

REPORT _____



1995

National Bank of Belgium



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NATIONAL BANK OF BELGIUM

REPORT 1995

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

INTERNATIONAL ENVIRONMENT

The expansion of activity in the industrialised world slowed down somewhat in 1995. This slowing was marked especially in the United States, Canada and the United Kingdom, where growth had been particularly rapid in the previous year. Nevertheless growth remained quite strong in these countries. However, the slowdown also affected Japan, where the expected revival did not materialise. In continental Europe there was a pause in growth in the course of the year. In the OECD area as a whole, the rise in GDP declined from 2.9 p.c. in 1994 to 2.4 p.c. in 1995.

Such a setback is not exceptional in a phase of cyclical expansion. As is often the case, it was accentuated by stockbuilding movements. But it was also partly due to shocks emanating from the financial markets, where reassessments of risks can lead to sudden portfolio reallocations.

Thus the sharp rise in long-term interest rates which took place in 1994 may have had a moderating effect on demand in 1995, especially for durable consumer goods and housing, albeit in varying degrees from country to country. While this development was not unwelcome in the United States, as it reduced the risk of overheating, it was less opportune elsewhere. At the end of 1994 the Mexican crisis broke out when the markets became aware of the extent of that country's current account deficit and of the way in which it had been financed. Consequently, Mexico had to make drastic cuts in its expenditure, which also affected its trading partners. The crisis furthermore triggered a series of exchange rate movements whose effect on activity was most probably not only redistributive but also, on the whole, negative. It in fact heightened the distrust of the US dollar,

which was chiefly due to the persistent twin deficit in the public budgets and in current transactions with foreign countries. The resultant sharp appreciation of the yen during the early months of 1995 led to a further deterioration of the competitive position of Japanese enterprises and undermined consumer confidence in Japan, where, furthermore, the difficulties encountered by a number of financial institutions continued to cause concern. The appreciation of the German mark against the US dollar, for its part, contributed to the reappearance of tensions on the European exchange markets. In particular, the currencies of countries where, partly owing to political uncertainty, the government's ability to control the public deficit was doubted, came under heavy pressure.

The reactions of the financial markets may be sudden and exaggerated, but they are often attributable to weaknesses in economic policy and to the fact that imbalances are insufficiently corrected. It is up to the authorities to prevent such crises by appropriate policies, mainly through the strict management of public budgets and the maintenance of monetary stability, and to take steps to correct excessive movements on the financial markets.

Such corrections did in fact take place during the year under review. The lessening of inflationary expectations in the United States, thanks to the tightening of monetary policy already carried out in 1994, led to an appreciable fall in long-term interest rates, which was also partly due to further efforts towards fiscal consolidation in many countries, as well as to the weakening of growth. The exchange rate for the yen, the appreciation of which against the dollar had become manifestly excessive in April, fell back during

the second half of 1995 to the level at which it had stood at the beginning of the year, partly owing to the lowering of short-term interest rates in Japan and to concerted interventions by central banks aimed at assisting its depreciation. On the European exchange markets, the exchange rates of most of the currencies which had depreciated against the German mark — even the peseta, which had to be devalued on 6th March — recovered from the second quarter onwards, but the movements which had taken place at the beginning of the year were not always cancelled out.

These corrective developments, especially the decline in long-term interest rates, are conducive to growth. This growth may in fact be based on sound foundations, but these need to be consolidated. From this angle, one of the main trump cards of the present period is low inflation, which has remained below 3 p.c. in most industrialised countries. The lessening of inflationary pressures has enabled many central banks to relax their interest-rate policies. Caution is however still called for, especially in countries whose currencies have depreciated, since continued good performance with regard to price stability is of crucial importance for dispelling uncertainty and reducing long-term interest rates.

Another trump card is the dynamic investment behaviour of American and European enterprises, sustained by their improved results, as fixed capital formation increases growth potential. In the European Union, capital returns are back to the level at which they stood at the beginning of the 1970s and purchases of capital goods have increased strongly, though admittedly from a relatively low initial level. It is now important to ensure that labour cost developments do not erode the profitability of investment but, on the contrary, contribute to its job-creating capacity.

Another condition for lasting growth is the continued consolidation of the public fi-

nances. This would be in the interest of the world community as a whole, because, owing to the internationalisation of the financial markets, it is all the government deficits combined that push up real interest rates worldwide. Budgetary consolidation would also be beneficial to each country individually, particularly in Europe, where it should help to prevent the development of a dynamic process of debt accumulation, to reduce the risk premiums inherent in interest rates, to bring monetary union to a successful conclusion and to prepare for the effects of an ageing population.

These macroeconomic policies should be coupled with structural reforms of the labour markets and of those for goods and services. It is in Europe, where unemployment has reached historical highs and hardly declined in 1995, that the need for action is most evident. A number of measures have been taken to this end, in accordance with the decisions reached at the Essen summit. In the short term, net job creation is necessary in order to restore the confidence of households and restimulate consumption. In the longer run, more efficient labour markets and a reduction in structural unemployment would ensure non-inflationary growth. The removal of rigidities which hamper competition in the markets for goods and services would also stimulate activity by improving the allocation of resources.

Lastly, any resurgence of protectionism must be prevented. The maintenance of open economies is an important factor supporting production, as was seen in 1994 and 1995, when world trade expanded rapidly. It would also contribute to consolidating the expansion of certain developing countries and of some transition countries — a development which can set in motion a positive dynamic process. In the medium term, both the stimulus of international competition and better exploitation of comparative advantages and economies of scale should contribute to faster growth.

EUROPEAN ECONOMIC AND MONETARY UNION

A building in scaffolding seldom looks attractive. When, at the end of the 1980s and in a more favourable economic context, the plans for economic and monetary union (EMU) were worked out, the emphasis was laid, perhaps too one-sidedly, on the benefits to be expected from an integrated European market with free movement of persons, goods, services and capital. Only gradually did it become apparent that the internal market would not produce its full beneficial effects until a number of shortcomings and structural rigidities which still hamper the smooth operation of the markets for goods and services and the labour market had been removed.

Moreover, the achievement of a sufficient degree of economic convergence between the Member States of the European Union turned out to be a longer and more laborious process than had been expected, and often seemed to conflict with the urgent need for vigorous action to deal with the unemployment problem. Consequently, several governments in the Union are now having great difficulty in convincing citizens that, irrespective of the Maastricht criteria, persevering efforts to achieve or maintain a low inflation rate and to consolidate the public finances constitute in the long run the best guarantee of lasting economic growth and better employment prospects.

Despite the progress made during the past two years in a number of fields, there is far from being a majority of Member States that meet the convergence criteria laid down in the Treaty on European Union. It is therefore by no means surprising that, partly owing to the uncertain economic climate, doubts have arisen about the possibility of successful achievement of monetary union within the time-limit set. After having decided at the Cannes summit in June 1995 not to make the changeover to the single currency before 1st January 1999, the Heads of State and Government formally confirmed, in Decem-

ber in Madrid, that the third stage of EMU would begin on that date, and they adopted a concrete scenario for the transition. In the meantime, every effort should be made to increase the acceptance and heighten the credibility of the European currency, both within and outside the monetary union. This calls for a coherent approach on various fronts, which ought to receive the explicit support of all parties concerned.

Firstly, monetary union must be based on sound and solid foundations. Only thus can the citizens of the Member States which make the transition to the single currency — now called the « euro » — be sure that it will be at least as stable as the strongest national currencies are at present. It is therefore important that only the countries which have attained a high degree of economic convergence shall move on to the third stage of EMU and that they shall continue thereafter to pursue stability-oriented macroeconomic policies.

The decision as to which Member States are eligible to adopt the single currency lies ultimately with the highest political authorities, but the Treaty on European Union clearly defines the principles and procedures on which this decision must be based. Faithful adherence to both the text and the spirit of the Treaty is essential in this respect. The various convergence criteria can neither be relaxed nor traded off against each other: better results in one field cannot, therefore, make up for inadequacies as regards other points. But observance of the Treaty rules also means that, for the criteria in respect of which a margin for judgment is explicitly provided, the decision should be based on a broad economic assessment backed by arguments in which, notably with regard to the debt ratio, attention is also paid to the dynamic aspects of the consolidation process.

A stable financial environment and convergence towards the lowest possible inflation

are necessary not only in the run-up to the third stage of EMU but just as much after that. In order to ensure cohesion within the monetary union, the participating countries must, among other things, show perseverance in the maintenance of budgetary discipline. As a matter of fact the Treaty stipulates that the procedures aimed at avoiding « excessive government deficits » are to remain fully applicable during the third stage, too. Furthermore, it will be possible for the Council of Ministers to prescribe precise guidelines for contravening Member States and, if necessary, to impose sanctions on them. It would perhaps be useful to agree, prior to the third stage, on the concrete aspects of this multi-lateral supervision. A revision of the provisions of the Treaty for this purpose is not, however, either necessary or desirable.

A second crucial and delicate problem is to decide what shall be the future relations between the countries which participate in the euro area from the outset and those which temporarily remain outside it, either because they do not yet fulfil the conditions or because they have chosen not to belong to it. The fact that the European currency area will probably not cover the whole territory of the internal market does indeed entail a number of risks with regard to the proper operation of that market, which in any case needs monetary stability. It would therefore be highly desirable, well in advance of the start of the third stage, to work out appropriate exchange rate arrangements to govern the relationship between the euro and the national currencies of the non-participating Member States. In this connection due attention should be paid to the maintenance of stable real exchange rates with a view to preventing the internal market from being disrupted by competitive devaluations. Such a mechanism ought also to encourage the countries which have not yet adopted the single currency to persevere in their efforts to participate in monetary union.

At the Madrid summit the Heads of State and Government requested the Ecofin Council to report as quickly as possible on the above-mentioned two questions, in consultation

with the European Commission and the European Monetary Institute (EMI), each within its own sphere of competence.

Such an ambitious and complex undertaking as the introduction of a single currency in a group of countries with a multiplicity of economic and financial structures and practices calls for careful preparation. During the year under review both the European Commission and the EMI thoroughly studied the many technical and organisational aspects of this project and presented their conclusions. On the basis of this preparatory work, the European Council finally agreed, as has been mentioned, on a detailed scenario which describes the various phases of the transition to the single currency. In line with the EMI's proposals, this scenario is based on the principle that both the private sector, especially the financial intermediaries, the public sector and the central banks need to be given sufficient time to prepare for the changeover.

The third stage of EMU will be preceded by an intermediate period of about one year, which is necessary in order to establish the European System of Central Banks (ESCB) and the European Central Bank (ECB), to give the decision-making bodies of these institutions the opportunity to decide on and to test the strategic and operational framework for the common monetary policy and to complete the other practical preparations. The length of time required for this means that the European Council, in the composition of Heads of State and Government, will have to decide as early as possible in 1998 which Member States will be able to participate in the third stage.

When the third stage actually starts, the conversion rates between the participating currencies and the euro will be irrevocably fixed and the ESCB will assume full responsibility for the conduct of the common monetary policy. From then on the euro will be a « currency in its own right » and a Council Regulation which will provide the legal framework for its use will enter into force; this means that all monetary amounts denominated in a national currency will be assigned,

in a legally enforceable way, an unchangeable countervalue in terms of the euro at the official conversion rate, and vice versa.

The ESCB will thenceforth define and implement its monetary policy in euros and will also use the euro for its operations on the foreign exchange market. This requires, inter alia, that the infrastructures necessary for a payments system in euros embracing the entire Union will have to be operational. The EMI expects major segments of the financial markets to change over to the euro fairly quickly. The undertaking to issue new tradeable public debt instruments in euro from the very start of the third stage will also make a considerable contribution to this.

The transition scenario sets a period of, at most, three years for the completion of the changeover to the single European currency. During this period private economic agents will be free to use the euro but will not be obliged to do so. The principle behind this is that, as far as possible, they should be allowed to adapt themselves to the changeover at their own pace. During this time, national bank notes will remain legal tender within the present territorial limits. Not until the end of this period, that is, on 1st January 2002 at the latest, will euro bank notes and coins begin to circulate alongside national notes and coins. This period of dual circulation will be kept as short as possible — six months at most. After that, national notes and coins will cease to be legal tender and will be exchangeable only at the national central banks.

The move to the third stage of EMU will enable greater advantage to be taken of the possibilities offered by the single market, since there will then no longer be any exchange rate uncertainty within the monetary union, which will also be characterised by a high degree of price stability. The move to the third stage should also protect the internal market against the risk of competitive depreciations; it is therefore desirable that a sufficient number of countries shall be eligible to join the monetary union and that co-ordination shall be ensured with those which cannot yet or do not wish to participate in it. The emergence of a large area of monetary stability will undoubtedly enhance the growth potential of the currency area as a whole and also — provided that they display sufficient adaptability — of each of the participating countries individually.

Monetary union is not an end in itself, but rather the instrument for the attainment of a broader purpose; one of the first articles of the Treaty of Maastricht in fact assigns to the European Union the objective of promoting balanced and sustainable economic and social progress, notably through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and through the establishment of economic and monetary union. Instead of creating doubt and discord, the present economic uncertainty should spur us on to seek to achieve, together with — and not contrary to — nominal convergence, real and social convergence, which can also offer the prospect of greater political integration.

ECONOMIC DEVELOPMENTS IN BELGIUM

Hesitant cyclical developments despite strong fundamentals

The recovery from the previous recession, which had been surprisingly strong at the be-

ginning of the upward cyclical phase, lost most of its initial impetus during the year under review. From last spring onwards, there was in fact no further increase in economic activity. Nevertheless, thanks to the strong growth in the last quarter of 1994 and the

first quarter of 1995, real GDP growth over the whole of last year should still amount to about 1.9 p.c.

From that angle the pattern of the business cycle in Belgium was very similar to that in the neighbouring countries. It is actually by no means unusual for a phase of vigorous expansion at the beginning of the cycle to be followed by a certain slackening, which is generally due to the stock cycle. After a contraction in activity, enterprises replenish their stocks, and this initially gives an additional boost to economic growth. But as soon as stocks have returned to their normal level, this activity-supporting factor disappears and the rate of expansion automatically slows down.

The hesitant cyclical development is also partly attributable, however, to the fact that private consumption did not so far show the hoped-for recovery : at a modest 1.3 p.c., the growth in volume of this expenditure component was hardly any greater than in 1994. One of the causes of this restrained expenditure pattern may have been the modest increase in the purchasing power of households : in 1995 their disposable income in real terms increased by 0.5 p.c., after having declined to the same extent the previous year. But factors connected with confidence also appear to have played a not unimportant role, as is apparent from the fact that households still saved nearly 19 p.c. of their disposable income. Despite its slight decline during the last two years, their savings ratio is still 3.5 percentage points above the level recorded in the second half of the 1980s. Such a high savings ratio appears to be linked with the precarious employment prospects of many households. Furthermore, the feeling of uncertainty may have been heightened by the successive rounds of budgetary restraint, which, although in themselves indisputably highly desirable, did not yet create sufficient clarity with regard to a number of longer-term policy options.

Stimulated by the further strong expansion of international trade, exports, with a volume growth of over 8 p.c., remained the

main motor of economic growth, even though their increase slowed down during the year, chiefly because of the falling-off in activity which took place in the economies of Belgium's main trading partners.

After four consecutive years of curtailment of their investment expenditure, enterprises increased their gross fixed capital formation by about 5 p.c. during the year under review. This turn-round was already observable in the autumn of 1994, particularly in manufacturing industry, which had benefited most from the revival of foreign demand and had been faced by a sharp rise in the rate of utilisation of its production capacities. Investment in housing increased sharply in the first half of 1995. During the second half, however, the volume of activity contracted considerably, partly owing to the rise in mortgage interest rates which took place in 1994 and which affected actual expenditure on house-building only after a time-lag. Lastly, for the first time since 1989, public investment appears to have decreased in volume, owing to the decline in investment expenditure by the local authorities following the 1994 municipal elections.

Overall, the basic conditions for balanced and lasting growth are still present. After exports, investment by enterprises has gradually become a leading growth factor. It seems clear, however, that only an economic environment more conducive to a restoration of confidence can also finally re-stimulate private consumption.

As in the neighbouring countries, a tendency towards a slowing of inflation has been observable in Belgium in recent years, but this downward trend seems to have bottomed out during the second half of 1995. On average, consumer prices were 1.5 p.c. higher than in the previous year, which means that the country had one of the lowest inflation rates in the European Union. Clearly, this was not unconnected with the moderate rise in costs : owing to the appreciation of the franc, import prices appear to have hardly risen at all, while unit labour costs actually declined slightly, partly as a result of the real wage

freeze and of specific reductions in social charges. In combination with a moderate increase in selling prices, especially on the domestic market, this brought about an appreciable improvement in the profitability of enterprises. Whereas in 1994 the increase in gross operating results had been particularly pronounced in industry, the improvements in profitability appear to have been more evenly spread among the various branches of activity during the year under review.

Continuity in the conduct of monetary policy

The credibility acquired by monetary policy bore fruit again in 1995.

On the one hand, the Belgian franc was hardly affected by the tensions which repeatedly arose on the European foreign exchange markets. During the first quarter, when several currencies depreciated considerably vis-à-vis the German mark, partly owing to the weakening of the dollar and to uncertainties with regard to budgetary prospects, the exchange rate for the franc remained very close to its central rate against the mark. The short-term interest rate differential in relation to investments in that currency did admittedly widen — and the Bank did not in fact hesitate to support that development by raising its interest rates on 8th March — but this movement remained limited and the differential soon disappeared. In the autumn, when the French franc came under pressure again, the exchange rate for the Belgian franc vis-à-vis the mark did not change and short-term interest rates hardly deviated from the German rates. In this interest-rate context, the overabundant supply of currencies on the foreign exchange market induced the Bank to buy substantial amounts of foreign currencies during the year in order to prevent an even greater appreciation of the franc. The liquidity-expanding effect exerted on the money market by these operations — the extent of which came close to that of the BLEU's current account surplus — was neutralised by the Bank by sales of foreign currencies to the Treasury, enabling the State to repay part of

its foreign currency debt, and by currency swaps against Belgian francs.

On the other hand, the bond yield differential vis-à-vis Germany, which in 1994 had increased considerably less than in most of the other European countries, was hardly influenced by the rise in short-term interest rates in the first quarter and narrowed appreciably after that, stabilising from June 1995 onwards at between 45 and 60 basis points for ten-year benchmark loans.

Thus both short-term and long-term interests could follow the downward movement of German rates and even fell off more than those. Their decline was also more marked than that in inflation, thus reducing real interest rates, as conventionally measured. At the beginning of February 1996, money market rates were close to the Bank's central rate — 3.30 p.c. — and ten-year yield rates were around 6.4 p.c., levels which can be said to be particularly low in a historical perspective.

All this shows that the status of the Belgian franc has come closer and closer to that of the Dutch guilder and the Austrian schilling, currencies which have been firmly pegged to the German mark for a greater length of time. This increased credibility is due to the continuity and firmness with which the monetary policy centred on the exchange rate objective has been pursued in recent years, as well as to the BLEU's substantial current account surplus, the moderation of domestic costs and the budgetary consolidation.

The surplus in respect of the current transactions of Belgian and Luxembourg residents with foreign countries increased further in 1995 as a result of the rise in the trade surplus. This development is chiefly attributable to the Belgian economy, and only a small proportion of it is due to the fact that domestic demand expanded somewhat less than in the partner countries. The BLEU's current account surplus thus reached around 5.8 p.c. of GDP. The positive difference in relation to the German and French current account balances chiefly reflects the private sector's higher gross savings ratio and points

to a relatively lower level of gross capital formation only in comparison with Germany, in which connection it must however be borne in mind that investment there has been boosted by the reunification process. Private capital transactions between the BLEU and the rest of the world, rather volatile though they may be, thus come on top of a substantial net supply of foreign currencies resulting from current transactions, which obviously facilitates the pursuit of the monetary and foreign exchange policy.

The strategy adopted in Belgium is not inspired by theoretical considerations but is the rational outcome of the country's concrete situation. In a small and so open economy as this, the exchange rate is the most appropriate intermediate objective of the monetary policy pursued. On the one hand, stable exchange rates reduce uncertainty and the costs which this entails for enterprises. On the other hand, the high import content of final demand strengthens the link between the exchange rate and domestic prices, whose stability is the primary objective of monetary policy. However, in a world in which floating exchange rates predominate, such a strategy requires the choice of a suitable exchange rate target. Belgium has as its main trading partner a country, Germany, whose central bank successfully pursues a policy of monetary stability and enjoys a high degree of credibility. Its other two most important trading partners, France and the Netherlands, also pursue an exchange rate policy centred on the German mark. Pegging to that currency can thus be seen to be the most effective way of limiting both exchange rate instability and inflationary risks.

The steadfastness with which such a policy is pursued is one of the keys to its success. This may admittedly lead to temporary disadvantages for some sectors or enterprises, for instance when the depreciation of third currencies becomes excessive. These drawbacks are however generally outweighed by the overall advantages of monetary stability, because inflation adversely affects economic growth by disturbing economic calculations and increasing uncertainty, thus pushing up

long-term interest rates, while also bringing about an arbitrary redistribution of incomes and wealth. Furthermore, the orientation of German monetary policy is also broadly appropriate for Belgium, in view of the parallelism of the two economies' business cycles and the similarity of their structures.

Wage formation and budgetary policy are still, of course, specific. There is no doubt that greater importance should henceforth be attached in wage negotiations to the aim of creating more jobs. Budgetary policy, for its part, should continue to be aimed at reducing the deficit, because any relaxation of discipline would be liable to be severely punished by the financial markets and would necessitate greater efforts subsequently. Conversely, abandonment of monetary discipline would hardly be beneficial with regard to the competitive position and the public budget. A depreciation of the franc might perhaps afford some relief to the sectors exposed to foreign competition, in that their selling prices would increase faster than some of their cost components, but this improvement would be short-lived and could be achieved more lastingly and at less cost by moderating incomes. With regard to the public finances, the quickening of inflation which would result from a depreciation of the franc could only be expected to lead to a temporary easing of the debt ratio : but the public deficit would be immediately increased by the additional interest charges, subsequently also causing the debt ratio to rise again. Interest rates, which are determined to a greater extent by market forces the longer the maturities of the financial instruments, would in fact be pushed up not only by a revision of inflationary expectations but also by higher risk premiums due to the uncertainty which such a policy departure would create.

It is on the contrary by strict monetary and budgetary policies and a suitable development of incomes that confidence can be strengthened, that interest rates can be kept as low as possible and that Belgium will be able, from the start of the third stage of EMU, to form part of a monetary area within which all exchange rate risks will have disappeared.

Towards a lasting consolidation of the public finances

Barring excessive cyclical setbacks or major interest rate movements, the total deficit of general government should not come to more than 3 p.c. of GDP in 1996. The foundations will thus have been laid for durably sounder public finances and a gradually accelerating reduction of the public debt. What is needed now is to establish firmly what has thus been achieved and to ensure that it can withstand the vicissitudes of the economic cycle and the international financial environment. As a first requirement it will be necessary to replace the non-recurrent measures taken within the framework of the 1996 budget by structural budgetary economies. But, above all, it is necessary to keep the budget firmly under control in order to ensure that the consolidation process which has been embarked upon remains on the right track for a sufficiently long period.

Such steadfastness is not a matter of course, as is shown by the experience of the last fifteen years, which have witnessed the alternation of periods of successful budgetary rehabilitation and — usually when short-term politico-economic considerations have been given precedence over the still undiminished need for structural consolidation — phases when this process has slackened.

After the strongly expansionary budgetary policy pursued as a reaction to the oil crisis at the end of the 1970s had caused the financing requirement and the total government debt to increase to 13 p.c. and over 90 p.c. of GDP respectively in 1981, the rehabilitation policy subsequently pursued enabled the budget deficit to be steadily reduced to less than 7 p.c. of GDP in 1988. However, owing to the combined effect of limited nominal growth and a still inadequate primary balance, the « snowball effect » of interest charges continued to operate, continuously pushing up the debt ratio during these seven years to about 130 p.c. in 1988.

The primary surplus had by then reached such a level — about 4 p.c. of GDP — that

the debt ratio was kept virtually stable during the ensuing years of stronger economic growth. But the situation remained precarious and thus when, in 1993, contrary to expectations, the economy fell into recession, the debt ratio increased by over 6 percentage points to 138 p.c. of GDP. Nevertheless, despite the adverse economic climate and unlike most of the other European countries, Belgium succeeded in slightly further reducing its net financing requirement and in increasing its primary surplus.

Starting from this generally favourable situation in terms of primary surplus, the Belgian authorities during the last two years gave a powerful new impetus to the consolidation process, which looks likely to continue during the present year. In three years the deficit of general government will thus have been reduced by 4 GDP points and the debt ratio by about 6 GDP points. Once again these results compare favourably with the European average. According to the latest estimates of the European Commission, the combined net financing requirement of general government in the Union as a whole is expected to decrease by only about 2.5 percentage points between 1993 and 1996, while the debt ratio is expected to rise further by about 5.5 points, to 71.5 p.c. Together with Ireland, Denmark and, to a smaller extent, the Netherlands, Belgium appears to be one of the few Member States able to record a significant and continuous decline in their debt ratio during this period. The efforts which the country has made to achieve this, and which it was in fact obliged to make, are highlighted by the relative movement of the « structural » budget balance, i.e. the balance corrected to allow for the influence of the economic situation. Still according to the European Commission's estimates, the improvement in this balance — of practically 4.5 percentage points in Belgium over the three-year period 1993-1995 — was appreciably greater than in any other country of the Union and more than three times as great as the European average.

The fact remains, however, that these efforts were unevenly timed. Owing to the

strong impetus imparted by the set of measures adopted at the end of 1993 within the framework of the so-called global plan, the total budget deficit and the primary surplus improved in 1994 by 1.4 and 1.2 percentage points of GDP respectively. In 1995, a year in which parliamentary elections were held and a new government had to be formed, the total financing requirement of general government did in fact continue to decline, to 4.5 p.c. of GDP, but the primary surplus also shrank, from 5 to 4.7 p.c. of GDP. The improvement in the overall budget balance was therefore wholly attributable to the reduction in the interest charges on the public debt. The change in the primary surplus, for its part, chiefly reflected the negative influence of the shifts which took place during the year under review in the distribution and spending of the national income. Thus, the decline of nearly 1 percentage point in the share of earned incomes in GDP was matched, almost automatically, by a relative decrease in general government's fiscal and parafiscal revenue, as these incomes are on average taxed much more heavily than other categories of income. The subdued growth of private consumption as compared with the growth of other categories of expenditure which generate little or no indirect tax revenue, such as investment by enterprises and exports, also slowed down the rise in public revenue.

At constant prices, the total primary expenditure of general government showed, as in the previous year, a limited increase, which actually fell short of real GDP growth. The moderating effect of the changeover to the health index dwindled considerably during the year under review. Consequently, the rate of increase of certain items of expenditure, such as most social benefits and civil servants' salaries, did in fact speed up slightly, but other kinds of spending, including unemployment benefits, current purchases of goods and services and expenditure on investment, as well as Belgium's contribution to the budget of the European Union, fell.

With hindsight and from the angle of budgetary policy, 1995 may be regarded as

a transitional year which did not yet open up sufficiently clear prospects for the population. Even though the 1996 budget puts the deficit norm of 3 p.c. within reach, confidence has not yet been fully restored. Actually, out of the important package of measures presented by the Government, representing about 1.4 percentage points of GDP, around one third are still non-recurrent or temporary. In order to prevent the deficit from moving in the wrong direction again as time goes on, this gap, too, must be effectively sealed.

All the more so as the 3 p.c. public deficit objective cannot be regarded as an end in itself. As was emphasised once more by the Superior Finance Council in its latest report, a primary surplus of at least 6 p.c. of GDP must be maintained during the coming years to enable the debt ratio to continue to decline at a satisfactory pace and gradually create more room for manoeuvre for meeting new social needs and for an active employment and infrastructure policy.

Debt reduction is essential not only in order to meet the convergence criteria laid down by the Treaty of Maastricht but also and chiefly owing to the structural disadvantages of a high public debt ratio. The larger the debt, the heavier the interest charges which it entails. This means that, in order to retain control of its public finances, a country with a higher debt ratio must maintain a proportionally larger primary surplus in the public budget. In comparison with partner countries whose general government debt is not so large, the fiscal and parafiscal pressure will thus have to be structurally higher and/or the level of primary expenditure structurally lower. Both these alternatives have obvious disadvantages. Thus, within a community, feelings of frustration are liable to grow if its members gain the impression that the social and other collective services offered to them are no longer in proportion to the price which they have to pay for them. That feeling may be exacerbated by the realisation that a substantial proportion of the resources collected by general government has to be used to pay interest to the holders of public-debt

securities, which may be seen as causing socially undesirable distortions in the distribution of income.

Furthermore, economic theory generally admits that households adjust their spending behaviour not only to the present level of their disposable income but also to the net income flows which they expect to receive in the more distant future. Similarly, enterprises do not adjust their investment solely to the present trend of demand but also take account of the expected total net return on their investments. Thus, in so far as a high level of public debt causes economic agents to expect higher taxes and/or lower income transfers from government, this may well also have short-term effects on their spending and saving. But the converse is equally true: in so far as a credible rehabilitation policy offers better long-term prospects to households and enterprises, it may also be expected that this will soon have a favourable impact on domestic demand and production, and hence also on employment, capable of offsetting the direct mechanical repercussions of a restrictive budgetary policy.

In an increasingly integrated economic context, there is a danger that substantial differences between countries with regard to fiscal and para-fiscal pressure or the level of certain collective expenditure categories, such as infrastructure works, may lead to dislocations of factors of production. Given the differences in mobility between these factors of production, governments might be tempted to impose heavier taxes on the least mobile factor, i.e. on labour. However, such a policy is liable to be detrimental to job creation. As the development of the public finances is in turn greatly dependent on the level of production and employment, such developments would ultimately make the consolidation process more difficult still.

Lastly, a high debt ratio, particularly in a small and open economy, also makes the public finances more vulnerable to fluctuations in real interest rates and economic activity, which are largely determined by the international environment, since the risk that

a rise in the international level of interest rates or a recession may trigger a self-fuelling process of mounting interest burdens and debts increases in line with the debt ratio. The financial markets, too, are aware of this and assess these risks on the basis of their perception of the budget policy pursued. If there are doubts about the appropriateness of that policy, this will be reflected in a higher risk premium in long-term interest rates.

Although it is thus undeniable that a high public debt ratio may be a major structural handicap for an economy, which it is best to tackle as resolutely as possible, it should also be emphasised that the size of this debt as such is not a satisfactory criterion for judging the soundness of a country's public finances. Firstly, the debt ratio is by definition a stock variable, which mirrors the policies pursued in the past but provides little or no information about the current state of affairs. Secondly, it is only a partial indicator, which must be viewed within its wider macroeconomic context.

In order to assess recent and present budgetary policy, it is more meaningful to look at the volume of flows such as the government deficit or — which roughly amounts to the same — the variation in the debt. Moreover, as the interest charges on the debt are a datum over which government has little direct influence, the primary budget balance may actually be regarded as a better indicator of the orientation of budgetary policy than the government's net financing requirement. From this angle, it is worthy of note that Belgium, together with Denmark, had the highest primary surplus in the European Union last year. Whether the budgetary efforts made are also sufficient to allow the state of the public finances to be regarded as sustainable can be judged by, *inter alia*, the so-called « primary gap », i.e. the difference between the actual primary government deficit in a certain year and the primary deficit which — given the growth in GDP, the implicit interest rate on the public debt and the level of the latter — would be required in order to stabilise the debt ratio.

The sign and the extent of this differential are a good indicator of whether or not the budgetary policy is corrective and of the rate at which the public debt would continue to increase or decrease with unchanged policies. In Belgium this gap was positive during the last two years and amounted to around 1.3 percentage points, which shows that the public finances are on the right track. In most of the other EU Member States this « primary gap » was, according to the calculations of the European Commission, smaller and often even negative. Thus, although Belgium still has the highest government debt ratio in the entire European Union, the development of that debt would appear to be more favourable than in the case of most of its partner countries.

Furthermore, as has been said, the state of the public finances needs to be placed in its broader context. The performance of an economy is not solely determined by the financial situation of a single sector. Of more crucial importance is the question whether a national economy as a whole occupies a net creditor position or a net debtor position vis-à-vis the rest of the world. Because, in the latter case, that will be coupled with net interest payments to foreign countries, which impoverish the economy as a whole. From that angle a high foreign debt is more disquieting than a high public debt. These two often exist side by side, but in Belgium that is definitely not the case. Since the mid-1980s the domestic private sector has been generating a savings surplus which is so large as to enable it easily to finance not only its own investment — whose level has not deviated significantly from the European average since the end of the 1980s — but also the financing deficit of general government. Moreover, the Belgian economy has been, increasingly year by year, a net lender to the rest of the world — this lending corresponding to its current account surplus. Nor have the indisputable structural disadvantages connected with a high public debt prevented Belgium from achieving results which are still satisfactory in many respects: economic growth which, viewed over a fairly long period, is comparable to that of our main trading part-

ners, an inflation rate which is among the lowest in Europe, a strong and stable currency and a level of interest rates — both short-term and long-term — which is close to that of Germany, which can be regarded as the reference value in Europe.

The safeguarding of these achievements requires a solid and stable economic base, of which fundamentally sound public finances are an essential part. Furthermore, account must be taken here and now of the fact that in the near or more distant future major new challenges for budgetary policy will arise: the ageing of the population will exert growing pressure on the pension systems and on sickness and disability insurance; the resources which the public authorities devote to investment and to research and development have declined to a level which is among the lowest in Europe, a state of affairs which in the long run is liable to jeopardise the quality of the economic infrastructure and of our technological know-how; and, lastly, the fiscal and parafiscal pressure on earned incomes — among the highest in Europe — will have to be gradually reduced in order to encourage the creation of new jobs.

In order to meet these and other needs, the budgetary scope for manoeuvre must be gradually increased. In order to prevent the public finances from drifting back into an unsustainable situation, it is vitally important to do this within the framework of stringent budgetary constraints which must be primarily designed to ensure the maintenance of an adequate primary surplus. For only thus will it be possible to sustain, lastingly, a sufficiently strong reverse « snowball effect » to bring about an automatic decline in the public debt and the associated interest charges.

How large that primary budget surplus needs to be depends on various factors such as the size of the existing public debt and the rate at which it is intended to reduce the debt ratio, but also on the difference between nominal GDP growth and the average interest rate which has to be paid on the public debt. Admittedly, especially in such an open economy as that of Belgium, the authorities have

little control over the two last-mentioned variables. Furthermore, it is highly improbable that the implicit interest rate on the public debt will remain below the nominal growth in GDP for any length of time. While it is true that an orthodox monetary policy and judicious debt management can enable interest rates to be kept as low as possible in comparison with other countries, in other respects the level of interest rates is still largely determined by the international financial environment. Conversely, a relaxation of budgetary discipline would undoubtedly be quickly punished by the financial markets and would lead to an increase in the risk premium inherent in long-term interest rates.

It would be equally senseless to try to avoid the essential budgetary consolidation by relying on higher domestic inflation and hence higher nominal growth. Because higher inflation, too, would push up long-term interest rates and would furthermore pose a threat to the competitiveness of our economy, with damaging consequences for production and employment. Ultimately the repercussions of this would also be felt by the public finances themselves.

By deliberately opting for a consolidation strategy aimed at the generation of a sufficiently large primary budget surplus for general government as a whole, the Belgian authorities have thus quite rightly chosen the only strategy which offers the prospect of the achievement of lasting control over the public finances.

In May 1995 the Superior Finance Council worked out the details of this strategy for the coming years, and in its coalition agreement of 19th June 1995 the new government adopted these objectives. This strategy requires, among other things, that in the period 1996-1999 the combined primary surplus of the federal government and the social security system shall not on any account fall below the target for 1996, namely 5.6 p.c. of GDP. If the business trend is favourable, i.e. if growth comes to more than 2 p.c., it is however said to be advisable to set aside a reserve by allowing the primary surplus to rise to an

upper limit of 6 p.c. of GDP. Such an improvement of 0.4 percentage point would in fact be fully in line with the parallel development of the primary surplus for the regions, communities and local authorities as a whole, as provided for by the Superior Council's scenario, which envisaged an increase in this surplus from 0.6 p.c. of GDP in 1996 to 1 p.c. in 1999. The last-mentioned development stems from the objective, on the one hand, of stabilising the debt of the regions and communities in the medium term in proportion to their total revenue (which means that the volume growth of their primary expenditure is to be limited to 1.3 p.c. per year), and, on the other hand, of ensuring that the budgets of the local authorities remain balanced.

All in all, the primary surplus of general government as a whole would have to be kept within very narrow margins during the period in question and, depending on how economic activity develops, would have to amount to between 6.6 and 7 p.c. of GDP in 1999. To achieve this, it is essential that in the coming years all cyclical windfalls and all endogenous economies achieved in interest rates shall be systematically devoted to further reducing the budget deficit and the debt ratio. In addition, the allocation of the proceeds of the sale of certain State assets could make a useful contribution to lowering the debt ratio.

If the political policy-makers resolutely take the decisions which are necessary in order to implement the commitments which they have entered into, that will undoubtedly help to further strengthen the economic fundamentals and to restore the confidence of consumers and entrepreneurs. Belgium would then be entitled to become a member of the group of countries which in 1999 will be the first to enter into a genuine economic and monetary union.

Promotion of employment

After having declined for three years, employment in enterprises increased by around 16,000 units from mid-1994 to mid-1995,

thanks to the economic recovery which started in the course of 1993. However, the cyclical slackening put an end to net job creation in the second half of 1995. Thus, the number of job-seekers, which had stopped rising in the middle of 1994, increased again slightly and reached 10.3 p.c. of the labour force in December 1995.

Not only is unemployment a major human and social problem, but it is also a considerable waste of economic resources and a burden on the public finances. It means that resources which could help to increase general prosperity are underutilised, which reduces fiscal and parafiscal revenue at a time when general government spending is increased by payments of replacement incomes.

The problem of underemployment is common to most European countries but is somewhat more acute in Belgium than in its three main neighbouring countries viewed as a whole. As a percentage of the labour force, the unemployment rate is slightly above the average recorded in those countries; it is above those for Germany and the Netherlands and below that for France. Furthermore, the activity rate — the ratio between the number of persons in work or unemployed and the population of working age — is lower in Belgium, chiefly owing to early retirement, and the share of persons of working age in the total population is somewhat smaller. The employment rate — the ratio of employment to the total population — is therefore more than a tenth lower in Belgium. Consequently, and despite a higher apparent productivity of labour, GDP per inhabitant is lower here. All these differences already existed in 1983 and they have hardly changed since then: while the differential between unemployment rates has narrowed, that between activity rates has widened, although the recent decline in the number of persons taking early retirement could reverse the last-mentioned trend.

Belgium's prosperity ultimately depends on a relatively small number of workers, whose high apparent productivity is partly due to the high capital-intensiveness of the production process. Greater participation by the

population in paid activity would make it possible to produce more goods and services and to improve the state of the public finances.

A historical perspective throws further light on the extent of the challenge. Between the 1958 and 1975 recessions the average annual increase in GDP amounted to more than 4 p.c., but employment in enterprises did not rise. Since then, growth has slackened to around 2 p.c. per annum. From 1975 to 1981 the number of jobs contracted by nearly 1 p.c. per year. Between 1981 and 1993 it increased slightly, which may be seen as a step forward. Nevertheless, it has risen less than the labour force. For the employment rate to improve, growth must be both greater and more labour-intensive. These are two concordant aims whose attainment requires a combined effort by all concerned.

Steady expansion is possible only within a stable macroeconomic framework enabling Belgium to take full advantage of its integration in the core of the European Union. It would be a mistake to believe that a relaxation of the budgetary consolidation efforts or abandonment of monetary orthodoxy can bring about any lasting acceleration of growth. On the contrary, such a change of course would undermine the confidence necessary for investment and job creation. In any case, budgetary discipline does not preclude the reorganisation of the federal and regional budgets with a view to stimulating employment-creating expansion: the measures announced by the multiannual plan for employment, presented in October, to promote research, building and small and medium-sized enterprises are examples of this.

Sustained economic expansion also requires a climate conducive to initiative and investment, a climate which would enable the Belgian economy to make the structural adjustments required by technological progress and demand developments and to benefit most from its comparative advantages. This economic dynamism would be reflected in changes in the structure of employment and a raising of overall productivity which would not in any way generate unemployment, as

job creation would exceed redundancies, and soundly-based productivity gains would increase per capita income and thus permit the satisfaction of new needs.

On the other hand, redundancies attributable to the relative price of labour ought to be prevented by a moderation of labour costs, which could also help to boost growth, chiefly through its effect on the competitive position of enterprises.

In the late 1970s and early 1980s, Belgium's substantial deficit in respect of transactions in goods and services with the rest of the world undoubtedly reflected inadequate overall competitiveness in terms of total costs. The considerable surplus produced by these transactions in recent years, which increased further in 1995 — remaining even after elimination of the incidence on imports of the growth differentials between Belgium and its main partners — certainly does not justify the making of such a diagnosis today. Other features of the last two years, such as the strength of export growth, the recovery of corporate results and the stability of unit labour costs, which will probably continue in 1996, point in the same direction.

But, even more than in the neighbouring countries, this result has been achieved in Belgium by greater recourse to the capital factor, leading to higher apparent productivity of labour. Continuing moderation of labour costs could help both to curb the replacement of labour by capital and to allow activity to expand — thanks to better profitability of investments, notably in industry, the economic viability of new forms of services and the improvement of the competitive position of domestic firms. Although this continuing moderation might depress the individual purchasing power of wage-earners, demand for consumer goods could be stimulated by the expansion of employment and the restoration of confidence, while demand for capital goods and foreign demand would pick up.

The current system of wage negotiations has had the merit of preserving social peace, but it has achieved too little as regards pro-

motion of employment. Thus, the moderation of incomes from 1994 to 1996 has had to be brought about by government measures, such as the introduction of the health index in 1994 followed by the freeze on real wages. The social partners should now seize the opportunity to review their negotiating practices in order to establish procedures and a lasting framework for dialogue which, without intervention by the authorities save in exceptional circumstances, can ensure a satisfactory development of both labour costs and employment. For this purpose, labour costs in nominal terms should not exceed those in the neighbouring countries, which are Belgium's main trading partners and pursue the same policy aimed at monetary stability. Moreover, the expansion of employment should be at least as great in Belgium as in those countries, which means that there must be a proper relationship between the cost of labour and that of capital.

The present fiscal and parafiscal pressure on the labour factor is among the highest in Europe. For the sake of promoting employment this should be reduced without burdening the public budgets.

The level of labour costs is mainly an obstacle to the employment of the least skilled workers, as it tends to be higher than their marginal productivity in value owing both to technological progress and to keener competition from less developed economies. In view of the concern not to worsen the inequalities of incomes, an appropriate solution to this problem, provided that its effects on the budget remain sustainable, is a reduction of the indirect costs of low-skilled labour. The multiannual plan for employment confirms and increases the reductions in employers' social security contributions on low wages.

Better work skills are another requirement. Improvements in basic education and in the transition from school to working life plus the extension of continuous training can help to bring the supply of labour more into line with demand and to facilitate the structural adjustment of the economy.

The instrument of the reduction of social charges has also been used, together with other incentives to recruitment, in order to help to integrate the young and the long-term unemployed into the working world. It will also be used to create jobs in highly labour-intensive sectors, including those which can meet needs which are not satisfied and which are not exposed to international competition such as health care. A number of jobs could also be created through the expansion of local services and other forms of occasional work.

Lastly, redistribution of the available work can also help to reduce unemployment, provided that it is sufficiently attractive to both enterprises and workers, while not placing a burden on the public budgets. Full-time working hours in Belgium are already shorter than in the neighbouring countries, while part-time working is less widespread here. The multi-annual employment plan aims to increase

the attractiveness of part-time working, career breaks and half-time bridging pensions. In addition, job redistribution plans at enterprise level are encouraged by reductions in social charges, but their use has been limited up to the present.

Promotion of employment is an onerous and complex task. The government will set up a « Superior Employment Council » responsible for monitoring the progress of the multiannual plan and studying proposals for promoting employment. For this purpose it will use, among other data, the information from the social reports which enterprises will soon be required to prepare. It could also formulate various coherent scenarios for the development of wages and employment. The social partners and the government will thus be able to make, clearly and concretely, the inescapable trade-offs between individual incomes and jobs.

TOWARDS A MORE ROBUST AND DYNAMIC ECONOMY

For Belgium, 1995 was a year of great financial stability. The franc has confirmed its position as one of the strongest currencies, both domestically — since its purchasing power has hardly been eroded — and internationally — as the exchange rate objective has been unfailingly attained. Furthermore, thanks to its large current account surplus, the Belgian-Luxembourg economy continued to accumulate net claims on the rest of the world. Lastly, interest rates fell appreciably — they are among the lowest in Europe — and business profitability improved further. Belgium thus indisputably satisfies three of the convergence criteria laid down by the Treaty on European Union, namely those relating to participation in the European exchange rate mechanism, inflation — with regard to which it is among the reference countries — and long-term interest rates. It is well on the way to satisfying the fourth criterion, namely the

sustainability of the government financial position.

These results, achieved by a steadfast monetary policy, budgetary consolidation and moderation of incomes, create an environment conducive to investment and growth. As in the neighbouring countries, however, there was a growth pause in 1995, due probably to changes in stocks, the repercussions of the rise in long-term interest rates in 1994 and the exchange rate fluctuations of early 1995, together with households' concern about employment and about the budgetary restrictions which are still pending. This led to an increase in unemployment.

Although the Belgian economy is certainly able to take advantage of the recovery which the international institutions unanimously forecast for 1996 for Europe, the

present hesitations of economic activity hardly warrant the prediction that growth over the year as a whole will be any greater than that in 1995. Nor, therefore, can we expect any automatic reduction in the government deficit and unemployment.

The slackening of economic activity is a further incentive to take action to remedy the structural weaknesses of the public finances and the labour market. In both areas, reforms are under way; it is important that they should be continued and implemented in depth, in order to open up positive prospects capable of dispelling the uncertainty felt by enterprises and households.

The measures already decided upon and the decline in interest rates should enable the general government deficit to be reduced to 3 p.c. of GDP in 1996. The continuity of this rehabilitation process needs to be maintained in the future, too, in order to consolidate the trend towards a reduction of the burden of the debt and the associated interest charges, which, in the long run, will provide new room for manoeuvre for budgetary policy. Moreover, strict control over the public finances does not preclude the making of the choices — as regards either revenue or expenditure — which are most favourable to

growth and employment, to the quality of the infrastructures and of public services, to social justice and to protection of the environment.

The employment promotion measures have not yet produced their full effect. Labour costs and the redistribution of work are key variables in this connection. Up to now, Belgium's current account surplus — which is substantial and growing, even after elimination of the incidence of the differences in the development of domestic demand in relation to the main trading partners — has been brought about at the cost of a considerable substitution of capital for labour. The lifting of the freeze on real wages at the end of 1996 will give the social partners the chance to tailor wage formation more closely to the need to increase the population's participation in paid activity in the years ahead.

The consolidation of the public finances and the promotion of employment, combined with Belgium's full integration in the European Union, are fundamental conditions for stronger and more labour-intensive growth.

Brussels, 6 February 1996



Board of Directors :

seated, from left to right :

W. Fraeys, Vice-Governor, A. Verplaetse, Governor, F. Junius, Director,

standing, from left to right :

J. Poulet, Secretary, JP. Pauwels, G. Quaden, R. Reynders, JJ. Rey, Directors.



Board of Directors :

seated, from left to right :

W. Fraeys, Vice-Governor, A. Verplaetse, Governor, F. Junius, Director,

standing, from left to right :

J. Poulet, Secretary, J.P. Pauwels, G. Quaden, R. Reynders, J.J. Rey, Directors.

LIST OF ABBREVIATIONS

BIS	Bank for International Settlements
BLEU	Belgian-Luxembourg Economic Union
CTEC	Clearing Transactions Exchange Centre of the Belgian Financial System
CIK	Securities Deposit and Clearing Office of the Financial Sector
CIS	Commonwealth of Independent States
EC	European Commission
ECB	European Central Bank
ECOFIN	Council of Ministers for Economic Affairs and Finance
ELLIPS	Electronic Large-value Interbank Payment System
EMI	European Monetary Institute
EMS	European Monetary System
EMU	Economic and Monetary Union
ESCB	European System of Central Banks
EU	European Union
GDP	Gross domestic product
GIMV	Gewestelijke Investeringsmaatschappij voor Vlaanderen (Flanders Regional Investment Company)
GNP	Gross national product
GSPF	General Savings and Pensions Fund
HWWA	Hamburgisches Welt-Wirtschafts-Archiv
IAF	Industrial Accident Fund
IMF	International Monetary Fund
LMI	Luxembourg Monetary Institute
MEA	Ministry of Economic Affairs
NAI	National Accounts Institute
NBB	National Bank of Belgium
NEMO	National Employment Office
NIC	National Investment Company
NPO	National Pensions Office
NSDII	National Sickness and Disability Insurance Institute
NSI	National Statistical Institute
ODF	Occupational Diseases Fund
OECD	Organisation for Economic Co-operation and Development
OLO	Linear bond

OPEC	Organisation of Petroleum Exporting Countries
RGI	Rediscount and Guarantee Institute
SDR	Special Drawing Right
SICAFI	Société d'investissement à capital fixe en biens immobiliers (fixed capital company for investment in immovable property)
SICAV	Société d'investissement à capital variable (variable capital investment company)
SMEs	Small and medium-sized enterprises
TARGET	Trans-European Automated Real-time Gross-settlement Express Transfer
UCIT	Undertakings for collective investment in transferable securities
US	United States
VAT	Value added tax

Economic and financial developments

Preliminary remarks

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

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

In order to make it possible to describe the development of various important economic data relating to Belgium in the year 1995 as a whole, it was necessary to make estimates, as the statistical material for that year is inevitably still very fragmentary. In the tables and charts these estimates, which were arrived at in January 1996, are marked by the sign « e ». They represent mere orders of magnitude intended to demonstrate more clearly the major trends which already seem to be emerging.

For the years prior to 1995 the official national accounts data have been included in the Report as they stand. However, in order to enable the trend of certain items to be more clearly seen, the statistical adjustments, which have the effect of reconciling the various approaches adopted in the national accounts, have generally not been applied to these items, as is done by the National Accounts Institute, but have been isolated. It should be recalled that at current prices the national product calculated by the NAI corresponds to the average of the results independently obtained by means of the three approaches : value added, income and expenditure. The divergences between the estimates for each approach and the average value, which constitute the statistical adjustments, are broken down between the major items in the expenditure and income approaches but are included in a specific item by the NAI in the value-added approach. In order to arrive at the movement of GNP at constant prices, the NAI calculates the average of the indices at constant prices obtained by only two approaches : value added and expenditure. GNP at constant prices is then calculated by multiplying this average index number by GNP at its value in the base year (at present 1985). Thus the rate of change in GNP at constant prices is very nearly equivalent to the average of the rates of change estimated in the aforementioned two approaches. On the basis of the available statistical data, the estimate of economic activity in terms of volume in 1995 in the value-added approach indicated a growth rate which is higher than that arrived at by means of an estimate made in the expenditure approach. This necessitated statistical adjustments, which were negative in the value-added approach and positive in the expenditure approach. These adjustments are in the same direction as those which appear in the national accounts for the last few years.

In January 1995 a new system for collecting balance of payments data came into force. Furthermore, the presentation of the balance was adapted to take account of the recommendations contained in the fifth edition of the IMF's Balance of Payments Manual. These changes led to breaks in series. The recording of transactions with the rest of the world, especially capital movements, was disturbed, so that the detailed data are not all available and care must be taken in comparing the data for 1995 with those for the preceding years.

Conventional signs

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

1. INTERNATIONAL ENVIRONMENT

1.1 GROWTH, EMPLOYMENT, PRICES

Economic growth slackened during the year under review in each of the three main regions of the OECD : for the industrialised countries as a whole it declined from 2.9 to 2.4 p.c.

This slackening made itself felt most in the United States, where it took place after three years of continuous quickening of the expansion. GDP nevertheless increased further at a strong rate of 3.3 p.c., against 4.1 p.c. in 1994. A similar pattern is observable in the other Anglo-Saxon countries.

Contrary to all expectations, the recovery still failed to materialise in Japan. The rate of increase of GDP, which had amounted to 0.5 p.c. in 1994, was only 0.3 p.c., which was more than 2 percentage points below the forecasts still being made at the beginning of the year. Activity lost its momentum particularly during the first half of 1995, actually showing a slight decline, but then recovered to a modest extent during the second half of the year. While suffering from the repercussions of the still unfinished restructuring of the banks' balance sheets, the Japanese economy was also affected by the breaks in production due to the Kobe earthquake and, above all, by the further and rapid appreciation of the yen during the first months of the year.

In Germany, where the recovery had got well under way the previous year, growth slackened from 2.9 to 2.1 p.c., instead of the 2.9 p.c. expected at the beginning of the year. This slackening took place in most of Germany's neighbour countries and in the United Kingdom, but not in other European countries such as Italy, Spain, Portugal, Sweden and Finland, where the revival speeded up in 1995. Growth rates in the European Union were generally fairly close to each other. For the countries of the

EU considered as a whole, the rate of growth of GDP hardly slowed down, having declined from 2.8 p.c. in 1994 to 2.7 p.c.

TABLE 1 — EXPENDITURE

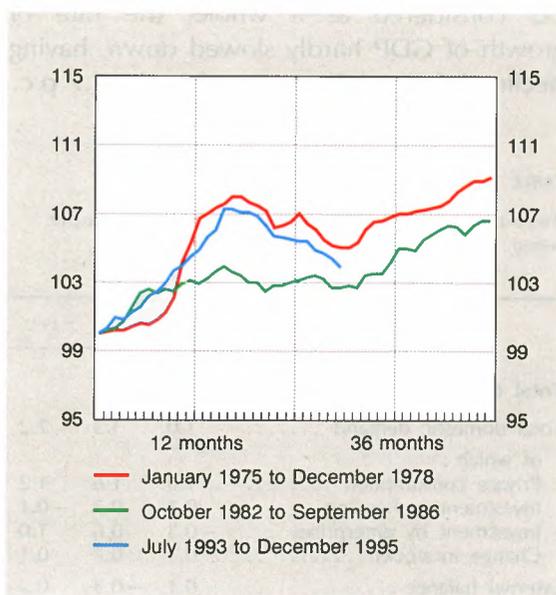
(Percentage contributions to the change in GDP at constant prices)

	1993	1994	1995
Total OECD			
Total domestic demand	1.0	3.3	2.2
of which :			
Private consumption	1.0	1.6	1.2
Investment in housing	0.1	0.3	-0.1
Investment by enterprises ...	-0.3	0.6	1.0
Change in stocks	-0.1	0.7	0.1
External balance	0.1	-0.3	0.2
GDP	1.2	2.9	2.4
United States			
Total domestic demand	4.0	4.8	3.5
of which :			
Private consumption	2.2	2.4	2.0
Investment in housing	0.3	0.4	-0.1
Investment by enterprises ...	1.3	1.6	1.8
Change in stocks	0.3	0.6	-0.2
External balance	-0.8	-0.7	-0.2
GDP	3.1	4.1	3.3
Japan			
Total domestic demand .....	...	1.0	1.0
of which :			
Private consumption	0.6	1.3	0.6
Investment in housing	0.1	0.5	-0.2
Investment by enterprises ...	-1.9	-1.7	0.4
Change in stocks	-0.2	0.2	...
External balance	-0.2	-0.4	-0.7
GDP	-0.2	0.5	0.3
European Union			
Total domestic demand	-2.0	2.6	2.3
of which :			
Private consumption	-0.1	1.0	1.1
Investment in housing	-0.1	0.2	0.1
Investment by enterprises ...	-1.2	0.2	0.8
Change in stocks	-0.7	0.9	0.1
External balance	1.4	0.2	0.5
GDP	-0.6	2.8	2.7
of which :			
Germany	-1.2	2.9	2.1
France	-1.5	2.9	2.7
United Kingdom	2.3	3.8	2.7
Italy	-1.2	2.2	3.1

Source : OECD.

CHART 1 — INDICATOR OF THE EUROPEAN ECONOMIC CLIMATE¹ : COMPARISON WITH THE PRECEDING CYCLES

(Indices first month = 100)



Source : EC.

¹ Synthetic indicator of the confidence of households and heads of firms. The countries taken into account are in principle those which formed part of the European Union during the period for which this indicator was calculated. The last three countries to enter the EU (Austria, Finland, Sweden) have not however been included.

Even though it was not foreseen, this falling-off in the European countries does not appear to be exceptional, in the light of past experience. At a certain stage in the cyclical expansion phase, growth marks time in reaction to a sharp rise which has taken place at the very start of the expansion. This was the case during the upward cyclical movements which followed the troughs of 1975 and 1982 in the countries of the EU.

Moreover, the present economic context does not seem likely to impede a consolidation of the recovery. Most of the fundamental conditions for macroeconomic stability have been or are being fulfilled : the price rise has remained low, without any signs of inflationary expectations ; the profitability of enterprises is satisfactory ; the consolidation of the public finances is beginning to be reflected in the budget deficits ; lastly, interest rates have declined.

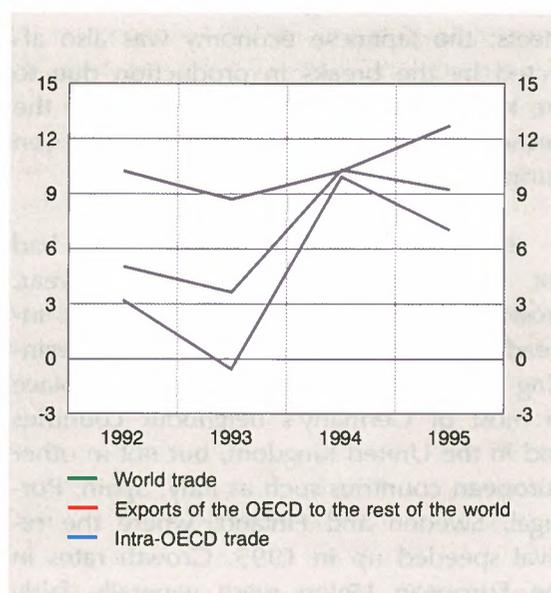
Origins of growth

For the OECD as a whole, foreign trade, unlike in the previous year, made a positive contribution to growth. Demand from countries outside the area increased by nearly 13 p.c., i.e. appreciably more than the previous year's already high figure. As at the same time the OECD's imports from the rest of the world rose by about 11 p.c., as in 1994, the contribution made by net exports of goods and services was positive to the extent of 0.2 p.c. of GDP, whereas it had been negative by 0.3 p.c. in 1994. The growth in trade within the area, for its part, slowed down slightly but was still strong, having amounted to over 7 p.c.

This vigorous expansion in foreign trade is taking place within the context of the ever-increasing internationalisation of economies. The volume of world trade, the rate of growth of which had already accelerated greatly in 1994, from less than 4 p.c. to over 10 p.c., increased by 9 p.c. in 1995. The emergence of growth rates of interna-

CHART 2 — INTERNATIONAL TRADE

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



Source : OECD.

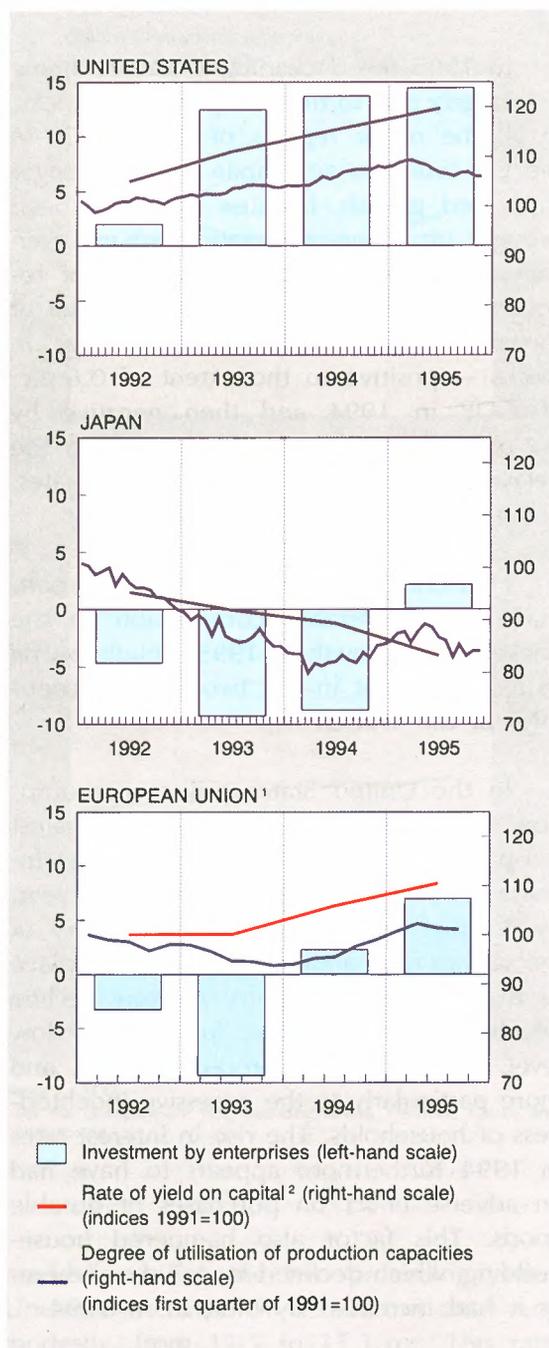
tional trade more than three times those in production is due to several structural factors which were already present previously but whose effect had been temporarily concealed by the recession in many OECD countries in 1993. The most important of these factors are the general liberalisation of trade, additionally stimulated by the gradual implementation of the agreements concluded in application of the Uruguay Round, a greater tendency on the part of enterprises to relocate part of their production and the intensification of trade relations within the large regions.

The positive contribution of foreign trade to the growth of the industrialised countries was not general, far from it. The disparities between the major regions of the OECD, which are discussed in section 1.2, are mainly due to the incidence, which varied from country to country, of the cyclical situation and to exchange rate fluctuations. The contribution of the foreign balance was positive only in Europe, where it actually increased slightly. In the United States it remained negative, but to a smaller extent. Conversely, in Japan the contribution became more negative than in 1994.

Investment by enterprises was by far the most dynamic expenditure category in the OECD area during the year under review. After having fallen in 1993 and then increased by 5.6 p.c. in 1994, it jumped by 8.2 p.c. in 1995, thus contributing 1 p.c. to growth. This recovery was general and was based on the rise in the degree of utilisation of production capacities. The increase in this expenditure, which was particularly strong in the United States — for the third year in succession — and in certain EU countries, is also attributable to greater profitability of capital. Even in Japan, where the last-mentioned factor had an adverse effect, enterprises somewhat increased their gross fixed capital formation in 1995, whereas they had reduced it sharply during the three preceding years. The rebuilding needs created by the Kobe earthquake may have contributed to this. Investment by the Japanese public authorities, on the other hand, show-

CHART 3 — INVESTMENT BY ENTERPRISES

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



Sources : OECD, EC.

¹ For the rate of yield on capital, excluding Luxembourg and Portugal, but including Norway and Switzerland.

² Ratio between income from capital and the estimated stock of fixed capital.

ed no further increase, whereas it had risen substantially during the preceding three years.

While the trend of exports and of investment by enterprises was good, the same was not true of the other expenditure categories.

In 1995 the slackening of the economy was largely due to the role played by stocks, in all the major regions of the OECD. In the EU countries and Japan they no longer supported growth, because they had been brought up to an adequate, perhaps even excessive, level upon the first signs of recovery. In the United States the reversal of the contribution made by the change in stocks — positive to the extent of 0.6 p.c. of GDP in 1994 and then negative by 0.2 p.c. in 1995 — is connected with the delayed effects of the rise in interest rates, but also to the cyclical reversal.

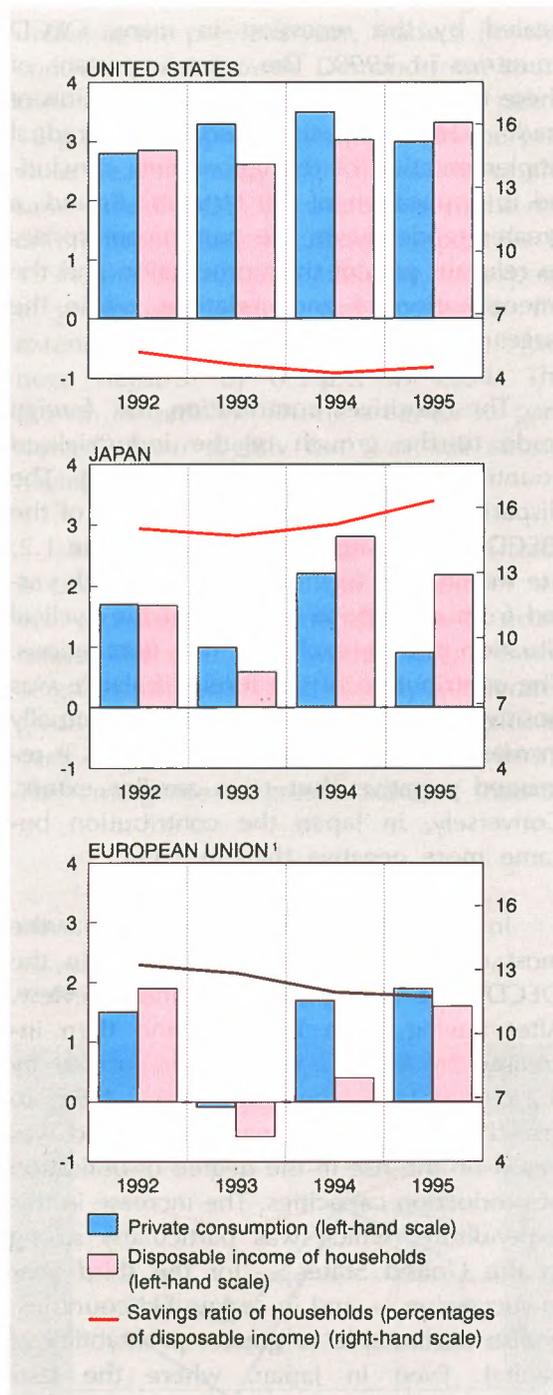
Household expenditure, for its part, made a considerable contribution to the slackening of growth in 1995, chiefly owing to its movement in the two largest economies of the OECD.

In the United States private consumption increased by only 3 p.c., against 3.5 p.c. in 1994, whereas disposable income rose more than in the previous year, by 3.3 p.c. against 3 p.c. The recovery of the savings ratio appears to have taken place as a reaction to the very marked decline which it had undergone, from a very low level, during the two preceding years, and more particularly to the excessive indebtedness of households. The rise in interest rates in 1994 furthermore appears to have had an adverse effect on purchases of durable goods. This factor also hampered house-building, which declined by 1.7 p.c., whereas it had increased by 8.6 p.c. in 1994.

In Japan the change in the behaviour of individuals was more marked: the savings ratio, traditionally very high, again increased considerably there, and private consumption rose by only 0.9 p.c., against 2.2 p.c. the previous year. Investment in housing fell by 3.9 p.c., whereas it had gone up by 9.7 p.c. in 1994. These movements are attributable to the crisis of confidence suffered by

CHART 4 — PRIVATE CONSUMPTION

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



Source : OECD.

¹ Excluding Luxembourg.

households, whose worries about employment were made more acute by the strong and sudden appreciation of the yen during the first half-year.

In the countries of the European Union private consumption rose by 1.9 p.c., that is, a little more than in the previous year. As at the same time house-building slowed down somewhat, the contribution to growth of total household expenditure was of the same size as in 1994, namely 1.2 p.c. The smallness of this contribution is probably partly due to the level reached by real interest rates at the end of 1994, but it is chiefly attributable to the effect exerted on household confidence by the persistent imbalance of the labour market.

Employment and unemployment

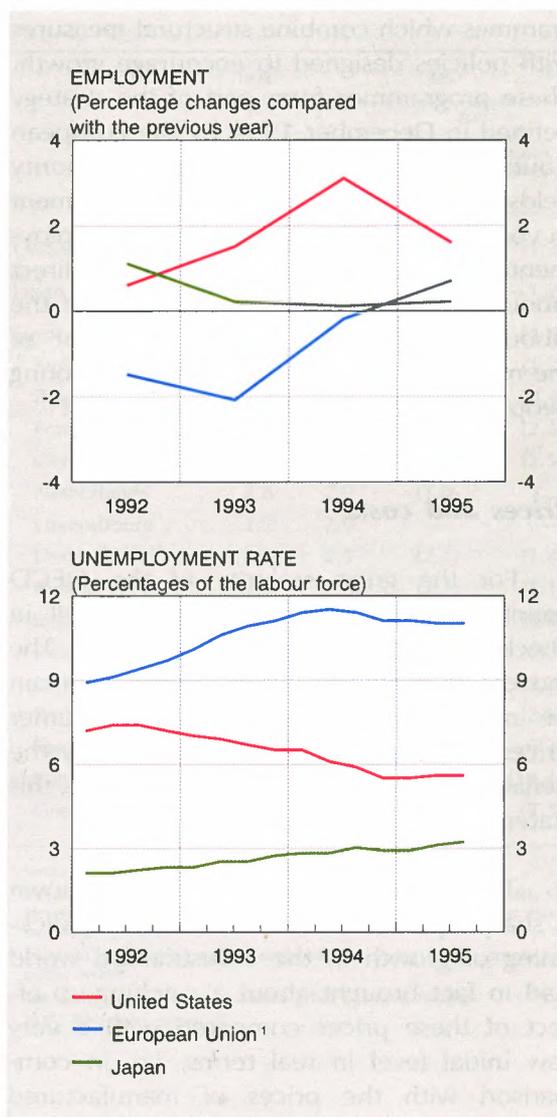
Even though growth slowed down, it was sufficient to cause a slight decline in the number of unemployed in the United States and in Europe, but not in Japan.

In the latter country the volume of employment remained practically unchanged, as in the previous year. But, as the labour force increased somewhat, the unemployment rate rose again, from 2.9 p.c. in 1994 to 3.1 p.c. in 1995. Even though these figures represent a peak compared with the past, they are considerably lower than those of the other OECD countries, with the sole exception of Luxembourg.

Despite the slackening of activity, the rise in the number of persons employed in the United States still reached the appreciable rate of 1.6 p.c. during the year under review, but it slowed down considerably compared with the rate of 3.1 p.c. recorded in 1994, when economic growth had been very strong. Unemployment thus fell for the third year in succession, having decreased from a peak of 7.4 p.c. in 1992 to 5.6 p.c. in 1995. The latter percentage represents virtually a return to the lows observed in boom periods since the first oil shock, namely 5.8 p.c. in 1979 and 5.3 p.c. in 1989.

In the countries of the European Union employment increased by 0.7 p.c., whereas it had declined slightly in 1994, and more

CHART 5 — EMPLOYMENT AND UNEMPLOYMENT



Source : OECD.

¹ For the unemployment rate, excluding Austria, Denmark, Greece and Luxembourg.

markedly during the two preceding years. Unemployment fell in 1995, but only very modestly, from 11.5 to 11.1 p.c. This rate remains higher than that observed in the past at the same stage in the cycle.

Continuing the efforts made for several years to remedy this persistent imbalance on the labour market in the Union, the European Council made recommendations to the Member States with the object of reforming this market. During the year under review

these recommendations were translated by the Member States into multi-annual programmes which combine structural measures with policies designed to encourage growth. These programmes form part of the strategy defined in December 1994 by the European Council at Essen and cover the five priority fields, namely encouragement of investment in vocational training, increasing the employment content of growth, reducing indirect labour costs, increasing the efficiency of the labour market and measures in favour of the most vulnerable groups, especially young people and the long-term unemployed.

Prices and costs

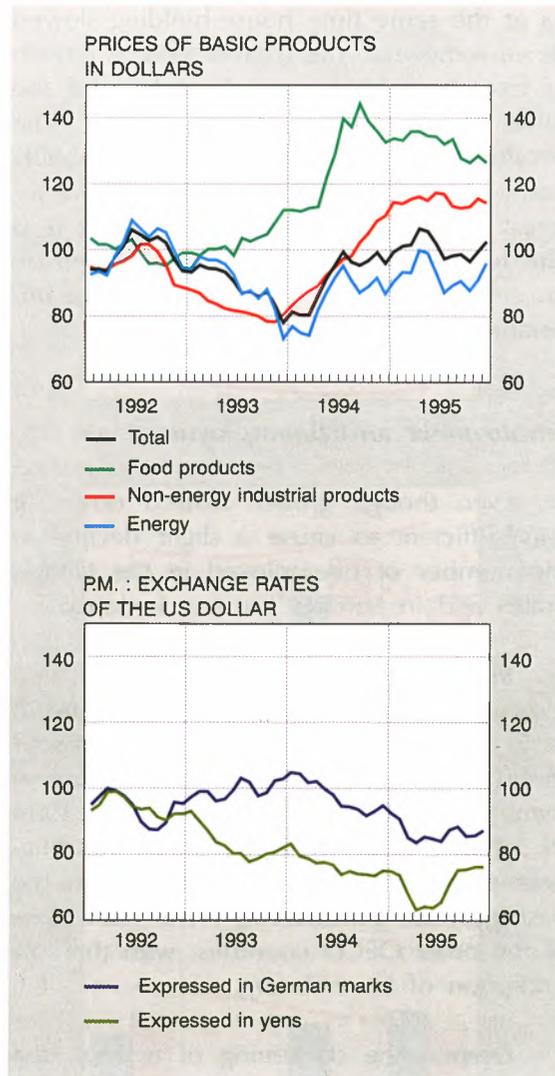
For the great majority of the OECD countries, the price rise was kept well in check during the year under review. The movement of underlying inflation, which can be measured by the index of consumer prices excluding energy and food or by the deflator of GDP, does not invalidate this statement.

The prices of basic products had shown a sharp upward trend in 1994. The quickening of growth in the industrialised world had in fact brought about a catching-up effect of these prices compared with a very low initial level in real terms, i.e. in comparison with the prices of manufactured products. On top of the effects of demand there had been various accidental factors, including the adverse weather conditions, which had led to a marked increase in the prices of food products. These factors no longer exerted any appreciable influence during the year under review; demand from the industrialised countries, for its part, remained strong, but there was no further quickening of its rate of growth. The index of the prices of all basic products expressed in dollars therefore only recorded small changes during 1995, although its annual average was still about 10 p.c. higher than in the previous year.

The incidence of this rise on the import prices of the member countries of the

CHART 6 — PRICES OF BASIC PRODUCTS

(Indices 1991 = 100)



Sources : HWWA, NBB.

OECD was counterbalanced to a great extent for two reasons: firstly, the share of basic products in the imports of most of these countries is very small; secondly, the effects of the rise in the prices of basic products expressed in dollars were in some cases partly or totally offset by exchange rate movements. This was the case with Japan and Germany, as the yen and the mark appreciated, on annual average, against the dollar to about the same extent as the increase in raw material prices expressed in that currency.

The import prices of the industrialised countries, expressed in the national currencies, in most cases increased only moderately compared with 1994. In Japan they actually fell as a result of the appreciation of the yen. In the United States they increased by 1.3 p.c. In Germany and France their growth was slightly greater. Import prices rose again appreciably only in the countries whose currencies continued to depreciate in 1995, including the United Kingdom and Italy, where they went up by 9.3 and 14.1 p.c. respectively.

The controlling of labour costs also helped to moderate inflation. Unit labour costs in fact rose by only about 1 p.c. on average in each of the three major regions of the OECD. This parallelism is partly due to a slowing of the rise in costs in the United States — due to larger productivity gains — and in Japan — owing to a slackening of the increase in compensation of employees. On the other hand, costs increased more in several European countries as the combined result of a faster rise in compensation of employees and smaller productivity gains. This quickening was still only moderate, however.

In Japan the combined effects of this small growth in labour costs and the fall in import prices precluded any rise in consumer prices, even causing them to decline at times. In the United States, on the other hand, inflation speeded up somewhat in the first half of 1995, and subsequently slackened: on annual average it amounted to 2.8 p.c. This level, recorded after several years of strong growth, is one of the lowest for some thirty years. In the European Union the price rise on average remained around 3 p.c.; the only countries where this figure was exceeded were the United Kingdom, Portugal, Spain, Italy and Greece, which continued to suffer the effects of the depreciation of their currencies. Among the large member countries, the inflation rate speeded up in 1995 only in the United Kingdom and Italy. For the latter, the movement was partly due to an increase in the tax burden, while underlying inflation remained more

TABLE 2 — CONSUMER PRICES

(Percentage changes compared with the previous year)

	1994	1995 ¹		
		p.m.		
		Unit labour costs in enterprises ²	Import prices	
United States	2.6	2.8	(1.5)	(1.3)
Japan	0.7	-0.1	(1.0)	(-1.2)
European Union ³	3.0	3.1	(1.3)	(4.4)
Finland	1.1	1.0	(2.6)	(1.2)
Belgium ⁴	2.4	1.5	(-0.2)	(0.4)
France	1.7	1.7	(0.9)	(2.5)
Germany	2.7	1.9	(1.3)	(2.5)
Netherlands	2.8	2.0	(1.0)	(...)
Luxembourg	2.2	2.0	—	—
Denmark	2.0	2.1	(2.1)	(1.4)
Austria	2.9	2.3	(1.7)	(1.1)
Ireland	2.3	2.6	(-0.4)	(2.8)
Sweden	2.2	2.9	(4.0)	(6.5)
United Kingdom	2.5	3.4	(0.7)	(9.3)
Portugal	5.2	4.2	(2.4)	(2.8)
Spain	4.7	4.7	(3.0)	(6.3)
Italy	4.0	5.2	(0.8)	(14.1)
Greece	10.9	9.4	(9.4)	(7.3)

Sources: OECD, EC and, for Belgium, MEA, NBB.

