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REPORT PRESENTED BY THE GOVERNOR ON BEHALF OF THE COUNCIL OF REGENCY

INTERNATIONAL ENVIRONMENT

This is the last report published by the Bank as Belgium's independent monetary authority. With the start of Stage Three of European Economic and Monetary Union (EMU), on 1 January 1999, the Bank has become an integral part of the European System of Central Banks (ESCB), and responsibility for defining monetary policy has passed to a supranational institution, the European Central Bank (ECB). The latter will henceforth pursue a single monetary policy for the whole of the euro area, which is composed of the eleven Member States of the European Union that were willing, and on 2 May 1998 were judged by the European Council to be ready, to share a new, common currency, the euro.

The fact that the accession criteria, albeit strict, were met by such a large and diverse group of countries in such a short space of time — barely six years elapsed between the signing of the Treaty of Maastricht and the decision to launch the monetary union — is in itself remarkable. All the more so because the road to monetary union was not without obstacles : to mention just a few, the aftermath of German reunification, the vicissitudes surrounding the ratification of the Maastricht Treaty, the acute strains to which the European exchange rate mechanism was exposed in 1992-93 and the economic recession of 1993. The way in which these impediments were overcome and the resultant conflicts of interests resolved, bears witness to the vision and determination consistently displayed by the political decision-makers involved in the creation of Economic and Monetary Union.

The introduction of the euro must therefore be seen as an historic step whose importance, from both an economic and a political point of view, can hardly be overestimated. On the one hand it is the culmination of the process of economic integration which has already been in progress for over four decades and which, despite ups and downs, has undoubtedly made a great contribution to prosperity and stability in Europe. Monetary union may in turn be expected to act as a catalyst for further economic unification and policy convergence and to strengthen Europe's position in the world economy. With over 290 million inhabitants, a combined domestic product of around 6,000 billion euros equalling some 15 p.c. of world GDP and a share in world trade of close to 17 p.c., the countries of the euro area potentially constitute a major economic power comparable to the United States.

At the same time, however, monetary union is also an extraordinary challenge. Even more than hitherto, economic and social conditions in each of the participating Member States will be determined by developments in the partner countries and by the policies pursued there. For EMU to be a lasting success, everyone — individuals, enterprises and policy-makers — will have to display discipline and solidarity. National short-term interests will sometimes have to be temporarily set aside in the knowledge that the progress and cohesion of the whole ultimately also benefits the parts.

The expected benefits of such a stronger economic cohesion already became *apparent during the past year, as the economic and financial order of the European Union withstood the worldwide turbulences surprisingly well. Thus the efforts made over the years to consolidate the public finances and curb inflation bore fruit earlier than had been foreseen. The strengthening of the economic fundamentals and the imminence of monetary union had a favourable effect on consumer confidence and the business climate in Europe. Consequently, domestic demand strengthened in most euro area countries, counterbalancing the weakening of export demand. At an average annual rate of 2.9 p.c., economic expansion within the area actually appears to have been nearly half a percentage point greater than in 1997, whereas the growth in world GDP was almost halved, falling, according to the estimates, from 4 p.c. in 1997 to just over 2 p.c. in 1998.*

At world level the damage caused by the Asian crisis, which had broken out around mid-1997, proved to be more far-reaching and more severe than had been initially predicted.

That applies primarily to the emerging economies in Asia which were at the very epicentre of the crisis : Thailand, Indonesia, Malaysia, the Philippines and South Korea. In each of these countries economic activity slackened appreciably last year, GDP at constant prices having shrunk on average by around 9 p.c. in this region. Owing to the spread of the contagion to other Asian economies and the severe recession in Japan, the predicted revival of these countries' exports was a long time coming, thus putting the confidence of consumers and entrepreneurs under additional pressure. Although these countries' trade balances already turned into a substantial surplus in 1998, this was primarily attributable to the contraction in imports resulting from the sluggishness of domestic demand, since the favourable effect on exports caused by the improvement in their competitiveness was outweighed by the sharp drop in intraregional trade. The recovery of their current account with foreign countries does however offer the advantage of making the need for external financing less acute and enabling the countries in question to start to replenish their external reserves.

Although the adjustment process will undoubtedly still call for heavy sacrifices for some time yet in the countries most affected, a number of positive developments were already observable in the course of last year, indicating that things may have changed for the better. Particularly in the countries which did not hesitate to adopt a restrictive monetary course with the necessary determination, currency depreciation was halted relatively quickly and even partly wiped out, after which it generally proved possible to bring interest rates down to or even below their pre-crisis levels. South Korea and Thailand also made substantial progress in implementing the required structural reforms, in particular with regard to the restructuring and recapitalisation of their financial systems. Finally, inflationary pressures, too, were kept under control, partly owing to the flexibility of real wages and the fall in commodity prices.

One of the main keys to economic recovery in Asia, however, lies in Japan. During the year under review, total domestic expenditure there fell by more than 3 p.c., chiefly owing to the persisting malaise in the financial sector, the resultant credit crunch and the loss of confidence by consumers and entrepreneurs, while unemployment rose sharply. Thus the weakness of the Japanese economy further exacerbated the crisis in Asia and also, in view of the global importance of that country, increased the risk of propagation to other regions.

The seriousness of the recession shows that a forceful approach to Japan's structural problems is more essential than ever. During the past year the Japanese authorities took important initiatives in this direction, but, once again, *valuable time was lost in their practical shaping and implementation. The ambitious plan for the restructuring of the banking sector, which was approved in its final form in October 1998, comprises, inter alia, an infrastructure for the settlement of « bad loans », the setting up of a special commission with more extensive supervisory powers and a scheme for assistance to financial institutions in difficulties, either via a system of temporary public « bridge banks » which can take over the activity of institutions which have become insolvent or by temporarily putting such institutions under government control. The government has allocated substantial sums for the financing of these measures and for the recapitalisation of weakened but still solvent banks, as well as for shoring up the deposit guarantee system. While there is certainly no lack of funds, doubts remain regarding the willingness to use them quickly and effectively. The restoration of order in the banking sector is, however, an essential precondition for a lasting revival of the Japanese economy.*

Through various channels the economic and financial crisis in Asia has had varying repercussions on other parts of the world economy, although not always in the same direction.

The fall in demand in the countries affected by the crisis and the improvement in these countries' competitive position reduced the contribution of net exports to growth nearly everywhere else, albeit in differing degrees. Other emerging Asian markets, such as China, Hong Kong, Taiwan or Singapore, suffered most from this, owing to their close trade relations with the crisis countries, but the effects of the crisis on international trade were also felt elsewhere, and were often coupled with a deterioration of the profit prospects of exporting enterprises.

The worsening of the economic situation in Asia was also one of the causes of the sharp drop in the prices of oil and other commodities in 1998. This had adverse effects on countries — including many developing and transition countries — where oil and other raw materials are an important source of revenue. Thus the fall in energy earnings was a major factor contributing to the outbreak of the financial crisis in Russia. Most industrialised countries, on the other hand, experienced an improvement in their terms of trade, which helped to stimulate domestic demand, thanks to its positive effects on real disposable income, and to hold down domestic prices.

On a financial level, the situation in Asia led to a massive reorientation of international capital flows, away from the economies in difficulties and towards safer places, such as the western industrialised countries ; in both cases, however, these movements led to greater volatility on the financial markets. In the western countries this « flight to quality » gave an additional boost to share and bond prices in the first half of the year, which, through the concomitant fall in long-term interest rates and the ensuing wealth effects, also helped to support domestic economic activity.

In August 1998 Russia found itself in the centre of the financial turbulence with a sharp devaluation of the rouble and a unilateral debt restructuring. And, although Russia occupies only a modest position in the world economy, the Russian financial debacle led, on the international financial markets, to a generalised rise in perceived risks. Consequently other emerging economies — notably in South America and Central Europe, many of which had made appreciable progress during the preceding years in implementing sound macroeconomic policies — and even western industrialised countries were also threatened by the contagion.

In this climate of uncertainty and increased concern about the international cyclical situation, a renewed, massive « flight to quality » developed, which this time proved to be much more selective.

Fears concerning the risk exposure of banks, aroused by the danger of bankruptcy of a major American hedge fund, and concerning the profit prospects of industrial enterprises, led on all western stock exchanges to a sharp correction of share prices which had, admittedly, reached exceptionally high levels. On the bond markets, the higher risk perception of investors tended to increase the spread between the yield on government bonds, which fell further, and that on debt instruments of enterprises, for which higher risk premiums were demanded. Particularly in the United States, there was a real threat of greater restraint in lending by credit institutions to the private sector, especially in the case of non-prime borrowers. Furthermore, the dollar weakened against the yen and the ERM currencies.

Each of these developments entailed a risk of further, worldwide contagion and thereby called for an appropriate policy reaction. Corrective action was in fact taken, in various quarters, in the autumn of 1998.

The American Congress finally agreed to an increase in the IMF's resources, thereby enabling the Fund to continue to assist countries in the resolution of financial crises.

At the end of October the G7 countries reached agreement on a package of policy orientations aimed at strengthening the architecture of the international financial system. These measures are designed to — among other things — increase the transparency of economic policy, strengthen co-ordination and co-operation at international level among supervisory authorities, produce more effective rules for the risk management of financial institutions and involve the private sector more closely and constructively both in preventing financial crises and in resolving them when they do occur.

Furthermore, against the background of weakening growth prospects and lessening risks of inflation, the western central banks adopted an easier monetary policy stance. Also taking account of the unusual tensions on the financial market and signs of a possible credit sqeeze, the Federal Reserve lowered its reference value for the federal funds rate by 0.75 percentage point between the end of September and mid-November, thus reducing it to 4.75 p.c. In the prospective euro area, monetary policy choices were of a different nature. First, the cyclical upturn was less far advanced there than in the United States and there were scarcely any signs that the banks would be more restrictive in their lending to the private sector. Furthermore, both nominal and real short-term interest rates in Europe had already for some time been appreciably below the US level. Lastly, an early lowering of interest rates in the ERM core countries would have complicated the process of convergence of national money market rates towards a uniform level, which was essential for the changeover to the single currency. Successive adjustments of key interest rates in Ireland, Italy, Spain and Portugal had already actually caused the average money market rate in the euro area to fall by 30 basis points since mid-1988.

Towards the end of the year, however, it became increasingly clear that for the euro area, too, growth prospects were becoming less favourable and the downside risks were predominating, thus also reducing the threat to price stability. In this context all the central banks of the future euro area, except the Banca d'Italia, on 3 December 1998 jointly decided to abolish the remaining differentials between their key interest rates and henceforth to apply, pending the start of Stage Three of EMU, a single rate of 3 p.c., i.e. 30 basis points below the rates hitherto in force in the ERM core countries. This decision furthermore presented the opportunity to remove any remaining uncertainty on the financial markets concerning the interest rate level that the ECB would apply at the start of Stage Three.

From mid-October onwards the strains on financial markets abated. Equity prices recovered on most stock exchanges and a generalised credit shortage became less likely. The events of 1998 nevertheless clearly revealed the extent to which financial developments in crisis situations can take their own course and disrupt the real economy. Towards the end of the year economic forecasts for the industrialised countries had thus become somewhat gloomier, or at least pointed to greater downward risks.

Despite successive stimulation measures, the Japanese economy is still flagging. The international forecasting institutions predict that, at best, the recession will bottom out in 1999, but they do not foresee any notable growth. The restoration of confidence must be the primary aim of Japan's economic policy. The first essential for this is a quick solution to the problems in the financial sector. However there is also a need for greater continuity in economic policy and closer attention to the effectiveness of stimulation measures. In the medium term the authorities will furthermore have to make sure that the growth in the public debt — which in gross terms already represents over 100 p.c. of GDP — is kept under control.

The situation in Japan contrasts sharply with that in the United States, which has just come to the end of a seventh year of sustained economic growth, without any real inflationary tensions. This is without doubt largely attributable to a balanced policy mix of constantly decreasing budget deficits and a monetary policy which has succeeded in controlling inflation in an expansionary context. The flexible operation of the labour market, which has furthermore led to a rapid growth in employment and a low unemployment rate, has also contributed to this.

In the second half of 1998, however, this long expansion phase appears to have been passed. Owing to its relatively close trade ties with the crisis-stricken emerging markets and the weakening of the competitive position of American exporters due to the sharp appreciation of the effective exchange rate for the dollar since mid-1995, the United States experienced earlier than other industrialised countries the effect of the crisis on its external current account, the deficit on which rose from 1.9 p.c. of GDP in 1997 to 2.7 p.c. in 1998. The decline in net exports was also the chief reason for the slackening — albeit moderate — in growth, which slowed from 3.9 to 3.5 p.c. Moreover, developments on US financial markets tend to have an appreciable impact on confidence, partly owing to the relatively large proportion of shares in private investment portfolios. Thus the upsurge in equity prices during the last few years was partly responsible for the fact that the private savings ratio fell to an extremely low level and may even have become negative in 1998. Although a recovery in private saving is desirable and even necessary in the medium term, under the present circumstances renewed turbulences on the financial markets entail the risk of a sharp correction of demand in the short run, with adverse effects on economic activity and on confidence generally.

The economies of the euro area have by no means remained immune to the increased strains in the world economy, but, owing to the lesser importance of their trade relations with the crisis regions and the improvement in domestic economic fundamentals, the consequences have on the whole been muted up to now. Although the contribution of net exports to growth has turned slightly negative, its effect has been more than offset by the increase in both consumer and investment expenditure. Signs of a catching-up movement became apparent during the year under review, particularly in countries such as Germany, France and, to a lesser extent, Austria and Spain, where domestic expenditure was still lagging behind in 1997. Consequently, the cyclical profile has become more uniform *throughout the euro area, as regards both the pace and the composition of economic growth.*

The strengthening of growth also had a positive effect on labour market conditions, and this in turn was reflected in consumer confidence. Partly owing to the moderate movement of wage costs and falling import prices, inflation continued to slow down, with the average rise in consumer prices in the euro area standing at a mere 0.8 p.c. at the end of the year.

The average budget deficit in the euro area, however, improved only slightly last year, from 2.5 p.c. of GDP in 1997 to 2.3 p.c. in 1998. Moreover, this improvement was solely attributable to the strong economic growth and lower interest rates. A certain consolidation fatigue was probably to be expected after the major rehabilitation efforts made in recent years, but in view of the favourable economic environment the results achieved are rather disappointing. In several monetary union countries, including France, Italy and Germany, the public deficit is still at a level dangerously close to the upper limit of 3 p.c. of GDP set in the Stability and Growth Pact. This means that, if economic conditions were to worsen, there would be hardly any margin for the operation of the automatic stabilisers, let alone for the adoption of stimulating measures : on the contrary, corrective measures with a pro-cyclical effect accentuating the cyclical weakness might then have to be taken.

As elsewhere in the world, the growth forecasts for the euro area had to be revised downwards in order to take account of the slowing down of exports and the adverse effect of the greater financial uncertainty on, in particular, business confidence and investment. Consumer expenditure, for its part, has remained fairly strong up to now, partly thanks to the improved employment prospects and the fact that developments on the financial markets had a less disturbing impact in Europe. As for the near future, forecasts suggest that economic expansion in the euro area may remain close to its potential. While this would represent a slackening compared to 1998, a real recession seems most unlikely for the time being. It would, however, be wrong to disregard the continued precariousness of the international economic situation and the associated downward risks.

ECONOMIC DEVELOPMENTS IN BELGIUM

The Belgian economy has been particularly dynamic during the past two years. In both 1997 and 1998 real GDP growth reached about 3 p.c., appreciably above its trend potential, which can be estimated at around 2.3 p.c. Economic momentum was reflected in a high rate of utilisation of production capacities, strong investment activity and a rise in employment.

That overall picture does, however, conceal notable divergences, primarily in the profile of the cyclical movement : while in 1997 growth accelerated from quarter to quarter, in 1998 a particularly strong first half-year was followed by a period of slackening. This difference in turn reflected developments of the various demand components which sometimes went in the same direction — thus *strengthening each other — and sometimes conflicted.*

Initially, the economic revival, which dates back to the beginning of 1996, was mainly driven by foreign demand. The upward trend of exports reached its peak in the second half of 1997, when export growth of around 10 p.c. was recorded. Since then, the volume growth in exports has steadily decreased, averaging about 3.2 p.c. over the whole of 1998 against 7.1 p.c. in 1997. This slowing partly reflects the direct and indirect influence of the fall in demand emanating from the crisis countries. However, Belgian exports also appear to have suffered from the loss of business confidence in the European partner countries and the associated less brisk demand for intermediate goods, precisely the product categories in which the Belgian economy is highly specialised. Furthermore, Belgian exports were unable to benefit fully from the strength of domestic demand in the neighbouring countries, owing to their relatively low content of consumer and capital goods.

In Belgium, too, domestic expenditure proved to be dynamic during the year under review : at 4.4 p.c. its growth rate was even considerably higher than the average of 3 p.c. recorded for the euro area as a whole. This, in turn, was reflected in a substantial expansion in imports of 5.1 p.c., mainly benefiting countries outside the euro area. Thus, for the first time in five years the change in net exports of goods and services had a negative influence, of about 1.2 percentage point, on growth.

This decrease in the volume coverage of imports by exports was however largely counterbalanced by the improvement in the terms of trade, partly due to the fall in energy and other commodity prices. Thus, in nominal terms, Belgium's current account surplus contracted only slightly, from 4.7 p.c. of GDP in 1997 to 4.4 p.c. in 1998, the improvement in the current balance with the euro countries having failed to counterbalance the worsening in the external account with the rest of the world.

Both enterprises and households contributed to the dynamic trend of domestic expenditure. The investment ratio of enterprises expressed as a percentage of GDP at constant prices reached 12.3 p.c. in the year under review — that is not only a full percentage point more than the cyclical low reached in 1994 but also a figure which bears comparison with the average investment rate achieved elsewhere in the euro area.

The greatest contribution to growth last year was however made by household expenditure on consumption, which increased by 3.6 p.c., the highest volume growth since the beginning of the decade. This revival of private consumption, which was particularly observable in purchases of durable consumer goods such as cars, partly reflected the increase in households' real disposable income, which, at 2.6 p.c., was appreciably higher than in the preceding years. The further fall in the savings ratio of households, from 15.5 p.c. in 1997 to 14.5 p.c. in 1998, nevertheless indicates that confidence also played a not unimportant role. The improved employment prospects and the continuation of budgetary consolidation without there being a need for new economy measures may have made households less uncertain about their future purchasing power. Furthermore, the spending behaviour of households appears to have been little influenced by the turmoil on the financial markets.

Against this background of strong economic activity, labour market conditions also improved further : the volume of employment, measured by the number of hours worked, increased by about 0.7 p.c. in 1998, while the number of persons in work actually rose slightly more, namely by about 1 p.c., partly owing to the further expansion in part-time working. At the same time, the harmonised *unemployment rate, which takes account only of the number of unemployed actually seeking work, fell from 9 p.c. of the labour force at the end of 1997 to 8.4 p.c. in December 1998.*

Although the Belgian unemployment rate is thus nearly 2.5 percentage points below the average for the euro area, that figure gives only a rough idea of the actual underutilisation of the labour potential in the economy. In Belgium the employment rate, i.e. the number of workers as a proportion of the population of working age, at 56.8 p.c., is still one of the lowest in Europe, although a certain catching-up movement has been observable in recent years. The reason why Belgium is behind in this respect lies partly in the fact that part-time working is still less widespread here. In terms of full-time equivalents, the employment rate is closer to the EU average and is, for instance, comparable to that in the Netherlands. One of the causes of this low employment rate has been the labour market policy pursued in Belgium, which in the past was excessively aimed at encouraging certain categories of workers or unemployed persons to withdraw from the labour market, in the hope of making it easier for others to find employment or keep their jobs. This essentially defensive strategy not only necessitated the appropriation of substantial budgetary resources, the burden of which fell disproportionately on the labour factor, but also deprived the labour market of some of its own internal dynamics. Despite the recent efforts to take a more active and preventive line in employment policy, the degree of matching of supply and demand on the labour market is still insufficient in many respects. That is apparent from, among other things, the fact that, despite the substantial reserve of available labour, more and more enterprises appear to be finding difficulty in filling vacancies. The persistence of considerable differences in the unemployment figures according to region, level of training or age group points in the same direction.

In addition to structural measures for promoting more efficient operation of the labour market and efforts to increase employability, continued wage moderation and a reduction of indirect labour costs can help to promote the employment-intensiveness of economic growth. The results achieved during the last few years in curbing labour costs are quite encouraging. Thus, according to the « Technical Report » of the Central Economic Council published in September 1998, nominal hourly labour costs appear to have increased by 5.8 p.c. during the period 1997-98 as a whole, which corresponds to the average percentage rise recorded for the three reference countries (Germany, France and the Netherlands). On the basis of these data it could thus be concluded that the new wage norm provided for by the law of 26 July 1996 on the promotion of employment and the preventive safeguarding of competitiveness was broadly complied with. In connection with this it should be noted that the moderating effect of a lower rate of inflation than had been forecast occurred both in Belgium and in the aforementioned reference countries. More recent OECD data appear to support these earlier findings, since they show, both for Belgium and for the three main partner countries as a whole, a rise in labour costs per full-time equivalent of 4.8 p.c. for the period 1997-98.

During the last two years, the development of labour costs in enterprises was also fully in line with the increase in productivity, so that unit labour costs remained virtually stable, the slight rise of 0.4 p.c. recorded in 1998 having offset an approximately equivalent fall in 1997. While unit labour costs remained virtually stable and import prices fell, enterprises last year slightly increased their profit margins and limited the rise in their selling prices. This, in combination with the expansion in the volume of sales due to the growth in domestic demand, gave rise to a considerable increase in the overall gross operating surplus of enterprises.

The virtual stability of domestic costs and the fall in energy prices also led to a further decline in inflation in 1998 : on the basis of the new national index, the rate of increase in consumer prices slowed again from 1.6 p.c. in 1997 to 1 p.c. in 1998, a percentage which is well within the bracket of 0 to 2 p.c. which the European Central Bank regards as corresponding to price stability. Underlying inflation, which disregards changes in the prices of energy and certain volatile food prices, and which is therefore a truer reflection of the fundamental trend, quickened very slightly, from 1.1 p.c. in 1997 to 1.4 p.c. in 1998, but this movement was chiefly due to the influence of temporary factors.

Both monetary and budgetary policy were marked last year by continuity and consolidation of the achievements of the previous years, resulting in a largely neutral policy mix.

In the field of public finance, the constant efforts to bring the budgetary situation and the development of the debt ratio into line with the criteria for participation in European monetary union were crowned with success. Already in 1997 the overall deficit was more than a percentage point below the Maastricht norm of 3 p.c. of GDP. It was reduced by another 0.6 percentage point in 1998 without any significant further corrective measures. Thus, with an overall deficit of 1.3 p.c. of GDP, the government already reached the target which it had only aimed at for the year 2000 in its adjusted convergence programme. Belgium thus already has a certain margin for fulfilling, in future, the obligations which the Stability and Growth Pact imposes on EU Member States, namely that cyclical setbacks, save in exceptional circumstances, must never cause the public deficit to rise again above the 3 p.c. threshold.

However much the results achieved may be a cause for satisfaction, they certainly do not justify complacency, let alone abandonment of the budgetary discipline displayed up to the present, since reducing the public debt to acceptable proportions is even more essential for Belgium than its European obligations under the Stability and Growth Pact. In this respect, too, a good deal has already been done. Since the public debt ratio peaked at around 135 p.c. of GDP in 1993, it has fallen by more than 19 percentage points, over half of this decrease taking place in the past two years. During the year under review the debt reduction, of more than 6 percentage points, was furthermore predominantly endogenous, since the level of the primary budget surplus, at 6.1 p.c. of GDP, is such that the resultant downward effect on the debt ratio more than counterbalances the upward effect of the differential — reduced, it is true, but still positive — between the real implicit interest rate on the debt and real GDP growth. Interest rates and economic growth are however factors which — particularly for a small, open economy such as that of Belgium — are largely determined by the international economic environment. The combination, conducive to reducing the public debt ratio, of falling interest rates and strong economic growth, which has prevailed in the recent past, cannot be regarded as a lasting achievement. For the downward trend of the debt to remain sufficiently strong even under less favourable circumstances, it is thus absolutely essential that the primary surplus be kept at not less than 6 p.c. of GDP.

Relying on the by then firmly established reputation of its strategy, the Bank hardly had to intervene on the money market or the foreign exchange market in order to keep the Belgian franc on the planned course, i.e. close to its central rate vis-à-vis the German mark. Only during the early months of the year did the Bank slightly tighten money market liquidity, first in order to prevent market rates from falling too far below those in Germany and later in order to counter the tensions, limited though they were, *on the foreign exchange markets, which were due to a certain nervousness on the eve of the crucial decisions of early May with regard to the composition of the future monetary union.*

The subsequent announcement that the prevailing bilateral central rates of the ERM would be used in determining the irrevocable conversion rates for the euro upon the transition to Stage Three of EMU, strengthened the conviction on the financial markets that the monetary authorities of the participating countries would make every effort to ensure that the introduction of the single currency would take place as smoothly as possible. Market participants therefore took a self-regulating stance, especially in the core countries of the prospective monetary union, where the required convergence of exchange rates and money market interest rates had already been largely completed. Under these circumstances the authorities were able to confine themselves to keeping a watchful eye on further events.

Lastly, though that was almost self-evident, the Bank associated itself, at the beginning of December, with the joint interest rate step of the central banks participating in monetary union by reducing its own key rate for allocations of credit by tender by 30 basis points, to 3 p.c. In view of the also domestically very moderate inflation prospects, this measure did not create any problem for Belgium, although it must be admitted that such nationally inspired considerations are henceforth no longer relevant.

IMPLICATIONS OF EUROPEAN MONETARY UNION

The changeover to the single currency

Since 1 January 1999 the euro has been the currency of the eleven countries participating in European monetary union. The national monetary units have been replaced by the single currency at an irrevocably fixed rate — of 40.3399 francs to the euro in the case of the Belgian franc — and they continue to exist only as non-decimal expressions of the euro, pending the introduction in 2002 of euro notes and coins.

In the meantime, the use of the euro by non-financial enterprises and individuals is governed by the « no compulsion, no prohibition » principle. The ambitious interpretation given to this principle in Belgium imposes specific obligations on both financial institutions and public authorities. Thus, credit institutions were already prepared, at the beginning of 1999, to offer all their customers, both enterprises and individuals, services either in euros or in Belgian francs. The organised financial markets and the interbank payment systems switched over entirely to the euro on the first day. Active preparations for the next major stage, namely the year 2002, are already being made under the auspices of the General Commission for the Euro. The introduction of euro notes and coins will make membership of a large community more tangible for all citizens. For the new currency to be genuinely accepted, it is crucial that this large-scale and unprecedented operation runs smoothly and that consumers are well prepared for it.

Some advantages of monetary union will probably not be perceptible until *then, or even later, while others, such as the euro area's heightened resistance to external turbulences, already became apparent before the actual transition to the euro. However, it is above all through its internal aspects that monetary union will help to increase the prosperity of its members.*

Being the natural complement to the single market, the single currency will stimulate cross-border trade, since it reduces transaction costs, eliminates exchange risks and improves the transparency of prices on the euro area's markets for goods and services. It also facilitates the creation of an integrated European financial market. This should lead to a more efficient allocation of resources and more dynamic economic growth.

On top of these microeconomic efficiency gains there is a greater guarantee of macroeconomic stability, thanks to the disappearance of the danger of distortions of exchange rates within the euro area and to the framework laid down for budgetary and monetary policy. The reins of the latter are entrusted to an independent institution whose main objective is the maintenance of price stability. Without prejudice to the purchasing power of the currency, the ESCB must give its support to the general economic policies in the European Union, whose main aims are the promotion of growth, employment and economic and social cohesion. Budgetary policies remain a national matter, but they must comply with the Stability and Growth Pact which calls for the maintenance of a budgetary position close to balance or in surplus in the medium term. These institutional guarantees are conducive to a favourable environment for investment and the expansion of activity by, among other things, keeping the risk premiums inherent in interest rates at a low level.

It goes without saying that all these benefits of European monetary union apply to Belgium, a small economy situated in the heart of Europe, which has close trade relationships with the other member countries of the euro area and whose public finances are sensitive to changes in interest rates owing to a high debt ratio.

Deriving the greatest possible advantage from the new economic environment presupposes, however, in each of the participating countries, the adoption of appropriate policies and efficient markets. For Belgium, admittedly, the changeover to the single currency merely represents an additional stage in a journey which was started long ago. This has been marked by the voluntary abandonment of the autonomy of monetary policy, to which a precise exchange rate objective was assigned in 1990 with a view to maintaining the stability of domestic prices and of the prices prevailing in trade with the main partners, and by the exposure of the national economy to foreign competition, which is conducive to economic efficiency and dynamism. Monetary union does, however, make the loss of independence as regards interest and exchange rates irreversible. It is also likely to heighten competition in an increasingly unified large market.

Furthermore, the need to ensure coherence between the single monetary policy and other areas of economic policy which have remained national, already constitutes an incentive to a further deepening of co-ordination and multilateral supervision within the European Union. The single currency can thus be expected to promote integration in non-monetary fields such as fiscal and social policy.

