

L. 5.2

RFD 538

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

April 22, 1965

Economic Developments in Belgium:
November 1964 to April 1965

23 pages

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Economic Developments in Belgium: November 1964 to April 1965

Factual Summary

Inflationary pressures in the Belgian economy appear to have diminished significantly since the middle of 1964.^{1/} The drying up of excess demand was apparently a direct consequence of the tightening of monetary policy in July 1964, which produced a sharp decline in the rate of bank credit expansion in the second half of last year. Externally, official reserves gains have been small since the start of 1965; but they were exceptionally large in the last two quarters of 1964, both because imports stopped growing and because tighter domestic credit availability and the sterling crisis induced capital inflows. Since the end of 1964, interest rates have declined, reversing the earlier tightening trend.

The slackening of excess demand pressures is evident in movements of prices, imports, and unemployment. Wholesale prices had risen 6.2 per cent from August 1963 to August 1964; but the trend changed abruptly in September, and they rose only a negligible 0.2 per cent from August to February (4.2 per cent in the year-earlier period). Prices fell sharply in the textile sector, where demand greatly declined. Retail prices continued to rise, but less sharply than before. After increasing strongly in the first half of 1964, Belgian imports (seasonally-adjusted) fell slightly from June to December. The decline in unemployment levelled out in the

^{1/} For a review of earlier developments see Economic Developments in Belgium in 1964, dated November 24, 1964.

third quarter, and the number of unemployed (seasonally-adjusted) rose from 25,000 in September to 31,000 in February.

The effects of the slower pace of spending on output are not clear-cut. After rising through October, seasonally-adjusted industrial production dipped in November-December and was unchanged in January, and building activity ceased expanding in late 1964. But the decline in overall production after October was largely, if not wholly, caused by weakening demand for textiles, and output in several important sectors continued to increase.

Monetary developments were highlighted by a marked decrease in bank credit expansion, notably in the fourth quarter, so that in the second half of 1964 credit to enterprises and individuals rose by less than one-half as much as in the comparable period of 1963. This change came on the heels of the various restrictive measures adopted last July and August which included a rise by 1/2 of 1 per cent in the discount rate, a toughening of the eligibility rules for rediscounting, and the imposition on the banks of a 1 per cent cash reserve requirement. The effectiveness of the reserve requirement--imposed initially for a three-month period--was enhanced by the knowledge that the authorities could make it much more severe. In November, the reserve requirement was extended for three months, and for an additional two months in February. The National Bank continues to request the banks to keep credit expansion within prescribed limits. The requested limit to bank credit expansion this year is 11 per cent, a rate slightly higher than the

10 per cent limit for 1964 recommended by the National Bank in January of last year but well under the 13.2 per cent increase that actually occurred during 1964.

Fiscal developments have also helped to ease demand pressures. The Treasury deficit in July-November again ran substantially under a year earlier; as a result, financing of the Treasury by the Belgian monetary institutions and through loans in foreign currencies was again both reduced.

Despite the successes achieved in the credit and fiscal fields, the expansion of the money supply accelerated sharply in the fourth quarter, to a 12 per cent seasonally-adjusted annual rate, because of the large foreign exchange inflows. These inflows, which boosted bank liquidity, also permitted a sharp reduction in National Bank rediscounts and advances.

After being in equilibrium in the first half of 1964, the Belgian balance of payments was in surplus in the third quarter and still more so in the fourth, as a consequence of which official reserves and Belgium's IMF position rose \$242 million in the months July-December. The trade account improved greatly because of a slight decline in imports and a strong expansion in exports. In addition, the credit restrictions and the sterling crisis led to capital imports, while changes in leads and lags were favorable. Between the first of this year and April 12, however, reserve gains totalled a modest \$17 million.

Interest rates continued to rise in the second half of 1964, although more slowly than before, partly because of the reduced Treasury deficit. From June to December, rates on 3- to 12-month Treasury

certificates rose by 45 to 55 basis points, and long-term bond yields advanced by up to 7 basis points. But in the first two months of this year, certificate rates fell by 10 to 15 basis points and bond yields came down 3 to 9 basis points.

