



NATIONAL  
BANK  
OF BELGIUM

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REPORT 1994



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OF BELGIUM**

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**REPORT 1994**

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PRESENTED TO THE GENERAL MEETING  
ON 27th FEBRUARY 1995



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

## INTERNATIONAL ENVIRONMENT

*In 1994 economic growth strengthened and spread throughout the industrialised world. In the United States, where the cyclical trough dates from 1991, expansion continued at a brisk rate and reached 3.9 p.c. In the European Union gross domestic product, which had shrunk in 1993, rose by 2.5 p.c. : growth became more firmly established both in countries such as the United Kingdom, where the business cycle was closer to that of the United States, and in the countries of continental Europe, where the recession started later and the recovery only became apparent in the course of 1993. In Japan, lastly, the upturn did not take place until 1994, with the attainment of a growth rate of about 1 p.c. For the OECD area as a whole the rate of expansion of activity is estimated at 2.8 p.c., or twice that recorded in 1993.*

*While the economic divergences between the major regions of the industrialised world thus became less sharp in 1994, they still reflect an asynchronous cyclical movement, which is also perceptible in the degree of capacity utilisation : whereas in the United States this reached a high level, encouraging enterprises to step up their investment, output still fell short of its potential in the United Kingdom, where the recession had been longer and deeper, in continental Europe, where the revival is more recent, and in Japan, where the recovery has only just started.*

*The differences in the rate of increase of domestic demand explain why the current accounts of the balance of payments of the United States and Japan still display pronounced disequilibria. In the case of Japan the relative weakness of demand was coupled with a considerable improvement in the terms of trade as a result of the strong appreciation*

*of the yen, resulting in the maintenance of a current account surplus of around 3 p.c. of GDP, despite a considerable deterioration of the competitive position of Japanese enterprises. The competitiveness of the US economy in terms of prices and costs, on the contrary, improved ; nevertheless, the current account deficit of the United States increased further, from 1.6 to 2.3 p.c. of GDP, owing to the relative strength of demand and the appearance of a negative balance of capital income as a result of a protracted deterioration of that country's net foreign position. The balance of current transactions of the European Union, for its part, remained practically in equilibrium.*

*The effect produced by the economic situation on the public budgets, through the operation of the automatic stabilisers, also differed from country to country : it was positive in the United States and the United Kingdom, negligible in most cases in continental Europe and negative in Japan. In the United States and most European countries fiscal consolidation measures furthermore helped to keep government deficits under control. From 1989 to 1993 these deficits had increased markedly, in many cases rising again to the level which they had reached in the early 1980s. 1994 marked a reversal of this trend, with government deficits shrinking from 3.4 to 2 p.c. of GDP in the United States and from 6 to 5.6 p.c. in the European Union. In Japan, on the contrary, fiscal policy remained expansionary, with the result that the general government accounts, which were in balance in 1993, closed with a deficit of around 2 p.c. of GDP. In nearly all industrialised countries the ratio of the gross public debt to national income continued to grow. Fiscal consolidation therefore remains a pri-*

ority for many of these countries, in order to relieve the pressure on interest rates and re-create the necessary scope for budgetary policy.

Unemployment remains another main cause for concern, especially in Europe, even though the economic revival could make that problem less acute. Among the leading industrialised countries, only the United States and the United Kingdom witnessed a decrease in unemployment. Although in continental Europe unemployment rates generally stopped rising during the year, they were still at very high levels, and often above the peaks of the 1980s. For 1994, unemployment in the European OECD countries is estimated at 11.6 p.c. of the labour force, against 6.1 p.c. in the United States and 2.9 p.c. in Japan. Many countries have by now embarked upon structural reforms, such as those recommended by the European Commission in its White Book on growth, competitiveness and employment.

Partly because of the high unemployment and the labour market reforms carried out in a number of countries, wage increases slowed down further in Europe, whereas they remained low in the United States and Japan. The moderation of wages made a crucial contribution to the slackening of inflation. In the United States this slowing appears to have come to an end during the year under review, but it continued in most European countries and in Japan. In the OECD area the deflator of private consumption rose on average by about 2.3 p.c. and no general upsurge of inflation is expected in the near future. Most raw material prices have admittedly risen again, partly as a result of speculative purchases, but this tendency has remained moderate. The importance of basic products for the economies of the industrialised countries has in fact decreased markedly during the past decade, under the influence both of the relative decline in the use of these goods and of the fall in their relative prices. According to the forecasts made by international institutions, the expected quickening of the inflation rate in the United States due to the high degree of utilisation of the factors of produc-

tion will most likely remain limited, while inflation in Europe is expected to stay low and even to slow down further in some countries.

Nevertheless, judging by the sharp rise in bond yields, operators on the financial markets appear to have suddenly reassessed the inflation risk, as well as growth prospects.

The rise began in October 1993 in the United States and received an additional impetus when the US central bank decided, on 4th February 1994, to raise the interest rate on Fed funds by a quarter percentage point. This intervention apparently gave the impression that the Federal Reserve expected hitherto undetected inflationary pressures and that the tightening of monetary policy might not have been sufficient. Questions about the ability of American monetary policy to curb the impending inflation, together with the persistence of a current account deficit, probably explain why the dollar lost ground against both the German mark and the yen, whereas the development of short-term interest rates ought in fact to have made it more attractive. From December 1993 to December 1994 the dollar depreciated by 8 to 9 p.c. against both currencies; against the mark the dollar had in fact appreciated by the same percentage in 1993, but against the yen this movement represented the continuation of a preceding rapid depreciation.

Whatever may have been its specific causes, the rise in US long-term interest rates had a strong knock-on effect, even on the German and Japanese bond markets. As a result of the worldwide integration of financial markets, yields rose everywhere, albeit in varying degrees.

Long-term interest rates depend largely on the expectations of operators in these markets, which may take spectacular turns. According to the present state of knowledge, it does not look as if these are attributable to the increasing use of financial derivatives, although this may temporarily play a part in accentuating the volatility of bond prices during periods of tension. In 1994 it was primarily the signs pointing — first in the United

States and then in Europe — to more dynamic economic activity that triggered the reversal in market sentiment. This caused market participants to expect a rise in demand for capital, which, in conjunction with large public deficits in the industrialised world and a considerable investment demand elsewhere, was expected to exert upward pressure on the level of real long-term interest rates. Furthermore, expectations of faster inflation were heightened by the spread and strengthening of the recovery, together with growing uncertainty about the future course of prices and about how the authorities would react to it. Inflation prospects and risk premiums developed differently, however, from country to country. In particular, the markets appeared to be taking account of the inflation risks connected with the recent depreciation of some currencies, of past performance in combating inflation and of the extent of public deficits.

Despite the abrupt reversal, the rise in long-term nominal interest rates did not push them up to unprecedented levels: by December 1994 bond yields in the United States were at their mid-1991 level, while in most European countries and in Japan they reached the same level as during the last months of 1992. The differences between long-term interest rates and the — generally very low — current inflation figures did not deviate all that much from those observed during the 1980s, although it must be said that the differential between the two was then rather large. In the longer run, however, the rise in long-term interest rates could hamper growth. If the expectations of enterprises differ from those of the financial markets, they might be induced to refrain from undertaking some planned investment projects, considering that their yield would be insufficient in view of the present level of interest rates. Furthermore, if prices actually increased less than expected, this would lead *ex post* to greater real interest burdens, which are liable to impair the self-financing capacity of companies. Lastly, the rise in interest rates might also slow down house-building and worsen budget problems. As the authorities cannot directly control long-term interest rates, their policy

must be chiefly aimed at curbing inflation expectations and risk premiums. A contribution to this can be made by continued budgetary consolidation efforts and the pursuit of a monetary policy which unequivocally aims at price stability and is on the alert to counter inflationary tensions.

For the near future it can be expected, in view of the asynchronous movement of business cycles, that there will be a continuation of lasting growth in the developed world. Europe and Japan could gradually become the driving forces behind economic growth, provided that there is an increase in the confidence of consumers there. In the United States the need is to remove the danger of overheating of the economy. Compared with the previous phase of cyclical recovery, the present revival also has the benefit of other trump cards, such as considerably lower inflation and better profitability of enterprises.

In the medium term, international trade, via which the recovery has spread, could also be advantageous for growth: the entry into force of the Uruguay Round agreements and the enlargement of the European Union will stimulate trade and production, while the World Trade Organisation must ensure that the common rules are complied with. There can be a beneficial interaction between economic growth in the industrialised countries, in the countries which are in transition to a market economy and in the developing countries. Several economies of Central and Eastern Europe returned to growth in 1994. Many developing countries which opted for a policy of macroeconomic stability and structural reform continued or started their recovery. The Asian newly industrialised economies have gone on growing strongly; their exports have played a part in increasing prosperity in the rest of the world and their imports of technologically advanced or highly capital-intensive products have helped to boost activity.

Those responsible for economic policy in the industrialised countries are at present faced by a threefold challenge, namely the creation of the conditions for lasting growth,

*fair distribution of the fruits of that expansion and a healthy environment. In this connection an essential role should be assigned to price stability, keeping control of the public finances and a more effective employment policy. Particularly in Europe the need is to bring about a further decrease in public deficits,*

*taking care not to interpret any spontaneous reduction resulting from the economic recovery as a structural improvement. It is equally necessary to push on with the reforms designed to make labour markets operate more efficiently, which could also strengthen growth.*

## **PROGRESS IN THE ACHIEVEMENT OF ECONOMIC AND MONETARY UNION**

*The beginning of the year under review marked the start of the second stage of the process leading to the completion of European Economic and Monetary Union (EMU). The most important task facing the Member States of the Union in this stage is to achieve lasting and thoroughgoing economic convergence through internal adjustment and greater policy co-ordination with a view to creating a solid basis for the future EMU. Upon the transition to the third and final stage of EMU, exchange rates between the currencies of the participating countries will be irrevocably fixed, which also means that the same line of monetary policy must be pursued for the whole area. The Treaty on European Union leaves no doubt about the ultimate objective of that single monetary policy : that aim must be the maintenance of price stability for the EMU area as a whole. Thus in the third stage it will no longer be possible to attune the instruments of monetary policy to divergent economic developments in individual Member States. In order to avoid the risk of intolerable tensions emerging within the EMU, it is therefore necessary on the one hand to create a sufficiently homogeneous economic environment and on the other hand to ensure that other parts of the policy mix — especially in the field of income and price formation and fiscal policy — are sufficiently flexible to take over the role of monetary and exchange rate policy as national adjustment instruments.*

*That is why the Maastricht Treaty makes participation in the third EMU stage depen-*

*dent on prior attainment of a sufficient degree of convergence with regard to price and exchange rate stability, the budgetary situation and the level of interest rates. In order to ensure the required cohesion within the future EMU, it is therefore essential that the convergence criteria laid down in the Treaty shall be scrupulously adhered to. But the fact remains that those criteria, however carefully chosen, relate only to a limited range of indicators and can thus give no more than a partial picture of the fundamental economic situation of a country. Convergence is moreover a pre-eminently dynamic process. Therefore, important though it is, the evaluation of the extent to which the target parameters have been attained at a given moment does not reduce the need for an assessment of the soundness and durability of the underlying processes and policies.*

*When drawing up the provisions of the Treaty, the contracting parties were fully aware that this complex matter requires a balanced approach. That is evident in the first place from the careful choice of the convergence criteria, between which clear links can be established : if no sufficiently credible and lasting progress is achieved with regard to the more policy-determined variables, such as the budgetary situation and the level of inflation, the risk premium incorporated in long-term interest rates will increase and the stability of the exchange rate will be in danger of being jeopardised. The Treaty certainly requires that each convergence criterion shall be satisfied separately, but it would be against the spirit*

of the Treaty if, in the overall assessment of the convergence level achieved by a Member State, the interaction between the various criteria were not also taken into account.

Furthermore, as regards the budget deficit and general government's debt ratio, the Treaty provides not only for quantitative reference values but also, explicitly, for a judgmental element concerning the extent to which and the pace at which these reference values are approached. Consequently, account should also be taken, in the assessment of the convergence achieved, of the extent and lasting nature of the consolidation efforts made by the Member States with regard to their public finances. In any case, if the course of economic activity remains favourable, even a slight and temporary overstepping of the 3 p.c. norm for the budget deficit hardly seems justifiable, so that this norm should be regarded as an absolute upper limit.

Lastly, the Treaty requires that, in the reports which the European Commission and the European Monetary Institute have to make to the European Council on the progress made by the Member States with regard to convergence, account shall also be taken of the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the development of unit labour costs and other price indices. This additional provision in no way implies a weakening of the actual convergence criteria, but it can be regarded as an exhortation to incorporate the assessment of the degree of convergence achieved in a more broadly conceived and soundly based analysis of the economic situation of the Member States. Such an approach must guarantee that, in those cases for which the Treaty expressly provides scope for judgment, only sound economic criteria shall be applied.

Since the beginning of the second EMU stage the endeavour to achieve convergence within the Union has been supported by a number of new Community procedures for strengthening the co-ordination of economic policies and multilateral supervision of this

process. An important instrument to this end is constituted by the broad guidelines for the economic policies of the Member States and of the Community marked out by the Ecofin Council. These were first formulated in December 1993, against an economic background which was still very uncertain. The improvement which has occurred in the economic climate since then has made it possible and desirable to step up the efforts to achieve these objectives. With this in mind, the European Council amended the previously formulated guidelines in July 1994.

In its recent reports, the European Commission came to the conclusion that progress was made during the year under review both with regard to the implementation of the economic policy guidelines and with regard to convergence.

As far as inflation is concerned, the European Council recommended that it be slowed down as quickly as possible to not more than 2 to 3 p.c. Between 1993 and 1994 the average inflation rate for the Union came down from 3.9 to 3.1 p.c., and in eight of the twelve Member States inflation fell to less than 3 p.c. This favourable development can be attributed to various factors. Firstly, wage developments in the European Union became more moderate and homogeneous and were coupled with considerable productivity gains, which are not unusual for this phase of the economic cycle. Moreover, several countries pursued a policy for the structural improvement of the operation of the labour market. Lastly, as the economic revival started from a low level of activity in most countries, leaving considerable output gaps, there was sufficient leeway on the supply side to absorb the growing demand without any upward pressure on prices. For 1995 the inflation prospects are, in general, not unfavourable, but vigilance is nevertheless called for, because the improved economic climate and labour market situation might stimulate higher wage demands, while the rapid narrowing of the output gap in some countries might induce enterprises to raise their prices. The risks of imported inflation must not be lost sight of either, particularly those con-

ected with the course of raw material prices and the exchange rate for the dollar.

With regard to the public finances, the recommendations formulated in December 1993 by the European Council stated that Member States should avoid any deterioration of their budgetary situation in 1994 in order thereafter, from 1995 onwards, to bring it back to a sustainable level. In view of the appreciable improvement in growth prospects, the guidelines approved in July 1994 stated that the benefits of stronger economic growth should not be used to lessen the tax pressure or increase public expenditure but should primarily be employed for reducing the budget deficit; in other words, the automatic stabilisers should be allowed to operate fully. Furthermore, if economic growth quickens to a pace above the estimates used in the preparation of budgets, Member States ought to make their convergence programmes more ambitious.

According to present estimates general government net borrowing, as a percentage of GDP, improved slightly in 1994 on average for the entire Union, from 6 to 5.6 p.c. An improvement appears to have taken place in nine of the twelve Member States, but it generally remained very modest; only in a few countries does the budget deficit seem to have turned out lower than the target which the authorities had set themselves in their convergence programmes. In nearly half of the Member States the structural budgetary situation (i.e. the balance corrected for cyclical influences) actually appears to have worsened further, while the moderate improvement of fiscal deficits was generally insufficient to prevent a further increase in the debt ratios of the EU countries.

As part of the procedure established by the Treaty for avoiding excessive government deficits, both the European Commission and the European Council came to the conclusion that there was an excessive deficit in ten EU Member States. Only Luxembourg and Ireland were considered to have satisfied the relevant criteria, despite the fact that Ireland still had a debt ratio of over 90 p.c. of GDP. In the

case of Ireland the Commission and the Council took account, however, of the fact that the relative size of the public debt had decreased considerably since 1988 and that, in view of the extent of the primary budget surplus, the Irish budget situation could be said to be sustainable.

It thus appears that most of the Member States of the European Union — albeit in differing degrees — will have to make considerable further consolidation efforts in order to satisfy the budgetary convergence criteria by the end of 1996. The economic revival offers a unique opportunity of remedying the situation.

During the year under review, the operation of the European exchange rate mechanism was generally satisfactory: after the widening of the fluctuation margins in August 1993, the foreign exchange markets gradually reached calmer waters. The increased stability was coupled with less volatile short-term interest rates and smaller interest-rate differentials. All this is an indication that the monetary policy pursued by the countries participating in the exchange rate mechanism was appropriate and credible. Three factors appear to have assisted these developments. Firstly, the improved economic prospects and the increased convergence within the European Union have left the impression, on the financial markets, of a more consistent conduct of monetary policy, with less likelihood of conflicts between its internal and external objectives. Secondly, the central banks of the countries in question have voluntarily continued to pursue a policy aimed at exchange rate stability. Lastly, the widening of the fluctuation margins re-incorporated two-way exchange risks in the system, making speculation less attractive. In view of this positive experience, a consensus has developed among the European monetary authorities in favour of leaving the existing exchange rate arrangements unchanged under the present circumstances. Therefore, when performance is tested against the convergence criterion relating to exchange rate stability, actual exchange rate developments will most probably be regarded as more important than com-

pliance with the formal rules of the exchange rate mechanism.

The persistent high level of unemployment, in particular, has strengthened the conviction within the European Union that there is also an urgent need for additional efforts with regard to real convergence. Against this background the European Council, at the Essen Summit in December 1994, presented to the Member States a programme of action covering five priority areas: improving work opportunities by promoting investment in occupational training; heightening of the employment effect of growth through a more flexible labour organisation, through the encouragement of initiatives in fields such as environmental and social services and through an appropriate wage policy, requiring, in the present situation, moderate wage increases kept below the rise in productivity; limitation of indirect labour costs; improvement of the effectiveness of labour market policy; and, lastly, intensification of measures for specific risk groups in the labour market. Of particular importance in this connection is the fact that the European Council worked out, in support of this programme, procedures which resemble those which were established for supervision of compliance with the Maastricht criteria. The European Council thus called upon the Member States to transform these recommendations into national multi-annual programmes and requested both the Council of Ministers and the European Commission to introduce appropriate supervisory and assessment procedures.

On 1st January 1995 three new Member States — Austria, Finland and Sweden — joined the Union. Each of these countries already had close economic links with the Union in the past, and thus their integration can hardly be regarded as constituting an upheaval. On the contrary, with their experience and traditions, the new Member States in many respects represent an enrichment for the Union. For the two Northern European countries, membership of the EU probably offers better chances of coping with the aftermath of the financial crisis and the severe recession which they have experienced in the

recent past. Finland is still affected by an exceptionally high unemployment rate, while Sweden has to contend with a fiscal situation which has become completely unbalanced within a short space of time. Austria's economic profile is generally very similar to that of the core countries of the European Union. Since the beginning of the 1980s it has shown itself capable of pursuing a policy aimed at monetary stability. The close linking of the schilling to the German mark advocated by the Austrian National Bank consequently survived the successive crises within the EMS without difficulty. The entry of the schilling into the European exchange rate mechanism shortly after Austria's accession to the Union was therefore fully in line with that policy.

At the start of the second EMU stage the European Monetary Institute (EMI) took the place of the Committee of Central Bank Governors and the European Monetary Co-operation Fund. The main tasks assigned to the EMI are to strengthen the co-ordination between the monetary policies of the national central banks and to organise the preparatory activities for the transition to the third stage, which entails the establishment of a single monetary policy and the rapid introduction of a single currency.

The EMI's co-ordinating role is certainly no easy task, in view of the fact that throughout the second stage the national monetary authorities continue to bear full responsibility for monetary policy and that the EMI has no discretionary powers. This conflict does not, however, necessarily constitute an obstacle to a high degree of policy co-ordination, since, in a highly integrated economic environment with complete freedom of capital transactions, decisions of monetary policy taken in one country quickly exert a considerable influence on the rest of the Union, and this in turn may prompt new policy reactions on the part of the partner countries. Given this high degree of interdependence, co-ordination of policy means, in essence, that policy-makers, acting out of enlightened self-interest, take account of these external effects from the outset in formulating their policies.

The central banks of the European Union have a long tradition of consultation and co-operation; in that respect the EMI's path has already been smoothed to a considerable extent. Its main task will therefore be to improve the structuring of the co-ordination procedures and to assist in ensuring that greater importance is attached to the Community interest aspect in the formulation of national monetary policies. As time goes by, this should contribute to the predominance of a common monetary policy line well in advance of the actual transition to the third stage.

Preparation for the final stage of EMU might confront the EMI with an even harder task, since, by the end of 1996 at the latest, all steps must have been taken to transfer the entire monetary powers of the up till then autonomously operating national central

banks to a single new supranational institution, the European System of Central Banks. This task chiefly consists of designing the conceptual and strategic framework of the single monetary policy and preparing the harmonised set of instruments and procedures needed for its implementation. No less important are the many practical and technical problems created by the transition to a single monetary policy, including matters such as the integration of payment systems, the organisation of foreign exchange policy and the management of the foreign exchange reserves, the harmonisation of accounting procedures, the building up of an adequate statistical apparatus and information system and the production and issuing of European banknotes. During the EMI's first working year, it did a considerable amount of exploratory work on each of these subjects in close co-operation with the national central banks.

## ECONOMIC DEVELOPMENTS IN BELGIUM

### ***Recovery stronger than expected***

The first signs of the economic recovery had already become perceptible in the course of 1993. However, the strength of the incipient recovery was at first appreciably underestimated: the latest estimates of GDP growth in 1994 are in fact about twice what was predicted a year ago. In comparison with previous business cycles and especially with that of the early 1980s — the recession phase of which resembled the latest one in its duration and intensity — the present recovery phase has proved to be much more vigorous. The external component of demand was by far the most important driving force behind the economic expansion. While the volume of world trade increased by nearly 10 p.c., Belgian exports of goods and services rose by a little over 6 p.c., the difference being mainly attributable to the predominance in our exports of more moderately growing markets in continental Europe. With an expansion in vol-

ume of barely 1.4 p.c., the dynamism of domestic expenditure was considerably less than that of foreign demand. This also somewhat depressed imports of goods and services, so that, on balance, net exports made a positive contribution of about 0.7 percentage point to economic growth.

All in all, GDP is estimated to have grown by 2.3 p.c. in volume during the year under review. A noteworthy but not surprising fact is that this result is very close to the growth percentages recorded in our neighbouring countries; it merely confirms the high degree of economic integration reached by the core countries of the European Union. The earlier recovery of export demand in Belgium compared with its main trading partners is due to the fact that the Belgian economy is relatively more highly specialised in the supplying of semi-manufactured products, demand for which usually picks up faster in a cyclical recovery than demand for other prod-



ucts such as capital and consumer goods. Similar reasons explain why output growth was most pronounced in those branches of industry which specialise in semi-manufactured products and achieve a considerable proportion of their sales abroad, such as, particularly, the steel and non-ferrous-metals industries and the chemical industry. These sectors also benefited from the increase in domestic stock-building. Another point worthy of note is the sharp increase in value added in the branch of services to enterprises. This is not a new phenomenon, however, but the result of a structural trend towards specialisation whereby enterprises increasingly entrust to specialised firms a number of subsidiary activities, such as transport, administration, maintenance, security, etc., which they had previously largely performed themselves.

As a result of the unusually strong wave of investment at the end of the 1980s and the subsequent falling-off of activity, quite a number of enterprises still had substantial reserves of production capacity during the year under review. This underutilised capital stock temporarily put a damper on demand for capital goods from enterprises, which last year appears to have contracted further by about 2 p.c. However, especially in manufacturing industry, a reversal in the investment activity of enterprises appears to have occurred towards the end of the year, and for 1995 the Bank's most recent survey presents the prospect of a vigorous revival in gross fixed capital formation.

Public investment, for its part, displayed — apart from purely statistical factors — a moderate growth in volume. The same applies to investment in housing, which made only a limited recovery after the contraction in 1993. During the first half of the year the low level of mortgage interest rates, combined with the expectation that they would soon rise again, brought about a sharp increase in demand for mortgage loans and in the number of applications for building permits, but these developments were reflected only partially in actual expenditure on house-building. Nevertheless, the latter has remained at a relatively high level since 1992.

The most disappointing development — since it relates to the most important domestic expenditure component — was the fact that private consumption lagged behind the cyclical trend with an expansion of only 0.7 percentage point in volume, following a contraction of 1.4 p.c. in 1993, the reason being that real disposable income of households decreased by nearly 1 p.c. while their savings ratio declined only slightly after having reached a historical peak in the recession year 1993.

Even though the indicator of consumer confidence has been pointing clearly upwards since the second half of 1993, households continued to show restraint in their spending behaviour. The strong propensity to save during the past few years may have been partly attributable to doubts about a lasting improvement in job opportunities and to concern about provision for old age.

### **Persistent under-employment**

Thanks to the economic recovery, unemployment, as in most European countries, was first of all stabilised and then slightly reduced in 1994, indicating that enterprises began to create jobs again. Whereas in the 1993 recession fewer jobs were lost than during the preceding slumps, there was fairly soon a return to net recruitment during the year under review. Economic growth alone is not, however, sufficient to bring about a sharp decrease in the number of unemployed. Experience has shown that the growth rate must be over 2 p.c. in order to generate an expansion in workforces. Even during the period 1985-1991 — the only years since 1974 in which employment in the business sector increased — the average number of additional jobs was not more than 32,000 per year. If the growth in the labour force at that time had not been slowed by early and temporary withdrawals from the labour market, the new recruitments would not have been sufficient to cause a decline in the number of unemployed. Since then withdrawals have decreased owing to government measures designed to reduce the budgetary burden which

they entail. At the same time, however, labour force participation has been depressed by the gloomy employment prospects. In so far as the cyclical recovery leads to an improvement in these prospects, the growth in demand for jobs, which was only 16,000 units in 1994, may also quicken somewhat in the near future.

Thus, although the expansion of production of goods and services — which, in a small, open economy such as Belgium's, is largely determined by the course of activity abroad and by the competitiveness of the country's own enterprises — is admittedly of vital importance for reducing unemployment, it is likely to prove insufficient unless it is accompanied by reforms.

It was precisely in order to increase the employment content of economic growth that the government adopted a number of specific measures, particularly within the framework of the so-called Global plan for employment, competitiveness and social security which was approved in November 1993. These measures are chiefly aimed at moderating labour costs, redistributing the available work, relaxing certain regulations which might deter enterprises from setting on additional employees, improving training for the unemployed and facilitating their reintegration in the labour market.

The desire to stimulate employment and reduce unemployment also inspired the agreement which employers and trade unions concluded at national level in November 1994. That agreement contributes to social peace, which is essential for the harmonious development of economic activity. It is important now that at the level of sectors and enterprises, where — owing to the differing situations — certain guidelines still need to be converted into concrete provisions, the negotiators should be guided by the same concern for stimulating employment.

The measures adopted ought to contribute to a better matching between the supply of labour and the demand from enterprises.

A recent survey carried out by the Bank at the request of the European Commission revealed that enterprises mention, among the factors which impede recruitment, in decreasing order of importance: the burden of indirect labour costs, the keen competition, the level of net wages and the troublesome redundancy procedures. On the other hand, they hold out greater opportunities of appointment to skilled workers and to those who are prepared to accept non-standard working hours or part-time work.

While, in the present cyclical phase, the policy pursued has probably already contributed to the creation of new jobs, its full effects will only become apparent in the longer run, partly because, as already mentioned, a number of enterprise arrangements or sectoral agreements still have to be concluded with the sole aim of safeguarding and promoting employment. The lowering of the age limit for early retirement is one possible way of shortening working life which is provided for in the central agreement for 1995-1996. This measure must, however, be regarded as a temporary interruption of the trend towards the lengthening of working life which is becoming perceptible both in Belgium and abroad.

Through the operation of a number of market mechanisms, moderation of labour costs can help to promote employment. It increases the competitiveness of enterprises, enabling them to win a larger proportion of domestic orders, while at the same time stimulating foreign demand and investment. It also curbs the substitution of capital for labour, without thereby impeding technically innovative investment projects. Lastly, it can generate a demand for new forms of services by ensuring that this demand can be effectively met. Measures have therefore been taken which involve both a general moderation of wages and a reduction of social security contributions. The latter are particularly heavy in Belgium. Even so, budgetary considerations have forced the government to be selective: the lowering of employers' social security contributions applies mainly to wage- and salary-earners in open sectors, young people and

low-skilled workers. For example, the jobs-for-young-people plan — which has proved very attractive — has stimulated the recruitment of young workers. Under the plus-one plan, similar exemptions from social security contributions are granted to employers who take on, as their first employee, a wholly unemployed person entitled to benefit. Also, levies which do not affect the use of labour are being resorted to more than hitherto for financing social security.

### **Stabilisation of costs and prices**

The development of domestic costs is and will be, for the years 1994 to 1996, largely determined by the general moderation of incomes. In 1995 and 1996 real wages will be frozen. From 1994 onwards a so-called health index has been incorporated in the indexation mechanisms. That index excludes the prices of alcohol, tobacco, petrol and diesel and is calculated with 1988 as the base year. Because of the elimination of these products, the prices of which — partly owing to higher indirect taxes — have risen relatively rapidly, and because of the neutralisation of the impact of the energy contribution introduced in August 1993, the health index number remained below the overall index number in 1994. This enabled the rise in labour costs to be slowed down by 1.3 p.c., of which 1 p.c. was reflected in the 1994 average, while the remainder will become apparent in 1995. Thus the Belgian economy will henceforth be to a certain extent less sensitive to the inflationary consequences of a possible rise in the prices of imported energy products or of an increase in some indirect taxes.

The selective reductions of social security contributions, for their part, permitted a fall of 0.7 p.c. in labour costs. As a result of all these measures, the increase in annual labour costs per employee slowed down for the third year in succession, from 8.6 p.c. in 1991 to 2.6 p.c. in 1994 — a percentage which is comparable to the average rise in nominal wages in the national currency in Germany, France and the Netherlands. Owing to the productivity gains, this rise in labour costs resulted in a stagnation of unit labour costs.

As a result of this stabilisation of labour costs, and of a renewed rise in export prices after several years of decline, the gross operating surplus per unit sold of companies, which had remained virtually unchanged in the preceding two years, increased by 3.8 p.c.

The movement of labour costs also contributed to the slowing of the rise in consumer prices from an average of 2.8 p.c. in 1993 to 2.4 p.c. in 1994 and only 1.9 p.c. from December 1993 to December 1994. Labour-cost developments counterbalanced the rise in import prices — which was restrained by the appreciation of the franc — and the incidence of the raising of indirect taxes, whose effect on consumer prices amounted to about 0.7 p.c. in 1994 against 0.3 p.c. the previous year. The success of the foreign exchange policy, the slackening of price rises in Germany and the moderation of wages resulting from the government measures and from the determination of management and labour to promote the growth of employment likewise augur well for a further curbing of inflation.

### **A competitive economy?**

The movement of both the trade balance of the Belgian-Luxembourg Economic Union (BLEU) and the overall balance of its current transactions with foreign countries has been particularly favourable during the past few years. Between 1986 and 1992 the current account, year after year, closed with substantial surpluses of, on average, about 2.5 p.c. of GDP. Since then the current surplus has more than doubled. In the year under review it is estimated to have reached Fr. 410 billion or 5.1 p.c. of GDP; that is, relatively speaking, one of the highest levels in the entire OECD area. This rise related almost equally to transactions in goods — the surplus of which rose from Fr. 114 billion in 1992 to Fr. 221 billion in 1994 — and to other current transactions (services, factor incomes and transfers), the total surplus on which increased from Fr. 98 to 189 billion during the same period. Although the lion's share of this advance already took place in the recession year 1993, this trend — certainly as regards

transactions in goods and services — also continued during the year under review. This was of course connected with the fact that foreign demand increased considerably faster than domestic demand.

Although a precise allocation of foreign payments to each of the two BLEU countries is still not possible for the time being, there are sufficient indications that a not unimportant part of the improvement in the balance of service transactions and incomes is attributable to Luxembourg. Particularly the rapid expansion in the international activity of the Luxembourg banking and insurance sector appears to have played an important role in this. Both the level and the growth of the positive balance of transactions in goods, on the other hand, can be said to be an exclusively Belgian achievement, since Luxembourg has a negative trade balance, which has furthermore undergone little change in recent years.

All this raises the pertinent question of how this greatly increased trade surplus accords with the assertion — including in the latest reports of the National Economic Council concerning the country's competitive position — that in the recent period the Belgian economy performed less well than its main partner countries with regard to the relative movement of costs and that it also suffered a greater loss of export market shares.

Closer examination of the various factors underlying the development of the BLEU's balance of trade shows that this paradox is only apparent. Between 1987 — the year that also serves as the reference point for the assessment of the competitive position by the National Economic Council — and 1994, the trade balance increased by over Fr. 170 billion. This rise is almost entirely attributable to the different movement of export and import prices, since, during the period in question, the BLEU's terms of trade improved considerably, chiefly owing to the fall in raw material prices and the appreciation of the weighted effective exchange rate for the Belgian franc. Ideally, the positive effects of a fall in import prices should be passed on as

quickly and completely as possible to domestic prices and costs.

After elimination of the above-mentioned terms-of-trade effect and of special factors, such as trade in gold and diamonds, the volume of imports of goods appears to have increased more during the period in question than that of exports. This decline in the so-called degree of coverage, the adverse effect of which on the balance of trade can be estimated at about Fr. 70 billion, could be attributable either to the different development of domestic demand or to changes in competitiveness and to geographical and product-structure effects. The most important determinant actually appears to have been the fact that, over the period in question as a whole, domestic demand grew appreciably faster in the BLEU than in its main trading partners.

If the BLEU and the Belgian economy in particular lost market shares on the export side, and this even to a greater extent than their main trading partners, opposing forces must obviously have been at work on the import side. It does indeed appear that in the BLEU the elasticity of imports to movements in total demand is considerably lower than in most other OECD countries. Such a low import elasticity has become a typical feature of small, open and highly developed economies. Because of the limited scale of their domestic markets, these countries began to engage in specialisation and internationalisation much earlier. Therefore, in the more recent period, when world trade was expanding strongly, import penetration from abroad no longer had the same potential as in larger, still more closed economies. A possible additional explanation of the relatively low import elasticity in the BLEU appears to be the large proportion of small and medium-sized enterprises in our economy. For it can be assumed that these are better able to react flexibly to demand developments in their own domestic markets.

In any case, the assessment of a country's competitive position is a complex matter involving consideration of a wide range of fac-

tors. In a world economy which is in a state of flux, this assessment is made even more difficult by the fact that changes in competitive relationships are intertwined with geographical shifts and movements of specialisation.

The ultimate yardstick for measuring competitiveness lies in the question whether or not — over a fairly long period — an economy is able to adjust to the continuously changing economic conditions and provide its population with a standard of living which keeps pace with that in comparable partner countries without this entailing systematic drawing of resources from abroad, in other words, without the emergence of structural external deficits. From this angle the Belgian economy has not done badly during the last quarter century: from 1970 to 1994 real per capita GDP grew in Belgium by 66 p.c., against 61 p.c. in our five main trading partners.

However, such a global standard of measurement, based on past trends, gives little to go on as a policy guideline. In order to make timely adjustments, the policy must be able to detect adverse developments of the many factors which determine a country's competitive position at an early stage. It will be clear that in an open economy such as that of Belgium all these factors make themselves felt just as much in the domestic markets as they do abroad. A complete assessment can therefore only be made if both import and export performances are included in the analysis. From this wider angle there are strong indications that the performance of the Belgian economy — without having been positive in all respects — has nevertheless been, overall, better than has hitherto been suggested by some indicators which relate only to the export side of foreign trade. As regards the recent past, the various income-moderating measures adopted by the Government have contributed to the fact that during the year under review the course of labour costs in national currency did not significantly deviate from that in our main trading partners. According to the latest OECD forecasts, that picture is not likely to change

radically in 1995 and 1996 and the BLEU's current account surplus might even increase further.

All this seems to suggest that there is sufficient margin to allow the benefits of a sustained moderation of labour costs to be directed primarily towards the creation of more jobs, care still being taken to safeguard the competitiveness of enterprises. At the same time, more and more arguments indicate that our competitive position ought to be assessed from a more structural angle and that the policy adopted on this subject should be more preventive than remedial in nature. Such a positive approach would be in line with the high degree of integration of the economies of Belgium and its neighbours and with Belgium's ambitions regarding Economic and Monetary Union.

As has been said, the BLEU's current foreign payments have been giving rise to large surpluses since 1985. From the macroeconomic point of view such surpluses mean that the national income of Belgium and Luxembourg has been greater than the total expenditure of the two countries combined. The BLEU has thus been able, year after year, to make positive net national savings available to foreign countries, and thus gradually to build up a substantial net creditor position vis-à-vis the rest of the world. For Belgium alone this surplus of foreign claims can now be estimated at around 20 p.c. of GDP. General government's net debt ratio admittedly rose from 113 p.c. in 1985 to 128 p.c. in 1994, but this was far exceeded by the total net claims built up by the private sector, which increased over the same period from about 113 to 148 p.c. of GDP. The net external asset position of the Belgian economy as a whole — public and private sectors combined — is thus, except for the extreme case of Switzerland, in no way inferior to that of other traditional creditor countries such as Germany, the Netherlands and Japan, and is in sharp contrast to the net external position of most other European countries and the United States, which is in some cases more or less in equilibrium but more often substantially negative.

### ***Fiscal consolidation is bearing fruit***

Since it came into power at the beginning of 1992, the federal government has given high priority to fiscal consolidation, setting itself three primary aims: fulfilment of the conditions laid down in the Treaty of Maastricht for the transition to the third EMU stage by the end of 1996; lasting reversal of the snowball effect of interest burdens on the public debt; and — in the longer run — recreation of scope for manoeuvre for budgetary policy, especially in view of the new social needs arising from the steady ageing of the population.

In the convergence plan presented by the government to the European authorities in June 1992, these policy intentions were given concrete form in a normative medium-term strategy aimed at gradually reducing the total government deficit to 3 p.c. of GDP by 1996. The underlying assumptions of the initial plan were, however, soon overtaken by events. The deficit for 1992 turned out to be a full percentage point higher than originally estimated, but, above all, as in the neighbouring countries, the seriousness of the incipient recession was underestimated. The initial calculations had reckoned with a GDP growth of 2.3 p.c. in 1993, whereas there was actually a contraction in volume of 1.7 p.c. — a turnaround representing a difference of fully 4 percentage points. In the light of this adverse economic development, the convergence plan had to be adjusted twice, in April 1993 and June 1994. On both occasions the intermediate deficit targets were adjusted, but the final objective was left unchanged. As the budgetary Maastricht norms apply to the whole of general government, it is essential that all levels of government shall make their proper contribution to putting the public finances on a sound footing again. The agreement reached by the government in July of last year with the authorities of the communities and regions, in which all those involved formally undertook to make every effort to meet the targets set for each policy level in the convergence programme, is a welcome development from this point of view.

In order to keep the consolidation process going despite the adverse economic trend, important measures had to be taken on several occasions during the last three years. As far as the primary expenditure and revenue of the federal government and the social security system are concerned, these measures have up to the present involved a total accumulated amount of about Fr. 400 billion or 5.3 p.c. of GDP, while a number of them will produce further effects after 1994. Although undeniable, the results of the fiscal policy pursued were hardly sufficient, in an initial phase, to counteract the budgetary consequences of the slackening of business activity: both in 1992 and in 1993 the net financing requirement of general government as a whole could only be stabilised at the high level of about 6.5 p.c. of GDP. Only after elimination of cyclical and other temporary factors does it become apparent that the so-called structural deficit of general government already improved by more than 1 percentage point of GDP in 1993.

During the year under review, however, the combination of sustained consolidation efforts and a largely neutral state of business activity from the budgetary point of view resulted in a notable reduction in the deficit, the net financing requirement of general government as a whole having fallen from 6.6 p.c. of GDP in 1993 to around 5.4 p.c. in 1994. It was thus below two reference values. Firstly, it was 0.3 percentage point below the convergence norm as updated by the Superior Finance Council in June 1994, although it must be mentioned that the Superior Council was at that time still counting on a much smaller GDP growth of 1.5 p.c., against 2.3 p.c. according to present estimates. Although it was chiefly the deficits of the federal government and the social security system that decreased, it appears — as far as can be judged at present — that the regions and communities and the local authorities also met the deficit targets set for them. Secondly, for the first time in living memory, the deficit of general government fell below the average for the European Union. As most of the Member States had pursued a less restrictive fiscal policy than Belgium during the last

few years, the gap — which had still amounted to more than 3.5 percentage points of GDP at the end of the 1980s — had already been reduced in 1993 to a little over half a percentage point. In 1994 the deficit was reduced for the Union as a whole too, but the reduction was 0.8 percentage point below what was achieved in Belgium, leading to the emergence of a positive differential to the advantage of Belgium.

In comparison with the majority of our partner countries, Belgium has to contend with two major handicaps which complicate the rehabilitation of its public finances, namely the high debt ratio and the low occupation rate of the total population. Owing to the size of the public debt, interest charges in Belgium — at 10.3 p.c. of GDP — are about twice the European average. Against this, however, the positive balance between primary government revenue and expenditure in 1994 was more than 5 percentage points higher than in the European Union as a whole, where the primary balance was close to equilibrium. This positive differential is solely due to the greater pressure of collective levies and especially to personal taxation and social security contributions, which in Belgium together represent 30.8 p.c. of GDP, against a European average of only 24.7 p.c. The level of other tax revenues, derived mainly from indirect taxes, and that of social and other primary government expenditure no longer differ significantly from the average level in the rest of the European Union.

It cannot be denied that the heavy fiscal and parafiscal pressure on earned incomes has put a brake on both the supply of and the demand for labour and may thus be considered to be partly responsible for the fact that Belgium scores particularly low, internationally, with regard to the ratio between the number of working persons and the total population. At 37.8 p.c., this ratio is about three percentage points below the average for the European Union. This means that a rather narrow base has to provide the greater part of the resources for financing the social security system and other collective services, which are themselves under pressure from the

growing number of non-working persons. Measures designed to promote employment, either by lowering labour costs or through a better distribution of the available work, will thus indirectly make it easier to put the public finances back on a sound footing. The converse is, however, equally true: sound public finances help to create a stable economic and financial climate, which, for both entrepreneurs and individuals, will reduce the uncertainty which has hitherto caused them to exercise restraint in their expenditure on investment and consumption. Some of the main lines of the global plan are precisely based on this interaction between employment and public finances. Thus, an impetus has been given to an alternative and more broadly-based financing of the social security system. The lowering of social contributions was compensated for by the raising of some indirect taxes and, in order to restore the financial equilibrium of the social security system, recourse was had to, among other measures, increased taxation of incomes from financial and immovable assets.

The impact of these new policy orientations already became perceptible during the past year in the development of the various categories of government revenue. After four years in which the levies which mainly apply to earned incomes — namely social security contributions and the greater part of personal taxation — had displayed an upward trend, their share in GDP remained stable in 1994. Under the influence of earlier measures, such as the collection of a supplementary crisis contribution and the non-indexation of the taxation scales, the share of personal income tax in GDP increased further by around half a percentage point, but this was counterbalanced by an approximately equal reduction in social security contributions. On the other hand, revenue from all other tax categories — indirect taxes, corporation tax and the withholding tax on income from financial and immovable assets — rose by fully 1 percentage point of GDP. The increase in total government revenue, supported by cyclical factors and tax measures, largely benefited the federal government and the social security system during the year under review. Unlike

during the preceding years, the increase in their revenue exceeded that in the revenue of the communities and regions, which is mainly determined by the allocation mechanisms laid down in the financing laws.

The rate of growth of total government expenditure at constant prices, excluding interest charges, has remained remarkably stable in recent years : in 1994 it amounted to 2.2 p.c., a rate similar to the average annual rise in primary expenditure during the period 1989-1993. This global outcome does, however, conceal different developments in the various expenditure categories. The growth in volume of most types of social expenditure and of the total wage bill of general government slowed down appreciably during the year under review, partly owing to the change-over to the health index. Over against this, there was a larger increase in expenditure on, among other things, goods and services and current transfers to the rest of the world, including that for financing the European Union. There was also a change in the course taken by the expenditure of the various levels of general government. Primary expenditure of the federal government at constant prices showed an upward trend again after the contraction of 1993, while the growth in expenditure on social security slowed down appreciably. According to the data already available, the rise in the expenditure of the communities and regions and of the local authorities also appears to have slackened somewhat, although it still continued to grow rather strongly, with a rate of increase of around 3 p.c., particularly in comparison with that of the federal government and the social security system combined, which amounted to about 0.8 p.c. at constant prices.

Especially in the period 1978-1987, high financing requirements and a swelling interest snowball had led to a rapid rise in the ratio between total public debt and GDP. In the following years this tendency slackened, but in 1993 the rise in the debt ratio quickened again owing to the economic recession. During the year under review, however, the combination of higher nominal GDP growth and sustained budgetary discipline led to a fall in

the debt ratio. Nevertheless, the net financing requirement of general government is still much higher than can be considered acceptable in the longer run. It is therefore necessary that the consolidation course mapped out be strictly adhered to in the coming years. It would be prudent to avoid exaggerated expectations regarding the effects of the improvement in the economic situation, because, over against the hoped-for budgetary repercussions of a further increase in domestic expenditure and declining unemployment, there are a number of factors which tend to operate in the opposite direction. Thus the freezing of real wages imposed by the government for 1995 and 1996, which will undoubtedly benefit competitiveness and employment in the course of time, is liable, initially, to slow down the rise in revenue from taxes and social contributions. Moreover, a large proportion of the additional revenue obtained in 1994 thanks to non-recurrent measures will disappear from 1995 onwards. Lastly, in the present circumstances there is a great deal of uncertainty about the future course of international interest rates, over which the Belgian authorities have no control but which nevertheless can have important budgetary repercussions.

There is thus every reason to adhere to strict budgetary discipline at the various policy levels and, if the favourable economic tide proves stronger than expected, to avoid the temptation to reverse the planned curbing of expenditure or to reduce the fiscal pressure, but on the contrary to ensure that any windfalls are solely used to accelerate the reduction of the deficit. That was in fact what the European Council recommended to the Belgian authorities in October last year in connection with the procedure introduced by the Union Treaty for avoiding excessive budget deficits.

Even if the economic situation improves further and the level of interest rates remains stable, it will be necessary, in order to achieve the 3 p.c. target by 1996, to adopt supplementary structural consolidation measures. What their extent will have to be is still hard to say, but a first indication can be derived



from the fact that, according to the most recent forecasts of both the European Commission and the OECD, the total Belgian government deficit would amount, with unchanged policy, to about 4 p.c. of GDP in 1996. In order to play safe, it is advisable to take the necessary steps to redress the situation as quickly as possible, because the experience of the autumn of 1993 has taught us that the international financial markets are keeping a close watch on fiscal developments in Belgium. In the course of 1994 it proved possible to restore the credibility of budgetary policy; determination is now required in order to safeguard what has been achieved and lay the foundations for enduringly sounder public finances.

Looked at thus, fulfilment of the 3 p.c. criterion in 1996 should not be regarded as a final objective. In order to make the budgets less vulnerable to the ups and downs of the economic situation and to inescapable fluctuations in the international level of interest rates, the consolidation measures will have to be continued after 1996. The objective set by the government at the beginning of the parliamentary year 1994-1995 of maintaining a primary surplus of at least 6 p.c. of GDP for the period after 1996 is a suitable starting point for this. It should be noted that the budgetary efforts necessary in order to bring down the total government deficit to 3 p.c. of GDP by 1996 ought also to be sufficient to enable a primary surplus of at least 6 p.c. of GDP to be achieved in the same year. The attainment of this objective would already enable the gross debt ratio to be reduced from 136 to 131 p.c. of GDP between 1994 and 1996. On reasonable assumptions for the growth trend of nominal GDP and the future course of interest rates, it can further be shown that maintenance of a primary surplus of at least 6 p.c. of GDP would be sufficient in order to maintain a spontaneous and cumulative process of decreasing interest burdens and a steadily quickening fall in the debt ratio. The sole — stringent but achievable — condition for this is that the endogenous reduction of interest charges shall for a long period be used neither to lower taxes nor to step up expenditure, but shall be systematic-

ally reserved for further deficit reduction and a faster lessening of the debt ratio. Consideration might, however, be given to incorporating this consolidation strategy in a longer-term approach to fiscal policy which leaves a — well-defined — margin to enable the automatic stabilisers to play an anticyclical role. Such a policy would amount to allowing the primary government surplus to rise spontaneously to above the trend norm in times of stronger economic growth, thus building up a reserve which can be subsequently drawn upon during the leaner years in order to provide a temporary budgetary breathing space.

In any case, the most important task for the next few years is to put the debt ratio on a clearly downward path. An initial impetus to this was given already in 1994. Only if this tendency continues this year and next and if a credible strategy for further reduction of the debt ratio can be presented when the convergence criteria are examined for the first time at the end of 1996 can Belgium be regarded as satisfying that part of the Maastricht norm for the public finances which stipulates that the ratio between the public debt and GDP must diminish sufficiently and must approach the reference value — i.e. 60 p.c. of GDP — at a satisfactory pace. Only then will the Belgian authorities be in a position, when the overall assessment of the convergence efforts is made, to invoke other factors such as the large structural surplus on the current account of the balance of payments and Belgium's resultant substantial net external creditor position, which enable its high public debt to be seen in a more correct light.

### **A credible monetary policy**

The international financial environment in which monetary policy was pursued in 1994 was characterised by two outstanding developments: the return of calm conditions within the European exchange rate mechanism and the rise in long-term interest rates.

Since mid-October 1993 monetary policy had been pursued in a context of renewed confidence in the Belgian franc. The reversal

in exchange rate expectations was primarily attributable to two factors : on the one hand, the financial markets took account of the maintenance of the monetary policy strategy, as was shown in the summer of 1993 when the Bank resolutely and substantially widened the short-term interest-rate differential vis-à-vis Germany; on the other hand, fiscal prospects improved as a result of the adoption of the global plan for employment, competitiveness and social security. Exchange rate stability was subsequently further supported by the continuing economic recovery and the maintenance of a current account surplus for the BLEU of more than 5 p.c. of GDP.

Among the participants in the exchange rate mechanism, Belgium is perhaps the country which gave the highest priority to the restoration of its currency's position in the foreign exchange market. The Bank endeavoured to consolidate the regained confidence by allowing the franc to return to its central rate against the German mark and by only gradually reducing the short-term interest-rate differentials. The depreciation of the franc vis-à-vis its central rate with the mark, which had reached a high of 6.5 p.c. in mid-October 1993, had been completely reversed by the end of January 1994. Since then the franc has been quoted, more often than not, slightly above its central rate. This development allowed the Bank to relax its interest-rate policy : in May 1994 the central rate reached the level of the Bundesbank's repo rate, and it moved downwards together with the latter until July. Since 22nd July 1994 the central rate has been unchanged at 4.85 p.c.

Around the middle of January, at the beginning of July and in mid-August it looked as if confidence had been slightly shaken by political uncertainties or unfounded rumours. The Bank did not, however, consider it necessary to react to this by raising its interest rates. On the markets, which had perhaps learned from the Bank's attitude at the time of the 1993 foreign exchange crisis, these tensions were reflected in a temporary widening of the short-term interest-rate differentials in relation to Germany much more than in a depreciation of the franc. On each occasion

these pressures quickly disappeared. At the end of the year interest-rate differentials even tended to become negative, and the Bank was therefore obliged to tighten liquidity somewhat in order to make interest rates follow the slight — mainly seasonal — rise in interest rates on the German money market.

From February 1994 onwards Belgian bond yields were led by the rise in long-term interest rates in Germany. Shorter-term interest-rate expectations also changed during the year both in Belgium and in Germany, with the result that the yield curve on the money market turned upwards.

Nevertheless, Belgium was one of the industrialised countries where long-term interest rates rose least, albeit partly because they had fallen less sharply than elsewhere in 1993. The striking correlation between the extent of the rise in long-term rates in various countries and the level of inflation during the last ten years suggests that the credibility of monetary policy depends fundamentally on a long track record of good performances. Such a capital asset must not be squandered. That the exchange rate objective was adhered to throughout the crisis in the European Monetary System helped to keep inflation risks within bounds and to bring the interest-rate differential in relation to ten-year investments in German marks — which reached more than 125 basis points when the franc slipped to its lowest level in October 1993 — back to about 85 basis points by the end of 1994.

The resolution of the 1993 foreign exchange crisis and bond market developments in 1994 thus teach the same lesson : a constant and resolute monetary policy produces the best long-term results. Belgium had very quickly been able to derive benefit from the confidence inspired in the financial markets by the policy choice made in June 1990 to peg the franc to the currencies of the European Monetary System which were regarded as stability anchors. In 1993 proof had to be given of the strength of the attachment to this exchange rate objective, the most effective means of safeguarding price stability. The determination thus shown, which made the

participants in the financial markets realise again that the Belgian-Luxembourg economy was fundamentally performing well, bore fruit in 1994.

More than ever it must be taken into account that international financial flows are extremely sensitive to differences in yields and risks. On the domestic plane, too, portfolios — even medium-sized ones — are more quickly and radically redeployed, which may induce shifts between short-term and long-term assets, between investments in francs and in foreign currencies and between direct purchases of securities and investments via collective investment undertakings. The year under review gave proof of this in more than one respect. Unlike in 1993, Belgian enterprises and individuals showed little interest in units issued by institutions for collective investment in bonds, whose inventory value was eroded by the rise in interest rates and the tax regulations for which were slightly amended. They also radically changed the maturities of their investments in the course of the year. During the first half-year they displayed a preference for short-term investments. Subsequently they reverted to long-term assets when the yields on the latter appeared to be stabilising at a higher level. As far as short-term assets are concerned, the development of net yield rates caused them to reduce their time deposits and their hold-

ings of one-year notes in favour of investments in savings deposits. In such a context the government has to manage its debt more flexibly. Thus, for example, the outstanding amount of the long-term debt in Belgian francs decreased sharply during the first quarter. The government also diversified the range of securities which it offered, with the result that those issued for individuals by the State and by credit institutions no longer differ so greatly from each other. Belgian financial institutions, for their part, are having to contend with ever-keener competition and are witnessing an erosion of their share of financial flows.

Although the rapid development of the financial markets enables them to render more appropriate and less expensive services to the economy, it is at the same time liable to make them subject to greater instability. In such an environment the central bank ought to create a clear frame of reference which fits in with a medium- to long-term approach: the pursuit of the exchange rate objective is the best answer to this. In this connection, continuity is absolutely essential. Although monetary policy can enhance its own credibility by displaying constant firmness, it must also continue to be supported by the maintenance of the competitiveness of enterprises and the consolidation of public finances.

## CONDITIONS FOR LASTING GROWTH AND HIGHER EMPLOYMENT

The recovery which has started could turn into lasting expansion in the European Union provided that no unexpected external shocks occur, that the policies of fiscal consolidation and monetary stability are adhered to, that the rise in labour costs remains moderate and that progress is made with the structural reforms aimed at promoting the dynamism of the economy and the labour-intensiveness of growth.

If these same conditions are also fulfilled in Belgium, it will be able to derive full advantage from the economic expansion in Europe. Driven by exports, the present revival in activity should soon lead to a strong upsurge in investment. Private consumption will probably increase to a smaller extent. It could gradually pick up as the turn for the better which is becoming apparent in the labour market becomes clearer and confidence

strengthens. That the recovery occurs first in exports, then in investment and finally in consumption is — as experience has taught — a positive development; in particular, the increase in the share of fixed capital formation in domestic demand will be very beneficial, because, in the medium term, expansion of production capacities permits more vigorous growth. Advantage should moreover be taken of the present revival in order to strengthen the economic fabric and adapt production structures, especially through greater investment in research and development.

In the field of public finances any relaxation of the consolidation effort, on the pretext of the spontaneous improvement due to the growth in economic activity, would have extremely harmful consequences. On the contrary, advantage must be taken of the fact that the cyclical expansion can make budgetary austerity less painful, and provision must be made for possible future slackenings of activity or rises in interest rates. The target of a deficit not exceeding 3 p.c. of GDP in 1996, as set in the Belgian convergence programme, must be achieved without fail. After that, the ratio of the public debt to the domestic product must be further reduced, particularly by the maintenance of an adequate primary surplus.

As financial operators have focused their attention on the state of the public finances, any slackening of the consolidation process would be penalised by rises in interest rates. That the level of long-term interest rates is not higher is partly due to the fact that in

Belgium the public deficit is not accompanied by a parallel current account deficit: on the contrary, the Belgian-Luxembourg economy has a considerable surplus on its current account and, despite the high level of public indebtedness, Belgium has accumulated substantial net claims on foreign countries. Another reason is that monetary policy has been consistently aimed at the maintenance of price stability through the pursuit of the most appropriate intermediate objective, namely the close linking of the franc to the German mark.

Monetary anchoring, reduction of the government deficit and moderation of incomes are three essential elements of a strategy whose purpose is to create a context of stability conducive to a lasting and non-inflationary expansion of activity. The strengthening of growth will undoubtedly stimulate employment. Additional action will nevertheless be essential for the achievement of satisfactory results in this field. An analysis of the results of the measures already adopted and an assessment of the labour market policy in view of the recently defined European guidelines, together with the firm resolve of employers and trade unions to give absolute priority to the promotion of employment, should make it possible to achieve a consensus on the courses which will actually lead to a higher occupation rate of the population and consequently to a reduction in unemployment.

Brussels, 1st February 1995







**Board of Directors :**

*seated, from left to right :*

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

*standing, from left to right :*

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







**Regents and Government Commissioner :**

*seated, from left to right :*

Baron Frère, R. Ramaekers, R. Van Aerschot,

*standing, from left to right :*

F. Janssens, G. Brouhns, Government Commissioner, Ph. Wilmès, T. Vandeputte, F. Martou,  
W. Peirens, N. Devisch, E. Wymeersch.



## LIST OF ABBREVIATIONS

APEC	Asia-Pacific Economic Co-operation
BBA	Belgian Bankers' Association
BIS	Bank for International Settlements
BLEU	Belgian-Luxembourg Economic Union
BNRC	Belgian National Railways Company
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECOFIN	Council of Ministers for Economic Affairs and Finance
ECSC	European Coal and Steel Community
EFTA	European Free Trade Association
EMI	European Monetary Institute
EMS	European Monetary System
EMU	Economic and Monetary Union
EU	European Union
GATS	General Agreement on Trade in Services
GDP	Gross domestic product
GNP	Gross national product
GSPF	General Savings and Pensions Fund
HWWA	Hamburgisches Welt-Wirtschafts-Archiv
IMF	International Monetary Fund
IML	Institut monétaire luxembourgeois
MEA	Ministry of Economic Affairs
MERCOSUR	Mercado Común del Sur
NAFTA	North American Free Trade Agreement
NBB	National Bank of Belgium
NEMO	National Employment Office
NIC	National Investment Company
NPO	National Pensions Office
NSDII	National Sickness and Disability Insurance Institute
NSI	National Statistical Institute
OECD	Organisation for Economic Co-operation and Development
OLO	Linear bond
OPEC	Organisation of Petroleum Exporting Countries
PHARE	Poland-Hungary : Assistance for the reconstruction of Central and Eastern Europe
PRIME	Projets régionaux d'insertion dans le marché de l'emploi
RGI	Rediscount and Guarantee Institute
SDR	Special Drawing Right
SICAFI	Société d'investissement à capital fixe en biens immobiliers (fixed-capital company for investment in immovable property)
SICAV	Société d'investissement à capital variable (variable-capital investment company)
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 1994 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 1995, 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 1994 the official national accounts data, which are published by the National Statistical Institute (NSI) generally within a period of eight to twelve months, 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 not been applied to these items, as is done by the NSI, but have been isolated. It should be recalled that at current prices the national product calculated by the NSI 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 NSI in the value-added approach. In order to arrive at the movement of GNP at constant prices, the NSI calculates the average of the indices at constant prices obtained by only two approaches : value added and expenditure. GNP at constant prices is then calculated by multiplying this average index number by GNP at its value in the base year (at present 1985). Thus the rate of change in GNP at constant prices is very nearly equivalent to the average of the rates of change estimated in the aforementioned two approaches. On the basis of the available statistical data, the estimate of economic activity in terms of volume in 1994 in the value-added approach indicates 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 connection with a harmonisation of the statistics on industrial production at European level, the NSI introduced a new survey in January 1994. This survey is based no longer on production but on the volume and value of the deliveries made by enterprises. Furthermore, a new classification is used for grouping the data by product. As the change-over from the one series to the other has led to a considerable delay in the publication of the data on industrial production, the quarter-by-quarter estimate of GDP in 1994 is chiefly based on the course of the turnover data from the VAT records.

The disappearance of the internal frontiers of the European Union on 1st January 1993 was accompanied by a change in the method employed for collecting the data on intra-

Community trade. In view of the delay which occurred, in Belgium as in the other European countries, in the compilation of these statistics, the estimates of the movements in foreign trade in terms of volume and prices were made on the basis of very partial indicators and must therefore be interpreted with certain reservations.

The data concerning the European Union relate to the twelve Member States of the Union in 1994, excluding Austria, Finland and Sweden, which acceded to it on 1st January 1995.

### **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
Germany	data concerning West Germany until 1990 and the whole of Germany after that
Germany °	data concerning West Germany for the whole period





## 1. INTERNATIONAL ENVIRONMENT

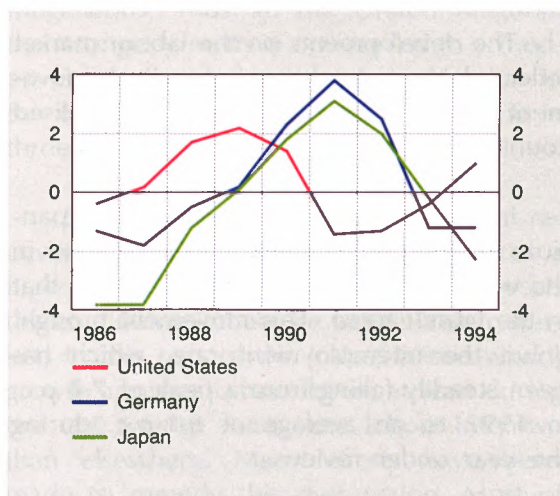
### 1.1 GROWTH, EMPLOYMENT, PRICES

The economic recovery spread during the year under review to all the industrialised countries. For the OECD as a whole the growth rose from 1.3 p.c. in 1993 to 2.8 p.c.

Despite this generalisation of the economic expansion, production fell short, more often than not, of its potential, i.e. the maximum value compatible in the medium term with a low level of inflation. This factor is one of the reasons why the rate of inflation remained low and even slowed down in the majority of the countries. The situation in the labour market, on the other hand, hardly improved, even though unemployment began to fall in several countries.

There are still divergences as regards growth, prices and employment between the major regions of the OECD, reflecting, among other things, the persistence of asynchronous cyclical movements.

CHART 1 — OUTPUT GAPS IN THE MAJOR INDUSTRIALISED COUNTRIES<sup>1</sup>



Source : OECD.

<sup>1</sup> Percentage differences between the observed or estimated level of GDP and its potential level.

### *Origins of growth*

In the United States the recovery which had already begun in 1991 strengthened further during the year under review, raising the rates of utilisation of production capacities to very high levels. In response to this narrowing of the unutilised margins and in a context of improving profitability, investment by enterprises increased substantially, as in 1993. The upsurge in household expenditure on consumption and housing, stimulated by the growth in incomes and by expectations of rises in interest rates, together with the rebuilding of stocks, also contributed to the dynamism of domestic demand, which in turn caused an increase in imports. Thus, despite a very favourable competitive position, the contribution of the external balance to growth remained negative.

In the United Kingdom, where the recovery of domestic demand closely followed that in the United States, growth was still mainly based on a sustained expansion of private consumption, which was added to in 1994 by a recovery of investment in housing and in that undertaken by the public authorities. Furthermore, the export surplus made a positive contribution to growth during the past year, probably thanks to the competitive advantage acquired by the British economy as a result of the depreciation of the pound sterling in the second half of 1992.

The growth was more modest in the other countries of the European Union, where it was supported by exports, but, as most of these countries only emerged from the recession in the course of 1993, the contrast with the previous year was greater there.

That is particularly true in the case of Germany and France, where the movement of domestic demand became markedly pos-

TABLE 1 — EXPENDITURE

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

	GDP		Foreign balance <sup>1</sup>		Domestic demand		Of which :			
							Private consumption		Private investment <sup>2</sup>	
	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994
United States .....	3.1	3.9	-0.8	-0.7	4.0	4.7	2.2	2.3	1.9	2.5
European Union .....	-0.3	2.5	1.3	0.3	-1.6	2.3	0.1	1.0	-1.7	1.1
of which : United Kingdom .	2.0	3.5	...	0.4	2.1	3.0	1.6	1.6	0.3	0.7
Germany .....	-1.1	2.8	...	0.1	-1.2	2.7	0.3	0.7	-1.2	1.9
France .....	-1.0	2.2	0.9	-0.3	-1.8	2.5	0.4	0.9	-2.4	1.2
Italy .....	-0.7	2.2	4.6	0.5	-5.3	1.6	-1.4	1.1	-3.6	0.6
Japan .....	0.1	1.0	-0.3	-0.6	0.4	1.7	0.6	1.5	-1.7	-0.8
Total OECD .....	1.3	2.8	-0.2	-0.3	1.4	3.1	0.8	1.5	-0.3	1.3

Source : OECD.

