

REPORT



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National Bank of Belgium



REPORT



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NATIONAL BANK OF BELGIUM

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

INTERNATIONAL ENVIRONMENT

The development of the world economy during the year under review can be said to have been encouraging. While average annual growth speeded up only moderately in the OECD area as a whole, from 2 p.c. in 1995 to 2.4 p.c. in 1996, the recovery which took shape in the course of the year in some of Belgium's major partner countries was much more marked.

Several positive developments contributed to this improvement in the economic climate. The most obvious is the progress made in the endeavour to arrive at a more balanced policy mix. In many countries, the governments focused more on medium-term objectives of budgetary consolidation and price stability, thus creating room for a relaxation of monetary policy, especially in continental Europe. Even where the business cycle was already in a more advanced phase, as in the United States, Australia and the United Kingdom, inflationary pressures remained largely subdued and the monetary authorities had little or no cause to apply the brakes.

Against this background, growth was also sustained by financial factors. In the United States, as in other Anglo-Saxon countries and Japan, the decline in long-term interest rates which had started in 1995 stimulated, with a certain time-lag, investment by enterprises and households, while at the same time facilitating the reduction of public deficits, especially in countries with a relatively high debt ratio. Shortly after the beginning of the year, this downward trend of long-term interest rates was interrupted nearly everywhere by a renewed upward movement. This was most marked in the United States, where bond

yields rose appreciably between January and June under the influence of a further improvement in the economic situation, a resurgence of inflationary expectations and the associated prospects of a tightening of monetary policy. This movement initially drew interest rates on the European and Japanese capital markets in its wake, but the upward movement there proved to be less strong and of shorter duration, so that from the second quarter onwards there was a certain « decoupling » of the course of interest rates in the three main economic areas. After the summer, a fresh decline in long-term interest rates set in practically all over the industrialised world, and this strengthened further until the end of the year. The earlier upsurge of bond yields appears to have had only slight repercussions on the stock markets, in which sentiment remained generally positive, particularly in the United States, where the most representative stock exchange indices were 20 to 25 p.c. higher in December than they had been a year earlier. These developments induced the Chairman of the Federal Reserve to issue a warning against the possible implications for monetary policy of exuberant and irrational increases in share prices.

Some observers have expressed the view that the remarkably synchronous movement of bond yields in the three main areas of the OECD during the last few years, despite contrasting cyclical situations and divergent exchange rate developments, could be seen to be due to the worldwide liberalisation and integration of financial markets, which have increased the possibilities of arbitrage and facilitated the diversification of security portfolios. Closer investigation shows, however, that the correla-

tions among changes in long-term interest rates in the three major economies have not increased significantly over the last fifteen years. Domestic fundamentals and expectations about future short-term interest rates still appear to be the main determinants of the level of and fluctuations in long-term yields. Their synchronism therefore seems to be connected more with the convergence of results and expectations concerning inflation in the three major economic areas. Apparently there is still scope for diverging movements of long-term interest rates between the United States, Europe and Japan, adapted to the specific cyclical phase in each area, as recent developments in fact seem to confirm.

Developments on the foreign exchange markets, too, have helped to create more balanced international economic relationships. The effective appreciation of the US dollar which started in the spring of 1995 continued steadily during the year under review and in December reached 4.2 p.c. compared with December 1995. At the same time the Japanese yen depreciated, on average, by 8.7 p.c. and the German mark by 3.9 p.c. Good progress towards more balanced and hence more sustainable exchange rate relationships was also made within the European Union. This convergence of most of the European currencies towards levels close to their central rates in the exchange rate mechanism seems to indicate that the financial markets regard these as a credible reference point for the final conversion rates at which these currencies will enter the third stage of EMU.

The strong profitability of enterprises and the improvement in business confidence have been a fourth activity-promoting factor, thanks to which investment was maintained at a relatively high level in the Anglo-Saxon countries and Japan and recovered in a number of European countries, especially in the second half of the year.

Lastly, it should be mentioned that the overall picture is also positive outside the OECD : the developing economies are gen-

erally showing continuing dynamic growth and in many transition countries growth prospects have improved and progress has been made in financial stabilisation.

The OECD estimates point to converging growth figures in the three main economic regions in 1996 and 1997. Even so, the various areas are still in very different stages of the business cycle.

The United States appears to have already been in a period of steady expansion for several years. Whereas in 1995 the economy seemed to be making a « soft landing », activity has been accelerating again since the beginning of 1996. The high rates of employment and capacity utilisation indicate, however, that growth is coming close to, or even exceeding, its potential, but up to the present they have not led to any quickening of inflation. For 1997 the forecasts point to only slightly lower growth figures, of just over 2 p.c. The crucial question is whether this development is sustainable without the appearance of inflationary pressures. In any case, the American authorities are faced with the delicate task of precisely dosing and if necessary making timely adjustments to the course of monetary and budgetary policy, and of preventing nervous financial markets from bringing about exaggerated reactions.

In Japan the course of economic activity was more capricious. After the very weak growth performance of the preceding years, there was a marked quickening of the rate during the first half of 1996, albeit partly owing to temporary and exceptional factors. Thus, domestic demand was largely sustained by extensive restimulation programmes introduced by the public authorities, by reconstruction investment after the Kobe earthquake and by anticipatory household purchases triggered by announced increases in indirect taxes. In the meantime, however, the need was felt to curb this expansionary policy, in view of the swelling of the budget deficit and the increasing pressure exerted on the public finances by a rising debt ratio and a rapidly ageing population. Despite a

very easy monetary policy stance and the fact that, partly owing to the depreciation of the yen, the external contribution to growth turned moderately positive again, the rate of economic expansion slackened appreciably in the second half of the year. Nevertheless, according to the base-line scenario presented by the international institutions for 1997, the expected increase in disposable income, the further expansion of investment by enterprises and the rise in exports will counterbalance the disappearance of the budgetary stimuli and will gradually put the Japanese economy back on track towards stronger growth. All this presupposes, however, the maintenance of an accommodating monetary policy stance.

Several factors indicate that within the European Union, and more particularly on the continent, the course of the business cycle has become much more synchronous in recent years. This is doubtless not unconnected with the economic integration and the intensification of trade within the common market, the greater role assigned to the market mechanisms and the more aligned macroeconomic policies.

At a moderate rate of 1.6 p.c., average growth in the European Union during the past year has lagged distinctly behind that in the rest of the world. As forecast, however, the slackening of growth which took place in most Member States in the second half of 1995 and the early part of 1996 proved to be only temporary: in the course of the year a recovery set in nearly everywhere, despite greater budgetary consolidation efforts in many countries in view of the forthcoming launching of monetary union. Although the restrictive short-term effects of these further rounds of economy measures perhaps still predominated at first, this at the same time strengthened the credibility of the consolidation process, opening the way to a further easing of monetary policy and a notable degree of convergence of both short-term and long-term interest rates. If account is also taken of a number of positive factors on the supply side, such as the satisfactory yield of

investments, low credit costs, generally large production capacity margins and moderate wage developments, together with the return to more balanced intra-Community exchange rate relationships, conditions in the European Union appear to be conducive to lasting, non-inflationary economic growth, increasingly sustained by the components of domestic expenditure.

We must not, however, blind ourselves to certain risks. A first factor of uncertainty lies outside the Union, and relates to the question whether the growth scenarios which are marked out for the United States and Japan will in fact be realised. Furthermore, growth prospects in the European Union will also depend to a great extent on the development of domestic employment, which plays a decisive role in determining consumer confidence. In general, the quickening of growth has not yet led to any noteworthy improvement in the situation on the labour market. At the end of the year under review the unemployment rate, at 10.9 p.c., was still just as high as it had been a year earlier.

The European Union differs from the United States through the extent of structural unemployment and the low employment-intensiveness of growth. There is broad agreement that this poor performance of the European labour market is connected with a number of institutionalised rigidities. That is why structural reforms have been advocated for many years.

In the Netherlands, the policy of wage moderation and redistribution of work perseveringly pursued for many years has for some time been visibly bearing fruit: in 1996 total employment is said to have increased by 2 p.c., or about 120,000 units. Such a development is reflected in confidence, as is evidenced by the increase in private consumption, which at about 2.9 p.c. was particularly high by European standards and considerably boosted the growth of the Dutch economy. Similarly, Austria, which has a long tradition of social partnership and where job creation is invar-

ably given absolute priority in collective bargaining, has succeeded, despite a fairly strongly regulated labour market, in keeping the unemployment level far below that in most other European countries. The results achieved by these countries are all the more

eloquent because they are, like Belgium, small, open and highly developed economies which are exposed just as much as it is to the vicissitudes of the business situation abroad, to technological progress and to shifts in the international division of labour.

PROGRESS TOWARDS ECONOMIC AND MONETARY UNION

We are now less than two years from the introduction of the euro and the changeover to a single monetary policy, and within about one year the decision will be made as to which countries will be eligible to participate in the third stage of Economic and Monetary Union (EMU). The latest period of cyclical slowing has not made it any easier for a number of countries to meet in time, that is, in 1997, the convergence criteria of the Treaty of Maastricht, more specifically those relating to the public finances. This has even been the case with Germany and France, the two main actors without which monetary union is hardly conceivable. The political authorities in Europe have not, however, yielded to the — sometimes strong — pressures to delay monetary union by a few years or, which would perhaps have been worse, to bring it about under less stringent conditions. Policy reorientations were in any case necessary; but there was the danger that, without the stimulus of « Maastricht », these might have been wrongly regarded as being less urgent and that, once again, meagre short-term benefits would have been gleaned at the expense of higher long-term costs. The need to arrive at a more balanced policy mix and above all at sounder public finances is in fact not only arising in Europe; it is also making itself felt far from here, quite independently of the convergence criteria, including in the United States, Japan, Australia and New Zealand.

Some observers object that the accession conditions do not fully comply with

the theoretical model of an « optimum currency area ». But the political reality is that these are the outcome of a laboriously negotiated consensus between fifteen sovereign States and that they have shown, since then, their ability to bring about a more harmonised macroeconomic policy within the Union. Furthermore, strict interpretation of the Maastricht norms is not the same thing as a narrow interpretation; with regard to the budgetary criteria, and particularly the debt criterion, the provisions of the Treaty in fact explicitly allow a certain margin for judgment which makes it possible to take account of other factors which by nature are more difficult to quantify ex ante, while the exchange rate criterion also allows some scope for interpretation. In this respect, the procedure for accession to the monetary union is less rigid than some would like it to appear. A purely mechanical application of the criteria on the basis of a snapshot at a given moment would furthermore be liable to fail to achieve its purpose. Because, for a successful start to monetary union, it is essential that the degree of convergence reached shall be stable and lasting. Soundly-based trends therefore deserve to carry more weight in the final assessment than results achieved thanks to non-recurrent measures or creative economic accounting.

It is thus important to adhere both to the timetable and to the conditions for participation as laid down in the Treaty and subsequently confirmed and explicitly stated by the European Council at the successive

Madrid, Florence and Dublin summits. A provisional assessment shows that both aims are attainable.

In their latest reports on convergence, both the European Commission and the European Monetary Institute (EMI) concluded that the efforts to achieve a high degree of nominal convergence had led to appreciable progress in the Union during the recent period. Over the twelve-month period up to September 1996, average inflation rates below the reference value of 2.6 p.c. were observed in ten Member States, while two others were not very far from that rate. Most of the countries have thus achieved an inflation percentage close to or even below the level generally regarded as reflecting a situation of price stability.

In the same group of countries, plus the United Kingdom, long-term interest rates also remained below the reference value of 8.7 p.c. Furthermore, during the year under review, the convergence of long-term interest rates generally quickened, including and above all in the countries where they were still above that figure. A contributory factor to this, in addition to receding inflation expectations and decreasing risk premiums, was probably the fact that financial markets, too, are becoming increasingly convinced that monetary union will start on time and with a large founder group. The stability of exchange rates within the European exchange rate mechanism, most of the time at levels close to the central rates of the respective currencies, is another encouraging pointer. The entry of the Finnish markka and the Italian lira into the mechanism, in October and November respectively, increased the number of participating countries to twelve. That means that a large majority within the Union wishes to commit itself to the convergence criterion for exchange rates, too.

The results achieved by most of the Member States in the consolidation of their public finances have up to the present been less convincing. The ECOFIN Council, when it made its last assessment in the frame-

work of the excessive deficit procedure, which dates back to June 1996, reached the conclusion that only three countries did not have an excessively high deficit : Denmark, Ireland and Luxembourg. On the basis of more recent Commission figures, four Member States had in 1996 a public deficit below the reference value of 3 p.c. of GDP, namely the same three plus the Netherlands. In ten others the deficit was between 3 and 4 p.c. Among these, Finland and Belgium, with 3.3 and 3.4 p.c. respectively, were closest to the set value. These same data indicate that eight of the twelve countries with a public debt ratio above the reference value of 60 p.c. of GDP, including Belgium, showed a moderate to sharp decrease in this ratio during the past year.

Partly owing to the improvement in economic prospects and the supplementary consolidation measures adopted or recently announced by many governments, there are good prospects that a substantial number of Member States will fulfil on time the necessary conditions for participating in monetary union from the outset. Especially with regard to the budgetary criteria, most of the Member States do not have much margin for manoeuvre; they will therefore have to implement as quickly as possible the measures decided upon for 1997 and make sure that there is no backsliding in any of the components of the public budgets. But even if some countries were to be unable to meet the convergence criteria on time and in a sustainable way, there is still the need to do everything possible in order to be able to comply with them rapidly.

Against this background, and also thanks to the determination with which the political authorities have remained fully committed to the EMU project despite reluctances at national level and differences of opinion on some practical aspects, it has proved possible to dispel the Euro-scepticism which seemed to prevail up to the end of last year and to strengthen the credibility of EMU. As the crucial date approach-

es, the advantages, but also the challenges, connected with the changeover to a single currency are brought to the fore again; this is so increasingly in financial and industrial circles and even in the countries where willingness to participate in monetary union has hitherto seemed rather slight. For it is indisputable that the importance of this event goes far beyond purely monetary aspects.

The basic principle is simple: the euro will replace the national currencies which participate in EMU, which amounts to saying that their exchange rates will be irrevocably fixed. In practice this will have the immediate effect of causing the exchange risks and also, to a great extent, the transaction costs connected with intra-Community financial and commercial transactions to disappear. The absence of exchange risks and the greater stability of price relationships will make the markets more transparent and competitive relationships more balanced, which will help enterprises and consumers to optimise their decisions concerning production, expenditure and investment and will strengthen economic integration.

Furthermore, the advent of the euro, supported by a common monetary policy, will create a large, integrated and liquid financial market which will offer more attractive opportunities for investment and financing. It is therefore to be expected that the euro will acquire a considerably more important role in the international financial system as a transaction, investment and reserve currency than that played at present by even the leading national currencies in Europe. Moreover, thanks to its considerable increase in its scale, the European capital market will be better able to perform its essential function, namely to channel surplus savings into investment as efficiently as possible and thus contribute to a better allocation of the available resources and to greater prosperity.

Monetary union is therefore not an aim in itself, but the logical and indispensable extension of the European internal

market. Furthermore, it can smooth the way to greater economic, social and political cohesion, which Europe needs in order to solve the tormenting problem of unemployment and to tackle the challenges of the next century. In this respect the hopes raised by the European Commission's White Book on growth, competitiveness and employment have so far been disappointed. Investment efforts to improve the competitiveness of the Union, together with a more effective and better co-ordinated employment policy, remain necessary, while broader fiscal harmonisation should make it possible to put such a strategy into practice without overburdening the public budgets.

The changeover to a single currency also means that the participating States will renounce their monetary sovereignty and transfer it to a federally structured, supranational institution, namely the European System of Central Banks (ESCB), which will enjoy a high degree of autonomy in order to direct its policy primarily towards the achievement and maintenance of price stability. For the smaller core countries of the European Union, of which Belgium is one, this change of régime in fact represents only a relatively modest step. These countries had long been aware that they had only a very small margin for conducting an independent monetary policy in such a closely interwoven international financial and economic environment, and they had drawn the appropriate conclusions by linking the destiny of their currencies to that of Europe's dominant economy, in which there is a tradition of monetary and economic stability. Participation in monetary union will give them a full voice in the decision-making bodies of the ESCB, which is not the case in the present constellation. For the larger countries, and certainly for Germany, whose currency serves at present as the anchor of the European Monetary System, this transfer of sovereignty is less a matter of course. Ultimately, however, it is in the interests of everyone that the euro should be a sound and stable currency, that the policy of the European Central Bank

(ECB) should enjoy a high degree of credibility and that, to this end, agreements should be concluded in advance and provided with guarantees.

The future impossibility of resorting to interest rates and exchange rates as instruments of macroeconomic adjustment for purely national purposes in fact requires that there should be sufficient flexibility and discipline in other fields, including, in all the participating countries, a controlled and moderated development of costs and more efficient functioning of the markets. It must moreover be borne in mind that a devaluation, even if in some cases it may appear to be the only means of curing an economy whose balance has been disrupted, always leads, despite the temporary stimulus which it may give to economic activity, to a real impoverishment of the nation in question, in that the maintenance of the same level of real income will require more and harder work. Furthermore, a depreciation inevitably means an erosion of the purchasing power of the financial savings of households.

In this context, the return to sound public finances is also of crucial importance, for two reasons: on the one hand, the Member States must remain able to attune their budgetary policy to their own national situation; on the other hand, it is necessary to prevent monetary stability at EMU level from being thwarted by uncontrolled developments in individual countries. These two aims are quite compatible, and some countries, including Belgium, are in fact already in such a situation.

The persistence of high public deficits is liable to deprive budgetary policy of all freedom of manoeuvre, because the financing burdens associated with them will tend to crowd out more productive or socially more desirable expenditure categories and leave no scope for any lightening of the tax burden. A controlled budgetary situation will on the other hand make it possible again to allow the operation of the automatic stabilisers, which can sustain

growth and employment in a period of slack economic activity and prevent the risk of overheating and inflation in a period of rapid expansion.

It is a misconception to believe that reducing the public deficit will produce lasting adverse effects on economic growth and employment and that small deficits are equivalent to a deflationary policy. In the short term, admittedly, budgetary consolidation may exert some pressure on economic activity, but this will generally be quickly counterbalanced by its positive effects on confidence, as revealed by lower interest rates, a reduction in precautionary saving and increased propensity to invest. These effects on confidence will be all the more marked the more durable — and thus more credible — the consolidation efforts are.

The Treaty itself contains extensive provisions governing the co-ordination of economic policy within the Union and offering the assurance of guarantees for budgetary discipline in the individual Member States. These are thus still bound, even after the changeover to the single currency, by the obligation to avoid excessive budget deficits. Nevertheless, it has generally been felt desirable to reinforce these guarantees and to provide for more effective procedures. The Pact for Stability and Growth which was adopted at the Dublin European summit meets this need, on the one hand by strengthening the surveillance of budgetary situations and their co-ordination and on the other hand by speeding up and clarifying the implementation of the excessive-deficit procedure.

The core of the Pact is that it must never be possible, save in exceptional and temporary situations, for budget deficits to exceed the 3 p.c. norm and that they must therefore, on average over a longer period, remain appreciably below this ceiling. Budgetary policy should thus be allowed to play a regulating role throughout the business cycle, albeit within strictly defined limits preventing any further loss of control. It is

also important that all the Member States, including those which do not adopt the single currency from the outset, adhere to this Pact.

With regard to the surveillance procedure, the countries which belong to the euro area will have to present stability programmes and the other Member States — the so-called derogation countries — convergence programmes in which they specify their medium-term budgetary objectives and state according to what timetable and by what measures they expect to achieve these aims. The Commission and the Council are entrusted with the task of examining the quality of these programmes and their implementation and, if there is a danger that the situation will get out of hand, of giving early warning signals and if necessary making recommendations to the Member States concerned.

The excessive-deficit procedure, for its part, will be on the one hand speeded up and on the other hand supplemented by a system of stricter sanctions against Member States of the euro area which, when the Council has established that they have an excessive deficit, do not comply with the Council's recommendations for remedying this situation within the time-limits set.

The Pact for Stability and Growth should therefore be primarily regarded as a disciplinary instrument designed to help to ensure that in the third stage of EMU the budgetary policies of the Member States remain constantly compatible with balanced economic development and low inflation, making it possible to count on low interest rates, which will ultimately also be of benefit for growth and employment.

Until such time as all Member States participate in monetary union, great attention must be paid not only to the internal stability of the euro but also to its external value and, more precisely, to promoting stable exchange rate relationships between the euro and the currencies of the other Member States which form part of the sin-

gle market without belonging to the monetary area. That is why, last December, the European Council approved the proposals made by the ECOFIN Council and the EMI concerning a new exchange rate mechanism for the third stage, in which the euro will serve as the anchor currency.

This new exchange rate agreement presents two great advantages: on the one hand, like the Pact for Stability and Growth, it will encourage the Member States which have not yet changed over to the euro to maintain contact with the leading group by means of a stability-oriented policy; on the other hand, it could protect the proper functioning of the internal market from being disturbed by uncontrolled exchange rate movements or distortions in competitive relationships. While participation in the new arrangement remains voluntary, Member States with a derogation can be expected to join the mechanism.

The design of the new exchange rate system was to accommodate the different situations in which the various derogation countries may find themselves. Consequently, relatively wide margins of fluctuation on either side of the central rates against the euro will be provided for, while at the same time the derogation countries will have the possibility of agreeing on closer forms of exchange rate co-operation with the ECB. Interventions at the margins will in principle be automatic and unlimited, as in the present model, but the ECB and the other participating central banks could suspend intervention if this were to conflict with their monetary policy centred on price stability.

The various crises which have occurred within the present exchange rate mechanism have shown that any adjustment of the central rates should be made in good time so as to avoid significant misalignments. That is why the ECOFIN Council, assisted by the future Economic and Financial Committee, and the General Council of the European Central Bank will both have to monitor the operation of the new

exchange rate mechanism on a continuous basis, while all the parties concerned will have the right to initiate a confidential procedure with a view to a possible revision of the central rates.

The fact that the main lines of the new exchange rate mechanism have already been fixed and published must help to give the financial markets the greatest possible assurance regarding the continuity of monetary and exchange rate co-operation and thus to protect the derogation countries from unwarranted pressures on their currencies.

There is also a need to provide certainty with regard to the legal status of the euro. The Dublin European summit met this requirement, too. European legislation will in the near future cover subjects such as the replacement of the ecu by the euro at a rate of one-to-one at the start of the third stage, the continuity of contracts denominated in national currencies and in private ecus and technical provisions concerning the conversion rates, including rounding. Other matters, such as the status of the euro as legal tender, will be dealt with in separate regulations which cannot be formally adopted until early 1998, but of which the essential points have already been made known.

It is noteworthy — and encouraging — that, in the preparatory activities for EMU, the emphasis has shifted during the past year from the preconditions for the change-over to the euro to matters connected with the optimum functioning of the monetary union after its creation. This also applied particularly to the EMU preparations within the European Monetary Institute.

Thus, the EMI made considerable progress last year in specifying the strategic, operational and logistic framework necessary for enabling the ESCB to perform its tasks from the start of the third stage. It must be emphasised, however, that the EMI cannot take any final decisions in this matter. It can do exploratory work, assess the

appropriateness of various possible options, set priorities, etc., but responsibility for the final choices rests, under the Treaty, with the Governing Council of the ECB, which will not become operational until about the middle of 1998. In a number of cases various courses of action have had to be left open for the time being, either because the central banks represented in the EMI have not yet reached full agreement on the questions concerned or because it is not yet quite clearly apparent what choices are best suited to the specific conditions which will prevail in the third stage. This also means that some options which are still open at present will perhaps never be put into practice.

One thing, however, is beyond all doubt : the ESCB will have to aim its monetary policy autonomously and primarily at the maintenance of price stability; this is laid down in the Treaty. With regard to the strategies which the ESCB can adopt for achieving this final aim, two possibilities have been provisionally chosen, namely monetary targeting, as conducted, for instance, by the Bundesbank, or a monetary policy which, based on a wide range of relevant indicators, concentrates directly on forecast inflation, as has been the case for some time in, for example, the United Kingdom.

In practice, and despite undeniable differences, the two strategies also display many common features. Thus, the central banks which pursue one or the other of these strategies normally consider a wide range of economic indicators when it comes to taking concrete decisions. Yet, broad preference seems to be given to a monetary targeting strategy. As it places more emphasis on developments in the monetary sphere, this approach is more in accordance with the specific responsibilities of a central bank and may be more transparent. This also makes it easier to call upon the central bank to justify the results of its policy. A monetary targeting strategy obviously requires that there shall be a sufficiently stable relationship between the ag-

gregate monitored and the general level of prices and that the central bank shall be capable of effectively influencing this monetary aggregate through the use of its interest rate policy.

In the choice of the instruments which the ESCB will have at its disposal, the EMI has been guided primarily by considerations of effectiveness and by the requirement that the ECB should be able to give clear policy signals by means of procedures in accordance with market principles. The intention is that the ECB will make use mainly of open market operations in the form of weekly tenders for two-week repos, supplemented by monthly tenders for three-month repos. In addition, the ESCB will have at its disposal a wide range of instruments for fine-tuning and will be able to issue its own debt certificates. In this connection it is to be expected that the ESCB will engage less frequently in fine-tuning operations than the Bank, which has, at present, to attune its money market management to a very precise exchange rate aim. For the financing or absorption of the money market's residual balances, two standing facilities, namely a marginal lending facility and a deposit facility, will be available. Lastly, the ESCB can also impose compulsory minimum reserves, which, however, will mainly play a money-market-regulating role, in particular by means of an averaging mechanism, implying that compliance with reserve requirements will be determined on the basis of a financial institution's average daily reserve holdings with the ESCB over a one-month maintenance period. Credit institutions would thus have the possibility of absorbing temporary liquidity shocks by means of their reserve assets, which is likely to smooth out erratic interest rate movements on the money market. The remuneration system to be applied to these reserves has still to be defined.

With regard to the choice of the counterparties, the aim is to make access to the ESCB's operations as broad as possible and to ensure equality of treatment. The financial assets eligible for mobilisation and pledging will be the subject of a two-tier

system. A first list (tier one), common to the whole of the euro area, will contain a wide range of easily marketable assets; it will not, in principle, make any distinction between public and private securities. If deemed necessary, the national central banks may add a second list of their own (tier two), which may include assets — possibly also non-marketable financial obligations — which are of particular importance to their national financial markets.

Lastly, while decisions concerning the use of the various instruments of monetary policy will be taken at central level by the ECB, the practical implementation of nearly all operations will be carried out in a decentralised manner via the national central banks. Thus, in their contacts with the ESCB, the credit institutions will continue to work essentially with their own central bank.

In order to ensure that the impulses of monetary policy are uniformly propagated throughout the euro area, it is furthermore essential that the interbank market shall be highly integrated. To this end, the EMI and the national central banks are at present establishing a cross-border interbank funds transfer system, called TARGET, which will interlink the various national real-time gross settlement systems.

At the beginning of 1997 the EMI published a detailed report on all these matters, thus enabling the potential counterparties of the ESCB to take active steps to prepare for the common monetary policy. In order to deal with the many associated practical aspects, the Bank will engage, in the course of 1997, in intensive consultation on the subject with the Belgian banking system.

By choosing, last December, a series of designs for the seven denominations of the future euro banknotes, the Council of EMI clearly indicated that the forthcoming single currency is not just an abstract entity: for the general public the euro henceforth has a concrete and identifiable appearance.

ECONOMIC DEVELOPMENTS IN BELGIUM

Domestic expenditure sustains the cyclical recovery

The average growth rate for the past year, which was 1.4 p.c., or about half a percentage point lower than in 1995, does not at first sight give an accurate picture of the underlying development, for, whereas economic activity had slowed down appreciably in the course of 1995, the opposite movement took place in 1996: the increase in GDP speeded up, from 1.2 p.c. in the first half of the year to 1.8 p.c. in the second. The Belgian cyclical profile thus kept close to that of the neighbouring countries, which is hardly surprising in view of the high degree of openness of the Belgian economy. However, activity appears to have picked up earlier in Belgium, partly as a result of the relatively higher degree of specialisation by industry in the manufacturing of intermediate products, demand for which reacts more swiftly to cyclical turn-rounds than is the case for other categories of goods.

Activity was supported in Belgium, slightly less than in the Netherlands but appreciably more than in Germany or France, by domestic expenditure. In particular, investment by enterprises which increased by 4 p.c. in volume, proved to be a dynamic demand component. As it also generates a substantial import demand, the net external contribution to GDP growth was almost neutral, despite a satisfactory rise in exports, of around 4.4 p.c. This high investment propensity of enterprises is giving rise to an adjustment of capacities which may prevent bottlenecks in production potential in the event of a prolonged expansion.

Despite a further slight contraction in the total disposable income of households, private consumption appears to have shown a modest but steady increase of 1.3 p.c. for the third year in succession. A first factor

responsible for this movement is the relative decline in incomes from property, a larger proportion of which is traditionally set aside for saving than is the case with earned incomes. The latter depend on employment and the course of disposable earned income per employee. Investigations show, however, that a change in the first of these determinants exerts, in any case initially, an appreciably greater influence on private consumption than a change in the latter. This is because fluctuations in employment have a greater effect on confidence than changes in the rate of increase of disposable income per household. These changes are generally felt to be temporary and give rise to compensatory adjustments in saving, thus stabilising consumption. Changes in employment, on the other hand, have a greater influence on the long-term income prospects of households, causing them to adjust their consumption pattern more fundamentally. The lesson to be drawn from this is obvious: if employment can be stimulated by the moderation of incomes and the redistribution of work, the net result for private expenditure — and hence for economic activity as a whole — will be more favourable in the short term and at least as beneficial in the long term as compared with the position if an equivalent total amount of disposable income were generated by the combination of a rise in remuneration per person and a reduction in employment. The aforementioned example of the Netherlands shows that these are not purely theoretical considerations.

Provided that the moderation of incomes of recent years continues, such a process can also start in Belgium. But this needs time, because employment reacts only with a time-lag to changes in labour costs. The reversal of the movement of unemployment during the second half of the year and the almost simultaneous improvement in certain indicators of consumer confidence nevertheless point in this direction.

If, furthermore, the development of the international economic climate and of investment by enterprises remains favourable, a continuance of the rise in activity to a level approaching potential growth, that is, the growth rate which can be achieved without creating strains in the utilisation of the factors of production, can be envisaged for 1997 and 1998.

Encouraging developments on the labour market but hitch in consultation between the social partners

As a result of the pause in the economic recovery which took place in the course of 1995, employment remained virtually stable between June 1995 and June 1996, rising by only 3,000 units. Despite the improvement which began to appear on the labour market in the second half of 1996, the number of employees in enterprises increased on average by only 0.1 p.c., this rise having been solely due to a growth in the number of part-time workers, since the volume of work contracted further by 0.2 p.c.

Moreover, for the first time since 1986, the labour force decreased. This phenomenon is due to a change in the rules, which induced a number of older unemployed persons to no longer remain available on the labour market. The resultant fairly marked fall in the number of registered job-seekers was therefore somewhat artificial, but these adjustments do henceforth bring the unemployment figures closer to economic reality and the international norms in force. Even if the effect of this movement is excluded, the unemployment figures improved from October onwards.

At the end of the year under review, the standardised unemployment rate amounted to 9.4 p.c. of the civilian labour force. While this is admittedly about 1 percentage point below the average for the European Union, this rate is appreciably

higher than that in Austria (4 p.c.), Denmark (5.5 p.c.), the Netherlands (6.4 p.c.), Portugal (7.1 p.c.) and the United Kingdom (7.5 p.c.), for instance.

It is generally agreed that the present level of unemployment is unacceptable from the human, social and economic point of view, and should be a primary concern of policy. Many recipes are circulating, but unfortunately few ready-made solutions. The many structural or cyclical facets of the question obviously justify a broad and differentiated approach, but, in order to be really effective, employment policy must concentrate primarily on the crux of the problem. The Bank's previous annual report already emphasised the smallness of the margin on the supply side of the labour market: the activity rate in Belgium is already exceptionally low, partly owing to the extent — and the expensiveness from the budgetary point of view — of the early and temporary retirement schemes, which ultimately have to be financed by a proportionally ever-narrower base of active persons.

The solutions must therefore stem from an increase in employment. In this connection, apart from the trend of technological progress, three main determinants are involved: two of them, namely the level of activity and the relative cost of the various factors of production, produce a direct effect on the total volume of work generated by an economy; the third, the average duration of work per employee, determines the division of this available volume among a greater or smaller number of persons. Other elements, too, such as the labour regulations, may exert a certain influence, but they generally also make themselves felt indirectly in terms of labour costs or the division of labour.

As already stated, in a small, open economy the level of activity is largely dependent on economic developments abroad. In addition, many structural factors which can improve or reduce the performance of an economy play a role: the level

and duration of education, technical innovation, spirit of enterprise, investment climate, an appropriate macroeconomic policy mix, etc. But, ultimately, the way in which the expansion is generated is relatively unimportant for the total volume of employment.

What is of decisive importance for the labour-intensiveness of economic growth is the relationship between labour costs and the costs of other factors of production, and this is also more directly influenceable. Changes in relative factor costs to the advantage of labour costs will promote the utilisation of labour, particularly because they curb investment in rationalisation. Furthermore, wage moderation may provide some indirect stimulus for growth and thus produce additional employment effects, partly because, by strengthening the international competitiveness of enterprises, it supports exports and slows down imports. Estimates over a longer period show that a rise in labour costs 1 percentage point less rapid than that in the costs of the other factors of production leads, in time, to a positive labour-volume effect of 0.5 percentage point.

In total labour costs a distinction may be made between, on the one hand, direct costs, which are mainly determined by the wage agreements which are concluded between management and labour in their collective negotiations and comprise various components such as increases in real wages, scale adjustments and adaptations due to indexation and, on the other hand, indirect labour costs, chiefly consisting of social charges.

The third and last determinant of employment, the average duration of work, is influenced by a large number of factors, such as the collectively agreed weekly working hours, the regulations concerning holidays and absences, part-time working, recourse to temporary workers, the gradual-retirement schemes, etc. For some time now, however, the extension of part-time working has been the main tendency.

In order to place these three major determinants of employment back in their proper perspective, it is useful to quote a few figures. These relate to the period 1987-1996 and compare the movement in Belgium with that in the three main neighbouring countries: Germany, France and the Netherlands.

The volume of paid work in enterprises, measured in terms of the number of years of full-time work, increased by barely 1 p.c. over the period in question as a whole, against 4 p.c. in the three neighbouring countries combined. During this same period the increase in the value added generated by enterprises amounted to about 2.4 p.c. per year in both cases. The fact that Belgium achieved less good results in terms of job creation is therefore hardly attributable to a slower growth in activity.

With regard to the second determinant of employment, the movement of relative labour costs, a similar comparison shows that labour costs in enterprises per year of full-time work increased by 4.2 p.c. per year in Belgium over the whole of the period under consideration, against an average of 3.8 p.c. in the three neighbouring countries, representing a difference of 0.4 percentage point. Between 1987 and 1993 Belgium's handicap in terms of labour costs still averaged 1 percentage point per year. Thanks to the corrective measures adopted at the end of 1993, which for the period 1994-1996 had the effect of curbing both the increase in direct labour costs — via the freezing of real wages and the introduction of the health index — and the rise in indirect labour costs — via selective reductions in social charges — the previous runaway movement of costs was partly rectified. The result of this is perhaps not directly observable from the employment figures, but it is nevertheless real. Thus, during the last two years, with average economic growth of 1.7 p.c., the volume of employment has remained virtually unchanged, whereas at the beginning of the 1990s an equivalent expansion in activity had still been coupled with a contraction in em-

ployment of 0.5 p.c. per year. The employment-intensiveness of growth therefore seems to have increased.

The above-mentioned measures also contributed to the broad stability of unit labour costs between 1993 and 1996, and this was reflected in an improvement in the profitability of enterprises and the maintenance of a low level of inflation. The combination of rising profits and low interest rates, favoured by expectations of weak inflation, can be expected, albeit with a certain time-lag, to support investment and, ultimately, growth and employment.

The distribution of the available volume of work among a larger number of persons is a matter on which both sides of industry also have an influence. In this connection, part-time working has developed less rapidly in Belgium than on average in the three neighbouring countries, the difference from the Netherlands being particularly striking. The divergence in level from the average of the neighbouring countries was equivalent in 1994 to about 3.5 p.c. of total paid employment, representing more than 40,000 jobs. It should be possible, given the necessary efforts and creativity, to catch up this leeway at the rate of about 1 percentage point per year, and thus to achieve an additional increase in employment of about 10,000 units per year.

Looking back, one cannot fail to realise that many of these positive tendencies could have manifested themselves more quickly and probably more strongly if the runaway movement of labour costs in the period 1987-1993 had been curbed earlier. We must avoid repeating the mistakes of the past. The new legislative framework concerning the negotiation of working conditions in any case provides the instruments necessary for this purpose, while what should be the foremost concern could not be better expressed than in the title of the new law, namely « the promotion of employment and the preventive safeguarding of competitiveness ». In order to achieve these aims, management and labour are

called upon to conclude an inter-trade agreement fixing the maximum rise in wages which is to serve as the guideline for the collective negotiations at national, sectoral and enterprise level on the basis of the expected increase in labour costs in Belgium's three main trading partners. The legal framework is thus primarily centred on preventing uncontrolled movements and on the country's integration in EMU. By creating a macroeconomic frame for wage formation and the possibility of reserving part of the limited negotiation margins for work-redistribution measures, it is particularly conducive to job creation.

Such a macroeconomic frame, which ensures the co-ordination of wage negotiations at the national level, should make it possible to take proper account of the link between wage formation and job creation in collective negotiations. In the labour-market model which is prevalent in Europe, and more particularly in Belgium, this is not self-evident. For, if the system is decentralised or if wage negotiation takes place successively at different levels, there is the danger that macroeconomic considerations and the effects of the interwovenness of the various sectors will be pushed into the background as the bargaining process moves down to the level of sectors and enterprises.

In the light of the turnaround which the moderation of wages during the last few years appears to have brought about on the labour market and which — as has been indicated — may trigger a structural improvement in the development of employment, it can only be considered regrettable that the social partners failed to reach a consensus during the past months. But this does not alter the fact that it is still their responsibility to put the consultation at the lower levels on the right track and to ensure that it is co-ordinated at the inter-trade level, as is explicitly laid down in the new law on wages and employment.

The instruments for this are in place. The Superior Council for Employment was

set up last year, and enterprises were henceforth required to draw up and deposit a social balance sheet in addition to the annual accounts. The creation of the last-mentioned tool should provide an opportunity of rationalising the many declarations which firms have to make, which in time might result in a lightening of their administrative burdens. The framework thus created should make it possible to improve the monitoring of employment and labour cost developments and to give both the government and the social partners expert advice on these matters.

Keeping watch on the consolidation of the public finances

The deficit of general government decreased, for the third year in succession, from 4.1 p.c. of GDP in 1995 to 3.4 p.c. in 1996. The various measures adopted by the federal government enabled the primary surplus to rise very slightly further as a percentage of GDP, despite a slowing of the annual growth rate of GDP, while interest charges continued to contract, chiefly owing to the fall in interest rates but also because of the reduction in the debt ratio.

From 1993 to 1996 the public deficit declined by 4.1 percentage points of GDP, or far more than the European average. According to estimates made by the European Commission, Belgium is one of the six countries which, in 1996, had a structural deficit, that is, a deficit corrected to eliminate the effects of the business cycle, of no more than 3 p.c. of GDP.

As in the previous year — and as in fact on average since 1981 — the rise in primary expenditure in real terms was small — about 1 p.c. — in 1996, the only exception having been expenditure connected with health care. On the receipts side, the lowering of employers' social security contributions was offset by the proceeds from other measures, especially the raising of indirect taxes.

The current cyclical recovery shows that resolute action to consolidate the public finances does not necessarily act as a brake on activity. Actually, the consolidation in Belgium has formed part of an effort to arrive at a more balanced policy mix in Europe, and this has made possible a general fall in interest rates. Moreover, it has contributed to a further reduction of the long-term interest rate differential vis-à-vis Germany. If, on the contrary, the consolidation — widely seen as necessary and inevitable — had been postponed, the economic climate would probably have been adversely affected.

The budgetary measures already decided upon are designed to reduce the general government deficit to 2.9 p.c. of GDP in 1997. Two aspects of this adjustment process deserve attention: on the one hand, the forecast seems realistic, because the macroeconomic assumptions made as regards both growth and interest rates are not over-optimistic; on the other hand, the budget for 1997 contains few one-off measures, but on the contrary several, especially in the field of social expenditure, whose effects will gradually increase.

The main lines of budgetary policy for the period 1998-2000 were presented in December 1996 in a new convergence programme for Belgium which was drawn up in line with the recommendations of the Council of the European Union. A dual objective was fixed. On the one hand, the federal government undertook to stabilise the primary surplus of the federal government and the social security system combined, expressed as a percentage of GDP, at least at the level planned for 1997. It will allow this surplus to increase — up to a ceiling which is 0.4 percentage point higher — if economic growth exceeds 2 p.c. per annum: not only the savings made on interest charges but also, at least in part, any gains resulting from a more favourable business situation will be devoted to deficit reduction. On the other hand, the regional and community governments have undertaken to restore balance in the

finances of the communities, regions and local authorities in 1999, which will entail increasing the primary surplus of these administrations by 0.3 percentage point of GDP. On the basis of prudent macroeconomic hypotheses, it can be estimated that meeting of these norms would lead to an overall deficit of around 1.5 p.c. of GDP in the year 2000.

Belgium has therefore done what is necessary in order to enable itself to meet the convergence criterion in respect of the public deficit in 1997 and, after that, to fulfil the requirements of the Pact for Stability and Growth. Maintenance of the considerable primary surplus of the federal government and the social security system which will in fact be achieved in 1997, together with the attainment of the aims which the regional and community governments have set for themselves, should make possible a continuous reduction of the deficit, owing to an inverse « snowball effect », that is, the combined decline in the debt ratio and in interest charges.

The budgetary discipline imposed by the Pact for Stability and Growth is particularly recommended for Belgium, which could thus reduce its public debt ratio to a sustainable level.

Of course, for many years now, the size of the public debt has neither prevented Belgium from achieving excellent macroeconomic results in terms of price stability and external accounts nor has it been an obstacle to the harmonious functioning of the Belgian-Luxembourg monetary association. There are many reasons for this. First of all, the Belgian authorities were quick to realise that increased inflation would not be a solution : by swelling nominal GDP it could temporarily reduce the debt ratio, but it would rapidly increase real interest charges — because of the higher risk premium incorporated in interest rates — and consequently the deficit as well as the subsequent debt ratio. There is in fact a broad consensus in Belgium concerning the advantages of monetary stability. Secondly,

consolidation efforts made since the beginning of the 1980s, although irregular, convinced financial operators that the budgetary situation was not liable to become explosive. Lastly, the public debt is appreciably exceeded by private wealth, thus facilitating the financing of general government. Owing to their high savings ratio, Belgian households have built up a net financial wealth which at the end of 1995 was estimated at over 210 p.c. of GDP. Each year since 1986, the net financial savings of households and enterprises has exceeded the general government borrowing requirement, and this fact is reflected in Belgium's current account surplus. Through the accumulation of such surpluses, Belgium has a net external creditor position which was estimated at roughly 17 p.c. of GDP at the end of 1995.

Belgium's partners will therefore have no reason to fear that in the future monetary union the country's public indebtedness may lead to pressures in favour of allowing inflation to increase or to excessive recourse to the savings of the other participating countries. They will, however, have to be convinced that the ratio of government debt to GDP is diminishing sufficiently and at a satisfactory pace, in accordance with the requirements of the Treaty on European Union. But it is also for domestic reasons that a reduction of the debt ratio is important : the public finances must be freed of the excessive burden of interest payments, in order to restore to budgetary policy the scope which it will need in future for permitting the operation of the automatic stabilisers, for reducing tax pressure, especially on labour, and for meeting new needs connected in particular with the ageing of the population and the social order in general.

The reduction of the public debt ratio is already in progress : the ratio of the gross debt to GDP decreased for the third year in succession, from 136.8 p.c. in 1993 to 130 p.c. in 1996. On top of the endogenous fall connected with the contraction of the deficit there has been the

effect of financial transactions, among others the use of the capital gains on the Bank's gold sales for the redemption of the foreign currency debt. This last-mentioned operation, of around 2.7 p.c. of GDP, reduces the public debt but not the deficit, because it is recorded, according to orthodox accounting practice, as a rearrangement of the State's portfolio. On balance it is neutral for the national budget: the Treasury will receive less non-fiscal revenue from the Bank and will pay less interest on its foreign exchange debt. The share of the latter in the total indebtedness of the Treasury, which had reached 26 p.c. at the end of 1984, in a period when the BLEU's current transactions with the rest of the world were still showing a deficit, had decreased to under 8 p.c. by the end of 1996. Thus, by taking advantage of the current account surpluses and of the confidence in the national currency in order to reduce its foreign exchange debt, the State, whose receipts are mainly in francs, has been able to reduce its exchange risk.

The reduction in the debt ratio of Belgian general government between 1993 and 1996 contrasts with the rise of over 7 percentage points recorded on average in the European Union. This decline will continue in 1997, to reach about 10 percentage points in the course of four years. It will continue further after that, bringing the public debt ratio down to a level more comparable with that of the other European countries.

The reversal of the « snowball effect » shows that the consolidation efforts made have been rewarded. It is important now to achieve the objective set for 1997 without fail and, after that, to carry out the convergence programme. The experience of the last two years in the field of health care, in which the norms for the rate of real increase in expenditure have been appreciably exceeded, shows that such ambitions call for great vigilance. The authorities must also be prepared to take corrective measures if the business trend

proves disappointing, and they must not allow themselves any slackening if economic growth turns out to be stronger than expected.

Monetary stability

Monetary policy was pursued in a calm environment in 1996, the tenth year of stability of the central rate for the franc vis-à-vis the German mark. The credibility of that policy was reflected not only in the achievement of the exchange rate objective but also in the absence of any short-term interest rate differential with Germany and in a further reduction of the bond yield differential. Belgium was thus able to benefit from an easing of interest rates which brought them down to particularly low levels, in nominal and real terms, in comparison with those which prevailed during the sixteen preceding years. It is thus reaping the fruits of the continuity of monetary policy, which is underpinned by the budgetary consolidation and the safeguarding of competitiveness.

The dwindling of the long-term interest rate differential vis-à-vis Germany is a sign of the growing conviction in the financial markets that Belgium will form part of the monetary union from the outset. It is also due, however, to the continued improvement in the performance of the economy. Among its fundamentals there is one whose importance has sometimes been underestimated, because the Treaty of Maastricht focused attention on the public finances: that is the BLEU's current account surplus. Nevertheless, this, too, has the effect of reducing the risk premium incorporated in interest rates.

The current account surplus of the BLEU remained substantial, at about 5.1 p.c. of GDP, in 1996. Over three quarters of it is attributable to Belgium, because of its trade surplus.

On top of the resultant net supply of foreign currencies against Belgian francs

there is that due to direct investment, which also showed a positive balance in 1996. Furthermore, non-residents displayed a heightened interest in investments in public debt securities in francs. The resulting waves of upward pressure on the exchange rate for the franc were countered by the Bank chiefly by means of purchases of foreign currencies on the foreign exchange market, which enabled the State to repay part of its foreign exchange debt. The Bank lowered its central rate below the Bundesbank's repo rate only temporarily and by no more than 10 basis points, since it was important to consolidate the status of the franc as a substitute for the German mark. Looking ahead, there is no reason why the conversion rate for the franc at the start of the third stage of EMU should diverge from its central exchange rate vis-à-vis the German mark; furthermore, short-term interest rates will be identical in the monetary area. Any differences in the meantime will be only temporary. In particular, if the Bank continues to direct its policy towards keeping the exchange rate for the franc stable in relation to the German mark, limited fluctuations on either side of the central rate, attributable for instance to technical factors or non-economic events, need not in themselves cause concern, in view of the credibility acquired by that policy.

The approach of monetary union also entails the making of very concrete preparations, for it is time for enterprises and administrations to prepare themselves for the changeover to the euro. The financial guidelines for this transition have been drawn up by a working party and approved by the Government. The application of the « no compulsion, no prohibition » principle, whereby use of the euro in place of the Belgian franc — which will itself be a non-decimal expression of the euro — during the first years of the third stage will be neither compulsory nor forbidden, will in fact impose special requirements on the financial sector and the public authorities. In particular, the banks will make no charge for carrying out the conversion of payments in francs into euros and vice versa and the

conversion of balances on accounts into euros.

The Bank, too, is preparing for the changeover to the third EMU stage, during which it will participate in the preparation of the decisions of the Governing Council of the ECB and the implementation of these. On the institutional plane, a bill has been tabled to ensure the compatibility of the Bank's Statutes with the Treaty on European Union and to enable it to be integrated in the ESCB. As regards the instruments of monetary policy, the Bank has already had, since the 1991 reform, most of those which the EMI will submit for decision to the ECB on the date when it is established, except for the compulsory monetary reserves. It has just added to the range of its operations the issuing of its own certificates of deposit: in November and December 1996, in order to prevent the payment to the State of the capital gains obtained on the sales of gold from affecting the liquidity of the money market, the Bank issued Fr. 230 billion of these certificates. Lastly, with regard to payments, the establishment of the ELLIPS real-time gross settlement system, which has been in operation since September 1996, has prepared the way for integration into the European TARGET system.

The main financial guidelines of the national changeover plan are still to be implemented and the preparations for the euro are to be widened to cover aspects other than the purely financial ones, for instance the provision of information and consumer protection. At the suggestion of the aforementioned working party, the Government has set up a Commissariat-General for the Euro, entrusted with the task of stimulating consultation between the representatives of all the — private and public — sectors concerned and of ensuring the consistency of the measures to be taken in many fields. The Bank, which can be entrusted with tasks of public interest consistent with its autonomy in the conduct of monetary policy, has agreed to make available to the Commissariat the staff and logistic resources

necessary for the proper performance of its functions.

The entry of Belgium into the European monetary union will be the culmination of the monetary and exchange rate policy perseveringly pursued by the Bank. Belonging

to a large area of stability will furthermore constitute an environment conducive to growth. In the shorter term, the changeover to the euro, although it entails transition costs, can also be the opportunity, for enterprises and administrations, to increase their efficiency.

THE IMPROVEMENT CONTINUES

The year 1997 will be a decisive one for the Belgian economy in more than one respect. First of all, Belgium will have to prove that it is ready to enter the third and final stage of Economic and Monetary Union with the leading group. Situated at the geographical and political centre of the Union and maintaining particularly close relations with the neighbouring economies and the rest of the world, it belongs, by its nature, to the group of countries which can derive most benefit from European integration.

It is a mistake to believe that our country has had to or will have to pay a very high price for this. For a long time already and with growing success, Belgium has managed to live with the lack of monetary sovereignty. Admittedly, considerable efforts have had to be made for many years — albeit with varying results — to rehabilitate the public accounts, the state of which had become explosive at the beginning of the 1980s. But these sacrifices were in any case inevitable. Their true origin lies in the strategic mistakes of the past, not in the convergence criteria of the Treaty of Maastricht. On the contrary, the pressure exerted by the latter possibly prevented the necessary corrective measures from being postponed, which would ultimately have entailed even greater sacrifices. Furthermore, the efforts imposed by the budgetary consolidation have found their counterpart in increasingly clear advantages in the form of low interest rates, a stable currency and rising domestic

expenditure, all signs reflecting the restoration of confidence.

If the budget forecasts for 1997 — which are in fact based on sound macroeconomic assumptions — are realised, the cape of the 3 p.c. norm will be rounded this year, opening up the way to a lasting consolidation of the public finances. However, budgetary policy does not yet have a great deal of freedom of movement. It is therefore essential to continue to sail with the greatest caution during the next few years. Provided that the mechanisms of budgetary revenue and expenditure can be kept under control — which is not a matter of course, as was shown recently by the development of health care expenditure — the « virtuous circle » constituted by a decreasing debt ratio, a reduction in interest charges and a decline in the deficit will gradually create a margin for manoeuvre which will make it possible to use the public finances as a tool for adjustment and to meet new social needs. From this angle, the discipline imposed on the Member States of the European Union by the Pact for Stability and Growth should not be regarded as an undesirable straitjacket. On the contrary, its purpose is to ensure that the countries participating in the monetary union, which in the third stage will no longer have the possibility of resorting to interest rates and exchange rates for national purposes, will nevertheless be able, but without jeopardising the cohesion of the union, to make a differentiated use of the

budgetary instruments. The most essential reason for persevering with consolidation, however, is that sound public finances are a necessary — even if not sufficient — condition for sustained growth and lower unemployment.

Now it is precisely this last point — the problem of unemployment — that is still weak in Belgium. For too long, employment policy has focused on combating the symptoms of the disease, entailing costs which have been difficult to control in the public budgets. The crux of the problem, however, has remained unsolved.

For some time this trend has been reversed and employment policy has taken a more active course, with greater emphasis on the elimination of structural rigidities in the operation of the labour market, on the correction of the distortions in the relative prices of labour and the other factors of production and on a more balanced distribution of the available volume of work among the largest possible number of persons. In the long run such a policy opens up — for the individuals concerned and for society as a whole — better prospects than the defensive strategy previously pursued. The experience of some other open economies and a more thorough analysis of Belgium's situation show that a sustained

moderation of wages, together with work-distribution agreements and, more generally, a creative approach to employment can set in motion a positive spiral, producing appreciable knock-on effects on economic activity and the public finances. Ultimately, this benefits everybody : first the job-seekers themselves, but also enterprises and workers, who, provided that they have the necessary ability to adapt, together retain the prospect of being able to carry on a profitable activity. What is important now — this is the challenge of the coming years — is that the social partners themselves shall become the driving force in this dynamic advance.

Belgium's economic performance has indisputably improved in recent years. Consequently this country has not only rejoined the leading group in Europe but the economy has also become more robust. This can contribute to creating a favourable climate for undertaking the reforms which must be made at present in several other fields of public life, since a democratic society characterised by solidarity and humanity can only prosper in a context of economic stability.

Brussels, 3rd February 1997.



Board of Directors :

seated, from left to right :

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

standing, from left to right :

R. Reynders, J.J. Rey, J.P. Pauwels, G. Quaden, Directors, M. De Wachter, Secretary.



Regents and Government Commissioner :

seated, from left to right :

R. Van Aerschot, R. Ramaekers, W. Peirens,

standing, from left to right :

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

LIST OF ABBREVIATIONS

BIS	Bank for International Settlements
BLEU	Belgian-Luxembourg Economic Union
CTEC	Clearing Transactions Exchange Centre of the Belgian Financial System
EASDAQ	European Association of Securities Dealers Automated Quotation
EC	European Commission
ECB	European Central Bank
ECOFIN	Council of Ministers for Economic Affairs and Finance
ELLIPS	Electronic Large-value Interbank Payment System
EMI	European Monetary Institute
EMS	European Monetary System
EMU	Economic and Monetary Union
ESCB	European System of Central Banks
EU	European Union
FPC	Federal Participation Company
GDP	Gross domestic product
GNP	Gross national product
HWWA	Hamburgisches Welt-Wirtschafts-Archiv
IMF	International Monetary Fund
MEA	Ministry of Economic Affairs
MIM	Inter-professional Market
NAI	National Accounts Institute
NASDAQ	National Association of Securities Dealers Automated Quotation (United States)
NBB	National Bank of Belgium
NEMO	National Employment Office
NSI	National Statistical Institute
NSSO	National Social Security Office
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
RGI	Rediscount and Guarantee Institute
SDR	Special Drawing Right
SICAFI	Société d'investissements à capital fixe en biens immobiliers (fixed-capital company for investment in immovable property)
SICAV	Société d'investissement à capital variable (variable-capital investment company)
TARGET	Trans-European Automated Real-time Gross-settlement Express Transfer
UCIT	Undertaking for collective investment in 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 1996 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 1997, 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 1996 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 1990). 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 1996 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 the 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 and 1996 with those for the preceding years. The introduction of this new system has made it possible since 1995 for the current transactions of Belgium and Luxembourg to be recorded separately. The Bank, together with the Luxembourg institutions, has ensured that these results are consistent with the data of the BLEU.

With regard to the financial data in Chapter 6, a distinction is made for the first time between individuals and companies. This breakdown was possible chiefly thanks to the new periodic information form, the so-called form A, which the Belgian credit institutions have had to submit to the NBB and the Banking and Financial Commission since 1993, as this source provides a detailed breakdown by sector of claims on and liabilities to the Belgian banks.

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

It should in principle be possible, with the aid of the data from the real accounts, to test the quality of the estimates which are made in order to break down the financial accounts exhaustively between individuals and companies. In practice, however, there is a considerable discrepancy between those two concepts. It reflects not only the errors and omissions, which affect both the real accounts and the financial accounts, but also the conceptual differences in the methods of recording of the transactions. Thus, only very imprecise data are available concerning non-financial claims and debts — including fiscal and social debts and those connected with wages — between individuals and companies, and therefore these claims and debts are not included in the financial accounts.

In connection with the compilation of separate financial accounts for individuals and companies, an investigation was made as to how institutional investors — insurance companies, pension funds and collective investment undertakings — should be dealt with.

By looking at this category of investors separately, it was possible to make a more thorough study of the financial markets in section 6.2, since institutional investors are a specific financing channel which has expanded enormously in recent years. They have to some extent taken the place of credit institutions and of direct transactions in the securities market.

This method of presentation does not, however, make it possible to reveal the final destination of the combined portfolio investments of individuals and companies, as is the case in the approach based on the transparency principle, which consists of attributing direct to each sector the assets acquired via institutional investors. The transparency principle was therefore applied in section 6.1, in which a study is made of the behaviour of the major categories of final investors and borrowers.

On the basis of this last-mentioned method of presentation, the entire financial assets and liabilities of both households and companies can be broken down between short and long term and between francs and foreign currencies. This approach also presents the advantage that a single financial account is presented for companies as a whole, without this being distorted by the inclusion, on the liabilities side, of a large item entitled « units of collective investment undertakings and technical reserves of insurance companies and pension funds », with, as its counterpart on the assets side, substantial financial investments which are made only on behalf of individuals.

The application, in section 6.1, of the transparency principle to institutional investors does, however, have some consequences for the financial accounts of both individuals and companies.

Thus, the financial assets of individuals include the investment — for instance in mortgage credits — of the technical reserves of insurance companies and pension funds. Similarly, purchases by individuals of units of index-linked units of collective investment undertakings with protection of the principal are mainly recorded as investments in bonds or fixed-term accounts.

This is because these undertakings cover their positions by coupling a portfolio of fixed-interest assets with options on the underlying stock exchange index or contracts for the exchange of the fixed-interest incomes generated by this portfolio against payment, on the maturity date, of an amount which is based on the performance of that stock exchange index.

The accounts of companies do not in principle include institutional investors, because these, in the same way as was in fact already the case previously for credit institutions, are regarded as pure financial institutions whose financial assets are assumed to be equal to their financial liabilities. In practice, however, this means that the financial transactions which are carried out by institutional investors and credit institutions not as financial institutions but within the framework of their entrepreneurial activity have to be recorded with the transactions of companies. This relates to, among other things, transactions for the financing of real assets, financial resources derived from entrepreneurial activity, claims and debts of a commercial nature and also transactions between credit institutions and institutional investors.

In the data concerning the OECD as a whole, account is not taken of South Korea. Hungary, Poland and the Czech Republic have been included only since 1993.

When mention is made of the three neighbouring countries, this relates to the reference countries specified in the law of 26th July 1996 for the promotion of employment and the preventive safeguarding of competitiveness, namely Germany, France and the Netherlands.

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

After a slight slowing in 1995, economic expansion in the industrialised countries quickened again during the year under review : in the OECD area the growth in GDP speeded up from 2 to 2.4 p.c. This recovery in activity was partly assisted by an in many ways more balanced economic environment, including in the field of exchange rates, the curbing of inflation, the consolidation of the public finances and the level of interest rates. With regard to employment, on the other hand, the situation improved appreciably only in a few countries, especially in North America ; in Europe unemployment again reached very high levels.

In the United States the growth was the continuation of an expansion which had been uninterrupted for five years and which

was coupled with a considerable increase in employment. This revival was maintained in a context of budgetary consolidation measures and did not give rise to any resurgence of inflationary pressures or any rise in interest rates.

In Japan both the expansionary fiscal and monetary policies and the partial correction of the preceding upward movement of the yen contributed to a recovery which may have put an end to the economic stagnation which has been recorded there since the beginning of the 1990s. The fact that demand remained so weak for such a long period can be explained by the rise in the exchange rate for the yen at that time ; there were however also structural causes such as the pressure of the restructuring of the banks' balance sheets, or accidental reasons, for instance the interruptions in production brought about by the Kobe earthquake in February 1995.

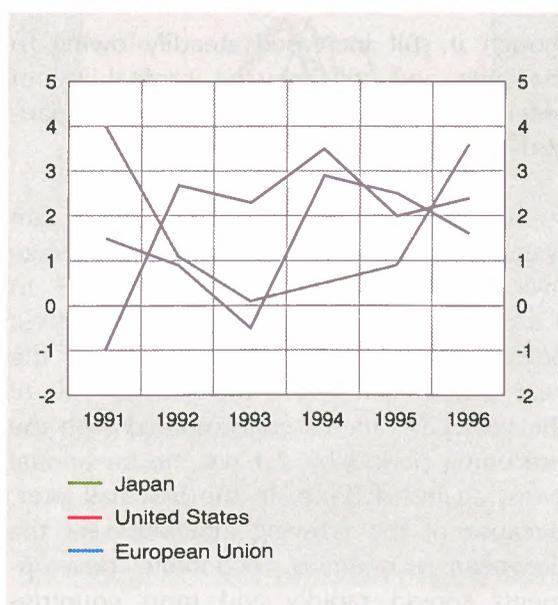
After a pause, which is quite normal during an upward cyclical phase, growth in the European Union picked up again during the year under review, albeit only from the second half of the year onwards. This revival fulfilled the expectations based on a more favourable and more convergent development of most of the economic fundamentals.

Origin of the growth

Although growth in the countries outside the OECD area slowed down, it nevertheless continued to support activity in that area : the OECD's exports to the rest of the world rose by about 10 p.c., while the corresponding imports increased by only 8 p.c. The quickening of growth in the OECD countries was, however, solely due to that in domestic demand, the rate of increase of which accelerated from 1.8 p.c. in 1995 to 2.7 p.c. in 1996. This general

CHART 1 — GROWTH OF THE MAJOR OECD ECONOMIES

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



Source : OECD.

trend conceals differences between the respective countries or groups of countries, including sometimes very irregular developments in the course of the year.

As far as growth is concerned, Japan performed best with an average of 3.6 p.c., although the expansion tended to slacken in the course of the year. Both movements were primarily due to the ambitious economic recovery programme which was launched in September 1995 and which led to a marked stepping-up of government investment in the first half of the year under review. After that, the impulses emanating from the measures weakened owing to the adoption of a more restrictive budgetary policy. Private consumption and to a smaller extent house-building also tended to fall off somewhat after the rapid rise during the first half of the year. The revival was however also supported by exports during the second half of the year and by investment by companies throughout the year. The recovery in the latter had already started in the previous year thanks to the increase in profits which was attributable to the movement of exchange rates, the continuing low level of interest rates and the reduction in costs, partly owing to the restructuring of the major manufacturing industries which was in progress. The pronounced depreciation of the yen since April of the previous year furthermore improved the competitiveness of the Japanese economy and was thus one of the causes of a revival in exports in the last months of 1996.

The soft landing for which the economy of the United States had appeared to be heading since 1995 gave way to a slight rebound during the year under review: GDP grew by 2.4 p.c., against 2 p.c. in 1995. Domestic demand revived thanks to the recovery in house-building as a result of the delayed effect of the fall in long-term interest rates in 1995, a more rapid increase in private consumption parallel with that in household incomes and the replenishment of stocks which began in the course of the year. Investment by enterprises rose somewhat less than in the preceding year, al-

TABLE 1 — EXPENDITURE

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

	1994	1995	1996
United States			
Private consumption	2.1	1.6	1.7
Investment in housing	0.4	-0.1	0.2
Public expenditure .....	...	...	0.2
Investment by enterprises ...	0.9	0.9	0.8
Change in stocks	0.6	-0.4	-0.2
Net exports	-0.5	...	-0.2
GDP	3.5	2.0	2.4
Japan			
Private consumption	1.1	1.0	1.6
Investment in housing	0.5	-0.3	0.6
Public expenditure	0.4	0.3	1.4
Investment by enterprises ...	-1.0	0.5	1.0
Change in stocks	-0.2	0.2	...
Net exports	-0.3	-0.7	-1.1
GDP	0.5	0.9	3.6
European Union			
Private consumption	1.0	1.1	1.2
Investment in housing	0.3	0.1	...
Public expenditure	0.2	0.1	0.1
Investment by enterprises ...	0.2	0.7	0.4
Change in stocks	0.8	0.2	-0.4
Net exports	0.4	0.3	0.3
GDP	2.9	2.5	1.6
of which : Germany	2.9	1.9	1.1
France	2.8	2.2	1.3
Italy	2.1	3.0	0.8
United Kingdom	3.8	2.4	2.4

Source : OECD.

though it still increased steadily owing to the high and still growing profitability of enterprises. The export balance, for its part, had a slight negative effect on growth.

In the European Union the growth rate was lower, having slowed down, on average over the year, from 2.5 p.c. in 1995 to 1.6 p.c. in 1996. This rather small rise does, however, conceal a quickening during the year under review: in the second half of the year GDP increased compared with the preceding period by 2.1 p.c. on an annual basis, against 1.6 p.c. in the first half year. Because of the growing integration of the European economies, economic developments spread rapidly and most countries display a similar cyclical pattern.

The situation in the United Kingdom, where GDP rose by 2.4 p.c., as in 1995, continued to differ from that of the countries of continental Europe. As in the United States, the expansionary phase had already started there at the beginning of the 1990s. After a slowdown in 1995, demand picked up again during the year under review, under the impetus of investment by enterprises and private consumption, the latter having been stimulated in turn by the restoration of consumer confidence.

In the other major countries, too, the course of the business cycle displayed specific characteristics. In Germany the upward cyclical phase had nearly come to a halt in the second half of 1995. As a result of the appreciation of the mark and thus of the increase in relative labour costs, the pause had particularly affected the categories of expenditure which are sensitive to the profitability and competitiveness of enterprises, namely investment by companies and ex-

ports. Business activity continued to flag in the first quarter of the year, partly owing to poor weather conditions. Thanks to a more favourable development of labour costs in 1996 — as a result of moderate wage agreements, higher productivity and a slight decline in the effective exchange rate for the mark — together with a considerably smaller loss of export market shares, partly due to this, a gradual recovery took place after that. Private consumption continued to increase steadily, parallel with disposable household income. Altogether, Germany's GDP rose during the year under review by 1.1 p.c., against 1.9 p.c. in 1995; the rate of growth picked up, however, in the course of the year.

In France, household consumption rose strongly in the first half of the year under review. This was due to a catching-up movement after the strikes of the end of 1995 and new government measures to stimulate spending. Growth was however still hampered because gross fixed capital formation by enterprises hardly increased at all and stocks were considerably reduced. Even so, growth quickened again in the second half of the year under the stimulus of a recovery in private investment and a gradual acceleration of the rise in exports.

In Italy the cyclical revival came to a stop particularly suddenly and took place later than elsewhere on the European continent. Until the second half of 1995 the Italian economy had continued to grow quite strongly, but from the beginning of 1996 onwards the recovery virtually came to a standstill.

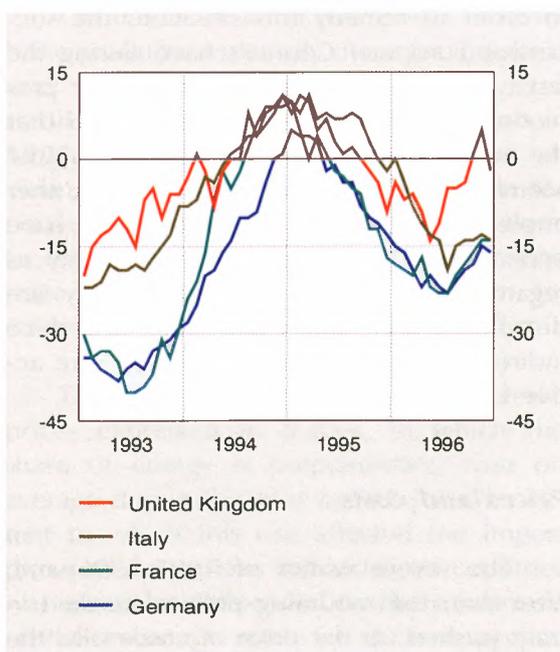
Employment and unemployment

With regard to the situation on the labour market, there are still considerable differences — not only cyclical but also, and chiefly, of a structural nature — between the major OECD areas.

In Japan the recovery in activity led to an increase in employment, which however

CHART 2 — CYCLICAL INDICATORS¹ OF THE MAIN EUROPEAN COUNTRIES

(Seasonally adjusted figures)



Source : EC.

¹ Synthetic confidence indicators in industry.

turned out to be small — namely 0.6 p.c. — and lagged slightly behind the growth in the labour force. Unemployment therefore rose somewhat, from 3.2 to 3.3 p.c., a figure considerably lower than in most other countries but high by Japanese standards.

TABLE 2 — UNEMPLOYMENT RATE

(Percentages of the labour force, annual averages)

	1994	1995	1996
United States	6.1	5.6	5.4
Japan	2.9	3.2	3.3
European Union	11.6	11.2	11.4
of which : Germany ...	9.6	9.4	10.3
France	12.3	11.7	12.4
Italy	11.3	12.0	12.2
United Kingdom	9.2	8.2	7.6

Source : OECD.

It was again in the United States that the largest number of jobs were created. Under the stimulus of the continuing strong economic expansion, the number of employed persons rose there by 1.4 p.c., which is more than the increase in the labour force. In comparison with the latter, unemployment decreased for the fourth year in succession, to a level of 5.4 p.c., which is close to the lowest rate reached in the United States in the last twenty-five years. That percentage is furthermore practically down to the structural unemployment rate, that is, the level below which a resurgence of inflationary tensions has occurred in the past.

Some Anglo-Saxon countries where the cyclical situation follows that in the United States also saw a decline in unemployment. That was the case in, among other countries, the United Kingdom, where it decreased from 8.2 to 7.6 p.c. As during the two preceding years, that was the result of

both an increase in employment and a contraction in the labour force.

The European continent fared differently. In Germany, where the labour market situation is still influenced by the restructurings in the former East Germany, the volume of work decreased in 1996 by 0.9 p.c. and the annual average unemployment rate rose from 9.4 p.c. in 1995 to 10.3 p.c. in 1996, actually reaching 10.5 p.c. in the second half of the year. About the same happened in France and Italy, with an increase in the annual average unemployment rate to 12.4 and 12.2 p.c. respectively. Although these figures are among the highest in the European Union, they reflect a situation which is rather the rule than the exception : in eight of the fifteen Member States, more than a tenth of the labour force is unemployed.

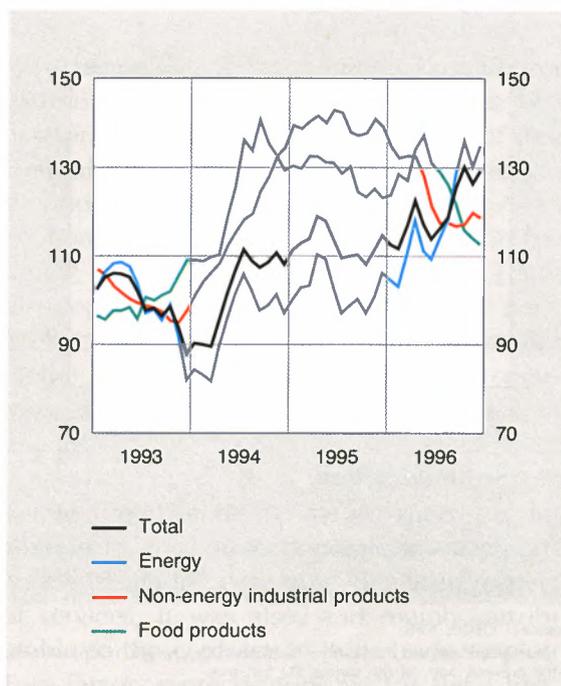
In the European Union the average unemployment rate, which had declined somewhat the previous year thanks to the economic recovery in 1994, rose again during the year under review, namely from 11.2 to 11.4 p.c. For this area, where growth is less labour-intensive than elsewhere, the imbalance on the labour market is thus still the greatest structural problem. In order to remedy this situation, the successive European Councils have during the last two years developed a strategy for promoting employment and have ensured that the multiannual programmes devised by the Member States for this purpose are further implemented. Many Member States have endeavoured to create greater flexibility as regards working hours and how they are distributed and have taken steps to reduce indirect labour costs and pursue a more active labour market policy.

Prices and costs

The severe winter of 1995-1996 and, after that, the mounting political tension in Iraq, pushed up the price of crude oil : the index figure for the prices of energy raw materials expressed in dollars rose between

CHART 3 — PRICES OF BASIC PRODUCTS IN DOLLARS

(Indices 1993 = 100)



Source : HWWA.

December 1995 and December 1996 by 27.1 p.c.; on average over the year the increase amounted to 15.4 p.c.

On the other hand, the prices of other basic products, especially those for industrial use, which had risen sharply, partly as a result of the cyclical revival which began in 1994, fell back during the year under review. The average 1996 index figure for non-energy raw material prices — basic foodstuffs and non-energy industrial raw materials — consequently went down by 8.6 p.c.

