OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

B.L.E.U.

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JUNE 1970

BASIC STATISTICS BELGIUM

THE LAND

Area (1 000 sq.km)	30.5
Agricultural area (1969) (1 000 sq.km)	15.6
Forests (1968) (1 000 sq.km)	6.0

Main urban areas (1969) inhabitants:	
Brussels	1 073 111
Antwerp	673 040
Liège	445 347
Gand	228 100

THE PEOPLE

Population (1969)	9 660 154
Number of inhabitants per sq.km (1969)	317
Population, net natural increase (1969).	
Yearly average	21 459
Yearly rate per 1 000 inhabitants	2.23

Net immigration (1969)	6 785
Total labour force (1968)	3 826 300
Agriculture, wage earners	15 300
Manufacturing, wage earners	1 077 000

PRODUCTION

Gross national product (1968), billions of Belgian francs	1 035.7
Gross national product per head (1969) US $	2 144
Gross fixed investment:	
Percentage of GNP (1968)	21.1
Per head (1968) US $	452

National expenditure (1968) billions of Belgian francs:	
Private consumption	657.7
Public consumption	147.3
Gross fixed asset formation	218.6
Net exports	–6.7

THE GOVERNMENT

Current government expenditure on goods and services (1968):	
Percentage of GNP	14.2
Current government revenues (1968), % of GNP	33.6
Central Government debt, 31-12-1969, Billions of Belgian francs	570.3

Composition of the House of Representatives:	%
Christian-Social Party	33
Belgian Socialist Party	28
Freedom and Progress Party	22
Communist Party	2
Others	15
Last election: 1968	
Next election: 1972	

LIVING STANDARDS

Calories per head, per day (BLEU) (1964-1965)	3 150
Consumption of electricity per head 1969 (kWh)	2 665

Number of private cars per 1 000 inhabitants (1969)	198
Number of telephone per 1 000 inhabitants (1969)	198
Number of TV sets per 1 000 inhabitants (1969)	207

FOREIGN TRADE

Exports:	
Main exports 1969 (% of total exports (BLEU):	
Base metals	27
Machinery and Equipment	9
Textiles	12
Chemicals	8
Transport material	9

Imports:	
Main imports in 1969 (percentage of total imports) (BLEU):	
Base metals	14
Minérals	13
Machinery and equipment	13
Transport materials	12
Textiles and fibers	9

THE CURRENCY

Monetary unit: Belgian franc.

Currency units per US dollar: 50.

BASIC STATISTICS LUXEMBURG

THE LAND

Area (sq.km)	2 586	Major city:	
Agricultural area (1969, sq.km)	1 357	Luxemburg (1969) inhab.	77 500
Woodland (1969, sq.km)	840		

THE PEOPLE

Population (1969)	338 500	Total labour force (1969)	140 400
Number of inhabitants per sq.km (1969)	131	Agriculture	16 300
Population, net natural increase		Industry	64 100
Yearly average (1965-68)	950	Services	60 000
Per 1 000 inhabitants (1960-69)	2.8	Salaried employees and wage-earners	105 700
Net immigration (average 1960-1969)	1 943	Employers and self-employed persons	19 500
		Domestic help	15 200

PRODUCTION

Gross national product (1969), millions of francs	42 900	Gross national product at factor cost by origin (1967):	%
Gross national product per head US $	2 400	Agriculture	6.2
Gross fixed investment (average 1965-69):		Mining and quarrying	1.6
		Manufacturing	39.1
Percentage of GNP	27.2	Construction	7.5
Per head US $	596	Other	44.4

THE GOVERNMENT

Public consumption (1969), percentage of GNP	11.2	Composition of the Chamber:	%
		Christian Social Party	37.5
Current government revenue (1967) percentage of GNP	36.0	Workers Socialist Party	32.1
		Democratic Party	19.6
Central Government debt. December 31st, 1969 (Billion Frs)	14.3	Communist Party	10.8
		Others	00.0
		Last election: 1969	

LIVING STANDARDS

Gross average hourly earnings (1969), Lux. francs	85.5	Number of telephones per 1 000 inhabitants (1969)	281
Number of private cars per 1 000 inhabitants (1969)	235	Number of TV sets per 1 000 inhabitants (1969)	131

THE CURRENCY

Monetary unit: Luxembourg franc.

Currency units per US dollar: 50.

OECD ECONOMIC SURVEYS

BELGIUM-LUXEMBOURG ECONOMIC UNION

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development was set up under a Convention signed in Paris on 14th December 1960 by the Member countries of the Organisation for European Economic Co-operation and by Canada and the United States. This Convention provides that the OECD shall promote policies designed:

- *to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
- *to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;*
- *to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

The legal personality possessed by the Organisation for European Economic Co-operation continues in the OECD, which came into being on 30th September 1961.

The members of OECD are: Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.

The annual review of the BLEU
by the OECD Economic and Development Review Committee
took place on 26th May, 1970

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INTRODUCTION

1969 was a year of near record expansion in the Belgium-Luxemburg economies. The initially export-led upswing, starting late in 1967, became more broadly based in the course of 1968. Last year, all main components of domestic demand were buoyant with exports continuing as an important expansionary force. Supply conditions, highly flexible at the outset, gradually tightened; much of the increase in unemployment experienced during the 1965-1967 slack was absorbed and a high level of capacity utilization was achieved in the industriel sector. The underlying position on the current account of the balance of payments seems to have remained generally strong throughout the upswing, with a marked increase of the surplus last year. But the overall balance of payments situation showed marked fluctuations. Intermittent large capital outflows, partly of a speculative nature and largely in the form of leads and lags and exports of banking funds, continued up to last autumn. They were subsequently reversed in response mainly to the stabilisation of international monetary conditions resulting from DM revaluation. The boom was associated with a marked acceleration of price increase and the wage rise also steepened.

During the last couple of years, money and budget policies have been formulated with a closer view to the needs of short-term demand management than had been the case in some less recent years. In 1968, policies in both fields were eased to support the recovery of economic activity. Balance of payments considerations seemed to require a shift to restrictive monetary policies, but this was not effected until late in 1968 when expansionary policies were no longer called for on internal grounds. The capital outflow remained an important consideration in the progressive tightening of monetary conditions up to the time of DM revaluation, when the outflow was sharply reversed. But as the year went on and the boom was tending to overheat, monetary measures were increasingly aimed at containing domestic demand and budget policy was tightened. Partial indicators suggest that the boom may have cooled off somewhat in recent months, and this could have been influenced by the restrictive policies. But the latter have not succeeded in dampening the price rise so far and this remains an important problem for economic policy in the current year.

Parts I and II of the present Survey review main features of the Belgian boom and recent developments in the BLEU balance of payments, respectively. Part III discusses economic policies and Part IV current trends and prospects in Belgium. Trends, policies and prospects in the Luxemburg economy are briefly summarized in Part V, while the final section of the Survey contains certain policy conclusions relevant for Belgium, in particular.

I MAIN FEATURES OF THE BOOM

The boom experienced in the Belgian economy during the past couple of years was roughly equal in strength to that enjoyed in 1963-64. In both periods exports, business fixed investment and residential construction were the main expansionary forces and both saw a recovery of stockbuilding activity. Government policies and a revival of private consumption helped to sustain the more buoyant trend in the early phase of the recent boom. The two experiences differed in one important respect. The recent one followed upon a two-year period of considerable slack which had entailed a high level of unemployment and substantial under-utilization of industrial capacity. The previous one, in contrast, was a culmination of a phase of rapid economic expansion which had lasted since 1960 and had reduced unemployment to a relatively low level. Partly owing to these divergencies, labour supply conditions were not as tight and the wage rise not as steep late last year as at the peak of the previous expansionary phase. But both led to inflationary price movements of roughly similar strength. The 1963-64 expansion was associated with a swing from surplus to deficit on the current account of the balance of payments, whereas the underlying position on current account has continued strong, on a transactions basis, during the recent boom.

Demand and output

The recent upswing was set off by a strong, and more or less simultaneous, upturn of import demand in Belgium's principal foreign markets in the second half of 1967. Exports picked up strongly from the fourth quarter on. Early the following year, government investment was stepped up and an increase of transfer payments for households entailed a more buoyant trend of private consumption. Stockbuilding, which had fallen to a relatively low level in 1967, also contributed to the more buoyant demand position. But the declining trend of business fixed investment and residential construction was reversed only in the late part of 1968 and total real fixed investment in the private sector fell for the year as a whole. This, and a marked upturn of imports, following quickly the recovery of exports, limited the growth of real GDP to 3.8 per cent between 1967 and 1968.

Table 1 **Demand and output**
Percentage change in volume from previous year

	1968 billion francs	1967	1968	1969*	1970**
Private consumption	657.7	2.7	4.9	5.2	4.9
Government consumption	147.4	6.0	6.7	4.4	3.1
Gross fixed investment	220.5	1.1	–0.5	11.6	10.4
Public authorities	33.7	9.5	13.2	6.5	3.0
Other	186.8	—	–2.6	12.5	11.9
Of which: dwellings	58.3	–5.5	–2.3		3.5
Final domestic demand	1 025.6	2.9	3.9	6.5	6.1
Stock building[1]	8.8	–0.7	0.5	–0.2	–0.5
Total domestic demand	1 034.4	2.2	4.4	6.3	5.5
Foreign balance, including factor income[1]	1.4	1.2	–0.6	–0.1	–0.5
Exports of goods and services	421.0	6.7	11.3	16.0	9.9
Imports of goods and services	419.6	3.5	12.9	16.3	11.1
GNP at market prices	1 035.8	3.4	3.8	6.2	5.0
Foreign balance, excluding factor income[1]	–6.7	1.2	–0.7	—	
GDP at market prices	1 027.7	3.4	3.8	6.3	5.0

* Provisional.
** Official forecasts.
1 The rates of change refer to changes in stock building and in the foreign balance expressed as a percentage of GNP in the previous period.
Source: Belgian statistical submission and direct communication to the OECD.

