONDS

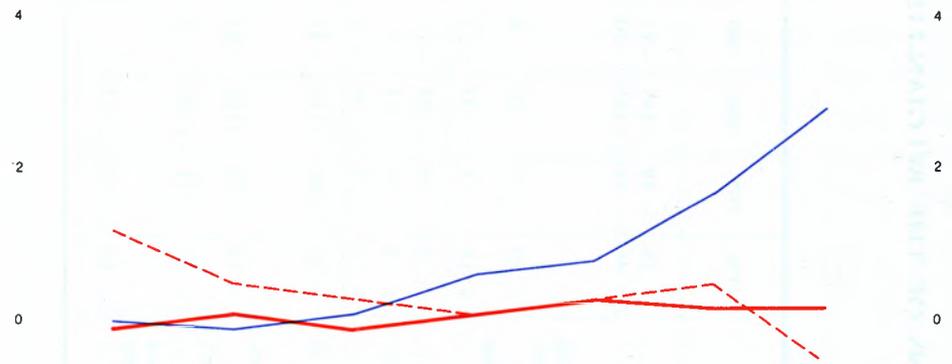
(Percentages of gross national product)

— Federal Republic of Germany
 - - - Netherlands
 — Belgian-Luxembourg Economic Union

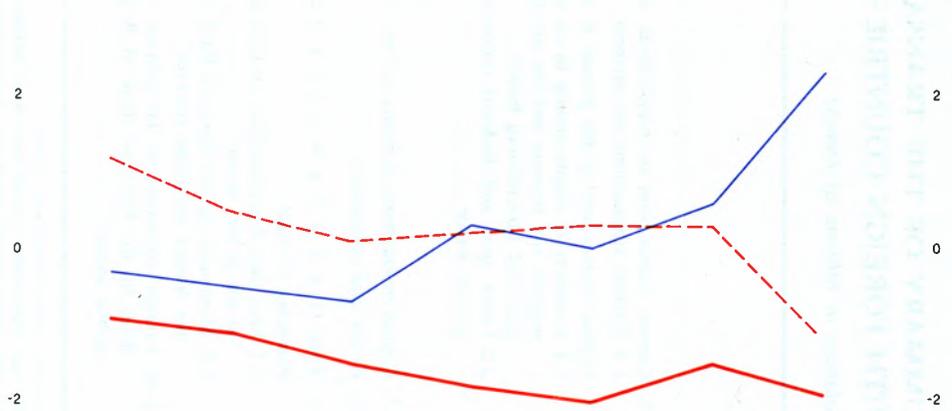
1. NET PURCHASES (-) OF BONDS IN FOREIGN CURRENCIES BY RESIDENT ENTERPRISES AND INDIVIDUALS



2. NET PURCHASES (+) OF BONDS IN NATIONAL CURRENCY BY NON-RESIDENTS



3. BALANCE (1+2)



1980

1982

1984

1986

VI. 2 Current transactions

a) The considerable expansion in the current account surplus on a *payments basis* during the first ten months (Fr. 113 billion against Fr. 12 billion) (item 4bis of Table VI. 2) is mainly due to the movement of transactions in goods (+ Fr. 112 billion against + Fr. 20 billion) (item 1bis). Transactions in services also contributed to this (+ Fr. 36 billion against + Fr. 24 billion) (item 2). The deficit in respect of *transfers* increased slightly (Fr. 35 billion against Fr. 32 billion) (item 3).

b) With regard to transactions in goods, the improvement was substantial especially in respect of imports and exports in the strict sense (item 1.12) and *commission processing* (item 1.2). In the case of the latter this was due to the fact that a large proportion of the Union's earnings comes from the assembling of motor cars and lorries, international demand for which recovered appreciably.

c) The favourable development of transactions in goods is confirmed by the data for the foreign trade of the Belgian-Luxembourg Economic Union compiled on the basis of customs figures: for the first ten months of 1986 the deficit amounted to Fr. 8 billion, that is, Fr. 131 billion less than the 1985 figure of Fr. 139 billion (item 4 of Table VI. 2.1).

This movement is the net result of a further considerable improvement in the *terms of trade* (item 1.3), on the one hand, and a deterioration in the volume of trade (item 2.3), on the other.

d) The improvement in the *terms of trade* is largely attributable to the collapse of the prices of energy products expressed in francs. In view of the fact that the products in question play a considerably larger part in imports than in exports, this collapse had a much greater effect on the unit value of imports than on that of exports. This phenomenon was accentuated by the improvement in the terms of trade which took place with regard to energy products themselves (columns A, item 1).

There is, furthermore, seen to have been an improvement in the terms of trade for other products, which is partly due to a fall in the prices, when expressed in francs, of non-energy raw materials, the share of which in the Union's imports is appreciably greater than that in its

exports (columns B, item 1). Secondly, there also appear to have been gains in the terms of trade for manufactured products, as is shown by Table VI. 2.2 (item 2). This phenomenon is not peculiar to the Union but is observable in all the countries where the *weighted average exchange rate* for the currency rose, partly owing to the decline of the U.S. dollar. The reductions in prices, expressed in national currencies, which the exporters of manufactured products in these countries had to make in order to safeguard their competitiveness were smaller than those which took place for imports.

e) The development of foreign trade in energy products in terms of volume was affected, during the first nine months of the year under review, by fortuitous factors — already mentioned in section II. 2 — which temporarily expanded the quantities exported and, consequently, the quantities imported. As the former are considerably smaller than the latter, their relative expansion appears to have been greater : + 24.1 p.c., against + 16.1 p.c. for imports (items 2.1 and 2.2, columns A, respectively, of Table VI. 2.1). The difference between these two percentages would have been even greater if the volumes imported had not increased for other reasons, too, namely a sharp rise in domestic consumption of energy products and the building-up of stocks of these products.

In the case of the other products, on the other hand, there was a deterioration in the coverage ratio in terms of volume (columns B, item 2). This would appear to be at least partly due to the fact that, in Belgium even more than abroad, economic growth was sustained by an expansion in the categories of domestic expenditure with a high import content, namely purchases of durable consumer goods and gross fixed capital formation by enterprises : the available data confirm that imports appear to have been swollen by a large increase in those of consumer and capital goods.

In 1986 the decline in the average unit export values of manufactured products of the Belgian-Luxembourg Economic Union appears to have been insufficient to counterbalance the very large rise in the *weighted average exchange rate* for the franc (items 3 and 1, respectively, of Table VI. 2.2). This also applies to the Federal Republic of Germany and Japan, whose currencies appreciated as much or more (the same items of the same table). It would therefore not be surprising if these countries lost market shares in terms of the volume of manufac-

tured products exported, as appears to be indicated by the estimates made by the Organisation for Economic Co-operation and Development. For the Union, however, the above-mentioned estimates show only a limited loss. Furthermore, these estimates are not confirmed by certain other available data.

It finally emerges from the foregoing that the worsening of the coverage ratio in terms of volume of total foreign trade (columns C, item 2.3 of Table VI. 2.1) appears to be due, at least primarily, to the revival of domestic demand for certain energy products and some other products with a high import content.

f) The surplus in respect of transactions in services (item 2 of Table VI. 2) recovered during the first ten months of 1986. The worsening of the balance of item 2.1 « Travel abroad », resulting from the reduction in the interest shown by American and British citizens in stays in the Union and the increase in the expenditure of Belgian and Luxembourg residents abroad, was more than counterbalanced by the expansion of the surplus recorded in respect of « Other services » (item 2.3) — partly resulting from the increase in the operating expenditure of the international institutions established within the Union and the favourable development of brokering fees, commission, premiums and rebates — and by the elimination of the deficit in respect of income from direct and portfolio investments (item 2.2). The last-mentioned improvement is due to the general decline in short-term interest rates, which reduced the interest which the *public authorities* had to pay on their borrowing in foreign currencies.

g) The slight worsening of the deficit in respect of *transfers* (item 3 of Table VI. 2) is solely due to those of the *public authorities* (item 3.2), and more specifically to the balance of the payments between the Belgian-Luxembourg Economic Union and the European Communities. The Belgian and Luxembourg contributions to the European institutions appear to have increased appreciably as a result of the raising of the share of the proceeds of the *value added* tax which is transferred to them. The increase in this expenditure appears to have been partly offset by a decrease in the agricultural levies collected, especially on imports of maize, and by a rise in the payments made by the European Agricultural Guidance and Guarantee Fund to residents, partly owing to the assistance given for the processing of oilseeds.

Table VI. 2

CURRENT TRANSACTIONS

(Balances in billions of francs)

	1978	1979	1980	1981	1982	1983	1984	1985	First ten months	
									1985	1986 <i>p</i>
1. <i>Transactions in goods :</i>										
1.1 Exports and imports :										
1.11 Transactions which gave rise to commercial claims which were not mobilised at Belgian and Luxembourg banks ¹	+ 20	+ 2	+ 20	+ 44	+ 3	+ 21	- 1	+ 21	+ 39	n.
1.12 Other transactions	- 107	- 142	- 175	- 220	- 159	- 115	- 73	- 49	- 39	+ 18
1.13 Total on transactions basis	- 87	- 140	- 155	- 176	- 156	- 94	- 74	- 28	...	n.
1.2 Commission processing	+ 45	+ 48	+ 38	+ 41	+ 54	+ 59	+ 59	+ 56	+ 43	+ 73
1.3 Third-country trade	+ 9	+ 18	+ 8	+ 25	+ 24	+ 31	+ 25	+ 13	+ 16	+ 21
Total 1 on transactions basis (1.13 + 1.2 + 1.3)	- 33	- 74	- 109	- 110	- 78	- 4	+ 10	+ 41	+ 59	n.
Total 1 bis on payments basis (1.12 + 1.2 + 1.3)	- 53	- 76	- 129	- 154	- 81	- 25	+ 11	+ 20	+ 20	+ 112
2. <i>Transactions in services :</i>										
2.1 Travel abroad	- 34	- 39	- 43	- 47	- 28	- 19	- 17	- 23	- 24	- 30
2.2 Portfolio and investment income	+ 20	+ 10	- 2	- 3	- 10	- 9	- 4	- 8	- 8	+ 2
2.3 Other	+ 46	+ 42	+ 47	+ 52	+ 62	+ 69	+ 59	+ 70	+ 56	+ 64
Total 2 (2.1 to 2.3)	+ 32	+ 13	+ 2	+ 2	+ 24	+ 41	+ 38	+ 39	+ 24	+ 36
3. <i>Transfers :</i>										
3.1 Private transfers	- 9	- 10	- 11	- 15	- 11	- 9	- 10	- 8	- 6	- 4
3.2 Public transfers	- 16	- 18	- 27	- 33	- 45	- 50	- 41	- 32	- 26	- 31
Total 3 (3.1 + 3.2)	- 25	- 28	- 38	- 48	- 56	- 59	- 51	- 40	- 32	- 35
4. <i>Total of current transactions on transactions basis (1 to 3)</i>	- 26	- 89	- 145	- 156	- 110	- 22	- 3	+ 40	+ 51	n.
4bis. <i>Total of current transactions on payments basis (1 bis + 2 + 3)</i>	- 46	- 91	- 165	- 200	- 113	- 43	- 2	+ 19	+ 12	+ 113

¹ The difference between exports which passed through the customs and those which were paid for or which gave rise to commercial claims mobilised at banks less the difference between imports which passed through the customs and those which were paid for. Depending on whether the figure arrived at by this calculation is positive or negative, it appears in item 1.11 with a plus sign or a minus sign.

Table VI. 2.1

FOREIGN TRADE

(Percentage changes compared with previous year)

	A. Energy products				B. Other products				C. Total foreign trade			
	1984	1985	First nine months		1984	1985	First nine months		1984	1985	First nine months	
			1985	1986			1985	1986			1985	1986
<i>1. Average unit values :</i>												
1.1 Exports	+ 7.8	+ 2.9	+ 6.1	-38.8	+ 7.8	+ 3.1	+ 4.0	- 3.7	+ 7.8	+ 3.1	+ 4.2	- 6.6
1.2 Imports	+ 9.8	- 0.1	+ 5.2	-47.3	+ 7.1	+ 2.7	+ 3.1	- 6.0	+ 7.7	+ 2.2	+ 3.5	-13.8
1.3 Terms of trade	(- 1.8)	(+ 3.0)	(+ 0.8)	(+16.1)	(+ 0.7)	(+ 0.4)	(+ 0.9)	(+ 2.4)	+ 0.1	+ 0.9	+ 0.7	+ 8.4
<i>2. Volumes :</i>												
2.1 Exports	- 1.1	-15.1	-20.1	+24.1	+ 5.3	+ 4.1	+ 4.3	+ 2.3	+ 4.7	+ 2.5	+ 2.0	+ 3.7
2.2 Imports	+ 1.1	- 8.1	- 9.8	+16.1	+ 6.5	+ 5.0	+ 5.4	+ 5.6	+ 5.4	+ 2.4	+ 2.3	+ 7.4
2.3 Coverage ratio	(- 2.2)	(- 7.6)	(-12.3)	(+ 6.9)	(- 1.1)	(- 0.9)	(- 1.0)	(- 3.1)	- 0.7	+ 0.1	- 0.3	- 3.4
<i>3. Values :</i>												
3.1 Exports	+ 6.6	-12.6	-16.1	-24.1	+13.5	+ 7.3	+ 8.5	- 1.5	+12.9	+ 5.7	+ 6.3	- 3.1
3.2 Imports	+11.0	- 8.3	- 5.1	-38.8	+14.1	+ 7.8	+ 8.7	- 0.7	+13.5	+ 4.7	+ 5.9	- 7.4
3.3 Coverage ratio	(- 4.0)	(- 4.8)	(-11.6)	(+24.0)	(- 0.4)	(- 0.5)	(- 0.2)	(- 0.8)	- 0.6	+ 1.0	+ 0.4	+ 4.6
<i>p.m. 4. Value in billions of francs :</i>			First ten months				First ten months				First ten months	
			1985	1986			1985	1986			1985	1986
4.1 Exports	237	209	173	130	2,755	2,959	2,466	2,441	2,992	3,168	2,639	2,571
4.2 Imports	595	551	459	277	2,601	2,767	2,319	2,302	3,196	3,318	2,778	2,579
4.3 Balance (4.1 - 4.2) ...	- 358	- 342	- 286	- 147	+ 154	+ 192	+ 147	+ 139	- 204	- 150	- 139	- 8

Table VI. 2.2

WEIGHTED AVERAGE EXCHANGE RATE AND FOREIGN TRADE PRICES OF MANUFACTURED PRODUCTS

(Percentage changes compared with previous year)

	Belgian-Luxembourg Economic Union	Federal Republic of Germany	France	Italy	United Kingdom	United States	Japan
	1985						
1. Weighted average exchange rate ..	+ 1.9	+ 1.9	+ 1.8	- 4.2	+ 1.1	+ 3.0	+ 2.6
2. Terms of trade	+ 2.3	...	+ 1.2	- 0.9	+ 0.7	+ 3.6	+ 2.2
3. Average unit export values (in national currency)	+ 3.2	+ 2.6	+ 6.1	+ 9.3	+ 5.9	+ 1.7	...
	1986						
1. Weighted average exchange rate ..	+ 8.5 v	+ 8.9	+ 2.7	+ 2.4	- 8.3	- 17.7	+ 30.7
2. Terms of trade	+ 2.6 e	+ 3.5	+ 0.7	+ 1.4	- 2.0	- 5.5	+ 14.9
3. Average unit export values (in national currency)	- 4.1 e	- 4.8	- 3.3	+ 1.4	+ 1.9	- 0.8	- 15.0

VI. 3 Spot and forward capital transactions of the private sector

a) The increase in the private sector's deficit in respect of capital transactions for the first ten months — from Fr. 41 billion in 1985 to Fr. 123 billion (item 7bis of Table VI. 3, which does not include the claims recorded in item 1.1) — is mainly attributable to the larger purchases — already mentioned — of foreign securities by resident enterprises and individuals (item 5); however, the disappearance of the traditional surplus on the transactions recorded in item 6 « Other transactions » and, to a smaller extent, the movement of the net assets in foreign currencies of Belgian and Luxembourg banks (item 4) also contributed to this movement. The remainder of the private sector's capital transactions, which consists chiefly of short-term transactions, resulted, however, on balance, in a larger surplus in 1986 : Fr. 75 billion, against Fr. 59 billion in 1985 (total of items 1.2, 2 and 3).

b) The sharp rise in purchases of foreign securities by resident enterprises and individuals — Fr. 143 billion during the first ten months of 1986, against Fr. 99 billion in 1985 (item 5) — was due to the fact that, for the first time for many years, they displayed interest in foreign shares (item 5.1), while at the same time speeding up the formation of portfolios of foreign currency bonds (item 5.22); the possible underlying reasons for these lines of behaviour are analysed further on in section VII. 2. Purchases of bonds issued by foreign institutions and organisations and denominated in Belgian or Luxembourg francs remained at the high level reached in 1985 (item 5.21).

c) The development of direct investments more than explains the disappearance during the first ten months of 1986 of the surplus in item 6 « Other transactions » : the direct investments of non-resident enterprises in the Union led to a net inflow of only Fr. 7 billion, against Fr. 33 billion in 1985 (item 1.13 of Table VI. 3.1), and those of resident enterprises abroad led to a net outflow of Fr. 38 billion, against Fr. 2 billion in 1985 (item 2.13). The last-mentioned deterioration was mainly due to the movement of loans ; on the receipts side, on the other hand, it resulted from, in addition to the reduction in loans granted, the decrease in other direct investments, which is mainly due to the smaller amount of the capital endowments provided by foreign banks to their subsidiaries. On the other hand, non-residents — in the

context of a growing internationalisation of money and capital markets — stepped up their purchases of Belgian and Luxembourg securities (item 1.2), because of their increased interest in Belgian shares.

d) During the first ten months of 1986, the total of the portfolio investments in foreign currencies which are made by the banks of the Belgian-Luxembourg Economic Union as the counterpart to capital endowments received from parent companies and with a view to covering the risk of default by foreign debtors, was of the same order of magnitude as in 1985. Nevertheless, the deficit in item 4 of Table VI. 3 increased during the first ten months of 1986, because the banks' net holdings in ECUs, which had decreased in 1985, rose.

e) During the first quarter of 1986, when the foreign exchange markets were displaying signs of strain in anticipation of a realignment within the European Monetary System, non-residents substantially reduced their net assets in francs, especially forward assets, with Belgian and Luxembourg banks (item 2); doubtless the capital gain which they expected to obtain from the revaluation of other System currencies exceeded the interest-rate advantage offered by these assets, which at that time amounted to around 4.5 p.c. per annum. After the realignment had taken place on 6th April, non-residents largely re-established the holdings which they had disposed of during the first quarter. Their net holdings nevertheless decreased by Fr. 19 billion during the first ten months; this fall was largely due to bond loans in francs obtained from banks in the Union by certain non-residents who thought that they could thus benefit by the more favourable interest terms in comparison with those which they would have been offered in their national currency.

f) The substantial net forward sales of francs made by non-residents to banks in the Union on the regulated market during the first quarter of the period under review led, owing to the limits imposed by the foreign exchange regulations on the possibilities allowed to the banks for covering these forward sales by spot transactions, to an *intrinsic forward discount* of the Belgian franc on the regulated market. The difference between the forward foreign exchange rate for certain System currencies and the spot rate probably seemed sufficient to resident enterprises to induce them to prefer to take an immediate profit rather than wait for a gain which might result from the revaluation of these currencies. Thus, while non-residents were reducing their net holdings

of francs during the first quarter, resident enterprises and individuals, for their part, sold foreign currencies forward, thus reducing their net assets in foreign currencies (item 3) via these transactions. During the months following the realignment of 6th April, the total of these combined spot and forward assets in foreign currencies was reduced further still, so that, for the first ten months as a whole, their fall amounted to Fr. 79 billion. Apart from having been influenced by the above-mentioned factors, this fall was also largely due to the fact that enterprises contracted foreign currency loans in order to finance direct investments — particularly loans (item 2.11 of Table VI. 3.1) — abroad.

Table VI. 3

SPOT AND FORWARD CAPITAL TRANSACTIONS OF THE PRIVATE SECTOR

(Billions of francs)

	1981	1982	1983	1984	1985	1986 p			First ten months	
						1st quarter	2nd quarter	July-Oct.	1985	1986 p
1. Net commercial claims on the rest of the world ¹ :										
1.1 Claims arising in connection with exports and imports and not mobilised at Belgian and Luxembourg banks	- 44	- 3	- 21	+ 1	- 21	- 10	n.	n.	- 39	n.
1.2 Other claims	- 17	- 1	- 9	- 3	+ 7	+ 3	+ 3	+ 9	+ 14	+ 15
1.3 Total	- 61	- 4	- 30	- 2	- 14	- 7	n.	n.	- 25	n.
2. Net spot and forward assets in Belgian and Luxembourg francs held by non-residents with Belgian and Luxembourg banks ²	- 76	- 37	- 25	+ 28	- 1	-119	+114	- 14	+ 25	- 19
3. Net spot and forward assets in foreign currencies held by resident enterprises and individuals ³	- 71	- 66	+ 39	+ 47	+ 42	+ 26	+ 58	- 5	+ 20	+ 79
4. Net spot and forward assets in foreign currencies held by Belgian and Luxembourg banks ⁴	...	- 85	- 37	- 64	- 42	- 5	- 26	- 22	- 37	- 53
5. Resident enterprises' and individuals' holdings of foreign securities ⁵ :										
5.1 Shares	+ 5	+ 8	+ 1	+ 7	- 1	- 10	- 9	- 1	+ 1	- 20
5.2 Bonds	- 46	- 66	- 90	-114	-117	- 25	- 43	- 55	-100	-123
5.21 in Belgian and Luxembourg francs	(- 2)	(- 6)	(- 5)	(- 3)	(- 30)	(- 8)	(- 8)	(- 13)	(- 28)	(- 29)
5.22 in foreign currencies	(- 44)	(- 60)	(- 85)	(-111)	(- 87)	(- 17)	(- 35)	(- 42)	(- 72)	(- 94)
5.3 Total (5.1 + 5.2)	- 41	- 58	- 89	-107	-118	- 35	- 52	- 56	- 99	-143
6. Other transactions	+ 74	+ 87	+ 56	+ 4	+ 54	+ 14	- 27	+ 11	+ 36	- 2
7. Grand total (1 to 6)	-175	-163	- 86	- 94	- 79	-126	n.	n.	- 80	n.
7bis. Grand total excluding commercial claims on the rest of the world arising in connection with exports and imports and not mobilised at Belgian and Luxembourg banks (1.2 to 6)	-131	-160	- 65	- 95	- 58	-116	+ 70	- 77	- 41	-123

¹ Plus sign : decrease in claims; minus sign : increase.² Plus sign : increase in net assets of non-residents; minus sign : decrease.³ Plus sign : decrease in net assets of resident enterprises and individuals; minus sign : increase.⁴ Plus sign : decrease in net assets of banks; minus sign : increase.⁵ Plus sign : decrease in assets; minus sign : increase.

N.B. The plus signs indicate capital inflows; the minus signs, outflows.

Table VI. 3.1

DETAILS OF ITEM 6 « OTHER TRANSACTIONS » OF TABLE VI. 3

(Billions of francs)

	1981	1982	1983	1984	1985	First ten months	
						1985	1986 <i>p</i>
1. Assets of non-residents ¹ :							
1.1 Direct investments :							
1.11 Loans	+ 7	+ 7	- 12	- 10	+ 10	+ 3	- 11
1.12 Formations, acquisitions and purchases of com- panies	+ 43	+ 57	+ 77	+ 31	+ 47	+ 30	+ 18
1.13 Total	+ 50	+ 64	+ 65	+ 21	+ 57	+ 33	+ 7
1.2 Belgian and Luxembourg secu- rities	- 2	+ 9	+ 3	- 5	+ 17	+ 10	+ 27
(of which : shares)	(- 1)	(+ 6)	(+ 1)	(- 5)	(+ 12)	(+ 7)	(+ 24)
1.3 Financial loans	+ 30	+ 15	- 2	+ 9	+ 7	+ 4	+ 6
1.4 Other	+ 2	- 2	+ 10	- 4	- 8	- 5	+ 2
1.5 Total	+ 80	+ 86	+ 76	+ 21	+ 73	+ 42	+ 42
2. Assets of residents ² :							
2.1 Direct investments :							
2.11 Loans	+ 14	+ 10	+ 3	...	+ 4	+ 13	- 16
2.12 Formations, acquisitions and purchases of com- panies	- 15	- 7	- 21	- 16	- 18	- 15	- 22
2.13 Total	- 1	+ 3	- 18	- 16	- 14	- 2	- 38
2.2 Financial loans	- 1	- 2	- 1	...	- 4	- 3	- 4
2.3 Other	- 4	...	- 1	- 1	- 1	- 1	- 2
2.4 Total	- 6	+ 1	- 20	- 17	- 19	- 6	- 44
3. Grand total (1.5 + 2.4)	+ 74	+ 87	+ 56	+ 4	+ 54	+ 36	- 2

¹ Plus sign : increase in non-residents' assets; minus sign : decrease.² Plus sign : decrease in residents' assets; minus sign : increase.

VI. 4 Spot capital transactions in foreign currencies of the public sector

a) During the first ten months of 1986 the surplus produced by the total current account and capital transactions of the private sector and those, in francs, of the *public sector* enabled the latter to restrict its borrowing in foreign currencies to Fr. 3 billion.

b) In November and above all in December, on the other hand, the deficit in respect of all the above-mentioned transactions obliged the *public sector* to increase its borrowing in foreign currencies by Fr. 34 billion. For the year as a whole this borrowing thus amounted to Fr. 37 billion, against Fr. 25 billion in 1985.

Table VI. 4

SPOT CAPITAL TRANSACTIONS, IN FOREIGN CURRENCIES, OF THE PUBLIC SECTOR¹

(Billions of francs)

	1978	1979	1980	1981	1982	1983	1984	1985	1986 p	First ten months	
										1985	1986 p
1. <i>Transactions of public authorities :</i>											
1.1 with the rest of the world	+ 14	+ 7	+ 28	+ 107	+ 141	+ 30	+ 77	+ 8	} n.	- 3	+ 34
1.2 with Belgian and Luxembourg banks .....	...	+ 36	+ 65	+ 100	+ 104	+ 92	+ 68	+ 26		+ 16	- 14
Total 1 ..	+ 14	+ 43	+ 93	+ 207	+ 245	+ 122	+ 145	+ 34		+ 13	+ 20
2. <i>Transactions of public enterprises :</i>											
2.1 with the rest of the world	- 4	+ 32	+ 63	+ 31	+ 15	- 7	+ 9	- 16		- 13	- 17
2.2 with Belgian and Luxembourg banks .....	...	...	...	+ 20	+ 7	...	...	+ 7		+ 7	...
Total 2 ..	- 4	+ 32	+ 63	+ 51	+ 22	- 7	+ 9	- 9	- 6	- 17	
3. <i>Grand total</i>	+ 10	+ 75	+ 156	+ 258	+ 267	+ 115	+ 154	+ 25	+ 37	+ 7	+ 3

¹ Plus sign : increase in liabilities ; minus sign : decrease.

VI. 5 The National Bank of Belgium's net foreign exchange reserves

In so far as borrowing in foreign currencies by the *public sector* — particularly the Treasury, for which the amount involved was Fr. 74 billion — made it possible to meet the whole of the deficit on other transactions with foreign countries, the foreign exchange reserves did not have to be used for this purpose in 1986.

The components of the increase of Fr. 7 billion in these reserves were a rise of Fr. 5 billion in holdings of foreign currencies, chiefly resulting from the income on the Bank's portfolio investments (item 4), and a decrease of Fr. 2 billion in the extent to which liabilities in Belgian francs exceeded assets in that currency, mainly because the latter increased as a result of the granting of new credits to Zaïre (item 5).

Table VI. 5

THE NATIONAL BANK OF BELGIUM'S NET
FOREIGN EXCHANGE RESERVES

(Changes in billions of francs)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	First ten months	
										1985	1986
1. Gold holding .....	...	...	...	...	...	...	...	...	...	...	...
2. Assets held at the International Monetary Fund	- 7	- 4	- 4	- 2	- 1	- 4	+ 3	- 8	...	- 8	- 1
3. Net claims on or liabilities to the European Monetary Co-operation Fund ¹ :											
3.1 ECUs	—	-25	-27	-79	+48	+34	+26	+32	...	+32	...
3.2 Other	- 5	- 1	+28	- 3	-14	-33	+49	...	...	...	...
4. Foreign currencies	- 2	- 1	+30	-10	-74	-19	-11	-31	+ 5	-41	+ 5
5. Belgian francs	- 2	...	...	- 2	+ 3	...	...	- 1	+ 2	...	+ 3
Total ...	-16	-31	+27	-96	-38	-22	+67	- 8	+ 7	-17	+ 7

¹ 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.

VI. 6 Exchange rates

a) During the year under review the *weighted average exchange rate* for the Belgian franc on the regulated foreign exchange market continued, almost uninterruptedly, the rapid rise which had begun in the middle of 1985. Thus, the rise in the index weighted by imports reached 7.6 p.c. from December 1985 to December 1986; as an annual average the upward movement actually amounted to 8.3 p.c. (upper part of Chart VI. 6).

This pronounced rise in the weighted average exchange rate was largely due to the development of exchange rates for the dollar and the pound sterling, owing to the importance of these currencies for our foreign trade, but mainly to the extent of their depreciation: between December 1985 and December 1986 the value of the Belgian franc increased by 23.8 and 24.6 p.c. respectively in terms of these two currencies. They also exerted an indirect influence on the movement of the weighted average exchange rate, by drawing in their wake other currencies, such as the Canadian dollar, and bringing about a downward realignment of the Irish pound. The Belgian franc also appreciated against the French franc (5.2 p.c.), which was devalued in the course of 1986, and against other currencies such as the Norwegian crown (21.7 p.c.).

The rise in the weighted average exchange rate was, however, slowed down slightly by the appreciation, against the franc, of the currencies of some major trade partners. Thus the Belgian franc depreciated, during the same period, against the yen (-0.9 p.c.) and the German mark (-2 p.c.) — traditionally strong currencies which were most affected by the repercussions of the loss in attractiveness of the dollar — and against the currencies of the countries whose foreign exchange policies generally keep closely in line with the movement of the German mark, namely the Dutch guilder (-1.6 p.c.), the Austrian schilling (-1.8 p.c.) and the Swiss franc (-2 p.c.).

b) In 1986 the monthly average of the premium on foreign currencies on the free market continued to fluctuate around 1 p.c. (lower part of Chart VI. 6). The reason why, despite the large net outflows of private capital, this premium thus remained very limited in 1986 is the abundance of the net supply of foreign currencies derived from the current transactions which can take place on the free market, which

include the substantial repatriations of the proceeds of direct and portfolio investments abroad. This supply was not only sufficient to cover the capital outflows but also enabled the Bank to purchase, with a view to their resale on the regulated market, a substantial amount, albeit less than half the 1985 figure, of foreign currencies.

c) The *divergence indicator*, which had already risen markedly in December 1985, up to an average of 62, went up further during the first quarter of 1986, reaching 69 in March, as a result of strains within the European Monetary System. After the realignment which took place at the beginning of April it immediately fell back and then fluctuated for three months around 30, benefiting by the fact that the German mark remained almost constantly on the floor of the European Monetary System. In the course of the subsequent months the indicator rose owing to further strains, reaching 54 in December (Chart VI. 6.1).

Chart VI. 6

EXCHANGE RATES

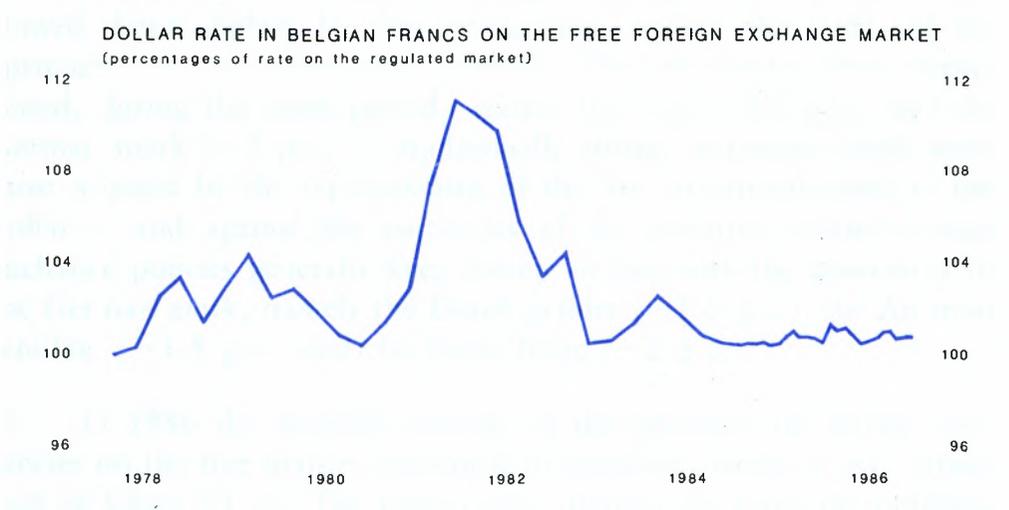
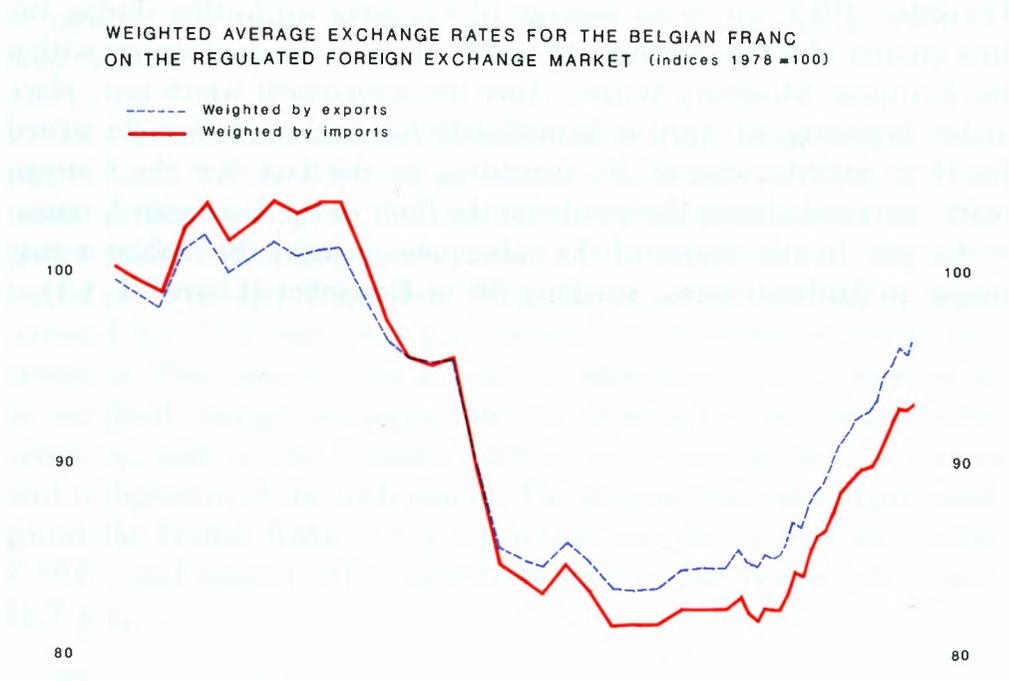
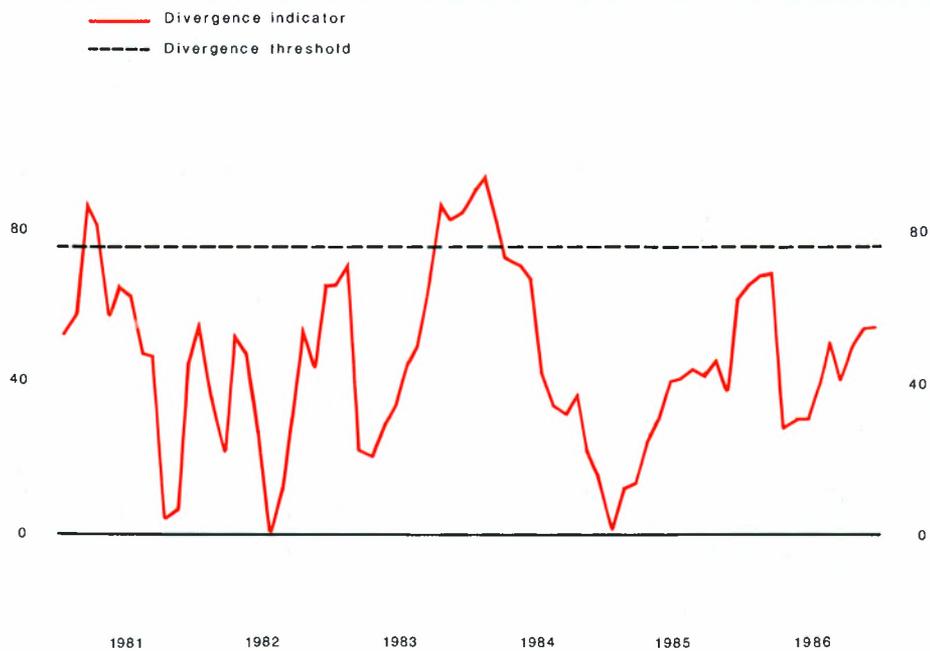


Chart VI. 6.1

DIVERGENCE INDICATOR FOR THE BELGIAN FRANC IN THE EUROPEAN MONETARY SYSTEM



FOURTH PART

FINANCIAL DEVELOPMENTS IN BELGIUM

Basic information

a) This part describes the main financial developments which took place in the Belgian economy. It contains an analysis of the financial accounts of the various domestic sectors, especially their formation of financial assets and their new liabilities (Chapter VII), as well as of the channels through which economic agents which had a *financial deficit* obtained the funds which they required from the economic agents which had a *financial surplus*, possibly via financial intermediaries, and lastly an account of the movements of the interest rates which applied to these various borrowings and investments (Chapter VIII).

b) Table V. 1 recorded, for each sector, the *net financing capacity* or *net financing requirement*. Table VII. 1 compares these financing capacities or requirements with the *financial surpluses* or *deficits*.