The overall index for raw material prices expressed in dollars, in which the share of energy is preponderant, rose on average during the year by 6.5 p.c. The extent to which this rise affected the import prices of the various industrialised countries was of course influenced by the movement of the exchange rates for their respective currencies against the dollar. Owing to the depreciation of the mark and above all of

the yen, raw material prices expressed in these two currencies increased much more than those in dollars, namely by 11.9 and 23.5 p.c. respectively.

The incidence of this price rise on the prices of the total imports of the OECD countries was however minimal, and in any case negligible in comparison with the effect of the oil shocks of 1973-1974 and 1978-1981. At first the recent rise in the prices of basic products remained much smaller than those which were responsible for the aforesaid shocks. Firstly, the share of these products in the OECD's total goods imports shrank considerably: the share of energy products, which had expanded between 1973 and 1983 from 12 to 24 p.c., amounted in 1994 to barely 8 p.c., and the weight of the other raw materials and basic products decreased steadily from 26 p.c. in 1974 to 14 p.c. in 1994. As far as energy products are concerned, this development is solely due to a contraction in import volumes, while, as regards the other basic products, it is also attributable to the extent of one-third to the fact that the prices of the latter have risen less fast than those of the other products. The dwindling share of basic products in the imports of the industrialised countries reflects the likewise decreasing content of imported basic products in the GDP of these countries, from 1.7 p.c. in 1973 to 1.1 p.c. in 1994.

The import prices of the OECD countries have thus been primarily influenced by the prices of the products of manufacturing industry and exchange rates. In 1996 the EU countries' import prices therefore increased only very slightly, namely by 0.5 p.c., while those of the United States fell by 1 p.c., whereas in 1995 they had risen further by 3.9 and 2.7 p.c. respectively. In Japan exactly the opposite occurred: as a result of the movements of the effective exchange rate for the yen, imported costs increased by 16.8 p.c., after having fallen by 0.2 p.c. the previous year.

In the last-mentioned country, the repercussion of the rise in import prices on

TABLE 3 — CONSUMER PRICES

(Percentage changes compared with the previous year)

	1995	1996
United States	2.8	2.9
Japan	-0.1	0.1 ¹
European Union	3.1	2.5 ¹
of which : Germany	1.8	1.5
France	1.7	2.0
Italy	5.2	3.9
United Kingdom ..	3.4	2.4

Source : EC.

¹ First eleven months.

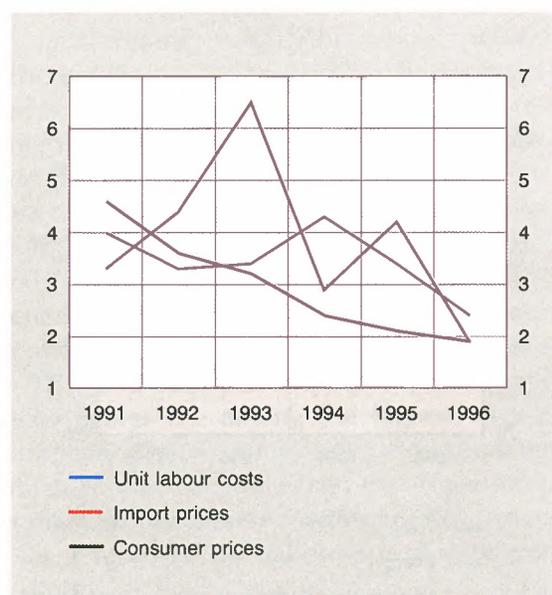
inflation was largely offset by a fall of 1.8 p.c. in unit labour costs, since average compensation of employees increased only moderately and this increase was furthermore more than counterbalanced by the much greater growth in the apparent productivity of labour. As in the previous year, the consumer price index remained more or less stable in Japan in 1996.

In the United States the rate of rise of unit labour costs did not speed up, despite the fall in the unemployment rate : average compensation per employee increased by 3.3 p.c., against 2.7 p.c. in 1995. As a result, however, of the sharp rise in productivity, unit labour costs went up by only 2.7 p.c., against 3.1 p.c. the previous year. Consumer prices rose in 1996, on annual average, by 2.9 p.c., i.e. at about the same rate as in the previous year ; inflation did however quicken somewhat during the year.

In most of the countries of the European Union the rise in unit labour costs was kept down, as in the preceding year, to about 1 p.c. ; the effects of this moderation came on top of those of the small rise in import prices. A striking exception in this connection is Italy : there, unit labour costs rose by 3.9 p.c. in 1996 against 2 p.c. in 1995, a development which was however more than counterbalanced by the opposite course of import prices, as the latter fell by 2.5 p.c. after having risen by 15.6 p.c. the previous year.

CHART 4 — PRICE CONVERGENCE INDICES¹ IN THE EUROPEAN UNION

(Percentages)



Sources : OECD, NBB.

¹ Unweighted standard deviation of the percentage changes, compared with the previous year, of the various EU countries.

For the EU countries regarded as a whole, inflation measured on the basis of the rise in consumer prices slackened from 3.1 p.c. in 1995 to 2.5 p.c. This improvement was shared by the great majority of the Member States, with most of them in fact converging around a very low inflation rate. This convergence tendency was also displayed by the main factors responsible for the rise in consumer prices, namely unit labour costs and import prices.

1.2 BALANCE OF CURRENT TRANSACTIONS

With regard to the development of foreign trade, the most striking feature in 1996 was the fact that Japan's current account surplus decreased even more than during the two preceding years. There was no change of importance in the current account balances of the two other major OECD economies : the deficit of the United

States grew somewhat, from 2 to 2.1 p.c. of GDP, and the surplus of the EU countries as a whole rose slightly, from 0.7 to 1 p.c. of GDP.

The deficit of the non-OECD countries increased further in 1996 owing to the disappearance of the overall surplus of the Central and Eastern European countries as a whole and that of the dynamic Asian economies, together with the increase in the deficit of non-oil-producing countries. These developments were — although only partly — counterbalanced by the improvement in the current account of the OPEC countries as a result of the rise in the price of energy.

In the case of Japan, although the decline in its current account surplus was partly due to the increase in its deficit in respect of services, it was also, and mainly, attributable to the contraction in its trade surplus. Two factors were responsible for this : firstly, the domestic market grew faster than the export markets, partly because government spending gave a strong boost to growth ; secondly, Japan's terms of trade deteriorated sharply because of the depreciation of the yen since the middle of 1995. Japan's com-

petitiveness was, however, considerably improved by this depreciation, although it was too recent for its effects to offset those of the terms of trade and relative demand. Thus, thanks to the very large rise in import prices, Japanese producers appear to have gained ground again appreciably on the domestic market in 1996, but they were not able to make up for much of their loss of export market shares until the second half of the year. The surplus in respect of income from direct and portfolio investment increased further, because Japan has very substantial net claims on the rest of the world owing to the accumulation, for some fifteen years, of large current account surpluses. Expressed in dollars, Japan's current account surplus has fallen by nearly a half, namely from 110 to 63 billion. As a percentage of GDP the fall has been nearly as large : from 2.2 to 1.4 p.c.

In the United States the current account deficit increased again somewhat in 1996 owing to the worsening of the trade balance. The growth in the volume of exports of goods, which was still very strong in 1995, slowed down because foreign markets grew less rapidly and the country's market shares stopped increasing, while the

TABLE 4 — CURRENT ACCOUNTS OF THE MAIN REGIONS OF THE WORLD

	Percentages of GDP					Billions of US dollars	
	1992	1993	1994	1995	1996	1995	1996
United States	-1.0	-1.5	-2.2	-2.0	-2.1	-148	-160
Japan	3.0	3.1	2.8	2.2	1.4	110	63
European Union	-0.9	0.2	0.3	0.7	1.0	62	85
of which : Germany	-1.0	-0.7	-0.9	-0.7	-0.7	-17	-16
France	0.3	0.7	0.5	1.1	1.3	17	20
Italy	-2.3	1.2	1.5	2.5	3.5	27	42
United Kingdom	-1.6	-1.7	-0.4	-0.4	-0.1	-5	-1
Other OECD countries	-2.2	-2.8	-2.5	-0.8	-0.3	-15	-7
OECD	-0.3	...	-0.2	...	-0.1	9	-19
OPEC	n.	n.	n.	n.	n.	-9	22
Other non-OECD countries	n.	n.	n.	n.	n.	-74	-114

Source : OECD.

expansion in the volume of imports fell off less markedly, owing to the dynamism of domestic demand.

The current account surplus of the countries of the European Union as a whole increased in 1996. This development, which reflects a rise in the trade surplus, is mainly due to the EU's position in the business cycle, as growth there in the year under review lagged behind that of its trading partners. That was in fact the case in most of the Member States.

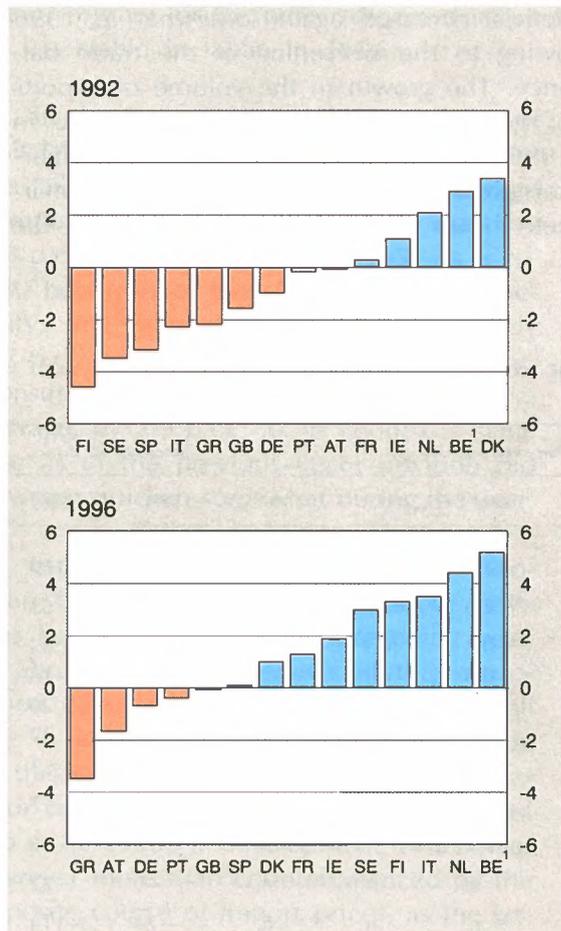
Since the 1992 foreign exchange crisis the overall current account balance of the

EU has recovered by over \$ 150 billion or nearly 2 percentage points of GDP. This shows that the Member States have saved more, which in turn has been partly attributable to the efforts made to rehabilitate the public finances in anticipation of EMU. It also shows that more resources are becoming available on the international financial markets, which simplifies the financing of investment in the rest of the world, and particularly in the developing countries.

The improvement in the European Union's current account balance between 1992 and 1996 is attributable both to the weak relative demand and to the strengthening of the EU's competitive position as a whole. On the one hand, the expansion of the foreign markets led to vigorous export growth, while the moderate increase in domestic demand slowed down the growth in imports. On the other hand, thanks to smaller wage rises expressed in a common currency, the EU was more successful than the other OECD economies in maintaining and expanding its market shares. These developments led at the same time to greater convergence of the current account balances of the Member States: during the period in question the current account balance improved in two-thirds of the Member States. In 1996, actually, the current accounts of most of the EU countries closed with a surplus.

CHART 5 — CURRENT ACCOUNT BALANCE OF THE EU COUNTRIES

(Percentages of GDP)



Sources : OECD, NBB.

¹ BLEU.

1.3 FINANCIAL AND BUDGETARY DEVELOPMENTS

In 1996, a year of weak inflation and moderate growth, economic policy continued to be aimed at the maintenance of relatively low short-term interest rates and the continuance of a restrictive public finance policy, which is justified by the level of the public debt. Such a strategy, endeavouring to bring about a general reduction of public deficits, leads to an increase in total saving and a lowering of the risk premium demanded by investors. It can there-

fore bring about a fall in long-term interest rates and thus helps to stimulate growth.

Fiscal policies

Most of the industrialised countries, including Japan, made further progress in 1996 in the rehabilitation of their public finances which started at the beginning of the 1990s. Owing to the increase in its public debt, Japan opted for a restrictive policy orientation during the year under review, although this change of policy did not yet lead to a reduction in the deficit for the calendar year as a whole.

Against the background of slackening economic growth, Japan had pursued, in the budgetary years 1992 to 1995, an expansionary policy which had resulted in ever-increasing deficits: various programmes were drawn up providing for, among other things, a stepping-up of government investment and the adoption, in 1994, of tax reliefs. The most recent package of measures, decided upon in connection with the 1995 budget, was already partly implemented at the beginning of 1996. General government investment and social security expenditure rose sharply, pushing up the deficit on the year from 3.3 p.c. of GDP in 1995 to 4.1 p.c. in 1996.

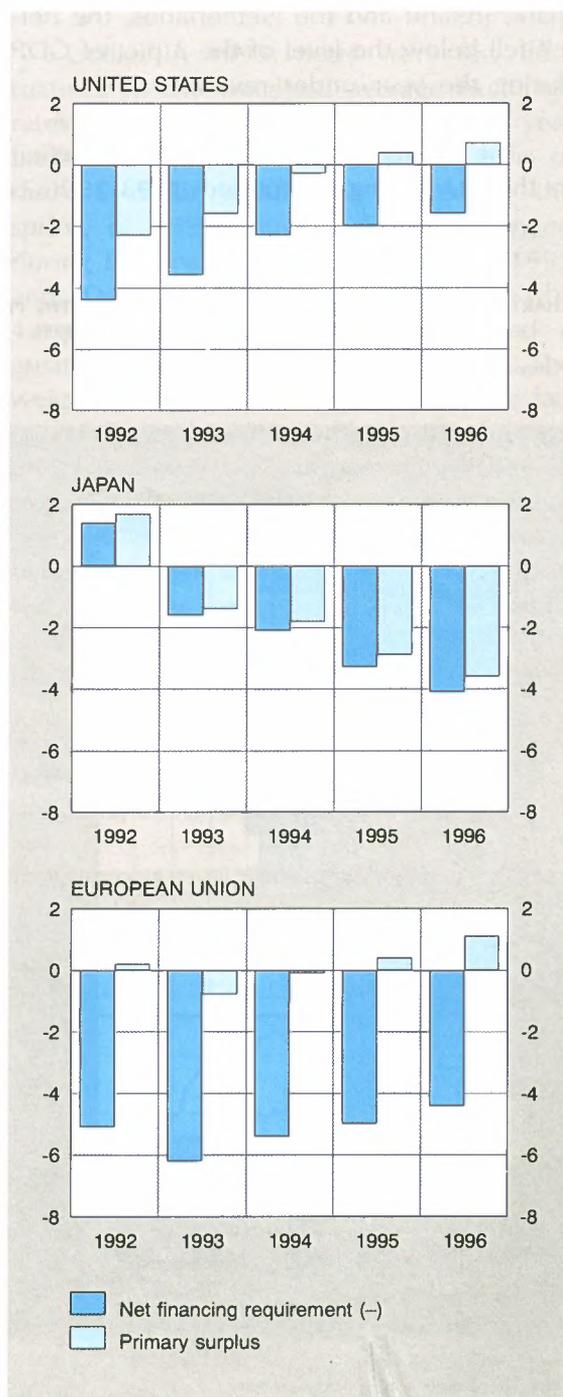
In the United States the net financing requirement fell steadily, from 4.4 p.c. of GDP in 1992 to 1.7 p.c. in 1996. This decrease was coupled with the reduction in the primary deficit, which turned into a surplus in 1995. This tendency was confirmed during the year under review, as the primary surplus rose again, by 0.2 percentage point. As during the preceding years, these developments stemmed from the « Omnibus Budget Reconciliation Act » of 1993, which provides for a restriction of public expenditure on consumption and investment and an increase in tax revenue. The aim is to balance the budget by the year 2002.

The overall deficit of the countries of the European Union as a whole contracted for the third year in succession — from

5 p.c. of GDP in 1995 to 4.4 p.c. in 1996 — as a result of the continued pursuit of a budgetary consolidation policy partly necessitated by the obligations imposed on

CHART 6 — NET FINANCING REQUIREMENT AND PRIMARY BALANCE

(Percentages of GDP)



Sources : OECD, EC.

the candidate countries for Monetary Union. This led to greater convergence between the EU Member States. Thus, between 1993 and 1996, the net financing requirements decreased everywhere, except in Germany and Austria, where they rose, and in Luxembourg, where the surplus became smaller. Furthermore, the deficits of most of the countries moved closer to the EU average. In three of them, namely Denmark, Ireland and the Netherlands, the deficit fell below the level of the 3 p.c. of GDP during the year under review.

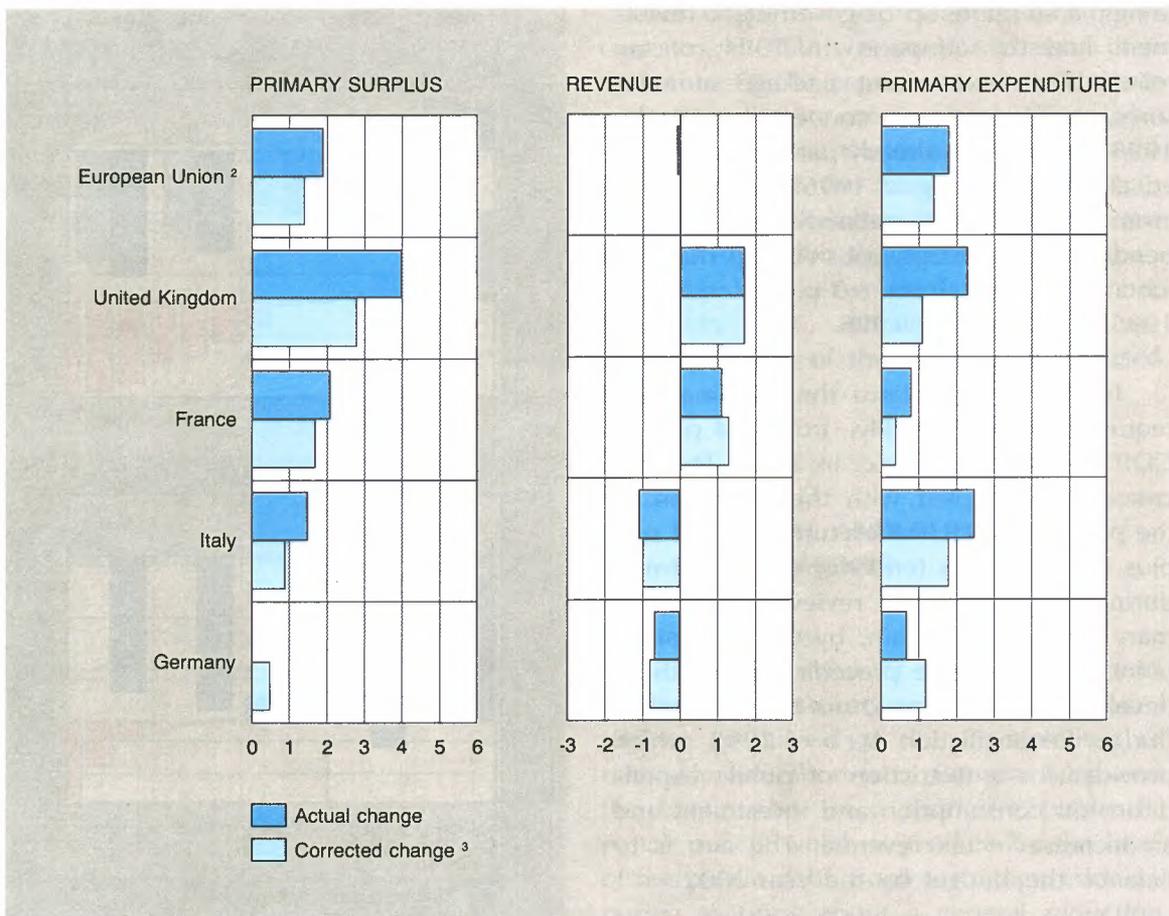
The reduction in the total public deficit in the EU during the period 1993-1996 is

entirely attributable to a decrease in expenditure as a percentage of GDP, since revenue remained unchanged. The strategies implemented for this purpose differ, however, from country to country, as does the influence of the business cycle. After the 1993 recession the cyclical situation did however produce a positive effect in most countries.

Among the major countries, the primary deficit contracted most in the United Kingdom. During the period 1993-1996 the public finances there were consolidated within the framework of multiannual plans which were carried out in a favourable economic climate, so that the primary deficit

CHART 7 — ACTUAL AND CORRECTED CHANGE IN THE PRIMARY BALANCE AND IN REVENUE AND PRIMARY EXPENDITURE OVER THE PERIOD 1993-1996

(Percentages of GDP)



Source : EC.

¹ Plus sign : reduction in primary expenditure.

² Except Luxembourg.

³ Change disregarding the influence of the business cycle.

smoothed to eliminate cyclical influences declined less than the uncorrected deficit. The decrease in the latter was contributed to by both the rise in revenue and the fall in primary expenditure. During the year under review the net financing requirement contracted further from 5.8 p.c. of GDP in 1995 to 4.6 p.c. in 1996, thanks to strong economic growth and a decrease in expenditure as a percentage of GDP.

The primary deficit of France, which had increased sharply in 1993 owing to the recession, subsequently declined steadily to reach 0.2 p.c. of GDP in the year under review. The consolidation was effected chiefly by means of new levies, including the raising of the general social contribution from 1.1 to 2.4 p.c. on 1st July 1993 and the increasing of the standard rate of VAT from 18.6 to 20.6 p.c. in August 1995. Thanks to a growth in revenue, due to, among other things, the effect over a full year of the raising of the VAT rate, the consolidation process made progress during the year under review. In 1996 the total deficit was reduced from 4.8 to 4 p.c. of GDP.

In Italy, primary expenditure as a percentage of GDP was curtailed for the purpose of budgetary consolidation to a sufficient extent to counterbalance the fall in revenue. The pension system was reformed and economies were made in social security. Despite the very weak economic growth during the year under review, Italy succeeded, thanks to the fall in interest rates, in virtually stabilising its total deficit at around 7 p.c. of GDP.

In Germany, economies, including in social security, together with a contraction in employment in the public sector, enabled expenditure to be cut as a percentage of GDP. Owing to the disappointing development of tax revenues, the yield of which had to be revised downwards several times, and to the influence of the sluggishness of economic activity on expenditure, the consolidation efforts made during the whole period 1993-1996 actually turned out to have

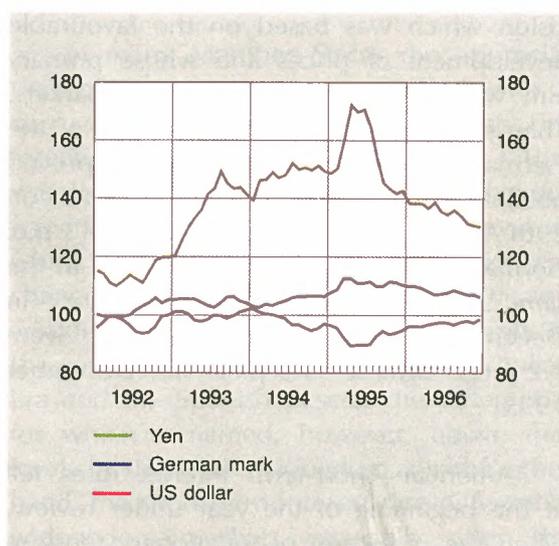
been unsuccessful and there was no reversal of the movement of the primary deficit. Germany is the only major European country in which the net financing requirement increased during the year under review, namely from 3.5 to 4 p.c. of GDP.

Movement of the exchange rates and interest rates for the main currencies

Unlike in 1995, there were few fluctuations in the weighted average exchange rates for the main currencies during the year under review. The effective appreciation of the US dollar which had started in the spring of 1995 thus gradually continued during the year : between December 1995 and December 1996 the rate rose by 4.2 p.c. The dollar particularly gained a great deal of ground against the yen. The weighted average exchange rate for the latter continued to fall steadily during the year under review : by December 1996 the yen had lost about 8.7 p.c. compared with a year earlier, so that it was about 24 p.c. below its peak of April 1995. The appreciation of the weighted average exchange

CHART 8 — WEIGHTED AVERAGE EXCHANGE RATES

(Indices 1990 = 100, monthly averages)



Source : BIS.

rate for the dollar was also reflected, albeit to a smaller extent, in an effective depreciation of the German mark, which amounted, between December 1995 and December 1996, to about 4 p.c.

These developments were mainly due to the fact that the markets anticipated a greater widening of the interest rate differentials between the US dollar on the one hand and the mark and the yen on the other, because the economy was growing more strongly in the United States than in Germany, and because Japanese interest rates were expected to remain very low. The appreciation of the US dollar was also contributed to by the contraction of the United States' trade deficit with Japan, an important factor for exchange rate policy.

Short-term interest rates, too, remained relatively stable during the year under review. Only in Germany did money market rates fall again considerably in 1996, a movement which was encouraged by the fact that the Bundesbank repeatedly lowered its guideline rates. Thus, the repo rate, the instrument for the fine-tuning of the German money market, was reduced in stages from 3.75 p.c. at the end of 1995 to 3.3 p.c. on 7th February 1996. On 19th April this fall was confirmed by a reduction of 50 basis points in the discount rate and the Lombard rate, to 2.5 and 4.5 p.c. respectively, a monetary-policy decision which was based on the favourable development of prices and whose primary aim was to give a signal to the markets. Thanks to the slowing of the growth of the German money supply, it finally proved possible to reduce the repo rate on 29th August by 30 basis points, to 3 p.c. German money market rates declined to the same extent as the official repo rate: in December the three-month rates were 3.2 p.c., against 3.9 p.c. in December 1995.

American short-term interest rates fell at the beginning of the year under review, when the reduction of inflationary tensions induced the Federal Reserve to lower the

discount rate and those set for the intended rate on Federal funds by 25 basis points. The US guideline rates have not been further adjusted since then; market rates, however, rose slightly later in the year because of expectations of a rise in interest rates due to the strength of business activity in the United States. In December 1996 US money market rates stood at 5.5 p.c., or about 20 basis points lower than in December 1995.

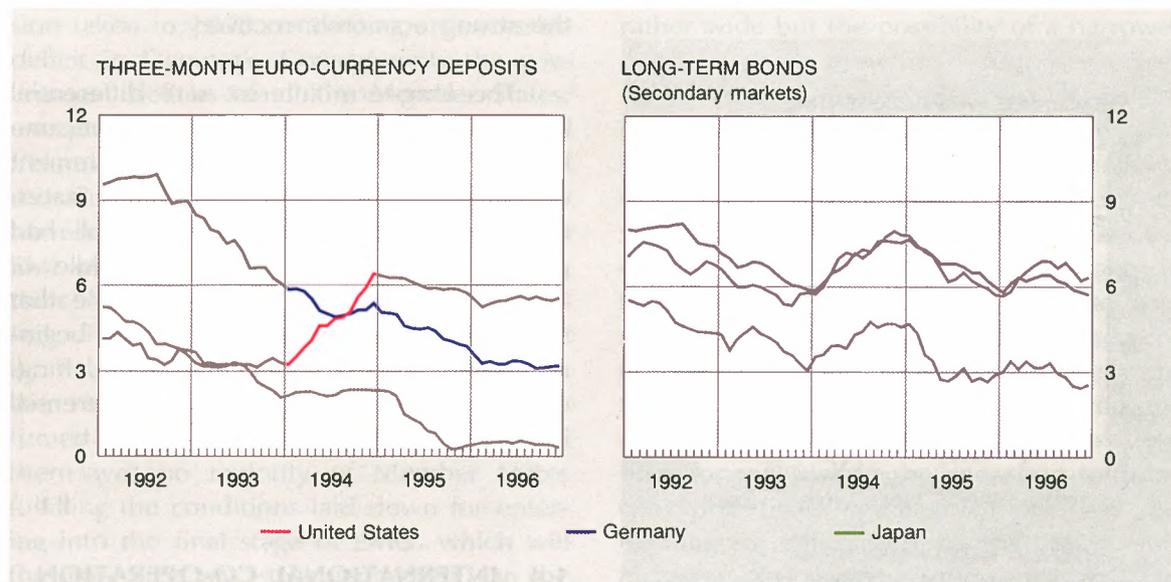
In Japan, where the official interest rates were not changed during the year under review, the three-month rate remained, owing to the hesitancy of economic activity, very close to the all-time lows reached at the end of 1995; at the year-end this rate was 0.3 p.c., nearly 10 basis points lower than at the end of 1995.

As the markets had divergent expectations concerning the development of economic activity in the major economic areas, long-term interest rates did not display the same pattern everywhere during the first half year. In the United States they were pushed up considerably by the very strong economic activity, so that at the end of April they were again above German capital market rates. From the middle of 1996 onwards there was a certain easing, which caused US long-term rates to fall back to 6.3 p.c. by December. They were then not only still 60 basis points above their December 1995 level but also 60 basis points above capital-market interest rates in Germany.

After a slight rise up to the middle of 1996, interest rates fell by December, both in Germany and in Japan, to 5.7 and 2.6 p.c., or about 30 and 40 basis points respectively below their end-1995 level. This further fall in nominal long-term interest rates, which were already at an all-time low, was mainly attributable to the movement of inflation.

The general low level of long-term interest rates, often combined with — thanks to the trend of economic activity — encour-

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



Sources : National data, NBB.

aging prospects with regard to business profits, led, on a number of stock exchanges, to sharp rises in share prices during the year under review. That was particularly the case in the United States, where stock exchange indices constantly broke new records.

Financial developments in the European Union

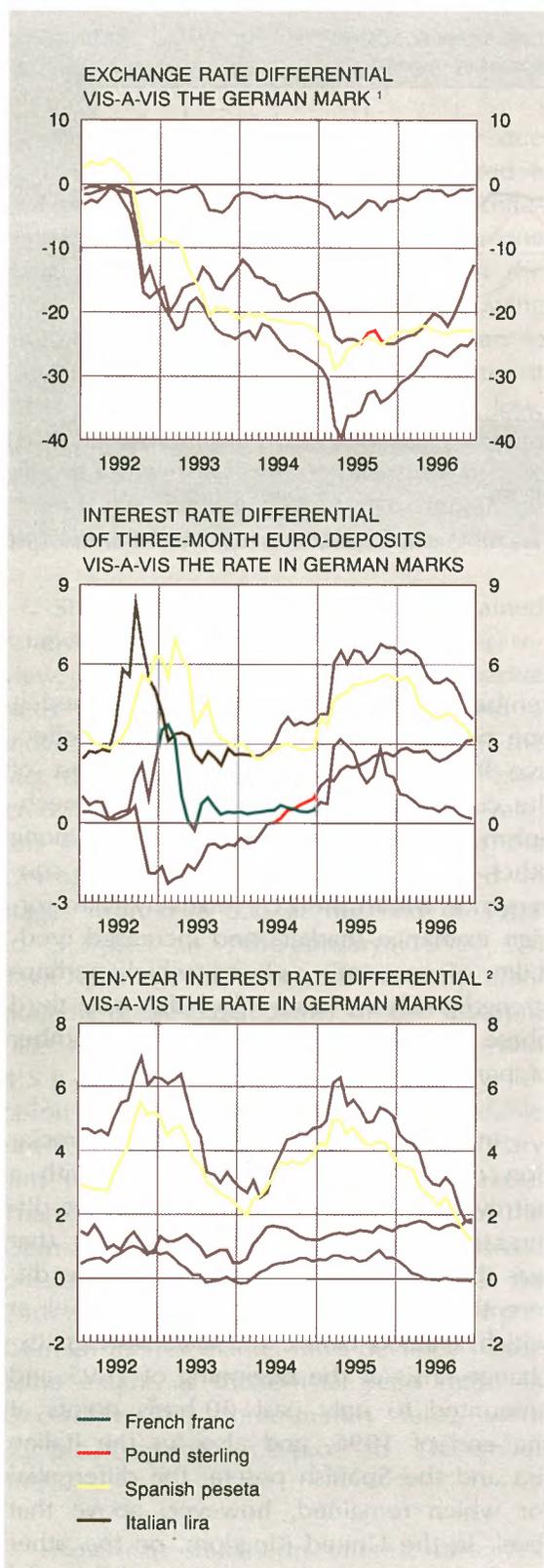
The general trend towards financial convergence in the European Union, which already became clearly apparent in the second half of 1995, continued in 1996.

Thus, the currencies of several Member States appreciated against the German mark : that applied not only to some currencies participating in the exchange rate mechanism of the EMS, for instance the French franc and the Spanish peseta, but also to those which had left the exchange rate mechanism in September 1992 and had depreciated substantially during the subsequent years against the German mark. A striking event in this connection was the recovery of the Italian lira, which rejoined the EMS exchange rate mechanism in No-

vember. The Finnish markka had joined it one month earlier. Furthermore, the effective fluctuation margins between most of the currencies in the exchange rate mechanism narrowed, bearing witness to, among other things, a higher degree of real convergence within the EU, relatively calm foreign exchange markets and increased credibility of economic policies, which perhaps strengthened the conviction that the third phase of EMU will start with a fair number of participants.

In many Member States the appreciation of the currency was coupled with a narrowing of the short-term interest rate differentials vis-à-vis the German mark : that was the case for the French franc, the differential for which fell below the level at which it stood before the latest foreign exchange crisis at the beginning of 1995 and amounted to only past 20 basis points at the end of 1996, and also for the Italian lira and the Spanish peseta, the differential for which remained, however, above that level. In the United Kingdom, on the other hand, the short-term interest rate differential widened somewhat, especially after the Bank of England had raised its minimum

CHART 10 — EXCHANGE RATES AND SHORT-TERM AND LONG-TERM INTEREST RATES



Source : NBB.

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

² Benchmark loans.

lending rate in October in order to moderate the inflationary expectations due to the strong economic recovery.

The long-term interest rate differential against the German mark also became smaller, in accordance with the movement of inflation, in most of the Member States. In several countries the differential had practically disappeared by the middle of 1996, making it increasingly probable that they will participate in EMU at the beginning of the third stage. In the United Kingdom the long-term interest rate differential increased slightly.

1.4 INTERNATIONAL CO-OPERATION

European integration

The year under review was characterised by important decisions concerning policy co-ordination and the economic convergence which is required in order to enter the third stage of Economic and Monetary Union, and also by an intensification of the preparatory work relating both to the macroeconomic and legal framework of this stage and to the operational framework for the tasks of the European System of Central Banks.

The Council formulated recommendations in connection with the broad guidelines of the economic policies of the EU Member States. These recommendations concerned, more specifically, a more balanced macroeconomic policy mix conducive to growth, employment and convergence, as well as the promotion of employment and smoother operation of the labour market and the markets for goods and services.

In the budgetary field the Council, within the framework of the procedure for excessive government deficits prescribed in Article 104 c of the Treaty on European Union, on the one hand placed on record

the existence of such a deficit in Germany and on the other hand withdrew the decision taken in 1995 concerning an excessive deficit in Denmark. Consequently the government deficits of all the Member States, except those of Denmark, Luxembourg and Ireland, were regarded as excessive, and recommendations were made to all these Member States. The Commission and the EMI were only able to place on record, in their November convergence reports, this lack of convergence in the field of the public finances, and therefore, in December, the Heads of State or Government confirmed at the Dublin European Council that there was no majority of Member States fulfilling the conditions laid down for entering into the final stage of EMU, which will therefore start on 1st January 1999. On the basis of the final figures for 1997 the Commission and the EMI will draw up new reports at the beginning of 1998 on the progress made in the fulfilment by the Member States of their obligations regarding the achievement of EMU. On the basis of that examination, the countries which will participate in the final stage from the beginning will then be chosen.

The European Council reached an agreement in Dublin on a set of measures designed, on the one hand, to maintain monetary stability and, on the other hand, to strengthen budgetary discipline in the European Union after the start of the final stage.

With regard to the former aim, the European Council agreed to the introduction of a new exchange rate mechanism that will replace the present EMS from 1st January 1999 onwards and which will govern future monetary relationships between the countries of the euro area and the EU countries which do not belong to that area. It is expected that the latter will join the new exchange rate arrangement, even though they will remain free to choose whether or not to join the mechanism. The central rates of the currencies of the non-participants in the euro area will be defined vis-à-vis the euro, which will thus be the anchor of the new

exchange rate mechanism. The standard fluctuation band is expected to be relatively rather wide but the possibility of a narrower band for any « non-euro » countries which would so wish is not ruled out. As in the present EMS, intervention at the margins will in principle be automatic and unlimited. Co-ordinated intramarginal interventions will be possible. The ECB and the national central banks of the Member States outside the euro area will, however, have the possibility of suspending their support interventions, specifically if these interventions were to impinge on monetary stability. Except for a few technical adjustments, the existing rules for recourse to the very-short-term facility for financing interventions will be maintained. All parties to the agreement, including the ECB, will have the right to initiate a confidential procedure aimed at reconsidering central rates.

In order to strengthen budgetary discipline, a Stability and Growth Pact will be binding on all Member States, both participants and non-participants in the euro area. Under this pact, budgetary policy must be attuned to a medium-term objective which will be so determined that, under circumstances which are regarded as normal, the budget deficit never exceeds an upper limit of 3 p.c. of GDP. This will allow the automatic stabilisers which result from normal cyclical fluctuations to operate provided that the reference value of 3 p.c. for the budget deficit is not exceeded. The above-mentioned pact is based on two aspects : prevention and discouragement.

From the angle of prevention the participants in the euro area will have to submit stability programmes in which they specify their medium-term budgetary objectives and an adjustment path for the state of the public finances. The Member States outside the euro area, for their part, will have to submit convergence programmes. The information contained in these will tally, as far as budgetary policy is concerned, with that in the stability programmes. The Commission and Council will study these stability and convergence pro-

grammes and monitor the budgetary performance of the Member States in relation to their medium-term objectives and their proposed adjustment paths.

With the aid of an early warning system based on multilateral surveillance, it will be possible to determine whether there is any risk that the commitments entered into in these programmes will not be met. If there is found to be such a risk, the Council will address recommendations to the Member States concerned, so that they can quickly take corrective measures.

The tightening-up of the excessive-deficit procedure constitutes the « discouragement » aspect of the Pact. On the one hand, the procedure will be speeded up : the time-limits between the various steps of the procedure will be precisely specified in order to keep the reaction time, if an excessive deficit is found to exist, as short as possible and therefore to enable the deficit to be more quickly adjusted. On the other hand, the system of sanctions provided for in the Treaty for the Member States of the euro area will be strictly applied : thus, if no effective action has been taken within the permitted period for correcting a deficit regarded as excessive, the Council would have to call upon the Member State in question to lodge a non-interest-bearing deposit. That deposit will after two years be converted into a fine, unless the situation has been remedied in the meantime.

Consequently the Council will adopt regulations for strengthening the surveillance of budgetary discipline and for speeding up and clarifying the procedure for excessive deficits. These regulations, together with a resolution of the European Council, will constitute the Stability and Growth Pact. The formal political undertaking by the Commission, the Council and the Member States to apply the Pact strictly and on time would be set forth in the resolution.

In connection with the European Summit in Dublin, the Council reached a political agreement on two draft regulations

defining the legal status of the euro. Two different regulations are being drawn up because it appeared essential to give the market, as quickly as possible, legal guarantees concerning the replacement of the ecu by the euro at the rate of one-to-one and concerning the continuity of contracts. As Article 109 L4, which forms the legal basis of the future monetary legislation of the Community, cannot be applied until the participants in the euro area have been designated, it was decided to fix the basic principles there and then in an initial regulation, based on Article 235 of the Treaty of Rome, which would have to be adopted at the beginning of 1997. The second regulation will specify, in particular, that from 1st January 1999 the euro will be the currency of each of the participating Member States and that the national currencies of these countries will be non-decimal expressions of the euro during a transitional period. It was felt to be important, in order to help economic agents in their preparations for the introduction of the euro, that the precise contents of this future monetary regulation should be known as quickly as possible, although it cannot be formally approved, at the earliest, until 1998.

For its part, the EMI continued its technical work for strengthening the co-ordination of national monetary policies during the second stage of EMU and for preparing for the specification of the regulatory, organisational and logistical framework necessary for the future European System of Central Banks to perform its tasks from the start of the third stage.

In the field of monetary policy the Council of the EMI reached an agreement about the main lines of the operational framework which is to enable the ESCB to conduct the single monetary policy in euros, on condition that only the ECB, when it has been established, will be able to take the final decisions. On the strategic plane an assessment was made of the model based on controlling the money supply and of that whereby an inflation target is directly aimed at.

With regard to the payments system, it had already been decided that transactions connected with the conduct of monetary policy will be carried out by means of the new TARGET system from the beginning of the third stage of EMU. This system will enable the participants in the national payment systems to make their cross-border payments in euros efficiently, according to the principle of real-time gross settlement. The EMI published a first report in August concerning the progress made with the TARGET project.

The EMI also drew up a detailed inventory of the statistical requirements resulting from the entry into force of the third stage. This work mainly concerned the harmonisation of the content of the data, the periodicity of the collection of data and the time-limits within which the Member States will have to meet the new requirements.

Lastly, the EMI made a choice between the designs for the euro banknotes which the ESCB will put into circulation not later than 1st January 2002. The chosen series, which was presented to the public in December at the Dublin European Council, consists of seven denominations of 5, 10, 20, 50, 100, 200 and 500 euros respectively.

Co-operation between the EU and the countries in transition

At the end of the year under review ten countries in transition had submitted an application for accession to the European Union : Hungary, Poland, Romania, the Slovak Republic, Latvia, Estonia, Lithuania, Bulgaria, the Czech Republic and Slovenia. The Commission began preparing the recommendations concerning the applications for accession, in order to submit them to the Council as soon as possible after the end of the Intergovernmental Conference.

The European Union and the candidate countries are together preparing for the enlargement within the framework of the Eu-

rope agreements. In 1996 a Europe agreement was signed with Slovenia, which thus joins the six Central and Eastern European countries with which an agreement was already in force at the end of 1995 and the three Baltic countries with which that agreement still has to be ratified.

International Monetary Fund

The Mexican crisis of 1995 provided an opportunity of, on the one hand, again emphasising how crucial the IMF's surveillance of the member countries is in order to bring about balanced growth and external and internal stability in these countries and, on the other hand, examining the adequacy of the Fund's resources.

With regard to the tightening-up of the IMF surveillance, the Fund approved two standards which the Member States should take as a guide in publishing their economic and financial data. The first standard, the Special Data Dissemination Standard, is for the countries which have recourse to the international capital markets. At the end of 1996, forty countries, including Belgium, had subscribed to it. The second, general, standard, which will apply to the other members and will be less stringent, should come into force in the course of 1997. The purpose of this greater statistical transparency is to give the markets an aid to enable them to monitor the policies of the Member States more closely.

With regard to the strengthening of the Fund's financial resources, the preparatory work for the eleventh general quota review was continued, and considerable progress was also made towards the conclusion of new arrangements to borrow. These arrangements should lead to a doubling of the resources at present available within the framework of 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 associated arrangement with Saudi Arabia.

The Mexican crisis showed that it was necessary to review the respective roles of the authorities and markets in solving sovereign liquidity crises. Following the considerations formulated in a working party, the Group of Ten published a report about the orderly resolution of such crises. The report concludes that in dealing with liquidity crises of sovereign States account must henceforth be taken of the extent of the securitised debt. It calls upon the financial markets to take note of this development and to adopt the necessary contractual precautions in order to enable such crises to be more easily solved without waiting for systematic provision of official funds.

The Executive Board of the Fund reached agreement concerning the principle of a new SDR allocation designed to lead to an equal ratio for all Member States between the net cumulative allocations and the quota. The new SDR allocation will thus be based not on a total long-term liquidity requirement but on the principle of equity. It therefore calls for a revision of the IMF's Articles of Agreement, which should be completed in 1997.

Remarkable progress was made in the pursuit of the Fund's policies in favour of the least developed countries. On the one hand the IMF, the World Bank and the creditors of the Paris Club concluded an agreement for the benefit of the heavily indebted poor countries which are pursuing consolidation programmes. These countries are eligible for a lightening of their debt. On the other hand, agreement has also been reached concerning the way in which the IMF's contribution to that initiative will be financed and concerning the continuance of the Enhanced Structural Adjustment Facility, accessible to the poorest countries at a concessional interest rate.

The BIS and co-operation between central banks

The BIS is the centre for intensive consultation between central banks. It is more

particularly the monthly meeting place of the central bank governors of the Group of Ten, who paid even closer attention during the year under review to the question of how to prevent and control system risk on financial markets. In 1996 they focused their attention mainly on the security aspects of electronic money, the settlement risk in foreign exchange transactions and the statistical information on derivative markets.

During the year an agreement was reached concerning the extension of the shareholdership of the BIS. The central banks of Brazil, China, Hong Kong, India, South Korea, Mexico, Russia, Saudi Arabia and Singapore were invited to acquire a share in the capital of the BIS. This extension confirms that this institution performs a very important function of co-ordination between the central banks in matters of common interest.

Liberalisation of trade and international economic co-operation

At the first ministerial meeting, which took place in December 1996 in Singapore, the World Trade Organisation indicated the future priorities with regard to liberalisation. These concerned in particular the provisions relating to competition, investment and transparency in government procurement. In addition, the second protocol on financial services came into force in 1996.

Within the framework of the Organisation for Economic Co-operation and Development, the negotiations about the multi-lateral investment agreement, which started in 1995, were continued during the year under review. That agreement, which is expected to be completed in the course of 1997, aims at the achievement of a high degree of liberalisation and protection of investments : countries which are not members of the OECD were also to be given the opportunity of signing the agreement. Furthermore, Poland and South Korea joined the OECD in 1996, so that the number of its member states is now 29.

2. EXPENDITURE, VALUE ADDED AND EMPLOYMENT

2.1 EXPENDITURE AND VALUE ADDED

Overall view

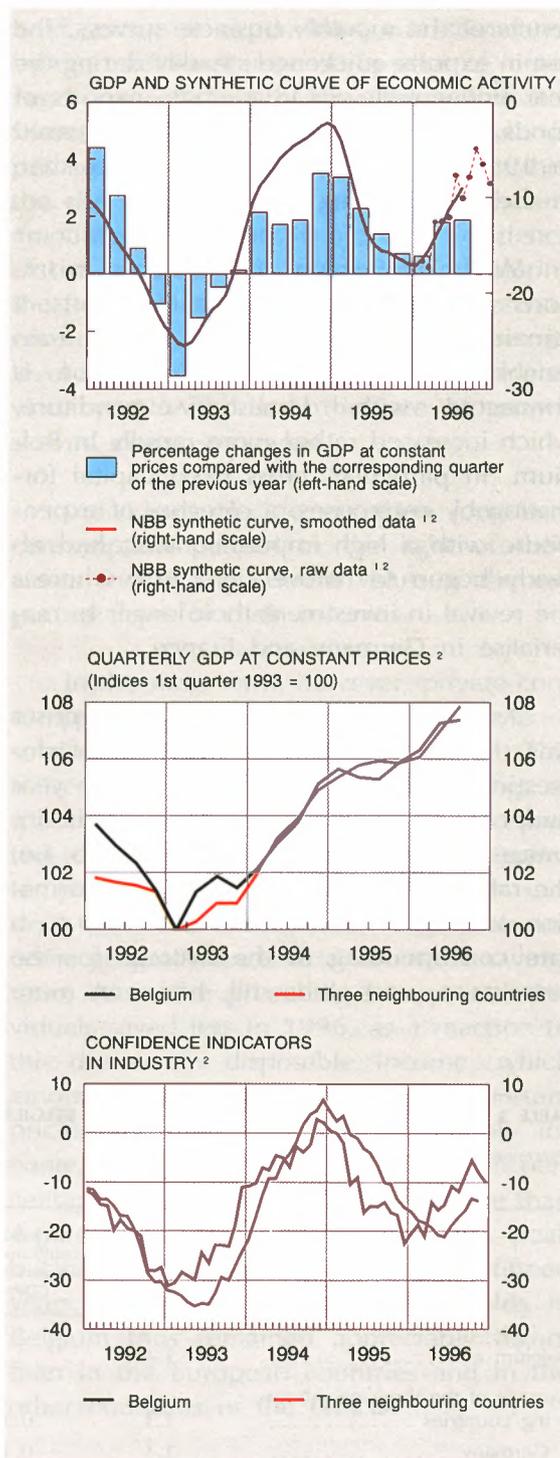
Economic activity strengthened gradually in the course of 1996. GDP at constant prices increased on average, during the last six months of 1996, by 1.8 p.c. compared with the corresponding period of the previous year, against only 1.2 p.c. in the first half year. Despite this quickening, the average annual growth in GDP in the year under review, at 1.4 p.c., fell short of the previous-year's figure by about 0.5 percentage point. In 1995 the rate of increase in GDP had been largely the result of a positive level effect, attributable to the upward trend of activity in 1994.

Since the cyclical trough at the beginning of 1993, the pace of the recovery has been practically identical in Belgium and in the neighbouring countries — Germany, France and the Netherlands — to which about half of Belgian exports go : in a little over three years the growth in GDP reached about 7 p.c. This similarity is not necessarily matched in the pattern by quarter nor in the origins of growth. According to the answers given by enterprises to the monthly business surveys, the turnaround in activity in Belgian industry, which is based on an improvement in results in the intermediate goods branch, took place more than a quarter before that in the neighbouring countries.

Main categories of expenditure

During the year under review, unlike in 1994 and 1995, domestic expenditure grew at the same rate as GDP. The rise in imports was in fact close to that in exports and the foreign trade balance remained more or less unchanged.

CHART 11 — RECENT MOVEMENT OF ACTIVITY



Sources : OECD, EC, NBB.

¹ For a detailed description of the method used for calculating these indicators, see Bulletin de la Banque Nationale de Belgique, LXVth year, Vol. II, Nos. 2-3, August-September 1990.

² Seasonally adjusted data.

This development differs from that in the three neighbouring countries, where net exports of goods and services made a positive contribution to activity. This difference is not due to exports. According to the available data on foreign trade and to the results of the monthly business surveys, the rise in exports quickened steadily during the year under review. On average, exports of goods and services appear to have increased in 1996 by about 4.4 p.c., or faster than in the neighbouring countries.

While, in Belgium, the increase in imports was comparable to that in exports, it remained appreciably smaller in the main neighbouring countries. This situation is connected with domestic expenditure, which increased rather more rapidly in Belgium. In particular, gross fixed capital formation by enterprises, a category of expenditure with a high import content, had already begun to recover in 1995, whereas the revival in investment took longer to materialise in Germany and France.

As in 1995, investment by enterprises was the most dynamic component of domestic demand in Belgium during the year under review: at constant prices it increased by 4 p.c. The investment ratio, i.e. the ratio between gross fixed capital formation and GDP, was a little over 11 p.c., a rate corresponding to the average for the last fifteen years. It is still, however, more

than 2 percentage points lower than the average for 1990, when the rise in investment which started in the second half of the 1980s had reached its peak.

The movement of the main determinants of investment by enterprises was positive: profits of enterprises increased strongly for the third year in succession and economic activity grew faster, this growth having been reflected in, among other things, the uninterrupted rise in the rate of utilisation of production capacities in manufacturing industry in 1996.

The development of gross fixed capital formation in the main branches of activity showed differing trends.

It was industrial enterprises, whose capital expenditure had been severely curtailed during the period 1991-1994, that increased their investment most after that: in 1996 this increased by about 8 p.c. The rise was even more pronounced in metal-working (including the motor industry), the chemical industry and the non-ferrous metals industry-branches in which several major investment programmes were launched.

In market services, investment stabilised at practically the same level as in 1995, but it developed in different directions in the sub-branches. On the one hand, the reduction in investment by public enterprises led

TABLE 5 — EXPENDITURE AT CONSTANT PRICES IN BELGIUM AND IN THE NEIGHBOURING COUNTRIES IN 1996

(Percentage changes compared with the previous year)

	GDP	Net exports (contributions to the growth in GDP)	Exports	Imports	Domestic expenditure	Investment by enterprises
Belgium e	1.4	...	4.4	4.6	1.4	4.0
Average of the three neighbour- ing countries	1.3	0.3	3.2	2.1	1.0	0.2
Germany	1.1	0.3	3.7	2.4	0.8	-1.2
France	1.3	0.4	2.4	1.1	0.9	1.1
Netherlands	2.7	0.3	4.3	4.5	2.6	4.5

Sources: OECD, NBB.

to a slight decline in the « transport and communications » branch. However, owing to the almost uninterrupted rise during the first half of the 1990s, it is still, viewed historically, at a high level. In order to take advantage of the single European market, public enterprises, such as Belgacom and the Belgian National Railway Company, have in fact been engaged for several years in the carrying out of strategic projects. On the other hand, investment by other enterprises specialising in market services, which generally fluctuates less than that of manufacturing industry, increased slightly, by about 1 p.c.

Unlike in the two preceding years, stockbuilding in enterprises appears to have made a slightly negative contribution to growth. The reduction in stocks appears to have taken place mainly during the first half of 1996. The contribution of changes in stocks to activity was in fact also negative in the case of the main trading partners.

For the third year in succession, private consumption, which represents about two thirds of domestic demand, increased by 1.3 p.c.

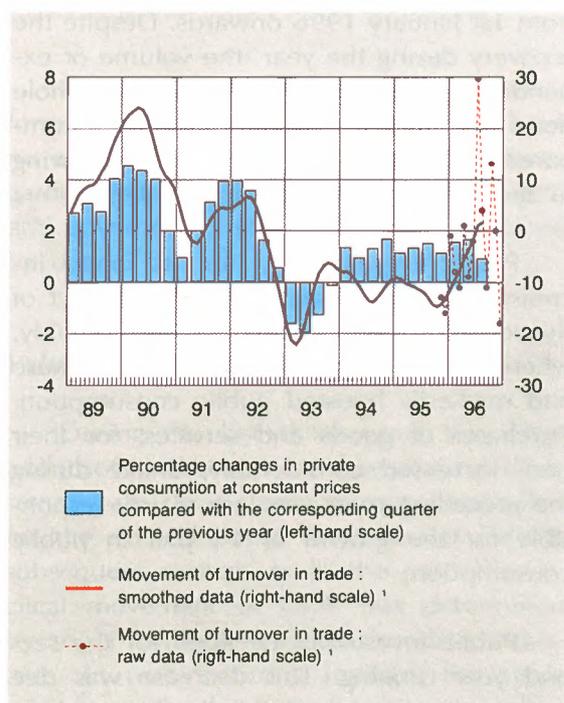
During the year under review, household consumer expenditure was stimulated by the traditional increase in sales of motor cars connected with the biennial motor show. About a quarter of the growth in private consumption is attributable to this, the rise in registrations of new cars having amounted to about 10 p.c. The incidence of the car sales was mainly evident during the first half of 1996, during which private consumption was about 1.6 p.c. above its level in the corresponding period of the previous year. After that, the rate of growth slowed down somewhat.

Individuals decide on their long-term consumption pattern in the light of their assets and of the current value of the expected flows of their incomes.

In the short term, however, private consumption is relatively volatile, but to a smaller extent than disposable income. This is because individuals use their savings as a buffer in order, as far as possible, to protect the level of their consumption against temporary fluctuations in income. Thus, a slow rise or a reduction in disposable income generally leads to a fall in the savings ratio. As in the preceding two years, individuals saved less in 1996, as a reaction to the decline in disposable income, which amounted to about 0.6 p.c. at constant prices. As a proportion of disposable income, savings decreased by about 1.5 percentage point to 16.7 p.c., a rate more than 4 percentage points below the 1993 peak but close to the average for the last fifteen years. The savings ratio of households in Belgium thus remained appreciably higher than in the European countries and in the other countries of the OECD.

Behaviour as regards saving and consumption differs depending on the type of income. Thus, the propensity to save incomes from property is generally greater.

CHART 12 — PRIVATE CONSUMPTION BY QUARTER



Source : NBB.

¹ Monthly survey in trade, seasonally adjusted data.

Their share in the total primary income of households has decreased somewhat during the last three years, and this has probably contributed to the decline in the savings ratio.

With regard to wages and salaries, which represent over 60 p.c. of the primary income of households, their movement depends on that of the wage per person and that of the number of employed persons. The movements of these two factors are not, however, independent of each other. Their direct and derived effects on private consumption tend to offset each other, as is confirmed by the simulations based on the Bank's econometric model.

Moderation of wages, by reducing the relative price of the labour factor of production, encourages job creation, and, conversely, an expansion in wages discourages it. The fluctuations of employment have a pronounced effect on household consumption. Not only do they influence the development of disposable income, and therefore produce a direct effect on private consumption, but they also largely determine precautionary saving, which reflects the consumer's confidence in the future. When employment contracts and unemployment increases, households are more concerned about the future development of their earned incomes. Feeling more uncertain, they cut down their spending. On the other hand, an improvement in the labour market stimulates confidence and weakens the propensity to save for precautionary reasons.

The developments observed in Belgium and the Netherlands seem to confirm this analysis: although on average, during the last fifteen years, the real wage per employee in the Netherlands showed an annual growth rate of 0.7 percentage point lower than that observed in Belgium, the increase in household consumption during the same period was comparable in that country.

Expenditure on housing is chiefly determined by the course taken by the disposable income of individuals, interest rates on

mortgage loans and the prices of residential housing. Owing to the period which elapses between the decision to build and the carrying out of the project, there is a time-lag before these factors affect the volume of investment in housing. Thus, the weakness of expenditure on residential house-building during the first months of 1996 reflects the sharp decrease in the number of housing starts during the second half of the previous year, following the earlier rise in mortgage interest rates. It was furthermore accentuated by the severity of the winter.

The sharp increase, since the autumn of 1995, in the volume of final plans drawn up by architects, together with the rise in the number of building permits, indicate that investment expenditure on housing speeded up again steadily from the spring of 1996 onwards. This recovery, which had been preceded by that in transactions on the secondary housing market, was due to the almost uninterrupted fall, since the first quarter of 1995, in mortgage interest rates, which reached a very low level by the end of the year under review. The Government's decision to reduce VAT on the building of certain types of housing also played a role from 1st January 1996 onwards. Despite the recovery during the year, the volume of expenditure on housing in 1996 as a whole does not appear to have increased compared with the previous year, chiefly owing to the fall which took place in 1995.

Public expenditure, for its part, increased to a moderate extent. The effect of the revisions of scales declined considerably, whereas during the period 1993-1995 these had markedly boosted public consumption. Purchases of goods and services, for their part, increased considerably, unlike during the preceding years, and are mainly responsible for the growth of 1.2 p.c. in public consumption.

Public investment declined for the second year running. This decrease was due to the sale of public buildings, the purchase of which by companies is recorded in the national accounts in their gross fixed capital

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

(Percentage changes compared with the previous year)

	1993	1994	1995	1996 e
Private consumption ¹	-1.3	1.3	1.3	1.3
Public expenditure	2.0	2.2	-0.4	1.0
Public consumption	1.4	1.4	1.0	1.2
Public investment	7.8	9.3	-12.9	-0.9
Housing	3.5	5.5	3.3	...
Gross fixed capital formation by enterprises	-9.7	-3.2	5.1	4.0
p.m. Total gross fixed capital formation ^{1 2}	-5.0	0.3	3.0	2.4
Change in stocks ^{1 3}	-0.2	0.3	0.1	-0.1
Total domestic expenditure	-1.8	1.4	1.6	1.4
Exports of goods and services	1.8	9.2	⁴	4.4
Total final expenditure	-0.2	4.9	⁴	2.8
Imports of goods and services	1.8	8.3	⁴	4.6
p.m. Net exports of goods and services ³	0.1	0.9	0.4	...
GDP before statistical adjustments	-1.7	2.3	2.0	1.4
Statistical adjustments ³	0.3	...	-0.1	0.1
GDP	-1.4	2.3	1.9	1.4
p.m. GDP at current prices (billions of francs)	7,317	7,678	7,936	8,197
GDP at constant prices (billions of 1990 francs) ..	6,597	6,752	6,882	6,982

Sources : NAI, NBB.

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

formation. These transactions therefore have no effect on GDP. If these sales are disregarded, gross fixed capital formation by general government appears to have increased by over 5 p.c.

Value added by branch

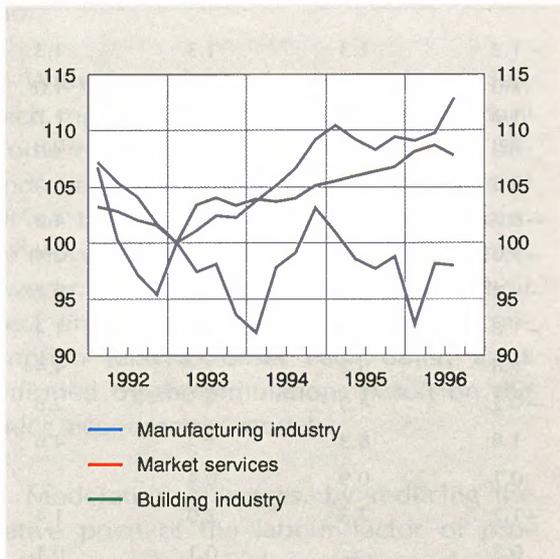
During the last three years the value added of market services rose at a relatively steady rate. It is therefore not responsible for the cyclical pause in 1995 nor for the subsequent revival. As in the past, the cyclical movement of GDP was determined by the manufacturing and building industries. In manufacturing industry the value added remained practically unchanged between the beginning of 1995 and of 1996. After that, during the second and third

quarters of the year under review, it increased on average by about 1.7 p.c. compared with the corresponding periods of the previous year. The fluctuations were even more marked in the building industry : between the fourth quarter of 1994 and the first quarter of 1996, the decrease in activity amounted to about 10 p.c. Since then a catching-up movement has taken place, bringing activity to a level close to that reached in mid-1994.

It proved particularly difficult to trace the development of value added in the various branches in 1996. Although all the different available sources of information indicate a cyclical improvement for industry as a whole, they are often contradictory when it comes to measuring the strength of activity by sector. Furthermore, isolated events

CHART 13 — VALUE ADDED AT CONSTANT PRICES BY BRANCH

(Indices 1st quarter 1993 = 100, seasonally adjusted data)



Source : NBB.

which had an appreciable influence, such as the strike movements in France during the fourth quarter of the year under review, had effects in opposite directions on various types of activity.

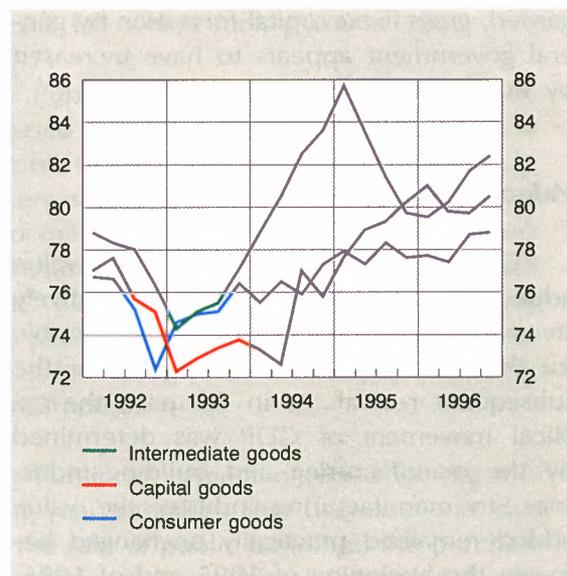
In manufacturing industry it was the enterprises which specialise most in the production of intermediate goods that experienced a considerable increase in their rate of activity and degree of utilisation of production capacities from the first stage of the cyclical revival. However, account being taken of the pattern of activity of these enterprises during the last two years, the contribution of production of intermediate goods to growth was, on annual average, smaller than that in 1995. On the other hand, parallel with the development of private consumption in Belgium, the increase in output of consumer goods was steady. Enterprises which are relatively highly specialised in the production of capital goods played little part in the recovery : during the fourth quarter of the year under review the degree of utilisation of production capacities was at practically the same level as

a year earlier. This was because output of capital goods, a large proportion of which is intended for export, suffered somewhat from the falling off in investment expenditure in the neighbouring countries. However, on average during the year under review, the volume of activity of enterprises specialising in this type of production remained high : the degree of utilisation of their production capacities, which had been rising strongly since the end of 1993, was still at a level 3 basis points above the average for the last ten years.

The increase in the value added of the « electricity, gas, water » branch reflected the rise in demand for energy connected with the cyclical improvement during the year. However, a part was also played by structural developments and climatic factors. Thus, 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. The amount of gas and electricity distributed to individuals also increased owing to

CHART 14 — RATE OF UTILISATION OF PRODUCTION CAPACITIES IN MANUFACTURING INDUSTRY BY CATEGORY OF GOODS PRODUCED

(Percentages, seasonally adjusted data)



Source : NBB.

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

(Percentage changes compared with the previous year)

	1993	1994	1995	1996 e	p.m. Percentages of 1995 GDP
Industry	-2.9	4.3	3.3	1.8	24.5
of which : Manufacturing industry ¹	-3.1	4.5	3.1	1.6	21.6
Electricity, gas, water	-0.1	1.4	4.6	4.0	2.7
Market services ¹	0.3	1.9	2.0	2.2	52.4
Services aimed mainly at enterprises ²	-1.0	2.9	3.2	2.7	13.8
Mixed-aim services ³	2.5	3.4	3.0	3.6	15.7
Services aimed mainly at households ⁴	-0.3	0.3	0.7	1.1	22.9
Building industry	-2.5	1.3	0.6	...	5.2
Agriculture, forestry and fisheries	4.9	-6.3	2.7	-0.9	2.1
Non-market services	1.2	2.1	1.1	0.7	11.9
GDP ⁵	-1.4	2.3	1.9	1.4	100.0

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

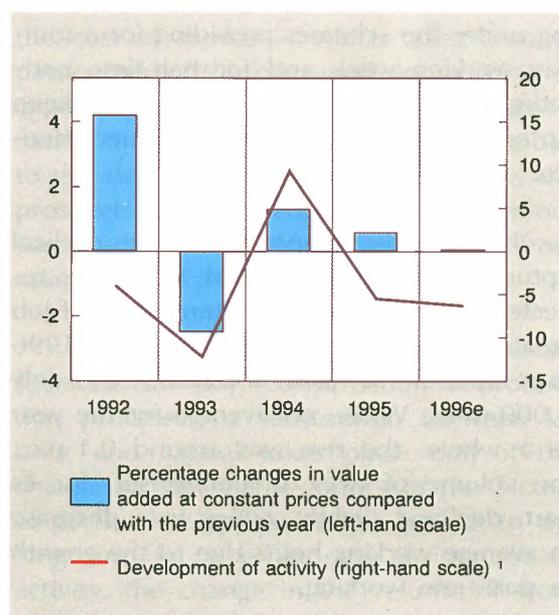
the fact that temperatures were on average lower in 1996.

In the building industry the cyclical slowdown which had been observable since the last quarter of 1994 became more marked during the first quarter of the year under review owing to the severity of the winter. Subsequently the level of activity recovered. Overall, according to the results of the quarterly surveys among building contractors, activity appears to have stabilised in terms of annual average.

The rise in value added in the market services branch was due to that in most of the sectors of which it is composed, and forms part of a structural movement of tertiarisation of the economy. In 1996 the most pronounced rises were recorded in financial services and services to enterprises, with accounting services, tax consultancy and technical services leading the way.

The slight reduction in the value added in agriculture, forestry and fisheries was due to the decrease in vegetable production as

CHART 15 — ACTIVITY IN THE BUILDING INDUSTRY



Sources : NAI, NBB.

¹ Data from the quarterly survey in the building industry.

a whole. The good harvests of potatoes and cereals did not counterbalance the smaller yield of the harvests of fruit and horticultural

tural products, which had enjoyed more favourable weather conditions the previous year.

2.2 LABOUR MARKET

Employment

Between 30th June 1995 and 30th June 1996 the number of employed persons increased by only 3,000 units, against an increase of 16,000 the previous year. This virtual stability of employment is to be found both in the civil service and in enterprises.

The decline in the number of persons employed by general government which had been almost uninterrupted for ten years, stopped in 1996. The abolition of military service, which had caused the greater part of the reduction in recent years, has no longer had any effect since 1995. The gradual increase in the number of persons working under the schemes providing for a four-day working week and for half-time early retirement pensions has also helped to keep up employment in federal government bodies.

In enterprises, the pause in the cyclical upturn which took place in 1995 was reflected in an almost total interruption of job creation : between mid-1995 and mid-1996 the number of jobs increased by only 4,000 units. While, on average for the year as a whole, the rise was around 0.1 p.c., the volume of work in enterprises, for its part, declined slightly, owing to a decrease in average working hours due to the growth in part-time working.

The development of employment depends on several factors. Firstly, the volume of work in enterprises at a given time depends, on the one hand, on the level of production and, on the other hand, on the relative cost of labour in comparison with the other factors of production, namely cap-

ital and intermediate inputs. It is also determined by the autonomous upward trend of the productivity of labour, connected with technological progress. Secondly, the distribution of the volume of work among a larger or smaller number of persons depends on the average duration of activity of each of them. Lastly, certain changes in the labour regulations can also have an effect on employment : more often than not, actually, they produce an indirect effect either on the cost of labour or on the distribution of the volume of work between the persons.

If technological progress is disregarded, any change in the volume of production necessitates an adaptation of the quantity of the various factors of production employed. However, in view of the costs entailed by recruiting and training, or by redundancies, enterprises do not wish to change their workforce until they have made sure that the movements in activity are not accidental. At first they take advantage of the flexibility of labour, partly by adapting the working hours of their workforces or by adjusting recourse to temporary workers. The number of hours worked by the latter did in fact increase from the second quarter onwards, parallel with the revival of activity which took place at the beginning of the year under review. It is only after a time-lag of about six months, and when the cyclical upturn has lasted long enough to exhaust these possibilities of adjustment, that enterprises change their workforces. In 1996 this time-lag was reflected by the slowing, from the third quarter onwards, of the rise, over a period of one year, in the corrected unemployment data which are discussed further on.

The same rate of growth in activity and the same rate of increase in the autonomous productivity of labour do not always lead to a similar development of the volume of work. Thus, the virtual stabilisation of the latter during the last two years was achieved with an average annual economic growth of 1.7 p.c., whereas an equivalent expansion in activity at the beginning of the 1990s

TABLE 8 — EMPLOYMENT

	1993	1994	1995 e	1996 e
<i>Annual changes in thousands of units (data at 30th June)</i>				
Enterprises ¹	-36	-24	20	4
General government	-4	-13	-4	...
Cross-frontier workers (net) .....	...	2	...	-1
Total	-40	-35	16	3
<i>Percentage changes compared with the previous year (annual averages)</i>				
Number of persons employed in enterprises ¹	-1.1	-0.5	0.4	0.1
Volume of work in enterprises ^{1,2}	-1.7	-0.1	0.1	-0.2

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

¹ Including self-employed persons.

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

has led to a decline of 0.5 p.c. in the volume of work. This is because the labour-intensiveness of economic growth depends on the changes in labour costs compared with other production costs. Under the pressure of competition, and in so far as manufacturing processes permit a substitu-

tion between labour, capital and intermediate inputs, the producer chooses from among these processes the one which employs the various factors of production in a proportion which minimises costs. A faster increase in the cost of labour than that in the cost of capital — which takes account particularly of the price and depreciation of capital goods, and of the interest rate — makes the use of the latter more profitable, to the detriment of labour. Conversely, the prospect of a moderate growth in labour costs reduces the advantage expected from rationalisation investments.

CHART 16 — HOURS WORKED BY TEMPORARY WORKERS

(Index 1993 = 100, seasonally adjusted data)

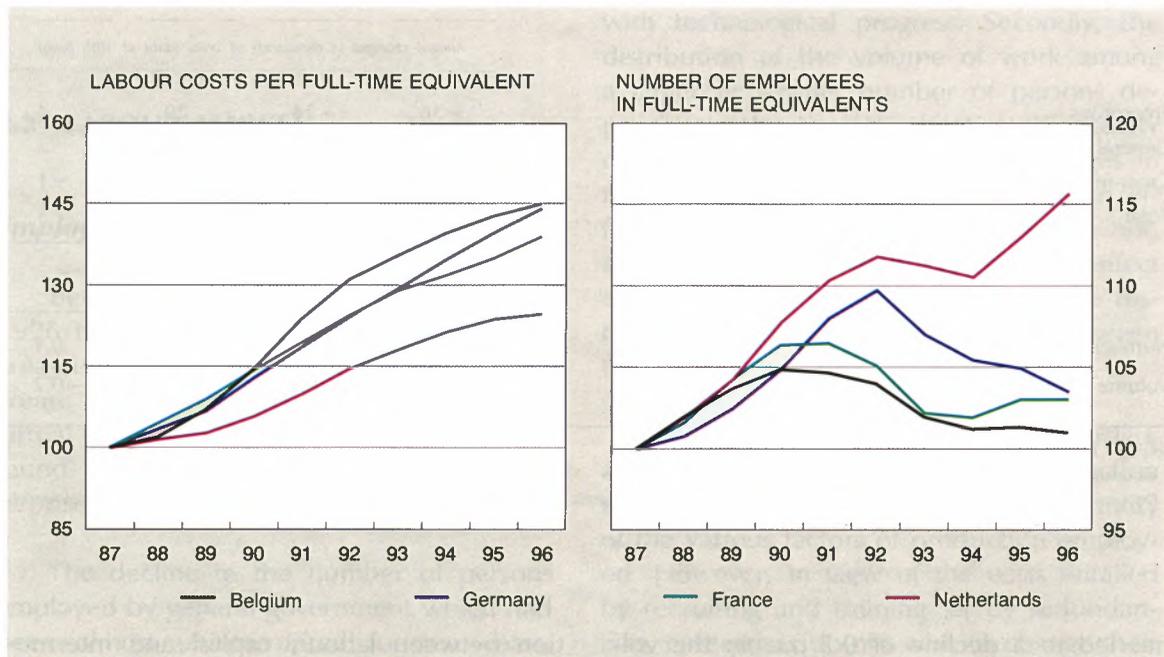


Source : Trade association of temporary employment agencies (Upedi).