<sup>1</sup> Net exports of goods and services.<sup>2</sup> Fixed capital formation by individuals and enterprises and stockbuilding.

itive again. It was stimulated both by the recovery in household expenditure — in Germany, mainly investment in housing — and by additions to stocks. The contribution to growth made by net exports, on the other hand, was small or negative, the sharp recovery of exports of goods and services having been accompanied by an equally large rise in imports.

In the countries, such as Italy, where the effects of the depreciation of the currency combined with those of the recession had put a damper on domestic demand in 1993, the latter likewise increased, but remained less strong than elsewhere. This relative weakness of domestic demand continued to impede the growth in imports, while exports were still stimulated by gains in market shares; thus the contribution of foreign trade to growth remained fairly large, albeit much smaller than in 1993.

The recovery started latest in Japan, namely at the beginning of 1994, and remained fragile. It was attributable not only to the continuation of the ambitious public investment programme launched in 1992 but also to a more sustained increase in

private consumption, due to a sharp rise in disposable income. On the other hand, investment by enterprises declined for the third year in succession and the external contribution to growth, which is still suffering from an uninterrupted deterioration in competitiveness, became even more negative than in the previous year.

### **Employment and unemployment**

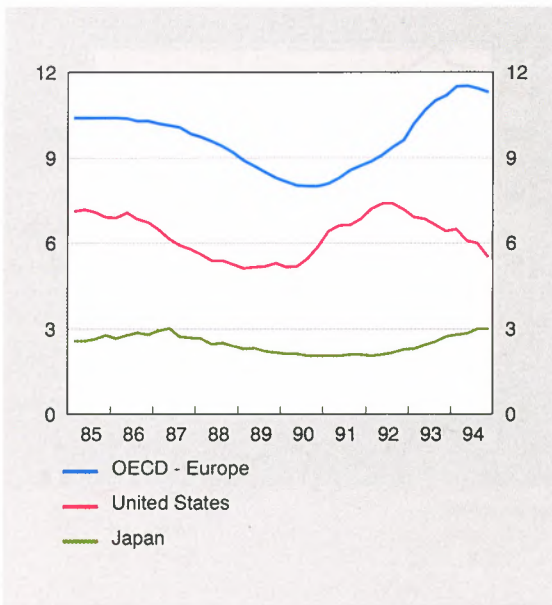
The developments on the labour market reflected the asynchronous cyclical movement in the various groups of industrialised countries.

In the United States the strong expansion still in progress led to an increase in the volume of employment greater than that in the labour force. This movement brought down the unemployment rate, which has been steadily falling from a peak of 7.4 p.c. in 1992 to an average of 6.1 p.c. during the year under review.

In the European OECD countries as a whole, the unemployment rate began to de-

CHART 2 — UNEMPLOYMENT RATE IN THE MAJOR OECD AREAS

(Percentages of the labour force)



Source : OECD.

cline during the year under review thanks to the quickening of activity. This reduction remained very modest, however, and did not make up for the rise which took place the previous year, so that on average the unemployment rate rose further last year, from 10.7 p.c. of the labour force to 11.6 p.c., reflecting a decrease in employment. This overall movement was not homogeneous. Thus, in the United Kingdom the stronger growth in activity led to a modest rise in employment and a reduction in the unemployment rate for the first time in three years.

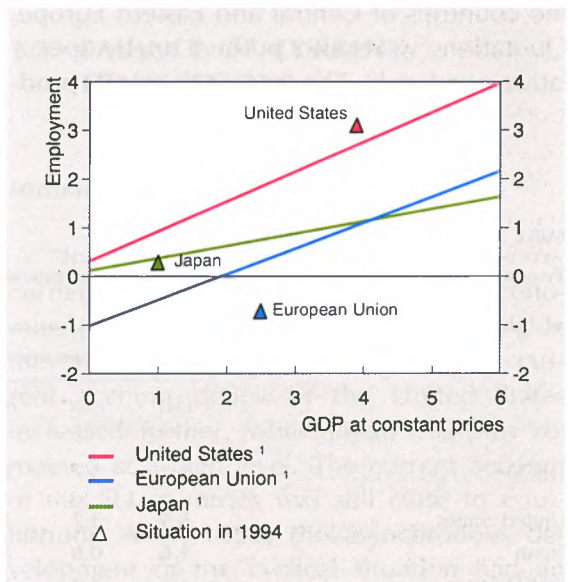
The coexistence, in Europe, of a recovery in activity and the persistence of a high level of unemployment clearly reveals the continuing imbalance of the labour market. In this part of the industrialised world, growth appears to have been, at least during the last twenty years, less labour-intensive than elsewhere. Many efforts have been made to remedy this dysfunction. Most of them are in line with the recommendations of the European Commission's White Book

on the strategy to be adopted in order to promote growth, competitiveness and employment. The chief purpose of these recommendations is, among other things, to improve training, increase the flexibility of the labour market, reduce the social charges which burden labour costs and pursue a more active policy for the integration of job-seekers. Furthermore, the European Council, at its December meeting, urged the Member States of the Union to convert a set of recommendations concerning national employment policies into a multi-annual programme.

In Japan the labour market situation remains far better than in the United States and, above all, than in Europe. However, owing to the weakness of the recovery and despite the traditional flexibility of the labour market, job creation did not keep pace, for the second year in succession, with the growth in the labour force. Unemployment therefore rose to about 3 p.c., an unusual level for that country.

CHART 3 — GROWTH AND EMPLOYMENT

(Percentage changes)



Sources : OECD, NBB.

<sup>1</sup> Regression line of the change in employment (number of persons employed) plotted against growth, calculated on the basis of the data for the period 1974-1994.

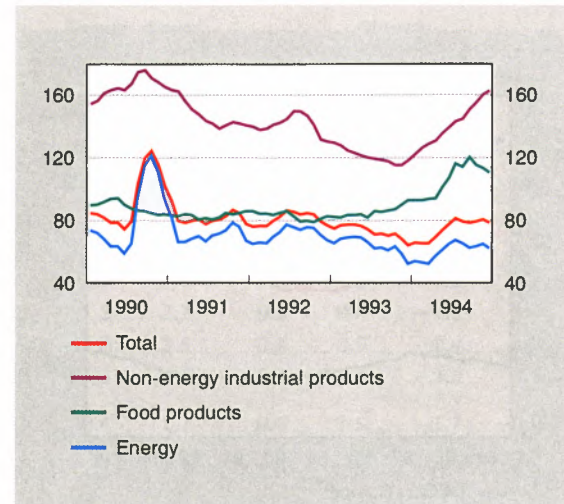
## Costs and prices

The unfavourable conditions in the labour market helped to ease the pressure of unit labour costs. These grew much less than during the preceding years, through the combined effect of a moderation of compensation per employee, partly due to structural reforms in some countries, and an appreciable increase in productivity, connected with the recovery. This development occurred in the United States and, still more, in the European OECD countries, where the particularly sharp rise in productivity actually counterbalanced the whole of that in compensation per employee. In Japan, on the other hand, the rise in unit labour costs was slightly more pronounced than in 1993.

The prices of basic products, which, in real terms, i.e. deflated by the prices of manufactured goods, had fallen during the previous years to levels which they had not reached since the end of 1972, that is, a year before the first oil shock, generally showed an upward trend during 1994. The rise was considerable in the case of food raw materials, partly owing to poor weather conditions. For industrial basic products the rise was accentuated, in the case of non-ferrous metals, by the falling-off in sales by the countries of Central and Eastern Europe. Quotations were also pushed up by speculative purchases. The prices of energy prod-

CHART 4 — PRICES OF BASIC PRODUCTS

(Prices in US dollars, indices 1985 = 100)



Source : HWWA.

ucts, too, after having declined throughout the previous year, increased until July 1994, subsequently stabilising at a level close to the 1993 average. On annual average, the price index for these products expressed in dollars fell by more than 5 p.c., while that for all raw materials rose by only 2.4 p.c. For a correct assessment of this movement it should be borne in mind that at the same time the weighted average exchange rate for the dollar fell slightly.

The modest extent of the rise in raw material prices is one of the factors respon-

TABLE 2 — LABOUR COSTS IN ENTERPRISES

(Percentage changes compared with the previous year, in national currencies)

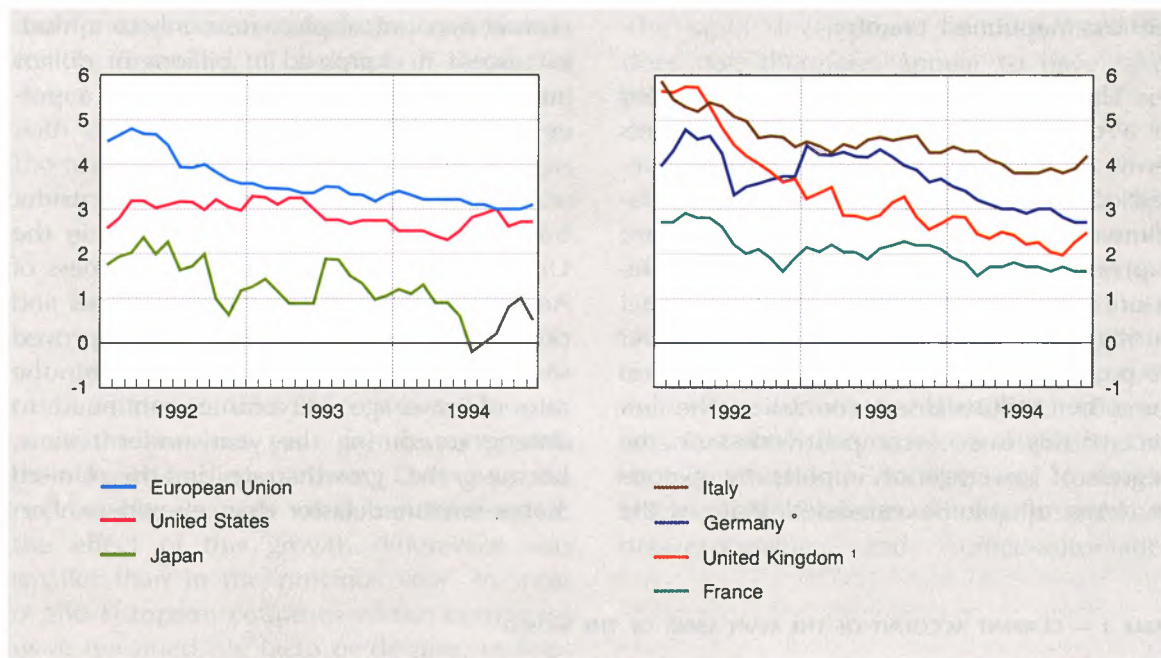
	Compensation per employee			Productivity			Unit labour cost		
	1992	1993	1994	1992	1993	1994	1992	1993	1994
OECD <sup>1</sup> .....	5.7	3.7	3.3	2.2	1.4	2.2	3.4	2.3	1.1
United States .....	5.5	3.7	3.3	2.6	1.4	1.5	2.8	2.3	1.8
Japan .....	1.6	0.8	2.5	0.2	...	0.9	1.4	0.8	1.6
OECD-Europe <sup>1</sup> .....	6.5	4.4	3.3	2.7	2.1	3.4	3.7	2.3	-0.1

Source : OECD.

<sup>1</sup> Excluding Turkey.

CHART 5 — CONSUMER PRICES

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



Source : EC.

<sup>1</sup> Excluding interest charges on mortgage loans.

sible for the very small upward movement — of about 1 p.c. — in the import prices of goods as a whole, expressed in national currencies. Variations in exchange rates affected some specific movements: thus, even though it slowed down, the rise in these prices was greater than elsewhere in the European countries whose currencies had depreciated in 1992; on the other hand, import prices fell sharply in Japan owing to the appreciation of the yen.

Thanks in particular to the moderation of unit labour costs and the smallness of the increase in raw material prices and those of other imported products as a whole, the rise in consumer prices slowed down a little more in the OECD countries as a whole.

Even in the United States, where the growth was particularly strong and the degree of utilisation of production capacities high, the inflation rate, which was tending to quicken at the middle of the year under

review, subsequently slowed down and had fallen, in December, to 2.7 p.c. on an annual basis.

## 1.2 BALANCE OF CURRENT TRANSACTIONS

### *Industrialised countries*

In 1994 the external imbalances recorded by the world's two largest economies persisted, but without being as big as they had been in the mid-1980s: the current account deficit of the United States increased further, while Japan's surplus remained at a high level. The current account of the EU countries was still close to equilibrium. As in 1993, the asynchronous development of the cyclical situation had an adverse effect on the current account balance of the United States and a positive effect on that of the countries of continental

Europe and, still more, that of Japan, while the changes in the effective exchange rate primarily influenced the current account of the last-mentioned country.

The sharp appreciation of the yen led to a considerable improvement in Japan's terms of trade for the fourth year in succession. It also brought about an appreciable worsening of its competitive position: expressed in a common currency, unit labour costs and export prices have risen, during the past four years, at a rate over 40 p.c. higher than the average recorded in the other industrialised countries. The impact of this loss of competitiveness on the degree of coverage of imports by exports in terms of volume exceeded that, in the

opposite direction, of a relatively less favourable cyclical situation than abroad. All in all, the trade surplus and, especially, the current account surplus, rose only to a modest extent if expressed in billions of dollars and actually declined somewhat as a percentage of GDP.

The worsening of the balance of current transactions was particularly marked in the United States. While the competitiveness of American enterprises in terms of prices and production costs has gradually improved since the middle of the last decade, the rate of coverage in volume continued to deteriorate during the year under review, because the growth rate in the United States remained faster than elsewhere. Fur-

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

(Billions of US dollars)

	1991	1992	1993	1994	p.m. Percentages of GDP	
					1993	1994
United States .....	-6.9	-67.9	-103.9	-153.7	-1.6	-2.3
Japan .....	72.9	117.5	131.4	139.8	3.1	3.0
European Union .....	-66.1	-63.5	9.9	16.1	0.2	0.2
of which: Germany .....	-19.4	-22.0	-20.1	-25.2	-1.1	-1.2
France .....	-6.7	4.6	10.3	8.8	0.8	0.7
Netherlands .....	7.6	6.8	10.1	11.1	3.3	3.3
BLEU .....	4.9	6.6	11.3	12.3 e	5.1	5.1 e
United Kingdom .....	-13.5	-18.5	-16.3	-8.8	-1.7	-0.9
Italy .....	-23.6	-27.8	11.4	16.2	1.2	1.6
Spain .....	-16.7	-18.3	-5.7	-4.6	-1.1	-1.0
EFTA .....	4.0	5.0	17.3	21.9	1.9	2.4
of which: Sweden .....	-4.7	-7.6	-1.8	2.1	-0.9	1.1
Finland .....	-6.7	-4.9	-1.0	2.4	-1.1	2.4
Austria .....	0.1	-0.2	-0.9	-1.5	-0.5	-0.8
Total OECD .....	-45.7	-68.1	-9.4	-33.9	...	-0.2
Central and Eastern European countries <sup>1</sup> .....	e -4.0	-6.0	-5.2	-5.6	n.	n.
Dynamic Asian economies <sup>2</sup> .....	e 11.3	6.2	2.7	-6.4	n.	n.
OPEC .....	e -62.0	-32.0	-25.0	-30.0	n.	n.
Other developing countries .....	e -18.3	-22.2	-44.7	-50.7	n.	n.

Sources: OECD, NBB.

<sup>1</sup> Albania, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Commonwealth of Independent States.

<sup>2</sup> China, Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand.

thermore, the current account deficit increased further owing to a reduction in the surplus in respect of transactions in services and private transfers and the appearance, for the first time, of a deficit in respect of direct and portfolio investment, connected with the net external indebtedness due to the accumulation of current account deficits which had been taking place for more than ten years.

On the other hand, the balance of current transactions of the European OECD countries, that is, of the whole area constituted by the EU and EFTA, was influenced, as in the previous year, by slower growth than in its trading partners. Owing to the appreciable recovery of domestic demand, the effect of this growth differential was smaller than in the previous year. In most of the European countries whose currencies were devalued, *de facto* or *de jure*, in September 1992, the gains in competitiveness accentuated the recovery of the degree of coverage in terms of volume, bringing about an improvement in the current account balance. In most of the other countries the current account balance remained more or less unchanged compared to the previous year, namely negative in Germany and Austria and positive in France, the Netherlands and the BLEU.

### Other countries

The current account deficit of the Central and Eastern European countries remained stable. That of the OPEC countries increased further, partly because of the fall in oil prices, as did that of the other developing countries which do not form part of the group of dynamic Asian economies.

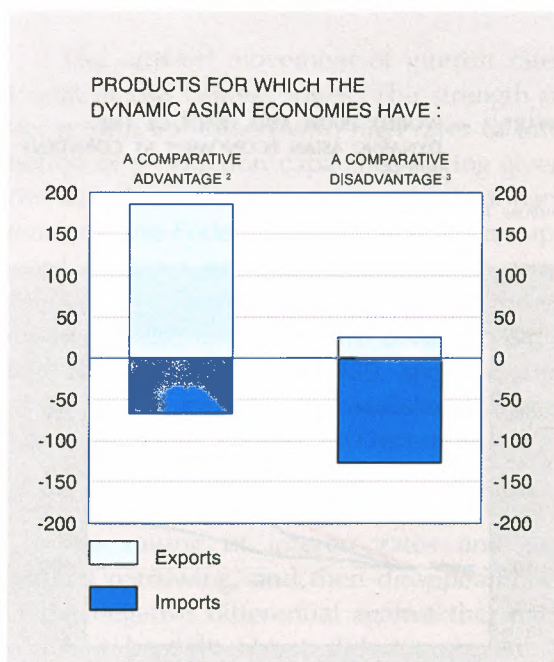
The current account of the last-mentioned economies left a small deficit during the year under review, which is accounted for by transactions in goods: the trade surplus of Malaysia and Taiwan was more than counterbalanced by the deficit of the other countries in the region — China, Hong Kong, Singapore, South Korea and

Thailand. In recent years the consolidated trade of this group of countries has in fact alternated between deficits and surpluses. The rapid development of these countries does not, therefore, appear to have taken place at the expense of activity in the rest of the world.

This observation does not conflict with the fact that the dynamic Asian economies are reputed to enjoy a growth which is largely export-based. These countries are in fact substantial net exporters, especially to the traditional industrialised countries, namely the members of the OECD, of products for which they have a competitive advantage: textiles, clothing and footwear, electrical and electronic equipment and data-processing and office-automation

CHART 6 — TRADE OF THE DYNAMIC ASIAN ECONOMIES<sup>1</sup> WITH THE OECD COUNTRIES IN 1992 BY MAIN PRODUCT CATEGORY

(Billions of dollars)



Sources: OECD, NBB.

<sup>1</sup> China, Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand.

<sup>2</sup> Generally more labour-intensive products: textiles, clothing and footwear, electrical and electronic equipment, and data-processing and office-automation equipment.

<sup>3</sup> Generally technologically more advanced or more capital-intensive products: machines, chemical products, products of the iron and steel industry and the non-ferrous-metals sector and means of transport.

equipment; their exports of products of this type to the OECD area have indeed risen particularly sharply. Furthermore, a redistribution of production has taken place between the various countries in this group, leading to sizeable trade flows within this area itself, so that, all in all, the share of world trade accounted for by these countries has increased spectacularly.

This strong growth in the exports of the dynamic Asian economies has, however, had repercussions on their imports both directly and indirectly: directly through their demand for intermediate products and more indirectly through the large increase in their domestic expenditure. On the one hand, exporting enterprises in these countries have had to expand their production apparatus rapidly and, on the other hand, the improvement in purchasing power brought about by exports has led there to a rise in household consumption. These countries have thus been big net importers of technologically more advanced or more capital-intensive products for which the traditional industrialised countries have a comparative

advantage, namely machines, chemical products, products of the iron and steel industry and the non-ferrous-metals sector and means of transport, as is confirmed by the particularly rapid growth of their imports of such products from the OECD area. The rise in the share of these countries' exports in world trade has consequently been coupled with an increase in the share represented by their imports.

### 1.3 FISCAL AND MONETARY POLICIES AND FINANCIAL DEVELOPMENTS

#### *Recent fiscal developments*

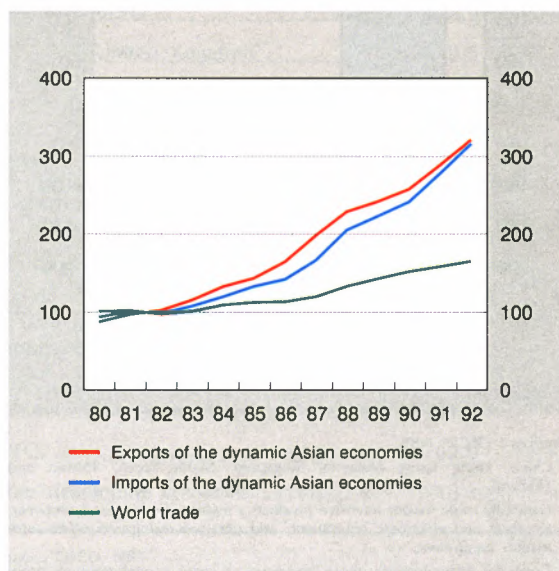
The consolidation of the public finances is, perhaps even more than in the past, the primary objective of fiscal policy. The pressure on the public finances has become much greater than at the beginning of the 1980s: the gross public debt of the industrialised countries as a whole, which was then only 42 p.c. of GDP, is now over 70 p.c.; the resultant interest charges represent about 3 p.c. of the GDP of the OECD countries and are a heavy burden on the national budgets. The cyclical recovery is therefore not the only explanation of the reduction in the government deficit. In the OECD area as a whole that deficit decreased, for the first time since 1989, from 4.2 p.c. of GDP in 1993 to 3.8 p.c.

In the United States — where the revival started earliest — the deficit fell sharply, from 3.4 to 2 p.c. of GDP. The improvement which began the previous year thus continued, partly as a result of the further recovery of economic activity but also, and above all, owing to discretionary factors. These consisted chiefly of the implementation, already embarked upon in 1993, of a set of medium-term budgetary measures designed to reduce the deficit by 1998.

In the EU the net financing requirement, which is higher than in the United States and above all than in Japan, declined

CHART 7 — WORLD TRADE AND TRADE OF THE DYNAMIC ASIAN ECONOMIES AT CONSTANT PRICES

(Indices 1980-1983 = 100)



Sources: IMF, OECD, The Central Bank of China.



**TABLE 4 — NET FINANCING CAPACITY OR REQUIREMENT  
(-) OF GENERAL GOVERNMENT***(Percentages of GDP)*

	Average 1989-1992	1993	1994
United States .....	-2.9	-3.4	-2.0
Japan .....	2.6	-0.2	-2.0
European Union .....	-4.1	-6.0	-5.6
Belgium .....	-6.2	-6.6	-5.4 e
Denmark .....	-1.7	-4.4	-4.3
France .....	-2.1	-5.8	-5.6
Germany .....	-1.9	-3.3	-2.9
Greece .....	-12.9	-13.3	-14.1
Ireland .....	-2.1	-2.5	-2.4
Italy .....	-10.2	-9.5	-9.6
Luxembourg .....	4.1	1.1	1.3
Netherlands .....	-3.9	-3.3	-3.8
Portugal .....	-4.8	-7.2	-6.2
Spain .....	-4.0	-7.5	-7.0
United Kingdom .....	-2.7	-7.8	-6.3
OECD .....	-2.5	-4.2	-3.8

Sources : OECD, EC, NBB.

during the year under review by 0.4 percentage point to 5.6 p.c. of GDP. This overall development was only partly due to the cyclical improvement. In most of the countries a restrictive budgetary policy was pursued. In several of them the measures no longer applied, as in the past, only to fiscal and parafiscal revenue, but also included reductions in expenditure. These cuts were usually made in the pension, health insurance and unemployment insurance sectors. Efforts were also continued in the field of public consumption : these consisted chiefly of a limitation of the number of civil servants.

The consolidation plans decided upon by the EU Member States helped to bring about a greater convergence of these economies in terms of public finances : they were generally drawn up on a multi-annual basis, their central aim having been to comply with the convergence criteria laid down in the Treaty of Maastricht.

In Japan, in view of the continuing weakness of economic growth, a clearly expansionary budgetary policy was adhered to, mainly by means of tax reliefs designed to boost demand and the further pursuit of the programme of public investment. These measures brought about a continuation of the increase in the budget deficit which started earlier, although the level reached by this in 1994 — 2 p.c. of GDP — was appreciably lower than the average for the industrialised countries. Some measures were furthermore adopted with a view to restoring the medium-term equilibrium of the public accounts : it was decided, for instance, to raise the tax on consumption from 3 to 5 p.c. in 1997.

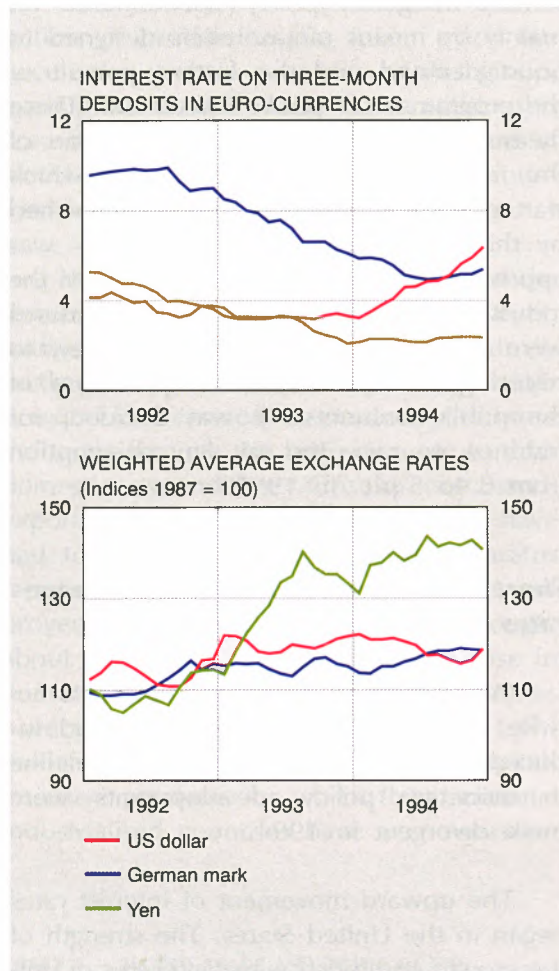
### **Short-term interest rates and exchange rates**

Whereas in 1993 the weakness of activity and the slowing of inflation had induced most countries to take an easier line in monetary policy, developments were more divergent in 1994.

The upward movement of interest rates began in the United States. The strength of the growth combined with high rates of utilisation of production capacities having given rise to a fear of a resurgence of inflationary tensions, the Federal Reserve exerted an upward pressure on short-term interest rates as early as February. The rate for three-month investments in Euro-dollars, which had declined between 1989 and the end of 1992 and subsequently stabilised, therefore rose, from 3.3 p.c. in December 1993 to 6.4 at the end of 1994.

The raising of interest rates and the gradual narrowing, and then disappearance, of the negative differential against the mark which it brought about did not prevent a further weakening of the dollar. Despite interventions by the central banks, its weighted average rate fell by 2.4 p.c. during the year. This was perhaps not unconnected with the size of the current account deficit and the fears of a resurgence of inflation.

CHART 8 — SHORT-TERM INTEREST RATES AND EXCHANGE RATES



Source : OECD.

A little while after the tightening of US monetary policy, the central banks of the countries where activity had started to recover somewhat later than in the United States also raised their standard interest rates slightly. That was the case in the United Kingdom, where the official rates were raised in September and December by 50 basis points on each occasion. Consequently, three-month interest rates, which were at their lowest level of 5.1 p.c. in June 1994, reached 6.3 p.c. at the end of the year.

In Germany the slackening of inflation, partly due to the moderation of the rise in wages and salaries, enabled the monetary

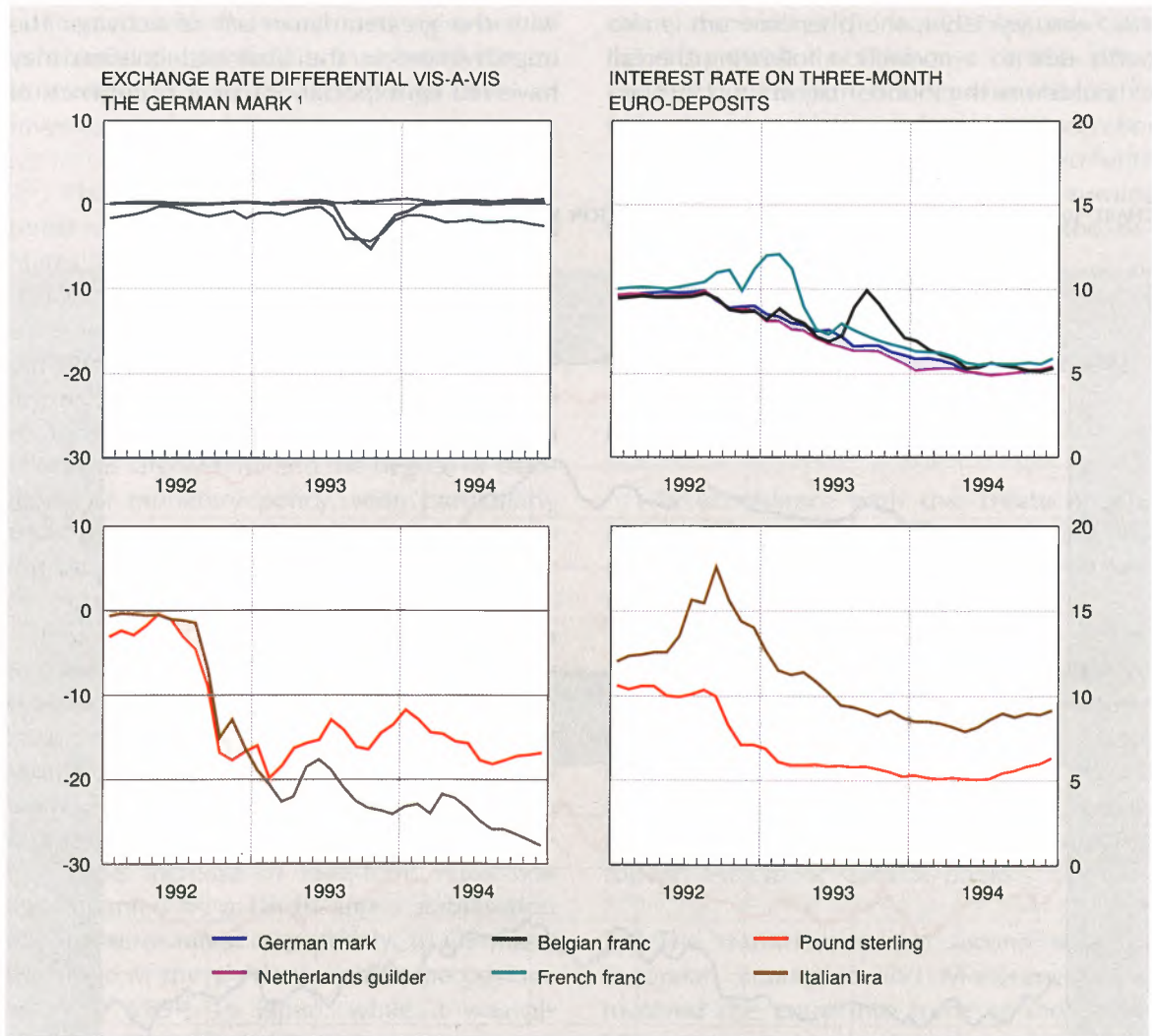
authorities to maintain their policy of stability in 1994, while imparting a downward trend to interest rates, at least during the first half of the year. The greater part of this fall took place between the end of February and mid-May. Between December 1993 and December 1994 the rates on three-month investments in Euro-marks declined from 6.1 p.c. to 5.4 p.c.

After the period of turbulence which had shaken the EMS to its foundations from August 1992 until the autumn of 1993, the situation improved again with regard to the exchange rate mechanism. This return to calm was attributable to the maintenance of the strategies of stability of exchange rates coupled with a system of wider fluctuations resulting in greater symmetry of the risk incurred by market operators. The exchange rates of the currencies whose central rates against the mark remained unchanged converged upon it again. The absence of tensions on the foreign exchange markets also permitted the narrowing of the interest-rate differentials in comparison with the German rates.

With regard to the other European currencies which do not form part of the exchange rate mechanism, short-term interest rates were raised in Sweden and Italy for reasons largely connected with the stability of exchange rates. Three-month rates in Euro-Italian lira rose from a low of 7.9 p.c., reached in May, to 9.2 p.c. at the end of the year.

In Japan, interest rates were kept at a very low level in 1994 owing to the weak growth and the continuance of a very low inflation rate, but also in order to curb the appreciation of the yen. In December the interest rate on three-month deposits in Euro-yen reached 2.3 p.c., which was hardly any higher than its December-1993 level. During the year under review it remained below the levels reached during the period 1987-1988, already regarded as extremely low. Nevertheless, the weighted average exchange rate for the yen rose by 5.5 p.c., partly because of the continued achieve-

CHART 9 — EXCHANGE RATES AND SHORT-TERM INTEREST RATES IN SOME EUROPEAN COUNTRIES



Source : NBB.

<sup>1</sup> As percentages of the central rate of August 1992.

ment of a substantial current account surplus.

**Long-term interest rates and share prices**

As a result of, among other factors, the internationalisation of the financial markets — greater freedom of capital flows, recourse to new portfolio management techniques — and the resultant levelling-out effects, the movements of long-term interest rates, as in the preceding years, were more homogeneous from country to country than those of short-term rates. Reversing the downward trend which had continued until 1993, they

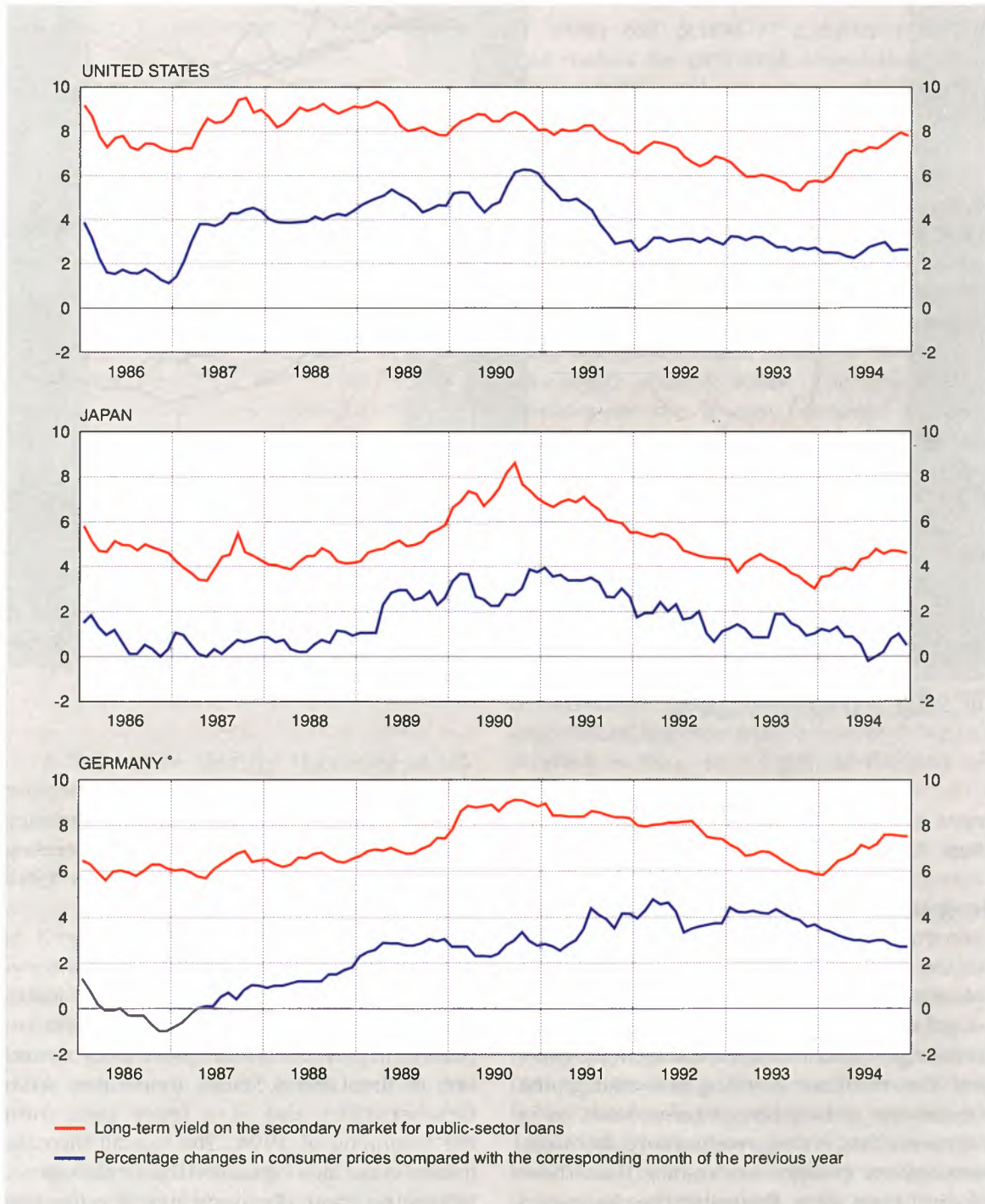
displayed a very distinct upward tendency everywhere, from a low reached, depending on the case in question, at the end of 1993 or at the beginning of 1994.

As a result of the difference in the cyclical movements between the United States and the other regions of the world, the recovery of gross long-term yield rates started first in the United States, moderately from October 1993 and at a faster pace from the beginning of 1994. The overall increase there was also greater than elsewhere. While the most obvious cause for the rise in long-term interest rates appears to have

been the decision made by the Federal Reserve to raise the rate on Federal funds on 4th February 1994, the phenomenon is also partly due to a correction following the fall in yields on the bond market in 1993 in-

duced by speculative movements. More fundamentally, this movement is connected with the greater dynamism of activity. The improvement in the business situation may have led to expectations of a resurgence of

CHART 10 — GROSS LONG-TERM YIELD RATE AND INFLATION RATE



Sources : EC, OECD.

inflationary tensions in the United States, together with increased demand for capital connected with the continued existence of substantial public deficits in most of the industrialised countries and a high level of investment elsewhere.

The upward movement of long-term interest rates was propagated from the United States to the other regions of the world, including Europe, despite the absence of signs of inflationary tensions and the Bundesbank's adherence to its policy of lowering interest rates. The differences observed in this connection between the European countries largely reflected the degree of credibility of monetary policy, seen particularly from the previous results achieved in curbing inflation.

As the rise in long-term interest rates in the United States coincided with an even sharper upward movement of short-term rates, the yield curve became somewhat less steep from the second quarter of 1994 onwards. This development did not take place in Germany and Japan, where, on the contrary, the increase in long-term rates was accompanied by a fall in and a stabilisation of short-term rates, respectively. In Germany the slope of the yield curve became positive again in 1994. In Japan, while it was already positive in 1993, it became steeper in the year under review.

In the three major countries real interest rates, which can be approximately assessed from the differential between the nominal interest rate and the current inflation rate, moved upwards in 1994. At the end of the year their level was around 4 to 5 p.c., which is fairly close to the average for the 1980s.

The very marked upward movement of long-term interest rates depressed share prices in 1994. As a whole, these fluctuated during the year under review around the level reached at the end of the previous year, in the course of which they had increased strongly. In the United States, where stock exchange quotations had begun

to rise earlier than on the other markets, owing to the asynchronous cyclical movement, the indices did not display any clear trend in 1994. In Germany, on the other hand, a downward tendency was observable following the high reached in December 1993. Japanese share prices climbed until June, after which they fell back, returning to a level close to that reached at the beginning of the year.

## 1.4 INTERNATIONAL CO-OPERATION

### *European integration*

In accordance with the Treaty on European Union, the second stage of Economic and Monetary Union started on 1st January 1994.

The European Monetary Institute started operation on that date. Its primary functions are to strengthen the co-ordination of national monetary policies in order to ensure convergence towards price stability, and to prepare for the setting up of the future European System of Central Banks.

The transition to the second stage of European Economic and Monetary Union involved the entry into force of the prohibitions concerning the financing of the public sector by the central banks, the privileged access of this sector to the financial institutions and the taking over of the liabilities of the public sector of one Member State by another Member State or by the EU. It also entailed, for the Member States, the obligation to endeavour to avoid excessive public deficits. The budgetary surveillance procedure established for verifying compliance with this obligation was used for the first time and finally led to the adoption, in November 1994, by the Council of Ministers for Economic Affairs and Finance, of recommendations to Member States showing an excessive deficit, that is, all of them except Luxembourg and Ireland.

With the starting of the second stage the EU provided itself with a new legal re-

gime concerning capital movements. Restrictions on capital movements and payments are now forbidden not only between Member States but also between these and third countries. Some existing national restrictions can, however, be maintained in relation to the latter and there is also the possibility of resorting to a safeguarding clause vis-à-vis these countries in the event of serious difficulties for the operation of Economic and Monetary Union.

The world economic recovery in no way lessened the determination of the authorities to promote lasting growth in activity and in employment by policies designed to ensure price stability, improve the budgetary situation and adjust structures. Thus in July 1994 the Council adopted, for the second time, a recommendation on the broad guidelines of the economic policies of the Member States and the Community. It reaffirmed the objective of substantially increasing employment during the coming years, so as to reduce unemployment. To this end it advocates, among other things : the adoption of predictable and credible macroeconomic and structural policies designed to ensure price and exchange rate stability between the Member States ; the reduction of budget deficits to below the reference value of 3 p.c. defined in the Treaty of Maastricht ; and the carrying out of measures for making the Community economy more dynamic, including by improving the competitive climate and developing trans-European networks, and also of structural measures to create more employment. These guidelines are to serve as a reference for the conduct of the economic policy of the Community and of each Member State.

The multilateral supervision procedure, which the Council carries out twice a year, is intended to verify whether the economic policies pursued are in line with these broad guidelines. According to the report drawn up in November 1994, encouraging progress was made during the year under review with regard to the combating of inflation and, to a smaller extent, the consolidation of the public finances. Furthermore,

initiatives were adopted by the Member States and the Community in order to increase the dynamism of the economy and make better use of its employment potential. These initiatives will bear fruit in the medium term. But the report stresses the need to step up the efforts in this connection, to support monetary policy by a movement of wages which is compatible with its aims and to apply more ambitious budgetary consolidation programmes, especially in the Member States which are most sensitive to rises in interest rates.

Moreover, the White Book on the medium-term strategy to promote growth, competitiveness and employment continued to serve as a basis for the Council's action in 1994. Thus the European Council, at its meeting held in June 1994 in Corfu, conducted a far-reaching debate on the various elements of the plan of action which it had adopted in December 1993 and indicated the fields in which a new impetus was required, especially the improvement of the effectiveness of the labour market, the rapid implementation of the trans-European projects in the fields of transport and energy and the full use of the possibilities offered by the development of information networks and techniques, including the telecommunications network. In December 1994 the Essen European Council defined a number of lines of action aimed at improving the employment situation and called upon the Member States to translate these recommendations into multi-annual programmes, which will be reviewed annually. It recognised the priority nature of a selective list of trans-European projects in the field of transport and energy and called upon the Ecofin Council to adopt the decisions necessary for supplementing the financing of these projects. The European Council furthermore welcomed the Commission's intention to set up a high-level group entrusted with the task of examining questions concerning the competitiveness of the European economy.

The European Economic Area, which came into force at the beginning of 1994,

represented, for some of the States which signed the relevant agreement, merely a relatively short stage on the road towards full membership of the EU. Thus at Corfu in June 1994, Austria, Finland, Sweden and Norway signed a treaty of accession. The confirmation of this wish to accede, first by referendum and then by parliamentary procedure, in Austria, Finland and Sweden led, on 1st January 1995, to the enlargement of the EU to embrace these three states. Norway, on the other hand, did not accede to it, owing to the negative result of the referendum held at the end of November 1994.

### ***The three new Member States of the European Union***

The three new Member States are among the most developed countries of the European continent. In 1994 the ratio between their combined GDP and that of the twelve Member States of the EU was 7.1 p.c., whereas the corresponding ratio for populations was only 6.3 p.c.

The three countries do not, however, constitute a homogeneous group: whereas

the economic structure of Austria is fairly close to that of the other countries of the EU, those of Finland and Sweden display features which — both as regards production and foreign trade and as regards the options to which preference has been given by economic policy, particularly in the past — have caused the cyclical movement to diverge somewhat from that in the other European countries.

Thus, up till 1990 Finland had a privileged relationship with the former Soviet Union, which, among other things, enabled it to meet its requirements as regards imported energy on particularly advantageous terms: it was therefore sheltered to some extent from the consequences of the oil shocks. Furthermore, Finland and Sweden are much more sensitive to fluctuations in timber and paper prices than the rest of Europe.

With regard to economic policy, the prior aim of the Nordic economies, particularly in the past, has been the combating of unemployment. This aim was achieved via expansionary policies and evaluations, the price stability aim being pushed into the background. These policy orientations

TABLE 5 — ECONOMIC PROFILE OF THE NEW MEMBER STATES OF THE EUROPEAN UNION

(Situation in 1994)

	Austria	Finland	Sweden	p.m. European Union
GDP (billions of Ecus) .....	165.0	82.6	163.6	5,778.2
Population (thousands) .....	7,975	5,095	8,775	347,634
GDP per inhabitant (Ecus per inhabitant) .....	20,686	16,212	18,644	16,622
Real growth in GDP (percentages) .....	2.6	3.5	2.3	2.5
Consumer prices (percentage changes) .....	3.0	1.1	2.1	3.1
Long-term interest rates .....	6.7	8.3	9.6	8.0
Unemployment rate (percentages of the labour force) .....	4.4	18.3	7.9	11.8
Balance of current transactions (percentages of GDP) .....	-0.8	2.4	1.1	0.2
Net financing requirement (-) of general government (percentages of GDP) .....	-4.4	-4.7	-11.7	-5.6
Gross public debt (percentages of GDP) .....	58.0	70.9	93.8	68.9

Sources: EC, OECD.

brought into being a very large public sector which, by largely acting as the employer of last resort, succeeded in keeping the unemployment rate down at a level which was considerably lower than that of the other European countries and only comparable, within the OECD, with that of Japan.

Owing to exogenous shocks, the Nordic countries have been unable to adhere strictly to this policy in the 1990s. They have in fact experienced a financial crisis due to a sudden deregulation and opening up of the financial markets in an unfavourable cyclical context, the consequences of this crisis having been added to, in the case of Finland, by those of the collapse of the commercial links with the former Soviet Union. The situations on their labour markets developed divergently depending on the violence of the shocks and the reactions to them: unemployment increased explosively in Finland, but rose less markedly in Sweden. At the same time, the worsening of the public finances necessitated, everywhere, the pursuit of a more restrictive fiscal policy. More stringent monetary policies, based on the unilateral linking of the national currencies to the Ecu, were also pursued, with the aim both of anchoring to an economic area characterised by low inflation and of moving closer to the European Community. This link could not be maintained after the EMS crisis at the end of 1992. Nevertheless, the overall credibility of monetary policy has increased since then and significant progress has been made, especially in curbing inflationary pressures.

In recent years the orientations and aims of economic policy in Finland and Sweden have come more closely into line with those of the EU economies. The situation in these countries therefore now displays fewer differences from the EU countries than in the past: in 1994 the performance in the two groups of countries was comparable in terms both of growth in GDP and of inflation. The slightly higher level of long-term interest rates is primarily attributable to the state of the public finances, which has deteriorated rapidly in

recent years, particularly in Sweden, and to the depreciation of their currencies following the EMS crisis. Owing to this depreciation, the current account surpluses of these two economies have been above the European average.

In Austria, too, general government traditionally exercises a strong influence on the labour market, which is reflected in good results in terms of employment. On the other hand, Austrian economic policy has been centred, since the end of the 1970s, on monetary stability, an aspect which was at that time quite foreign to the government management of the Nordic economies. Supported by the tradition of stability adhered to for over ten years, the schilling withstood the EMS crisis without difficulty and the conduct of Austrian monetary policy has not been changed since then. Austria's economic profile is at present very close to that of the EU, although differing from it by a particularly low unemployment rate, smaller overall deficits in the public finances and a frequently negative current account position.

In December 1994 the central banks of the three new Member States signed the agreement laying down the conditions of operation of the EMS and the agreement introducing the system of short-term monetary assistance. The participation of these central banks in the two agreements became effective on 1st January 1995. These agreements do not signify participation of the currencies in question in the exchange rate mechanism, which is regarded as premature by Sweden and Finland at this stage. The Austrian schilling, on the other hand, was incorporated in the exchange rate mechanism on 9th January 1995.

### ***Co-operation with the economies in transition***

As in the preceding years, the international community continued to give assistance to the countries which are moving towards a market economy.



In 1994 the EU again gave financial aid to several of these countries.

The association agreements, or European agreements, between the EU on the one hand and Hungary and Poland on the other entered into force on 1st February 1994. These two countries furthermore officially applied for membership of the EU, in March and April 1994 respectively. Pending the entry into force of the association agreements signed with Bulgaria, the Czech Republic, the Slovak Republic and Romania, interim agreements have remained in force. Negotiations are in progress with the Baltic countries, and the Council has still to authorise the Commission to negotiate an association agreement with Slovenia.

In the context of the introduction of the framework of structured relationships outlined in June 1993 by the Copenhagen European Council, the Essen European Council established a strategy for enabling the associated Central and Eastern European countries to prepare for accession to the EU. The main elements of this strategy are more frequent meetings between the ministers of the EU and their opposite numbers in the associated countries, approximation between the legislations of these countries and those of the EU, the imparting of greater flexibility to the PHARE programme, especially in the field of investment, and improvement of the access of the products of the associated countries to the EU market.

Free trade agreements with the Baltic countries came into force on 1st January 1995. The agreement with Estonia immediately created a free trade area for all industrial goods, textile products and those covered by the ECSC and Euratom Treaties. The creation of the free trade area with Latvia and Lithuania, on the other hand, will take place gradually and asymmetrically: liberalisation is immediate for the EU but will be spread over four years for Latvia and six years for Lithuania.

Progress was made in the negotiations concerning the EU's partnership and co-

operation agreements with six countries of the Commonwealth of Independent States — Russia, Ukraine, Moldova, Belarus, Kazakhstan and Kirgizstan. The first four of these agreements should offer the possibility of examining, in 1998, the desirability of setting up a free trade area between the EU and the countries concerned.

For its part, the Board of Governors of the European Investment Bank authorised the latter, in May, to extend and increase its EU-guaranteed lending to ten countries of Central and Eastern Europe (Albania, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, Romania) for an amount of 3 billion Ecus in three years.

The other international institutions, including the European Bank for Reconstruction and Development, continued their financial and technical assistance. The International Monetary Fund extended until 30th April 1995 the Systemic Transformation Facility created in April 1993 in order to give financial aid to economies faced with balance of payments difficulties due to the disruption of their traditional trade and payments systems.

Lastly, the Joint Vienna Institute, which had started its activities in Vienna in October 1992 and whose aim is to provide training mainly intended for officials of the countries in transition, was transformed into an international organisation with the assistance of the IMF, the World Bank, the EBRD, the OECD and the BIS. In addition, several other participants, including the National Bank of Belgium, are giving it their assistance.

### ***International Monetary Fund***

In February, the Enhanced Structural Adjustment Facility, which expired at the end of 1993, was extended and widened in order to enable the Fund to continue giving concessionary financial assistance to its poorest members.

The Fund's Executive Board continued to examine a new allocation of SDRs. There is unanimous agreement within the Board regarding the need to re-establish greater fairness in the SDR system, especially in favour of the member countries which have never participated in an allocation because they joined the Fund later than the last one, which took place in 1981. In order to deal with this problem, some suggest a minimum allocation made specially for this purpose and based on an amendment to the Articles of Agreement, necessitating ratification by the national parliaments; they consider that no allocation can be made under the present Articles of Agreement, because there is no long-term global need for additional exchange reserves. On the other hand, others consider that this need is an established fact and propose two allocations, one based on this need and made under the present Articles of Agreement and the other made after the Articles have been amended. As no agreement was reached at the annual meeting in Madrid, the Interim Committee was instructed to try to find a compromise between these two positions.

At the end of October the Executive Board raised for three years, to 100 p.c. of the quota, against 68 p.c. previously, the maximum annual amount of the Fund's resources to which a Member State has access under the standby agreements and extended arrangements. The ceiling fixed for the net use of the Fund's financial resources is, however, left unchanged, at 300 p.c. of the quota.

In 1994 only one country, Eritrea, acceded to the Fund, bringing its membership up to 179.

### ***Liberalisation of world trade and international economic co-operation***

The Final Act Embodying the Results of the Uruguay Round of Multilateral Trade

Negotiations was signed in April 1994 at the ministerial meeting in Marrakech. The agreements concluded create the World Trade Organisation, whose purpose is to tighten supervision of the disciplines for the liberalisation of trade and the procedure for the settlement of disputes. The fields covered by these disciplines are extended by new agreements on various questions such as agriculture, textile products, intellectual property and trade-related investment. For the first time, trade in services will be made subject to multilateral rules via the General Agreement on Trade in Services (GATS). These agreements entered into force on 1st January 1995.

The North American Free Trade Agreement (NAFTA) entered into force on 1st January 1994 after having been ratified by the three contracting parties: the United States, Canada and Mexico. Furthermore, the four member countries of the MERCOSUR Agreement — Argentina, Brazil, Paraguay and Uruguay — decided to create a customs union with a common external tariff with effect from 1st January 1995.

The summit meeting of the eighteen member countries of APEC (Asia-Pacific Economic Co-operation), which was held at Djakarta in November 1994, resulted in an undertaking to create, by the year 2020 at the latest, a free trade area comprising several Asian countries, the member countries of NAFTA, Australia and New Zealand.

At the Casablanca economic summit on the Middle East and North Africa, held from 30th October to 1st November, the participants, including Israel, stated, among other things, their intention to create an economic community in that region.

By acceding to the OECD agreement in May 1994, Mexico became the twenty-fifth member of that organisation. The accession of Hungary, Poland, the Czech Republic, the Slovak Republic and South Korea is also envisaged.

## 2. EXPENDITURE, PRODUCTION AND EMPLOYMENT

### 2.1 EXPENDITURE AND VALUE ADDED

#### Overall view

During the past year, Belgium's GDP grew by about 2.3 p.c. in volume. After a period of cyclical slowdown, which had led to a contraction in activity in the course of 1992 and the first quarter of 1993, a steady, strong recovery took place.

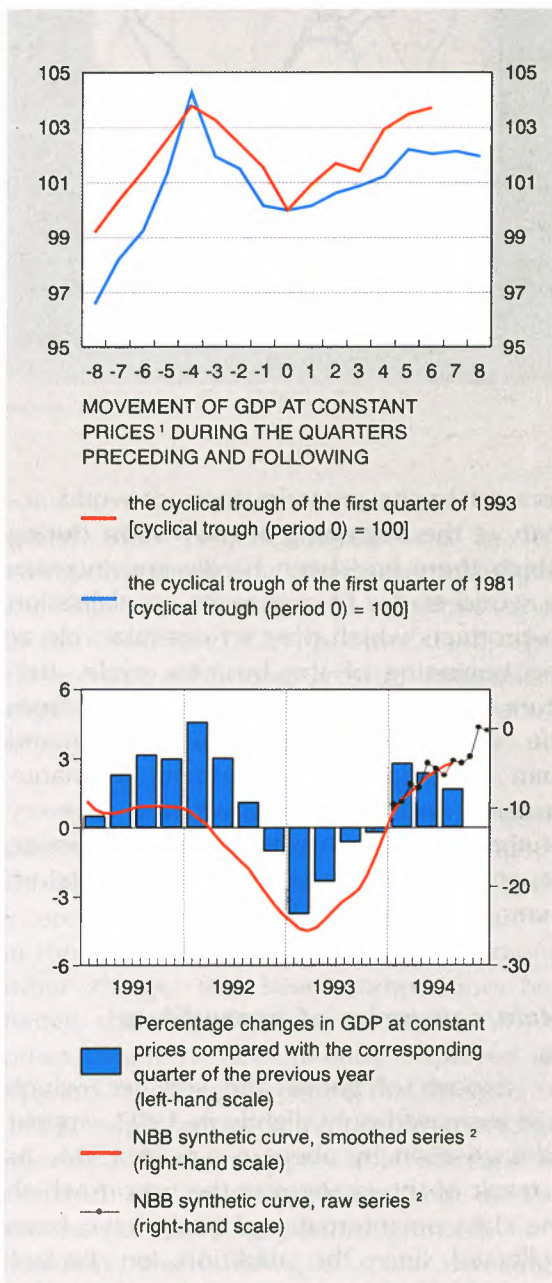
From the second quarter of 1993 until the third quarter of 1994, GDP rose at a practically constant rate, except towards the end of 1993, when weather conditions and strikes disrupted activity. According to the results of the Bank's business surveys, the rise continued during the last months of the year under review.

In comparison with the course taken by the business cycle of the early 1980s, the expansion was strong. While the recent recession showed great similarities with the preceding period of declining GDP, in terms both of duration — about four quarters in both cases — and of extent, the recovery, on the other hand, displays a different profile. In 1981 activity had risen only very gradually, and had actually tended to stop rising after five quarters. During the last cycle the revival was stronger from the outset. Thus, GDP came close to the high which it had reached at the beginning of 1992 as early as the second half of the year under review, whereas during the preceding cycle it was four years before GDP reattained the level at which it had stood at the beginning of 1980.

These divergences in the scenario of economic recovery are very closely linked with the movement of world trade. In view of the high degree of openness of its economy, Belgium benefited fully from the fa-

vourable context which prevailed in this respect in 1994, when the growth rate of world trade was close to 10 p.c., in sharp

CHART 11 — QUARTERLY MOVEMENT OF ACTIVITY



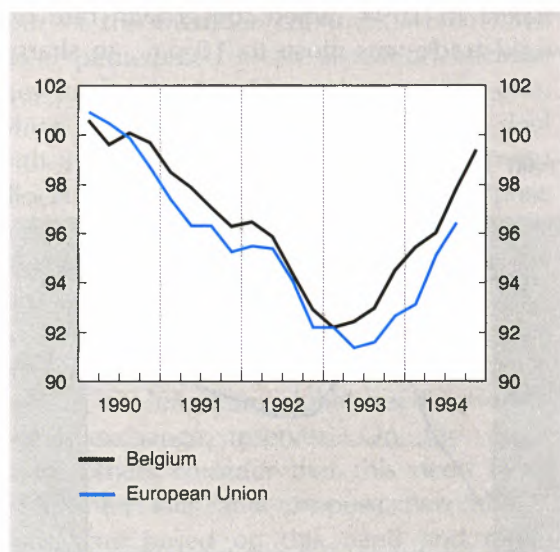
Sources : NSI, NBB.

<sup>1</sup> Seasonally adjusted data.

<sup>2</sup> For a description of the method used to calculate these indicators, see *Bulletin de la Banque Nationale de Belgique*, LXV<sup>th</sup> year, Vol. II, Nos 2-3, August-September 1990.

CHART 12 — DEGREE OF UTILISATION OF PRODUCTION CAPACITIES IN MANUFACTURING INDUSTRY

(Indices 1990 = 100, seasonally adjusted quarterly data)



Sources : EC, NBB.

contrast to the precariousness of world activity at the beginning of the 1980s, during which there had been hardly any increase in world trade. Owing to its specialisation in products which play an essential role at the beginning of the business cycle, Belgium actually benefited more quickly from the expansion in international demand than its main trading partners. In manufacturing industry, moreover, the recovery of the degree of utilisation of production capacities was actually faster in Belgium than in the rest of Europe.

### Main categories of expenditure

Exports of goods and services, which had increased only slightly in 1993, appear to have risen by about 6 p.c. in 1994. As a result of the changes in the way in which the data on international trade have been collected since the abolition, on 1st January 1993, of customs statistics concerning intra-Community trade, it has become difficult to arrive at an accurate assessment of the volumes of imports and exports.

However, several indicators, including the balance of payments data, the replies to the Bank's business surveys relating to foreign orders and also, more generally, the strong activity in the main trading partners, which was reflected in the movement of their imports, point to a sharp increase in Belgian exports in 1994.

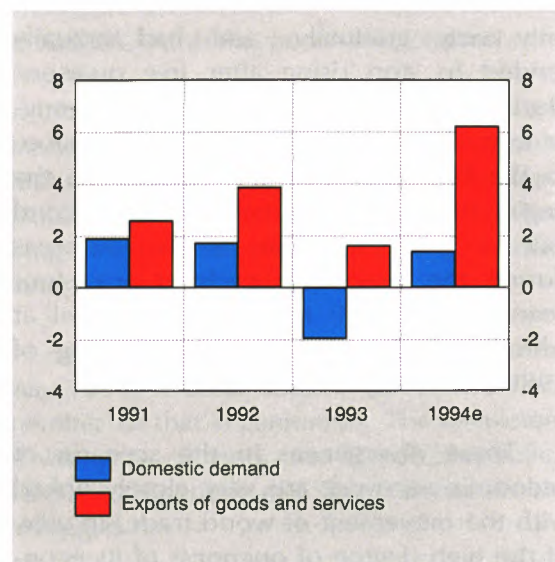
The balance of foreign trade contributed to growth to the extent of about 0.7 percentage point : unlike what had happened in 1993, the growth in imports, slowed down by the relative weakness of domestic expenditure, did not equal that in exports.

Domestic demand, which had contracted by 2 p.c. the previous year, actually rose only slowly and hesitantly, by 1.4 p.c. in 1994, thus remaining below the 1992 level.

Among the items of domestic expenditure, stockbuilding appears to have made a considerable positive contribution to growth, as the recovery of economic activity seems to have induced enterprises to

CHART 13 — DOMESTIC AND FOREIGN DEMAND AT 1985 PRICES

(Percentage changes compared with the previous year)



Sources : NSI, NBB.

replenish their stocks, a frequent phenomenon at the beginning of upward phases of the business cycle. In 1994 it did not in fact occur only in Belgium : in the main trading partners, too, stockbuilding contributed to growth to the extent, on average, of about 0.6 percentage point.

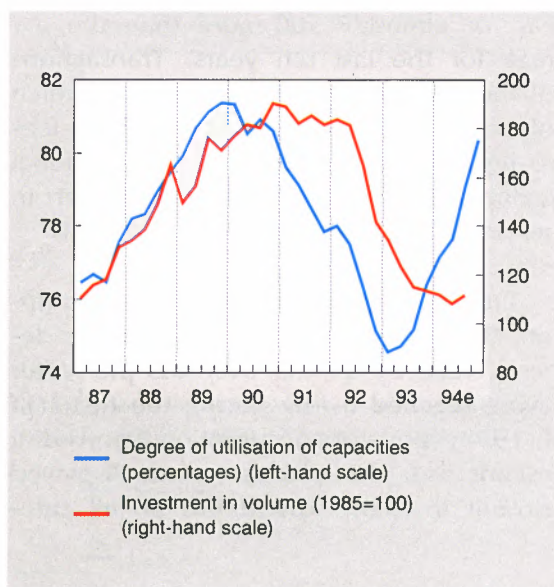
Despite the revival of activity, the concomitant improvement in demand prospects and the better financial situation of enterprises, fixed capital formation decreased further, but less fast than during the three preceding years. The investment ratio of Belgian enterprises, i.e. the ratio between their gross fixed capital formation and GDP, thus fell to 11.5 p.c., which is equivalent to the average ratio recorded in the main partner countries in the European Union.

Enterprises in manufacturing industry, which had already drastically curtailed their investment expenditure during the two preceding years, reduced their gross fixed capital formation by about 5 p.c. compared with 1993. After having considerably increased their production capacity during the years 1988-1990, in response to a sharp rise in their rates of utilisation of capacities, these enterprises have, since 1992, reacted to the weakening of activity by downward adjustments to their investment. Calculated as an annual average, the reduction in gross fixed capital formation in 1994 does, however, conceal the turn-round which occurred during the second half of the year. This reversal corresponds, with a certain time-lag, to the revival in demand and the rise in the rates of utilisation of capacities, which reached, at the end of the year under review, a level close to the last peak, recorded at the end of 1989.