Wholesale prices stop rising

Since August 1964, the earlier strong rise in Belgian wholesale prices has been virtually eliminated--a clear indication of an abatement of inflationary pressures. Retail prices have continued to increase, but the pace has slowed.

The change in the trend of wholesale prices occurred very suddenly last September, and from August to February the general index moved up a negligible 0.2 per cent, in comparison with a 4.2 per cent rise over the same period a year earlier. (See Table 1.) This change contrasted with the acceleration of inflation in the first eight months of last year: wholesale prices rose by 1.9 per cent from February to August as against a decline in the same period of 1963. (Seasonal factors affecting agricultural prices tend to cause a decline in the general index between February and August.)

Agricultural prices moved up 2.1 per cent from August to February, partly for seasonal reasons, whereas the increase a year earlier was 2.5 per cent. The index of industrial prices, in fact, showed a fractional decline, following its year-earlier gain of 4.6 per cent. In two sectors where the abatement of demand has been greater, textile prices fell sharply and prices of construction materials eased off.

Table 1. Belgium: Wholesale and Retail Price Indexes, 1963-65
(1953=100)

	1963		1964		1965
	<u>Feb.</u>	<u>Aug.</u>	<u>Feb.</u>	<u>Aug.</u>	<u>Feb.</u>
<u>Wholesale prices</u>					
General index	105.5	104.8	109.2	111.3	111.5
Domestic goods	111.2	109.5	115.0	116.6	116.1
Imported goods	94.6	93.4	98.6	101.2	102.6
Agricultural products	107.9	104.6	107.2	108.6	110.9
Industrial products	104.9	104.8	109.6	111.9	111.7
of which:					
Minerals	98.3	99.2	103.3	105.4	107.9
Metals and metal products	108.1	109.7	113.5	117.4	118.7
Textiles	94.9	94.4	101.1	100.6	92.9
Chemicals	105.8	104.0	108.1	106.3	110.7
Construction materials	129.0	130.1	136.2	143.2	142.9
<u>Retail prices</u>					
General index	114.6	114.8	118.0	120.8	122.8
Food products	114.4	114.1	119.0	121.3	123.5
Other products	109.3	110.0	111.7	113.8	115.6
Services	135.4	137.2	138.0	149.5	152.3

Source: Ministry of Economics as reported by the National Bank of Belgium.

A moderation of the rise in the prices of imported goods has helped the easing of general price tensions. Import goods prices were up only 1.4 per cent from August to February following an increase of 5.6 per cent in the corresponding period in 1963.

At the retail level, the change in trend has so far been less evident. In February the general index was 1.7 per cent above August, a rise two-thirds as large as a year earlier. The slowing was entirely concentrated in food prices; the prices of non-food articles moved up as much as in the comparable period 12 months before.

Industrial output declines after October

Over-all industrial production (excluding construction) increased rapidly through October, but subsequently declined, largely in reflection of a continuing drop in textile output. The expansion of building activity came to a halt in the closing months of 1964.

Following a decrease in the second quarter of 1964, seasonally-adjusted industrial production rose 9.8 per cent from June to October: most of this gain came in October alone. (See Table 2.)^{1/} But output receded in November and December, and was unchanged in January. Despite this recent weakening, however, the index for January 1965 was still 4.8 per cent above that for the second quarter.

Declining demand for textiles became very evident in the third quarter of last year, when production in these industries

^{1/} The sharp fluctuations in the seasonally-adjusted industrial production index raise doubts whether in fact it constitutes an accurate indicator. Prior to the rise from June to October, the index decreased 6.8 per cent from February to June, a period when the economy was being described as booming.

Table 2. Belgium: Industrial Production Indexes, 1963-65
(seasonally-adjusted; 1960=100)

		<u>General index</u>	<u>Basic metals</u>	<u>Metal products</u>	<u>Textiles</u>	<u>Chemicals</u>
<u>Quarters</u>						
1963	I	115	105	126	114	120
	II	121	107	132	118	123
	III	122	110	139	118	125
	IV	127	113	144	119	128
1964	I	129	117	143	121	131
	II	126	120	135	121	134
	III	127	127	135	116	136
	IV	133	133	147	112	143
<u>Months</u>						
1964	June	123	122	132	120	134
	September	125	130	139	114	138
	October	135	132	143	113	141
	November	133	133	148	112	144
	December	132	133	150	111	146
1965	January	132	133	152	111	146

Source: OECD.

