

**NATIONAL
BANK
OF BELGIUM**

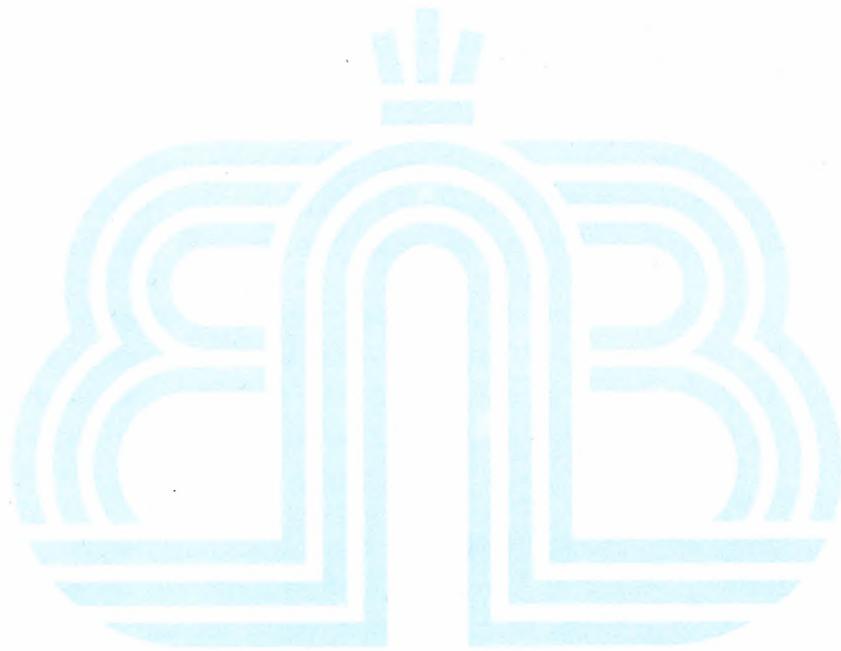
**REPORT
1989**



NATIONAL BANK OF BELGIUM

Limited Company
Brussels Trade Register No. 22,300

Head Office :
boulevard de Berlaimont 5 – 1000 Brussels



REPORT 1989

presented to the General Meeting on 26th February 1990

Report
presented by the Governor
in the name
of the Board

General economic developments

1990

The economy of the Republic of the Congo has been in a state of stagnation since the early 1980s. The country's economic growth has been negative for several years, and the country is facing a severe economic crisis. The government has implemented various measures to address the crisis, but the situation remains dire.

The main cause of the economic crisis is the decline in the price of oil, which is the country's main export. This has led to a sharp decline in government revenue and a massive foreign debt. The government has had to resort to borrowing from international organizations and other countries to meet its obligations. The population is suffering from high unemployment and poverty, and the social situation is deteriorating.

The government has implemented a series of reforms to address the crisis, including the privatization of state-owned enterprises and the liberalization of the economy. However, these reforms have not yet had a significant impact on the economy, and the crisis continues to deepen.

**Report
presented by the Governor
in the name
of the Council of Regency**

General economic developments

International environment

The expansionary phase of economic activity in the industrialised countries which began in 1982 continued in 1989; the growth remained strong and was hardly any slower than the previous year's exceptionally rapid upsurge.

In North America, especially the United States, there was a marked slowdown in response to the authorities' concern to ease the excessive pressure on the production apparatus and reduce the deficit on the balance of current transactions. In Japan, too, the growth slackened somewhat, while remaining more vigorous than in the other industrialised countries. The economic dynamism of the European Economic Community, on the other hand, remained intact: the quickening of growth in the Federal Republic of Germany and in some of its neighbouring countries more than counterbalanced the slowing-down in certain other economies where the growth had been particularly strong in 1988.

Employment increased nearly as much as in 1988. In the United States and Japan its expansion enabled the increase in the labour force to be absorbed, while in the Community it was reflected in a significant reduction in unemployment, although this was still a good deal higher than in the rest of the industrialised world.

The continued rapid economic growth prompted wage increases in most of the industrialised countries, while the productivity gains became smaller; labour costs therefore rose more than in 1988. The inflationary pressure was also accentuated by the considerable rises in the prices of basic materials, more specifically energy, by the appreciation of the dollar and by the raising of indirect taxes in several industrialised countries, such as Japan, the Federal Republic of Germany, Italy and Belgium.

The danger of a resurgence of inflation, which had already become apparent in 1988, remained the chief guiding factor for the framing of monetary policy.

The upward movement of short-term interest rates continued during the first months of 1989 almost everywhere, except in Japan. Subsequently the movements were more divergent. The restrictive policy of the Federal Reserve had begun to bear fruit in the form of a slowing-down of economic growth and a moderation of the inflationary pressure, which allowed it to be gradually made more flexible from the second quarter onwards. The Bundesbank, on the other hand, continued to tighten its policy, especially in September and October, owing to the inflationary

dangers connected with the greater pressure of demand on the production apparatus and the decline in the external value of the German mark. In the other European countries monetary policy was also definitely restrictive, whether employed as the preferred instrument in the battle against specific internal imbalances — especially in the United Kingdom, Italy or Spain — or in response to the impulses initiated by the German authorities, as was the case in the other countries participating in the exchange rate mechanism of the European Monetary System. In Japan, lastly, the tightening of monetary policy began later than in Europe, but was also perceptible from May onwards.

The substantial progress made in 1988 in remedying the international disequilibria in the balances of current transactions continued to some extent in 1989. The reduction in the Japanese surplus was larger than in the previous year. The deficit of the United States, on the other hand, was only marginally reduced, partly because of the increase in the net interest burden on the American economy. In Europe, lastly, a further contraction in the surplus of the Community brought it closer to equilibrium in current transactions. Within the Community, however, the imbalances became more marked; the already substantial surplus of the Federal Republic of Germany became even larger, especially in relation to the European countries whose external position deteriorated further, namely the United Kingdom, Spain and Italy.

These divergences on the plane of current transactions were hardly reflected in the movement of exchange rates.

The rate for the dollar, supported by substantial inflows of private capital, took a definitely upward course in the first half of the year. Conversely, as a result of corresponding capital outflows, the yen and the mark, despite a reduction in the interest rate differential compared with the dollar, came under downward pressures. Also, within the European Monetary System, the mark weakened vis-à-vis the currencies which participate in the exchange rate mechanism with widened fluctuation margins — the Italian lira and, from 19th June 1989 onwards, the Spanish peseta. Both attracted a very substantial capital inflow, thanks to their high interest rate level and perhaps also to the confidence in the maintenance of the exchange rate stability which the EMS currencies had displayed since the realignment of parities in January 1987.

These various developments completely reversed in the last quarter. Owing to the interventions by the central banks, the events in Eastern Europe and, above all, the virtual disappearance of the interest rate differential between the dollar and the mark, the exchange rate for the latter recovered sharply, so that around the end of the year it was at a higher level against the dollar than it had been at the end of 1988. This firmness gave rise to strains within the European Monetary System, which were aggravated by persistent rumours about a possible realignment of the central rates. On 5th January 1990 the Italian authorities decided to re-

duce the margin of fluctuation of their currency within the exchange rate mechanism of the European Monetary System to 2.25 p.c. At the same time the central rate for the Italian lira was adjusted downwards to the extent — around 3.7 p.c. — necessary in order to comply with the margins of deviation thus narrowed, without changing the lower intervention limits.

*International
co-operation*

As in 1988, the continued vigorous growth in the industrialised countries contributed to a certain easing of the debt crisis in the developing countries. Furthermore, the plan put forward in March 1989 by the American Secretary of the Treasury, Mr Brady, gave a new orientation to the debt strategy. The emphasis in it was placed more on a negotiated reduction of the amount or the service of the debt, complementary to further credit-granting.

In this connection the International Monetary Fund formulated, in May 1989, the guiding principles which will govern its financial support for the agreements incorporating such reductions. They include the implementation, in the debtor countries, of structural adjustment programmes centred, particularly, on stimulating saving, investment and the repatriation of exported capital.

The spectacular efforts towards political and economic reform made in the Eastern European countries also opened up a new potential field for international co-operation.

This co-operation, whether emanating from individual western countries or from international organisations, will be essential for facilitating the difficult transition of these countries from a system of centralised planning to a socially tempered market economy. The European Economic Community, for its part, ought to be able to play a propelling role, commensurate with the importance of what is at stake.

The task is immense and delicate, but its success can only bring advantages, both for the Eastern European countries and for economic developments all over the world, and specifically in Western Europe itself.

*The Belgian
economy*

As in 1988, the course of the Belgian economy was determined by favourable international conditions and by its ability to respond positively to them.

The shifting of economic dynamism to Europe and particularly to the Federal Republic of Germany, Belgium's most important trading partner, resulted for the country — despite the less rapid expansion in world trade — in just as large an increase in export possibilities as in 1988. Exports of goods and services took full advantage of this, rising by around 8 p.c., a rate close to that achieved in the previous year.

In addition to this support from abroad, the economy received an additional stimulus from domestic expenditure, which rose by 5 p.c., against 4.3 p.c. in 1988. It was sustained, as in 1988, by the exceptional

strength of investment — in housing by individuals and in fixed capital by enterprises — but also by the larger increase in the expenditure of households on consumption, encouraged by the sharp increase in their disposable income. This increase in final demand naturally influenced the movement of imports, which, however, in the end expanded only slightly more than exports, so that the negative contribution of net exports to growth was limited to about 0.8 p.c.

If, lastly, account is also taken of an improvement in net factor incomes, the gross national product would appear to have grown by 4.5 p.c., that is, slightly more than the 4.2 p.c. recorded in 1988. This growth rate was again one of the fastest in the industrialised countries and once more exceeded the average for the countries of the Community, which amounted to 3.6 p.c.

Part of the leeway in growth recorded at the beginning of the 1980s was thus caught up and the investment rate of enterprises is now only about 0.4 p.c. of the gross national product short of reaching the level prevailing in the economies of the Community as a whole.

These positive developments furthermore took place without any worsening of the balance of transactions with foreign countries; indeed, the Belgian-Luxembourg Economic Union's current surplus would appear to have increased by around Fr. 20 billion, to Fr. 150 billion, as a result of a substantial rise in net interest income and a slight improvement in the balance of trade. As the terms of trade remained unchanged, this reflects a satisfactory development of the competitiveness, in the broad sense, of Belgian and Luxembourg producers.

Parallel with the maintenance of a high growth rate, a considerable number of jobs were again created in 1989. This was solely attributable to enterprises, with 46,000 new jobs, of which 5,000 were in industry, where there had been no increase in the number of employees for many years.

In view of the smallness of the growth in the labour force, this led to a decrease in unemployment of about 40,000 units. The unemployment rate was thus appreciably reduced; at the end of the year its level was only just above the European average.

While the Belgian economy did succeed, in 1989, in taking the best possible advantage of the European growth climate, it was no longer able to escape the inflationary impulses from abroad. The price rise speeded up appreciably, chiefly owing to the considerable increase in the prices of imported products, especially energy products. This brought an end to a three-year period during which the falls in the prices of these products had greatly contributed to slowing down the rate of inflation. Consumer prices were furthermore affected by the increases in the excise duties on certain petroleum products, tobacco and alcohol, introduced as compensatory financing of the reform in personal taxation. Lastly, the movement of other

domestic costs was perhaps less favourable than during the preceding years; more specifically, unit labour costs showed a — partly induced — rise which, although moderate, nevertheless contrasted with their decline in 1988. The annual average rise in consumer prices thus reached 3.1 p.c., against only 1.2 p.c. in 1988. Compared with the European average this is still a very reasonable percentage; but that does not alter the fact that this speeding-up is still very considerable, reflecting a certain deterioration in comparison with the country's main trading partners and calling for increased vigilance on the part of the authorities.

Under the influence of these faster price rises, with real growth also remaining vigorous, the rate of increase of the gross national product at current prices quickened considerably, to 8.5 p.c.

The balance to be financed by general government as a whole, for its part, contracted somewhat during the year under review; it actually decreased by over 0.5 of a percentage point in relation to the gross national product and its ratio to the latter thus declined to below the nominal rate of growth of the economy. This decrease is of course a further step in the structural process of reform of the public finances which has been in progress for a number of years. For the first time since 1974 the ratio between the public debt and the gross national product decreased, which also means that the self-fuelling process of the growth in the public debt — the « snowball effect » — was halted in 1989, considerably earlier than had been generally hoped.

This result is attributable, on the one hand, to the rather strict control exercised over all categories of public expenditure except interest charges and, on the other hand, to the high level of nominal economic growth in 1989.

The budget target fixed for 1989 by the Government Agreement of May 1988, namely a reduction of the net balance to be financed by the Treasury to 7 p.c. of the gross national product, was thus achieved, in spite of the increase in interest charges due to the rise in short-term rates and the unexpectedly slight effects of the boom on the yield of corporation tax and of certain categories of direct taxes on individuals.

Monetary policy

*Monetary policy
in 1989*

Perhaps even more than in the past, monetary policy in Belgium in 1989 was attuned to developments taking place outside the national economy. In most industrialised countries and particularly in Europe, the monetary instruments were employed, following on from the measures taken in 1988, in the battle against inflation. The experience of the 1970s and the beginning of the 1980s had in fact amply demonstrated how greatly the propagation of inflation fundamentally impairs the economy's ability to maintain steady and balanced growth and how difficult and

expensive it therefore is to eradicate inflation once it has become ingrained in the behaviour of economic agents. Moreover, the regulation of the trend of economic activity is based almost exclusively on monetary policy, for two reasons. Firstly, budgetary policy has gradually lost its anti-cyclical role and has been increasingly directed towards the achievement of medium-term structural aims; secondly, there is fairly widespread scepticism about the ultimate effectiveness of any policy which intervenes more or less directly in the formation of costs and prices.

The Belgian authorities do of course fully share the general anxiety to curb the quickening of the price rises. They have, however, for their part, considered that they cannot confine their action against inflation to monetary policy alone, but must be able to resort to a more diversified range of instruments. In this connection it may be noted that one of the traditional channels through which the process of transmission of inflation can be affected by the monetary authorities in a large number of countries, especially the Federal Republic of Germany, is irrelevant in Belgium. This is the influence which can be exerted by the signals of monetary policy on expectations regarding inflation. Because these expectations do play an essential role when wage negotiations — for a shorter or longer period — involve the need to determine the future course of nominal incomes, that is, not only the movement of real incomes but also the degree of protection which should be afforded to them against erosion by the expected level of inflation. In Belgium, expectations about the movement of prices are of little importance in this connection, because wage negotiations are concerned solely with the development of real wages.

Furthermore, the Belgian authorities have for some years had the possibility of influencing the formation of incomes and costs directly if they clearly get out of hand in comparison with the average movement recorded in our country's main trading partners. It should be realised that observance of the criteria for safeguarding competitiveness is of vital importance for a small and very open economy. This is at present regulated by the law of 6th January 1989. The still provisional figures show that competitiveness, in the broad sense of the word, was maintained in 1989, whether it be assessed on the basis of the movement of export market shares, costs, and especially labour costs, or the level of investment.

The panoply of instruments of economic policy available for combating inflation is thus more extensive in Belgium than in most of the industrialised countries and the authorities are therefore less exclusively dependent on monetary measures. Furthermore, decisions of monetary policy have a much more radical budgetary effect than elsewhere. Owing to the exceptional size of the public debt and especially of the short-term part of the debt, public expenditure in this country is in fact particularly sensitive to movements of interest rates. There is therefore a danger that a rise in the latter may partly thwart the efforts to reduce general government's financing requirement, another priority aim of economic policy.

In this context the emphasis is placed, in the framing of monetary policy, not only on the vital importance of ensuring that the national currency maintains, in relation to the currencies of the European Monetary System, a position appropriate to an economy which has regained its competitiveness, but also on the desirability of gradually narrowing the short-term interest rate differential between the Belgian franc and the mark. This narrowing was possible, de facto, thanks to the improvement in the fundamental performance of the Belgian economy and to the markets' perception of that recovery.

Thus the pressure exerted from abroad on the course of interest rates in Belgium eased somewhat : the differential between Belgian and German interest rates was reduced over the year as a whole to an average of 1.7 p.c., against 2.5 p.c. the previous year; during the last weeks of 1989, however, this differential was almost as large as it had been twelve months earlier.

Nevertheless, the Belgian authorities were obliged to pass on the greater part of the rises in interest rates derived from abroad, chiefly from the Federal Republic of Germany. As in the recent past, the Bank regulated money market rates as a whole mainly by changing the interest rate on Treasury certificates; an initial and considerable upward impulse to interest rates was given at the beginning of the year, when the rate for three-month Treasury certificates was raised from 7.50 to 8.40 p.c. at the end of February. Subsequent changes in interest rates were only small, and at the beginning of September the rate on these certificates was 8.55 p.c. These developments were confirmed by increases in the Bank's official rates : the discount rate was raised, step by step, from 7.75 p.c. at the end of 1988 to 9.25 p.c. at the end of June, and the rate for ordinary advances was put up during the same period from 8 to 9.50 p.c.

Until September the pursuit of monetary policy was facilitated by the exchange rate stability within the European Monetary System, perhaps partly reflecting the relative weakness of the mark. Furthermore, the development of the Belgian-Luxembourg Economic Union's payments with foreign countries was favourable. The widening of the current surplus together with the expansion of short-term capital inflows more than counterbalanced the net capital outflows due to transactions over which the monetary authorities have little control and which reflect the attractiveness of foreign securities for residents coupled with the generally limited interest of foreigners in Belgian securities.

For the first nine months, the balance of official payments closed with a net surplus of Fr. 12 billion, which made it possible to stabilise general government's foreign debt and to increase the Bank's gold and foreign exchange reserves by the same amount. The composition of these reserves was, however, considerably changed during this period, since, at the beginning of the year, the Bank carried out arbitrages of gold against foreign currencies, which enabled it to reduce the proportion of gold in

the total reserves, which has been particularly high in Belgium, to a level more comparable to that in the country's main trading partners. In accordance with the provisions of Article 20bis of the Organic Law of the Bank, the gains obtained in this connection were entered in an unavailable special reserve account. This arbitrage of non-interest-bearing foreign assets against claims which do produce a yield enabled the portfolio income of the economy as a whole to be increased by about Fr. 4 billion, which, insofar as it was the counterpart to the above-mentioned increase in value, was transferred to the Treasury, likewise in accordance with the Organic Law.

At the beginning of the autumn the situation changed radically owing to the recovery of the mark against the dollar and to the appearance, within the European Monetary System, of strains which were furthermore accentuated by the Bundesbank's repeatedly stated desire that the exchange rates for the currencies which do not participate in the system with the reduced fluctuation margin of 2.25 p.c. should be a truer reflection of the real economic relationships between the partners.

The Bank was obliged, from then onwards, not only to pass on the whole of the sharp interest rate rises which had been brought about by the German authorities in order to strengthen the external position of their currency, but also actually to widen again the interest rate differential between short-term investments in francs and in marks. The rate for three-month Treasury certificates was therefore substantially raised, in a number of stages, finally reaching 10.25 p.c. at the end of the year, while already in October the discount rate had been put up to 10.25 p.c. and the rate on ordinary advances to 10.75 p.c.

Despite these measures, pressures developed on the foreign exchange market in favour of the mark, and these were in fact felt, albeit in varying degrees, by all the European currencies. There was furthermore a very considerable worsening of the deficit in respect of the — mainly short-term — private capital transactions of the Belgian-Luxembourg Economic Union, so that the balance of official transactions became negative to the extent of about Fr. 70 billion during the last quarter of the year; this had as its counterpart the contracting of supplementary foreign currency loans by general government.

These developments confirm what has been repeatedly shown by experience in the past : although the intervention of the monetary authorities to influence the course of short-term interest rates is necessary when serious strains arise, this action is rarely sufficient to restore adequate equilibrium in the foreign exchange market within a short time. In these cases recourse has to be had, as in 1989, to interventions on the market and to more extensive use of the possible fluctuation of the national currency within the margins permitted by the European Monetary System.

The disturbances which occurred in that system at the end of the year undoubtedly made the monetary authorities' task more difficult; even so,

the priority aim — that of maintaining stability of the exchange rate for the franc against the currencies of the countries participating in the exchange rate mechanism of the European Monetary System — was achieved throughout the year, and the fundamental soundness of the national currency in 1989 was also very clearly confirmed by the movement of the most important basic economic indicators.

*Progress in
building Europe*

In 1989 the European Economic Community made institutional progress in the fields of freedom of establishment and free rendering of banking services. The Council thus adopted, in April, the directive which harmonises the definition of the equity capital of credit institutions. This was followed in December by the directive which, on the basis of this definition, prescribes their solvency ratio. The Council also adopted the second co-ordination directive concerning access to the activities of these institutions, which allows each of them to offer its services throughout the Community on the basis of an approval obtained in just one of the Member States.

Some Member States — including France and Italy — furthermore made substantial progress towards complete liberalisation of capital transactions, which will in any case have been achieved in the majority of these countries by 1st July 1990 in accordance with the directive of 28th June 1988. When this directive was adopted, the Belgian and Luxembourg authorities agreed to abolish the system of the two-tier foreign exchange market by 31st December 1992 at the latest. In 1989 the interest rate differential between the two markets narrowed; in the last months of the year it was actually negligible, which will enable the system to be abolished before that date.

The prospect of a more open and more competitive European financial market is thus gradually coming nearer, side by side with a growing concern to make the necessary adjustments in the financial markets and in financial services in Belgium.

The desirable adjustments relate primarily to the financial institutions, and particularly the public credit institutions. On the basis of the solutions recommended by the report of the experts commissioned by it, the Government is planning to arm these credit institutions against this new European environment by regrouping them around two poles and harmonising their conditions of competition with those of the private-sector financial institutions. Like the latter, they would all be under the supervision of the Banking Commission.

The Minister of Finance continued his efforts to modernise the Brussels stock market in order to increase its competitiveness and attractiveness. Since January 1989 the settlement market, thanks to an electronic system, has gradually become continuous. An important bill concerning financial transactions and the financial markets has also been prepared; it provides, in particular, for the step-by-step abolition of the monopoly of brokers and their replacement by stock exchange firms, a revision of

brokers' fees, raising of the threshold for dealings outside the stock exchange and the possibility of creating new organised markets. At the same time the regulatory framework is also to be changed, more specifically by the transformation of the Banking Commission into the Banking and Financial Commission, on which the Bank will be represented ex officio.

These adjustments should be viewed in the light of the Belgian Government's thinking about the need for a more fundamental reform of the financial markets.

This thinking is inspired by the striking contrast which has been repeatedly observable in the past, and again in 1989, between, on the one hand, the growing attraction exerted on residents by foreign currency investments abroad, especially in the form of purchases of securities, and, on the other hand, the rather limited interest displayed by foreigners in investments in Belgian francs. The persistence of this situation would be a threat to the fundamental development of the overall balance of payments. Action must therefore be taken without delay, especially in order to enable the Belgian economy to benefit by the desire for diversification of financial assets, which will become even stronger in Europe as progress is made in the liberalisation of capital movements.

Two specific fields call for attention in this connection : the tax system and the inadequate supply of financial instruments in Belgium.

It is in fact becoming increasingly apparent that, among the underlying reasons for the behaviour of residents with regard to foreign securities, a very important role is being increasingly played by the desire to obtain a high net yield. In the absence of any progress in the field of harmonisation of the tax treatment of savings at European level, a revision of national taxation on income from savings is urgently necessary; the Government has therefore proposed to Parliament that the withholding tax on income from financial assets should be reduced from 25 to 10 p.c.

With regard to non-residents, their relatively slight interest in investment in francs is probably due to the narrowness of the range of accessible securities and also perhaps to the obstacles connected with the organisation of a number of financial markets. The efforts made to bring about a considerable improvement in the operation of the stock market acquire their full importance in this context, as does also the launching, in 1989, of « linear bonds », an important innovation in the management of the public debt which is also aimed at making investments in government securities more attractive for foreigners.

The authorities' efforts to arrive at a better organisation of the financial markets, to make them more comparable to those abroad and more open to all investors will not, however, acquire their full significance unless they apply to all segments of these markets, especially the very important market for short-term public debt securities.

At present the holding of Treasury certificates is strictly confined to Belgian financial institutions, including insurance companies, and Luxembourg banks. Participation by other foreign investors is therefore impossible; in view of the characteristics of the present market organisation, it would probably not be very substantial in any case.

There is thus a need for a fundamental reform of the way in which Treasury certificates are issued, in order considerably to increase access to them and also make them more attractive. A contribution towards this could be made by more competitive periodical allocations on the primary market and by stimulation of a more active secondary market. Such a reform could strengthen the external position of the franc and furthermore enable the Treasury's short-term financing costs to be reduced. Because the rate for Treasury certificates will probably become lower in Belgium — and no longer higher as at present — than the other money market rates, such as those for interbank deposits, for the Euro-franc or for very large deposits. Such a rate structure does in fact practically always develop in countries where general government — as the primary borrower — issues short-term securities for which there is an adequate secondary market, insofar as they encourage keen competition between subscribers.

A change in the issuing of Treasury certificates in this direction necessarily calls for rethinking of the way in which monetary policy is pursued in Belgium.

An adjustment of monetary policy is furthermore all the more essential because the Economic and Monetary Union in Europe is now beginning to take shape. In this connection an important step was taken with the presentation, to the meeting of the European Council in Madrid in June 1989, of the report drawn up by the « Committee for the Study of Economic and Monetary Union », under the chairmanship of Mr Jacques Delors, President of the European Commission. This document proposes a process intended to lead, in three stages, to the Economic and Monetary Union. In its final stage this union would imply the irrevocable fixing of the parities and, as quickly as possible after that, the change-over to a single currency unit. It would require a common monetary policy, which would be pursued by a new Community institution, the « European System of Central Banks », and also a co-ordination of macroeconomic policies, based on, among other things, compliance with binding rules in the budgetary field.

The Madrid European Council considered that the report was a suitable working basis and also decided that the first phase provided for in the document should start in July 1990. The competent authorities were requested to take the necessary measures for this purpose and to embark on the preparatory work for the intergovernmental conference which is to draw up the programme for the subsequent phases and prepare the revision of the Treaty which they will necessitate. In December 1989 the

Strasbourg European Council found that there was a sufficient majority for convening this conference and decided that it should take place before the end of 1990.

The first phase was to primarily comprise, in addition to the completion of the internal market and the planned development of structural and regional policy, a strengthening of the European Monetary System through the accession of all the currencies of the Community to the exchange rate mechanism on the basis of uniform rules and also a closer attuning of national economic performances, especially by greater co-ordination of monetary and budgetary policy. Progress has already been made; at its meeting on 13th November the Council of Ministers for Economic Affairs and Finance reached agreement on two proposals for decisions. The first proposal, intended to replace a decision of 1974, concerns the gradual achievement of convergence of economic policies and economic performance and stipulates that the Council shall establish a multilateral supervision covering all aspects of both short-term and long-term economic policy. The second proposal, which amends the decision of 1964 concerning co-operation between the central banks of the Member States, aims at strengthening co-ordination of monetary policy through an intensification of co-operation between these institutions, with the key role being played by the Committee of Governors, whose task is confirmed and adjusted. In this context the Governors of the central banks have already agreed to extend the period of office of the Chairman of the Committee from one to three years and also to reinforce the structure and operation of the Committee by setting up a research group.

It is not yet possible at the moment to define fully just what the co-ordination of monetary policy is to entail. But already, following on from the recommendations formulated in the « Delors Report », a consensus on certain essential principles has gradually developed within the various competent bodies of the Community. There will no longer be any place for certain « authoritarian » types of intervention in market mechanisms : the discretionary fixing of certain interest rates or the imposing of obligations on financial institutions to invest a certain amount or percentage of their operating funds in public securities, which indirectly amounts to compulsory financing of general government. In particular, direct access by general government to credit from the central bank must be strictly limited in all the Member States. All this requires an adjustment of the present Belgian instruments of monetary policy, since these have the ultimate effect of passing on all overall movements which occur on the money market to the financing of the Treasury by the Bank.

*Instruments of
monetary policy*

Up to the present the pursuit of interest rate policy has in fact remained centred on the adjustment of the rate for Treasury certificates, the effectiveness of this instrument being based on the interaction between various factors which result from an organisation of the money market which is completely peculiar to Belgium.

Short-term Treasury certificates are issued primarily on tap; for the financial institutions they represent a constantly available, almost unlimited possibility of investment, and the monetary authorities can adjust the interest rate for these at any time.

Furthermore, the extent of the public debt and the preference of the financial institutions for short-term investment instruments — a preference which is often promoted by a flattened-out or even reversed yield curve — have made the Treasury certificate the money market instrument par excellence. They have contributed to bringing about the remarkable increase in the portfolio of certificates held by these institutions. Thanks to the extent of their portfolios and the spread of the maturity dates, the financial institutions are therefore able, without having to resort to direct credits from the central bank, to meet practically all their day-to-day liquidity requirements by appropriate management of these portfolios. They thus determine, completely autonomously, how much maturing paper is not to be renewed or how much additional paper is to be subscribed for. They are in fact induced to do this by cost considerations; for several years — and also in 1989 — the Bank has been fixing official scales which are systematically above the rate on Treasury certificates. As in a number of industrialised countries, these scales have thus lost most of their actual importance and have become primarily standard rates indicative of the major orientations of monetary policy.

In such a framework the overall contractions or expansions of liquidity are always automatically and almost fully passed on to the Treasury. The money market's recourse to the Bank, as the lender of last resort, therefore almost exclusively takes the form either of direct or indirect credits in francs to the Treasury or of sales to the Bank of foreign currencies borrowed by the State. Both are generally interpreted as monetary financing of the Treasury.

Via the mechanism described above and because of the competition between the financial institutions in attracting resources, making investments or lending, the authorities can be sure that changes in the interest rate on Treasury certificates will be passed on almost immediately and fully to the other money market rates.

The way in which monetary policy is pursued in Belgium is thus undeniably effective, at least as regards the fixing of short-term interest rates. It is also very specific in nature and displays a number of characteristics which are not to be found in the other industrialised countries. Some of these became clearly evident in 1989.

The first characteristic is that Belgian monetary policy is almost entirely based on the handling of a single instrument which necessitates a discretionary and public decision for each — even slight — change in interest rates. Most other central banks, on the other hand, employ a set of instruments and techniques which make it possible to intervene on the money market in a much more delicate manner. Thanks to this diversity,

these banks, depending on the circumstances, can sometimes place the emphasis more on the instruments which are designed to give clear signals about the orientation of their policy and sometimes resort to those which bring about a fine adjustment of the money markets which is much more subtle but none the less effective. In 1989 the Belgian monetary authorities reacted to the movements of interest rates abroad by numerous « official » adjustments, sometimes in rapid succession, of the interest rate for Treasury certificates. This may have given certain observers the wrong impression of a certain hesitation.

The second characteristic is due to the fact that the instrument which is used in Belgium for the discretionary fixing of interest rates is also an important component of an extremely large public debt. Every decision about interest rates thus has an immediate and measurable effect on public expenditure. The result is a mixing, in a single instrument, of divergent interests, which certainly do not make it any easier to arrive at a clear delimitation of the respective tasks and responsibilities of monetary and budgetary policy.

In future, Belgian monetary policy will have to be designed against the background not only of the progressive integration of the European financial and monetary area but also of the already-mentioned need to adjust the method of issuing Treasury certificates. It is in fact necessary to promote the desirable changes in the organisation of the financial markets and bring about the required attuning of the monetary instruments to the more sophisticated techniques employed in the main European partner countries.

Such a reform will necessitate not only a technical adjustment of the instruments of monetary policy but also a more general reshaping of the context in which this policy is to be pursued.

The basic principles of this reform are already evident in broad outline; they have three main lines, namely the organisation of the market for Treasury certificates, the Bank's instruments of action and access to its lending.

The way in which Treasury certificates are issued will be changed and access to that type of paper will be extended. This reform will be completed by the organising of a secondary market.

In conjunction with this the Bank, in the pursuit of its monetary policy and especially its interest rate policy, will have to resort to a wider range of techniques for intervention on the domestic financial markets in order to be able to influence interest rates both via the volume and composition of its contributions of funds to the money market and by the interest rate conditions on which these are made.

Lastly, the Bank will only be able to be certain of the effectiveness of its interventions on the level of interest rates, which will be ultimately

determined by the interplay of supply and demand, if no participant in the money market is able, automatically or on privileged terms, to have extensive recourse to its lending. This will necessitate a change in the traditional recourse of both the financial intermediaries and the State to the Bank's assistance.

Many technical details will still have to be worked out; they will only be introduced after extensive consultation with the Treasury and the financial intermediaries. Some of these measures will necessitate an adaptation of the legal or regulatory framework. There is a long way still to go, but the monetary authorities clearly intend to proceed without any unnecessary delay.

The Bank has in fact, without thereby abandoning the adjustment of the interest rate on Treasury certificates, already made a first, albeit modest step in the direction outlined. The financial intermediaries were invited to participate, from March 1989 onwards, in weekly allocations by tender of fixed-term advances against the collateral of public paper and of repurchase agreements in respect of commercial bills. These transactions, the present duration of which is 14 days, enabled the Bank to extend its sphere of influence to the shortest segments of the money market, to operate simultaneously on the market for public securities and that for commercial paper, to gain a clearer idea of market expectations and to re-establish contact with the financial institutions by diversifying its channels for intervention on the money market. These were thus less exclusively directed towards the Treasury in 1989; the Bank confirmed this development by two lowerings — from Fr. 160 to 130 billion in July and then to Fr. 110 billion in December — of the ceiling on its special assistance to the Securities Regulation Fund.

Structural problems of the Belgian economy

The course of the main economic magnitudes in Belgium in 1989 confirmed the healthiness of the economy in many respects. These achievements, satisfying though they are, must not be allowed to distract the authorities' attention from the important problems which persist in some fields. Thus, the reduction of unemployment does not mean that the imbalance of the labour market has disappeared, and the cessation of the « snowball effect » cannot serve as a pretext for relaxing the efforts to achieve a fundamental rehabilitation of the public finances.

The persistence of a high level of unemployment, despite vigorous economic growth, is not a phenomenon peculiar to Belgium. It affects most European countries in varying degrees.

In Belgium it does however display specific aspects which are highlighted by the most recent data concerning the labour market.

**Structural
unemployment
problem**

The maintenance of exceptionally vigorous economic growth in 1989 was coupled with a slight slowdown in the creation of jobs, so that, despite the virtual stabilisation of the labour force, the decline in unemployment slowed down. Nevertheless, there was a very sharp growth in unfilled vacancies; during the year under review these reached a level very close to the peak attained in 1970, when the unemployment rate was nearly five times lower. There was therefore a very substantial increase in the difficulties encountered in certain particularly dynamic sectors, especially the building industry, in recruiting skilled labour.

The job-seeking population group is moreover far from homogeneous; the measurable disparities within it are considerable. Geographically, more specifically at district level, it is found that there are at one and the same time areas where male unemployment has practically disappeared, having fallen to around 2 p.c. of the labour force, and areas where it is still close to 20 p.c. The differentiation in the unemployment rate according to sex is likewise very marked: for the country as a whole it averages over 14 p.c. for women and about 6.5 p.c. for men. A similar disparity also exists in the other countries of the Community, but it is less pronounced there; thus the overall unemployment rate in Belgium is close to the Community average, but it is lower in the male population and appreciably higher in the female population. In terms of duration, too, the structure of Belgian unemployment differs from that in the other countries of the Community: in Belgium the number of persons who have been unemployed for less than one year is only 3.4 p.c. of the labour force, i.e. considerably lower than in the other European countries, or even the United States; conversely, the rate of long-term unemployment — especially of women — is much higher in Belgium than in these countries.

These various factors indicate that the supply of and demand for jobs are diverging more and more in Belgium; this appears to be attributable to the insufficient ability of many unemployed persons to meet the requirements of employers in search of skilled workers. This is probably due to inadequate vocational training of a large proportion of the job-seekers and more especially of those — too numerous in Belgium — caught up in the trap of a long-term unemployment, which furthermore tends to become all the more structural the longer it continues.

This state of affairs is socially unacceptable and is liable to be an obstacle to future possibilities of economic growth.

The reinsertion in the labour circuit of the above-mentioned population group, whose chances of obtaining a job spontaneously appear, a priori, to be very limited, must therefore become a major subject of concern for those responsible for the course of the economy. For general government it requires a shift in its — mainly financial — efforts towards vocational training and retraining.

In the near future, however, the most effective solutions should be in the corporate sector; it should be possible for a larger proportion of

unemployment expenditure to be devoted to specific training programmes provided by enterprises themselves for unemployed persons whom they recruit. That should enable these to acquire the necessary skills, which are evolving rapidly, while at the same time speeding up the absorption of the structural part of present unemployment. Such a movement has already begun, and it is to be hoped that it can develop sufficiently in the future.

The results achieved in 1989 in the field of public finances were, as has been seen, as a whole favourable. In particular, the halting, during the year, of the « snowball effect », which had been a matter of major concern to the budgetary authorities in the recent past, is extremely welcome. It nevertheless remains necessary to pursue the efforts to rehabilitate the public finances with unflagging determination.

On the one hand, this halting of the « snowball effect » is not necessarily final. For it partly depends on the movement of certain parameters which change relatively quickly, such as the nominal rate of growth of the national product, which was particularly high in 1989 but which is expected, according to present prospects, to decline gradually in the coming years, and the level of interest rates, which was still upward at the beginning of 1990. The possibility of a reappearance of the « snowball effect » owing to an adverse movement of these parameters therefore cannot be ruled out a priori.

Furthermore, developments in 1989 have thrown light on certain vulnerable aspects of the public finances.

With regard to tax revenue, there has been seen to be a fairly marked reduction in its traditional elasticity in relation to income. This was particularly appreciable in the case of corporation tax, as a result of the various legal possibilities of deduction for tax purposes. Particularly intensive use was made of these in 1989 both as a result of the course of certain economic magnitudes, especially investment, and owing to much more frequent application of existing tax provisions such as the flat-rate refund of foreign taxation or the system of definitively assessed incomes. For its part, revenue from the withholding tax on income from financial assets levied on fixed-interest financial assets actually declined slightly in absolute terms, despite the increase in income from the financial savings of individuals. The latter are in fact devoting a growing proportion of their financial assets to the purchase of securities, especially those of so-called capitalisation SICAVs, to which the 25 p.c. withholding tax is not applicable. This confirms a tendency which has recently been characteristic of financial savings, namely a growing channelling through collective investment undertakings. Annual investment in this form has practically doubled annually in recent years. During the first nine months of the year under review it represented 28 p.c. of the total long-term financial assets formed in the national currency and in foreign currencies, by enterprises and individuals.

These developments raise, for the immediate future, a problem of adjustment of taxation in Belgium, as has already been mentioned in

connection with the withholding tax on income from financial assets; they create, in the longer run, a greater uncertainty concerning the achievement of the budgetary aims.

The great sensitivity of the public finances to external shocks was moreover confirmed in 1989 by the sharp rise in interest charges due to the rise in the interest rates on the short-term public debt and on the long-term debt subject to a variable interest rate.

More fundamentally, various data show that the public finances are still subject to major disequilibria. Although it has proved possible to reduce general government's financing requirements substantially compared with the level which they reached at the beginning of the 1980s, they still amounted in 1989 to around 6.5 p.c. of the gross national product, that is, considerably more than the 2.4 p.c. recorded on average in the European Economic Community.

Even though the financing of the large Belgian deficit is not at present creating any problems to speak of because of the ample — albeit somewhat exceptional — financial savings of enterprises and individuals, this difference from the Community average is still excessively large, especially as the reduction of the deficit in Belgium was partly achieved by a considerable contraction of public investment.

The size of the public debt, which is the result of the choices made in the past and of the previous accumulation of deficits, is even more disquieting; the debt is now much greater than the gross national product and amounts, as a percentage of the latter, to more than double the EEC average.

A fundamental rehabilitation calls for a determined effort to reduce these differences to reasonable proportions; if they remain too large, they will continue to damage the image of the Belgian economy. It will certainly be necessary, in achieving this objective, to take into account the specific features of the national economy, especially the structurally very high rate of financial saving of the private sector, which makes it possible to afford in the long run public deficits which are about 1 p.c. of the national product higher than those of the other European countries. Accordingly, it is also possible to sustain a higher proportion of public borrowing than in the other European countries, although it must be brought down to far below its present relative level.

In view of the extent of the present excesses which have to be corrected, the success of a policy based on such criteria requires undiminished continuance of the efforts entailed. They must be persevered with at all levels: for it is the overall public debt that is the problem and no progress will be achieved if a reduction of the burden of certain debts, particularly those which attract most attention, such as the official debt of the Treasury, merely conceals a shift towards greater borrowing by other sections of government, namely the debudgetised sector, the communities and regions, the local authorities or the social security system.

The rehabilitation must, however, be clearly adjusted to the general economic climate, full advantage being taken of boom periods in order to step up the pace of the reform, whereas this may have to be slowed down when circumstances are less favourable. While it will naturally be a fairly lengthy process, the more vigorous the efforts made are, the shorter the time required will be. Moreover, the total burden will be lighter, the sooner the necessary action is taken.

The task to be performed is heavy and appears unpleasant, but it is the price which has to be paid in order to eradicate the last major imbalance which, in the eyes of too many Belgian or foreign observers, still impedes the harmonious operation of the national economy.

Brussels, 31st January 1990.

Preliminary remarks

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

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

In order to make it possible to describe the development of various important economic data relating to Belgium in the year 1989 as a whole, it was necessary to make estimates, as the statistical material for that year is inevitably still very fragmentary. In the tables and charts these estimates are followed by the sign « e ». They represent mere orders of magnitude intended to demonstrate more clearly the major trends which already seem to be emerging.

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
- * provisional
- e estimate by the Bank

1. INTERNATIONAL ENVIRONMENT

1.1 GROWTH, EMPLOYMENT, PRICES

Economic activity in the industrialised countries

The phase of economic expansion which continued during the year under review is characterised not only by its duration, because it started at the end of 1982, but also by its vigour. For the countries of the OECD as a whole, the growth in GNP in terms of volume actually still reached 3.6 p.c., that is, the average rate for the six preceding years, although it was slightly down compared with the 4.4 p.c. attained in 1988.

This modest slackening took place in Japan and, above all, in the United States and Canada, the respective rates of growth in these countries having declined from 5.7 to 4.8 p.c., from 4.4 to 3 p.c. and from 5 to 2.9 p.c.

The dynamism of economic activity remained undiminished in Europe, the EEC's rate of increase in GNP having been maintained at around 3.5 p.c. Within the Community, however, growth speeded up in some countries, especially the Federal Republic of Germany and some of its neighbours, whereas it slowed down in other countries, particularly the United Kingdom.

Origins of growth

Once again, investment by enterprises represented by far the most dynamic category of expenditure. In many countries its expansion, in terms of volume, was even greater than in the preceding year, having reached, for instance, 11 p.c. in the FRG and 18 p.c. in Japan. This upsurge is due to an improvement

TABLE 1 — EXPENDITURE

(Percentage contributions to growth in GNP¹ at constant prices)

	OECD		United States		Japan		OECD Europe	
	1988	1989	1988	1989	1988	1989	1988	1989
Private consumption	2.3	1.8	2.2	1.8	2.8	1.6	2.0	1.8
Public expenditure	0.3	0.3	0.1	0.5	0.7	0.2	0.4	0.3
Private investment	1.7	1.4	1.1	0.3	4.1	3.9	1.9	1.5
Total domestic expenditure	4.4	3.5	3.4	2.6	7.6	5.7	4.3	3.6
Exports	1.9	1.9	2.1	1.4	1.4	2.5	1.6	2.4
Imports	-1.9	-1.9	-1.0	-1.0	-3.3	-3.3	-2.2	-2.4
External balance .....	...	...	1.1	0.4	-1.9	-0.8	-0.6	...
GNP	4.4	3.6	4.4	3.0	5.7	4.8	3.7	3.5

Source : OECD.

¹ The figures relate to GNP for the United States, Japan, the FRG, Turkey and Ireland and to GDP for the rest of the OECD.

in all the main determinants of investment : since the beginning of the decade the profitability of enterprises has been gradually restored, reaching and even significantly exceeding the still high level of real interest rates ; more recently the strong growth has pushed up the degree of utilisation of production capacities to very high levels, while the prospects for demand have remained very good.

Gross domestic capital formation therefore, as in the preceding year, contributed nearly a half to the growth in GNP.

This contribution was hardly any smaller than that of private consumption, although the weight of the latter in GNP is structurally predominant. This is because, almost everywhere, the current expenditure of households increased more slowly than in the previous year : by 2.9 p.c. for the OECD area as a whole, against 3.7 p.c. in 1988. This slackening was partly due to the quickening of inflation, which, in some countries, had an adverse effect on disposable incomes in real terms ; it was also partly attributable to a certain stepping-up of saving in the United States.

A feature common to most of the industrialised countries was the moderate growth in public expenditure, which remained below that in GNP. This state of affairs reflects the efforts which had been made to put budgets on a sound footing. Altogether, as in the previous year, the contribution of this expenditure to growth was no more than 0.3 p.c.

For the OECD as a whole the greater part of the rise in GNP is attributable to domestic expenditure. While the volume of exports did in fact increase substantially, having been supported by rapid growth in the area itself, by the continued internationalisation of the economies which compose it and by a larger rise in the OPEC countries' imports, demand from the newly industrialised countries in Asia was less lively. In nearly all the OECD countries the rate of increase of exports of goods and services thus exceeded that recorded in 1988, the only major exceptions having been the United States and Canada. But the volume of imports, too, rose sharply, so that the balance of trade in goods and services made only a negligible contribution to growth.

This tendency does, however, conceal widely differing movements. In the United States the rate of increase in imports fell off slightly further and the external balance made a contribution of 0.4 p.c. to a growth of 3 p.c. The converse was observable in Japan and in many European countries, except for the Federal Republic of Germany, whose exports, the amount of which was already at the outset far greater than that of imports, nevertheless rose more than the latter. In that country net exports of goods and services contributed 1.5 p.c. to an overall growth of 4.3 p.c.

The labour market benefited greatly from the expansion in demand. In nearly all the OECD countries the number of persons employed increased once more, and at a rate which was hardly any lower than that of the previous year.

*Employment and
unemployment*

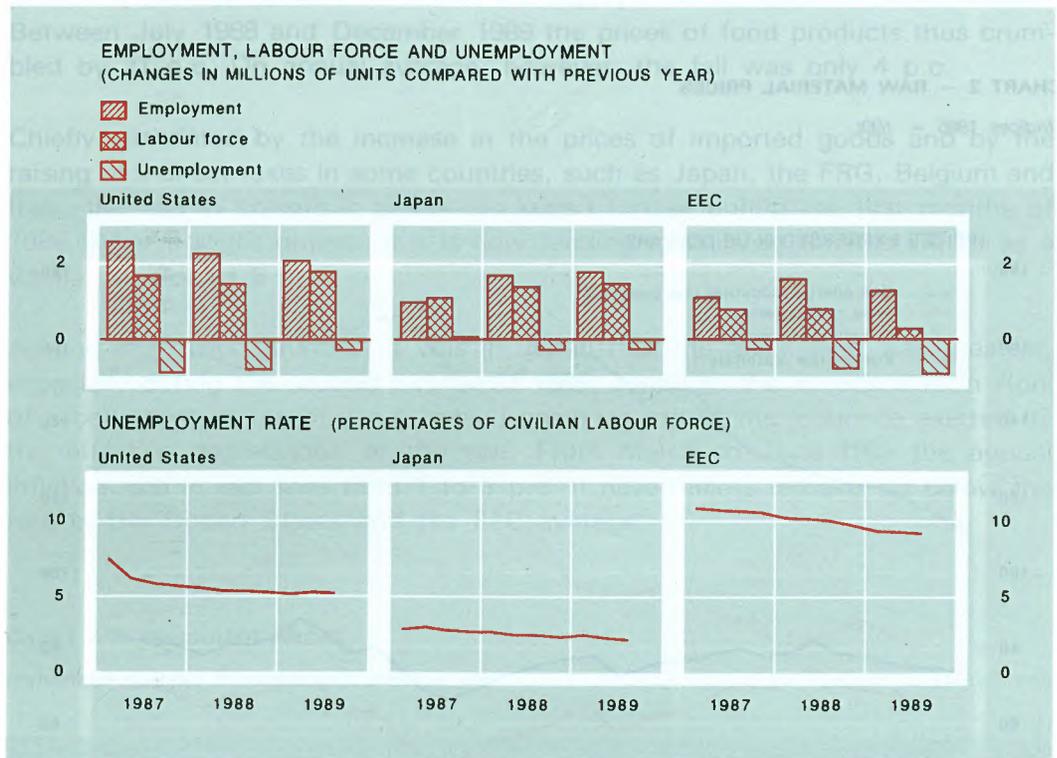
Continuing the trend observable since the beginning of the present expansionary phase, the volume of employment increased by 2 p.c. in the United States and 1.9 p.c. in Japan. In the countries of the European Community, creation of jobs amounted to only 1.4 p.c., but this is in sharp contrast to the destruction of jobs recorded at the beginning of the decade.

Like employment, the labour force increased appreciably in the United States and Japan, so that there was hardly any decline in unemployment in those countries.

The same was not the case in the EEC, where the expansion in the labour force slowed down owing to demographic factors. The decrease in the number of unemployed was therefore greater there than in the United States.

The Federal Republic of Germany was no exception in this context. While the inflow of labour from Eastern Europe did in fact bring about a larger expansion in the labour force than in the other countries of the EEC, this skilled labour

CHART 1 — LABOUR MARKET



Sources: OECD, US Bureau of Labor (United States), Prime Minister's Office (Japan), EEC.

found employment easily, thus slowing down the appearance of bottlenecks and helping to expand production potential. Furthermore, the rise in production in that country was sufficient to enable the number of unemployed, too, to be reduced.

The level of unemployment still remains, however, much higher in Europe than in the rest of the industrialised world. While it represents only about 2.3 p.c. of the labour force in Japan and 5.2 p.c. in the United States, it still affects 9.5 p.c. of that population in the EEC. This figure furthermore conceals considerable differences between the member countries, the extreme cases being, on the one hand, Spain, where the unemployment rate is as high as 17 p.c., and, on the other hand, Luxembourg, where it is only slightly over 1 p.c.

Labour costs

In a climate of strong growth, the conditions prevailing on the labour market — namely, a reduction in or a low level of unemployment, as the case may be — stimulated wage increases. In 1989 the cost of compensation per employee increased more than in the previous year and much more than during the first years of the present boom phase.

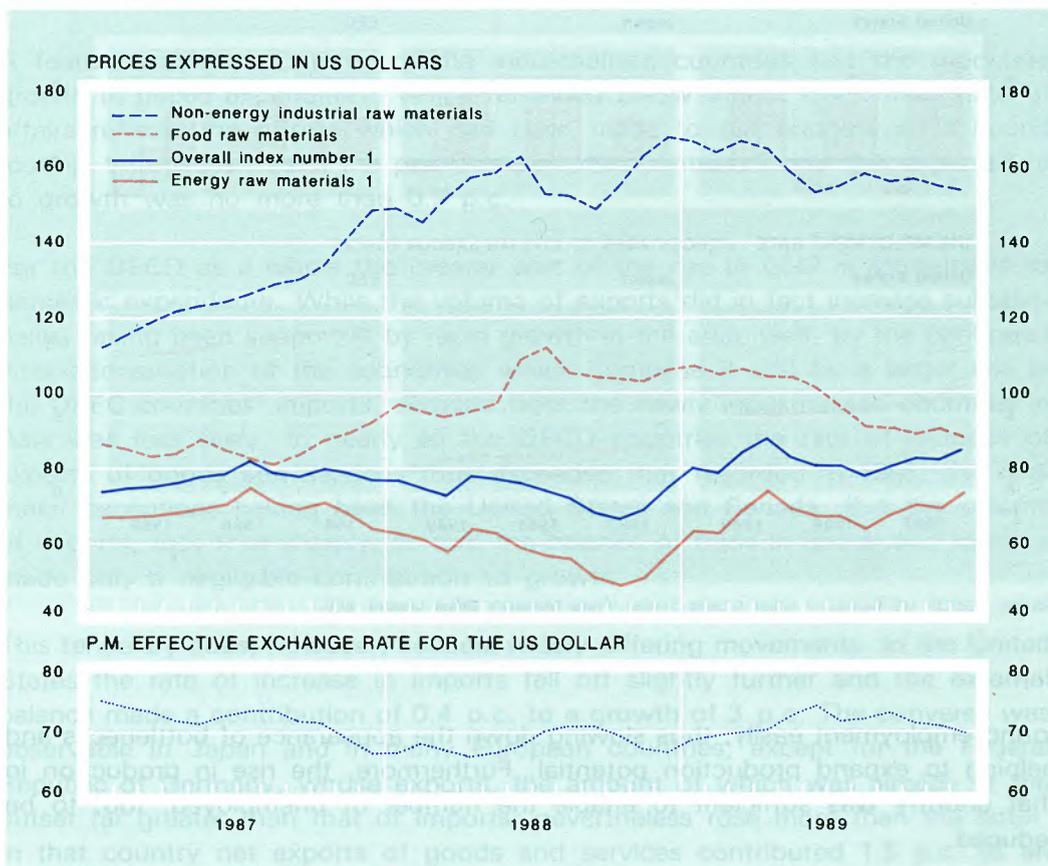
Productivity gains, for their part, were smaller than in 1988. They therefore did not have such a strong braking effect on the increase in unit labour costs, which was very substantially greater than in the previous year. This quickening was, however, more pronounced in the United States and Japan than in the EEC, where there was little change in productivity gains.

The inflationary strains were also revived by the rise in the prices of raw materials and basic products, the index of their dollar prices having gone up appreciably during the first four months of 1989. Subsequently it first of all declined slightly, then stabilised from July to November and finally recovered in December. Its annual average was 27 p.c. above the low reached in 1986 and 12 p.c. above

Prices of raw materials and basic products

CHART 2 — RAW MATERIAL PRICES

(Indices 1985 = 100)



Sources : HWWA, IMF.

¹ The energy index figure was corrected in order to reflect, with regard to oil prices, the prices ruling on the free market.

the previous year's level. The effect of the last-mentioned rise on the import prices of the industrialised countries as a whole was accentuated by the appreciation of the dollar.

The increase in raw material prices was chiefly due to that in energy prices, the weighting of which predominates in the overall index, accounting for nearly two thirds of it. Sustained world demand and the greater cohesion of the cartel of the OPEC countries in fact contributed to the rise in the price of oil which took place at the beginning of the year and in December.

After having risen sharply in 1987 and 1988, the prices of industrial non-energy raw materials displayed a downward tendency under the combined influence of a growth in supply and a certain falling-off in demand for these products; the decline was particularly marked for certain non-ferrous metals, such as aluminium and copper, the prices of which fell by 26 and 16 p.c. respectively between the fourth quarter of 1988 and the third quarter of 1989. If account is taken, however, of the rise which took place in 1988, their level was on average 2 p.c. higher than in the previous year.

The fall in the prices of food products, which had been in progress since August 1988, continued. It was chiefly due to the drop in the prices of tropical products, such as coffee and cocoa, the supply of which became overabundant. Between July 1988 and December 1989 the prices of food products thus crumbled by 21 p.c. On annual average, however, the fall was only 4 p.c.

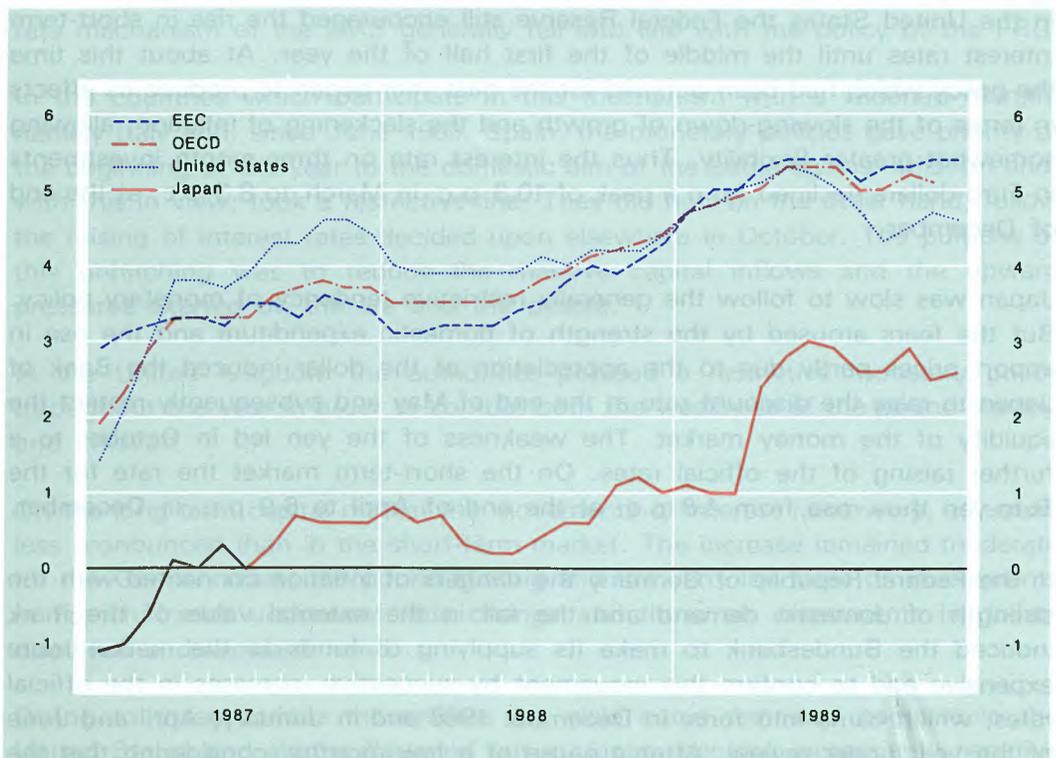
Consumer prices

Chiefly stimulated by the increase in the prices of imported goods and by the raising of indirect taxes in some countries, such as Japan, the FRG, Belgium and Italy, the rise in consumer prices quickened further during the first months of 1989. After a slight downturn it is now tending to stabilise, for the OECD as a whole, at around 5 p.c.

Among the major countries it was in Japan that the quickening was greatest, especially during the second quarter of 1989, owing to the introduction in April of a consumption tax of 3 p.c. which came on top of the influence exerted by the effective depreciation of the yen. From March to June 1989 the annual inflation rate in fact rose from 1 to 3 p.c. It nevertheless remains far below the rate in the United States and the EEC average.

CHART 3 — CONSUMER PRICES

(Percentage changes compared with previous year)



Sources : EEC, OECD, US Bureau of Labor (United States), Prime Minister's Office (Japan).

1.2 NATIONAL ECONOMIC POLICIES

The resurgence of inflationary pressures had induced most of the OECD countries to tighten their monetary policies as far back as the end of the first half of 1988, because the monetary authorities naturally feared that the context of strong growth and high utilisation of production capacities might revive expectations of inflation. The rise in interest rates started in the countries where these fears were greatest — including the United States — and subsequently spread, when the dollar appreciated substantially, to the other countries.