The single monetary policy

Henceforth, responsibility for the single monetary policy lies with the ESCB, which also conducts foreign exchange operations, manages the official foreign reserves of the Member States and promotes the smooth operation of payment *systems. The national central banks have surrendered their autonomy with regard to monetary policy but participate in the preparation and execution of the decisions of the Governing Council of the ECB. In Belgium, the law of 22 February 1998 made the Bank's Statutes accord in all respects with the provisions of the Maastricht Treaty concerning Stage Three of EMU and simplified the structure of the Bank's organs. Of the old Organic Law of 24 August 1939, the only provisions still to be repealed, in 2002, are those relating to banknotes denominated in Belgian francs and their legal tender status.*

That year will also witness the expiry of the last clauses of the Belgian-Luxembourg monetary association, which, after having operated to the satisfaction of both parties for three quarters of a century, has already largely merged into the European monetary union.

While the Treaty on European Union clearly assigns to the ESCB the objective of maintaining price stability, it leaves it to the Governing Council of the ECB to define the strategy of monetary policy. Since the creation of the ECB on 1 June 1998 the Governing Council, on the basis of the preparatory work done in the European Monetary Institute, has specified both the factors which will guide its policy and the concept of price stability. The latter has been defined as a year-on-year increase in the harmonised index of consumer prices for the euro area of below 2 p.c. Of course, the ESCB has no direct influence over prices. These may undergo short-term variations which are beyond its control. Furthermore, the transmission of monetary policy impulses is a lengthy process, ranging from very-short-term money market interest rates to prices, which takes place via a set of financial variables, such as longer-term interest rates, exchange rates and financial asset prices, via their influence on demand for goods and services, via the reaction of the social partners, etc. Consequently, the aim of price stability must be viewed in a medium-term perspective, while the strategy has both to permit the taking of coherent decisions and to enable the public to judge the actions of the ESCB before they have produced their full effect. Since the change in the monetary regime due to the introduction of the single currency is liable to disrupt the statistical relationships observed in the past, it is advisable not to impose an excessively simplistic rule on the conduct of monetary policy but rather to base this on a thorough analysis. The Governing Council therefore opted for a strategy comprising two elements : it will take as a reference point the growth in a broad monetary aggregate, called M3, while also making a broadly-based assessment of the outlook for future price developments. On the basis of estimates of potential GDP growth, of around 2 to 2 $^{1}/_{2}$ p.c. per annum, and the trend decrease in the velocity of circulation of M3, of about $^{1}/_{2}$ to 1 p.c. per annum, and taking account of the price objective, the Governing Council fixed the reference value for the annual growth in M3 at 4 $^{1}/_{2}$ p.c. Deviations from this value may serve as a guide in making decisions, but will not determine them in a mechanical way, given the uncertainties concerning the behaviour of the demand for money under the new regime. Such deviations will therefore in the first instance be analysed and assessed, in parallel with the overall evaluation of the risks weighing on price stability, and the result of this examination will be explained to the public.

The primacy assigned to maintaining price stability probably represents the best contribution that the ESCB can make to lasting and job-creating expansion. Lines of action aimed at countering a slowing of economic growth or stabilising financial markets should also be adopted, provided that they do not conflict with the overriding objective. Indeed, they will actually often result from the pursuit of that objective. Thus, the announced reference value for monetary growth contains a stabilising principle : if economic activity were to contract, the resultant weakening of the *demand for money and the absence of inflationary pressures would justify an easing of monetary conditions. On the other hand, the stimulation of demand to the detriment of price stability would create a climate of uncertainty harmful to investment, growth and employment. Monetary stability is also an essential condition for the soundness of the financial system : the alternation of phases of excessive monetary expansion inevitably followed by periods of restriction would expose financial institutions to greater risks, while a too generous provision of liquidity in the event of a fall in equity prices would be liable to weaken the corrective mechanisms, which nevertheless remain necessary.*

Owing to the relatively closed nature of the euro area, the exchange rate for the euro does not have a privileged status in the ESCB's monetary policy strategy. It is, however, one of the factors influencing domestic prices and should therefore not be neglected. The simultaneous pursuit of stability-oriented monetary and budgetary policies in the euro area and in the main partner countries reduces the risks of extreme movements in exchange rates, such as the excessive rise of the dollar which was triggered by an unbalanced macroeconomic policy mix in the United States in the first half of the 1980s. Except in the very short term, exchange rate fluctuations should mainly result from asynchronous business cycles, since the internationalisation of the euro is likely to be a gradual process which might be reflected equally well in a decline in interest rates. Furthermore, the Member States of the European Union which have not yet adopted the euro are required to treat their exchange rate policy as a matter of common interest, and the new exchange rate mechanism offers them an anchoring point which can be of help in preparing for possible accession. The Danish krone and the Greek drachma participate in this mechanism, with fluctuation margins of 2.25 p.c. and 15 p.c. respectively on either side of their central rates vis-à-vis the euro.

When deciding on the course of monetary policy, the Governing Council of the ECB will take account of the situation in the euro area as a whole. Thanks to the economic integration of the participating countries, cyclical movements there have already tended to become more synchronous, although the exceptional asymmetrical shock of the reunification of Germany caused a temporary widening of growth discrepancies. In the case of Belgium, economic developments, which are greatly dependent on those in the neighbouring countries, will probably be no exception, and monetary conditions which are appropriate for the euro area ought therefore to be broadly suitable for the national economy.

The ESCB endeavours to achieve its objectives mainly through the direct influence which it exerts on money market interest rates in the euro area. To this end, the Governing Council adopted an operational framework which complies with the principle of a market economy favouring an efficient allocation of resources. The ESCB guides short-term interest rates by determining the volume of and the interest rates for the liquidity provided to credit institutions. Thus it organises, for the whole euro area, weekly allotments by tender of two-week credits. It furthermore fixes the interest rates on its standing lending and deposit facilities, which bound the overnight market rates. It also organises monthly allotments of three-month credits, the function of which is not to influence interest rates but only to ensure a limited amount of longer-term refinancing. The ESCB leaves it to the credit institutions to level out interest rates over the whole euro area by means of their arbitrages and puts at their disposal the TARGET system, which facilitates cross-border payments ensuring that they are definitively, immediately and safely settled. Compulsory reserves, to be held on average over periods of one month, amplify the banks' recourse to the ESCB and, above all, enable very-short-term liquidity fluctuations to be absorbed without *necessitating daily intervention by the ESCB. Fine-tuning operations ought therefore to be infrequent. This operational framework does not entail either subsidies or implicit taxes, since the credits are not granted on preferential terms and the compulsory reserves are fully remunerated. The execution of the transactions is decentralised, but all their parameters are decided upon by the ECB. Credit institutions located in a given country must normally deal with their national central bank, which can, however, also grant them liquidity on the basis of collateral deposited in another country.*

In order to start a learning process in good time, the Bank called upon Belgian and Luxembourg credit institutions to participate, from 1 September 1998 onwards, on a voluntary basis, in a system of minimum reserves with an averaging provision. On the same date the Bank stopped intervening on a daily basis in the money market and simplified its end-of-day standing facilities. Around seventy institutions joined the system, which has performed its stabilising function well. As the amount of reserves to be held by Belgian credit institutions under the ESCB system is much greater than that under the transitional system, the Bank allowed these institutions to increase their reserve balances as from 31 December 1998, particularly by making use of the proceeds of the certificates issued by the Bank at the end of 1996, which were then reaching maturity.

Budgetary policy

In the budgetary field, the Treaty of Maastricht already made provision for the adoption of broad economic policy guidelines and for a procedure aiming to prevent excessive government deficits. The Stability and Growth Pact further specified this framework for budgetary policy. In addition, it would be desirable for the ministers of finance of the euro area to arrive at a genuine policy co-ordination and for a dialogue to be developed between the ECB and the budgetary authorities, whose respective responsibilities are clearly defined.

The discipline imposed by the Stability and Growth Pact is designed to ensure that the macroeconomic policy mix does not become unbalanced and that the burden of stabilisation does not fall too one-sidedly on the ESCB, since this could exercise an upward pressure on both interest rates and the exchange rate for the euro which would be detrimental to investment and growth. A further purpose is to maintain or restore a margin for countering cyclical fluctuations. The automatic stabilisers incorporated in the national budgets are particularly useful for absorbing country-specific shocks which can no longer be dealt with by differentiated monetary policies, while the absence of a central budgetary authority limits the scope for significant intra-Community transfers. It is therefore important to allow these stabilisers to fulfil their anticyclical role efficiently by incorporating their action in a framework which averts the risk of derailment and strengthens confidence. Lastly, a balanced medium-term budgetary position is essential for the reduction of the public debt ratio and interest charges, an aim which it would be preferable to attain before the ageing of the population imposes a burden on the public finances.

In view of Belgium's heavy public debt, such a budgetary discipline is certainly in line with the national interests. The reduction of the public debt ratio towards a level of 60 p.c. of GDP thus remains a priority, since it would free the public finances of a structural weakness. The endogenous decline in the burden of the debt service, which started a few years ago thanks to considerable consolidation efforts, will over time create welcome scope for action. Especially in order to cope with the consequences of demographic developments, which will make themselves strongly felt from about 2010 *onwards, it is essential to allow that process to operate fully by maintaining the primary surplus of general government at no less than 6 p.c. of GDP for a sufficiently long period.*

Belgium's stability programme for the period 1999-2002, presented in December 1998, confirms the budgetary strategy centred on the maintenance of such a high primary surplus. Under normal economic circumstances, the overall deficit will thus have virtually disappeared in 2002. If economic growth continues at its trend rate of 2.3 p.c. per annum and there is no change in fiscal and parafiscal policy — account being taken, however, of the lines of action already decided upon with regard to the indexation of tax scales and the reduction of social contributions, but not of possible new ways of financing the social security system — the primary surplus could be kept at 6 p.c. of GDP provided that the real rise in expenditure is held down to about 1.6 p.c. per annum. If economic expansion were to exceed 2.3 p.c., the programme provides for a larger primary surplus in order to increase the ability to react to a subsequent slowing of activity, which means that only a part, in any case less than 0.2 p.c. of GDP, of the cyclical gains should then be used for financing what are felt to be priority initiatives.

The commitments entered into under this programme must be strictly honoured at all levels of government, on the basis of the analysis and recommendations of the Superior Finance Council.

In addition to the aim of balanced government finances, public revenue and expenditure should be made more efficient. Thus, in accordance with the broad guidelines of the European Union, the authorities should, on the one hand, favour investment in infrastructures, spending on human capital and active labour market policies and, on the other hand, reduce the fiscal and parafiscal burden which weighs on labour and depresses the supply of and the demand for jobs. In order to leave scope for these necessary reallocations, without jeopardising the foundations of social security, it would therefore be advisable to set for certain categories of expenditure — especially in the field of transfers to individuals and subsidies to enterprises — more rigorous targets than a real growth ceiling of 1.6 p.c. per annum. What is needed therefore, is a coherent and durable policy which establishes mechanisms with structural effects, even if the implementation of these has to be attuned to the current economic situation.

Lastly, the integration of financial markets, enhanced by the introduction of the single currency, calls for harmonisation of the tax treatment of income from capital in order to prevent distortions detrimental to the efficient allocation of resources and to restore a more balanced relationship between the taxing of incomes earned by labour — a factor of production with relatively little mobility — and income derived from financial assets.

Income formation and social and structural policies

The considerations concerning the necessary consistency between national budgetary policies and the single monetary policy are also relevant in many respects with regard to income formation and social and structural policies. The European Union has therefore also made provision for multilateral examination and co-ordination of the policies pursued in these matters, more particularly through its broad guidelines of economic policies and employment guidelines. The framework thus established is so far less precise and binding than the budgetary rules, but is likely to be developed in the same direction. Specific problems may arise owing to the large number of parties involved — since public authorities obviously do not have the same degree of control over *the labour, goods and services markets, as over their budgets —, to the complexity of social reality — which it is still difficult to grasp by means of harmonised statistics — and to the diversity of the approaches to the question of under-employment. Nevertheless, on the basis of the progress made since the Essen, Amsterdam and Luxembourg summits, the European Council decided, in Vienna in December 1998, to draw up a pact for employment setting numerical and verifiable targets.*

Even though responsibility for it remains completely decentralised and lies chiefly with the social partners, the formation of incomes in the euro area should be compatible with the stability-oriented monetary policy. In particular, nominal growth in labour costs must remain close to that in productivity, so as not to exert pressure on prices and force the ESCB to tighten its policy. Furthermore, the relative levels of labour costs must reflect sufficiently closely the prevailing differences in productivity within the euro area, in order to keep up activity and employment in the individual economies. The most important thing at first will probably be to avoid over-hasty alignments with the highest nominal wages, which would have harmful repercussions on employment in countries where productivity is still lagging behind. In the longer term, the decisive factor will be the extent to which labour costs can adjust to lasting divergences in productivity or the terms of trade, since it is henceforth impossible for competitive positions to be corrected through exchange rates. Lastly, the apparent productivity of labour ought not to be artificially increased by the elimination of highly labour-intensive enterprises : for safeguarding employment growth, neither wage developments nor the structure of fiscal and parafiscal charges must be allowed to lead to the substitution of capital for labour.

A deepening of the dialogue between the ECB and the social partners might improve the chances of achieving these aims.

In Belgium, too, concern for price stability, for competitiveness and for promoting employment must be the guiding principle in collective bargaining. In a small, open economy, growth and employment depend crucially on the ability to adapt to the international environment and, in particular, on the competitiveness of enterprises. Consequently, prospective wage developments in the neighbouring countries are still a valuable reference point.

While keeping wages under control is undoubtedly a fundamental condition for raising the employment rate, it must also be accompanied by structural reforms which will strengthen both the economy's ability to adapt and the operation of the labour market, while at the same time ensuring that the systems of social protection remain viable. Thus an adequate redistribution of the volume of work, as well as the training and active guidance of jobseekers, might help to reduce unemployment. Such reforms, which must be the subject of social consultation, will also make it easier to comply with the rules concerning monetary and budgetary stability within the framework of monetary union.

The action plan for employment which Belgium submitted in April 1998 and the inter-professional agreement signed in December address these concerns. The former was drawn up following consultation between the federal state, the regions and communities and the social partners, in compliance with the European Union's guidelines for employment, which pursue four main objectives : improvement of employability, development of entrepreneurship, encouragement of the adaptability of businesses and their employees and strengthening of the equal opportunities policy. This strategy, centred on prevention, training and active measures for re-entry into working life, aims to stimulate growth and bring about a lasting increase in the employment rate. In particular, raising the level of skills and improving employability by means of *financial and other incentives would benefit all sectors and regions, irrespective of their specific characteristics. Furthermore, a programme for reducing social charges should stimulate the demand for and supply of labour without undermining the efforts made to combat poverty.*

The recent inter-professional agreement, concluded for 1999 and 2000 after several years of government intervention in wage formation, is primarily aimed at promoting lasting employment. It provides the framework for negotiations within sectors and enterprises, referring, on the basis of a technical report of the Central Economic Council, to the expected rise in wages in the neighbouring countries. It also calls upon enterprises to make greater efforts with regard to employment and training and provides for a half-way assessment. Specific problems can be addressed by taking account, in the negotiations, of geographical and sectoral differences. Special attention must also be paid to enabling low-skilled workers or those with little working experience to find employment.

The labour market is not the only market whose operation must be improved. Some sectors, for instance distribution, transport, electricity or postal services, should be organised or regulated differently in order to anticipate the effects of European liberalisation and increase the sturdiness of the enterprises concerned and the overall efficiency of the economy. Regulations should be re-examined taking account of, on the one hand, the contribution which competition can make to the modernisation of the economy and to prosperity and, on the other hand, the need to ensure the widest possible access to high quality collective services.

Lastly, the single currency confronts the financial intermediaries and their supervisory authorities with particular challenges. At present, the assets of Belgian banks, a large proportion of which are composed of interbank claims and public securities, are characterised by a low average risk level. These institutions are therefore able to meet the solvency requirements with a relatively limited capital base, thus achieving a satisfactory return on equity. These features may, however, become a handicap when the banks have to contend with the integration of the financial market. Moreover, the consolidation of the public finances will induce credit institutions to further diversify their activities, especially by developing financing operations which require more equity. Although they are not without certain strategic risks, the major regroupings which have recently taken place in the financial sector should make it easier to adjust to the new dimension of the market. Prudential supervision, for its part, will have to adapt further to the formation of pan-European entities and the blurring of the boundaries between different categories of financial activities.

CONCLUSION

Considerable progress has been made during the last two decades in three areas of economic policy : the restoration of the competitiveness of enterprises, monetary stabilisation and budgetary consolidation. This progress has enabled Belgium to enter a new era, by participating in the European monetary union. Now that the ESCB is responsible for monetary policy, it is of crucial importance that the commitments in the budgetary sphere be honoured, in order to enable public finances to *react better to cyclical developments and adjust more easily to future structural requirements. As the public debt ratio approaches an acceptable level and control over primary expenditure together with the virtuous circle of declining interest charges are being reflected in a steady improvement in budgetary results, margins will develop for reducing the tax burden and redirecting expenditure in a way conducive to growth and job creation. For the Belgian economy, the greatest challenge will henceforth be its ability to adapt to keener competition and make better use of the available labour reserve. Although scarcely any autonomy remains for framing macroeconomic demand policies, the improvement of supply conditions is still essentially a national and regional task which calls for the active involvement of everyone, not only government authorities but also entrepreneurs and workers.*

Brussels, 27 January 1999.

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The Bank's present report, which is the last one to comment on national monetary policy, was unanimously approved.

On this occasion the Council of Regency wishes to pay tribute to the Governor and the other members of the Board of Directors for the outstanding services which they have rendered to the country.

Their clear perception of the Belgian economy, their advice and the information and technical assistance which they provided to those involved on the economic scene have greatly contributed to enabling Belgium to participate from the outset in Stage Three of Economic and Monetary Union and in the introduction of the euro.

LIST OF ABBREVIATIONS

BBA	Belgian Bankers' Association
BIS	Bank for International Settlements
BLEU	Belgian-Luxembourg Economic Union
CGER	Caisse Générale d'Epargne et de Retraite (General Savings and Pensions Fund)
CIC	Company for investment in claims
CIK	Securities Deposit and Clearing Office of the Financial Sector
CTEC	Clearing Transactions Exchange Centre of the Belgian Financial System
DTI	Definitively taxed income
EASDAQ	European Association of Securities Dealers Automated Quotation
EC	European Commission
ECB	European Central Bank
ECOFIN	Council of Ministers for Economic Affairs and Finance of the European Union
ELLIPS	Electronic Large-value Interbank Payment System
EMI	European Monetary Institute
EMS	European Monetary System
EMU	Economic and Monetary Union
ERM	European Exchange Rate Mechanism
ESCB	European System of Central Banks
EU	European Union
FPB	Federal Planning Bureau
GDP	Gross domestic product
GNP	Gross national product
HICP	Harmonised Index of Consumer Prices
HST	High-speed train
HWWA	Hamburgisches Welt-Wirtschafts-Archiv
IMF	International Monetary Fund
LEA	Local Employment Agency
MEA	Ministry of Economic Affairs
MEL	Ministry of Employment and Labour
NAI	National Accounts Institute
NBB	National Bank of Belgium
NEMO	National Employment Office
NICP	National Index of Consumer Prices
NPA	Non-profit association
NSI	National Statistical Institute

OECD	Organisation for Economic Co-operation and Development
RGI	Rediscount and Guarantee Institute
SDR	Special Drawing Right
SICAFI	Société d'investissements à capital fixe en biens immobiliers (fixed-capital company for investment in immovable property)
SICAV	Société d'investissement à capital variable (variable-capital investment company)
SNCI	Société Nationale de Crédit à l'Industrie (National Industrial Credit Company)
UCI	Undertaking for collective investment
VAT	Value added tax

Economic and financial developments

Preliminary remarks

Unless otherwise indicated, when data are compared from year to year, they all relate to the same period of each of the years in question.

In the tables, the totals shown may differ from the sum of the items owing to rounding.

In order to make it possible to describe the development of various important economic data relating to Belgium in the year 1998 as a whole, it was necessary to make estimates, as the statistical material for that year is inevitably still very fragmentary. In the tables and charts these estimates, which were arrived at in January 1999, are marked by the sign « e ». They represent mere orders of magnitude intended to demonstrate more clearly the major trends which already seem to be emerging.

For the years prior to 1998 the official national accounts data have been included in the Report as they stand. However, in order to enable the trend of certain items to be more clearly seen, the statistical adjustments, which have the effect of reconciling the various approaches adopted in the national accounts, have generally not been applied to these items, as is done by the National Accounts Institute, but have been isolated.

The breakdown of the financial accounts between individuals and companies is largely based on data from the credit institutions with which they carry out the majority of their investment and financing transactions. The information on the basis of which the other financial transactions of the private sector — including transactions with foreign countries and purchases of securities — can be broken down are however much more fragmentary. The most important statistic which can be used for this purpose, namely the globalisation of the annual accounts of enterprises drawn up by the Central Balance Sheet Office, is in fact incomplete, provides solely annual data and is available only with a delay of several months. Its was therefore necessary, in a number of cases, to base the calculations on assumptions, and various estimates had to be made.

The euro area, to which this Report regularly refers, covers all the eleven countries which have shared a single currency, the euro, since 1 January 1999, i.e. Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland. For convenience, the term « euro area » is also used to designate this group of countries for periods prior to 1 January 1999.

Conventional signs

—	the datum does not exist or is meaningless
...	zero or negligible quantity
n.	not available
p.c.	per cent
p.m.	pro memoria
e	estimate by the Bank

1. INTERNATIONAL ENVIRONMENT

1.1 SUMMARY

There was a marked slowdown in the growth of the world economy in 1998 : the figure was just 2 p.c., or half the previous year's growth rate. The movement was not uniform. Several countries including Japan and some of the emerging or transition economies, which together account for around one fifth of world GDP, were in recession. Elsewhere, activity continued to expand, especially in the advanced countries. In the United States, where the cyclical upswing which had begun six years earlier appears to have peaked, this expansion continued at a slightly slower pace than in 1997. In contrast, in the majority of the euro area countries and in the euro area as a whole, the growth rate was more sustained.

TABLE 1 — GROWTH OF THE WORLD'S MAIN ECONOMIES

(Percentage changes in GDP at constant prices compared to the previous year)

	1997	1998	p.m. Weight in the world economy [1]
European Union	2.7	2.8	19.8
of which : euro area	2.5	2.9	15.5
United States	3.9	3.5	20.4
Japan	0.8	−2.6	7.7
Other advanced countries [2]	3.2	2.8	3.8
Emerging Asian economies [3]	4.6	−7.1	8.6
China	8.8	7.6	11.5
Latin America	5.1	2.8	8.8
Russia	0.8	−6.0	1.9
Other transition countries	2.5	3.3	2.7
Other countries	3.7	2.2	14.8
World	4.0	2.0	100.0

Sources : OECD, EC.
[1] Percentages of world GDP in 1997, based on purchasing power parities.
[2] Canada, Australia, New Zealand, Norway, Switzerland.
[3] South Korea, Taiwan, Indonesia, Hong Kong, Thailand, Malaysia, Singapore, Philippines.

In this area the economic expansion phase which had regained strength by mid-1996 continued during the year under review. It was sustained by the improvement on the labour market and the imminent prospect of EMU, and also by the uninterrupted fall in long-term interest rates, which, while continuing to benefit from the stability policy pursued by the countries in the euro area, was accentuated by the effect of the inflows of capital seeking a safe haven in a world dominated by the crisis in the emerging countries. These factors bolstered the confidence of economic agents and therefore stimulated growth. In this region of the world, their positive impact far outweighed that of the deterioration in the international environment.

1.2 EFFECTS OF THE FINANCIAL CRISIS IN THE EMERGING COUNTRIES ON GROWTH

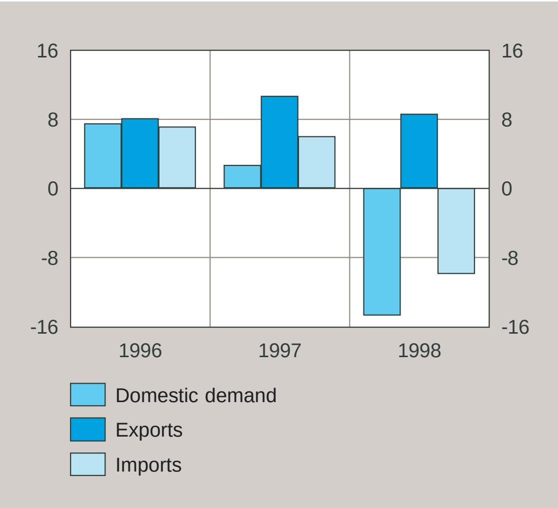
The slowdown in the global economy in 1998 was largely due to the financial crisis which began in Asia during the summer of 1997.

In the emerging Asian countries the drop in asset prices and the rise in interest rates, whose impact was sometimes compounded by the rationing of bank credit, and in the majority of cases by the pronounced depreciation of the exchange rate, caused a considerable fall in domestic demand, which led to a smaller fall in imports.

Most of these countries implemented recovery programmes in which the top priority was to stabilise exchange rates. These policies, backed by foreign finance in some cases, consisted, in an initial

CHART 1 — DOMESTIC DEMAND, EXPORTS AND IMPORTS OF THE EMERGING ASIAN ECONOMIES [1]

(Percentages changes at constant prices compared to the previous year)



Source : OECD.

[1] List of countries : see Table 1.

phase, of a draconian tightening of monetary restrictions, demonstrating the authorities' determination to restore confidence in the national currency. In the countries where they succeeded in stabilising exchange rates, monetary policies were gradually relaxed and in some of them, by the beginning of the second half of 1998, short-term interest rates were thus back to a level close to that seen a year earlier. However, because of the difficulties experienced by the banks, fairly tight restrictions were maintained on lending to the economy. Moreover, in view of the serious structural problems facing the financial sector in these countries, the authorities took specific measures such as revision of the prudential control system and consolidation and recapitalisation of this sector.

China's exports were hit by a very severe slowdown. However, thanks to buoyant domestic demand, with a growth rate exceeding that of 1997, the rate of GDP growth dipped only very slightly in that country.

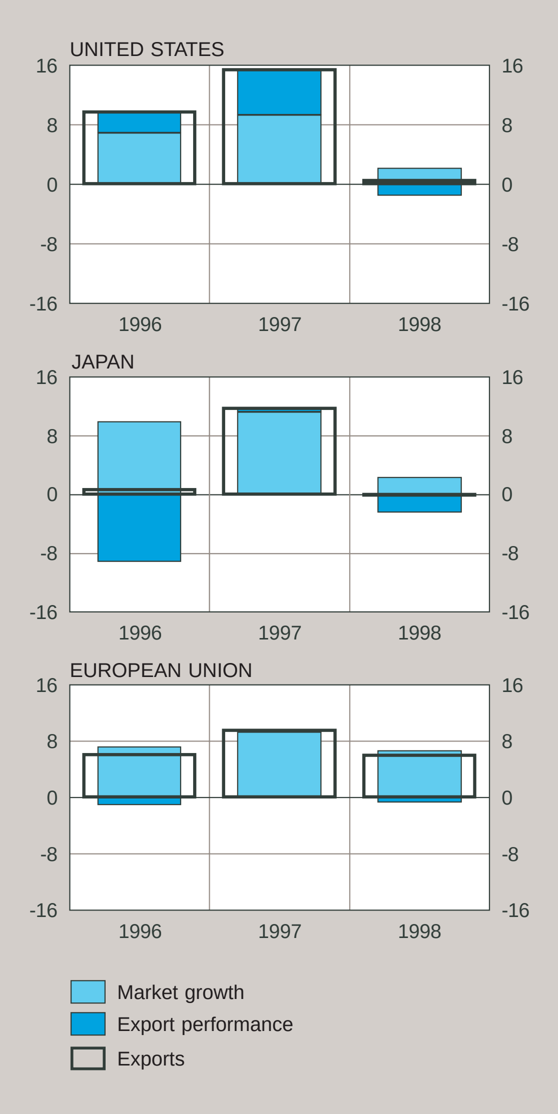
Outside that region of the world, other emerging or transition economies had to contend with the consequences of the instability of the financial markets, which furthermore exacerbated internal imbalances. Russia was particularly hard hit by the impact of falling oil and commodity prices, as were the other producing countries. Its current external balance deteriorated while at home the adjustments made, including the maintenance of particularly high interest rates, proved inadequate in a context notable for numerous structural deficiencies, especially as regards the public revenue collection system. When the foreign loans granted in July 1998 in order to stabilise the exchange rate for the national currency proved less successful than had been hoped, the Russian authorities were forced to announce a rescheduling of the public debt in national currency in August 1998, and a ninety-day moratorium on external private debt. This immediately led to a sharp fall in the exchange rate for the rouble and the collapse of the stock market. The Latin American countries were more successful in avoiding the contagion, adopting measures to support the exchange rate for their currencies, notably by tightening their fiscal and monetary policies. In Brazil, an adjustment programme had to be implemented with the aid of the IMF.

The advanced countries felt the effects of the Asian crisis both via their trade with the rest of the world and in the way their domestic demand was affected by certain financial developments, particularly the change in the direction of capital flows and major variations in stock market prices and interest rates.

