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Recent Economic Developments in Belgium,
May to November 1963 11 pages

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Recent Economic Developments in Belgium, May to November, 1963

Summary

Strong consumer demand and a big increase in exports stimulated a marked upsurge in Belgian economic activity during the period under review. ^{1/} Bank credit expanded rapidly, interest rates climbed, and wage rates rose sharply as the labor market tightened. To moderate demand pressures, the National Bank of Belgium raised its discount rate (and other lending rates) by 1/2 of 1 per cent on July 18 and by 1/4 of 1 per cent on October 31. Funds flowed to Belgium following the second of these increases.

Industrial production (seasonally adjusted) responded to rising demand with its most rapid gain in two years, and in May-July was 6.2 per cent higher than in the last quarter of 1962. Consumer demand remained strong in the third quarter. Exports rose with extraordinary rapidity, so that their July-August average was 17 per cent above that for the final quarter of last year. Unemployment (seasonally adjusted) was still falling in July. Wage rates in industry rose 3.8 per cent in the second quarter and in June were up 7.1 per cent over a year earlier.

In the monetary field, Belgian banks increased credit to private borrowers by 6.7 per cent in the second quarter, and the further credit expansion in July-October contributed to the decision to raise the discount rate again at the end of October. The money supply in June was up more than 7 per cent over last December. Short-term interest rates rose about 1/2 of 1 per cent from March to September.

^{1/} Earlier developments in Belgium are reviewed in "Recent Economic Developments in Belgium, December 1962 to May 1963," dated June 11, 1963.

The balance of payments showed a surplus of \$32 million in the second quarter, down from \$52 million in the first. Official reserves were nearly unchanged in July-October, but rose \$36 million in the three weeks that followed the second discount rate increase.

The budget situation improved after April, but the Treasury's foreign-currency debt continued to rise. The Treasury's long-term bond issues have yielded disappointing results at least partly because of tax considerations.

Increasing demand sparks sharp rise in output

Since last winter, the Belgian economy has enjoyed its greatest surge of activity since early 1961. Total demand was stimulated by both large gains in exports and strong consumer demand that was aided by sizable wage increases. Production responded vigorously. Unemployment fell further and manpower shortages became more acute in several industries.

As the long hard winter relaxed its grip, seasonally adjusted industrial production rose 2.1 per cent in March, 4.8 per cent in April and 1.3 per cent in May. (See Table 1.) Following a 2.0 per cent drop in June, another rise of 4.0 per cent occurred in July. In the three months May-July, output was 6.2 per cent higher than in the final quarter of last year. Production data are not available beyond July. However, adjusted exports rose again in August, and, according to surveys by the Kredietbank, the rise in consumer demand did not falter in the third quarter.

Table 1. Belgium: Selected Economic Indicators
(Monthly average or Month)

<u>Quarter:</u>	<u>Seasonally-adjusted industrial production (1953=100)</u>	<u>Unemployment (thousands)</u>	<u>Seasonally-adjusted department store sales (1953=100)</u>
1961 -- IV	139	77	143
1962 -- I	140	60	146
II	141	44	154
III	145	41	149
IV	145	39	155
1963 -- I	143	39	150
II	152	32	160
July	157	30	151

Department store sales (seasonally adjusted), which were depressed in the first quarter, rose rapidly after March, and in the second quarter were 3.2 per cent higher than in the last quarter of 1962; new car sales were also very strong in the second quarter. Consumer goods industries showed large output gains, and second quarter production was up over a year earlier by 7 per cent in the food industry and 9-1/2 per cent in the textile industry. However, the most buoyant sector of all was the metal working industry, where production in the second quarter was nearly 16 per cent higher than in the same period last year. Construction was at the highest possible level because the harsh winter had caused postponement of much activity.

As unemployment (seasonally adjusted) dropped from 37,000 in March to 30,000 in July (see Table 1), manpower shortages intensified in several sectors, notably construction and coal mining. Because of a shortage of miners, coal production has not increased this year. Consequently, pithead stocks were down to almost nothing by August, and net imports of coal rose sharply through the first half of 1963.