¹ Percentage changes in the average of consumer prices during the first eleven months of 1995 compared with the average for the first eleven months of 1994.² Industrial and market service enterprises belonging to the private and public sectors.³ For labour costs, except Luxembourg but including Norway.⁴ BLEU for import prices.

moderate. On the other hand, in all the countries of the European Union without exception, the inflation rate fell considerably compared with that still observable in 1991, that is, before the signing of the Treaty on European Union.

1.2 BALANCE OF CURRENT TRANSACTIONS

The OECD's foreign trade was again marked by major imbalances. In 1995 the current account deficit of the United States reached \$ 170 billion, against \$ 151 billion the previous year; unlike during the pre-

ceding three years, its increase measured as a percentage of GDP remained limited. Japan's current account balance showed a surplus of \$ 112 billion, but, as in 1994, this was appreciably smaller both in terms of absolute amounts and as a percentage of GDP. The surplus of the countries of the European Union as a whole remained more modest, even though it virtually doubled compared with the previous year, reaching \$ 48 billion, or 0.6 p.c. of the GDP of the member countries. Mexico's deficit, still substantial in 1994, was almost entirely wiped out in 1995, although at the price of a fall in GDP and a marked quickening of inflation.

The decrease in Japan's current account surplus is attributable to that in the trade surplus, but also to the expansion of the deficit in respect of services and transfers. The pronounced worsening of Japan's competitive position which took place in 1993 led to a reduction in the trade surplus in terms of volume during each of the last three years. This reduction was however reduced by appreciably less strong growth in that country than in the rest of the world, which — all other things being equal — curbed imports. In 1995 the decrease in the trade surplus at current prices quickened, because the Japanese economy's terms of trade stopped improving.

The trade deficit of the United States increased uninterruptedly during the years which followed the cyclical trough of 1991. During this period the effect of faster growth in the United States than in the other industrialised countries in fact predominated over that of the steady improvement in competitiveness which had been taking place for many years. However, the effect of the latter factor gradually gained ground. In 1995 American competitiveness furthermore continued to improve despite the depreciation of the Mexican peso, while the cyclical differential between the United States and its major trading partners narrowed. Thus, despite the fall in demand from Mexico, the rate of growth of exports of the United States exceeded that of imports for the first time for four years. But, owing to the still high level of the trade deficit in 1994 and the worsening of the American economy's terms of trade, this deficit increased a little further in dollars. Overall, the other components of the current account balance remained unchanged.

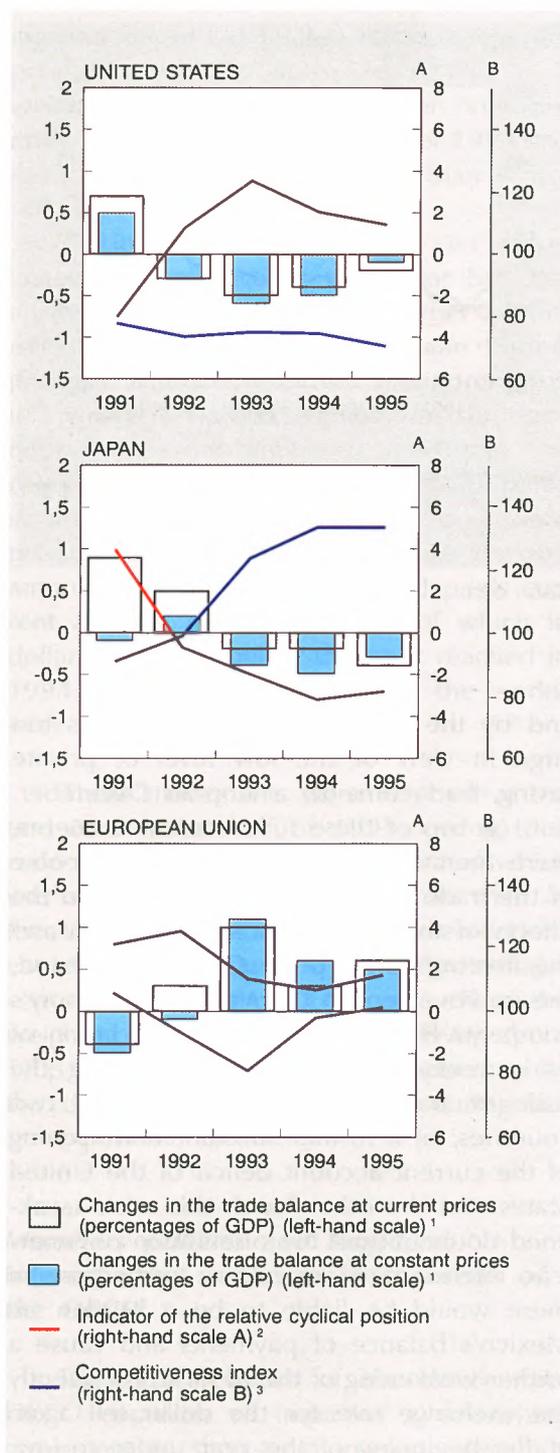
The structural reforms and the policy of macroeconomic stabilisation implemented in Mexico since the 1980s had made possible a radical reorientation of that country's economy, including a very sharp recovery of private investment. But this development was accompanied by a rapid increase in con-

TABLE 3 — CURRENT ACCOUNT OF THE MAIN AREAS OF THE WORLD

	Percentages of GDP					Billions of US dollars	
	1991	1992	1993	1994	1995	1994	1995
OECD	-0.3	-0.3	...	-0.2	-0.1	-34	-22
of which : United States	-0.1	-1.0	-1.6	-2.2	-2.4	-151	-170
Japan	2.2	3.2	3.1	2.8	2.3	129	112
European Union	-1.1	-1.0	0.1	0.3	0.6	26	48
of which : Germany	-1.1	-1.1	-0.8	-1.0	-0.8	-21	-19
France	-0.5	0.3	0.7	0.6	1.3	8	19
United Kingdom	-1.4	-1.6	-1.9	...	-1.1	...	-12
Italy	-2.1	-2.3	1.2	1.5	1.9	16	21
Mexico	-5.2	-7.4	-6.5	-7.8	-0.3	-29	-1
Non-OECD countries	n.	n.	n.	n.	n.	-54	-77

Source : OECD.

CHART 7 — CHANGES IN THE TRADE BALANCE AND THEIR DETERMINANTS



Sources : OECD, EC, NBB.

¹ A change with a positive sign indicates an improvement in the trade balance (increase in the surplus or reduction of the deficit).

² Difference between the growth rate of GDP at constant prices of the country or region concerned, on the one hand, and the weighted average of the growth rates of the GDPs at constant prices of the other two major economies, on the other. When the indicator is positive, the country or region is in a phase of stronger cyclical growth than the average of the other two economies.

³ Relative unit labour costs (indices 1986 = 100). An increase in the index number indicates a deterioration in competitiveness.

sumption and hence by a growing and large current account deficit. In 1994, this had reached nearly 8 p.c. of GDP. It had been easily financed by inflows of private capital on such a scale, actually, as to bring about an appreciation of the peso, the effects of which had added to the other factors causing a worsening of the current account balance. In December 1994 the growing concern about the level of the latter and the country's political instability led to substantial capital outflows. The authorities then decided to allow the peso to float; in March 1995 it had lost half its value. The combined effects of this depreciation and of a rigorous stabilisation plan adopted in January and supported by a programme of international financial aid brought about a recovery of the Mexican economy's competitiveness and a contraction of domestic demand. During the year under review, Mexico's GDP fell by 6 p.c. and the unemployment rate practically doubled, but the current account deficit was almost completely eliminated. Inflation averaged about 35 p.c., whereas it had been less than 7 p.c. in 1994.

The increase in the current account surplus of the European Union as a whole followed a recovery which had continued without interruption since 1992, a year during which current transactions had left a deficit of 1 p.c. of GDP. This improvement was partly due to a lower rate of economic activity than that of its trading partners, and especially the United States. In some European countries, however, including Germany, the effect of this factor was smaller in 1995 than in the preceding years. In several European countries whose competitiveness has improved appreciably since 1992, the recovery of the current account balance continued during the year under review; that applied to Italy, Spain, Sweden and Finland. The United Kingdom is an exception, because its current account balance worsened despite a marked falling-off of growth. The trade balance remained at roughly the same level as in the previous year, but the surplus produced by services and investment income, which was exceptionally large in 1994, shrank by nearly a half.

The worsening of the overall current account balance of the non-OECD countries is attributable to that of two regions: the dynamic Asian economies, where the growth in demand for capital goods has led to the appearance of a deficit, and the other non-OPEC developing countries, whose already large deficit continued to widen, especially in the case of the countries of Central and South America. The flow of foreign capital to these countries furthermore dried up during the first half of the year under review, owing to the Mexican crisis. But this interruption was only temporary, quite considerable inflows of private capital having started again in July.

1.3 FINANCIAL AND BUDGETARY DEVELOPMENTS

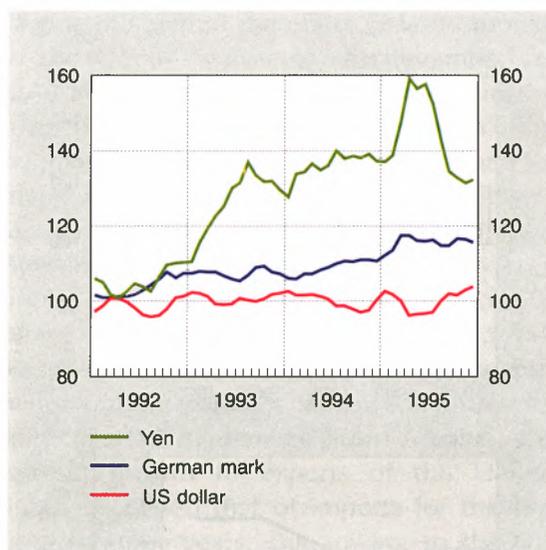
Exchange rates for the main currencies

The year under review was marked by major movements of exchange rates. The most spectacular affected the yen. The appreciation of that currency in terms of weighted average, which had already been appreciable for several years, accelerated sharply during the first half-year and was followed by an even more marked slowdown. The dollar, for its part, fell until the middle of the year, but subsequently regained the whole of the ground lost, and even more. The fluctuations of the mark during the year were somewhat smaller: the effective exchange rate for that currency, which rose during the first half of the year and remained virtually stable during the following months, went up by 4.4 p.c. between December 1994 and December 1995.

Despite a raising of short-term interest rates in the United States and interventions by central banks, the dollar had already depreciated somewhat during the first eleven months of 1994 compared with most other currencies. This movement, probably connected with the misgivings prompted by the continuing size of the current account deficit

CHART 8 — WEIGHTED AVERAGE EXCHANGE RATES

(Indices 1991 = 100, monthly averages)



Source: OECD.

and by the budget deficit, which was too large in view of the low level of private saving, had come to a stop in December. But, on top of these fundamental concerns, there then came those about the outcome of the trade negotiations with Japan and the effects of the financial crisis in Mexico and the floating of the peso. On the one hand, the improvement in the Mexican economy's competitiveness due to the depreciation of its currency led to fears, considering the scale of trade relations between the two countries, of a further substantial worsening of the current account deficit of the United States. On the other hand, this crisis awakened doubts about the orientation of American interest rates, since any further rise in these would be liable to be a burden on Mexico's balance of payments and cause a further weakening of the peso. Consequently the exchange rate for the dollar fell again at the beginning of the year under review. This movement actually speeded up in March and April, when the impression was confirmed that the phase of tightening of US monetary policy had come to an end. By the end of the first four months of last year the dollar had lost 16 p.c. against the yen and 12 p.c. against the mark. Given its

virtual stability vis-à-vis the Canadian dollar and its appreciation against the Mexican peso — the currencies of two important trading partners of the United States — the depreciation of the dollar expressed as a weighted average was, however, considerably smaller : between December 1994 and April 1995 it was hardly more than 4 p.c.

During the same period the yen appreciated not only against the dollar but also against the currencies of the other economies, including those of the Asian trading partners, with the result that its appreciation in terms of weighted average was very pronounced, having amounted to 16 p.c. The causes of this upward pressure are partly symmetrical with those of the downward pressures on the dollar; they are due to, among other things, the size of Japan's current account deficit, the level of which in dollars, although below the peak reached in 1993, remained considerable in the worldwide perspective.

These movements were reversed at the end of the first half of 1995, owing to a reduction of short-term interest rates which was much more marked in Japan than in the United States and to the interventions carried out in August by the three major central banks of the OECD area. Thus the weighted average for the yen fell by about 17 p.c. between April and December, while the dollar recovered by 8 p.c. during the same period.

Monetary policies and long-term interest rates in the main countries of the OECD

The central banks of the three main OECD countries all imparted a downward movement to short-term interest rates, but its extent was not always identical. The differentials thus widened during the year.

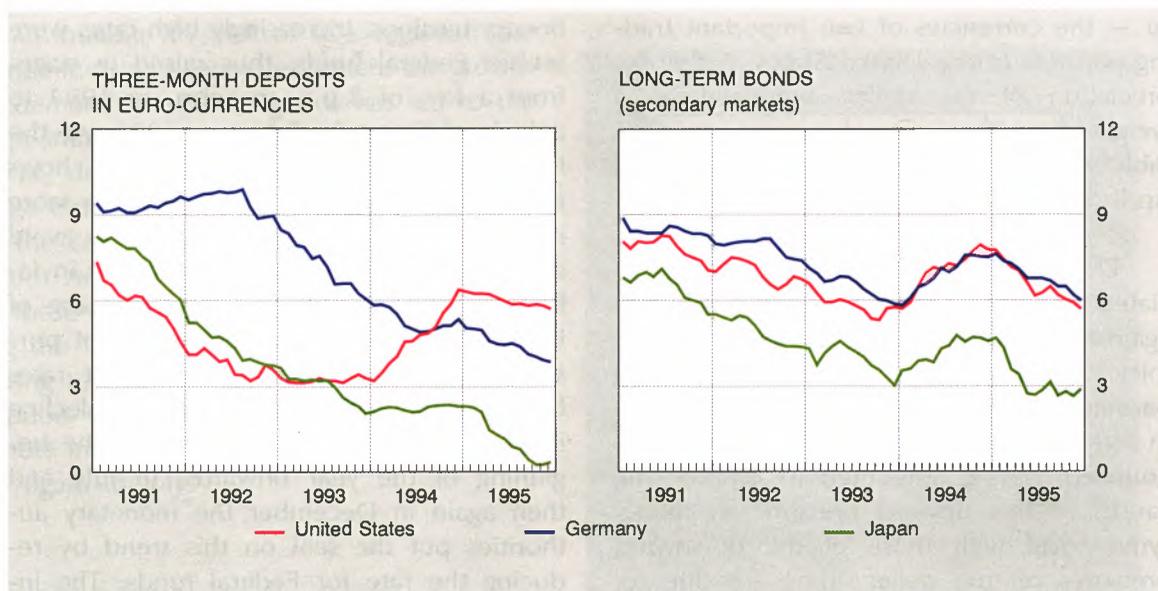
As far back as February 1994 the Federal Reserve had thought it appropriate to tighten its policy, because the strength of American growth and the high level of rates

of utilisation of production capacities pointed to a danger of resurgence of the inflationary tensions. Increasingly high rates were set for Federal funds, thus raised in stages from a low of 3 p.c. in February 1994 to a high of 6 p.c. in February 1995. At the beginning of the year under review, however, economic growth slackened to a more moderate pace, making it possible to avoid any significant quickening of the rise in labour costs and inflation. The tightening of US monetary policy was therefore not pursued further, and short-term interest rates began, in the context of an incipient decline in bond yields, to fall slightly from the beginning of the year onwards. In July and then again in December the monetary authorities put the seal on this trend by reducing the rate for Federal funds. The interest rate on three-month investments in Euro-dollars declined from the peak of 6.4 p.c. reached in December 1994 to 5.7 p.c. in December 1995.

In Germany the downward trend imposed on short-term interest rates from the end of 1992 onwards had given way to a stabilisation during the second half of 1994. When it became apparent, in the course of the year under review, that the money supply was developing in accordance with the targets and that any resurgence of the inflationary pressures had been prevented, partly owing to the appreciation of the mark and less strong economic growth than had been forecast, the monetary authorities once again relaxed their policy. The Bundesbank's guideline rates were reduced in March, and again in August and December. Money market rates began to decline in January; the rate on three-month deposits in Euro-marks fell from 5.4 p.c. in December of the previous year to 3.9 p.c. in December 1995.

In Japan, where short-term interest rates had already been at a very low level throughout the previous year, monetary policy was relaxed once more owing to the upsurge of the yen and the extreme weakness of economic activity. This trend was in fact conducive to an improvement of the profitability of the financial sector, which

CHART 9 — SHORT-TERM AND LONG-TERM INTEREST RATES



Sources : National sources, NBB.

had been adversely affected by the accumulation of bad debts. The official discount rate was lowered from 1.75 p.c. to 1 p.c. in April and to 0.5 p.c. in September. The rate for three-month deposits in Euro-yen contracted from 2.3 p.c. in December 1994 to 0.4 p.c. in December 1995. The extremely low, and sometimes negative, level of inflation in Japan does however reduce the effect of this fall calculated in real terms. Furthermore, the decline in money market rates appears to have been only partially passed on to the rates for bank lending.

As had been the case since the beginning of the decade, the synchronisation between the trends of long-term interest rates on the various national markets remained much greater than that of short-term rates during the year under review. The considerable and largely unexpected rise in long-term rates which had been a feature of 1994 came to an end nearly everywhere in November of that year. Since then there has been a general downward movement of long-term rates due to the slowing of growth in the United States, the lessening of inflationary pressures in most European countries and the situation of quasi-deflation in Japan.

In that country gross yield rates on the secondary market fell from 4.6 p.c. in December 1994 to 2.9 p.c. in December of the year under review. In the United States the fall was more marked and in Germany it was smaller; in these two countries the rates were down to 5.7 and 6 p.c. respectively in December 1995.

Economic developments in the European Union

In most of the other European countries the movement of long-term interest rates was parallel to that observed in the major economies. After having declined in 1993 and risen in 1994, long-term rates generally moved downwards in 1995, so that at the end of the year they were at a lower level than that reached three years earlier.

The spread of interest rates within the EU, which had narrowed in 1993, widened in both 1994 and 1995. These divergences are attributable both to the operation of factors specific to certain countries, such as the heightening of inflationary tensions in Italy,

and to the effect of the Mexican crisis. The latter increased the risk aversion of lenders, thereby stimulating the search for « quality », that is, for investments that can be regarded as particularly safe.

The currencies belonging to the exchange rate mechanism of the European Monetary System had enjoyed, after the crisis of 1992-1993 and the widening of the fluctuation bands, a period of calm between November 1993 and December 1994. But tensions arose again in the first half of 1995, particularly in March and April, as a result of the depreciation of the dollar, the effect of the Mexican crisis on investors' preferences and political factors peculiar to certain countries. For the French franc, the Danish crown and the Irish punt, these tensions were reflected in a temporary and limited depreciation against the mark. The central banks of the countries concerned furthermore had to raise their interest rates, but the differentials in relation to the German rates remained below the peaks reached in 1993. From June onwards these currencies began to move closer again to their central rates expressed in marks. On the other hand, for the peseta and the escudo, a realignment, entailing a depreciation of their central rates by 7 and 3.5 p.c. respectively,

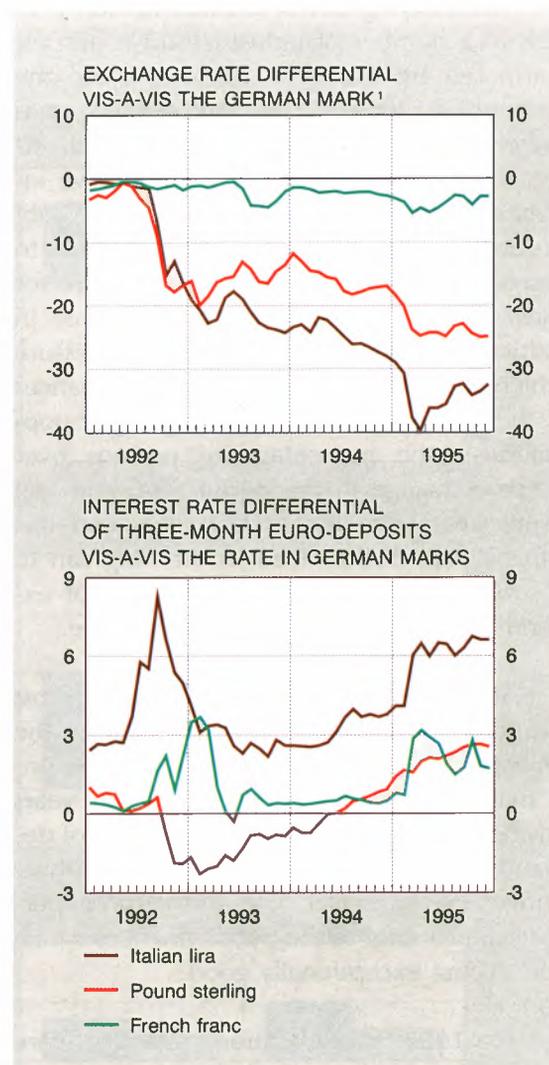
TABLE 4 — LONG-TERM INTEREST RATES IN THE EUROPEAN UNION

(Monthly averages)

	December 1992	December 1993	December 1994	December 1995
Germany	7.4	5.9	7.5	6.1
Netherlands	7.4	5.7	7.6	6.1
Austria	7.6	6.1	7.6	6.5
Belgium	7.9	6.6	8.3	6.7
France	8.2	5.8	8.0	6.8
Denmark	9.0	6.2	8.8	7.3
Ireland	9.6	6.4	8.6	7.4
United Kingdom ..	8.3	6.3	8.7	7.6
Spain	12.6	8.3	11.4	10.0
Italy	13.7	9.2	12.1	11.2

Source : EMI.

CHART 10 — EXCHANGE RATES AND SHORT-TERM INTEREST RATES



Source : NBB.

¹ As a percentage of the central rate on 11th September 1992.

had to be undertaken at the beginning of March.

Among the currencies which do not participate in the exchange rate mechanism of the EMS, the pound sterling and the Italian lira suffered a further depreciation, which for the latter was partly reversed from May onwards. Nevertheless, the widening of the interest rates differential on short-term investments denominated in these currencies vis-à-vis the German rates which had been observed since the beginning of 1994 continued.

Fiscal policies

The carrying out of a consolidation process in a number of industrialised countries, warranted by the need felt to reduce the amount of interest on the debt — and thereby bring to a halt any « snowball effect » liable to bring about a cumulative increase in the interest charge and the debt burden — was also and mainly intended to recreate a genuine margin for manoeuvre for fiscal policy. The purpose of this was, in particular, to enable it to meet the pressure which will be exerted on the public finances in the coming decades by the ageing of populations: the percentage of persons over 60 years of age in the population is in fact rising steadily in the OECD area, and this can be expected to lead in the long run to a substantial increase in the burden of expenditure on pensions and health care.

Since the beginning of the decade, most countries have taken a restrictive line in the management of their public finances. The only major exception during the last few years has been Japan, where the sluggishness of demand justified the pursuit of an expansionary budget policy, which was furthermore permitted by a state of the public finances which was at first exceptionally good.

In 1995 consolidation policies were pursued everywhere, including in Japan, as is evidenced by the development of the structural primary balance, that is, the net balance to be financed calculated disregarding the incidence of the interest charges on the debt and of cyclical factors.

In the United States the net financing requirement of general government had reached a peak of 4.3 p.c. of GDP in 1992 and had then gradually declined, down to 2 p.c. in 1994. During the year under review it was reduced to 1.6 p.c., while the primary balance — i.e. excluding interest on the debt — became positive for the first time since the beginning of the decade. This improvement was due to the implementation of the decisions of the Omnibus Budget Reconciliation Act of 1993, which provided

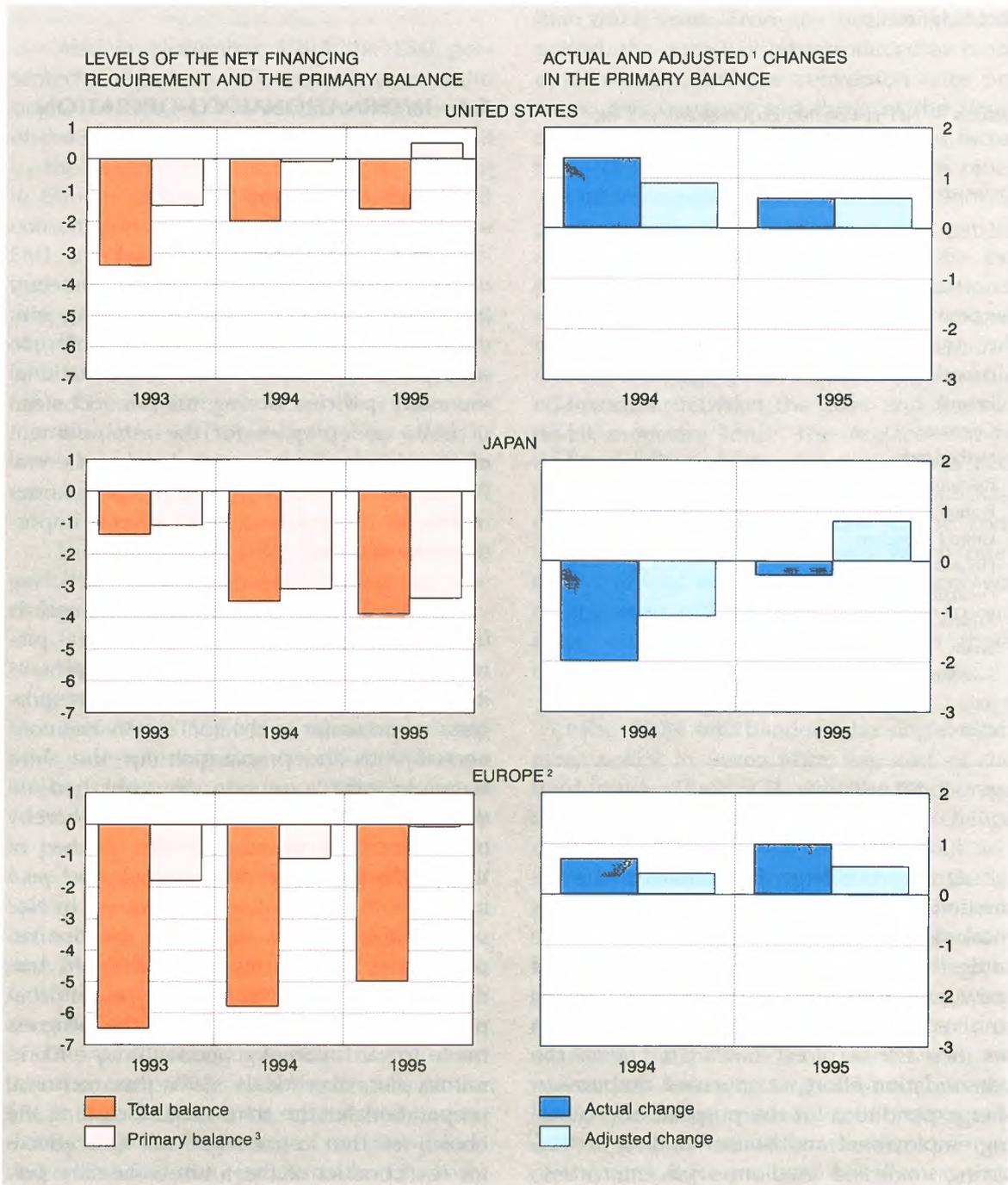
for both a reduction in expenditure and an increase in revenue. The recovery of the structural primary balance brought about by these measures was not quite as great in 1995 as in the previous year and was no longer buttressed by the effect of the cyclical movement. No further discretionary measures have been adopted since 1993, but congress and the Administration have concluded an initial agreement aimed at balancing the budget by the end of the next seven years by reducing expenditure.

In Japan four major economic programmes had been put in place during the years 1992 to 1994 in order to boost the economy, but they did not lead to any significant revival of growth. Their negative incidence on revenue and their positive effect on expenditure, together with the adverse effect of the cyclical movement, gave rise to a considerable increase in the budget deficit. In 1995 this became even larger, reaching 3.9 p.c. of GDP, against 3.5 p.c. in 1994. Unlike during the preceding three years, this further worsening is solely due to cyclical factors, as the expansionary orientation of fiscal policy came to an end. In September, however, the government announced the launching of a further multi-annual economic restimulation programme, amounting altogether to about 3 p.c. of GDP. Like those introduced in the previous years, this programme provides for, among other things, an increase in the volume of public works.

In the European countries the determination to continue the process of fiscal consolidation is attributable to the excessive levels of public debts and deficits and is heightened by the obligations with regard to public finances imposed on would-be members of the Monetary Union. The total budget deficit of the countries of the EU decreased in 1995 for the second year in succession; it thus fell from a peak of 6.3 p.c. of GDP in 1993 to 4.7 p.c. Nevertheless, this level is still high compared with that of the other major economies. This difference is chiefly due to the interest charges on the debt, which amount, for the European countries as a whole, to 4.8 p.c.

CHART 11 — NET FINANCING REQUIREMENT (-) OF GENERAL GOVERNMENT AND PRIMARY BALANCE

(Percentages of GDP)



Source : OECD.

¹ Change in the primary balance excluding cyclical influences.

² European Union (except Luxembourg) and Norway.

³ Net financing requirement or capacity excluding interest charges.

of GDP, whereas they represent only 2.1 p.c. in the United States and 0.5 p.c. in Japan.

The improvement in the budgetary situation observed in 1995 in the EU countries as a whole is due to both cyclical and struc-

tural factors, the extent of whose effect was of the same order as in the previous year. As in 1994, most of the countries reduced their deficits.

TABLE 5 — NET FINANCING REQUIREMENT (–) OR CAPACITY OF GENERAL GOVERNMENT IN THE COUNTRIES OF THE EUROPEAN UNION

(Percentages of GDP)

	1993	1994	1995
European Union	–6.3	–5.5	–4.7
Luxembourg	1.8	2.2	0.4
Denmark	–4.5	–3.8	–2.0
Ireland	–2.4	–2.1	–2.7
Germany	–3.5	–2.6	–2.9
Netherlands	–3.2	–3.2	–3.1
Belgium	–6.7	–5.3	–4.5
France	–6.1	–6.0	–5.0
United Kingdom	–7.8	–6.8	–5.1
Finland	–8.0	–5.8	–5.4
Portugal	–7.1	–5.8	–5.4
Austria	–4.1	–4.4	–5.5
Spain	–7.5	–6.6	–5.9
Sweden	–13.4	–10.4	–7.0
Italy	–9.6	–9.0	–7.4
Greece	–12.1	–11.4	–9.3

Sources : EC, NBB (for Belgium).

Among the large EU countries the reduction in the deficit was particularly marked in Italy, as a result of restrictive budgetary measures and the quickening of growth, and in the United Kingdom, owing to a reduction in expenditure coupled with an increase in direct taxes. In France the consolidation effort was pursued despite further expenditure for the purpose of promoting employment and house-building and assisting small and medium-sized enterprises; it was made possible by drastic cuts in other expenditure items and by the raising of taxes. The only major country where the consolidation process was not continued during the year under review was Germany. This interruption was due to the fact that tax revenue was lower than had been forecast, to a rise in certain items of health care expenditure and to interest payable on the

debts of public enterprises which had recently been taken over by the federal government.

1.4 INTERNATIONAL CO-OPERATION

European integration

The activities of the European Monetary Institute, which was brought into being with effect from 1st January 1994 in order to strengthen the co-ordination of national monetary policies during the second stage of EMU and prepare for the establishment of the future European System of Central Banks, were reflected during the year under review in the publication of several important reports.

In April 1995 the Institute presented its first annual report. This gives a general picture of monetary and financial developments in the Community and describes the progress made so far in the EMI's activities connected with the preparation for the third stage. In May a report was published on the new TARGET payments system whereby transactions connected with the conduct of the single monetary policy are to be processed from the third stage onwards. In November the Institute submitted the first report drawn up in implementation of Article 7 of its Statutes. In accordance with that provision, this report evaluates the progress made towards convergence within the Community; it also deals with the technical preparation for the third stage including the choice of the instruments and procedures for the conduct of the future monetary policy, and with the related aspects in the fields of foreign exchange, payments systems and statistics. It also presents the results of a first examination of the statutory requirements which the central banks must fulfil in order to become, in due course, an integral part of the ESCB. To a certain extent, this report foreshadows the report which the EMI, together with the Commission, is required to

draw up in 1996, pursuant to Article 109 J1 of the Treaty on European Union, on the progress of the convergence process.

Also in November 1995 the EMI presented a report on « The changeover to the single currency ». This report was the result of the task entrusted to the ECOFIN Council by the European Council, during its meeting in Cannes in June 1995, of working out, in consultation with the Commission and the EMI, a reference scenario for the introduction of the single currency. The scenario adopted by the ECOFIN Council was actually closely modelled on that of the EMI, with which it is fully compatible. It was confirmed by the European Council at its meeting in Madrid in December 1995, where it was also decided to call the future single currency the « euro ».

This scenario provides for three separate periods in the process leading to the changeover to the single currency.

The first period will begin on the date when the European Council decides which Member States fulfil the necessary conditions for participating in the Monetary Union, and will end on 31st December 1998. The decision must be made as early as possible during the year 1998. It will be based on the progress made by the Member States towards complying with the criteria defined for the creation of the Economic and Monetary Union, on the basis of the most recent and reliable data for 1997. In accordance with the Treaty, the legislations of the participating Member States must then be compatible with the Statute of the ESCB. The ECB will be established immediately after the beginning of this first period and will define the operational and strategic framework for the monetary policy which is to be implemented during the third stage. Enterprises — especially those in the financial sector — must prepare for the technical adaptation necessary for the use of the European currency.

The second period will start on the date of entry into force of the third stage, namely

1st January 1999, and will end on the day when the euro coins and euro bank notes are put into circulation. It will last not more than three years. From the beginning of this period, the euro will be introduced as money of account and the conversion rates between this currency and those of the participating Member States and, ipso facto, those of the latter in relation to each other will be irrevocably fixed. From the economic point of view, therefore, there will remain only a single currency, which can be expressed either in euros or in the national monetary units. As long as different monetary units continue to exist, a regulation will lay down a legally binding and unalterable equivalence between the euro and the national monetary units. The replacement of the national currencies by the euro is not, in itself, to affect the continuity of contracts, unless they contain provisions to the contrary. In the case of contracts which refer to the official ecu basket, the replacement by the euro will be done on a one-to-one basis, unless otherwise provided in these contracts.

The ESCB will conduct the single monetary policy in euros from the start of the third stage. The ESCB will also encourage the use of the euro on the foreign exchange market, on which it will itself carry out and settle its transactions in that currency. Lastly, the participating Member States will issue the new negotiable debt in euros from 1st January 1999 onwards. All this will probably lead quickly to the changeover into euros of a large volume of bank transactions, especially on the interbank market and, for transactions involving large amounts, on the foreign exchange markets. Economic agents will be free to use either the euro or one of the national currencies in their transactions. National banknotes and coins will continue to be legal tender during this period.

The third period will begin on the day when the euro notes and coins are introduced and will end when the national notes and coins cease to be legal tender. It is to last no more than six months.

The European Council also adopted in July a recommendation laying down the broad guidelines of the economic policies of the Member States of the Union. In December it approved a report from the ECOFIN Council on their implementation. That should strengthen convergence and stimulate growth and employment. It should also make it possible to avoid two pitfalls : on the one hand, that of losing sight, owing to the favourable effect of economic growth, of the need to persevere with fiscal consolidation and, on the other hand, the possibility of the operation of the internal market being disturbed by fluctuations in exchange rates, thus jeopardising what has been achieved through economic integration.

In July the European Council confirmed the strategy worked out in 1994 for combating unemployment, which was mentioned in section 1.1. In December it favourably received the Commission's interim report on the progress made in this matter. It requested the Commission to submit a final report on this subject in December 1996.

Within the framework of the surveillance of fiscal policies provided for by the Treaty, the Council stated that there was an excessive government deficit in the three new Member States of the EU — Austria, Finland and Sweden — and that the deficit had disappeared in Germany. It addressed recommendations to each of the Member States whose government deficit was excessive, i.e. all of them except Germany, Ireland and Luxembourg, and it also approved the convergence programmes submitted by Sweden and Finland.

The central banks of the three new Member States of the EU have been signatories since January 1995 to the agreement laying down the operating procedures of the EMS and to that establishing the system of short-term monetary support. These agreements do not entail the participation of the currencies concerned in the exchange rate mechanism, except for the Austrian schilling, which joined it on 9th January.

Co-operation between the EU and the countries in transition

The European association agreements concluded between the EU and Romania, the Czech Republic, the Slovak Republic and Bulgaria respectively entered into force in February 1995. Agreements of this type were signed during the year with the three Baltic countries.

The countries of the CIS also expressed the wish to deepen their relations with the European Union. Kazakhstan, Kirghizstan, Belarus, Ukraine and Russia thus signed partnership agreements with the EU during the year.

A number of European countries in transition are pursuing the objective of acceding to the EU. Romania, the Slovak Republic, Bulgaria and the three Baltic countries officially applied to join it in 1995. The European Council, at its meeting in Madrid, expressed the wish that the initial phase of the accession negotiations with the Central and Eastern European countries should coincide with the beginning of the negotiations with Cyprus and Malta, namely six months after the end of the 1996 intergovernmental conference.

International Monetary Fund

In 1995 two countries, Brunei and Bosnia-Herzegovina, acceded to the Fund, bringing its membership up to 181.

Drawings on the Fund's resources have recently increased very substantially : during the financial year 1994-1995 they amounted to SDR 10.6 billion, or about twice as much as the previous year's drawings. On top of this there are drawings totalling SDR 0.6 billion under the structural adjustment facility and the enhanced structural adjustment facility.

The Fund continued to perform its financial aid function, especially in favour of the countries in transition to a market econ-

omy. It thus granted credits under standby agreements to Russia and Ukraine totalling SDR 5.3 billion, on which, as at 31st December 1995, these countries had made drawings amounting to SDR 4.1 billion.

The IMF also played an important role in resolving the Mexican crisis, by making available to that country a credit line of SDR 12.1 billion, an unprecedentedly large volume of financial aid, which was furthermore supplemented by other external financing. As at 31st December 1995 the drawings made by Mexico under financing agreements with the IMF amounted to SDR 8.8 billion.

The Mexican crisis provided the opportunity, on the one hand, of reaffirming the crucial role of the surveillance which the IMF exercises over the Member States in order to ensure their balanced growth and external and internal financial stability and, on the other hand, of examining whether the Fund's resources are adequate.

It was agreed that the Fund's surveillance must be tightened up, including by the reporting by the member countries, regularly and promptly, of complete and reliable economic data. Twelve key economic indicators were adopted, and rules were laid down to guide members in the publication of their economic and financial statistics.

With regard to the strengthening of the IMF's financial resources, the Executive Board started in 1995 on the examination of the eleventh general revision of quotas and the Interim Committee requested that a report on the progress made in these activities be submitted to it in time for its April 1996 meeting. An examination was also made of the IMF's borrowings, especially the General Arrangements to Borrow, whereby the member countries of the Group of Ten, or their central banks, are prepared to lend up to SDR 17 billion to

the IMF, in addition to the amount of SDR 1.5 billion under the Association Agreement with Saudi Arabia. A consensus emerged in 1995 within the Group of Ten concerning a doubling of the resources under the General Arrangements to Borrow, by means of the establishment of a parallel financing agreement in which countries not belonging to the Group of Ten could participate.

On the other hand, no progress was made with regard to a new allocation of SDRs. The Interim Committee therefore instructed the IMF's Executive Board to continue the examination of this question. It also requested it to reconsider the question of the role and functions of the SDR in the light of the changes which have taken place in the world financial system.

Liberalisation of trade and international economic co-operation

The agreements creating the World Trade Organisation which came into being as a result of the Uruguay Round came into force on 1st January 1995. They considerably widened the scope of trade liberalisation by extending it to embrace agriculture, textile products, services, intellectual property and trade related investment, and by establishing a common procedure for settling disputes.

With regard, in particular, to financial services, negotiations continued during the first part of last year in accordance with what had been planned at the time of the conclusion of the General Agreement on Trade in Services. An agreement was finally concluded on 28th July 1995. However, several countries, including the United States, refused to participate fully in it. Furthermore, at the end of 1997 all governments will be free to review their commitments.

2. EXPENDITURE, PRODUCTION AND EMPLOYMENT

2.1 EXPENDITURE AND VALUE ADDED

Overall view

During the past year Belgium's GDP at constant prices rose by about 1.9 p.c., a growth rate similar to that which had been recorded on average during the past twenty years. The cyclical recovery which had begun in the second quarter of 1993 went on steadily until the first quarter of 1995, at the end of which GDP was more than 5 p.c. above the level reached two years earlier.

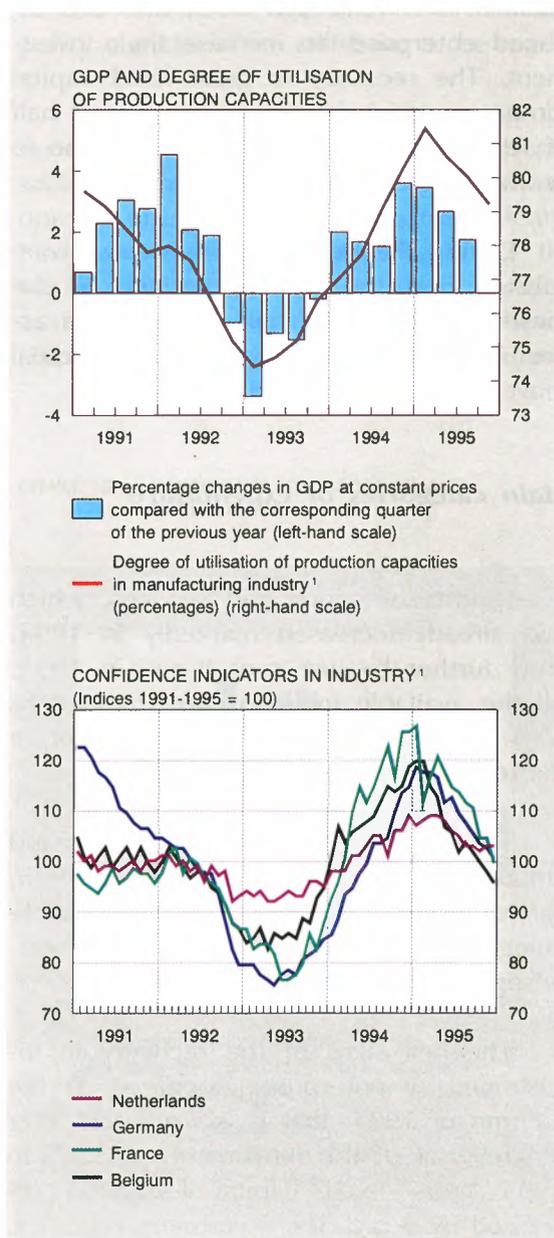
From the spring of 1995 onwards economic activity did not increase any further, so that the growth rates of GDP compared with the corresponding quarters of the previous year gradually declined. Thanks to a considerable level effect due to the large increase in GDP in 1994 and during the first months of the year under review, the rates of change nevertheless remained substantially positive in the second and third quarters of 1995.

As is usual in Belgium, the cyclical movement was determined by that in the neighbouring countries, where a slackening of the expansion was clearly apparent from the spring onwards. The slowing of growth was limited only in the Netherlands, where economic activity is less sensitive to cyclical movements owing to relatively greater exports of food products.

A pause, following a rapid increase in activity at the beginning of a business cycle, is not exceptional either in a historical perspective or in the present international context. It is generally due to the stockbuilding cycle. At the beginning of an upward cyclical phase, enterprises replenish their stocks, and this gives an additional boost

to economic activity. When they consider that their stocks have reached an adequate level, the expansion slows down automatically. If the increase in demand is smaller than had been expected, there may even be a downward revision of stocks. Thus in

CHART 12 — RECENT MOVEMENT OF ACTIVITY



Sources : EC, NBB.

¹ Seasonally adjusted data.

1995, unlike in 1994, stockbuilding no longer contributed to economic growth.

On the whole, the economic revival has taken place up to the present in a scenario conducive to lasting growth. The upturn has been brought about by foreign demand. Thanks to its strong export propensity, the Belgian economy has taken full advantage of the dynamism of world trade : in 1995 exports remained the main driving force behind economic growth. The strength of foreign demand quickly pushed up the rate of utilisation of production capacities to a very high level, and this induced enterprises to increase their investment. The recovery in gross fixed capital formation which began in the second half of 1994 made a substantial contribution to economic growth in 1995.

During the year under review private consumption, the main component of domestic demand, rose only slightly, thus accentuating the hesitancy of the cyclical movement from the spring onwards.

Main categories of expenditure

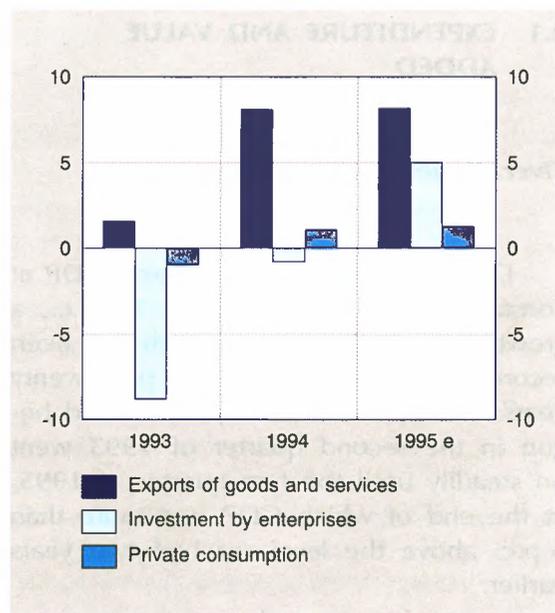
Exports of goods and services, which had already increased markedly in 1994, grew further by just over 8 p.c. in 1995. All the available indicators on transactions with foreign countries reveal, however, a slackening in the course of the year.

The growth of domestic demand amounted to about 1.5 p.c. in 1995, against 1.3 p.c. in 1994. This slight quickening was due to expenditure by enterprises.

The first signs of the recovery in investment by enterprises appeared in the autumn of 1994, that is, six quarters after the reversal of the movement of GDP. In 1995 gross fixed capital formation increased by 5 p.c. The investment ratio, i.e. the ratio between gross fixed capital formation and GDP, thus amounted to 11 p.c.

CHART 13 — MAIN CATEGORIES OF EXPENDITURE AT CONSTANT PRICES

(Percentage changes compared with the previous year)



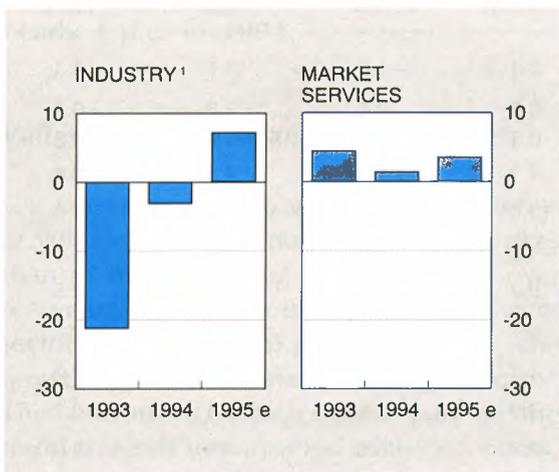
Sources : NAI, NBB.

The trend reversal was particularly marked in manufacturing industry, where investment had fallen uninterruptedly during the four preceding years. The expansion of foreign demand led to a large increase in the rate of utilisation of production capacities in this sector in 1994 and during the first months of 1995, when it equalled the peak reached at the end of the 1980s. Investment was particularly strong in the branches of industry which benefited most from the revival of activity, such as the chemical and metal-working branches. During 1995 as a whole, manufacturing enterprises increased their investment by around 6 p.c. The investment expenditure of enterprises in the « electricity, gas, water » branch, which had declined in 1994 after having risen strongly from 1991 to 1993, recovered again. Altogether, gross fixed capital formation in industry went up by about 7 p.c.

The rise in investment by enterprises specialising in market services was a little over 4 p.c. despite a fall in investment by

CHART 14 — INVESTMENT BY ENTERPRISES AT CONSTANT PRICES

(Percentage changes compared with the previous year)



Sources : NAI, NBB.

¹ Manufacturing industry, extractive industry and « electricity, gas, water ».

public enterprises, chiefly operating in transport and communications. Private enterprises, for their part, increased their gross fixed capital formation by about 6 p.c., continuing the recovery which started in 1994.

After having declined in 1993, private consumption, which represents two thirds of domestic demand, rose only slightly : during the year under review it went up by 1.3 p.c., against 1.1 p.c. in 1994. As a result, consumer expenditure was, at the end of 1995, hardly above the level reached on the eve of the 1993 recession.

The sluggishness of private consumption is largely due to the movement of the disposable income of households, which rose by barely 0.5 p.c. in real terms in 1995, after having declined to the same extent in the previous year. Furthermore, although it decreased slightly further, the savings ratio remained high. Households still saved nearly 19 p.c. of their disposable income, a rate considerably higher than the average for the 1980s, namely 17 p.c.

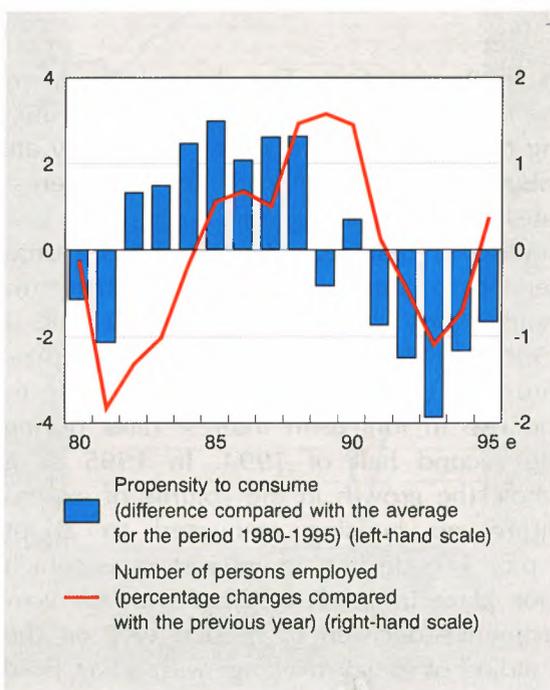
Various factors contributed to the weakness of the propensity to consume.

Thus, in the course of time, income from property, which appears to be proportionally more devoted to saving than earned income, represented a growing proportion of the disposable income of households.

Moreover, the confidence of households was affected by the labour market situation : when employment hardly increases at all, as during the last few years, the propensity to consume is generally below the long-term average. Fears of redundancy or inability to find a job have been compounded, more recently, by uncertainties concerning the implications of the fiscal policy choices which still have to be made.

Expenditure on housing is mainly influenced by the movement of the disposable income of individuals and the development of interest rates on mortgage loans. However, these two elements affect the volume of investment in housing only after a time lag, owing to the period which elapses between the decision to build and

CHART 15 — PROPENSITY TO CONSUME¹ AND EMPLOYMENT



Sources : NAI, NBB.

¹ Share of disposable income devoted to consumption.

TABLE 6 — GDP AND MAIN CATEGORIES OF EXPENDITURE AT CONSTANT PRICES

(Percentage changes compared with the previous year)

	1992	1993	1994	1995 e
Private consumption ¹	2.4	-1.0	1.1	1.3
Public expenditure	0.8	0.8	1.8	-0.3
Public consumption	0.3	0.8	1.5	0.8
Public investment	4.9	1.5	4.9	-10.8
Housing	12.5	-3.9	2.2	1.0
Gross fixed capital formation by enterprises	-4.5	-8.8	-0.8	5.0
p.m. Total gross fixed capital formation ¹²	0.2	-6.7	0.5	2.5
Change in stocks ¹³	0.1	-0.2	0.3	...
Total domestic expenditure	1.7	-2.1	1.3	1.5
Exports of goods and services	3.9	1.6	8.1	8.2
Total final expenditure	2.8	-0.3	4.6	4.9
Imports of goods and services	4.2	1.3	7.2	7.9
Net exports of goods and services ³	-0.4	0.2	0.8	0.3
GDP before statistical adjustments	1.4	-1.9	2.1	1.8
Statistical adjustments ³	0.4	0.3	0.1	0.1
GDP	1.8	-1.6	2.2	1.9
p.m. GDP at current prices (billions of francs)	(7,098)	(7,269)	(7,626)	(7,920)
GDP at constant prices (billions of 1985 francs) ..	(5,723)	(5,630)	(5,755)	(5,864)

Sources : NAI, NBB.

¹ Data excluding statistical adjustments. The latter are shown as a separate item.² Public investment, housing and gross fixed capital investment by enterprises.³ Contribution to the change in GDP.

its implementation. The sharp increase in the number of building starts recorded during the last months of 1994 was partly attributable to the marked fall in interest rates on mortgage loans during the first months of that year. In view of the time needed to complete the works, activity remained very strong during the first half of 1995. During the second half-year expenditure fell off appreciably, partly owing to the rise in long-term interest rates during the second half of 1994. In 1995 as a whole the growth in the volume of expenditure on housing amounted to about 1 p.c. The decline in interest rates which took place in 1995, together with the government's decision to reduce VAT on the building of social dwellings with effect from 1st January 1996, will exert a positive influence only from 1996 onwards.

Public expenditure, for its part, decreased slightly. Despite a reduction in purchases of goods and services, public consumption rose by 0.8 p.c., owing to the further increase in the number of civil service pensioners and the salary increases granted by local authorities within the framework of the social programming. Public investment, for its part, fell for the first time since 1989. Gross fixed capital formation by local authorities, which represents about two thirds of public investment, declined, as usual, during the year following the municipal elections.

Like total final expenditure, which covers both domestic demand and exports of goods and services, imports of goods and services expanded a little faster in 1995 than in 1994. In view of the fact that they

increased by about 8 p.c., i.e. almost as much as exports, the contribution to growth made by the balance of foreign trade thus shrank to about 0.3 p.c., against nearly 1 p.c. in 1994.

Value added by branch

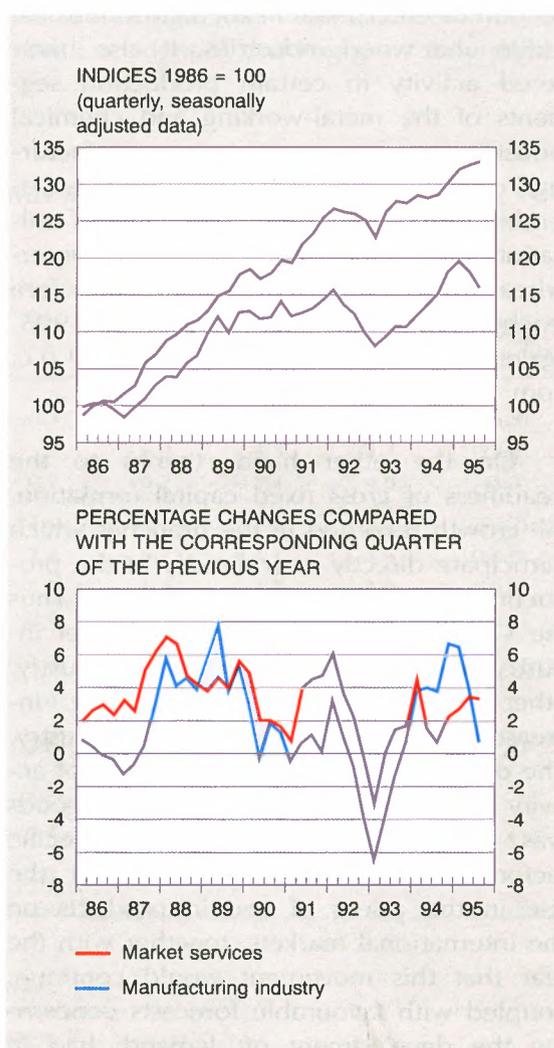
For several years, value added in terms of volume has risen more in market services than in manufacturing industry. Thus, over ten years, the growth in the market services sector exceeded 30 p.c., or twice the growth recorded in manufacturing industry. This movement, which forms part of the trend towards tertiarisation of the economy, was accentuated by two factors. On the one hand, structural developments have led to the inclusion in the category of services of a range of activities which did not previously belong to the market sphere of the economy, in so far as demand for these services was met informally or within family structures : these include for instance child-minding and home deliveries of meals. On the other hand, in industry, the development of contracting-out of activities such as maintenance, security, logistics, accountancy and marketing has led to shifts in the statistical classification of activities of this type. A not inconsiderable proportion of the services which are now listed as services to enterprises was in fact previously recorded in the value added of manufacturing industry, because these services were performed by industrial enterprises.

In combination with the intensification, on both the domestic and the international level, of competition in the provision of services, this externalisation resulted, during the last decade, in a cyclical pattern of activity in the service sector close to that of industry. During the last few years, the cyclical fluctuations have nevertheless continued to be wider in industry. In 1993 for instance, this branch's value added fell on average by nearly 3 p.c., whereas it had remained stable for market services. The recovery in 1994 turned out to be stronger in manufacturing industry, where the value

added rose by 4.5 p.c., against only 2.3 p.c. for market services.

In 1995 the difference between the growth rates of these two branches became smaller. The rise in the value added of market services remained more or less unchanged, whereas it slowed down during the year in industry. Although the quarterly pattern of activity in industry was accentuated by a larger number of working hours than in the previous years during the first quarter and a smaller number than usual in the next quarter, it was in line with the

CHART 16 — VALUE ADDED AT CONSTANT PRICES IN MANUFACTURING INDUSTRY AND MARKET SERVICES



Sources : NAI, NBB.

fundamental cyclical development in 1995 as shown by the movement of GDP during the year, namely a very pronounced upward movement until the spring of the year under review, followed by a distinct slowing.

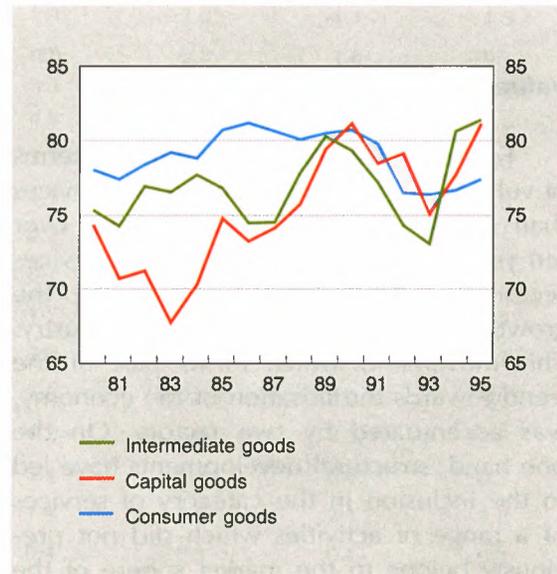
All in all, activity in manufacturing industry nevertheless held up well, as is shown by the rate of utilisation of production capacities, which averaged 80.3 p.c. in 1995 against 78.1 p.c. during the preceding ten years. The cyclical profile by branch differed, however, according to the demand components at which their production is aimed.

Thus the weakness of private consumption, both in Belgium and in the main trading partners, continued to impede the production of enterprises in the agri-foodstuffs, textile and wood industries. It also hampered activity in certain production segments of the metal-working and chemical industries, such as motor car manufacturing, cosmetics and cleaning products intended for consumption. The degree of utilisation of production capacities by enterprises producing consumer goods therefore reached only just over 77 p.c. in 1995, against an average of slightly above 79 p.c. from 1985 to 1994.

On the other hand, thanks to the steadiness of gross fixed capital formation, the growth recorded in the branches which participate directly or indirectly in the production of capital goods speeded up. Thus the value added of the iron and steel industry and of the metal-working industry, other than motor car manufacturing, increased more than the average for industry. The development of certain branches of activity which specialise in intermediate goods was, however, slowed down by a specific factor. At the end of the previous year, the rise in the prices of certain products on the international markets, together with the fear that this movement would continue, coupled with favourable forecasts concerning the development of demand, had in fact induced some producers, both in Bel-

CHART 17 — RATES OF UTILISATION OF PRODUCTION CAPACITIES IN MANUFACTURING INDUSTRY BY CATEGORY OF GOODS PRODUCED

(Annual averages, percentages)



Source : NBB.

gium and abroad, to speed up the formation of their input stocks. During the year under review these producers brought the level of their stocks back to normal, and this was reflected in a slowing of production in the branches of activity at the start of the production process, such as paper and iron and steel. All in all, the rate of utilisation of production capacities remained high in the case of enterprises specialising both in intermediate goods and in capital goods, reaching a level of a little over 81 p.c. in both sectors in the year under review, against an average of just under 77 p.c. during the preceding ten years.

The rise in the value added of the « electricity, gas, water » branch reflected the increase in demand for energy connected with the still dynamic economic activity. However, structural movements also played a part. For gas, the upward trend of the number of service connections, encouraged by the geographical extension of the network, led to an increase in supplies

to individuals. Distribution of gas also benefited from the coming on stream, in the course of 1994, of two gas-fired power stations which enabled the potential electricity supply rate from domestic resources to be increased and imports from abroad to be reduced, thus exerting a positive influence on the branch's value added. Furthermore, the strike movements which took place in France, in the course of December 1995, disrupted electricity distribution there. At the end of the year, therefore, that country, which is usually an important supplier of electricity, increased its electricity imports from Belgium.

Although they depend on the performance of industry, a fact which is reflected in similar cyclical profiles, services to enterprises structurally display higher growth rates. Thus in 1995 the increase in the value added in this category reached nearly

5 p.c. Among these services, which consist of transport in the broad sense (including storage and forwarding), various technical services, tax consultancy, accountancy and publicity, it was chiefly the last three that showed marked increases.

Except for the distribution of petroleum products, which even declined, other market services showed only moderate increases, partly as a result of the sluggishness of private consumption.

In the building industry, the value added decreased slightly, mainly owing to the decline in investment expenditure by the local authorities, which had a depressing effect on the activity of enterprises specialising in civil engineering and roadworks. The activity rate in the other sectors was not sufficient to counterbalance this movement : residential building grew only slight-

TABLE 7 — VALUE ADDED OF THE VARIOUS BRANCHES OF ACTIVITY AT CONSTANT PRICES

(Percentage changes compared with the previous year)

	1992	1993	1994	1995 e	p.m. Percentages of 1994 GDP
Industry	0.2	-2.7	4.2	2.2	(25.8)
of which : Manufacturing industry ¹ .....	...	-2.9	4.5	1.7	(22.2)
Electricity, gas, water	0.7	0.2	1.4	4.0	(3.3)
Market services ¹	3.5	...	2.3	2.6	(50.7)
Services aimed mainly at enterprises ²	2.4	-0.7	4.1	4.9	(14.0)
Mixed-aim services ³	5.9	1.3	3.7	2.0	(16.1)
Services aimed mainly at households ⁴	2.5	-0.6	0.2	1.4	(20.6)
Building industry	2.7	-5.1	3.4	-0.2	(5.7)
Agriculture, forestry and fisheries	9.9	4.6	-8.2	2.0	(2.2)
Non-market services	2.6	0.6	2.0	1.2	(12.5)
GDP before statistical adjustments ⁵	2.3	-1.3	2.3	2.0	
Statistical adjustments ⁶	-0.4	-0.3	-0.1	-0.1	
GDP after statistical adjustments ⁵	1.8	-1.6	2.2	1.9	

Sources : NAI, NBB.

¹ Garages are included in market services.

² Mainly transport, publicity, accounting and tax consultancy, and also technical services.

³ Mainly financial services and insurance, renting of goods and distribution of petroleum products.

⁴ Mainly retail trade, medical services, garages, hotels and catering and leisure activities.

⁵ Including various items which cannot be broken down among the branches of activity.

⁶ Contribution to the change in GDP.

ly, while activity in the non-residential sector derived but little benefit from the revival of gross fixed capital formation by enterprises, which consisted chiefly of investment in equipment.

The increase in the value added in agriculture, forestry and fisheries, which was practically equivalent to the average growth recorded during the last ten years, was due to a comparable rise in output of vegetable and animal products. The potato harvest, which fell sharply in 1994, rose considerably, returning to what may be regarded as a more normal level. The upward trend of the share of poultry in animal production continued.

The rise of 1.2 p.c. in the value added of non-market services mainly reflected the increase in civil servants' salaries and pensions connected with the social programming.

2.2 LABOUR MARKET

Labour force

During the year under review the labour force, i.e. the total of employed and registered unemployed persons, increased by about 15,000, a similar rise to that in 1994 but less than the average recorded during the preceding years.

The change in demand for jobs is determined both by the movement of the number of persons of working age and by the greater or lesser propensity of the latter to present themselves on the labour market, in other words, by the change in the activity rate.

The population of working age grew by 7,000 units in 1995, against 9,000 units the previous year, and represented about 66 p.c. of the total population. This proportion is of the same order of magnitude as in the neighbouring countries and, as in

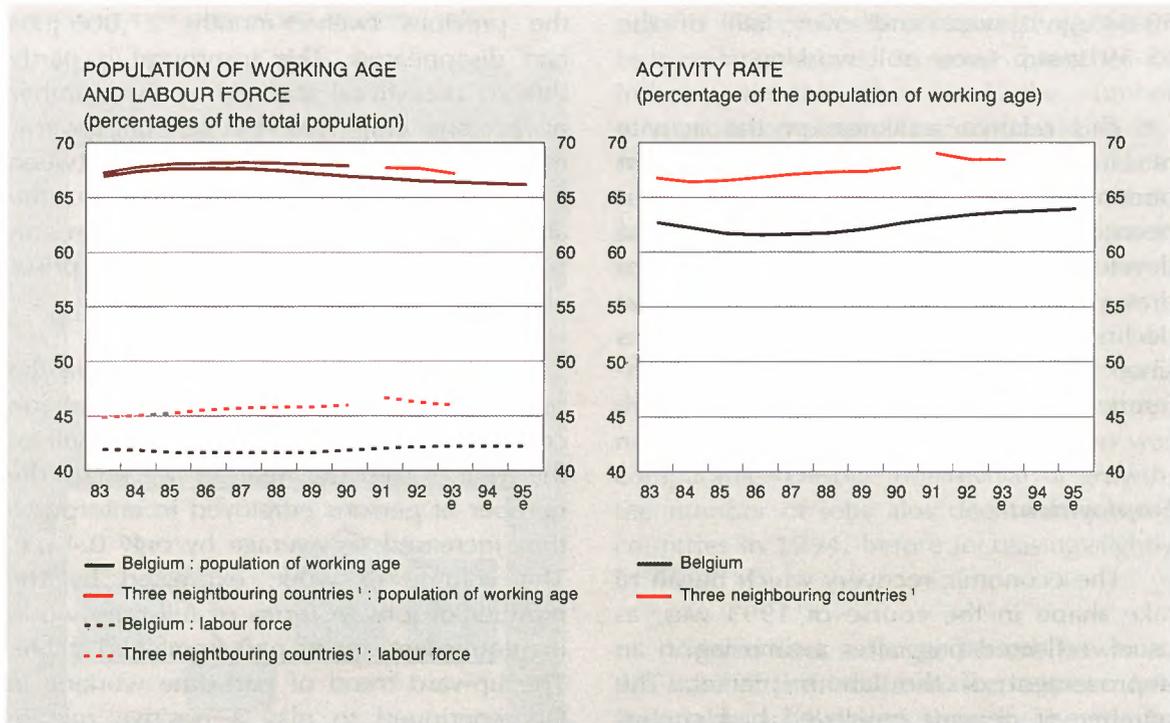
those countries, it has been tending to decrease since 1987. This movement is however somewhat more marked in Belgium, partly because net immigration, which consists chiefly of persons of working age, is lower here.

As in the preceding years, the proportion of the population of working age presenting itself on the labour market rose in 1995, reaching 64.1 p.c. This increase was solely due to the development of the female activity rate, the structural rise in which continued. The decline in the male activity rate, for its part, was interrupted during the year under review : not only was the influence of the cyclical situation neutral, but the success achieved by the schemes for temporary or early withdrawal from the labour market, and especially the early retirement scheme, continued to lessen.

Despite its rise in recent years, the activity rate is much lower in Belgium than in the neighbouring countries, and the difference compared with the average for Germany, France and the Netherlands has increased slightly. According to the results of the European Commission's annual survey on workforces, which provides data broken down by sex and age, the activity rate in Belgium has been below the average for the three neighbouring countries since 1983 — the year when the harmonised survey was started — both for men and for women. In both cases the difference increased over the years : the male activity rate fell more in Belgium than elsewhere, while the rise in the female activity rate was less marked here.

In Belgium young people, especially those aged 15 to 19, are less present on the labour market than in the adjacent countries. Systems which enable education and work to be combined are less developed in Belgium and are less successful than in Germany and the Netherlands. Furthermore, the increase in the length of education, of which the raising of the minimum school-leaving age is one aspect, means that the proportion of persons in

CHART 18 — DEMAND FOR JOBS



Sources : OECD, Centraal Bureau voor de Statistiek, Ministry of Employment and Labour, NSI, NBB.

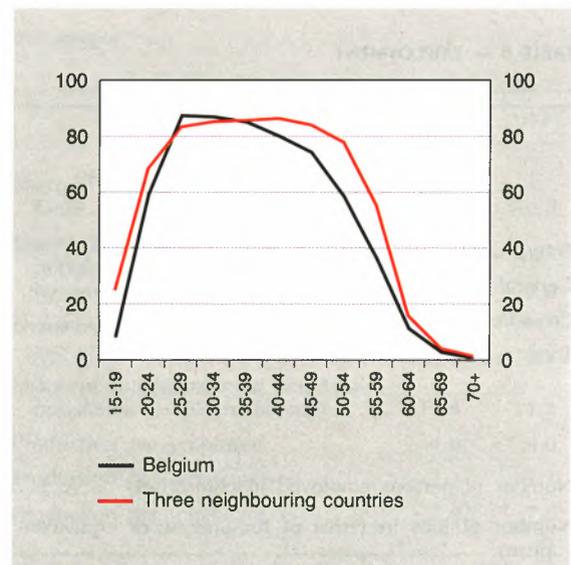
¹ The data include West Germany until 1990 and all Germany from then on.

this age group joining the labour force is becoming smaller and smaller. Even if the 15-19 age group is excluded, an assumption which more realistically reflects the potential supply of labour, the activity rate in Belgium remains, albeit to a smaller extent, below the average for the neighbouring countries.

The remaining divergence is not due to the behaviour of persons aged 25 to 45 : their activity rate does not deviate systematically from that in the neighbouring countries. On the other hand, the difference does become significant from the age of 45 upwards and especially between 50 and 59. In 1994, for instance, the most recent year for which the data from the European Commission's survey on workforces are available, only a little over half of the 50-54 age group formed part of the labour force in Belgium, and this proportion fell to one in three in the 55-59 age

CHART 19 — ACTIVITY RATES BY AGE GROUP¹ IN 1994

(Percentages)



Source : EC.

¹ Ratio, for each age group, between the labour force and the total population.

group. In the three neighbouring countries nearly three persons out of four in the 50-54 age group, and over half of the 55-59 group, were still working.

This relative weakness of the activity rate in the higher age group is not a recent phenomenon in Belgium. It has however been accentuated over the years by the development of the schemes for early withdrawal from the labour market. The gradual decline in the number of early retirements since 1991 should however reduce the difference from the other countries.

Employment

The economic recovery which began to take shape in the course of 1993 was, as usual, reflected only after a time lag in an improvement of the labour market. The number of persons employed had continued to decline throughout the greater part of 1994, because the growth in activity had been more than offset by an increase in the apparent productivity of labour.

At the end of 1994 this deterioration of the labour market ceased, and was replaced by net creation of jobs. Between

mid-1994 and mid-1995, 13,000 additional jobs came into being, whereas during the previous twelve months 27,000 jobs had disappeared. This turnaround is partly due to the virtual stability of the number of persons employed by general government, after the sharp fall recorded between June 1993 and June 1994 owing to the abolition of military service. The rise in employment is attributable to enterprises alone.

Following the cyclical slackening in the spring of 1995, the movement of net job creation ceased during the second half of the year. Over the year as a whole the number of persons employed in enterprises thus increased on average by only 0.4 p.c. The volume of work, expressed by the number of jobs in terms of full-time working equivalent, for its part, remained stable. The upward trend of part-time working in fact continued to play a positive role in the development of the number of persons in employment, even though it was partly counterbalanced by the continuation of the decline in involuntary part-time working, largely due to stricter regulations. Job redistribution plans, which provide for reductions in employers' social contributions in respect of the creation of jobs as a result

TABLE 8 — EMPLOYMENT

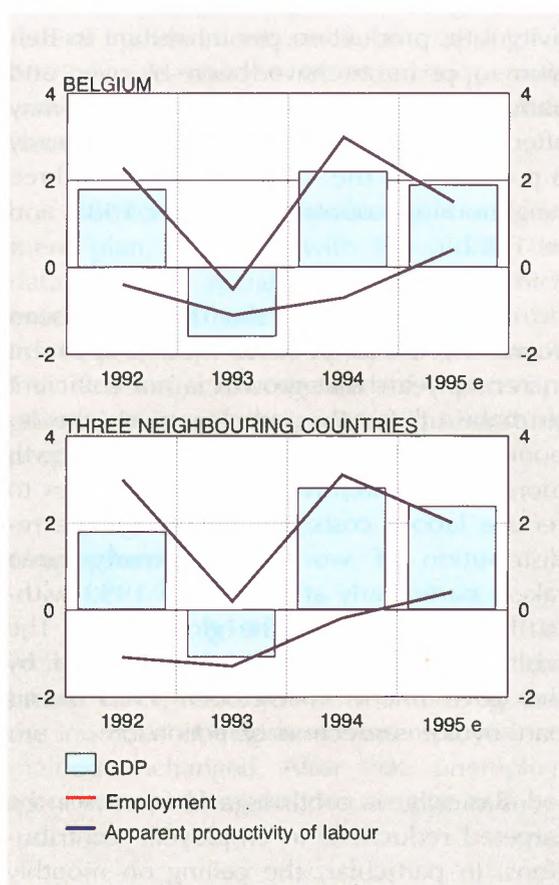
	1992	1993 e	1994 e	1995 e
<i>Annual changes in thousands of units (data as at 30th June)</i>				
Enterprises ¹	-15	-34	-12	16
General government	-2	-6	-16	-3
Cross-frontier workers (net)	-1	-1	...	...
Total	-18	-41	-27	13
<i>Percentage changes compared with the previous year (annual averages)</i>				
Number of persons employed in enterprises ¹	-0.4	-0.8	-0.3	0.4
Number of jobs in terms of full-time work equivalent in enterprises ¹	-0.9	-1.3	0.2	...

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

¹ Including self-employed persons.

CHART 20 — PRODUCTION, EMPLOYMENT AND APPARENT PRODUCTIVITY OF LABOUR

(Percentage changes compared with the previous year)



Sources : OECD, NBB.

of a redistribution of work, for their part, met with only a mitigated success, despite the increase in the reductions which was introduced in April 1995 following the inter-trade agreement concluded for 1995 and 1996.

The increase in the number of jobs in enterprises took place almost exclusively in the services to enterprises branch, and especially in temporary employment agencies. The more frequent recourse of enterprises in all branches of activity, including industry, to this temporary labour would appear to be partly due to the uncertainties concerning the duration of the cyclical recovery. It also probably forms part of a more structural trend. The increase in tem-

porary work has indeed been more marked in the case of white-collar staff, whose activity is less cyclically sensitive than that of blue-collar workers. In most branches of industry, on the other hand, the number of persons employed has continued to decline. Employment has also decreased in retail trade and in certain service branches, such as banks and insurance companies, where restructurings are in progress as a result of increased competition.

During the most recent business cycle the movement of employment in the three neighbouring countries and in Belgium was comparable. Despite the revival of growth, the number of jobs also declined in these countries in 1994, before increasing slightly in 1995.