In volume terms, export growth in the advanced countries decelerated very sharply in 1998. While this contraction is primarily a reflection of the effects of the slump in demand in the emerging Asian economies and the depreciation of those countries' currencies, which made the advanced countries less competitive, it was

CHART 2 — EXPORTS OF THE MAIN ECONOMIES

(Percentage changes at constant prices compared to the previous year)



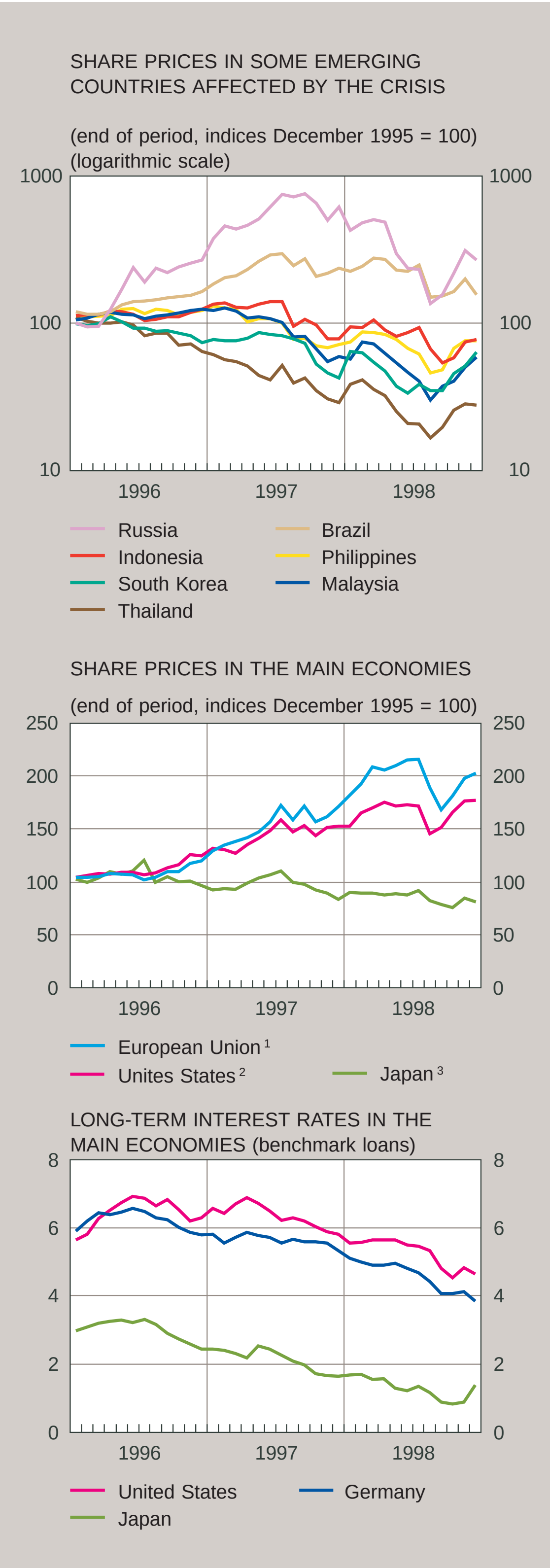
Source : OECD.

also partly due to the fall in oil and commodity prices, caused by the weakening of the world economy : this depressed income and hence demand in the main countries exporting these products. The slowdown in export growth was not uniform among the major advanced countries owing to the geographical pattern of their trade and the development of their respective competitiveness. It was very marked for the United States, where growth in exports of goods slid back from 15.4 p.c. in 1997 to 0.5 p.c. in 1998, and for Japan, where the volume of exports fell by 0.2 p.c. in 1998, after having risen by 11.8 p.c. the previous year. These developments were due to the marked slowing of the expansion of the markets and the deterioration of the export performance of these two countries : in the United States the latter was mainly due to the dollar's appreciation against the other leading currencies, which had continued almost unabated since 1995, and in Japan it was attributable to the fiercer competition from several Asian countries in crisis. On the other hand, for the EU the deceleration in the export growth rate was more moderate, the rise having slackened from 9.5 p.c. in 1997 to 6 p.c. in 1998. However, these figures include not only trade between the EU and the rest of the world but also the very buoyant trade between member countries, which partly masks the effect of the deteriorating situation in non-EU countries.

The negative impact of Asia's recession on the volume of the exports of the advanced countries was partly offset by its indirect positive effect on demand in those countries via the relative foreign trade prices. The fall in the unit value of exports from the emerging economies whose currencies had depreciated, together with the decline in the prices of basic commodities, in fact improved the terms of trade for the advanced countries. As a result, economic agents there benefited from an improvement in their purchasing power, which encouraged spending.

On the international financial markets, the « flight to quality » took the form of a massive withdrawal of private capital from the economies in difficulties and a simultaneous influx of capital into the economies with the best fundamentals. In the advanced countries, these financial flows related to fixed-interest securities throughout the year, thus helping to push

CHART 3 — SHARE PRICES AND LONG-TERM INTEREST RATES



Sources : Bloomberg, BIS.

[1] FTSE Eurotop 100 index.

[2] Dow Jones Industrial.

[3] Nikkei 500.

down long-term interest rates and hence to support activity.

Until July, these capital movements also involved massive buying of European and American equities, sustaining the stock market boom, which had already been exceptionally strong for the preceding three years. This movement contrasted with that in most of the emerging markets' financial centres, where equity prices collapsed, and with Japan, where the erosion persisted. The situation changed between July and October : share prices in all the advanced countries underwent a substantial correction owing to the greater risks represented for those countries by the continuing and spreading crisis in the emerging economies and anxiety about the profit outlook, as well as the deepening of the recession and the worsening financial problems in Japan. Between October and the end of the year share prices recovered, partly making up for the downward movement seen from July to October in the EU, and more than offsetting it in the United States. Over the year as a whole, share prices there rose by 18.4 and 16 p.c. respectively. The impact of the movement in these prices is hard to assess, but it should be more marked in the United States, where the proportion of these assets owned by households is largest.

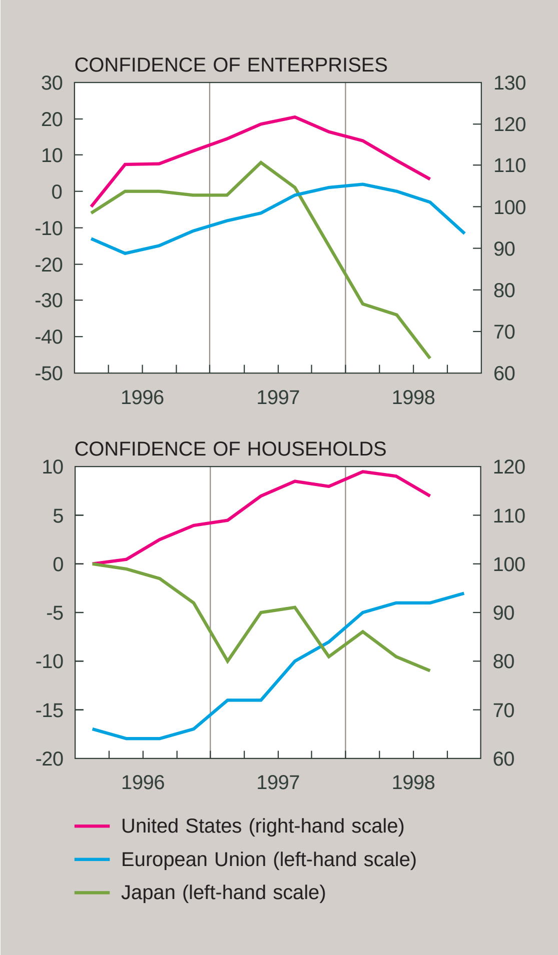
The financial turmoil also affected the solvency of financial institutions, especially the Japanese banks. In relation to the level of their equity capital, these banks are in fact more exposed to the emerging markets than European and, particularly, American banks, and their claims are concentrated in the emerging economies of Asia, namely those hardest hit by the financial crisis. The collapse of stock market prices in Japan reduced the amount of latent capital gains on the banks' equity portfolios and hence on the equity of these institutions, whose balance sheets are furthermore not as sound as those of American and European banks. The combination of these factors limited the ability of the Japanese banks to cater for the economy's credit needs, and this doubtless depressed activity, as is evidenced by the spate of Japanese business failures in 1998.

The developments described above affected confidence in the advanced countries, though the impact varied greatly from country to country and from one group of economic agents to another.

In Japan, as soon as the financial crisis had broken out in July 1997, enterprises and to a lesser extent private individuals became keenly aware of the risks arising from the problems in the financial sector, the fall in asset prices and the restructuring. In that country, the contraction in expenditure on consumption and investment by households and enterprises was largely the reflection of this loss of confidence.

In the United States, the confidence indicator for enterprises began to fall during the summer of the previous year, while that for households deteriorated from March 1998 onwards. However, taken together these downturns caused no more than a modest slowdown in spending.

CHART 4 — CONFIDENCE INDICATORS FOR ENTERPRISES AND HOUSEHOLDS [1]



Sources : OECD, EC.

[1] Seasonally adjusted quarterly averages. The indicator levels are not mutually comparable.

Owing mainly to the sustained economic upswing, European economic agents reacted later and more moderately. The confidence index for enterprises did not start to fall until the spring of 1998, while that for households remained at a high level throughout the year, in a favourable economic climate which benefited from the strength of the economic fundamentals, due to the convergence policies being pursued with a view to the adoption of the single currency and the prospect of that coming about.

TABLE 2 — BANK LOANS TO EMERGING COUNTRIES AT THE END OF 1997

(Percentages of their equity capital in 1996)

	Creditor countries		
	Japan	United States	European Union
Debtor countries :			
Emerging Asian economies [1]	122.1	9.7	47.3
China	10.6	0.7	4.8
Latin America	8.0	16.9	23.1
Russia	0.5	1.9	7.4
Other	2.9	1.9	7.9
Total	144.1	31.1	90.5

Source : OECD.

[1] List of countries : see Table 1.

1.3 MAIN ECONOMIC DEVELOPMENTS IN THE ADVANCED COUNTRIES

Activity and employment

In Japan the recession which began in the second half of 1997 continued and intensified in the year under review, despite the fiscal and monetary incentive measures. GDP fell by 2.6 p.c. in 1998, after having risen by only 0.8 p.c. the previous year. Apart from a temporary recovery in 1996, activity remained listless after the bursting of the speculative bubble on the markets in equities and real assets at the start of the decade. Aside from the deterioration in the international environment, several factors combined to cause demand to slump in 1998 : prices of equities and real estate fell once again ; the stability of the financial sector seemed increasingly in doubt ; banks became less willing to grant new loans ; and business failures proliferated, causing a decline in employment and household income. These mutually reinforcing factors sapped the confidence of economic agents in the private sector, undoubtedly contributing to the decline in their expenditure. Thus, household consumption fell while housebuilding and gross fixed capital formation by enterprises showed an even sharper decline. Despite the importance of the emerging countries in Japan's foreign trade and the resulting contraction of exports, net foreign trade made a positive contribution to growth owing to the fall in imports due to the decline in domestic demand.

TABLE 3 — GROWTH AND EMPLOYMENT IN JAPAN

(Percentage changes compared to the previous year)

	1996	1997	1998
Expenditure at constant prices			
Domestic demand	4.8	−0.5	−3.3
of which :			
private consumption	2.9	1.1	−1.8
investment in housing	13.9	−15.7	−13.5
investment by enterprises	9.5	4.3	−9.6
Net exports [1]	−0.8	1.3	0.7
GDP	3.9	0.8	−2.6
Employment [2]	0.5	1.1	−0.7
p.m. Unemployment rate (percentages of the labour force)	3.4	3.4	4.2

Source : OECD.
[1] Contribution to the change in GDP.
[2] Number of persons in employment.

In 1998, the economic recession in Japan ended a period of over twenty-five consecutive years of job creation and caused unemployment to rise steeply to over 4 p.c. of the labour force.

In the United States the cyclical upswing which began in 1992 seems to have peaked around the middle of 1998. In the first half-year the year-on-year growth rate reached 4 p.c., which was higher than in each of the six previous years of the expansion phase. This vigorous growth was fuelled mainly by the expansion of private consumption and investment in housing, which were stimulated by the increase in employment, the rise in real wages and the wealth effect generated by the rise in share prices. The expansion of household spending also had as its counterpart a rise in consumer debt, so that household savings became negligible. Another growth factor was the demand from enterprises which substantially stepped up their investment in fixed capital and increased their stocks. During the second half of 1998, in a context marked by the deterioration in confidence among the various categories of economic agents and by the stock market fall from July to October, growth slowed down owing to a smaller rise in private consumption, in expenditure on housing and in investment by households and enterprises, which also reduced their stocks. Taking the year as a whole, the rate of expansion in domestic demand held up particularly well despite

TABLE 4 — GROWTH AND EMPLOYMENT IN THE UNITED STATES

(Percentage changes compared to the previous year)

	1996	1997	1998
Expenditure at constant prices			
Domestic demand	3.6	4.2	4.9
of which :			
private consumption	3.2	3.4	4.7
investment in housing ...	7.4	2.5	9.3
investment by enterprises	9.3	10.7	10.9
change in stocks[1]	...	0.5	−0.1
Net exports[1]	−0.2	−0.4	−1.6
GDP	3.4	3.9	3.5
Employment[2]	1.4	2.2	1.3
p.m. Unemployment rate ...... (percentages of the labour force)	5.4	4.9	4.6

Source : OECD.
[1] Contribution to the change in GDP.
[2] Number of persons in employment.

the deceleration in the second half-year. This buoyant demand generated a large increase in imports, which, together with the weak growth in exports, amplified the negative contribution of net exports to growth.

Once again, this vigorous growth stimulated job creation : though the effect was less marked than in each of the five preceding years, it nevertheless enabled unemployment to be reduced to 4.6 p.c.

In most European countries, growth continued to accelerate. For the EU as a whole it averaged 2.8 p.c. in 1998 against 2.75 p.c. the previous year. It was led by domestic demand, particularly private consumption, investment in housing, investment by enterprises and stock formation, although the growth rates of these last two categories of expenditure did decline in the second half-year. The strength of domestic demand and the modest deterioration in competitiveness on account of the depreciation of the currencies of the emerging countries and Japan caused the external balance to make a negative contribution to growth, in contrast to the preceding eight years.

The buoyancy of domestic demand was particularly apparent in the euro area. The confidence of economic agents there was boosted by a sound macroeconomic environment, which benefited from the implementation of policies aimed at economic convergence, and by the prospects opened up by the introduction of the single currency, which furthermore prevented the development of tensions on the foreign exchange markets. The quickening of GDP growth was slightly more sustained in this area than in the EU as a whole, mainly because of differences in the economic cycle. The growth of domestic demand there was slightly higher, and above all, the negative net contribution of exports to growth was not as great. Growth speeded up in the majority of participating countries, especially in Germany and still more so in France.

TABLE 5 — GROWTH AND EMPLOYMENT IN THE EUROPEAN UNION

(Percentage changes compared to the previous year)

	1996	1997	1998
Expenditure at constant prices			
Domestic demand	1.4	2.3	3.3
of which :			
private consumption	2.0	2.1	2.5
investment in housing ...	2.1	0.4	2.7
investment by enterprises	3.2	4.0	6.3
change in stocks[1]	−0.4	0.5	0.5
Net exports[1]	0.3	0.3	−0.4
GDP	1.8	2.7	2.8
of which : euro area	1.6	2.5	2.9
United Kingdom	2.6	3.5	2.7
Employment[2]	0.3	0.6	1.0
p.m. Unemployment rate ...... (percentages of the labour force)	11.3	11.2	10.6

Source : OECD.
[1] Contribution to the change in GDP.
[2] Number of persons in employment.

In the United Kingdom, on the other hand, after six years of expansion the economic cycle peaked in the second half of 1997. Growth began to slacken from the last quarter of the year, and this trend persisted in 1998. As a result, the rate of increase of employment slowed down considerably, though without interrupting the downward trend of the unemployment rate, which in 1998 reached its lowest level since the beginning of the 1980s.

In the EU the improvement in the labour market situation is both a reflection of the growth and one of the driving forces behind its dynamism. Employment increased by 1 p.c., bringing the unemployment rate down from 11.2 p.c. of the labour force in 1997 to 10.6 p.c. in 1998. In the euro area, employment grew by a corresponding proportion and the unemployment rate dropped below the 12 p.c. mark during the year, whereas a year earlier it had still been as high as 12.4 p.c. In Germany job destruction, which had been substantial from 1992 to 1997, came to an end, while the rate of job creation accelerated in France, rising to 1.2 p.c. In consequence, the unemployment rate declined slightly in Germany and showed a more marked fall in France.

Despite some improvement on the labour market in the European Union, the employment rate remains weak. Boosting that rate to permit exploitation of additional growth potential and to make it easier to cope with the impact of the ageing of the population on the public finances and social security systems and maintain social cohesion via a link with the labour market is one of the primary aims of the European employment strategy. In the context of the new impetus which the European Council wanted to give by its resolution on growth and employment in June 1997, in order to keep employment centre stage among matters of political concern to the European Union, the extraordinary meeting of the European Council in Luxembourg defined a coordinated employment strategy at the end of 1997. That strategy consists in setting guidelines for employment at Union level, with specific targets based on joint analysis of the situation and the main aspects of the policy to be pursued in order to achieve a lasting reduction in unemployment. In implementation of these guidelines, all fifteen Member States submitted national employment action plans for the first time in 1998 : these show clearly that those countries are making a considerable effort to enhance the employability of the labour force, particularly the young and the long-term unemployed, that they are actively encouraging the development of skills and life-time learning, that they are trying to improve the conditions in which SMEs and the self-employed operate and that they are taking measures to promote work rather than dependency.

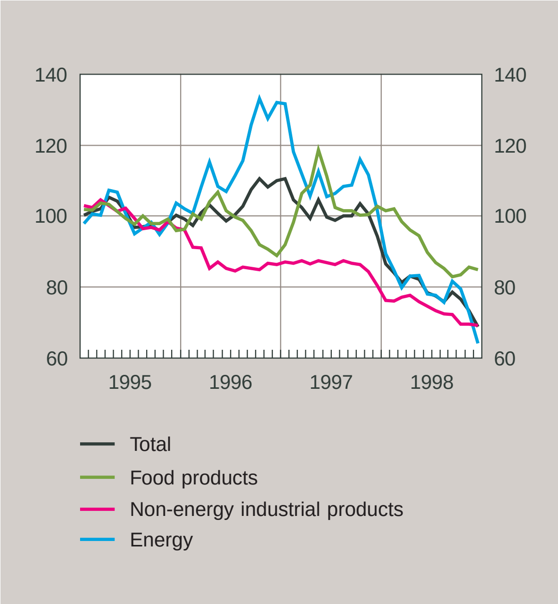
Prices and costs

In the advanced countries inflation showed another significant fall in 1998, mainly as a result of the general decline in imported costs. For one thing, the depreciation of the currencies of several emerging countries in Asia reduced their export prices expressed in dollars. Furthermore, prices of raw materials and basic products declined as the world economy slowed. The sharp fall in energy prices which had begun at the end of 1997 continued. The index of the prices of energy raw materials expressed in dollars thus fell by 29 p.c. on average over the year under review. The prices of other raw materials and basic products also dipped, though less sharply. The overall index of basic product prices expressed in dollars, which is dominated by energy prices, dropped by an average of 22 p.c.

In the United States import prices fell by 5.2 p.c. ; apart from the factors mentioned earlier, this particularly sharp fall was due to the appreciation of the dollar. In addition, the operating surplus per unit

CHART 5 — PRICES OF BASIC PRODUCTS IN US DOLLARS

(Indices 1995 = 100)



Source : HWWA.

of output seems to have fallen despite a particularly high level of utilisation of production capacities. The effect of these factors on final expenditure prices outweighed that of the rise in unit labour costs, which quickened from 2.1 p.c. in 1997 to 2.6 p.c. in 1998; this was due to two factors : a slightly faster rise in compensation per employee and smaller productivity gains. Altogether, the rise in consumer prices in the United States, where growth was sustained for the seventh consecutive year, slowed from 2.3 p.c. in 1997 to 1.5 p.c. in 1998.

In Japan the inflation rate, which had risen to 1.7 p.c. in 1997 as a result of the increase in the tax on private consumption, dropped to a very low level for 1998 as a whole. In the second half of the year consumer prices actually declined at times. Apart from the effect of the increase in indirect taxation introduced the previous year, the drop in inflation is also due to the turnaround of import prices, which, after having risen by 6 p.c. in 1997, fell by 5.8 p.c. in 1998 despite the depreciation of the yen. On the other hand, unit labour costs increased at the same rate as in the previous year, namely by about 2 p.c., owing to a further large fall in productivity due to the recession, and despite a slight reduction in compensation per employee.

TABLE 6 — CONSUMER PRICES

(Percentage changes compared to the previous year)

	1997	1998 [1]		
			p.m.	
			Unit labour costs in enterprises [2]	Import prices
United States	2.3	1.5	2.6	−5.3
Japan	1.7	0.7	2.0	−5.8
European Union [3]	1.7	1.3	0.6 [4]	−2.0
of which : euro area	1.6	1.2	−0.3 [4]	n.
United Kingdom	1.8	1.5	3.5	−7.4

Sources : OECD, EC.

[1] In the case of consumer prices, percentage changes in the average for the first eleven months of 1998 compared to the average for the first eleven months of 1997.

[2] Industrial and service enterprises in the private and public sectors.

[3] Harmonised consumer prices.

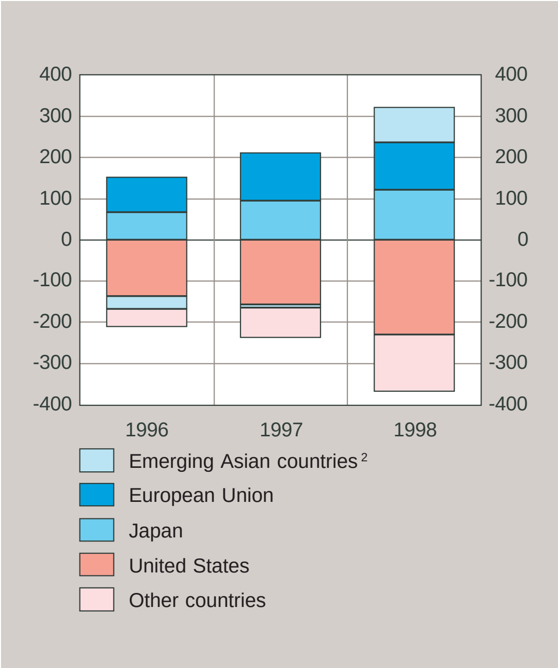
[4] Excluding Luxembourg.

In the EU the rise in consumer prices slowed from 1.7 p.c. in 1997 to 1.3 p.c. in 1998 owing to the deceleration of the rise in unit labour costs from 0.9 to 0.6 p.c. and the fall in import prices. The slowing of inflation was even more marked in the euro area where the rise in consumer prices was just 1.2 p.c. in 1998, while unit labour costs declined by 0.3 p.c.

In the United Kingdom, unit labour costs increased much more sharply than on average in the EU, owing to the strained labour market situation. On the other hand, import prices showed a particularly marked fall owing to the strengthening of sterling, so that the rise in consumer prices was not notably greater than in the euro area.

CHART 6 — CURRENT ACCOUNTS OF THE MAIN REGIONS OF THE WORLD

(Balances, in billions of US dollars) [1]



Source : OECD.

[1] Owing to errors and omissions, the balances do not add up to zero.

[2] List of countries : see Table 1.

1.4 BALANCE OF CURRENT TRANSACTIONS AND EXCHANGE RATES

In 1998 the expansion of world trade continued, but at a much slower pace : the volume of world trade in goods increased by just 5 p.c., against 10 p.c. the previous year. The fall in the prices of oil and other basic products plus the devaluation of the currencies of several emerging Asian countries pushed down world trade prices. In all, as a result of opposing trends in exports and imports in the various countries, the current account imbalances were accentuated, particularly owing to cyclical divergences.

The current account balance of the emerging Asian countries moved from a 9 billion dollar deficit in 1997 to an 85 billion dollar surplus in 1998. This movement, which bears witness to the economic adjustment in those countries, was due mainly to trade in goods and more especially to the increase in the rate of coverage, in volume, of imports by exports, which more than compensated for the deterioration in the terms of trade.

In Japan the decline in domestic demand also helped to improve the coverage rate and this, combined with the improvement in the terms of trade, boosted the current surplus from 95 billion dollars in 1997 to 121 billion, or 3.2 p.c. of GDP, in 1998.

The increase in the surplus in the emerging Asian countries and Japan was largely reflected in a deterioration in the current account of the United States. Despite the improvement in the terms of trade, the deterioration in the rate of volume coverage of trade in goods led to a sharp increase in the US trade deficit. Together with a worsening of the overall balance on service transactions, transfers and portfolio investment income, this movement helped to push up the current account deficit from 155 billion dollars in 1997 to 229 billion, or 2.7 p.c. of GDP, in 1998.

The current deficit of the « other countries », and especially the other developing, emerging or transition countries, which are often raw-material exporters and whose terms of trade have deteriorated, also increased, rising from 73 billion dollars in 1997 to 138 billion in 1998.

On the other hand, the current transactions surplus of the EU countries as a whole remained practically unchanged at 1.4 p.c. of GDP. The deterioration in the overall balance of service transactions, transfers and portfolio investment income in fact offset the increase in the trade surplus.

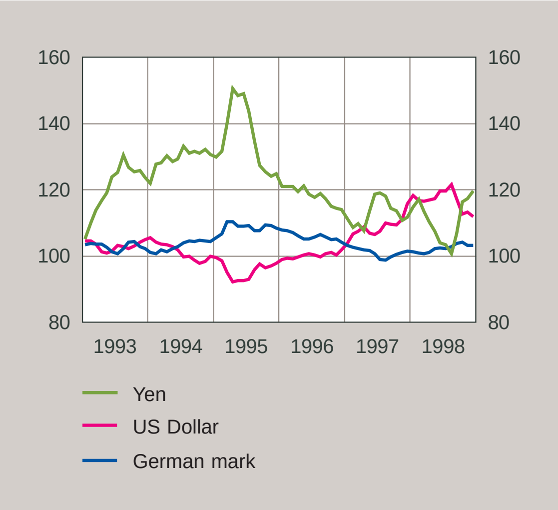
Although the trend of the United States' current account balance is a factor which has for some time been exerting structural pressure on the external value of the dollar, the weighted average exchange rate of that currency rose considerably in the first eight months of 1998. In the context of worsening growth prospects and the expectation of interest rate reductions, the dollar rate underwent a substantial correction in September, compensating for the rise which took place at the start of the year. However, on average during the year under review, the effective exchange rate for the dollar increased by 7.6 p.c. compared to 1997.

The effective rate for the yen seesawed, first depreciating before strengthening again in September 1998. Although in December it was higher than in December 1997, on average in 1998 it was 1.9 p.c. down compared to the previous year.

The German mark appreciated steadily; in 1998 its weighted average was 1.3 p.c. higher than in 1997.

CHART 7 — WEIGHTED AVERAGE EXCHANGE RATES

(Indices 1992 = 100, monthly averages)



Source : BIS.

1.5 ECONOMIC POLICY

In 1998 not only monetary policy but also the other economic policies of the countries in the euro area were already geared to Stage Three of EMU.

Generally, the advanced countries relaxed their monetary policies in a context of a high degree of price stability and of uncertainty over the international environment, although the extent and speed of that relaxation varied. Disparities in the economic situation were also reflected in the type of policy pursued on the public finances : Japan, faced with recession, relaxed its fiscal policy to stimulate growth, while in the United States and Europe the consolidation of the public finances continued. Furthermore, economic policy retained the emphasis on structural reform, be it employment reforms in Europe or restructuring of the financial sector in Japan.

Japan

The consolidation of the financial sector is the key to a genuine economic recovery in Japan, not only because it is necessary to end the dysfunction in the credit distribution system but also because of the detrimental effect on confidence of a weakened financial sector.

Important measures were taken in 1998 to restructure that sector. A new commission was given significant powers concerning prudential control, which was tightened up particularly as regards provisions, asset valuation and boosting the banks' capitalisation. It is also responsible for implementing the new banking legislation, which includes provision for taking charge of financial institutions in difficulties. According to one option, it may decide to impose special financial control on an institution and therefore to appoint board members. If no private buyer is found after settlement of the bad debts assigned to a specialist agency, the activities are temporarily continued by a « bridge bank » set up as a subsidiary of the Deposit Guarantee Fund. In principle, after one year the activities concerned must be transferred to the private sector. If a bankruptcy is liable to have serious consequences, a second option provides for temporary nationalisation financed by the same Fund. The banks in question must be handed back to the private sector by no later than March 2001. The Long-Term Credit Bank and the Nippon Credit Bank, which were in serious difficulties, were nationalised in accordance with this second option.