The steel industry remains the only major sector of the Belgian economy suffering from insufficient demand. Production in the first nine months of this year was scarcely above last year's level.

Wage rates continue rapid uptrend

With labor becoming relatively scarcer, the second quarter saw a continuation of the rapid uptrend in wages that began about a year earlier. Quarterly data show a rise between March and June of 3.8 per cent in the average hourly earnings of industrial workers. (See Table 2.) These earnings in June were 7.1 per cent above a year earlier and 13.6 per cent higher than in December 1961, the gains being nearly equal for skilled and unskilled workers. The rate of advance since end-1961 contrasts sharply with the four years 1958-61, when the average increase was only 3.5 per cent a year.

Table 2. Belgium: Price and Earnings Indexes, 1961-63
(1953=100)

	<u>Wholesale prices</u>	<u>Consumer prices</u>	<u>Hourly earnings in industry</u>
1961 -- December	102.8	111.4	146
1962 -- March	104.0	111.7	148
June	103.8	114.3	155
September	101.7	112.4	156
December	104.4	112.7	159
1963 -- January	105.7	113.2	---
February	105.5	114.6	---
March	105.4	114.6	160
April	105.0	114.4	---
May	105.0	114.1	---
June	105.2	114.3	166
July	104.7	114.9	---
August	104.8	114.8	---
September	N. A.	115.5	N. A.

Prices rose 2 per cent in year

Belgium has continued to be freer from price inflation than any other European country. However, in the past year the rate of rise in Belgian prices, while still moderate, has picked up. Doubtless this fact played a role in the recent decisions to slow down credit expansion.

Wholesale prices declined in the second quarter and fell slightly further during the summer. (See Table 2.) In July-August they averaged 0.7 per cent below the first quarter level. But this decline, which reflected seasonal conditions, still left July-August prices 2.4 per cent higher than a year earlier. In 1963, prices of both imported and domestic goods have risen about equally. Prices of agricultural products moved up 6.6 per cent and industrial products by 1.5 per cent.

At the consumer level, the second quarter also saw a partial reversal of the price increases that took place in the winter, but there was an upward movement in the third quarter. As a result, the third-quarter level of consumer prices was 2.0 per cent higher than in the same months of 1962.

Foreign trade shows continued expansion

The foreign trade of Belgium and Luxembourg has shown further vigorous growth, especially on the export side. Because of the bad weather, first-quarter exports (seasonally adjusted) were slightly lower than in the last quarter of 1962. Subsequently they rose 12.7 per cent in the second quarter, and in July-August averaged 5 per cent higher than in the second quarter. (See Table 3.) In July-August average monthly exports were thus 17 per cent greater than in the last quarter. Exports to other European OECD countries have spearheaded this upsurge, but sales to other areas have also risen sharply.

Table 3. Belgium and Luxembourg: Foreign Trade, Seasonally Adjusted, 1961-63
(In million of dollars; monthly average or month)

	<u>Imports c.i.f.</u>	<u>Exports</u>	<u>Balance</u>
<u>Quarter</u>			
1961 -- IV	350	333	-17
1962 -- I	357	359	+2
II	382	359	-23
III	366	367	+1
IV	391	366	-25
1963 -- I	374	362	-12
II	411	408	-3
<u>Month -- 1963</u>			
January	350	328	-22
February	367	357	-9
March	406	401	-5
April	412	398	-14
May	402	414	-11
June	417	412	-5
July	384	418	+34
August	N. A.	439	---

On the import side, imports (seasonally adjusted) in the second quarter were 9.9 per cent higher than in the first quarter (when they were much depressed by the weather) and 5.1 per cent above the last quarter of 1962.

Short-term interest rates continue to rise

Recent months have seen a continuation of the earlier uptrend in money market rates. Auction rates on 4-month bills issued by the Treasury and the Securities Stabilization Fund rose from 3.40 per cent at the end of March to 3.85 per cent at the end of September. Rates on longer-dated Treasury bills moved up proportionately; 12-month bills yielded 4.12 per cent in early October compared with 3.55 per cent in early April. In April the Caisse Generale d'Epargne, Belgium's largest savings bank (under government control) reversed its action of last December and raised the interest rate paid on deposits (up to 250,000 francs) from 2.75 per cent back up to 3.00 per cent.