Last year, the expansion strengthened further with real GNP exceeding the 1968 level by more than 6 per cent. Exports were exceptionally strong, expanding by more than one fourth in the course of the year. But an important feature of last year's expansion was that it became more broadly based. In particular, business fixed investment showed a marked recovery in response to buoyant business profit, capacity limitations and favourable demand expectations, and the decline of residential construction was reversed. In contrast, the growth of general government fixed investment was moderated and stockbuilding activity, which had aided in the recovery of economic activity in 1968, provided no additional stimulus. Private consumption rose only slightly faster than in 1968, on an annual basis. The trend appears to have been buoyant up last autumn when consumer spending was influenced by strong inflationary expectations, linked with anticipations of parity changes and introduction of TVA, initially planned for last January. This was followed by a more moderate expansion in the later months of the year.

The flexible supply conditions existing at the time the upswing started permitted output to be stepped up strongly in the industrial sector; indeed

Table 2 **Indicators of fixed investment and of private consumption**
Percentage change in value from previous year

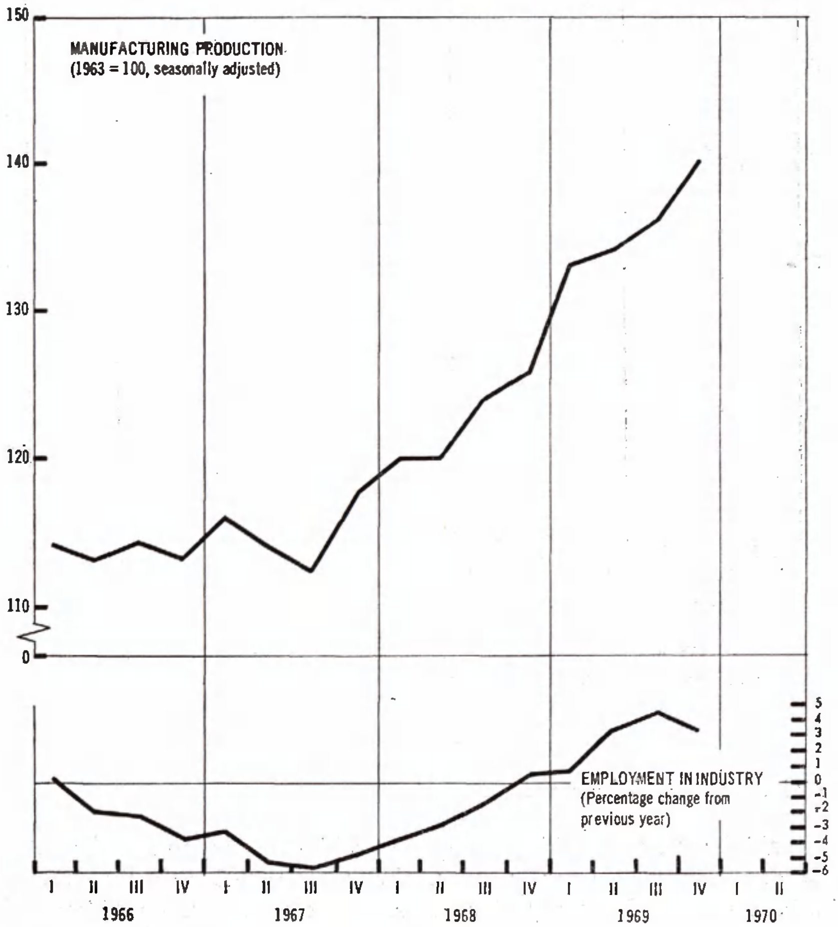
	1967	1968	1969	1968				1969			
				I	II	III	IV	I	II	III	IV
FIXED INVESTMENT:											
Public sector spending commitments	12.1	8.9	–1.7	68.1	–16.0	3.5	–5.0	–25.1	7.3	3.0	15.9
Delivery of machinery and equipment:											
Domestic	2.9	–0.7	13.8	–1.5	–1.8	–1.9	2.1	3.9	13.7	20.4	16.8
Imported	2.6	2.2	16.4	6.1	–11.3	8.3	2.6	1.0	29.8	24.4	20.9
Home market orders for domestic machinery and equipment	–3.3	9.5	22.7	6.0	2.4	5.0	23.9	27.2	27.3	22.0	15.3
Building starts[1]:											
Dwellings								39.1	32.2	22.5	
Other								66.0	83.1	30.1	
Construction index[1]	5.8	–5.6	5.3	–7.5	–4.8	–4.2	–2.6	4.0	7.0	8.5	4.5
PRIVATE CONSUMPTION:											
Department store sales[1]	3.1	5.2	8.8	1.7	5.6	6.5	7.3	9.2	9.8	7.7	8.6
Imports of durable consumer goods	0.7	16.6	20.9	8.1	14.7	20.6	22.9	21.7	28.5	20.2	14.6
Imports of other non food consumer goods	15.0	20.3	19.1	4.1	8.9	23.7	39.3	25.9	29.0	18.9	10.5
Registration of new passenger cars	3.0	13.2	15.2								
Instalment credit[2]					10.6		18.1		21.2		

1 Volume.
2 The figures show increase in credit outstanding during the twelve months to end-June and end-December.

Sources: Bulletin d'Information et de Documentation, Banque Nationale de Belgique; Bulletin Statistique, Institut National de Statistique; Aperçu de l'évolution économique. Ministère des Affaires Économiques.

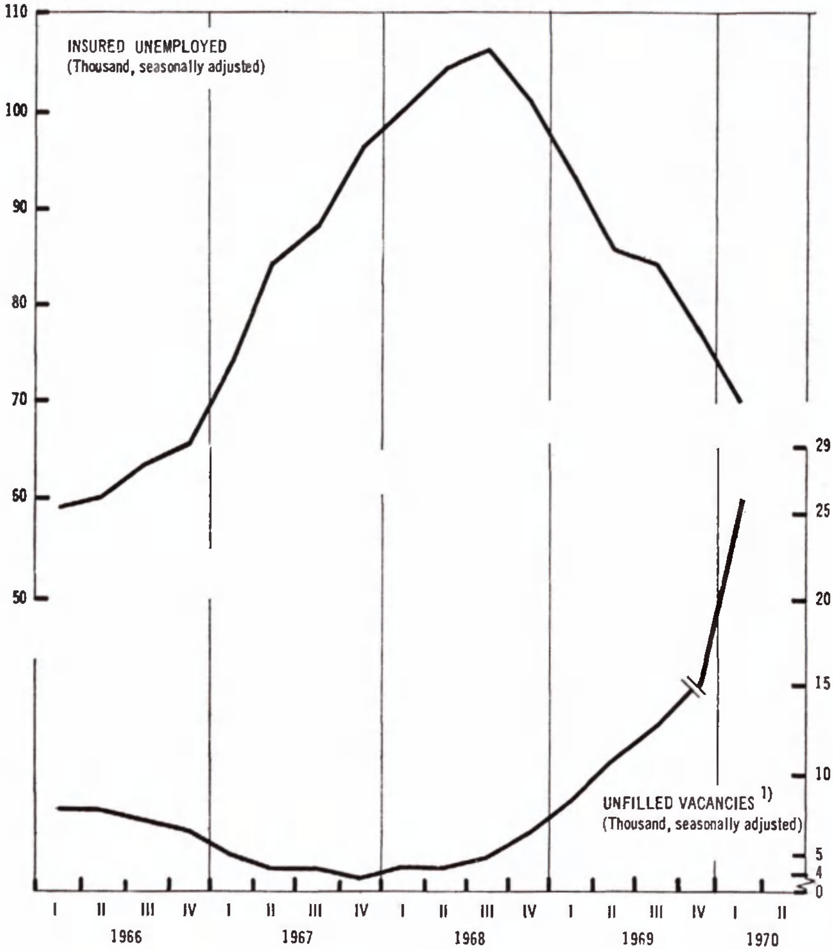
the industrial production index rose by 11 per cent in the course of last year, following a more than 8 per cent increase during the previous year. Business enquiries were buoyant, industrial order books lengthened significantly and spare plant capacity was progressively absorbed. By the autumn, many branches seem to have run against capacity limitations comparable to those experienced during the previous boom.

Diagram 1 **Production, employment and the labour market**



Source : OECD, Main Economic Indicators

Diagram 1 (*continued*) **Production employment and the labour market**



1 The coverage of the series was extended in January 1970.
Source: OECD, Main Economic Indicators.

Employment and labour market

Initially, output could be stepped up without resort to recruitment of new labour. Average work hours no doubt lenghtened as short-term work declined and the frequency of over-time work became more widespread. But workers employed seem to have started rising only in the autumn of 1968. From them on, employment rose quite steeply and unemployment was rapidly absorbed. However, the rate of unemployment was rather higher still at the end of last year (1.9 per cent of the civilian labour force) than during the 1963-1966 period. It is true that much of this represented labour with poor or unsuitable qualifications and pockets of regional unemployment which had developed with the decline of certain industries, notably coal-mining, during the intervening years. Nevertheless, business enquiries show complaints about labour shortage less widespread than during much of the earlier period, suggesting that the labour supply situation was less strained. Unfilled vacancies rose strongly but were not significantly higher last year than during most of the period 1961-64. It is not clear how far the labour market situation during the past couple of years was influenced by a reduction of the foreign labour inflow. Employment of foreign workers, sharply rising during the 1963-64 boom, was still falling in 1968 but there may have been some reversal of this subsequently.