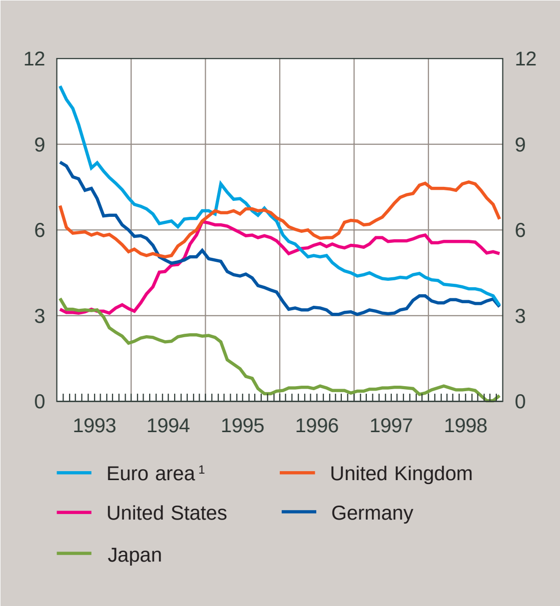
To fund the restructuring of the banking sector, it was finally decided to allocate a budget of 60,000 billion yen, or some 12 p.c. of GDP, for consolidating the deposit guarantee system, financing the bridge banks and cases of temporary nationalisation, and for recapitalising the financial institutions.

Given the very small rise, or even fall, in prices, plus the vulnerability of the financial sector and the distortions in the credit distribution system, particularly evident in the high risk premiums and a slump in the volume of lending, the Japanese monetary authorities pursued an expansionary policy. The discount rate remained at the very low level of 0.5 p.c. at which it had been fixed in September 1995, and the central bank introduced large amounts of liquidities into the money market, causing rates to drop to exceptionally low levels. Thus, the overnight rate, which had always been very close to the discount rate since 1995, was reduced to 0.25 p.c. in September. The rate on three-month Euro-deposits denominated in yen, which had been at the very low level of around 0.4 p.c. since September 1995, began to fall in September, dropping to around zero, before recovering to 0.2 p.c. in December. However, the debtor interest rate on new bank loans is well above the three-month Euro-deposit rate and the spread between these two rates widened during the year to reach 170 basis points in November.

In April 1998 the statutes of the Bank of Japan were amended to make the institution more independent and increase the transparency of its decision-making processes.

CHART 8 — RATES ON THREE-MONTH EURO DEPOSITS

(Monthly averages)

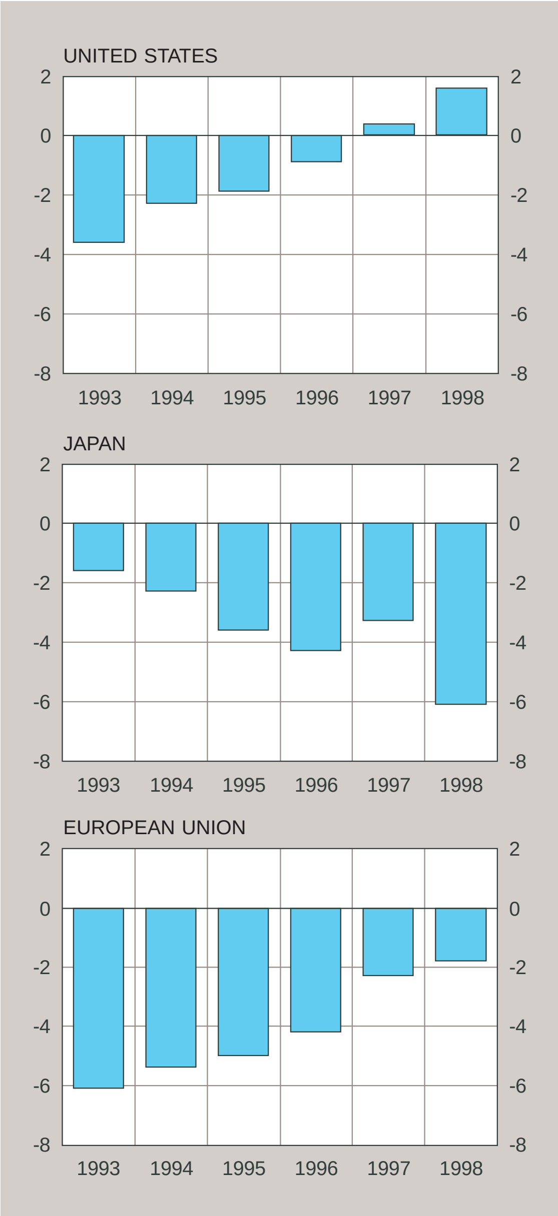


Sources : ECB, NBB.
[1] Three-month interbank rate.

The Japanese government deficit increased from 3.3 p.c. of GDP in 1997 to 6.1 p.c. in 1998. Much of this change is due to the operation of the automatic stabilisers, but also to fiscal policy which again became expansionary after having been restrictive in 1997. The exceptionally unfavourable economic situation necessitated a new large-scale economic recovery programme in April 1998. Half of this set of measures, worth the equivalent of about 3.3 p.c. of GDP, consists of public infrastructure investment, while much of the rest comprises temporary tax cuts.

CHART 9 — NET FINANCING REQUIREMENT

(Percentages of GDP)



Sources : OECD, EC.

United States

In the United States the Federal Reserve, which had kept its target for the federal fund rate unchanged at 5.5 p.c. since March 1997, lowered it in three stages, on 29 September, 15 October and 17 November 1998, bringing it down to 4.75 p.c. These decisions to relax monetary conditions were motivated by the desire to mitigate the adverse effect on future growth of the steadily deteriorating international environment, the growing caution of lenders and the turbulence on the financial markets. The three-month Euro-dollar rates remained close to 5.6 p.c. for most of the year, but declined from September onwards, reaching 5.2 p.c. in December.

During the year under review the favourable movement of the public finances seen in the United States since 1992 continued : the small budget surplus which emerged during the 1997 calendar year increased to reach 1.6 p.c. of GDP in 1998. For the first time in several decades, the federal budget produced a surplus during the 1997-1998 financial year totalling around 0.8 p.c. of GDP. Fiscal policy, which again made in this agreement a substantial contribution to the improvement in public finances, was geared to the August 1997 agreement whereby the federal budget is to balance in 2002 : provision was made in this agreement for major spending restrictions over a five-year period, especially in health care. However, the trend of the public finances was far more favourable than predicted, thanks to ample tax revenues as a result of unexpectedly strong economic growth.

European Union

The economic policy pursued in the euro area in 1998 was dominated by preparations for EMU. The major progress made in recent years towards greater stability was consolidated in 1998. The credibility of monetary policy, based on maintaining stability, was reflected in the convergence of exchange rates and short-term interest rates ; budget deficits, too, were further reduced.

While the Bundesbank left the repo rate unchanged at 3.3 p.c. during the first eleven months of the year, rates moved downwards in the euro area countries where there was still a substantial differential vis-à-vis the German rate, particularly in Italy, Spain, Portugal and Ireland. Overall, the three-month interbank rates in the euro area, which had stood at 4.3 p.c. at the end of 1997, continued to decline on average in 1998, reaching around 3.7 p.c. in November. The gradual convergence of short-term interest rates towards the level seen in Germany was therefore already bringing some relaxation of monetary policy in the euro area throughout the year.

The deterioration in the international environment and the resulting poorer growth prospects for the euro area in a context of price stability prompted the area's central banks to make a coordinated interest rate cut on 3 December, bringing the rate down to a uniform 3 p.c. except in Italy. On 23 December the guideline rate was lowered to 3 p.c. in that country also. At the end of the year, the three-month interbank rate in the euro area was thus down to 3.4 p.c., or 180 basis points below the rate in the United States.

The convergence in interest rate policy was also made possible by the stability of exchange rates. In the international context of highly volatile financial markets in the second half of the year under review, this benefited from the environment of macroeconomic convergence, which was officially recognised by the decision of the European Council meeting at the level of heads of state and of government to launch EMU on 1 January 1999 with eleven Member States, and from the prior announcement of the bilateral conversion rates.

The Bank of England raised its repo rate by 25 basis points in June 1998 to 7.5 p.c., owing to the persistent risk of inflation and tension on the labour market. In view of the economic downturn and the deteriorating international economic environment it then reduced that rate in three stages, in October, November and December, bringing it down to 6.25 p.c. The weighted average exchange rate for the pound sterling rose until April of the year under review, then depreciated sharply. In December 1998 the effective exchange rate for the pound was 3.9 p.c. below that of December 1997, but on average in 1998 it was 4.4 p.c. higher than in 1997.

In the euro area the average budget deficit fell from 2.5 p.c. of GDP in 1997 to 2.3 p.c. in 1998. This average trend reflects the effort being made to improve the public finances in each Member State, with the exception of a few small countries where the budget deficits had already fallen substantially. In the euro area as a whole, the reduction in the interest burden on the public debt did much to help bring about this improvement in the public finances in 1998.

In the EU countries outside the euro area, the budget balances also showed a favourable movement. Thus, in the United Kingdom the public deficit was cut from 2.1 p.c. of GDP to 0.1 p.c. Altogether, the average EU budget deficit thus contracted from 2.3 p.c. of GDP in 1997 to 1.8 p.c. in 1998.

While the coordination of economic policies in the European Union has helped to increase macroeconomic convergence and stability, the task of making the operation of the markets in labour, products and capital more conducive to growth remains a major challenge. The programme for the completion of the internal market and the basic economic policy guidelines, which place more emphasis on coordination of macroeconomic and structural policies, are creating a framework for that purpose at European Union level. A genuine coordination process now exists, comprising mechanisms for monitoring and surveillance of the Stability and Growth Pact, the national employment action plans and the structural policies for markets in products, services and capital.

1.6 INTERNATIONAL COOPERATION

European Monetary Union

In accordance with the Treaty of Maastricht, the final decisions necessary for launching EMU on 1 January 1999 were taken during the year under review.

In March 1998 the European Commission and the EMI each submitted a report assessing the degree of economic and legal convergence attained by the various Member States of the Community. On 2 May, the European Council, meeting at the level of heads of state and of government, determined which countries met the requirements for the adoption of the single currency, acting on the recommendation of the Ecofin Council, based on these two reports and on the opinion of the European Parliament. Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland were thus designated as no longer having an excessive deficit and as satisfying the other convergence criteria laid down by the Treaty.

On the same day the Ministers for Finance and the governors of those countries' central banks published a joint press release announcing that the irrevocable rates for conversion to the euro of the currencies of the countries becoming full members of EMU from the start of Stage Three would be fixed on the basis of the current bilateral central rates in the ERM. The conversion rates were fixed on that basis on 31 December 1998.

On 26 May 1998 the heads of states and of government appointed the president, the vice-president and four other members of the Executive Board of the ECB. Though they would not exercise their powers in full until 1 January 1999, the European Central Bank and the ESCB were set up with effect from 1 June 1998 and the EMI was wound up.

Also in May 1998 the Council of the EU formally adopted a regulation concerning the status of the future single currency. In particular, the regulation stipulates that with effect from 1 January 1999 the currency of the participating Member States shall be the euro and that, for a transitional period up to 1 January 2002, the date on which euro notes and coins will be introduced, the national monetary units will be non-decimal sub-divisions of

TABLE 7 — IRREVOCABLE CONVERSION RATES FOR THE EURO

(National monetary units)

Belgian franc / Luxembourg franc	40.3399
German mark	1.95583
Spanish peseta	166.386
French franc	6.55957
Irish punt	0.787564
Italian lira	1936.27
Dutch guilder	2.20371
Austrian schilling	13.7603
Portuguese escudo	200.482
Finnish markka	5.94573

Source : EC.

the euro. It also lays down the procedures for implementing the « no compulsion, no prohibition » principle, applicable during this transitional period, whereby no one is obliged to use the euro and no one may be prevented from using it. To facilitate the practical introduction of the euro, the Commission also published three recommendations concerning, respectively, bank charges for conversion to the euro, dual pricing and information for the public.

The Council of the EU also adopted a number of decisions and regulations necessary for the establishment and efficient operation of the ECB or aimed at specifying the conditions and limits applicable to the ECB in the performance of its duties. The main regulations or decisions related to the statistics to be used to determine the formula for subscriptions to the capital of the ECB, the ECB's privileges and immunities, consultation of the ECB by national authorities about regulation, application of compulsory reserves, collection of statistical data and the ECB's power to impose sanctions.

Following the resolution by the European Council in June 1997 establishing a new exchange rate mechanism which links the euro with the currencies of Member States not joining the euro area, the ECB and the central banks of those countries concluded an agreement in September 1998 establishing the operating procedures for this new system, membership of which is voluntary. The Danish krone and the Greek drachma joined this mechanism with effect from 1 January 1999 ; the margins within which their currencies may fluctuate against the euro are 2.25 and 15 p.c. respectively.

Relations between Belgium and Luxembourg

Since 1922, Belgium and Luxembourg have formed a monetary association within the larger framework of the Belgian-Luxembourg Economic Union. Article 233 of the Treaty establishing the European Community expressly stipulated in this connection that the provisions of the Treaty should not preclude the existence or completion of this regional union to the extent that its objectives are not attained by application of the Treaty.

Following the changeover to the euro by Belgium and Luxembourg, the monetary association was merged on 1 January 1999 in the larger entity of EMU. Luxembourg now has its own central bank which participates fully in the ESCB. The Luxembourg headquarters of the National Bank of Belgium were taken over by the Luxembourg central bank.

Measures were taken to ensure the flexible, orderly termination of the monetary cooperation links between the two countries, while transitional measures were adopted for the period still remaining prior to the issue of euro notes and coins, so that the National Bank of Belgium will provide the necessary Belgian currency to meet public demand addressed to the central bank of Luxembourg plus the necessary assistance to enable the latter to perform all its duties and functions in the ESCB. The agreement between the two countries was formally concluded in November 1998. It was ratified by the Luxembourg Parliament and has yet to be approved by a law in Belgium.

Coordination of economic policy in the EU

Once the Member States joining the single currency had been designated, the Ministers for Finance of those countries adopted the habit of meeting to discuss questions relating to the specific responsibilities which they share in respect of the single currency. The purpose of these meetings is to facilitate the exchange of information on economic developments in the euro area countries and the coordination of the economic policies pursued by those countries.

In July 1998, following a debate in the European Council, the Ecofin Council adopted a recommendation containing the overall guidelines for the economic policy of the Member States and of the Community, mainly concerning the state of the public finances and the structural reforms to be undertaken to stimulate growth and employment. In Vienna last December, the European Council pressed for deeper, closer coordination of economic policies and stressed the crucial role of examining the implementation of the guidelines for employment, which are set out in section 1.3.

The euro area Member States also submitted their stability programmes in which they describe the measures taken or planned to ensure that their budget comes close to balance in the medium term. The Member States not joining the single currency submitted convergence programmes.

All the Member States also submitted their reports on economic reforms in the markets in products, services and capital in 1998.

Financial legislation in the EU

As regards financial legislation, the year under review brought considerable progress on two issues of special interest to the central banks.

First, in May 1998 the European Council and the European Parliament adopted a directive on settlement finality in payment and securities transaction settlement systems, the aim being to guarantee that payments are irrevocable. Member States must transpose this directive into national law by December 1999.

Second, in August 1998 the ECB circulated a report on electronic money. In view of the matters of concern to the ECB, the European Commission presented two proposals for directives in September 1998 : the first lays down a number of prudential rules which must be respected by institutions issuing electronic money; the second widens the definition of credit institution to include all institutions issuing electronic money.

International Monetary Fund

Some of the countries affected by the financial crisis called on the International Monetary Fund for financial support for the purpose of implementing adjustment programmes. There had already been extremely heavy demands on the institution’s resources in 1997; now there were new massive demands from several Asian countries and Brazil, and requests for smaller amounts from other member countries, including Russia, Algeria, Argentina, Bulgaria and the Philippines. Gross drawings on the Fund’s resources increased substantially to reach the unprecedented figure of SDR 20.6 billion in 1998, largely on account of Indonesia, Korea and Brazil. The outstanding amount of IMF lending, including drawings on loans under the Enhanced Structural Adjustment Facility, totalled SDR 66.8 billion — a record level — on 31 December 1998 against 52.6 billion a year earlier.

As a result of this very heavy demand, the uncommitted, available resources of the IMF diminished and its liquidity position deteriorated considerably. In this situation, the need to increase the IMF’s resources became crucial and the October 1998 interim committee urgently called on all member countries to speed up the process of implementing the increase in quotas decided upon in Hong Kong in 1997. The IMF renewed the General Arrangements to Borrow for a five-year period from December 1998. These arrangements were in fact implemented in July 1998 to finance the IMF’s programme for Russia. The New Arrangements to Borrow also came into force in November 1998 and could thus be used for the IMF financing granted to Brazil in December

1998. The interim committee also called for the earliest possible acceptance of the fourth amendment to the Articles of Agreement, authorising a special, one-off allocation of SDRs.

The IMF helped to achieve the transparency, essential for more efficient operation of the financial markets, of its own policies and of the advice which it gives to member countries. These efforts took the form of more frequent use of public information notes and the wider circulation of letters of intent from the authorities of countries requesting financial support from the IMF in connection with a programme, and documents setting out the general lines of economic policy underlying the programmes supported by the Fund.

World Trade Organisation

In 1998, the member states of the World Trade Organisation began the ratification of Protocol V on financial services of the General Agreement on Trade in Services. Once adopted, the new provisions will ensure greater opening-up of frontiers with regard to establishment and the provision of financial services. Subject to any exceptions, these new rules in fact provide for application of the principles of national and most favoured-nation treatment.

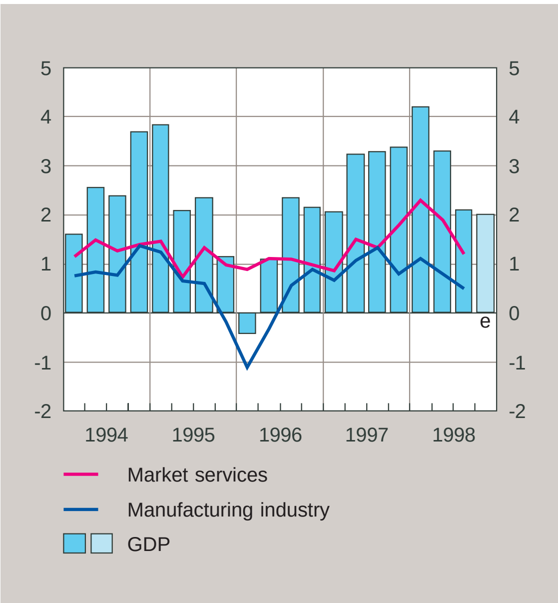
2. EXPENDITURE, OUTPUT AND EMPLOYMENT

2.1 ACTIVITY

Economic activity in Belgium increased by 2.9 p.c. at constant prices in 1998. While the growth rate was similar to that of the previous year, the cyclical profile was different. The growth of GDP, which had accelerated almost continuously since the low point of early 1996, peaked in the first half of 1998 at 3.7 p.c., which was well above the 1997 growth rate. Taking account of factors which exaggerated GDP growth in the first quarter, such as the larger number of working days compared to the corresponding quarter of the previous year and good winter weather conditions for the construction industry, the economy still seems to have been doing well in the second quarter. After that it gradually slowed down, and in the second half of 1998 GDP was only about 2 p.c. greater than in the corresponding period of the previous year.

CHART 10 — QUARTERLY GDP AND VALUE ADDED BY MAIN BRANCH OF ACTIVITY AT 1990 PRICES

(Contributions to the change in GDP compared to the corresponding quarter of the previous year, percentage points)



Sources : NAI, NBB.

At the beginning of the upturn, in 1996, the revival of manufacturing activity had played a key role. This renewed strength had then spread to market services and the two branches had made practically equal contributions to the growth of activity. Since the end of 1997, market services have been the main engine of growth of GDP, reflecting a change in the respective contributions of domestic demand and exports to the expansion of final demand. Thus, these services — especially those intended primarily for households — benefited from the upsurge in domestic spending and particularly private consumption. The slackening of activity in manufacturing industry must be viewed in the context of exports, which had been running out of steam since the third quarter of 1997 and continued to do so throughout the year under review, as is evident from the sharp fall in the monthly business indicators for that branch.

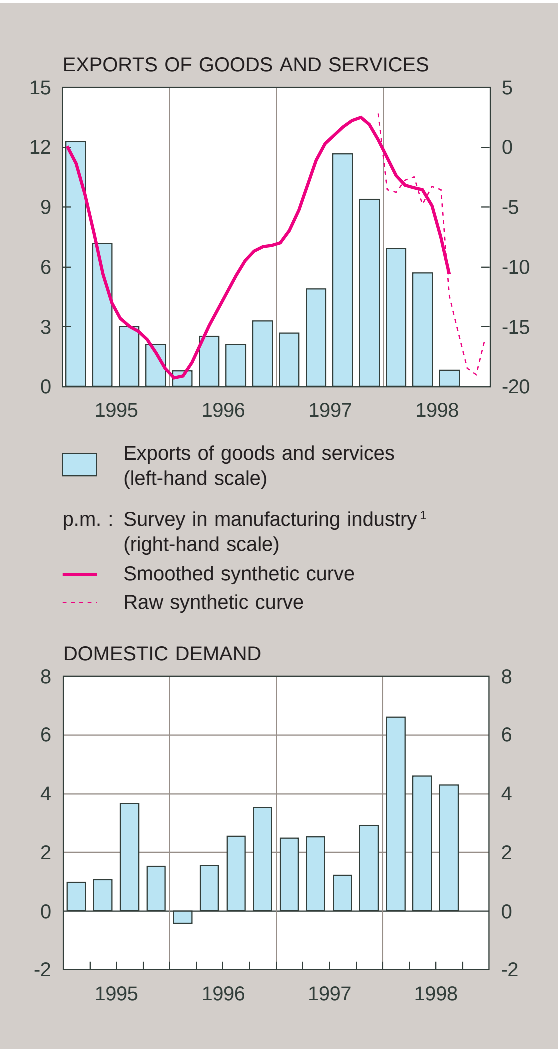
The growth of domestic expenditure was particularly vigorous in 1998 : accelerating by 2 percentage points against the previous year, it exceeded 4 p.c. for the first time since the start of the decade. It also outstripped the growth of domestic demand in the three neighbouring countries and in the euro area as a whole.

Individuals and enterprises alike helped to bolster domestic demand. In view of the continuing buoyancy of the economic climate in the European Union, economic agents were relatively little affected by the contagion of the Asian crisis and the turbulence on the financial markets in 1998. This weak impact was partly due to the structural characteristics of the

Belgian economy. As in the other euro area countries, the proportion of household assets invested in equities remains small, so that even marked fluctuations in stock market prices should have relatively little influence on consumption decisions. Furthermore, although Belgium has one of the most open economies in the world, exports outside the European Union expressed as a percentage of final demand are low, just as in other European countries. By way of illustration, simulations based on the Bank's econometric model show that a reduction of 1 percentage point in extra-EU trade would have a negative impact on economic growth in Belgium which, assuming that the other exogenous factors remain unchanged, would be neutralised as soon as domestic demand in the euro area accelerates by 0.5 percentage point. In 1998 this acceleration was over 1 percentage point and therefore curbed the negative impact of the extra-European environment.

CHART 11 — EXPORTS AND DOMESTIC DEMAND AT 1990 PRICES

(Percentage changes compared to the corresponding period of the previous year)



Sources : NAI, NBB.
¹ Seasonally adjusted data.

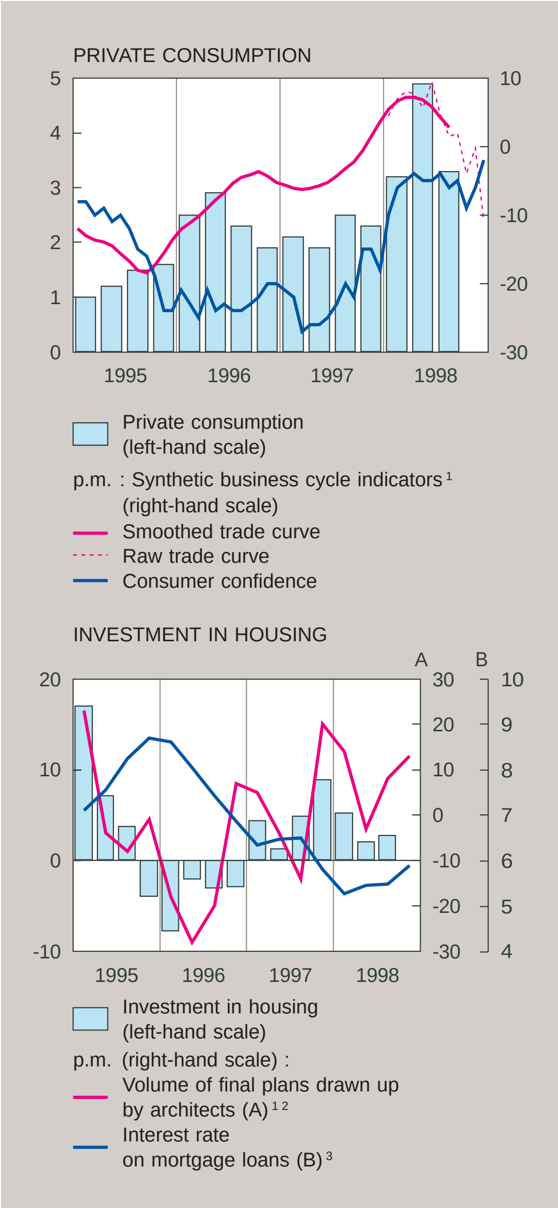
In 1998, individuals increased the volume of their consumption expenditure by 3.6 p.c. This rise, the highest since 1990, should be compared with that of 2.6 p.c. in their real disposable income, accelerating rapidly in comparison with previous years, and the restoration of consumer confidence which has been observable since 1997. The movement of the various income categories and their determinants also encouraged private consumption.

Wages and salaries, the income category where propensity to be consumed is highest, showed a marked increase. They were boosted both by the rise in wages per person and by the improvement on the labour market throughout the year. Income from property, of which a larger proportion is saved, showed little increase, so that its share of disposable income declined for the fifth year in succession. As in previous years, these movements contributed to a decline in the savings ratio of individuals, to 14.5 p.c. of their disposable income.

Consumer confidence — which surveys have shown to be higher than at any time since 1994 — should be viewed, particularly, in the light of the better employment prospects, which contributed to a reduction in precautionary saving. It is also attributable to the results of the economic policies pursued in recent years. In this context, the turbulence on the financial markets does not seem to have caused any fundamental curtailment of consumption expenditure by individuals.

CHART 12 — EXPENDITURE OF INDIVIDUALS AT 1990 PRICES

(Percentage changes compared with the corresponding period of the previous year)



Sources : EC, NAI, NBB.

[1] Seasonally adjusted data.

[2] Balance of answers to the quarterly survey among architects, with a nine-month time lag.

[3] Quarterly average, with a one-year time lag, of 20-year rates revisable every 5 years.

The sharp rise in private consumption was reflected particularly in the growth of vehicle sales, which was remarkable even taking account of the impetus provided by the biennial motor show. At the end of last year, the NSI recorded some 440,000 new private car registrations, a level not seen since 1992 and 14 p.c. higher than registrations in 1997.

The growth in the disposable income of individuals and the low level of mortgage interest rates continued to fuel demand for housing. According to the trend of the volume of final plans drawn up by architects, which lags behind by nine months and was expanding strongly in 1997 and at the beginning of 1998, the growth in demand for new housing was still sustained. Sales on the secondary market also increased again, as is shown by the trend of registration fees. The associated expenditure on alterations therefore increased as well. Altogether, investment in housing increased by just over 3 p.c. in 1998.

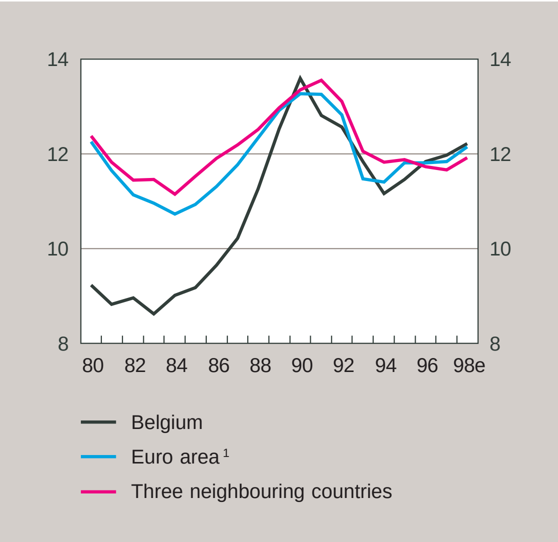
The investment behaviour of enterprises is governed mainly by the movement of demand and the relative cost of capital in relation to that of the other factors of production. The movement of demand affects the level of investment according to the accelerator principle. Firms invest in order to attain a level of capital stock which they deem sufficient to meet the demand which they expect. Assuming that the technological characteristics are such that the proportion of capital stock to output remains constant in the long term, the capital stock is therefore adjusted, after some delay, in proportion to the trend of output. However, the investment changes necessitated by that adjustment are far more pronounced. In periods of accelerating economic growth, investment — made mainly for expansion purposes — increases faster than demand; conversely, it decreases more slowly or declines faster in periods when activity is slowing down or falling. While it is largely changes in demand that determine changes in investment by enterprises, investment in turn influences the prospects for economic growth and hence the future development of employment.

However, the scale of job creations resulting from the expansion of production capacities depends on the chosen technologies. Before investing, enterprises examine the medium-term scope for substitution between the different factors of production. If capital is relatively expensive in relation to the labour factor and the other factors of production, they will choose a technology that causes a relatively small increase in the capital stock. In the opposite case, the chosen technology will be more capital-intensive and economic growth will create relatively fewer jobs.