Long-term bond yields have also risen since last spring, but by less than rates in the money market. The average yield on government bonds maturing in 5 to 20 years rose from 4.90 per cent at the beginning of April to 5.11 per cent at the beginning of October.

Measures taken to slow credit expansion

Commercial bank credit increased rapidly in the period under review. Short-term interest rates continued to move up, the money supply underwent a large expansion, and the labor market became more strained. In these circumstances, the National Bank of Belgium decided to raise its basic discount rate from 3-1/2 to 4 per cent on July 18 and from 4 to 4-1/4 per cent on October 31. On both occasions, other lending rates of the National Bank of Belgium were also increased. Belgium makes frequent use of the discount rate as a tool of credit control, the latest change being the eighth since August 1961.

In the second quarter, the commercial banks increased their outstanding credit to private borrowers by 6.7 per cent. They also added to their holdings of Treasury bills. The increase in commercial bank assets was almost entirely responsible for a 4.0 per cent rise in the money supply, the second successive quarter in which monetary expansion was unusually rapid. The money supply had earlier risen 3.2 per cent in the first quarter, as a result of a balance of payments surplus and of heavy Treasury borrowings from the commercial banks and the National Bank. Over the first six months, the money supply rose 7.3 per cent. In the preceding 10 years, the increase at this time of year averaged 2.2 per cent.

Banking statistics are not available beyond last June. However, the National Bank of Belgium singled out "the continuous expansion of commercial

bank credits," along with "strains in the domestic economic situation," as reasons for the rise in its lending rates on October 31.

Payments surplus contracted in second quarter

The balance of payments surplus of the Belgium-Luxembourg Economic Union declined from \$52 million in the first quarter to \$32 million in the second. The second quarter deficit of \$10 million on current account was nearly unchanged from the first quarter, while private capital flows shifted from a net outflow of \$18 million in January-March ^{1/} to a net inflow of \$10 million in April-June. On the other hand, the net foreign borrowings of the public sector declined from \$40 million to \$26 million, and the net credit on errors and omissions was reduced from \$42 million to \$6 million.

The net foreign assets of the National Bank of Belgium increased \$64 million in the second quarter. Gross gold and foreign exchange reserves rose \$34 million; in May the Bank purchased from the U. S. Treasury \$30 million equivalent of 2-year bonds denominated in Belgian francs. The net foreign assets of other monetary institutions (principally the commercial banks) decreased \$32 million. Commercial banks in Belgium increased their foreign assets by \$98 million and their liabilities by \$152 million. Their foreign operations consist almost exclusively of acceptances and placement of short-term funds in the markets for Euro-dollars and other Euro-currencies.

Reserves rise sharply in November

During the months July-October, the National Bank of Belgium's gold and foreign exchange holdings showed only small changes, and on October 28 were

^{1/} Both the low level of Belgian deposit rates and the introduction of a withholding tax on securities income contributed to an outflow of funds to neighboring countries. (See also following section on recent fiscal developments.)

\$14 million higher than on June 30. (See Table 4.) However, they rose sharply in the next three weeks, following the rise on October 31 in the official discount rate. Gains amounted to \$23 million from October 28 to November 8, and \$13 million from November 8 to November 18, for a total of \$36 million. The Belgian financial press reported that in this period Belgian firms shifted some of their borrowing from domestic to foreign sources, in order to avoid paying higher interest rates in Belgium, and that short-term investment funds moved into Belgium from abroad.