Viewed over a longer period, however, the state of the labour market appears less favourable in Belgium than in the neighbouring countries. In 1983, while employment was at an all-time low in the countries concerned, the employment rate — the ratio between the number of per-

TABLE 9 — POPULATION, EMPLOYMENT AND PRODUCTION : DIFFERENCES¹ BETWEEN BELGIUM AND THE THREE NEIGHBOURING COUNTRIES

(Percentages)

	1983	1992
Share of employment in the labour force	-5.1	-2.8
Share of the labour force in the population of working age (activity rate)	-6.1	-7.0
Share of the population of working age in the total population	-0.5	-1.7
Share of employment in the total population (employment rate)	-11.4	-11.1
Production per employee	4.0	4.0
Production per active person	-1.3	1.1
Production per inhabitant	-7.8	-7.6

Sources : OECD, Centraal Bureau voor de Statistiek, Ministry of Employment and Labour, NSI, NBB.

¹ Differences between the figures for Belgium and the corresponding figures for the three neighbouring countries considered as a whole.

sons working and the total population — was down to 36.5 p.c. in Belgium, against 41.1 p.c. in the three neighbouring countries considered as a whole, i.e. a difference of over 11 p.c. This difference was due to the fact that both the activity rate of the population of working age and the ratio between employment and the labour force were lower in Belgium. During the following ten years the number of jobs rose somewhat less rapidly in Belgium, chiefly owing to the development of workforces in general government, as the extent of the increase in industry and market services as a whole has been similar to that in the neighbouring countries. However, as the growth in the population was also smaller in Belgium, the difference between employment rates remained virtually unchanged.

This smaller degree of participation by the population in working life was not fully reflected in the creation of value added, owing to a higher apparent productivity of labour : while the number of persons actually employed is relatively smaller in Belgium, production — that is, GDP calculated at constant prices and 1991 purchasing power parities — per employee is slightly higher there than that of the three neighbouring countries. For the economy as a whole, this advantage in terms of productivity — connected with a higher, and faster-rising, ratio between capital and labour — amounted to 4 p.c. in 1983 and appears to have been maintained during the following ten years. The productivity gap is larger in industry, a branch in which a substantial substitution of capital for labour has taken place.

The more intensive use of the capital factor of production has been accompanied by higher unemployment : the share of employment in the labour force is smaller than that observed on average in the three neighbouring countries. This difference has, however, been counterbalanced by the higher apparent productivity per employee, so that the level of production per active person is similar. The comparison is however made to appear unduly favourable by

the reduction in demand for jobs, largely attributable to the early retirement schemes.

Altogether, mainly owing to a lower activity rate, production per inhabitant in Belgium appears to have been — over and above any statistical divergences which may affect international comparisons — nearly 8 p.c. below the average for the three neighbouring countries, both in 1983 and in 1982.

In Belgium, as in the other European countries, it has become clearly apparent in recent years that growth is not sufficient to make up for the imbalances on the labour market. In order to make growth more labour-intensive, various measures to reduce labour costs and encourage the redistribution of work have already been taken, particularly at the end of 1993 within the framework of the global plan. The multiannual employment plan adopted by the government in October 1995 forms part of the same line of action.

Basically, it confirms and increases the targeted reductions in employers' contributions. In particular, the ceiling on monthly pay below which a reduction for low wages is granted will be raised to just over Fr. 60,000. Furthermore, specific exemptions from employers' contributions are envisaged in cases where jobs are created in the health care sector. The « recruitment advantage » plan for the long-term unemployed may be extended beyond 1996. Parallel with this, a new « reintegration jobs » plan provides for the granting of a reduction of social charges upon the recruitment of an employed person aged over 50 who has been registered as unemployed for at least six months. Under the « first work experience contracts » scheme, a monthly bonus of Fr. 6,000 will be allocated for young people who have been registered as job-seekers for nine months and are given work under the on-the-job training scheme for the young.

The redistribution of work is being encouraged by making career interruptions,

part-time working and half-time early retirement more attractive. The part-time early retirement and voluntary four-day-week schemes, which have been in force in the federal government since the spring of 1995, could also be extended to persons with a temporary contract and the armed forces.

Monitoring of the multiannual employment plan, including with the aid of the data from the social balance sheets which enterprises will have to draw up, is entrusted to the Superior Employment Council. This new council, composed of experts appointed by the government, will also study proposals for promoting employment.

Unemployment

Between mid-1994 and mid-1995 the increase in employment and that in the labour force were similar in extent, so that the number of registered unemployed remained unchanged. After that, unemployment worsened again, the average number

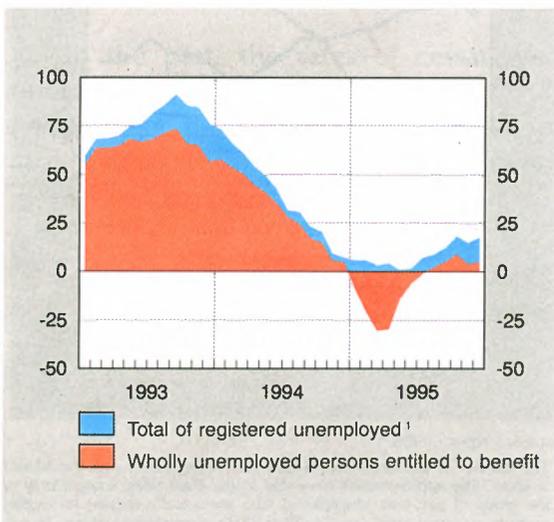
of unemployed in 1995 as a whole having thus been about 8,000 units above the 1994 figure.

According to the harmonised data of the European Community, compiled on the basis of surveys measuring the actual availability of the unemployed, which enable a comparison to be made with the other countries of the European Union, the unemployment rate in Belgium rose from about 10.1 p.c. at the beginning of 1995 to 10.3 p.c. in December. Among the neighbouring countries, the unemployment rate also rose during the second half of the year in Germany and France. In the latter country it had, however, fallen until July, so that on annual average it still decreased. In the Netherlands, on the other hand, where the growth in economic activity remained stronger than in the afore-mentioned countries, the unemployment rate is lower and has not turned upwards again.

Unemployment in Belgium according to period of inactivity can only be analysed on the basis of data concerning wholly un-

CHART 21 — UNEMPLOYMENT

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

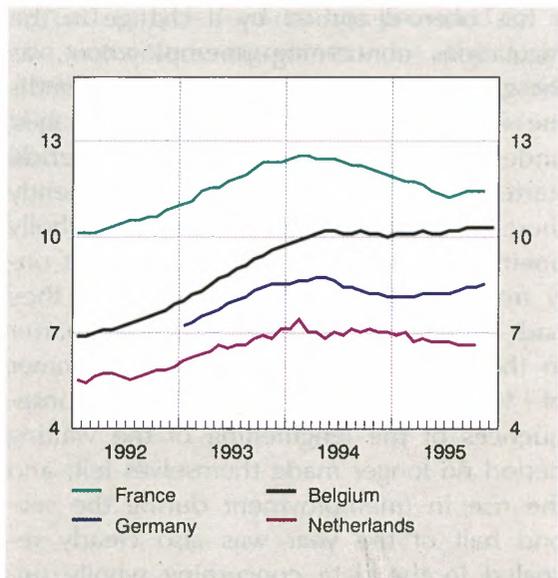


Source : NEMO.

¹ Wholly unemployed persons receiving benefit, compulsorily registered job-seekers (mainly temporarily excluded unemployed persons and young people during the waiting period) and voluntarily registered job-seekers.

CHART 22 — INTERNATIONAL COMPARISON OF THE UNEMPLOYMENT RATE

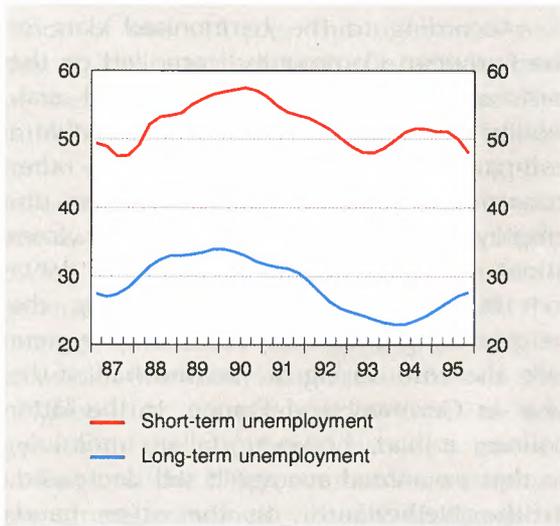
(Unemployed job-seekers as percentages of the civilian labour force, seasonally adjusted monthly data)



Source : EC.

CHART 23 — RATES OF OUTFLOW FROM UNEMPLOYMENT ACCORDING TO PERIOD OF INACTIVITY¹

(Seasonally adjusted and smoothed data)



Source : NEMO.

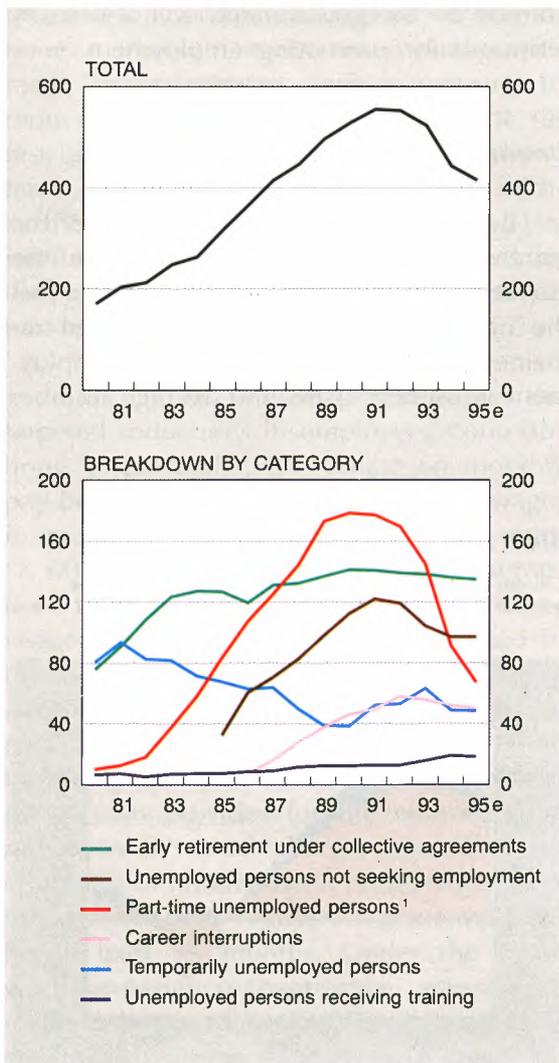
¹ The rate of outflow from short-term unemployment is calculated by subtracting the number of unemployed whose period of inactivity is between one and two years from the number of unemployed whose period of inactivity was less than one year in the previous year, and then expressing this difference as a percentage of the latter number. For the long-term unemployed, account is taken of the number of unemployed with a period of inactivity of over two years on the one hand and over one year on the other hand, respectively.

employed persons receiving benefit. This series — which does not take account of, among others, temporarily excluded unemployed persons and young people during the waiting period — must however be interpreted with caution for 1995, because it has been disturbed by a change in the regulations concerning unemployment, as the global plan lengthened by three months the waiting period for school-leavers aged under 26, for whom this waiting period started on 1st July 1994. Consequently these young people were counted as wholly unemployed persons entitled to benefit only from the second quarter, whereas they had been included from the first quarter in the preceding years. From the summer of 1995 onwards, the statistical consequences of the lengthening of the waiting period no longer made themselves felt, and the rise in unemployment during the second half of the year was also clearly revealed in the data concerning wholly unemployed persons receiving benefit.

The number of short-term unemployed — that is, those whose inactivity period is shorter than one year — showed a similar movement to that of the total of unemployed persons receiving benefit; at the end of December it was however still more than 9,000 units below the end-1994 figure. The number of unemployed without

CHART 24 — BENEFICIARIES OF UNEMPLOYMENT INSURANCE OTHER THAN WHOLLY UNEMPLOYED PERSONS ENTITLED TO BENEFIT

(Annual averages, thousands of units)



Sources : NEMO, NBB.

¹ The number of part-time unemployed persons registered with the NEMO is larger. The approximation presented in the chart takes account only of the group of part-time unemployed who are actually entitled to supplementary unemployment benefit. Their share amounted to about 76 p.c. in 1993. As a result of the entry into force of the system of part-time working with retention of rights, which has gradually replaced the less strict system of involuntary part-time working, the share of persons actually receiving benefit decreased. This share was estimated at 55 p.c. in 1994 and 47 p.c. in 1995.

work for more than a year, for its part, continued to grow throughout the year under review, albeit more slowly than in 1994. This less pronounced increase is primarily due to the effect of the decline in short-term unemployment in 1994, which slowed down the rise in long-term unemployment in the following year, but also to the introduction, in 1995, of the « recruitment advantage » plan, which is aimed specifically at the long-term unemployed.

The effect of this plan can be approximately perceived from the movement of the rates of outflow from unemployment, which measures the extent to which the various categories of unemployed persons who were registered the previous year have stopped being unemployed.

Traditionally, the rates of outflow from short-term unemployment are appreciably higher than the corresponding percentages for the long-term unemployed, which reflects the fact that the probability of being given a job decreases the longer the period of unemployment has been. Over the period from 1987 to 1995 the rate of outflow from unemployment for persons who had been unemployed for less than one year amounted on average to about 52 p.c., whereas that for persons who had been unemployed for over one year was barely 29 p.c.

In the past, the rates of cessation of outflow from short-term and long-term unemployment have generally moved in the same direction. This is because the fluctua-

tions in these data primarily reflect the incidence of the business cycle : thus, the chances of cessation reached a peak around 1990, when economic activity was high, and gradually decreased from then on, parallel with the slackening of economic activity. During the year under review, however, the outflow rate for the long-term unemployed rose — without this phenomenon being attributable to an increase in the number of exclusions — whereas that for the short-term unemployed fell. These divergent movements seem to suggest that the « recruitment advantage » plan is having a favourable effect on the recruitment chances of the long-term unemployed.

The number of persons entitled to unemployment insurance, other than wholly unemployed persons receiving benefit, declined for the fourth year in succession. In 1995 this movement was again primarily due to a fall in the number of part-time unemployed persons : the system of involuntary part-time working, which, since 1993, has been gradually replaced by the stricter system of part-time working with retention of rights, had completely disappeared at the end of the year under review. Furthermore, the number of career interruptions continued to fall, although the government authorities tried to make the system more attractive. Lastly, despite the temporary lowering of the collectively agreed early retirement age provided for in the inter-trade agreement for the years 1995-1996, the number of beneficiaries did not rise in 1995 and actually continued the decline which began in 1991.

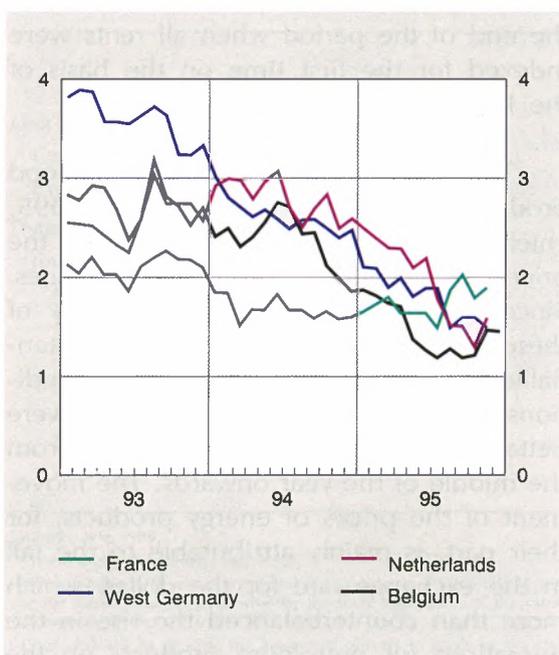
3. PRICES, COSTS AND INCOMES

3.1 PRICES

The rise in consumer prices reached 1.5 p.c. in December 1995, whereas it was still 1.9 p.c. at the beginning of the year. Over the whole year, inflation averaged 1.5 p.c., against 2.4 p.c. in 1994 and 2.8 p.c. in 1993. This tendency to slow down, which appears, however, to have come to an end during the second half of the year, was also observable during the same period in the three neighbouring countries, although inflation speeded up slightly in France from August onwards, owing to an increase in indirect taxation. Within the EU, Belgium, together with the three neighbouring countries, continued to form part of the group with the lowest inflation rates.

CHART 25 — INTERNATIONAL COMPARISON OF CONSUMER PRICES

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



Sources : EC, MEA.

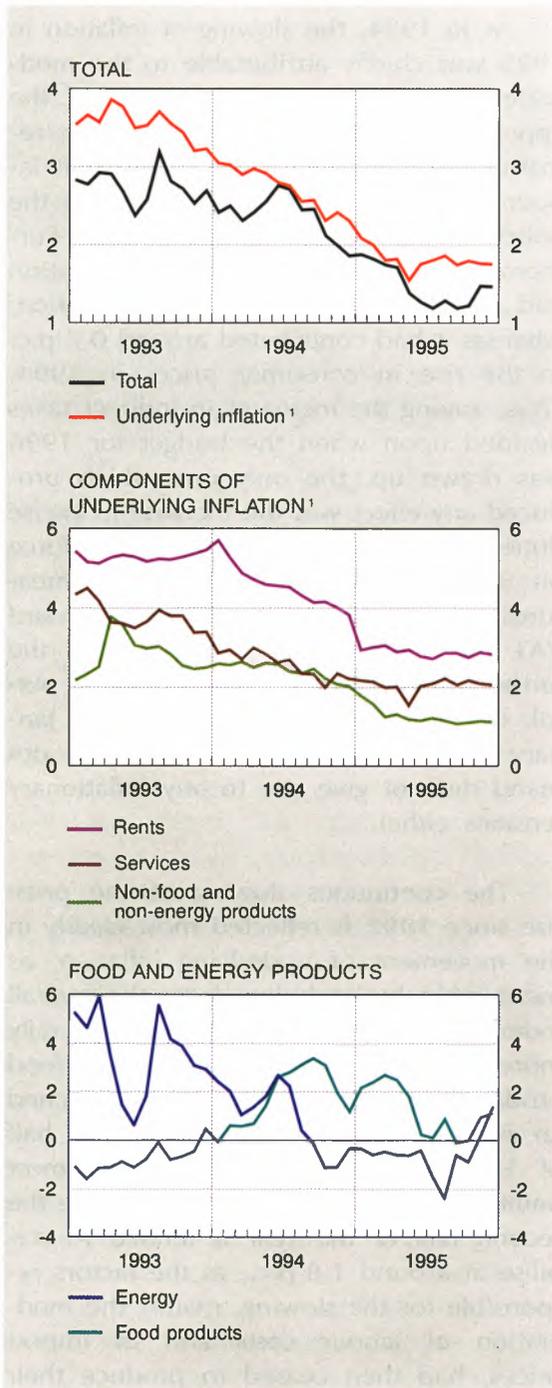
As in 1994, the slowing of inflation in 1995 was chiefly attributable to the moderate movement of costs. Because of the appreciation of the franc, import prices remained virtually unchanged, while unit labour costs declined slightly, thanks to the policy of moderation of real wages. Furthermore, the increase in indirect taxation had only a very slight effect on inflation, whereas it had contributed around 0.7 p.c. to the rise in consumer prices in 1994. Thus, among the increases in indirect taxes decided upon when the budget for 1996 was drawn up, the only one which produced any effect was the increase in excise duties on petrol, which entered into force on 30th October 1995. The other measures, namely the raising of the standard VAT rate from 20.5 to 21 p.c. and the further increase in the excise duties on petrol, did not come into force until 1st January 1996. Lastly, the movement of demand did not give rise to any inflationary tensions either.

The continuous slowing of the price rise since 1992 is reflected most clearly in the movement of underlying inflation, as measurable by excluding from the overall index the elements which are generally more unstable, namely the prices of food products and energy. After having reached an average of 3.7 p.c. during the first half of 1993, underlying inflation fell almost uninterrupted until mid-1995. During the second half of the year it tended to stabilise at around 1.8 p.c., as the factors responsible for the slowing, mainly the moderation of labour costs and of import prices, had then ceased to produce their effects. This pattern is observable in the movement of each of the components of underlying inflation.

Non-energy and non-food products showed the smallest price rises, these having declined on average to 1.1 p.c. in December 1995. This category of products

CHART 26 — CONSUMER PRICES

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



Source : MEA.

¹ Inflation excluding the change in prices of food and energy products.

probably benefited most from the virtual stabilisation of import prices and from productivity gains.

The slowing of the rise in the prices of services, to a level close to 2 p.c. — a result which had not been achieved since 1988 — chiefly reflects the movement of labour costs, which are by far the most important cost component in the services sector. Certain services to individuals underwent price increases appreciably above that average. These are hospital care, telephone calls, newspapers, financial services and fire insurance. In the case of financial services and insurance, these price rises form part of the tariff-setting policy pursued by these sectors during the last few years with a view to ensuring the profitability of each service offered. The raising of fire insurance premiums was furthermore due to the widening of cover to include storm risks which was imposed by the legislator.

Rents slowed down most, their rise having slackened from an average of 5.3 p.c. in 1993 to 3.8 p.c. in December 1994 and 2.8 p.c. in December 1995. This development is chiefly due to the introduction, in January 1994, of the health index as the new basis of calculation for the annual adjustments, and also to the slowing of inflation itself. However, the moderating effect of the former factor already began to dwindle in February 1995, that is, at the end of the period when all rents were indexed for the first time on the basis of the health index.

The increase in the prices of food products slowed down from April 1995, chiefly owing to the movement of the prices of vegetables, fruit and potatoes. Since the middle of 1994 the prices of these products had in fact risen substantially because of adverse weather conditions. In 1995 growing conditions were better. Moreover, coffee prices fell from the middle of the year onwards. The movement of the prices of energy products, for their part, is mainly attributable to the fall in the exchange rate for the dollar, which more than counterbalanced the rise in the quotations for petroleum products on the international markets until November. Fur-

thermore, from that month onwards, energy prices were pushed up by the increase in the excise duties on petrol. Even so, at the end of 1995 they were only 1.3 p.c. above the level reached at the end of the previous year.

3.2 COSTS IN THE ENTERPRISE SECTOR

The slowing of inflation was reflected in the movement of the average unit selling price on the domestic market, which includes, in addition to consumer prices, also those of investments. The increase in this average unit price declined from 2.4 p.c. in 1994 to 1.5 p.c. In a context of appreciation of the franc, export prices remained virtually unchanged, as in the previous year.

The factors which influenced the movement of selling prices also applied to

costs. Thus, the appreciation of the franc largely counterbalanced the rise, relatively large though it was, in the prices of imported goods and services, expressed in foreign currencies. The slackening of inflation for its part contributed to the slight decline in unit labour costs. Because of the wage indexation system in force in Belgium, the movement of inflation is in fact reflected fairly quickly in that of wages.

The maintenance of control over domestic costs is also attributable to the measures adopted previously, especially within the framework of the global plan. Thus, the changeover from the overall index of consumer prices to the health index as the reference for wage indexation, which had contributed to the extent of 1 p.c. to the moderation of wages in 1994, still exerted a residual effect, of about 0.3 p.c., in 1995. The freezing of collectively agreed wage increases in 1995 and 1996, for its part, limited the real growth in labour costs in enterprises to the effect of wage drift alone. Furthermore, the increase in labour

TABLE 10 — PRICES AND UNIT COSTS IN THE ENTERPRISE SECTOR^{1,2}

(Percentage changes compared with the previous year)

	1990	1991	1992	1993	1994	1995 e
Unit selling price	0.9	1.0	0.4	0.7	1.3	0.5
On the domestic market	3.3	2.9	2.6	2.5	2.4	1.5
Exports	-1.7	-0.3	-1.1	-1.2	0.6	0.4
Determinants :						
Imported goods and services						
Costs in foreign currencies ³	(5.7)	(-0.6)	(-0.8)	(-2.1)	(2.7)	(4.4)
Exchange rate ⁴	(-6.6)	(0.1)	(-2.0)	(-0.4)	(-1.7)	(-3.8)
Costs in francs	-1.2	-0.4	-2.7	-2.5	1.0	0.4
Deflator of value added in the enterprise sector ⁵ .	2.7	2.2	3.3	3.9	2.4	1.7
Labour costs ⁵	5.1	5.2	3.2	3.1	0.2	-0.2
Indirect taxes net of subsidies ⁵	0.2	0.1	6.5	8.8	9.3	-4.1
Gross operating surplus ⁵	0.9	-1.3	2.0	3.7	1.7	6.3

Sources : NAI, NBB.

¹ Private and public enterprises.

² The components of selling prices and of the deflator of value added in the enterprise sector are calculated without taking account of the possible influence of the statistical adjustments whereby the three approaches of the national accounts are reconciled. On the other hand, selling prices and the deflator do incorporate them.

³ Costs obtained by dividing the movement of costs in francs by the change in the exchange rate.

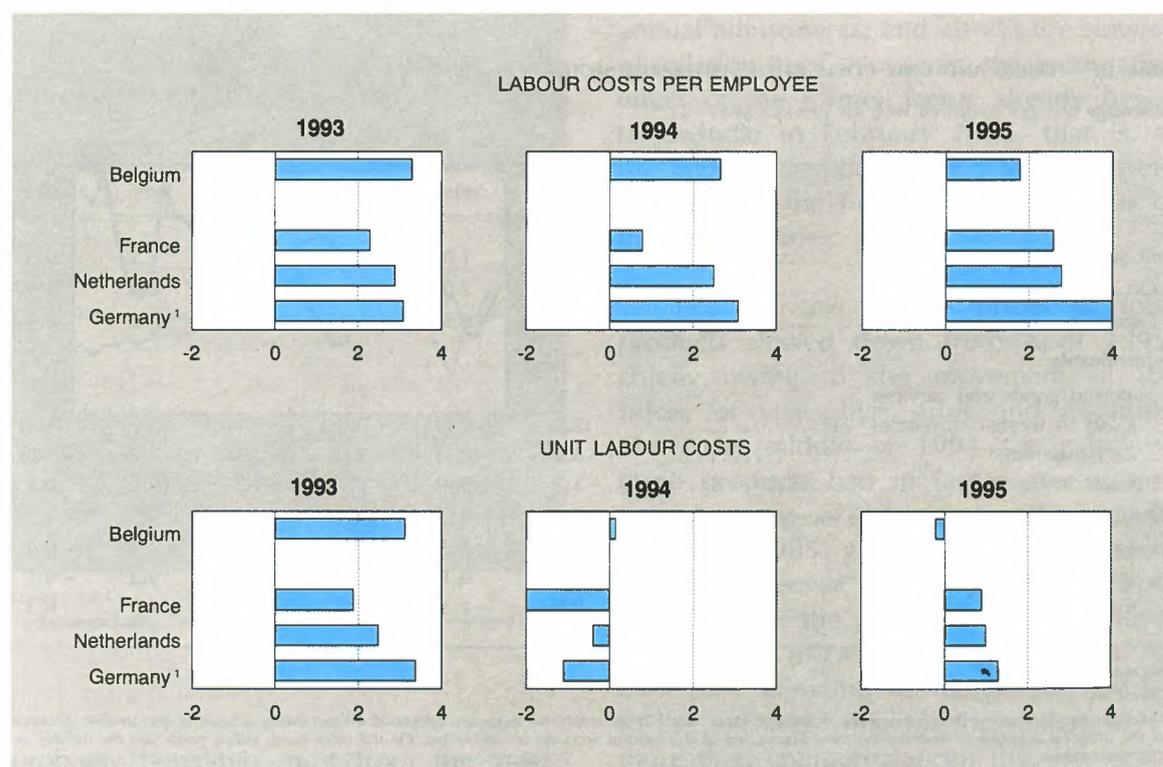
⁴ Average exchange rate weighted by imports of goods and services. A minus sign indicates an appreciation of the franc.

⁵ Per unit of output, that is, per unit of value added at constant prices in the enterprise sector.

TABLE 11 — LABOUR COSTS IN ENTERPRISES¹*(Percentage changes compared with the previous year)*

	1990	1991	1992	1993	1994	1995 e
Compensation per employee per year of full-time work ...	7.2	8.7	7.0	3.3	2.7	1.8
Increase resulting from :						
Employers' social security contributions	0.1	0.3	-0.1	0.3	-1.0	-0.1
Indexation	3.3	3.5	2.7	2.6	1.4	1.5
Wage increases under collective agreements	2.0	2.3	2.3	0.9	1.4	...
Wage drift	0.5	0.5	0.5	0.5	0.5	0.5
Other factors ²	1.2	1.8	1.4	-1.0	0.4	...
Productivity per employee per year of full-time work	2.0	3.3	3.6	0.1	2.5	2.1
Unit labour costs ³	5.1	5.2	3.2	3.1	0.2	-0.2

Sources : NAI, NBB.

¹ Private and public enterprises. All the data are calculated without taking account of the possible influence of the statistical adjustments whereby the three approaches of the national accounts are reconciled.² This item includes increases granted by enterprises, on top of the collectively agreed increases, the discrepancy between estimated and actual wage indexations and errors and omissions.³ Per unit of value added at constant prices in the enterprise sector.**CHART 27 — LABOUR COSTS IN ENTERPRISES IN NATIONAL CURRENCIES : COMPARISON WITH THE NEIGHBOURING COUNTRIES***(Percentage changes compared with the previous year)*

Sources : OECD, NBB (for Belgium).

¹ West Germany until 1994.

costs per employee was also curbed by the further reduction in the social security contributions paid by employers, as provided for in particular by the « recruitment advantage » plan.

Altogether, the rise in labour costs per employee slackened to 1.8 p.c., compared with 2.7 p.c. in 1994, in which year it had already declined substantially compared with the previous years. In 1995 this rise was less pronounced than that, expressed in national currencies, in Germany, France and the Netherlands. Account being taken of the increase in productivity, unit labour costs declined slightly in Belgium, whereas they increased in the three neighbouring countries.

The deflator of value added in the enterprise sector, which reflects all costs of domestic origin, for its part, rose by 1.7 p.c., against 2.4 p.c. in 1994, during which year it had been influenced upwards by an increase in indirect taxation. During the year under review the gross operating surplus per unit of output thus grew more than in 1994.

3.3 INCOMES

Incomes of individuals

The increase in the primary income of individuals shrank from 2.8 p.c. in 1994 to 2 p.c. in 1995, owing to the combined influence of the income moderation measures introduced by the global plan and the decline in interest rates. This slowing did not, however, have any effect on disposable income, the rate of growth of which on the contrary rose from 1.8 p.c. in 1994 to 2 p.c. in 1995, owing to a smaller rise in net transfers to the other sectors. Expressed in real terms, disposable income increased by about 0.5 p.c., whereas it had contracted to the same extent in 1994.

The provisions of the global plan continued to depress the movement of earned incomes. Thus, the nominal increase in wages and salaries per employee in enterprises was chiefly determined by indexation on the basis of the health index, owing to the prohibition against any negotiated in-

TABLE 12 — INCOMES OF INDIVIDUALS AT CURRENT PRICES¹

(Percentage changes compared with the previous year)

	1992	1993	1994	1995 e
Primary income	6.2	3.2	2.8	2.0
Earned incomes	5.2	2.0	3.3	2.4
Wages and salaries ²	5.6	2.2	3.0	2.2
Incomes of self-employed persons	3.0	1.1	4.6	3.2
Incomes from property	9.6	6.9	1.2	0.8
Net current transfers	6.8	0.1	11.5	1.9
of which net transfers to general government	7.0	-1.1	10.9	3.4
Transfers received	6.2	4.9	4.0	3.4
Transfers paid	6.4	3.4	5.6	3.4
Disposable income	6.1	3.5	1.8	2.0
p.m. At constant prices ³	(3.6)	(0.7)	(-0.5)	(0.5)

Sources : NAI, NBB.

¹ Including depreciation, but disregarding the statistical adjustments whereby the three approaches of the national accounts are reconciled.

² These figures include not only the compensation paid by enterprises and general government, including employers' social security contributions, but also civil service pensions.

³ Data deflated by means of the index of consumer prices.

crease. As for the average compensation paid by general government in respect of salaries and pensions, the fact that its nominal increase is faster than in the enterprise sector still reflects the mechanisms for the adjustment of the scales for working personnel, which, in 1995, were chiefly operative at the level of local authorities, and the pension equalisation mechanisms. Furthermore, while the number of persons receiving a civil service pension continued to rise, personnel numbers in general government stabilised, whereas, in enterprises, paid employment, expressed in terms of full-time working, decreased slightly. Altogether, the percentage increase in total wages and salaries paid by the private and public sectors reached only 2.2 p.c. in 1995, against 3 p.c. in 1994.

The incomes of self-employed persons, which represent just under one fifth of total earned incomes, also increased less rapidly in 1995 than during the previous year, having gone up by 3.2 p.c., against 4.6 p.c. This slowing applied to farmers and traders, as the rate of growth of the incomes of persons exercising a liberal profession recovered in 1995.

After having fallen for four years in succession, farmers' incomes had risen appreciably in 1994, thanks to support measures taken within the framework of the reform of the common agricultural policy. In 1995, on the other hand, these incomes contracted again, as the increase in production was not large enough to counteract the effects of the fall in the selling prices of certain agricultural and horticultural products. Traders, for their part, were confronted by the sluggishness of private consumption.

The net resources derived by individuals from their property increased slightly more slowly than the previous year's already very low growth rate, namely by 0.8 p.c., against 1.2 p.c.

The interest incomes received by individuals on their financial investments in

Belgium decreased again in 1995. While long-term investments did in fact increase sharply owing to the portfolio reallocations in favour of assets at over one year which began in 1994, this volume effect was more than counterbalanced by the continuance of the decline in the average interest rate received on these assets. This was because, although long-term rates had recovered in the course of 1994, the assets acquired at these rates served to replace matured securities which had been issued at appreciably higher rates at the beginning of the 1990s. The proceeds of short-term investments likewise declined owing to the combined influence of the further fall in money market rates and the aforementioned marked preference for long-term assets.

The extent of the rise in net incomes from real estate was about the same as in the previous year. The slackening of the rise in rents was in fact largely offset by the decrease, owing to the fall in interest rates, in the mortgage charges set against these incomes. Dividend payments by Belgian companies increased more in 1995 than in 1994, reflecting the improvement in the profits of enterprises during the latter year. Lastly, incomes from investments abroad stabilised at the level reached in 1994, the fall in the yields offered on these investments having been counterbalanced by the increase in the net foreign assets of individuals.

The rise in net transfers paid to general government, which are deducted from the primary income of individuals, at 3.4 p.c. in 1995, fell far short of the rate of 10.9 p.c. recorded in 1994. The main fall was in the percentage increase in gross transfers to general government, which declined from 5.6 p.c. in 1994 to 3.4 p.c. in 1995. In the absence of any new measures, the rate of increase of direct taxes fell from 11.1 p.c. to 3.4 p.c. The increase in social contributions speeded up, however, because most of the reductions in employers' contributions decided upon within the framework of the global plan produced only a residual effect in 1995, unlike in the

previous year, in the course of which they had been introduced. On the other hand, transfers received from general government increased at a more or less comparable rate in 1994 and in 1995, namely by 4 and 3.4 p.c. respectively. While the moderating effect on the growth in this public expenditure produced by the introduction of the health index in 1994 hardly made itself felt any more in 1995, the slowing of inflation, combined with the reduction in payments of unemployment benefit brought about by the lengthening of the waiting period for young people, helped to curb the growth in the payments made by general government.

Incomes of companies

The rise in the primary income and in the disposable income of companies, which had speeded up appreciably in 1994, continued at a strong rate in 1995: the former went up by 14.3 p.c. and the latter by 13.1 p.c. The divergence between these two growth rates is attributable to the movement of corporation tax, which constitutes the bulk of the transfers paid by enterprises. This tax once more increased faster than primary income owing to the various measures adopted by the government to limit the tax exemption schemes in favour of companies.

TABLE 13 — INCOMES OF COMPANIES AT CURRENT PRICES¹

(Percentage changes compared with the previous year)

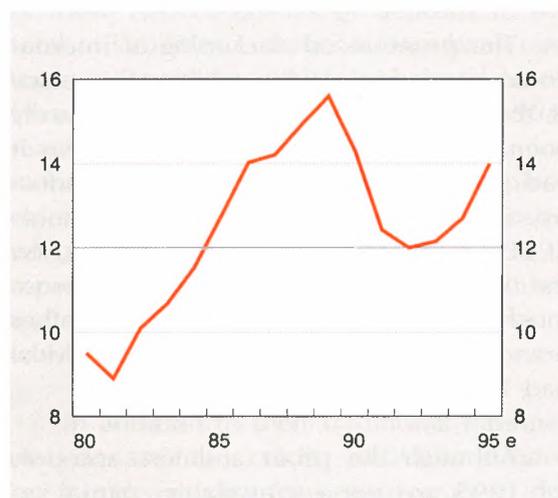
	1992	1993	1994	1995 e
Primary income	1.5	4.8	9.7	14.3
Net current transfers to other sectors	2.7	16.1	23.5	18.9
Disposable income	1.3	2.7	6.7	13.1

Sources : NAI, NBB.

¹ Including depreciation, but excluding the statistical adjustments whereby the three approaches of the national accounts are reconciled with each other.

CHART 28 — SHARE OF THE PRIMARY INCOME OF COMPANIES IN NATIONAL INCOME

(Percentages of gross national income)



Sources : NAI, NBB.

The favourable movement of companies' results both in 1994 and in 1995 had the effect of increasing the share of that sector's primary income in national income. This share, which has fluctuated widely during the last fifteen years, has more often than not moved in the opposite direction to the primary income of individuals, owing to the simultaneous influence, but in opposite directions, exerted by the movements in total wages and salaries on these two components of national income. It first of all rose sharply, from about 9 p.c. at the beginning of the 1980s to a peak of 15.6 p.c. in 1989, and was subsequently eroded at the beginning of the present decade, declining by over 3 percentage points between 1989 and 1993. It increased again during the next two years, reaching 14 p.c. in 1995.

The movement of the incomes of companies as a whole may conceal widely differing developments in the various branches of activity, as is shown by the data on the profit and loss accounts of non-financial companies collected by the Central Balance Sheet Office. According to this information source, the gross operating

results of manufacturing industry and the other branches, which had risen uniformly between 1985 and 1989, subsequently underwent very different changes.

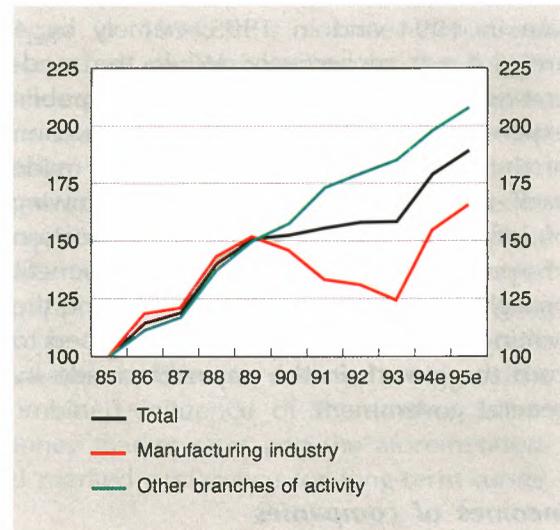
The pronounced slackening of international economic activity which took place at the beginning of the 1990s had hardly been felt by service companies, whereas it had strongly affected manufacturing industry, which is more sensitive to the course of activity in other countries. In 1994, on the other hand, gross operating results rose much faster in industry than in the other branches of activity, as the cyclical revival had been mainly export-led.

Although the profit and loss accounts for 1995 are not yet available, partial indications obtained by means of surveys conducted among a number of companies appear to show that the movement of the gross operating results of industrial enterprises fell into line again with that of other companies.

Apart from the differences which may be observed between branches of activity, the results within one and the same branch sometimes diverge considerably from one enterprise to another. Such disparities appear to have been particularly prevalent during the recent period. The number of bankruptcies has in fact steadily risen since the beginning of the decade. This increase has not, however, been counterbalanced by any rise in company formations, the number of which on the contrary fell steadily between 1990 and 1994. It was not possible, however, to take account of these two factors underlying the slowing of the rise in the gross operating result in the still provisional data for the years 1994 and 1995. In the absence of exhaustive series it was in fact necessary to calculate the gross operating results for these two years by extrapolating the percentage changes obtained for constant samples of companies. This method of estimation, which excludes, by definition, the influence exerted by the formation and disappearance of enterprises, may have given a somewhat too

CHART 29 — GROSS OPERATING RESULT OF NON-FINANCIAL COMPANIES

(Indices 1985 = 100)



Source : NBB.

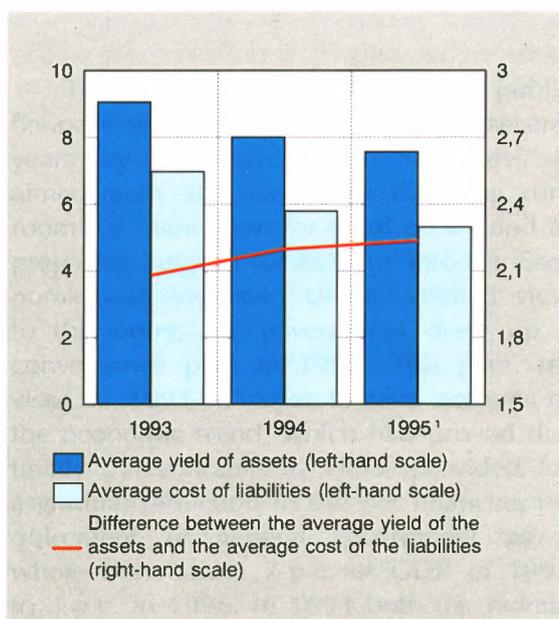
favourable impression of the development of results in 1994 and 1995.

While non-financial companies obtain the bulk of their incomes from the sale of goods and services, which enables them, after deduction of the cost of their purchases and their personnel expenses, to generate an operating surplus, that does not apply to financial enterprises, especially credit institutions. These always derive the majority of their resources from the difference between the interest charged on the funds which they lend and that paid to depositors and to the holders of the securities which they issue.

This intermediation margin is very small on interbank and foreign exchange transactions as a whole. The results of credit institutions remain primarily dependent on the interest-rate differential between assets and liabilities in francs vis-à-vis non-bank customers. The differential stabilised at around 2.2 p.c. in 1995. The general decline in interest rates affected both the average yield on assets and the average cost of liabilities. Admittedly, the rates applicable to the inexpensive financing

CHART 30 — IMPLICIT INTEREST RATES ON THE TRANSACTIONS IN FRANCS OF CREDIT INSTITUTIONS WITH NON-BANK CUSTOMERS

(Percentages)



Source : NBB.

¹ Data for the first nine months of the year expressed on an annual basis.

sources represented, for credit institutions, by sight accounts and regulated savings deposits are characterised by a certain downward rigidity, which played a part in mod-

erating the influence of the decline in interest rates on the average cost of the banks' resources. This effect was however largely offset by an increase in the share of these two categories of deposits in the total of liabilities in francs to non-bank customers. That share, which had already risen from 31.4 p.c. in 1993 to 35 p.c. in 1994, reached 38.1 p.c. during the first nine months of 1995. This increase took place chiefly at the expense of time deposits, which in the first three quarters of 1995 represented only 22.5 p.c. of liabilities, against 27.8 p.c. for the year 1993 as a whole.

In addition to their traditional intermediation activity, credit institutions have been endeavouring for several years to develop the marketing of new financial services which are remunerated in forms other than interest payments. The incomes generated by these activities, which comprise both commissions and receipts more directly connected with the development and exploitation of market conditions, increased appreciably in 1995. Trading in securities and in interest rates, which had closed with a loss in 1994 in an environment marked by a sharp rise in long-term interest rates, in fact allowed profits to be earned again in 1995.

4. PUBLIC FINANCES

4.1 MAIN LINES OF FISCAL POLICY

The effort of consolidation of the public finances which has been made for several years by the government authorities is aimed both at creating, in the long run, room for manoeuvre for fiscal policy and at preparing Belgium for its entry into the Economic and Monetary Union. With a view to this entry, the government drew up a convergence plan in 1992. This plan, revised in 1994 in order to take account of the economic trend, which had proved distinctly unfavourable in 1993, provided for a gradual reduction in the net financing requirement of general government as a whole from about 7 p.c. of GDP in 1992 to 3 p.c. in 1996. In 1994 both the federal government and the governments of the communities and regions undertook to do everything in their power to achieve this objective.

Furthermore, the Superior Finance Council, in its statement dated May 1995, made certain recommendations for the period 1996-1999. The primary surplus of Entity I, composed of the federal government and the social security system, could move in line with the cyclical trend, but without falling below 5.6 p.c. of GDP — that is, the surplus expected by the council for 1996 — or exceeding 6 p.c. The primary surplus of Entity II, i.e. the communities and regions and the local authorities, for its part, should increase by nearly 0.4 p.c. of GDP, from 0.6 p.c. in 1996 to 1 p.c. in 1999. This movement is in accordance with the target for the medium-term stabilisation of the debt of the communities and regions as a percentage of their total revenues — which means that the real growth in their expenditure excluding interest charges would have to be limited, overall, to 1.3 p.c. per annum — and with the attainment of balanced budgets at local authority level. Altogether, therefore, the council recommends

that the primary surplus of general government as a whole should be between 6.6 and 7 p.c. of GDP in 1999.

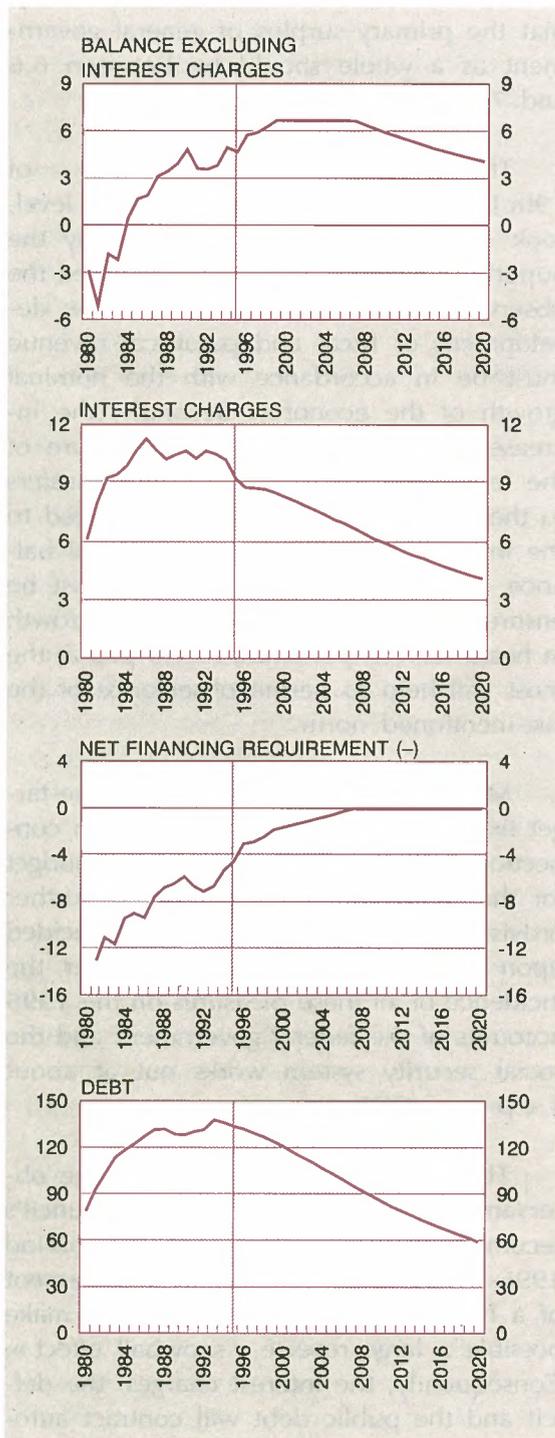
The government agreement of 19th June 1995, concluded at federal level, took over the objectives proposed by the Superior Finance Council and confirmed the observance of three norms. Firstly, the development of fiscal and parafiscal revenue must be in accordance with the nominal growth of the economy. Secondly, the increase in the total primary expenditure of the federal government, excluding transfers to the European Union, must be limited to the inflation rate. Finally, the financial balance of the social security system must be ensured. The limitation of the real growth in health care expenditure to 1.5 p.c. at the most will help to permit observance of the last-mentioned norm.

More concretely, with regard to the target fixed for 1996, the government, in connection with the preparation of the budget for that year, adopted a number of further provisions in addition to those decided upon in the preceding years. Altogether, the incidence of all these measures on the 1996 accounts of the federal government and the social security system works out at about 1.4 p.c. of GDP.

These provisions, together with the observance of the Superior Finance Council's recommendations for the period 1996-1999, will result in the achievement of a high primary surplus which will make possible a large reverse « snowball effect ». Consequently, the interest charges, the deficit and the public debt will contract automatically. For the longer term the council has drawn up an illustrative scenario providing for the application of the primary surplus norm until budgetary balance is achieved and for its maintenance thereafter. Convergence towards a debt ratio of 60 p.c. of GDP will then be ensured within a rea-

CHART 31 — PUBLIC FINANCES : LONG-TERM PROSPECTS

(Percentages of GDP)



Sources : NAI, Superior Finance Council, NBB.

sonable period of time : the public debt would reach this figure about twenty years from now, on the assumption of nominal

GDP growth of 4.5 p.c. and a stabilisation of the implicit interest rate at its present level. Furthermore, when budgetary balance has been achieved, the primary surplus can contract thanks to the associated reduction in interest charges. This development will make it possible to cope with the effects of the ageing of the population, while at the same time ensuring a sufficiently rapid reduction of the debt ratio.

4.2 REVENUE, EXPENDITURE AND FINANCING REQUIREMENT

Revenue

After having expanded rapidly for two years, fiscal and parafiscal revenue contracted by 0.3 point of GDP in 1995, to 46 p.c. of GDP.

The levies weighing chiefly on labour, which had increased in relation to GDP during the first years of the decade, decreased in 1994 and 1995. This decline was due to the reduction of the share of earned incomes in GDP, and also to the reductions in social security contributions largely decided upon within the framework of the global plan with a view to promoting employment. The total of the reductions in social security contributions was thus raised in 1995 to about 6 p.c. of the total amount of employers' contributions and about 1.3 p.c. of the total wages and salaries of enterprises. One of the most important employment promotion measures was the plan for the recruitment of young people, which granted reductions in contributions upon the recruitment of wholly unemployed persons aged under 26 who had been entitled to benefit for at least six months. In 1995 this plan was replaced by the « recruitment advantage » plan, a similar scheme which will apply henceforth to wholly unemployed persons who have been entitled to benefit for twelve months, irrespective of their age.

Moreover, the decline in levies on labour was slowed down in 1995 by various

TABLE 14 — REVENUE OF GENERAL GOVERNMENT

(Percentages of GDP)

	1985	1990	1991	1992	1993	1994	1995 e
Levies weighing chiefly on earned incomes	28.9	26.7	27.1	27.7	28.0	27.9	27.7
Personal income tax ¹	13.9	11.8	11.7	12.2	12.2	12.7	12.6
Social security contributions	15.0	14.9	15.3	15.5	15.8	15.2	15.0
Other direct levies	5.9	5.3	4.9	4.3	4.5	5.1	5.6
Corporation tax	2.7	2.5	2.4	2.2	2.5	2.9	3.3
Other taxes paid by individuals ²	3.2	2.8	2.5	2.1	2.0	2.2	2.3
Indirect taxes	12.3	12.3	12.2	12.2	12.5	12.9	12.4
Capital taxes	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Fiscal and para-fiscal revenue	47.3	44.5	44.6	44.6	45.3	46.3	46.0
Non-fiscal and non-para-fiscal revenue	2.7	1.9	1.9	1.8	2.3	2.1	1.6
Total revenue	49.9	46.4	46.5	46.4	47.6	48.4	47.6

Sources : NAI, NBB.

¹ Withholding tax on earned income, advance payments, assessments and additional centimes on personal income tax.² Mainly the withholding tax on income from movable and immovable property (including the additional centimes relating thereto).

government measures adopted previously : the maintenance of the partial suspension of the indexation of tax scales, the residual effect — in assessments — of the supplementary crisis contribution, which had been introduced into the scale for the withholding tax on earned income in mid-1993, whereas it was payable for the whole year, and the additional full-year effect of the special personal social security contribution, which was introduced in April 1994.

After having decreased markedly in comparison with GDP between 1985 and 1992, the other direct levies, consisting of corporation tax and the withholding taxes on income from movable and immovable property paid by individuals, have risen by 1.3 points during the last three years. The increase in the profits of enterprises and the measures taken by general government for the last few years to limit fiscal expenditure and the schemes for exemption from corporation tax, together with the raising of the rate of the withholding tax on interest incomes decided upon in the global plan, are responsible for this recovery. The catching up of the delays which had accumulated during the previous years in assessments of

the withholding tax on income from immovable assets also contributed to it in 1994 and 1995, because it led to a growth of over 20 p.c. in each of these years in the additional centimes, the proceeds of which accrue to the local authorities.

Indirect taxes, which had remained relatively stable in relation to GDP during the second half of the 1980s and at the beginning of the present decade, increased substantially in 1993 and 1994, as a result of the successive raisings of the excise duty on fuels and cigarettes and the increase in the standard VAT rate from 19.5 to 20.5 p.c. in January 1994. Most of these measures were taken in the context of the global plan in order to find alternative financing for social security and thus make up for the loss of revenue resulting from the reductions in employers' contributions.

In 1995 the contraction in indirect taxes, from 12.9 to 12.4 p.c. of GDP, was partly due to the decrease in the share of private consumption and expenditure on housing in GDP. The ratio of indirect taxes to this expenditure also declined during the year under review. Although the excise du-

ties on leaded and unleaded petrol were in fact increased on 30th October, by Fr. 1 and Fr. 1.50 per litre respectively, this increase, which occurred at the end of the year, had only a moderate effect on the yield of excise duties in 1995. Furthermore, in the absence of any discretionary increase, the rise in these duties is smaller than the growth in the nominal value of the products on which they are imposed, since most of the excise duties apply only to quantities. The decline in indirect taxes in relation to private consumption and expenditure on housing is also attributable to the change in the structure of consumption, classified according to the VAT rates applicable to it, and, in particular, to the reduction in sales of cars, which are the most important category of products subject to the 20.5 p.c. rate. VAT revenue also suffered at the end of the year, from delays in invoicing attributable to the lowering of the VAT rates in the building sector with effect from 1st January 1996.

All in all, the decline of 0.3 point in fiscal and parafiscal revenue in relation to GDP is due to changes in the distribution and allocation of the national product. Thus, the decrease in the relative share of earned incomes in total incomes, which amounted to 1 percentage point of GDP, automatically affected the relationship between public revenues and GDP, because the rate of levy on these incomes is far higher than the average rate of levy applying to other incomes. A similar effect was produced by the decline in the share of private consumption and expenditure on housing to the benefit of gross fixed capital formation by enterprises and exports, two expenditure categories which do not generate any VAT revenue.

Other revenues had reached relatively high amounts in 1993 and 1994, thanks, on the one hand, to the resources obtained in connection with the privatisation of the GSPF and the NIC and, on the other hand, to the payment of a concession fee by the National Lottery. The disappearance of these privatisation operations in the accounts for 1995 is responsible for the

greater part of the fall of 0.5 point in non-fiscal and non-parafiscal revenue.

Altogether, the revenue of general government contracted by 0.8 point in 1995, from 48.4 to 47.6 p.c. of GDP.

Expenditure excluding interest charges

For the second year in succession primary expenditure, i.e. expenditure excluding interest charges, expressed as percentage of GDP, decreased. It thus declined to 42.9 p.c. of GDP, as a result of a fall, of 0.5 point, which was more marked than that in the previous year. Deflated by the index of consumer prices, it rose by 1.2 p.c., a rate lower than that in the two preceding years and that in GDP. The slowing of the growth rate was achieved despite the almost complete disappearance of the moderating effect on the rise in compensation of employees and social benefits which had been produced by the introduction of the health index.

At about 25 p.c. of GDP, current transfers to individuals constitute more than half of primary expenditure. Their rise of about 2 p.c. at constant prices during the year under review was smaller than that recorded on average for the period 1990-1994. Thanks to economy measures, health care — which is the only major expenditure category whose level, as a result of substantial increases between 1989 and 1992, is appreciably higher than it was ten years earlier — in fact no longer rose as fast as at the beginning of the decade. Moreover, the development of unemployment benefits was favourably affected by the decrease in the number of part-time unemployed and the number of wholly unemployed persons entitled to benefit. The latter fell by over 7,000 units on annual average, chiefly owing to the lengthening of the waiting period for young people, whereas it had increased on average by 29,000 units per annum over the period 1990-1994.

TABLE 15 — PRIMARY EXPENDITURE¹ OF GENERAL GOVERNMENT

	Percentages of GDP				Percentage changes at constant prices ²			
	1985	1993	1994	1995 e	Average 1990-1994	1993	1994	1995 e
Total primary expenditure	48.2	43.7	43.4	42.9	2.6	1.9	1.7	1.2
Current transfers to individuals	25.4	25.1	24.9	24.8	3.0	2.1	1.6	1.9
Replacement incomes ³	15.5	14.3	14.1	13.9	2.5	2.2	0.8	1.5
of which : Normal and early retirement pensions and guaranteed income for old people	10.3	9.9	9.8	9.8	2.7	2.2	1.5	2.3
Unemployment benefits and career interruptions	2.6	2.4	2.3	2.2	3.8	4.9	-0.5	-2.7
Sickness and disability allowances	1.8	1.3	1.3	1.3	0.3	-1.7	-1.7	0.7
Other transfers to individuals ⁴	9.9	10.8	10.8	10.9	3.6	1.8	2.5	2.5
of which : Health care	4.5	5.5	5.4	5.5	5.0	0.5	1.6	3.4
Family allowances	2.4	2.0	2.0	2.0	0.1	1.0	-0.5	1.3
Other primary expenditure	22.9	18.6	18.5	18.1	2.0	1.7	1.8	0.3
Compensation of employees	10.8	9.5	9.5	9.5	2.7	2.3	1.9	2.4
Net current purchases of goods and services	3.7	2.6	2.6	2.5	-1.4	-0.6	-0.4	-0.8
Subsidies to enterprises	3.1	2.2	2.0	2.1	-1.1	1.3	-5.3	4.8
Current transfers to the rest of the world	1.6	1.6	1.7	1.5	3.0	0.4	7.7	-7.7
Gross fixed capital formation	2.2	1.5	1.5	1.3	4.3	0.3	5.4	-10.5
Other capital expenditure	1.4	1.2	1.2	1.2	7.4	6.3	7.0	3.1
GDP					1.6	-1.6	2.2	1.9

Sources : NAI, NBB

¹ Expenditure excluding interest charges.² The data, except for GDP, are deflated with the index of consumer prices; there may therefore be certain divergences from the data used in the chapter « Expenditure, production and employment ».³ Apart from the three main subcategories mentioned in the table, this item also includes general government's expenditure in respect of industrial accidents, occupational diseases and minimum social subsistence benefit.⁴ Apart from the two main subcategories mentioned in the table, this category consists chiefly of benefits to handicapped persons, general government's contribution to meeting the daily hospitalisation price, subsidies to non-profit-making bodies in the service of households and pensions to victims of war.

A large proportion of transfers to individuals consists of replacement incomes, i.e. benefits paid by government to persons who do not receive earned incomes. Despite the difficulty of making a precise distinction between these incomes and supplementary benefit, this category has been regarded as consisting of pensions, early retirement pensions, the guaranteed income of old people, unemployment benefits, career interruption benefits, sickness, disability, industrial accident and occupational disease benefits and the minimum social subsistence benefit. During the recent period these replacement

incomes, expressed as a percentage of GDP, have tended to decline, having fallen from 16 p.c. at the beginning of the 1980s to about 14 p.c. in 1995.

This downward trend can be analysed by means of the movement of the number of replacement incomes, the average benefit and real GDP.

It is not explained by the movement of the number of replacement incomes, which showed an average annual increase of about 2 p.c. and rose from around 2.8 million in

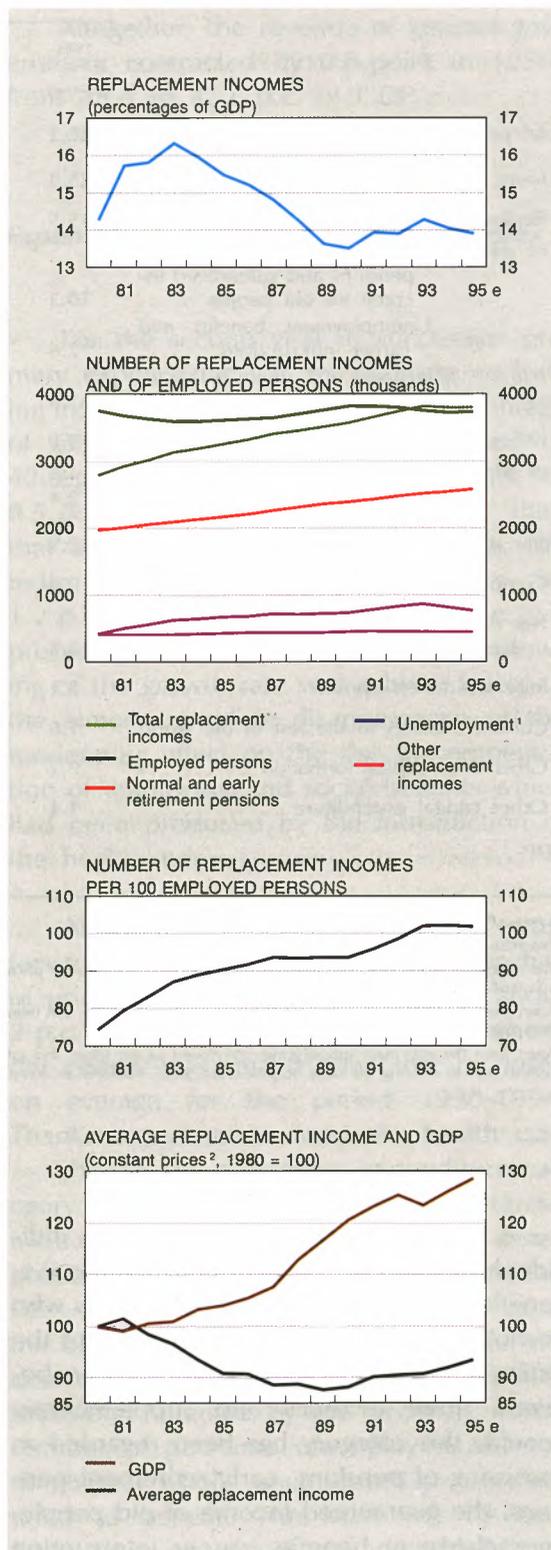
1980 to 3.8 million in 1995. This marked expansion was brought about by the rise in the number of normal and early retirement pensions, and in the number of beneficiaries of unemployment benefit, which was swelled both by the increase in the number of wholly unemployed persons receiving benefit and by the creation of new categories of beneficiaries, such as old people not seeking work and persons who have interrupted their careers. This increase in the number of replacement incomes contrasts sharply with the stability of the employment trend, so that the proportion has risen from about 75 replacement incomes per 100 employed persons in 1980 to a little over 100 in recent years.

In contrast to this development, which has been detrimental to the public finances, the average replacement income per beneficiary has on the other hand declined slightly at constant prices during the last fifteen years, whereas GDP has risen on average by about 1.7 p.c. per annum. The increase in the total amount of replacement incomes has thus been smaller than that in GDP.

The development of the average replacement income not only reflects the incidence of general government's action on individual benefits but is also influenced by shifts between various categories of beneficiaries whose benefits may sometimes be very different. Thus, the increase during the 1980s and the decrease in recent years in the number of part-time unemployed persons, who receive a much smaller amount of benefit than wholly unemployed persons or pensioners, led respectively to a fall and a rise in the average replacement income.

The share of replacement incomes in GDP increased at the beginning of the 1980s, a time when the weakness of economic activity led to an appreciable rise in the number of unemployed and when the total of replacement incomes, which was rising, was related to a relatively stable GDP. From a peak reached in 1983, this share decreased appreciably until 1990 fol-

CHART 32 — REPLACEMENT INCOMES PAYABLE BY GOVERNMENT



Sources : NAI, NSDII, IAF, ODF, Ministry of Social Security, Ministry of Public Health, NEMO, NPO, NBB.

¹ Beneficiaries of unemployment insurance in the broad sense, excluding persons taking early retirement.

² Replacement incomes are deflated by the consumer price index.

lowing the implementation of three index jumps in the mid-1980s and the strong economic growth at the end of that decade. It subsequently rose again until 1993, owing to the upward revision of pensions and the 1993 recession.

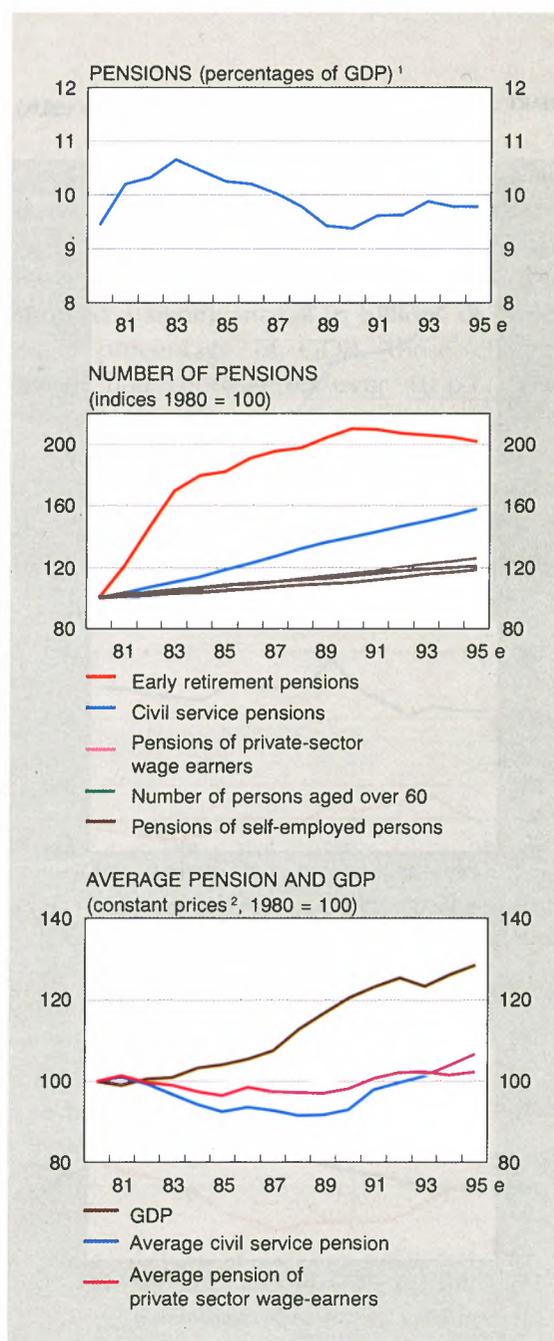
During the last two years the share of replacement incomes in GDP has decreased once more, owing to the introduction of the health index in 1994 and to the fall in the number of beneficiaries of unemployment insurance, connected with the measures adopted in order to limit the number of part-time unemployed and the lengthening of the waiting period for young people.

The greater part of replacement incomes consists of pensions payable by government. These, which, defined in the broad sense, consist of the compulsory social security system for private sector wage-earners and self-employed persons, civil service pensions, early retirement pensions and the guaranteed income of old people, in fact represented around 10 p.c. of GDP in 1995. The share of the pensions of private sector wage-earners, namely 6 p.c. of GDP, is preponderant in this total, while the pensions of civil servants amount to about 2.5 p.c. of GDP. The pensions of self-employed persons and early retirement pensions each amount to less than 1 p.c.

During the last fifteen years the pension burden expressed as a percentage of GDP has remained relatively stable, despite a substantial and uninterrupted rise in the number of pensions. This marked increase, averaging 1.8 p.c. per annum, has been brought about not only by demographic factors — the number of persons aged over 60 having increased on average by 1.3 p.c. per annum — but also by sociological factors, which have stimulated the participation of women on the labour market, and by government programmes, which have encouraged early retirement. Thus the number of persons receiving an early retirement pension rose from about 65,000 in 1980 to around 135,000 at the end of the 1980s and has only declined slightly since then.

The overall movement of the number of pensions furthermore conceals developments which differ from sector to sector : in the civil service, the rise has been twice

CHART 33 — PENSIONS PAYABLE BY GOVERNMENT



Sources : Ministry of Finance, NAI, NPO, NBB.

¹ These are pensions directly payable by general government, so that subsidies (around 0.4 p.c. of GDP) granted for financing the pensions of certain public enterprises are not taken into account.

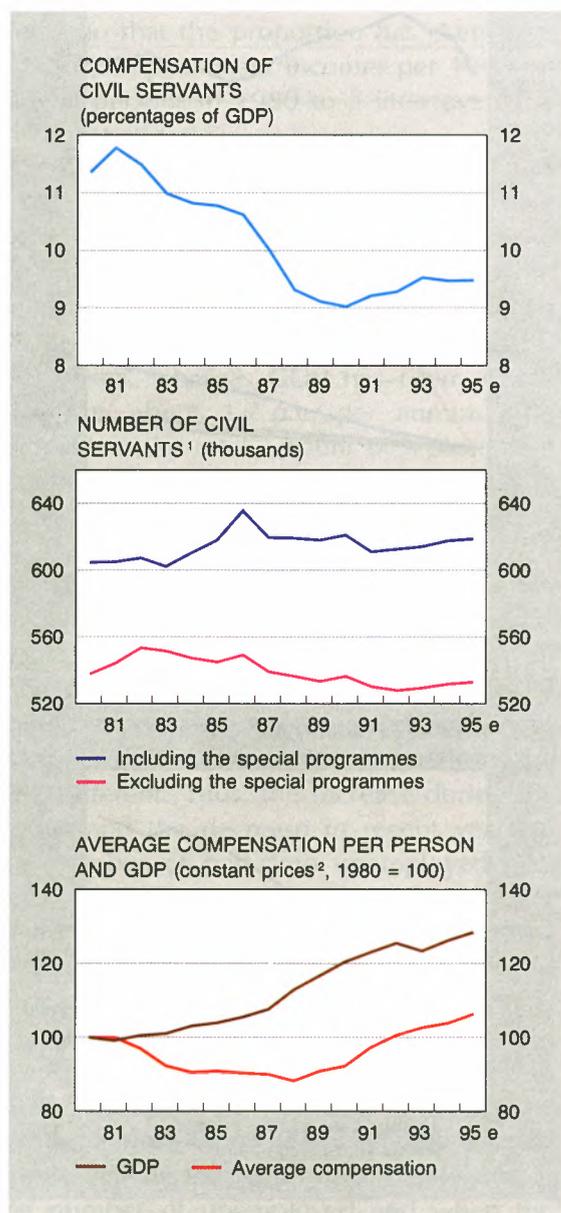
² The data relating to the average pension are deflated by the consumer price index.

as rapid as in the private sector. This divergence is due to the absence of any significant change in workforces in the private sector during the last forty years, unlike the situation in the civil service, where employment has increased greatly, from around 260,000 employees at the beginning of the

1950s to about 540,000 employees since the beginning of the 1980s.

The rapid expansion in the number of persons did not ultimately lead to an increase in the burden as a percentage of GDP : this was because, at constant prices, GDP increased on average at the same rate as the number of pensions, while the average pension, which declined during the 1980s and rose after that, remained relatively stable as a whole.

CHART 34 – COMPENSATION OF CIVIL SERVANTS



Sources : NAI, Ministry of Employment and Labour, NBB.

¹ The data recorded in this chart do not include persons doing national service in the armed forces, unlike those appearing in the chapter « Expenditure, production and employment » and in Table VI of the statistical annex.

² The data concerning average compensation are deflated by the consumer price index.

The compensation of civil servants, which constitutes the most important component of expenditure other than current transfers to individuals, increased by 2.4 p.c. during the year under review. The general revision of scales, which was basically confined in 1995 to the wages paid by local authorities, still contributed to this rise, which was furthermore increased by the disappearance of the moderating effect on the movement of wages which had been produced in 1994 by the introduction of the health index.

Over a longer period, compensation expressed as a percentage of GDP decreased first of all between 1981 and 1990, from nearly 12 p.c. to 9 p.c. This reduction is not attributable to the movement of employment : civil service workforces increased substantially until 1986, chiefly owing to the special programmes for reducing unemployment, and then contracted, but without reattaining their 1980 level in 1990. Thus the reduction in the wage burden as a percentage of GDP was attributable solely to the movement of the average compensation of civil servants in real terms. Under the influence of, among other things, a limitation or suspension of the indexation mechanism and the increase in part-time working, average compensation per employee declined on average by 0.8 p.c. per annum between 1980 and 1990, whereas GDP rose by nearly 2 p.c. per annum. Following the general revision of scales, compensation rose, on the other hand, from 1991 onwards, by an average of about 3 p.c. per annum, i.e. appreciably above the growth

rate of GDP. Since then, as there has been no further change in the number of civil servants, the burden of compensation of employees as a percentage of GDP has increased.

In 1995 subsidies to enterprises rose by 4.8 p.c. after having contracted by 5.3 p.c. in 1994. These movements are mainly due to the rearrangement of the timetable of payments of subsidies to public enterprises. During the last few years, around 70 p.c. of the total of subsidies to enterprises, or about Fr. 100 billion per year, has gone to public enterprises, nearly a third of this having been specifically for financing the pensions of their workforces.

Current transfers to the rest of the world, which had risen substantially in 1994, decreased by 7.7 p.c. during the year under review. Belgium's contribution to the financing of the European Union was in fact reduced: as the European Union's 1994 fiscal year closed with a surplus, the excess amount paid was deducted from the con-

tributions payable by the Member States in 1995.

Lastly, gross fixed capital formation fell by 10.5 p.c. in 1995, owing to the very pronounced decrease in investment by local authorities. This followed two years of sharp rises, such as traditionally occur during the years preceding the municipal elections.

Interest charges

During the year under review the interest charges of general government as a whole, for the first time in decades and despite the increase in the public debt, showed a significant fall in billions of francs. As a percentage of GDP, these charges, which had represented over 10 p.c. since 1985, decreased to 9.2 p.c.

As the Treasury's debt is the main component of the total public debt, the development of the interest charges on it, which decreased by Fr. 53 billion in 1995, is

TABLE 16 — THE TREASURY'S INTEREST CHARGES

(Billions of francs)

	1993	1994	1995 e
Interest charges	717	721	668
Change compared with the previous year	3	4	-53
Main determinants of this change			
Deficit	38	36	27
Interest rates	-34	-75	-58
Change in short-term rates in francs	-20	-37	-20
Change in the medium- to long-term average interest rate in francs resulting from the refinancing of the debt	-10	-26	-29
Change in the interest rates in foreign currencies	-4	-13	-8
Change in the financing structure	20	14	-30
p.m. (percentages)			
Short-term interest rate ¹	(8.4)	(6.4)	(5.1)
Long-term interest rate ²	(9.1)	(8.6)	(8.1)
Degree of consolidation ³	(56.2)	(19.5)	(313.0)

Sources: NAI, NBB.

¹ Average interest rate on three-month Treasury certificates between the end of September of the previous year and the end of September of the current year, i.e. the reference period for the calculation of interest charges.

² Average interest rate on the outstanding amount of the long-term debt in francs, as at 31st December of the previous year.

³ Ratio between the increase in the debt at one year and over and the increase in the total net debt.

largely responsible for that in the interest charges of general government.

The development of these charges is mainly determined by three factors, namely the increase in the debt, the change in interest rates and, as interest rates are recorded on a payments basis, the change in the financing structure.

In 1995 the increase in the debt resulting from the deficit still burdened the Treasury's interest charges. Its influence was

however appreciably less marked than in 1994 and was more than counterbalanced by that of the downturn in interest rates and that of a more favourable financing structure.

As during the two preceding years, interest charges decreased markedly owing to the fall in both short-term and long-term interest rates. During the year under review the average interest rate on three-month Treasury certificates amounted to 5.1 p.c., against 6.4 p.c. in 1994. The rates on six-month and twelve-month Treasury certificates showed reductions of nearly the same size. Altogether, the fall in the rates for Treasury certificates contributed to a reduction of about Fr. 20 billion in interest charges.