The two main determinants provide a relatively good explanation of the long-term trend of investment in Belgium. However, other factors, whose effect is sometimes hard to quantify, such as uncertainty, taxation and the solvency of enterprises, may also play a part in the short term. Thus, in the latter half of the 1980s investment decisions, which incidentally received great encouragement at first from the prospects opened up by the conclusion of the Single European Act and subsequently by German reunification, were facilitated by returning confidence. This was progressively restored as a result of the gradual absorption of the major macroeconomic imbalances from the early 1980s onwards. The rise in gross savings by enterprises during that period also reduced the financial constraints on them. On the other hand, from the start of the 1990s the traditional determinants again played a greater part. The cyclical slackening at the start of the decade and the ensuing recession in 1993, exacerbated by the rising cost of investment, led to a decline in gross fixed capital formation by enterprises. Afterwards, the recovery of demand prospects and the moderate movement in the relative price of investment were accompanied by rapid expansion of gross fixed capital formation by enterprises. Since its last cyclical trough, investment by enterprises has increased by some 20 p.c. and, during 1998 alone, enterprises stepped up their gross fixed capital formation by 5.4 p.c. The investment ratio at 1990 prices therefore rose from 11.2 p.c. of GDP in 1994 to 12.3 p.c. in 1998. The same movement was recorded for the euro area as a whole.

CHART 13 — INTERNATIONAL COMPARISON OF THE RATE OF INVESTMENT BY ENTERPRISES

(Percentages of GDP, data at constant prices)



Sources : OECD, NBB.

[1] Excluding Portugal and Luxembourg.

The change in enterprises' stocks is difficult to assess accurately, in Belgium as elsewhere. In 1998, unlike in the preceding three years, it appears to have made a positive contribution to growth. As in most other euro area countries, the increase in stocks apparently occurred mainly in the first half of the year, when the economic outlook was particularly favourable. The fall in commodity prices and the low level of interest rates, which reduced the cost of holding stocks, were additional factors.

The rise in public consumption remained modest, totalling 1.7 p.c., slightly more than in the previous year. This rise is due partly to higher pay and pensions and partly to the growth in purchases of goods and services. Public investment, for its part, increased at the same rate as GDP.

TABLE 8 — GDP AND MAIN CATEGORIES OF EXPENDITURE AT 1990 PRICES

(percentage changes compared to the previous year)

	1995	1996	1997	1998 e
Private consumption [1]	1.3	2.4	2.2	3.6
p.m. Savings ratio [2]	(18.2)	(16.2)	(15.5)	(14.5)
Public expenditure	−0.1	−0.2	2.3	1.8
Public consumption	0.7	1.4	0.8	1.7
Public investment	−6.6	−14.9	19.1	2.9
Housing	5.5	−4.0	4.9	3.2
Gross fixed capital formation by enterprises [1]	5.1	4.6	4.2	5.4
Total gross fixed capital formation [1 3]	4.2	0.5	5.4	4.6
Change in stocks [4]	...	−0.1	−0.3	0.7
Total domestic expenditure [1]	1.8	1.8	2.3	4.4
Exports of goods and services	[5]	2.2	7.1	3.2
Total final expenditure [1]	[5]	2.0	4.5	3.8
Imports of goods and services	[5]	2.2	6.3	5.1
Net exports of goods and services [4]	1.0	0.1	0.9	−1.2
Statistical adjustments [4]	−0.4	−0.5	−0.1	...
GDP	2.3	1.3	3.0	2.9
p.m. GDP at current prices (billions of francs)	8,068	8,305	8,675	9,097
GDP at constant prices (billions of 1990 francs)	6,991	7,081	7,294	7,506

Sources : NAI, NBB.

[1] Data excluding statistical adjustments. The latter are shown under a separate heading.

[2] Percentages of individuals' disposable income at current prices.

[3] Public investment, housing and gross fixed capital formation by enterprises.

[4] Contribution to the change in GDP.

[5] Owing to breaks in the gross flows between 1994 and 1995, caused by the introduction of a new data collection system for the balance of payments statistics and the implementation of recommendations contained in the fifth edition of the IMF Balance of Payments Manual, the percentage change in 1995 has little significance.

The marked picking-up of domestic demand boosted the increase in imports of goods and services. Owing to the slackening of foreign demand, the rise in exports of goods and services slowed down considerably during the year, as can be seen from Chapter 5. Altogether, the contribution of net exports of goods and services to the growth of GDP was negative for the first time in five years.

2.2 LABOUR MARKET

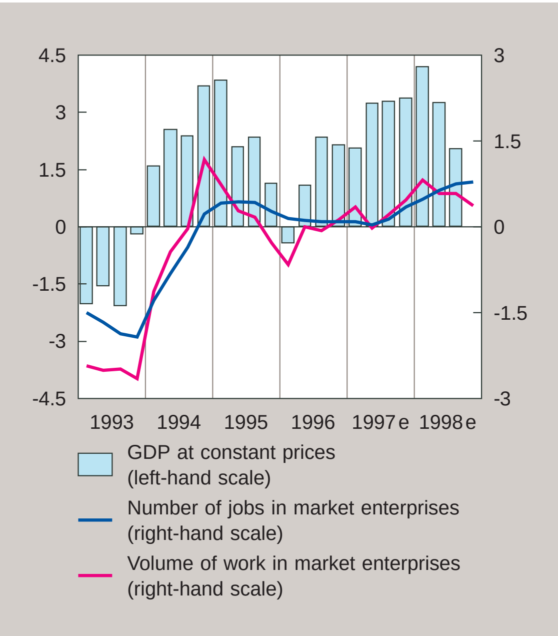
The determinants of the development of employment differ from sector to sector. Faced with competition and the need for profitability, market enterprises decide on a volume of labour according to demand for their products and the relative costs of the factors of production. For general government in the strict sense — administration, defence and education — and for the other non-market institutions, notably hospitals, convalescent homes and nurseries, employment is largely determined by the amount of funding allocated to them. Finally, in recent years financial aid has also made it possible to create jobs in households, to meet needs not fully covered by the traditional circuits.

In parallel with the movement of activity, the year-on-year increase in the volume of work in market enterprises, i.e. the total number of hours worked, quickened from the second quarter of 1996 onwards, reaching 0.8 p.c. in the first quarter of 1998. The rate of increase then slowed down slightly. On average for the year as a whole, the volume of work in market enterprises appears to have increased by 0.7 p.c. in 1998, against 0.3 p.c. in the previous year.

Temporary laying off is one way in which the volume of work is adjusted to the changing level of activity. This system makes it possible temporarily to reduce or suspend the work performed by employees, who, while remaining bound to the employer by a contract of employment, receive unemployment benefit during this period. Temporary laying off is used mainly in the case of bad weather, to the extent of about one fifth of working days lost, or where there is insufficient work for economic reasons, in three-quarters of cases. Temporary lay-offs therefore increase when the economic situation is worsening and decrease when the economy picks up. Thus, on an annual average, the equivalent of 63,000 full-time workers

CHART 14 — GDP, VOLUME OF WORK AND NUMBER OF JOBS

(Percentage changes compared with the corresponding quarter of the previous year)



Sources : NAI, MEL, NSI, FPB, NEMO, NBB.

were temporarily laid off in 1993, and 50,000 in 1996, years in which growth was negative or weak. The latter figure then dropped by 6,000 units in 1997, and subsequently by a further 3,000 units in 1998. The use of temporary lay-offs therefore cushions the effect of changing levels of activity, so that the workforce of enterprises does not expand or contract to the same extent as the volume of work. Thus, the rate of increase of the number of jobs in market enterprises remained relatively stable throughout the year.

Altogether, the average number of persons working in market enterprises increased by 0.7 p.c. in 1998, matching the growth in the volume of work. The impact of the lengthening of the average effective annual time worked per person resulting from fewer hours lost in temporary lay-offs counter-balanced the upward trend of part-time working, which helps to reduce the average working hours per person.

Employment in market enterprises increased for the fourth year in a row; the number of persons in work rose between mid-1994 and mid-1998 by 35,000, including by 19,000 in the last twelve months. Over the period as a whole, the contribution of the other sectors was even greater : 50,000 jobs were created, two-thirds of them in the non-profit institutions.

In these, the growth in employment seen over the past few years was additionally stimulated in 1998, mainly by the job creation resulting from the implementation of the « Social Maribel » scheme. This measure, applicable to the health and welfare sectors and, since July 1998, to private convalescent homes and the socio-cultural sector, forms part of the policy — pursued for several years now — of reducing employers' social security contributions.

The activation of unemployment benefits, which is another key element of the employment policy, helped to create a

TABLE 9 — DEVELOPMENT OF EMPLOYMENT

	1995	1996	1997 e	1998 e	Total change between 1994 and 1998
	(annual averages, percentage changes)				*(percentages)*
Market enterprises					
Volume of work	0.2	−0.3	0.3	0.7	0.9
Number of jobs	0.4	0.1	0.2	0.7	1.3
Total employment (excluding frontier-zone workers)					
Volume of work	0.2	0.1	0.3	0.7	1.3
Number of jobs	0.5	0.4	0.4	1.0	2.2
	(number of jobs at 30 June, changes in thousands of units)				*(thousands of units)*
Total employment	19	16	11	39	85
Market enterprises	12	3	1	19	35
Non-market institutions [1]	7	7	6	16	35
Households	2	6	4	5	17
General government	−2	−1	...	...	−3
Frontier-zone workers (balance)	...	1	...	...	1

Sources : MEL, NSI, FPB, NEMO, NBB.
[1] Including self-employed persons in the health and welfare sectors.

growing number of jobs. It entails using unemployment insurance to subsidise a large proportion of the pay received by long-term unemployed who have been given work again on a part-time basis through various schemes. To avoid substitution effects, these jobs can be created only for activities not performed in traditional employment. The most important measure in terms of the number of persons in work is the one whereby households, in particular, may use the services of the unemployed through local employment agencies. The number of persons working under this scheme increased again in 1998 : on average, 13,000 unemployed persons — i.e. 5,000 more than in 1997 — worked for more than 120 hours over a six-month period and asked to be allowed to stop signing on as job-seekers. In addition, on average, some 20,000 unemployed persons also performed work through local employment agencies without appearing in the employment statistics. The occupational transition programmes, which form the subject of a cooperation agreement between the Federal Government and the regions and communities, provide for the recruiting of unemployed persons by local authorities. The programmes were implemented during 1998 and recruitment totalled over 3,000 in November. Finally, since 1998 enterprises have also been eligible for subsidies for the recruitment of long-term unemployed to fill jobs generally not done, or no longer done, because of their cost. In November 1998, over 3,600 persons were employed under this provision in so-called « SMET jobs ». For the year as a whole, the social activation programmes enabled some 12,000 jobs to be created.

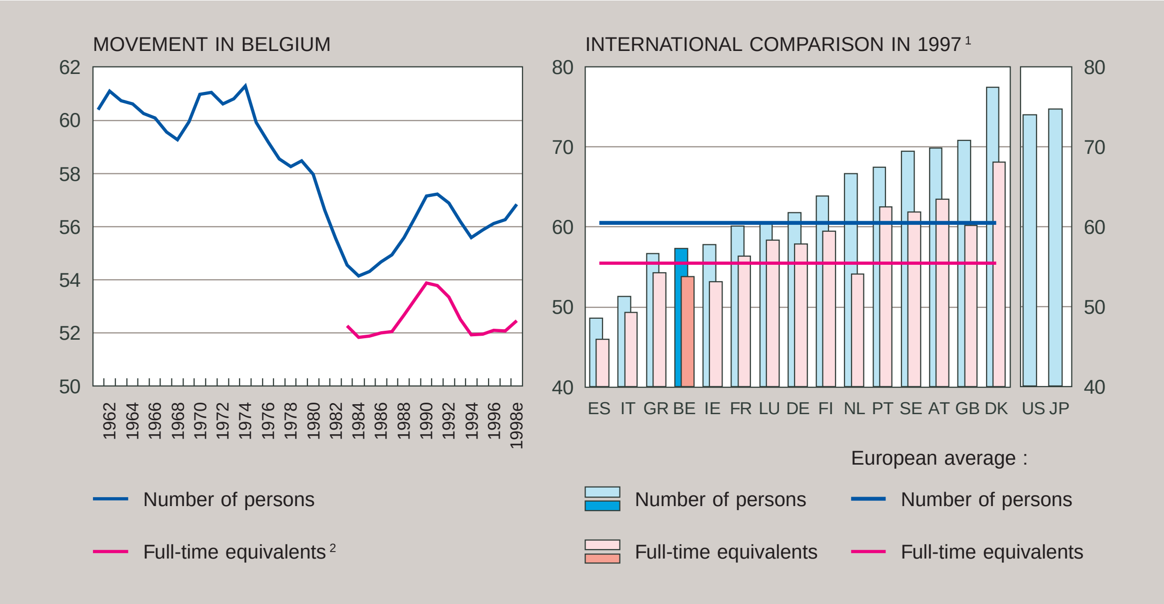
Altogether, the number of persons in work increased by 39,000 units between 30 June 1997 and 30 June 1998. Over the year as a whole, employment grew by 1 p.c., exceeding the 0.7 p.c. rise in the volume of work. Part-time working, which is already more widespread than in market enterprises, expanded further in the non-market sector and in general government. In all sectors, job creation via the activation of unemployment benefits, providing jobs offering four-fifths of full-time hours, half-time working or even just a few hours through local employment agencies, reinforced this trend.

The results achieved in terms of employment must be assessed in the light of the potential labour force. The employment rate, calculated by taking the number of persons in work as a ratio of the population aged 15 to 64 years, shows to what extent the population of working age, according to the usually accepted international conventions, contributes directly to the production and creation of earned income. Together with a more or less stable population of working age, the growth of the number of jobs pushed up the employment rate by 1.2 points between 30 June 1994 and 30 June 1998, half of that increase being achieved in the year under review, raising the employment rate to 56.8 p.c. This level is below that recorded during the 1960s and the first half of the 1970s. During that period the employment rate fluctuated around 60 p.c., peaking at 61.3 p.c. in 1974. It then dropped back in the next ten years by a total of more than 7 points, before rising by 3 points between 1984 and 1991 to reach 57.2 p.c. This level has virtually been regained by the movement over the past four years, following a marked fall between mid-1992 and mid-1994, when activity was weak or depressed. The upward trend of the employment rate since 1984 is due largely to the growth in part-time working. In terms of full-time equivalents, the employment rate in 1998 was actually hardly any different from the 1984 figure.

The complement of the employment rate is an indicator representing the labour

CHART 15 — EMPLOYMENT RATE

(Employment as a percentage of the population aged 15 to 64 years)



Sources : EC, MEL, NSI, FPB, NBB.

[1] For the purpose of international comparison the data, including those relating to Belgium, were obtained from the European Commission. They differ from those obtained from national sources, used elsewhere in this chapter.

[2] Employment in full-time equivalents is calculated on the basis of the number of persons in work, taking account of the proportion of part-time jobs and the hours worked in a part-time job as compared to a full-time job. The data used for these calculations are available from 1983 onwards. Employment in full-time equivalents differs from the volume of work, which also takes account of hours actually worked. The movement of this last figure is determined by changes in collectively agreed working hours, but also, in particular, by temporary lay-offs and overtime working, although data on the latter are not available.

potential of persons not in work, but this must be viewed with caution. On the one hand, the population of working age includes persons who choose not to take part in the labour market or who are unable to work, e.g. because they are in full-time education or training, or because they are unfit for work. Also, persons in work may include some who are underemployed. Nevertheless, this indicator provides a rough idea of the reserve labour force not in work and, depending on its productivity, the economic growth potential not being exploited. It also permits assessment of the scale of the effects that the ageing of the population is liable to have on the public finances and the social security systems. A high employment rate helps to spread this burden over a larger number of people. It also fosters social cohesion, which is achieved largely via the link with the labour market.

Despite the increase over recent years, the employment rate in Belgium is still below the European average and the unused labour reserve is therefore larger there. According to European Commission data, the discrepancy was 3.2 points in 1997. In the European classification, six countries have an employment rate which is well above the average, namely the Netherlands, Portugal, Sweden, Austria, the United Kingdom and Denmark. These countries are generally also the ones where part-time working is most widespread. Half of Belgium's leeway as regards the employment rate compared to the European Union as a whole is attributable to the fact that part-time working is less developed there. In terms of full-time equivalents, the difference is therefore 1.7 points, and the figures for Belgium and the Netherlands are comparable.

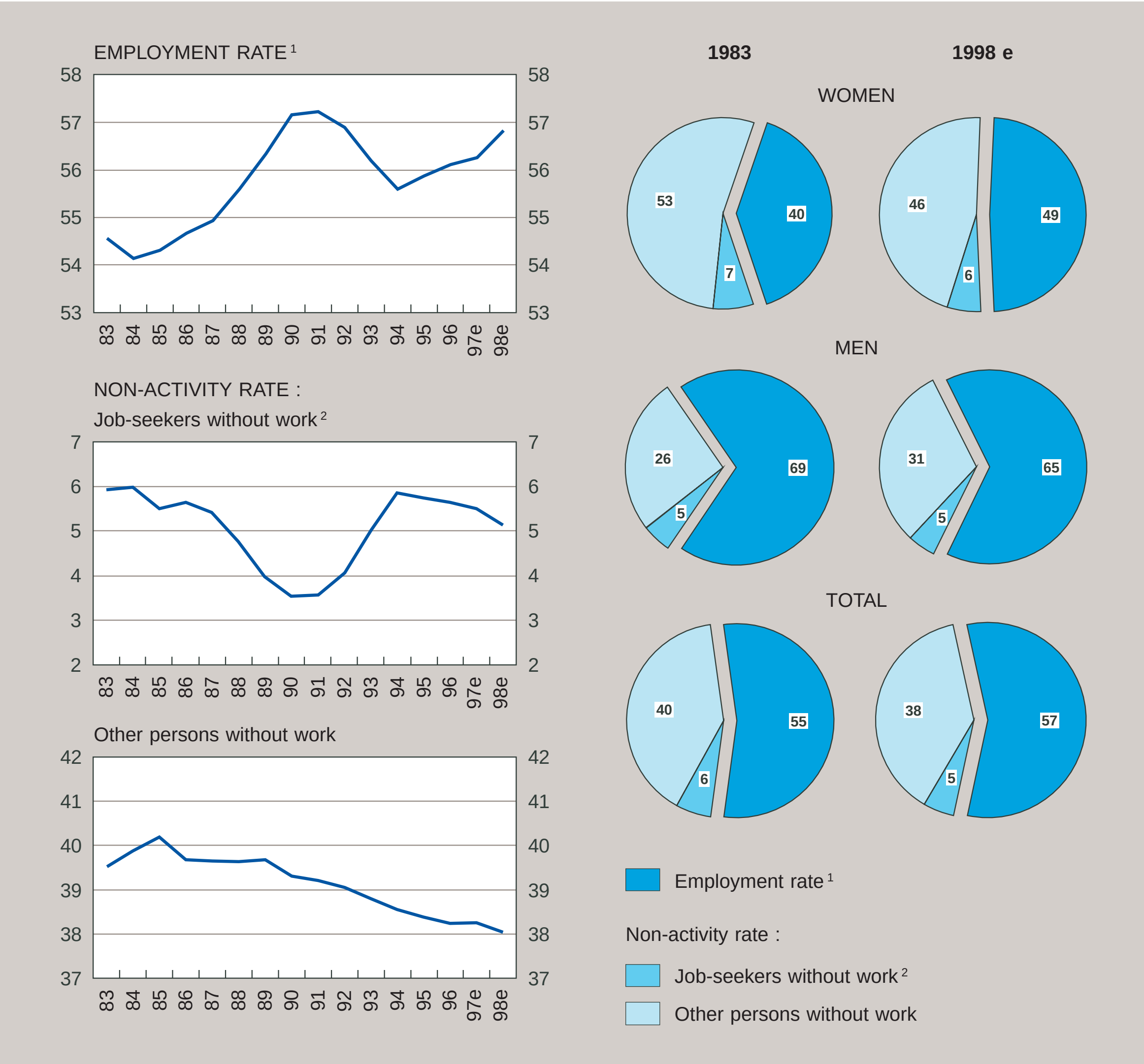
Among the population not in work, a number of persons are actually seeking jobs and are available for recruitment at short notice. According to the definitions used by the International Labour Office, these persons are unemployed. Other persons are not seeking jobs, or are not available immediately for the labour market. The size of this group is gradually declining as increasing numbers of women join the labour market. Unlike in other countries, this trend does not appear to be influenced by the economic situation. Altogether, three-fifths of the increase in the employment rate since 1994 has been reflected in a decrease in the proportion of unemployed persons among the population of working age, and two-fifths in a decline in the proportion of other persons not in work.

The fact that over 5 p.c. of the population of working age is without a job even though demonstrating willingness and availability for work, while at the same time the number of unfilled vacancies available through public employment agencies is increasing and enterprises state that they are having problems finding people for certain jobs, indicates that the characteristics of the jobs available do not entirely match those of the unemployed. One of the problems may be location, as is evident from differences in unemployment rates between districts, or it may be a question of qualifications, as is clear from the shortage of labour for certain occupations. The government is trying to reduce this mismatch by improving the employability of the unemployed. Nevertheless, even if this immediately available reserve were fully mobilised, the proportion not in work in Belgium would still be higher than in many other European countries. The group of other persons not in work in that country on its own represented 37.1 p.c. of the population of working age in 1997, or more than the combined total of job-seekers without work and other persons not in work not only in the Scandinavian countries but also in the Netherlands, Portugal, Austria and the United Kingdom.

Achievement of a significant reduction in the non-employment rate therefore requires not only a decline in the number of unemployed but also a reduction in the

CHART 16 — POPULATION OF WORKING AGE

(Percentages)



Sources : NSI, MEL, EC, NBB.

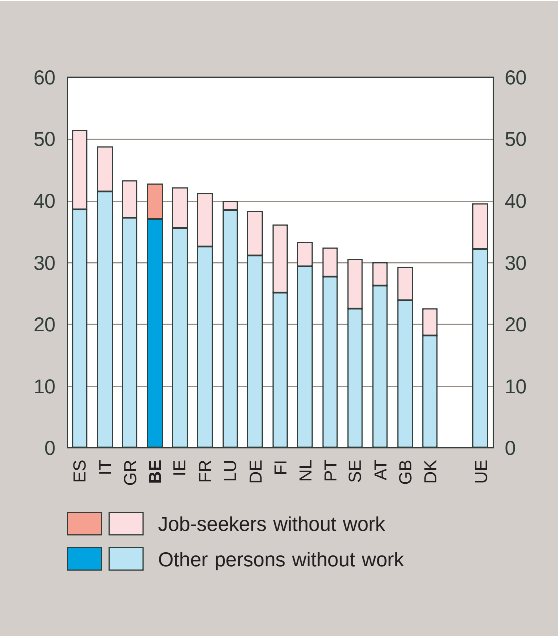
[1] Number of jobs according to administrative sources, divided by the population aged 15 to 64 years.

[2] Number of unemployed within the meaning of the International Labour Organisation, according to the labour force survey, divided by the population aged 15 to 64 years.

proportion of other persons not in work. In Belgium, as in the majority of other European countries, the potentially available labour reserve is relatively larger among women, despite a 9-point rise in the employment rate over fifteen years. The proportion not in work is also relatively high among young people as they continue their education longer. The situation in Belgium is particularly exceptional in the case of persons aged 50 to 64 years, whose non-activity rate is 64.5 p.c., the highest in any European country, owing to the development of early retirement schemes. For the intermediate age groups, on the other hand, the non-employment rate is slightly below the European average. In any case, the decision whether or not to participate in the labour market does not depend solely on economic factors but is also based on sociological or personal reasons, such as

CHART 17 — RATE OF NON-EMPLOYMENT IN 1997 [1]

(Percentages of the population aged 15 to 64 years)



Source : EC.

[1] See note 1 to Chart 15.

family arrangements or the decision to continue one's education.

In Belgium as in the European Union as a whole, improvement of the employability of the unemployed and raising of the employment rate are priority objectives of employment policy. They form the subject of a set of measures which the Belgian Government has incorporated in the employment action plan presented in April 1998 as part of the coordination of employment policies at EU level. For example, as regards training and the reintegration of the unemployed, it has undertaken, in consultation with the authorities of the regions and communities which are responsible for this matter, to provide guidance for young persons once they have been unemployed for six months and for unemployed persons aged over 25 once they have been unemployed for 12 months, and afterwards to offer them a job, a course or training. The federal government's contribution consists mainly of specifically targeted reductions in employers' contributions or the activation of unemployment benefits. In order to support employment in market enterprises, employers' contributions will be structurally and progressively reduced from 1999 onwards, while a regulatory framework has already been put in place for encouraging regional and local initiatives concerning the social economy. The implementation of the Belgian plan continued throughout 1998, and legislation was passed by the federal, community and regional assemblies. Management and labour must also play a part in putting the employment action plan into practice, notably as regards the training of workers and the organisation of work. In addition to containing provisions concerning employment and labour costs, the 1999-2000 interprofessional sectoral agreement, which is described in detail in section 3.2, stipulates that the efforts made in in-service training by enterprises must attain the European average within six years and must increase from 1.2 p.c. to 1.4 p.c. of the wage bill during the period covered by the agreement.

3. PRICES, COSTS AND INCOMES

3.1 INFLATION

Measured by the new national consumer price index introduced in January 1998, inflation amounted to 1 p.c. during the year under review, against 1.6 p.c. in 1997. During that year, the increase in excise duties on petrol and alcoholic beverages had pushed inflation up by 0.2 p.c. In 1998, on the other hand, indirect taxes were not raised.

The new index provides a more accurate measure of inflation since it takes account of certain products which, in recent years, have acquired a more important place among goods purchased by individuals, such as tumble dryers, microwave ovens, fax machines, software or fast food products. The weighting coefficients of the various products have also been updated on the basis of the NSI household budget survey which took place between June 1995 and May 1996. On the

TABLE 10 — CONSUMER PRICES

(Percentage changes compared to the previous year)

	National index	Harmonised index						
			Non-processed food [1]	Energy	Underlying inflation [2]			
						Processed food	Non-energy industrial goods	Services [3]
1994	2.4	—	—	—	—	—	—	—
1995	1.5	—	—	—	—	—	—	—
1996	2.1	1.8	0.7	5.8	1.4	0.8	0.6	2.5
1997	1.6	1.5	2.7	3.1	1.1	2.3	0.1	1.7
1998 [4]	1.0	0.9	2.2	−3.6	1.4	1.4	0.7	2.1
1998 January	0.4	0.5	0.5	−3.2	1.0	2.5	...	1.5
February	0.7	0.8	2.5	−2.7	1.2	2.4	0.1	1.8
March	1.0	1.0	3.9	−2.3	1.1	2.4	0.2	1.5
April	1.5	1.3	4.6	−1.6	1.2	2.2	0.3	1.8
May	1.9	1.3	3.3	−1.9	1.4	1.7	0.6	2.1
June	1.6	1.2	2.4	−2.7	1.4	1.4	0.8	2.2
July	1.0	1.2	2.0	−2.4	1.5	1.3	0.8	2.3
August	0.4	1.0	2.4	−5.4	1.7	1.1	1.0	2.9
September	0.8	0.8	0.3	−4.5	1.6	0.8	1.1	2.6
October	0.9	0.7	0.7	−4.7	1.5	0.4	1.1	2.5
November	0.6	0.6	0.9	−5.2	1.5	0.6	1.1	2.3
December [4]	0.6	0.8	2.7	−6.0	1.5	0.4	1.1	2.3

Sources : MEA, EC, NBB.
[1] Fruit, vegetables, meat and fish.
[2] Inflation after exclusion of the influence of non-processed food and energy.
[3] Including rents.
[4] Since the HICP is not available until one month after the NICP, the HICP figures for December were estimated on the basis of the NICP for that month.

other hand, the index used until December 1997 was based on the household budget survey carried out between May 1987 and April 1988.

Thus, the switch to the new index has undoubtedly reduced the so-called new product bias and the substitution bias. The new product bias is the overestimation of inflation caused by the long delay before new products are included in the index, as their prices generally fall substantially after they have been launched on the market. If these new products are taken into account as early as possible, that naturally reduces this bias, though for practical reasons it cannot be eliminated altogether. For example, computers are still not included in the new basket of products even though they represent an increasingly important item of household expenditure.

The substitution bias represents the overestimation of inflation resulting from the use of fixed weighting coefficients : this means that no account is taken of the fact that, as products in the consumption basket become relatively expensive, they are replaced by cheaper products. Regular adjustment of the weighting coefficients does reduce this bias, at least at the highest level of aggregation, i.e. where the sub-indices for the various products are aggregated to give the total index. The substitution bias at the lowest aggregation level, namely where various similar articles — e.g. different brands of the same item — are aggregated to form the sub-index for the product group to which they belong, persists despite updating of the weighting coefficients, as the information which they provide is not sufficiently detailed to remedy this defect.