Table 3. Belgium: Building Starts, 1963-64
(monthly averages)

		<u>Non-residential</u>	<u>Residential</u>	<u>Total</u>
Quarter I	1963 ^{1/}	158	656	814
	1964	421	1,934	2,355
Quarter II	1963	593	2,636	3,229
	1964	667	3,441	4,108
Quarter III	1963	490	2,426	2,916
	1964	628	2,996	3,624
Oct.-Nov.	1963	637	2,411	3,048
	1964	554	2,464	3,018

^{1/} The low levels in this quarter reflect the exceptionally severe winter weather in Europe at that time.

Source: National Statistical Institute as reported by the National Bank of Belgium

declined 5 per cent from June to September, and a further 2.6 per cent decrease took place from September to January 1965. In other major areas, production rose sharply from June to November; after November, basic metals output failed to rise further but both metal products and chemicals continued to expand.

In the third quarter the number of building starts was still at very advanced levels for both residential and nonresidential construction. (See Table 3.) But in October-November, starts on non-residential buildings fell 13 per cent below a year earlier, and starts on residences showed scarcely any further year-to-year gain.

Total consumer demand continued to rise through the end of last year, as reflected in the 6.5 per cent rise in seasonally-adjusted department store sales from the second to the fourth quarters. (See Table 4.)

Unemployment rises slightly; hourly earnings continue to advance

The long decline in Belgian unemployment halted in the third quarter, and has since been very slightly reversed. The number of totally unemployed (seasonally-adjusted) rose from 25,000 in September to 31,000 in January. (See Table 4.) During the fourth quarter, there was also some rise in partial unemployment.

The hourly earnings of Belgian workers in mining, manufacturing and transportation showed further substantial increases during the second half of 1964. The gains of 1.5 per cent in the third quarter and 3.7 per cent in the fourth exceeded those of 0.8 and 2.5 in the final two quarters of 1963. (See Table 4.) In the year ended December 1964, earnings were up over a year earlier by

Table 4. Belgium: Selected Economic Indicators, 1963-65

		<u>Seasonally-adjusted</u>			
		<u>Industrial</u>	<u>Department</u>	<u>Unem-</u>	<u>Hourly</u>
		<u>production</u>	<u>store</u>	<u>ployment</u>	<u>earnings</u> ^{1/}
		<u>(1960=100)</u>	<u>sales</u>	<u>(000's)</u>	<u>(1960=100)</u>
		<u>(1960=100)</u>	<u>(1960=100)</u>		
<u>Quarters:</u>					
1963	I	115	112	39	116
	II	121	114	33	121
	III	122	117	30	122
	IV	127	119	28	125
1964	I	129	122	27	128
	II	126	123	26	132
	III	127	125	25	134
	IV	133	131	27	139
<u>Months</u>					
1964	June	123	121	25	132
	September	125	128	25	134
	October	135	130	26	n.a.
	November	133	130	27	n.a.
	December	132	132	28	139
1965	January	132	n.a.	29	n.a.
	February	n.a.	n.a.	31	n.a.

^{1/} In mining, manufacturing, and transportation. Quarterly figures are for last month of quarter.

Source: OECD.

11.2 per cent, a rise that topped the 8.7 per cent increase which occurred during 1963.

Credit expansion is sharply reduced

A severe braking of the growth in bank credit--the primary goal of Belgian monetary policy for the past two years--was achieved in the second half of 1964, following the restrictive actions taken by the monetary authorities last summer.

Bank credit to business enterprises and individuals financed by the commercial banks, the National Bank of Belgium (through re-discounting), and certain other "monetary institutions" increased appreciably less in the third quarter than a year earlier, and the differential became very large in the fourth quarter. For the six months July-December, therefore, the increase in this credit was cut from BF 12.5 billion in 1963 to BF 5.5 billion in 1964. (See Table 5.)