Table 4. Belgium: Official Reserves, 1962-63
(In millions of dollars)

	<u>Gold</u>	<u>Foreign Exchange</u>	<u>Total</u>
1962 -- December 31	1,365	257	1,622
1963 -- January 31	1,362	289	1,651
February 28	1,364	314	1,678
March 31	1,372	357	1,729
April 30	1,372	380	1,752
May 31	1,372	390	1,762
June 30	1,373	390	1,763
July 31	1,354	407	1,761
August 31	1,365	403	1,773
September 30	1,378	392	1,759
October 28	1,367	411	1,777
November 4	1,367	419	1,786
November 8	1,367	433	1,800
November 18	1,367	446	1,813

Budget improves but foreign-currency debt continues to rise

The direct debt of the Belgian Treasury was reduced by 1.5 billion Belgian francs in May-August, a slightly greater contraction than in the same period of last year. (See Table 5.) In the first four months of 1963, it rose 15.4 billion BF, as against 12.5 billion BF in January-April 1962. The shift in the debt movement after April was largely seasonal. However, the harsh winter had depressed receipts and swelled expenditures, so that the January-April

deficit rose well above the level reached last year and the level initially expected for this period.

Table 5. Belgium: Treasury Direct Debt, 1961-63
(In billions of Belgian francs)

	In Belgian francs	In foreign currencies			Total
		Up to 1 year	1-5 years	Over 5 years	
1961 -- December	338.4	21.9	4.8	18.8	385.5
1962 -- April	354.5	18.6	4.8	20.1	398.0
August	357.9	14.2	4.8	19.8	396.7
December	358.6	12.8	4.8	19.5	395.7
1963 -- April	370.0	16.9	5.0	19.2	411.1
June	367.7	17.0	7.3	19.0	411.0
August	365.8	24.9		18.9	409.6

Despite the decrease in the total debt, the debt in foreign currencies showed a further rise of 2.7 billion BF (\$54 million) in May-August. This followed an increase of 4.0 billion BF (\$80 million) in January-April. Most of the increase after April occurred in the month of May, when the Treasury placed two medium-term loans of \$20 million each with banks in New York and London,^{1/} but some further rise took place afterward. The foreign currency debt at the end of August was equivalent to \$876 million, of which \$498 million was medium- and short-term (and principally with maturities of less than one year).

A reduction in the foreign currency debt was one of the prime objectives of Belgian Treasury officials in 1961-62, and they had notable success in this endeavor. The increase this year partly reflects the budgetary difficulties in the winter months. But another factor has been the disappointing results of the Treasury's long-term franc bond issues in 1963. The Treasury has floated

^{1/} See Recent Economic Developments in Belgium, December 1962 to May 1963, dated June 11, 1963.

four loans this year, and in all probability there will be no more before the end of the year. The nominal value of the bonds sold was 18,650 million BF, and the actual cash proceeds are estimated at 15,250 million BF. (See Table 6.) By contrast, in 1962 three loans by the Treasury, for a nominal value of 26,030 million BF, raised 21,522 million BF of new money, or more than 6 billion BF more than this year's take. These bonds are sold "on tap" during the subscription period (usually two or three weeks).

Table 6. Belgium: Long-term Treasury Bond Issues, 1962-63

<u>Period</u>	<u>Amount (billion BF)</u>	<u>Term</u>	<u>Average yield to maturity</u>
<u>1962</u>			
February	7.45	5 - 20 yrs.	5.54
June	8.10	5 - 20 yrs.	5.26
November	10.48	10 - 20 yrs.	5.06
<u>1963</u>			
March	5.90	10 - 20 yrs.	5.09
June	5.25	10 - 20 yrs.	5.72
October	} 7.50	10 - 20 yrs.	5.80
October		20 yrs.	6.00

Most observers blame the Treasury itself for this year's poor showing. The fiscal reform effective at the close of 1962 increased the income tax on government bond interest. The Treasury offered much higher yields than last year on the final three of the four 1963 loans, but critics assert that they were not sufficiently higher to offset the higher tax burden. Average yields to maturity on the new issues in 1962 (a year of generally falling bond yields) declined from 5.54 per cent on the February loan to 5.06 per cent on the November loan. In March 1963, after the higher taxes were effective, the Treasury offered a bond issue in March with a 5.09 per cent yield. Its failure (proceeds being far below those of the previous November) forced the Treasury to raise the yields on subsequent issues to 5.72 per cent on the June flotation, and to 5.80 and 6.00 per cent on the two issues sold in October. But results were again disappointing.