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Recent Economic Developments in Belgium,
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Leonard A. Lupo

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Recent Economic Developments in Belgium, November 1963-April 1964Summary

The rapid economic expansion in Belgium, spurred largely by buoyant domestic consumption demand and a rise in exports, continued through April. 1/ During the period under review, bank credit continued to expand, interest rates moved higher, labor markets tightened and wage rates advanced further. Nevertheless, overt evidence of inflationary pressures in Belgium has so far been quite moderate; by a combination of anti-inflationary bank credit and fiscal policies and temporary measures of price control and import liberalization, the authorities would appear to be well equipped to restore economic balance.

The expansion in industrial production appears to be based almost wholly on productivity gains, attributable to earlier investment, and very little on additions to the labor force. At present, the labor shortage seems the major deterrent to further output increases. Under conditions of full employment, continued upward pressure on wage rates is a cause for concern, especially since wage movements are in part automatically tied to the cost-of-living. However, the rise in Belgian retail prices, which accelerated late last year, recently has slowed and may even be levelling out, largely because of price control and import liberalization measures adopted in 1964.

On the external side, the increase in imports in recent months has exceeded the sharp rise in exports, and the Belgian balance of trade worsened somewhat between the third quarter of 1963 and the first two months of this year. Official reserves were down \$8 million in the first quarter, but Belgium's IMF

1/ See "Recent Economic Developments in Belgium, May to November 1963," dated December 4, 1963.

position rose \$23 million. Belgium's over-all external position was apparently in near-equilibrium in the fourth quarter of last year, when official reserves rose \$43 million but the net foreign liabilities of Belgian commercial banks increased \$38 million.

Industrial production up sharply through April

In the first four months of this year, industrial production rose sharply over year-ago levels, in response to continued strong domestic and foreign demand. Labor shortages are now reported to be the major factor blocking an even faster growth in industrial production; the present rise in output apparently has been based mostly on productivity gains, rather than on gains in total employment.

According to the unofficial but widely used AGEFI index, industrial production (unadjusted) in April was up 9-10 per cent over the same period a year ago. (See Table 1.) This rise is the more remarkable because of the fairly stagnant performance of coal, an important Belgian industry. Steel production, however, has risen appreciably over the year-ago levels, even if the effects of the severe winter 1962-63 are discounted. This rapid growth of industrial production is also confirmed, through December at least, by the Louvain index. The rise in

Table 1. Belgium: Industrial Production, 1963-April 1964
(Agefi Index, 1953=100)

	1963			1964				
	II	III	IV	I	Jan.	Feb.	Mar.	Apr.
Index	172.7	165.6	183.4	p/182.4	p/184.7	p/180.5	p/182.3	p/188.7
Rise over year-ago levels	6%	5%	9%	11%	12%	18%	4%	10%

p/ Preliminary.

the AGEFI (unadjusted) production index through the first four months of 1964, however, was only half the rise in the same period a year ago.

Labor market continues tight

Shortages of labor are now said to be the major bottleneck preventing output from increasing as quickly as the current rapid expansion of demand. Labor market tightness is particularly noticeable in building, metal engineering, mining, timber and transport. In fact, the small number of job applicants and the relatively large number of unfilled jobs suggest conditions of full employment. Seasonally-adjusted insured unemployment sank to 26,000 persons in March, out of a total labor force of some 3.7 million. (See Table 2.) The number of unfilled jobs per unemployed worker rose steadily throughout 1963 and reached .70 for January-February 1964, which is exceptional for Belgium; at the peak of the 1956-57 boom, the ratio was only .23.

Table 2. Belgium: Selected Labor Market Data,
1963-March 1964
(Thousands, seasonally adjusted, or Ratios)

	1963				Dec.	1964		
	I	II	III	IV		Jan.	Feb.	Mar.
Unemployment <u>1/</u>	38	33	30	29	29	28	26	<u>e/</u> 26
Job vacancies <u>2/</u>	16	18	17	19	20	20	18	n. a.
Ratio of vacancies to unemploy. } }	.42	.55	.57	.66	.69	.71	.69	n. a.

1/ Compulsory insured unemployment data.

2/ Jobs remaining unfilled at end of period.

e/ Estimated seasonal adjustment.

Source: OECD, Main Economic Indicators.