In the first months of the year under review the priority assigned to the battle against inflation continued to guide monetary policy almost everywhere. Subsequently, developments differed more widely : the line of this policy remained restrictive in many countries, especially the FRG, and was reflected in increases in interest rates, the extent of which was particularly marked in September-October ; American monetary policy, on the other hand, was eased and the falls in US interest rates were considerable, so that the comparative interest-rate advantage afforded by short-term portfolio investments in dollars in comparison with certain other currencies decreased appreciably or was even reversed. Thus the differential of three-month interest rates vis-à-vis the DM narrowed from 3.7 p.c. on average in March to less than 0.3 p.c. in December.

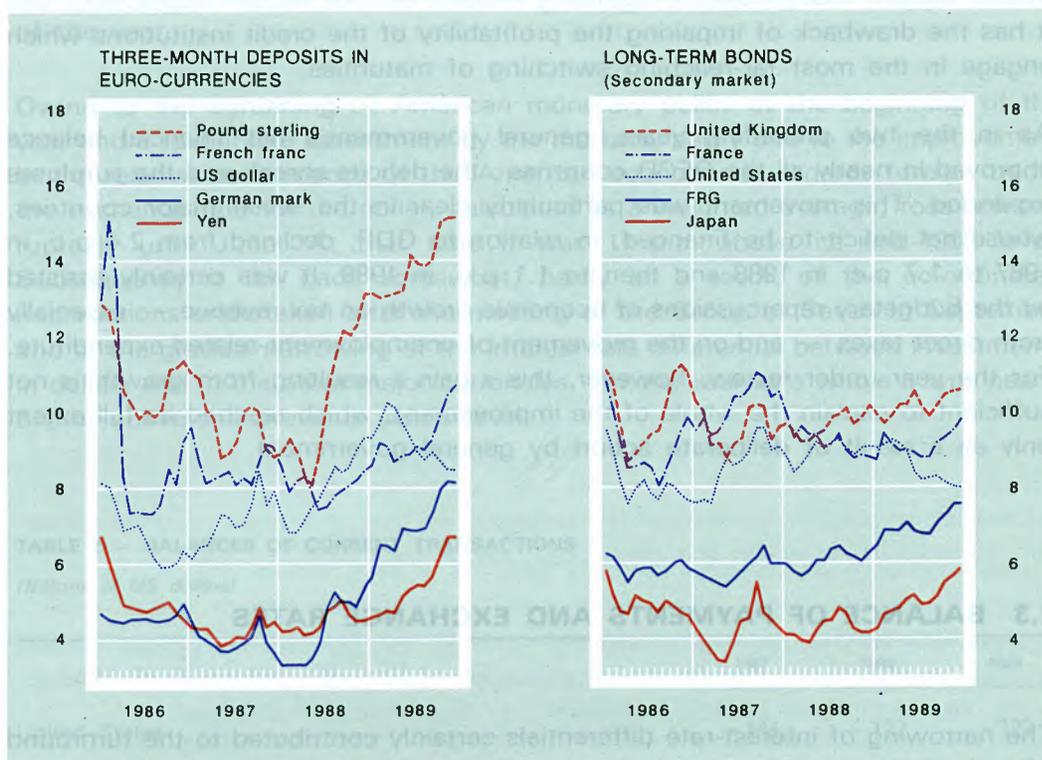
The fall in share prices which took place in October did not have any marked effect on the monetary policy pursued. Admittedly, being anxious to avoid a crash comparable to that in 1987, the authorities of the main industrialised countries stated that they were prepared to replenish the long-term markets should it prove necessary. But the initial drop in prices, which was in fact much smaller than that two years earlier, was almost entirely wiped out in the following days and therefore did not have any severe constraining effect on the choice of the policies to be pursued.

In the United States the Federal Reserve still encouraged the rise in short-term interest rates until the middle of the first half of the year. At about this time the policy which had been pursued for the past year began to produce its effects in terms of the slowing-down of growth and the slackening of inflation, allowing somewhat greater flexibility. Thus the interest rate on three-month investments in Euro-dollars declined from a peak of 10.3 p.c. in March to 8.3 p.c. at the end of December.

Japan was slow to follow the generally restrictive tendency of monetary policy. But the fears aroused by the strength of domestic expenditure and the rise in import prices partly due to the appreciation of the dollar induced the Bank of Japan to raise the discount rate at the end of May and subsequently restrict the liquidity of the money market. The weakness of the yen led in October to a further raising of the official rates. On the short-term market the rate for the Euro-yen thus rose from 4.8 p.c. at the end of April to 6.9 p.c. in December.

In the Federal Republic of Germany the dangers of inflation connected with the strength of domestic demand and the fall in the external value of the mark induced the Bundesbank to make its supplying of funds to the market more expensive and to confirm this movement by successive increases in the official rates, which came into force in December 1988 and in January, April and June of the year under review. After a pause of a few months, considering that the conditions which had warranted a more severe line of monetary policy were still

CHART 4 — INTEREST RATES



Sources : NBB, OECD.

present, the authorities decided in October on a second phase of greater stringency, which was confirmed by an increase in the official interest rates. The rate for the Euro-mark rose almost uninterruptedly, reaching 8.3 p.c. at the end of December, against 5.4 p.c. at the end of the previous year.

The monetary authorities of the countries which participate fully in the exchange rate mechanism of the EMS generally fell into line with the policy of the FRG.

In the countries which participate in this mechanism with a widened margin, namely Italy and, since June 1989, Spain, the monetary policies gave priority at the beginning of the year to the domestic aim of the battle against inflation and, with this in view, took a restrictive line. They did not, on the other hand, follow the raising of interest rates decided upon elsewhere in October. The purpose of this unhitching was to reduce the massive capital inflows and the upward pressures exerted on the lira and the peseta.

In the United Kingdom the authorities pursued a restrictive monetary policy throughout the year in order to combat both the weakness of the pound sterling and inflation.

On the long-term capital market the movements of interest rates were, as usual, less pronounced than in the short-term market. The increase remained moderate for the German mark, the pound sterling and the yen; the rates on investments in French francs underwent little change and those on investments in dollars displayed a downward trend.

Owing to these various movements the yield curve remained negative in the United States and almost flattened out in Japan, became increasingly negative in the United Kingdom and reversed at the beginning of the second half of the

year in the other European countries. This interest-rate structure might to some extent suggest that prospects regarding inflation did not worsen appreciably, but it has the drawback of impairing the profitability of the credit institutions which engage in the most far-reaching switching of maturities.

As in the two preceding years, general government's net financial balance improved in nearly all the OECD countries : the deficits shrank and the surpluses expanded. This movement was particularly clear in the seven major countries, whose net deficit to be financed, in relation to GDP, declined from 2.4 p.c. in 1987 to 1.7 p.c. in 1988 and then to 1.1 p.c. in 1989. It was certainly assisted by the budgetary repercussions of economic growth on tax revenue — especially from direct taxes — and on the movement of unemployment-related expenditure. For the year under review, however, this « gain » resulting from growth is not sufficient to explain the whole of the improvement, which reached its full extent only as a result of deliberate action by general government.

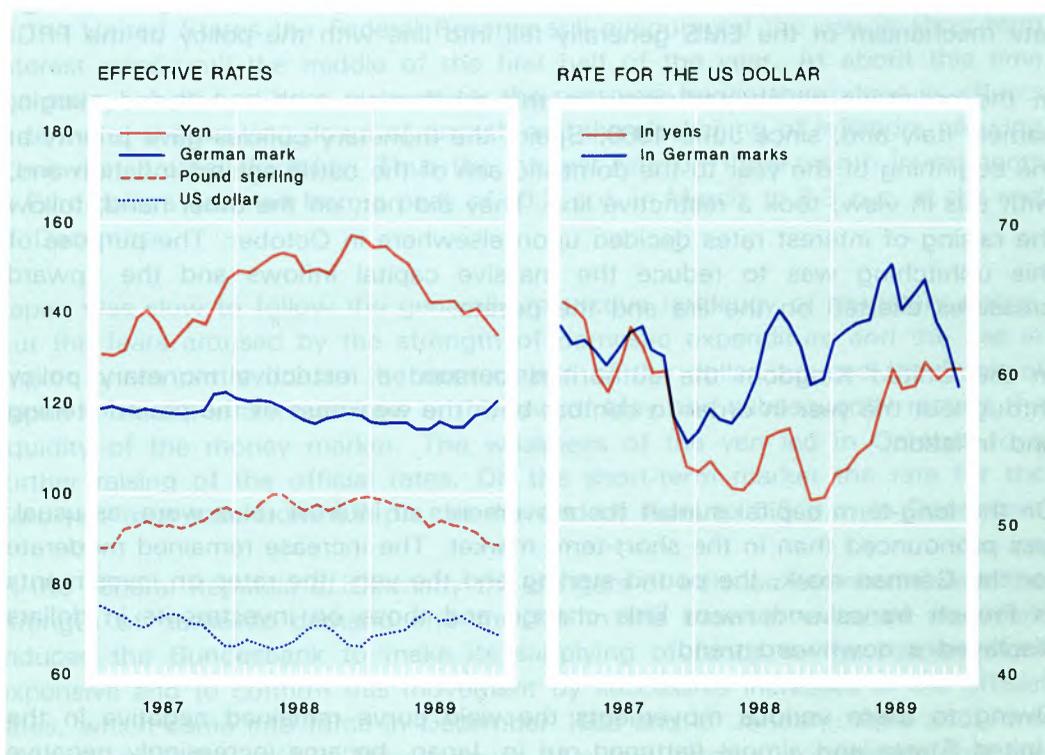
Budgetary policies

1.3 BALANCE OF PAYMENTS AND EXCHANGE RATES

The narrowing of interest-rate differentials certainly contributed to the turnaround of exchange rate movements during the year, as did also, doubtless, the repeated co-ordinated interventions by the major central banks. Thus the dollar, which strengthened throughout much of the year, was subsequently subject to downward pressures. Conversely, the depreciation of the German mark stopped and

CHART 5 — EXCHANGE RATES

(Indices 1985 = 100)



Sources : NBB, IMF.

speculative movements in favour of that currency led to strains within the EMS. The exchange rate for the yen, for its part, continued to weaken until the end of the year.

United States

Owing to the tightening of American monetary policy at the beginning of the year and a favourable assessment by the markets, partly due to the improvement in the relative performance of the American economy as regards foreign trade, the exchange rate for the dollar, calculated as a weighted average, rose uninterruptedly until June. At that time it was 11 p.c. above its end-1988 level. Subsequently it fell back somewhat, partly as a result of the co-ordinated interventions undertaken after the meeting of the Group of Seven in September and of the gradual narrowing of the interest-rate differential between investments in dollars and in the other major currencies. For the year as a whole it was nearly 5 p.c. above the previous year's level.

TABLE 2 — BALANCES OF CURRENT TRANSACTIONS

(Billions of US dollars)

	1987	1988	1989
United States	-144	-127	-122
Japan	87	80	61
FRG	45	49	61
Other EEC countries			
with surplus	7	9	9
with deficit	-15	-42	-65
Other OECD countries	-18	-19	-29
OPEC	-6	-15	-2
Asian newly industrialised countries	31	29	22
Other developing countries	-20	-24	-31
Eastern European countries	19	14	12

Source : OECD.

The upward trend of the dollar reflects a net capital inflow which, ex ante, was more than sufficient to finance the current account deficit. The latter was admittedly slightly smaller than that for the previous year, the increase in the volume of the United States' exports having been much greater than that in its imports; furthermore, the terms of trade improved slightly. The effect of the recovery in the balance of trade on the current account balance was, however, largely offset by the appearance of a deficit in respect of investment income, resulting from net borrowing abroad due to the accumulation of current account deficits almost since the beginning of the decade.

In relation to GNP the 1989 deficit was 2.3 p.c.; in 1987 it had reached a peak of 3.2 p.c.

Japan

As the counterpart to this, Japan's trade surplus decreased considerably. The volume of imports expanded more than that of exports and the terms of trade worsened. The effect of these movements was heightened by a virtual doubling

of the deficit in respect of private transfers and services attributable to the rise in tourist expenditure. Japan's current account surplus thus decreased once more, from a peak of 4.4 p.c. of GNP reached in 1986 to 2.2 p.c. in 1989. Despite this still substantial surplus on current transactions, the yen depreciated significantly during the year.

As in the case of Japan, the current account balance of the EEC as a whole remained in surplus, although its absolute value decreased; but this overall movement conceals an accentuation of the disequilibria between the member countries.

Thus the current account surplus of the Federal Republic of Germany, already very high in 1988, increased further by \$ 12 billion under the combined influence of the improvement in the balance of trade and the rise in portfolio income, reaching 5.1 p.c. of GNP. However, net outflows of private capital greatly exceeded the surplus on current transactions, so that interventions were necessary in order to keep up the exchange rate of the mark.

*Federal Republic
of Germany*

The position of the other countries of the European Community whose current account balance was already previously showing a surplus, namely the Netherlands, the BLEU and Ireland, remained, on the whole, unchanged.

*Other EEC
countries*

On the other hand, the overall situation of the EEC countries whose current account balance was already negative deteriorated; altogether the deficits reached \$ 65 billion, against \$ 42 billion the previous year. But this deterioration was not general: the current account balances of France and Denmark underwent hardly any change, while the deficits of Portugal, Greece, Italy, Spain and the United Kingdom became considerably larger. In the last-mentioned country, despite a particularly restrictive monetary policy, the exchange rate for the pound sterling depreciated substantially. The current account deficits of Spain and Italy, on the other hand, were met by net inflows of private capital, largely attributable to the high interest rates.

Despite the worsening of the current account imbalances between member countries, the EMS experienced a period of relative stability throughout the greater part of the year. Strains appeared, however, during the last quarter, when the strengthening of the dollar came to an end and upward pressures were exerted on the German mark, due to, among other things, the tightening of the Bundesbank's monetary policy and the expected economic consequences of the changes which took place in the countries of Eastern Europe.

In the countries outside the OECD area, developments were chiefly characterised by a reduction in the current account surplus of the Asian newly industrialised countries, attributable both to the deterioration of their competitive position resulting from the rise in their labour costs in domestic currency and the appreciation of their currencies and from accidental factors particularly affecting one of these countries, namely South Korea, where strikes led to considerable export losses.

*Asian newly
industrialised
countries*

The rise in the prices of energy products in fact enabled OPEC not only substantially to increase its imports again but also to reduce its current account deficit from \$ 15 billion to \$ 2 billion.

*Organisation of
Petroleum
Exporting Countries*

1.4 INTERNATIONAL CO-OPERATION

Indebtedness of the developing countries

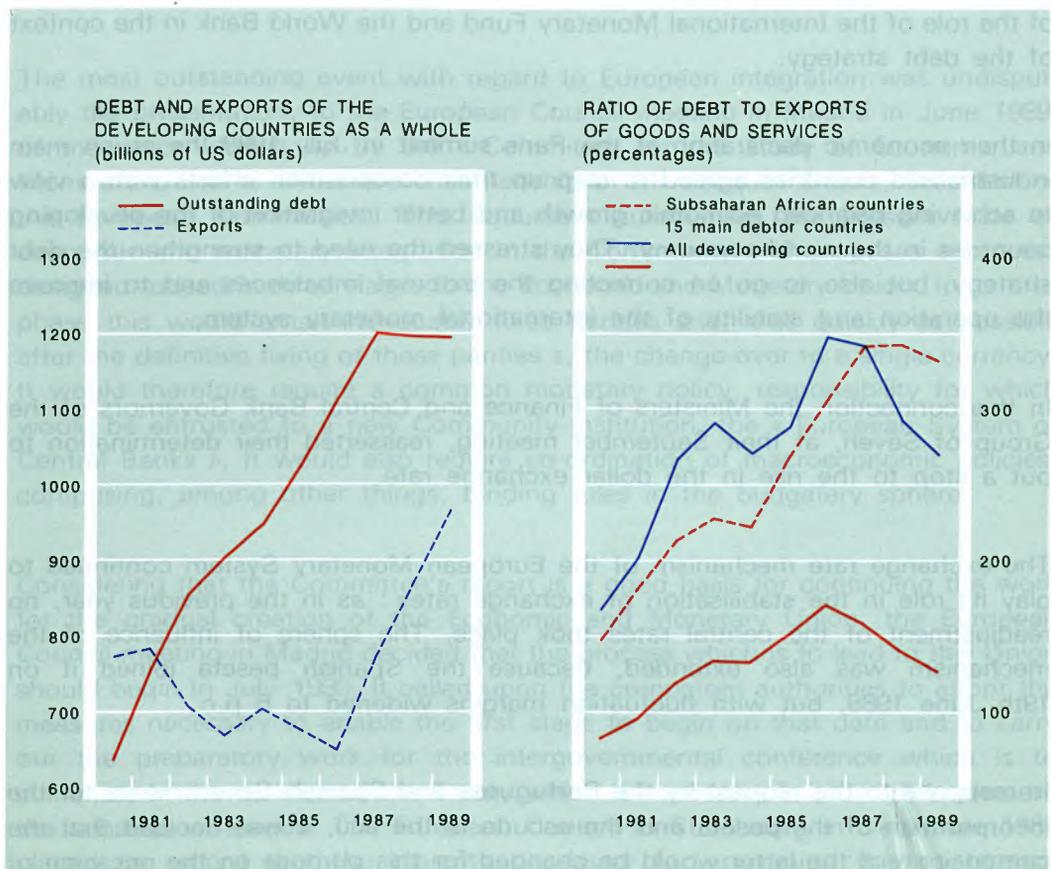
The expansion in foreign trade helped make the crisis of the foreign indebtedness of the developing countries, which arose at the beginning of the decade, somewhat less acute. For the second year in succession the debt of these countries expressed in dollars decreased very slightly. As a percentage of exports of goods and services, the growth of which was particularly vigorous, the reduction in indebtedness was considerably more marked; from a peak of 171 p.c. reached in 1986, the ratio fell to 140 p.c. in 1988 and 126 p.c. in 1989.

The improvement which took place in 1989 was a fairly general phenomenon, but particularly appreciable for the fifteen main debtor countries, most of which are in Latin America. Nevertheless, their degree of indebtedness, like that of the Subsaharan African countries, is still much higher than that of the other groups of countries.

This decline in the relative level of the debt was accompanied by a certain easing of the charges in respect of interest and redemption, these charges, likewise expressed as a percentage of exports, having decreased, for the developing countries as a whole, from 20 to 17 p.c.

These movements, assisted by the growth in the industrialised world, are also the fruit of the combined efforts of the debtor countries, their creditors and the international financial organisations concerned.

CHART 6 — FOREIGN DEBT OF THE DEVELOPING COUNTRIES



Source : IMF.

In this connection the plan announced in March 1989 by the American Secretary of the Treasury, Mr Brady, was a turning point. These proposals, the aim of which was to lay much greater emphasis on the reduction and/or service of the debt as a supplement to new credits granted by the commercial banks, induced the International Monetary Fund and the World Bank to adapt their strategy.

In May 1989 the IMF formulated a series of guidelines governing its financial support for voluntary operations, negotiated between the debtor countries and their creditor commercial banks, for reducing the debt or the service of the debt. Similar principles were defined by the World Bank. The Fund's support is conditional upon the application of medium-term adjustment programmes partly based on structural reforms and giving an important place to measures designed to encourage, in the borrowing countries, saving, investment and the repatriation of exported capital. The Fund permits the assignment to such operations of about 25 p.c. of the resources to which the member countries have access under stand-by arrangements or credit arrangements under the extended facility, and also of additional resources, representing up to 40 p.c. of the quota, when the situation warrants it.

*International
Monetary Fund
and World Bank*

Other changes were made to the Fund's policies during the past year. The amount of access to the structural adjustment facility was raised from 63.5 p.c. to 70 p.c. of the quota. The period during which the member countries are allowed to resort to the enhanced structural adjustment facility was extended until November 1990 and the policy of enlarged access to the Fund's resources was kept in force.

At their meeting in June 1989 the Ministers and Central Bank Governors of the Group of Ten gave their support to the Brady proposals and to the adaptation of the role of the International Monetary Fund and the World Bank in the context of the debt strategy.

*Group of Ten and
Group of Seven*

In their economic declaration at the Paris summit in July 1989 the seven main industrialised countries agreed to step up their co-operation efforts with a view to achieving balanced economic growth and better integration of the developing countries in the world economy. They stressed the need to strengthen the debt strategy, but also to go on correcting the external imbalances and to improve the operation and stability of the international monetary system.

In this connection the Ministers of Finance and Central Bank Governors of the Group of Seven, at their September meeting, reasserted their determination to put a stop to the rise in the dollar exchange rate.

The exchange rate mechanism of the European Monetary System continued to play its role in the stabilisation of exchange rates : as in the previous year, no readjustment of the central rates took place. The sphere of influence of the mechanism was also extended, because the Spanish peseta joined it on 19th June 1989, but with fluctuation margins widened to 6 p.c.

*European Monetary
System*

In response to the request by the Portuguese and Spanish Governments for the incorporation of the peseta and the escudo in the ecu, it was decided that the composition of the latter would be changed for this purpose on the occasion of the five-yearly revision which was to take place in September of the year under

review. This change was made in such a way as to avoid affecting the rate for the ecu expressed in each of the currencies which participate in the exchange rate mechanism. Furthermore, in order to limit its effect on the operation of the market for the private ecu, this change was introduced in two stages, namely, first of all, the fixing of the percentages of the new weights by a Council regulation of 19th June 1989 and, subsequently, by the actual application of the new basket on 21st September.

*European financial
integration*

Progress was made towards the creation, by the European Community, of a market without internal frontiers. This market, planned for the end of 1992 according to the Single Act, entails the elimination of obstacles to the free circulation of goods, services, persons and capital.

Important decisions were taken, especially in the field of banking services. In April the Council adopted the directive which harmonises the definition of the credit institutions' equity capital and, in December, that which fixes their solvency ratio on the basis of this definition, as well as the second co-ordination directive concerning access to banking activities, which enables all credit institutions to offer their services throughout the Community.

With regard to taxation of savings, the Commission proposed the introduction of a minimal withholding tax on interest paid to residents of the Community. This proposal did not, however, obtain the unanimous agreement of the EEC Member States which is required by the Treaty in tax matters. The Commission also put forward proposals for harmonising indirect taxes; these were not adopted, either, but an initial agreement of principle concerning the alignment of rates was reached at the December Council meeting, and it was decided that the details of the future system would be defined before the end of 1991.

*Economic and
Monetary Union*

The most outstanding event with regard to European integration was undisputably the presentation, to the European Council meeting in Madrid in June 1989, of the report drawn up by the « Committee for the study of Economic and Monetary Union », under the chairmanship of Mr Jacques Delors, President of the European Commission. This document summarises the present state of economic and monetary integration in the Community and proposes a process designed to lead in three stages to the Economic and Monetary Union. In its final phase this would entail irrevocably fixed parities and, « as quickly as possible after the definitive fixing of these parities », the change-over to a single currency. It would therefore require a common monetary policy, responsibility for which would be entrusted to a new Community institution, the « European System of Central Banks ». It would also require co-ordination of macroeconomic policies, comprising, among other things, binding rules in the budgetary sphere.

Considering that the Committee's report is a good basis for continuing the work for the gradual creation of the Economic and Monetary Union, the European Council meeting in Madrid decided that the process which is to lead to this Union should begin in July 1990. It called upon the competent authorities to adopt the measures necessary to enable the first stage to begin on that date and to carry out the preparatory work for the intergovernmental conference which is to culminate in the revision of the Treaty which is necessary in order to implement the subsequent stages. The European Council in Strasbourg in December 1989 placed on record that the majority necessary for convening this conference existed and decided that this should be held before the end of 1990.

With regard to the preparation of the first stage, progress has already been made. At its session on 13th November the ECO/FIN Council arrived at a consensus on the subject of two draft decisions. The first, which replaces a decision of 1974, concerns the achievement of gradual convergence of policies and economic performance during the first stage. It stipulates, among other things, that the Council shall establish a multilateral monitoring system covering all the aspects of economic policy, both short- and medium-term. The second proposal amends the 1964 decision concerning co-operation between the central banks of Member States. Its aim is to step up the process of co-ordination of monetary policies by an intensification of co-operation between the central banks. The central role in this is played by the Committee of Governors, whose task is confirmed and adapted. Within this context the Governors have already agreed to extend the chairman's period of office from one to three years and to strengthen the structure and operation of the Committee by setting up a research unit.

2. EXPENDITURE, PRODUCTION AND EMPLOYMENT

2.1 EXPENDITURE

Summary

The slight slackening of the growth in world trade had hardly any effect on the development of Belgium's export markets, as the main impetus behind the economic expansion shifted in 1989 to the EEC. Partly thanks to their geographical structure, Belgian exports grew at about the same rate as in 1988. These developments obviously sustained economic activity.

TABLE 3 — GNP AND MAIN CATEGORIES OF EXPENDITURE AT 1985 PRICES

(Annual percentage changes compared with previous year)

	1984-1987	1988	1989 e
Private consumption	2.2	2.4	3.6
Public expenditure .....	...	-0.5	-0.2
Public consumption	1.4	-0.7	0.4
Public investment	-8.6	1.5	-5.0
Housing	4.1	22.3	22.0
Gross fixed capital formation by enterprises	6.0	16.8	15.0
p.m. Total gross fixed capital formation ¹	3.0	16.0	14.3
Changes in stocks ²	0.2	0.3	...
Total domestic expenditure	2.4	4.3	5.0
Exports of goods and services	4.9	8.2	8.0
Total final expenditure	3.4	6.0	6.3
Imports of goods and services	5.9	8.3	9.0
GDP	1.7	4.3	4.2
Net factor incomes ²	0.1	-0.1	0.3
GNP	1.8	4.2	4.5

Source : NSI.

¹ Public investment, housing and gross fixed capital formation by enterprises.

² Contribution to the growth in GNP.

Domestic demand was even stronger than in the previous year. In 1988 it was largely based on investment in housing by individuals and in fixed assets by enterprises. On top of these categories of spending, still growing strongly, there came in 1989 a substantial quickening of private consumption based on the marked rise in the real disposable income of households. On the other hand, total public expenditure remained at its previous year's level. While public consumption rose slightly, public investment resumed its downward movement. Altogether the growth in domestic demand thus increased from 4.3 to 5 p.c. For the first time in the decade it was appreciably faster than in most other industrialised countries.

Despite this strength of domestic expenditure, the worsening of the external component remained moderate. The increase in imports of goods and services slightly exceeded that in exports, so that the negative contribution of net exports to growth amounted to -0.8 p.c., against -0.1 p.c. in 1988.

Net factor incomes improved somewhat. This movement is the logical consequence of the substantial current account surpluses accumulated since 1986. The growth in GNP thus slightly exceeded that in GDP, rising to 4.5 p.c. against 4.2 p.c. in 1988. It was again one of the largest growths in the industrialised countries. Part of the leeway in growth accumulated at the beginning of the 1980s has thus been made up.

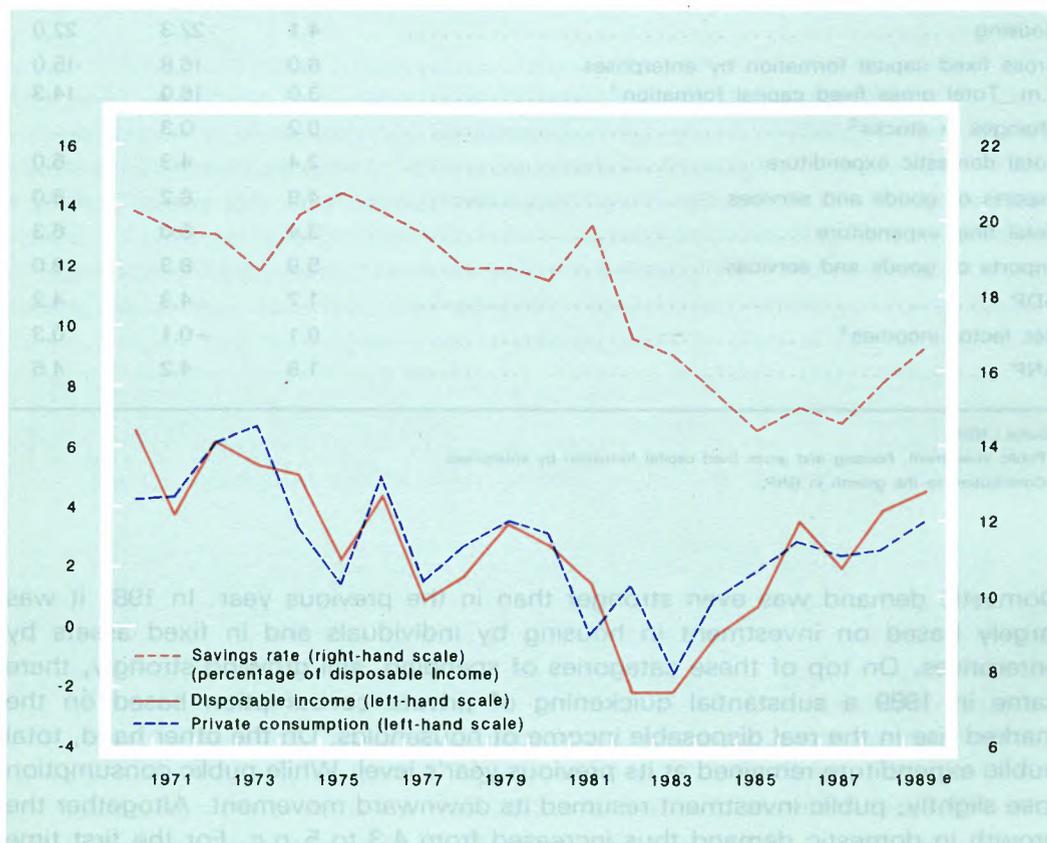
Private consumption, the main component of domestic demand, followed the general trend of rapid growth in 1989. It went up by 3.6 p.c., the highest rate for ten years. Consumption both of goods and of services showed strong growth. Demand for goods was chiefly in respect of durable goods and clothing, while the increase in consumption of services was particularly sharp in the hotels and catering sector. On the other hand, consumption of energy by households decreased by nearly 3 p.c. owing to the mild weather.

Private consumption

The development of private consumption is mainly attributable to that of the disposable income of individuals. While these two variables run parallel with each other, their short-term movements may differ owing to factors such as the changes in the composition of disposable income, variations in the rate of and expectations concerning inflation and time-lags in the adjustment of consumption to income. The last-mentioned factor indicates the upward or downward resis-

CHART 7 – PRIVATE CONSUMPTION AND DISPOSABLE INCOME AT CONSTANT PRICES

(Percentage changes compared with previous year)



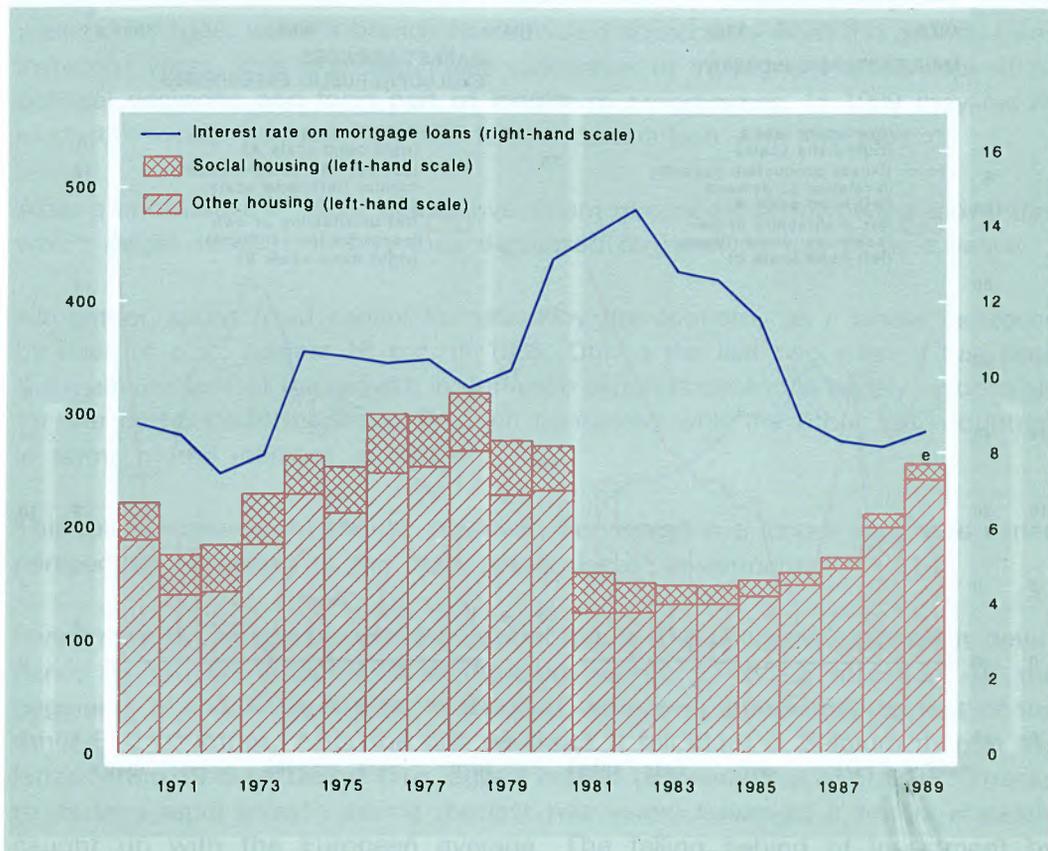
Source : NSI, data not including statistical adjustment.

tance of consumption habits to fluctuations in income. During the period of slowing-down of the growth in disposable income which ended in 1983, these adjustment lags were reflected in a gradual decline in the rate of saving. Since then this rate has recovered parallel with the quickening of the rise in disposable income. Thus, in 1989, the growth in private consumption was appreciably smaller than that of 4.6 p.c. in the disposable income of individuals, so that the latter's rate of saving rose considerably.

Housing

This large increase in the disposable income of households also had repercussions on their investment in housing, which rose by 22 p.c. The sharp recovery in this expenditure observable since the middle of 1987 is also, and mainly, attributable to the relatively low level of interest rates for mortgage loans and, as far as the building of new dwellings is concerned, to the rise in prices on the secondary market. These various factors continued to exert their favourable influence on the sector's activity in 1989; the upward movement of mortgage interest rates at the end of the year produced only a very marginal effect owing to the time taken for demand to react to the movements of these rates. Although expenditure on housing has gone up by over 40 p.c. in two years, it still remains below the levels reached at the end of the 1970s. Admittedly, social housing, which has now become negligible, accounted for over 15 p.c. of total expenditure on housing at that time. If this type of housing is omitted and the substitution effects doubtless brought about by its virtual disappearance are disregarded, it would seem that the volume of activity in residential building is at present close to what it was before the collapse of 1981. The number of dwellings built in 1989 – that is, nearly 40,000 – roughly corresponds to present requirements, esti-

CHART 8 – INVESTMENT IN HOUSING AT 1985 PRICES
(Billions of francs)



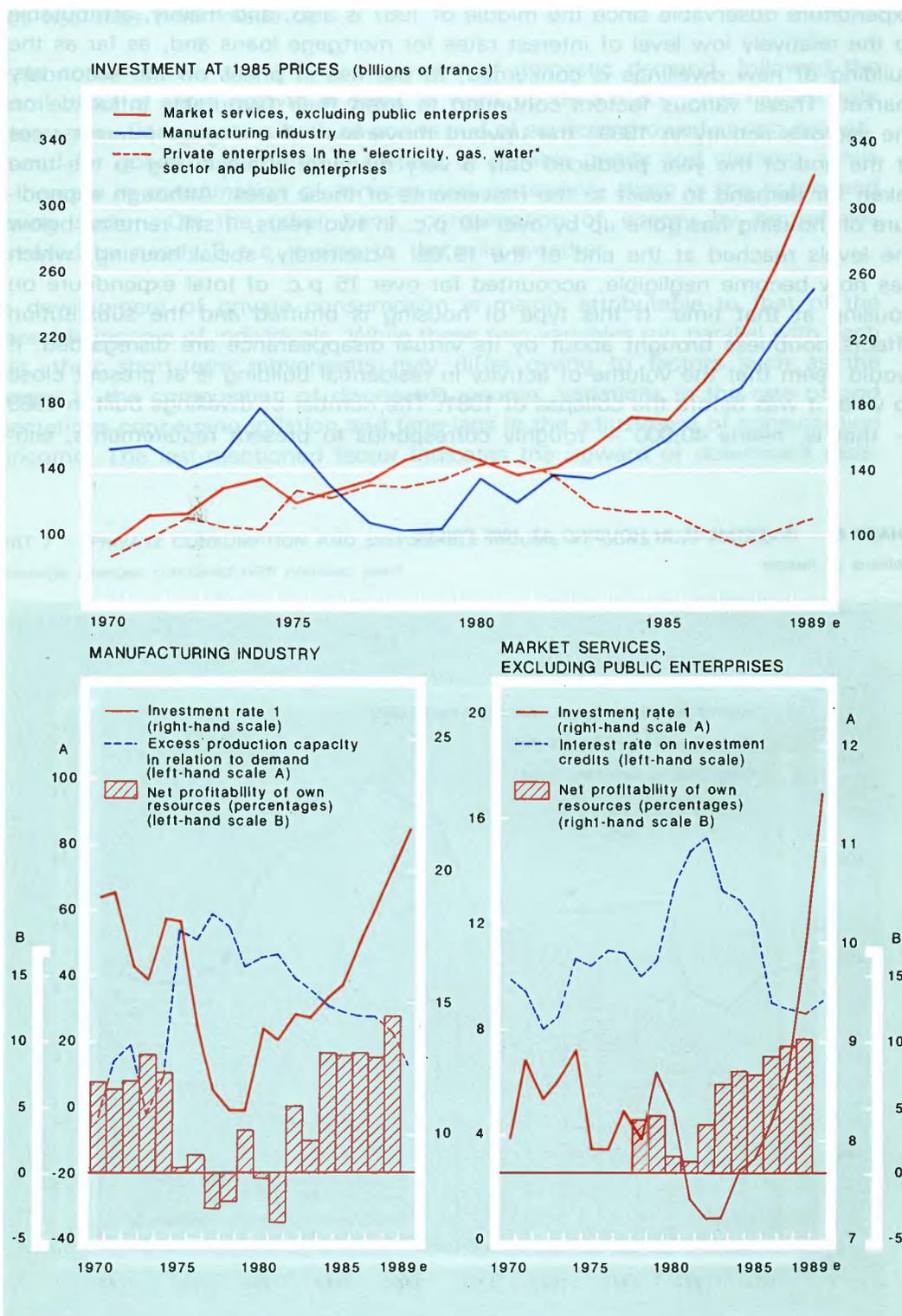
Sources : GSPF, NSI.

mated both by the Planning Bureau and by the National Building Confederation at about 45,000, on the basis of demographic data and also of assumptions concerning the renewal and improvement of the housing stock.

In 1988 investment by enterprises, together with housing, had been one of the main components of growth. In 1989 it again increased considerably. Most branches of activity contributed to this rise, which amounted to about 15 p.c.

*Investment
by enterprises*

CHART 9 — INVESTMENT BY ENTERPRISES



Sources : NSI, NICC, NBB.

¹ Percentage ratio between investment and value added at current prices.

In manufacturing industry, investment grew by about 12 p.c. The large increase in demand led to strains on production capacities in several branches and appreciably reduced the surpluses observed in others. These factors, coupled with the exceptional level of profitability achieved during the last few years, explain the dynamism of industrial investment, increasingly oriented towards programmes for expanding capacity. The present wave of investment was particularly pronounced in the food and chemical industries.

Investment by enterprises offering market services, other than public enterprises, continued the exceptional growth which it has been showing for several years. The upward trend of this investment, which was only briefly interrupted after the two oil shocks, reflects the tertiarisation of the economy.

If the incidence of this tertiarisation is eliminated by working out the ratio between investment and value added, certain changes in the behaviour of enterprises become clearer. Until 1987 the investment rate in the services sector fluctuated within a narrow range, between 7 and 9 p.c., following the major movements of long-term interest rates. During the last two years, however, it shot up to levels far above those previously recorded. This development may be due to several factors. The high profitability of the sector since 1983 is certainly one of them. But the very rapid growth in the branch of services to enterprises, whose investment almost doubled in two years, would appear to be more important. This branch consists of, among other activities, accounting, data-processing and technical services and also real estate enterprises. In the case of the latter, especially, there is at present a veritable explosion of investment in the Brussels region, connected with the prospect of 1993 and speculations on the regrouping of the European institutions in the capital.

The movement of investment by public enterprises, mainly concentrated in the « transport and communications » branch, and by private enterprises in the « electricity, gas, water » branch has deviated appreciably from the general trend in recent years. It is true that these categories of investment often depend on political decisions and form part of long-term programmes. In 1989 they recovered somewhat, but they are still low in comparison with the past.

Public investment

After a brief pause in 1988, public investment resumed the downward movement which began in 1981. It has thus decreased by nearly a half in nine years.

International comparison of gross fixed capital formation

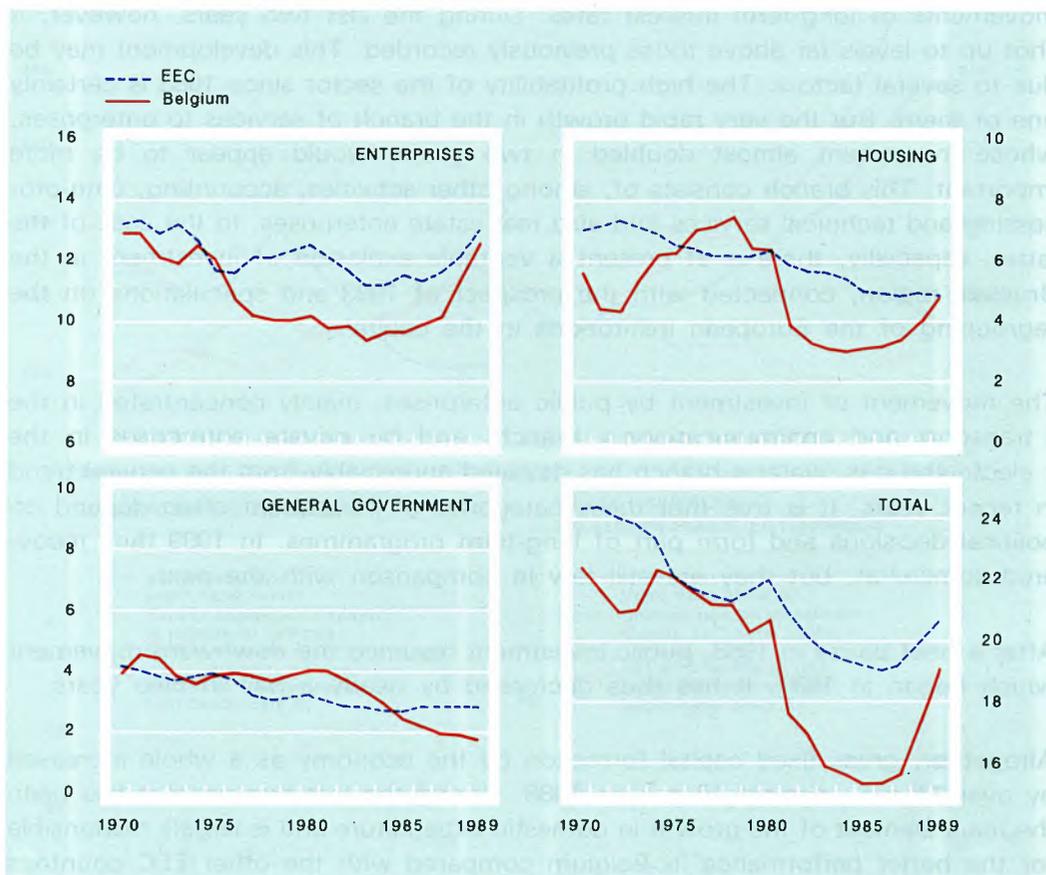
Altogether, gross fixed capital formation by the economy as a whole increased by over 14 p.c., against 16 p.c. in 1988. During the last two years it has been the main element of the growth in domestic expenditure and is largely responsible for the better performance in Belgium compared with the other EEC countries in terms of the increase in GDP.

This relative movement should, however, be viewed in a longer and more varied perspective according to the main categories of investment.

Investment by enterprises plays a central role in the economy because it determines its growth potential. It is therefore worthy of closer attention. At the beginning of the 1970s it was, in Belgium, at a level comparable to that of the other EEC countries. After the first oil shock it fell more in Belgium than in the latter : from 1976 to 1987 it thus lagged behind by nearly 2 p.c. of GDP. Thanks to its very rapid growth during the last two years, however, it has now nearly caught up with the European average. The falling behind of investment by Belgian enterprises and the catching up of the leeway are connected with the

divergences in the distribution of national income in Belgium and abroad. From 1975 to 1978 the share of national income accruing to enterprises — which provides a measure of their profitability — declined much more in Belgium than in the neighbouring countries. The difference, very considerable at that time, subsequently decreased slowly, becoming insignificant in 1989. Comparisons of investment rates between countries and between distant periods must, however, be viewed with great caution. The structure of the economy, which does not remain rigid as time goes on and differs from country to country, exerts an influence on the investment rate and may thus explain certain differences. In the case of Belgium, for instance, the sharp decrease in the share of manufacturing industry in GDP in favour of the market services sector, whose investment rate is appreciably lower, has produced a structural downward trend of the investment rate for enterprises as a whole.

CHART 10 — INVESTMENT RATES¹ : INTERNATIONAL COMPARISON



Sources : NSI (Belgium), OECD (EEC).

¹ Percentage ratio between gross fixed capital formation and GDP at current prices.

In the EEC, expenditure on housing has declined steadily since 1970 in terms of GDP. In Belgium, on the other hand, it has fluctuated much more markedly : after having risen uninterruptedly from 1972 to 1978 it subsequently decreased substantially until 1984, and then recovered during the last few years. In 1989 it returned to the level of the neighbouring countries.

During the last twenty years public investment has decreased, in terms of GDP, both in Belgium and in the other EEC countries. In the latter the contraction took place mainly during the 1970s. In Belgium, on the other hand, public investment

was sustained at about 4 p.c. of GDP until 1981 and only decreased after that. As a result of the rehabilitation of the public finances it was then reduced more than elsewhere. In 1989 it was down to only 1.8 p.c. of GDP, against 2.8 p.c. in the EEC as a whole.

Altogether, since 1970, the share of total gross fixed capital formation in GDP in Belgium has been regularly below the European average. Belgian investment lagged particularly far behind at the beginning of the 1980s. Its strong recovery during the last two years has, however, enabled it to reattain a level more comparable to that of the other EEC countries.

2.2 VALUE ADDED OF THE VARIOUS BRANCHES OF ACTIVITY

Summary

The main branches of activity all shared in the continued cyclical upswing : the growth rates observed in industry, building and market services were similar to those in 1988. In the « agriculture, forestry and fisheries » sector and that of non-market services, on the other hand, there was hardly any change in activity.

Agriculture, forestry and fisheries

The stabilisation of the value added of agriculture, forestry and fisheries in 1989 is due to a reduction in animal production and a slight increase in vegetable production. Thanks to the good weather conditions during the year under review, vegetable products were again abundant. Animal production, on the other hand, contracted : whereas, during the preceding years, the reduction in milk quotas had induced cattle-farmers to slaughter cattle and thus increase meat production, these factors no longer operated in 1989.

TABLE 4 — VALUE ADDED OF THE VARIOUS BRANCHES OF ACTIVITY AT 1985 PRICES

(Percentage changes compared with previous year)

	1986	1987	1988	1989 e	p.m. Percentages of 1988 GDP
Agriculture, forestry and fisheries	4.7	-5.0	8.0	0.1	(2.3)
Industry	-1.6	2.2	4.4	4.8	(24.2)
of which : Manufacturing industry	-1.2	1.2	5.1	5.1	(20.2)
Electricity, gas, water	-2.4	9.1	1.5	3.7	(3.7)
Building industry	3.3	3.2	12.0	12.0	(5.7)
Market services	3.5	3.8	4.5	4.4	(58.9)
Non-market services	1.5	0.2	0.3	1.3	(13.2)
GDP ¹	1.8	2.0	4.3	4.2	(100.0)

Source : NSI.

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

Industry

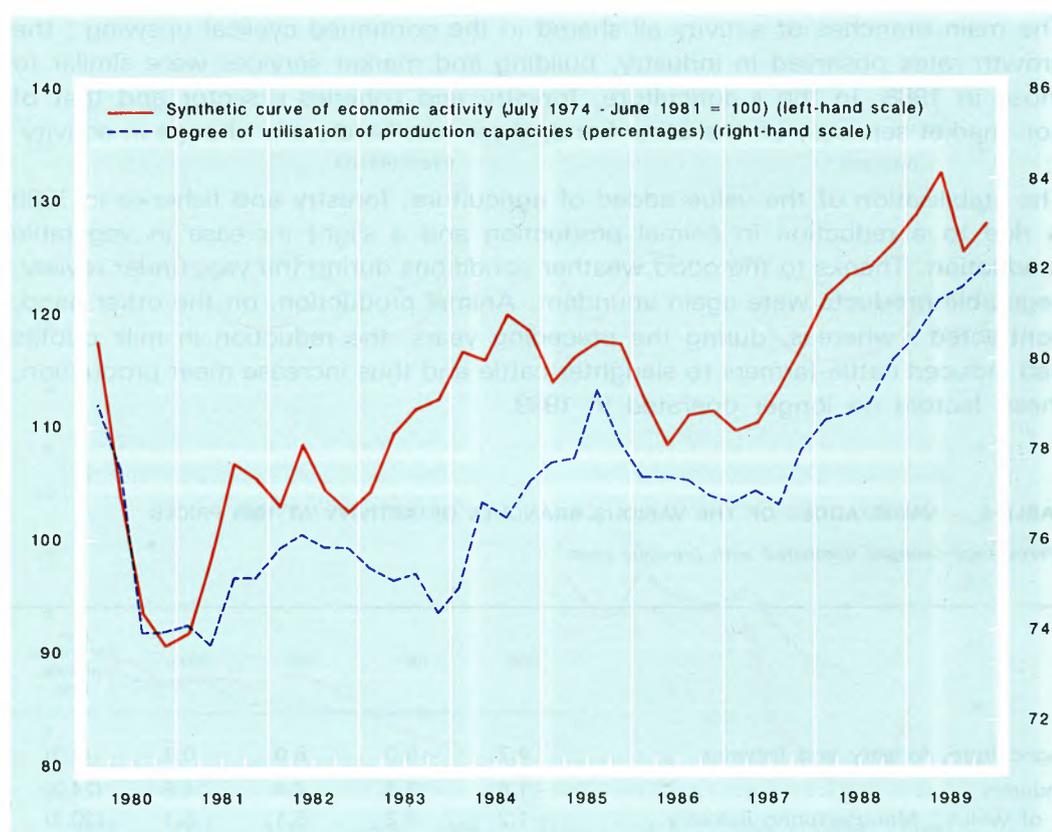
The sustained growth in value added in industry is attributable to manufacturing industry, where the continuation of the cyclical expansion which started in the third quarter of 1987 led to a further increase in the rate of utilisation of production capacities, despite the substantial investment which had been taking place since 1984.

In 1988 the cyclical improvement had applied mainly to capital goods; in 1989 it spread to the industries producing consumer goods, thus reflecting the movement observed on the expenditure side, where the growth in GNP stemmed both from private consumption and from investment.

Thus the recovery in demand from households explains why the increase in activity was more marked than in 1988 in the « textiles, clothing and footwear », « food, beverages, tobacco » and « wood and furniture » industries combined.

In the metal-working industry, too, the growth in the value added was greater than in the previous year : the improvement was particularly marked in shipbuilding and boiler-making, which received major export orders. Production of motor vehicles, for its part, exceeded the already exceptional level reached in 1988.

CHART 11 — ECONOMIC ACTIVITY IN MANUFACTURING INDUSTRY



Source : NBB.

Other industries, including the chemical industry, generally showed a slightly smaller expansion than in 1988. The iron and steel industry is the only branch of manufacturing industry whose value added decreased in 1989. This decline is attributable to production stoppages caused by industrial unrest, the repairing of production units and the installation of new equipment. Had it not been for these fortuitous disturbances, activity would probably have risen at a rate similar to that observed elsewhere in Europe, namely 3 to 4 p.c.

The quickening of expansion in the « electricity, gas, water » branch is solely due to the increased use of gas by power stations, which substituted this energy source for coal and, subsidiarily, oil. Distribution of gas to households, on the

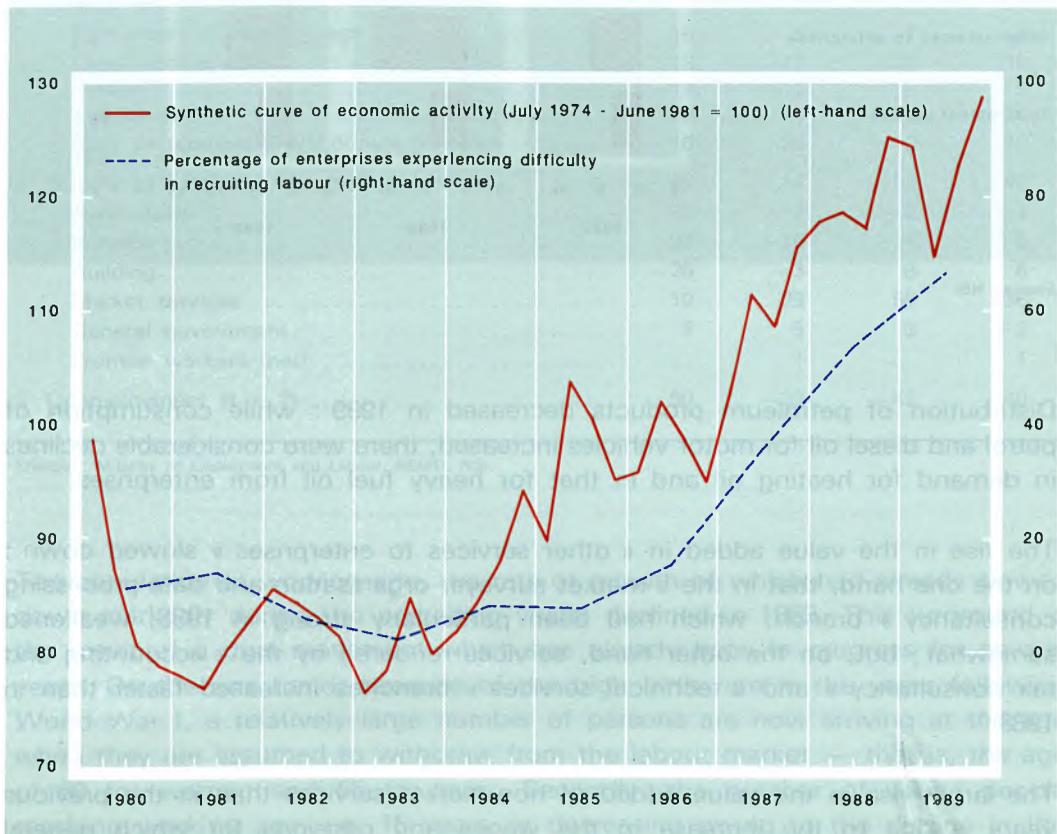
other hand, underwent hardly any change, because the winter was just as mild as in 1988. Despite the mildness of the winter, however, production of low-voltage electricity, mainly for households, increased, unlike in the previous year. Demand for high-voltage electricity from enterprises, for its part, rose more slowly, because there was no increase in the requirements of basic metallurgy. Altogether, production of electricity increased slightly less rapidly than in 1988.

Building

In the building industry the value added continued to grow very rapidly in 1989 and strains became increasingly apparent. Thus, according to the Bank's business surveys, over 80 p.c. of enterprises were making full use of their labour forces and two thirds were unable to achieve any further increase in the utilisation of their equipment. These strains had repercussions on the labour market, where bottlenecks appeared : nearly two thirds of the enterprises which participate in the Bank's surveys thus stated that they were having recruitment difficulties.

This situation is not surprising in view of past developments. Since 1985, the year when it was at its lowest level in the 1980s, the value added of the building industry has risen by over 30 p.c., thus coming close to the level reached in 1980. In the meantime, however, this branch of activity has undergone a far-reaching structural change : thus it now has nearly 70,000 less jobs than in 1980, or 25 p.c. of its total labour force at that time, and has therefore achieved substantial productivity gains. These have been partly due to the more important role played in this sector's activity by non-residential building, where productivity is higher than in residential building. But the expansion in activity has also been made possible by the existence of a reserve of available skilled labour which has been gradually absorbed. Thus the number of unemployed building workers has contracted substantially, from nearly 60,000 in 1983 to about 28,000 in 1989.

CHART 12 — ECONOMIC ACTIVITY IN THE BUILDING INDUSTRY

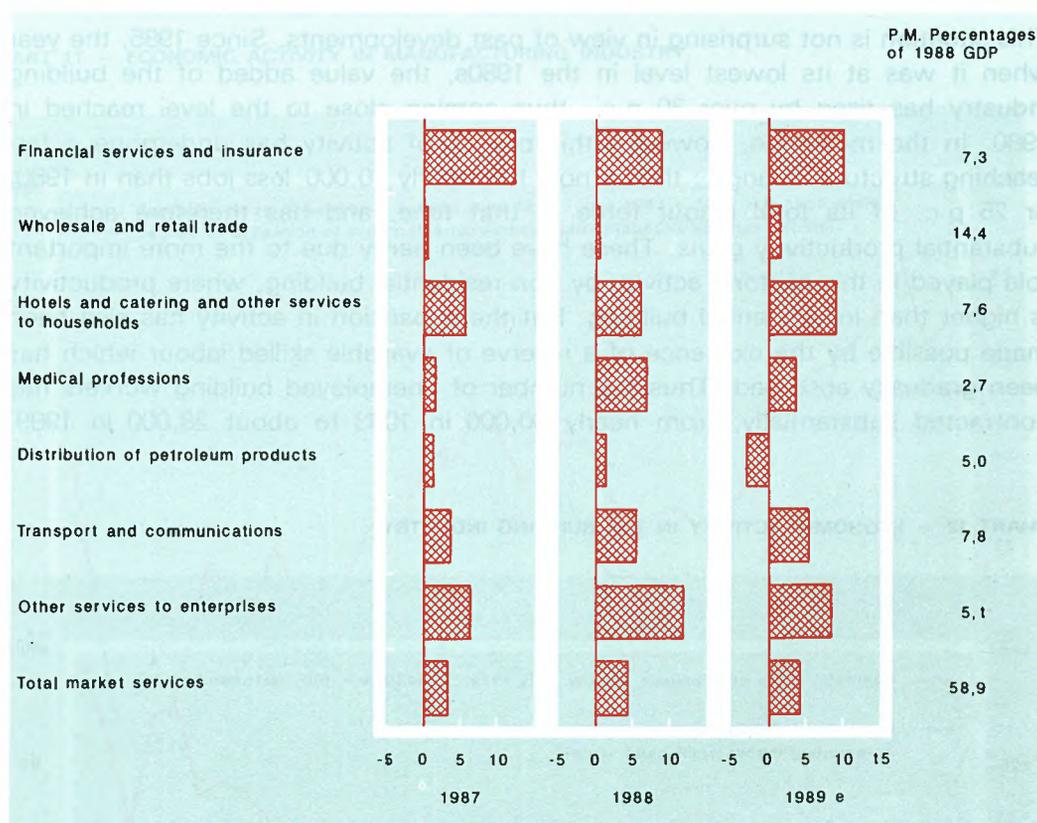


Source : NBB.