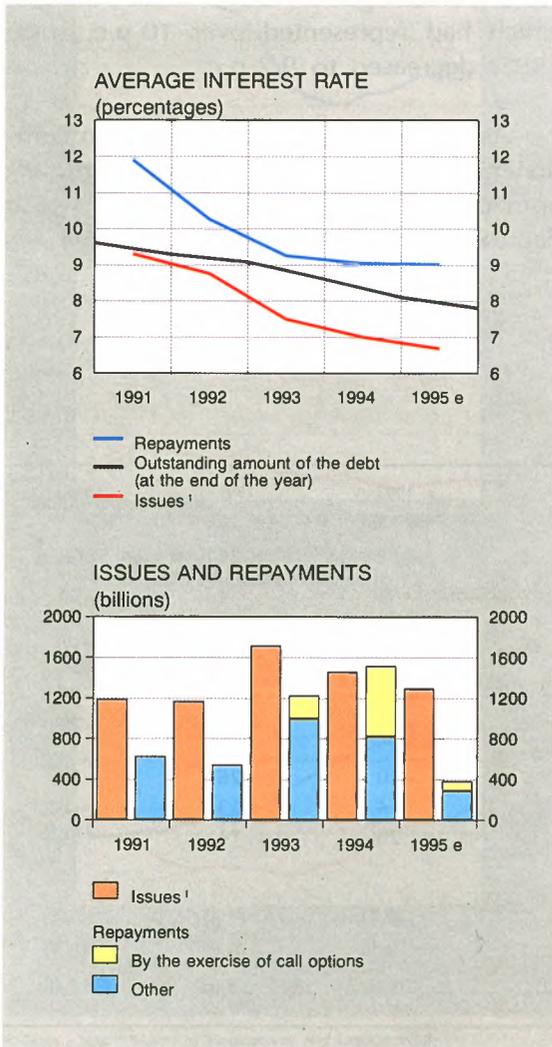
A fall in long-term market interest rates as a rule has a less direct effect on interest payments. This is because the average interest rate on the long-term debt can only decrease significantly if substantial amounts of securities of the existing debt are repaid and refinanced at lower rates.

That was the case in 1993 and 1994. Over these two years, more than half of the long-term debt in francs was repaid and replaced by securities bearing interest at rates which were, on average, nearly 2 percentage points lower.

The substantial repayments in 1993 and 1994 are partly due to the fact that a large number of loans reached their final maturity during this period. They are also due to the active management of the debt by the Treasury. The relatively low level of interest rates in 1993 and during the first months of 1994 in fact induced the Treasury to exercise call options for the loans subject to such advance-repayment clauses.

Altogether, the average interest rate on the long-term debt in francs at the end of 1994, which determines the interest payments during the year under review, was 8.1 p.c., against 9.1 p.c. two years earlier. For a long-term debt in francs of nearly

CHART 35 — THE TREASURY'S LONG-TERM DEBT IN FRANCS



Sources : Ministry of Finance, NBB.

¹ Including the debts taken over by the Treasury (mainly those of the National Company for the Restructuring of the National Sectors and of the Assistance Fund for the Financial Recovery of Municipalities).

Fr. 5,500 billion at the end of 1992, such a fall of 1 point represents a gain of about Fr. 55 billion.

During the year under review, the average interest rates on the long-term debt in francs underwent a further decline, by 0.3 percentage point, which brought it down to 7.8 p.c. at the end of 1995. This reduction will not, however, lead to a further structural decrease in interest charges until 1996.

As interest charges also benefited from the decrease in interest rates in foreign currencies, the gain in respect of interest rates totalled about Fr. 58 billion.

The financing structure of the Treasury's deficit, too, helped to reduce interest payments. In 1994, owing partly to market preferences, the financing of this deficit had, exceptionally, been directed mainly towards the short term, and this had greatly accelerated the rate of interest payments. In 1995, on the other hand, the long-term debt in francs increased markedly, while the outstanding amount of Treasury certificates decreased sharply, as did also the short-term debt in foreign currencies. This turn-round towards greater long-term financing lightened the burden of interest payments. How-

ever, as it was accentuated towards the end of the year, its beneficial influence on the staggering of interest payments remained relatively limited. The total effect of the change in the financing structure can be estimated at Fr. 30 billion.

Net financing requirement

Expressed as a percentage of GDP, the net financing requirement of general government decreased from 5.3 p.c. in 1994 to 4.5 p.c. in 1995. This development of the public accounts did not, however, enable the target of 4.3 p.c. set by the Superior Finance Council to be fully attained, partly because economic growth was weaker than had been forecast.

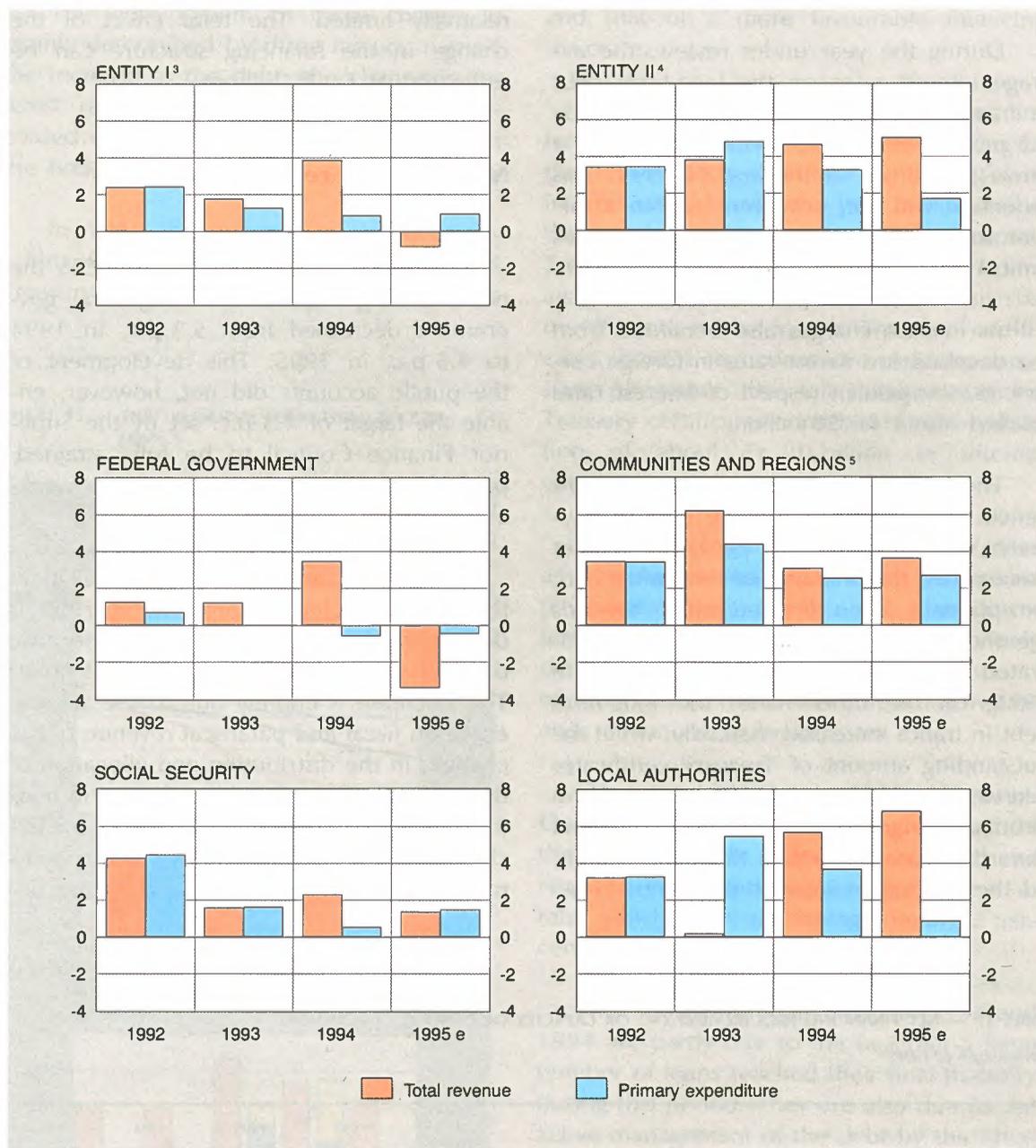
The reduction of 0.8 point of GDP in the total financing requirement in 1995 is due to the fall in interest charges, because the primary surplus contracted by 0.3 point. This decrease is entirely due to the adverse effect on fiscal and parafiscal revenue of the changes in the distribution and allocation of the national product and the decline in non-fiscal revenue. If these two factors are excluded, the primary surplus in fact appears to have increased slightly thanks to the de-

TABLE 17 — NET FINANCING REQUIREMENT (–) OR CAPACITY OF GENERAL GOVERNMENT

(Percentages of GDP)

	1991	1992	1993	1994	1995 e
Revenue	46.5	46.4	47.6	48.4	47.6
Expenditure excluding interest charges	42.8	42.8	43.7	43.4	42.9
Primary surplus	3.6	3.6	3.8	5.0	4.7
Interest charges	10.3	10.7	10.5	10.2	9.2
Net financing requirement (–) or capacity	–6.7	–7.1	–6.7	–5.3	–4.5
Federal government	–5.6	–5.9	–5.5	–4.5	–4.1
Social security	–0.3	–0.3	–0.3	...	...
Communities and regions	–0.9	–1.0	–0.7	–0.8	–0.8
Local authorities	0.1	0.1	–0.2	...	0.4

Sources : NAI, NBB.

CHART 36 — TOTAL REVENUE AND PRIMARY EXPENDITURE¹ BY SUB-SECTOR OF GENERAL GOVERNMENT(Percentage changes at constant prices compared with the previous year²)

Sources : NAI, NBB.

¹ Expenditure excluding interest charges. The data mentioned at the first level are consolidated : they exclude, for Entity I, the federal government's transfers to social security and, for Entity II, the transfers made by the communities and regions to the local authorities.² Data deflated by the index of consumer prices.³ Federal government and social security.⁴ Communities, regions and local authorities.⁵ Unlike in the national accounts approach, the revenue resulting from the sale of school buildings in 1993, 1994 and 1995 was not deducted from the investment expenditure of the communities and regions for the purpose of calculating the movement of their primary expenditure.

cline in the ratio between primary expenditure and GDP, in a cyclical period which can be described as relatively neutral, be-

cause economic growth in 1995 was very close to that which had been observed on average during the last twenty years.

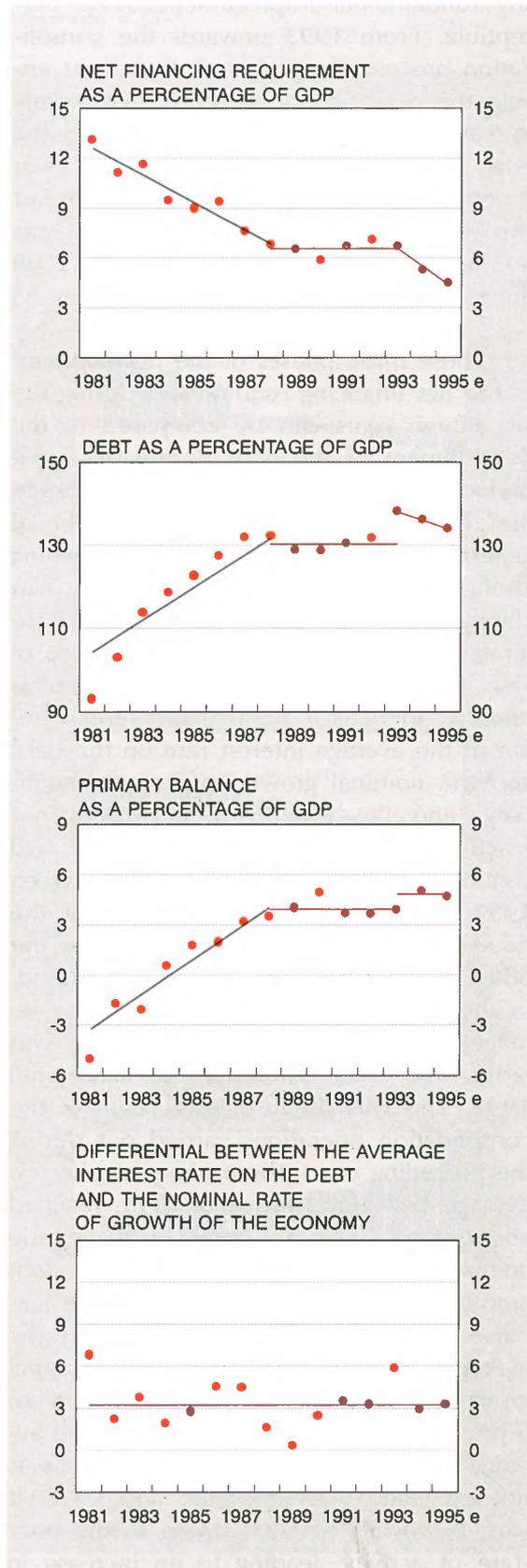
The lessening of the deficit was due to an improvement in the balances of the federal government and the local authorities. The reduction in the federal government's deficit is attributable to the decline in interest charges but also, to a smaller extent, to the contraction of the ratio between primary expenditure and GDP. At constant prices the latter in fact decreased somewhat in 1995. During the last four years their level has moreover remained almost constant in real terms, which has not been the case for the other sectors of general government. The reduction in the federal government's deficit in 1995 furthermore took place despite the adverse trend of revenue. The latter in fact decreased at constant prices, in contrast to the significant rises observed for the other sectors of general government. As a result of, among other things, a catching-up of delays in collection, the increase in revenue was particularly marked for the local authorities, and this helped to improve their balance.

The social security accounts remained virtually balanced during the year under review, while the deficit of the communities and regions was again unchanged compared with GDP. This stabilisation was achieved thanks to the strong rate of increase of their revenue, because the expansion in their primary expenditure remained rapid, and faster than that of the other public administrations.

Net financing requirement and movement of the debt : longer-term tendencies

In a longer-term perspective, the reduction in the net financing requirement during the last few years, due both to the fall in interest charges and to the increase in the primary surplus, bears witness to a revival of the consolidation process of the public finances which had been interrupted at the end of the 1980s and the beginning of the 1990s. Thus, while the financing requirement of general government had declined from about 13 p.c. in 1981 to less than

CHART 37 — TENDENCIES IN THE MOVEMENT OF THE PUBLIC FINANCES



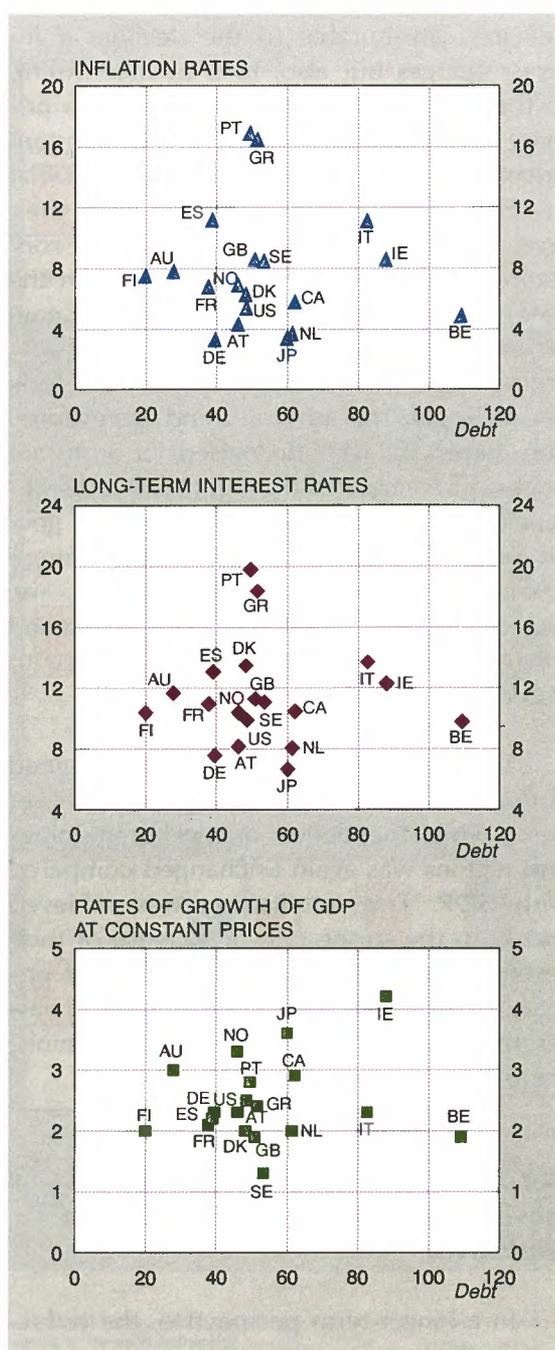
Sources : NAI, NBB.

7 p.c. in 1988, it fluctuated between 6 and 7 p.c. during the subsequent years without any fundamental improvement being perceptible. From 1993 onwards the consolidation process was restarted. It did not enable the deficit to be reduced significantly in 1993 because of the recession. On the other hand, the deficit declined by over 2 percentage points of GDP during the last two years, when the cyclical movement was no longer exerting any negative effect on the public accounts.

These three phases of the development of the net financing requirement during the last fifteen years can be compared to the development of the debt during the same period. Between 1981 and 1988, despite the reduction of the deficit, the debt of general government grew steadily, reaching about 130 p.c. of GDP. This increase was chiefly due to the « snowball effect » of interest charges. From the technical point of view this effect takes place when, simultaneously, there is a positive differential between the average interest rate on the debt and the nominal growth rate of the economy, and the primary surplus does not reach a sufficiently high level. These two conditions were fulfilled every year between 1981 and 1988, so that the ratio of the debt to GDP inevitably increased. On the other hand, during the subsequent period, in the course of which the deficit was no longer reduced and economic growth was faster, the debt stabilised, at least until 1992. This was because, as a result of the consolidation operations carried out during the preceding years, the primary surplus, on average between 1988 and 1993, reached about 4 p.c., i.e. an order of magnitude comparable to that which enables a debt amounting to 130 p.c. of GDP to be stabilised when the differential between the average interest rate and the nominal growth rate of the economy is equal to 3 p.c. This differential, very close to the average observed for the last fifteen years, was not exceeded between 1988 and 1992. It was, however, in 1993, owing to the poor state of activity, leading to an increase in the debt.

CHART 38 — LEVEL OF THE PUBLIC DEBT AND MACROECONOMIC VARIABLES

(Averages 1975-1994)



Source : OECD.

As the primary surplus reached an even higher level during the last two years, the reduction in the deficit was finally coupled with a reduction in the debt. The latter thus declined from 137.9 p.c. of GDP in 1993

to 133.8 p.c. in 1995, representing a reduction of 4.1 points in two years.

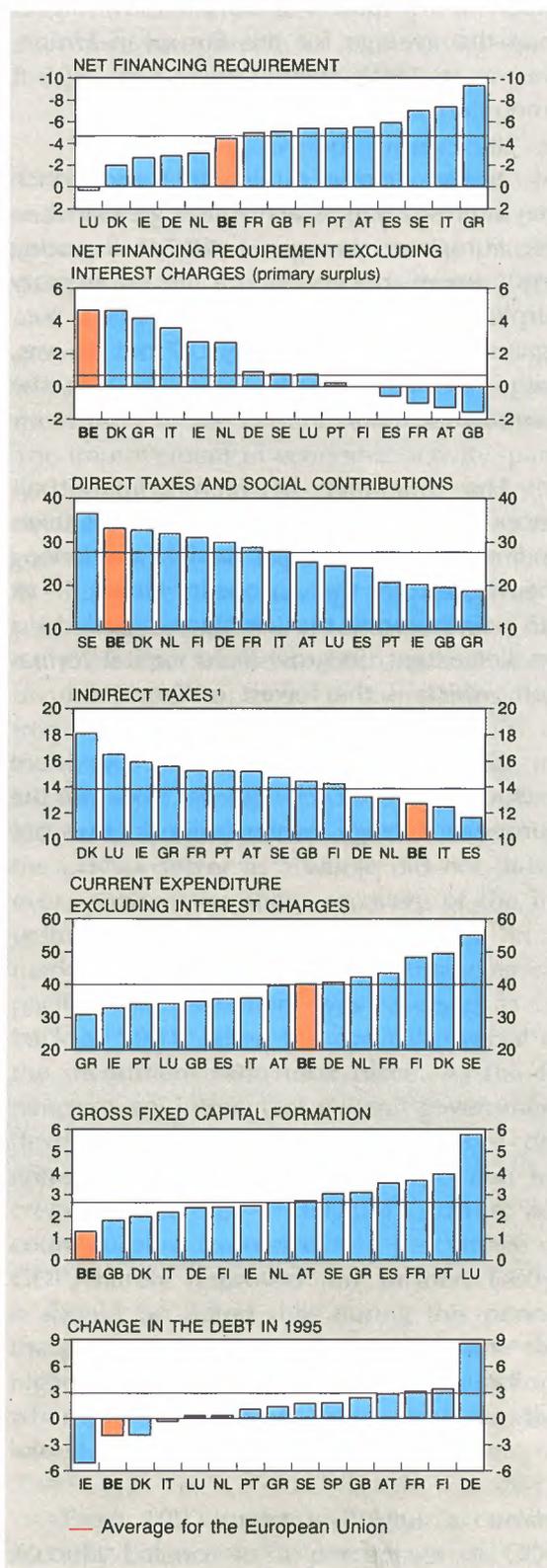
A high degree of indebtedness of general government indisputably has a number of disadvantages. Among these, mention may be made of the greater sensitivity of the public finances to fluctuations in real interest rates and in the cyclical situation and of the need, in order to avoid any explosive upsurge of the debt and to arrive at a deficit level comparable to that of the other countries, to maintain a high level of primary surplus for a long period, which entails a structurally high fiscal and parafiscal pressure or a structurally low level of primary expenditure. Furthermore, heavily indebted public authorities are less able to cope with the new social needs, including those connected with the ageing of the population.

The level of the Belgian public debt must however be viewed in a more global context. Firstly, the ratio of the debt to GDP is tending to decrease. Secondly, in relation to the degree of public indebtedness, the net claims of individuals and companies are even larger, so that they enable Belgium to achieve a net creditor position vis-à-vis the rest of the world. Furthermore, an international comparison shows that, over a long period, differences from country to country with regard to inflation, long-term interest rates or GDP growth are not associated with differences in the level of the public debt. From this angle, the very high level of the Belgian public debt has not prevented the average inflation rate and level of long-term interest rates in Belgium over the last twenty years from being among the lowest in the countries of the OECD. Furthermore, the average growth rate of the economy in Belgium has been approximately the same as that of its main partners during the same period.

These results are attributable to the special attention paid by the Belgian authorities, owing to the very open nature of the economy, to competitiveness and to price and exchange rate stability.

CHART 39 — PUBLIC FINANCES OF BELGIUM AND OF THE OTHER COUNTRIES OF THE EUROPEAN UNION IN 1995.

(Percentages of GDP)



Sources : NAI, EC, NBB.

¹ Including capital taxes.

4.3 INTERNATIONAL COMPARISON

Belgium's net financing requirement, which in the past was considerably higher than the average for the European Union, was, as in 1994, slightly lower : in 1995 it amounted to 4.5 p.c., against 4.7 p.c.

As the Belgian public debt and hence the interest charges are much greater than the European average, a similar financing requirement necessitates a larger primary surplus : in 1995 this amounted to 4.7 p.c., against an average of only 0.7 p.c. It was, with that of Denmark, the highest in the European Union.

The difference between primary balances is to be found mainly in direct taxes and social contributions, which are among the highest in the European Union — at 5.5 points above the average — and, to a smaller extent, in gross fixed capital formation, which is the lowest in the Union.

On the other hand, current expenditure excluding interest charges is close to the European average, while indirect taxes are

considerably lower than those of most of the other countries of the Union.

In virtually all the member countries, the average interest rate on the public debt is higher than the nominal growth of GDP. This being so, an automatic increase in the interest charges and the public debt in relation to GDP, that is, the « snowball effect », cannot be avoided unless the primary surplus is sufficiently positive. As several countries do not achieve a significant primary surplus (some actually show a deficit), their public debt increases as a percentage of GDP. This situation will in fact persist in the absence of additional consolidation efforts and if the economic context remains unchanged. On the other hand, among the countries which fulfil the conditions that make it possible to maintain a process of automatic reduction of the debt, only three have recorded a significant decrease in their debt ratio during the year under review, namely Ireland, Belgium and Denmark. Elsewhere, the reduction of the debt has been hampered by various factors such as, in Germany, the taking over by general government of very large debts incurred by public enterprises following unification.

5. BALANCE OF PAYMENTS OF THE BLEU AND EXCHANGE RATES

5.1 SUMMARY

Owing to the high degree of openness of the Belgian economy, the movements of the incomes, consumption and investment of individuals, companies and general government, on the one hand, and of current transactions with the rest of the world, on the other hand, are closely interdependent: while transactions with foreign countries partly determine domestic developments, they are also partly the result of these. In 1995 Belgium's current transactions with foreign countries, as presented in the national accounts, resulted in a surplus estimated at 5.1 p.c. of GDP. Thus, in comparison with the three neighbouring countries, Belgium's current account position showed the largest surplus, whereas it has shown the largest deficit at the beginning of the 1980s. As the current account balance is equal to the difference between the savings and investments of the economy as a whole, this development reflects the changes in the behaviour of the domestic sectors in these respects or, in other words, the changes in their respective financing requirement or capacity.

The greatest improvement in the current account balance took place between 1982 and 1986, as a result of the policy aimed at restoring the competitiveness of the economy and putting the public finances back on a sound footing. This policy led to a contraction in general government's net financing requirement and an increase in the financing capacity of the private sector as a whole. The latter was due to a rise in the savings ratio, attributable to a recovery in the profitability of companies, and to a reduction in the investment ratio. In view of the mediocre prospects as regards demand, gross capital formation by companies did not in fact react immediately to the improvement in profitability. While saving by individuals and companies was in

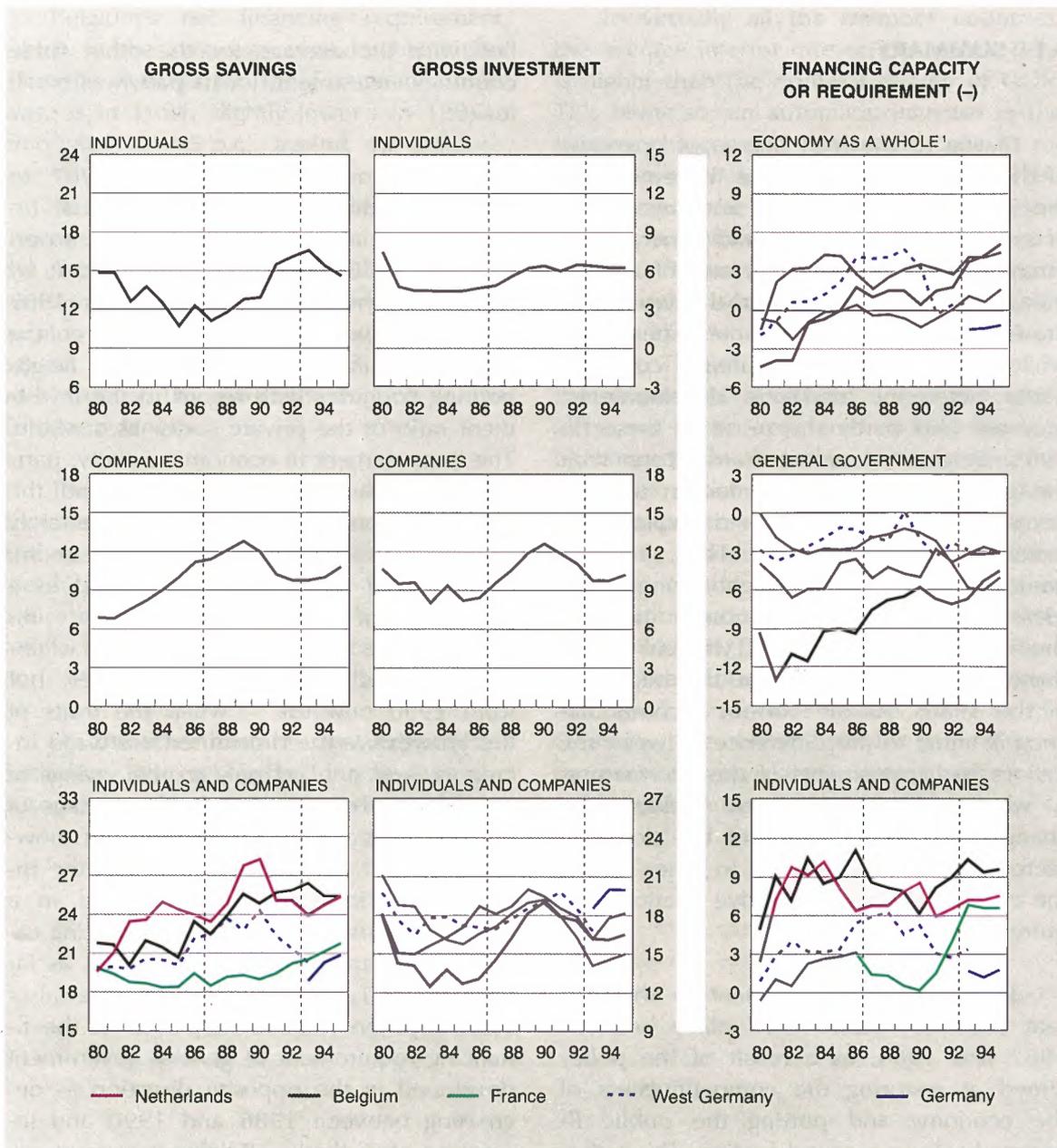
line with the average for the other three countries, investment, for its part, was much lower.

The following period, from 1987 to 1992, was different in many respects. Investment by individuals, expressed as a percentage of GDP, increased, as did that by companies, the rise in which, between 1987 and 1990, was sufficient to recover the ground lost in relation to the three neighbouring countries with regard to the investment ratio of the private sector as a whole. The improvement in economic activity, partly due to the fall in oil prices, and the decline in long-term interest rates certainly contributed to this expansion in investment. At the same time, savings expressed as a percentage of GDP increased further: initially the rise related to both savings of individuals and to those of companies, but from 1990 onwards — when the fruits of the growth were redistributed via wage increases — it applied only to the savings of individuals. The increase in the savings of the private sector as a whole did not, however, prevent the sharp recovery of the investment ratio from being reflected in a marked decline in that sector's financing capacity. This movement was reversed as far back as 1991, when the cyclical reversal of the investment ratio took place. As the financing requirement of general government developed in the opposite direction — decreasing between 1986 and 1990 and increasing after that — Belgium's current account surplus, expressed as a percentage of GDP, hardly improved any further. Lastly, it should be noted that during this period the private sector's saving ratio became the highest among the countries in question, whereas the investment ratio, which was the lowest, rose again to the average rate.

From 1993 onwards Belgium's current account balance as a percentage of GDP rose considerably. In the neighbouring countries the trend was in the same direc-

CHART 40 — CURRENT ACCOUNT BALANCE WITH FOREIGN COUNTRIES FROM THE ANGLE OF SAVING AND INVESTMENT

(Percentages of GDP)



Sources : OECD, EC and, for Belgium, NAI, NBB.

¹ Corresponds, except for the statistical adjustment, to the balance of current transactions of the balance of payments.

tion, but less pronounced. After a rise in 1993, attributable to individuals, the private sector's saving ratio remained very high, despite a small decline in 1994 and 1995, and appreciably exceeded that of the three neighbouring countries. The investment ratio of individuals and companies, on the other hand, became lower than in the Neth-

erlands and Germany — where the investment efforts made were, admittedly, very great owing to the unification process — but remained considerably above the ratio observed in France. The private sector's net financing capacity therefore stood, from 1993 onwards, at a level far higher than that of the three neighbouring countries, al-

though without exceeding that observed in Belgium during the period 1982 to 1986. Lastly, the process of consolidation of the public finances was stepped up, so that the reduction in general government's financing requirement also contributed to the increase in the current account balance.

Remaining permanently at a slightly higher level, the current account balance of the BLEU moved parallel to that of Belgium throughout the period in question. In 1995 it appears to have shown a surplus of Fr. 485 billion, or 5.8 p.c. of the BLEU's GDP.

This surplus helped to maintain the credibility of the monetary and exchange rate policy. The franc thus moved throughout the year in the wake of the mark and short-term interest rates generally remained very close to the rates in marks. In this context of the movement of interest rates, « autonomous » capital movements resulted in net inflows of Fr. 16 billion. In order to prevent a further appreciation of the franc, the supply of foreign currencies resulting from the current account surplus and from the surplus in respect of financial transactions was

mopped up by purchases of foreign currencies by the Bank which established balanced conditions on the foreign exchange market. In order to sterilise the effect of this inflow of foreign currencies on the liquidity of the money market, these funds were set aside for the repayment of the public debt in foreign currencies, to the extent of Fr. 262 billion, and were the subject of currency swaps against Belgian francs carried out by the Bank, totalling Fr. 231 billion. Lastly, the spot foreign exchange reserves increased by Fr. 8 billion.

The various components of the balance of payments are analysed in greater detail in the following sections. However, these data are available only for the first nine months of the year. Furthermore, their presentation is no longer fully comparable with that for the preceding years.

A new data collection system in fact came into force on 1st January 1995. The reform of the legal framework for this collection, necessitated by the abolition of the last exchange control provisions, also made it possible to adapt the balance of payments to the development of the socio-economic

TABLE 18 — BALANCE OF PAYMENTS OF THE BLEU

(Balances in billions of francs)

	1990	1991	1992	1993	1994	1995 e
Goods	56	65	114	202	223	285
Services, incomes and current transfers	66	104	103	187	195	200
Current transactions	123	169	216	389	417	485
p.m. as percentage of GDP	(1.8)	(2.4)	(2.9)	(5.0)	(5.2)	(5.8)
Capital and financial transactions not included elsewhere	-83	-140	42	-1,049	-118	16
Public debt in foreign currencies ¹	-23	-6	-103	446	-147	-262
Swap transactions concluded by the NBB ...	...	-5	-135	140	-143	-231
Net foreign exchange reserves of the NBB ²	-17	-18	-20	75	-9	-8

Source : NBB.

¹ Change in the total debt in foreign currencies held by non-residents and by resident credit institutions. Minus sign : decrease.

² Minus sign : increase in spot reserves.

context, from the point of view of both the method of data collection and the content of the data. The main purpose of these adaptations was to lighten the burden imposed on banks and enterprises and to reflect more clearly, in the presentation of the balance of payments, the change in the structure of world trade in goods and services and of international financial transactions. The opportunity was also taken to adapt the methodology of the balance of payments to the fifth edition of the IMF's Balance of Payments Manual, which was published in 1993.

The introduction of these changes led to breaks in series, which did not, however, affect all the items to the same extent. The goods account, for instance, underwent only minimal changes, namely the incorporation of the items in respect of repairs to goods and of catering supplies on aircraft, trains and vessels, which were previously listed among service transactions.

The latter, on the other hand, were more affected, partly because, in application of the IMF methodology, the distinctions made between services, incomes and current transfers have become more precise, leading to a number of shifts between these three components.

Furthermore, various new items have been created in service transactions, by subdividing old items, and the content of certain items has been redefined. For insurance, for instance, only the portion of premiums paid or received which is deemed to represent the rendering of services is still included, whereas the remainder, as well as compensation payments paid or received, appear either in current transfers or, in the case of life insurance, in financial transactions. Merchanting has also been more precisely defined.

Lastly, a distinction has been made between current and capital transfers, the latter therefore no longer being included in current transactions but in the capital account, which must henceforth be distin-

guished from the financial account, in which the changes in assets and liabilities vis-à-vis foreign countries are recorded.

All in all, the aforementioned methodological changes have had hardly any influence on the current account balance and therefore only marginally affect the comparison of this balance with those for earlier years.

On the other hand, the collection of data concerning capital and financial transactions has proved very difficult, and substantial errors and omissions have therefore appeared. Other sources have been used in order, as far as possible, to fill in these statistical gaps, the aim being to get as close as possible to the former presentation for analysing capital movements. The fact remains, however, that all the information concerning the structure by instrument of the assets and liabilities of resident companies and individuals vis-à-vis foreign countries is not yet available. Even so, it has been possible to discern the major trends which have developed in connection with, or have brought about, the movement of the exchange rate and of interest rates in francs.

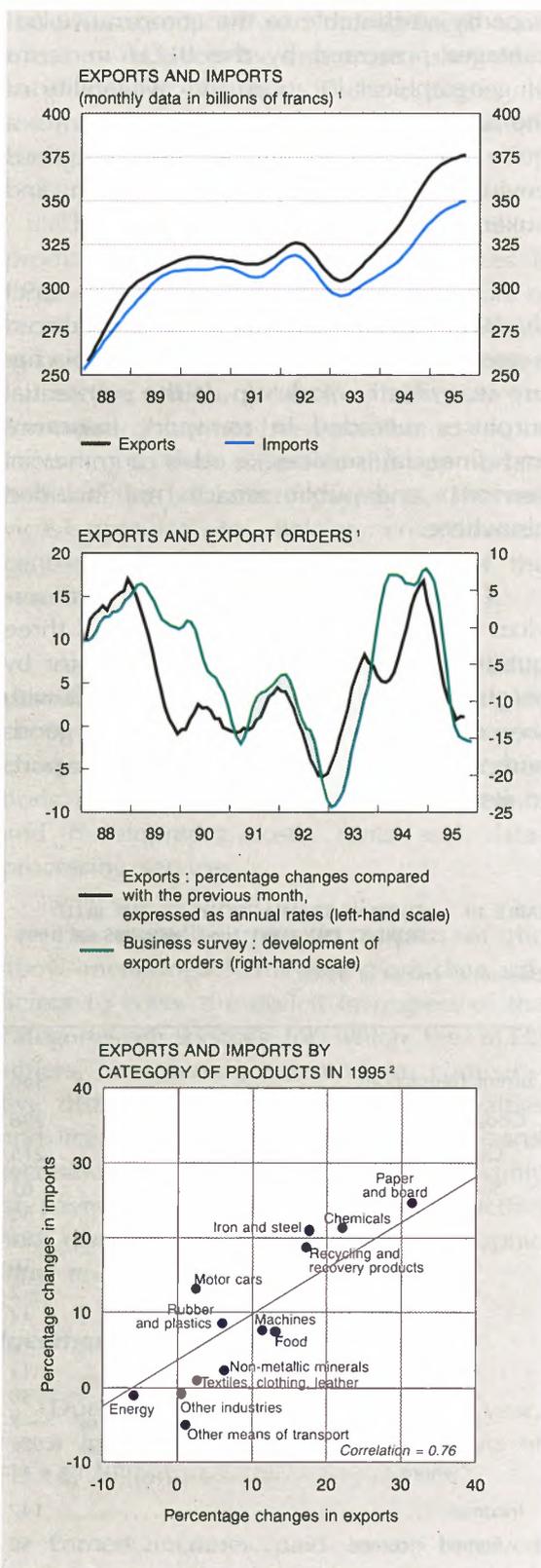
5.2 CURRENT TRANSACTIONS

Transactions in goods

Assessed on a transactions basis, the BLEU's exports of goods increased by 11 p.c. in value during the first nine months of 1995, thus benefiting from the strong growth in world trade. The rate of expansion of export nevertheless slowed down during the year. This contraction was also observed in the development of export orders, which enterprises considered to have been less favourable since the second quarter of 1995. Imports, for their part, rose by 9.2 p.c. during the first three quarters.

The foreign trade statistics, which cover the first eight months of the year, present

CHART 41 — THE BLEU'S TRANSACTIONS IN GOODS



Sources : NAI, NBB.

¹ Seasonally adjusted and smoothed data.

² Change compared with the corresponding period of the previous year in the foreign trade data for the first eight months.

a picture very similar to that of exports and imports as recorded in the balance of payments. These statistics do, however, lend themselves better to an analysis of trade flows, in so far as they make it possible to arrive at more precise distinctions of the nature of the products and of their destination or origin. Furthermore, they are the only sources which make it possible to distinguish between movements in volume and in prices.

The expansion in exports in terms of value was mainly due to the development of trade with the countries of the European Union. While the BLEU's exports to the three neighbouring countries increased by 11.2 p.c., those to the United Kingdom, Italy, Spain, Sweden and Finland increased on average by 12.2 p.c. Even larger rises were recorded for other markets of less importance for the BLEU, such as South America or Central and Eastern Europe. On the other hand, exports to the United States declined.

During the first eight months of the year the growth in exports in terms of value was very strong — about 20 p.c. — for two categories of products in which the BLEU is relatively specialised, namely the products of the iron and steel industry and the chemical industry. For other important categories, such as food products and machines, the increase in exports fluctuated around the average. On the other hand, exports of motor cars and of textiles, clothing and products of the leather industry showed only weak growth. Exports of products in the « other industries » category actually stagnated, chiefly because of the fall in exports of diamonds, which was itself brought about by sharp price falls connected with the depreciation of the dollar.

There was a considerable growth in imports, too, during the period under review. The categories of products for which the increase in the imports was most marked are generally those the exports of which have risen most. This correlation between the development of exports and of imports

is partly attributable to the fact that Belgium is a processing economy. The correlation furthermore tends to be accentuated because of an ever-increasing splitting-up of the production process, resulting from the continuance at world level of a more efficient allocation of the factors of production. As a result, exports and imports may increase simultaneously, without having any appreciable effect on the trade balance and hence on the value added.

Export and import prices hardly changed at all during the first eight months of 1995. In the course of this period, quotations for industrial raw materials expressed in dollars, which are an important determinant of prices in international trade in goods, were 27 p.c. above their previous year's level. The incidence of this rise was however partly counterbalanced by the appreciation of the franc against the dollar. Furthermore, the development of the other cost elements, including unit labour costs, which was very moderate both in the trading partners and in the BLEU, reduced the changes in foreign trade prices. The large increase in the value of the exports and imports recorded in the balance of payments is therefore primarily attributable to developments in volume.

Despite a certain parallelism between the movements of exports and imports, the latter nevertheless lagged behind during the first three quarters of the year under review, so that the trade surplus increased, rising from Fr. 152 billion during the first nine months of 1994 to Fr. 215 billion. This movement is only partly attributable to a slower increase in domestic demand in the BLEU than in the trading partners.

Transactions in services

The methodological changes mentioned in section 5.1 introduced breaks in series which make it almost or quite impossible to compare the balance of services with those for earlier years. Nevertheless, the data for 1995 confirm the trends which had previously become apparent from the balance

of payments, indicating that the BLEU is a large net exporter of services. This situation is partly attributable to the comparative advantages possessed by the BLEU in terms of geographical location and availability of the factors of production, but also, to a quite significant extent, to the propitious environment created by the Belgian and Luxembourg authorities.

During the first nine months of 1995 the BLEU's transactions in services produced a positive balance of Fr. 81 billion. This figure was chiefly made up of the substantial surpluses recorded in transport, insurance and financial services, « other commercial services » and public services not included elsewhere.

The surplus produced by transport services amounted to Fr. 50 billion, over three quarters of it having been accounted for by freight. This situation is connected both with the considerable surplus in respect of goods and with the presence of major sea ports in Belgium.

**TABLE 19 — CURRENT TRANSACTIONS OF THE BLEU
DURING THE FIRST NINE MONTHS OF 1995**

(Balances in billions of francs)

Current transactions	366
Goods and services	296
Goods	215
Services	81
Transport	50
Travel	-84
Communications	10
Construction	-2
Insurance and financial services	44
Data-processing and information services	2
Royalties and licence fees	-12
Other commercial services	38
Personal, cultural and recreational services	-7
Government services not included elsewhere	41
Incomes	147
Earned incomes	50
Incomes from direct and portfolio investment	98
Current transfers	-77

Source : NBB.

Insurance, mainly life insurance and reinsurance, and financial services, which include subscription and management commissions received by unit trusts, showed a surplus of Fr. 44 billion. These activities are for the most part concentrated in Luxembourg.

The positive balance of Fr. 38 billion produced by other commercial services is largely attributable to the remuneration of services provided by Belgian companies to associated enterprises situated abroad — services which, for lack of adequate information, it has not been possible to record according to their nature in the appropriate items of the balance of payments. The services provided by Belgian co-ordination centres account for nearly 60 p.c. of the surplus under this sub-heading.

As for government services not included elsewhere, which generated a net surplus of Fr. 41 billion, these mainly cover purchases of services by the European institutions in the BLEU. They include research and development costs, rents and data-processing services.

The overall surplus in respect of the above-mentioned items was more than sufficient to cover the deficit in respect of the categories of services for which the BLEU suffers, to a certain extent, from comparative disadvantages, such as travel, royalties and licence fees and personal, cultural and recreational services, which consist mainly of payments in respect of the production and distribution costs of cinematographic films and television broadcasts.

Incomes

During the first nine months of the year, factor incomes gave rise to net receipts of Fr. 147 billion.

Earned incomes paid to or received from foreign countries structurally result in net inflows. This is because the receipts connected with the wages and salaries paid to their resident workforces by the European

institutions established in the BLEU are greater than the net expenditure on the remuneration of cross-border workers, chiefly those employed by the Luxembourg financial sector. During the first nine months of 1995, net receipts in respect of earned incomes amounted to Fr. 50 billion.

Net incomes from direct and portfolio investment showed a surplus of Fr. 98 billion during the same period.

Net incomes from direct and portfolio investment have risen considerably since 1993, having reached an average of 1.4 p.c. of GDP during the last three years, against 0.5 p.c. between 1990 and 1992. This improvement is attributable to the increase in the BLEU's net external assets, resulting from the accumulation of current surpluses and from the movement of the prices of the assets and liabilities vis-à-vis foreign countries and of the exchange rates for the foreign currencies in which they are denominated. It is also connected with the movement of interest rates, account being taken of the term structure and the composition of the external assets and liabilities.

In 1993 and 1994 the increase in the BLEU's net external assets, but still more the decline in interest rates, exerted a positive influence on the movement of incomes. As the average term of the external liabilities is shorter than that of the assets, the fall in interest rates in fact affected interest expenditure more quickly than interest receipts, particularly as the fall in interest rates was more pronounced in respect of the shortest maturities.

In 1993 this reduction in interest rates appears to have accounted for two thirds of the increase in net incomes, which amounted to Fr. 75 billion.

The incidence of interest rates would normally have been even greater in 1994, but it was only partly reflected in the development of incomes as recorded in the balance of payments. Incomes from direct and portfolio investment, contrary to what

happened in 1993, were influenced by the appreciation of the franc vis-à-vis the main currencies in which the external assets and liabilities are denominated, and this depressed the yield of net assets in foreign currencies. Furthermore, the changes which took place in the income-repatriation behaviour of residents and non-residents exerted a negative influence on the development of the incomes recorded on a payments basis. Thus, in 1994 large enterprises restricted the repatriation of the profits of their subsidiaries abroad with a view, among other things, to financing direct investment projects, but mainly in order to avoid exchange losses on their incomes in US dollars. This factor depressed the receipts recorded in the balance of payments. On the other hand, some Luxembourg banks which had made substantial profits in 1993 did not distribute dividends to their foreign parent company until 1994, this factor having helped to increase the income flows on the expenditure side.

In 1995 the balance of incomes from direct and portfolio investment appears to have undergone little change compared with 1994. The incidence of the formation of new claims on foreign countries was almost entirely counterbalanced by that of the appreciation of the franc, which, more than in 1994, depressed the franc equivalent of net incomes from assets and liabilities in foreign currencies. The effect of the movement of interest rates, for its part, remained neutral. The fall in interest rates which had temporarily pushed up net incomes in 1993 and 1994 began to exert its full effects on the interest on long-term assets and liabilities, affecting the yield on assets more than that on liabilities. Furthermore, the higher average level in 1995 than in 1994 of certain short-term interest rates in foreign currencies, especially that for the US dollar, exerted additional pressure on the development of net incomes owing to the extent of the short-term liabilities in foreign currencies, concentrated on the liabilities side of the accounts of resident credit institutions. On the other hand, the incidence of the temporary increase in long-term rates in

1994, which affects incomes from investments with a time lag, remained limited, because the rise in rates applies only to new acquisitions of securities.

Current transfers

During the first nine months of 1995 the deficit in respect of current transfers amounted to Fr. 77 billion. This item traditionally shows a negative balance, particularly owing to the net payments made by the BLEU to the European Union.

These net payments contracted compared with the first nine months of 1994. On the one hand, contributions to the EU, mainly that based on GNP, decreased; on the other hand, the payments made by the European Agricultural Guidance and Guarantee Fund increased. The growth in the latter is attributable to the rise in refunds in connection with exports of agricultural products to countries which are not members of the EU. This does not, however, represent additional aid for Belgian and Luxembourg agricultural products. As the refunds are paid in the currency of the country where the goods are cleared through customs, many European enterprises in fact preferred, in view of the firmness of the Belgian franc, that their exports be made via Belgian ports. The resultant refunds then constitute receipts for the BLEU in respect of current transfers, but these are paid back to the enterprises concerned, so that they do not generate any net revenue for the economy. These expenditures by the BLEU appear, as the case may be, among private transfers, transactions in goods or financial transactions, without its being possible to distinguish between these.

5.3 CAPITAL AND FINANCIAL TRANSACTIONS

Current transactions are necessarily counterbalanced by the capital and financial transactions recorded in the balance of payments.

Capital transfers

Capital transfers represent the counterpart of the supplying free of charge of capital goods or of the funds for acquiring these goods, and also of remissions of debts. During the first nine months of 1995 these transfers were small, bringing about a net inflow of Fr. 4 billion. These were chiefly capital subsidies paid by the European Union to the Belgian regions and communities.

TABLE 20 — CAPITAL AND FINANCIAL TRANSACTIONS OF THE BLEU

(Balances in billions of francs)

	1994	1995 First nine months
Capital and financial transactions ..	-417	-366
Capital transfers	- ¹	4
Financial transactions	-417	-370
Direct investments	246	-18
Other financial transactions ...	-511	-274
Individuals and companies ..	-355	-51
Resident credit institutions ²	-91	75
Other sectors	-264	-127
Assets and liabilities in francs of non-residents	583	340
Assets and liabilities of resident individuals and non-bank companies ³	-847	-467
General government	-156	-223
In francs	-9	8
In foreign currencies ^{4,5} ...	-147	-231
Swap transactions carried out by the NBB	-143	-74
Net foreign exchange reserves of the NBB ⁶	-9	-4

Source : NBB.

¹ Up till 1994, capital transfers were included in current transfers.

² Movement of the position in foreign currencies of resident credit institutions, i.e. of the amount by which their assets in foreign currencies exceed their liabilities in foreign currencies, both to the BLEU and to the rest of the world, excluding those relating to their shareholdings and their capital and reserves.

³ Including errors and omissions.

⁴ In 1995 it was not possible to isolate operations, if any, in securities by general government other than those of the Belgian Treasury; they are therefore included, with the other errors and omissions, under the heading « Assets and liabilities of resident individuals and non-bank companies ».

⁵ Change in the foreign currency debt held by non-residents and by resident credit institutions. Minus sign : decrease.

⁶ Minus sign : increase in spot reserves.

Financial transactions

Financial transactions, for their part, specify the various forms in which the economy's financial surplus — the sum of the current account surplus and net capital transfers — has been invested abroad.

During the preceding years these net capital outflows did not usually take the form of direct investments, which on the contrary led to net inflows. These investments cover the transactions undertaken by an enterprise of one country with a view to establishing a lasting relationship — while exercising a significant influence on the management — with an enterprise located in another country, together with all financial transactions carried out between these subsequently. Given the high degree of openness of the BLEU, substantial direct investment relationships have developed over the years. During the first nine months of 1995 direct investments resulted on balance, unlike what usually happens, in net capital outflows amounting to Fr. 18 billion. This movement is attributable to a transaction — the size of which, by Belgian standards, may be described as exceptional — of purchasing a foreign enterprise by a Belgian company.

Direct investments made by foreign enterprises in Belgian and Luxembourg companies led to capital inflows totalling Fr. 219 billion during the same period. The contribution of equity capital amounted to Fr. 108 billion, of which nearly a third, or Fr. 33 billion, was for the co-ordination centres. While this contribution — which represented, on an annual basis, 1.7 p.c. of GDP — is smaller than in the previous years, it is still appreciably greater than that observed during the 1960s and 1970s, when it had averaged 0.7 and 0.8 p.c. respectively. Two thirds of these capital inflows comes from the Member States of the EU, more particularly the Netherlands, the United Kingdom and Germany, and the rest chiefly from the United States and Switzerland. A little over half of the capital was

TABLE 21 — DIRECT INVESTMENTS

(Balances in billions of francs)

	1991	1992	1993	1994	First nine months		
					1994		1995
						total	of which : co-ordi- nation centres ¹
Direct investments in the BLEU	287	418	384	271	136	219	105
Capital ²	232	320	303	249	165	108	33
Other	55	99	81	22	-30	111	72
Direct investments abroad	-212	-345	-155	-25	68	-237	-96
Capital ²	-83	-69	-64	-80	-32	-44	...
Other	-129	-276	-91	55	100	-193	-96
Net direct investments	74	73	228	246	204	-18	9

Source : NBB.

¹ This information has been available since the reform of the collection system.² Company formations and expansions, acquisition of shareholdings and transactions in real estate.

invested in the services sector, owing mainly to the extent of the investments in the co-ordination centres. In industry the investments were chiefly concentrated on the petrochemicals and chemicals sector and in motor vehicle assembly lines. The other transactions carried out by foreign companies with their affiliated Belgian and Luxembourg enterprises resulted in net lending of Fr. 111 billion, more than half of which went to their co-ordination centres.

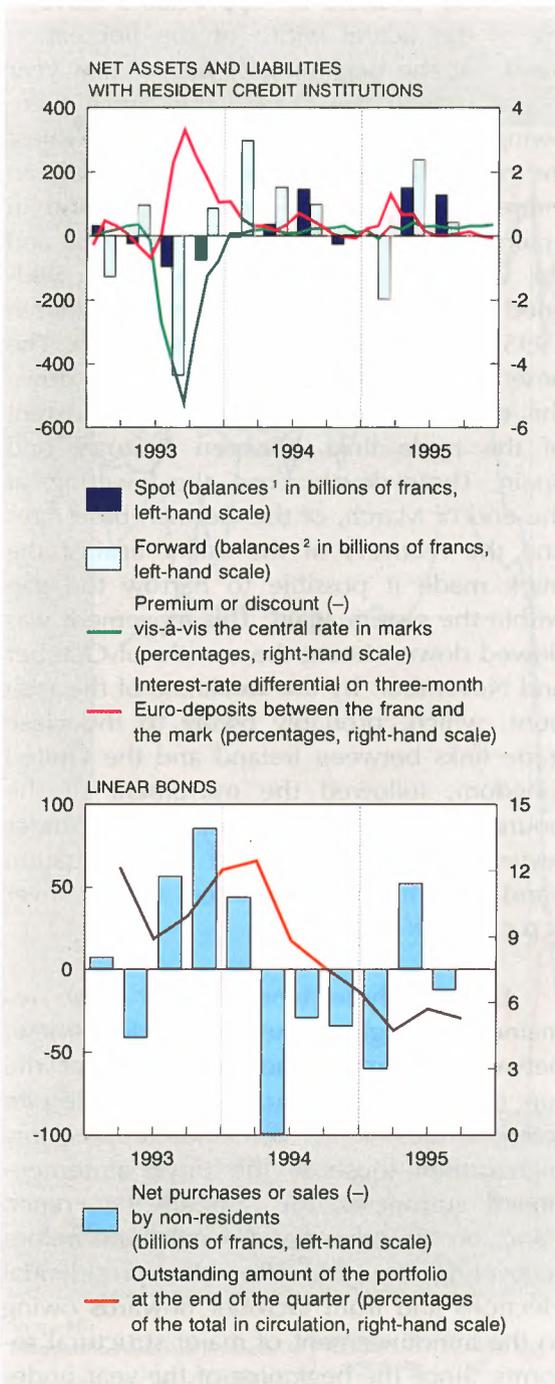
Resident enterprises, for their part, increased their net holdings in companies abroad by Fr. 237 billion. Net investments in the form of company formations and expansions and of acquisitions of shareholdings were the result, on the one hand, of the sale by a resident company of a substantial shareholding in the United States and, on the other hand, of new investments, mainly in the EU and Canada. In this respect, the worldwide tendency to allocate a growing proportion of direct investments — i.e. 37 p.c. in 1994 — to the developing countries does not apply to the BLEU. Moreover, net lending to associated foreign enterprises amounted to Fr. 193 billion. These loans were influenced by the choice of the financing methods for the aforemen-

tioned purchase. Acquisitions of shareholdings can in fact be financed directly by the purchaser, but also indirectly, by means of loans granted to subsidiaries abroad. The result observed in 1995 contrasts sharply with that in 1994, when, exceptionally, net repayments had been recorded.

The course of the other financial transactions of enterprises and individuals was not uniform during the first nine months of 1995 : these led to substantial net capital outflows during the first quarter followed by net inflows during the second and third quarters. This pattern chiefly reflects the behaviour of foreign investors with regard to investments in francs.

During the first three months of 1995, in a context of tensions within the EMS, non-residents in fact reduced their net assets in francs by Fr. 291 billion. As during the previous periods of instability on the foreign exchange market, forward sales, which reached Fr. 199 billion, were the preferred channel for taking positions against the franc. Non-residents also reduced their holdings of public securities, in the form both of Treasury certificates and of linear bonds.

CHART 42 — ASSETS AND LIABILITIES IN FRANCS OF NON-RESIDENTS



Source : NBB.

¹ Minus sign : increase in liabilities or decrease in assets in francs of non-residents.

² Minus sign : increase in forward sales or decrease in forward purchases of francs by non-residents.

This loss of interest in investments in francs was however only temporary. When calm returned on the foreign exchange mar-

ket, after the devaluation of the peseta and the escudo at the beginning of March, and after the German official rates had been reduced at the end of that month, the forward sales were unwound, forward purchases of francs took place and net spot assets with BLEU banks increased, so that between April and September 1995 net inflows of non-residents' short-term funds amounted to over Fr. 550 billion. Furthermore, from the end of June onwards, the short-term interest-rate differential against the mark, which had been over 1 p.c. in March, became negligible again.

During the second quarter foreign investors also made net purchases of public securities, mainly bonds, totalling about Fr. 60 billion. These purchases contrast with the net sales during the four previous quarters, which, in 1994, had admittedly taken place in a general context of withdrawal of investors from the international bond markets. The sales resumed, although only to a small extent, during the third quarter, the rates offered by Belgian government bonds having fallen faster than the corresponding rates in the neighbouring countries, and having actually become appreciably lower than those for the equivalent French securities. Over this period foreign investors showed more interest in Treasury certificates : these investors thus rebuilt their portfolios, in order to bring them back to the level which they had reached at the end of 1994. The share of certificates held by non-residents in the total in circulation at the end of September 1995 was still, however, slightly smaller than it had been at the end of 1994. This was also the situation with regard to the linear bonds held by non-residents, the share of which in the total reached 5.3 p.c. at the end of September, against 6.5 p.c. at the end of 1994 and 12.1 p.c. at the end of 1993.

The development of the assets and liabilities of resident individuals and non-bank companies — which include any errors and omissions in the other balance of payments items — resulted during the first nine months of 1995 in an increase in net assets

on the rest of the world. In order to diversify their portfolios, enterprises and individuals appear to have — among other things — increased their holdings of foreign securities.

The financial transactions of general government — except for those carried out by non-residents in respect of the securities in francs issued by the Belgian Treasury, which had been commented upon above — left, over the first nine months of 1995 as a whole, a deficit of Fr. 223 billion.

During the first half of the year the Treasury's total foreign currency debt decreased by Fr. 9 billion, this movement having been due to a reduction in the short-term debt which was larger than the increase in the consolidated debt. Between July and September net repayments of foreign currency loans speeded up appreciably, as the firmness of the franc and the favourable balance of payments situation created good conditions for these transactions. The Treasury furthermore continued to reorganise the maturity structures by replacing some short-term loans by long-term loans the interest rates on which were particularly low.

Altogether, during the first nine months of the year, the Treasury's foreign currency debt decreased by Fr. 231 billion, while the swap transactions carried out by the Bank amounted to Fr. 74 billion and the net foreign exchange reserves increased by Fr. 4 billion.

5.4 EXCHANGE RATES

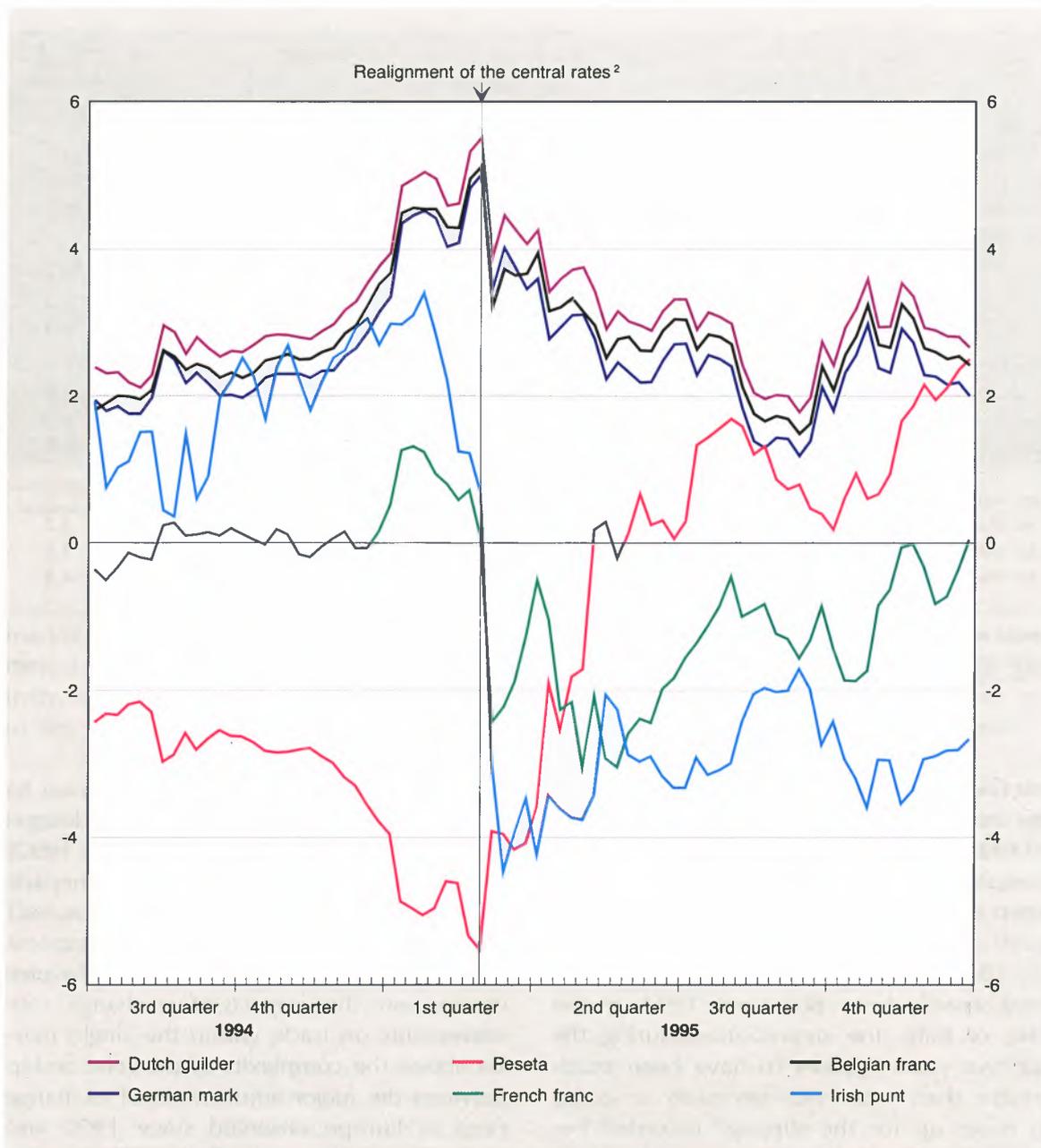
The appreciation of the weighted average exchange rate for the franc in recent years cannot be dissociated from the way in which the currencies which participate in the exchange rate mechanism of the EMS — and more particularly the mark — have moved in relation to the dollar and the yen, nor from the substantial depreciations undergone by certain European currencies since 1992.

The absence of major turbulences within the EMS during the first half of 1994 had made possible an appreciable narrowing of the actual width of the fluctuation band : at the beginning of July of that year it was indeed less than 5 p.c. Since then, owing to the weakness of the dollar against the mark, a pause in the easing of German interest rates and the political situation in Spain, the gap between the strongest and the weakest currencies in the system widened steadily, until the beginning of March 1995, when it was more than 11 p.c. The peseta was then devalued, dragging down the escudo with it, because of the extent of the trade links between Portugal and Spain. These devaluations, the lowering, at the end of March, of the German base rates and the recovery of the dollar against the mark made it possible to narrow the gap within the system again. This movement was slowed down, during the months of October and November, by the weakness of the Irish punt, which, probably owing to the close trade links between Ireland and the United Kingdom, followed the movement of the pound sterling. At the end of the year under review the actual width of the fluctuation band had however returned to just over 5 p.c.

Despite these tensions, the franc remained, throughout the year under review, between the mark and the guilder at the top of the EMS fluctuation band. Despite interest rates which remained appreciably higher than those of the three aforementioned currencies, the rate for the French franc, on the other hand, weakened, before recovering in May after the presidential elections and from October onwards owing to the announcement of major structural reforms. Since the beginning of the year under review the Belgian franc has remained virtually stable against the currencies of Germany, France and the Netherlands — the main trading partners — as a whole, as their weight in the overall index of the weighted average exchange rate amounts to 57 p.c. On average, however, the franc appreciated somewhat against them compared with 1994.

CHART 43 — POSITION OF THE CURRENCIES WITHIN THE EXCHANGE RATE MECHANISM OF THE EMS¹

(Weekly averages in percentages)



Source : BIS.

¹ Differential between two currencies = $\left(\frac{\text{exchange rate}}{\text{central rate}} - 1 \right) \times 100$.

² Devaluation of the peseta and the escudo.

Against the other currencies participating in the exchange rate mechanism, the franc moved parallel with the variations in the actual width of the fluctuation band : it appreciated strongly in the first quarter, then depreciated during the next two

quarters and remained quite stable after that.

It was however against the Italian lira and the pound sterling — which have no longer formed part of the exchange rate

TABLE 22 — WEIGHTED AVERAGE EXCHANGE RATE FOR THE BELGIAN FRANC¹

(Percentage changes)

	1992	1993	1994	1995	From 31st December 1994 to 31st December 1995
Vis-à-vis the German mark, the guilder and the French franc	-0.1	-1.2	1.3	0.7	-0.2
Vis-à-vis the other currencies of the European Union ²	4.9	13.0	3.5	8.4	4.3
of which : Currencies participating in the exchange rate mechanism of the EMS ²	1.5	6.4	2.6	2.8	0.4
Italian lira	5.3	19.0	6.1	14.3	5.5
Pound sterling	6.3	9.1	1.5	9.9	8.9
Vis-à-vis the US dollar	6.4	-7.1	3.4	13.3	8.1
Vis-à-vis the yen	0.2	-18.8	-4.5	3.9	11.9
Total	2.0	0.8	1.7	3.9	2.3
p.m. weighted average exchange rate :					
for the German mark	3.0	2.9	0.1	5.4	3.2
for the guilder	2.3	2.8	0.3	4.1	2.6
for the French franc	3.3	2.3	0.8	3.4	4.3

Sources : BIS, NBB.

¹ Minus sign : depreciation of the franc.² Currencies of the countries forming part, where appropriate, of the EU or the exchange rate mechanism in January 1995.

mechanism since September 1992 — that the franc underwent its widest fluctuations in 1995, rising by 5.5 and 8.9 p.c. respectively during the year and by 14.3 and 9.9 p.c. respectively on annual average.

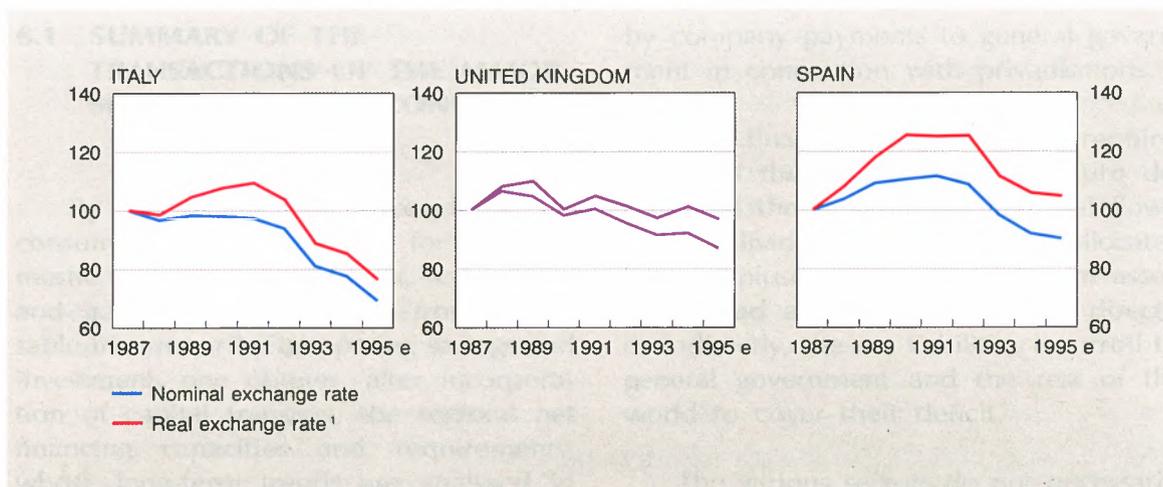
Like the peseta, these two currencies have steadily lost value since 1992. In the case of Italy, the depreciation during the last two years appears to have been much greater than what was necessary in order to make up for the slippage recorded between 1987 and 1991 in terms of relative costs. The exchange rate for the lira has in fact been affected by other factors, such as anticipations of depreciation due to the fears of inflationary and budgetary slippages. In this connection, the major measures adopted by the Italian government enabled the lira to recover slightly during the second half of the year. In the United Kingdom the pound's loss of value was hardly any greater than the previous worsening of relative labour costs. In Spain, on the other

hand, the fall of the peseta has not up to now counterbalanced a growth in domestic costs, which, between 1987 and 1992, greatly exceeded that of its European partners.

A study made by the European Commission on the impact of exchange rate movements on trade within the single market shows the complexity of the relationship between the major adjustments of exchange rates in Europe observed since 1992 and trade flows; the wide fluctuations in exchange rates do not, up to the present, appear to have had any appreciable effect on trade within Europe. They appear to have had a greater impact on the margins of enterprises : exporters in the countries whose currencies have appreciated appear to have been inclined to grant discounts in order to maintain their market shares, while those of countries whose currencies have depreciated do not appear to have made full use of the resultant advantage in order to gain

CHART 44 — NOMINAL AND REAL EFFECTIVE EXCHANGE RATES AGAINST THE CURRENCIES OF THE COUNTRIES OF THE EUROPEAN UNION

(Indices 1987 = 100)



Source : EC.

¹ Measured by relative unit labour costs in manufacturing industry, expressed in a common currency.

market shares. These changes in profitability may, however, have affected economic activity, employment and investment decisions in the various countries.

Lastly, as the franc remained stable during the year under review against the mark, it also suffered the effects of the fluctuations of the latter against the dollar and the yen. The appreciation against the dollar thus amounted to 8.1 p.c. from the beginning of the year, and to 13.3 p.c. on average com-

pared with 1994. The franc also appreciated against the yen, by 11.9 p.c. from the beginning of January and by 3.9 p.c. on average compared with the previous year.

Altogether, since the beginning of the year under review, the weighted average exchange rate for the franc appreciated by 2.3 p.c., while the average annual appreciation amounted to 3.9 p.c. This rise is comparable to that of the currencies of the three main partners.

6. FINANCIAL ACCOUNTS AND FINANCIAL MARKETS

6.1 SUMMARY OF THE TRANSACTIONS OF THE MAJOR SECTORS OF THE ECONOMY

By subtracting the expenditure on consumption and investment for each domestic sector — individuals, companies and general government — from disposable income or by comparing savings and investment, one obtains, after incorporation of capital transfers, the sectoral net financing capacities and requirements, whose long-term trends are analysed in section 5.1.

The trend of the preceding years continued in 1995. The net financing capacity of the domestic sectors of the economy as a whole increased once again to reach 5.1 p.c. of GDP.

The financing requirement of general government declined by 0.8 p.c. of GDP during the year under review. This improvement in the public finances was partly reflected in the movement of the accounts of individuals. Expressed as a percentage of GDP, the decrease in that sector's income led to a decline in both consumption and gross savings. As expenditure on housing remained virtually stable, the contraction in the gross savings of individuals made itself fully felt in the net financing capacity, the level of which, at 7.7 p.c. of GDP, was still relatively high.

The gross saving of companies, for its part, increased during the year under review. It went up from 10 to 10.9 p.c. of GDP and this increase was fully reflected in the financing capacity, which expanded from 0.5 to 1.5 p.c. of GDP. The rise in investment was in fact offset by a rise in the net receipts resulting from capital transfers, which, in contrast to the two preceding years, were no longer affected

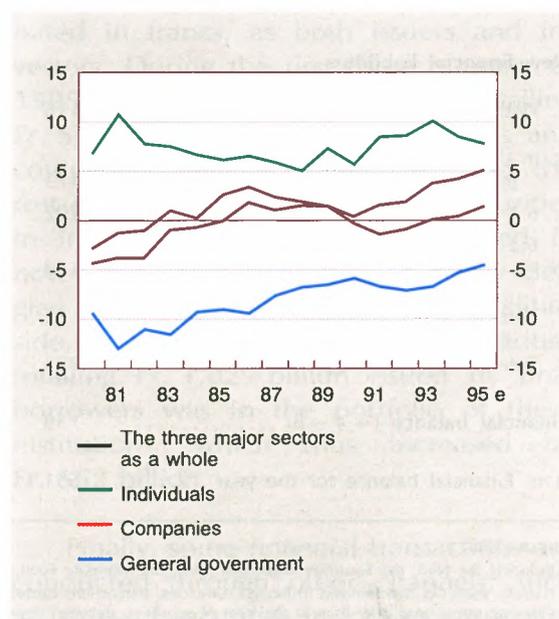
by company payments to general government in connection with privatisations.

The financing capacities or requirements of the various sectors in turn determined the direction of financial flows. Thus, individuals and companies allocated their surpluses to the formation of assets which had as their counterparts, directly or indirectly, the net liabilities incurred by general government and the rest of the world to cover their deficit.

The various sectors do not necessarily accumulate their net assets or liabilities uniformly throughout the year. The income and expenditure profile of many categories of economic agents is subject to seasonal fluctuations, as in the case of general government, whose deficit tends to be concentrated in the first few months

CHART 45 — NET FINANCING REQUIREMENT (–) OR CAPACITY OF THE MAJOR SECTORS OF THE ECONOMY

(Percentages of GDP)



Sources : NAI, NBB.

of the year. These variations are reflected in the quarterly breakdown of the financial surplus of individuals and companies.

The influence of these seasonal factors can be illustrated by comparing the balances for the first nine months of 1995 — the only period for which a full set of financial data is already available — with the estimated balances for twelve months. Thus, the financial deficit of general government, which came to Fr. 381 billion for the full year, had already reached

Fr. 340 billion by the end of the first nine months. At the same time, the financial surplus of individuals and companies already represented Fr. 571 billion after three quarters and increased relatively little during the last three months of 1995, since it came to Fr. 703 billion after four quarters.

Incidentally, this last figure is over Fr. 50 billion higher than the Fr. 651 billion surplus recorded for individuals and companies in 1994. The sharp increase in

TABLE 23 — FINANCIAL FLOWS OF THE MAJOR SECTORS OF THE ECONOMY

(Billions of francs)

	First nine months of 1994				First nine months of 1995			
	Individuals and companies	General government	Rest of the world	Total	Individuals and companies	General government	Rest of the world	Total
Formation of financial assets								
1. With Belgian credit institutions ¹	524	-156	1,081	1,450	255	-27	803	1,031
2. In the form of securities denominated in francs	-62	-41	224	121	174	37	316	527
2.1 Issued by final borrowers	-64	-41	222	118	142	37	298	477
2.2 Issued by Belgian credit institutions	2	...	1	3	33	...	17	50
3. Through other channels ²	552	-50	-126	376	550	-30	189	708
4. Total (= 1 + 2.1 + 3) ³	1,013	-246	1,177	1,944	946	-20	1,290	2,216
New financial liabilities								
5. With Belgian credit institutions ¹	118	670	663	1,450	128	306	596	1,031
6. In the form of securities denominated in francs	173	260	128	562	114	573	341	1,029
6.1 Acquired by final investors	202	-235	151	118	129	3	345	477
6.2 Acquired by Belgian credit institutions	-29	496	-23	444	-15	571	-4	552
7. Through other channels ²	-67	-96	539	376	117	11	580	708
8. Total (= 5 + 6.1 + 7) ³	254	338	1,352	1,944	375	320	1,521	2,216
Financial balance (= 4 - 8)	759	-584	-175	0	571	-340	-231	0
p.m. Financial balance for the year	651	-412	-239	0	703 e	-381 e	-322 e	0

Source : NBB.

¹ Including the NBB, the Securities Regulation Fund, the Monetary Fund, the Rediscount and Guarantee Institute (RGI) and the Postal Cheque Office.

² Namely, securities denominated in foreign currencies, transactions carried out through foreign credit institutions and claims and debts resulting from direct financing operations, other than in the form of securities, between domestic sectors or with the rest of the world.