Much, if not all, of this reduction can be attributed to the restrictive actions taken by the authorities in early July, following an earlier and unsuccessful attempt to slow credit by moral suasion. In January 1964 the National Bank of Belgium asked the banks to reduce their loan expansion from 20 per cent in 1963 to about 10 per cent in 1964, but bank credit rose more in the first half of 1964 than in the same period of 1963. On July 3, 1964 the National Bank (1) raised the basic discount rate from 4-1/4 to 4-3/4 per cent; (2) raised four of its other nine lending rates by 1/4 or 1/2 of 1 per cent; (3) tightened the criteria for eligibility of paper for rediscount by lowering the maturity of credits it would refinance; and (4) imposed a compulsory cash reserve

Table 5. Belgium: Changes in Money Supply and Its Counterparts, 1963-64 ^{1/}
(in billions of Belgian francs; no sign = increase)

	1963		1964			
	<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
<u>MONEY SUPPLY</u> ^{2/}	<u>-4.5</u>	<u>11.2</u>	<u>-4.7</u>	<u>12.8</u>	<u>-2.0</u>	<u>13.6</u>
(in per cent, unadjusted)	(-1.7)	(4.2)	(-1.7)	(4.7)	(-0.7)	(4.8)
(in per cent, seasonally-adjusted)	(0.2)	(2.5)	(0)	(2.6)	(1.2)	(3.1)
(ditto, at annual rate)	(0.8)	(10.0)	(0)	(10.4)	(4.8)	(12.4)
<u>COUNTERPARTS</u>	<u>-4.5</u>	<u>11.2</u>	<u>-4.7</u>	<u>12.8</u>	<u>-2.0</u>	<u>13.6</u>
A. Credits to enterprises and individuals	3.3	9.2	-0.6	4.4	2.0	3.5
B. Claims on Treasury	-1.0	5.1	2.9	3.0	-2.2	4.9
C. Other domestic claims ^{3/}	0	1.6	-1.5	1.1	0.6	0.6
D. Net foreign assets	-2.5	-1.5	-0.5	0.3	2.1	7.2
E. Quasi-money (-=increase)	-2.0	-2.6	-4.3	2.0	-2.7	-1.1
F. Other (net)	-2.3	0.6	-0.7	2.0	-1.8	-1.5

^{1/} Based on the assets and liabilities of the National Bank of Belgium, the commercial banks, and the Postal Checking Office; the Treasury currency issue; and on certain assets and liabilities of the Institut de Réécompte et de Garantie and of two public credit organizations which accept demand deposits.

^{2/} Currency, demand deposits, and deposits up to 1 month. Postal Checking accounts comprise more than one-fourth of the deposits.

^{3/} On local authorities and non-monetary financial intermediaries.

Sources: National Bank of Belgium; IMF for seasonally-adjusted money supply.

requirement, effective in August, initially for three months. This requirement was renewed for three months in November, and for an additional two months in February.

The cash reserve requirement has been only 1 per cent of total demand and time deposits, and locked up only BF 1.2 billion of reserves. But it has had a strong psychological effect, partly because of the knowledge that the monetary authorities have the power to raise the requirement to as much as 20 per cent of sight and one-month deposits and 7 per cent of other time deposits.

The National Bank is continuing to request the banks to keep the rise in their credits to 11 per cent or less for 1965. This recommended limit is slightly higher than the 10 per cent maximum in 1964 which the National Bank had suggested in January of 1964, but is less than the 13.2 per cent increase which actually occurred in 1964.

One easing measure has been taken recently, however, to favor the depressed textile industry. One of the restrictive steps of July 1964 was a shortening by the National Bank of the maximum duration of credits it was willing to refinance by rediscounting. This action was relaxed in January 1965 so that hard-pressed industries--for practical purposes, the textile industry--could enjoy as favorable rediscount regulations as before.

Treasury operations help ease inflationary pressures

The cash operations of the Belgian Treasury in the months July-November continued to show a reduced deficit, in response to efforts to restrain public expenditures, and the rise in the public

debt was again smaller than a year earlier. These results helped to mitigate pressures on prices and interest rates.