Investment by public enterprises, which chiefly operate in the transport and communications sector, continued to rise, but at a slower rate than in 1993, when they had increased by about 30 p.c. This brisk activity was probably not unconnected with infrastructure work for the high-

CHART 14 — DEGREE OF UTILISATION OF PRODUCTION CAPACITIES AND GROSS FIXED CAPITAL FORMATION IN MANUFACTURING INDUSTRY

(Seasonally adjusted quarterly data)



Sources : NSI, NBB.

speed train project, which was in full swing. Investment by other enterprises specialising in market services remained close to the 1993 level. On the other hand, after three years of strong growth, investment expenditure by enterprises in the electricity, gas, water branch contracted.

After a slight decline in 1993, expenditure on housing rose only very slightly during the year under review. However, interest rates on mortgage loans fell further at the beginning of 1994, owing to, among other things, the keen competition between the financial intermediaries. While other long-term rates already displayed an upward trend again in the first months of 1994, expectations of a rise in mortgage interest led to an appreciable increase in demand for mortgage loans and in the number of building permits granted. Furthermore, the building of social dwellings was stimulated by the Domus Flandria project undertaken by the Flemish Government. These various elements were only very partially reflected, however, in a

growth in expenditure during the year under review as a whole. Overall, investment in housing has remained at a high level since 1992 : the number of dwellings built has amounted to nearly 45,000 units per year, or almost 7,500 more than the average for the last ten years. Transactions on the secondary market, among which only costs of deeds and registration fees are regarded as investment in the national accounts, for their part, rose more than in the preceding two years.

During the past year, private consumption, the main component of domestic demand, rose by a little over 0.5 p.c. After having reached a low during the first half of 1993, private consumption showed a hesitant rise. Households in fact displayed restraint in their expenditure on all cate-

gories of consumer goods : purchases of non-durable consumer goods stagnated, while those of durable consumer goods rose only slightly, after the marked fall in 1993. Thus, registrations of new cars, which had fallen by nearly 20 p.c. in 1993, increased by only 2 p.c. during the year under review.

This weakness of consumption is attributable to the movement of the disposable income of households, which declined in real terms by nearly 1 p.c. Furthermore, the savings ratio remained at a high level, despite a slight fall of around 1.3 percentage points. Households in fact continued to adopt a wait-and-see attitude; this is attributable to, among other factors, doubts regarding the continuance and strength of the revival and therefore, also,

TABLE 6 — GDP AND MAIN CATEGORIES OF EXPENDITURE AT 1985 PRICES

(Percentage changes compared with the previous year)

	1991	1992	1993	1994 e
Private consumption <sup>1</sup> .....	2.9	2.2	-1.4	0.7
Public expenditure .....	3.1	0.7	1.9	2.6
Public consumption .....	2.4	0.4	1.9	2.1
Public investment <sup>2</sup> .....	10.2	3.0	2.1	6.8
Housing .....	-0.8	12.5	-2.0	1.0
Gross fixed capital formation by enterprises .....	-2.7	-4.5	-8.5	-2.0
p.m. Total gross fixed capital formation <sup>1,3</sup> .....	-1.4	0.1	-5.9	-0.4
Change in stocks <sup>4</sup> .....	-0.1	0.2	-0.2	0.6
Total domestic expenditure .....	1.9	1.7	-2.0	1.4
Exports of goods and services .....	2.6	3.9	1.6	6.2
Total final expenditure .....	2.2	2.7	-0.3	3.7
Imports of goods and services .....	2.4	4.1	1.6	5.4
Net exports of goods and services <sup>4</sup> .....	0.1	-0.3	...	0.7
GDP before statistical adjustments .....	2.0	1.5	-2.0	2.1
Statistical adjustments <sup>4</sup> .....	0.2	0.4	0.3	0.2
GDP .....	2.3	1.9	-1.7	2.3
p.m. GDP at current prices (billions of francs) .....	(6,743)	(7,102)	(7,285)	(7,621)
GDP at constant prices (billions of 1985 francs) ..	(5,623)	(5,727)	(5,630)	(5,757)

Sources : NSI, NBB.

<sup>1</sup> Data excluding statistical adjustments. The latter are shown as a separate item.

<sup>2</sup> Owing to the sale of school buildings to public companies, there is a break in the public investment series in the national accounts. If this sale is disregarded, the increase in public investment is found to be considerably greater in 1993 and less pronounced in 1994.

<sup>3</sup> Public investment, housing and gross fixed capital formation by enterprises.

<sup>4</sup> Contribution to the change in GDP.

to the conviction that an appreciable improvement of the labour market situation was still to come.

Lastly, public expenditure rose by 2.6 p.c. The growth of 2.1 p.c. in public consumption was due to the increase in purchases of goods and services and to the raising of civil service salaries and pensions in connection with the social programming.

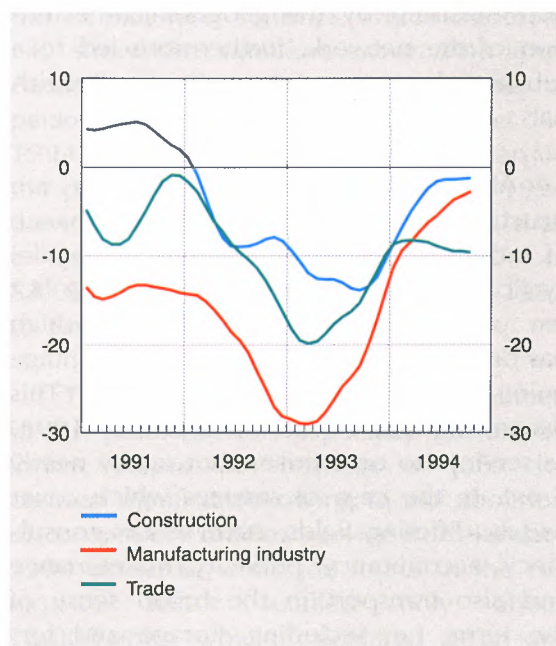
### **Value added by branch**

The elements responsible for the differences observed in the rates of growth of the various categories of expenditure are also reflected in divergences in the movement of value added by branch of activity, as recordable by the available statistics. Inaccuracies remain, however, with regard to the estimate of the contribution of certain branches to the growth in value added. In view of the extent of the delay in the publication of the industrial production data resulting from the establishment of a harmonised system for the gathering of statistics at European level, the estimate of value added by branch of industrial activity in 1994 is chiefly based on the movement of the turnover figures from the VAT data and the indices of producer prices.

Manufacturing industry, which is the branch most oriented towards foreign markets, reacted strongly to the cyclical reversal. Furthermore, within this sector, the value added recovered earlier and to a greater extent in the branches which produce intermediate products — demand for which is highest at the beginning of the business cycle — than in those which make capital goods and consumer goods. Thus, the iron and steel industry, the non-ferrous-metals industry and the chemical industry benefited most from the cyclical recovery. On the other hand, enterprises in the non-metallic-minerals industry and the metal-working industry, which engage to a great extent in production of capital goods, suffered from the consequences of

CHART 15 — CYCLICAL MOVEMENT IN MANUFACTURING INDUSTRY, CONSTRUCTION AND TRADE

(Smoothed synthetic curves)



Source : NBB.

the sluggishness of investment by enterprises, both in Belgium and in its nearest trade partners, while the weakness of demand for consumer goods put a brake on production by enterprises in the food, wood and textile industries.

In addition to these cyclical factors, more specific elements also contributed to the divergent developments in the various branches of activity. Thus the influence of the downward trend of demand for paper and cardboard, which is partly attributable to the shift which is taking place in the packaging industry, was accentuated by the rise in selling prices following the sharp increase in raw material prices. In the textile industry, demand from non-European countries for very capital-intensive products, such as carpets, expanded appreciably.

The recovery in industry was naturally also reflected in the growth of the value added in the electricity, gas, water branch,

although this rise was slowed down somewhat by the milder weather in 1994. With regard to distribution of gas, the upward trend in the number of service connections, assisted by the geographical extension of the network, furthermore led to a substantial increase in supplies to individuals.

Although services to enterprises are structurally dependent on the performance of industry, this being reflected in parallel cyclical patterns, they have during the last ten years recorded a growth rate which has been, on average, some 2.5 percentage points higher than that of industry. This dynamism was confirmed again in 1994, as services to enterprises shot up by nearly 7 p.c. In the case of services which cover widely differing fields, such as tax consultancy, accountancy, publicity, maintenance and also transport in the broad sense of the term, i.e. including storage and forwarding, the latter, in particular, showed a sharp expansion.

Mixed-aim services, which include financial activities and insurance, benefited to some extent from the cyclical recovery, while services mainly aimed at households, such as retail trade, health care and the hotel and catering industry, felt the impact of the reduction in the disposable income of individuals.

The course of activity was less favourable in the other branches of the economy.

Building continued to feel the effects of the weakness of domestic demand, albeit to a smaller extent. In the non-residential-building sector, the situation worsened owing to the prudent investment behaviour of enterprises. At the same time, the value added of the residential building sector, like expenditure on housing, improved only slightly.

The reduction in the value added in agriculture, forestry and fisheries, which followed several years of strong growth in

TABLE 7 — VALUE ADDED OF THE VARIOUS BRANCHES OF ACTIVITY AT 1985 PRICES

(Percentage changes compared with the previous year)

	1991	1992	1993	1994 e	p.m. Percentages of 1993 GDP
Industry .....	1.0	0.3	-3.1	3.0	(25.2)
of which : Manufacturing industry .....	0.4	0.1	-3.1	3.1	(21.7)
Electricity, gas, water .....	5.7	0.7	-1.4	2.8	(3.2)
Services aimed mainly at enterprises <sup>1,2</sup> .....	2.4	2.5	-0.9	6.6	(13.7)
Mixed-aim services <sup>1,3</sup> .....	5.6	6.4	1.9	2.2	(16.2)
Services aimed mainly at households <sup>1,4</sup> .....	3.6	2.4	-1.4	1.7	(20.9)
Building industry .....	3.3	2.7	-5.3	0.1	(5.7)
Agriculture, forestry and fisheries .....	6.6	9.9	4.8	-2.2	(2.4)
Non-market services .....	1.7	2.6	1.4	1.7	(12.7)
GDP before statistical adjustments <sup>5</sup> .....	2.5	2.3	-1.4	2.5	
Statistical adjustments <sup>6</sup> .....	-0.2	-0.4	-0.3	-0.2	
GDP after statistical adjustments <sup>5</sup> .....	2.3	1.9	-1.7	2.3	(100.0)

Sources : NSI, NBB.

<sup>1</sup> Market services, i.e. services not rendered by general government.

<sup>2</sup> Mainly transport, publicity, accounting and tax consultancy, and also technical services.

<sup>3</sup> Mainly financial services and insurance, renting of goods and distribution of petroleum products.

<sup>4</sup> Mainly retail trade, medical services, hotels and catering and leisure activities.

<sup>5</sup> Including various items which cannot be broken down among the branches of activity.

<sup>6</sup> Contribution to the change in GDP.



this branch, was mainly attributable to special factors which affected the cultivation of agricultural crops. For instance, the sugar-beet crop contracted sharply compared with that of 1993, which was extraordinarily good. Furthermore, weather conditions in 1994 were particularly unfavourable for potato-growing, so that a substantial proportion of the harvest was lost.

## 2.2 LABOUR MARKET

### *Employment*

An economic revival does not immediately lead to more employment, as economic growth must be sufficiently strong and lasting in order to generate new jobs. In the initial phase of recovery, enterprises first of all make more intensive use of their workforces; this takes place more particularly in the form of overtime working and a reduction in the number of temporarily unemployed persons. They can also resort to temporary workers. The number of these has increased in recent years and by around mid-1994 they already accounted for nearly 1 p.c. of total employment in enterprises. Moreover, as the economy picks up and a lasting expansion of personnel appears to be justified, employers incorporate a large proportion of these — initially temporary — workers in their permanent workforces.

There are various indications that the labour market began to improve according to that scenario in 1994. For instance, temporary unemployment decreased. Demand for temporary workers was already strengthening from the second quarter onwards, and in the fourth quarter the number of hours worked by these was 40 p.c. higher than in the previous year. Lastly, on the basis of the monthly unemployment figures, the destruction of jobs appears to have been interrupted and the number of persons in employment seems to have dis-

played an upward trend again from the second half of the year onwards.

This turn-round is not yet reflected in the employment statistics, which traditionally show the situation as at 30th June. According to these figures, the number of persons employed declined further in 1994, albeit to a smaller extent than in the previous twelve months. In June 1994 there were about 27,000 fewer jobs than a year earlier, whereas a fall of 53,000 units was recorded from June 1992 to June 1993.

The reduction was most pronounced in the public sector, especially the armed forces, where the number of jobs decreased significantly owing to the abolition of compulsory military service from January 1994 onwards, while job losses in the enterprise sector totalled only about 12,000 units, which, calculated as an annual average, represents a fall of around 0.3 p.c.

Expressed in years of full-time work, the worsening of the employment situation in enterprises actually appears to have stopped. That is partly due to the fall in the number of temporarily unemployed persons. Furthermore, the success of part-time working dwindled in 1994. Owing to various measures which had come into force in recent years, the number of persons involuntarily working part-time shrank and the number taking advantage of temporary career interruptions stagnated.

A breakdown of the movement of employment in enterprises by major branch of activity shows that the number of jobs has continued to decline chiefly in industry. Restructurings, especially in the metal-working industry, and the relocation of part of production in the case of the clothing industry, played a role in this connection. In addition, industry is contracting out more and more services — for instance maintenance, security, logistics, accountancy, marketing — to specialised enterprises. This growth in subcontracting has led in

TABLE 8 — EMPLOYMENT BY BRANCH OF ACTIVITY

	1991	1992	1993 e	1994 e
	<i>Annual changes in thousands (data as at 30th June)</i>			
Enterprises .....	18	-15	-47	-12
Agriculture .....	-2	-3	-3	-2
Industry .....	-13	-20	-34	-13
Building .....	7	3	-3	1
Market services .....	26	7	-7	1
General government .....	-13	-2	-5	-15
Traditional jobs .....	-9	-6	-5	-17
of which : persons doing military service .....	-3	-4	-6	-18
Special programmes .....	-4	4	...	1
Cross-frontier workers (net) .....	-1	-1	-1	-1
Total .....	5	-18	-53	-27
	<i>Percentage changes compared with the previous year (annual averages)</i>			
Number of persons employed in enterprises .....	0.6	-0.5	-1.2	-0.3
Number of years of full-time work in enterprises .....	-0.3	-0.9	-1.8	...

Sources : Ministry of Employment and Labour, National Sickness and Disability Insurance Institute, NEMO, NSI, NBB.

recent years to a certain shifting of industrial employment to the services branch. During the year under review, this phenomenon appears to have contributed to the rise in the number of jobs in the branch of services to enterprises.

In the market services sector as a whole, however, employment remained virtually unchanged, because workforces in other services continued to decrease : the rationalisation efforts were in fact continued in financial institutions, insurance companies and public enterprises operating mainly in the transport and communications sectors, while the cyclical recovery did not yet seem to be sufficiently strong to halt the decline in the number of jobs in trade. In the building industry, on the other hand, employment did not decrease any further in 1994.

Beyond the ups and downs of the business cycles it is apparent that economic growth does not create sufficient employment : the increase in activity, which

averaged 2 p.c. during the period 1985-1994, was only just sufficient to maintain the number of jobs. In view of the persistent growth in the labour force, even a lasting improvement in the economic climate cannot possibly suffice to solve the unemployment problem.

Furthermore, a shift is taking place in the labour market. According to a survey carried out by the Bank in June 1994 at the initiative of the European Commission in order to assess the possibilities with regard to growth and employment, Belgian enterprises are less and less inclined to offer traditional jobs, that is, full-time ones with regular working hours. Chances of getting a job are greater for skilled workers and for those who are prepared to undertake irregular or shift work or to work at night or during the week-end. In industry and building, half of the employees are already working shifts and nearly one in five is regularly doing night or week-end work. In addition, part-time working has increased rapidly in recent years in nearly

all branches. In financial institutions there even seems to have been a considerable shift from full-time to part-time jobs.

The survey furthermore confirmed that the low labour-intensiveness of economic growth is chiefly due to the high indirect labour costs. Nearly half the employers questioned also mention the level of net wages and redundancy expenses as factors impeding the setting on of new employees. Other reasons such as recruitment and training costs, on the other hand, do not appear to play a decisive role.

In view of these various developments and the problems which are arising in the labour market, structural measures are necessary.

The Government has already taken a number of measures in recent years relating to both the demand for and the supply of employment. The majority of these were decided upon at the end of 1993 within the framework of the Global plan for employment, competitiveness and social security. They are aimed at the simultaneous attainment of several objectives and comply in many respects with the recommendations formulated at European level in the White Book on growth, competitiveness and employment. Emphasis is laid, for instance, on reducing indirect labour costs. As, however, a general lowering of these costs was ruled out for budgetary reasons, the social contributions were selectively reduced. Apart from the stepping up of the Maribel operation, whose purpose is to improve competitiveness through a lowering of social burdens in the sectors most exposed to international competition, priority was given to certain target groups such as young people and low-skilled persons.

Recruitment of young people was stimulated by a specific plan which has proved very successful. Enterprises which, between 1st October 1993 and the end of 1994, have set on wholly unemployed persons who have been entitled to unemployment benefit for at least six months and are aged

under 26, are exempted from the employers' contribution for these workers to the extent of 100 p.c. in the first year, 75 p.c. in the second year and 50 p.c. in the third year. Furthermore, such new employees who have been unemployed for more than nine months are exempted from personal contributions for the first year. Under the plus-one plan, a similar exemption system applies to self-employed persons or companies setting on a wholly unemployed person in receipt of benefit as the first employee.

Since 1st April 1994 the employers' contributions on low wages have been degressively reduced. The contributions are cut by half for the lowest wages. As a result of this important measure, labour costs for low-skilled workers have been reduced by about 10 p.c.

In order to stimulate the redistribution of work, employers' contributions were lowered by a flat-rate amount of Fr. 100,000 per year for each additional job created under an enterprise plan. This measure appears to have had only a limited effect up to the present.

Measures have also been taken to simplify the recruitment procedure, for instance by making the use of contracts for specific periods more flexible. Lastly, some initiatives have been taken in order to meet specific needs; these include the extension of local job centres — which must chiefly endeavour to give work to the long-term unemployed in activities not organised by the market — and the extension of security contracts.

It is still too early to make a precise assessment of the consequences of the measures adopted under the global plan for the labour market. In practice it is particularly difficult to determine their net impact. For instance, the success of the plan for jobs for young people, which embraced over 70,000 young persons at the end of 1994, to some extent caused older workers to be replaced by younger ones. Further-

more, certain measures — the Maribel operation for example — only have an indirect effect on the labour market. Moreover, the implementation of certain measures — for instance, enterprise plans for the redistribution of work — inevitably takes a certain time to produce concrete results.

These enterprise plans were furthermore given a new impetus by the inter-trade agreement concluded between employers and trade unions for the period 1995-1996, which concentrates on job creation. The enterprise plans-bis project, one of the parts of the agreement, provides for greater reductions of social charges for enterprises which undertake distribution of work without affecting the volume of work, thus creating additional jobs. The agreement also introduces a new job plan under which social contributions are reduced for the recruitment of persons who have been unemployed for longer than a year or who are receiving the minimum supplementary benefit, irrespective of their age. Lastly, the age limit for early retirement is lowered to 55, subject to specific conditions, for two years. This represents a temporary interruption of the trend towards the dwindling-away of early retirement systems, which is explained further on.

### **Labour force**

The growth in the labour force, which reflects the demand for jobs, slowed down in 1994 for the fourth year in succession : the increase of around 16,000 persons was thus less than half the rise recorded in 1990. That is solely due to the movement of the activity rate, since the population of working age has increased more rapidly in recent years.

The activity rate rose less fast despite a change in general government's employment policy. That policy had been aimed, up till 1991, at checking the rise in the activity rate by extending various systems for encouraging temporary or early with-

drawal : in 1991, 300,000 persons were making use of these systems. Subsequently, priority was gradually given to a more active employment policy, aimed more at job creation. In view also, to some extent, of the budgetary constraints, the various withdrawal schemes were gradually and partly dismantled. In three years the number of persons participating in these schemes decreased by a little over 45,000, chiefly because of the sharp fall in early withdrawals from working life and in temporary interruptions of unemployment. However, the contraction in the number of withdrawals did not have as great an influence on the activity rate as in 1993. The effect of the reduction of the duration and amount of the benefits paid in the event of interruption of unemployment, a measure decided upon in the course of 1992, has in fact gradually lessened : the number of temporary withdrawals from unemployment fell by 7,000 in 1994, against 16,000 the previous year.

The movement of the activity rate appears to have been chiefly determined in recent years by cyclical developments. In periods of strong economic growth, when chances of finding a job are greater, more non-working persons present themselves on the labour market. When economic activity slows down, precisely the opposite takes place. Thus the cyclical growth in the labour force reached a high in 1990, the year of the most recent cyclical peak.

**TABLE 9 — LABOUR FORCE AS AT 30TH JUNE**

(Annual changes, in thousands of units)

	1990	1991	1992	1993 e	1994 e
Total .....	35	31	27	23	16
Effect of :					
— population of working age <sup>1</sup> .....	...	1	5	8	7
— activity rate .....	35	30	22	15	9

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

<sup>1</sup> Men and women aged between 15 and 64.

After that, parallel with the slackening of activity, a gradual and persistent decline was recorded. This continued in 1994, showing that the economic recovery was still not strong enough to affect the activity rate.

The fact that the activity rate of the population of working age rose less during the year under review was also partly attributable to the abolition of military service. Some young people who would normally have belonged to the labour force because of doing military service did not immediately present themselves on the labour market but preferred to extend their education.

### Unemployment

Between June 1993 and June 1994 the number of unemployed job-seekers rose by 43,000, whereas an increase of 76,000 persons had been recorded during the preceding twelve months.

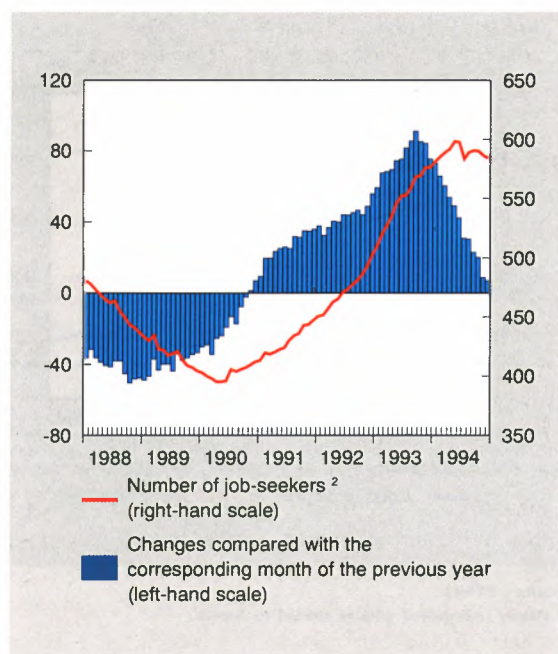
As always, the labour market reacted to the cyclical reversal with a time-lag: although the lowest point of the recession was reached around the first quarter of 1993, the year-on-year increase in unemployment speeded up until September of that year. The rise continued during the subsequent months, too, but at a steadily slowing rate. Expressed in seasonally adjusted figures, the number of unemployed stabilised around the middle of 1994 and a fall — albeit still hesitant — was recorded during the subsequent months.

As usual, young unemployed persons benefited most quickly from the recovery. The positive cyclical impact was undoubtedly strengthened by the plan for jobs for young people.

It can be deduced from the breakdown of employment by period of inactivity that the reversal which took place during the second half of the year was still

CHART 16 — UNEMPLOYED JOB-SEEKERS<sup>1</sup>

(Monthly data, thousands of units)



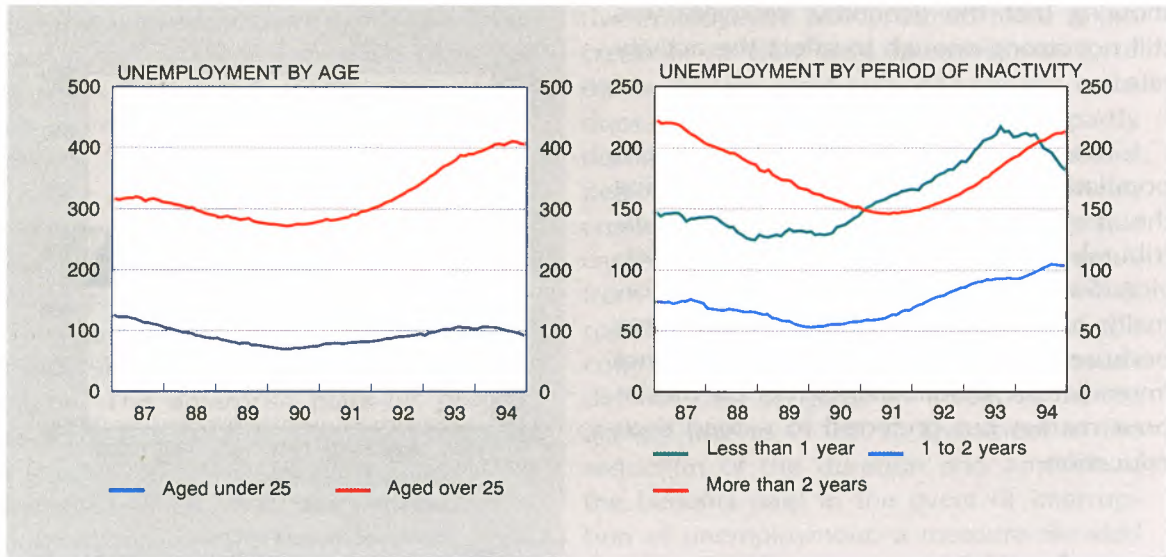
not a general phenomenon but remained confined to short-term unemployment.

According to the harmonised EC figures, compiled on the basis of surveys measuring the actual availability of the unemployed, the movement in the European Union as a whole during the year under review was similar: a stabilisation of unemployment around the middle of 1994, followed by a slight decline. In the countries surrounding us, however, this fall found expression clearly only in the United Kingdom, as the cyclical recovery there took place appreciably earlier than in the other countries of the Union.

While the average number of wholly unemployed persons entitled to benefit increased in 1994, the group of other persons entitled to unemployment insurance decreased further: in two years the number of persons in this category fell by about 100,000 units.

CHART 17 — UNEMPLOYMENT BY AGE AND PERIOD OF INACTIVITY<sup>1</sup>

(Thousands of units, seasonally adjusted monthly data)

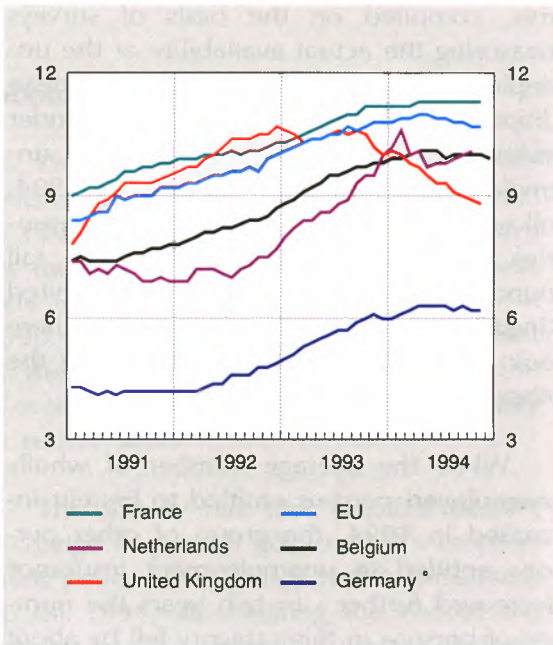


Source : NEMO.

<sup>1</sup> Wholly unemployed persons entitled to benefit.

CHART 18 — INTERNATIONAL COMPARISON OF THE UNEMPLOYMENT RATE

(Percentages of the civilian labour force, seasonally adjusted monthly data)



Source : EC.

Except for unemployed persons receiving vocational training, the number of whom had already risen in 1993 as a result of the individual guidance plan for the unemployed, the reduction took place in all categories of other persons entitled to unemployment insurance. That was mainly due to the measures which came into force in 1992 and 1993, although the downward trend of temporarily unemployed persons was also attributable to the improvement in economic activity and more favourable weather conditions. A particularly sharp decline was recorded in the case of part-time unemployment: the system of involuntary short-time working has been gradually replaced since the middle of 1993 by the stricter system of part-time working with retention of rights. The number of career interruptions decreased further, despite the introduction of a — limited — right to career interruption in the private sector and the new possibilities offered by the enterprise plans, which were furthermore supplemented by a bonus system established by the Flemish Government.

TABLE 10 — BENEFICIARIES OF UNEMPLOYMENT INSURANCE IN THE BROAD SENSE

*(Annual averages, thousands of units)*

	1990	1991	1992	1993	1994 e
Wholly unemployed persons receiving benefit .....	348	369	411	476	507
Other beneficiaries .....	528	554	551	523	453
Early retirement under collective agreements .....	141	141	139	138	137
Temporarily unemployed persons .....	38	52	53	63	54
Part-time unemployed persons <sup>1</sup> .....	179	178	170	145	90
Career interruptions .....	46	49	58	56	52
Unemployed persons not seeking employment .....	113	122	119	105	97
Unemployed persons receiving training .....	12	12	12	16	19

Sources : NEMO, NBB.

<sup>1</sup> The number of part-time unemployed persons registered with the NEMO is larger. The approximation presented in the table takes account only of the group of part-time unemployed who are actually entitled to supplementary unemployment benefit. Their share amounted to about 76 p.c. in 1993. As a result of the entry into force of the system of part-time working with retention of rights, which is gradually replacing the less strict system of involuntary part-time working, the share of persons actually entitled to supplementary unemployment benefit would appear, according to NEMO estimates, to have fallen to around 55 p.c. in 1994.





### 3. PRICES, COSTS AND INCOMES

#### 3.1 PRICES

In Belgium, as in the European Union as a whole, the fundamental trend of inflation has been downwards. The rise in the overall index of consumer prices has slackened from 3.5 p.c. in 1990 to 2.8 p.c. in 1993 and 2.4 p.c. in 1994.

If the effect of changes in indirect taxation is excluded, the fall in inflation appears to have been even greater between 1993 and 1994, namely from 2.5 to 1.7 p.c., as various tax measures adopted during the last two years — the energy contribution, the raising of excise duties on fuels and cigarettes, the increasing of the standard VAT rate from 19.5 to 20.5 p.c. — contributed to a price increase of 0.7 percentage point in 1994, against 0.3 in 1993.

The rise in the prices of the two main components of the index of consumer prices — non-food products and ser-

vices — slowed down steadily throughout the year, because of the moderating effect of the costs of these goods and services. On the one hand, import prices, which are reflected only with a certain time-lag in consumer prices, declined between 1990 and 1993, owing to a fall in prices in terms of foreign currencies and the appreciation of the franc. On the other hand, unit labour costs, commented upon in section 3.2, stabilised in 1994.

The increase in rents was slowed down by the use of the health index, defined in section 3.2, instead of the overall price index when the annual adjustments were made. The movement of rents is, however, also influenced by the changes in terms when new rental contracts are concluded, which explains why rents have risen faster than the overall index or, since 1994, the health index.

On the other hand, the movement of the prices of energy and food products during the year was less uniform. The rise

TABLE 11 — CONSUMER PRICES

(Percentage changes in the price index compared with the previous year)

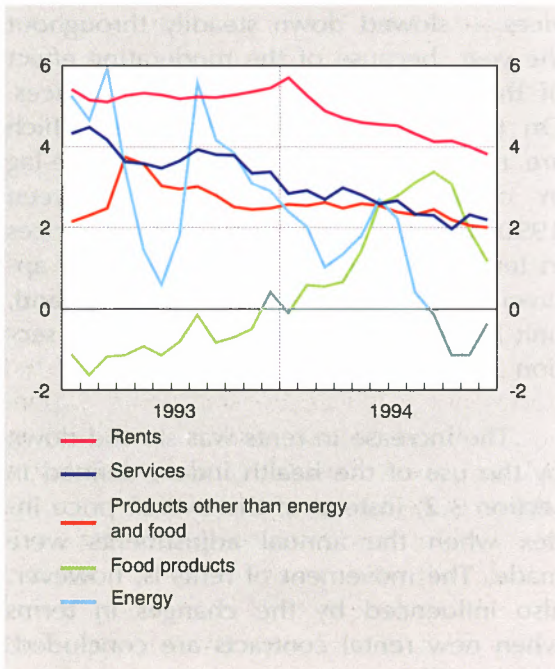
	1990	1991	1992	1993	1994
Overall index					
Changes observed .....	3.5	3.2	2.4	2.8	2.4
Effects of changes in taxation <sup>1</sup> .....	0.3	0.1	0.1	0.3	0.7
Changes with unchanged taxation .....	3.1	3.1	2.3	2.5	1.7
Index excluding energy products					
Changes observed .....	3.1	3.3	2.8	2.7	2.5
Effects of changes in taxation <sup>1</sup> .....	0.1	...	-0.2	...	0.5
Changes with unchanged taxation .....	3.0	3.3	3.0	2.7	2.0
Energy products					
Changes observed .....	6.8	2.6	-1.1	3.6	0.9
Effects of changes in taxation <sup>1</sup> .....	2.5	1.0	2.9	3.1	2.9
Changes with unchanged taxation .....	4.3	1.6	-4.0	0.4	-2.0

Sources : MEA, NBB.

<sup>1</sup> Contribution of the main changes in excise duties and VAT rates to the change in the index.

CHART 19 — CONSUMER PRICES

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



Source : MEA.

in the prices of the latter has quickened since 1993. It was particularly rapid from April to September 1994, but subsequently slackened to a rate lower than that for other non-energy products and for services. This temporary acceleration is partly due to the rise in world coffee prices, but

above all to the increase in those of fruit and vegetables, due to adverse weather conditions.

The slowing of the rise in the prices of energy products which began in September 1993 owing to a sharp fall in world market quotations for crude oil continued during the first three months of 1994 because of the depreciation of the dollar. In the spring, speculation on the oil markets led to a temporary quickening of the upward movement of energy prices. The rise soon slackened again in August and was actually followed by a decline from September onwards.

All in all, the rise in consumer prices slowed down to only 1.9 p.c. at the end of the year under review. Disregarding the tax changes peculiar to individual countries and the structural differences which are liable to affect international comparisons, this result is close to those of Germany, France and the Netherlands. Such a convergence with regard to inflation is not surprising. On the one hand, these countries are influenced, like Belgium, by the movement of raw material prices : thus they all benefited from the decrease which took place until 1993. On the other hand, with the support of their monetary policies, they have made efforts to moderate domestic costs, the effects of which have had an incidence on inflation in Belgium because

TABLE 12 — INTERNATIONAL COMPARISON OF CONSUMER PRICES

(Percentage changes compared with the previous year)

	1991	1992	1993	1994	p.m. December 1994 compared with December 1993
Belgium .....	3.2	2.4	2.8	2.4	1.9
Germany ° .....	3.5	4.0	4.1	3.0	2.7
France .....	3.2	2.3	2.1	1.7	1.7
Netherlands .....	3.9	3.1	2.6	2.8	2.6

Sources : EC, MEA.

of the predominance of imports from these countries and thanks to the policy of stability of the exchange rate for the franc vis-à-vis their currencies.

### 3.2 COSTS IN THE ENTERPRISE SECTOR

The slowing of the rise in consumer prices was reflected in the overall movement of the selling prices of enterprises on the domestic market. Export prices, on the other hand, went up slightly in 1994, after having fallen for four years in succession. This turnaround is due to the recovery in the prices, on the international markets, of some basic products exported by the BLEU and, more generally, to the cyclical recovery. In all markets combined, the average unit selling prices of enterprises increased by 1.5 p.c. in 1994, against only 0.4 p.c. in 1992 and 1993.

Thanks to the faster rise in selling prices, the gross operating surplus per unit sold of companies grew by nearly 4 p.c., whereas it had remained constant during the preceding two years and had decreased by over 6 p.c. in the years 1990-1991. Although the rise in production costs per unit sold was greater than in 1993, it was in fact smaller than the rise in selling prices.

The speeding up of the increase in unit costs from 0.5 to 1.2 p.c. is attributable to the rise in import prices. Unlike during the preceding three years, imported goods and services became more expensive; this price rise, which amounted to 3.1 p.c., was, however, moderated by a slight appreciation of the franc. On the other hand, cost increases of domestic origin slowed down markedly, from 4.5 p.c. in 1993 to 1.2 p.c. in 1994, mainly owing to the cessation of the upward movement of labour costs, which represent over 60 p.c. of enterprises' costs of domestic origin.

TABLE 13 — UNIT PRICES AND COSTS IN THE BUSINESS SECTOR<sup>1,2</sup>

(Percentage changes compared with the previous year)

	1990	1991	1992	1993 e	1994 e
Unit selling prices .....	0.9	1.0	0.4	0.4	1.5
On the domestic market .....	3.3	2.9	2.7	2.5	2.1
Exports .....	-1.7	-0.3	-1.1	-1.0	1.3
Costs per unit sold .....	1.3	1.7	0.4	0.5	1.2
Imported goods and services					
Costs in foreign currencies <sup>3</sup> .....	(5.8)	(-0.5)	(-0.6)	(-3.0)	(3.1)
Exchange rate <sup>4</sup> .....	(-6.7)	(0.1)	(-2.0)	(-0.4)	(-1.7)
Costs in francs .....	-1.2	-0.4	-2.6	-3.4	1.4
Costs of domestic origin per unit of output .....	4.3	3.7	3.4	4.5	1.2
Labour costs .....	5.2	5.1	3.1	3.8	...
Other costs of domestic origin <sup>5</sup> .....	2.6	1.2	3.8	5.8	3.5
Gross operating surplus of companies per unit sold .....	-1.8	-4.4	0.1	-0.1	3.8

Sources : NSI, NBB.

<sup>1</sup> Private and public enterprises.

<sup>2</sup> The determinants of the formation of prices and costs are calculated without taking account of the possible effect of the statistical adjustments whereby the three angles of approach of the national accounts are reconciled. On the other hand, selling prices, unit costs and the gross operating surplus per unit sold do incorporate them, without their appearing explicitly in the table among the determinants.

<sup>3</sup> Costs obtained by dividing the movement of costs in francs by the change in the exchange rate.

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

<sup>5</sup> This item comprises indirect taxes net of subsidies and the gross operating surplus of one-man businesses.

The stabilisation of unit labour costs contrasts with the rises in the preceding years. On the one hand, it is the result of greater gains in apparent productivity. During a recovery phase, enterprises first make more intensive use of the available labour before increasing their workforces; in 1994, employment actually decreased slightly further on average over the year.

On the other hand, the rate of increase of labour costs per employee slowed down in 1994: expressed in years of full-time work, it was reduced from 4 p.c. in 1993 to 2.6 p.c., a considerably lower level than in the preceding years. This movement is chiefly attributable to measures adopted by the Government in 1993.

First of all, labour costs per employee were reduced by 0.7 p.c. in 1994 by a lowering of social charges. This had already been started upon by the plan for the recruitment of young people which came into force in October 1993 and proved very successful in 1994, after having been confirmed by the global plan. The latter furthermore stepped up the measures for reducing employers' social security contributions for the sectors most exposed to in-

ternational competition and for enterprises taking on one wholly unemployed person receiving benefit as their first worker. It also provided for a large reduction in employers' contributions on low wages; these contributions were in fact reduced by half for wages which are not higher than the guaranteed minimum wage.

In addition, the global plan introduced a new reference index for the indexation of wages and also allowances, and for the incomes of persons exercising liberal professions, directors' fees and rents. This index, called the health index, is calculated from January 1994, with 1988 as the reference year and excluding alcohol, tobacco, petrol and diesel oil from the basket of goods and services which form part of the composition of the overall index of consumer prices. Now, since 1988, the prices of the products omitted have gone up faster than the overall index, partly because of the increases in indirect taxation. Owing to the elimination of these products, and to the additional adjustment made to neutralise the incidence, on fuel and electricity prices, of the energy contribution introduced in August 1993, the health index was 1.4 p.c. below the overall index in January 1994. The first wage in-

TABLE 14 — LABOUR COSTS IN ENTERPRISES<sup>1</sup>

(Percentage changes compared with the previous year)

	1990	1991	1992	1993	1994 e
Compensation per employee per year of full-time work ...	7.2	8.6	6.8	4.0	2.6
Increase resulting from :					
Employers' social security contributions .....	...	0.3	-0.3	0.2	-0.7
Indexation .....	3.3	3.5	2.7	2.6	1.4
Wage increases under collective agreements .....	2.0	2.3	2.3	0.9	1.4
Wage drift .....	0.5	0.5	0.5	0.5	0.5
Other factors <sup>2</sup> .....	1.3	1.8	1.4	-0.2	...
Productivity per employee per year of full-time work .....	1.9	3.4	3.6	0.2	2.6
Unit labour costs <sup>3</sup> .....	5.2	5.1	3.1	3.8	...

Sources : NSI, NBB.

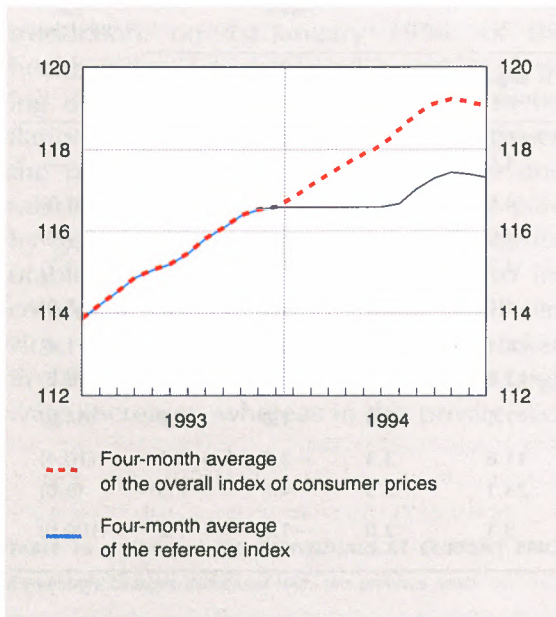
<sup>1</sup> Private and public enterprises. All the data are calculated without taking account of the possible influence of statistical adjustments, whereby the three approaches of the national accounts are reconciled.

<sup>2</sup> This item comprises increases negotiated at enterprise level, the discrepancy between estimated and actual indexations of wages, and errors and omissions.

<sup>3</sup> Per unit of value added in enterprises, at constant prices.

CHART 20 — REFERENCE INDEX<sup>1</sup> FOR WAGE INDEXATION

(Indices 1988 = 100)



Sources : MEA, NBB.

<sup>1</sup> Until December 1993, four-month average of the overall index of consumer prices. The December 1993 average was retained in 1994 until it was exceeded by the four-month average of the health index.

dexation taking effect in 1994 was carried out, according to the current calculation rules, after the four-month moving average of the health index exceeded the last reference value calculated on the basis of the overall index.

All in all, the introduction of the wage index appears to slow down the rise in wages by 1.3 p.c., the greater part of this apparently taking place in 1994, leaving a residual effect of around 0.3 p.c. in 1995. Indirectly, the health index also helps, by its incidence on the movement of incomes and hence on inflation, to moderate the rise in wages. The effect is immediate via rents, because they constitute one of the components of the consumer price index ; it is more diffuse via labour costs and the other incomes which play a role in the formation of these prices.

Furthermore, the introduction of the health index means that the movement of wages will henceforth be less dependent

on that of oil prices. A sharp increase in the latter will therefore be less liable to lead to an uncontrolled increase in labour costs, such as those which took place after the oil shocks of 1974 and 1979. Conversely, a decline in these prices will not have any repercussions, either, on the movement of labour costs. There is little likelihood, however, of any sharp fall in the prices of petroleum products, in view of the low level of their prices at the time when the health index was introduced.

Altogether, the lightening of social charges and the slowing down of indexation largely counterbalanced the increases in labour costs brought about by the adjustments made under the collective agreements in 1993 and 1994. These increases, of 2.3 p.c. for the two years combined, including 1.4 p.c. in 1994, were the result of the inter-trade agreement of December 1992 and of the sectoral agreements concluded in its wake at the beginning of 1993. The new inter-trade agreement for the period 1995-1996 does not provide for any further real rise in wages. By virtue of decisions taken within the framework of the global plan, any agreement or decision providing for an increase is forbidden for the years 1995 and 1996, except possibly within the framework of an enterprise plan for the redistribution of work. This wage freeze does not, however, affect the increases usually granted on grounds of seniority or promotion.

The rise, expressed in national currencies, in labour costs per employee in the private sector, which in 1993 had been greater in Belgium than in its five or seven main trading partners as a whole, was, on the other hand, smaller in 1994. In a common currency, however, the increase in labour costs was likewise faster in Belgium during the year under review. On the one hand, as far as the floating currencies are concerned, the incidence of the depreciation of the pound sterling, the lira and the dollar was only partly offset by that of the appreciation of the yen. On the other hand, and this movement was preponder-

TABLE 15 — LABOUR COSTS PER EMPLOYEE IN ENTERPRISES : INTERNATIONAL COMPARISON

(Percentage changes compared with the previous year)

	1993			1994 e			p.m. Weightings <sup>2</sup>
	In national currencies	Exchange rate <sup>1</sup>	In Belgian francs	In national currencies	Exchange rate <sup>1</sup>	In Belgian francs	
<b>Belgium</b> .....	4.0	—	4.0	2.6	—	2.6	—
Germany ° .....	3.0	1.5	4.6	2.8	-1.4	1.4	(31.0)
France .....	2.5	0.5	3.0	2.4	-1.2	1.1	(23.3)
Netherlands .....	2.9	1.8	4.7	1.8	-1.2	0.5	(10.7)
<b>Three neighbouring countries</b> .....	2.8	1.2	4.0	2.5	-1.3	1.1	(65.0)
United Kingdom .....	4.7	-8.4	-4.1	3.9	-1.4	2.4	(11.4)
Italy .....	3.7	-15.9	-12.8	2.9	-5.8	-3.1	(8.2)
<b>Five main European trading partners</b> .....	3.2	-2.1	1.1	2.8	-1.8	0.9	(84.6)
United States .....	3.7	7.6	11.6	3.3	-3.3	-0.1	(10.4)
Japan .....	0.8	23.2	24.1	2.5	4.7	7.3	(5.0)
<b>Seven main trading partners</b> .....	3.2	...	3.1	2.8	-1.6	1.2	(100.0)

Sources : OECD, NBB.

<sup>1</sup> Minus sign : appreciation of the franc.<sup>2</sup> These weightings, based on the IMF model for competitiveness, take account of the relative share of seventeen industrial countries in Belgium's exports and imports and of the weight of each of these countries as a competitor of Belgium on third markets. The seven main partners account for 89 p.c. of the total for the seventeen industrialised countries adopted by the IMF.

ant in view of the importance of the neighbouring countries in Belgium's trade relations, the franc re-established its position in the EMS after its temporary depreciation in relation to the currencies of those countries in 1993, which had made the comparison of labour costs in a common currency look excessively favourable. If this effect of foreign exchange rates is disregarded, the growth in labour costs in Belgium, which had been more pronounced than that of the neighbouring countries in 1993, was of the same order of magnitude in 1994.

### 3.3 INCOMES

#### *Incomes of individuals*

The rate of rise of the disposable income of individuals slowed down for the third year in succession. The increase in this income, which was affected by various

moderation measures, some of which were adopted under the global plan for employment, competitiveness and social security, was only 1.4 p.c. — appreciably below the inflation rate — in 1994. The purchasing power of households, which had been growing steadily since 1986, therefore fell by nearly 1 p.c. during the year under review.

Wages and salaries, the main component of the income of individuals, increased at about the same rate as in 1993, i.e. by 2.9 p.c. as against 2.7 p.c. On the one hand, as already mentioned in the previous chapter, the movement of employment was less unfavourable than in 1993, because the reduction in the number of wage-earners slowed down markedly in the enterprise sector, while in the general government sector the overall fall in employment due to the abolition of military service only affected persons liable for that service, who do not have the status of wage-earners. On the other hand, the

rise in the average compensation of employees was smaller than during the previous year in all sectors as a whole. The last-mentioned movement is due to the introduction, on 1st January 1994, of the health index, which played a part in slowing down the adaptation of wages to inflation. The remaining difference between the percentage changes in the wages and salaries paid by enterprises and those paid by general government is primarily attributable to the other factors leading to increases in compensation. In the civil service, the revision of pay scales undertaken in 1992 was again reflected in fairly large wage increases, whereas in the private sec-

tor the rise in the average compensation of employees continued to be limited by relatively moderate adjustments under collective agreements and, above all, by the lowering of employers' contributions under the global plan. Lastly, civil service pensions, which are regarded in the national accounts as deferred salaries, again increased substantially, owing both to mechanisms of adaptation of these pensions to the movement of civil service salaries and to the steady rise in the number of beneficiaries.

The entrepreneurial income of self-employed persons, which had remained

TABLE 16 — INCOME OF INDIVIDUALS AT CURRENT PRICES<sup>1</sup>

(Percentage changes compared with the previous year)

	1992		1993		1994 e	
	Actual	With unchanged policy <sup>2</sup>	Actual	With unchanged policy <sup>2</sup>	Actual	With unchanged policy <sup>2</sup>
<b>Primary income</b> <sup>3</sup> .....	6.1		3.3		2.4	
Earned incomes .....	5.0		2.3		2.9	
Wages and salaries <sup>4</sup> .....	5.5		2.7		2.9	
Compensation paid by enterprises .....	5.5		1.6		2.3	
Compensation paid by general government .....	5.7		6.2		4.7	
Civil service pensions <sup>5</sup> .....	4.4		9.8		6.4	
Incomes of self-employed persons .....	3.0		0.4		3.2	
Incomes from property .....	9.6		6.6		0.8	
<b>Net current transfers</b> .....	9.6		-0.4		11.4	
of which to general government .....	10.1		-1.1		10.9	
Transfers received .....	5.6	5.9	5.1	6.6	3.2	5.9
Social benefits .....	6.0	6.4	5.2	7.1	2.8	6.2
Other transfers .....	4.1	4.1	4.9	4.9	4.7	4.7
Transfers paid .....	6.7	6.4	3.5	1.4	5.1	3.5
Social contributions <sup>4</sup> .....	6.1	4.7	4.1	1.9	1.3	2.8
Direct taxes .....	7.6	8.4	2.3	...	9.8	4.4
Other transfers .....	5.4	5.4	6.8	6.8	3.2	3.2
<b>Disposable income</b> <sup>3</sup> .....	5.7	6.0	3.8	5.1	1.4	2.9
p.m. At constant prices <sup>6</sup> .....	2.8	3.0	0.8	2.1	-0.9	0.6

Sources : NSI, NBB.

<sup>1</sup> Disregarding any statistical adjustments whereby the three approaches of the national accounts are reconciled.

<sup>2</sup> These figures correspond to the actual percentage changes corrected to exclude the estimated direct effects of government budgetary decisions concerning transfers. When the effect of these is spread over several years, only the additional effects compared with the previous period are estimated.

<sup>3</sup> Including depreciation.

<sup>4</sup> Including employers' social security contributions.

<sup>5</sup> In the national accounts these pensions are regarded as deferred salaries.

<sup>6</sup> Data deflated by means of the deflator of private consumption.

virtually unchanged in 1993, increased to about the same extent as wages and salaries. The income of members of the liberal professions rose slightly faster than in the previous year, while that of traders, which had remained unchanged during the two preceding years, went up again. The most marked turnaround, however, was that in the income of farmers, which, after four years of decline, rose fairly considerably, chiefly thanks to the income support measures adopted within the framework of the reform of the common agricultural policy.

Self-employed persons, like wage-earners, participated in the income moderation effort introduced by the global plan. Compared with the levels fixed in the agreements concluded not later than 15th November 1993, the fees charged by members of the liberal professions were, as a general rule, allowed to increase only to the extent of the rise in consumer prices measured from 1994 onwards by the health index. Other self-employed persons were made subject to the obligation to build up a provision, equal to the real increase in their net professional income after tax, up to a maximum of 1.5 p.c. of the amount of that income in 1993. This provision may be used only for investment, for the recruitment cost and remuneration of additional personnel, for meeting losses connected with the exercise of the profession or for building up reserves for probable losses or costs. The balance not used for these purposes as at 31st December 1997 will be paid to the Participation Fund organised under the law of 28th July 1992 containing fiscal and financial provisions.

The slowing of the growth in income from property, already appreciable in 1993, became more marked. The rise of only 0.8 p.c. in this income was the smallest since the beginning of the 1960s. This downturn is chiefly due to the decrease in interest income received by households, as the interest rates offered on short-term investments were much lower than in 1993. Although, admittedly, the opposite move-

ment was observable on the capital market, where rates rose considerably, increases in long-term rates do not affect the incomes of individuals until they receive payment of the first coupons, which generally takes place with a time-lag of one year. Thus, the interest incomes received in 1994 on long-term securities were affected by the sharp fall in rates which took place in the capital market in 1993. The effects of the decline in short-term rates in 1994, coupled with those of the fall in long-term rates in 1993, more than counterbalanced the positive influence which the trend increase in the portfolio of fixed-interest securities of individuals traditionally exerts on interest incomes.

The fact that incomes from property as a whole nevertheless continued to increase in 1994 is due to the continuance of the growth in the other components of these incomes. Therefore, despite the worsening of enterprises' results in 1993, only small companies, as a whole, reduced their dividend payments in 1994. Most large enterprises, on the other hand, preferred to maintain a certain growth in their shareholders' dividends, even if this entailed drawing on their reserves. Rents also went up, although the increase in this category of incomes was curbed by the global plan. Thus, since the beginning of 1994, the adjustments of rents to the cost of living have been made on the basis of the health index and no longer of the consumer price index.

Altogether, the primary income of individuals increased in 1994 by 2.4 p.c., an appreciably slower rate than those observed since the end of the 1980s.

Net current transfers to general government, which represent the bulk of the transfers made by individuals to other sectors of the economy, rose by 10.9 p.c. in 1994. This increase largely reflects the Government's determination to eliminate the social security deficit via various measures incorporated in the global plan adopted at the end of 1993. The growth



in social benefits received by individuals was slowed down, both by the introduction of the health index and by specific economies in the health-care sector. The effects of these new consolidation measures came on top of the additional effects exerted in 1994 by previously adopted decisions, the result being that the increase in transfers received by individuals amounted to only 3.2 p.c. Had it not been for these measures, these transfers would have risen by 5.9 p.c. Transfers paid by individuals, for their part, increased by 5.1 p.c. in 1994, whereas, with unchanged policy, they would have gone up by only 3.5 p.c. Direct taxes were pushed up by, among other factors, the collection of a crisis contribution on incomes of individuals for a full year and the increase in the withholding tax on income from financial assets with effect from 1st January 1994. On the other hand, the new government measures helped to curb the increase in social security contributions, because the reduction in employers' contributions was greater than the increase in personal contributions.

### ***Income of companies***

Benefiting from a clearly improving state of economic activity, companies achieved an appreciably greater gross operating surplus than in the previous year. This development, which contrasts with the lack of change in 1993, is due to an increase both in the unit profit margin and in the volume of final sales, both of which had stagnated in 1993. While the increase in sales was very marked on foreign markets, it remained much more modest on the domestic market, owing to the decrease in gross fixed capital formation by enterprises and a very limited growth in household expenditure on consumption.

Net income from property paid by enterprises to the other sectors again decreased sharply. The recent movement of interest rates, which, as has been seen above for individuals, led to a fall in the incomes received by creditors, at the same time made it possible to keep down the net financial burdens borne by the debtor sectors, including companies. Furthermore,

**TABLE 17 — INCOME OF COMPANIES AT CURRENT PRICES**

(Percentage changes compared with the previous year)

	1992		1993		1994 e	
	Actual	With unchanged policy <sup>1</sup>	Actual	With unchanged policy <sup>1</sup>	Actual	With unchanged policy <sup>1</sup>
<b>Gross operating surplus of companies</b> .....	3.1		-0.4		7.9	
Gross operating surplus per unit sold .....	0.1		-0.1		3.8	
Final sales at constant prices .....	3.0		-0.3		4.0	
On the domestic market .....	2.1		-2.5		1.5	
Export .....	3.9		1.6		6.2	
Net income from property paid to other sectors .	11.9		-10.8		-15.8	
<b>Primary income</b> <sup>2</sup> .....	-0.1		3.8		16.2	
Net current transfers to other sectors .....	-10.0	-21.4	14.1	-9.4	26.8	22.8
<b>Disposable income</b> <sup>2</sup> .....	2.0	4.3	1.9	6.2	14.0	14.8

Sources : NSI, NBB.

<sup>1</sup> These figures correspond to the actual percentage changes corrected to exclude the estimated direct effects of the Government's budgetary decisions concerning transfers. When the effect of these is spread over several years, only the additional effects compared with the previous period are estimated.

<sup>2</sup> Including depreciation.

the net interest charged by credit institutions, which is deducted from the net interest paid by other companies, was favourably influenced by the recent improvement in the intermediation margin of these institutions, which is commented upon in section 6.3. The modest level of the net property incomes paid by companies as a whole is also attributable to the reduction in their financing requirements in recent years owing to the low level of investment.

Unlike what had happened in the two preceding years, net transfers by companies to other sectors were hardly affected by tax measures. The large increase in tax payments, which represent the bulk of these net transfers, is therefore chiefly attributable to the growth in the profits of enterprises.

On balance, the disposable income of companies rose substantially, by 14 p.c.

## 4. PUBLIC FINANCES

### 4.1 MAIN LINES OF MEDIUM-TERM FISCAL POLICY

As in the preceding years, the fiscal policy pursued in 1994 was framed from a medium-term point of view. In order to comply with the criteria concerning public finances laid down in the Treaty of Maastricht, to eliminate permanently the snowball effect of interest charges on the public debt and to create, in the long run, room for manoeuvre for fiscal policy, and more particularly in order to be able to cope with the gradual ageing of the population, the federal government formulated two aims. Firstly, in accordance with the convergence plan, the deficit of general government must be reduced to 3 p.c. of GDP by 1996. Secondly, beyond 1996, the surplus excluding interest charges must be kept at over 6 p.c. of GDP, the norm which the Government established for itself in its general policy statement of 20th November 1994.

The first version of the convergence plan dates from June 1992. As the international cyclical environment was distinctly less favourable in 1993 than had been assumed in the original forecasts, the inter-

mediate annual targets were revised, as they were in fact in other countries of the European Union. The final target envisaged by the plan was not, however, changed.

In order to assist the implementation of the convergence plan, an agreement was concluded between the federal Government and the Governments of the communities and regions. When the Consultation Committee met on 19th July 1994, all the parties involved in fact undertook to make every effort to achieve the targets relating to the budget deficit which were assigned to them in the plan by 1996.

Furthermore, the federal Government on several occasions took important measures whose repercussions on the public accounts often spread over several years. Calculated on the basis of official estimates and according to the rules of national accounting, their incidence on the movement of the accounts of the federal government and the social security system is expected to be over Fr. 70 billion (or 1 p.c. of GDP) in 1992, nearly Fr. 190 billion (or 2.5 p.c. of GDP) in 1993 and Fr. 140 billion (or 1.8 p.c. of GDP) in 1994. Some of these measures were taken within the framework of the Global plan for employment, compet-

TABLE 18 — UPDATED CONVERGENCE PLAN

(Net financing requirement (–) or capacity, percentages of GDP)

	1993	1994	1995	1996
General government .....	–6.7	–5.7	–4.3	–3.0
Entity I .....	–5.7	–4.7	–3.6	–2.6
Federal government .....	–5.5	–4.5	–3.6	–2.8
Social security system .....	–0.2	–0.2	...	0.2
Entity II .....	–1.0	–1.0	–0.7	–0.4
Communities and regions .....	–0.8	–0.9	–0.7	–0.4
Local authorities .....	–0.2	–0.1	...	...

Source : Superior Finance Council (annual report dated June 1994).

TABLE 19 — SUMMARY OF THE INCIDENCE OF THE MEASURES AFFECTING THE REVENUE AND THE PRIMARY EXPENDITURE<sup>1</sup> OF THE FEDERAL GOVERNMENT AND THE SOCIAL SECURITY SYSTEM<sup>2</sup>

(Billions of francs)

	1992	1993	1994	
				of which global plan
Fiscal and parafiscal revenue				
Personal income tax .....	-1.8	23.1	57.2	17.6
Social contributions .....	14.9	25.5	-18.2	-15.0
Corporation tax .....	16.3	30.2	5.9	3.0
Indirect taxes .....	19.4	21.3	38.8	34.2
Total .....	48.8	100.1	83.7	39.8
Non-fiscal and non-parafiscal revenue .....	8.0	37.4	-2.9	...
Primary expenditure <sup>1</sup> .....	17.5	48.2	55.5	25.5
Total .....	74.3	185.7	136.3	65.3

Sources : Budget documents, NBB.

<sup>1</sup> Expenditure excluding interest charges.

<sup>2</sup> This table only includes, for each year, the expected additional effect of the measures, i.e. excluding the influence already exerted by these in the previous year. The figures also include the measures for alternative financing of the social security system.

itiveness and social security adopted in November 1993.

On the one hand, that plan includes a multi-annual consolidation programme for the social security system. The aim is to restore the financial equilibrium of that sector both by reductions in expenditure and by increases in resources. The latter chiefly take the form of additional withholding tax on incomes from movable and immovable property, that is, on incomes other than earned incomes. On the other hand, the global plan introduced substantial reductions in employers' contributions in order to safeguard competitiveness and promote employment. In view of the budgetary constraints, this reduction was selective and centred on the lowest wages, young job-seekers, the sectors most exposed to international competition and enterprises which organise a better distribution of work. It was compensated for by an equivalent increase in indirect taxes — because these are less detrimental to employment, as they are not directly included in labour costs — providing alternative financing of social security.

## 4.2 REVENUE, EXPENDITURE AND FINANCING REQUIREMENT

### Revenue

Fiscal and parafiscal revenue, which, expressed as a percentage of GDP, had decreased by 3 percentage points between 1985 and the beginning of the 1990s, increased by 1.6 point during the last two years, having risen by 1.1 point of GDP in 1994 alone.

The shifts between the different categories of revenue partly reflect the aims defined in the global plan : on the one hand, to provide alternative financing of social security by reducing social security contributions and increasing indirect taxes, in order to promote employment; on the other hand, to help restore the balance of the social security accounts by means of additional resources taken not from earned incomes but from incomes from movable and immovable property.

After having risen for several years, the levies which mainly affect labour stabilised at about 28.5 p.c. of GDP. Other levies, however, increased from 17.1 to 18.3 p.c.

The levies mainly weighing on labour were influenced downwards by the discretionary reductions of employers' contributions and by the reduction in the share of earned incomes in GDP owing to the contraction in employment and the linking of compensation of employees to the health index. The effect of the aforementioned two factors was neutralised, however, by the positive influence, over a whole year, of the supplementary crisis contribution, i.e. three additional centimes on personal tax, by the continued suspension of a large proportion of the indexation of tax scales which was introduced in 1993 and by the previously introduced changes in the taxation of some products forming part of long-term saving.

While the last-mentioned elements brought about a growth of 0.5 percentage point of GDP in revenue from personal income tax, social contributions declined by 0.6 point of GDP.

Further reductions in employers' contributions, the mechanical negative effect of which on the social security accounts was fully counterbalanced by a rise in indirect taxation, came on top of the selective reductions already granted by the government for certain categories of jobs. The concrete forms assumed by these reductions of para-fiscal burdens have been explained in section 2.2. In a full year, the reductions in employers' contributions as a whole were thus increased from about Fr. 15 billion to nearly Fr. 50 billion, representing a further reduction in the labour costs of enterprises by around Fr. 35 billion, or 1 p.c.

On the contrary, the personal contributions of wage- and salary-earners were increased by the introduction, on 1st April, of a new contribution for the purpose of reducing the social security deficit. This deduction, which is not deductible for tax purposes, is progressive and applies only to households whose income is greater than Fr. 750,000 per year. As a corollary to this measure, the rates of the social security contributions of self-employed persons were raised on the same date, likewise progres-

TABLE 20 — REVENUE OF GENERAL GOVERNMENT

(Percentages of GDP)

	1985	1990	1991	1992	1993	1994 e
1. Levies weighing chiefly on labour .....	29.7	27.2	27.7	28.2	28.5	28.4
Personal income tax <sup>1</sup> .....	13.9	11.8	11.8	12.2	12.2	12.7
Social contributions .....	15.7	15.4	15.9	16.0	16.3	15.7
2. Other levies .....	18.4	17.9	17.4	16.9	17.1	18.3
of which : Withholding tax on income from movable and immovable property .....	2.8	2.4	2.0	1.9	1.6	1.9
Corporation tax .....	2.7	2.6	2.6	2.1	2.3	2.7
Indirect tax .....	12.3	12.2	12.2	12.3	12.4	12.9
3. Total fiscal and para-fiscal revenue .....	48.1	45.1	45.1	45.1	45.6	46.7
of which fiscal revenue .....	32.3	29.7	29.2	29.1	29.4	31.0
4. Other revenue .....	1.8	1.3	1.4	1.3	1.6	1.5
5. Total revenue .....	49.9	46.4	46.4	46.3	47.3	48.2

Sources : NSI, NBB.

