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April 27, 1966

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Recent Economic Developments in Belgium:
October 1965 to March 1966

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Summary

Unexpectedly heavy budget expenditures in the closing months of 1965 led to important economic and political changes in Belgium, including a sharp hike in taxes and a change of government. Monetary policy, which had been eased in mid-1965, was not made more restrictive, despite the increased budget deficit, but small increases in interest rates were permitted and occurred.^{1/} Private demand, already at a high level in relation to supplies, grew very slowly in most of 1965. However, the pace did pick up late in the year.

This revival of aggregate demand spurred increases in production, but also brought to an end a year of stability in wholesale prices. Belgium's balance of payments surplus in 1965 exceeded \$100 million, despite a shift from capital inflow to outflow. There was a sharp expansion in exports in the last months of 1965, including further gains in sales to the U.S.

Budget expenditure authorizations in 1965 were 16 per cent higher than in 1964, a development which was in great part unexpected and which required the voting of very large supplemental authorizations in the final weeks of the year. Nearly all types of current expenditures soared last year, but notably big increases occurred in government contributions to health insurance and other social welfare schemes. The 1966 budget calls for more modest expenditure increases, but the government felt that the budget deficit would jeopardize stability. Therefore, taxes have been increased to add an additional 7-1/2 per cent to 1966 revenues; total tax proceeds in 1966 will rise 15 per cent.

^{1/} For earlier developments, see Economic Developments in Belgium in 1965, November 9, 1965.

After the 1966 budget had been drawn up, fiscal issues led to a change of government in Belgium. Disagreements over methods of financing the health insurance program led the Socialist Party to terminate its cooperation with the Social Christian (i.e., Catholic) Party in February, and the coalition government formed by these two parties resigned. The new government formed in March finds a new type of coalition in which the Social Christians--a center party--are now allied with the Liberals, who are on the right of the political spectrum. A committee of experts headed by Governor Ansiaux of the National Bank of Belgium issued a report in February stating that measures to slow down the upward trend of government expenditures were urgently required. Mr. Vanden Boeynants, the new Prime Minister, has said he is determined to hold the rise in 1967 expenditures to 5 per cent.

The monetary impact of the 1965 budget deterioration was limited because of lags in actual cash disbursements and because most of the rise in the deficit was financed by placing larger amounts of debt with non-bank investors. This, and the sluggish growth in private spending, explain the absence of any monetary tightening in recent months. However, the pace of demand has picked up following protracted stagnation. Imports rose rapidly after mid-1965 and industrial production recorded a broadly-based rise of almost 4 per cent from the third quarter to December. But in this same period wholesale prices, which had stabilized in the autumn of 1964, advanced almost 2-1/2 per cent. Another sign of quickening demand was a more rapid expansion of bank credit in the second half of the year. Reflecting in part this increasing private demand for funds, rates on Treasury certificates in February were 5 to 15 basis points higher than in

October. The 6.57 per cent composite yield on fully-taxable long-term public sector bonds at the beginning of March was almost 20 basis points higher than the yield last August.

Belgium's balance of payments surplus fell from \$212 million in 1964 to an estimated \$136 million in 1965, even though the trade balance (customs data, imports c.i.f.) shifted favorably by \$360 million. Official capital shifted from net inflow to net outflow, and the private capital inflow was reduced. The striking improvement in the annual trade balance figures was not caused by developments in 1965 but by the stagnation of imports, and an export surge, in the second half of 1964. Both imports and exports were increasing rapidly in the closing months of last year.

Budget expenditures rose 16 per cent in 1965

In the closing weeks of 1965, the Belgian government obtained exceptionally large supplementary budget expenditure authorizations from Parliament amounting to almost 13 per cent of the authorizations initially asked earlier in the year. With the addition of these supplements, expenditure authorizations for 1965 were 16.3 per cent more than in 1964. (See Table 1.) This increase was the largest in at least 10 years, and exceeded by a wide margin the average increase of 10 per cent a year for the period 1954-64. Budget figures for those years are shown in Table 2.