In the market services the available statistics are scanty and the quality of the indicators is unsatisfactory. The value added of these services would, however, appear to have gone on increasing at about the same rate as in 1988. Within this category, financial and insurance services continued their upward trend. Furthermore, as in manufacturing industry, some branches benefited by the recovery of private consumption. The value added of wholesale and retail trade would appear to have increased by 1.5 p.c. in 1989, after two years of slow growth. The growth in services rendered to households also speeded up : this movement is largely attributable to spending in the hotel and catering sector.

CHART 13 — VALUE ADDED OF MARKET SERVICES AT 1985 PRICES

(Percentage changes compared with previous year)



Source : NSI.

Distribution of petroleum products decreased in 1989 : while consumption of petrol and diesel oil for motor vehicles increased, there were considerable declines in demand for heating oil and in that for heavy fuel oil from enterprises.

The rise in the value added in « other services to enterprises » slowed down : on the one hand, that in the « market surveys, organisation and data-processing consultancy » branch, which had been particularly strong in 1988, weakened somewhat ; but, on the other hand, services rendered by the « accounting and tax consultancy » and « technical services » branches increased faster than in 1988.

The larger rise in the value added of non-market services than in the previous years is due to the increase in the wages and pensions for which general government is responsible. Despite the reduction in employment, total wages and

salaries in this sector rose in terms of constant prices, chiefly because of social programming, which is regarded as being partly the counterpart of a rise in productivity.

2.3 LABOUR MARKET

Thanks to the strong economic growth, the situation on the labour market improved for the fifth year in succession. The creation of some 45,000 jobs in 1989 brought the total increase in the number of jobs since 1984 up to around 160,000 units, representing a rise of 4.5 p.c.

Demand for jobs

Against this continued expansion in supply, demand for jobs, which corresponds to the labour force, increased only slightly. The joint determinants of this demand are the demographic trend, the sociological factors which influence the activity rate and the development, on the initiative of general government, of schemes encouraging early or temporary withdrawal from the labour market.

TABLE 5 — DEMAND FOR AND SUPPLY OF EMPLOYMENT

(Changes in thousands of units on 30th June)

	Average			
	1980-1983	1984-1987	1988	1989 e
1. Demand for employment (labour force)	20	-6	12	5
Effects of :				
Population of working age	18	8	1	-4
Gross activity rate	18	12	22	18
Men	-11	-12	-8	-9
Women	29	24	30	27
Early or temporary withdrawal schemes	-16	-26	-12	-10
2. Supply of employment (employment)	-40	14	53	45
Agriculture	-3	-2	-2	-1
Industry	-30	-15	-14	5
Building	-20	-3	8	6
Market services	10	29	58	36
General government	3	5	3	-2
Frontier workers (net) .....	...	1	...	1
3. Unemployment (1 - 2)	60	-20	-42	-40

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

The population of working age, the rate of growth of which had already slowed down markedly during the preceding years, declined in 1989. This turnaround is the result of a dual movement which has already been in progress for several years. On the one hand, because of the high birth rate in the years following World War I, a relatively large number of persons are now arriving at the age when they are assumed to withdraw from the labour market — that is, the age of 60 for women and 65 for men. Secondly, the number of young people reaching working age, i.e. 15 years, is decreasing owing to the decline in the birth rate since the beginning of the 1970s. This dual movement is expected to

continue during the coming years, so that the moderating effect exerted on demand for jobs by the development of the population of working age should become even more pronounced.

The activity rate of the population of working age went on rising, albeit slightly less fast than in 1988, contributing to the increase of about 18,000 units in the demand for jobs. This overall growth does, however, conceal divergent movements between men and women. As during the preceding years, the female activity rate showed a structural rise which remained far greater than the declining trend of the male activity rate.

The early retirement schemes and the measure which, under certain conditions, allows older unemployed persons to be no longer regarded as job-seekers seem to have reached their maximum extent. Consequently, there was hardly any further increase in 1988 and 1989 in the number of persons benefiting by the early withdrawal schemes. On the other hand, twice as many persons took advantage of the measure encouraging complete career interruptions: these numbered 18,000 in 1989 compared with 8,000 in 1987.

Public interventions on the labour market are not confined to schemes designed to reduce demand for jobs but also include general government's recruiting policy. The increase in the number of persons given work through all the special programmes composing the parallel circuits amounted to only 2,000 units and did not counterbalance the reduction in employment, of 4,000 units, in the traditional circuits. The last-mentioned decline, which has been almost continuous since 1982, was mainly concentrated in education.

Supply of jobs

The growth in employment observed in 1989 was therefore attributable to enterprises alone. Net recruitments by these reached 46,000 units and thus kept up at a level comparable to that for the previous year.

TABLE 6 — VALUE ADDED, EMPLOYMENT AND PRODUCTIVITY IN ENTERPRISES

(Annual percentage changes compared with previous year)

	1984-1987	1988	1989 e
Value added	2.2	5.2	5.0
Number of persons employed	0.4	1.7	1.5
Number of years of full-time work	-0.1	1.8	1.5
Value added per person employed	1.8	3.4	3.4
Value added per year of full-time work	2.3	3.3	3.4

Sources: Ministry of Employment and Labour, NSI, National Sickness and Disablement Insurance Institute.

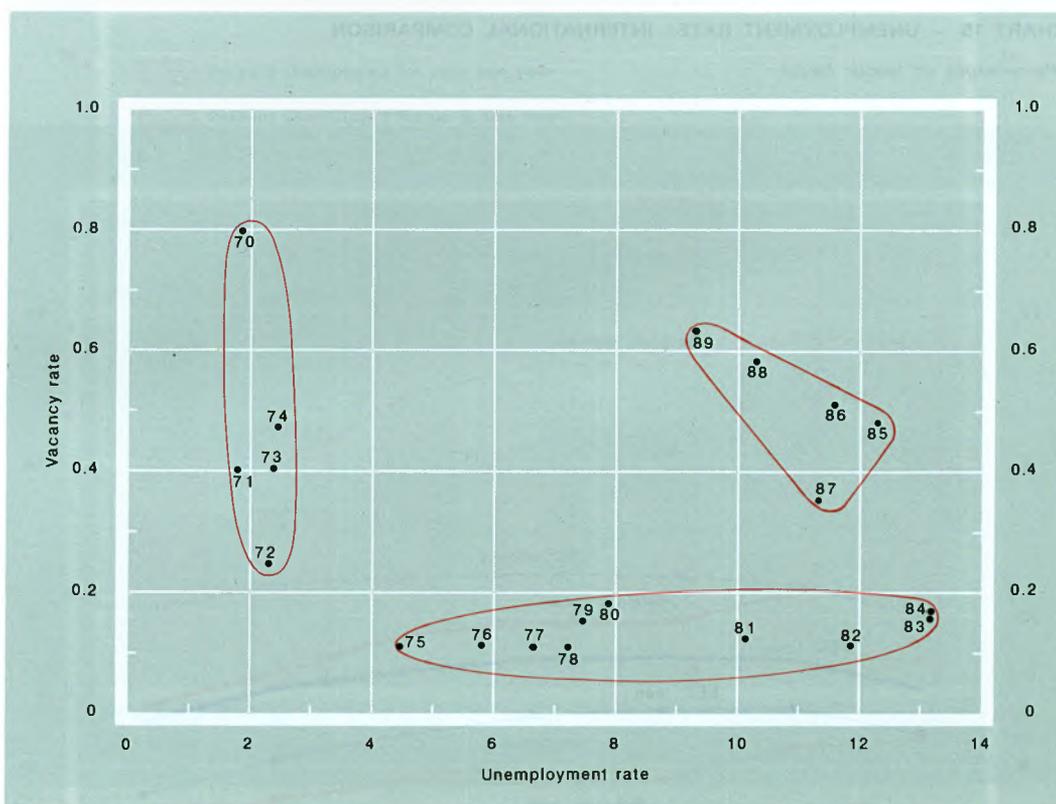
Market services remained the chief source of job creation, even though the increase in labour in this branch of activity did not reach the particularly high level attained in 1988. This development confirms the continuous expansion in employment in market services: over a period of five years it was more than 11 p.c. Industry, for the first time since 1974, showed an increase in its labour force, estimated at 5,000 units, while a further expansion in employment of about 6,000 units was achieved in building.

The development of employment in enterprises is in fact dependent on three major factors : economic growth and productivity, which, together, determine the overall volume of employment, and the redistribution of working hours, which makes it possible to employ a larger number of persons for the same volume of employment.

As in 1988, the last-mentioned factor did not exert the decisive influence on the supply of employment which it had had for a few years before that. Admittedly, the increase in part-time employment continued, especially in services, reflecting growing flexibility on the labour market, which was promoted by general government. The number of persons who accepted a job with shorter hours in order to escape unemployment in fact increased further by 20,000 units in 1989, against 22,000 units in 1988, while the system of partial career interruptions involved approximately 22,000 persons in 1989, compared with 15,000 in 1988.

CHART 14 — RELATIONSHIP BETWEEN UNEMPLOYMENT RATE AND VACANCY RATE

(Percentages of labour force on 30th June)



Source : NEMO.

This structural increase in part-time working was, however, accompanied by a reduction, of a more cyclical nature, in partial unemployment, which is observable chiefly in industry and building. These partial lay-offs, which allow enterprises to maintain the overall level of their labour force while temporarily reducing the working hours of part of their personnel, affected only about 37,000 persons in 1989, against 50,000 in 1988 and 64,000 in 1987. On balance, therefore, employment converted into years of full-time working — a concept which makes it possible to eliminate the incidence, on the development of employment, of part-time working and partial unemployment — appears to have increased at the same rate as the number of persons employed, namely 1.5 p.c.

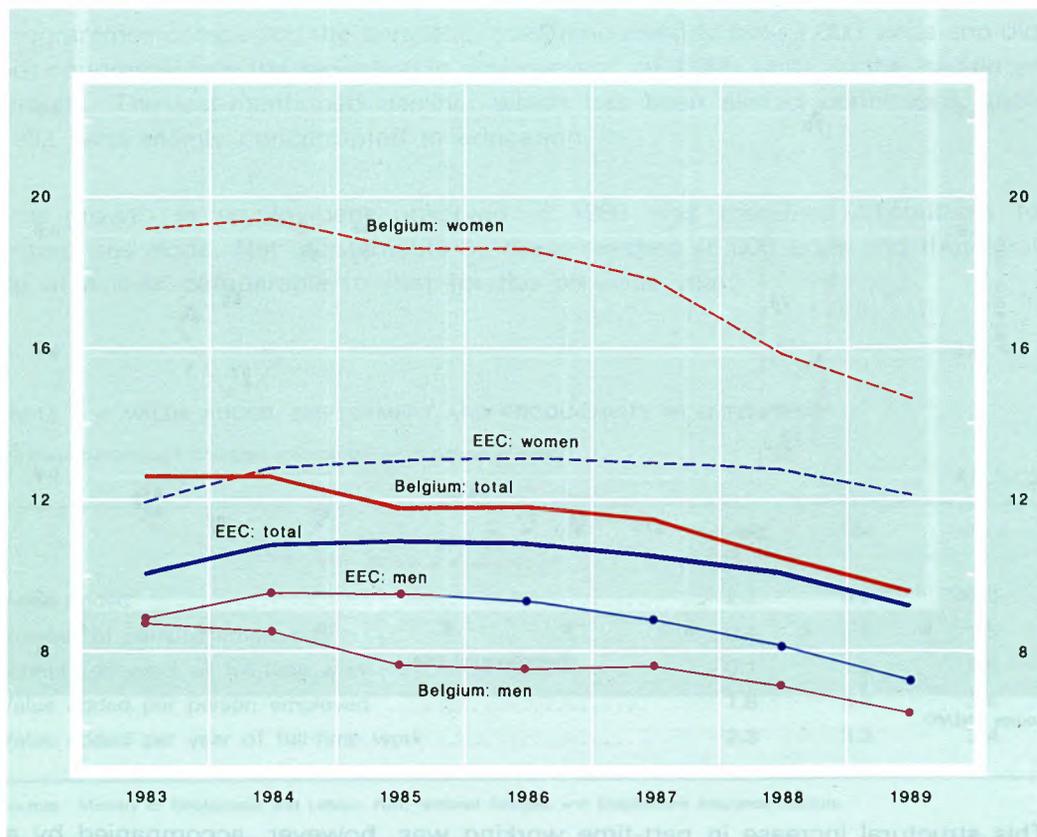
Job creation in enterprises was thus determined solely by the movements of economic activity and productivity. While growth was strong in 1989, its beneficial effect on employment was lessened by a fairly substantial increase in the apparent productivity of labour. The latter, whether measured in terms of value added per person employed or of value added per year of full-time work, increased much faster in 1988 and 1989 than during the preceding years. This recent development might be attributable to the cyclical situation, insofar as a speeding-up of growth often tends to be partly absorbed by a larger rise in productivity. It might also be the reflection of an increase in activity less concentrated on services, where productivity gains are traditionally smaller than in industry and building.

The expansion of employment in enterprises, combined with the small increase in the labour force, led to a further reduction in unemployment of 40,000 units. The number of unemployed job-seekers thus fell to an average of 419,000 in 1989, so that unemployment has decreased by about 30 p.c. in five years.

Matching of supply of and demand for jobs

CHART 15 — UNEMPLOYMENT RATE : INTERNATIONAL COMPARISON

(Percentages of labour force)



Source : EEC.

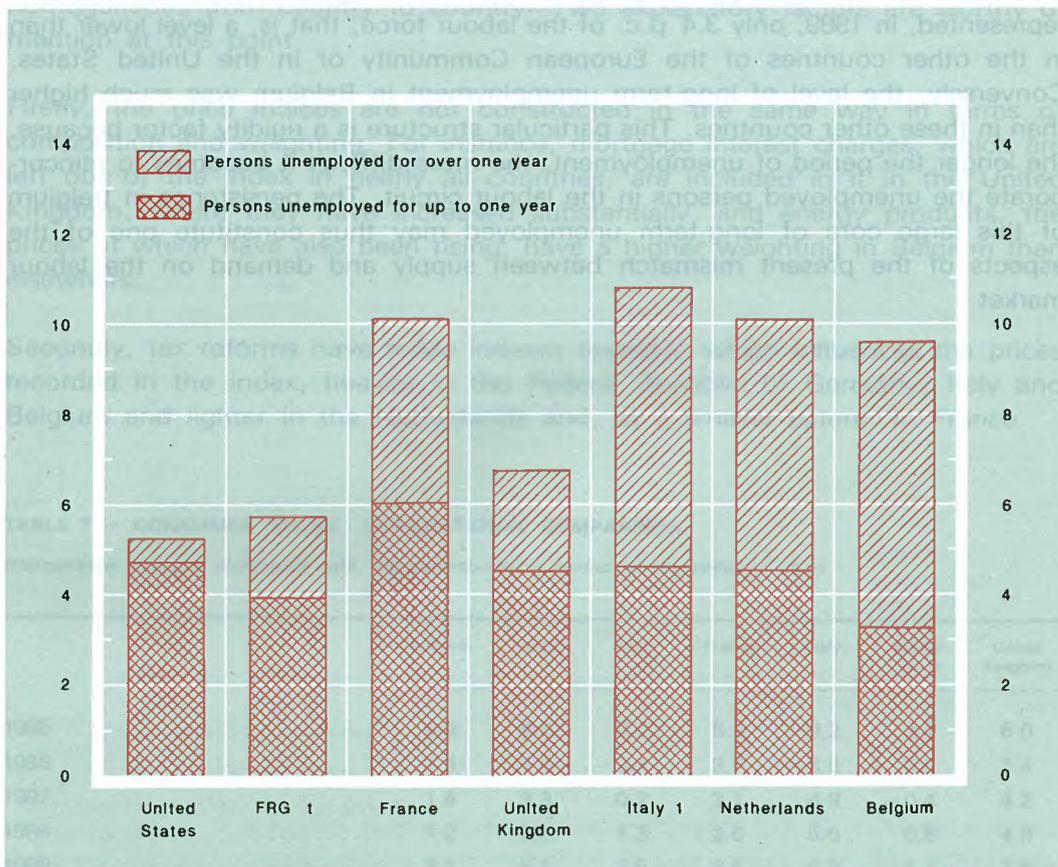
In view of the still high number of unemployed job-seekers it might be thought that enterprises should have little difficulty in recruiting personnel. Recruiting difficulties are, however, becoming evident in some parts of the country or in some branches of activity, like building. This mismatch between the supply of and the demand for jobs is difficult to measure with accuracy. This is because,

while unsatisfied demand for jobs is recorded almost exhaustively by the unemployment statistics, only part of the number of unfilled vacancies is officially recorded. Furthermore, the relationship between reported vacancies and total vacancies may vary from year to year depending on the situation on the labour market.

Subject to these data-recording problems, a high unemployment rate should normally be coupled with a low vacancy rate, while a high number of unfilled vacancies should be matched by a small number of unemployed persons. This converse ratio, known by the name of « Beveridge curve », has not, however, remained stable during the last two decades.

CHART 16 — LEVEL AND DURATION OF UNEMPLOYMENT IN 1989 : INTERNATIONAL COMPARISON¹

(Percentages of labour force)



Sources : EEC, OECD (total level of unemployment); national sources (breakdown of unemployment by duration).

¹ The breakdown by duration was made on the basis of data for 1988.

The period of the early 1970s was characterised by low unemployment and a high percentage of unfilled vacancies. In 1975 employment increased considerably and vacancies became negligible, so that the subsequent increase in the number of unemployed persons, which was continuous until 1984, was no longer reflected in a further reduction in the number of vacancies. Since 1985 the gradual decline in the unemployment rate has once more been coupled with an increase in unfilled vacancies. This rise, which was interrupted only in 1987, has been particularly pronounced. The percentage of vacancies in relation to the labour force is coming close to the historical peak recorded in 1970, while the present unemployment rate is still much higher than it was at the beginning of the

preceding decade. This growing discrepancy between supply and demand on the labour market might be due to the rapid changes in the qualifications looked for by enterprises or to unsuitability of the vocational training of some of the job-seekers.

The overall Belgian unemployment rate, standardised for purposes of international comparison, fell from 12.6 p.c. in 1983 to 9.7 p.c. in 1989. While this rate was still above the EEC rate at the beginning of the decade, it has now practically come down to the Community average. This convergence does, however, conceal widely contrasting movements of male and female unemployment. Whereas the latter, despite a considerable decline, is still much higher than the corresponding rate for the EEC, the rate of male unemployment, on the other hand, is much lower in Belgium than in the Community as a whole.

The structure of unemployment in Belgium differs from that in the other EEC countries not only by the breakdown between men and women but also by its duration. The number of persons who have been unemployed for less than a year represented, in 1989, only 3.4 p.c. of the labour force, that is, a level lower than in the other countries of the European Community or in the United States. Conversely, the level of long-term unemployment in Belgium was much higher than in these other countries. This particular structure is a rigidity factor because, the longer the period of unemployment, the more difficult it becomes to reincorporate the unemployed persons in the labour circuit. The persistence in Belgium of this large core of long-term unemployed may thus constitute one of the aspects of the present mismatch between supply and demand on the labour market.

3. PRICES AND COSTS

3.1 CONSUMER PRICES AND OTHER DEFLATORS

In Belgium, as in the EEC as a whole, the rise in consumer prices quickened in 1989. For various reasons the extent of this movement was not, however, homogeneous from country to country. Two explanatory factors are worthy of mention at this point.

Firstly, the price indices are not constructed in the same way in terms of composition and weighting. For instance, mortgage interest charges, which are left out of the index in nearly all countries, are included in it in the United Kingdom, where they have increased substantially, and energy products, the prices of which have also been rising, have a higher weighting in Belgium than elsewhere.

Secondly, tax reforms have made indirect taxation, which influences the prices recorded in the index, heavier in the Federal Republic of Germany, Italy and Belgium and lighter in the Netherlands and, to a smaller extent, in France.

TABLE 7 — CONSUMER PRICES : INTERNATIONAL COMPARISON

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

	Belgium	EEC	FRG	France	Italy	Nether-lands	United Kingdom
1985	4.9	6.0	2.0	5.9	9.2	2.2	6.0
1986	1.3	3.5	-0.1	2.7	5.8	0.2	3.4
1987	1.6	3.3	0.2	3.1	4.8	-0.4	4.2
1988	1.2	3.6	1.3	2.6	5.0	0.8	4.9
1989	3.1	5.1	2.8	3.5	6.3	1.1	7.8
1989 1st quarter	2.6	4.9	2.5	3.5	5.9	0.9	7.8
2nd quarter	3.0	5.3	2.9	3.6	6.5	1.1	8.2
3rd quarter	3.2	5.2	2.8	3.4	6.4	1.2	7.7
4th quarter	3.6	5.3	2.9	3.6	6.3	1.3	7.6

Source : EEC.

The average price rise in Belgium remained smaller than in the Community as a whole and of the same order of magnitude as in the FRG. The situation worsened somewhat, however, during the year.

The index of consumer prices went up, during the year under review, by 3.1 p.c. on annual average. Compared with the previous year's particularly low level of

1.2 p.c. the inflation rate therefore rose by nearly 2 points, of which 0.3 point is attributable to the direct effect of the raising of the excise duties on fuels, tobacco and alcohol. Even so, except in 1986 to 1988, there has not been a lower rate of inflation since 1968.

The quickening of inflation took place mainly in energy and food products. The prices of the former, which, by their decline, had contributed greatly to the slowing-down of inflation between 1986 and 1988, rose again owing to the recovery of world prices for primary energy, sustained by the strength of demand, the appreciation of the dollar and the raising of excise duties which came into force on 1st January and 4th August.

Categories of consumer prices

After two years of stability, the consumer prices of food products went up owing to the effect of the appreciation of the dollar on import prices and to the fairly pronounced increase, after a cumulative decline of 10 p.c. in four years, in domestic agricultural and horticultural producer prices. The decline in the prices of animal products during the preceding years led, more at Community level than in Belgium, to a contraction in total supply, which brought about a rise in prices.

TABLE 8 — CONSUMER PRICES : MAIN CATEGORIES

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

	Overall index	Energy products	Food products	Other products	Services	Rents
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
1987	1.6	-6.9	-0.4	3.7	3.1	4.3
1988	1.2	-3.4	...	2.5	1.5	3.6
1989	3.1	6.5	3.1	2.5	2.6	3.7
1989 1st quarter	2.6	2.9	1.8	2.8	2.5	4.1
2nd quarter	3.0	7.5	2.4	2.5	2.4	3.6
3rd quarter	3.2	6.0	3.7	2.4	2.8	3.7
4th quarter	3.6	9.7	4.5	2.4	2.5	3.4

Source : Ministry of Economic Affairs.

Despite the rise in the inflation rate, the substantial increase in building prices and, more still, the sharp upward movement, in certain large cities, of the price of property on the secondary market, there was no quickening of the rise in the rent index. This situation, which may appear paradoxical, is attributable to the fact that the index probably only partly incorporates actual rent adjustments made in cases where there is a change of tenant. By a law of 22nd December 1989, non-commercial leases expiring before 31st December 1990 are extended by one year.

The rises in the deflators other than that of private consumption, namely those of public consumption, gross capital formation and foreign trade, were likewise faster than in the previous year.

Other deflators

This quickening was particularly marked for export and import prices. The latter, after having declined considerably or risen only slightly for some years, both went up by 6.8 p.c., so that the terms of trade remained stable.

TABLE 9 — FOREIGN TRADE PRICES

(Percentage changes compared with previous year)

	1986	1987	1988	1989 e
Exports of goods and services	-8.2	-3.6	2.8	6.8
Imports of goods and services	-12.2	-4.3	2.7	6.8
p.m. Weighted average exchange rate of foreign currencies	(-7.6)	(-5.0)	(-0.1)	(-0.2)
Terms of trade	4.5	0.7	0.1	...

Sources : NSI, NBB.

3.2 LABOUR COSTS AND OTHER DOMESTIC COSTS

Through the application of the indexation clauses, the resurgence of inflation contributed greatly to the quickening of the rise in nominal wages in enterprises in 1989.

The collectively agreed wage increases also contributed to this. The total rise in labour costs resulting from the Central Agreement and the sectoral negotiations in respect of the period 1989-1990 is estimated at between 3.5 and 4 p.c. of total wages and salaries, including 2 p.c. in 1989.

TABLE 10 — LABOUR COSTS IN ENTERPRISES¹

(Percentage changes compared with previous year)

	1986	1987	1988	1989 e
Compensation per employee per year of full-time work	3.7	3.2	1.9	5.3
Increase resulting from :				
Indexations	2.2	1.2	1.1	2.7
Wage increases under collective agreements .....	...	1.4	1.0	2.0
Employers' social security contributions ²	0.2	0.1	-0.1	...
Other factors ³	1.3	0.4	-0.1	0.5

Source : NBB.

¹ Private and public enterprises.

² Except for the index omissions in 1985 and 1987, which were assigned to the « Indexations » item.

³ Including wage drift, the divergence between estimated and actual indexations of wages and errors and omissions.

With regard to wage drift, two opposite factors appear to have been operating in 1989. On the one hand, as in 1988, the increase in employment, mainly due to the recruitment of young people, depressed the average unit wage, but, on the other hand, the labour shortage in certain segments of the labour market led to upward pressures on wages.

Altogether, compensation per employee in enterprises, expressed in years of full-time work, rose by 5.3 p.c., against 1.9 p.c. in 1988.

Calculated from total wages and salaries per employee in manufacturing industry, which undoubtedly includes most exporting enterprises, the rise in labour costs in Belgium, according to EEC estimates, exceeded the weighted average of the corresponding rises in Belgium's five main European trading partners. This development is mainly due to the slower increase in these costs in the Federal Republic of Germany, the Netherlands and France. The rise in labour costs in Belgium was also greater than that in its seven main trading partners. If, however, all these costs are converted into a common currency, in this case the Belgian franc, the difference between the movement in Belgium and that in the seven main competing countries disappears owing to the appreciation of the dollar.

TABLE 11 — LABOUR COSTS PER EMPLOYEE IN MANUFACTURING INDUSTRY¹: INTERNATIONAL COMPARISON

(Percentage changes compared with previous year)

	1986	1987	1988	1989		Weightings ²
	In Belgian francs		In national currency	Exchange rate	In Belgian francs	
Belgium	5.9	4.4	3.1	5.7	—	5.7
Five main European trading partners	2.3	2.0	5.4	5.0	...	5.1 (84.6)
Seven main trading partners	-0.1	0.1	5.4	4.9	0.8	5.7 (100.0)
FRG	5.6	4.4	4.4	3.7	0.1	3.8 (31.0)
Netherlands	3.7	3.5	3.0	2.2	-0.1	2.1 (10.7)
France	2.4	-0.3	3.3	4.2	0.1	4.3 (23.3)
United Kingdom	-9.1	-0.2	14.0	9.5	-1.3	8.1 (11.4)
Italy	3.3	1.0	6.0	9.8	1.7	11.7 (8.2)
United States	-23.1	-15.0	0.7	3.8	7.1	11.2 (10.4)
Japan	8.7	-0.8	16.0	4.8	-0.2	4.6 (5.0)

Sources: EEC, OECD.

¹ Total remuneration per employee, not converted into years of full-time work.

² The weightings, based on the IMF model for competitiveness, take account of each country's share in Belgium's exports and imports and of the importance of each of these countries as a competitor of Belgium in third markets.

The international comparison of labour costs is one of the assessment factors specified by the law of 6th January 1989 for safeguarding the country's competitiveness. The law in fact stipulates that the latter must be regarded as being threatened when export performance and at least one of the other four assessment criteria, namely labour cost per employee in the private sector, financial costs, energy costs and certain structural determinants of the competitive position, show a worsening compared with the base year 1987. Each of these criteria is calculated in relative terms, that is, by comparison with the situation of the BLEU's main partners, namely, according to the criteria, a group of five European countries or the same group plus the United States and Japan.

Every year, competitiveness is the subject of an assessment by the Central Council of the Economy, followed by consultation between the Government and both sides of industry. If, after these examinations, it is found that competitiveness is threatened in the light of the criteria defined above, the Government may make a statement on the subject, supported by reasons, to the Legislative Chambers, which may in turn confirm this observation by a vote. The Government is then authorised to take, by a Royal Decree enacted in the Council of Ministers, corrective measures, including with regard to the formation of labour costs and corporate taxation.

The law also provides for an emergency procedure applicable in cases where there are exceptional circumstances, for instance a sharp alteration in exchange rates.

The still provisional data indicate that competitiveness was preserved in 1989. According to estimates based on OECD data, the BLEU's market share appears to have stabilised, whereas the five European trading partners appear to have lost ground on average. The movement of total wages and salaries per employee in manufacturing industry — the only datum which at present enables a valid international comparison to be made — was, as has just been seen, expressed in a common currency, the same in Belgium as, on average, in its seven main trading partners. This parallelism also appears to apply for the labour costs of the whole private sector, as shown by the statistics recently published by the OECD. With regard to financial costs, short-term interest rates, unlike long-term rates, rose less in Belgium than abroad. Among the structural determinants, gross fixed capital formation in capital goods by enterprises grew faster in Belgium in 1989 than in each of its five main European trading partners.

Labour costs per unit of output

Although the law of 6th January 1989 does not explicitly mention the movement of productivity as a criterion, account nevertheless has to be taken of this in order to assess the final effect of the movement of labour costs on that of the cost prices of enterprises. In 1989 productivity rose at more or less the same rate in Belgium as, on average, in its main trading partners. Consequently, an international comparison of the movement of labour costs per unit of output yields, for that year, results similar to those of a comparison of the movement of labour costs per employee.

The results for the United Kingdom and above all for Italy and the United States are, however, less good than those for Belgium, while the results for the three neighbouring countries — the Federal Republic of Germany, the Netherlands and France — and also for Japan are better.

The productivity gains in Belgian private and public enterprises as a whole, which amounted to 3.6 p.c., were smaller than in manufacturing industry alone. Their

TABLE 12 — PRODUCTIVITY AND LABOUR COSTS IN MANUFACTURING INDUSTRY : INTERNATIONAL COMPARISON

(Percentage changes compared with previous year)

	Productivity per employee				Labour costs per unit of output (in Belgian francs)			
	1986	1987	1988	1989	1986	1987	1988	1989
Belgium	0.5	4.0	5.8	4.4	5.4	0.4	-2.6	1.2
Five main European trading partners	1.1	2.9	5.0	4.3	1.3	-0.8	0.4	0.8
Seven main trading partners	1.1	3.1	4.7	4.1	-1.0	-2.8	0.7	1.5
FRG	-1.1	0.9	4.2	3.9	6.8	3.4	0.2	-0.1
Netherlands	-0.9	1.4	4.0	4.0	4.7	2.1	-1.0	-1.9
France	3.2	3.7	6.4	5.0	-0.8	-3.9	-2.9	-0.7
United Kingdom	2.1	6.5	5.5	5.1	-10.9	-6.3	8.1	2.9
Italy	4.6	4.9	4.3	2.7	-1.2	-3.7	1.6	8.5
United States	1.9	2.9	1.9	2.5	-24.5	-17.4	-1.2	8.6
Japan	-1.3	7.6	6.8	4.3	10.1	-7.8	8.6	0.3

Sources : EEC, OECD, NBB.

labour costs per unit of output thus rose by 1.7 p.c. and, unlike in 1988, when they had decreased, in turn fuelled inflation. Account being taken of the share of labour costs in total costs, their contribution to inflation nevertheless appears to have been only 0.5 p.c.

Like labour costs per unit of output, indirect taxes net of subsidies, which had decreased in 1988, rose during the year under review. This fairly pronounced increase is due to the raising of excise duties in implementation of the tax reform, to the effect of this increase on VAT and to the stability of subsidies, after a large rise in 1988. The rise, per unit of output, in the other cost elements, referred to altogether as the gross operating surplus of the economy as a whole, although remaining considerable, slowed down somewhat.

Other domestic costs

TABLE 13 — DOMESTIC COSTS

(Percentage changes compared with previous year)

	1986	1987	1988	1989 e
Labour costs per unit of output ¹	2.8	0.8	-1.0	2.0
Indirect taxes net of subsidies per unit of output	0.9	11.3	-1.4	7.3
Gross operating surplus per unit of output	4.0	2.5	7.0	5.4
GDP	3.5	2.0	1.9	3.8

Sources : NSI, NBB.

¹ Unlike in Table 12, these data relate to the economy as a whole.

Altogether, the rise in the deflator of GDP, which, by definition, corresponds to that in domestic costs as a whole, was almost two points greater than in the previous year.

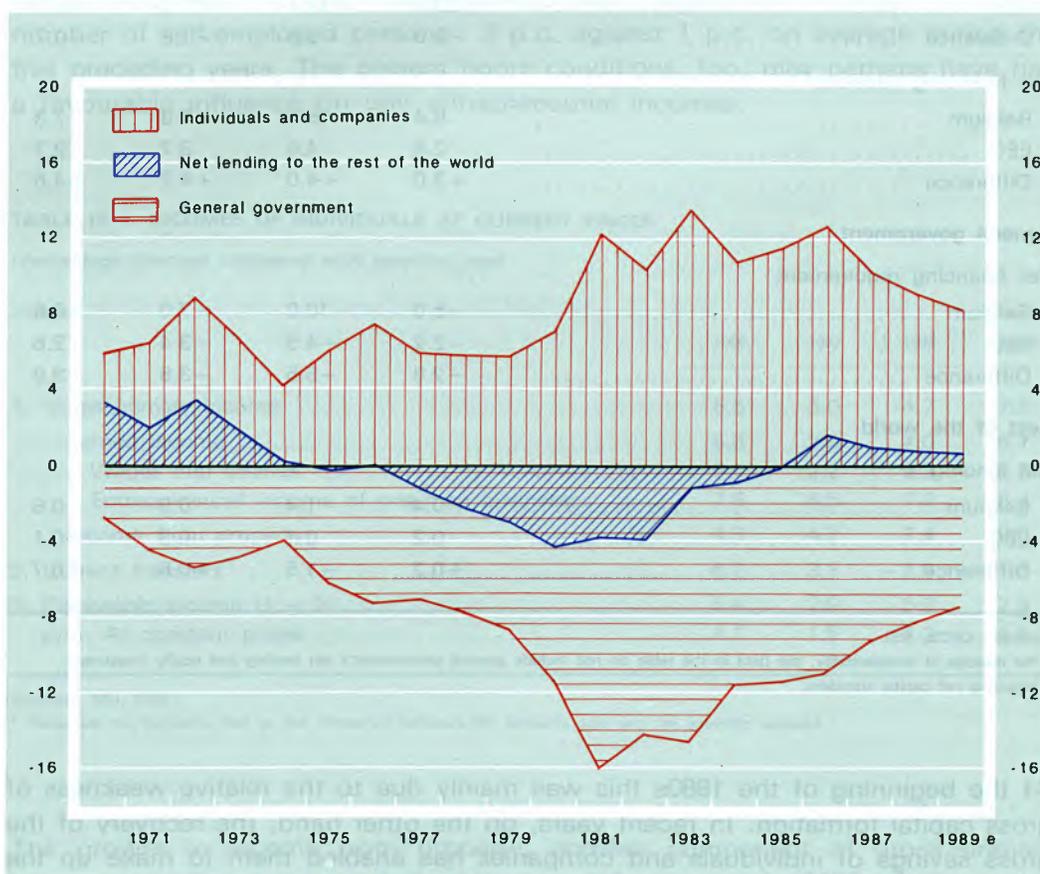
4. ACCOUNTS OF THE MAJOR DOMESTIC SECTORS

4.1 SUMMARY

The movements of the net financing capacities or requirements of the major sectors of the economy displayed the same trends in 1989 as in recent years. The net financing capacity of individuals and companies declined by 0.9 p.c. in

CHART 17 — NET FINANCING REQUIREMENT (–) OR CAPACITY (+) OF THE MAJOR SECTORS OF THE ECONOMY¹

(Percentages of GNP)



Source : NSI.

¹ Including general government's lending and equity investment.

terms of GNP. The net financing requirement of general government decreased to a comparable extent. Thus, net lending to the rest of the world, which

corresponds to the financing balance of the domestic sectors as a whole, underwent hardly any change.

The net financing requirement of general government requires, in order to maintain a balanced external position, an equally great net financing capacity of individuals and companies. By definition, this capacity, apart from capital transfers, is equal to gross savings minus direct investment. In Belgium the public deficit was appreciably greater than that of the other European countries, but the financing capacity achieved by individuals and companies, too, was greater.

TABLE 14 — NET FINANCING CAPACITIES AND REQUIREMENTS : INTERNATIONAL COMPARISON¹

(Percentages of GNP)

	1970-1979	1980-1987	1988	1989 e
Individuals and companies				
Gross savings				
Belgium	22.8	21.6	23.5	24.9
EEC	21.5	20.8	20.8	20.9
Difference	+1.3	+0.8	+2.7	+4.0
Gross capital formation				
Belgium	18.3	13.6	16.1	18.0
EEC	20.3	17.4	17.9	18.7
Difference	-2.0	-3.8	-1.8	-0.7
Net financing capacity ²				
Belgium	5.4	8.6	7.9	7.3
EEC	2.4	4.6	3.7	2.7
Difference	+3.0	+4.0	+4.2	+4.6
General government				
Net financing requirement				
Belgium	-5.0	-10.0	-7.0	-6.5
EEC	-2.2	-4.5	-3.4	-2.6
Difference	-2.8	-5.5	-3.6	-3.9
Rest of the world				
Net lending				
Belgium	0.4	-1.4	0.9	0.8
EEC	0.2	0.1	0.3	0.1
Difference	+0.2	-1.5	+0.6	+0.7

Sources : OECD, NSI.

¹ For reasons of comparability, the data in the table do not include general government's net lending and equity investment.

² Including net capital transfers.

At the beginning of the 1980s this was mainly due to the relative weakness of gross capital formation. In recent years, on the other hand, the recovery of the gross savings of individuals and companies has enabled them to make up the greater part of the leeway in capital investment without appreciably impairing their financing capacity.

This rise in the gross savings of Belgian individuals and companies is due both to the growth in the share of the disposable income of companies, which, by definition is entirely saved, and, more recently, to the rise in the rate of saving of individuals.

4.2 INDIVIDUALS AND COMPANIES

4.21 Income and expenditure of individuals

Income

Individuals benefited by the economic growth, which contributed in two ways to the increase in the main source of their income, namely earned income, since both employment — of employees and self-employed persons — and per capita incomes showed an upward trend.

In the enterprise sector the rise in wages and salaries in 1989, estimated at 6.8 p.c., was due both to an increase of 5.3 p.c. in compensation per year of full-time work and to a growth of 1.4 p.c. in employment, expressed in the same way. In the general government sector the rise — 4.3 p.c. — was smaller owing to a more moderate increase in unit remuneration than in enterprises and to stability of the number of recipients of wages and pensions for which general government is responsible. This stability conceals a small decrease in employment and an almost equal increase in the number of pensioners. Altogether, the expansion in the total of wages and salaries speeded up appreciably compared with the previous year.

The entrepreneurial income of one-man businesses also increased more than in the previous year. In 1989 this movement was coupled with a larger rise in the number of self-employed persons : 2 p.c. against 1 p.c. on average during the five preceding years. The present boom conditions, too, may perhaps have had a favourable influence on unit entrepreneurial incomes.

TABLE 15 — INCOMES OF INDIVIDUALS AT CURRENT PRICES

(Percentage changes compared with previous year)

	1986	1987	1988	1989 e
1. Gross primary income	5.5	3.0	4.7	7.2
Earned income	5.8	2.6	4.0	6.7
Wages and salaries	5.4	2.2	3.3	6.3
Entrepreneurial income of one-man businesses	7.6	4.5	7.0	8.4
Income from property	4.3	4.2	7.4	9.0
2. Current transfers ¹	6.2	3.3	-2.9	1.6
3. Disposable income (1 - 2)	5.4	2.9	5.6	7.8
p.m. At constant prices	4.1	1.5	4.0	4.6

Sources : NSI, NBB.

¹ These are net transfers, that is, the difference between the amounts paid and the amounts received.

The growth in income from property, another component of gross primary income, speeded up compared with the previous year. In 1989 it reflected in particular the recovery of short-term interest rates during the year and the increase in repatriated incomes from portfolio investments abroad.

Altogether, the rise in the gross primary income of individuals — that is, the income which accrues to individuals as remuneration for their contribution to the production process — went up, in nominal terms, from 4.7 p.c. in 1988 to

7.2 p.c. This difference is chiefly due to the quickening of inflation in 1989. In real terms the rate of increase of the gross primary income of individuals rose from 3.1 p.c. in 1988 to 4 p.c.

As the increase in net current transfers made to general government and to foreign countries was very moderate, the income which finally remained at the disposal of individuals rose slightly more than their gross primary income.

This development is chiefly explained by the smallness of the rise in direct taxes, which was less than 1 p.c. The tax burden on the incomes of individuals in fact decreased as a result of the new measures relating to the taxation of physical persons resulting from the law of 7th December 1988, which will be commented upon in greater detail further on. Even if account is taken of social security payments, the increase in which was parallel to that in earned income, the decline in the total fiscal and parafiscal burden on the incomes of individuals was accentuated in 1989, bringing it back to a level which was hardly any higher than that at the beginning of the decade.

The transfers received from general government, for their part, increased by 4.5 p.c. The effect of the additional expenditure resulting from measures in favour of the less privileged social categories of the population was reduced by a limited increase in social benefits, which were kept down by, among other things, the decline in unemployment.

Net transfers paid to foreign countries, which include in particular the wages and pensions paid to residents of non-neighbouring countries and the remittances made by foreign workers to their countries of origin, were a little higher than in 1988.

Altogether the disposable income of individuals went up by 7.8 p.c. Corrected by the deflator of private consumption, the rise in which was smaller than that in the deflator of GNP, the growth in disposable income in 1989 reached 4.6 p.c. in real terms. Of this increase in purchasing power, which was the greatest in the decade, 0.6 p.c. is attributable to the effect of the tax reform.

The share of the disposable income of individuals in GNP nevertheless declined once more in 1989. That of their consumption, substantial though it was, decreased more still. Thus their gross savings recovered from 12 to 12.6 p.c. of GNP. The expenditure devoted by households to their gross capital formation,

Financing capacity

TABLE 16 — SUMMARY OF TRANSACTIONS OF INDIVIDUALS

(Percentages of GNP)

	1970-1974	1975-1979	1980-1983	1984-1987	1988	1989 e
Disposable income	74.5	76.6	79.8	77.5	76.1	75.6
Consumption	60.0	61.7	65.5	65.8	64.0	63.0
Gross savings	14.5	14.9	14.3	11.7	12.0	12.6
p.m. Gross savings as a percentage of disposable income ..	(19.5)	(19.4)	(17.9)	(15.1)	(15.8)	(16.6)
Capital transfers	0.6	0.3	0.1	...	...	...
Gross capital formation	7.0	8.5	5.5	4.6	5.7	6.5
Net financing capacity	8.2	6.7	8.8	7.2	6.4	6.1

Source : NSI.

mainly consisting of housing, again increased considerably. Expressed as a percentage of GNP it amounted to 6.5 p.c., against 4.3 p.c. six years earlier, but still remained below the level at which it stood at the end of the 1970s. The increase in this expenditure exceeded that in gross savings, so that the sector's net financing capacity declined slightly.

4.22 Income and expenditure of companies

The gross operating surplus of companies again increased substantially — by 10.4 p.c. — in 1989, but less than in the previous year. This movement in 1989 is largely attributable to that in final sales at constant prices, which rose by 5.8 p.c. on the domestic market and by 8 p.c. for exports, but also to the widening of the unit profit margin: the rise in selling prices, especially export prices, was slightly faster than that in average cost prices, chiefly brought about by higher prices for imported goods. On the other hand, subsidies received remained at the 1988 level. In that year subsidies had been pushed up by the previous time-lag in the payment of some of them.

TABLE 17 — INCOMES OF COMPANIES AT CURRENT PRICES

(Percentage changes compared with previous year)

	1986	1987	1988	1989 e
1. Gross operating surplus before subsidies	9.3	4.0	16.3	11.2
Unit profit margins	4.6	-1.7	9.0	3.9
Final sales at constant prices	4.5	5.8	6.8	7.0
2. Subsidies received	2.0	-13.8	20.7	-0.4
3. Gross operating surplus (1 + 2)	8.7	2.6	16.6	10.4
4. Net income from property paid to other sectors .	-9.4	-1.7	32.8	0.9
5. Gross primary income (3 - 4)	15.3	3.9	12.2	13.5
6. Tax	5.9	4.6	8.1	2.6
7. Disposable income (5 - 6)	18.3	3.6	13.4	16.5

Sources : NSI, NBB.

The increase in the disposable income of companies was even greater. On the one hand, there was hardly any change in net income from property paid to other sectors: the rise in distributed dividends, which was particularly large in 1988, slowed down, while net interest payments appear to have declined owing to the recovery of the financial situation of enterprises. On the other hand, the increase in taxes was particularly small, contrasting with that in gross primary income. The divergence between the movement of these two variables, which, if 1982 and 1987 are disregarded, was observable throughout the decade, reflects a lessening of the tax burden on company incomes. In 1989 the difference increased further still, mainly because of the growing recourse by companies to existing possibilities of tax deduction, which will be discussed further on.

Financing capacity

Gross capital formation by companies grew even more quickly than their disposable income. Consequently, for the third year in succession, their net financing capacity contracted somewhat.

TABLE 18 — SUMMARY OF TRANSACTIONS OF COMPANIES

(Percentages of GNP)

	1970-1974	1975-1979	1980-1983	1984-1987	1988	1989 e
Disposable income	9.0	7.0	7.2	10.0	11.5	12.4
Capital transfers ¹	1.0	1.7	3.3	2.5	1.6	1.1
Gross capital formation	11.8	9.2	8.6	8.5	10.4	11.4
Net financing requirement (-) or capacity	-1.8	-0.5	1.9	4.0	2.6	2.1

Source : NSI.

¹ Including general government's lending and equity investment.

Since 1982 the disposable income of companies has risen steadily. This rise led, in a first phase, to a recovery of this sector's financial situation and, for the last two years, to a very marked growth in its gross capital formation. In 1989 the latter virtually reattained the share of GNP which it represented at the beginning of the 1970s. It may be noted that at that time, owing to the small extent of its saving, the company sector showed not a net financing capacity of about 2 p.c. of GNP but a financing requirement of the same order of magnitude.

4.23 Financial account of individuals and companies

As in the previous year, individuals and companies, the statistics available for which do not allow a separate analysis of their overall financial behaviour, sharply increased both their acquisition of assets and their new financial liabilities : the former rose from Fr. 974 billion during the first ten months of 1988 to Fr. 1,191 billion in 1989 and the latter from Fr. 469 to 667 billion. On balance, the financial surplus of individuals and companies increased slightly, having amounted to Fr. 524 billion during the first ten months of 1989. Expressed as

TABLE 19 — FINANCIAL ACCOUNT OF INDIVIDUALS AND COMPANIES

(Billions of francs)

	1987	1988	First ten months	
			1988	1989 *
1. Formation of financial assets	941	1.167	974	1.191
Belgian francs	532	541	398	431
Foreign currencies	143	235	228	343
Other assets ¹	266	391	349 ²	417 ²
2. New liabilities	352	638	469	667
Individuals	132	138	116	149
Companies and one-man businesses	220	499	353	518
3. Net financial surplus (1 - 2) ³	589	529	505	524

Source : NBB.

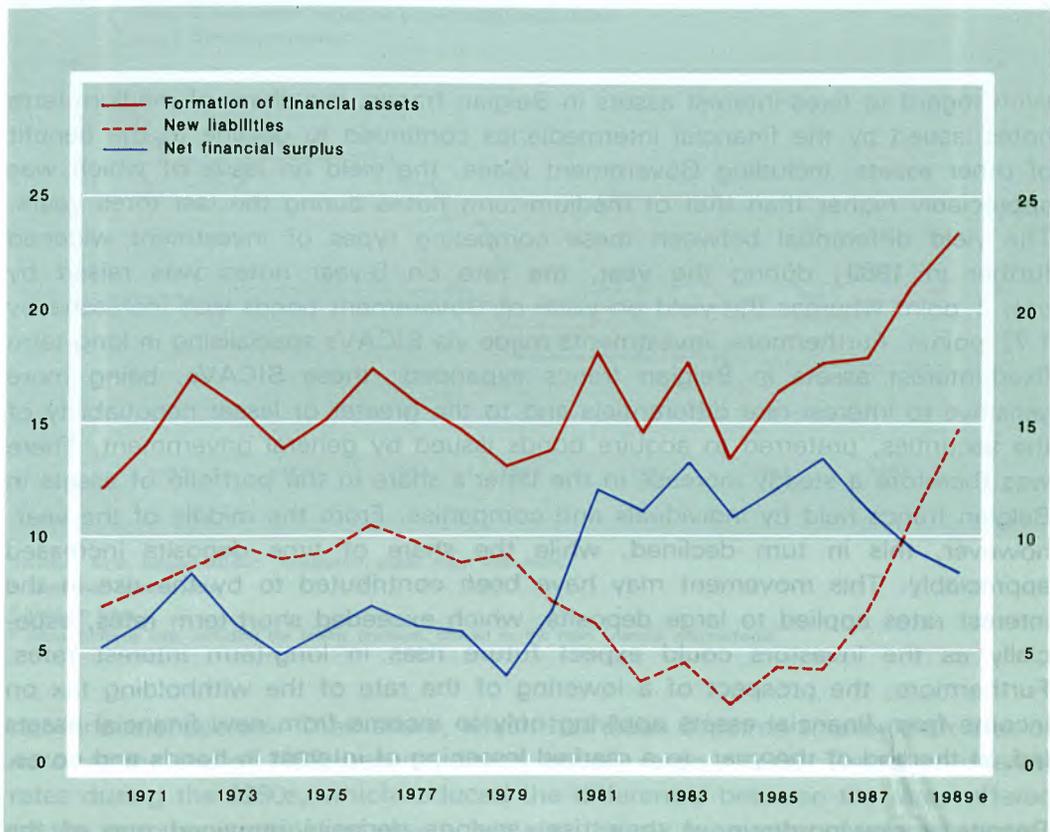
¹ Assets whose distribution between Belgian francs and foreign currencies is not known or is meaningless. These are mainly the direct investments of companies abroad, the balance of the transactions of the financial intermediaries and errors and omissions in Belgium's balance of payments.² Excluding net commercial claims on foreign countries.³ This corresponds, except for the statistical deviation, to the net financing capacity of individuals and companies, that is, to the balance of their income, expenditure and transfers.

a percentage of GNP it declined for the third year in succession, as has already been shown by the analysis of the incomes, transfers and expenditure of these two sectors as a whole. The rate of growth of the net financial assets of individuals and companies, which was very strong at the beginning of the 1980s, has thus continued to slacken, while their real assets have increased more.

The largeness of the financial flows during the last two years is certainly attributable to the quickening of economic growth, and also to the increase in direct investment both by Belgian enterprises abroad and by foreign enterprises in Belgium, probably stimulated by the prospect of the large European market in 1993. But the swelling of the flows of borrowing and of asset formation was also due to the increasing number of financial transactions without any immediate link with developments which have taken place in the real economy : in 1988 these were mainly the transactions connected with the changes in the shareholding of the Société Générale de Belgique ; in 1989 they consisted, for instance, of the financing of purchases of bonds denominated in certain foreign currencies with a view to taking advantage of the so-called « flat-rate refund of foreign taxation » system applied to interest income from abroad ; other tax provisions, such as the treatment of « definitively assessed incomes », too, may have induced some enterprises to borrow in order to acquire financial assets, especially shares of distribution SICAVs. The growth in these types of transactions is liable to disconnect the movements recorded in the financial sphere from those in the real economy and to make the former less closely linked with traditional financial determinants such as interest rates.

CHART 18 — FINANCIAL ACCOUNT OF INDIVIDUALS AND COMPANIES

(Percentages of GNP)



Source : NBB.

During the first ten months of 1989 Belgian individuals and companies continued to diversify their formation of assets in favour of investments denominated in foreign currencies. They also displayed greater preference for short-term assets. This was because the rise in interest rates resulting from the orientation imposed on the monetary policies of most of the industrialised countries from mid-1988 onwards by the fears of a resurgence of inflation made short-term investments attractive. Nevertheless, in the case of assets in foreign currencies, purchases of bonds for the above-mentioned tax reasons partly conceal the preference of investors for short-term assets.

TABLE 20 — FORMATION OF FINANCIAL ASSETS¹ BY INDIVIDUALS AND COMPANIES

(Percentages of total)

	1984	1985	1986	1987	1988	First ten months	
						1988	1989 *
Assets in Belgian francs	82	86	80	79	70	64	56
Assets at up to one year	41	41	69	58	33	25	36
Bonds, medium-term notes and deposits at over one year ...	37	45	10	23	37	39	13
Shares	4	...	1	-2	...	...	7
Assets in foreign currencies	18	14	20	21	30	36	44
Assets at up to one year	-2	...	4	8	5	10	12
Bonds	21	13	12	13	27	28	25
Shares	-1	1	4	...	-2	-2	7
Total	100	100	100	100	100	100	100

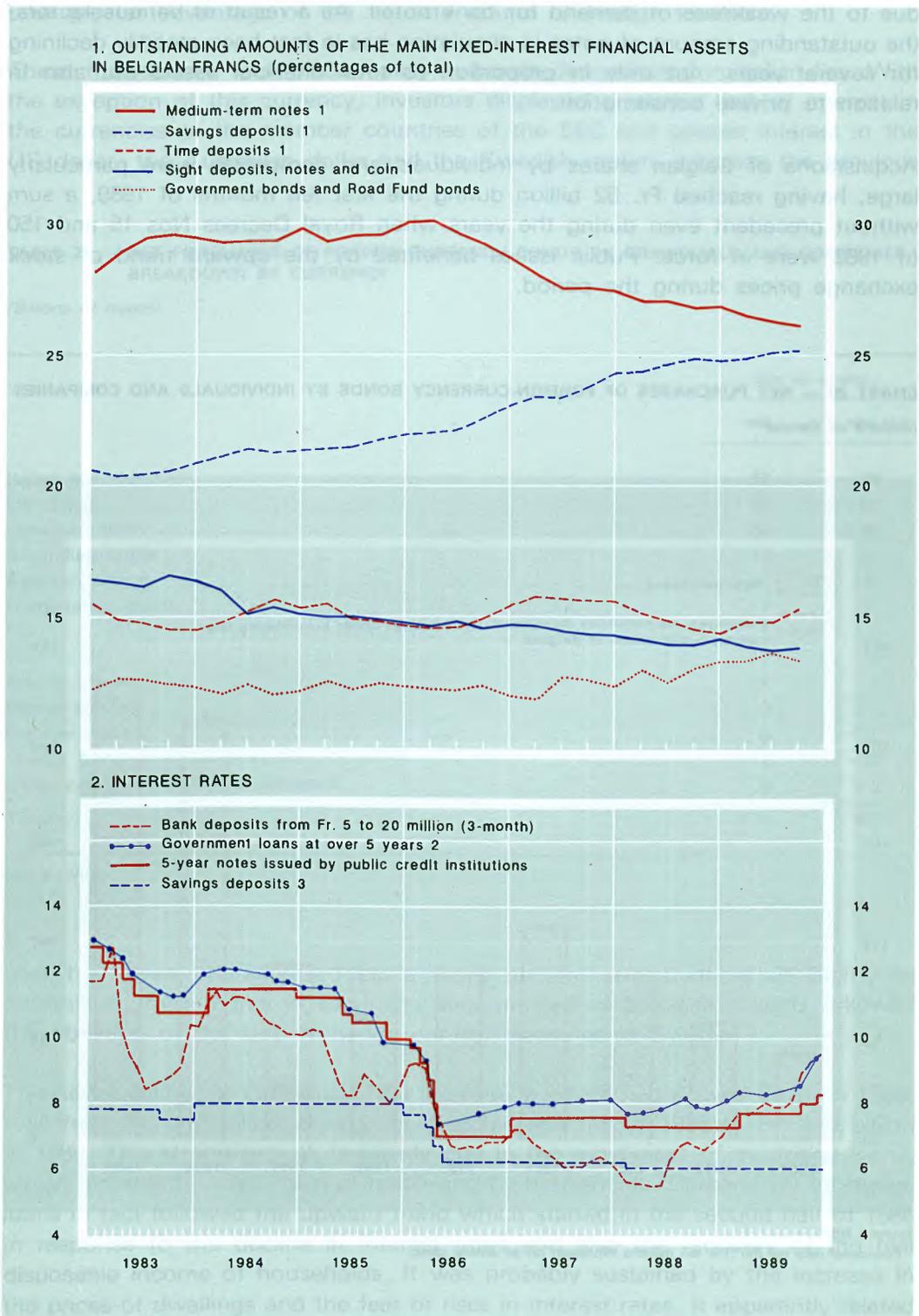
Source : NBB.

¹ Excluding assets whose distribution between Belgian francs and foreign currencies is not known or is meaningless.

With regard to fixed-interest assets in Belgian francs, the share of medium-term notes issued by the financial intermediaries continued to decline to the benefit of other assets, including Government loans, the yield on issue of which was appreciably higher than that of medium-term notes during the last three years. The yield differential between these competing types of investment widened further in 1989; during the year, the rate on 5-year notes was raised by only 1 point whereas the yield on issue of Government bonds was increased by 1.72 points. Furthermore, investments made via SICAVs specialising in long-term fixed-interest assets in Belgian francs expanded; these SICAVs, being more sensitive to interest-rate differentials and to the greater or lesser negotiability of the securities, preferred to acquire bonds issued by general government. There was therefore a steady increase in the latter's share in the portfolio of assets in Belgian francs held by individuals and companies. From the middle of the year, however, this in turn declined, while the share of time deposits increased appreciably. This movement may have been contributed to by the rise in the interest rates applied to large deposits, which exceeded short-term rates, especially as the investors could expect future rises in long-term interest rates. Furthermore, the prospect of a lowering of the rate of the withholding tax on income from financial assets applying only to income from new financial assets led, at the end of the year, to a marked lessening of interest in bonds and notes.