<sup>1</sup> Withholding tax on earned income, advance payments, assessments and additional centimes on personal income tax (excluding withholding tax on income from movable and immovable property and the additional centimes relating thereto).

sively according to income. Furthermore, a new deduction, of 1 p.c., was introduced for early-retirement pensions above a certain amount. In addition, from 1995 onwards, a progressive contribution will be levied on all pension incomes.

Breaking with the continuous decline previously recorded and mainly connected with the effect — spread over several years — of the reduction of the rate of the withholding tax on interest income, the taxes paid by individuals in the form of withholding tax on income from movable and immovable property rose by 0.3 point of GDP in 1994. All other things being equal, the raising of the rate of the withholding tax on interest income from 10.3 to 13.39 p.c. on 1st January 1994 ought to have led to an increase of 30 p.c. in the withholding-tax revenue on these incomes. The rise in this revenue was smaller, however, though still large, chiefly because of the fall in interest rates and the restructuring of individuals' portfolios of short-term financial assets. This restructuring favoured savings deposits, income on which is not subject to the withholding tax, while investments in the form of time deposits, which are subject to that tax, contracted.

As most large enterprises increased their dividends, there was a rise in revenue from the withholding tax on these incomes. Furthermore, in order to encourage investment in equity capital, the rate of the withholding tax on dividends was reduced in some cases, from 25.75 to 13.39 p.c., for new shares issued from 1st January 1994 onwards, and from 20.6 to 13.39 p.c. for shares giving entitlement to tax reliefs, under certain conditions, including waiving of the exemption of the dividends from corporation tax.

The withholding tax on income from immovable property paid by individuals was pushed up by the catching up of the delays in assessment which had accumulated in 1993. Moreover, the effect of various measures adopted under the global plan, which add to the immovable-property tax burden

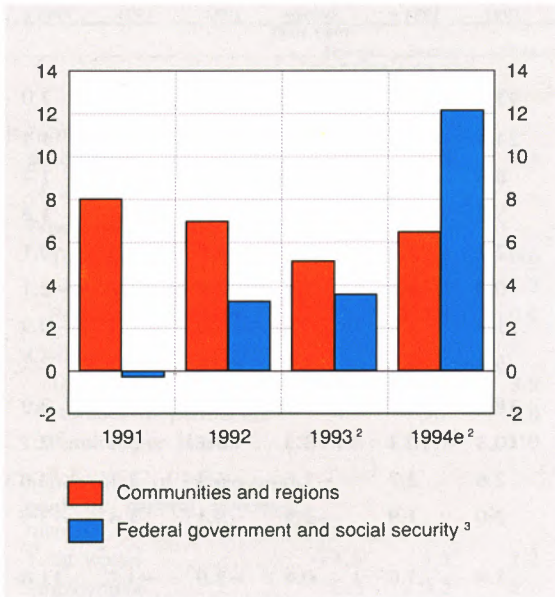
of individuals, did not yet make itself felt in 1994, but it will occur at the time of the assessments. These measures include the flat-rate increase of 25 p.c. in the land-register income from second homes and from dwellings rented to persons using them for private purposes and also the abolition of the imputation of the withholding tax on income from immovable property against personal income tax, except in respect of the main dwelling.

Corporation tax, which had fallen to the particularly low level of 2.1 p.c. of GDP in 1992, had recovered somewhat in 1993 as a result of discretionary measures. In 1994 it rose by 0.4 point of GDP, to 2.7 p.c. This increase is not attributable to further changes in taxes on companies but is chiefly due to the improvement in economic activity, which was reflected in a faster increase in the profits of enterprises than in GDP. The extent of the increase in corporation tax appears to have been greater than during the previous years of recovery, when the taxes on enterprises grew less than their profits. Since then, however, the link between the two has become closer again because the government has adopted an extensive series of measures designed to limit fiscal expenditure and exemption systems; it has also introduced a provision against abuses of the law, designed to combat legal constructions whose purpose is to evade tax. Furthermore, it has recruited additional staff in order to improve the collection of revenue and optimise supervision.

Despite the decrease in the share of private consumption in GDP, indirect taxes rose by 0.5 point of GDP. This increase in indirect taxation took place mainly within the context of the alternative financing of social security. The measures, the revenue from which has been estimated at about Fr. 32 billion, include an increase in the standard rate of VAT, which was raised on 1st January 1994 from 19.5 to 20.5 p.c., and a raising of the excise duty on fuels and cigarettes. Furthermore, indirect taxes were also swollen by, among other factors, the additional effect of the energy contri-

CHART 21 — TAX REVENUE OF THE MAIN SUB-SECTORS<sup>1</sup>

(Percentage changes compared with the previous year)



Sources : NSI, NBB.

<sup>1</sup> Plus the proceeds of the radio and television fee but excluding other non-fiscal revenue.<sup>2</sup> From 1993 onwards the figures are corrected in order to make them comparable with the data for the preceding years. These corrections relate to the additional resources of the communities and regions, which are connected with the new responsibilities or which compensate for the fact that the end-of-year bonuses paid by these entities are henceforth subject to fiscal and para-fiscal levies.<sup>3</sup> Federal resources and revenue collected on behalf of the EU and the social security system.

bution introduced on 1st August 1993 in order to finance the Maribel operation and the plan for the recruitment of young unemployed persons.

Overall, tax revenue, that is, all levies excluding social security contributions, rose by 1.6 percentage point of GDP. As in the preceding years, however, their rate of increase differed greatly between the various sub-sectors of general government.

As the movement of the fiscal resources of the communities and regions is largely determined by the finance acts, the effects of the business cycle and the discretionary policy made themselves felt at the level of the federal government and the social security system; therefore, unlike in the preceding years, the resources of the latter in-

creased by 12.2 p.c., an appreciably greater rise than that of 6.5 p.c. in the resources of the communities and regions.

Lastly, revenue other than fiscal and para-fiscal revenue declined in 1994. This was because the additional resources obtained by the Treasury as a result of the sale of the interest of GSPF-Holding in the capital of the NIC and of the payment, by the National Lottery, of an exclusive concession fee for a long period, were less than those acquired the previous year from the partial privatisation of the GSPF.

### ***Expenditure excluding interest charges***

Primary expenditure, i.e. expenditure excluding interest charges, which, at the beginning of the 1980s, amounted to over 50 p.c. of GDP, had reached a low of 41 p.c. in 1990. Its relative share had subsequently increased in 1991, and again in 1993, owing to the decline in GDP in terms of volume. During the year under review, this share stabilised at 43.3 p.c.

Deflated by the consumer price index, primary expenditure increased in 1994 by 2 p.c., a slightly lower rate than the growth of GDP in volume.

Its increase was thus close to the average recorded during the period 1989-1993. However, the rate of increase of social expenditure, which had been relatively high in the past, slowed down, whereas that of other expenditure speeded up. On the one hand, the growth in expenditure on health care was small in 1994, as in 1993, and the share of social expenditure affected by the application of the health index was greater than that of other categories of primary expenditure. On the other hand, the growth in the latter was stimulated by, among other factors, that of net purchases of goods and services and of gross fixed capital formation, the levels of which had previously fallen very sharply owing to the consolidation measures.

TABLE 21 — PRIMARY EXPENDITURE<sup>1</sup> OF GENERAL GOVERNMENT

	Percentages of GDP				Percentage changes at constant prices <sup>2</sup>			
	1985	1992	1993	1994 e	Average 1989-1993	1992	1993	1994 e
Total primary expenditure .....	48.0	42.3	43.3	43.3	2.2	2.2	2.3	2.0
Social benefits .....	24.7	23.8	24.4	24.2	3.1	3.0	2.5	1.3
Pensions .....	8.7	8.4	8.6	8.5	2.8	3.1	2.4	1.4
Health care .....	4.5	5.4	5.5	5.4	5.1	7.4	1.4	1.8
Unemployment benefits .....	2.6	2.2	2.3	2.3	3.2	4.0	6.9	0.1
Early retirement and career interruptions	0.9	0.8	0.8	0.8	1.1	2.8	-4.7	-2.1
Family allowances .....	2.3	1.9	1.9	1.8	0.5	...	2.5	-0.9
Other <sup>3</sup> .....	5.7	5.2	5.4	5.4	3.0	-0.6	3.0	2.7
Other primary expenditure .....	23.2	18.5	18.9	19.1	1.1	1.1	2.0	2.9
Compensation of employees .....	11.4	9.9	10.3	10.3	3.3	3.2	3.4	2.2
Net purchases of goods and services ...	3.6	2.6	2.6	2.7	-1.6	-5.4	2.1	3.9
Subsidies to enterprises .....	3.1	2.0	2.0	1.9	-2.9	-5.1	1.4	-3.9
Net current transfers to the rest of the world .....	1.4	1.5	1.4	1.6	0.1	-3.9	-3.7	11.8
Gross fixed capital formation .....	2.2	1.5	1.5	1.6	-0.6	4.2	0.9	6.6
Capital transfers .....	1.4	1.1	1.1	1.1	3.1	14.9	-0.1	3.1
p.m. GDP .....					1.8	1.9	-1.7	2.3

Sources : NSI, NBB.

<sup>1</sup> Expenditure excluding interest charges.<sup>2</sup> The data, except for GDP, are deflated here with the index of consumer prices, and there may therefore be certain divergences from the data used in the chapter Expenditure, production and employment.<sup>3</sup> Mainly sickness and disability insurance benefits, payments relating to occupational diseases, industrial accidents, guaranteed income and subsistence allowances, as well as transfers to individuals (excluding pensions) to be made by central government and local authorities.

Pensions, which are the most important category of social expenditure and represent nearly 9 p.c. of GDP, had risen by 2.8 p.c. on average at constant prices during the period 1989-1993. Chiefly owing to the application of the health index, their growth in 1994 was kept down to 1.4 p.c. As during the preceding years, general government pensions — representing a quarter of total pensions — increased appreciably faster than those of the private sector. This divergent movement is largely due to the fact that the growth in the number of general government pensioners, which has averaged around 3 p.c. per annum in recent years, was faster than that of less than 1.5 p.c. in the private sector. Furthermore, the average pension of general government increased

faster than that of the private sector. The latter actually decreased in 1994.

The movement of the average pension is partly due to shifts between the various categories of beneficiaries, because their allocation varies depending on, particularly, age, the composition of the household or the duration of the occupational career. Despite the incidence of these structural changes it is, however, still possible to discern, in the movement of the average pension, that of more fundamental determinants. In the mid-1980s the typical pension had in fact been influenced downwards by the three index jumps; at the beginning of the 1990s, on the other hand, it benefited from the real increases awarded at the end



**TABLE 22 — WAGES AND PENSIONS PAYABLE BY GENERAL GOVERNMENT***(Percentage changes compared with the previous year at constant prices<sup>1</sup>)*

	Average 1982-1988	Average 1989-1993	1994 e
Pensions payable by general government .....	1.0	2.8	1.4
of which :			
Private-sector pensions <sup>2</sup> :			
Total pensions .....	0.9	2.5	0.6
Number of pensioners .	0.8	1.3	1.3
Pension per person ...	...	1.1	-0.6
Civil service pensions <sup>3</sup> :			
Total pensions .....	3.0	5.2	3.9
Number of pensioners .	4.7	3.2	2.8
Pension per person ...	-1.6	1.9	1.0
Compensation of employees paid by general government :			
Total wages .....	-1.5	3.3	2.2
Employment .....	0.3	-0.2	0.1
Wage per person .....	-1.8	3.4	2.1

Sources : NSI, pensions budget, NPO, NBB.

<sup>1</sup> Data deflated by the index of consumer prices.<sup>2</sup> System of compulsory social security.<sup>3</sup> Retirement pensions payable by the pensions budget of the federal government.

of 1990 and 1991 in the private sector and from the incidence, via the equalisation mechanism, of the general revision of civil service scales.

Expenditure on health care had increased substantially at the beginning of the 1990s, chiefly owing to certain specific factors such as the catching up of compensation of employees for nursing staff and the incorporation of the health care fund of the BNRC in the social security accounts. The rise had also been made greater by other, more structural factors such as the gradual ageing of the population, technical progress in the medical field, but also by certain abuses in the consumption of medicaments and health care. In the absence of specific cost-increasing factors and thanks to the measures for keeping a check on expenditure, the rise in expenditure already slowed

down very markedly in 1993, thus falling into line again with the trend of the early 1980s. In 1994, expenditure on health care appears to have increased by 1.8 p.c.

The total number of persons receiving unemployment benefit fell, but its composition changed : the share of wholly unemployed persons receiving benefit, whose average benefit is higher, increased, whereas that of partly unemployed persons decreased. The resultant growth in benefits was, however, offset by the incidence of the application of the health index, so that total unemployment benefits stabilised in real terms.

The application of the health index also helped to reduce expenditure in early retirement and career interruptions, which had already fallen sharply in 1993 thanks to the decrease in the number of persons registered under these two schemes.

Compensation, which represents nearly a quarter of the total of expenditure excluding interest charges, had decreased at constant prices during the period 1982-1988, subsequently rising appreciably from 1989 onwards. This significant change took place despite the movement of employment, which had increased somewhat during the first period and had subsequently declined slightly. It is therefore attributable solely to the movement of the real wage per person. This in fact declined, on average, during a large proportion of the 1980s, as a result of the consolidation measures, before growing considerably following the social programming agreements, which include the general revision of scales. In 1994 the incidence of the raising of civil service wages, which was not as great as in 1993, was partly counterbalanced by the application of the health index.

Subsidies to enterprises contracted, mainly owing to the freezing, in nominal terms, of the subsidies granted to public enterprises by the federal government and to the rearrangement of the timing for the payment of these subsidies.

TABLE 23 — PRIMARY EXPENDITURE<sup>1</sup> OF GENERAL GOVERNMENT BY SUB-SECTOR(Percentage changes compared with the previous year at constant prices<sup>2</sup>)

	1991 <sup>3</sup>	1992	1993	1994 <sup>e</sup>
Federal government .....	-1.4	0.8	-1.7	1.1
Communities and regions <sup>4</sup> .....	8.2	3.1	3.7	3.0
Social security .....	5.0	3.5	2.7	0.5
Local authorities .....	3.0	2.5	6.1	3.0

Sources : NSI, NBB.

<sup>1</sup> Expenditure (including transfers from one sub-sector to another) excluding interest charges.<sup>2</sup> Data deflated by the index of consumer prices.<sup>3</sup> The incidence of the incorporation of the Belgian National Railway Company's health care fund in the social security accounts has been eliminated.<sup>4</sup> Unlike in the national accounts approach, the revenue from the sale of school buildings in 1993 and 1994 was not deducted from investment expenditure for calculating the movements presented in this table. These are therefore closer to the budgetary approach.

Net current transfers to the rest of the world, the movement of which varies fairly considerably, increased sharply in 1994, after two successive years of decline. This large increase is attributable to the rise in transfers to the EU, mainly in respect of the fourth resource and of VAT revenue.

In 1993 and 1994 the movement of gross fixed capital formation was influenced by the sale of school buildings to public companies, the proceeds of which are deducted from the amount of investment in the national accounts. If the effect of this sale, started in 1993 and continued in 1994 for a slightly smaller amount, is disregarded, the growth in investment expressed at constant prices came to around 12 p.c. in 1993 and about 4 p.c. in 1994. The large increase in 1993 had been due to a very marked speeding up of investment by local authorities, as was the case in 1987, which was likewise a year preceding municipal elections. Investment by local authorities, which had thus reached a high level, increased further in 1994.

A very marked divergence was observed, from 1991 to 1993, between, on the one hand, the federal government's expenditure excluding interest charges, which displayed a slight downward trend and, on the other hand, that of the other public

authorities, i.e. communities and regions, social security and local authorities, which rose. In 1994 the divergence between some growth rates was reversed : the primary expenditure of the federal government increased a little faster than that of the social security system, which slowed down appreciably, largely owing to the application of the health index. The expenditure of the communities and regions and the local authorities continued to rise strongly.

### **Interest charges**

The interest charges of general government declined from 10.5 p.c. of GDP in 1993 to 10.3 p.c. in 1994.

This slight decrease is due to the fall in interest rates. Thus, the average rate on three-month Treasury certificates in francs fell by nearly 2 p.c. in 1994 and the average interest rate on the short-term debt in foreign currencies declined by 1.2 p.c. The average interest rate on the consolidated debt in francs at the end of 1993, which determines the interest payments for the year 1994, amounted to 8.6 p.c., or about 0.5 p.c. less than a year earlier. This significant decrease is due to a fall in market interest rates in 1993, the effects of which

were accentuated by active debt management : in 1993 a large amount of bonds — Fr. 1,200 billion's worth — with an average interest rate of 9.3 p.c. was replaced by new securities remunerated at the average rate of only 7.5 p.c.

In the first half of 1994, while market rates were still relatively low, an even larger amount of securities with high nominal interest rates was replaced by new bonds bearing interest at considerably lower rates. Consequently, the average interest rate on the long-term debt in francs at the end of 1994 showed a further substantial decrease compared with the previous year. All other things remaining equal, the reduction in this average rate will lead to lower interest payments in 1995.

Despite the beneficial effects of the fall in interest rates, the reduction in interest charges as a percentage of GDP remained very modest, owing to the action of two other factors. On the one hand, the Trea-

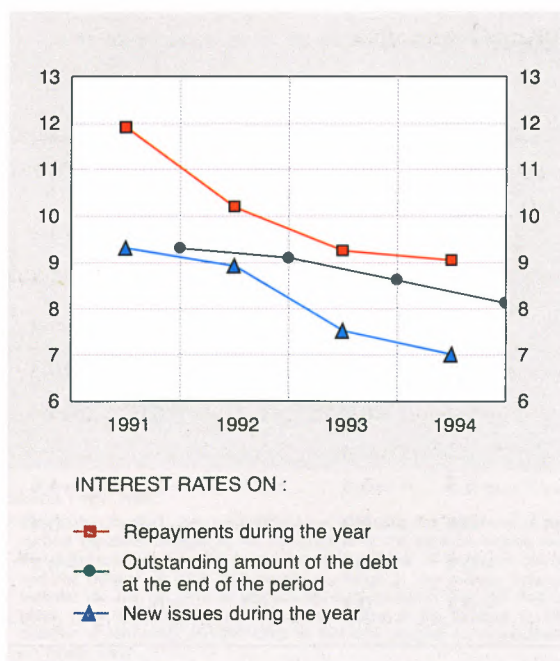
sury's financing structure changed appreciably during the past year, shifting more particularly from the long to the short term, which caused interest payments to fall due earlier. On the other hand, the balance of issue premiums, shown by convention in the accounts as interest charges in the year when the issue takes place, also had the effect of increasing interest charges, whereas it had substantially reduced them in 1993. Because of the technique of issuing linear bonds in different tranches and the fluctuations in long-term interest rates — downwards in 1993 and sharply upwards from the spring of 1994 onwards — the balance of issue premiums deteriorated to the extent of Fr. 34 billion, from a positive balance of Fr. 26 billion in 1993 to a negative balance of Fr. 8 billion in 1994.

Altogether, the decrease in interest charges would have been appreciably greater in 1994 if they had been measured not on the basis of the payments made — the method traditionally employed for compiling the public accounts — but on the basis of transactions, i.e. of the amounts due, calculated pro rata temporis. Viewed from this angle, the greater extent of short-term financing and the reversal of the balance of issue premiums would not have increased the charges.

The substantial improvement in the primary surplus, the speeding up of the growth of GDP and the slight decline in the implicit interest rate had the effect of curbing the snowball effect of interest charges and reducing the public debt, as a percentage of GDP, after its pronounced increase in 1993.

The achievement of the aims of the convergence plan will bring about a larger reduction in the debt during the coming years. This reduction can be estimated at 5 p.c. of GDP between 1994 and 1996. On the basis of cautious assumptions, the maintenance of a primary surplus of over 6 p.c. of GDP after 1996 will lead to a considerable reverse snowball effect, thanks to which interest charges, the deficit and the public debt will automatically decrease.

CHART 22 — AVERAGE INTEREST RATE ON THE TREASURY'S CONSOLIDATED DEBT IN FRANCS



Sources : Ministry of Finance, NBB.

### Net financing requirement

Expressed as a percentage of GDP, the net financing requirement, which had remained virtually unchanged since 1991, at around 6.6 p.c. of GDP, decreased by 1.2 percentage point to 5.4 p.c. The 1994 deficit is therefore better than the target of 5.7 p.c. set in the updated convergence plan. The marked decrease was due partly to a reduction in interest charges but chiefly to a rise of 1 percentage point in the primary surplus.

An examination of the balances corrected to exclude the incidence of more temporary factors, such as the business cycle, shows that the state of the public finances improved structurally thanks to the fiscal policy pursued both in 1993 and in 1994. This improvement was not reflected in an increase in the primary surplus in 1993, owing to the poor state of business activity. In 1994, however, the latter was relatively neutral for the public finances, so that the effects of the consolidation policy pursued by the Government became clearly apparent.

As in the previous year, the restrictive budgetary policy gave rise to an increase in revenue and enabled the influence of the spontaneous growth in expenditure to be almost counterbalanced.

The reduction in the net financing requirement of general government was mainly due to an improvement in the net positions of the federal government and the social security system.

Furthermore, the balances of the various sub-sectors generally remained below the targets set by the Superior Finance Council.

With regard to social security, the rate of increase of contributions was higher at the end of the 1980s than that of current transfers to individuals, chiefly thanks to a favourable cyclical environment. The social security system had thus succeeded in maintaining a surplus even when the federal government was reducing its transfers to it. Owing to a less stringent control of expenditure at the beginning of the decade and the cyclical reversal, which was particularly

TABLE 24 — NET FINANCING REQUIREMENT OF GENERAL GOVERNMENT

(Percentages of GDP)

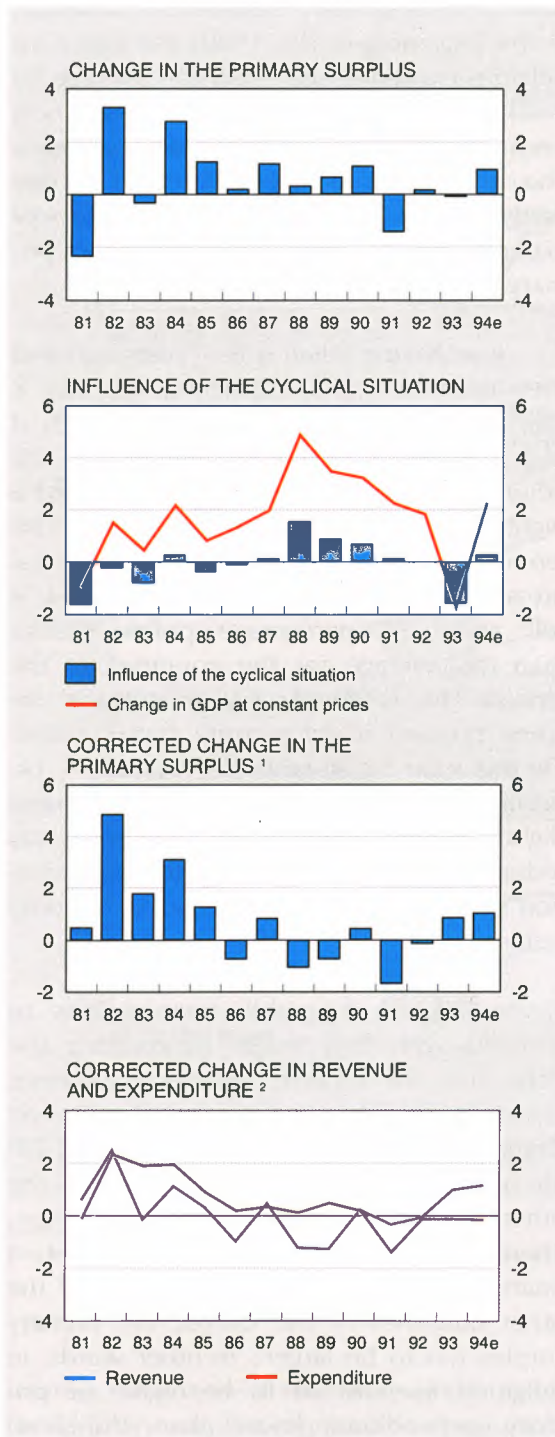
	1990	1991	1992	1993	1994 <sup>1</sup> e
1. Revenue .....	46.4	46.4	46.3	47.3	48.2
2. Expenditure excluding interest charges .....	41.1	42.6	42.3	43.3	43.3
3. Primary surplus (= 1 - 2) .....	5.3	3.8	4.0	3.9	4.9
4. Interest charges .....	10.7	10.3	10.7	10.5	10.3
5. Net financing requirement (= 3 - 4) .....	-5.4	-6.5	-6.7	-6.6	-5.4
(target of the convergence plan)					(-5.7)
Federal government .....	-5.5	-5.5	-5.9	-5.3	-4.6
Social security .....	0.5	-0.3	-0.2	-0.5	-0.1
Communities and regions .....	-0.4	-0.7	-0.7	-0.6	-0.7
Local authorities .....	-0.1	0.1	0.1	-0.2	...

Sources : NSI, NBB.

<sup>1</sup> Not including the prefinancing of the privatisation measures.

CHART 23 — ACTUAL AND CORRECTED CHANGES IN THE PRIMARY BALANCE

(Percentages of GDP)

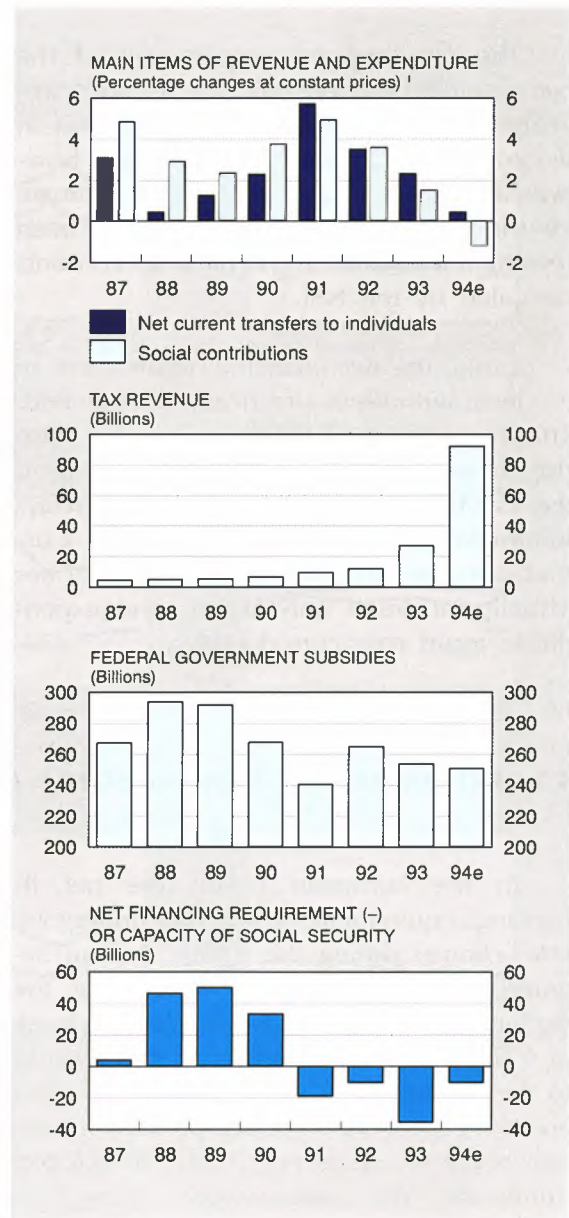


Sources : NSI, NBB.

<sup>1</sup> This is the change in the primary balance, excluding the influences of the cyclical situation, changes in the composition of the national income and the difference between the movement of the index of consumer prices and the deflator of GDP. The corrected change in the primary balance includes the net influence of the discretionary measures, but also that of other, more structural factors such as the effect of the increase in the number of pensioners and the effect of technical progress on expenditure on health care.

<sup>2</sup> A positive figure corresponds to an increase in revenue or a decrease in expenditure.

CHART 24 — NET FINANCING REQUIREMENT (-) OR CAPACITY OF SOCIAL SECURITY



Sources : NSI, NBB.

<sup>1</sup> Data deflated by the consumer price index.

marked in 1993, this surplus had changed as far back as 1991 into a deficit, which reached its maximum in 1993. During the year under review, the selective aids to promote employment led to a decrease, in real terms, in social contributions, the effect of which was, however, counterbalanced by additional tax revenue, within the framework of the alternative financing introduced

by the global plan. All in all, the social security deficit was largely eliminated in 1994.

The net financing requirement of the communities and regions, for its part, appears to have been below the target set in the convergence plan. This target had, however, been set on the basis of an estimate for the 1993 deficit which has since been revised downwards in the national accounts compiled by the NSI.

Lastly, the net financing requirement of the local authorities practically disappeared. This improvement is chiefly due to the sharp rise in revenue from direct taxes owing to the catching up of the assessment delays accumulated during the previous year. Current transfers from other public authorities actually increased only slightly and expenditure again rose considerably.

#### 4.3 INTERNATIONAL COMPARISON

In the European Union the net financing requirement, which had undergone little change during the 1980s, having averaged 4.1 p.c. of GDP, increased at the beginning of the decade, reaching a peak of 6 p.c. in the recession year 1993. Thanks to the improvement in the cyclical situation and the consolidation policy pursued in several countries, it declined again to 5.6 p.c. during the year under review.

In Belgium the trend was different. After having amounted to over 10 p.c. at the beginning of the 1980s, the deficit decreased almost uninterruptedly, reaching 5.4 p.c. in 1990. It then rose to 6.5 p.c. in 1991, owing to the relaxation of budgetary discipline, and remained at this level until the recession year 1993. In 1994, on the other hand, the reduction started again and the deficit contracted to a greater extent than in the European Union, reaching 5.4 p.c. of GDP, a level 0.2 percentage point below the Community average.

The gradual disappearance of the differential between the financing requirement in Belgium and in the Union is due to the movement of primary expenditure. Whereas at the beginning of the 1980s the figure for Belgium exceeded the European average by nearly 10 percentage points, it has now been at the same level for several years. The elimination of the differential is due partly to the relative movement of social expenditure, but chiefly to that of other primary expenditure.

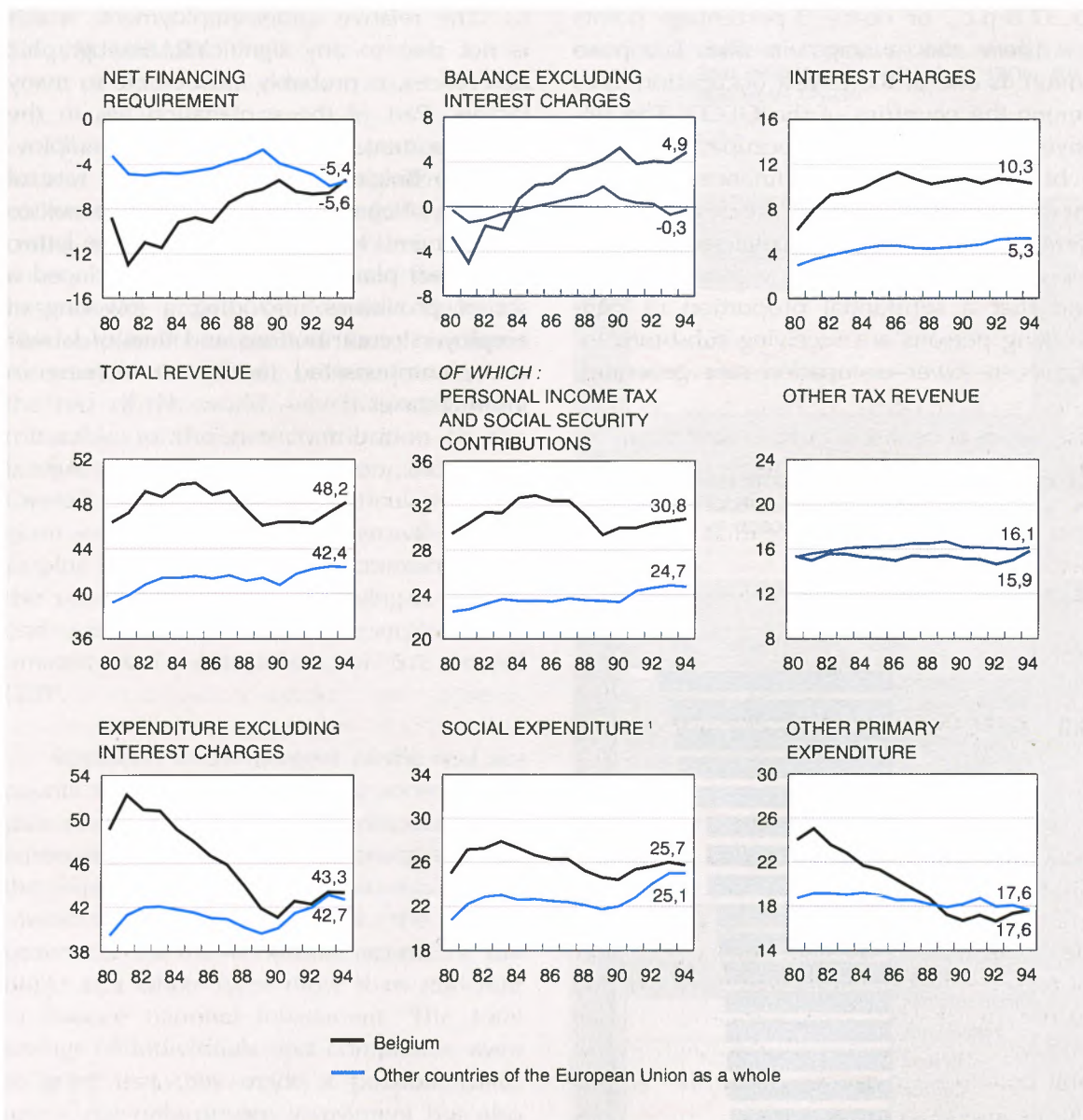
After having fallen a few years ago and then risen in 1993 and 1994, revenue is still, in Belgium, below the level which it had reached ten years ago, whereas in the other European countries it has displayed a slight upward trend. Despite this minor difference in movement, fiscal and parafiscal pressure in Belgium for the year 1994 is still about 5.9 percentage points greater than the average for the countries of the Union. This is due to higher personal income tax and social security contributions. On the other hand, other tax revenue — especially from indirect taxes — remains slightly lower, although the difference was reduced in 1994 because of the reorientation of the financing of the social security system.

In Belgium the public finances have to contend with two major handicaps: the debt and the relative under-employment. Owing to the size of the debt, interest charges expressed as a percentage of GDP are nearly twice as high as those of the other countries of the European Union. Therefore, in order to achieve, in 1994, a financing requirement similar to that of the other countries of the Union, the primary surplus has to be larger; in other words, in Belgium revenue has to be higher or primary expenditure lower than the level abroad.

Furthermore, the conditions which have to be fulfilled in order to keep the debt under control are more demanding. For the debt to be stabilised as a percentage of GDP in the present context of growth, of

CHART 25 — PUBLIC FINANCES : BELGIUM AND THE OTHER COUNTRIES OF THE EUROPEAN UNION

(Percentages of GDP)



Sources : NSI, EC, NBB.

<sup>1</sup> For methodological reasons connected with the international comparison, the concept of social expenditure used here differs slightly from that in Table 21.

interest rates and of the level of the debt, the primary surplus required in Belgium is about 2 percentage points higher than that required on average in the Union.

Despite these additional constraints, the debt, in Belgium, decreased slightly in 1994. That was not the case in the other countries of the Union as a whole, where

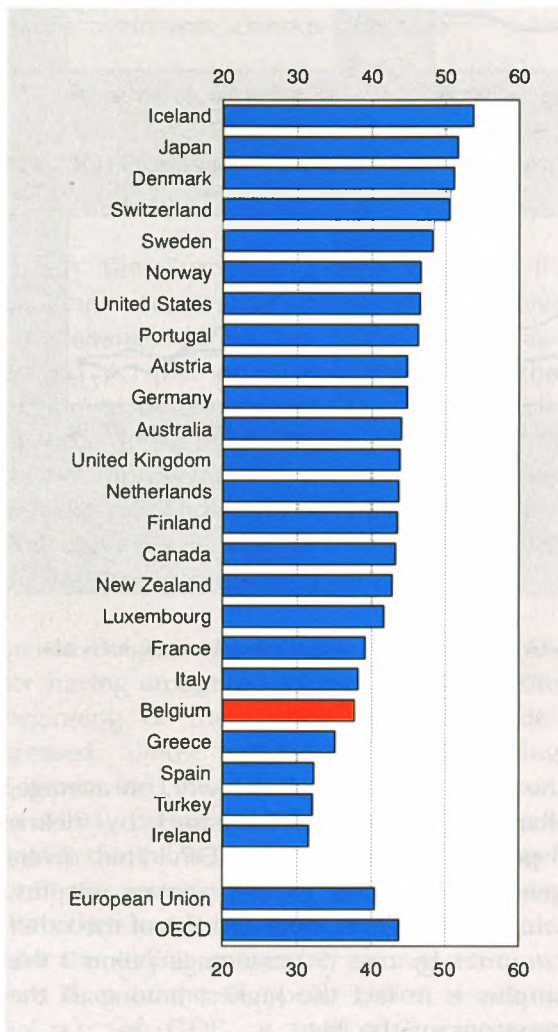
the debt — considerably lower, on average, than in Belgium — increased by nearly 3 percentage points of GDP. This divergence is reflected in the primary surplus, which, in Belgium, exceeds that of the other countries by over 5 percentage points : this surplus is in fact the highest among all the countries of the EU.

On the other hand, the ratio between the number of working persons and the total population, which amounts in Belgium to 37.8 p.c., or nearly 3 percentage points less than the average in the European Union, is one of the lowest occupation rates among the countries of the OECD. The relatively low level of this occupation rate is a burden on the public finances because, in view of the fact that the levies in the form of direct taxes and social security contributions fall chiefly on working persons and that a substantial proportion of non-working persons are receiving substitute incomes, a lower occupation rate generates,

all other things being equal, less revenue and more expenditure.

The relative under-employment, which is not due to any significant demographic differences, is probably attributable to many factors. Part of the explanation lies in the less important position of part-time employment in Belgium and in the higher rate of taxation of earned incomes, which penalises employment. In order to stimulate the latter, the global plan has, however, introduced a set of provisions, including a lowering of employers' contributions and thus of labour costs, compensated for by an increase in indirect taxes.

CHART 26 — NUMBER OF WORKING PERSONS AS A PERCENTAGE OF THE POPULATION IN THE COUNTRIES OF THE OECD IN 1992



Source : OECD.



## 5. BALANCE OF PAYMENTS OF THE BLEU AND EXCHANGE RATES

### 5.1 SUMMARY

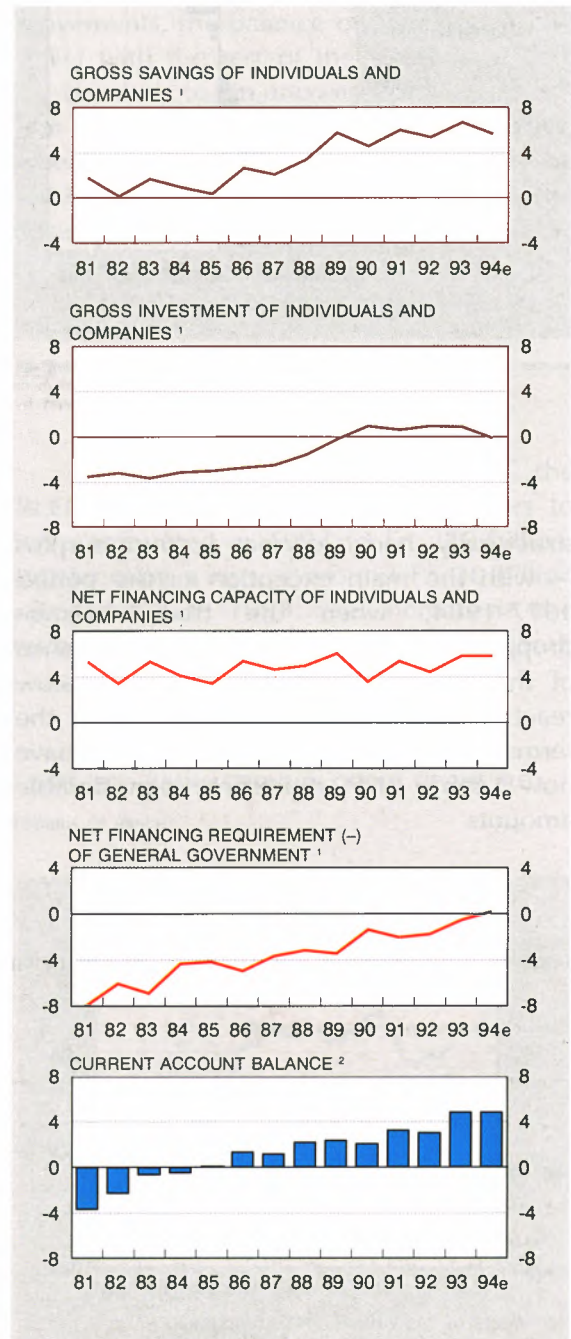
The BLEU's surplus in respect of transactions in goods and services with foreign countries expanded further in 1994, chiefly owing to the combined effect of the recovery of the export markets and the weakness of the growth in domestic demand. The surplus in respect of factor incomes rose, while the deficit on net transfers to the rest of the world, which is mainly attributable to the net contribution to the budget of the European Union, increased. Overall, the BLEU — particularly Belgium — recorded a further growth in the surplus in respect of current transactions in the year under review, following a considerable increase in 1993 : the surplus is estimated at Fr. 410 billion, or 5.1 p.c. of GDP.

Replaced in the context of the real accounts as a whole, this current account surplus means that the national disposable income of Belgium and Luxembourg exceeds the expenditure of the two countries' domestic sectors. In other words, the savings generated by the economic agents of the BLEU as a whole were more than sufficient to finance national investment. The total savings of individuals and companies were so great that they made it possible to finance not only private investment but also the public deficit and, in addition, to make resources available to the rest of the world to the extent of the current account surplus. This savings surplus does not appear to be attributable to the weakness of investment, because the investment ratio of individuals and companies is still, despite the decline recorded during the year under review, in line with the European average.

The net claims on foreign countries which have thus been generated year after year have accumulated to form the BLEU's external assets. As the BLEU has, almost

CHART 27 — CURRENT ACCOUNT BALANCE, SAVINGS AND INVESTMENT : DIFFERENCE FROM THE EUROPEAN UNION

(Percentages of GDP)



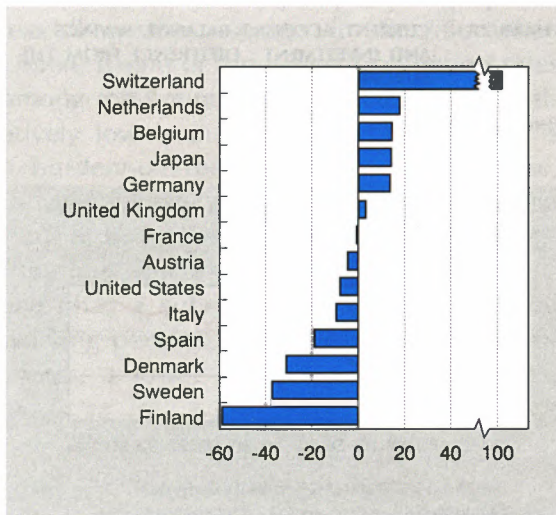
Sources : OECD, EC, NBB.

<sup>1</sup> Difference between Belgium and the European Union (without Belgium and excluding Portugal, Greece and Luxembourg, for which not all the data are available).

<sup>2</sup> Difference between the BLEU and the European Union (without Belgium and Luxembourg and excluding Portugal and Greece).

CHART 28 — INTERNATIONAL INVESTMENT POSITION AT THE END OF 1993

(Percentages of GDP)



Sources : National sources. For the Netherlands, Austria and Sweden the latest available data, which relate to the international investment position at the end of 1992, were approximately updated by adding to them the 1993 current account surplus.

structurally, had a current account surplus — with the main exception of the period 1977-1984, when the trade balance dropped into the red under the influence of the oil crises and the economy's slow reaction to the resultant worsening of the terms of trade — these foreign assets have now come to represent considerable amounts.

This has also been found to be true for Belgium alone, whose net foreign assets are estimated to have been nearly 15 p.c. of GDP at the end of 1993. The most recent international data relating to that year show that these assets are of the same order of magnitude as those of the other traditionally creditor countries, such as Germany, the Netherlands and Japan. Belgium therefore differs from the other European countries, whose claims and debts more or less offset each other or which have a net indebtedness to foreign countries, and from the United States. At the end of 1994, Belgium's net foreign assets appear to have risen to nearly 20 p.c. of GDP; on the basis of the development of the current account balance of the various countries, it thus appears to have maintained its relative position.

As the domestic sectors' reciprocal liabilities and assets cancel each other out, the international investment position is also equal to the balance between their total financial claims on and their total debts to Belgium and foreign countries.

While general government's gross debt, expressed as a percentage of GDP, reached 136 p.c. at the end of 1994, general government's financial claims on the other sectors represented 8 p.c. of GDP, thus re-

TABLE 25 — TOTAL ASSETS AND LIABILITIES OF THE DOMESTIC SECTORS AND BELGIUM'S INTERNATIONAL INVESTMENT POSITION

(End-of-year data, percentages of GDP)

	1981	1985	1990	1991	1992	1993 e	1994 e
Net liabilities of general government :							
Liabilities <sup>1</sup> .....	93	123	128	130	131	137	136
Assets .....	9	10	9	10	9	9	8
Net liabilities .....	84	113	119	120	122	128	128
Net assets of individuals and companies <sup>2</sup> .....	99	113	126	130	134	143	148
Belgium's international investment position .....	15	...	7	10	12	15	20

Source : NBB.

<sup>1</sup> Consolidated gross debt.

<sup>2</sup> Including the statistical adjustment.

ducing this sector's net indebtedness to 128 p.c.; the net assets of individuals and companies, for their part, amounted to about 148 p.c. Although the debt ratio of general government has increased since 1985, there has been no need to resort to the savings of the rest of the world in order to finance this growth, because the financial assets of national economic agents have increased even more.

This does not alter the fact that part of the public debt was placed abroad or denominated in foreign currencies; this development must be viewed in the context of free movement of capital and growing integration of the financial markets, where both general government, as the debtor, and foreign investors willing to hold part of their portfolio in the form of Belgian public securities assess current market conditions.

Thus, while the current account balance — irrespective of valuation differences — determines the extent of net formation of external assets, the capital account of the balance of payments, for its part, shows how this net movement is distributed among the various components of the external claims and liabilities of the domestic sectors and what portfolio reallocations have taken place in respect of existing foreign assets and liabilities.

In 1994 these capital transactions were influenced by the return of calm in the EMS, after the foreign exchange crisis of 1993, and by the Bank's monetary policy, aimed first at bringing the exchange rate for the franc against the mark back to its pre-crisis position and then at gradually narrowing the interest rate differential in relation to Germany. Capital transactions were furthermore affected by the repercussions of the largely unexpected movements of long-term interest rates on the international markets and of the exchange rate for the dollar. Consequently, the structure of the balance of payments changed compared with the preceding years. Portfolio investment resulted, on balance, in an ap-

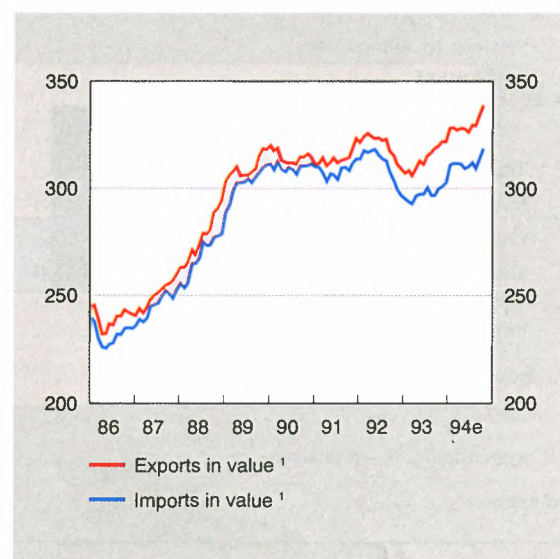
preciable deficit, in marked contrast to the surpluses recorded from 1990 to 1992 and the slight deficit in 1993. On the other hand, the short-term capital transactions of the private sector led to net inflows, whereas during the preceding years they had resulted in large deficits. Account being taken of the surplus in respect of direct investment and of the deficit left by other capital movements, the balance of payments of the BLEU with the rest of the world gave rise, on balance, to an increase of Fr. 153 billion in the net foreign exchange reserves, whereas these had decreased by Fr. 214 billion in 1993 as a result of the crisis in the foreign exchange markets.

## 5.2 CURRENT TRANSACTIONS

The current account surplus of the BLEU, on a transactions basis, appears to have amounted in 1994 to Fr. 410 billion, representing a rise of around Fr. 20 billion compared with 1993. The increase in the surplus in respect of transactions in goods

CHART 29 — TRANSACTIONS IN GOODS OF THE BLEU

(Billions of francs)



Source : NBB.

<sup>1</sup> Seasonally adjusted and smoothed monthly data on a transactions basis.

and services was more marked, but it was partly counterbalanced by the growth in the deficit in respect of transfers. Factor incomes, for their part, underwent little change.

### **Transactions in goods**

The trade balance on a transactions basis produced a surplus of Fr. 221 billion in 1994, against Fr. 204 billion the previous year. Exports and imports, which had fallen sharply in 1993 both in price and in volume, increased again in 1994. Actually, after having shrunk between May 1992 and March 1993 owing to the recession, they moved upwards again from the second quarter of 1993 onwards, after the cyclical turnaround, both in the BLEU and in many other European countries. This recovery continued in 1994, but slightly

more slowly than during the last three quarters of 1993.

The growth in the value of exports during the first ten months of 1994 — the last period for which a geographical breakdown of transactions in goods is available — largely reflects that of the markets. The BLEU's exports benefited, for instance, from the increase in the volume of Japanese imports, chiefly due to the deterioration of the competitive position of that country. Furthermore, the appreciation of the yen contributed to the rise in the unit values of exports to Japan. The markets of the Asian newly industrialised countries remained dynamic: the value of exports to this region almost trebled between 1987 and 1994. Exports to Central and Eastern Europe and Latin America also continued to grow rapidly.

**TABLE 26 — CURRENT ACCOUNT ON A TRANSACTIONS BASIS**

(Balances in billions of francs)

	1990	1991	1992	1993	1994 e
Current account .....	121	167	212	392	410
Goods and services .....	117	132	205	319	352
Goods .....	55	66	114	204	221
Services .....	62	66	92	115	131
Services to enterprises .....	72	62	84	73	105
Transport .....	43	37	49	54	69
Third-country trade .....	36	26	43	27	23
Other services to enterprises <sup>1</sup> .....	-7	-1	-9	-8	13
Travel .....	-59	-67	-82	-79	-86
Insurance .....	17	11	10	18	24
Other financial services <sup>2</sup> .....	18	27	33	53	37
Transactions of general government not included elsewhere .....	37	46	52	56	54
Other services .....	-24	-13	-5	-6	-4
Income .....	79	111	94	169	176
Investment income .....	23	48	29	103	113
Compensation of employees .....	56	63	65	66	63
Transfers .....	-75	-76	-87	-97	-118

Source : NBB.

<sup>1</sup> Representation and publicity costs, building and maintenance work, technical assistance and manufacturing, assembly and repair costs.

<sup>2</sup> Costs and commission received by the financial intermediaries.

TABLE 27 — VALUE OF EXPORTS, EXCLUDING DIAMONDS AND GOLD

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

	1993	1994 First ten months	p.m. Relative shares <sup>1</sup> (percentages)
Total exports <sup>2</sup> .....	-3.2	5.7	100.0
of which exports to :			
OECD countries of continental Europe .....	-5.8	5.3	75.3
Anglo-Saxon OECD countries .....	3.8	6.6	11.7
Japan .....	20.8	36.2	0.6
Asian newly industrialised countries .....	40.5	12.0	2.0
Central and Eastern Europe .....	22.8	26.0	1.6
Latin America .....	22.2	16.6	0.5
Other .....	-2.8	-3.4	8.3

Sources : NSI, NBB.

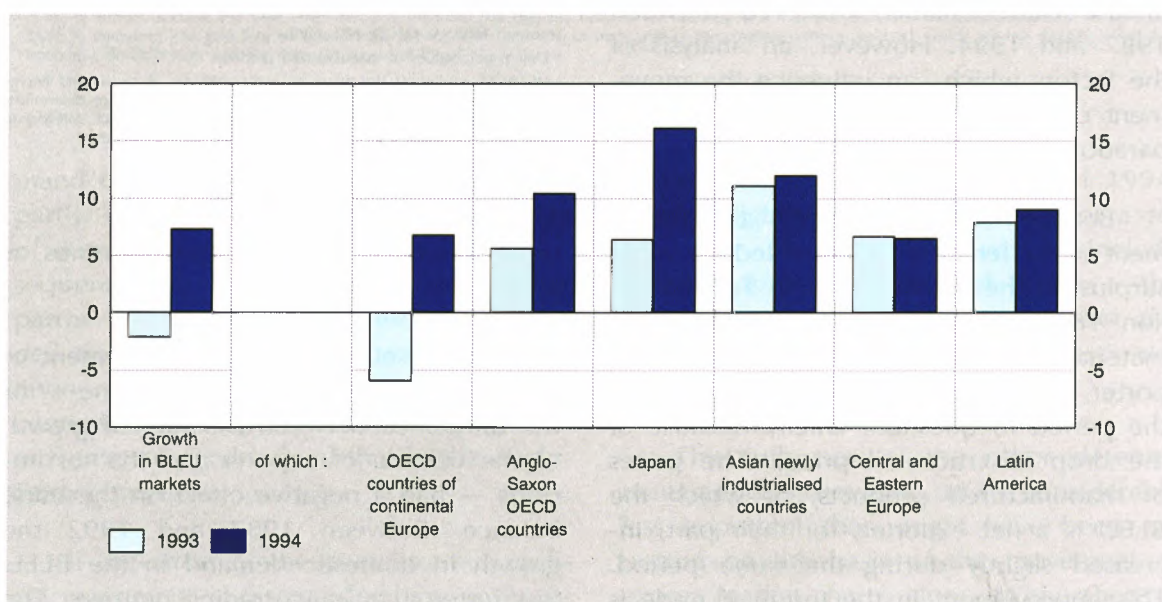
<sup>1</sup> Calculated on the basis of foreign trade statistics for 1992.<sup>2</sup> Balance of payments data on a transactions basis.

The Anglo-Saxon countries of the OECD recorded an even stronger import demand than in 1993, during which it had already revived owing to an earlier recovery than in continental Europe. In the last-mentioned area, the revival of domestic demand and the growth in exports to

non-European regions led to an increase in imports. Account being taken of the preponderance of the European markets in the BLEU's exports, the substantial rise in the BLEU's exports in 1994 was chiefly due to the cyclical recovery of those markets.

CHART 30 — MOVEMENTS OF THE VOLUME OF EXPORT MARKETS FOR GOODS

(Percentage changes compared with the previous year)



Source : OECD.

The data concerning the movement of foreign trade prices are not yet available for the year under review because of the considerable delay in the compilation of the statistics on international trade since the introduction of the new method of recording intra-Community transactions on 1st January 1993. The available indicators point, however, to a slight rise in both export and import prices after four successive years of decline. These price rises are mainly attributable to non-energy raw materials and to manufactured products; the prices of energy products, for their part, fell.

In view of the moderate rise in foreign trade prices, the recovery of imports and exports in terms of value is chiefly attributable to an expansion in volume: if certain special categories of products, namely gold and diamonds, are excluded, exports appear to have increased in volume in 1994 by 5.2 p.c. and imports by 5 p.c.

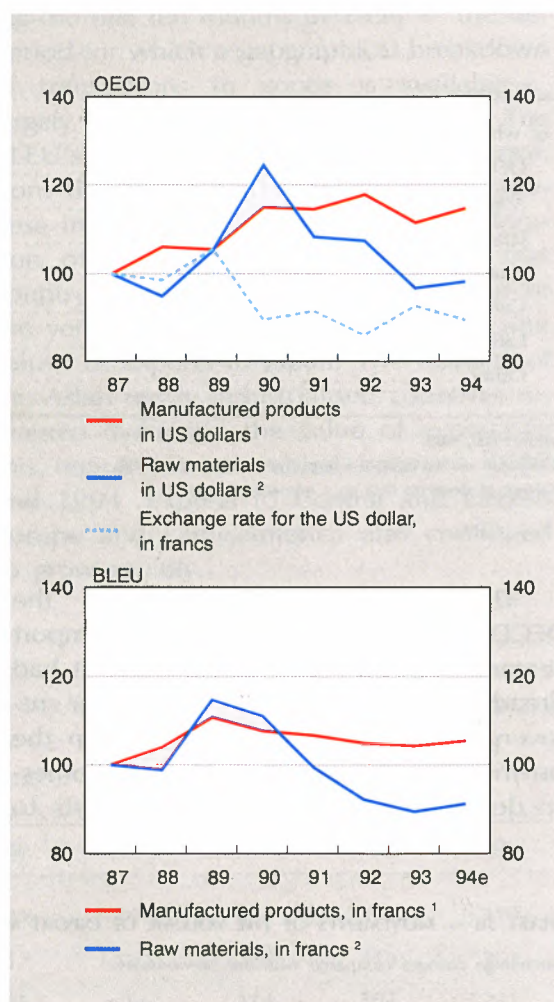
The growth in the volume of the BLEU's exports in 1994 appears to have been smaller than the expansion of the markets as calculated by the OECD. This loss of market shares is in line with the trend which has prevailed for several years.

At first sight, this trend seems to conflict with the large increase in the surplus of the trade balance observed between 1987 and 1994. However, an analysis of the factors which can influence the movement of the trade balance shows that this paradox is only apparent.

Between 1987 and 1994 the movement of the terms of trade fuelled the trade surplus to the extent of some Fr. 180 billion. The prices, expressed in francs, of raw materials, of which the BLEU is a net importer, in fact fell by nearly 10 p.c. during the period in question, chiefly because of the drop in crude oil prices. The prices of manufactured products, of which the BLEU is a net exporter, for their part, increased slightly during the same period. This improvement in the terms of trade is not peculiar to the BLEU: it has also

CHART 31 — PRICES OF RAW MATERIALS AND MANUFACTURED PRODUCTS

(Indices 1987 = 100)



Sources : HWWA, OECD, NSI, NBB.

<sup>1</sup> Unit export values of manufactured products.

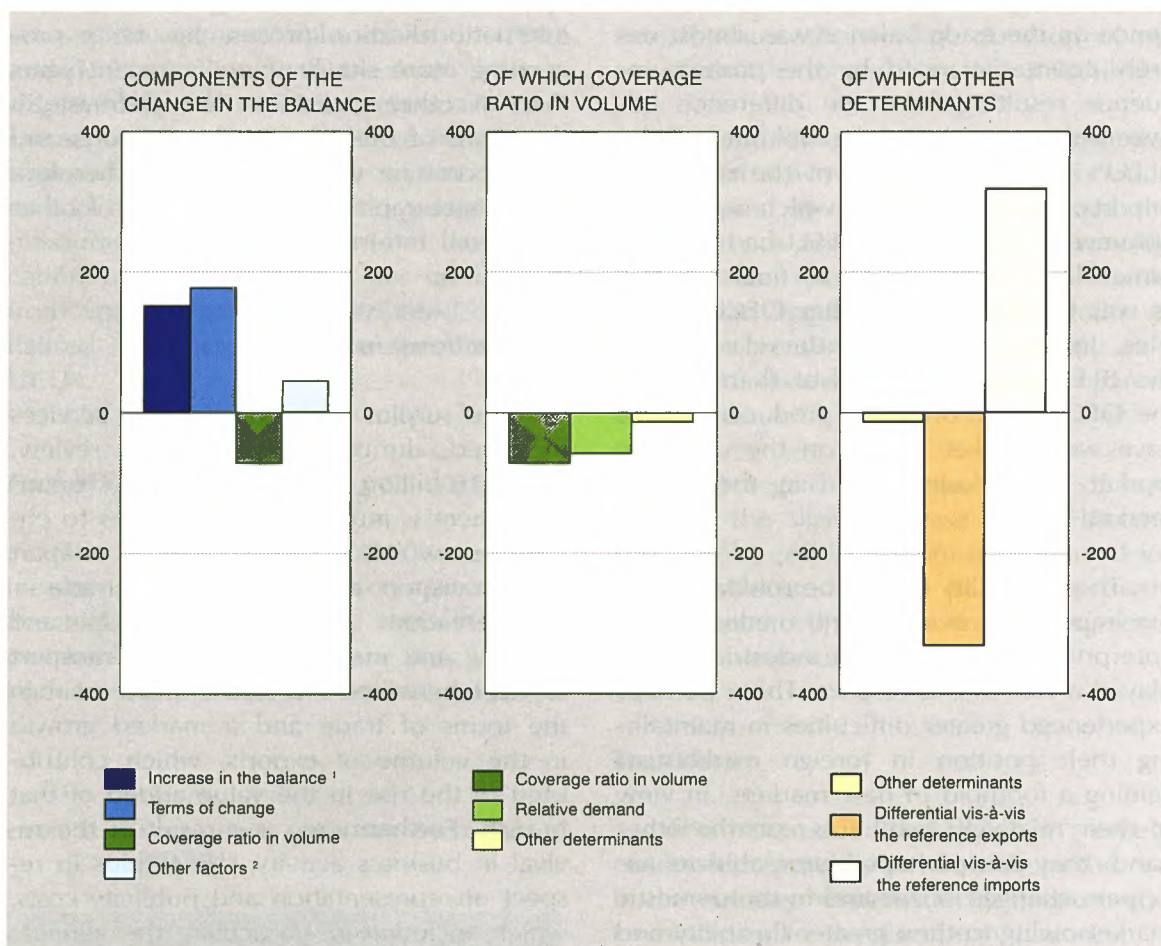
<sup>2</sup> Weighted average of the prices of non-energy raw materials and energy raw materials calculated by the HWWA. The weightings are determined on the basis of the relative share of the net imports of each category in the total net imports of raw materials of the area in question.

been observed in the OECD countries as a whole.

On the other hand, the movement of the coverage ratio in terms of volume — or the difference between the rate of growth of the volume of exports and that of imports — had a negative effect on the trade balance. Between 1987 and 1992 the growth in domestic demand in the BLEU was faster than in its trading partners. The negative effect of this relatively strong de-

CHART 32 — COMPONENTS OF THE INCREASE IN THE SURPLUS IN RESPECT OF GOODS TRANSACTIONS BETWEEN 1987 AND 1994

(Billions of francs)



Sources : NSI, OECD, NBB.

<sup>1</sup> In order to ensure the internal consistency of the series, the foreign trade statistics were used for the period 1987-1992. Owing to the lack of data for the years 1993 and 1994, they were extended by the balance of payments data. The data for those years are therefore provisional.

<sup>2</sup> A set of factors, such as the level effect resulting from the fact that the balance for the base year was not zero, and the balances left by, in particular, trade in diamonds and gold (not included in the incidence of the terms of trade and of the coverage ratio in volume), which are less directly linked with economic developments and the competitiveness of the BLEU.

mand on the trade balance was, however, partly neutralised when the development of domestic expenditure in the BLEU subsequently fell behind that in the trading partners. Up to a certain point, this relative deflation in 1993 and 1994 was a phenomenon common to the OECD countries of continental Europe, where the cyclical movement lagged behind that in the Anglo-Saxon countries.

If the effect of the asynchronous cyclical movement is disregarded, the coverage ratio in terms of volume appears moreover

to be affected, between 1987 and 1994, by the slightly negative incidence of a set of other determinants, which include — apart from any statistical errors — the development of competitiveness and the differences in the structure of domestic demand and production.

This influence of the other determinants appears, however, to be considerably less important than might have been expected on the basis of the movement of export market shares alone. While there is admittedly a virtually structural negative

differential between the growth in the volume of the BLEU's exports and that of the export markets, which serves as the reference for exports in this analysis, its incidence on the trade balance was almost entirely counterbalanced by the positive influence resulting from the difference between the growth in the volume of the BLEU's imports and that of the reference imports, i.e. the imports which would be obtained if those of the BLEU had had the same elasticity in relation to final demand as was the case in the other OECD countries. In other words, as the elasticity of the BLEU's imports was less than that of the OECD area, domestic producers would have won market shares on the domestic market while losing some in the export market.

The possibility cannot be ruled out that the importance of small and medium-sized enterprises in the Belgian industrial fabric played a role in this respect. These perhaps experienced greater difficulties in maintaining their position in foreign markets or gaining a foothold in new markets, in view of their relatively small size; on the other hand, they are perhaps better able to anticipate changes in demand in the domestic market owing to their greater flexibility and their familiarity with that market.