Prices and wages

As in most Member countries, last year's buoyant demand and activity in Belgium was associated with price inflation. The rise of consumer prices steepened significantly owing to a marked acceleration of food prices, in particular. Interruption late in 1969 of the earlier stable trend of prices of non-food consumer goods also contributed to the inflationary development of the cost of living. In contrast, service prices, already rising steeply earlier, did not accelerate. Wholesale prices of industrial goods, both imported and domestic, turned up strongly and the building boom entailed a sharp rise of building prices.

Most wages in Belgium are automatically linked to the cost of living index, with the time lag between a rise of the index and adjustment of wages normally no longer than two months. Hence, the faster increase of consumer prices had a quick impact on wages. And the trend of wages strengthened in response to the improvement of the labour market situation. The tendency for the wage rise to slow down was reversed in the second half of 1968. On a year-to-year basis the rise was much faster in 1969 (at 7.9 per cent for average earnings in industry and transport) than in the previous year. But if the effect of sliding scale adjustments to the faster price rise is disregarded, the year-to-year increase of wages was hardly steeper in 1969 than during the conjonctural slack in 1967. And it was significantly less steep than during the previous boom in the mid-sixties. This was partly because few new settlements were negotiated last year so that most rates were adjusted in line with contracts concluded before the marked improvement of the labour market situation. And the available data suggest that earnings moved more or less in step with standard rates.

Table 3 Prices and wages

	1966	1967	1968	1969	1968		1969		1970
					I	II	I	II	1st Q.
	Percentage change from previous year				*Percentage change during period, annual rate*				
Consumer prices[1]									
Total	4.2	2.8	2.8	3.8	2.1	2.9	4.5	4.2	5.2[2]
Food, drink	4.9	2.5	1.2	4.6	0.8	3.3	6.6	4.1	5.0[2]
Other commodities	3.1	2.3	1.5	1.9	1.2	1.3	1.8	4.3	0.8[2]
Services	4.7	6.8	4.6	4.6	5.5	3.9	5.0	4.4	13.4[2]
Wholesale prices									
Domestic industrial goods	1.1	—	1.4	3.3	0.9	2.6	3.6	8.0	9.5
Imported industrial goods	3.5	–5.1	–1.4	5.2	–1.8	2.8	8.9	5.8	13.4
Finished industrial goods	2.3	1.1	0.5	3.0	–0.2	1.8	3.1	9.2	10.3
Wages in industry and transport									
Hourly earnings	10.3	6.7	5.4	7.9	4.1	8.1	7.0	9.1	
Hourly rates, skilled labour	9.4	6.7	5.4	7.7	3.5	7.0	9.4	6.5	
Hourly rates, non-skilled labour	9.7	7.9	5.2	8.6	4.3	6.7	10.6	7.0	
Wages and social charges per hour worked	9.9	8.5	6.4	8.5	6.7	7.9	6.9	10.8	

1 Excluding rent.
2 December-April.

Sources: Bulletin Statistique, Institut national de Statistique; Bulletin d'Information et de Documentation, Banque Nationale de Belgique.

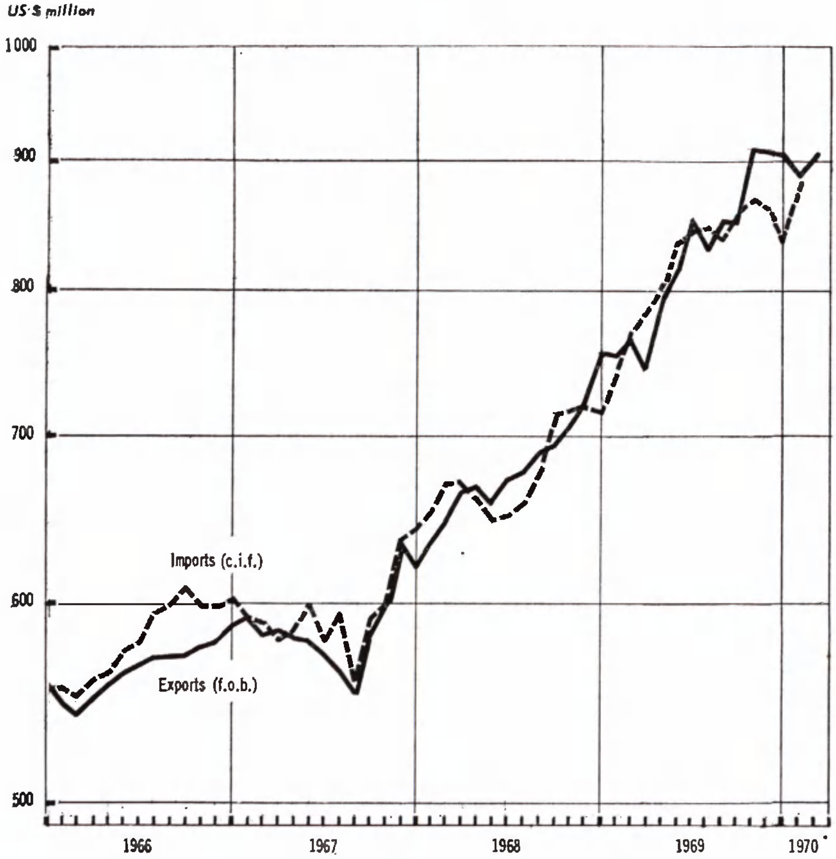
The advance of labour productivity is unlikely to have accelerated last year. The steeper wage rise, therefore, entailed a less favourable development of unit wage costs than in 1968 and it is possible that the tendency for unit wage costs in industry to decline was reversed in the second half of 1969.

II THE BLEU BALANCE OF PAYMENTS

Despite the strong boom in the BLEU economies, the underlying position on the current account of the balance of payments continued strong. The official balance of payments estimates show a marked decline of the current account surplus in 1968, followed by some increase last year. But the estimates are on a settlements basis and leads and lags in current transactions worsened significantly until last autumn. Adjusted for changes in terms of payments, it seems probable that the current account remained in substantial surplus in 1968, with a strong increase of the surplus position last year. Disregarding payments leads and lags, the deficit on non-monetary capital rose sharply in 1968 but gave way to a large surplus last year. The balance of payments was subject to large fluctuations in the course of 1969 heavily influenced by anticipations of DM revaluation.

The trade deficit (cif/fob), customs basis, roughly stable from 1967 to 1968, shifted into surplus last year, for the first time since the early fifties. This was partly due to a marked steepening of the growth of exports from the already high rate enjoyed during 1968; exports, customs basis, rose by one-fourth during the twelve months to the fourth quarter of 1969, compared with 15 per cent a year earlier. Buoyant demand and activity in the economies of BLEU's main trading partners, notably Germany and France, and the favourable commodity structure of exports, were mainly responsible for this. And the competitive position of BLEU exports remained strong. Although the development of unit labour costs seems to have become less favourable in the course of last year, it remained favourable relative to that of many other Member countries. Secretariat estimates suggest that few industrial Member countries enjoyed as big gains of foreign market shares last year as the BLEU. Most of the main commodity categories contributed to the buoyant position. Except in non-ferrous metals, chemicals and petroleum all of which had enjoyed a high rate of export growth already in 1968—and diamond and glass, the year-to-year increase of exports steepened significantly in 1969. In some categories, notably products of the steel industry, large price increases contributed to the favourable results.

Diagram 2 **Foreign trade**
3-month moving average, seasonally adjusted



Source: OCED, Main Economic Indicators.

The recovery of exports and industrial production was promptly reflected in imports, which had already turned up sharply in the autumn of 1967. The growth of imports was subsequently moderate until the autumn of 1968, when imports in all the main categories accelerated sharply. The advance of imports, at an annual rate of one third during the nine months to the second quarter of 1969, moderated significantly in the second half year. As in certain other Member countries, the change of trend probably, in part at least, reflected anticipatory purchases in the months preceding the parity changes.

Table 4 **BLEU commodity exports**
Percentage change in value from previous year

	1968 billion francs	1966	1967	1968	1969
TOTAL	408.2	7.0	3.0	16.1	23.3
Iron and steel products	57.4	–4.4	7.3	12.7	24.7
Metal manufactures	103.0	3.7	2.6	13.9	27.9
Non-ferrous metals	38.6	26.6	–6.4	22.1	18.9
Textiles	52.2	10.3	–7.7	12.7	20.0
Chemicals	38.0	8.4	11.9	29.3	26.8
Agricultural products	21.0	5.2	26.2	14.1	21.7
Precious stones	20.8	23.0	2.7	11.9	11.6
Other	77.2	5.6	4.7	16.9	22.4
OECD Europe	314.4	7.1	2.9	16.6	28.8
Netherlands	85.9	7.9	–0.6	13.8	13.3
Germany	85.5	3.3	–3.3	22.8	34.4
France	75.8	19.2	12.8	21.5	39.6
Other	67.3	1.8	5.1	8.4	29.4
USA	38.5	10.8	–0.4	31.0	–9.7
Other	55.3	4.5	5.8	5.2	14.0

Source: Bulletin d'Information et de Documentation, Banque Nationale de Belgique.