The gross deficit, i.e., inclusive of redemptions of long-term debt, in July-November was BF 5 billion less than in the same period of 1963; this reduction followed a BF 4.5 million year-to-year drop in first half. (See Table 6.) Budgetary receipts continued to run ahead of 1963 because of higher levels of both economic activity and prices, while ordinary budget expenditures showed little increase. The decision taken early in 1964 to restrain extraordinary (investment) expenditures in order to dampen inflationary pressures showed results in July-November, when these outlays dropped below the year-ago level; net extrabudgetary disbursements were also less than in 1963, when the Fonds des Routes (Road Fund) required advances to repair damage caused by the severe winter.

The net deficit (i.e., exclusive of debt redemption), as indicated by the increase in the public debt (at nominal values) and certain miscellaneous financing, also continued to run below 1963. There was almost no further rise in the medium- and short-term foreign currency debt placed with foreign banking institutions or with Belgian banks (which have borrowed abroad in the past to finance at least part of their purchases of this debt). Net new foreign-currency borrowings were reduced from BF 9.4 billion in 1963 to BF 1.7 billion in 1964. (See Table 7.) At the same time, the rise in total claims on the Treasury held by the Belgian monetary institutions (including the Postal Checking Office, whose deposit liabilities make up more than one-fourth of the deposits included

Table 6. Belgium: Treasury Operations, 1963-64
(in billions of Belgian francs)

	<u>First Half</u>		<u>July-Nov.</u>	
	<u>1963</u>	<u>1964</u>	<u>1963</u>	<u>1964</u>
I. <u>Receipts and Expenditures</u>				
A. Budget receipts	64.0	75.3	62.4	66.8
B. Budget expenditures:				
Ordinary ^{1/}	-73.4	-81.7	-55.2	-57.4
Extraordinary	- 9.2	-11.5	-10.9	- 9.6
C. Net extrabudgetary operations	- <u>2.2</u>	+ <u>1.6</u>	- <u>4.0</u>	- <u>2.2</u>
D. Over-all gross deficit ^{1/}	- <u>20.8</u>	- <u>16.3</u>	- <u>7.7</u>	- <u>2.7</u>
II. <u>Net Deficit Given by III</u>	- <u>15.7</u>	- <u>9.9</u>	- <u>4.4</u>	- <u>2.6</u>
III. <u>Deficit Financing</u>	<u>15.7</u>	<u>9.9</u>	<u>4.4</u>	<u>2.6</u>
A. Miscellaneous operations ^{2/}	0.6	1.5	0.7	1.2
B. Public debt increase ^{3/}	15.1	8.4	3.7	1.4
1. In Belgian francs:				
a. Long-term	2.4	13.8	8.3	4.5
b. Medium- and short-term	6.3	- 7.2	- 7.2	- 3.3
2. In foreign currencies:				
a. Long-term	- 0.5	- 0.5	- 0.4	- 0.5
b. Medium- and short-term	6.7	2.3	3.1	0.7
IV. <u>Debt Redemption and Accounting Differences (II - ID) ^{4/}</u>	5.1	6.4	3.3	0.1

^{1/} Including long-term debt redemption.

^{2/} Including changes in cash balances.

^{3/} At nominal values.

^{4/} One of the accounting differences derives from the fact that the change in the public debt is shown at nominal values, whereas the gross deficit reflects the prices at which new issues are sold and maturing issues are redeemed.

Source: Ministry of Finance, Bulletin de Documentation.

Table 7. Belgium: Treasury Statistics, 1962-64
(In billions of Belgian francs)

	1963					
	1962 Dec.	June		Dec.	1964	
		Old Series	New Series		June	Dec. ^{1/}
<u>Foreign Currency Debt</u>	<u>37.1</u>	<u>43.3</u>	<u>43.3</u>	<u>46.5</u>	<u>48.3</u>	<u>48.2</u>
Long-term (over 5 yrs.)	19.5	19.0	19.0	18.4	17.9	17.2
Medium-term (1 to 5 yrs)	4.8	7.3	7.3	9.5	11.8	12.1
Short-term	12.8	17.0	17.0	18.6	18.6	18.9
<u>Monetary Institutions'</u>						
<u> Claims on the Treasury</u>	<u>149.0</u>	<u>164.5</u>	<u>167.6</u>	<u>171.7</u>	<u>177.6</u>	<u>180.3</u>
A. <u>National Bank:</u>						
1. Up to 1 yr. ^{2/}	5.2	9.9	9.9	9.3	9.8	9.8
2. Over 1 yr. ^{3/}	36.3	36.3	36.3	36.3	36.4	36.4
B. <u>Commercial banks:</u>						
1. Up to 1 yr.	14.4	22.1	22.1	22.4	25.9	24.0
2. Over 1 yr.	50.4	49.5	52.5	53.6	54.5	55.5
C. <u>Other Institutions:</u>						
1. Up to 1 yr. ^{4/}	37.5	41.2	41.2	44.3	42.9	48.9
2. Over 1 yr.	5.3	5.5	5.6	5.7	5.8	5.7