Nevertheless, the simultaneous divergent developments between the BLEU's exports and imports and the reference exports and imports are probably due more to the differences in the internationalisation process. Thus, a number of newly industrialised countries in Asia, but also some in Europe, have greatly opened up their economies during the last decade: the share of their exports in world trade, and also that of their imports, have increased spectacularly. Even in some large traditional industrialised countries of the OECD, such as the United States, Germany, France, Italy and the United Kingdom, the degree of openness of the economy has increased further in recent years. On the other hand, the smaller economies had often already specialised much earlier, because the small-

ness of their domestic markets was an obstacle to the efficient use of the factors of production. Thus the BLEU has been a very open economy for a long time and the internationalisation process has been proceeding more slowly there in recent years than in other countries. The decrease in the share of both the BLEU's imports and its exports in world trade has therefore been more rapid than in the case of other traditional industrialised countries.

### ***Transactions in services***

The surplus of transactions in services increased, during the year under review, by Fr. 16 billion to Fr. 131 billion. This improvement is attributable to services to enterprises, which mainly consist of — apart from transport and third-country trade — representation and publicity costs and building and maintenance work. Transport services benefited from an improvement in the terms of trade and a marked growth in the volume of exports, which contributed to the rise in the value added of that branch. Furthermore, as a result of the revival in business activity, the surplus in respect of representation and publicity costs, which include, in particular, the services rendered by co-ordination centres and centres for distribution to foreign members of their group, increased.

The expansion of the surplus in respect of insurance services, a phenomenon which has developed since the second half of the 1980s, chiefly thanks to the success of captive Luxembourg reinsurance companies, strengthened in 1993 and 1994 owing to the rapid development of the life insurance sector in Luxembourg. The latter benefited from the increase in the number of Luxembourg insurance companies, often founded by parent companies situated in other European countries following the liberalisation of insurance services within the European Union.

The surplus in respect of other financial services, for its part, fell from Fr. 53 billion



in 1993 to Fr. 37 billion in 1994. This decline is attributable to the commission payments received by Luxembourg financial intermediaries. This commission had increased to a remarkable extent in 1992 and 1993, in line with the keen interest displayed by non-residents, especially Germans, in the units of collective investment undertakings. This interest waned at the end of 1993, following the adoption of measures in Germany to extend the application of the withholding tax on income from financial assets to distributed or capitalised incomes from investments with UCITs.

### Factor incomes

The surplus in respect of investment income rose again slightly compared with the high level reached in 1993. On the one hand, investment income was swollen both by the increase in net external assets

and by the movement of interest rates in the international markets, as the decline in interest rates was reflected less quickly in interest income than in interest expenditure, because the average duration of external assets is longer than that of liabilities.

On the other hand, this income was influenced downwards by the appreciation of the franc in 1994, which reduced the yield on net assets in foreign currencies. Furthermore, some Luxembourg banks which had made considerable profits in 1993, for reasons explained earlier, paid substantial dividends to their foreign parent companies.

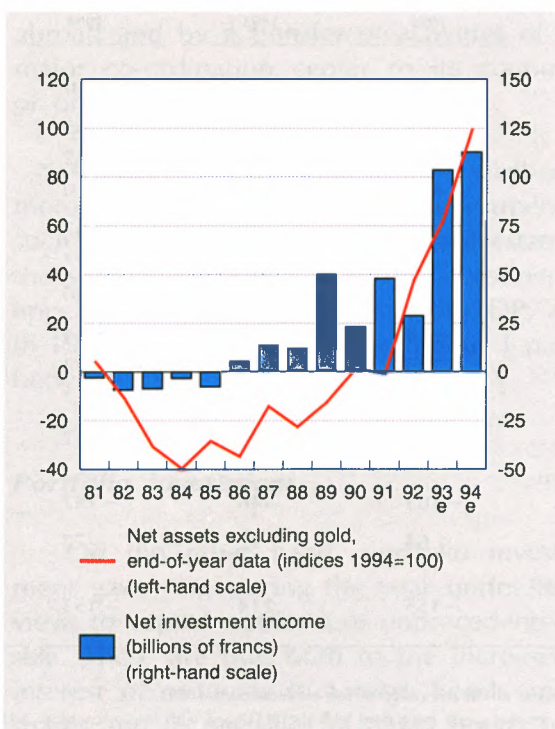
With regard to compensation of employees, the slight increase in the income received by residents from international institutions located in the BLEU only partly counterbalanced the rise in net payments to cross-frontier workers.

### Transfers

The increase in the deficit in respect of transfers is mainly attributable to the rise in the net payments made by Belgium and Luxembourg to the European Union.

The BLEU's contributions increased by Fr. 17 billion in 1994. This rise was mainly attributable to the contribution based on the VAT assessment basis and to that based on GNP, also called the fourth resource, while the agricultural levies and customs duties passed on to the EU increased to a much smaller extent. Such a shift in the relative importance of the sources of financing of the European budget is nothing new. The gradual liberalisation of trade and the reform of the common agricultural policy reduced the importance of, on the one hand, customs duties and, on the other hand, agricultural levies. Furthermore, the greater share represented by contributions based on the VAT assessment basis and on GNP reflects the endeavour to take greater account of the contribution capacity of the Member States.

CHART 33 — NET EXTERNAL ASSETS AND INVESTMENT INCOME



Source : NBB.

The subsidies received in implementation of the common agricultural policy of the European Union, for their part, underwent little change.

### 5.3 CAPITAL TRANSACTIONS

The substantial current account surplus was reflected in the building up of net assets on the rest of the world, the form of which was determined by the respective movement of yield rates in the BLEU and abroad and of the expectations of both residents and non-residents regarding this.

#### *Direct investment*

As has been structurally the case in the past, direct investment transactions led on balance to large net capital inflows.

Company formations and expansions and acquisitions of interests carried out by non-residents in the BLEU declined in 1994, as in 1993; those undertaken by residents abroad increased only very slightly. The context was, it is true, uncondusive to capital investment: the improvement in growth prospects was not sufficiently tangible to induce companies, which had only just climbed out of a recession, to undertake substantial investments. Furthermore, the European integration process, which has led to very large flows of investment since 1987, the peak of which was reached in 1992 with the realisation of the single European market, did not exercise such a strong influence as before. Although the surplus left by these transactions during the year under review was Fr. 100 billion lower than in 1993, having fallen from Fr. 239 billion to 139 billion, it was still high. As investments abroad by Belgian and Luxembourg enterprises were comparable to the foreign investments of the main part-

TABLE 28 — SUMMARY PRESENTATION OF THE BALANCE OF PAYMENTS OF THE BLEU<sup>1</sup>

(Balances in billions of francs)

	1992	1993	1994
Current transactions .....	212	392	410
Direct investments .....	73	229	265
Residents .....	-345	-155	-45
Non-residents .....	418	384	310
Portfolio investment .....	34	-10	-487
Residents .....	-57	-220	-327
Non-residents .....	91	210	-160
Short-term capital transactions .....	-18	-1,197	284
Residents .....	-109	-644	-433
Non-residents .....	91	-553	717
Capital transactions not included elsewhere <sup>2</sup> .....	-210	394	-242
of which foreign currency loans contracted by general government .....	-103	446	-147
Errors and omissions .....	64	-22	-77
Movement of the net spot and forward foreign exchange reserves of the NBB <sup>3</sup> .....	-155	214	-153

Source: NBB.

<sup>1</sup> Minus sign: increase in the net claims of residents on foreign countries or decrease in the net claims of non-residents on the BLEU.

<sup>2</sup> Trade credits, the spot and forward capital transactions in foreign currencies of resident credit institutions with the BLEU and with foreign countries and general government's capital transactions in francs with foreign countries and in foreign currencies.

<sup>3</sup> Minus sign: increase in reserves.

ner countries, in proportion to their respective GDP, the size of the surplus produced by direct investment transactions chiefly reflects the attractiveness of the BLEU for foreign investors. The origin of the foreign capital — and likewise the destination of the resident capital — reflects the structure of the BLEU's foreign trade, especially the preponderance of Germany, France and the Netherlands, and shows the high degree of integration of these economies.

Furthermore, the balance of the lending operations of resident and non-resident companies to their foreign subsidiaries improved, from a deficit of Fr. 222 billion in 1992 and Fr. 29 billion in 1993 to a surplus of Fr. 106 billion in 1994. This movement is mainly due to a decrease in net loans granted by residents, followed by repayments in 1994, and, to a smaller extent, to the increase in the net loans granted by foreign companies to their Belgian and Luxembourg subsidiaries. These loans, which are often connected with the activity of the co-ordination centres, appear to have been partly affected by the entry into force, from the fiscal year 1994 onwards, of a change in German tax legislation relating to the subsidiaries of companies established abroad and by a transfer of activities of a major co-ordination center to its country of origin in 1993.

Altogether, if account is taken furthermore of the other categories of investment, such as purchases and sales of real estate, the surplus in respect of direct investment appears to have reached 3 p.c. of GDP, as in 1993, against an average of about 1 p.c. between 1988 and 1992.

### ***Portfolio investment***

On the other hand, portfolio investment gave rise, during the year under review, to capital outflows of unprecedented size. These are due both to the increased interest of residents in foreign bonds and shares and to net sales of BLEU bonds by non-residents.

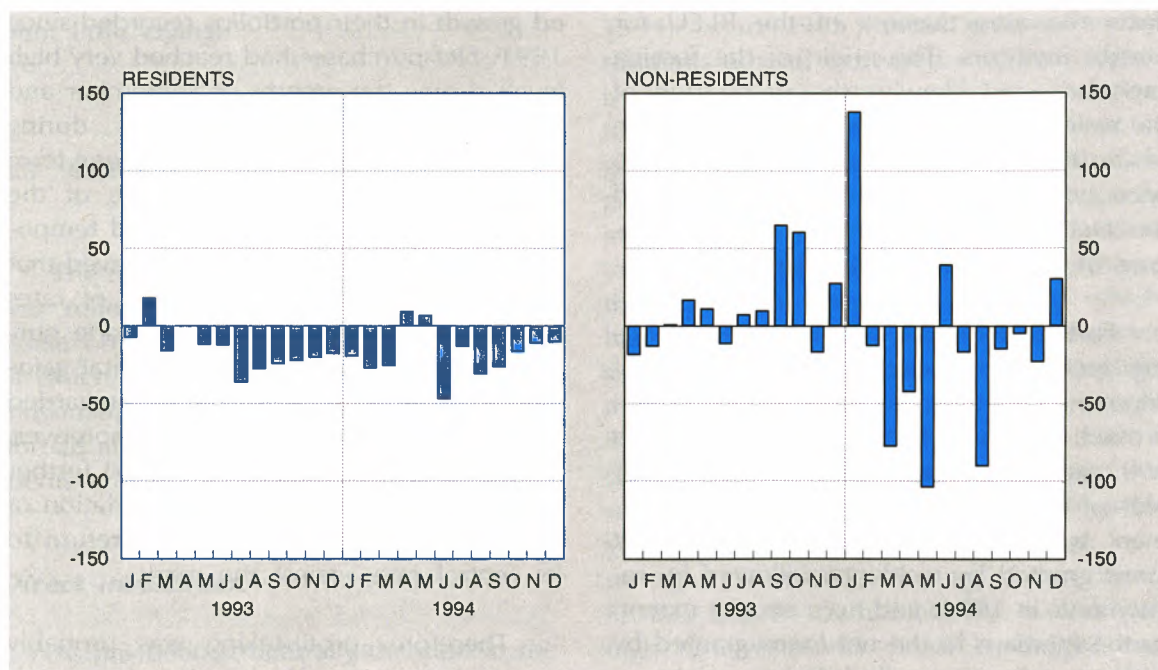
The decline in the interest displayed by foreign investors in BLEU securities is in sharp contrast to the almost uninterrupted growth in their portfolios recorded since 1991. Net purchases had reached very high levels during the months of September and October 1993 and January 1994, during which the differential between long-term interest rates in francs and those of the principal foreign bond markets had temporarily widened. Investors, who believed that this divergence in the movement of rates would be only temporary, then made purchases in the hope of reaping capital gains upon the return of rates to a level regarded as more normal. Some of them, moreover, thought they would be able to add further to these gains thanks to an appreciation of the franc, anticipating the latter's return to its central rate against the mark.

Therefore, profit-taking was probably one of the reasons which induced non-residents to dispose of part of their portfolios of Belgian and Luxembourg securities in 1994. However, the reversal in the behaviour of non-residents is perhaps attributable even more to the change in the trend of yields on the bond markets from the beginning of February onwards. The raising, at that time, of short-term interest rates by the Federal Reserve gave a fresh stimulus to the rise in long-term rates on the American market. This increase in long-term rates spread to Europe, despite the absence of signs of inflationary pressure and the pursuit by the Bundesbank of its cautious policy in lowering the official interest rates. The uncertainty which therefore prevailed regarding the future movement of long-term rates led to a selling wave on European bond markets by international investors in order to avoid, or at least limit the extent of, short-term capital losses.

In this context, non-residents made net sales of fixed-interest securities, which, apart from the net purchases in June and December, continued in varying degree throughout the year. This development is not peculiar to the BLEU: Germany, France and the Netherlands were affected

CHART 34 — PORTFOLIO INVESTMENT IN FIXED-INTEREST SECURITIES<sup>1</sup>

(Balances in billions of francs)



Source : NBB.

<sup>1</sup> Minus sign : increase in net claims of residents on foreign countries or decrease in net claims of non-residents on the BLEU.

by similar capital outflows. This turning away from bonds cannot, therefore, be interpreted as a sign of a lack of confidence in the franc, even though the possibility cannot be entirely ruled out that this factor played a role temporarily during the summer of 1994.

Resident investors, who are a more heterogeneous group, including also individuals, did not apparently have the same inflationary expectations or in any case appeared to be less sensitive to prospects of capital losses. Like residents in Germany, France and the Netherlands, they continued to diversify their portfolios. At the beginning of the year, in line with the trend which started in the middle of 1993, they chiefly bought securities denominated in dollars. In April, however, the growing uncertainties concerning the movement of the dollar, in view of the size of the American current account deficit, reduced the attractiveness of this type of investment. Although they were on a smaller scale, in-

vestments in the strong European currencies retained their attractiveness, in connection with the diversification of portfolios, for investors disinclined to take risks. Residents also bought bonds in Italian lira and in sterling, which offered high yields coupled with exchange risks which, in view of the recent parity adjustments, appeared to be small. In April and May, however, they joined the general movement of the international markets by slightly reducing their bond portfolios.

During the second part of the year, as the possibility of a fall in long-term interest rates continued to dominate market expectations, except in the United States, and as, furthermore, the increase in long-term rates coincided with the decline in short-term rates, bonds came back into favour, especially in the case of individuals, who generally keep their securities until final maturity. Thus, when the slope of the yield curve became steeper, the latter allocated part of their liquid resources to more re-

munerative assets, including bonds in guilders, marks and Canadian dollars. They also displayed interest in foreign bonds in Luxembourg francs, the proposed maturities of which directly competed with those of the notes of Belgian financial intermediaries. Lastly, the increase, albeit small, in the withholding tax on income from financial assets perhaps induced Belgian individuals to look for higher yields.

Net purchases of shares by residents, which had increased in the middle of 1993, continued and reached Fr. 110 billion in 1994. Until February the stock markets were optimistic: the expectations of a downward movement of bond rates had been confirmed and stock exchange quotations, tending upwards, encouraged equity investment. The anxiety which seized the bond markets when the rise in long-term interest rates was confirmed spread, little by little, to the stock markets, so that the buying wave gradually petered out.

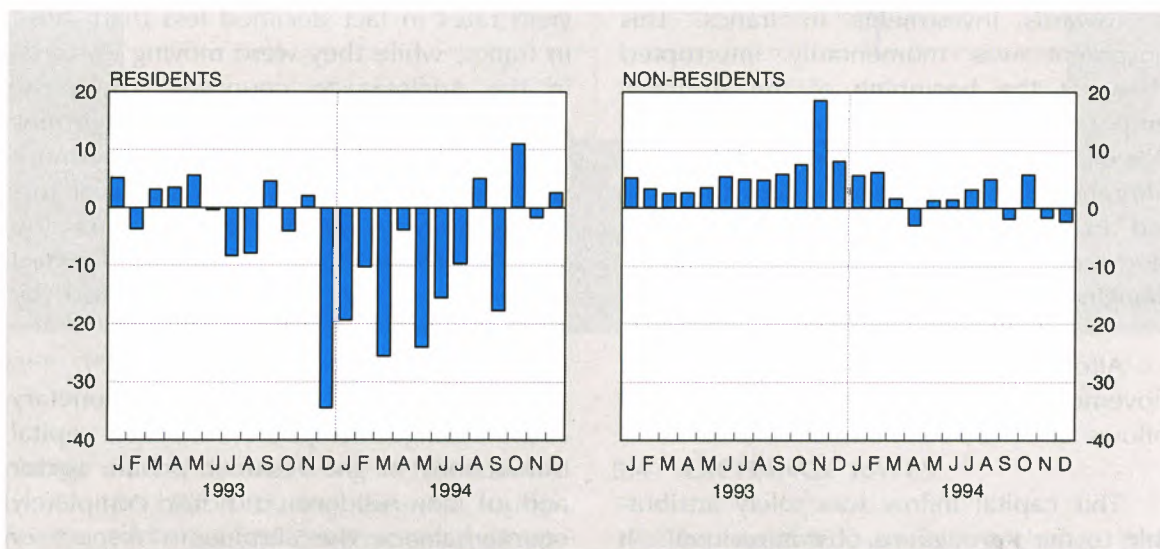
A geographical breakdown reveals purchases of Italian and Japanese securities motivated by prospects of price rises con-

nected with the previous mediocre results and with the changes in the political climate or the economic situation. French shares met with great success in some months, particularly upon the privatisation of large industrial and financial groups. Residents also displayed interest in the British and American markets. On the one hand, prices in the last-mentioned market stood up better against the general downward movement. On the other hand, the scale of the purchases recorded on these two markets probably also partly reflects an interest in the shares of certain Asian, South American and Eastern European countries, since a large proportion of the buying and selling orders relating to these markets pass via London and New York. It is difficult, however, to assess the extent of this phenomenon, because it is not possible to determine accurately the final destination of the funds invested in shares when these investments are made on the international markets.

The shares of resident companies retained a certain amount of attractiveness for foreign investors, continuing the trend

CHART 35 — PORTFOLIO INVESTMENT IN SHARES<sup>1</sup>

(Balances in billions of francs)



Source : NBB.

<sup>1</sup> Minus sign : increase in net claims of residents on foreign countries or decrease in net claims of non-residents on the BLEU.

observed in 1993. These purchases reflect the improvement in the profit prospects of listed companies for 1994 and 1995, but also, perhaps, the increase in issues.

### ***Other capital transactions***

The development of other capital transactions was mainly influenced by the return of calm conditions on the foreign exchange markets after the crisis which had shaken the EMS from July 1993 onwards. Continuing the movement observed in November and December 1993, some of the capital which had been shifted owing to the expectation of a depreciation of the franc flowed back to the BLEU at the beginning of 1994, accompanying the return of the franc to the wake of the mark and the decline in short-term interest rates.

From February onwards the poor performance of the bond markets and the concomitant fears of capital losses perhaps made short-term investments more attractive than long-term investments, although the latter were more remunerative. In this context, under the combined influence of the re-establishment of confidence in the franc and of a slight premium of short-term rates vis-à-vis Germany, capital was attracted towards investments in francs. This movement was momentarily interrupted when, at the beginning of the summer, temporary tensions developed on the foreign exchange market. Subsequently, as the differential between interest rates in francs and in marks decreased, net inflows of short-term capital shrank appreciably, changing into net outflows in December.

Altogether, in 1994, short-term capital movements led to net spot and forward inflows of Fr. 284 billion.

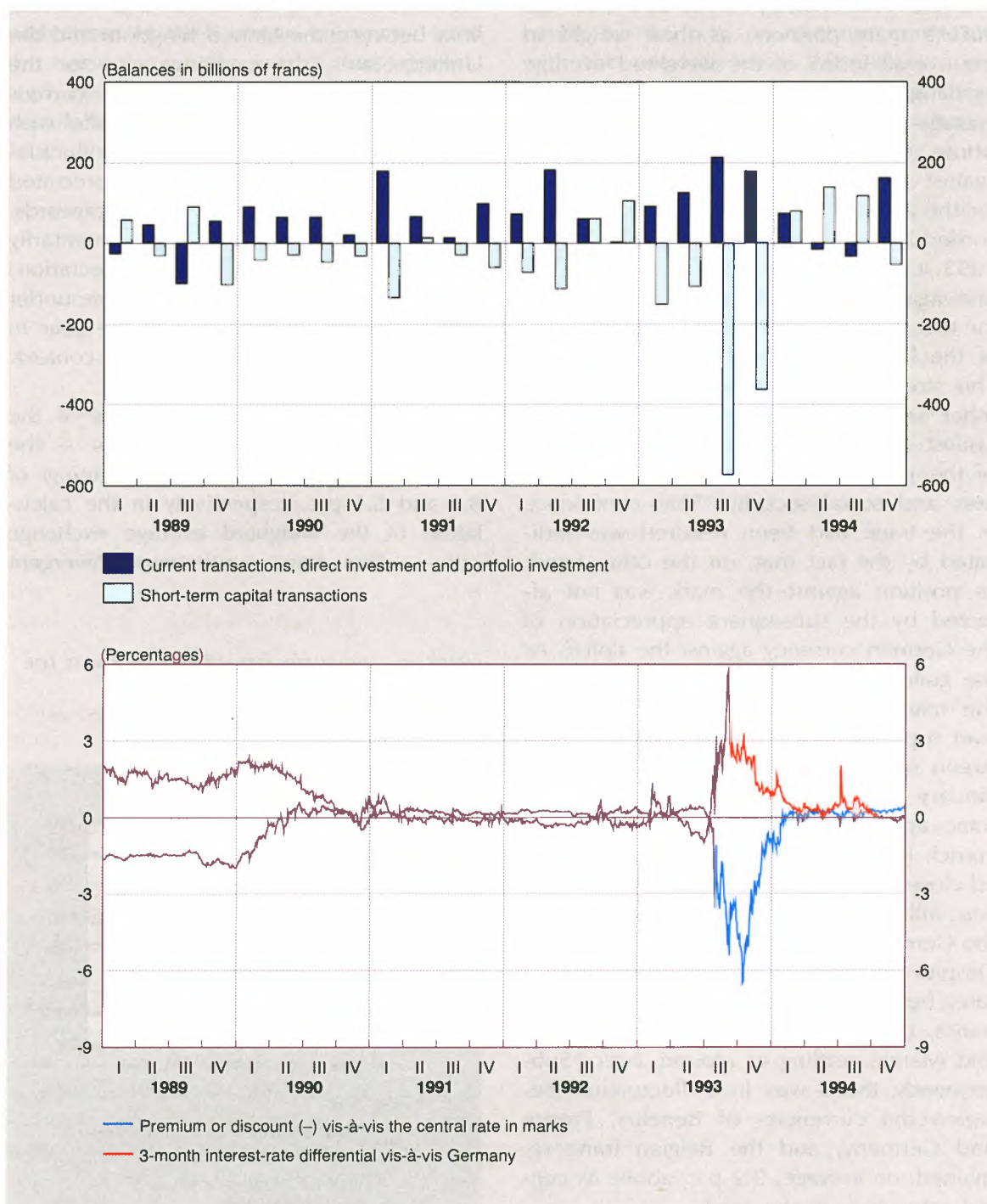
This capital inflow was solely attributable to the transactions of non-residents. It was primarily due to the unwinding of speculative transactions or of hedging transac-

tions against a decline of the franc which, having started in November 1993, continued until May. Furthermore, when the exchange rate for the franc returned, in February, to the level of its central rate against the mark, foreign investors built up net assets in francs in the form both of deposits and of forward purchases of francs. With the prospect of the maintenance of the stability of the exchange rate, the interest-rate premium offered in relation to the mark was regarded as attractive and non-residents thus gave preference to investments in francs as against those denominated in the currencies of the adjacent countries. When this premium disappeared at the end of the year and the interest-rate differential vis-à-vis Germany actually became negative, the net assets of non-residents declined somewhat.

In the same way as in the case of securities, the behaviour of resident investors was characterised more by a structural tendency towards portfolio diversification: while in general, owing to its status as the domestic currency, the franc holds a preponderant position in the formation of their new net assets, a portion of these is also allocated to short-term investments in foreign currencies. The interest displayed in the latter was perhaps strengthened, in 1994, by the movement of relative yields. In most European countries short-term yield rates in fact declined less than those in francs, while they were moving upwards in the Anglo-Saxon countries. The prospects of an appreciation of some currencies, such as the US dollar, furthermore gave rise to net forward purchases of foreign currencies at the beginning of the year. In 1994 the net spot and forward foreign assets of residents increased by Fr. 433 billion.

As a result of the conduct of monetary and exchange rate policy, the total capital transactions of the resident private sector and of non-residents did not completely counterbalance the surplus in respect of current transactions. The Bank therefore established equilibrium on the foreign ex-

CHART 36 — STRUCTURE OF THE BALANCE OF PAYMENTS AND INTEREST-RATE AND EXCHANGE-RATE DIFFERENTIALS OF THE FRANC IN RELATION TO THE MARK



Source : NBB.

change market by increasing its net reserves by Fr. 153 billion during the year under review, while general government redeemed foreign currency loans to the extent of Fr. 147 billion.

#### 5.4 EXCHANGE RATES

The weighted average exchange rate for the franc appreciated by 1.7 p.c. in 1994 compared with 1993. This movement

is mainly due to the behaviour of the franc vis-à-vis the currencies of Germany, France and the Netherlands, which are also the BLEU's main partners, as their weight in the overall index of the weighted average exchange rate is as much as 57 p.c. On average for the year under review as a whole, the franc appreciated by 1.3 p.c. against these currencies, thus making up for the average depreciation of 1.2 p.c. recorded in 1993. Whereas on 14th October 1993 it was still 6.5 p.c. below its central rate against the mark, the exchange rate for the franc in fact returned to the level of the latter at the end of January 1994. This strengthening was assisted by, among other factors, the weakness of the mark against the dollar and the announcement of the plan for employment, competitiveness and social security. That confidence in the franc had been restored was indicated by the fact that, on the other hand, its position against the mark was not affected by the subsequent appreciation of the German currency against the dollar. As the guilder always remained stable against the mark, the franc also appreciated by over 6 p.c. against the Dutch currency between mid-October 1993 and the end of January 1994. Over the same period the franc appreciated by 2.8 p.c. against the French franc: the latter, after having moved close to its central rate against the mark, was still at a discount of 1.2 p.c. vis-à-vis the German currency at the end of January. Despite the fact that short-term interest rates became higher than those in Belgian francs, this discount increased in February and March, settling at around 2 p.c. Subsequently there was little fluctuation between the currencies of Benelux, France and Germany, and the Belgian franc remained, on average, 0.2 p.c. above its central rate vis-à-vis the mark.

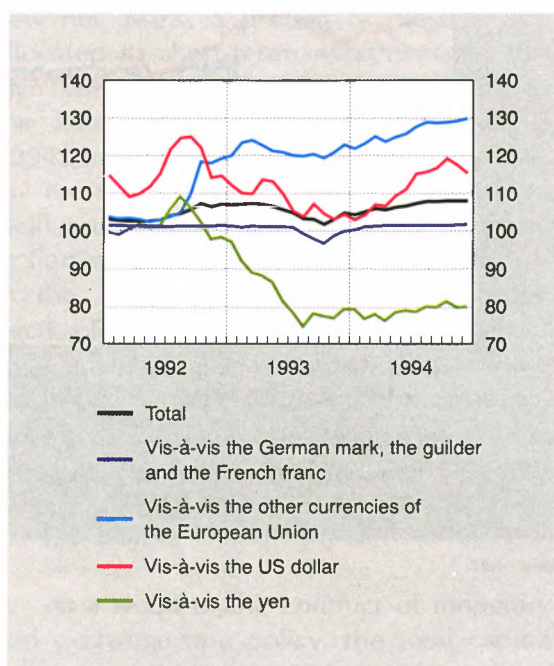
In relation to the currencies of the other countries of the EU as a whole, the weight of which in the overall index is about 22 p.c., the franc also appreciated from the beginning of the year, by 6.9 p.c.; on average compared with 1993 the annual appreciation was 4.2 p.c. This

result is primarily due to the movement of the pound sterling and the Italian lira. Owing to the strong economic and financial links between the United Kingdom and the United States, the exchange rate for the pound sterling against the anchor currencies of the EMS in fact moved parallel with that of the dollar, but with smaller fluctuations, and the pound therefore depreciated against the franc from January onwards. The Italian lira, after having momentarily benefited from favourable expectations during the pre-election period, came under pressure in the second half of the year in a difficult political and budgetary context.

Lastly, vis-à-vis the currencies of the two main non-European partners — the US dollar and the yen having weightings of 8.5 and 5.5 p.c. respectively in the calculation of the weighted average exchange rate — the franc underwent divergent

CHART 37 — WEIGHTED AVERAGE EXCHANGE RATE FOR THE BELGIAN FRANC<sup>1</sup>

(Indices 1987 = 100)



Source : NBB.

<sup>1</sup> Weighted index of the changes in the exchange rate for the franc vis-à-vis the currencies of the countries of the OECD, except for Iceland, Turkey and Mexico, the weighting of each currency reflecting the importance of the corresponding country as a competitor of BLEU producers of manufactured goods both on the export markets as a whole and on the domestic market.



movements. As the franc returned to its position in the wake of the mark, its fluctuations against the dollar were parallel with those of the German currency : from the beginning of the year it thus appreciated by 13.7 p.c. vis-à-vis the American currency. On average compared with 1993, the appreciation in 1994 amounted

to 3.4 p.c. While the franc appreciated from the beginning of January by 1 p.c. against the yen, it lost ground, on the other hand, by 4.5 p.c. on average compared with the previous year. Altogether, compared with 1993, the incidence of these changes on the weighted average exchange rate for the franc was very limited.



## 6. FINANCIAL ACCOUNTS AND FINANCIAL MARKETS

By subtracting the expenditure on consumption and investment of each domestic sector — individuals, companies and general government — from its disposable income or, which amounts to the same thing, by comparing its savings and investment, one obtains, after incorporation of capital transfers, the net financing capacity or net financing requirement of that sector. These are commented on in section 6.1 below.

These balances resulting from the transactions carried out in the real sphere of the economy must in principle exactly match the financial balances resulting from the difference between the financial assets formed by each sector and its new liabilities. In practice, however, these two balances only approximately tally with each other. On the one hand, there are statistical deviations between these two concepts; on the other hand, the available financial data, which moreover still cover only the first nine months of the year, do not enable the transactions of individuals to be distinguished from those of companies.

Even when confined to distinguishing only between the private sector as a whole and the general government sector, the financial accounts presented in section 6.2 illustrate the choices of these two major groups of economic agents in the management of their assets and liabilities. For individuals and companies as a whole, whose net financial saving is traditionally high, the choices to be made chiefly concern the allocation of the assets portfolio, whereas for general government the main financial decisions relate to the best way of financing the deficit.

The respective financial choices made by individuals, companies and general government are interdependent. They have to be matched, either directly on a securities

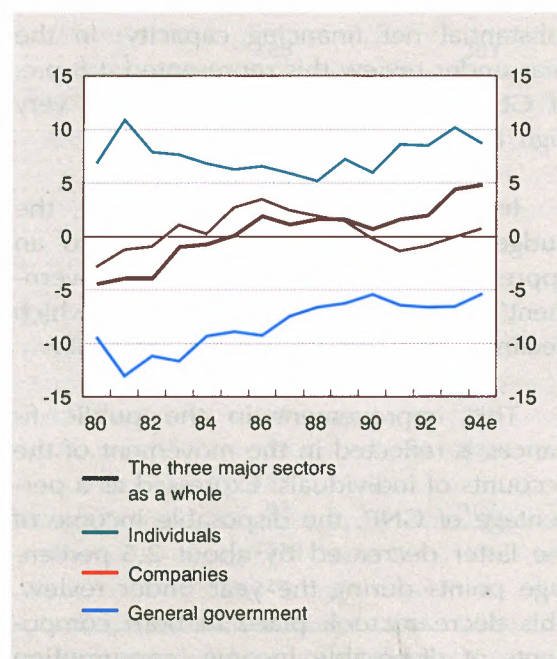
market or indirectly via financial intermediaries, and they fit into an international framework. The Belgian economy, which structurally shows a surplus, in fact makes a net capital contribution to the rest of the world. Section 6.3, devoted to the financial markets, shows which are the main channels through which the financial flows of the major domestic sectors have taken place.

### 6.1 SUMMARY OF THE TRANSACTIONS OF THE MAJOR SECTORS

For the last ten years, the major sectors of the economy as a whole have shown a

CHART 38 — NET FINANCING REQUIREMENT (–) OR CAPACITY OF THE MAJOR SECTORS OF THE ECONOMY

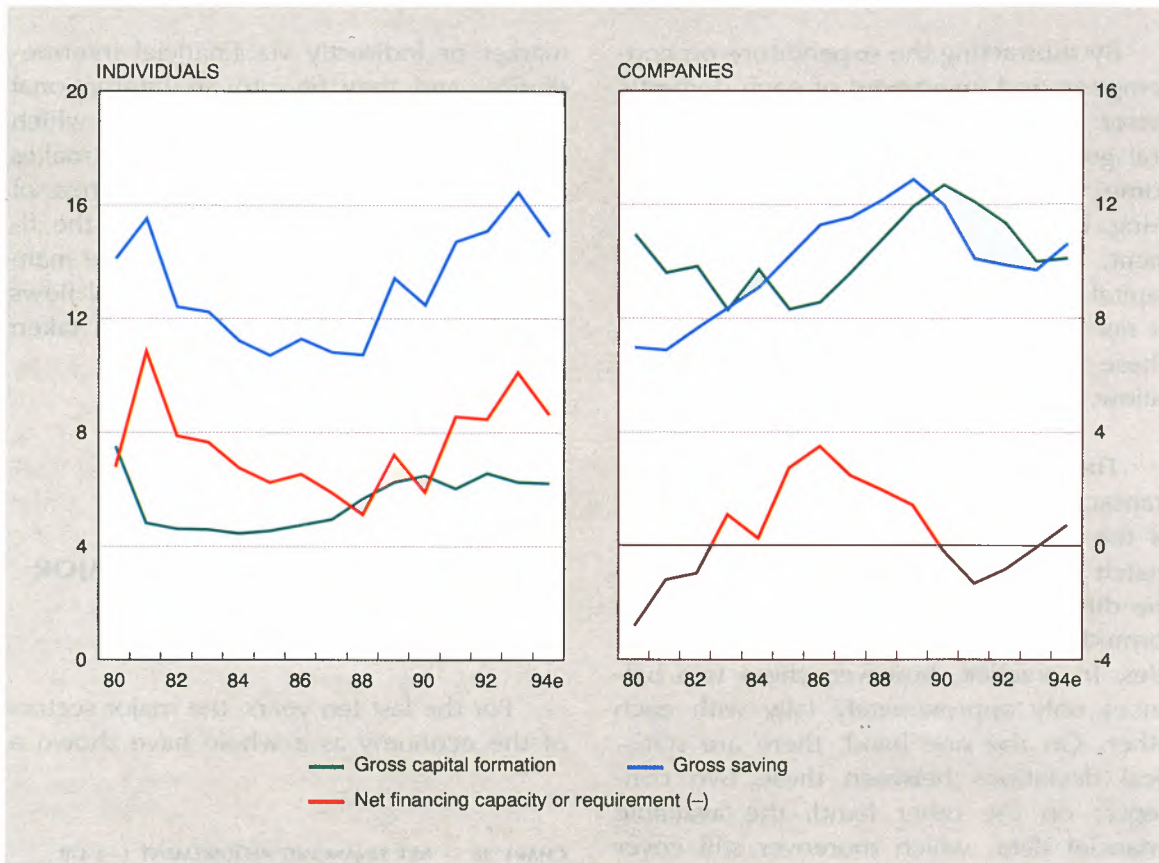
(Percentages of GNP)



Sources : NSI, NBB.

CHART 39 — SUMMARY OF THE TRANSACTIONS OF INDIVIDUALS AND COMPANIES

(Percentages of GNP)



Sources : NSI, NBB.

substantial net financing capacity. In the year under review this represented 4.8 p.c. of GNP, thus exceeding the already very high level reached in 1993.

In a context of cyclical recovery, the budgetary consolidation efforts led to an appreciable reduction in general government's net financing requirement, which declined from 6.6 to 5.4 p.c. of GNP.

This improvement in the public finances is reflected in the movement of the accounts of individuals. Expressed as a percentage of GNP, the disposable income of the latter decreased by about 2.5 percentage points during the year under review. This decrease took place in both components of disposable income, consumption and gross saving. As expenditure on hous-

ing remained virtually stable, the contraction in gross saving made itself fully felt in the movement of the net financing capacity, which nevertheless remained at a high level, of nearly 9 p.c. of GNP.

The gross saving of companies, for its part, increased for the first time since 1989. This development was due both to the economic recovery and to the policy of wage moderation and reduction of burdens pursued in favour of enterprises in order to improve their competitive position and promote employment. This rise in gross saving did not yet give rise to an increase in gross capital formation, so that the financial position of companies improved and they again achieved a net financing capacity of around 0.7 p.c. of GNP.

## 6.2 FINANCIAL ACCOUNTS OF THE MAJOR DOMESTIC SECTORS

### *Formation of financial assets by individuals and companies*

Individuals and companies considerably changed the composition of their portfolios in 1994. The extent of these shifts shows that the development of the conditions prevailing on the financial markets induces economic agents to adjust, from one year to the next, not only the allocation of their flow of financial savings but also, and increasingly, the composition of their assets portfolio. These changes, which point to increased sensitivity to yield differentials between the various financial instruments, are marked by portfolio reallocations between short-term and long-term assets, between investments in francs and in foreign currencies and between di-

rect purchases of securities and investment via collective investment undertakings.

During the first nine months of the year as a whole, investments in francs mainly took the form of assets at over one year. This preference for the long term only found expression, however, from the third quarter onwards, when the uncertainties concerning the development of capital market conditions gradually diminished, inducing savers to take advantage of the substantial interest-rate differential in favour of long-term assets.

The relative lack of interest in short-term investments in francs did not find expression in the same way for the various financial instruments. The outstanding amount of savings deposits, which had increased only very slightly in 1993, expanded by Fr. 371 billion during the first nine months of 1994 alone. On the other hand,

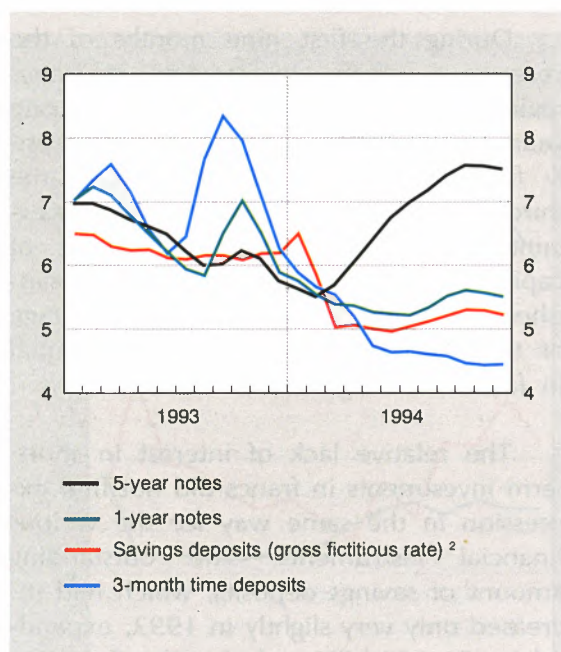
TABLE 29 — FORMATION OF FINANCIAL ASSETS BY INDIVIDUALS AND COMPANIES<sup>1</sup>

(Billions of francs)

	1993	1994 First nine months
Assets in Belgian francs .....	780	383
At up to one year .....	593	109
of which : Ordinary savings deposits .....	32	371
Time deposits .....	250	-86
Notes .....	246	-246
At over one year .....	187	274
of which : Notes .....	-91	235
Government loans directly purchased .....	126	-89
Other bonds directly purchased .....	31	96
Bonds purchased via UCITs .....	152	-16
Shares .....	-37	24
Assets in foreign currencies .....	580	259
of which : Bonds directly purchased .....	34	122
Bonds purchased via UCITs .....	195	...
Shares .....	97	102
Other assets .....	-111	n.
Total .....	1,249	n.

Source : NBB.

<sup>1</sup> The investments made via undertakings for collective investment which made public issues in Belgium have been broken down between the various headings of this table on the basis of the assets acquired by these undertakings, as is shown in detail in table 36.

CHART 40 — MAIN CREDITOR INTEREST RATES<sup>1</sup>

Source : NBB.

<sup>1</sup> These rates correspond to the average of the rates obtained by a survey among the main credit institutions, weighted on the basis of the total of these institutions' balance sheets. The rates for a given month are obtained by calculating the average of the interest rates recorded at the end of that month and at the end of the preceding month.

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

individuals and companies turned away from time deposits and notes at up to one year : the assets held in this form decreased, as a whole, by Fr. 332 billion during the first nine months of the year, whereas they had increased by Fr. 496 billion in 1993.

These substantial reallocations between short-term assets in francs are partly attributable to the raising, in January 1994, of the withholding tax on income from financial assets applying to income from fixed-interest investments, which helped to revive interest in ordinary savings deposits, which are exempt from this withholding tax. Apart from this tax measure, however, deposit books also benefited from a change in the hierarchy of short-term interest rates.

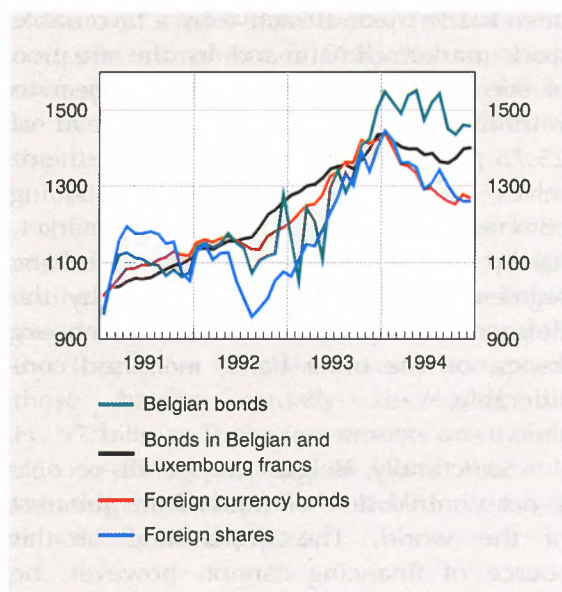
During the greater part of 1993 the remuneration on savings deposits — measured by the gross fictitious rate in order to make it comparable with the conditions offered on assets the incomes from which are not exempt from the withholding tax — had been lower than that on similar investments, such as short-term deposits and one-year notes. At the beginning of the year under review the time-lags in the adaptation of the remuneration on savings deposits to the decline in interest rates, coupled with the raising of the withholding tax, had the effect of reversing that hierarchy. In the course of February the main institution specialising in gathering savings deposits reduced the basic rate and the growth bonus offered on these deposits by 0.5 and 0.25 p.c. respectively. This reduction was followed by most other credit institutions and the gross fictitious rate on savings books thus fell below the rate on other short-term investments. This structure did not last long, however, because during the rest of the year the continuing decline in short-term rates did not lead to any other adjustments of the remuneration of savings deposits, so that the latter became more attractive than that on short-term deposits and remained comparable to that on one-year notes.

The fall in short-term interest rates was coupled with a marked rise in long-term rates, which led to a fall in bond prices. Consequently the overall yield on these securities, account being taken of decreases in value, was negative over the year as a whole. These circumstances influenced, in particular, investments with collective investment undertakings specialising in bonds, as individuals reacted sharply to the reduction in the inventory values of units in UCITs.

On the other hand, the decline in bond prices in 1994 did not affect subscriptions for notes at over one year. These assets, which have a fixed term and generally offer the possibility of collection of an annual coupon, come back into favour with the savers who are most sensitive to

CHART 41 — YIELD INDICES OF COLLECTIVE INVESTMENT UNDERTAKINGS<sup>1</sup>

(Indices 1st January 1991 = 1,000, end-of-period data)



Source : Belgian Municipal Credit Institution.

<sup>1</sup> This index measures the movement of the inventory value of capitalisation collective investment undertakings specialising in bonds and shares.

the absolute level of rates when long-term interest rates are raised. The success of long-term notes became evident chiefly from June onwards, partly at the expense of one-year notes. It may have been stimulated by the widening of the range of products offered in the form of insurance notes, made-to-measure notes of financial institutions or, again, such notes at rates adaptable to market conditions, and by the alignment of the remuneration on notes with that on government bonds for similar periods. The last-mentioned development can be regarded as a reaction by credit institutions to the increased competition from bonds issued by general government. In 1994 the characteristics of the government bonds particularly designed for individuals were in fact brought more closely into line with those for notes, putting an end to the segmentation of the retail market for long-term savings products between credit institutions and general government.

The marked steepening of the yield curve in 1994 also led to a rise in direct purchases of private bonds in francs. The attractiveness of bonds in Luxembourg francs was furthermore enhanced by the raising of the withholding tax in Belgium. On the other hand, individuals and companies reduced their portfolios of government bonds. This adjustment is in line with the refinancing policy pursued by the government, which exercised the call options associated with several public loans.

While bond prices showed a downward trend over the year 1994 as a whole, those of Belgian shares continued to rise slightly throughout the greater part of the first half of the year compared with the levels reached at the end of 1993. This consolidation of the rises recorded in 1993 explains the revival of interest in Belgian shares on the part of individuals.

Long-term investments in foreign currencies displayed a similar profile to that of investments in francs with the same duration. The decrease in inventory values due to the rise in interest rates on the capital market led to an interruption in the net purchases of bonds in foreign currencies via collective investment undertakings. On the other hand, direct purchases increased as a result of the movement of interest rates and the changes in the withholding tax on income from financial assets in Belgium.

Lastly, individuals and companies again displayed keen interest in foreign shares. The total outstanding amount of the portfolio of these securities rose by Fr. 102 billion during the first nine months of the year under review, against Fr. 97 billion in the year 1993 as a whole.

### ***New financial liabilities of individuals and companies***

During the first nine months of 1994 individuals and companies contracted new liabilities to the amount of Fr. 250 billion,

**TABLE 30 — NEW LIABILITIES OF INDIVIDUALS AND COMPANIES<sup>1</sup>***(Billions of francs)*

	1993	1994
		First nine months
Securities .....	47	39
Net liabilities to foreign countries <sup>2</sup> .	250	134
Liabilities to foreign countries ....	338	77
Claims on foreign countries .....	88	-57
Liabilities to credit institutions <sup>2</sup> ....	69	104
Other .....	32	-27
Total .....	398	250

Sources : Banking and Financial Commission, NBB.

<sup>1</sup> In Belgian francs and in foreign currencies.<sup>2</sup> Other than securities.

against Fr. 398 billion in the year 1993 as a whole.

There was a fair degree of divergence in the movement of the different categories. Continuing the trend which started in the fourth quarter of 1993, net issues of securities in Belgian francs and in foreign

currencies by companies showed an increase of Fr. 39 billion at the end of the first nine months of the year. The new liabilities were chiefly in the form of shares, financing by venture capital having been made more attractive by a favourable stock market climate and by the creation of securities whose dividend is subject to withholding tax at 13.39 p.c. instead of 25.75 p.c. Companies also financed themselves, albeit to a smaller extent, by issuing commercial paper. On the bond market, hardly any recourse was had to the franc segment, except for a large issue by the Belgacom company. Loans in Luxembourg francs, on the other hand, increased considerably.

Structurally, Belgian companies receive a net contribution of funds from the rest of the world. The importance of this source of financing cannot, however, be correctly assessed merely from the change in direct foreign investment and in allied transactions such as, for instance, real estate dealings, because the movement of companies' liabilities to and claims on foreign countries are more and more interdependent. Movements of funds connected

**TABLE 31 — NEW LIABILITIES CONTRACTED BY INDIVIDUALS<sup>1</sup> AND COMPANIES TO BELGIAN CREDIT INSTITUTIONS<sup>2</sup>***(Billions of francs)*

	1993			First nine months of 1994		
	Individuals	Companies	Total	Individuals	Companies	Total
Mortgage loans .....	112	26	138	97	6	103
Loans at over one year .....	-22	36	14	20	64	84
Fixed rate .....	-7	-45	-52	8	20	28
Floating rate .....	-16	81	65	11	45	56
Loans at up to one year .....	-36	14	-22	-19	-21	-40
Current account advances .....	11	-52	-42	-8	-32	-40
Other .....	-8	-11	-19	3	-6	-3
Total .....	56	13	69	92	12	104

Source : NBB.

<sup>1</sup> Including one-man businesses.<sup>2</sup> In Belgian francs and in foreign currencies.



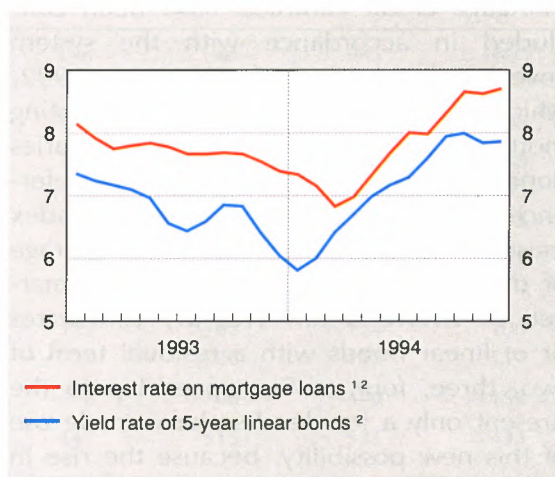
with these transactions were swollen by the co-ordination centres, one of whose main functions is precisely to provide a form of financial intermediation between companies of the same group or between those and credit institutions. In that context, the movement of Belgian companies' own claims on foreign companies should be deducted from their new liabilities to the rest of the world.

During the first three quarters of 1994 capital flows both from and to foreign countries shrank considerably. New liabilities amounted to only Fr. 77 billion, while the formation of claims was interrupted, these having actually decreased by Fr. 57 billion. These movements are mainly due to the repayment of loans, the outstanding amounts of which had risen systematically in the past.

During the first nine months of 1994 the total indebtedness of individuals and companies to credit institutions increased by Fr. 104 billion. This rise conceals a divergent movement of the liabilities of individuals and companies. The bank debt of the latter increased only slightly. On the other hand, the outstanding amount of credits granted to individuals, with which one-man businesses are grouped, rose considerably, chiefly because of the steady growth in mortgage loans and other loans at over one year.

The increase in new mortgage loans might at first sight appear paradoxical in a context marked by a rapid rise in long-term rates. The interest rates on mortgage loans are, however, characterised by a considerable degree of inertia and only adapt themselves with a certain time-lag to changes in interest rates in the other segments of the capital market. This phenomenon operated particularly in 1994. At the beginning of the year the downward movement of interest rates on mortgage loans reflected, with a time-lag, the sharp reduction in long-term rates which took place during the fourth quarter of 1993 and was consequently out of phase with

CHART 42 — INTEREST RATE ON MORTGAGE LOANS



Source : NBB.

<sup>1</sup> These rates correspond to the average of the rates applied for a loan with a term of 20 years and subject to five-yearly revision. They are obtained by means of a survey conducted among the main credit institutions and are weighted on the basis of the balance sheet total of these institutions. The rate for a given month is obtained by averaging the interest rates recorded at the end of this month and the end of the preceding month.

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

the recovery of bond interest rates, which took place from February onwards. The difference between the mortgage interest rate and the corresponding yield rate on linear bonds on the secondary market therefore decreased appreciably. From the second quarter onward mortgage interest rates rose parallel with those on government loans; the differential compared with this reference rate therefore remained very narrow during the greater part of the year and widened only during the last months.

Furthermore, the reversal of the movement of interest rates might in itself have contributed to the appreciable increase in the outstanding amount of mortgage loans during the first nine months of 1994, the prospect of a rise in rates having induced some borrowers to decide to invest earlier. The new financial resources obtained were mainly used for the purchase or renovation of existing dwellings, because the number of housing starts was not much greater than in 1993.

Since 1st January 1995, at the end of a two-year transitional period, all new mortgage credit contracts have been concluded in accordance with the system governed by the law of 4th August 1992, which introduces the possibility of granting mortgage loans the rate on which varies depending on the movement of a reference index. For loans in francs this index must correspond, optionally, to the average of the yield rates, on the secondary market, of twelve-month Treasury certificates or of linear bonds with a residual term of two, three, four or five years. Up to the present only a few lenders have made use of this new possibility, because the rise in long-term interest rates was not conducive to the success of variable-rate loans. Nearly all the credits granted in 1994 were therefore still at fixed or semi-fixed interest rates. In the long run, however, the extension of the system under the aforementioned law to all lenders is likely to encourage the growth in variable-rate mortgage loans. The extent of any movements of bringing-forward of investment decisions such as were observable in 1994 would then be reduced.

Owing to the increase in purchases of motor vehicles, the outstanding amount of credits at over one year to individuals, which are mainly granted in the form of flat-rate loans for the financing of purchases of durable goods, rose slightly during the year under review. On the other hand, short-term credits, in the form of loans at up to one year or current account advances, decreased.

Generally speaking, the stagnation of investment, the increase in net contributions of funds from the rest of the world and relatively substantial recourse to the capital market enabled companies to considerably slow down the growth in their indebtedness to credit institutions. In connection with the development of their international activities, the co-ordination centres actually continued, in 1994, the net repayments of bank credits which they had started upon in the second half of

1993. Altogether, the new liabilities of companies to credit institutions, which had amounted to only Fr. 13 billion in 1993, again remained very limited, having totalled Fr. 12 billion during the first three quarters of 1994. Like individuals, companies increased their debt at over one year at the expense of their short-term liabilities.

### ***Financing of the deficit of general government***

A substantial change in the financing structure of general government took place in 1994 compared with previous years.

In order to shelter the public finances from changes in interest rates, which are difficult to predict, general government had considerably increased its long-term debt in francs in 1991 and 1992, even to a greater extent than the financial deficit. In 1993 this tendency to consolidation had, however, been less pronounced; in 1994 it was in fact completely reversed. Short-term financing in francs was thus much greater than the financial deficit, general government having reduced both the foreign currency debt and, for the first time in several decades, the long-term debt in francs.

During the first half of the year the markets' preference for assets at under one year made long-term financing difficult. General government thus financed itself more at short term at rates which, in 1994, were below the capital market rates. General government's recourse to short-term financing was also reflected in the movement of the Treasury's portfolio of financial assets. After having risen for three years, this portfolio, built up in order to meet day-to-day requirements, in fact contracted by nearly Fr. 120 billion.

On the capital market, considerable amounts of linear bonds and classical loans

TABLE 32 — FINANCING OF THE DEFICIT OF GENERAL GOVERNMENT

(Billions of francs)

	1991	1992	1993	1994 e
Financing in Belgian francs .....	455	622	82	585
Liabilities at over one year .....	564	694	431	-30
of which : Gross issues <sup>1</sup> by the Treasury .....	1,164	1,107	1,530	1,403
Redemptions by the Treasury .....	-626	-543	-1,225	-1,515
Liabilities at up to one year .....	13	-10	-224	515
of which with the NBB .....	-73	...	...	-
Formation of financial assets <sup>2</sup> .....	-122	-62	-124	100
of which Treasury .....	-124	-26	-117	117
Financing in foreign currencies .....	-8	-108	449	-152
Financial deficit <sup>3</sup> .....	447	515	531	433

Sources : Ministry of Finance, NBB.

<sup>1</sup> Including capitalised interest and repayments of taxes settled in the form of linear bonds.<sup>2</sup> Minus sign : increase in assets.<sup>3</sup> The financial deficit differs from the net financing requirement owing to, among other factors, differences in timing in the dating of the registration of transactions between the two approaches and imperfections in the recording of data.

were redeemed in 1993 and 1994. These repayments reached Fr. 1,500 billion in 1994, having already amounted to Fr. 1,200 billion in 1993. Thus, over a period of two years, more than half of the federal government's long-term debt in francs, as at 31st December 1992, had been replaced by new bonds at appreciably lower interest rates. The extent of these operations is attributable to two main factors. Firstly, the maturity dates of many loans, to a total amount of over Fr. 1,050 billion, were concentrated in this period and the Treasury therefore had to make substantial redemption payments. Secondly, the Treasury took advantage of relatively low long-term interest rates in 1993 and during the first half of 1994 to repay loans with high nominal interest rates, on their optional maturity dates, by the exercise of call options and to refinance them at lower rates. In order to spread out the redemption burden somewhat over a period of time, exchange tendering procedures were regularly organised and loans were exchanged, before their optional or final maturity dates, for linear bonds.

## 6.3 FINANCIAL MARKETS

### *Security market*

During the first nine months of 1994 the net amount of security issues in Belgian francs made by the final borrowers reached Fr. 314 billion, against Fr. 122 billion for the whole year 1993. Both companies and general government increased their recourse to the market.

Continuing a movement which started in the fourth quarter of 1993, companies made large share issues which enabled them to raise Fr. 43 billion during the first three quarters of 1994. This increased recourse to venture capital was due to a combination of various factors. The improvement of growth prospects and the rise in long-term interest rates induced companies to issue new shares in order to obtain funds. These capital increases were facilitated by the movement of stock exchange quotations, which, after the sharp rise which took place in 1993, remained at a high level during the first half of 1994. They were also stimulated by the reduc-

TABLE 33 — NET ISSUES OF SECURITIES IN BELGIAN FRANCS BY THE FINAL BORROWERS

(Billions of francs)

	1991	1992	1993	1994 First nine months
Companies (excluding credit institutions) .....	66	25	52	48
Shares <sup>1</sup> .....	41	16	28	43
Bonds .....	22	-9	10	-16
Commercial paper and promissory notes .....	3	19	15	21
General government .....	469	591	96	274
Bonds .....	482	627	315	-401
Linear bonds .....	935	963	1,122	650
Bonds intended for individuals <sup>2</sup> .....	227	140	291	20
Other bonds <sup>3</sup> .....	-680	-476	-1,098	-1,071
Treasury certificates <sup>4</sup> .....	-13	-35	-219	675
Foreign countries .....	1	-4	-26	-8
Total .....	536	613	122	314
p.m. Bonds in Luxembourg francs <sup>5</sup> .....	183	173	125	149

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

<sup>1</sup> Public share issues, including the exercise of warrants and shares issued by credit institutions.<sup>2</sup> Classical loans subject to withholding tax at 13.39 p.c. since 1st January 1994.<sup>3</sup> Old classical loans subject to a withholding tax rate other than 13.39 p.c. or exempt from withholding tax.<sup>4</sup> Including commercial paper issued by the communities and regions.<sup>5</sup> Total net issues by Belgian and foreign borrowers.

tion, under certain conditions, of the withholding tax levied on the dividends on new shares from 25.75 to 13.39 p.c. Lastly, shareholders confirmed their interest in venture capital by accepting the optional dividends in shares offered by a growing number of companies and exercising warrants totalling around Fr. 2 billion.

Gross issues of bonds by companies rose during the first nine months of 1994 owing to a large loan of Fr. 15 billion issued by the Belgacom company. Redemptions of matured securities were, however, greater, with the result that net bond liabilities declined during the period under review.

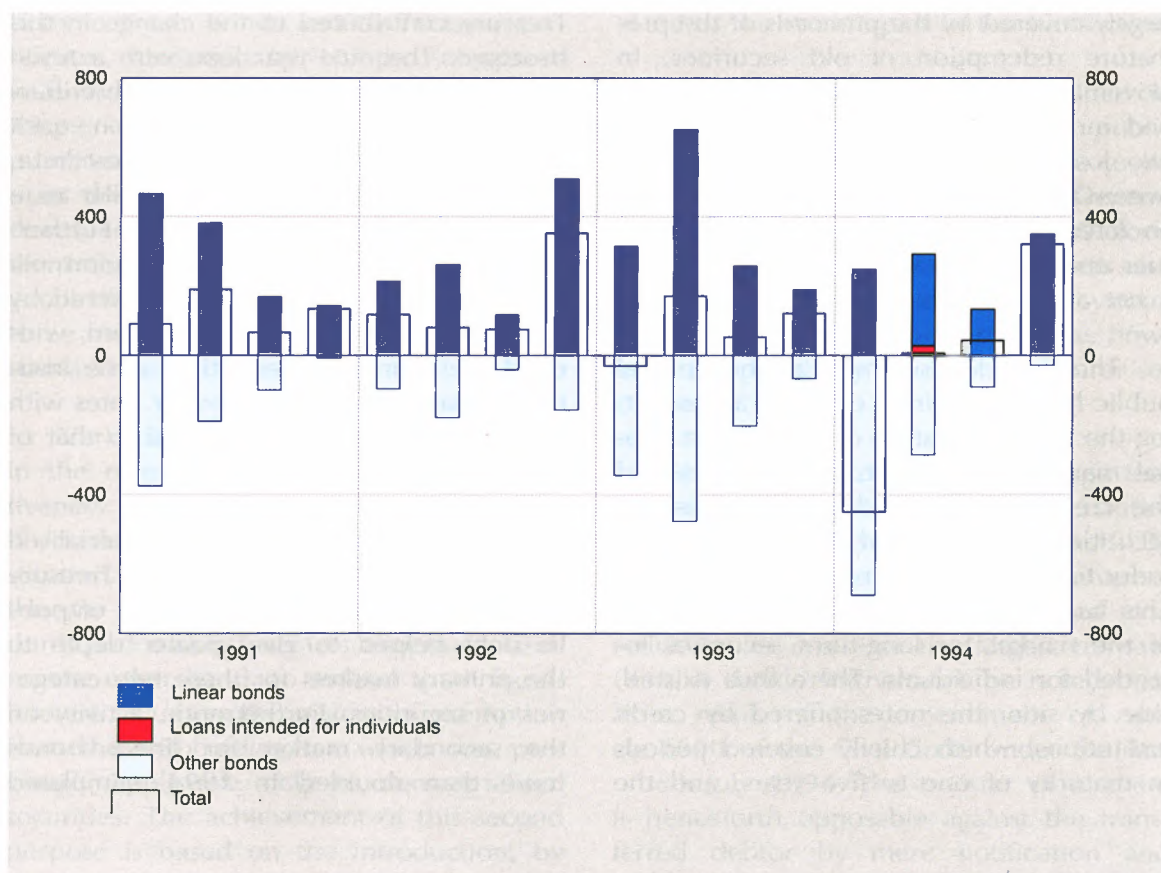
The fact that the market for private bonds in francs remains so narrow is partly attributable to the fairly substantial recourse of Belgian companies to the Euro-market in Luxembourg francs, either directly or via — mainly Luxembourg —

subsidiaries specially created for that purpose. During the first nine months of 1994 net issues in Luxembourg francs made by both residents and non-residents of the BLEU increased considerably, reaching Fr. 149 billion, against Fr. 125 billion for the whole of 1993.

Lastly, in a context of rising long-term interest rates and declining short-term rates, companies resorted more than in 1993 to issues in the form of commercial paper or promissory notes. This type of instrument offers a great variety of financing options to enterprises, which can combine the issuing of short-term and of medium- or long-term securities, in Belgian francs or in foreign currencies, within one and the same program. The lengthening of the maximum period to maturity of commercial paper to over one year and less than eight years introduced under the law of 6th August 1993 stimulated interest in this form of financing which has now be-

CHART 43 — NET ISSUES OF BELGIAN BONDS IN FRANCS BY GENERAL GOVERNMENT

(Billions of francs)



Sources : Ministry of Finance, NBB.

come genuinely capable of competing with and serving as a valid alternative for classical bonds.

As mentioned above, the recent movement of interest rates also influenced the way in which general government resorted to the capital market. The policy of consolidation of the public debt pursued at the beginning of the 1990s when there was a reversed yield curve was interrupted in 1994, parallel with the return to a normal interest rate structure. General government therefore had recourse to short-term financing sources. Thus, the outstanding amount of Treasury certificates rose by Fr. 675 billion during the first nine months of 1994, while the bond debt fell by Fr. 401 billion. Classical bonds issued before 1990 were in fact redeemed to the

extent of Fr. 1,071 billion, including nearly Fr. 980 billion during the first half of the year alone. These redemptions were only partly counterbalanced by net issues of linear bonds and of loans intended for the general public.

To facilitate the investment in long-term securities during a period when interest rates were rising, the Treasury offered investors new instruments. This desire for innovation found expression in the launching, for institutional investors, of a line of variable-interest-rate linear bonds and the introduction, for individuals, of two new government loan formulas. The first was a nine-year loan with a variable interest rate and provided with put options. While this loan, which was issued in two tranches, in March and April re-

spectively, proved very successful, it did not bring the Treasury a great deal of new resources, because subscriptions were largely covered by the proceeds of the premature redemption of old securities. In November the Treasury introduced a second innovation by simultaneously offering two loans in order to give a choice between an interest-distribution system and an interest-capitalisation system. These issues enabled general government to gather a net amount of over Fr. 200 billion.