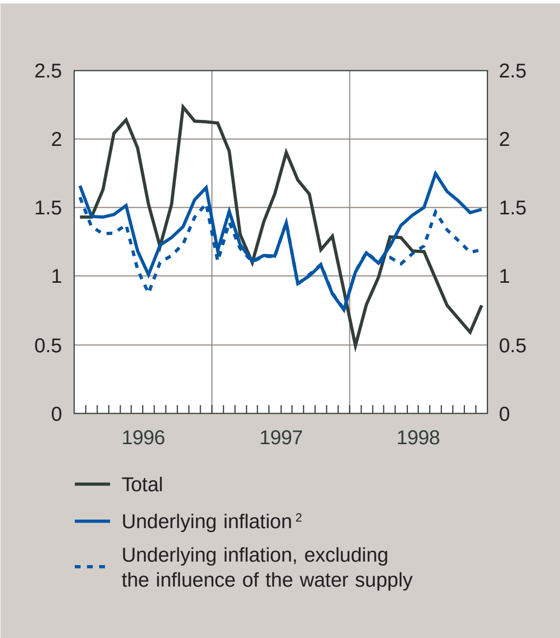
As a rule, use of a new index is no more effective in neutralising the « quality » bias effect. This bias relates to the overestimation of inflation caused by the fact that part of the recorded price rise reflects an improvement in the average quality of the basket of products considered.

Though the new index is obviously a better measure of inflation, in view of all these factors it will probably continue to overestimate the actual inflation rate to some extent, as happens in other countries, too. In any case, the inflation figure for the year under review, like the figures for recent years, represents a level generally regarded as corresponding to price stability.

However, the changeover to the new index did affect the monthly inflation pattern in 1998. In Belgium an effort is made when devising an index to adjust it for the main seasonal variations, particularly by taking account of variable baskets of vegetables, fruit, fish and cut flowers, but a residual seasonal profile still remains. The residual seasonal profile of the new index differs from that of the index used until the end of 1997. Given that the official inflation figures compare the index

CHART 18 — HARMONISED CONSUMER PRICE INDEX [1]

(Percentage changes compared to the corresponding month of the previous year)



Sources : EC, NBB.

[1] See note 4 to Table 10.

[2] Inflation excluding the influence of non-processed food and energy.

number obtained by the new method for a given month in 1998 with the old index number for the corresponding month in 1997, the inflation thus measured was influenced by the change in the seasonal profile. It was overestimated in some months — such as May — and underestimated in others — such as August. Although the switch to the new index had little impact on the inflation rate for 1998 as a whole, the fluctuations in inflation thus arrived at during the year are of little significance for analysis purposes.

To avoid such distortions, the monthly inflation profile was analysed for 1998 on the basis of the harmonised consumer price index (HICP). This index was compiled from the start, i.e. from January 1995, using the methods now applied for the national index, so that the trend has not been influenced by the change in the seasonal profiles. Also, the two indices are very similar in their coverage, since the products considered by the HICP make up around 94 p.c. of the basket used for the NICP. However, although the two indices correspond closely, there may still be slight discrepancies in the inflation rate as measured by one or the other index. This difference was relatively large in 1996 when road tax — which is not included in the HICP but is included in the NICP — was increased sharply for diesel vehicles. In 1998, inflation measured by the harmonised index was only 0.1 p.c. below the rate measured by the national index. Moreover, the analysis of the HICP is also relevant for the purpose of the common monetary policy pursued by the ECB since January 1999. The Belgian harmonised index in fact contributes to the overall euro area index in proportion to the share of Belgian private consumption in the total private consumption of that area, namely 3.8 p.c.

TABLE 11 — WEIGHT [1] OF THE ELEVEN COUNTRIES IN THE CONSUMER PRICE INDEX OF THE EURO AREA IN 1998

(Percentages of the total)

Germany	34.5
France	21.9
Italy	18.2
Spain	8.9
Netherlands	5.3
Belgium	3.8
Austria	3.0
Portugal	1.7
Finland	1.6
Ireland	0.9
Luxembourg	0.2
Euro area	100.0

Source : EC.

[1] The weight of each country is proportional to the share of its final domestic private consumption in the total for the euro area.

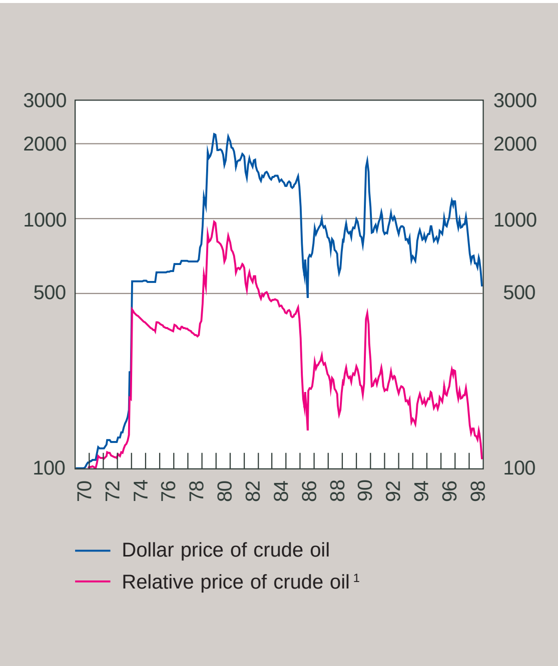
After falling steeply at the beginning of the year under review, Belgium's inflation rate as measured by the HICP moved back up, reaching 1.3 p.c. in April and May. It then dropped again. This upside down U-shaped profile is due largely to the movements in the prices of non-processed food products, namely vegetables, fruit, meat and fish. Leaving aside the volatility of fruit and vegetable prices, which is partly responsible for the low inflation rate in January, the trend of the prices of non-processed food products was chiefly determined by the price of pork, which, after having risen steeply at the start of 1998, fell very sharply as a result of overproduction throughout Europe. In December, the prices of vegetables and potatoes rose considerably owing to bad weather during the harvest period.

Furthermore, the trend of energy product prices also contributed to this pattern. The fall in energy product prices was more pronounced at the beginning and end of the year than during April and May. On average, the decline in energy product prices came to 3.6 p.c. in 1998, whereas in 1997 these prices actually rose by 3.1 p.c., partly because of the effects of the higher excise duties. If the absence of increases in excise duty in 1998 is disregarded, this turnaround is found to be due mainly to the movement of the price of crude oil, which has fallen very steeply since October 1997. As the impact of the Asia crisis on the world economy has increasingly made itself felt, so excess production has become steadily more apparent. As a result, the international price of Brent crude fell to around 10 dollars per barrel in December 1998. In nominal terms, this brought the oil price back to the level of the mid-1970s, after the first oil shock. Given the rise in the general price level recorded over the same period, the relative price of crude at the end of 1998 corresponded to the level prevailing just before the first oil shock.

If non-processed food products and energy products are disregarded, a measure of underlying inflation which is generally regarded as a more accurate reflection of the fundamental trend of inflation than the overall index is obtained. The decline in underlying inflation recorded since 1992 came to an end during the year under review. The rate increased from 1 p.c. in January to 1.7 p.c. in August, after which it appeared to stabilise. However, underlying inflation remained very low and the rate for 1998 is entirely compatible with price stability.

CHART 19 — PRICE OF CRUDE OIL

(Indices January 1970 = 100, logarithmic scale)



Sources : BIS, IMF, NBB.

[1] Price of crude oil deflated by the movement of consumer prices in the industrialised countries.

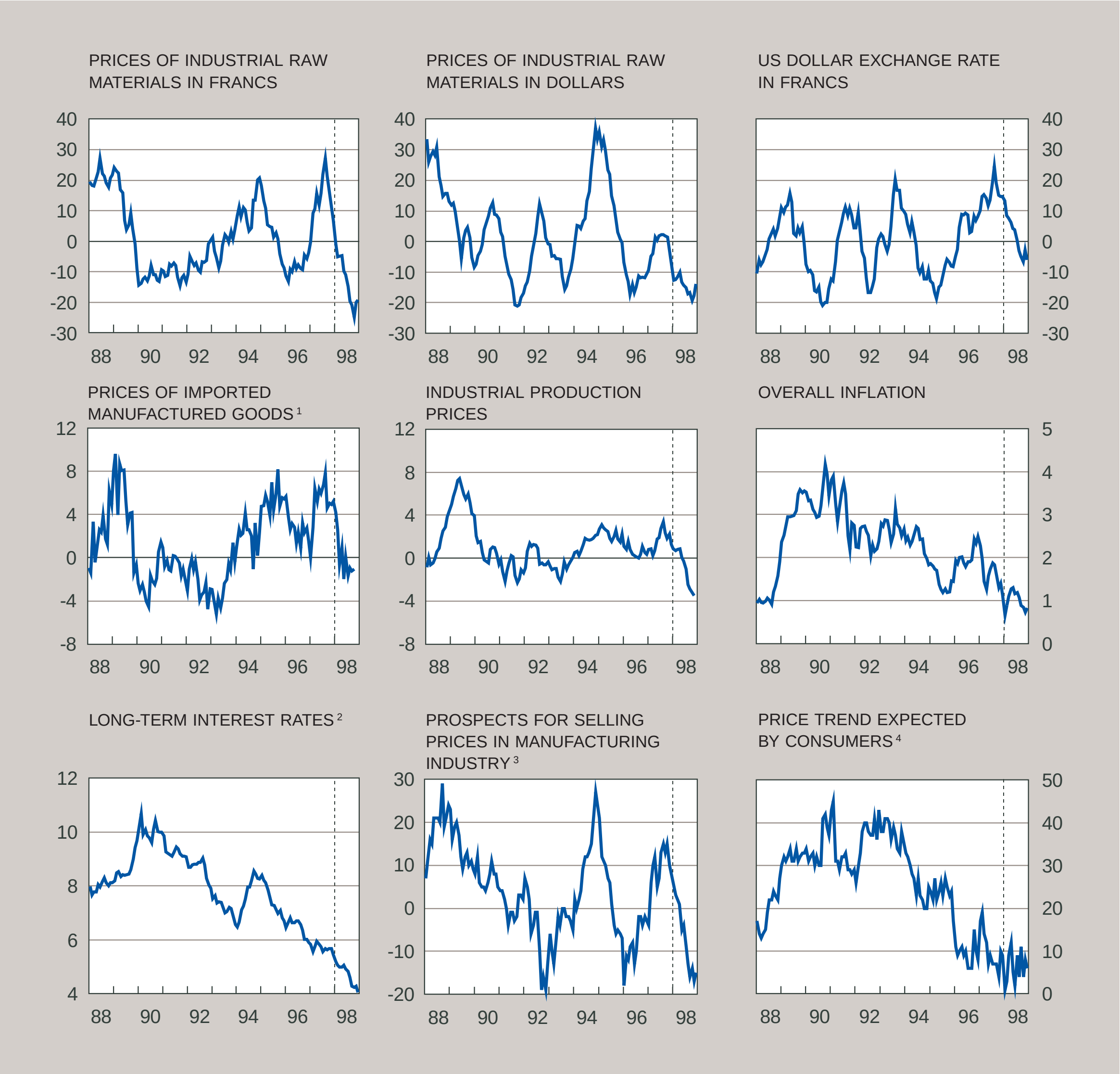
The rise in the prices of services and non-energy industrial goods accelerated during the year under review, while in the case of processed food products the upward movement slowed down owing to the fall in the price of coffee. The quickening of the increase in service prices is largely attributable to a sharp increase in mains water prices, which took place in May. If this discretionary factor were disregarded, the acceleration of the underlying inflation rate would have been less pronounced. The upsurge of the prices of non-energy industrial goods is probably connected with the steep increase in import prices in 1997; as has also been noted in the past, it takes some time for this movement to be reflected in inflation. In the short term, changes in import prices are partly absorbed in profit margins. In 1998 it was moreover easier to pass on the import price increase to the consumer, as private consumption was growing more vigorously. Towards the end of the year, the rise in the prices of non-energy industrial goods stopped quickening. After making a major contribution to the decline in underlying inflation between 1992 and 1997, the movement of unit labour costs stabilised at a low level. However, the moderate pay rises were still the main factor behind the favourable inflation figure during the year under review.

Although underlying inflation has edged upwards, the slightly longer-term prospects are still good. According to forecasts by international organisations, the rise in unit labour costs is likely to remain very small. Furthermore, a great deal of information that became available in 1998 in other fields, too, pointed to the prospect of low underlying inflation.

There was thus a fall in the prices of industrial raw materials expressed in Belgian francs, reflecting both the trend of dollar prices of raw materials and the trend of the American currency. Dollar prices weakened on the international markets owing to the downward revision of the growth prospects for the world economy during the year under review. The dollar depreciated from August 1998 onwards when the financial markets, partly because of the deterioration in the economic situation, anticipated the cuts in US short-term interest rates which took place soon afterwards. These movements put an end to the large increases recorded in 1997 in the prices of imported manufactured goods and in industrial production prices. From

CHART 20 — INDICATORS OF THE PROSPECTS REGARDING UNDERLYING INFLATION

(Percentage changes compared to the corresponding month of the previous year, unless otherwise indicated)



Sources : HWWA, EC, MEA, NBB.
[1] Excluding diamonds.
[2] Level of 10-year rates.
[3] The Bank's monthly business survey. Balance of positive and negative answers.
[4] EC consumer survey. Balance of positive and negative answers.

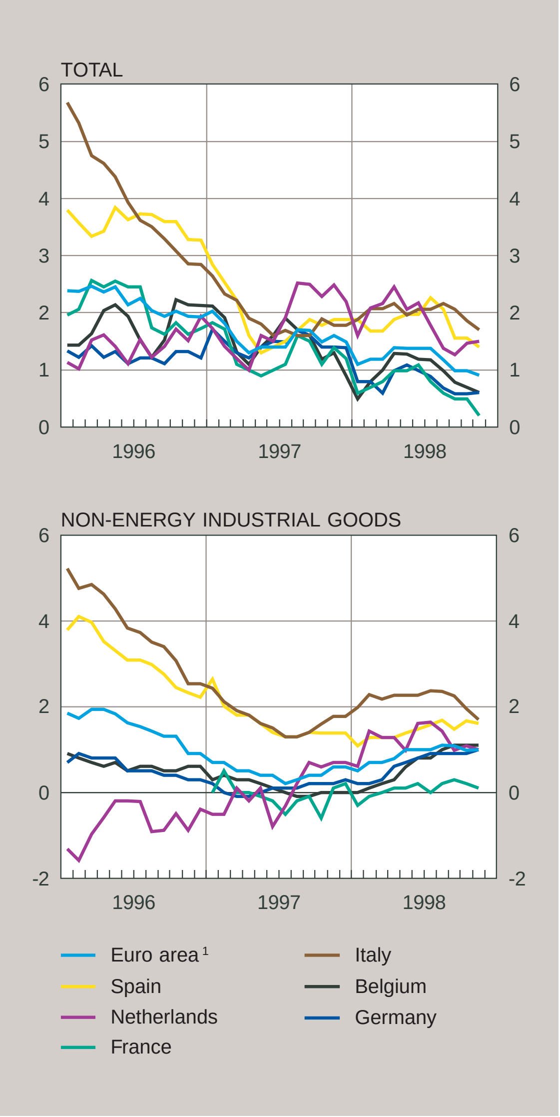
mid-1998 onwards the year-on-year rate of change in these prices actually became negative. Rather unlike the movement of oil prices, which has an immediate impact on overall inflation, changes in import and industrial production prices take a while to exert any influence on underlying inflation. Overall inflation may also be regarded as an indicator of the outlook for underlying inflation in Belgium. In the past, major external events such as the oil shocks have first had a direct effect on overall inflation, and then after a time they have had an indirect effect on underlying inflation via changes in the prices of intermediate goods and labour costs. Since the end of 1996, the overall inflation rate has been declining.

Many indicators providing information on inflation expectations also showed a downward trend during the year. A number of financial variables, such as long-term interest rates, indirectly reflect the expectations of the financial markets. During the year under review long-term interest rates, both abroad and in Belgium, were falling, thus indicating of a world-wide decline of inflation anticipations. In addition, certain surveys such as the Bank's monthly business surveys and the EC consumer survey, provide direct measures of expectations concerning inflation. The results of these surveys indicate that business leaders in manufacturing industry have scaled down their expectations regarding selling prices and that consumers do not expect inflation to quicken.

In 1998 the movements recorded in Belgium corresponded closely to those in the euro area, where inflation quickened slightly at the beginning of the year but slowed down in the third quarter. In November 1998 the inflation rate in the euro area was 0.9 p.c. Inflation was very low in the two largest economies, namely Germany and France. In Italy and Spain, on the other hand, as well as in a number of small countries such as Portugal and Ireland, inflation was in the region of 2 p.c.

CHART 21 — HARMONISED CONSUMER PRICE INDICES IN THE EURO AREA

(Percentage changes compared to the corresponding month of the previous year)



Source : EC.

[1] The 1996 figures for non-energy industrial goods do not include France.

The fact that the Belgian figure is very close to that for the euro area clearly shows the high degree to which the Belgian economy is integrated into that area. Factors similar to those which determined inflation in Belgium during the year under review, namely sharp falls in the price of energy products and the moderate rise in labour costs, are in fact the reason for the favourable figure in the euro area. The appreciation of the dollar in 1997, which affected all countries in the euro area except Ireland to more or less the same extent, also led to a slight quickening of the rise in the prices of non-energy industrial goods after mid-1997. But, as in Belgium, this quickening ceased at the end of the year under review.

3.2 COSTS IN ENTERPRISES

In 1998 labour costs in enterprises appear to have increased at the same rate as in 1997, i.e. 2.7 p.c. The measures reducing employers' social security contributions helped to bring about this stabilisation by partly neutralising the sharper rise in average gross compensation per full-time employee, which went up from 2.5 p.c. in 1997 to 3.1 p.c. in 1998. However, the extent of the wage rises resulting from the pay negotiations, i.e. the increases due to indexations and increases under collective agreements, was about the same as in 1997.

Wages are linked to the movement of consumer prices via the various indexation mechanisms defined in the collective labour agreements. Indexation either takes place at set intervals, in which case the resulting wage increase is variable, or it occurs when a reference index number has overtaken a threshold index number, in which case the increase is fixed but the interval varies. Indexation systems may also differ according to other criteria, such as the extent of the indexation in the case of a mechanism which refers to a threshold index number or the frequency of indexation in the case of a mechanism in which the intervals are fixed.

TABLE 12 — LABOUR COSTS IN ENTERPRISES [1]

(Percentage changes compared to the previous year)

	1994	1995	1996	1997	1998 e	Annual averages 1988-1993	1994-1998
Gross compensation per full-time employee	3.0	3.1	1.8	2.5	3.1	5.4	2.7
Increases resulting from :							
Indexations	1.4	1.5	1.4	1.5	1.4	2.6	1.4
Wage increase under collective agreements	1.4	...	...	0.8	1.0	1.7	0.6
Wage drift [2]	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Change in number of hours actually worked per full-time employee	0.6	0.1	−0.1	0.3	0.2	−0.1	0.2
Other factors [3]	−0.9	1.0	−0.1	−0.6	...	0.5	−0.1
Employers' social security contributions and measures to activate unemployment benefits [4]	−0.5	−0.5	−0.4	0.2	−0.4	0.2	−0.3
Labour costs per full-time employee	2.5	2.6	1.4	2.7	2.7	5.6	2.4
Productivity per full-time employee	3.1	1.8	0.3	3.0	2.3	2.0	2.1
Unit labour costs [5]	−0.6	0.8	1.1	−0.3	0.4	3.5	0.3

Sources : NAI, NBB.

[1] Private and public enterprises. All the data are calculated without taking account of the possible influence of the statistical adjustments.

[2] This item is an overall estimate and consists mainly of the scale increases.

[3] This item includes increases granted by enterprises over and above collectively agreed or scale adjustments, the difference between estimated and actual wage indexations, the difference between the estimated and actual effect of the collectively agreed wage increases, and errors and omissions.

[4] Contribution to the increase in labour costs per full-time employee.

[5] Per unit of value added in enterprises, at constant prices.

The effects of linking wages to price movements may therefore vary according to the system, making it difficult to assess their overall influence, especially in periods of low inflation. For 1998 this influence was estimated at an average of 1.4 p.c., which was similar to the percentage in previous years. Calculated on the basis of the national consumer price index, inflation fell from 1.6 p.c. in 1997 to 1 p.c. in 1998, but the rise in the health index, used as the reference for wage indexation, remained unchanged at 1.3 p.c. This index was actually unaffected by the fall in petrol and diesel prices, which are excluded from the calculations. As the rise in the health index outstripped the rise in the consumer price index, wage indexation helped to push up real wages slightly in 1998. Thus, employees benefited directly from part of the improvement in the terms of trade observed in 1998. In the period before the introduction of the health index, all changes in the terms of trade — up or down — due to fluctuations in oil prices were reflected in full, at least initially, in the incomes of companies.

The 1998 wage increases under collective agreements are based on the biennial wage agreements concluded in the spring of 1997. These agreements, which were negotiated in accordance with the law of 26 July 1996 for the first time, had to keep within a maximum increase for nominal wages for the period 1997-1998. As management and labour failed to agree, the government had set this maximum at 6.1 p.c. After account had been taken of the indexation and wage drift expected at the time of the negotiations, the margin available for real wage increases amounted to 1.8 p.c. for the whole period 1997-1998. The rate of increase in 1998 was slightly higher than in 1997, mainly because some of the agreements negotiated in 1997 stipulated that the increases would not take effect until 1 January of the following year.

CHART 22 — MOVEMENT OF GROSS NOMINAL WAGES

(Percentage changes compared to the corresponding period in the previous year)

Sources : MEL, NSI, NBB.

[1] The movement of gross wages per full-time employee corresponds to the sum of the lines «Indexations» and «Wage increases under collective agreements» in Table 12.

[2] Index of gross hourly wages earned in industry by male manual workers aged 21 or more (NSI quarterly survey).

[3] Weighted average of MEL general indices on the wages, under collective agreements, of manual and non-manual employees.

After account had been taken of the indexation and wage drift expected at the time of the negotiations, the margin available for real wage increases amounted to 1.8 p.c. for the whole period 1997-1998. The rate of increase in 1998 was slightly higher than in 1997, mainly because some of the agreements negotiated in 1997 stipulated that the increases would not take effect until 1 January of the following year.

The movement of average gross compensation per full-time employee is also determined by occasional factors on which little information is available. Thus, a change in the structure of the working population in terms of age and standard of qualifications gives rise to scale increases which, according to generally accepted estimates, account for some 0.5 p.c. of the rise in labour costs. Compensation may also vary on account of non-recurring increases, e.g. via bonuses linked to business profits or variable factors such as the number of hours actually worked per full-time employee. Among these factors it has been possible to isolate the effect of the change in hours worked due to changes in working hours under collective agreements and temporary lay-offs. The temporary lay-off system, which enables enterprises to withdraw workers temporarily from the production process without terminating their contract of employment, introduces some flexibility into the movement of labour costs in enterprises, depending on the economic situation. In 1998, as in 1997, the economic revival led to reductions in temporary lay-offs, playing a part in pushing up employers' labour costs per full-time employee by 0.2 p.c. The other factors, which are calculated as a difference once the national accounts figures are available, may fluctuate considerably without any systematic trend being identifiable. In 1998, gross compensation rose more steeply because these factors had had a negative impact the previous year.

In 1998 the new reductions in employers' social security contributions again had a moderating effect on the movement of labour costs. Special factors in this connection were the effect over a full year of the extension of the Maribel programme in July 1997, in order to make it conform to the European regulations, and the greater recourse to other existing provisions. These additional reductions, which totalled around Fr. 11 billion in 1998, helped to cut labour costs per full-time employee by 0.3 p.c. Altogether, the reductions in employers' social security contributions granted by the various measures adopted in implementation of the global plan boosted the labour-cost saving for enterprises from Fr. 15 billion in 1993 to Fr. 67 billion in 1998.

In the employment action plan adopted at the beginning of 1998, the government confirmed its desire to adhere to the policy of reducing employers' social security contributions. The aim is to bring these charges down to the average for France, the Netherlands and Germany within six years, representing an additional reduction of Fr. 108 billion in labour costs, estimated at 3.4 p.c. of the total wages and salaries of enterprises. The multiannual plan for the period from 1999 to 2004 aims to gradually integrate the Maribel operation with the measures concerning low wages by granting a flat-rate reduction in employers' social security contributions, which will be the same for all workers if working hours are taken into account, and by giving additional relief in the case of those with low wages. Ultimately, a budget of around Fr. 150 billion, corresponding to the amounts of the reductions under the Maribel programme and the measures on low wages, plus the supplementary measures in the multiannual plan, will be allocated for a general, structural reduction in employers' social security contributions.

Attention also focused on the activation of unemployment benefits.

The local employment agency (LEA) job creation scheme set up in 1994 is based on the use of cheques to pay for services performed by unemployed persons to supplement their unemployment benefit. The cheques, worth an average of around Fr. 220 per hour in 1998, cover the unemployed persons' pay of Fr. 150 plus insurance against industrial accidents as well as certain administrative expenses. Moreover, no employers' social security contributions have to be paid. Under the LEA scheme, the pay only represents supplementary income and the labour cost expressed in terms of full-time equivalents is very low, at around Fr. 250,000 per annum ; the unemployment benefits are still regarded as a transfer from general government to households.

On the other hand, the system of activating unemployment benefits under the service-jobs scheme introduced by a Royal Decree of 8 August 1997, often referred to as « SMET jobs », involves converting the unemployment benefit into part of the pay. The worker is taken on under a special contract of employment. His wage is fixed in accordance with the collective labour agreements or the statutory scale applicable, but must not exceed the average minimum monthly wage by more than 20 p.c. The National Employment Office pays for a maximum of three years, on behalf of employers who take on a worker under this scheme, a part of the wage corresponding to Fr. 17,500 per month for a job entailing at least 50 p.c. of full-time hours, and Fr. 22,000 for a job entailing at least 80 p.c. of full-time hours. Moreover, most of the employers' social security contributions are waived. The Federal Ministry of Employment and Labour estimated that the cost to the employer, after deduction of subsidies, will be only Fr. 10,000 per month for a person employed for 50 p.c. of full-time hours, and less than Fr. 20,000 for a person working 80 p.c. of full-time hours during the first three years. Converted to the cost of a full-time employee, the annual labour cost of a « SMET job » would represent approximately one fifth of the average for a full-time employee.

These activation systems curb the growth of average gross compensation per full-time employee, since the corresponding labour cost is substantially lower under these two measures. Since these measures for activating unemployment benefits are in principle comparable to other measures aimed at cutting labour costs and promoting employment, the impact of the activation of unemployment benefits on the movement of labour costs is included among the effects of reductions in social security contributions in Table 12. So far, these measures have had very little influence on the movement of the average labour costs of enterprises.

Overall, the tendency towards wage moderation continued in 1998, one factor being the measures introduced to limit the rise in labour costs and enhance the employability of certain groups in the active population. After Belgium's competitiveness was found to be deteriorating in 1993, these measures were adopted in accordance with the procedure laid down by the law of 6 January 1989 on the safeguarding of competitiveness.

Altogether, the measures adopted under the global plan in 1993, which were supplemented by the law of 26 July 1996 on the promotion of employment and the preventive safeguarding of competitiveness, brought about a very marked slowing of the rise in labour costs per full-time employee. These costs increased at an annual average rate of 2.4 p.c., whereas between 1987 and 1993 the average annual increase had been 5.6 p.c. This trend reflects the slackening both of inflation and also of real increases, which are much smaller than previously, as well as the reductions in employers' social security contributions. In 1994, as the wage agreement concluded for the period from 1993 to 1994 could not be cancelled during that period, the increase in real wages had been kept down by the introduction of a new yardstick for indexation, the health index. After that, real wage rises under the collective agreements were prohibited in 1995 and 1996.

Following the freeze on increases under the collective labour agreements and the introduction of the health index, the rise in nominal wages per full-time employee remained below the increase recorded in the three neighbouring countries in 1994, i.e. at 2.3 p.c. against 3.3 p.c., and during the next two years, when it averaged 1.7 p.c. against 3.2 p.c. per annum, as may be seen from the OECD figures which are used for the purpose of international comparisons and are compiled on the basis of a methodology and estimates which produce results slightly different from those set out in Table 12.

In 1997 and 1998, the first years in which the law of 26 July 1996 was implemented, labour costs per full-time employee grew at a rate of 4.8 p.c., which was below the 6.1 p.c. limit set in December 1996 as a guide for wage negotiations. This slower than expected rise in labour costs is due primarily to the lower rate of inflation. The latter also moderated the rise in wages in the three partner countries, so that the trend of Belgium's labour costs stayed in line with the average recorded in the reference countries.

In the autumn, management and labour concluded an inter-trade agreement for the period 1999-2000 aimed primarily at promoting employment. This agreement, signed on 8 December 1998, establishes the framework for the negotiations on wages and employment which are to commence in all sectors in 1999. The agreement confirms that the 5.9 p.c. margin for wage rises, set in the September 1998 technical report by the Central Economic Council, will serve as the benchmark for wage negotiations, though there will still be some latitude for the negotiations conducted in each sector. It also specifies that in exchange for the reductions in employers' social security contributions, enterprises will have to do more by way of job creation and training, to match what is being done in the three neighbouring countries.