Substantial underestimation of budget expenditures has been a continuing feature of the Belgian public finances for a long time, partly because, until this year, cost-of-living increases in government salaries and pensions were not provided for in the initial estimates. Since mid-1963, the cost of living has been rising about 4 per cent a year. Supplementary authorizations raised outlays by 4-1/2 to 5 per cent in 1963

and 1964. The much greater 1965 supplements, coming to nearly 13 per cent, were also in part necessitated by rising prices. Cost-of-living salary and pension increases, and the higher costs of government purchases, accounted for BF 4 to 5 billion of a total of BF 20.3 billion of supplementary authorizations. But the balance, amounting to BF 16 to 17 billion, was caused by 1) new spending programs; and 2) underestimation of the rapid rise in the costs of various social welfare programs and the program to readjust salaries of government workers.

Table 1. Belgium: Central Government Budgets, 1964-66
(in billions of Belgian francs)

	<u>1 9 6 4</u>		<u>1 9 6 5</u>		<u>1966</u>
	<u>Est.</u>	<u>Actual</u>	<u>Est.</u>	<u>Prob.</u>	<u>Est.</u>
<u>I. Ordinary (current) budget</u>					
Receipts	148.8	158.1	164.5	170.2	197.1
Expenditures <u>1/</u>	<u>148.7</u>	<u>155.4</u>	<u>161.9</u>	<u>182.7</u>	<u>200.3</u>
Balance <u>1/</u>	+0.1	+2.6	+2.6	-12.5	-3.2
<u>II. Extra-ordinary (capital) budget</u>					
Receipts	0.6	0.4	0.6	0.6	0.3
Expenditures	<u>19.4</u>	<u>25.0</u>	<u>20.1</u>	<u>27.4</u>	<u>27.4</u>
Balance	-18.8	-24.6	-19.5	-26.8	-27.1
<u>III. Total budget</u>					
Receipts	149.3	158.5	165.1	170.8	197.4
Expenditures <u>1/</u>	<u>168.1</u>	<u>180.5</u>	<u>182.0</u>	<u>210.1</u>	<u>227.7</u>
Balance <u>1/</u>	-18.8	-22.0	-16.9	-39.3	-30.3

1/ Including contractual debt repayments of BF 13.2 billion in 1965 and BF 14.5 billion in 1966.

Source: Ministry of Finance and National Bank of Belgium.

An upsurge in current expenditures, especially of the welfare variety, was responsible for the exceptional size of the increase in total expenditure authorizations in 1965. Budgetary contributions to the health insurance scheme rose 33 per cent, on the heels of a still larger

Table 2. Belgium: Central Government Budgets, 1954-66
(in billions of Belgian francs)

<u>Fiscal year 1/</u>	<u>Expenditures</u>	<u>Receipts</u>	<u>Balance</u>	<u>% increase in expenditures</u>
1954	96.4	78.0	-18.5	
1955	95.3	82.4	-12.9	-1.1
1956	96.6	90.8	- 5.8	1.4
1957	111.8	100.8	-11.0	15.7
1958	118.5	95.7	-22.9	6.0
1959	135.3	105.4	-29.9	14.2
1960	145.4	110.2	-35.2	7.5
1961	141.7	121.1	-20.6	-2.5
1962	151.9	133.0	-19.0	7.2
1963	170.2	142.2	-28.0	12.0
1964	180.5	158.5	-22.0	6.1
1965	210.1	170.8	-39.3	16.3
1966	227.7	197.4	-30.3	8.4

1/ Final results for 1954-64; probable results for 1965; initial estimates for 1966.

Sources: Ministry of Finance and National Bank of Belgium.

46 per cent rise in 1964. (See Table 3.) Other social welfare outlays were up 28 per cent. Wages and salaries of government employees rose 14 per cent (following a 12 per cent rise in 1964), while pensions of civil servants and military personnel advanced 15 per cent. Almost all other categories of current payments also rose rapidly in 1965, and as a result total current expenditures increased 17-1/2 per cent in 1965 compared with 5 per cent in 1964.