It will be noted that :

— the net financing capacity of *individuals* and that of *companies* are added together in order to enable them to be compared with the net financial surplus of these sectors, since, for lack of adequate information, it is not possible to give a breakdown of the surplus between these sectors ;

— the changes in financial assets and liabilities in foreign currencies (Tables VII. 1, VII. 2, VII. 3, VII. 3.1, VII. 4 and VII. 4.1) have been adjusted in order to eliminate the purely accounting effects of variations in exchange rates ;

— each sector's net financing capacity or requirement must in principle have an exact counterpart in its financial surplus or deficit. In practice there is, for each sector, a statistical deviation between the two angles of approach. This is attributable to, among other things, the fact that the date of recording of the transactions may differ ; for instance, for the calculation of the *public authorities'* financing requirement the expenditure items are in a number of cases entered in the books at a date different from that of their payment, for example at the time when payment becomes due, whereas it is the actual payments that induce the public authorities to contract new liabilities and consequently influence their financial deficit. The statistical deviations are furthermore due, and to an even greater extent, to errors and omissions in the recording

of the data. With regard to the public authorities, in view of the still provisional nature of certain data concerning their expenditure in 1985, there is a statistical deviation for that period, and thus also for the year under review. There are also errors and omissions in the balance of payments of Belgium alone ; these are chiefly attributable to the difficulty of properly correcting the available data for the Belgian-Luxembourg Economic Union by fully and completely recording both the real and the financial transactions of Belgium with the Grand Duchy of Luxembourg and those of the latter with third countries ;

— as the rest of the world is included among the sectors, the balance of the sectoral financial surpluses and deficits ought to be zero, as each new liability has as its counterpart the formation of a financial asset, it being possible, of course, for the debtors and creditors to be non-residents. The fact that the balance is not zero is again due to errors and omissions in the recording of the data.

c) The *net financial surplus* of *individuals* and *companies* represents the difference between, on the one hand, their formation of financial assets and, on the other, their new liabilities. The volume of both these gross financial flows is large, and they have therefore been made the subject of a separate commentary.

The comments on Table VII. 2 analyse the extent and composition of the formation of financial assets and also the factors by which they were influenced. The information given in this table and in Table VII. 2.1 makes it possible, among other things, to distinguish between assets in Belgian francs and those in foreign currencies and, within each of these categories, between assets at over one year and assets at up to one year ; it should be noted, however, that for the latter the classification according to currency may be only « apparent », in so far as the movement of the recorded assets in Belgian francs or in foreign currencies may be counterbalanced by forward foreign exchange transactions in the opposite direction.

The formation of financial assets in Belgian francs by individuals and companies in the form of bonds or notes is placed, with the aid of Table VII. 2.2, in the context of issues of securities of this type as a whole, whether or not they are accessible to any investor.

Lastly, Chart VII. 2.3 shows both the share of net purchases of foreign currency bonds by individuals and companies in the total of

those in foreign currencies and Belgian francs and one of the factors which explain this share, namely the long-term yield of investments in Belgian francs compared with that of investments in foreign currencies. For the former the withholding tax on income from financial assets is deducted from the gross yield, whereas no tax at source is levied on the incomes from the other bonds included in the chart; this chart therefore applies to the Belgian investor who, when comparing long-term yield rates, only takes into account the possible deduction at source. The yield is admittedly only one of the elements which influence investments in foreign currency bonds. Other factors also play a part and in fact explain a structural trend toward the purchase of foreign currency securities; these include the abundant supply of securities denominated in foreign currencies and the desire of investors to diversify their financial saving.

The new liabilities of individuals and companies are, for their part, examined in the comments on Table VII. 3. This gives a breakdown which, although still with a certain margin of inaccuracy, makes it possible to distinguish between the new liabilities of individuals and those of companies: it seems almost certain that the greater part of personal loans and hire-purchase credits, as well as mortgage loans for housing, are contracted by individuals, while the other liabilities probably consist mainly of those of companies and one-man businesses. It should be recalled, however, that in the breakdowns given in the second part, the latter have regularly been regarded as individuals and that there are thus certain overlappings in the classifications. The new liabilities of companies and one-man businesses are also broken down according to their form in Table VII. 3.1.

d) The *net financial deficit* of the *public authorities* is analysed in the comments on Table VII. 4.

The claims of a sub-sector of the public authorities which constitute a liability of another sub-sector are only included in this table when they are portfolio investments. Thus, the Treasury bonds and certificates purchased by certain other public bodies, for instance social security institutions, are included both in the liabilities contracted and in the financial assets formed by the public authorities. On the other hand, since the advances which the Treasury grants to *communities and regions* are not portfolio investments, they are not included in either the liabilities or the financial assets. As the communities and regions have

hitherto mainly financed themselves by means of these advances and have made hardly any use of the possibility of borrowing which was granted to them under the law of 9th August 1980 on institutional reforms, a large proportion of their financial deficit is included in the change in the official public debt, and the very small deficit explicitly assigned to them in column (c) of Table VII. 4 is therefore virtually insignificant.

That is one of the reasons why the net financial deficit of the aggregate consisting of the national government, the communities and the regions can be calculated, to a very large extent, on the basis of the change in this official public debt, as shown in column (b). This column corresponds to the change in part A of the official public debt statement, less transactions which did not give rise to movements of funds, and its data are identical to those of the *Treasury's total net balance to be financed* as it appears in the latter's monthly statement, published in the *Moniteur Belge*.

For the year 1986 the movements recorded in column (b) disregard — in accordance with the principle laid down by Royal Decree No. 446 of 20th August 1986 — the regularisation loan which has already been discussed in point c) of section V. 2. This is because the proceeds of this loan are recorded in the Treasury accounts and offset by the interest expenses which they finance. On the other hand, this loan has been included in the data of column (d) « Other financial debts and assets », so that, for the public authorities as a whole [column (h)], there shall be shown a financial deficit which is consistent with the surplus of the other sectors of the economy, which included this loan in their accounts as a claim. Column (d) furthermore includes the portion of financial resources which the national government, the communities and the regions obtain in order to meet their deficit and which does not take the form of new liabilities recorded in the official public debt or in that of the communities and regions. These mainly consist of the liabilities resulting from the debudgetisation or prefinancing practices.

The form of financing may, for identical transactions, vary from one period to the other and may consequently give rise to sometimes considerable shifts between the changes in the official public debt [column (b)] and the « Other financial debts and assets » of the national government, the communities and the regions [column (d)]. Such shifts have been observed, for instance, in cases where the national

government and the regions intervene in the financial service of the loans issued by the public housing *companies*. On the one hand, these interventions increased the debts recorded in column (b) to the rather variable extent to which they were duly paid by the national government to these companies, or when the central government prefinanced, by means of repayable advances, interventions for which the regions are responsible; conversely, debts disappeared from this column (b) when the companies in question repaid these advances. On the other hand, the debts contracted in order to finance interventions to be undertaken by the national government and the regions were recorded in column (d) and not in column (c) in so far as they were neither paid nor prefinanced by advances; likewise, debts appeared in column (d) when advances previously made by the national government were repaid. The result thus arrived at is that, depending on the periods, the debts created by the interventions in question were shown sometimes in column (b) and sometimes in column (d) and were occasionally even transferred from column (b) to column (d).

The breakdown of new liabilities between the three sub-sectors distinguished in columns (b), (c) and (d) is therefore of little interest from the point of view of economic analysis; the comments will therefore deal only with the development of the net financial deficit of the aggregate consisting of the national government, the communities and the regions [column (e)].

If the deficit or the *net financial surplus* of the local authorities and the social security system are added to this deficit, the net financial deficit of the public authorities as a whole is obtained. This is identical to the difference between their new liabilities and their formation of financial assets, the respective amounts of which are presented in Table VII. 4.1.

e) Ex post, the total of the domestic sectors' new liabilities or gross requirements of funds, plus any *net financial deficit* of the rest of the world, has, by definition, as its exact counterpart, the formation of financial assets by the domestic sectors, plus any *net financial surplus* of the rest of the world. It is interesting, however, to know through what channels the gross requirements of funds were met, and particularly whether net recourse to the *money market* was necessary or whether it proved possible to meet them outside that market.

In Table VIII. 1 it has been assumed that requirements of funds are met by net recourse to the money market when the financial intermediaries or the Treasury resort to the credit provided in Belgian francs by the Bank (item 1.11). The Treasury can also obtain Belgian francs from the Bank by selling borrowed foreign currencies to it; since, generally, the Bank uses the currencies thus purchased in order to carry out interventions on the foreign exchange market, the Treasury actually does not finance itself differently if it sells the currencies in question not to the Bank but directly in that market; consequently the new liabilities in foreign currencies of the Treasury — and, by extension, of the rest of the *public sector* — are included, in Table VIII. 1, in net recourse to the money market (item 1.12). The requirements of funds which are not financed by one or other of the afore-mentioned methods are said to have been « met outside the money market » (item 1.2).

How large a part of the requirements is thus met outside the money market depends on the extent of the formation of financial assets and the way in which it is allocated. Two types of allocation do not enable the requirements to be thus met: these are, on the one hand, the formation of financial assets with the Bank (item 2.1), either directly (those which take the form of bank notes) or indirectly (the assets which the financial intermediaries have used in order to build up claims on the Bank), because the financial intermediaries can only use these assets as resources for financing their lending by reborrowing them from the Bank, which is regarded as net recourse to the money market and, on the other hand, the funds made available to the rest of the world (item 2.2). The formation of financial assets which is allocated in ways other than those stated above constitutes, subject to a statistical deviation, the supply of funds which meets the demand outside the money market (item 2.3).

For the purposes of Table VIII. 1, net recourse to the money market has been defined in such a way that it can only be had by the financial intermediaries, the Treasury and the rest of the public sector. In order to determine the recourse or contribution to the money market by each of these sectors, it is necessary to consider not only the transactions recorded in item 1.1 of the above-mentioned table but also those which this sector has carried out with the two others on the money market. Table VIII. 1.1 presents, on this basis, the recourse or contribution to the money market by the sectors in question; it also

shows, for the Treasury and the « Public sector not included elsewhere », the transactions outside the money market which led to such a recourse or contribution, as does Table VIII. 1.2, in greater detail, for the financial intermediaries, among which a distinction is made between three main categories : Belgian and Luxembourg banks, the public sector financial intermediaries and the savings banks. The Luxembourg banks have been grouped with the Belgian banks because, when the former have a surplus of funds in Belgian francs, they can make, on the Belgian money market, investments of the same kind as the Belgian banks themselves. This contribution of the Luxembourg banks to the money market has as its main origins, on the one hand, the repurchase by the Bank of foreign currencies resulting from the surplus of the country (the Grand Duchy) with foreign countries and, on the other hand, the formation of deposits in Belgian francs; these are factors which can also lead to a contribution of funds by Belgian banks.

Table VIII. 1.3 presents a fairly detailed picture of the transactions which the various sectors have carried out on the money market in order to meet the deficit or invest the balance of their other transactions. It shows how the sectors which resorted to this market did so, either by increasing their liabilities to other sectors — for instance, in the case of the Treasury, by placing Treasury certificates with the financial intermediaries or, in the case of some of the latter, by borrowing on the call money market or the interbank market — (item 2.1), or by resorting to the Bank (item 2.2). The other transactions of the Bank (item 3) may be regarded as resulting from more or less autonomous behaviour on the part of the other sectors (non-financial private *companies, individuals*, foreign countries, changes in the foreign currency position of the financial intermediaries), possibly influenced by the Bank's policy measures, and as thus being responsible for the above-mentioned requests for facilities by the domestic sectors. Hence, recourse to the Bank may be the result of a tightening of the money market due to net sales of foreign currencies on the foreign exchange market, of an increase in the note circulation or of a negative balance of the Bank's other transactions (mainly connected with the formation and appropriation of the latter's operating result).

A contribution of funds by the financial intermediaries to the money market means an increase in their liquidity. The main elements

of this liquidity are given in Table VIII. 1.5 : they are their portfolio of Treasury and Securities Regulation Fund certificates in Belgian francs at up to one year and their available margins under their *rediscount ceilings* at the Bank. The choices made by the financial intermediaries between these two liquidity elements, and particularly the extent to which use is made of the rediscount ceilings, are influenced by the difference between the yield on certificates, on the one hand, and the cost of rediscounting, on the other : this is illustrated by Chart VIII. 1.4.

f) Lastly, the comments on Chart VIII. 2 describe the movement of the interest rates in the various sections of the money and capital markets through which funds pass or are lent and borrowed by the various sectors.

This commentary first of all analyses the changes which the Bank made to the interest rates on very-short-term Treasury certificates. These rates at present constitute a policy instrument which enables conditions on the *money market* to be very effectively controlled, because they almost entirely determine those on the interbank market, the movement of which is practically parallel, as is illustrated by Table VIII. 2.1. This is because lenders on the interbank market always have the possibility of investing their surplus funds in certificates, while the cashing of certificates, which is always possible owing to the extent of the financial intermediaries' portfolios, can take the place of borrowings on that market. Interbank interest rates, in turn, influence the level of the remuneration assigned by the financial intermediaries to major categories of short-term funds.

The movement of creditor and debtor interest rates is then analysed, for both short-term and long-term investments and credits, with the aid of Charts VIII. 2.3 and VIII. 2.4.

Finally, the repercussions of the developments thus described on the term structure of the creditor interest rates on small investments is examined on the basis of Chart VIII. 2.5. In this chart the rates (both the basic rate and that including the fidelity bonus) on deposits on ordinary savings books are shown outside the yield curve which connects the rates corresponding to the different maturities, since these deposits on savings books do not have a precise and uniform maturity. Their basic rate is credited only by periods of fifteen days, which

furthermore have to be calendar fortnights, unlike what is the case for deposits with a term of fifteen days ; consequently savings books should normally provide a slightly higher yield than the latter and for this reason their basic rate has been plotted against the period of one month. The rate for deposits on savings books including the fidelity bonus has been plotted for the period of one year, since this bonus is granted only on balances which have been kept for a full year.

CHAPTER VII

FINANCIAL ASSETS AND LIABILITIES

VII. 1 Financial accounts by sector

The provisional data concerning financial transactions during the first ten months of 1986 show an increase of Fr. 147 billion in the *net financial surplus* of *individuals and companies* (item 1.23): this increase is attributable to the exceptional extent of their formation of financial assets (item 1.21), as there was a large rise in their new liabilities (item 1.22). The increase seems to confirm the estimates concerning the real accounts for the year as a whole, according to which the *net financing capacity* of individuals (item 1.11) and, above all, that of companies (item 1.12) appear to have grown substantially.

On the other hand, during the first ten months — just as for the year as a whole — the *net financial deficit* of the *public authorities* would appear to have remained at practically the same level as in 1985 (item 2.23).

Hence it is financial relations with the rest of the world that provide the counterpart to the growth in the net financial surplus of individuals and companies: the balance of these transactions did in fact turn round so as to produce, during the first ten months of the year under review, a surplus for Belgium which contrasts with the deficit recorded in 1985 (item 3.2). There is also an appreciable improvement in the estimated real accounts for the year as a whole (item 3.1).

Table VII. 1

FINANCIAL ACCOUNTS BY SECTOR

(Billions of francs)

	1978	1979	1980	1981	1982	1983	1984	1985	1986 <i>e</i>	First ten months	
										1985	1986 <i>p</i>
1. Individuals and companies :											
1.1 Net financing capacity (+) :											
1.11 Individuals	+ 171	+ 184	+ 240	+ 359	+ 354	+ 427	+ 390	+ 367	+ 405	n.	n.
1.12 Companies	+ 21	+ 5	+ 2	+ 64	+ 73	+ 164	+ 123	+ 196	+ 274	n.	n.
1.13 Total (1.11 + 1.12)	+ 192	+ 189	+ 242	+ 423	+ 427	+ 591	+ 513	+ 563	+ 679	n.	n.
1.2 Net financial surplus :											
1.21 Formation of financial assets (+)	+ 475	+ 489	+ 486	+ 599	+ 588	+ 696	+ 552	+ 732	n.	+ 571	+ 792
1.22 New liabilities (-)	- 278	- 309	- 247	- 215	- 149	- 190	- 98	- 217	n.	- 117	- 191
1.23 Total (1.21 + 1.22)	+ 197	+ 180	+ 239	+ 384	+ 439	+ 506	+ 454	+ 515	n.	+ 454	+ 601
1.3 Statistical deviation (1.13 - 1.23)	- 5	+ 9	+ 3	+ 39	- 12	+ 85	+ 59	+ 48	n.	n.	n.
2. Public authorities :											
2.1 Net financing requirement (-)	- 242	- 287	- 404	- 595	- 566	- 627	- 544	- 554	- 573	n.	n.
2.2 Net financial deficit :											
2.21 Formation of financial assets (+)	+ 23	+ 20	...	- 1	+ 7	+ 5	+ 47	+ 6	n.	+ 19	+ 25
2.22 New liabilities (-)	- 249	- 296	- 398	- 569	- 614	- 635	- 571	- 612	n.	- 576	- 570
2.23 Total (2.21 + 2.22)	- 226	- 276	- 398	- 570	- 607	- 630	- 524	- 606	- 600	- 557	- 545
2.3 Statistical deviation (2.1 - 2.23)	- 16	- 11	- 6	- 25	+ 41	+ 3	- 20	+ 52	+ 27	n.	n.
3. Rest of the world :											
3.1 Net financing capacity (+) or requirement (-)	+ 50	+ 98	+ 162	+ 172	+ 139	+ 36	+ 31	- 9	- 106	n.	n.
3.2 Net financial surplus (+) or deficit (-)	+ 33	+ 113	+ 162	+ 179	+ 194	+ 130	+ 82	+ 80	n.	+ 92	- 52
3.3 Statistical deviation (3.1 - 3.2)	+ 17	- 15	...	- 7	- 55	- 94	- 51	- 89	n.	n.	n.
4. Balance of financial surpluses and deficits (1.23 + 2.23 + 3.2)	+ 4	+ 17	+ 3	- 7	+ 26	+ 6	+ 12	- 11	n.	- 11	+ 4

VII. 2 Formation of financial assets by individuals and companies

a) If net commercial claims on foreign countries are disregarded, the formation of financial assets by *individuals* and *companies* amounted to Fr. 792 billion during the first ten months of 1986, or Fr. 221 billion more than in 1985 [column (l) of Table VII. 2]. This increase was due not to the formation of financial assets in Belgian francs, which decreased [column (c)], but to that of the other categories of assets and especially assets in foreign currencies, which went up to a greater extent than in the previous year [column (g)], and of miscellaneous claims on foreign countries, recorded in column (i), which increased, whereas they had declined in 1985, the reversal having been mainly attributable to loans by companies to associated enterprises situated abroad.

b) The reduction in the formation of financial assets in Belgian francs is due solely to that in assets at over one year, which amounted during this period to only Fr. 142 billion, against Fr. 252 billion in 1985 [column (d) of Table VII. 2.1]. This decline is mainly attributable to that in net purchases of bonds and notes, which fell from Fr. 245 billion to Fr. 133 billion [column (a)]. The reduction in these purchases took place from April to October, when they were Fr. 115 billion less than in 1985. It was probably due to the large drop in the yield on long-term portfolio investments which took place after the realignment of exchange rates within the European Monetary System in April 1986 : the expectations of a downward movement of the interest rate on bonds which had been entertained throughout the greater part of 1985 and at the beginning of 1986 then disappeared, at least as regards bonds denominated in Belgian francs.

c) The reduction in net purchases of bonds and notes by individuals and companies might be due to the decrease in issues by the *public authorities* [column (a) of Table VII. 2.2], since, following the mediocre success of the April 1986 loan of the Telegraphs and Telephones Board, the yield to maturity of which was 7.38 p.c., the public authorities thought it best to refrain from issuing the government loan planned for May or June in order to avoid having to give a signal for a raising of interest rates. However, the lack of interest on the part of individuals and companies with regard to securities of this kind during the period from April to October applied much more still to those issued « on tap » by financial intermediaries [column (d)] and therefore appears to have been primarily due to the yield level of these securities.

d) During the first ten months of 1986 net purchases of shares by individuals and companies were Fr. 7 billion higher than in 1985 [column (b) of Table VII. 2.1]. This was because, encouraged by a favourable stock exchange climate, public issues of shares increased appreciably.

e) The formation of financial assets in Belgian francs at up to one year by individuals and companies increased, by Fr. 103 billion, between the first ten months of 1985 and those of 1986 [column (l) of Table VII. 2.1]; that was because the rise during the months April to October, which is probably partly the corollary of the above-mentioned lack of interest in investments at over one year in Belgian francs, more than counterbalanced the decline in the first quarter. Such a movement was displayed by all the main categories of assets at up to one year in Belgian francs, including bank-notes, the speeding-up of demand for which seems to represent a break from the trend observed during the preceding years and is perhaps connected with the general decline in interest rates [column (e)].

f) During the first ten months the formation of financial assets in foreign currencies increased from Fr. 71 billion in 1985 to Fr. 153 billion in 1986 [column (g) of Table VII. 2]. This rise applied both to assets at up to one year [column (f)] and to those at over one year [column (d)].

Purchases of foreign shares amounted to Fr. 20 billion during the first ten months of 1986, whereas individuals and companies had sold 1 billion's worth of shares in 1985 [column (d) minus column (e)]. This development is probably attributable to the fact that Belgian investors, after having discovered Belgian shares during the previous years, wished to diversify their portfolio more in this field, too. Furthermore, the marked fall in interest rates on international bonds at the beginning of 1986, which made investments in shares all the more attractive in comparison with fixed-interest securities, together with hopes of a continuance of the rise in prices on the main foreign stock exchanges, probably induced Belgian investors to buy foreign shares. It may also be pointed out that this is not an isolated phenomenon : purchases of foreign shares met with a certain amount of success in a fair number of countries and Belgian shares themselves benefited by purchases from abroad [see point c) of section VI. 3].

Purchases of foreign currency bonds increased by Fr. 22 billion in absolute terms [column (e)]. Their share in total purchases of bonds and notes by individuals and companies thus increased very appreciably and even exceeded its 1984 level (upper part of Chart VII. 2.3).

The preference displayed by Belgian investors for foreign currency bonds, at the expense of bonds in Belgian francs, was probably stimulated by the large relative fall in the yield of the latter compared with most foreign currency investments (lower part of Chart VII. 2.3). The attention of Belgian investors was mainly focussed on bonds denominated in currencies such as the Danish crown, the Italian lira and the pound sterling, the yields on which were regarded as sufficiently high to compensate for the exchange risk. Purchases of bonds in yens and in German marks, which offered a higher yield than that on Belgian francs for resident individuals from the second quarter onwards, likewise increased.

On the other hand, purchases of bonds in ECUs, which peaked in 1984, have met with less success since then, and this movement continued in 1986. In absolute terms there was a considerable decrease in these purchases : the yield on them, which was greater than that on Belgian franc bonds, was probably not sufficient to counterbalance the exchange risk, increased by the prospect of the introduction of new currencies into the ECU. Belgian savers probably opted for investing either in the so-called weaker currencies, which offered yields appreciably higher than the ECU, or in so-called strong currencies.

As in 1985, the year in which the depreciation of the U.S. dollar began, purchases of bonds denominated in that currency were negligible.

Table VII. 2

FORMATION OF FINANCIAL ASSETS BY INDIVIDUALS AND COMPANIES

(Billions of francs)

	In Belgian francs			In foreign currencies				Other			Grand total (k)	Grand total excluding commercial claims (l)
	At over one year	At up to one year	Total ¹	At over one year		At up to one year	Total	Claims on foreign countries		Miscella- neous (j)		
				Total	of which : bonds (e)			Commercial claims (h)	Other (i)			
	(a)	(b)	(c)	(d)	(e)	(f)	(g)			(h)			(i)	(j)
1978	+177	+225	+402	+ 16	(+ 14)	...	+ 16	+ 19	+ 16	+ 22	+475	+456
1979	+209	+178	+387	+ 11	(+ 15)	+ 17	+ 28	+ 3	+ 47	+ 24	+489	+486
1980	+260	+116	+376	+ 24	(+ 31)	+ 46	+ 70	+ 22	+ 1	+ 17	+486	+464
1981	+211	+141	+352	+ 40	(+ 44)	+115	+155	+ 44	+ 8	+ 40	+599	+555
1982	+298	+173	+471	+ 51	(+ 60)	+ 31	+ 82	+ 3	...	+ 32	+588	+585
1983	+347	+222	+569	+ 84	(+ 85)	- 14	+ 70	+ 21	+ 11	+ 25	+696	+675
1984	+207	+218	+425	+104	(+111)	- 9	+ 95	- 2	+ 17	+ 17	+552	+554
1985	+292	+276	+568	+ 89	(+ 87)	- 2	+ 87	+ 21	+ 10	+ 46	+732	+711
1985 January-March	+ 77	+110	+187	+ 14	(+ 21)	+ 7	+ 21	+ 14	- 8	+ 32	+246	+232
April-October	+175	+ 60	+235	+ 57	(+ 51)	- 7	+ 50	+ 24	+ 7	+ 47	+363	+339
First 10 months	+252	+170	+422	+ 71	(+ 72)	...	+ 71	+ 38	- 1	+ 79	+609	+571
1986 January-March p	+ 73	+ 83	+156	+ 27	(+ 17)	+ 25	+ 52	+ 10	+ 7	+ 93	+318	+308
April-October p	+ 69	+190	+259	+ 87	(+ 77)	+ 14	+101	n.	+ 35	+ 89	n.	+484
First 10 months p	+142	+273	+415	+114	(+ 94)	+ 39	+153	n.	+ 42	+182	n.	+792

¹ For details, see Table VII. 2.1.

Table VII. 2.1

FORMATION OF FINANCIAL ASSETS IN BELGIAN FRANCS BY INDIVIDUALS AND COMPANIES

(Billions of francs)

	At over one year				At up to one year							Grand total	
	Bonds and notes	Shares	Miscellaneous	Total	Cash holdings		Deposits on ordinary deposit or savings books	Time deposits		Notes	Miscellaneous		Total
					Notes and coins	Deposits		in Belgium	abroad				
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1978	+166	+ 10	+ 1	+177	+ 21	+ 27	+106	+ 35	+ 16	+ 15	+ 5	+225	+402
1979	+205	+ 3	+ 1	+209	+ 10	+ 16	+ 73	+ 38	+ 47	- 4	- 2	+178	+387
1980	+257	+ 2	+ 1	+260	+ 6	- 2	+ 2	+ 51	+ 72	- 11	- 2	+116	+376
1981	+208	+ 1	+ 2	+211	+ 4	+ 28	+ 46	+ 12	+ 45	- 5	+ 11	+141	+352
1982	+281	+ 18	- 1	+298	- 1	+ 36	+ 21	+ 72	+ 52	- 4	- 3	+173	+471
1983	+287	+ 47	+ 13	+347	+ 16	+ 60	+112	+ 35	- 16	+ 11	+ 4	+222	+569
1984	+187	+ 21	- 1	+207	- 5	- 10	+115	+ 59	+ 54	+ 5	...	+218	+425
1985	+283	+ 12	- 3	+292	- 2	+ 52	+163	+ 20	+ 30	+ 17	- 4	+276	+568
1985 January-March	+ 76	+ 3	- 2	+ 77	- 9	+ 9	+ 24	+ 61	+ 21	+ 2	+ 2	+110	+187
April-October	+169	+ 6	...	+175	+ 2	+ 18	+ 47	- 29	+ 9	+ 9	+ 4	+ 60	+235
First 10 months	+245	+ 9	- 2	+252	- 7	+ 27	+ 71	+ 32	+ 30	+ 11	+ 6	+170	+422
1986 January-March	+ 79	- 7	+ 1	+ 73	- 4	+ 3	+ 17	+ 45	+ 10	+ 6	+ 6	+ 83	+156
April-October	+ 54	+ 23	- 8	+ 69	+ 17	+ 27	+ 82	+ 11	+ 27	+ 12	+ 14	+190	+259
First 10 months	+133	+ 16	- 7	+142	+ 13	+ 30	+ 99	+ 56	+ 37	+ 18	+ 20	+273	+415

Table VII. 2.2

NET ISSUES OF BONDS AND NOTES AT OVER ONE YEAR IN BELGIAN FRANCS

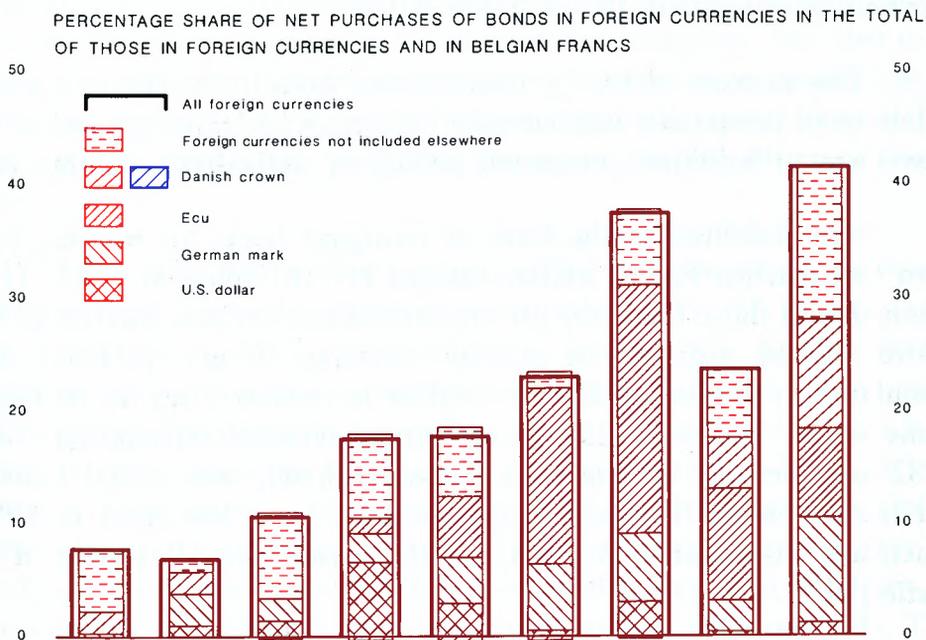
Classified according to issuers

(Billions of francs)

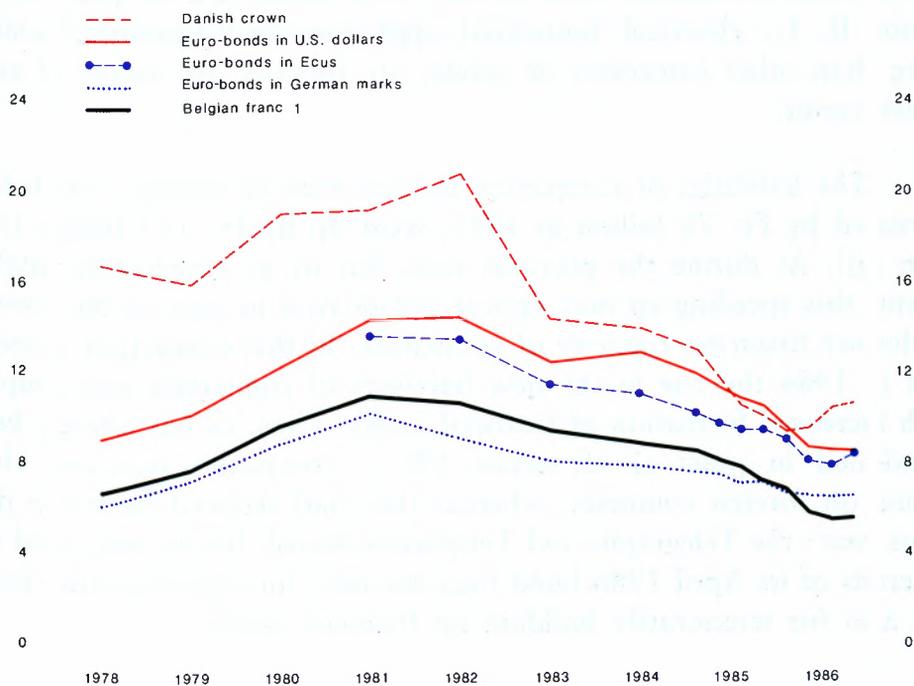
	Public authorities		Financial intermediaries		Other		Total	
	Total	of which : purchased by individuals and companies	Total	of which : purchased by individuals and companies	Total	of which : purchased by individuals and companies	Total	of which : purchased by individuals and companies
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1978	+165	+ 76	+ 84	+ 69	+ 44	+ 21	+293	+166
1979	+150	+ 78	+127	+122	+ 11	+ 5	+288	+205
1980	+ 78	+ 58	+194	+190	+ 6	+ 9	+278	+257
1981	+ 16	+ 31	+172	+164	+ 18	+ 13	+206	+208
1982	+ 77	+ 19	+279	+242	+ 25	+ 20	+381	+281
1983	+337	+ 56	+210	+200	+ 68	+ 31	+615	+287
1984	+298	+ 51	+144	+135	+ 14	+ 1	+456	+187
1985	+548	+ 94	+166	+158	+ 37	+ 31	+751	+283
1985 January-March	+233	+ 34	+ 28	+ 34	+ 5	+ 8	+266	+ 76
April-October	+246	+ 53	+103	+ 93	+ 25	+ 23	+374	+169
First 10 months	+479	+ 87	+131	+127	+ 30	+ 31	+640	+245
1986 January-March	+113	+ 4	+ 72	+ 67	+ 11	+ 8	+196	+ 79
April-October	+101	+ 36	- 23	- 14	+ 44	+ 32	+122	+ 54
First 10 months	+214	+ 40	+ 49	+ 53	+ 55	+ 40	+318	+133
<i>p.m. Outstanding amount at 31st October 1986 . p</i>	<i>(3,236)</i>	<i>(1,004)</i>	<i>(2,323)</i>	<i>(2,000)</i>	<i>(586)</i>	<i>(338)</i>	<i>(6,145)</i>	<i>(3,342)</i>

Chart VII. 2.3

NET PURCHASES OF BONDS IN FOREIGN CURRENCIES AND LONG-TERM YIELD RATES IN BELGIAN FRANCS AND IN OTHER CURRENCIES



LONG-TERM YIELD RATES IN BELGIAN FRANCS AND IN OTHER CURRENCIES (percentages)



¹ After deduction of the withholding tax on the yield of financial assets of 20 p.c. up to 1983 and 25 p.c. since 1984.