Table 5 **BLEU commodity imports**
Percentage change in value from previous year

	1968 billion francs	1966	1967	1968	1969
TOTAL	416.7	10.4	0.0	16.1	19.9
Raw and semi-finished industrial materials	277.4	12.0	–2.1	19.6	20.9
For: steel and engineering industries	98.2	18.4	–8.7	24.7	24.0
agriculture and food industries	26.7	13.6	7.1	2.8	13.9
textile industry	21.6	5.5	–16.0	15.7	12.4
diamond industry	22.8	28.4	–7.3	35.8	26.8
petroleum refineries	20.5	–6.9	19.0	39.2	17.5
chemical industries	21.9	12.1	8.6	21.5	20.4
Consumer goods	86.8	4.5	5.2	12.6	17.9
Of which: food	29.4	5.0	10.3	4.6	12.4
durables	48.9	3.7	0.7	16.6	20.9
Capital goods	51.3	13.9	2.9	3.9	19.1

Source: Bulletin d'Information et de Documentation, Banque Nationale de Belgique.

The official balance of payments estimates (settlements basis) show a much less favourable development of the trade balance than do the customs returns. For most recent years they show a weaker position on trade account than the customs returns, but it should be significant that the discrepancy was particularly large in the last couple of years, and notably in 1969 despite the important unwinding of leads and lags in the closing months of that year. The strong deterioration of the service account, conveyed by the official balance of payments estimates for 1969, could also

Table 6 **BLEU balance of payments**
Settlements basis
$ million

	1966	1967	1968	1969
Trade balance	–94	138	–26	198
Exports	5 596	5 930	6 614	8 054
Imports	5 690	5 792	6 640	7 856
Services	16	114	110	–18
Of which: Foreign travel	–90	–128	–124	–140
Investment income	22	24	34	10
Government	4	74	66	26
Transfers	–18	–50	–50	–100
Official	–50	–80	–94	–86
Private	32	30	44	–14
Current balance	–96	202	34	80
Long-term capital	–76	48	–134	228
Official	–54	–96	–38	164
Private	–22	144	–96	64
Portfolio	–134	–50	–278	–324
Direct investment	132	178	178	238
Other	–20	16	–4	150
Short-term non-monetary capital and unrecorded	66	–58	6	–14
Total non-monetary transactions	–104	192	–94	294
Monetary institutions	140	56	–190	–190
Balance on official settlements	34	248	–284	104
Gold	–34	–44	44	4
Convertible foreign exchange	–10	294	–360	342
Net IMF position plus GAB lending	60	–40	–26	–146
Miscellaneous official assets	18	38	58	–88
Memorandum items:				
Trade balance fob/fob according to customs returns[1]	15	215	230	570
Balance on goods and services, including factor income, according to the national accounts (Belgium only)	–68	162	28	80

1 Exports fob less imports cif (minus 4 per cent) plus non-monetary gold plus arbitrage transactions abroad.
Source: Bulletin d'Information et de Documentation, Banque Nationale de Belgique.

partly reflect disguised capital exports. Net expenditure on foreign travel did not increase abnormally fast but net receipts on investment income, on other private services, as well as on government transactions, declined substantially. And the previous net inflow due to private transfers was reversed, entailing a doubling of total net transfer payments. According to the official balance of payments estimates, therefore, the deterioration of the current invisibles account offset much of the improvement on trade balance so that the current account surplus rose only moderately last year, after a sharp decline, due almost entirely to a weakening of the trade account, in 1968. National account estimates of the balance on goods and services, including factor income in Belgium show roughly the same strengthening of the position in 1969 as the official balance of payments figures, but a smaller deterioration in 1968.

On private long-term capital account there was a $ 170 million swing from deficit to surplus last year, offsetting about two-thirds of the deterioration experienced in 1968. The net outflow due to portfolio investment rose sharply in the latter year, and more moderately in 1969, influenced by the interest differential in favour of foreign bonds, prevailing through most of the period, and by the good earning opportunities offered on some foreign equities. The net inflow due to direct investment, stable in 1968, increased significantly last year and the roughly balanced position on other private long-term capital gave way to a large surplus. The marked strengthening of the private long-term capital account in 1969 was reinforced by an equally strong swing from net repayment to net borrowing by the public financial intermediaries.

Private non-monetary short-term capital transactions including errors and omissions, but excluding leads and lags, were roughly in balance in the last two years after a small deficit in 1967. Disregarding leads and lags, the total non-monetary capital account, including unrecorded transactions, showed a $ 350 million swing from deficit to surplus last year, nearly three times as large as the increase of the deficit in 1968. The earlier net inflow of monetary capital gave way to a large net outward movement in 1968, with little further change in 1969 as a whole.

The surplus on official balance amounted to $ 104 million compared with a $ 284 million deficit in 1968. With $ 146 million net drawings on the accumulated reserve position with the IMF and a $ 88 million deterioration on miscellaneous official assets, this permitted the $ 360 million drain on foreign exchange reserves suffered in 1968 roughly to be made good. In the spring and late summer, drawings were made on swap credits provided by the Federal Reserve Bank of New York, but these had been repaid by the end of the year and the swap credit line opened up with the Bundesbank, but not used, had been cancelled. Net official assets/declined slightly

Table 7 **Balance of payments fluctuations during 1969**
Settlements basis
$ million

	January-September	October-December	January-December
Current balance	–226	306	80
Trade	–94	292	198
Invisibles	–132	12	–118
Non-monetary capital and unrecorded	202	14	214
Official	160	–22	138
of which: public financial intermediaries	160	—	160
Private and unrecorded	42	34	76
Long-term	8	56	64
of which: Direct investment	166	72	238
Portfolio	–278	–46	–324
Short-term and unrecorded	34	–22	12
Total non-monetary transactions	–24	318	294
Monetary institutions	–144	–46	–190
Balance on official settlements	–168	272	104
Memorandum item:			
Trade balance fob/fob according to customs returns	308	262	570

Source: Bulletin d'Information et de Documentation, Banque Nationale de Belgique.

during the first quarter of 1970 and amounted at the end of March to $ 2 526 million ($ 174 million more than a year earlier).

The annual data conceal important changes in the balance of payments in the course of 1969, when the position was strongly influenced by speculation on DM revaluation. Thus, until the autumn there were intermittent waves of capital outflow. These were particularly large in May and following devaluation of the French Franc in August, when unfounded rumours that the Belgian Franc would follow suit coincided with a strong surge of speculation on DM revaluation. The outflows were largely in the form of speculative changes in terms of payments on current transactions and exports of funds recorded as monetary transactions in Tables 6 and 7. The latter were importantly influenced by a tendency for residents to increase their foreign currency deposits with domestic banks and for non-residents to run down their Belgian franc deposits. Heavy borrowing by the public financial intermediaries only partly offset the movements on private capital account. DM revaluation was promptly followed by an unwinding of payments leads and lags, a decline of residents' foreign currency deposits with domestic banks and some reconstitution of non-residents deposits with them. The net outflow due to changes in these deposits, $ 400 million in the first nine months of 1969, ceased. Furthermore, foreign direct investment in the BLEU was stepped up and residents portfolio investments abroad declined somewhat. Net borrowing by the public financial intermediaries was interrupted, however, giving way to some net repayments. Largely due to these developments in capital transactions, including leads and lags, there was a $ 440 million swing from deficit to surplus on official balance between the first nine months of 1969 and the last quarter. $ 90 million of this reflected an improvement on account of private, including monetary, capital, but excluding leads and lags.

III ECONOMIC POLICIES IN BELGIUM

Economic policies seem to have had some stabilizing effect on demand during the phase of recovery of economic expansion in 1968, and perhaps during last year's boom. In the former year, there had been a certain conflict between internal and external aims, with the expansionary policies adopted to support domestic demand contributing to the heavy, largely speculative, capital outflows. The conflict was removed last year, when internal as well as external considerations called for a shift to more restrictive policies. It is not possible to know precisely the role played by policy action, as distinct from autonomous factors, in strengthening demand during 1968 and containing last year's boom, and the stabilizing effect of individual policies is difficult to judge. The policy mix relied on monetary and budgetary instruments in both periods, but with the adjustments in response to the changing circumstances affected more promptly in the monetary field than in that of the budget.

The expansionary policy phase had started with an active easing of monetary conditions from early in 1967 on. Early in 1968, then this had not yet succeeded in coping with the slack in fixed investment, and external influences made it technically difficult to pursue a policy of active monetary easing, expansionary fiscal action was taken. For this, the authorities relied on measures, such as public works, aid for dwellings and increased pension payments, which could be expected to involve a relatively small import leakage and quite strong employment and income effects. Combined with the continued easy posture of monetary policy, this was followed later in the year by the beginning of a revival of fixed investment. It is true, of course, that the revival was importantly influenced by autonomous factors as well, in particular, the continued buoyancy of exports, rising capacity utilization in industry and a marked improvement of business profit.

Late in 1968, when the expansion had gathered sufficient momentum to no longer require active policy support, policies were shifted towards greater restraint. Since balance of payments considerations were an important element in this, the shift at the outset relied mainly on measures with a direct bearing on the capital outflow. From the spring of last year on when restrictive policies seemed to be increasingly called for also on internal grounds, policies were formulated more with a view to containing the boom. Thus, the policy of raising credit costs was supplemented by measures designed to restrict credit availability—within, it is true, quite generous limits—a quite severe tightening of hire-purchase credit and efforts to restrain government spending.