If allowance is made for the costs associated with any reorganisation of production processes, a substitution between labour and capital takes place only if the change in the relative prices of the factors of production appears to be lasting. In the long run, for a given rate of increase in activity, the change in the volume of work seems, according to estimates based on the Bank's econometric model, to react positively to the extent of 0.5 percentage point to a permanent reduction of 1 point in the change in the cost of labour compared with the cost of the other factors of production. This result corresponds to those of comparable studies carried out for other countries.

CHART 17 — LABOUR COSTS AND NUMBER OF EMPLOYEES IN ENTERPRISES

(Indices 1987 = 100)



Sources : OECD, EC, NBB.

Apart from the substitution effect which it brings about, the development of labour costs also affects the volume of work via its influence on activity. Thus, a moderation in wages reduces rationalisation investments, for the reasons which have just been explained. It improves competitiveness and thus promotes exports. Imports decline, while the incidence on private consumption is very slight, as was shown in section 2.1. Altogether, the effect which wage moderation exerts on employment via activity appears to be slightly positive.

From 1987 onwards, and particularly between 1989 and 1992, the increase in compensation per full-time equivalent has been faster in Belgium than in the three neighbouring countries, the largest divergence having been observable in relation to the Netherlands. At the same time, the development of employment has been most favourable in the last-mentioned country, and least good in Belgium. If, from 1987 to 1993, nominal labour costs per full-time equivalent in enterprises had risen on av-

erage not by 5.2 p.c. per year but by 4.2 p.c., that is, the average for the three neighbouring countries, the rise in the relative cost of labour compared with the other factors of production would have been 0.7 percentage point lower each year, and the annual growth in the volume of work in enterprises would have been 0.4 percentage point higher, which represents, account being taken of the trend of part-time working observed in Belgium, about 11,500 additional jobs per year.

Wage moderation during the years 1994 to 1996 made it possible, however, to reduce the disparity as regards labour costs in relation to the three neighbouring countries. During the period 1987-1996 the annual average of these costs went up by 4.2 p.c. in Belgium, against 3.8 p.c. in the three neighbouring countries, reducing the average disparity to 0.4 percentage point, compared with 1 percentage point during the period 1987-1993. In terms of employment the negative effect was no more than about 4,000 jobs per year.

The wage norm introduced by the law of 26th July 1996 on the promotion of employment and the preventive safeguarding of competitiveness, which is discussed in detail in section 3.1, should ensure, during the coming years, the maintenance of a movement of wages more favourable to employment.

Alongside the measures concerning wage formation, the reductions in indirect costs also make a by no means negligible contribution to the decline in the average costs of labour. Thus, in Belgium, selective reductions in employers' social security contributions have been introduced, chiefly from 1994 onwards. These measures were not changed in 1996, except by a raising of the ceiling on remuneration giving entitlement to reductions in contributions for low wages. The number of jobs benefiting by this reduction therefore rose from 450,000 to 750,000. The success of the sectoral employment agreements, whereby a reduction in contributions is granted if there is an increase in employment, has also been growing, and the « recruitment advantage » scheme has become fully operative. Altogether, in 1996, the reductions in employers' contributions granted under the various schemes represented Fr. 53 billion, or 1.6 p.c. of total wages and salaries.

Apart from the measures of wage moderation and reduction in employers' contributions, certain changes in the rules and regulations can also lighten labour costs. In this connection the law of 26th July 1996 opens up the possibility, within certain limits, of adapting weekly working hours to the fluctuations in activity during the year, without paying additional wages, provided that the regulation working hours are complied with on average over the year as a whole. The law also makes the conditions for recourse to workers from agencies, and to temporary working more generally, more flexible.

While economic growth, technological progress and the relative cost of labour determine the volume of labour required by

enterprises, the number of employed persons also depends on the average duration of the work done. This involves a considerable number of factors, including the rules concerning weekly working hours or the length of leave, recourse to part-time working, technical unemployment or absences due to sickness or strikes. The downward trend of hours worked has chiefly taken the form of a reduction in collectively agreed working hours up till 1975 and of a growth in part-time working since then. In Belgium part-time working represented 14.6 p.c. of paid jobs in 1994, against 11 p.c. in 1987. An increase of the same order has been observed in Germany and France, where the initial level of part-time working was however a little higher. The divergence compared with the Netherlands, already considerable in 1987, widened further. Altogether, an increase in the share of part-time jobs in Belgium bringing it up to the level reached in the three neighbouring countries would represent 40,000 additional jobs.

Various measures were adopted within the framework of the multiannual plan for employment and of the law of 26th July 1996, with the aim, among other things, of widening the range of possibilities concerning part-time career interruption and improving the status of persons working part-time. Their purpose is to diversify working

TABLE 9 — PART-TIME JOBS IN ENTERPRISES

(Percentages of total number of employees)

	1987	1994	Divergences in percentage points 1987-1994
Belgium	11.0	14.6	3.6
Germany	12.2	15.9	3.7
France	11.9	15.4	3.5
Netherlands	28.7	36.2	7.5
Average of the three neighbouring countries	13.9	18.1	4.2

Source : EC.

systems so as to satisfy both the needs of employers and the aspirations of workers.

The Bank's econometric model makes it possible to quantify the contributions of the main determinants of the movement of employment during the last ten years. Between 1987 and 1996 the workforces of enterprises increased by 149,000 units, of which 140,000 are attributable to the development of the employment determinants taken into account in the model. Out of these 140,000 jobs, nearly 60 p.c. appear to be the result of the increase in the volume of work. On the one hand, the growth in production appears to have led, account being taken of the autonomous increase in the productivity of labour, to the creation of about 310,000 jobs. On the other hand, even if a faster rise in labour costs than in the cost of the other factors of production is normal when viewed in connection with the autonomous growth in labour productivity, the increase observed during the period considered would have had an opposite effect, amounting to about 23,000 jobs. The redistribution of work, for its part, would have contributed over 40 p.c. to the increase in employment explained by the model. The redistribution is mainly due to the development of part-time working, which led to the creation of nearly 60,000 jobs. These results provide only an indication of the extent of the effects of the various determinants of employment, being affected, among other things, by the inaccuracy of the basic data and the absence of detailed data for the last few years concerning the number of employed persons and working hours.

The information available on the various aspects of the labour market is in fact at present inadequate, because it is too scanty, too late or too heterogeneous. As, in recent years, the Government has widened the range of special provisions designed to step up the employment-intensiveness of growth, an increasing need for resources and assessment structures has made itself felt. The multiannual employment plan which the Government drew up in compliance with

TABLE 10 — DEVELOPMENT OF EMPLOYMENT IN ENTERPRISES BETWEEN 1987 AND 1996¹

(Changes in thousands of persons)

Employment	149
of which : change explained by the model	140
Contribution of volume of work	79
Effect of activity, account being taken of productivity gains	311
Effect of the cost of labour compared with the cost of the other factors of production	-232
Contribution of the redistribution of work	61
Effect of the duration of full-time working	3
Effect of the development of part-time working	58

Source : NBB.

¹ Wage earners and self-employed persons, excluding the energy sector.

the decision of the Essen European Council in December 1994, which contained a summary of its policy in this field, provided for the creation of a Superior Employment Council and for a requirement calling upon enterprises to draw up a social balance sheet.

The above-mentioned council of experts, established by the law of 22nd December 1995 containing measures for the implementation of the multiannual employment plan and set up on 26th November 1996, is to assess the employment-promotion measures and the specific employment policy and to examine the proposals made in this connection. It furthermore has the possibility of issuing independent recommendations to the public authorities and to management and labour. The analysis and monitoring of the development of the labour market and of the collective agreements, which also form part of the Council's tasks, must be the subject each year of a report to the Government and the social partners.

For this purpose it will be possible to take as the basis the data of the social balance sheet which enterprises are henceforth

required to draw up every year. In accordance with the royal decree of 4th August 1996 concerning the social balance sheet, these data will be incorporated from the financial year 1996 onwards in the annual accounts which enterprises deposit at the Central Balance Sheet Office. Non-profit institutions, which are not required to deposit annual accounts, must also fill in a social balance sheet when they employ at least a hundred persons; this limit will be reduced to twenty persons from the 1998 financial year onwards. On the basis of the social balance sheets submitted to it, the Bank will develop a database and compile statistics. When the system has become fully operative, these balance sheets will provide, with a time-lag of only about nine months, detailed information which can be used to support the analysis of the development of the labour market.

The data concerning the average number of workers, the actual number of hours worked and personnel expenses will give a better view of the level and movement of the labour factor of production. A record of the use made by enterprises of the government measures to promote employment, containing both the number of persons affected by each measure, and, where appropriate, the financial advantage associated with it, will certainly help in the assessment of the employment policy pursued. It will also be possible to measure the efforts made by enterprises in the field of personnel training. Furthermore, large enterprises will provide a summary of personnel who have left and been recruited during the year. As the social balance sheet makes a distinction, for nearly all these data, between full-time jobs and part-time jobs and as it counts them in terms of full-time equivalents, it will be possible for the development of the redistribution of the volume of work to be followed more closely in future.

Large enterprises have been required to deposit at the Bank a simplified version of the social balance sheet for the year 1995. As is often the case with a new type of statistic, the first data collected need to be

checked with particular care and, if necessary, corrected. Only after these processing operations have been carried out will the results be sufficiently reliable to be used.

Unemployment

During the year under review the statistical data concerning the labour force and unemployment were influenced by the change in the rules concerning older unemployed persons.

The conditions for access to the scheme for older unemployed persons, which has been in force since 1985 and which allows the beneficiaries exemption from reporting to the labour exchange, from registering as job-seekers and from being obliged to be available for the labour market, were made more flexible with effect from 1st January 1996. Unemployed persons aged 50 to 51 no longer have to prove reduced ability for work and the minimum period of unemployment required to entitle them to benefit by this system was reduced from two years during the last four years to one year during the last two years.

Taking advantage of the new possibilities offered to them, a large number of unemployed persons aged over 50 refrained from presenting themselves on the labour market. As their qualifications are usually poor and as they have lost contact with working life for a fairly long period, their possibilities of finding a job are generally slight. Thus, the extension of the « recruitment advantage » plan to wholly unemployed persons who have been entitled to benefit for at least six months and are over 50 years of age had practically no effect on the employment of older workers.

The number of older workers covered by this system increased by about 35,000 units following the introduction of more flexible conditions of access in January 1996, so that their number was slightly over 105,000 units in December 1996. The effects of this change in the unemployment

regulations are probably coming to an end, since the number of persons still eligible to benefit by this system returned, in December 1996, to a level comparable to that observed in December 1995, just before the change.

The increase in this type of early withdrawal from the labour market explains why in 1996, for the first time since 1986, the labour force, the statistics for which are compiled as at 30th June and which corresponds to the sum of persons actually employed and unemployed job-seekers, declined: the fall of about 7,000 units observed between 1995 and 1996 follows a slowing of the rate of growth which was already pronounced in 1994 and 1995 compared with the preceding years.

If the influence of the aforementioned change in the unemployment regulations is disregarded, the determinants of the supply of work, i.e. the number of persons of working age and the propensity of these persons actually to present themselves on the labour market, exerted an overall positive effect of about 14,000 units in 1996, which was comparable to that observed the previous year. The downward trend of the male activity rate and the upward trend of the female participation rate in fact continued at a similar rate to that observed on average during the last few years.

The adaptation of the regulations brought the content of the national unemployment statistics more into line with the international definition, since, according to the International Labour Office, only persons meeting precise conditions, including actively seeking a job, are to be regarded as unemployed. In their final version, the harmonised unemployment rate series compiled by the European Commission, which are the reference for international comparisons and are drawn up on the basis of the annual workforce survey, also comply with this definition.

Three other aspects of the regulations were changed in the course of 1996 and

likewise help to bring the measure of unemployment closer to its economic definition.

With effect from 1st January 1996 the reference periods taken into account in the measures for excluding cohabiting persons aged under 50 who have been unemployed for an abnormally long period were reduced from twice to one and a half times the average duration in the administrative district, calculated by sex and for three age groups. Since 1st April job-seekers who, within a space of six months, have worked at least 180 hours within the framework of the local employment agencies may ask to be exempted from reporting to the labour exchange and registering as job-seekers. This threshold was provisionally fixed at 120 hours for applications submitted before 1st January 1997. Parallel with this, the limitation to two years of the period of benefit in the event of interruption of unemploy-

CHART 18 — UNEMPLOYMENT

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



Sources : NEMO, NBB.

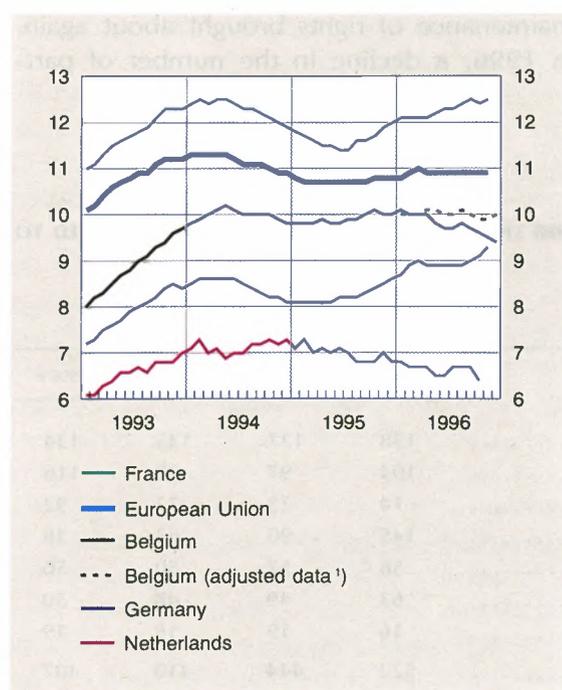
¹ Wholly unemployed persons receiving benefit, compulsorily registered job-seekers (mainly temporarily excluded unemployed persons and young people during the waiting period) and voluntarily registered job-seekers.

ment for social or family reasons was lifted and the allowance paid during the first two years was increased.

Thanks to these various changes in the regulations, the number of registered unemployed persons is now closer to that of actual job-seekers, but the task of analysing the development of unemployment, the only labour-market element for which proper statistics are quickly and regularly available, is temporarily complicated by them. In so far as the effects on demand for employment produced by changes relating to exclusion, work done by arrangement with local employment agencies and interruption of unemployment appear up to the present to have been negligible, only the movement of the number of beneficiaries of the scheme for older unemployed persons appreciably disturbs the observations.

CHART 19 — INTERNATIONAL COMPARISON OF THE UNEMPLOYMENT RATE

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



Sources : EC, NBB.

¹ The series for unemployed job-seekers used in order to extrapolate the provisional monthly data from the result of the latest annual survey on workforces published by the European Commission, has been adjusted in order to incorporate the changes in the number of older unemployed persons not seeking employment observed since January 1996.

It is therefore necessary, in order to analyse the changes in demand for employment between 1995 and 1996, to neutralise the break, at the beginning of the year under review, in the official series for unemployed job-seekers by adding to it the beneficiaries of the scheme for older unemployed persons.

It emerges from the series thus compiled that the increase in unemployment over a period of one year, which has speeded up at the beginning of the summer of 1995, stabilised between the third quarter of 1995 and the second quarter of 1996, before beginning to slow down. Reacting, with a time-lag, to the cyclical improvement which had been perceptible since the beginning of the current year, the total number of unemployed job-seekers and beneficiaries of the scheme for older unemployed persons was actually, in the fourth quarter of 1996, slightly lower than a year earlier.

The international comparison of the development of unemployment is likewise affected by the statistical changes referred to above. The European Commission's provisional monthly data are in fact extrapolated from the results of the latest annual workforce survey, on the basis of the development of the number of unemployed job-seekers. Adjusted in order to take account of the rise in the number of older unemployed persons not seeking employment, the unemployment rate in Belgium appears to have remained unchanged at 10 p.c. between December 1995 and December 1996. A reduction, over a period of one year, of 0.4 percentage point was observed in October 1996 in the Netherlands, where the unemployment rate is in fact appreciably below the European average. In Germany and France the unemployment rate continued to increase, the year-over-year growth having amounted respectively, in November 1996, to 0.8 and 0.7 percentage point. In the European Union as a whole the unemployment rate rose slightly, from 10.8 p.c. in November 1995 to 10.9 p.c. a year later.

CHART 20 — WHOLLY UNEMPLOYED PERSONS ENTITLED TO BENEFIT ACCORDING TO PERIOD OF INACTIVITY¹

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



Source : NEMO.

¹ Including young people during the waiting period.

² Wholly unemployed persons entitled to benefit whose period of inactivity is less than one year and young people during the waiting period.

³ Wholly unemployed persons entitled to benefit whose period of inactivity is one year or over.

In Belgium the improvement in the situation during the year 1996 is also re-

flected in the pattern of changes at an interval of one year in the number of short-term unemployed, that is, persons whose period of inactivity is less than one year. The change in the number of job-seekers in this category, which, unlike the number of long-term unemployed, can only have been marginally affected by the various changes in the regulations described elsewhere, has been negative since the second half of 1994. The monthly reductions decreased steadily in the course of 1995, under the combined influence of the abolition of the recruitment plan for young people and the cyclical slowdown. The fall was virtually interrupted in April 1996, before speeding up again to reach about 13,500 units in December.

The number of persons receiving unemployment insurance payments, other than wholly unemployed persons receiving benefit, continued to decline in 1996, although appreciably more slowly than in the preceding years. The definitive replacement, since the end of 1995, of the system of involuntary part-time working by the less expensive system of part-time working with maintenance of rights brought about again, in 1996, a decline in the number of part-

TABLE 11 — BENEFICIARIES OF UNEMPLOYMENT INSURANCE OTHER THAN WHOLLY UNEMPLOYED PERSONS ENTITLED TO BENEFIT

(Annual averages, thousands of units)

	1993	1994	1995	1996 e
Early retirement under collective agreements	138	137	135	134
Unemployed persons not seeking employment ¹	105	97	97	116
of which older unemployed persons	74	73	72	92
Part-time unemployed persons ²	145	90	63	38
Career interruptions	56	52	50	50
Temporarily unemployed persons	63	49	48	50
Unemployed persons receiving training	16	19	18	19
Total	522	444	410	407

Sources : NEMO, NBB.

¹ Beneficiaries of the scheme for older unemployed persons and unemployed persons not required to register as job-seekers owing to social or family circumstances or because of resumption of education.

² The number of part-time unemployed persons registered with the NEMO is larger. The approximation presented in the table takes account only of part-time unemployed persons who are actually entitled to supplementary unemployment benefit.

time unemployed which was greater than the rise in the number of older unemployed persons. The number of persons taking early retirement and of temporary unemployed, for its part, stabilised. Despite the aims of improving the skills of job-seekers, the number of unemployed persons receiving training did not increase. Similarly, the various measures to encourage redistribution of work put into effect under the multiannual

plan for employment do not seem to have had any significant effect on the number of career interruptions.

Altogether, a decrease of about 3,000 units in the number of beneficiaries other than wholly unemployed persons entitled to benefit was recorded in 1996, so that the cumulative reduction since 1991 amounted to nearly 150,000 units.

3. PRICES, COSTS AND INCOMES

3.1 MOVEMENT OF LABOUR COSTS IN ENTERPRISES

During the period 1987-1993, labour costs per full-time equivalent in enterprises rose, as stated in section 2.2, at a more rapid annual average rate in Belgium than in the three neighbouring countries: the rise amounted to 5.2 and 4.2 p.c. respectively. As inflation was a little lower in Belgium during this period, the difference is solely due to a faster increase in real wages. Account being taken of almost identical productivity gains, unit labour costs therefore went up by 3 p.c. in Belgium, against an average of 1.9 p.c. in Germany, France and the Netherlands.

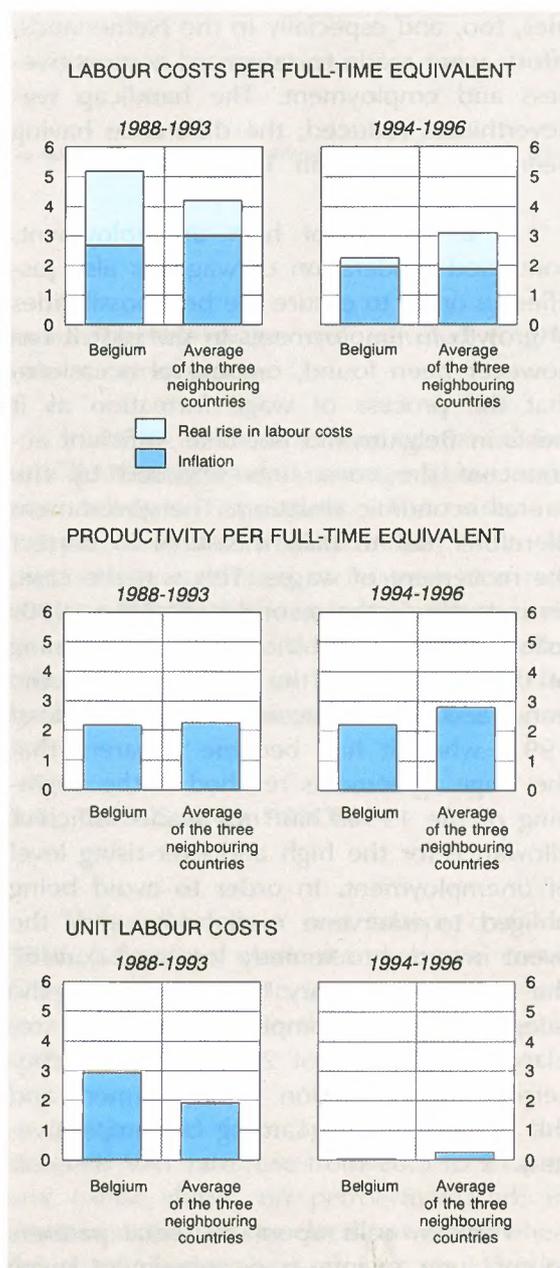
When it was established in 1993, in accordance with the procedures laid down in the law of 6th January 1989, that a handicap with regard to labour costs had developed since 1987, the government adjusted the development of wages accordingly. The reason for this intervention was the possible threat which this difference in labour costs could represent for the competitiveness of Belgian enterprises. But, even more than this concern about a handicap as regards competitiveness, there had been the growing conviction that such a rapid rise in labour costs, altering the movement of the relative prices of production factors at the expense of the labour factor, was above all detrimental to the development of employment.

The measures adopted in November 1993 included, firstly, the introduction of a new reference index, called the health index, for the indexation of wages, benefits, the incomes of members of the liberal professions, directors' fees and rents. The incidence of the changeover to this new index, which excludes products which are considered to be dangerous to health — alcohol,

tobacco, petrol and diesel — and whose prices had risen more rapidly, made it possible to cancel out the real rises in wages

CHART 21 — INTERNATIONAL COMPARISON OF LABOUR COSTS IN ENTERPRISES

(Average of the annual percentage changes)



Sources : OECD, NBB.

in 1994. Furthermore, a prohibition against collectively agreed increases was imposed for 1995 and 1996.

Thanks to these measures, the rise in labour costs per full-time equivalent amounted in Belgium to only 2.3 p.c. on average between 1993 and 1996, whereas it was 3.1 p.c. in the three neighbouring countries, while the inflation rate was about 2 p.c. both in Belgium and in the three other countries. The difference which had developed since 1987 was not, however, completely offset because, in these countries, too, and especially in the Netherlands, efforts were made to safeguard competitiveness and employment. The handicap was nevertheless reduced, the difference having been only 3.1 p.c. in 1996.

In a context of high unemployment, continued moderation of wages is also justified in order to ensure the best possibilities of growth in employment. In the past it has however been found, on several occasions, that the process of wage formation as it exists in Belgium did not take sufficient account of the constraints imposed by the overall economic situation. The government therefore had to take measures to correct the movement of wages. This was the case, for instance, in the second part of the 1970s following the first oil shock, at the beginning of the 1980s after the devaluation of the franc and, more recently, at the end of 1993, when it had become apparent that the wage agreements reached at the beginning of the 1990s had not made sufficient allowance for the high and ever-rising level of unemployment. In order to avoid being obliged to intervene once more after the event in order to remedy losses of control, the law of 6th January 1989 concerning the safeguarding of competitiveness was replaced by the law of 26th July 1996 concerning the promotion of employment and the preventive safeguarding of competitiveness.

This law calls upon the social partners to conclude an inter-trade agreement laying down a maximum rise in labour costs in

nominal terms which must be observed in the negotiations for the biennial wage agreements, both at national and sectoral level and at enterprise level, and which must not be exceeded either in individual agreements. If the social partners fail to reach agreement, the government is responsible for fixing this maximum.

This figure takes account of the expected rise in labour costs per full-time equivalent, in the national currency, in the three main trading partners, corrected if necessary in order to take account of the changes in the collectively agreed average annual duration of work. Thus, the new law is an instrument designed to prevent any runaway movements, rather than trying to remedy them subsequently. The indexations and scale increases are however guaranteed, even if the wage rise thereby exceeds the permitted maximum margin. Profit shares are not taken into account either for judging the development of labour costs, in accordance with conditions which will be laid down by law.

When the collective negotiations take place, the social partners can allocate the margin thus defined either for wage increases or for the financing of measures to promote employment.

Over and above its preventive nature, the law contains a number of corrective mechanisms. If, in spite of everything, the rise in wages in Belgium exceeds that in the neighbouring countries, corrections may be made at the end of the first year. This can also be done in the following year, when the wage negotiations take place, because the law stipulates that the maximum margin can be reduced to the extent of the overstepping observed during the two preceding years.

In 1996, as the labour-market parties had not concluded an inter-trade agreement within the period laid down by the law, the government fixed the maximum margin at 6.1 p.c. for the period 1997-1998 as a whole.

TABLE 12 — LABOUR COSTS IN ENTERPRISES¹

(Percentage changes compared with the previous year)

	1990	1991	1992	1993	1994	1995	1996 e
Compensation per employee in full-time equivalent	7.1	8.9	6.2	4.1	2.5	2.5	1.7
Increase resulting from :							
Employers' social security contributions ² .....	...	0.3	-0.1	0.1	-0.7	-0.2	-0.3
Indexations	3.3	3.5	2.7	2.6	1.4	1.5	1.4
Wage increases under collective agreements ...	2.0	2.3	2.3	0.9	1.4	...	...
Wage drift ³	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other factors ⁴	1.2	2.1	0.7	...	-0.1	0.8	...
Productivity per employee in full-time equivalent ..	2.3	2.9	2.6	1.1	2.5	2.1	1.9
Unit labour costs ⁵	4.7	5.9	3.5	2.9	...	0.4	-0.2

Sources : NAI, NSSO, 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 For 1994 and 1995, data estimated on the basis of the NSSO series.³ This item is an overall estimate, and consists mainly of the scale increases.⁴ This item includes increases granted by enterprises over and above collectively agreed or scale adjustments, the difference between estimated and actual wage indexations and errors and omissions.⁵ Per unit of value added in enterprises, at constant prices.

With regard to recent developments, especially those in 1996, the above-mentioned prohibition of collectively agreed wage increases for the period 1995-1996 made a considerable contribution to the moderation of labour costs. Furthermore, employers' social security contributions decreased on average, because a number of previously adopted measures, such as the agreements to promote employment and the « recruitment advantage » plan, exerted their full influence and the field of application of the reductions for low wages was extended.

The influence of inflation on labour costs, via the linking of compensation of employees to the consumer price index, was also slight — 1.4 p.c. — despite the quickening of inflation, which reached 2.1 p.c. in 1996. This was because indexation is carried out on the basis of the health index. The greater part of the increase in indirect taxes, which, as mentioned below, is responsible for the acceleration of the price rise, related precisely to the products which are excluded from that index. Furthermore, average indexations fell short of the rise in the health index, since, owing to the indexation mechanisms, there is a delay of a few

months before wages are adjusted to the movement of prices.

In 1996 all these factors combined led to a limited increase in average labour costs per full-time equivalent. The rise, of 1.7 p.c., was the smallest since 1989. As productivity continued to increase at a rate comparable to the long-term average, unit labour costs actually declined slightly, after having risen a little in 1995. Thus, unit labour costs have been stable for three years.

3.2 COSTS AND PRICES

The slight fall in unit labour costs in 1996 helped to moderate domestic costs. Only the increases in indirect taxation led to a significant rise in the level of domestic costs.

With effect from 1st January 1996 the standard VAT rate rose from 20.5 to 21 p.c. and excise duties on petrol increased, in implementation of the decisions made when the 1996 budget was drawn up. During October and November excise duties on

TABLE 13 — UNIT PRICES AND COSTS IN ENTERPRISES^{1,2}

(Percentage changes compared with the previous year)

	1991	1992	1993	1994	1995	1996 e	p.m. Structure of costs in 1995
Costs per unit sold	1.8	0.5	0.8	1.3	...	1.5	100
Imported goods and services							
Costs in foreign currencies ³	(-0.7)	(-0.8)	(-2.2)	(2.7)	(4.6)	(-0.2)	
Exchange rates ⁴	(0.1)	(-2.0)	(-0.4)	(-1.7)	(-3.9)	(2.1)	
Costs in francs	-0.6	-2.7	-2.6	0.9	0.5	1.9	52
Costs of domestic origin per unit produced ⁵	4.4	3.7	4.1	1.0	-0.6	1.0	48
Indirect taxes net of subsidies	-0.3	6.7	9.7	7.0	-4.1	5.6	7
Labour costs	5.9	3.5	2.9	...	0.4	-0.2	31
Gross operating surplus of self-employed persons	3.0	2.3	3.9	-0.1	-0.8	1.4	10
Gross operating surplus of companies per unit sold	-3.8	1.4	-0.2	3.0	6.1	3.4	
Unit selling price	1.2	0.6	0.7	1.5	0.7	1.7	
On the domestic market	3.0	2.5	2.4	2.4	1.4	1.8	
of which consumer prices ⁶	3.2	2.4	2.8	2.4	1.5	2.1	
Of exports	-0.5	-1.0	-1.2	0.3	-0.1	1.9	

Sources : NAI, NBB.

¹ Private and public enterprises.² The determinants of the formation of prices and costs 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, costs and the gross operating surplus per unit sold do incorporate them, without their appearing explicitly in the table among the determinants.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 That is, per unit of value added at constant prices in enterprises.⁶ Index of consumer prices.

petrol and on alcoholic beverages were raised as part of the 1997 budget. The VAT rate on ornamental plants and cut flowers was, on the other hand, reduced from 21 p.c. to 6 p.c. Furthermore, the excise duties on petrol were raised again on 30th December, but the last-mentioned measure will not affect the movement of costs until 1997.

Imported goods and services can also contribute to the rise in costs. Owing to the importance of the degree of openness of the Belgian economy, the movement of import prices is actually a very important determinant, whether the imports in question are raw materials or other products. The quotations for raw materials on the world market, which are generally expressed in dollars, cannot be influenced by a small economy such as Belgium, which is there-

fore subject to the fluctuations of prices on the international markets. During the year under review the dollar prices of crude oil rose by nearly 18 p.c. Converted into francs, this increase actually amounted to 23.9 p.c. owing to the 5 p.c. appreciation of the dollar. The other raw materials did not lead to cost increases, because the fall in quotations was greater than the appreciation of the dollar.

Over 60 p.c. of imports of other goods and services come from Germany and other member countries of the EMS whose monetary policy is centred on the stability of their currencies vis-à-vis the German mark, i.e. countries where combating inflation is a priority. In view of the control exercised over prices in these economies and the stability of the exchange rates for the franc against the currencies of these countries, the

risk of importing inflation is thus smaller. Despite the sharp appreciation of the dollar, the rise in the prices of imported goods and services thus amounted to only 1.9 p.c., a rate which was, however, by far the highest since 1990.

Actually, while the increase in costs per unit sold, at 1.5 p.c., was slightly greater than during the four preceding years, two thirds of it is due to the rise in import prices.

Lastly, the increase in the gross operating surplus of companies and self-employed persons remained modest. Exporters probably took advantage of the fall in the weighted average exchange rate for the franc to raise their export prices in francs and widen their margins. On the other hand, despite the cyclical recovery, the increase in demand on the domestic market was not great enough to permit any pronounced widening of profit margins, including those of traders and craftsmen.

Thus, unlike the movements observed since the beginning of the decade, export

prices and those on the domestic market increased to almost the same extent. The average increase in selling prices in the domestic market nevertheless conceals slightly divergent developments. Investment prices increased to a smaller extent than the average, owing to the reduction, subject to certain conditions, of the VAT rates on house-building.

On the other hand, the increase in consumer prices was more pronounced, having amounted to 2.1 p.c., and exceeded the 1995 inflation rate, which was 1.5 p.c. This acceleration is however solely due to the above-mentioned increases in indirect taxation. If the influence of the raising of indirect taxes, including the effect in 1996 of decisions taken at the end of 1995, is eliminated from the rise in consumer prices, there is no acceleration at all.

The basic trend of the movement of consumer prices is actually a continuance of the slowing of the inflation rate, which in 1996 reached a level which can almost be called a state of price stability. This trend is best illustrated by the movement of un-

TABLE 14 — CONSUMER PRICES

(Percentage changes compared with the previous year)

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

Sources : MEA, NBB.

¹ Inflation after exclusion of the influence of energy products, potatoes and fruit and vegetables.

² Percentage changes compared with December 1995.

derlying inflation after elimination of the effect of indirect taxation. This movement is calculated without taking account of the influence of products which display erratic price movements, in this case energy products and certain basic food products, such as fruit and vegetables. If, furthermore, the incidence of indirect taxation, which affects prices in a discretionary manner, is eliminated, a good picture of the underlying inflationary trends is obtained. Measured on this basis, inflation amounted to only 1.3 p.c. in 1996, against 1.6 p.c. the previous year.

This slowing is particularly marked for goods other than food and energy products, the prices of which, when the influence of indirect taxation has been excluded, went up by barely 0.9 p.c. during the year under review, after a rise of 1.3 p.c. in 1995. The rate of increase of the prices of services and rents also slackened, even though it remained higher than that for these other goods. For services the more rapid increase is attributable to, among other things, smaller productivity gains than in industry. The still pronounced rise in rents is probably due to a real raising of rents when contracts are renewed, because increases other than those due to the health index are not permitted while the contract is in force.

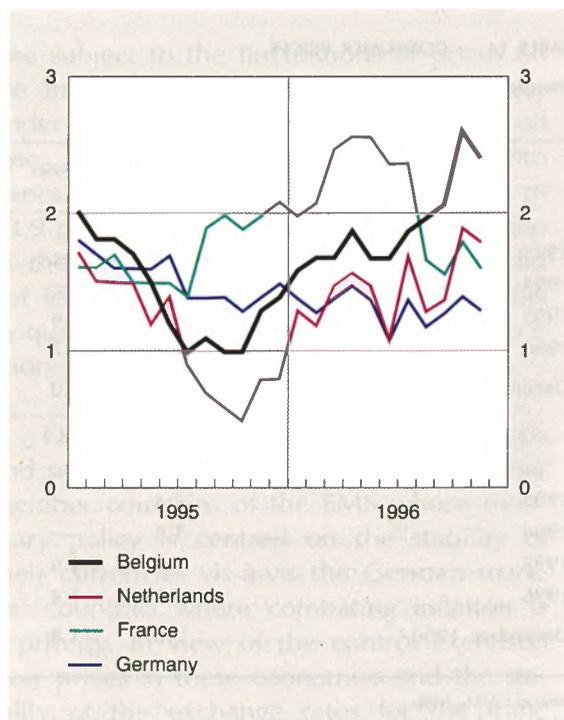
In order to compare inflation in the various countries of the EU, the European Commission has since March 1996 compiled so-called interim indices, which go back to 1994. They constitute a first stage in the harmonisation of price indices which will serve as the basis for examining convergence between Member States in accordance with Article 109 J of the Treaty of Maastricht, pending the entry into force of completely harmonised indices in 1997. Owing to the elimination of the main differences between the national indices, these interim indices cover a set of goods and services which are largely comparable. For Belgium one effect of this harmonisation is to exclude expenditure on health, fire insurance, travel abroad and financial services, and also the tax on the entry into service

of motor vehicles. Calculated thus, inflation does not however differ fundamentally from that measured by the national index.

Despite this harmonisation effort the interim indices do not yet reflect the fundamental trends of inflation in the various countries, because the movement of these indices is still influenced by the changes in indirect taxation. Thus, the speeding up of the price rise observed in Belgium since November 1995, which contrasts with the movements in Germany, France and the Netherlands and which has been reflected since August 1996 in a higher inflation rate than those of the above-mentioned countries, is mainly attributable to the successive rises in indirect taxes. The incidence of the changes in taxation, on the assumption that these are fully passed on to the consumer, can be assessed, but, in the partner countries, only on an annual basis. Among the three neighbouring countries, it appears to

CHART 22 — INTERIM INDICES OF CONSUMER PRICES

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



Source : EC.

have been significant only in the Netherlands, where it contributed 0.6 percentage point to inflation during the year under review. If the influence of indirect taxation is excluded, inflation in Belgium is close to the average in the three partner countries.

The convergence criterion with regard to inflation defined by the Treaty of Maastricht stipulates that the rate of rise of prices in the countries which wish to accede to the EMU cannot be more than 1.5 percentage points above the average for the three, at most, best-performing countries. The reference value, calculated according to the methods used in the convergence reports of the European Commission and the EMI, and measured on the basis of the average inflation rate between December 1995 and November 1996, was 2.7 p.c. With an increase in consumer prices which, measured in the same way, reached 1.9 p.c., Belgium therefore fully meets this criterion.

3.3 INCOMES

Incomes of individuals

The growth in the primary income of individuals was very small : it amounted to

only 1.2 p.c. in 1996, against 2.1 p.c. the previous year. The main reason for this slowing has already been commented upon above. The volume of work declined somewhat in the enterprise sector and compensation per employee rose only very slightly in that sector. In the civil service, too, total wages and salaries hardly increased at all. The reduction in staff which has been in progress for several years has admittedly stopped, but the payment of the end-of-year bonus of part of the workforce of general government was postponed until the beginning of 1997. In the economy as a whole, wages and salaries thus increased by only 1.3 p.c., against 2.9 p.c. in 1995.

The rate of increase in the income of self-employed persons speeded up, on the other hand, to 4 p.c. compared with 1.8 p.c. in 1995. This faster rise applied to most categories of self-employed persons. Thus, the incomes of farmers increased, after the previous year's sharp reduction, the adverse effects of the pronounced fall in the prices of beef and potatoes having been in fact counterbalanced by the rise in the prices of most other agricultural and horticultural products. The members of certain liberal professions, for their part, benefited by the increase in health expenditures,

TABLE 15 — INCOMES OF INDIVIDUALS AT CURRENT PRICES¹

(Percentage changes compared with the previous year)

	1993	1994	1995	1996 e
Primary income	3.4	2.5	2.1	1.2
Wages and salaries ²	2.5	2.9	2.9	1.3
Incomes of self-employed persons	2.0	4.5	1.8	4.0
Incomes from property	6.6	0.7	0.1	-0.7
Net current transfers	0.4	17.1	3.9	-1.3
Disposable income	3.8	1.0	1.9	1.5
p.m. At constant prices ³	(1.0)	(-1.3)	(0.4)	(-0.6)

Sources : NAI, NBB.

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

² Compensation paid by enterprises and general government, including employers' social security contributions, and civil service pensions.

³ Data deflated by means of the consumer price index.

while traders derived advantage from the slight increase, in nominal terms, in private consumption.

The growth differential observed between the incomes of self-employed persons and the other components of earned incomes is partly attributable to the different movements of the number of self-employed persons, which increased in 1996, and that of employees, which remained unchanged during the same year. This divergence is not in fact exceptional, but has been observable since the beginning of the decade, even though its exact extent is difficult to assess solely on the basis of the available data, which are expressed in terms of numbers of employees. This would in fact, ideally, entail measuring the respective movements of these two ways of working in terms of hours worked, in order to take account of any possible cumulations between the two types of activity or of the differences in the development of part-time working in the case of self-employed persons and of employees.

CHART 23 — NUMBER OF EMPLOYEES AND SELF-EMPLOYED PERSONS

(Indices 1990 = 100, data as at 30th June)



Source : Ministry of Employment and Labour.

¹ Except for assistants.

Incomes from property decreased slightly. This reduction is due to the widely divergent movements of dividends and incomes from property, on the one hand, and interest incomes, on the other.

Dividends continued to grow at the same rate as in 1995 and thus reflected the continuance of the recovery in the results of enterprises. While the rate of increase of rents slowed down compared with the previous year, net incomes from real estate benefited from the reduction in interest rates. This decline lightened the mortgage burdens imputed against these incomes, particularly as many borrowers took advantage of the fall in interest rates to renegotiate the conditions of existing contracts.

This same fall in interest rates reduced interest incomes, especially those received on interest-bearing assets in francs, which represent the most important component of the financial assets of individuals.

Between 1993 and 1996 the average interest rate which households were able to obtain on their assets at up to one year contracted by a half, from 6.2 to 3.1 p.c. The decline was less pronounced for long-term assets, because those at over one year have maturities spread over several years. The recent decline in long-term interest rates should therefore continue to produce its effects on income from financial assets during the years to come, as investments at over one year are renewed.

The incidence of the fall in interest rates was partly counterbalanced by the increase in the volume of portfolio investment. This growth factor may not be immediately reflected in incomes. This is because, while the formation of assets at up to one year has a direct effect on incomes during the current year, the first interest incomes from new long-term portfolio investments are received only with a time-lag of one year. Thus the sharp rise, in 1996, in the outstanding amounts of assets on which interest incomes were received is attributable both to the marked preference displayed for in-

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

	1993	1994	1995	1996 e
Outstanding amounts on which interest incomes are received (indices 1993 = 100) ¹				
Assets at up to one year	100.0	103.3	97.7	100.4
Assets at over one year	100.0	101.4	111.4	120.9
Total	100.0	102.4	104.6	110.8
Weighted average interest rate (percentages) ²				
Assets at up to one year	6.2	4.7	4.1	3.1
Assets at over one year	8.7	8.2	7.6	7.1
Total	7.5	6.5	6.0	5.3
Interest incomes (indices 1993 = 100)				
Assets at up to one year	100.0	78.4	63.9	49.9
Assets at over one year	100.0	96.0	98.2	99.5
Total	100.0	88.7	84.0	79.1

Source : NBB.

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

² These rates correspond, for the short term, to the annual average and, for the long term, to a moving average over several years. They are weighted on the basis of the share of the respective categories of the assets to which they apply.

vestments at over one year in 1995 and to the reallocation, in 1996, of a substantial proportion of the portfolios to certain categories of short-term assets. This volume effect was not, however, sufficient to counterbalance the influence of the decline in interest rates, and consequently interest incomes on investments in francs went on declining and reached in 1996 only 79 p.c. of their 1993 level.

Net transfers by individuals, of which general government is the main beneficiary, declined by 1.3 p.c. in 1996, whereas they had increased by 3.9 p.c. the previous year. The small growth in wages and salaries depressed payments of income tax deducted at source and social contributions. The latter were also influenced by larger reductions in employers' social contributions than in 1995. Furthermore, the effect of the fall in interest incomes on revenue from the withholding tax on those incomes was made sharper by a shift towards investments exempt from that tax, particularly regulated savings deposits. In the opposite direction, some social benefits paid by general gov-

ernment, particularly those connected with health care, increased substantially.

The reduction in net transfers enabled households to achieve, in 1996, a slightly greater increase in their disposable income than that in their primary income, namely 1.5 p.c. against 1.2 p.c. This rate of increase fell short, however, of that of the price rise, so that the purchasing power of individuals decreased by 0.6 p.c. This stagnation represents the continuation of the trend observable during the last three years, the disposable income of households in real terms having been slightly lower in 1996 than it was in 1992.

Incomes of companies

The movement of the disposable income of companies differed greatly from that of individuals, because it went on increasing at a rate well above that of GNP. Thus, the share of companies in GNP rose further to 12.2 p.c. in 1996, against 10.3 p.c. in 1993.

Contrasting with the structural trend of recent years, commented upon in section 4.2, the increase in net transfers by companies, consisting chiefly of taxes, was less rapid than that in this sector's income, chiefly owing to the movement of payments of the withholding tax on income from immovable assets. A catching up of the accumulated delays in the collection of this tax had had the effect of temporarily swelling the payments made by companies in 1995, which explains the rather low rate of growth of transfers in 1996.

As a result, the rise in the disposable income of companies, of 10.4 p.c. in 1996, was slightly greater than that in pre-tax profits, as measured by the primary income. The latter increased by 9.2 p.c. The main reason why the rate is slightly lower than that recorded during the previous year is that companies were no longer able to widen their margin per unit sold to the same extent as in 1995.

The gross operating surplus nevertheless recorded, for the third year in succession, a significant increase, which contrasts with the relative stagnation of the years 1990 to 1993. This movement was moreover coupled with a convergence of the performance of the various branches, which had tended rather to show divergent movements during

the preceding period. At the beginning of the decade the worsening cyclical trend had in fact chiefly affected industry, while the results of other non-financial companies continued to improve. Conversely, in 1994 and 1995 manufacturing industry succeeded in making up part of its leeway in growth thanks to a faster rise in the gross operating surplus than in service companies. It is not certain, however, from the available data, that this catching-up movement continued in 1996, as the growth in value added in terms of volume slowed down in manufacturing industry but not in services.

The results of enterprises are not only governed by their operating activity but are also affected by the net incomes from property paid to the other sectors. In so far as a substantial proportion of these payments corresponds to dividend payments, they should obviously reflect the increase in the gross surplus. The reason why this is not always the case is that the other determinants of these incomes from property generally exert an influence in the opposite direction. In particular, the gradual reduction in interest rates has helped in recent years to lighten the burden of debt charges, since, as they are net debtors, the interest which most companies pay on their borrowings exceeds the incomes which they receive from their financial fixed and current assets.

TABLE 17 — INCOMES OF COMPANIES AT CURRENT PRICES¹

(Percentage changes compared with the previous year)

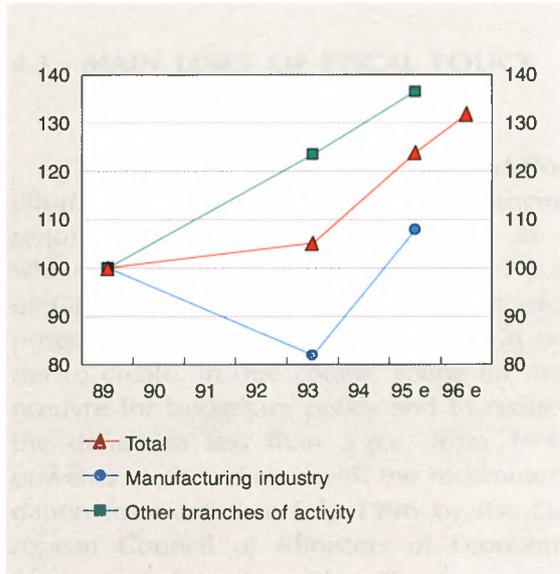
	1993	1994	1995	1996 e
Gross operating surplus	-0.4	8.3	9.7	6.5
Gross operating surplus per unit sold	-0.2	3.0	6.1	3.4
Final sales at constant prices	-0.2	5.2	3.4	3.0
Net income from property paid to other sectors	-10.7	-2.2	6.7	-3.5
Primary income	3.4	11.7	10.6	9.2
Net current transfers to other sectors	15.1	18.0	16.1	4.2
Disposable income	1.3	10.4	9.3	10.4
p.m. Percentages of GNP	(10.3)	(10.8)	(11.4)	(12.2)

Sources : NAI, NBB.

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

CHART 24 — GROSS OPERATING SURPLUS OF NON-FINANCIAL COMPANIES

(Indices 1989 = 100)

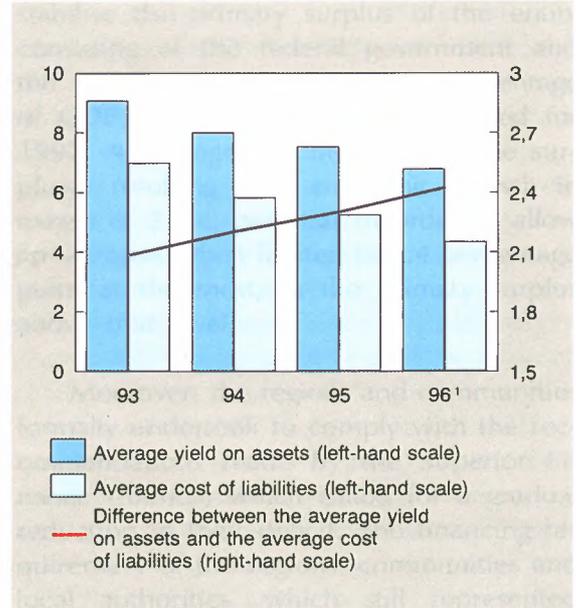


Sources : NAI, NBB (Central Balance Sheet Office).

Financial companies, for their part, receive substantial net interest incomes. The banks, in particular, derive the greater part of their resources from the difference between the interest charged on their lending and the interest paid on their borrowings. The general decline in interest rates did not lead to a narrowing of this intermediation margin, which on the contrary has increased steadily in recent years. On transactions in francs with non-bank customers it amounted to 2.42 p.c. in 1996 against 2.3 p.c. the previous year. This widening is attributable to the very favourable conditions under which the banks were able to carry out their maturity-transformation activity. On the one hand, there was a substantial differential throughout the year between short-term and long-term interest rates. On the other hand, the proportion, on the assets

CHART 25 — 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.

side, of claims in francs at over one year increased in 1996, whereas that, on the liabilities side, of commitments of the same nature contracted.

For several years now, credit institutions have been endeavouring to diversify their activities in order to make their results less dependent on the intermediation margin. These other income sources also increased in 1996. Thus, the commission received on stock exchange transactions and on the sale of units of collective investment undertakings increased owing to the growth in the number of these two categories of transactions.

4. PUBLIC FINANCES

4.1 MAIN LINES OF FISCAL POLICY

Chiefly owing to the great consolidation effort made since 1993, the net financing requirement of general government as a whole decreased in 1996 from over 7 p.c. of GDP to 3.4 p.c. The Government proposes to continue this rehabilitation in order to create, in due course, scope for manoeuvre for budgetary policy and to reduce the deficit to less than 3 p.c. from 1997 onwards in accordance with the recommendation formulated in July 1996 by the European Council of Ministers of Economic Affairs and Finance within the framework of the procedure for establishing the existence of excessive public deficits.

In this context the Government set itself the aim of reducing the deficit to 2.9 p.c. of GDP in 1997 and adopted new measures whose effect on the accounts of the federal government and the social security system represents about 1 percentage point of GDP. In order to make this restoration process more credible, the budget was drawn up on the basis of cautious assumptions with regard to economic growth and interest rates. Furthermore, it forms part of a multiannual approach and therefore comprises a set of structural measures which will have an impact for several years. The proceeds of some provisions, especially with regard to social expenditure, will even gradually increase and will compensate for the disappearance of non-recurrent measures. Moreover, there are fewer of the latter than hitherto.

The Government's endeavour to bring about a lasting rehabilitation of the public finances was also reflected in the drawing up in December 1996 of a new convergence programme in which the main lines of medium-term budgetary policy were fixed. The Government thus undertook to

stabilise the primary surplus of the entity consisting of the federal government and the social security system, as a percentage of GDP, at least at the level planned for 1997. Advantage will be taken of the surpluses resulting from economic growth in excess of 2 p.c. per year in order to allow an increase, albeit limited to 0.4 percentage point at the most, in the primary surplus above that level.

Moreover, the regions and communities formally undertook to comply with the recommendations made by the Superior Finance Council, which called for a gradual reduction in their deficit. The financing requirement of the regions, communities and local authorities, which still represented around 0.5 p.c. of GDP in 1996, should disappear from 1999 onwards.

All in all, on the basis of cautious macroeconomic assumptions, the deficit of general government as a whole should gradually decrease to about 1.5 p.c. of GDP in the year 2000.

The persistence of a high primary surplus will lead to a substantial reverse «snowball effect», thanks to which the public debt will contract automatically, i.e. without any new measures, at least in a normal macroeconomic context.

In order to reinforce this endogenous decrease in the public debt and to comply with the convergence criterion which calls for a reduction, at a satisfactory pace, of the ratio of the public debt to GDP, the Government launched a programme of financial transactions involving an amount of Fr. 370 billion spread over the years 1996 and 1997. This programme should make it possible to bring down the debt ratio by 10 percentage points of GDP between the end of 1993 and the end of 1997. According to the simulations of the Superior

Finance Council, the public debt should dwindle steadily and should in the long run reach the threshold of 60 p.c. of GDP.

4.2 REVENUE, EXPENDITURE AND FINANCING REQUIREMENT

Revenue

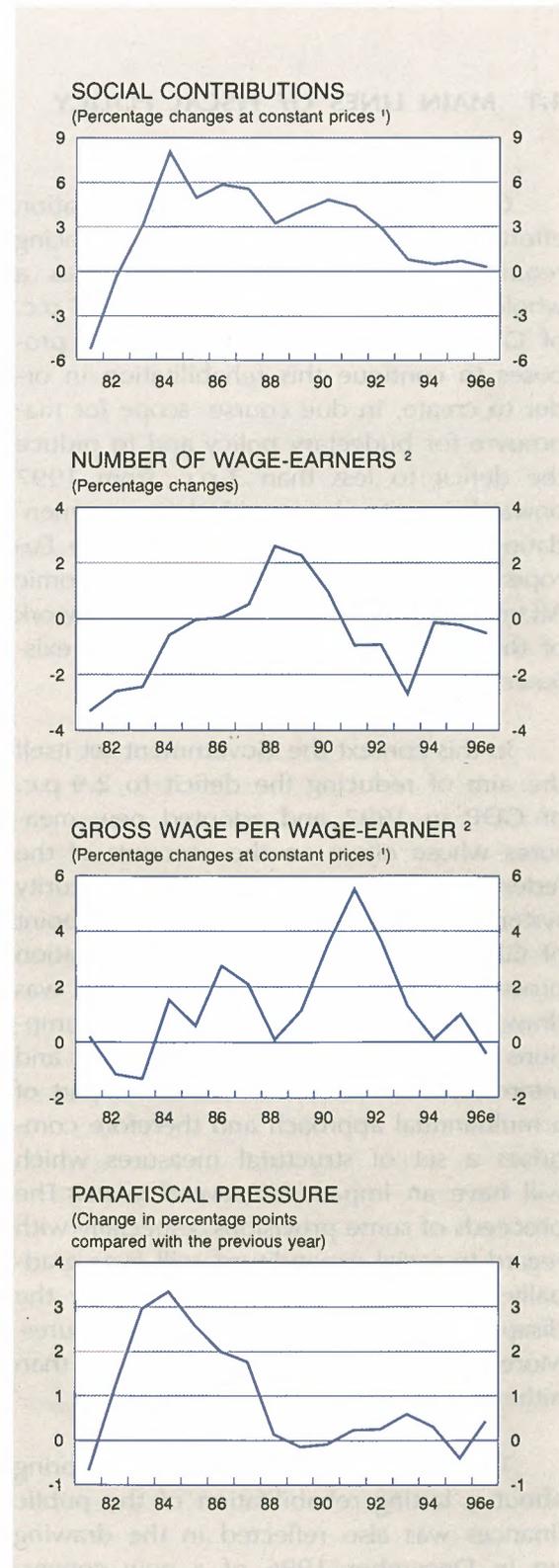
Expressed as a percentage of GDP, fiscal and parafiscal revenue, which had increased between 1990 and 1994, hardly changed at all in 1995 and 1996.

The levies weighing chiefly on earned incomes, the most important revenue category, decreased in relation to GDP in 1996. This fall is attributable both to a further reduction in the share of earned incomes in GDP and to the extension of the programmes for selectively reducing employers' social security contributions. These two factors were partly counterbalanced by more rapid collection of the taxes on pensions and, more fundamentally, by the non-indexation of most of the tax scales and the increase in the special social security contribution.

General government's levies on earned incomes take the form of taxes or social contributions. During the last few years these taxes have increased at the same rate as GDP, or even more, whereas social contributions have gone up only very slightly in real terms. This modest growth in contributions contrasts with the sharp rise recorded during the period 1983-1992, which had averaged 4.7 p.c. per year.

Three successive factors brought about the high real growth which was observed during this period : parafiscal pressure increased greatly between 1982 and 1987, mainly because of the raising of the traditional contribution rates, the index jumps and also the creation of a number of new contributions ; employment increased at the end of the 1980s owing to the favourable

CHART 26 — SOCIAL CONTRIBUTIONS ON WAGES IN ENTERPRISES



Sources : NAI, NBB.

¹ Data deflated by the consumer price index.

² Expressed in full-time equivalent.

economic situation, and real wages went up considerably during the period 1989-1992.

Since then, these factors have pushed up the increase in social contributions to a much smaller extent : employment has remained stationary or declined, the average rise in wages has been limited and the parafiscal pressure has increased only slightly. The introduction of the special social security contribution in 1994 and its extension in 1996 were in fact largely counterbalanced by the granting of various reductions in employers' contributions which are designed to support employment by reducing labour costs.

Mainly owing to the impetus given by the global plan, the rules concerning reductions in employers' contributions were fundamentally reformed and extended. The resultant loss for social security was largely offset by taxes which do not burden labour. Apart from the extension of the Maribel operation, already long-established, and of the « plus one » plan (for the appointment of a first employee), the main pillars of this new employment policy are the plan for the youth recruitment plan (aimed at combating youth unemployment), replaced

since 1995 by the « recruitment advantage » plan (designed for the long-term unemployed whom it is difficult to reincorporate in the labour market), the reduction in contributions on low wages (in order to stimulate employment for less-skilled persons) as well as enterprise plans and employment-promotion agreements (designed to bring about net job creation). After having already increased appreciably during the preceding years, the overall amount of the reductions in contributions rose further by Fr. 9 billion in 1996, chiefly because of the extension of the measure in favour of low wages, the « recruitment advantage » plan and greater recourse to employment promotion agreements than initially anticipated. Altogether, the reductions in contributions amounted to Fr. 53 billion, corresponding to about 1.6 p.c. of total wages and salaries in enterprises and to 7.5 p.c. of employers' contributions.

Throughout the greater part of the 1980s the tax on company profits remained fairly stable at a little over 2 p.c. of GDP. This relative stability was due to movements in opposite directions of company profits and of the tax pressure on this type of income. The former almost trebled as a percentage of GDP between 1980 and 1989,

TABLE 18 — MEASURES REDUCING EMPLOYERS' SOCIAL SECURITY CONTRIBUTIONS

(Billions of francs)

	1993	1994	1995	1996 e
Maribel	11	19	18	18
Low wages	—	7	10	13
Enterprise plans and employment-promotion agreements	—	—	2	6
Recruitment plans	1	7	10	11
of which : « Plus one » plan	n.	n.	1	2
Youth recruitment plan	n.	n.	6	3
« Recruitment advantage » plan	—	—	2	5
Other	3	3	4	5
Total of measures	15	36	44	53
p.m. Percentage of total wages and salaries in enterprises	(0.5)	(1.2)	(1.4)	(1.6)
Percentage of employers' contributions in enterprises	(2.3)	(5.3)	(6.4)	(7.5)

Source : NSSO.

while the latter decreased considerably during the same period, according to the various indicators of the rate of taxation of company profits. These indicators, which are calculated from tax declarations, the annual accounts of companies and the national accounts, show, despite their methodological differences, a reduction fairly similar to the implicit rate of taxation of companies during the 1980s. This reduction was due to three factors. Firstly, the nominal rate of taxation declined from 48 p.c. in 1981 to a low of 39 p.c. in 1991. Secondly, general government granted tax advantages to companies at the beginning of the 1980s, at a time when their financial situation had deteriorated markedly, in order to promote risk capital, investment and, more generally, economic activity. These tax advantages took the form of exemption of certain categories of profit (profits of co-ordination centres, dividends on shares enjoying tax advantages), and also of provisions permitting a reduction in the basic taxable amount or the tax (deduction for investment, fictitious withholding tax on co-ordination centres). Lastly, the fall in the

rate of taxation of companies was due to certain improper uses of the tax legislation.

During the last few years, however, as the financial situation of enterprises has improved and the determination to rehabilitate the public finances has become stronger, successive governments have adopted various measures which have increased the tax pressure on company incomes. The nominal rate of tax was thus raised again to 40.17 p.c. in 1993, owing to the three additional centimes in respect of the supplementary crisis contribution. Several provisions were amended to make them more restrictive or were made inoperative (exemption of dividends engaging tax advantages, fictitious withholding tax on co-ordination centres, taxation of surplus gains, deduction for investment). Lastly, measures designed to counter improper uses of the tax legislation were adopted, namely the change in the systems of a flat-rate proportion of foreign tax, of definitively assessed incomes and of losses carried forward, and the introduction of the provision against abuse of the law, which

TABLE 19 — REVENUE OF GENERAL GOVERNMENT

(Percentages of GDP)

	1990	1993	1994	1995	1996 e
Levies weighing chiefly on earned incomes	26.4	27.7	27.9	27.8	27.6
Personal income tax ¹	11.7	12.2	12.6	12.6	12.6
Social security contributions ²	14.7	15.6	15.3	15.2	15.0
Tax on company profits ³	2.1	2.1	2.4	2.7	2.8
Levies on other incomes and on assets ⁴	3.9	3.1	3.4	3.5	3.3
Taxes on goods and services	11.7	12.0	12.4	12.1	12.4
Fiscal and parafiscal revenue	44.0	44.9	46.1	46.1	46.0
Non-fiscal and non-parafiscal revenue	1.7	1.7	1.7	1.4	1.7
Total revenue	45.8	46.6	47.9	47.5	47.7

Sources : NAI, NBB.

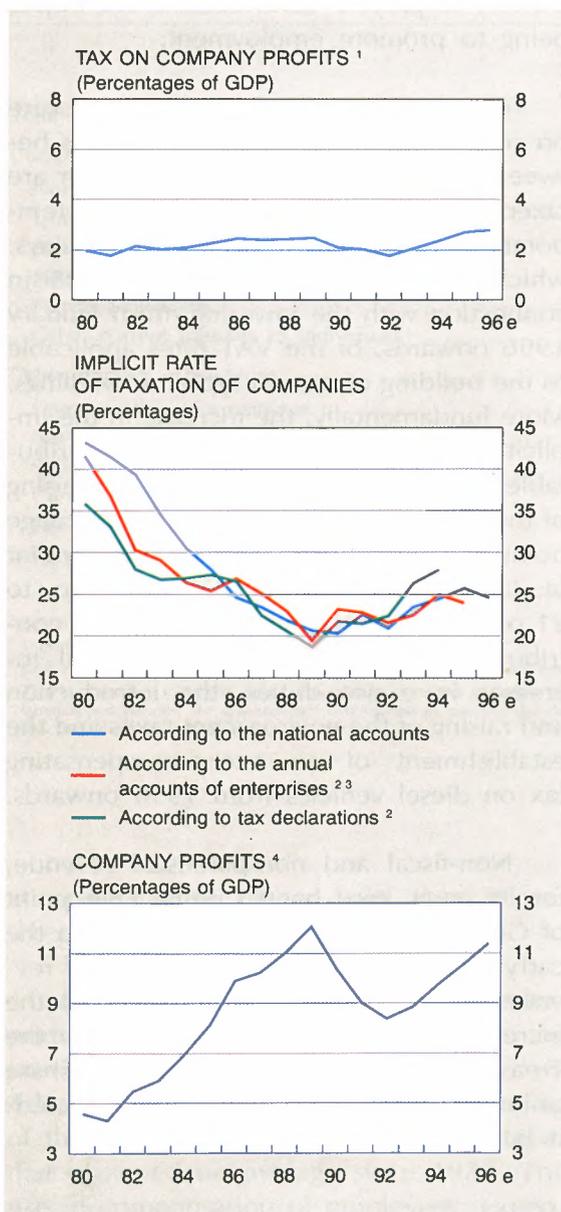
¹ Withholding tax on earned income, advance payments, assessments and additional centimes on personal income tax.

² Including the special social security contribution.

³ Advance payments, assessments and withholding tax on interest income.

⁴ Mainly the withholding tax on income from movable property of individuals, the withholding tax on income from immovable property (including the additional centimes), death duties and registration duties.

CHART 27 — TAX ON COMPANY PROFITS



Sources : Ministry of Finance, NAI, NBB.

¹ Advance payments, withholding tax on income from movable property and assessment of companies.

² Tax as a percentage of the positive pre-tax result corrected to eliminate double counting of profits.

³ The recording carried out by the Central Balance Sheet Office is confined to non-financial companies.

⁴ This is the sum of the undistributed profits of companies, dividends and profit shares allocated to individuals (with a time-lag of one year), the incomes of partnerships and the taxes paid by companies, as recorded in the « income » approach of the national accounts.

makes it possible to combat legal constructions whose sole aim is to evade tax.

Despite these various changes in taxation, the implicit rate of tax remained lower

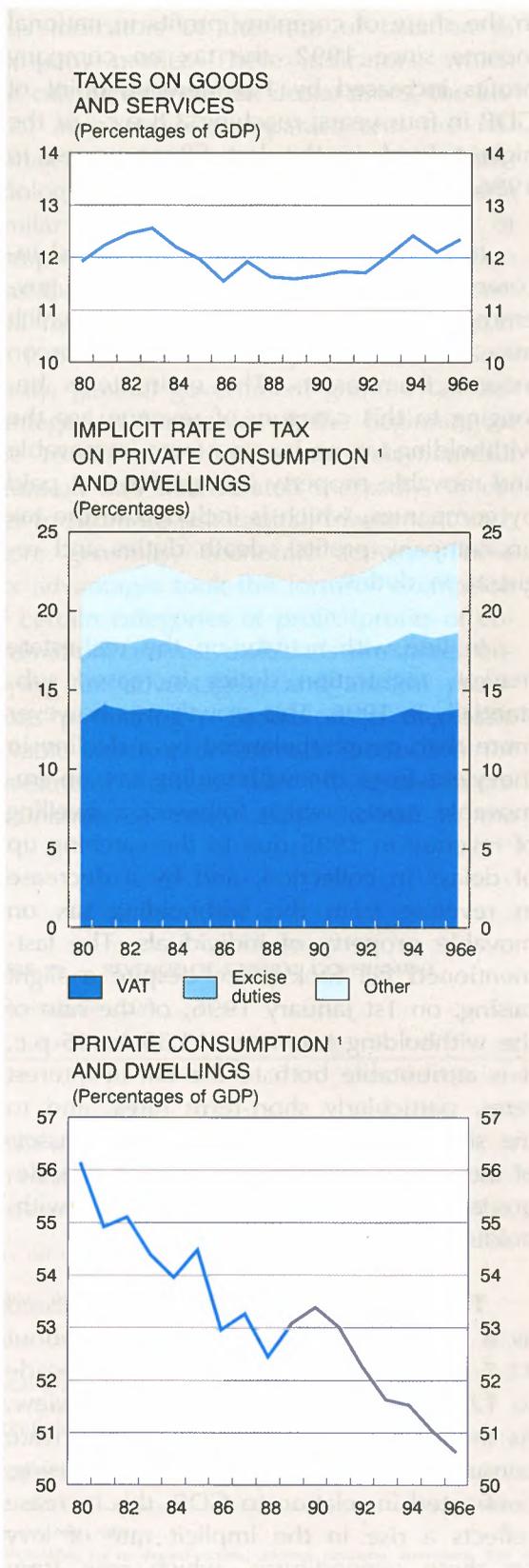
than it was fifteen years ago. As the raising of that rate was coupled with an increase in the share of company profits in national income since 1992, the tax on company profits increased by 1 percentage point of GDP in four years, reaching 2.8 p.c., or the highest level in the last fifteen years, in 1996.

In addition to the levies on earned incomes and company profits, general government also collects various taxes which may be regarded as taxes on assets or on income from assets. The main items belonging to this category of revenue are the withholding tax on income from immovable and movable property (except for that paid by companies, which is included in the tax on company profits), death duties and registration duties.

In line with activity on the real-estate market, registration duties increased substantially in 1996. This growth was however more than counterbalanced by a decline in the yield from the withholding tax on immovable assets, which followed a swelling of revenue in 1995 due to the catching up of delays in collection, and by a decrease in revenue from the withholding tax on movable property of individuals. The last-mentioned fall took place despite a slight raising, on 1st January 1996, of the rate of the withholding tax, from 13.39 to 15 p.c. It is attributable both to the fall in interest rates, particularly short-term rates, and to the shift in the portfolio of financial assets of individuals towards regulated savings deposits, which are largely exempt from withholding tax.

Taxes on goods and services expressed as a percentage of GDP rose from about 11.7 p.c. at the beginning of the decade to 12.4 p.c. during the year under review. As the base of these taxes, namely private consumption and expenditure on housing, contracted in relation to GDP, this increase reflects a rise in the implicit rate of levy on these expenditures, which rose from 22 p.c. at the beginning of the 1990s to 24.4 p.c. in 1996. This development forms

CHART 28 — TAXES ON GOODS AND SERVICES



Sources : Ministry of Finance, NAI, NBB.

¹ Private consumption in Belgium, excluding health care and rents.

part of a strategy aimed at financing social security more by levies on consumption than by employers' contributions, the object being to promote employment.

The changes in the implicit tax pressure on consumption are partly due to shifts between categories of expenditure which are taxed in different ways, and also to temporary factors, such as the invoicing delays, which took place at the end of 1995 in connection with the lowering, from January 1996 onwards, of the VAT rates applicable to the building of certain types of dwellings. More fundamentally, the increase in the implicit rate of taxation is primarily attributable to the following measures : the raising of the standard rate of VAT by 1 percentage point in January 1994 and by half a point in January 1996, when it went up to 21 p.c., the introduction of the energy contribution from 1993 onwards, several increases in excise duties, the introduction and raising of the environment taxes and the establishment of an excise-compensating tax on diesel vehicles from 1996 onwards.

Non-fiscal and non-parafiscal revenue, for its parts, rose by 0.3 percentage point of GDP. This increase is chiefly due to the carrying forward from 1995 to 1996 of revenue from the National Lottery and to the increase in the Bank's payments to the Treasury following the increase in the share of interest-bearing assets in the Bank's credit balances.

Expenditure excluding interest rate

Primary expenditure, i.e. expenditure excluding interest charges, which had decreased in relation to GDP in 1994 and 1995, more or less stabilised at 42.5 p.c. of GDP in 1996. It is thus at a level about 0.7 percentage point lower than that of 1993, a recession year during which it had reached its highest level since the beginning of the 1990s. Since then, most categories of expenditure have declined in relation to GDP. Only expenditure on health care is

TABLE 20 — PRIMARY EXPENDITURE¹ OF GENERAL GOVERNMENT

(Percentages of GDP)

	1990	1993	1994	1995	1996 e
Total primary expenditure	40.8	43.2	42.9	42.6	42.5
Current transfers to individuals	23.6	25.3	24.9	25.0	25.1
Normal and early retirement pensions ²	9.3	9.9	9.7	9.9	9.9
Unemployment benefits and career interruptions ..	2.0	2.4	2.3	2.2	2.2
Sickness and disability allowances	1.4	1.3	1.3	1.3	1.3
Health care	4.7	5.4	5.3	5.4	5.7
Family allowances	2.1	2.1	2.0	2.0	2.0
Other current transfers to individuals ³	4.1	4.2	4.2	4.2	4.1
Other primary expenditure	17.2	18.0	18.0	17.6	17.4
Compensation of employees	8.8	9.3	9.4	9.4	9.2
Net current purchases of goods and services	2.5	2.4	2.3	2.2	2.3
Subsidies to enterprises	2.2	2.1	2.0	2.1	2.1
Current transfers to the rest of the world	1.5	1.6	1.7	1.5	1.5
Growth fixed capital formation	1.2	1.4	1.5	1.3	1.3
Other capital expenditure	0.9	1.2	1.1	1.1	1.0

Sources : NAI, NBB.

¹ Expenditure excluding interest charges.² Civil service pensions, pensions of private-sector employees and self-employed persons, early retirement, pensions and guaranteed income for old people.³ This item consists mainly of public expenditure in respect of industrial accidents, occupational diseases, minimum social subsistence benefit, benefits to handicapped persons, the government's contribution to meeting the daily hospitalisation price, subsidies to non-profit-making bodies serving households and pensions to victims of war.

at present at a higher level than it was three years ago.

Deflated by the consumer price index, primary expenditure rose in 1996, as in the previous year, by about 1 p.c., or a considerably lower rate than at the beginning of the 1990s, and about the same rate as that observed on average since 1981. The rise in compensation of employees, expenditure on normal and early retirement pensions and the increase in unemployment benefits was below the respective averages. On the other hand, growth was above average for health expenditure, expenditure on goods and services and capital expenditure, the last two having, however, decreased before that.