^{1/} Provisional.

^{2/} This debt is limited by statute to BF 10 billion.

^{3/} Of these amounts, BF 34.0 billion are a consolidation of World War II advances.

^{4/} Largely held by the Postal Checking Office.

Source: National Bank of Belgium.

in the money supply) declined from BF 19.6 billion in 1963 to BF 8.6 billion in 1964.^{1/}

The Finance Ministry has indicated that it hopes to reduce the budget deficit again in 1965 by restraining outlays, although the anticipated cut would be less than in 1964. The proposed budget for 1965 shows a gross deficit of BF 17 billion compared with a probable BF 18.9 billion deficit on authorized expenditures and assessed revenues in 1964.

Foreign exchange inflow accelerates rise in money supply

The rise in the money supply tapered off in the third quarter but, because of heavy accruals of foreign exchange, accelerated sharply in the fourth quarter.

Credit extension in favor of the private sector was at a reduced rate during the last half of the year; there was also a continuing reduction in the rate of Treasury borrowing from the monetary institutions (whose claims on the Treasury rose only BF 2.7 billion, compared with BF 4.1 billion a year earlier) as continued progress was achieved in cutting the Treasury cash deficit. The rise in the money supply at a seasonally-adjusted annual rate dropped from 10.4 per cent in the second quarter to 4.8 per cent in the third. (See Table 5.)

But the net foreign assets of the monetary institutions, which were little changed in the first half of the year, began to increase rapidly late in the third quarter, and rose BF 7.2 billion (almost \$190 million) in the last quarter. As a result, the money

^{1/} These two series overlap in that part of the commercial banks' total claims comprises foreign-currency debt.

supply increased at a seasonally-adjusted annual rate of 12.4 per cent in the October-December period.

National Bank accommodation declines

For the first time in several years, the volume of National Bank of Belgium rediscounts and advances has declined sharply, as a result of the effects on bank liquidity of the big rise in the National Bank's international reserves in late 1964. The increase in the discount rate in July and the stiffening of the eligibility rules for rediscounting also tended to affect the volume of central bank accommodation.

National Bank rediscounts and advances registered a very large increase in the three years up to September 1964, rising from BF 1.90 billion on September 4, 1961 to BF 13.38 billion on September 7, 1964. (See Table 8.) The need for this increasing accommodation arose mainly from the fact that the additions to the National Bank's net foreign assets--the major source of commercial bank reserves other than National Bank lending itself--fell far short of the rise in the note circulation, which was the principal drain on bank liquidity.^{1/} In this three-year period, the rise in the note circulation exceeded the increase in external reserves by BF 14.3 billion. However, in the four months from September 7, 1964 to January 4, 1965, the increase in external reserves exceeded the rise in the note circulation, by BF 6.8 billion, thereby allowing a contraction of

^{1/} Fluctuations in National Bank lending to the Treasury scarcely affect commercial bank reserves because such lending is always very near the legal limit. The banks had no cash reserve requirement until August 1964 and only a 1 per cent requirement thereafter.

BF 7.5 billion in National Bank rediscounts and advances; the latter remained at reduced levels during the first quarter.