Budget policy

On the revenue side of the budget, the authorities relied mainly on the automatic budget effects for the relaxation and subsequent tightening of fiscal policy. These effects are relatively strong in Belgium, given the nature of the tax system. Wage and salary taxes are on a pay-as-you-earn basis and the substantial penalty (corresponding to 15 per cent annual interest on tax liability) for late payment of the personal and corporate income tax and the general turnover tax makes for short time-lags also in these. There were no important discretionary tax changes to reinforce the automatic effects. On the contrary, in 1968, changes in tax rates and norms, including introduction of a 10 per cent surcharge on corporate incomes, were estimated to add net F 3.1 billion (1½ per cent) to tax revenue. Despite the tax increases, tax revenue rose much less fast in 1968 than in 1967, but revenue in the latter year had been inflated by a change in budget recording and accidental factors. The various discretionary tax changes effected in 1969, and the speeding up of collection of certain taxes were estimated to have a net positive revenue impact of only F 1.3 billion. However, the increase of tax receipts accelerated strongly owing to the steeper growth of activity and incomes. Tax revenue rose by 11.7 per cent in 1969 (7.8 per cent in 1968) and would have risen by 13 per cent if collection of the automobile tax had not been accidentally delayed until early in 1970.

On the expenditure side of the budget, a more expansionary policy was adopted in 1968 and efforts were made to reverse this last year. Government spending commitments for investment and investment promotion was stepped up early in the former year, when private fixed investment was still slack, and various transfer payments to households were also raised then. From the spring of 1969 on, a number of measures were taken with a view to keeping budget spending 2 per cent below the credit appropriations. These included closer control of new recruitments to the government service, various economies in specific types of current and

Table 8 **Government revenue and expenditure (National accounts basis)**

F billion

	General government				Central government			
	1966	1967	1968	1969	1966	1967	1968	1969
Current revenue	292.1	323.2	348.3	388.8	184.1	205.8	220.2	249.0
Direct taxes	168.5	184.0	203.9	232.2	73.3	80.8	91.4	108.2
Indirect taxes	119.1	131.8	137.8	151.0	115.6	127.8	133.4	146.4
Other	4.5	7.4	6.6	5.6	–4.8	–2.8	–4.6	–5.6
Current expenditure	277.6	305.1	345.5	381.4	181.2	200.9	225.2	249.3
Goods and services	120.8	133.1	147.4	161.6	94.0	103.1	114.0	125.5
Interest on public debt	26.3	29.0	31.5	37.4	21.5	23.6	25.4	30.4
Current transfers	130.5	143.0	166.6	182.4	65.6	74.2	85.9	93.4
Households	115.4	126.0	146.1	157.5	12.2	13.4	16.5	16.2
Enterprises	12.3	12.7	15.4	18.7	12.1	12.5	15.2	18.4
Rest of public sector					38.5	44.0	49.1	52.6
Abroad	2.8	4.3	5.1	6.2	2.8	4.3	5.1	6.2
Current saving	14.5	18.1	2.8	7.4	2.9	4.8	–5.0	–0.3
Depreciation and operating expenses	1.9	2.1	2.3	2.5	1.3	1.4	1.6	1.8
Gross fixed investment	25.1	29.3	33.6	37.3	16.7	19.0	22.4	28.8
Net borrowing and capital transfers	8.7	9.1	28.5	27.4	12.5	12.8	25.8	27.3

Source: Belgium Statistical submission to the OECD.

capital expenditure, the decision not to mobilize the contingency investment tranche (included in the 1969 budget to permit additional spending if warranted) and cessation of Central Bank finance for Road Fund expenditure.

The easing of budget policy in 1968 is clearly brought out by estimates of government transactions on a national account basis. The shift from current saving to current dissaving in central government corresponded to 0.9 per cent of GNP, fixed investment expenditure was stepped up and net borrowing by the central government increased sharply. This was reinforced by a similar decline in current saving and a shift from net lending to net borrowing in the rest of the general government sector. And net borrowing including capital transfers, in general government as a whole rose by an amount corresponding to some 2 per cent of GNP.

The tightening of budget policy last year was much less pronounced than the easing in 1968. In central government, current dissaving was virtually wiped out, but fixed investment rose by 28 per cent, much faster than in 1968, and net borrowing was higher still than in the latter year. In the rest of the government sector, the level of current saving did not change significantly, but thanks to a substantial reduction of fixed investment net borrowing practically ceased. This permitted a slight reduction of net borrowing in general government as a whole in 1969.

Table 9 The Treasury deficit and its financing
F billion

	1966	1967	1968	1969	1970 forecast
Central government budget	–33.4	–38.2	–46.8	–50.2	
Ordinary, balance	–3.3	–2.1	–5.1	–5.1	0.2
Revenue	200.6	219.6	238.8	266.3	290.5
Expenditure	203.9	221.7	243.9	271.4	290.3
Extra-ordinary, balance[1]	–30.1	–36.1	–41.7	–45.1	–49.5
Extra-budgetary transactions	2.0	–0.1	–3.0	–0.3	
Total gross deficit	–31.4	–38.3	–49.8	–50.5	–49.3
less: debt repayment	14.3	15.3	15.7	22.4	22.5
Net borrowing	17.1	23.0	34.1	28.1	26.8
from: domestic non-bank financial institutions	–1.4	9.2	4.6		
other domestic non-banks	6.7	12.4	5.8		
domestic banks	6.9	3.9	27.4		
abroad	4.9	–2.5	–3.7	4.8	

1 Including the Road Fund.
Source: Rapport Annuel and Bulletin d'Information et de Documentation, Banque Nationale de Belgique.

Table 10 **Central government revenue and expenditure**
(Economic classification)
F billion

	1967	1968	1969		1970 Budget forecasts
			Budget forecasts	Preliminary estimates of results	
Current revenue	216.8	234.7	259.0	263.6	288.0
Direct taxes	80.2	90.8	103.3	107.3	121.9
Indirect taxes	130.4	137.6	149.6	150.7	159.1
Other	6.3	6.4	6.1	5.6	7.0
Current expenditure	210.5	234.6	250.6	262.7	278.5
Goods and services	69.8	75.7	83.5	85.6	89.9
Interest on the public debt	23.4	25.4	27.6	30.4	32.7
Current transfers	117.3	133.5	139.5	146.6	155.3
Households	14.3	17.4	16.8	17.2	19.3
Enterprises	23.7	29.2	30.8	34.6	34.2
Other public authorities	75.0	82.1	85.5	88.7	94.4
Abroad	4.2	4.8	6.5	6.2	7.5
Other					0.6
Current saving	6.3	0.1	8.4	0.9	9.5
Capital transfers paid, net	1.3	1.7	3.7	2.3	3.7
of which : to other than public sector	–0.7	–0.7	0.9	–0.3	0.3
Gross fixed investment[1]	19.0	22.3	29.7	28.7	32.2
Net purchase of real estate	4.6	4.7	5.3	5.8	3.3
Net borrowing	18.6	28.6	30.3	35.9	29.7

1 Building and construction, purchase of civilian durable equipment and non-specified civilian investment. The figure excludes the contingency investment tranche.
Souces: Budget des recettes et des dépenses, Exposé Général Partie IV.

Policies of Treasury financing clearly shifted towards ease in 1968 and restraint last year. The 1968 deficit was mainly financed by resort to bank credit, while monetary financing (bank credit and borrowing from abroad) had been virtually nil in the preceding year. Data relating to the first ten months of 1969 suggest that last year's deficit was covered largely by resort to borrowing in the domestic capital market; the increase of interest rates offered on government issues in the course of the year helped importantly to stimulate demand for them on the part of the general public.

The government proposals for the 1970 budget seem to imply some tightening of fiscal policies in the current year. On the revenue side, the authorities continue to rely on the automatic budget effects. In fact, tax cuts of about F $1\frac{1}{2}$ billion are accorded to low income households. This would be offset by a reduction of tax rebates for certain exports, while other minor changes in tax rates and norms more or less cancel out. The forecast slowdown of the growth of tax revenue would, therefore, result entirely from the assumed deceleration of growth of money GNP (from 10 per cent in 1969 to 8.9 per cent in 1970).

Central government current expenditure is planned to increase by 6 per cent in 1970, with an assumed growth of money GNP by 8.9 per cent. This is only slightly lower than the rate of growth envisaged for current spending last year but significantly lower than the one actually experienced. The planned slow rise of current expenditure would permit somewhat larger central government current saving, as defined in the data on an economic classification basis, than budgeted last year. And a deceleration is envisaged for the growth of central government fixed investment. In the general government sector, as a whole, real fixed investment is forecast to increase at 3 per cent only, less than one half of last year's rate. (Table 1). The forecasts do not allow for investment under the special contingency tranche of the central government budget ; the tranche has been raised by more than one half but would only be mobilized in the case of an excessive slowdown of economic expansion. Disregarding the tranche, the overall central government deficit (net borrowing) would be slightly lower than foreseen in last year's budget. It is expected that the authorities will continue to rely largely on the domestic capital market for financing the deficit in the current year.

Monetary developments

The relatively easy monetary policy, which had been maintained for nearly a year and a half, was gradually tightened towards the end of 1968. The first restrictive step was an increase in the official discount rate from 3.75 to 4.5 per cent in December 1968. This was mainly designed to narrow the difference in interest levels between Belgian and international markets, so as to stem the heavy outflow of non-monetary and commercial bank capital. The move was followed in 1969 by five more increases to drive the discount rate up to the unusually high level of 7.5 per cent in September 1969. However, the capital outflow was not due merely to the interest differential, which remained against the domestic currency despite the upward adjustments on the Belgian side. Speculative outflows also occurred, in connection with anticipated parity changes of the French franc and the German mark. In this situation, higher interest rates in themselves proved insufficient to prevent capital outflow.