The changes in labour costs, employment and expenditure on training will in an initial stage be assessed in general terms. If these changes fail to come up to expectations, it will first be necessary to check in general whether the failure is attributable, for example, to the economic situation or shocks to the economy, and whether the failure in one of the three areas can be offset by progress in the other two. If that is not the case, the

TABLE 13 — INTERNATIONAL COMPARISON OF LABOUR COSTS IN ENTERPRISES

(Averages of the annual percentage change in national currency)

	1994	1995-1996	1997-1998	1994-1998
Labour costs per full-time employee [1]				
Belgium	2.3	1.7	2.4	2.1
Three neighbouring countries [2]	3.3	3.2	2.4	2.9
Unit labour costs [3]				
Belgium	−0.9	0.2	0.1	−0.1
Three neighbouring countries [2]	−0.7	0.9	−0.7	−0.1

Source : OECD.

[1] Labour costs per full-time employee are calculated by dividing total wages and salaries by the number of persons employed, expressed as full-time equivalents on the basis of the data from the annual workforce survey, particularly the data on the proportion of part-time working and the average length of part-time hours in relation to full-time hours.

[2] Germany, France and the Netherlands.

[3] Per unit of value added at constant prices in enterprises.

corrections specified by the law of 26 July 1996 on the promotion of employment and the preventive safeguarding of competitiveness remain in force. Also, if no overall satisfactory explanation is found, a check will be conducted in each sector to ascertain whether this is due to characteristics or commitments specific to the sector. In the case of sectors or enterprises which have not concluded collective labour agreements on training and employment, the sanction will take the form of a one-year postponement of part of the structural reduction in employers' social security contributions.

Thanks to this closer attention to the trend of labour costs and account being

TABLE 14 — DETERMINANTS OF THE GROSS OPERATING SURPLUS AND DISPOSABLE INCOME OF COMPANIES [1 2]

(Percentage changes compared to the previous year)

	1994	1995	1996	1997	1998 e	1998 1993 = 100
Gross operating margin						
Unit selling price	1.8	1.5	2.2	2.9	0.4	109.1
On the domestic market	2.3	1.5	1.7	1.3	0.8	107.9
On the export market	1.3	0.9	2.5	4.5	0.3	109.9
Costs per unit sold	1.7	0.8	2.3	3.1	−0.1	108.0
Imported goods and services						
Costs in foreign currencies [3]	3.7	6.3	0.7	0.6	−0.7	110.9
Exchange rates [4]	−1.7	−3.9	2.1	4.7	−0.7	100.2
Costs in francs	1.9	2.1	2.9	5.2	−1.4	111.1
Costs of domestic origin per unit produced [5]	0.7	0.1	2.2	0.7	1.1	104.9
Indirect taxes net of subsidies	7.9	−2.6	6.5	6.0	3.0	122.3
Labour costs	−0.6	0.8	1.1	−0.3	0.4	101.4
Gross operating surplus of self-employed persons	−0.2	0.4	2.4	−0.4	1.0	103.1
Gross operating surplus of companies per unit sold	2.1	6.4	1.6	1.6	4.5	117.3
Volume						
Final sales at constant prices	4.7	3.6	1.7	4.8	4.1	120.5
On the domestic market	1.5	n. [6]	1.2	2.5	5.0	n.
On the export market	8.4	n. [6]	2.2	7.1	3.2	n.
Gross operating surplus of companies	7.0	10.3	3.4	6.6	8.8	141.3
p.m. Percentages of value added of companies [7]	24.6	26.1	26.2	26.6	27.4	
Net income from property paid to other sectors	−2.3	2.2	0.3	3.7	5.7	109.8
Gross primary income	9.9	12.5	4.1	7.3	9.5	151.2
Net current transfers to other sectors	14.5	19.3	2.5	17.5	19.2	196.1
Disposable income	8.9	11.0	4.5	4.9	7.0	141.8
p.m. Percentages of national income	10.5	11.2	11.3	11.3	11.6	

Sources : NAI, NBB.

[1] Private and public enterprises.

[2] The determinants of the formation of prices and costs are calculated without taking account of the possible influence of the statistical adjustments whereby the three approaches of the national accounts are reconciled. On the other hand, selling prices, costs and the gross operating surplus per unit sold do include these, though they are not explicitly mentioned in the table among the determinants.

[3] Obtained by dividing the change in costs in francs by the movement of the exchange rate.

[4] Average exchange rate weighted by imports of goods and services. A minus sign indicates an appreciation of the franc.

[5] Per unit of value added at constant prices in enterprises.

[6] The breakdown of final sales between the domestic market and the export market is meaningless for 1995 owing to the break in the export series between 1994 and 1995, due to the introduction of a new data collection system for the balance of payments and the implementation of the recommendations made in the fifth edition of the IMF Balance of Payments Manual.

[7] Value added of enterprises minus gross operating surplus of self-employed persons.

taken of the productivity gains which, on average, during the years 1994 to 1998, were virtually identical to those during the years 1987 to 1993, unit labour costs have remained practically stable since 1993, whereas they had increased by an average of 3.5 p.c. per annum between 1987 and 1993. According to the OECD figures, the trend of unit labour costs in Belgium was comparable with that in the three neighbouring countries, the relative deterioration in 1997 and 1998 having in fact been offset by the fact that unit labour costs in Belgium fell more sharpely in 1994 and grew more slowly in 1995 and 1996 than in the three neighbouring countries. Belgium's competitiveness has therefore followed a trend similar to that in the three neighbouring countries since 1993.

The stability of unit labour costs has also helped to underpin the profitability of enterprises : their gross operating surplus per unit sold has grown by 17.3 p.c. since 1993, despite the relatively unfavourable trend of selling prices compared to imported costs. However, in 1998 the rise in the gross operating surplus per unit sold, which was faster than the rise in 1997, is attributable to the modest rise in selling prices while imported costs expressed in francs have declined, reflecting the fall in the prices of fuel and raw materials. Also, account being taken of the increase in unit costs of domestic origin, the profit margin of companies expanded by 4.5 p.c. Moreover, the strong cyclical recovery of domestic demand led to a substantial increase in the volume of final sales on the home market, offsetting the slower rise in export sales. Overall, the gross operating surplus of companies increased by 8.8 p.c. in 1998, reaching 27.4 p.c. of the value added of companies, a level similar to that recorded in 1988 and 1989, the years corresponding to the peak of the previous business cycle.

The movement of the gross operating surplus of companies is largely reflected in that of their disposable income, which in company accounts corresponds to retained profits and depreciation. Gross primary income, corresponding to the gross operating surplus after net payment of interest and dividends, grew by 9.5 p.c. Net current transfers from companies to other sectors, i.e. mainly taxes, also showed a very strong rise in 1998. Overall, the rate of increase in the disposable income of companies totalled 7 p.c., outstripping the rate recorded in 1997. The share of this income in national income, i.e. the rate of saving by companies, thus increased slightly to reach 11.6 p.c.

3.3 INCOMES OF INDIVIDUALS

The increase in the disposable income of individuals, which had already accelerated in 1997, gained further impetus in 1998 to reach 3.6 p.c. at current prices, against 2.8 p.c. a year earlier. The growth in purchasing power also benefited from the slackening of inflation : at constant prices, the disposable income of individuals thus increased by 2.6 p.c. in the year under review, against 1.2 p.c. in the previous year. However, this rise was associated with a decline in relative terms, as the nominal growth in disposable income lagged behind that in the national product, causing the proportion received by households to decline, principally to the benefit of that received by general government.

As was the case for their disposable income, the increase in the primary income of individuals also accelerated, and was likewise accentuated during the year under review, though to a lesser extent : it came to 3.4 p.c. in 1998 against 3 p.c. a year earlier. The smallness of the increase in net transfers by households to other sectors in fact caused the disposable income of individuals to rise faster than their primary income. These trans-

TABLE 15 — INCOME OF INDIVIDUALS AT CURRENT PRICES[1]

(Percentage changes compared to the previous year)

	1995	1996	1997	1998 e
Primary income	2.3	1.7	3.0	3.4
Earned income	3.3	2.2	3.1	3.7
Wages and salaries[2]	3.3	1.7	3.1	3.6
Paid by enterprises	2.9	1.6	3.0	3.8
Paid by general government	4.5	2.0	3.2	2.9
Incomes of self-employed persons	3.4	4.9	3.3	4.4
Incomes from property	−0.5	...	2.6	2.3
Net current transfers paid	2.3	0.7	4.1	2.1
of which : Transfers paid to general government	3.5	1.9	4.2	2.7
Transfers received from general government	4.4	3.3	3.3	3.2
Disposable income	2.3	1.8	2.8	3.6
p.m. At constant prices[3]	0.8	−0.3	1.2	2.6

Sources : NAI, NBB.

[1] Including depreciation but excluding the statistical adjustments whereby the three approaches of the national accounts are reconciled.

[2] Compensation paid by enterprises and general government, including employers' social security contributions, and civil service pensions.

[3] Data deflated by means of the national consumer price index.

fers, most of which are received by general government, increased by only 2.1 p.c. in 1998 against 4.1 p.c. in 1997. The increase in transfers paid was curbed by new reductions in social security contributions and a rise in net tax refunds upon assessment. On the other hand, the rate of growth of transfers received from general government, comprising mainly welfare benefits, remained steady at 3.2 p.c.

Wages and salaries, the main category of the primary income of individuals, increased by 3.6 p.c. overall in 1998, against 3.1 p.c. in the previous year. However, the rate of increase in the wages and pensions of civil service employees was slower than in 1997, when their income had been inflated by the fact that payment of the end-of-year bonus for 1996 had been carried forward for some civil servants. It was therefore only in the private sector that compensation increased faster, by 3.8 p.c. in 1998 as compared to 3 p.c. in 1997, as a result of the more favourable trend of the volume of employment.

The income of self-employed persons, too, increased faster, by 4.4 p.c. against 3.3 p.c. in 1997. The increase in traders' incomes was stimulated by the stronger growth in private consumption, while the incomes of members of the medical and paramedical professions were boosted by the increase in expenditure on health care, which had been held back in 1997 by budget cuts. On the other hand, farmers' incomes contracted significantly, primarily because of the sharp fall in pork, poultry and cereal prices.

The growth in incomes from property dipped slightly. The net incomes which households derived from their real estate grew more slowly in 1998 than in the previous year, mainly because of the modest rent increases. This deceleration was partly offset by a stronger rise in incomes obtained from financial investments.

The rise in dividends received by households in fact accelerated in 1998, reflecting both the strong growth in corporate profits in 1997 and the fact that individuals were attracted to equities.

Moreover, for the first time since 1993, interest income increased, though only fractionally. This increase is not due to the movement of the implicit interest rate on investments of individuals, which continued to fall in 1998, dropping to around 5 p.c., 0.3 point down on the 1997 figure. This further fall in the remuneration on financial assets had only a very marginal effect on short-term investments by households, since money market rates stabilised overall during the year under review. In contrast, the decline in the remuneration on assets at over one year continued owing to the renewal of investments at rates well below those prevailing a few years ago. However, in 1998 the effect of the fall in yields on interest income was more than offset by the converse effect of the structural rise in the volume of investments.

During the past ten years, the incomes which individuals have derived from their financial assets in the form of interest and dividends has increased at an average annual rate of 3.9 p.c. However, two distinct phases are identifiable : between 1988 and 1993 these incomes increased substantially, by some 10 p.c. per annum on average, while subsequently they declined at an annual average rate of 2 p.c.

This downturn can hardly be attributed to dividends, which have increased almost without a break, although they rose a little more strongly during the first phase. Dividends have also been a fairly dynamic component of the total financial incomes of households, since their average growth over the whole period under review outpaced that of interest incomes. And this positive difference still takes no account of capital gains due to the rise in stock market prices, as these are not regarded as income.

Interest incomes grew at an average rate of 11 p.c. per annum between 1988 and 1993, and then contracted at an average rate of 3 p.c. This reversal may be attributed to two factors. First, inflation was higher during the first sub-period, thus encouraging the nominal growth in

TABLE 16 — DETERMINANTS OF THE MOVEMENT OF INTEREST INCOMES RECEIVED BY INDIVIDUALS [1]

	1995	1996	1997	1998 e
Outstanding amounts on which interest incomes are received (indices 1995 = 100) [2]				
Assets at up to one year	100.0	100.4	103.7	108.0
Assets at over one year	100.0	110.2	115.8	122.8
Total	100.0	106.1	110.7	116.5
Weighted average interest rate (percentages) [3]				
Assets at up to one year	4.0	3.3	3.0	2.9
Assets at over one year	7.7	7.3	6.8	6.4
Total	6.2	5.7	5.3	5.0
Interest incomes (indices 1995 = 100)				
Assets at up to one year	100.0	81.5	76.4	76.2
Assets at over one year	100.0	103.6	101.6	102.2
Total	100.0	97.4	94.6	95.0

Source : NBB.

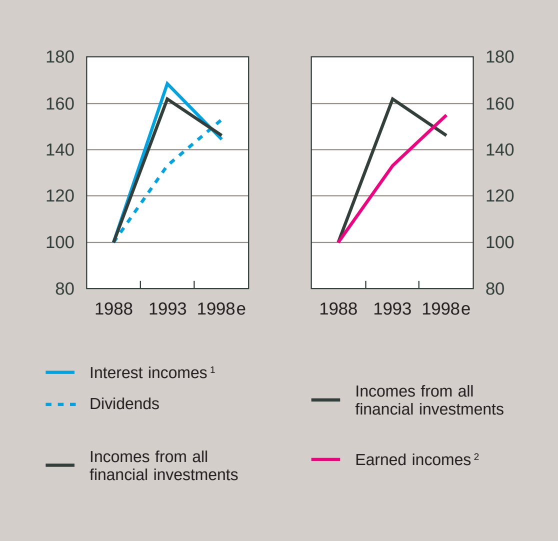
[1] Including, in the case of investments via capitalisation UCIs, the increase in the inventory value corresponding to interest and similar income, which is capitalised.

[2] These indices do not reflect the outstanding amount of interest-bearing assets at the end of the year under review, but the outstanding amount which served as the basis for the calculation of interest incomes.

[3] These rates correspond, for the short term, to an annual average and, for the long term, to a moving average over several years. They are weighted on the basis of the asset categories.

CHART 23 — INCOMES RECEIVED ON FINANCIAL INVESTMENTS AND EARNED INCOMES

(Indices 1988 = 100)



Sources : NAI, NBB.

[1] Including, in the case of investments via capitalisation UCIs, the increase in the inventory value corresponding to interest and similar income, which is capitalised.

[2] Wages and salaries and incomes of self-employed persons.

incomes and hence indirectly the formation of financial assets. The second factor is the weighted average rate on investments by individuals, which increased from 7.1 p.c. in 1988 to 7.4 p.c. in 1993, but then fell markedly, to only 5 p.c. in 1998.

While the growth in incomes from financial investments has turned down sharply, earned incomes have followed a much steadier course, so that they have now made up the leeway which they accumulated between 1988 and 1993. Over the past ten years as a whole, earned incomes have grown by an annual average of 4.5 p.c., while interest and dividend incomes have increased by only 3.9 p.c.

4. PUBLIC FINANCES

4.1 REVENUE, EXPENDITURE AND FINANCING REQUIREMENT

In accordance with the convergence plan adopted in 1992, the financing requirement of general government was reduced from about 7 p.c. of GDP in 1992 and 1993 to 3.1 p.c. in 1996. With a view to further consolidation of the public finances, that plan was replaced at the end of 1996 by a new convergence programme running to the end of this century and laying down budgetary norms for the primary balance of Entity I, that is, the federal government and the social security system, and for the total balance of Entity II, i.e. the regions, communities and local authorities combined. This programme envisaged, for general government as a whole, a deficit of 2.3 p.c. of GDP in 1998 and 1.4 p.c. in the year 2000.

The policy lines of the new convergence programme were confirmed in the spring during the preparatory discussions for the European summit of 1 May and also in the stability programme submitted by the government in December. The government undertook to maintain, in the medium term, the primary surplus of general government at around 6 p.c. of GDP.

In 1997, thanks to the reduction of the deficit to 1.9 p.c. of GDP and the substantial reduction of the debt ratio since 1993, the convergence criteria laid down in connection with Economic and Monetary Union were met. Furthermore, unlike the situation which had prevailed since the beginning of the 1970s, the « golden rule », according to which current expenditure must be financed by revenue and not by borrowing, was complied with. As a matter of fact, capital expenditure had remained well below the EU average.

In the year under review even better results were recorded, as the deficit was brought down to barely 1.3 p.c. of GDP two years before the target date set in the convergence programme and the debt reduction in terms of percentages of GDP speeded up further.

Revenue

The fiscal and parafiscal pressure has remained virtually stable in recent years. In 1998, however, it decreased slightly, namely to 45.7 p.c. of GDP, a decline of 0.2 percentage point. Factors such as the non-indexation of most tax scales and the progressive nature of the personal income tax were more than counterbalanced by the expansion of the overall amount of the reductions in social security contributions, time lags in the assessment of personal income tax and the withholding tax on income from movable property as well as a change in the composition of the national income, earned incomes, which are more heavily taxed, having risen less than those of companies.

This last-mentioned trend is not new. Over the past five years, company profits and taxes have risen on average by more than 10 p.c. In 1998 taxes on company profits increased by 20 p.c., so that their yield in billions of francs doubled compared to 1993.

These developments contrast with the course of wages, which are proportionally much greater, and the levies on them. The growth in gross wages in 1998 was fairly close to the rise, of 3.3 p.c., recorded on average over the past five years. Apart from differences of timing in recording, total levies on labour rose at about the same pace. However, the three main components, namely income tax deducted at source and employers' and employees'

TABLE 17 — REVENUE OF GENERAL GOVERNMENT

(Percentages of GDP)

	1994	1995	1996	1997	1998 e
Levies weighing chiefly on earned incomes	27.6	27.3	27.1	27.0	26.5
Personal income tax [1]	12.5	12.5	12.5	12.5	12.3
Social security contributions [2]	15.0	14.8	14.6	14.5	14.3
Tax on company profits [3]	2.3	2.7	2.8	3.1	3.5
Levies on other incomes and on assets [4]	3.4	3.5	3.2	3.3	3.2
Taxes on goods and services	12.3	11.9	12.3	12.4	12.4
Fiscal and parafiscal revenue	45.6	45.3	45.4	45.9	45.7
Non-fiscal and non-parafiscal revenue	1.5	1.3	1.4	1.3	1.1
Total revenue	47.1	46.6	46.9	47.2	46.8

Sources : NAI, NBB.

[1] Mainly witholding tax on earned income, advance payments, assessments and additional centimes on personal income tax.

[2] Total social contributions, including the special social security contribution.

[3] Mainly advance payments, assessments and withholding tax on interest income.

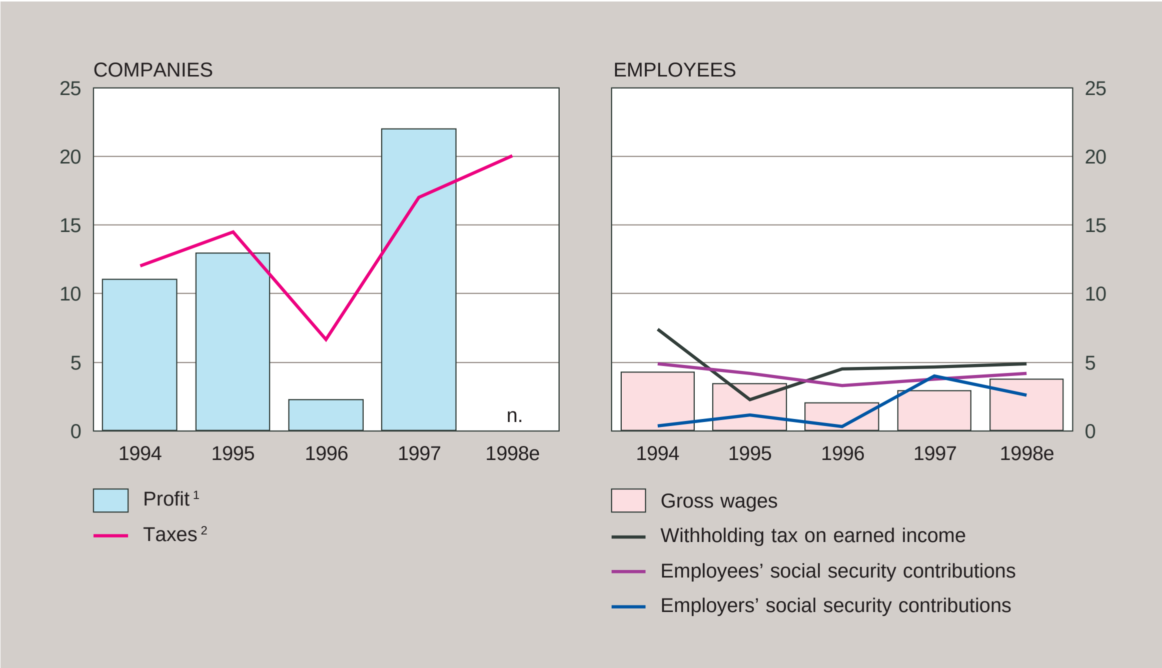
[4] Mainly the witholding tax on income from movable property of individuals, the withholding tax on income from immovable property (including the additional centimes), death duties, registration fees and the tax on stock exchange transactions.

social security contributions, showed divergent trends. Income tax deducted at source increased on average somewhat faster than wages owing to the progressive nature of the tax system and the non-indexation, since 1993, of most tax scales. Employees' social security contributions also grew faster than the tax base. That was mainly due to the introduction of the special social security contribution in April 1994 and to the raising of that contribution in 1996. On the other hand, the average rise in employers' social security contributions amounted to only 1.7 p.c. as a result of the various tax reductions, which were greatly increased between 1993 and 1996 and remained stable in 1997. During the year under review, further reductions, totalling about Fr. 11 billion, were granted. These were the result of, first, the full-year effect of the expansion of the Maribel operation and, second, increased recourse to other existing schemes. Overall, the reductions in employers' social security contributions amounted to Fr. 67 billion.

The slight fall, in percentages of GDP, in taxes on other incomes and on property was due to a temporary delay in the collection of the withholding tax on income from immovable assets and the shrinking of revenue from the withholding tax on interest incomes of individuals. Expressed in billions of francs, these revenues have remained stable in trend during the past few years ; they have, however, fluctuated relatively erratically from year to year. The fall of about 5 p.c. during the year under review is attributable to the exceptionally high revenues in the second half of 1997, when a substantial amount of capitalisation bonds reached maturity, and also to the further fall in the average interest on long-term assets. The decline in revenue from the withholding tax on movable and immovable assets was partly offset by the considerable increase in the yield of death duties and registration fees and of the tax on stock exchange transactions. The yield from the latter rose by about 35 p.c., thanks to brisk trading in shares and strong demand for securities issued by collective investment undertakings. Registration fees, which were still depressed at the beginning of 1997 owing to the introduction of the land certificate in the Flemish region, increased by

CHART 24 — LEVIES ON WAGES AND COMPANY PROFITS

(Percentage changes compared to the previous year)



Sources : NAI, NBB.
[1] Pre-tax profits of non-financial companies with a positive result.
[2] Advance payments and withholding tax on income from movable property.

14 p.c. during the year under review. This sharp rise is also due to some big transactions on the real estate market and to capital increases.

Taxes on goods and services expressed as a percentage of GDP remained stable in the year under review. The negative impact of the further slight fall in the share, in nominal GDP, of private consumption and expenditure on housing was neutralised by higher revenues from excise duties, a very sharp increase in tobacco sales in Luxembourg having led, within the framework of the Belgian-Luxembourg Economic Union, to substantial payments in favour of Belgium.

As non-fiscal and non-parafiscal revenue was positively influenced in 1997 by a one-off contribution by the Netherlands to the infrastructure work for the HST, it fell by 0.2 percentage point of GDP during the year under review.

Primary expenditure

The expenditure — excluding interest charges — of general government, which in 1993 represented 42.5 p.c. of GDP, has fallen uninterruptedly since then, including by 0.5 percentage point of GDP in 1998 to 40.7 p.c., owing to the healthy business situation and the favourable effect of relative prices. The rate of rise of primary expenditure amounted to 2.7 p.c. at constant prices, but would have come to no more than 2.1 p.c. — a rate comparable with the trend growth in GDP — if the federal government had not taken advantage of the good business situation to pay off the exchange losses on the foreign currency debts of the SNCI, issued about twenty years ago with a government guarantee. The positive incidence of the business situation on the ratio of primary expenditure to GDP was strengthened by the fact that consumer prices, to which most of these expenditures are linked, went up by only 1 p.c., that is, much less than the deflator of GDP, which rose by 1.9 p.c.

In 1998 the indexation mechanism contributed to the extent of about 0.3 percentage point to the real growth in primary expenditure. On the one hand, the health index, with which wages and social benefits are linked, rose faster than the consumer price index. On the other hand, indexation takes place only when a threshold index figure is reached, a factor which led to a temporarily higher growth in expenditure in the year under review.

The expenditure categories which rose most rapidly in 1998 were net current purchases of goods and services, health care expenditure, current transfers to the rest of the world and capital expenditure items other than investment.

Net current purchases of goods and services, which had in the past been subject to a very strict budgetary discipline, showed strong growth for the second year in succession. In 1998 this growth was mainly attributable to the appropriation of additional funds for justice and security.

Expenditure on health care, which rose by 4.1 p.c., was responsible for the greater part of the growth in primary expenditure in 1998. This rise is not exceptional, since it is only slightly greater than the average rate of growth recorded since the beginning of the 1980s. Furthermore, it took place following a year in which this expenditure fell, chiefly as a result of measures affecting medical fees, pharmaceutical costs and hospitalisation costs.

During the last twenty years the rise in expenditure on health care has in fact fluctuated greatly from year to year, this spending having alternately expanded sharply or stagnated, or even declined, moving around an average growth of 3.4 p.c., which is considerably more than

TABLE 18 — PRIMARY EXPENDITURE [1] OF GENERAL GOVERNMENT

	Percentages of GDP			Percentage changes at constant prices [2]				
	1993	1997	1998 e	1994	1995	1996	1997	1998 e
Compensation of employees	9.3	9.1	8.9	2.7	2.6	−0.7	1.5	1.7
Current net purchases of goods and services	2.3	2.1	2.1	−0.5	−2.7	−0.2	6.1	3.5
Current transfers to individuals	24.8	24.3	23.9	0.6	2.9	1.2	1.7	2.2
of which : Pensions [3]	8.9	8.8	8.6	1.1	2.1	0.9	2.4	2.0
Unemployment benefits, early retirement pensions and career interruptions	3.1	2.8	2.7	−0.9	−2.0	2.2	−0.4	−0.6
Health care	5.8	5.8	5.9	0.4	7.4	3.9	−1.3	4.1
Family allowances	2.1	1.9	1.9	−0.7	1.2	1.4	−0.5	0.7
Sickness and disability allowances	1.3	1.2	1.2	−1.8	0.7	0.4	−0.1	2.2
Subsidies to enterprises	2.1	1.6	1.6	−7.6	3.7	4.9	−15.2	2.4
Current transfers to the rest of the world	1.6	1.7	1.7	6.6	−5.8	9.2	7.6	4.5
Gross fixed capital formation	1.5	1.4	1.4	6.6	−6.0	−16.3	19.3	2.9
Other capital expenditure	1.0	0.9	1.1	1.0	−7.7	−3.0	18.2	18.9
Total primary expenditure	42.5	41.2	40.7	1.1	1.7	0.5	2.1	2.7
GDP				2.6	2.3	1.3	3.0	2.9

Sources : NAI, NBB.

[1] Expenditure excluding interest charges.

[2] With the exception of GDP, the data are deflated by the consumer price index.

[3] Including the guaranteed income of old people.

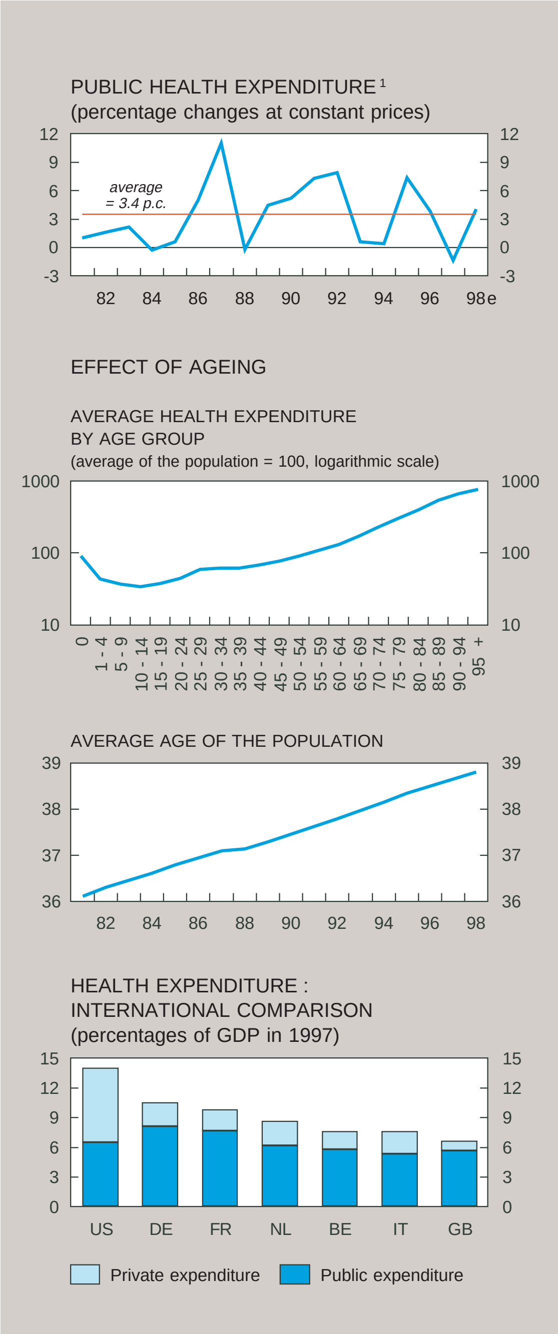
the increase in GDP. This zigzag profile is partly due to the effect of the regulatory measures and to the greater or lesser impact of some diseases, but very probably also to great variations in the time which elapses between the event generating the public expenditure and its recording in the statistics.