Table 8. National Bank of Belgium: Selected Accounts
(in billions of Belgian francs)

	<u>Rediscounts and Advances</u>	<u>Note Liability</u>	<u>Net Foreign Assets</u>
1961 - Sept. 4	1.90	125.4	84.1
1963 - Sept. 2	6.96	147.3	96.4
1964 - Jan. 6	9.61	149.7	98.6
Apr. 6	8.94	148.8	98.5
Sept. 7	13.38	155.0	99.4
1965 - Jan. 4	5.89	160.2	111.4
Apr. 5	6.17	155.7	110.8

Source: National Bank of Belgium, weekly balance sheet.

Imports decline and trade balance improves

The recent decline in imports provides additional evidence of the easing of demand pressures since last summer. Seasonally-adjusted imports rose very rapidly during the first half of last year, and in the second quarter were up 14 per cent from the last quarter of 1963. Over the final six months of 1964, the tendency was slightly downward, the decline from the second to the fourth quarters amounting to nearly 2 per cent. (See Table 9.)

Exports weakened somewhat in early 1964 but began to pick up again in the third quarter and rose rapidly in the last three months, when they averaged 9 per cent above the second quarter. The seasonally-adjusted trade deficit, which averaged \$46 million monthly in the second quarter, declined to \$30 million in July-September, and was replaced by a small surplus in October-December.

Table 9. Belgium-Luxembourg: Seasonally-Adjusted Foreign Trade, 1963-64
(in millions of dollars; monthly average or month)

	<u>Imports c.i.f.</u>	<u>Exports</u>	<u>Balance</u>
1963 - Quarter I	374	363	-11
II	407	405	- 2
III	421	426	+ 5
IV	437	425	-12
1964 - Quarter I	470	456	-14
II	498	452	-46
III	490	460	-30
Quarter IV	490	493	+ 3
June	506	464	-42
September	500	475	-25
October	474	481	+ 7
November	501	501	0
December	494	498	+ 4

Source: OECD.

Reserve gains taper off so far in 1965

From January through April 12, additions to the National Bank of Belgium's gold and foreign exchange holdings have been a relatively modest \$17 million. Previously, over the last half of 1964, an improved trade balance and capital inflows generated very large reserve gains which, together with a rise in the Belgian IMF position, totalled \$242 million.

Belgium's balance of payments (as measured by the change in the net foreign assets of the National Bank, the commercial banks, and other monetary institutions) was in equilibrium in the first half of 1964. (See Table 10.) A surplus of \$42 million emerged in the third quarter, which grew to \$144 million in the fourth.

Table 10. Belgium: Foreign Assets of the Monetary Institutions, 1962-65
(in millions of dollars)

		National Bank of Belgium			Other Institutions (net) ^{3/}	Total (net)
		Official reserves	IMF position	Other (net) ^{2/}		
1962 - December	31	1,662	131	67	-210	1,610
1963 - December	31	1,802	138	104	-466	1,578
1964 - June	30	1,789	161	114	-488	1,576
July	31	1,795	161	118	n.a.	n.a.
August	31	1,816	161	71	n.a.	n.a.
September	30	1,835	161	108	-486	1,618
October	31	1,870	161	107	n.a.	n.a.
November	30	1,953	161	48	n.a.	n.a.
December	31	1,991	201	104	-534	1,762
1965- January	31	1,999	201	54	n.a.	n.a.
February	28	2,008	201	23	n.a.	n.a.
March	29	1,990	n.a.	n.a.	n.a.	n.a.
April	12	2,008	n.a.	n.a.	n.a.	n.a.

^{1/} Gold tranche and lendings.

^{2/} Including, since May 1963, \$30 million of U.S. Treasury bonds payable in Belgian francs.

^{3/} Principally commercial banks, which had net liabilities of \$482 million on December 31, 1964.

Sources: National Bank of Belgium and IMF.

Table 11. Belgium: Foreign Trade (unadjusted), 1963-64
(in millions of dollars)

<u>Quarterly totals</u>		<u>Imports</u> c. i. f.	<u>Exports</u>	<u>Balance</u>
1963	I	1,164	1,086	-78
	II	1,272	1,236	-36
	III	1,260	1,194	-66
	IV	1,416	1,320	-96
1964	I	1,458	1,368	-90
	II	1,518	1,398	-120
	III	1,398	1,308	-90
	IV	1,530	1,512	-18

Source: National Bank of Belgium.