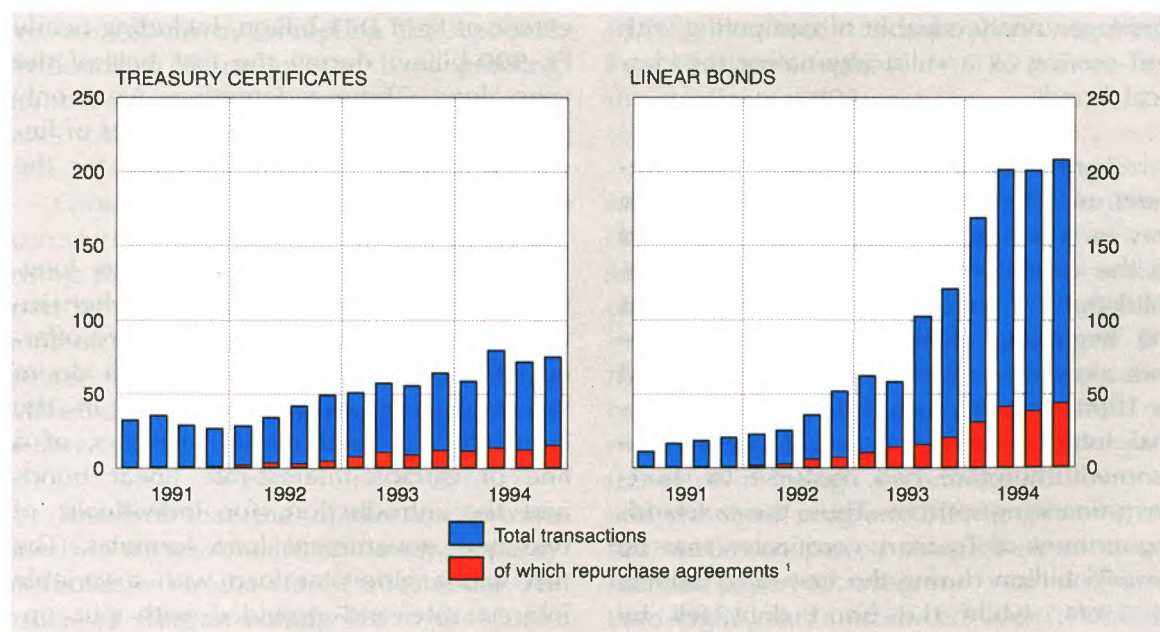
The new loans aimed at the general public had the indirect effect of accentuating the desegmentation of the Belgian capital market. In the past, the Treasury and the credit institutions had always issued securities with different characteristics, in order to avoid competing with each other. This had led to a distribution by maturity of the market for long-term securities intended for individuals. There thus existed, side by side, the notes offered by credit institutions, which chiefly covered periods to maturity of one to five years, and the

Treasury's classical loans for individuals, the duration of which was generally over six years. The innovations proposed by the Treasury contributed to the change in this structure. The nine-year loan with a revisable interest rate in fact offers subscribers a possibility of redemption upon each three-yearly revision of the interest rate, and this makes it, in a way, similar to a note with a period of three years. Furthermore, interest capitalisation is a formula which, hitherto, had only been offered by credit institutions. The latter, in turn, widened their range of securities, some institutions having issued seven-year notes with a nominal interest rate identical to that of the government loan.

The preference given to dematerialised securities — linear bonds and Treasury certificates — for the restructuring of public debt helped to give greater depth to the primary markets for these two categories of securities. Furthermore, activity on the secondary market for linear bonds more than doubled in 1994, stimulated

CHART 44 — VOLUME OF TRANSACTIONS ON THE SECONDARY MARKET FOR DEMATERIALIZED PUBLIC-DEBT SECURITIES

(Daily averages per quarter, billions of francs)



Source : NBB.

<sup>1</sup> Excluding the NBB's open market operations.

both by the rise in long-term interest rates and the rapid development of repurchase agreements. The latter, which can relate both to linear bonds and to Treasury certificates, increased by 107 p.c. compared with the previous year; they represented 19 p.c. of total transactions in 1994. Repurchase agreements on public debt securities do in fact tend to take the place of direct lending and borrowing operations on the interbank market, since they do not entail the equity requirements which have to be met as cover for traditional interbank transactions.

Various measures have been adopted in the recent past to increase the attractiveness of the bond market both for individuals and for Belgian and foreign institutional investors. Their purpose is, on the one hand, to simplify the issue procedures and make them less expensive, and, on the other hand, to extend to all fixed-interest securities the regime of exemption from the withholding tax which was previously applicable only to dematerialised securities. The achievement of this second purpose is based on the introduction, by the law of 6th August 1993, of so-called X and N accounts for the recording of the securities, whether dematerialised or not. X accounts are those allocated to operators who are exempt from the withholding tax, while the N accounts are assigned to other investors. The distinction between operators which is introduced by this system furthermore makes the market for dematerialised securities — linear bonds, Treasury certificates and commercial paper and deposit certificates — accessible to all types of investors. The borrowers thus have the possibility of addressing themselves simultaneously, via a single programme, to the wholesale market represented by Belgian or foreign institutional investors and to the retail market in which private investors operate. The access of the latter to the market for dematerialised securities was furthermore facilitated by the abolition of the minimum limit of Fr. 1 million per transaction. In order to ensure the liquidity of small orders, the Securities Regulation

Fund has, since January 1995, fixed a daily stock exchange price for the various lines of linear bonds and has, when appropriate, acted as the counterpart in the transaction.

The two government loans issued in November 1994 for the general public were the first securities of this type to be recorded in X and N accounts. In December the first bond loan of the Walloon region, amounting to Fr. 4 billion, was also incorporated in this accounting system. The holders of these bonds still have, however, the possibility of obtaining bearer securities.

Since 21st October the brokerage fees on transactions in stock exchange securities have been allowed to be freely fixed. By encouraging competition between intermediaries, this liberalisation should lead to a reduction in costs for the largest transactions. It should furthermore be noted that, as a result of the amendment of Article 1690 of the Civil Code under the law of 6th July 1994, the transfer of a claim is henceforth opposable against the transferred debtor by mere notification and against third parties through the mere fact of the conclusion of the transfer agreement. This simplification of the procedure puts the finishing touch to the adaptation of the legal framework started by the law of 5th August 1992 creating undertakings for investment in claims, and makes it possible to envisage the development of securitisation of claims in Belgium.

### ***Credit institutions***

While many measures have been adopted recently to encourage direct purchases of securities, a large proportion of the financial flows of the Belgian economy are still channelled via the credit institutions. During the last few years the domestic sectors as a whole have, however, had greater recourse to these institutions for obtaining financing resources than for investing funds. This asymmetry in the intermediation role was particularly marked in 1994.

The increase in the credit institutions' assets during the first nine months of the year is chiefly attributable to the claims in francs formed on individuals, companies and general government, which increased by Fr. 638 billion. The other asset items underwent much smaller changes.

On the liabilities side, on the other hand, resources in francs gathered from the domestic sectors during the first three quarters of 1994 explain only a small proportion of the increase in total liabilities.

**TABLE 34 — DEVELOPMENT OF THE BALANCE SHEET  
STRUCTURE OF CREDIT INSTITUTIONS**

(Billions of francs)

	Change in outstanding amounts during the first nine months of 1994	Outstanding amount at the end of September 1994
<b>Assets</b>		
In francs vis-à-vis non-banking customers .....	671	10,902
Individuals and companies ....	132	5,163
General government .....	506	5,464
Rest of the world .....	33	275
In francs on the interbank market <sup>1</sup> .....	92	1,941
In foreign currencies .....	162	8,795
Total .....	925	21,638
<b>Liabilities</b>		
In francs vis-à-vis non-banking customers .....	210	9,802
Individuals and companies ....	203	8,852
General government .....	-59	293
Rest of the world .....	66	657
In francs on the interbank market <sup>1</sup> .....	131	2,287
Other net liabilities in francs ....	145	815
In foreign currencies .....	439	8,734
Total .....	925	21,638
p.m. Foreign currencies to be received against francs <sup>2</sup> ..	-583	13,008
Foreign currencies to be delivered against francs <sup>2</sup> ..	-835	13,162
Net position <sup>2</sup> .....	252	-154

Source : NBB.

<sup>1</sup> Total interbank transactions in the form of direct lendings and borrowings and of repurchase agreements.

<sup>2</sup> Positions resulting from forward foreign exchange transactions and currency and interest rate swaps.

Investments by companies and individuals with credit institutions amounted to only Fr. 203 billion. Furthermore, general government met part of its financing requirement by drawing on its deposits. The bulk of the growth in the liabilities of credit institutions is in fact attributable to the other liabilities items, namely interbank liabilities in francs and, above all, foreign exchange transactions. During the first nine months of 1994, net spot foreign exchange assets decreased by Fr. 277 billion. This movement was coupled with an opposite movement of the forward position, this having been chiefly reflected in a decrease in the net amount of foreign currencies to be delivered within the framework of forward foreign exchange transactions and swaps.

These large changes mainly correspond to reversals of positions taken up during the second half of 1993. The speculative attacks on the franc during that period had in fact led to an increase in the amount of the foreign currencies to be delivered within the framework of forward foreign exchange operations and swaps, against which the banks had hedged by increasing their spot foreign currency assets.

The differential between the yield of the credit institutions' assets and the cost of their liabilities increased somewhat during the first nine months of 1994, reaching 1.4 p.c., against 1.23 p.c. the previous year. This rise is not attributable to interbank transactions and foreign currency transactions, which, by their nature, have a low yield, but reflects the widening of the margin obtained on transactions in francs with non-bank customers. This increased to 2.23 p.c. during the first nine months of the year against 2.02 p.c. in 1993.

This increase, which follows a long period of contraction, is largely due to a revival of interest in savings deposits the income of which is exempt from withholding tax. The lowering of the rate of this tax from 25 to 10 p.c. on 1st March 1990 had



led to a marked loss of interest in these deposits, the share of which in liabilities in francs outside the interbank market had steadily decreased from 34 p.c. in 1989 to 20 p.c. in 1993. During the same period individuals had increased their investments in high-yield time deposits and notes, which are much more expensive financing sources for credit institutions.

In 1994 the outstanding amount on deposit books again expanded considerably. On the one hand, the rate of the withholding tax was raised from 10.3 to 13.39 p.c., increasing the tax advantage attaching to this category of deposits. On the other hand, the decline in money market interest rates had more effect on the yield of short-term deposits than on the

more administered rates on deposit books. This narrowing of the differentials between the various short-term rates could also explain the increase in the share of sight deposits in the liabilities of credit institutions. Overall, a shift, equivalent to 3.1 p.c. of the total resources in francs gathered by credit institutions outside the interbank market, took place from time deposits and notes to — less expensive — sight or savings deposits.

Despite this development, the differential between the yield on assets and the cost of liabilities in francs to non-bank customers remains narrow, reflecting the keener competition between financial institutions in the collection of savings and in lending. On the capital market the im-

TABLE 35 — IMPLICIT INTEREST RATES ON TRANSACTIONS IN FRANCS WITH NON-BANK CUSTOMERS<sup>1</sup>

(Percentages)

	First nine months of 1993		First nine months of 1994	
	Shares in total assets or liabilities	Implicit interest rate <sup>2</sup>	Shares in total assets or liabilities	Implicit interest rate <sup>2</sup>
<b>Assets</b>				
Time deposits .....	32.9	9.19	33.4	8.26
Mortgage loans .....	12.3	8.95	13.5	8.73
Other loans <sup>3</sup> .....	11.1	10.66	11.5	9.38
Short-term securities .....	10.3	8.31	10.3	6.14
Long-term securities .....	33.4	8.50	31.3	7.89
Average yield on assets .....		9.00		8.12
<b>Liabilities</b>				
Sight deposits .....	11.1	2.85	12.1	2.24
Regulated savings deposits .....	20.4	4.85	22.5	4.36
Time deposits and special deposits .....	27.6	8.19	26.4	5.98
Notes and other securities .....	40.9	8.34	39.0	7.84
Average cost of liabilities .....		6.98		5.89
<b>Difference between the average yield on assets and the average cost of liabilities</b> .....		2.02		2.23

Source : NBB.

<sup>1</sup> Data for the first nine months of the year, expressed on an annual basis.

<sup>2</sup> The implicit interest rate is calculated by comparing, respectively, the interest income generated and the interest charges borne during a given period with the average outstanding amount of the corresponding assets and liabilities held during that period.

<sup>3</sup> These are chiefly loans subject to a flat-rate charge and current account advances.

PLICIT interest rate on notes and that on the portfolio of long-term securities of credit institutions are tending to converge. The differential between the average cost of sight deposits and the average yield on the short-term securities held by the financial intermediaries also became much smaller.

While the recent movement of short-term interest rates exerted a favourable influence on the intermediation margin, the rise in long-term rates in 1994, on the other hand, had adverse effects on the other incomes of credit institutions. The sharp fall in these incomes during the first nine months of the year reflects the relatively large losses suffered on security dealings and forward interest rate contracts. Income from foreign exchange transactions also decreased. The latter had, admittedly, reached particularly large amounts during the second half of 1993, as a result of the tensions on the foreign exchange markets.

The increase in net interest income having been counterbalanced by the decline in other income, the profits of credit institutions were of the same order of magnitude as in 1993. The banks were thus able to consolidate the improvement in profitability which they achieved during that year.

Even so, they are still subject to keen competition, which is bound to become stronger still because credit institutions which are approved in one Member State of the European Union henceforth enjoy freedom of establishment and providing of services in the other Member States. While the transposition into Belgian law of the European provisions governing these new conditions of activity was mainly carried out by the law of 22nd March 1993, further adjustments were also made to the legal framework in 1994.

Thus, the Royal Decree of 12th August 1994 concerning the consolidated supervision of credit institutions was the final step in the adaptation of Belgian legislation to

a European Directive of 6th April 1992, the general principles of which had already been incorporated in the law of 22nd March 1993 concerning the status and supervision of credit institutions. Consolidated supervision enables the supervisory authorities to obtain an overall picture of the various risks incurred in the group to which the credit institution belongs.

Furthermore, in March 1994, the Banking and Financial Commission amended its Decree of 19th March 1991 concerning the own funds of credit institutions in order to harmonise it with the European Directive of 21st December 1992 on the supervision and control of major risks of credit institutions. In order to limit their maximum risk of loss on a customer or group of associated customers, credit institutions must, after a transitional period, comply with a double limitation rule. On the one hand, the total risks on one and the same counterpart must not exceed 25 p.c. of their equity. On the other hand, the total of all the risks which, individually, amount to or exceed 10 p.c. of their equity must not exceed 800 p.c. of that equity.

Lastly, among the measures adopted to complete the single European market, mention must be made of the law of 23rd December 1994 concerning the systems for the protection of deposits with credit institutions, which converts the European Directive of 30th May 1994 into Belgian law. This law increases the amount of the guaranteed repayment to each depositor in the event of failure of a credit institution. The guarantee, previously subject to a ceiling of Fr. 500,000, was increased on 1st January 1995 to the equivalent in francs of Ecu 15,000 and must reach the equivalent of Ecu 20,000 with effect from 31st December 1999. This guarantee henceforth applies both to deposits and to notes, bonds and other bank certificates of indebtedness — whether registered or in safekeeping — which are denominated in francs, in Ecus or in currencies of Member States of the European Union.

**Collective investment undertakings**

Collective investment undertakings have expanded very greatly in Belgium during the last ten years. Purchases of units issued by these undertakings have gradually taken the place of direct purchases of securities and, even more, of investments with credit institutions, and have thus contributed to the development of a third major investment channel. The emergence of UCITs represents, in Belgium, the most important manifestation of a development which has been observable in very many countries, where institutional operators such as insurance companies, pension funds or investment funds are attracting a steadily growing proportion of household savings. In Belgium, UCITs owe their success to two major factors. By resorting to this method of investment, savers can, on the one hand, diversify their assets portfolio and, on the other hand, benefit from the tax exemption of increases in value as

provided for in the legislation on personal income tax, on condition that they opt for the income-capitalisation formula.

Although the expansion of UCITs has taken place mainly at the expense of investments made with credit institutions, the latter have nevertheless been one of the driving forces behind the development of this new form of intermediation. Belgian credit institutions or their Luxembourg subsidiaries are in fact marketing the units of most of the UCITs which are operating on the Belgian market and are therefore earning the bulk of the commission connected with this new type of activity.

The widening of the market of UCITs, which had been particularly rapid from 1991 to 1993, was, however, interrupted in 1994 under the influence of two factors. The tax on stock exchange transactions levied on transactions in units of capitalisation SICAVs was raised. The rate applied to the purchase of units of these SICAVs,

**TABLE 36 — MAIN INVESTMENTS MADE VIA COLLECTIVE INVESTMENT UNDERTAKINGS WHICH MAKE PUBLIC ISSUES IN BELGIUM**

(Change in the outstanding amount of assets in billions of francs, after elimination of the changes due to variations in exchange rates and stock exchange prices)

	1991	1992	1993	1994 First nine months
Francs				
Liquidity .....	38	119	91	-28
Bonds .....	49	131	152	-16
Shares .....	5	7	18	24
Total .....	92	256	261	-20
Foreign currencies				
Liquidity .....	6	1	57	-1
Bonds .....	42	21	195	...
Shares .....	12	1	88	51
Total .....	60	24	340	51
Grand total .....	152	280	601	31
of which : Net subscriptions .....	70	194	431	n.
Reinvestment of interest and dividends .....	82	86	169	n.

Sources : Belgian Association of Collective Investment Undertakings, NBB.

and to changing of compartment within them, was increased from 0.35 to 1 p.c., while the rate of the tax levied in the event of sale was increased from 0.35 to 0.5 p.c. This levy, which comes on top of the entry and exit fees and of the management costs which the UCITs themselves charge to their customers was, on the other hand, reduced in respect of distribution SICAVs. For these, the rate was lowered from 0.35 to 0.14 p.c. for purchases and was abolished for sales and changes of compartment.

Moreover, as illustrated in section 6.2, the rise in long-term interest rates led to a sharp decrease in the inventory values of UCITs. Now, investments in capitalisation UCITs, the incomes from which are received only in the form of increases in value, cause individuals to react quickly to the movement of these inventory values, which are in fact published daily for most UCITs. This sensitivity to price changes is, on the other hand, much less great when the securities have been acquired direct from the final borrower. In this case, individuals tend to keep their securities until maturity, because this enables them to know their exact realisation value.

As a result of the combined effects of the increase in levies and the rise in interest rates, UCITs as a whole saw a reduction in their assets for the first time since their creation, these having declined from Fr. 1,907 billion at the end of 1993 to Fr. 1,855 billion on 30th September 1994. The main reason for this development lies in the decline in prices, because, if this factor is disregarded, the assets managed by UCITs appear to have increased again slightly. This rise is not due to net purchases, because acquisitions of units fell considerably short of repayments, but is attributable to the reinvestment of incomes. As most UCITs operate according to the capitalisation system, the incomes are in fact automatically reinvested, which

constitutes a structural factor causing the outstanding amount to increase.

The slight growth, after correction for changes in prices, in the assets held by UCITs in 1994 is solely attributable to their investments in venture capital. This movement primarily reflects the interest displayed by individuals in purchases of shares in general, both on the Belgian market and on foreign markets. The attractiveness of shares has also been stimulated, however, by the UCITs themselves, which have offered new formulas aimed at reducing the risk entailed by this type of investment. This has led to the creation of several capitalisation SICAVs which, in exchange for the imposition of a ceiling on possible increases in value, guarantee repayment of the initial stake.

UCITs specialising in shares are mainly bodies incorporated under Belgian law, because the choice of this legal system makes it possible to recover the withholding tax on dividends on Belgian shares and to take advantage of the double-taxation agreements in respect of incomes of foreign origin. The increase in the proportion of shares in the portfolios of UCITs has therefore led to a fairly marked growth in the market share of UCITs governed by Belgian law. On 30th September 1994, these administered 33 p.c. of the funds raised in Belgium by all UCITs combined, against 25 p.c. a year earlier.

In 1994, most UCITs governed by Belgian law were made subject to new accounting rules which were introduced by the Royal Decree of 18th March 1994 concerning the accounting and annual accounts of certain open-ended collective investment undertakings. Furthermore, the law of 21st December 1994 laid down the tax provisions applying to fixed-capital companies for investment in immovable property, or SICAFIs, which should permit the growth of this new product.

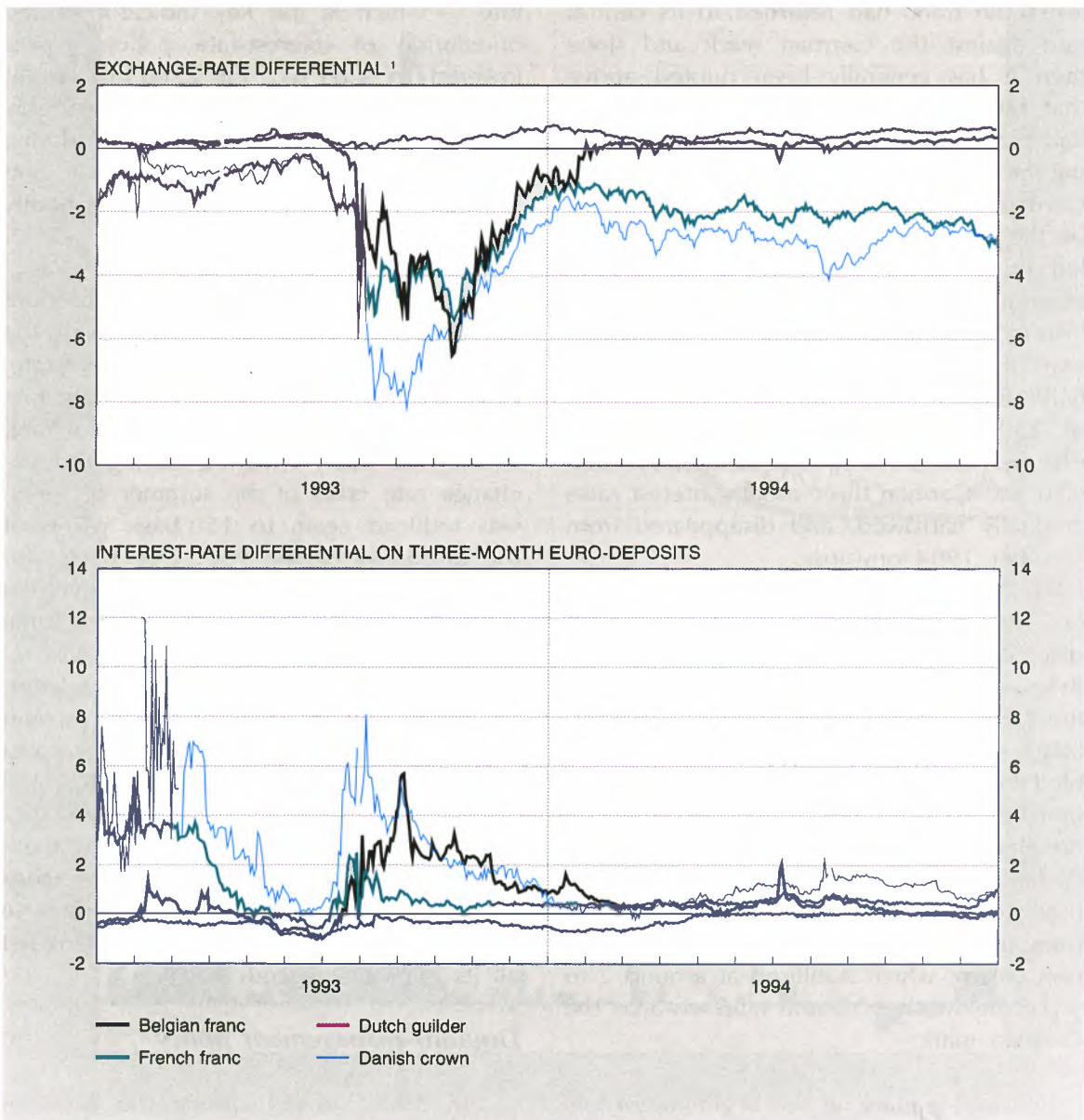
## 7. MONETARY AND EXCHANGE RATE POLICY

### 7.1 GENERAL ORIENTATION

After a period of tensions and upheavals on the foreign exchange markets during the second half of 1993, monetary policy was pursued in a more stable environment in

1994, with a return to calm conditions in the exchange rate mechanism of the European Monetary System, contributing to renewed confidence in the franc. Furthermore, the conduct of monetary policy continued to be influenced by the decisions of the Bundesbank, which went on reducing

CHART 45 — EXCHANGE-RATE AND INTEREST-RATE DIFFERENTIALS VIS-A-VIS THE GERMAN MARK



Source : NBB.

<sup>1</sup> As a percentage of the central rate vis-à-vis the German mark.

its rates cautiously during the first seven months of the year and left them unchanged after that.

The maintenance, by the Bank, of its strategy centred on the exchange rate objective, which was reflected in the raising of interest rates during the summer of 1993, and the improvement in budgetary prospects after the adoption of the global plan for employment, competitiveness and social security on 17th November 1993, brought about a reversal of the speculative positions and re-established the credibility of the exchange rate policy. At the end of January 1994 the franc had returned to its central rate against the German mark and since then it has generally been quoted above that rate, a position similar to that which had prevailed during the three years following the announcement of the pegging to the German mark in June 1990. The tensions on the foreign exchange markets which had led in October 1993, for the franc, to a maximum depreciation of 6.5 p.c. in relation to its central rate vis-à-vis the German mark, ultimately proved short-lived. Similarly, whereas it had frequently been in excess of 250 basis points between August and October 1993, the differential between Belgian and German three-month interest rates gradually narrowed, and disappeared from October 1994 onwards.

The Bank's policy was aimed in the first place at bringing the exchange rate for the Belgian franc back to its central rate vis-à-vis the German mark. It thus helped to consolidate confidence in the franc, which enabled the interest-rate differential with Germany to be reduced and, subsidiarily, induced the Bank to buy foreign currencies on the exchange market. This policy also contributed to the strengthening of the Belgian franc against the French franc and the Danish crown, which stabilised at around 2 to 3 p.c. below their central rates vis-à-vis the German mark.

In mid-January, at the beginning of July and in mid-August, temporary speculative movements led to a very slight weakening

of the franc and a widening of the differential between Belgian and German interest rates. The Bank did not react by raising its official rates and the markets quickly calmed down again.

## 7.2 USE OF THE INSTRUMENTS OF MONETARY POLICY

### *Interest-rate policy*

In the first part of the year, the Bank gradually reduced its interest rates. From 7.25 p.c. at the end of 1993, the central rate — which is the key indicator of the orientation of interest-rate policy — was lowered to 4.85 p.c. on 22nd July 1994. The Bank's central rate moved appreciably closer to the Bundesbank's repo rate during the first two months of the year and reached that rate in May, subsequently moving with it.

The rate for ordinary current account advances and those for deposits with the RGI declined parallel with the central rate. However, the differential between the rate for ordinary advances and the central rate, which had been widened during the exchange rate crisis of the summer of 1993, was reduced again to 150 basis points at the beginning of the year. The Bank also lowered the rate for advances above the ceiling and the discount rate, whose function is more symbolic: the former was reduced by 250 basis points and the latter, following reductions in the German discount rate, by 75 points to 9 and 4.5 p.c. respectively from 16th May 1994 onwards.

From August 1994 onwards, as there were no tensions in the foreign exchange market or any changes in official rates in Germany and the Netherlands, the Bank left all its rates unchanged.

### *Liquidity-management policy*

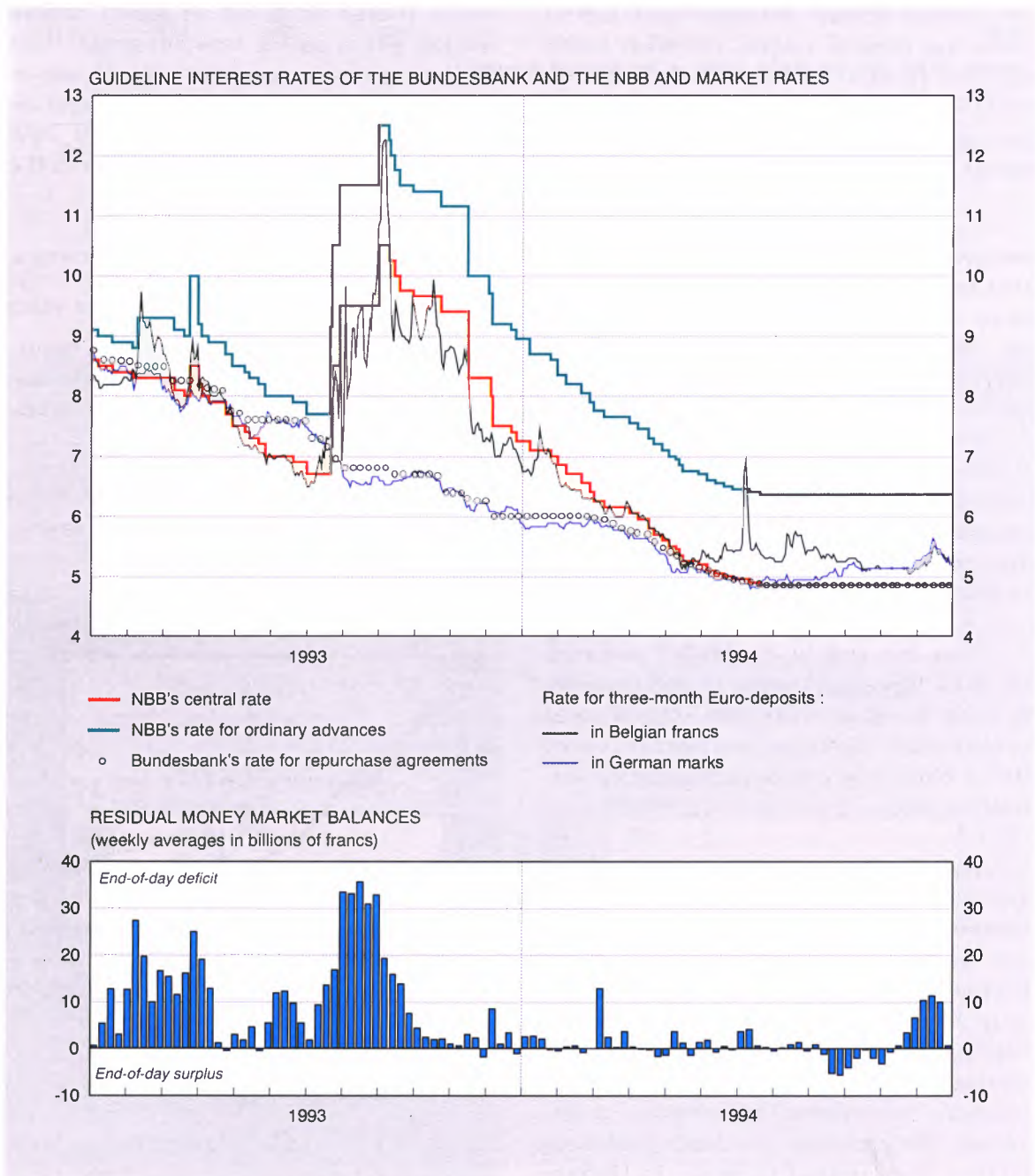
In 1994, unlike during the previous year, the management of the money market's liquidity by the Bank was for the most

part neutral, aimed at keeping end-of-day balances small. The only points worthy of mention were slight deficits at the beginning of March and July and in December, and slight surpluses in September and October.

The deficits observed at the beginning of March were due to reluctance on the

part of the financial intermediaries, which expected a decline in interest rates, to accept the credits offered daily by the Bank. At the beginning of July, the Bank reacted to the tensions which had developed in the foreign exchange market by just a slight tightening of liquidity. These tensions were actually reflected in the market — which

CHART 46 — CONDUCT OF MONETARY POLICY



Source : NBB.

TABLE 37 — TRANSACTIONS OF THE NATIONAL BANK OF BELGIUM ON THE MONEY MARKET IN 1994

(Billions of francs, averages of daily outstanding amounts)

	1st quarter	2nd quarter	3rd quarter	4th quarter
Regulation of the money market				
Claims resulting from direct interventions on the money market				
Very-short-term repurchase agreements .....	101	98	79	82
Public-debt securities purchased on the secondary market ..	30	31	29	19
Interbank deposits .....	1	2	1	1
Total .....	132	131	109	102
Credits allocated by tender .....				
Commercial bills mobilised .....	4	4	4	3
Total .....	160	156	141	131
Coverage of the net end-of-day deficit of the financial intermediaries .....				
	2	...	...	2

Source : NBB.

had probably learned from the policy pursued by the Bank in 1993 — by a spontaneous widening of the short-term interest-rate differentials vis-à-vis the German mark much more than by a depreciation of the franc.

During the months of September and October, on the other hand, the Bank brought about small end-of-day surpluses in order to exert a certain downward pressure on money market interest rates.

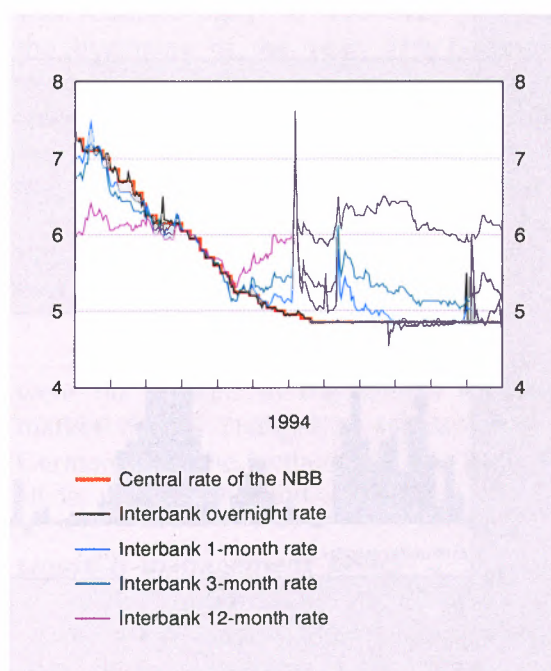
From the end of November onwards, the Bank tightened money market liquidity in order to cause short-term interest rates to follow the slight rise in German money market rates, which was chiefly due to seasonal factors.

As during the preceding years, the Bank continued to offer credits to the financial intermediaries by means of weekly allocations by tender. On 26th September 1994, in order somewhat to extend its influence on money market rates and with a view to making the credit granted by periodical allocations by tender more similar to the Bundesbank's repurchase agreements, it increased the duration of these credits to fourteen days, instead of seven. In December, however, it reduced this period to sev-

en days in connection with the aforementioned tightening of liquidity.

The Bank's daily very-short-term repurchase agreements remained the main instrument for intervention on the money market.

CHART 47 — CENTRAL RATE OF THE NBB AND MONEY MARKET RATES



Source : NBB.



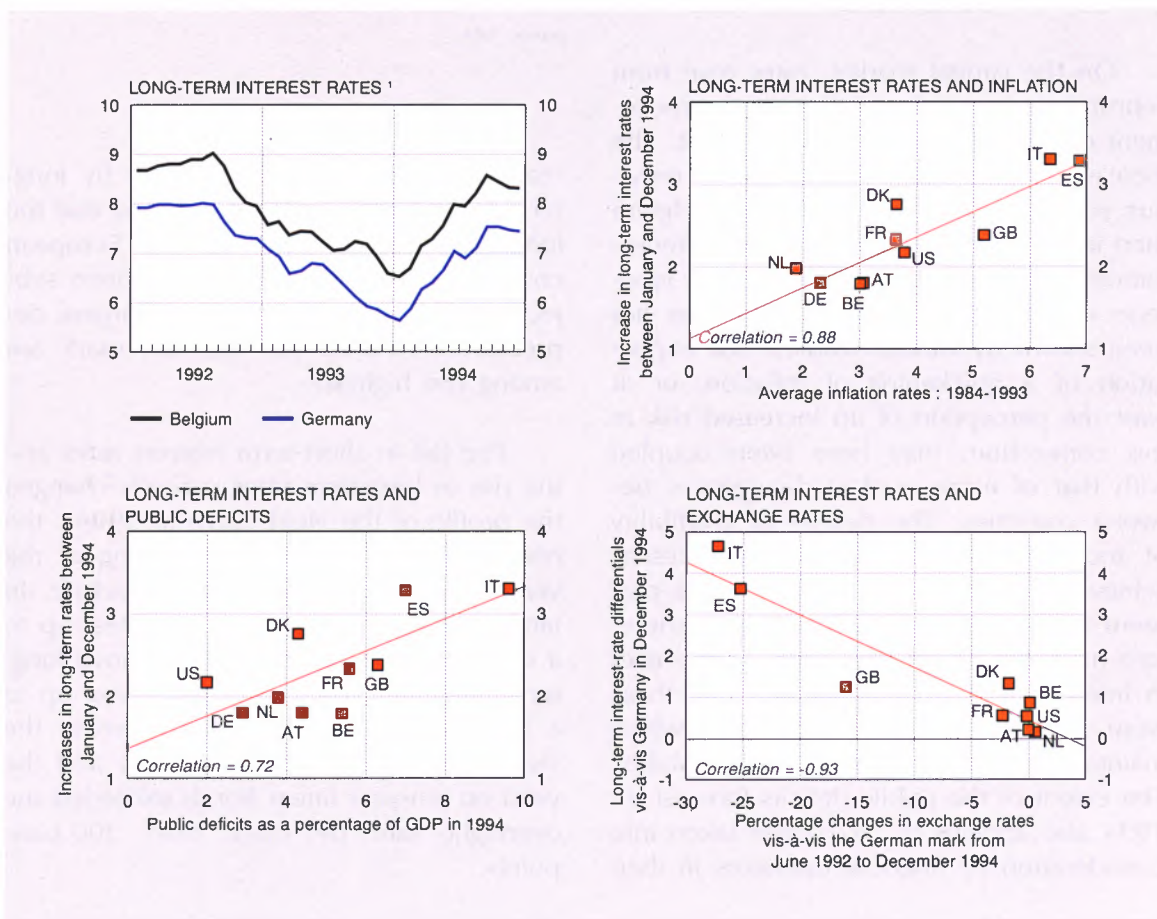
Furthermore, in the course of the year, the Bank used its portfolio of Treasury certificates when it considered that the slope of the short-term yield curve was too steep, by buying three-month Treasury certificates with a fairly long residual period to maturity and selling Treasury certificates closer to maturity. In December it sold part of its portfolio in order to push up interest rates somewhat.

The overall contribution of liquidity in Belgian francs by the Bank tended to decline during the year, owing to the increase in the foreign exchange reserves and the decrease in the note circulation, connected with the withdrawal of the Gezelle-type 5,000 franc notes.

### 7.3 FORMATION OF INTEREST RATES ON THE MONEY AND CAPITAL MARKETS

Since the reform of 1991 the Bank has exercised a direct influence on the overnight rate by fixing the rates for its end-of-day facilities and by its management of money market liquidity. This is in fact how it influences the marginal financing cost of the credit institutions, which corresponds to the central rate when the money market's residual deficit or surplus is small but which can rise up to the rate for ordinary advances when liquidity becomes tighter. In 1994 the liquidity-management policy was rarely used to guide the course of interest rates : except

CHART 48 — LONG-TERM INTEREST RATES, INFLATION, PUBLIC DEFICITS AND EXCHANGE RATES



Sources : BIS, OECD, EC, NBB.

<sup>1</sup> Gross yield rate, on the secondary market, of the ten-year benchmark government bonds (monthly averages).

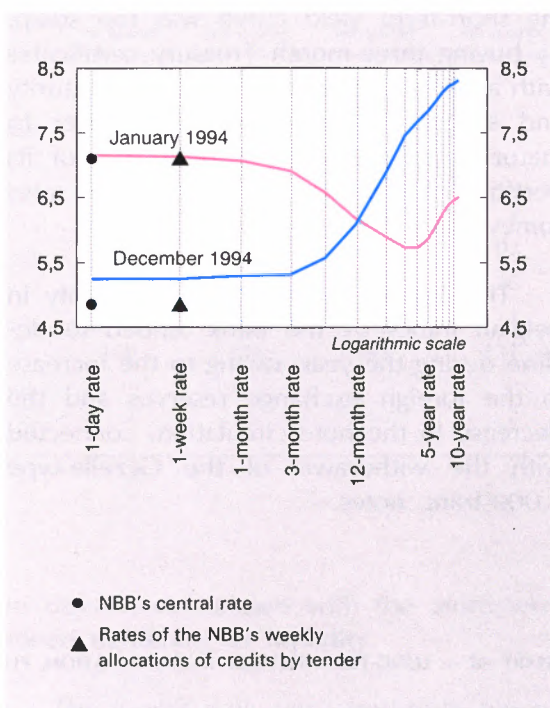
in December, the overnight rate therefore remained very close to the Bank's central rate.

The longer the duration of transactions becomes, the more money market rates depend on the expectations of market participants and on their interpretation of the signals of monetary policy. In January and February 1994 yields from one to twelve months were degressive, meaning that expectations concerning the general trend of very-short-term interest rates were that they would decline, as in 1993. From March to May the rates for the various maturities coincided, while from May onwards the money market yield curve was generally upwards.

The reversal of anticipations concerning interest rates was parallel to that which took place in Germany, as the combined result of the economic recovery and the signals given by the Bundesbank.

On the capital market, rates rose from February to September, following the movement observed on the German market. The increase in 1994, like the fall in the previous year, was less pronounced in Belgium than in many other countries. The differentiation in the upward movement of long-term rates is due to many factors, as has been shown by various studies. The expectation of a quickening of inflation, or at least the perception of an increased risk in this connection, may have been coupled with that of more marked divergences between countries. The degree of credibility of monetary policy, of which the results achieved in controlling inflation in the past seem to constitute an indicator, may therefore have influenced the extent of the rises in interest rates. Thus it seemed that these were more limited in the countries which maintain a greater tradition of price stability. The extent of the public deficits forecast for 1994 also appears to have been taken into consideration by financial operators in their

CHART 49 — YIELD CURVE IN JANUARY AND DECEMBER 1994



Source : NBB.

reassessment of the risks entailed by long-term investments. Lastly, it is found that the long-term interest rates of the European countries whose currencies have been subject, since June 1992, to the sharpest depreciation vis-à-vis the German mark are among the highest.

The fall in short-term interest rates and the rise in long-term rates radically changed the profile of the yield curve in 1994 : the reversed structure at the beginning of the year was replaced by a rising structure. In January, money market interest rates, up to a duration of six months, were above long-term rates and yields were degressive up to a duration of four years. In December the yield curve had recovered sharply and the yield on ten-year linear bonds exceeded the overnight rate by more than 300 basis points.

# Statistical Annex



TABLE I — SUMMARY OF MACROECONOMIC DEVELOPMENTS IN SOME EU COUNTRIES

	Belgium		Germany		France		Italy		United Kingdom		Spain		Netherlands	
	1993	1994 e	1993	1994 e	1993	1994 e	1993	1994 e	1993	1994 e	1993	1994 e	1993	1994 e
<b>Expenditure at constant prices</b>	<i>(Percentage contributions to the change in GDP)</i>													
Private consumption .....	-0.7 <sup>1</sup>	0.6 <sup>1</sup>	0.3	0.7	0.4	0.9	-1.4	1.1	1.6	1.6	-1.5	0.3	0.4	1.0
Public expenditure .....	0.3	0.4	-0.2	0.1	0.2	0.4	-0.3	...	0.1	0.7	0.3	0.1	-0.2	0.1
Private investment .....	-1.3	0.6	-1.2	1.9	-2.4	1.2	-3.6	0.6	0.3	0.7	-2.6	-0.1	-0.8	0.6
of which formation of non-residential fixed capital .....	-1.1	-0.2	n.	n.	-1.0	...	-2.0	0.1	-0.1	0.2	-2.2	...	-0.4	0.2
Total domestic expenditure .....	-1.7 <sup>1</sup>	1.6 <sup>1</sup>	-1.2	2.7	-1.8	2.5	-5.3	1.6	2.1	3.0	-3.8	0.3	-0.5	1.7
Exports .....	1.5	5.9	-1.6	1.8	-0.2	1.4	2.5	2.6	0.8	2.1	1.9	4.1	1.0	3.4
Imports .....	1.5	5.2	-1.6	1.7	-1.0	1.7	-2.1	2.1	0.8	1.7	-0.9	2.7	0.1	2.7
Foreign balance .....	...	0.7	...	0.1	0.9	-0.3	4.6	0.5	...	0.4	2.1	1.4	0.9	0.7
GDP .....	-1.7	...	-1.1	2.8	-1.0	2.2	-0.7	2.2	2.0	3.5	-1.0	1.7	0.4	2.5
<b>Inflation</b>	<i>(Percentage changes compared with the previous year)</i>													
Index of consumer prices .....	2.8	2.4	4.1 °	3.0 °	2.1	1.7	4.2	4.0	1.6	2.5	4.6	4.7	2.6	2.8
<b>Unemployment</b>	<i>(Percentages of the labour force)</i>													
Number of unemployed (EC data) .....	9.4	10.0	5.6 °	6.2 °	10.8	11.3	11.1	11.8	10.4	9.4	21.8	22.6	8.8	10.0
<b>Public finance</b>	<i>(Percentages of GDP)</i>													
Net financing requirement (-) of general government .....	-6.6	-5.4	-3.3	-2.9	-5.8	-5.6	-9.5	-9.6	-7.8	-6.3	-7.5	-7.0	-3.3	-3.8
<b>Balance of payments</b>														
Balance of current transactions .....	5.1 <sup>2</sup>	5.1 <sup>2</sup>	-1.1	-1.2	0.8	0.7	1.2	1.6	-1.7	-0.9	-1.1	1.0	3.3	3.3

Sources : NSI, MEA, NBB for Belgium; OECD and EC for other countries.

<sup>1</sup> Data excluding statistical adjustments.

<sup>2</sup> Data for the BLEU.

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

(Percentage changes compared with the previous year)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 e
Private consumption <sup>1</sup> .....	1.6	1.9	3.0	3.1	3.1	3.7	2.9	2.2	-1.4	0.7
Public expenditure .....	0.8	1.1	-0.4	-0.3	-2.1	0.7	3.1	0.7	1.9	2.6
Public consumption .....	2.5	1.8	0.3	-0.9	0.3	0.3	2.4	0.4	1.9	2.1
Public investment <sup>2</sup> .....	-10.7	-4.6	-6.4	5.0	-22.1	5.6	10.2	3.0	2.1	6.8
Housing <sup>3</sup> .....	4.6	4.6	7.6	22.3	19.1	8.5	-0.8	12.5	-2.0	1.0
Gross fixed capital formation by enterprises .....	2.4	6.3	7.3	15.0	15.5	11.3	-2.7	-4.5	-8.5	-2.0
p.m. Total gross fixed capital formation <sup>1,4</sup> .....	(0.7)	(4.4)	(5.6)	(15.4)	(12.3)	(10.2)	(-1.4)	(0.1)	(-5.9)	(-0.4)
Change in stocks <sup>1,5</sup> .....	-1.3	0.2	0.8	0.2	-0.1	-0.3	-0.1	0.2	-0.2	0.6
Total domestic expenditure .....	0.3	2.5	3.7	4.7	4.2	4.2	1.9	1.7	-2.0	1.4
Exports of goods and services .....	1.1	5.5	6.5	8.5	7.3	4.1	2.6	3.9	1.6	6.2
Total final expenditure .....	0.6	3.8	5.0	6.4	5.6	4.1	2.2	2.7	-0.3	3.7
Imports of goods and services .....	0.7	7.6	8.8	8.0	8.8	4.2	2.4	4.1	1.6	5.4
p.m. Net exports of goods and services <sup>5</sup> .....	(0.3)	(-1.4)	(-1.8)	(0.4)	(-1.3)	(-0.1)	(0.1)	(-0.3)	(...)	(0.7)
GDP before statistical adjustments .....	0.6	1.1	1.9	5.2	2.9	4.1	2.0	1.5	-2.0	2.1
Statistical adjustments <sup>5</sup> .....	0.3	0.3	0.1	-0.3	0.6	-0.9	0.2	0.4	0.3	0.2
GDP after statistical adjustments .....	0.8	1.4	2.0	4.9	3.5	3.2	2.3	1.9	-1.7	2.3
Net factor incomes <sup>5</sup> .....	-0.3	0.4	0.2	...	0.3	-0.5	0.6	-0.2	1.0	0.1
GNP .....	0.6	1.8	2.2	4.9	3.8	2.8	2.9	1.7	-0.7	2.3

Sources : NSI, NBB.

<sup>1</sup> Data excluding statistical adjustments. The latter are shown as a separate item.<sup>2</sup> Owing to the sale of school buildings to public enterprises, there is a break in the public investment item in the national accounts. If this sale is disregarded, the increase in public investment is found to be considerably greater in 1993 and less pronounced in 1994.<sup>3</sup> Including registration fees.<sup>4</sup> Public investment, housing and gross fixed capital formation by enterprises.<sup>5</sup> Contribution to the change in GNP.

**TABLE III — DEFLATORS OF GNP AND OF THE MAIN CATEGORIES OF EXPENDITURE**

*(Percentage changes compared with the previous year)*

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 e
Private consumption <sup>1</sup> .....	4.9	1.5	1.5	1.7	3.2	3.4	3.2	2.9	3.0	2.4
Public expenditure .....	4.5	1.7	0.2	1.1	4.3	4.2	4.8	3.5	4.1	2.8
Public consumption .....	4.6	2.0	0.3	1.0	4.2	4.4	5.2	3.5	4.3	2.9
Public investment .....	4.0	-1.0	-0.4	2.2	4.7	2.7	1.2	3.6	1.6	2.2
Housing <sup>2</sup> .....	5.3	2.9	4.1	2.7	5.1	3.1	1.6	4.2	2.4	2.4
Gross fixed capital formation by enterprises .....	3.3	1.0	...	1.8	3.9	2.6	2.4	2.3	1.3	1.5
p.m. Total gross fixed capital formation <sup>1,3</sup> .....	(3.8)	(1.1)	(0.9)	(2.1)	(4.5)	(2.7)	(2.1)	(3.2)	(1.8)	(1.9)
Total domestic expenditure .....	4.7	1.5	1.2	1.7	3.6	3.4	3.3	3.0	3.0	2.4
Exports of goods and services .....	2.8	-8.4	-3.8	2.9	7.1	-1.7	-0.3	-1.1	-1.0	1.3
Total final expenditure .....	3.9	-2.9	-1.0	2.0	5.0	1.2	1.7	1.1	1.1	1.6
Imports of goods and services .....	2.1	-12.3	-4.6	2.7	6.6	-1.2	-0.4	-2.6	-3.4	1.4
p.m. Terms of trade .....	(0.7)	(4.4)	(0.8)	(0.2)	(0.5)	(-0.5)	(0.1)	(1.5)	(2.5)	(-0.1)
GDP before statistical adjustments .....	5.2	4.5	2.0	1.9	4.5	2.9	3.3	4.1	4.7	2.3
Statistical adjustments <sup>4</sup> .....	0.8	-0.7	0.3	-0.2	0.3	0.2	-0.6	-0.7	-0.3	...
GDP = GNP after statistical adjustments .....	6.1	3.8	2.3	1.8	4.8	3.1	2.7	3.4	4.4	2.3

Sources : NSI, NBB.

<sup>1</sup> Data excluding statistical adjustments. The latter are shown as a separate item.

<sup>2</sup> Including registration fees.

<sup>3</sup> Public investment, housing and gross fixed capital formation by enterprises.

<sup>4</sup> Contribution to the change in the deflator of GNP.

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

(Billions of francs)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 e
Private consumption <sup>1</sup> .....	3,104	3,214	3,359	3,524	3,749	4,021	4,270	4,487	4,558	4,700
Public expenditure .....	921	947	945	953	973	1,022	1,104	1,151	1,221	1,288
Public consumption .....	815	847	852	853	891	933	1,006	1,045	1,112	1,168
Public investment <sup>2</sup> .....	106	100	93	100	82	89	99	106	110	119
Housing <sup>3</sup> .....	152	164	184	230	288	322	325	381	382	395
Gross fixed capital formation by enterprises .....	483	519	557	652	783	894	891	871	807	803
p.m. Total gross fixed capital formation <sup>1,4</sup> .....	(741)	(783)	(834)	(983)	(1,153)	(1,306)	(1,315)	(1,357)	(1,299)	(1,318)
Change in stocks <sup>1</sup> .....	-35	-27	11	24	18	0	-1	13	0	45
Total domestic expenditure .....	4,626	4,816	5,056	5,384	5,811	6,260	6,589	6,902	6,968	7,232
Exports of goods and services .....	3,645	3,523	3,609	4,029	4,630	4,739	4,847	4,978	5,011	5,390
Total final expenditure .....	8,271	8,339	8,665	9,413	10,441	10,999	11,435	11,880	11,979	12,623
Imports of goods and services .....	3,526	3,327	3,452	3,826	4,436	4,565	4,657	4,724	4,638	4,957
p.m. Net exports of goods and services .....	(119)	(196)	(157)	(203)	(193)	(174)	(189)	(254)	(373)	(433)
GDP before statistical adjustments .....	4,745	5,012	5,213	5,587	6,005	6,434	6,778	7,156	7,341	7,666
Statistical adjustments .....	1	-18	-1	-23	28	-11	-35	-54	-56	-44
GDP after statistical adjustments .....	4,746	4,994	5,212	5,564	6,032	6,422	6,743	7,102	7,285	7,621
Net factor incomes .....	-76	-60	-49	-50	-34	-66	-26	-41	33	40
GNP .....	4,669	4,934	5,162	5,514	5,998	6,356	6,717	7,061	7,318	7,661

Sources : NSI, NBB.

<sup>1</sup> Data excluding statistical adjustments. The latter are shown as a separate item.<sup>2</sup> Owing to the sale of school buildings to public enterprises, there is a break in the public investment item of the national accounts. If this sale is disregarded, public investment is found to be higher in 1993 and 1994.<sup>3</sup> Including registration fees.<sup>4</sup> Public investment, housing and gross fixed capital formation by enterprises.



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

(Percentage changes compared with the previous year)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 e	p.m. Percentages of 1993 GDP
Agriculture, forestry and fisheries .....	-0.5	4.5	-7.4	5.9	1.4	-3.3	6.6	9.9	4.8	-2.2	(2.4)
Industry .....	1.6	-0.4	1.1	4.9	5.4	1.4	1.0	0.3	-3.1	3.0	(25.2)
Mineral-extracting industry .....	-6.2	-14.1	-0.4	-9.3	3.0	-3.1	-1.8	8.2	-16.6	0.4	(0.3)
Electricity, gas, water .....	1.4	-0.8	7.2	6.1	0.4	3.4	5.7	0.7	-1.4	2.8	(3.2)
Manufacturing industry .....	1.7	...	0.3	4.9	6.1	1.2	0.4	0.1	-3.1	3.1	(21.7)
of which :											
Non-metallic minerals .....	-11.8	9.7	6.5	15.4	8.6	-1.2	-6.7	9.9	0.5	n.	(1.0)
Wood and furniture .....	2.9	-5.5	2.2	4.0	20.5	1.7	-0.2	-6.0	-2.3	n.	(0.9)
Iron and steel .....	2.6	0.3	2.9	10.9	-1.1	-3.5	-0.9	-8.7	-3.4	n.	(1.0)
Non-ferrous metals .....	24.3	4.8	-3.8	11.3	7.3	3.0	-7.8	-1.4	-9.1	n.	(0.5)
Metal-working industry .....	6.4	-6.7	-9.7	1.5	7.2	1.3	-2.5	-3.8	-6.3	n.	(4.8)
Paper, printing, publishing .....	-4.8	3.3	9.7	13.2	8.5	2.1	-2.8	0.9	0.3	n.	(1.5)
Chemicals and rubber .....	2.0	1.8	6.9	7.5	5.7	1.0	4.3	4.8	-4.3	n.	(4.3)
Textiles, clothing and footwear .....	-2.2	7.0	4.2	-3.6	13.3	5.7	-3.4	2.5	0.7	n.	(1.8)
Food, beverages, tobacco .....	-0.5	1.2	0.9	1.0	3.2	-2.6	3.6	-1.0	-1.3	n.	(4.2)
Building industry .....	-0.1	3.9	1.3	12.5	5.3	7.0	3.3	2.7	-5.3	0.1	(5.7)
Market services <sup>1</sup> .....	0.8	2.9	4.0	5.1	4.1	2.1	3.8	3.6	-0.2	3.2	(50.8)
of which :											
Wholesale and retail trade .....	-4.1	2.0	-1.5	2.7	-4.3	2.8	7.1	5.0	-0.6	n.	(7.8)
Distribution of petroleum products .....	7.9	9.5	2.7	2.0	-1.7	-0.1	4.9	7.0	-4.5	n.	(2.5)
Financial services .....	2.1	11.9	13.5	6.2	6.7	-5.1	5.8	7.6	4.8	n.	(6.2)
Rents .....	2.1	2.2	2.2	2.4	2.5	2.4	2.5	2.6	2.5	n.	(6.0)
Transport and communications .....	2.5	-6.0	4.3	7.8	6.1	5.8	2.4	1.1	-0.9	n.	(7.9)
Other services to enterprises .....	-1.5	8.6	4.1	10.4	14.8	4.4	2.3	4.4	-0.9	n.	(5.8)
Medical professions .....	4.6	0.3	3.2	6.2	7.3	4.9	1.1	4.0	-3.5	n.	(2.9)
Hotels and catering and various services to households .....	-0.4	1.6	5.9	5.6	5.4	3.3	1.7	-0.1	-1.5	n.	(7.5)
Non-market services .....	1.9	1.5	-0.4	-0.1	1.9	1.4	1.7	2.6	1.4	1.7	(12.7)
GDP before statistical adjustments <sup>2</sup> .....	1.1	1.7	2.1	4.6	4.1	2.4	2.5	2.3	-1.4	2.5	
Statistical adjustments <sup>3</sup> .....	-0.3	-0.3	-0.1	0.2	-0.6	0.8	-0.2	-0.4	-0.3	-0.2	
GDP after statistical adjustments <sup>2</sup> .....	0.8	1.4	2.0	4.9	3.5	3.2	2.3	1.9	-1.7	2.3	(100.0)

Sources : NSI, NBB.

<sup>1</sup> Services which are not provided by general government.

<sup>2</sup> Including various items which cannot be broken down among the branches of activity.

<sup>3</sup> Contribution to the change in GDP.

TABLE VI — DEMAND FOR AND SUPPLY OF EMPLOYMENT  
(Thousands of units on 30th June)

	1985	1986	1987	1988	1989	1990	1991	1992	1993 e	1994 e
1. Demand for employment (net labour force)										
1.1 Population of working age <sup>1</sup>	6,663	6,670	6,677	6,678	6,674	6,674	6,675	6,682	6,694	6,704
Men	3,344	3,349	3,355	3,357	3,357	3,358	3,360	3,365	3,372	3,379
Women	3,320	3,321	3,323	3,322	3,318	3,316	3,315	3,316	3,321	3,325
1.2 Gross labour force <sup>2</sup>	4,292	4,323	4,349	4,376	4,417	4,473	4,510	4,533	4,531	4,530
Men	2,626	2,625	2,619	2,611	2,624	2,635	2,640	2,633	2,627	2,621
Women	1,666	1,698	1,730	1,765	1,793	1,837	1,871	1,899	1,905	1,909
1.3 Beneficiaries of early or temporary withdrawal schemes <sup>3</sup>	180	215	234	250	273	293	300	295	272	255
Men	145	169	180	186	192	195	193	189	185	180
Women	35	46	54	64	81	99	107	106	87	75
1.4 Net labour force (1.2 - 1.3) <sup>4</sup>	4,112	4,108	4,115	4,126	4,144	4,179	4,210	4,237	4,260	4,275
Men	2,481	2,457	2,439	2,425	2,432	2,440	2,447	2,444	2,442	2,442
Women	1,631	1,652	1,676	1,701	1,712	1,739	1,763	1,793	1,818	1,834
1.5 Net activity rate (1.4 as percentage of 1.1)	(61.7)	(61.6)	(61.6)	(61.8)	(62.1)	(62.6)	(63.1)	(63.4)	(63.6)	(63.8)
Men	(74.2)	(73.4)	(72.7)	(72.2)	(72.5)	(72.7)	(72.8)	(72.6)	(72.4)	(72.3)
Women	(49.1)	(49.7)	(50.5)	(51.2)	(51.6)	(52.4)	(53.2)	(54.1)	(54.7)	(55.2)
2. Supply of employment (employment)										
2.1 Enterprises										
Private enterprises	2,596	2,607	2,631	2,683	2,743	2,793	2,802	2,789	2,745	2,745 <sup>7</sup>
Employees	1,962	1,967	1,984	2,028	2,078	2,118	2,118	2,103	2,061	2,055 <sup>7</sup>
Self-employed persons	634	640	647	655	666	675	684	685	684	690
Public enterprises	317	311	318	316	316	314	323	322	320	308 <sup>7</sup>
Total	2,913	2,918	2,948	2,999	3,059	3,107	3,125	3,111	3,064	3,052
of which : Agriculture, forestry and fisheries	109	107	104	102	101	100	98	95	92	90
Industry	858	844	823	809	821	820	808	788	754	741
Building	203	204	204	212	225	236	243	245	242	243
Market services	1,743	1,763	1,817	1,875	1,912	1,951	1,977	1,983	1,977	1,978
2.2 General government <sup>5</sup>										
Traditional jobs	574	579	571	572	568	572	563	557	552	536
Special programmes	73	87	81	83	85	85	81	85	85	86
Total	648	666	652	654	653	657	644	642	637	622
2.3 Frontier workers (balance)	45	47	49	49	48	50	50	48	47	47
2.4 Grand total	3,606	3,631	3,649	3,702	3,760	3,815	3,819	3,802	3,748	3,721
Men	2,262	2,259	2,248	2,256	2,283	2,298	2,288	2,263	2,224	2,203
Women	1,344	1,371	1,401	1,446	1,478	1,517	1,531	1,538	1,524	1,519
3. Unemployment (1 - 2) <sup>6</sup>	506	478	466	424	384	365	391	436	511	554
Men	218	198	191	170	149	143	159	181	217	239
Women	288	280	275	255	235	222	232	255	294	315

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

<sup>1</sup> Men and women aged 15 to 64.

<sup>2</sup> Persons holding a job, unemployed job-seekers and persons benefiting by early or temporary withdrawal schemes.

<sup>3</sup> Persons who have retired early, older unemployed persons not seeking jobs, persons who have completely interrupted their occupational careers and persons who have interrupted unemployment for social or family reasons.

<sup>4</sup> Persons holding a job and unemployed job-seekers.

<sup>5</sup> Persons employed in government departments, teaching, the armed forces and persons doing national service, including persons given employment under all 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.

<sup>6</sup> Excluding older unemployed persons who are no longer regarded as job-seekers by virtue of the royal decree of 29th December 1984.

<sup>7</sup> Owing to the privatisation of the GSPF at the end of 1993 the staff of that institution which, on 30th June 1994, totaled nearly 10,000 persons, is no longer counted as belonging to public enterprises but is classed in the category of private enterprises.

**TABLE VII — CONSUMER PRICES**

*(Percentage changes compared with the previous year)*

	Overall index	Breakdown by categories					
		Energy products	Overall index excluding energy products	Food products	Other products	Services	Rents
1985 .....	4.9	5.4	4.8	3.4	5.9	4.7	5.0
1986 .....	1.3	-19.6	4.4	1.9	5.6	5.2	3.7
1987 .....	1.6	-6.9	2.5	-0.4	3.7	3.1	4.3
1988 .....	1.2	-3.4	1.6	...	2.5	1.5	3.6
1989 .....	3.1	6.5	2.8	3.1	2.5	2.6	3.7
1990 .....	3.5	6.8	3.1	3.7	2.6	3.2	3.2
1991 .....	3.2	2.6	3.3	2.0	3.0	4.4	3.0
1992 .....	2.4	-1.1	2.8	-0.1	2.4	4.2	5.9
1993 .....	2.8	3.6	2.7	-0.8	2.8	3.8	5.3
1994 .....	2.4	0.9	2.5	1.8	2.4	2.6	4.6

Sources : MEA, NBB.