Early in April, bank capital outflow was restricted by limiting the spot positions of the commercial banks in foreign exchange drawn from the regulated exchange market. At the end of the month, the National Bank decided to introduce quantitative restrictions on credit granted by banks to enterprises and private individuals who had apparently been drawing heavily on credit to finance speculative investments abroad. The restrictions aimed at limiting the expansion of such credit during 1969 to 14 per cent of amounts outstanding at the end of 1968. Similar restrictions were imposed on new credit commitments of the non-bank financial intermediaries ; the volume of their new committments in 1969 should not exceed that of 1968 (or in the case of the insurance companies, the average of 1966, 1967 and 1968) by more than 10 per cent. The Bank simultaneously introduced ceilings on the amount each bank could borrow from the central bank, either directly or indirectly via the market. To help enforce the credit ceilings, the Bank announced that rediscount ceilings would be reduced in the event of violations. Subsequently, the Banking Commission instituted a reinvestment ratio, which specified a minimum ratio of banks' easily negotiable assets to short-term liabilities. This was partly designed to prevent banks from escaping the effects of the rediscount ceilings by reducing their holdings of Tressury paper. Another new measure kept banks from increasing their liquidity by continuous net borrowing on the call money market. A rapid growth of domestic demand having become clearly manifest by that time, these measures were also justified by domestic considerations. Further to restrain domestic demand, hire purchase regulations were tightened near the end of May, and again at the beginning of February.

The initial impact of the quantitative measures was hardly restrictive. Rapid expansion of bank credit to the private sector continued in the second quarter, bringing the total growth for the first half to F 14.6 billion, compared to F 10.7 billion in the corresponding period of the previous year. Even so, at the end of June unused margins totaled F 6.9 billion within the credit ceilings of F 257.5 billion which had been set at 110 per cent of the credit outstanding at the end of 1968. The rediscount ceilings, initially fixed at F 54.5 billion, equivalent to 16 per cent of the commercial banks' principal liabilities, also left ample possibilities for recourse to the National Bank, with unused facilities totaling F 18.8 billion at the beginning of May. The banks drew heavily on these facilities in May and August to finance speculative capital outflows of enterprises and private individuals[1]. As for the control of bank capital outflow, the spot positions in belgian francs of the commercial banks on the regulared market certainly decreased after the introduction of the ceilings by the Belgo-Luxembourg Exchange Institute. However, this was to some extent offset by the increase in their spot positions on the free market.

The quantitative measures were tightened a week after the devaluation of French franc in August. The credit ceilings for the end of September were lowered from the original 110 per cent to 108.1 per cent of the amount outstanding at the end of 1968. Simultaneously, the rediscount ceilings were reduced from 16 to 14 per cent of the banks' main liabilities. This measure, combined with the heavy recourse to these facilities already mentioned, narrowed their available lines from F 18.8 billion at the beginning of May to F 7.6 billion on the day of the modification. The ceilings on the spot foreign exchange positions of the commercial banks were further reduced. The capital flow reversed in September, and, while this was welcome from the point of view of stopping the reserve drain, it soon became clear that the repatriation of funds would neutralize the expected contractionary impacts of the quantitative measures. To meet this situation, the rediscount ceilings were cut to 12 per cent for the end of December and 10 per cent for the end of March, to be reached by monthly reductions of 2/3 percentage point, and the credit ceilings for December were lowered from the original 114 per cent to 111.2 per cent of the 1968 base. At the same time, credit ceilings were fixed for March and June 1970 (112 per cent and 115.4 per cent of the credits outstanding at the end of 1968, respectively). After seasonal adjustment, the allowed expansion of credit for the first half of 1970 was the same as that for the latter half of 1969. For consumer credit, credit financing real estate transactions and, in particular, building loans, the banks were requested not to exceed the global amounts outstanding at the end of October. The limitations on the credit commitments of the non-bank financial intermediaries were prolonged through June 1970.

A remarkable change in monetary conditions occurred in the latter half of 1969. During the six months, bank credit to the private sector

1 These capital outflows took not only the form of "leads and lags" and purchases of foreign securities, but also the placement of deposits in foreign currencies at Belgian banks. Thus, foreign assets of banks—constituting the counterpart of these deposits—increased considerably during the period.

Table 11 **Growth of credit to the domestic sector**
F billion

	Credit outstanding at end-1968	1966	1967	1968	1969
Central Bank	1.9	0.1	0.3	-0.3	0.6
Commercial banks	194.1	19.9	25.7	25.8	9.4
building and real estate transactions	13.9	1.0	2.3	2.4	
other investment	27.7	4.5	4.6	4.9	
instalment credit	19.8	1.3	1.4	4.3	
import finance	14.3	1.0	0.2	0.9	-2.3
non-identified credit	118.4	12.1	17.2	13.3	
Other financial intermediaries	358.6	34.4	34.5	36.2	
of which : public	181.8	18.7	20.5	21.8	25.7
private	176.8	15.7	14.0	14.4	
Total	554.6	54.4	60.5	61.7	

Source: Rapport Annuel and Bulletin d'Information et de Documentation, Banque Nationale de Belgique.

actually declined by F 4.7 billion, in contrast to an increase of F 14.9 billion in the corresponding period of the previous year and of F 14.6 billion in the first half of 1969. Unused margins within the credit ceilings widened from F 6.9 billion at the end of June to 17.6 billion at the end of December. The reflow of funds apparently reduced the demand for bank credit during the period. It also enabled banks to reconstitute their liquidity, so that despite the lowering of the rediscount ceilings from the August level of F 48.6 billion to F 44.0 billion for the end of December unused facilities actually increased from F 7.6 billion in August to F 10.1 billion at the end of the year.

Most of the half-year decline of bank lending occurred in the third quarter. Developments in the third quarter were all the more striking as there were two additional contractionary factors. For one, the reflux of funds, which began only in September, had not yeat reached such an amount as to change the total balance of payments into surplus, as was the case in the last quarter. Besides, the public sector showed a net financial surplus in the third quarter, in contrast to net borrowing in the preceding and the following quarters. It is also to be noted that the reduction in bank lending in the September quarter took place, in spite of the fact that there remained unused leeway under both the credit and rediscount ceilings. One possible explanation might be that the successive reductions in the credit ceilings had a stronger than expected impact on the lending attitude of the banks. Another might be that the high lending rates somewhat dampened the demand for credit. This seems the more likely as ample possibilities for business self-finance were provided by the favourable profit situation, resulting from the sharp growth of production and sales volumes, coupled with price increases.

The non-bank financial institutions appear on the whole to have complied with the credit ceilings imposed on them. But since the ceilings concerned credit committments rather than credit actually granted and commitments were not fully utilized at the start of the year, they could not be expected to have an immediate effect on the lending activity of these institutions, and the growth of credit by non-bank financial intermediaries continued to accelerate. However, the expansion of total lending to the private sector, which had been much larger in the first half than in the corresponding period of the previous year, decelerated after summer : the unusual reduction in bank credit more than offset the acceleration of the growth in lending by the non-bank financial institutions. It is not clear whether the net borrowing of the non-monetary sector from monetary and other financial institutions via the capital market contributed to offsetting the deceleration in their lending.

However, available data on money supply suggest that the authorities succeeded in the course of the year in achieving to some extent one of the aims of the restrictive credit policy, namely to mop up some of the excess liquidity of the non-monetary sector. The growth of money supply narrowly defined was only F 9.8 billion in 1969, as compared to an unusually rapid increase of 26.1 billion (7.4 per cent) in 1968. It is true that the deceleration was partly due to the shift in the preference of investors from demand deposits to time deposits, reflecting higher rates of interest. However, the growth of money supply broadly defined also slowed down, to 39.2 billion from 44.3 billion in the previous year. Thus, the ratio of money supply, broadly defined to nominal GNP, which had been unusually high at the beginning of the year, was brought down towards the end of the year near the level that had prevailed in the tight monetary period of 1966.

The slower rise in money supply broadly defined in 1969 was mainly due to the fact that much of the expansionary impact of the shift from deficit to surplus in the balance of payments was offset by the deceleration in bank lending to the private sector. Total government financing requirements were reduced ; net borrowing from the banking sector was smaller than earlier and net purchases of government securities by the non-monetary sector were somewhat larger.

The success in reducing the excess liquidity of the economy was endangered in the first months of 1970. The reconstitution of liquid balance of the non-moneraty sector through the reversal of leads and lags and the