³ Securities denominated in francs issued or acquired by Belgian credit institutions appear not only under headings 2 and 6 but also under headings 1 and 5 as transactions conducted through these institutions. They therefore cannot be recorded twice under headings 4 and 8.

the deficit of the rest of the world in relation to Belgium was in fact only partly counterbalanced by the reduction of around Fr. 30 billion in the financial deficit of general government between 1994 and 1995.

The financial balances for the whole of 1995 are still only estimates. Moreover, some of the detailed data for the first nine months of the year are still provisional. Owing to the reform of the method of collecting balance of payments data, explained in section 5.1, it was not possible to produce an exhaustive list of all transactions with the rest of the world. Transactions carried out abroad by individuals and companies could therefore only be broken down approximately between assets in francs and assets in foreign currencies, while the latter could not be subdivided into short and long term.

During the year the financial flows were obviously not confined just to the transactions which would have been strictly necessary to cover the balances. Each domestic sector was in fact involved simultaneously in lending and borrowing transactions. When these transactions took place direct between agents in the same sector they could not always be recorded. This applies, in particular, to debts and claims between Belgian companies other than in the form of securities.

During the first nine months of 1995, subject to this reservation, individuals and companies simultaneously acquired financial assets worth Fr. 946 billion and contracted new liabilities totalling Fr. 374 billion, which reflects the very different financial positions of the economic agents in this sector. Over the same period, the transactions of the rest of the world with Belgium also took the form of numerous lendings and borrowings, a large proportion of which took place between Belgian and foreign credit institutions on the interbank market. While general government is a more homogeneous sector, its financial transactions were nevertheless

not one-way. Some entities in fact produced a surplus, whereas the Treasury covered its deficit not only by contracting new loans but also by reducing the amount of its short-term investments. Consequently the covering of the Fr. 340 billion financial deficit recorded by general government in the first nine months of 1995 gave rise to an increase of Fr. 320 billion in this sector's liabilities and a reduction of Fr. 20 billion in its assets.

The financing channels most traditionally used by the various domestic sectors are the intermediation of Belgian credit institutions and the issuing of securities in francs. The coexistence of two large domestic circuits is not peculiar to Belgium. It is also found in other countries, although the diversity of financial structures often leads to a distinction between economies where the majority of financial transactions are conducted through the banks and those which favour direct financing on the security markets.

Belgium can be regarded as a country with a high degree of bank intermediation, but its distinguishing feature is the very close link between the two financing channels. Belgian banks are major operators on the market for securities denominated in francs, as both issuers and investors. During the first three quarters of 1995, out of financial assets totalling Fr. 527 billion formed by individuals and companies, general government and the rest of the world in the form of securities in francs, Fr. 50 billion was invested in notes and other securities issued by Belgian credit institutions. On the liabilities side, a large proportion of the securities totalling Fr. 1,029 billion issued by final borrowers was in the portfolio of these institutions, which thus increased by Fr. 552 billion.

Finally, some financial transactions are conducted through other channels, such as issues of securities in foreign currencies or intermediation by foreign banks. These

two channels were used more particularly by individuals and companies which, by making some of their investments in this way, acquired substantial financial assets in relation to the rest of the world.

6.2 FINANCIAL ACCOUNTS OF THE MAJOR DOMESTIC SECTORS

Formation of financial assets by individuals and companies

Investments by individuals and companies continued to fit in with the pattern of portfolio adjustments begun in the second half of 1994. Thus, the preference for the long term remained very pronounced since, during the first nine months of 1995, acquisitions of assets in francs at over one year totalled Fr. 373 billion, against only Fr. 32 billion for assets at up to one year.

In retrospect, mid-1994 seems to have been a turning point in financial behaviour. Throughout 1993 and the first half of 1994, individuals and companies concentrated mainly on short-term investments. Initially, this choice was dictated by the increase in money market rates, which, following the foreign exchange crisis, took place in the context of declining capital market rates. This choice was confirmed subsequently during the initial recovery phase of long-term rates which had encouraged investors, while they waited, to prefer liquid assets in spite of the decline in short-term rates.

During the third quarter of 1994 the differential between long- and short-term rates became so great that it induced individuals and companies to redirect their attention to assets at over one year. This preference was maintained during the year under review, since the yield curve continued to rise very steeply. At the same time, the whole of this curve gradually

TABLE 24 — FORMATION OF FINANCIAL ASSETS BY INDIVIDUALS AND COMPANIES

(Billions of francs)

	1993	1994	1994		1995 First nine months
			First half	Second half	
In francs	790	727	529	198	406
At up to one year ¹	733	78	568	-490	32
At over one year	57	650	-39	688	373
In foreign currencies	539	490	263	227	343
Other assets ²	26	-65	-80	15	198
Total	1,355	1,152	712	440	946 ³
of which : via UCITS ⁴	577	13	96	-83	-16
In francs at up to one year	113	-81	-21	-61	-54
In francs at over one year	162	23	8	16	74
In foreign currencies	301	71	109	-38	-36

Source : NBB.

¹ Including assets the maturity of which is not known.

² These chiefly consist of loans granted direct by enterprises to the rest of the world and net commercial claims on foreign countries for which the breakdown between francs and foreign currencies is not always known.

³ This amount corresponds to that under heading 4 in table 23 in the column relating to individuals and companies.

⁴ This relates to all undertakings for collective investment which make public issues in Belgium. The assets formed via these undertakings comprise not only net subscriptions but also reinvestments of interest and dividends.

slipped downwards, enabling bondholders to collect capital gains.

The possibility of making such gains is a very important motive for acquiring bonds through undertakings for collective investment making public issues in Belgium. Most of these undertakings adopt the capitalisation system, so that income is collected solely in the form of capital gains and is therefore tax-free. Consequently, subscriptions to units in SICAVs specialising in bonds in francs tend to be concentrated in periods when long-term rates are falling, such as 1993, and to be interrupted when these rates recover, as happened in 1994.

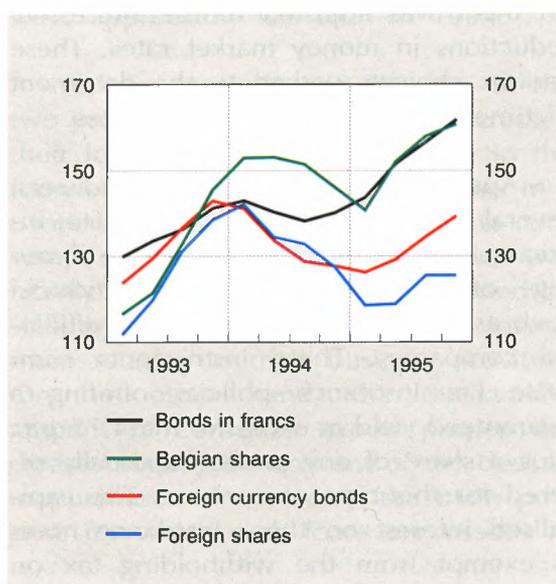
Owing to the large capital losses sustained by bond SICAVs in 1994, however, individuals seem to have been somewhat hesitant to resume their purchases in 1995 in spite of the renewed fall in long-term rates. The revival of interest therefore fell short of the considerable success enjoyed by these investments in 1993.

This more limited attraction is also attributable to the raising of the stock-market tax on transactions in units of capitalisation SICAVs in 1994. These charges, which are in addition to entry and exit fees and the management costs charged by these SICAVs, obviously have to be written off over the whole period for which the units are held.

The range of choice offered by investment companies has expanded steadily and now includes products which would be difficult to obtain direct. This applies, in particular, to real estate investments, which, pursuant to the Royal Decree of 10th April 1995, may from now on be conducted through closed-ended real estate investment companies, or SICAFIs. Two companies of this type were formed in 1995, one by the GIMV — Flanders Regional Investment Company — to finance the building of housing for the elderly, while the other was established by a private sector company.

CHART 46 — YIELD INDICES OF COLLECTIVE INVESTMENT UNDERTAKINGS¹

(Indices 1st January 1991 = 100, quarterly averages)



Source : Belgian Municipal Credit Institution.

¹ These indices measure the movement of the inventory value of capitalisation collective investment undertakings specialising in bonds and shares.

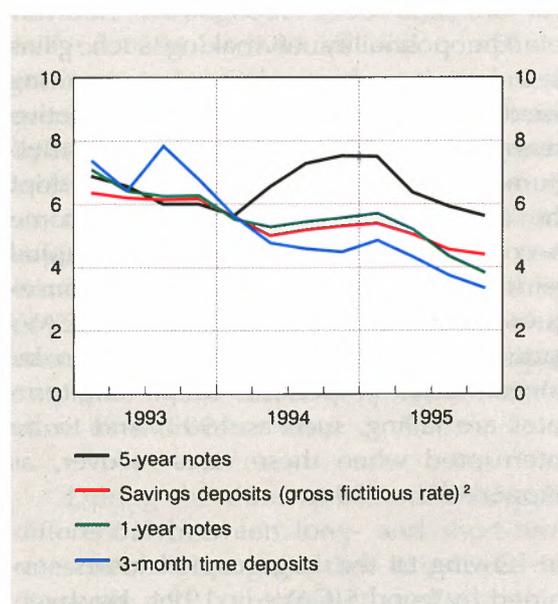
This expansion in the range of products offered by collective investment undertakings also affected assets in foreign currencies. Thus, in 1993 and in the first half of 1994, individuals bought units in capitalisation SICAVs investing in certain emerging markets. The reversal of the trend which has since occurred in most of these markets greatly attenuated the success of these assets. During the second half of 1994 and in 1995, foreign currency investments were therefore concentrated on the more traditional markets, and then took the form of direct purchases only. These remained considerable, reflecting the desire of individuals to diversify their portfolios.

In the part of their portfolios devoted to the formation of assets in francs, individuals and companies gave preference to two major asset categories, as they had in the second half of 1994. Thus, the large differential which persisted between long- and short-term interest rates continued to

stimulate purchases of bonds and notes at over one year. In the short-term segment, savings deposits enjoyed some success because of the time lag before the return on them was adjusted to the successive reductions in money market rates. These various choices worked to the detriment of time deposits and one-year notes.

Apart from these traditional assets, several credit institutions wishing to increase their share in the collection of savings offered new investment products, such as insurance notes issued by affiliated companies. These instruments comprise life insurance policies offering a guaranteed yield in excess of the 4.75 p.c. plus a share of any profits as usually offered for this type of contract. The capitalised interest on these insurance notes is exempt from the withholding tax on income from financial assets so long as certain conditions are respected; these conditions were specified during 1995. The notes must have a life of more than eight years; if not, the insurance on death only associated with this instrument must represent at least 130 p.c. of the premiums paid and must cover the subscriber.

The development of insurance notes is a further sign of the departitioning of

CHART 47 — MAIN CREDITOR INTEREST RATES¹

Source : NBB.

¹ These rates correspond to the average of the rates obtained by a survey among the main credit institutions, weighted on the basis of each institution's market share. The rates for a given quarter are obtained by calculating the average of the interest rates recorded at the end of the three months of that quarter.

² The gross fictitious rate is calculated from the net rate (including the maximum fidelity and growth bonuses plus, where appropriate, the co-operator allowance) in order to make it comparable with the gross yield on assets which are not exempt from the withholding tax on income from financial assets.

the activities of financial institutions which is gradually taking place in the context of the single European market. While credit

TABLE 25 — FORMATION OF FINANCIAL ASSETS IN FRANCS BY INDIVIDUALS AND COMPANIES¹

(Billions of francs)

	1993	1994	1994		1995 First nine months
			First half	Second half	
Bills and sight deposits	115	12	150	-138	56
Savings deposits	32	451	321	130	222
Time deposits	279	-185	-78	-106	-116
Notes and other securities at up to one year	275	-423	-117	-306	-134
Notes and bonds at over one year	134	571	-103	674	295
Shares	-94	22	57	-35	12
Other assets in francs ²	48	278	299	-20	69
Total	790	727	529	198	406

Source : NBB.

¹ The investments made via undertakings for collective investment which make public issues in Belgium have been broken down between the various headings of the table.

² Including claims arising from direct financing transactions between domestic sectors other than in the form of securities and assets the maturity of which is not known.

institutions try to take advantage of their large network of branches to promote the sale of life insurance policies, insurance companies are endeavouring to attract a share of long-term savings. Moreover, in the bond market itself, segmentation by maturity — long-established between notes and government bonds — is tending to disappear. In particular, the nine-year government loan issued in November 1995 and aimed at individuals offers a premature redemption option on the initiative of the holder (put option) after three and six years, which placed it in direct competition with three-year notes.

New financial liabilities of individuals and companies

The liabilities of individuals and companies increased by Fr. 375 billion during the first nine months of 1995, whereas they had risen by only Fr. 254 billion in

the corresponding period of 1994. This variation conceals contrasting trends. There was a large increase in new company liabilities, while those of individuals were appreciably less than in 1994.

As was more or less the case in the two preceding years, individuals increased their long-term debts only, mainly in the form of flat-rate and mortgage loans. In a context of weak expansion of private consumption, the increase in the former was mainly due to the new loans obtained by self-employed persons to finance investment relating to their business activities. On the other hand, the outstanding amount of consumer credit proper decreased slightly on account of the decline in purchases of new cars, the main purpose for which such loans are used.

There was a marked slowing down in the growth of mortgage lending, which dropped from Fr. 110 to 49 billion. This deceleration reflects slower growth in

TABLE 26 — NEW LIABILITIES OF INDIVIDUALS AND COMPANIES¹

(Billions of francs)

	1993	1994	First nine months	
			1994	1995
Individuals	97	193	164	33
At up to one year	-31	4	-9	-25
At over one year	128	189	173	59
Companies	386	308	90	341
Securities	258	218	172	112
Shares ²	235	231	171	147
Fixed-income securities	23	-14	2	-34
Liabilities to credit institutions	-35	78	-16	110
At up to one year	-64	33	-47	89
At over one year	29	45	30	21
Other liabilities	162	13	-67	119
of which : vis-à-vis the rest of the world	135	-11	-36	165
Total	482	501	254 ³	375 ³

Sources : Banking and Financial Commission, NBB.

¹ In Belgian francs and foreign currencies.

² Issues of listed and unlisted shares, including exercises of warrants and issues of real estate certificates.

³ These two amounts correspond to those under heading 8 in table 23 in the two columns relating to individuals and companies.

house purchases and housing starts, also observable from the trend of registration fees collected by the authorities. Expecting a continuation of the steady decline in mortgage rates observed during the first nine months of the year, potential borrowers seem to have postponed their investment in the hope of enjoying better terms at a later date. In 1994 the increase in capital market interest rates had had the opposite effect, instead encouraging borrowers to anticipate the adjustment of mortgage rates to the higher long-term rates.

On 1st January 1995 the provisions of the law of 4th August 1992 relating to mortgages, which authorises the granting of loans at variable rates, were extended to all new loans. The method of calculation governing the adjustment of these

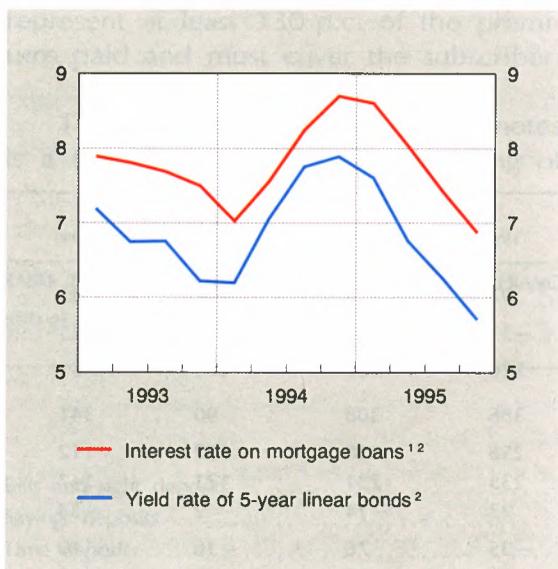
variable rates was specified by the law of 13th April 1995. This stipulates that the document establishing the loan must mention, in addition to the initial interest rate, a reference index and a margin; at the time of each revision the new interest rate must be equal to the level of the reference index published in the preceding month plus the margin specified in the contract. These new provisions were reflected in a very wide diversification of the range of credit offered by mortgage institutions. The many formulas for fixed-rate loans and loans at rates which may be varied at the intervals permitted by law were combined with various options such as the setting of a range establishing the maximum and minimum rates between which the actual rate moves.

Owing to the growth in both their gross capital formation and their foreign direct investments, companies greatly increased their new financial liabilities, which went up from Fr. 90 billion during the first nine months of 1994 to Fr. 341 billion during the corresponding period of 1995.

This growth was not due to share issues. While remaining an important source of finance for companies, such issues declined during the year under review, raising only Fr. 147 billion in new financial resources, against Fr. 171 billion in the previous year. Most of these funds went to augment the capital of existing companies, since the creation of new entities mobilised only around Fr. 20 billion, as in 1994.

In addition to these capital contributions in cash there are those which take other forms, such as conversions of reserves, exchanges of shares between companies or contributions in kind. Such transactions, which are not recorded in the financial accounts since they do not procure financial resources for the issuing companies, totalled Fr. 140 billion, an amount equivalent to the cash contributions.

CHART 48 — INTEREST RATE ON MORTGAGE LOANS



Source : NBB.

¹ These rates correspond to the average of the rates applied for a loan with a term of 20 years and subject to five-yearly revision. They are obtained by means of a survey conducted among the main credit institutions and are weighted on the basis of the market share of each of these institutions. The rate for a given quarter is obtained by averaging the interest rates recorded at the end of the three months in that quarter.

² The interest on linear bonds is payable annually in arrears, which is not the rule for interest on mortgage loans, which is usually payable in advance and in monthly, quarterly or half-yearly instalments. Consequently, the comparison between the interest rates on mortgage loans and those on linear bonds is more significant in terms of change than in terms of level.

TABLE 27 — NET SHARE ISSUES BY BELGIAN COMPANIES

(Billions of francs)

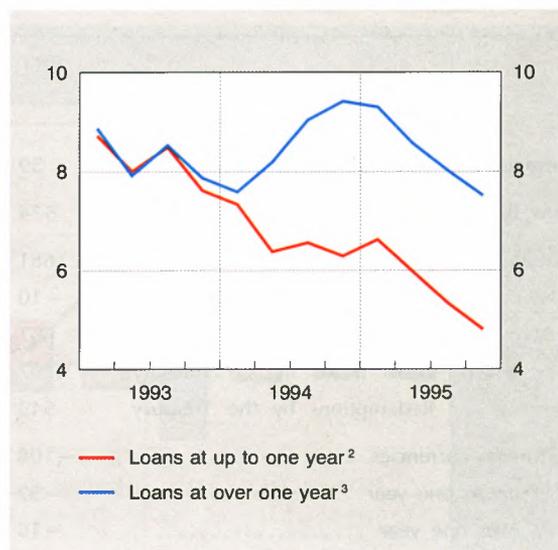
	1993	1994	First nine months	
			1994	1995
Formation of capital ...	34	35	21	19
Net capital increases ¹ ..	201	196	150	127
Total	235	231	171	147
of which : listed shares	22	36	34	10
p.m. Net contributions in forms other than cash	234	175	116	140

Sources : Moniteur belge, Banking and Financial Commission, NBB.

¹ Including shares issued following the exercise of warrants and issues of real estate certificates. These increases are net, in that the repayments to shareholders are deducted from capital increases; on the other hand, reductions in capital resulting from bankruptcies are not taken into account owing to the lack of data.

Companies also made net redemptions on fixed-income securities totalling Fr. 34 billion. The gross issues of such securities were made almost exclusively via commercial paper programmes. The only recourse to the bond market was in fact just a few public issues, very small in total size, in spite of the maturing of numerous old loans. The regular adaptation of the legislation and of the operating framework of the commercial paper market, discussed in section 6.3, contributed to the success of this last method of financing.

In contrast, liabilities to credit institutions increased by Fr. 110 billion, whereas they had fallen by Fr. 16 billion during the corresponding period of 1994. The term structure of the new loans was affected by that of interest rates. The steady decline in the rates charged on all bank credit since the beginning of 1995 had the effect not only of maintaining the differential between long-term and short-term rates which appeared in the second half of 1994 but also of portending the continuation of the decline in capital market rates. Companies therefore showed a strong preference for loans at less than one year : at the end of 1995 the rates

CHART 49 — SHORT-TERM AND LONG-TERM DEBTOR INTEREST RATES¹

Source : NBB.

¹ These rates correspond to the average of the rates obtained by means of a survey conducted among the main credit institutions and weighted on the basis of the market share of each of these institutions. The rate for a given quarter is obtained by averaging the interest rates recorded at the end of the three months in that quarter.

² These rates correspond to the average rates charged for a fixed term, six-month loan of between Fr. 10 million and Fr. 15 million.

³ These rates correspond to the average rates charged on an unsubsidised 5-year investment loan of between Fr. 3 million and Fr. 5 million. This interest is calculated half-yearly and is payable in arrears.

on these had fallen to particularly low levels.

Finally, the other liabilities of companies, comprising mainly net financing obtained from the rest of the world, began to increase again in the first nine months of 1995. In the previous year, net loan redemptions had been recorded, particularly in connection with the activity of certain co-ordination centres of foreign groups located in Belgium.

Financing of the deficit of general government

In order to make the public finances less vulnerable to changes in interest rates, which are difficult to predict, general government had considerably increased the proportion of the long-term debt in its

TABLE 28 — STRUCTURE OF GENERAL GOVERNMENT FINANCING

(Billions of francs)

	1992	1993	1994	1995 e	p.m. First nine months of 1995
Formation of financial assets	59	144	-98	-115	-20 ¹
New liabilities	574	657	314	266	320 ¹
In francs	681	208	466	527	550
At up to one year	-10	-224	497	-453	175
At over one year	691	432	-31	981	375
of which : Gross issues by the Treasury	1,107	1,530	1,402	1,247	718
Redemptions by the Treasury	543	1,225	1,515	384	360
In foreign currencies	-108	449	-152	-262	-231
At up to one year	-92	439	-223	-314	-297
At over one year	-16	10	71	52	66
Financial balance	-514	-513	-412	-381	-340 ¹

Sources : Ministry of Finance, NBB.

¹ In table 23, these amounts correspond to those under headings 4 and 8 and to the financial balance in the column relating to general government.

total debt at the start of the decade. In 1994 it temporarily abandoned this policy. For the first time in several decades, the long-term debt had actually been reduced. During the first half of 1994, a period in which the financing requirements had been greatest, the markets had in fact shown a distinct preference for assets at up to one year, causing general government to make greater use of short-term finance. In the second half of the year, long-term financing did increase, but insufficiently to compensate entirely for the decline in the first six months.

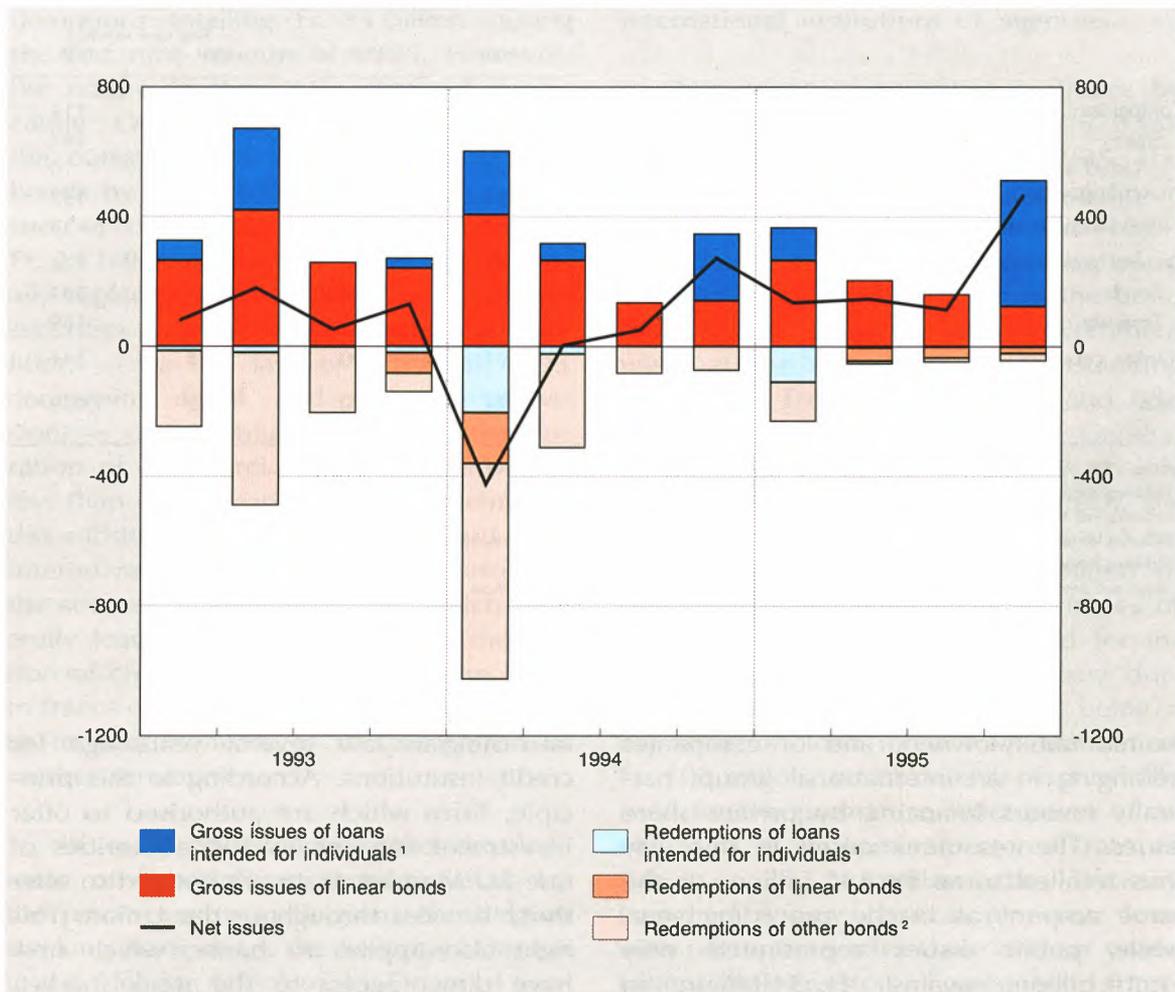
The trend towards consolidation which began early in the 1990s resumed during the year under review. Thus, net bond issues raised Fr. 981 billion in finance for general government, whereas there were net redemptions totalling Fr. 31 billion in 1994. This turnaround does not, however, reflect the trend of issues on the primary market. For the Treasury alone there was actually a slight decline in gross bond issues in the form

of linear bonds or classical bonds, from Fr. 1,402 billion to Fr. 1,247 billion. The increase in net bond issues is therefore due to a substantial reduction in the amount of redemptions in 1995, which totalled only Fr. 384 billion against Fr. 1,515 billion in 1994 and Fr. 1,225 billion in 1993. This reduction was due to two major factors. Firstly, many of the maturity dates were in 1993 and 1994. Secondly, in its dynamic management of the public debt, the Treasury had taken advantage of the relatively low interest rates to exercise the call options associated with several loans during these two years. At the beginning of 1995 there was only one loan left offering such a clause, and the Treasury made use of it.

As the increase in the long-term debt in francs was much greater than the financial deficit in the year under review, the short-term debt in francs and the foreign currency debt were reduced. The latter declined by over Fr. 260 billion, having already fallen significantly in 1994.

CHART 50 — TREASURY FINANCING ON THE BOND MARKET IN FRANCS

(Billions of francs)



Sources : Ministry of Finance, NBB.

¹ Classical loans subject to withholding tax at 15 p.c. since 1st January 1996.

² Old classical loans subject to a withholding tax rate other than 15 p.c. or exempt from withholding tax.

6.3 FINANCIAL MARKETS

Security market

During the first nine months of 1995 net security issues in Belgian francs made by the final borrowers reached Fr. 1,029 billion, or almost double the net amount issued in the corresponding period of 1994. This growth reflected the increased activity on the part of two categories of issuers : general government in Belgian francs and foreign borrowers in

Luxembourg francs. On the other hand, financing operations by Belgian companies in the form of securities in Belgian francs declined in relation to 1994.

Net share issues, the main component of companies' recourse to the capital markets, raised only Fr. 147 billion during the first nine months of 1995, against Fr. 171 billion in 1994. The shareholder structure of Belgian companies largely determines the method of raising risk capital. The preponderance of small and medium-sized enterprises in which shares are

TABLE 29 — NET ISSUES OF SECURITIES IN BELGIAN FRANCS BY THE FINAL BORROWERS

(Billions of francs)

	1993	1994	First nine months	
			1994	1995
Companies	263	219	173	114
Shares ¹	235	231	171	147
Listed shares	22	36	34	10
Unlisted shares	213	196	137	137
Fixed-income securities ²	27	-12	2	-33
General government	131	362	260	573
Bonds	348	-78	-414	384
Treasury certificates ³	-218	440	674	189
Foreign countries ^{2,4}	121	290	128	341
Total	514	870	562 ⁵	1,029 ⁵

Sources : BIS, Luxembourg Monetary Institute, Banking and Financial Commission, NBB.

¹ Including the exercise of warrants and issues of real estate certificates.² Including net bond issues in Luxembourg francs, in so far as they could be recorded.³ Including commercial paper issued by the communities and regions and the social security system.⁴ Including foreign issues in francs subscribed to by foreign investors.⁵ These two amounts and their breakdown by issuing sector correspond, in table 23, to those under heading 6.

mainly family-owned, and of companies belonging to an international group, naturally favours financing by private share issues. The resources raised in this way thus totalled some Fr. 137 billion, or the same amount as in the preceding year, while public issues represented only Fr. 10 billion, against Fr. 34 billion in 1994.

The stock market is in fact facing very great challenges as a result of the creation of a single market for investment services in the EU on 1st January 1996. This measure served as the opportunity for a far-reaching modification of the Belgian institutional environment. The law of 6th April 1995 — relating to secondary markets, the status and supervision of investment firms, intermediaries and investment consultants — transposed two European directives into Belgian law, one on the capital adequacy of investment firms and credit institutions, the other on investment services in the securities field. This law, which came into force on 1st January 1996, extends to investment firms the principle of mutual recognition introduced

into Belgian law several years ago for credit institutions. According to this principle, firms which are authorised to offer investment services by the authorities of one EU Member State are entitled to offer those services throughout the Union. This right also applies to banks, which now have direct access to the stock market. Furthermore, the law of 6th April requires the Brussels and Antwerp stock exchanges to set up a managing board responsible for intervening as an autonomous market authority. One of the functions of this new authority is to order the temporary suspension of dealing in specific financial instruments and to decide on any application for admission to stock market membership. The authority is itself subject to supervision by the Banking and Financial Commission, which, as the second-line controller, is responsible for supervising the performance of the legal duties of all market authorities. Lastly, the law makes the approval of an investment firm by the Banking and Financial Commission subject to minimum requirements as regards capital and imposes standards relating to the protection of clients' rights.

Companies were not very active in the market for fixed-income securities in francs, where they in fact made net redemptions totalling Fr. 33 billion during the first nine months of 1995. However, the nature of the issues changed significantly. On balance, enterprises reduced the outstanding amount of their debt in bonds by Fr. 56 billion, but made net issues of commercial paper amounting to Fr. 23 billion. Thus, the latter are gradually replacing classical bonds as fixed-rate securities issued by companies. The abolition — by the law of 4th April 1995 concerning fiscal and financial provisions — of the obligation to limit the duration of commercial paper to periods of less than eight years is liable to reinforce this substitution. The decline in short-term interest rates is also part of the reason for the success of these securities, which generally leave the issuing company the option of choosing short- or long-term loans in francs or in foreign currencies according to its requirements or its perception of market tendencies.

In order to encourage the development of fixed-interest security issues by the private sector in Belgium, the Belgian Banking Association, the Securities Deposit and Clearing Office of the Financial Sector (CIK) and the National Bank concluded an agreement concerning the custody of fixed-interest securities and the settlement of transactions in these securities. Under this agreement, the provisions of which will be defined in detail in 1996, the CIK will take charge of the management of security accounts for private sector issues and will hold the actual securities, regardless of the issuer. The clearing of transactions in private sector securities will be entrusted to an agency which has yet to be set up; its structure will be modelled on that of the Clearing Transactions Exchange Centre of the Belgian Financial System (CTEC), i.e. it will be made up of credit institutions and will be managed by a board of directors representing the participants and chaired by the National Bank. The latter will also continue to man-

age the security accounts and the clearing of transactions in securities issued by Belgian and foreign public sectors and by international institutions or agencies.

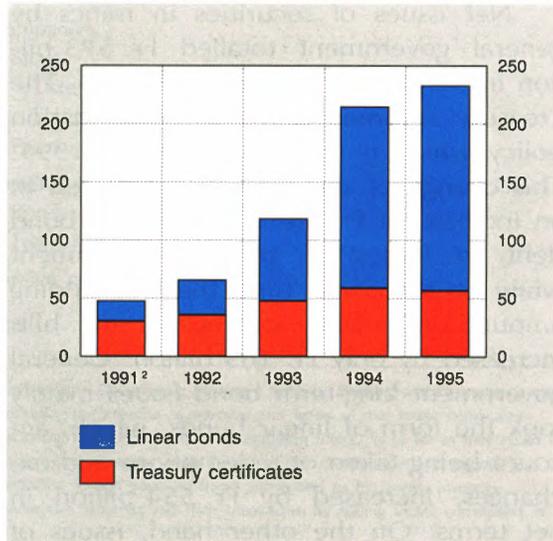
Net issues of securities in francs by general government totalled Fr. 573 billion in the first nine months of 1995. The Treasury resumed its debt consolidation policy which it had suspended in 1994. This change of direction was reflected in an increase of Fr. 384 billion in the bond debt in francs of general government while at the same time the outstanding amount of Treasury certificates and bills increased by only Fr. 189 billion. General government long-term bond issues mainly took the form of linear bonds, which, account being taken of redemptions and exchanges, increased by Fr. 554 billion in net terms. On the other hand, issues of classical Treasury bonds intended for individuals, were confined to two loans during the first three quarters, one being a capitalisation loan for a total amount of Fr. 103 billion, which was in fact wholly used for the premature redemption of an old loan at a nominal interest rate of 9.25 p.c. In November the Treasury launched a new classical nine-year loan with put options after three and six years. Institutional investors showed keen interest in this issue, which brought in Fr. 389 billion.

On the secondary market for dematerialised public-debt securities, the daily average amount of linear bond purchases totalled Fr. 176 billion in 1995, 12 p.c. up on 1994. On the other hand, the volume of purchases of Treasury certificates, already smaller, dropped by 3 p.c. during the year under review to a daily average of Fr. 57 billion.

The law of 6th April 1995 mentioned above also had implications for the secondary market in public-debt securities. Thus, the Royal Decree of 22nd December 1995, adopted pursuant to that law, modified the powers of regulation and control exercised by the Securities Regu-

CHART 51 — VOLUME OF PURCHASES ON THE SECONDARY MARKET FOR DEMATERIALIZED PUBLIC-DEBT SECURITIES¹

(Daily averages per annum, billions of francs)



Source : NBB.

¹ Excluding the NBB's open market operations and repurchase agreements, but including purchase and resale transactions. These last transactions, which are divided into legally separate cash and forward components, in fact constitute repurchase agreements in the economic sense of the term, and thus help to swell the volume of purchases on the secondary market.

² From February to December 1991.

lation Fund as the authority for this market. The Fund's Committee regulates the way in which the market is organised and operates and exercises first-line supervision there, particularly as regards the obligation on financial intermediaries to disclose information, the rules on transparency and insider dealing. As for the other markets, second-line supervision is the responsibility of the Banking and Financial Commission.

The schedule of conditions of primary dealers, whose function is to stimulate the market in dematerialised public-debt securities outside the stock exchange and ensure its liquidity, was amended to take account of the strong growth of the market and the increase in the relative share of other operators in the daily volume of trading over the past few years. The minimum participation of each primary dealer

on the primary and secondary markets was revised downwards, while the minimum amounts of the contracts for which primary dealers undertake to act as counterparty were increased and the quotation ranges for linear bonds were made narrower. A special procedure, known as the fast market procedure, was also introduced and permits these quotation ranges to be modulated if market conditions are subject to unusually large fluctuations. Lastly, a function of « inter primary dealer broker » in linear bonds was created to improve the liquidity and transparency of the market in linear bonds.

Since international agencies ceased issuing bonds in Belgian francs in April 1994, foreign loans on the market in securities denominated in francs have consisted mainly of bonds in Luxembourg francs. This market continued to grow : the volume of net issues reached Fr. 341 billion during the first nine months of 1995, against Fr. 128 billion during the corresponding period of 1994. This strong expansion is largely attributable to the decline in long-term rates, which encouraged bond market activity. Moreover, an increase in the average size and an improvement in the quality of the issues on the Luxembourg market took place following the entry into force in Belgium of the Royal Decree dated 13th January 1995, determining some elements in the definition of Eurobonds. In response to the default by certain borrowers in Luxembourg Eurofrancs, the criteria which an issue must meet in order to be regarded as a Eurobond in Belgium, and thus to be exempted from the drawing-up of a prospectus and the need for approval by the Banking and Financial Commission, were made more stringent. From now on, Eurobond issues must be underwritten and distributed by a syndicate composed of at least three unconnected members, each with their headquarters in a different country. The amount of the issue must be at least equivalent to two billion francs and the securities must be quoted on a stock exchange.

Credit institutions

During the first nine months of 1995, the aggregate balance sheet total of Belgian credit institutions increased by Fr. 1,031 billion, against Fr. 1,250 billion over the whole of 1994. These figures not only reflect the part played by the banks as intermediaries for the financial flows between final lenders and borrowers, but also include cross-transactions carried out by Belgian institutions with their foreign counterparts on the interbank market in foreign currencies.

While the total of these interbank transactions is very high, the economic importance of the banking sector should really be judged by the transactions with other domestic sectors, which belong more directly to the traditional role of credit institutions. During the year under review, these transactions again consisted largely in channelling part of the financial savings of individuals and companies towards general government. This intermediation function was performed in 1995 without involving any major changes in

maturities. In fact, as section 6.2 demonstrated, the term structure of private sector investments largely coincided with that of public sector borrowing : in both cases there was a marked preference for transactions at over one year.

Moreover, as the Belgian franc remained very strong on the foreign exchange market, there was far less change in the spot foreign exchange positions of Belgian banks from one end of period to the other in the first nine months of 1995 than in the two preceding years.

This relative stability obviously does not mean that no more substantial changes of position took place during the period, or in respect of certain currencies or specific segments of either the money market or the capital market. It nevertheless contrasts strongly with the large variations in the banks' balance sheet structure observed in both 1993 and 1994.

The net foreign currency assets of the banks in fact increased substantially in 1993, after which they were reduced in

TABLE 30 — DEVELOPMENT OF THE AGGREGATE BALANCE SHEET STRUCTURE OF BELGIAN CREDIT INSTITUTIONS¹

(Changes in total outstanding amounts, in billions of francs)

	1993		1994		First nine months of 1995	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Total	870	870	1,250	1,250	1,031 ²	1,031 ²
By counterparty						
Individuals and companies ³	57	786	244	535	128	255
General government	227	18	556	-60	306	-27
Rest of the world ⁴	586	66	450	775	596	803
By currency						
In francs	491	766	946	637	434	266
At up to one year	54	819	614	68	-5	-2
At over one year	437	-52	332	569	439	268
In foreign currencies	379	103	304	613	596	765

Source : NBB.

¹ Including the NBB, the Securities Regulation Fund, the Monetary Fund, the Rediscount and Guarantee Institute (RGI) and the Postal Cheque Office. The aggregation of the balance sheets consisted of offsetting transactions conducted between Belgian credit institutions.

² These two amounts and their breakdown by counterparty correspond to those under headings 1 and 5 in table 23.

³ Including collective investment undertakings making public issues in Belgium.

⁴ Excluding collective investment undertakings governed by Luxembourg law and making public issues in Belgium.

1994, in order to cover, successively, the short positions in francs taken up by customers at the time of the foreign exchange crisis in the second half of 1993 and the settlement of such transactions during the following year. These changes in net spot foreign currency assets had obviously led to identical changes in the corresponding liabilities in francs. Even within this second segment of their balance sheet, Belgian credit institutions had made major changes in maturities which had, moreover, been in opposite directions in 1993 and 1994.

In 1993 credit institutions had raised all their resources in francs for terms of up to one year, because the strong rise in money market rates had encouraged individuals and companies to confine themselves to the short-term segment. At the same time, general government had tried to protect itself against the effects of this rise by long-term borrowing. During 1994 as a whole, on the other hand, individuals and companies had shown a marked preference for assets at over one year in their investments in francs with credit institutions, while general government borrowing had been mainly short-term.

These changes in maturities, which take place on a large scale, thus enable the credit institutions to reconcile the conflicting preferences of the main investors and borrowers on the Belgian financial market. Inevitably, this activity causes the banks to assume interest-rate risks. To protect themselves, they can now use the new techniques which the financial markets have developed in order to make it easier to exchange fixed-rate payments flows for flows at variable interest rates.

Apart from these instruments, credit institutions also use certain traditional liabilities to manage their interest rate positions, in this case sight deposits and savings deposits. Thanks to their specific characteristics, these resources in fact pro-

vide great flexibility in the management of maturities. On the one hand, their cost has never so far exceeded the terms prevailing on the capital market, even in periods with a marked reversal of the interest rate structure in terms of maturity. On the other hand, although these are short-term deposits, they are relatively stable, which makes them similar to longer-term investments. In the case of savings deposits, this stability is also encouraged by the banks themselves, which grant fidelity or growth bonuses to holders.

The management of market risks, like credit risk management, is an intrinsic element of banking activity. In view of the growing volume of market transactions carried out by financial intermediaries, the prudential authorities of the industrialised countries, meeting in the Basle Committee on Banking Supervision, introduced capital adequacy requirements specifically intended to cover this type of activity. These supplement the solvency ratios required to cover credit risks, which have already been in force for several years. In March 1993 these new rules formed the subject of the European capital adequacy directive which was to enter into force on 1st January 1996 and applies not only to banks but also to the other main professional operators on the financial markets. This caused the Banking and Financial Commission to amend its regulations on the capital and reserves of credit institutions in order to make them conform to the provisions of this directive. In order to calculate the capital and reserves to be allocated to covering market risks, credit institutions can now, in accordance with the rules for the application of the European directive and the Basle Committee's recommendations, use their own market risk management models.

One of the reasons for the special attention paid to the solvency of credit institutions is the central position which such institutions occupy in payment systems. In recent years there has been much national and international debate on the

way in which these systems operate. Moreover, measures have been taken to improve the method of settling large transactions both within the national territory and between Member States of the European Union.

In Belgium the ELLIPS association, whose members include various credit institutions, the Post Office and the Bank, was set up in December 1995 for the purpose of establishing a gross real-time settlement system. By this procedure, which will become operational some time in 1996, the settlement of transactions in excess of Fr. 50 million and certain payments below that amount will no longer take place at the end of the day but in real time. This method of operation in fact makes it possible to contain the domino effect liable to be produced by the default of an individual participant.

This new settlement system for interbank payment orders is eventually intended to be linked to similar systems gradually being set up in other EU countries. The purpose of the TARGET project prepared by the EMI is to establish the overall structure of this interconnected network.

The close involvement of the Bank at national level and the EMI at EU level in

the management of interbank payment and settlement mechanisms is the direct outcome of the function fulfilled by central banks as lenders of last resort. By covering the end-of-day surpluses or deficits of individual credit institutions, the central banks in fact contribute to the smooth operation of payment systems. This specific function in turn fits into the larger framework of monetary policy, whereby the central banks manage the overall liquidity of the financial market.

By this management the Bank provided the credit institutions, employing procedures which are described in detail in section 7.2, with a net amount of funds which reached Fr. 149 billion at the end of September 1995. On that date this amount represented barely 5 p.c. of the total outstanding amount of the interbank market in francs, namely Fr. 3,061 billion. Modest though this percentage was, the Bank was still able to steer market rates by exerting a direct influence on the banks' marginal financing cost.

Other transactions on the Belgian interbank market are not conducted exclusively between Belgian credit institutions. At the end of September 1995, transactions between these institutions in fact totalled only Fr. 1,174 billion, or less than 40 p.c. of the total volume of a market

TABLE 31 — STRUCTURE OF THE INTERBANK MARKET IN FRANCS

(Totals in billions of francs at 30th September 1995)

Borrowers	Lenders			Total debts
	Belgian credit institutions ¹	National Bank of Belgium	Other participants ²	
Belgian credit institutions ¹	1,174	90	1,050	2,314
National Bank of Belgium	2	—	—	2
Other participants ²	684	61 ³	—	745
Total claims	1,860	151	1,050	3,061
Net position	-454	149	305	0

Source : NBB.

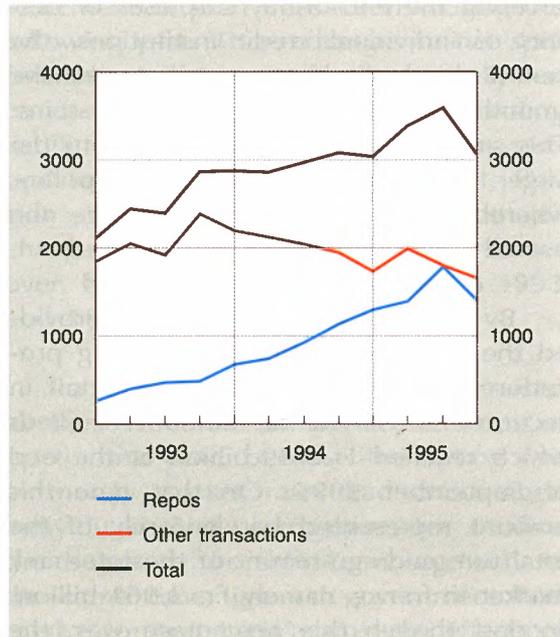
¹ Including the Securities Regulation Fund, the RGI and the Postal Cheque Office.

² Foreign credit institutions, including Luxembourg institutions.

³ Including securities bought by the Bank in connection with its open market transactions.

CHART 52 — OUTSTANDING AMOUNT OF TRANSACTIONS ON THE INTERBANK MARKET IN FRANCS

(End-of-quarter data, in billions of francs)



Source : NBB.

characterised by a strong foreign presence. This structure, which bears witness to the internationalisation of financial flows, is not specific to Belgium. On the other hand, the Belgian interbank market is different from that of most other countries in that Belgian banks are net debtors in their own currency vis-à-vis their foreign

counterparts. The main reason for this situation is the role played by Luxembourg credit institutions in financial flows in francs. The large deposits made with these institutions by Belgian individuals and companies can hardly be re-invested on the Luxembourg market in view of its small size. Most of these funds are therefore recycled on the Belgian market in the form of purchases of Treasury certificates or loans to Belgian banks.

In spite of a certain decline in the third quarter of 1995, the scale of the interbank market has expanded rapidly during the past three years, the outstanding amount of the transactions carried out on this market having increased by 45 p.c. between the end of December 1992 and the end of September 1995. At the same time, the techniques used have changed considerably, repurchase agreements, or repos, in respect of public securities having gradually replaced direct lending and borrowing transactions. These repurchase agreements are in fact very easy to use since they relate to dematerialised securities for which there is an efficient settlement and clearing system managed by the Bank. Moreover, the existence of a guarantee in the form of a claim on general government exempts repurchase agreements from the rules regarding the capital required to cover traditional interbank transactions.

7. MONETARY AND EXCHANGE RATE POLICY

7.1 MAIN DEVELOPMENTS

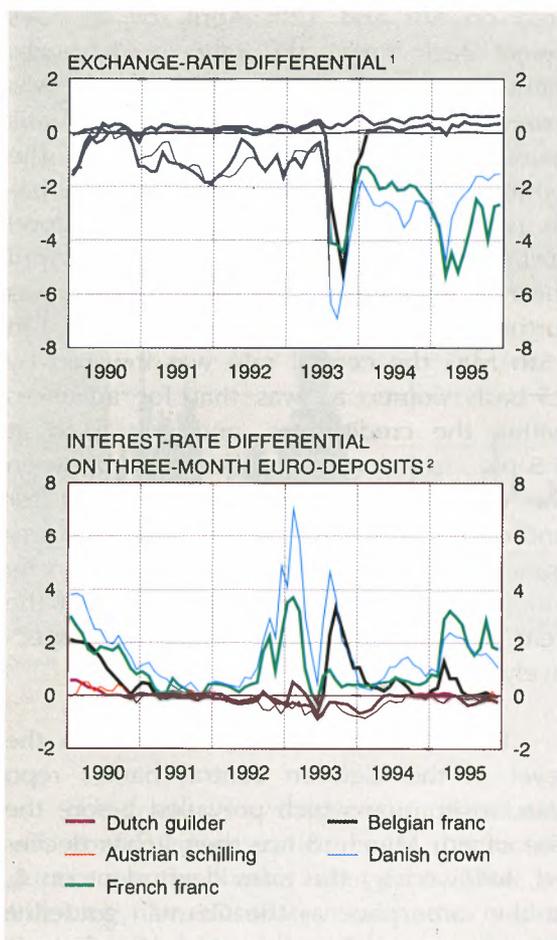
Throughout 1995 the exchange rate for the Belgian franc remained at a level close to its central rate against the German mark and was even slightly above it most of the time. The credibility of the policy of monetary stability has been enhanced by the determination with which it has been pur-

sued in recent years. It has furthermore continued to be supported by the BLEU's substantial current account surplus, the stability of domestic costs and prices and the improvement in budgetary prospects. The franc thus came close to the Dutch guilder and the Austrian schilling; the French franc and the Danish crown, on the other hand, remained below their central rates vis-à-vis the German mark, while at the same time showing considerable interest-rate differentials against that currency.

This firmness of the franc should be viewed in a context of renewed tensions on the foreign exchange markets. At the beginning of the year under review it was mainly the currencies of the countries of southern Europe that came under pressure, partly owing to political uncertainties and partly because of the weakness of the dollar against the German mark. At the beginning of March the agitation persisted despite the devaluation of the Spanish peseta and the Portuguese escudo, and the climate of distrust also affected the French franc and the Danish crown. As in the previous year, the tensions on the foreign exchange market led to a spontaneous rise in money market rates in Belgium; the Bank did not hesitate to confirm this movement. The three-month interest-rate differential between the franc and the mark thus widened to reach an average of 129 basis points in March. Belgian short-term interest rates, however, remained appreciably below the French and Danish rates, and the widening of the differential against the mark was only very brief. This was quickly followed by an easing, which, after a short interruption at the beginning of May, led to the disappearance of the interest-rate differential towards the middle of the year. At the beginning of the autumn, when the French franc came under pressure because of growing uncertainty about budgetary policy, Belgian short-term rates hardly diverged any more from the German rates.

CHART 53 — EXCHANGE-RATE AND INTEREST-RATE DIFFERENTIALS VIS-A-VIS THE GERMAN MARK

(Monthly averages)



Source : NBB.

¹ As a percentage of the central rate vis-à-vis the German mark.

² Vis-à-vis Euro-deposits in German marks.

Money market rates were thus able to follow the downward movement of German rates. The Bundesbank, which had not changed its guideline rates since July of the previous year, decided at the end of March to lower the discount rate and the rate for repos, owing to the decrease in the money supply, which serves as an intermediate objective of its monetary policy, and the appreciation of the mark, which helps to keep inflation under control. In view of the persistent weakness of demand for money, the Bundesbank, in August and December, again lowered its guideline rates, thus causing interest rates on the German money market to decline further.

In December 1995 the average rate for three-month Euro-deposits in Belgian francs was 3.82 p.c., i.e. nearly 150 basis points below its December 1994 level.

7.2 USE OF THE INSTRUMENTS OF MONETARY POLICY

Interest-rate policy

On 8th March 1995, owing to tensions on the foreign exchange market, the Bank raised the central rate — i.e. the rate at which the primary dealers can, within certain limits, finance their deficits or invest their end-of-day balances, and to which several other of the Bank's interest rates are tied. This guideline rate, which had been 4.85 p.c. since 22nd July 1994, was raised to 5.85 p.c. At the same time the Bank raised the rate for ordinary advances within the credit lines by 150 basis points, so that the differential from the central rate was widened from 150 to 200 basis points. The rate for advances above the ceiling, whose function is more symbolic, was increased by 100 basis points to 10 p.c. The RGI's rates for end-of-day balances and also the discount rate, on the other hand, remained unchanged.

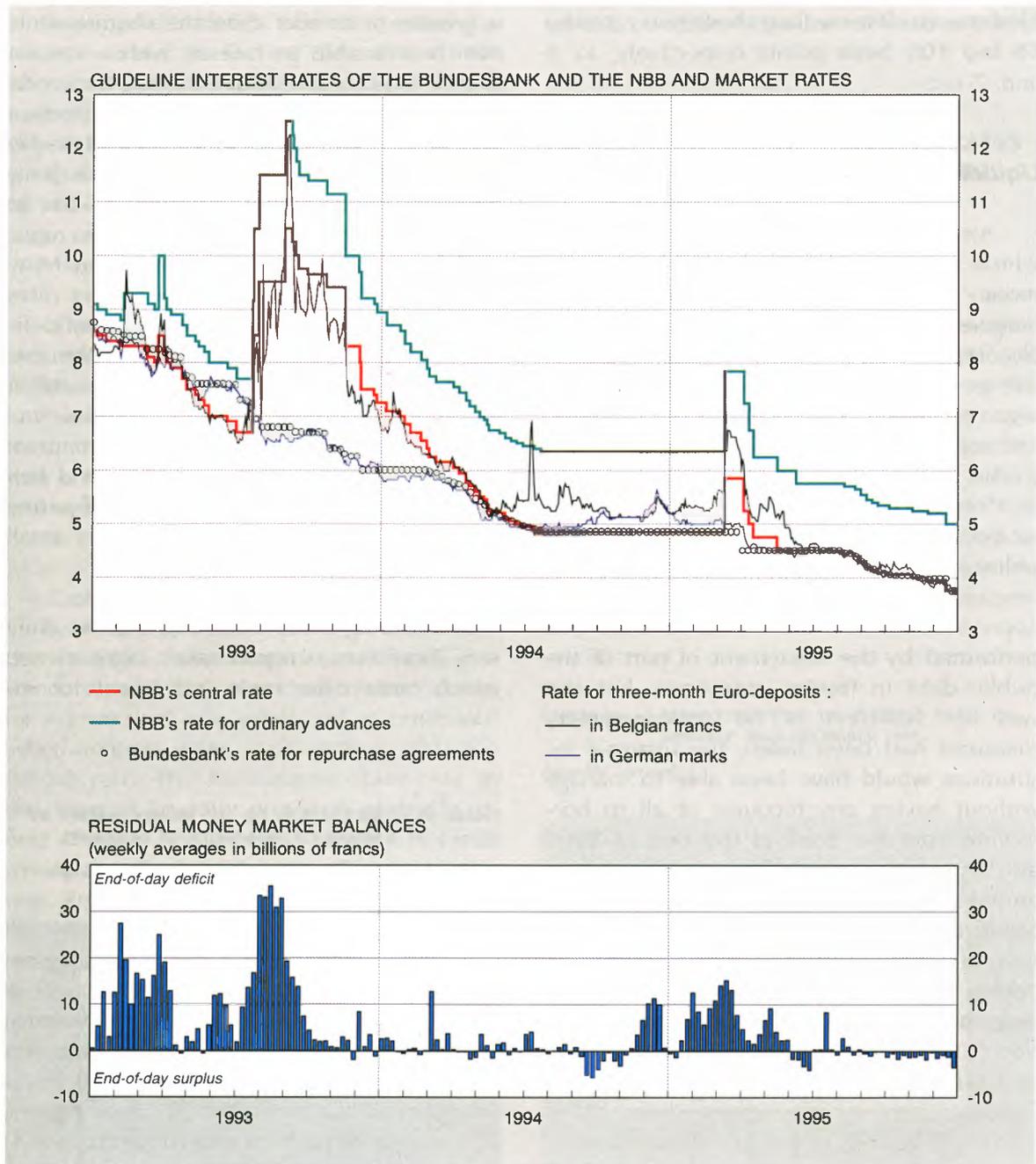
The Bank was soon able to countermand the raising of interest rates. The Bun-

desbank's decision to lower the discount rate again from 4.5 to 4 p.c. and the repo rate from 4.85 to 4.5 p.c. with effect from 31st March enabled a start to be made on this downward movement. The Bank, too, immediately lowered all its guideline rates: the central rate and that for advances within the credit lines were reduced by 60 basis points; the RGI's rate for end-of-day surpluses within the ordinary tranche and the overstepping tranche were lowered by 35 basis points, to 3.5 and 2.5 p.c. respectively. Lastly, the rate for advances above the ceiling and the discount rate were lowered by 50 basis points, so that the latter official rate remained at the same level as the discount rate in Germany.

The firmness of the Belgian franc enabled the Bank to continue the gradual reduction of its guideline rates during the following months. The central rate was lowered on 6th and 12th April, by 25 basis points each time; the rate for advances within the credit lines, for its part, was lowered on these two occasions by 50 basis points, the differential compared with the central rate thus being reduced to 150 basis points, the level at which it had stood at the beginning of 1995. On 12th April the rate for advances above the ceiling was further reduced by 50 basis points. On 15th May the central rate was lowered by 25 basis points, as was that for advances within the credit lines, and was fixed at 4.5 p.c., so that the differential between the central rate and the RGI's rates for end-of-day surpluses within the ordinary tranche and the overstepping tranche amounted again, as at the beginning of the year, to 100 and 200 basis points respectively.

The central rate thus returned to the level of the German central bank's repo rate, a situation which prevailed before the rise of 8th March. Since then it has declined, followed by the rates dependent on it, at the same pace as the German guideline rate; it was reduced for the last time in the year under review, on 15th December, to 3.75 p.c.

CHART 54 — CONDUCT OF MONETARY POLICY



Source : NBB.

This gradual lowering of the central rate was confirmed several times by specific reductions in the Bank's other rates. Thus, on 9th June, in consultation with the Nederlandsche Bank, it reduced the rates for advances both outside and within the credit lines by 25 basis points, so that the diffe-

rential between the last-mentioned rate and the central rate amounted to only 125 basis points. On 25th August the Bank followed the reduction in the German official rates by lowering the discount rate and that for advances above the ceiling by 50 and 75 basis points respectively, to 3.5 and

8 p.c. Lastly, on 15th December, a further lowering of the German official rates enabled the Bank to reduce these two rates by 50 and 100 basis points respectively, to 3 and 7 p.c.

Liquidity management

Among the « autonomous » factors which influence the total liquidity of the money market, demand for banknotes undergoes changes with a pronounced seasonal component, while purchases and sales of foreign currencies by the Bank on the foreign exchange market are more irregular and may reach considerable amounts owing to the high international mobility of funds. In 1995, as in the previous year, steps had to be taken to sterilise the effects on liquidity of substantial net purchases of currencies made in order to prevent a further appreciation of the franc. This function was performed by the repayment of part of the public debt in foreign currencies, but this was not sufficient. If no complementary measures had been taken, the financial institutions would have been able to manage without having any recourse at all to borrowing from the Bank at the end of 1994 and would have enjoyed a creditor position amounting to Fr. 206 billion at the end of 1995. In the absence of an appropriate system of compulsory monetary reserves, recourse was had to currency swaps against Belgian francs — already mentioned in section 5.1 — in order to mop up the liquidity and bring credit institutions back « into the Bank ».

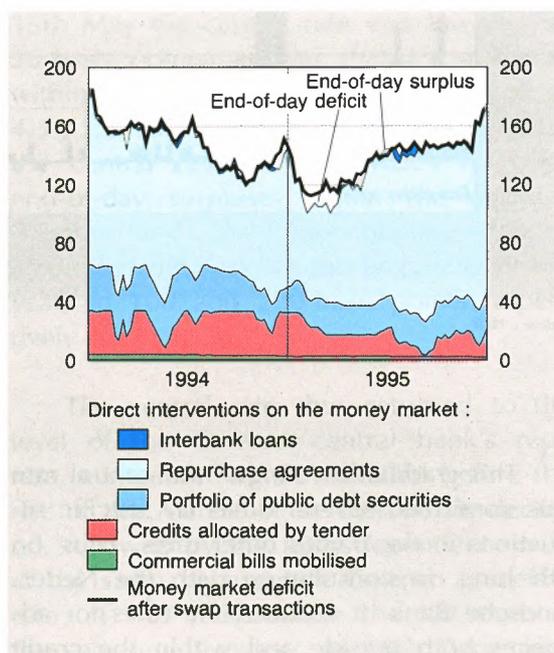
After these swaps, the money market's deficit, meaning its recourse to the Bank's lending in francs, increased during the year under review, whereas it had decreased in 1994. Right at the beginning of 1995 it went on declining, mainly owing to the seasonal fall in the outstanding amount of the note circulation, but from the second quarter onwards it rose because of an upsurge in demand for notes, which brought their outstanding amount, in December, up to 6 p.c. above the December 1994 level.

By granting various types of credit, the Bank can offer liquidity to an extent that is greater or smaller than the requirements (which it is able to foresee with a certain degree of accuracy), thus inducing the credit institutions to resort, in the desired direction and to the desired extent, to the end-of-day facilities. During the first half of the year, the Bank regulated liquidity with a view to exerting an influence on short-term rates. In February and March, and again in May, it was able to push up money market rates by creating relatively large end-of-day deficits. In June, after the tensions on the foreign exchange market had disappeared, it brought about fairly large end-of-day surpluses in order to exert a downward pressure on these rates. During the second half of the year, on the other hand, liquidity management was aimed at only very small surpluses.

As during the previous years, the daily very-short-term repurchase agreements, which remain the main instrument for in-

CHART 55 — REGULATION OF THE MONEY MARKET BY MEANS OF TRANSACTIONS IN FRANCS

(Outstanding amounts in billions of francs, weekly averages)



Source : NBB.

tervention on the money market, fluctuated widely in accordance with the development of that market's deficit and the end-of-day balance aimed at. During the summer, the primary dealers, who expected rapid falls in interest rates, showed themselves less inclined to acquire liquidity from the Bank via these repurchase agreements for periods of just a few days. Consequently, relatively large overnight loans were offered on the interbank market.

The portfolio of public debt securities acquired on the secondary market increased slightly in the course of the year. The Bank furthermore carried out several arbitrage transactions by buying Treasury certificates with a fairly long residual period to maturity and selling certificates with earlier maturity dates.

Lastly, the Bank continued to offer credits by means of weekly allocations by tender. In 1995 these funds were offered in a standardised form : the credits were always for a period of one week and at pre-established interest rates kept in line with the central rate. The fluctuations observable in this form of liquidity provision primarily reflect changes in the overall amount of funds which the Bank wishes to allocate in this way. From Fr. 30 billion at the beginning of the year, this overall amount was gradually reduced by half, on the one hand because of the decrease in the money market's deficit and on the other hand in order to signal a certain tightening of liquidity policy. Towards the middle of the year it was increased to Fr. 20 billion francs. Fluctuations in the amounts allocated were also attributable, however, to variations in the behaviour of the financial intermediaries due to changes in their anticipations with regard to interest rates. During the first quarter, expectations of a rise in very-short-term rates induced the financial institutions to expand the amounts of funds offered. The Bank furthermore, on several occasions, limited the amount which could be requested by each intermediary within its credit line. In the second half of the year, on the other hand, expectations of a downward movement pre-

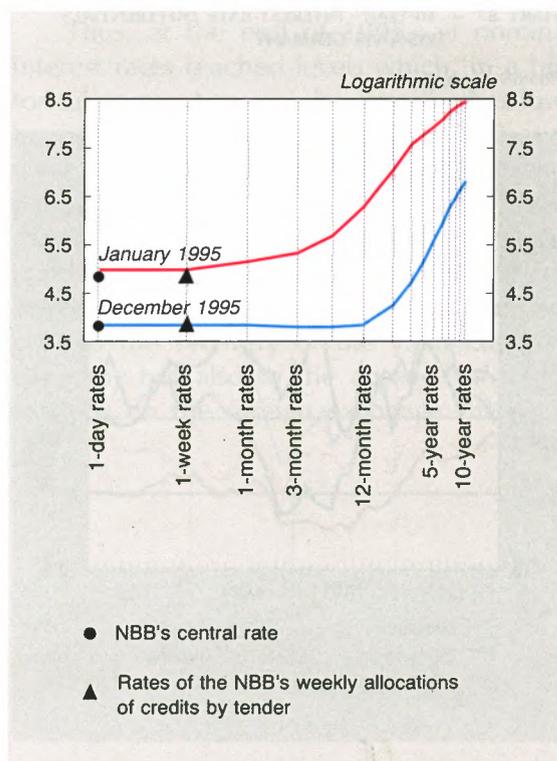
dominated, inducing the financial intermediaries to reduce their offers : on one occasion, on 28th August, no offer was made.

7.3 FORMATION OF INTEREST RATES ON THE MONEY AND CAPITAL MARKETS

The Bank is able to influence very-short-term money market interest rates within narrow limits : the overnight interest rate can thus be guided by fixing the rates for end-of-day facilities and by controlling money market liquidity. With regard to the interest rates for longer periods, the Bank's influence is less direct and a decisive role is played by the expectations of market participants, partly due, it is true, to their interpretation of monetary policy signals.

CHART 56 — TERM STRUCTURE OF INTEREST RATES IN JANUARY AND DECEMBER 1995

(Monthly averages)



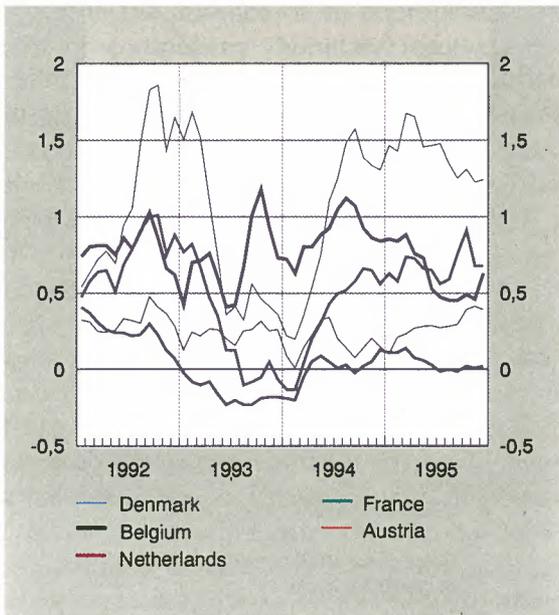
Source : NBB.

The yield curve was upward throughout the year, which normally reflects expectations of a rise, but subsequently moved downwards, showing that these expectations were continually deferred. Furthermore, the differential between very-short-term interest rates and ten-year yield rates decreased by 50 basis points between January and December. For periods up to one year, expectations of a rise in money markets rates, which were predominant at the beginning of the year, in fact disappeared.

Long-term interest rates continued their downward movement, which started in mid-September 1994 and was interrupted in December 1994 and at the beginning of January 1995. From March onwards the decline was particularly marked. The yield on the ten-year benchmark linear bond — which was still 8.45 p.c. in January — was down to 6.7 p.c. in December. The rise in rates recorded in 1994 was thus virtually wiped out. This development is mainly due to the fall in the yield on German

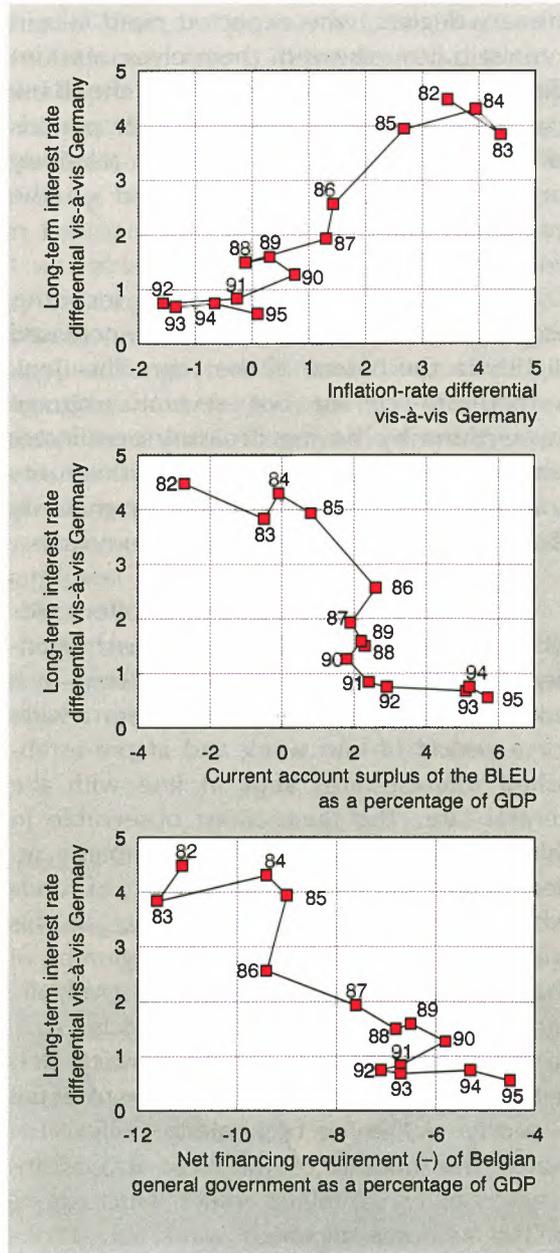
CHART 57 — 10-YEAR¹ INTEREST-RATE DIFFERENTIALS VIS-A-VIS GERMANY

(Monthly averages)



Source : BIS.
¹ Benchmark loans.

CHART 58 — LONG-TERM INTEREST-RATE DIFFERENTIAL VIS-A-VIS GERMANY, INFLATION DIFFERENTIAL, CURRENT ACCOUNT BALANCE AND BUDGETARY BALANCE



Sources : OECD, NBB.

bonds. The ten-year interest-rate differential in comparison with the benchmark loans in German marks furthermore continued to decrease : it was hardly influenced at all by the widening, in March, of the short-term differential — a sign that the latter was regarded as being very temporary — and it

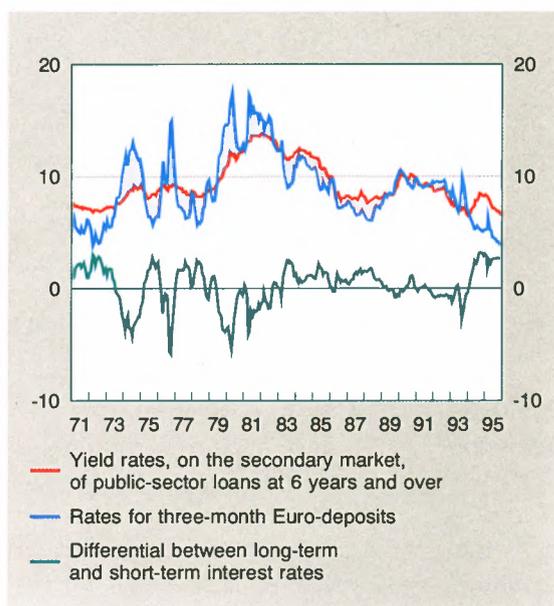
narrowed from 85 basis points in January to 63 basis points in December.

The long-term interest-rate differential thus declined to a very low level. The continuance of a differential is partly due to differences in the taxing of interest and to the smaller size of the Belgian market. The lessening of the premium compared with long-term investments in German marks shows that the markets have a favourable opinion of Belgium's monetary and budgetary policies and regarding its ability to participate in the third stage of economic and monetary union from the beginning. Long-term rates have thus moved closer to the levels reached in countries such as the Netherlands and Austria, which have already been pursuing an exchange rate policy based on pegging to the mark for a long time. In Denmark, on the other hand, the interest-rate differential compared with the German benchmark loans has remained appreciably above 100 basis points. In France this differential has widened and has become somewhat greater than that observed in Belgium.

The reduction in the long-term interest-rate differential vis-à-vis Germany furthermore forms part of a longer-term trend resulting from, among other things, the following factors: the disappearance of the inflation-rate differential (still considerable in the first half of the 1980s), which eliminates a fundamental depreciation-risk factor; the recovery of the BLEU's balance of current transactions with foreign countries, which has the effect of reducing the risk premium attaching to investments in francs; the budgetary consolidation, which tends to reduce

CHART 59 — SHORT-TERM AND LONG-TERM INTEREST RATES

(Monthly averages)



Source : NBB.

the risk premium associated with the holding of public-debt securities.

Thus, at the end of 1995, all nominal interest rates reached levels which, in a historical perspective, can be described as low, because they are comparable to those of the early 1970s. Another similarity with that period is that, since May 1994, the differential between long-term and short-term interest rates has remained positive and relatively large, a situation which is due not only to the recovery of the yield curve in Germany but also to the absence of major tensions on the foreign exchange market.

Statistical Annex

TABLE I — SUMMARY OF MACROECONOMIC DEVELOPMENTS IN SOME EU COUNTRIES

	Belgium		Germany		France		Italy		United Kingdom		Spain		Netherlands	
	1994	1995 e	1994	1995	1994	1995	1994	1995	1994	1995	1994	1995	1994	1995
Expenditure at constant prices	<i>(Percentage contributions to the change in GDP)</i>													
Private consumption	0.8 ¹	1.0 ¹	0.5	1.0	0.9	1.2	1.0	0.8	1.9	1.3	0.6	1.5	1.3	1.3
Public expenditure	0.3	-0.1	0.2	0.3	0.4	0.3	-0.3	-0.1	0.6	...	-0.3	-0.2	0.2	0.3
Private investment	0.1	0.5	1.0	0.6	0.2	0.6	0.3	1.1	0.4	0.6	0.5	1.9	0.5	1.3
of which formation of non-residential fixed capital	-0.1	0.6	0.1	0.4	0.1	0.5	0.4	1.0	0.2	0.4	0.4	1.4	0.1	1.0
Total domestic expenditure	1.5 ¹	1.6 ¹	2.8	2.0	3.1	2.1	1.9	1.7	3.4	2.0	0.8	3.4	3.1	2.6
Exports	7.7	8.3	1.8	0.9	1.6	1.9	2.9	4.5	2.1	1.3	4.2	2.7	3.3	3.6
Imports	6.9	8.0	1.7	0.8	1.8	1.3	2.6	3.1	1.7	0.6	3.0	2.9	3.7	3.3
Foreign balance	0.8	0.3	0.1	0.1	-0.3	0.6	0.3	1.5	0.4	0.7	1.2	-0.2	-0.4	0.3
GDP	2.2	1.9	2.9	2.1	2.9	2.7	2.2	3.1	3.8	2.7	2.0	3.2	2.7	3.0
Inflation ²	<i>(Percentage changes compared with the previous year)</i>													
Index of consumer prices	2.4	1.5	2.7	1.9	1.7	1.7	4.0	5.2	2.5	3.4	4.7	4.7	2.8	2.0
Unemployment ³	<i>(Percentages of the labour force)</i>													
Number of unemployed (EC data)	10.0	10.2	8.4	8.2	12.3	11.5	11.4	11.8	9.6	8.5	24.3	22.8	7.0	6.7
Public finance	<i>(Percentages of GDP)</i>													
Net financing requirement (-) of general government	-5.3	-4.5	-2.6	-2.9	-6.0	-5.0	-9.0	-7.4	-6.8	-5.1	-6.6	-5.9	-3.2	-3.1
Balance of payments	<i>(Percentages of GDP)</i>													
Balance of current transactions	5.2 ⁴	5.8 ⁴	-1.0	-0.8	0.6	1.3	1.5	1.9	...	-1.1	-0.8	...	3.0	3.4

Sources : NAI, MEA, NBB for Belgium ; OECD and EC for other countries.

¹ Data excluding statistical adjustments.

² Average for eleven months, except for Belgium.

³ Average for twelve months for Belgium, eleven months for the other countries (except the Netherlands : ten months).

⁴ Data for the BLEU.