Despite a slowing-down of their rise, savings deposits remained one of the financial intermediaries' main sources for obtaining finance from the domestic

CHART 19 — FIXED-INTEREST FINANCIAL ASSETS IN BELGIAN FRANCS HELD BY INDIVIDUALS AND COMPANIES AND INTEREST RATES



Sources : NBB, Belgian Bankers' Association, public credit institutions.

¹ Seasonally adjusted data.

² Yield on issue.

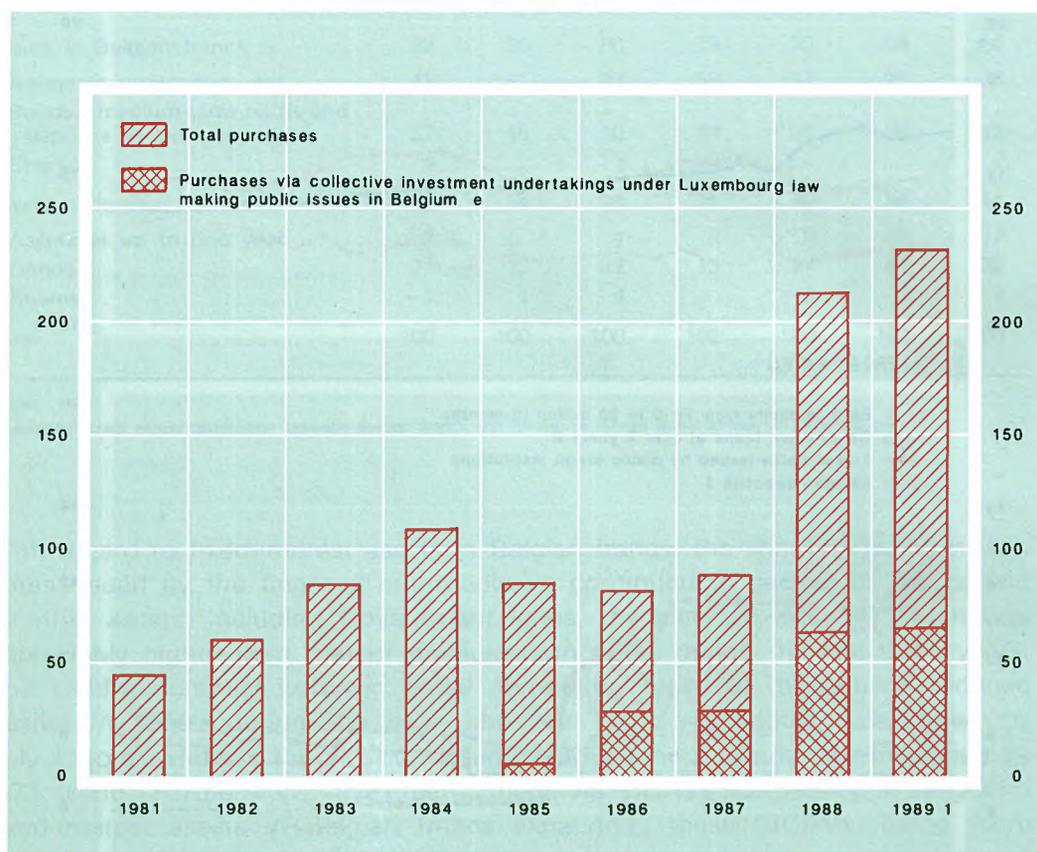
³ Gross fictitious rate, including the fidelity premium, offered by the main financial intermediaries.

non-financial sectors. Their share, which had been 8 points smaller than that of notes at the end of 1982, became almost equally large in 1989. The fall in interest rates during the 1980s, which reduced the differential between the rates offered on the various categories of assets, but also the tax exemption of interest income and the high liquidity of this type of investment, contributed to its upsurge.

Lastly, the decrease in the share of bank notes and sight deposits in the portfolios of assets in Belgian francs of individuals and companies continued; it is chiefly due to the weakness of demand for bank notes. As a result of various factors, the outstanding amount of notes in circulation has in fact been steadily declining for several years, not only in proportion to total financial assets but also in relation to private consumption.

Acquisitions of Belgian shares by individuals and companies were particularly large, having reached Fr. 52 billion during the first ten months of 1989, a sum without precedent even during the years when Royal Decrees Nos 15 and 150 of 1982 were in force. Public issues benefited by the upward trend of stock exchange prices during the period.

CHART 20 — NET PURCHASES OF FOREIGN-CURRENCY BONDS BY INDIVIDUALS AND COMPANIES
(Billions of francs)



Source : NBB.

¹ Provisional data for the first ten months expressed on an annual basis.

Among assets denominated in foreign currencies, purchases of shares increased considerably and, despite a clearer preference for short-term assets, acquisitions of bonds in foreign currencies remained substantial. Structural factors such as the desire for diversification of portfolios, the expansion of the Euro-bond markets, tax considerations and greater recourse to SICAVs and investment trusts in the management of financial investments — which increases the degree of substitution between domestic and foreign assets — continued to sustain demand for foreign securities. In the first ten months of 1989 the growth in the amount of purchases of foreign bonds is solely attributable to purely tax-related

practices : enterprises temporarily bought high-yield bonds the income from which is subject to a low withholding tax in their countries of origin in order to take greater advantage of the flat-rate refund of foreign taxation.

These transactions took place mainly in bonds denominated in Italian lire. With the exception of this currency, investors displayed a relative lack of interest in the currencies of the member countries of the EEC and greater interest in the US dollar, the Australian dollar and the Swedish crown, whereas the previous

TABLE 21 — NET PURCHASES OF FOREIGN-CURRENCY BONDS BY INDIVIDUALS AND COMPANIES :
BREAKDOWN BY CURRENCY

(Billions of francs)

	First ten months	
	1988	1989 *
Italian lira	18	68
US dollar	35	60
Canadian dollar	54	48
Australian dollar	19	31
Swedish crown .....	...	18
Netherlands guilder	7	11
ECU	5	8
Yen	-2	5
Danish crown	21	2
Pound sterling	9	-8
German mark	6	-18
French franc	12	-23
Other currencies and miscellaneous	-8	-5
Total	176	197

Source : NBB.

year had been characterised by a more general attractiveness of high-yield currencies. Investments in securities denominated in Swedish crowns followed the abolition of the last exchange control measures in Sweden.

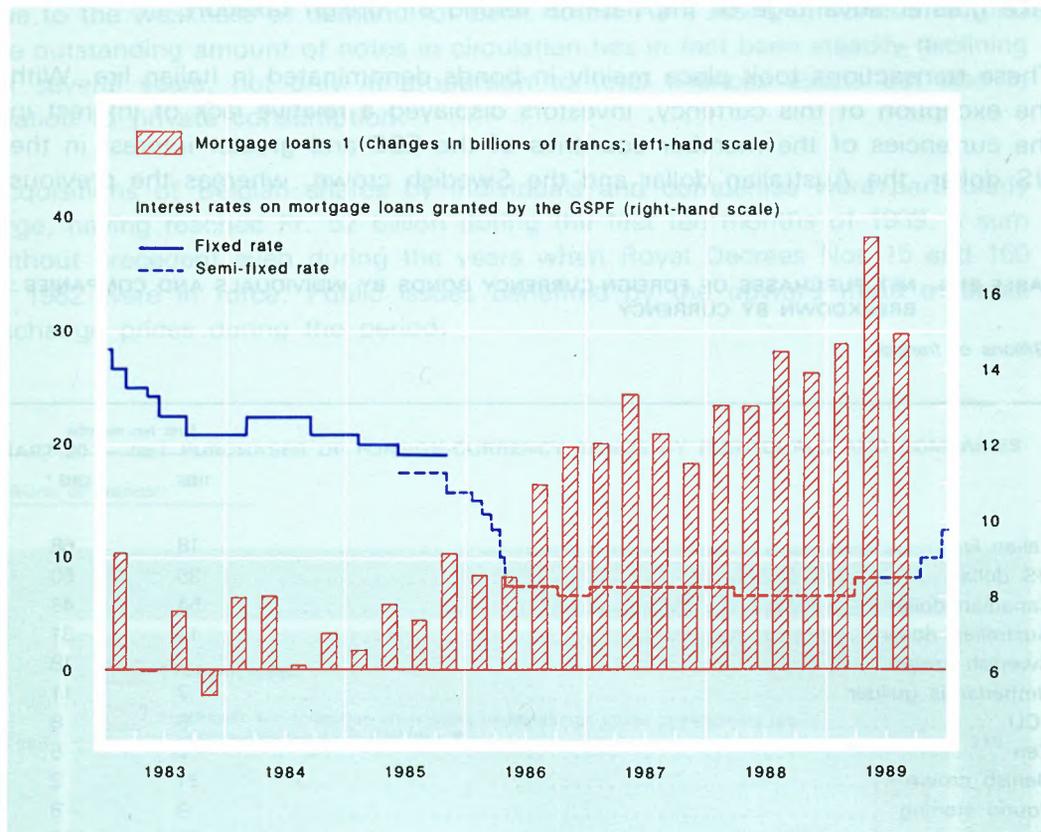
*Liabilities
of individuals*

The new liabilities of individuals, the increase in which had slowed down in 1988, rose from Fr. 116 billion during the first ten months of 1988 to Fr. 149 billion in 1989. This strong growth is mainly due to the movement of mortgage loans, which are still the main form of borrowing by households. Demand for mortgage loans in fact followed the upward trend which started in the second half of 1986 in response to the decline in interest rates and also the recovery of the real disposable income of households. It was probably sustained by the increase in the prices of dwellings and the fear of rises in interest rates. It apparently related more than in 1988 to loans for the financing of new buildings.

New consumer credit also increased during the first ten months of 1989. The rise in hire-purchase credit, mainly in connection with the purchase of new cars and other durable consumer goods, as well as that in personal loans, perhaps reflect the confidence of individuals in their repayment capacity, sustained by the movement of their disposable income in real terms.

Altogether, the indebtedness of households, in relation to their disposable income, has increased continuously since 1986 under the combined influence of

CHART 21 — NEW LIABILITIES OF INDIVIDUALS IN THE FORM OF MORTGAGE LOANS AND INTEREST RATES



Sources : NBB, GSPF.
¹ Seasonally adjusted data.

the recovery in residential investment and greater recourse to consumer credit. It is still, however, below that in many other countries.

TABLE 22 — INDEBTEDNESS OF INDIVIDUALS

(Percentages of disposable income)

	1982	1983	1984	1985	1986	1987	1988	1989 e
Indebtedness at end of period	34.1	32.7	31.8	31.5	32.1	34.5	35.9	36.9
Mortgage loans ¹	29.5	28.1	27.1	26.3	26.3	27.7	28.6	29.2
Personal loans and hire-purchase credit ²	4.6	4.6	4.7	5.2	5.8	6.8	7.3	7.7
p.m. Disposable income at constant prices (Percentage changes compared with previous year)	(-1.9)	(-1.2)	(-0.7)	(0.3)	(4.1)	(1.5)	(4.0)	(4.6)

Sources : NBB, NSI.
¹ Obtained from credit institutions and social security organisations.
² Financed by credit institutions.

The liabilities of companies and one-man businesses continued their exponential growth : they went up by Fr. 518 billion during the first ten months of 1989, against Fr. 353 billion in 1988. This speeding-up reflects, apart from the dynamic state of business activity, the expansion in financial transactions without any

Liabilities of companies and one-man businesses

TABLE 23 — NEW LIABILITIES OF COMPANIES AND ONE-MAN BUSINESSES

(Billions of francs)

	1986	1987	1988	First ten months	
				1988	1989 *
Shares ¹	22	30	46	33	81
Bonds	-12	-33	-3	19	-14
Credits ²	91	148	308	237	279
Investment credits	70	129	147	95	125
Discount and acceptance credits .....	...	-61	...	-7	-13
Advances in Belgian francs	-8	68	101	106	137
Advances in foreign currencies	29	12	60	43	30
Other ³	34	75	150	65	172
of which : Establishments, acquisitions and expansions of companies by non-residents ⁴	20	36	90	57	95
Loans from foreign enterprises	-10	12	41	17	68
Total	135	220	499	353	518

Source : NBB.

¹ Public issues.

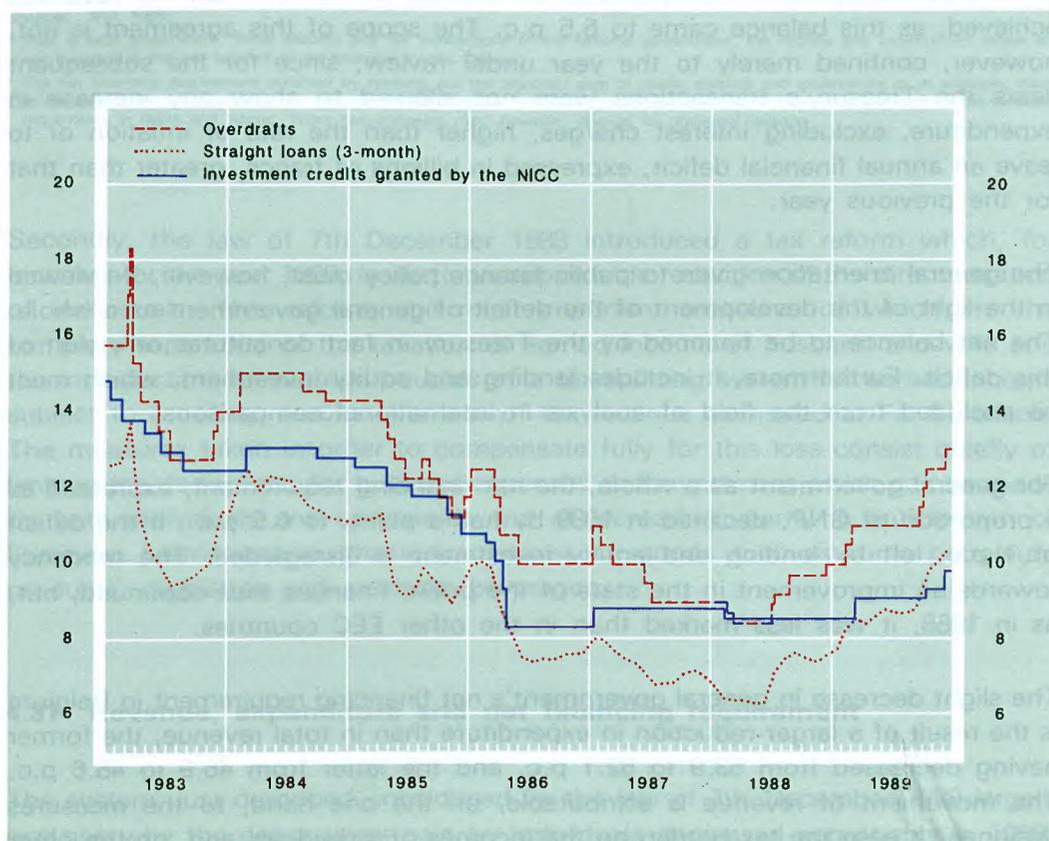
² Granted by resident credit institutions.

³ Liabilities to the rest of the world (other than publicly issued shares and bonds) and to general government.

⁴ Excluding transactions in respect of publicly issued shares.

counterpart in the real economy. It relates to all financing instruments except bonds, for which redemptions were once more greater than issues, discount and

CHART 22 — MAIN DEBTOR INTEREST RATES



Sources : NICC, NBB, Belgian Bankers' Association.

acceptance credits, the importance of which has been declining for several years, and advances in foreign currencies.

As has already been pointed out, the good showing of stock exchange prices as a result of the favourable development of the profitability of enterprises helped to create a climate conducive to share issues. Nevertheless, loans remained the main source of external financing of enterprises.

New capital investment credits continued to rise. However, as in 1988 and unlike during the two preceding years, they no longer constituted the greater part of the increase in credit, despite the rapid upward movement of short-term interest rates and despite the expectations of rises in long-term rates. In this connection it should be recalled that what is recorded under the name of « investment credit » does not precisely coincide with credits whose rates are fixed for a long period, and that short-term credit transactions may have been attributable to tax considerations.

Lastly, foreign direct investments in Belgium and loans from foreign enterprises to resident enterprises associated with them increased further, bearing witness to the growing internationalisation of the financial activities of companies.

4.3 GENERAL GOVERNMENT

The purpose of the Government agreement of May 1988 whereby the net balance to be financed by the Treasury was to be reduced to 7 p.c. of GNP in 1989 was achieved, as this balance came to 6.5 p.c. The scope of this agreement is not, however, confined merely to the year under review, since for the subsequent years the Treasury's transactions were not allowed to show any increase in expenditure, excluding interest charges, higher than the rate of inflation or to leave an annual financial deficit, expressed in billions of francs, greater than that for the previous year.

The general orientation given to public finance policy must, however, be viewed in the light of the development of the deficit of general government as a whole. The net balance to be financed by the Treasury in fact constitutes only part of this deficit. Furthermore, it includes lending and equity investment, which must be excluded from the field of analysis in international comparisons.

For general government as a whole, the net financing requirement, expressed as a proportion of GNP, declined in 1989 by half a point, to 6.5 p.c., if the deficit of 1 p.c. left by lending and equity investment is disregarded. The tendency towards an improvement in the state of the public finances thus continued, but, as in 1988, it was less marked than in the other EEC countries.

The slight decrease in general government's net financing requirement in Belgium is the result of a larger reduction in expenditure than in total revenue, the former having decreased from 53.9 to 52.1 p.c. and the latter from 46.9 to 45.6 p.c. The movement of revenue is attributable, on the one hand, to the measures designed to ease the tax burden on the incomes of individuals and, on the other hand, to the loss of yield from direct taxes due to the expansion of certain tax

deductions and expenditures and the attractiveness of the forms of financial investment which make it possible to escape the tax on income from financial assets.

Two reforms exerted a strong influence on the structure of the public finances in 1989.

Firstly, the institutional reform decided upon in the course of 1988 and supplemented by the enactment of the special law of 16th January 1989 caused the national government to transfer a large proportion of its powers to the communities and regions. This led to a shift of about a third from the national government's revenue and expenditure budgets to the budgets of these entities.

TABLE 24 — DEFICIT OF TRANSACTIONS OF GENERAL GOVERNMENT

(Percentages of GNP)

	1988			1989 e		
	Treasury	Other general government ¹	Total general government	Treasury	Other general government ¹	Total general government
	Net balance to be financed		Net financing requirement ²	Net balance to be financed		Net financing requirement ²
Balance of revenue and expenditure	-6.9	-0.4	-7.0	-5.9	-1.0	-6.5
Balance of lending and equity investment	-0.8	-0.5	-1.3	-0.6	-0.3	-1.0
Overall balance	-7.7	-0.9	-8.3	-6.5	-1.3	-7.5

Sources : NSI, NBB.

¹ That is local government, social security and the transactions of the national government, the regions and communities which are not included in the net balance to be financed by the Treasury.

² The net financing requirement obtained by working out the algebraic sum of public revenue and expenditure is, in principle, equal to the sum of the net balances to be financed by the Treasury and other general government, calculated on the basis of the recorded movements in debts and claims. These two concepts may, however, diverge for statistical reasons.

Secondly, the law of 7th December 1988 introduced a tax reform which, for incomes for the year 1989, leads to an appreciable reduction of the direct taxation of individuals. This reform, the most important measures of which are the complete separation of the taxation of earned income of husband and wife and the introduction for married couples of a tax-splitting system for earned income subject to a ceiling, results in a loss of tax revenue estimated at Fr. 91 billion. The measures taken in order to compensate fully for this loss consist chiefly of limiting the deductions for business expenses and investment which can be made by both individuals and companies and of increasing, partly in anticipation of European harmonisation, the indirect taxes on goods such as some petroleum products, cigarettes and alcoholic beverages.

4.31 Revenue, expenditure and net financing requirement

Revenue

The system, just described, introduced by the law of 7th December 1988 largely explains why the direct taxes paid by individuals decreased appreciably in 1989, from 14.6 p.c. of GNP in 1988 to 13.5 p.c., representing a slight quickening of

their downward trend since 1985. Owing to the way in which taxes on earned incomes are collected, the tax reform represented a gain of some forty billion francs for individuals for the 1989 budget year, while at the same time the measures limiting the tax deductions applicable to them appear to have cost them about fifteen billion. Altogether, therefore, the tax reform led to a substantial increase in the purchasing power of individuals. It furthermore included the tax reliefs provided for, for the year under review, by the law of 1st August 1985. Other factors, too, contributed to an easing of the tax pressure on the incomes of individuals. The yield of the tax was affected by the increase in the number of taxpayers who opt for the formula of deduction of actual business expenses rather than a lump-sum deduction. It was also influenced by the obligation imposed on the Direct Taxes Administration to examine declarations more rapidly in 1989 in order to be able to catch up the leeway which had accumulated at the end of 1988 before the legal deadline. Furthermore, the revenue from the withholding tax on income from financial assets increased only slightly, despite the considerable increase in the income of individuals from such assets, the rise in the withholding tax on dividends having been largely offset by the decline in that on interest income. This decline is largely due to the fact that individuals — in order to escape the 25 p.c. withholding tax — devoted a larger proportion of their financial savings to the purchase of Euro-bonds and of securities issued by capitalisation SICAVs.

TABLE 25 — REVENUE OF GENERAL GOVERNMENT

(Percentages of GNP)

	1985	1986	1987	1988	1989 e
Direct taxes and contributions	34.6	34.1	34.1	32.9	31.4
Direct taxes of individuals	16.2	15.6	15.3	14.6	13.5
Direct taxes of companies	3.1	3.1	3.1	3.2	3.0
Social security contributions	15.3	15.4	15.6	15.1	14.8
Indirect taxes	12.5	12.0	12.5	12.4	12.4
Non-fiscal and non-parafiscal revenue	1.9	1.7	1.4	1.4	1.5
Capital taxes	0.3	0.3	0.3	0.3	0.3
Total revenue	49.2	48.1	48.3	46.9	45.6

Sources : NSI, NBB.

Despite the fact that the gross primary income of companies grew faster than GNP and that, in accordance with the provisions of the law of 7th December 1988, they were the subject of measures which increased their taxation, their direct taxes, as a percentage of GNP, declined from 3.2 p.c. in 1988 to 3 p.c. in 1989. This was because the yield of the collections in respect of the current year's income as well as the final payments which have to be made at the time of the assessments in respect of the income from preceding financial years were lower than had been expected. Thus, the substantial expansion in investment in recent years was reflected in a swelling of the relevant deductions; this development is partly attributable to the fact that companies have the possibility of postponing to subsequent years the deductions which they have been unable to make from the income for the year during which the investments were made. Furthermore, the expansion in the activities of the co-ordination centres, among other things those relating to the financing of investment, entailed additional fiscal expenditure for the Treasury. Moreover, the carrying forward of losses from

previous years, facilitated to some extent by company mergers, may perhaps have increased. Companies also took advantage to a great extent of the legislation concerning definitively assessed incomes, thanks to the purchase of securities of distribution SICAVs. Lastly, greater recourse to the system of the flat-rate refund of foreign taxation led to considerable losses of tax revenue.

As in 1988, the share of social security contributions decreased. This fall was attributable to the fact that the wages and salaries of individuals grew somewhat more slowly than GNP. Various changes were made on the parafiscal plane, but these did not have any significant effect on the total yield. It can be broadly said that the financial effect for general government of the upward adjustment of 0.10 p.c. in employers' unemployment insurance contributions and of the introduction of a 3.5 p.c. levy on the employers' contribution to group insurance premiums and pension funds was counterbalanced by that of the abolition of the solidarity contribution of civil servants and of the special social security contribution payable by individuals with high taxable incomes.

The yield of indirect taxes rose in 1989 at the same rate as GNP. General government obtained extra revenue by raising excise duties several times in the course of 1989 and by levying a tax on the appropriations made by insurance companies in order to build up reserves covering profit shares on life insurance contracts. But a downward influence was also exerted owing to the absence of any link between the movement of the prices of certain products and some indirect taxes levied on them; this applies particularly to the greater part of the revenue from excise duties, which is solely determined by the quantity consumed.

The rise in non-fiscal and non-parafiscal revenue in 1989 was chiefly due to the larger payments made by the Bank to the Treasury : on the one hand, interest rates were higher and, on the other hand, arbitrage of gold against foreign currencies generated new interest income.

Expenditure

Since 1983 the expenditure of general government has declined uninterruptedly, decreasing from 60 p.c. of GNP in 1982 to about 52 p.c. in 1989. With the exception of interest charges, all categories of public expenditure declined in 1989.

TABLE 26 — EXPENDITURE OF GENERAL GOVERNMENT

(Percentages of GNP)

	1985	1986	1987	1988	1989 e
Current transfers to individuals	22.8	22.3	22.4	21.8	21.0
Net expenditure on goods and services	16.7	16.3	15.8	14.8	14.2
Subsidies to enterprises	3.1	2.9	2.6	2.8	2.5
Gross fixed capital formation	2.5	2.2	2.0	1.9	1.8
Current transfers to the rest of the world	1.3	1.3	1.4	1.4	1.3
Net capital transfers	1.1	0.9	0.8	0.9	0.8
Expenditure excluding interest charges and lending and equity investment	47.4	45.8	44.9	43.6	41.6
Interest charges	10.7	11.2	10.7	10.2	10.5
Expenditure excluding lending and equity investment p.m. Lending and equity investment	58.0	57.1	55.6	53.9	52.1
	2.6	2.0	2.0	1.3	1.0

Sources : NSI, NBB.

Current transfers to individuals grew appreciably more slowly than GNP at current prices. While measures were in fact taken to increase transfers to the least privileged population groups, their effect was offset by that of the steps taken to limit the rise in some items of social security expenditure. In addition, the strong growth of the economy was reflected in a contraction in unemployment expenditure.

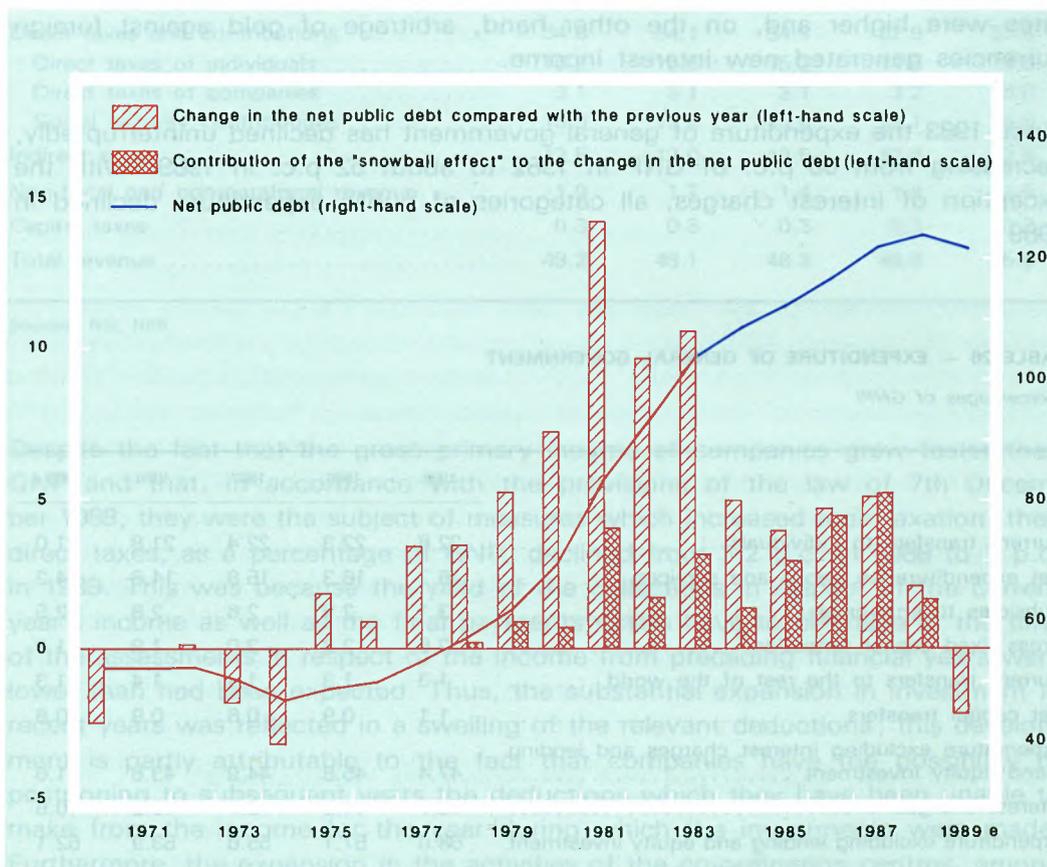
Net expenditure on goods and services declined by 0.6 p.c. of GNP. The social programming measures adopted in order to improve the financial status of civil servants and the increase in the number of recipients of pensions in the general government sector had a relatively limited upward effect. Furthermore, public departments reduced the size of their staffs and, to a greater extent, the level of their operating costs.

The share of subsidies to enterprises in GNP contracted compared with 1988, when it had been swollen by the delayed payment of certain subsidies to public enterprises in respect of the 1987 budget year. There was also a decline in assistance measures for coal mines.

As throughout the period 1981-1988, gross fixed capital formation decreased. This reduction is largely attributable to the decline in capital spending by local authorities, a development which usually takes place after a year of local council elections.

CHART 23 — « SNOWBALL EFFECT » OF INTEREST CHARGES ON THE PUBLIC DEBT¹

(Percentages of GNP)



Sources : NSI, NBB.

¹ A detailed explanation of the method of calculation of the incidence of the « snowball effect » on the public debt is to be found in the Bank's Cahier No. 4, « L'effet « boule de neige » des charges d'intérêts de la dette publique », November 1989.

The contraction in current transfers to the rest of the world is explained by the sharp reduction in the amount to be paid by Belgium to the European Communities in respect of the « fourth resource ».

The fall in net capital transfers, for its part, was brought about by the substantial rise in the capital receipts which are deducted from the expenditure shown under this head. In particular, the Treasury received payment from the Bank of the countervalue of the five-thousand franc notes of the « Vesalius » type which were withdrawn from circulation and had not been presented for exchange.

The increase in interest charges, from 10.2 p.c. in 1988 to 10.5 p.c. in 1989, was due to the rise in interest rates. For the first time since the end of the 1970s, these charges no longer sustained the self-feeding process of the public debt expressed as a percentage of GNP. This process, which has become generally known under the name of « snowball effect », was checked mainly owing to the combination of two factors : on the one hand, the policy of deficit reduction pursued throughout the greater part of the decade and, on the other hand, the improvement in economic activity during the last two years. The budget surplus left by transactions other than interest payments, which amounted to around 3 p.c., was not only sufficient to stabilise the ratio of the public debt to GNP but also enabled it to be reduced by about 2 points. Thus the total net debt of general government was reduced in 1989 to 121 p.c. of GNP. This development does not, however, mean that all danger of a resurgence of the « snowball effect » has been finally removed, because the particularly high level of the public debt exposes general government to the danger of a reappearance of this effect in a less favourable economic climate or in the event of an easing of budgetary policy.

Lending and equity investment declined again in 1989, from 1.3 to 1 p.c. of GNP. This development is attributable to the sharp drop in the interventions by general government in favour of the public housing companies. These interventions, which are mainly due to the obligation to assume responsibility for the repayment of the loans issued by these companies in the past, were considerably reduced by the extension of the term of foreign currency loans which were due for repayment during the year under review.

Net financing requirement

If, as is done in international comparisons of public finances, lending and equity investment are disregarded, the net financing requirement of general government decreased from 7 p.c. in 1988 to 6.5 p.c. in 1989.

TABLE 27 — NET FINANCING REQUIREMENT OF GENERAL GOVERNMENT
(Percentages of GNP)

	1985	1986	1987	1988	1989 e
Net financing capacity excluding interest charges and lending and equity investment	1.8	2.2	3.4	3.2	4.0
Interest charges	10.7	11.2	10.7	10.2	10.5
Net financing requirement excluding lending and equity investment	-8.9	-9.0	-7.3	-7.0	-6.5
p.m. Lending and equity investment	2.6	2.0	2.0	1.3	1.0

Sources : NSI, NBB.

The net financing requirement of general government in the other countries of the European Community was reduced in 1989 to a slightly greater extent than in Belgium. As in the preceding year, therefore, the gap between the respective levels of the budget deficit to be financed widened somewhat, to 4.1 p.c. against 3.8 p.c. in 1988.

The most divergent movement of general government's transactions took place in revenue. Expressed as a percentage of GNP, this underwent hardly any change in the other countries of the Community, whereas in Belgium its rate of increase, as in 1988, was distinctly below that in GNP.

TABLE 28 — PUBLIC FINANCES : INTERNATIONAL COMPARISON

(Percentages of GNP)

	Belgium			Other EEC countries as a whole ¹		
	1987	1988	1989 e	1987	1988	1989
1. Revenue	48.3	46.9	45.6	41.8	41.5	41.4
2. Expenditure	55.6	53.9	52.1	45.7	44.7	43.8
Interest charges	10.7	10.2	10.5	4.5	4.4	4.4
Other	44.9	43.6	41.6	41.2	40.3	39.4
3. Net financing requirement excluding lending and equity investment (1 - 2)	-7.3	-7.0	-6.5	-3.9	-3.2	-2.4

Sources : NSI, EEC, NBB.

¹ Excluding Greece and Portugal.

It was therefore only at the cost of a sharper cutting-down of public expenditure that general government in Belgium was able to impose on its financing requirement a downward trend not too far removed from that observed elsewhere. It should furthermore be noted that it had to contend with a slight increase in the burden of interest charges on the debt, while these remained stable in the other countries. If these charges are disregarded, the level of public expenditure in Belgium came closer to the average in the rest of the Community, the difference having amounted to 2.2 p.c. of GNP.

4.32 Financial accounts

The net balance to be financed by the Treasury decreased appreciably, from Fr. 434 billion in 1988 to Fr. 397 billion. This balance relates to financial transactions for the account of the national government and of the communities and regions. The transactions of the community and regional authorities expanded owing to the redistribution of powers resulting from the institutional reform carried out at the beginning of the year under review. Since, however, the available official statistics do not yet enable an adequate distinction to be made between the transactions of the national and regional authorities, it is not possible to arrive at a satisfactory breakdown of the net balance to be financed by the Treasury between the various entities.

The net balance to be financed by the Treasury is, however, only part of general government's total deficit. As, furthermore, shifts — which are sometimes

large — may take place between the financial accounts of the various sub-sectors of general government, it is to the total deficit of general government that attention should be paid. This deficit decreased from Fr. 486 billion in 1988 to Fr. 477 billion in 1989 — a considerably smaller reduction than that in the net balance to be financed by the Treasury. This was because the expansion in the deficit left by the transactions of the national government, the communities and the regions, included in the item « other », and that in the local authorities' deficit were greater than the increase in the surplus of social security.

The increase in the deficit of the « other » item is due to the larger volume of issues of regularisation loans, to the movement of the Treasury's current account liabilities to the EEC and to the prefinancing by the Assistance Fund for the Financial Recovery of Municipalities of the burdens resulting from the taking-over by the national government of part of the debts of certain towns and municipalities, in implementation of the special law of 16th January 1989 concerning the financing of the communities and regions. The effect of these factors was lessened by the sharp decrease in general government's interventions in favour of the public housing companies.

TABLE 29 — NET FINANCIAL DEFICIT (–) OR SURPLUS (+) OF THE VARIOUS SUB-SECTORS OF GENERAL GOVERNMENT

(Billions of francs)

	National government, communities and regions			Local government	Social security ²	Grand total
	Net balance to be financed by the Treasury	Other ¹	Total			
1984	–504	–36	–540	–12	+39	–512
1985	–571	–44	–615	–10	+49	–576
1986	–556	–46	–601	–15	+32	–584
1987	–431	–100	–530	–1	+12	–519
1988	–434	–62	–496	–8	+17	–486
1989 e	–397	–89	–486	–27	+36	–477
First ten months						
1988	–382	–77	–459	+14	–21	–466
1989 *	–417	–77	–493	–31	+15	–509

Source : NBB.

¹ Debudgetisations, prefinancings and regularisation loans. Formation of financial assets has been deducted.

² The data concerning social security cover the same organisations as those in the national accounts and, like the latter, take account of the social contributions due and not of those actually paid.

The local authorities' financial deficit, which was very large at the beginning of the decade, decreased gradually until it virtually disappeared in 1987. On the other hand, it increased during the last two years, rising from Fr. 8 billion in 1988 to Fr. 27 billion in 1989. The rise in 1988 would have been even larger if it had not been accidentally limited by the catching-up of the leeway, of some ten billion francs, in the passing-on by the Treasury of revenues collected the previous year on behalf of the municipalities and provinces. Conversely, in 1989 the deficit was swollen by the appearance of a new backlog of the same order of magnitude. Its adverse effect on the amount of the deficit was, however, partly counterbalanced by that, in the opposite direction, connected with the above-mentioned taking-over of part of the debt by the national government.

The financial surplus of social security, for its side, rose again in 1989, from Fr. 17 to 36 billion. This development is mainly attributable to the rise in social security contributions resulting from the sharp increase in earned incomes, although the latter was somewhat smaller than the growth in GNP; furthermore, there was only a moderate rise in social security expenditure.

During the first ten months of 1989, the latest period for which data concerning the financing structure of general government are available, the latter had to finance a larger deficit than in the corresponding period of the preceding year. This development was reflected chiefly in the movement of financial assets, the rise in which in 1988 was replaced by a sharp fall in 1989.

TABLE 30 — NEW LIABILITIES OF AND FORMATION OF FINANCIAL ASSETS BY GENERAL GOVERNMENT

(Billions of francs)

	New liabilities						Grand total	Formation of financial assets in Belgian francs	Balance
	In foreign currencies	In Belgian francs							
		At up to one year			At over one year	Total			
		With NBB	Other	Total					
1984	+ 156	+ 12	+ 66	+ 78	+ 337	+ 416	+ 571	+ 59	+ 512
1985	+ 34	- 18	+ 53	+ 35	+ 561	+ 596	+ 631	+ 55	+ 576
1986	+ 62	+ 27	+ 286	+ 313	+ 234	+ 548	+ 610	+ 26	+ 584
1987	+ 32	- 82	+ 217	+ 135	+ 384	+ 519	+ 552	+ 33	+ 519
1988	+ 20	- 21	+ 37	+ 16	+ 494	+ 510	+ 530	+ 44	+ 486
First ten months									
1988	+ 38	- 29	+ 68	+ 40	+ 400	+ 440	+ 477	+ 12	+ 466
1989 *	+ 41	- 58	+ 365	+ 307	+ 139	+ 446	+ 487	- 22	+ 509

Source : NBB.

There was a considerable change in the term of the new liabilities in Belgian francs. Thus, net issues of loans in Belgian francs at over one year represented only a third of the preceding year's amount : this fall was due to the somewhat smaller volume of the Treasury's gross issues and, above all, to the sharp rise in redemptions. On the other hand, new liabilities in Belgian francs at up to one year — other than those contracted with the Bank — were almost Fr. 300 billion greater than in the preceding year.

The total resources in Belgian francs thus raised during the first ten months of 1989 exceeded general government's requirements. The outstanding amount of Treasury certificates held by the Securities Regulation Fund and financed by the special advances from the Bank therefore decreased for the third year in succession, by Fr. 58 billion. The foreign currency debt increased, however, by Fr. 41 billion, approximately the same amount as in 1988.

5. BALANCE OF PAYMENTS OF THE BELGIAN-LUXEMBOURG ECONOMIC UNION AND FOREIGN EXCHANGE MARKET

5.1 SUMMARY

The transactions of the BLEU with foreign countries were marked in 1989 by a further expansion of the current account surplus. On a transactions basis and for the year as a whole it would appear to have been close to Fr. 150 billion, or around twenty billion more than in 1988. Expressed as a percentage of GNP — 2.3 p.c. — this surplus is one of the largest among the countries of the European Community.

TABLE 31 — BALANCE OF PAYMENTS OF THE BLEU

(Balances in billions of francs)

	On a transactions basis		On a payments basis			
	1988	1989 e	1988		1989	
			First ten months	November-December	First ten months	November-December
Current transactions	128	150	91	26	92	38
Transactions in goods	124	133	81	32	87	26
Transactions in services	71	90	63	8	70	20
of which net income from direct and portfolio investment	(12)	(42)	(12)	(...)	(34)	(8)
Transfers	-67	-73	-53	-14	-65	-8
Capital transactions ¹	-125		-118	4	-97	
Transactions of the non-financial private sector	-84		-99	26	-99	
Short term	2		4	9	86	
Long term	-86		-103	17	-185	
Securities	-136	-208	-122	-14	-224	-65
Direct investments and allied capital transactions	50		19	31	39	
Other capital transactions	-41		-19	-22	2	
Errors and omissions ²	3		6	-3	-26	
Balance of official settlements	6	-58	-21	27	-31	-27
Spot capital transactions, in foreign currencies, of general government ³ ..	-19	-70	-40	21	-41	-29
Movement of the net gold and foreign exchange reserves of the NBB ⁴	25	12	19	6	10	2

Source : NBB.

¹ Minus sign : capital outflows.

² Including the counterpart of the demonetisation of gold in 1989.

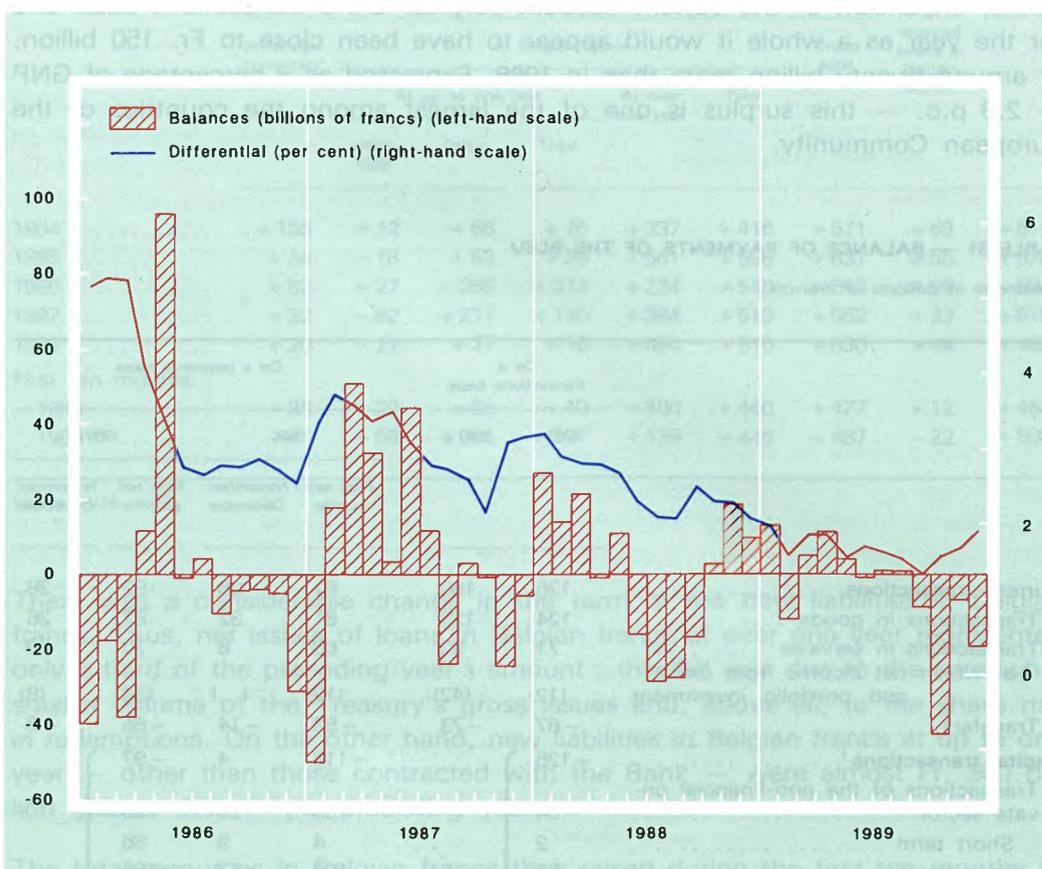
³ Minus sign : increase in general government's foreign-currency debt.

⁴ Minus sign : decrease in reserves.

Two developments contributed to the strengthening of the current account surplus. On the one hand, the improvement in the competitiveness of Belgian enterprises, in the broad sense of the term, and the substantial investments made by them in recent years enabled them, in 1989, to derive great advantage from the expansion of foreign markets. On the other hand, net income from direct and portfolio investment increased, in line with a trend which became apparent in the middle of the decade, when the BLEU began to reap current account surpluses.

In contrast, the deficit in respect of capital transactions increased in 1989. This worsening took place during the last months of the year, when strains became apparent within the EMS and led to outflows of short-term funds.

CHART 24 — BALANCE OF OFFICIAL SETTLEMENTS AND DIFFERENTIAL BETWEEN SHORT-TERM INTEREST RATES IN BELGIAN FRANCS AND IN GERMAN MARKS



Source : NBB.

During the first nine months the transactions on which monetary policy has little effect gave rise, as in the preceding years, to net outflows of funds, mainly because of the attractiveness of foreign securities for residents and the comparatively modest interest displayed by foreigners in Belgian securities. But the relative level of interest rates continued to attract short-term funds, so that the balance of official settlements again produced a surplus during this period. Furthermore, the pressure on Belgian short-term interest rates due to the effort to achieve equilibrium in this balance eased further; the differential between Belgian and German rates was narrowed.

At the beginning of the autumn, however, the declared intention of the major countries to bring the exchange rates for the main currencies back to levels more in accordance with the fundamental economic data and the rapid narrowing of the yield differential between investments in dollars and in German marks triggered speculative movements in favour of the mark. These movements were sustained by the desire expressed by the German monetary authorities to see the exchange rates for the European currencies which can fluctuate outside the narrow margins established by the EMS give a better reflection of the relative performances of the economies. In varying degrees all the European currencies suffered from the pressures in favour of the mark; in the case of the BLEU, the balance of official settlements, which had shown a surplus of Fr. 12 billion during the first nine months, left a deficit of Fr. 70 billion in the fourth quarter.

5.2 CURRENT TRANSACTIONS

*Transactions
in goods*

The BLEU's exports of goods benefited by an international environment which was again very favourable in 1989. While the growth in the volume of world trade did in fact slacken from 9 p.c. in 1988 to 7.6 p.c. because of less strong demand from North America, the expansion of the foreign markets of the BLEU, which sells its products mainly in Europe, appears to have been of the same order of magnitude as in 1988.

Volumes

The BLEU's exports benefited by this expansion thanks to the many factors which, in recent years, have led to a significant improvement in the profitability of enterprises and have thereby stimulated their investment. The latter may perhaps have enabled industry to widen the range of products which it offers and to adapt it better to foreign demand.

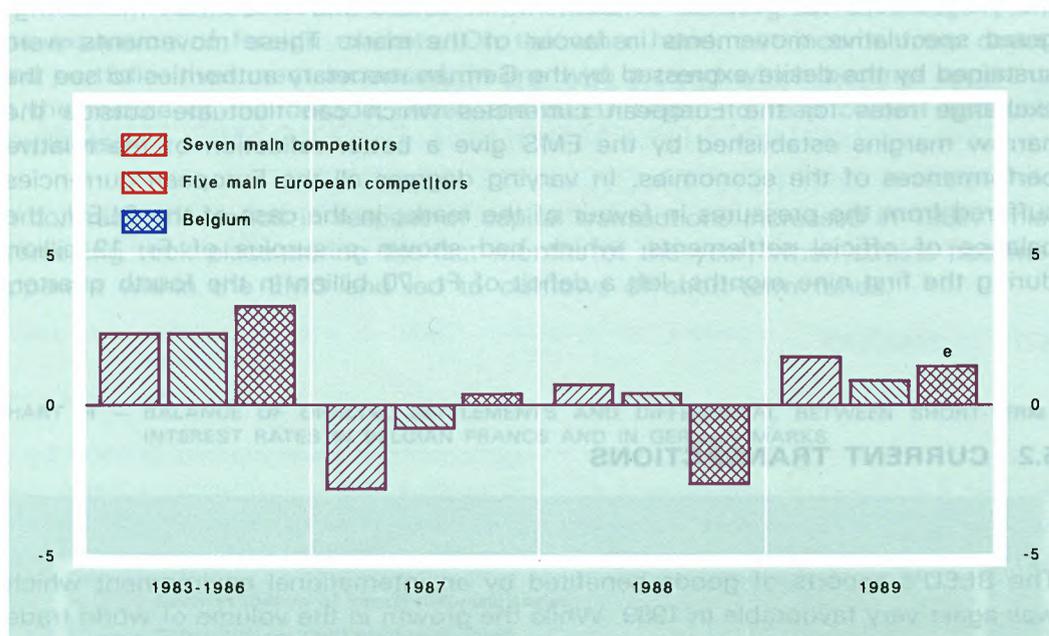
More than export prices, which, in the case of Belgium, are usually governed by the law of international competition, costs, especially labour costs, are an important factor of competitiveness. In manufacturing industry — which accounts for more than three quarters of sales abroad — unit labour costs, expressed in a common currency, had been developing very satisfactorily in Belgium since the beginning of the 1980s compared with those of the main competing countries, partly owing to the economic policy pursued from 1982 onwards. Subsequently there were more ups and downs in these costs, but by and large they did not differ greatly from those in the competing countries.

The increase in the volume of goods exports was better distributed among the products in 1989 than in the previous year. In 1988 exports had been mainly supported by products of the chemical industry and the iron and steel industry. In 1989, chemical products were joined by transport equipment, non-ferrous metals, refined petroleum products and food products; the increase in exports of products of the iron and steel industry, for its part, was less strong.

In volume, imports of goods grew hardly any faster than exports. Compared with the movement of final expenditure as a whole, their rise even appears modest. The volumes imported in 1989 may have been kept down by incidental factors. Mention may be made in this connection of the exceptional mildness of the winter. However, a comparison of imports of goods, on the one hand, and final expenditure, on the other, shows that the ratio between the increase in the

CHART 25 — LABOUR COSTS PER UNIT OF OUTPUT IN MANUFACTURING INDUSTRY :
INTERNATIONAL COMPARISON¹

(Annual percentage changes compared with previous year, in a common currency)



Sources : OECD, EEC, NBB.

¹ The competitors and their weightings are shown in Table 11.

former and that in the latter has declined during the last two years, despite the fact that investment in equipment by enterprises and exports, the import content of which is higher than that of other expenditure, played a more important role in sustaining demand. Thus, import penetration was apparently curbed. This development is perhaps partly attributable to changes within the major categories of final expenditure in favour of products with a smaller import content. But it is quite possible that it was also contributed to by the regaining of market shares by Belgian producers in several sectors, such as clothing and chemical products.

In 1989 the rise in foreign trade prices speeded up in the BLEU, as in the Prices neighbouring countries.

Despite the substantial recovery of crude oil prices and the appreciation of the dollar, the rise in the prices of the raw materials imported by the BLEU appears to have been hardly more than 8 p.c. The influence of the rise in the import price of crude oil was in fact tempered by the smaller increase in the prices of the other energy products, especially natural gas, and of food products; for instance, the price of gas, which adapts to the prices of petroleum products with a time lag, was depressed for a large proportion of the year by the decline in the price of crude oil which continued until the winter of 1988. The prices of manufactured products, for their part, went up by about 7 p.c., or more than in the neighbouring countries. The reason for this is the sharp rise in the prices of diamonds, the relative importance of which is greater in the BLEU's trade. For goods as a whole, import prices thus appear to have gone up by 7.5 p.c. in 1989.

On the export side, the rise in the prices of raw materials, in which food products are of preponderant importance, appears to have been hardly more than 6 p.c. The prices of manufactured products appear to have gone up by 8 p.c., which

is more than the rise in those of the corresponding imported products. This difference is mainly attributable to the rise, greater for exports than for imports, in diamond prices; the deterioration in the terms of trade in respect of this product which was suffered in 1988 was thus partly made good. Altogether, export prices, like import prices, appear to have gone up by 7.5 p.c.

All in all, account being taken of the various movements of volumes and prices which have just been described, the balance of transactions in goods appears to have increased by Fr. 9 billion in the year as a whole, to Fr. 133 billion. The foreign trade figures by country show the extent of the contribution made to this development by the dynamism of activity in the European Community; it was in fact with the Community that the BLEU's trade surplus increased.

*Transactions
in services*

Transactions in services likewise contributed to the expansion in the BLEU's current surplus. After the first ten months they showed a surplus of Fr. 70 billion in 1989, against Fr. 63 billion in 1988.

This improvement was mainly due to the rise, from Fr. 12 to 34 billion, in net income from direct and portfolio investment.

The movement of this balance is attributable to two major factors, namely the increase in net claims on foreign countries due to the 1988 current surplus and the rise in interest rates. The incidence of the latter factor depends on the composition of liabilities and assets, by currency and by term, and also on the exchange rates and interest rates which apply to them.

TABLE 32 — TRANSACTIONS IN SERVICES

(Balances in billions of francs)

	1987	1988	First ten months	
			1988	1989
Transport and insurance costs	34	42	35	32
Freight and insurance for goods transport	33	44	37	44
Other transport costs	1	-2	-2	-12
Travel abroad	-35	-43	-40	-45
Net income from direct and portfolio investment	13	12	12	34
of which general government	(-73)	(-69)	(-60)	(-71)
Transactions of general government not included else- where	81	80	67	69
of which operating expenses of the EEC	(64)	(65)	(54)	(56)
Other services	-19	-20	-11	-20
Total	74	71	63	70

Source : NBB.

The structural differences observed between liabilities and assets probably exerted a favourable influence on net portfolio income in 1989. With regard to liabilities, which are largely those of general government, the debts contracted in currencies with relatively low interest rates have represented a steadily increasing proportion in recent years, at the expense, in particular, of those denominated in dollars. With regard to the latter, the converse took place, owing to the substantial

portfolio investments made by enterprises and individuals in foreign bonds carrying high interest rates. This structural effect was heightened in 1989 by the appreciation of the dollar.

Furthermore, the restraining effect produced on the rise in net portfolio income during the preceding years by the decrease in the banks' margin for their activity as intermediaries in international transactions does not appear to have continued in 1989. Lastly, the change in the composition of the Bank's foreign exchange reserves generated an additional interest gain for the economy of around Fr. 4 billion.

In addition to portfolio income, the surplus on transactions in services was also swollen by the increase in bank charges and commissions, income from patents obtained by the telecommunications sector and, following the trend observable for several years, receipts from the operating expenses of the European institutions, including the remuneration of their staffs. On the other hand, in addition to the traditional widening of the deficit on travel abroad, the results in respect of services were depressed by the growth in the leasing of means of transport abroad by resident airlines and shipping companies as well as by the payment which Belgium made in order to settle the dispute with Algeria concerning the supplying of natural gas, recorded respectively under « transport costs » and « other services ».

The deficit on transfers widened by around Fr. 12 billion for the first ten months of 1989 compared with 1988.

Transfers

This widening, which was partly reversed at the end of the year, was mainly due to the movement of transfers between the European Community and the BLEU. While, on the expenditure side, the resources made available to the Community by Belgium and Luxembourg were, in total, of the same order of magnitude as in 1988, transfers from the Community, including support payments for the export of agricultural products, decreased, because the rise in the dollar rate and, more still, the increase in the prices of sugar and cereals reduced the difference between Community prices and world prices.

During the first ten months of 1989, wages and pensions paid abroad and the contribution of Belgium and Luxembourg towards the operating expenses of international institutions other than the EEC also increased.

5.3 CAPITAL TRANSACTIONS

The deficit in respect of transactions in securities widened further. This movement was mainly due to the reversal of the balance left by dealings in shares and to purchases of foreign bonds made in order to take greater advantage of the possibilities of tax deductions offered by the system of the flat-rate refund of foreign taxation.

Residents made substantial purchases, chiefly via collective investment undertakings, of shares of foreign companies, including French and British ones. Non-residents, for their part, also increased their portfolios of shares of Belgian or Luxembourg companies, but the amounts involved were smaller than those

Shares

devoted by residents to purchases of foreign shares. The extent of these movements is probably attributable to the fairly general rise in the yield on equity investments observable in 1989 on most stock exchanges.

TABLE 33 — TRANSACTIONS IN SECURITIES

(Balances in billions of francs)

	1987	1988	First ten months	
			1988	1989
Shares	23	37	29	- 22
Assets of residents ¹	- 1	18	10	- 52
Assets of non-residents ²	24	19	19	30
Bonds	- 83	- 173	- 151	- 202
Assets of residents ¹	- 111	- 213	- 170	- 202
of which in foreign currencies	(- 88)	(- 211)	(- 176)	(- 197)
Assets of non-residents ²	28	40	19	...
Total	- 60	- 136	- 122	- 224

Source : NBB.

¹ Minus sign : increase in net assets of residents.

² Minus sign : decrease in net assets of non-residents.

Bonds

Purchases of foreign bonds by residents were prompted, more than in the past, by considerations of short-term yield or of taxation. As has already been mentioned, substantial transactions in bonds issued by non-residents, including in Italian lira, were carried out by Belgian enterprises in order to take advantage of the flat-rate refund of foreign taxation. These transactions, of very short duration, do not generally have any influence on the balance of official settlements : on the one hand they swell the outflows of long-term capital relating to purchases of securities, but, on the other hand, they lead to inflows of short-term funds, because the exchange risk associated with purchases of bonds denominated in foreign currencies is usually covered by forward sales of foreign currencies. These transactions are not always completed in the month in which they were initiated : they may thus bring about, from one month to another, substantial changes in the respective balances of long-term and short-term capital transactions. For the first ten months of 1989 as a whole, net purchases of foreign bonds and, as a counterpart to these, inflows of short-term funds, would therefore appear to have been swollen by around Fr. 60 billion. Most of these transactions appear to have been completed in December.

The fact remains that, even after the influence of transactions of this type has been eliminated, net purchases of foreign bonds, which are not impeded by any regulation restricting capital movements, appear — although down compared with 1988 — to have continued at a high level. The attractiveness of this type of investment is not peculiar to the BLEU. It forms part of a process on internationalisation of the financial markets and of diversification of bond portfolios, the composition of which is chiefly determined by criteria aimed at maximising their yield in the domestic currency, such as the differentials between nominal interest rates and the expectations concerning the development of exchange rates. Consequently, outflows of long-term capital may also have been accentuated by the relatively low level of the nominal yield on investments in francs, as also, incidentally, in other strong currencies. The expansion in the

activity of the collective investment undertakings in the BLEU probably also played a part in intensifying the diversification of residents' portfolios of both bonds and shares.

The deficit in respect of transactions in bonds is also partly due to the relative lack of interest of non-residents in these investments in francs. Thus it was to be expected that the measures of liberalisation of capital movements which have been adopted in several countries — including France and Italy — would stimulate inflows of funds into the BLEU, which has not been the case up to the present. Among the many reasons for this attitude, mention may be made of the high level of long-term yields in some currencies, the relatively low liquidity of the secondary market for public debt securities, partly owing to the existence of a withholding tax on income from financial assets, and the lack of variety in the supply of financial products from both the public and the private sector in comparison with the range available in other financial centres. The decision taken by the Treasury to issue linear bonds is certainly an initial response which ought to remedy these deficiencies to some extent.