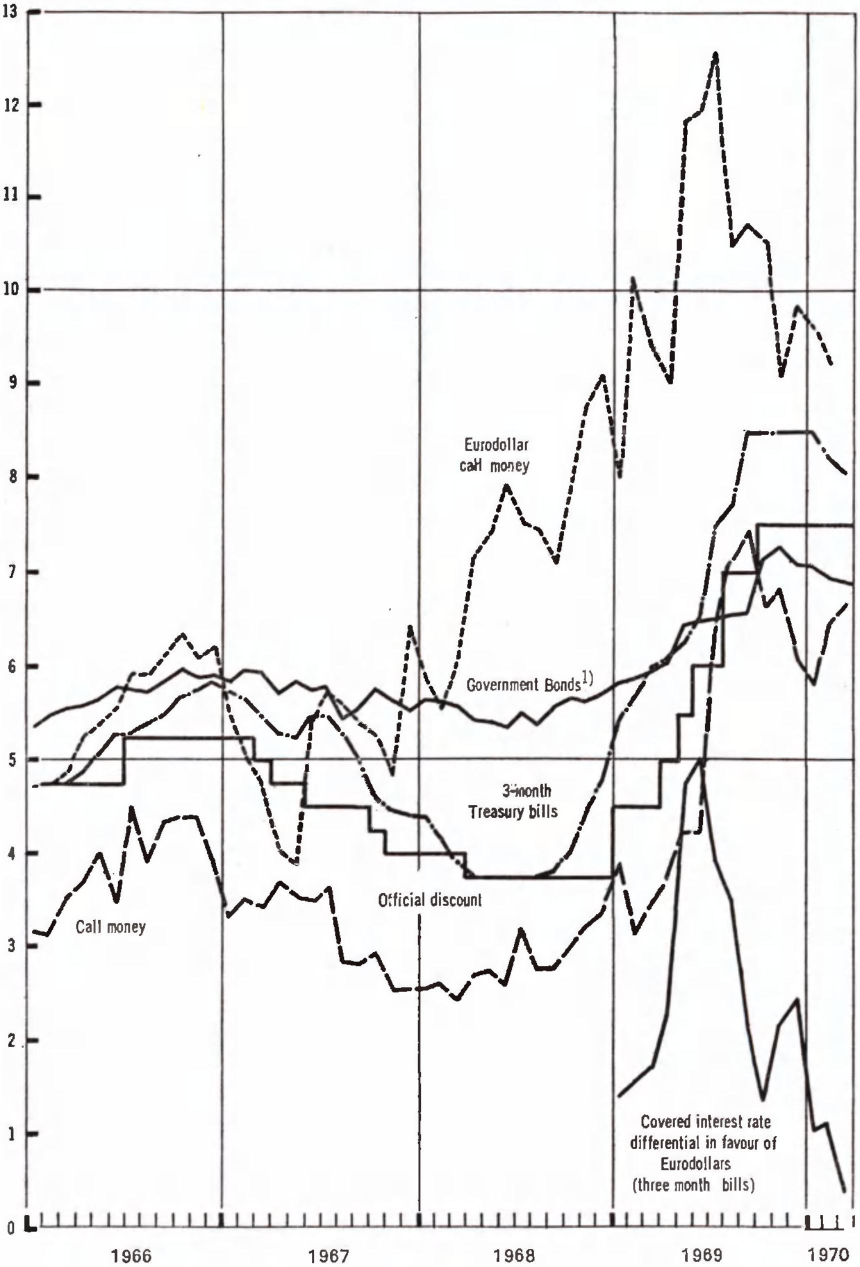
Table 12 Growth of money supply and contributing factors

F billion

	External transactions	Bank credit to the domestic private sector	Financing the public sector	Other	Money Supply: broadly defined	Money Supply: narrowly defined	Money Supply: broadly defined in per cent of GNP
1966	–4.0	20.0	15.0	3.0	34.0	21.2	44.8
1967	17.1	26.0	1.3	11.8	32.6	11.0	45.6
1968	–8.1	25.6	26.8	—	44.3	26.1	46.8
1969	13.7	9.9	22.5	–6.9	39.2	9.8	45.8
1968 I	–0.7	4.6	4.0	–1.3	6.6	–0.5	
II	2.8	6.1	17.5	–0.9	25.5	22.7	
III	–6.0	1.2	–2.8	2.9	–4.7	–10.9	
IV	–4.2	13.7	8.1	–0.7	16.9	14.8	
1969 I	–0.7	7.7	3.7	–4.9	5.8	–4.4	
II	4.3	6.9	16.3	–2.4	25.1	21.7	
III	–2.9	–4.2	–3.7	0.1	–10.5	–19.9	
IV	13.0	–0.3	4.7	0.3	18.8	12.4	

Source: Bulletin d'Information et de Documentation, Banque Nationale de Belgique.

Diagram 3 **Interest rates**



1 Bond of 2 to 5 years issued before 1-12-62.

Source: Bulletin d'information et de documentation, Banque nationale de Belgique, Federal Reserve Bulletin, USA.

repatriation of funds after the DM revaluation was strengthened by the revival of growth of restricted lending. Nevertheless, the credit ceilings, which had been fixed in September for the ends of March and June, could not possibly be reached. In view of this situation, the National Bank at the end of March introduced new arrangements to limit the increase of bank credit for the first three quarters to 6 per cent of the amount outstanding at the end of 1969. Taking into account the expected increase of certain export credits, whose exclusion from the ceilings was decided at the same time, bank credit to the non-monetary sector, seasonally adjusted, will be allowed to expand by about 8 per cent, the same rate of growth as had been allowed for the corresponding period of the previous year.

Interest rates in Belgian money and capital markets, which had been rising in the first three quarters of 1969, reached peak levels in September, then gradually declined. The reflux of funds enabled banks to reduce rediscounts at the National Bank, and also to increase their lending in the money market. Since the turn of the year, there has been further softening in market interest rates, reflecting the decline in Euro-dollar rates as well as the continuing reflux of funds.

Recent experience has revealed that the setting of appropriate credit ceilings is technically difficult, at least in the circumstances prevailing last year in Belgium, where the creation of total liquid assets in the economy resulted not merely from the expansion of credit, but also to a large extent from exogenous factors, such as the balance of payments, changes in which are often quite unpredictable. This underlines the desirability of the active use of measures to control bank liquidity and to influence interest rates, in order to adjust the supply of funds to the economy to changed circumstances with the least possible delay.

The November stabilization programme

When, in the autumn, the expansion continued unabated despite the restrictive policies, a special stabilization programme was announced. This included greater selectivity in respect of government investment aid, increases of ceilings and rates for social security contributions, a 50 per cent increase of the limit for tax-exempt savings deposits, action in respect of prices, and a further tightening, following one effected in the spring, of terms of hire-purchase credit and personal loans. These terms did not take effect until last February, however. One interesting feature of the programme was a reduction from 6 per cent to 5 per cent of the tax rebate on certain exports. This seemed entirely appropriate, given the extremely buoyant export position and the added strength implied by the DM revaluation.

Policies in respect of prices and the TVA

Since the demand management policies could not be expected to have an impact on the price rise in the short run, the authorities took various measures bearing directly on prices. Thus, in the spring of 1969, when inflationary expectations were already manifesting themselves and private spending was being speeded up partly in anticipation of introduction of TVA, originally scheduled for January 1970, the planned TVA rates were lowered (from 20 to 18 per cent in the normal range and from 15 to 14 per cent in the intermediate range). Subsequently, in September, concern over the inflationary impact of a shift to TVA at the peak of the boom led to the decision to postpone introduction until January 1971. Finally, the November stabilization programme provided for a lengthening of procedures for price increases subject to prior government approval and envisaged action to stimulate imports in order to stem the price rise in certain products. The possibility of setting up agreements on price policy, so-called " contrats de programme ", between the government and enterprises has also been explored. But few such agreements have apparently been concluded so far.

IV CURRENT TRENDS AND PROSPECTS IN THE BELGIAN ECONOMY

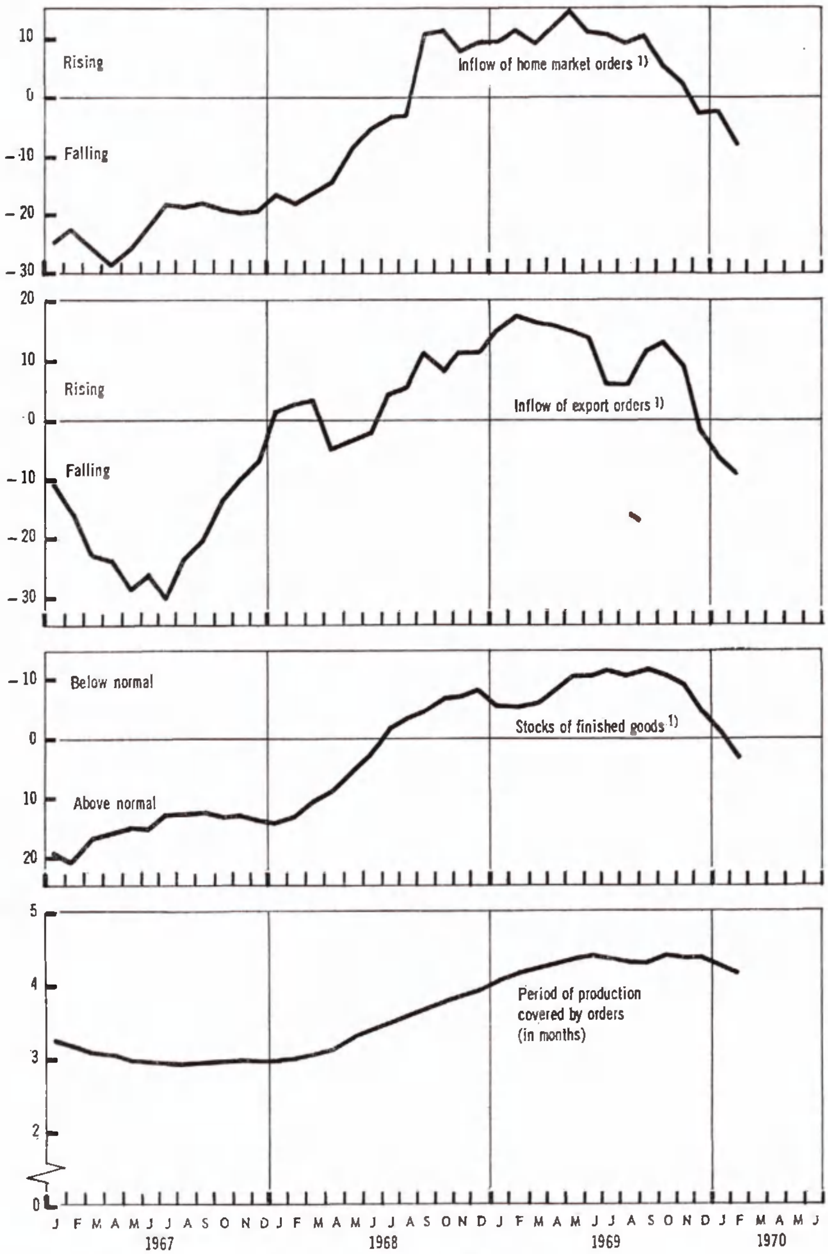
The available indicators suggest that the boom entered a more quiet phase in the closing months of last year. The business enquiries in manufacturing became less buoyant. Judgements on the inflow of domestic and foreign orders and on short-term production prospects weakened somewhat and stocks of finished goods, declining steadily since the beginning of 1968, started to rise. In the first quarter of 1970, for the first time since the autumn of 1967, orderbooks expressed in terms of monthly production shortened in three consecutive months and short-term demand expectations became less favourable. There was a slight drop, the first in two years, in the average rate of capacity utilization (to 86.3 per cent in January from 87.2 per cent in October), a marked increase in the proportion of enterprise considering that they were operating below capacity and in the share reporting deficient demand as the main reason for this.