So far, the shortage of labor apparently has resulted in only moderate pressures on costs, which to a large extent have been offset by productivity gains in manufacturing (amounting to about 6 per cent last year). But hourly earnings and hourly wage rates in manufacturing were rising on the order of 8 per cent per year at the end of 1963. (See Table 3.) Part of this increase is due to the

automatic cost-of-living escalator clauses in most Belgian wage contracts, which resulted in two cost-of-living increases last year. The most recent automatic increase, in January 1964, amounted to between 2 and 2.5 per cent for workers employed in the greater part of Belgian industries; but this rise is not yet reflected in the data. The government has tried to suppress sources of this wage-cost inflation, controlling cost-of-living increases by means of price controls, import liberalization measures and subsidies for animal foodstuffs.

Compared to recent Belgian experience, the increases in wage rates and hourly earnings in 1963 were not exceptional. In 1959-62, for example, wage rates in manufacturing rose by 5 per cent, and hourly earnings by 7 per cent. The recent rapid growth in Belgian money wages cannot therefore be attributed principally to unusually tight current labor market conditions.

Table 3. Belgium: Productivity and Labor Costs, 1963
(Indices)

	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
Hourly Wage Rates (58=100)	121	124	125	127	127	127	128
% Rise over 1962	7.1%	7.8%	6.8%	7.6%	7.6%	7.6%	8.5%
Hourly Earnings (53=100) ^{a/}	160	167	168	172			
% Rise over 1962	8.1%	7.7%	7.7%	8.2%			
Output per Man-hour in Mfg.	Average		Average		Annual Rate Average % Rise-		
Index: 1953=100	<u>March-May</u>		<u>Sept.-Nov.</u>		<u>April to October 1963</u>		
% Rise over 1962	160.0		164.9		6.2%		
	5.1%		6.0%				

^{a/} Includes mining and transport workers.

Sources: OECD, Main Economic Indicators; and Recherches Economiques de Louvain.

Price indexes flattening out

Partly as a result of special governmental measures, the earlier accelerated rise in the Belgian index of retail prices apparently halted in the first quarter of this year, and retail prices may even be levelling off. By contrast, wholesale prices continued to move upward through March.

In the first quarter of 1964, wholesale and retail prices were up 3.5 and 3.3 per cent, respectively, over a year earlier. These increases are notable by contrast with the stability of recent years, but not by comparison with some other European countries.

However, the rise in retail prices, which was quite marked through January 1964, may now be experiencing a pause. Although retail prices in the first quarter were up more than 3 per cent over the year-ago level, the year-to-year rate of increase fell from 4.3 per cent in January to 2.6 per cent in March. (See Table 4.)

Table 4. Belgium: Retail and Wholesale Prices, 1959-March 1964
(1953=100)

	% per year Av. Change 1959-1962	1963			1964			
		II	III	IV	I	Jan.	Feb.	Mar.
Retail prices	.9	114.3	115.1	116.7	117.9	118.1	118.0	117.6
Rise/year ago(%)	--	.8	2.0	3.5	3.3	4.3	3.0	2.6
Wholesale prices	.6	105.1	105.0	107.4	109.2	109.1	109.0	109.5
Rise/year ago(%)	--	1.4	2.8	3.7	3.5	3.2	3.3	3.9

Source: Main Economic Indicators, April 1964.

The rise in Belgian price levels appears primarily to be the result of two factors: (1) a rather sharp rise in prices of animal food products, owing to the unusually heavy slaughtering of livestock in the winter of 1962-63; and (2) a general rise in prices of imported goods.

Meat products particularly have been in short supply, especially during the fourth quarter. Pork, veal, and beef prices all have risen—some pork products by as much as 50 per cent over the year ending December 1963. The increase in meat product prices alone accounted for roughly 65 per cent of the 4.2 per cent rise in the retail price index for the year ending December 1963. The Belgian Government has taken a number of steps to stem the increase in food prices. Thus, at end-November the price of flour was frozen at October 1st levels; in mid-December pork exports were banned and import restrictions were eased for cattle

and pork. In February and March 1964 the government issued permits for imports of butter from France, Canada, and the U.S.; a ceiling was placed on retail beef prices; the government forced reductions in retail prices for pork and potatoes; finally, a system of customs duties rebates was devised to remove the preference for imports of cattle and beef from EEC countries. The EEC decided to permit restrictions of hog and pork exports till end-February.