VII. 3 New liabilities of individuals and companies

a) During the first ten months of 1986 the new liabilities of *individuals* and *companies* reached Fr. 191 billion, against Fr. 117 billion the previous year [column (h) of Table VII. 3].

b) This increase of Fr. 74 billion is due both to the rise in the new liabilities of companies and one-man businesses [column (g)] and to the movement of liabilities contracted mainly by individuals [column (d)].

c) New liabilities in the form of mortgage loans for housing [column (b)] reached Fr. 41 billion, against Fr. 16 billion in 1985. Their rise is due to those financing private expenditure on new dwellings, and above all, the purchase of existing dwellings. It was probably also stimulated by the belief that the decline in interest rates on mortgage loans which had been continuing almost without interruption since 1982 was nearing its end. On the other hand, new social housing liabilities [column (c)], which had remained at a low level in 1985, practically disappeared in 1986, for the reasons stated in point d) of Section II. 1.

Personal loans and hire-purchase credits increased by Fr. 33 billion, against Fr. 23 billion the previous year [column (a)]. This speeding-up was connected with the increase in purchases of cars (the reasons for which have already been mentioned in point b) of section II. 1), electrical household appliances and furniture, which, more than other categories of goods, are financed by means of consumer credit.

d) The liabilities of companies and one-man businesses, which had increased by Fr. 78 billion in 1985, went up by Fr. 117 billion [column (g)]. As during the previous year, but to an appreciably smaller extent, this speeding-up may appear paradoxical in view of the growth in the *net financing capacity* of companies. In this connection it seems that in 1986 the rise in the new liabilities of companies was coupled with increased formation of financial assets. Thus, as has already been mentioned in point a) of section VII. 2, companies increased their claims on foreign countries, whereas they had reduced them the previous year; the Telegraphs and Telephones Board, for its part, used the proceeds of its April 1986 bond loan not only for repaying other loans but also for temporarily building up financial assets.

Recourse to funds from abroad, for its part, declined from Fr. 31 billion in 1985 to Fr. 21 billion in 1986 [column (f)]. That was because non-residents greatly reduced their direct investments in the form of formations and expansions of companies and loans to affiliated enterprises. This development may have been due to the improvement in the self-financing possibilities of resident enterprises, but also to the decision made by foreign enterprises to obtain more finance on the Belgian market in view of the relative level of interest rates and of certain tax provisions, including those in favour of *co-ordination centres*.

It was thus the liabilities of companies and one-man businesses to Belgium that showed a substantial growth, of Fr. 96 billion against Fr. 47 billion in 1985 [Table VII. 3.1, column (g)]. A more detailed analysis shows that this acceleration was mainly due to the movement of long-term liabilities. In particular, new investment credits, which had been relatively small in 1985, increased considerably [column (d)] : on the one hand, *gross capital formation* rose ; on the other hand, expectations of a fall in interest rates, which during the previous year had induced enterprises to wait before contracting long-term liabilities, appear to have dwindled from the second quarter of 1986 onwards. Thus, the share of short-term credits in the new liabilities of companies and one-man businesses to Belgium, which had been preponderant in 1985, decreased : discount credits, advances and acceptances other than investment credits grew by Fr. 17 billion in 1986, against Fr. 30 billion the previous year [column (e)].

Table VII. 3

NEW LIABILITIES OF INDIVIDUALS AND COMPANIES

(Billions of francs)

	Liabilities contracted mainly by individuals			Liabilities of companies and one-man businesses			Grand total	
	Personal loans and hire-purchase credits	Mortgage loans for housing		Total	To Belgium	To foreign countries		Total
		Total	of which : credits for social housing					
	(a)	(b)	(c)	(d)	(e)	(f)		(g)	(h)
1978	+ 16	+ 98	(+ 33)	+ 114	+ 121	+ 43	+ 164	+ 278
1979	+ 21	+ 111	(+ 29)	+ 132	+ 141	+ 36	+ 177	+ 309
1980	+ 6	+ 82	(+ 38)	+ 88	+ 95	+ 64	+ 159	+ 247
1981	- 10	+ 42	(+ 26)	+ 32	+ 86	+ 97	+ 183	+ 215
1982	+ 3	+ 26	(+ 27)	+ 29	+ 37	+ 83	+ 120	+ 149
1983	+ 7	+ 33	(+ 22)	+ 40	+ 99	+ 51	+ 150	+ 190
1984	+ 14	+ 21	(+ 13)	+ 35	+ 37	+ 26	+ 63	+ 98
1985	+ 28	+ 27	(+ 12)	+ 55	+ 108	+ 54	+ 162	+ 217
1985 First 10 months	+ 23	+ 16	(+ 8)	+ 39	+ 47	+ 31	+ 78	+ 117
1986 First 10 months .. p	+ 33	+ 41	(+ 2)	+ 74	+ 96	+ 21	+ 117	+ 191

Table VII. 3.1

NEW LIABILITIES OF COMPANIES AND ONE-MAN BUSINESSES TO BELGIUM

(Billions of francs)

	Shares (a)	Bonds issued by		Investment credits (d)	Other discount credits, advances and acceptances (e)	Miscel- laneous (f)	Total (g)
		private companies (b)	public enterprises (c)				
1978	+ 10	+ 6	+ 23	+ 43	+ 38	+ 1	+121
1979	+ 6	+ 5	- 2	+ 47	+ 83	+ 2	+141
1980	+ 1	+ 11	- 6	+ 36	+ 46	+ 7	+ 95
1981 .....	...	+ 11	+ 4	+ 5	+ 57	+ 9	+ 86
1982	+ 16	+ 4	+ 12	+ 12	- 13	+ 6	+ 37
1983	+ 41	+ 19	+ 18	+ 11	+ 7	+ 3	+ 99
1984	+ 15	- 3	- 1	+ 39	- 17	+ 4	+ 37
1985	+ 12	+ 2	- 13	+ 27	+ 73	+ 7	+108
1985 January - March	+ 2	+ 1	- 3	+ 2	- 3	+ 1	...
April - October	+ 2	+ 1	- 7	+ 13	+ 33	+ 5	+ 47
First 10 months	+ 4	+ 2	- 10	+ 15	+ 30	+ 6	+ 47
1986 January - March p	+ 1	- 1	- 1	+ 4	+ 30	+ 1	+ 34
April - October p	+ 18	- 1	+ 7	+ 48	- 13	+ 3	+ 62
First 10 months p	+ 19	- 2	+ 6	+ 52	+ 17	+ 4	+ 96

VII. 4 The public authorities' net financing requirement and the net financial deficit (-) or surplus (+) of their various sub-sectors

a) The *net financial deficit* of the national government, the *communities and the regions* as a whole appears to have amounted, for the twelve months of 1986, to Fr. 607 billion, or a little less than in the previous year [Table VII. 4, column (e)].

b) The local authorities' deficit also appears to have slightly decreased in 1986, to Fr. 12 billion [column (f)]. This deficit appears to have been chiefly incurred by a few big cities and by certain municipalities in the Brussels region.

c) Account being taken of the *net financial surplus* of the « Social security » sub-sector, which appears to have remained unchanged, the net financial deficit of the *public authorities* appears to have reached Fr. 600 billion, i.e. Fr. 6 billion less than the 1985 figure [column (h)].

d) A slight reduction was also seen to take place during the first ten months of 1986, the last period for which data concerning the structure of financing are available. It took place both through a fall in new liabilities [Table VII. 4.1, column (g)] and through a rise in the formation of financial assets [column (h)].

However, the structure of new liabilities in Belgian francs differed greatly from that in the previous year.

After having undergone an exceptionally large rise in 1985, liabilities in Belgian francs at over one year [column (e)] rose by only Fr. 212 billion during the first ten months of the year under review : for the reasons stated in point c) of section VII. 2, the Government issued only two loans accessible to all investors, compared with three the previous year ; furthermore, Fr. 51 billion's worth of special medium-term Treasury certificates, resulting from previous consolidation operations and now falling due, were converted into nine- or twelve-month certificates.

On the other hand, liabilities at up to one year — other than those financed by the Bank — [column (c)] increased by Fr. 322 billion, an amount without precedent in previous years.

The total amount of the above-mentioned new liabilities was not, however, quite sufficient to meet the public authorities' financial deficit. These therefore increased their foreign currency liabilities by Fr. 27 billion [column (a)], while the outstanding amount of Treasury certificates held by the Securities Regulation Fund, and financed by the Bank's special facility, increased by Fr. 9 billion [column (b)].

Table VII. 4

THE PUBLIC AUTHORITIES' NET FINANCING REQUIREMENT
AND THE NET FINANCIAL DEFICIT (-) OR SURPLUS (+)
OF THEIR VARIOUS SUB-SECTORS

(Billions of francs)

	Net financing requirement of the public authorities	Net financial deficit or surplus of the sub-sectors						Statistical deviation	
		National government, communities and regions ¹				Local authorities	Social security		Grand total
		Official public debt ²	Debt of communities and regions	Other debts and financial assets	Total (e) = (b) + (c) + (d)				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h) = (e) + (f) + (g)	(i) = (a) - (h)	
1978	-242	-183	—	- 21	-204	- 25	+ 3	-226	- 16
1979	-287	-212	—	- 31	-243	- 26	- 7	-276	- 11
1980	-404	-297	—	- 38	-335	- 59	- 4	-398	- 6
1981	-595	-455	—	- 63	-518	- 63	+ 11	-570	- 25
1982	-566	-509	- 2	- 69	-580	- 28	+ 1	-607	+ 41
1983	-627	-524	+ 1	- 68	-591	- 34	- 5	-630	+ 3
1984	-544	-504	+ 1	- 36	-539	- 8	+ 23	-524	- 20
1985	-554	-571	...	- 40	-611	- 14	+ 19	-606	+ 52
1986	-573 <i>e</i>	-556	... <i>e</i>	- 51 <i>e</i>	-607 <i>e</i>	- 12 <i>e</i>	+ 19 <i>e</i>	-600 <i>e</i>	+ 27 <i>e</i>
1985 First 10 months ..	n.	-555	...	- 32	-587	+ 4	+ 26	-557	n.
1986 First 10 months ..	n.	-542	... <i>p</i>	- 32 <i>p</i>	-574 <i>p</i>	+ 6 <i>p</i>	+ 23 <i>p</i>	-545 <i>p</i>	n.

¹ Plus sign : decrease in debts or increase in assets; minus sign : increase in debts or decrease in assets.

² The amounts recorded in this column correspond to those shown, under the heading « Total net balance to be financed », in the Treasury's monthly statement published in the « Moniteur Belge ».

Table VII. 4.1

NEW LIABILITIES OF AND FORMATION OF FINANCIAL ASSETS
BY THE PUBLIC AUTHORITIES

(Billions of francs)

	New liabilities						Formation of financial assets in Belgian francs (h)	Balance (i) = (g) - (h)	
	in foreign currencies (a)	in Belgian francs			at over one year (e)	Total (f) = (d) + (e)			Grand total (g) = (a) + (f)
		at up to one year		Total (d) = (b) + (c)					
		to Securities Regulation Fund ¹ (b)	other (c)						
1978	+ 12	+ 13	+ 20	+ 33	+ 204	+ 237	+ 249	+ 23	+ 226
1979	+ 42	+ 37	+ 21	+ 58	+ 196	+ 254	+ 296	+ 20	+ 276
1980	+ 94	+ 25	+ 148	+ 173	+ 131	+ 304	+ 398	...	+ 398
1981	+ 224	+ 73	+ 166	+ 239	+ 106	+ 345	+ 569	- 1	+ 570
1982	+ 245	+ 32	+ 185	+ 217	+ 152	+ 369	+ 614	+ 7	+ 607
1983	+ 137	+ 7	+ 99	+ 106	+ 392	+ 498	+ 635	+ 5	+ 630
1984	+ 157	+ 12	+ 67	+ 79	+ 335	+ 414	+ 571	+ 47	+ 524
1985	+ 31	- 19	+ 38	+ 19	+ 562	+ 581	+ 612	+ 6	+ 606
1985 First 10 months	+ 11	- 13	+ 97	+ 84	+ 481	+ 565	+ 576	+ 19	+ 557
1986 First 10 months	+ 27 _p	+ 9	+ 322 _p	+ 331 _p	+ 212 _p	+ 543 _p	+ 570 _p	+ 25 _p	+ 545 _p

¹ Changes in the outstanding amount of Treasury certificates financed by the Securities Regulation Fund with the special facility from the National Bank of Belgium.

CHAPTER VIII

FINANCIAL MARKETS AND INTEREST RATES

VIII. 1 Meeting of the gross requirements of funds and allocation of the formation of financial assets by individuals, companies and public authorities

a) The increase in the formation of financial assets by *individuals, companies* and *public authorities* (item 2 of Table VIII. 1), which was Fr. 227 billion for the first ten months of 1986, greatly exceeded the rise in the gross requirements of funds (item 1), which amounted to Fr. 68 billion. There was hardly any variation, however, in net recourse to the *money market* (item 1.13) : a substantial change in the allocations of the financial assets formed (items 2.1 to 2.3) slowed down the growth in the allocation which meets requirements of funds outside the money market. This is the financial reflection of phenomena which have been extensively discussed in the third part : in 1986 the spectacular improvement in the current account surplus with foreign countries, generating assets in Belgian francs, was accompanied by a marked worsening of the balance of the private sector's capital transactions, a development which is detrimental to the possibilities of financing outside the *money market*.

b) Although net recourse to the *money market* was practically identical during the two periods, amounting to no more than a few billion francs, widely differing developments were observable among the various sectors distinguished in Table VIII. 1.1 : recourse by the Treasury increased considerably (item 1.3) and, as the counterpart to this, the contribution of funds by the financial intermediaries increased (item 3.1).

c) The first-mentioned increase did not result from the development of budgetary transactions (which are the main component of item 1.2), but from the marked reduction in net issues of bonds in Belgian francs (item 1.1), the time-table of these issues having been disturbed during the year by uncertainties concerning the future development of interest rates, as already mentioned in point c) of section VII. 2.

d) The same uncertainties induced subscribers, for opposite reasons, to avoid the bond market. That is why the financial intermediaries raised less funds than in 1985 in the form of bonds and notes in Belgian francs at over one year (item 1.11 of Table VIII. 1.2). But these same financial intermediaries, traditionally the main holders of government securities, reduced their net purchases of such securities even more

(item 2.11), this being the main explanation of the increase in their contribution of funds to the *money market*. The reduction in their investments in bonds at over one year is partly due to the fact that they no longer, as during the preceding three years, converted Treasury certificates at up to one year, at the request of the *public authorities*, into certificates and bonds at over one year, but, conversely, purchased Treasury certificates at up to one year with the proceeds of the redemption of securities at over one year resulting from previous conversions and reaching maturity.

e) An examination of the situation of the three main categories of financial intermediaries, considered individually, shows that the general developments described above took place in the transactions of the public sector financial intermediaries, those of the Belgian and Luxembourg banks and those of the savings banks.

f) During the months of November and December, net recourse to the *money market* increased greatly owing to the disturbances which occurred on the foreign exchange market. Over the year as a whole it thus amounted to Fr. 54 billion, the Treasury's recourse of Fr. 367 billion not having been fully covered by the contributions of the *public sector* not included elsewhere (Fr. 18 billion) and of the financial intermediaries (Fr. 295 billion) (item 1 of Table VIII. 1.3).

g) The financial intermediaries' contribution to the *money market* almost exclusively took the form of subscriptions for certificates in Belgian francs at up to one year (item 2.11). The banks and savings banks also made investments on the interbank market (item 2.13). Lastly, the banks also reduced the outstanding amount of their rediscounted bills (item 2.221), which had been temporarily swollen in December 1985 when, for a few days, a positive differential reappeared between the yield on Treasury certificates and the cost of rediscounting. As this differential disappeared at the end of 1985 and remained negative throughout the year under review, it was never advantageous for the banks in 1986 to subscribe for certificates with funds obtained by using their available margins under the *rediscount ceilings* (Chart VIII. 1.4). The growth in the portfolio of Treasury and Securities Régulation Fund certificates held by the financial intermediaries, together with the increase in the available margins under the rediscount ceilings, led to a further pronounced expansion in the liquidity of these intermediaries. The components of their liquidity recorded in column (f) of Table VIII. 1.5 thus increased by Fr. 304 billion in 1986.

h) In addition to the resources which the Treasury obtained by placing certificates on the *money market* to the extent of Fr. 266 billion (item 2.11 of Table VIII. 1.3) and by issuing foreign currency loans totalling Fr. 74 billion (item 2.14), it had to raise Fr. 27 billion in the form of certificates sold to the Securities Regulation Fund and financed by the latter with the special assistance from the Bank (item 2.212).

Table VIII. 1

MEETING OF THE GROSS REQUIREMENTS OF FUNDS AND ALLOCATION OF THE FORMATION
OF FINANCIAL ASSETS BY INDIVIDUALS, COMPANIES AND PUBLIC AUTHORITIES

(Billions of francs)

	1978	1979	1980	1981	1982	1983	1984	1985	First ten months	
									1985	1986 <i>p</i>
1. <i>Gross requirements of funds</i>	527	605	645	784	763	825	669	829	693	761
met :										
1.1 by net recourse to the money market :										
1.11 increase or decrease (-) in the liabilities in Belgian francs to the National Bank of Belgium	42	45	- 22	101	30	19	- 72	- 6	- 11	- 11
1.12 increase in the foreign currency liabilities of the public sector	12	72	144	293	272	138	169	36	18	17
1.13 Total (1.11 + 1.12)	54	117	122	394	302	157	97	30	7	6
1.2 outside the money market (1 - 1.13)	473	488	523	390	461	668	572	799	686	755
2. <i>Formation of financial assets</i>	479	506	464	554	592	680	601	717	590	817
allocated for :										
2.1 the formation of claims on the National Bank of Belgium	25	12	5	6	...	14	3	- 4	- 13	8
2.2 net capital outflows ¹	- 24	- 13	- 67	166	113	9	22	- 57	- 57	62
2.3 the meeting of the gross requirements of funds outside the money market (2 - 2.1 - 2.2)	478	507	526	382	479	657	576	778	660	747
3. <i>Statistical deviation</i> (1.2 - 2.3)	- 5	- 19	- 3	8	- 18	11	- 4	21	26	8

¹ These are gross outflows, less gross inflows, except that the inflows recorded in item 1.12 are not deducted. The minus sign indicates net capital inflows.

Table VIII. 1.1

RECOURSE OR CONTRIBUTION OF THE VARIOUS SECTORS
TO THE MONEY MARKET

(Billions of francs)

	1983	1984	1985	First ten months	
				1985	1986 <i>p</i>
1. <i>Treasury :</i>					
1.1 Net issues (+) of bonds in Belgian francs ...	+306	+237	+476	+417	+185
1.2 Other transactions outside the money market ¹	-527	-517	-557	-534	-527
1.3 Recourse (-) to the money market (1.1 + 1.2)	-221	-280	-81	-117	-342
2. <i>Public sector not included elsewhere :</i>					
2.1 Net issues (+) of bonds in Belgian francs ...	+49	+60	+59	+52	+36
2.2 Net purchases (-) of bonds and notes in Belgian francs	-3	-1	+4	-3	-13
2.3 Other transactions outside the money market ¹	-45	-68	-77	-52	-2
2.4 Recourse (-) or contribution (+) to the money market (2.1 to 2.3)	+1	-9	-14	-3	+21
3. <i>Financial intermediaries :</i>					
3.1 Contribution (+) to the money market	+63	+192	+65	+113 ²	+315 ²
4. <i>Net recourse (-) to the money market (1.3 + 2.4 + 3.1)</i>	-157	-97	-30	-7	-6

¹ The plus sign indicates that these transactions enabled a contribution to be made to the money market; the minus sign indicates that they necessitated recourse to the money market.

² For details, see Table VIII. 1.2.

Table VIII. 1.2

TRANSACTIONS OF THE FINANCIAL INTERMEDIARIES OUTSIDE THE MONEY MARKET

(First ten months in billions of francs)

	Total		of which :					
	(a)		Public sector financial intermediaries (b)		Belgian and Luxembourg banks ¹ (c)		Savings banks (d)	
	1985	1986	1985	1986	1985	1986	1985	1986
1. Funds raised outside the money market² :								
1.1 Liabilities in Belgian francs to Belgium :								
1.11 Bonds and notes at over one year	+ 130	+ 53	+ 58	+ 38	+ 43	+ 5	+ 29	+ 10
1.12 Deposits of individuals and companies :								
1.121 Sight deposits	(+ 27)	(+ 30)	(+ 1)	(- 2)	(+ 7)	(+ 16)	(+ 2)	(+ 5)
1.122 Deposits on savings books	(+ 71)	(+ 99)	(+ 17)	(+ 28)	(+ 39)	(+ 41)	(+ 15)	(+ 30)
1.123 Time deposits	(+ 48)	(+ 77)	(+ 24)	(+ 17)	(+ 26)	(+ 41)	(- 2)	(+ 19)
1.124 Total (1.121 to 1.123)	+146	+206	+ 42	+ 43	+ 72	+ 98	+ 15	+ 54
1.13 Deposits of the public authorities	+ 11	+ 26	+ 11	+ 26	...	...	...	...
1.14 Total (1.11 + 1.124 + 1.13)	+287	+285	+111	+107	+115	+103	+ 44	+ 64
1.2 Net liabilities in francs to foreign countries	+ 45	+ 38	+ 6	+ 8	+ 47	+ 31	- 8	- 1
1.3 Balance of liabilities and claims not included elsewhere	+261	+337	+ 41	+ 75	+162	+231	+ 44	+ 23
1.4 Total (1.14 to 1.3)	+593	+660	+158	+190	+324	+365	+ 80	+ 86
2. Investments outside the money market³ :								
2.1 Claims in Belgian francs on Belgium :								
2.11 Bonds and notes at over one year	+370	+164	+172	+ 62	+131	+ 40	+ 69	+ 46
2.12 Other credits to individuals and companies	+ 82	+141	+ 24	+ 28	+ 44	+ 77	+ 14	+ 36
2.13 Other credits to public authorities .....	...	+ 20	- 28	+ 5	+ 8	+ 3	+ 3	+ 2
2.14 Total (2.11 to 2.13)	+452	+325	+168	+ 95	+183	+120	+ 86	+ 84
2.2 Net claims in foreign currencies	+ 28	+ 20	...	- 1	+ 26	+ 19	+ 2	+ 2
2.3 Total (2.14 + 2.2)	+480	+345	+168	+ 94	+209	+139	+ 88	+ 86
3. Recourse (-) or contribution (+) to the money market (1.4 - 2.3) .	+113	+315	- 10	+ 96	+115	+226	- 8	...

¹ For the Luxembourg banks, the only transactions which it was possible to record are those which are the subject of items 1.2 and 2.2; the balance of their other transactions outside the money market is included in item 1.3.

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

³ Plus sign : increase in claims; minus sign : decrease.

Table VIII. 1.3

TRANSACTIONS OF THE VARIOUS SECTORS ON THE MONEY MARKET

(Year 1986 in billions of francs)

	Treasury (a)	Public sector not included elsewhere (b)	Financial intermediaries				Other sectors and indeterminate sectors (g)	Total corresponding to changes in the items of the National Bank of Belgium's statement of account (h)
			Total (c)	of which :				
				Public sector financial intermediaries (d)	Belgian and Luxembourg banks (e)	Savings banks (f)		
1. Transactions outside the money market	- 367	+ 18	+ 295	(+ 51)	(+ 247)	(+ 21)	+ 54	—
2. Counterparts (= transactions on the money market) ¹ :								
2.1 Transactions with bodies other than the lender of last resort :								
2.11 Certificates in Belgian francs at up to one year	+ 266	- 3	- 263	(- 54)	(- 204)	(- 7)	—	—
2.12 Call money .....	—	...	...	(- 1)	(- 8)	(...)	...	—
2.13 Interbank market	—	—	—	(+ 13)	(- 7)	(- 14)	—	—
2.14 Foreign currencies borrowed by the public sector and sold by it on the foreign exchange market	+ 74	- 15	- 8	(- 8)	(—)	(—)	- 51	—
2.15 Total (2.11 to 2.14)	+ 340	- 18	- 271	(- 50)	(- 219)	(- 21)	- 51	—
2.2 Transactions with the lender of last resort :								
2.21 Transactions of the public sector with the National Bank of Belgium :								
2.211 Treasury certificates sold to the Bank .....	...	—	—	( — )	( — )	( — )	—	...
2.212 Treasury certificates sold to the Securities Regu- lation Fund and financed by it with the special assistance from the Bank	+ 27	—	—	(—)	(—)	(—)	—	+ 27
2.213 Foreign currencies borrowed by the public sector and sold by it to the Bank .....	...	...	...	( ... )	( — )	( — )	—	...
2.214 Total (2.211 to 2.213)	+ 27	...	...	( ... )	( — )	( — )	—	+ 27
2.22 Recourse by the financial intermediaries to the National Bank of Belgium :								
2.221 Bills rediscounted	—	—	- 23	(- 1)	(- 27)	(...)	—	- 23
2.222 Advances obtained	—	—	- 1	(...)	(- 1)	(...)	—	- 1
2.223 Total (2.221 + 2.222)	—	—	- 24	(- 1)	(- 28)	(...)	—	- 24
3. Other transactions of the National Bank of Belgium :								
3.1 Interventions on the foreign exchange market	n.	n.	n.	(n.)	(n.)	(n. )	...	...
3.2 Notes ²	n.	n.	n.	(n.)	(n.)	(n.)	- 20	- 20
3.3 Other	n.	n.	n.	(n.)	(n.)	(n.)	+ 17	+ 17
3.4 Total (3.1 to 3.3)	n.	n.	n.	(n.)	(n.)	(n.)	- 3	- 3

¹ Plus sign in columns (a) to (f) : recourse to the money market; minus sign : contribution to the money market.² Plus sign : decrease in the note circulation; minus sign : increase.

Chart VIII. 1.4

DEGREE OF UTILISATION OF THE BANKS' REDISCOUNT CEILINGS
AND DIFFERENCE BETWEEN THE YIELD ON TREASURY CERTIFICATES
AND THE COST OF REDISCOUNTING

(Percentages)

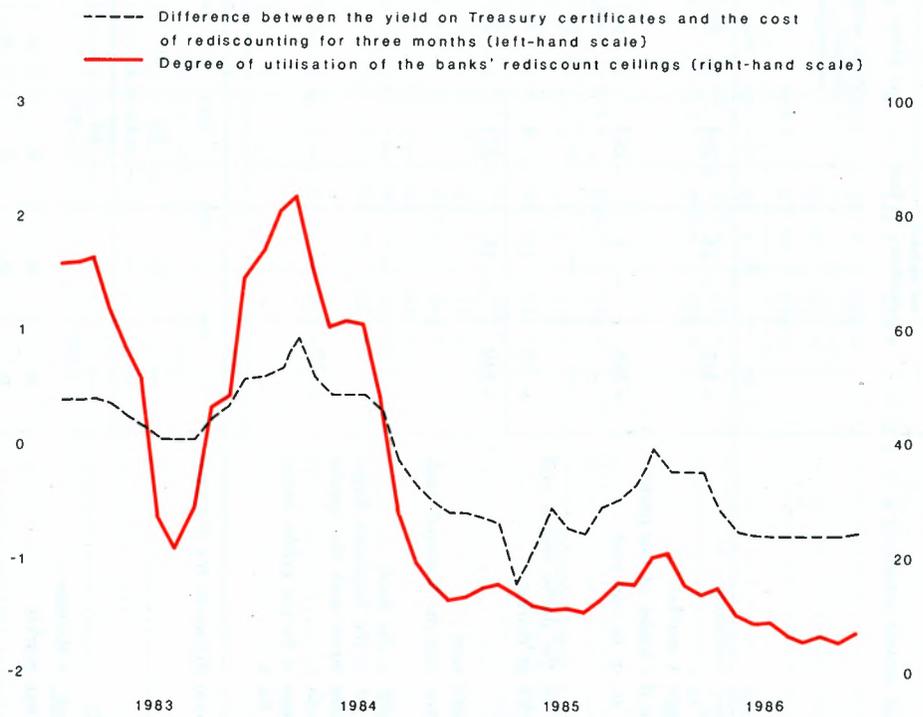


Table VIII. 1.5

MAIN COMPONENTS OF THE LIQUIDITY OF THE FINANCIAL INTERMEDIARIES

(Billions of francs)

At end of	Treasury and Securities Regulation Fund certificates in Belgian francs at up to one year (a)	Rediscount ceilings at the National Bank of Belgium				Total of recorded liquidity components (f) = (a) + (d)
		Total (b)	Bills rediscounted (c)	Available margins (d) = (b) - (c)	p.m. Degree of utilisation (e) = $\frac{(c)}{(b)}$ (percentages)	
1. PUBLIC SECTOR FINANCIAL INTERMEDIARIES						
1981	135	14	4	10	(29)	145
1982	260	14	4	10	(29)	270
1983	238	15	4	11	(27)	249
1984	294	19	...	19	(...)	313
1985	285	20	1	19	(5)	304
1986	340	22	...	22	(...)	362
2. BELGIAN AND LUXEMBOURG BANKS						
1981	218	96	77	19	(80)	237
1982	287	104	73	31	(70)	318
1983	374	107	80	27	(75)	401
1984	412	114	13	101	(11)	513
1985	504	124	33	91	(27)	595
1986	707	135	9	126	(7)	833
3. SAVINGS BANKS						
1981	28	7	5	2	(71)	30
1982	29	8	5	3	(63)	32
1983	37	8	4	4	(50)	41
1984	60	10	...	10	(...)	70
1985	53	10	...	10	(...)	63
1986	60	11	...	11	(...)	71
4. TOTAL						
1981	381	117	86	31	(74)	412
1982	576	126	82	44	(65)	620
1983	649	130	88	42	(68)	691
1984	766	143	13	130	(9)	896
1985	842	154	34	120	(22)	962
1986	1,107	168	9	159	(5)	1,266

VIII. 2 Interest rates

a) As a result of the strains which appeared on the foreign exchange market at the end of 1985 and which persisted during the first quarter of 1986, the downward trend of short-term interest rates was temporarily interrupted. The rate for three-month Treasury certificates, which had been raised by over one point to 9.75 p.c. in December 1985, was kept at this level until the beginning of April.

As, on 6th April, the central rates in the European Monetary System had been readjusted and as short-term interest rates in certain foreign currencies had furthermore turned downward, the Bank once more gave the impetus to a downward movement of interest rates on the *money market*. In the space of two months the interest rates on very-short-term Treasury certificates were reduced by nearly 2.5 points, the rate on three-month certificates thus being lowered to 7.35 p.c. These reductions drew all other money market rates in their wake. The rate on three-month interbank lendings, which — as explained in point f) of the basic information — usually very closely follows that on Treasury certificates, thus fell from an average of 9.73 p.c. in March to 7.33 p.c. in June (Charts VIII. 2 and VIII. 2.1).

The money market remained calm throughout the rest of the year, the main interest rates hardly deviating from the level reached in June, despite the resurgence of strains in the foreign exchange market towards the end of 1986.

b) In accordance with the procedures introduced in May 1985, the Bank's discount rate was regularly adjusted to the movement of the rate on three-month Treasury certificates. It therefore fell from 9.75 p.c. in the first quarter to 8 p.c. from the end of May onwards. At the same time the rate for advances was reduced from 10.25 to 8.25 p.c. The differential between these two rates thus narrowed from 0.50 to 0.25 point. Its purpose is to ensure that the cost of these two forms of recourse to the Bank shall be approximately the same, allowance being made for the fact that the discount rate is payable in advance and that on the advances half-yearly in arrears. When the level of the rates is lower, this condition can be met with a smaller differential (Table VIII. 2.2).

c) The course of *money market* rates was largely reflected in short-term creditor interest rates and, especially, in the rates on deposits of

a million francs and above : between December 1985 and December 1986 the reductions in the rates on these categories of investments ranged from 1.25 points for deposits, for three months, of from Fr. 1 to 3 million, to 1.65 points for those of Fr. 5 to 20 million. The rate on ordinary three-month deposits fell altogether by one point during the year under review, to 5 p.c. (Chart VIII. 2.3).

At the beginning of the year the obstacles to the downward adjustment of the remuneration on savings books were at last removed. An agreement had been reached at the end of 1985 whereby the basic interest rate was reduced by a quarter point to 5 p.c., and most of the financial intermediaries agreed to a voluntary limitation of the growth and fidelity bonuses to a maximum of 2 p.c., the latter having in fact been kept at 0.75 p.c. by the large institutions.

Subsequently the authorities advanced one stage further by changing the conditions which must be met by savings books in order that the remuneration on them shall qualify for exemption from income tax — including, therefore, the withholding tax on income from financial assets. Whereas the regulations in force since the beginning of 1984 did not provide for any limitation on remuneration except that on the basic rate imposed by the Banking Commission on the basis of market rates, the Royal Decree of 13th March 1986 gave the King in Council the right, apart from being able to fix this basic rate, to set an upper limit for the fidelity and growth bonuses. With effect from 16th March 1986 the total of these bonuses was made subject to a maximum of 35 p.c. of the basic rate, rounded down, where appropriate, to the nearest quarter per cent, and the actual basic rate was reduced to 4.75 p.c. As a result of this measure, the smaller financial intermediaries were no longer able to offer more than 6.25 p.c. on savings books — a rate which was only 0.75 point higher than that applied at the time by the General Savings and Pension Fund and other large institutions.

In April and May two further reductions were made, bringing the basic rate down to 4 p.c. and the maximum legal rate to 5.25 p.c. The *gross fictitious rate* (basic rate plus fidelity bonus) on savings books with the General Savings and Pension Fund and other major institutions thus fell from 8 p.c. at the beginning of the year to 6.20 p.c. at its end.

Like money market rates, debtor interest rates on short-term bank credits rose by from 1 to 1.5 points at the end of 1985 and right at

the beginning of 1986. During the period from March to June this rise was, however, cancelled out by successive falls which, depending on the type of credit, totalled 2 to 2.5 points.

d) After having moved hesitantly during the first months of the year, the yield on government bonds declined very substantially from then on. Whereas the yields on issue of the first two loans of the Government and the Road Fund had still amounted to 9.80 and 9.32 p.c. respectively, against 9.87 p.c. for the last loan issued in 1985, at the end of April the rate offered on the loan issued by the Telegraphs and Telephones Board was only 7.38 p.c. (Chart VIII. 2).