TABLE VIII — INCOMES OF THE VARIOUS SECTORS AT CURRENT PRICES

(Billions of francs)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 e
1. Individuals										
Primary income <sup>1,2</sup>	4,085	4,271	4,425	4,634	5,039	5,409	5,820	6,175	6,380	6,535
Wages and salaries <sup>1</sup>	2,686	2,803	2,892	2,988	3,181	3,422	3,691	3,893	3,997	4,113
Income from one-man businesses <sup>1,2</sup>	542	574	602	648	719	749	776	799	802	828
Income from property <sup>2</sup>	857	893	932	998	1,139	1,239	1,353	1,483	1,581	1,594
Current transfers <sup>3</sup>	-490	-509	-517	-533	-501	-608	-578	-633	-631	-702
From and to (-) general government	-471	-489	-502	-519	-484	-571	-547	-602	-595	-661
Transfers received	1,217	1,260	1,320	1,352	1,427	1,503	1,639	1,730	1,819	1,878
Social benefits	959	993	1,040	1,057	1,103	1,168	1,274	1,351	1,421	1,462
Other transfers	258	267	280	295	323	335	364	379	398	416
Transfers paid	1,688	1,749	1,822	1,871	1,911	2,074	2,186	2,333	2,414	2,538
Social contributions	747	794	842	876	925	991	1,072	1,138	1,184	1,200
Direct taxes	813	824	846	853	847	933	950	1,022	1,046	1,148
Other transfers	128	130	134	142	140	149	164	173	184	190
To (-) other sectors <sup>3</sup>	-19	-20	-15	-14	-17	-37	-30	-31	-35	-42
Disposable income <sup>1,2</sup>	3,596	3,761	3,909	4,102	4,538	4,801	5,242	5,542	5,750	5,832
p.m. At constant prices (percentage changes compared with the previous year) <sup>4</sup>	(-0.1)	(3.8)	(2.0)	(3.3)	(7.0)	(2.1)	(5.8)	(2.8)	(0.8)	(-0.9)
2. Companies										
Primary income <sup>2</sup>	596	692	733	825	936	906	836	835	867	1,007
Current transfers to (-) other sector <sup>3</sup>	-112	-126	-127	-141	-148	-131	-143	-128	-146	-186
Disposable income <sup>2</sup>	484	566	606	684	788	775	693	707	720	821
3. General government										
Primary income <sup>2</sup>	-18	-70	-11	8	38	17	33	29	55	104
Current transfers from other sectors <sup>3</sup>	572	602	603	619	594	692	679	702	707	792
Disposable income <sup>2</sup>	554	532	592	626	632	709	712	731	762	896
4. Rest of the world										
Disposable income	29	33	41	55	54	47	41	60	70	96
5. GNP before statistical adjustments	4,663	4,892	5,147	5,468	6,013	6,332	6,689	7,039	7,302	7,645
6. Statistical adjustments	6	42	15	47	-15	24	29	22	16	16
7. GNP after statistical adjustments	4,669	4,934	5,162	5,514	5,998	6,356	6,717	7,061	7,318	7,661

Sources : NSI, NBB.

<sup>1</sup> Data excluding statistical adjustments. The latter are recorded as a separate item.<sup>2</sup> Including depreciation.<sup>3</sup> These are net amounts, i.e. the difference between transfers received from other sectors and transfers paid to other sectors.<sup>4</sup> Data deflated by the deflator of private consumption.

TABLE IX — SUMMARY OF THE TRANSACTIONS OF THE MAJOR SECTORS OF THE ECONOMY AT CURRENT PRICES

(Billions of francs)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 e
1. Individuals										
1.1 Disposable income	3,596	3,761	3,909	4,102	4,538	4,801	5,242	5,542	5,750	5,832
1.2 Change in mathematical retirement pension reserves	9	9	9	13	15	13	15	11	11	11
1.3 Consumption	3,104	3,214	3,359	3,524	3,749	4,021	4,270	4,487	4,558	4,700
1.4 Gross saving (1.1 + 1.2 - 1.3)	500	557	559	591	805	794	987	1,065	1,203	1,143
p.m. Percentage of disposable income	(13.9)	(14.8)	(14.3)	(14.4)	(17.7)	(16.5)	(18.8)	(19.2)	(20.9)	(19.6)
1.5 Capital transfers <sup>1</sup>	3	-1	-1	2	0	-8	-9	-5	-6	-8
1.6 Gross capital formation	212	234	255	312	374	412	404	463	458	473
1.7 Net financing capacity (1.4 + 1.5 - 1.6)	290	322	303	281	431	374	574	597	739	668
2. Companies										
2.1 Disposable income	484	566	606	684	788	775	693	707	720	821
2.2 Change in mathematical retirement pension reserves	-9	-9	-9	-13	-15	-13	-15	-11	-11	-11
2.3 Gross saving (2.1 + 2.2)	476	557	596	671	773	762	678	696	709	810
2.4 Capital transfers <sup>1</sup>	39	36	27	31	26	29	39	43	14	16
2.5 Gross capital formation	389	422	497	595	715	805	811	801	731	771
2.6 Net financing requirement (-) or capacity (2.3 + 2.4 - 2.5)	127	171	126	107	83	-14	-93	-62	-8	55
3. General government										
3.1 Disposable income	554	532	592	626	632	709	712	731	762	896
3.2 Consumption	815	847	852	853	891	933	1,006	1,045	1,112	1,168
3.3 Gross saving (3.1 - 3.2)	-261	-315	-260	-227	-259	-224	-294	-315	-349	-272
3.4 Capital transfers <sup>1</sup>	-50	-43	-35	-43	-36	-35	-43	-53	-22	-20
3.5 Gross capital formation	106	100	93	100	82	89	99	106	110	119
3.6 Net financing requirement (-) (3.3 + 3.4 - 3.5)	-417	-458	-388	-369	-377	-349	-435	-473	-481	-412
4. Statistical adjustments	5	60	16	69	-42	35	63	77	72	60
5. Total of domestic sectors										
5.1 Net financing requirement (-) or capacity (1.7 + 2.6 + 3.6 + 4)	5	95	57	88	95	46	109	138	322	366

Sources : NSI, 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.

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

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

(Billions of francs)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 e
1. Revenue .....	2,367	2,438	2,562	2,644	2,781	2,980	3,131	3,291	3,444	3,671
Fiscal and parafiscal revenue .....	2,282	2,367	2,492	2,580	2,700	2,895	3,040	3,202	3,325	3,560
Direct taxes .....	939	964	990	1,012	1,022	1,099	1,123	1,170	1,211	1,353
Indirect taxes .....	582	595	645	675	737	786	822	871	905	981
Social security contributions .....	747	794	842	876	925	991	1,072	1,138	1,184	1,200
Capital taxes .....	13	14	15	16	17	20	23	23	24	26
Non-fiscal and non-parafiscal revenue .....	85	71	70	64	81	85	91	89	119	111
2. Expenditure excluding interest charges .....	2,276	2,333	2,393	2,446	2,527	2,642	2,872	3,005	3,158	3,299
Social benefits .....	1,174	1,219	1,280	1,313	1,395	1,468	1,601	1,690	1,779	1,846
Pensions .....	415	435	446	470	492	520	562	594	625	648
Health care .....	214	228	258	262	282	307	347	382	398	414
Unemployment benefits .....	125	127	130	125	123	126	144	154	169	173
Early retirement pensions and career interruptions .....	41	43	43	48	49	54	56	59	58	58
Family allowances .....	107	109	114	116	123	123	128	131	138	141
Other <sup>1</sup> .....	272	277	289	292	326	337	363	370	391	411
Other primary expenditure .....	1,102	1,114	1,113	1,132	1,132	1,174	1,271	1,315	1,379	1,453
Compensations .....	541	561	555	550	585	622	667	704	748	783
Net purchases of goods and services .....	172	178	184	180	176	174	188	182	191	203
Subsidies to enterprises .....	148	146	136	151	139	141	144	140	146	143
Net current transfers to the rest of the world .....	67	71	85	91	92	91	108	106	105	120
Gross fixed capital formation .....	106	100	93	100	82	89	99	106	110	119
Capital transfers .....	67	58	59	60	58	58	66	78	80	84
3. Net amount excluding interest rates .....	91	105	170	199	254	339	260	286	286	372
4. Interest charges .....	508	563	558	568	631	687	695	759	767	784
5. Net financing requirement (—) .....	—417	—458	—388	—369	—377	—349	—435	—473	—481	—412

Sources : NSI, NBB.

<sup>1</sup> Mainly sickness and disability insurance benefits, benefits connected with occupational diseases, industrial accidents, the guaranteed wage and the subsistence allowance and also net transfers to individuals (excluding pensions) payable by central government and local authorities.

**TABLE XI — EXPENDITURE OF GENERAL GOVERNMENT**

(Percentages of GDP)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 e
1. Expenditure excluding interest charges .....	48.0	46.7	45.9	44.0	41.9	41.1	42.6	42.3	43.3	43.3
Social benefits .....	24.7	24.4	24.6	23.6	23.1	22.9	23.7	23.8	24.4	24.2
Pensions .....	8.7	8.7	8.6	8.4	8.2	8.1	8.3	8.4	8.6	8.5
Health care .....	4.5	4.6	4.9	4.7	4.7	4.8	5.1	5.4	5.5	5.4
Unemployment benefits .....	2.6	2.5	2.5	2.3	2.0	2.0	2.1	2.2	2.3	2.3
Early retirement pensions and career interruptions .....	0.9	0.9	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Family allowances .....	2.3	2.2	2.2	2.1	2.0	1.9	1.9	1.9	1.9	1.8
Other <sup>1</sup> .....	5.7	5.6	5.5	5.3	5.4	5.3	5.4	5.2	5.4	5.4
Other primary expenditure .....	23.2	22.3	21.4	20.4	18.8	18.3	18.8	18.5	18.9	19.1
Compensations .....	11.4	11.2	10.6	9.9	9.7	9.7	9.9	9.9	10.3	10.3
Net purchases of goods and services .....	3.6	3.6	3.5	3.2	2.9	2.7	2.8	2.6	2.6	2.7
Subsidies to enterprises .....	3.1	2.9	2.6	2.7	2.3	2.2	2.1	2.0	2.0	1.9
Net current transfers to the rest of the world .....	1.4	1.4	1.6	1.6	1.5	1.4	1.6	1.5	1.4	1.6
Gross fixed capital formation .....	2.2	2.0	1.8	1.8	1.4	1.4	1.5	1.5	1.5	1.6
Capital transfers .....	1.4	1.2	1.1	1.1	1.0	0.9	1.0	1.1	1.1	1.1
2. Interest charges .....	10.7	11.3	10.7	10.2	10.5	10.7	10.3	10.7	10.5	10.3
3. Total expenditure .....	58.7	58.0	56.6	54.2	52.4	51.8	52.9	53.0	53.9	53.6

Sources : NSI, NBB.

<sup>1</sup> Mainly sickness and disability insurance benefits, benefits connected with occupational diseases, industrial accidents, the guaranteed wage and the subsistence allowance and net transfers to individuals (excluding pensions) payable by central government and local authorities.

TABLE XII — NET FINANCIAL DEFICIT (–) OR SURPLUS OF THE SUB-SECTORS AND OF GENERAL GOVERNMENT AS A WHOLE

(Billions of francs)

	Federal government, communities and regions						Local authorities	Social security <sup>4</sup>	Total <sup>5</sup>	
	Net balance to be financed of the Treasury <sup>1</sup>			Net balance to be financed of the communities and regions from 1991 onwards <sup>1</sup>	Budgetary lending and equity investment	Other <sup>2</sup>				Total <sup>3</sup>
	Total	of which :								
		federal	communities and regions until 1990 <sup>1</sup>							
(a)	(b)	(c)	(d)	(e)	(f)	(g) = (a) + (d) + (e) + (f)	(h)	(i)	(j) = (g) + (h) + (i)	
1985 .....	-571	-552	-19	—	83	-6	-495	-9	50	-454
1986 .....	-556	-552	-3	—	68	-16	-503	-16	28	-491
1987 .....	-430	-451	21	—	43	-36	-423	-6	20	-409
1988 .....	-434	-416	-17	—	40	-38	-431	-5	24	-412
1989 .....	-397	-442	45	—	36	-72	-434	-32	51	-415
1990 .....	-394	-366	-28	—	28	-55	-421	-16	42	-396
1991 .....	-367	-368	1	-35	26	-21	-396	-32	-19	-447
1992 .....	-382	-382	—	-61	25	-57	-476	-20	-19	-515
1993 .....	-376	-376	—	-52	33	-60	-456	-26	-50	-531
1994 e .....	-313	-313	—	-50	29	-69	-403	-10	-20	-433

Sources : Ministry of Finance, NBB.

<sup>1</sup> Until the end of 1990 the cash holdings of the communities and regions were held by the Treasury. The financial balance of these entities [column (c)] therefore formed part of the total net balance to be financed of the Treasury. Since the beginning of 1991 these entities have had treasury systems of their own (this provision applies to the German-speaking community only from 1992 onwards); their net balance to be financed is therefore included in column (d).

<sup>2</sup> Debudgetisations and prefinancings for transactions other than those in the form of lending and equity investment.

<sup>3</sup> Excluding the financing of lending and equity investment.

<sup>4</sup> The data concerning social security cover the same organisations as those in the national accounts and, like the latter, take account of the social contributions due and not of those which have actually been paid. The concept of financial balance is different from the budgetary balance used in official documents.

<sup>5</sup> The total financial deficit differs from the net financing requirement — the concept used in Table X —, partly owing to time-lags in the dating of the recording of the transactions between the two approaches. These statistical deviations, which appear in Table XVIII, are also due to imperfections in the compiling of the data.



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 <sup>2</sup>	of which by the Treasury	Balance <sup>3</sup>	
	In foreign currencies	In Belgian francs				Grand total				
		With NBB <sup>1</sup>	Others		Total					
			At up to one year	At over one year						of which linear bonds
(a)	(b)	(c)	(d)	(e)	(f) = (b) + (c) + (d)	(g) = (a) + (f)	(h)	(i)	(j) = (g) - (h)	
1985 .....	34	-18	59	517	(—)	558	593	138	(—)	454
1986 .....	74	27	297	179	(—)	503	577	86	(—)	491
1987 .....	32	-82	220	326	(—)	464	496	87	(—)	409
1988 .....	23	-21	25	459	(—)	463	486	74	(—)	412
1989 .....	69	-40	251	224	(82)	435	504	89	(—)	415
1990 .....	-20	-30	122	408	(273)	500	481	85	(—)	396
1991 .....	-8	-107	86	598	(935)	577	569	122	(124)	447
1992 .....	-108	...	-10	694	(963)	684	577	62	(26)	515
1993 .....	449	...	-224	431	(1,122)	206	656	124	(117)	531
1994 e .....	-152	—	515	-30	(791)	485	333	-100	(-117)	433

Source : NBB.

<sup>1</sup> 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 finance with the special advances from the latter and 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 31st July 1993, this facility was abolished in implementation of the law of 22nd March 1993 on the status and supervision of credit institutions.

<sup>2</sup> Including lending and equity investment.

<sup>3</sup> This column corresponds to general government's net financial deficit (cf. column (j) of Table XII), with reversed sign.

TABLE XIV — OUTSTANDING AMOUNT OF GENERAL GOVERNMENT'S NET DEBTS

(End of period, billions of francs)

	Gross debt					Financial assets held with general government	Consolidated gross debt	Other financial assets <sup>1</sup>	Net debt	p.m. Harmonised debt
	In foreign currencies	In Belgian francs			Grand total					
		At up to one year	At over one year	Total						
(a)	(b)	(c)	(d) = (b) + (c)	(e) = (a) + (d)	(f)	(g) = (e) - (f)	(h)	(i) = (g) - (h)	(j)	
1985 .....	1,088	1,215	3,607	4,823	5,911	92	5,819	479	5,340	5,137
1986 .....	1,103	1,539	3,816	5,355	6,458	100	6,358	494	5,863	5,630
1987 .....	1,129	1,677	4,165	5,843	6,971	105	6,867	531	6,336	6,099
1988 .....	1,151	1,682	4,637	6,318	7,469	121	7,348	559	6,789	6,552
1989 .....	1,169	1,893	4,830	6,723	7,892	133	7,758	569	7,189	6,961
1990 .....	1,135	1,984	5,278	7,262	8,397	149	8,248	604	7,645	7,436
1991 .....	1,109	1,979	5,858	7,837	8,946	174	8,772	684	8,088	7,920
1992 .....	1,015	1,969	6,564	8,533	9,548	240	9,307	641	8,666	8,437
1993 .....	1,517	1,728	7,052	8,780	10,298	300	9,997	674	9,324	9,102
1994 e .....	1,349	2,243	7,037	9,280	10,630	262	10,368	587	9,782	9,438

Source : NBB.

Bibliographical references : *Bulletin de la Banque Nationale de Belgique*, LXIIIrd year, Vol. 1, no 5, May 1988 : Modifications apportées au chapitre XI « Finances Publiques » de la partie « Statistiques » du Bulletin and LXVIIIth year, nos 7-8, July-August 1993 : Révision du chapitre XI « Finances Publiques » de la partie « Statistiques » du Bulletin.<sup>1</sup> Excluding lending and equity investment.

**TABLE XV — BALANCE OF PAYMENTS OF THE BLEU**
*(Balances in billions of francs)*

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 e
A. Current transactions .....	41	139	103	135	140	121	167	212	392	410
p.m. Current transactions on payments basis .....	(23)	(144)	(104)	(122)	(147)	(154)	(160)	(203)	(419)	(397)
B. Capital transactions <sup>1</sup> .....	-41	-139	-103	-135	-140	-121	-167	-212	-392	-410
1. Direct investment .....	51	-48	-18	48	34	66	73	73	229	265
Assets of residents .....	-19	-81	-108	-138	-259	-208	-212	-345	-155	-45
Assets of non-residents .....	70	33	90	187	293	275	286	418	384	310
2. Portfolio investment .....	-94	-94	-60	-138	-203	53	119	34	-10	-487
Assets of residents .....	-119	-138	-112	-196	-264	9	-103	-57	-220	-327
Shares .....	-5	-31	-1	19	-78	19	-6	3	-35	-110
Fixed-interest securities .....	-114	-107	-111	-215	-186	-10	-97	-60	-185	-217
Assets of non-residents .....	25	44	52	59	61	44	222	91	210	-160
Shares .....	13	30	24	19	31	28	19	15	73	21
Fixed-interest securities .....	12	14	28	40	30	16	203	76	137	-181
3. Other capital transactions .....	-10	14	61	-24	75	-171	-314	-228	-803	42
3.1 Commercial credits .....	-18	6	1	-12	8	33	-8	-9	27	-13
3.2 Net assets of resident enterprises and individuals .....	28	61	54	-72	-37	-236	132	-109	-644	-433
In francs abroad .....	-5	-24	16	8	-20	-35	24	-95	-57	18
In foreign currencies .....	33	85	38	-80	-17	-201	108	-14	-586	-450
Spot .....	8	53	-41	-111	-94	71	105	24	-325	-299
Forward .....	25	32	79	31	77	-272	3	-38	-261	-151
3.3 Net assets in francs of non-residents with resident credit institutions .....	2	-35	30	74	50	86	-344	91	-553	717
Spot .....	21	-8	26	58	53	16	-185	85	-167	181
Forward .....	-19	-27	4	17	-3	70	-158	7	-386	536
3.4 Capital transactions in foreign currencies of resident credit institutions .....	-52	-71	-61	-12	-25	-24	-77	-83	-54	-72
Spot .....	-46	-65	22	35	48	-226	-237	-250	-562	170
Forward .....	-6	-6	-83	-47	-74	202	160	166	507	-242
3.5 Capital transactions of general government .....	30	52	38	-2	80	-30	-17	-118	421	-157
In francs .....	-2	-6	3	-14	7	-7	-11	-15	-25	-9
In foreign currencies .....	32	58	35	12	73	-23	-6	-103	446	-147
4. Errors and omissions .....	4	-4	-5	-1	-26	-54	-23	64	-22	-77
5. Movement of the net spot and forward gold and foreign exchange reserves of the NBB <sup>2</sup> .....	8	-7	-81	-19	-19	-17	-23	-155	214	-153

Source : NBB.

 Bibliographical references : Eurostat, 1984 : *La méthodologie de la balance des paiements de l'Union Economique Belgo-Luxembourgeoise*.

*Bulletin de la Banque Nationale de Belgique*, LXIIIrd year, Vol. II, no 4, October 1988 : *Modifications apportées au tableau IX-5 « Opérations avec l'étranger, opérations en monnaies étrangères des résidents avec les banques belges et luxembourgeoises et opérations de change à terme » de la partie « Statistiques » du Bulletin* and LXIVth year, Vol. II, nos 2-3, August-September 1989 : *Modifications de l'enregistrement des exportations sur la base de caisse et du traitement des effets commerciaux dans la partie « Statistiques » du Bulletin*.

<sup>1</sup> Minus sign : capital outflows.

<sup>2</sup> Minus sign : increase in reserves.

TABLE XVI — CURRENT ACCOUNT ON A TRANSACTIONS BASIS

(Balances in billions of francs)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 e
<b>1. Transactions in goods</b> .....	32	103	49	106	92	55	66	114	204	221
<b>2. Transactions in services</b> .....	17	26	48	34	18	62	66	92	115	131
Freight and insurance for transport of goods and other transport expenses ....	21	20	34	42	41	43	37	49	54	69
Foreign travel .....	-23	-32	-35	-44	-49	-59	-67	-82	-79	-86
Third-country trade .....	13	26	36	21	18	36	26	43	27	23
Transactions of general government not included elsewhere .....	25	30	35	35	38	37	46	52	56	54
Other services .....	-19	-18	-22	-21	-29	4	25	30	57	71
Insurance .....	...	-2	-1	4	7	17	11	10	18	24
Other financial services <sup>1</sup> .....	9	11	11	16	25	18	27	33	53	37
Other services to enterprises <sup>2</sup> .....	-7	-4	-5	-7	-30	-7	-1	-9	-8	13
Other .....	-21	-23	-27	-34	-30	-24	-13	-5	-6	-4
<b>3. Income</b> .....	34	53	62	64	106	79	111	94	169	176
Compensation of employees .....	42	48	49	52	56	56	63	65	66	63
Cross-frontier workers .....	5	6	3	3	2	...	-2	-5	-7	-12
International institutions .....	37	42	46	49	55	56	65	70	73	75
Income from direct and portfolio investment .....	-8	5	13	12	50	23	48	29	103	113
<b>4. Transfers</b> .....	-42	-43	-56	-69	-76	-75	-76	-87	-97	-118
Private .....	-8	-9	-4	3	2	-22	-15	-23	-27	-34
Public .....	-34	-34	-52	-72	-78	-52	-61	-65	-70	-84
<b>5. Total current account on a transactions basis (1 + 2 + 3 + 4)</b> .....	41	139	103	135	140	121	167	212	392	410

Source : NBB.

<sup>1</sup> Costs and commission charged by financial intermediaries.<sup>2</sup> Representation and publicity costs, building and maintenance work, technical assistance and manufacturing, assembly and repair costs.

**TABLE XVII — INDICATIVE EXCHANGE RATES**

(Quotations in Belgian francs, annual averages)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
German mark .....	20.18	20.58	20.78	20.94	20.96	20.68	20.59	20.59	20.90	20.61
French franc .....	6.61	6.44	6.21	6.17	6.18	6.14	6.06	6.07	6.10	6.02
Pound sterling .....	76.33	65.48	61.11	65.37	64.55	59.47	60.23	56.64	51.90	51.15
Italian lira (100) .....	3.11	3.00	2.88	2.83	2.87	2.79	2.75	2.62	2.20	2.07
Dutch guilder .....	17.89	18.25	18.44	18.60	18.58	18.35	18.27	18.28	18.60	18.37
Peseta (100) .....	34.87	31.88	30.28	31.57	33.27	32.79	32.87	31.46	27.22	24.96
Danish crown .....	5.60	5.52	5.46	5.46	5.39	5.40	5.34	5.33	5.33	5.26
Escudo (100) .....	34.58	29.88	26.49	25.52	25.02	23.44	23.64	23.81	21.53	20.14
Irish punt .....	62.80	59.80	55.50	55.99	55.85	55.26	54.99	54.67	50.62	49.98
Greek drachma (100) <sup>1</sup> .....	—	—	—	25.94	24.29	21.11	18.76	16.87	15.07	13.78
US dollar .....	59.36	44.66	37.34	36.81	39.43	33.41	34.18	32.12	34.57	33.43
Yen (100) .....	24.91	26.57	25.85	28.70	28.63	23.14	25.40	25.36	31.24	32.70
Canadian dollar .....	43.50	32.13	28.17	29.95	33.30	28.63	29.84	26.60	26.79	24.50
Swedish crown .....	6.89	6.26	5.89	6.00	6.11	5.64	5.65	5.53	4.44	4.33
Swiss franc .....	24.21	24.89	25.06	25.14	24.11	24.09	23.83	22.89	23.41	24.46
Austrian schilling .....	2.87	2.93	2.95	2.98	2.98	2.94	2.93	2.93	2.97	2.93
Norwegian crown .....	6.90	6.04	5.54	5.64	5.71	5.34	5.27	5.17	4.87	4.74
Finnish mark .....	9.56	8.80	8.50	8.78	9.18	8.73	8.45	7.19	6.05	6.41
Australian dollar .....	—	—	—	—	—	—	26.61	23.62	23.48	24.45
New Zealand dollar .....	—	—	—	—	—	—	19.76	17.28	18.72	19.83
Ecu .....	44.91	43.79	43.03	43.42	43.35	42.50	42.26	41.54	40.40	39.55
p.m. Effective exchange rate for the Belgian franc <sup>2</sup> (1985 = 100) .....	(100.0)	(104.4)	(108.1)	(106.6)	(105.8)	(110.9)	(110.6)	(112.8)	(113.6)	(115.5)

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.

<sup>1</sup> The Greek drachma has been quoted on the Brussels Stock Exchange since 4th January 1988.

<sup>2</sup> Weighted by the importance of the OECD countries, except Iceland, Turkey and Mexico, as competitors of resident producers of manufactured goods on all markets combined.

TABLE XVIII — FINANCIAL ACCOUNTS BY SECTOR

(Billions of francs)

	1985	1986	1987	1988	1989	1990	1991	1992	1993
1. Individuals and companies									
1.1 Net financing capacity or requirement (—)	417	493	429	388	514	360	481	535	731
Individuals <sup>1</sup>	290	322	303	281	431	374	574	597	739
Companies <sup>1</sup>	127	171	126	107	83	-14	-93	-62	-8
1.2 Net financial surplus	409	575	443	494	429	440	605	658	851
Formation of financial assets <sup>2</sup>	754	820	788	1,037	1,268	884	1,196	1,121	1,249
New liabilities <sup>3</sup> (—)	345	245	345	543	839	444	591	463	398
1.3 Statistical deviation (1.1 — 1.2)	8	-82	-14	-106	85	-80	-124	-123	-120
2. General government									
2.1 Net financing requirement <sup>1</sup> (—)	-417	-458	-388	-369	-377	-349	-435	-473	-481
2.2 Net financial deficit <sup>4</sup> (—)	-454	-491	-409	-412	-415	-396	-447	-515	-531
Formation of financial assets <sup>5</sup>	138	86	87	74	89	85	122	62	124
New liabilities <sup>5</sup> (—)	593	577	496	486	504	481	569	577	656
2.3 Statistical deviation (2.1 — 2.2)	37	33	21	43	38	47	12	42	50
3. Rest of the world									
3.1 Net financing capacity or requirement <sup>1</sup> (—)	-5	-95	-57	-88	-95	-46	-109	-138	-322
3.2 Net financial surplus or deficit (—)	-5	-95	-57	-88	-33	-31	-109	-138	-283
3.3 Statistical deviation (3.1 — 3.2)	...	...	...	...	-62 <sup>6</sup>	-15 <sup>6</sup>	...	...	-39
4. Statistical adjustments									
4.1 Real accounts <sup>1</sup>	5	60	16	69	-42	35	63	77	72
4.2 Financial accounts	50	11	23	6	19	-13	-49	-5	-37

Source : NBB.

<sup>1</sup> Data taken from Table IX.<sup>2</sup> See Table XIX.<sup>3</sup> See Table XX.<sup>4</sup> See Table XII.<sup>5</sup> See Table XIII.

<sup>6</sup> The net financing capacity or requirement of the rest of the world are calculated by the NSI normally taking as the source, for imports and exports, the balance of payments data and not the customs statistics. In 1989 and 1990, however, the data taken into account by the NSI were an arithmetic average of the recorded movements in the above-mentioned two sources. That is why, for these two years, there is a fairly large statistical deviation between the net financing requirement and the net financial deficit of the rest of the world.

TABLE XIX — FORMATION OF FINANCIAL ASSETS BY INDIVIDUALS AND COMPANIES<sup>1</sup>

(Billions of francs)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 First 9 months
<b>Assets in Belgian francs</b> .....	575	584	520	571	759	954	931	968	780	383
At up to one year .....	278	488	387	305	614	369	464	433	593	109
Notes and coin .....	-2	20	8	4	6	-8	4	-4	11	-19
Sight deposits .....	54	63	31	70	92	26	11	-16	103	49
Ordinary savings deposits .....	162	207	224	185	190	-258	-88	-73	32	371
Other deposits .....	44	144	110	33	242	519	259	408	250	-86
Treasury certificates and bills <sup>2</sup> .....	-7	4	-4	...	...	...	164	27	-50	39
Notes .....	27	51	18	13	83	90	114	91	246	-246
At over one year .....	297	96	133	266	143	584	467	535	187	274
Bonds and notes <sup>3</sup> .....	277	81	136	269	99	606	450	534	218	226
Shares .....	3	9	-14	3	56	-19	4	-6	-37	24
Deposits .....	7	...	7	-11	-14	...	9	4	10	6
Miscellaneous .....	10	6	4	5	2	-2	4	3	-4	17
<b>Assets in foreign currencies</b> .....	85	143	138	226	352	17	97	137	580	259
of which at over one year .....	90	113	89	193	244	-54	46	-27	331	225
<b>Other assets</b> <sup>4</sup> .....	94	93	130	240	159	-86	168	16	-111	n.
<b>Grand total</b> .....	754	820	788	1,037	1,268	884	1,196	1,121	1,249	n.

Source : NBB.

Bibliographical reference : *Bulletin de la Banque Nationale de Belgique*, LXIII<sup>e</sup> année, Vol. II, Nos 1-2, July-August 1988 ; Modifications apportées au chapitre XV « Actifs financiers » de la partie « Statistiques » du *Bulletin* and LXIII<sup>e</sup> année, No 10, October 1993 ; Modification du traitement des sociétés de logement dans la partie « Statistiques » du *Bulletin*.

<sup>1</sup> Investments made via collective investment undertakings making public issues in Belgium have been broken down between the various items of this table on the basis of the structure of the assets acquired by these undertakings.

<sup>2</sup> Including promissory notes.

<sup>3</sup> Including, in so far as it has been possible to record them, bonds in Luxembourg francs.

<sup>4</sup> Assets whose distribution between Belgian francs and foreign currencies is not known or is meaningless.

TABLE XX — NEW LIABILITIES OF INDIVIDUALS AND COMPANIES<sup>1</sup>*(Billions of francs)*

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 First nine months
1. Securities .....	-4	24	16	45	104	-10	61	21	47	39
Shares <sup>2</sup> .....	13	22	30	46	90	16	37	11	22	34
Bonds .....	-17	2	-15	-1	14	-27	22	-9	10	-16
Promissory notes and Treasury certificates <sup>3</sup> ...	...	...	...	...	...	...	3	19	15	21
2. Net liabilities to the rest of the world <sup>4</sup> .....	51	-43	-21	20	64	62	104	123	250	134
Liabilities to the rest of the world .....	56	27	69	147	272	259	289	349	338	77
Claims on the rest of the world <sup>4</sup> .....	5	70	90	127	208	196	185	226	88	-57
3. Liabilities to Belgian credit institutions <sup>3</sup> .....	148	171	274	441	621	369	359	299	69	104
4. Others <sup>4</sup> .....	150	93	77	38	51	23	67	20	32	-27
5. Grand total .....	345	245	345	543	839	444	591	463	398	250

Sources : Banking and Financial Commission, NBB.

<sup>1</sup> In Belgian francs and in foreign currencies.<sup>2</sup> Public share issues including the exercise of warrants.<sup>3</sup> Liabilities other than securities.<sup>4</sup> Liabilities to general government and to housing companies.



TABLE XXI — MAIN INTEREST RATES

(End of month)

	Three-month money markets rates		Rates of the reference linear bond	Creditor rates <sup>1</sup>			Debtor rates <sup>1</sup>			
	Treasury certificates	Interbank market		Savings deposits <sup>2</sup>	Three-month time deposits of Fr. 3 million	Ordinary five-year notes	Ordinary overdrafts	Six-month fixed-term advances of Fr. 10 to 15 million	Investment credits <sup>3</sup>	Mortgage loans <sup>4</sup>
1993 January .....	8.29	8.38	7.55	5.85	6.96	6.95	11.96	8.70	9.02	8.15
February .....	8.86	8.94	7.53	5.83	7.72	7.01	12.44	8.57	9.29	7.74
March .....	8.22	8.22	7.42	5.53	7.48	6.73	11.95	8.87	8.31	7.79
April .....	7.56	7.56	7.56	5.71	6.85	6.72	11.60	8.42	8.18	7.84
May .....	6.99	7.00	7.34	5.55	6.31	6.51	11.14	8.04	8.01	7.87
June .....	6.65	6.69	6.99	5.48	6.11	6.48	10.61	7.55	7.54	7.72
July .....	7.80	8.25	7.14	5.48	6.82	6.00	11.27	7.90	8.21	7.66
August .....	10.40	10.38	7.08	5.58	8.54	6.02	12.98	8.20	9.02	7.71
September .....	9.37	9.44	7.38	5.48	8.16	6.02	13.02	9.34	8.32	7.69
October .....	8.87	8.88	7.08	5.46	7.77	6.46	13.03	8.22	8.48	7.67
November .....	7.33	7.44	6.82	5.66	6.46	5.77	11.26	7.44	7.81	7.47
December .....	6.73	6.81	6.33	5.47	6.08	5.76	10.78	7.16	7.31	7.36
1994 January .....	6.65	6.63	6.47	5.79	5.72	5.53	10.73	7.28	7.70	7.37
February .....	6.31	6.38	6.94	4.33	5.63	5.50	10.36	7.21	7.41	6.97
March .....	6.12	6.13	7.19	4.41	5.48	5.89	9.89	7.47	7.62	6.74
April .....	5.64	5.69	7.50	4.37	4.97	6.19	9.84	6.24	8.02	7.27
May .....	5.28	5.29	7.92	4.31	4.55	6.60	9.40	6.29	8.04	7.43
June .....	5.45	5.50	7.78	4.31	4.77	6.89	9.29	6.57	8.49	7.97
July .....	5.33	5.38	8.03	4.45	4.56	7.08	9.27	6.49	8.60	8.07
August .....	5.43	5.48	8.40	4.44	4.69	7.27	9.26	6.61	9.07	7.93
September .....	5.26	5.33	8.50	4.61	4.50	7.54	9.26	6.55	9.42	8.74
October .....	5.15	5.19	8.42	4.59	4.47	7.59	8.79	6.24	9.63	8.61
November .....	5.18	5.25	8.31	4.59	4.43	7.52	8.78	6.32	9.36	8.68
December .....	5.23	5.25	8.34	4.63	4.52	7.50	8.79	6.26	9.24	8.81

Source : NBB.

Bibliographical references : *Bulletin de la Banque Nationale de Belgique*, LXIXth year, No 9, September 1994 : *Nouveau tableau relatif aux taux d'intérêt débiteurs et créditeurs appliqués par les établissements de crédit (debtor and creditor rates)*.*Bulletin de la Banque Nationale de Belgique*, LXVIth year, No 5, May 1991 : *Révision du chapitre XIX « Taux d'escompte, d'intérêt et de rendement » de la partie « Statistiques » du Bulletin (other rates)*.<sup>1</sup> These rates correspond to the average of the rates obtained through a survey among the main credit institutions, weighted on the basis of the total of these institutions' balance sheets.<sup>2</sup> Basic interest rates plus maximum fidelity and growth bonuses and, where appropriate, the co-operators' allowance.<sup>3</sup> Rates for an investment loan of Fr. 3 to 5 million without any general government subsidy, granted for a period of 5 years.<sup>4</sup> Rates for a 20-year mortgage loan granted to a good customer, with a five-yearly revision clause.

TABLE XXII — INTEREST RATES OF THE NATIONAL BANK OF BELGIUM AND THE REDISCOUNT AND GUARANTEE INSTITUTE

(Percentage)

Date of application of change	Discount rate	The Bank's central rate <sup>1</sup>	Rate for granting of credits by tenders <sup>2</sup>	Rate for current account advances		RGI's rate for daily closing surpluses	
				Within credit lines	Beyond credit lines	Ordinary tranche	Overstepping tranche <sup>3</sup>
p.m. 1994 1st January	5.25	7.25	7.25	8.95	11.50	6.25	5.25
1994 7th January	"	7.10	—	8.70	11.25	6.10	5.10
10th January	"	"	7.10	"	"	"	"
25th January	"	7.00	—	8.60	"	6.00	5.00
31st January	"	6.85	6.85	8.35	11.00	5.85	4.85
7th February	"	6.70	6.70	8.20	"	5.70	4.70
18th February	5.00	6.55	—	8.05	10.50	5.55	4.55
21st February	"	"	6.55	"	"	"	"
25th February	"	6.40	—	7.90	"	5.40	4.40
28th February	"	"	6.40	"	"	"	"
1st March	"	6.25	—	7.75	"	5.25	4.25
7th March	"	"	6.25	"	"	"	"
9th March	"	6.15	—	7.65	"	5.15	4.15
14th March	"	"	6.15	"	"	"	"
30th March	"	6.05	—	7.55	"	5.05	4.05
1st April	"	"	6.05	"	"	"	"
7th April	"	5.95	—	7.45	"	4.95	3.95
11th April	"	"	5.95	"	"	"	"
15th April	4.75	5.80	—	7.30	10.00	4.80	3.80
18th April	"	"	5.80	"	"	"	"
20th April	"	5.70	—	7.20	"	4.70	3.70
25th April	"	"	5.70	"	"	"	"
27th April	"	5.60	—	7.10	"	4.60	3.60
29th April	"	"	5.60	"	"	"	"
4th May	"	5.50	—	7.00	"	4.50	3.50
9th May	"	"	5.50	"	"	"	"
10th May	"	5.45	—	6.95	"	4.45	3.45
16th May	4.50	5.35	5.35	6.85	9.00	4.35	3.35

Source : NBB.

Bibliographical reference : *Bulletin de la Banque Nationale de Belgique*, LXVIII year, No 5, May 1991 : Révision du chapitre XIX « Taux d'escompte, d'intérêt et de rendement » de la partie « Statistiques » du Bulletin.

<sup>1</sup> Rate applicable to the RGI's current account advances to the primary dealers and to the latter's deposits with the RGI, primary dealers for current account advances by and deposits with the RGI, within individual lines, the total of which amounted, for all the primary dealers, to Fr. 53 billion at the end of 1994.

<sup>2</sup> The dates shown correspond to the dates of the tenders (or transaction dates) and not to the settlements 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.

<sup>3</sup> This rate applies to surpluses exceeding 5 p.c. of the credit lines allocated individually to the financial intermediaries.

TABLE XXII — INTEREST RATES OF THE NATIONAL BANK OF BELGIUM AND THE REDISCOUNT AND GUARANTEE INSTITUTE (CONTINUATION)

(Percentage)

Date of application of change	Discount rate	The Bank's central rate <sup>1</sup>	Rate for granting of credits by tenders <sup>2</sup>	Rate for current account advances		RGI's rate for daily closing surpluses	
				Within credit lines	Beyond credit lines	Ordinary tranche	Overstepping tranche <sup>3</sup>
1994 18th May .....	4.50	5.25	—	6.75	9.00	4.25	3.25
20th May .....	"	"	5.25	"	"	"	"
1st June .....	"	5.20	—	6.70	"	4.20	3.20
6th June .....	"	"	5.20	"	"	"	"
8th June .....	"	5.10	—	6.60	"	4.10	3.10
13th June .....	"	"	5.10	"	"	"	"
15th June .....	"	5.05	—	6.55	"	4.05	3.05
20th June .....	"	"	5.05	"	"	"	"
22th June .....	"	5.00	—	6.50	"	4.00	3.00
27th June .....	"	"	5.00	"	"	"	"
29th June .....	"	4.95	—	6.45	"	3.95	2.95
4th July .....	"	"	4.95	"	"	"	"
13th July .....	"	4.90	—	6.40	"	3.90	2.90
18th July .....	"	"	4.90	"	"	"	"
22th July .....	"	4.85	—	6.35	"	3.85	2.85
25th July .....	"	"	4.85	"	"	"	"

Source : NBB.

Bibliographical reference : *Bulletin de la Banque Nationale de Belgique*, LXVth year, No 5, May 1991 : Révision du chapitre XIX « Taux d'escompte, d'intérêt et de rendement » de la partie « Statistiques » du Bulletin.

<sup>1</sup> Rate applicable to the RGI's current account advances to the primary dealers and to the latter's deposits with the RGI, primary dealers for current account advances by and deposits with the RGI, within individual lines, the total of which amounted, for all the primary dealers, to Fr. 53 billion at the end of 1994.

<sup>2</sup> The dates shown correspond to the dates of the tenders (or transaction dates) and not to the settlements 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.

<sup>3</sup> This rate applies to surpluses exceeding 5 p.c. of the credit lines allocated individually to the financial intermediaries.

TABLE XXIII — TRANSACTIONS OF THE NATIONAL BANK OF BELGIUM

(Changes in billions of francs)

	1991 <sup>1</sup>	1992	1993	1994
<b>1. Transactions apart from regulation of the money market</b> .....	-3.0	22.5	-86.0	38.4
1.1 Increase (-) or decrease in the note circulation <sup>2</sup> .....	-23.0	1.8	-10.0	22.9
1.2 Increase or decrease (-) in the foreign exchange reserves <sup>3</sup> .....	21.0	19.9	-74.5	9.5
1.3 Increase (-) or decrease in the deposit of the Belgian State .....	—	—	-0.8	0.3
1.4 Increase (-) or decrease in the deposit of the Luxembourg State .....	—	—	-0.5	...
1.5 Miscellaneous net items .....	-1.0	0.8	-0.2	5.7
<b>2. Regulation of the money market</b> .....	4.6	-22.6	87.7	-43.6
2.1 Mobilisation of commercial bills .....	0.3	-6.9	0.3	-1.6
2.2 Granting of credits by tender .....	-10.9	-25.2	5.1	-0.1
2.3 Direct interventions on the money market .....	15.2	9.5	82.3	-41.9
2.3.1 Purchases or sales (-) of securities on the market .....	-16.3	-0.3	15.0	-14.5
2.3.2 Repurchase agreements .....	32.0	12.8	65.3	-25.4
2.3.3 Interbank deposits or loans (-) .....	-0.5	-3.0	2.0	-2.0
<b>3. Coverage or absorption (-) of residual money market balances</b> .....	-1.6	0.1	-1.7	5.2
3.1 Advances to the State .....	...	0.2	-0.2	—
3.2 Advances to the Securities Regulation Fund .....	...	...	...	—
3.3 Absorption of the Treasury's surplus (-) .....	0.1	...	...	—
3.4 Changes in the net daily closing surpluses (-) or deficits of the financial intermediaries .....	-1.7	-0.1	-1.5	5.2
3.4.1 Current account advances to the financial intermediaries .....	-11.2	-0.1	0.2	2.0
3.4.2 Daily closing surpluses deposited with the NBB by the RGI (-) .....	9.5	...	-1.7	3.2

Source : NBB.

<sup>1</sup> February to December 1991.<sup>2</sup> Including bank notes which are no longer legal tender.<sup>3</sup> At market exchange rates and on the value date.

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## ADMINISTRATION AND SUPERVISION

By the royal decree of 9th May 1994, the term of office as governor of Mr Alfons Verplaetse was renewed for a period of five years beginning on 3rd July 1994.

In accordance with the royal decrees of 30th May and 15th June 1994, the terms of office as directors of Messrs Guy Quaden and Jean-Jacques Rey were renewed for periods of six years beginning on 1st August 1994 and 17th September 1994 respectively.

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Mr Fernand Duchène, Honorary Chairman of the Board of Censors since 1965, died on 14th March 1994.

Mr Duchène was elected as a censor by the Ordinary Meeting of Shareholders on 29th August 1938. He was appointed Secretary of the Board on 29th December 1948 and Chairman on 26th March 1958.

Throughout all these years the Boards were always able to have recourse to this wise and courteous advisor, who had a deep knowledge and wide experience of the Bank's operations.

The Bank will always remember him.

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The Bank was sad to learn of the death in 1994 of four members of its staff : Messrs Serge Damseaux and Jean-Paul Hotton, Miss Ingrid Rogiers and Mr Frédéric Van Uffelen.

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 :

Miss Marie-Henriette Lambert, Advisor to the Board of Directors, Head of the Research Department, Messrs Christiaan De Nys, Assistant Director, Head of the Credit Department, Guy Noppen, Department Adviser, Jacques Tassier, Agent with the rank of Inspector-General, Paul Verpoest, Inspector-General and Felix Heymans, Head of Division.

It also thanks the following members of the executive staff whose careers came to an end during the past year :

Messrs Lucien Alen, Robert Alsteen, Michel Baekelandt, Adolf Baetens, Mrs Nadinne Van Braekel-Baeyens, Messrs Frans Balus, Gilbert Barcy, Omer Beck, Willy Beckmans, Ernest Ber-

trand, Jean-Marie Borlon, José Botquin, Louis Boulpaep, Joseph Bousard, Dominique Brack, Maurice Brackmyn, Jean Briamont, Arnold Briffaut, Mrs Marie-Thérèse Mommer-Brouwers, Messrs Willy Buekenhoudt, Renatus Campers, Antoine Capiiau, Mrs Micheline Vanderhaegen-Cardon, Messrs René Charlier, Léopold Claes, René Cloquet, Jacques Costa, Antoon Couck, Joseph Debbaut, Mrs Annie De Blander, Mr Gérard Delgembe, Mrs Paula Buekenhoudt-Demesmaeker, Miss Michèle Demil, Messrs Roger Denachtergael, Jean De Roubaix, Jan De Smet, Mrs Lea Van Uffelen-De Waele, Messrs Christian d'Herdt, Florentinus Dickens, Mrs Monique Weyckmans-Dockers, Messrs Pierre Donné, Romain Duerinckx, Mrs Adèle Malengreau-Dufrasnes, Mr Jacques Eloy, Mrs Monique Engelen, Messrs Joseph Engels, Wilfried Fiers, Miss Monique Flamant, Mrs Paula Vanantwerpen-Franckx, Mr Roger François, Mrs Adrienne Dries-Genijn, Messrs Hilaire Gillekens, Paul Goemaere, Jean Heps, Willy Herroelen, Pierre Herve, Gustaaf Hoogewijs, Joseph Huenaerts, Mrs Marie-Louise Fabre-Jolé, Mrs Leona Caels-Jossa, Mrs Anita De Vroede-Koosemans, Mrs Huguette Lamon, Mr Karel Leemans, Mrs Marie-Louise Berwaer-Legrand, Messrs Robert Lescauwaet, Jean-Marie Lossignol, Auguste Mabilie, Marcel Marbehan, Jean Martens, Gustaaf Merckaert, Mrs Georgette Van Roy-Mertens, Messrs André Messiaen, Yves Milde, Rodolphe Moerkerke, René Nierenhausen, Georges Otte, Jean Overloop, Christian Parmentier, Jozef Penninckx, Mrs Nicole Van Haecke-Persoons, Mr Jacques Plompen, Miss Liliane Poncelet, Mrs Arlette Van Mulders-Poot, Messrs Maurice Renneboog, Guy Rivière, André Rombaut, Mathieu Schneider, Gilbert Schoolmeesters, Paul Smet, Jozef Spiliers, José Spitaels, Robert Stallaert, Willy Strauven, Marcel Swiggers, Alfred Uytterhaegen, Marcel Van Bellinghen, Jozef Van Delm, Oscar Van den Bergh, Mrs Anita Vanhemelryck-Vanden Bossche, Mrs Yvette Heremans-Vandenbulcke, Mrs Françoise Loran-Vanden Eynde, Messrs Julien Van der Haegen, Robert Vanderlinden, René Van der Wilt, Clement Van de Velde, Luciaan Van de Velde, Willy Vandevoorde, Mrs Marie-Lydie d'Herde-Van Heghe, Mr Hendrik Vanhoegaerden, Mrs Angèle Degraeve-Vanholder, Mrs Jeannine Lievens-Van Lancker, Messrs Willy Vergauwen, Wilfried Verhelst, Georges Verhoeven, Mrs Nadia Verluyten, Messrs Pierre Vermeir, François Verschaeren, Guido Vervaeke, Michel Viste, Georges Wausort, Mrs Annita Dubois-Wauters, Mrs Christiane Herregodts-Wauters, Mrs Delphine Wyns, Mrs Anna-Maria Degrootd-Wouters.

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In accordance with Article 83 of the Statutes, the Ordinary General Meeting of Shareholders was held on Monday 28th February 1994.

In application of Article 41 of the Statutes, the report on the operations of the financial year 1993 had been sent, at least five days before that meeting, to the holders of shares which were the subject of a nominal entry or which had been deposited at the Bank.

Before going on the deal with the agenda for the meeting and in application of Article 86 of the Statutes, the Governor first of all appointed as scrutators the two largest shareholders present who do not form part of the Bank's administration. These were able to verify compliance with the provisions of the Statutes concerning publicity and participation in the meeting.

The Governor then presented a report on the activities of the year 1993 and answered the questions put to him by the shareholders.

Lastly, he announced the names of the candidates for the mandates of regent and censor, which had expired or become vacant. The vote was then taken and the voting slips were counted.

The meeting re-elected as regents Mr Rik Van Aerschot, proposed by the Minister of Finance, and Messrs Willy Peirens, Tony Vandeputte and Noël Devisch, presented respectively by the organisations most representative of employers, industry and agriculture.

The meeting also renewed the terms of office as censors of Messrs Roger Mené, Jacques Forest and Philippe Grulois. In order to replace Mr Gaston Vandewalle, whose mandate had been vacant since February 1992, it elected, as censor, Mr Herman Verwilst. All these terms of office will terminate at the end of the February 1997 General Meeting, except that of Mr Verwilst, whose term of office will expire on 27th February 1995.

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In application of Article 56 of the Statutes, the Minister of Finance authorised Mr Roger Mené, who had reached the age-limit of 67 years fixed for censors on 3rd July 1994, to complete his current term of office. This will end after the February 1997 Annual Meeting.

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At the beginning of 1995 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 :**

Mr Roger RAMAEKERS,  
Baron FRÈRE,  
Messrs Rik VAN AERSCHOT,  
Willy PEIRENS,  
François JANSSENS,  
Tony VANDEPUTTE,  
Philippe WILMES,  
Eddy WYMEERSCH,  
Noël DEVISCH,  
François MARTOU.

**Censors :**

Baron DELRUELLE, chairman,  
Messrs Hubert DETREMMERIE, secretary,  
Roger MENE,  
Willy DANCKAERT,  
Carlo VAN GESTEL,  
Maurice CHARLOTEAUX,  
Christian D'HOOGH,  
Jacques FOREST,  
Philippe GRULOIS,  
Herman VERWILST.<sup>1</sup>

**Secretary :** Mr Jean POULLET.

**Treasurer :** Mr Serge BERTHOLOME.

**Government Commissioner :** Mr Grégoire BROUHNS.

## ADVISORS TO THE BOARD OF DIRECTORS

Messrs Jean-Victor LOUIS,  
Jan MICHIELEN,  
Henri BARBE.

<sup>1</sup> Elected by the Ordinary General Meeting of 28th February 1994 to replace Mr Gaston Vandewalle, whose mandate had become vacant at the end of the Ordinary General Meeting of 24th February 1992.

## DEPARTMENTS AND SERVICES

**Social Affairs Department** — Mr J. LEEMANS, Assistant Director,  
Personnel Manager.

Deputy Personnel  
Manager Mr G. PARLONGUE, Chief Advisor.

Wages and Social Affairs Administration  
Head Mr A. REITER, Head of Division.

Training  
Head Mr G. DE RIDDER, Head of Division,  
Advisor Miss S. ZONIOS,  
Head of Division Mr J.-L. LION.

Personnel Policy  
Head Mr R. VAN KEYMEULEN, Head of Division,  
Heads of Division Messrs M. DRION, D. LOZET, G. VAN CAMP.

Medical Service  
Head Doctor Mr A. DE LANDTSHEER,  
Doctors Messrs V. DONS, C. VAN LAETHEM.

**Data Exchange Department** — Mr P. TELLIER, Assistant Director.

Advisor Mr J. MAKART.

Central Balance Sheet Office  
Head Mr A. LENAERT, Head of Division,  
Advisor Mr C. RUBENS,  
Heads of Division Mrs E. DE GROOTE, Mr P. QUINTIN.

Central Credit Offices  
Head Mr R. TROGH, Head of Division,  
Advisor Mr R. THIRION,  
Head of Division Mrs G. DALL'AGLIO-TIMMERMANS.

Cashless Payments  
Head Mr A. VAES, Head of Division,  
Advisor Mr K. DE GEEST,  
Heads of Division Messrs V. DECONINCK, B. BOURTEMBOURG.

**Accounting and Budgetary Control Department** — Mr C. DEKEYSER, Assistant Director.

Accounting  
Head Mr J. TAVERNIER, Head of Division,  
Head of Division Mr L. HENRY.

Budgetary Control  
Head Mr J. VANDEUREN, Inspector-General,  
Head of Division Mr R. VAN KEYMEULEN.

**Credit Department** — Mr W. BRUMAGNE, Assistant Director.

Financial Market Instruments Unit

Advisor Mr P. LEFEVRE.

Discount-Advances

Head Mr J.-M. WULLUS, Inspector-General,

Head of Division Mr F. WITHOFS.

Money Market

Head Mr F. DEPUYDT, Inspector-General,

Heads of Division Messrs E. DE KOKER, G. TEMMERMAN.

**Foreign Department** — Mr J. MICHELSEN, Advisor to the Board of Directors.

Department Advisors Messrs H. BUSSERS, L. COENE.

International Agreements

Head Mrs F. LEPOIVRE-MASAI, Inspector-General,

Advisors Messrs P. VAN DER HAEGEN, P. VIGNERON, Mrs G. DURAY-BIRON,  
Messrs J. MONT, D. OOMS.

Foreign Exchange

Head Mrs A. VAN DEN BERGE, Head of Division,

Advisors Messrs N. VANDECAN, E. LAVIGNE,

Head of Division Mr J.-L. GERARDY.

**Research Department** — Mr J. SMETS, Chief Advisor.

Deputy Head  
of Department

Mr R. BEUTELS, Inspector-General,

Department Advisors

Mr A. NYSSSENS, Mrs A.-M. JOURDE-PEETERS,  
Messrs J.-J. VANHAELLEN, E. JACOBS, J. CLAEYS,  
Mrs F. JACOBS-DONKERS, Messrs V. PERILLEUX,  
M. DOMBRECHT, T. TIMMERMANS,

Economist

Mr M. MARECHAL.

Documentation

Head Mr W. VERTONGEN, Inspector-General,

Inspector-General Mr R. BEUTELS,

Head of Division Mrs G. VAN QUATHEM-VAN HOVE.

**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.

**Public Securities Department** — Mr W. BRUMAGNE, Assistant Director.

## Clearing Unit

Head of Division Mr L. EICHER.

## Government Cashier's Service

Head Mr C. LOTS, Inspector-General,  
Heads of Division Messrs R. VAN HEMELRIJCK, M. HINCK.

## Securities Regulation

Head Mr H. SMISSAERT, Head of Division,  
Head of Division Mr M. RUBENS.

## Securities

Head Mr W. STEPPE, Inspector-General,  
Heads of Division Messrs R. ROOTHANS, Y. PIRLET.

**Printing Department** — Mr M. SALADE, Inspector-General.

## Administrative Service

Head Mr J. RENDERS, Head of Division,  
Head of Division Mr Y. TIMMERMANS.

## Prepress and Studies

Head Mr J.-C. GILLES, Head of Division.

## Production and Engineering

Head Mr G. PONNET, Deputy Advisor.

**Planning, Organisation and EDP Department** — Mr H. BARBE, Advisor to the Board of Directors.

Inspectors-General Messrs L. DUFRESNE, A. HUET,  
Senior Analyst Mrs A.-M. QUINTART-LEJEUNE.

## EDP Centre

Head Mr E. COLMAN, Head of Division,  
Head of Division Mr J. WIELEMANS,  
Senior system engineer Mr M. CHARLIER.

## EDP Projects Development

Head Mr J.-P. HOYOS, Inspector-General,  
Inspector-General Mr P. LAUWERS,  
Senior Analysts B. GROETEMBRIL, Mrs H. VANDOORNE-VAN HECKE,  
Messrs J. FRANCOIS, J.-M. PLISNIER, Mrs S. LANCKSWERT-MASKENS,  
Mr E. DE SMET,  
Head of Division Mr P. SAPART,  
Senior system engineer Mr P. MARECHAL.

## EDP Research

Head Mr J. MOERMAN, Inspector-General,  
Inspector-General Mr G. VANGHELUWE,  
Senior system engineers Messrs G. DUMAY, U. MOMMEN, Mrs M. GROGNARD-HUART.

## Organisation and Management Supervision

Head Mr L. JANSSENS, Head of Division,  
Head of Division Mrs C. SAPART-BUYDENS.

**General Secretariat Department** — Mr W. PLUYM, Assistant Director.

Department Advisor	Mrs M. STEENBERGEN-DE WACHTER.
Secretariat	
Head	Mr M. VAN CAMPEN, Head of Division,
Head of Division	Mr J. CALLEBAUT.
Secretariat of the Board of Directors	
Head	Miss J. RONDEUX, Inspector-General.

**General Statistics Department** — Mr B. MEGANCK, Assistant Director.

Data Bank Unit	
Inspector-General	Mr A. WOUTERS,
Advisors	Messrs G. POULLET, J. PALATE.
Balance of Payments	
Head	Mr G. MELIS, Inspector-General,
Heads of Division	Messrs M. EECKHOUT, R. DE BOECK,
Controller	Mr P. SARLET.
Statistics	
Head	Mr R. ACX, Head of Division.
Foreign Trade Statistics	
Head	Mr J. DAENEN, Senior Statistician,
Inspector-General	Mr D. VERMEIREN.

**Services directly subordinate to a member of the Board of Directors**

Internal Audit	
Head	Mr J. HELFGOTT, Inspector-General,
Inspector-General	Mr J.-C. PAUWELS,
Inspectors	Mrs J. MAESSEN-SIMAR, Messrs M. MATTENS, L. BODRANGHIEN.
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.
Collections and Staff Library	
Head	Miss C. LOGIE, Inspector-General,
Head of Division	Mr Y. RANDAXHE.

**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.
Security Supervision	
Head	Mr J.-P. DE JONGE, Head of Division.
Safety, Hygiene and Embellishment of Working Environment	
Head	Mr D. DENEË, Head of Division.

**Branches and Agencies Department** — Mr W. VAN DER PERRE, Assistant Director.

Heads of Division                      Messrs P. BOBYR, P. BISSOT.

**Branches**

Antwerp  
Administrator                      Mr L. VAN DER VEKEN,  
Heads of Division                      Messrs F. SERCKX, 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.

**Agencies**

Aalst  
Agent                                      Mr A. VERHELST,  
Head of Division                      Mr M. REDANT.

Arlon  
Agent                                      Mr D. BRISBOIS.

Brugge  
Agent                                      Mr W. SMOUT.

Charleroi  
Agent                                      Mr Y. LEBLANC,  
Head of Division                      Mr R. HAENECOUR.

Kortrijk  
Agent                                      Mr P. TACK,  
Head of Division                      Mr J. PANNEEL.

Gent  
Agent                                      Mr J. VICTOR.

Hasselt  
Agent                                      Mr T. DE ROOVER.

Leuven  
Agent                                      Mr L. GHEKIERE,  
Head of Division                      Mr L. LAGAE.

Mechelen  
Agent                                      Mr M. DE GEYTER.

Mons  
Agent                                      Mr R. COLSON.

Namur  
Agent                                      Mr J. DELPEREE.

Roeselare  
Agent                                      Mr P. BOGAERT.

Tournai	
Agent	Mrs J. DAUCHOT-DE BEER.
Turnhout	
Agent	Mr L. MUYLAERT.
Verviers	
Acting manager	Mr A. SMETS.

**Representation Offices**

La Louvière	
Manager (acting)	Mr W. GERIN.
Malmedy	
Manager	Mr J.-Y. BOULANGER.
Marche-en-Famenne	
Manager	Mr P. LAMBERT.
Ostend	
Manager (acting)	Mr J. BUSSCHE.
Sint-Niklaas	
Manager	Mr G. MINNAERT.

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Office of Mr Van Rompuy, Vice-Prime Minister and Minister for the Budget,  
Mr H. FAMEREE, Economist.

Office of Mr Maystadt, Minister of Finance,  
Mr L. HUBLOUE, Advisor.

Office of Mr De Bastselier, Vice-President of the Flemish Government, Flemish Minister for the Environment  
and Housing,  
Mr G. MAES, Economist.

Belgian Permanent Representation with the European Communities,  
Mr D. SERVAIS, Advisor.

Belgian Permanent Representation with the Organisation for Economic Co-operation and Development,  
Paris,  
Mr D. SLAATS, Advisor.

Office of the Belgian Executive Director at the International Monetary Fund, Washington,  
Mr D. DACO, Advisor.

On mission, on behalf of the International Monetary Fund,  
— at the National Bank of Cambodia,  
Mr R. BEERENS, Head of Division,  
— with the Islamic Federal Republic of Comoros,  
Mr E. VERREYDT, Economist.









# Annual Accounts

**BALANCE SHEET AS AT 31st DECEMBER 1994 (after distribution of profit)****ASSETS***(In thousands of francs)*

	1994	1993
Gold . . . . .	<b>306,267,495</b>	330,255,559
Foreign currencies . . . . .	<b>231,166,004</b>	244,220,978
Special Drawing Rights (SDRs) . . . . .	<b>5,737,305</b>	6,160,760
Participation in the IMF . . . . .	<b>25,856,587</b>	27,673,064
Loans to the IMF . . . . .	—	—
Deposit with the IMF within the framework of the ESAF . . . . .	<b>8,366,040</b>	4,940,280
Ecus . . . . .	<b>148,081,336</b>	148,023,178
EMI : Very-short- and short-term financing . . . . .	—	—
EC : Medium-term financial assistance . . . . .	—	—
International agreements . . . . .	<b>3,491,415</b>	3,303,551
Advances against pledged security . . . . .	<b>32,347,333</b>	30,101,387
Commercial bills . . . . .	<b>3,723,649</b>	5,578,276
Securities purchased in the market . . . . .	<b>17,860,920</b>	32,436,483
Claims due to other interventions in the money market . . . . .	<b>92,330,584</b>	119,669,272
Coin . . . . .	<b>1,102,526</b>	1,202,781
Balances at the Postal Cheque Office :		
A Account . . . . .	<b>120</b>	489
B Account . . . . .	<b>2,985,375</b>	3,067,553
Statutory investments (Art. 21) . . . . .	<b>43,753,829</b>	40,365,819
Premises, equipment and furniture . . . . .	<b>13,588,195</b>	13,205,289
Other assets . . . . .	<b>3,339,155</b>	4,446,062
Regularisation accounts . . . . .	<b>5,718,730</b>	5,758,997
<b>TOTAL ASSETS</b>	<b>945,716,598</b>	1,020,409,778

## LIABILITIES

(In thousands of francs)

	1994	1993
Notes in circulation . . . . .	<b>412,189,699</b>	440,603,136
Current accounts in francs . . . . .	<b>12,278,488</b>	9,589,380
Deposit of the Belgian State . . . . .	<b>485,597</b>	763,404
Deposit of the Luxembourg State . . . . .	<b>503,242</b>	503,860
Liabilities due to interventions in the money market	<b>3,047,278</b>	6,045,848
Current accounts in foreign currencies . . . . .	<b>9,605</b>	7,454
Financial assistance agreements . . . . .	<b>2,985,375</b>	3,067,553
Counterpart of allocations of SDRs . . . . .	<b>22,553,264</b>	23,972,511
EMI : Very-short- and short-term financing . . . . .	—	—
Unavailable reserve of capital gains on gold . . . . .	<b>116,310,864</b>	116,310,864
Other liabilities . . . . .	<b>2,106,397</b>	2,339,605
Regularisation accounts . . . . .	<b>372,662</b>	456,693
Valuation differences on gold and foreign exchange	<b>314,859,166</b>	361,965,356
Provision for premises, equipment and furniture . . . . .	<b>955,981</b>	777,981
Provision against Sundry Contingencies . . . . .	<b>10,150,000</b>	10,050,000
Capital . . . . .	<b>400,000</b>	400,000
Reserve Fund :	<b>46,508,980</b>	43,556,133
<i>Statutory Reserve</i> . . . . .	<b>3,049,400</b>	2,915,282
<i>Extraordinary Reserve</i> . . . . .	<b>30,455,631</b>	27,992,631
<i>Account for depreciation of premises, equipment and furniture</i> . . . . .	<b>13,003,949</b>	12,648,220
<b>TOTAL LIABILITIES</b>	<b>945,716,598</b>	1.020,409,778

## PROFIT AND LOSS ACCOUNT AS AT 31st DECEMBER 1994

(In thousands of francs)

	1994	1993
<b>RECEIPTS</b>		
Proceeds of transactions with foreign countries . . .	<b>13,875,613</b>	22,508,487
Proceeds of credit transactions . . . . .	<b>8,269,296</b>	10,820,076
Proceeds of statutory investments . . . . .	<b>3,778,652</b>	3,846,256
Commission . . . . .	<b>163,086</b>	169,541
Amounts recovered from third parties . . . . .	<b>1,958,349</b>	1,859,833
Drawings on provisions . . . . .	<b>292,000</b>	471,000
Other proceeds . . . . .	<b>83,253</b>	94,372
	<b>28,420,249</b>	39,769,565
<b>EXPENDITURE</b>		
State Share :	<b>11,954,298</b>	22,437,143
<i>Transactions with foreign countries</i> . . . . .	<b>7,082,334</b>	14,363,379
<i>Credit transactions</i> . . . . .	<b>4,871,964</b>	8,073,764
General expenditure :	<b>8,297,001</b>	8,095,711
<i>Remuneration and social charges</i> . . . . .	<b>6,784,676</b>	6,781,434
<i>Other expenditure</i> . . . . .	<b>1,512,325</b>	1,314,277
Depreciation of premises, equipment and furniture	<b>1,115,179</b>	1,560,521
Provision for premises, equipment and furniture . .	<b>470,000</b>	310,000
Provision against Sundry Contingencies . . . . .	<b>100,000</b>	300,000
Taxes and dues . . . . .	<b>2,657,520</b>	3,228,480
Net profit for distribution . . . . .	<b>3,826,251</b>	3,837,710
	<b>28,420,249</b>	39,769,565

**DISTRIBUTION OF PROFIT***(In thousands of francs)*

	1994	1993
Profit to be appropriated . . . . .	<b>3,826,251</b>	3,837,710
The profit is distributed as follows :		
Appropriation to the Extraordinary Reserve . . . . .	<b>2,463,000</b>	2,503,000
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 . . . . .	<b>24,000</b>	24,000
2. Of the amount in excess of this :		
a) 10 % to the Statutory Reserve . . . . .	<b>133,925</b>	131,071
b) 8 % to the staff . . . . .	<b>107,140</b>	104,857
3. Of the amount in excess of this :		
a) to the State, one fifth . . . . .	<b>219,637</b>	214,956
b) to the shareholders, a second dividend . . . . .	<b>878,356</b>	859,500
c) the balance to the Statutory Reserve . . . . .	<b>193</b>	326

As the distribution of the profit was approved by the General Council on 25th January 1995, coupon n° 193 will be payable with effect from 1st March 1995 in the following manner :

	Gross amount for share	25,75 p.c. withholding tax on income from financial assets	Net amount per share
On the 400,000 shares . . . . .	Fr. 2,255.89	Fr. 580.89	Fr. 1,675

## OFF-BALANCE SHEET ITEMS AS AT 31st DECEMBER 1994

*(In thousands of francs)*

	1994	1993
<b>Contingent liabilities</b>		
Guarantees as substitute for credit . . . . .	935,957	1,019,366
<b>Liabilities which could lead to a credit risk</b>		
Firm undertakings to provide funds . . . . .	42,875,280	57,787,945
<b>Valuables and claims entrusted to the Institution</b>		
For encashment . . . . .	2,979	3,964
Safe custody deposits . . . . .	7,548,424,853	6,873,280,377



# **Explanatory notes to the annual accounts**

## INTRODUCTION

The presentation of the annual accounts has not been changed as compared with the previous year.