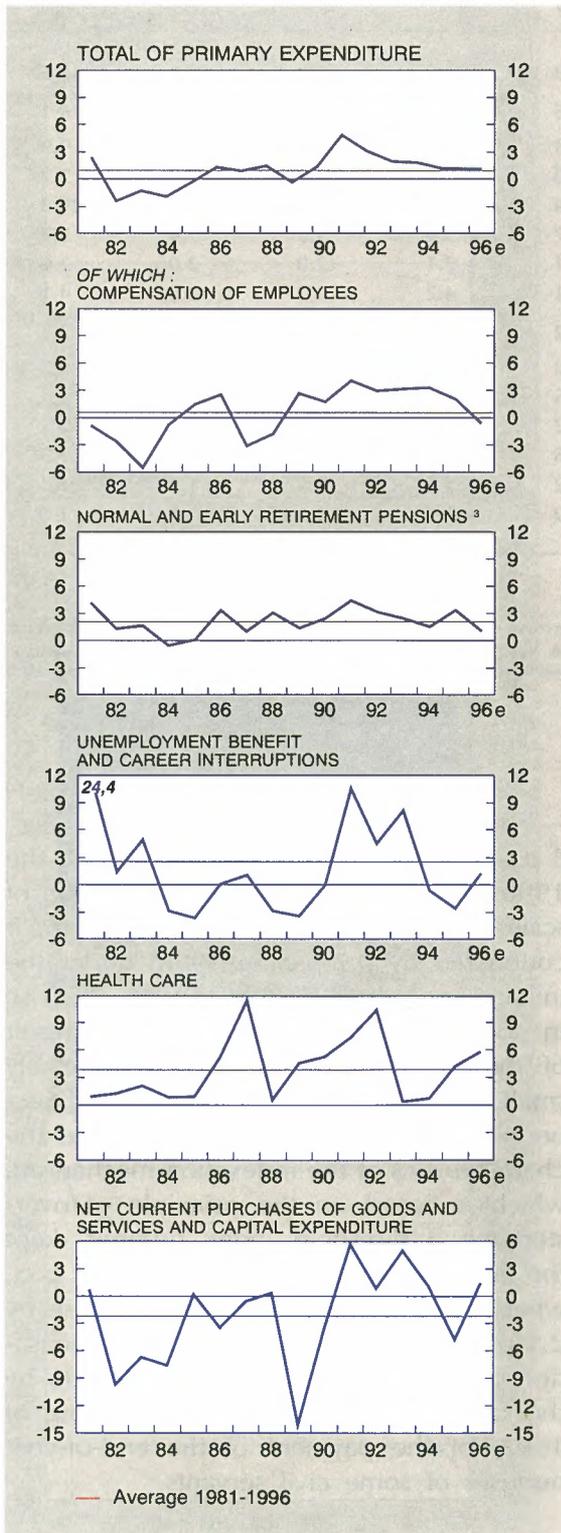
The pay of civil servants, which had fallen during a large proportion of the 1980s as a result of, among other things, a temporary suspension of the indexation mechanism, increased on average by about

3 p.c. per year at the beginning of the 1990s as a result of the general revision of scales. Breaking with this strong growth, it contracted by 0.7 p.c. in 1996, under the influence of three factors. Firstly, the rise in compensation of employees as a result of the revision of scales was appreciably smaller than in the preceding years. Secondly, the use of the health index and the characteristics of the indexation mechanism, which is based on the principle of overstepping a threshold index number, kept the increase in wages down to 1.2 p.c., whereas the consumer price index rose by 2.1 p.c. Lastly, expenditure on compensation of employees was reduced in 1996 by the carrying forward, to the beginning of 1997, of the payment of the end-of-year bonuses of some civil servants.

The real growth in general government expenditure on normal and early retirement pensions has averaged around 2 p.c. for the last fifteen years or so. This rate

CHART 29 — PRIMARY EXPENDITURE¹ AT CONSTANT PRICES²

(Percentage changes compared with the previous year)



Sources : NAI, NBB.

¹ Excluding interest charges.

² Data deflated by the consumer price index.

³ Including guaranteed income for old people.

of increase, higher than that in the total of primary expenditure, is chiefly due to the uninterrupted rise in the number of beneficiaries. Fluctuating around this average, the development of expenditure on normal and early retirement pensions displays a pattern fairly similar to that of the compensation of employees paid by general government : below-average growth during part of the 1980s, chiefly owing to the three index jumps, and above-average growth at the beginning of the 1990s, following the upgrading of pensions in the private sector and owing to the equalisation mechanism, which, in the civil service, brings pensions into line with the upgrading of remuneration. In 1996 public expenditure on normal and early retirement pensions rose by only 1 p.c. at constant prices. The moderate nature of this rise is attributable, account being taken of the equalisation mechanism, to the smallness of the growth in compensation of employees, and also, as for the latter, to the divergence between indexation and the movement of consumer prices.

Whereas it had contracted in real terms in 1994 and 1995, expenditure in respect of unemployment benefit and career interruptions increased by 1.2 p.c. in 1996. This rise took place despite the decline in the number of recipients of benefit and the downward influence exerted by the divergence between indexation and the movement of consumer prices. The rise in expenditure is attributable to changes in the composition by category of persons receiving benefit. The relative share of older unemployed persons, who receive an allowance irrespective of what scheme is applied to them, and that of beneficiaries recorded as heads of households have in fact increased to the detriment of those of cohabiting persons and part-time unemployed persons, the average costs of which is appreciably lower.

The rate of increase of unemployment benefits and career interruptions remained lower, however, during the year under review than that which it has reached on

average since 1980, namely 2.5 p.c., a slightly lower figure than the increase in the number of unemployed persons. In the longer term the development of this expenditure has been irregular. The fairly large fluctuations are chiefly due to the cyclical variation in the number of unemployed persons. This increased greatly in recession periods at the beginning of both the 1980s and the 1990s; it decreased, on the other hand, between 1987 and 1990, a boom period. The development of expenditure was also influenced by discretionary measures, chiefly the index jumps during the 1980s, followed, more recently, by the linking of unemployment benefits to the health index, the exclusion of certain categories of beneficiaries in cases of abnormally long unemployment, and the changes introducing more restrictive conditions in respect of the partial unemployment system established in the mid-1980s.

Health care is the category of public expenditure whose rate of growth has been highest, having averaged about 3.8 p.c. for the period 1981-1996. The sawtooth pattern of this expenditure, with an alternation of periods of major loss of control and other periods of moderate growth, is difficult to explain. It may have been influenced by shifts from year to year, for instance delaying of invoicing. In order to curb the structural increase in health care expenditure due to technical progress and the ageing of the population, the Government fixed a norm limiting its annual real growth to a maximum of 1.5 p.c. Despite the measures taken, this norm was however exceeded during the last two years, when the rate of increase of expenditure was even higher than its long-term average. In 1996 there was a sharp rise in all categories of expenditure.

Deflated by the consumer price index, net current purchases of goods and services and capital expenditure have decreased by 2.3 p.c., on average per year, during the last fifteen years. The discretionary action taken by the authorities to hold down these two expenditure components is perhaps an

easier matter. Furthermore, the reduction in capital expenditure since 1980 followed a period in which investment was at a high level.

In 1996 purchases of goods and services and capital expenditure rose by 1.4 p.c. at constant prices, the fairly strong growth in the former having more than counterbalanced the reduction in public investment. A downward influence was exerted on the latter by sales of buildings, which, as mentioned in section 2.1, are regarded as a disinvestment in the national accounts.

Lastly, among the other categories of expenditure, general government subsidies to enterprises have been eroded for some years by the freezing, in nominal terms, of those granted by the government to public enterprises. In 1996 the amount of the subsidies paid to the Post Office actually decreased.

Interest charges

Interest charges, expressed in billions of francs, decreased for the third year in succession, despite the increase in the debt.

The movement of the interest charges of general government as a whole largely reflects that in the interest charges of the Treasury, which holds the greater part of the public debt. These charges declined by Fr. 21 billion in 1996.

Their movement is determined chiefly by four factors, namely the increase in the debt, the variations in interest rates, the changes in the financing structure and technical factors connected with tendering for linear bonds. The last-mentioned two factors have an effect because interest charges are recorded on a payments basis, not on a transactions basis.

The increase in the debt resulting from the deficit pushed up interest charges in the year under review by Fr. 24 billion, i.e.

TABLE 21 — THE TREASURY'S INTEREST CHARGES

(Billions of francs)

	1994	1995	1996 e	Change from 1993 to 1996
Change in interest charges	-25	-55	-21	-101
Determinants of this change e				
Incidence of the deficit	34	27	24	85
Incidence of interest rates	-75	-58	-56	-190
short-term in francs	-37	-21	-31	-89
long-term in francs	-26	-29	-18	-73
in foreign currencies	-13	-8	-6	-27
Incidence of the financing structure ¹	23	-42	31	12
Incidence of technical factors ²	-6	18	-20	-9
p.m. Main determinants (percentages)				
Short-term interest rates ³	(6.4)	(5.1)	(3.5)	
Long-term interest rates ⁴	(8.6)	(8.1)	(7.8)	
Degree of consolidation ⁵	(14.9)	(313.8)	(79.0)	

Sources : NAI, NBB.

¹ Calculated as a balance, this factor comprises, essentially, the incidence of the changes in the relative shares of short-term and long-term financing of the deficit.² Factors connected with shifts in timing resulting from the tendering mechanism for linear bonds.³ 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.⁴ Average interest rate on the outstanding amount of the long-term debt in francs, as at 31st December of the previous year.⁵ Ratio between the increase in the debt at one year and over (excluding linear bonds on which the interest is paid each quarter) and the increase in the total net debt.

to a smaller extent than in the preceding years, thanks to the continuous decrease in the deficit of the federal government.

The reduction in interest charges is mainly attributable to the decline in interest rates. Tendering for three-month Treasury certificates, on which interest was paid in 1996, took place at an average rate of 3.5 p.c., whereas that rate was still 5.1 p.c. the previous year. Altogether, the decline in short-term rates reduced interest charges by Fr. 31 billion.

As in the preceding years, interest rates on the long-term debt in francs decreased. The average rate of the new long-term securities issued in 1995 was in fact at a distinctly lower level than the average rate on the outstanding amount of the debt at the end of 1994 and that on the securities redeemed in 1995. The average interest

rate on the debt at the end of 1995, which is the rate which determines interest payments in 1996, was about 7.8 p.c., or about 0.3 percentage point lower than in the preceding year. In respect of a long-term debt in francs of over Fr. 6,500 billion, such a decline represents a gain of over Fr. 18 billion.

As interest rates also declined abroad in 1996, a saving in terms of interest charges, albeit smaller, also took place for the debt expressed in foreign currencies. Overall, the influence of the fall in interest rates was similar to that in 1995, having amounted to Fr. 56 billion.

The favourable effect of the decline in interest rates was however partly counterbalanced by the influence of the financing structure. In 1995 the deficit had been solely financed at long-term and the short-

term debt, in francs and in foreign currencies, had actually decreased considerably. Thus, interest payments had been delayed and interest charges greatly reduced in 1995. During the year under review, however, the financing structure came closer to the traditional pattern again, and interest

charges were thus increased by about Fr. 31 billion.

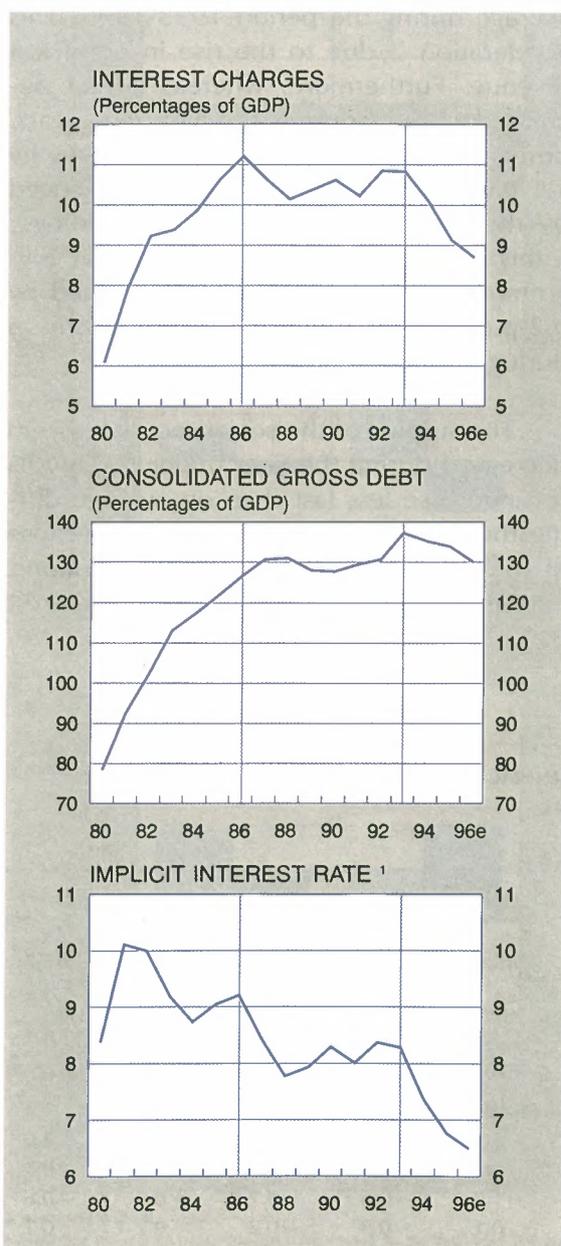
In addition to the fall in interest rates, technical factors also played a part in reducing interest charges in 1996. Compared with the previous year, for instance, the emphasis in the issuing policy for linear bonds was placed more on lines which do not lead to interest payments until after the year of issue.

Even if the influence of the financing structure and that of the technical factors may be substantial during certain years, they are relatively neutral in the longer term, because interest charges can only be shifted, backwards or forwards, from one year to another. Over longer periods the movements in the interest charges of general government expressed as a percentage of GDP therefore depend primarily on the debt ratio and the interest rate on the public debt.

Three periods can be clearly distinguished in the movement of interest charges from 1980 onwards. From 1980 to 1986 interest charges nearly doubled, rising from 6.1 to 11.2 p.c. of GDP, chiefly owing to the large increase in the debt. From 1986 to 1993, on the other hand, they remained relatively stable at this high level, having in fact declined only by 0.4 percentage point of GDP during this period in the course of which the decrease in the implicit rate was largely counterbalanced by the growth, although smaller, in the debt ratio. Lastly, from 1994 onwards, under the influence of the decrease in the implicit rate and, to a smaller extent, of the reduction in the public debt, interest charges as a percentage of GDP decreased substantially. In barely three years the reduction was over 2 percentage points, interest charges having fallen from 10.8 p.c. of GDP in 1993 to 8.6 p.c., or the lowest rate since 1981, in 1996.

At the end of 1996 the consolidated gross debt of general government represented 130 p.c. of GDP, or about 7 percentage

CHART 30 — INTEREST CHARGES OF GENERAL GOVERNMENT



Sources : NAI, NBB.

¹ Interest charges divided by the debt at the end of the previous year.

points less than at the end of 1993. This decrease is attributable to the incidence of the high level of the primary surplus, added to by the financial transactions mentioned in section 6.1. The maintenance of a high level of primary surplus will lead, even on the basis of cautious assumptions regarding interest rates and economic growth, to a continuance of the decline in the debt ratio. It is therefore reasonable to expect a further reduction in interest charges in relation to GDP in the next few years.

Net financing requirement

The slight improvement in the primary surplus, but above all the contraction of 0.5 percentage point in interest charges, led to a further decrease in the net financing requirement of general government as a whole, which declined in 1996 to 3.4 p.c. of GDP, i.e. 0.7 percentage point less than in 1995. Thus, in three years, the deficit decreased by 4.1 points. The increase, of 1.9 points, in the primary surplus and the decrease, of 2.2 points, in interest charges both contributed to this substantial fall.

The reduction in the net financing requirement in 1996 is solely due to a further

improvement in the accounts of the federal government, as the balance recorded by the other sub-sectors of general government stabilised or worsened.

Half of the marked contraction in the deficit of the federal government in 1996, expressed as a percentage of GDP, is due to a reduction in interest charges, and the other half is attributable to the increase in the primary surplus. The federal government's total revenue grew to a greater extent during the year under review than on average during the period 1993-1995. This acceleration is due to the rise in non-fiscal revenue. Furthermore, whereas it had decreased slightly during the last few years, primary expenditure fell more in 1996, by 1.1 p.c. This fall was however influenced by the proceeds of the sale of buildings; if this factor is disregarded, the federal government's primary expenditure declined by 0.2 p.c., or to about the same extent as during the last few years.

The surplus of the social security system decreased during the year under review. Its revenue rose less fast than on average during the period 1993-1995, chiefly because of the development of social contributions. Furthermore, expenditure excluding interest

TABLE 22 — NET FINANCING REQUIREMENT OR CAPACITY OF GENERAL GOVERNMENT

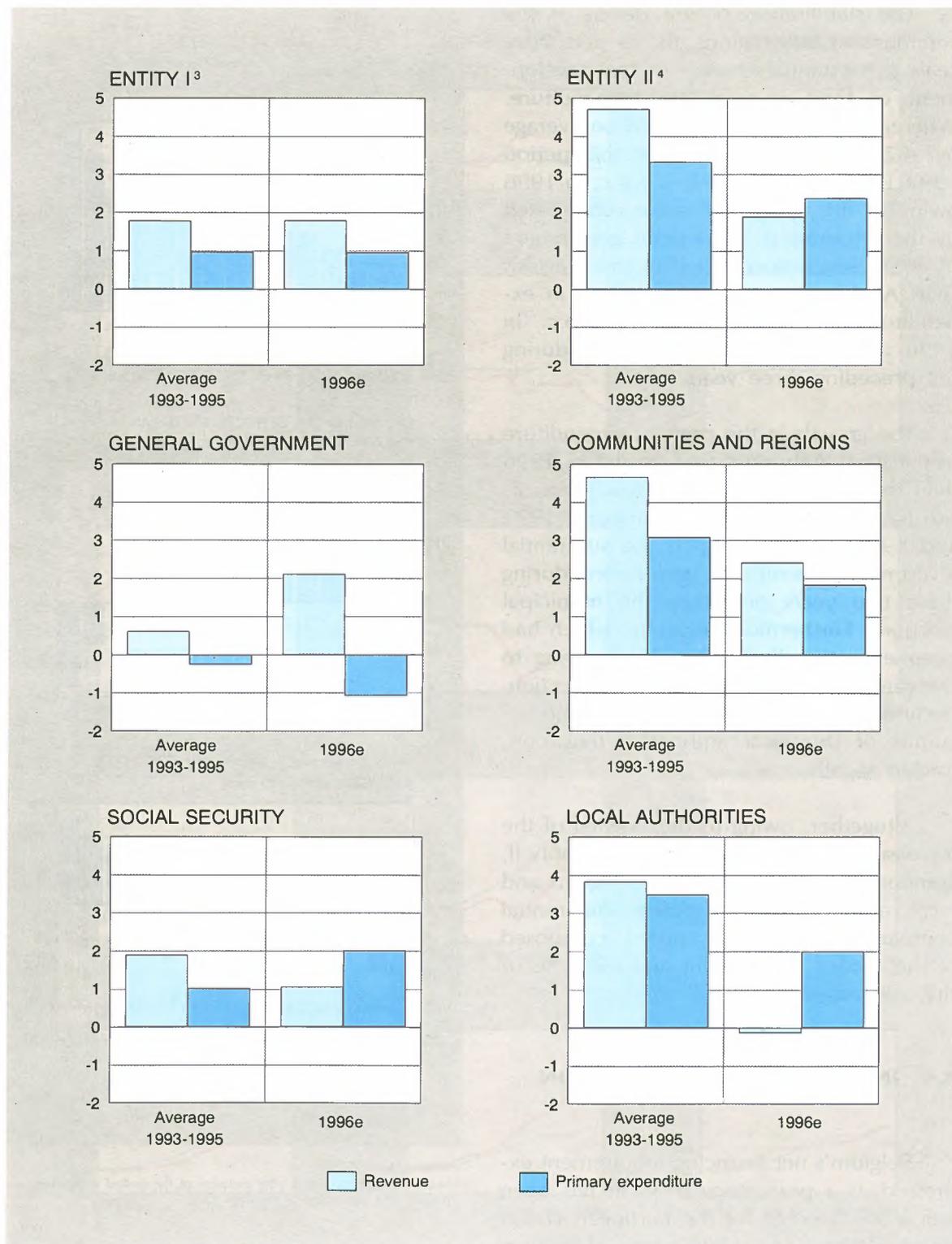
(Percentages of GDP)

	1992	1993	1994	1995	1996 e
Revenue	45.9	46.6	47.9	47.5	47.7
Expenditure excluding interest charges	42.3	43.2	42.9	42.6	42.5
Primary balance	3.6	3.3	4.9	5.0	5.2
Interest charges	10.8	10.8	10.1	9.1	8.6
Net financing requirement (—) or capacity	–7.2	–7.5	–5.1	–4.1	–3.4
Federal government	–6.1	–6.3	–4.7	–4.0	–3.0
Social security	–0.2	–0.3	0.5	0.3	0.1
Communities and regions	–1.0	–0.6	–0.7	–0.6	–0.6
Local authorities	0.1	–0.3	–0.2	0.2	0.1
p.m. Debt	130.3	136.8	134.8	133.5	130.0

Sources : NAI, NBB.

CHART 31 — REVENUE AND PRIMARY EXPENDITURE¹ BY SUB-SECTOR OF GENERAL GOVERNMENT

(Percentage changes at constant prices compared with the previous years²)



Sources : NAI, NBB.

¹ Excluding interest charges. The data mentioned in 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 consumer price index.

³ Federal government and social security.

⁴ Communities, regions and local authorities.

charges went up by 2 p.c., against 1 p.c. during the preceding years.

The stabilisation of the deficit of the communities and regions, for its part, conceals a substantial change in the development of their revenue and expenditure. Whereas revenue had increased on average by 4.7 p.c. per year during the period 1993-1995, it rose by only 2.4 p.c. in 1996 owing to the temporary factor represented by the returning to the federal government of excess revenue collected in the previous year. At the same time, the growth in expenditure amounted to only 1.8 p.c. in 1996, against an average of 3.1 p.c. during the preceding three years.

The growth in the primary expenditure of the local authorities was smaller in 1996 than the average for the last few years, its rise having been particularly sharp in 1993 and 1994, partly owing to the substantial investment expenditure undertaken during these two years preceding the municipal elections. Furthermore, revenue, which had been exceptionally high in 1995 owing to the catching-up of delays in tax collection, declined somewhat. The surplus in the accounts of the local authorities thus contracted slightly.

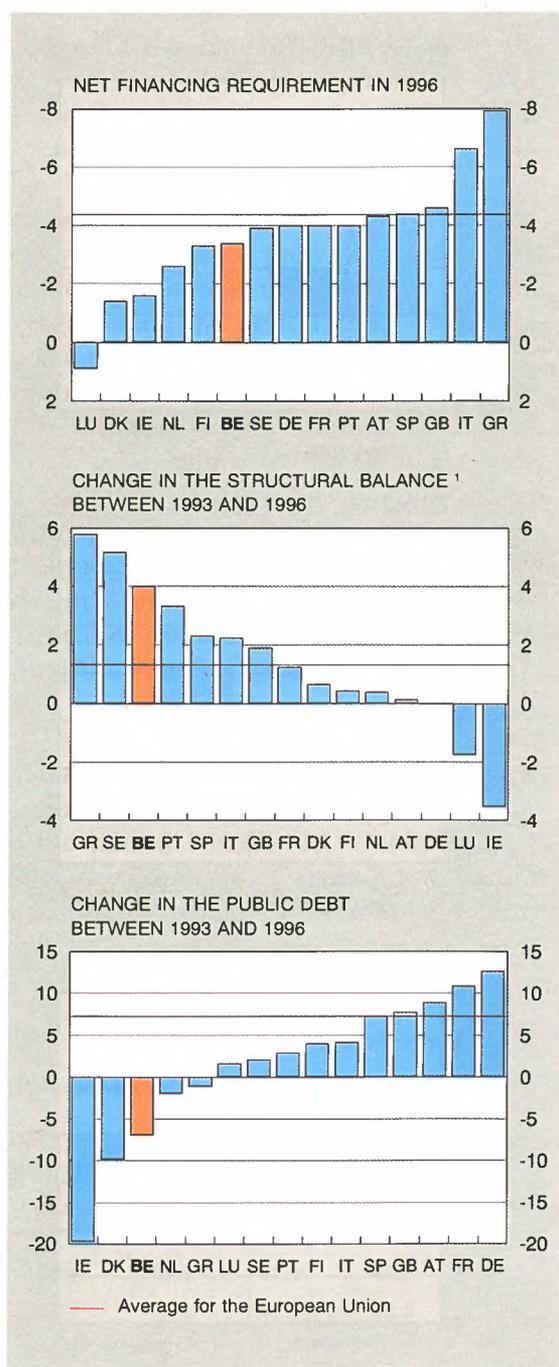
Altogether, owing to the slowing of the increase in the expenditure of Entity II, composed of the communities, regions and local authorities, the growth differential compared with that of Entity I, composed of the federal government and social security, decreased.

4.3 INTERNATIONAL COMPARISON

Belgium's net financing requirement expressed as a percentage of GDP has been below the average for the European Union since 1994. In 1996 the difference amounted to 1 percentage point. Five Member States — Luxembourg, Denmark, Ireland, the Netherlands and Finland — show a better balance than that of Belgium.

CHART 32 — PUBLIC FINANCES OF BELGIUM AND THE OTHER COUNTRIES OF THE EUROPEAN UNION

(Percentages of GDP)

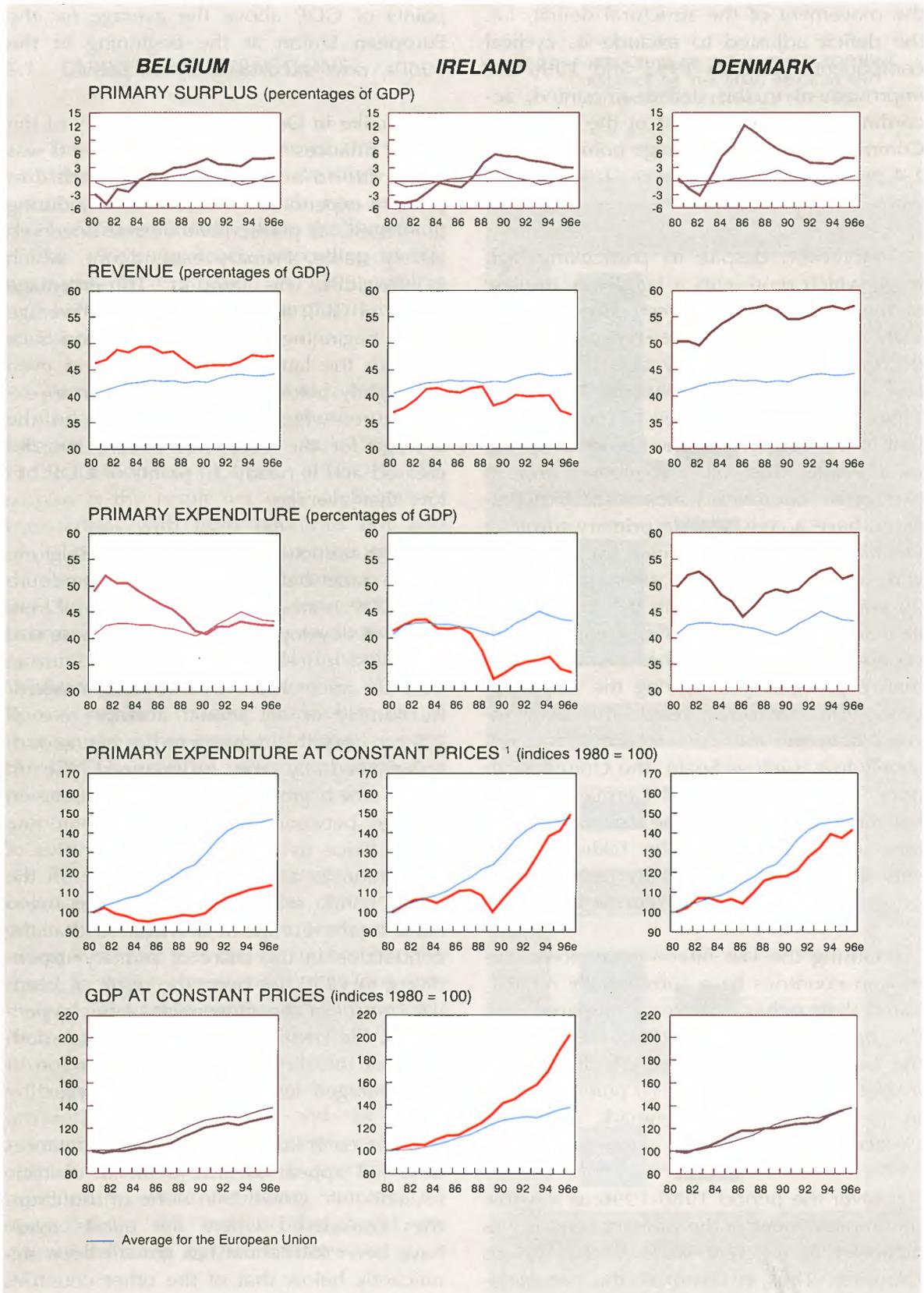


Sources : EC, NAI, NBB.

¹ Net financing requirement after exclusion of the cyclical component, expressed as a percentage of the trend GDP.

In Belgium the development of the public finances is mainly connected with the consolidation policy which has been pursued for some years. The extent of the

CHART 33 — CONSOLIDATION OF THE PUBLIC FINANCES IN SOME EUROPEAN COUNTRIES



Sources : EC, NAI, NBB.

¹ Expenditure deflated by the consumer price index.

efforts made, combined with the effect of the decline in interest rates, is reflected in the movement of the structural deficit, i.e. the deficit adjusted to exclude its cyclical component. Between 1993 and 1996 the improvement in this deficit amounted, according to the calculations of the European Commission, to 4 percentage points, against 1.4 points in the European Union as a whole.

Moreover, despite its particularly high level, which represents a handicap, in view of the considerable interest charges which such a situation generates, the public debt decreased in Belgium by about 7 percentage points of GDP between 1993 and 1996, whereas it increased to the same extent in the countries of the European Union as a whole. The fall was greater only in two other countries which also, like Belgium, have a considerable primary surplus : Denmark, where it declined by 10 points, and above all Ireland, where it fell by 20 points. The decrease in the public debt in Ireland was aided by the strength of the economic growth, which has averaged more than 8 p.c. per year during the last three years. On the other hand, the debt increased in the countries where it was relatively low, such as Spain, the United Kingdom, Austria, France and Germany. In the last-mentioned country the rise in the debt ratio is influenced by the taking-over of very large debts incurred by public enterprises as a result of the reunification.

During the last fifteen years some European countries have substantially rehabilitated their public finances. Compared with the beginning of the 1980s, the level of the balance excluding interest charges has in fact improved by 8 to 10 points of GDP in Belgium, Ireland, Denmark, Italy and Greece.

Over the period 1980-1996 as a whole the improvement in the primary surplus was achieved in different ways in the various countries. Thus in Denmark the consolidation was solely due to an increase in revenue, total expenditure excluding interest

charges having remained stable. Revenue, which was already about 10 percentage points of GDP above the average for the European Union at the beginning of the 1980s, now exceeds it by 13 points.

Unlike in Denmark, the recovery of the public finances in Belgium and Ireland was solely due to a contraction of the share of primary expenditure in GDP, chiefly during the 1980s, as public revenue remained relatively stable. Primary expenditure, which in Belgium was around 10 percentage points of GDP above the European average at the beginning of the 1980s, moved back close to the latter in the 1990s and even fell slightly below it. In Ireland primary expenditure, which was comparable to the average for the European Union, has decreased and is nearly 10 points of GDP below that average.

The reduction, in Ireland and Belgium, in the ratio between primary expenditure and GDP is nevertheless the result of very different developments in each of these two countries. In Ireland primary expenditure at constant prices has increased fairly markedly, namely at an annual average rate of 2.5 p.c., but this movement has been counterbalanced by the pronounced rise in GDP, which grew by 4.5 p.c. per year on average between 1980 and 1996, a rate about twice as fast as in the countries of the Union as a whole. In Belgium, on the other hand, economic growth has been close to the European average, so that the contraction in the share of primary expenditure in GDP has been the result of keeping control of the movement of this expenditure, the rise in which — the most moderate of the three countries in question — has averaged less than 1 p.c. per year.

The consolidation of the public finances does not appear to have been an obstacle to economic growth : in none of the countries considered where the efforts made have been substantial has growth been significantly below that of the other countries where the average degree of budgetary consolidation has been lower.

5. BALANCE OF PAYMENTS OF THE BLEU AND EXCHANGE RATES

5.1 CURRENT TRANSACTIONS

The current transactions of the BLEU with the rest of the world have since 1985 resulted in a surplus, which has furthermore increased steadily since the beginning of the 1990s, to reach, according to the estimates, Fr. 455 billion in 1996, against 443 billion in 1995. The surplus remained at 5.2 p.c. of GDP.

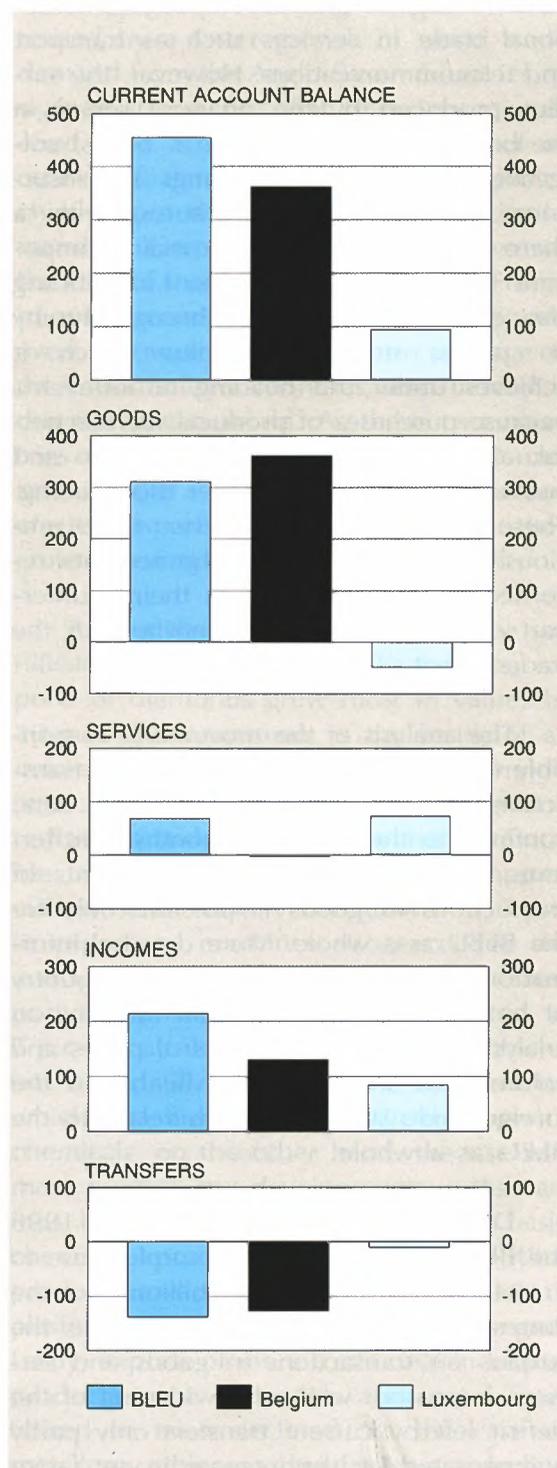
About three-quarters of this surplus is attributable to Belgium, whose positive balance should amount in 1996 to Fr. 362 billion, or 4.4 p.c. of GDP. This surplus is the result not only of Belgium's transactions with third countries but also of its transactions with Luxembourg. The difference between the balance of the BLEU and that of Belgium represents, statistical discrepancies being excluded, the current account surplus of Luxembourg. While the latter — of around Fr. 100 billion — remains modest in absolute terms, it is on the other hand the highest among the OECD countries when expressed as a percentage of GDP, since this ratio amounts to about 20 p.c.

The structure of the current account balance of the two countries differs somewhat. In Belgium the origin of the current account surplus lies chiefly in merchandise trade, in which the economy has long specialised. The trade surplus actually exceeds that of the BLEU, because the BLEU's positive balance in respect of trade in goods with third countries is almost completely attributable to Belgium, and Belgium's transactions with Luxembourg produce a surplus. Trade in services is practically in equilibrium, while net factor incomes received from the rest of the world are counterbalanced by net transfers.

On the other hand, Luxembourg's transactions in goods show a structural

CHART 34 — STRUCTURE OF THE CURRENT ACCOUNT BALANCE OF THE BLEU, BELGIUM AND LUXEMBOURG : ESTIMATE FOR 1996

(Balances, billions of francs)



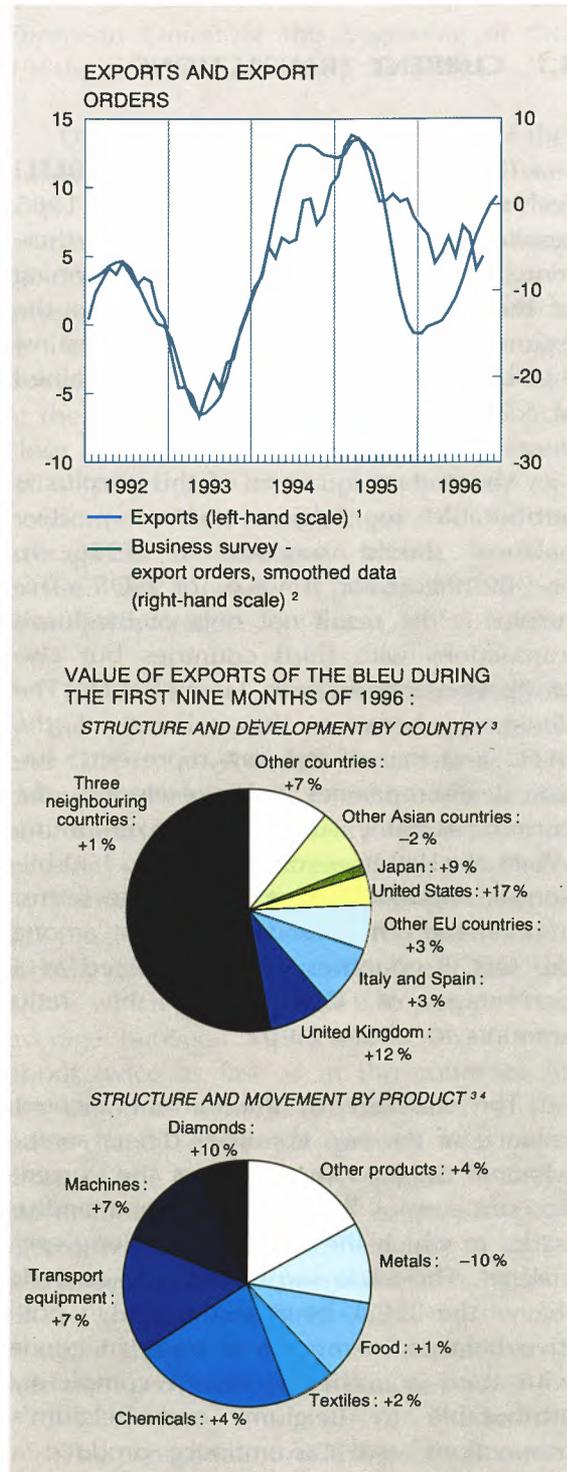
Source : NBB.

deficit, which is more than offset by the surplus on trade in services and by net factor incomes. This structure of the current account balance is the result of a re-orientation of production which has been characterised by a rapid tertiarisation of the economy since the mid-1970s, supported by a policy of diversification of services. Luxembourg has thus developed its international trade in services such as transport and telecommunications. However, the surplus produced by the financial sector in the broad sense of the term — banks, collective investment undertakings and insurance companies — constitutes, with a share of about 60 p.c., the main component of the services surplus. Luxembourg also differs from Belgium through the by no means negligible surplus which it achieves under the heading of « travel », because purchases of products such as petrol, alcohol and tobacco by travellers and borderers are recorded under this heading. These products have, however, been previously imported, so that the receipts recorded in this item have as their counterpart expenditures which contribute to the trade deficit.

The analysis of the movements responsible for the development of current transactions in 1996 is, owing to lack of data, confined to the first nine months. Furthermore, examination of the movements of transactions in goods is possible only for the BLEU as a whole. More detailed information, such as the breakdown by country or by product, or information enabling an analysis to be made in terms of prices and volume, are in fact only available in the foreign trade statistics, which relate to the BLEU as a whole.

During the first nine months of 1996 the BLEU's current account surplus rose to Fr. 345 billion, against 314 billion over the corresponding period of 1995, since the surplus on transactions in goods and services increased, while the widening of the deficit left by current transfers only partly compensated for the increase in net factor incomes from the rest of the world.

CHART 35 — DEVELOPMENT AND STRUCTURE OF THE EXPORTS OF THE BLEU



Sources : NAI, NBB.

¹ Moving average for the last five months of the percentage changes compared with the corresponding month of the previous year in the value of exports on a transactions basis according to the balance of payments.

² Lagging by five months.

³ Percentage structure of the total of exports according to the foreign trade statistics; percentage changes compared with the corresponding period of the previous year.

⁴ According to the sections of the harmonised system of foreign trade statistics.

The BLEU's trade in goods produced a surplus of Fr. 235 billion, a rise of about Fr. 25 billion compared with the corresponding 1995 figure. While the value of exports did in fact increase at the same rate as that of imports, as the extent of the improvement in terms of trade was equal to that of the worsening of the degree of coverage in volume, the surplus nevertheless increased because of the difference in level between exports and imports.

The slackening of the growth in the value of exports, which started in the first months of 1995, continued at the beginning of the year under review. The rise in exports did not quicken again until the beginning of the second quarter of 1996, and averaged 5.1 p.c. during the first nine months, despite some weakness at the end of the summer. The results of the business surveys concerning export orders indicate that the growth in exports became stronger again at the end of the year.

This pattern appears to have been only marginally influenced by that of export prices, the growth of which has remained relatively stable since the beginning of 1995. The variations must be regarded as being chiefly movements in volume, the major determinant of which is the development of demand in the countries which are the BLEU's main export markets.

During the first half of 1996 exports benefited by the brisk demand for imports generated in the United States, the United Kingdom and Japan by a strong recovery of domestic demand. This development was perhaps accentuated by the movements in exchange rates: the mark and the currencies linked with it in fact depreciated vis-à-vis the dollar, and thus returned, in relation to the latter, to a level close to that which prevailed at the beginning of 1995. The direct effect of the import demand from these three countries is however limited, because their weight in the BLEU's exports is only 14 p.c.; there may however have been an additional, in-

direct effect, via the incidence of this demand on the development of activity in the neighbouring countries. But the sluggishness of domestic expenditure in France and Germany — accentuated by accidental factors — weakened the import demand of these countries.

During the following months, characterised by a faster growth in world trade, demand from the Anglo-Saxon countries remained strong, but that from Japan weakened. The acceleration of the rate of increase of the BLEU's exports originated chiefly from the recovery of domestic demand in Germany and France. However, the rate of increase in German and French imports remained, overall, modest, and even below that observed on average in the industrialised countries, and indeed in the rest of the world. As these two countries are the BLEU's most important markets, it looks as if the geographical structure of its exports adversely affected their growth during 1996.

Among the products which have a significant weight in the BLEU's exports, exports of diamonds grew most in value, by 10 p.c. This movement is the result of an increase in demand from the most important customers worldwide, namely the United States and Japan, but is also attributable to a rise in prices due to the appreciation of the dollar. The growth of 7 p.c. in exports of machines also exceeded the average. The increase in exports of transport equipment, which also amounted to 7 p.c., is attributable to industrial vehicles but more still to motor cars, demand for which was firm in Europe. In the case of chemicals, on the other hand, the rise was more modest, but developments in the various branches diverged: exports of basic chemical products and pharmaceutical products rose appreciably, while those of plastics and rubber remained unchanged. Lastly, exports of more traditional industrial products, such as textiles and metals, stabilised or even declined; in the case of metallurgy, this was due both to a decline in volumes owing to the weakness of

international demand and to a reduction in prices, especially for non-ferrous metals.

Imports in terms of value developed parallel with exports, so that at the end of the first nine months of the year under review their rate of increase compared with the corresponding period of 1995 was likewise 5.1 p.c. On the one hand, the average rise of 1.4 p.c. in import prices was smaller than that in export prices. The improvement in the terms of trade recorded for certain goods, such as food products, was in fact, during this period, greater than the deterioration connected with the rise in oil prices. On the other hand, import volumes appear to have increased a little more rapidly, namely by 3.7 p.c., than export volumes, up by 3.3 p.c., owing to a faster growth in domestic demand, and more particularly in investment by

enterprises, in the BLEU than in the main partner countries. Furthermore, it is quite possible that the import content of this category of expenditure is greater in the BLEU than in the partner countries. The increase in imports of capital goods was therefore stronger than that of the other categories of goods. Imports also rose appreciably in the case of certain products for which the BLEU mainly carries out processing operations, such as parts for motor vehicles and diamonds, in response to the strong export demand.

The developments described above affected the transactions in goods of both Belgium and Luxembourg, though not to the same extent. In Luxembourg the weakness of activity in the metal industry had a greater effect on exports, in view of the considerable weight — over 35 p.c. — of

TABLE 23 — CURRENT ACCOUNT OF THE BLEU AND BELGIUM¹

(Balances, billions of francs)

	BLEU			Belgium		
	First nine months			First nine months		
	1995	1995	1996	1995	1995	1996
Current account	443	314	345	346	226	260
Goods	301	211	235	347	244	270
Services	71	54	54	-3	-5	-4
Transport	64	49	40	64	47	41
Travel	-88	-73	-86	-103	-84	-95
Other services provided by the private sector	62	52	72	5	6	23
of which : Financial services	47	34	39	...	-1	-1
Merchandising and other trade-related services	-18	-9	4	-19	-9	-1
Services between affiliated enterprises	35	30	27	47	36	37
Government services not included elsewhere	33	26	28	31	25	27
Incomes	200	154	164	121	85	93
Compensation of employees	58	45	46	103	77	79
Incomes from direct and portfolio investment	142	109	118	18	8	14
Current transfers	-129	-105	-109	-119	-98	-99
General government	-98	-81	-85	-95	-78	-81
Other sectors	-31	-24	-24	-25	-21	-18

Source : NBB.

¹ Belgium's balances cover those left by transactions with third countries as well as those with Luxembourg. The difference between the balances of the BLEU and those of Belgium therefore corresponds, any statistical discrepancies being excluded, to the balances of Luxembourg both vis-à-vis third countries and vis-à-vis Belgium.

this branch. Thus Luxembourg's trade deficit increased slightly further, whereas Belgium's surplus rose.

Services occupy an important position in the foreign trade of the BLEU, which in 1994 ranked seventh among world exporters of services, with a market share in terms of value of 3.9 p.c., whereas in trade in goods it ranked tenth, with a share of 3.3 p.c. Both countries contribute to this result; however, as mentioned earlier, the surplus resulting from this trade is attributable to Luxembourg, as Belgium's transactions in services are practically in balance.

The level of the balance of trade in services remained, both in Belgium and in Luxembourg, unchanged for the first nine months of 1996. In Belgium the transportation surplus, partly connected with the presence of ports on its territory, decreased. This decline is due on the one hand to the development of sea freight, receipts from which were reduced by a fall in the volumes handled in the main ports and by a reduction in prices, partly owing to an intensification of competition for towing activities in the port of Antwerp. On the other hand, the net receipts produced by air passenger transport also decreased, because the turnover achieved in Belgium by foreign airlines appears to have risen faster than that achieved by domestic airlines with non-residents. The widening of the deficit on travel, for its part, is in line with the structural trend observed for many years. Business services, which had resulted in a deficit in 1995, returned, on the other hand, to a balanced state during the period under review. This development is mainly due to that in merchanting, a branch in which some large enterprises, chiefly engaged in merchanting in petroleum products, appear to have achieved much better results than in the same period of 1995. The surplus in respect of other private-sector services is largely attributable to the services provided by the co-ordination centres to their foreign affiliates; these underwent hardly any change in 1996. Lastly, Belgium also receives net receipts via the

services provided by resident enterprises to the international institutions established in Brussels, which are included under « government services not included elsewhere ».

Both Belgium and Luxembourg receive net factor incomes from the rest of the world; for the BLEU as a whole these amounted to Fr. 164 billion during the first nine months of 1996.

Compensation of employees produces net receipts for Belgium but net expenditure for Luxembourg. As they are the seat of major international institutions, especially the European institutions, Belgium and, to a much smaller extent, Luxembourg obtain receipts in respect of compensation of employees, because the wages and salaries paid by these institutions to their personnel resident on the territory of the BLEU are regarded as such in the balance of payments. Furthermore, the large movements of workers on either side of the frontiers have different results in the two countries. In Luxembourg more than one job in four is held by cross-border workers coming, in declining order, from France, Belgium and Germany; this leads to substantial net payments of earned incomes to foreign recipients. For Belgium, on the other hand, cross-border working generates net receipts.

Income from direct and portfolio investment also produces net receipts for the BLEU, owing to the net external creditor position of the two countries. Belgium's net external assets are distributed between net assets of enterprises and individuals and net liabilities of other sectors — banks and public authorities. In Luxembourg, on the other hand, they are to a large extent concentrated in the financial sector. During the first nine months of 1996 the BLEU's incomes from direct and portfolio investment rose by about Fr. 10 billion, thanks to the formation of net claims on foreign countries which is the counterpart to the current account surplus generated in 1995. This volume effect was strengthened by the

favourable incidence of the fall in short-term interest rates : as the BLEU has more liabilities than assets at under one year, its expenditures decrease faster than its receipts when these rates decline.

Net payments to the rest of the world in respect of transfers amounted to Fr. 109 billion in the first nine months of the year. Their increase compared with the corresponding period of 1995 is mainly due to the rise in the contribution of the Belgian and Luxembourg States to the budget of the EU. This rise is due to an increase in the contribution in respect of the resource based on GNP, which the residual income source for financing the extension of the European policies. For instance, in 1996 the Commission stepped up the aids to the producers of cereals and beef within the framework of the common agricultural policy, and extended the overall appropriation for structural aids to the regions whose development is lagging behind included in « Objective 1 ». In 1995 expenditure in respect of the resource based on GNP had, on the other hand, been exceptionally reduced because the European budget had then closed with a surplus.

5.2 CAPITAL AND FINANCIAL TRANSACTIONS

The financial account reflects the way in which the sum of the surplus in respect of current transactions — i.e. the amount by which saving exceeds the investments of the resident sectors — and of capital transactions is used for financing the rest of the world. Owing to the inability of some, sometimes large, credit institutions to provide the detailed data necessary for the compilation of the financial account in accordance with the standardised presentation of the IMF, this account was partly estimated, for the years 1995 and 1996, on the basis of information not forming part of the balance of payments. The presentation adopted, which is inevitably summary, still however makes it possible to

pinpoint some elements which are of importance for the analysis. A distinction is thus made between transactions mainly undertaken for reasons independent of monetary and exchange rate policy, such as direct investments, which, on the contrary, are governed more by variations in interest rates and foreign exchange rates, such as, among others, the assets and liabilities in francs of non-residents, and the transactions carried out within the framework of the monetary and exchange rate policy.

Among financial transactions, direct investments are of special importance for the BLEU. The net capital inflows which they traditionally generate come on top of the supply of foreign currencies left by the current account surplus, and therefore help to maintain the stability of the franc vis-à-vis the German mark. But, beyond the financial aspect, direct investments have a wider scope. Investment in company capital, the definition of which is closest to that of direct investment in current parlance, have potential repercussions on the real economy, including in terms of activity and employment. These investments are determined by different considerations, among which relative production costs in the various countries are admittedly a very important element, but not the only one. Commercial strategies, such as the wish to be present on a local market or to win new market shares, also come into operation, while the legal and fiscal framework likewise play a by no means negligible role. The fact that the BLEU continues to attract substantial foreign investments despite the relatively high level of the costs of the labour factor shows that the last two categories of considerations sometimes tend to be decisive.

In 1996 direct investments fell into line again with the movements during the preceding years by resulting in substantial net capital inflows : over the first nine months of the year these amounted to Fr. 120 billion, whereas exceptionally these transactions had resulted in net outflows of Fr. 17 billion during the first nine months

TABLE 24 — BALANCE OF PAYMENTS OF THE BLEU

(Balances, billions of francs)

	1995	First nine months	
		1995	1996
Current account	443	314	344
Capital and financial accounts	-443	-314	-344
Capital account	12	9	9
Financial account	-455	-323	-353
Transactions little sensitive to monetary and exchange rate policy	-24	-13	106
of which direct investment	-33	-17	120
Company capital	41	58	137
Loans between affiliated companies	-73	-75	-17
Transactions sensitive to monetary and exchange rate policy ¹	71	-4	-145
of which net assets in francs of non-residents	265	341	286
Government securities	-43	-22	132
Linear bonds	-5	-21	34
Treasury certificates	-38	-1	97
With credit institutions	307	363	154
Transactions within the framework of monetary and exchange rate policy ...	-502	-306	-314
Liabilities in foreign currencies of general government	-263	-228	-113
Forward claims in foreign currencies with resident credit institutions ²	-231	-74	-169
Net foreign exchange reserves of the NBB ³	-8	-4	-33

Source : NBB.

¹ Including errors and omissions.² Forward foreign exchange claims of the Bank resulting from contracts concluded against Belgian francs with credit institutions. Minus sign : increase in claims.³ Minus sign : increase in spot foreign exchange reserves.

of 1995. The reversal of this balance is partly due to loans between affiliated companies and more particularly loans between the co-ordination centres and the members of their groups, which gave rise to capital inflows of Fr. 115 billion during the first nine months of 1996, against net outflows of Fr. 45 billion during the corresponding period of the previous year. The co-ordination centres often perform a function of centralisation of the financial flows for the group, which leads to enormous gross inflows and outflows of capital easily amounting to several tens of billions of francs per day. The resultant balance therefore represents only a tiny proportion of the financial flows involved, the size of which may vary considerably from one period to another. It should also be emphasised that the balances resulting from the direct investments of the co-ordination centres considered in isolation often have a

counterpart elsewhere under other headings, so that the net influence on the balance of payments is very slight.

The reversal of the balance of direct investments is attributable even more to the net contributions of company capital in the form of formations and expansions of companies and of equity investment. In 1995 these net investments had been considerably smaller than those in the preceding years; in 1996 they returned to a high level. From 1995 onwards the data concerning direct investments allow, in addition to a geographical breakdown, also a sectoral breakdown. The former is based in the country of the non-resident counterparty in the transaction, and the latter on the sector to which the resident counterparty belongs. Although the available data are still imperfect, including with regard to the sectoral breakdown, which is not

TABLE 25 — DIRECT INVESTMENTS IN COMPANY CAPITAL¹

(Net flows, in billions of francs)

	From foreign countries to the BLEU			From the BLEU to foreign countries		
	First nine months			First nine months		
	1995	1995	1996	1995	1995	1996
Geographical breakdown						
European Union	120	72	155	-97	-32	-76
of which : Germany	21	14	10	-17	-10	-5
Netherlands	48	25	50	-37	-9	-17
France	15	6	12	-24	-1	-51
United Kingdom	22	22	9	-7	-5	2
Denmark .....	...	...	24	...	...	-1
Italy	6	3	32	-4	-3	2
United States	12	10	40	2	5	-6
Canada	9	9	1	-19	-19	-2
Other	23	15	48	-10	-5	-26
Sectoral breakdown						
Industry	20	10	14	-32	-14	-38
of which : Food industries	1	1	1	-28	-28	-12
Chemical industry	2	2	2	-8	-3	-3
Transformation of energy products .....	...	...	...	14	18	...
Manufacture of mineral and metal products ...	11	4	3	-7	-1	-11
Manufacture of machines	2	1	4	-5	-4	-10
Services	103	77	206	-72	-22	-59
of which : Wholesale and retail trade	9	4	5	-5	-3	-5
Post and telecommunications .....	...	...	78	...	...	-5
Financial institutions and holding companies ...	18	15	91	-63	-24	-44
Co-ordination centres	54	38	7	-	-	-
Not determined at the time of investment ²	41	19	24	-20	-15	-13
Total³	173	115	250	-132	-57	-113

Source : NBB.

¹ Minus sign : direct investments of the BLEU in foreign countries or disinvestments of foreign countries in the BLEU.² This item consists of the direct investments for which the VAT number of the resident counterparty is not known at the time of recording by the banks.³ Including the small investments in real estate, which are not broken down.

always identified at the time when the investment is recorded, they nevertheless clearly show that investments in the form of company capital are concentrated above all in the services sector and mainly come from and go to the countries of the European Union.

The investments in company capital of foreign countries in the BLEU reached Fr. 250 billion during the first nine months of 1996, against Fr. 115 billion in 1995. This substantial increase is partly connected with the equity investment by an interna-

tional consortium of American, Singapore and Danish telecommunications companies in the capital of Belgacom in 1996, which represented a contribution of Fr. 73 billion. In view of the prospect of the complete opening up of the European telecommunications market planned for 1st January 1998, the purpose of the consolidation of Belgacom's capital is to prepare the national operator for competition, and at the same time presents the opportunity, for some foreign operators, of extending their market beyond Belgium to the whole of Europe. Furthermore, very substantial

amounts were still invested in financial institutions and holding companies, especially in Luxembourg.

Company formations and equity investments abroad carried out by Belgian and Luxembourg investors were also greater than those during the first nine months of 1995. Unlike foreign direct investments in the BLEU, these flows of direct investment stem more from the industrial sectors, even though the service sectors are still dominant, particularly as regards Luxembourg direct investments abroad. In 1996 investments by industry were made particularly by the « agri-foodstuffs » and « manufacture of mineral products » branches, and by various branches engaged in the manufacturing of electrical machines and equipment.

Among transactions sensitive to monetary and exchange rate policy, which left a deficit of Fr. 145 billion during the first nine months of the year, investment in francs by non-residents led to net capital inflows totalling Fr. 286 billion, showing once again the interest displayed by foreign investors in investments in francs.

Non-residents mainly increased their net short-term assets in francs in the form of Treasury certificates to the extent of Fr. 97 billion, and in the form of net portfolio investments with resident credit institutions amounting to Fr. 154 billion. Net sales of linear bonds by non-residents in 1995 were replaced by net purchases totalling Fr. 34 billion. The attractiveness of investments in bonds, which partly depends on the prospects of capital gains generated by a fall in interest rates, showed itself most clearly during the first months of the year : the decline in long-term interest rates in francs had then coincided with a reduction in the interest-rate differential vis-à-vis the mark, after the Madrid European summit in December 1995, by the end of which the credibility of the creation of the Monetary Union had been strengthened. In the third quarter and more particularly in September, non-residents reduced their

portfolios of linear bonds in order to realise their capital gains.

The balance of current capital and financial transactions described above led to an excess supply of foreign currencies. In order to prevent an additional appreciation of the franc, as the latter had already shown a premium vis-à-vis its central rate in marks throughout the period, and in a context of short-term interest rates close to those in German marks, the residual imbalances on the foreign exchange market were absorbed by purchases of foreign currencies against francs by the Bank amounting to over Fr. 300 billion. Of these purchases, Fr. 113 billion was used for the repayment of foreign currency loans and Fr. 169 billion was sterilised by an increase in the Bank's forward claims in foreign currencies with resident credit institutions, the balance having been added to the Bank's spot reserves.

During the fourth quarter the capital gains obtained by the Bank in connection with the arbitrage transactions of assets in gold against other reserve elements since 1989 were used to the extent of Fr. 221 billion for the repayment of foreign currency loans by the Treasury. This transaction was coupled with an equivalent reduction in forward claims in foreign currencies with credit institutions. Over the whole of the year, the Treasury's foreign currency debt decreased by Fr. 334 billion and its forward claim in foreign currencies with resident credit institutions fell by Fr. 25 billion, while the Bank's net spot reserves increased by Fr. 16 billion.

5.3 EXCHANGE RATES

The weighted average exchange rate for the franc, which provides a summary indication of the way in which the external value of the franc has developed vis-à-vis the main currencies, depreciated on average by 1.9 p.c. in 1996, partly compensating for the appreciation of 3.9 p.c.

recorded in 1995. This movement, similar to that of the currencies of Germany and the Netherlands, is mainly due to the correction of the movements of the exchange rates for certain currencies participating in the EMS, the lira and the pound sterling, as well as the dollar, after the turbulences which had shaken the foreign exchange market in the spring of 1995.

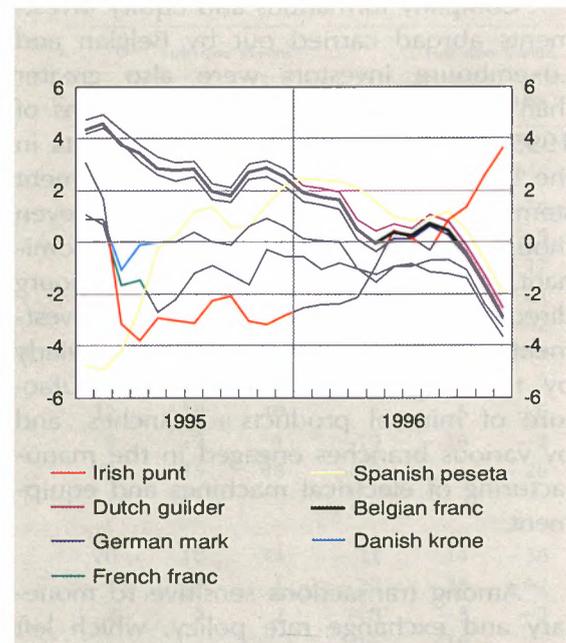
The tensions within the EMS have been followed as early as the middle of 1995 by a period of normalisation, only interrupted by brief episodes of minor strains. In 1996 the conditions prevailing within the EMS confirmed this process, which was reflected in an appreciable narrowing of the effective width of the fluctuation band, from 11 p.c. at the beginning of March 1995 to about 3 p.c. at the end of October 1996, until the time when the appreciation of the Irish punt in the wake of the pound sterling led to a fresh widening of the fluctuation band. The weakening of the mark vis-à-vis the US dollar and the increased convergence of the European economies with regard to inflation and public deficits helped to reduce the tensions between the strongest and weakest EMS currencies. The continuance of the process of convergence and the reaffirmation of the political commitment in favour of the EMU at the Madrid and Florence European Councils furthermore helped to strengthen the markets' expectations about the achievement of Monetary Union on 1st January 1999.

In this context the franc remained stable against the currencies of Germany and the Netherlands. On the other hand, the strengthening of the French franc within the EMS was reflected in a slight depreciation of the Belgian franc. Altogether the latter depreciated by 0.7 p.c. on average in 1996 in relation to the currencies of the neighbouring countries, which are also the BLEU's main trading partners, representing a weight of 57 p.c. in the overall index of the weighted average exchange rate.

Vis-à-vis the other currencies which participated in the European exchange rate

CHART 36 — POSITION OF THE CURRENCIES WITHIN THE EXCHANGE RATE MECHANISM OF THE EMS¹

(Percentages, monthly averages)



Source : BIS.

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

mechanism until 25th November 1996, the date when the Italian lira was reincorporated in the mechanism, the depreciation of the franc amounted on average, compared with 1995, to 1.9 p.c., thus neutralising the average appreciation recorded in 1995.

The correction movement affected the Italian lira and the pound sterling more still. After the sharp depreciation of these two currencies at the beginning of 1995, which had been reflected in an appreciation of the franc by 19.3 and 10.3 p.c. respectively between December 1994 and April 1995, the rate for the franc against the two currencies fell back in December 1996 to a level lower than that at the beginning of the period, in December 1994, showing a depreciation of around 5 p.c. against each of them. The appreciation of the Italian lira against the mark and the currencies linked with it reflects the

TABLE 26 — WEIGHTED AVERAGE EXCHANGE RATE FOR THE BELGIAN FRANC¹

(Percentage changes)

	1994	1995	1996	December 1994 to April 1995	April 1995 to December 1996
Vis-à-vis the German mark, the guilder and the French franc	1.3	0.7	-0.7	0.5	-1.3
Vis-à-vis the other currencies of the EU	3.6	8.4	-5.6	10.9	-13.9
of which : Currencies participating in the exchange rate mechanism of the EMS before 25th November 1996	3.3	2.0	-1.9	3.3	-5.0
Italian lira	6.1	14.3	-9.6	19.3	-20.7
Pound sterling	1.5	9.9	-3.7	10.3	-14.1
Vis-à-vis the US dollar	3.4	13.3	-4.7	13.8	-11.2
Vis-à-vis the yen	-4.5	3.9	10.5	-4.7	20.6
Total	1.7	3.9	-1.9	4.0	-4.7
p.m. Weighted average exchange rate :					
German mark	0.1	5.4	-2.4	5.7	-5.6
Guilder	0.3	4.1	-1.9	3.8	-4.8
French franc	0.7	3.4	0.1	4.3	-1.9

Sources : BIS, NBB.

¹ The index of the weighted average exchange rate is obtained by calculating the geometric average of the exchange rate for the franc vis-à-vis the currencies of the OECD countries (except Hungary, Iceland, Mexico, Poland, the Czech Republic and Turkey), weighted by the importance of these countries as competitors of the resident producers of manufactured goods in all the markets combined, including the domestic market.
Minus sign : depreciation of the franc.

fundamental improvement in the macro-economic and financial data of the Italian economy and the political commitment to meet the convergence criteria of the Treaty of Maastricht. The increasingly strong expectations with regard to the participation of the Italian currency in the EMS exchange rate mechanism before the end of the year took concrete shape on 25th November. The pound sterling appreciated on the heels of the rise in the exchange rate for the dollar, this knock-on effect reflecting the economic and financial links between the United Kingdom and the United States.

The movement of the nominal effective exchange rates for most of the European currencies since the middle of 1995 seems to indicate a return to a long-term position of equilibrium, measured by the index of the real effective exchange rate prevailing in 1987. This index corresponds to the nominal effective exchange rate after ad-

justment to take account of the difference in inflation or in the movement of costs between the economy in question and the rest of the world.

Lastly, the franc developed in divergent ways vis-à-vis the currencies of the two main non-European partners, the US dollar and the yen, which have weights of 8.5 and 5.5 p.c. respectively in the calculation of the weighted average exchange rate. Owing to the stability of the exchange rate for the franc vis-à-vis the German mark, its fluctuations against the dollar and the yen faithfully reflect those of the German currency against these currencies : on average compared with the previous year the franc depreciated by 4.7 p.c. against the dollar and appreciated by 10.5 p.c. against the yen. Altogether, since April 1995, the franc has depreciated by 11.2 p.c. vis-à-vis the dollar and appreciated by 20.6 p.c. against the Japanese currency.

6. FINANCIAL ACCOUNTS AND FINANCIAL MARKETS

6.1 FINANCIAL ACCOUNTS

Summary of the transactions of the sectors

Since 1986 the domestic sectors of the economy as a whole have produced a net financing capacity which, after increasing strongly at the start of this decade, attained a high level in 1995 in comparison with the situation in other countries. This increase reflected the improvement in the public finances and the financing capacity of companies. On the other hand, the financing capacity of individuals declined.

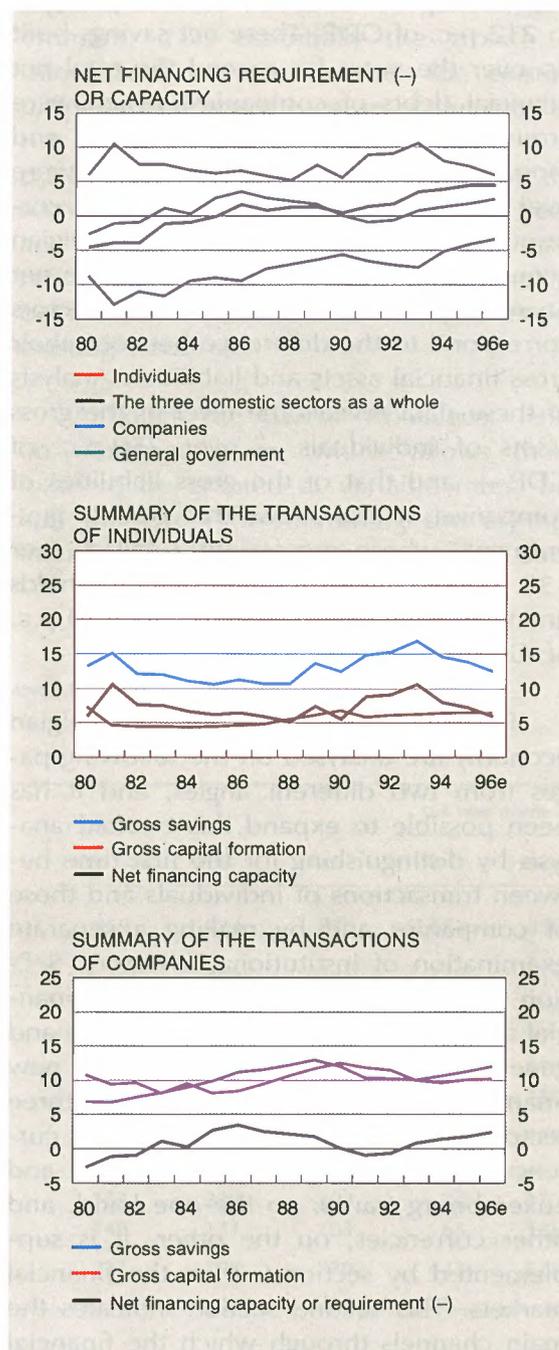
These sectoral trends continued in 1996, but the net financing capacity of the domestic sectors as a whole showed hardly any further increase, stabilising at around 4.4 p.c. of GDP.

The financing requirement of general government declined by 0.7 percentage point of GDP. The disposable income of individuals expressed as a percentage of GDP also fell by just over 1 point in 1996. Since household consumption expenditure stabilised as a proportion of GDP, gross savings contracted by the same amount. Following this decline, the third since 1993, which was a peak year for gross savings of individuals, savings reverted to the average for the past fifteen years. Since expenditure on housing was virtually stable, the net financing capacity of individuals also declined, by just over 1 percentage point. It thus reached a new low since 1990, namely 6 p.c. of GDP.

The gross savings of companies, for their part, increased for the third consecutive year in 1996. They went up from 11.2 to 12 p.c. of GDP, thus approaching the maximum recorded at the end of the 1980s. Account being taken of a further improvement in profits, companies in-

CHART 37 — SUMMARY OF THE TRANSACTIONS OF THE SECTORS OF THE ECONOMY¹

(Percentages of GDP)



Sources : NAI, NBB.

¹ Where appropriate, the data on individuals and companies are considered excluding statistical adjustments, as in Chapters 2 and 3. The exceptional payment by the Belgacom company into its pension fund when this was set up in 1995 was not recorded in capital transfers from the company sector to the individual sector in order to make it easier to interpret movements since 1994.

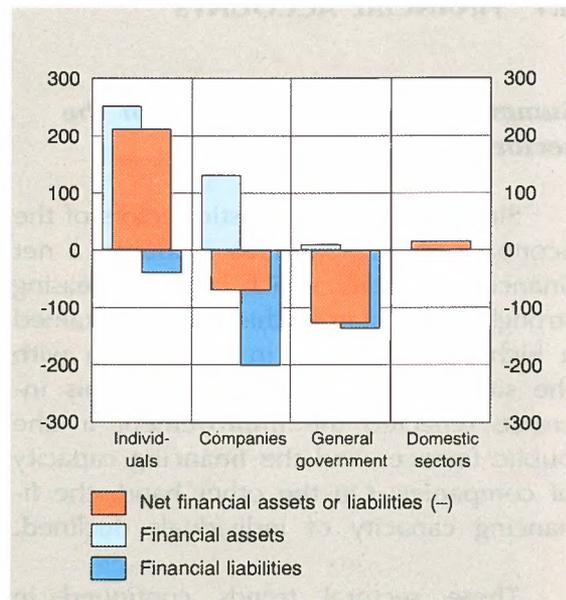
creased their gross capital formation. Nevertheless, their financing capacity expanded further, from 1.8 to 2.4 p.c. of GDP.

At the end of 1995, the net financial claims accumulated by individuals represented over Fr. 16,800 billion, equivalent to 212 p.c. of GDP. These net savings built up over the years far exceed the total net financial debts of companies, which were around Fr. 5,500 billion on that date, and those of general government, which were over Fr. 10,000 billion. The balance corresponds to the net claims of the Belgian economy on the rest of the world. The net financial positions of the domestic sectors correspond to the difference between their gross financial assets and liabilities. Analysis of these data reveals the level of the gross assets of individuals — over 250 p.c. of GDP — and that of the gross liabilities of companies. It also shows that general government, whose gross debt totalled over 130 p.c. of GDP at the end of 1995, holds financial assets equivalent to some 10 p.c. of GDP.

Financial transactions in the Belgian economy are analysed on the following pages from two different angles, and it has been possible to expand this twofold analysis by distinguishing for the first time between transactions of individuals and those of companies and by making a separate examination of institutional investors. Section 6.1, devoted to the respective financial accounts of individuals, companies and general government, breaks down the new financial assets and liabilities of these three sectors by instrument, maturity and currency, distinguishing between Belgian and Luxembourg francs, on the one hand, and other currencies, on the other. It is supplemented by section 6.2 on the financial markets. This second section indicates the main channels through which the financial flows of these sectors pass. A specific analysis is devoted to credit institutions, Belgian institutional investors and the market in securities denominated in francs. The other channels, which are less important,

CHART 38 — NET FINANCIAL POSITION OF THE DOMESTIC SECTORS AT THE END OF 1995¹ e

(Percentages of GDP)



Source : NBB.

¹ The capital of companies was valued at market prices in the case of shares of listed companies and at the book value for those of unlisted companies.

consist of foreign credit institutions, the market in securities denominated in foreign currencies and direct financing transactions, other than in the form of securities, between domestic sectors or with the rest of the world.

While the analyses of the financial accounts and financial markets are complementary and permit numerous cross-comparisons, they still conform to their own separate logic. They are based on rather different methodological choices, particularly as regards the treatment of investments effected through institutional investors. From the angle of the financial accounts, these investments are treated according to the transparency principle, which means that securities representing units in collective investment undertakings and technical reserves of insurance companies and pension funds are attributed directly to the final investors. This transparency principle is not, on the other hand, adopted for the analysis of the

financial markets, which precisely aims to isolate investments effected through the specific channel of institutional investors. The implications of these differences of method are set out in the preliminary remarks to the Report.

Individuals

In December 1996, following the decline which has continued almost uninterruptedly over the past two years, interest rates fell to new low levels which had not been seen since 1968 for long-term rates and since 1962 for short-term rates. This situation had a major influence on the financial transactions of individuals, because the latter are often highly sensitive to the level of nominal interest rates.