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

(Percentage changes compared with the previous year)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 e
Private consumption ¹	1.6	1.9	3.0	3.1	3.1	3.7	2.8	2.4	-1.0	1.1	1.3
Public expenditure	0.8	1.1	-0.4	-0.3	-2.5	-0.1	3.0	0.8	0.8	1.8	-0.3
Public consumption	2.5	1.8	0.3	-0.9	-0.1	-0.4	2.4	0.3	0.8	1.5	0.8
Public investment	-10.7	-4.6	-6.4	5.0	-22.4	3.9	8.6	4.9	1.5	4.9	-10.8
Housing	4.6	4.6	7.6	22.3	19.1	8.5	-0.8	12.5	-3.9	2.2	1.0
Gross fixed capital formation by enterprises	2.4	6.3	7.3	15.0	15.5	11.3	-2.8	-4.5	-8.8	-0.8	5.0
p.m. Total gross fixed capital formation ^{1,2}	(0.7)	(4.4)	(5.6)	(15.4)	(12.3)	(10.1)	(-1.5)	(0.2)	(-6.7)	(0.5)	(2.5)
Change in stocks ^{1,3}	-1.3	0.2	0.8	0.2	-0.2	-0.1	-0.1	0.1	-0.2	0.3	...
Total domestic expenditure	0.3	2.5	3.7	4.7	4.0	4.2	1.8	1.7	-2.1	1.3	1.5
Exports of goods and services	1.1	5.5	6.5	8.5	7.3	4.1	2.6	3.9	1.6	8.1	8.2
Total final expenditure	0.6	3.8	5.0	6.4	5.5	4.2	2.1	2.8	-0.3	4.6	4.9
Imports of goods and services	0.7	7.6	8.8	8.0	8.8	4.0	2.3	4.2	1.3	7.2	7.9
p.m. Net exports of goods and services ³	(0.3)	(-1.4)	(-1.8)	(0.4)	(-1.3)	(...)	(0.2)	(-0.4)	(0.2)	(0.8)	(0.3)
GDP before statistical adjustments	0.6	1.1	1.9	5.2	2.7	4.3	2.0	1.4	-1.9	2.1	1.8
Statistical adjustments ³	0.3	0.3	0.1	-0.3	0.7	-0.9	0.2	0.4	0.3	0.1	0.1
GDP after statistical adjustments	0.8	1.4	2.0	4.9	3.4	3.4	2.2	1.8	-1.6	2.2	1.9
Net factor incomes ³	-0.3	0.4	0.2	...	0.3	-0.6	0.6	-0.2	1.0	0.2	0.2
GNP	0.6	1.8	2.2	4.9	3.7	2.8	2.8	1.6	-0.6	2.4	2.0

Sources : NAI, NBB.

¹ Data excluding statistical adjustments. The latter are shown as a separate item.² Public investment, housing and gross fixed capital formation by enterprises.³ Contribution to the change in GNP.

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

(Percentage changes compared with the previous year)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 e
Private consumption ¹	4.9	1.5	1.5	1.7	3.2	3.5	3.1	2.7	2.8	2.6	1.5
Public expenditure	4.5	1.7	0.2	1.1	4.3	4.3	4.8	3.7	4.3	2.9	2.8
Public consumption	4.6	2.0	0.3	1.0	4.2	4.4	5.2	3.8	4.5	3.0	2.8
Public investment	4.0	-1.0	-0.4	2.2	4.7	2.7	1.2	3.7	1.6	2.8	1.9
Housing	5.3	2.9	4.1	2.7	5.1	3.1	1.6	4.2	4.4	3.2	1.9
Gross fixed capital formation by enterprises	3.3	1.0	...	1.8	3.9	2.6	2.4	2.3	1.4	1.6	1.9
p.m. Total gross fixed capital formation ^{1 2}	(3.8)	(1.1)	(0.9)	(2.1)	(4.5)	(2.7)	(2.1)	(3.2)	(2.4)	(2.2)	(1.8)
Total domestic expenditure	4.7	1.5	1.2	1.7	3.6	3.4	3.3	3.0	3.0	2.6	1.8
Exports of goods and services	2.8	-8.4	-3.8	2.9	7.1	-1.7	-0.3	-1.1	-1.2	0.6	0.4
Total final expenditure	3.9	-2.9	-1.0	2.0	5.0	1.2	1.7	1.1	1.0	1.3	0.7
Imports of goods and services	2.1	-12.3	-4.6	2.7	6.6	-1.2	-0.4	-2.7	-2.5	1.0	0.4
p.m. Terms of trade	(0.7)	(4.4)	(0.8)	(0.2)	(0.5)	(-0.5)	(0.1)	(1.7)	(1.4)	(-0.4)	(...)
GDP before statistical adjustments	5.2	4.5	2.0	1.9	4.5	2.9	3.2	4.2	3.9	2.4	1.9
GDP = GNP	6.1	3.8	2.3	1.8	4.8	3.0	2.7	3.5	4.1	2.6	1.9

Sources : NAI, NBB.

¹ Data excluding statistical adjustments. The latter are shown as a separate item.

² Public investment, housing and gross fixed capital formation by enterprises.

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

(Billions of francs)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 e
Private consumption ¹	3,104	3,214	3,359	3,524	3,749	4,022	4,264	4,483	4,562	4,735	4,871
Public expenditure	921	947	945	953	969	1,010	1,090	1,140	1,198	1,256	1,287
Public consumption	815	847	852	853	887	923	994	1,036	1,091	1,140	1,182
Public investment	106	100	93	100	81	87	96	104	107	116	105
Housing	152	164	184	230	288	322	325	381	382	403	415
Gross fixed capital formation by enterprises	483	519	557	652	783	894	890	870	805	811	868
p.m. Total gross fixed capital formation ^{1,2}	(741)	(783)	(834)	(983)	(1,153)	(1,304)	(1,311)	(1,355)	(1,294)	(1,329)	(1,387)
Change in stocks ¹	-35	-27	11	24	12	6	2	10	-5	15	15
Total domestic expenditure	4,626	4,816	5,056	5,384	5,801	6,255	6,571	6,884	6,942	7,220	7,455
Exports of goods and services	3,645	3,523	3,609	4,029	4,630	4,739	4,846	4,978	4,998	5,431	5,901
Total final expenditure	8,271	8,339	8,665	9,413	10,431	10,993	11,417	11,862	11,940	12,651	13,356
Imports of goods and services	3,526	3,327	3,452	3,826	4,436	4,558	4,643	4,706	4,651	5,032	5,451
p.m. Net exports of goods and services	(119)	(196)	(157)	(203)	(193)	(181)	(203)	(272)	(347)	(399)	(449)
GDP before statistical adjustments	4,745	5,012	5,213	5,587	5,994	6,435	6,774	7,155	7,289	7,619	7,905
Statistical adjustments	1	-18	-1	-23	33	-19	-41	-57	-20	7	15
GDP	4,746	4,994	5,212	5,563	6,027	6,416	6,734	7,098	7,269	7,626	7,920
Net factor incomes	-76	-60	-49	-50	-35	-72	-35	-52	22	34	44
GNP	4,669	4,934	5,162	5,513	5,991	6,345	6,699	7,047	7,291	7,660	7,964

Sources : NAI, NBB.

¹ Data excluding statistical adjustments. The latter are shown as a separate item.² Public investment, housing and gross fixed capital formation by enterprises.

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

(Percentage changes compared with the previous year)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 e	p.m. Percentages of 1994 GDP
Agriculture, forestry and fisheries	4.5	-7.4	5.9	1.4	-3.3	6.6	9.9	4.6	-8.2	2.0	(2.2)
Industry	-0.4	1.1	4.9	5.4	1.4	1.0	0.2	-2.7	4.2	2.2	(25.8)
Mineral-extracting industry	-14.1	-0.4	-9.3	3.0	-3.1	-1.8	8.2	-16.6	12.7	16.9	(0.3)
Electricity, gas, water	-0.8	7.2	6.1	0.4	3.4	5.7	0.7	0.2	1.4	4.0	(3.3)
Manufacturing industry ¹ .....	...	0.3	4.9	6.1	1.2	0.4	...	-2.9	4.5	1.7	(22.2)
of which :											
Non-metallic minerals	9.7	6.5	15.4	8.6	-1.2	-6.7	9.9	0.3	4.4	n.	(1.1)
Wood and furniture	-5.5	2.2	4.0	20.5	1.7	-0.2	-6.0	-4.3	1.0	n.	(0.9)
Iron and steel	0.3	2.9	10.9	-1.1	-3.5	-0.9	-8.7	-4.7	6.7	n.	(1.0)
Non-ferrous metals	4.8	-3.8	11.3	7.3	3.0	-7.8	-1.4	-4.6	9.6	n.	(0.5)
Metal-working industry	-6.7	-9.7	1.5	7.2	1.3	-2.5	-3.8	-5.6	5.1	n.	(4.9)
Paper, printing, publishing	3.3	9.7	13.2	8.5	2.1	-2.8	0.9	3.6	4.6	n.	(1.6)
Chemicals and rubber	1.8	6.9	7.5	5.7	1.0	4.3	4.8	-4.1	7.9	n.	(4.5)
Textiles, clothing and footwear	7.0	4.2	-3.6	13.3	5.7	-3.4	2.5	1.0	1.1	n.	(1.8)
Food, beverages, tobacco	1.2	0.9	1.0	3.2	-2.6	3.6	-1.0	-0.5	2.0	n.	(4.3)
Building industry	3.9	1.3	12.5	5.3	7.0	3.3	2.7	-5.1	3.4	-0.2	(5.7)
Market services ²	2.9	3.9	5.1	4.0	1.7	3.9	3.5	...	2.3	2.6	(50.7)
of which :											
Wholesale and retail trade	2.0	-1.5	2.8	-4.2	2.7	6.4	5.3	1.2	-2.3	n.	(7.6)
Distribution of petroleum products	9.5	2.7	2.0	-1.7	-0.1	4.9	7.0	-3.7	3.0	n.	(2.6)
Financial services	11.9	13.5	6.2	5.0	-8.6	6.9	6.4	5.8	4.8	n.	(6.1)
Rents	2.2	2.2	2.4	2.5	2.4	2.5	2.6	2.5	2.4	n.	(6.0)
Transport and communications	-6.0	4.3	7.8	6.1	6.2	2.8	1.0	-0.9	2.7	n.	(7.9)
Other services to enterprises	8.6	4.1	10.4	14.8	4.4	2.3	4.4	-0.5	5.9	n.	(6.0)
Medical professions	0.3	3.2	6.2	7.3	4.9	1.1	4.0	-2.1	-1.6	n.	(2.8)
Hotels and catering and various services to households	1.6	5.9	5.6	5.4	3.3	1.7	-0.1	-1.5	4.2	n.	(7.6)
Non-market services	1.5	-0.4	-0.1	1.4	0.8	1.7	2.6	0.6	2.0	1.2	(12.5)
GDP before statistical adjustments ³	1.7	2.1	4.6	4.0	2.4	2.4	2.3	-1.3	2.3	2.0	
Statistical adjustments ⁴	-0.3	-0.1	0.2	-0.7	0.9	-0.2	-0.4	-0.3	-0.1	-0.1	
GDP after statistical adjustments ³	1.4	2.0	4.9	3.4	3.4	2.2	1.8	-1.6	2.2	1.9	(100.0)

Sources : NAI, NBB.

¹ Garages are recorded under market services.

² Services which are not provided by general government.

³ Including various items which cannot be broken down among the branches of activity.

⁴ Contribution to the change in GDP.

TABLE VI — DEMAND FOR AND SUPPLY OF EMPLOYMENT

(Thousands of units on 30th June)

	1986	1987	1988	1989	1990	1991	1992	1993 e	1994 e	1995 e
1. Demand for employment (net labour force)										
1.1 Population of working age ¹	6,670	6,677	6,678	6,674	6,674	6,675	6,682	6,694	6,703	6,709
Men	3,349	3,355	3,357	3,357	3,358	3,360	3,365	3,372	3,378	3,381
Women	3,321	3,323	3,322	3,318	3,316	3,315	3,316	3,321	3,325	3,329
1.2 Gross labour force ²	4,323	4,349	4,376	4,417	4,477	4,510	4,533	4,543	4,542	4,549
Men	2,625	2,619	2,611	2,624	2,636	2,640	2,633	2,630	2,625	2,618
Women	1,698	1,730	1,765	1,793	1,842	1,871	1,899	1,913	1,917	1,931
1.3 Beneficiaries of early or temporary withdrawal schemes ³	215	234	250	273	298	300	295	272	255	247
Men	169	180	186	192	195	193	189	185	180	172
Women	46	54	64	81	103	107	106	87	75	75
1.4 Net labour force (1.2 - 1.3) ⁴	4,108	4,115	4,126	4,144	4,179	4,210	4,237	4,272	4,287	4,302
Men	2,457	2,439	2,425	2,432	2,440	2,447	2,444	2,445	2,445	2,446
Women	1,652	1,676	1,701	1,712	1,739	1,763	1,793	1,826	1,842	1,856
1.5 Net activity rate (1.4 as percentage of 1.1)	(61.6)	(61.6)	(61.8)	(62.1)	(62.6)	(63.1)	(63.4)	(63.8)	(64.0)	(64.1)
Men	(73.4)	(72.7)	(72.2)	(72.5)	(72.7)	(72.8)	(72.6)	(72.5)	(72.4)	(72.4)
Women	(49.7)	(50.5)	(51.2)	(51.6)	(52.4)	(53.2)	(54.1)	(55.0)	(55.4)	(55.8)
2. Supply of employment (employment)										
2.1 Enterprises										
Employees	2,278	2,301	2,344	2,394	2,432	2,441	2,426	2,378	2,359	2,370
Self-employed persons	640	647	655	666	675	684	685	699	705	711
Total	2,918	2,948	2,999	3,059	3,107	3,125	3,111	3,077	3,065	3,081
of which : Agriculture, forestry and fisheries	107	104	102	101	100	98	95	93	91	89
Industry	844	823	809	821	820	808	788	767	754	747
Building	204	204	212	225	236	243	245	242	243	241
Market services	1,763	1,817	1,875	1,912	1,951	1,977	1,983	1,974	1,976	2,005
2.2 General government ⁵	666	652	654	653	657	644	642	636	622	619
Traditional jobs	579	571	572	568	572	563	557	551	536	532
Special programmes	87	81	83	85	85	81	85	85	86	86
2.3 Frontier workers (balance)	47	49	49	48	50	50	48	47	47	47
2.4 Grand total	3,631	3,649	3,702	3,760	3,815	3,819	3,802	3,760	3,733	3,747
Men	2,259	2,248	2,256	2,283	2,298	2,288	2,263	2,228	2,206	2,208
Women	1,371	1,401	1,446	1,478	1,517	1,531	1,538	1,532	1,527	1,539
3. Unemployment (1.4 - 2.4) ⁶	478	466	424	384	365	391	436	511	554	555
Men	198	191	170	149	143	159	181	217	239	238
Women	280	275	255	235	222	232	255	294	315	317

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

¹ Men and women aged 15 to 64.² Persons holding a job, registered unemployed persons (wholly unemployed persons receiving benefit, compulsorily registered job-seekers — mainly temporarily excluded unemployed persons and young people during the waiting period — and voluntarily registered job-seekers) and beneficiaries of early or temporary withdrawal schemes.³ Persons who have retired early, older unemployed persons not seeking jobs, persons who have completely interrupted their occupational careers and persons who have interrupted unemployment for social or family reasons.⁴ Persons holding a job and registered unemployed persons (wholly unemployed persons receiving benefit, compulsorily registered job-seekers — mainly temporarily excluded unemployed persons and young people during the waiting period — and voluntarily registered job-seekers).⁵ Persons employed in government departments, teaching, the armed forces including persons doing national service, and persons given employment under special job-creation schemes : unemployed persons given work by general government, special temporary staff, third labour circuit, subsidised persons under contract, PRIME employment programme (regional projects for insertion in the labour market) of the Walloon region and unemployed persons given full-time work in replacement of career interruptions.⁶ Excluding older unemployed persons who are no longer regarded as job-seekers by virtue of the royal decree of 29th December 1984.

TABLE VII — CONSUMER PRICES

(Percentage changes compared with the previous year)

	Overall index	Breakdown by category					
		Food products	Energy	Underlying inflation ¹	Goods other than food and energy products	Services	Rents
1988	1.2	...	-3.4	2.2	2.5	1.5	3.6
1989	3.1	3.1	6.5	2.6	2.5	2.6	3.7
1990	3.5	3.7	6.8	2.9	2.6	3.2	3.2
1991	3.2	2.0	2.6	3.7	3.0	4.4	3.0
1992	2.4	-0.1	-1.1	3.6	2.4	4.2	5.9
1993	2.8	-0.8	3.6	3.5	2.8	3.8	5.3
1994	2.4	1.8	0.9	2.7	2.4	2.6	4.6
1995	1.5	1.2	-0.6	1.8	1.3	2.0	2.9

Sources : MEA, NBB.

¹ Overall index excluding food and energy products.

TABLE VIII — INCOMES OF THE VARIOUS SECTORS AT CURRENT PRICES

(Billions of francs)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 e
1. Individuals ¹											
Primary income	4,085	4,271	4,425	4,634	5,034	5,397	5,807	6,166	6,362	6,539	6,669
Wages and salaries	2,686	2,803	2,892	2,988	3,178	3,413	3,683	3,890	3,975	4,095	4,185
Income from one-man businesses	542	574	602	648	719	749	776	800	808	846	873
Income from property	857	893	932	998	1,138	1,235	1,347	1,477	1,579	1,598	1,611
Net current transfers ²	-488	-506	-515	-533	-488	-609	-577	-616	-616	-688	-701
From and to (-) general government ²	-469	-486	-500	-519	-471	-560	-541	-579	-572	-635	-656
Transfers received	1,204	1,248	1,307	1,338	1,426	1,505	1,639	1,742	1,826	1,899	1,964
Social benefits	959	993	1,040	1,057	1,103	1,171	1,277	1,367	1,427	1,466	1,509
Other transfers	245	255	267	281	323	334	362	374	400	433	455
Transfers paid	1,673	1,734	1,807	1,857	1,897	2,065	2,180	2,320	2,399	2,534	2,620
Social contributions	741	789	837	871	920	988	1,069	1,138	1,190	1,202	1,239
Direct taxes	811	822	844	853	846	938	958	1,020	1,029	1,143	1,182
Other transfers	121	123	125	133	131	139	154	162	180	189	199
To (-) other sectors ²	-19	-20	-15	-14	-17	-50	-36	-37	-44	-53	-45
Disposable income	3,598	3,764	3,911	4,101	4,547	4,788	5,230	5,550	5,745	5,851	5,968
p.m. At constant prices (percentage changes compared with the previous year) ³	(1.0)	(3.3)	(2.2)	(3.6)	(7.5)	(1.7)	(5.8)	(3.6)	(0.7)	(-0.5)	(0.5)
2. Companies ¹											
Primary income	596	692	733	823	934	906	833	846	887	973	1,112
Current transfers to (-) other sector ²	-112	-126	-127	-139	-147	-125	-133	-137	-159	-196	-233
Disposable income	484	566	606	684	788	780	700	709	728	777	878
3. General government ¹											
Primary income	-18	-70	-11	8	38	7	27	11	52	104	136
Current transfers from (+) other sectors ²	563	592	596	611	575	667	658	679	690	780	855
Disposable income	545	522	585	619	613	673	685	690	743	884	991
4. Rest of the world											
Disposable income	36	40	46	61	60	68	52	74	85	103	79
5. GNP before statistical adjustments	4,663	4,892	5,147	5,465	6,007	6,310	6,667	7,023	7,300	7,615	7,916
6. Statistical adjustments	6	42	15	48	-16	35	32	23	-9	45	47
7. GNP after statistical adjustments	4,669	4,934	5,162	5,513	5,991	6,345	6,699	7,047	7,291	7,660	7,964

Sources : NAI, NBB.

¹ Including depreciation, but excluding the statistical adjustments whereby the three national accounts approaches are reconciled.² These are net amounts, i.e. the difference between transfers received from other sectors and transfers paid to other sectors.³ Data deflated by the index of consumer prices.

TABLE IX — SUMMARY OF THE TRANSACTIONS OF THE MAJOR SECTORS OF THE ECONOMY AT CURRENT PRICES

(Billions of francs)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 e
1. Individuals											
1.1 Disposable income	3,598	3,764	3,911	4,101	4,547	4,788	5,230	5,550	5,745	5,851	5,968
1.2 Change in mathematical retirement pension reserves	9	9	9	13	15	13	15	11	15	16	16
1.3 Consumption	3,104	3,214	3,359	3,524	3,749	4,022	4,264	4,483	4,562	4,735	4,871
1.4 Gross saving (1.1 + 1.2 - 1.3)	502	560	560	590	813	779	981	1,078	1,199	1,132	1,113
p.m. Percentage of disposable income	(14.0)	(14.9)	(14.3)	(14.4)	(17.9)	(16.3)	(18.8)	(19.4)	(20.9)	(19.3)	(18.7)
1.5 Capital transfers ¹	3	-1	-1	2	...	-5	-6	-2	-3	-3	-3
1.6 Gross capital formation	213	234	254	312	374	412	404	463	463	483	499
1.7 Net financing capacity (1.4 + 1.5 - 1.6)	292	324	305	280	440	362	571	613	733	646	611
2. Companies											
2.1 Disposable income	484	566	606	684	788	780	700	709	728	777	878
2.2 Change in mathematical retirement pension reserves	-9	-9	-9	-13	-15	-13	-15	-11	-15	-16	-16
2.3 Gross saving (2.1 + 2.2)	476	557	596	671	772	767	685	698	713	761	862
2.4 Capital transfers ¹	39	36	27	31	25	29	36	40	16	20	51
2.5 Gross capital formation	388	422	498	595	710	811	813	798	720	746	798
2.6 Net financing requirement (-) or capacity (2.3 + 2.4 - 2.5)	128	172	125	107	88	-15	-93	-59	9	35	115
3. General government											
3.1 Disposable income	545	522	585	619	613	673	685	690	743	884	991
3.2 Consumption	815	847	852	853	887	923	994	1,036	1,091	1,140	1,182
3.3 Gross saving (3.1 - 3.2)	-270	-325	-267	-234	-275	-249	-309	-346	-348	-256	-191
3.4 Capital transfers ¹	-50	-43	-34	-43	-35	-38	-43	-53	-28	-29	-60
3.5 Gross capital formation	106	100	93	100	81	87	96	104	107	116	105
3.6 Net financing requirement (-) (3.3 + 3.4 - 3.5)	-426	-468	-394	-377	-391	-375	-448	-503	-484	-401	-356
4. Statistical adjustments	5	60	16	72	-48	54	73	80	11	38	32
5. Total of domestic sectors											
5.1 Net financing requirement (-) or capacity (1.7 + 2.6 + 3.6 + 4)	-2	88	52	82	89	27	103	131	270	318	403

Sources : NAI, NBB.

N.B. Excluding general government's lending and equity investment. The data relating to the transactions of individuals and companies are considered excluding any statistical adjustments. The total of these various adjustments is recorded in item 4.

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

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

(Billions of francs)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 e
1. Revenue	2,440	2,562	2,643	2,775	2,976	3,128	3,291	3,459	3,688	3,774
Fiscal and para-fiscal revenue	2,329	2,454	2,541	2,663	2,857	3,000	3,164	3,292	3,531	3,643
Direct taxes	962	988	1,010	1,020	1,097	1,122	1,175	1,211	1,364	1,441
Indirect taxes	595	645	675	737	786	823	865	908	986	985
Social security contributions	758	805	839	889	954	1,033	1,101	1,149	1,156	1,191
Capital taxes	14	15	16	17	20	23	23	24	26	27
Non-fiscal and non-para-fiscal revenue	111	108	102	112	119	128	127	167	157	131
2. Expenditure excluding interest charges	2,344	2,399	2,451	2,536	2,665	2,884	3,036	3,180	3,310	3,400
Current transfers to individuals	1,248	1,307	1,338	1,426	1,505	1,639	1,742	1,826	1,899	1,964
Pensions	459	471	491	514	544	588	622	657	684	713
Private sector pensions	345	353	364	380	403	433	459	480	496	515
Civil service pensions	114	118	127	134	141	155	163	176	188	198
Early retirement pensions	43	43	45	45	48	51	53	52	52	52
Old persons' guaranteed income	8	9	9	9	9	10	10	10	10	9
Unemployment benefits	126	129	124	122	125	143	152	164	169	166
Career interruptions	—	—	3	4	5	6	7	6	5	5
Sickness and disability insurance benefits	84	80	80	84	89	95	97	98	98	100
Health care	228	258	262	282	307	347	384	397	412	433
Family allowances	117	121	123	130	131	137	142	148	151	155
Other	184	196	201	235	245	264	276	295	317	330
Other primary expenditure	1,097	1,092	1,113	1,110	1,160	1,245	1,295	1,353	1,411	1,436
Compensations	530	522	518	549	579	621	659	693	723	751
Net current purchases of goods and services	184	191	186	183	181	194	188	192	196	197
Subsidies to enterprises	146	136	151	141	153	155	151	158	153	163
Current transfers to the rest of the world	79	91	98	98	99	114	114	118	130	121
Gross fixed capital formation	100	93	100	81	87	96	104	107	116	105
Other capital expenditure	58	59	60	57	61	66	79	86	94	98
3. Net amount excluding interest rates	95	163	192	239	311	244	255	280	378	374
4. Interest charges	563	558	568	629	686	692	757	763	779	730
5. Net financing requirement (—)	—468	—395	—377	—391	—375	—448	—503	—484	—401	—356

Sources : NAI, NBB.

TABLE XI — EXPENDITURE OF GENERAL GOVERNMENT

(Percentages of GDP)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 e
1. Expenditure excluding interest charges	46.9	46.0	44.1	42.1	41.5	42.8	42.8	43.7	43.4	42.9
Current transfers to individuals	25.0	25.1	24.0	23.7	23.5	24.3	24.5	25.1	24.9	24.8
Replacement incomes ¹	15.2	14.8	14.3	13.6	13.5	14.0	13.9	14.3	14.1	13.9
of which : Pensions, early retirement pensions and guaranteed income of old people	10.2	10.0	9.8	9.4	9.4	9.6	9.6	9.9	9.8	9.8
Unemployment benefits and career interruptions	2.5	2.5	2.3	2.1	2.0	2.2	2.2	2.4	2.3	2.2
Sickness and disability insurance benefits	1.7	1.5	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3
Other transfers to individuals ²	9.8	10.2	9.8	10.0	9.9	10.4	10.6	10.8	10.8	10.9
of which : Health care	4.6	4.9	4.7	4.7	4.8	5.2	5.4	5.5	5.4	5.5
Family allowances	2.3	2.3	2.2	2.2	2.0	2.0	2.0	2.0	2.0	2.0
Other primary expenditure	22.0	21.0	20.0	18.4	18.1	18.5	18.2	18.6	18.5	18.1
Compensations	10.6	10.0	9.3	9.1	9.0	9.2	9.3	9.5	9.5	9.5
Net current purchases of goods and services	3.7	3.7	3.3	3.0	2.8	2.9	2.7	2.6	2.6	2.5
Subsidies to enterprises	2.9	2.6	2.7	2.3	2.4	2.3	2.1	2.2	2.0	2.1
Current transfers to the rest of the world	1.6	1.7	1.8	1.6	1.6	1.7	1.6	1.6	1.7	1.5
Gross fixed capital formation	2.0	1.8	1.8	1.4	1.4	1.4	1.5	1.5	1.5	1.3
Other capital expenditure	1.2	1.1	1.1	1.0	0.9	1.0	1.1	1.2	1.2	1.2
2. Interest charges	11.3	10.7	10.2	10.4	10.7	10.3	10.7	10.5	10.2	9.2
3. Total expenditures	58.2	56.7	54.3	52.5	52.2	53.1	53.4	54.2	53.6	52.1

Sources : NAI, NBB.

¹ Apart from the two main sub-categories mentioned in the table, this item also includes the expenditure of general government in respect of industrial accidents, occupational diseases and the minimum social subsistence resources.

² Apart from the two main sub-categories mentioned in the table, this item chiefly comprises allowances to handicapped persons, the governments contribution to meeting the daily cost of hospitalisation, subsidies of non-profit making associations serving households and pensions to victims of war.

TABLE XII — NET FINANCING REQUIREMENT (–) OR SURPLUS OF THE GENERAL GOVERNMENT AND OF ITS SUB-SECTORS

(Billions of francs)

	Central government			Local authorities	Social security	General government		
	Total	of which :				Total	of which :	
		Federal government	Communities and regions				Entity I	Entity II
	(a)	(b)	(c)			(d)	(e)	(f) = (a) + (d) + (e)	(g) = (b) + (e)	(h) = (c) + (d)
1980	-235	—	—	-61	-11	-307	—	—
1981	-436	—	—	-42	9	-468	—	—
1982	-419	—	—	-33	21	-431	—	—
1983	-466	—	—	-33	20	-479	—	—
1984	-469	—	—	5	46	-418	—	—
1985	-465	—	—	7	31	-426	—	—
1986	-521	—	—	9	44	-468	—	—
1987	-393	—	—	-6	4	-395	—	—
1988	-402	—	—	-20	46	-377	—	—
1989	-432	-447	14	-8	50	-391	-397	6
1990	-404	-361	-43	-3	33	-375	-328	-46
1991	-437	-377	-60	7	-18	-448	-395	-53
1992	-490	-421	-68	7	-20	-503	-441	-61
1993	-450	-399	-50	-14	-21	-484	-420	-64
1994	-402	-341	-61	-2	3	-401	-338	-63
1995 e	-385	-326	-60	29	1	-356	-325	-31

Sources : NAI, NBB.

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

(Billions of francs)

	New liabilities						Formation of financial assets in Belgian francs ²	of which by the Treasury	Balance ³	
	In foreign currencies	In Belgian francs				Grand total				
		With NBB ¹	Others							
			At up to one year	At over one year	of which linear bonds					
(a)	(b)	(c)	(d)	(e)	(f) = (b) + (c) + (d)	(g) = (a) + (f)	(h)	(i)	(j) = (g) - (h)	
1985	35	-18	60	517	(—)	558	593	182	(—)	410
1986	74	27	296	179	(—)	503	577	100	(—)	476
1987	32	-82	220	326	(—)	464	496	91	(—)	405
1988	23	-21	25	459	(—)	463	486	80	(—)	406
1989	69	-40	251	226	82	437	506	76	(—)	430
1990	-20	-30	122	408	273	500	481	79	(—)	401
1991	-8	-107	86	590	935	569	561	107	124	454
1992	-108	...	-10	691	963	681	574	59	26	514
1993	449	...	-224	432	1,122	208	657	144	117	513
1994	-152	...	497	-31	791	466	314	-98	-117	412
1995 e	-262	...	-453	981	658	527	266	-115	-141	381

Source : NBB.

¹ Changes in the portfolio of Belgian public securities with the National Bank of Belgium, in the outstanding amount of Treasury certificates which the Securities Regulation Fund financed with the special advances from the latter and in the Bank's consolidated claim on the government. From 1991 onwards this column contains only the advances granted by the Bank to the government within the framework of a special overdraft facility limited to Fr. 15 billion. On 1st July 1993, this facility was abolished in implementation of the law of 22nd March 1993 on the status and supervision of credit institution.

² Including lending and equity investment.

³ The total financial deficit differs from the net financing requirement - the concept used in table X and XII - largely owing to differences in timing in the dating of the recording of transactions between the two approaches and to imperfections in the recording of the data.

TABLE XIV — OUTSTANDING AMOUNT OF GENERAL GOVERNMENT'S DEBT

(End of period, billions of francs)

	Gross debt				Grand total	Financial assets held with general government	Consolidated gross debt ¹	Other financial assets ²	Net debt
	In foreign currencies	In Belgian francs							
		At up to one year	At over one year	Total					
(a)	(b)	(c)	(d) = (b) + (c)	(e) = (a) + (d)	(f)	(g) = (e) - (f)	(h)	(i) = (g) - (h)	
1985	1,088	1,215	3,607	4,822	5,910	92	5,818	475	5,343
1986	1,103	1,539	3,817	5,356	6,459	101	6,358	493	5,866
1987	1,129	1,677	4,166	5,843	6,972	105	6,867	526	6,341
1988	1,151	1,682	4,635	6,317	7,467	121	7,346	553	6,793
1989	1,169	1,893	4,838	6,730	7,899	134	7,766	566	7,199
1990	1,135	1,984	5,285	7,269	8,404	149	8,255	600	7,655
1991	1,109	1,979	5,855	7,834	8,943	174	8,769	672	8,097
1992	1,015	1,969	6,553	8,522	9,537	206	9,331	669	8,663
1993	1,517	1,728	7,048	8,776	10,294	268	10,026	708	9,318
1994	1,349	2,226	7,017	9,243	10,592	222	10,370	639	9,731
1995 e	1,084	1,773	7,997	9,770	10,854	257	10,597	465	10,132

Source : NBB.

Bibliographical references : *Bulletin de la Banque Nationale de Belgique*, LXIIIrd year, Vol. 1, no 5, May 1988 : *Modifications apportées au chapitre XI « Finances Publiques » de la partie « Statistiques » du Bulletin* and LXVIIIth year, nos 7-8, July-August 1993 : *Révision du chapitre XI « Finances Publiques » de la partie « Statistiques » du Bulletin*.

¹ Concept used for the implementation of the convergence criteria defined in the Treaty on European Union.

² Excluding lending and equity investment.

TABLE XV — BALANCE OF PAYMENTS OF THE BLEU ON A TRANSACTIONS BASIS

(Balances in billions of francs)

	1986	1987	1988	1989	1990	1991	1992	1993	1994
Current transactions	139	103	135	140	123	169	216	389	417
Capital transactions ¹	-139	-103	-135	-140	-123	-169	-216	-389	-417
1. Direct investment	-48	-18	48	34	65	74	73	229	246
Assets of residents	-81	-108	-138	-259	-208	-212	-345	-155	-25
Assets of non-residents	33	90	187	293	273	287	419	384	271
2. Portfolio investment	-94	-60	-138	-203	54	119	34	-13	-493
Assets of residents	-138	-112	-196	-264	9	-103	-57	-223	-362
Shares	-31	-1	19	-78	19	-6	3	-38	-110
Fixed-interest securities	-107	-111	-215	-186	-10	-97	-60	-185	-252
Assets of non-residents	44	52	59	61	45	222	91	210	-131
Shares	30	24	19	31	28	19	15	73	24
Fixed-interest securities	14	28	40	30	16	203	76	137	-155
3. Other capital transactions	14	61	-24	75	-171	-316	-232	-802	69
3.1 Commercial credits	6	1	-12	8	33	-8	-9	28	8
3.2 Net assets of resident enterprises and individuals	61	54	-72	-37	-236	132	-109	-644	-392
In francs abroad	-24	16	8	-20	-35	24	-95	-58	-2
In foreign currencies	85	38	-80	-17	-201	108	-14	-586	-390
Spot	53	-41	-111	-94	71	105	24	-325	-259
Forward	32	79	31	77	-272	3	-38	-261	-131
3.3 Net assets in francs of non-residents with resident credit institutions	-35	30	74	50	86	-346	87	-552	700
Spot	-8	26	58	53	16	-187	81	-167	148
Forward	-27	4	17	-3	70	-158	7	-386	553
3.4 Capital transactions in foreign currencies of resident credit institutions	-71	-61	-12	-25	-24	-77	-83	-54	-91
Spot	-65	22	35	48	-226	-237	-250	-562	187
Forward	-6	-83	-47	-74	202	160	166	507	-278
3.5 Capital transactions of general government	52	38	-2	80	-30	-17	-118	421	-156
In francs	-6	3	-14	7	-7	-11	-15	-25	-9
In foreign currencies	58	35	12	73	-23	-6	-103	446	-147
4. Errors and omissions	-4	-5	-1	-26	-54	-23	64	-17	-87
5. Swap transactions concluded by the NBB	—	—	—	—	—	-5	-135	140	-143
6. Movement of the net gold and foreign exchange reserves of the NBB ²	-7	-81	-19	-19	-17	-18	-20	75	-9

Source : NBB.

Bibliographical references : Eurostat, 1984 : *La méthodologie de la balance des paiements de l'Union Economique Belgo-Luxembourgeoise*.

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 exportations sur la base de caisse et du traitement des effets commerciaux dans la partie « Statistiques » du Bulletin* and *Bulletin de la Banque Nationale de Belgique*, LXIXth year, nos 7-8, July-August 1994 : *Modifications apportées au tableau IX-1 à IX-5 du chapitre « Balance des paiements de l'Union économique belgo-luxembourgeoise » de la partie « Statistiques » du Bulletin*.

¹ Minus sign : capital outflows.

² Minus sign : increase in spot reserves, including the small forward transactions concluded at the end of 1988 and unwound at the beginning of 1989.

TABLE XVI — CURRENT TRANSACTIONS ON A TRANSACTIONS BASIS

(Balances in billions of francs)

	1986	1987	1988	1989	1990	1991	1992	1993	1994
1. Transactions in goods	103	49	106	92	56	65	114	202	223
2. Transactions in services	28	50	36	21	65	71	99	117	138
Freight and insurance for transport of goods and other transport expenses	20	34	42	41	43	37	49	54	70
Foreign travel	-32	-35	-44	-50	-59	-67	-82	-79	-86
Third-country trade	26	36	21	18	36	26	43	27	30
Transactions of general government not included elsewhere	32	37	37	40	40	48	54	59	57
Other services	-18	-22	-21	-29	5	27	35	57	67
Insurance	-2	-1	4	7	17	11	10	18	23
Other financial services ¹	11	11	16	25	18	27	33	53	41
Other services to enterprises ²	-4	-5	-7	-30	-7	-1	-9	-8	9
Other	-23	-27	-34	-30	-23	-11	...	-6	-6
3. Income	51	60	62	104	76	109	91	167	174
Compensation of employees	46	47	50	54	53	60	63	64	61
Cross-frontier workers	6	3	3	2	...	-2	-5	-7	-12
International institutions	40	44	47	52	53	63	68	71	72
Income from direct and portfolio investment	5	13	12	50	23	48	29	103	114
4. Transfers	-43	-56	-69	-77	-75	-76	-87	-97	-117
Private	-9	-4	3	2	-22	-15	-23	-27	-34
Public	-34	-52	-72	-79	-52	-61	-65	-70	-84
5. Total current transactions on a transactions basis (1 + 2 + 3 + 4)	139	103	135	140	123	169	216	389	417

Source : NBB.

¹ Costs and commission charged by financial intermediaries.² Representation and publicity costs, building and maintenance work, technical assistance and manufacturing, assembly and repair costs.

TABLE XVII — INDICATIVE EXCHANGE RATES

(Quotations in Belgian francs, annual averages)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
German mark	20.58	20.78	20.94	20.96	20.68	20.59	20.59	20.90	20.61	20.58
French franc	6.44	6.21	6.17	6.18	6.14	6.06	6.07	6.10	6.02	5.91
Dutch guilder	18.25	18.44	18.60	18.58	18.35	18.27	18.28	18.60	18.37	18.37
Pound sterling	65.48	61.11	65.37	64.55	59.47	60.23	56.64	51.90	51.15	46.56
US dollar	44.66	37.34	36.81	39.43	33.41	34.18	32.12	34.57	33.43	29.51
Italian lira (100)	3.00	2.88	2.83	2.87	2.79	2.75	2.62	2.20	2.07	1.81
Yen (100)	26.57	25.85	28.70	28.63	23.14	25.40	25.36	31.24	32.70	31.48
Peseta (100)	31.88	30.28	31.57	33.27	32.79	32.87	31.46	27.22	24.96	23.66
Swedish crown	6.26	5.89	6.00	6.11	5.64	5.65	5.53	4.44	4.33	4.14
Swiss franc	24.89	25.06	25.14	24.11	24.09	23.83	22.89	23.41	24.46	24.95
Austrian schilling	2.93	2.95	2.98	2.98	2.94	2.93	2.93	2.97	2.93	2.92
Irish punt	59.80	55.50	55.99	55.85	55.26	54.99	54.67	50.62	49.98	47.29
Danish crown	5.52	5.46	5.46	5.39	5.40	5.34	5.33	5.33	5.26	5.26
Finnish mark	8.80	8.50	8.78	9.18	8.73	8.45	7.19	6.05	6.41	6.75
Canadian dollar	32.13	28.17	29.95	33.30	28.63	29.84	26.60	26.79	24.50	21.50
Escudo (100)	29.88	26.49	25.52	25.02	23.44	23.64	23.81	21.53	20.14	19.66
Norwegian crown	6.04	5.54	5.64	5.71	5.34	5.27	5.17	4.87	4.74	4.65
Australian dollar	—	—	—	—	—	26.61	23.62	23.48	24.45	21.89
Greek drachma (100) ¹	—	—	25.94	24.29	21.11	18.76	16.87	15.07	13.78	12.73
New Zealand dollar	—	—	—	—	—	19.76	17.28	18.72	19.83	19.35
Ecu	43.79	43.03	43.42	43.35	42.50	42.26	41.54	40.40	39.55	38.12
p.m. Effective exchange rate for the Belgian franc ² (1985 = 100)	(104.4)	(108.1)	(106.6)	(105.8)	(110.9)	(110.6)	(112.8)	(113.6)	(115.5)	(120.1)

Source : NBB.

N.B. Until 31st December 1990 : official exchange rates fixed by the bankers meeting at the Brussels Clearing House. Since 1991 : indicative exchange rates.

¹ The Greek drachma has been quoted on the Brussels Stock Exchange since 4th January 1988.² Weighted by the importance of the OECD countries, except Iceland, Turkey and Mexico, as competitors of resident producers of manufactured goods on all markets combined.

TABLEAU XVIII — FINANCING FLOWS OF THE MAJOR SECTORS OF THE ECONOMY

(Billions of francs)

	1993				1994				1995 first nine months			
	Individuals and companies	General government	Rest of the world	Total	Individuals and companies	General government	Rest of the world	Total	Individuals and companies	General government	Rest of the world	Total
Formation of financial assets												
1. With Belgian credit institutions ¹	786	18	66	870	535	-60	775	1,250	255	-27	803	1,031
2. In the form of securities in francs	315	92	309	716	170	-36	430	564	174	37	316	527
2.1 Issued by final borrowers	153	92	300	546	40	-36	428	432	141	37	298	477
2.2 Issued by Belgian credit institutions	162	...	9	171	131	-1	3	133	33	...	17	50
3. Via other channels ²	417	33	390	840	578	-2	-121	455	550	-30	189	708
4. Total (= 1 + 2.1 + 3) ³	1,355	144	756	2,255	1,152	-98	1,082	2,137	946	-20	1,290	2,216
New financial liabilities												
5. With Belgian credit institutions ¹	57	227	586	870	244	556	450	1,250	128	306	596	1,031
6. In the form of securities in francs	262	131	121	514	219	362	290	870	114	573	341	1,029
6.1 acquired by final borrowers	263	177	106	546	244	-134	321	432	129	3	345	477
6.2 acquired by Belgian credit institutions	-1	-46	15	-32	-25	495	-31	439	-15	571	-4	552
7. Via other channels ²	162	253	425	840	13	-108	550	455	117	11	580	708
8. Total (= 5 + 6.1 + 7) ³	482	657	1,117	2,255	501	314	1,321	2,137	375	320	1,521	2,216
Financial balance (= 4 - 8)	873	-513	-361	...	651	-412	-239	...	571	-340	-231	...
p.m. Real balance	754	-484	-270	...	719	-401	-318	...				

Source : NBB.

¹ Including the NBB, the Securities Regulation Fund, the Monetary Fund, The RGI, and the Postal Cheque Office.² Namely foreign currency securities, transactions carried out via foreign credit institutions and the claims and debts resulting from direct financing transactions, other than in the form of securities, between domestic sectors or with the rest of the world.³ Securities in francs issued by Belgian credit institutions appear not only in items 2 and 6, but also in items 1 and 5 as transactions passing through these institutions. They therefore cannot be recorded twice in items 4 and 8.

TABLE XIX — FORMATION OF FINANCIAL ASSETS BY INDIVIDUALS AND COMPANIES¹

(Billions of francs)

	1990	1991	1992	1993	1994	First 9 months	
						1994	1995
Assets in Belgian francs²	940	1,020	1,001 |	790	727	574	406
At up to one year ²	364	482	485 |	733	78	370	32
Notes and coin	-8	4	-3	12	-29	-20	11
Sight deposits	26	11	-16	103	41	49	44
Ordinary savings deposits	-258	-89	-72	32	451	371	222
Other deposits	508	264	416	269	-229	-118	-190
Treasury certificates and bills ³ .....	...	162	60	29	-36	-5	23
Notes	90	114	90	246	-387	-246	-157
Miscellaneous ^{2,4}	6	16	10 |	42	267	339	78
At over one year	576	538	516	57	649	204	373
Bonds and notes	598	506	498	137	550	136	307
Shares	-17	16	8	-94	22	36	12
Deposits .....	...	9	4	10	44	6	75
Miscellaneous ⁴	-5	7	6	3	33	26	-21
Assets in foreign currencies²	-61	11	35 |	539	490	534	343
Other assets^{2,5}	63	150	214 |	26	-65	-96	198
Grand total	942	1,181	1,250 |	1,355 ⁶	1,152 ⁶	1,013	946 ⁶

Source : NBB.

Bibliographical references : *Bulletin de la Banque Nationale de Belgique*, LXIIIrd year, Vol. II, Nos 1-2, July-August 1988 : *Modifications apportées au chapitre XV « Actifs financiers » de la partie « Statistiques » du Bulletin* and LXIIth year, No 10, October 1993 : *Modification du traitement des sociétés de logement dans la partie « Statistiques » du Bulletin*.

¹ Investments made via collective investment undertakings making public issues in Belgium have been broken down between the various items of this table on the basis of the structure of the assets acquired by these undertakings.

² Prior to 1993, the breakdown between francs and foreign currencies of certain assets and liabilities in the balance sheets of credit institutions was not known. The counterpart of these net liabilities was incorporated in the item « Other assets » in the formation of assets of individuals and companies. As since the entry into force of the new presentation of periodical information by credit institutions, called presentation A, the breakdown by foreign currencies of the balance sheet items has been exhaustive, it has been possible to break down this component of the other assets of individuals and companies between foreign currencies and francs (in the latter case, under the « Miscellaneous » heading of assets at up to one year).

³ Including promissory notes.

⁴ Including claims resulting from direct financing transactions between domestic sectors

⁵ These consist chiefly of credits granted direct by enterprises to the rest of the world and of net commercial claims on foreign countries, whose distribution between francs and foreign currencies is not always known.

⁶ These amounts correspond, in Table XVIII, to those in item 4 in the columns concerning individuals and companies.

TABLE XX — NEW LIABILITIES OF INDIVIDUALS AND COMPANIES¹*(Billions of francs)*

	1990	1991	1992	1993	1994	First nine months	
						1994	1995
Securities	382	381	397	258	218	172	112
Shares ²	409	356	387	235	231	171	147
Listed	16	37	11	22	36	34	10
Unlisted	393	320	376	213	196	137	137
Bonds	-27	22	-9	9	-50	-20	-58
Promissory notes and bills .....	...	3	19	15	36	21	24
Liabilities to the rest of the world	163	131	142	135	-11	-36	165
Liabilities to Belgian credit institutions	374	375	300	62	271	148	143
Others ³	33	76	30	27	24	-30	-46
Grand total	952	963	869	482 ⁴	501 ⁴	254	375 ⁴

Sources : Banking and Financial Commission, NBB.

¹ In Belgian francs and in foreign currencies.² Including the exercise of warrants and issues of real estate certificates.³ Liabilities to general government and to housing companies.⁴ These three amounts correspond, in Table XVIII, to those of item 8 of the three columns relating to individuals and companies.

TABLE XXI — MAIN INTEREST RATES

(End of month)

	Three-month money markets rates		Rates of the reference linear bond	Creditor rates ¹			Debtor rates ¹			
	Treasury certificates	Interbank market		Savings deposits ²	Three-month time deposits of Fr. 3 million	Ordinary five-year notes	Ordinary overdrafts	Six-month fixed-term advances of Fr. 10 to 15 million	Investment credits ³	Mortgage loans ⁴
1994 January	6.65	6.63	6.47	5.79	5.72	5.53	10.73	7.28	7.70	7.37
February	6.31	6.38	6.94	4.33	5.63	5.50	10.36	7.21	7.41	6.97
March	6.12	6.13	7.19	4.41	5.48	5.89	9.89	7.47	7.62	6.74
April	5.64	5.69	7.50	4.37	4.97	6.19	9.84	6.24	8.02	7.27
May	5.28	5.29	7.92	4.31	4.55	6.60	9.40	6.29	8.04	7.43
June	5.45	5.50	7.78	4.31	4.77	6.89	9.29	6.57	8.49	7.97
July	5.33	5.38	8.03	4.45	4.56	7.08	9.27	6.49	8.60	8.07
August	5.43	5.48	8.40	4.44	4.69	7.27	9.26	6.61	9.07	7.93
September	5.26	5.33	8.50	4.61	4.50	7.54	9.26	6.55	9.42	8.74
October	5.15	5.19	8.42	4.59	4.47	7.59	8.79	6.24	9.63	8.61
November	5.18	5.25	8.31	4.59	4.43	7.52	8.78	6.32	9.36	8.68
December	5.23	5.25	8.34	4.63	4.52	7.50	8.79	6.26	9.24	8.81
1995 January	5.40	5.44	8.33	4.64	4.55	7.51	8.78	6.50	9.27	8.85
February	5.66	5.75	8.21	4.59	4.81	7.51	8.77	6.65	9.21	8.49
March	5.64	5.69	8.05	4.72	5.08	7.51	9.69	6.60	9.36	8.41
April	5.31	5.31	7.81	4.68	4.59	6.71	8.82	6.35	9.00	8.21
May	4.83	4.88	7.34	4.28	4.24	6.37	8.79	5.82	8.60	8.16
June	4.65	4.69	7.55	4.07	4.09	6.01	8.29	5.60	8.07	7.75
July	4.52	4.55	7.29	4.04	3.84	6.01	8.29	5.54	8.17	7.62
August	4.32	4.33	7.20	4.00	3.73	6.01	8.28	5.17	8.10	7.45
September	4.27	4.30	7.19	3.81	3.60	5.75	8.03	5.20	7.75	7.20
October	4.10	4.14	6.96	3.81	3.54	5.75	8.02	5.09	7.75	7.12
November	3.80	3.92	6.77	3.83	3.27	5.61	7.82	4.73	7.43	6.87
December	3.71	3.73	6.69	3.82	3.16	5.50	7.75	4.54	7.34	6.63

Source : NBB.

Bibliographical references : *Bulletin de la Banque Nationale de Belgique*, LXIXth year, No 9, September 1994 : *Nouveau tableau relatif aux taux d'intérêt débiteurs et créditeurs appliqués par les établissements de crédit* (debtor and creditor rates).*Bulletin de la Banque Nationale de Belgique*, LXVIth year, No 5, May 1991 : *Révision du chapitre XIX « Taux d'escompte, d'intérêt et de rendement » de la partie « Statistiques » du Bulletin* (other rates).¹ These rates correspond to the average of the rates obtained through a survey among the main credit institutions, weighted on the basis of the total of these institutions' balance sheets.² Basic interest rates plus maximum fidelity and growth bonuses and, where appropriate, the co-operators' allowance.³ Rates for an investment loan of Fr. 3 to 5 million without any general government subsidy, granted for a period of 5 years.⁴ Rates for a 20-year mortgage loan granted to a good customer, with a five-yearly revision clause.

TABLE XXII — INTEREST RATES OF THE NATIONAL BANK OF BELGIUM AND THE REDISCOUNT AND GUARANTEE INSTITUTE

(Percentage)

Date of application of change	Discount rate	The Bank's central rate ¹	Rate for granting of credits by tender ²	Rate for current account advances		RGI's rate for daily closing surpluses	
				Within credit lines	Beyond credit lines	Ordinary tranche	Overstepping tranche ³
p.m. 1995 1st January	4.50	4.85	4.85	6.35	9.00	3.85	2.85
1995 8 March	"	5.85	—	7.85	10.00	"	"
13 March	"	"	5.85	"	"	"	"
31 March	4.00	5.25	—	7.25	9.50	3.50	2.50
3 April	"	"	5.25	"	"	"	"
6 April	"	5.00	—	6.75	"	"	"
10 April	"	"	5.00	"	"	"	"
12 April	"	4.75	—	6.25	9.00	"	"
14 April	"	"	4.75	"	"	"	"
15 May	"	4.50	4.50	6.00	"	"	"
9 June	"	"	—	5.75	8.75	"	"
9 August	"	4.45	—	5.70	"	3.45	2.45
11 August	"	"	4.45	"	"	"	"
23 August	"	4.40	—	5.65	"	3.40	2.40
25 August	3.50	"	—	"	8.00	"	"
28 August	"	"	4.40	"	"	"	"
30 August	"	4.30	—	5.55	"	3.30	2.30
4 September	"	"	4.30	"	"	"	"
6 September	"	4.20	—	5.45	"	3.20	2.20
11 September	"	"	4.20	"	"	"	"
13 September	"	4.15	—	5.40	"	3.15	2.15
18 September	"	"	4.15	"	"	"	"
20 September	"	4.10	—	5.35	"	3.10	2.10
25 September	"	"	4.10	"	"	"	"
4 October	"	4.05	—	5.30	"	3.05	2.05
9 October	"	"	4.05	"	"	"	"
2 November	"	4.00	—	5.25	"	3.00	2.00
6 November	"	"	4.00	"	"	"	"
22 November	"	3.95	—	5.20	"	2.95	1.95
27 November	"	"	3.95	"	"	"	"
15 December	3.00	3.75	—	5.00	7.00	2.75	1.75
18 December	"	"	3.75	"	"	"	"

Source : NBB.

Bibliographical reference : *Bulletin de la Banque Nationale de Belgique*, LXVth year, No 5, May 1991 : Révision du chapitre XIX « Taux d'escompte, d'intérêt et de rendement » de la partie « Statistiques » du Bulletin.¹ Rate applicable to the RGI's current account advances to the primary dealers and to the latter's deposits with the RGI, within individual lines, the total of which amounted, for all the primary dealers, to Fr. 5.3 billion at the end of 1995.² The dates shown correspond to the dates of the tenders (or transaction dates) and not to the settlement dates at the Clearing House (or value dates), which, save in exceptional cases, are two days after the tender dates. If there are no data, this means that there was no tender on that date.³ This rate applies to surpluses exceeding 5 p.c. of the credit lines allocated individually to the financial intermediaries.

TABLE XXIII — TRANSACTIONS OF THE NATIONAL BANK OF BELGIUM

(Changes in billions of francs)

	1991 ¹	1992	1993	1994	1995
1. Transactions apart from regulation of the money market	-2.9	22.7	-86.2	38.4	-23.7
1.1 Increase (-) or decrease in the note circulation ²	-23.0	1.8	-10.0	22.9	-33.4
1.2 Increase or decrease (-) in the foreign exchange reserves ³	21.0	19.9	-74.5	9.5	8.4
1.3 Increase (-) or decrease in the deposit of the Belgian State ⁴	0.1	0.2	-1.0	0.3	...
1.4 Increase (-) or decrease in the deposit of the Luxembourg State	—	—	-0.5	...	0.5
1.5 Miscellaneous net items	-1.0	0.8	-0.2	5.7	0.8
2. Regulation of the money market	4.6	-22.6	87.7	-43.6	31.9
2.1 Mobilisation of commercial bills	0.3	-6.9	0.3	-1.6	-0.3
2.2 Granting of credits by tender	-10.9	-25.2	5.1	-0.1	-10.0
2.3 Direct interventions on the money market	15.2	9.5	82.3	-41.9	42.2
2.3.1 Purchases or sales (-) of securities on the market	-16.3	-0.3	15.0	-14.5	6.0
2.3.2 Very-short-term repurchase agreements	32.0	12.8	65.3	-25.4	36.2
2.3.3 Interbank deposits or loans (-)	-0.5	-3.0	2.0	-2.0	...
3. Coverage or absorption (-) of residual money market balances	-1.7	-0.1	-1.5	5.2	-8.2
3.1 Increase or decrease (-) in current account advances to the financial intermediaries	-11.2	-0.1	0.2	2.0	-2.9
3.2 Increase (-) or decrease in the daily closing surpluses deposited with the NBB by the RGI	9.5	...	-1.7	3.2	-5.3

Source : NBB.

¹ February to December 1991.

² Including bank notes which are no longer legal tender.

³ At market exchange rates and on the value date.

⁴ Including, until their abolition on 1st July 1993, the increase or decrease (-) in advances to the State and Securities Regulation Fund.

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The National Bank of Belgium as an Enterprise

GENERAL OUTLINE

The year 1995 brought many new developments for the National Bank of Belgium.

By putting into circulation, in June 1995, a 100 franc note bearing the portrait of James Ensor and by completing the preparations for the issuing of a 200 franc note, the Bank made progress in the introduction of the new series of notes which was started in 1994 with the Horta-type Fr. 2,000 note. This series, devoted to Belgians who have made their mark on 20th century art, is characterised by the advanced and homogeneous security markings, which have enabled forgery to be substantially reduced.

The year 1995 also saw the concrete implementation of the reform of the Belgian statistical apparatus, whereby the Bank was entrusted with the task of compiling, on behalf of the National Accounts Institute, the foreign trade statistics, the national accounts and, in co-operation with the Federal Planning Bureau, the accounts of the public administrations. The Bank endeavoured to eliminate a large proportion of the delay which there has been in the compilation of these statistics.

The Bank furthermore remodelled its periodical publications by replacing its monthly bulletin by two new reviews, one devoted to economic analyses and the other to statistics, and by improving its weekly tables of economic indicators.

Important reforms were also carried out in several other fields. With regard to the collection of balance of payments data, the new rules came into force at the beginning of the year and necessitated a far-reaching information campaign. As far as the systems of interbank payments are concerned, the Bank was entrusted with the day-to-day activities of the non-profit-making body ELLIPS, which was formed at the end of the year with the credit institutions and which, in the course of 1996, will provide for the immediate and definitive settlement of payments above Fr. 50 million. The new procedures relating to the Central Office for credits of Fr. 1 million and above came into force in November 1995. Lastly, various operational improvements were made to the securities clearing system — whose activity has greatly expanded since its creation in 1991 — in order to increase the efficiency of the system and the safety of its participants.

The Bank was also involved in the celebration of the fiftieth anniversary of the Securities Regulation Fund, for whose day-to-day running it is responsible.

On the international plane, the Bank's efforts were concentrated in particular on the preparations for the third stage of the economic and monetary union, and also on the situation of the countries in transition towards a market economy.

Parallel with these activities, the Bank unremittingly pursued its internal rationalisation efforts. In various fields the Bank has endeavoured to increase its productivity by improving work procedures, by making appropriate use of data-processing resources and by recourse to new technologies. Two examples of this are: the automation of detection of notes with a manufacturing fault and the automation of the series printing of documents, whether personalised or not, and the enveloping of documents.

Three departments — the Foreign, Credit and Public Securities Departments — were abolished and were replaced by a single « Financial Markets Department », in which the dealing room of the foreign exchange market and that for money market interventions were combined. In addition, all administrative functions relating to purchases and to maintenance contracts, including stores, were grouped in the Equipment and Technical Services. These restructurings will enable further savings to be made.

The Bank pursued an active staff training policy and devoted, on average, three days per person to this function in 1995.

Notwithstanding the fact that about a hundred new recruitments were necessitated by the Bank's new statistical tasks, its workforce, expressed in terms of full-time jobs, increased by only four units.

Lastly, on the social plane, the year 1995 was marked by the establishment of a Works Council in the Bank.

1. SPECIFIC ACTIVITIES AS THE CENTRAL BANK

1.1 PRINTING AND ISSUING OF BANK NOTES, PUTTING COINS INTO CIRCULATION

1.11 ISSUING POLICY

The issuing of bank notes is the Bank's most traditional activity. In the past the term « issuing institution » was widely used in order to indicate the fundamental nature of this central bank activity. Like many other European central banks, the Bank designs and prints its bank notes itself. That is in fact the Bank's only activity which has a definitely industrial aspect.

The year under review saw the issuing of the second note of a new series entirely devoted to Belgians who have set their stamp on 20th century art. This note, with a nominal value of Fr. 100, is ornamented with the portrait of the painter James Ensor and with an evocation of his abundant work.

This new note is gradually replacing the Beyaert-type note of the same value. At the end of December 1995 the circulation of the

Ensor-type note amounted to Fr. 7.3 billion, already nearly half the total amount of Fr. 100 notes.

The preparation of the third note in the new series, with a nominal value of Fr. 200, was completed at the end of the year under review. This new note, devoted to Adolphe Sax, was put into circulation on 25th January 1996. The issuing of a Fr. 200 note forms part of the Bank's policy aimed at bringing about a better composition of the note circulation, thus facilitating cash payments. Denominations of 20, 200 or 2,000 monetary units have in fact for a long time proved their usefulness in other countries of the European Union.

Furthermore, at the end of 1996 or the beginning of 1997, a new Fr. 1,000 note will be issued and will gradually replace the Grétry-type note.

In this way the National Bank of Belgium is continuing, like the other central banks of the European Union, to improve — including as regards security — and modernise its own products pending the issuing of a single European currency, the euro.

The prospects in this connection were clarified at the Madrid Summit of 15th December 1995. In view of the timetable adopted for the implementation of the third stage of economic and monetary union and of the production schedule, the European notes and coins are to be issued at the beginning of 2002. At that time eight coins, with face values ranging from 0.01 to 2 units, and seven notes ranging from 5 to 500 units are to be put into circulation.

For a period of six months these new notes and coins are to co-exist with the national monetary tokens in order to allow the public to accustom itself to the use of the single currency. During this period the na-

DEVELOPMENT OF DEMAND FOR FR. 100 (ENSOR-TYPE) NOTES SINCE THEY WERE PUT INTO CIRCULATION ON 15TH JUNE 1995

(End-of-month amounts, in billions of francs)

30th June	1.5
31st July	3.4
31st August	4.1
30th September	5.4
31st October	6.2
30th November	6.7
31st December	7.3

tional notes and coins are to be gradually exchanged for European notes and coins.

Beyond this time limit, only the latter are to be legal tender within the area of the single currency.

1.12 OUTSTANDING AMOUNT

The volume of notes put into circulation is governed by the demand from the financial intermediaries, which itself depends on the public's requirements. These requirements change continuously during the year. Thus, there is generally an increase just before the summer holidays and at the end of the year and a decrease in January and in the autumn. This seasonal movement was not, however, wholly confirmed in the year under review. While there was in fact a decline from mid-July onwards, this was followed by a new rise which began earlier and was more marked than usual.

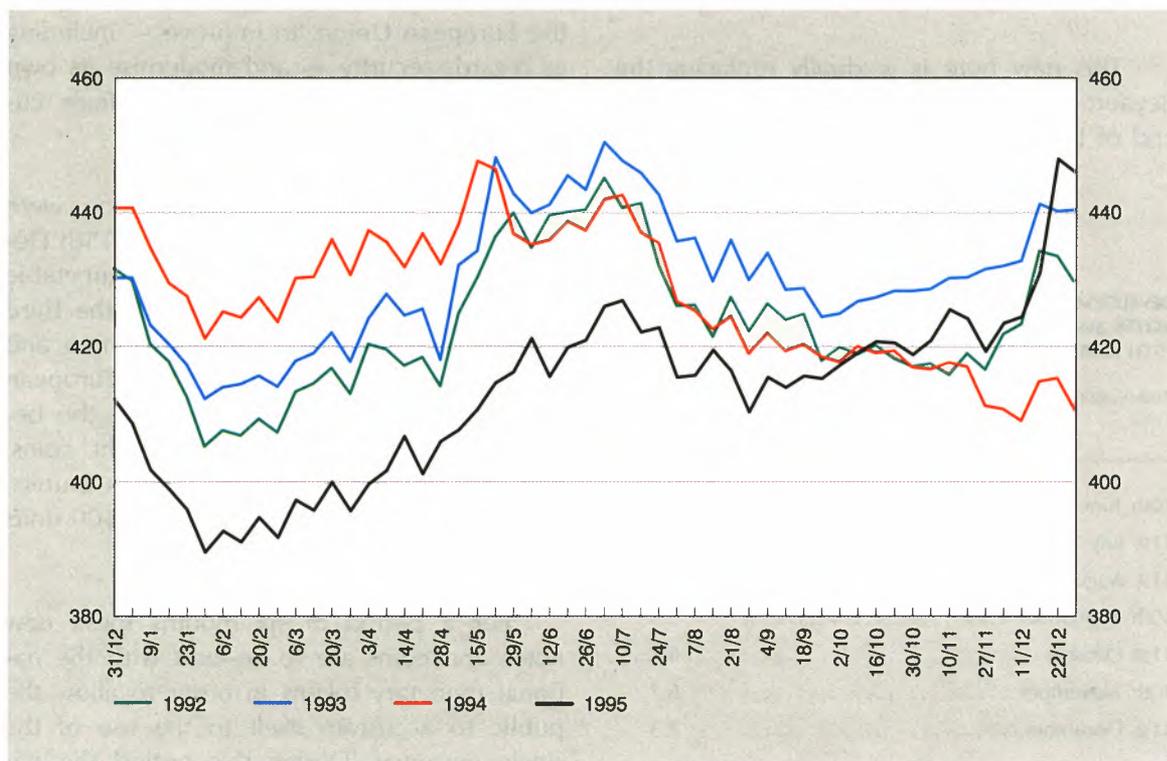
Thus the largest outstanding amount, traditionally found to occur in July, was reached in 1995 in the Christmas period (Fr. 447.9 billion), while the smallest amount was recorded on 1st February (Fr. 387.5 billion). The difference between these two extremes, namely Fr. 60.4 billion, is therefore greater than the maximum spread observed during the previous years (Fr. 43 billion in 1994).

At the end of 1995 the total value of the notes in circulation amounted to Fr. 445.8 billion, or a level slightly above that reached at the end of 1993, prior to the appreciable fall in 1994, which was chiefly due to the withdrawal of the Fr. 5,000 notes. Compared with the year 1994 it increased by 8.2 p.c. The number of notes also rose (+ 2.8 p.c., against + 0.9 p.c. the previous year).

In 1994 the composition of the note and coin circulation had fundamentally changed

CHART 1 — NOTES IN CIRCULATION

(Weekly outstanding amounts, in billions of francs)



NOTES IN CIRCULATION¹

(End-of-year figures)

	Value in billions of francs		Number in millions of notes	
	1994	1995	1994	1995
Fr. 10,000	182.6	206.1	18.3	20.6
Fr. 5,000	6.1	0.8	1.2	0.2
Fr. 2,000	100.4	124.2	50.2	62.1
Fr. 1,000	95.5	86.2	95.5	86.2
Fr. 500	13.1	13.5	26.2	27.0
Fr. 100	14.5	15.0	145.4	150.4
Total	412.2	445.8	336.8	346.5

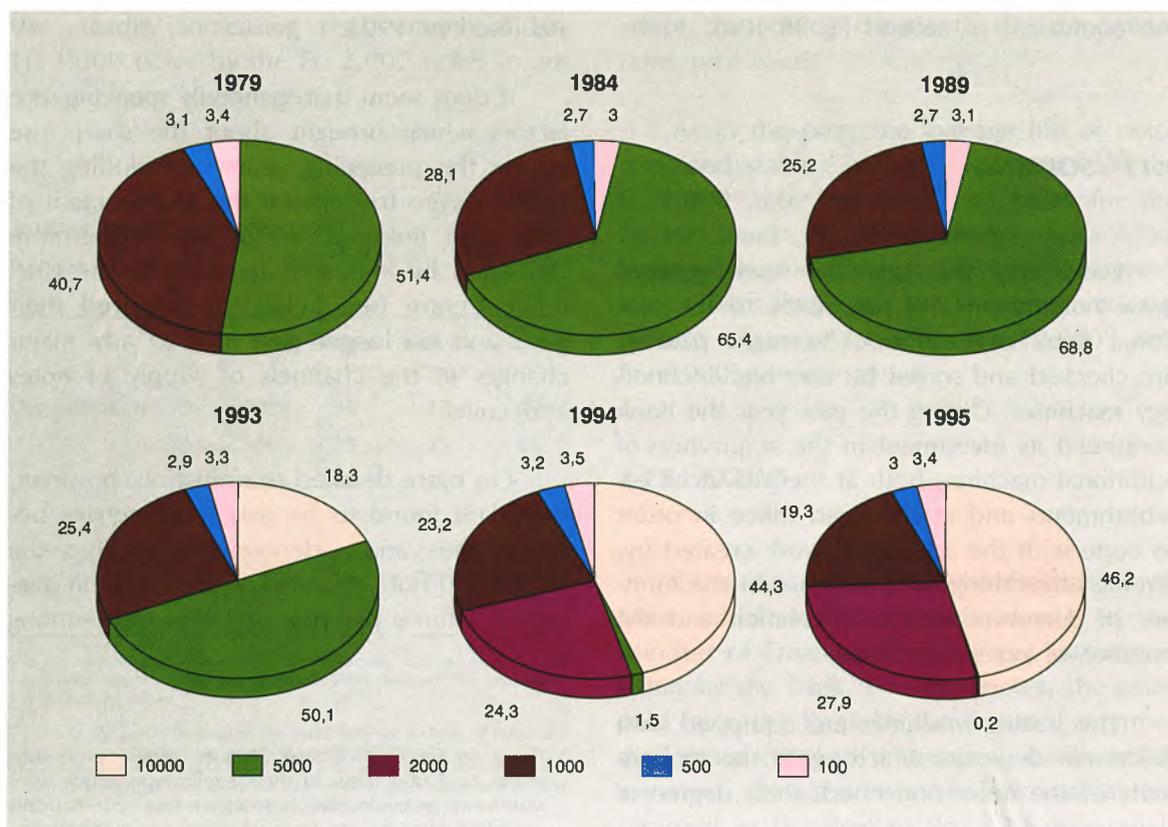
¹ Including the notes in the financial intermediaries' cash holdings.

owing to the issuing of the Fr. 2,000 note and the withdrawal of the Fr. 5,000 note. The changes became somewhat more marked still in 1995 : demand for the Fr. 10,000 and Fr. 2,000 denominations continued to grow, while that for the Fr. 1,000 note declined

further. The share of Fr. 10,000 notes in the note circulation thus increased from 44.3 p.c. to 46.2 p.c. and that of the Fr. 2,000 notes from 24.3 p.c. to 27.9 p.c., whereas the share of the Fr. 1,000 notes declined from 23.2 p.c. to 19.3 p.c.

CHART 2 — COMPOSITION OF THE NOTE CIRCULATION BY DENOMINATION

(End-of-year figures, as percentages of the total amount)



The Fr. 2,000 note benefits from the withdrawal of the Fr. 5,000 notes, but also from a substitution effect for the Fr. 1,000 note. This movement, already appreciable in 1994, became more pronounced this year owing chiefly to the continued adaptation of the automatic note dispensers.

The Fr. 10,000 note, which had been put into circulation on 11th December 1992, accounted for Fr. 206.1 billion at the end of the year. This figure confirms the importance of this denomination, which in three years has reached nearly half the total value of the note circulation. By way of comparison, at the end of 1973, or nearly three years after its issue, the Fr. 5,000 note still represented only a quarter of the total value of the circulation.

It should furthermore be noted that even higher denominations circulate in some of our neighbouring countries, such as Germany (DEM 1,000, or the equivalent of around Fr. 20,600), the Netherlands (NGL 1,000, or the equivalent of around Fr. 18,300), Austria (ATS 5,000, or the equivalent of around Fr. 14,600) and Switzerland (CHF 1,000, or the equivalent of around Fr. 25,500).

1.13 SORTING

Every day the financial intermediaries draw notes from and pay notes to the National Bank of Belgium. The notes paid in are checked and sorted by very high-technology machines. During the past year the Bank continued its investment in the acquisition of additional machines both at the provincial establishments and at the head office in order to cope with the additional work created by, among other things, the increase in the number of denominations in circulation and the number of notes processed.

The sorting machines are equipped with electronic detectors which verify the authenticity of the notes and check their degree of deterioration.

During the year 1995 only about 235 forged notes were recorded. This sharp decrease compared with the two preceding years (8,000 in 1993 and 6,500 in 1994) is primarily attributable to the replacement of the Fr. 5,000 denomination by the Fr. 2,000 and Fr. 10,000 notes, which have enhanced security markings.

Notes which were found to be unsuitable for putting back into circulation and which were therefore destroyed numbered around 110.1 million out of over 1,040 million processed, representing an overall rejection rate of 10.6 p.c.¹ The increase of around 10 p.c. compared with 1994 in the number of notes rejected is due to the rejection of larger quantities of Fr. 100 notes of the Beyaert type.

1.14 RETURN FREQUENCY AND LIFE OF DENOMINATIONS

The frequency of return of notes to the Bank, which had risen continuously for over twenty years, from 1.4 in 1980 to 3 in 1994, stabilised in 1995.

It does seem that, generally speaking, the factors which brought about the sharp rise during the preceding years — including the banks' desire to improve the management of their cash holdings, which was furthermore facilitated by increased recourse to the Currency Centre (see below) — achieved their aims and no longer gave rise to any major changes in the channels of supply of notes and coins.

On more detailed examination, however, there are found to be major differences between the various denominations. Thus the Fr. 10,000 note returned to the Bank on average 2.5 times per year in 1995, representing

¹ These figures do not take account of the processing of the Fr. 5,000 notes of the Gezelle type which were withdrawn from circulation and therefore systematically cancelled after having been checked for authenticity.

RETURN FREQUENCY¹ OF NOTES

	1980	1985	1990	1991	1992	1993	1994	1995
Fr. 10,000	—	—	—	—	—	4.1	3.0	2.5
Fr. 5,000	1.3	1.5	1.9	1.9	2.0	1.7	2.6	—
Fr. 2,000	—	—	—	—	—	—	3.9	4.1
Fr. 1,000	1.8	2.9	4.1	4.5	4.9	5.2	5.1	4.9
Fr. 500	1.3	1.5	1.6	1.8	1.8	1.9	1.9	2.1
Fr. 100	1.1	1.2	1.4	1.5	1.5	1.5	1.6	1.7
All notes ²	1.4	1.9	2.4	2.5	2.7	2.8	3.0	3.0

¹ The return frequency, defined as the quotient of the number of notes received per year by the Bank and the average outstanding amount of notes, is equivalent to the number of times that a note of a given denomination returns on average per year to the Bank.

² Excluding the notes formerly issued by the Treasury (Fr. 20 and Fr. 50 notes).

an appreciably lower rate than that observed in the preceding years (4.1 times in 1993), but similar to that of the Fr. 5,000 note before its withdrawal from circulation.

The return frequency of the Fr. 1,000 note decreased slightly while at the same time that of the Fr. 2,000 note increased to the same extent. This phenomenon reflects the steadily increasing replacement of the Fr. 1,000 notes by the Fr. 2,000 notes in automatic note dispensers.

AVERAGE LIFE BY DENOMINATION¹

(Number in months)

		End-1993	End-1994	End-1995
Denomination : Fr.	100 ²	26	27	27
	Fr. 500	25	25	26
	Fr. 1,000	34	34	34
	Fr. 2,000	—	—	—
	Fr. 5,000	66	70	—
	Fr. 10,000	—	—	—

¹ In the calculation of the average life of a note, it is assumed that the first notes issued are the first destroyed (FIFO method). The average life is defined as follows :

sum of the products obtained by multiplying the number of notes rejected per month by their respective life

sum of all cancellations from the time when a given denomination was put into circulation for the first time

² Beyaert type.

This high return frequency enables the Bank to keep a very strict check on the note circulation by allowing forged and damaged notes to be quickly detected.

However, in order to prevent this high velocity of circulation from leading to an excessive increase in the number of rejected notes, the Bank has constantly taken care to adapt the sorting criteria to the denominations processed.

As in the past, the average life of notes remained stable : around three years for the Fr. 1,000 note and over two years for the Fr. 100 and Fr. 500 denominations. The higher denominations, for their part, have a longer life ; there are still, however, no significant figures for the Fr. 10,000 and Fr. 2,000 denominations.

1.15 COINS

Coins are minted by the Belgian Royal Mint, which is directly subordinate to the Minister of Finance. They are put into circulation by the Bank. Like banknotes, the coins paid in to the Bank by the financial intermediaries are checked and sorted. Coins which are worn or withdrawn from circulation are returned to the Belgian Royal Mint.

The value of the coins which can be issued is subject to a ceiling which is at present fixed at Fr. 22 billion and can be raised to Fr. 23 billion by royal decree.

Unlike the notes issued by the National Bank, most coins are legal tender to only a limited extent in transactions between individuals: Fr. 1,000 for Fr. 50 and Fr. 20 coins, Fr. 200 for Fr. 5 coins, Fr. 100 for Fr. 1 coins and Fr. 20 for Fr. 0.50 coins.

At the end of 1995 the number of coins in circulation was over 3 billion, representing an amount of Fr. 20.1 billion, up by 4.7 p.c. compared with 1994.

During the year 1995 the Belgian Royal Mint coined a Fr. 250 coin in commemoration of the tragic death of Queen Astrid. This coin was issued in February.

1.2 ACTIVITIES OF THE BANK AS THE BANK OF THE CREDIT INSTITUTIONS

1.21 PROVISION OF NOTES AND COINS

The drawings and payments of notes and coins which the financial intermediaries make at the Bank take place either within the framework of the classical system or under the Currency Centre system.

a) Classical withdrawal and payment system

Transactions in notes are made in the form of packets of 500 notes, or in bundles of 100 notes for the Fr. 10,000 notes, and by complete bags with a standardised content for coins. All these operations are free of charge. On request and in order to speed up the operations, withdrawals of notes may also be made in cassettes of 12,000 notes. The Bank also provides, subject to a charge, coins packed in cartridge form.

b) Currency Centre

Credit institutions can also resort to the Currency Centre system. In this case there is a scale of charges for transactions.

The purpose of this system is to organise cash transfers directly between the local agencies of the participating credit institutions and an establishment of the National Bank of Belgium, in order to avoid transportation of cash by their regional branches. The system's advantages lie in a « tailor-made » supply of cash to local bank branches and a better-organised transportation of funds.

This service is at present provided at all the Bank's establishments except the representation offices.

c) Development of drawings and payments in the two systems

During the year 1995 the number of notes paid in by credit institutions remained practically the same as in 1994.