Official reserve gains averaged \$20 million per month in July-October and swelled to \$83 million in November. The rise in December was \$38 million, but would have been \$78 million in the absence of the United Kingdom's drawing of \$40 million equivalent of Belgian francs from the IMF, including \$30 million under the General Arrangements to Borrow. The fourth-quarter gains in National Bank reserves were augmented by a \$48 million increase in the net foreign liabilities of the commercial banks and other monetary institutions.

There were two main reasons for the second-half external surpluses. First, the unadjusted trade deficit (as measured by customs returns), which averaged \$105 million per quarter in the first half, narrowed in the third quarter and contracted severely to only \$18 million in the final three months (compared with \$96 million in the last quarter of 1963). (See Table 11.) As noted earlier, seasonally adjusted imports declined slightly while exports grew rapidly over the last half of the year.

Secondly, the external surplus also reflected inflows of capital, notably in the last quarter; and these inflows, according to a brief reference in the Annual Report of the National Bank of Belgium for 1964, reflected two developments--the late-1964 sterling crisis, and the need to repatriate funds from abroad to meet the liquidity requirements of Belgian business enterprises.^{1/} The Bank's Report does not say so explicitly, but it is clear that the repatriation of funds for liquidity purposes was closely linked to

^{1/} As is customary, the Report was issued in January, and developments beyond the third quarter could be discussed only summarily.

the tightening of credit availabilities introduced last July. The Report states that one form taken by the fourth-quarter capital inflows (whatever their causes) was a shift in leads and lags in current payments, especially a speeding up of the repatriation of foreign exchange earnings.

Interest rates dip in early 1965

The rise in Belgian interest rates which began at the start of 1963 continued through the end of 1964, but early this year rates fell slightly. At the end of December, increases in short-term rates over the preceding 24 months ranged from 1.75 percentage points on 3-month Treasury certificates to 2.20 percentage points on 12-month certificates. Long-term bond yields advanced 60 to 70 basis points over the same period. (See Table 12.)

However, the rate of rise slowed considerably in the last nine months of 1964. From March to December, the rate on 3-month certificates rose 0.5 percentage points compared with 1.25 percentage points in the previous 15 months, and most bond yields rose only 12 to 14 basis points. One reason for the slower rise was the reduced Treasury deficit which moderated the increase in the public debt. In addition, the rise in bond yields in 1963 was much influenced by the large increases in yields which the Treasury was forced to grant on its new issues because of the 1962 fiscal reform. By early 1964 this adjustment was completed, and no significant change in yields on new Treasury bond issues has occurred since February 1964.

Table 12. Belgium: Selected Interest Rates, 1962-65
(end of month)

	1962	1964			1965		
	<u>Dec.</u>	<u>Mar.</u>	<u>June</u>	<u>Sept.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>
<u>Treasury Certificates</u>							
3-month	3.00	4.25	4.30	4.50	4.75	4.70	4.65
4-month	3.30	4.75	4.80	5.00	5.25	5.20	5.10
6-month	3.35	4.90	4.95	5.15	5.40	5.40	5.35
9-month	3.40	5.00	5.00	5.30	5.55	5.55	5.50
12-month	3.45	5.05	5.10	5.40	5.65	5.65	5.55
<u>Bonds (5 to 20 yrs. to maturity)</u>							
<u>A. Issued before 12/1/62</u>							
1. Government	4.96	5.50	5.62	5.68	5.62	5.60	5.53
2. Municipal and parastatal	5.02	5.47	5.53	5.56	5.60	5.60	5.57
<u>B. Issued after 12/1/62^{1/}</u>							
1. Government	n.a.	^{2/} 6.45	6.42	6.45	6.43	6.46	6.40
2. Municipal and parastatal	n.a.	6.41	6.52	6.54	6.55	6.55	6.51

^{1/} These issues bear higher yields because the fiscal reform of December 1962 taxes the interest more heavily than on the older bonds.

^{2/} End of April.

Source: National Bank of Belgium.

For the first time in over two years, rates on Treasury certificates moved down in January-February, the reductions ranging from 5 to 15 basis points. Bond yields also fell by 3 to 9 basis points. These declines may reflect increased bank liquidity deriving from the large foreign exchange inflow late last year.