Direct investment and allied capital transactions resulted, for the first ten months of 1989, in net capital inflows of around Fr. 39 billion, against Fr. 19 billion in 1988.

*Direct investment
and allied
transactions*

Assets of non-residents connected with formations, acquisitions and expansions of Belgian or Luxembourg companies increased further by about Fr. 148 billion, while those held by residents abroad went up by Fr. 141 billion. Unlike in the previous year, the foreign investments were made in a large number of companies belonging to different branches of activity; mention should be made, however, of the large volume of transactions for the purpose of creating, or increasing the capital of, co-ordination centres of multinational companies established in Belgium and of several acquisitions by foreign companies of capital holdings in resident insurance enterprises. The bulk — nearly two thirds — of these investments come from neighbouring countries : by order of importance,

TABLE 34 — DIRECT INVESTMENTS AND ALLIED CAPITAL TRANSACTIONS

(Balances in billions of francs)

	1987	1988	First ten months	
			1988	1989
Establishments, acquisitions and expansions of companies	-5	66	28	7
Assets of residents ¹	-79	-74	-77	-141
Assets of non-residents ²	74	140	105	148
Loans	-5	-14	-8	32
Assets of residents ¹	-26	-58	-23	-47
Assets of non-residents ²	21	44	15	79
Other	-2	-2	-1	...
Assets of residents ¹	-3	-6	-5	-10
Assets of non-residents ²	1	4	4	10
Total	-12	50	19	39
Assets of residents ¹	-108	-138	-105	-198
Assets of non-residents ²	96	188	124	237

Source : NBB.

¹ Minus sign : increase in net assets of residents.

² Minus sign : reduction in net assets of residents.

France, the Netherlands and the Federal Republic of Germany. Residents' investments, for their part, were concentrated on France, the United Kingdom and the United States. The restructuring of the equity portfolio of Société Générale de Belgique and of the activities of some of its branches furthermore led to substantial movements of both resident and foreign capital during the period under review.

The volume of loans granted to foreign companies and that of loans granted to residents increased again in 1989. On balance, these financial transactions led to a net inflow of Fr. 32 billion, against an outflow of Fr. 8 billion the previous year.

Short-term capital transactions of the non-financial private sector

Over the year as a whole the short-term capital transactions of the non-financial private sector — that is, the total of the changes in the net spot and forward assets in foreign currencies of residents and in francs of non-residents — would appear to have left a deficit, unlike during the preceding five years. This annual result does, however, conceal fairly contrasting movements during the year.

For the first nine months of 1989, the short-term capital movements of the non-financial private sector produced a surplus, even if the exceptional and temporary inflows connected with transactions in foreign securities which have been referred to above are disregarded. This surplus was obtained despite the narrowing of the differential between Belgian and German interest rates, to which short-term capital movements are normally very sensitive. Investments in francs did in fact benefit by, among other things, the relative weakness of the mark, and also by the very great stability of the exchange rates for the currencies of the countries which participate in the exchange rate mechanism of the EMS.

When, at the end of September, strains became apparent on the foreign exchange market, substantial outflows of short-term funds were recorded, and the differential in favour of Belgian interest rates widened, without, however, being sufficient to re-establish equilibrium on that market. Previous experience suggests that, when strains occur on the foreign exchange market, that is, when economic agents behave on average more as speculators than as investors, the action taken by the monetary authorities regarding interest rates, although absolutely necessary, is rarely sufficient to bring about a rapid restoration of the equilibrium of that market. This balance therefore had to be established by the Bank's interventions.

5.4 OFFICIAL SETTLEMENTS

The balance of official settlements, that is, the result of all the transactions, both current and capital, which have just been described, changed from a surplus of Fr. 6 billion in 1988 to a deficit of Fr. 58 billion in 1989. During the year its profile was chiefly determined by the development of net capital movements.

At the end of the first nine months the balance of official settlements left a surplus of Fr. 12 billion, against a deficit of Fr. 23 billion for the corresponding period of 1988, and this surplus was reflected in a corresponding increase in the Bank's net foreign exchange reserves. During the fourth quarter, as a result of

the deterioration in net capital transactions, the balance of official settlements left a deficit of Fr. 70 billion, which was financed by new foreign currency borrowing by general government.

For the year as a whole the increase in the foreign exchange reserves thus amounted to only Fr. 12 billion. But there was a considerable change in their composition. In the exercise of its function of management of the foreign exchange reserves, the Bank in fact, in March, carried out arbitrages of gold against foreign currencies. These transactions account for the greater part of the rise in holdings of foreign currencies. In accordance with the provisions of Article 20bis of the Bank's Organic Law, the gains obtained thereby were entered in a special unavailable reserve account. Furthermore, within the limits laid down by the aforementioned article of the Organic Law, the Bank delivered to the Belgian Royal Mint a small quantity of gold for the purpose of the minting of coins denominated in ecus. The rise of Fr. 2 billion in assets held with the IMF, for its part, is due to net purchases of SDRs from other participants in the SDR Department. The Bank also paid, into a special deposit account with the Fund, the third and last tranche of the Belgian contribution to the enhanced structural adjustment facility, which gives low-income countries a possibility of borrowing on particularly favourable terms in order to finance their adjustment programmes. The increase of Fr. 6 billion shown by the item « Belgian francs » is chiefly attributable to the reduction in the current account balances, with the Bank, of international organisations and foreign central banks. As a result of all these transactions, the proportion of gold holdings in the total gold and foreign exchange reserves, which was particularly high in the BLEU, was reduced to a level more comparable to that of our main partners.

TABLE 35 — NET GOLD AND FOREIGN EXCHANGE RESERVES OF THE NATIONAL BANK OF BELGIUM¹
(Changes in billions of francs)

	1987	1988	1989	p.m. Outstanding amount at end December 1989 ²
Gold holding	-10	...	-65	434
Assets with IMF	5	-8	2	41
Ecus .....	...	...	...	119
Foreign currencies	85	38	69	226
Belgian francs	1	-5	6	-3
Total	81	25	12	817

Source : NBB.

¹ The minus sign indicates a decrease in net assets or an increase in net liabilities and, for the outstanding amounts, net liabilities.

² At market prices and exchange rates.

Apart from their role as an instrument for the day-to-day regulation of the foreign exchange market, the reserves serve the purpose of ensuring the economy's external liquidity. They represent, in a way, a buffer stock capable of immediately absorbing any major imbalance in the country's external payments. At the end of December the Bank's net foreign exchange reserves represented about 20 p.c. of the Union's annual exports and imports of goods and services (excluding factor incomes), a ratio which is considerably lower than that in the other

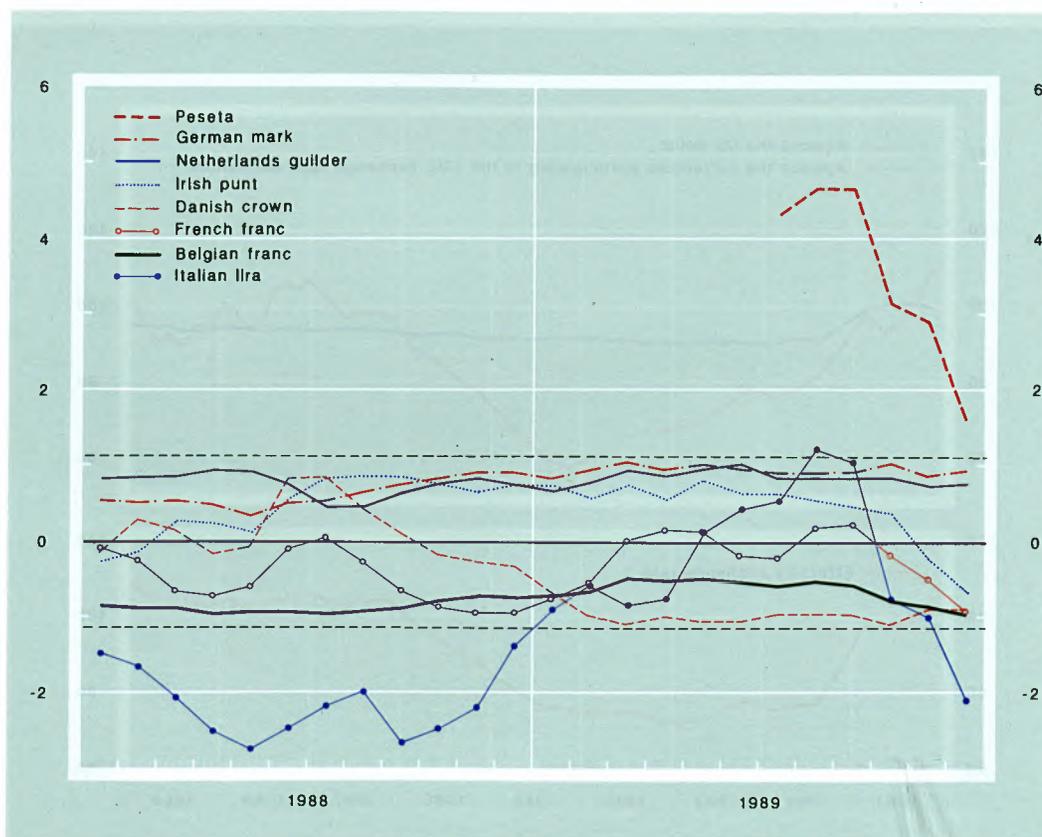
member countries of the EMS. However, in view of the high degree of openness of the Belgian and Luxembourg economies, this comparison is meaningless, and the gross payment flows must be corrected in order to take into account the import content of exports, which represents over 50 p.c. of their value. Expressed in terms of these corrected flows, the foreign exchange reserves represented 43 p.c. of the BLEU's export earnings and 47 p.c. of its expenditure on imports – that is, a ratio equivalent to that of the Netherlands and considerably higher than that in larger countries such as the Federal Republic of Germany, France or the United Kingdom.

5.5 FOREIGN EXCHANGE MARKET

The situation on the foreign exchange market in 1989 bears witness to the break, already mentioned, which took place during the year when the dollar, after having been moving upwards, weakened. During the first nine months the firmness of the US dollar exerted downward pressures on the German mark which contributed to the stability of the exchange rates of the EMS currencies. Conversely, when the dollar weakened from the autumn onwards, its decline led to upward pressures on the mark and strains then appeared within the EMS.

CHART 26 — POSITION OF THE CURRENCIES WITHIN THE EXCHANGE RATE MECHANISM OF THE EMS¹

(Monthly averages, in percentages)



Source : BIS.

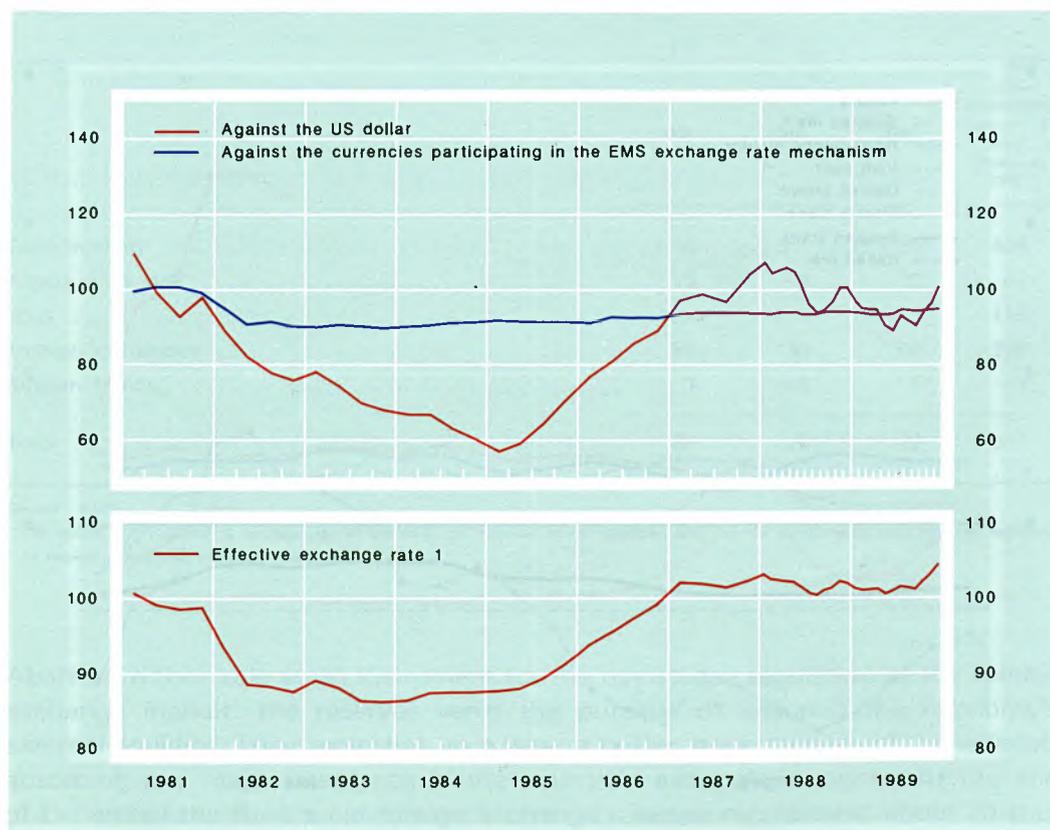
¹ Difference between two currencies = $\frac{\text{exchange rate}}{\text{central rate}} \times 100$.

During the first nine months the better understanding by the foreign exchange markets of the improvement in the fundamental data of the Belgian economy was taken advantage of in Belgium in order to reduce the disparity in short-term interest rates in relation to the Federal Republic of Germany. Furthermore, the purchases of foreign currencies which the Bank was able to undertake made it possible to strengthen the economy's external liquidity. The position of the Belgian franc vis-à-vis the German mark and the Netherlands guilder underwent hardly any change. The same applied in relation to the Irish punt and the French franc, if the ups and downs of the latter during the period are disregarded. On the other hand, until the autumn the Belgian franc, like all the other currencies, depreciated against the Italian lira and the peseta. The firmness of the Italian and Spanish currencies was due to massive inflows of private capital. The particularly high interest rates offered on investments in these currencies were all the more attractive because of the reduced expectations of changes in the central rates.

This development of expectations may seem paradoxical in view of the quite considerable divergences in current account positions and inflation rates between the participants in the EMS. It might be attributable to the credibility which the EMS has gained in recent years and to the more and more openly declared option of several countries to refrain from resorting to the exchange rate instrument in order to correct the disequilibria of their economies and, on the contrary, to take advantage of the constraint of the fixity of the exchange rate in order to impose the necessary discipline on the movement of demand and of domestic prices and costs.

CHART 27 — EXCHANGE RATE FOR THE BELGIAN FRANC

(Indices 1981 = 100)



Source : NBB.

¹ Weighted by exports.

When the dollar declined from September onwards, the position of the mark in the fluctuation band strengthened. All the other currencies then lost ground to a greater or lesser extent. Furthermore, although interest rates had been raised, exchange rates were in most cases supported by interventions by the central banks; since the beginning of the year, on the other hand, it was the mark that had benefited by these interventions.

After a calm spell in November, strains developed again within the EMS at the end of the year. They were brought about not only by the persistent weakness of the dollar but also by rumours concerning a possible adjustment of the central rates.

In the final analysis, in relation to all the currencies of the countries which participate in the exchange rate mechanism of the EMS and which account for about two thirds of the BLEU's trade, the rate for the Belgian franc remained almost unchanged in 1989. On the other hand, in relation to the dollar it depreciated in terms of the annual average. The extent of this depreciation was, however, limited, so that the tendency towards stability of the effective exchange rate for the franc observable since the beginning of 1987 continued in 1989.

For its part, the differential between the exchange rates for the franc on the free market and on the regulated market remained very small and even completely disappeared at the end of the year.

6. MONETARY POLICY AND MONEY AND CAPITAL MARKETS

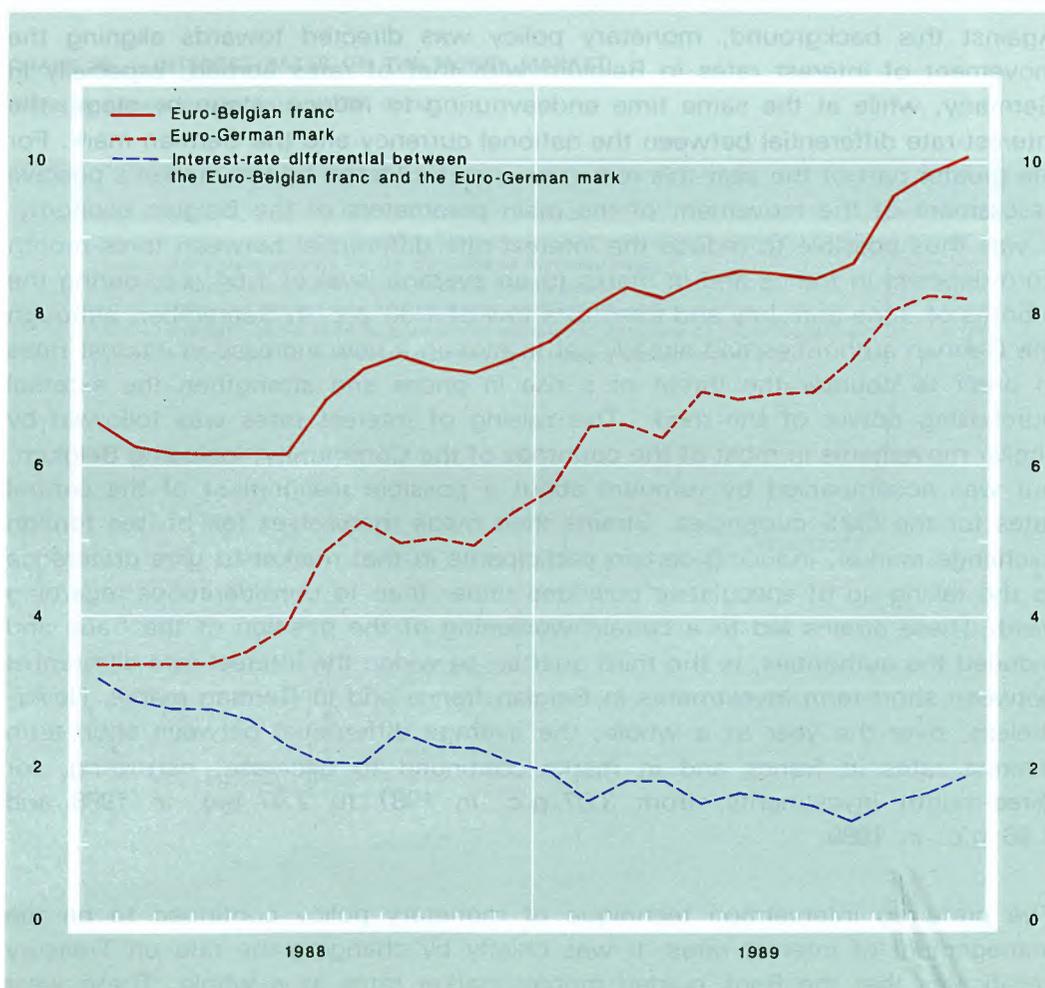
6.1 MONETARY POLICY

Framework of monetary policy

The course of Belgian monetary policy was determined in 1989 by two major developments in the international monetary sphere. On the one hand, the European Monetary System experienced the longest period of stability since its creation. On the other hand, the various countries of the European Community, especially Germany, gradually tightened their monetary policies, bringing about a general increase in interest rates.

CHART 28 — INTEREST RATES ON THREE-MONTH EURO-DEPOSITS

(Monthly averages)



Source : NBB.

This international rise in interest rates, which began during the second half of 1988, remained very marked throughout 1989 and bore witness to the determination, expressed in many countries, to reduce inflationary pressures. The Belgian authorities shared this general concern about the quickening of price rises, while at the same time endeavouring to avoid placing the whole weight of the battle against inflation on monetary policy alone.

Owing to the existence of a general system of indexation of incomes it is not necessary, in Belgium, to tighten monetary policy in order to influence expectations regarding inflation, because, unlike in many other countries, such expectations do not as a rule play any role in wage negotiations. Nevertheless, this indexation mechanism is still liable to threaten the competitiveness of enterprises under certain circumstances, especially when there is a deterioration of the terms of trade. In order to guard against this risk the Belgian Government has for several years had the legal possibility of adjusting the movement of domestic incomes and costs if a certain number of specific indicators indicate a loss of competitiveness by the Belgian economy.

Even so, the monetary authorities also made their contribution to the battle against inflation particularly by retaining as their main policy aim the maintenance of the franc's position within the EMS, because this exchange rate objective is one of the best guarantees of price stability. In view, however, of the extent of the public debt, these authorities could not disregard, in the pursuit of their policy, the by no means negligible budgetary repercussions of their decisions concerning interest rates.

Against this background, monetary policy was directed towards aligning the movement of interest rates in Belgium with that of rates abroad, especially in Germany, while at the same time endeavouring to reduce, stage by stage, the interest-rate differential between the national currency and the German mark. For the greater part of the year this reduction was facilitated by the market's positive assessment of the movement of the main parameters of the Belgian economy. It was thus possible to reduce the interest-rate differential between three-month Euro-deposits in francs and in marks to an average level of 1.64 p.c. during the months of June and July and even to a low of 1.30 p.c. in September, although the German authorities had already set in motion a new increase in interest rates in order to counter the threat of a rise in prices and strengthen the external purchasing power of the mark. This raising of interest rates was followed by similar movements in most of the countries of the Community, including Belgium, but was accompanied by rumours about a possible realignment of the central rates for the EMS currencies. Strains then made themselves felt on the foreign exchange market, inducing certain participants in that market to give preference to the taking-up of speculative positions rather than to considerations regarding yield. These strains led to a certain worsening of the position of the franc and induced the authorities, in the third quarter, to widen the interest-rate differential between short-term investments in Belgian francs and in German marks. Nevertheless, over the year as a whole, the average differential between short-term interest rates in francs and in marks continued to decrease, narrowing, for three-month investments, from 3.07 p.c. in 1987 to 2.47 p.c. in 1988 and 1.66 p.c. in 1989.

The preferred intervention technique of monetary policy continued to be the management of interest rates. It was chiefly by changing the rate on Treasury certificates that the Bank guided money market rates as a whole. These were given a first upward impulse at the very beginning of 1989. The rate on

*Instruments
of monetary policy*

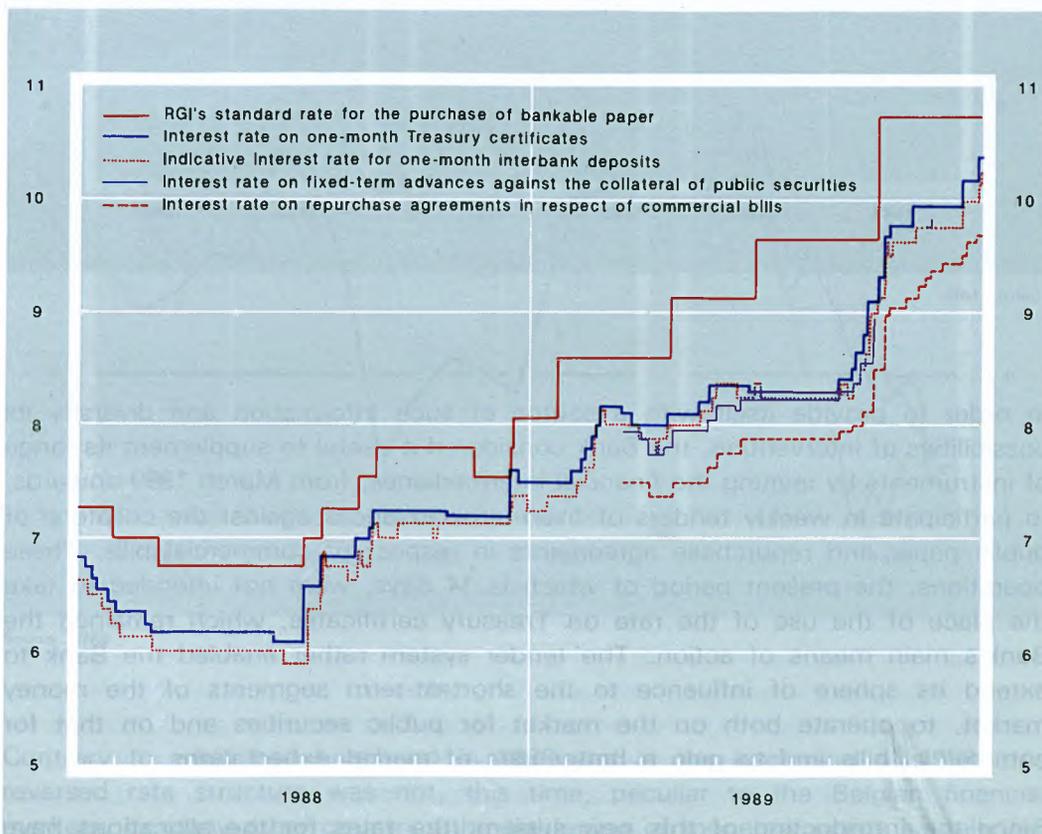
one-month Treasury certificates was thus raised, in the course of February alone, from 7.40 to 8.05 p.c. The changes in interest rates subsequently remained small until the end of August. During the last part of the year the Bank was obliged, as has been seen, to raise interest rates once more. The rate on one-month certificates thus went up, by stages, from 8.20 p.c. at the beginning of September to 10.25 p.c. in December. These successive rises led to an upward movement of all short-term interest rates.

This upward trend of the rates on Treasury certificates was confirmed by successive raisings of the Bank's official rates. The discount rate was put up, in stages, from 7.75 p.c. at the end of 1988 to 10.25 p.c. at the end of 1989. During the same period, the rate for ordinary advances was raised from 8 to 10.75 p.c.

Within the range of interest rates whose level is determined by the Bank, these two official rates only played a marginal role, however, although they do dictate the terms on which the financial intermediaries can, on their own initiative, have recourse to borrowing from the Bank. Hardly any use was in fact made of such borrowing in 1989, as the financial intermediaries were always able to meet their requirements or invest their surpluses by adjusting their portfolios of Treasury certificates. Certificates were thus the preferred instrument for the management of the financial intermediaries' liquidity, because, on the one hand, their yields constantly remained below the rediscount rate and, on the other hand, the financial intermediaries continued to hold a large proportion of their assets in the form of these Treasury certificates, issued on tap.

CHART 29 — INTEREST RATES ON THE MONEY MARKET

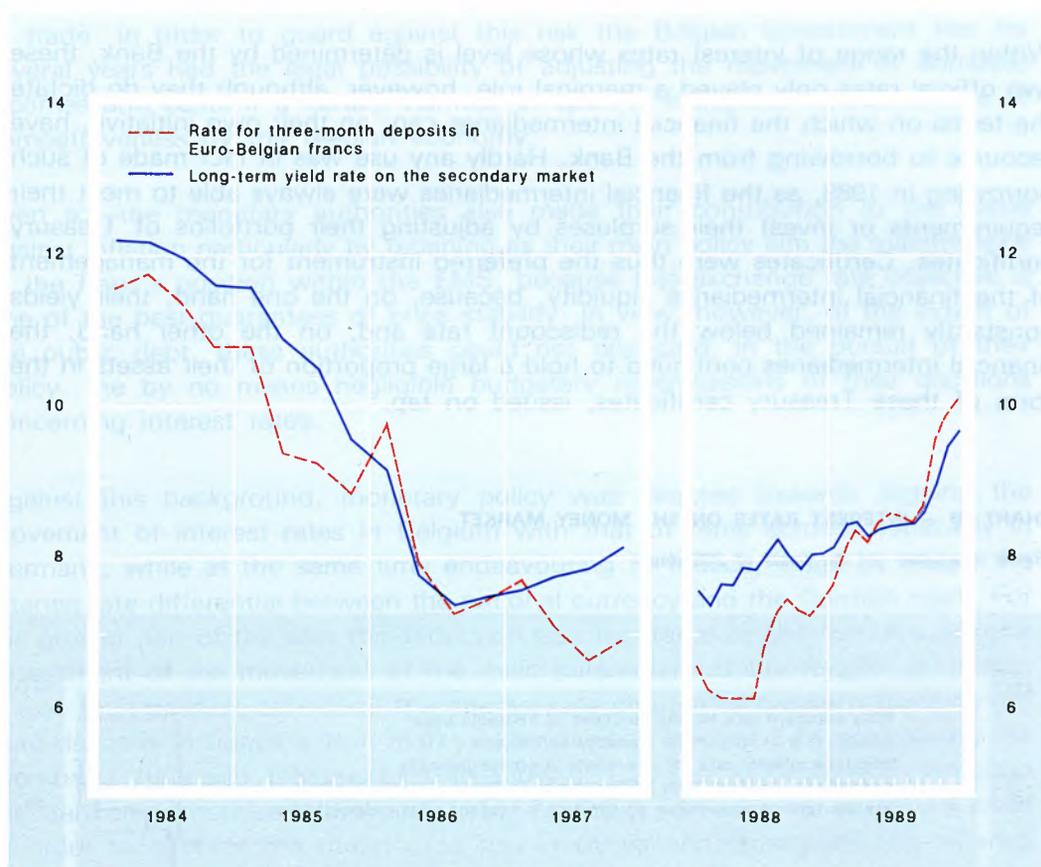
(Rates in arrears on the basis of 365 days)



Source : NBB.

As the financial intermediaries are thus able to pass on any shortages of funds to the Treasury, the credits granted by the Bank to the domestic economy automatically correspond to financing of the Treasury, without involving any significant financing of the financial intermediaries. Furthermore, the Bank's influence on interest rates is thus exerted solely via discretionary changes in the rate on Treasury certificates. This mechanism, which does not require any regular contacts with the parties operating in the various compartments of the money market, restricts the information available to the Bank concerning the development of the expectations of these parties.

CHART 30 — LONG-TERM AND SHORT-TERM INTEREST RATES



Source : NBB.

In order to provide itself with a source of such information and diversify its possibilities of intervention, the Bank considered it useful to supplement its range of instruments by inviting the financial intermediaries, from March 1989 onwards, to participate in weekly tenders of fixed-term advances against the collateral of public paper and repurchase agreements in respect of commercial bills. These operations, the present period of which is 14 days, were not intended to take the place of the use of the rate on Treasury certificates, which remained the Bank's main means of action. The tender system rather enabled the Bank to extend its sphere of influence to the shortest-term segments of the money market, to operate both on the market for public securities and on that for commercial bills and to gain a better idea of market expectations.

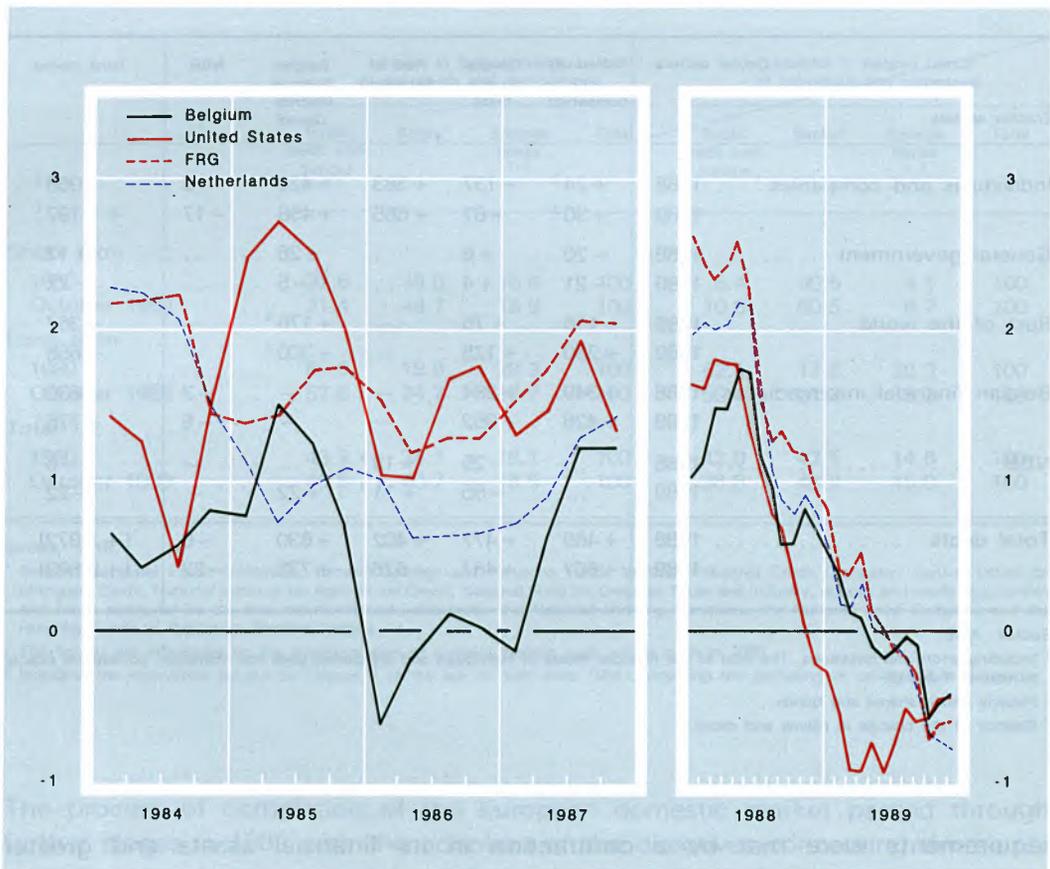
Since the introduction of this new system, the rates for the allocations have moved almost continuously upward, reflecting the general trend of the money

market and the expectations of those operating in it. While credits were granted each week by the Bank, the calls for tenders for fixed-term advances were interrupted between the second week of October and the first week of November, while none of the tenders submitted for such advances in response to three of the four calls issued in December was accepted. This was because the Bank considered that it was justifiable to suspend the granting of such credits during a period marked by a revival of strains on the foreign exchange market and a pronounced increase in interest rates. It did not, on the other hand, interrupt its acceptance of tenders for repurchase agreements in respect of commercial bills, wishing to preserve the more permanent character of this specific category of operations.

*Structure
of interest rates*

The marked rise in money market interest rates from the beginning of 1988 onwards was only partly passed on to long-term rates. General government, the main borrower on the capital market, reduced its demand for funds on that market, and this may have slowed down the rise in long-term interest rates. The differential between long- and short-term interest rates thus gradually narrowed. From May onwards, short-term interest rates were actually above long-term rates.

CHART 31 — DIFFERENTIALS BETWEEN LONG-TERM AND SHORT-TERM INTEREST RATES :
INTERNATIONAL COMPARISON



Source : NBB.

Contrary to what had happened in 1986 and at the beginning of 1987, this reversed rate structure was not, this time, peculiar to the Belgian financial markets. In many other countries the tightening of monetary policy actually led to an even more pronounced reversal of the structure of interest rates.

This reversed rate structure may indicate that long-term expectations about inflation have not fundamentally changed. If it persists, however, this situation tends to induce anticipations of rises in long-term rates and to cause investors to prefer short-term financial assets. Furthermore, it may affect the operating margin of the financial institutions which engage to the greatest extent in the switching of maturities.

6.2 MONEY AND CAPITAL MARKETS

During the first ten months of 1989 individuals and companies increased their formation of financial assets abroad, even more than their new foreign liabilities. On the other hand, their building up of assets with the Belgian financial intermediaries expanded less than their recourse to borrowing from these intermediaries and they reduced their purchases of public debt securities. General government's

Financing channels

TABLE 36 — FLOW OF FUNDS BY SECTOR

(First ten months, billions of francs)

Debtor sectors	Creditor sectors					Total claims
	Individuals and companies	General government	Rest of the world	Belgian financial intermediaries	NBB	
Individuals and companies ¹ ... 1988	+ 24 ²	+ 137	+ 383	+ 428	- 3	+ 969 ³
1989	+ 30 ²	+ 61	+ 665	+ 458	- 17	+ 1.197 ¹
General government 1988	- 20	+ 6	...	+ 26	...	+ 12
1989	- 21	+ 4	...	- 5	...	- 22
Rest of the world 1988	+ 116	+ 75	-	+ 176 ³	-	+ 367
1989	+ 230	+ 125	-	+ 300 ³	-	+ 655
Belgian financial intermediaries 1988	+ 349	+ 284	-	-	- 3	+ 630
1989	+ 428	+ 352	-	-	- 5	+ 775
NBB 1988	...	- 25	+ 19 ³	...	-	- 6
1989	...	- 55	+ 11 ³	+ 22	-	- 22
Total debts 1988	+ 469	+ 477	+ 402	+ 630	- 6	(+ 1.972)
1989	+ 667	+ 487	+ 676	+ 775	- 22	(+ 2.583)

Source : NBB.

¹ Including errors and omissions. The total of the financial assets of individuals and companies does not, therefore, correspond exactly to that of Table 19.

² Publicly issued shares and bonds.

³ Balance of the change in claims and debts.

requirements were met by a contraction in its financial assets and greater recourse to borrowing, chiefly at short term, from the rest of the world and the financial intermediaries. The latter financed the increase in their net claims on Belgian individuals, companies and general government by the resources obtained from abroad — including from foreign financial establishments which reinvest on the Belgian money market the deposits in francs which they have collected — and also, to a small extent, by the credits granted to them by the Bank by means of the new system of repurchase agreements in respect of commercial bills and of fixed-term advances against the collateral of public securities.

The large increase in the new net foreign liabilities of the financial intermediaries reflects an asymmetry in the degree of intermediation within the Belgian economy : nearly 70 p.c. of the new liabilities of the non-financial domestic sectors were contracted with resident credit institutions, whereas their formation of assets with these bodies only represented less than 40 p.c. of the total change in their claims. This asymmetry, due to the combination of the attractiveness of investments abroad and the strong domestic demand for credit, increased the cost of the financial intermediaries' resources, because the means of financing which they obtain abroad are more expensive. It was therefore in the gathering of the less expensive resources that competition became keener. Some institutions therefore adopted various techniques of remuneration of sight deposits in 1989. Others terminated the 1986 agreement which allowed small financial institutions to remunerate deposits on deposit or savings books by granting an additional premium in comparison with larger institutions. This situation caused the Minister of Finance to set up a committee entrusted with the task of working out a new code of remuneration of deposit books; a Royal Decree on a limited aspect of the question, namely the method of calculation of interest, was published in December.

TABLE 37 — MARKET SHARES OF THE VARIOUS CATEGORIES OF CREDIT INSTITUTIONS

(End of period, percentages of total)

	Assets in Belgian francs of individuals and companies				Liabilities in Belgian francs of individuals and companies			
	Public credit insti- tutions 1	Banks ²	Savings banks 2 3	Total	Public credit insti- tutions 1	Banks ²	Savings banks 2 3	Total
Short term								
1980	33.6	49.6	16.8	100	5.4	90.5	4.1	100
October 1989	31.4	49.7	18.9	100	10.8	80.5	8.7	100
Long term								
1980	60.0	19.8	20.3	100	62.1	17.6	20.3	100
October 1989	57.6	24.7	17.7	100	50.4	31.3	18.3	100
Total								
1980	43.3	38.7	18.1	100	42.0	43.5	14.6	100
October 1989	40.8	40.7	18.5	100	36.8	48.2	15.0	100

Source : NBB.

¹ Belgian Municipal Credit Institution, General Savings and Pensions Fund, National Industrial Credit Company, Central Office for Mortgage Credit, National Institute for Agricultural Credit, National Fund for Credit to Trade and Industry, deposit and credit associations and funds approved by the two last-mentioned institutions, the National Housing Company, the National Land Company and the Housing Funds of the Large Families League.

² The figures are influenced by the transformation of a major savings bank into a bank in 1989.

³ Including the enterprises subject to Chapter 1 of the law of 10th June 1964 concerning the gathering of savings from the public.

The process of completion of the European domestic market passed through further stages in 1989 with the adoption of the directives concerning the equity capital and solvency ratio of credit institutions, and of the second banking co-ordination directive. The implementation of these directives will require an effort of adaptation by all the financial intermediaries, especially the public-sector credit institutions, which have been steadily losing market shares for several years as compared with the banks and savings banks. Taking as its basis the solution advocated by the report of the commission of experts which it had appointed, the Government considered that the best way in which public credit institutions could prepare for this new environment was to group them around two poles.

It also took steps to harmonise the conditions of competition between these establishments and private financial institutions, and, in particular, to subject them to supervision by the Banking Commission.

While recourse to credit increased strongly in 1989, the level of public share issues was also particularly high. As in the United States, the upward trend of share prices following the crash of October 1987 continued in 1989. In Belgium, as in the other EEC countries, long-term interest rates nevertheless rose, but the good prospects of growth in the profits of enterprises sustained share prices. As everywhere, the adjustment in October 1989 was temporary and limited.

Long-term capital market

The upward movement of share prices has been accompanied, in recent years, by an increase in stock market transactions. Even so, in comparison with some foreign centres, the Brussels stock exchange is still relatively small. That is why, in the light of the experience gained in other European financial centres, the Belgian authorities decided to carry out a programme of modernisation of stock exchanges.

CHART 32 — SHARE PRICES AND LONG-TERM INTEREST RATES : INTERNATIONAL COMPARISON



Sources : Stock Exchange Commission, Standard and Poor's (Composite 500), Frankfurter Allgemeine Zeitung, OECD, NBB.
¹ Long-term yield rate on public-sector loans on the secondary market.

Since January 1989 the future-settlement market has gradually become continuous. Dealings in it are carried out with the aid of an electronic system which replaces the manual intervention of brokers. Moreover, a bill concerning financial transactions and financial markets has been prepared. It provides, among other things, for the gradual abolition of the monopoly of brokers as stock exchange intermediaries. Thus, until 31st December 1990, credit institutions and insurance companies would have access to the stock exchange by acquiring interests in stock exchange firms, which would become the sole recognised stock exchange intermediaries and would have to meet more stringent requirements with regard to solvency; after that date, credit institutions and insurance companies would be able to form their own stock exchange firms. The bill also provides, among other things, for a raising of the threshold above which dealings can be carried out outside the stock exchange, a reporting obligation in respect of these dealings, a revision of brokers' fees and the possibility of creating new organised markets. It furthermore changes the regulatory framework of the financial markets, especially by transforming the Banking Commission into a Banking and Financial Commission, on which the Bank would be represented *ex officio*.

The bond market, which continued to be dominated by issues of public securities, was the subject of an important innovation in 1989: the creation of « linear bonds », in accordance with the authorities' intention to modernise the management of the public debt, extend the primary market to other categories of subscribers, make investments in government securities more attractive for foreigners and expand the secondary market for public paper. These bonds are issued by calls for tender in successive monthly tranches, each subscriber being served at the price which he has offered. Only the issue price differs from tranche to tranche; the other two characteristics — term and face interest rate — remain fixed. Unlike in the case of traditional loans, non-financial companies and non-residents do not have to pay the withholding tax on income from financial assets on the incomes from these securities. Moreover, the list of subscribers allowed to participate in the tendering was extended to all Belgian credit institutions, to the stock exchange companies and to the Luxembourg credit institutions approved by the Luxembourg Monetary Institute. Since May, the eight tranches of the 8.25 p.c. - 1st June 1999 loan enabled about Fr. 82 billion to be raised.

TABLE 38 — BONDS AND NOTES AT OVER ONE YEAR IN FRANCS¹

(Changes in billions of francs)

Issuers	Holders	First ten months						
		1984	1985	1986	1987	1988	1988	1989*
General government	Total	298	545	226	378	464	381	139
	Individuals and companies ²	51	93	36	94	164	127	57
Financial intermediaries	Total	145	167	7	8	84	71	22
	Individuals and companies ²	136	160	18	42	99	87	35
Other residents	Total	3	-12	-7	-33	1	23	-8
	Individuals and companies ²	2	-6	-10	-16	19	27	-5
Non-residents	Total	16	46	62	58	10	5	19
	Individuals and companies ²	5	32	28	26	6	5	28
Total	Total	462	747	289	410	558	480	172
	Individuals and companies ²	194	279	72	146	288	246	114

Source: NBB.

¹ Including, insofar as it has been possible to record them, bonds in Luxembourg francs.

² Including insurance companies, pension funds and collective investment undertakings.

Despite the creation of linear bonds, the value of general government's net issues was considerably smaller in 1989 than the previous year. The main reason for this is the unfavourable climate for new issues, while the volume of Treasury loans falling due for redemption was particularly large, amounting to Fr. 377 billion, against Fr. 231 billion in 1988. On the one hand, because of expectations of rises in interest rates, lenders were unwilling to enter into long-term commitments. In particular, owing to the reduction in their new long-term resources, the credit institutions, which remain the chief creditors of general government, probably preferred to limit their transformation risk by reducing their investments in long-term government securities and giving preference to other types of loans with more flexible terms of remuneration. On the other hand, the Treasury did not consider that it should raise interest rates to the level which would have been necessary in order to overcome these reluctances.

TABLE 39 — FORMATION OF FINANCIAL ASSETS VIA COLLECTIVE INVESTMENT UNDERTAKINGS MAKING PUBLIC ISSUES IN BELGIUM

(Billions of francs)

	1984	1985	1986	1987	1988	First nine months	
						1988	1989 ^e
Funds under RD No. 15	19	19	-3	-4	-9	-6	-12
Pension-saving funds	—	—	—	24 ¹	12	4	4
Other Belgian funds .....	...	3	5	5	1	1	1
Luxembourg funds	1	9	38	35	43	37	7
Other foreign funds	-1	-2	-1	...	...	...	...
SICAVs	—	—	4	28	117	55	107
Total	19	29	43	88	164	91	107
p.m. As percentages of total formation of long-term financial assets	(6)	(8)	(22)	(38)	(35)	(26)	(28)

Source : Banking Commission.

¹ Including subscriptions received before 14th February, which gave entitlement to tax reliefs on the previous year's incomes of individuals.

The second most important issuer on the market for long-term fixed-interest securities is the financial intermediaries group. Because of the preference for short-term assets in 1989 and the interest rate differential in favour of government loans, net issues of notes decreased compared with the previous year and remained far below the volumes issued at the beginning of the 1980s.

As in previous years, with the exception of 1988, which was characterised by the issuing of private-sector bonds bearing warrants, other residents made net redemptions of bonds, gross issues having been virtually non-existent. Lastly, net issues in francs by non-residents increased, though remaining below the levels reached during the period 1985-1987.

The most significant development in recent years on the Belgian capital market was the expansion of collective investment undertakings, which gathered a growing proportion of the savings of individuals and companies. Among the bodies making public issues in Belgium, the only ones for which statistics are available, those which give tax advantages to their holders of shares or units were

particularly successful, as is shown by the exponential growth in purchases of shares of SICAVs and, to a smaller extent, the development of the unit trusts approved under Royal Decree No. 15 of 9th March 1982 and, later, of pension-saving funds.

Part of the bill concerning the reform of the Belgian financial centre does in fact deal with the collective investment undertakings : its aim is to bring the legislation into line with the European directives of 20th December 1985 and to permit the creation of investment companies under Belgian law benefiting by tax provisions which allow them to expand.

Recourse to the money market

The pronounced slackening in the long-term issues by general government was reflected in a sharp increase in recourse to the money market outside the central bank : during the first ten months of the year this recourse reached Fr. 306 billion, compared with Fr. 33 billion in 1988.

TABLE 40 — RECOURSE TO THE MONEY MARKET OUTSIDE THE CENTRAL BANK

(Changes in gross liabilities, in billions of francs)

	1987	1988	First ten months		p.m. Outstanding amounts at end October 1989
			1988	1989	
Interbank loans	144	- 14	- 43	24	(716)
Loans on the call money market	- 7	- 1	- 8	- 16	(10)
Mobilisations of commercial bills	- 6	- 7	- 7	- 5	(46)
Issuing of short-term public paper	198	54	90	303	(1,694)
Treasury certificates	195	51	56	287	(1,627)
Securities Regulation Fund certificates ..	4	3	34	16	(67)
Total	329	32	33	306	(2,466)

Source : NBB.

It mainly took the form of issues of short-term public paper, which constitutes the main money market instrument in Belgium : the certificates placed by the Treasury and the Securities Regulation Fund with the various parties involved other than the Bank increased by Fr. 303 billion. As has already been emphasised, the structure of interest rates — first flat and then reversed — and the absence of expectations of a decline in long-term rates caused the financial

TABLE 41 — TREASURY AND SECURITIES REGULATION FUND CERTIFICATES HELD BY BELGIAN FINANCIAL INTERMEDIARIES

(End of period)

	1980	1985	1987	1988	October 1989
Relative importance					
— as percentages of their total resources in Belgian francs ¹	3.6	9.1	11.1	10.7	12.9
— as percentages of their short-term resources in Belgian francs	5.2	13.4	15.3	14.3	16.9

Source : NBB.

¹ Excluding own resources.

intermediaries to devote a larger proportion of their available resources to short-term investments, while general government was forced to restrict its long-term financing.

This appreciable expansion in the portfolio of short-term public paper held by the Belgian financial intermediaries was again faster than that in their resources in Belgian francs.

The financial intermediaries also took up additional funds on the interbank market, fed by the contributions from the Luxembourg banks.

On the other hand, the financial intermediaries' liabilities in the two less important segments of the money market — the mobilisation of commercial bills and loans on the call money market — continued to decline, the latter market thus becoming increasingly residual in nature.

However, the transactions carried out between participants in the money market rarely result in equilibrium. In order to meet any deficits or absorb any surpluses, these participants have to turn to the « lender of last resort », that is, the central bank.

*Recourse
to the Bank*

A first factor of expansion or contraction of the money market stems from the movement of current and capital transactions with foreign countries. The deficit left by these transactions, which was financed by official settlements, that is, by loans obtained by general government in foreign currencies and/or by a change in the Bank's foreign exchange reserves, amounted to Fr. 58 billion for the year as a whole. During the first nine months this balance had been positive, enabling the Bank to increase its net foreign exchange reserves by Fr. 12 billion. Subsequently, the strains which appeared on the foreign exchange market forced general government to borrow foreign currencies to the extent of Fr. 70 billion.

A second factor expanding or contracting the market is the movement of the note circulation : over the year as a whole, if the decline resulting from the Fr. 5,000 notes of the « Vesalius » type withdrawn from circulation but not presented for exchange is disregarded, the amount of the note circulation went up by Fr. 18 billion. During the year it underwent pronounced seasonal variations : the effect which it exerted on the money market and hence on recourse to the Bank therefore varied greatly from quarter to quarter.

The Bank's « other » transactions, which result chiefly from its activity as an enterprise, resulted, on balance, in a net creation of liquidity for the money market of about Fr. 7 billion. These movements mainly reflect incidental payments made to the State, such as the transfer of the countervalue of the bank notes withdrawn from circulation but not presented for exchange.

On balance, all the factors described above brought about a net contraction of the money market of Fr. 69 billion over the year as a whole. The previous year the money market had, on the other hand, been expanded by Fr. 2 billion.

The possibilities of recourse to credit from the Bank were widened by a new instrument in March 1989. As has already been explained, the Bank henceforth grants credits to the financial intermediaries by the allocation by tender of fixed-term advances against the collateral of public securities and repurchase agreements in respect of commercial bills. In 1989 as a whole, credits totalling Fr. 29 billion were thus granted to the financial intermediaries : after a sharp rise

of Fr. 23 billion in each of the first two quarters, these credits — especially those in the form of fixed-term advances — decreased by about Fr. 18 billion over the remainder of the year.

Account being taken of these discretionary interventions, the Bank's residual financing finally rose by Fr. 40 billion. As in the two preceding years, the financial intermediaries other than the Securities Regulation Fund made hardly any use of the rediscount ceilings and the quotas for advances available to them at the Bank. The latter in fact constantly kept its official interest rates at a penalising level, that is, above the current money market rates. It was therefore

TABLE 42 — TRANSACTIONS OF THE NATIONAL BANK OF BELGIUM ON THE MONEY MARKET

(Changes in billions of francs)

	1987	1988	1989	1989			
				1st quarter	2nd quarter	3rd quarter	4th quarter
1. Factors expanding (+) or contracting (-) the money market	+49	+2	-69	+30	-14	+12	-96
1.1 Net demand for (-) or supply of (+) foreign currencies on the foreign exchange market ¹	+46	+6	-58	+4	+13	-6	-69
1.2 Increase (-) or decrease (+) in the note circulation ²	-11	-5	-18	+14	-25	+14	-21
1.3 Other	+13	...	+7	+12	-2	+3	-6
2. The Bank's discretionary interventions on the money market: lending by calls for tenders	-	-	+29	+23	+23	-18	...
2.1 Repurchase agreements in respect of commercial bills	-	-	+28	+8	+8	+6	+5
2.2 Fixed-term advances against the collateral of public securities	-	-	+1	+15	+16	-24	-5
3. Financing (+) or absorption (-) of the residual balance on the money market	-49	-2	+40	-53	-9	+7	+96
3.1 Credit to the financial intermediaries: rediscounting and advances	-2	...	+10	+1	+1	+1	+7
3.2 Financing of general government	-47	-2	+30	-54	-10	+6	+89
3.21 Special advances to the Securities Regulation Fund	-82	-21	-40	-55	+5	-9	+19
3.22 Purchases of foreign currencies connected with general government's spot capital transactions	+35	+19	+70	+1	-15	+14	+70
Total granting of liquidity to the money market (2 + 3)	-49	-2	+69	-30	+14	-12	+96
Changes in gold and foreign exchange reserves (1.1 + 3.22)	+81	+25	+12	+5	-1	+9	...
p.m. Outstanding end-of-period amount of the special advances provided to the Securities Regulation Fund	(128)	(107)	(66)	(52)	(57)	(48)	(66)

¹ Corresponds to the net balance of official settlements as shown in Table 31.

² Not including the movement resulting from the Fr. 5,000 notes of the « Vesalius » type withdrawn from circulation but not presented for exchange.

by making changes in their portfolios of short-term public paper that the financial intermediaries adjusted their net liquidity requirements. In the framework of its function of regularisation of the rates for public securities, the Securities Regulation Fund had to make large purchases at the end of the year on the market for government bonds, where heavy selling took place; these purchases were ultimately financed by recourse to the Bank's ordinary advances.

In the final analysis, the money market's residual requirement was met by a change in the financing of the Treasury by the Bank. The Treasury sold the proceeds of foreign currency loans which it contracted, mainly in the fourth quarter, to the Bank, which used them to finance its interventions on the foreign exchange market. On the other hand, it was able to reduce its debtor position in Belgian francs vis-à-vis the Bank by Fr. 40 billion : the outstanding amount of the special advances to the Securities Regulation Fund — which was still as high as Fr. 107 billion at the end of 1988 — was reduced to only Fr. 66 billion at the end of 1989. It was thus possible for the ceiling on this advance line to be reduced twice, from Fr. 160 to 130 billion in July and from Fr. 130 to 110 billion in December.

TABLE I — GNP AND MAIN CATEGORIES OF EXPENDITURE AT 1985 PRICES

(Percentage changes compared with previous year)

	1981	1982	1983	1984	1985	1986	1987	1988	1989 e
Private consumption	-0.9	1.4	-1.6	1.1	2.0	2.7	2.9	2.4	3.6
Public expenditure	-0.8	-2.9	-1.5	-1.5	0.5	0.5	0.4	-0.5	-0.2
Public consumption	0.3	-1.6	-0.2	0.1	2.6	1.4	1.3	-0.7	0.4
Public investment	-5.3	-9.2	-8.1	-10.4	-12.4	-5.4	-6.1	1.5	-5.0
Housing	-41.6	-5.8	-1.6	-0.4	4.6	4.6	7.6	22.3	22.0
Gross fixed capital formation by enterprises	-5.3	2.4	-4.2	6.9	3.3	6.8	7.0	16.8	15.0
One-man businesses	-10.6	-5.9	-1.0	1.4	4.6	14.6	8.5	16.8	13.0
Companies	-4.3	3.7	-4.6	7.8	3.1	5.6	6.8	16.8	15.3
p.m. Total gross fixed capital formation ¹	-15.9	-2.0	-4.5	1.8	0.6	4.4	5.2	16.0	14.3
Changes in stocks ²	-1.1	0.4	-0.7	1.1	-1.3	0.4	0.6	0.3	...
Total domestic expenditure	-4.6	0.7	-2.5	2.2	0.6	3.1	3.6	4.3	5.0
Exports of goods and services	3.1	2.1	3.2	5.7	1.3	5.4	7.1	8.2	8.0
Total final expenditure	-1.7	1.3	-0.2	3.6	0.9	4.1	5.1	6.0	6.3
Imports of goods and services	-2.7	0.9	-1.1	6.0	1.0	7.4	9.3	8.3	9.0
p.m. Net exports of goods and services ²	3.9	0.8	2.9	-0.1	0.3	-1.3	-1.6	-0.1	-0.8
GDP	-0.9	1.5	0.4	2.1	0.9	1.8	2.0	4.3	4.2
Net factor incomes ²	-0.1	-0.7	-0.1	0.2	-0.2	0.3	0.2	-0.1	0.3
GNP	-1.0	0.8	0.3	2.3	0.6	2.1	2.2	4.2	4.5

Source : NSI.

¹ Public investment, housing and gross fixed capital formation by enterprises.

² Contribution to the growth in GNP.

TABLE II — DEFLATORS OF GNP AND OF THE MAIN CATEGORIES OF EXPENDITURE

(Percentage changes compared with previous year)

	1981	1982	1983	1984	1985	1986	1987	1988	1989 e
Private consumption	8.7	7.9	7.0	6.0	5.9	0.4	1.5	1.7	3.1
Public expenditure	8.1	7.6	3.2	4.5	4.4	1.7	0.4	1.3	4.0
Public consumption	7.9	7.1	3.3	4.6	4.4	2.0	0.5	1.2	3.9
Public investment	9.0	10.3	2.7	4.3	3.9	-1.1	-0.4	2.2	4.6
Housing	5.9	0.3	2.6	4.6	5.3	2.9	4.1	2.6	4.8
Gross fixed capital formation by enterprises	4.6	7.2	5.2	4.0	3.3	1.1	...	1.7	3.9
p.m. Total gross fixed capital formation ¹	5.2	6.4	4.1	4.2	3.8	1.1	0.9	2.1	4.3
Total domestic expenditure	7.9	7.4	5.7	5.4	5.5	0.7	1.3	1.7	3.5
Exports of goods and services	9.4	13.1	7.3	8.0	2.9	-8.2	-3.6	2.8	6.8
Total final expenditure	8.3	9.5	6.3	6.5	4.4	-3.1	-0.8	2.0	4.8
Imports of goods and services	14.0	13.2	7.5	7.9	2.1	-12.2	-4.3	2.7	6.8
p.m. Terms of trade	(-4.0)	(-0.2)	(-0.1)	(...)	(0.8)	(4.5)	(0.7)	(0.1)	(...)
GDP = GNP	4.9	7.2	5.6	5.4	6.0	3.5	2.0	1.9	3.8

Source : NSI.