CHART 3 — NUMBER OF PACKETS OF NOTES PROCESSED IN THE CURRENCY CENTRES

(Thousands)

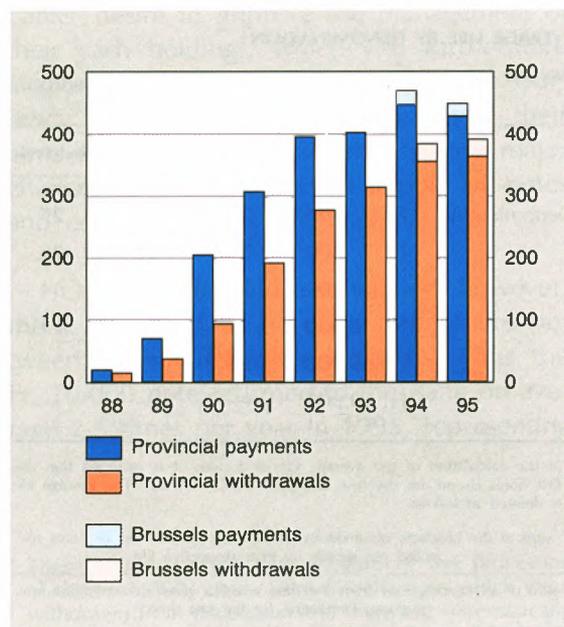
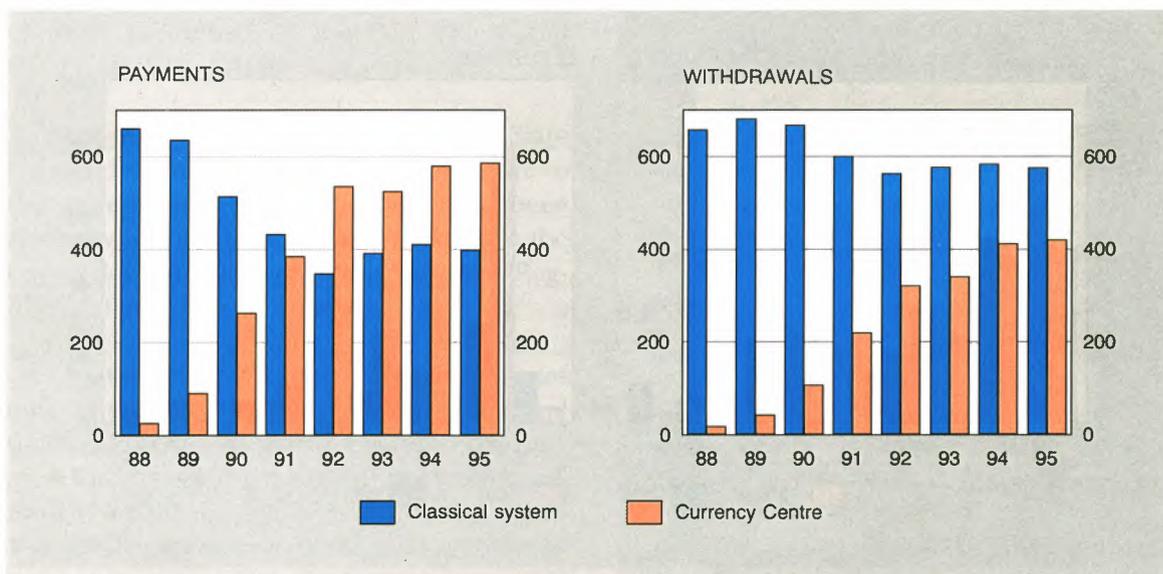


CHART 4 — PAYMENTS AND WITHDRAWALS OF NOTES (PROVINCES + BRUSSELS) MADE AT THE CURRENCY CENTRES AND BY THE CLASSICAL SYSTEM

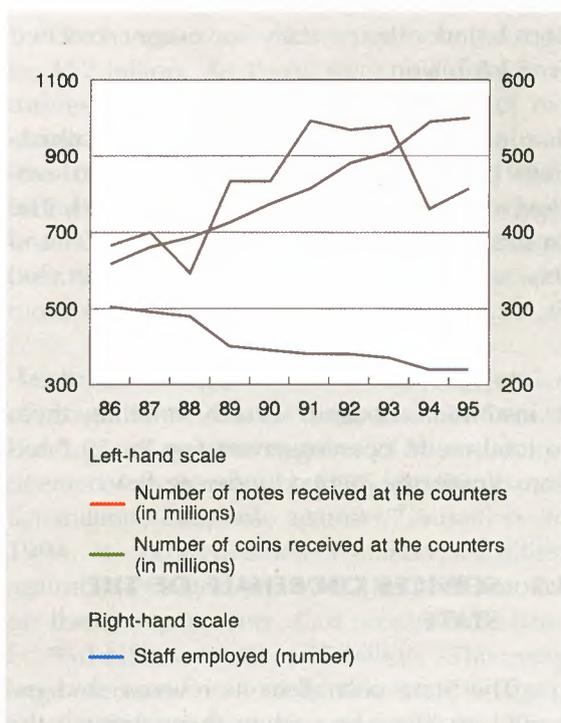
(Millions of notes)



Withdrawals in terms of the number of notes also stabilised at the 1994 level, both

in the classical system and at the Currency Centre.

CHART 5 — ACTIVITIES AT THE BANK'S COUNTERS



As during the previous years, drawings and payments of notes at the provincial establishments were made chiefly via the Currency Centre, whereas they were still mainly made by means of the classical system at the counters of the head office. Thus, out of the 838,000 packets — payments and drawings combined — processed at the Currency Centre, 94 p.c. were dealt with at the provincial establishments and only 6 p.c. at the Central Cash Office in Brussels.

1.22 BOND CENTRES

This service gives the financial intermediaries' branches the possibility of presenting to the Bank securities and coupons which are redeemable or payable, within 40 days preceding their maturity dates, without having to sort them by loan in advance.

After an exceptional increase in 1994 due to the large volume of redemptions of government bonds, the activity of the Bond

CHART 6 — SECURITIES REDEEMED AND COUPONS PAID VIA THE BOND CENTRES (PROVINCES + BRUSSELS)

(Billions of francs)



Centres returned in 1995 to a level comparable to that of the previous years.

1.23 LENDING TO THE FINANCIAL INTERMEDIARIES

The Credit Department underwent far-reaching structural changes in 1995. Since the reform of the money market in 1991 this department had consisted of two services, namely the Money Market Service and the Discount-Advances Service. In June 1995 the direct mobilisation of commercial bills was transferred to the RGI, so that this Institute is henceforth responsible itself for its monitoring compliance with the mobilisability conditions for commercial bills. On 1st July 1995 the certification procedure for commercial bills in respect of medium- and long-term export transactions was completely abolished. The remaining activities of the Discount-Advances Service were subsequently transferred to the Money Market Service. On 1st November 1995 the Credit, Foreign and Public Securities Departments were abolished and replaced by the new Financial Markets Department. The Money Market and Foreign Exchange Services were then merged and transformed into a Front Office Service and

a Back Office Service within the new department, which also includes the Government Cashier's and Security Account Services.

The amount of the fine-tuning operations carried out by the Bank on the money market in 1995 totalled Fr. 8,814 billion. Repos accounted for the greater part of the transactions and their daily average reached Fr. 33.8 billion.

In 1995 the Bank organised 53 allocations of credit by tender, in which, on average, nine credit institutions participated. The credits applied for averaged Fr. 52 billion and the amounts granted by the Bank totalled Fr. 14.6 billion.

In order to obtain overnight credits, credit institutions lodged security entitling them to total credit openings averaging Fr. 79.7 billion during the period under review.

1.3 SERVICES ON BEHALF OF THE STATE

The State centralises its revenue and expenditure items by passing them through the

current account which it holds with the Bank. This is the account in which the transactions carried out by the Bank on behalf of the State are recorded and to which the balance of those performed by the Post Office and the Postal Giro system is transferred.

The Bank performs this function of State Cashier free of charge as the counterpart to the note-issuing privilege which has been conferred on it. The Bank also looks after the day-to-day management of the Securities Regulation Fund free of charge.

As the State Cashier, the Bank carries out, among other functions, the issuing and redemption of government loans and the payment of interest on them. In 1995 the Bank assisted in the issuing of two classical loans. The first issue comprised, together with a traditional loan on which the interest is payable annually, a loan with capitalised interest. The second issue was a loan with a minimum guaranteed interest rate which is revisable upwards after three and six years. The total amount of these loans was Fr. 492 billion.

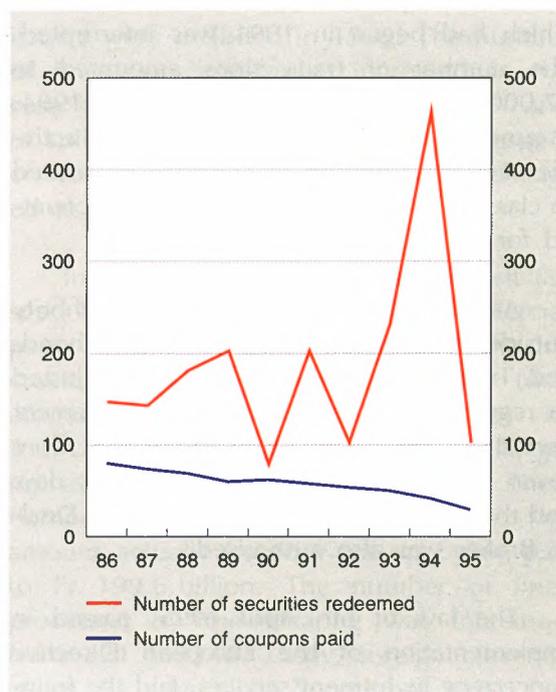
Allocations of Treasury certificates and linear bonds brought in Fr. 5,868 billion and Fr. 603 billion respectively.

Exchanges of loans amounted to Fr. 152 billion. As there were few final maturities of classical bonds, the volume of exchanges of these for linear bonds was small (Fr. 46 billion against Fr. 253 billion in 1994). Exchange operations therefore consisted chiefly of the conversion of linear bonds close to their final maturities into linear bonds with more distant maturity dates.

In connection with the financial service of government loans, both the number of bonds paid and the number of securities redeemed fell sharply. In 1995 the Bank paid 5.1 million coupons against 7.5 million in 1994. It also redeemed 1 million securities, against 4.4 million in 1994. The total amount of these repayments thus contracted from Fr. 950 billion to Fr. 177 billion. This very large decrease is mainly due to the sharp drop in premature redemptions (Fr. 96 billion

CHART 7 — FINANCIAL SERVICE OF THE PUBLIC DEBT IN BELGIAN FRANCS

(Index 1980 = 100)



against Fr. 700 billion the previous year), which applied in 1995 to only one loan.

1.31 FUNCTIONS OF THE SECURITIES REGULATION FUND

The Securities Regulation Fund guarantees the liquidity of public loans when the daily stock exchange fixing takes place. Since the 1991 reform this function has been carried out primarily for the benefit of private investors. In mid-January 1995 the Securities Regulation Fund began to quote linear bonds in order to make them more accessible to the general public. Royal decrees furthermore authorised the Fund to issue quotations for the loans of the communities and regions, on the one hand, and of the Amortisation Fund for Social Housing Loans, a body governed by public law, on the other. After the conclusion of the prescribed agreement with the Walloon region and the Amortisation Fund, the quotation of the securities of these two issuers was started.

The turnover on the fixing market increased during the year under review, reaching Fr. 20.6 billion, against Fr. 16 billion the previous year. Thus the downward trend which had begun in 1991 was interrupted. The number of transactions amounted to 47,000, against about 41,000 in 1994. Around 90 p.c. of both the volume of activities and the number of transactions related to classical loans; the remainder was accounted for by linear loans.

As part of its function as the authority outside the stock exchange for linear bonds and Treasury certificates, the Fund adjusted its regulation in two respects: the settlement period for public bonds was reduced from seven calendar days to three working days and the intervention of an Inter Primary Dealer Broker was also authorised.

The law of 6th April 1995, passed in implementation of the European Directive concerning investment services, laid the foundations for an adaptation of the Securities Regulation Fund's function as the market authority. It will perform a first-line supervisory function, while the Banking and Financial Commission will exercise a second-line supervision over the market authorities. The first-line supervision will include a number of new tasks in addition to the existing ones. These, more specifically, will be tasks concerning the reporting of transactions by financial intermediaries, the transparency of the market, the monitoring of compliance with the rules on insider dealing offences and observance of ethical obligations by intermediaries. The scope of the organised market outside the stock exchange will be extended to split securities. Foreign intermediaries which, by virtue of their so-called « European passport », will have access, from 1st January 1996 onwards, to the Belgian market outside the stock exchange for linear bonds, split securities and Treasury certificates, will also be subject to the Fund's supervision.

In connection with the supervision exercised over the approved bodies for the hold-

ing of accounts in respect of dematerialised securities of the general government debt, co-operation with the prudential authorities was stepped up.

1.32 SPECIFIC FUNCTIONS PERFORMED IN CONNECTION WITH FOREIGN POLICY

The Bank provides technical assistance to the State in two fields of our country's general foreign policy.

The first concerns co-operation in connection with development. As an agent of the Belgian State, the Bank assists in the implementation of bilateral agreements whereby Belgium makes funds available to developing countries. The Bank opens the accounts necessary for this purpose and ensures that, when each payment is made, all the conditions provided for in the agreement in question and the terms for its implementing are fulfilled. It gives technical advice both to the foreign beneficiaries and to the Belgian public departments, credit institutions and enterprises concerned. At the end of 1995 twenty countries were receiving aid under these agreements.

The other field in which the Bank assists the State in connection with foreign policy concerns the financial sanctions decided upon by the Belgian authorities in relation to certain States in accordance with the resolutions adopted by the Security Council of the United Nations. Thus, the financial sanctions imposed on Iraq in 1991 and on Libya in 1994 were still in force during the year under review. The sanctions against Haiti were lifted on 24th December 1994. The sanctions imposed on Serbia and Montenegro were suspended recently. The Bank acts as adviser for the implementation of such sanctions. Among other functions, it submits an opinion to the Ministry of Finance concerning all requests for the making of payments to these countries.

2. SERVICES TO THIRD PARTIES

2.1 CLEARING

The clearing system is a system operated by the Bank whereby transactions can be settled on the primary and secondary markets for securities. In particular, it enables all transactions relating to dematerialised securities to be carried out with absolute safety.

Its operation is based on the principle of double notification : each of the participants to a transaction reports its characteristics, in a standardised form, to the system, which checks that they are in order before carrying out the settlement. The system gives the parties the assurance that the movements of securities and of cash will be simultaneous (delivery versus payment). It also enables the participant to meet its delivery obligations by resorting to an automatic mechanism for borrowing securities from holders who have no immediate need for them. This mechanism functions with the lodging of a guarantee and on the pool principle, so that the loans are fairly distributed on an annual basis among the various potential lenders.

The role of the clearing system has expanded considerably since it was established in 1991. Its scope has gradually widened. Connections have been established with the Cedel and Euroclear international clearing systems. And in 1994 the Bank was approved as the operator of an X/N system, whereby a distinction was made between accounts exempt from the withholding tax (X accounts) and those which are not exempt (N accounts).

In 1995 the overall volume of activity in the clearing system grew further.

The range of securities eligible for clearing was further widened. Three classical government loans and three bond loans of other

issuers were included in 1995. The number of lines¹ processed also increased in the case of linear bonds (from 20 to 23) and of split linear bonds (14 to 21). In respect of Treasury certificates it remained unchanged at 26 lines.

In the case of certificates of deposit (issued by credit institutions) and commercial paper (issued by other borrowers), the increase is particularly marked. The total amount of issuing programmes as at 31st December 1995 was Fr. 549.7 billion, representing an increase of 81 p.c. Their number rose by 63 p.c. from 41 to 67. The amount actually issued went up by 66 p.c. to Fr. 199.6 billion. The number of lines processed by the clearing was increased from 221 to 348. Lastly, foreign currency issues, included since September 1994, began to expand. Seven issues in German marks, eight in guilders, four in French francs and ten in US dollars were accepted in the clearing system in 1995.

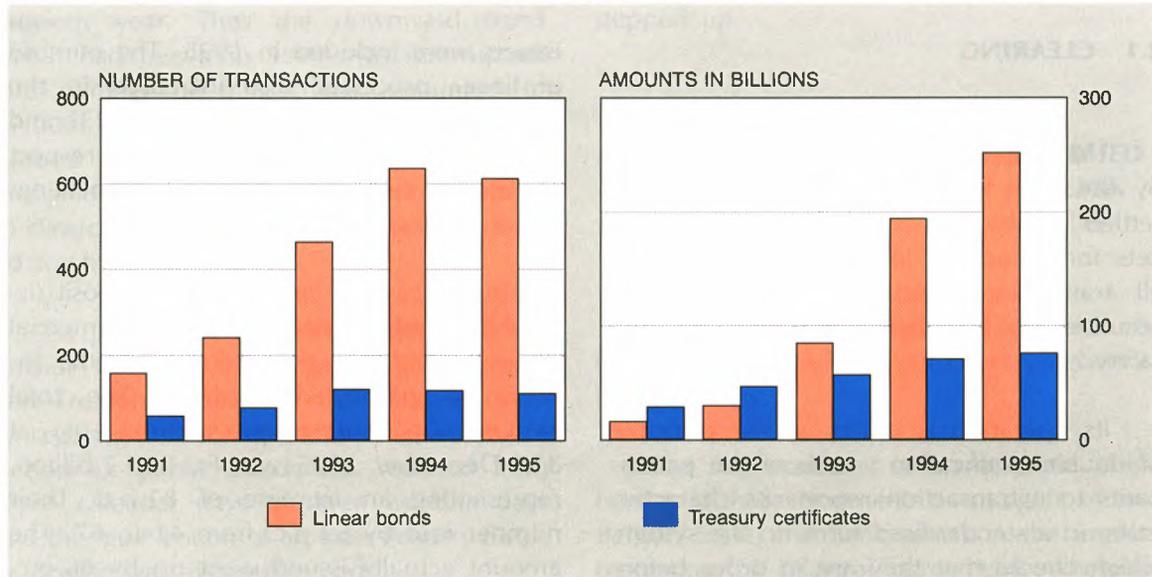
As at 31st December 1995 the nominal value of securities entered in accounts reached a total of Fr. 7,485 billion, against Fr. 6,530 billion at the end of 1994. It is made up chiefly of linear bonds (Fr. 4,823 billion) and Treasury certificates (Fr. 1,541 billion).

As at 31st December 1995 the system comprised 209 members, representing a rise of about 15 p.c. compared with the end of 1994. This increase is mainly due to the inclusion of stock exchange companies, as a result of the listing of linear bonds on the fixing market of the Brussels Stock Exchange and the settlement via the clearing system of stock exchange transactions relating to classical bonds accepted in the X/N system.

¹ « Line » means all the securities of the same category from the same issuer and with the same maturity date and interest rate.

CHART 8 — SECONDARY MARKET TRANSACTIONS SETTLED BY THE CLEARING SYSTEM¹

(Daily averages)



¹ Purchases, sales, repurchase agreements — except for those carried out by the National Bank as part of its monetary policy — and free transfers.

With regard to daily transactions, the expansion in activities was less marked than in the previous year. That applied, in particular, to repurchase agreements concluded between financial institutions, the outstanding amount of which rose from Fr. 1,263 billion at the end of the previous year to Fr. 1,836 billion at the end of 1995, an increase of 45 p.c.

Daily dealings increased on average by 30 p.c. in the case of linear bonds and to a smaller extent (7 p.c.) in the case of Treasury certificates. The number of transactions in these securities, however, remained more or less stable.

For the year under review as a whole, the system recorded 621,281 notifications, for all transactions combined, representing a rise of 8 p.c. compared with 1994.

On the administrative plane this growth was handled without difficulty thanks, on the one hand, to higher-performance computer programs for clearing and, on the other hand, to the establishment of a computer link with the Brussels Stock Exchange. This

link permits automated transfer of the transactions carried out in linear bonds or classical loans issued by the State since 1994 (the « Philippe » loans), which have to be settled via the Bank's clearing system.

Several operational improvements were also made for the participants in order to increase both their own security and the general efficiency of the system.

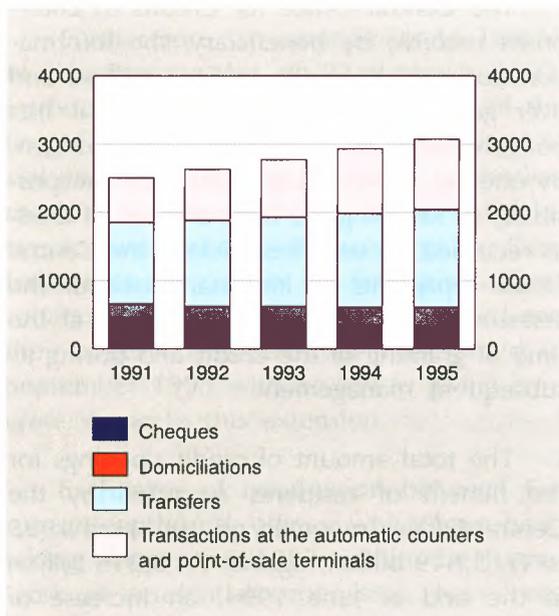
2.2 INTERBANK PAYMENT SYSTEMS

Transactions in Belgian francs to be cleared — cheques, transfers, domiciliations and other payment instruments — are at present exchanged between credit institutions either within the Clearing House or via the Clearing Transaction Exchange Centre of the Belgian Financial System (CTEC).

In the Clearing House the payments are presented in the form of documents, whereas in the CTEC their processing is automated.

CHART 9 — BREAKDOWN, BY CATEGORY, OF THE MAIN TRANSACTIONS PROCESSED IN THE CTEC

(Daily averages, in thousands)



About 98 p.c. of the total number of transactions cleared were processed automatically via the CTEC. A daily average of 3.3 million transactions passed through this system, representing an increase of 6 p.c. compared with 1994. This growth rate is similar to that recorded the previous year. A breakdown of the transactions by category reveals the following trends :

- a sharp increase in transactions at the point-of-sale terminals (+ 13 p.c.)
- a further decline in the number of cheques (– 9 p.c.)
- a rise of about 6 p.c. in the number of transfers and domiciliations.

The total amount cleared increased by about 9 p.c. in 1995, to a daily average of Fr. 107 billion. Although the CTEC accounts for 98 p.c. of the number of transactions, it processes only 7 p.c. of the total amounts cleared.

The manual circuit of the Clearing House in fact still processes the majority of large payments. The number of manual ex-

changes is decreasing year by year : in 1995 a decline of 5 p.c. was recorded in Brussels, bringing the daily average down to 36,900 payment documents ; at the other establishments the decrease was 16 p.c. and the annual average fell to 14,700. The amount cleared stabilised at about Fr. 1,340 billion per day.

As already announced in the previous report, the processing of transactions for

CHART 10 — TRANSACTIONS CLEARED

(Number in millions)

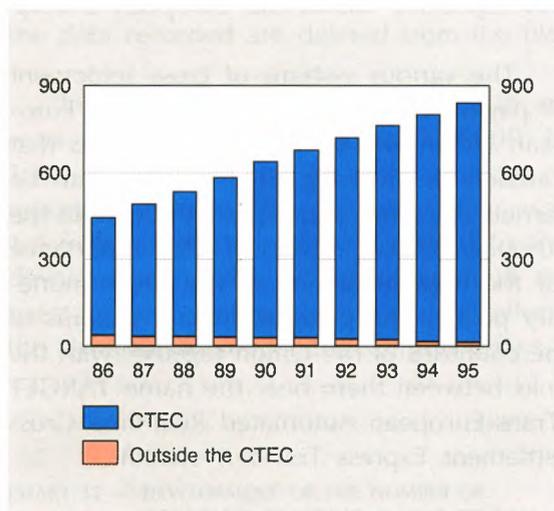
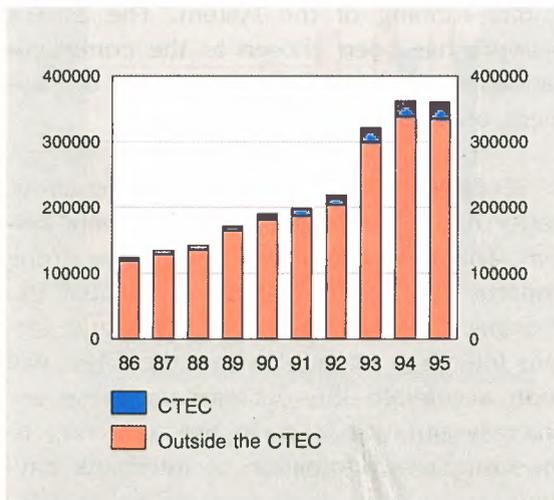


CHART 11 — TRANSACTIONS CLEARED

(Amounts in billions)



large amounts will soon be greatly changed. For this purpose a new association called ELLIPS (Electronic Large-value Interbank Payment System) was founded on 8th December.

ELLIPS will be operational in 1996. This new system will process all transactions involving amounts in excess of Fr. 50 million. Every transaction will be the subject of immediate and final settlement in the books of the National Bank. This application of the principle of gross settlement of large transactions will make it possible to limit the risks inherent in the payment system. Similar initiatives have been taken in other countries and especially within the European Union.

The various systems of gross settlement of payments in the countries of the European Union will be interconnected, so that transactions involving large amounts can be carried out safely and rapidly throughout the European Union. This is of vital importance for the implementation of the single monetary policy. The gross settlement systems of the countries of the Union together with the links between them bear the name TARGET (Trans-European Automated Real-time Gross settlement Express Transfer) system.

On the institutional plane, ELLIPS is comparable to the CTEC. It is a non-profit-making body run by the representatives of the participating banks. The Bank will chair the decision-making bodies and will be responsible for the operational use and day-to-day running of the system. The SWIFT network has been chosen as the communication channel for the transmission of payment orders.

ELLIPS will not only help to bring about better risk management in the payment system. This new system will also give a strong impetus to the dismantling of manual exchanges. The starting-up of ELLIPS and various initiatives adopted within the CTEC will soon accelerate the decrease in these exchanges and will lead, in the long run, to the complete automation of interbank payments.

2.3 CENTRAL OFFICE FOR CREDITS TO ENTERPRISES

The Central Office for Credits to Enterprises records, by beneficiary, the information concerning credits of Fr. 1 million and over granted by credit institutions; it lists both the amounts granted and those drawn. By offering participating institutions the possibility of knowing the total amount of credits recorded for each beneficiary, the Central Office represents an important tool for the assessment of their credit risks, both at the time of granting of the credit and during its subsequent management.

The total amount of credit openings for the benefit of residents recorded by the Central Office amounted on 30th June 1995 to Fr. 5,649 billion, against Fr. 5,315 billion at the end of June 1994, an increase of 6.3 p.c.

On 30th June 1995 the credits granted to non-residents recorded by the Central Office represented, after translation into Belgian francs of the credits granted in foreign currencies, a total of Fr. 2,543 billion, a reduction of 2.1 p.c. compared with the situation at the end of June 1994. This movement was influenced by, among other things, the fall in the exchange rate for the US dollar of 15.9 p.c. recorded between June 1994 and June 1995. Credits granted to beneficiaries established in the European Union represented 57 p.c. of the total of credits, against 37 p.c. ten years earlier.

The new procedures for reporting to the Central Office, the principles of which were defined by the royal decree of 12th December 1994 concerning the centralisation of information about credit risks, were implemented with effect from 1st November 1995. The new data-processing application is characterised by, in particular, a high degree of automation of processing operations, adaptation of the nomenclature of the credits and the rules for recording them — with a view to greater consistency with the provisions of the new presentation for the pe-

riodical information to be reported by credit institutions (presentation A) — and by the recording of credits in the currency in which they were granted or drawn.

Furthermore, an amendment to Title VI of the Banking Act of 22nd March 1993, introduced by Articles 178 and 179 of the law of 21st December 1994 containing social and miscellaneous provisions, authorises the King to include certain categories of insurance enterprises in the scope of the Central Office for Credits to Enterprises. Consultation between the sectors concerned and their supervisory authorities was started in September 1995 with a view to giving concrete shape to this extension.

Exchanges of information between European central risk offices, which have been taking place since 1993 within the framework of prudential supervision, have enabled the authorities concerned to gain access to the data recorded in the central offices of the partner countries and thus to improve their knowledge of the credit risks borne by the institutions which they supervise.

The working party consisting of representatives of the European central credit offices will, from 1996 onwards, examine the legal and practical adaptations which need to be made in order to bring about redistribution of the individual information items to the participating credit institutions.

2.4 CENTRAL OFFICE FOR CREDITS TO INDIVIDUALS

The purpose of the Central Office for Credits to Individuals is to restrain any excessive growth in the indebtedness of individuals by providing the participating institutions with information about repayment difficulties relating to consumer credit (instalment sales, instalment loans, hire-purchase transactions, credit openings) and mortgage loans.

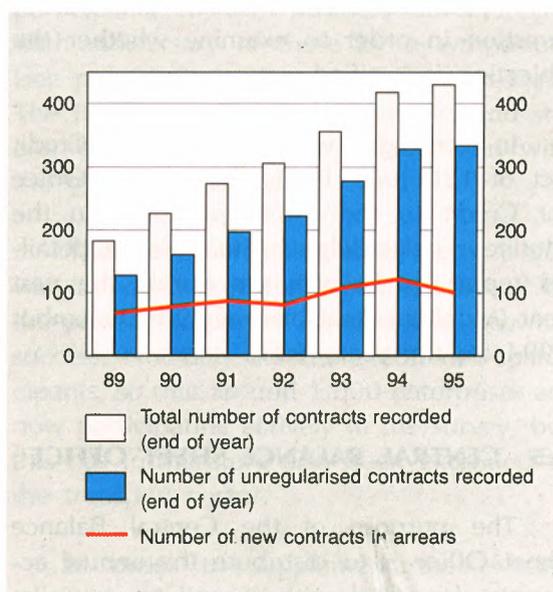
At the end of 1995, the Central Office's file contained about 430,000 contracts and about 352,000 persons, against 417,000 and 345,000 respectively at the end of 1994.

At the end of 1995, 97,000 contracts (or about 22 p.c. of the total of contracts recorded) had been regularised, i.e. the arrears (contracts not made enforceable) or the enforceable amount (contracts made enforceable) had been completely paid off. On the expiry of the storage period laid down by the regulations (one year after repayment of the arrears for contracts not made enforceable and two years after the extinction of the debt for contracts made enforceable), all the data recorded are deleted from the file.

In 1995, 101,000 new contracts in arrears were recorded, against 122,000 in 1994. During the past year the number of reports made to the Central Office was 1.4 million; 90 p.c. of these related to the development of the debtor situation in respect of recorded contracts, which reflects the dynamic nature of the Central Office.

CHART 12 — DEVELOPMENT OF THE NUMBER OF CONTRACTS RECORDED BY THE CENTRAL OFFICE FOR CREDITS TO INDIVIDUALS

(Thousands)



Before the conclusion or amendment of a credit contract which falls within the scope of the Consumer Credit Act, providers of credit are legally obliged to consult the Central Office. The average number of consultations per working day increased during the year under review to 11,800 (against 11,200 in 1994). Practically all these consultations (about 99 p.c.) are made on-line; the Central Office's file is accessible for consultation via the telecommunication network from 8 a.m. to 8 p.m. on working days and from 9 a.m. to 5 p.m. on Saturdays and bank holidays.

In accordance with the provisions of the Consumer Credit Act (law of 12th June 1991) and of the law concerning the protection of private life in connection with the processing of data of a personal nature (law of 8th December 1992), the Bank informs the consumer of any data which may be recorded in his name. The consumer is thus automatically notified when he is recorded for the first time in the Central Office's file. During the year under review about 330 letters per day were sent out in this context. It has also been found that more and more consumers are taking advantage of their right of access. In 1995, an average of 130 applications per day were processed (against 110 in 1994). If he disputes the data recorded in his name, the consumer may appeal to the services of the Central Office, which will contact the credit provider in question in order to examine whether the objection is justified.

In accordance with the Consumer Credit Act of 12th June 1991, the Central Office for Credit to Individuals publishes in the *Moniteur belge/Belgisch Staatsblad* a detailed report on its activities during the past year (*Moniteur/Staatsblad* of 29th December 1994 for the year 1993).

2.5 CENTRAL BALANCE SHEET OFFICE

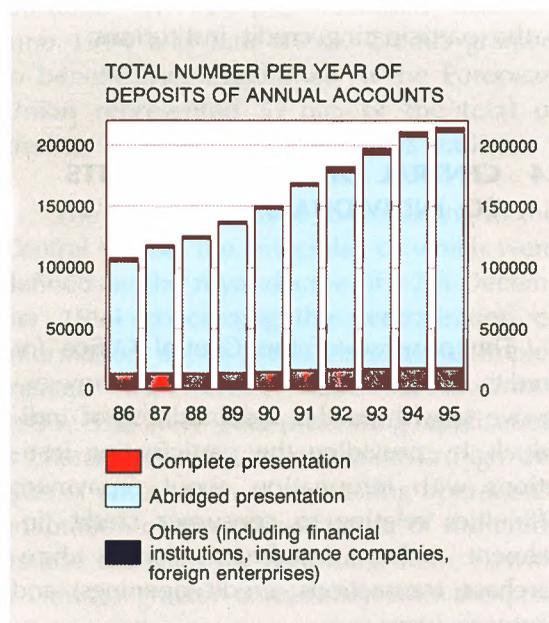
The purpose of the Central Balance Sheet Office is to distribute the annual accounts deposited with it and to compile,

from these accounts, sectoral statistics concerning the assets and liabilities and also the costs and profits of the enterprises concerned.

In 1995 the number of annual accounts deposited increased by 1.1 p.c. compared with 1994, to about 213,500 units. The growth in the number of deposits has tended to slow down since the beginning of the 1990s owing to the steady decline in the number of formations of enterprises, parallel with a gradual increase in the number of enterprises declared bankrupt.

Out of the total number of annual accounts drawn up in accordance with the standard abridged or complete presentation — which represent 98 p.c. of the total of the annual accounts deposited — 58.7 p.c. were deposited on diskettes in 1995. Recourse to depositing by data-processing, which has been possible since 1st April 1993, has been preferred particularly by SMEs, 61.4 p.c. of whose accounts were sent in on diskette in 1995, against only 30.3 p.c. for large enterprises.

CHART 13 — ANNUAL ACCOUNTS RECEIVED BY THE CENTRAL BALANCE SHEET OFFICE AND BROKEN DOWN BY TYPE OF PRESENTATION



The Central Balance Sheet Office distributes the annual accounts by means of microfilms, photocopies, magnetic media (tapes or cassettes) and compact discs (CD-ROM).

The CD-ROM « Annual accounts of Belgian enterprises » has for several years occupied an important and noteworthy position with customers, who thus possess a practical and user-friendly database. Every edition of the CD-ROM is provided together with software for searching for and outputting data, which has been usable since 1994 in both the DOS environment and the WINDOWS environment. This software offers possibilities of selection of groups of enterprises on the basis of 42 criteria which can be combined with each other and which relate both to descriptive information and to accounting or financial data.

With the aid of its CD-ROM, the Central Risk Office developed and marketed in May 1995 a new service — the enterprise file — designed for all enterprises which deposit a standardised presentation. This file contains a summary, over several years, of accounting data — especially the most significant ratios — on the enterprise compared with the corresponding information items for its sector of activity. The aim pursued is to enable the enterprise to make a better assessment of its financial situation in comparison with that of its activity group. This document is mainly designed for SMEs, which can thus take advantage of the processing operations and calculations carried out on the basis of the annual accounts which they have to deposit at the Bank.

This CD-ROM is also used by the Central Balance Sheet Office as the medium for the publication of its sectoral statistics. The overall sectoral data, the statistics concerning ratios and the tables of resources and uses are distributed by means of the compact disc, thus enabling anyone interested in certain sectors to request a print-out of statistics at any of the Bank's establishments. Statistical series compiled for various major sectoral groups are also contained in the Bank's

Statistical Review, and furthermore form the basis of a study on the development of the profit and loss accounts of companies during the past year which is published in the Economic Review.

2.6 STATISTICS

2.61 SOCIO-ECONOMIC DATABANK BELGOSTAT

Since 1990 Belgostat has enabled users to obtain on-line access to statistical data concerning various fields, such as national accounts from the three usual approaches, turnover and production by economic sector, the labour market, the money and capital markets, public finance, the business surveys, prices or the balance of payments.

Its scope has not been changed. On the other hand, as in the two preceding years, the number of participants outside the Bank increased by over ten, namely from 64 to 76.

2.62 BUSINESS SURVEYS

In 1995 the Bank celebrated, with the participants in the business surveys, the 40th anniversary of these by a symposium (see point 2.8, Study and Information Day). The Bank's surveys were originally, and still are, conducted in close collaboration with the trade federations.

The survey in the services sector which was launched during the period covered by the previous report is meeting with growing success. Not only are there 200 new participants, so that around 1,000 enterprises are now participating actively in the survey, but this has furthermore also been extended to the transport sector.

In order to supplement the existing macroeconomic statistics, which are, howev-

er, still considerably delayed in certain fields, two specific surveys have been conducted. The results of the first of these surveys, carried out in co-operation with the Federation of Belgian Enterprises, have been used by the Bank in connection with the compilation of the national accounts on behalf of the National Accounts Institute. The second survey, organised for the Research Department, makes it possible to refine the economic analyses concerning 1995.

2.63 NATIONAL ACCOUNTS

As described in the French and Dutch versions of last year's report, the Bank has been entrusted with the compilation of the national accounts for the National Accounts Institute (NAI), created by the law of 21st December 1994. The 1994 accounts were the first to be compiled by the Bank. The national accounts aggregates have been published from June 1995 onwards. The sectoral accounts were completed just before the end of the period in question. The NAI and the Bank are also doing everything in their power to make up for the delay with regard to regional accounts. A first tangible result is the publication, at the beginning of 1996, of the regional breakdown of value added for the period 1989-1993.

2.64 FOREIGN TRADE

On 1st January 1995 a new service was created within the General Statistics Department. This is responsible for the compilation of statistics concerning the foreign trade of the Belgian-Luxembourg Economic Union (BLEU), on behalf of the NAI. This task was previously entrusted to the National Statistical Institute, which remained fully responsible for the compilation of these statistics up to and including for the month of December 1994.

The establishment and systematic development of the statistical collection, processing and production apparatus and the training of the new staff took eight months. An

extensive information campaign was conducted among more than 28,000 declarants and the many users of these statistics.

In mid-September 1995 a start was made on the distribution of the first results for 1995, namely those for January. In accordance with the planned timetable, the results for the subsequent five months were published at a more rapid pace, so that the data for June 1995 and the first quarterly bulletin were sent out to the users before the end of December. Consequently the publication delay, which, according to a European directive, must not be more than ten weeks, has already been reduced by half. The situation should be completely normalised by September 1996.

2.65 BALANCE OF PAYMENTS

On 1st January 1995 the new statistical regulations of the BLEI concerning the collection of payment data for the compilation of the balance of payments of Belgium and the Grand-Duchy of Luxembourg came into force.

Whereas, at the end of 1994, detailed information concerning the new regulations had been provided to the credit institutions, the first months of 1995 were devoted to the distribution of a great deal of information to enterprises. This was done by means of information sessions in Brussels and the provinces and by meetings with the main companies.

During the year under review, in addition to the efforts to ensure that the reports would be complete, a great deal of energy was also devoted to improving the quality of the data received, by means of a whole series of checks.

Lastly, the Bank began to compile all the legal texts, regulations and information documents in order to produce a clear and user-friendly instrument both for credit institutions and for enterprises.

2.7 OTHER PUBLICATIONS

The Bank publishes an abridged balance sheet, better known as the weekly statement, every week.

In the course of 1995 three articles on the modernisation of the Bank's statistical apparatus were published in the « Bulletin de la Banque Nationale »; they related, specifically, to the statistics on the public finances (March), on financial assets and the capital market (July-August) and the money market (October).

The aforementioned Monthly Bulletin appeared for the last time in December 1995 and has been replaced by two new reviews.

The first is the « Economic Review of the National Bank », the first number of which appeared in May 1995. This « Economic Review » is to be published in principle three times a year, namely in May, August and November. Through this publication the Bank proposes to provide information on major economic, financial and monetary developments. It will regularly publish in it articles on macroeconomic developments and the financial markets, on transactions with foreign countries and on the situation of enterprises. More specific analyses may also be included. The three articles published in succession in 1995 were entitled : « Résultats de l'enquête ad hoc sur le marché du travail en Belgique » (« Results of the ad hoc survey on the labour market in Belgium »), « L'économie belge en 1995 » (« The Belgian economy in 1995 ») and « Evolution récente des comptes de résultats des sociétés en comptabilité d'entreprise et en comptabilité nationale » (« Recent development of the profit and loss accounts of companies in terms of business accounting and the national accounts »). In a separate section of this review the Bank will also publish reports on the main measures of monetary policy or on other decisions or matters of interest to the Bank, such as those concerning the EMU.

The second new publication is the Statistical Review, in which the Bank will continue to present a large number of statistics. This review will appear on a quarterly basis from 1996 onwards.

The weekly publication « Economic indicators for Belgium », which has existed since 1989, has been appearing with a new page layout since mid-October 1995. Its contents have also been expanded somewhat : the cyclical indicators have been added, and also the macroeconomic forecasts made by various bodies.

2.8 STUDY AND INFORMATION DAY

In November 1995 the Bank held, in its auditorium, a study and information day, which was attended by a large number of members of the public. During the morning session the Research Department described and explained its new quarterly model of the Belgian economy, constructed in cooperation with university research workers. The speakers explained the main aspects of the Bank of Canada's quarterly model and the dynamic characteristics of econometric models. In the afternoon, in connection with the celebration of « Forty years of business surveys in Belgium », economists and statisticians belonging to the General Statistics Department presented, in several talks, the Bank's cyclical tests as a valuable instrument for analysing the cyclical situation. The importance of harmonised surveys covering the whole of the European Union was also emphasised. In addition, the usefulness of the surveys for economic analyses and the use of the results of the surveys within enterprises was discussed. With regard to the last-mentioned point, in addition to the reports of heads of enterprises, a special survey on the use of the results was carried out in a number of selected enterprises.

2.9 LIBRARY AND MUSEUM

The management of the scientific library, which is now completely computer-

ised, was further improved by the speeding up of the processing of data, books and periodicals. The acquisition procedures were accelerated by the extension of information sources and a closer check on orders for and reception of books and periodicals.

There was a further increase in exchanges with the major libraries and documentation centres in Belgium.

In the reading room, the terminals were equipped with an improved version of the catalogue consultation interface, in order to make research operations quicker and more user-friendly, and access to the Belgostat statistical database was provided on PC.

The collection of newspapers on CD-ROMs was enlarged, as was also the range of databases accessible via the Infotrade server.

Access to the scientific library's catalogue by computer was extended to all the Bank's services and departments in Brussels.

Since the end of 1994 it has been possible for the catalogue to be consulted from the Bank's other establishments, enabling contacts with research workers, students and educational establishments all over Belgium to be improved and extended.

From 21st October to 17th December, the exhibition « James Ensor (1860-1949) Six subjects in his work », was held in the Bank's Museum. This was done in connection with the issuing of the Fr. 100 bank note of the Ensor type. Earlier in the year, in connection with the Public Monument Day (10th September), an exhibition was held at the Leuven agency on the history of this establishment's building and of its site, with the aid of the Bank's collection pieces and archive items.

Three Museum publications appeared : the catalogues entitled « Le franc belge » (revised edition) and « The Belgian franc » and the monograph « James Ensor 1860-1949 » (in co-operation with the Ostend Museum of Fine Arts). Furthermore, the Collection and Literary Library service co-operated in the publication of the art book « L'Hotel du Gouverneur de la Banque Nationale de Belgique » (« The hotel of the Governor of the National Bank of Belgium »), the final editing of which had been entrusted to the General Secretariat Department.

Lastly, by lending pieces from its collections, the Bank co-operated in various retrospective exhibitions, including those of Henri Michaux (Namur), Anto Carte (Mons), Marc Mendelson (Ostend) and Ria Pacquée (Hasselt).

3. THE BANK'S ACTIVITIES ON THE INTERNATIONAL PLANE

The role which the Bank had to play in the international institutions was determined by the developments with regard to international monetary and financial co-operation in 1995.

The European Monetary Institute (EMI) continued, during the year under review, its work of co-ordination of national monetary policies and preparation for the establishment of the future European System of Central Banks (ESCB) provided for in the context of the preparations for the third stage of economic and monetary union (EMU). At the end of December 1995 this Institute's staff numbered 195 persons, including seven from the Bank and four others of Belgian nationality.

The Bank participated actively in the various sub-committees and groups of experts which, at the instigation of the Institute's Board, analysed the complex questions raised by the transition to the system of the single monetary policy. Their work was chiefly centred on four fields: the instruments of monetary policy which the ESCB ought to possess, the operational framework of the foreign exchange policy, the payment systems and statistics. The Bank also contributed to the discussions concerning the most appropriate scenario for organising the change-over from the national currencies to the future single currency.

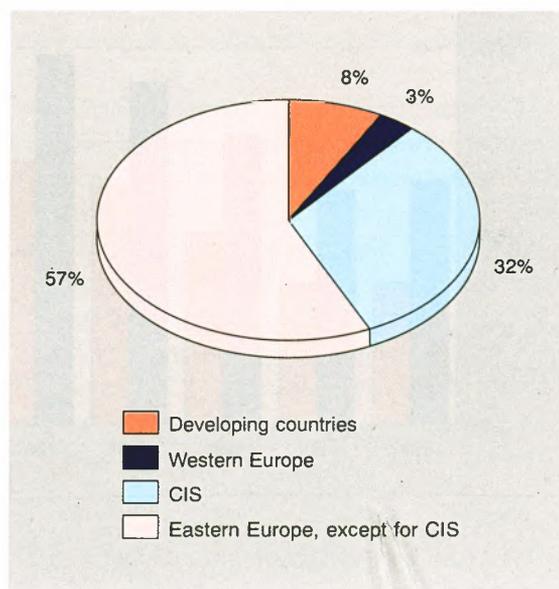
The Bank furthermore participated in the work carried out within the Monetary Committee. This concerned, among other things, the definition of the main lines of economic policy, the implementation of the procedure provided for by the Treaty of Maastricht in order to avoid excessive public deficits, the freedom of movement of capital, preparation for the third stage of EMU and financial assistance to third countries.

In addition, the Bank, as in the preceding years, made its expertise available in the

negotiations carried out within the Council of the European Union concerning financial services. The following fields were particularly studied in 1995: cross-frontier transfers, the consolidation and liquidation of credit institutions and the defining of the Communities' position in the negotiations which led to the conclusion, in July 1995, of the agreement concerning financial services within the framework of the World Trade Organisation. It likewise made its contribution to the work of committees or working parties, including with regard to economic prospects, economic policy, public finance, the balance of payments and statistics.

The aid given by the international community to the countries in transition towards a market economy continued. In this field, the Bank was mindful of the interests of these countries within the international organisations, and more especially the IMF.

CHART 14 — TRAINING OF EXPERTS OF OTHER CENTRAL BANKS : GEOGRAPHICAL BREAKDOWN



The IMF's activities were marked during the year 1995 by the Mexican crisis. This had the effect of giving an impetus to the current thinking about the supervisory role of the IMF over member countries and also about the adequacy of the financial resources at this institution's disposal. Discussions were thus held within the Group of Ten on the widening of the General Arrangements to Borrow (GAB), whereby the member countries of this group or their central banks are prepared to lend up to SDR 17 billion to the IMF. The Bank participated actively in this consultation work.

The Bank continued to participate in the OECD's activity by making its contribution to the various committees and working parties dealing with economic and financial questions.

The Bank furthermore contributed in 1995 to the training of 376 experts from other central banks. Special attention was paid to the needs of the central banks of Eastern Europe. The duration of the various seminars held, which were specialised in content, was, on average, one week. All the tasks of a central bank and also the characteristics of its environment were discussed at these seminars.

4. THE MEANS EMPLOYED

4.1 HUMAN RESOURCES

During the years 1993 and 1994, the Bank's workforce decreased by 228 units, on the basis of natural departures.

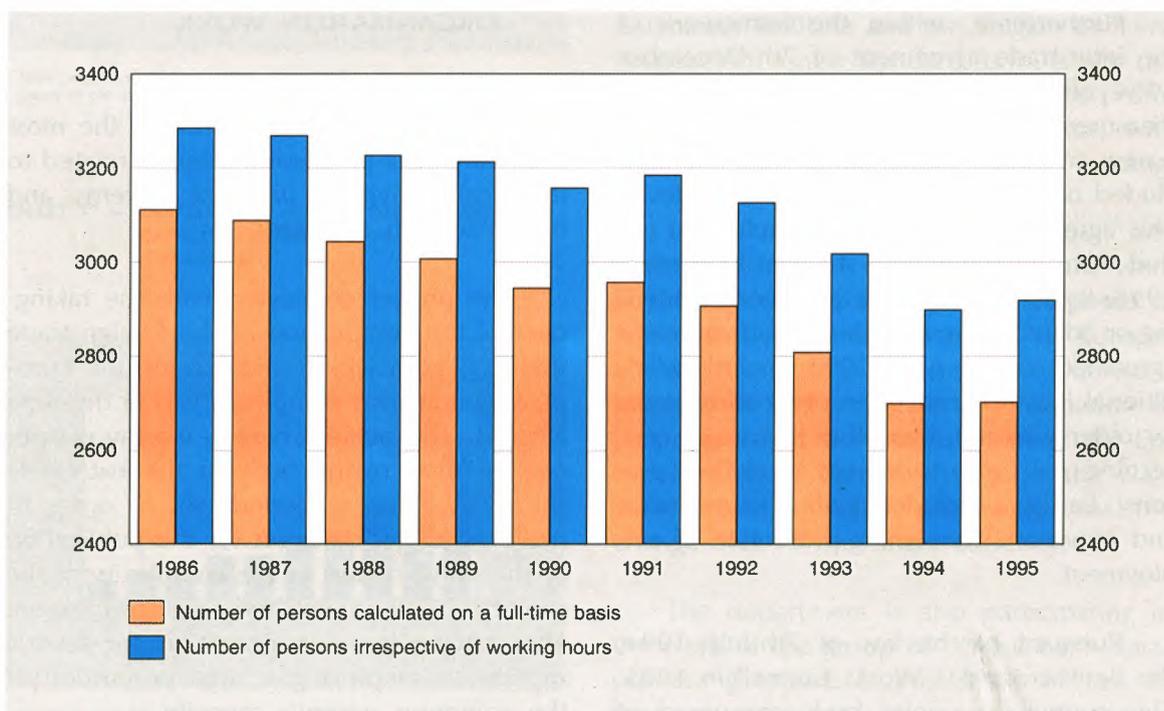
In 1995 the Bank recruited around a hundred employees (university graduates, data-processing experts and clerical staff) owing to the taking-over of certain activities of the National Statistical Institute (national accounts and foreign trade statistics). Account being taken of the departures which took place during that year, the Bank's workforce increased by 20 units. At the end of the year the Bank thus had a permanent workforce totalling 2,918 members (this being a nominal figure which does not include National Employment Office trainees or other members of staff with a temporary employment contract). In terms of full-time jobs

(real workforce), this number represents a workforce of 2,703 units, or a rise of four units. The difference between the nominal and the real workforce is chiefly attributable to the fact that a fifth of the staff are working part-time (under schemes ranging from 90 to 50 p.c.).

The vacant functions within the new working units entrusted with statistical tasks were filled by not only external but also internal transfers. The many reorganisations carried out within the Bank in recent years have induced the Social Affairs Department to pursue an active reassignment policy. The persons concerned have the benefit of familiarisation measures, including the organisation of the necessary retraining schemes.

In all these schemes combined, the Bank's staff received 8,650 days of training in 1995, i.e. on average 3 days per person.

CHART 15 — STAFF NUMBERS AT THE END OF THE YEAR



The main training category consisted of data-processing courses, followed by courses on banking and financial subjects and on management. As access to self-training facilities has been made easier, there was a considerable growth in the last-mentioned form of study in the year under review. Lastly, the training courses run by the Bank at the end of the working day, attended on a voluntary basis, for members of staff wishing to improve their vocational skills in the medium and long term, are still attracting considerable interest.

During the year 1995 the collective agreement signed on 6th October 1994 in implementation of the framework collective labour agreement of 31st May 1994 in the public credit institutions sector — to which the Bank belongs — and covering the period 1994-1996 was put into effect. This agreement provides for several measures for the promotion of employment, especially encouragement of part-time working, career interruptions and early retirement. The last-mentioned measure, which enables persons to retire from the age of 56 onwards, is the one which has had the greatest effect: 60 members of staff took advantage of it in 1994 and 1995.

Furthermore, within the framework of the inter-trade agreement of 7th December 1994 and the law of 3rd April 1995 on measures for the promotion of employment, a new collective labour agreement was concluded on 22nd May 1995 at sectoral level. This agreement covers, in principle, the period from 1st April 1995 to 31st December 1996. Its contents include provisions extending or adapting those of the collective labour agreement of 5th April 1993 (including additional leave or reduction of working hours for older workers), as well as provisions concerning risk groups (chiefly unskilled persons). Lastly, it includes qualitative measures and provisions concerning promotion of employment.

Pursuant to the law of 7th July 1994, the Bank created a Works Council in 1995. This council is a joint body composed of

representatives of the employer and delegates of the workforce. The latter were elected on 16th May 1995, at the same time as the representatives of the workers in the Committees for Safety, Hygiene and Embellishment of the Working Environment.

The Works Council must in particular be given information on social affairs and concerning economic and financial questions relating to the enterprise. The Council has advisory powers in respect of this information. It should be noted that the Bank previously supplied the trade union delegation with extensive economic, financial and social information before the setting up of the Works Council. In the new social consultation structure, the Works Council operates side by side with the trade union delegation, whose primary function is to negotiate collective labour agreements with the employer.

Labour relations at the Bank are always characterised by the desire to maintain a permanent dialogue and the wish to develop constructive co-operation.

4.2 DATA PROCESSING AND ORGANISATION WORK

During the year under review the most important data-processing projects related to statistical activities, payment systems and transactions in securities.

The project connected with the taking-over of the compilation of the foreign trade statistics, both within and outside the European Union, was completed within the time allotted. This achievement is worthy of special mention owing both to the extremely short development periods set in order to meet the target dates set for the publication of the statistics and to the complexity of the project. As was expected, this application, after having been in operation for several months, is employing a large proportion of the computer system's capacity.

The new application connected with the reform of the balance of payments became operational on 1st January 1995.

With regard to payment systems, the emphasis was laid on the development of the ELLIPS project, specifically designed, as mentioned earlier on, for transfers of large amounts.

The security clearing application underwent additional developments, the most important of which relate to the X/N (accounts exempt/not exempt from the withholding tax) and to the creation of an interface with ELLIPS.

The new developments, the extensions of existing applications and the increased recourse to the products of the Infocentre on the mainframe are leading to ever-growing utilisation of system elements and consequently to an adaptation of the calculation and storage capacity of the system, as is shown by the preceding charts.

Some minicomputers were replaced by higher-capacity models and the storage capacity was also increased. The Local Area Network (LAN) was further extended in the year under review. More than 1,200 PCs are now connected to the network. The number of work stations (whether or not with connected PCs and terminals) totals around 2,700. In view of the development of the computer installations, special attention is being paid to the management of system elements (capacity planning, change management, investment plan, ...).

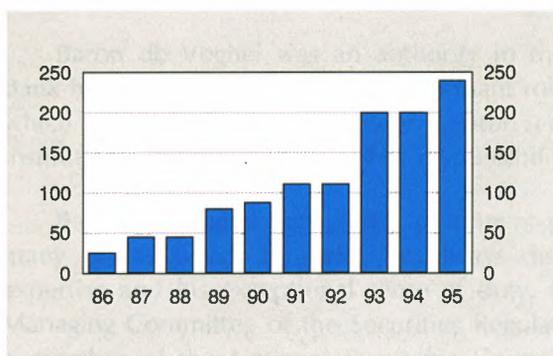
The organisational studies centred on rationalisation and productivity gains were continued. In 1995 they related mainly to the operation of the Social Affairs Department and to the administrative aspects of the Printing Department.

In co-operation with the Rediscount and Guarantee Institute and the Belgian Bankers' Association, a new standard formula was designed for the bill of exchange, the promissory note and the bank acceptance, with a view to their processing by optical reading.

Lastly, the Planning, Organisation and EDP Department is participating in the work of the various technical groups composed of representatives of central banks. At European level the aim of the work is to devise a strategy for the exchange of information in preparation for the establishment of the European Central Bank and to pave the way, with regard to data processing, for the change-over to the single currency.

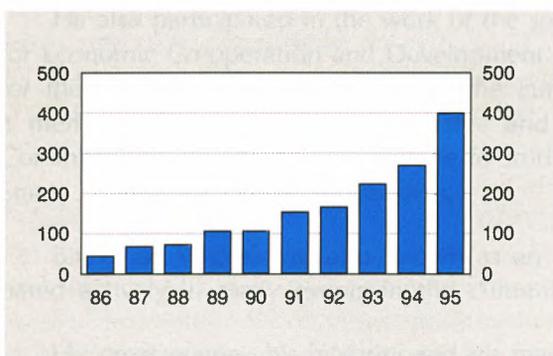
The department is also participating in the work of the group of central bank data-processing experts of the Group of Ten. In the year under review it organised the three-

CHART 16 — DEVELOPMENT OF THE COMPUTATION POWER OF THE MAINFRAMES (MIPS)¹



¹ Mips = millions of instructions per second (a measure of the processing speed of the computer).

CHART 17 — DEVELOPMENT OF THE DISC STORAGE CAPACITY OF THE MAINFRAMES (GIGABYTES)¹



¹ Gigabyte = 1 billion characters.

yearly meeting of these experts — the so-called « Automation Week » — which was held for the first time in Belgium.

4.3 BUILDING WORK

At the head office, the modernisation work continued: the renovation of the premises of the Social Affairs Department and of the counters of the Central Cash Office was started; the conversion of the

premises of the Legal Department was completed.

In the provinces, the design work is in progress for the new agencies at Arlon and Kortrijk, the modernisation work at Turnhout, and the representative offices at Mechelen and Verviers. Modernisation and security work is under way at Antwerp, Charleroi, Liège and Luxembourg. The conversion of the representation office at Wavre has been started; this new establishment will become operational during the first half of 1996. The new garage for the transportation of funds at Arlon was brought into service.

5. ADMINISTRATION AND SUPERVISION

In the course of 1995 the Bank was greatly saddened by the death of several active and honorary members of its Boards.

On 20th September 1995 it heard with great regret of the death, at the age of 91, of Baron Franz de Voghel, Honorary Vice-Governor.

A doctor of law and of political and social sciences, Baron de Voghel had already had a brilliant career first as secretary and then as manager at the Banking Commission, when he was elected a director of the Bank by the extraordinary general meeting of 3rd November 1944.

During the post-war period, when the country's monetary, budgetary and financial systems had to be put on a sound footing again, he was called upon, in August 1945, to assume temporarily the difficult post of Minister of Finance. The following year he resumed his term of office as director of our Institution and in 1957 he was appointed Vice-Governor by H.M. the King.

He relinquished the last-mentioned function on reaching the age-limit of 67 in December 1970.

Baron de Voghel was an authority in the field of economic and monetary policy. At the Bank he played, in particular, an important role in the development of the Research Department, which was called upon to render greater service for the determination of the options of our Institution's monetary policy. His responsibilities also included personnel management.

Baron de Voghel occupied a prominent position both nationally and internationally. In the many offices which he held, he always distinguished himself by his perspicacity, his great expertise and his exceptional sense of duty. He was, among other positions, a member of the Managing Committee of the Securities Regulation Fund, a member of the Banking Commission, a member of the National Economic Council and the Superior Finance Council, a regent of the Central Bank of the Belgian Congo and Ruanda Urundi and president of the Rediscount and Guarantee Institute.

His name will remain linked for ever with the two government commissions which he was chairman of and which were entrusted, respectively, with the tasks of studying the problems of financing economic expansion and the proposals for the reform of the laws concerning banking and saving.

He also participated in the work of the special select committees set up by the Organisation for Economic Co-operation and Development. Baron de Voghel put all his energies into working for the integration of our country in the European Economic Community. He was appointed a member of the Monetary Committee and subsequently became chairman of the Standing Committee created in that Committee to study the co-ordination of the policies of the Member States concerning capital movements.

Baron de Voghel was also known as an art-lover and an open-minded man, who participated actively in many events in the cultural field.

His great energy, his integrity and his many interests made him a wise and likeable person, who stimulated his colleagues.

Baron de Voghel placed his immense intellectual qualities at our Institution's disposal for over 25 years. The Bank is particularly grateful to him and will faithfully honour his memory.

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The Bank's Boards lost two of their members, whose periods of office had been renewed by the ordinary general meeting of 27th February 1995.

Mr Carlo Van Gestel died on 20th April 1995. He had been elected censor by the general meeting of 25th February 1985. His period of office was extended in 1986, 1989, 1992 and, for the last time, 27th February 1995. By his long and rich experience of the business world, censor Van Gestel was able to assist the Bank in a way which was highly appreciated.

Mr François Janssens, regent, died suddenly on 27th June 1995. He had been elected regent for the first time by the general meeting of 26th February 1990. His period of office was extended in 1992 and again on 27th February 1995. Regent Janssens' contributions to the discussions of the Bank's Boards always bore witness to his whole-hearted devotion to the social well-being of the workers, but also of his concern for the general interest.

The Boards also learned with regret of the death of the Honorary Government Commissioner René Lauwerijns, on 23rd February 1995, and of the passing of Honorary Regents Henri Lemaire and André Devogel, on 29th June 1995 and 16th September 1995 respectively.

The Councils pay tribute to the memory of these who have now departed, all of whom have served the Bank with great devotion. Their participation in the deliberations was marked by expertise, understanding and sensitivity, while also bearing witness to their commitment to our Institution.

They will be remembered with great respect.

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The Bank was saddened, in 1995, by the death of four members of its staff :

Mr Stefaan De Ruyver, Mrs Regina Pessemier, Mrs Françoise Janssens-Rossier, Mr Pierre Vander Elst.

The Bank will always remember them.

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The Bank wishes to express its gratitude to the members of the managerial and supervisory staff who reached the end of their careers :

Messrs Willy Brumagne, Assistant Manager, Head of the Public Securities Department, Guy Parlongue, Senior Adviser, Assistant Personnel Manager, Jean-Marie Wullus, Inspector-General, Wilfried Smout, member of staff with the rank of Inspector-General, Jozef Renders, Head of Division.

It also thanks the following members of the clerical staff whose careers came to an end during the past year :

Mr Ahmed Akili, Mrs Jeannine Oste-Back, Mr Charles Bastaerts, Mrs Jeannine De Ruyver-Beetens, Mrs Louisa Bertens-Bladt, Messrs Hendrik Blanckaert, Jean Bruno, Mrs Lutgarde Godfriaux-Cambier, Messrs Robert César, Ferdinand Ceuppens, Paul Ceusters, Eugène Charles, Louis Charles, Mrs Yvette Magnus-Cole, Messrs Louis Colignon, Willy Costers, Marc De Bie, Paul De Bruyn, Mrs Godelieva Dello-De Dobbeleer, Mrs Paulette Delaitte, Mrs Ernestina Mus-De Mol, Messrs Jean Demunter, Roger De Prins, Mrs Beatrix Derivière, Messrs Joseph De Troyer, Victor De Winne, Philibert d'Huart, Mrs Rosina Benedetto-Di Bello, Mr Michel Faucq, Mrs Fernande Sinnaeve-Felix, Messrs Joseph Froyen, Daniel Godelie, Jacques Goossens, Roger Hävecker, Luciaan Hendrickx, Antoine Lagae, Winand Lathouwers, Raymond Lodewyckx, Jean Machte-linckx, Mrs Carmela Di Bono-Marino, Mrs Theresia De Boitselier-Mostinckx, Mrs Jeannine Niset, Mr René Panneels, Mrs Jacqueline Neefs-Pillet, Mrs Antoinette Vandenbrande-Quintin, Mrs Marie Van Eycken-Raxhon, Mr Willy Schrauwen, Mrs Josée Crabbé-Stockmans, Mrs Jeanine Gaudius-Theys, Messrs Gaston Tilmant, Pierre Van Berkel, Mrs Maria Becque-Van den Borre, Mrs Madeleine Theunis-Van den Bossche, Mr Roger Vandenhouste, Mrs Christiane Mehuys-Van den Neste, Mrs Annie Biebaut-Van Hoornweder, Messrs Raoul Van Laere, Michel Van Lulle, Mrs Simonna Melis-Van Wetswinkel, Mrs Maria Verwerft, Mr Georges Wellin.

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The ordinary general meeting of shareholders was held on Monday 27th February 1995.

In application of Article 41 of the Statutes, the report on the operations of the past financial year had been sent, at least five days before that meeting, to the holders of shares which were the subject of a nominal entry or which had been deposited at the Bank.

At the beginning of the meeting, the two largest shareholders present were appointed scrutineers, pursuant to Article 86 of the Statutes. They established that the provisions of the Statutes concerning the publication of and participation in the meeting had been complied with.

The Governor then went on to the first item of the agenda. He presented a report on the activities of the financial year 1994 and answered the questions put to him.

The Governor then announced the names of the candidates for the functions of regent, in order to fill the positions which would become vacant at the end of the meeting, and called upon the shareholders to vote.

Baron Jacques Delruelle, presented by the Minister of Finance, was elected regent to succeed Baron Albert Frère, who, having reached the age-limit, was not eligible for re-election. The periods of office as regent of Mr François Martou, proposed by the Minister of Finance, and Mr François Janssens, presented by the most representative workers' associations, were renewed.

During the meeting, Baron Jacques Delruelle, who was Chairman of the Board of Censors, accepted the office of regent which was granted to him by the shareholders. His office as censor thus became vacant.

Lastly, the Governor announced the names of the candidates for the functions of censor. The shareholders extended the periods of office of censors Carlo Van Gestel, Maurice Charlotieux and Herman Verwilst and elected Mr Gérald Frère as censor to complete the term of office of Baron Delruelle.

The periods of office of regents Delruelle and Martou and those of censors Charlotieux and Verwilst will terminate at the end of the ordinary general meeting of February 1998. The period of office of censor Gérald Frère will terminate at the end of the annual meeting of 26th February 1996.

The Governor paid tribute to Baron Albert Frère, outgoing regent. This eminent personality, possessing a remarkable knowledge of the industrial and financial world, has been a member of our Institution's Board for 15 years.

As a token of appreciation and gratitude for the services rendered to the Bank, the general meeting conferred the honorary title of his function on Baron Frère.

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By virtue of Article 56 of the Statutes, Mr Rik Van Aerschot, who had reached the age-limit of 67 on 18th October 1995, was authorised by the Minister of Finance to complete his term of office as regent, which ends in February 1997.

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An extraordinary general meeting of shareholders was called on Monday 20th November 1995 in order to elect a regent and a censor to replace the late regent François Janssens and censor Carlo Van Gestel, and in order to appoint two auditors.

The meeting elected Messrs Michel Nollet, presented by the most representative workers' organisations, and Chevalier Paul Buysse, company director and consular president of the Commercial Court of Antwerp, to the respective functions of regent and censor. In accordance with Articles 53 and 55 of the Statutes, these two members complete the periods of office of their respective predecessors, which end in February 1998.

The meeting furthermore appointed Mrs Danielle Jacobs and Mr Pierre Berger as auditors, to assist the Works Council. Their candidatures were presented by the Board of Directors to the Works Council, which had already unanimously expressed itself in their favour, on 19th October 1995.

The periods of office of Mrs Jacobs and Mr Berger are three years, but, in order to avoid the necessity of calling an extraordinary general meeting for the subsequent appointments, they will expire, this time, at the end of the ordinary general meeting of February 1999.

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At the beginning of 1996 the structure and composition of the Bank's administrative and supervisory bodies were as follows :

ADMINISTRATION AND SUPERVISION

Governor : Mr Alfons VERPLAETSE.

Vice-Governor : Mr William FRAEYS.

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

Regents :

Messrs Roger RAMAEKERS,
Rik VAN AERSCHOT,
Willy PEIRENS,
Tony VANDEPUTTE,
Philippe WILMES,
Eddy WYMEERSCH,
Noël DEVISCH,
François MARTOU,
Baron DELRUELLE¹,
Michel NOLLET².

Censors :

Messrs Hubert DETREMMERIE, chairman³,
Roger MENE, secretary⁴,
Willy DANCKAERT,
Maurice CHARLOTEAUX,
Christian D'HOOGH,
Jacques FOREST,
Philippe GRULOIS,
Herman VERWILST,
Gérald FRERE⁵,
Chevalier Paul BUYSSE⁶.

Secretary : Mr Jean POULLET.

Treasurer : Mr Serge BERTHOLOME.

Government Commissioner : Mr Grégoire BROUHNS.

ADVISORS TO THE BOARD OF DIRECTORS :

Messrs Jean-Victor LOUIS,
Jan MICHELSEN,
Henri BARBE.

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AUDITORS⁷

Mr Pierre BERGER,
Mrs Danielle JACOBS.

¹ Elected by the ordinary general meeting of 27th February 1995 to succeed Baron Frère, who was no longer eligible for re-election, having reached the age-limit.

² Elected by the extraordinary general meeting of 20th November 1995, to replace Mr François Janssens, who died on 27th June 1995.

³ Elected as Chairman by the Board of Censors at its meeting on 29th March 1995, to replace Baron Delruelle.

⁴ Elected as secretary by the Board of Censors at its meeting on 29th March 1995, to replace Mr Hubert Detremmerie.

⁵ Elected by the ordinary general meeting of 27th February 1995, to replace Baron Delruelle, elected regent.

⁶ Elected by the extraordinary general meeting of 20th November 1995, to replace Mr Carlo Van Gestel, who died on 20th April 1995.

⁷ Appointed by the extraordinary general meeting of 20th November 1995, to assist the Works Council.

DEPARTMENTS AND SERVICES

Social Affairs Department — Mr J. LEEMANS, Assistant Director,
Personnel manager.

Wages and Social Affairs Administration

Head Mr A. REITER, Head of Division.

Training

Head Mr G. DE RIDDER, Head of Division,

Advisor Miss S. ZONIOS,

Head of Division Mr J.-L. LION.

Personnel Policy

Head Mr R. VAN KEYMEULEN, Inspector-General,

Head of Division Messrs M. DRION, D. LOZET, G. VAN CAMP.

Heads of Medical Service

Head Doctor Mr A. DE LANDTSHEER,

Doctors Messrs V. DONS, C. VAN LAETHEM.

Data Exchange Department — Mr P. TELLIER, Assistant Director.

Central Balance Sheet Office

Head Mr A. LENAERT, Head of Division,

Advisor Mr C. RUBENS,

Heads of Division Mrs E. DE GROOTE, Mr P. QUINTIN.

Central Credit Offices

Head Mr R. TROGH, Head of Division,

Advisor Mr R. THIRION,

Head of Division Mrs G. DALL'AGLIO-TIMMERMANS.

Cashless Payments

Head Mr A. VAES, Head of Division,

Advisor Mr K. DE GEEST,

Heads of Division Messrs V. DECONINCK, B. BOURTEMBOURG.

Accounting and Budgetary Control Department — Mr C. DEKEYSER, Assistant Director.

Accounting

Head Mr J. TAVERNIER, Head of Division,

Heads of Division Messrs M. HINCK, L. HENRY.

Budgetary Control

Head Mr J. VANDEUREN, Inspector-General,

Head of Division Mr R. VAN KEYMEULEN.

Equipment and General Services Department — Mr K. VANDENEEDÉ, Assistant Director.

Equipment and Technical Services

Head Mr P. LAUWERS, Inspector-General,

Architects Messrs J.-C. NAVEZ, J.-M. DE VOS,

Head of Division Mr H. DE TROYER.

General Services

Head Mr A. KOZYNS, Inspector-General,
Head of Division Mr J.-M. BRAET.

Research Department — Mr J. SMETS, Chief Advisor.

Deputy Head of Department Mr R. BEUTELS, Inspector-General.
Department Advisors Mr A. NYSENS, Mrs A.-M. JOURDE-PEETERS,
Messrs J.-J. VANHAELEN, E. JACOBS, J. CLAEYS,
Mrs F. JACOBS-DONKERS, Messrs V. PERILLEUX,
M. DOMBRECHT, T. TIMMERMANS,
Economist Mr M. MARECHAL.

Documentation

Head Mr W. VERTONGEN, Inspector-General,
Inspector-General Mr R. BEUTELS,
Head of Division Mrs G. VAN QUATHEN-VAN HOVE.

Printing Department — Mr M. SALADE, Assistant Director.

Administrative Service

Head Mr Y. TIMMERMANS, Head of Division.

Prepress and Studies

Head Mr J.-C. GILLES, Head of Division.

Production and Engineering

Head Mr G. PONNET, Head of Division.

Financial Markets Department — Mr J. MICHIESEN, Advisor to the Board of Directors.

Department Advisor Messrs C. LOTS, H. BUSSERS,
Head of Division Mr Y. PIRLET.

Back Office

Head Mr F. DEPUYDT, Inspector-General,
Senior Analyst Mrs S. LANCKSWEERT-MASKENS,
Head of Division Mr F. WITHOFS.

Government Cashier

Head Mr H. SMISSAERT, Head of Division
Head of Division Messrs R. VAN HEMELRIJCK, M. RUBENS.

Security Accounts

Head Mr W. STEPPE, Inspector-General,
Head of Division Messrs R. ROOTHANS, L. EICHER.

Front Office

Head Mrs A. VAN DEN BERGE, Head of Division,
Advisor Messrs N. VANDECAN, E. LAVIGNE,
Head of Division Messrs E. DE KOKER, J.-L. GERARDY.

Planning Organisation and EDP Department — Mr H. BARBE, Advisor to the Board of Directors.

Inspector-General	Messrs L. DUFRESNE, A. HUET,
Senior Analyst	Mrs A.-M. LEJEUNE,
Senior Systems Engineer	Mr L. ESPAGNET.
Electronic Centre	
Head	Mr E. COLMAN, Head of Division,
Senior Systems Engineer	Mr M. CHARLIER.
EDP Projects Development	
Head	Mr J.-P. HOYOS, Inspector-General,
Inspector-General	Mr P. LAUWERS,
Senior Analysts	Mr B. GROETEMBRIL, Mrs H. VANDOORNE-VAN HECKE, Messrs J. FRANCOIS, J.-M. PLISNIER, E. DE SMET,
Head of Division	Mr P. SAPART,
Senior Systems Engineer	Mr P. MARECHAL.
EDP Research	
Head	Mr J. MOERMAN, Inspector-General,
Inspector-General	Mr G. VANGHELUWE,
Senior Systems Engineers	Messrs G. DUMAY, U. MOMMEN, Mrs M. GROGNARD-HUART.
Organisation and Management Supervision	
Head	Mr L. JANSSENS, Head of Division,
Heads of Division	Mrs C. SAPART-BUYDENS, Mr H. DEVRIESE.

General Secretariat Department — Mr W. PLUYM, Assistant Director.

Department Advisor	Mrs M. STEENBERGEN-DE WACHTER,
Advisor	Mr J. MAKART
Secretariat	
Head	Mr M. VAN CAMPEN, Head of Division,
Head of Division	Mr J. CALLEBAUT.
Secretariat of the Board of Directors	
Head	Miss J. RONDEUX, Inspector-General,
Head of Division	Mr L. AELES.

General Statistics Department — Mr B. MEGANCK, Assistant Director.

Inspector-General	Mr G. POULLET.
Data Bank Unit	
Inspector-General	Mr A. WOUTERS,
Advisor	Mr J. PALATE.
Balance of Payments	
Head	Mr G. MELIS, Inspector-General,
Heads of Division	Messrs M. EECKHOUT, R. DE BOECK,
Controller	Mr P. SARLET.

Foreign Trade Statistics

Head Mr J. DAENEN, Head of Division
 Inspector-General Mr D. VERMEIREN,
 Head of Division Mr J. WIELEMANS.

Financial and Economic Statistics

Head Mr R. ACX, Head of Division,
 Head of Division Mr G. VAN CASTEL.

Services directly subordinate to a member of the Board of Directors

Internal Audit

Head Mr J. HELFGOTT, Inspector-General,
 Inspectors Mrs J. MAESSEN-SIMAR, Messrs M. MATTENS, L. BODRANGHIEN.

Collections and Staff Library

Head Miss C. LOGIE, Inspector-General,
 Head of Division Mr Y. RANDAXHE.

International Co-operation

Head Mr P. VAN DER HAEGEN, Inspector-General,
 Advisors Mrs G. DURAY-BIRON, Messrs D. SERVAIS, J. MONT, P. LEFEVRE,
 D. OOMS.