During the first three quarters of 1996, individuals incurred new financial liabilities totalling Fr. 172 billion, a much higher figure than during the corresponding period

of the previous year. This quickening is due mainly to the trend of mortgage loans contracted with credit institutions: these increased by Fr. 126 billion in 1996, against Fr. 65 billion the previous year.

As can be seen from the increase in registration fees collected by general government, it is essentially the growth of transactions on the market for existing property that was the cause of the marked rise in the volume of mortgage loans used by households. The rapid growth of the secondary market has not yet in fact been accompanied by a clear recovery in new residential building, which traditionally lags behind the fluctuations in the market for existing housing.

Although the law of 4th August 1992 on mortgage loans, which allows those loans to be granted at variable rates, has had the effect of shortening the average intervals at which the interest rates on such

TABLE 27 — FORMATION OF FINANCIAL ASSETS AND NEW FINANCIAL LIABILITIES OF INDIVIDUALS

(Billions of francs)

	1993	1994	1995	First nine months	
				1995	1996 e
Formation of financial assets	959	1,024	875	693	850
p.m. Through institutional investors operating on the Belgian market ¹	(646)	(183)	(232)	(166)	(315)
In francs at up to one year ²	435	-147	-145	-170	96
In francs at over one year ²	117	627	566	333	229
Other assets in francs ^{2,3}	69	159	60	109	175
In foreign currencies	338	385	394	422	350
New financial liabilities	128	226	95	50	172
At up to one year	-29	5	-6	-23	-3
At over one year	157	220	102	72	175
of which mortgage loans	148	171	103	65	126
Financial balances ⁴	831	798	779	643	679

Source: NBB.

¹ Units of collective investment undertakings and insurance notes marketed in Belgium and technical reserves of Belgian insurance companies and pension funds. The financial assets formed via these institutional investors are broken down between the other headings in the table according to their final destination.

² Belgian and Luxembourg francs.

³ Claims arising from direct financing transactions between domestic sectors other than in the form of securities and assets whose maturity is not known.

⁴ The balances of the financial accounts do not correspond to the financing capacities or requirements as recorded in the real accounts owing to the differences between the dates on which transactions are recorded in these two sets of accounts, statistical adjustments or errors and omissions. For example, owing to the lack of data, the financial accounts cannot show most of the non-financial claims and debts resulting from transactions in goods and services between sectors.

credit are revised, these are still determined principally by expectations regarding the movement of long-term rates. Many borrowers probably felt that the level reached during the period under review represented a threshold below which rates could hardly fall any further.

In this context, the proportion of new loans contracted at fixed rates has risen, borrowers being prepared to pay an interest premium corresponding to the difference between the fixed and variable rates in the hope of enjoying financing conditions deemed favourable throughout the duration of the contract. During the period under review, and with the same objective, many borrowers renegotiated the financial terms of mortgage loans which they had contracted in the past. Apart from the financing of any charges or reinvestment fees, such contractual modifications have no effect on the trend of credit granted to individuals.

The growth in long-term liabilities of individuals was also bolstered by the rise in sales of new vehicles, which traditionally occurs in the years when the biennial motor show is held.

The investments of individuals increased by Fr. 850 billion during the first nine months of 1996, an appreciable advance on the Fr. 693 billion rise observed during the corresponding period of 1995.

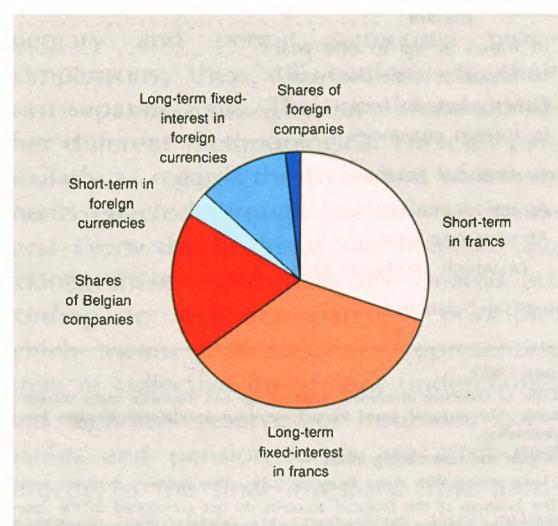
While the combined effects of the low level of interest rates and the anticipation that they would rise encouraged individuals to contract more long-term debt, these same factors prompted them to adopt a wait-and-see attitude in the formation of financial assets, and this was reflected in a more balanced distribution of their investments between the various maturities. Short-term assets in francs, which had fallen by Fr. 170 billion in 1995, increased by Fr. 96 billion, whereas assets in francs at over one year rose by only Fr. 229 billion, against Fr. 333 billion the previous year.

In 1996, pursuing a strategy of diversifying their investments, individuals again allocated a relatively large proportion of their financial saving to the acquisition of assets denominated in foreign currencies. The outstanding amount of the foreign currency assets thus constituted is not insignificant, but remains modest at around 16 p.c. in relation to the total financial assets held by individuals.

Over two-thirds of the portfolios denominated in foreign currencies consist of long-term fixed-interest assets. Assets at up to one year represent barely one-fifth. The balance, or just over 10 p.c., corresponds to investments in shares of foreign companies. This structure is different from that of assets in francs, where the proportion of long-term assets is considerably smaller. The high outstanding amount of short-term assets in francs is partly due to the liquid assets held to meet transaction needs or as a precaution, whereas a large proportion of the investments in shares of Belgian companies, which represent 18 p.c. of the total portfolio of financial assets of individ-

CHART 39 — STRUCTURE OF THE PORTFOLIO OF FINANCIAL ASSETS OF INDIVIDUALS

(Percentages of the outstanding amount at the end of 1995)



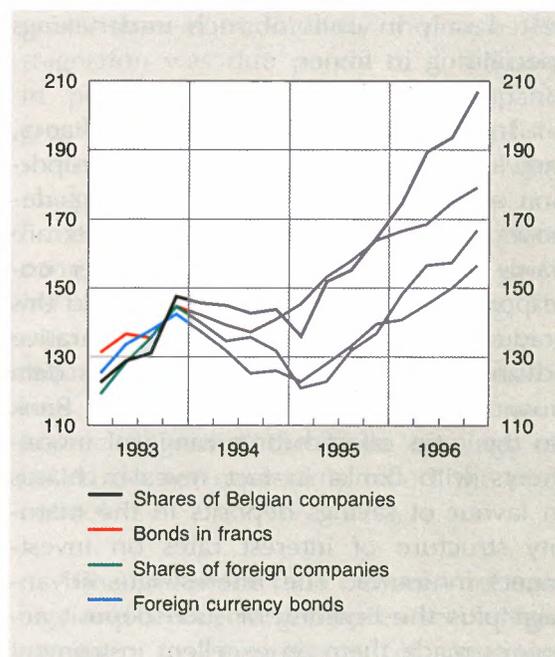
Source : NBB.

uals, consists of unlisted shares of enterprises whose shares are family-owned.

The diversification of individuals' portfolios denominated in foreign currencies was greatly facilitated by the activity of the institutional investors, particularly the collective investment undertakings, which gave savers access to a large number of foreign markets. However, these investments are not automatically synonymous with higher yields. Comparison of the trend of the average yield indices of collective investment undertakings specialising in four categories of financial assets, namely bonds in francs, bonds in foreign currencies, Belgian shares and foreign shares, in fact shows that in recent years such undertakings investing in Belgian securities or securities denominated in francs outperformed institutions specialising in foreign currency bonds or foreign shares. True, the indices relating to collective undertakings investing in foreign currencies are bound to be highly heterogeneous and cannot therefore be used to measure the performance of individual foreign markets. Nevertheless, the trend of these indices

CHART 40 — YIELD INDICES OF COLLECTIVE INVESTMENT UNDERTAKINGS¹

(End-of-period data, indices 1st January 1991 = 100)



Source : Belgian Municipal Credit Institution.

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

TABLE 28 — FORMATION OF FINANCIAL ASSETS IN FRANCS BY INDIVIDUALS^{1,2}

(Billions of francs)

	1993	1994	1995	First nine months	
				1995	1996 e
Bills and sight deposits	99	14	18	26	35
Savings deposits	37	446	403	216	305
Time deposits	38	-134	-286	-215	-174
Securities at up to one year	275	-432	-210	-134	-51
Fixed-interest securities at over one year	119	553	477	257	198
Shares	-15	33	20	14	12
Other assets ³	69	159	60	109	175
Total	621	639	481	271	500

Source : NBB.

¹ Belgian and Luxembourg francs.

² Investments made via collective investment undertakings, insurance companies and pension funds have been broken down between the various headings in the table according to their final destination.

³ Claims arising from direct financing transactions between domestic sectors other than in the form of securities and assets whose maturity is not known.

tends to show that the diversification strategy of individuals who acquired units of these undertakings at the start of the period in question has been less profitable, on average, than that of savers who invested only in units of such undertakings specialising in francs.

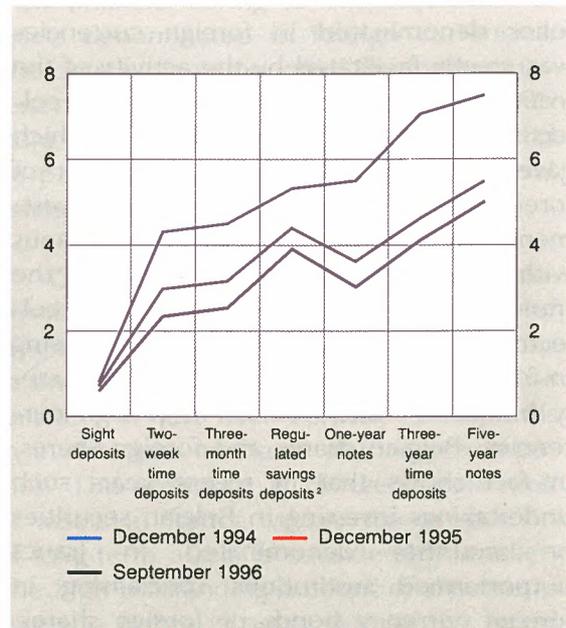
In the case of investments in francs, individuals again allocated a large proportion of their assets to regulated savings deposits. Since the rates on these assets are partly administered, they were rather unresponsive to downward pressure, and this gradually gave them a distinct comparative advantage in terms of return. The data from the survey conducted by the Bank on the rates offered for a range of investments with banks in fact reveal a hiatus in favour of savings deposits in the maturity structure of interest rates on investments in francs. The interest-rate advantage plus the liquidity of such deposit accounts made them an excellent instrument for adopting waiting positions. At the end of the first nine months of the year under review, balances in savings deposits of individuals showed an expansion of Fr. 305 billion, against a rise of Fr. 216 billion in the first three quarters of 1995.

At the same time, individuals withdrew time deposits amounting to Fr. 174 billion and reduced their portfolios of securities at up to one year. The last-mentioned movement is due to non-renewal of investments in one-year notes totalling Fr. 76 billion, attributable to the fact that the rate on these was consistently lower than that on regulated savings deposits. Households also reduced their subscriptions for notes at over one year, as there is no organised secondary market where these securities can be readily sold without incurring a penalty in relation to market prices.

Lastly, individuals did not buy many shares. This behaviour, which applied not only to Belgian securities but also to foreign ones, may at first sight appear surprising during a period when stock market

CHART 41 — STRUCTURE OF INTEREST RATES ON INVESTMENTS WITH BANKS¹

(End-of-period data)



Source : NBB.

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

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

prices rose very steeply. It is due to the fact that most individuals preferred to aim at profiting from the growth of the stock markets by subscribing to units of a particular category of collective investment undertakings, i.e. the index-linked funds, which provide protection of the principal. These undertakings use the resources which they collect not to purchase shares but to invest in fixed-interest assets combined with specific financial instruments, such as options or income swap contracts. Thus, while renouncing the collection of dividends, subscribers are guaranteed the benefit of rises in stock market indices and are assured of recovering the whole of their capital in the event of a fall.

Companies

During the first nine months of 1996 the financial liabilities of companies increased by Fr. 389 billion against

Fr. 364 billion in 1995. These financial resources were obtained in almost equal proportions from Belgian bank loans, share issues and other liabilities incurred mainly to the rest of the world.

Companies incurred debts with Belgian credit institutions for periods not exceeding one year, in contrast to the behaviour of individuals, most of whom contracted long-term bank loans. This disparity should not be attributed to divergent expectations regarding interest rates, but primarily mirrors the different financing possibilities available to these two categories of borrowers. Companies, or at least the larger ones, can obtain terms very close to those of the money and capital markets on all their borrowings. In contrast, households do not have this option except for certain categories of long-term transactions, mainly mortgage loans, since short-term credit to individuals is generally only granted at rates considerably above money market rates.

Furthermore, companies also obtain a substantial part of their long-term resources in the form of capital. In 1996, however, share issues represented a smaller proportion of the sources of financing for enterprises than is traditionally the case. This stagnation was due purely to a reduction in private transactions, since companies greatly increased their issues of listed shares. The cost of financing on the stock market has become attractive, as is confirmed by the trend of the ratio, for quoted companies, between the latest net profits per share and the stock market prices. This ratio in fact permits assessment of the yield required by the market on new capital issues, even though this indicator remains imprecise in that the latest earnings obtained do not necessarily reflect the profit outlook.

Changes in the ratio between net earnings and stock market prices seem highly sensitive to movements of long-term

TABLE 29 — FORMATION OF FINANCIAL ASSETS AND NEW FINANCIAL LIABILITIES BY COMPANIES¹

(Billions of francs)

	1993	1994	1995	First nine months	
				1995	1996 e
Formation of financial assets ²	501	209	374	336	427
Deposits with Belgian credit institutions	181	-68	62	72	262
Belgian and foreign shares .....	...	107	103	23	-45
Other assets	320	170	210	242	210
of which lending to the rest of the world	280	-24	220	179	56
New financial liabilities	525	303	495	364	389
Credits granted by Belgian credit institutions	-22	81	66	122	132
at up to one year	-64	33	76	89	137
at over one year	42	48	-10	34	-6
Shares	232	231	231	146	128
of which listed shares	22	36	9	9	41
Other liabilities	314	-8	198	96	129
of which borrowing from the rest of the world	125	-16	152	145	83
Financial balances ³	-23	-94	-121	-28	38

Source : NBB.

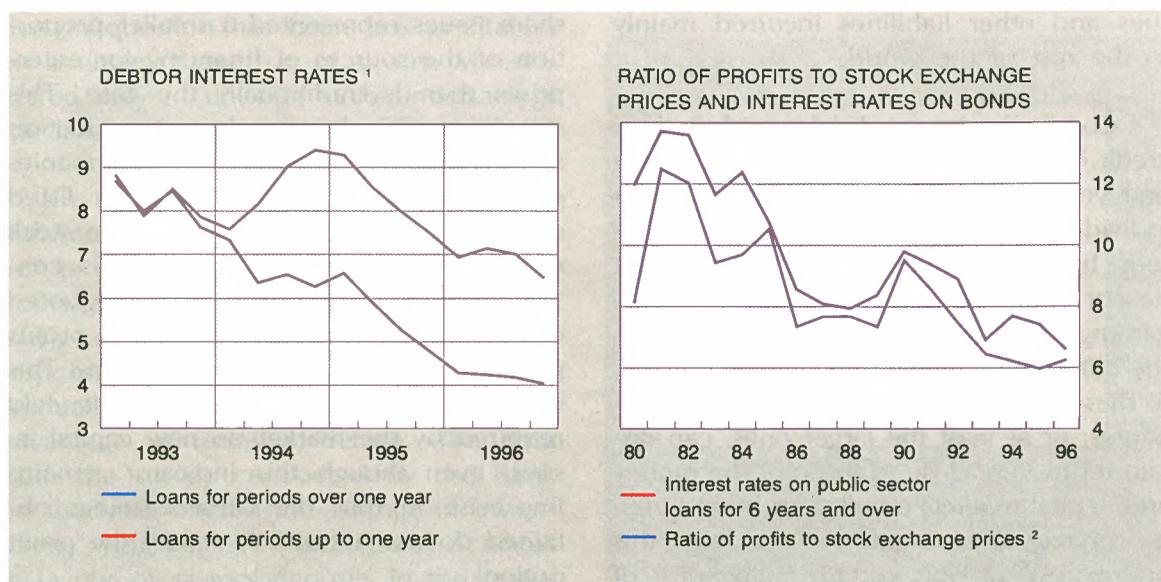
¹ Credit institutions and institutional investors are in principle excluded from the company sector, as they are treated like pure financial intermediaries, whose financial assets are assumed to be identical to their financial liabilities. This treatment means, however, that the transactions of these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

² Investments made via insurance companies have been broken down among the various headings in the table according to their final destination.

³ See note 4 to Table 27.

CHART 42 — FINANCING COSTS OF COMPANIES

(Percentages)



Sources : Kredietbank, Brussels Stock Exchange, NBB.

¹ Rates obtained by means of a survey among the main credit institutions and weighted on the basis of the market share of each of these institutions. With regard to loans for up to one year, they relate to transactions of Fr. 10 to 15 million and in the case of loans for more than one year to transactions of Fr. 3 to 5 million; the latter bracket was widened in January 1996 to Fr. 5 to 10 million.

² The ratio of profits to prices, which corresponds to the converse of the price-earnings ratio, is measured annually at the end of June, the time by which nearly all the profit and loss accounts relating to the previous year are available.

interest rates, and this correlation has been confirmed during the phase of declining rates since the start of the decade. The respective levels attained by these two variables in 1996 correspond fairly closely to the structure observed in the past.

The other financial liabilities of companies consist mainly of loans obtained from the rest of the world. Although these transactions comprise loans granted by foreign credit institutions, most of them are nevertheless concluded in the context of financial cross-transactions between the different entities of multinational companies. This financing now takes place on a large scale in Belgium owing to the presence of numerous subsidiaries of foreign companies and the activity of the co-ordination centres.

It follows that borrowings contracted abroad and loans granted to the rest of the world have usually moved in parallel in recent years. This was again the case

during the first nine months of 1996, a period when these two flows of funds simultaneously showed a fairly sharp reduction.

The formation of financial assets by companies was very large in 1996, totalling Fr. 427 billion during the first three quarters against Fr. 336 billion in 1995. The proportion of investments with Belgian credit institutions increased steeply and this increase was accompanied by a reduction in the portfolio of shares held by enterprises. This twofold movement reflects the terms and conditions, described in section 6.2, of the sale of shares in Belgacom on behalf of the State by the Federal Participation Company.

General government

During the year under review the public debt as a percentage of GDP fell by around 3.5 percentage points, from

113.5 p.c. at the end of 1995 to 130 p.c. at the end of 1996. The effect of the fall in the public deficit was reinforced by several financial transactions which do not affect the financing requirement. This concerns in particular the use for the repayment of the foreign currency debt of the capital gains made by the Bank owing to arbitrages of gold assets against foreign currencies, rearrangement of the portfolio of financial assets and payment by the Federal Participation Company of the sum of Fr. 20 billion following the partial privatisation of Belgacom. These transactions all took place at the end of the year and therefore do not affect the data for the first nine months.

In recent years, profound changes have affected the structure of the public debt, chiefly in its principal component, namely the Treasury debt.

At the start of the 1980s, when the current account balance of payments deficit coincided with outflows of private capital which reflected the unattractiveness of assets in Belgian francs, the proportion of the debt in foreign currencies had gradually increased to around 25 p.c. Subsequently, this proportion was systematically reduced, except for a temporary rise in 1993 at the time of the turbulences on the foreign exchange market. During the first three quarters of 1996, this debt declined by Fr. 113 billion. In view of the aforesaid use of the capital gains made by the Bank, the proportion of the debt in foreign currencies was down to less than 8 p.c. at the end of the year under review.

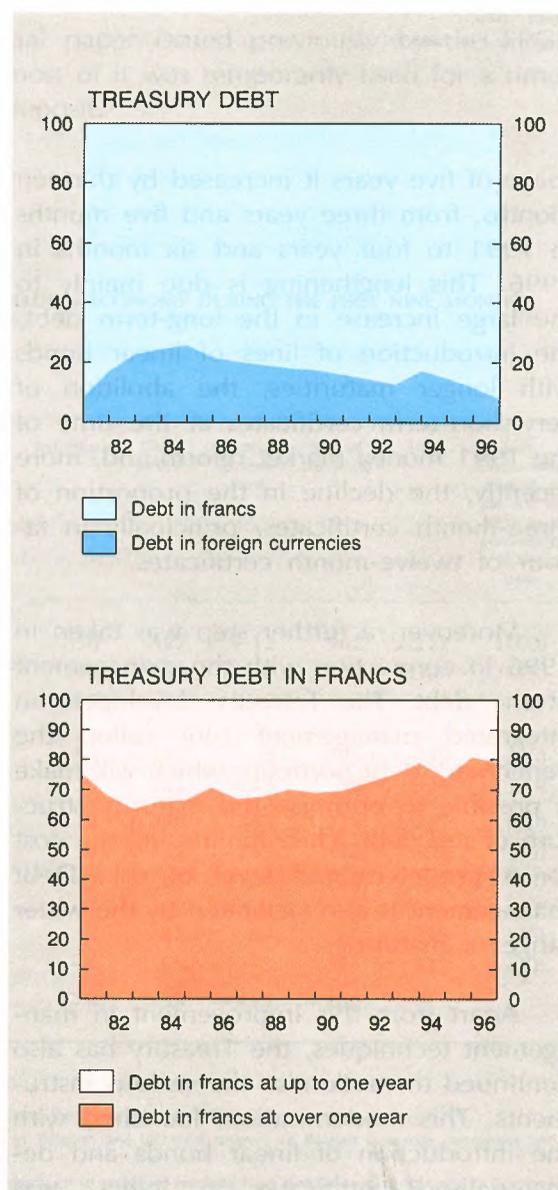
The structure of the Treasury debt in francs also showed a change in trend. The proportion of the long-term debt, which had fluctuated between 65 and 70 p.c. for the greater part of the 1980s, has in fact increased sharply since the beginning of the decade. This trend, which was in line with a policy aimed at making the public finances less vulnerable to variations in interest rates, was only interrupted during part of 1994, a period when the market

displayed a clear preference for short-term investments. At the end of 1995 the proportion of the long-term debt amounted to 80 p.c. During the year under review it fell slightly, because the very low level of short-term interest rates did not encourage further consolidation.

The average duration of the outstanding amount of the debt in francs has increased considerably in recent years. In the

CHART 43 — STRUCTURE OF THE TREASURY DEBT

(End-of-year debt percentages)



Sources : Ministry of Finance, NBB.

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

(Billions of francs)

	1993	1994	1995	First nine months	
				1995	1996 e
Formation of financial assets	128	-96	-34	-11	-12
New financial liabilities	676	309	275	376	443
In francs	227	461	536	607	557
At up to one year	-224	493	-352	228	252
At over one year	452	-33	889	379	305
In foreign currencies	449	-152	-262	-231	-113
At up to one year	439	-223	-323	-297	2
At over one year	10	71	61	66	-116
Financial balances ¹	-548	-405	-308	-387	-455

Source : NBB.

¹ See note 4 to Table 27.

space of five years it increased by thirteen months, from three years and five months in 1991 to four years and six months in 1996. This lengthening is due mainly to the large increase in the long-term debt, the introduction of lines of linear bonds with longer maturities, the abolition of very-short-term certificates at the time of the 1991 money market reform and, more recently, the decline in the proportion of three-month certificates, principally in favour of twelve-month certificates.

Moreover, a further step was taken in 1996 in connection with the management of the debt. The Treasury developed an integrated management tool called the benchmark debt portfolio, which will make it possible to optimise the maturity structure of the debt while minimising the cost for a predetermined level of risk. Debt management is also facilitated by the wider range of maturities.

Apart from this improvement in management techniques, the Treasury has also continued to modernise the various instruments. This modernisation, launched with the introduction of linear bonds and dematerialised certificates in francs, was stepped up in 1996 by the introduction

of dematerialised Treasury bills for the short-term debt in foreign currencies and of government notes for long-term debt in francs. The characteristics of the latter are described in section 6.2.

6.2 FINANCIAL MARKETS

The economy's investment and financing channels

The financial transactions which have been commented on above from the point of view of the sectoral accounts can also be analysed, provided that the methodological adaptations described in the preliminary remarks are made, by distinguishing between the main investment or financing channels used by the domestic sectors. These are the credit institutions, the institutional investors, comprising collective investment undertakings, pension funds and insurance companies, plus the markets in securities denominated in francs; the other channels consist mainly of transactions on foreign financial markets and direct financing operations between domestic sectors or with the rest of the world.

Acting as intermediaries for 45 p.c. of the financial transactions carried out by the domestic sectors either between themselves or with the rest of the world, Belgian credit institutions represent the principal investment and financing channel for the Belgian economy. Direct financing transactions on the markets in securities in francs account for 26 p.c. of the total outstanding amount of financial claims and debts, and institutional investors for 8 p.c.

However, the percentages observed for the economy as a whole do not necessarily reflect the proportion represented by the various channels in the financial transactions of the sectors viewed individually. These divergences are illustrated by the structure of the financial flows recorded during the first nine months of 1996.

Thus, it was the Belgian banks which, to the extent of Fr. 269 billion, covered most of general government's funding requirements. The resources which they raised from the domestic sectors were not collected principally from individuals, as is traditionally the case, but from companies. The financial assets which the latter formed with Belgian banks attained the particularly high level of Fr. 388 billion during the first three quarters of 1996. This increase was partly due to the sale of shares in the Belgacom company to foreign enterprises, giving rise to a payment of Fr. 73 billion to the former shareholder, the Federal Participation Company (FPC). While part of this amount was used to redeem commercial paper issued previously by the FPC, most of it was temporarily used for a time deposit.

TABLE 31 — INVESTMENT AND FINANCING CHANNELS OF THE BELGIAN ECONOMY DURING THE FIRST NINE MONTHS OF 1996 ^e

(Changes in billions of francs)

	Individuals	Com- panies ¹	General govern- ment	Rest of the world	Total	p.m. Outstanding amount at the end of 1995 as a percentage of the total
Formation of financial assets	850	427	-12	962	2,227	(100)
With Belgian credit institutions ²	313	388	-2	609	1,307	(45)
With institutional investors operating on the Belgian market ³	315	11	6	...	332	(8)
In the form of securities in francs acquired directly from the final borrowers	83	-127	8	295	259	(26)
Via other channels ⁴	138	155	-23	59	329	(20)
New financial liabilities	172	389	443	1,224	2,227	(100)
To Belgian credit institutions ²	134	152	269	753	1,307	(45)
To institutional investors operating on the Belgian market ³	43	95	94	99	332	(8)
In the form of securities in francs placed directly with the final investors .....	...	87	85	87	259	(26)
Via other channels ⁴	-6	55	-5	285	329	(20)
Financial balances ⁵	679	38	-455	-262		

Source : NBB.

¹ See note 1 to Table 29.

² Including the NBB, the Securities Regulation Fund, the Monetary Fund, the RGI and the Postal Cheque Office.

³ Units of collective investment undertakings and insurance certificates marketed in Belgium and technical reserves of Belgian insurance companies and pension funds.

⁴ Securities denominated in foreign currencies and claims and debts other than in the form of securities resulting from direct financing transactions between domestic sectors or with the rest of the world.

⁵ See note 4 to Table 27.

On the security market, the sale by the FPC of its holding in Belgacom was reflected in a reduction in the portfolio of securities held by Belgian companies and inflated the volume of purchases of securities in francs by the rest of the world, which totalled Fr. 295 billion during the period under review.

Lastly, the financial resources gathered by the institutional investors totalled Fr. 332 billion, of which Fr. 315 billion come from individuals alone. These funds were used for financing the various sectors, including households, whose borrowings from these institutions mainly take the form of mortgage loans.

Credit institutions

The balance sheet total of the credit institutions increased by Fr. 2,143 billion during the first nine months of 1996, against Fr. 1,687 billion in 1995. A large part of this increase was due to the continued steady growth in transactions on the interbank market in 1996.

The volume of transactions concluded on this market between Belgian banks or with foreign correspondent banks often varies greatly, as credit institutions may come to be simultaneously creditors and debtors with the same counterparty as a result of their interventions on this market. The development of these bilateral positions, which are found not only in the balance sheet but also in off-balance-sheet transactions, has caused credit institutions to use various techniques which simultaneously enable them to limit the specific risks in relation to certain individual debtors and the equity capital requirements.

Thus, the banks are at present making extensive use of repurchase agreements relating to public securities, which have largely replaced direct interbank lending and borrowing transactions. They have also developed other procedures, particularly for their off-balance-sheet transactions, such as claim novation, which allows ex-

isting contracts to be replaced by new ones for lower aggregate amounts, or the off-setting of bilateral positions. With the objective of harmonising, within the European Union, the rules to be complied with in order to enable such agreements to have effect vis-à-vis third parties, the European Council and Parliament adopted a directive on 21st March 1996 with regard to recognition by the competent authorities of contractual netting.

Where transactions between banks fulfil specific criteria, the role of the credit institutions as intermediaries should be judged on the basis of the transactions carried out with other counterparties. In general, the assets and liabilities of Belgian banks vis-à-vis individuals, companies and general government increased more in 1996 than in 1995.

Nearly all the new resources gathered by the banks were at up to one year. In order to satisfy the demand for long-term financing, which originated mainly from individuals in 1996, the credit institutions undertook transformations of maturities.

Examination of the term structure of the outstanding assets and liabilities indicates that this transformation activity is one of the essential functions performed by the Belgian banks. At the end of September 1996 the long-term assets of credit institutions totalled around Fr. 10,700 billion, while only Fr. 5,800 billion of this figure was covered by corresponding liabilities.

Admittedly, these sums do not in themselves constitute a measure of the interest-rate risks incurred by credit institutions. Thus, the distinction between positions at up to one year and at over one year hardly takes account of the diversity of maturities. Furthermore, credit institutions can also protect themselves against interest-rate risks by off-balance-sheet transactions.

However, the current management of the assets and liabilities of Belgian credit

TABLE 32 — BALANCE SHEET STRUCTURE OF BELGIAN CREDIT INSTITUTIONS¹

(Billions of francs)

	Changes in outstanding amounts during the first nine months				Outstanding amount at the end of September 1996	
	1995		1996		Assets	Liabilities
	Assets	Liabilities	Assets	Liabilities		
By counterparty						
Individuals	32	196	134	313	2,624	9,853
Companies ²	121	164	152	388	3,670	2,831
General government	339	-36	269	-2	6,621	175
Rest of the world ²	652	820	753	609	9,725	9,781
of which foreign credit institutions	419	528	513	274	6,100	7,415
Sub-total	1,144	1,144	1,307	1,307	22,640	22,640
Belgian credit institutions	543	543	836	836	3,286	3,286
Total	1,687	1,687	2,143	2,143	25,927	25,927
By maturity						
At up to one year ³	983	1,266	1,862	2,092	15,225	20,124
At over one year	703	421	281	51	10,702	5,803
p.m. Sight deposits and savings deposits in francs of individuals and companies		267		406		4,317

Source : NBB.

¹ Including the NBB, the Securities Regulation Fund, the Monetary Fund, the RGI and the Postal Cheque Office.² Transactions carried out with foreign collective investment undertakings and insurance companies which have made public issues of units and of insurance certificates, respectively, in Belgium have been reclassified in the company sector.³ Including fixed-term advances at over one year with a floating interest rate.

institutions is still based to a large extent on the existence of substantial outstanding liabilities in the form of sight and savings deposits. These short-term deposits can quite easily be allocated to longer-term uses in so far as these resources are fairly permanent, and in so far as their costs, even in a period when the structure of interest rates is inverted, remain below the terms applicable on the capital market.

As already remarked in section 3.3, in 1996 these maturity transformations enabled the credit institutions to take advantage of the persistently large differential between short-term and long-term interest rates. However, this source of income is rather unstable, since it depends on the yield curve. To consolidate their profitability, credit institutions are therefore trying to develop other types of activity.

Stock market dealings are one of these possible means of diversification. Moreover, two legal provisions which came into force in 1996 gave the banks easier access to this market, which expanded rapidly during the year under review.

The implementation, with effect from 1st January 1996, of the law of 6th April 1995 relating to secondary markets and the status and supervision of investment firms and investment intermediaries and consultants has had the effect of giving the banks direct access to the stock markets. Also, as one of the various government measures aimed at promoting the provision of risk capital, the Royal Decree of 17th June 1996 raised the limits within which credit institutions may hold shares by way of investment. First, the limit for each holding was raised from 10 to 15 p.c.

of the equity of the credit institution, while the limit for all holdings combined was raised from 35 to 45 p.c. of the equity. Second, these limits no longer apply to all holdings but now concern only qualified holdings, which are essentially defined as a direct or indirect stake of at least 10 p.c. in the capital of the company in which the credit institution holds shares.

The departmenting of the activities of the financial intermediaries is not a one-way process. Stockbroking firms are adopting a similar approach in seeking to perform certain functions traditionally reserved for banks. This trend has now been facilitated by the creation of a new category of credit institutions, security banks, by the law of 20th March 1996. These new banks can manage their customers' deposits in a more flexible manner than the stockbroking firms, since they are exempt from the obligation to separate assets held on their own account from those held for third parties. The creation of this new status has caused the supervisory authorities to amend, for both security banks and other banks, the provisions relating to shares held not as an investment but with a view to resale. From now on, the whole of this trading portfolio is not subject to any limits, whereas previously this applied only to securities acquired outside the stock exchange with a view to resale within one year.

While subject to all the provisions of the Banking Act of 22nd March 1993, the security banks have a transitional period up to 31st December 2000 in which they can gradually bring their capital up to the level of the minimum required for other banks, namely Fr. 250 million. In 1996 the Banking and Financial Commission granted one stockbroking firm security bank status, while two stockbroking firms applied directly for approval as banks and were granted that approval.

The organisation of secure and efficient payment systems is another major activity of credit institutions. The way in

which this activity is carried out changed radically following the introduction of a new interbank gross real-time settlement system intended for the payment of large sums, ELLIPS (Electronic Large Value Interbank Payment System), alongside the current clearing system, the CTEC (Clearing Transactions Exchange Centre of the Belgian Financial System).

The operational launch of ELLIPS took place on 24th September 1996. This system deals immediately, one by one, with all transactions in excess of Fr. 50 million and can also be used for certain smaller transactions. Its operation is made possible by intraday loans granted by the Bank to participants. These loans are granted free of charge but must be guaranteed by some of the securities which the participants hold in the security settlement system run by the Bank. Payments handled by ELLIPS represent around 3,500 transactions per day, corresponding to 93 p.c. of the total amounts to be settled. The remaining 7 p.c., consisting of several million transactions per day, are nearly all handled by the CTEC, as manual settlement is gradually being phased out.

ELLIPS achieves three objectives. It provides better control over the risks of the payment system, it improves the efficiency of that system and ultimately it will enable Belgium to join the European TARGET network. This network, intended to connect the real-time gross settlement systems established in the various EU countries, will be the channel through which the monetary policy of the future ESCB will be executed.

The modernisation of the payment system is not the only adjustment which the banking system has to make with a view to the introduction of the euro. Owing to the central position held by credit institutions in financial flows, the putting into circulation of the single currency will change many conditions governing the activity of these institutions. The specific role of the banks was also explicitly recognised

in the guidelines of the national financial centre scheme drawn up by representatives of general government, the financial authorities and the banking community. This document, approved by the Council of Ministers on 2nd August 1996, stipulates that from 1999 onwards transactions via the interbank payment systems will all be carried out in euros. Customers' payments in paper money may be made in francs or in euros, regardless of the currency in which their accounts are denominated. To settle these cash payments, the banks will make the necessary conversions from francs to euros and vice versa free of charge for the customer. The same free service applies to the conversion of balances in customers' accounts from francs to euros. This will be made at the customer's request during the transitional phase or by 1st January 2002 at the latest.

Institutional investors

Credit institutions are not the only bodies acting as intermediaries on the Belgian financial markets. In recent years a growing proportion of this function has been performed by institutional investors.

These institutions gather funds from a large number of savers, mainly individuals, and invest them collectively on the financial markets. The centralised management of large amounts enables them to enjoy economies of scale and pursue precise objectives in terms of risk, yield and maturity. Institutional investors traditionally comprise insurance companies, pension funds and collective investment undertakings.

In comparison with other countries such as the United States, the United Kingdom or the Netherlands, the activity of institutional investors is still modest in Belgium. The discrepancy is particularly large as regards pension funds and life insurance. For one thing, the Belgian statutory pension arrangements are based exclusively on a distribution system, whereas in the Netherlands, for example, civil service pen-

sions are funded by a capitalisation system. Furthermore, Belgium has a shorter tradition of supplementary pension schemes, which are therefore proportionately less developed.

The portfolios held by institutional investors on behalf of their customers nevertheless totalled nearly Fr. 4,000 billion at the end of 1995. Almost half of this sum was held by collective investment undertakings and around one third by the life branches of insurance companies.

The growth in the institutional investors' portfolio during the recent past was based mainly on the expansion of the collective investment undertakings, though this development was not uniform. The success of these undertakings in 1992 and 1993 was not sustained in the next two years, for two main reasons. First, the tax on stock exchange transactions applied to SICAV units was increased in July 1993 and then again in January 1994. Second, the sharp increase in long-term interest rates in 1994 caused a large fall in the inventory value of the units of these undertakings. This last development led to a decline in the popularity of this type of asset, especially as, for tax reasons, most of these undertakings operating in Belgium adopted the capitalisation system whereby the income earned by investors all takes the form of capital gains. There appears to have been some subsequent delay before individuals again showed an interest in collective investment undertakings, which is why these institutions did not really resume their progress until 1996.

While the capitalisation system may accentuate the sensitivity to interest-rate variations of investments in the units of these undertakings, it also contributes to the growth of the volumes managed, since it ensures the automatic reinvestment of interest income and dividends. This same factor also operates for the pension funds and the life branches of insurance companies which also use the capitalisation system. Furthermore, the advance of this last

TABLE 33 — LIABILITIES OF INSTITUTIONAL INVESTORS OPERATING ON THE BELGIAN MARKET

(Changes in billions of francs)

	1992	1993	1994	1995	First nine months		Outstanding amount at the end of December
					1995	1996 e	1995
Collective investment undertakings ¹	272	537	67	8	...	167	1,904
Pension funds	14	14	10	13 ²	} 189 e	169	301
Insurance companies : life branches ³	69	83	114	210			
Insurance companies : other branches	26	24	11	24			
Total ⁴	376	652	198	248	184	332	3,911

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

¹ Including collective investment undertakings governed by foreign law and operating in Belgium.

² Figure adjusted for the influence of the creation of the Belgacom pension fund.

³ Including insurance certificates issued by the Luxembourg subsidiaries of Belgian institutions.

⁴ Excluding double counting resulting from investments made by pension funds and insurance companies with collective investment undertakings.

category of institutional investors was stimulated by the success recently enjoyed by insurance certificates, particularly those issued by Luxembourg subsidiaries of Belgian financial institutions.

The technical reserves of other branches of insurance companies showed much more uniform progress, because they are determined by relatively stable parameters. These reserves are composed on the one hand of the fraction of the premiums paid in during a given year which relates to the subsequent year and on the other hand of provisions formed to cover claims which have already arisen but have not yet been paid.

The expansion of the activity of the institutional investors was accompanied by a change in the structure of their portfolio. The proportion of assets in foreign currencies went up from 13 p.c. in 1985 to 25 p.c. in 1995, this increase having been at the expense of assets in francs at over one year, the proportion of which fell from 17 to 12 p.c. in the case of shares and from 61 to 51 p.c. for other assets over the same period. This growth occurred

mainly towards the end of the 1980s, when individuals began to use the collective investment undertakings on a large scale in order to achieve greater currency diversification in their portfolios, in a context where the stability of the franc was not yet entirely certain. Once the franc was pegged to the mark in 1990, which had the effect of strengthening the credibility of the Belgian currency, there was hardly any further increase in the proportion of foreign currencies in the portfolios of the collective investment undertakings.

These institutions also helped to diversify the options for investing in francs. For instance, the closed-ended investment companies investing in real estate, or SICAFIs, which appeared in 1995, make it possible to invest small amounts in the property market. In 1996 a new category of collective investment undertakings was created for the purpose of carrying out securitisation transactions.

The technique of securitisation has already been in use for a number of years in the United States, where it arouses a great deal of interest from banks wishing

TABLE 34 — PORTFOLIO STRUCTURE OF INSTITUTIONAL INVESTORS*(End-of-year percentages)*

	1985	1990	1995
Assets in francs	87	77	75
At up to one year	9	16	12
At over one year	61	48	51
Shares ¹	17	13	12
Assets in foreign currencies	13	23	25
At up to one year	1	3	4
At over one year	6	17	16
Shares	5	3	6
Total	100	100	100

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

¹ Including real estate certificates.

to reduce their need for equity capital by removing some of their loans from the balance sheet. In Belgium the procedures for this type of transaction were defined by the law of 5th August 1992 amending, in respect of claim investment undertakings, the law of 4th December 1990 on financial transactions and financial markets. Under this law, which was supplemented by the implementing Royal Decrees of 29th November 1993 and 7th April 1995, credit institutions are allowed to transfer securitised lendings to an institution specially designed for that purpose, the claim investment undertaking.

Two institutions of this type were created at the beginning of 1996. The first served to securitise loans guaranteed by the Flemish region and granted to the Domus Flandria company to finance the construction of subsidised housing. The second was used to securitise loans for financing purchases of motor vehicles.

The diversification of the portfolios has remained at a less advanced stage for the other categories of institutional investors. Thus, insurance companies and pension

funds invest a large proportion of their assets in public debt securities. This proportion has increased of late and at the end of 1995 exceeded 50 p.c. for insurance companies. This shows that the long-standing obligation on these companies to hold a minimum of 15 p.c. of their technical reserves in government or similar securities has not imposed any constraints on their management. While insurance companies have been exempt from this obligation since the Royal Decree of 12th August 1994 amending the law of 9th July 1975 on the supervision of insurance companies, this exemption does not yet apply to pension funds. However, it is planned to bring them in line with the regulations applying to insurance companies.

The combined effects of the strong growth of the institutional investors' portfolios and the increase in the proportion of public securities in those portfolios meant that the proportion of general government financing provided by these

TABLE 35 — SHARE OF THE PORTFOLIO OF INSTITUTIONAL INVESTORS INVESTED IN GOVERNMENT SECURITIES*(Percentages of the end-of-year outstanding amount of the portfolio)*

	1985	1990	1995
Collective investment undertakings ¹	11	14	28
Pension funds	27	32	43
Insurance companies : life branches ²	34	43	55
Insurance companies : other branches	48	49	50
Institutional investors as a whole ³	33	32	41
p.m. Share of institutional investors in the financing of the gross debt of general government	5	8	15

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

¹ Including collective investment undertakings governed by foreign law and operating in Belgium.

² Including insurance certificates issued by Luxembourg subsidiaries of Belgian institutions.

³ Excluding double counting resulting from investments made by pension funds and insurance companies with collective investment undertakings.

investors tripled in the space of ten years to reach 15 p.c. at the end of 1995.

Security market

During the first nine months of 1996 net security issues in francs by companies and general government totalled Fr. 664 billion, against Fr. 721 billion in 1995. This reduction was due to diminished activity by general government, as recourse to the capital market by companies stabilised.

The increase in the frequency of issuing of corporate fixed-interest securities, due essentially to the rise in the outstanding amount of commercial paper, was in fact offset by a reduction in share issues, which raised only Fr. 129 billion, as opposed to Fr. 151 billion a year earlier. However, these movements conceal a substantial drift between unlisted and listed shares, public share issues having totalled Fr. 43 billion during the first nine months of 1996, against Fr. 9 billion in 1995. As explained in the part of section 6.1 concerning companies, this increase was

stimulated by the rise in stock market prices, which made financing by share issues proportionately less expensive.

The rise in Belgian share prices was the result of a combination of various factors. The economic recovery helped to improve dividend prospects and hence to sustain price levels. The low interest rates encouraged investors to abandon fixed-interest securities in favour of shares. Finally, the progress made by the Brussels Stock Exchange reflected similar trends observed in most other European financial centres, especially Germany, while remaining well below the strong growth recorded by the New York Stock Exchange.

Over the year as a whole, issues of listed shares reached an even higher figure, in the wake of the flotation of the Dexia company, created through the alliance between the *Crédit Communal de Belgique* (Belgian Municipal Credit Institution) and the *Crédit Local de France* (French Local Credit Institution).

Various measures were moreover taken in 1996 to enhance the attractiveness of public share issues. On the tax front, a

TABLE 36 — NET ISSUES OF SECURITIES IN FRANCS BY COMPANIES AND GENERAL GOVERNMENT

(Billions of francs)

	1993	1994	1995	First nine months	
				1995	1996
Companies	256	215	240	145	153
Shares ¹	236	238	238	151	129
Listed shares	28	45	10	9	43
Unlisted shares	208	193	228	142	86
Fixed-interest securities	20	-23	2	-5	24
General government ²	84	333	595	576	511
Treasury certificates	-217	433	-357	190	228
Bonds	301	-100	952	386	282
Total	340	548	836	721	664

Sources : Banking and Financial Commission, NBB.

¹ Including shares issued by credit institutions, the exercise of warrants and issues of real estate certificates.

² Including commercial paper issued by the communities and regions and the social security system.

Royal Decree of 18th November 1996 abolished the annual tax of 0.042 p.c. on securities listed on the stock exchange with effect from 1st January 1997, though the same decree introduced a tax of 0.20 p.c. on the delivery of bearer securities.

A new stock market was also created, the EASDAQ (European Association of Securities Dealers Automated Quotation), which is the European equivalent of the American NASDAQ. The creation and organisation of this market, which is established in Brussels and has the legal form of a public limited liability company incorporated under Belgian law, formed the subject of a Royal Decree dated 30th June 1996. The operational launch of the EASDAQ, which is aimed at European companies with strong growth potential, took place in November; by the end of December, four companies had been granted listing on this market.

Another stock exchange market, Euro NM (Euro New Market) has the same general objectives as the EASDAQ. The out-

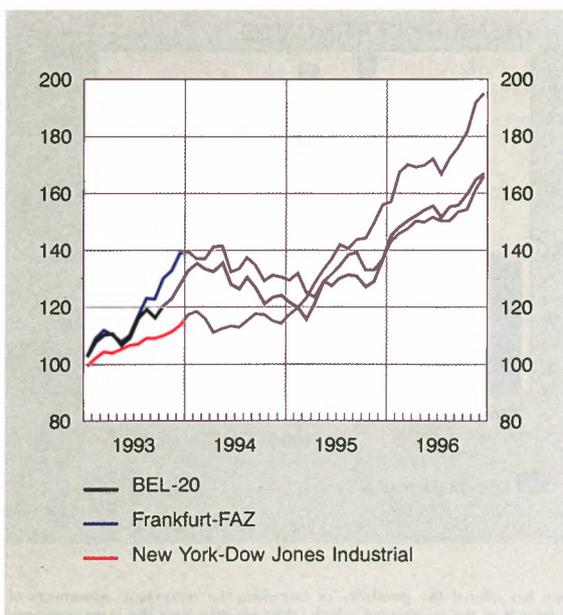
come of joint initiatives by Germany, France, the Netherlands and Belgium, Euro NM will be managed on a decentralised basis under the supervision of the various national market authorities, while being unified by the adoption of common procedures. The Belgian section of Euro NM, which forms an integral part of the Brussels security market, is to start operating in 1997.

The Belgian financial centre therefore now comprises five regulated markets, namely the Brussels and Antwerp stock exchanges, the secondary over-the-counter market in linear bonds, split securities and Treasury certificates, the Belgian futures and options market (Belfox) and the EASDAQ. The organisation of these markets formed the subject of around twenty Royal and Ministerial Decrees issued pursuant to the law of 6th April 1995 relating to secondary markets, the status and supervision of investment firms, and investment intermediaries and consultants. These implementing decrees concerned in particular the approval of the regulations of the five markets, the procedure for approving the prospectuses for the listing of financial instruments on the stock market, the procedures relating to declaration of transactions in securities, the terms on which transactions may be effected outside a regulated market, the occasional and periodic information obligations and the rules of the stock market companies intervention fund.

While the various measures mentioned above concern listed financial instruments, the Brussels Stock Exchange authorities also introduced a specific negotiating procedure to increase the liquidity of shares in unlisted companies. This was their objective in setting up, in December 1996, the MIM (Inter-professional Market), which will organise five meetings per year at which unlisted shares may be exchanged. The MIM will not be directly accessible to individual investors and is therefore not subject to the Royal Decree of 9th January 1991 on the public character of operations for soliciting savings and to their corres-

CHART 44 — STOCK EXCHANGE PRICES

(Indices December 1992 = 100)



Sources : National stock exchanges.

ponding supervision by the Banking and Financial Commission.

The main component of capital market issues in francs, general government borrowing, raised a net Fr. 511 billion during the first nine months of 1996, thus showing a reduction in relation to the high level recorded in the corresponding period of 1995. This movement was accompanied by a change in the term structure of new borrowings. The low level of interest rates at less than one year in fact encouraged general government to modify its policy of extending the maturity of the debt. On the primary market in public debt securities, the rate of issues therefore increased for Treasury certificates and declined for bonds.

On the secondary market, on the other hand, activity changed in the opposite direction. The average volume of bond transactions continued to rise owing to the growth in repurchase agreements relating

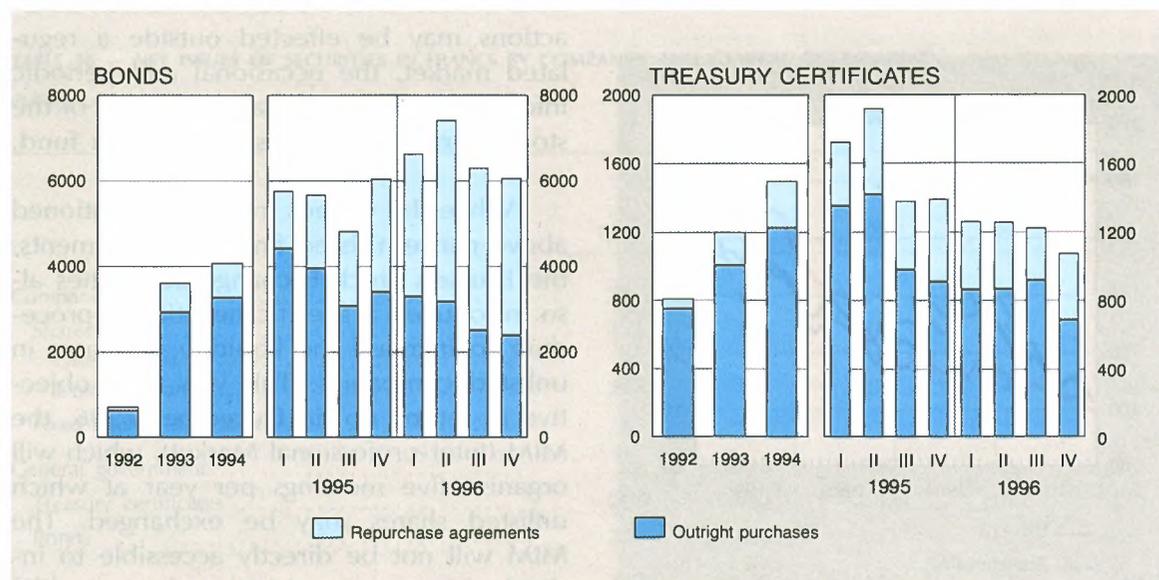
to this category of securities. Conversely, the volume of transactions in Treasury certificates declined during 1996. The great stability demonstrated by short-term rates for much of the year was the main reason for the quietness in this section of the market.

The conditions governing activity on the markets in linear bonds and Treasury certificates will be changed by the introduction of the euro on 1st January 1999. The national financial centre scheme already mentioned in the part of this section devoted to credit institutions in fact requires new issues of these categories of securities to be made in euros from the start of the third stage of the process of monetary union. In addition, existing lines of linear bonds will be converted to euros on that date.

The change will be phased for other public securities. Thus, traditional bonds intended for both households and profes-

CHART 45 — VOLUME OF TRANSACTIONS ON THE SECONDARY MARKET FOR DEMATERIALIZED SECURITIES OF THE TREASURY'S DEBT¹

(Monthly averages, billions of francs)



Source : NBB.

¹ Since 15th November 1995 the security clearing system administered by the Bank has offered the possibility of cancelling the repurchase agreements of customers whose security accounts are inadequately covered. As this reduces the amount of the transactions which, although they have the same economic purpose as repurchase agreements, were previously legally regarded as purchases and repurchases, the new regulations have brought about a change in the breakdown between repurchase agreements and outright transactions.

sionals will only gradually be issued in the European currency from 1st January 1999 onwards, so that individuals can gradually familiarise themselves with using the euro.

The same treatment will apply to new government notes, which are reserved exclusively for individuals. These securities, which were first issued in 1996, represent a substitute for the notes marketed by credit institutions. Following a restricted call for tenders organised in May, a consortium of 33 banks undertook to place Fr. 85 billion in four tendering sessions, in exchange for an average commission of 1.12 p.c. of the amounts placed.

The Treasury raised Fr. 45 billion in the course of the first three tendering sessions organised in June, September and December, issuing two types of notes. The first formula allows individuals to invest for a five-year term which may be extended to seven years, the rate of interest paid on issue remaining unchanged whatever

the maturity period of the note. The second formula is also based on a maximum investment period of seven years, but offers the holder the option of redemption at par, at intermediate due dates of three and five years. It is accompanied by an interest option, in that during each interim maturity period there is a guaranteed interest rate, which may be raised after three and five years if market rates increase.

During the period under review the Treasury did not make use of the third formula introduced by the Royal Decree of 10th June 1996 on the issuing of government notes. This decree in fact also provides the possibility of issuing five-year notes at interest rates which can be revised annually according to the movement of the rates for twelve-month Treasury certificates. When each annual coupon becomes due, the holders of these notes would have the option of exchanging them at par for government notes of one of the other two types offered for subscription on that date.

7. MONETARY AND EXCHANGE RATE POLICY

7.1 MAIN DEVELOPMENTS

In 1996 the central rates between the German mark, the French franc, the Dutch guilder, the Belgian franc and the Danish krone remained unchanged for the tenth year in succession. The last change in these central rates in fact dates back to 12th January 1987, and the subsequent realignments only affected the relations between this group of currencies and the other currencies participating in the exchange rate mechanism of the EMS. This stability is remarkable in comparison with the first years of operation of the exchange rate mechanism, which were marked by frequent realignments.

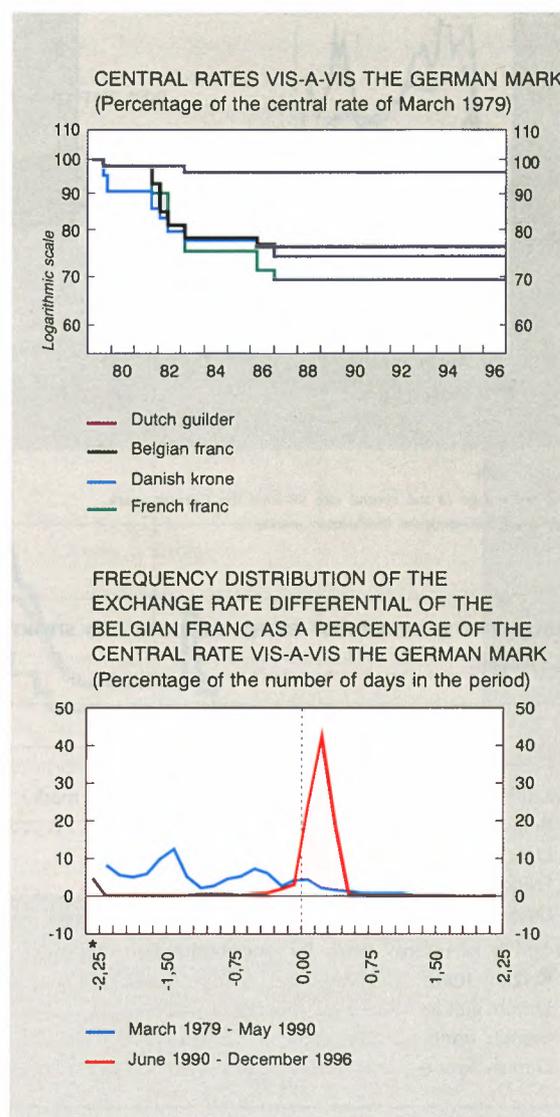
Even with fluctuation margins widened to 15 p.c., the central rates are still genuine reference rates for the five currencies in question, since, except during the turbulences of 1993, these margins were utilised solely, and only to a limited extent, by the French franc and the Danish krone when these currencies were under strain at the end of 1994 and the beginning of 1995.

The central rate has been a much more accurate reference in the case of the Belgian franc since the announcement of the new orientation of exchange rate policy in June 1990. Whereas, from March 1979 to May 1990, the franc had most of the time been at a discount in relation to the German mark, from June 1990 to December 1996 the closer anchoring of the former to the latter caused the exchange rate for the franc to lie, in 90 p.c. of the daily observations, between 0.30 p.c. below and 0.45 p.c. above its central rate vis-à-vis the German mark. The continuity of this policy, underpinned by the BLEU's good macroeconomic performance, enabled the interest rate differentials vis-à-vis Germany to be narrowed.

In 1996, the currencies whose central rates have remained unchanged since 1987,

to which must be added the Austrian schilling, came closer to each other. Thus the dwindling of the discounts recorded during the first quarter of 1995 on the French franc and the Danish krone continued, except for a brief setback during the summer. The Austrian schilling, the Dutch guilder and the Belgian franc, for their part, remained stable in relation to the German mark.

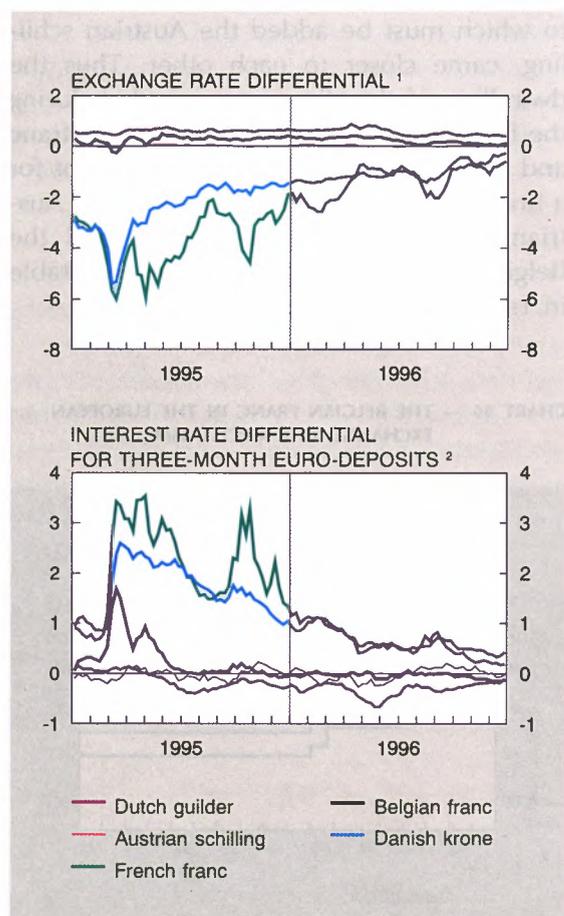
CHART 46 — THE BELGIAN FRANC IN THE EUROPEAN EXCHANGE RATE MECHANISM



Source : NBB.
* < -2.25.

CHART 47 — EXCHANGE RATE AND INTEREST RATE DIFFERENTIALS VIS-A-VIS THE GERMAN MARK

(Weekly averages)



Source : NBB.

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

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

In this serene context, the short-term interest rates of the countries in question also converged, the short-term interest rate differentials displayed by France and Denmark vis-à-vis Germany having decreased appreciably throughout the year. As for the other countries, including Belgium, their money market rates hardly deviated from the German rates, whose downward movement they followed. The rate for three-month Euro-deposits in Belgian francs thus declined from 3.8 p.c. in December 1995 to 3 p.c. in December 1996, as the Bank followed the reductions in rates decided upon by the Bundesbank. The occasional upward pressures on the Belgian franc were countered chiefly by purchases of foreign currencies on the foreign exchange market, as already mentioned in Chapter 5.

The fact that there were no tensions on the foreign exchange and money markets is also evident from an examination of the volatility of exchange rates and short-term interest rates. In the case of the Belgian franc, as in that of the Dutch guilder, the Danish krone and the French franc, the volatility was remarkably small on both markets in the year under review compared with the preceding years. The greater stability of exchange rates was therefore not achieved at the cost of greater volatility of interest rates, on the contrary. That is particularly true for

TABLE 37 — VOLATILITY OF EXCHANGE RATES AND SHORT-TERM INTEREST RATES

(Percentages)

	1991	1992	1993	1994	1995	1996
Volatility of exchange rates vis-à-vis the German mark ¹						
Belgian franc	0.04	0.04	0.33	0.09	0.07	0.02
Dutch guilder	0.01	0.03	0.04	0.03	0.02	0.03
French franc	0.08	0.13	0.25	0.10	0.33	0.12
Danish krone	0.08	0.31	0.41	0.12	0.20	0.04
Volatility of interest rates for one-month Euro-deposits ²						
Belgian franc	0.05	0.07	0.53	0.14	0.14	0.02
Dutch guilder	0.07	0.09	0.05	0.04	0.03	0.03
French franc	0.08	0.82	0.62	0.04	0.29	0.04
Danish krone	0.08	1.34	1.67	0.20	0.12	0.07

Source : NBB.

¹ Standard deviation of the daily changes in the exchange rate expressed in percentages.

² Standard deviation of the daily changes in the interest rate expressed in percentage points.

the Belgian franc, for which the exchange rate and one-month interest rate were less volatile than those of the other currencies in question.

7.2 USE OF THE INSTRUMENTS OF MONETARY POLICY

Interest rate policy

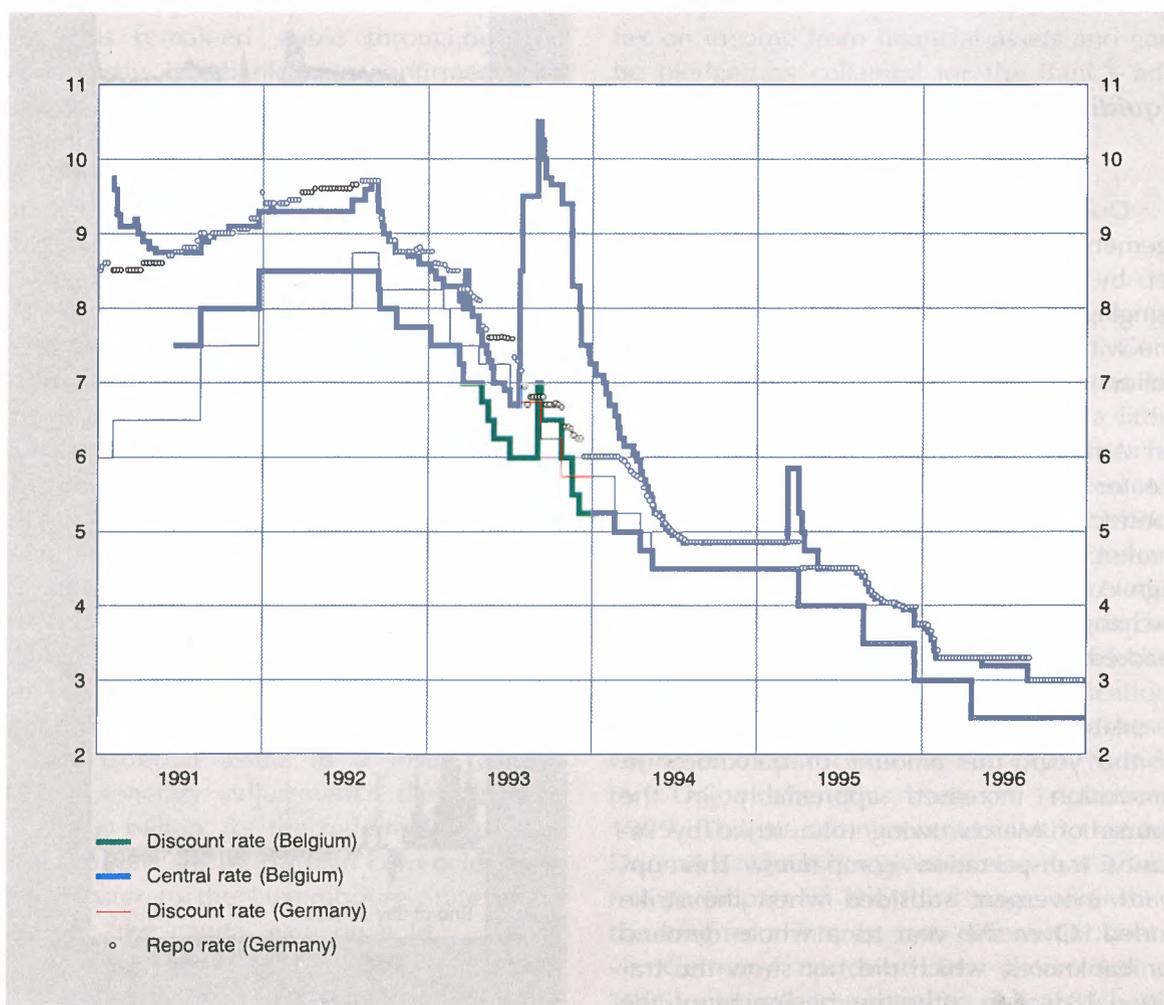
In 1996 the Bank continued to relax its interest rate policy, chiefly during the first half of the year. Thus, in January and at the beginning of February it lowered its

central rate in several stages, parallel with the Bundesbank's repo rate, reducing it from 3.75 p.c. at the end of December 1995 to 3.3 p.c. on 2nd February 1996.

On 14th May the Bank again lowered its central rate, by 10 basis points, independently of any similar lowering by the Bundesbank. This decision was taken in view of the strength of the Belgian franc on the foreign exchange markets, the downward trend of money market rates and the low level of the official rates in some other countries.

On 22nd August, in response to the significant reduction, by 30 basis points, of the

CHART 48 — GUIDELINE INTEREST RATES OF THE BUNDESBANK AND THE NBB



Source : NBB.

repo rate announced the same day by the Bundesbank, the Bank limited the movement of its central rate to 20 basis points, in order to bring it back to the level of the German central bank's repo rate, namely 3 p.c.

The Bank's other guideline rates were also lowered in 1996. The rate for current account advances within the credit lines and the RGI's rates for end-of-day surpluses exactly followed the movements of the central rate. Moreover, on 18th April, following the reduction of the Bundesbank's discount and Lombard rates, the Bank likewise reduced its discount rate by 50 basis points, to 2.5 p.c. It thus maintained the equality of the Belgian and German discount rates which has prevailed since 16th May 1994. On the same day it reduced the rate for current account advances above the ceiling, from 7 to 6 p.c.

Liquidity management

During the year under review the management of the liquidity of the money market by the Bank was generally aimed at bringing about small end-of-day surpluses in line with the process of relaxing interest rate policy.

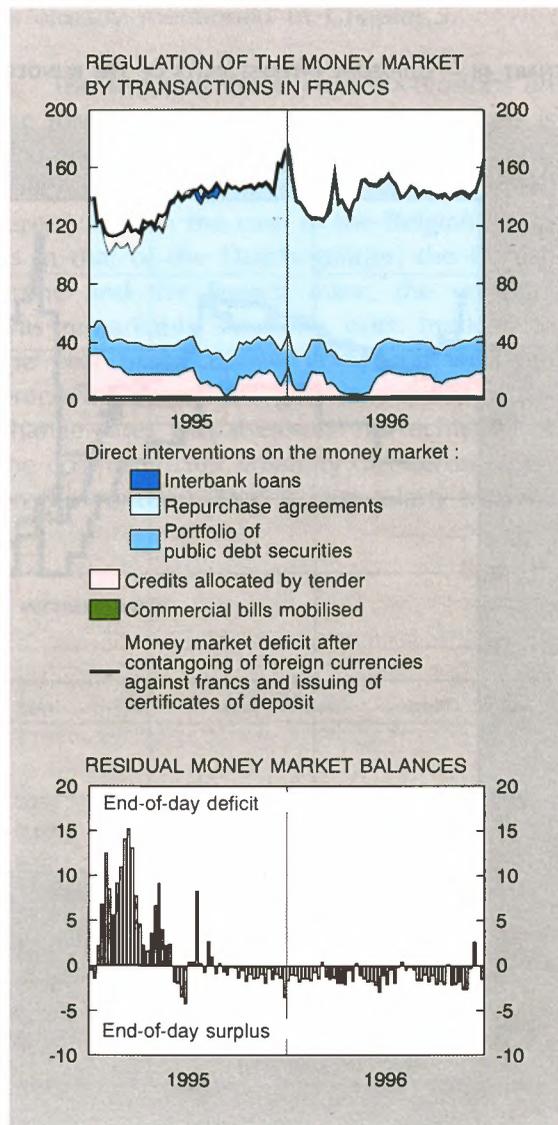
Among the autonomous factors, the greater demand for banknotes caused a contraction of the liquidity of the money market, while substantial purchases of foreign currencies by the Bank on the foreign exchange market exerted a much more marked expansionary influence.

After the seasonal fall at the beginning of the year, the amount of banknotes in circulation increased appreciably in the course of March owing to a strike by security transportation companies. This upward movement subsided when the strike ended. Over the year as a whole demand for banknotes, which did not show the traditional decline after the beginning of the summer holidays, increased considerably.

As during the two preceding years, the effect of the purchases of foreign currencies on the liquidity of the money market was sterilised by a partial redemption of the public foreign currency debt and by sales of foreign currencies against Belgian francs coupled with forward repurchase. The financial institutions as a whole thus continued to be obliged to resort to the Bank's short-term credits in francs, which represent the channel for its interest rate policy.

CHART 49 — MANAGEMENT OF THE LIQUIDITY OF THE MONEY MARKET

(Outstanding amounts in billions of francs, weekly averages)



Source : NBB.

In order to achieve the small surpluses which it aimed at, the Bank covered the money market's deficit which developed after these sterilisation operations. It therefore provided the credit institutions with liquidity by means of the many instruments at its disposal, headed by the daily repurchase agreements, the outstanding amount of which fluctuated in line with the money market's deficit.

The amount of the liquidity provided by means of the weekly allocations of credit by tenders was particularly small during the months of January, April and May. This phenomenon is solely due to the behaviour of the financial institutions, which, expecting a fall in very-short-term interest rates, reduced their tenders. The Bank, for its part, nearly always awarded the full amount of these tenders. As for the portfolio of public debt securities acquired on the secondary market, this remained stable throughout the year. Lastly, interbank loans confirmed their role as a means of providing very-short-term liquidity. They thus made it possible to achieve the desired surplus on the money market during the strike by security transportation firms.

By virtue of the Royal Decree of 18th October 1996, the amount on 1st July 1996 of the capital gain obtained through the arbitrage of assets in gold against foreign currencies, i.e. Fr. 236 billion, was paid to the Belgian State, in order to be assigned as follows : Fr. 3.6 billion for the establishment of provisions for the implementation of the State guarantee connected with the execution by the Bank of the payment agreements concluded with foreign States ; Fr. 1.5 billion for the taking over by the State of the recorded capital loss on the Bank's external assets as a result of the 1972 monetary adjustment ; the balance, Fr. 230.9 billion, for the redemption of part of the public debt in foreign currencies after the transfer to the Luxembourg State of its share in the capital gain on gold.

In this context the Bank reduced the outstanding amount of its forward assets in

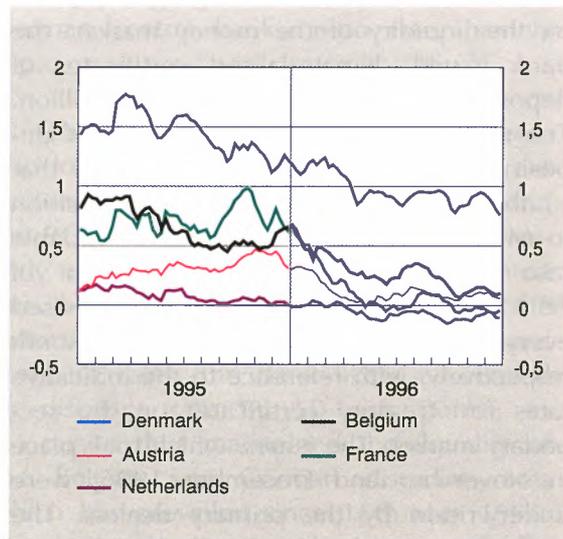
foreign currencies resulting from contracts which had been concluded against francs with financial institutions. In order to prevent the transaction from having any effect on the liquidity of the money market, the Bank issued dematerialised certificates of deposit to a total amount of Fr. 230 billion. The maturity date of the certificates of deposit was set at 31 December 1998, that is, the day before the expected transition to Monetary Union. Two series of variable rate certificates were issued, each of Fr. 115 billion ; their interest rate is revised every other month and every fourth month respectively, with reference to the indicative rates for Treasury certificates on the secondary market. The issues, which took place in November and December 1996, were underwritten by the primary dealers. The securities, recorded in the Bank's X/N settlement system, can be freely dealt in between persons exempt from the withholding tax on income from financial assets and can be pledged as collateral for the Bank's advances and repurchase agreements.

7.3 LONG-TERM INTEREST RATES

During the year under review, the long-term interest rate differential vis-à-vis Germany continued to decrease. Whereas in December 1995 it still amounted to a little over 60 basis points for the ten-year benchmark loans, the differential narrowed to about 10 basis points in December 1996. The same trend is observable in France. Bond yields in Belgium, France, the Netherlands and Austria are thus within a narrow range of about 20 basis points around the German long-term rates, a clear indication that the financial markets expect these countries to participate in European Monetary Union when this starts on 1st January 1999. This situation contrasts with that of Denmark, which has given notice that it will not participate in the third stage of EMU : the long-term interest rate differential vis-à-vis Germany narrowed less there during 1996, and still amounted to about 85 basis points in December.