¹ Public investment, housing and gross fixed capital formation by enterprises.

TABLE III — GNP AND MAIN CATEGORIES OF EXPENDITURE AT CURRENT PRICES

(Billions of francs)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 e
Private consumption	2,225	2,396	2,622	2,763	2,961	3,199	3,300	3,447	3,588	3,832
Public expenditure	787	845	883	897	923	968	989	998	1,006	1,044
Public consumption	644	697	734	757	792	849	878	894	898	937
Public investment	144	148	148	140	131	119	112	104	108	107
Housing	225	139	131	133	138	152	164	184	230	294
Gross fixed capital formation by enterprises	360	357	392	395	439	468	505	541	643	768
One-man businesses	53	50	50	52	55	60	69	75	89	105
Companies	307	307	341	342	384	409	436	466	554	663
p.m. Total gross fixed capital formation ¹	728	644	671	667	708	740	781	829	981	1,170
Changes in stocks	27	-4	8	-26	19	-33	-22	12	30	30
Total domestic expenditure	3,624	3,733	4,036	4,161	4,481	4,755	4,937	5,181	5,496	5,969
Exports of goods and services	2,026	2,286	2,640	2,924	3,337	3,479	3,367	3,476	3,868	4,460
Total final expenditure	5,651	6,019	6,676	7,085	7,818	8,234	8,304	8,657	9,364	10,429
Imports of goods and services	2,125	2,357	2,694	2,864	3,277	3,379	3,187	3,335	3,708	4,312
p.m. Net exports of goods and services	-98	-71	-54	60	60	100	180	141	160	148
GDP	3,526	3,662	3,982	4,221	4,541	4,855	5,117	5,322	5,656	6,117
Net factor incomes	-18	-21	-48	-53	-49	-63	-53	-44	-52	-37
GNP	3,508	3,641	3,934	4,168	4,492	4,792	5,064	5,278	5,604	6,080

Source : NSI.

¹ Public investment, housing and gross fixed capital formation by enterprises.

TABLE IV — VALUE ADDED OF THE VARIOUS BRANCHES OF ACTIVITY AT 1985 PRICES

(Percentage changes compared with previous year)

	1981	1982	1983	1984	1985	1986	1987	1988	1989 e	p.m. Percentages of 1988 GDP
Agriculture, forestry and fisheries	4.6	5.9	-2.5	9.4	-1.4	4.7	-5.0	8.0	0.1	(2.3)
Industry	-0.1	2.9	4.7	1.8	1.1	-1.6	2.2	4.4	4.8	(24.2)
Mineral-extracting industry	-9.7	4.8	-6.3	-8.6	-7.7	-14.3	-8.9	-5.1	-0.4	(0.3)
Electricity, gas, water	3.1	-5.0	5.0	0.8	3.3	-2.4	9.1	1.5	3.7	(3.7)
Manufacturing industry	-0.4	4.4	5.0	2.3	1.0	-1.2	1.2	5.1	5.1	(20.2)
of which :										
Non-metallic minerals	-9.9	2.0	1.8	-4.4	-11.3	7.5	5.8	14.1	10.9	(1.0)
Wood and furniture	-8.5	-0.2	-8.4	11.1	2.9	4.1	10.3	11.0	13.0	(1.1)
Iron and steel	10.4	-18.1	11.4	-0.6	3.5	-4.4	1.0	13.8	-1.1	(1.1)
Non-ferrous metals	55.3	-17.5	-5.5	12.2	32.5	4.1	2.5	12.2	6.4	(0.5)
Metal-working industry	-3.8	8.0	5.7	2.2	5.4	-7.8	-1.8	3.9	5.7	(5.3)
Paper, printing, publishing	-1.4	3.1	5.9	2.3	-6.6	3.5	3.8	9.2	4.7	(1.3)
Chemicals and rubber	18.7	16.2	10.3	9.6	0.6	0.7	4.4	4.4	3.3	(2.7)
Textiles, clothing and footwear	-1.3	-6.2	5.8	-5.0	-2.3	0.6	-2.6	0.2	6.4	(1.4)
Food, beverages, tobacco	-2.7	4.5	1.5	1.3	-0.1	1.6	-0.1	-1.5	1.3	(4.3)
Building industry	-18.8	-4.8	-5.1	-3.6	-0.2	3.3	3.2	12.0	12.0	(5.7)
Market services	-0.2	2.4	-0.7	3.3	1.1	3.5	3.8	4.5	4.4	(58.9)
of which :										
Wholesale and retail trade	-2.2	3.4	-2.4	0.2	0.6	1.8	0.7	0.6	1.5	(14.4)
Distribution of petroleum products	-12.1	0.6	-0.7	1.5	0.5	14.5	1.5	1.6	-1.8	(5.0)
Financial services	13.9	7.9	-6.7	8.5	2.1	11.9	13.9	9.8	10.0	(5.8)
Rents	3.9	2.0	2.0	2.1	2.1	2.2	2.2	2.2	2.2	(5.6)
Transport and communications	-1.7	-1.3	-0.2	6.1	2.1	-4.3	3.8	5.5	4.4	(7.8)
Other services to enterprises	-2.7	2.7	6.0	16.6	-2.3	7.3	6.2	11.9	8.5	(5.1)
Medical professions	6.7	4.0	4.4	3.1	4.6	1.2	1.7	7.0	3.9	(2.7)
Hotels and catering and various services to households	2.4	3.7	-0.6	1.4	-0.3	1.6	5.7	6.0	9.0	(7.6)
Non-market services	0.2	-0.8	-0.3	0.7	2.1	1.5	0.2	0.3	1.3	(13.2)
GDP ¹	-0.9	1.5	0.4	2.1	0.9	1.8	2.0	4.3	4.2	(100.0)

Source : NSI.

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

TABLE V — INCOMES OF THE VARIOUS SECTORS AT CURRENT PRICES

(Billions of francs)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 e
1. Individuals										
Gross primary income	2,997	3,178	3,418	3,621	3,901	4,148	4,375	4,505	4,719	5,059
Earned income	2,509	2,598	2,750	2,888	3,073	3,229	3,416	3,506	3,646	3,890
Wages and salaries	2,079	2,156	2,284	2,388	2,540	2,666	2,811	2,873	2,969	3,156
Entrepreneurial income of self-employed persons	430	442	466	500	533	563	605	633	677	734
Income from property	488	580	668	733	828	920	959	999	1,073	1,169
Current transfers	-256	-223	-282	-275	-368	-428	-455	-470	-456	-463
From and to (-) general government	-245	-207	-271	-266	-358	-421	-449	-462	-451	-456
Transfers received	735	825	889	959	1,010	1,054	1,087	1,140	1,180	1,233
Social benefits	656	735	798	867	907	943	977	1,022	1,053	1,094
Other transfers	79	90	92	93	103	111	110	118	126	139
Transfers paid	-980	-1,032	-1,160	-1,225	-1,368	-1,475	-1,536	-1,602	-1,631	-1,689
Social contributions	-438	-465	-505	-558	-635	-699	-744	-792	-813	-867
Direct taxes	-542	-568	-655	-668	-733	-776	-792	-810	-818	-822
From and to (-) the rest of the world ¹	-11	-15	-11	-9	-10	-7	-6	-8	-5	-8
Disposable income	2,741	2,956	3,136	3,346	3,534	3,720	3,920	4,035	4,262	4,596
p.m. At constant prices (percentage changes compared with previous year) ²	(3.6)	(0.3)	(-1.9)	(-1.2)	(-0.7)	(0.3)	(4.1)	(1.5)	(4.0)	(4.6)
2. Companies										
Gross primary income	329	326	402	449	522	613	706	733	823	934
Current transfers to (-) other sectors	-90	-88	-113	-115	-133	-148	-157	-164	-178	-182
Disposable income	240	239	289	334	389	464	549	569	645	752
3. General government										
Gross primary income	181	136	114	97	69	31	-17	40	62	87
Current transfers from other sectors ¹	312	266	350	347	463	550	580	597	589	595
Disposable income	493	402	465	444	532	581	563	636	651	682
4. Rest of the world										
Disposable income	34	44	45	44	37	27	32	37	45	51
5. GNP	3,508	3,641	3,934	4,168	4,492	4,792	5,064	5,278	5,604	6,080

Sources : NSI, NBB.

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

² Data deflated by the deflator of private consumption, calculated without taking account of the statistical adjustment.

TABLE VI — SUMMARY OF THE TRANSACTIONS OF THE MAJOR SECTORS OF THE ECONOMY AT CURRENT PRICES¹*(Billions of francs)*

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 e
1. Individuals										
1.1 Disposable income	2,741	2,956	3,136	3,346	3,534	3,720	3,920	4,035	4,262	4,596
1.2 Consumption	2,225	2,396	2,622	2,763	2,961	3,199	3,300	3,447	3,588	3,832
1.3 Gross savings (1.1 - 1.2)	516	560	513	583	572	521	620	588	675	764
p.m. Percentages of disposable income	(18.8)	(18.9)	(16.4)	(17.4)	(16.2)	(14.0)	(15.8)	(14.6)	(15.8)	(16.6)
1.4 Capital transfers ²	6	5	2	1	1	5	1	1	2	2
1.5 Gross capital formation	277	187	182	187	195	211	234	257	318	397
1.6 Net financing capacity (1.3 + 1.4 - 1.5)	245	378	333	397	379	315	387	332	359	369
p.m. Percentages of disposable income	(8.9)	(12.8)	(10.6)	(11.9)	(10.7)	(8.5)	(9.9)	(8.2)	(8.4)	(8.0)
2. Companies										
2.1 Disposable income = gross savings	240	239	289	334	389	464	549	569	645	752
2.2 Capital transfers ²	99	131	132	145	114	145	117	111	87	69
2.3 Gross capital formation	335	305	349	315	402	377	414	479	585	695
2.4 Net financing capacity (2.1 + 2.2 - 2.3)	3	65	71	164	101	232	252	201	148	126
3. General government										
3.1 Disposable income	493	402	465	444	532	581	563	636	651	682
3.2 Consumption	644	697	734	757	792	849	878	894	898	937
3.3 Gross savings (3.1 - 3.2)	-150	-295	-270	-313	-260	-269	-314	-257	-247	-255
3.4 Capital transfers ²	-110	-144	-144	-159	-129	-163	-133	-128	-108	-92
3.5 Gross capital formation	144	148	148	140	131	119	112	104	108	107
3.6 Net financing requirement (-) (3.3 + 3.4 - 3.5) ..	-404	-587	-562	-611	-520	-551	-558	-489	-463	-455
4. Total of domestic sectors										
4.1 Net financing requirement (-) or capacity (1.6 + 2.4 + 3.6)	-156	-144	-158	-50	-40	-3	81	44	43	40

Source : NSI.

¹ Including general government's lending and equity investment.² These are net amounts, i.e. the difference between transfers received from other sectors and transfers paid to other sectors.

TABLE VII — DEMAND FOR AND SUPPLY OF EMPLOYMENT

(Thousands of units on 30th June)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 e
1. Demand for employment (labour force)										
1.1 Population of working age ¹	6,240	6,255	6,285	6,309	6,325	6,339	6,350	6,356	6,357	6,352
Men	3,233	3,251	3,278	3,303	3,320	3,332	3,338	3,342	3,343	3,340
Women	3,007	3,004	3,007	3,006	3,005	3,008	3,012	3,014	3,015	3,012
1.2 Gross labour force ²	4,144	4,184	4,228	4,263	4,269	4,292	4,322	4,345	4,368	4,382
Men	2,611	2,618	2,629	2,637	2,627	2,626	2,625	2,618	2,611	2,601
Women	1,533	1,566	1,599	1,626	1,642	1,666	1,696	1,727	1,757	1,782
1.3 Gross activity rate (1.2 as percentage of 1.1)	(66.4)	(66.9)	(67.3)	(67.6)	(67.5)	(67.7)	(68.1)	(68.4)	(68.7)	(69.0)
Men	(80.8)	(80.5)	(80.2)	(79.8)	(79.1)	(78.8)	(78.6)	(78.4)	(78.1)	(77.9)
Women	(51.0)	(52.1)	(53.2)	(54.1)	(54.6)	(55.4)	(56.3)	(57.3)	(58.3)	(59.2)
1.4 Beneficiaries of early or temporary withdrawal schemes ³	75	90	108	126	137	180	213	230	242	252
Men	55	68	83	99	112	145	168	180	186	192
Women	20	23	25	27	25	35	45	50	56	60
1.5 Net labour force (1.2 - 1.4) ⁴	4,069	4,094	4,120	4,137	4,132	4,112	4,108	4,115	4,126	4,131
Men	2,556	2,550	2,546	2,538	2,515	2,481	2,457	2,439	2,425	2,409
Women	1,513	1,543	1,573	1,600	1,617	1,631	1,652	1,676	1,701	1,722
1.6 Net activity rate (1.5 as percentage of 1.1)	(65.2)	(65.5)	(65.5)	(65.6)	(65.3)	(64.9)	(64.7)	(64.7)	(64.9)	(65.0)
Men	(79.1)	(78.5)	(77.7)	(76.8)	(75.8)	(74.5)	(73.6)	(73.0)	(72.6)	(72.1)
Women	(50.3)	(51.4)	(52.3)	(53.2)	(53.8)	(54.2)	(54.8)	(55.6)	(56.4)	(57.2)
2. Supply of employment (employment)										
2.1 Enterprises										
Private enterprises	2,752	2,671	2,618	2,592	2,583	2,596	2,607	2,631	2,683	2,730
Employees	2,146	2,062	2,005	1,969	1,954	1,962	1,967	1,984	2,028	2,062
Self-employed persons	606	609	613	623	629	634	640	647	655	668
Public enterprises	315	323	325	321	318	317	311	317	316	314
Total	3,067	2,994	2,943	2,913	2,901	2,912	2,918	2,948	2,998	3,044
of which : Agriculture, forestry and fisheries	116	113	111	111	110	109	107	104	102	101
Industry	983	934	903	882	873	858	844	823	809	814
Building	287	259	236	218	204	203	204	204	212	218
Market services	1,681	1,688	1,693	1,702	1,714	1,742	1,763	1,817	1,875	1,911
2.2 General government ⁵	633	637	640	633	639	649	666	652	655	653
Traditional circuits	566	576	586	582	576	575	579	571	572	568
Parallel circuits	67	61	54	51	63	74	87	81	83	85
2.3 Frontier workers (balance)	47	47	46	46	46	45	47	49	49	50
2.4 Grand total	3,747	3,678	3,629	3,592	3,586	3,606	3,631	3,649	3,702	3,747
Men	2,439	2,373	2,325	2,285	2,265	2,262	2,259	2,248	2,256	2,260
Women	1,309	1,306	1,305	1,308	1,321	1,344	1,371	1,401	1,446	1,487
3. Unemployment (1.5 - 2.4) ⁶	322	416	490	545	546	506	478	466	424	384
Men	118	178	222	253	250	218	198	191	170	149
Women	205	238	268	292	296	288	280	275	255	235

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

¹ Men aged 15 to 64, women aged 15 to 59.² Persons holding a job, unemployed job-seekers and persons benefiting by early or temporary withdrawal schemes.³ Persons who have retired early, older unemployed persons not seeking jobs and persons who have completely interrupted their occupational careers.⁴ Persons holding a job and unemployed job-seekers.⁵ Persons employed in government departments, teaching, the armed forces and persons doing national service, including persons given employment under the job-creation schemes that constitute the parallel circuits (unemployed persons given work by public authorities, special temporary staff, third labour circuit and subsidised persons under contract).⁶ Excluding older unemployed persons who are not job-seekers.

TABLE VIII — CONSUMER PRICES

(Percentage changes compared with previous year)

	Overall index	Breakdown by categories					
		Energy products	Overall index excluding energy products	Food products	Other products	Services	Rents
1981	7.6	21.1	5.8	6.0	4.9	5.9	10.2
1982	8.7	14.8	7.8	9.5	7.0	7.1	8.1
1983	7.7	3.3	8.4	8.4	8.6	7.9	9.0
1984	6.3	5.3	6.5	7.9	6.4	5.3	7.3
1985	4.9	5.4	4.8	3.4	5.9	4.7	5.0
1986	1.3	-19.6	4.4	1.9	5.6	5.2	3.7
1987	1.6	-6.9	2.5	-0.4	3.7	3.1	4.3
1988	1.2	-3.4	1.6	...	2.5	1.5	3.6
1989	3.1	6.5	2.8	3.1	2.5	2.6	3.7
p.m. Weighting coefficients							
1980-1983	(100)	(9.510)	(90.490)	(25.150)	(33.280)	(27.060)	(5.000)
1984-1989	(100)	(12.565)	(87.435)	(22.145)	(30.230)	(28.660)	(6.400)

Source : Ministry of Economic Affairs.

TABLE IX — REVENUE, EXPENDITURE AND NET FINANCING REQUIREMENT OF GENERAL GOVERNMENT

(Billions of francs)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 e
1. Revenue	1,600	1,688	1,910	2,010	2,204	2,357	2,434	2,547	2,627	2,772
Fiscal and parafiscal revenue	1,539	1,615	1,818	1,923	2,114	2,266	2,350	2,475	2,551	2,678
Direct taxes	632	655	768	783	866	925	949	974	996	1,004
Indirect taxes	436	459	506	543	569	597	609	660	693	755
Social security contributions	459	487	531	585	667	731	778	826	846	902
Capital taxes	13	13	12	13	13	13	14	16	16	16
Non-fiscal and non-parafiscal revenue	61	73	93	87	90	91	84	73	76	94
2. Expenditure excluding lending and equity investment	1,924	2,171	2,359	2,495	2,624	2,782	2,890	2,933	3,018	3,168
Current expenditure	1,738	1,970	2,168	2,310	2,451	2,612	2,734	2,789	2,858	3,012
Net expenditure on goods and services	605	655	692	713	746	799	824	834	831	862
Interest charges	212	285	362	391	442	511	569	563	573	640
Current transfers to individuals	760	853	921	993	1,048	1,093	1,127	1,181	1,220	1,275
Subsidies to enterprises	115	125	131	149	155	148	148	136	154	154
Current transfers to the rest of the world ¹	47	50	62	64	60	62	67	76	80	80
Capital expenditure	186	202	191	185	173	170	156	144	161	157
Gross fixed capital formation	144	148	148	140	131	119	112	104	108	107
Capital transfers ¹²	43	54	43	45	42	50	45	40	53	50
3. Net financing requirement (-) excluding lending and equity investment	-324	-483	-449	-485	-420	-425	-456	-386	-392	-396
4. Lending and equity investment ¹	80	104	113	127	100	126	102	103	71	59
5. Net financing requirement (-), including lending and equity investment (3 - 4)	-404	-587	-562	-611	-520	-551	-558	-489	-463	-455

Sources : NSI, NBB.

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

² The capital transfers received from other sectors, which are deducted from this item, include the capital gains obtained by the sale of gold ecus and the payments by the Bank of the countervalue of notes withdrawn from circulation which have not been presented for exchange.

TABLE X — GENERAL GOVERNMENT'S NET FINANCING REQUIREMENT AND NET FINANCIAL DEFICIT OR SURPLUS OF ITS VARIOUS SUB-SECTORS

(Billions of francs)

	Net financing requirement (-) of general government	Net financial deficit (-) or surplus (+) of the sub-sectors					Statistical deviation ¹	
		National government, communities and regions			Local authorities	Social security		Grand total
		Net balance to be financed by the Treasury ²	Other ³	Total				
					(a)	(b)		(c)	(d) = (b) + (c)	(e)	(f)	(g) = (d) + (e) + (f)	(h) = (a) - (g)
1981	- 587	- 455	- 62	- 517	- 63	- 7	- 587	...
1982	- 562	- 509	- 71	- 580	- 27	+ 22	- 585	+ 23
1983	- 611	- 524	- 64	- 589	- 27	+ 13	- 603	- 8
1984	- 520	- 504	- 36	- 540	- 12	+ 39	- 512	- 8
1985	- 551	- 571	- 44	- 615	- 10	+ 49	- 576	+ 25
1986	- 558	- 556	- 46	- 601	- 15	+ 32	- 584	+ 26
1987	- 489	- 431	- 100	- 530	- 1	+ 12	- 519	+ 30
1988	- 463	- 434	- 62	- 496	- 8	+ 17	- 486	+ 23
1989 e	- 455	- 397	- 89	- 486	- 27	+ 36	- 477	+ 22

Source : NBB. For further details concerning the methodology, see *Bulletin de la Banque Nationale de Belgique*, LXIIIrd year, Vol. 1, No. 5, May 1988.

¹ The total financial deficit differs from the net financing requirement, partly owing to time lags in the dating of the recording of the transactions and imperfections in the compiling of the data.

² Calculated by the Ministry of Finance and published in the *Moniteur Belge*.

³ The amount of the financial resources which the national government, the communities and the regions obtain in order to meet the part of their deficit which is not recorded in column (b). These are, in particular, the liabilities resulting from debudgetisations and prefinancings or liabilities taking the form of regularisation loans.

TABLE XI — NET FINANCIAL BALANCE OF GENERAL GOVERNMENT AND OF ITS VARIOUS SUB-SECTORS

(Billions of francs)

	National government, communities and regions			Local government	Social security	Grand total
	Net balance to be financed by the Treasury	Other ¹	Total			
1988						
1. Balance of revenue and expenditure	- 390	- 35	- 425	- 8 ²	+ 17 ²	- 415
2. Balance of lending and equity investment	- 44	- 27	- 71	n.	n.	- 71
3. Overall balance (1 + 2)	- 434	- 62	- 496	- 8	+ 17	- 486
1989 e						
1. Balance of revenue and expenditure	- 359	- 68	- 427	- 27 ²	+ 36 ²	- 418
2. Balance of lending and equity investment	- 38	- 21	- 59	n.	n.	- 59
3. Overall balance (1 + 2)	- 397	- 89	- 486	- 27	+ 36	- 477

Sources : NSI, NBB.

¹ Amount of the financial resources which the national government, the communities and the regions obtain in order to meet the part of their deficit which is not recorded in the first column. These are, in particular, the liabilities resulting from debudgetisations and prefinancings or liabilities taking the form of regularisation loans.

² Including a negligible amount of lending and equity investment.

TABLE XII — NEW LIABILITIES OF AND FORMATION OF FINANCIAL ASSETS BY GENERAL GOVERNMENT

(Billions of francs)

	New liabilities					Grand total	Formation of financial assets in Belgian francs	Balance ¹	
	In foreign currencies	In Belgian francs			Total				
		At up to one year		At over one year					
		With NBB ²	Other						Total
(a)	(b)	(c)	(d) = (b) + (c)	(e)	(f) = (d) + (e)	(g) = (a) + (f)	(h)	(i) = (g) - (h)	
1981	+ 224	+ 72	+ 166	+ 238	+ 109	+ 347	+ 571	- 16	+ 587
1982	+ 243	+ 32	+ 189	+ 221	+ 151	+ 371	+ 615	+ 30	+ 585
1983	+ 134	+ 7	+ 98	+ 105	+ 386	+ 491	+ 625	+ 22	+ 603
1984	+ 156	+ 12	+ 66	+ 78	+ 337	+ 416	+ 571	+ 59	+ 512
1985	+ 34	- 18	+ 53	+ 35	+ 561	+ 596	+ 631	+ 55	+ 576
1986	+ 62	+ 27	+ 286	+ 313	+ 234	+ 548	+ 610	+ 26	+ 584
1987	+ 32	- 82	+ 217	+ 135	+ 384	+ 519	+ 552	+ 33	+ 519
1988	+ 20	- 21	+ 37	+ 16	+ 494	+ 510	+ 530	+ 44	+ 486
First ten months									
1988	+ 38	- 29	+ 68	+ 40	+ 400	+ 440	+ 477	+ 12	+ 466
1989 *	+ 41	- 58	+ 365	+ 307	+ 139	+ 446	+ 487	- 22	+ 509

Source : NBB. For further details concerning the methodology, see *Bulletin de la Banque Nationale de Belgique*, LXIIIrd year, Vol. 1, No. 5, May 1988.

¹ This column corresponds to general government's net financial deficit (cf. column (g) of Table X, with reversed sign).

² Changes in the National Bank of Belgium's portfolio of Belgian public securities and in the outstanding amount of Treasury certificates which the Securities Regulation Fund finances with special advances from the Bank.

TABLE XIII — OUTSTANDING AMOUNT OF THE DEBTS AND FINANCIAL ASSETS OF GENERAL GOVERNMENT

(End of period, billions of francs)

	Debts				Grand total	Financial assets in Belgian francs	Net debts			Adjustments ³	Net financial deficit of general government ⁴	
	In foreign currencies	In Belgian francs.					Outstanding amount	Nominal changes in total outstanding amount				
		At up to one year ¹	At over one year	Total					Grand total			p.m. Total excluding debt to IMF ²
1980	159	582	2,078	2,660	2,819	375	2,443	2,406	(+ 420)	(+ 21)	(399)	
1981	404	827	2,187	3,014	3,417	359	3,058	3,015	(+ 615)	(+ 28)	(587)	
1982	683	1,055	2,338	3,393	4,076	389	3,687	3,635	(+ 628)	(+ 44)	(585)	
1983	868	1,193	2,724	3,917	4,785	411	4,373	4,289	(+ 687)	(+ 84)	(603)	
1984 Old series ⁵	1,063	1,278	3,061	4,339	5,401	470	4,931	4,840	(+ 558)	(+ 46)	(512)	
New series ⁵	1,063	1,259	3,063	4,322	5,384	452	4,932	4,842				
1985	1,031	1,303	3,624	4,926	5,957	507	5,451	5,351	(+ 518)	(- 58)	(576)	
1986	1,048	1,601	3,858	5,460	6,508	532	5,975	5,890	(+ 525)	(- 60)	(584)	
1987	1,070	1,734	4,246	5,980	7,049	565	6,484	6,402	(+ 509)	(- 10)	(519)	
1988	1,108	1,752	4,740	6,492	7,599	609	6,990	6,907	(+ 506)	(+ 21)	(486)	
1989 October *	1,144	2,065	4,879	6,943	8,087	587	7,500	7,411	(+ 510)	(...)	(509)	

Source : NBB. For further details concerning the methodology, see *Bulletin de la Banque Nationale de Belgique*, LXIIIrd year, Vol. 1, No. 5, May 1988.

¹ Including the portfolio of Belgian public securities held at the National Bank of Belgium and the outstanding amount of Treasury certificates financed by the Securities Regulation Fund with special advances from the Bank.

² Excluding the Treasury certificates held by the IMF. This is because the transfer to the Fund of these certificates, which do not bear interest, does not lead to any cash revenue for general government.

³ These adjustments relate to the Treasury certificates held by the IMF and the exchange differences in respect of the official public debt and the foreign-currency debt of the other sub-sectors.

⁴ This column corresponds to column (i) of Table XII.

⁵ The method of calculation of the series relating to the local authorities and social security has been slightly changed from 1984 onwards; in the case of the former it is mainly a matter of an accounting change in the balance sheet series of the Belgian Municipal Credit Institution, while in the case of the latter the change is due to an increase in the number of industrial accident funds whose transactions are recorded.

TABLE XIV — BALANCE OF PAYMENTS OF THE BLEU

(Balances in billions of francs)

	1981	1982	1983	1984	1985	1986	1987	First ten months		
								1988	1989	
1. Current transactions	-155	-110	-22	-3	41	139	103	128	105	n.
p.m. Current transactions on a payments basis	-216	-125	-46	-2	23	144	104	117	91	92
2. Capital transactions¹	-141	-162	-98	-86	-85	-186	-52	-125	-132	n.
2.1. Transactions of the non-financial private sector	-207	-104	-93	-13	-40	-99	8	-84	-113	n.
Commercial claims	-61	-15	-24	1	-18	5	1	-11	-14	n.
Net assets in Belgian and Luxembourg francs of non-residents with resident credit institutions	-74	-37	-36	23	-16	-59	50	89	86	57
Spot	-87	-11	-25	16	16	-32	42	66	48	72
Forward	13	-26	-11	7	-32	-27	8	23	38	-15
Net assets in foreign currencies of resident enterprises and individuals	-108	-79	-1	42	38	90	29	-76	-82	29
Spot	-110	-71	-17	19	8	53	-41	-111	-139	-130
Forward	2	-8	16	23	30	37	70	35	57	159
Securities	-40	-59	-79	-96	-94	-94	-60	-136	-122	-224
Shares	4	14	1	...	8	-1	23	37	29	-22
Assets of residents	5	9	...	4	-5	-31	-1	18	10	-52
Assets of non-residents	-1	5	1	-4	13	30	24	19	19	30
Bonds	-44	-73	-80	-96	-102	-93	-83	-173	-151	-202
Assets of residents	-46	-67	-89	-111	-114	-107	-111	-213	-170	-202
Assets of non-residents	2	-6	9	15	12	14	28	40	19	...
Direct investments and allied capital transactions	76	86	47	17	50	-41	-12	50	19	39
Assets of residents	-6	2	-20	-17	-19	-81	-108	-138	-105	-198
Assets of non-residents	82	84	67	34	69	40	96	188	124	237
p.m. Transactions of the non-financial private sector excluding commercial claims	-146	-89	-69	-14	-22	-104	7	-73	-99	-99
2.2. Other capital transactions	66	-58	-5	-73	-45	-87	-60	-41	-19	2
Transactions in foreign currencies of resident credit institutions	43	-74	...	-69	-44	-75	-56	-23	-8	3
Spot	58	-108	5	-39	-46	-65	22	35	87	147
Forward	-15	34	-5	-30	2	-10	-78	-58	-95	-144
Transactions of non-financial public enterprises	28	18	1	6	1	-6	-6	-3	-3	-6
Transactions in francs of general government	-5	-2	-6	-10	-2	-6	2	-15	-8	5
3. Errors and omissions	-23	-9	-33	2	4	-4	6	3	6	-24
4. Counterpart of monetisation/demonetisation of gold .....	...	...	...	...	...	...	-11	...	...	-2
5. Balance of official settlements (1 to 4 = 6 + 7)	-319	-281	-153	-87	-40	-51	46	6	-21	-31
6. Spot capital transactions, in foreign currencies, of general government²	-223	-243	-131	-154	-32	-58	-35	-19	-40	-41
7. Movement of the net gold and foreign exchange reserves of the NBB³	-96	-38	-22	67	-8	7	81	25	19	10

Source : NBB. For a general summary of the balance of payments methodology, see Eurostat, 1984 : *La méthodologie de la balance des paiements de l'Union Economique Belgo-Luxembourgeoise*. For further details, see *Bulletin de la Banque Nationale de Belgique*, LXIIIrd year, Vol. II, No. 4, October 1988 : *Modifications apportées au tableau IX-5 « Opérations avec l'étranger, opérations en monnaies étrangères des résidents avec les banques belges et luxembourgeoises et opérations de change à terme » de la partie « Statistiques » du Bulletin* and LXIVth year, Vol. II, Nos 2-3, August-September 1989 : *Modifications de l'enregistrement des opérations sur la base de caisse et du traitement des effets commerciaux*.

¹ Minus sign : capital outflows.

² Minus sign : increase in general government's liabilities in foreign currencies.

³ Minus sign : decrease in reserves.

TABLE XV — CURRENT TRANSACTIONS ON A TRANSACTIONS BASIS

(Balances in billions of francs)

	1981	1982	1983	1984	1985	1986	1987	1988	First ten months	
									1988	1989
1. Transactions in goods										
1.1 Transactions on a payments basis	-170	-93	-28	11	27	134	86	113	81	87
Exports, imports and commission processing	-193	-110	-60	-12	20	106	57	93	68	74
Arbitrage	23	17	32	23	7	28	29	20	13	13
1.2 Transactions which gave rise to commercial claims	61	15	24	-1	18	-5	-1	11	14	n.
1.3 Transactions on a transactions basis (1.1 + 1.2)	-109	-78	-4	10	45	129	85	124	95	n.
2. Transactions in services	2	24	41	38	38	53	74	71	63	70
Freight and insurance for transport of goods and other transport expenses	15	23	24	18	21	20	34	42	35	32
Travel abroad	-47	-28	-19	-17	-23	-32	-35	-43	-40	-45
Net income from direct and portfolio investment	-3	-10	-9	-4	-8	5	13	12	12	34
Transactions of general government not included elsewhere ¹	37	43	50	55	62	71	81	80	67	69
Other services .....	...	-4	-5	-14	-14	-11	-19	-20	-11	-20
3. Transfers	-48	-56	-59	-51	-42	-43	-56	-67	-53	-65
Private	-15	-11	-9	-10	-8	-9	-4	2	...	-1
Public	-33	-45	-50	-41	-34	-34	-52	-69	-53	-64
of which transactions with the EEC	(-22)	(-32)	(-33)	(-26)	(-20)	(-19)	(-34)	(-53)	(-40)	(-49)
4. Total current transactions on a transactions basis (1.3 + 2 + 3)	-155	-110	-22	-3	41	139	103	128	105	n.
p.m. Total current transactions on a payments basis (1.1 + 2 + 3)	-216	-125	-46	-2	23	144	104	117	91	92

Source : NBB. For a general summary of the balance of payments methodology, see Eurostat, 1984 : *La méthodologie de la balance des paiements de l'Union Economique Belgo-Luxembourgeoise*. For further details, see *Bulletin de la Banque Nationale de Belgique*, LXIIIrd year, Vol. I, No. 3, March 1988 : *Modifications apportées à l'établissement des données de la rubrique 1.1 « Transactions sur marchandises » des tableaux IX-1 à 4 de la partie « Statistiques » du Bulletin* and LXIVth year, Vol. II, Nos 2-3, August-September 1989 : *Modifications de l'enregistrement des opérations sur la base de caisse et du traitement des effets commerciaux*.

¹ This item consists mainly of the BLEU's receipts in respect of the operating expenses of the international institutions established in Belgium and the Grand Duchy of Luxembourg.

TABLE XVI — OFFICIAL EXCHANGE RATES FIXED BY THE BANKERS MEETING AT THE BRUSSELS CLEARING HOUSE

(Quotations in Belgian francs, annual averages)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
US dollar	29.22	37.13	45.76	51.18	57.79	59.36	44.66	37.34	36.81	39.43
German mark	16.09	16.43	18.83	20.01	20.31	20.18	20.58	20.78	20.94	20.96
Yen (100)	12.97	16.85	18.38	21.55	24.32	24.91	26.57	25.85	28.70	28.63
French franc	6.92	6.84	6.96	6.72	6.61	6.61	6.44	6.21	6.17	6.18
Pound sterling	68.01	74.84	79.80	77.50	76.98	76.33	65.48	61.11	65.37	64.55
Irish punt	60.09	59.75	64.84	63.58	62.60	62.80	59.80	55.50	55.99	55.85
Italian lira (100)	3.42	3.27	3.38	3.37	3.29	3.11	3.00	2.88	2.83	2.87
Canadian dollar	25.01	30.98	37.08	41.52	44.63	43.50	32.13	28.17	29.95	33.30
Netherlands guilder	14.71	14.89	17.11	17.91	18.01	17.89	18.25	18.44	18.60	18.58
Swedish crown	6.91	7.35	7.31	6.66	6.98	6.89	6.26	5.89	6.00	6.11
Swiss franc	17.45	18.94	22.52	24.34	24.61	24.21	24.89	25.06	25.14	24.11
Peseta (100)	40.83	40.26	41.63	35.68	35.93	34.87	31.88	30.28	31.57	33.27
Danish crown	5.19	5.21	5.48	5.59	5.58	5.60	5.52	5.46	5.46	5.39
Austrian schilling (100)	226.10	233.25	267.88	284.50	288.81	287.18	292.79	295.41	297.76	297.79
Norwegian crown	5.92	6.47	7.09	7.00	7.08	6.90	6.04	5.54	5.64	5.71
Finnish mark	7.85	8.61	9.50	9.18	9.61	9.56	8.80	8.50	8.78	9.18
Escudo (100)	58.68	60.65	57.99	46.77	39.62	34.58	29.88	26.49	25.52	25.02
Zaire	10.63	8.99	7.94	6.36	1.61	1.21	0.76	0.35	0.21	0.11
Greek drachma (100) ¹	—	—	—	—	—	—	—	—	25.94	24.29
Ecu ²	—	—	—	—	45.06	44.91	43.79	43.03	43.42	43.35
p.m. Effective exchange rate for the Belgian franc ³ (indices 1980 = 100) ...	(100)	(95.4)	(86.3)	(84.7)	(84.8)	(86.4)	(93.7)	(98.6)	(98.4)	(98.1)

Source : NBB. For further details concerning the effective exchange rate for the Belgian franc, see *Bulletin de la Banque Nationale de Belgique*, LIIInd year, Vol. 1, No. 5, May 1977 : *Les indices du cours moyen pondéré ou cours de change effectif du franc belge*.

¹ The Greek drachma has been quoted on the Bourse since 4th January 1988.

² The ecu has been quoted on the Bourse since 3rd September 1984.

³ Weighted by exports.

TABLE XVII — FINANCIAL ACCOUNTS BY SECTOR

(Billions of francs)

	1981	1982	1983	1984	1985	1986	1987	1988	1989 e	First ten months	
										1988	1989 *
1. Individuals and companies :											
1.1 Net financing capacity ¹	443	404	561	480	547	639	533	507	495	n.	n.
Individuals	378	333	397	379	315	387	332	359	369	n.	n.
Companies	65	71	164	101	232	252	201	148	126	n.	n.
1.2 Net financial surplus	439	437	557	489	583	678	589	529	n.	505	524
Formation of financial assets ²	667	582	736	605	793	899	941	1,167	n.	974 ⁵	1,191 ⁵
New liabilities ³ (-)	-228	-145	-179	-116	-210	-221	-352	-638	n.	-469	-667
1.3 Statistical deviation (1.1 - 1.2)	4	-33	4	-9	-36	-39	-56	-22	n.	n.	n.
2. General government :											
2.1 Net financing requirement ¹ (-)	-587	-562	-611	-520	-551	-558	-489	-463	-455	n.	n.
2.2 Net financial deficit ⁴ (-)	-587	-585	-603	-512	-576	-584	-519	-486	-477	-466	-509
Formation of financial assets	-16	30	22	59	55	26	33	44	n.	12	-22
New liabilities (-)	-571	-615	-625	-571	-631	-610	-552	-530	n.	-477	-487
2.3 Statistical deviation (2.1 - 2.2) .....	...	23	-8	-8	25	26	30	23	22	n.	n.
3. Rest of the world :											
3.1 Net financing capacity or requirement (-) ¹	144	158	50	40	3	-81	-44	-43	-40	n.	n.
3.2 Net financial surplus or deficit (-) ..	144	158	50	40	3	-81	-44	-47	n.	-35 ⁵	-21 ⁵
3.3 Statistical deviation (3.1 - 3.2) .....	...	...	...	...	...	...	...	4	n.	n.	n.
4. Balance of financial surpluses and deficits (1.2 + 2.2 + 3.2)											
	-4	10	4	17	10	13	26	-4	n.	4	-6

Source: NBB.

¹ Data taken from Table VI.² See Table XVIII.³ See Table XIX.⁴ See Table XII.⁵ Not including the change in Belgium's net commercial claims on foreign countries.

TABLE XVIII — FORMATION OF FINANCIAL ASSETS BY INDIVIDUALS AND COMPANIES

(Billions of francs)

	1981	1982	1983	1984	1985	1986	1987	1988	First ten months	
									1988	1989*
Assets in Belgian francs	361	452	559	427	554	570	532	542	398	431
At up to one year	147	158	228	211	265	490	390	256	155	278
Notes and coin	4	-1	16	-5	-2	20	8	4	-1	-6
Sight deposits	23	32	67	-17	56	63	33	67	39	10
Deposits on ordinary savings books	46	21	112	115	163	210	226	187	95	76
Time deposits	68	112	19	111	37	133	102	-14	-5	152
Notes	-5	-4	11	6	14	54	16	16	16	37
Miscellaneous	11	-3	4	...	-3	10	5	-4	12	9
At over one year	214	295	331	216	289	81	142	285	243	153
Bonds and notes ¹	210	274	269	194	279	72	146	288	246	114
Shares ²	1	12	44	20	3	9	-14	2	-2	52
Deposits	2	9	18	2	7	-1	11	-4	-1	-13
Assets in foreign currencies	155	83	69	95	88	145	143	235	228	343
At up to one year	115	32	-15	-9	-2	32	54	43	62	94
At over one year	40	51	84	105	90	113	90	193	166	249
Bonds	44	60	84	109	85	82	89	211	176	197
Shares	-5	-9	...	-4	5	31	1	-18	-10	52
Other assets ³	152	46	109	83	151	184	266	391	363	n.
Commercial claims on foreign countries	61	15	24	-2	18	-6	-1	11	14	n.
Financial gold	24	-10	2	10	9	7	20	6	4	1
Other claims on foreign countries	6	-3	13	14	5	70	90	127	94	154
Miscellaneous	61	44	71	60	119	113	157	246	251	262
Grand total	667	582	736	605	793	899	941	1,167	988	n.
p.m. Grand total excluding commercial claims on foreign countries	606	566	713	607	774	904	942	1,156	974	1,191

Source : NBB. For further details concerning the methodology, see *Bulletin de la Banque Nationale de Belgique*, LXIIIrd year, Vol. II, Nos 1-2, July-August 1988.¹ Including, insofar as it has been possible to record them, bonds in Luxembourg francs.² Public share issues, less net purchases of Belgian shares by non-residents.³ Assets whose distribution between Belgian francs and foreign currencies is not known or is meaningless.

TABLE XIX — NEW LIABILITIES OF INDIVIDUALS AND COMPANIES

(Billions of francs)

	1981	1982	1983	1984	1985	1986	1987	1988	First ten months	
									1988	1989*
1. Liabilities contracted primarily by individuals ¹	31	24	21	32	49	86	132	138	116	149
Personal loans and hire-purchase credits	- 10	- 1	8	15	26	33	48	37	37	44
Mortgage loans	41	25	13	17	23	53	84	101	79	105
2. Liabilities contracted primarily by companies and one-man businesses ¹	197	121	158	84	161	135	220	499	353	518
Shares ² .....	...	17	44	17	13	22	30	46	33	81
Bonds	32	21	28	9	- 18	- 12	- 33	- 3	19	- 14
Investment credits ³	2	12	16	45	49	70	129	147	95	125
Other credits ³	80	- 11	12	- 19	43	21	19	161	142	154
Miscellaneous	82	81	58	33	74	34	75	150	65	172
p.m. Total										
— in Belgian francs	86	50	106	60	93	90	142	297	228	293
— in foreign currencies	38	8	9	10	15	17	12	59	40	33
— other ⁴	73	64	43	14	54	27	66	143	85	193
3. Grand total	228	145	179	116	210	221	352	638	469	667

Source : NBB.

¹ Personal loans, hire-purchase credits and mortgage loans are also, to a small extent, contracted by companies and one-man businesses, while the liabilities of individuals are not necessarily confined to these forms of credit.² Solely public share issues.³ Granted by resident credit institutions.⁴ Includes liabilities to foreign countries for which the distribution between Belgian francs and foreign currencies is not known or is meaningless.

TABLE XX — MAIN INTEREST RATES

(Annual averages)

	Three-month money market rates ¹			Rate for government loans at over 5 years ²	Creditor rates ³			Debtor rates			
	Treasury certificates	Interbank deposits	Standard rate of RGI for purchase of bankable paper ⁴		Savings deposits ⁵	Deposits of from 5 to 20 million at banks (3-month)	Notes issued by PCIs (5-year)	Bank overdrafts	Fixed-term advances from banks (3-month)	Investment credits from the NICC	Mortgage loans from the GSPF ⁶
1980	14.28	14.23	12.89	12.20	7.81	13.62	11.94	16.69	14.68	13.36	13.47
1981	15.46	15.29	13.83	13.78	7.81	14.65	13.15	17.59	15.74	14.65	14.43
1982	14.29	14.07	13.89	13.45	7.81	13.45	13.65	16.91	14.37	15.16	14.91
1983	10.69	10.54	10.43	11.80	7.71	9.92	11.49	13.82	10.79	13.15	12.99
1984	11.58	11.38	11.35	11.96	8.00	10.76	11.40	14.40	11.73	12.84	12.52
1985	9.71	9.58	10.36	10.61	8.00	8.97	10.74	12.61	9.83	11.97	11.81
1986	8.21	8.11	8.86	7.93	6.64	7.48	7.72	10.47	8.21	8.92	8.79
1987	7.19	7.10	7.91	7.83	6.20	6.47	7.59	9.34	7.20	8.73	8.24
1988	6.81	6.77	7.17	7.85	6.03	6.14	7.33	8.86	6.87	8.53	8.05
1989	8.80	8.73	9.40	8.64	6.00	8.11	7.73	10.98	8.83	8.98	8.52

Sources : NBB, RGI, Belgian Bankers' Association, Public Credit Institutions (PCIs).

¹ Rates calculated on the basis of 365 days.² Yield on the secondary market, before deduction of tax at source.³ Before deduction of tax at source.⁴ Rates converted into rates in arrears for bills which still have three months to run. In 1980, bills counted against sub-ceiling A.⁵ Gross fictitious rate, including the fidelity bonus, with the main credit institutions.⁶ Rate for ordinary mortgage loans at over 15 years with insurance of the balance remaining payable; fixed rate until 1985, semi-fixed rate from 1986 onwards.

TABLE XXI — INTEREST RATES OF THE NATIONAL BANK OF BELGIUM

(Percentages)

	Discount ¹	Current account advances against public securities ²	Rediscount facility of the RGI for the mobilisation of paper not counted against the rediscount ceilings
End of :			
1980	12.00	12.00	13.00
1981	15.00	17.00	17.50
1982	11.50	12.50	12.50
1983	10.00	11.00	11.00
1984	11.00	12.00	12.00
1985	9.75	10.25	10.25
1986	8.00	8.25	8.25
1987	7.00	7.25	7.25
1988 1st January - 27th January	7.00	7.25	7.25
28th January - 2nd March	6.75	7.00	7.00
3rd March - 30th June	6.50	6.75	6.75
1st July - 13th July	6.75	7.00	7.00
14th July - 10th August	7.00	7.25	7.25
11th August - 28th August	7.25	7.50	7.50
29th August - 16th November	7.50	7.75	7.75
17th November - 14th December	7.25	7.50	7.50
15th December - 18th December	7.50	7.75	7.75
19th December - 31st December	7.75	8.00	8.00
1989 1st January - 19th January	7.75	8.00	8.00
20th January - 22nd January	7.75	8.50	8.00
23rd January - 20th April	8.25	8.50	8.50
21st April - 23rd April	8.25	9.00	8.50
24th April - 28th June	8.75	9.00	9.00
29th June	8.75	9.50	9.00
30th June - 4th October	9.25	9.50	9.50
5th October	9.25	10.75	9.50
6th October - 31st December	10.25	10.75	10.75

¹ Since 12th August 1985 the National Bank of Belgium has applied a preferential discount rate, one point lower than the official rate, for the mobilisation — via the RGI — of commercial bills certified by it and representing exports to countries outside the EEC; this measure replaces a similar system which the RGI was previously able to apply without the Bank's intervention. The Bank also applies, for the rediscounting of « Creditexport » bills with up to one year still to run and representing exports to countries which are not members of the EEC, a special interest rate identical to the rate for these bills; this system, which came into force on 1st December 1981, was extended on 1st December 1989 for a further period of one year.

² Since 3rd December 1982 this rate has also applied to advances above the monthly quota allotted to public-sector credit institutions, banks and savings banks.

TABLE XXII — CREDITS GRANTED BY TENDER BY THE NATIONAL BANK OF BELGIUM

	Repurchase agreements in respect of commercial bills			Fixed-term advances against the collateral of public securities			Total outstanding amounts ¹
	Rates	Amounts granted	Existing outstanding amounts ¹	Rates	Amounts granted	Existing outstanding amounts ¹	
	<i>(millions of francs)</i>			<i>(millions of francs)</i>			
1989 15th March	7.50	4,850	4,850	7.94	10,150	10,150	15,000
22nd March	7.50	7,150	12,000	7.94	6,800	16,950	28,950
29th March	7.50	9,475	16,625	7.88	8,000	14,800	31,425
5th April	7.38	10,275	19,750	7.75	7,475	15,475	35,225
12th April	7.38	12,050	22,325	7.75	24,950	32,425	54,750
19th April	7.38	10,375	22,425	7.81	12,675	37,625	60,050
26th April	7.50	12,625	23,000	7.94	14,825	27,500	50,500
3rd May	7.50	9,925	22,550	7.94	13,400	28,225	50,775
10th May	7.50	9,275	19,200	7.94	8,700	22,100	41,300
17th May	7.50	11,075	20,350	7.94	2,525	11,225	31,575
24th May	7.63	10,800	21,875	8.06	9,025	11,550	33,425
31st May	7.75	10,875	21,675	8.19	3,050	12,075	33,750
7th June	7.75	11,875	22,750	8.19	9,850	12,900	35,650
14th June	7.75	9,650	21,525	8.13	3,825	13,675	35,200
21st June	7.88	13,375	23,025	8.25	24,275	28,100	51,125
28th June	7.88	10,350	23,725	8.25	6,250	30,525	54,250
5th July	7.88	14,875	25,225	8.25	13,325	19,575	44,800
12th July	7.88	11,650	26,525	8.25	7,350	20,675	47,200
18th July	7.88	13,675	25,325	8.25	8,450	15,800	41,125
26th July	7.88	11,625	25,300	8.25	14,250	22,700	48,000
2nd August	7.88	14,400	26,025	8.25	9,550	23,800	49,825
9th August	7.88	10,775	25,175	8.25	11,000	20,550	45,725
16th August	7.88	13,950	24,725	8.25	9,250	20,250	44,975
23rd August	7.88	14,275	28,225	8.25	10,200	19,450	47,675
30th August	7.88	13,800	28,075	8.25	8,750	18,950	47,025
6th September	7.94	14,850	28,650	8.31	3,900	12,650	41,300
13th September	7.94	15,150	30,000	8.31	2,250	6,150	36,150
20th September	8.00	15,375	30,525	8.38	4,100	6,350	36,875
27th September	8.13	12,850	28,225	8.56	1,975	6,075	34,300
4th October	8.50	15,300	28,150	8.94	4,800	6,775	34,925
11th October	9.00	15,225	30,525	—	—	4,800	35,325
18th October	9.06	14,900	30,125	—	—	—	30,125
25th October	9.06	14,350	29,250	—	—	—	29,250
31st October	9.13	14,025	28,375	—	—	—	28,375
8th November	9.25	14,250	28,275	—	—	—	28,275
15th November	9.31	14,525	28,775	9.75	2,450	2,450	31,225
22nd November	9.38	14,050	28,575	9.75	1,800	4,250	32,825
29th November	9.44	13,650	27,700	9.81	3,300	5,100	32,800
6th December	9.44	10,600	24,250	—	—	3,300	27,550
13th December	9.50	15,975	26,575	—	—	—	26,575
20th December	9.63	11,425	27,400	10.00	1,000	1,000	28,400
27th December	9.69	16,150	27,575	—	—	1,000	28,575

Source : NBB. For further details, see *Bulletin de la Banque Nationale de Belgique*, LXIVth year, Vol. II, No. 1, July 1989.

¹ As payment of the credits granted is made through the clearing system two working days after the conclusion of the transaction, this figure is the outstanding amount on the date of payment (value date) and not on the date of granting of the credit, shown in the first column (transaction date).