The rise in food prices may be a medium-term phenomena, which may reverse itself as livestock herds are rebuilt at a later date.

Trade balance worsens slightly; external position in rough balance

Imports and exports both grew rapidly between the third quarter of 1963 and January-February 1964, but the rise in imports outpaced the continued expansion in exports. The trade balance, which was improving through most of 1963, therefore worsened in the first two months of this year. (See Table 5.) In the first quarter of this year, official reserves were down \$8 million but Belgium's IMF position rose \$23 million. (See Table 6.)

Belgium's external position was in approximate equilibrium in 1963. In the fourth quarter of last year, official reserves rose \$43 million, while Belgian banks increased their net foreign borrowings by \$38 million. Earlier, Belgium ran a modest \$32 million surplus in the first three quarters of 1963. (See Table 7.) In this period, commercial banks in Belgium borrowed large sums in the Euro-currency markets, and their net foreign liabilities rose \$228 million in those nine months. This action by the banks permitted accruals to official reserves of \$137 million.

Table 5. Belgium-Luxembourg: Foreign Trade, 1963-1964
(millions U.S. dollars/month, seasonally-adj.)

	<u>Exports f.o.b.</u>	<u>Imports c.i.f.</u>	<u>Balance</u>
1962 - I	362	358	4
II	357	377	-20
III	367	370	- 3
IV	366	391	-25
1963 - I	365	375	-10
II	406	406	1
III	427	420	8
IV	421	437	-16
Dec.	414	432	-18
1964 - Jan.	436	469	-33
Feb.	474	479	- 6

Source: OECD, Main Economic Indicators.

Table 6. Belgium: Selected Foreign Assets and Liabilities, 1963-64
(millions of dollars)

	<u>Changes</u>					<u>Outstanding</u>
	<u>1963</u>				<u>1964</u>	<u>3/31/64</u>
	I	II	III	IV	I	
National Bank of Belgium:						
Gross gold and foreign						
exchange holdings	+107	+ 44	- 4	+43	- 8	1,794
IMF total tranche	--	- 5	+11	--	+23	498
Commercial banks: net						
foreign position	- 14	-154	-60	-38	n.a.	n.a.
Total	+ 93	-115	-53	+ 5	n.a.	n.a.

Sources: IMF and OECD

Table 7. Belgium-Luxembourg: Balance of Payments, 1962-63
(Millions of dollars)

	<u>Qtr. I</u>		<u>Qtr. II</u>		<u>Qtr. III</u>	
	<u>1962</u>	<u>1963</u>	<u>1962</u>	<u>1963</u>	<u>1962</u>	<u>1963</u>
Current account	68	14	4	4	28	-26
Official capital movements	54	22	-90	20	-40	-22
Other capital movements	-14	-22	28	-2	2	18
Errors and omissions	24	32	8	8	-6	-14
Total surplus or deficit (-)	132	46	-50	30	-16	-44
Monetary movements (- = increase): ^{1/}						
National Bank of Belgium:						
Gross gold and foreign exchange	-5	-107	+59	-44	-23	4
Other (net)	49	+19	-41	-20	43	-24
Belgian commercial banks' net foreign position	-140	14	16	154	12	60
All other institutions (net) ^{2/}	-36	28	16	-120	-16	4
Total monetary movements	-132	-46	50	-30	16	44

^{1/} Change in foreign assets and liabilities.

^{2/} Including commercial banks in Luxembourg as well as other institutions in Belgium.

Sources: National Bank of Belgium and OECD.

Further measures to slow credit expansion

In the face of a continued rapid expansion of credit to the private sector, the Belgian Government applied a series of monetary, fiscal, and special controls during the first quarter 1964. As a result, interest rates tightened further, and now are at relatively high levels. However, so far the expansion of bank credit reportedly is little affected. Rapid credit expansion "continues unabated" in recent months, according to the Kredietbank May 2 Bulletin. This continuing expansion of bank credit comes on top of the large increase (roughly 6 per cent) during the fourth quarter 1963; the total expansion of credit during 1963 amounted to 27 per cent, with two .25 per cent increases in the discount rate last year.