CHART 50 — TEN-YEAR¹ INTEREST RATE DIFFERENTIALS
VIS-A-VIS GERMANY

(Monthly averages)



Source : BIS.

¹ Benchmark loans.

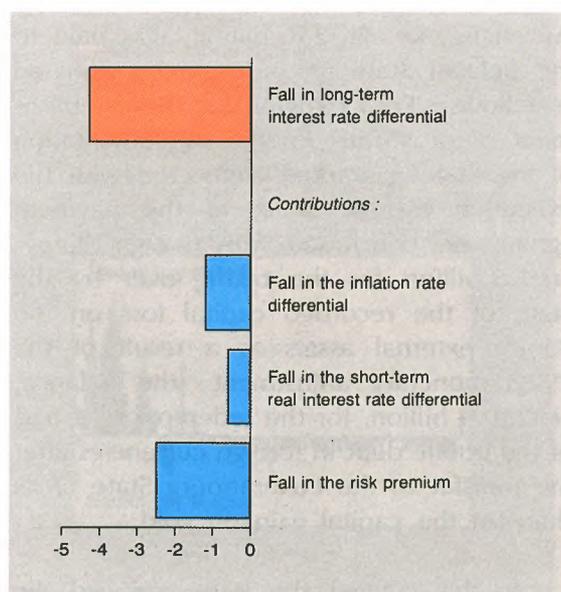
The reduction in the long-term interest rate differential between Belgium and Germany was however also supported by an appreciable improvement in the fundamentals, since the low level of this differential from the second quarter of 1996 onwards tallies with a simulation based on an econometric equation estimated by means of data covering the period 1980 to mid-1995, which can only indirectly take account of the effect of the expectations concerning European monetary unification. According to this equation, four-tenths of the narrowing of 4.3 percentage points in the long-term interest rate differential since 1982 is attributable to the fall (of 2.9 percentage points) in the inflation difference in relation to Germany and to that (of 2.2 percentage points) in the short-term real interest rate differential vis-à-vis that country, the balance being due to the reduction in the risk premium connected with the public deficit and the state of the current account of the balance of payments. The last two variables in fact influence the perception, by financial operators, of the extent of the risk which they run by holding Belgian general government bonds in francs. They explain six-

tenths of the reduction in the long-term interest rate differential during the period in question, irrespective of whether they are measured in terms of Belgium's absolute performance or of differentials vis-à-vis Germany.

As a result of the fall in the German rates but above all of the narrowing of the differential in relation to these, long-term interest rates reached low levels in 1996, in both nominal and real terms. The nominal rate fell back to a level comparable to that of the first half of the 1960s. The « real » rate is less easy to determine. In principle it can be obtained by deducting the expected inflation from the nominal rate. As the former cannot be observed, chart 52 shows both a « conventional » real rate, i.e. the nominal rate corrected to take account of current inflation, and a real « ex post » rate, calculated on the basis of inflation in the following years. While the latter measures the real transfers, whether anticipated or not, which have taken place

CHART 51 — FACTORS DETERMINING THE FALL IN THE
LONG-TERM INTEREST RATE DIFFERENTIAL
BETWEEN BELGIUM AND GERMANY FROM
1982 TO 1996

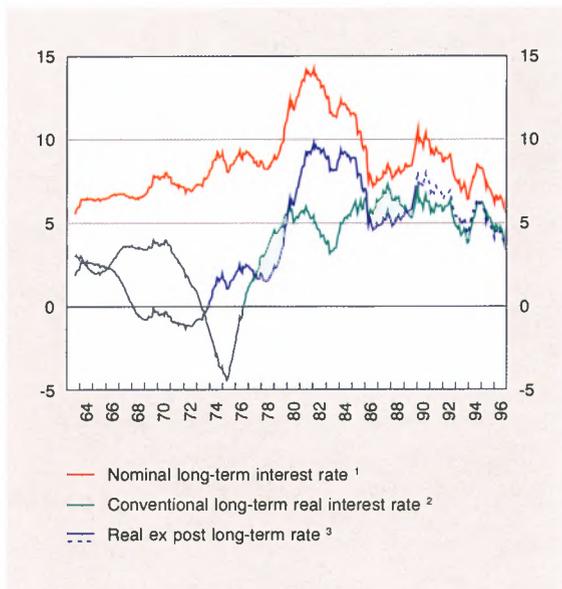
(Percentage points)



Source : NBB.

CHART 52 — LONG-TERM INTEREST RATES

(End-of-month data)



Source : NBB.

¹ Rate on public-sector loans at over five years.

² Rate on public-sector loans at over five years, less the percentage rate of change of the index (smoothed by means of a Hodrick-Prescott filter) of consumer prices during the last twelve months.

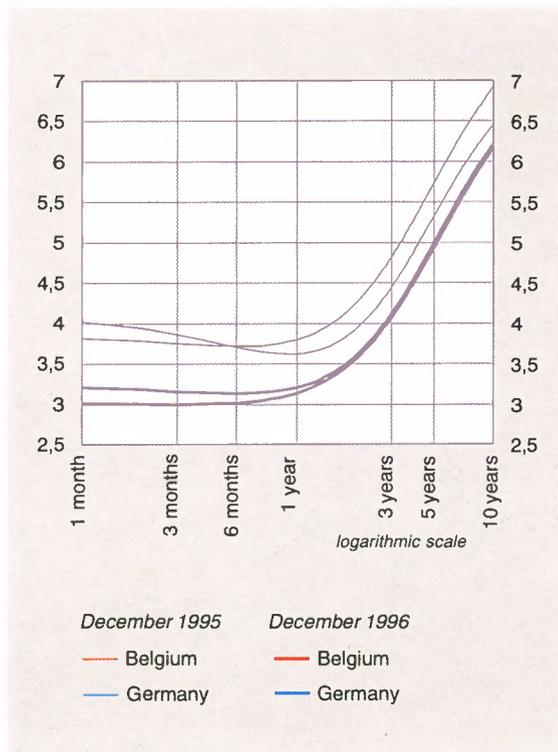
³ Rate on public-sector loans at over five years, less the rate of change of the index (smoothed by means of a Hodrick-Prescott filter) of consumer prices during the following seven years. From January 1990 onwards, rate calculated on the assumption that the inflation rate will be 2 p.c. from January 1997 onwards (dotted line).

between debtors and creditors, neither gives a true picture of the real « ex ante » rate.

If, during the coming years, inflation remains close to 2 p.c., the real « ex post » interest rate on long-term public loans can be expected to amount at the end of 1996 to a little under 4 p.c., a level which has not been reached since the end of the 1970s. During the years 1979 to 1981 real interest rates in the industrialised world had climbed under the influence of the tightening of monetary policy in the United States followed by the combination of a restrictive monetary policy and an expansionary budgetary policy in that country. Furthermore, the rise had been greater in Belgium than in Germany. Subsequently, the controlling of inflation during the 1980s and, more recently, the progressive reduction of budget deficits at world level, together with the

CHART 53 — YIELD CURVES IN BELGIUM AND GERMANY¹

(Monthly averages)



Source : NBB.

¹ Continuous spot yield curves calculated on the basis of the interest rates for Euro-deposit at up to one year and those for interest rate swaps for over one year.

gradual erosion of the long-term interest rate differential between Belgium and Germany, led to a downward trend of the real « ex post » long-term interest rate. This trend was interrupted twice : in 1989-1990 following the reunification of Germany and in 1994 at the time of the strains on the bond markets connected with the fear of a resurgence of inflation in the United States.

From December 1995 to December 1996 the yield curve slid downwards by about 75 basis points. The positive differentials in relation to the German yield curve have completely disappeared if reference is made, for the medium and long term, to the rates of interest rate swaps, the relative level of which is less influenced by credit-risk and liquidity considerations than that of bond yields.

Statistical Annex

TABLE I — SUMMARY OF MACROECONOMIC DEVELOPMENTS IN SOME EU COUNTRIES

	Belgium		Germany		France		Italy		United Kingdom		Spain		Netherlands	
	1995	1996 e	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
Expenditure at constant prices	<i>(Percentage contributions to the change in GDP)</i>													
Private consumption	0.8 ¹	0.8 ¹	1.0	1.0	1.1	1.5	1.0	0.3	1.3	1.8	1.0	1.3	1.2	1.7
Public expenditure	-0.1	0.2	0.3	0.3	0.1	0.2	-0.1	0.1	...	-0.3	0.1	-0.6	0.1	0.2
Private investment	0.7	0.5	0.5	-0.3	0.6	0.2	1.0	0.2	0.2	1.0	1.9	1.2	1.2	0.6
of which formation of non-residential fixed capital	0.6	0.5	0.2	-0.1	0.4	0.1	1.1	0.1	0.2	1.1	1.6	1.0	1.1	0.5
Total domestic expenditure	1.6 ¹	1.3 ¹	2.1	0.8	2.1	0.9	2.2	0.5	1.5	2.6	3.2	2.2	2.1	2.4
Exports	4.2	3.8	1.5	1.0	1.7	0.7	2.7	-0.1	2.0	1.8	2.3	2.2	4.0	2.6
Imports	3.8	3.8	1.6	0.6	1.5	0.3	1.9	-0.5	1.1	2.1	2.7	2.3	3.9	2.4
Foreign balance	0.4	...	-0.1	0.3	0.2	0.4	0.7	0.4	0.9	-0.3	-0.4	-0.1	0.1	0.3
GDP	1.9	1.4	1.9	1.1	2.2	1.3	3.0	0.8	2.4	2.4	2.8	2.1	2.1	2.7
Inflation	<i>(Percentage changes compared with the previous year)</i>													
Consumer price index	1.5	2.1	1.8	1.5	1.7	2.0	5.2	3.9	3.4	2.4	4.7	3.6	1.9	2.1
Unemployment²	<i>(Percentages of the labour force)</i>													
Number of unemployed (EC data)	9.9	9.7	8.3	9.0	11.6	12.3	11.9	12.0	8.7	8.2	22.9	22.3	7.0	6.6
Public finance	<i>(Percentages of GDP)</i>													
Net financing requirement (-) of general government	-4.1	-3.4	-3.5	-4.0	-4.8	-4.0	-7.1	-6.6	-5.8	-4.6	-6.6	-4.4	-4.0	-2.6
Balance of payments	<i>(Percentages of GDP)</i>													
Balance of current transactions	4.5	4.5	-0.7	-0.7	1.1	1.3	2.5	3.5	-0.4	-0.1	0.2	0.1	4.4	4.4

Sources : NAI, MEA, NBB for Belgium; OECD and EC for other countries.

¹ Data excluding statistical adjustments.

² Average for 11 months, except for Belgium : 12 months, Italy : 7 months, Netherlands : 10 months.

TABLE II — GNP AND MAIN CATEGORIES OF EXPENDITURE AT 1990 PRICES

(Percentage changes compared with the previous year)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 e
Private consumption ¹	2.9	3.3	3.2	3.7	2.5	2.4	-1.3	1.3	1.3	1.3
Public expenditure	-0.2	-0.1	-4.0	-0.6	2.7	0.7	2.0	2.2	-0.4	1.0
Public consumption	0.3	-0.9	-1.1	-0.4	2.2	0.1	1.4	1.4	1.0	1.2
Public investment	-4.4	6.8	-28.7	-2.9	8.1	7.8	7.8	9.3	-12.9	-0.9
Housing	6.2	22.7	19.2	17.5	-10.4	6.5	3.5	5.5	3.3	...
Gross fixed capital formation by enterprises	7.4	14.8	15.3	11.5	-4.1	-0.6	-9.7	-3.2	5.1	4.0
p.m. Total gross fixed capital formation ^{1,2}	5.6	15.7	11.6	12.0	-5.0	1.8	-5.0	0.3	3.0	2.4
Change in stocks ^{1,3}	0.8	0.2	-0.3	-0.2	0.1	0.1	-0.2	0.3	0.1	-0.1
Total domestic expenditure	3.8	4.9	3.7	4.5	1.0	2.0	-1.8	1.4	1.6	1.4
Exports of goods and services	6.1	8.5	7.5	3.8	3.1	3.6	1.8	9.2	⁴	4.4
Total final expenditure	4.7	6.4	5.3	4.2	1.9	2.7	-0.2	4.9	⁴	2.8
Imports of goods and services	8.5	8.1	9.1	3.8	2.8	4.0	1.8	8.3	⁴	4.6
p.m. Net exports of goods and services ³	-1.2	0.6	-0.8	0.1	0.3	-0.2	0.1	0.9	0.4	...
GDP before statistical adjustments	2.4	5.3	2.8	4.5	1.3	1.8	-1.7	2.3	2.0	1.4
Statistical adjustments ³	-0.3	-0.4	0.6	-0.8	0.3	-0.1	0.3	...	-0.1	0.1
GDP	2.1	4.9	3.4	3.7	1.6	1.7	-1.4	2.3	1.9	1.4
Net factor incomes ³	0.2	...	0.3	-0.6	0.6	-0.2	1.0	0.1	0.3	0.1
GNP	2.4	5.0	3.8	3.1	2.2	1.5	-0.3	2.4	2.2	1.5

Sources : NAI, NBB.

¹ Data excluding statistical adjustments. The latter are shown as a separate item.² Public investment, housing and gross fixed capital formation by enterprises.³ Contribution to the change in GNP.⁴ Owing to breaks in the gross flows of exports and imports between 1994 and 1995, caused by the introduction of a new data-collection system in the compilation of the balance of payments and by the application of the recommendations of the fifth edition of the IMF's Balance of Payments Manual, the percentage change in 1995 is of little significance.

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

(Percentage changes compared with the previous year)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 e
Private consumption ¹	1.6	1.6	3.1	3.4	3.3	2.6	2.9	2.7	1.5	2.1
Public expenditure	0.3	1.1	4.1	4.2	5.0	3.7	4.3	2.9	2.9	1.3
Public consumption	0.3	1.0	4.1	4.3	5.3	3.7	4.6	3.0	2.9	1.3
Public investment	-0.5	2.3	4.8	2.4	1.5	3.5	1.7	3.0	2.1	1.5
Housing	5.5	2.3	5.0	3.1	1.7	4.3	2.5	3.0	2.1	0.5
Gross fixed capital formation by enterprises .....	...	1.9	4.1	2.7	2.3	2.3	1.3	1.6	1.6	1.5
p.m. Total gross fixed capital formation ^{1 2}	1.1	2.0	4.3	2.8	2.1	2.9	1.7	2.2	1.8	1.2
Total domestic expenditure	1.2	1.5	3.5	3.4	3.4	2.8	2.9	2.6	1.7	1.8
Exports of goods and services	-3.5	2.9	6.9	-1.5	-0.5	-1.0	-1.2	0.3	-0.1	1.9
Total final expenditure	-0.8	2.1	5.0	1.2	1.7	1.2	1.1	1.4	0.8	1.7
Imports of goods and services	-4.3	2.6	6.3	-1.1	-0.6	-2.7	-2.6	0.9	0.5	1.9
p.m. Terms of trade	(0.9)	(0.3)	(0.5)	(-0.4)	(...)	(1.8)	(1.4)	(-0.6)	(-0.5)	(...)
GDP before statistical adjustments	1.6	1.8	4.0	2.9	3.3	4.0	3.7	2.2	1.3	1.8
GDP = GNP	2.2	1.8	4.6	2.9	3.1	3.6	3.8	2.5	1.4	1.8

Sources : NAI, NBB.

¹ Data excluding statistical adjustments. The latter are shown as a separate item.

² Public investment, housing and gross fixed capital formation by enterprises.

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

(Billions of francs)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 e
Private consumption ¹	3,401	3,568	3,794	4,069	4,310	4,529	4,600	4,785	4,918	5,084
Public expenditure	948	958	957	991	1,068	1,115	1,186	1,247	1,278	1,307
Public consumption	852	853	879	913	982	1,019	1,081	1,129	1,173	1,202
Public investment	96	105	78	78	86	95	105	118	105	105
Housing	184	230	288	349	318	354	375	408	430	432
Gross fixed capital formation by enterprises	557	652	783	897	881	896	819	807	861	908
p.m. Total gross fixed capital formation ^{1,2}	837	988	1,150	1,324	1,284	1,345	1,299	1,332	1,396	1,446
Change in stocks ¹	11	24	11	-1	4	10	-4	17	25	19
Total domestic expenditure	5,100	5,433	5,834	6,305	6,580	6,903	6,976	7,264	7,511	7,751
Exports of goods and services	3,609	4,029	4,630	4,733	4,855	4,980	5,012	5,491	5,764	6,133
Total final expenditure	8,709	9,462	10,464	11,038	11,435	11,884	11,988	12,755	13,275	13,884
Imports of goods and services	3,456	3,830	4,442	4,559	4,658	4,713	4,674	5,108	5,377	5,731
p.m. Net exports of goods and services	153	198	188	175	196	267	338	383	387	402
GDP before statistical adjustments	5,254	5,631	6,022	6,480	6,776	7,171	7,314	7,647	7,898	8,153
Statistical adjustments	2	-18	49	-5	4	-28	3	31	38	44
GDP	5,256	5,613	6,072	6,475	6,780	7,143	7,317	7,678	7,936	8,197
Net factor incomes	-49	-50	-35	-72	-35	-52	22	28	53	63
GNP	5,207	5,563	6,036	6,403	6,745	7,091	7,339	7,706	7,989	8,260

Sources : NAI, NBB.

¹ Data excluding statistical adjustments. The latter are shown as a separate item.² Public investment, housing and gross fixed capital formation by enterprises.

TABLE V — VALUE ADDED OF THE VARIOUS BRANCHES OF ACTIVITY AT 1990 PRICES

(Percentage changes compared with the previous year)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 e	p.m. Percentages of 1995 GDP
Agriculture, forestry and fisheries	-6.3	5.4	1.6	-2.8	6.0	10.1	4.9	-6.3	2.7	-0.9	2.1
Industry	0.4	5.1	5.6	2.3	0.1	-0.4	-2.9	4.3	3.3	1.8	24.5
Mineral-extracting industry	15.2	0.9	8.2	8.9	-0.2	13.8	-14.5	12.9	10.8	-0.6	0.3
Electricity, gas, water	6.3	5.6	0.7	3.3	4.3	0.6	-0.1	1.4	4.6	4.0	2.7
Manufacturing industry ¹	-0.3	5.0	6.2	2.1	-0.4	-0.7	-3.1	4.5	3.1	1.6	21.6
of which :											
Non-metallic minerals	6.5	15.6	8.9	-0.7	-6.7	9.6	0.3	4.4	4.0	n.	1.0
Wood and furniture	2.6	5.4	8.2	3.3	1.5	-6.1	-4.7	0.1	2.8	n.	0.9
Iron and steel	2.3	11.1	-0.8	-0.3	-0.9	-8.7	-4.7	6.7	2.9	n.	1.0
Non-ferrous metals	-3.0	11.0	6.9	3.0	-7.8	-1.7	-4.6	9.4	11.1	n.	0.6
Metal-working industry	-7.9	2.6	8.1	3.0	-3.4	-4.0	-5.6	5.5	0.2	n.	6.1
Paper, printing, publishing	9.0	13.6	8.6	2.2	-2.7	0.9	4.5	4.5	0.6	n.	1.4
Chemicals and rubber	6.1	7.0	5.0	1.2	3.7	5.1	-3.8	7.6	6.7	n.	3.8
Textiles, clothing and footwear	4.2	-1.5	13.5	6.6	-3.3	2.0	...	0.9	-5.4	n.	1.4
Food, beverages, tobacco	0.6	1.2	4.3	-1.5	3.5	-1.0	-0.4	2.5	4.4	n.	4.1
Building industry	1.3	12.5	5.3	8.9	0.5	4.2	-2.5	1.3	0.6	...	5.2
Market services ²	3.5	4.7	4.0	2.2	3.4	2.1	0.3	1.9	2.0	2.2	52.4
of which :											
Wholesale and retail trade	-0.5	1.0	-1.2	2.6	3.8	0.6	1.7	-1.4	-0.3	n.	9.9
Distribution of petroleum products	2.1	4.0	-3.3	0.9	4.9	3.4	0.1	3.1	1.1	n.	2.5
Financial services	13.6	6.1	5.0	-8.2	5.5	5.0	9.1	1.1	4.3	n.	4.8
Rents	2.2	2.5	2.5	2.5	2.5	1.6	1.7	1.7	1.7	n.	6.7
Transport and communications	3.8	8.0	5.9	6.4	3.3	1.2	-1.1	3.4	2.2	n.	7.9
Other services to enterprises	4.1	10.5	14.8	4.4	2.3	4.6	-0.8	2.2	4.4	n.	5.9
Medical professions	3.0	6.5	7.5	4.9	0.9	3.8	-2.8	-1.4	1.2	n.	2.6
Hotels and catering and various services to households	5.9	5.6	5.4	3.3	1.6	-0.1	-1.5	3.5	2.4	n.	7.8
Non-market services	-0.4	-0.1	0.8	0.7	1.8	2.2	1.2	2.1	1.1	0.7	11.9
GDP before statistical adjustments ³	1.8	4.6	4.1	2.8	1.9	1.6	-1.0	2.3	1.9	1.5	
Statistical adjustments ⁴	0.3	0.3	-0.6	0.8	-0.3	0.1	-0.3	...	...	-0.1	
GDP after statistical adjustments ³	2.1	4.9	3.4	3.7	1.6	1.7	-1.4	2.3	1.9	1.4	100.0

Sources : NAI, NBB.

¹ Gargas 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)

	1987	1988	1989	1990	1991	1992	1993	1994	1995 e	1996 e
1. Demand for employment (net labour force) ¹										
1.1 Population of working age ²	6,677	6,678	6,674	6,674	6,675	6,682	6,694	6,703	6,704	6,703
Men	3,355	3,357	3,357	3,358	3,360	3,365	3,372	3,378	3,377	3,376
Women	3,323	3,322	3,318	3,316	3,315	3,316	3,321	3,325	3,326	3,327
1.2 Gross labour force ³	4,349	4,376	4,417	4,477	4,510	4,533	4,544	4,536	4,544	4,557
Men	2,619	2,611	2,624	2,636	2,640	2,633	2,627	2,608	2,592	2,581
Women	1,730	1,765	1,793	1,842	1,871	1,899	1,917	1,928	1,952	1,975
1.3 Beneficiaries of early or temporary withdrawal schemes ^{4,5}	234	250	273	298	300	295	272	255	247	267
Men	180	186	192	195	193	189	185	179	172	180
Women	54	64	81	103	107	106	87	76	75	86
1.4 Net labour force (1.2 - 1.3) ⁶	4,115	4,126	4,144	4,179	4,210	4,237	4,273	4,280	4,297	4,290
Men	2,439	2,425	2,432	2,440	2,447	2,444	2,442	2,429	2,420	2,401
Women	1,676	1,701	1,712	1,739	1,763	1,793	1,830	1,852	1,877	1,889
p.m. Net activity rate (1.4 as percentage of 1.1)	(61.6)	(61.8)	(62.1)	(62.6)	(63.1)	(63.4)	(63.8)	(63.9)	(64.1)	(64.0)
Men	(72.7)	(72.2)	(72.5)	(72.7)	(72.8)	(72.6)	(72.4)	(71.9)	(71.6)	(71.1)
Women	(50.5)	(51.2)	(51.6)	(52.4)	(53.2)	(54.1)	(55.1)	(55.7)	(56.4)	(56.8)
2. Supply of employment (employment)										
2.1 Enterprises	2,942	2,997	3,056	3,103	3,119	3,105	3,069	3,046	3,066	3,069
Employees	2,295	2,342	2,391	2,428	2,435	2,420	2,370	2,351	2,365	2,363
Self-employed persons	647	655	666	675	684	685	699	695	701	706
2.2 General government ⁷	659	657	655	661	650	648	644	631	627	627
Traditional jobs	578	574	570	577	570	563	560	547	543	543
Special programmes	81	83	85	85	81	85	84	84	84	84
2.3 Frontier workers (balance)	49	49	48	50	50	48	48	50	49	49
2.4 Grand total	3,649	3,702	3,760	3,815	3,819	3,802	3,761	3,726	3,742	3,745
Men	2,248	2,256	2,283	2,298	2,288	2,263	2,225	2,189	2,182	2,168
Women	1,401	1,446	1,478	1,517	1,531	1,538	1,536	1,537	1,560	1,577
3. Unemployment (1.4 - 2.4) ⁵	466	424	384	365	391	436	511	554	555	545
3.1 Men	191	170	149	143	159	181	217	239	238	233
3.2 Women	275	255	235	222	232	255	294	315	317	312

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

¹ Asylum-seekers have no longer been included in the population registers since 31st December 1995. This methodological change introduces a break in the series of the population of working age calculated as at 30th June, because these series result from the average of the official or estimated data as at 31st December of the year in question and of the previous year. The statistical adjustment resulting from this break in the series, which led to a decrease in the population of working age of some 5,000 units as at 30th June 1995 and 10,000 units as at 30th June 1996, was uniformly distributed over the age groups from 25 to 39 years, in the absence of information concerning the characteristics of the population of asylum-seekers. This change is fully reflected in the activity rate, which therefore increased, in 1995 and in 1996, by 0.064 percentage point of change for men and by 0.033 point for women, or, for the total, by 0.05 point of change.

² Men and women aged 15 to 64.

³ Persons holding a job, unemployed job-seekers and beneficiaries of early or temporary withdrawal schemes.

⁴ Persons who have retired early, older unemployed persons not seeking employment, persons who have completely interrupted their occupational careers and persons who have interrupted unemployment for social or family reasons.

⁵ The conditions of access to the scheme for older unemployed persons not seeking employment, introduced under the Royal Decree of 29th December 1994, were relaxed from 1st January 1996 in implementation of the multiannual plan for employment. This change led in 1996 to a substantial increase in this category of unemployed persons and introduced a series break both in the statistics on beneficiaries of the early or temporary retirement programmes, which include them, and in the unemployment statistics, which exclude them.

⁶ Persons holding a job and unemployed job-seekers.

⁷ Persons employed in government departments, teaching, the armed forces including persons doing national service, and persons given employment under special job-creation schemes : unemployed persons given work by general government, special temporary staff, third labour circuit, subsidised persons under contract, PRIME employment programme (regional projects for insertion in the labour market) of the Walloon region and unemployed persons given full-time work in replacement of career interruptions.

TABLE VII — CONSUMER PRICES

(Percentage changes compared with the previous year)

	Overall index	Health index	Underlying inflation ¹	Energy products	Food products	Other goods	Services	Rents
1988	1.2	—	1.9	-3.4	...	2.5	1.5	3.6
1989	3.1	—	2.7	6.5	3.1	2.5	2.6	3.7
1990	3.5	—	2.9	6.8	3.7	2.6	3.2	3.2
1991	3.2	—	3.3	2.6	2.0	3.0	4.4	3.0
1992	2.4	—	3.2	-1.1	-0.1	2.4	4.2	5.9
1993	2.8	—	2.9	3.6	-0.8	2.8	3.8	5.3
1994	2.4	—	2.4	0.9	1.8	2.4	2.6	4.6
1995	1.5	1.6	1.6	-0.6	1.2	1.3	2.0	2.9
1996	2.1	1.7	1.7	6.1	0.6	1.2	2.3	2.5

Sources : MEA, NBB.

¹ Inflation after exclusion of the influence of energy products, potatoes and fruit and vegetables.

TABLE VIII — INCOMES OF THE VARIOUS SECTORS AT CURRENT PRICES

(Billions of francs)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 e
Individuals¹										
Primary income	4,460	4,672	5,077	5,447	5,861	6,208	6,422	6,583	6,722	6,801
Wages and salaries	2,892	2,988	3,180	3,420	3,691	3,886	3,982	4,096	4,216	4,272
Income from one-man businesses	603	650	721	751	779	803	819	856	872	907
Income from property	965	1,034	1,177	1,276	1,391	1,520	1,621	1,631	1,634	1,622
Net current transfers ²	-503	-514	-471	-583	-558	-595	-598	-700	-727	-717
From and to (-) general government ²	-488	-500	-455	-544	-523	-558	-553	-637	-666	-655
Transfers received	1,324	1,362	1,448	1,529	1,663	1,772	1,848	1,913	1,984	2,059
Social benefits	1,039	1,056	1,107	1,174	1,279	1,366	1,419	1,455	1,502	1,564
Other transfers	285	306	340	355	385	407	429	458	483	494
Transfers paid	1,812	1,862	1,902	2,072	2,186	2,331	2,402	2,550	2,650	2,714
Social contributions	837	871	920	988	1,069	1,141	1,185	1,212	1,244	1,265
Direct taxes	844	853	846	938	958	1,020	1,029	1,143	1,197	1,224
Other transfers ²	131	138	136	147	160	169	188	195	209	224
To (-) other sectors ²	-15	-14	-17	-40	-36	-37	-44	-63	-61	-63
Disposable income	3,957	4,158	4,606	4,864	5,302	5,613	5,824	5,884	5,995	6,083
p.m. At constant prices (percentage changes compared with the previous year) ³	(2.2)	(3.8)	(7.4)	(2.0)	(5.6)	(3.3)	(1.0)	(-1.3)	(0.4)	(-0.6)
Companies¹										
Primary income	743	837	952	918	853	881	912	1,018	1,126	1,229
Current transfers to (-) other sectors ²	-127	-139	-147	-126	-133	-136	-157	-185	-215	-224
Disposable income	616	697	805	792	720	745	755	833	911	1,005
General government¹										
Primary income	-6	14	44	15	29	-4	30	103	139	227
Current transfers from (+) other sectors ²	585	592	558	651	640	658	670	785	863	852
Disposable income	579	606	602	666	668	654	699	887	1,002	1,079
Rest of the world										
Disposable income	46	61	60	58	52	74	85	101	79	90
GNP before statistical adjustments	5,198	5,523	6,073	6,379	6,742	7,086	7,364	7,704	7,987	8,258
Statistical adjustments	9	40	-37	24	3	5	-25	2	2	2
GNP after statistical adjustments	5,207	5,563	6,036	6,403	6,745	7,091	7,339	7,706	7,989	8,260

Sources : NAI, NBB.

¹ Including depreciation, but excluding the statistical adjustments whereby the three national accounts approaches are reconciled.² These are net amounts, i.e. the difference between transfers received from other sectors and transfers paid to other sectors.³ Data deflated by the consumer price index.

TABLE IX — SUMMARY OF THE TRANSACTIONS OF THE MAJOR SECTORS OF THE ECONOMY AT CURRENT PRICES

(Billions of francs)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 e
1. Individuals										
1.1 Disposable income	3,957	4,158	4,606	4,864	5,302	5,613	5,824	5,884	5,995	6,083
1.2 Change in mathematical retirement pension reserves	9	13	15	13	15	11	15	18	19	19
1.3 Consumption	3,401	3,568	3,794	4,069	4,310	4,529	4,600	4,785	4,918	5,084
1.4 Gross saving (1.1 + 1.2 - 1.3)	566	603	827	808	1,007	1,094	1,240	1,116	1,096	1,018
p.m. Percentage of disposable income	14.3	14.5	18.0	16.6	19.0	19.5	21.3	19.0	18.3	16.7
1.5 Capital transfers ¹	-1	2	-1	-6	-8	-5	-6	-8	-6	-7
1.6 Gross capital formation	254	312	374	439	397	439	458	493	516	523
1.7 Net financing capacity (1.4 + 1.5 - 1.6)	311	293	453	363	602	651	775	615	574	488
2. Companies										
2.1 Disposable income	616	697	805	792	720	745	755	833	911	1,005
2.2 Change in mathematical retirement pension reserves	-9	-13	-15	-13	-15	-11	-15	-18	-19	-19
2.3 Gross saving (2.1 + 2.2)	607	685	790	779	705	734	740	815	892	986
2.4 Capital transfers ¹	27	31	25	31	38	41	51	30	49	49
2.5 Gross capital formation	498	595	709	807	805	821	732	738	801	836
2.6 Net financing requirement (-) or capacity (2.3 + 2.4 - 2.5)	135	121	105	4	-63	-45	59	107	140	199
3. General government										
3.1 Disposable income	579	606	602	666	668	654	699	887	1,002	1,079
3.2 Consumption	852	853	879	913	982	1,019	1,081	1,129	1,173	1,202
3.3 Gross saving (3.1 - 3.2)	-273	-247	-277	-247	-314	-366	-382	-242	-170	-123
3.4 Capital transfers ¹	-35	-43	-34	-39	-43	-51	-59	-34	-53	-53
3.5 Gross capital formation	96	105	78	78	86	95	105	118	105	105
3.6 Net financing requirement (-) (3.3 + 3.4 - 3.5)	-403	-394	-389	-365	-442	-512	-546	-394	-328	-281
4. Statistical adjustments	6	59	-86	29	-1	33	-28	-29	-35	-42
5. Total of domestic sectors										
5.1 Net financing requirement (-) or capacity (1.7 + 2.6 + 3.6 + 4)	49	78	83	31	97	127	260	299	350	365

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. The exceptional payment made by the Belgacom company to its pension fund, when that fund was created in 1995, was not recorded among the capital transfers of the companies sector to the individuals sector, in order to facilitate the interpretation of the movements since 1994.

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

(Billions of francs)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 e
Revenue	2,554	2,634	2,763	2,965	3,115	3,281	3,407	3,674	3,773	3,908
Fiscal and parafiscal revenue	2,451	2,538	2,658	2,852	2,995	3,162	3,284	3,541	3,660	3,772
Retentions weighing chiefly on earned incomes	1,487	1,531	1,581	1,708	1,819	1,967	2,027	2,143	2,206	2,265
Taxes payable by natural persons ¹	684	695	696	759	791	869	889	970	1,001	1,033
Social security contributions ²	802	836	884	949	1,028	1,098	1,138	1,173	1,205	1,233
Taxes on profits of companies ³	126	136	151	137	138	125	152	182	214	227
Retentions on other income and in respect of property ⁴ ...	212	218	222	253	243	233	223	262	278	267
Taxes on goods and services	627	653	705	754	796	837	881	954	961	1,013
Non-fiscal and non-parafiscal revenue	102	96	105	113	119	118	123	133	114	136
Expenditure excluding interest charges	2,399	2,460	2,523	2,643	2,864	3,021	3,162	3,294	3,379	3,484
Current transfers to individuals	1,324	1,362	1,448	1,529	1,663	1,772	1,848	1,913	1,984	2,059
Pensions	472	492	515	545	589	623	659	686	722	746
Private sector pensions	353	364	380	403	433	459	480	497	516	533
Civil service pensions	119	128	135	142	156	165	179	190	207	214
Early retirement pensions	43	48	49	54	56	59	58	58	60	60
Old persons' guaranteed income	9	9	9	9	10	10	10	10	9	9
Unemployment benefits	129	124	122	125	143	152	170	174	169	175
Career interruptions	—	3	4	5	5	6	7	6	5	6
Sickness and disability insurance benefits	80	80	84	89	95	97	98	98	100	103
Health care	258	262	282	307	347	384	396	408	431	465
Family allowances	126	128	134	136	141	147	152	155	159	161
Other	208	218	248	258	277	294	299	319	328	333
Other primary expenditure	1,075	1,097	1,075	1,115	1,201	1,249	1,314	1,382	1,395	1,425
Compensations	513	510	539	567	609	642	680	718	743	753
Net current purchases of goods and services	185	180	168	164	175	169	175	174	178	188
Subsidies to enterprises	131	145	135	145	153	153	150	155	164	171
Current transfers to the rest of the world	91	98	98	99	114	114	118	130	122	121
Gross fixed capital formation	96	105	78	78	86	95	105	118	105	105
Other capital expenditure	59	60	56	61	65	75	87	88	84	85
Net amount excluding interest charges	155	174	241	321	250	260	245	380	394	424
Interest charges	558	568	629	686	692	772	790	774	723	703
Net financing requirement (—)	—403	—394	—389	—365	—442	—512	—546	—394	—328	—279

Sources : NAI, NBB.

¹ Withholding tax on earned income, advance payments, additional centimes on the tax on natural persons.² Including the special social security contribution.³ Advance payments, assessments and withholding tax on income from financial assets.⁴ Mainly withholding tax on income from financial assets payable by individuals (including additional centimes), death duties and registration fees.

TABLE XI — EXPENDITURE OF GENERAL GOVERNMENT

(Percentages of GDP)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 e
Expenditure excluding interest charges	45.6	43.8	41.5	40.8	42.2	42.3	43.2	42.9	42.6	42.5
Current transfers to individuals	25.2	24.3	23.8	23.6	24.5	24.8	25.3	24.9	25.0	25.1
Replacement incomes ¹	14.7	14.1	13.6	13.4	13.9	13.9	14.3	14.1	14.1	14.0
of which : Pensions, early retirement pensions and guaranteed income of old people	10.0	9.7	9.4	9.3	9.6	9.6	9.9	9.7	9.9	9.9
Unemployment benefits and career interruptions	2.5	2.3	2.1	2.0	2.2	2.2	2.4	2.3	2.2	2.2
Sickness and disability insurance benefits	1.5	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3
Other transfers to individuals ²	10.5	10.1	10.3	10.2	10.7	11.0	11.0	10.9	10.9	11.1
of which : Health care	4.9	4.7	4.6	4.7	5.1	5.4	5.4	5.3	5.4	5.7
Family allowances	2.4	2.3	2.2	2.1	2.1	2.1	2.1	2.0	2.0	2.0
Other primary expenditure	20.5	19.6	17.7	17.2	17.7	17.5	18.0	18.0	17.6	17.4
Compensations	9.8	9.1	8.9	8.8	9.0	9.0	9.3	9.4	9.4	9.2
Net current purchases of goods and services	3.5	3.2	2.8	2.5	2.6	2.4	2.4	2.3	2.2	2.3
Subsidies to enterprises	2.5	2.6	2.2	2.2	2.3	2.1	2.1	2.0	2.1	2.1
Current transfers to the rest of the world	1.7	1.7	1.6	1.5	1.7	1.6	1.6	1.7	1.5	1.5
Gross fixed capital formation	1.8	1.9	1.3	1.2	1.3	1.3	1.4	1.5	1.3	1.3
Other capital expenditure	1.1	1.1	0.9	0.9	1.0	1.1	1.2	1.1	1.1	1.0
Interest charges	10.6	10.1	10.4	10.6	10.2	10.8	10.8	10.1	9.1	8.6
Total expenditures	56.3	54.0	51.9	51.4	52.5	53.1	54.0	53.0	51.7	51.0

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 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)
1987	–397	—	—	–12	6	–403	—	—
1988	–413	—	—	–28	46	–394	—	—
1989	–433	–448	15	–3	47	–389	–401	12
1990	–399	–369	–30	4	30	–365	–338	–26
1991	–436	–378	–58	14	–19	–442	–397	–45
1992	–504	–436	–68	8	–16	–512	–452	–60
1993	–505	–459	–47	–21	–19	–546	–478	–68
1994	–416	–363	–53	–13	36	–394	–327	–67
1995	–368	–317	–51	19	21	–328	–297	–32
1996 e	–297	–247	–50	12	7	–279	–240	–39

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)	
1987	29	-82	220	346	—	484	513	111	—	402
1988	19	-21	25	468	—	473	492	87	—	405
1989	68	-40	251	219	82	430	498	69	—	429
1990	-22	-30	122	413	273	506	484	85	—	399
1991	-13	-107	86	622	935	600	587	136	124	451
1992	-113	...	-10	700	963	689	577	61	26	516
1993	449	...	-224	452	1,122	227	676	128	117	548
1994	-152	—	493	-33	791	461	309	-96	-117	405
1995	-262	—	-352	889	658	536	275	-34	-141	308
First nine months										
1995	-231	—	228	379	554	607	376	-11	-48	387
1996	-113	—	252	305	305	557	443	-12	42	455

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 institutions.

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 official debt of the Treasury				Grand total	Gross consolidated debt of general government ¹
	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)
1987	1,046	1,626	3,201	4,827	5,873	6,848
1988	1,087	1,660	3,615	5,275	6,362	7,330
1989	1,131	1,830	3,827	5,657	6,788	7,749
1990	1,112	1,926	4,187	6,113	7,225	8,235
1991	1,107	1,912	4,732	6,644	7,751	8,746
1992	1,010	1,923	5,355	7,278	8,289	9,309
1993	1,520	1,702	5,852	7,553	9,073	10,009
1994	1,349	2,190	5,796	7,986	9,336	10,348
1995	1,085	1,738	6,706	8,444	9,530	10,597
1996	734	1,873	6,999	8,872	9,606	10,654 e

Source : NBB.

¹ Concept used for the implementation of the convergence criteria defined in the Treaty of Maastricht.

TABLE XV — CURRENT TRANSACTIONS ON A TRANSACTIONS BASIS

(Billions of francs)

	1995						1996 First nine months					
	BLEU			Belgium ¹			BLEU			Belgium ¹		
	Credits	Debits	Balances	Credits	Debits	Balances	Credits	Debits	Balances	Credits	Debits	Balances
Goods and services	5,640	5,268	372	5,346	5,001	344	4,444	4,155	289	4,201	3,935	266
Goods	4,551	4,250	301	4,447	4,100	347	3,571	3,336	235	3,491	3,221	270
General merchandise	4,407	4,195	212	4,316	4,059	257	3,451	3,282	169	3,380	3,181	200
Commission processing	99	22	77	99	19	80	84	22	62	83	17	67
Repairs to goods	7	8	-1	7	7	...	6	8	-2	6	7	-1
Purchases of goods in ports	19	12	7	19	11	8	19	15	4	19	15	4
Non-monetary gold	18	13	5	6	3	2	11	9	1	3	2	1
Services	1,089	1,018	71	899	902	-3	873	819	54	709	714	-4
Transport	289	225	64	282	219	64	211	171	40	205	164	41
Travel	184	272	-88	152	254	-103	155	241	-86	128	224	-95
Communications	21	10	11	11	8	3	21	9	12	11	8	3
Building	20	22	-2	18	19	-1	16	16	...	15	14	1
Insurance	24	24	...	16	23	-7	19	18	1	12	14	-2
Financial services	141	94	47	48	47	...	114	75	39	36	36	-1
Data-processing and information services	19	15	4	19	14	5	16	13	3	16	12	4
Fees and licence dues	18	35	-17	17	33	-17	15	29	-13	14	27	-13
Other services to enterprises	312	280	32	278	253	25	252	216	36	224	193	31
of which merchanting (net)	—	—	-6	—	—	-7	—	—	16	—	—	12
Personal, cultural and leisure services	10	22	-12	8	11	-4	10	15	-6	6	6	...
Services provided or received by general government, not included elsewhere	51	18	33	49	18	31	44	16	28	43	16	27
Incomes	2,156	1,956	200	1,115	994	121	1,464	1,300	164	755	661	93
Compensation of employees	135	77	58	135	32	103	105	59	46	104	25	79
Income from direct and portfolio investment	2,021	1,879	142	980	962	18	1,360	1,241	118	651	636	14
Current transfers	226	355	-129	196	316	-119	158	267	-109	135	234	-99
General government	96	194	-98	82	176	-95	53	137	-85	42	123	-81
Other sectors	130	161	-31	115	139	-25	105	129	-24	93	111	-18
Total current transactions on a transactions basis	8,022	7,579	443	6,657	6,311	346	6,066	5,721	345	5,091	4,831	260

Source : NBB.

¹ Belgium's transactions comprise transactions with third countries as well as those with Luxembourg. The difference between the balances of the BLEU and those of Belgium therefore correspond, apart from any statistical deviations, to Luxembourg's balances both vis-à-vis third countries and vis-à-vis Belgium. This reasoning is not applicable, however, to the gross flows, since, while the bilateral balances between Belgium and Luxembourg are equal except for the sign, this is not the case for the flows, as the credits of the one are equal to the debits of the other, and vice versa.

TABLE XVI — INDICATIVE EXCHANGE RATES

(Quotations in Belgian francs, annual averages)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
German mark	20.78	20.94	20.96	20.68	20.59	20.59	20.90	20.61	20.58	20.58
French franc	6.21	6.17	6.18	6.14	6.06	6.07	6.10	6.02	5.91	6.05
Dutch guilder	18.44	18.60	18.58	18.35	18.27	18.28	18.60	18.37	18.37	18.37
Pound sterling	61.11	65.37	64.55	59.47	60.23	56.64	51.90	51.15	46.56	48.35
US dollar	37.34	36.81	39.43	33.41	34.18	32.12	34.57	33.43	29.51	30.96
Italian lira (100)	2.88	2.83	2.87	2.79	2.75	2.62	2.20	2.07	1.81	2.01
Yen (100)	25.85	28.70	28.63	23.14	25.40	25.36	31.24	32.70	31.48	28.47
Peseta (100)	30.28	31.57	33.27	32.79	32.87	31.46	27.22	24.96	23.66	24.45
Swedish krona	5.89	6.00	6.11	5.64	5.65	5.53	4.44	4.33	4.14	4.62
Swiss franc	25.06	25.14	24.11	24.09	23.83	22.89	23.41	24.46	24.95	25.08
Austrian schilling	2.95	2.98	2.98	2.94	2.93	2.93	2.97	2.93	2.92	2.93
Irish punt	55.50	55.99	55.85	55.26	54.99	54.67	50.62	49.98	47.29	49.56
Danish krone	5.46	5.46	5.39	5.40	5.34	5.33	5.33	5.26	5.26	5.34
Finnish markka	8.50	8.78	9.18	8.73	8.45	7.19	6.05	6.41	6.75	6.74
Canadian dollar	28.17	29.95	33.30	28.63	29.84	26.60	26.79	24.50	21.50	22.70
Escudo (100)	26.49	25.52	25.02	23.44	23.64	23.81	21.53	20.14	19.66	20.07
Norwegian krone	5.54	5.64	5.71	5.34	5.27	5.17	4.87	4.74	4.65	4.79
Australian dollar	—	—	—	—	26.61	23.62	23.48	24.45	21.89	24.24
Greek drachma (100) ¹	—	25.94	24.29	21.11	18.76	16.87	15.07	13.78	12.73	12.86
New Zealand dollar	—	—	—	—	19.76	17.28	18.72	19.83	19.35	21.29
Ecu	43.03	43.42	43.35	42.50	42.26	41.54	40.40	39.55	38.12	38.77
p.m. Effective exchange rate for the Belgian franc ² (1985 = 100)	(108.1)	(106.6)	(105.8)	(110.9)	(110.6)	(112.8)	(113.6)	(115.5)	(120.1)	(117.9)

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, Mexico, Hungary, Poland and the Czech Republic, as competitors of resident producers of manufactured goods on all markets combined.

TABLE XVII — INVESTMENT AND FINANCING CHANNELS OF THE BELGIAN ECONOMY

(Billions of francs)

	1993					1994					1995				
	Individuals	Companies ¹	General government	Rest of the world	Total	Individuals	Companies ¹	General government	Rest of the world	Total	Individuals	Companies ¹	General government	Rest of the world	Total
Formation of financial assets	959	501	128	705	2,293	1,024	209	-96	863	1,999	875	374	-34	1,385	2,600
With Belgian credit institutions ²	657	156	35	30	878	474	86	-70	758	1,248	201	73	-124	1,037	1,187
With institutional investors operating on the Belgian market ³ e	646	22	-16	...	652	183	8	8	...	198	232	11	5	...	247
In the form of securities in francs acquired direct from the final borrowers	-66	-25	60	284	253	-39	22	-46	227	163	80	-1	57	218	354
Via other channels ⁴	-278	348	49	391	510	407	93	11	-122	390	362	292	28	131	812
New financial liabilities	128	525	676	964	2,293	226	303	309	1,162	1,999	95	495	275	1,736	2,600
With Belgian institutions ²	97	-39	286	535	878	193	56	541	458	1,248	72	75	133	907	1,187
With institutional investors operating on the Belgian market ³ e	24	191	123	315	652	29	31	34	104	198	22	56	215	-46	247
In the form of securities in francs acquired direct from the final borrowers .....	...	200	13	40	253	...	188	-159	133	163	...	184	-34	204	354
Via other channels ⁴	8	173	255	75	510	3	28	-108	467	390	1	180	-40	671	812
Financial balances ⁵	831	-23	-548	-260		798	-94	-405	-299		779	-121	-308	-350	

Source : NBB.

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

² Including the NBB, the Securities Regulation Fund, the Monetary Fund, the RGI and the Postal Cheque Office.

³ Units of collective investment undertakings and insurance bonds marketed in Belgium and technical reserves of Belgian insurance companies and pension funds.

⁴ Securities denominated in foreign currencies and claims and debts other than in the form of securities resulting from direct financing transactions between domestic sectors or with the rest of the world.

⁵ The net financial balance of individuals according to the financial accounts does not correspond to that sector's financing capacity as derived from the real accounts, owing to the differences between the dates of recording of the transactions in these two accounts, statistical adjustments or errors and omissions. Thus, for instance, the financial accounts cannot, for lack of data, record most non-financial claims and debts between individuals and companies resulting from transactions in goods and services.

TABLE XVIII — FORMATION OF FINANCIAL ASSETS BY AND NEW FINANCIAL LIABILITIES OF INDIVIDUALS

(Billions of francs)

	1993	1994	1995	First nine months		p.m. Outstanding amount at the end of 1995
				1995	1996 e	
Formation of financial assets	959	1024	875	693	850	20,012
p.m. Via institutional investors operating on the Belgian market ¹	(646)	(183)	(232)	(166)	(315)	(3,699)
In francs ²	621	639	481	271	500	16,731
At up to one year	435	-147	-145	-170	96	5,853
Notes and sight deposits	99	14	18	26	35	1,045
Savings deposits	37	446	403	216	305	2,767
Time deposits	24	-175	-356	-277	-193	1,682
Securities	275	-432	-210	-134	-51	360
At over one year	117	627	566	333	229	10,408
Time deposits	14	41	70	62	19	234
Fixed-interest securities	119	553	477	257	198	6,471
Shares	-15	33	20	14	12	3,703
Other assets in francs ³	69	159	60	109	175	470
In foreign currencies	338	385	394	422	350	3,280
New financial liabilities	128	226	95	50	172	3,176
At up to one year	-29	5	-6	-23	-3	267
At over one year	157	220	102	72	175	2,909
of which : Mortgage loans	148	171	103	65	126	1,866
Fixed-term advances	-8	38	8	6	23	515
Consumer credits	2	3	-4	6	17	291
Financial balances ⁴	831	798	779	643	679	16,836

Source : NBB.

¹ Units of collective investment undertakings and insurance certificates marketed in Belgium, and technical reserves of Belgian insurance companies and pension funds. The financial assets formed via these institutional investors are distributed among the other headings of the table according to their final destination.

² Belgian and Luxembourg francs.

³ Claims derived from direct financing operations between domestic sectors other than in the form of securities and assets whose maturity is not known.

⁴ See note 5 to Table XVII.

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

(Billions of francs)

	1993	1994	1995	First nine months		p.m. Outstanding amount at the end of 1995
				1995	1996 e	
Formation of financial assets ²	501	209	374	336	427	10,481
In francs	306	264	306	225	471	8,349
At up to one year	246	144	21	70	323	2,165
Notes, coins and sight deposits	18	-1	55	31	51	484
Other deposits	215	-28	-41	-50	136	1,139
Other	12	173	7	89	135	542
At over one year	60	121	285	155	149	6,184
Shares	...	107	103	23	-45	4,453
Other	60	13	182	132	193	1,731
In foreign currencies	224	-49	84	118	-88	2,016
Other ³	-29	-6	-16	-7	44	116
New financial liabilities	525	303	495	364	389	15,984
In francs	445	341	310	174	197	14,775
At up to one year	12	78	65	24	109	1,414
Commercial paper	15	36	22	19	38	115
To credit institutions	-59	43	36	4	94	881
To other sectors	56	-1	8	1	-23	417
At over one year	433	263	245	150	88	13,361
Shares	232	231	231	146	128	9,834
Other	201	33	14	4	-40	3,527
In foreign currencies	80	-38	185	190	191	1,209
Financial balances ⁴	-23	-94	-121	-28	38	-5,504

Source : NBB.

¹ See note 1 to Table XVII.

² Investments made via insurance companies, pension funds and collective investment undertakings have been broken down between the different headings of the table according to their final destination.

³ Assets whose breakdown by term or by currency is not known.

⁴ See note 5 to Table XVII.

TABLE XX — BALANCE SHEET STRUCTURE OF BELGIAN CREDIT INSTITUTIONS¹

(Billions of francs)

	Changes in outstanding amounts						p.m. Outstanding amounts at the end of 1995	
	1993		1994		1995		Assets	Liabilities
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities		
By counterpart								
Individuals	97	657	193	474	72	201	2,490	9,126
Companies ²	-39	156	56	86	75	73	3,504	2,810
General government	286	35	541	-70	133	-124	6,361	177
Rest of the world ²	535	30	458	758	907	1,037	8,767	9,009
of which interbank transactions	262	268	399	366	433	645	5,446	6,949
Sub-total	878	878	1,248	1,248	1,187	1,187	21,123	21,123
Belgian credit institutions	275	275	82	82	530	530	2,422	2,422
Total	1,153	1,153	1,330	1,330	1,717	1,717	23,544	23,544
By maturity								
At up to one year ³	464	1,283	1,057	701	792	1,227	13,080	17,974
At over one year	689	-130	273	629	925	491	10,465	5,571

Source : NBB.

¹ Including the NBB, the Securities Regulation Fund, the Monetary Fund, the RGI and the Postal Cheque Office.² Transactions carried out with foreign collective investment undertakings and insurance companies which have made public issues in Belgium of, respectively, units and insurance certificates have been reclassified in the companies sector.³ Including fixed-term advances at over one year with a variable interest rate.

TABLE XXI — LIABILITIES OF INSTITUTIONAL INVESTORS OPERATING ON THE BELGIAN MARKET

(Changes in billions of francs)

	Collective investment undertakings ¹	Pension funds	Insurance companies : life branches ²	Insurance companies : other branches	Total ³	p.m.	
						in francs	in foreign currencies
1987	98	6	82	20	205	143	62
1988	187	11	72	18	287	198	89
1989	183	9	69	19	279	181	98
1990	-101	10	68	25	...	105	-105
1991	133	14	79	25	249	199	49
1992	272	14	69	26	376	353	23
1993	537	14	83	24	653	352	301
1994	67	10	114	11	198	91	107
1995	8	13 ⁴	210	24	248	262	-13
First nine months							
1995 .....	...		189 e		184	186	-2
1996 e	167		169		332	239	93

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

¹ Including collective investment undertakings governed by foreign law and operating in Belgium.

² Including insurance certificates issued by the Luxembourg subsidiaries of Belgian institutions.

³ Excluding double counting resulting from investments made by pensions funds and insurance companies with collective investment undertakings.

⁴ Data corrected for the influence of the creation of the Belgacom pension fund.

TABLE XXII — NET ISSUE OF SECURITIES IN FRANCS BY COMPANIES AND GENERAL GOVERNMENT

(Billions of francs)

	Companies					General government ³			Grand total
	Fixed-interest securities	Shares ¹			Total	Treasury certificates	Bonds	Total	
		Listed shares	Unlisted shares ²	Total					
1987	-15	31	148	179	165	111	337	447	612
1988	-1	47	354	401	400	31	447	478	877
1989	14	110	467	577	591	149	94	243	834
1990	-27	18	399	417	390	112	360	471	861
1991	23	41	321	362	384	-15	517	503	887
1992	6	16	379	395	401	-37	682	646	1,046
1993	20	28	208	236	256	-217	301	84	340
1994	-23	45	193	238	215	433	-100	333	548
1995	2	10	228	238	240	-357	952	595	836
First nine months									
1995	-5	9	142	151	145	190	386	576	721
1996	24	43	86	129	153	228	282	511	664

Sources : Banking and Financial Commission, NBB.

¹ Including shares issued by credit institutions, the exercise of warrants and issues of real estate certificates.² Before 1990, issues of unlisted shares are assumed to be equal to the change in the capital of non-financial companies and unlisted credit institutions, calculated on the basis of the balance sheets aggregated by the Central Balance Sheet Office and the banks' Presentation A. From 1990 onwards, on the other hand, issues are valued on the basis of the recordings of the documents relating to the formation of companies or to capital increases or reductions published in the *Moniteur belge*.³ Including Treasury bills issued by the communities and regions and the social security system.

TABLE XXIII — MAIN INTEREST RATES

(End-of-quarter rates)

	Three-month money markets rates		Rates of the reference linear bond	Creditor rates ¹			Debtor rates ¹			
	Treasury certificates	Interbank market		Savings deposits	Three-month time deposits	Five-year notes	Overdrafts	Six-month fixed-term advances	Five-year investment credits	Mortgage loans
1993 I	8.22	8.22	7.42	5.73	7.53	6.73	11.98	8.86	8.29	7.91
II	6.65	6.69	6.99	5.48	6.11	6.48	10.61	7.55	7.54	7.72
III	9.37	9.44	7.38	5.48	8.16	6.02	13.02	9.34	8.32	7.69
IV	6.73	6.81	6.33	5.47	6.08	5.76	10.78	7.28	7.32	7.27
1994 I	6.12	6.13	7.19	4.48	5.55	5.85	9.91	7.53	7.64	6.97
II	5.45	5.50	7.78	4.31	4.77	6.89	9.29	6.57	8.49	7.97
III	5.26	5.33	8.50	4.61	4.50	7.54	9.26	6.55	9.42	8.74
IV	5.23	5.25	8.34	4.62	4.52	7.50	8.79	6.26	9.24	8.81
1995 I	5.64	5.69	8.05	4.72	5.08	7.51	9.69	6.60	9.36	8.41
II	4.65	4.69	7.55	4.07	4.08	6.01	8.29	5.60	8.07	7.75
III	4.27	4.30	7.19	3.80	3.59	5.76	8.01	5.19	7.75	7.20
IV	3.71	3.73	6.69	3.82	3.16	5.50	7.75	4.54	7.34	6.63
1996 I	3.28	3.33	6.80	3.12	2.71	5.73	7.30	4.32	7.22	6.31
II	3.27	3.30	6.80	3.10	2.77	5.45	7.28	4.38	7.25	6.42
III	3.04	3.06	6.23	3.13	2.55	5.02	7.00	3.98	6.75	6.41
IV	3.04	3.04	5.86	2.84	2.51	4.72	7.02	4.01	6.29	5.64

Source : NBB.

Bibliographical references : *Bulletin statistique de la Banque Nationale de Belgique*, 2^e trimestre 1996 : « Modifications au chapitre 19 : Taux d'intérêt ».

Bulletin de la Banque Nationale de Belgique, LXIX^e année, n° 9, septembre 1994 : « Nouveau tableau relatif aux taux d'intérêt débiteurs et créditeurs appliqués par les établissements de crédit ».

Bulletin de la Banque Nationale de Belgique, LXVI^e année, n° 5, mai 1991 : Révision du chapitre XIX « Taux d'escompte, d'intérêt et de rendement » de la partie « Statistiques » du Bulletin.

¹ Rates obtained by means of a survey conducted among the main credit institutions and weighted by the market share of each of these institutions.

TABLE XXIV — INTEREST RATES OF THE NATIONAL BANK OF BELGIUM AND THE REDISCOUNT AND GUARANTEE INSTITUTE

(Percentages)

Date of application of change	Discount rate	The Bank's central rate ¹	Rate for granting of credits by tender ²	Rate for current account advances		RGI's rate for daily closing surpluses	
				Within credit lines	Beyond credit lines	Ordinary tranche	Overstepping tranche ³
p.m. 1996 1st January	3.00	3.75	3.75	5.00	7.00	2.75	1.75
1996 10 January	"	3.70	—	4.95	"	2.70	1.70
15 January	"	"	3.70	"	"	"	"
17 January	"	3.65	—	4.90	"	2.65	1.65
22 January	"	"	3.65	"	"	"	"
24 January	"	3.55	—	4.80	"	2.55	1.55
29 January	"	"	3.55	"	"	"	"
31 January	"	3.40	—	4.65	"	2.40	1.40
2 February	"	3.30	—	4.55	"	2.30	1.30
5 February	"	"	3.30	"	"	"	"
19 April	2.50	"	—	"	6.00	"	"
14 May	"	3.20	—	4.45	"	2.20	1.20
20 May	"	"	3.20	"	"	"	"
23 August	"	3.00	—	4.25	"	2.00	1.00
26 August	"	"	3.00	"	"	"	"

Source : NBB.

Bibliographical reference : *Bulletin de la Banque Nationale de Belgique*, LXVI^e année, n° 5, mai 1991 : Révision du chapitre XIX « Taux d'escompte, d'intérêt et de rendement » de la partie « Statistiques » du Bulletin.¹ Rate applicable to the RGI's current account advances to the primary dealers and to the latter's deposits with the RGI, within individual lines, the total of which amounted, for all the primary dealers, to Fr. 5.3 billion in 1996.² 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 XXV — TRANSACTIONS OF THE NATIONAL BANK OF BELGIUM

(Changes in billions of francs)

	1992	1993	1994	1995	1996
Transactions apart from regulation of the money market	22.7	-86.2	38.4	-23.7	226.0
Increase (-) or decrease in the note circulation ¹	1.8	-10.0	22.9	-33.4	-19.2
Increase or decrease (-) in the foreign exchange reserves ²	19.9	-74.5	9.5	8.4	15.7
Increase (-) or decrease in the deposit of the Belgian State ³	0.2	-1.0	0.3	...	-0.2
Increase (-) or decrease in the deposit of the Luxembourg State	—	-0.5	...	0.5	...
Miscellaneous net items	0.8	-0.2	5.7	0.8	229.7 ⁴
Issuing of certificates of deposit (-)	—	—	—	—	-230.0
Adjusted balance	22.7	-86.2	38.4	-23.7	-4.0
Regulation of the money market by other transactions in francs	-22.6	87.7	-43.6	31.9	0.4
Mobilisation of commercial bills	-6.9	0.3	-1.6	-0.3	0.2
Granting of credits by tender	-25.2	5.1	-0.1	-10.0	...
Direct interventions on the money market	9.5	82.3	-41.9	42.2	0.2
Purchases or sales (-) of securities on the market	-0.3	15.0	-14.5	6.0	1.0
Very-short-term repurchase agreements	12.8	65.3	-25.4	36.2	-4.8
Interbank deposits or loans (-)	-3.0	2.0	-2.0	...	4.0
Coverage or absorption (-) of residual money market balances	-0.1	-1.5	5.2	-8.2	3.6
Increase or decrease (-) in current account advances to the financial intermediaries	-0.1	0.2	2.0	-2.9	0.7
Increase (-) or decrease in the daily closing surpluses deposited with the NBB by the RGI .....	...	-1.7	3.2	-5.3	2.9

Source : NBB.

¹ Including banknotes which are no longer legal tender.

² At market exchange rates and on the value date.

³ Including, until their abolition on 1st July 1993, the increase or decrease (-) in advances to the State and the Securities Regulation Fund.

⁴ Including the payment to the State of the capital gain on gold.

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The National Bank of Belgium as an Enterprise

1. SPECIFIC ACTIVITIES AS THE CENTRAL BANK

1.1 PRINTING AND ISSUING OF BANKNOTES, PUTTING COINS INTO CIRCULATION

1.11 ISSUING POLICY

The provision of a new series of banknotes continued in 1996. The Fr. 200 note dedicated to Adolphe Sax was launched on 25th January and the gradual replacement of the Fr. 100 note of the Hendrik Beyaert type by that devoted to James Ensor was completed on 15th December 1996. On that date the old Fr. 100 note ceased to be legal tender. It is still, however, like the other notes issued by the National Bank after 1944, exchangeable at its counters.

Like the Fr. 2,000 note, the new Fr. 200 denomination met with great success with the public from the outset, since as at 31st December 1996 nearly 24.5 million « Sax » notes, representing about Fr. 4.9 billion, were in circulation. In connection with the issuing of this note the Bank published, in addition to the information leaflet which it traditionally distributes, a text printed in Braille for the first time. This document, for persons with defective vision, presents the characteristic of the banknote, especially those recognisable by touch, and calls to mind their subjects.

The work for the completion of the new series of banknotes to replace the old-generation notes still in circulation will continue in 1997, including by the issuing, in the spring, of the new Fr. 1,000 banknote dedicated to the Flemish expressionist painter Constant Permeke.

Preparation of the euro banknotes

The Bank is thus pursuing its policy of modernisation of its own banknotes pending the issuing, not later than 1st January 2002, of notes and coins in euros. Eight coins (0.01 - 0.02 - 0.05 - 0.1 - 0.2 - 0.5 - 1 and 2 eu-

ros) and seven notes (5 - 10 - 20 - 50 - 100 - 200 and 500 euros) will be put into circulation. The Bank is actively participating in the European working parties set up for preparing the manufacture and issuing of the euro banknotes.

The choice of the draft designs for the future euro notes was made methodically. The Council of the European Monetary Institute (EMI) first of all chose two types of subject, the one being traditional and calling to mind the European cultural heritage and the other consisting of a modern or abstract design. A competition was then organised by the EMI on these two subjects. Altogether 44 designs, each for seven notes, had been submitted by mid-September 1996. A jury composed of European experts then chose ten, i.e. five for each type of subject. These ten designs were then made the subject of an opinion poll conducted among the public. Finally, with the aid of these indications, the Council of the European Monetary Institute made its choice.

The result of this selection was published on 13th December 1996. The graphic images chosen represent the architectural styles which characterise seven periods of European cultural history — classical, romanesque, gothic, renaissance, baroque and rococo, architecture using iron and glass, modern 20th-century architecture — bringing out three major architectural elements: windows, portals and bridges. The subjects of the sketches chosen represent the architectural styles which are encountered in Europe, but without its being possible to attribute them to a particular monument.

In 1997 a test banknote possessing the technical characteristics of the future euro notes will be printed by the various central banks in order to reveal any printing problems and to try out the sorting machines.

Not later than 1st January 2002 the banknotes and coins denominated in euros must

be put into circulation. They will coexist with the national notes and coins during a transitional period of up to six months and, after this time, they will be the only money constituting legal tender within the single currency area.

1.12 OUTSTANDING AMOUNT OF THE BANK'S NOTES

The volume of notes put into circulation is governed by the demand from the financial intermediaries, which itself depends on the public's requirements. Its movements generally display a seasonal pattern, usually characterised by an increase just before the summer holidays and at the end of the year and a contraction in January and also in August and September.

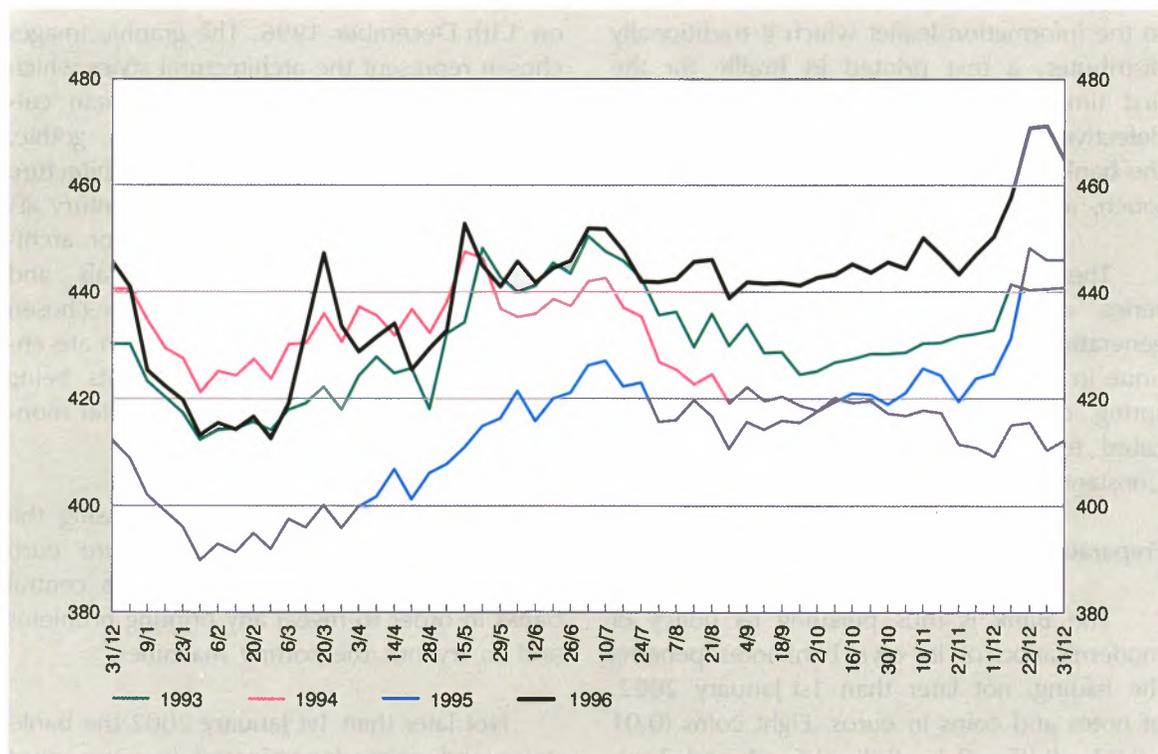
These seasonal fluctuations in 1996 were different in some respects. The outstanding amount did in fact decrease at the beginning

of the year and reached a low of Fr. 412.2 billion on 28th February 1996. After that, moreover, there were two considerable rises in the note circulation in March and in May. These increases were probably due to the strikes by security firms after the series of attacks made on them.

There was also a rise, albeit smaller, prior to the summer holiday period. But, subsequently, unlike the traditional movements, there was hardly any return flow in September and October. At the end of the year the note circulation reached an amount of Fr. 464.7 billion, i.e. 4.2 p.c. more than at the end of 1995.

The number of notes in circulation, on the other hand, decreased, compared with a year earlier, from 346.5 million to 325.5 million, i.e. by 6.2 p.c. This movement was chiefly due to the substitution of the Fr. 2,000 and Fr. 200 notes for the smaller denominations.

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	
	1995	1996	1995	1996
Fr. 10,000	206.1	225.7	20.6	22.5
Fr. 5,000	0.8	—	0.2	—
Fr. 2,000	124.2	134.6	62.1	67.3
Fr. 1,000	86.2	75.0	86.2	75.0
Fr. 500	13.5	13.6	27.0	27.2
Fr. 200	—	4.9	—	24.5
Fr. 100	15.0	10.9	150.4	109.0
Total	445.8	464.7	346.5	325.5

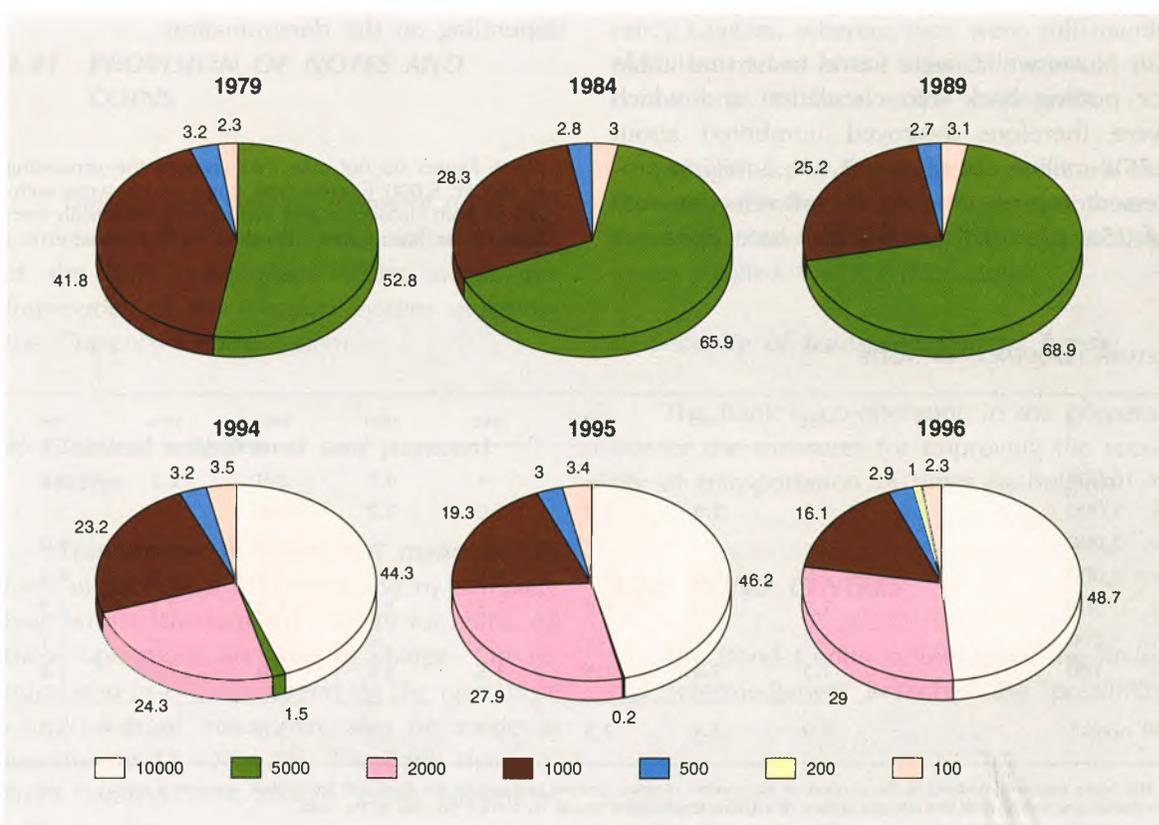
¹ Including the notes in the financial intermediaries' cash holdings.

Thus, the substitution of the Fr. 2,000 note for the Fr. 1,000 note, already appreciable in 1994 and 1995, became even more marked in the year under review, mainly be-

cause of the complete adaptation of the automatic cash dispensers. There was hardly any change, however, in the cumulative amount of these two denominations.