Table 3. Belgium: Budget Expenditures by Type, 1963-66
(in billions of Belgian francs)

	Amount				Per cent increase		
	1963	1964	1965	1966	1964	1965	1966
Wages and salaries	29.4	32.9	37.6	39.8	11.9	14.3	5.9
Pensions of gov't employees	6.2	6.7	7.7	8.1	8.3	15.1	5.0
War pensions	4.3	4.4	4.7	5.1	1.6	7.9	8.2
Social welfare:							
Old age pensions	9.4	10.1	11.3	11.0	7.7	11.6	- 2.2
Health insurance benefits	4.9	7.3	9.7	11.7	46.6	33.2	20.6
Other social welfare	7.9	7.2	9.2	8.9	- 8.9	28.1	- 3.9
Subsidies to local gov'ts	9.5	9.8	10.8	11.6	3.0	10.1	8.1
Subsidy to nat'l R.R.'s	4.2	4.2	6.1	5.3	---	48.0	-14.1
Other current transfers	22.4	24.0	28.3	32.5	7.1	17.9	14.8
Purchase of goods and services	8.4	10.1	12.1	13.1	6.3	19.3	8.0
Public debt	26.0	28.2	32.5	34.6	8.7	15.2	6.4
Contingency fund	---	---	---	6.3	---	---	---
Miscellaneous	12.1	10.2	12.2	11.7	-15.7	19.6	- 4.1
Total current expenditures	148.0	155.4	182.7	200.3	5.0	17.6	9.6
Direct investments and capital transfers	22.2	25.0	27.4	27.4	12.7	9.6	---
Total expenditures	170.2	180.5	210.1	227.7	6.0	16.4	8.4

Source: National Bank of Belgium.

The budget deficit rose abruptly from BF 22.0 billion in 1964 to BF 39.3 billion in 1965, including BF 13.2 billion of debt redemption. Such a development had not been expected; in fact, the initial budget estimates had even shown a smaller deficit in 1965 than the year before. Taxes might have been increased to hold down the 1965 deficit, but the government did not seek new taxes for two reasons. First, most of the rise in the deficit was caused by expenditures which were not voted until late in the year. As a result, and also because of lags, actual cash disbursements rose much less than did authorizations, and the Treasury

cash deficit was a good deal smaller than the budget deficit. Second, the increases which did occur in cash outlays and in the cash deficit were not detrimental to price stability. Private investment spending was apparently declining during much of 1965, thereby allowing a shift of resources to the public sector. In addition, the increased deficit was financed largely by increased sales of debt to nonbanking institutions.

Tax increases in 1966 will add 7 per cent to revenues

The government submitted a budget for 1966 in which expenditures are 25 per cent greater than the initial expenditure estimates for last year, and 8.4 per cent more than the actual 1965 authorizations. (See Table 1.) The authorities have maintained that the 1966 budget is an "honest" budget, in which the year's expenditures have been estimated realistically, and that supplementary authorizations will therefore be minimal. The expenditures include a "contingency fund" of BF 6.3 billion, most of which is expected to be used for salary and pension increases linked to the rising cost of living and the salary readjustment program. Almost all major category of expenditures show much more modest increases than in 1964; however, comparisons by category cannot be precise because the "contingency fund" will be reallocated as needed.

A big increase in taxes was required for 1966, even though the planned rate of expenditure increase is only one-half as much as the 1965 rate turned out to be. The deficit was already very large in 1965. Furthermore, in the absence of a tax increase, receipts in 1966 could be expected to rise less (7.7 per cent) than expenditures, so that the deficit would consequently widen further, from BF 39.3 to BF 44 billion. The government did not believe that a deficit of such magnitude could be

financed without endangering monetary stability, particularly in view of the likelihood that private spending would be more vigorous in 1966. New taxes were asked, and were voted in Parliament, which are expected to bring receipts to a level 7-1/2 per cent higher than would be the case without them. Given these increases in both the tax base and tax rates, receipts in 1966 are scheduled to go up by 15-1/2 per cent. The deficit is expected to drop from BF 39.3 to BF 30.3 billion including BF 14.5 billion of debt repayments. Receipts yielded by the tax rate increases may come to BF 13.7 billion. Of this total, BF 9.4 billion will be related to a rise in the rate of the turnover tax, generally from 6 to 7 per cent. An additional BF 3.6 billion will come from higher excise taxes on petroleum products.