The trend of industrial production also became less strong. In the three months to January/February, the seasonally adjusted index rose by 0.7 per cent to a level 7.5 per cent higher than a year earlier. The January business enquiry showed a tendency for shortages of skilled labour to be considered less severe. There was no clear easing of the labour market, however ; unemployment fell in January and remained roughly stable in the subsequent three months ; the upward trend in vacancies continued through the first quarter. Exports hardly increased on a seasonally adjusted basis between the fourth quarter of 1969 and the first quarter of 1970, but imports turned up quite strongly. Retail sales and other partial indicators of private consumption were still strong at the turn of the year, but the growth of consumer spending apparently levelled off subsequently. The information on orderbooks in the capital goods industry points to some moderation of business fixed investment demand as well around the turn of the year. Residential construction seems to have remained strong until March, in April some slowdown was observed.

Underlying trends may not have changed as much as suggested by these various partial indicators ; certain non-recurrent factors contributed to the less buoyant situation in the early months of 1970. Strikes and unfavourable climatic conditions influenced output in some sectors and checked consumer spending. And the disappearance of speculative influences, which in the period preceding DM revaluation had boosted many types of demand could have something to do with the less buoyant picture for recent months. Finally, the tighter terms for consumer credit, taking effect at the beginning of February, discouraged spending on consumer durables. Although the significance of recent trends for prospect in the current year is difficult to judge, therefore, the change in available indicators seems sufficiently strong to suggest that the peak of the boom has been passed and that 1970 will see a more moderate expansion.

The official forecasts for 1970 (see Table 1) foresee a slowdown of the growth of real GNP to 5 per cent between 1969 and 1970, compared with a more than 6 per cent rise between 1968 and 1969. This would imply a quite good rate of economic expansion during the year, with the industrial production index rising at perhaps 7-8 per cent, compared with 11 per cent during 1969. Final domestic private demand would be increasing roughly at last year's rate, on a year to year basis ; with little change in the year-to-year growth rate of private fixed investment and private consumption and some slowdown of the growth of consumption and fixed investment in the Government sector. Stockbuilding activity, roughly stable in 1969, is expected to decline somewhat. The slowdown of the growth of total domestic demand would, therefore, be moderate and result mainly from the planned moderation of increase in the government's real claim on resources. But export prospects are judged less favourable than last year, and the volume growth of exports of goods and services, including factor income, is expected to slowdown more than the import rise, so that the foreign balance would deteriorate in real terms.

Diagram 4 **Business surveys in manufacturing**
Three moth moving average



1 Percentage balance from the replies of entrepreneurs.
Source: National Bank of Belgium.

The Belgian economy is strongly export oriented, with exports of goods and services corresponding to about two-fifths of GDP and cyclical swings in economic activity tend to be closely geared to the export performance. Hence the prospects for economic expansion in the current year depend to a large extent on the development of this important demand component. The outlook is for a slowdown of the growth of world trade in 1970, but its degree is uncertain. Imports into Germany, the BLEU largest foreign market, seem likely to rise fast, if not as steeply as last year, but the second main export market, France, is expected to experience a slow import growth in the current year. It is difficult to know how exports may be affected by last autumn's parity changes ; France and Germany each take more than one fifth of total BLEU exports and compete directly with them in third markets. Very broadly it seems that the parity changes may have acted as a net stimulus to BLEU exports. Nevertheless, BLEU exports may not continue to gain market shares abroad to the same extent as in the last year. With the growth of markets moderating, a distinctly less buoyant, although still quite good, rate of export expansion might be experienced.

This, and the likely lesser buoyancy of business profits, could have a dampening effect on new investment decisions in the business sector. Continuation of the restrictive monetary policy with high credit costs and limitations on bank lending would tend to work in the same direction. Anticipations of the shift to the value added tax next January might not influence the situation significantly. The TVA regime provides for a more favourable treatment of investment than the general turnover tax regime but to reduce the incentive to postpone spending a gradual move to the full TVA is envisaged for fixed investment[1]. All in all, it seems probable that the trend of business fixed investment will continue strong during much of the current year, partly reflecting deliveries on last year's large orders. The February 1970 business enquiry in manufacturing showed investment plans for the current year quite buoyant, although the enterprises covered by the enquiry expected to step up their investment less than last year, when the increase had been 16.5 per cent in current prices.

Outside the business sector, the policy of monetary restraint has probably started to bite and new demand for residential construction and, to a lesser extent, local authority investment seem likely to advance only moderately as long as the current high credit costs prevail. But work on building under construction can be expected to keep the trend of activity strong for some time. The high credit costs may also act as an incentive

1 TVA paid on investment is recuperable immediately rather than gradually over the period during which the capital equipment is being written off as in the case of the turnover tax.

for industry and trade to keep inventories as low as possible, and anticipations of the shift to TVA could work in the same direction. Unless the contingency investment tranche is mobilized, central government investment and investment promotion should not be an expansionary force in the current year.

With a more moderate growth of output, the rise of employment would tend to slow down. The number of fully registered unemployment is officially expected to average 70 000 in the current year, roughly the level prevailing in the first four months of 1970 on a seasonally adjusted basis, but 15 000 lower than the average level of 1969. The wage rise could accelerate as existing contracts are being renegotiated. Since most of these were concluded in conditions of relatively high unemployment, last year's improvement of the labour market was not fully reflected in wages. Revisions of these contracts could therefore allow for a catching-up effect, although settlements reached in recent months generally involved rather moderate increases. Sliding scale adjustments could be larger than last year's, on the average, given the likelihood of a fairly steep price rise. This, combined with tax cuts for lower income households—corresponding to half a percentage point of total private consumption—is likely to entail a quite rapid expansion of disposable household incomes, although non-wage incomes should become less buoyant. It is difficult to forecast the net effect on the household saving ratio of the less favourable outlook for employment and the hire-credit restriction, on the one hand, and anticipations of the shift to TVA next January, on the other. Assuming no significant change of consumer savings habits, it would seem that real private consumption might increase at a relatively good rate during most of the current year, even if the price rise were to continue strong.

It is uncertain whether the easing of demand pressures will be associated with a more stable development of prices in the current year. It is true that inflationary tendencies abroad, which contributed in no small measure to domestic price inflation, given the predominance of foreign trade in the Belgian economy, can be expected to ease somewhat in response to the policies pursued in a number of foreign countries. But the impact of DM revaluation, which with the heavy weight of German products in BLEU imports (one fourth in total imports and more than two fifths in imports of finished manufactures) was a second main factor behind the steepening of the price rise since last autumn, may not yet have fully worked itself through in Belgian prices. Furthermore, the likely less favourable development of unit labour costs would be expected to entail some cost push. And like last year, anticipations of the shift to TVA might reinforce the price rise. The factors behind last year's strong rise of food prices are not clear and it is uncertain whether these prices, which influence quite strongly the cost-of-living index, will develop in a more stable manner in the current year. All in all, prospects would seem to be for a rather strong rate of increase of consumer prices in the current year.

With a slowdown of the growth of demand and activity, imports can be expected to rise much less fast than last year. However, the import rise could continue relatively strong for some time, the declining trend of imports in the three months to January 1970, which may have largely reflected disappearance of the speculative influences, was sharply interrupted in February. Depending on the degree of slowdown of the export rise, the likely strong trend of imports might entail a worsening of the real external balance, national accounts basis, for the year as a whole.

On the above assumptions about the effects of the demand management policies and the development of the external balance, the growth performance of the economy would be less impressive than last year's, perhaps more or less in line with the about 5 per cent GNP growth foreseen by the official forecasts. This corresponds to the average annual growth during the 1959-69 period and is roughly the annual growth rate considered consistent with full employment, internal and external balance in the government proposals for the 1971-75 Economic Programme[1]. For the current year the 5 per cent rate seems sufficient to maintain an adequate degree of resource utilization. But with the investment boom adding importantly to plant capacity, average capacity utilization should not continue as high as in recent months and pressures on the labour market could ease somewhat in the course of the year.

V TRENDS, POLICIES AND PROSPECTS IN THE LUXEMBURG ECONOMY

After three years of considerable slack, a recovery started in the Luxemburg economy late in 1967 thanks to a strong upturn of foreign demand for iron and steel. Aided by tax cuts, private consumption picked up in the following year and government fixed investment was stepped up strongly. However, the recovery of business fixed investment became clearly manifest only in the course of last year. With industrial production rising at an annual rate of more than one tenth both during 1968 and 1969, spare capacity was being rapidly absorbed. Combined with booming business

1 The proposals are to be submitted to Parliament in the autumn.

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