TABLE XXIII — TRANSACTIONS OF THE NATIONAL BANK OF BELGIUM ON THE MONEY MARKET

(Changes in billions of francs)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
1. Factors expanding (+) or contracting (-) the money market	- 324	- 274	- 151	- 83	- 26	- 61	+ 49	+ 2	- 69
1.1 Net demand for (-) or supply of (+) foreign currencies on the foreign exchange market	- 319	- 281	- 153	- 87	- 40	- 51	+ 46	+ 6	- 58
1.2 Increase (-) or decrease (+) in the note circulation	- 6	...	- 14	- 2	+ 4	- 20	- 11	- 5	- 18
1.3 Other	+ 1	+ 7	+ 16	+ 7	+ 11	+ 10	+ 13	...	+ 7
2. Discretionary interventions by the Bank on the money market : lending by calls for tenders	-	-	-	-	-	-	-	-	+ 29
2.1 Repurchase agreements in respect of commercial bills	-	-	-	-	-	-	-	-	+ 28
2.2 Fixed-term advances against the collateral of public securities	-	-	-	-	-	-	-	-	+ 1
3. Financing (+) or absorption (-) of the residual balance on the money market	+ 324	+ 274	+ 151	+ 83	+ 26	+ 61	- 49	- 2	+ 40
3.1 Credits to financial intermediaries : rediscounting and advances	+ 29	- 1	+ 12	- 84	+ 13	- 24	- 2	...	+ 10
3.2 Financing of general government	+ 295	+ 275	+ 138	+ 167	+ 13	+ 85	- 47	- 2	+ 30
3.21 Special advances to the Securities Regulation Fund	+ 72	+ 32	+ 7	+ 12	- 18	+ 27	- 82	- 21	- 40
3.22 Purchases of foreign currencies connected with general govern- ment's spot capital transactions	+ 223	+ 243	+ 131	+ 155	+ 32	+ 58	+ 35	+ 19	+ 70
Total granting of liquidity to the money market (2 + 3)	+ 324	+ 274	+ 151	+ 83	+ 26	+ 61	- 49	- 2	+ 69
Changes in gold and foreign exchange reserves (1.1 + 3.22)	- 96	- 38	- 22	+ 67	- 8	+ 7	+ 81	+ 25	+ 12
p.m. — Outstanding end-of-period amount of the special advances granted to the Securities Regulation Fund	(150)	(181)	(188)	(201)	(182)	(209)	(128)	(107)	(66)
— End-of-period ceiling on special advances	(150)	(190)	(210)	(210)	(210)	(210)	(180)	(160)	(110)



LIST OF TABLES AND CHARTS

Tables

Chapter 1 : International environment

1 Expenditure	3
2 Balances of current transactions	11

Chapter 2 : Expenditure, production and employment

3 GNP and main categories of expenditure at 1985 prices	17
4 Value added of the various branches of activity at 1985 prices	23
5 Demand for and supply of employment	27
6 Value added, employment and productivity in enterprises	28

Chapter 3 : Prices and costs

7 Consumer prices : international comparison	33
8 Consumer prices : main categories	34
9 Foreign trade prices	35
10 Labour costs in enterprises	35
11 Labour costs per employee in manufacturing industry : international comparison	36
12 Productivity and labour costs in manufacturing industry : international comparison	37
13 Domestic costs	38

Chapter 4 : Accounts of the major domestic sectors

14 Net financing capacities and requirements : international comparison ..	40
15 Incomes of individuals at current prices	41
16 Summary of transactions of individuals	42
17 Incomes of companies at current prices	43
18 Summary of transactions of companies	44
19 Financial account of individuals and companies	44
20 Formation of financial assets by individuals and companies	46
21 Net purchases of foreign-currency bonds by individuals and companies : breakdown by currency	49
22 Indebtedness of individuals	50
23 New liabilities of companies and one-man businesses	51
24 Deficit of transactions of general government	53
25 Revenue of general government	54
26 Expenditure of general government	55
27 Net financing requirement of general government	57
28 Public finances : international comparison	58
29 Net financial deficit (-) or surplus (+) of the various sub-sectors of general government	59
30 New liabilities of and formation of financial assets by general government	60

Chapter 5 : Balance of payments of the Belgian-Luxembourg Economic Union and foreign exchange market

31	Balance of payments of the BLEU	61
32	Transactions in services	65
33	Transactions in securities	67
34	Direct investments and allied capital transactions	68
35	Net gold and foreign exchange reserves of the National Bank of Belgium	70

Chapter 6 : Monetary policy and money and capital markets

36	Flow of funds by sector	80
37	Market shares of the various categories of credit institutions	81
38	Bonds and notes at over one year in francs	83
39	Formation of financial assets via collective investment undertakings making public issues in Belgium	84
40	Recourse to the money market outside the central bank	85
41	Treasury and Securities Regulation Fund certificates held by Belgian financial intermediaries	85
42	Transactions of the National Bank of Belgium on the money market ..	87

Charts

Chapter 1 : International environment

1	Labour market	5
2	Raw material prices	6
3	Consumer prices	7
4	Interest rates	9
5	Exchange rates	10
6	Foreign debt of the developing countries	13

Chapter 2 : Expenditure, production and employment

7	Private consumption and disposable income at constant prices	18
8	Investment in housing at 1985 prices	19
9	Investment by enterprises	20
10	Investment rates : international comparison	22
11	Economic activity in manufacturing industry	24
12	Economic activity in the building industry	25
13	Value added of market services at 1985 prices	26
14	Relationship between unemployment rate and vacancy rate	29
15	Unemployment rate : international comparison	30
16	Level and duration of unemployment in 1989 : international comparison	31

Chapter 4 : Accounts of the major domestic sectors

17	Net financing requirement (–) or capacity (+) of the major sectors of the economy	39
18	Financial account of individuals and companies	45
19	Fixed-interest financial assets in Belgian francs held by individuals and companies and interest rates	47
20	Net purchases of foreign-currency bonds by individuals and companies	48
21	New liabilities of individuals in the form of mortgage loans and interest rates	50
22	Main debtor interest rates	51
23	« Snowball effect » of interest charges on the public debt	56

Chapter 5 : Balance of payments of the Belgian-Luxembourg Economic Union and foreign exchange market

24	Balance of official settlements and differential between short-term interest rates in Belgian francs and in German marks	62
25	Labour costs per unit of output in manufacturing industry : international comparison	64
26	Position of the currencies within the exchange rate mechanism of the EMS	71
27	Exchange rate for the Belgian franc	72

Chapter 6 : Monetary policy and money and capital markets

28	Interest rates on three-month Euro-deposits	75
29	Interest rates on the money market	77
30	Long-term and short-term interest rates	78
31	Differentials between long-term and short-term interest rates : international comparison	79
32	Share prices and long-term interest rates : international comparison ..	82

Statistical annex

Tables concerning economic activity and prices

I	GNP and main categories of expenditure at 1985 prices	91
II	Deflators of GNP and of the main categories of expenditure	92
III	GNP and main categories of expenditure at current prices	93
IV	Value added of the various branches of activity at 1985 prices	94
V	Incomes of the various sectors at current prices	95
VI	Summary of the transactions of the major sectors of the economy at current prices	96
VII	Demand for and supply of employment	97
VIII	Consumer prices	98

Tables concerning transactions of general government

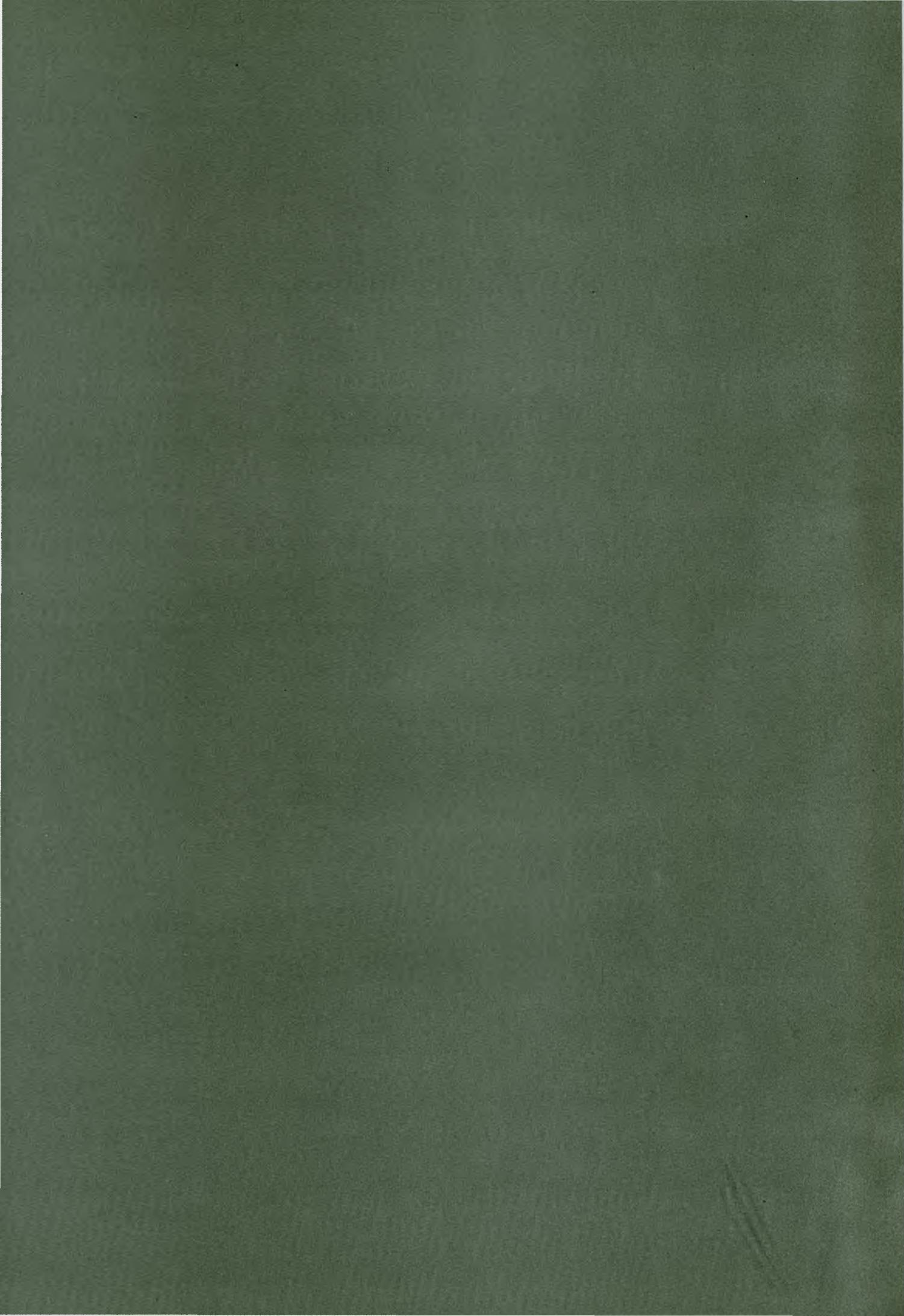
IX	Revenue, expenditure and net financing requirement of general government	99
X	General government's net financing requirement and net financial deficit or surplus of its various sub-sectors	100
XI	Net financial balance of general government and of its various sub-sectors	101
XII	New liabilities of and formation of financial assets by general government	102
XIII	Outstanding amount of the debts and financial assets of general government	103

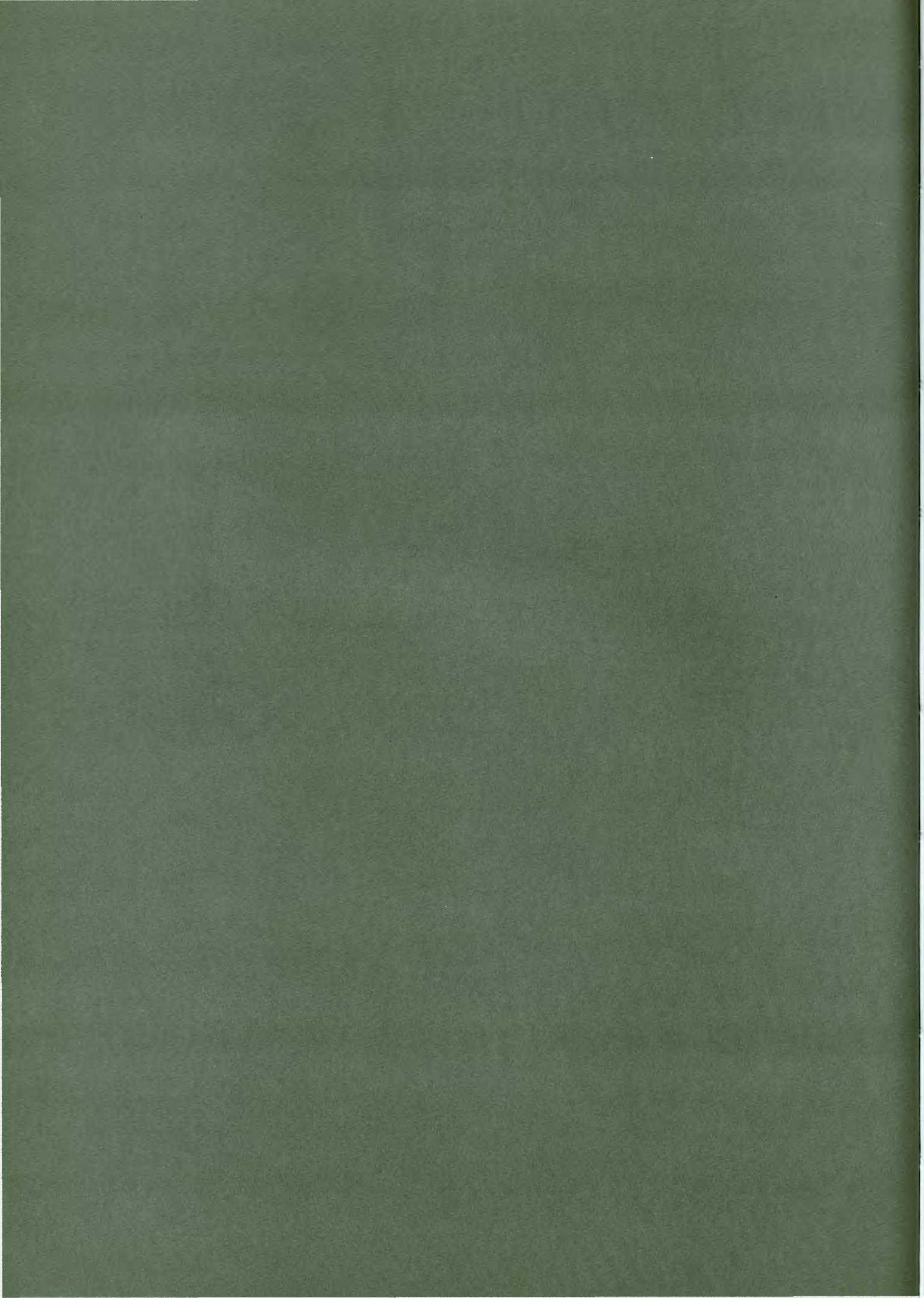
Tables concerning transactions with foreign countries

XIV	Balance of payments of the BLEU	104
XV	Current transactions on a transactions basis	105
XVI	Official exchange rates fixed by the Bankers meeting at the Brussels Clearing House	106

Tables concerning monetary and financial transactions

XVII	Financial accounts by sector	107
XVIII	Formation of financial assets by individuals and companies	108
XIX	New liabilities of individuals and companies	109
XX	Main interest rates	110
XXI	Interest rates of the National Bank of Belgium	111
XXII	Credits granted by tender by the National Bank of Belgium	112
XXIII	Transactions of the National Bank of Belgium on the money market ..	113





SPECIFIC ACTIVITIES AS THE CENTRAL BANK

NOTES AND LOAN

**The National Bank of Belgium
as an Enterprise**

The National Bank of Belgium carries out the specific missions with which it is entrusted as the central bank and at the same time engages in entrepreneurial activity.

The following report deals with the material aspects of these activities which appear to deserve closer attention because of their novelty, their special features or the insufficient amount of information hitherto published about them. These data are supplemented by a few considerations about the staff and organisation of the Bank.

SPECIFIC ACTIVITIES AS THE CENTRAL BANK

NOTES AND COIN

The distribution of the note circulation at the end of 1989, by denomination, was as follows :

	Millions of notes	Percentage of total number of notes in circulation	Percentage of total amount of notes in circulation
Fr. 5,000	60.994	18.3	68.9
Fr. 1,000	111.853	33.6	25.3
Fr. 500	24.262	7.3	2.7
Fr. 100	135.871	40.8	3.1
	332.980		

These figures do not take into account the number of Fr. 5,000 notes of the « Vesalius » type which have not yet been presented to the Bank for exchange. On 1st January 1989, i.e. the date on which these notes ceased to be legal tender, 2.310 million of them were still in the hands of the public. By 31st December 1989, 50.2 p.c. of these had been replaced.

In order to meet the demand, 156.941 million notes were printed in 1989, that is :

9,600,000 notes of Fr. 5,000
37,800,000 notes of Fr. 1,000
8,400,000 notes of Fr. 500
101,141,000 notes of Fr. 100

During the past year the Bank grouped together into a single administrative unit the operations of designing, producing, issuing, sorting and destroying notes. It continued with its efforts to provide even greater protection against forgery and co-operated for this purpose with international groups of specialists.

Following the preparatory economic and technical studies for the creation of a new series of bank notes, the Bank decided to issue a Fr. 10,000 note which is to be added to the present series in 1992. A series of other denominations are to be put into circulation later.

The nominal value of the notes which will compose this series and their main technical characteristics have been the subject of far-reaching studies. The Bank

has contacted the representatives of the main sectors which use notes and coins. It has also sought the opinion of the Luxembourg monetary authorities about its plans.

In order to safeguard the quality of the metal and paper currency, the Bank checks and sorts the incoming notes and coins, cancels and destroys notes which have become unsuitable for circulation or have been withdrawn and passes damaged or withdrawn coins to the Belgian Royal Mint.

The following table shows the movement of the number of notes and coins received at the Bank's counters and the number of persons engaged in these activities on a full-time or part-time basis, both at the head office and at the branches and agencies.

	1982	1983	1984	1985	1986	1987	1988	1989
Number (in millions)								
– of notes received at counters . .	596	553	584	604	616	661	686	738
– of coins received at counters . .	570	525	509	614	664	700	593	837
Staff employed	308	309	311	311	310	295	289	252

A comparison of these figures shows the extent of the productivity gains achieved in recent years, especially in 1989, as the number of notes and coins received at the counters during that year exceeds the 1988 figures by 7.6 and 41.1 p.c. respectively, while the number of staff employed was reduced by 12.8 p.c.

The increase in productivity in the operations of counting, sorting and destruction of notes is primarily due to the installation, at the head office and the provincial establishments, of machines of a completely new design which automate these operations and improve their security.

On 1st July 1989 a new Fr. 1 coin of the « King Baudouin » type was put into circulation and a start was made on the withdrawal of the « Ceres »-type coin. In-payments of the last-mentioned coins at the counters increased by 45 p.c. compared with 1988. The transportation of valuables had to be reorganised and additional measures taken in order to supply the network of branches and agencies with new coins and provide for the regular returning of the old coins to the Belgian Royal Mint.

ACTIVITIES OF THE BANK AS THE BANK OF THE FINANCIAL INTER-MEDIARIES

Currency Centres

The Bank decided to offer a new service to the financial intermediaries which wished to make use of it by organising « currency centres » at its provincial

establishments. The purpose of these centres is to make direct transfers of cash between them and the local branches of the financial institutions participating in the system. This avoids the passing of the cash via the regional head offices of the institutions to which the branches in question are subordinate.

Thanks to this service, the local branches of banks can be more efficiently supplied with cash and the transportation of funds for them can be better organised. It was definitively started in 1988, after a trial period, and expanded considerably in 1989, as the following table shows :

	In-payments		Withdrawals	
	1988	1989	1988	1989
Number of bank branches	508	1,169	338	1,176
Number of packages of notes handled..	20,408	69,954 e	15,235	38,485 e
Number of coins handled (millions)	4.1	90.6 e	5.2	100.0 e

Credits to the financial institutions

In the preface to the 1988 Report it was mentioned that the structure of the Bank's balance sheet, from which credits to the financial institutions had practically disappeared, had its drawbacks. The Bank had thus lost a possibility of regular contact with the financial institutions, a fact which, in the long run, was liable to make the exercise of its function as the lender of last resort more difficult. The Bank also referred in its Report to its intention following consultation with the financial institutions, to introduce a new system for credit-granting to these institutions in 1989.

This system came into force in March 1989. It consists of granting credit by tenders submitted, on the one hand, for repurchase agreements in respect of commercial bills and, on the other hand, for fixed-term advances against the collateral of public securities.

Various measures were taken to ensure that the system worked properly. These were, specifically, the pledging of securities via book entries, the introduction of a specific procedure for the lodging of commercial paper with the Rediscount and Guarantee Institute and the installation, in the department in question at the Bank, of an efficient network for reporting and processing subscriptions.

The introduction of this system also provided an opportunity of extending certain norms for eligibility for rediscounting and of making the criteria for certification more flexible. At the same time the conditions for the lodging of security for advances were made more flexible.

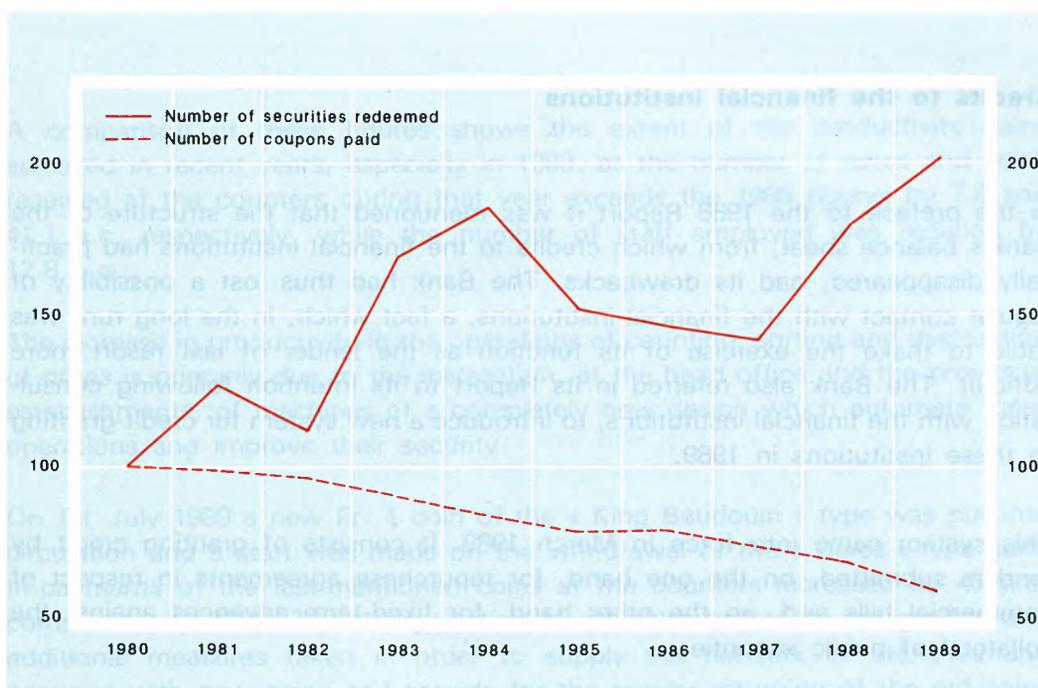
Up to the present, 56 credit institutions have joined the system ; 35 have actually participated in it.

THE BANK AS A FINANCIAL INTERMEDIARY ON BEHALF OF THE STATE

Various activities of the Bank provide financial support to the Treasury in several respects. As the counterpart to its note-issuing privilege, the Bank performs, free of charge, the function of State Treasurer and undertakes the day-to-day management of the Securities Regulation Fund. It also contributes to the State's non-fiscal revenue. The total amount which the Bank transferred to it under this head from the results for its 1989 financial year was Fr. 28.3 billion, against Fr. 10.2 billion for the previous financial year. These figures do not include the taxes and levies paid by the Bank to the State, the dividends which accrue to the State as shareholder or its share in the Bank's profits by virtue of the latter's Statutes. These payments to the State totalled Fr. 3.1 billion for the 1989 financial year.

FINANCIAL SERVICE OF THE PUBLIC DEBT IN BELGIAN FRANCS¹

(Indices 1980 = 100)



¹ Direct, indirect and guaranteed debt.

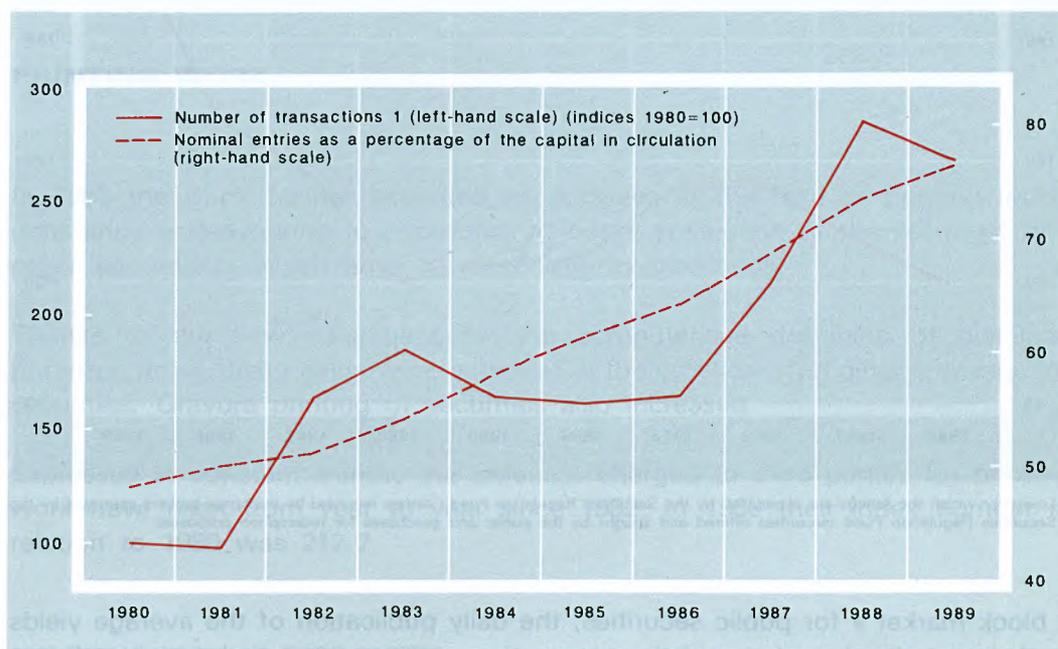
In 1989 the Bank was associated with the issuing of six loans to the amount of Fr. 545.4 billion. The financial service of the public debt entailed the redemption of 1.9 million securities and the payment of 10.8 million coupons.

The number of coupons paid decreases from year to year. This trend is partly due to the tendency towards a dematerialisation of securities.

This tendency is also conversely illustrated by the movement of nominal registrations of bonds, the percentage of which in relation to the outstanding amount of the Government loans showed a further considerable increase in 1989.

The secondary market for public securities consists of two compartments : the market which is centralised in the stock exchanges of the Kingdom and the so-called « block market », dealings in which take place mainly by telephone between financial institutions and brokers.

NOMINAL REGISTRATIONS IN THE MAIN PUBLIC-DEBT LEDGER



¹ Number of applications for nominal registration and for conversion to bearer.

The Securities Regulation Fund regulates the centralised market. Owing to a certain rigidity in its operation, this market has lost some of its attractiveness. Even so, total dealings in it increased in 1989 for the third year in succession, as is shown by the following chart.

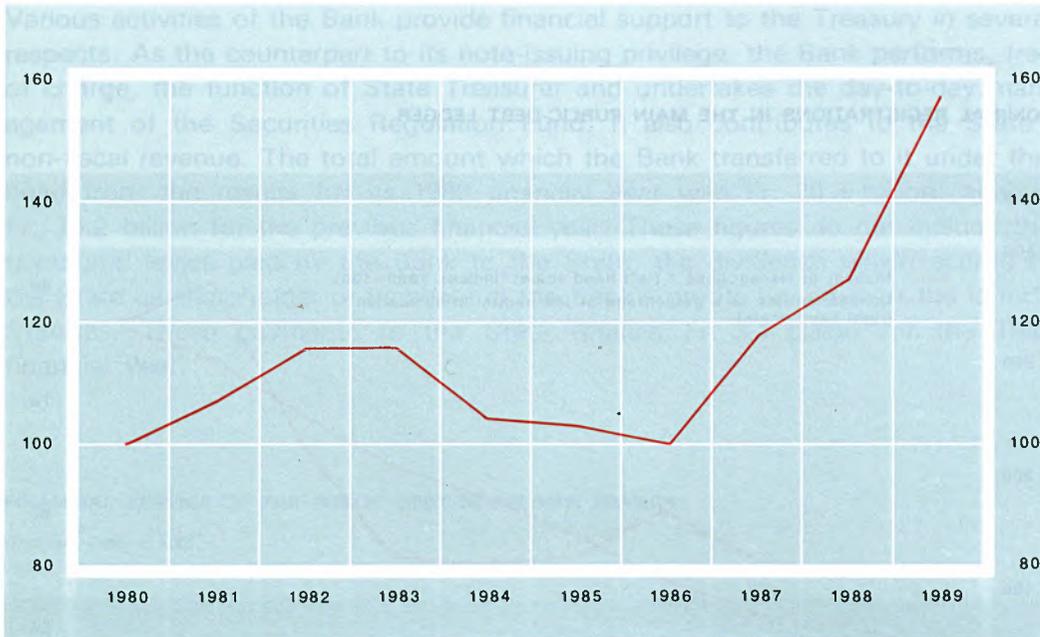
The expansion in the total volume of transactions in public securities in 1989 is connected with, among other things, the substantial increase in the purchases made by the Sinking Fund, payment for which is made via the Bank. It is a known fact that the amount of dealings in the centralised market is greater in a period of rising interest rates. This has precisely been the case since September 1989.

The Securities Regulation Fund does not usually intervene in the « block market ». However, at the request of a number of financial institutions and brokers, the Bank has, since the middle of 1988, been taking care of the « securities against cash » settlement of some transactions. The system achieved a growing success in 1989 : settlement was made for 1,957 transactions to the value of Fr. 157 billion.

The Bank was represented on various committees and sub-committees set up by the Minister of Finance with a view to modernising the financial markets. It endeavoured to implement a number of recommendations of these working parties, namely by the compilation of provisional statistics on dealings in the

STOCK EXCHANGE DEALINGS IN PUBLIC SECURITIES¹

(Total volume — indices 1980 = 100)



¹ Loans for which the listings are supervised by the Securities Regulation Fund : orders recorded by exchange brokers approved by the Securities Regulation Fund (securities offered and sought by the public and purchases for redemption purposes).

« block market » for public securities, the daily publication of the average yields in the centralised market and the preparation — in co-operation with the Securities Regulation Fund and the Brussels Stock Exchange Commission — of a centralised continuous market.

Furthermore, since the last Government loan of 1989, the Minister of Finance has allowed brokers to pay for their subscriptions at the Bank's counters on the day when the syndicate pays for its firm purchases.

SERVICES TO THIRD PARTIES

PRINTING WORK

In 1989 the Bank further extended its activities in the field of printing work, constantly endeavouring to contribute to better protection of the securities and other documents which have to meet security standards.

Thanks to the new equipment for the computerised designing of guilloche patterns, productivity gains were achieved in the creation of original drawings for securities. Gravure printing of securities also increased.

Expressed in constant francs, the amounts charged to third parties for printing work have risen from year to year since 1982. In 1989 their index number in relation to 1980 was 212.2.

AMOUNTS CHARGED TO THIRD PARTIES

(Index numbers 1980 = 100)

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
100	94.3	97.6	105.7	160.2	171.6	183.7	189.4	206.5	212.2

CLEARING TRANSACTION EXCHANGE CENTRE OF THE BELGIAN FINANCIAL SYSTEM AND CLEARING HOUSES

The Clearing Transaction Exchange Centre (CTEC) and the Clearing Houses enable practically all the financial institutions — commercial banks, savings banks and public credit institutions — to transfer funds among themselves rapidly, correctly and with a minimum of clerical work.

Furthermore, by participating in the guaranteed call money market, the members of the Clearing Houses can balance their positions daily by temporary lendings or borrowings. Those which cannot or do not wish to borrow in this market can resort to the Bank's advances.

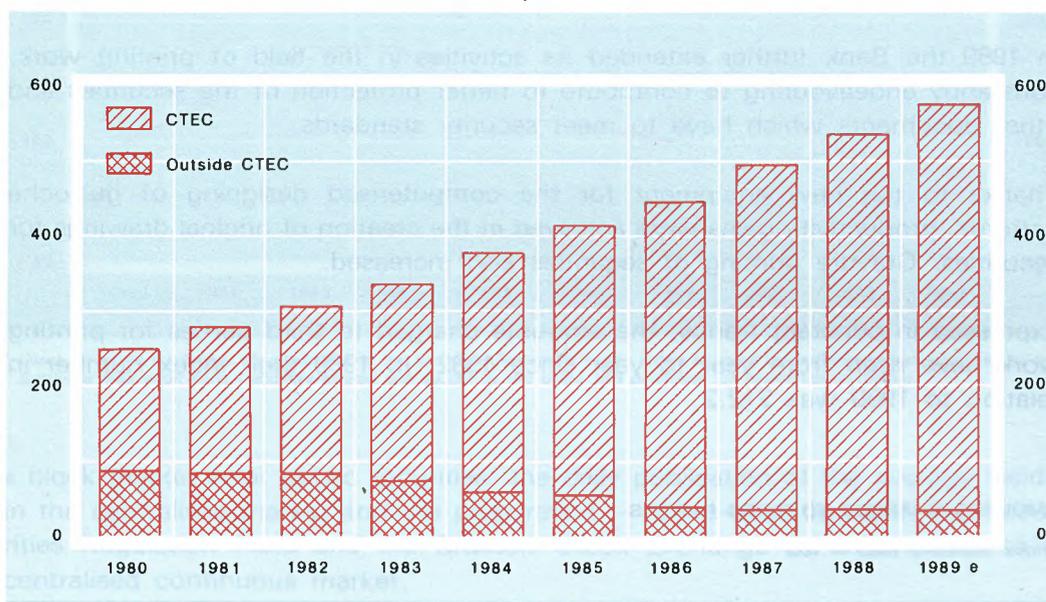
All these mechanisms enable the financial intermediaries to manage their cash holdings more easily and to keep only very small credit balances on non-interest-bearing accounts at the Bank.

The number of transactions handled by the Clearing Transaction Exchange Centre increased by 10 p.c. in 1989 compared with 1988, the daily average having risen from 2 to 2.2 million. The record number of transactions, 4.5 million, was reached on 8th May.

The following chart shows the annual number of transactions handled by, on the one hand, the Clearing Transaction Exchange Centre and, on the other hand, by the Clearing Houses.

TRANSACTIONS CLEARED

Number (millions)



Transfers via the Clearing Transaction Exchange Centre are made by means of computers installed on the Bank's premises. In 1989 the central unit was completely renewed. The modernisation of the hardware and the updating of the software, based on, among other things, the conclusions of an audit carried out in 1988, made it possible to cope with the growing volume of operations.

It was furthermore decided to develop a new application for dealing with transfers of large sums, which will enable the volume of the automated transactions to be further increased. This application will probably become operational in the first half of 1990.

More and more financial institutions are making use of the telecommunication technique. At the beginning of 1989, 13 participants in the Clearing Transaction Exchange Centre were using this technique; at the end of the year the number had risen to 22.

As is shown by the following table, in 1989 telecommunications, with more than 30 p.c. of the input and more than 36 p.c. of the output, ranked third among the media for reception of information and first among those for data output.

Owing to the automation of the transfers made within the framework of the Clearing Transaction Exchange Centre, the number of transactions dealt with manually in the Clearing Houses has been tending to decline steadily for a

DISTRIBUTION OF THE NUMBER OF TRANSACTIONS BY INFORMATION EXCHANGE MEDIUM

(Percentages of the total number of transactions in 1989)

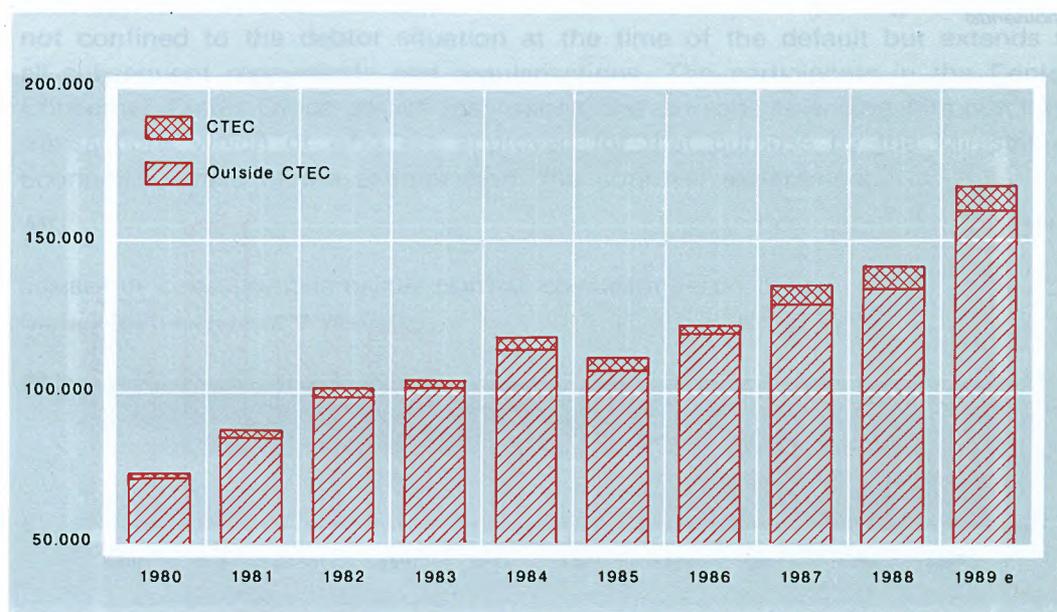
	Incoming	Outgoing
Magnetic tapes	38.68	30.45
Cassettes	30.80	33.06
Floppy discs	0.04	0.05
Telecommunications	30.48	36.28
Fax	0.00	0.16

number of years. In 1989 the daily average of these transactions was about 60,000 at the Clearing House in Brussels and about 37,000 for all the other Clearing Houses combined.

While the number of transactions carried out by the Clearing Transaction Exchange Centre is appreciably greater than the number performed in the Clearing Houses, the amounts dealt with by the latter are, on the other hand, far greater than those passing via the CTEC. This is due to the fact that the manual operations are often in respect of very large unit amounts; they relate to the call money market, Treasury certificates, redeemable securities, the counterparts of foreign exchange transactions, cheques for over Fr. 250,000 and remittances and transfers of large sums.

TRANSACTIONS CLEARED

Amounts (billions)



DEPOSITS AND TRANSFERS OF SECURITIES

The Bank has concluded agreements and made arrangements with the Securities Deposit and Clearing Office of the Financial sector (SDC), in order to limit the handling and transferring of securities.

Thus, since August 1988, the procedure for the transfer of securities between the Main Ledger of Nominal Entries and the security accounts held by the SDC has been made much more flexible. Financial institutions and exchange brokers have been quick to take advantage of it. In 1989, over 90 p.c. of the total amount of nominative entries and conversions into bearer securities took place without any handling of securities.

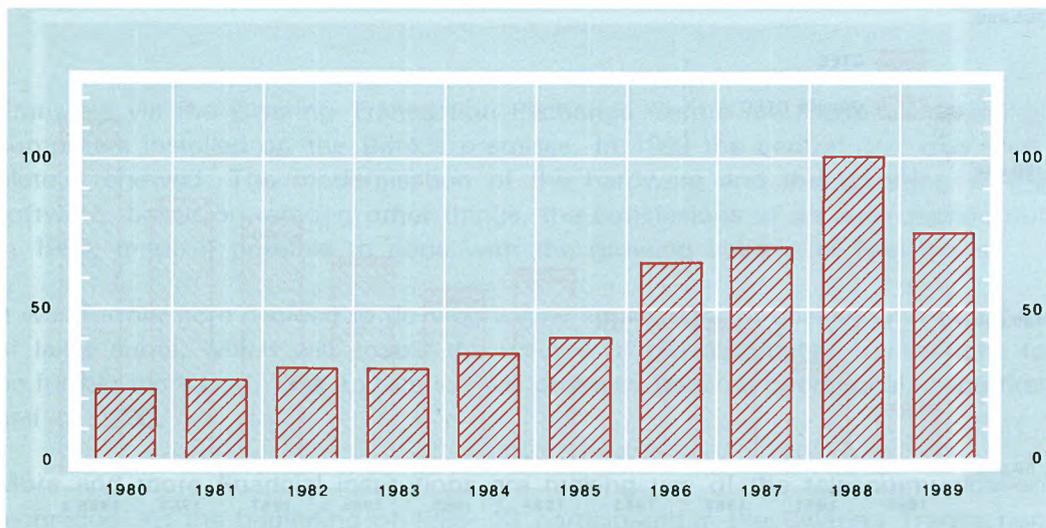
The SDC asked the Bank to hold its portfolio of Belgian public securities in safe-keeping. The request was thoroughly studied in joint consultation. Pending a definitive agreement, the Bank provisionally agreed to hold a larger proportion of the SDC's portfolio than had been provided for in the previous agreements.

CENTRALISATION AND DISSEMINATION OF INFORMATION CONCERNING CREDITS AMOUNTING TO AT LEAST 1 MILLION FRANCS, BROKEN DOWN BY RECIPIENT (CENTRAL RISKS OFFICE)

The real risk borne by a financial institution in respect of each credit considered in isolation may depend to some extent on the existence of other credits. The purpose of the distribution by the Central Risks Office of information about the amount of credits broken down by beneficiary is to inform the financial institutions of credits of which they are not aware.

NEW RECIPIENTS OF CREDITS OF AT LEAST 1 MILLION FRANCS REPORTED TO THE CENTRAL RISKS OFFICE¹

(thousands)



¹ Recipients of credits which are new to the Central Risks Office and recipients of credits already recorded in its files but reported by a financial institution for the first time.

The above histogram shows that the number of new beneficiaries of credits reported to the Central Risks Office was higher in 1989 than during the preceding years, except 1988. But the large increase in the number of credits recorded in 1988 was accidental, because a major savings bank had been required to remedy inadequacies in its notifications in order to comply with the obligation to report all credits reaching or exceeding the statutory threshold of 1 million francs.

In 1989 a start was made on the automation of the file of recipients of credits. This means in practice that, in order to determine whether a recipient of credits which is new to a reporting institution is already on record at the Central Office, investigations are carried out by consulting a computerised data file with the aid of terminals and no longer, as in the past, by consulting a card system. The modernisation of the operation of the Central Office has been the subject of discussions with the participants for about a year. Results and conclusions are to be expected in the course of 1990.

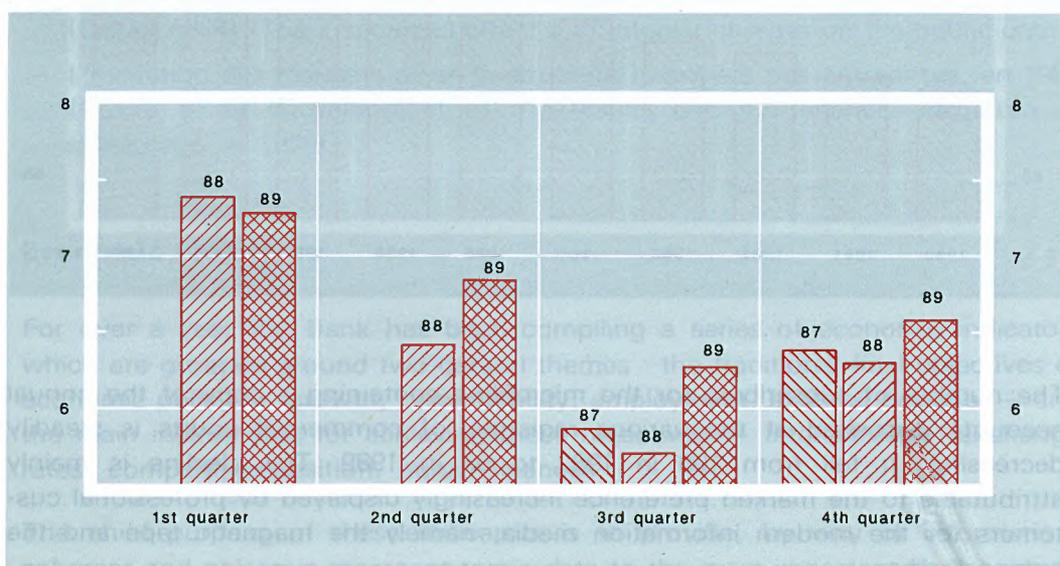
The output of the Central Office, that is, communications of information to those entitled to it, has developed in the same way as reports. This is due to the fact that most of the data recorded are redistributed by a subscription system which has been joined by all the major institutions participating in the Central Office. This procedure enables each body reporting to the Central Office to be automatically informed, every three months, of the overall status of the credits recorded in the name of each customer to which it has granted credits of Fr. 1 million or more.

CENTRAL CONSUMER CREDIT OFFICE

The Royal Decree of 15th April 1985 concerning the recording of hire-purchase contracts created a Central Consumer Credit Office and entrusted its management to the Bank. This is in a way a negative central institution, because only repayment arrears of a certain duration have to be reported. The recordings are of a nature which can be described as dynamic, as the reporting obligation is not confined to the debtor situation at the time of the default but extends to all subsequent repayments and regularisations. The participants in the Central Consumer Credit Office are all institutions and persons financing hire-purchase transactions which or who are approved for that purpose by the Minister of Economic Affairs or are exempt from the approval requirement.

NUMBER OF CONSULTATIONS OF THE CENTRAL CONSUMER CREDIT OFFICE

(averages per working day, in thousands)



The Central Consumer Credit Office has been operational since 1st January 1987. Around 183,000 contracts and 195,000 persons were recorded there at the end of 1989.

The participants in the Central Consumer Credit Office are required to consult its files before concluding or amending a hire-purchase contract. The above chart shows the movement, quarter by quarter, during the years 1987 to 1989, of the average number of consultations per working day. This was 6,700 in 1989, over 98 p.c. of these having been by telecommunication. The scale of charges for consultations was reduced last year, from Fr. 45 to 40 for a consultation by telecommunication and from Fr. 120 to 110 for a written enquiry.

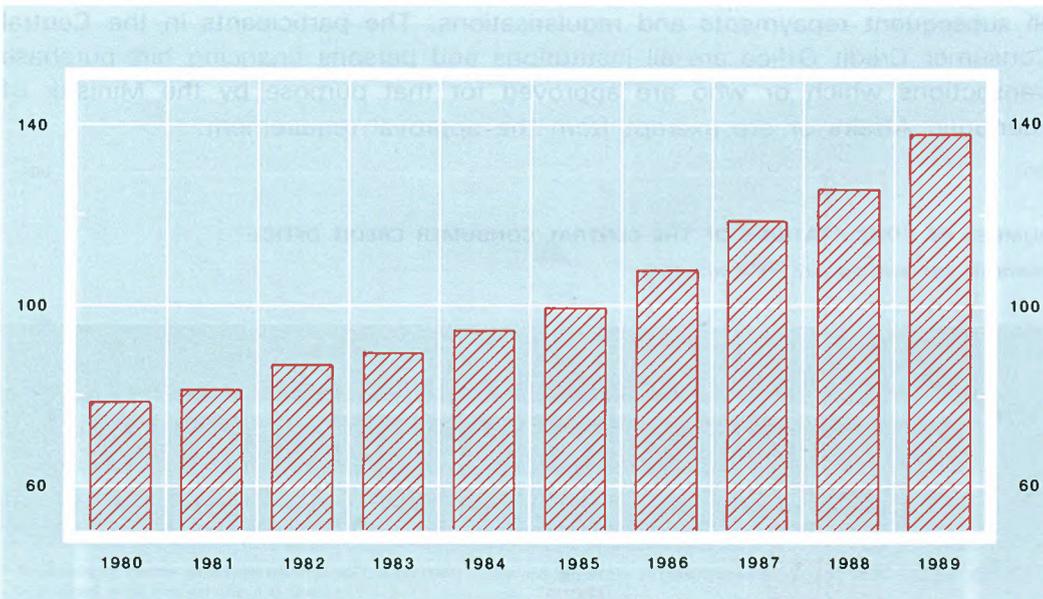
CENTRAL BALANCE SHEET OFFICE

The Bank centralises the annual accounts deposited at the registries of the commercial courts by enterprises required to make such disclosure and places them at the disposal of the public in various forms.

The following chart shows the steady increase in the number of accounts deposited annually. It is due to the growth in the population subject to the depositing requirement, as the number of companies created each year exceeds the number of those that disappear.

ANNUAL ACCOUNTS RECEIVED BY THE CENTRAL BALANCE SHEET OFFICE

(Total number by year, in thousands)



The number of subscribers for the microfilms containing a copy of the annual accounts deposited at the various registries of commercial courts is steadily decreasing. It fell from 198 in 1982 to 98 in 1989. This decline is mainly attributable to the marked preference increasingly displayed by professional customers for the modern information media, namely the magnetic tape and the compact disc.

PUBLICATION, DOCUMENTATION AND STATISTICS

For the performance of its specific function and the carrying out of other tasks entrusted to it by the legislator, the Bank makes studies which are not published in full in its Bulletin and builds up coherent bodies of objective macroeconomic data. It considered that, in the public interest, this information ought to be made accessible, as appropriate, to a fairly wide public or to persons and institutions which perform public functions in the socio-economic sphere. It was in this spirit that the following initiatives were taken. The Bank has furthermore endeavoured to make its scientific library even more operational.

The Study Notes

Certain analysis and research projects carried out at the Bank are not published in its Monthly Bulletin or its Annual Reports but are of sufficient interest for a fairly wide public. That is why the Bank has created, under the name of « Cahiers »/« Studienota's » (Study Notes), a medium for the dissemination of these studies, which are signed by their main authors. A very brief summary is published in the Bulletin. The Study Notes also make it possible to assess and comment upon certain data which the Bank does not draw up as the central bank but for which it serves as a disseminating centre. Lastly, the Study Notes can accommodate studies made individually by members of staff in their own names.

The Study Notes which have appeared up to the present are entitled (French version) :

- L'évaluation des incidences budgétaires d'une réduction du précompte mobilier de 25 à 10 p.c. (Cahier n° 1) (An assessment of the budgetary effects of a reduction of the withholding tax on income from financial assets from 25 to 10 p.c.);
- L'évolution des résultats et de la structure financière des entreprises, en 1987 (Cahier n° 2) (Development of the results and the financial structure of enterprises in 1987);
- La loi spéciale du 16 janvier 1989 relative au financement des Communautés et des Régions (Cahier n° 3) (The special law of 16th January 1989 concerning the financing of the Communities and Regions);
- L'effet « boule de neige » des charges d'intérêts de la dette publique (Cahier n° 4) (The « snowball effect » of interest charges on the public debt);
- L'évolution des résultats et de la structure financière des entreprises, en 1988 (Cahier n° 5) (Development of the results and the financial structure of enterprises in 1988).

Economic indicators

For over a year the Bank has been compiling a series of economic indicators which are grouped around two central themes : the traditional final objectives of economic policy — growth, price stability, employment, external balance — and the main instruments for achieving these objectives — interest rates, exchange rates, competitive position, public finances.

The chief purpose of these indicators is to provide, by way of information, coherent and objective macroeconomic data to the most important bodies which

determine the course of socio-economic policy. In order to make these indicators as operationally useful as possible, they are compiled every week with the aid of the most recent data and estimates.

National socio-economic databank (BELGOSTAT)

In 1989 a national socio-economic databank was produced under the auspices of the Minister of Economic Affairs. It is the result of close co-operation between the Ministry of Economic Affairs, the National Statistical Institute, the Planning Bureau and the Bank. The databank is to consist of two main parts : the first part relating to macroeconomic data and the second part dealing with other socio-economic data.

The macroeconomic part has been operational since 22nd January 1990, thanks to the logistic support provided by the Bank. Since that date users have had on-line access to the databank, which is located in the National Bank of Belgium and from which they can call all basic data concerning the financial and real economy of Belgium and the other OECD countries.

In a first stage, only a limited number of persons or institutions involved in the framing of economic policy have access to the databank. Later, perhaps in the second half of 1990, it will be made accessible to a wider public.

Documentation and library

The computerisation of the scientific library was continued with the gradual incorporation of the old card system in the database. By 1992 the entire documentation at the library's disposal — 100,000 works, 1,200 series of periodicals, 700 series of annual reports, as well as documents with a restricted distribution — should have been recorded in the database.

The information sources of this service were extended. On the one hand, fragments of BRT and RTBF transmissions can be obtained and, on the other hand, provision has been made for connection to four other external databases : « Bisnes » (Infotrade), which gives information about more than a hundred thousand Belgian enterprises, « EC 1992 » (Deloitte, Haskins and Sells), which records the progress in the legal field in the European Common Market, « Profile » (Financial Times), which centralises some fifty sections of economic and other databases, and « Dobis-Libis » (Catholic University of Louvain), which gives access to the computerised contents of about ten of this country's university libraries or specialised libraries.

Lastly, advantage was taken of the transfer of the library to premises on the ground floor of the building in order to improve the facilities for the public : the reading room is more spacious, there are more terminals connected to the library's database, and the analytical indexing and the listing of the journals and annual reports were completed.

The following table shows the development of the total number of books and periodicals which were lent out to persons who are not members of the Bank's staff or made available to them for consultation on the spot :

	Number	Percentage changes compared with the previous year
1986	4,020	-9
1987	4,820	+20
1988	5,950	+23
1989	5,820	-2

SPONSORSHIP

In 1971 the Bank created a fund which is financed by an annual subsidy charged against the budget. The purpose of this fund is to promote and support initiatives and activities of general interest in the scientific, cultural and humanitarian field.

In 1989 donations from this fund were distributed as follows : scientific research projects of a medical nature : 34.9 p.c., of a socio-economic nature : 16.1 p.c., in other fields : 11.8 p.c., assistance for educational activities : 19.3 p.c., for cultural activities : 10.7 p.c., for humanitarian activities : 7.2 p.c.

The Bank furthermore contributed to the conservation of the national building heritage by the restoration and refurbishing of the gable of the Governor's residence and of the old gable of the agency in Ghent. In addition it made preparatory studies for the restoration of the « Ezelpoort » in Bruges and the « Machine à Eau » at Mons and the cleaning of the facade of the « Geeraert-de-Duivelsteen » building in Ghent.

Lastly, in the field of cultural sponsorship, the Bank organised free visits to its numismatic and historical museum, arranged exhibitions of an historical or artistic nature and purchased works of art from Belgian artists.

USE OF RESOURCES

The year 1989 was marked by major changes made with a view to increasing productivity.

The Planning, Organisation and EDP Department was restructured with a dual aim. The first objective was to distribute its activity in the optimum manner, between homogeneous entities, but without losing the benefit of economies of scale with regard to the administrative staff. Secondly, it was necessary to increase the efficiency of the functions of planning, organisation and operational supervision.

The Electronic Centre was installed in a new building; the obsolete central computers, telecommunication equipment and peripheral devices were replaced. The new hardware provides much greater processing and storage capacities. The operating statistics of the systems show greater availability and a decrease in the number of interruptions.

The possible inconvenience caused to customers by the relocation of the Electronic Centre was reduced to the minimum. Out of 180 external customers – mainly the banks, the public credit institutions, the savings banks and the other participants in the Central Consumer Credit Office – only 7 users had to accept a certain delay on one particular day. Out of 770 internal users, only the Foreign Exchange application was non-operational for two mornings for twelve of these potential users.

The rationalisation studies carried out in co-operation with external consultants led to an increase in the productivity of most of the departments whose activity was analysed.

The system of « budget management tables » introduced in 1988 was supplemented and extended. It permits a continuous follow-up of the activities of the various departments and of the human resources involved.

With regard to extension of applications, attention should be drawn above all to the creation of the national socio-economic databank, already referred to on page 134.

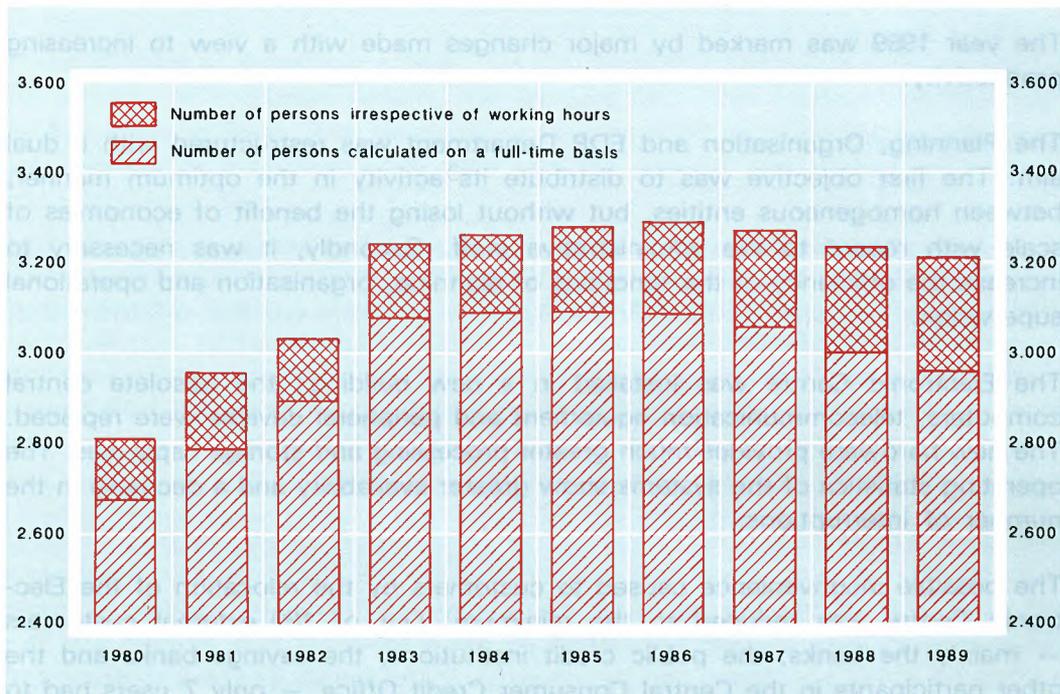
PERSONNEL AND TRAINING

The productivity gains resulting from the rationalisations and investments made it possible to organise the various tasks in a more flexible way, thus facilitating the extension of part-time working.

Thanks to internal training, this is accompanied by an improvement of the skills of the staff. Stepping-up of personnel training is necessary for several reasons,

including the growing number of personal computers used at the various functional levels. The number of these computers has in fact risen from 18 in 1987 to 168 at the end of 1989, and will be around 500 in 1992.

PERSONNEL

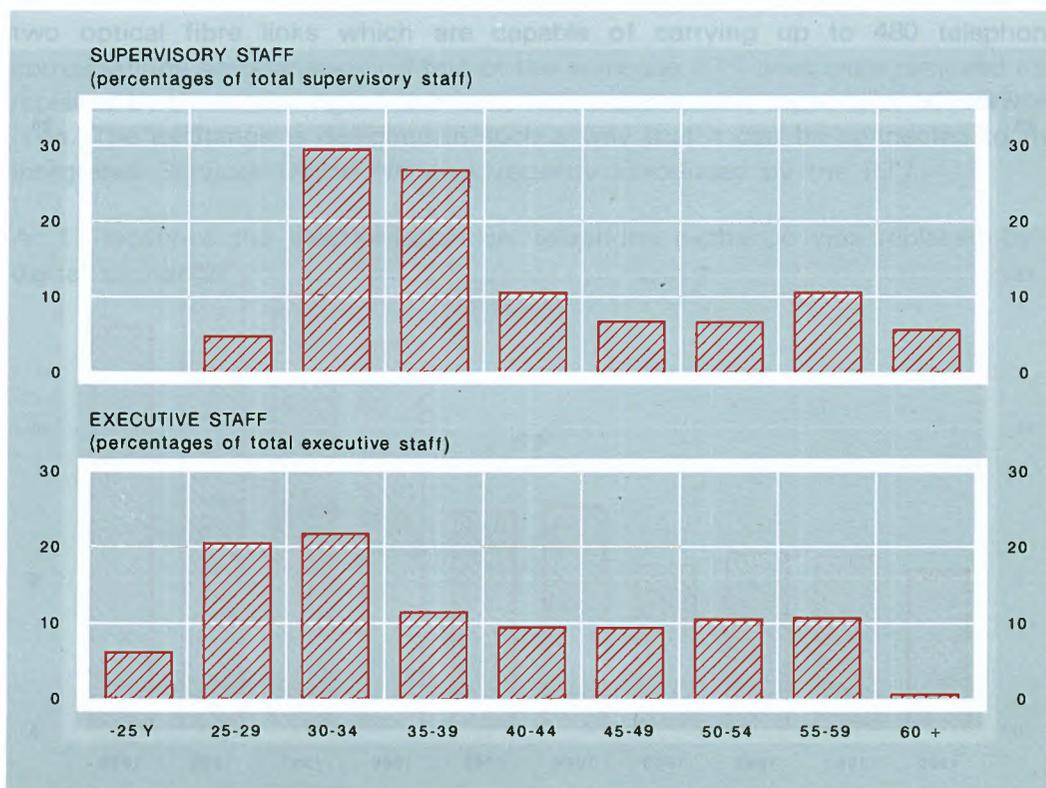


The effect of the internal reorganisations on the staff was absorbed by natural departures and by transfers of locally redundant staff to other working units. The Bank provided optimum guidance to the persons called upon to perform new functions, retraining them where necessary. It naturally also took account, for these transfers, of the skills, experience and spheres of interest of the members of staff concerned. The bar chart on page 139 shows the distribution of the personnel by age class.

On 5th July 1989 a collective labour agreement was concluded within the Committee of Employers and Employees of the public credit institutions. This agreement provides for, among other things, the allocation to the staff of each institution of a sum corresponding to 0.50 p.c. of total wages and salaries in 1989, 0.75 p.c. in 1990 and 0.50 p.c. from 1991 onwards until otherwise stipulated by a new agreement. Under the above-mentioned agreement the existing systems for 50, 60 and 80 p.c. part-time working were supplemented by a 90 p.c. system.

Company elections were held on 21st November for the purpose of choosing the new staff trade union delegation. In order to harmonise the procedures, the Bank's Management would have liked them to be postponed so as to make them coincide with the elections of the employees' representatives on the Committee for the Safety, Hygiene and Embellishment of Workplaces, which are to take place in 1991. In the absence of unanimous agreement between the trade union organisations, this solution was finally not adopted.

DISTRIBUTION OF PERSONNEL BY AGE CLASS



The dialogue and consultation between the Bank's Management and the trade union delegation are characterised by good agreement and mutual understanding. Thus, the information meetings of the trade union delegation always take place in a spirit of openness and fruitful co-operation.

In 1989 the Bank not only continued its efforts for the vocational training of its own staff but also made a considerable contribution to the training of supervisory staff of central banks of non-industrialised countries.

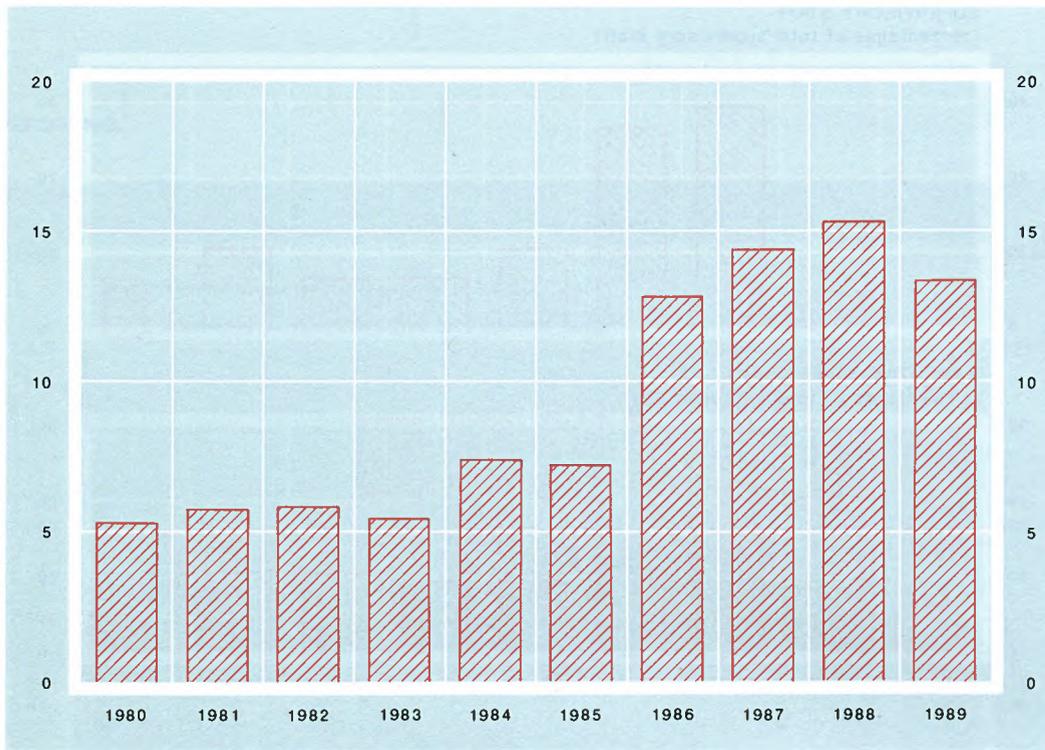
The resources which it made available for this purpose financed nearly 13,300 days of training, or an average of 4 days per person. In interpreting this average, account should of course be taken of the fact that high-technology functions require longer periods of training than are given to persons performing less complex tasks.

During the past year the training activities were concentrated chiefly on the following fields : languages, data processing, economics, new financial products, accounting, financial analysis and management. The year 1989 does, however, represent a turning point in training policy, not only because there was a greater degree of anticipation of internal and external changes but also because the approach was more selective. This greater selectivity explains the decline in the number of days of training in 1989 compared with 1988.