Monetary tightening has not been necessary

In July 1965, the National Bank of Belgium eased monetary policy modestly by suspending the 1 per cent cash reserve requirement and the 10 per cent ceiling on annual bank credit expansion, both of which had been in force for about a year. This relaxation reflected the marked slowing of demand growth which had occurred over the previous nine months and which was ascribed in part to the earlier tightening of credit. Since last summer, no alteration of Belgium's monetary "posture" appears to have taken place despite the emergence of the large budget deficit. One reason for the absence of any tightening measures has been the tempered pace of private domestic spending, although an upturn seems definitely to have occurred since last summer. Moreover, the budget deficit had a limited monetary impact, because of expenditure lags and the Treasury's ability to place large amounts of debt with non-bank investors.

On a cash basis, the 1965 budget out-turn showed considerably less deterioration than did the budget of authorizations and assessments. For the eleven months January-November, cash disbursements were up 12 per cent from a year earlier, compared with the much larger 16 per cent increase in expenditure on an authorizations basis (for the full years 1964 and 1965). At the same time, cash receipts advanced 9 per cent, or more rapidly than the 8 per cent rise in revenue assessments. (See Table 4.) Because of these differentials, the gross budget deficit rose only BF 7.5 billion on a cash basis (to BF 25.9 billion for January-November), which was much less than the rise of BF 17.3 billion in the budget of authorizations and assessments (to BF 39.3 billion for the full year 1965).

Table 4. Belgium: Treasury Operations, 1964-65
(in billions of Belgian francs)

	<u>First 11 months</u>	
	<u>1964</u>	<u>1965</u>
<u>I. Receipts and expenditures</u>		
A. Budget receipts	142.1	154.7
B. Budget expenditures <u>1/</u>	-160.5	-180.6
C. Extrabudgetary operations	<u>- 6.5</u>	<u>- 5.7</u>
D. Gross deficit <u>1/</u>	- 24.9	- 31.6
E. Debt redemption and accounting differences	12.4	6.0
F. Net deficit (D - E)	- 12.5	- 25.6
<u>II. Deficit financing</u>	<u>12.5</u>	<u>25.6</u>
A. Cash balances and miscellaneous	2.7	1.4
B. Public debt increase:	9.8	24.2
1. Debt in foreign currencies	2.0	- 2.8
2. Debt in Belgian francs		
a) Long-term (over 5 years)	18.3	17.6
b) Medium-term (1-5 years)	- 7.4	0.2
c) Short-term (up to 1 yr)	- 3.1	9.2
I) Postal checking accounts	- 1.8	- 4.2
II) Other	- 1.3	13.4

1/ Including debt redemption.

Source: Ministry of Finance.

Treasury recourse to the Belgian banking system increased only moderately last year, even though the direct public debt increased by BF 23.5 billion in 1965 (compared with a BF 12.2 billion increase in 1964). The banking system's claims on the Treasury rose only BF 8 billion; institutional, corporate and individual investors thus took up the remainder, or two-thirds of the total debt increase. The rise in Treasury indebtedness to the banking system was not much greater than it was in 1964. Net issues of long-term debt in Belgian francs were approximately equal to the year before, and they accounted for over two-thirds of the total debt increase; the higher borrowing needs were reflected instead in stability of the medium-term debt (vs. a decline in 1964) and a larger rise in the short-term debt than the year before. The Treasury's foreign-currency debt dipped slightly last year.

There was a notable pick-up in the expansion of bank credit in the second half of 1965, particularly in the fourth quarter. The Belgian banks' outstanding loans to enterprises, individuals, and non-bank financial intermediaries rose 3.7 and 4.9 per cent, respectively, in the third and fourth quarters of last year, increases substantially in excess of those of 3.0 and 3.1 per cent in the comparable quarters of 1964. (See Table 5.) The aforementioned easing of credit last summer was probably a permissive factor in this pick-up. In addition, the National Bank of Belgium noted a considerable strengthening of loan demand in the closing months of the year.