The decline in capital market rates subsequently stopped as suddenly as it had started : from May onwards the yield rates on the secondary market displayed an upward trend, while the issue terms for the last two government loans of the year had to be slightly improved in each case. Thus, for the government loan issued in December, the yield on issue was 7.90 p.c., which, on balance, still represents a decline of nearly two points compared with the last loan in 1985.

e) In 1985, owing to the disagreement about the remuneration on savings books, the reductions in the interest rates on the notes and bonds issued by the financial intermediaries had been somewhat smaller than the fall in the yield of government bonds. The disappearance of this obstacle made it possible for a catching-up process to take place during the year under review. Thus, for instance, for the 5-year notes issued by the public credit institutions, a fall in interest rates of three points was recorded between the end of 1985 and April 1986. The rates on notes subsequently remained unchanged until the end of the year, widening the negative differential in relation to the yield, now rising again, on government bonds. The rates which these public credit institutions apply to long-term credits, namely investment credits and mortgage loans, were reduced by 2.5 points during the year (Chart VIII. 2.4).

f) It emerges from the developments described above that the progressive lowering of the creditor interest rates on assets at over one year was more marked than that for deposits for shorter terms. Consequently the curve which, at a given date, connects the creditor interest rates applicable, for various maturities, to small investments (Chart VIII. 2.5) flattened out somewhat during the year under review.

At the end of the year it displayed, for the longest terms, an abnormal break, such as had already appeared twelve months earlier, but with a turn in the opposite direction : on 31st December 1985 the interest rates on 1- to 5-year notes deviated above the line for the reason stated in point e) above ; a similar differential, but downward, was observable at the end of 1986 for 2- to 5-year notes, because only the yield on government bonds had been increased during the last months of the year.

Chart VIII. 2

INTEREST RATES

(Percentages)



¹ Before deduction of tax at source.

Chart VIII. 2.1

DEVELOPMENT OF THE MAIN THREE-MONTH MONEY MARKET INTEREST RATES IN 1986

(Percentages)

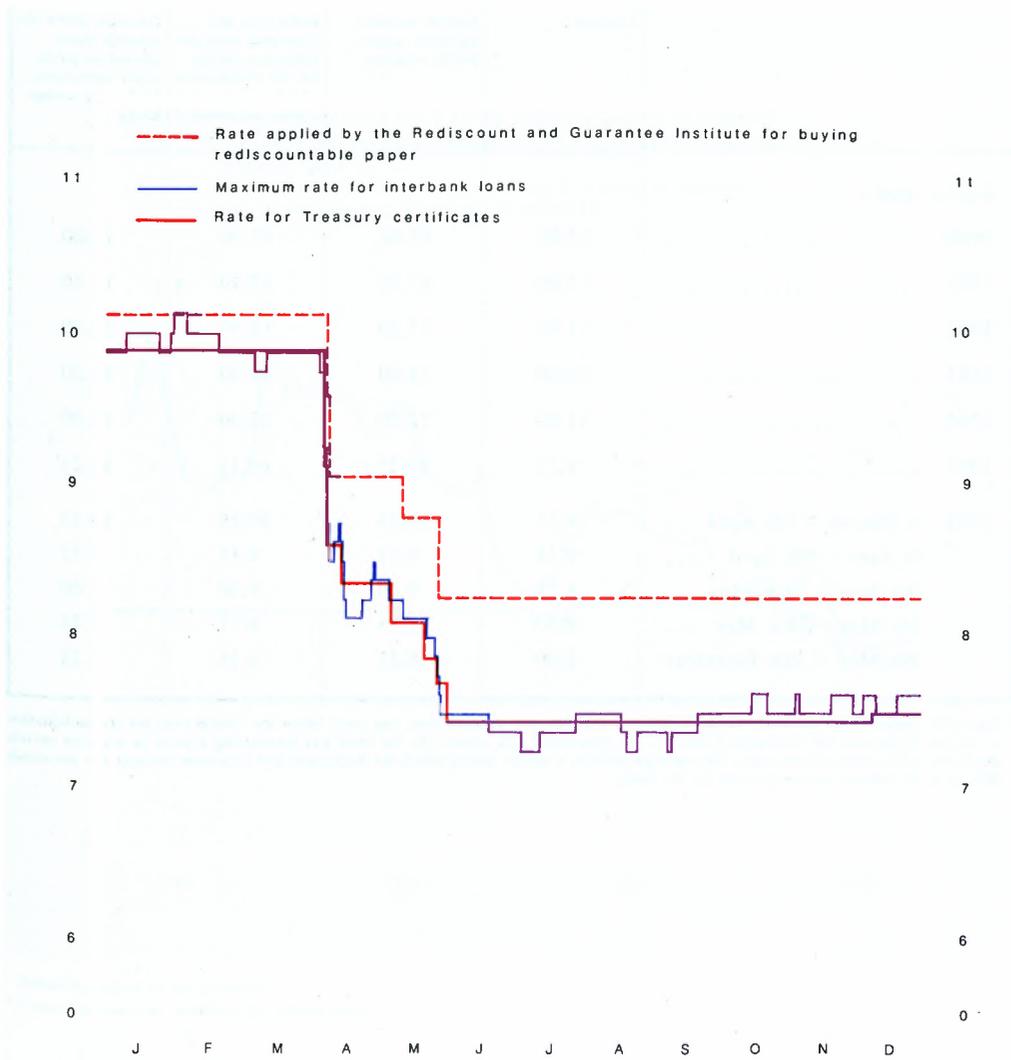


Table VIII. 2.2

NATIONAL BANK OF BELGIUM'S RATES

(Percentages)

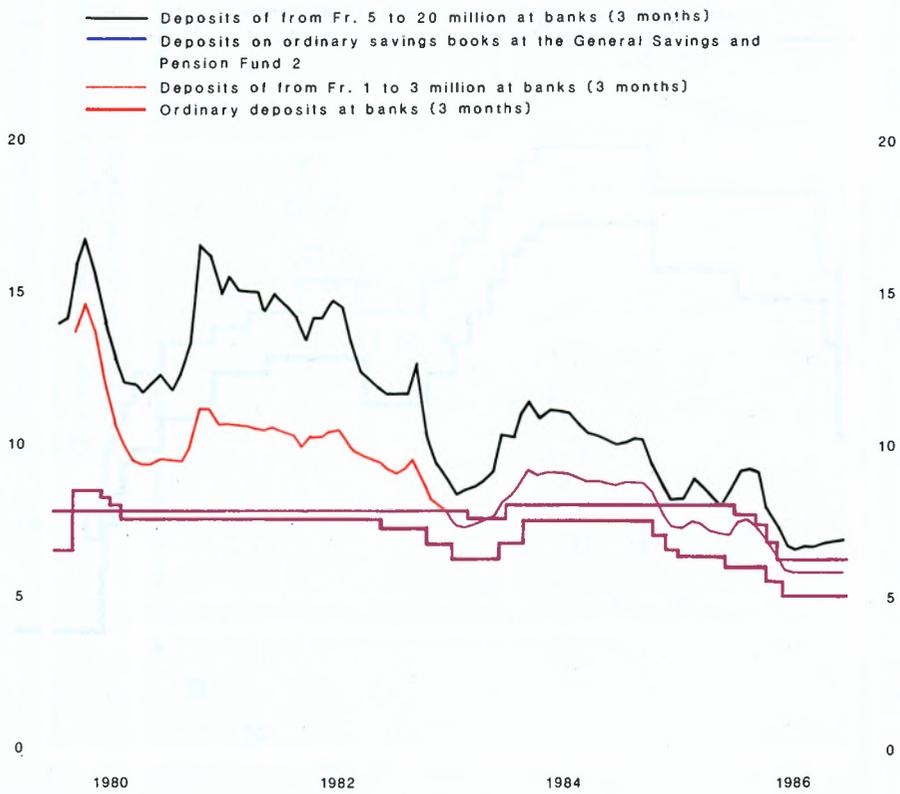
	Official scale of discount and advance rates		Special rates	
	Discount ¹	Current account advances against public securities	Rediscount and Guarantee Institute's rediscount facility for the mobilisation of bills not counted against rediscount ceilings	Advances above the monthly quota allotted to public credit institutions, banks and savings banks
End of year :				
1980	12.00	12.00	13.00	13.00
1981	15.00	17.00	17.50	17.50
1982	11.50	12.50	12.50	12.50
1983	10.00	11.00	11.00	11.00
1984	11.00	12.00	12.00	12.00
1985	9.75	10.25	10.25	10.25
1986 1st January - 7th April ...	9.75	10.25	10.25	10.25
8th April - 9th April	9.25	9.75	9.75	9.75
10th April - 11th May ...	8.75	9.00	9.00	9.00
12th May - 28th May ...	8.50	8.75	8.75	8.75
29th May - 31st December	8.00	8.25	8.25	8.25

¹ Since 12th August 1985 the Bank has been applying a preferential discount rate, one point below the official rate, for the mobilisation — via the Rediscount and Guarantee Institute — of commercial bills certified by the Bank and representing exports to countries outside the European Economic Community. This measure replaces a similar system which the Rediscount and Guarantee Institute was previously able to apply without any intervention by the Bank.

Chart VIII. 2.3

SHORT-TERM CREDITOR INTEREST RATES ¹

(Percentages)



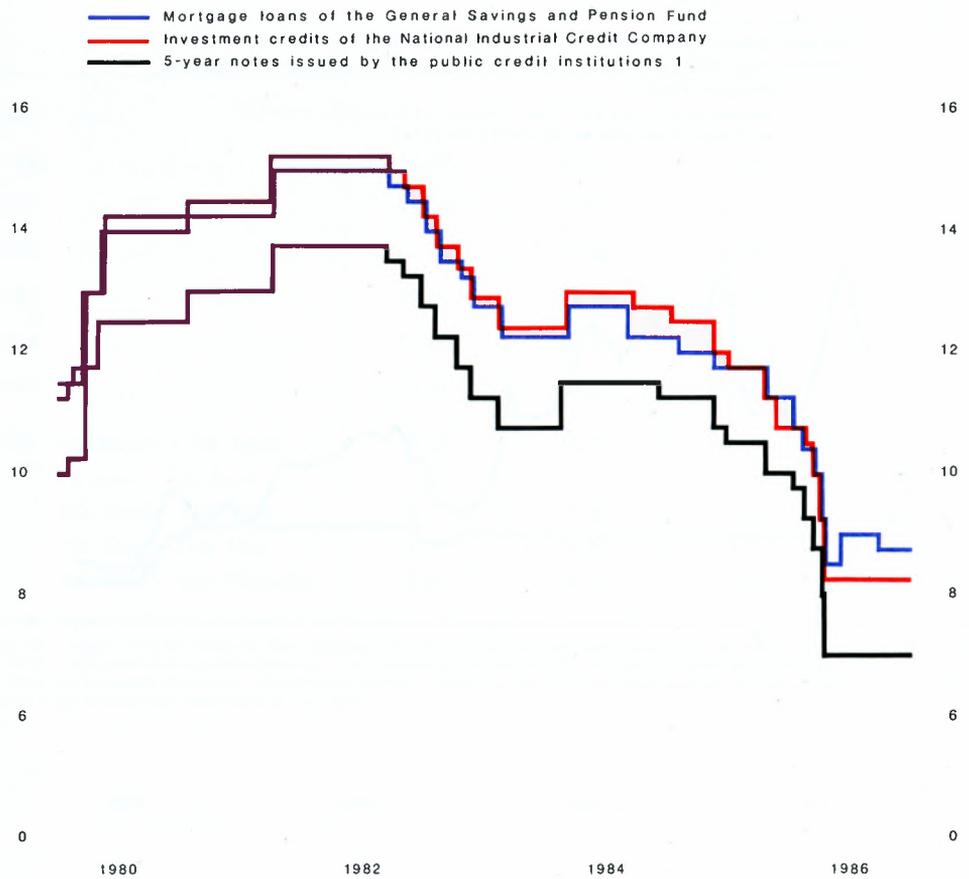
¹ Before deduction of tax at source.

² Gross fictitious rate, including the fidelity bonus.

Chart VIII. 2.4

THE PUBLIC CREDIT INSTITUTIONS' LONG-TERM RATES

(Percentages)

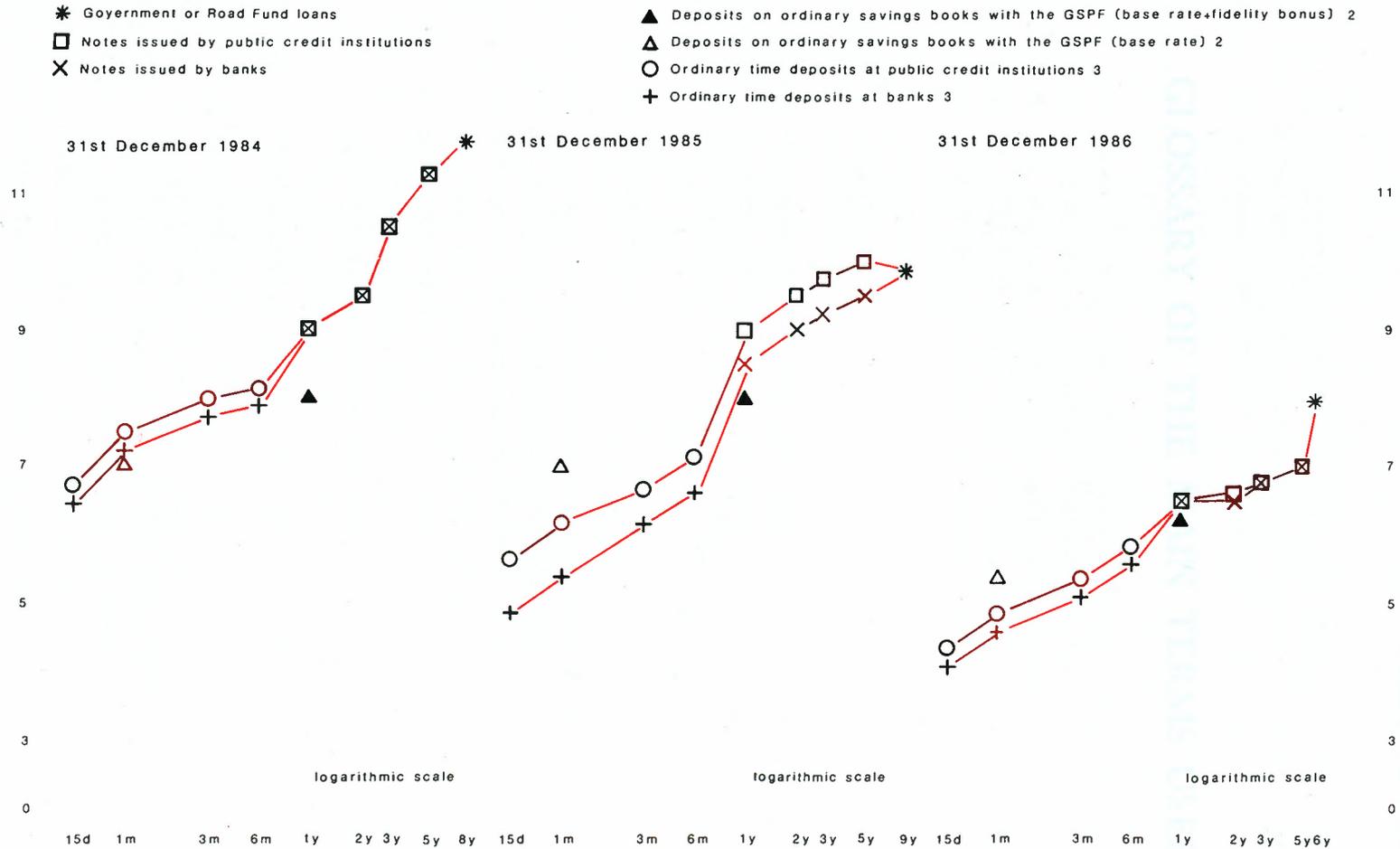


¹ Yield on issue before deduction of tax at source.

Chart VIII. 2.5

STRUCTURE OF CREDITOR INTEREST RATES APPLICABLE TO SMALL INVESTMENTS ¹

(Percentages)



¹ Before deduction of tax at source.

² Gross fictitious rate.

³ Annual actuarial rate.

FIRST ANNEX

GLOSSARY OF THE MAIN TERMS USED

Commission processing

Transactions connected with the processing — in the Belgian-Luxembourg Economic Union for account of non-residents and abroad for account of residents — of goods which have not been the subject of a transfer of ownership between residents and non-residents.

Communities and regions

This sub-sector of the *public authorities* was created under the Law of 8th August 1980 for Institutional Reforms of the State, which conferred on the Walloon, Flemish and Brussels regions and on the French-speaking, Dutch-speaking and German-speaking communities certain powers which were previously possessed by the national government.

Companies

This sector comprises all enterprises which are in the legal form of joint-stock companies or private partnerships, and also public enterprises.

Compensation of employees

The compensation of employees comprises gross wages and salaries, including employers' social security contributions and, from 1984 onwards, the portion of the increases resulting from indexations which is paid by enterprises not to their employees but to the *public authorities*. For persons remunerated by the Treasury, the local authorities and certain public enterprises, this compensation also includes the pensions and other social benefits which are paid directly by these employers.

Contributions to the change in an economic magnitude

The contributions to the change in an economic magnitude are calculated in order to determine what proportion of that change is attributable to each of the components of that magnitude. The sum of the contributions is thus equal to the change in the magnitude.

These contributions are generally calculated for percentage changes, particularly the percentage changes in the *gross national product* or in cost and price indices.

Co-ordination centre

A co-ordination centre is in principle a company to which affiliated enterprises entrust the task of centralising or developing certain service activities which are necessary for their operation. In Belgium, a company of this type may receive preferential tax treatment if it fulfils the requirements of certain legal provisions — primarily those resulting from Royal Decree N° 187 of 30th December 1982, amended by Article 39 of the Law of 27th December 1984 and by Articles 41 and 42 of the Law of 4th August 1986.

Deflator

An index which enables the value of an economic magnitude at current prices to be converted into a datum expressed at the prices of a base year. There are deflators for the *gross national product* or the *gross domestic product*, for the various categories of expenditure and for the *value added* of the various branches of the economy; they are comparable to price indices.

Depreciation

The depreciation figures appearing in the national accounts represent the countervalue of the depreciation suffered during the period in question by the stock of fixed capital which has accumulated over the years thanks to the *gross fixed capital formation* which has taken place each year. In the case of *individuals*, for instance, the depreciation allowances comprise those applied to the dwellings which they own and to the fixed capital stock of one-man businesses. On the other hand, no depreciation is applied in the national accounts to the greater part of the fixed assets of the *public authorities*.

Disposable income

The disposable income is obtained by adding to (or deducting from) the *gross primary income* the net current *transfers* received from (or paid to) other sectors. This disposable income — which, like primary income, is a gross income, that is, including *depreciation* allowances — can be devoted either to expenditure on consumption or to formation of *gross savings*.

Divergence indicator

This indicator provides a measure of the difference between the exchange rates actually applied on the foreign exchange market and the central rates established within the framework of the European Monetary System. In the case of the Belgian franc the exchange rates used are those of the regulated market. The values which the indicator can assume are between $- 100$ and $+ 100$; if the indicator is negative (positive), this means that the monetary unit in question is strong (weak) compared with the average for the other currencies in the System.

For further details see the article entitled « Le Système Monétaire Européen », Bulletin of the National Bank of Belgium, LIVth year, Volume II, Nos 1-2, July-August 1979.

Divergence threshold

The divergence threshold of a monetary unit participating in the exchange mechanism of the European Monetary System is equal to 75 p.c. of the maximum divergence of that unit, that is, to the value $- 75$ of the *divergence indicator* for a strong currency and the value $+ 75$ for a weak currency. A country whose monetary unit goes beyond one of these thresholds is required to take steps to eliminate the strains which have thus become apparent.

Final expenditure

This item of the national accounts records the flow of goods and services which are available to satisfy the demand of the final national users (which means that it excludes goods and services used within the framework of the production process) or for delivery to foreign countries. In other words, it is equal to the sum of domestic expenditure (private consumption, *public consumption* and *gross capital formation*) and exports of goods and services, or to the sum of the *gross domestic product* and imports.

Gross capital formation

Gross capital formation comprises gross fixed capital formation and changes in stocks. Gross fixed capital formation (also called investment)

records the flow of the durable goods acquired by the domestic sectors for a period exceeding one year for the purpose of generating a subsequent income, but excluding purchases of existing fixed assets, including land. With regard to households, in particular, it should be noted that their gross capital formation consists only of dwellings.

Gross domestic product

The gross domestic product (GDP) is the product of the activity carried out within the frontiers of the national economy, irrespective of the nationality of the factors of production — labour and capital — which are used. By adding the incomes obtained abroad by the national factors of production to the gross domestic product and by deducting from it the incomes paid to the foreign factors of production which are used within the national frontiers, the gross national product is obtained.

Thus, for 1985, the data (in billions of francs) given below, which are taken from the national accounts of the National Statistical Institute, enable the transition to be made from Belgium's gross domestic product to its gross national product :

Gross domestic product	4,812
— add the proceeds of Belgian investments abroad (interest received on deposits, bonds or loans, investment income, etc.)	+ 418
— deduct the proceeds of foreign investments in Belgium (interest paid on deposits, bonds or loans, and especially interest on the public debt placed abroad, investment income, etc.)	- 480
— add the incomes of Belgian « frontier workers » abroad (remuneration received by workers resident in Belgium but working abroad)	+ 47
— deduct the incomes of foreign « frontier workers » in Belgium (remuneration paid to workers resident abroad but working in Belgium)	- 20
Total = gross national product	<u>4,777</u>

The gross national product (GNP) is thus the result of the economic activity of all the national factors of production, wherever this activity takes place.

It can be calculated from three angles :

- either by recording the flow of goods produced and services rendered in the economy, excluding, to avoid duplication, goods and services used in the production process (called intermediate consumption) or, in other words, by adding together the *value added* of the various branches and net factor incomes (origin of the gross national product or « production » angle);
- or by recording the various domestic sectors' expenditure on final consumption of goods and services (hence excluding intermediate consumption) and on *gross capital formation*, and adding to this the net exports of goods, services and factor incomes (allocation of the gross national product or « expenditure » angle);
- or by making an inventory of the *gross primary incomes* which the various domestic sectors have obtained by participating in domestic production of goods and services or have acquired abroad (distribution of the gross national product or « income » angle).

Gross fictitious rate

Fictitious interest rate calculated for financial assets — and more specifically for deposits on ordinary savings books — the interest on which is exempt from the withholding tax on income from financial assets up to a certain amount, so as to obtain, for these assets, a rate which is comparable to the gross yield of assets which are fully subject to this withholding tax.

Gross national product

See *gross domestic product*.

Gross operating surplus (before subsidies)

The gross operating surplus of *companies* is equal to the difference between the total value of their sales, excluding taxes, to the other

sectors and the sum of their production costs other than financial charges (*compensation of employees* and purchases from other sectors). It includes the profit before tax, depreciation allowances and financial charges.

Gross primary income

The gross primary income of a sector (*individuals, companies, public authorities*) is the income which that sector's factors of production have generated within the framework of the production process. It therefore generally comprises the *compensation of employees*, the entrepreneurial income of self-employed persons, the *gross operating surplus* of companies and *income from property* including, where appropriate, *depreciation* allowances. These various incomes are considered before any fiscal or parafiscal levy. The interest on the public debt, which is not taken into account in calculating the public authorities' income from property, is deducted from their gross primary income. Lastly, it should be pointed out that, by a convention which is accepted for the national accounts, subsidies are included in the gross primary income of the sector which receives them and are therefore deducted from the gross primary income of the public authorities, and that the latter income does include, on the other hand, indirect taxes. The sum of the gross primary incomes of the domestic sectors defined in this way constitutes the *gross national product*.

Gross savings

Gross savings are the difference, measured *ex post* on the basis of the national accounts, between a sector's *disposable income* and its consumption; the term « gross » means that *depreciation* has not been deducted. As *companies* have no consumption, their gross savings are equal to their disposable income.

Income from property

A sector's income from property comprises the incomes — received or allocated — in the form of rents (including *depreciation* allowances on residential buildings), interest, dividends, directors' fees, etc., after deduction of the incomes of the same kind paid. With regard, more particularly, to the *public authorities*, income from property mainly

comprises the incomes which they receive, including their income from their share in the profits of the public sector financial intermediaries, including the Bank, or in those of non-financial public enterprises, but after deduction of these public enterprises' losses which they have met. Interest on the public debt is mentioned separately in the national accounts.

Individuals

This sector comprises not only households but also enterprises which are not included in the *companies* sector, that is, mainly one-man businesses.

Intrinsic forward discount

A difference between the forward exchange rate for a foreign currency in Belgian francs and the spot exchange rate in addition to that which would normally have resulted from the differential between the short-term interest rate in Belgian francs and that in the foreign currency.

Labour costs

These are expressed in the form of an index number which is equal to the ratio between the index of total gross compensation (including employers' social charges) and either the index of the number of employees (labour costs per person employed) or the index of the number of hours worked (labour costs per hour worked).

Labour costs per unit of output

These are expressed in the form of an index number which provides a measure of the movement of the total cost of the paid labour incorporated, on average, in a unit of output. It is therefore the ratio between the index of *labour costs* and the index of the apparent *productivity* of employees. Concretely, this result is obtained directly by working out the ratio between the index of gross compensation (including employers' social charges) and the index of the corresponding production (or *value added*) expressed at constant prices.

Market services

Services which are sold and bought on the market : real services (for instance commercial services, transport, telecommunications, hotel and catering services, etc.) or fictitious services (allocated rents).

Money market

The market on which the financial intermediaries, the Treasury and the rest of the *public sector* invest their surpluses of funds or meet their requirements of funds by carrying out among themselves transactions in Belgian francs at up to one year and on which the Bank intervenes as the lender of last resort. The Bank's interventions take the form of rediscounting, advances, subscriptions for Treasury certificates and the special assistance to the Securities Regulation Fund. The public sector's new liabilities in foreign currencies, which can take their place, are regarded as being equivalent to the interventions. The combined amount of these interventions and new liabilities measures the domestic sectors' net recourse to the money market.

National sectors

The national sectors are the five industrial branches of activity for which, under the Law of 8th August 1980 on the Institutional Reforms of the State, the powers with regard to economic policy were not assigned to the *regions* but continued to be possessed exclusively by the national government. These five branches are the iron and steel industry, including transportation of ores and coke, the coal mines, the textile industry, shipbuilding and repair and the hollow-glass industry.

Net financial deficit

The net financial surplus or deficit of a sector is the positive or negative difference between the formation of financial assets by that sector and the new liabilities which it has contracted during the period. When either of these flows is measured on the basis of the change in the outstanding amounts between the beginning and the end of the period, this change is adjusted to eliminate the effect of purely accounting operations not entailing movements of funds, such as changes in valuation due, for instance, to variations in exchange rates. Subject to

a statistical deviation, a sector's net financial surplus or deficit must correspond to that sector's *net financing capacity* or *net financing requirement*.

Net financial surplus

See *net financial deficit*.

Net financing capacity

A sector has a net financing capacity when its *gross savings* (plus the *capital transfers* received) are greater than its *gross capital formation*. A sector whose transactions result in a net financing capacity will be a net supplier of funds to the money and capital markets.

Net financing requirement

A sector has a net financing requirement when its *gross savings* (plus the *capital transfers* received) are insufficient to finance its *gross capital formation*. A sector whose transactions result in a net financing requirement will be a net taker of funds from the money and capital markets.

Non-market services

Services rendered free or almost free of charge to the community or to individual groups of households by the *public authorities*.

The *value added* of non-market services consists mainly of the *compensation of employees* who are employed directly by the public authorities. From the expenditure angle it is added to the public authorities' intermediate consumption of goods and services for the purpose of obtaining the amount of *public consumption*, which therefore, in the absence of establishment of its value by the market, is determined on the basis of costs.

Payments basis or transactions basis (balance of payments or current transactions on a)

A balance of payments on a transactions basis in principle records current transactions not at the time when they are the subject of a

payment but when they are carried out, for instance at the time when an imported goods item is cleared through customs. This means that this balance includes, among capital transactions, inflows or outflows in respect of the commercial claims which arise whenever a current transaction is not paid for at the time when it takes place. Only such a balance has a real economic significance, but in the case of the Belgian-Luxembourg Economic Union it only becomes available after a fairly long delay. That is why the Bank also compiles a balance of payments on a payments basis, which records, in addition to payments, other operations which are quickly known, and which thus represents the most accurate possible prediction of the balance on a transactions basis.

Productivity

The relationship between the *value added* at constant prices and all the factors of production employed. Only the apparent productivity of labour, however, defined as either the ratio between the value added and employment or the ratio between the value added and the number of hours worked, can be easily measured.

In this statistical concept, (labour) productivity is determined only *ex post* on the basis of the other two magnitudes. This relationship is not established, however, until any interactions there may be have taken place : the development of the value added and that of (labour) productivity may influence each other. This is the case, for instance, when an economic recovery gives rise — as is generally the case — to an increase in the value added without any parallel rise in employment — because the workforce of the enterprises was underemployed during the recession — and hence to a cyclical rise in productivity. The chain reaction may also be in the opposite direction, when the introduction of new production techniques increases productivity and this increase improves competitiveness in terms of costs and enables sales and hence the value added to be expanded. These reciprocal influences must be borne in mind if the development of productivity or its influence on employment are to be correctly interpreted.

Public authorities

The public authorities comprise the national government, the *regions*, the *communities*, the local authorities and the social security

system; they do not, therefore, include public enterprises. They correspond to the concept « State » in the Belgian national accounts.

Public consumption

See *non-market services*.

Public sector

The public sector is defined as the aggregate composed of the *public authorities* and the public enterprises (that is, the financial and non-financial public enterprises).

Rediscount ceilings

The rediscount ceilings determine the maximum amount up to which each financial intermediary can rediscount commercial bills at the Bank and the Rediscount and Guarantee Institute.

For further details see the article entitled « Réforme du système des plafonds de réescompte », Bulletin of the National Bank of Belgium, LIInd year, Volume II, No. 3, September 1977.

Regions

See *communities and regions*.

Tax expenditure

This term is used to denote the loss of receipts resulting, for the revenue of the public authorities, from incentives granted to certain types of activity or specific groups of taxpayers, by way of derogation from the general system of imposition of a certain category of fiscal or parafiscal levy.

Terms of trade

Index expressing the movement of the price of a unit sold or exported in relation to that of the price of a unit bought or imported. This index is generally calculated for the whole of a given economy by

the ratio between the index of average unit values (or of the *deflator*) for exports and the index of average unit values (or of the deflator) for imports.

Third-country trade

A balance of payments item in which are recorded goods purchased and resold abroad by residents, irrespective of whether or not the goods pass via the territory of the Belgian-Luxembourg Economic Union.

Transfers

Transfers are transactions without counterpart between sectors which may either be the result of intervention by the *public authorities* by virtue of laws or regulations or may take place on a contractual or voluntary basis. In the national accounts a distinction is made between capital transfers, which are in principle intended for the financing of direct or portfolio investment (such as, for instance, the building subsidies granted by the public authorities to *individuals* and, by analogy, purchases and sales of plots of land between domestic sectors or, again, death duties and taxes on gifts), and current transfers, that is, other transfers, including particularly, in one direction, direct taxes and social security contributions and, in the other direction, social security benefits. In the balance of payments, transfers are broken down between public transfers, i.e. those for which at least one of the parties involved, whether a resident or a non-resident, is a public authority or an international organisation (including, for instance, the payments made in favour of residents by the European Agricultural Guidance and Guarantee Fund), and private transfers, i.e. other transfers, which include in particular remittances of funds by foreign workers to their countries of origin.

Treasury's total net balance to be financed

The term applied, in the Treasury's monthly statement of account published in the *Moniteur Belge*, to the balance of revenue and expenditure on a cash basis obtained by deducting, from the nominal movement of the outstanding amount of the official public debt, the following items : the changes in the portfolio of Treasury certificates held by the International Monetary Fund, the debts taken over from other sectors,

the exchange differences which are calculated on the amount of the consolidated debt in foreign currencies and the rescheduling, by means of so-called regularisation loans, of the payment of interest due on the official public debt.

This balance does not correspond to the *net financial deficit* of the *public authorities* as a whole, which is more broadly defined and includes debts, or financial assets, other than those of the Treasury ; it does, however, constitute the greater part of it.

Value added

The value added of a branch of activity, i.e. its share in the *gross domestic product*, represents the value which is added to the amount of the materials and services used thanks to the employment of the factors of production (labour, capital, entrepreneur's contribution). The value added can therefore be obtained, in principle, by finding the difference between the value of production and the value of intermediate consumption (value of the goods and services used other than those provided by the enterprises' own factors of production).

Weighted average exchange rate

This is an index number the change in which reflects, in principle, the fluctuations in the exchange rate for a currency in relation to all the other currencies. It is a — generally geometric — weighted average of the bilateral index numbers for the currency of one country in relation to the currencies of its main trading partners.

There are two kinds of indices of the weighted average exchange rate, which differ according to the weighting coefficients used :

- in index numbers of the first type — to which those calculated by the Bank belong — the weightings are based on the structure of the bilateral trade between a country and its partners ; such index numbers indicate what, in a system of fixed exchange rates, would have been the change in parity which would have had, on the cost for the foreign or resident purchaser, effects equivalent to those of the variations in exchange rates which actually occurred ;

- in indices of the second type — such as those calculated by the International Monetary Fund — the weightings are based on a multilateral exchange rate model which takes into account the competition between a country and each of its partners not only in their bilateral relations but also on third markets ; indices of this type indicate what, in a system of fixed exchange rates, would have been the change in parity which would have had, on the balance of trade of the country in question, the same overall effects as the variations in exchange rates which actually occurred.

For further details, see the article entitled « Les indices du cours moyen pondéré ou cours de change effectif du franc belge », Bulletin of the National Bank of Belgium, LIInd year, Volume I, No. 5, May 1977.

Working population

The working population, which represents the demand for employment, is obtained by adding together the number of employed persons (employees, self-employed persons and assistants), which constitutes the supply of employment, and the number of unemployed job-seekers, that is, of unemployed persons. The civilian working population does not include regular members of the armed forces or persons doing military service.

SECOND ANNEX

**METHOD OF ESTABLISHMENT OF THE DATA
APPEARING IN THE TABLES AND CHARTS**

CHART I. 1

The price indices for raw materials were taken from the Institut für Wirtschaftsforschung, Hamburg, which works out the average, per month, of the daily rates, calculated on the basis of the U.S. dollar prices. The monthly index of the *weighted average exchange rate* for the dollar is calculated by the International Monetary Fund, which uses for this purpose the average, per month, of the daily rates. The indices shown in the chart are the averages, per quarter, of these monthly indices.

Table I. 1.1

The *terms of trade* of the various countries or areas were calculated on the basis of the data concerning export and import prices of goods as calculated or estimated by the Organisation for Economic Co-operation and Development, except for Belgium, where they were calculated by the Bank on the basis of the data from the customs statistics compiled by the National Statistical Institute.

The *deflators of the gross domestic product* were calculated or estimated by the Organisation for Economic Co-operation and Development, except for Belgium, where they were calculated on the basis of the national accounts compiled by the National Statistical Institute for the years 1984 and 1985 and of the Bank's estimate for 1986 (see item 8 of Table III. 1). The figures for the United States, Japan and the Federal Republic of Germany relate to the deflator of the gross national product.

The figures for the European Economic Community relate to the twelve Member States.

The other oil-producing developing countries are : Brunei, Cameroon, the Congo, Egypt, Malaysia, Mexico, Peru, Syria, Trinidad and Tobago and Tunisia.