The valuation rules are described in the comments under the headings in question. These rules are unchanged, with the exception of those concerning the stock of banknote paper. The cost of the stock of printed and unprinted banknote paper is no longer included on the assets side of the balance sheet, under the heading Regularisation accounts, at the acquisition price, but appears directly as an item of the financial year's expenditure in the profit and loss account. The economic justification for the change in the accounting method is that there is no alternative use for this stock of paper.

## BALANCE SHEET

(In 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 market 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. 393,195.6321 per fine kilogram on 31st December 1994, against Fr. 423,992.2476 on 31st December 1993. 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 ».

The gold sold spot to and repurchased forward from the EMI against Ecus but the management of which is still entrusted to the Bank, which was equivalent to Fr. 76.6 billion on 31st December 1994, is not included under this heading.

#### FOREIGN CURRENCIES

Holdings in foreign currencies appear in the balance sheet at their equivalent in francs calculated at the indicative market rates on the last working day of the year as published by the Bank. The translation differences, i.e., respectively, the differences between the valuation of these assets at purchase price and their value at the exchange rate on the balance sheet date, are recorded under the liabilities heading « Valuation differences on gold and foreign exchange ».

Compared with the previous year, foreign currency holdings decreased by Fr. 13,055 million. Of this decline, Fr. 17,796 million is attributable to the change in the accounting exchange rates at the end of the year, as mentioned above. For the remainder, the change is the result of, on the one hand, purchases of foreign currencies in the foreign exchange market, collection of the proceeds of investments abroad and a decrease in the contribution of dollars to the EMI and, on the other hand, sales of foreign currencies resulting from the repayment of external foreign currency loans of the Treasury and the withdrawal of liquidity from the money market by means of swap operations in foreign currencies against Belgian francs. Valued at market rates, these transactions amounted on 31st December 1994 to Fr. 143.1 billion, whereas there were no swap operations in progress at the end of the previous financial year.

On the balance sheet date, 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 dollars sold spot to the EMI and repurchased forward from it. These dollars, the management of which is entrusted to the Bank, are not included under this heading.

The holdings in foreign currencies are invested in time deposits and easily negotiable foreign securities, account being taken of the criteria of safety, liquidity and yield.

On purchase, securities in foreign currencies are recorded at purchase price. A portion of the difference between the latter and the maturity value is, each year, in the profit and loss account added to or subtracted from the interest produced by the securities, pro rata temporis of the residual life of the securities and by a linear method. In the balance sheet the securities are valued at their purchase price plus or minus the portion of that difference which has been imputed in the profit and loss account since the purchase of the securities.

### **SPECIAL DRAWING RIGHTS (SDRs)**

Special Drawing Rights are reserve assets created ex nihilo by the IMF and allocated by it to its members. SDRs are used in transactions between official monetary authorities. The item undergoes changes as a result of the receipt and payment of interest and owing to transactions with other countries and with the Fund. The last allocation was made in 1981. In accordance with Article 6 of Decree-Law No 5 of 1st May 1944 concerning the conditions of purchase and sale of gold and foreign currencies, as last amended by a law of 24th March 1978, the Bank shows Belgium's holdings of SDRs in its book 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. 46.4780 for one SDR (Fr. 49.4028 at the end of 1993).

The holding of SDRs amounted to SDR 123.4 million on 31st December 1994, against SDR 124.7 million a year earlier. The net use of the holding of SDRs on that date amounted to SDR 361.8 million.

During the year the Bank paid SDR 1.3 million as interest on the net positions with the IMF. It also made a payment of SDR 80 million to the Fund in respect of Belgium's contribution to the financing of the enlargement in the Enhanced Structural Adjustment Facility. The last-mentioned payment was, however, offset by a purchase of the same amount of SDRs against foreign currencies from other participants in the SDR Department.

### **PARTICIPATION IN THE IMF**

The amount shown against this heading represents the equivalent in francs of Belgium's reserve tranche, that is, the rights possessed by the Belgian Government in its capacity as a member of the IMF, which the Bank shows as its own assets by virtue of Article 6 of Decree-Law No 5 of 1st May 1944. These rights correspond to the difference between

Belgium's quota in the IMF, namely SDR 3,102.3 million, and the Fund's holdings of Belgian francs. They can be sold to the IMF at any time in order to obtain convertible currencies for financing a balance of payments deficit.

The 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 556.3 million against SDR 560.2 million a year earlier. This change corresponds to the difference between, on the one hand, the purchases of francs by member countries of the Fund and uses of francs by the Fund (SDR 55.3 million) and, on the other hand, repurchases in francs by member countries of the Fund (SDR 59.2 million).

## **LOANS TO THE IMF**

The purpose of this item is to record any claims held by the Bank on the Fund as a result of any loans granted to it on its own account, and also the recording of the Belgian State's claims on the IMF in the event of implementation of the General Arrangements to Borrow — by which the member countries of the Group of Ten undertook to provide the Fund with resources in the cases specified by these agreements. The last-mentioned claims would be shown in the Bank's accounts as its own assets in accordance with Article 6 of the afore-mentioned Decree-Law No 5 of 1st May 1944. On the balance sheet date, as was the case a year earlier, there were no loans to the IMF.

## **DEPOSIT WITH THE IMF WITHIN THE FRAMEWORK OF THE ESAF**

The amount shown under this heading is the equivalent of the SDRs which the Bank had 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.

Compared with the previous year, the claim shows an increase owing to the payment in SDRs of Belgium's contribution to the financing of the enlargement of the Enhanced Structural Adjustment Facility. On the balance sheet date, the deposits amounted to SDR 180 million, having been valued at the same exchange rate as that applied to holdings of SDRs.

## **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 Community or with other holders of Ecus.

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. 39.1614 for 1 Ecu on 31st December 1994 against Fr. 40.2869 a year earlier.

Compared with the previous year, the holding of Ecus increased by 107.1 million Ecus to 3,781.3 million Ecus on 31st December 1994. This rise was due to the growth in the amount of Ecus received in respect of the renewal of swap transactions with the EMI (36.9 million Ecus), to the payment of interest on the net holding of Ecus (50.2 million Ecus) and to the settlement of a swap of Ecus against dollars with a third holder of Ecus (20 million Ecus).

The amount of the Ecus made available to the Bank by the EMI showed a slight increase compared with the previous year owing to the rise in the price adopted for gold when the said swaps were renewed. The effect of this rise counterbalances that of the decline in the exchange rate for the US dollar and the smaller contribution of dollars made by the Bank owing to a fall in its reserves in that currency.

On 31st December 1994 the Bank had a net holding of Ecus amounting to 877.8 million Ecus.

### EMI : VERY-SHORT- AND SHORT-TERM FINANCING

The figures shown under this heading represent, where appropriate, the Bank's claim, expressed in Ecus, on the EMI in respect of very-short-term financing of interventions carried out either at the exchange rates for compulsory intervention in the foreign exchange mechanism of the European Monetary System or within the framework of special agreements concluded between participants in the EMS.

This item would also record any claims which the Bank may hold in respect of the short-term monetary support among the central banks of the Member States of the European Union.

### INTERNATIONAL AGREEMENTS

This item is reserved for recording claims in francs on non EC-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 :

	31-12-1994	31-12-1993
— Fixed-term advances against the pledging of public securities granted through the periodical allocation of credits by tender .....	<b>29,000,000</b>	28,775,000
— Daily closing credits granted to the financial intermediaries in the form of current account advances .....	<b>3,323,402</b>	1,324,060
— Other current account advances .....	<b>23,931</b>	2,327
Total	<b>32,347,333</b>	30,101,387

**COMMERCIAL BILLS**

The item consists of :

	31-12-1994	31-12-1993
— Commercial bills purchased under repurchase agreements in connection with the periodical granting of credits by tender .....	<b>999,446</b>	1,275,117
— Commercial bills mobilised at the official discount rate and counted against the credit institutions' individual mobilisation ceilings .....	<b>2,724,203</b>	4,303,159
Total	<b>3,723,649</b>	5,578,276

**SECURITIES PURCHASED IN THE MARKET**

This item records the Treasury certificates, bonds and other securities traded in the money or capital markets which the Bank acquired directly in the secondary market in pursuit of its open market policy.

When purchased, the securities are recorded in the accounts at the purchase price; in the balance sheet they are valued on the basis of their actuarial yield, calculated on purchase, account being taken of their redemption value at maturity. The difference (premium or discount) between the purchase price and the redemption value is carried to the profit and loss account pro rata temporis of the residual life of the securities as a constituent part of the interest produced by these securities. This difference is carried to the profit and loss account on 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 portfolio contained only Treasury certificates, the market value of which was Fr. 17,860 million.

**CLAIMS DUE TO OTHER INTERVENTIONS IN THE MONEY MARKET**

These are the claims which the Bank holds as a result of repurchase agreements in respect of various types of private or public securities concluded within the framework of its open market interventions or as a result of loans on the interbank market.

The amounts recorded in respect of the claims are those of the funds made available to the financial intermediaries.

On the balance sheet date repurchase agreements amounted to Fr. 92,331 million and there were no loans on the interbank market.

**COIN**

Under an agreement concluded between the Minister of Finance and the Bank, the ceiling on the Bank's holding of coins is fixed at 10 p.c. of the coins in circulation on 31st December of the preceding year; it amounted to Fr. 1,992 million for the year 1994.

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 1994.

### **BALANCES AT THE POSTAL CHEQUE OFFICE : B ACCOUNT**

At the request of the Treasury, the Bank holds on a special postal current account, called the B Account, the counterpart of the unused balances of the loans granted by the Belgian State to foreign countries under financial assistance agreements; these balances are shown in the Bank's books in the name of the central banks or governments of the countries which receive these loans.

### **STATUTORY INVESTMENTS (ART. 21)**

The securities which the Bank holds, under Article 21 of its Statutes, as the counterpart of its capital, reserves and depreciation accounts, are recorded under this heading. They consist of bills and securities referred to in Article 17, 1 of the Statutes and, subject to permission from the Minister of Finance, of securities representing the capital of financial institutions governed by special legal provisions or placed under the guarantee or supervision of the State, of shares of the BIS in Basle, and of all other security necessary or useful for the performance of the Bank's functions.

On purchase, public securities are recorded in the accounts at their purchase price; in the balance sheet they are recorded on the basis of their actuarial yield, calculated on purchase, account being taken of their redemption value at maturity. The difference (premium or discount) between the purchase price and the redemption value is carried to the profit and loss account pro rata temporis of the residual life of the securities as a constituent part of the interest produced by these securities. This difference is carried to the profit and loss account on an actuarial basis, account being taken of the real yield rate on purchase. These securities are recorded in the balance sheet at their purchase price plus or minus the portion of the said difference carried to the profit and loss account.

The shares are recorded in the balance sheet at their purchase price. The shares of the BIS are valued in francs on the basis of the exchange rate on the day of their purchase.

In connection with the operation for the privatisation of the National Investment Company, which took place during the year, the Bank sold its shares in the capital of this holding company. Following this selling transaction, the Bank acquired among other assets, shares in the capital of the Federal Investment Company.

### **PREMISES, EQUIPMENT AND FURNITURE**

Land, buildings, plant and tools, furniture and vehicles are shown in the accounts at their purchase value.

In 1994 the Bank's capital investments totalled Fr. 1,144.9 million, including incidental expenses; with the exception of land, they are written off in full in the year of purchase. An amount corresponding to the book value of the assets which were sold or whose use was discontinued was deducted from the « Premises, equipment and furniture » account.



## **OTHER ASSETS**

The amounts recorded under this heading are commercial and other claims, stocks and work in progress.

The item consists mainly of a claim on the Treasury in respect of exchange losses incurred in 1992 on transactions which entailed changes in the assets or liabilities held by the Bank under international agreements which it implements on behalf of the State or for which the latter gives its guarantee. This claim was partly settled by means of the exchange profits obtained in 1993 and 1994 on the same balance sheet items.

## **REGULARISATION ACCOUNTS**

This item records, in so far as they are large enough to have an appreciable influence on the result for the current year, incomes earned and expenses to be carried forward.

## BALANCE SHEET

(In thousands of francs)

### LIABILITIES

#### NOTES IN CIRCULATION

The amount of notes in circulation, expressed as a daily average, amounted to Fr. 425.8 billion in 1994, against Fr. 428.9 billion in 1993, corresponding to a decrease of 0.72 p.c.

#### DEPOSIT OF THE BELGIAN STATE

On 31st December 1994 the deposit of the Belgian State amounted to Fr. 485.6 million. 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

On 31st December 1994 the deposit of the Luxembourg State amounted to Fr. 503.2 million. By virtue of an agreement dated 24th June 1993 between the Luxembourg State and the Bank, the deposit of the Luxembourg State bears interest on the part which does not exceed Fr. 507 million.

#### LIABILITIES DUE TO INTERVENTIONS IN THE MONEY MARKET

The amounts recorded under this heading are commitments to repurchase public or private securities sold under 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.

#### FINANCIAL ASSISTANCE AGREEMENTS

The amounts recorded under this heading are those entered in the accounts opened in the name of the central banks or governments of the countries which receive financial assistance under bilateral loan agreements which are concluded and financed by the State and the counterpart of which is paid to a postal account opened in the name of the Bank.

#### COUNTERPART OF ALLOCATIONS OF SDRs

The amount represents the equivalent of the SDRs, recorded at the same rate as for 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 and, in the event of liquidation of the Bank, the balance of this special account would be assigned to the State.

**OTHER LIABILITIES**

The amounts recorded under this heading are debts in respect of taxes, wages and salaries and social contributions, and also the sums payable in respect of distribution of the profit in accordance with Article 38 of the Bank's Statutes.

**REGULARISATION ACCOUNTS**

This item comprises, in addition to amounts to be charged in respect of interest and tax payable, a residual amount of Fr. 172 million resulting from the inclusion in the result of the exceptional gains, spread over a period, obtained in 1993 on statutory portfolio investments.

**VALUATION DIFFERENCES ON GOLD AND FOREIGN EXCHANGE**

This account is credited or debited with the translation differences resulting from the difference between, on the one hand, the book value, on the balance sheet date, of assets and liabilities not expressed in francs and, on the other hand, the purchase price of these.

Balance at the end of 1993 .....		361,965,356
Movements :		
— Valuation differences in respect of gold .....	—29,985,172	
— Other valuation differences .....	—17,121,018	
		<u>—47,106,190</u>
Balance at the end of 1994 .....		314,859,166

**PROVISION FOR PREMISES, EQUIPMENT AND FURNITURE**

The purpose of this provision is to enable the Bank to meet the expenses entailed by the execution of its programme of investment in new premises.

Balance at the end of 1993 .....		777,981
Movements :		
— Write-back .....	—292,000	
— Increase .....	470,000	
		<u>178,000</u>
Balance at the end of 1994 .....		955,981

**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 1993 .....	10,050,000
Increase .....	100,000
Balance at the end of 1994 .....	<u>10,150,000</u>

**CAPITAL**

The capital of Fr. 400 million is divided into 400,000 registered or bearer shares of Fr. 1,000 each, of which 200,000 registered and untransferable shares are recorded in the name of the State.

**RESERVE FUND**

The Reserve Fund, provided for in Article 14 of the Bank's Statutes, consists of the Statutory Reserve, the Extraordinary Reserve and the Account for Depreciation of premises, equipment and furniture.

The increase in the Statutory Reserve and the Extraordinary Reserve is the result of the distribution of the appropriated profit for the year just closed. The Account for Depreciation of premises, equipment and furniture shows an increase of Fr. 355.7 million, corresponding to the amount of the investments made in 1994, 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. 566.4 million.

**OFF-BALANCE-SHEET ITEMS***(In thousands of francs)***CONTINGENT LIABILITIES***Guarantees given in place of credit*

This item comprises the guarantees given by the Bank in connection with loans granted by the GSPF to members of staff to enable them to build or purchase their dwellings ..... 935,957

**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 with a value date later than the balance sheet date ..... 42,875,280

**VALUABLES AND CLAIMS ENTRUSTED TO THE INSTITUTION**

*For encashment* ..... 2,979  
*Safe custody deposits* ..... 7,548,424,853

The dematerialised securities (Treasury certificates, linear bonds, securities resulting from the splitting of linear bonds, Treasury bills and certificates of deposit) recorded under the securities clearing system appear under this heading at an amount of Fr. 6,530 billion; these securities are recorded at their value at maturity or at their nominal value.

## PROFIT AND LOSS ACCOUNT

*(In thousands of francs)*

### RECEIPTS

#### PROCEEDS OF TRANSACTIONS WITH FOREIGN COUNTRIES

The proceeds of transactions with foreign countries decreased by Fr. 8,632 million compared with the previous year. On 31st December 1994 they amounted to Fr. 13,876 million.

This fall is attributable to a decline in average yields and a contraction in the volume of investments abroad. Furthermore, the value in francs of incomes in foreign currencies declined owing to the appreciation of the Belgian franc during the financial year.

#### PROCEEDS OF CREDIT TRANSACTIONS

The proceeds of credit transactions amounted to Fr. 8,269.3 million, or Fr. 2,550.7 million less than in the previous year. This movement reflects the incidence, on the one hand, of the fall in short-term interest rates on the Belgian money market in 1994 and, on the other hand, of the increase in the average volume of domestic assets.

As the Bank terminated its lending to general government with effect from 1st July 1993, in implementation of Article 124 of the law of 22nd March 1993, the proceeds of credit transactions mainly consist of those from lending to the financial intermediaries. The interest charges in respect of the deposits of the Belgian State and the Luxembourg State, and also the interest charges connected with the investment with the Bank, via the RGI, of the financial intermediaries' end-of-day surpluses, are deducted from the amount. At the end of the financial year, these charges totalled Fr. 235.8 million, having increased by Fr. 26.9 million.

#### PROCEEDS OF STATUTORY INVESTMENTS

The income from the statutory investments, acquired by the Bank under Article 21 of its Statutes, is slightly down compared with the previous year. This change is attributable to the decline in the average yield of the portfolio securities, which was only partly counterbalanced by the effect of the growth in the portfolio due to the transfers made to the Reserve Fund at the close of the preceding financial year and by gains obtained on sales of securities.

The proceeds of the statutory investments include a gain of Fr. 200 million resulting from the disposal of the shares which the Bank held in the capital of the National Investment Company.

## **COMMISSION**

The commission received as remuneration for the Bank's services as financial intermediary and of its services of safe custody and management of valuables are recorded under this heading.

## **AMOUNTS RECOVERED FROM THIRD PARTIES**

These are amounts recovered in respect of delivery of goods and rendering of services to third parties. These receipts relate mainly to the activities of the Central Balance Sheet Office, the currency centres and the bond centres, to those of the securities clearing system, to work done by the Printing Works and to services rendered to the Centre for the Exchange of Operations to be cleared of the Belgian Financial System.

## **DRAWINGS ON PROVISIONS**

This item records the writing back of the « Provision for premises, equipment and furniture » to the extent of the expenses incurred during the year under the programme of investment in new premises.

## **OTHER PROCEEDS**

Other proceeds for the year 1994 consist chiefly of the proceeds of the disposal of used equipment and furniture and the sale of premises.

## PROFIT AND LOSS ACCOUNT

(In thousands of francs)

### EXPENDITURE

#### STATE SHARE

This consists of the Bank's receipts which accrue to the State before any imputation of costs (general expenses, depreciation and taxes). These receipts therefore do not include the funds which go to the Treasury in the distribution of the net profit.

#### *Transactions with foreign countries*

The net income from the investments in foreign currencies which form the counterpart of the gains obtained through arbitrage transactions of assets in gold against other external reserve elements, entered in a special unavailable reserve account, is assigned to the State. The distribution between the latter and the Bank of the other net proceeds from the Bank's profit-earning external assets for the year 1994 is, as for the preceding years, based on a distribution system which is the subject of an agreement with the Government.

In this context it was agreed to assign to the State the proceeds of the Bank's external assets and of its financial management transactions, less the costs relating to external liabilities and to financial management transactions, in excess of 3 p.c. of the difference between, on the one hand, the average amount of these net profit-earning external assets and, on the other hand, the average amount of the unavailable reserve of capital gains on gold, the net foreign exchange differences realised and the capital gains obtained on sales of gold assigned to the Treasury but not paid to it.

#### *Credit transactions*

By virtue of Article 37 of the Bank's Statutes, the proceeds of the Bank's profit-earning assets in francs and of its financial management operations, less the costs in respect of remunerated liabilities in francs and financial management operations, in excess of 3 p.c. of the difference between the average amount of these assets and these liabilities are assigned to the State.

In addition to what accrues to the State under the above-mentioned provision, the Bank pays annually to the State, in accordance with the law of 2nd January 1991, a sum of Fr. 986 million in order to compensate for the additional expenses resulting for the latter from the conversion of the State's consolidated debt to the Bank into freely negotiable securities.



**GENERAL EXPENDITURE**

	As at 31-12-1994	As at 31-12-1993
— Remuneration and social costs .....	<b>6,784,676</b>	6,781,434
— Other expenses .....	<b>1,512,325</b>	1,314,277
Total	<b>8,297,001</b>	8,095,711

Expenditure in respect of wages, salaries and social costs hardly varies from year to year. It comprises the remuneration of the staff, the management, the supervisory bodies, National Employment Office trainees, temporary staff and students, and also the pensions of former members of the management. Expenditure in respect of temporary staff appears under the sub-item "Other expenses". These costs rose by 15.1 p.c. This increase is mainly due to the printing costs incurred owing to the issue of the new nominations of banknotes.

In 1994 the average real workforce (including National Employment Office trainees and interim staff), expressed in terms of full-time employment units, amounted to 2,937 units, against 3,023 units in 1993.

The change made from this financial year onwards to the valuation rules concerning the cost of printed and unprinted banknote paper relates to an amount of Fr. 102.6 million. This amount, to be spread over the period 1994-1996, led, for the financial year 1994, to additional expenditure of Fr. 34.2 million.

**DEPRECIATION OF PREMISES, EQUIPMENT AND FURNITURE**

The depreciation applied as at 31st December 1994 covers the following expenses :

— Premises and technical installations .....	422,503
— Renovation of premises .....	219,639
— Software and data-processing equipment .....	116,029
— Equipment for the Printing Works, technical services and offices ..	265,444
— Office furniture .....	91,564
Total	<b>1,115,179</b>

**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, 25th January 1995.

*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>
Baron FRERE,	<i>Regent</i>
Rik VAN AERSCHOT,	<i>Regent</i>
Willy PEIRENS,	<i>Regent</i>
François JANSSENS,	<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>

## REPORT OF THE BOARD OF CENSORS FOR 1994

The Board was sad to learn of the death of its Honorary Chairman, Fernand Duchène, on 14th March 1994. Mr Duchène was elected as censor by the General Meeting of Shareholders held on 29th August 1938. He was appointed Secretary on 29th December 1948 and Chairman on 26th March 1958. He became Honorary Chairman in 1965. Thanks to his extensive knowledge in the legal field, he gave the Board his valuable co-operation for more than a quarter century.

The censors pay tribute to him and will always remember him.

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The General Meeting of Shareholders held on 28th February 1994 renewed the terms of office as censor of Messrs Roger Mené, Jacques Forest and Philippe Grulois. In order to fill the vacancy left by the departure of Mr Gaston Vandewalle in February 1992, the Meeting elected Mr Herman Verwilt as censor. Also, in application of Article 56 of the Statutes, the Minister of Finance authorised Mr Roger Mené, who has reached, on 3rd July 1994, the age-limit of 67 prescribed for censors, to complete his current term of office. This will terminate at the end of the February 1997 General Meeting.

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In accordance with the Statutes and internal rules, the Board performs a monitoring and supervisory function. In practice, the censors carry out this task in the following fields :

— verification of the Bank's accounting statements (balance sheet, profit and loss account and annexes);

- verification of the Bank's budget;
- verification of the records of assets, both tangible (stocks of notes, securities, ...) and intangible (positions in foreign currencies, securities clearing, ...);
- monitoring of the carrying out of internal control concerning the various banking activities; in the latter case it is a matter of ensuring both operational security and physical safety.

Every quarter, in accordance with tradition, the Board made a detailed study of the Bank's accounting statements and of its Profit and Loss Account and analysed the factors responsible for the movement of the various balance sheet items and for that of the Profit and Loss Account in relation to the corresponding periods of the previous year. More or less parallel with this quarterly examination, which takes place during the actual meeting of the Board, the latter makes a detailed examination of the Bank's book-keeping in the services concerned. Two members are assigned, in turn, for this purpose. Through the controls which these censors carried out by sampling, backed by the necessary supporting documents, they were able to establish that the Bank's books are kept in accordance with the rules.

The Bank's annual accounts as at 31st December 1994 were submitted, by the Council of Regency, to the Board of Censors, in accordance with Article 35, paragraph 1, of the Statutes. After examination this document was unanimously approved, the administration being thereby given discharge in accordance with Article 35, paragraph 2, of the Statutes. The annual accounts were approved after the Board had carried out its own controls and its members had taken cognisance of the verifications made by the Internal Audit Service. The last-mentioned examination was made in accordance with generally accepted auditing principles.

Examination of the Bank's budget is a second aspect of the censors' functions. This is a dual check : on the one hand, the actual expenditure for the current year is regularly compared, in principle every quarter, with the corresponding budget estimates and, on the other hand, the Board approves the draft budget for the following financial year, in this case 1995. By an in-depth analysis of the budget, the Board ascertained that the development of expenditure had in fact been kept under control in 1994.

During the year 1994 the censors also performed their monitoring and supervisory function by keeping check on the tasks entrusted to the Internal Audit Service. At the beginning of the year they asked to be given the time-table of the audits and inspections planned for 1994. They were thus able to see that all the Bank's activities which are sensitive to the risk factor would be examined. In recent years, at their instigation, the emphasis in this work has been shifted gradually from the ad hoc checks previously carried out towards a process of internal audit by means of operational audits. Every quarter, they took cognisance of what had been done by the Internal Audit Service and were at the same time able to judge whether the implementation of the programme had been kept up to schedule. Each quarterly report furthermore contained a summary, by department and service, of the inspections and enquiries carried out, the audits performed and the main comments and recommendations to which these tasks give rise.

The Board regularly asked to be given explanatory talks, by members of the Internal Audit Service, on the main audits and inspection tasks. The following subjects were dealt with in 1994 :

- the data-processing application applying to current accounts ;
- the use of sealing means in the processing of notes and coin ;
- the management of critical data-processing applications ;
- the continuity plan for a certain minicomputer ;

- the security of a representative office ;
- the checking of the annual accounts for the financial year 1994.

Monitoring of the safeguards against risks is not done only through the talks regularly organised for the censors ; in addition, the Board periodically appoints one of its members to accompany the Internal Audit Service in the actual performance of one or other of its various verification functions. During the past year the censors were thus present at ten inspections at the head office and twelve inspections in the provinces.

Through the checks which they carried out independently and through the talks given periodically on the execution of the programme of the Internal Audit Service and the discussions held in this connection, the censors were able to gain an idea of the operation of the internal audit function and to assess the security of the various activities performed at the Bank. The Board paid special attention to the action taken by the services which had been audited in response to the remarks and recommendations made by the Internal Audit Service.

On the basis of the reports drawn up by the latter and the results of the various ad hoc checks and operational audits carried out and on the evidence of the analyses performed by the Board itself, it was able to verify that, during the year under review, there had been no events entailing significant losses for the Bank nor any situations during which the Bank was exposed to major risks. The censors furthermore appreciate the fact that, in response to the remarks and recommendations made, those responsible took, without delay, the necessary measures in order to correct the errors or to ensure that they do not occur again.

In conclusion, the Board considers that the various risks to which the Bank is exposed are well recognised and safeguarded against by an efficiently organised supervision system operating not only preventively but also by detection and protection.

*The Board of Censors :*

*The Chairman,*  
Baron DELRUELLE.

Hubert DETREMMERIE, *Secretary,*  
Roger MENE,  
Willy DANCKAERT,  
Carlo VAN GESTEL,  
Maurice CHARLOTEAUX,  
Christian D'HOOGH,  
Jacques FOREST,  
Philippe GRULOIS,  
Herman VERWILST.





**Board of Censors :**

*seated, from left to right :*

H. Detremmerie, Secretary, Baron Delruelle, Chairman, C. Van Gestel, R. Mené,

*standing, from left to right :*

W. Danckaert, H. Verwilt, J. Forest, Ch. D'Hoogh, M. Charlotiaux, Ph. Grulois.





## **Annexes**

**COMPARISON OF BALANCE SHEETS**  
(After distribution of profit)

**ASSETS**

	1994	1993	1992	1991	1990
Gold . . . . .	<b>306,267.5</b>	330,255.6	260,228.9	333,781.3	363,703.6
Foreign currencies . . . . .	<b>231,166.0</b>	244,221.0	193,384.4	230,801.7	231,662.3
Special Drawing Rights (SDRs) . . . . .	<b>5,737.3</b>	6,160.8	5,662.4	18,383.0	17,299.7
Participation in the IMF . . . . .	<b>25,856.6</b>	27,673.1	26,730.6	16,396.6	14,383.4
Loans to the IMF . . . . .	—	—	—	—	—
Deposit with the IMF within the frame- work of the ESAF . . . . .	<b>8,366.0</b>	4,940.3	4,562.3	4,473.0	4,407.8
Ecus . . . . .	<b>148,081.3</b>	148,023.2	106,438.7	110,620.8	108,508.2
EMI : Very-short- and short-term financing	—	—	116,568.9	12,648.9	—
EC : Medium-term financial assistance .	—	—	—	—	—
International agreements . . . . .	<b>3,491.4</b>	3,303.6	3,269.2	3,145.6	3,438.6
Advances against pledged security . . .	<b>32,347.3</b>	30,101.4	20,041.6	43,930.7	3,274.6
Commercial bills . . . . .	<b>3,723.6</b>	5,578.3	10,051.0	18,404.3	30,252.5
Securities purchased in the market . . .	<b>17,860.9</b>	32,436.5	17,448.0	17,727.5	—
Claims due to other interventions in the money market . . . . .	<b>92,330.6</b>	119,669.3	52,354.9	42,550.3	—
Advances to the Securities Regulation Fund . . . . .	—	—	—	—	—
Advances to the Belgian State . . . . .	—	—	221.0	2.6	107,684.0
Advances to the Luxembourg State . . .	—	—	—	—	—
Coin . . . . .	<b>1,102.5</b>	1,202.8	915.4	716.7	923.2
Balances at the Postal Cheque Office :					
A Account . . . . .	<b>0.1</b>	0.5	1.4	1.6	1.4
B Account . . . . .	<b>2,985.4</b>	3,067.6	3,498.8	3,847.5	2,647.4
Statutory investments (Art. 21) . . . . .	<b>43,753.8</b>	40,365.8	37,235.9	34,195.5	30,637.3
Premises, equipment and furniture . . .	<b>13,588.2</b>	13,205.3	12,262.4	11,165.5	10,667.5
Other assets . . . . .	<b>3,339.2</b>	4,446.1	6,478.0	530.9	219.6
Regularisation accounts . . . . .	<b>5,718.9</b>	5,758.6	7,750.9	6,897.6	7,017.0
<b>TOTAL ASSETS</b>	<b>945,716.6</b>	1,020,409.8	885,104.7	910,221.6	936,728.1

## AS AT 31st DECEMBER (In millions of francs)

## LIABILITIES

	1994	1993	1992	1991	1990
Notes in circulation . . . . .	<b>412,189.7</b>	440,603.1	430,248.9	431,513.6	428,502.5
Current accounts in francs . . . . .	<b>12,278.5</b>	9,589.4	4,569.3	7,146.6	6,410.7
Deposit of the Belgian State . . . . .	<b>485.6</b>	763.4			
Deposit of the Luxembourg State . . . . .	<b>503.2</b>	503.9			
Liabilities due to interventions in the money market . . . . .	<b>3,047.3</b>	6,045.8	4,449.1	4,240.7	—
Current accounts in foreign currencies . . . . .	<b>9.6</b>	7.5	6.8	6.7	38.3
Financial assistance agreements . . . . .	<b>2,985.4</b>	3,067.6	3,498.8	3,847.5	2,647.4
Counterpart of allocations of SDRs . . . . .	<b>22,553.3</b>	23,972.5	22,138.1	21,704.8	21,388.5
EMI : Very-short- and short-term financing	—	—	—	—	—
Unavailable reserve of surplus gains on gold . . . . .	<b>116,310.9</b>	116,310.9	116,310.9	54,807.3	54,807.3
Other liabilities . . . . .	<b>2,106.4</b>	2,339.6	2,383.5	3,536.2	9,683.6
Regularisation accounts . . . . .	<b>372.5</b>	456.6	425.3	122.4	348.6
Valuation differences on gold and foreign exchange . . . . .	<b>314,859.2</b>	361,965.4	250,005.8	336,024.0	368,698.2
Provision for premises, equipment and furniture . . . . .	<b>956.0</b>	778.0	939.0	1,408.0	1,883.0
Provision against Sundry Contingencies . . . . .	<b>10,150.0</b>	10,050.0	9,750.0	8,650.0	8,450.0
Capital . . . . .	<b>400.0</b>	400.0	400.0	400.0	400.0
Reserve Fund :	<b>46,509.0</b>	43,556.1	39,979.2	36,813.8	33,470.0
<i>Statutory Reserve</i> . . . . .	<b>3,049.4</b>	2,915.3	2,783.9	2,656.4	2,531.4
<i>Extraordinary Reserve</i> . . . . .	<b>30,455.6</b>	27,992.6	25,489.6	23,542.6	20,821.6
<i>Account for depreciation of premises, equipment and furniture</i> . . . . .	<b>13,004.0</b>	12,648.2	11,705.7	10,614.8	10,117.0
<b>TOTAL LIABILITIES</b>	<b>945,716.6</b>	1,020,409.8	885,104.7	910,221.6	936,728.1

## COMPARISON OF PROFIT AND LOSS ACCOUNTS AS AT 31st DECEMBER

(In millions of francs)

	1994	1993	1992	1991	1990
<b>RECEIPTS</b>					
Proceeds of transactions with foreign countries . . . . .	<b>13,875.6</b>	22,508.5	23,251.7	21,889.5	21,318.1
Proceeds of credit transactions . . . . .	<b>8,269.3</b>	10,820.1	9,751.0	11,656.6	10,299.2
Proceeds of statutory investments . . . . .	<b>3,778.7</b>	3,846.3	3,535.6	3,395.0	2,898.5
Commission . . . . .	<b>163.1</b>	169.5	160.1	202.6	228.2
Amounts recovered from third parties . . . . .	<b>1,958.3</b>	1,859.8	1,883.6	1,676.3	1,660.0
Drawings on provisions . . . . .	<b>292.0</b>	471.0	519.0	535.0	336.0
Other proceeds . . . . .	<b>83.2</b>	94.4	27.5	95.5	4.6
	<b>28,420.2</b>	39,769.6	39,128.5	39,450.5	36,744.6
<b>EXPENDITURE</b>					
State Share :	<b>11,954.3</b>	22,437.1	22,028.3	23,529.4	21,464.3
<i>Transactions with foreign countries . . . . .</i>	<i><b>7,082.3</b></i>	<i>14,363.4</i>	<i>14,430.1</i>	<i>14,699.2</i>	<i>14,220.6</i>
<i>Credit transactions . . . . .</i>	<i><b>4,872.0</b></i>	<i>8,073.7</i>	<i>7,598.2</i>	<i>8,830.2</i>	<i>7,243.7</i>
General expenditure :	<b>8,297.0</b>	8,095.7	8,186.3	7,879.3	7,387.3
<i>Remuneration and social charges . . . . .</i>	<i><b>6,784.7</b></i>	<i>6,781.4</i>	<i>6,848.2</i>	<i>6,600.9</i>	<i>6,300.7</i>
<i>Other expenditure . . . . .</i>	<i><b>1,512.3</b></i>	<i>1,314.3</i>	<i>1,338.1</i>	<i>1,278.4</i>	<i>1,086.6</i>
Depreciation of premises, equipment and furniture . . . . .	<b>1,115.2</b>	1,560.5	1,617.5	1,519.6	1,075.0
Provision for premises, equipment and furniture . . . . .	<b>470.0</b>	310.0	50.0	60.0	283.0
Provision against Sundry Contingencies . . . . .	<b>100.0</b>	300.0	1,100.0	200.0	200.0
Taxes and dues . . . . .	<b>2,657.5</b>	3,228.5	2,902.6	2,272.5	2,615.4
Net profit for distribution . . . . .	<b>3,826.2</b>	3,837.8	3,243.8	3,989.7	3,719.6
	<b>28,420.2</b>	39,769.6	39,128.5	39,450.5	36,744.6

## DIVIDEND

	1994	1993	1992	1991	1990
<b>Net dividend allocated per share . . .</b>	<b>1,675.00</b>	1,640.00	1,610.00	1,575.00	1,525.00
<b>Withholding tax deducted per share *</b>	<b>580.89</b>	568.75	536.67	525.00	508.33
<b>Gross dividend allocated per share . .</b>	<b>2,255.89</b>	2,208.75	2,146.67	2,100.00	2,033.33

\* Since financial year 1993 : 25.75 p.c. in respect of withholding tax and supplementary crisis contribution.



**WEEKLY STATEMENTS PUBLISHED  
IN THE « BELGISCH STAATSBLAD — MONITEUR BELGE »  
DURING 1994**

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBLAD - MONITEUR BELGE »  
DURING 1994 (Millions of francs)

ASSETS

DATES	Gold	Foreign currencies	Special Drawing Rights (SDRs)	Participation in the IMF	Loans to the IMF	Deposit with the IMF within the framework of the ESAF	Ecus	EMI : Very-short- and short-term financing	EC : Medium-term financial assistance	International agreements
03 - 01 - 1994	330,256	244,221	6,161	27,673	—	4,940	148,023	—	—	3,304
10 - 01 - 1994	330,256	244,426	6,161	27,673	—	4,940	148,023	—	—	3,293
17 - 01 - 1994	330,256	250,408	6,161	27,673	—	4,940	151,848	—	—	3,229
24 - 01 - 1994	330,256	251,266	6,161	27,673	—	4,940	151,848	—	—	3,229
31 - 01 - 1994	330,256	251,766	6,161	27,673	—	4,940	152,025	—	—	3,214
07 - 02 - 1994	330,256	251,985	6,165	27,673	—	4,940	152,025	—	—	3,210
14 - 02 - 1994	330,256	252,277	6,165	27,673	—	4,940	152,025	—	—	3,195
21 - 02 - 1994	330,256	252,456	6,165	28,059	—	4,940	152,025	—	—	3,194
28 - 02 - 1994	330,256	252,706	6,148	28,059	—	4,940	152,186	—	—	3,194
07 - 03 - 1994	330,256	252,585	6,148	27,293	—	4,940	152,186	—	—	3,191
14 - 03 - 1994	330,256	252,524	6,148	27,293	—	4,940	152,186	—	—	3,191
21 - 03 - 1994	330,256	252,791	6,148	27,293	—	4,940	152,186	—	—	3,188
28 - 03 - 1994	330,256	252,940	6,148	27,293	—	4,940	152,186	—	—	3,188
01 - 04 - 1994	330,256	252,640	6,148	27,738	—	4,940	152,365	—	—	3,197
11 - 04 - 1994	330,256	252,242	6,148	27,738	—	4,940	154,381	—	—	3,197
18 - 04 - 1994	330,256	257,828	6,148	27,738	—	4,940	154,381	—	—	3,197
25 - 04 - 1994	330,256	260,987	6,148	27,738	—	4,940	154,381	—	—	3,197
29 - 04 - 1994	330,256	263,894	2,195	27,739	—	8,893	154,542	—	—	3,197
09 - 05 - 1994	330,256	264,789	2,195	27,739	—	8,893	154,542	—	—	3,197
16 - 05 - 1994	330,256	266,741	2,195	27,739	—	8,893	154,542	—	—	3,197
20 - 05 - 1994	330,256	268,918	2,195	27,739	—	8,893	154,542	—	—	3,197
30 - 05 - 1994	330,256	270,507	2,180	27,739	—	8,893	154,542	—	—	3,177
06 - 06 - 1994	330,256	272,911	2,180	27,476	—	8,893	154,721	—	—	3,177
13 - 06 - 1994	330,256	269,157	2,180	27,476	—	8,893	154,721	—	—	3,177
20 - 06 - 1994	330,256	266,002	2,180	27,476	—	8,893	154,721	—	—	3,177
27 - 06 - 1994	330,256	262,729	6,132	27,476	—	8,893	154,721	—	—	3,177
04 - 07 - 1994	330,256	263,962	6,141	27,476	—	8,893	154,883	—	—	3,182
11 - 07 - 1994	330,256	263,233	6,141	27,476	—	8,893	148,924	—	—	3,182
18 - 07 - 1994	330,256	262,696	6,141	27,797	—	8,893	148,924	—	—	3,182
25 - 07 - 1994	330,256	263,823	6,141	27,797	—	8,893	148,924	—	—	3,182
01 - 08 - 1994	330,256	266,517	6,141	27,798	—	8,893	149,081	—	—	3,182
08 - 08 - 1994	330,256	270,747	6,145	27,798	—	8,893	149,081	—	—	3,182
12 - 08 - 1994	330,256	272,266	6,145	27,798	—	8,893	149,081	—	—	3,182
22 - 08 - 1994	330,256	273,149	6,145	27,798	—	8,893	149,081	—	—	3,182
29 - 08 - 1994	330,256	273,414	6,100	27,798	—	8,893	149,081	—	—	3,182
05 - 09 - 1994	330,256	273,711	6,100	27,655	—	8,893	149,260	—	—	3,182
12 - 09 - 1994	330,256	274,043	6,100	27,655	—	8,893	149,260	—	—	3,182
19 - 09 - 1994	330,256	273,966	6,100	27,655	—	8,893	149,260	—	—	3,182
26 - 09 - 1994	330,256	275,966	6,100	27,655	—	8,893	149,260	—	—	3,182
03 - 10 - 1994	330,256	277,874	6,100	27,656	—	8,893	149,424	—	—	3,186
10 - 10 - 1994	330,256	279,860	6,100	27,656	—	8,893	149,424	—	—	3,186
17 - 10 - 1994	330,256	275,682	6,100	27,656	—	8,893	151,029	—	—	3,186
24 - 10 - 1994	330,256	273,679	6,100	27,656	—	8,893	151,029	—	—	3,186
28 - 10 - 1994	330,256	267,285	6,100	27,656	—	8,893	151,029	—	—	3,186
07 - 11 - 1994	330,256	261,101	6,110	27,656	—	8,893	151,200	—	—	3,186
14 - 11 - 1994	330,256	257,285	6,110	27,656	—	8,893	151,200	—	—	3,186
21 - 11 - 1994	330,256	255,753	6,090	27,077	—	8,893	151,200	—	—	3,486
28 - 11 - 1994	330,256	251,295	6,090	27,719	—	8,893	151,200	—	—	3,486
05 - 12 - 1994	330,256	248,610	6,090	27,720	—	8,893	151,365	—	—	3,486
12 - 12 - 1994	330,256	249,181	6,090	27,038	—	8,893	151,365	—	—	3,486
19 - 12 - 1994	330,256	249,405	6,090	27,038	—	8,893	151,365	—	—	3,486
23 - 12 - 1994	330,256	249,838	6,090	27,483	—	8,893	151,365	—	—	3,486



WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBAD - MONITEUR BELGE »  
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ASSETS (continuation and end)

DATES	Advances against pledged security	Commercial bills	Securities purchased in the market	Claims due to other interventions in the money market	Coin	Balances at the Postal Cheque Office :		Statutory investments (Art. 21)	Miscellaneous accounts <sup>1</sup>	TOTAL ASSETS
						A Account	B Account			
03 - 01 - 1994	30,832	5,552	32,436	126,794	1,217	—	3,068	40,377	32,063	1,036,917
10 - 01 - 1994	31,995	4,549	30,408	107,252	1,267	—	3,068	40,375	32,516	1,016,202
17 - 01 - 1994	33,897	4,672	30,381	99,586	1,240	1	3,041	40,375	32,792	1,020,500
24 - 01 - 1994	27,811	7,911	30,356	101,158	1,328	—	3,031	40,375	32,788	1,020,131
31 - 01 - 1994	29,507	6,092	30,335	94,352	1,371	1	3,004	43,955	18,772	1,003,424
07 - 02 - 1994	28,301	7,400	30,319	93,867	1,327	—	2,991	43,955	19,299	1,003,713
14 - 02 - 1994	27,753	8,911	30,306	95,021	1,301	1	2,991	43,954	19,591	1,006,360
21 - 02 - 1994	2,035	4,318	30,540	125,386	1,255	1	2,991	43,955	19,594	1,007,170
28 - 02 - 1994	14,366	7,590	30,523	109,923	1,242	—	3,101	43,955	18,887	1,007,076
07 - 03 - 1994	28,957	5,741	32,505	101,297	1,205	1	3,099	43,954	19,804	1,013,162
14 - 03 - 1994	7,303	4,232	30,530	125,809	1,146	1	3,046	43,955	20,027	1,012,587
21 - 03 - 1994	28,993	6,437	30,532	106,334	1,121	1	3,019	43,955	20,115	1,017,309
28 - 03 - 1994	30,921	8,233	29,549	96,486	1,089	1	3,019	43,953	20,147	1,010,349
01 - 04 - 1994	43,785	7,096	29,306	89,903	1,025	1	3,112	43,948	20,145	1,015,605
11 - 04 - 1994	26,967	7,872	30,288	106,463	1,094	1	3,084	43,954	21,349	1,019,974
18 - 04 - 1994	26,762	7,946	30,286	98,397	1,099	1	3,084	43,953	21,352	1,017,368
25 - 04 - 1994	18,580	7,301	30,293	105,633	1,097	1	3,276	43,955	21,493	1,019,276
29 - 04 - 1994	18,241	7,304	30,061	106,526	1,079	1	3,276	43,955	21,737	1,022,896
09 - 05 - 1994	30,275	4,309	30,067	96,152	999	1	3,258	43,950	22,101	1,022,723
16 - 05 - 1994	10,660	4,221	30,067	117,006	933	1	3,163	43,955	22,226	1,025,795
20 - 05 - 1994	5,716	4,172	32,042	124,535	881	1	3,290	43,955	22,573	1,032,905
30 - 05 - 1994	8,855	7,157	34,527	103,497	946	—	3,285	43,955	22,766	1,022,282
06 - 06 - 1994	19,400	9,186	34,533	92,781	987	—	3,278	43,953	22,674	1,026,406
13 - 06 - 1994	15,957	9,188	34,535	94,894	1,046	1	3,273	43,956	23,095	1,021,805
20 - 06 - 1994	31,687	4,483	30,605	92,198	1,124	1	3,267	43,955	23,231	1,023,256
27 - 06 - 1994	29,286	5,961	29,623	92,594	1,121	1	3,223	43,955	23,267	1,022,415
04 - 07 - 1994	31,676	4,587	29,626	104,066	1,086	1	3,205	43,955	23,296	1,036,291
11 - 07 - 1994	30,057	4,105	29,626	98,492	1,019	1	3,205	43,955	24,385	1,022,950
18 - 07 - 1994	21,927	4,384	29,626	103,508	1,040	1	3,184	43,955	24,523	1,020,037
25 - 07 - 1994	30,416	5,087	31,601	85,182	1,028	1	3,134	43,955	24,688	1,014,108
01 - 08 - 1994	30,884	4,478	31,603	78,882	1,047	1	3,112	43,955	24,718	1,010,548
08 - 08 - 1994	31,424	4,975	31,603	72,820	1,103	1	3,112	43,955	25,376	1,010,471
12 - 08 - 1994	29,336	3,621	31,614	76,860	1,083	1	3,112	43,955	25,450	1,012,653
22 - 08 - 1994	34,938	4,889	29,636	68,851	1,074	1	2,984	43,955	25,272	1,010,104
29 - 08 - 1994	29,538	5,189	27,659	68,560	1,120	1	2,974	43,955	25,261	1,002,981
05 - 09 - 1994	29,531	4,538	27,654	79,477	1,157	—	2,959	43,955	25,385	1,013,713
12 - 09 - 1994	30,561	4,537	25,677	71,080	1,233	—	2,959	43,955	25,907	1,005,298
19 - 09 - 1994	29,023	4,994	27,643	77,036	1,222	1	2,920	43,953	25,956	1,012,060
26 - 09 - 1994	29,802	4,517	27,635	73,738	1,240	—	2,931	43,955	26,119	1,011,249
03 - 10 - 1994	29,126	4,829	25,663	72,742	1,269	—	2,925	43,953	26,290	1,010,186
10 - 10 - 1994	30,128	4,582	23,688	71,314	1,229	—	2,845	43,955	27,174	1,010,290
17 - 10 - 1994	31,708	5,368	21,715	64,308	1,242	—	2,824	43,955	27,342	1,001,264
24 - 10 - 1994	28,440	5,988	19,742	72,676	1,229	—	2,822	43,955	27,470	1,003,121
28 - 10 - 1994	28,259	6,005	19,743	80,460	1,203	—	2,822	43,952	27,440	1,004,289
07 - 11 - 1994	21,563	6,471	19,744	87,801	1,192	—	2,813	43,955	27,587	999,528
14 - 11 - 1994	23,680	5,564	21,720	89,593	1,166	—	2,798	43,956	27,905	1,000,968
21 - 11 - 1994	26,778	4,535	21,720	85,784	1,113	—	2,796	43,955	28,196	997,632
28 - 11 - 1994	18,929	4,236	19,746	90,648	1,127	—	2,742	43,956	28,272	988,595
05 - 12 - 1994	24,177	3,713	15,798	97,450	1,147	—	2,733	43,956	28,501	993,895
12 - 12 - 1994	39,764	4,443	12,343	85,479	1,166	—	2,733	43,956	29,032	995,225
19 - 12 - 1994	41,070	3,759	15,802	86,478	1,163	—	2,913	43,955	29,415	1,001,088
23 - 12 - 1994	35,008	3,648	15,802	104,186	1,117	—	3,013	43,955	29,538	1,013,678

<sup>1</sup> Including premises, equipment and furniture.



**STATEMENT OF THE PUBLIC LONG-TERM SECURITIES CONSTITUTING,  
ON 31st DECEMBER 1994, THE BANK'S HOLDINGS**

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

Code	Name	
228	7.75 p.c.	Belgian Loan 1987 / 93 / 97.
236	7.75 p.c.	Belgian Loan 1988 / 95.
239	8.25 p.c.	Linear Bond 1989 / 99.
243	9.95 p.c.	Treasury bills 1990 / 96.
245	10 p.c.	Linear Bond 1990 / 96.
247	10 p.c.	Linear Bond 1990 / 2000.
248	9.25 p.c.	Linear Bond 1991 / 98.
250	9.25 p.c.	Belgian Loan 1991 / 98.
251	9 p.c.	Linear Bond 1991 / 2003.
252	9 p.c.	Linear Bond 1991 / 2001.
253	9 p.c.	Belgian Loan 1991 / 99 I.
254	9.25 p.c.	Linear Bond 1991 / 97.
255	9 p.c.	Belgian Loan 1991 / 99 II.
256	8.75 p.c.	Belgian Loan 1992 / 98.
257	8.50 p.c.	Linear Bond 1992 / 2007.
258	8.75 p.c.	Linear Bond 1992 / 99.
259	8.75 p.c.	Linear Bond 1992 / 2002.
260	9 p.c.	Linear Bond 1992 / 98.
261	7.90 p.c.	Belgian Loan 1992 / 2000.
262	8 p.c.	Linear Bond 1992 / 2012.
263	7.50 p.c.	Belgian Loan 1992 / 2001.
264	7 p.c.	Linear Bond 1993 / 99.
265	7.25 p.c.	Linear Bond 1993 / 2004.
266	6.75 p.c.	Linear Bond 1993 / 97.
267	7 p.c.	Belgian Loan 1993 / 2000.
268	7.50 p.c.	Linear Bond 1993 / 2008.
269	7 p.c.	Belgian Loan 1993 / 2001.
270	6.25 p.c.	Linear Bond 1993 / 96.
271	6 p.c.	Belgian Loan 1994 / 97 / 2000 / 2003 I.
274	6 p.c.	Belgian Loan 1994 / 97 / 2000 / 2003 II.

275	7.75	p.c.	Linear Bond 1994 / 2004.
276	8	p.c.	Belgian Loan 1994 / 2001.
378	4	p.c.	Lottery Loan 1941.
401	4	p.c.	War Damage 1922.
600	2	p.c.	National Foundation for Financing Scientific Research 1965 / 1995 — 6th tranche.
601	2	p.c.	National Foundation for Financing Scientific Research 1966 / 1996 — 7th tranche.
602	2	p.c.	National Foundation for Financing Scientific Research 1967 / 1997 — 8th tranche.
603	2	p.c.	National Foundation for Financing Scientific Research 1968 / 1998 — 9th tranche.
604	2	p.c.	National Foundation for Financing Scientific Research 1969 / 1999 — 10th tranche.
1,500	8.20	p.c.	Belgacom 1992 / 2000.
1,501	7.50	p.c.	Belgacom 1994 / 2002.
1,921	9.25	p.c.	European Investment Bank 1991 / 99.
3,009	—		National Industrial Credit Company shares.
—	—		Belgian International Investment Company shares.
—	—		Federal Investment Company shares.
—	—		Securities Deposit and Clearing Office of the Financial Sector shares.
—	—		Bank for International Settlements shares.
—	—		Belgian National Railway Company Dividend Right Certificates.

**SHAREHOLDER STRUCTURE  
OF THE NATIONAL BANK OF BELGIUM AS AT 31.12.1994**

*(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 the voting rights :	Belgian State represented by the Minister of Finance
Number of securities representing the capital :	200,000
Proportion of the capital :	50 p.c.



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

Agricultural Fund	Fonds Agricole
Agricultural Investment Fund	Fonds d'investissement agricole
Airways Board	Régie des voies aériennes
Antwerp Port Administration	Administration du Port d'Anvers
Assistance Fund for the Financial Recovery of Municipalities	Fonds d'aide au redressement financier des communes
Association of Flemish Chambers of Commerce and Industry	Association des Chambres flamandes de commerce et d'industrie
Association of Local Authorities for the Building of Motorways	Association intercommunale pour la construction d'Autoroutes
Autonomous Funds	Fonds autonomes
Autonomous War Damage Fund	Caisse Autonome des Dommages de Guerre
Banking and Financial Commission (formerly Banking Commission)	Commission bancaire et financière (précédemment Commission bancaire)
Belgian Air Navigation Company (Sabena)	Société Anonyme Belge d'Exploitation de la Navigation Aérienne (Sabena)
Belgian Aluminium Syndicate	Syndicat Belge de l'Aluminium
Belgian Bankers' Association	Association Belge des Banques
Belgian Coal Mines Re-equipment Fund	Fonds de Rééquipement des Charbonnages Belges
Belgian-Congolese Amortisation and Management Fund	Fonds Belgo-Congolais d'Amortissement et de Gestion
Belgian-Luxembourg Economic Union (BLEU)	Union Economique Belgo-Luxembourgeoise (UEBL)
Belgian-Luxembourg Foreign Exchange Institute	Institut Belgo-Luxembourgeois du Change
Belgian Municipal Credit Institution	Crédit Communal de Belgique
Belgian National Railways Company (BNRC)	Société Nationale des Chemins de fer belges (SNCB)
Belgian Office for Increasing Productivity	Office Belge pour l'Accroissement de la productivité
Belgian Petroleum Federation	Fédération pétrolière belge
Belgian Real Estate Credit Association	Association Belge du Crédit immobilier
Belgian Surveyors' Association	Association Belge des Experts
Belgian Trade Federation of Producers and Distributors of Electricity	Fédération Professionnelle des Producteurs et Distributeurs d'Electricité de Belgique

Benelux Economic Union	Union Economique Benelux
Board of Censors (of NBB)	Collège des censeurs (de la BNB)
Board of Directors (of NBB)	Comité de direction (de la BNB)
Bulletin of the National Bank of Belgium (formerly Information Bulletin of the National Bank of Belgium)	Bulletin de la Banque Nationale de Belgique (précédemment Bulletin d'Information et de Documentation de la Banque Nationale de Belgique)
Centenary Fund	Fonds du Centenaire
Central Balance Sheet Office	Centrale des Bilans
Central Consumer Credit Office	Centrale des crédits à la consommation
Central Office for Mortgage Credit	Office Central de Crédit Hypothécaire
Central Office for Small Savings	Office Central de la Petite Epargne
Central Credit Office	Centrales des Crédits
Clearing House (at Brussels)	Chambre de Compensation (à Bruxelles)
Clearing Transaction Exchange Centre of the Belgian Financial System (CTEC)	Centre d'Echange d'Opérations à compenser du Système financier belge (CEC)
Code of taxes payable by stamp or in similar ways	Code des taxes assimilées au timbre
Committee of Control for Electricity	Comité de Contrôle de l'Electricité
Committee of Management for Electricity	Comité de Gestion de l'Electricité
Committee of the Brussels Stock Exchange	Commission de la Bourse de Bruxelles
Consultation Committee for Creditor Interest Rates	Comité de concertation des taux d'intérêt 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
Federation of Belgian Enterprises (formerly Federation of Belgian Industries)	Fédération des Entreprises de Belgique (précédemment Fédération des Industries Belges)
Federation of Chemical Industries	Fédération des Industries chimiques
Federation of Enterprises in the Metal Manufacturing Industries	Fédération des entreprises de l'industrie des fabrications métalliques
Fund for the Financial Balancing of the Social Security System	Fonds pour l'équilibre financier de la Sécurité Sociale
General Budget Statement	Exposé Général du Budget
General Savings and Pensions Fund (GSPF)	Caisse Générale d'Epargne et de Retraite (CGER)
Housing Fund of the Large Families League	Fonds du Logement de la Ligue des Familles Nombreuses
Housing Institute	Institut du Logement
Industrial Promotion Office	Office de Promotion Industrielle
Information Bulletin of the Ministry of Finance	Bulletin de Documentation du Ministère des Finances
Inland Water Transport Regulating Office	Office Régulateur de la Navigation Intérieure
Joint Committee of Banks and Bank Employees	Commission paritaire des banques
Ministry of Economic Affairs (MEA)	Ministère des Affaires Economiques (MAE)
Ministry of Agriculture	Ministère de l'Agriculture
Ministry of Employment and Labour	Ministère de l'Emploi et du Travail
Ministry of Finance	Ministère des Finances
Ministry of National Defence	Ministère de la Défense Nationale
Ministry of National Education	Ministère de l'Education Nationale
Ministry of the Civil Service	Ministère de la Fonction Publique
Ministry of Public Works	Ministère des Travaux Publics
Ministry of Social Security	Ministère de la Prévoyance Sociale
Monetary Fund	Fonds Monétaire
National Coal Mines Council	Conseil National des Charbonnages

National Committee for Economic Expansion	Comité National d'Expansion Economique
National Del Credere Office	Office National du Dueroire
National Economic Council	Conseil Central de l'Economie
National Employment Office (NEMO)	Office National de l'Emploi (ONEM)
National Foundation for Financing Scientific Research	Fondation Nationale pour le Financement de la Recherche Scientifique
National Fund for Credit to Trade and Industry	Caisse Nationale de Crédit Professionnel
National Fund for the Rehabilitation of Handicapped Persons	Fonds National pour le Reclassement des Handicapés
National Housing Company	Société Nationale du Logement
National Housing Fund	Fonds National du Logement
National Industrial Credit Company (NICC)	Société Nationale de Crédit à l'Industrie (SNCI)
National Institute for Agricultural Credit	Institut National de Crédit Agricole
National Investment Company	Société Nationale d'Investissement
National Labour Council	Conseil National du Travail
National Land Company (formerly National Smallholders' Company)	Société Nationale Terrienne (précédemment Société Nationale de la Petite Propriété Terrienne)
National Local Railways Company	Société Nationale des Chemins de Fer Vicinaux
National Joint Mines Commission	Commission Nationale Mixte des Mines
National Register of Physical Persons	Registre national des personnes physiques
National Sickness and Disability Insurance Institute	Institut National d'Assurance Maladie-Invalidité
National Social Insurance Office	Office National de Sécurité Sociale
National Statistical Institute (NSI)	Institut National de Statistique (INS)
National Water Distribution Company	Société Nationale des Distributions d'Eau
Nuclear Energy Research Centre	Centre d'Etudes de l'Energie Nucléaire
Planning Bureau	Bureau du Plan
Post Administration	Administration des Postes
Post Board	Régie des Postes
Postal Cheque Account (PCA)	Compte de Chèques Postaux (CCP)
Postal Cheque Office (PCO)	Office des Chèques Postaux (OCP)
Public Debt Ledger	Grand-Livre de la dette publique
Public Social Assistance Centres	Centres publics d'aide sociale
Rediscount and Guarantee Institute (RGI)	Institut de Réescompte et de Garantie (IRG)

Research Department (of the NBB)	Département des Etudes (de la BNB)
Road Fund	Fonds des Routes
Royal Society for Political Economy	Société Royale d'Economie Politique
Sabena (see Belgian Air Navigation Company)	Sabena (cf. Société Anonyme Belge d'Exploitation de la Navigation Aérienne)
Savings Bank Section of the General Savings and Pensions Fund	Caisse d'Epargne de la Caisse Générale d'Epargne et de Retraite
Sea Transport Administration	Administration des transports maritimes
Sea Transport Board	Régie des transports maritimes
Securities Deposit and Clearing Office of the Financial Sector	Caisse interprofessionnelle de Dépôts et de Virements de Titres
Securities Regulation Fund	Fonds des Rentes
Sinking Fund	Caisse d'Amortissement
Social Programming Agreement	Accord de programmation sociale
Solidarity Fund for Financing Early-Retirement Pensions	Fonds de solidarité de financement de la prépension
Special Municipalities Fund	Fonds spécial des communes
Staff Pensions Fund	Caisse de Pensions du Personnel
Superior Finance Council	Conseil Supérieur des Finances
Telegraphs and Telephones Board	Régie des Télégraphes et des Téléphones
Textile Industry Federation	Fédération de l'Industrie Textile
Town Planning Board	Administration de l'Urbanisme
Treasury and Public Debt Administration	Administration de la Trésorerie et de la Dette Publique
Union of Non-Ferrous Metal Industries	Union des Industries des Métaux Non Ferreux



*Translated from the French and the Dutch by*  
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