CHART 2 — COMPOSITION OF THE NOTE CIRCULATION BY DENOMINATION

(End-of-year figures, as percentages of the total amount)



Similarly, the use of the new Fr. 200 note increased steadily during the year. At the end of the period this note represented about 1 p.c. of the circulation. This movement took place to the detriment of the Fr. 100 denomination.

The number of Fr. 10,000 notes also increased considerably (+9.2 p.c.). This rise alone explains the growth in the overall value of the note circulation. At the end of the year the Fr. 10,000 denomination represented 48.7 p.c. of the total outstanding amount, against 46.2 p.c. a year earlier.

1.13 SORTING

Every day the financial intermediaries draw notes from and pay notes to the Bank. The notes paid in are checked and sorted by very high-technology machines. These sorting machines are equipped with electronic detectors which verify the authenticity of the notes and check their degree of deterioration.

During the past year only 1,911 forged notes were recorded.

Notes which were found to be unsuitable for putting back into circulation and which were therefore destroyed numbered about 275.8 million out of over 1,076.2 million processed, representing an overall rejection rate of 25.6 p.c.¹ This rather high rate does not

reflect any lack of quality of the circulation but is primarily due to the systematic destruction of the Fr. 100 notes of the Beyaert type withdrawn from circulation and a high rate of destruction of the Fr. 1,000 Grétry-type notes, which will be replaced by a new note in the spring of 1997.

1.14 RETURN FREQUENCY AND LIFE OF DENOMINATIONS

The frequency of return of notes to the Bank, which had risen continuously, from 1.4 in 1980 to 3 in 1994, has remained stable on the whole since then. 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 in fact facilitated by the increased recourse to the Currency Centre (see section 1.21) — no longer gave rise to any major changes in the channels of supply of notes and coins, having achieved their aims.

As in the past, the average life of notes remained stable, at around two to three years depending on the denomination.

¹ These figures do not take into account the processing of the Fr. 5,000 Gezelle-type notes which were withdrawn from circulation and therefore systematically cancelled after having been checked for authenticity.

RETURN FREQUENCY¹ OF NOTES

	1985	1990	1991	1992	1993	1994	1995	1996
Fr. 10,000	—	—	—	—	4.1	3.0	2.5	2.2
Fr. 5,000	1.5	1.9	1.9	2.0	1.7	2.6	—	—
Fr. 2,000	—	—	—	—	—	3.9	4.1	4.0
Fr. 1,000	2.9	4.1	4.5	4.9	5.2	5.1	4.9	4.9
Fr. 500	1.5	1.6	1.8	1.8	1.9	1.9	2.1	2.2
Fr. 200	—	—	—	—	—	—	—	1.1
Fr. 100	1.2	1.4	1.5	1.5	1.5	1.6	1.7	1.8
All notes ²	1.9	2.4	2.5	2.7	2.8	3.0	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).

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 are checked and sorted. Coins which are worn or withdrawn from circulation are returned to the Belgian Royal Mint.

At the end of 1996 the number of coins in circulation was over 3.3 billion, representing an amount of Fr. 21.5 billion, up by 7 p.c. compared with 1995.

In December 1996 the Belgian Royal Mint coined a Fr. 250 coin in commemoration of the twentieth anniversary of the King Baudouin Foundation.

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 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 operation, 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 Centres¹

The purpose of the Currency Centres is to organise cash transfers — notes and coins — directly between an establishment of the Bank and the local agencies of the credit institutions, 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

In 1996 the number of notes withdrawn and paid decreased, for all establishments combined, both in the classical system and at the Currency Centres. Altogether, for the two systems, the fall amounted to 2.2 p.c. for payments and 4.2 p.c. for withdrawals.

As during the preceding years, drawings and payments of notes at the provincial establishments were made chiefly via the Currency Centres, whereas they were still mainly made by means of the classical system at the counters of the head office in Brussels.

Altogether, by the classical system and the Currency Centres combined, payments and drawings made at all the Bank's establishments totalled 1,914 million notes.

d) Security of transportation of funds

The Bank is co-operating in the preparation of the measures for improving the security of transportation of funds in Belgium.

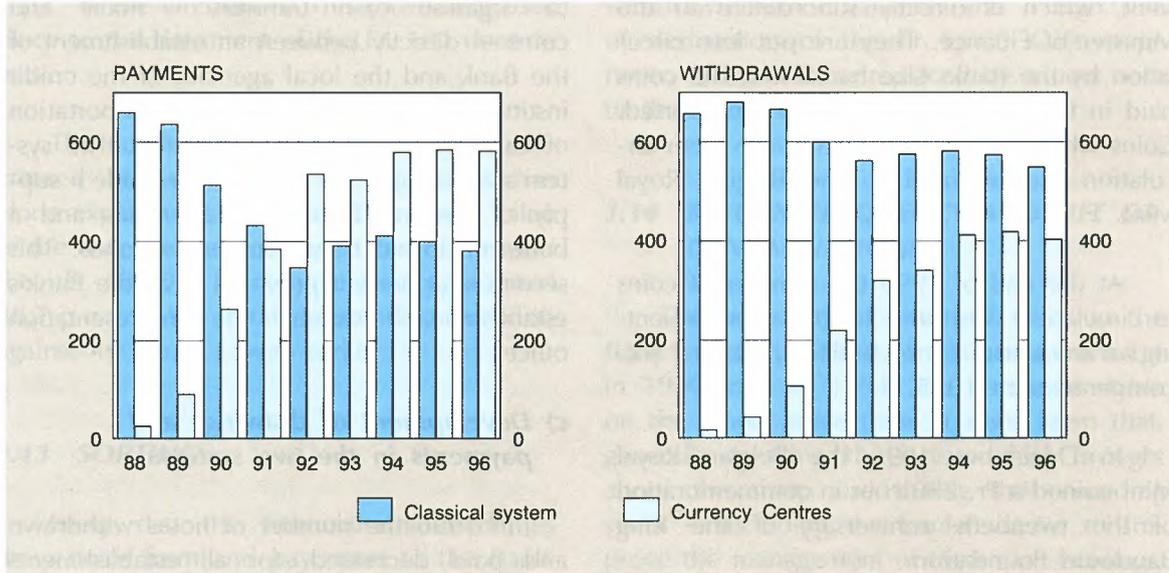
1.22 BOND CENTRES

The Bond Centre system gives the financial intermediaries' branches the possibility

¹ Readers will find a description of the Currency Centres in the Annual Report for the year 1991, p.141.

CHART 3 — PAYMENTS AND DRAWINGS OF NOTES (PROVINCIAL ESTABLISHMENTS + BRUSSELS) MADE AT THE CURRENCY CENTRES AND BY THE CLASSICAL SYSTEM

(Millions of notes)

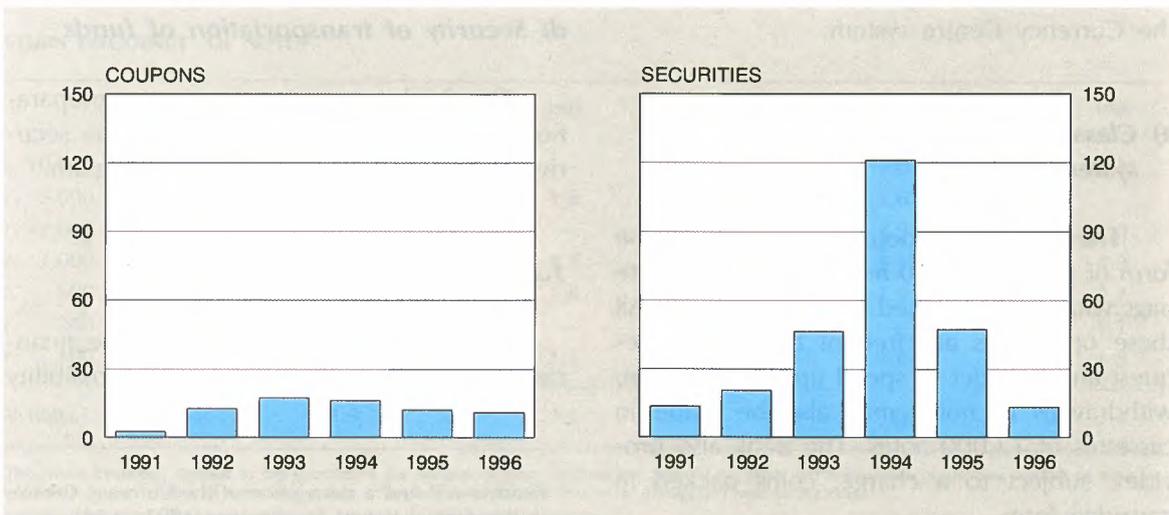


of presenting to the Bank securities and coupons which are redeemable or payable, within 40 days preceding their maturity dates, without having to sort them by loan in advance.

The activity of Bond Centres decreased in 1996, as far as coupons are concerned, owing to the continuing dematerialisation of issues and, with regard to redemptions, because of the small volume of matured securities.

CHART 4 — SECURITIES REDEEMED AND COUPONS PAID VIA THE BOND CENTRES (PROVINCES + BRUSSELS)

(Billions of francs)



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 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 started on the preparatory work for enabling transactions on this account to be carried out in euros from 1st January 1999 onwards.

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 1996 the Bank assisted in the making of three issues of government bonds. These are medium-term government loans, with an annual coupon, intended exclusively for individuals. In each of the three issues, two types of bonds were issued: on the one hand, five-year bonds, which can be extended up to seven years at the interest rate of the first five years and, on the other hand, so-called 3/5/7 bonds with a guaranteed interest rate which is revisable upwards after three and five years. The total amount of the former was Fr. 31.1 billion and that of the latter Fr. 13.5 billion.

As in the preceding years, the State continued in 1996 to issue dematerialised securities. The issuing by tender of Treasury certificates brought in Fr. 4,919 billion and that of linear bonds (excluding exchanges) Fr. 439 billion, against Fr. 5,868 and 603 billion respectively in 1995.

Exchanges of linear bonds close to their final maturities for linear bonds with more distant maturity dates totalled Fr. 347 billion (against Fr. 105 billion in 1995).

The amounts of securities redeemed were small. The number of coupons paid remained unchanged compared with the previous year (Fr. 5.1 million).

Furthermore, as the body responsible for managing the X/N settlement system, the Bank levies and pays into the State Cash Office the withholding tax on income from financial assets resulting from the transactions subject to that tax. In 1996 the number of these transactions increased substantially to 27,779, against 7,874 in 1995; this movement is due to the fact that most of the classical government loans issued before December 1994 were accepted in the system.

1.31 FUNCTIONS OF THE SECURITIES REGULATION FUND

The Securities Regulation Fund guarantees the liquidity of public loans when the daily fixing takes place at the Brussels Stock Exchange.

Since mid-June the interventions in the market have taken place via the new computerised quotation system, the « New Trading System » (NTS), which replaced the « Oblicats » system.

The quotation of government bonds started during the past year.

The turnover on the fixing market decreased from Fr. 20.6 billion in 1995 to Fr. 18.7 billion during the period under review. The number of transactions was 43,000 against about 47,000 in 1995. Around 90 p.c. of the transactions related to classical and similar loans, the remainder having been accounted for by linear bonds.

At the end of 1995 and in the course of the year under review, the implementing decrees pursuant to the law of 6th April 1995 concerning secondary markets were promulgated. The powers and functions of the Securities Regulation Fund, as the market authority for the market outside the stock exchange in linear bonds, split securities and Treasury certificates, were extended. The Fund also implemented the system whereby the financial intermediaries report their transactions in these securities. It introduced procedure for monitoring compliance with the

rules on insider dealing offences. The publication of the statistical data on the volumes of trading and on prices, intended to ensure the transparency of the market, was developed and will be made even more detailed in future. Lastly, monitoring regarding compliance with the rules of conduct for intermediaries operating on the regulated market was made more thorough.

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 foreign policy.

On the one hand, as an agent of the Belgian State, the Bank assists in the implementation of bilateral agreements whereby Belgium makes funds available to developing countries. At the end of 1996 the Bank was administering just over thirty accounts in this connection.

Secondly, the Bank assists the State in connection with the implementation, by Belgium, of the financial sanctions decided upon by the Security Council of the United Nations against certain countries.

2. SERVICES TO THIRD PARTIES

2.1 CLEARING

For the clearing system¹ the year 1996 was marked by a major change resulting from the starting up of the system for the gross settlement of large-value payments (see point 2.2 : ELLIPS). As this system entails the granting, by the Bank, of intraday credits in order to ensure the rapid making of payments, a legal privilege was introduced in favour of the Bank in respect of the own assets of the participants in the securities clearing system (Article 15 of the Organic Law of the Bank, as introduced by Article 3 of the law of 18th June 1996).

Thanks to the introduction of this legal privilege, it is sufficient to verify whether se-

curities to a sufficient value are present in the portfolio held for its own account by the borrower in the clearing system (so-called « reservation » guarantee mechanism). The reservations are made on the participants' own assets (investment and trading portfolios). The transfer of identified securities to a pledging account thus becomes superfluous. The reservation mechanism can also be used for overnight credits and also for the awarding of credit by tender. The various rules for the granting of credit were adapted for this purpose.

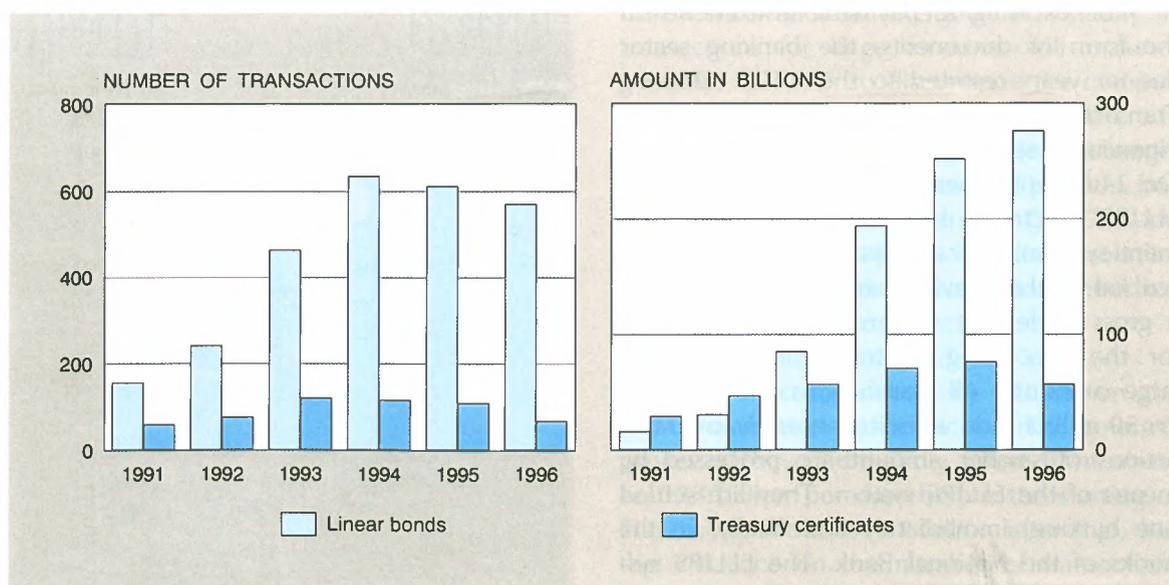
Furthermore, the range of securities dealt with in the clearing system was extended. Three new instruments have been added to it, namely :

- two programmes of securities representing securitised claims (chiefly mortgage loans and car financing loans), in May 1996, for a total nominal amount of Fr. 22.6 billion ;

¹ The reader will find a reference to the functions of the clearing system in the 1995 Annual Report, p. 155.

CHART 5 — 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.

- government bonds, medium-term bonds issued by the State for the first time in June 1996 and specially intended for individual investors. Their nominal outstanding amount in the clearing system as at 31st December 1996 was Fr. 13.9 billion;
- Treasury bills in foreign currencies, which are dematerialised short-term securities issued by the State for which the Bank plays the role of domiciliary institution. As at 31st December 1996 their outstanding amount was equivalent to Fr. 53.8 billion.

The year 1996 also saw the incorporation in the Bank's clearing system of the main government bonds issued before December 1994. The total outstanding amount of classical government bonds in Belgian francs in the clearing system was Fr. 1,222.8 billion (or 83 p.c. of the total of these bonds) at the end of December 1996.

For all transactions combined, the system recorded 760,966 notifications for the whole of the year under review, representing a rise of 21.5 p.c. compared with 1995.

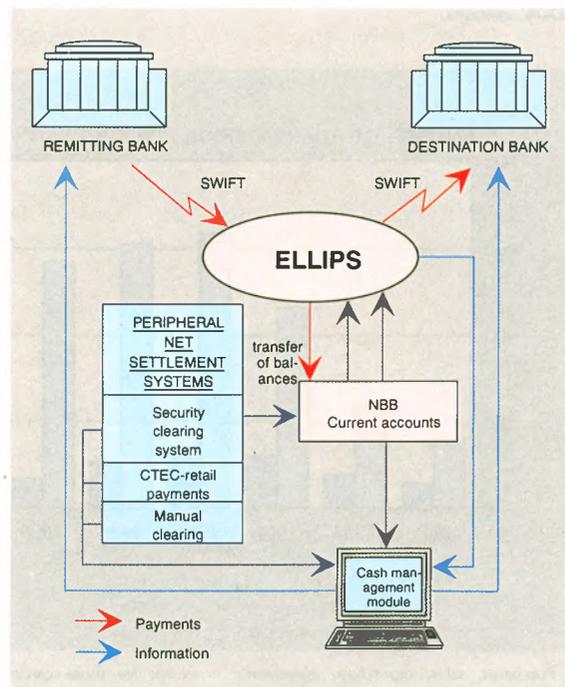
2.2 INTERBANK PAYMENT SYSTEMS

For exchanging payment instruments in the form of documents, the banking sector has for years resorted to the CTEC (Clearing Transaction Exchange Centre of the Belgian Financial System) and to the Clearing House. On 24th September last a new system, called ELLIPS (Electronic Large-value Interbank Payment system), was successfully started. As described in the previous annual report, this is a gross settlement system primarily intended for the processing of transactions involving large amounts. All transactions in excess of Fr. 50 million and a limited number of transactions of smaller amount are processed by means of the ELLIPS system. They are settled one by one, immediately and finally, in the books of the National Bank. The ELLIPS system forms part of an international trend aimed at keeping better control of the risks relating

to payment systems by the application of the gross settlement principle.

ELLIPS should also be regarded as a first phase in the preparation of TARGET (Trans-European Automated Real-time Gross Settlement Express Transfer System). The gross settlement systems of the countries of the European Union which are at present operational or in course of preparation will be interconnected in a co-ordinated manner via the central banks in order to constitute the overall TARGET system. According to the scenario planned for the introduction of the euro and approved at the Madrid summit in December 1995, TARGET is to be operational from the start of the EMU, 1st January 1999. It is in fact an indispensable channel for the rapid and safe processing of transactions involving large amounts. Such an arrangement is of capital importance for the implementation of the single monetary policy.

The accompanying diagram illustrates the operation of ELLIPS. The payment module carries out the exchanging and processing of transactions. It makes use of the SWIFT network and employs the NBB's current account. The cash management module provides all ne-



cessary information to the financial managers of the participants, including in particular the data concerning the payments made in ELLIPS and the balances present in the CTEC, the Clearing House and the security clearing system.

Since the start-up of ELLIPS, 3,300 transactions, on average, have been handled daily via this system, representing an amount of about Fr. 1,200 billion. Formerly, these transactions were mainly processed in the manual Clearing House. After 24th September there therefore took place, straight away, a spectacular fall in the amount of the transactions processed in the Clearing House : whereas the average daily amount processed was around Fr. 1,250 billion before that date, it was only about Fr. 24 billion after that. Thanks to ELLIPS and a set of other measures aimed at stimulating automation, the number of manual transactions fell from 44,500 (the daily average from January to September 1996) to 31,200 (the daily average from October 1996 onwards). The fall applies mainly to transfers and similar transactions, which, from now on, are carried out almost entirely

CHART 6 — BREAKDOWN OF THE MAIN CATEGORIES OF TRANSACTIONS PROCESSED WITHIN THE CTEC

(Daily averages, in thousands)

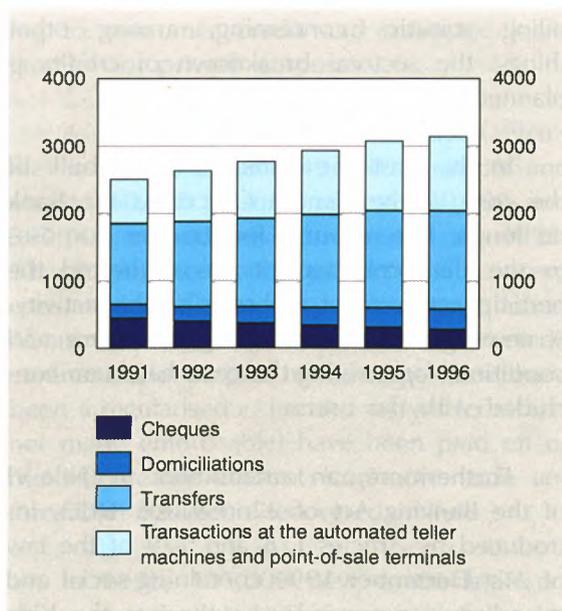
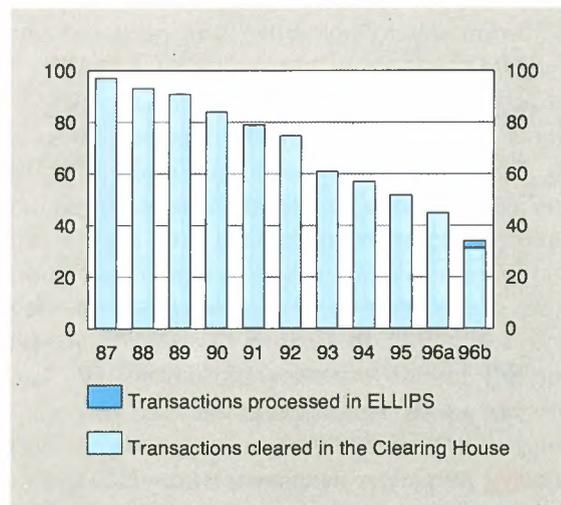


CHART 7 — NUMBER OF TRANSACTIONS PROCESSED OUTSIDE THE CTEC¹

(Daily averages, in thousands)



¹ Account being taken of the starting of ELLIPS on 24th September 1996 :
 — 96a : period from January to September 1996
 — 96b : period from October to December 1996

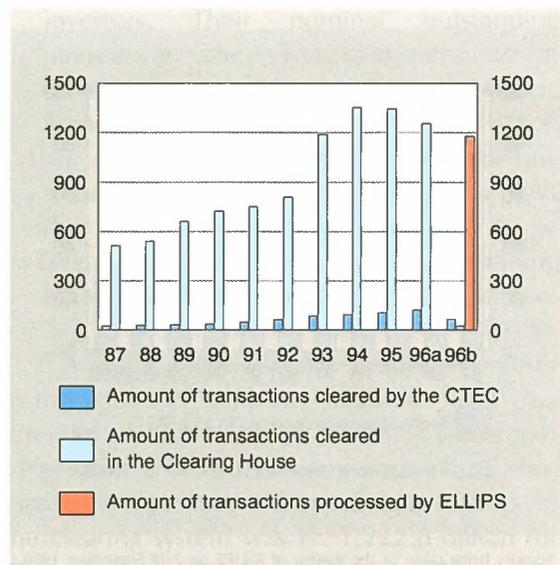
by means of the automated CTEC and ELLIPS procedures. Cheques for amounts in excess of Fr. 300,000 and postal orders are not at present processed via the CTEC and represent the two main categories of transactions which are still manual.

The sharp fall in the number of manual transactions and the exclusion of virtually all transactions for large amounts will make it possible, in 1997, to discontinue the compulsory presence of the delegates of the credit institutions at the Clearing House. Exchanges will then take place by means of a « post box system ». Within a few years the CETC's « image processing » project will offer a solution which will also make these last manual exchanges superfluous.

The effect produced by ELLIPS on the CTEC has been less spectacular. The amounts processed have admittedly fallen from about Fr. 123 billion per day, before the starting of ELLIPS, to about Fr. 71 billion after that, but the influence on the number of transactions has been negligible. Even more than before, the CTEC is a system for the processing of

CHART 8 — AMOUNT OF TRANSACTIONS PROCESSED¹

(Daily averages, in billions)



¹ Account being taken of the starting of ELLIPS on 24th September 1996 :
 — 96a : period from January to September 1996
 — 96b : period from October to December 1996

retail payments. In 1996 about 3.5 million transactions per day, i.e. 5 p.c. more than in 1995, were processed by that system. This growth rate is mainly due to the following trends :

- an increase in the number of transfers and similar transactions (+ 4 p.c.), which constitute the most important category of the CTEC's transactions
- a continuing decline in the number of cheques (– 7 p.c.)
- a steady increase in transactions carried out at the automated teller machines (ATMs) (+ 7 p.c.).

An ever-increasing proportion of the CTEC's exchange transactions are being made by telecommunication : 90 p.c. of messages are at present transmitted in this way (against about 73 p.c. in 1993).

Within the framework of the CTEC and ELLIPS, the question of the changeover to the euro has also been examined. In this connection the banking sector has opted for a highly advanced scenario whereby all inter-

bank systems will operate solely in euros from the start of EMU. The payment note will show the code representing the name of the currency of origin, in order to enable the credit institutions to inform their customers correctly on the initial payment order.

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 amounts of credits recorded, the Central Office represents an important tool for the assessment of the credit risks at the time of granting of the credit and during its subsequent management.

The new procedures for declaration to the Central Office, whose principles were defined by the Royal Decree of 12th December 1994 concerning the centralisation of information concerning credit risks, came into force on 1st November 1995. The new rules for consulting the Central Office, for their part, were introduced in mid-February 1996. The development of the programmes for compiling statistics concerning, among other things, the sectoral breakdown of credits is planned for the year 1997.

In the past the Bank bore the bulk of the costs of the Central Office. As the Bank no longer has recourse for its own purposes to the data collected, it has requested the participants to meet the costs of this activity. A new agreement concerning the terms and conditions for meeting the costs has been concluded with the users.

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 incorporate certain categories of insurance enterprises in the field of responsibility of the Central Office for Credits to Enterprises. The consultation with the sectors concerned and their supervisory authorities, which was started in September 1995, continued in 1996 in order to finalise this extension as quickly as possible.

The exchanging of information between European central risk offices, which has been taking place since 1993 exclusively for the purpose of prudential supervision, has enabled the authorities concerned to gain access to the data recorded in the central offices of the partner countries. The working party consisting of the representatives of the European central credit offices is at present studying the legal and practical adaptations which need to be made in order to ensure the rediffusion 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 and mortgage loans granted for private purposes.

At the end of 1996 the Central Office's file contained about 449,000 contracts and about 360,000 persons, against 430,000 and 352,000 respectively at the end of 1995. 92 p.c. of the contracts recorded concern consumer credit and 8 p.c. mortgage loans. About 20 p.c. of the total of consumer credit contracts and 32 p.c. of mortgage loans have been « regularised », i.e. the arrears (contracts not made enforceable) have been paid off or the enforceable amount (contracts made enforceable) has been recovered in full.

In 1996, 105,000 new contracts in arrears were recorded. The number of reports

made by participants to the Central Office was approximately 1.5 million for the past year. Over 92 p.c. of these related to the development of the debtor situation (including regularisation and extinction of the debt).

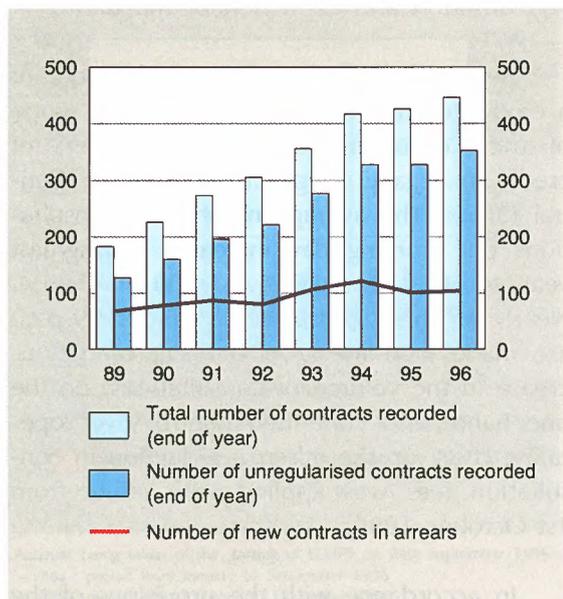
Before the conclusion or amendment of a credit contract which falls within the scope of the Consumer Credit Act, providers of credit are legally obliged to consult the Central Office. The average number of consultations per working day increased during last year to 12,370 (against 11,800 in 1995). Nearly all these consultations (about 99 p.c.) are made « on-line ». As a result of the increase in the volume of consultations, on the one hand, and continued control over operating costs, on the other, a reduction in consultation fees was applied with effect from 1st October 1996.

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 when he is recorded for the first time in the Central Office's file. The consumer is furthermore entitled to consult the data concerning him.

Taking account of the recommendations made by the Consumer Council, certain adaptations to the operation of the Central Office were discussed in consultation with the representatives of the credit sector, the Minister for Economic Affairs and the Commission for the Protection of Private Life; these adaptations relate to, among other things, the introduction of a minimum amount of arrears for the first reporting of a credit, the implementation of additional checking procedures concerning the identification data and the uniformisation of the periods for which the regularised contracts must be kept. The practical and technical aspects of a possible extension of the database to a positive recording system were examined; in order to limit the additional operating costs as much as possible, priority was given to simple reporting and updating procedures.

CHART 9 — DEVELOPMENT OF THE NUMBER OF CONTRACTS RECORDED BY THE CENTRAL OFFICE FOR CREDITS TO INDIVIDUALS

(In thousands)



2.5 CENTRAL BALANCE SHEET OFFICE

In 1996 the number of annual accounts deposited at the Bank increased by 5 p.c. compared with the previous year, to about 224,000 units (including 202,600 abbreviated presentations and 17,412 complete presentations). This rise might be partly due to the greater awareness on the part of enterprises with regard to the penalties for non-depositing and late depositing of the annual accounts laid down by the law of 13th April 1995 amending the co-ordinated laws on trading companies.

Accounts deposited on diskettes continued to rise, reaching nearly 64 p.c. of the total number of deposits, against 58 p.c. in 1995.

The functions entrusted to the Bank in order to enable it to collect and disseminate the annual accounts of companies were extended to the treatment of social balance sheets, since the law of 22nd December 1995 containing measures relating to the implemen-

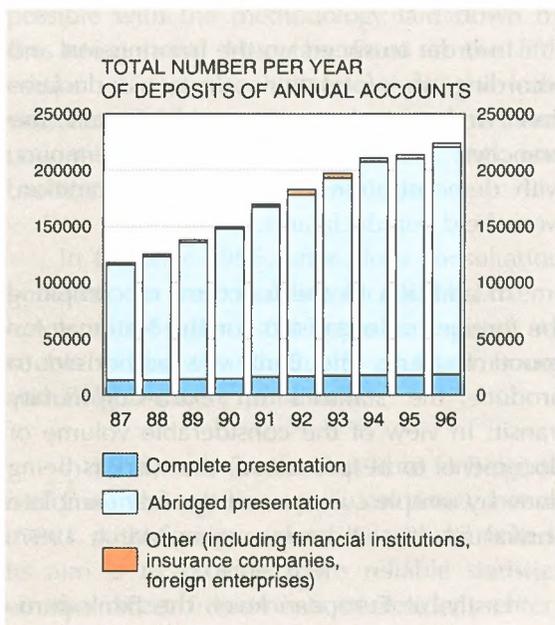
tation of the multiannual plan for employment requires enterprises to draw up a social balance sheet. The purpose of this document is to describe the size and development of the enterprise's workforce, any recourse to the various measures adopted to promote employment and the efforts made regarding training. The Royal Decree of 4th August 1996 lays down the content, presentation and verification and publication rules for the social balance sheets. The Central Balance Sheet Office, with which most annual accounts are already deposited, was given the task of collecting the social balance sheets and creating a database on the basis of these.

With effect from the accounting year starting after 31st December 1995, the annual accounts which enterprises are required to deposit at the National Bank of Belgium will be supplemented by a new annex containing the information called for by the Royal Decree of 4th August 1996. That decree also extended the compilation of a social balance sheet to other enterprises or legal persons which are not necessarily trading companies (in particular, hospitals, the branches of companies governed by foreign law and non-profit-making associations above a certain size) and which, as they do not deposit annual accounts with the National Bank, must use a specific form. The social balance sheet will thus cover the whole of the commercial sector and large enterprises in the non-profit sector.

The Royal Decree of 4th August 1996 also established a transitional system for the last accounting year which started before 31st December 1995. It applies only to depositing enterprises which employ at least 20 workers on average over the year and to other legal persons governed by private law which employ at least 100 workers. These companies have to submit to the National Bank a simplified version of the social balance sheet which will be used only for statistical purposes.

Furthermore, for several years the standardisation of the presentation of the annual accounts of non-financial companies has enabled the Central Balance Sheet Office to pro-

CHART 10 — ANNUAL ACCOUNTS RECEIVED BY THE CENTRAL BALANCE SHEET OFFICE AND BROKEN DOWN BY TYPE OF PRESENTATION



duce overall statistics concerning the results and structure of the enterprises in question. The gradual introduction of the Fourth Directive of 25th July 1978 concerning the annual accounts of certain forms of companies in the national legislation of the other countries of the European Union made the similar statistics concerning the enterprises of these countries available. These statistics are not, however, immediately comparable owing, on the one hand, to the different options proposed by the Fourth Directive for the presentation of the balance sheet and the profit and loss account and, on the other hand, to the ways in which the Directive has been introduced into the national legislations. For these reasons the Directorate General for Economic and Financial Affairs of the European Commission has drawn up an abridged presentation of annual accounts containing the items on the basis of which comparisons can be made. This European file (the BACH - Banks for the Accounts Harmonised - file) is compiled using the data aggregated by sector and by enterprise size provided by the national bodies of the type of the Central Balance Sheet Office. These are also co-operating within a European

Committee of Central Balance Sheet Offices, one of the working parties of which is carrying out, with the Commission, work on the validation and utilisation of the file. This work has led to the creation of a new statistical file which could be marketed at the beginning of 1997.

2.6 STATISTICS

2.61 SOCIO-ECONOMIC DATABANK BELGOSTAT

Since 1990 Belgostat, the result of the collaboration between the Ministry of Economic Affairs, the Federal Planning Bureau, the National Statistical Institute and the National Bank of Belgium, has made possible the direct consultation of statistical data concerning various fields, such as the national accounts in the three usual approaches, turnover and output by economic sector, the labour market, the financial markets, the public finances, the business surveys, prices and the balance of payments.

The scope of Belgostat was extended in 1996 by the addition of fields connected with foreign trade.

2.62 BUSINESS SURVEYS

With regard to business surveys the emphasis was laid, in 1996, on the integrated automation of publishing and despatch. The results of the quarterly survey on production capacities and those of the survey in the building sector are already disseminated in accordance with the new procedure and presentation. The other business surveys will follow gradually in the course of 1997.

The necessary measures were taken in order to question all the sub-sectors of the surveys on a monthly basis from 1997 onwards. Thus there are at present surveys in the following sub-sectors : wood industry, wholesale trade in spare parts for cars and garage equipment, retail trade in gift articles and trade in

machine tools for civil engineering. In the services sector, too, a special effort was made in order to increase further the number of participants, including among consultancy bureaux.

2.63 NATIONAL ACCOUNTS

In 1995 the Bank compiled the national accounts on behalf of the National Accounts Institute (NAI) for the second time. The aggregate and the detailed sectoral accounts were published, respectively, in June and December of the period under review.

During its session on 25th June 1996, the Council of the European Union ratified the « European System of National and Regional Accounts 1995 (ESA 95) ». This decision means that every Member State of the European Union must compile its national accounts for the period 1998 (and retrospectively back to 1995) for the first time in April 1999 according to the new methodology and rules. Within the Bank a co-ordination group is entrusted with the performance of this function. There is extensive consultation in this connection with the other associated institutions within the NAI.

2.64 FOREIGN TRADE

The operation of reducing the delay in the publication of the foreign trade data, which had started in September 1995, was continued in 1996. In accordance with the timetable, the results for the month of August 1996 were published in November. Thus the normal publication delay, which, by virtue of a European regulation, must not exceed ten weeks, was fully complied with.

In the second half of 1996 a start was made on the preparatory work for the regional breakdown of foreign trade. This work relates to the period 1993-1995. The processing involved necessitated an additional survey among a large number of declarants with es-

tablishments in several regions. The regional data will be published at the beginning of 1997.

In order to speed up the transmission and recording of information, electronic declaration was strongly encouraged. In all the branches and agencies, Intrastat seminars, with demonstration of electronic declaration, were held for declarants.

In addition to the functions of compiling the foreign trade statistics for the National Accounts Institute, the Bank was authorised to produce the statistics on extra-Community transit. In view of the considerable volume of documents to be processed, the work is being done by sample surveys and the first complete annual results will be known in March 1997.

Lastly, at European level, the Bank participated in many meetings of the committees and working parties in preparation for Intrastat II. Several proposals for simplification of the Intrastat system are in a final stage; others are still being discussed. It is planned, however, that they shall enter into force together on 1st January 1998.

2.65 BALANCE OF PAYMENTS

In 1996, with regard to the compilation of the balance of payments, the Bank first of all paid greater attention to improving the quality of the statistics produced. Secondly, a number of new tasks were carried out or prepared for.

In connection with the daily and monthly reportings by credit institutions and enterprises, the Belgian-Luxembourg Foreign Exchange Institute (BLFEI), which is responsible for collecting the basic information, endeavoured to improve the quality of the information conveyed, including by carrying out, in co-operation with the Bank, a periodical comparison between the data received and external information, such as the foreign trade statistics and various items of the published annual accounts.

The Bank also continued its work for the purpose of making the compilation of the balance of payments comply as closely as possible with the methodology laid down by the International Monetary Fund in the fifth edition of its manual and to meet the individual statistical requirements of other international institutions, such as the EMI and Eurostat.

In October 1996, after close consultation between the responsible officials in Luxembourg and Belgium, the separate current accounts of the Grand Duchy of Luxembourg and Belgium were published.

In 1996, too, for the first time in Belgium and Luxembourg, the survey on direct investments with foreign countries was launched. Its aim is to provide more reliable statistics on the direct investments of resident enterprises abroad, on the one hand, and on those of foreign enterprises and companies established in Belgium and Luxembourg, on the other. The purpose of these data is to comply with the statistical obligations to international organisations, to contribute to the calculation of Belgium's international investment position, to supply the missing balance of payments data and, lastly, to enable various requests for information on this subject to be complied with.

A number of preparatory activities were started with a view to a survey which is to be organised on a worldwide scale, within the framework of the IMF, at the end of 1997, regarding the claims on foreign countries held by the residents of each country in the form of securities. However, the workload entailed by the organisation of this survey will fall chiefly in 1997.

The results of the survey will be used in order to calculate Belgium's international position with regard to investment in securities more accurately and to make better assessments of the income flows. Lastly, they will provide the IMF with the means of partly filling or explaining the statistical gaps in respect of international transactions in securities.

In 1996 the BLFEI and the Bank also took steps to develop an electronic form which should soon facilitate reporting by large enterprises.

Lastly, the BLFEI worked on the compilation of the legal texts and regulations and also on the production of a summary information text with a view to producing a convenient and user-friendly collection of documents for credit institutions and enterprises. This manual will be published in the course of 1997.

2.66 STUDY AND INFORMATION DAYS

In view of the progress made towards meeting the statistical requirements of the European Monetary Institute and the future European Central Bank, the credit institutions were informed of the adaptations which will have to be made to the « Layout A », « Balance of payments » and « Claims and liabilities » reports, during an information session held on 3rd October and entitled « Statistical reporting in the light of European Monetary Union ».

Furthermore, the Minister of Finance and the Bank, in co-operation with the primary dealers operating in Belgium, held a seminar in Brussels on the Belgian financial markets on 25th March 1996.

2.7 ECONOMIC STUDIES

The Bank analyses and comments upon the monetary, financial and economic data on which its managing bodies rely, in particular, for pursuing monetary policy and performing their function as advisors to the authorities. This internal task takes the form of a consistent macroeconomic examination based on the continuing and thorough study of present developments and the analysis of the statistical material, as well as on the econometric results of the Bank's quarterly model, which is regularly updated.

In 1996 the Bank also answered many questions connected with the recent developments in the Belgian economy and the conduct of monetary policy. The contexts in which these questions were asked were :

- the annual visit of a delegation of the IMF forming part of the consultations under Article IV of the Articles of Agreement of the IMF ;
- the visit by representatives of the OECD in connection with the country-by-country examination of the Member States of that organisation ;
- the collection of economic information by international rating agencies wishing to assess Belgium's sovereign solvency.

The Bank is furthermore represented in various Belgian economic institutions, such as the National Economic Council and the Public Debt Cell.

2.71 SCIENTIFIC LIBRARY

The scientific library continued its activities in a spirit of co-operation and openness to foreign countries. It was thus made possible during the year for many catalogues of major foreign libraries, such as the Library of Congress in Washington, to be consulted via data-processing networks, a method which considerably speeds up certain bibliographical research tasks and facilitates the exchange of information between libraries thanks to electronic mail.

Furthermore, a considerable effort was made to improve and standardise the computerised catalogue. In 1996 more than 20,000 entries were thus verified and checked, in addition to the creation of about 3,000 new entries concerning books and 5,000 concerning articles in scientific reviews.

The use made of the library's reading room, which is open to the public on all working days from 9 a.m. to 4 p.m., remained at about the same level as in the two preceding years, with the provision of over 6,000 works and periodicals.

2.8 PUBLICATIONS

At present, apart from its Annual Report, the Bank's main publications are :

- the « Quarterly Statistical Bulletin », the first number of which is dated March 1996 and which ensures the continuity of the statistical series hitherto published in the monthly Bulletin ;
- the « Economic Review », which has appeared three times per year since May 1995 ;
- the « Economic Indicators for Belgium », which are published weekly ;
- the « National Accounts » (aggregates and details) and the « Regional Accounts » (since 1995) ;
- the (monthly and quarterly) Bulletins and the yearbook of foreign trade statistics (since 1995).

The articles published in 1996 in the Economic Review concerned the balance of payments of the BLEU in 1995, Belgium's net external position, the volume and structure of the foreign exchange market in Belgium, the Belgian economy in 1996 and the results and financial situation of Belgian companies.

The Bank also publishes every week an abridged balance sheet known as the « weekly statement of account ».

2.9 MUSEUM

In 1996 the Museum received the same number of visitors as in the preceding years, resulting in 515 guided visits. The Bank therefore performs a primarily educational function. Most of the visitors to the Museum are Belgian and foreign primary and secondary school pupils and students.

Among the foreign visitors there is an ever-growing number of French and British schoolchildren who, as part of their economic training, also wish to visit the National Bank

of Belgium during their tour of Europe, organised by specialised agencies such as « Voyages scolaires en Europe » and « European Study Tours ».

The Collections and Literary Library service also helped with the « Time Journey through Monetary Europe » exhibition by lending a large number of collection pieces and by editorial contributions; this exhibition was held for the first time on the premises of the European Parliament, in Brussels, in

connection with the Round Table on the single currency, held by the European Commission from 22nd to 26th January. After that, the exhibition could also be visited from 29th April to 21st June in Paris, in the « Sources d'Europe » area which forms part of the « Arche de la Défense ».

The service also co-operated in various other publications and exhibitions on the economic and financial history of Belgium, numismatics and contemporary Belgian art.

3. THE BANK'S ACTIVITIES ON THE EUROPEAN AND INTERNATIONAL PLANES

The Bank's activities on the plane of the international institutions were closely connected with the development of international monetary and financial co-operation in 1996.

Progress towards Economic and Monetary Union

The preparations for the third and last stage of Economic and Monetary Union (EMU) were unflaggingly continued in 1996. A large proportion of this work was done within the European Monetary Institute (EMI), which celebrated its third anniversary on 1st January 1997. The preparation for the third stage represents, together with the co-ordination of the monetary policies of the Member States of the European Union, the EMI's main task. This takes the form, concretely, of the creation of the regulatory, organisational and logistical framework necessary for enabling the European System of Central Banks (ESCB) to perform its functions. With effect from 1st January 1999, the starting date of the third stage, this system, which will consist of the European Central Bank (ECB) and the national central banks, will be responsible for the pursuit of a single monetary policy in the new common currency, the euro.

Under the impetus of the Council of the EMI, a number of sub-committees and working parties are analysing the complex questions raised by the transition to EMU. These activities, in which the Bank is actively participating, cover a wide field: monetary policy, exchange rate policy, statistics, payments systems, information and communication systems, euro banknotes, the accounting rules for the participants in the ESCB, the supervision of banks and certain legal questions.

In January 1997, the European Monetary Institute published a report on the operational framework of the ESCB's future monetary policy. After it has been worked out in greater detail, this framework will be submitted for

decision to the ECB when the latter has been created. The preparatory work will enable it to pursue its chosen strategy — centred on the targeting of a monetary aggregate or on the direct targeting of inflation — and to have at its disposal a number of instruments whose use will be largely decentralised.

In the third stage, the ESCB will hold the official foreign exchange reserves of the countries of the euro area. Great attention has been paid to the finalisation of the operational framework for the management of these reserves and for the organisation of the interventions on the foreign exchange market. In this context the question of the reserves which the central banks participating in the monetary union will have to transfer to the European Central Bank has also been taken up, as the Statute of the ESCB stipulates that the ECB may hold official reserves amounting to the equivalent of ECU 50 billion.

The ESCB needs statistical information for both the conduct and the assessment of monetary policy. To this end it has to be determined what information must be available. This consists mainly of information which the central banks are already using. Nevertheless, the many differences in the definitions and methods often make it impossible just to pool the available data — hence the need to start straight away on the harmonisation of the statistical information.

The pursuit of a single monetary policy also entails requirements with regard to the circulation of payments. The creation of a single money market necessitates an infrastructure which will enable the banks to transfer money quickly and efficiently throughout the euro area. For this purpose work is in progress on the creation of a European payments system, called TARGET (see point 2.2).

With regard both to the implementation of the monetary policy and to the interventions on the foreign exchange market, a study

has been made of the technical conditions for enabling the ECB to choose a decentralised approach, as far as is considered possible and appropriate. This method of working, in order to be efficient, requires effective information and communication systems. The analysis and specification of the systems required to permit efficient exchange of information have already been started upon. Furthermore, the first steps have been taken with a view to the replacement of the EMI's teleconference system by a more modern system.

The euro will be the currency of each of the participating Member States from 1st January 1999. It will be possible for cashless payments to be made in euros from then on. The introduction of the euro banknotes and coins will take place on 1st January 2002 at the latest.

With regard to security, too, work has been started on the harmonisation of the rules for the cross-frontier transportation of funds which will take place within the euro area.

In order to make it possible to draw up a consolidated balance sheet of the ESCB, uniform rules and standards have been worked out for the presentation of the balance sheet and for valuation by the national central banks, at least as far as the balance sheet items concerning the activities of the ESCB as such are concerned. In this connection, attention is also being paid to the rules for determining the result and to the appropriate methods for ensuring that the income derived from the implementation of the monetary policy by the ESCB is fairly distributed among the national central banks belonging to the euro area.

Unlike the defining of monetary policy, the supervision of the banking system remains a national responsibility. However, the ESCB also has a role to play in this, as the Statute of the ECB and the ESCB contains certain provisions on the subject. Thus, the ECB has, in particular, a consultative function with regard to the European regulations concerning the supervision of credit institutions and the stability of the financial system.

Lastly, legal questions are also dealt with in the EMI. The Institute has for instance contributed actively to the preparation of the texts concerning the introduction of the euro. The legal framework for the operation of the instruments of monetary policy is also being closely studied. Many draft regulations, decisions and directives which are essential for the implementation of the monetary policy in the third stage have been finalised.

Outside the EMI, too, the work concerning the changeover to Monetary Union is continuing. Thus, the Bank is participating in the discussions held in the Monetary Committee of the European Union. Alongside subjects of a more general nature, such as the monitoring of monetary policy in the countries of the Union, the debate on the « Stability and Growth Pact » — a German proposal aimed at ensuring budgetary discipline in the countries participating in the monetary union after the start of the third stage — has also been on the agenda during the year under review. Furthermore, proposals have been made, in close collaboration with the EMI, concerning an exchange rate mechanism between the euro area and the countries which do not form part of it. The purpose of such a mechanism is, on the one hand, to prevent competitive devaluations and excessive exchange rate fluctuations which might disturb the operation of the single market and, on the other hand, to encourage convergence.

Other international activities

The Bank participated, as in the preceding years, in the studies made by the central banks of the countries of the Group of Ten. A whole range of questions connected with the financial and monetary fields were examined in the various committees. Thus, the Euro-currency Standing Committee published a number of proposals for improving the statistics on derivatives markets, the Group of Computer Experts published a study on the security of electronic money and the Committee on Payments and Settlement Systems published a report on the settlement risks in foreign exchange transactions. For its part, the Basle Committee on banking supervision pub-

lished recommendations amending the accord of 1988 to incorporate market risks, and also a series of reports and consultation documents, including a report on the supervision of cross-border banking and a study on public disclosure of the trading and derivatives activities of banks and securities firms. Still within the framework of the Group of Ten, the Alternates drew up a report for the Ministers of Finance and Governors concerning the problems of sovereign liquidity crises.

Following the Mexican crisis of 1995, the discussions about the surveillance exercised by the IMF over its members and concerning whether or not its financial resources are adequate continued in 1996. With regard to the strengthening of surveillance, the Fund established publication standards for a number of variables in four fields : the real economy, public finance, the financial economy and relations with foreign countries. Two standards are provided, one for the dissemination of special data and the other for the dissemination of general data. The more general standard will be created later ; on the other hand, subscription to the special standard was already possible from April 1996 onwards. Very shortly after that, our country notified the Fund of its formal adherence to this standard.

With regard to the strengthening of the Fund's financial resources, considerable progress was made in establishing new Arrangements to Borrow, supplementing the existing General Arrangements to Borrow.

As in the previous years, the Bank participated in the activities of the OECD, which is making a thorough study of economic and financial questions in various committees and working parties.

The Bank, furthermore, contributed to the training of 400 experts from other central banks, many of them from Central and Eastern Europe.

Since 1991, which marked the start of the assistance to the central banks of Central and Eastern Europe, the know-how possessed by these has increased considerably. That is why seminars, even specialised ones, are being gradually replaced by short study visits, and lectures are turning into exchanges of views.

Furthermore, the Bank's econometricians have given advice to the Central Bank of Slovakia on the construction of a monetary model for that country.

4. THE BANK'S CHANGEOVER TO THE EURO

Like any other enterprise, the Bank has to prepare for its changeover to the euro, on the plane of its internal operation. During the year under review the Bank started this work by creating the Steering Committee called « The NBB in Stage 3 ». This committee is presided over by a member of the Board of Directors, and a wide range of departments and services are represented in it. It is also interesting to mention that other European central banks have established a similar structure in order to prepare for the changeover to the euro.

The mandate of the Steering Committee is to prepare the Bank, firstly, for the introduction of the euro and, secondly, for participation, as an operational entity, in the European System of Central Banks (ESCB). The second aim mainly means that the Bank must be ready to participate in the implementation of the common monetary policy, the TARGET cross-border payments system and the collection of statistical data. The work therefore relates to concrete and operational adaptations, mainly in the field of data processing, which have to be made in the Bank in order to enable it to function effectively within the ESCB from the very first day of the third stage.

In order to organise the work, the Steering Committee has identified eight major fields of activity, corresponding to those of the sub-committees and working parties already existing within the EMI. These are monetary and exchange rate policy, payments systems, security clearing systems, statistics, the production and issuing of banknotes, accounting, data exchange and data processing. A responsible person has been appointed for each field.

The Steering Committee started by drawing up, for each field of activity, a complete list of all the projects and sub-projects which have to be carried out in the Bank. This inventory furthermore gives an initial indication of the time and resources required, and of

any links with other projects of the Bank. The persons in charge of the various activities have the task of creating technical working parties responsible for developing the projects. These working parties will maintain close contacts with the Bank's representatives in the various working parties of the EMI — or elsewhere — in order to make the activities on the internal and external planes consistent with each other.

Moreover, in view of the forthcoming Monetary Union, the statutes of the national central banks must be adapted in order, on the one hand, to ensure their compatibility with the Treaty on European Union and the Statute of the ESCB at the latest when the latter is established, and, on the other hand, to enable the national central banks to be integrated in the ESCB, not later than when the country enters the Monetary Union. The assessment of this « legal convergence » will form part of the report which the European Commission and the EMI will have to draw up at the beginning of 1998 in order to prepare the decisions of the Council of the European Union concerning the changeover to the single currency.

In order to meet these requirements, a draft of a new Organic Law of the Bank was produced. The EMI, to which this draft was submitted, expressed its approval. It furthermore stated its opinion that Belgium was the only country whose central bank's statutes would not require any further adaptation with a view to admission to the third stage of Monetary Union. The draft still has to be discussed and passed by Parliament.

The draft introduces into the Bank's Organic Law the principle whereby the latter will be an integral part of the ESCB and will be subject to the guidelines and instructions issued to it by the ECB. It specifies that the Bank's aims are those of the ESCB, i.e., chiefly, the maintenance of price stability and, without prejudice to the latter, support for

the general economic policies in the European Community, these aims being pursued with observance of the principle of an open-market economy with free competition (Article 3A of the EC Treaty). It enumerates the fundamental functions to be carried out through the ESCB. Within this framework, it confers on the Bank responsibility for the supervision of payment and security clearing systems. It also gives a list of authorised transactions, including the holding of any monetary reserves which the ECB may impose on the credit institutions.

The draft provides for a simplification of the organisation of the Bank. The Council of Regency, which will no longer have any decision-making power in the fields for which the ESCB is responsible, will take over the bulk of the administrative powers which are at present vested in the General Council, which will disappear. Moreover, the draft opens up the possibility of entrusting non-ESCB-related tasks to subsidiaries of the Bank.

Lastly, the changes made to the Bank's Organic Law will have the effect of further increasing its independence. On the institutional plane, the law of 22nd March 1993

already abolished the right of suspension of the Government Commissioner and the right of veto of the Minister of Finance with regard to decisions of monetary policy taken in accordance with the law and the Statutes. According to the draft law, the verification of the legality of the Bank's decisions by the Government Commissioner, who will henceforth have the title of Representative of the Minister of Finance, will relate only to functions and transactions which do not lie within the field of the ESCB. The personal independence of the Governor and the other members of the Board of Directors of the Bank will be strengthened in so far as the conditions for their dismissal by the King are defined in a limitative manner, in accordance with the Statute of the ESCB. As for the functional independence of the Bank, this will be ensured by recognition of the primacy of the aim of maintaining price stability over the other aims. The exercise by the Bank of functions other than those specified in the Statute of the ESCB will be subject to the tacit approval of the Board of Governors of the ECB, the latter basing its assessment on the possible interferences of these functions with the aims and tasks of the ESCB.

5. TRANSITION OF BELGIUM TO THE EURO

The Bank is giving its assistance in the preparation for the adaptation of Belgium to European Monetary Union.

Various departments and services of the Bank are participating in this work and, especially, in the analysis of certain financial, economic and legal matters. Thus, among other things, the Research Department provided material in 1996, by means of various working notes, for the thinking of the working party « Diagnosis and challenges of the Belgian banking sector », which examines the challenges which the opening up of the market and the introduction of the euro present for the Belgian banking system.

In August the main financial guidelines for the introduction of the euro in Belgium (« the national changeover plan »), prepared by a « Euro Group » under the chairmanship of the Director General of the Treasury, in which the Bank took part, were approved by the Council of Ministers. Their aim is to prepare for the gradual substitution of the euro for the Belgian franc in payments and on the financial markets.

At the same time the Council took cognisance of a communication from the Minister for Economic Affairs concerning the change-over of the Belgian economy to the euro.

In November, in view of the need to widen the field of thinking to all the sectors of the economy and administration, the Council of Ministers decided to establish a permanent co-ordination structure associating the private and public sectors, in the form of a General Commissariat for the euro. A member of the Bank's Board of Directors was called upon to act as chairman, and an advisor to the management was appointed Assistant General Commissioner.

The Commissariat has the task of administering all the aspects of Belgium's transition to the euro, particularly with regard to the exchange of information and ideas between the representatives of all the sectors concerned. It must pay special attention to the consistency of all the measures to be adopted.

The Bank made available to the Commissariat the necessary staff and logistical resources.

6. THE MEANS EMPLOYED

6.1 HUMAN RESOURCES

The reduction of the workforce which has been taking place since 1991 and which was interrupted in 1995 by the recruitments necessitated by the considerable extension of the Bank's statistical functions continued in 1996. The workforce was reduced by 52 units, on the basis of natural departures. At the end of 1996 the Bank thus had, in nominal terms, a permanent workforce numbering 2,866 members. This figure does not include the National Employment Office trainees or other members of staff with a temporary employment contract. In terms of full-time jobs, the real workforce amounts to 2,653 units, representing a decline of 50 units compared with the previous year. The difference between the nominal and the real workforce is chiefly attributable to part-time working (under schemes ranging from 90 to 50 p.c.), resorted to by a growing number of staff. At

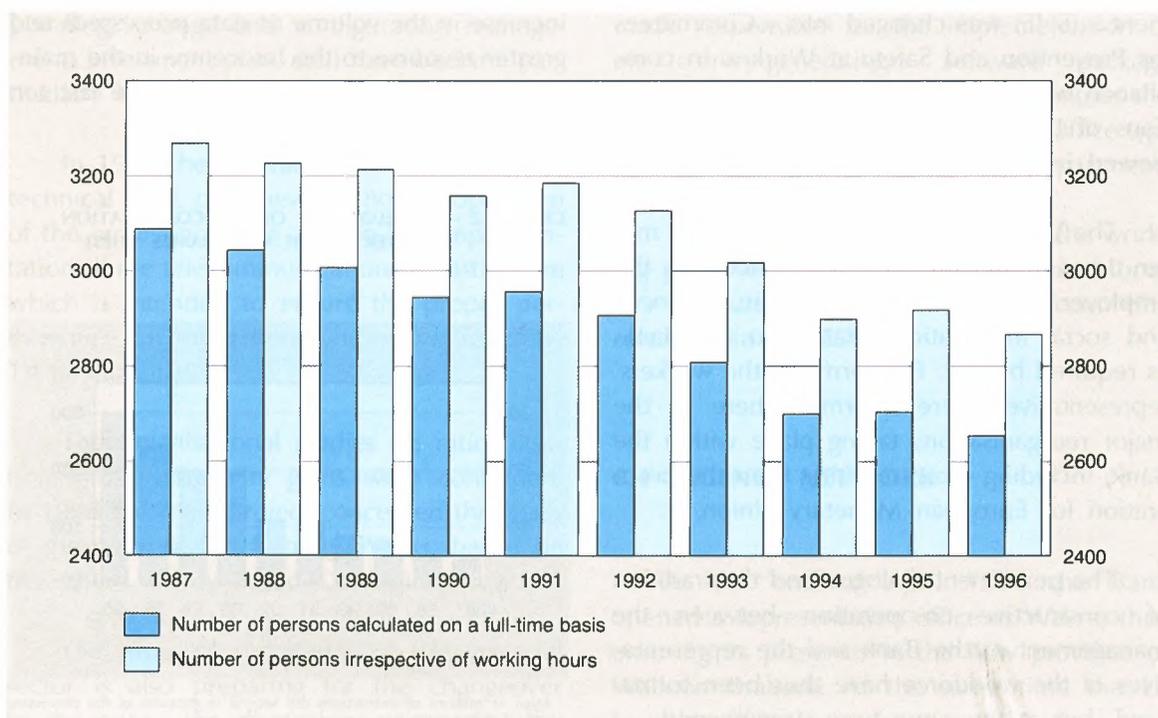
the end of 1996 more than 22 p.c. of the staff were working part-time.

It should be noted that under the agreement concluded at enterprise level on 6th October 1994, the Bank also fulfilled its undertaking regarding employment, relating to both permanent and temporary staff.

In accordance with a legal obligation, the Bank also began to recruit so-called « PEP » (première expérience professionnelle - first working experience) trainees from 1st July 1996 onwards.

The many reorganisations carried out within the Bank in recent years and the transformation, with effect from 1st January 1997, of four agencies into representation offices made it necessary for the Social Affairs Department to pursue an active reassignment policy. The persons moved are thus given

CHART 11 — STAFF NUMBERS AT THE END OF THE YEAR



assistance partly through the organisation of the necessary retraining schemes.

On average, each member of staff participated in 1996 in three days of training. The chief field involved is data processing, accounting for nearly 40 p.c. of the retraining courses attended. Next in order come banking and financial training courses, management seminars, training schemes in the fields of security and language courses. Two thirds of the programmes are organised within the enterprises; the other training courses are entrusted to external bodies.

The possibility of taking early retirement from the age of 56 onwards, introduced by the collective labour agreement of 6th October 1994, was extended until 31st December 1997. Twenty-five members of staff took advantage of it during the year under review.

The system of assessment of managerial and supervisory staff was slightly changed, while the flexible system of remuneration for that staff category, introduced in 1991, was adapted.

In accordance with the law of 4th August 1996, the name « Committees for Safety, Hygiene and Embellishment of Working Environment » (SHE) was changed into « Committees for Prevention and Safety at Work ». In compliance with these legal provisions, the functions of the existing SHE service will be reviewed in the course of 1997.

The Works Council, created in 1995, met ten times in 1996. During these meetings, the employer provided the economic, financial and social information relating to the Bank, as required by law. Furthermore, the workers' representatives were informed there of the major reorganisations taking place within the Bank, including those resulting from the preparation for European Monetary Union.

The permanent dialogue and the tradition of constructive co-operation between the management of the Bank and the representatives of the workforce have thus been formalised, but at the same time strengthened.

6.2 DATA PROCESSING AND ORGANISATION WORK

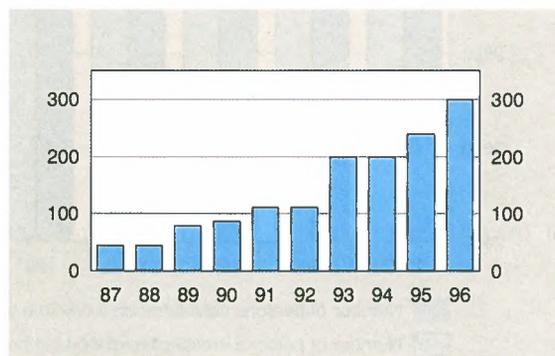
As during the previous year, the most outstanding data-processing developments in 1996 related to payment systems (see point 2.2 ELLIPS and TARGET), security clearing (see point 2.1) and statistical activities (see point 2.6).

All the project teams made estimates of the resources necessary for the changeover to the third stage of Monetary Union. It may either be necessary to change existing applications (for instance, the BEF/EURO conversions), or to develop new applications if the ways in which certain transactions are carried out within the ESCB are fundamentally different from those at national level.

The Bank's workload with regard to data processing will be particularly heavy during the next two years owing to the changes for EMU, on the one hand, and the transition to the year 2000, on the other.

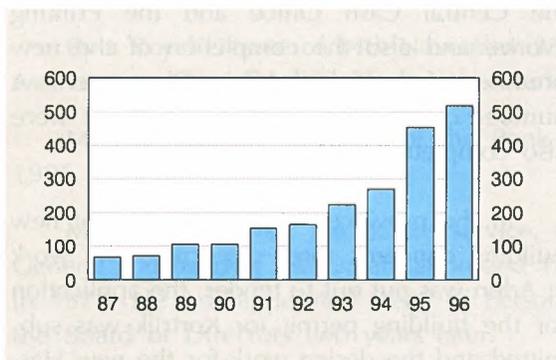
The development of the computation power and storage capacities is influenced by the new developments, the extensions of existing applications (new functions but also an increase in the volume of data processed) and greater recourse to the Infocentre in the mainframe. The steady growth during the last ten

CHART 12 — 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 13 — DEVELOPMENT OF THE DISC STORAGE CAPACITY OF THE MAINFRAMES (GIGABYTES)¹



¹ Gigabyte = 1 billion characters.

years, illustrated by the charts above, will continue further.

The expansion of processing and storage capacities is not confined to the central system. The growth is also very marked at the level of the minicomputers (the storage capacity has been quadrupled during the last five years) and of the LAN (over 1,300 work stations were connected to the LAN at the end of 1996, against only 300 in 1992).

As a result, the functions of management of the data-processing resources (capacity planning, change and configuration management, investment plan, etc.) have become particularly important.

In 1997 the emphasis will be laid, at the technical level, on a new method of operation of the emergency plan and on the implementation of the telecommunications infrastructure which is intended to ensure the proper performance of transactions within the ESCB by 1st January 1999.

The organisational studies on rationalisation and productivity gains were continued. In 1996 the main project concerned the study of the costs of the Printing Works, based on the ABC (Activity Based Costing) approach.

The protocol secretariat of the financial sector is also preparing for the changeover to the euro: the discussions concerning the

new transfer form were started during the second half of 1996.

Lastly, on the international plane, the Bank is participating, including in the data-processing field, in the work of various technical groups composed of representatives of central banks. The tasks are particularly numerous at European level, where the groups of experts have been entrusted with the task of co-ordinating the projects connected with the changeover to the third stage of European Monetary Union for all the data-processing aspects.

6.3 SYSTEM OF ACCOUNTING INFORMATION

During the past year a working party defined the functional and technical requirements of a new accounting information system for managing the Bank's general accounts. Its recommendation led to the purchase, at the end of 1996, of a software package. The work is continuing and will relate, in 1997, to the putting into operation of that software.

Parallel with this, a second team has been made responsible for the implementation of an « entry-generating » software package which will translate into accounting entries the transactions recorded in the Back Office application of the Financial Markets Department.

The Bank is also participating in the working party set up within the European Monetary Institute for harmonising the accounting rules within the ESCB.

6.4 AGENCY NETWORK

At the end of April 1996 the Bank opened a representation office at Wavre, thus ensuring its presence in the new province of Walloon Brabant. At the same time the La Louvière office was closed.

On 1st January 1997 the Mechelen, Roeselare, Turnhout and Verviers agencies were transformed into representation offices : these establishments therefore no longer carry out any operations with the financial institutions. They only perform services to individuals and enterprises. This movement forms part of the rearrangement of the Bank's activities outside the head office.

6.5 BUILDING WORK

The modernisation of the old head office buildings in Brussels is continuing, from the point of view of both the refurbishing of the

premises and of the technical infrastructure. Mention should be made, in particular, of the continuation of the work of modernisation of the Central Cash Office and the Printing Works, and also the completion of the new premises of the Social Affairs Department. A number of asbestos-removal operations were also completed.

In the provinces, the programme of new building concerns three agencies : the work at Arlon was put out to tender, the application for the building permit for Kortrijk was submitted and the design work for the new Hasselt agency was started.

Conversion work for improving security was carried out at several establishments.

7. ADMINISTRATION AND SUPERVISION

By a Royal Decree of 14th November 1996, the term of office of Director Robert Reynders was renewed for a period of six years starting on 1st November 1996.

Mr Jean Pouillet, Secretary of the Bank since 1st January 1986, retired on 1st November 1996.

Mr Pouillet entered the Bank's service, as an advisor, in 1969, was appointed Inspector-General and head of the Organisation and Training Department in 1970 and Assistant Manager in 1974. He was appointed Head of Personnel in 1978 and achieved the rank of Advisor to the Board of Directors two years later.

Creative and enthusiastic, he always performed all the tasks entrusted to him with keenness and devotion. With his departure, our Institution has lost not only a frank and likable colleague but also a painstaking and ardent man who has always encouraged the automation of the Bank.

As a token of gratitude for the valuable contribution which Mr Pouillet has made to our Institution, the Board of Directors conferred upon him the title of Honorary Secretary.

The Board appointed Mrs Marcia De Wachter, Department Advisor in the General Secretariat, to succeed Mr Pouillet.

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The Bank was saddened, in 1996, by the death of four members of its staff :

Mr Jozef Heymans, Mrs Eliane Maurissen-Ledent, Miss Ann Van Acker and Mr Raymond Vrijdagh.

The Bank will always remember them.

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The Bank wishes to express its gratitude to the members of the managerial and supervisory staff who reached the end of their careers :

Mr Jean Pouillet, Secretary of the Bank, and Miss Jacqueline Rondeux, Inspector-General, Head of the Secretariat of the Board of Directors.

It also thanks the following members of the clerical staff whose careers came to an end during the past year :

Mr Jules Annoye, Mr Raymond Borowiak, Mrs Francine Van der Gracht-Borloo, Mr Albert Bortier, Mr Maurice Brisaert, Mr Jacques Bulcaen, Mr Jean Caron, Mrs Monique De Ruyver-Charton, Mrs Arlette Verbaandert-Coens, Mr Henri Constant, Mr Henri Deprins, Mrs Yvonne De Troch, Mrs Micheline Delvaux-Devaux, Mrs Jeanine Delattre-De Vos, Mr Adolphe Dormal, Mr Noël Fournier, Mrs Clara Lanckmans-Gatz, Mrs Marie-Jeanne Timmermans-Gillet, Mr Jean Gloden, Mr Jozef Goossens, Mrs Nicole Hardy-Goossens, Mr Guilielmus Hendrickx, Mr Guy Hoebeeck, Mr Willy Ingelbrecht, Mrs Jacqueline Hasey-Joachim, Mr Gerard Lievens, Mrs Florette Dury-Loriau, Mr Auguste Massart, Mrs Huguette Moerenhout-Mertens, Mrs Maria Van Riet-

Moens, Mr André Moriau, Mrs Anna Gyesbreghs-Neys, Mr Alexander Olivier, Mr Heinz Peifer, Mrs Julienne Beele-Pirlet, Mrs Marie De Sutter-Plas, Mr Jean-Marie Preudhomme, Mrs Annette Delsaux-Schoy, Mr Paul Seghers, Mrs Yvette Avaert-Timmermans, Mr Ghislain Vanbets, Mr Jozef Van den Bossche, Mr Jan Vanderlinden, Mr Frans Van Gucht, Miss Nicole Vanlaethem, Mr Arthur Van Messen, Mr Jozef Vanvoorden, Mr Marcel Verbist, Mrs Liliane Vermeir-Verhavert, Mrs Jeannine Frère-Verheyden, Mrs Isabella Van Den Branden-Vermoesen, Mrs Paule Van Geysseel-Vinck, Mr Hendrik Wauters, Mrs Marie-Louise Smolders-Weckx, Mr Jules Willems.

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In accordance with Article 83 of the Statutes, the ordinary general meeting of shareholders was held on Monday 26th February 1996.

The report on the activities of the financial year 1995 had been sent, within the period laid down by Article 41 of the Statutes, to the holders of shares which were the subject of a nominal entry or which had been deposited at the Bank.

On the basis of Article 86 of the Statutes, the two largest shareholders present who did not form part of the Bank's administration were appointed scrutineers. They established that the provisions of the Statutes concerning the publication of and participation in the meeting had been complied with.

The Governor first of all reported on the operations of the financial year 1996 and answered the questions put to him by the shareholders. He then read out the report on the meeting of the Works Council of 23rd February 1996 during which the latter, in accordance with the legal provisions and regulations, had stated its opinion on the annual information provided to it.

The Governor then announced the names of the candidates for the offices of regent and censor which had become vacant and called upon the meeting to vote.

The periods of office of Messrs Philippe Wilmès and Eddy Wymeersch, proposed by the Minister of Finance, and that of Mr Roger Ramaekers, presented by the most representative trade organisations, were renewed for a term of three years. The periods of office of Messrs Hubert Detremmerie, Christian D'Hoogh and Gérald Frère were extended for the same length of time.

Mr. Petrus Thys was elected censor by the meeting, to succeed Mr. Willy Danckaert, who did not wish to have his term of office renewed. That of Mr Thys will expire at the end of the ordinary general meeting of February 1999.

The Governor paid tribute to Mr Willy Danckaert, who has participated in the activities of the Bank's Boards, without interruption, since 27th February 1984. In token of respect and gratitude, the meeting authorised him to bear the title of honorary censor.

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On 25th January 1996 the law of 18th June 1996 amending the law of 24th August 1939 concerning the National Bank of Belgium and the law of 2nd January 1991 concerning the market in public-debt securities and the instruments of monetary policy was published in the Belgisch Staatsblad/Moniteur belge.

Article 2 of the law of 18th June 1996 adapts Article 11, 2° of the Bank's Organic Law to the list of operations contained in the Statute of the European System of Central Banks (ESCB), which authorises the national central banks to grant credit to credit institutions and other market participants on the basis of an appropriate security for the loans.

Article 3 of that same law introduces a new Article 15 into the Organic Law and serves the purpose of guaranteeing the credits granted by the Bank, during or at the end of the day, to the credit institutions or to other possible participants in the market. To this end, the law grants our Institution a special privilege with regard to securities in order to ensure the repayment of its credits (see point 2.1).

At its meeting on 28th August 1996 the Board of Directors of our institution adapted Article 17, 2° of the Statutes in order to make it comply with the amended provisions of the Organic Law. This amendment to the Statutes was subsequently approved by the Royal Decree of 15th October 1996, published in the Belgisch Staatsblad/Moniteur belge of 13th November 1996 (see Annex No. 6).

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At the beginning of 1997 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 DELRUELLE,
Michel NOLLET.

Censors :

Messrs Hubert DETREMMERIE, Chairman,
Roger MENE, Secretary,
Maurice CHARLOTEAUX,
Christian D'HOOGH,
Jacques FOREST,
Philippe GRULOIS,
Herman VERWILST,
Gérald FRERE,
Chevalier Paul BUYASSE,
Petrus THYS¹.

Secretary : Mrs Marcia DE WACHTER².

Treasurer : Mr Serge BERTHOLOME.