Table 5. Belgium: Selected Monetary Statistics, 1964-65^{1/}
(in billions of Belgian francs)

	1 9 6 4		1 9 6 5			
	III	IV	I	II	III	IV
I. Outstanding (end of period)						
A. Money and quasi-money	354.2	368.9	369.3	386.8	386.6	401.8
1. Money ^{2/}	285.1	298.7	294.2	310.6	307.9	320.0
2. Quasi-money ^{3/}	69.1	70.2	75.1	76.2	78.7	81.8
B. Counterparts:						
1. Net foreign assets	81.0	88.0	87.0	92.4	90.4	94.8
2. Claims on central gov't	176.0	180.1	179.6	186.0	189.9	194.8
3. Claims on enterprises, individuals, and nonmonetary financial intermediaries	106.8	110.1	111.9	115.0	119.2	125.1
4. Miscellaneous (net)	-9.6	-9.3	-9.2	-6.6	-12.9	-12.9
II. Percentage increase in period						
A. Money and quasi-money	0.2	4.2	0.1	4.7	-0.1	3.9
1. Money	-0.7	4.8	-1.5	5.6	-0.9	3.9
2. Quasi-money	4.1	1.6	7.0	1.5	3.3	3.9
B. Counterparts:						
1. Net foreign assets	2.0	8.6	-1.1	6.2	-2.2	4.9
2. Claims on central gov't	-1.1	2.3	-0.3	3.6	2.1	2.6
3. Claims on enterprises, individuals, and nonmonetary financial intermediaries	3.0	3.1	1.6	2.8	3.7	4.9

^{1/} Based on the assets and liabilities of the National Bank of Belgium, the commercial banks, the Postal Checking Office, and in very limited degree certain other institutions.

^{2/} Currency and demand deposits.

^{3/} Time deposits, and foreign-currency deposits, with commercial banks. (Time deposits with savings banks are not included.)

Source: National Bank of Belgium

The monetary effect of Belgium's external transactions continued to be expansionary, on balance, during the second half of 1965. Although the third quarter saw a BF 2.0 billion reduction in the net foreign assets of the Belgian monetary institutions, this was over-shadowed by a BF 4.4 billion increase in the fourth quarter. For the year 1965 as a whole, the

balance of payments surplus contributed BF 6.8 billion, or 21 per cent, of the increase in the supply of money and quasi-money (currency, demand deposits and time deposits). This was the second successive year in which external transactions were a major factor in the monetary expansion.

Recent changes in the money supply in Belgium have not marked any trend. In the eight quarters of 1964 and 1965, the seasonally-adjusted annual rates of increase have been as follows:

	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
1964	0	10.4	4.8	12.4
1965	0.8	14.0	4.0	9.2

Since last October there has been some rise in Belgian interest rates. In the money market, the average yield at the weekly auctions of 4-month Treasury certificates rose from 4.95 per cent in October to 5.01 per cent in February; from October to early March, yields on Treasury certificates with maturities of 3 to 12 months increased by 5 to 15 basis points. In the past year, the fluctuations in short-term interest rates have been small, and the trend has been rather flat. Consequently, rates in early 1966 were little different from those of a year earlier.

In the bond market also, some stiffening of yields has occurred recently, following a dip in the summer. For example, the composite yield on Treasury and other public sector bonds which were issued after December 1, 1962, and which are therefore fully taxable, stood at 6.57 per cent at the beginning of March, compared with 6.38 per cent in August (start of month) and 6.41 per cent in September. In February the yields on various categories of long-term public sector bonds exceeded year-earlier yields by small

margins ranging from 9 to 15 basis points. In response to the recent rise in market yields, the Treasury has had to make the terms of its long-term borrowing more attractive. In February, it floated a BF 10 billion, 5-10 year issue at a yield of 6.55 per cent, compared with 6.39 per cent when it borrowed a similar amount, for 6 to 15 years, in October.

Economic activity picked up late in 1965

A definite quickening of the pace of Belgian economic activity has occurred since the third quarter of 1965. The authors of the National Bank of Belgium's annual report for 1965, which was published in January, did not possess data on business conditions beyond the third quarter, but they expressed the thought that the rise in the demand for bank credit visible in the late months of the year might well be a sign of more vigorous activity. Fourth-quarter movements of production, prices, and imports show that the Bank's surmise was correct, and the modest rise in interest rates mentioned above is probably a symptom of the pick-up. The presently available economic data generally do not go beyond last December, but in April the new Minister of Economic Affairs, Mr. Van Offelen, told Parliament that the general economic picture had improved further since the beginning of this year.