The newly industrialised countries are : South Africa, Argentina, Brasil, South Korea, Hong Kong, Israel, the Philippines, Singapore, Taiwan, Thailand and Yugoslavia.

The low and middle income countries are the other non-oil-producing developing countries; trade whose origin and destination are not specified is likewise recorded under this heading.

The « Other countries » are mainly centrally-planned economies.

Chart I. 1.2

The sources used are : for the European Economic Community and the member countries of the Organisation for Economic Co-operation and Development : Organisation for Economic Co-operation and Development; for the United States : U.S. Bureau of Labor; for Japan : Management and Coordination Agency; for Italy : Istituto Centrale di Statistica; for France : Institut National de la Statistique et des Etudes Economiques; for Belgium : Ministère des Affaires Economiques; for the United Kingdom : Department of Employment; for the Federal Republic of Germany : Statistisches Bundesamt; for the Netherlands : Centraal Bureau voor de Statistiek.

The percentage changes are those in the data for the last month of each quarter in relation to the level reached a year earlier. Last period : November for the European Economic Community and for the member countries of the Organisation for Economic Co-operation and Development as a whole.

The date for the European Economic Community relate to the twelve Member States.

TABLE I. 2

Up to 1985 the data are from the Organisation for Economic Co-operation and Development, except those for Belgium, which are supplied by the National Statistical Institute. The data for 1986 are estimates made by the Organisation for Economic Co-operation and Development, published in « O.E.C.D. Economic Outlook », N° 40, December 1986.

For the half-yearly data the percentage changes are calculated on the basis of seasonally adjusted figures and are expressed as annual rates; thus the percentages for one half-year reflect the changes compared with the immediately preceding half-year.

The figures for 1985 and 1986 mentioned for the United States, Canada, Japan and the Federal Republic of Germany relate to the *gross national product*.

The data for the European Economic Community relate to the twelve Member States.

Table I. 2.1

The data, including the estimates for 1986, are from the Organisation for Economic Co-operation and Development.

For the half-yearly data the percentages are calculated on the basis of seasonally adjusted figures and are expressed as annual rates; thus, the percentages for one half-year reflect the changes compared with the immediately preceding half-year.

The definition of the sub-groups under the heading « Other developing countries » is given in the method of establishment of Table I. 1.1.

The « Other countries » are mainly centrally-planned economies.

Table I. 2.2

a) The *contributions* of the categories of expenditure to the changes in the *gross domestic product*, calculated or estimated by the Organisation for Economic Co-operation and Development, are obtained for the years 1985 and 1986 by multiplying the percentage growth rate of the category in question compared with the previous year by its share in that year's gross domestic product. The figures for the United States, Canada, Japan and the Federal Republic of Germany relate to the contributions to the *gross national product*.

b) The various items call for the following remarks :

1.2 Expenditure of the public authorities

Not including expenditure on residential building in France, which is contained in item 1.31, and *gross fixed capital formation* by the Italian public authorities, which is contained in item 1.32.

2. Net exports of goods and services

Not including factor income for France, the United Kingdom and Italy, but including this income for the other countries.

3. Gross domestic product

The data include, for some countries, statistical adjustments which are not included in items 1.4 and 2.3.

Chart I. 2.3

This shows averages, per quarter, of the seasonally adjusted monthly figures. The data are derived, for the European Economic Community, from Eurostat; for the United States, from the Federal Reserve Bulletin and for Japan, from the Monthly Finance Review, Ministry of Finance.

The data for the European Economic Community relate to the twelve Member States.

Table I. 2.4

All the data, including the estimates for 1986, except those for Belgium, are from the Organisation for Economic Co-operation and Development. For Belgium the definition of the data is the same as that of those of item 3 of Table V. 2.1, except that net lending and equity investment, appearing in item 2.91 of that table, have been eliminated for the purpose of international comparison.

For the United States, Canada, Japan and Belgium, the *net financing requirement* is expressed as a percentage of the *gross national product*.

TABLE I. 3

All the data, including the estimates for 1986, are from the Organisation for Economic Co-operation and Development, except those for the Belgian-Luxembourg Economic Union, which were calculated by the Bank.

The definition of the sub-groups under the heading « Other developing countries » is given in the method of establishment of Table I. 1.1.

The « Other countries » are mainly centrally-planned economies.

The balance appearing in the item « Total », which corresponds to the world current account balance, should in principle be zero [see point g) of the basic information]. For an explanation of the reasons for the extent of the negative balance, readers are referred to E. Veil, « The World Current Account Discrepancy », Organisation for Economic Co-operation and Development, Occasional Studies, June 1982, pp. 46 to 62.

Table I. 3.1

a) The data, including the estimates for 1986, are from the International Monetary Fund.

b) The various items call for the following remarks :

1. Outstanding debt

The figures are for the debt at the end of each year.

1.21 to official organisations

The data relate to indebtedness to public authorities and the international official institutions.

Chart I. 3.2

The *weighted average exchange rates* are calculated by the International Monetary Fund.

From 1978 to 1984 the figures are averages, per year, of daily rates. For 1985 and 1986 they are averages, per month, of daily rates.

Chart I. 3.3

The data are from the Bank for International Settlements, except those for the Euro-Belgian franc, which are from the Bank.

For the years 1978 to 1984 the figures are averages, per quarter, of daily interest rates. For 1985 and 1986 they are averages, per month, of daily interest rates.

Chart I. 3.4

The long-term yield rates are those for loans of the public or semi-public sector on the secondary market. They are taken, for the United States, from the Federal Reserve Bulletin; for the Federal Republic of Germany, the United Kingdom and France, from the Financial Statistics of the Organisation for Economic Co-operation and Development; for the Netherlands, from the Kwartaalbericht van De Nederlandsche Bank. The inflation rates were established on the basis of the same sources as were used for Chart I. 1.2.

From 1962 to 1983 the figures are averages, per year, of monthly figures. From 1984 to 1986 they are averages, per quarter, of monthly figures. The percentage changes in consumer prices are calculated in relation to the previous year or to the corresponding quarter of the previous year.

The yield rates in the Netherlands relate, before 1984, to the yield on the last three long-term government loans and, from 1984 onwards, to the yield on the last five government loans with the longest remaining average term.

The yield rates in Belgium relate, for the years 1962 and 1963, to the yield on loans issued before 1st December 1962 and, from 1964 onwards, to the yield on loans issued after 1st December 1962. As the yields on these two categories of loans are subject to a different tax system, they are not strictly comparable with each other.

TABLE II. 1

a) For the years 1978 to 1985 the percentage changes in expenditure at constant prices were calculated on the basis of the national accounts drawn up by the National Statistical Institute, and more specifically the table which in those accounts bears the number III. 4 and is entitled « Allocation of the national product. Estimates at 1980 prices ». In order to distinguish between the *individuals*, *companies* and *public authorities* sectors, the table was also based on the national accounts compiled by the Statistical Office of the European Communities, in accordance with the European System of Integrated Economic Accounts.

b) The data for 1986 were estimated as follows :

1. Private consumption

The estimate is based on various indicators concerning, respectively, consumption of goods and consumption of services.

Consumption of goods, which accounts for about 60 p.c. of private consumption, mainly covers retail sales. The estimates of the movements of these were based on three indicators.

Retail sales according to the declarations for value added tax, shown in Chart II. 1.1, increased by 5.2 p.c. at constant prices over the first nine months of the year, against a rise of 0.4 p.c. during the twelve months of 1985. Domestic deliveries of consumer goods, as recordable on the basis of

the data for the production of consumer goods adjusted to take into account the development of imports and exports, showed a rise of 6 p.c. for the first nine months of 1986. Account being taken of the movement of these indicators, consumption of goods sold in retail trade appears to have increased from 5 to 6 p.c. during the first nine months. The estimate arrived at for the whole year, namely 4.5 p.c., is, however, a little lower : according to the results of the Bank's business surveys, retail sales, after having been very brisk in the first quarter of 1986, appear to have been appreciably slower until November, which suggests a slackening of the rise towards the end of the year.

In order to arrive at private consumption of goods it is necessary to add consumption of electricity and gas to the above-mentioned estimate ; according to certain partial items of information, the rise in that consumption would appear to have been smaller than that in other goods, so that total private consumption of goods appears to have risen by about 4.3 p.c. in 1986.

The estimate of the movement of expenditure on services is the result of the estimates of the course of each of the major items of the national accounts which cover this expenditure, especially :

- the item « rents, taxes, water », which represents nearly 30 p.c. of private consumption of services ; this item is undergoing structural growth owing mainly to the improvement in the amenities of dwellings ; a growth of 2 p.c. was therefore assumed ;
- the item « medical and allied care », which represents 25 p.c. of private consumption of services ; the estimate for this item is based on the forecasts of the benefits financed by the National Sickness and Disablement Insurance Institute, which predict no further increase in this expenditure in 1986, after a rise of 1.8 p.c. in 1985.

According to the fragmentary information available (particularly turnover on the basis of declarations for value added tax), the other items as a whole appear to have increased slightly, so that private consumption of services appears to have risen by 0.8 p.c.

Altogether, private consumption of goods and services within the national territory appears to have grown by about 2.9 p.c. in 1986.

In order to obtain the private consumption of Belgian households, purchases of goods and services as recorded within the national territory have to be adjusted, according to the methodology adopted in the national accounts, by adding to them the expenditure of Belgian tourists abroad and deducting from them the expenditure of non-resident individuals in Belgium. These data are obtained from the balance of payments statistics : in 1986, purchases made

in Belgium by non-residents, including those made from retailers by individuals from neighbouring countries, appear to have decreased at constant prices more than the expenditure of Belgians abroad; on balance, therefore, these transactions appear to have exerted a slight upward influence on the movement of private consumption, causing the above estimate to be raised from 2.9 to 3 p.c.

2. Public consumption

This item is based on the estimates made in order to arrive at the figures appearing in Table V. 2 for 1986.

3.1 Gross capital formation by individuals

This item comprises the change in livestock, investment in fixed assets by one-man businesses and total investment in housing.

The estimate of the movement of investment in fixed assets by one-man businesses is based on the annual percentage changes in the gross fixed capital formation of each branch of activity, these percentages being estimated jointly for *companies* and one-man businesses (see item 3.2 below). These percentages are then weighted by the weight of each branch in investment in fixed assets by one-man businesses; on the basis of this method, an increase of 7.4 p.c. in this investment was arrived at for 1986.

Investment in housing mainly comprises three major items : expenditure on new dwellings, expenditure on the conversion of dwellings and registration fees and charges on deeds, which, although relating to the secondary market, are regarded, for the compiling of the national accounts, as representing expenditure on housing.

- The estimate of expenditure on new dwellings was primarily made — by analogy with the methods used in national accounting — on the basis of the National Statistical Institute's statistics on the number of housing starts and making allowance for gradual completion during the subsequent nine months. The available data, which cover dwellings started during the period April 1985-August 1986, point to a stabilisation of the number of dwellings built in 1986. However, this stabilisation conceals a further reduction in social dwellings (that is, dwellings built by the public housing companies, the Housing Funds of the Large Families League and their approved companies, or financed through them, together with the social dwellings financed by the General Savings and Pensions Fund within the framework of its advances to approved loan companies) and an increase in the number of other dwellings : if one turns from the numbers to the values at constant prices, the increase in other dwellings,

the average prices of which are higher than those of social dwellings, becomes more apparent, so that, at constant prices, expenditure on new dwellings appears to have risen by 2.7 p.c.

- The fragmentary data available point to a rise of about 5 p.c. in conversion work.
- Registration fees appear to have increased by 1.8 p.c. at constant prices, according to the data compiled by the Ministry of Finance; the same also applies, therefore, to charges on deeds, since their overall amount is estimated as a certain percentage of registration fees.

Account being taken of all the movements described above, expenditure on housing appears to have increased by 2.9 p.c. in 1986. If allowance is also made for the average improvement in the quality of new or renovated dwellings, which, according to the National Statistical Institute's methodology, is regarded as being an increase in the volume of the dwellings in question, investment in housing appears to have grown by 4.3 p.c.

3.2 Gross capital formation by companies

This item comprises changes in stocks (other than livestock) and investment in fixed assets.

The movement of the latter is, as has already been mentioned in connection with item 3.1, estimated together with that of investment by one-man businesses, on the basis of the estimate of investment by enterprises, for which two main sources of information are available for the year under review : the Bank's investment surveys and the statistics from declarations for value added tax.

The overall estimate for 1986 was made on the basis of a number of partial estimates concerning the development of investment in the main branches which the National Statistical Institute usually distinguishes.

With regard to manufacturing industry, the estimate is based on the results of the survey made by the Bank in November, which pointed to a rise in investment in fixed assets of the order of 13 p.c. for 1986 as a whole. It should be noted that the investment in fixed assets which takes place via the *co-ordination centres* of the industrial enterprises in question is included in this percentage, which is not the case as regards the results derived from declarations for value added tax, for which this investment is included in that of services.

Investment by electricity companies, which is evaluated on the basis of the most recent estimates made by the Belgian Trade Federation of Producers

and Distributors of Electricity, and investment by the mineral-extracting, water and gas industries, which can be evaluated via the movement of declarations for value added tax, appear to have decreased substantially in 1986. Thus, investment by the industrial branches as a whole — that is including the mineral-extracting industry, building, electricity, water and gas — would appear to have increased by only about 7.1 p.c.

For service activities the calculations are largely based, as is done by the National Statistical Institute, on the statistics derived from the declarations for value added tax, but the afore-mentioned investment by industrial co-ordination centres was deducted. In addition, account was taken of the results of the survey carried out by the Bank in November among the financial intermediaries, and also of certain items of unofficial information provided by the main public transport and communications companies. For service activities as a whole, the increase in *gross fixed capital formation* at constant prices would appear to have amounted to about 8.6 p.c.

With regard to the branch of agriculture, forestry and fishing, for which the above-mentioned indicators are not available, the calculations were mainly based on the movement of the credits for which recourse was had to assistance from the Agricultural Investment Fund. For the first ten months this indicator underwent hardly any change, which points to a stabilisation of the investment of the branch (which is largely composed of one-man businesses).

All in all, gross fixed capital formation by enterprises (*companies* and one-man businesses) appears to have risen by 7.6 p.c. in 1986. Investment in fixed assets by one-man businesses appears to have increased at practically the same rate (7.4 p.c.) (see item 3.1 above), and the growth in gross fixed capital formation by companies alone would appear to have amounted to 7.6 p.c., against 3.9 p.c. in 1985. As company stocks appear to have grown, at 1980 prices, by about Fr. 4 billion in 1986, whereas they had decreased by Fr. 6 billion in 1985, total gross capital formation by companies appears to have increased by 10.8 p.c. in 1986.

3.3 Gross capital formation by the public authorities

This item is based on the estimates which were made in order to arrive at the figures shown in Table V. 2 for 1986.

5. Exports of goods and services and 7. Imports of goods and services

These items were calculated on the basis of the still fragmentary indications provided by the balance of payments of the Belgian-Luxembourg Economic Union (see third part) adjusted to take into account the estimates adopted for the Grand Duchy of Luxembourg and of the movement of the

deflators of foreign trade (items 5 and 7 of Table III. 1). These data relate both to goods, for which recourse was also had to the indices of the volume of foreign trade calculated by the Bank on the basis of the customs figures compiled by the National Statistical Institute (see Table VI. 2.1), and to services, exports of which appear to have increased slightly while imports appear to have contracted somewhat. Altogether, the increase in exports of goods and services was estimated at 4.4 p.c. and that in imports of goods and services at 6.2 p.c.

Chart II. 1.1

— **Private consumption of goods according to the national accounting data (upper part)**

This was calculated for the years 1983 to 1985 on the basis of the national accounts compiled by the National Statistical Institute; for 1986 the percentage change was estimated in the manner described in connection with Table II. 1.

— **Retail sales according to the declarations for value added tax (upper part)**

This indicator is compiled by the National Statistical Institute, which publishes these data only at current prices; the figures contained in the chart were therefore obtained by deflating the data at current prices by means of an index corresponding to a weighted average of the consumer price indices for food products, on the one hand, and non-food products, on the other. For 1986 the percentage change shown in the chart was calculated on the basis of the data for the first nine months of the year.

— **Assessment of the movement of sales according to the Bank's business surveys (lower part)**

This index was compiled on the basis of the results of the Bank's business survey; the figures included in the chart are averages, per quarter, of the monthly data, which are themselves three-month weighted moving averages.

Table II. 1.2

The percentage changes in the *gross domestic product* and the main categories of expenditure at constant prices for Belgium are, for 1984 and 1985, those resulting from the national accounts compiled by the National Statistical Institute and, for 1986, those estimated by the Bank, as shown in

Table II. 1; for the other countries the data are from the Organisation for Economic Co-operation and Development.

These data are not always fully comparable :

- for the United States, Japan and certain countries of the European Economic Community the figures for 1985 and 1986 relate to the *gross national product* and not the gross domestic product;
- for some of the twelve Member States of the European Economic Community, and therefore for the latter as a whole, it is not possible to distinguish between housing, investment by one-man businesses and that by the public authorities in gross capital formation;
- in the United States the distinction between *public consumption* and public investment does not exist. The latter is therefore included in item 2 « Public consumption ».

Furthermore it was not possible, for foreign countries, to break down *gross capital formation* by enterprises between *companies* and one-man businesses, as was done for Belgium in Table II. 1; the movement of gross capital formation by enterprises was therefore taken.

TABLE II. 2

a) With regard to the composition of the various branches, the following points should be noted :

2. Industry

This comprises the mineral-extracting industry, electricity, gas and water and manufacturing industry.

3. Building

The *value added* in building relates to all building work, irrespective of the branch of activity to which the enterprise doing the work belongs; it is therefore greater than that of building enterprises in the strict sense alone.

4. Market services

This also includes garages.

b) For the years 1978 to 1985 the percentage changes were calculated directly on the basis of the national accounts compiled by the National Statistical Institute, and more specifically the series « Gross value added at market prices by branch of activity, at 1980 prices ».

c) The main figures for 1986 were estimated by the methods described below.

2. Industry

The estimate is mainly based on the available data on industrial production (not including building) for the first ten months (Table II. 2.1). For the months of the year under review which were not yet covered by these data, it was assumed, in accordance with the indications provided by the Central Council for the Economy, that there was a slowing-down of growth during the last quarter. Account was also taken of the fact that deliveries of gas, which are not included in industrial production, do in fact affect the *value added* in industry.

3. Building

The value added is mainly estimated on the basis of *gross fixed capital formation* in the form of housing, on the one hand, and of that in the form of non-residential buildings and civil engineering work, on the other.

The former is the subject of a specific estimate in its capacity as the main component of gross capital formation by individuals (see Table II. 1).

Gross capital formation in the form of non-residential buildings and civil engineering work is first of all estimated by branch of activity : the calculation starts from the annual percentage changes in the total fixed capital formation of each branch, which are estimated in order to obtain the domestic product from the angle of expenditure, and the percentages are adjusted, in so far as statistical indicators by branch are available, in order to allow for the fact that expenditure on construction work may not have developed in exactly the same way as total gross fixed capital formation. The weighted average of the percentage changes for each branch which have been thus obtained is then calculated; the respective weights — which were provided for 1985 by the National Statistical Institute — are those of the various branches in gross capital formation in non-residential buildings and civil engineering work.

4. Market services

The estimate is partly based on that of expenditure on private consumption (see Table II. 1) and especially that on foodstuffs, beverages, cloth-

ing, household articles, petroleum products, personal care, leisure and hotel and catering services, the remainder being derived from the available indicators for the other types of services, particularly transport and communications.

5. Non-market services

In the absence, in recent years, of any raising of scales granted within the framework of social programming, the rise of 1 p.c. in the value added of this branch was estimated on the basis of the increase in the number of persons actually employed by (or on retirement pensions from) the *public authorities*.

Table II. 2.1

The data are from the National Statistical Institute. The percentage changes are arrived at on the basis of the gross indices.

TABLE II. 3

a) All data are changes as at 30th June of the year in question compared with the same date in the previous year. For 1978 to 1985 the data on the *working population* and on employment are from the Ministry of Employment and Labour. The employment estimates for 1986 were made by the Bank, chiefly on the basis of information from the National Social Security Office and the National Statistical Institute. The data on unemployment and partial unemployment are from the National Employment Office. The number of wage- and salary-earners working part-time was supplied by the National Sickness and Disablement Insurance Institute, except for that for 1986, which is an estimate made by the Bank.

b) The various branches of activity under items 2.1 and 2.2 are composed in the same way as in Table II. 2.

The various items call for the following remarks :

2.2 Non-market services

Employment in the services provided by the *public authorities* : administration, education, defence (persons doing military service and regular members of the armed forces) and special employment programmes (special temporary employment scheme, third labour circuit and jobless employed by the public authorities).

2.3 Foreign countries

Difference between the number of jobs offered abroad to persons resident in Belgium and the number of jobs offered in Belgium to persons resident abroad.

p.m. 1. Part-time employment

These data relate solely to wage-earners.

p.m. 2. Partial unemployment

Partially unemployed persons are not included in the data concerning unemployment (item 3). Although the work done by these persons has been temporarily suspended, or at least reduced, they remain bound by an employment contract and are therefore included in the employment data (item 2).

3. Unemployment

The data include, apart from wholly unemployed persons receiving unemployment pay, other categories of unemployed, namely « voluntarily registered job-seekers without employment » and « other compulsorily registered unemployed persons ». The various categories of unemployed persons which the National Employment Office groups under the heading « other compulsorily registered unemployed persons » are not, however, all included in the item. In order to avoid duplication, the categories of unemployed persons who are, in principle, included in the employment figures (item 2), namely unemployed persons given work in a sheltered workshop, unemployed persons who have accepted a part-time job in order to escape unemployment and, since 1985, young persons who have worked part-time during their waiting period, have not been included. For lack of statistical material it is impossible to eliminate, for the years prior to 1985, this last-mentioned category — small though it is — from « other compulsorily registered unemployed persons ». Older unemployed persons who are no longer regarded as job-seekers in accordance with the Royal Decree of 29th December 1984 have, since 1985, no longer been recorded in the unemployment figures.

Table II. 3.1

a) The data are changes as at 30th June of the year in question compared with the same date of the previous year. The data on the population of working age were calculated — for the years 1978 to 1985 — on the basis of the demographic statistics of the National Statistical Institute and for 1986 on the basis of its « Population prospects 1981-2025 ». They cover the

resident population belonging to the age groups of 15 to 64 for men and 15 to 59 for women. The National Employment Office provided the data concerning older unemployed persons not seeking jobs and persons who have taken early retirement, except for the data concerning the beneficiaries of the early retirement pension, which are from the National Wage-earners' Pension Office.

b) The absolute importance of the effect on the working population of changes in the population of working age and in the activity rate can be calculated two ways :

— first way :

— the influence, directly calculated, of the change in the population of working age (A) : $A = \text{absolute change, from year to year, in the population of working age} \times \text{activity rate for the first year}$;

— the influence, calculated as a balance, of the change in the activity rate (B) : $B = \text{change in the working population} - A$.

— second way :

— the influence, directly calculated, of the change in the activity rate (B') : $B' = \text{change, from year to year, in the activity rate} \times \text{population of working age for the first year}$;

— the influence, calculated as a balance, of the change in the population of working age (A') : $A' = \text{change in the working population} - B'$.

In practice, the difference between the results of these two calculation models is very small and the data presented in Table II. 3.1 are estimated on the basis of an arithmetic mean of the two results thus obtained each year for each of the two factors.

Table II. 3.2

a) The composition of the branches of activity is the same as in Table II. 2. The *value added* has therefore been taken from this table, except that *market services* here disregard the item « Rent » because employment under this head is nil. The sources of the data on employment are the same as for Table II. 3.

b) The data on employment are changes as at 30th June of the year in question compared with the same date of the previous year. The data on the *value added* (at constant prices) are changes over the whole of the year in question compared with the previous year. The calculations of the value added

per person employed may therefore give a somewhat distorted picture, as the value added and employment do not relate to identical periods.

The change in the value added (at constant prices) per person employed is calculated as follows :

$$\left(\frac{\text{Index of value added, previous year} = 100}{\text{Index of employment, previous year} = 100} - 1 \right) \times 100$$

Chart II. 3.3

The data on unemployment at the month-ends and on the *working population* are compiled by the National Employment Office and the Ministry of Employment and Labour respectively. The unemployment rate is adjusted for seasonal variations by the Bank. The unemployment for which the rate is represented by a continuous line has the same composition as that shown in item 3 of Table II. 3.

TABLE III. 1

- a) The percentage changes for the years 1978 to 1985 were calculated directly on the basis of the national accounts compiled by the National Statistical Institute, and more specifically of the series entitled « Allocation of the national product at current prices and at 1980 prices ».
- b) The Bank's estimates of the *deflators* for 1986 were generally made on the basis of the price indicators used by the National Statistical Institute or, in the absence of these, on the basis of the available indicators which approach them most closely, as described below.

1. Private consumption

The change in the deflator is estimated as the weighted total of the movements of the consumer prices of the various categories of goods and services. The weighting used is the share of each of these categories in total private consumption in 1985.

2. Public consumption

The deflator for this category of expenditure largely depends on that adopted for the remuneration payable by the *public authorities* and the pensions for which the Treasury and the public authorities are directly respon-

sible. The rise in this component was estimated at 2.4 p.c. on the basis of the index of the salaries paid to civil servants. Account being taken of the fact that the rise in the prices of the actual or attributed purchases of goods and services by the public authorities appears to have been slightly smaller, the deflator of *public consumption* as a whole appears to have gone up by 2.1 p.c.

3.1 Gross capital formation by individuals (housing)

A rise of 6.1 p.c. was obtained for this deflator by taking into account the increase in the cost of the materials used [estimated at 0.1 p.c. on the basis of an average wholesale price for a number of building materials, weighted according to the structure of costs for this type of work (source : National Statistical Institute)], the increase in *labour costs* in the building sector (estimated at 2.3 p.c. on the basis of index S compiled by the Ministry of Public Works) and the raising from 6 to 17 p.c. of the rate of the *value added tax* applicable, from 1st August 1986 onwards, to most residential housing.

3.2 Gross capital formation by companies (fixed assets)

The estimate was made on the basis of the movement of two categories of costs :

- the cost of construction of non-residential buildings, the rise in which was estimated at 1.2 p.c. on the basis of the factors — other than the increase in the value added tax — used for assessing the movement of the building cost of private dwellings ;
- the cost of equipment, the rise in which was estimated at 2.5 p.c., account being taken of the upward movement of the index of wholesale prices of domestic and imported metal manufactures, compiled by the Ministry of Economic Affairs, and of certain factors which this index does not appear to cover.

A weighted rise of 2 p.c. was thus obtained.

3.3 Gross capital formation by the public authorities

The estimate was made on the basis of the movement of the following costs :

- the construction cost of non-residential buildings, the rise in which was estimated at 1.2 p.c., as already mentioned in connection with item 3.2 ;
- the cost of civil engineering work, the rise in which was estimated at 0.1 p.c. on the basis of the factors — other than the increase in the value

added tax — used in order to estimate the building costs of private dwellings, but weighted according to the structure of costs in civil engineering work ;
— the cost of equipment, the rise in which was estimated at 1.9 p.c. on the basis of the same index and factors as were used for estimating the cost of equipment in the deflator of investment in the form of fixed assets by *companies* (item 3.2), but weighted in a specific manner.

A weighted rise of 0.8 p.c. was thus obtained.

5. Exports of goods and services and 7. Imports of goods and services

These deflators were mainly estimated on the basis of the indices of the average unit values of exports and imports of goods [source : National Statistical Institute, calculations of the Bank (see Table VI. 2.1)]. The estimated rates of change over the year as a whole for goods are - 8.4 and - 13.7 p.c. respectively. Account being taken of services, the change in the deflator of exports was estimated at - 6.9 p.c. and that in the deflator of imports at - 11.1 p.c.

8. Gross domestic product = Gross national product

In the absence of a specific deflator for factor incomes, it is customary to apply the same deflator to both magnitudes.

Table III. 1.1

A.1) Percentage changes compared with the previous year

The source is the Ministry of Economic Affairs.

A.2) Percentage contribution of each of the categories to the change in the overall index

This contribution is obtained by calculating the annual change, in points, of the index of this category, multiplying this change by the weight of the category in the overall index and dividing the result by the previous year's overall index.

B Percentage change compared with previous quarter

The percentage changes in the gross data [part B.1)] and the data adjusted for seasonal variations by the Bank [part B.2)] have been expressed on an annual basis.

Chart III. 1.2

— Index of consumer prices (upper part)

The sources used are, for Belgium, Ministère des Affaires Economiques; for the United States, U.S. Bureau of Labor; for Canada, Statistics Canada; for Japan, Management and Coordination Agency; for the Federal Republic of Germany, Statistisches Bundesamt; for France, Institut National de la Statistique et des Etudes Economiques; for the United Kingdom, Department of Employment; for Italy, Istituto Centrale di Statistica; for the Netherlands, Centraal Bureau voor de Statistiek.

For foreign countries, a geometrical average of the price indices in the national currencies was calculated. This average is weighted: the weighting applied to the consumer price index of each country represents the share of that country's *private consumption* in the total expenditure on private consumption of the eight countries considered during the period 1981-1986 as a whole, both magnitudes being expressed in a common currency. The rate of the rise in prices was then calculated from this average index.

— Index of the deflators of the gross domestic product (middle part) and index of labour costs per unit of output (lower part)

The sources used are, for Belgium, the National Statistical Institute (1981 to 1985) and the Bank (estimates for 1986) and, for foreign countries, the Organisation for Economic Co-operation and Development.

For foreign countries the weightings applied to the *deflators* of the *gross domestic product* and to *labour costs per unit of output* represent, respectively, the shares of these products and of *compensation of employees* calculated in a similar manner to those in the upper part.

Table III. 1.3

— Percentage changes compared with previous year (upper part)

Columns (a), (b) and (c) are taken from table III. 1 (items 6, 7 and 8). The data in the pro memoria column: « *Weighted average exchange rate of the foreign currencies* » are those which were used to compile Chart VI. 6.

The changes shown in columns (d), (e) and (f) are those in the quotients obtained by dividing the following, respectively, by item 8 of table II. 1 (*gross domestic product* at constant prices, but expressed in billions of francs): item 1.1 of Table IV. 1.1 (*compensation of employees*), item 1.2 of

Table V. 2 (indirect taxes), from which is deducted item 2.5 of the same table (subsidies to enterprises) and the other cost components, i.e. the difference between the gross domestic product at market prices (item 8 of Table III. 2) and the sum of the compensation of employees and indirect taxes net of subsidies (see above).

— **Percentage contribution of each of the categories to the change in the deflator of final expenditure (lower part)**

These *contributions* were calculated by applying to the data in the upper part of the table a method devised by the departments of the Commission of the European Communities. In national accounting, the total of the *final expenditure* of a given economy is equal to the sum of domestic expenditure and exports of goods and services or, alternatively, to the sum of the gross domestic product at market prices and imports of goods and services. The gross domestic product at market prices can also be arrived at from *primary incomes*. The method employed by the departments of the Commission distinguishes, among the components of primary incomes, between wages, indirect taxes net of subsidies and all the other components of primary incomes combined. In this approach, final expenditure at current prices is analysed as being the sum of imports of goods and services, total gross compensation, indirect taxes net of subsidies, and other types of primary income as a whole.

It is therefore possible, subject to linear approximations, to express the change in the *deflator* of final expenditure as the weighted sum of the changes in the various cost categories considered, i.e. as the sum of their respective contributions. The weighting used for each year is the share of each of the cost categories in the previous year's final expenditure.

TABLE III. 2

a) For the years 1978-1985 the data are taken from the national accounts compiled by the National Statistical Institute and, more specifically, from the table in these accounts which bears the number III. 1 and is entitled « Allocation of the National Product. Estimates at current prices ». In addition, in order to distinguish between *individuals*, *companies* and *public authorities*, use was made of the national accounts compiled by the Statistical Office of the European Communities in accordance with the European System of Integrated Economic Accounts.

b) The data for 1986 were calculated on the basis of the data for 1985 by applying to them the percentage changes in expenditure at constant prices shown in Table II. 1 and the percentage changes in the *deflators* shown in Table III. 1.

Table III. 2.1

A. At current prices

The percentages were calculated on the basis of the data of Table III. 2.

B. At 1980 prices

The percentages were calculated on the basis of the data, or estimates, in billions of 1980 francs, used for compiling Table II. 1.

TABLE IV. 1

a) The data were calculated for the years 1978 to 1985 on the basis of the national accounts compiled by the National Statistical Institute, and in particular of the following tables : Table II. 1 « Distribution of the national product among the factors of production. Estimates at current prices », Account 2. « Current transactions of the Government » and Account 3. « Current transactions of individuals ». For the purpose of distribution between *individuals* and *companies*, recourse was also had to the national accounts according to the European System of Integrated Economic Accounts compiled by the Statistical Office of the European Communities.

b) Developments in 1986 were estimated as follows :

1. Individuals

See Table IV. 1.1.

2.1 Gross primary income of companies

This item was estimated as a balance, since the sum of the *gross primary incomes* of the different sectors must in principle correspond to the *gross national product* at current prices, which is obtained by adding together the various categories of expenditure (see Table III. 2).

2.2 Current transfers to (-) the public authorities

This item is based on the estimates made in order to obtain the data for 1986 shown in Table V. 2. It covers the direct taxes payable by companies.

3. Public authorities

The items relating to *primary incomes* and *disposable incomes* are based on the estimates made in order to obtain the data shown in Table V. 2 for 1986.

4.1 Disposable income of the rest of the world

This figure is based on balance of payments data (see third part).

c) The percentage changes at constant prices in the disposable income of individuals were calculated on the basis of the data at current prices, deflated by means of the index of consumer prices.

Table IV. 1.1

a) The data for the years 1983 to 1985 are from the same statistical sources as those in Table IV. 1. In item 1.2 « Entrepreneurial income of self-employed persons » the Bank included, among other amounts, 70 p.c. of the income of limited partnerships, this percentage being regarded as the part of these companies' profits which is taken by *individuals*.

b) The movements in 1986 were estimated as follows :

1.1 Compensation of employees

The movement of this item was estimated separately for enterprises and the *public authorities*. For enterprises the estimate was mainly based on the following elements :

— On average over the year, the number of employees would appear to have increased by about 0.4 p.c. This movement is less marked than that in total employment in enterprises as shown in Table II. 3.2; this is due to the fact that the data in this table include self-employed persons and their assistants, the number of whom appears to have risen proportionately more than that of employees.

— Remuneration per employee appears to have risen by about 2.2 p.c. This movement is mainly due to the indexation of wages and salaries according to the movement of consumer prices and to the legal prohibition against the granting of wage increases in excess of the permitted indexation; furthermore, it was assumed that, as had already been the case in 1984 and 1985, the effect of wage drift would have been largely counterbalanced by the reduction in average compensation per employee resulting from the growth in part-time

working. The government measure requiring employers, as in 1984 and 1985, to pay the proceeds of a 2 p.c. indexation to the social security system instead of to the workers did not have to be taken into account for the purpose of the estimate to be made. On the one hand, enterprises whose indexation system conforms to that in force in the civil service did not grant any indexation in 1986. On the other hand, in the case of enterprises which adopted a different system and consequently may have had to index-link remunerations in 1986, the government measure did not affect the primary income (which corresponds, for enterprises, to the labour cost), but did entail a loss of disposable income for workers, which was counted in item 2.13 as an increase in the social security contributions paid by individuals to the public authorities.

The increase in gross compensation paid by the public authorities was estimated at about 3.5 p.c. This rate is largely based on the estimates that underlie the data for 1986 shown in Table V. 2 for 1986.

The increase in the compensation of employees for the economy as a whole — enterprises and public authorities — was thus estimated at about 2.9 p.c.