The Belgian authorities have taken a number of steps to mop up liquidity and limit the extension of bank credit. Belgian financial institutions have agreed to restrict the annual increase in credit to industry to 10-12 per cent during 1964; this still is a rapid rate of increase for a full-employment economy. In addition, installment credit terms were tightened in late February, and regulation of non-bank sources of consumer credit reportedly is under consideration. Without an increase in the discount rate, the National Bank raised the cost of liquidity in February by a .25 per cent increase in the rate on advances against government securities; and in March by an increase in the preferential rate for rediscounts of export bills. Beyond this, large issues of government 5-10 year bonds were floated in February and April, at interest rates of 6.25 - 6.5 per cent.

Recent reports indicate that in 1964 Belgian fiscal policy will be altered in order to reduce the expansion of the money supply. Last year, the Treasury covered a large part of its cash deficit (estimated at about \$425 million exclusive of debt amortization) by recourse to medium- and short-term loans in

foreign exchange, taken up abroad or by Belgian banks with funds borrowed in the Euro-currency markets. Because the banks took up these loans with borrowed funds, they were able to use their reserves for other types of credit. The Treasury's total foreign exchange debt rose \$188 million in 1963, and this method of financing its deficit permitted a more rapid monetary expansion than if the banks had had no recourse to foreign funds. The money supply rose 10 per cent last year. The Treasury's long-term net loans fell off to \$200 million last year, from \$288 million in 1962, in part because of tax considerations. ^{2/} In contrast, in 1964 the Treasury has already floated \$200 million net of long-term loans (at higher yields) and is planning to issue an additional \$240 million before the year-end. If this year's cash budget deficit also contracts, as is expected, Treasury operations in 1964 should supplement monetary actions to bring down the high rate of increase in monetary availabilities. Finally, public construction outlays are being spread out.

Interest rates continue upward trend

Interest rates have continued to rise in the period under review. In the money market, auction rates on 4-month bills of the Securities Stabilization Fund moved up from 4 per cent at the end of October to 4.75 per cent in March, and have remained at that level for the past several weeks. (See Table 8.) Call money rates averaged 3.77 per cent in March compared with 2.16 per cent last October. Market yields on outstanding long-term government bonds moved up sharply from 5.17 per cent at the beginning of November to 5.51 per cent in early March. On its new bond issues in February and April, the government offered yields of between 6-1/4 and 6-1/2 per cent, about 1/2 percentage point more than on its late 1963 offerings. ^{3/}

^{2/} The Treasury failed to raise yields to levels which, in investors' opinions would "compensate" them for the withholding tax on bond interest introduced in December 1962.

^{3/} Since December 1962, yields on new issues have substantially exceeded market yields because interest on bonds issued since that time is subject to a higher withholding tax than is interest on earlier issues.

Table 8. Belgium: Selected Money and Financial Market Data

(Per cent per year, end of month ^{1/})

	1962	1963				1964		
	<u>Dec.</u>	<u>Mar.</u>	<u>Sept.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>
Discount rate	4.50	3.50	4.00	4.25	4.25	4.25	4.25	4.25
Call money ^{2/}	2.73	1.77	2.55	2.78	2.73	3.16	3.24	3.77
Treasury bills (3 mos.) ^{3/}	3.00	3.00	3.45	3.90	4.10	4.20	4.25	4.25
Fonds des Rentes (4 mos.)	3.30	3.35	3.90	4.20	4.35	4.55	4.65	4.75
Govt. funds (med.-term)	4.92	4.86	4.98	5.12	5.20	5.42	5.33	5.36
Govt. bonds (long-term) ^{2/}	4.07	4.02	5.02	5.17	5.26	5.32	5.54	5.51
Corporate bonds	5.34	5.14	5.26	5.41	5.44	5.62	5.60	5.56
Average share yield ^{4/}	3.24	3.18	2.80	2.71	2.70	2.67	2.74	2.78
Average share price index ^{4/}	110.9	114.4	123.5	128.8	133.9	135.9	137.0	135.0

^{1/} Except share prices, index based on 1953=100.

^{2/} I.F.S. data-averages for period indicated.

^{3/} New issue rates.

^{4/} Excludes Congolese.

Sources: Kredietbank; National Bank of Belgium; Main Economic Indicators; I.F.S.