In the first three quarters of last year, aggregate demand in Belgium appears to have undergone very little, if any, increase. Seasonally-adjusted industrial production in the third quarter was no higher than in the last quarter of 1964; concurrently, consumer prices rose 3.1 per cent, but wholesale prices moved downward by 3/4 of 1 per cent. In this period, public consumption was rising rapidly, and exports were likewise exerting a

significant expansionary effect. But investment spending declined, while private consumption increased less rapidly than in 1964 and also less rapidly than personal income, according to the quarterly economic surveys of the EEC Commission.

Subsequently, industrial production rose in each of the four months September-December, reaching a level in December that was 3.8 per cent higher than the third quarter average. A new set of seasonally adjusted production series, published by the OECD, shows that this advance was broad: December output exceeded the third quarter average by 5.9 per cent for investment goods, 6.3 per cent for consumer durables, 7.6 per cent for consumer non-durables, and 4.8 per cent for intermediate goods. A sharp rise in exports of some 16 per cent from the third quarter to December was obviously of importance in this increase, but the degree to which the different categories of domestic spending entered into the picture is not known.

This upturn in demand brought to an end the stability of wholesale prices which Belgium had enjoyed for almost a full year. Wholesale prices of industrial goods rose almost 2-1/2 per cent from the third quarter (taken as a whole) to February. Particularly sharp increases occurred in the prices of minerals, textiles, and chemicals. The change in trend extended to finished goods as well as raw materials and semimanufactures.

Belgian consumer prices have continued to move up at a rate in excess of 4 per cent a year. The slowing of demand pressures in 1965 moderated the pace of the rise in prices of nonfood articles, bringing the year-to-year gain to 2.7 per cent as of March 1966, down from 4.7 per

cent as of March 1965. But the rise in prices of foodstuffs has been greater in the past year than in the year before, and in March these prices were 6 per cent above a year earlier.

Neither the earlier stagnation or recent upsurge in output has appreciably affected the level of unemployment, which has stayed at a very low level. The rise in average hourly earnings in manufacturing, mining, and transport seems, however, to have slowed down. The 2.7 per cent gain from June to December compares with 6.0 per cent in the same period of 1964. Mainly because of this difference, the rise during the full year (i.e., from December to December) fell off from 12.8 per cent in 1964 to 7.2 per cent in 1965.

Foreign trade volume rose rapidly in second half of 1965

Belgium's foreign trade increased very rapidly in the second half of 1965, as regards both imports and exports. Earlier, Belgian import growth had halted when internal demand lost vigor in 1964; seasonally-adjusted imports in the first quarter of 1965 were slightly below those of the second quarter of 1964. Imports began to rise again in the second quarter and their growth was rapid in the final nine months of 1965, when the quarterly increases came to 8, 2, and 5 per cent, respectively. (See Table 6.)

During the recent fluctuations in Belgian demand, imports have responded much earlier than over-all domestic production. In 1964, import growth slowed at mid-year, six months before the leveling out of industrial production; in 1965 the import revival preceded the production pick-up by nearly six months.

Table 6. Belgium-Luxembourg: Foreign Trade, 1964-65
(in millions of dollars; monthly average or month)

	<u>Imports c.i.f.</u>	<u>Exports</u>	<u>Balance</u>
<u>Quarters</u>			
1964 - I	474	450	-24
II	491	454	-37
III	490	461	-29
IV	493	497	4
1965 - I	481	523	42
II	519	501	-18
III	530	534	4
IV	558	569	11
<u>Months</u>			
1965 - July	524	519	- 5
August	507	515	8
September	559	569	10
October	536	514	-22
November	559	570	11
December	579	622	43

Source: OECD.

Exports failed to move upward in the first eight months of 1965; in July and August, exports were a shade under their levels of the first quarter. But subsequently they increased very fast, moving up 21 per cent in the four months September-December.