1.2 Entrepreneurial income of self-employed persons

The available information about the development of this item is still very scanty and fragmentary.

The incomes of traders and artisans were estimated taking into account the rate of growth of private consumption at current prices, which appears to have reached 4.5 p.c. in 1986 (see item 1 of Table III. 2) and assuming that, like companies, they widened their profit margins.

The incomes of physicians and dentists represent more than half of the incomes of members of the liberal professions : the evaluation of this category of incomes was mainly based on the movement of the items « Medical services » and « Cost of board and lodging in hospital institutions » of the official index of consumer prices, which increased in 1986 by 6.6 p.c. and 4.3 p.c. respectively.

The figures for the incomes of farmers were partly based on the movement of production (see Table II. 2), as well as on the overall index of prices received by farmers and horticulturalists and on the index of the purchase prices of inputs in agriculture and horticulture, both of which appear to have decreased appreciably.

2. Current transfers

This item is based on the estimates made in order to obtain the main data shown in Table V. 2 for 1986 and on the balance of payments data (see third part).

c) The percentage changes at constant prices were calculated on the basis of the data at current prices, deflated by the index of consumer prices.

Chart IV. 1.2

a) For the years 1983-1985 the figures for the *compensation of employees* were taken from the National Statistical Institute, as for Table IV. 1.1. The data for the number of employees are from the Ministry of Employment and Labour.

b) The estimates for 1986 were arrived at as follows. The movement of the compensation of employees at constant prices is that shown in Table IV. 1.1. The movement of the number of employees was calculated from the estimate for enterprises mentioned above in the explanatory note to item 1.1 of Table IV. 1.1 and from that for *non-market services* shown in Table II. 3.

Table IV. 1.3

a) This table was compiled by the Bank on the basis of data from the other tables in the second part and from the national accounts of the National Statistical Institute.

b) The figures for the various items were arrived at as follows :

1.1 Exports of goods and services

These figures are taken from item 5 of Table III. 1.

1.2 Domestic sales

These data are based on the movement of the *deflator* of domestic expenditure (item 4 of Table III. 1), adjusted in order to eliminate the effect of certain services, especially *non-market services*, and that of indirect taxes.

1.3 Total

Weighted average of the prices of exports of goods and services (item 1.1) and of those of domestic sales (item 1.2).

2.1 Labour costs per employee

These data correspond to those shown in Chart IV. 1.2, but are expressed at current prices and exclude non-market services.

2.2 Imports of goods and services

These data are taken from item 7 of Table III. 1.

2.3 Other

These data were obtained from the movement of the *gross primary income* of self-employed persons (item 1.2 of Table IV. 1.1) at current prices, after eliminating from it the effect of the profits taken from partnerships. The movement of the item as thus defined is regarded as representative of that of purchases from the sector of self-employed persons.

2.4 Average cost price with unchanged productivity

Weighted average of the various components of the cost price (items 2.1, 2.2 and 2.3).

2.5 Average cost price per unit of output

These data were obtained by adjusting the movement of the average cost price with unchanged productivity (item 2.4) in order to allow for the change in the quantities of inputs used per unit of output.

3. Unit profit margin, expressed in francs

These data were obtained by combining the fluctuations in the selling price excluding taxes (item 1.3) and those in the average cost price per unit of output (item 2.5), the appropriate weighting being assigned to each of these.

B. Final sales at constant prices

The movement of these coincides with that of *final expenditure* at constant prices (item 6 of Table II. 1), after elimination of some services.

C. Gross operating surplus before subsidies

This item is determined by the fluctuations in the unit profit margin (item A.3) and those in final sales at constant prices (item B).

Table IV. 1.4

1. Gross operating surplus before subsidies

This is calculated on the basis of the data for 1983 to 1985 of the national accounts of the National Statistical Institute and of the percentage change for 1986 estimated in item C of Table IV. 1.3.

2. Subsidies received and 6. Current transfers to (-) the public authorities

The data are based on those used for compiling Table V. 2.

4. Net income from property paid to other sectors (-)

Difference between item 5 and item 3. The breakdown between net incomes received by the financial intermediaries (item 4.1) and net incomes paid by other companies (item 4.2) was estimated on the basis of the national accounts data according to the European System of Integrated Economic Accounts compiled by the Statistical Office of the European Communities.

Item 4 does not include the income paid by companies to other companies. On the other hand, the income recorded in items 4.1 and 4.2 includes, as receipts for the financial intermediaries and as expenditure for other companies, the income which the former receive from the latter.

Item 4.2 includes the profits taken from partnerships by their owners.

5. Gross primary income

The data are from item 2.1 of Table IV. 1.

TABLE V. 1

a) These data were mainly taken from the preceding tables. They are from Table III. 2, which shows the expenditure on private consumption (item 1), *public consumption* (item 2) and *gross capital formation* of the various domestic sectors (items 3.1, 3.2 and 3.3) and Table IV. 1, which gives their *disposable income* (items 1.3, 2.3 and 3.3).

b) 1.4, 2.2 and 3.4 Capital transfers

These items are based on the data which were used to compile Table V. 2 and on those of the balance of payments (see third part). They comprise, in addition to capital *transfers* in the strict sense, net lending and

equity investment by the *public authorities*, in which assistance to the *national sectors* has been included.

Table V. 1.1

The data, except those in the last column, are those of Table V. 1, expressed as percentages of the *gross national product*. The data shown in the last column were calculated by converting, at 1985 prices, the *disposable income*, consumption and *gross savings* of *individuals* in 1986 by means of the *deflator* of private consumption and by dividing the magnitudes thus obtained by the gross national product, likewise converted at 1985 prices by means of its specific deflator.

TABLES V. 2 and V. 2.1

a) The data in these tables for the years 1978 to 1985 were arrived at as follows :

1.1 Direct taxes

This item corresponds to the sum of the items « Direct taxes on individuals » and « Direct taxes on companies in all legal forms » of the table « Current transactions of the Government » in the national accounts of the National Statistical Institute.

1.2 Indirect taxes

This item is based on the item « Indirect taxes » appearing in the national accounts table already mentioned in connection with item 1.1. However, revenues transferred to the European Communities are shown in their entirety without being reduced, as in the accounts of the National Statistical Institute, by deduction of Community expenditure in the form of interventions (enabling the producer to obtain, in certain cases, a price higher than the world market price), reimbursements (corresponding to the difference between the price on the world market and the market price in the Community) and compensatory monetary amounts (introduced in order to prevent the sudden changes in the income of farmers and in consumer prices which would be brought about by an alteration of the central rates for the ECU). Accordingly these transferred revenues are also shown in full in item 2.6 « Current *transfers* to the rest of the world ».

1.3 Social security contributions

This corresponds to the item « Social security contributions of wage- and salary-earners and self-employed persons » appearing in the national accounts table already mentioned in connection with items 1.1 and 1.2, plus the contributions of civil servants for surviving dependants (widows and orphans).

1.4 Capital taxes

This corresponds to the item « Capital taxes » in the accounts of the European System of Integrated Economic Accounts.

1.6 Non-fiscal and non-parafiscal revenue

This item was calculated from the item « Income from property and from entrepreneurial activity accruing to the Government » included in the national accounts. However, in the national accounts, contributions towards meeting the interest charges and operating losses of public enterprises are deducted from income from property, whereas they are included here in item 2.5. Furthermore, unlike the national accounts data, this item excludes imputed rents but, on the other hand, includes current transfers from the National Lottery. Non-fiscal and non-parafiscal revenues are chiefly financial incomes derived, on the one hand, from the *public authorities'* share in the profits of the public sector financial intermediaries (including the Bank) and, on the other hand, from the portfolio investments of certain local authorities or social security institutions. This item does not include any *depreciation allowance*.

2.1 Net expenditure on goods and services

This corresponds to the item « *Public consumption* » of Table III. 1 « Allocation of the national product » of the national accounts of the National Statistical Institute, less imputed rents and depreciation allowances (which are not recorded as receipts either); expenditure which, in public consumption, is in respect of job creation — that is, the wages of unemployed persons given work by the public authorities and those of workers under the special temporary employment scheme and in the third labour circuit — has been isolated in item 2.3.

2.2 Interest charges

This corresponds to the item « Interest on the public debt » of the national accounts.

2.3 Unemployment and job-creation expenditure

This item embraces unemployment benefits, expenditure on the various early retirement schemes, the vocational training and readaptation allowances, the allocations of the Building Industry Subsistence Fund and the allowances under the compensation scheme for career interruption (which, in the national accounts, are all included in social security transfers to wage- and salary-earners and self-employed persons) and also the wages of persons employed in programmes for provision of work financed by the public authorities (which, in the national accounts, form part either of public consumption or of subsidies to enterprises) and, lastly, certain payments made to companies by the National Employment Office (which, in the national accounts, are included in subsidies to enterprises).

2.4 Current transfers to individuals

This corresponds to the item « Social security transfers to wage- and salary-earners and self-employed persons » of the national accounts, less the part consisting of unemployment and job-creation expenditure — which is contained in item 2.3 here — and plus the pensions to surviving dependants (widows and orphans) of civil servants paid by the public authorities.

2.5 Subsidies to enterprises

This corresponds to the item « Operating subsidies » of the accounts of the European System of Integrated National Accounts, less certain items of job-creation expenditure, which are included in item 2.3. Unlike the data of the National Statistical Institute's national accounts, this item includes contributions towards meeting the interest charges and operating losses of public enterprises.

2.6 Current transfers to the rest of the world

This is the balance of the national accounts items « Current transfers to the rest of the world » and « Current transfers from the rest of the world », except that the transfers of indirect taxes to the European Communities are included in it in their entirety (see 1.2 above).

2.8 Gross fixed capital formation

This corresponds to the item « Gross fixed capital formation of the public administrations » of the accounts of the European System of Integrated Economic Accounts, plus capital expenditure on harbours by the public authorities included in the same accounts.

2.9 Capital transfers

These are net items, because repayments of credits and realisations of interests were deducted in item 2.91 and sales of land and buildings and capital transfers received, other than capital taxes, were deducted in item 2.92.

2.91 Net lending and equity investment

This item embraces, for domestic economic agents, the item « Net lending to and equity investment in enterprises » and « Net lending to households » of the Economic Regrouping of the Central Government's Transactions. The following have been added to this : assistance to the *national sectors*, some of the public authorities' operations for financing the public housing companies in accordance with the principle whereby the public authorities assist in the financial service of the loans issued by the said companies, and also net lending and equity investment by the *communities and regions*, which were estimated on the basis of the available budgetary data. For lack of adequate information concerning net lending and equity investment by the local authorities during the recent period, this expenditure, the amount of which in fact appears to have been negligible in recent years, was disregarded. For the rest of the world the source of the data is the balance of payments of the Belgian-Luxembourg Economic Union.

2.92 Other capital transfers

This includes the items « Net acquisitions of land and intangible assets », « Investment aid » (less investment in harbours, which is included here in item 2.8) and « Other capital transfers (net) » of the accounts of the European System of Integrated Economic Accounts.

b) The figures for 1986 were estimated on the basis of fragmentary sources and documents. These are, specifically, for tax revenue : the Monthly Communiqué of the Minister of Finance ; for non-fiscal and non-parafiscal revenue : the data concerning the public authorities' share in the profits of the Bank ; for parafiscal revenue and also for current *transfers* to *individuals* and for unemployment and job-creation expenditure : the budget estimates of the main social security institutions, published in, among other documents, the General Report on Social Security compiled by the Ministry of Social Security ; for current transfers to the rest of the world : the balance of payments of the Belgian-Luxembourg Economic Union. Other current expenditure (net expenditure on goods and services, interest charges, subsidies to enterprises) and capital expenditure were estimated chiefly on the basis of the Economic Regrouping of the Government's Transactions published as an annex to the

General Budget Statement for 1987; this source was supplemented, where appropriate, by various other items of information concerning, among other things, the development of employment and of the index of payment of civil service salaries, the structure and cost of the financing of the public authorities' debt or *gross fixed capital formation* by the local authorities, as revealed by the data provided to the press every quarter by the Belgian Municipal Credit Institution.

TABLE VI. 1

a) The balance of payments data are compiled by the Bank; they relate both to transactions via the regulated foreign exchange market and to those via the free market.

b) The various items call for the following remarks :

1. Current transactions on a transactions basis

The way in which this item is compiled is described in connection with Table VI. 2.

1.1 Current transactions on a payments basis

Unlike item 1, item 1.1 does not include exports and imports which gave rise to commercial claims which have not been mobilised at Belgian and Luxembourg banks; a surplus (+) or a deficit (-) in respect of these exports and imports has as its counterpart an outflow (-) or inflow (+) of funds, respectively, in item 2.1. There is therefore the following identity: $\text{item 1} = \text{item 1.1} + \text{item 2.1}$ with reversed sign. Arithmetically, item 1.1 is therefore equal to item 1 plus item 2.1:

3. Capital transactions, in francs, of the public sector

These mainly include, as capital outflows, loans to foreign countries and participations in the capital of international financial institutions (other than the International Monetary Fund, see method of establishment of Table VI. 5, item 2), and, as inflows, net acquisitions by non-residents of bonds in francs issued by the *public sector*.

The details concerning items 2.2 and 5.2 are given in connection with Tables VI. 3 and VI. 5 respectively.

Chart VI. 1.1

- a) The data on the *gross national product* of the Federal Republic of Germany, the Netherlands and Luxembourg are from the Organisation for Economic Co-operation and Development; for Belgium they are from Table III. 2 (item 10).
- b) The data on net acquisitions in the top part and the middle part are from the Bank for the Belgian-Luxembourg Economic Union, from the Deutsche Bundesbank for the Federal Republic of Germany and from the Nederlandsche Bank for the Netherlands. With regard to the Belgian-Luxembourg Economic Union, the data on acquisitions in the top part are taken from item 5.22 of Table VI. 3; those in the middle part correspond to the total formed by acquisitions of bonds issued by the private sector, which are included in the data in item 1.2 of Table VI. 3.1, and of bonds issued in francs by the *public sector* and accessible to any investor, which are included in the data in item 3 of Table VI. 1.
- c) For 1986 the percentages in the chart were obtained by relating the data on net acquisitions of bonds during the first ten months in the case of the Belgian-Luxembourg Economic Union and the Federal Republic of Germany and the first nine months in the case of the Netherlands to the gross national product estimated for the same periods.

TABLE VI. 2

1.11 Transactions giving rise to commercial claims not mobilised at Belgian and Luxembourg banks

Item calculated as the difference between item 1.13 and item 1.12.

1.12 Other transactions

The figures are obtained by adding to the payments made via Belgian and Luxembourg banks in a certain period, the change during that period in the net commercial claims arising in connection with exports of goods and mobilised at those banks; when it is these data that, for exports and imports, are included in current transactions, the latter are referred to, in the Bank's statistics, as being on a *payments basis*.

1.13 Total

In order to obtain these figures, the payments made via the banks are reclassified according to the month of the corresponding transactions on the

basis of the date of customs clearance. Fuller details are given in the article entitled « La balance des paiements de l'Union Economique Belgo-Luxembourgeoise en 1984 sur la base des transactions », Bulletin of the National Bank of Belgium, LXIst year, Volume II, No. 3, September 1986 (especially pp. 15, 16 and 17). When it is the figures of this item that are incorporated in current transactions, these are referred to, in the Bank's statistics, as being on a *transactions basis*.

1.2 Commission processing and 1.3 Third-country trade

These items record, in principle, the transactions (and not the payments) which took place during the period in question.

2.3 Other (services)

This item, concerning which Tables IX-1 to IX-4 of the « Statistics » part of the Bulletin of the National Bank of Belgium provide more detailed data, comprises :

- the freight and insurance costs paid for the transport of goods (for the part which it has been possible to dissociate from the exports and imports to which it relates; the remainder is included in item 1);
- other transportation costs (the cost of transport of persons, carriage and customs expenses, cost of leasing, maintenance and repair of ships and aircraft, purchases and sales of on-board provisions);
- the transactions of the public authorities not included elsewhere (on the income side they comprise particularly the current operating expenses of the international institutions situated in the Belgian-Luxembourg Economic Union — consisting primarily of earned incomes — and, on the expenditure side, of military expenditure other than on equipment);
- the incomes of cross-frontier workers;
- other services : contracting, technical and management assistance, patents, fees for cinema films, copyright fees, subscriptions and contributions, insurance premiums and compensation payments (excluding life insurance, credit insurance and capitalisation insurance, which are included among capital transactions), brokerage, commission and miscellaneous commercial expenses.

3.1 Private transfers

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.

3.2 Public transfers

This item mainly consists, on the expenditure side, of technical assistance and of the contributions of the Belgian and Luxembourg Governments to European institutions and, on the receipts side, of the payments made by the European Agricultural Guidance and Guarantee Fund to residents.

Table VI. 2.1

a) The values in billions of francs shown pro memoria in item 4 are from the foreign trade statistics of the Belgian-Luxembourg Economic Union compiled by the National Statistical Institute.

It should be pointed out that the data concerning imports are not fully comparable from the point of view of time. This is because, since January 1985, the National Statistical Institute has been allocating certain data from the Netherlands, which have been reported with a time-lag, to the months to which they actually relate. Consequently the data for the last months of 1984, and therefore also for the year 1984 as a whole, are overestimated, since, while the data transmitted late at the beginning of 1985 were reassigned to the months in 1984 to which they related, the same correction was not made, for lack of adequate information, for the data received in 1984.

b) The percentage changes shown under items 1, 2 and 3 are calculated quarterly by the Bank on the basis of the preceding data, but after exclusion of trade in certain goods for which — for various reasons — the distinction between price and volume is unreliable (for instance, diamonds, ships and works of art). The figures also do not include trade in goods for which there is no record for one of the two successive periods. Altogether the excluded categories of goods, as regards both imports and exports, are fairly unimportant, so that the calculations were made on more than 90 p.c. of the total value of foreign trade.

c) The way in which the following items were calculated is shown below :

1.3 Terms of trade

$$\left(\frac{100 + \text{percentage change in unit export values}}{100 + \text{percentage change in unit import values}} \times 100 \right) - 100$$

2.3 Coverage ratio, volume.

$$\left(\frac{100 + \text{percentage change in volume of exports}}{100 + \text{percentage change in volume of imports}} \times 100 \right) - 100$$

3.3 Coverage ratio, value.

$$\left(\frac{100 + \text{percentage change in value of exports}}{100 + \text{percentage change in value of imports}} \times 100 \right) - 100$$

d) The group « Energy products » corresponds almost exactly to the tariff items which form « Section 3 — Mineral fuels, lubricants and allied products » of the « Standard International Trade Classification ».

Table VI. 2.2

In the case of the Belgian-Luxembourg Economic Union, the data relating to the *weighted average exchange rate*, weighted by exports, are from the Bank, while those concerning the *terms of trade* and unit export values were provided, for 1985, by the National Statistical Institute and estimated, for 1986, by the Bank.

All the data in respect of other countries, including the estimates for 1986, are from the Organisation for Economic Co-operation and Development.

TABLE VI. 3

1.1 Claims arising in connection with exports and imports and not mobilised at Belgian and Luxembourg banks

This item is calculated as a difference between item 1.3 and item 1.2.

1.2 Other claims

These are claims arising in connection with exports and mobilised at Belgian and Luxembourg banks and claims arising in connection with *commission processing* and *third-country trade*.

1.3 Total

Difference between the payments made for transactions in goods via Belgian and Luxembourg banks and these same transactions on a *transactions basis*.

2. Net spot and forward assets in Belgian and Luxembourg francs held by non-residents with Belgian and Luxembourg banks

The data do not include the liabilities resulting from the mobilisation at these banks, by resident exporters, of commercial claims in francs on the rest of the world, which are included in item 1.2. These figures also do not include the assets which banks in the rest of the world have built up at resident banks as the counterpart to the deposits in francs which resident enterprises and individuals hold with the said banks abroad : these are, in a way, spurious outflows associated with spurious capital inflows, because the banks abroad have scarcely any other way of re-employing these resources which they have obtained in francs with residents than to use them, in turn, to form deposits in francs with resident banks. As the « spurious » inflows are not included in this item, the « spurious » outflows are not included, either, in item 6, or in item 2.3 of Table VI. 3.1.

3. Net spot and forward assets in foreign currencies held by resident enterprises and individuals

These assets comprise those held with resident banks and those in the form of deposits abroad ; they exclude, however, the net assets held with resident banks by certain resident institutions through which funds from or to foreign countries merely pass in transit ; these funds are not included in item 6 either.

4. Net spot and forward assets in foreign currencies held by Belgian and Luxembourg banks

This does not include the assets — fixed assets, interests held — and the liabilities — capital — which the banks have in their capacity as enterprises rather than as financial intermediaries ; these assets and liabilities are recorded with other direct investments in item 6, and also in items 1.1 and 2.1 of Table VI. 3.1. Item 4 also does not include commercial claims in foreign currencies, which are recorded in item 1.2.

In view of the extent of the banks' outstanding assets and liabilities in foreign currencies and the extent of the transactions which affect these outstanding amounts, slight discrepancies in the exchange rates used in order to convert the foreign currencies into francs or minor time-lags in the dates of recording of these transactions are liable to lead to sometimes substantial errors in the calculation of the movements ; these must therefore be viewed with caution.

5. Resident enterprises' and individuals' holdings of foreign securities

The figures do not include the holdings of certain resident unit trusts through which capital sums from abroad merely pass in transit; these sums are not included in item 6 either.

6. Other transactions

The way in which this item is arrived at is described in connection with Table VI. 3.1.

Table VI. 3.1

1.12 Formations, acquisitions and expansions of companies

The data comprise the endowment funds transferred by foreign banks to their branches and subsidiaries in Belgium and the Grand Duchy.

1.4 Other

This item mainly consists of purchases and sales of real estate situated in the Belgian-Luxembourg Economic Union and the change in the net liabilities of savings banks to the rest of the world.

2.4 Other

This item mainly consists of purchases and sales of real estate in foreign countries.

TABLE VI. 5

a) The changes in the Bank's net foreign exchange reserves are estimated, like other balance of payments transactions, at the rates of exchange of the transactions. They do not take account to the allocation of special drawing rights to Belgium in 1979, 1980 and 1981 or of the transactions resulting from the entry into force, on 13th March 1979, of the European Monetary System and, subsequently, from some of its implementing measures.

b) The various items call for the following remarks :

2. Assets held at the International Monetary Fund

These comprise the rights which are held by the Belgian Government as a member of the Fund and which the Bank 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 the advances granted by the Bank for its own account to the Fund, under the « oil facility », the « supplementary credit facility » and the « extended access policy », by virtue of agreements concluded with the Fund and approved by the Government.

5. Belgian francs

This represents the difference between claims on foreign countries (other than commercial claims) and liabilities to foreign countries, particularly to the central banks and the European institutions.

CHART VI. 6

For the years 1978 to 1984, averages, per quarter, of daily rates. For 1985 and 1986, averages, per month, of daily rates.

— Weighted average exchange rates for the Belgian franc on the regulated foreign exchange market (upper part)

The indices are calculated by the Bank by applying to the indices of the bilateral rates for the franc in relation to the currencies of the main trading partners a weighting which is representative of the share of the latter in the exports and imports, respectively, of the Belgian-Luxembourg Economic Union. For further details, readers are referred to Annexes XIV and XV of the article « Les indices du cours moyen pondéré ou cours de change effectif du franc belge », Bulletin of the National Bank of Belgium, LIInd year, Volume I, No. 5, May 1977, pp. 45-49.

— Dollar exchange rate in Belgian francs on the free foreign exchange market (lower part)

The percentage is arrived at by applying the following formula :

$$\frac{\text{Dollar rate on the free market for transfers}}{\text{Dollar rate on the regulated market}} \times 100$$

Chart VI. 6.1

Averages, per month, of daily data.

For the method of calculation of the *divergence indicator*, readers are referred to the article entitled « Le Système Monétaire Européen », Bulletin of the National Bank of Belgium, LIVth year, Volume II, Nos 1-2, July-August 1979, pp. 37-39.

TABLE VII. 1

1.1, 2.1 and 3.1 Net financing capacity or requirement

The figures are taken from Table V. 1, it being understood that the *net financing capacity* or *net financing requirement* of the rest of the world is equal to the net financing requirement or capacity of the domestic sectors as a whole.

1.2 Net financial surplus of individuals and companies

The *companies* in question here are those which are not financial intermediaries; however, for lack of statistical information, it was not possible to eliminate the movements of the assets and liabilities of some of these intermediaries — namely, life insurance and employers' liability organisations and pension funds — and these are therefore included in the data in items 1.21 and 1.22. The first of these items records the balance, left by transactions relating to the claims and debts of the other financial intermediaries, as this balance, partly originating from their profits, is attributable to their activity as enterprises rather than as intermediaries and is therefore equivalent to a formation of financial assets by non-financial companies. A number of intra-sectoral financial transactions — for instance, the formation of commercial claims of companies on other companies — could not be recorded. The data in item 1.21 for the first ten months of 1986 do not take into account net commercial claims on foreign countries arising in connection with Belgium's exports and imports and not mobilised at banks, the amount of which is not yet known; those for the corresponding period of 1985 were compiled on a comparable basis. Fuller explanations concerning items 1.21 and 1.22 are given in connection with Tables VII. 2 and VII.3.

2.2 Net financial deficit of the public authorities

The data are taken from Table VII. 4.

3.2 Net financial surplus (+) or deficit (-) of the rest of the world

This item is estimated on the basis of the capital transactions of the balance of payments of the Belgian-Luxembourg Economic Union, adjusted to

arrive at those of Belgium alone with all foreign countries. Like those of item 1.21, the data for the first ten months of 1985 and 1986 do not take into account Belgium's net commercial claims on foreign countries arising in connection with exports and imports and not mobilised at Belgian banks.

1.3, 2.3 and 3.3 Statistical deviation

See, in this connection, point b) of the basic information of the fourth part.

4. Balance of financial surpluses and deficits

See, in this connection, point b) of the basic information of the fourth part.

TABLE VII. 2

As already mentioned in connection with Table VII. 1, the formation of financial assets by *companies* does not, in principle, include that by the financial intermediaries; it was not possible, however, to exclude from the data the assets formed by some of these, namely, life insurance and employers' liability organisations and pension funds.

Columns (h), (i) and (j) Other

These are assets whose breakdown between Belgian francs and foreign currencies is not known or is meaningless: this applies, for instance, to net commercial claims on foreign countries arising in connection with Belgium's imports and exports and not mobilised at banks [column (h)], to certain other claims on foreign countries established mainly by companies, especially in the form of direct investments [column (i)], and to certain claims on the financial intermediaries, which were calculated as a balance and which comprise not only these intermediaries' profits, regarded as equivalent to a formation of financial assets by non-financial companies for the reason stated above in connection with Table VII. 1, but also, among other things, accrued interest not yet due and various other items in their balance sheets [column (j)].

Table VII. 2.1

Column (a) Bonds and notes

In addition to bonds and notes in Belgian francs, this column includes bonds in Luxembourg francs in so far as it has been possible to record these.

Column (b) Shares

This column includes only public issues of shares, less purchases of — new or existing — Belgian shares by non-residents.

Column (c) Miscellaneous

This consists mainly of deposits at over one year formed with resident financial intermediaries.

Column (k) Miscellaneous

This column comprises assets, not recorded in columns (e) to (j), which are formed with resident financial intermediaries or resident non-financial sectors.

Table VII. 2.2

In addition to bonds and notes in the strict sense, the data include, in column (a), Treasury certificates at over one year and, in column (c), savings bonds or certificates. The net acquisitions of *individuals* and *companies* recorded in columns (b), (d), (f) and (h) also include the bonds and notes acquired by certain financial intermediaries — namely life insurance and employers' liability organisations and pension funds — the amount of which is not known for 1986.

Column (e) Other

This column comprises issues of bonds by private companies, by public enterprises and by non-residents (including bonds in Luxembourg francs, in so far as it was possible to record these).

Chart VII. 2.3

— **Percentage share of net purchases of bonds in foreign currencies in the total of those in foreign currencies and in Belgian francs (upper part)**

The data used are from column (e) of Table VII. 2, for the total of bonds in foreign currencies, and from column (a) of Table VII. 2.1, for bonds in Belgian francs. For 1986 the figures are for the first ten months.

— Long-term yield rates in Belgian francs and in other currencies (lower part)

a) Euro-bonds in U.S. dollars and in German marks : yield rates on the secondary market for bonds with a term of 7 to 15 years issued by the foreign public sector (Source : Financial Statistics of the Organisation for Economic Co-operation and Development); bonds in Danish crowns : yield rates on the secondary market for central-government bonds with a nominal yield of over 7 p.c. per annum (Source : Financial Statistics of the Organisation for Economic Co-operation and Development); Euro-bonds in ECUs : until 1983, rate on issue (Source : Bank) and, from 1984 onwards, rate on the secondary market (Source : Cote officielle de la Bourse de Luxembourg) for bonds with a minimum term of 8 years issued by first-rate borrowers; bonds in Belgian francs : yield rate on the secondary market for government bonds at over 5 years.

b) Averages per year until 1984 and per quarter in 1985 and 1986, of monthly data, except in the case of Euro-bonds in ECUs, for which, for the years prior to 1984, the figures are averages of the yield rates on issue.

c) The yield rate for bonds in Belgian francs is that after deduction of the withholding tax on income from financial assets of 20 p.c. until the end of 1983 and 25 p.c. from 1984 onwards; no tax at source has been deducted, on the other hand, from the yield rates on the other bonds.

TABLE VII. 3

Column (a) Personal loans and hire-purchase credits and column (b) Mortgage loans for housing

These two columns record only the amounts of credits of this kind granted by the banks, savings banks and public sector financial intermediaries and also, for mortgage loans for housing, by the social security institutions.

Column (c) Social housing credits

These are credits granted by the public housing companies, the Large Families Housing Funds and their approved companies, together with the social housing credits financed by the General Savings and Pension Fund within the framework of its advances to the approved credit companies.

Columns (e) to (g) Liabilities of companies and one-man businesses

As already mentioned in connection with Table VII. 1, liabilities contracted by the financial intermediaries are, in principle, excluded.

Column (e) Liabilities of companies and one-man businesses to Belgium

The method of calculation of this column is described in connection with Table VII. 3.1.

Column (f) Liabilities of companies and one-man businesses to foreign countries

These chiefly comprise the formation of *companies* in Belgium, equity investment in Belgian companies, loans received from affiliated enterprises and other loans contracted by Belgian enterprises.

Table VII. 3.1

Column (a) Shares

These are only public share issues.

Columns (b) and (c) Bonds

The amounts relate to all bonds issued by private *companies* and public enterprises, respectively, and subscribed for by residents, irrespective of their identity.

Column (d) Investment credits

The figures do not take into account the reductions which took place when credits in respect of which the *national sectors* were the debtors were taken over, relieving the latter of liability, by the *public authorities*; in order to obtain a series which would be as homogeneous and consistent in time as possible, the increases which had resulted during the preceding years from the granting of these credits were also eliminated.

Column (f) Miscellaneous

This column comprises the short-term paper issued by non-financial public enterprises and purchased by certain public-sector financial intermediaries, together with the liabilities resulting from delays in the payment to the national government or the National Social Security Office, by certain private or public enterprises, of sums owed by them in respect, respectively, of the pay-as-you-earn income tax on their employees' wages and salaries and of the social security contributions payable by employers or employees.

Table VII. 3.1

Column (a) Shares

These are only public share issues.

Columns (b) and (c) Bonds

The amounts relate to all bonds issued by private *companies* and public enterprises, respectively, and subscribed for by residents, irrespective of their identity.

Column (d) Investment credits

The figures do not take into account the reductions which took place when credits in respect of which the *national sectors* were the debtors were taken over, relieving the latter of liability, by the *public authorities*; in order to obtain a series which would be as homogeneous and consistent in time as possible, the increases which had resulted during the preceding years from the granting of these credits were also eliminated.

Column (f) Miscellaneous

This column comprises the short-term paper issued by non-financial public enterprises and purchased by certain public-sector financial intermediaries, together with the liabilities resulting from delays in the payment to the national government or the National Social Security Office, by certain private or public enterprises, of sums owed by them in respect, respectively, of the pay-as-you-earn income tax on their employees' wages and salaries and of the social security contributions payable by employers or employees.

TABLE VII. 4

Column (b) Official public debt

This column corresponds to the change in part A of the official public debt statement, from which the transactions which did not give rise to movements of funds were eliminated. These transactions consist of :

- the changes in the portfolio of Treasury certificates held by the International Monetary Fund. The giving of Treasury certificates to the Fund in part payment for the increases in Belgium's quota does not lead, by its very nature, to any receipts of funds; 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 Bank and not for the Treasury ;

- the taking-over, in 1986, by the Treasury, of certain debts of the *national sectors* (Law of 5th March 1984);
- the foreign exchange differences corresponding to the change in the discrepancy between, on the one hand, the countervalue in Belgian francs of the consolidated foreign currency loans included in the official public debt statement — where it is calculated on the basis of the central rates or exchange rates on the date of the statement — and, on the other hand, the amount of Belgian francs which the Treasury actually received as a result of these consolidated foreign currency loans.

Column (c) Debt of the communities and regions

This column relates only to the few loans directly contracted by the *communities and regions* with financial intermediaries.

Column (d) Other debts and financial assets

This column consists of the difference between, on the one hand, the following new liabilities :

- the changes in the liabilities of the autonomous funds and organisations which incur certain items of expenditure on behalf of the national, community or regional authorities ;
- the changes in the prefinancing operations carried out by the financial intermediaries on behalf of certain *public authorities*. These prefinancings were mainly granted within the framework of the « government portion » loans to the local authorities, the granting of building premiums, the contribution of the national government or of the regions to the financial service of the loans issued by the National Housing Company and the National Land Company and within the framework of assistance to the national sectors. With regard to the latter, the new liabilities arising from the taking-over by the public authorities of debts of the national sectors were not recorded in the years during which the public authorities formally took them over but were attributed to the years in which they were originally contracted by the enterprises in question ;
- the proceeds of the regularisation loan issued for the purpose of financing part of the interest charges payable on certain loans of the Government and the Road Fund (Royal Decree No. 446 of 20th August 1986).

The new debts were adjusted to eliminate the reductions in liabilities which took place when the debt of the Associations of Local Authorities for the Building of Motorways and certain debts of the national sectors were incorporated in the official public debt ;

and, on the other hand, the formation of financial assets held as temporary investments by certain organisations and autonomous funds of the national, community or regional authorities (including the assets, such as Treasury certificates, which represent claims on other sub-sectors of the public authorities), as well as the changes in the national government's claims corresponding to the delays in the payment of the pay-as-you-earn tax deducted from the wages and salaries of the employees of private or public enterprises.

Column (f) Local authorities

This column corresponds to the change in the liabilities of the local authorities (including the Assistance Fund for the Financial Recovery of Municipalities) to the Belgian Municipal Credit Institution and the other financial intermediaries, plus their net issues of loans in Belgian francs and in foreign currencies and less the change in their deposits built up with the Belgian Municipal Credit Institution and in their portfolio of Treasury certificates.

Column (g) Social security

This column corresponds to the difference between the formation of financial assets by the main social security institutions, namely :

- their investments in the form of Treasury certificates, bonds (including those issued by other sub-sectors of the public authorities), notes and deposits ;
- their mortgage loans to *individuals* ;
- the claims of the National Social Security Office resulting from the delays in payment by private or public enterprises of sums owed by them in respect of the social security contributions payable by employers or employees ;

and the debts contracted by the National Sickness and Disablement Insurance Institute, the National Social Security Institute for the Self-employed and the Occupational Diseases Fund.