Staff training was centred on introduction to data processing, accounting and balance sheet analysis. The technical staff, for its part, was able to familiarise itself with technological progress through a number of courses. The further extension of data-processing applications in the provinces was coupled with active ad hoc training of the staff involved.

NUMBER OF DAYS OF TRAINING

(Thousands)



Members of staff were given the greatest possible amount of information in their preparation for professional examinations. All the successful candidates were given individual guidance to make it easier for them to adapt to their new functions.

BUILDING WORK

Major building operations were carried out in 1989, both in Brussels and in the provinces.

In Brussels a new Electronic Centre and a new thermal power plant were built and various relocation and modernisation operations were carried out. The Electronic Centre, which had to contend with shortage of space and insufficient electrical power and cooling capacity, was accommodated in a new building. In designing the centre, allowance was made for the Bank's future requirements in the data-processing field.

The restoration and modernisation of the agency in Ghent, which were started at the end of 1985, were completed in August of last year. The neo-classical style given to the exterior of the building erected at the beginning of the century by the architect De Rijcker was preserved. The finishing touches were put in 1989 to the renovation of the agencies in Alost and Tournai, which had been started in November 1985 and January 1986 respectively.

Two digital telephone exchanges were installed in Brussels. They are situated on opposite sides of the Boulevard de Berlaimont and connected to each other via two optical fibre links which are capable of carrying up to 480 telephone conversations simultaneously. Most of the analogue RTT lines were removed and replaced by three new digital channels, with a connection capacity of 90 network lines. The exchange is designed in such a way that it can be connected to the Integrated Services Digital Network recently introduced by the RTT.

At 17 locations the electromechanical telephone exchange was replaced by a digital exchange.

ADMINISTRATION AND SUPERVISION

Governor : Mr Alfons VERPLAETSE¹

Vice-Governor : Mr William FRAEYS²

Directors : Messrs Frans JUNIUS,
Jean-Pierre PAUWELS,
Guy QUADEN,
Jean-Jacques REY.

Regents :

Messrs Roger RAMAEKERS,
Raymond PULINCKX,
Jan HINNEKENS,
Luc AERTS,
Albert FRERE,
André DEVOGEL,
Alfred RAMPEN,
Rik VAN AERSCHOT,
André VANDEN BROUCKE,
Willy PEIRENS.

Censors :

Messrs Gaston VANDEWALLE, Chairman,
Jacques DELRUELLE, Secretary,
Hubert DETREMMERIE,
Lucien ROEGIERS,
Théo VANDERVORST,
Roger MENE,
Willy DANCKAERT,
Carlo VAN GESTEL,
Maurice CHARLOTEAUX³.

Secretary : Mr Jean POULLET

Treasurer : Mr Jacques VAN DROOGENBROECK⁴

Government Commissioner : Mr Edgard VAN de PONTSEELE

ADVISERS TO THE BOARD OF DIRECTORS

Mr R. VAN STEENKISTE, Personnel Manager,
Miss M.H. LAMBERT,
Mr J.V. LOUIS.

DEPARTMENTS AND SERVICES

General Secretariat Department – Mr F. TOURNEUR, Assistant Director,

Secretariat

Head Mr M. VAN CAMPEN, Head of Division,

Secretariat of the Board of Directors

Head Mr J. DOLO, Inspector-General,

Adviser Miss J. RONDEUX.

¹ Since 3rd July 1989; until that date, Mr Jean GODEAUX.

² Since 3rd July 1989; until that date, Mr Alfons VERPLAETSE.

³ Elected by the Ordinary General Meeting of Shareholders on 27th February 1989; the term of office of Mr Joseph VAN LANDSCHOOT ceased at the end of that meeting.

⁴ Since 3rd August 1989; until that date, Mr Paul GENIE.

General Control Department — Mr P. COENRAETS, Assistant Director,

External Control

Head Mr E. VAN DER JEUGHT, Inspector-General,
Senior Controller Mr D. VERMEIREN,
Controllers Messrs P. SARLET, C. JACOB.

Inspection

Head Mr J. HELFGOTT, Inspector-General,
Senior Inspector Mr J. PAPLEUX,
Inspectors Messrs L. LEEMAN, R. THIRION, P. BOBYR,
Mrs J. MAESSEN-SIMAR, Mr J. DEVELDER,
Head of Division Mr R. BEERENS.

Accounting and Budgetary Control Department — Mr H. DE SAEDELEER, Inspector-General,

Accounting

Head Mr C. DEKEYSER, Inspector-General,
Head of Division Mr G. PIROT.

Budgetary Control

Head Mr J. VAN DEUREN, Inspector-General,
Head of Division Mr F. HEYMANS.

Foreign Department — Mr J. MICHIELSEN, Inspector-General,

Chief Adviser Mr P. LE ROY,
Adviser Mr G. NOPPEN.

Goods Transactions Control

Head Mr L. DUSSAIWOIR, Inspector-General,
Head of Division Mr G. MARLET.

International Agreements

Head Mrs F. LEPOIVRE-MASAI, Inspector-General,
Adviser Mr M. JAMAR,
Head of Division Mr M. EECKHOUT,
Advisers Mr P. VAN DER HAEGEN, Mrs G. DURAY-BIRON.

Foreign Payments Statistics

Head Mr G. MELIS, Inspector-General,
Head of Division Mr R. DE BOECK.

Foreign Exchange

Head Mr H. BUSSERS, Inspector-General,
Heads of Division Mrs A. VAN DEN BERGE, Mr J.L. LION,
Advisers Messrs N. VANDECAN, E. LAVIGNE.

Printing and Central Cash Office — Mr J. VAN DROOGENBROECK, Treasurer,

Technical Adviser of
the Head of Department Mr W. VAN NIEUWENHUYSE, Inspector-General.

Administrative Services of the Printing Works

Head Mr J. RENDERS, Head of Division.

Central Cash Office

Chief Cashier Mr J. DE MAESSCHALCK, Inspector-General,
Inspector-General Mr R. VERHEYDEN,
Heads of Division Messrs J.F. KERVYN de MARCKE ten DRIESSCHE,
M. VAN BAELEN.

Prepress and Studies

Head Mr M. SALADE, Head of Division.

Production and Engineering

Head Mr L. DUFRESNE, Head of Division.

Data Exchange Department — Mr M. ASSEAU, Inspector-General,

Current Accounts

Head Mr G. BOEYKENS, Inspector-General,

Heads of Division Messrs V. DECONINCK, A. VAES.

Central Risks Office

Head Mr P. TELLIER, Inspector-General,

Adviser Mr J. MAKART,

Heads of Division Messrs A. LENAERT, R. TROGH,

Advisers Mr P. HAINAUT, Mrs E. BARDET-DE GROOTE.

Credit Department — Mr C. DE NYS, Assistant Director,

Adviser Mr P. MERCIER.

Discounting

Head Mr F. DEPUYDT, Inspector-General,

Head of Division Mr E. DE KOKER.

Advances and Portfolio

Head Mr J.M. WULLUS, Inspector-General,

Head of Division Mr F. WITHOFS.

Public Securities Department — Mr W. BRUMAGNE, Assistant Director,

Securities

Head Mr C. VAN POPPEL, Inspector-General,

Heads of Division Messrs W. STEPPE, L. EICHER, Y. PIRLET.

Securities Regulation

Head Mr A. MICHEL, Inspector-General.

Government Cashier's Service

Head Mr C. LOTS, Inspector-General,

Head of Division Mr R. VAN HEMELRIJCK.

Planning, Organisation and EDP Department — Mr H. BARBE, Assistant Director,

Data Security Officer Mr A. HUET.

Planning Unit Mrs A.M. QUINTART-LEJEUNE.

EDP Centre

Head Mr E. COLMAN, Head of Division,

Consultant Analyst Mr J. WIELEMANS.

EDP Projects

Head Mr J.P. HOYOS, Inspector-General,

Consultant Analysts Messrs P. LAUWERS, B. GROETEMBRIL,
Mrs H. VAN DOORNE-VANHECKE,
Messrs J. FRANCOIS, J.M. PLISNIER.

Organisation and Management Supervision

Head Mr L. JANSSENS, Head of Division.

EDP Research

Head Mr J. MOERMAN, Inspector-General,
Consultant Analyst Mr G. VANGHELUWE,
System engineer Mr G. DUMAY.

Social Affairs Department — Mr R. VAN STEENKISTE, Adviser to the Board of Directors,
Personnel Manager,

Deputy Personnel
Manager Mr D. MUS, Chief Adviser.

Administration of Wages, Salaries and Social Affairs

Head Mr R. VAN KEYMEULEN, Head of Division,
Head of Division Mr A. REITER.

Medical Affairs

Head Doctor Mr J. BARY,
Doctors Messrs A. DE LANDTSHEER, V. DONS.

Training

Head Mr L. VAN DER VEKEN, Inspector-General.

Personnel Policy

Head Mr J. LEEMANS, Inspector-General.

Research Department — Miss M.H. LAMBERT, Adviser to the Board of Directors,

Deputy Head of
Department Mr W. PLUYM, Inspector-General,
Chief Adviser Mr S. BERTHOLOME,
Advisers Mr J. DESPIEGELAERE, Mrs A.M. JOURDE-PEETERS,
Mr A. NYSENS,
Economists Messrs J.J. VANHAELEN, E. JACOBS, J. CLAEYS,
Mrs F. JACOBS-DONKERS,
Messrs V. PERILLEUX, M. DOMBRECHT,
P. PETIT, T. TIMMERMANS.

Documentation

Head Mr X. DUQUENNE, Inspector-General,
Head of Division Mr R. BEUTELS.

Statistics

Head Mr B. MEGANCK, Inspector-General,
Advisers Messrs A. WOUTERS, G. POULLET.

Equipment and General Services — Mr K. VANDENEDE, Inspector-General,

Equipment and Techniques

Head Mr J. VICTOIR, Inspector-General,
Administrative Assistant Mr J.C. PAUWELS,
Head of Division Mr P. LAUWERS,
Architect Mr J.C. NAVEZ.

Security and General Services

Head Mr J. TEIRLINCK, Inspector-General,
Adviser Mr R. LOISEAU,
Heads of Division Messrs S. VAN RILLAER, G. SCHAMPAERT, A. KOZYNS,
J.M. BRAET.

Services not attached to a department

Legal Service	
Head	Mr J.V. LOUIS, Adviser to the Board of Directors,
Chief Adviser	Mr J.P. BRISE,
Advisers	Messrs E. de LHONEUX, W. KIEKENS, J. DE WOLF.
Safety, Hygiene and Embellishment of Working Environment	
Head	Mr D. DENEÉ, Assistant Adviser.
Collections and Staff Library	
Head	Miss C. LOGIE, Inspector-General.

Branches and Agencies Department — Mr W. VAN DER PERRE, Assistant Director,

Inspector-General	Mr G. PARLONGUE.
Antwerp	
Branch Manager	Mr H. ALLAER,
Inspector-General	Mr P. VERPOEST,
Heads of Division	Messrs F. SERCKX, L. JACOBS, R. Roothans.
Liège	
Branch Manager	Mr P. NYS.
Luxembourg	
Branch Manager	Mr M. SIMAL.
Aalst	
Agency Manager	Mr A. VERHELST.
Arlon	
Agency Manager	Mr D. BRISBOIS.
Brugge	
Agency Manager	Mr W. SMOUT.
Charleroi	
Agency Manager	Mr J. TASSIER,
Head of Division	Mrs J. DAUCHOT-DE BEER.
Courtrai	
Agency Manager	Mr L. GHYSELS.
Ghent	
Agency Manager	Mr K. MORTIER.
Head of Division	Mr H. VAN MOSSEVELDE.
Hasselt	
Agency Manager	Mr T. DE ROOVER,
Head of Division	Mr L. MESOTTEN.
La Louvière	
Agency Manager	Mr P. VAN NIEUWENHUYSE.
Leuven	
Agency Manager	Mr P. PEETROONS.
Malines	
Agency Manager	Mr M. DE GEYTER.
Malmédy	
Agency Manager	Mr R. COLSON.
Marche-en-Famenne	
Agency Manager	Mr P. DETRY.

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 Y. LEBLANC.
Turnhout	
Agency Manager	Mr L. MUYLAERT.
Verviers	
Agency Manager	Mr J. BOFFING.

*
**

Official attached to the Office of Mr Dehaene, Deputy Prime Minister,
Mr J. SMETS, Adviser.

Official attached to the Office of Mr Schiltz, Deputy Prime Minister,
Mr R. REYNDERS, Adviser.

Official attached to the Office of Mr De Batselier, Vice-Chairman of the Flemish Executive,
Mr G. MAES, Economist.

Official attached to the Bank of Zaïre,
Mr R. VANHULST, Head of Division.

Official on mission at the Belgian Permanent Representation with the European Communities,
Mr P. VIGNERON, Adviser.

Official on mission at the Belgian Permanent Representation with the OECD in Paris,
Mr W. VERTONGEN, Adviser,

Officials attached to the International Monetary Fund,
Messrs G. DE RIDDER, Head of Division,
L. HUBLOUE, Adviser,
D. DACO, Adviser.

Officials on mission, on behalf of the International Monetary Fund,

– at the Ministry of Finance of the Republic of Niger,
Mr J. TAVERNIER, Adviser,

– at the Bank of Burundi,
Mr E. VERREYDT, economist.

BALANCE SHEET AS AT 31st DECEMBER 1989

ASSETS

(in thousands of francs)

	1988	1989
Gold Holding	57,337,666	51,478,171
International Monetary Fund :		
Quota	16,776,922	16,634,635
Loans	—	—
Special Drawing Rights	20,339,816	20,592,744
Ecus	137,955,439	118,660,135
Foreign Currencies	156,767,445	221,885,893
Foreign Currencies and Gold Receivable :		
European Monetary Co-operation Fund	23,619,696	27,368,235
Other	—	—
Ecus Receivable :		
European Monetary Co-operation Fund	—	—
Other	—	2,972,074
International Agreements	2,473,002	2,454,610
Advances to the IMF	—	—
Deposits with the IMF within the framework of the Enhanced Structural Adjustment Facility	3,162,721	4,865,724
European Monetary Co-operation Fund : Financing at very short term	—	—
EEC : Medium-term Financial Assistance	—	—
Debtors in respect of Foreign Exchange and Gold at Forward Dates :		
European Monetary Co-operation Fund	—	—
Other	6,534,080	—
Commercial Bills	730,473	33,181,184
Advances against Pledged Security	5,137	6,304,270
Public Securities :		
Belgian Public Securities	37,000,000	37,000,000
Luxembourg Public Securities	—	—
Special Assistance to the Securities Regulation Fund	106,585,000	66,475,000
Coin	699,568	662,034
Balances at the Postal Cheque Office :		
A Account	1,655	1,491
B Account	3,601,923	2,955,677
Consolidated Claim on the Government	34,000,000	34,000,000
Provisional Adjustment resulting from the law of 3rd July 1972	3,420,875	3,225,516
Items Receivable	2,460,188	6,010,129
Public Long-term Securities	22,798,811	26,166,245
Premises, Furniture and Equipment	8,136,905	10,049,597
Transitory Assets	13,454,525	19,090,464
Total Assets	657,861,847	712,033,828

LIABILITIES

(in thousands of francs)

	1988	1989
Bank Notes in Circulation	430,442,231	442,541,261
Current Accounts :	7,718,228	3,119,252
Public Treasury, Ordinary Account	13,696	3,043
Financial Intermediaries, Enterprises and Individuals	807,996	983,402
Banks in Foreign Countries and International Institutions	6,896,536	2,132,807
Items Payable	9,232,426	17,539,390
Financial Assistance Agreements	3,601,923	2,955,677
International Monetary Fund :		
Special Drawing Rights, Net Cumulative Allocation	23,610,731	23,610,731
European Monetary Co-operation Fund : Financing at very short term	—	—
Ecus to be delivered :		
European Monetary Co-operation Fund	137,955,439	121,632,209
Other	—	—
Monetary Reserve :		
Belgium	—	—
Grand Duchy of Luxembourg	—	—
Foreign Currencies and Gold to be delivered :		
European Monetary Co-operation Fund	—	—
Other	6,796,252	3,394,034
Transitory Liabilities	11,306,896	10,723,882
Unavailable Reserve of Capital Gains on Gold		54,807,348
Capital	400,000	400,000
Reserve Fund :		
Statutory Reserve	2,181,921	2,294,088
Extraordinary Reserve	15,881,631	18,329,631
Account for Depreciation of Premises, Furniture and Equipment	7,591,783	9,499,143
Net Profit for Distribution	1,142,386	1,187,182
Total Liabilities	657,861,847	712,033,828

PROFIT AND LOSS ACCOUNT AS AT 31st DECEMBER 1989

(in thousands of francs)

	1988	1989
DEBIT		
Government's Share :	10,556,721	19,741,914
Discounts and Advances	6,027,123	7,445,209
Transactions with Foreign Countries	4,529,598	12,296,705
General Expenses :	5,183,765	5,314,836
Remunerations and Social Charges	5,984,088	6,133,667
Other Expenses	793,488	874,825
<i>less :</i>		
Sums recoverable from Others	1,593,811	1,693,656
Taxes and Dues	3,198,411	2,933,661
Other Payments to the Public Treasury imposed by law	88,732	—
Depreciation of Premises, Furniture and Equipment	1,697,397	2,297,966
Transfers to Reserves and Provisions :	2,838,000	2,748,000
Extraordinary Reserve	1,888,000	2,448,000
Provision for Premises, Furniture and Equipment	650,000	—
Provision against Sundry Contingencies	300,000	300,000
Net Profit for Distribution	<u>1,142,386</u>	<u>1,187,182</u>
	24,705,412	34,223,559
CREDIT		
Proceeds of Discount and Advance Operations	10,228,983	11,120,449
Proceeds of Transactions with Foreign Countries	10,935,216	19,184,298
Proceeds of Public Long-term Securities	2,417,975	2,545,540
Fees for Safe Custody, Commissions and Allowances	217,155	240,105
Sundry Receipts	66,083	43,167
Drawings on Transitory Liabilities Items	<u>840,000</u>	<u>1,090,000</u>
	24,705,412	34,223,559

MEMORANDUM ACCOUNTS AS AT 31st DECEMBER 1989

(in thousands of francs)

	1988	1989
Ministers of National Education :		
Balance for their account at the Postal Cheque Office (Education legislation)	12,537,809	4,237,003
Documentary Credits opened	—	831
Guarantees given by the Bank	1,109,381	1,141,935
International institution, beneficiary of liabilities of the Bank	36,307	332,440
Securities received by way of Guarantee :	102,136,680	96,181,969
Cover for advance limits against pledged security	80,867,464	76,081,194
Securities provided by borrowers of call money	20,878,398	19,486,278
Sundry security commitments	63,751	51,285
Other guarantees	327,067	563,212
Guarantee Certificates received from the Public Treasury	3,000,000	3,000,000
Items for Collection	44,063	5,788
Assets administered for account of the European Monetary Co-operation Fund	23,619,696	27,368,235
Deposits of Securities and Sundry Items :	2,058,061,304	2,145,417,260
International Monetary Fund	83,690,000	88,365,500
International Development Association	6,692,197	9,389,396
African Development Fund	1,616,338	2,602,422
Asian Development Bank	1,945,784	2,013,784
Inter American Development Bank	155,062	131,914
International Fund for Agricultural Development	339,904	462,903
Other Deposits	1,963,622,019	2,042,451,341
Public Treasury :	3,760,107,153	3,850,665,333
Sundry Securities owned by the Government	15,492,356	14,815,045
<i>Preference Shares of the Belgian National Railways Co</i>	5,000,000	5,000,000
<i>Ordinary Shares of the Belgian National Railways Co</i>	1,000,000	1,000,000
<i>4.50 p.c. Certificates of the National Housing Co</i>	3,339,947	—
<i>Sundry Items : earmarked for the Monetary Fund</i>	303,552	294,506
<i>Others</i>	5,848,857	8,520,539
Sundry Items for which the Government is the Depository	2,097,665,846	2,603,152,361
<i>Items lodged by outside parties</i>	97,919,283	123,361,360
<i>Service of the registered Debt</i>	1,983,472,651	2,465,282,325
<i>Deposit and Consignment Office</i>	2,533,067	530,253
<i>Items lodged by way of guarantee</i>	13,740,845	13,978,423
Items to be Delivered	1,646,948,951	1,232,697,927
Securities Regulation Fund	148,291,310	137,369,366

DIVIDEND DECLARED FOR THE YEAR 1989

First Dividend, Total	24,000
Second Dividend, Total	<u>762,668</u>
Total	786,668
on 400,000 shares, that is per share a dividend of Fr.	1,966.67

Coupon No. 188 will be payable with effect from 1st March 1990, at the rate of Fr. 1,475 free of withholding tax on income from financial assets¹.

The Council of Regency :

Alfons VERPLAETSE, *Governor*
William FRAEYS, *Vice-Governor*
Frans JUNIUS, *Director*
Jean-Pierre PAUWELS, *Director*
Guy QUADEN, *Director*
Jean-Jacques REY, *Director*
Roger RAMAEKERS, *Regent*
Raymond PULINCKX, *Regent*
Jan HINNEKENS, *Regent*
Luc AERTS, *Regent*
Albert FRERE, *Regent*
André DEVOGEL, *Regent*
Alfred RAMPEN, *Regent*
Rik VAN AERSCHOT, *Regent*
André VANDEN BROUCKE, *Regent*
Willy PEIRENS, *Regent*

¹ Withholding tax on income from financial assets : $\frac{1,475 \times 1}{3} = \text{Fr. } 491.67.$

BALANCE SHEETS COMPARED

ASSETS	1985	1986	1987	1988	1989
Gold Holding	58,213.9	58,213.9	57,266.9	57,337.7	51,478.2
International Monetary Fund :					
Quota	22,798.9	22,456.7	19,094.5	16,776.9	16,634.6
Loans	—	—	—	—	—
Special Drawing Rights	15,978.5	13,612.4	24,021.6	20,339.8	20,592.7
Ecus	157,917.9	138,867.9	152,887.4	137,955.4	118,660.1
Foreign Currencies	29,409.8	34,717.1	110,962.1	156,767.4	221,885.9
Foreign Currencies and Gold Receivable :					
European Monetary Co-operation Fund	18,087.6	18,369.9	24,908.5	23,619.7	27,368.2
Other	2,430.1	—	—	—	—
Ecus Receivable :					
European Monetary Co-operation Fund	—	—	—	—	—
Other	—	—	—	—	2,972.1
International Agreements	1,362.4	2,396.7	2,335.5	2,473.0	2,454.6
Advances to the IMF	2,470.8	5,873.7	4,376.7	—	—
Deposit with the IMF within the framework of the Enhanced Structural Adjustment Facility	—	—	—	3,162.7	4,865.7
European Monetary Co-operation Fund : Financing at very short term	—	—	—	—	—
EEC : Medium-term Financial Assistance	—	—	—	—	—
Debtors in respect of Foreign Exchange and Gold at Forward Dates :					
European Monetary Co-operation Fund	—	—	—	—	—
Other	—	—	—	6,534.1	—
Commercial Bills	24,970.8	1,996.1	368.9	730.5	33,181.2
Advances against Pledged Security :	714.6	24.8	3.7	5.1	6,304.3
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	182,178.0	209,360.0	127,568.0	106,585.0	66,475.0
Coin	980.5	1,005.9	1,481.4	699.6	662.0
Balances at the Postal Cheque Office :					
A Account	1.5	1.3	1.6	1.7	1.5
B Account	4,454.0	4,408.2	3,747.0	3,601.9	2,955.7
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	3,420.9	3,420.9	3,225.5
Items Receivable	2,904.4	2,343.1	6,498.1	2,460.2	6,010.1
Public Long-term Securities	14,275.5	16,165.2	19,239.6	22,798.8	26,166.2
Premises, Furniture and Equipment	4,426.8	5,408.2	6,772.8	8,136.9	10,049.6
Securities of the Staff Pension Fund	19,741.7	—	—	—	—
Transitory Assets	16,156.8	14,848.1	16,222.1	13,454.5	19,090.6
	653,924.9	624,519.6	652,177.3	657,861.8	712,033.8

AS AT 31st DECEMBER (in millions of francs)

LIABILITIES	1985	1986	1987	1988	1989
Bank Notes in Circulation	394,746.9	415,082.6	425,630.1	430,442.2	442,541.3
Current Accounts :					
Public Treasury, Ordinary Account	17.9	23.0	15.5	13.7	3.1
Financial Intermediaries, Enterprises and Individuals	1,210.7	532.7	1,285.2	808.0	983.4
Banks in Foreign Countries and International Institutions	2,502.1	1,720.0	1,555.0	6,896.6	2,132.8
	3,730.7	2,275.7	2,855.7	7,718.3	3,119.3
Items Payable	21,109.2	9,187.7	8,490.5	9,232.4	17,539.4
Financial Assistance Agreements	4,454.0	4,408.2	3,747.0	3,601.9	2,955.7
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 : Financing at very short term	—	—	—	—	—
Ecus to be delivered :					
European Monetary Co-operation Fund	156,543.1	138,867.9	152,887.4	137,955.4	121,632.2
Other	1,374.8	—	—	—	—
Monetary Reserve :					
Belgium	—	—	—	—	—
Grand Duchy of Luxembourg	—	—	—	—	—
Foreign Currencies and Gold to be delivered :					
European Monetary Co-operation Fund	—	—	—	—	—
Other	1,116.2	24.8	17.6	6,796.3	3,394.0
Staff Pension Fund	19,741.7				
Transitory Liabilities	10,407.3	10,863.2	11,145.2	11,306.9	10,723.9
Unavailable Account of Capital Gains on Gold					54,807.3
Capital	400.0	400.0	400.0	400.0	400.0
Reserve Fund :					
Statutory Reserve	1,869.2	1,970.0	2,073.9	2,181.9	2,294.1
Extraordinary Reserve	9,907.6	11,908.6	13,993.7	15,881.6	18,329.6
Account for Depreciation of Premises, Furniture and Equipment	3,888.4	4,859.3	6,223.9	7,591.8	9,499.1
Net Profit for Distribution	1,025.1	1,060.9	1,101.6	1,142.4	1,187.2
	653,924.9	624,519.6	652,177.3	657,861.8	712,033.8

PROFIT AND LOSS ACCOUNTS COMPARED AS AT 31st DECEMBER (in millions of francs)

	1985	1986	1987	1988	1989
DEBIT					
Government's Share :					
Discounts and Advances	17,316.0	13,318.2	9,587.4	6,027.1	7,445.2
Transactions with Foreign Countries	3,097.1	1,515.0	1,948.4	4,529.6	12,296.7
	20,413.1	14,833.2	11,535.8	10,556.7	19,741.9
General Expenses :					
Remuneration and Social Charges	6,037.4	5,806.9	5,946.3	5,984.1	6,133.7
Other Expenses	694.6	699.1	798.0	793.5	874.8
	6,732.0	6,506.0	6,744.3	6,777.6	7,008.5
<i>less :</i>					
Expenses to be borne by Others	-1,562.4	-1,551.5	-1,556.1	-1,593.8	-1,693.7
	5,169.6	4,954.5	5,188.2	5,183.8	5,314.8
Taxes and Dues	2,614.3	3,179.8	3,097.7	3,198.4	2,933.7
Other Payments to the Public Treasury imposed by law	79.3	130.5	130.5	88.7	
Depreciation of Premises, Furniture and Equipment	980.7	1,008.8	1,402.6	1,697.4	2,298.0
Transfers to Reserves and Provisions :					
– Extraordinary Reserve	881.0	2,001.0	2,085.0	1,888.0	2,448.0
– Provision for Premises, Furniture and Equipment	1,000.0	1,000.0	300.0	650.0	–
– Provision against Sundry Contingencies	–	–	700.0	300.0	300.0
Net Profit for Distribution	1,025.1	1,060.9	1,101.6	1,142.4	1,187.2
	32,163.1	28,168.7	25,541.4	24,705.4	34,223.6
CREDIT					
Proceeds of Discount and Advance Operations	23,740.8	19,856.9	15,181.9	10,229.0	11,120.4
Proceeds of Transactions with Foreign Countries	6,212.0	5,741.4	7,281.4	10,935.2	19,184.3
Proceeds of Public Long-term Securities	1,676.9	1,865.1	2,144.5	2,418.0	2,545.5
Fees for Safe Custody, Commissions and Allowances	218.2	215.9	221.8	217.1	240.1
Sundry Receipts	29.2	21.4	8.8	66.1	43.3
Drawings on Transitory Liabilities Items	286.0	468.0	703.0	840.0	1,090.0
	32,163.1	28,168.7	25,541.4	24,705.4	34,223.6

DIVIDEND

	1985	1986	1987	1988	1989
Net dividend declared per share	1,275.00	1,320.00	1,370.00	1,420.00	1,475.00
Withholding tax on income from financial assets per share	425.00	440.00	456.67	473.33	491.67
Gross dividend declared per share	1,700.00	1,760.00	1,826.67	1,893.33	1,966.67
Tax credit	694.88	719.40	685.00	710.00	737.50

TABLE 1

ANNEX 4

WEEKLY RETURNS PUBLISHED IN
THE « BELGISCH STAATSBLAD - MONITEUR BELGE »
DURING 1989

WEEKLY RETURNS PUBLISHED IN THE « BELGISCH STAATSBLAD - MONITEUR BELGE » DURING 1989

(millions of francs)

ASSETS

DATE	Gold holding	International Monetary Fund :			Ecus	Foreign currencies	Foreign currencies and gold receivable :		Ecus receivable :		Inter-national agreements	Advances to the IMF	Deposit with the IMF - Enhanced Structural Adjustment Facility	European Monetary Co-operation Fund : Financing at very short term	EEC : 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	Coin	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	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						
2 January 1989	57,338	16,777	...	20,340	137,955	156,973	23,620	2,473	...	3,163	6,534	716	10	37,000	...	100,465	698	2	3,602	34,000	3,421	22,799	6,773	24,602	659,261	
9 »	57,338	17,152	...	20,340	137,311	152,984	26,338	2,498	...	3,163	4,738	4,328	396	37,000	...	90,033	736	1	3,582	34,000	3,421	22,799	6,773	26,827	651,758	
16 »	57,338	17,152	...	19,688	137,311	162,688	26,338	2,848	...	3,163	13,146	849	6	37,000	...	76,846	771	2	3,577	34,000	3,421	22,799	6,773	22,588	648,304	
23 »	57,338	17,152	...	19,639	137,311	164,945	26,338	2,886	...	3,163	14,948	1,538	8	37,000	...	65,724	838	2	3,562	34,000	3,421	22,799	6,773	23,273	642,658	
30 »	57,338	17,152	...	18,991	137,311	151,249	26,338	2,959	...	3,163	1,373	1,586	8	37,000	...	58,106	899	1	3,512	34,000	3,421	26,163	8,137	29,401	618,108	
6 February	57,338	17,152	...	18,994	137,311	150,663	26,338	2,947	...	3,163	400	1,612	9	37,000	...	76,347	929	2	3,500	34,000	3,421	26,163	8,137	12,268	617,694	
13 »	57,338	17,152	...	20,428	137,311	149,938	26,338	2,944	...	3,163	400	1,636	4	37,000	...	73,007	995	2	3,463	34,000	3,421	26,167	8,137	15,421	618,265	
20 »	57,338	16,451	...	20,524	137,311	150,160	26,338	2,912	...	3,163	211	2,532	7	37,000	...	76,470	921	2	3,463	34,000	3,421	26,167	8,137	17,836	624,364	
27 »	57,338	16,451	...	20,475	137,311	150,306	26,338	2,921	...	3,163	269	1,315	11	37,000	...	76,652	921	1	3,455	34,000	3,421	26,167	8,137	14,769	620,421	
6 March	57,338	16,451	...	20,427	137,311	150,579	26,338	...	...	2,919	...	3,163	...	...	...	5,199	5,855	37,000	...	73,547	916	1	3,361	34,000	3,421	26,167	8,137	12,771	624,901
13 »	57,338	16,451	...	20,378	137,311	150,840	26,338	...	...	2,909	...	3,163	...	...	...	2,380	35	37,000	...	79,080	870	1	3,308	34,000	3,421	26,167	8,137	13,518	622,645
20 »	57,338	16,451	...	20,330	137,311	151,220	26,338	...	...	2,913	...	3,163	...	...	...	8,317	10,161	37,000	...	68,062	886	1	2,824	34,000	3,421	26,167	8,137	15,361	629,401
24 »	50,381	16,451	...	20,330	137,311	214,558	26,338	...	...	2,954	...	3,163	...	...	...	17,587	27,455	37,000	...	39,901	879	2	3,012	34,000	3,234	26,167	8,137	18,193	687,053
3 April	50,381	15,624	...	20,330	137,311	214,202	26,338	...	...	2,931	...	3,163	...	...	...	17,396	14,803	37,000	...	46,326	974	2	3,021	34,000	3,234	26,167	8,137	16,663	678,003
10 »	51,772	16,451	...	20,281	129,233	212,726	30,763	2,941	...	3,163	3,442	24,313	15,487	37,000	...	36,582	1,022	1	2,998	34,000	3,234	26,167	8,137	16,703	676,416	
17 »	51,772	16,451	...	20,281	129,233	206,080	30,763	...	...	2,913	...	3,163	...	...	...	27,521	32,947	37,000	...	21,220	982	2	2,934	34,000	3,234	26,167	8,137	16,887	671,687
24 »	51,772	16,451	...	20,111	129,233	206,530	30,763	...	...	2,877	...	3,163	...	...	...	22,630	37,633	37,000	...	24,087	956	2	2,983	34,000	3,234	26,167	8,137	16,257	673,986
28 »	51,772	16,451	...	19,775	129,233	211,932	30,763	2,856	...	3,163	4,682	28,506	29,486	37,000	...	29,121	780	2	2,934	34,000	3,234	26,167	8,137	18,823	688,817	
8 May	51,772	16,451	...	19,775	129,233	215,366	30,763	2,856	...	3,163	7,949	24,855	28,236	37,000	...	37,733	795	1	2,911	34,000	3,234	26,167	8,137	17,259	697,656	
12 »	51,772	16,451	...	19,775	129,233	214,402	30,763	2,935	...	3,163	8,273	24,497	22,849	37,000	...	39,166	810	2	2,861	34,000	3,234	26,167	8,137	23,706	699,196	
22 »	51,772	16,451	...	19,856	129,233	210,167	30,763	2,946	...	3,163	3,539	23,312	11,241	37,000	...	62,437	877	1	2,858	34,000	3,234	26,167	8,137	18,710	695,864	
29 »	51,772	16,451	...	19,856	129,233	204,733	30,763	...	...	2,968	...	3,163	...	...	...	26,666	11,828	37,000	...	54,521	873	2	2,786	34,000	3,234	26,167	8,137	25,363	689,516
5 June	51,772	17,571	...	19,856	129,233	204,520	30,763	...	...	2,962	...	3,163	...	...	...	27,398	24,739	37,000	...	50,799	880	2	2,786	34,000	3,234	26,167	8,137	19,814	694,796
12 »	51,772	16,729	...	19,968	129,233	204,539	30,763	...	...	2,957	...	3,163	...	...	...	25,415	12,909	37,000	...	63,275	953	1	2,785	34,000	3,234	26,167	8,137	19,090	692,090
19 »	51,772	16,729	...	19,968	129,233	204,932	30,763	...	...	2,937	...	3,163	...	...	...	24,182	13,677	37,000	...	66,039	895	2	2,562	34,000	3,234	26,166	8,137	19,256	694,647
26 »	51,772	16,729	...	19,968	129,233	204,932	30,763	...	...	2,943	...	3,163	...	...	...	26,947	28,112	37,000	...	50,190	831	2	2,561	34,000	3,234	26,166	8,137	18,573	695,256
3 July	51,772	16,729	...	22,021	129,233	201,602	30,763	...	...	2,472	...	4,866	...	...	...	26,622	30,588	37,000	...	49,401	850	1	2,459	34,000	3,234	26,166	8,137	25,535	703,451
10 »	51,772	16,151	...	21,306	125,714	207,040	26,407	...	...	2,580	...	4,866	...	...	...	28,576	19,582	37,000	...	58,451	877	1	2,548	34,000	3,234	26,166	8,137	24,942	699,350
17 »	51,772	16,151	...	21,306	125,714	207,367	26,407	...	...	2,784	...	4,866	...	...	...	29,628	20,686	37,000	...	50,358	879	2	2,528	34,000	3,234	26,166	8,137	20,351	689,336
24 »	51,772	16,151	...	21,306	125,714	207,675	26,407	...	...	2,838	...	4,866	...	...	...	28,657	15,813	37,000	...	56,338	854	2	2,341	34,000	3,234	26,166	8,137	22,106	691,377
31 »	51,772	16,151	...	19,889	125,714	210,953	26,407	...	...	2,865	...	4,866	...	...	...	28,725	22,711	37,000	...	40,283	886	2	2,321	34,000	3,234	26,166	8,137	20,504	682,586
7 August	51,772	16,151	...	19,889	125,714	211,186	26,407	...	...	2,895	...	4,866	...	...	...	29,399	23,806	37,000	...	37,275	893	2	2,287	34,000	3,234	26,166	8,137	20,454	681,533
11 »	51,772	16,151	...	20,197	125,714	211,256	26,407	...	...	2,908	...	4,866	...	...	...	28,658	20,560	37,000	...	43,208	882	2	2,284	34,000	3,234	26,166	8,137	21,522	684,924
21 »	51,772	16,151	...	19,467	124,865	220,394	26,407	...	849	2,858	...	4,866	6,275	28,225	20,254	37,000	...	41,667	865	2	2,273	34,000	3,234	26,166	8,137	21,156	696,883	
28 »	51,772	16,151	...	19,467	124,865	220,786	26,407	...	849	2,938	...	4,866	6,275	31,821	19,453	37,000	...	25,104	838	2	2,234	34,000	3,234	26,166	8,137	24,312	686,677	
4 September	51,772	16,151	...	19,467	124,865	215,003	26,407	...	849	2,943	...	4,866	...	...	...	29,677	18,968	37,000	...	33,145	893	2	2,227	34,000	3,234	26,166	8,137	29,255	685,027
11 »	51,772	16,492	...	19,467	124,865	215,701	26,407	...	849	2,943	...	4,866	...	...	...	30,318	12,665	37,000	...	42,225	921	2	2,543	34,000	3,234	26,166	8,137	22,150	682,723
18 »	51,772	16,492	...	19,467	124,865	216,960	26,407	...	849	2,956	...	4,866	...	...	...	31,752	6,159	37,000	...	47,501	896	2	2,461	34,000	3,234	26,166	8,137	22,719	684,661
25 »	51,699	16,492	...	19,467	124,865	218,466	26,407	...	849	2,947	...	4,866	...	...	...	34,629	6,529	37,000	...	44,021	873	1	2,461	34,000	3,232	26,166	8,137	25,252	688,359
2 October	51,699	15,848	...	21,657	122,742	218,748	26,407	411	...	2,972	2,966	4,866	...	...	...	30,671	6,083	37,000	...	43,060	840	2	2,461	34,000	3,232	26,166	8,137	26,275	686,243
9 »	51,670	15,848	...	21,657	118,660	217,759	27,368	411	...	2,972	2,974	4,866	...	...	...	33,012	6,786	37,000	...	41,395	891	1	2,442	34,000	3,231	26,166	8,137	28,230	685,476
16 »	51,670	15,848	...	21,657	118,660	218,108	27,368	411	...	2,972	2,971	4,866	...	...	...	33,020	4,812	37,000	...	42,9									

WEEKLY RETURNS PUBLISHED IN THE « BELGISCH STAATSBLAD - MONITEUR BELGE » DURING 1989

(millions of francs)

LIABILITIES

Memorandum Account : Postal Cheque Office : Balance for account of the Ministers of Education of the Communities (law of 11.7.1973 - education legislation)	Bank notes in circulation	Current accounts :			Financial assistance 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 to be delivered :		Sundries	Unavailable reserve of capital gains on gold	Capital reserves and depreciation accounts ¹	TOTAL LIABILITIES	DATE
		Public Treasury : Ordinary account	Banks in foreign countries and international institutions, ordinary accounts	Sundry current accounts and items payable				European Monetary Co-operation Fund	Other	Belgium	Grand Duchy of Luxembourg	European Monetary Co-operation Fund	Other					
12,539	416,972	8	6,904	20,709	3,602	23,611	...	137,955	...	...	...	6,790	19,911	—	22,799	659,261	2 January 1989
12,835	411,998	...	2,662	24,079	3,582	23,611	...	137,311	...	...	...	5,200	20,516	—	22,799	651,758	9 »
12,694	407,611	21	1,835	16,535	3,577	23,611	...	137,311	...	...	...	13,845	21,159	—	22,799	648,304	16 »
12,589	404,857	18	1,821	11,463	3,562	23,611	...	137,311	...	...	...	15,742	21,474	—	22,799	642,658	23 »
12,476	400,171	24	1,987	15,672	3,512	23,611	...	137,311	...	...	...	1,368	8,284	—	26,168	618,108	30 »
12,357	403,684	16	2,624	10,963	3,500	23,611	...	137,311	...	...	...	409	9,408	—	26,168	617,694	6 February
12,261	402,848	3	1,659	12,751	3,463	23,611	...	137,311	...	...	...	409	10,042	—	26,168	618,265	13 »
12,114	405,103	21	1,762	15,153	3,463	23,611	...	137,311	...	...	...	235	11,537	—	26,168	624,364	20 »
12,015	403,208	3	2,348	12,483	3,455	23,611	...	137,311	...	...	...	170	11,664	—	26,168	620,421	27 »
12,707	408,356	23	3,719	9,969	3,361	23,611	...	137,311	...	...	...	34	12,349	—	26,168	624,901	6 March
12,403	408,782	22	1,522	9,112	3,308	23,611	...	137,311	...	...	...	21	12,788	—	26,168	622,645	13 »
12,148	411,139	8	2,677	12,447	2,824	23,611	...	137,311	...	...	...	18	13,198	—	26,168	629,401	20 »
11,871	411,714	4	2,633	13,825	3,012	23,611	...	137,311	...	...	...	11	13,957	54,807	26,168	687,053	24 »
11,542	409,364	10	2,282	10,119	3,021	23,611	...	137,311	...	...	...	10	11,300	54,807	26,168	678,003	3 April
11,386	411,593	6	2,013	8,225	2,998	23,611	...	129,233	...	...	...	6,041	11,721	54,807	26,168	676,416	10 »
11,365	411,823	14	1,848	9,161	2,934	23,611	...	129,233	...	...	...	10	12,078	54,807	26,168	671,687	17 »
11,239	412,366	18	2,227	10,194	2,983	23,611	...	129,233	...	...	...	9	12,370	54,807	26,168	673,986	24 »
10,936	418,865	11	2,134	13,352	2,934	23,611	...	129,233	...	...	...	4,680	13,022	54,807	26,168	688,817	28 »
10,858	425,528	12	3,429	10,144	2,911	23,611	...	129,233	...	...	...	8,003	13,810	54,807	26,168	697,656	8 May
10,843	428,943	7	1,889	10,448	2,861	23,611	...	129,233	...	...	...	6,998	14,231	54,807	26,168	699,196	12 »
10,766	431,237	13	3,386	7,181	2,858	23,611	...	129,233	...	...	...	2,556	14,814	54,807	26,168	695,864	22 »
10,416	425,625	17	3,336	8,584	2,786	23,611	...	129,233	...	...	...	19	15,330	54,807	26,168	689,516	29 »
10,255	429,983	17	2,959	9,463	2,786	23,611	...	129,233	...	...	...	10	15,759	54,807	26,168	694,796	5 June
10,068	428,458	12	1,807	8,790	2,785	23,611	...	129,233	...	...	...	11	16,408	54,807	26,168	692,090	12 »
9,821	431,564	15	1,883	7,895	2,562	23,611	...	129,233	...	...	...	17	16,892	54,807	26,168	694,647	19 »
9,789	432,570	22	1,984	7,039	2,561	23,611	...	129,233	...	...	...	15	17,246	54,807	26,168	695,256	26 »
9,677	435,987	20	1,787	13,250	2,459	23,611	...	129,233	...	...	...	14	16,115	54,807	26,168	703,451	3 July
9,738	436,483	14	1,915	11,382	2,548	23,611	...	125,714	...	...	...	18	16,690	54,807	26,168	699,350	10 »
9,757	430,561	9	1,970	6,919	2,528	23,611	...	125,714	...	...	...	18	17,031	54,807	26,168	689,336	17 »
9,670	429,059	16	1,880	10,392	2,341	23,611	...	125,714	...	...	...	22	17,367	54,807	26,168	691,377	24 »
9,533	423,668	17	1,600	6,639	2,321	23,611	...	125,714	...	...	...	23	18,018	54,807	26,168	682,586	31 »
7,139	422,632	14	1,764	6,182	2,287	23,611	...	125,714	...	...	...	18	18,336	54,807	26,168	681,533	7 August
4,350	424,786	16	1,767	7,206	2,284	23,611	...	125,714	...	...	...	16	18,549	54,807	26,168	684,924	11 »
2,931	423,102	25	1,612	12,959	2,273	23,611	...	125,714	...	...	...	7,054	19,558	54,807	26,168	696,883	21 »
2,703	415,798	5	2,327	9,279	2,234	23,611	...	125,714	...	...	...	7,070	19,664	54,807	26,168	686,677	28 »
2,647	421,489	10	2,017	7,899	2,227	23,611	...	125,714	...	...	...	875	20,210	54,807	26,168	685,027	4 September
2,613	418,669	9	3,055	6,547	2,543	23,611	...	125,714	...	...	...	875	20,725	54,807	26,168	682,723	11 »
2,452	420,133	16	2,749	6,803	2,461	23,611	...	125,714	...	...	...	875	21,324	54,807	26,168	684,661	18 »
2,391	418,783	22	2,181	12,061	2,461	23,611	...	125,714	...	...	...	879	21,672	54,807	26,168	688,359	25 »
2,442	421,009	11	2,141	9,679	2,461	23,611	...	125,714	...	...	...	3,343	17,299	54,807	26,168	686,243	2 October
2,373	421,773	7	2,042	12,025	2,442	23,611	...	121,632	...	...	...	3,344	17,625	54,807	26,168	685,476	9 »
2,329	421,498	11	2,580	13,999	2,439	23,611	...	121,632	...	...	...	3,344	18,025	54,807	26,168	688,114	16 »
2,337	421,244	2	2,262	8,929	2,482	23,611	...	121,632	...	...	...	3,759	18,316	54,807	26,168	683,212	23 »
2,212	419,046	2	2,004	12,061	2,523	23,611	...	121,632	...	...	...	3,345	18,586	54,807	26,168	683,785	30 »
2,156	421,057	4	1,887	9,765	2,518	23,611	...	121,632	...	...	...	3,837	19,606	54,807	26,168	684,892	6 November
3,785	423,135	8	1,499	8,393	2,517	23,611	...	121,632	...	...	...	3,898	19,723	54,807	26,168	685,391	10 »
3,664	424,067	19	2,397	7,303	2,511	23,611	...	121,632	...	...	...	3,376	20,561	54,807	26,168	686,452	20 »
4,300	418,136	2	1,574	8,963	2,499	23,611	...	121,632	...	...	...	3,376	20,863	54,807	26,168	681,631	27 »
3,919	423,163	25	2,041	7,295	2,493	23,611	...	121,632	...	...	...	3,432	21,470	54,807	26,168	686,137	4 December
4,144	421,787	13	1,852	11,812	2,457	23,611	...	121,632	...	...	...	3,429	21,915	54,807	26,168	689,483	11 »
4,136	428,346	11	1,862	10,982	2,446	23,611	...	121,632	...	...	...	3,211	22,295	54,807	26,168	695,371	18 »
3,983	445,719	23	1,827	6,593	2,950	23,611	...	121,632	...	...	...	3,217	22,562	54,807	26,168	709,109	22 »
4,237	442,541	3	2,133	11,220	2,956	23,611	...	121,632	...	...	...	3,394	25,551	54,807	26,168	714,016	29 »

**STATEMENT OF THE PUBLIC LONG-TERM SECURITIES
CONSTITUTING, ON 31st DECEMBER 1989, THE BANK'S HOLDINGS**

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

7 p.c.	Treasury bills 1986/94.				
7.39 p.c.	Treasury bills 1987/95 I.				
7.16 p.c.	Treasury bills 1987/95 II.				
7.52 p.c.	Treasury bills 1988/96 I.				
7.35 p.c.	Treasury bills 1988/96 II.				
7.86 p.c.	Treasury bills 1989/97 I.				
7.42 p.c.	Treasury bills 1989/97 II.				
8.18 p.c.	Treasury bills 1989/97 III.				
7.76 p.c.	Treasury bills 1989/97 IV.				
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.				
8 p.c.	Belgian Loan 1987/95.				
8 p.c.	Belgian Loan 1987/95 II.				
8 p.c.	Belgian Loan 1988/96.				
7.75 p.c.	Belgian Loan 1988/96 II.				
8 p.c.	Belgian Loan 1988/95.				
8 p.c.	Belgian Loan 1989/97.				
8.25 p.c.	Belgian Loan 1989/97.				
4 p.c.	Belgian Premium Bonds 1941.				
4 p.c.	War Damage 1923.				
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.				
8 p.c.	Road Fund Loan 1987/95.				
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.
8.25 p.c.	National Industrial Credit Company 1970/90.
8 p.c.	National Industrial Credit Company 1971/91.
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 shares. Bank for International Settlements shares. Belgian National Railway Company Dividend Right Certificates.

LIST OF ABBREVIATIONS IN THIS AND PREVIOUS REPORTS OF THE NATIONAL BANK

BBA	Belgian Bankers' Association
BIS	Bank for International Settlements
BLEU	Belgian-Luxembourg Economic Union
BRT	Belgian Radio and Television
COMC	Central Office for Mortgage Credit
CTEC	Clearing Transaction Exchange Centre of the Belgian Financial System
CUL	Catholic University of Louvain
EC	European Community
ECO/FIN Council	Council of Ministers for Economic Affairs and Finance
EEC	European Economic Community
EMCF	European Monetary Cooperation Fund
EMS	European Monetary System
ESAF	Enhanced structural adjustment facility
FRG	Federal Republic of Germany
GDP	Gross domestic product
GNP	Gross national product
GSPF	General Savings and Pensions Fund
HWWA	Hamburgisches Welt-Wirtschafts-Archiv
IMF	International Monetary Fund
MEA	Ministry of Economic Affairs
NBB	National Bank of Belgium
NEMO	National Employment Office
NFCTI	National Fund for Credit to Trade and Industry
NHC	National Housing Company
NIAC	National Institute for Agricultural Credit
NICC	National Industrial Credit Company
NLC	National Land Company
NSDII	National Sickness and Disablement Insurance Institute
NSI	National Statistical Institute
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
PCI	Public credit institutions
RD	Royal Decree
RGI	Rediscount and Guarantee Institute
RTBF	Radio-Télévision Belge de la Communauté Française (Belgian Radio-Television of the French Community)
RTT	Telephones and Telegraphs Board
SDC	Securities Deposit and Clearing Office of the Financial Sector
SDR	Special Drawing Rights
SICAV	Société d'investissement à capital variable (variable-capital investment company)
VAT	Value added tax

**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
African Development Bank	Banque Africaine de Développement
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 (BLEU)	Union Economique Belgo-Luxembourgeoise (UEBL)
Belgian-Luxembourg Foreign Exchange Institute	Institut Belgo-Luxembourgeois du Change
Belgian Municipal Credit Institution	Crédit Communal de Belgique
Belgian National Railways Company (BNRC)	Société Nationale des Chemins de fer belges (SNCFB ou SNCB)
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 IMF)	Conseil d'Administration (du FMI)
Board of Governors (of IMF)	Conseil des Gouverneurs (du FMI)
Board of Management (of EMA)	Comité directeur (de l'AME)
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 Consumer Credit Office	Centrale des crédits à la consommation
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
Clearing Transaction Exchange Centre of the Belgian Financial System	Centre d'Echange d'Opérations à compenser du Système financier belge
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 (OCRA)
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 (DULBEA)
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 NBB)	Comité de Direction (de la BNB)
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 (ECSC)	Communauté Européenne du Charbon et de l'Acier (CECA)
European Communities	Communautés Européennes
European Development Fund (of the European Communities) (formerly Fund for the Development of Overseas Countries and Territories)	Fonds Européen de Développement (des Communautés Européennes) (précédemment Fonds de Développement pour les Pays et Territoires d'Outre-mer)
European Economic Community (EEC)	Communauté Economique Européenne (CEE)
European Free Trade Association	Association Européenne de Libre-Echange
European Fund	Fonds Européen = Fonds de l'AME
European Investment Bank	Banque Européenne d'Investissement
European Monetary Agreement (EMA)	Accord Monétaire Européen (AME)
European Monetary Cooperation Fund (EMCF)	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 (EPU)	Union Européenne de Paiement (UEP)
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'Énergie 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 (GATT)	Accord Général sur les Tarifs douaniers et le Commerce (GATT)
General Arrangements to Borrow (IMF)	Accords Généraux d'Emprunt (FMI)
General Budget Statement	Exposé Général du Budget
General Savings and Pensions Fund (GSPF)	Caisse Générale d'Épargne et de Retraite (CGER)
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 ECSC)	Haute Autorité (de la CECA)
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 IMF)	Comité intérimaire (du FMI)
International Bank for Reconstruction and Development (IBRD)	Banque Internationale pour la Reconstruction et le Développement (BIRD)
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'Études International du Plomb et du Zinc
International Materials Conference	Conférence Internationale des Matières Premières
International Monetary Fund (IMF)	Fonds Monétaire International (FMI)
International Sugar Agreement	Accord International du Sucre
International Sugar Conference	Conférence Internationale des Sucres
International Tin Council	Conseil International de l'Étain
International Wheat Agreement	Accord International du Blé
Joint Committee of Banks and Bank Employees	Commission paritaire des banques
London Metal Exchange	Bourse 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'Éducation 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 Ducroire
National Employment Office (formerly National Employment and Unemployment Office)	Office National de l'Emploi (précédemment Office National du Placement et du Chômage)
National Foundation for Financing Scientific Research	Fondation Nationale pour le Financement de la Recherche Scientifique
National Fund for Credit to Trade and Industry	Caisse Nationale de Crédit Professionnel
National Fund for the Rehabilitation of Handicapped Persons	Fonds National pour le Reclassement des Handicapés
National Housing Company (formerly National Cheap Dwellings Company)	Société Nationale du Logement (précédemment Société Nationale des Habitations et Logements à Bon Marché)
National Housing Fund	Fonds National du Logement
National Industrial Credit Company (NICC)	Société Nationale de Crédit à l'Industrie (SNCI)
National Institute for Agricultural Credit	Institut National de Crédit Agricole
National Investment Company	Société Nationale d'Investissement
National Labour Council	Conseil National du Travail
National Land Company (formerly National Smallholders' Company)	Société Nationale Terrienne (précédemment Société Nationale de la Petite Propriété Terrienne)
National Local Railways Company	Société Nationale des Chemins de fer Vicinaux
National 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 (NSI)	Institut National de Statistique (INS)
National Water Distribution Company	Société Nationale des Distributions d'Eau
North Atlantic Treaty Organisation (NATO)	Organisation du Traité de l'Atlantique-Nord (OTAN)
Nuclear Energy Research Centre	Centre d'Etudes de l'Energie Nucléaire
Oil facility (of IMF)	Mécanisme pétrolier (du FMI)
Organisation for Economic Cooperation and Development (OECD) [formerly Organisation for European Economic Cooperation (OEEC)]	Organisation de Coopération et de Développement Economiques (OCDE) [précédemment Organisation Européenne de Coopération Economique (OECE)]
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 (PCA)	Compte de Chèques Postaux (CCP)
Postal Cheque Office (PCO)	Office des Chèques Postaux (OCP)
Public Social Assistance Centres	Centres publics d'aide sociale
Rediscount and Guarantee Institute (RGI)	Institut de Réescompte et de Garantie (IRG)
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)
Sinking Fund	Caisse d'Amortissement
Social Programming Agreement	Accord de programmation sociale

Solidarity Fund for Financing Early-Retirement Pensions	Fonds de solidarité de financement de la prépension
Special Agricultural Committee (of the European Communities)	Comité Spécial Agricole (des Communautés Européennes)
Special Council of Ministers (of ECSC)	Comité Spécial des Ministres (de la CECA)
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 IMF)	Fonds fiduciaire (du FMI)
Union of Non-Ferrous Metal Industries	Union des Industries des Métaux Non Ferreux
United Nations (Organisation of the)	Organisation des Nations Unies
Veterans' Endowment	Dotation des Combattants
Washington Monetary Conference	Conférence monétaire de Washington

CONTENTS

	Pages
REPORT PRESENTED BY THE GOVERNOR IN THE NAME OF THE COUNCIL OF REGENCY _____	V
ECONOMIC AND FINANCIAL DEVELOPMENTS _____	1
CHAPTER 1 : INTERNATIONAL ENVIRONMENT _____	3
Growth, employment, prices _____	3
National economic policies _____	8
Balance of payments and exchange rates _____	10
International co-operation _____	13
CHAPTER 2 : EXPENDITURE, PRODUCTION AND EMPLOYMENT	17
Expenditure _____	17
Value added of the various branches of activity _____	23
Labour market _____	27
CHAPTER 3 : PRICES AND COSTS _____	33
Consumer prices and other deflators _____	33
Labour costs and other domestic costs _____	35
CHAPTER 4 : ACCOUNTS OF THE MAJOR DOMESTIC SECTORS	39
Summary _____	39
Individuals and companies _____	41
General government _____	52
CHAPTER 5 : BALANCE OF PAYMENTS OF THE BELGIAN- LUXEMBOURG ECONOMIC UNION AND FOREIGN EXCHANGE MARKET _____	61
Summary _____	61
Current transactions _____	63
Capital transactions _____	66
Official settlements _____	69
Foreign exchange market _____	71

	Pages
CHAPTER 6 : MONETARY POLICY AND MONEY AND CAPITAL MARKETS _____	75
Monetary policy _____	75
Money and capital markets _____	80
 STATISTICAL ANNEX _____	 89
 LIST OF TABLES AND CHARTS _____	 115
 THE NATIONAL BANK OF BELGIUM AS AN ENTERPRISE _____	 119
SPECIFIC ACTIVITIES AS THE CENTRAL BANK _____	121
SERVICES TO THIRD PARTIES _____	127
USE OF RESOURCES _____	137
ADMINISTRATION AND SUPERVISION _____	143
 ANNUAL ACCOUNTS _____	 149
 ANNEXES _____	 155
 LIST OF ABBREVIATIONS _____	 163
 LIST OF NAMES AS USED IN THIS AND PREVIOUS REPORTS OF THE NATIONAL BANK _____	 165

Translated from the French and the Dutch by
D.F. Long & Co. (Translations) Ltd. London SE10 8BX

Printing Works
of the National Bank of Belgium
Boulevard de Berlaimont 5
1000 Brussels

Head of the Printing Department
J. Van Droogenbroeck