Although the Belgian trade balance deteriorated slightly during the course of 1965, the annual totals for the trade balance showed a big improvement over 1964 because of the earlier narrowing of the trade deficit that had occurred in 1964 and very early in 1965 when imports were feeling the effects of the slowing of internal demand. The customs data (imports valued c.i.f.) show a shift from a \$336 million trade deficit in 1964 to a \$24 million surplus in 1965. (See Table 7.)

Table 7. Belgium-Luxembourg: Balance of Payments Summary, 1964-65
(in millions of dollars)

	<u>1964</u>	<u>1965</u>
I. <u>Trade (customs basis)</u>		
Imports c.i.f.	5,928	6,360
Exports	<u>5,592</u>	<u>6,384</u>
Balance	- 336	24
II. Trade adjustments <u>1/</u>	374	n. a.
III. Trade balance (payments basis)	38	n. a.
IV. All other items	<u>174</u>	<u>n. a.</u>
V. Over-all balance (I through IV)	212	<u>2/</u> 136
VI. <u>Monetary movements (- = increase)</u>	<u>- 212</u>	<u>2/</u> - 136
A. National Bank of Belgium:	- 252	- 160
1. Gold	- 80	- 107
2. Foreign exchange	- 109	103
3. IMF position	- 63	- 108
4. Other foreign assets (net) <u>3/</u>	---	- 48
B. Other monetary institutions <u>4/</u>	76	24
C. Adjustments for duplications <u>5/</u>	- 36	n. a.

1/ The adjustments 1) convert from a customs to a payments basis and 2) convert from a c.i.f. to a "part c.i.f. and part f.o.b. basis."

2/ Estimate before adjustments for duplications.

3/ Mostly franc-denominated export acceptances.

4/ Mainly the commercial banks.

5/ The adjustments eliminate: 1) changes in Belgian banks' position vis-a-vis residents of Luxembourg, and 2) changes in Luxembourg banks' position vis-a-vis residents outside the Belgo-Luxembourg Economic Union.

Source: National Bank of Belgium.

Reduced external surplus in 1965 was still large

Belgium had a balance of payments surplus in 1965 which was less than the year before but which can be considered large for a country of Belgium's size. Nearly-complete figures for 1965 indicate a surplus of \$136 million (see Table 7), and it seems unlikely that the full data will

show a result significantly different from this one. Most of the annual surplus was concentrated in the first half of the year: a deficit of \$52 million in the third quarter was followed by a surplus of \$88 million (based on incomplete figures) in the fourth.

The 1965 surplus fell short of the 1964 surplus of \$212 million despite the very big favorable shift in the Belgian trade balance, because of a large swing in the capital account. In the first nine months, the Belgian government repaid \$98 million of foreign debts, in contrast to small net borrowings in the same period of 1964, and the local governments reduced their foreign borrowings. (See Table 8.) The private capital net inflow of \$48 million in January-September was less than half of the net inflow for the same months of 1964.

Table 8. Belgium-Luxembourg: Balance of Payments, January-September 1964-65
(in millions of dollars)

	<u>1964</u>	<u>1965</u>
I. Trade balance (payments basis)	- 42	126
II. Services	- 68	-36
III. Private transfers	42	48
IV. Public transfers	<u>- 36</u>	<u>-30</u>
Total current account	-104	108
V. Central government capital	12	-98
VI. Other government capital	24	6
VII. Private capital	<u>128</u>	<u>48</u>
Total capital movements	164	-44
VIII. Errors and omissions	<u>18</u>	<u>-18</u>
IX. Over-all balance	78	46

Source: National Bank of Belgium.

Selected foreign assets of the National Bank of Belgium underwent a slight decline in the early months of 1966. Gold, foreign exchange, and the Belgian IMF position totaled \$2,293 million on April 18, down \$11 million from the end of last December. However, it cannot be inferred that the Belgian balance of payments was in deficit in that period, because information is not yet available on changes in other National Bank foreign assets or the commercial banks' foreign position. Over short periods, the changes in these latter types of monetary movements tend to be as large as the changes in the sum of gold, foreign exchange, and IMF position.