Table VII. 4.1

The new liabilities and the formation of financial assets shown in this table are those which, broken down by sub-sectors, were used in order to calculate the figures in columns (b) to (g) of Table VII. 4. Their main components were described in connection with these columns.

TABLE VIII. 1

1. Gross requirements of funds

Total of items 1.22 (new liabilities of *individuals* and *companies*) and 2.22 (new liabilities of the *public authorities*) of Table VII. 1, without the minus signs against these liabilities.

1.11 Increase or decrease (–) in liabilities in Belgian francs to the National Bank of Belgium

Treasury certificates sold to the Bank, Treasury certificates sold to the Securities Regulation Fund and financed by it with the Bank's special assistance and recourse by the financial intermediaries to the Bank's rediscounting and advances.

1.12 Increase in the public sector's liabilities in foreign currencies

The *public sector's* new liabilities in foreign currencies, except those which that sector's financial intermediaries have contracted within the framework of their banking activities (which are shown, with a minus sign, in items 2.2).

2. Formation of financial assets

Total of item 2.21 of Table VII. 1 (formation of financial assets by the public authorities) and column (1) of Table VII. 2 (formation of financial assets by individuals and companies, excluding commercial claims). Net commercial claims on the rest of the world arising in connection with Belgium's exports and imports and not mobilised at banks [column (h) of Table VII. 2] were disregarded for purely pragmatic reasons, as their amount was not yet known for the first ten months of 1986. In any case this amount, whether included or not, has no influence on the meeting of the gross requirements of funds outside the *money market*, because, if it is included, it must also be included in item 2.2.

2.1 Formation of claims on the National Bank of Belgium

Change in the bank notes held by individuals and companies and in the financial intermediaries' claims on the Bank.

2.2 Net capital outflows

This corresponds to item 3.2 of Table VII. 1 (with opposite sign), disregarding the change in net commercial claims on the rest of the world arising in connection with Belgium's exports and imports and not mobilised at banks, that in the *public sector's* liabilities in foreign currencies recorded in item 1.12 and that in the Bank's net foreign exchange reserves.

Table VIII. 1.1

1.1 Net issues (+) of bonds in Belgian francs by the Treasury

This item also includes issues of Treasury certificates at over one year resulting from the conversions of Treasury certificates at up to one year carried out since 1983 at the request of the *public authorities*.

1.2 Other transactions of the Treasury outside the money market

This consists almost exclusively of the budgetary transactions and Treasury transactions which gave rise to a change in the official public debt [see column (b) of Table VII. 4].

2. Public sector not included elsewhere

This includes the public authorities other than the Treasury, and also the public enterprises.

2.3 Other transactions outside the money market of the public sector not included elsewhere

The negative balance of these transactions corresponds, in principle, to the *net financing requirement* of the sector in question, plus the financial assets which it has formed and minus the liabilities which it has contracted otherwise than by purchasing or issuing bonds and notes and by carrying out transactions on the *money market*.

Table VIII. 1.2

a) The various columns call for the following remarks :

Column (a) Total

In addition to the transactions of the three categories of financial intermediaries considered individually in columns (b) to (d), this column includes those of the Securities Regulation Fund, the Rediscount and Guarantee Institute, the Belgian Monetary Fund and the Postal Cheque Office.

Column (b) The public sector financial intermediaries

These are the Belgian Municipal Credit Institution, the Savings Fund of the General Savings and Pension Fund, the National Industrial Credit Company, the Central Office for Mortgage Credit, the National Fund for Credit to Trade and Industry, the National Institute for Agricultural Credit, the loan associations and deposit and loan funds approved by the two last-mentioned institutions, the public housing companies and the Housing Funds of the Large Families League.

Column (c) Belgian and Luxembourg banks

This column includes, for the Luxembourg banks, only the transactions for which data are available, namely those which are recorded in the balance of payments of the Belgian-Luxembourg Economic Union; these are in fact their net liabilities in Belgian and Luxembourg francs to non-residents of the Union, included in item 1.2, and their net claims in foreign currencies on the Union and on other countries, included in item 2.2. Consequently, the balance of their other transaction outside the *money market* is shown in item 1.3 « Balance of liabilities and claims not included elsewhere ».

b) The various items of column (a) call for the following remarks :

1.11 Bonds and notes at over one year

This item corresponds to column (c) of Table VII. 2.2, except that it does not include the issues of mortgage and capitalisation companies.

1.12 Deposits of individuals and companies

The data of items 1.121 and 1.122 are identical to, respectively, those of columns (f) and (g) of Table VII. 2.1. Item 1.123 consists of time deposits at up to one year and at over one year and one-year notes; it is thus equal to the sum of columns (c) partim, (h) and (j) of the same table.

1.13 Deposits of the public authorities

These are chiefly deposits of the local authorities with the Belgian Municipal Credit Institution.

1.2 Net liabilities in francs to foreign countries

This is the total of the spot liabilities in Belgian and Luxembourg francs of the financial intermediaries, including Luxembourg banks, to non-residents of the Belgian-Luxembourg Economic Union, less the corresponding claims, including commercial claims in francs on foreign countries mobilised at banks. Assets resulting from purchases of Belgian franc bonds issued by foreign countries have not, however, been deducted. The data are from the balance of payments of the Belgian-Luxembourg Economic Union (see third part).

1.3 Balance of liabilities and claims not included elsewhere

Calculated as a difference.

2.11 Bonds and notes at over one year

Despite the heading of item 2.1, item 2.11 does not exclude the purchases of Belgian franc bonds issued by foreign countries.

2.12 Other credits to individuals and companies

This item corresponds to the sum of the part denominated in Belgian francs of the liabilities recorded in column (d) of Table VII. 3 (excluding, however, the housing credits granted by the social security institutions, which are not financial intermediaries) and in columns (d) and (e) of Table VII. 3.1.

2.13 Other credits to the public authorities

This item chiefly comprises the credits granted to the local authorities by the Belgian Municipal Credit Institution, the credits granted to the *national sectors* and the prefinancing of the contributions of the *public authorities* to the financial service of the loans issued by the public housing companies.

2.2 Net claims in foreign currencies

This item comprises commercial claims in foreign currencies on foreign countries mobilised at banks, and also other net spot claims in foreign currencies on the Belgian-Luxembourg Economic Union and on foreign countries, excluding the claims and liabilities which the banks have in their capacity as enterprises rather than as financial intermediaries and the liabilities

of the public sector financial intermediaries which are included in item 1.12 of Table VIII. 1. The data are from the balance of payments of the Belgian-Luxembourg Economic Union (see third part).

Table VIII. 1.3

Column (g) Other sectors and indeterminate sectors

This column is equal to the difference between column (h) and the sum of columns (a), (b) and (c) and its only purpose is to make the figures in the table balance. The data in this column are of little significance in themselves, as they consist of transactions of *individuals, companies* (other than those included in the preceding columns) and foreign countries, which are heterogeneous sectors, as well as of transactions which were carried out by the sectors included in the preceding columns but could not be broken down between these sectors.

1. Transactions outside the money market

The data of columns (a) to (f) were obtained by adding together items 2.15, 2.214 and 2.223, with reversed signs.

2.1 Transactions other than with the lender of last resort

Each transaction is recorded twice : first with the minus sign, with reference to the lender, and then with the plus sign, with reference to the borrower. The sum of the amounts recorded for the various sectors in each of these sub-items therefore has to be zero.

2.11 Certificates in Belgian francs at up to one year

Treasury certificates and certificates of the Securities Regulation Fund.

2.12 Call money

The data relate both to the market against security and to the market outside the protocol.

2.2 Transactions with the lender of last resort

These transactions are recorded in the column of the sector which carried them out : a plus sign indicates that it increased its liabilities to the Bank, bringing about a rise in the latter's assets, and a minus sign indicates that it reduced its liabilities to the Bank, bringing about a reduction in the latter's

assets. That is why column (h) shows the change in the items in question in the Bank's balance sheet, when columns (a) to (c) are added together.

3. Other transactions of the National Bank of Belgium

This item records the transactions which, in the Bank's statement of account, together form the counterpart to those of its transactions which are recorded here in item 2.2. A plus sign corresponds to an increase in an item of the assets or a decrease in an item of the liabilities and a minus sign corresponds to changes in the opposite direction.

The sum of items 2.213 and 3.1 is not equal to the change in the Bank's foreign exchange reserves as shown in Table VI. 5, mainly because the transactions indicated by the titles of these items do not include the movement of item 5 « Belgian francs » of the table in question and the receipt of the interest produced by the reserves. These other transactions are included in item 3.3.

Chart VIII. 1.4

The figures are averages, per month, of daily data.

Difference between the yield of Treasury certificates and the cost of rediscounting for three months

The cost of rediscounting is the rate applied by the Rediscount and Guarantee Institute to bills with three months still to run. As these two interest rates are not strictly comparable — that on the certificates being payable in arrears and the other being payable in advance — the Rediscount and Guarantee Institute's rate was converted into a rate applicable in arrears for the purpose of calculating this difference.

Degree of utilisation of the banks' rediscount ceilings

This is the percentage ratio between the amounts counted against their *rediscount ceilings* and the amount of these ceilings.

Table VIII. 1.5

Column (a) Treasury and Securities Regulation Fund certificates in Belgian francs at up to one year

Subject to rounding, the change in this column between the end of 1985 and the end of 1986 corresponds, for each category of intermediaries, to item 2.11 of Table VIII. 1.3.

Column (c) Rediscounted bills

The change in this column between the end of 1985 and the end of 1986 corresponds to item 2.221 of Table VIII. 1.3, except for the banks; for, whereas item 2.221 takes into account all the bills rediscounted by the banks at the Rediscount and Guarantee Institute and the Bank, this column does not include, among other things, the portion of the rediscounted « Creditexport » bills which was counted against the ceiling specially granted for this purpose by the Bank to the Rediscount and Guarantee Institute and which therefore did not affect the available margins under the banks' ceilings. The system under which this special ceiling was granted came into force on 1st December 1981 and was extended on 1st December 1986 for a further period of one year.

Chart VIII. 2

Government loans at over 5 years

Yield on issue to final maturity of government loans and Road Fund loans. In order to give as true a picture as possible of the movement of long-term rates in 1986, the yield of the Telegraphs and Telephones Board Loan 1986-94 was also included. For similar reasons, the rates of the Belgian Municipal Credit Institution Loan 1981-85-89 and the Telegraphs and Telephones Board Loan 1981-88 were added for 1981.

3-month interbank loans and 3-month Euro-dollar deposits

Averages, per month, of the daily averages between the minimum and maximum rates posted.

Chart VIII. 2.1

Rates on three-month Treasury certificates

Adjusted rates : the standard rate, calculated on the basis of 360 days, was adjusted to make it comparable with the rate on interbank loans, which is based on 365 days.

Rate applied by the Rediscount and Guarantee Institute for the purchase of rediscountable paper

Adjusted rate applied for the rediscounting of bills with three months still to run : since, for rediscounting, the interest due is paid in advance, the Rediscount and Guarantee Institute's standard rate is not strictly comparable with the other two rates. In order to correct for this, the rate in question was converted into an interest rate payable in arrears.

Chart VIII. 2.3

Deposits of from Fr. 5 to 20 million at banks and deposits of from Fr. 1 to 3 million at banks

Averages, per month, of daily rates. Indicative rates for deposits of from Fr. 5 to 20 million.

Deposits on ordinary savings books at the General Savings and Pensions Fund

The *gross fictitious rate* shown in the chart is the rate which, after deduction of the withholding tax on income from financial assets (20 p.c. until 1983 and 25 p.c. from 1984 onwards), would bring in a net rate equivalent to the actual interest rate (basic rate plus fidelity bonus). As income from savings deposits is exempt from tax up to a certain annual amount, which has been Fr. 50,000 since 1984, their actual interest rate is not in fact comparable with the other rates. Account was not taken of the bonuses on increases in deposits granted from 1st April 1980 to 31st December 1981.

Chart VIII. 2.4

Mortgage loans of the General Savings and Pension Fund

The rate considered is that on ordinary mortgage loans with insurance of the balance still owed, a fixed interest rate and a term of over 15 years. On 1st June 1986 this rate was increased by half a point, whereas the other rates applied by the General Savings and Pension Fund were not changed or were even reduced.

Chart VIII. 2.5

Loans of the Government or the Road Fund

Rates of yield on issue to final maturity of the Government Loan 1984-93 of October 1984 (left-hand part), the Road Fund Loan 1985-94 of November 1985 (middle part) and the Government Loan 1987-93-97 of December 1986 (right-hand part). However, for the last-mentioned loan, the rate of yield shown in the chart is the rate which an investor would obtain if — as he can do — he requested premature redemption at the intermediate due date, i.e. after six years (7.97 p.c.). This period was, furthermore, regarded as that of the loan, as it is unlikely that the loan will remain in circulation until maturity, since the Government, too, is given an option allowing it to redeem the loan prematurely, likewise after six years, at 102 p.c. of the nominal value. In the latter case the yield for the lender would rise to 8.24 p.c.

Deposits on ordinary savings books at the General Savings and Pension Fund

The reason why a *gross fictitious rate* is shown in the chart is explained in connection with Chart VIII. 2.3.

Ordinary time deposits at 15 days and at 1, 3 and 6 months

In order to make the yield on these deposits comparable with that on government loans and on notes, the interest on which is payable annually, their standard rate was converted into an actuarial annual rate, that is, the compound interest rate which would be obtained in the event of periodical capitalisation for one year at a constant nominal rate (that of the deposit concerned on the date in question).

Annual Accounts

BALANCE SHEET AS AT 31st DECEMBER 1986

ASSETS

(in thousands of francs)

Gold Holding		58,213,919
International Monetary Fund :		
Quota		22,456,729
Loans		—
Special Drawing Rights		13,612,412
ECUs		138,867,868
Foreign Currencies		34,717,065
Foreign Currencies and Gold Receivable :		
European Monetary Co-operation Fund		18,369,911
Others		—
ECUs Receivable :		
European Monetary Co-operation Fund		—
Others		—
International Agreements		2,396,704
Advances to the I.M.F.		5,873,703
European Monetary Co-operation Fund : Financing at very short term		—
E.E.C. : Medium-term Financial Assistance		—
Debtors in respect of Foreign Exchange and Gold at Forward :		
European Monetary Co-operation Fund		—
Others		—
Commercial Bills		1,996,126
Advances against Pledged Security :		
Private-sector Financial Intermediaries	581	
Public-sector Financial Intermediaries	6	
Other Public-sector Institutions	17,385	
Public and Private Enterprises, and Individuals	<u>6,817</u>	24,789
Public Securities :		
Belgian Public Securities		37,000,000
Luxembourg Public Securities		—
Special Assistance to the Securities Regulation Fund		209,360,000
Treasury Notes and Coins		1,005,891
Balances at the Postal Cheque Office :		
A Account		1,261
B Account		4,408,181
Consolidated Claim on the Government		34,000,000
Provisional Adjustment resulting from the Law of 3rd July 1972		3,450,350
Items Receivable		2,343,100
Public Long-term Securities		16,165,217
Premises, Furniture and Equipment		5,408,253
Transitory Assets		<u>14,848,121</u>
Total Assets		624,519,600

LIABILITIES
(in thousands of francs)

Bank Notes in Circulation		415,082,556
Current and Sundry Accounts :		
Public Treasury, Ordinary Account	22,992	
Private-sector Financial Intermediaries	191,533	
Public-sector Financial Intermediaries	25,625	
Other Public-sector Institutions	131,469	
Public and Private Enterprises, and Individuals	184,135	
Banks in Foreign Countries and International Institutions, Ordinary Accounts	1,719,973	
Items Payable	<u>9,187,662</u>	11,463,389
Financial Assistance Agreements		4,408,181
International Monetary Fund :		
Special Drawing Rights, Net Cumulative Allocation		23,610,731
European Monetary Co-operation Fund : Financing at very short term		—
ECUs to be delivered :		
European Monetary Co-operation Fund		138,867,868
Others		—
Monetary Reserve :		
Belgium		—
Grand Duchy of Luxembourg		—
Foreign Currencies and Gold to be delivered :		
European Monetary Co-operation Fund		—
Others		24,778
Transitory Liabilities		10,863,178
Capital		400,000
Reserve Fund :		
Statutory Reserve		1,970,015
Extraordinary Reserve		11,908,631
Account for Depreciation of Premises, Furniture and Equipment		4,859,334
Net Profit for Distribution		<u>1,060,939</u>
Total Liabilities		624,519,600

PROFIT AND LOSS ACCOUNT AS AT 31st DECEMBER 1986

(in thousands of francs)

DEBIT		
Government's Share :		
Discounts and Advances	13,318,187	
Transactions with Foreign Countries . . .	1,515,018	14,833,205
General Expenses :		
Remunerations and Social Charges . . .	5,712,377	
Other Expenses	793,609	
	6,505,986	
<i>less :</i>		
Sums recoverable from others	1,551,512	4,954,474
Taxes and Dues		3,179,827
Other Payments to the Public Treasury imposed by Law . .		130,454
Depreciation of Premises, Furniture and Equipment		1,008,790
Transfers to Reserves and Provisions as :		
Extraordinary Reserve	2,001,000	
Provision for Premises, Furniture and Equipment	1,000,000	3,001,000
Net Profit for Distribution		1,060,939
		28,168,689
CREDIT		
Proceeds of Discount and Advance Operations		19,856,957
Proceeds of Transactions with Foreign Countries		5,741,390
Proceeds of Public Long-term Securities		1,865,096
Fees for Safe Custody, Commissions and Allowances		215,881
Sundry Receipts		21,365
Drawings on Transitory Liabilities Items		468,000
		28,168,689

MEMORANDUM ACCOUNTS AS AT 31st DECEMBER 1986

(in thousands of francs)

Ministers of National Education :		
Balance for their account at the Postal Cheque Office (Education legislation)		13,839,001
Documentary Credits Opened		8,882
« Visa » of Acceptances relating to Exports and Imports		6,949
International Institution benefiting by Undertakings given by the Bank		146,608
Guarantees given by the Bank		1,049,464
Securities received by way of Guarantee :		
Cover for advance limits against pledged security	69,577,606	
Securities provided by borrowers of call money	19,947,433	
Sundry security commitments	62,913	
Other guarantees	<u>170,339</u>	89,758,291
Guarantee Certificates received from the Public Treasury		2,850,000
Items for Collection		21,173
Assets administered for account of the European Monetary Co-operation Fund		18,369,911
Deposits of Securities and Sundry Items :		
International Monetary Fund	84,789,000	
International Development Association	7,917,947	
Asian Development Bank	1,498,455	
Inter American Development Bank	315,734	
African Development Fund	1,584,794	
International Fund for Agricultural Development	215,000	
Other Deposits	<u>1,183,935,538</u>	1,280,256,468
Public Treasury :		
Sundry Securities owned by the Government	15,399,077	
Preference Shares of the Belgian National Railways Co	5,000,000	
Ordinary Shares of the Belgian National Railways Co	1,000,000	
4.50 p.c. Certificates of the National Housing Co.	3,339,947	
Sundry Items : earmarked for the Monetary Fund	333,146	
Others	5,725,984	
Sundry Items for which the Government is the Depository	1,775,683,567	
Items lodged by outside parties	156,162,845	
Service of the Registered Debt	1,593,396,151	
Deposit and Consignment Office	13,023,225	
Items lodged by way of guarantee	13,101,346	
Items to be Delivered	<u>955,558,687</u>	2,746,641,331
Securities Regulation Fund		264,009,627

DIVIDEND DECLARED FOR THE YEAR 1986

First Dividend, Total	24,000
Second Dividend, Total	680,000
Total	704,000

on 400,000 shares, that is per share a dividend of Fr. 1,760

Coupon No. 185 will be payable with effect from 1st March 1987, at the rate of Fr. 1,320 free of withholding tax on income from financial assets¹.

The Council of Regency :

Roland BEAUVOIS, *Director*,
 Georges JANSON, *Director*,
 William FRAEYS, *Director*,
 Frans JUNIUS, *Director*,
 Jean-Pierre PAUWELS, *Director*,
 Roger RAMAEKERS, *Regent*,
 Raymond PULINCKX, *Regent*,
 Jozef HOUTHUYS, *Regent*,
 Jan HINNEKENS, *Regent*,
 Luc AERTS, *Regent*,
 Albert FRERE, *Regent*,
 André DEVOGEL, *Regent*,
 Alfred RAMPEN, *Regent*,
 Rik VAN AERSCHOT, *Regent*,
 André VANDEN BROUCKE, *Regent*,

The Governor,
 Jean GODEAUX.

¹ Withholding tax on income from financial assets :

$$\frac{1,320 \times 1}{3} \dots \dots \dots \text{Fr. 440.}$$

The tax relief which can be included in the base for income tax amounts to :

$$\frac{1,320 \times 54.5}{100} \dots \dots \dots \text{Fr. 719.40.}$$

Administration and supervision

Departments and services

Branches and agencies

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<i>Directors</i>	Messrs Roland BEAUVOIS, Georges JANSON, William FRAEYS, Frans JUNIUS, Jean-Pierre PAUWELS.
<i>Regents</i>	Messrs Roger RAMAEKERS, Raymond PULINCKX, Jozef HOUTHUYS, Jan HINNEKENS, Luc AERTS, Albert FRERE, André DEVOGEL, Alfred RAMPEN, Rik VAN AERSCHOT, André VANDEN BROUCKE.
<i>Censors</i>	Messrs Gaston VANDEWALLE, <i>Chairman</i> , Jacques DELRUELLE, <i>Secretary</i> , Hubert DETREMMERIE, Lucien ROEGIERS, Théo VANDERVORST, Joseph VAN LANDSCHOOT, Roger MENE, Willy DANCKAERT, Christian D'HOOGH, Carlo VAN GESTEL.
<i>Secretary</i>	Mr Jean POULLET.
<i>Treasurer</i>	Mr Paul GENIE.

GOVERNMENT COMMISSIONER

Mr René LAUWERIJNS.

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Economic Adviser to the Bank — Mr J. BAUDEWYNS.

Advisers to the Board of Directors — Mr R. VAN STEENKISTE, Head of Personnel,
Miss M.H. LAMBERT.

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Adviser to the Board of Directors, Head of Personnel,

Training

Head Mr L. VAN DER VEKEN, Inspector-General.

Medico-social Affairs

Head Doctor Mr J. BARY,
Doctors Messrs A. DE LANDTSHEER, V. DONS.

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Heads of Division Messrs C. DEKEYSER, A. MICHEL.

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Heads of Division Messrs J. RENDERS, F. HEYMANS.

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Controller Mr D. VERMEIREN.

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M. JAMAR, G. NOPPEN,
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Miss M.H. LAMBERT, Adviser to the Board of Directors,

Deputy Head of Department Mr W. PLUYM, Inspector-General,
Advisers Messrs S. BERTHOLOME, J. SMETS.
Senior Economist Mr R. REYNDERS,
Economists Mrs A.M. JOURDE-PEETERS,
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Government Cashier's Department

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Securities Regulation

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Adviser Mr J. VICTOIR.

Stores and Security

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Heads of Division Messrs S. VAN RILLAER, G. SCHAMPAERT,
J. VANDEUREN, R. LOISEAU, A. KOZYNS.

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Head Mr M. VAN GEYTE, Head of Division.

Technical Services

Head Mr W. VAN NIEUWENHUYSE, Inspector-General,
Head of Division Mr L. DUFRESNE.

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Electronics Centre

Head Mr J. MOERMAN, Inspector-General.

Organisation

Head Mr H. BARBE, Inspector-General,
Consultant Analysts Messrs R. VAN HEMELRIJCK, A. HUET,
P. LAUWERS, J.P. HOYOS.

Planning and Informations Systems

Temporarily managed by Mr J. NAGANT, Head of Department,
Consultant Analysts Messrs R. THIRION, B. GROETEMBRIL.

General Secretariat Department — Mr F. TOURNEUR, Inspector-General,

Secretariat

Head Mr M. SCHOLLAERT, Inspector-General,
Head of Division Mr M. VERHAEGEN.

Secretariat of the Board of Directors

Head Mr J. DOLO, Inspector-General,
Heads of Division Mr H. DOMS, Miss J. RONDEUX.

General Treasury Department — Mr P. GENIE, Treasurer,

Central Cash Office

Chief Cashier Mr J. DE MAESSCHALCK, Inspector-General,
Heads of Division Messrs R. VERHEYDEN,
J.F. KERVYN de MARCKE ten DRIESSCHE.

Current Accounts

Head Mr G. BOEYKENS, Inspector-General,
Head of Division Mr V. DECONINCK.

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Legal Department,

Head Mr J.V. LOUIS, Assistant Director,
Advisers Messrs P. LOHEST, J.P. BRISE,
E. de LHONEUX.

Collections and Staff Library,

Head Miss C. LOGIE, Head of Division.

Safety, Hygiene and Embellishment of Working Environment,

Head Mr J. VAN PETEGHEM, Assistant Adviser.

Branches and Agencies Department — Mr W. VAN DER PERRE, Assistant Director,

Heads of Division Messrs P. TELLIER, Y. LEBLANC.

Antwerp

Branch Manager Mr H. ALLAER,
Heads of Division Messrs P. VERPOEST, J. BRIL,
F. SERCKX, L. JACOBS.

Liège

Branch Manager Mr P. NYS,
Head of Division Mr L. VANTOURS.

Luxembourg

Branch Manager Mr M. HENNEQUIN.

Aalst

Agency Manager Mr L. GHYSELS.

Arlon

Agency Manager Mr R. TOBIE.

Brugge

Agency Manager Mr L. VAN DEN WIJNGAERT.

Charleroi

Agency Manager Mr J. TASSIER.

Courtrai		
	Agency Manager	Mr J. BOUDOU.
Ghent		
	Agency Manager	Mr K. MORTIER.
Hasselt		
	Agency Manager	Mr M. THIJS,
	Head of Division	Mr L. MESOTTEN.
La Louvière		
	Agency Manager	Mr P. VAN NIEUWENHUYSE.
Leuven		
	Agency Manager	Mr P. PEETROONS,
	Head of Division	Mr W. SMOUT.
Malmédy		
	Agency Manager	Mr A. MOXHET.
Marche-en-Famenne		
	Agency Manager	Mr P. DETRY.
Mechelen		
	Agency Manager	Mr P.L. KERREMANS.
Mons		
	Agency Manager	Mr F. RYCKAERT.
Namur		
	Agency Manager	Mr J. DELPEREE.
Ostend		
	Agency Manager	Mr G. ONGENA.
Roeselare		
	Agency Manager	Mr J. VICTOR.
Sint-Niklaas		
	Agency Manager	Mr L. GHEKIERE.
Tournai		
	Agency Manager	Mr M. SIMAL.

Turnhout

Agency Manager Mr T. DE ROOVER.

Verviers

Agency Manager Mr J. BOFFING.

**

Officials on mission at the International Monetary Fund in Washington,

Mr J.C. PAUWELS, Head of Division,
Mr M. DESSART, Adviser.

Officials on mission on behalf of the International Monetary Fund,

Ministry of Finance
of the Republic of Niger Mr J. TAVERNIER, Adviser.

Officials on Mission at the Bank of Zaïre,

Mr J. DUREUIL, Adviser,
Mr R. VANHULST, Head of Division,
Mr R. BEERENS, Head of Division.

Officials on Mission at the Bank of Rwanda,

Mr G. MARLET, Head of Division,
Mr J. WIELEMANS, Analyst-Consultant.

Official temporarily attached to the Belgian Permanent Representation with the European Communities,

Mr Ph. VIGNERON, Adviser.

Officials temporarily attached to the O.E.C.D. in Paris,

Mr W. VERTONGEN, Economist,
Mr P. VAN DER HAEGEN, Adviser.

Official temporarily attached to the Office of Mr Gol, Deputy Prime Minister,

Mr A. NYSENS, Economist.

Official temporarily attached to the Office of Mr Verhofstadt, Deputy Prime Minister,

Mr L. COENE, Adviser.

Annexes

BALANCE SHEETS COMPARED

ASSETS	1982	1983	1984	1985	1986
Gold Holding	58,214.0	58,214.0	58,213.9	58,213.9	58,213.9
International Monetary Fund :					
Quota	14,601.3	23,671.0	25,025.6	22,798.9	22,456.7
Loan	—	—	—	—	—
Special Drawing Rights	32,695.6	19,413.9	22,102.0	15,978.5	13,612.4
ECUs	72,953.3	139,230.9	165,398.9	157,917.9	138,867.9
Foreign Currencies	49,416.0	47,536.6	40,026.8	29,409.8	34,717.1
Foreign Currencies and Gold Receivable :					
European Monetary Co-operation Fund . .	35,657.2	26,694.9	30,228.2	18,087.6	18,369.9
Others	—	—	—	2,430.1	—
ECUs Receivable :					
European Monetary Co-operation Fund . .	—	—	—	—	—
Others	—	—	—	—	—
International Agreements	1,086.8	1,316.5	1,570.7	1,362.4	2,396.7
Advances to the I.M.F.	2,282.1	2,402.2	772.9	2,470.8	5,873.7
European Monetary Co-operation Fund : Finan-					
cing at very short term	—	—	—	—	—
E.E.C. : Medium-term Financial Assistance . .	—	—	—	—	—
Debtors in respect of Foreign Exchange and Gold					
at Forward Dates :					
European Monetary Co-operation Fund . .	—	—	—	—	—
Others	—	—	—	—	—
Commercial Bills	84,422.7	83,181.3	10,675.6	24,970.8	1,996.1
Advances against Pledged Security :					
Private-sector Financial Intermediaries . .	155.2	0.7	2,175.3	699.8	0.6
Public-sector Financial Intermediaries . . .	0.1	13,671.1	0.6	—	—
Other Public-sector Institutions	—	—	—	—	17.4
Public and Private Enterprises, and Individuals	460.2	370.8	114.6	14.8	6.8
	615.5	14,042.6	2,290.5	714.6	24.8
Public Securities :					
Belgian Public Securities	37,000.0	37,000.0	37,000.0	37,000.0	37,000.0
Luxembourg Public Securities	—	—	—	—	—
Special Assistance to the Securities Regulation Fund	181,059.0	188,400.0	200,610.0	182,178.0	209,360.0
Treasury Notes and Coins	859.4	907.9	709.3	980.5	1,005.9
Balances at the Postal Cheque Office :					
A Account	1.5	1.8	1.7	1.5	1.3
B Account	4,410.4	4,583.8	4,340.7	4,454.0	4,408.2
Consolidated Claim on the Government	34,000.0	34,000.0	34,000.0	34,000.0	34,000.0
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	8,978.0	1,625.4	8,573.9	2,904.4	2,343.1
Public Long-term Securities	10,128.1	11,598.5	12,823.3	14,275.5	16,165.2
Premises, Furniture and Equipment	2,384.5	2,853.3	3,420.6	4,426.8	5,408.2
Securities of the Staff Pension Fund	15,334.4	16,675.5	18,035.5	19,741.7	—
Transitory Assets	13,422.7	14,292.9	19,101.7	16,156.8	14,848.1
	662,972.9	731,093.4	698,372.2	653,924.9	624,519.6

AS AT 31st DECEMBER (in millions of francs)

LIABILITIES	1982	1983	1984	1985	1986
Bank Notes in Circulation	382,193.3	395,916.1	398,183.2	394,746.9	415,082.6
Current and Sundries Accounts :					
Public Treasury, Ordinary Account	16.3	9.6	12.6	17.9	23.0
Private-sector Financial Intermediaries	380.6	269.6	372.9	209.3	191.5
Public-sector Financial Intermediaries	20.1	33.5	31.5	31.9	25.6
Other Public-sector Institutions	867.8	815.9	786.0	803.4	131.5
Public and Private Enterprises, and Individuals Banks in Foreign Countries and International Institutions, Ordinary Accounts	149.8	153.0	254.4	166.1	184.1
Items Payable	2,277.3	2,306.9	2,111.8	2,502.1	1,720.0
	27,983.2	16,391.1	26,890.2	21,109.2	9,187.7
	31,695.1	19,979.6	30,459.4	24,839.9	11,463.4
Financial Assistance Agreements	4,410.4	4,583.8	4,340.7	4,454.0	4,408.2
International Monetary Fund :					
Special Drawing Rights, Net Cumulative Allocation	23,610.7	23,610.7	23,610.7	23,610.7	23,610.7
European Monetary Co-operation Fund : Financ- ing at very short term	18,078.1	48,237.3	—	—	—
ECUs to be delivered :					
European Monetary Co-operation Fund	166,552.3	198,574.2	197,861.8	156,543.1	138,867.9
Others				1,374.8	—
Monetary Reserve :					
Belgium	—	—	—	—	—
Grand Duchy of Luxembourg	—	—	—	—	—
Foreign Currencies and Gold to be delivered :					
European Monetary Co-operation Fund					—
Others	14.7	35.5	19.2	1,116.2	24.8
Staff Pension Fund	15,334.4	16,675.5	18,035.5	19,741.7	
Transitory Liabilities	8,694.4	9,813.0	10,702.4	10,407.3	10,863.2
Capital	400.0	400.0	400.0	400.0	400.0
Reserve Fund :					
Statutory Reserve	1,596.8	1,682.2	1,773.4	1,869.2	1,970.0
Extraordinary Reserve	7,357.6	8,089.6	9,026.6	9,907.6	11,908.6
Account for Depreciation of Premises, Furni- ture and Equipment	2,159.3	2,561.1	2,979.7	3,888.4	4,859.3
Net Profit for Distribution	875.8	934.8	979.6	1,025.1	1,060.9
	662,972.9	731,093.4	698,372.2	653,924.9	624,519.6

PROFIT AND LOSS ACCOUNTS COMPARED

DEBIT	1982	1983	1984	1985	1986
Government's Share :					
Discounts and Advances	29,586.4	21,809.6	25,445.0	17,316.0	13,318.2
Transactions with Foreign Countries	3,513.6	1,666.1	3,602.0	3,097.1	1,515.0
	33,100.0	23,475.7	29,047.0	20,413.1	14,833.2
General Expenses :					
Remunerations and Social Charges	4,941.9	5,322.6	5,764.1	5,954.9	5,712.4
Other Expenses	510.4	602.4	702.9	777.1	793.6
	5,452.3	5,925.0	6,467.0	6,732.0	6,506.0
<i>less :</i>					
Expenses to be borne by Others	- 853.7	- 973.2	- 1,207.6	- 1,562.4	- 1,551.5
	4,598.6	4,951.8	5,259.4	5,169.6	4,954.5
Taxes and Dues	2,864.0	2,789.4	2,452.8	2,614.3	3,179.8
Other Payments to the Public Treasury imposed by Law	36.6	36.6	125.3	79.3	130.5
Depreciation of Premises, Furniture and Equipment	563.5	929.4	914.6	980.7	1,008.8
Transfers to Reserves and Provisions :					
— Extraordinary Reserve	1,284.0	732.0	768.0	881.0	2,001.0
— Provision for Premies, Furniture and Equipment	234.0	500.0	500.0	1,000.0	1,000.0
— Provision against Sundry Contingencies	700.0	600.0	500.0		
— Tax Saving effected by virtue of R.D. No. 16 of 9th March 1982	173.0				
— Centenary Fund		25.0			
Net Profit for Distribution	875.8	934.8	979.6	1,025.1	1,060.9
	44,429.5	34,974.7	40,546.7	32,163.1	28,168.7

CREDIT	1982	1983	1984	1985	1986
Proceeds of Discount and Advance Operations .	37,981.4	30,337.5	33,912.8	23,740.8	19,856.9
Proceeds of Transactions with Foreign Countries	4,846.8	2,984.1	4,589.0	6,212.0	5,741.4
Proceeds of Public Long-term Securities	1,056.1	1,289.4	1,459.4	1,676.9	1,865.1
Fees for Safe Custody, Commissions and Allowances	221.4	221.0	228.0	218.2	215.9
Sundry Receipts	23.8	13.7	15.5	29.2	21.4
Drawings on Transitory Liabilities Items	300.0	129.0	342.0	286.0	468.0
	44,429.5	34,974.7	40,546.7	32,163.1	28,168.7