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Head Mr J.-V. LOUIS, Advisor to the Board of Directors,
 Chief Advisor Mr J.-P. BRISE,
 Advisors Mr J. DE WOLF,
 Mrs A. de KERCHOVE d'OUSSELGHEM-del MARMOL, Mr D. DEVOS.

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Central Cash Office

Chief Cashier Mr M. VAN BAELEN, Inspector-General,
 Heads of Division Messrs J.-F. KERVYN de MARCKE ten DRIESSCHE, G. PIROT.

Safety, Hygiene and Embellishment of Working Environment

Head Mr D. DENEE, Head of Division.

Security Supervision

Head Mr J.-P. DE JONGE, Head of Division.

Branches and Agencies Department — Mr W. VAN DER PERRE, Assistant Director.

Heads of Division Messrs P. BOBYR, P. BISSOT.

Branches

Antwerp

Administrator Mr L. VAN DER VEKEN,
 Inspector-General Mr F. SERCKX,
 Head of Division Messrs F. VAN NIEUWENHOVE,
 D. VANDEN BROECK, J. LIBENS.

Liège	
Administrator	Mr M. SIMAL,
Head of Division	Mrs J. SOUVEREYNS-ROUMA.
Luxembourg	
Administrator	Mr E. de LHONEUX.

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Head of Division	Mr M. REDANT.
Arlon	
Agent	Mr D. BRISBOIS.
Brugge	
Agent	Mr P. TACK.
Charleroi	
Agent	Mr Y. LEBLANC,
Head of Division	Mr R. HAENECOUR.
Kortrijk	
Agent	Mr L. MUYLAERT,
Head of Division	Mr J. PANNEEL.
Gent	
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Head of Division	Mr R. MAES.
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Agent	Mr L. GHEKIERE.
Mechelen	
Acting manager	Mr L. LAGAE.
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Agent	Mr P. BOGAERT.
Tournai	
Agent	Mrs J. DAUCHOT-DE BEER.
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Verviers	
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Representation Offices

La Louvière Manager	Mr W. GERIN. (acting)
Malmédy Manager	Mr J.-Y. BOULANGER.
Marche-en-Famenne Manager	Mr P. LAMBERT.
Oostende Manager	Mr J. BUSSCHE. (acting)
Sint-Niklaas Manager	Mr G. MINNAERT.

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Mrs F. LEPOIVRE-MASAI, Inspector-General.

Office of Mr Van Rompuy, Vice-Prime Minister and Minister for the Budget,
Mr H. FAMEREE, Economist.

Office of Mr Maystadt, Vice-Prime Minister and Minister for Finance and Foreign Trade,
Mr G. TEMMERMAN, Head of Division.

Belgian Permanent Representation with the European Communities,
Mr P. VIGNERON, Inspector-General.

Belgian Permanent Representation with the Organisation for Economic Co-operation and Development,
Paris,
Mr D. SLAATS, Advisor.

Office of the Belgian Executive Director with the International Monetary Fund, Washington,
Mr D. DACO, Advisor.

On mission on behalf of the International Monetary Fund
— at the National Bank of Cambodia,
Mr R. BEERENS, Head of Division,
— at the Central Bank of Haiti,
Mr J.-C. PAUWELS, Inspector-General.

Annual Accounts

BALANCE SHEET AS AT 31st DECEMBER 1995 (after distribution of profit)**ASSETS***(Thousands of francs)*

	1995	1994
Gold	232,578,854	306,267,495
Foreign currencies	285,926,007	231,166,004
Special Drawing Rights (SDRs)	14,478,948	5,737,305
Participation in the IMF	29,547,520	25,856,587
Loans to the IMF	—	—
Deposit with the IMF within the framework of the ESAF	7,870,518	8,366,040
Ecus	118,874,195	148,081,336
EMI : Very-short- and short-term financing	—	—
EC : Medium-term financial assistance	—	—
International agreements	3,335,076	3,491,415
Advances against pledged security	19,437,084	32,347,333
Commercial bills	3,329,377	3,723,649
Securities purchased in the market	23,855,328	17,860,920
Claims due to other interventions in the money market	128,472,630	92,330,584
Coin	954,536	1,102,526
Statutory investments (Art. 21)	46,694,169	43,753,829
Premises, equipment and furniture	13,109,790	13,588,195
Other assets	397,425	3,339,275
Regularisation accounts	7,464,917	5,718,730
TOTAL ASSETS	936,326,374	942,731,223

LIABILITIES

(Thousands of francs)

	1995	1994
Notes in circulation	445,836,651	412,189,699
Current accounts in francs	18,600,899	12,278,488
Deposit of the Belgian State	475,980	485,597
Deposit of the Luxembourg State	984	503,242
Liabilities due to interventions in the money market	8,061,687	3,047,278
Current accounts in foreign currencies	357	9,605
Counterpart of allocations of SDRs	21,217,430	22,553,264
EMI : Very-short- and short-term financing	—	—
Unavailable reserve of capital gains on gold	166,531,698	116,310,864
Other liabilities	1,934,888	2,106,397
Regularisation accounts	200,764	372,662
Valuation differences on gold and foreign exchange	212,918,949	314,859,166
Provision for tax burdens	15,050	
Provision for premises, equipment and furniture	1,312,981	955,981
Provision for contingencies	10,250,000	10,150,000
Capital	400,000	400,000
Reserve fund :	48,568,056	46,508,980
<i>Statutory reserve</i>	3,184,934	3,049,400
<i>Extraordinary reserve</i>	32,870,631	30,455,631
<i>Account for depreciation of premises, equipment and furniture</i>	12,512,491	13,003,949
TOTAL LIABILITIES	936,326,374	942,731,223

PROFIT AND LOSS ACCOUNT AS AT 31st DECEMBER 1995

(Thousands of francs)

	1995	1994
RECEIPTS		
Proceeds of transactions with foreign countries . . .	21,273,498	13,875,613
Proceeds of credit transactions	6,321,832	8,269,296
Proceeds of statutory investments	3,608,488	3,778,652
Commission	262,918	163,086
Amounts recovered from third parties	1,907,492	1,958,349
Drawings on provisions	43,000	292,000
Other proceeds	192,421	83,253
	33,609,649	28,420,249
EXPENDITURE		
State share :	17,554,861	11,954,298
<i>Transactions with foreign countries</i>	14,330,968	7,082,334
<i>Credit transactions</i>	3,223,893	4,871,964
General expenditure :	8,308,525	8,297,001
<i>Remuneration and social costs</i>	6,853,463	6,784,676
<i>Other expenses</i>	1,455,062	1,512,325
Depreciation of premises, equipment and furniture	671,325	1,115,179
Provision for tax burdens	15,050	
Provision for premises, equipment and furniture . .	400,000	470,000
Provision for contingencies	100,000	100,000
Taxes and dues	2,770,537	2,657,520
Net profit for distribution	3,789,351	3,826,251
	33,609,649	28,420,249

DISTRIBUTION OF PROFIT*(Thousands of francs)*

	1995	1994
Profit to be appropriated	3,789,351	3,826,251
The profit is distributed as follows :		
Appropriation to the extraordinary reserve	2,415,000	2,463,000
Distribution of the balance in accordance with Article 38 of the Statutes :		
1. To the shareholders a first dividend of 6 % of the nominal capital	24,000	24,000
2. Of the amount in excess of this :		
a) 10 % to the statutory reserve	135,035	133,925
b) 8 % to the staff	108,028	107,140
3. Of the amount in excess of this :		
a) to the State, one fifth	221,458	219,637
b) to the shareholders, a second dividend	885,332	878,356
c) the balance to the statutory reserve	498	193

As the distribution of the profit was approved by the General Council on 31st January 1996, coupon No. 194 will be payable with effect from 1st March 1996 in the following manner :

	Gross amount per share before retention of the withholding tax	25 % withholding tax	Net amount
On the 400,000 shares	Fr. 2,273.33	Fr. 568.33	Fr. 1,705

OFF-BALANCE-SHEET ITEMS AS AT 31st DECEMBER 1995

(Thousands of francs)

	1995	1994
Contingent liabilities		
Guarantees as substitute for credit		935,957
Liabilities which could lead to a credit risk		
Firm undertakings to provide funds	51,739,068	42,875,280
Valuables and claims entrusted to the Institution		
For encashment	17,233	2,979
Assets managed on behalf of the Treasury	8,487,201	2,988,508
Safe custody deposits	8,212,718,480	7,548,421,720

Explanatory notes to the annual accounts

INTRODUCTION

The presentation of the Bank's annual accounts has been adjusted slightly in order to reflect more appropriately the Bank's position as the authorised agent for the administration of the loans granted by the Belgian State to foreign countries within the framework of the financial assistance agreements. The corresponding headings, i.e. « Balance at the Postal Cheque Office : B Account » on the assets side and « Financial assistance agreements » on the liabilities side, have been transferred to the Off-Balance-Sheet section under the heading « Assets administered on behalf of the Belgian State ».

The « A Account », which the Bank holds at the Postal Cheque Office, being residual in respect of the other asset items, has been transferred under the heading « Other assets ».

BALANCE SHEET*(Thousands of francs)***ASSETS****GOLD**

Gold is valued at a price derived from market quotations in accordance with the method used by the EMI for swaps of gold against ecus. The price applied is either the average of the prices, translated into ecus, established at the two daily fixings of the London Stock Exchange during the second half of the year or the average of the two fixings on the penultimate working day of the year, if the last-mentioned average is lower than the former. The translation of the ecus into francs is carried out on the basis of the exchange rate for the ecu on the last working day of the year, as published by the European Commission.

The price of gold was thus fixed at Fr. 364,056.7213 per fine kilogram on 31st December 1995, against Fr. 393,195.6321 on 31st December 1994. The difference between the book value and the purchase value of gold is shown on the liabilities side of the balance sheet under the heading « Valuation differences on gold and foreign exchange ».

During the year 1995 the gold holding decreased as a result of arbitrage transactions against foreign currencies in respect of 175 tonnes and the sale of 62.5 kg of gold to the Belgian Royal Mint.

The capital gains made on the arbitrage transactions amount to Fr. 50.2 billion. They correspond to the difference between the market price at which the gold was arbitrated and the historic acquisition price of the gold sold (Fr. 56,225.0046 per fine kilogram). In accordance with Article 20 bis of the Bank's Organic Law, the capital gains made by the Bank on arbitrage transactions of assets in gold against other external reserve elements are entered in a special unavailable reserve account appearing on the liabilities side of the balance sheet.

The capital gain made on the sale of gold to the Belgian Royal Mint, i.e. Fr. 19 million, was paid to the State in accordance with the same Article 20 bis, which stipulates that these sales of gold to the Belgian Royal Mint are made with a view to the issuing of coins by the State for numismatic or commemorative purposes and that they cannot exceed 2.75 p.c. of the weight of the gold appearing in the Bank's holdings on 1st January 1987. 0.73 p.c. of this weight of gold is still available.

A limited quantity of gold was placed on the market, with full observance of the criterion of safety.

The decrease in the gold holding led, on the quarterly renewal of the swap transactions, to a fall in the contribution of gold to the EMI.

The gold sold spot to and repurchased forward from the EMI against ecus but the management of which is still entrusted to the Bank, which was equivalent to Fr. 58.2 billion on 31st December 1995, is not included under this heading.

FOREIGN CURRENCIES

Holdings in foreign currencies appear in the balance sheet at their equivalent in francs calculated at the indicative market rates on the last working day of the year as published by the Bank. The translation differences, i.e., respectively, the differences between the valuation of these assets at purchase price and their value at the exchange rate on the balance sheet date, are recorded under the liabilities heading « Valuation differences on gold and foreign exchange ».

Compared with the previous year, the foreign currency holdings increased, on balance, by Fr. 54.8 billion. This rise is chiefly due to arbitrage transactions of gold against foreign currencies, purchases of foreign currencies on the foreign exchange market, the collection of the proceeds from investments abroad and sales of ecus against foreign currencies. These inflows more than counterbalanced the sales resulting from, in particular, the redemption of external Treasury loans in foreign currencies, transactions with the IMF and the withdrawal of liquidity from the money market by means of swap operations in foreign currencies against Belgian francs. Valued at the market exchange rate, these swaps reached Fr. 373.9 billion on 31st December 1995, against Fr. 143.1 billion at the end of the previous year.

On the balance sheet date, these holdings consisted almost exclusively of currencies covered by the guarantee of the Belgian State.

The holdings entered in the name of the Bank abroad comprise, in addition to its own holdings as mentioned above, the assets managed on behalf of the Belgian State and the EMI. On the balance sheet date, the dollars sold spot to and repurchased forward from the EMI against ecus amounted to 1,116.2 million.

The holdings in foreign currencies are invested in time deposits and easily negotiable foreign securities, account being taken of the criteria of safety, liquidity and yield.

On purchase, securities in foreign currencies are recorded at purchase price. A portion of the difference between the latter and the maturity value is, each year, in the profit and loss account, added to or subtracted from the interest produced by the securities, pro rata temporis of the residual life of the securities and by a linear method. In the balance sheet the securities are valued at their purchase price plus or minus the portion of that difference which has been imputed in the profit and loss account since the purchase of the securities.

SPECIAL DRAWING RIGHTS (SDRs)

Special Drawing Rights are reserve assets created ex nihilo by the IMF and allocated by it to its members. SDRs are used in transactions between official monetary authorities. The item undergoes changes as a result of the receipt and payment of interest and owing to transactions with other countries and with the Fund. The last allocation was made in 1981. In accordance with Article 6 of Decree-Law No 5 of 1st May 1944 concerning the conditions of purchase and sale of gold and foreign currencies, as last amended by a law of 24th March 1978, the Bank shows Belgium's holdings of SDRs in its books as its own assets.

SDRs are valued in the balance sheet at the market rate as published by the IMF on the last working day of the year. On the balance sheet date this rate was Fr. 43.7251 for one SDR (Fr. 46.4780 at the end of 1994). Translation differences in respect of assets and liabilities expressed in SDRs are recorded under the heading « Valuation differences on gold and foreign exchange ».

The holding of SDRs in the Special Drawing Rights account reached SDR 333.1 million on 31st December 1995, against SDR 123.4 million a year earlier. The net use of the holding of SDRs on that date amounted to SDR 154.1 million.

PARTICIPATION IN THE IMF

The amount shown against this heading represents the equivalent in francs of Belgium's reserve tranche, that is, the rights possessed by the Belgian Government in its capacity as a member of the IMF, which the Bank shows as its own assets by virtue of Article 6 of Decree-Law No 5 of 1st May 1944. These rights correspond to the difference between Belgium's quota in the IMF, namely SDR 3,102.3 million, and the Fund's holdings of Belgian francs. They can be sold to the IMF at any time in order to obtain convertible currencies for financing a balance of payments deficit.

The change in these rights may also result from transactions carried out in Belgian francs, the granting of credit by the IMF in favour of member countries faced with the same type of deficit or from the repayment of such credits by these countries, as well as from transactions in Belgian francs carried out by the Fund for its own account.

The reserve tranche is expressed in SDRs and translated into francs at the same exchange rate as that used for holdings of SDRs. It amounted on the balance sheet date to SDR 675.8 million, against SDR 556.3 million a year earlier.

LOANS TO THE IMF

The purpose of this item is to record any claims held by the Bank on the Fund as a result of any loans granted to it on its own account, and also the recording of the Belgian State's claims on the IMF in the event of implementation of the General Arrangements to Borrow — by which the member countries of the Group of Ten undertook to provide the Fund with resources in the cases specified by these agreements. The last-mentioned claims would be shown in the Bank's accounts as its own assets in accordance with Article 6 of the afore-mentioned Decree-Law No 5 of 1st May 1944. On the balance sheet date, as was the case a year earlier, there were no loans to the IMF.

DEPOSIT WITH THE IMF WITHIN THE FRAMEWORK OF THE ESAF

The amount shown under this heading is the equivalent of the SDRs which the Bank has paid into a special deposit account with the IMF in respect of Belgium's participation in the Enhanced Structural Adjustment Facility (ESAF). The purpose of this credit facility is to support the efforts of low-income developing countries which undertake macroeconomic and structural adjustment programmes.

The deposits are valued at the same exchange rate as that applied to holding of SDRs. On the balance sheet date they amounted to SDR 180 million.

ECUS

These are the ecus which the Bank received in connection with the swap transactions whereby it contributed to the EMI 20 p.c. of its gold and of its gross holdings in US dollars, plus or minus the ecus purchased or transferred in respect of interest on the net position in ecus or in connection with transactions with other central banks of the European Union.

The ecus are valued on the balance sheet date at the market exchange rate of the last working day of the year, as published by the European Commission, namely Fr. 38.6979 for 1 ecu on 31st December 1995 against Fr. 39.1614 a year earlier. The translation difference in respect of the net holding of ecus is shown under heading « Valuation differences on gold and foreign exchange ».

On 31st December 1995 the holding of ecus amounted to 3,071.9 million ecus against 3,781.3 million ecus at the end of the previous year. This change was mainly due to the decrease in the quantity of ecus received in respect of the renewal of the swap transactions with the EMI (567.3 million ecus). The sale of ecus against foreign currencies (191.1 million ecus) to a central bank of the European Union was partly counterbalanced by the receipt of interest on the net holding of ecus (49 million ecus).

The decrease in the amount of ecus made available to the Bank by the EMI is attributable to the smaller contribution of gold due to the reduction in the gold holding and to the simultaneous decline both in the price of gold and in the exchange rate for the US dollar, which are used in these swap transactions. The incidence of these effects was heightened by the reduction in the contribution of US dollars.

On 31st December 1995 the Bank had a net holding of ecus amounting to 735.6 million ecus.

EMI : VERY-SHORT- AND SHORT-TERM FINANCING

The figures shown under this heading represent, where appropriate, the Bank's claim, expressed in ecus, on the EMI in respect of very-short-term financing of interventions carried out either at the exchange rates for compulsory intervention in the foreign exchange mechanism of the European Monetary System or within the framework of special agreements concluded between participants in the EMS.

This item would also record any claims which the Bank may hold in respect of the short-term monetary support among the central banks of the Member States of the European Union.

INTERNATIONAL AGREEMENTS

This item is reserved for recording claims in francs on non-EU countries with which Belgium has concluded payment agreements. The balances appearing under it represent the outstanding amount of the advances granted under these agreements, the execution of which is governed by the agreement of 15th June 1972 between the State and the Bank.

ADVANCES AGAINST PLEDGED SECURITY

The following are included under this heading :

	31-12-1995	31-12-1994
— Fixed-term advances against the pledging of public securities granted through the periodical allocation of credits by tender	19,075,000	29,000,000
— Daily closing credits granted to the financial intermediaries in the form of current account advances	360,627	3,323,402
— Other current account advances	1,457	23,931
Total	19,437,084	32,347,333

COMMERCIAL BILLS

The item consists of :

	31-12-1995	31-12-1994
— Commercial bills purchased under repurchase agreements in connection with the periodical granting of credits by tender	950,396	999,446
— Commercial bills mobilised at the official discount rate and counted against the credit institutions' individual mobilisation ceilings	2,378,981	2,724,203
Total	3,329,377	3,723,649

SECURITIES PURCHASED IN THE MARKET

This item records the Treasury certificates, bonds and other securities traded in the money or capital markets which the Bank acquired directly in the secondary market in pursuit of its open market policy.

When purchased, the securities are recorded in the accounts at the purchase price; in the balance sheet they are valued on the basis of their actuarial yield, calculated on purchase, account being taken of their redemption value at maturity. The difference (premium or discount) between the purchase price and the redemption value is carried to the profit and loss account pro rata temporis of the residual life of the securities as a constituent part of the interest produced by these securities. This difference is carried to the profit and loss account on an actuarial basis, account being taken of the real yield rate on purchase. These securities are recorded in the balance sheet at their purchase price plus or minus the portion of the said difference carried to the profit and loss account.

On the balance sheet date the Bank's securities portfolio contained Treasury certificates totalling Fr. 21.9 billion and linear bonds totalling Fr. 2 billion. The market value of the portfolio reached Fr. 24 billion.

CLAIMS DUE TO OTHER INTERVENTIONS IN THE MONEY MARKET

These are the claims which the Bank holds as a result of repurchase agreements in respect of various types of private or public securities concluded within the framework of its open market interventions or as a result of loans on the interbank market.

The amounts recorded in respect of the claims are those of the funds made available to the financial intermediaries.

On the balance sheet date there were no loans on the interbank market.

COIN

Under an agreement concluded between the Minister of Finance and the Bank, the ceiling on the Bank's holding of coins is fixed at 10 p.c. of the coins in circulation on 31st December of the preceding year; it amounted to Fr. 2,029 million for the year 1995.

The terms and conditions of repayment in the event of overstepping of the contractual limit are governed by special provisions; these provisions did not have to be applied in 1995.

STATUTORY INVESTMENTS (ART. 21)

The securities which the Bank holds, under Article 21 of its Statutes, as the counterpart of its capital, reserves and depreciation accounts, are recorded under this heading. They consist of bills and securities referred to in Article 17,1 of the Statutes and, subject to permission from the Minister of Finance, of securities representing the capital of financial institutions governed by special legal provisions or placed under the guarantee or supervision of the State, of shares of the BIS in Basle, and of all other security necessary or useful for the performance of the Bank's functions.

On purchase, public securities are recorded in the accounts at their purchase price; in the balance sheet they are recorded on the basis of their actuarial yield, calculated on purchase, account being taken of their redemption value at maturity. The difference (premium or discount) between the purchase price and the redemption value is carried to the profit and loss account pro rata temporis of the residual life of the securities as a constituent part of the interest produced by these securities. This difference is carried to the profit and loss account on an actuarial basis, account being taken of the real yield rate on purchase. These securities are recorded in the balance sheet at their purchase price plus or minus the portion of the said difference carried to the profit and loss account.

The shares are recorded in the balance sheet at their purchase price. The shares of the BIS are valued in francs on the basis of the exchange rate on the day of their purchase.

In the course of the past year the Bank paid in foreign currencies its contribution — equivalent to Fr. 676 million — to the capital of the EMI. It also sold its shares in the capital of the National Industrial Credit Company, following the privatisation of that institution.

PREMISES, EQUIPMENT AND FURNITURE

Land, buildings, plant and tools, furniture and vehicles are shown in the accounts at their purchase value.

In 1995 the Bank's capital investments totalled Fr. 684 million, including incidental expenses; with the exception of land, they are written off in full in the year of purchase. An amount corresponding to the book value of the assets which were sold or whose use was discontinued was deducted from the « Premises, equipment and furniture » account.

OTHER ASSETS

The amounts recorded under this heading are commercial and other claims, stocks and work in progress.

The reduction in the amount entered under this heading relates to the full discharge, by means of the net exchange profits made this year, of the claim on the Treasury in respect of the net exchange losses incurred in 1992 on transactions which entailed changes in the assets or liabilities held by the Bank under international agreements which it implements on behalf of the State or for which the latter gives its guarantee.

REGULARISATION ACCOUNTS

This item records, in so far as they significantly influence the result for the current year, incomes earned and expenses to be carried forward.

BALANCE SHEET*(Thousands of francs)**LIABILITIES***NOTES IN CIRCULATION**

The amount of notes in circulation, expressed as a daily average, amounted to Fr. 412.2 billion in 1995, against Fr. 425.8 billion in 1994, corresponding to a decrease of 3.2 p.c.

DEPOSIT OF THE BELGIAN STATE

By virtue of an agreement dated 17th June 1993 between the Belgian State and the Bank, the state deposit bears interest on the part which does not exceed Fr. 15 billion.

DEPOSIT OF THE LUXEMBOURG STATE

By virtue of an agreement dated 24th June 1993 between the Luxembourg State and the Bank, the deposit of the Luxembourg State bears interest on the part which does not exceed Fr. 507 million.

LIABILITIES DUE TO INTERVENTIONS IN THE MONEY MARKET

The amounts recorded under this heading are commitments to repurchase public or private securities sold under reverse repurchase agreements, loans contracted by the Bank on the interbank market and daily closing surpluses of the financial intermediaries placed with the Bank via the RGI. The latter are the only amounts appearing under this heading on the balance sheet date.

COUNTERPART OF ALLOCATIONS OF SDRs

The amount represents the equivalent of the SDRs, recorded at the same rate as holdings of SDRs, which would have to be returned to the IMF if SDRs were cancelled, if the SDR Department were abolished or if Belgium decided to withdraw from it. This liability, of indeterminate duration, amounts to SDR 485.2 million.

UNAVAILABLE RESERVE OF CAPITAL GAINS ON GOLD

This item records the capital gains obtained by the Bank in connection with arbitrage operations in gold against other external reserve elements. Under Article 20 bis of the Organic Law of the Bank, these realised gains are recorded in a special unavailable reserve account; they are exempt from all taxes and, in the event of liquidation of the Bank, the balance of this special account would be assigned to the State.

OTHER LIABILITIES

The amounts recorded under this heading are debts in respect of taxes and social contributions, and also the sums payable in respect of distribution of the profit in accordance with Article 38 of the Bank's Statutes.

REGULARISATION ACCOUNTS

This item comprises, in addition to amounts to be charged in respect of interest and tax payable, a residual amount of Fr. 113.3 million resulting from the inclusion in the result of exceptional gains, spread over a period of time, obtained in 1993 on statutory portfolio investments.

VALUATION DIFFERENCES ON GOLD AND FOREIGN EXCHANGE

This account is credited or debited with the translation differences corresponding to the difference between, on the one hand, the book value, on the balance sheet date, of the net external reserve positions and, on the other hand, the average cost price of these.

Balance at the end of 1994		314,859,166
Movements :		
— Valuation differences in respect of gold	—82,261,137	
— Other valuation differences	—19,679,080	
		<u>—101,940,217</u>
Balance at the end of 1995		212,918,949

PROVISION FOR TAX BURDENS

This is a provision established to cover any tax burdens which may result from the correction of the basic taxable amount or from the calculation of the tax.

PROVISION FOR PREMISES, EQUIPMENT AND FURNITURE

The purpose of this provision is to enable the Bank to meet the expenses entailed by the execution of its programme of investment in new premises.

Balance at the end of 1994		955,981
Movements :		
— Write-back	—43,000	
— Increase	400,000	
		<u>357,000</u>
Balance at the end of 1995		1,312,981

PROVISION FOR CONTINGENCIES

This item consists of the Provident Fund which was created at the end of 1957 in view of the risks inherent in the Bank's activity and of the fluctuations to which its results are subject.

Balance at the end of 1994	10,150,000
Increase	100,000
Balance at the end of 1995	10,250,000

CAPITAL

The capital of Fr. 400 million is divided into 400,000 registered or bearer shares of Fr. 1,000 each, of which 200,000 registered and untransferable shares are recorded in the name of the State.

RESERVE FUND

The Reserve fund, provided for in Article 14 of the Bank's Statutes, consists of the statutory reserve, the extraordinary reserve and the account for depreciation of premises, equipment and furniture.

The increase in the statutory reserve and the extraordinary reserve is the result of the distribution of the appropriated profit for the year just closed. The account for depreciation of premises, equipment and furniture shows an increase of Fr. 491.5 million, corresponding to the amount of the investments made in 1995, less an amount equivalent to the book value of assets sold or no longer used.

The tax-exempt part of the extraordinary reserve amounts to Fr. 567.7 million.

OFF-BALANCE-SHEET ITEMS*(Thousands of francs)***LIABILITIES WHICH MAY GIVE RISE TO A CREDIT RISK***Firm undertakings to make funds available*

These are undertakings to make funds available in respect of repurchase agreements and fixed-term advances with a value date later than the balance sheet date	51,739,068
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VALUABLES AND CLAIMS ENTRUSTED TO THE INSTITUTION

<i>For encashment</i>	17,233
<i>Assets administrated on behalf of the Belgian State</i>	8,487,201
— credit balances with the Postal Cheque Office held by the Bank in implementation of the financial assistance agreements financed by the State	2,859,184
— other assets	5,628,017
<i>Safe custody deposits</i>	8,212,718,480

The securities (Treasury certificates, linear bonds, securities resulting from the splitting of linear bonds, Treasury bills, certificates of deposit and certain classical loans) recorded under the securities clearing system appear under this heading at a market value of Fr. 7,825 billion.

PROFIT AND LOSS ACCOUNT

(Thousands of francs)

RECEIPTS

PROCEEDS OF TRANSACTIONS WITH FOREIGN COUNTRIES

The proceeds of transactions with foreign countries increased by Fr. 7,398 million compared with the previous year. On 31st December 1995 they amounted to Fr. 21,273 million.

This rise is attributable to the expansion in the average volume of investments abroad and to the improvement in their average yield. In the year under review the securities portfolio enabled capital gains to be realised, whereas capital losses had been recorded the previous year. However, the value in francs of incomes in foreign currencies declined owing to the appreciation of the Belgian franc during the financial year.

PROCEEDS OF CREDIT TRANSACTIONS

The proceeds of credit transactions amounted to Fr. 6,322 million, or Fr. 1,947 million less than in the previous year. This movement reflects the incidence of the decrease in the average volume of domestic assets and the fall in short-term interest rates on the Belgian money market in 1995.

The proceeds of credit transactions mainly consist of those from lending to the financial intermediaries. The interest charges in respect of the deposits of the Belgian State and the Luxembourg State, and also the interest charges connected with the investment with the Bank, via the RGI, of the financial intermediaries' end-of-day surpluses, are deducted from the amount. At the end of the financial year, these charges totalled Fr. 149 million, having decreased by Fr. 86 million.

PROCEEDS OF STATUTORY INVESTMENTS

The income from the statutory investments, acquired by the Bank under Article 21 of its Statutes, is slightly down compared with the previous year, owing to the decline in the capital gains made on the sale of securities coupled with a fall in the average yield of portfolio securities. This decrease was, however, partly counterbalanced by the effect of the growth in the portfolio due to the transfers made to the Reserve fund at the close of the preceding financial year.

The proceeds of the statutory investments include a gain of Fr. 26 million resulting from the disposal of the shares which the Bank held in the capital of the National Industrial Credit Company.

COMMISSION

The commission received as remuneration for the Bank's services as financial intermediary and of its services of safe custody and management of valuables is recorded under this heading.

AMOUNTS RECOVERED FROM THIRD PARTIES

These are amounts recovered in respect of delivery of goods and rendering of services to third parties. These receipts relate mainly to the activities of the Central Balance Sheet Office, the currency centres and the bond centres, to those of the securities clearing system, to work done by the Printing Works and to services rendered to the Clearing Transaction Exchange Centre of the Belgian Financial System.

DRAWINGS ON PROVISIONS

This item records the writing back of the « Provision for premises, equipment and furniture » to the extent of the expenses incurred during the year under the programme of investment in new premises.

OTHER PROCEEDS

Other proceeds for the year 1995 consist chiefly of the proceeds of the disposal of used equipment and furniture and the sale of premises, as well as the writing back of a provision.

PROFIT AND LOSS ACCOUNT

(Thousands of francs)

EXPENDITURE

STATE SHARE

This consists of the Bank's receipts which accrue to the State before any imputation of costs (general expenses, depreciation and taxes). These receipts therefore do not include the funds which go to the Treasury in the distribution of the net profit.

Transactions with foreign countries

The net income from the investments in foreign currencies which form the counterpart of the gains obtained through arbitrage transactions of assets in gold against other external reserve elements, entered in a special unavailable reserve account, is assigned to the State.

The distribution between the latter and the Bank of the other net proceeds from the Bank's profit-earning external assets for the year 1995 is, as for the preceding years, based on a distribution system which is the subject of an agreement with the Government. In this context it was agreed to assign to the State the proceeds of the Bank's external assets and of its financial management transactions, less the costs relating to external liabilities and to financial management transactions, in excess of 3 p.c. of the difference between, on the one hand, the average amount of these net profit-earning external assets and, on the other hand, the average amount of the unavailable reserve of capital gains on gold, the net foreign exchange differences realised and the capital gains obtained on sales of gold assigned to the Treasury but not paid to it.

Credit transactions

By virtue of Article 37 of the Bank's Statutes, the proceeds of the Bank's profit-earning assets in francs and of its financial management operations, less the costs in respect of remunerated liabilities in francs and financial management operations, in excess of 3 p.c. of the difference between the average amount of these assets and these liabilities are assigned to the State.

In addition to what accrues to the State under the above-mentioned provision, the Bank pays annually to the State, in accordance with the law of 2nd January 1991, a sum of Fr. 986 million in order to compensate for the additional expenses resulting for the latter from the conversion of the State's consolidated debt to the Bank into freely negotiable securities.

GENERAL EXPENDITURE

	As at 31.12.1995	As at 31.12.1994
— Remuneration and social costs	6,853,463	6,784,676
— Other expenses	1,455,062	1,512,325
Total	8,308,525	8,297,001

Expenditure in respect of wages, salaries and social costs varies relatively little from year to year. It comprises the remuneration of the staff, the management, National Employment Office trainees, temporary staff and students, and also the pensions of former members of the management and the attendance fees of the members of the supervisory bodies. Expenditure in respect of temporary staff appears under the sub-item « Other expenditure ». These costs fell by 3.8 p.c.

In 1995 the average real workforce (including National Employment Office trainees and interim staff), expressed in terms of full-time employment units, amounted to 2,924 units, against 2,937 units in 1994.

The change made from the financial year 1994 onwards to the valuation rules concerning the cost of printed and unprinted bank note paper related to an amount of Fr. 102.6 million. This amount, to be spread over the period 1994-1996, led, for the financial year 1995, to additional expenditure of Fr. 34.2 million.

DEPRECIATION OF PREMISES, EQUIPMENT AND FURNITURE

The depreciation applied as at 31st December 1995 covers the following expenses :

— Premises and technical installations	30,044
— Renovation of premises	166,604
— Software and hardware	195,913
— Equipment for the Printing Works, technical services and offices ..	243,565
— Office furniture	35,199
Total	<u>671,325</u>

TAXES AND DUES

This heading covers, in addition to corporation tax, the withholding tax on income from financial assets and the withholding tax on income from immovable assets, the non-deductible part of VAT and regional, provincial and municipal taxes.

The Bank shows in its accounts as costs relating to the year all taxes whatever their nature payable by it, less any tax repayments received during the same year. If, at the close of the year, the estimated amount of corporation tax shown under this heading exceeds imputable advance payments and withholding taxes, the additional amount due is recorded under the balance sheet heading « Other liabilities »; in the opposite case, the surplus is shown under the heading « Other assets ».

Brussels, 31st January 1996.

The Council of Regency :

Alfons VERPLAETSE,	<i>Governor</i>
William FRAEYS,	<i>Vice-Governor</i>
Frans JUNIUS,	<i>Director</i>
Jean-Pierre PAUWELS,	<i>Director</i>
Guy QUADEN,	<i>Director</i>
Jean-Jacques REY,	<i>Director</i>
Robert REYNDERS,	<i>Director</i>
Roger RAMAEKERS,	<i>Regent</i>
Rik VAN AERSCHOT,	<i>Regent</i>
Willy PEIRENS,	<i>Regent</i>
Tony VANDEPUTTE,	<i>Regent</i>
Philippe WILMES,	<i>Regent</i>
Eddy WYMEERSCH,	<i>Regent</i>
Noël DEVISCH,	<i>Regent</i>
François MARTOU,	<i>Regent</i>
Baron DELRUELLE,	<i>Regent</i>
Michel NOLLET,	<i>Regent</i>

REPORT OF THE BOARD OF CENSORS FOR 1995

The Board was sad to learn of the death of Mr Carlo Van Gestel, on 20th April 1995. Mr Van Gestel had been elected as a member of the Board on 25th February 1985 and his term of office had been extended for a further three-year period by the ordinary general meeting of 27th February 1995.

With his great knowledge of the business world, in which he played an important role, he gave the Board his valuable and much appreciated co-operation. The censors will always remember him.

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During the above-mentioned ordinary general meeting of the Bank's Shareholders, the terms of office of Messrs Maurice Charlotiaux and Herman Verwilst were extended and Mr Gérald Frère was elected as censor in order to complete the current term of office of Baron Jacques Delruelle, appointed as regent by the same general meeting.

Chevalier Paul Buysse was elected by the extraordinary general meeting of 20th November 1995 to complete the term of office of the late Censor Van Gestel, in accordance with Articles 53 and 55 of the Statutes.

*
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The Board performs a monitoring and supervisory function in various fields : verification of the Bank's accounting statements, profit and loss account and budget, verification of various schedules, lists of assets and stocks of notes, and monitoring of compliance with the internal control procedures aimed at ensuring both the Bank's operational security and its physical safety.

Every quarter, in accordance with tradition, the censors made a detailed study of the Bank's accounting statements and profit and loss account. They also analysed the factors responsible for the movement of the various balance sheet items and for that of the profit and loss account in relation to the corresponding periods of the previous year. In addition to this examination, the Board checked the accuracy of the book-keeping by having the necessary supporting documents submitted to it in the various services. Two members are assigned, in turn, for this purpose. All the aforementioned controls enabled the Board to establish that the Bank's books are kept in accordance with the rules.

The Board examined the Bank's balance sheet as at 31st December 1995 — which had been submitted to it by the Council of Regency in accordance with Article 35, paragraph 1, of the Statutes — and unanimously approved it; the administration was thereby given discharge in accordance with Article 35, paragraph 2, of the Statutes. The censors gave their approval after the Board had, on the one hand, carried out its own controls and, on the other hand, taken cognisance of the checks and verifications made by the Internal Audit Service, responsible for this supervisory function in the enterprise.

The second aspect of the tasks entrusted to the censors consists of examining the Bank's budget. This is a dual check : on the one hand, the actual expenditure for the year under review is regularly compared — in principle every quarter — with the corresponding budget estimates; on the other hand, the Board approves the draft budget for the following financial year, in this case 1996. In connection with this task, the censors particularly appreciated the fact that all the Bank's expenditure is kept well under control, thanks to, among other things, the smallness of the growth in personnel expenditure.

The censors furthermore kept a very close check on the activities of the Internal Audit Service. First of all, at the beginning of the year, they examined this service's programme for the year. From the list of the financial audits, inspections of procedure and operational audits concerning various activities of the Bank, the censors were able to ascertain that the necessary checks had been provided for in all the fields which are sensitive to the risk factor. They were subsequently able to judge that the annual programme was in fact being kept up to schedule by following the reports which the Internal Audit Service makes for them each quarter.

The Board received, with each of the Internal Audit Service's quarterly reports, a summary, by department and service, of the audits performed and the inquiries made or opinions formulated, as well as of the main comments and recommendations to which the Internal Audit Service's activities gave rise.

The Board appreciated the fact that, in response to the remarks and recommendations formulated, the departments and services concerned took the appropriate steps to correct the errors or to ensure that they do not occur again. To enable this to be judged, it should be pointed out that the censors pay particular attention to the action taken in response to these remarks and recommendations.

Additionally, the Board regularly asked to be given talks by members of the Internal Audit Service on major auditing tasks. In 1995 talks dealt with the following subjects :

- the Foreign Exchange Service's audits and inspections ;
- assessment of the internal controls in the Printing Department ;
- the auditing of securities clearing ;
- the auditing of overall physical security at the Leuven branch ;
- the auditing of the « personnel » data-processing application.

Apart from the aforementioned comments and talks, the assistance given by the Internal

Audit Service to the Board also took other forms. The Board periodically appoints one of its members to accompany the Internal Audit Service in the actual performance of one or other of its verification functions. During the year under review the censors were thus present at twelve inspections at the head office and eleven inspections in the provinces.

On the basis of its own observations and of the various reports — which were provided to it for information — on the ad hoc checks and operational audits carried out and also of the replies given to its many questions, the Board arrived at the conclusion that, during the year under review, there had been no events entailing significant losses for the Bank nor any situations during which the Bank was exposed to major risks. The censors therefore concluded that the control measures as a whole adequately cover the various risks inherent in the different fields touched upon by the Bank's activities.

The Board of Censors :

The Chairman,
Hubert DETREMMERIE.

Roger MENE, *Secretary,*
Willy DANCKAERT,
Maurice CHARLOTEAUX,
Christian D'HOOGH,
Jacques FOREST,
Philippe GRULOIS,
Herman VERWILST,
Gérald FRERE,
Chevalier Paul BUYSSE.



Board of Censors :

seated, from left to right :

W. Danckaert, H. Detremmerie, Chairman, R. Mené, Secretary, Ch. D'Hoogh,

standing, from left to right :

H. Verwilt, Chevalier Buysse, Ph. Grulois, M. Charloteaux, G. Frère, J. Forest.

Annexes

COMPARISON OF BALANCE SHEETS
(After distribution of profit)

ASSETS

	1995	1994	1993	1992	1991
Gold	232,578.9	306,267.5	330,255.6	260,228.9	333,781.3
Foreign currencies	285,926.0	231,166.0	244,221.0	193,384.4	230,801.7
Special Drawing Rights (SDRs)	14,478.9	5,737.3	6,160.8	5,662.4	18,383.0
Participation in the IMF	29,547.5	25,856.6	27,673.1	26,730.6	16,396.6
Loans to the IMF	—	—	—	—	—
Deposit with the IMF within the frame- work of the ESAF	7,870.5	8,366.0	4,940.3	4,562.3	4,473.0
Ecus	118,874.2	148,081.3	148,023.2	106,438.7	110,620.8
EMI : Very-short- and short-term financing	—	—	—	116,568.9	12,648.9
EC : Medium-term financial assistance .	—	—	—	—	—
International agreements	3,335.1	3,491.4	3,303.6	3,269.2	3,145.6
Advances against pledged security . . .	19,437.1	32,347.3	30,101.4	20,041.6	43,930.7
Commercial bills	3,329.4	3,723.6	5,578.3	10,051.0	18,404.3
Securities purchased in the market . . .	23,855.3	17,860.9	32,436.5	17,448.0	17,727.5
Claims due to other interventions in the money market	128,472.6	92,330.6	119,669.3	52,354.9	42,550.3
Advances to the Securities Regulation Fund				—	—
Advances to the Belgian State				221.0	2.6
Advances to the Luxembourg State . . .				—	—
Coin	954.5	1,102.5	1,202.8	915.4	716.7
Statutory investments (Art. 21)	46,694.2	43,753.8	40,365.8	37,235.9	34,195.5
Premises, equipment and furniture . . .	13,109.8	13,588.2	13,205.3	12,262.4	11,165.5
Other assets	397.4	3,339.3	4,446.6	6,479.4	532.5
Regularisation accounts	7,465.0	5,718.9	5,758.6	7,750.9	6,897.6
TOTAL ASSETS	936,326.4	942,731.2	1,017,342.2	881,605.9	906,374.1

AS AT 31st DECEMBER (Millions of francs)

LIABILITIES

	1995	1994	1993	1992	1991
Notes in circulation	445,836.7	412,189.7	440,603.1	430,248.9	431,513.6
Current accounts in francs	18,600.9	12,278.5	9,589.4	4,569.3	7,146.6
Deposit of the Belgian State	476.0	485.6	763.4		
Deposit of the Luxembourg State	1.0	503.2	503.9		
Liabilities due to interventions in the money market	8,061.7	3,047.3	6,045.8	4,449.1	4,240.7
Current accounts in foreign currencies	0.4	9.6	7.5	6.8	6.7
Counterpart of allocations of SDRs	21,217.4	22,553.3	23,972.5	22,138.1	21,704.8
EMI : Very-short- and short-term financing	—	—	—	—	—
Unavailable reserve of capital gains on gold	166,531.7	116,310.9	116,310.9	116,310.9	54,807.3
Other liabilities	1,934.9	2,106.4	2,339.6	2,383.5	3,536.2
Regularisation accounts	200.6	372.5	456.6	425.3	122.4
Valuation differences on gold and foreign exchange	212,918.9	314,859.2	361,965.4	250,005.8	336,024.0
Provision for tax burdens	15.1				
Provision for premises, equipment and furniture	1,313.0	956.0	778.0	939.0	1,408.0
Provision for contingencies	10,250.0	10,150.0	10,050.0	9,750.0	8,650.0
Capital	400.0	400.0	400.0	400.0	400.0
Reserve fund :	48,568.1	46,509.0	43,556.1	39,979.2	36,813.8
<i>Statutory reserve</i>	3,185.0	3,049.4	2,915.3	2,783.9	2,656.4
<i>Extraordinary reserve</i>	32,870.6	30,455.6	27,992.6	25,489.6	23,542.6
<i>Account for depreciation of premises, equipment and furniture</i>	12,512.5	13,004.0	12,648.2	11,705.7	10,614.8
TOTAL LIABILITIES	936,326.4	942,731.2	1,017,342.2	881,605.9	906,374.1

COMPARISON OF PROFIT AND LOSS ACCOUNTS AS AT 31st DECEMBER

(Millions of francs)

	1995	1994	1993	1992	1991
RECEIPTS					
Proceeds of transactions with foreign countries	21,273.5	13,875.6	22,508.5	23,251.7	21,889.5
Proceeds of credit transactions	6,321.8	8,269.3	10,820.1	9,751.0	11,656.6
Proceeds of statutory investments	3,608.5	3,778.7	3,846.3	3,535.6	3,395.0
Commission	262.9	163.1	169.5	160.1	202.6
Amounts recovered from third parties	1,907.5	1,958.3	1,859.8	1,883.6	1,676.3
Drawings on provisions	43.0	292.0	471.0	519.0	535.0
Other proceeds	192.4	83.2	94.4	27.5	95.5
	33,609.6	28,420.2	39,769.6	39,128.5	39,450.5
EXPENDITURE					
State share :	17,554.9	11,954.3	22,437.1	22,028.3	23,529.4
<i>Transactions with foreign countries</i>	14,331.0	7,082.3	14,363.4	14,430.1	14,699.2
<i>Credit transactions</i>	3,223.9	4,872.0	8,073.7	7,598.2	8,830.2
General expenditure :	8,308.5	8,297.0	8,095.7	8,186.3	7,879.3
<i>Remuneration and social costs</i>	6,853.5	6,784.7	6,781.4	6,848.2	6,600.9
<i>Other expenses</i>	1,455.0	1,512.3	1,314.3	1,338.1	1,278.4
Depreciation of premises, equipment and furniture	671.3	1,115.2	1,560.5	1,617.5	1,519.6
Provision for tax burdens	15.1				
Provision for premises, equipment and furniture	400.0	470.0	310.0	50.0	60.0
Provision for contingencies	100.0	100.0	300.0	1,100.0	200.0
Taxes and dues	2,770.5	2,657.5	3,228.5	2,902.6	2,272.5
Net profit for distribution	3,789.3	3,826.2	3,837.8	3,243.8	3,989.7
	33,609.6	28,420.2	39,769.6	39,128.5	39,450.5

DIVIDEND

	1995	1994	1993	1992	1991
Net dividend allocated per share . . .	1,705.00	1,675.00	1,640.00	1,610.00	1,575.00
Withholding tax deducted per share . .	568.33	580.89	568.75	536.67	525.00
Gross dividend allocated per share . .	2,273.33	2,255.89	2,208.75	2,146.67	2,100.00

**WEEKLY STATEMENTS PUBLISHED
IN THE « BELGISCH STAATSBLAD — MONITEUR BELGE »
DURING 1995**

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBLED - MONITEUR BELGE »
DURING 1995 (Millions of francs)

ASSETS

DATES	Gold	Foreign currencies	Special Drawing Rights (SDRs)	Participation in the IMF	Loans to the IMF	Deposit with the IMF within the framework of the ESAF	Ecus	EMI : Very-short- and short-term financing	EC : Medium-term financial assistance	International agreements
02-01-1995	306,267	231,168	5,737	25,857	—	8,366	148,081	—	—	3,491
09-01-1995	306,267	236,734	5,737	25,857	—	8,366	146,123	—	—	3,491
16-01-1995	306,267	241,326	5,737	25,857	—	8,366	138,340	—	—	3,491
23-01-1995	306,267	237,799	5,737	25,857	—	8,366	138,340	—	—	3,491
30-01-1995	306,267	238,324	5,737	25,857	—	8,366	138,340	—	—	3,491
06-02-1995	306,267	226,641	15,036	28,181	—	8,366	138,512	—	—	3,491
13-02-1995	306,267	226,525	15,036	28,181	—	8,366	138,512	—	—	3,491
20-02-1995	306,267	226,931	15,036	28,181	—	8,366	138,512	—	—	3,491
27-02-1995	306,267	226,502	15,014	28,181	—	8,366	138,512	—	—	3,491
06-03-1995	306,267	226,573	15,014	28,181	—	8,366	138,662	—	—	3,491
13-03-1995	306,267	226,519	15,014	28,181	—	8,366	138,662	—	—	3,491
20-03-1995	306,267	226,819	15,014	27,996	—	8,366	138,662	—	—	3,531
27-03-1995	306,267	226,602	15,014	27,996	—	8,366	138,662	—	—	3,531
03-04-1995	306,267	226,875	15,014	27,997	—	8,366	138,829	—	—	3,538
10-04-1995	306,267	226,398	15,014	27,997	—	8,366	138,829	—	—	3,538
14-04-1995	306,267	224,864	15,014	27,997	—	8,366	132,761	—	—	3,538
24-04-1995	237,458	292,481	15,014	27,997	—	8,366	132,761	—	—	3,538
28-04-1995	237,458	292,004	15,014	28,880	—	8,366	132,925	—	—	3,538
08-05-1995	237,458	292,466	15,023	28,880	—	8,366	132,925	—	—	3,538
15-05-1995	237,458	292,682	15,023	28,880	—	8,366	132,925	—	—	3,538
22-05-1995	237,458	294,139	15,023	28,880	—	8,366	132,925	—	—	3,537
29-05-1995	237,458	294,461	15,123	28,880	—	8,366	132,925	—	—	3,537
02-06-1995	237,458	293,105	15,123	28,881	—	8,366	133,113	—	—	3,536
12-06-1995	237,458	295,297	15,123	28,881	—	8,366	133,113	—	—	3,536
19-06-1995	237,458	295,048	15,123	28,881	—	8,366	133,113	—	—	3,534
26-06-1995	237,458	297,102	15,123	28,881	—	8,366	133,113	—	—	3,534
03-07-1995	237,458	299,269	15,123	28,881	—	8,366	133,277	—	—	3,541
10-07-1995	237,458	293,306	15,131	30,043	—	8,366	133,277	—	—	3,541
17-07-1995	251,219	274,920	15,131	30,043	—	8,366	131,646	—	—	3,456
24-07-1995	251,219	273,007	15,131	30,043	—	8,366	131,646	—	—	3,456
31-07-1995	251,219	270,542	15,131	30,045	—	8,366	131,816	—	—	3,425
07-08-1995	251,219	268,305	15,135	30,045	—	8,366	131,816	—	—	3,424
11-08-1995	251,219	266,369	15,135	30,045	—	8,366	131,816	—	—	3,421
21-08-1995	251,219	269,291	15,256	30,045	—	8,366	131,816	—	—	3,421
28-08-1995	251,219	269,094	15,256	30,045	—	8,366	131,816	—	—	3,421
04-09-1995	251,219	270,494	15,256	30,045	—	8,366	131,980	—	—	3,421
11-09-1995	251,219	272,305	15,256	30,045	—	8,366	131,980	—	—	3,421
18-09-1995	251,219	273,683	15,256	30,045	—	8,366	131,980	—	—	3,421
25-09-1995	251,219	274,965	15,256	30,045	—	8,366	131,980	—	—	3,421
02-10-1995	251,219	274,689	15,256	30,045	—	8,366	132,128	—	—	3,427
09-10-1995	251,219	272,327	15,256	31,408	—	8,366	132,128	—	—	3,427
16-10-1995	251,219	280,608	15,256	31,408	—	8,366	125,395	—	—	3,427
23-10-1995	251,219	281,064	15,256	31,408	—	8,366	125,395	—	—	3,427
30-10-1995	251,219	284,529	15,256	31,408	—	8,366	121,784	—	—	3,427
06-11-1995	251,219	284,574	15,266	31,408	—	8,366	121,944	—	—	3,427
10-11-1995	251,219	284,566	15,266	31,408	—	8,366	121,944	—	—	3,352
20-11-1995	251,194	286,250	15,266	31,408	—	8,366	121,944	—	—	3,350
27-11-1995	251,194	288,391	15,391	31,408	—	8,366	121,944	—	—	3,350
04-12-1995	251,194	291,947	15,391	31,408	—	8,366	122,088	—	—	3,330
11-12-1995	251,194	293,664	15,391	31,408	—	8,366	122,088	—	—	3,329
18-12-1995	251,194	294,937	15,391	31,408	—	8,366	122,088	—	—	3,329
21-12-1995	251,194	300,205	15,391	31,408	—	8,366	122,088	—	—	3,329
29-12-1995	251,194	303,577	15,391	31,408	—	8,366	120,298	—	—	3,335

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBLAD - MONITEUR BELGE »
DURING 1995 (Millions of francs)

ASSETS (continuation and end)

DATES	Advances against pledged security	Commercial bills	Securities purchased in the market	Claims due to other interventions in the money market	Coin	Balances at the Postal Cheque Office :		Statutory investments (Art. 21)	Miscellaneous accounts ¹	TOTAL ASSETS
						A Account	B Account			
02 - 01 - 1995	30,203	3,724	17,861	91,598	1,124	—	2,985	43,955	29,347	949,764
09 - 01 - 1995	29,335	3,779	21,813	74,831	1,185	—	2,985	43,955	30,016	940,474
16 - 01 - 1995	31,552	3,719	21,813	67,757	1,287	—	2,840	43,956	30,217	932,525
23 - 01 - 1995	33,244	3,372	21,813	64,760	1,356	—	2,824	43,956	30,328	927,510
30 - 01 - 1995	37,142	3,239	17,798	54,859	1,400	—	2,755	46,908	17,139	907,622
06 - 02 - 1995	32,610	3,515	17,798	62,957	1,317	—	2,727	46,908	17,141	911,467
13 - 02 - 1995	26,607	3,886	17,790	67,725	1,333	—	2,721	46,908	17,253	910,601
20 - 02 - 1995	28,429	3,135	19,759	65,846	1,297	—	2,678	46,908	17,132	911,968
27 - 02 - 1995	28,992	3,532	21,797	60,724	1,258	—	2,675	46,904	17,160	909,375
06 - 03 - 1995	24,442	3,357	21,793	72,724	1,242	—	2,663	46,909	17,180	916,864
13 - 03 - 1995	32,662	3,308	21,785	59,615	1,224	—	2,663	46,909	17,214	911,880
20 - 03 - 1995	27,673	3,235	21,776	68,640	1,143	—	2,644	46,908	17,276	915,950
27 - 03 - 1995	26,309	3,299	21,770	65,514	1,134	—	2,642	46,907	17,326	911,339
03 - 04 - 1995	23,375	3,574	21,764	77,875	1,116	—	2,641	46,908	17,247	921,386
10 - 04 - 1995	16,760	3,776	19,788	84,800	1,123	—	2,616	46,908	17,341	919,521
14 - 04 - 1995	15,902	3,745	19,788	89,466	1,044	—	2,665	46,908	17,372	915,697
24 - 04 - 1995	19,498	3,648	17,814	80,629	1,020	—	2,715	46,908	17,408	907,255
28 - 04 - 1995	18,347	3,174	19,789	85,864	986	—	2,715	46,908	17,427	913,395
08 - 05 - 1995	27,238	3,346	19,789	79,723	986	—	2,892	46,908	17,375	916,913
15 - 05 - 1995	19,799	2,982	19,791	88,673	955	—	2,889	46,908	17,373	918,242
22 - 05 - 1995	21,041	3,390	19,797	90,815	980	—	2,888	46,908	17,439	923,586
29 - 05 - 1995	19,920	3,615	19,743	98,620	934	—	2,887	46,908	17,502	930,879
02 - 06 - 1995	16,175	3,011	19,750	109,961	912	—	2,863	46,908	17,579	936,741
12 - 06 - 1995	14,920	3,431	21,735	99,756	1,010	—	2,862	46,905	17,462	929,855
19 - 06 - 1995	18,019	2,940	21,739	101,516	1,051	—	2,854	46,905	17,406	933,953
26 - 06 - 1995	17,427	2,915	21,741	105,714	1,095	—	2,843	46,908	17,385	939,605
03 - 07 - 1995	20,099	3,466	21,743	103,529	1,095	—	2,837	46,908	17,273	942,865
10 - 07 - 1995	24,202	3,041	21,745	103,308	1,075	—	2,836	46,908	17,201	941,438
17 - 07 - 1995	5,177	5,762	21,749	116,332	1,131	—	2,835	46,909	17,150	931,826
24 - 07 - 1995	9,945	3,716	21,752	114,590	1,132	—	2,835	46,909	17,215	930,962
31 - 07 - 1995	9,855	3,866	21,755	112,507	1,207	—	2,802	46,909	17,217	926,662
07 - 08 - 1995	8,577	5,735	21,756	110,361	1,296	—	2,790	46,909	17,210	922,944
11 - 08 - 1995	5,715	2,618	21,757	123,632	1,169	—	2,790	46,909	17,123	928,084
21 - 08 - 1995	6,025	5,593	23,737	115,994	1,106	—	2,790	46,909	17,191	928,759
28 - 08 - 1995	5,230	3,669	23,737	112,263	1,095	—	2,790	46,909	17,204	922,114
04 - 09 - 1995	800	2,620	23,739	126,221	1,128	—	2,767	46,909	17,241	932,206
11 - 09 - 1995	2,661	2,625	23,741	124,533	1,167	—	2,767	46,909	17,315	934,310
18 - 09 - 1995	6,910	2,626	23,743	117,742	1,160	—	2,722	46,909	17,368	933,150
25 - 09 - 1995	5,850	2,625	23,746	116,057	1,183	—	2,854	46,909	17,405	931,881
02 - 10 - 1995	20,428	3,024	23,746	97,945	1,193	—	2,848	46,908	17,210	928,432
09 - 10 - 1995	7,958	3,121	23,748	114,921	1,213	—	2,940	46,908	17,235	932,175
16 - 10 - 1995	20,172	2,849	23,749	105,641	1,193	—	2,934	46,908	17,303	936,428
23 - 10 - 1995	7,456	3,422	23,750	115,054	1,169	—	2,933	46,908	17,320	934,147
30 - 10 - 1995	21,089	3,348	23,750	102,676	1,143	—	2,933	46,909	17,307	935,144
06 - 11 - 1995	15,179	3,473	23,753	110,691	1,088	—	2,933	46,909	17,351	937,581
10 - 11 - 1995	14,368	4,768	23,755	110,815	1,102	—	2,933	46,909	17,347	938,118
20 - 11 - 1995	15,776	3,069	23,754	109,200	1,160	—	2,917	46,908	17,182	937,744
27 - 11 - 1995	20,974	3,180	23,749	100,653	1,121	—	2,905	46,908	17,219	936,753
04 - 12 - 1995	13,274	2,846	23,744	121,683	1,126	—	2,898	46,907	17,182	953,384
11 - 12 - 1995	7,323	4,960	23,748	127,843	1,118	—	2,894	46,905	17,245	957,476
18 - 12 - 1995	7,139	2,312	24,736	135,910	1,055	—	2,892	46,905	17,313	964,975
21 - 12 - 1995	16,616	4,510	23,746	130,820	1,007	—	2,859	46,905	17,383	975,827
29 - 12 - 1995	19,437	3,329	23,855	128,473	955	—	2,859	46,905	17,072	976,454

¹ Including premises, equipment and furniture.

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBLAD - MONITEUR BELGE »
DURING 1995 (Millions of francs)

LIABILITIES

DATES	Notes in circulation	Current accounts in francs	Deposit of the Belgian State	Deposit of the Luxembourg State	Liabilities due to interventions in the money market	Current accounts in foreign currencies	Financial assistance agreements	Counterpart of allocations of SDRs	EMI : Very-short and short-term financing	Unavailable reserve of surplus gains on gold	Valuation differences on gold and foreign exchange	Capital, reserves and depreciation accounts ¹	Miscellaneous accounts	TOTAL LIABILITIES
02 - 01 - 1995	408,728	12,280	814	503	3,066	10	2,985	22,553	—	116,311	314,859	43,956	23,699	949,764
09 - 01 - 1995	401,830	8,660	1,844	504	2,742	7	2,985	22,553	—	116,311	314,838	43,956	24,244	940,474
16 - 01 - 1995	398,933	6,010	693	504	2,161	7	2,840	22,553	—	116,311	313,825	43,956	24,732	932,525
23 - 01 - 1995	395,887	5,563	53	505	1,154	7	2,824	22,553	—	116,311	313,543	43,956	25,154	927,510
30 - 01 - 1995	389,522	5,319	232	5	968	321	2,755	22,553	—	116,311	313,656	46,909	9,071	907,622
06 - 02 - 1995	392,658	6,030	29	5	1,194	9	2,727	22,553	—	116,311	311,775	46,909	11,267	911,467
13 - 02 - 1995	391,128	6,937	28	5	1,065	7	2,721	22,553	—	116,311	311,604	46,909	11,333	910,601
20 - 02 - 1995	394,695	4,605	54	5	908	7	2,678	22,553	—	116,311	311,617	46,909	11,626	911,968
27 - 02 - 1995	391,777	4,697	11	5	1,511	7	2,675	22,553	—	116,311	311,041	46,909	11,878	909,375
06 - 03 - 1995	397,293	6,606	31	5	2,259	7	2,663	22,553	—	116,311	310,978	46,909	11,249	916,864
13 - 03 - 1995	395,758	4,168	15	—	1,399	30	2,663	22,553	—	116,311	310,768	46,909	11,306	911,880
20 - 03 - 1995	400,000	4,108	54	—	1,106	7	2,644	22,553	—	116,311	310,247	46,909	12,011	915,950
27 - 03 - 1995	395,663	3,735	3	—	1,350	7	2,642	22,553	—	116,311	309,822	46,909	12,344	911,339
03 - 04 - 1995	399,669	10,067	1,074	—	2,152	8	2,641	22,553	—	116,311	309,608	46,909	10,394	921,386
10 - 04 - 1995	401,647	8,623	811	—	1,246	12	2,616	22,553	—	116,311	309,076	46,909	9,717	919,521
14 - 04 - 1995	406,745	6,513	1,490	—	1,623	9	2,665	22,553	—	116,311	301,348	46,909	9,531	915,697
24 - 04 - 1995	401,160	5,891	18	—	1,798	9	2,715	22,553	—	166,532	249,033	46,909	10,637	907,255
28 - 04 - 1995	406,034	5,694	1,910	—	1,063	9	2,715	22,553	—	166,532	249,187	46,909	10,789	913,395
08 - 05 - 1995	407,782	8,535	18	—	1,199	9	2,892	22,553	—	166,532	249,337	46,909	11,147	916,913
15 - 05 - 1995	410,831	5,902	38	—	1,822	6	2,889	22,553	—	166,532	249,211	46,909	11,549	918,242
22 - 05 - 1995	414,790	5,316	24	—	2,218	3	2,888	22,553	—	166,532	250,523	46,909	11,830	923,586
29 - 05 - 1995	416,301	9,338	990	—	2,192	836	2,887	22,553	—	166,532	249,881	46,909	12,460	930,879
02 - 06 - 1995	421,372	9,155	2,499	—	2,066	2	2,863	22,553	—	166,532	249,301	46,909	13,489	936,741
12 - 06 - 1995	415,730	5,911	2,472	—	3,249	2	2,862	22,553	—	166,532	249,859	46,909	13,776	929,855
19 - 06 - 1995	419,950	5,401	2,878	—	4,218	3	2,854	22,553	—	166,532	248,795	46,909	13,860	933,953
26 - 06 - 1995	421,014	6,988	2,890	—	6,508	12	2,843	22,553	—	166,532	248,471	46,909	14,885	939,605
03 - 07 - 1995	426,156	12,578	2,013	—	3,356	37	2,837	22,553	—	166,532	248,015	46,909	11,879	942,865
10 - 07 - 1995	426,975	9,983	3,325	—	2,620	327	2,836	22,553	—	166,532	248,099	46,909	11,279	941,438
17 - 07 - 1995	422,251	6,268	3,010	—	2,915	—	2,835	22,553	—	166,532	247,129	46,909	11,424	931,826
24 - 07 - 1995	422,963	6,080	2,506	—	1,527	—	2,835	22,553	—	166,532	247,223	46,909	11,834	930,962
31 - 07 - 1995	415,545	5,083	3,219	—	4,335	—	2,802	22,553	—	166,532	246,408	46,909	13,276	926,662
07 - 08 - 1995	415,915	4,297	2,666	—	1,956	—	2,790	22,553	—	166,532	246,390	46,909	12,936	922,944
11 - 08 - 1995	419,600	5,944	1,951	—	1,733	1	2,790	22,553	—	166,532	246,756	46,909	13,315	928,084
21 - 08 - 1995	416,578	5,614	2,505	—	2,261	—	2,790	22,553	—	166,532	248,884	46,909	14,133	928,759
28 - 08 - 1995	410,433	5,492	2,553	—	1,895	—	2,790	22,553	—	166,532	248,180	46,909	14,777	922,114
04 - 09 - 1995	415,532	7,538	2,586	—	2,917	—	2,767	22,553	—	166,532	248,702	46,909	16,170	932,206
11 - 09 - 1995	414,022	9,087	1,737	500	3,809	—	2,767	22,553	—	166,532	250,274	46,909	16,120	934,310
18 - 09 - 1995	415,770	5,164	2,825	500	2,581	—	2,722	22,553	—	166,532	251,370	46,909	16,224	933,150
25 - 09 - 1995	415,365	5,374	20	501	2,850	—	2,854	22,553	—	166,532	252,257	46,909	16,666	931,881
02 - 10 - 1995	417,426	5,038	44	1	2,432	—	2,848	22,553	—	166,532	251,161	46,909	13,488	928,432
09 - 10 - 1995	419,247	6,852	1,481	1	2,318	27	2,940	22,553	—	166,532	249,878	46,909	13,437	932,175
16 - 10 - 1995	420,810	5,921	2,755	1	3,603	11	2,934	22,553	—	166,532	251,193	46,909	13,206	936,428
23 - 10 - 1995	420,684	5,881	1,457	1	2,394	6	2,933	22,553	—	166,532	251,036	46,909	13,761	934,147
30 - 10 - 1995	418,869	5,197	3,541	1	3,822	6	2,933	22,553	—	166,532	250,778	46,909	14,003	935,144
06 - 11 - 1995	421,028	7,497	2,803	1	2,557	5	2,933	22,553	—	166,532	250,259	46,909	14,504	937,581
10 - 11 - 1995	425,580	4,345	2,898	1	2,047	75	2,930	22,553	—	166,532	249,614	46,909	14,634	938,118
20 - 11 - 1995	424,280	4,148	2,031	1	4,069	10	2,917	22,553	—	166,532	249,022	46,909	15,272	937,744
27 - 11 - 1995	419,378	6,924	3,867	1	2,923	8	2,905	22,553	—	166,532	249,079	46,909	15,674	936,753
04 - 12 - 1995	423,615	17,888	2,785	1	3,675	3	2,898	22,553	—	166,532	249,795	46,909	16,730	953,384
11 - 12 - 1995	424,583	21,977	2,877	1	2,813	18	2,894	22,553	—	166,532	249,407	46,909	16,912	957,476
18 - 12 - 1995	431,125	21,441	3,547	1	2,872	28	2,892	22,553	—	166,532	250,054	46,909	17,021	964,975
21 - 12 - 1995	442,077	20,944	3,031	1	3,069	—	2,859	22,553	—	166,532	250,914	46,909	16,938	975,827
29 - 12 - 1995	445,837	18,601	110	1	8,062	—	2,859	22,553	—	166,532	251,832	46,909	13,158	976,454

¹ Of which capital : 400 millions of francs.

**SHAREHOLDER STRUCTURE
OF THE NATIONAL BANK OF BELGIUM AS AT 31.12.1995**

(Pursuant to Article 4, § 2, paragraph 2, of the law of 2nd March 1989 concerning the disclosure of major shareholdings in companies listed on the Stock Exchange)

Holder of voting rights :	Belgian State represented by the Minister of Finance
Number of securities representing the capital :	200,000
Proportion of capital :	50 p.c.

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

Agricultural Fund	Fonds Agricole
Agricultural Investment Fund	Fonds d'investissement agricole
Airways Board	Régie des voies aériennes
Antwerp Port Administration	Administration du Port d'Anvers
Assistance Fund for the Financial Recovery of Municipalities	Fonds d'aide au redressement financier des communes
Association of Flemish Chambers of Commerce and Industry	Association des Chambres flamandes de commerce et d'industrie
Association of Local Authorities for the Building of Motorways	Association intercommunale pour la construction d'Autoroutes
Autonomous Funds	Fonds autonomes
Autonomous War Damage Fund	Caisse Autonome des Dommages de Guerre
Banking and Financial Commission (formerly Banking Commission)	Commission bancaire et financière (précédemment Commission bancaire)
Belgian Air Navigation Company (Sabena)	Société Anonyme Belge d'Exploitation de la Navigation Aérienne (Sabena)
Belgian Aluminium Syndicate	Syndicat Belge de l'Aluminium
Belgian 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 (SNCB)
Belgian Office for Increasing Productivity	Office Belge pour l'Accroissement de la productivité
Belgian Petroleum Federation	Fédération pétrolière belge
Belgian Real Estate Credit Association	Association Belge du Crédit immobilier
Belgian Surveyors' Association	Association Belge des Experts
Belgian Trade Federation of Producers and Distributors of Electricity	Fédération Professionnelle des Producteurs et Distributeurs d'Electricité de Belgique

Benelux Economic Union	Union Economique Benelux
Board of Censors (of NBB)	Collège des censeurs (de la BNB)
Board of Directors (of NBB)	Comité de direction (de la BNB)
Bulletin of the National Bank of Belgium (formerly Information Bulletin of the National Bank of Belgium)	Bulletin de la Banque Nationale de Belgique (précédemment Bulletin d'Information et de Documentation de la Banque Nationale de Belgique)
Centenary Fund	Fonds du Centenaire
Central Balance Sheet Office	Centrale des Bilans
Central Consumer Credit Office	Centrale des crédits à la consommation
Central Office for Mortgage Credit	Office Central de Crédit Hypothécaire
Central Office for Small Savings	Office Central de la Petite Epargne
Central Credit Office	Centrales des Crédits
Clearing House (at Brussels)	Chambre de Compensation (à Bruxelles)
Clearing Transaction Exchange Centre of the Belgian Financial System (CTEC)	Centre d'Echange d'Opérations à compenser du Système financier belge (CEC)
Code of taxes payable by stamp or in similar ways	Code des taxes assimilées au timbre
Committee of Control for Electricity	Comité de Contrôle de l'Electricité
Committee of Management for Electricity	Comité de Gestion de l'Electricité
Committee of the Brussels Stock Exchange	Commission de la Bourse de Bruxelles
Consultation Committee for Creditor Interest Rates	Comité de concertation des taux d'intérêt crédeurs
Consultative Committee for Co-ordinating Medium-Term Export Financing (« Cofinex »)	Comité Consultatif de Coordination du Financement à Moyen Terme des Exportations (Cofinex)
Consultative Council for External Trade	Conseil Consultatif pour le Commerce Extérieur
Council of Public Credit Institutions	Conseil des Institutions Publiques de Crédit
Council of Regency (of NBB)	Conseil de Régence (de la BNB)
Council of State	Conseil d'Etat
Creditexport Association	Association Creditexport
Department of Applied Economics at the Free University of Brussels	Département d'Economie appliquée de l'Université Libre de Bruxelles (DULBEA)
Department of National Education	Département de l'Education Nationale
Deposit and Consignment Office	Caisse des Dépôts et Consignations
Direct Taxes Department	Administration des Contributions directes
Economic Expansion and Regional Reconversion Fund	Fonds d'Expansion Economique et de Reconversion Régionale

Economic Research Institute [formerly Economic, Social and Political Research Institute (of Louvain University)]	Institut de Recherches Economiques [précédemment Institut de Recherches Economiques, Sociales et Politiques (de l'Université de Louvain)]
Energy Board	Administration de l'Energie
Excise Department (Ministry of Finance)	Service des Accises (Ministère des Finances)
Export Credit	Creditexport
External Trade Fund	Fonds du Commerce Extérieur
Federation of Belgian Enterprises (formerly Federation of Belgian Industries)	Fédération des Entreprises de Belgique (précédemment Fédération des Industries Belges)
Federation of Chemical Industries	Fédération des Industries chimiques
Federation of Enterprises in the Metal Manufacturing Industries	Fédération des entreprises de l'industrie des fabrications métalliques
Fund for the Financial Balancing of the Social Security System	Fonds pour l'équilibre financier de la Sécurité Sociale
General Budget Statement	Exposé Général du Budget
General Savings and Pensions Fund (GSPF)	Caisse Générale d'Epargne et de Retraite (CGER)
Housing Fund of the Large Families League	Fonds du Logement de la Ligue des Familles Nombreuses
Housing Institute	Institut du Logement
Industrial Promotion Office	Office de Promotion Industrielle
Information Bulletin of the Ministry of Finance	Bulletin de Documentation du Ministère des Finances
Inland Water Transport Regulating Office	Office Régulateur de la Navigation Intérieure
Joint Committee of Banks and Bank Employees	Commission paritaire des banques
Ministry of Economic Affairs (MEA)	Ministère des Affaires Economiques (MAE)
Ministry of Agriculture	Ministère de l'Agriculture
Ministry of Employment and Labour	Ministère de l'Emploi et du Travail
Ministry of Finance	Ministère des Finances
Ministry of National Defence	Ministère de la Défense Nationale
Ministry of National Education	Ministère de l'Education Nationale
Ministry of the Civil Service	Ministère de la Fonction Publique
Ministry of Public Works	Ministère des Travaux Publics
Ministry of Social Security	Ministère de la Prévoyance Sociale
Monetary Fund	Fonds Monétaire
National Coal Mines Council	Conseil National des Charbonnages

National Committee for Economic Expansion	Comité National d'Expansion Economique
National Del Credere Office	Office National du Ducroire
National Economic Council	Conseil Central de l'Economie
National Employment Office (NEMO)	Office National de l'Emploi (ONEM)
National Foundation for Financing Scientific Research	Fondation Nationale pour le Financement de la Recherche Scientifique
National Fund for Credit to Trade and Industry	Caisse Nationale de Crédit Professionnel
National Fund for the Rehabilitation of Handicapped Persons	Fonds National pour le Reclassement des Handicapés
National Housing Company	Société Nationale du Logement
National Housing Fund	Fonds National du Logement
National Industrial Credit Company (NICC)	Société Nationale de Crédit à l'Industrie (SNCI)
National Institute for Agricultural Credit	Institut National de Crédit Agricole
National Investment Company	Société Nationale d'Investissement
National Labour Council	Conseil National du Travail
National Land Company (formerly National Smallholders' Company)	Société Nationale Terrienne (précédemment Société Nationale de la Petite Propriété Terrienne)
National Local Railways Company	Société Nationale des Chemins de Fer Vicinaux
National Joint Mines Commission	Commission Nationale Mixte des Mines
National Register of Physical Persons	Registre national des personnes physiques
National Sickness and Disability Insurance Institute	Institut National d'Assurance Maladie-Invalidité
National Social Insurance Office	Office National de Sécurité Sociale
National Statistical Institute (NSI)	Institut National de Statistique (INS)
National Water Distribution Company	Société Nationale des Distributions d'Eau
Nuclear Energy Research Centre	Centre d'Etudes de l'Energie Nucléaire
Planning Bureau	Bureau du Plan
Post Administration	Administration des Postes
Post Board	Régie des Postes
Postal Cheque Account (PCA)	Compte de Chèques Postaux (CCP)
Postal Cheque Office (PCO)	Office des Chèques Postaux (OCP)
Public Debt Ledger	Grand-Livre de la dette publique
Public Social Assistance Centres	Centres publics d'aide sociale
Rediscount and Guarantee Institute (RGI)	Institut de Réescompte et de Garantie (IRG)

Research Department (of the NBB)	Département des Etudes (de la BNB)
Road Fund	Fonds des Routes
Royal Society for Political Economy	Société Royale d'Economie Politique
Sabena (see Belgian Air Navigation Company)	Sabena (cf. Société Anonyme Belge d'Exploitation de la Navigation Aérienne)
Savings Bank Section of the General Savings and Pensions Fund	Caisse d'Epargne de la Caisse Générale d'Epargne et de Retraite
Sea Transport Administration	Administration des transports maritimes
Sea Transport Board	Régie des transports maritimes
Securities Deposit and Clearing Office of the Financial Sector	Caisse interprofessionnelle de Dépôts et de Virements de Titres
Securities Regulation Fund	Fonds des Rentes
Sinking Fund	Caisse d'Amortissement
Social Programming Agreement	Accord de programmation sociale
Solidarity Fund for Financing Early-Retirement Pensions.	Fonds de solidarité de financement de la prépension
Special Municipalities Fund	Fonds spécial des communes
Staff Pensions Fund	Caisse de Pensions du Personnel
Superior Finance Council	Conseil Supérieur des Finances
Telegraphs and Telephones Board	Régie des Télégraphes et des Téléphones
Textile Industry Federation	Fédération de l'Industrie Textile
Town Planning Board	Administration de l'Urbanisme
Treasury and Public Debt Administration	Administration de la Trésorerie et de la Dette Publique
Union of Non-Ferrous Metal Industries	Union des Industries des Métaux Non Ferreux

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