Government Commissioner : Mr Grégoire BROUHNS.

ADVISORS TO THE BOARD OF DIRECTORS :

Messrs Jean-Victor LOUIS,
Jan MICHIELSEN,
Henri BARBE.

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AUDITORS

Mr Pierre BERGER,
Mrs Danielle JACOBS.

¹ Elected by the ordinary general meeting of 26th February 1996 to replace Mr Willy Danckaert, who did not wish to have his term of office renewed.

² Appointed, with effect from 1st November 1996, by the General Council at its meeting on 26th June 1996, to succeed Mr Jean Pouillet, who retired on 31st October 1996.

DEPARTMENTS AND SERVICES

Social Affairs Department — Mr J. LEEMANS, Assistant Director,
Personnel manager.

Wages and Social Affairs Administration

Head Mr A. REITER, Inspector-General.

Training

Head Mr 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,

Heads of Division Messrs R. THIRION, M. DRION, 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,

Head of Division Mrs E. DE GROOTE.

Central Credit Offices

Head Mr R. TROGH, Head of Division,

Head of Division Mrs G. DALL'AGLIO-TIMMERMANS.

Cashless Payments

Head Mr A. VAES, Head of Division,

Heads of Division Messrs V. DECONINCK, B. BOURTEMBOURG.

Accounting and Budgetary Control Department — Mr C. DEKEYSER, Assistant Director.

Accounting

Head Mr J. TAVERNIER, Head of Division,

Heads of Division Messrs M. HINCK, L. HENRY.

Budgetary Control

Head Mr J. VANDEUREN, Inspector-General,

Head of Division Mr R. VAN KEYMEULEN.

Equipment and General Services Department — Mr K. VANDENEDEE, 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,
Economists Messrs M. MARECHAL, D. GOSSET.

Documentation

Head Mr W. VERTONGEN, Inspector-General,
Head of Division Mrs G. VAN QUATHEN-VAN HOVE.

Printing Department — Mr M. SALADE, Assistant Director.

Administrative Service

Head Mr Y. TIMMERMANS, Head of Division.

Prepress and Studies

Head Mr J.-C. GILLES, Head of Division.

Production and Engineering

Head Mr G. PONNET, Head of Division.

Financial Markets Department — Mr J. MICHIELSEN, 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,
Heads of Division Messrs R. VAN HEMELRIJCK, M. RUBENS.

Security Accounts

Head Mr W. STEPPE, Inspector-General,
Heads of Division Messrs R. ROOTHANS, L. EICHER.

Front Office

Head Mrs A. VAN DEN BERGE, Head of Division,
Advisor Messrs N. VANDECAN, E. LAVIGNE,
Heads 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	Mr A. HUET,
Head of Division	Mr E. COLMAN,
Senior Analyst	Mrs A.-M. LEJEUNE,
Senior Systems Engineer	Mr L. ESPAGNET.
Electronic Centre	
Head	Mr L. DUFRESNE, Inspector-General,
Senior Systems Engineer	Mr M. CHARLIER.
EDP Projects Development	
Head	Mr J.-P. HOYOS, Inspector-General,
Inspectors-General	Messrs P. LAUWERS, B. GROETEMBRIL,
Senior Analysts	Mrs H. VANDOORNE-VAN HECKE, Messrs J. FRANCOIS, J.-M. PLISNIER, E. DE SMET,
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, Messrs H. DEVRIESE, P. DE PICKER.

General Secretariat Department — Mr W. PLUYM, Assistant Director.

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	Mr L. AELES, Head of Division.

General Statistics Department — Mr B. MEGANCK, Assistant Director.

Inspector-General	Mr G. POULLET.
Data Bank Unit	
Inspector-General	Mr A. WOUTERS,
Advisor	Mr J. PALATE.
Balance of Payments	
Head	Mr G. MELIS, Inspector-General,
Heads of Division	Messrs M. EECKHOUT, P. SARLET, R. DE BOECK, P. D'HAVE, B. VEREERTBRUGGHEN.

Foreign Trade Statistics

Head	Mr J. DAENEN, Head of Division,
Inspector-General	Mr D. VERMEIREN,
Head of Division	Mr J. WIELEMANS.

Financial and Economic Statistics

Head	Mr R. ACX, Head of Division,
Head of Division	Mr G. VAN GASTEL.

Services directly subordinate to a member of the Board of Directors

Internal Audit

Head	Mr J. HELFGOTT, Inspector-General,
Inspectors	Mrs J. MAESSEN-SIMAR, Messrs M. MATTENS, L. BODRANGHIEN.

Euro Cell

Heads of Division	Messrs J. DELPEREE, P. QUINTIN.
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Collections and Staff Library

Head	Miss C. LOGIE, Inspector-General,
Head of Division	Mr Y. RANDAXHE.

International Co-operation

Head	Mr P. VAN DER HAEGEN, Inspector-General,
Advisors	Mrs G. DURAY-BIRON, Messrs D. SERVAIS, J. MONT, P. LEFEVRE, D. OOMS.

Legal Service

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.

Services subordinate to the Treasurer

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.
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Security Supervision

Head	Mr J.-P. DE JONGE, Head of Division.
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Branches and Agencies Department — Mr W. VAN DER PERRE, Assistant Director.

Head of Division	Mr P. BOBYR.
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Branches

Antwerp

Administrator	Mr L. VAN DER VEKEN,
Inspector-General	Mr F. SERCKX,
Heads of Division	Messrs F. VAN NIEUWENHOVE, D. VANDEN BROECK, J. LIBENS.

Liège	
Administrator	Mr M. SIMAL,
Head of Division	Mrs J. SOUVEREYNS-ROUMA.
Luxembourg	
Administrator	Mr E. de LHONEUX.
Advisor	Mrs A. BILLON-JACQUEMART ¹

Agencies

Aalst	
Agent	Mr A. VERHELST,
Head of Division	Mr M. REDANT.
Arlon	
Agent	Mrs J. DAUCHOT-DE BEER.
Brugge	
Agent	Mr P. TACK,
Heads of Division	Messrs P. BOGAERT, M. JOOS.
Charleroi	
Agent	Mr Y. LEBLANC,
Head of Division	Mr R. HAENECOUR.
Kortrijk	
Agent	Mr L. MUYLEAERT,
Head of Division	Mr J. PANNEEL.
Gent	
Agent	Mr J. VICTOR,
Head of Division	Mr P. VAN GYSEGEM.
Hasselt	
Agent	Mr T. DE ROOVER,
Head of Division	Mr R. MAES.
Leuven	
Agent	Mr L. GHEKIERE,
Head of Division	Mr L. LAGAE.
Mons	
Agent	Mr R. COLSON.
Namur	
Acting Manager	Mr P. BISSOT.
Turnhout	
Agent	Mr M. DE GEYTER.

¹ Belongs tot the staff of the Luxembourg Monetary Institute.

Representation Offices

Mechelen Manager	Mr G. MINNAERT.
Malmedy Manager	Mr J.-Y. BOULANGER.
Marche-en-Famenne Manager	Mr D. BRISBOIS.
Oostende Manager	Mr J. BUSSCHE.
Roeselare Manager	Mr J. VANDERGUNST.
Sint-Niklaas Manager	Mr L. DE SAVEUR.
Tournai Manager	Mr J.-L. MALVOISIN.
Verviers Manager	Mr A. SMETS.
Wavre Manager	Mrs A. PEPIN-LEDENT.

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Office of Mr Di Rupo, Vice-Prime Minister and Minister for the Economy and Telecommunications,
Mrs F. LEPOIVRE-MASAI, Inspector-General.

Office of Mr Van Rompuy, Vice-Prime Minister and Minister for the Budget,
Mr H. FAMEREE, 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 Union,
Mr P. VIGNERON, Inspector-General.

Belgian Permanent Representation with the Organisation for Economic Co-operation and Development,
Paris,
Mr D. SLAATS, Advisor.

Office of the Belgian Executive Director with the International Monetary Fund, Washington,
Mr D. DACO, Advisor.

On mission on behalf of the International Monetary Fund at the Central Bank of Haiti,
Mr J.-C. PAUWELS, Inspector-General.

On mission at the National Bank of Cambodia,
Mr R. BEERENS, Head of Division.

Annual Accounts

BALANCE SHEET AS AT 31st DECEMBER 1996 (after distribution of profit)**ASSETS***(Thousands of francs)*

	1996	1995
Gold	181,708,771	232,578,854
Foreign currencies	411,377,683	285,926,007
Special Drawing Rights (SDRs)	15,946,013	14,478,948
Participation in the IMF	34,390,366	29,547,520
Loans to the IMF	—	—
Deposit with the IMF within the framework of the ESAF	8,283,942	7,870,518
Ecus	86,466,359	118,874,195
EMI : Very-short- and short-term financing	—	—
EC : Medium-term financial assistance	—	—
International agreements	3,194,130	3,335,076
Advances against pledged security	20,856,644	19,437,084
Commercial bills	2,853,483	3,329,377
Securities purchased in the market	24,911,996	23,855,328
Claims due to other interventions in the money market	127,733,098	128,472,630
Coin	418,454	954,536
Statutory investments (Art. 21)	48,815,407	46,694,169
Premises, equipment and furniture	12,733,138	13,109,790
Other assets	1,392,601	397,425
Regularisation accounts	9,783,734	7,464,917
TOTAL ASSETS	990,865,819	936,326,374

LIABILITIES

(Thousands of francs)

	1996	1995
Notes in circulation	464,675,449	445,836,651
Current accounts in francs	4,814,070	18,600,899
Deposit of the Belgian State	653,444	475,980
Deposit of the Luxembourg State	3,751	984
Certificates of the Bank	230,000,000	
Liabilities due to interventions in the money market	5,132,176	8,061,687
Current accounts in foreign currencies	7,356	357
Counterpart of allocations of SDRs	22,331,943	21,217,430
EMI : Very-short- and short-term financing	—	—
Unavailable reserve of capital gains on gold	1,133,583	166,531,698
Other liabilities	7,395,401	1,934,888
Regularisation accounts	1,511,451	200,764
Valuation differences on gold and foreign exchange	190,515,014	212,918,949
Provision for tax burdens	—	15,050
Provision for premises	1,305,981	1,312,981
Provision for contingencies	10,350,000	10,250,000
Capital	400,000	400,000
Reserve fund :	50,636,200	48,568,056
<i>Statutory reserve</i>	3,322,942	3,184,934
<i>Extraordinary reserve</i>	35,200,631	32,870,631
<i>Account for depreciation of premises, equipment and furniture</i>	12,112,627	12,512,491
TOTAL LIABILITIES	990,865,819	936,326,374

PROFIT AND LOSS ACCOUNT AS AT 31st DECEMBER 1996

(Thousands of francs)

	1996	1995
RECEIPTS		
Proceeds of transactions with foreign countries . . .	24,797,002	21,273,498
Proceeds of credit transactions	3,970,762	6,321,832
Proceeds of statutory investments	4,001,405	3,608,488
Commission	170,469	262,918
Amounts recovered from third parties	1,768,115	1,907,492
Drawings on provisions	42,050	43,000
Other proceeds	380,435	192,421
	35,130,238	33,609,649
EXPENDITURE		
State share :	17,456,688	17,554,861
<i>Transactions with foreign countries</i>	16,136,659	14,330,968
<i>Credit transactions</i>	1,320,029	3,223,893
General expenditure :	8,464,858	8,308,525
<i>Remuneration and social costs</i>	6,884,976	6,853,463
<i>Other expenses</i>	1,579,882	1,455,062
Exceptional costs	1,554,788	
Depreciation of premises, equipment and furniture	664,093	671,325
Provision for tax burdens	—	15,050
Provision for premises	20,000	400,000
Provision for contingencies	100,000	100,000
Taxes and dues	3,137,493	2,770,537
Net profit for distribution	3,732,318	3,789,351
	35,130,238	33,609,649

DISTRIBUTION OF PROFIT*(Thousands of francs)*

	1996	1995
Profit to be appropriated	3,732,318	3,789,351
The profit is distributed as follows :		
Appropriation to the extraordinary reserve	2,330,000	2,415,000
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	137,832	135,035
b) 8 % to the staff	110,265	108,028
3. Of the amount in excess of this :		
a) to the State, one fifth	226,044	221,458
b) to the shareholders, a second dividend	904,000	885,332
c) the balance to the statutory reserve	177	498

As the distribution of the profit was approved by the General Council on 29th January 1997, coupon No. 195 will be payable with effect from 1st March 1997 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. 2,320	Fr. 580	Fr. 1,740

OFF-BALANCE-SHEET ITEMS AS AT 31st DECEMBER 1996

(Thousands of francs)

	1996	1995
Liabilities which could lead to a credit risk		
Firm undertakings to provide funds	69,188,936	51,739,068
Valuables and claims entrusted to the Institution		
For encashment	4,568	17,233
Assets managed on behalf of the Treasury	9,738,908	8,487,201
Assets managed on behalf of the EMI	85,525,398	91,019,122
Safe custody deposits	9,113,341,578	8,212,718,480

Explanatory notes to the annual accounts

INTRODUCTION

The valuation rules for social charges have been changed in order to charge against the financial year the wages and salaries, allowances and other social benefits which will be paid during a subsequent financial year in respect of services rendered during the current or earlier financial years. This accounting correction appears in the Profit and Loss Account under a new heading : « Exceptional costs ».

The issuing of certificates of deposit by the Bank has led to the creation on the liabilities side of a new item entitled : « Certificates of the Bank ».

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. 381,336.0283 per fine kilogram on 31st December 1996, against Fr. 364,056.7213 on 31st December 1995. 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 1996 the gold holding decreased as a result of arbitrage transactions against foreign currencies in respect of 203 tonnes. The capital gains made on these arbitrage transactions amount to Fr. 69.5 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 these arbitrage transactions are entered in a special unavailable reserve account appearing on the liabilities side of the balance sheet.

Following the said reduction in the gold holdings, the contribution of gold to the EMI, made within the framework of the quarterly renewal of the swap transactions with that institution, contracted and gave rise to a repayment of 40.6 tonnes of fine gold to the Bank. As at 31st December 1996 the gold sold spot to and repurchased forward from the EMI against ecus represents the equivalent of Fr. 45.4 billion. It is not included under this heading, but its management is still entrusted to the Bank.

A small quantity of the gold holdings was placed in the market, with full observance of the safety criterion.

FOREIGN CURRENCIES

Holdings in foreign currencies appear in the balance sheet at their equivalent in francs calculated at the indicative market rates on the last working day of the year as published by the Bank. The translation differences, i.e., respectively, the differences between the

purchase price of these assets and their value at the 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. 125.5 billion. This rise is chiefly due to arbitrage transactions of gold against foreign currencies, net purchases of foreign currencies within the framework of various transactions with central banks and international institutions, and the collection of the proceeds of investments abroad. Furthermore, the foreign currencies which the Bank acquired by intervening on the foreign exchange market were partly allocated for the redemption of the public debt in foreign currencies, the balance being sold spot and repurchased forward within the framework of contracts against Belgian francs with resident credit institutions.

Moreover, the Bank, in implementation of the Royal Decree of 18th October 1996, made repayments of the government debt in foreign currencies by means of the capital gains realised up till 1st July 1996 in connection with the arbitrages of assets in gold against other external reserve elements. The foreign currencies used in the redemption operations were compensated for by the purchase of foreign currencies, following the reduction in the outstanding amount of the forward claims in currencies resulting from the non-renewal of the above-mentioned contracts. The outstanding amount of the forward claims, valued at market prices, amounted on 31st December 1996 to Fr. 348.7 billion, whereas it had totalled Fr. 373.9 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. While the state receives the income from its assets, the income from the US dollars placed on behalf of the EMI is attributed to the Bank.

The holdings in foreign currencies are invested in time deposits, in easily negotiable foreign securities and in the form of repurchase agreements, account being taken of the criteria of safety, liquidity and yield.

On purchase, securities in foreign currencies are recorded at purchase price. A portion of the difference between the latter and the maturity value is, each year, in the profit and loss account, added to or subtracted from the interest produced by the securities, pro rata temporis of the residual life of the securities and by a linear method. In the balance sheet the securities are valued at their purchase price plus or minus the portion of that difference which has been imputed in the profit and loss account since the purchase of the securities.

SPECIAL DRAWING RIGHTS (SDRs)

Special Drawing Rights are reserve assets created ex nihilo by the IMF and allocated by it to its members. SDRs are used in transactions between official monetary authorities. The item undergoes changes as a result of the receipt and payment of interest and owing to transactions with other countries and with the Fund. The last allocation was made in 1981. In accordance with Article 6 of Decree-Law No. 5 of 1st May 1994 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. 46.0219 for one SDR (Fr. 43.7251 at the end of 1995). 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 346.5 million on 31st December 1996, against SDR 331.1 million a year earlier. The net use of the holding of SDRs on the balance sheet amounted to SDR 138.8 million.

PARTICIPATION IN THE IMF

The amount shown against this heading represents the equivalent in francs of Belgium's reserve tranche, that is, the rights possessed by the Belgian Government in its capacity as a member of the IMF, which the Bank shows as its own assets by virtue of Article 6 of the aforementioned Decree-Law No. 5 of 1st May 1944. These rights correspond to the difference between Belgium's quota in the IMF, namely SDR 3,102.3 million, and the Fund's holdings of Belgian francs. They can be sold to the IMF at any time in order to obtain convertible currencies for financing a balance of payments deficit.

The change in these rights may also result from transactions carried out in Belgian francs, from the granting of credit by the IMF in favour of member countries faced with the same type of deficit or from the repayment of such credits by these countries, as well as from transactions in Belgian francs carried out by the Fund for its own account.

The reserve tranche is 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 747.3 million, against SDR 675.8 million a year earlier.

LOANS TO THE IMF

The purpose of this item is to record any claims held by the Bank on the Fund as a result of any loans granted to it on its own account, and also to record the Belgian State's claims on the IMF in the event of implementation of the General Arrangements to Borrow — by which the member countries of the Group of Ten undertook to provide the Fund with resources in the cases specified by these agreements. The last-mentioned claims would be shown in the Bank's accounts as its own assets in accordance with Article 6 of the aforementioned Decree-Law No. 5 of 1st May 1944. On the balance sheet date, as was the case a year earlier, there were no loans to the IMF.

DEPOSIT WITH THE IMF WITHIN THE FRAMEWORK OF THE ESAF

The amount shown under this heading is the equivalent of the SDRs which the Bank has paid into a special deposit account with the IMF in respect of Belgium's participation in the Enhanced Structural Adjustment Facility (ESAF). The purpose of this credit facility

is to support the efforts of low-income developing countries which undertake macroeconomic and structural adjustment programmes.

The deposits are valued at the same exchange rate as that applied to holdings of SDRs. On the balance sheet date they amounted to SDR 180 million.

ECUS

These are the ecus which the Bank received in connection with the swap transactions whereby it contributed to the EMI 20 p.c. of its gold and of its gross holdings in US dollars, plus or minus the ecus purchased or transferred in respect of interest on the net position in ecus or in connection with transactions with other central banks of the European Union.

The ecus are valued on the balance sheet date at the market exchange rate of the last working day of the year, as published by the European Commission, namely Fr. 40.1021 for 1 ecu on 31st December 1996 against Fr. 38.6979 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 ».

The breakdown of the holdings of ecus is as follows :

	31-12-1996		31-12-1995	
	Ecus	BEF	Ecus	BEF
— Holdings in respect of swap transactions	2,156.2	86,466	2,336.3	90,409
— Other holdings	—	—	735.6	28,465
Total	2,156.2	86,466	3,071.9	118,874

The EMI's swap transactions on the balance sheet relate to the transfer of 119.1 tonnes of fine gold and 1,252.8 million US dollars. (End of 1995 : 159.7 tonnes of fine gold and 1,116.2 million US dollars).

The quantity of ecus made available to the Bank by the EMI upon the renewal of the swap transactions contracted in 1996 owing to the smaller contribution of gold to that institution, due to the reduction in the gold holdings. This decrease was partly counter-balanced both by the Bank's larger contribution of US dollars following an increase in its reserves in that currency and by the combined rise in the price of gold and the exchange rate for the US dollar which are applied in these swaps.

As a result of the resale in 1996 of the other holdings of ecus against foreign currencies to central banks belonging to the EMS, the Bank no longer has a net position in ecus.

EMI : VERY-SHORT- AND SHORT-TERM FINANCING

The figures shown under this heading represent, where appropriate, the Bank's claim, expressed in ecus, on the EMI in respect of the very-short-term financing of interventions

carried out either at the exchange rates for compulsory intervention in the foreign exchange mechanism of the European Monetary System or within the framework of special agreements concluded between participants in the EMS.

This item would also record any claims which the Bank may hold in respect of the short-term monetary support among the central banks of the Member States of the European Union.

INTERNATIONAL AGREEMENTS

This item is reserved for recording claims in francs on non-EU countries with which Belgium has concluded payment agreements. The balances appearing under it represent the outstanding amount of the advances granted under these agreements, the execution of which is governed by the agreement of 15th June 1972 between the State and the Bank.

ADVANCES AGAINST PLEDGED SECURITY

The following are included under this heading :

	31-12-1996	31-12-1995
— Fixed-term advances against the pledging of public securities granted through the periodical allocation of credits by tender	19,775,000	19,075,000
— Daily closing credits granted to the financial intermediaries in the form of current account advances	1,081,644	360,627
— Other current account advances		1,457
Total	20,856,644	19,437,084

COMMERCIAL BILLS

The item consists of :

	31-12-1996	31-12-1995
— Commercial bills purchased under repurchase agreements in connection with the periodical granting of credits by tender	224,956	950,396
— Commercial bills mobilised at the official discount rate and counted against the credit institutions' individual mobilisation ceilings	2,628,527	2,378,981
Total	2,853,483	3,329,377

SECURITIES PURCHASED IN THE MARKET

This item records the Treasury certificates, bonds and other securities traded in the money or capital markets which the Bank acquired directly in these markets in pursuit of its open-market policy.

When purchased, the securities are recorded in the accounts at the purchase price. They are valued on the basis of their actuarial yield, calculated on purchase, account being taken of their redemption value at maturity. The difference (premium or discount) between the purchase price and the redemption value is carried to the profit and loss account pro rata temporis of the residual life of the securities as a constituent part of the interest produced by these securities. This difference is carried to the profit and loss account on an actuarial basis, account being taken of the real yield rate on purchase. These securities are recorded in the balance sheet at their purchase price plus or minus the portion of the said difference carried to the profit and loss account.

On the balance sheet date the Bank's securities portfolio contained only Treasury certificates. The market value of the portfolio was Fr. 24.9 billion.

CLAIMS DUE TO OTHER INTERVENTIONS IN THE MONEY MARKET

These are the claims which the Bank holds as a result of repurchase agreements in respect of public securities concluded within the framework of its open-market interventions or as a result of loans on the interbank market.

The amounts recorded in respect of the claims are those of the funds made available to the financial intermediaries.

On the balance sheet date, repurchase agreements and loans on the interbank market amounted to Fr. 123.7 billion and Fr. 4 billion respectively.

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. 2,104 million for the year 1996.

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 1996.

STATUTORY INVESTMENTS (ART. 21)

The securities which the Bank holds, under Article 21 of its Statutes, as the counterpart of its capital, reserves and depreciation accounts, are recorded under this heading. They consist of bills and securities referred to in Article 17, 1 of the Statutes and, subject to permission from the Minister of Finance, of securities representing the capital of financial institutions governed by special legal provisions or placed under the guarantee or supervision of the State, of shares of the BIS in Basle, and of all other securities necessary or useful for the performance of the Bank's functions.

On purchase, public securities are recorded in the accounts at their purchase price; they are recorded on the basis of their actuarial yield, calculated on purchase, account being taken of their redemption value at maturity. The difference (premium or discount) between the purchase price and the redemption value is carried to the profit and loss account pro rata temporis of the residual life of the securities as a constituent part of the interest

produced by these securities. This difference is carried to the profit and loss account on an actuarial basis, account being taken of the real yield rate on purchase. These securities are recorded in the balance sheet at their purchase price plus or minus the portion of the said difference carried to the profit and loss account.

The shares are recorded in the balance sheet at their purchase price. The shares of the BIS are valued in francs on the basis of the exchange rate on the day of their purchase.

PREMISES, EQUIPMENT AND FURNITURE

Land, buildings, plant and tools, furniture and vehicles are shown in the accounts at their purchase value.

In 1996 the Bank's capital investments totalled Fr. 690 million, including ancillary costs. With the exception of land, they are written off in full in the year of purchase. An amount corresponding to the book value of the assets which were sold or whose use was discontinued was deducted from the « Premises, equipment and furniture » account.

OTHER ASSETS

The amounts recorded under this heading are commercial and other claims, stocks and work in progress.

REGULARISATION ACCOUNTS

This item records, in so far as they significantly influence the result for the current year, expenses to be carried forward and incomes earned.

BALANCE SHEET*(Thousands of francs)***LIABILITIES****NOTES IN CIRCULATION**

The amount of notes in circulation, expressed as a daily average, amounted to Fr. 441.7 billion in 1996, against Fr. 412.2 billion in 1995, corresponding to an increase of 7.2 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.

CERTIFICATES OF THE BANK

This heading records, at their nominal value, the dematerialised certificates of deposit which were issued, at the end of this year, by the Bank under an agreement concluded with the primary dealers. These securities are recorded in the Bank's securities clearing system.

Two series of certificates, each for Fr. 115 billion, were issued with a variable interest rate, subject to revision every two and four months respectively. The securities will be redeemable at par on 31st December 1998.

LIABILITIES DUE TO INTERVENTIONS IN THE MONEY MARKET

The amounts recorded under this heading are commitments to repurchase public or private securities sold under so-called « reverse repurchase agreements », loans contracted by the Bank on the interbank market and daily closing surpluses of the financial intermediaries placed with the Bank via the RGI. The latter are the only amounts appearing under this heading on the balance sheet date.

COUNTERPART OF ALLOCATIONS OF SDRs

The amount represents the equivalent of the SDRs, recorded at the same rate as holdings of SDRs, which would have to be returned to the IMF if SDRs were cancelled, if the 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 20bis of the Organic Law of the Bank, these realised gains are recorded in a special unavailable reserve account; they are exempt from all taxes. In the event of liquidation of the Bank, the balance of this special account would be assigned to the State.

The Royal Decree of 18th October 1996 containing measures concerning the Bank in implementation of Articles 2 and 3, § 1, 1 and 6, of the law of 26th July 1996 for the purpose of fulfilling the budgetary conditions of Belgium's participation in the European Economic and Monetary Union makes a derogation from Article 20bis of the aforementioned Organic Law by stipulating that the amount as at 1st July 1996 of the said capital gains is to be paid to the Belgian State without prejudice to the rights which are recognised as being possessed by the Luxembourg State by virtue of the monetary association between the two States.

In accordance with the above-mentioned Royal Decree, this reserve was allocated as follows :

- for the formation of provisions with a view to the implementation of the state guarantee connected with the execution by the Bank of the payment agreements concluded with foreign States;
- for the taking-over by the State of the capital loss recorded on the Bank's external assets as a result of the monetary adjustment of 1972;
- for the redemption of part of the public foreign-currency debt.

Furthermore, the Luxembourg State received its share in the said reserve. The balance remaining as at 31st December 1996 will be used for the repayment of public debt loans in foreign currencies maturing at the beginning of 1997.

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. The provisions formed by means of a transfer of part of the unavailable reserve of capital gains on gold are also shown under this heading.

REGULARISATION ACCOUNTS

This item comprises, in addition to amounts to be charged in respect of interest and tax payable, a residual amount of Fr. 56.5 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 value at the average cost price of these. The amount of the net exchange profits obtained on the said positions is also shown under this heading.

Balance at the end of 1995		212,918,949
Movements :		
— Valuation differences in respect of gold	— 52,182,287	
— Other valuation differences	<u>+ 29,778,352</u>	
		<u>— 22,403,935</u>
Balance at the end of 1996		190,515,014

PROVISION FOR TAX BURDENS

This is a provision established in 1995 to cover any tax burdens which may result from the correction of the basic taxable amount or from the calculation of the tax.

Balance at the end of 1995		15,050
Drawing		<u>— 15,050</u>
Balance at the end of 1996		0

PROVISION FOR PREMISES

The purpose of this provision is to enable the Bank to meet the expenses entailed by the execution of its programme of investment in new premises.

Balance at the end of 1995		1,312,981
Movements :		
— Write-back	— 27,000	
— Increase	<u>20,000</u>	
		<u>— 7,000</u>
Balance at the end of 1996		1,305,981

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 1995		10,250,000
Increase		<u>100,000</u>
Balance at the end of 1996		10,350,000

CAPITAL

The capital of Fr. 400 million is divided into 400,000 registered or bearer shares of Fr. 1,000 each, of which 200,000 registered and untransferable shares are recorded in the name of the State.

RESERVE FUND

The Reserve Fund, provided for in Article 14 of the Bank's Statutes, consists of the Statutory Reserve, the Extraordinary Reserve and the Account for Depreciation of Premises, Equipment and Furniture.

The increase in the Statutory Reserve and the Extraordinary Reserve is the result of the distribution of the appropriated profit for the year just closed. The Account for Depreciation of Premises, Equipment and Furniture shows a decrease of Fr. 399.9 million, corresponding to the amount of the investments made in 1996, 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

69,188,936

VALUABLES AND CLAIMS ENTRUSTED TO THE INSTITUTION

<i>For encashment</i>		4,568
<i>Assets administrated on behalf of the Belgian State</i>		9,738,908
— credit balances with the « Postcheque » held by the Bank in implementation of the financial assistance agreements financed by the State	3,100,760	
— other assets	6,638,148	
	<hr/>	
<i>Assets administered on behalf of the EMI</i>		85,525,398
<i>Safe custody deposits</i>		9,113,341,578

The securities (Treasury certificates, linear bonds, securities resulting from the splitting of linear bonds, Treasury bills, certificates of deposit, certificates of the Bank and certain classical loans) recorded under the securities clearing system and held on behalf of third parties appear under this heading.

PROFIT AND LOSS ACCOUNT

(Thousands of francs)

RECEIPTS

PROCEEDS OF TRANSACTIONS WITH FOREIGN COUNTRIES

The proceeds of transactions with foreign countries increased by Fr. 3,524 million compared with the previous year. On 31st December 1996 they amounted to Fr. 24,797 million.

The average volume of investments abroad increased chiefly owing to arbitrage transactions of gold against foreign currencies. However, the average yield of investments abroad deteriorated as a result of a decline in the interest rates for the currencies in which the Bank's external reserves are invested. This decline, which was moderate on the American market and more pronounced on the European market, did however enable capital gains to be realised, as was also the case during the previous financial year. Furthermore, the strengthening of the US dollar increased the value in francs of interest incomes in that currency.

PROCEEDS OF CREDIT TRANSACTIONS

The proceeds of credit transactions amounted to Fr. 3,971 million, or Fr. 2,351 million less than in the previous year. This movement is chiefly due to the continuous fall in short-term interest rates on the Belgian money market.

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, the interest charges on the certificates issued by the Bank and also those 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. 735 million, having increased by Fr. 586 million.

PROCEEDS OF STATUTORY INVESTMENTS

The income from the statutory investments, acquired by the Bank under Article 21 of its Statutes, has increased compared with the previous year. The gradual decline in interest rates on the capital market in Belgium led, upon the sale of securities, to larger capital gains than in the previous financial year. The fall in interest income was 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.

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 in various fields such as :

- the Central Balance Sheet Office, the Central Office for Credit to Individuals and the Central Office for Credit to Enterprises;
- the currency centres and bond centres;
- the securities clearing system;
- the interbank payments systems : ELLIPS, the CTEC and the Clearing House;
- work done by the Printing Works.

DRAWINGS ON PROVISIONS

This item records the writing back of the « Provision for Premises » to the extent of the expenses incurred during the year under the programme of investment in new premises and the writing back of the provision for tax burdens formed in 1995.

OTHER PROCEEDS

Other proceeds for the year 1996 consist chiefly of the proceeds of the disposal of used equipment and furniture, the sale of premises and other exceptional proceeds.

PROFIT AND LOSS ACCOUNT*(Thousands of francs)***EXPENDITURE****STATE SHARE**

This consists of the Bank's receipts which accrue to the State before any imputation of costs (general expenses, exceptional costs, 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 1996 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 and of the net foreign exchange differences realised.

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 31-12-1996	As at 31-12-1995
— Remuneration and social costs	6,884,976	6,853,463
— Other expenses	1,579,882	1,455,062
Total	8,464,858	8,308,525

Expenditure in respect of wages, salaries and social costs comprises the remuneration of the staff, the management, National Employment Office trainees, temporary staff and students, and also the pensions of former members of the management and the attendance fees of the members of the supervisory bodies. Expenditure in respect of temporary staff appears under the sub-item « Other expenditure ».

In 1996 the average real workforce (including National Employment Office trainees and temporary staff), expressed in terms of full-time employment units, amounted to 2,881 units, against 2,924 units in 1995.

The change made from the financial year 1994 onwards to the valuation rules concerning the cost of printed and unprinted banknote 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 1996, to additional expenditure of Fr. 34.2 million.

EXCEPTIONAL COSTS

The amount shown under this heading corresponds to the wages and salaries, allowances and other social benefits which will be paid during a later financial year in respect of services rendered during the current financial year or earlier years. This accounting rearrangement, amounting to Fr. 1,555 million, is due to a change in the principles of valuation of social costs.

DEPRECIATION OF PREMISES, EQUIPMENT AND FURNITURE

The depreciation applied as at 31st December 1996 covers the following expenses :

— Premises and technical installations	37,805
— Renovation of premises	215,170
— Software and hardware	192,493
— Equipment for the Printing Works, technical services and offices ..	197,424
— Office furniture	21,201
Total	664,093

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, 29th January 1997.

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 1996

After the general meeting of 26th February 1996 the censors said goodbye to Mr Willy Danckaert, who had asked that his term of office should not be extended. For an uninterrupted period of twelve years Mr Danckaert sat on the Board of Censors and the General Council. The censors would like to thank Mr Danckaert for his great devotion and his expert opinions. The general meeting of shareholders elected Mr Petrus Thys to succeed Mr Danckaert. Furthermore, it renewed the terms of office of Messrs Hubert Detremmerie, Christian D'Hoogh and Gérald Frère for a period of three years.

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In accordance with the Statutes and the internal standing orders, the Board performs a monitoring and supervisory function. In practice, the censors carry out this duty in the following fields :

- verification of the accounting statements : the balance sheet, profit and loss account and annexes ;
- the drawing up and monitoring of the Bank's budget ;
- checking of the lists of assets, both tangible (stocks of notes, securities, etc.) and intangible (such as security clearing, accounts in foreign currencies or in Belgian francs) ;
- monitoring of compliance with the internal control procedures aimed at ensuring that banking transactions take place without risk.

Every quarter the Bank's accounting statements are submitted to the Board for assessment. On these occasions the censors examine the factors responsible for the movement of the various balance sheet items and for that of the profit and loss account, including by comparing these magnitudes with those in the

corresponding periods of previous years. In addition to this examination of the balance sheet and the profit and loss account, 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. The aforementioned controls enabled the Board to express its opinion on the reliability of the accounting statements for the past financial year.

The Bank's annual accounts as at 31st December 1996 were submitted to the Board of Censors by the Council of Regency in accordance with Article 35, paragraph 1, of the Statutes. The examination of the annual accounts related, on the one hand, to the censors' own controls and, on the other hand, to the analysis of the in-depth checks carried out on this subject by the Internal Audit Service. The annual accounts for 1996 were approved by a unanimous vote and the administration was thereby given discharge in accordance with Article 35, paragraph 2, of the Statutes.

As mentioned above in this report, the drawing up and monitoring of the Bank's budget are also part of the censors' tasks. Every quarter the Board receives comments on the development of the receipts and expenditure in respect of the various items of the budget. During the year under review, all the Bank's expenditure continued to be kept well under control, thanks to, among other things, a very small rise in personnel costs. Furthermore, the Board examined and approved the budget for the following financial year, in this case 1997.

During the year 1996, within the framework of its supervisory and monitoring function, the Board also discussed and assessed the tasks of the Internal Audit Service. At the beginning of the year, this service's annual programme was discussed. The censors thus satisfied themselves that a check is being kept

on all the banking activities involving a risk by means of financial audits, inspections of procedures and operational audits. A report on the monitoring of this programme was made to the Board every quarter.

Every three months the Internal Audit Service also gives the Board a summary, by department and service, of the audits performed, the enquiries made and the opinions formulated, as well as of the main comments and recommendations to which the Internal Audit Service's activities gave rise. During the discussion which they devote to this, the censors obtain information on the steps taken by the departments and services concerned to correct the shortcomings detected and to ensure that they do not occur again; they thus placed the emphasis on the importance of conscientious preventive monitoring.

The censors also expressed the wish to be regularly informed of any remarks or recommendations which the services in question have not at first been able to follow up, in order to be able, if necessary, to discuss corrective action.

The Internal Audit Service likewise gave talks to the censors in order to comment on the results of major auditing tasks. In the course of 1996 the following subjects were dealt with :

- the auditing of the computerisation of current accounts ;
- auditing tasks on behalf of the Accounting Service ;
- the auditing of « ELLIPS » (Electronic Large-value Interbank Payment System).

The auditing activities of the Internal Audit Service were not followed only at the meetings of the Board. Periodically, censors were appointed by it to participate in inspection tasks in the operational departments. During the year under review members of the Board were present at, altogether, eleven inspections at the head office and twelve inspections in the provincial establishments.

As the general conclusion concerning its auditing and supervisory task, the Board can state that, as far as the year under review is concerned, there have been no events entailing significant losses for the Bank. The institution has not at any time run any serious financial risk. On the basis of its own observations, of the periodical reports which it has been able to obtain from the Internal Audit Service and of the answers given to its many questions, the Board has been able to conclude that the internal audit function is appropriately organised in the Bank's various fields.

The Board of Censors :

The Chairman,
Hubert DETREMMERIE.

Roger MENE, *Secretary,*
Maurice CHARLOTEAUX,
Christian D'HOOGH,
Jacques FOREST,
Philippe GRULOIS,
Herman VERWILST,
Gérald FRERE,
Chevalier Paul BUYSSE,
Petrus THYS.



Board of Censors :

seated, from left to right :

R. Mené, Secretary, H. Detremmerie, Chairman, M. Charloteaux.

standing, from left to right :

P. Thys, Ch. D'Hoogh, Chevalier Buysse, Ph. Grulois, G. Frère, J. Forest, H. Verwilt.

Annexes

COMPARISON OF BALANCE SHEETS
(After distribution of profit)

ASSETS

	1996	1995	1994	1993	1992
Gold	181,708.8	232,578.9	306,267.5	330,255.6	260,228.9
Foreign currencies	411,377.7	285,926.0	231,166.0	244,221.0	193,384.4
Special Drawing Rights (SDRs)	15,946.0	14,478.9	5,737.3	6,160.8	5,662.4
Participation in the IMF	34,390.4	29,547.5	25,856.6	27,673.1	26,730.6
Loans to the IMF	—	—	—	—	—
Deposit with the IMF within the frame- work of the ESAF	8,283.9	7,870.5	8,366.0	4,940.3	4,562.3
Ecus	86,466.4	118,874.2	148,081.3	148,023.2	106,438.7
EMI : Very-short- and short-term financing	—	—	—	—	116,568.9
EC : Medium-term financial assistance .	—	—	—	—	—
International agreements	3,194.1	3,335.1	3,491.4	3,303.6	3,269.2
Advances against pledged security . . .	20,856.6	19,437.1	32,347.3	30,101.4	20,041.6
Commercial bills	2,853.5	3,329.4	3,723.6	5,578.3	10,051.0
Securities purchased in the market . . .	24,912.0	23,855.3	17,860.9	32,436.5	17,448.0
Claims due to other interventions in the money market	127,733.1	128,472.6	92,330.6	119,669.3	52,354.9
Advances to the Securities Regulation Fund					—
Advances to the Belgian State					221.0
Advances to the Luxembourg State . . .					—
Coin	418.5	954.5	1,102.5	1,202.8	915.4
Statutory investments (Art. 21)	48,815.4	46,694.2	43,753.8	40,365.8	37,235.9
Premises, equipment and furniture . . .	12,733.1	13,109.8	13,588.2	13,205.3	12,262.4
Other assets	1,392.6	397.4	3,339.3	4,446.6	6,479.4
Regularisation accounts	9,783.7	7,465.0	5,718.9	5,758.6	7,750.9
TOTAL ASSETS	990,865.8	936,326.4	942,731.2	1,017,342.2	881,605.9

AS AT 31st DECEMBER (Millions of francs)

LIABILITIES

	1996	1995	1994	1993	1992
Notes in circulation	464,675.4	445,836.7	412,189.7	440,603.1	430,248.9
Current accounts in francs	4,814.1	18,600.9	12,278.5	9,589.4	4,569.3
Deposit of the Belgian State	653.4	476.0	485.6	763.4	
Deposit of the Luxembourg State	3.8	1.0	503.2	503.9	
Certificates of the Bank	230,000.0				
Liabilities due to interventions in the money market	5,132.2	8,061.7	3,047.3	6,045.8	4,449.1
Current accounts in foreign currencies	7.4	0.4	9.6	7.5	6.8
Counterpart of allocations of SDRs	22,331.9	21,217.4	22,553.3	23,972.5	22,138.1
EMI : Very-short- and short-term financing	—	—	—	—	—
Unavailable reserve of capital gains on gold	1,133.6	166,531.7	116,310.9	116,310.9	116,310.9
Other liabilities	7,395.3	1,934.9	2,106.4	2,339.6	2,383.5
Regularisation accounts	1,511.5	200.6	372.5	456.6	425.3
Valuation differences on gold and foreign exchange	190,515.0	212,918.9	314,859.2	361,965.4	250,005.8
Provision for tax burdens	—	15.1			
Provision for premises	1,306.0	1,313.0	956.0	778.0	939.0
Provision for contingencies	10,350.0	10,250.0	10,150.0	10,050.0	9,750.0
Capital	400.0	400.0	400.0	400.0	400.0
Reserve fund :	50,636.2	48,568.1	46,509.0	43,556.1	39,979.2
<i>Statutory reserve</i>	3,323.0	3,185.0	3,049.4	2,915.3	2,783.9
<i>Extraordinary reserve</i>	35,200.6	32,870.6	30,455.6	27,992.6	25,489.6
<i>Account for depreciation of premises, equipment and furniture</i>	12,112.6	12,512.5	13,004.0	12,648.2	11,705.7
TOTAL LIABILITIES	990,865.8	936,326.4	942,731.2	1,017,342.2	881,605.9

COMPARISON OF PROFIT AND LOSS ACCOUNTS AS AT 31st DECEMBER

(Millions of francs)

	1996	1995	1994	1993	1992
RECEIPTS					
Proceeds of transactions with foreign countries	24,797.0	21,273.5	13,875.6	22,508.5	23,251.7
Proceeds of credit transactions	3,970.8	6,321.8	8,269.3	10,820.1	9,751.0
Proceeds of statutory investments	4,001.4	3,608.5	3,778.7	3,846.3	3,535.6
Commission	170.5	262.9	163.1	169.5	160.1
Amounts recovered from third parties	1,768.1	1,907.5	1,958.3	1,859.8	1,883.6
Drawings on provisions	42.1	43.0	292.0	471.0	519.0
Other proceeds	380.3	192.4	83.2	94.4	27.5
	35,130.2	33,609.6	28,420.2	39,769.6	39,128.5
EXPENDITURE					
State share :	17,456.6	17,554.9	11,954.3	22,437.1	22,028.3
<i>Transactions with foreign countries</i>	16,136.6	14,331.0	7,082.3	14,363.4	14,430.1
<i>Credit transactions</i>	1,320.0	3,223.9	4,872.0	8,073.7	7,598.2
General expenditure :	8,464.9	8,308.5	8,297.0	8,095.7	8,186.3
<i>Remuneration and social costs</i>	6,885.0	6,853.5	6,784.7	6,781.4	6,848.2
<i>Other expenses</i>	1,579.9	1,455.0	1,512.3	1,314.3	1,338.1
Exceptional costs	1,554.8				
Depreciation of premises, equipment and furniture	664.1	671.3	1,115.2	1,560.5	1,617.5
Provision for tax burdens	—	15.1			
Provision for premises	20.0	400.0	470.0	310.0	50.0
Provision for contingencies	100.0	100.0	100.0	300.0	1,100.0
Taxes and dues	3,137.5	2,770.5	2,657.5	3,228.5	2,902.6
Net profit for distribution	3,732.3	3,789.3	3,826.2	3,837.8	3,243.8
	35,130.2	33,609.6	28,420.2	39,769.6	39,128.5

DIVIDEND

	1996	1995	1994	1993	1992
Net dividend allocated per share . . .	1,740.00	1,705.00	1,675.00	1,640.00	1,610.00
Withholding tax deducted per share .	580.00	568.33	580.89	568.75	536.67
Gross dividend allocated per share . .	2,320.00	2,273.33	2,255.89	2,208.75	2,146.67

**WEEKLY STATEMENTS PUBLISHED
IN THE « BELGISCH STAATSBLAD — MONITEUR BELGE »
DURING 1996**

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBLAD - MONITEUR BELGE »
DURING 1996 (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
08 - 01 - 1996	232,579	286,776	14,487	29,548	—	7,871	118,874	—	—
15 - 01 - 1996	232,583	288,137	14,487	29,548	—	7,871	119,087	—	—
22 - 01 - 1996	232,583	289,115	14,487	29,548	—	7,871	119,087	—	—
29 - 01 - 1996	232,583	289,964	14,487	29,548	—	7,871	119,087	—	—
05 - 02 - 1996	232,583	290,831	14,490	29,447	—	7,871	119,222	—	—
12 - 02 - 1996	232,583	289,408	14,490	31,021	—	7,871	119,222	—	—
19 - 02 - 1996	232,583	289,745	14,490	31,021	—	7,871	119,222	—	—
26 - 02 - 1996	232,583	291,246	14,678	31,021	—	7,871	119,222	—	—
04 - 03 - 1996	232,583	292,582	14,678	31,021	—	7,871	119,330	—	—
11 - 03 - 1996	232,583	293,208	14,678	31,021	—	7,871	119,330	—	—
18 - 03 - 1996	232,583	294,100	14,678	30,877	—	7,871	119,330	—	—
25 - 03 - 1996	158,698	379,640	14,678	30,877	—	7,871	115,770	—	—
01 - 04 - 1996	158,698	379,077	14,678	31,970	—	7,871	115,868	—	—
05 - 04 - 1996	158,698	378,897	14,678	31,970	—	7,871	115,868	—	—
15 - 04 - 1996	173,475	375,999	14,678	31,970	—	7,871	106,254	—	—
22 - 04 - 1996	173,475	377,007	14,678	31,970	—	7,871	106,254	—	—
29 - 04 - 1996	173,475	377,524	14,678	31,970	—	7,871	106,254	—	—
06 - 05 - 1996	173,475	387,730	14,687	32,232	—	7,871	96,385	—	—
13 - 05 - 1996	173,475	387,852	14,687	32,232	—	7,871	96,385	—	—
20 - 05 - 1996	173,475	387,923	14,687	32,232	—	7,871	96,385	—	—
24 - 05 - 1996	173,475	388,663	14,808	32,232	—	7,871	96,385	—	—
03 - 06 - 1996	173,475	393,321	14,808	32,233	—	7,871	92,557	—	—
10 - 06 - 1996	173,475	394,172	14,808	32,233	—	7,871	92,557	—	—
17 - 06 - 1996	173,475	394,936	14,808	32,233	—	7,871	92,557	—	—
24 - 06 - 1996	173,475	395,957	14,808	32,233	—	7,871	92,557	—	—
01 - 07 - 1996	173,475	396,612	14,808	32,233	—	7,871	92,595	—	—
08 - 07 - 1996	173,475	396,942	14,815	32,105	—	7,871	92,595	—	—
15 - 07 - 1996	173,475	394,437	14,815	32,105	—	7,871	96,555	—	—
22 - 07 - 1996	173,475	394,892	14,815	32,105	—	7,871	96,555	—	—
29 - 07 - 1996	173,475	395,234	14,815	32,105	—	7,871	96,555	—	—
05 - 08 - 1996	173,475	407,338	14,818	32,673	—	7,871	84,968	—	—
12 - 08 - 1996	173,475	407,845	14,818	32,673	—	7,871	84,968	—	—
19 - 08 - 1996	173,475	408,320	14,818	32,673	—	7,871	84,968	—	—
26 - 08 - 1996	173,475	407,582	14,969	32,673	—	7,871	84,968	—	—
02 - 09 - 1996	173,475	407,671	14,969	32,674	—	7,871	84,968	—	—
09 - 09 - 1996	173,475	407,873	14,969	32,674	—	7,871	84,968	—	—
16 - 09 - 1996	173,475	407,655	14,969	32,674	—	7,871	84,968	—	—
23 - 09 - 1996	173,475	408,663	14,969	32,674	—	7,871	84,968	—	—
30 - 09 - 1996	173,475	409,770	14,969	32,674	—	7,871	84,968	—	—
07 - 10 - 1996	173,475	409,738	14,969	32,674	—	7,871	84,968	—	—
14 - 10 - 1996	173,475	411,097	14,969	32,674	—	7,871	83,439	—	—
21 - 10 - 1996	173,475	411,543	14,969	32,674	—	7,871	83,439	—	—
28 - 10 - 1996	173,475	412,379	14,969	32,674	—	7,871	83,439	—	—
04 - 11 - 1996	173,475	413,729	14,978	32,674	—	7,871	83,439	—	—
08 - 11 - 1996	173,475	413,795	14,978	32,674	—	7,871	83,439	—	—
18 - 11 - 1996	173,475	414,279	14,978	32,674	—	7,871	83,439	—	—
25 - 11 - 1996	173,475	414,592	15,143	32,674	—	7,871	83,439	—	—
02 - 12 - 1996	173,475	415,072	15,143	32,674	—	7,871	83,439	—	—
09 - 12 - 1996	173,475	416,024	15,143	32,674	—	7,871	83,439	—	—
16 - 12 - 1996	173,475	417,085	15,143	32,674	—	7,871	83,439	—	—
23 - 12 - 1996	173,475	418,868	15,143	32,674	—	7,871	83,439	—	—
30 - 12 - 1996	173,475	418,861	15,143	32,674	—	7,871	83,439	—	—

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBLED - MONITEUR BELGE »
DURING 1996 (Millions of francs)

ASSETS (continuation and end)

DATES	International agreements	Advances against pledged security	Commercial bills	Securities purchased in the market	Claims due to other interventions in the money market	Coin	Statutory investments (Art. 21)	Miscellaneous accounts ¹	TOTAL ASSETS
08-01-1996	3,325	4,275	3,091	23,838	114,544	1,013	46,905	17,030	904,156
15-01-1996	3,317	4,724	2,552	23,829	108,616	1,179	46,912	17,063	899,905
22-01-1996	3,317	4,997	2,577	23,817	108,700	1,278	46,908	17,014	901,299
29-01-1996	3,314	4,778	2,621	22,827	101,540	1,291	46,908	16,958	893,777
05-02-1996	3,314	14,695	3,447	22,818	90,286	1,268	48,967	13,624	892,863
12-02-1996	3,314	17,653	3,261	22,811	84,885	1,221	48,968	13,679	890,387
19-02-1996	3,314	14,485	3,158	22,806	89,784	1,156	48,967	13,685	892,287
26-02-1996	3,314	17,219	3,382	22,806	83,520	1,144	48,968	13,732	890,706
04-03-1996	3,314	15,166	3,233	22,802	89,385	1,109	48,966	13,694	895,734
11-03-1996	3,294	4,725	3,087	22,800	103,227	1,116	48,966	13,738	899,644
18-03-1996	3,294	13,738	3,401	22,800	113,608	1,053	48,966	13,682	919,981
25-03-1996	3,294	3,522	3,325	22,800	128,932	1,040	48,966	13,683	933,096
01-04-1996	3,290	2,859	3,269	22,801	110,528	968	48,968	13,708	914,553
05-04-1996	3,290	3,515	3,419	22,803	117,468	1,018	48,966	13,640	922,101
15-04-1996	3,290	1,411	3,204	22,804	109,139	1,018	48,966	13,690	913,769
22-04-1996	3,290	2,011	3,202	22,805	108,402	1,054	48,966	13,715	914,700
29-04-1996	3,290	2,218	3,301	22,805	106,842	1,021	48,967	13,687	913,903
06-05-1996	3,280	2,262	3,180	22,824	115,834	958	48,967	13,693	923,378
13-05-1996	3,278	1,390	3,080	22,826	118,133	945	48,967	13,691	924,812
20-05-1996	3,278	2,079	3,100	22,826	129,577	857	48,967	13,705	936,962
24-05-1996	3,278	2,419	3,164	22,828	127,045	837	48,967	13,724	935,696
03-06-1996	3,278	2,218	3,089	22,828	123,737	904	48,966	13,680	932,965
10-06-1996	3,278	13,142	3,089	22,828	115,120	895	48,967	13,712	936,147
17-06-1996	3,278	13,444	3,028	22,826	115,328	900	48,967	13,751	937,402
24-06-1996	3,253	16,091	3,024	22,822	111,905	856	48,967	13,732	937,551
01-07-1996	3,258	16,572	3,498	22,818	114,490	911	48,966	13,666	941,773
08-07-1996	3,258	17,499	3,474	22,818	114,711	952	48,967	13,706	943,188
15-07-1996	3,258	15,137	3,083	22,818	114,620	986	48,967	13,763	941,890
22-07-1996	3,258	15,964	3,283	22,817	106,532	1,013	48,968	13,752	935,300
29-07-1996	3,258	16,242	3,233	22,817	96,679	1,032	48,968	13,803	926,087
05-08-1996	3,258	15,226	3,331	22,816	106,809	951	48,968	13,908	936,410
12-08-1996	3,258	15,788	3,207	22,816	103,757	888	48,968	13,965	934,297
19-08-1996	3,258	15,066	3,385	22,816	110,810	817	48,968	14,011	941,256
26-08-1996	3,258	15,363	3,295	22,816	104,711	827	48,968	13,971	934,747
02-09-1996	3,258	15,506	3,251	22,816	109,640	869	48,964	13,966	939,898
09-09-1996	3,258	16,595	3,176	22,817	108,548	938	48,964	14,035	940,161
16-09-1996	3,258	14,066	3,251	23,313	106,753	959	48,967	13,909	936,088
23-09-1996	3,258	10,458	3,244	23,315	109,886	995	48,967	13,945	936,688
30-09-1996	3,263	12,424	3,319	23,316	105,827	1,006	48,967	14,029	935,878
07-10-1996	3,263	9,917	3,367	23,317	109,283	1,002	48,967	13,961	936,772
14-10-1996	3,263	7,975	3,239	23,319	112,324	1,007	48,967	14,029	937,648
21-10-1996	3,253	12,613	3,179	23,320	106,707	992	48,967	14,049	937,051
28-10-1996	3,251	11,433	3,227	23,322	103,369	992	48,967	14,127	933,495
04-11-1996	3,239	12,281	3,177	23,323	107,393	961	48,967	14,043	939,550
08-11-1996	3,194	13,354	3,252	23,821	107,696	1,008	48,967	14,099	941,623
18-11-1996	3,194	13,050	3,229	24,813	106,896	984	48,967	14,177	942,026
25-11-1996	3,194	14,632	3,386	24,814	103,828	970	48,967	14,155	941,140
02-12-1996	3,194	13,119	3,236	24,814	105,535	939	48,963	14,213	941,687
09-12-1996	3,200	15,657	3,285	24,815	103,798	860	48,963	14,295	943,499
16-12-1996	3,200	18,485	3,051	24,815	105,904	738	48,967	14,383	949,230
23-12-1996	3,183	16,888	3,255	24,816	123,636	407	48,967	14,307	966,929
30-12-1996	3,189	21,304	2,752	24,816	115,652	422	48,967	14,353	962,918

¹ Including premises, equipment and furniture.

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBAD - MONITEUR BELGE »
DURING 1996 (Millions of francs)

LIABILITIES

DATES	Notes in circulation	Current ac-accounts in francs	Deposit of the Belgian State	Deposit of the Luxembourg State	Certificates of the Bank	Liabilities due to interventions in the money market	Current ac-accounts in foreign currencies	Counter-part of allocations of SDRs	EMI : Very-short and short-term financing	Unavailable reserve of surplus gains on gold	Valuation differences on gold and foreign exchange	Capital, reserves and depreciation accounts ¹	Miscellaneous accounts	TOTAL LIABILITIES
08-01-1996	430,903	6,639	2,023	1		4,137	—	21,217	—	166,532	212,209	46,909	13,586	904,156
15-01-1996	425,949	5,506	3,087	1		3,221	1	21,217	—	166,532	213,284	46,909	14,198	899,905
22-01-1996	425,363	5,724	3,097	1		3,978	5	21,217	—	166,532	213,485	46,909	14,988	901,299
29-01-1996	416,290	6,160	3,588	1		3,689	—	21,217	—	166,532	213,973	46,909	15,418	893,777
05-02-1996	418,299	5,237	3,383	501		4,259	2	21,217	—	166,532	214,102	48,968	10,363	892,863
12-02-1996	416,121	4,917	3,877	501		3,813	—	21,217	—	166,532	214,077	48,968	10,364	890,387
19-02-1996	419,462	4,520	2,910	502		3,440	—	21,217	—	166,532	214,064	48,968	10,672	892,287
26-02-1996	415,698	4,473	262	502		6,552	—	21,217	—	166,532	214,658	48,968	11,844	890,706
04-03-1996	421,615	4,434	2,483	502		2,887	—	21,217	—	166,532	215,262	48,968	11,834	895,734
11-03-1996	425,910	4,973	2,797	503		1,438	—	21,217	—	166,532	215,411	48,968	11,895	899,644
18-03-1996	443,016	4,960	3,552	503		3,071	—	21,217	—	166,532	215,795	48,968	12,367	919,981
25-03-1996	448,120	4,630	3,560	503		2,477	—	21,217	—	236,037	153,536	48,968	14,048	933,096
01-04-1996	431,524	4,152	3,804	504		5,208	8	21,217	—	236,037	153,345	48,968	9,786	914,553
05-04-1996	439,055	6,849	3,368	504		3,650	8	21,217	—	236,037	153,322	48,968	9,123	922,101
15-04-1996	432,328	3,817	3,286	504		3,794	—	21,217	—	236,037	155,476	48,968	8,342	913,769
22-04-1996	431,217	5,420	3,882	505		2,624	—	21,217	—	236,037	155,772	48,968	9,058	914,700
29-04-1996	430,517	4,489	3,577	505		2,972	—	21,217	—	236,037	155,823	48,968	9,798	913,903
06-05-1996	436,843	7,451	3,886	505		2,703	—	21,217	—	236,037	155,808	48,968	9,960	923,378
13-05-1996	441,507	5,946	1,602	506		3,160	—	21,217	—	236,037	155,761	48,968	10,108	924,812
20-05-1996	452,805	6,134	2,433	506		2,875	—	21,217	—	236,037	155,434	48,968	10,553	936,962
24-05-1996	449,337	5,201	3,940	506		3,869	—	21,217	—	236,037	155,931	48,968	10,690	935,696
03-06-1996	445,274	5,121	3,486	507		4,472	26	21,217	—	236,037	155,916	48,968	11,941	932,965
10-06-1996	447,182	5,841	3,414	507		4,514	—	21,217	—	236,037	156,358	48,968	12,109	936,147
17-06-1996	447,578	5,168	3,664	507		5,015	58	21,217	—	236,037	156,806	48,968	12,384	937,402
24-06-1996	449,475	4,192	3,323	507		3,238	—	21,217	—	236,037	157,430	48,968	13,164	937,551
01-07-1996	454,768	5,397	3,330	501		3,623	—	21,217	—	236,037	157,325	48,968	10,607	941,773
08-07-1996	455,568	5,693	3,235	501		4,341	15	21,217	—	236,037	157,415	48,968	10,198	943,188
15-07-1996	453,848	5,103	2,629	501		5,204	—	21,217	—	236,037	158,602	48,968	9,781	941,890
22-07-1996	448,774	4,776	1,601	502		4,546	4	21,217	—	236,037	158,787	48,968	10,088	935,300
29-07-1996	440,507	3,666	3,287	502		2,337	—	21,217	—	236,037	158,844	48,968	10,722	926,087
05-08-1996	445,789	9,117	1,485	502		2,731	—	21,217	—	236,037	159,295	48,968	11,269	936,410
12-08-1996	445,493	5,529	2,926	503		2,878	—	21,217	—	236,037	159,427	48,968	11,319	934,297
19-08-1996	452,822	5,542	1,786	503		3,064	—	21,217	—	236,037	159,857	48,968	11,460	941,256
26-08-1996	443,939	5,252	2,759	503		4,445	26	21,217	—	236,037	159,092	48,968	12,509	934,747
02-09-1996	444,637	8,561	3,327	504		3,873	26	21,217	—	236,037	159,405	48,968	13,343	939,898
09-09-1996	445,698	8,798	3,316	4		3,791	—	21,217	—	236,037	159,197	48,968	13,135	940,161
16-09-1996	446,209	5,264	1,330	4		4,650	—	21,217	—	236,037	158,974	48,968	13,435	936,088
23-09-1996	444,946	5,046	3,787	4		3,306	36	21,217	—	236,037	159,009	48,968	14,332	936,688
30-09-1996	444,526	3,401	421	4		10,348	—	21,217	—	236,037	159,267	48,968	11,689	935,878
07-10-1996	447,823	5,103	2,246	4		4,552	—	21,217	—	236,037	159,196	48,968	11,626	936,772
14-10-1996	447,665	7,309	3,062	4		3,298	—	21,217	—	236,037	158,825	48,968	11,263	937,648
21-10-1996	448,679	4,582	1,983	4		4,987	9	21,217	—	236,037	158,814	48,968	11,771	937,051
28-10-1996	445,555	4,741	3,129	4		2,096	—	21,217	—	236,037	159,350	48,968	12,398	933,495
04-11-1996	448,058	4,685	3,366	4		4,150	—	21,217	—	236,037	160,140	48,968	12,925	939,550
08-11-1996	450,262	4,876	3,575	4		3,998	—	21,217	—	236,037	160,194	48,968	12,492	941,623
18-11-1996	449,004	4,479	3,442	4		5,651	—	21,217	—	236,037	160,479	48,968	12,745	942,026
25-11-1996	448,255	4,516	1,142	4	37,861	7,195	—	21,217	—	193,073	161,692	48,968	17,217	941,140
02-12-1996	449,137	3,175	3,518	4	105,941	5,042	—	21,217	—	125,007	161,676	48,968	18,002	941,687
09-12-1996	453,585	5,342	605	4	168,424	2,421	—	21,217	—	62,351	162,809	48,968	17,773	943,499
16-12-1996	458,093	4,588	1,793	4	230,000	2,184	—	21,217	—	1,134	163,610	48,968	17,639	949,230
23-12-1996	472,736	6,262	2,439	4	230,000	2,307	—	21,217	—	1,134	164,537	48,968	17,325	966,929
30-12-1996	468,480	4,516	2,176	4	230,000	3,492	47	21,217	—	1,134	164,720	48,968	18,164	962,918

¹ Of which capital : Fr. 400 million.

**SHAREHOLDER STRUCTURE
OF THE NATIONAL BANK OF BELGIUM AS AT 31.12.1996**

(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.

**Royal Decree of 15th October 1996
approving the amendment to the Statutes
of the National Bank of Belgium**

(« Belgisch Staatsblad - Moniteur Belge » of 13th November 1996)

ALBERT II, King of the Belgians,

To all, present and to come, Greetings.

In view of the law of 24th April 1939 concerning the National Bank of Belgium ;

In view of the law of 18th June 1996 amending the law of 24th August 1939 concerning the National Bank of Belgium ;

In view of the drawing up of authentic minutes dated 28th August 1996 by the notary Jacques Possoz, Brussels, of the deliberations and decisions of the General Council of the National Bank of Belgium, public limited liability company, making an amendment to the Bank's Statutes ;

On the proposal of Our Minister of Finance,

We have decreed and do decree :

Article 1. The following amendment to the Statutes of the National Bank of Belgium, adopted by the General Council of the Bank at its meeting on 28th August 1996, is approved :

Article 17, 2°, of the Statutes shall be replaced by the following provision :

« 2° carry out credit transactions with credit institutions and other parties operating on the money or capital markets on the basis of appropriate security for the loans ; ».

Article 2. This decree shall become effective on 28th August 1996.

Article 3. Our Minister of Finance is charged with the execution of this decree.

Given in Brussels, 15th October 1996.

ALBERT

By the King :

The Minister of Finance,
Ph. MAYSTADT

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

Agricultural Fund	Fonds Agricole
Agricultural Investment Fund	Fonds d'investissement agricole
Airways Board	Régie des voies aériennes
Antwerp Port Administration	Administration du Port d'Anvers
Assistance Fund for the Financial Recovery of Municipalities	Fonds d'aide au redressement financier des communes
Association of Flemish Chambers of Commerce and Industry	Association des Chambres flamandes de commerce et d'industrie
Association of Local Authorities for the Building of Motorways	Association intercommunale pour la construction d'Autoroutes
Autonomous Funds	Fonds autonomes
Autonomous War Damage Fund	Caisse Autonome des Dommages de Guerre
Banking and Financial Commission (formerly Banking Commission)	Commission bancaire et financière (précédemment Commission bancaire)
Belgian Air Navigation Company (Sabena)	Société Anonyme Belge d'Exploitation de la Navigation Aérienne (Sabena)
Belgian Aluminium Syndicate	Syndicat Belge de l'Aluminium
Belgian Association of Collective Investment Undertakings	Association belge des organismes de placement collectif
Belgian Bankers' Association	Association Belge des Banques
Belgian Coal Mines Re-equipment Fund	Fonds de Rééquipement des Charbonnages Belges
Belgian-Congolese Amortisation and Management Fund	Fonds Belgo-Congolais d'Amortissement et de Gestion
Belgian-Luxembourg Economic Union (BLEU)	Union Economique Belgo-Luxembourgeoise (UEBL)
Belgian-Luxembourg Foreign Exchange Institute (BLFEI)	Institut Belgo-Luxembourgeois du Change
Belgian Municipal Credit Institution	Crédit Communal de Belgique
Belgian National Railways Company (BNRC)	Société Nationale des Chemins de fer belges (SNCB)
Belgian Office for Increasing Productivity	Office Belge pour l'Accroissement de la productivité
Belgian Pension Funds Association	Association Belge des Fonds de Pension
Belgian Petroleum Federation	Fédération pétrolière belge
Belgian Real Estate Credit Association	Association Belge du Crédit immobilier

Belgian Surveyors' Association	Association Belge des Experts
Belgian Trade Federation of Producers and Distributors of Electricity	Fédération Professionnelle des Producteurs et Distributeurs d'Electricité de Belgique
Benelux Economic Union	Union Economique Benelux
Board of Censors (of NBB)	Collège des censeurs (de la BNB)
Board of Directors (of NBB)	Comité de direction (de la BNB)
Bulletin of the National Bank of Belgium (formerly Information Bulletin of the National Bank of Belgium)	Bulletin de la Banque Nationale de Belgique (précédemment Bulletin d'Information et de Documentation de la Banque Nationale de Belgique)
Centenary Fund	Fonds du Centenaire
Central Balance Sheet Office	Centrale des Bilans
Central Consumer Credit Office	Centrale des crédits à la consommation
Central Office for Mortgage Credit	Office Central de Crédit Hypothécaire
Central Office for Small Savings	Office Central de la Petite Epargne
Central Credit Office	Centrales des Crédits
Clearing House (at Brussels)	Chambre de Compensation (à Bruxelles)
Clearing Transaction Exchange Centre of the Belgian Financial System (CTEC)	Centre d'Echange d'Opérations à compenser du Système financier belge (CEC)
Code of taxes payable by stamp or in similar ways	Code des taxes assimilées au timbre
Committee of Control for Electricity	Comité de Contrôle de l'Electricité
Committee of Management for Electricity	Comité de Gestion de l'Electricité
Committee of the Brussels Stock Exchange	Commission de la Bourse de Bruxelles
Consultation Committee for Creditor Interest Rates	Comité de concertation des taux d'intérêt créditeurs
Consultative Committee for Co-ordinating Medium-Term Export Financing (« Cofinex »)	Comité Consultatif de Coordination du Financement à Moyen Terme des Exportations (Cofinex)
Consultative Council for External Trade	Conseil Consultatif pour le Commerce Extérieur
Council of Public Credit Institutions	Conseil des Institutions Publiques de Crédit
Council of Regency (of NBB)	Conseil de Régence (de la BNB)
Council of State	Conseil d'Etat
Creditexport Association	Association Creditexport
Department of Applied Economics at the Free University of Brussels	Département d'Economie appliquée de l'Université Libre de Bruxelles (DULBEA)
Department of National Education	Département de l'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
Federal Participation Company (FPC)	Société fédérale de participation (SFP)
Federation of Belgian Enterprises (formerly Federation of Belgian Industries)	Fédération des Entreprises de Belgique (précédemment Fédération des Industries Belges)
Federation of Chemical Industries	Fédération des Industries chimiques
Federation of Enterprises in the Metal Manufacturing Industries	Fédération des entreprises de l'industrie des fabrications métalliques
Fund for the Financial Balancing of the Social Security System	Fonds pour l'équilibre financier de la Sécurité Sociale
General Budget Statement	Exposé Général du Budget
General 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
Insurance Supervision Office	Office de contrôle des assurances
Joint Committee of Banks and Bank Employees	Commission paritaire des banques
Luxembourg Insurance Commissariat	Commissariat aux assurances du Luxembourg
Luxembourg Monetary Institute	Institut monétaire Luxembourgeois
Ministry of Economic Affairs (MEA)	Ministère des Affaires Economiques (MAE)
Ministry of Agriculture	Ministère de l'Agriculture
Ministry of Employment and Labour	Ministère de l'Emploi et du Travail
Ministry of Finance	Ministère des Finances

Ministry of National Defence	Ministère de la Défense Nationale
Ministry of National Education	Ministère de l'Éducation Nationale
Ministry of the Civil Service	Ministère de la Fonction Publique
Ministry of Public Works	Ministère des Travaux Publics
Ministry of Social Security	Ministère de la Prévoyance Sociale
Monetary Fund	Fonds Monétaire
National Coal Mines Council	Conseil National des Charbonnages
National Committee for Economic Expansion	Comité National d'Expansion Economique
National Del Credere Office	Office National du Ducroire
National Economic Council	Conseil Central de l'Economie
National Employment Office (NEMO)	Office National de l'Emploi (ONEM)
National Foundation for Financing Scientific Research	Fondation Nationale pour le Financement de la Recherche Scientifique
National Fund for Credit to Trade and Industry	Caisse Nationale de Crédit Professionnel
National Fund for the Rehabilitation of Handicapped Persons	Fonds National pour le Reclassement des Handicapés
National Housing Company	Société Nationale du Logement
National Housing Fund	Fonds National du Logement
National Industrial Credit Company (NICC)	Société Nationale de Crédit à l'Industrie (SNCI)
National Institute for Agricultural Credit	Institut National de Crédit Agricole
National Investment Company	Société Nationale d'Investissement
National Labour Council	Conseil National du Travail
National Land Company (formerly National Smallholders' Company)	Société Nationale Terrienne (précédemment Société Nationale de la Petite Propriété Terrienne)
National Local Railways Company	Société Nationale des Chemins de Fer Vicinaux
National Joint Mines Commission	Commission Nationale Mixte des Mines
National Register of Physical Persons	Registre national des personnes physiques
National Sickness and Disability Insurance Institute	Institut National d'Assurance Maladie-Invalidité
National Social Insurance Office	Office National de Sécurité Sociale
National Statistical Institute (NSI)	Institut National de Statistique (INS)
National Water Distribution Company	Société Nationale des Distributions d'Eau
Nuclear Energy Research Centre	Centre d'Etudes de l'Energie Nucléaire
Planning Bureau	Bureau du Plan

Post Administration	Administration des Postes
Post Board	Régie des Postes
« Postcheque »	« Postcheque »
Postal Cheque Account (PCA)	Compte de Chèques Postaux (CCP)
Postal Cheque Office (PCO)	Office des Chèques Postaux (OCP)
Public Debt Ledger	Grand-Livre de la dette publique
Public Social Assistance Centres	Centres publics d'aide sociale
Rediscount and Guarantee Institute (RGI)	Institut de Réescompte et de Garantie (IRG)
Research Department (of the NBB)	Département des Etudes (de la BNB)
Road Fund	Fonds des Routes
Royal Society for Political Economy	Société Royale d'Economie Politique
Sabena (see Belgian Air Navigation Company)	Sabena (cf. Société Anonyme Belge d'Exploitation de la Navigation Aérienne)
Savings Bank Section of the General Savings and Pensions Fund	Caisse d'Epargne de la Caisse Générale d'Epargne et de Retraite
Sea Transport Administration	Administration des transports maritimes
Sea Transport Board	Régie des transports maritimes
Securities Deposit and Clearing Office of the Financial Sector	Caisse interprofessionnelle de Dépôts et de Virements de Titres
Securities Regulation Fund	Fonds des Rentes
Sinking Fund	Caisse d'Amortissement
Social Programming Agreement	Accord de programmation sociale
Solidarity Fund for Financing Early-Retirement Pensions	Fonds de solidarité de financement de la prépension
Special Municipalities Fund	Fonds spécial des communes
Staff Pensions Fund	Caisse de Pensions du Personnel
Superior Finance Council	Conseil Supérieur des Finances
Telegraphs and Telephones Board	Régie des Télégraphes et des Téléphones
Textile Industry Federation	Fédération de l'Industrie Textile
Town Planning Board	Administration de l'Urbanisme
Treasury and Public Debt Administration	Administration de la Trésorerie et de la Dette Publique
Union of Non-Ferrous Metal Industries	Union des Industries des Métaux Non Ferreux

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