MISCELLANEOUS INFORMATION

	1982	1983	1984	1985	1986
Net dividend declared per share	1,165.00	1,165.00	1,220.00	1,275.00	1,320.00
Withholding tax on income from financial assets per share	291.25	388.33	406.67	425.00	440.00
Gross dividend declared per share	1,456.25	1,553.33	1,626.67	1,700.00	1,760.00
Tax credit	594.15	634.93	664.90	694.88	719.40

MAGELLANIC EXPLORATION

Year	1820	1821	1822	1823	1824	1825
Discovery of the Strait of Magellan						
First voyage of Ferdinand Magellan						
Discovery of the Pacific Ocean						
Discovery of the Philippines						
Discovery of the Spice Islands						
Discovery of the South Sea Islands						
Discovery of the Antarctic Peninsula						

ANNEX 4

**WEEKLY RETURNS PUBLISHED IN
THE « BELGISCH STAATSBLAD - MONITEUR BELGE »
DURING 1986**

WEEKLY RETURNS PUBLISHED IN THE « BELGISCH STAATSBLOD - MONITEUR BELGE » DURING 1986

(millions of francs)

ASSETS

DATE	Gold holding	International Monetary Fund :			ECUs	Foreign currencies	Foreign currencies and gold ¹ receivable :		ECUs receivable :		International agreements	Advances to the I.M.F.	European Monetary Co-operation Fund : Financing at very short term	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 coins	Balances at the Postal Cheque Office :		Consolidated claim on the Government	Provisional adjustment resulting from the Law of 3rd July 1972	Public long-term securities	Premises, furniture and equipment	Securities of the Staff Pension Fund	Sundries	TOTAL ASSETS
		Quota	Loans	Special Drawing Rights			European Monetary Co-operation Fund	Other	European Monetary Co-operation Fund	Other					European Monetary Co-operation Fund	Other			Belgian public securities	Luxembourg public securities			A Account	B Account							
6 January 1986	58,214	22,994	...	15,978	157,918	29,458	18,088	2,430	—	—	1,362	2,471	...	...	...	30,865	6,736	37,000	...	160,063	977	1	4,454	34,000	3,450	14,275	3,421	19,822	28,572	652,549
13 »	58,214	22,994	...	15,978	146,236	29,612	17,676	2,430	—	—	1,359	2,471	...	...	...	23,700	49	37,000	...	166,541	1,025	1	3,970	34,000	3,450	14,275	3,421	19,772	30,817	634,991
20 »	58,214	22,994	...	15,978	146,236	29,765	17,676	2,430	—	—	1,443	2,641	...	...	...	28,006	286	37,000	...	161,485	1,085	2	3,966	34,000	3,450	14,275	3,421	19,772	24,367	628,492
27 »	58,214	22,994	...	15,978	146,236	29,705	17,676	2,430	—	—	1,488	2,641	...	...	...	20,111	64	37,000	...	159,545	1,182	2	3,900	34,000	3,450	14,275	3,421	19,856	25,801	619,969
3 February	58,214	22,994	...	15,978	146,236	28,837	17,676	2,430	—	—	1,545	3,591	...	...	...	19,975	3,220	37,000	...	156,754	1,202	1	3,900	34,000	3,450	14,275	4,427	20,084	19,173	614,962
10 »	58,214	22,994	...	15,317	146,236	29,158	17,676	2,430	—	—	1,544	3,591	...	...	...	14,404	50	37,000	...	165,856	1,232	1	3,877	34,000	3,450	14,275	4,427	20,545	19,932	616,209
17 »	58,214	22,994	...	14,344	146,236	35,336	17,676	2,430	—	—	1,664	4,807	...	...	...	18,384	69	37,000	...	160,157	1,198	2	3,869	34,000	3,450	16,166	4,427	20,994	34,867	645,029
24 »	58,214	22,645	...	14,470	146,236	33,638	17,676	2,430	—	—	1,654	4,807	...	...	...	19,380	8,953	37,000	...	146,516	1,194	2	3,852	34,000	3,450	16,166	4,427	21,118	18,542	621,170
3 March	58,214	22,297	...	14,567	146,236	28,968	17,676	2,430	—	—	1,745	6,024	...	...	...	15,854	357	37,000	...	165,099	1,185	1	4,302	34,000	3,450	16,166	4,427	21,117	30,502	631,617
10 »	58,214	22,155	...	14,567	146,236	29,276	17,676	2,430	—	—	1,974	6,024	...	...	...	9,926	7	37,000	...	170,801	1,184	1	4,267	34,000	3,450	16,166	4,427	21,019	29,762	630,562
17 »	58,214	22,155	...	14,840	146,236	29,021	17,676	2,430	—	—	2,138	6,024	...	...	...	15,518	17,425	37,000	...	147,621	1,159	2	4,265	34,000	3,450	16,166	4,427	21,300	33,848	634,915
24 »	58,214	22,496	...	14,840	146,236	40,087	17,676	2,430	—	—	2,135	6,024	...	...	...	11,521	46	37,000	...	157,768	1,133	2	4,311	34,000	3,450	16,166	4,427	21,392	29,690	645,734
28 »	58,214	22,496	...	14,840	145,427	30,035	17,676	1,026	—	—	2,556	6,024	...	...	...	8,405	4,671	37,000	...	168,523	1,108	1	4,108	34,000	3,450	16,166	4,427	21,537	40,429	642,119
7 April	58,214	22,496	...	14,840	143,920	29,993	18,047	1,037	—	—	2,576	5,989	...	...	...	17,737	23,194	37,000	...	144,359	1,073	1	4,007	34,000	3,450	16,166	4,427	21,423	16,504	620,453
14 »	58,214	22,496	...	14,840	143,920	29,980	18,047	1,037	—	—	2,722	5,989	...	...	...	26,263	5,998	37,000	...	148,973	1,068	2	3,828	34,000	3,450	16,166	4,427	21,455	24,148	624,023
21 »	58,214	22,496	...	14,796	143,369	33,036	18,047	...	—	—	2,683	5,989	...	...	...	20,658	2,704	37,000	...	155,598	1,053	1	3,927	34,000	3,450	16,166	4,427	21,455	21,401	625,382
28 »	58,214	22,496	...	14,538	143,369	37,419	18,047	...	—	—	2,696	5,989	...	...	...	13,987	915	37,000	...	155,132	1,057	2	3,826	34,000	3,450	16,166	4,427	21,491	23,344	626,552
5 May	58,214	22,497	...	14,538	143,369	33,765	18,047	...	—	—	2,701	5,989	...	...	...	7,052	95	37,000	...	182,483	1,005	1	3,822	34,000	3,450	16,166	4,427	21,455	19,444	632,318
12 »	58,214	22,199	...	14,392	143,369	54,561	18,047	...	—	—	2,689	5,989	...	...	...	23,086	12,607	37,000	...	168,333	967	2	3,581	34,000	3,450	16,166	4,427	21,403	14,819	664,873
16 »	58,214	22,399	...	14,653	143,369	67,690	18,047	...	—	—	2,694	5,989	...	...	...	11,763	6,025	37,000	...	149,264	956	1	3,553	34,000	3,450	16,166	4,427	21,504	15,527	673,152
26 »	58,214	22,399	...	14,653	143,369	89,487	18,047	...	—	—	2,675	5,989	...	...	...	10,836	17	37,000	...	140,487	999	2	3,567	34,000	3,450	16,166	4,427	21,499	16,539	702,038
2 June	58,214	22,338	...	14,653	143,369	87,488	18,047	...	—	—	2,462	5,989	...	...	...	6,998	31	37,000	...	137,599	1,011	1	3,717	34,000	3,450	16,166	4,427	21,499	15,550	690,089
9 »	58,214	22,338	...	14,653	143,369	78,449	18,047	...	—	—	2,439	5,949	...	...	...	8,152	18	37,000	...	150,632	1,012	2	3,701	34,000	3,450	16,166	4,427	—	30,634	679,547
16 »	58,214	22,338	...	14,653	143,369	64,842	18,047	...	—	—	2,345	5,949	33,189	4,479	8	37,000	...	166,027	1,051	2	3,642	34,000	3,450	16,166	4,427	—	15,829	649,027
23 »	58,214	22,338	...	14,653	143,369	62,268	18,047	...	—	—	2,349	5,949	30,597	6,277	92	37,000	...	168,058	1,056	1	3,599	34,000	3,450	16,166	4,427	—	15,909	647,819
30 »	58,214	22,338	...	14,653	143,369	58,953	18,047	...	—	—	2,477	5,949	...	...	...	8,520	5,926	37,000	...	175,600	1,034	2	3,507	34,000	3,450	16,166	4,427	—	20,590	661,356
7 July	58,214	22,338	...	14,653	136,545	55,759	18,370	...	—	—	2,450	5,949	...	...	...	11,996	15,509	37,000	...	169,350	977	1	3,350	34,000	3,450	16,166	4,427	—	17,096	652,146
14 »	58,214	22,338	...	13,437	136,545	52,012	18,370	...	—	—	2,506	5,949	19,665	11,022	2,431	37,000	...	182,475	979	1	3,311	34,000	3,450	16,166	4,427	—	20,150	644,448
18 »	58,214	22,338	...	11,575	136,545	53,712	18,370	...	—	—	2,149	5,949	...	...	...	6,100	1,394	37,000	...	188,850	1,061	2	3,461	34,000	3,450	16,166	4,427	—	21,527	646,015
28 »	58,214	21,852	...	9,993	136,545	58,322	18,370	...	—	—	2,321	5,949	...	...	...	3,543	2,923	37,000	...	171,050	1,132	1	3,456	34,000	3,450	16,166	4,427	—	22,613	635,390
4 August	58,214	22,225	...	9,993	134,787	57,328	18,370	...	—	—	2,554	5,949	...	...	...	4,245	5,716	37,000	...	172,900	1,128	1	3,449	34,000	3,450	16,166	4,427	—	20,659	634,998
11 »	58,214	22,225	...	9,993	134,787	45,204	18,370	...	—	—	2,637	5,949	...	...	...	5,399	6	37,000	...	185,291	1,170	1	3,446	34,000	3,450	16,166	4,427	—	22,402	619,998
18 »	58,214	22,225	...	9,993	134,787	44,261	18,370	...	—	—	2,668	5,949	...	...	...	5,238	19	37,000	...	189,137	1,149	1	3,242	34,000	3,450	16,166	4,427	—	19,778	618,914
25 »	58,214	22,225	...	9,993	134,787	42,140	18,370	...	—	—	2,668	5,949	...	...	...	5,822	9	37,000	...	186,243	1,154	1	3,237	34,000	3,450	16,166	4,427	—	27,869	620,422
1 September	58,214	22,225	...	10,451	134,787	40,336	18,370	...	—	—	2,615	5,949	...	...	...	5,897	8	37,000	...	189,998	1,175	1	3,231	34,000	3,450	16,166	4,427	—	21,452	615,021
8 »	58,214	22,225	...	10,451	134,787	40,443	18,370	...	—	—	2,633	5,949	...	...	...	6,911	4	37,000	...	189,818	1,167	1	3,231	34,000	3,450	16,166	4,427	—	30,875	625,391
15 »	58,214	22,225	...	10,451	134,787	35,603	18,370	...	—	—	2,651	5,949	...	...	...													

WEEKLY RETURNS PUBLISHED IN THE « BELGISCH STAATSBLAD - MONITEUR BELGE » DURING 1986

(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)	Bank notes in circulation	Current accounts :			International agreements :		International Monetary Fund : Special Drawing Rights, net cumulative allocation	European Monetary Co- operation Fund : Financing at very short term	ECUs to be delivered :		Monetary reserve :		Foreign currencies and gold ¹ to be delivered :		Staff Pension Fund	Sundries	Capital, reserves and depreciation accounts ²	TOTAL LIABILITIES	DATE
		Public Treasury : Ordinary account	Banks in foreign countries and international institutions, ordinary accounts	Sundry current accounts and items payable	Financial assistance agreements	Other agreements			European Monetary Co- operation Fund	Other	Belgium	Grand Duchy of Luxembourg	European Monetary Co- operation Fund	Other					
23,453	394,278	25	3,652	16,037	4,454	63	23,611	...	156,543	1,375	...	...	—	1,109	19,822	17,305	14,275	652,549	6 January 1986
23,470	388,970	8	2,010	17,622	3,970	44	23,611	...	144,861	1,375	...	...	—	1,110	19,772	17,363	14,275	634,991	13 »
23,440	388,179	13	2,533	11,247	3,966	55	23,611	...	144,861	1,375	...	...	—	1,116	19,772	17,489	14,275	628,492	20 »
23,197	377,942	2	2,410	12,896	3,900	47	23,611	...	144,861	1,375	...	...	—	1,112	19,856	17,682	14,275	619,969	27 »
23,017	378,790	8	2,212	12,924	3,900	52	23,611	...	144,861	1,375	...	...	—	1,114	20,084	9,865	16,166	614,962	3 February
23,290	378,181	10	2,298	13,858	3,877	50	23,611	...	144,861	1,375	...	...	—	1,122	20,545	10,255	16,166	616,209	10 »
22,934	379,010	6	1,234	36,159	3,869	59	23,611	...	144,861	1,375	...	...	—	7,048	20,994	10,637	16,166	645,029	17 »
22,520	379,646	2	1,296	13,124	3,852	48	23,611	...	144,861	1,375	...	...	—	5,150	21,118	10,921	16,166	621,170	24 »
22,381	381,801	10	1,602	24,551	4,302	49	23,611	...	144,861	1,375	...	...	—	1,123	21,117	11,049	16,166	631,617	3 March
21,910	381,465	5	1,248	24,240	4,267	72	23,611	...	144,861	1,375	...	...	—	1,147	21,019	11,086	16,166	630,562	10 »
21,730	382,531	8	1,812	26,283	4,265	44	23,611	...	144,861	1,375	...	...	—	1,117	21,300	11,542	16,166	634,915	17 »
21,126	383,108	10	1,844	25,309	4,311	68	23,611	...	144,861	1,375	...	...	—	12,379	21,392	11,300	16,166	645,734	24 »
20,874	387,829	23	1,503	33,593	4,108	57	23,611	...	144,861	566	...	...	—	503	21,537	7,762	16,166	642,119	28 »
20,500	387,830	18	2,428	12,287	4,007	57	23,611	...	143,369	552	...	...	—	514	21,423	8,191	16,166	620,453	7 April
20,317	385,902	9	1,724	19,125	3,828	55	23,611	...	143,369	552	...	...	—	507	21,455	7,720	16,166	624,023	14 »
20,227	386,744	6	3,303	16,339	3,927	55	23,611	...	143,369	...	...	...	—	2,474	21,455	7,933	16,166	625,382	21 »
19,963	383,087	8	2,155	18,178	3,826	54	23,611	...	143,369	...	...	...	—	6,561	21,491	8,046	16,166	626,552	28 »
19,859	394,454	12	1,455	16,732	3,822	...	23,611	...	143,369	...	...	...	—	2,830	21,455	8,412	16,166	632,318	5 May
19,673	395,971	15	1,206	28,288	3,581	...	23,611	...	143,369	...	...	...	—	23,128	21,403	8,135	16,166	664,873	12 »
19,501	403,280	9	1,420	15,270	3,553	...	23,611	...	143,369	...	...	...	—	36,519	21,504	8,451	16,166	673,152	16 »
19,499	401,799	9	1,520	23,535	3,567	...	23,611	...	143,369	...	...	...	—	58,286	21,499	8,677	16,166	702,038	26 »
19,414	405,222	4	1,601	9,498	3,717	...	23,611	...	143,369	...	...	...	—	56,141	21,499	9,261	16,166	690,089	2 June
19,174	408,074	24	1,515	27,313	3,701	...	23,611	...	143,369	...	...	...	—	46,953	—	8,821	16,166	679,547	9 »
19,036	408,980	21	1,958	9,108	3,642	...	23,611	...	143,369	...	...	...	—	33,241	—	8,931	16,166	649,027	16 »
19,066	410,048	11	1,359	10,033	3,599	...	23,611	...	143,369	...	...	...	—	30,605	—	9,018	16,166	647,819	23 »
19,481	417,157	15	1,641	14,677	3,507	—	23,611	...	143,369	...	...	...	...	27,075	—	14,138	16,166	661,356	30 »
18,819	420,150	6	2,005	11,432	3,350	—	23,611	...	136,545	...	...	...	...	24,444	—	14,437	16,166	652,146	7 July
18,473	417,052	13	1,460	13,703	3,311	—	23,611	...	136,545	...	...	...	...	19,672	—	12,915	16,166	644,448	14 »
18,347	414,586	18	2,141	15,890	3,461	—	23,611	...	136,545	...	...	...	...	19,709	—	13,888	16,166	646,015	18 »
18,183	402,801	2	2,283	13,482	3,456	—	23,611	...	136,545	...	...	...	...	23,721	—	13,323	16,166	635,390	28 »
18,020	406,558	6	2,283	11,798	3,449	—	23,611	...	134,787	...	...	...	...	22,093	—	14,247	16,166	634,998	4 August
17,622	401,618	22	2,752	13,362	3,446	—	23,611	...	134,787	...	...	...	...	9,850	—	14,384	16,166	619,998	11 »
17,622	404,640	23	2,654	10,625	3,242	—	23,611	...	134,787	...	...	...	...	8,838	—	14,328	16,166	618,914	18 »
17,541	400,017	24	2,371	18,829	3,237	—	23,611	...	134,787	...	...	...	...	6,708	—	14,672	16,166	620,422	25 »
17,229	403,233	16	1,436	12,043	3,231	—	23,611	...	134,787	...	...	...	...	5,267	—	15,231	16,166	615,021	1 September
17,698	402,791	2	1,405	23,322	3,231	—	23,611	...	134,787	...	...	...	...	5,270	—	14,806	16,166	625,391	8 »
17,319	401,874	9	1,457	16,606	3,222	—	23,611	...	134,787	...	...	...	...	120	—	15,083	16,166	612,935	15 »
17,115	401,268	9	1,852	11,549	3,140	—	23,611	...	134,787	...	...	...	...	390	—	15,460	16,166	608,232	22 »
16,942	400,918	4	1,496	15,378	3,666	—	23,611	...	134,787	...	...	...	...	125	—	15,444	16,166	611,595	29 »
16,348	405,351	18	1,823	15,804	3,666	—	23,611	...	134,787	...	...	...	...	54	—	13,120	16,166	614,400	6 October
16,293	402,460	19	1,531	17,493	3,666	—	23,611	...	138,868	...	...	...	...	57	—	12,036	16,166	615,907	13 »
16,081	403,487	11	1,420	9,794	3,666	—	23,611	...	138,868	...	...	...	...	218	—	12,113	16,166	609,354	20 »
15,879	396,832	6	1,304	16,305	3,663	—	23,611	...	138,868	...	...	...	...	218	—	12,411	16,166	609,384	27 »
15,774	403,398	4	1,476	14,553	3,626	—	23,611	...	138,868	...	...	...	...	221	—	12,021	16,166	613,944	31 »
15,462	402,495	4	1,892	10,602	3,606	—	23,611	...	138,868	...	...	...	...	223	—	12,217	16,166	609,684	7 November
15,436	400,651	25	1,821	18,622	3,483	—	23,611	...	138,868	...	...	...	...	215	—	12,271	16,166	615,733	17 »
15,238	400,711	8	1,878	17,458	3,591	—	23,611	...	138,868	...	...	...	...	213	—	12,282	16,166	614,786	24 »
15,042	404,830	7	2,493	14,266	3,591	—	23,611	...	138,868	...	...	...	...	218	—	12,435	16,166	616,485	1 December
15,124	405,922	24	1,880	18,238	4,118	—	23,611	...	138,868	...	...	...	...	235	—	12,320	16,166	621,382	8 »
14,521	406,656	15	2,119	22,700	4,412	—	23,611	...	138,868	...	...	...	...	227	—	12,331	16,166	627,105	15 »
14,158	415,345	7	4,083	22,906	4,410	—	23,611	...	138,868	...	...	...	...	20	—	12,042	16,166	637,458	22 »
13,839	416,302	14	4,042	15,970	4,417	—	23,611	...	138,868	...	...	...	...	20	—	12,654	16,166	632,064	29 »

**STATEMENT OF THE PUBLIC LONG-TERM SECURITIES
CONSTITUTING, ON 31st DECEMBER 1986,
THE BANK'S HOLDINGS**

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

7 p.c.	Treasury bills 1986/94.
9 p.c.	Belgian Loan 1979/87 I.
10 p.c.	Belgian Loan 1979/88.
11 p.c.	Belgian Loan 1980/89.
12.50 - 13 p.c.	Belgian Loan 1980/84/89.
13 - 13.25 p.c.	Belgian Loan 1981/85/89.
14.25 p.c.	Belgian Loan 1982/89.
14 p.c.	Belgian Loan 1982/90.
13.75 - 14 p.c.	Belgian Loan 1982/86/90.
13.50 - 13.75 p.c.	Belgian Loan 1982/87/91.
13.75 p.c.	Belgian Loan 1982/91.
12.75 p.c.	Belgian Loan 1983/91.
12 - 11.50 p.c.	Belgian Loan 1983/90/94.
11.25 p.c.	Belgian Loan 1983/92.
11.75 p.c.	Belgian Loan 1984/92.
12 p.c.	Belgian Loan 1984/92.
11.75 p.c.	Belgian Loan 1984/93.
11.50 p.c.	Belgian Loan 1985/93.
11.50 p.c.	Belgian Loan 1985/93 II.
10.75 p.c.	Belgian Loan 1985/94.
9.75 p.c.	Belgian Loan 1986/94.
7.60 p.c.	Belgian Loan 1986/94.
4 p.c.	Belgian Premium Bonds 1941.
4 p.c.	War Damage 1923.
10.50 p.c.	Road Fund Loan 1979/88.
13 p.c.	Road Fund Loan 1981/85/89.
14.25 p.c.	Road Fund Loan 1982/89.
13 p.c.	Road Fund Loan 1983/91.
11.50 p.c.	Road Fund Loan 1983/91.
11.50 p.c.	Road Fund Loan 1985/93.
9.50 p.c.	Road Fund Loan 1986/94.

- 6.75 p.c. National Fund for Credit to Trade and Industry 1968/88.
- 2 p.c. National Foundation for Financing Scientific Research 1960/90 - 1st tranche.
- 2 p.c. National Foundation for Financing Scientific Research 1961/91 - 2nd tranche.
- 2 p.c. National Foundation for Financing Scientific Research 1962/92 - 3rd tranche.
- 2 p.c. National Foundation for Financing Scientific Research 1963/93 - 4th tranche.
- 2 p.c. National Foundation for Financing Scientific Research 1964/94 - 5th tranche.
- 2 p.c. National Foundation for Financing Scientific Research 1965/95 - 6th tranche.
- 2 p.c. National Foundation for Financing Scientific Research 1966/96 - 7th tranche.
- 2 p.c. National Foundation for Financing Scientific Research 1967/97 - 8th tranche.
- 2 p.c. National Foundation for Financing Scientific Research 1968/98 - 9th tranche.
- 2 p.c. National Foundation for Financing Scientific Research 1969/99 - 10th tranche.
- 12.75 p.c. National Housing Company 1980/87.
- 14.25 p.c. Telegraphs and Telephones Board 1981/88.
- 6.75 p.c. National Industrial Credit Company 1968/88.
- 8.25 p.c. National Industrial Credit Company 1970/90.
- 8 p.c. National Industrial Credit Company 1971/91.
- 9 p.c. National Industrial Credit Company 1979/87.
- 13.50 p.c. Belgian Municipal Credit Institution 1981/85/89.
- 13.75 - 14 p.c. Belgian Municipal Credit Institution 1982/86/90.
- 12 p.c. Assistance Fund for the Financial Recovery of Municipalities 1984/91.
- 11 p.c. Assistance Fund for the Financial Recovery of Municipalities 1985/93.
- Belgian International Investment Company shares.
- National Industrial Credit Company shares.
- National Investment Company shares.
- Securities Deposit and Clearing Office of the Financial Sector.
- Bank for International Settlements shares.
- Belgian National Railways Company Dividend Right Certificates.

Official rates of exchange fixed by the bankers meeting at the Brussels Clearing House

1986	1 U.S. Dollar	1 German mark	100 yens	1 French franc	1 pound sterling	1 Irish pound	100 Italian lire	1 Canadian Dollar	1 Netherlands guilder
January									
Highest	50.60	20.48	25.32	6.68	73.01	62.65	3.01	36.25	18.17
Lowest	48.85	20.42	24.72	6.66	68.04	61.88	2.99	34.28	18.12
Mean	49.95	20.44	24.95	6.66	71.17	62.21	3.00	35.49	18.14
February									
Highest	49.35	20.48	26.55	6.68	68.90	62.00	3.01	34.87	18.14
Lowest	45.19	20.45	25.27	6.66	66.68	61.87	3.01	31.75	18.10
Mean	47.76	20.47	25.89	6.67	68.25	61.93	3.01	33.99	18.12
March									
Highest	48.17	20.48	26.64	6.68	70.43	61.95	3.01	34.34	18.18
Lowest	45.19	20.47	25.26	6.65	65.19	61.87	3.01	31.66	18.13
Mean	46.36	20.48	25.98	6.66	67.96	61.90	3.01	33.05	18.14
April									
Highest	49.02	20.46	27.13	6.67	71.37	62.13	3.01	35.32	18.16
Lowest	44.29	20.30	25.96	6.37	68.05	61.82	2.96	32.00	18.03
Mean	46.28	20.39	26.47	6.43	69.33	61.96	2.98	33.37	18.09
April (1st to 3rd)									
Highest	48.73	20.46	27.13	6.67	71.37	61.88	3.01	34.99	18.16
Lowest	47.74	20.42	26.80	6.65	69.95	61.85	3.00	34.26	18.12
Mean	48.27	20.44	26.96	6.65	70.77	61.86	3.01	34.67	18.14
April (7th to 30th)									
Highest	49.02	20.45	27.05	6.41	71.31	62.13	2.98	35.32	18.12
Lowest	44.29	20.30	25.96	6.37	68.05	61.82	2.96	32.00	18.03
Mean	45.95	20.38	26.38	6.40	69.09	61.98	2.97	33.15	18.08
May									
Highest	47.21	20.42	27.56	6.41	70.02	62.22	2.98	34.22	18.17
Lowest	44.30	20.41	26.56	6.40	68.57	62.05	2.97	32.12	18.11
Mean	45.62	20.42	27.29	6.41	69.26	62.12	2.98	33.20	18.13
June									
Highest	47.60	20.45	27.43	6.41	70.03	62.08	2.98	34.34	18.16
Lowest	44.92	20.42	27.01	6.40	68.41	61.72	2.97	32.37	18.14
Mean	45.69	20.43	27.25	6.41	68.83	61.93	2.98	32.89	18.15
July									
Highest	45.06	20.70	28.25	6.41	68.88	61.96	3.01	32.75	18.37
Lowest	43.34	20.46	27.37	6.37	64.58	61.27	2.98	31.40	18.16
Mean	44.34	20.58	27.94	6.40	66.95	61.65	3.00	32.13	18.27
August									
Highest	43.53	20.71	28.11	6.38	64.70	61.21	3.01	31.50	18.38
Lowest	42.23	20.69	27.29	6.32	62.70	56.95	3.00	30.35	18.35
Mean	42.73	20.71	27.73	6.35	63.47	57.51	3.01	30.76	18.37
August (on 1st August)	43.12	20.71	28.11	6.37	64.33	61.21	3.01	31.24	18.38
August (4th to 29th)									
Highest	43.53	20.71	28.07	6.38	64.70	57.63	3.01	31.50	18.38
Lowest	42.23	20.69	27.29	6.32	62.70	56.95	3.00	30.35	18.35
Mean	42.71	20.71	27.71	6.35	63.43	57.32	3.01	30.74	18.37
September									
Highest	43.08	20.75	27.64	6.34	63.61	57.05	3.00	31.06	18.36
Lowest	41.36	20.71	26.96	6.32	60.33	56.75	3.00	29.80	18.33
Mean	42.26	20.72	27.33	6.33	62.23	56.91	3.00	30.48	18.35
October									
Highest	42.97	20.79	27.22	6.36	60.81	56.85	3.01	30.92	18.39
Lowest	40.94	20.74	26.08	6.33	58.51	56.35	3.00	29.48	18.35
Mean	41.60	20.76	26.64	6.34	59.34	56.57	3.00	29.96	18.37
November									
Highest	42.94	20.80	26.25	6.37	61.19	56.68	3.01	30.93	18.41
Lowest	41.13	20.75	25.37	6.35	58.88	56.55	3.00	29.72	18.37
Mean	42.04	20.78	25.82	6.35	59.82	56.62	3.00	30.35	18.39
December									
Highest	42.11	20.83	25.81	6.36	60.31	56.70	3.00	30.52	18.43
Lowest	40.41	20.79	25.23	6.29	58.49	56.50	2.99	29.29	18.40
Mean	41.42	20.81	25.52	6.34	59.50	56.61	3.00	30.03	18.41
Year									
Highest	50.60	20.83	28.25	6.68	73.01	62.65	3.01	36.25	18.43
Lowest	40.41	20.30	24.72	6.29	58.49	56.35	2.96	29.29	18.03
Mean	44.66	20.58	26.57	6.44	65.48	59.80	3.00	32.13	18.25
Year (1st January to 3rd April)									
Highest	50.60	20.48	27.13	6.68	73.01	62.65	3.01	36.25	18.18
Lowest	45.19	20.42	24.72	6.65	65.19	61.85	2.99	31.66	18.10
Mean	48.12	20.46	25.64	6.66	69.29	62.01	3.00	34.26	18.13
Year (7th April to 1st August)									
Highest	49.02	20.71	28.25	6.41	71.31	62.22	3.01	35.32	18.38
Lowest	43.12	20.30	25.96	6.37	64.33	61.21	2.96	31.24	18.03
Mean	45.33	20.46	27.26	6.40	68.41	61.90	2.98	32.79	18.16
Year (4th August to 31st December)									
Highest	43.53	20.83	28.07	6.38	64.70	57.63	3.01	31.50	18.43
Lowest	40.41	20.69	25.23	6.29	58.49	56.35	2.99	29.29	18.33
Mean	41.99	20.75	26.61	6.34	60.83	56.80	3.00	30.30	18.38

Royal Decree of 7th April 1986 approving amendments made to the Statutes of
the National Bank of Belgium

(Moniteur Belge of 7th May 1986)

BAUDOUIN, King of the Belgians,

To all, present and come, greetings,

Considering Royal Decree N° 29 of 24th August 1939 concerning the activity, organisation and functions of the National Bank of Belgium, issued pursuant to the law of 1st May 1939, confirmed and amended by the law of 16th June 1947 and amended by the laws of 28th July 1948, 12th April 1957 and 19th June 1959, by Royal Decree N° 42 of 4th October 1967, issued pursuant to the law of 31st March 1967, and by the laws of 9th June 1969 and 11th April 1975, especially Article 35.

Considering Article 92 of the Statutes of the National Bank of Belgium, approved by the Regent's Decree of 13th September 1948;

Considering the drawing-up of an authentic record dated 24th February 1986 made by Jacques Possoz, Notary, at Brussels, of an Extraordinary General Meeting of Shareholders of the National Bank of Belgium, limited company, making amendments to the Company's Statutes;

On the proposal of our Minister of Finance,

We have ordered and do order the following :

Article 1. The following amendments to the Statutes of the National Bank of Belgium, adopted by the Extraordinary General Meeting of Shareholders of 24th February 1986, are approved :

1° The text of the second paragraph of Article 1 is replaced by the following text :

« It has its head office at Brussels, boulevard de Berlaimont N° 5 ».

2° The text of the first paragraph of Article 6 is replaced by the following text :

« The subscribed share capital is four hundred million francs, divided into four hundred thousand shares of one thousand francs each, of which two hundred thousand, registered and untransferable, are subscribed by the Belgian State, and two hundred thousand are registered or bearer shares. The share capital is fully paid up ».

3° The text of Article 58 is replaced by the following text :

« During the month after they take office, the Governor must furnish evidence of ownership of 50 registered shares and each of the directors of 25 registered shares.

They may not dispose of or pledge these shares before the expiry of their period of office ».

4° The text of the third and fourth paragraphs of Article 80 is replaced by the following text :

« Except corporate bodies and without prejudice to the rules of legal representation, a shareholder may only have himself represented by a proxy who is himself entitled to vote ».

5° The text of the first paragraph of Article 83 is replaced by the following text :

« The Ordinary General Meeting shall meet in Brussels on the last Monday of February at 11 a.m. »

6° The text of the first paragraph of Article 85 is replaced by the following text :

« The notices convening a General Meeting shall contain the agenda and shall be given by advertisements inserted :

a) at least eight days before the meeting, in the *Moniteur Belge* ;

b) twice, at an interval of at least eight days and the second at least eight days before the meeting, in two press publications with a national circulation and in two Brussels press publications. »

Art. 2. This Decree shall enter into force on the day of its publication in the *Moniteur Belge*.

Art. 3. Our Minister of Finance is charged with the execution of this Decree.

Given at Brussels, 7th April 1986.

BAUDOUIN

By the King :
The Minister of Finance,
M. EYSKENS

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

Agricultural Fund	Fonds Agricole
Agricultural Investment Fund	Fonds d'investissement agricole
Antwerp Port Administration	Administration du Port d'Anvers
Asian Development Bank	Banque Asiatique de Développement
Assistance Fund for the Financial Recovery of Municipalities	Fonds d'aide au redressement financier des communes
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
Belgian Trade Federation of Producers and Distributors of Electricity	Fédération Professionnelle des Producteurs et Distributeurs d'Electricité de Belgique
Benelux Economic Union	Union Economique Benelux
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)
Building Industry Subsistence Fund	Fonds de sécurité d'existence de la construction
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 Com- munautés 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 (E.M.C.F.)	Fonds européen de coopération monétaire (FECOM)
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 (précédemment Fédération des Industries Belges)
Federation of Chemical Industries	Fédération des Industries chimiques
Federation of Enterprises in the Metal Manufacturing Industries	Fédération des entreprises de l'industrie des fabrications métalliques
Franco-Belgian Nuclear Energy Company of the Ardennes	Société Franco-Belge d'Energie Nucléaire des Ardennes
Fund for the Financial Balancing of the Social Security System	Fonds pour l'équilibre financier de la Sécurité Sociale
General Agreement on Tariffs and Trade (G.A.T.T.)	Accord Général sur les Tarifs douaniers et le Commerce (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 statistique 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 Fund for Agricultural Development	Fonds International de Développement agricole
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 the Civil Service	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 Dueroire

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 Housing Fund	Fonds National du Logement
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 Organisation Européenne de Coopération Economique (O.E.C.E.)]
Organisation of Petroleum Exporting Countries	Organisation des pays exportateurs de pétrole
Overseas Social Security Office	Office de Sécurité Sociale d'Outre-Mer
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 Deposit and Clearing Office of the Financial Sector	Caisse interprofessionnelle de Dépôts et de Virements de Titres
Securities Regulation Fund	Fonds des Rentes
Short-term Economic Policy Committee (of the European Communities)	Comité de politique conjoncturelle (des Communautés Européennes)
Social Programming Agreement	Accord de programmation sociale
Solidarity Fund for Financing Early- Retirement Pensions	Fonds de solidarité de financement de la pré-pension
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
Subsistence Funds	Fonds de sécurité d'existence
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

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