Since 1980 expenditure on health care has been the only category which has increased significantly in relation to GDP, namely from 4.5 p.c. to 5.9 p.c. However, in 1997 total health expenditure, both public and private, was in Belgium close to the average for the industrialised countries, but lower than in the three neighbouring countries and above all in the United States, where it represented 14 p.c. of GDP and where half the total was of private origin.

Structurally the strong growth in expenditure on health care is attributable to a variety of factors. One of them is the ageing of the population, because average consumption of health care increases with age. Thus, for instance, health care expenditure for young people aged under 25 years represents on average only half of the average consumption level, whereas it is one and a half times as great as that average for the 60-69 age group and actually five times as high for the 80-plus age group. On the basis of expenditure by age group and the variation of the share of each age group in the total population, it can be estimated that since 1980 the ageing of the population caused by the fall in the birth rate and the lengthening of life expectancy has contributed to the increase in expenditure on health care to the extent of, on average, 0.5 percentage point per year. A second factor stimulating expenditure is the increase in the population : during the same period this contributed, on average, 0.2 percentage point per year to the increase in expenditure on health care.

In addition to these demographic factors, the fact that health care prices grew faster than consumer prices as a whole exerted an upward influence of, on average, about 0.8 p.c. per annum. This difference in the price development is attributable chiefly to expenditure on hospitalisation, the cost of which rose sharply at the beginning of the 1990s owing to the

CHART 25 — HEALTH EXPENDITURE



Sources : NAI, National Association of Christian Mutual Funds, OECD, NBB.
[1] Deflated by the consumer price index.

upward revision of the pay of medical staff.

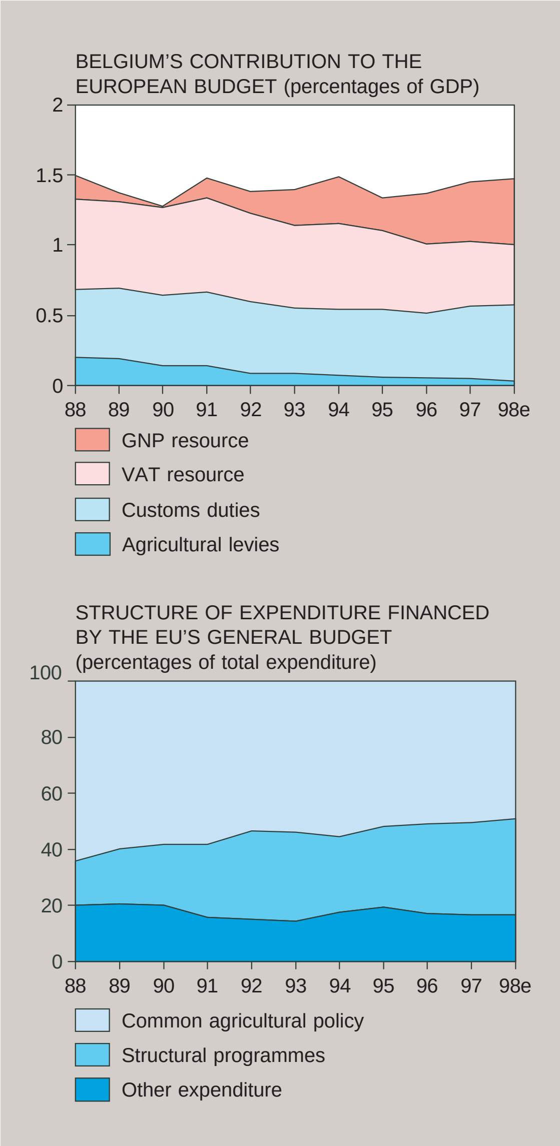
The combined effect of the three above-mentioned quantifiable factors is still on the whole fairly small, as the average annual increase in expenditure on health care, viewed over a longer period, does not account for even half of the total. The balance, of 1.9 p.c., represents the influence of factors such as the increase in the supply of and demand for medical care.

As in 1996 and 1997, transfers to the rest of the world were influenced by Belgium's greater contribution to the financing of the European Union. However, viewed over the last ten years, the financial resources transferred to the European budget have remained fairly stable in relation to GDP, at just under 1.5 p.c.

First among these financing means are the customs duties and agricultural levies, the proceeds from which accrue entirely to the European Union within the framework of the customs union and the common agricultural policy. The trend towards greater liberalisation of the markets has depressed the movement of these two resources. The amount of the agricultural levies — representing less than 0.1 p.c. of GDP in 1998 — has become fairly marginal. The share of customs duties, however, has remained stable over the years at about 0.5 p.c. of GDP, because the increase in the volume of goods cleared through customs in Belgium has offset the fall in the rates of duty.

The European Union's resources are furthermore made up of a certain percentage of the tax base of the VAT collected in each Member State. Because this levy weighs relatively more heavily on the less prosperous Member States, this percentage has been gradually reduced from 1994 onwards. For Belgium the contribution based on VAT thus declined from 0.6 p.c. of GDP in 1994 to 0.4 p.c. in 1998.

CHART 26 — BUDGET OF THE EUROPEAN UNION



Sources : EC, NAI, NBB.

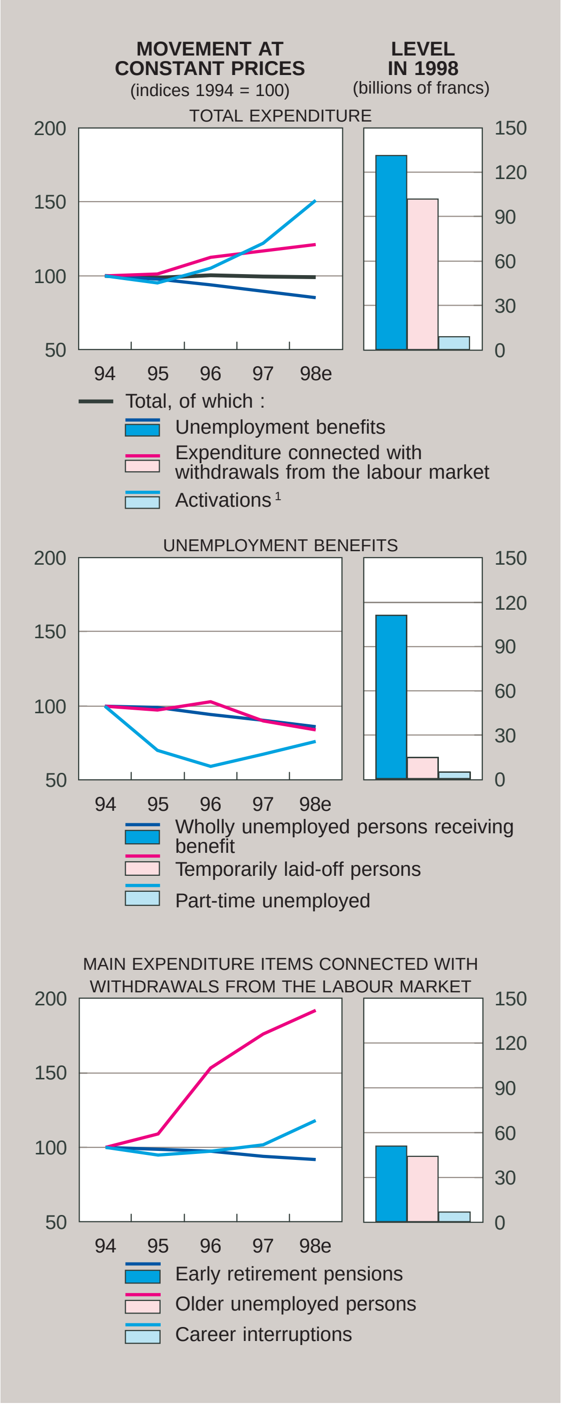
Lastly, the fourth resource, introduced in 1988, is intended to balance the Union's budget. The share of this resource, based on GNP, has increased gradually since its introduction. In 1998 it represented about one third of the total means of financing transferred by Belgium to the European Union.

The resources collected by the latter are used for financing expenditure in the countries of the Union. At the end of the 1980s, about two thirds of the resources were allocated to the common agricultural policy, whose budget then represented some 0.65 p.c. of the Community's GDP. In order to enable other needs to be met, this percentage was reduced, with the result that expenditure devoted to the common agricultural policy shrank to about 50 p.c. of the total expenditure. This fall benefited the structural programmes. These include, on the one hand, the support given by the structural funds to certain less-favoured regions or risk groups and, on the other hand, since 1993, the interventions of the cohesion fund in favour of Member States whose per capita GNP is less than 90 p.c. of the Community average. In 1998 the structural programmes represented about 0.4 p.c. of the GDP of the Union, i.e. around a third of total expenditure.

Capital expenditure other than investment rose by 18.9 p.c. as a result of the contribution by the federal government to meeting the exchange losses of the SNCI, to the extent of Fr. 23 billion. However, the granting of an operating licence for a mobile telephone network, the proceeds from which are deducted, in accordance with the national accounts methodology, from these expenditures, partly counterbalanced this transaction.

One of the few primary expenditure categories to show a fall in 1998 is the expenditures of NEMO in respect of unemployment, early retirement pensions and career interruptions. For several years these expenditures have remained more or less stable in real terms. This overall stability conceals, however, a divergence between the movement of unemployment benefits, which declined by 15 p.c. between 1994 and 1998, and that of other payments, which increased sharply during the same period : expenditure connected with withdrawals from the labour market rose by 21 p.c. and expenditure — admittedly much lower — relating to activations by about 50 p.c. This is because the NEMO no longer confines itself to giving a replacement income to job-seekers but also provides an almost equally large benefit to persons who are not available for the labour market and furthermore participates in the programmes for the activa-

CHART 27 — EXPENDITURE OF THE NATIONAL EMPLOYMENT OFFICE



Sources : NEMO, NBB.

[1] Wholly unemployed persons who are exempted from having to register as job-seekers either in order to study or undergo training or in order to do a job obtained via a local employment agency or in order to participate in a transition or vocational reinsertion programme.

tion of social benefits. This at first mainly involved financing the vocational training of certain unemployed persons; this function was subsequently broadened to include financial assistance to persons in work, as is the case for those who have obtained jobs through local employment agencies.

Among unemployment benefits, the category which has contracted most since 1994, mainly owing to the stricter rules imposed, is those paid to the part-time unemployed, on which the smallest amounts have been spent. Spending in respect of fully and temporarily unemployed persons has also fallen, thanks to the improvement in the economic situation.

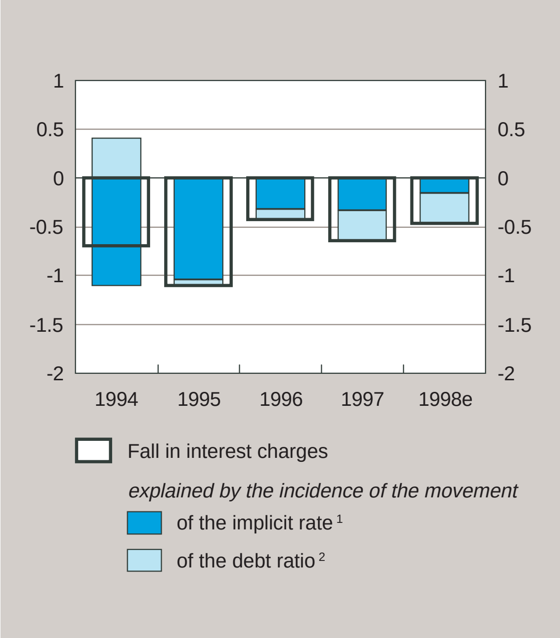
In the case of expenditure relating to withdrawals from the labour market, that on early retirement pensions has fallen slightly, while that on career interruptions has increased and that on older unemployed persons has actually almost doubled in four years.

The status of older unemployed person may be regarded as an alternative to the early retirement pension, as older unemployed persons do not have to register as job-seekers and do not have to have their cards stamped. In recent years the early retirement system has been limited by various measures, including the step-by-step raising of the early retirement age. These measures have led to a slight fall in the number of early retired persons, although this has turned out to be much smaller than the rise in the number of persons with the status of older unemployed person, with the result that, overall, early withdrawals from the labour market have increased by about 60,000 units over the last four years.

Unlike during the two preceding years, when its movement had been greatly influenced by the sale of federal government buildings in 1996, public investment increased in 1998 at a rate close to that of primary expenditure as a whole.

CHART 28 — INTEREST CHARGES

(Changes compared to the previous year, percentages of GDP)



Sources : NAI, NBB.

[1] Ratio between interest charges during the current year and the debt at the end of the previous year.

[2] Ratio between the debt and GDP in the previous year.

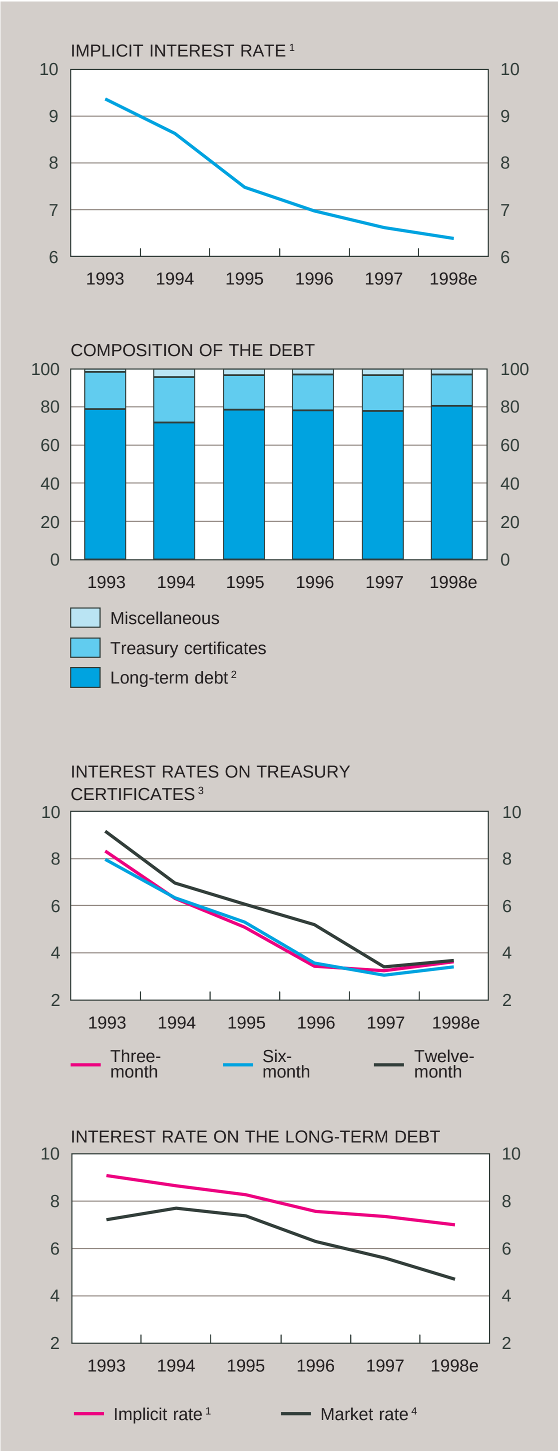
Interest charges

As has already been the case for some years, the interest charges of general government also decreased during the year under review. In 1998 they amounted to 7.4 p.c. of GDP, i.e. 3.3 percentage points less than in 1993.

Interest charges may be regarded as the product of the debt ratio and the implicit interest rate on the public debt. From 1994 to 1996 the decrease in these charges was completely or almost completely attributable to the decline in the implicit interest rate. The previous rise in the debt ratio actually exerted an upward effect on interest charges in 1994 and the subsequent debt reduction was initially limited. However, the decline in the implicit interest rate gradually slowed down, so that the fall in interest charges was brought about more and more by the increasingly rapid contraction of the public debt. Approximately two thirds of the

CHART 29 — INTEREST RATE ON THE TREASURY'S DEBT IN FRANCS

(Percentages)



Sources : Ministry of Finance, NAI, NBB.

[1] Ratio between interest charges during the current year and the debt at the end of the previous year.

[2] Excluding the variable-rate linear bonds recorded under the heading « Other », because their interest rate fluctuates in line with short-term rates.

[3] Average rate for interest payments on Treasury certificates.

[4] Average market rate on bonds with a period to maturity of six years and over.

reduction in interest charges, of about 0.5 percentage point, observed during the year under review is therefore attributable to the reduction in the debt.

The movement of the implicit interest rate is mainly determined by that of the rate on the Treasury's debt, which represents the bulk of the public debt. In the case of the Treasury's debt in francs, the implicit rate fell from 9.4 p.c. in 1993 to 6.4 p.c. during the year under review. This rate is in turn determined by the composition of the debt and the rate on its main components. Except in 1994, when the share of the long-term debt temporarily shrank, the Treasury has continued in recent years to give preference to long-term financing. The downward trend of the implicit interest rate is therefore chiefly attributable to the movement of the various interest rates.

The movement of the interest rate for Treasury certificates reflects the sharp fall in short-term market rates during the last few years. Thus, the average rate for interest payments on three-month certificates dropped from 8.3 p.c. in 1993 to 3.25 p.c. in 1997. Similar falls were recorded for six-month and twelve-month certificates. This downward trend was interrupted, however, during the year under review. For the first time since 1992 the average rates for interest payments on Treasury certificates were slightly higher than they had been a year earlier. The rate on three-month certificates, for instance, rose to 3.6 p.c., or by about 35 basis points compared to the 1997 level.

The implicit rate on the long-term debt does not closely follow market interest rates because the replacement of previously issued loans by new loans takes place only gradually. The fall in market rates during the past years is therefore only partly reflected in the implicit rate on the long-term debt, which should decline further in future, at least if the market interest rates remain around the present level. If account is also taken of the fact that, owing to the high primary balance, the debt ratio is showing a structural downward trend, everything appears to indicate that interest charges will continue to decline.

Net financing requirement

The net financing requirement of general government, which in 1993 still exceeded the maximum norm of 3 p.c. of GDP set in the Treaty of Maastricht by 4 percentage points, has since then been brought down to far below that level. This improvement in the public accounts has been continuous, the deficit having decreased each year. During the year under review it was down to 1.3 p.c. of GDP, i.e. 1 percentage point below the target set for 1998 in the new convergence programme of 1996, and actually slightly below the target set for the year 2000.

From 1993 onwards the public accounts improved thanks to the combination of the increase, albeit limited, in revenue, the reduction in primary expenditure and the fall in interest charges. In 1998, however, the latter was responsible for the greater part of the reduction of 0.6 point of GDP in the deficit, as the primary surplus rose by only 0.1 point. The level of 6 p.c. reached in 1997 did, admittedly, already meet the strict norm which the Belgian Government has undertaken to observe.

The federal government again made the largest contribution to reducing the overall government deficit. As it has the largest debt, it had also, as in the previous years, benefited most from the fall in interest charges. The federal government is, however, also the sub-sector which has improved its primary balance most since 1993 : the increase amounted to 1.3 points of GDP, against 0.7 point for the communities and regions and 0.6 point for the social security system, while the primary balance of the local authorities remained stable during the same period.

The way in which the improvement in the primary balances was achieved between 1993 and 1998 differs from one sub-sector to another. In the case of the federal government, the increase in the primary surplus was solely due to keeping expenditure under control, its spending

TABLE 19 — NET FINANCING REQUIREMENT OR CAPACITY OF GENERAL GOVERNMENT

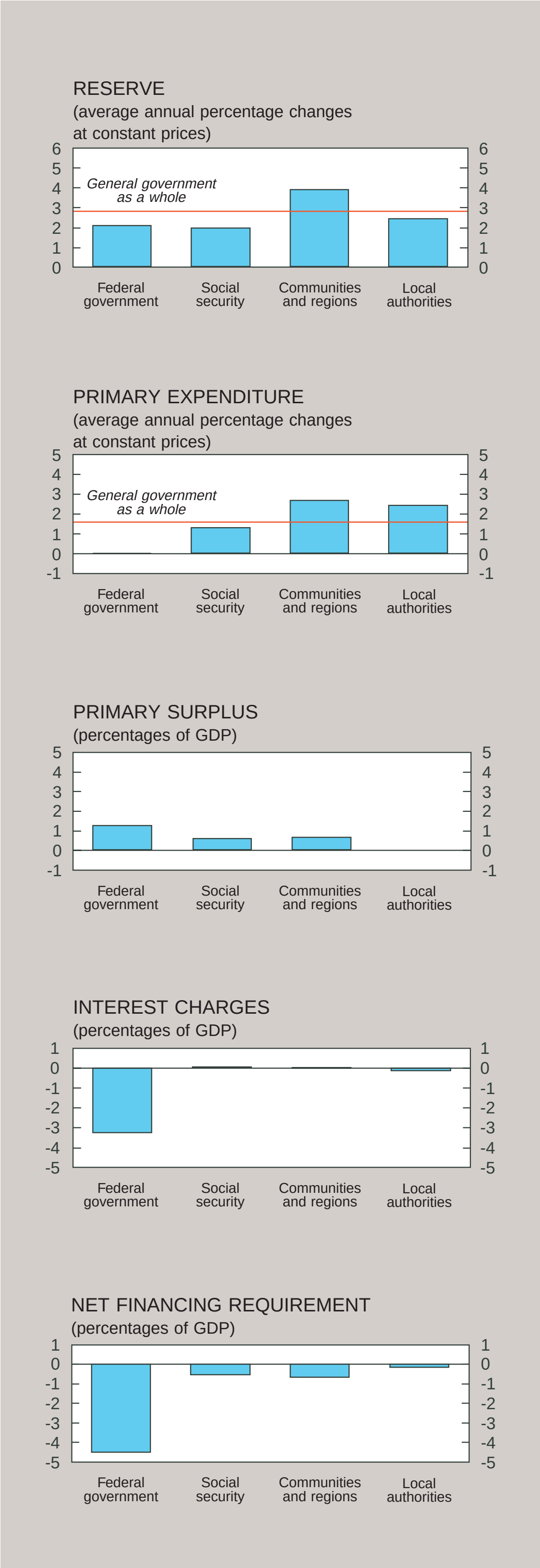
(Percentages of GDP)

	1993	1994	1995	1996	1997	1998 e
Revenue	46.0	47.1	46.6	46.9	47.2	46.8
Expenditure excluding interest charges	42.5	41.9	41.6	41.5	41.2	40.7
Primary balance	3.5	5.2	5.0	5.4	6.0	6.1
Federal government	3.8	4.5	4.2	4.7	4.9	5.1
Social security	−0.3	0.5	0.1	−0.1	0.3	0.3
Communities and regions	−0.4	−0.3	−0.3	...	0.2	0.3
Local authorities	0.4	0.5	0.9	0.8	0.6	0.4
Interest charges	10.7	10.0	8.9	8.5	7.8	7.4
Net financing requirement (−) or capacity	−7.2	−4.8	−3.9	−3.1	−1.9	−1.3
Federal government	−6.3	−4.8	−4.0	−3.1	−2.3	−1.7
Social security	−0.1	0.7	0.2	...	0.4	0.4
Communities and regions	−0.6	−0.7	−0.6	−0.3	−0.1	...
Local authorities	−0.2	...	0.4	0.3	0.1	...
Debt at end of period	135.0	133.1	130.8	126.9	121.9	115.8

Sources : NAI, NBB.

CHART 30 — GOVERNMENT ACCOUNTS BY SUB-SECTOR

(Changes between 1993 and 1998)



Sources : NAI, NBB.

— at constant prices — having remained stable, while that of general government as a whole rose by 1.6 p.c. The revenues which accrue to the federal government after the appropriations to the other public authorities increased on average by 2.1 p.c. a year, i.e. less than the growth of 2.8 p.c. recorded for general government as a whole and the annual average growth in GDP, which reached 2.4 p.c. during the same period. The social security system also succeeded in improving its primary balance thanks to the moderation of its expenditure, which rose by only 1.3 p.c. on average between 1993 and 1998.

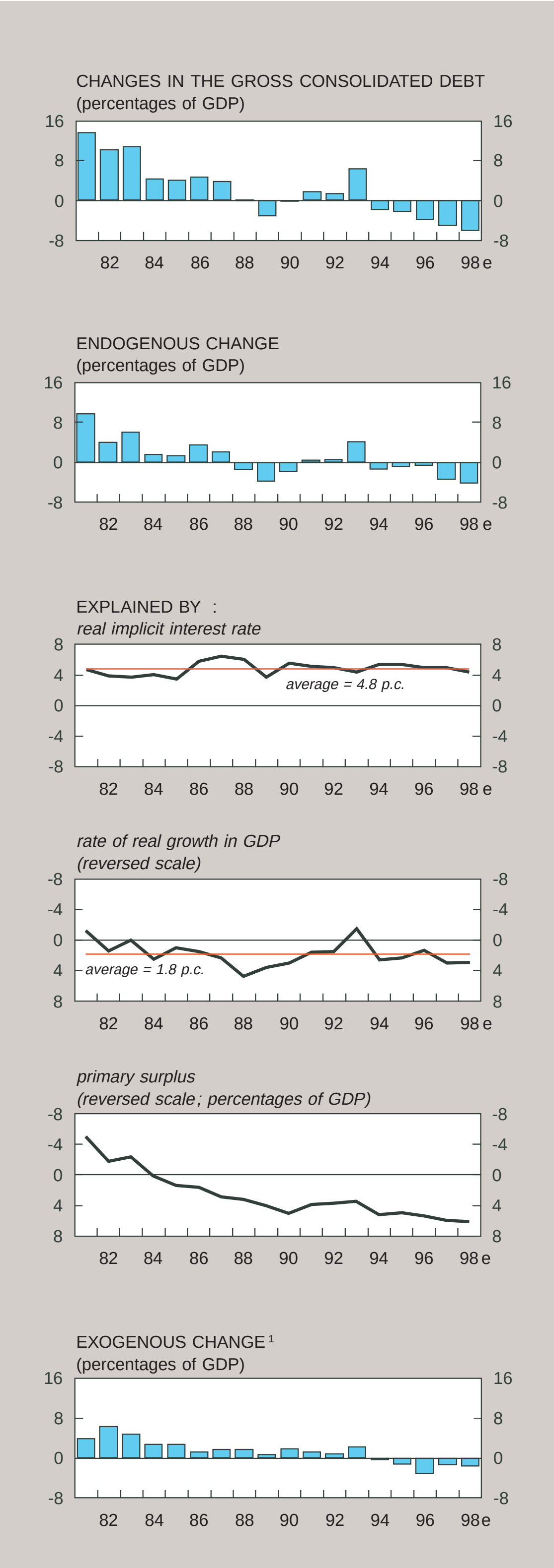
On the other hand, the improvement in the primary balance of the communities and regions was solely due to the sharp increase in their revenue. The average annual rise in this, at 3.9 p.c. at constant prices, is attributable to the mechanisms introduced under the Finance Act during the transitional period of the reform of the State. The average rate of rise of the expenditure of the communities and regions, at 2.7 p.c., was considerably above the trend growth in GDP, which would have led to a worsening of the primary balance had it not been for the sharp rise in revenue.

Debt

The consolidated gross debt of general government has declined continuously since 1993, the year in which it reached its highest level in relation to GDP. It fell from 135 p.c. of GDP in 1993 to 115.8 p.c. in 1998, a reduction of 19.2 percentage points in five years. The process of debt reduction speeded up over the years, namely from 2 percentage points per annum in 1994 and 1995 to about 4 percentage points in 1996, 5 percentage points in 1997 and over 6 percentage points in 1998.

The change in the debt ratio of general government is partly endogenous.

CHART 31 — THE FACTORS EXPLAINING THE MOVEMENT OF THE DEBT



Sources : NAI, NBB.

[1] Change resulting from factors which do not affect the financing requirement : proceeds of privatisation, change in the portfolio of financial assets, transfer of capital gains made by the Bank as a result of sales of gold, lending and equity investment, incidence of variations in exchange rates.

Thus, a primary surplus or an increase in economic activity has a favourable influence on the debt, while a positive real implicit interest rate has a negative effect. The debt ratio is also determined by exogenous factors, such as financial transactions or book-keeping movements which have no impact on the government deficit.

At the beginning of the 1980s the primary balance was negative, and this, given the level of the real implicit interest rate and the economic growth, caused the debt to increase each year. True, the primary deficit did turn into a small surplus from 1984 onwards, but, for a few years, the level of that surplus proved insufficient to curb the dynamism of the endogenous rise in the debt.

Between 1988 and 1990 the debt was reduced for the first time, thanks to the increased primary surplus and a GDP growth greatly exceeding the average economic growth, but when the economic situation became less favourable and the primary balance at the same time deteriorated, the debt reduction stopped.

From 1994 onwards the endogenous debt reduction was resumed, albeit to a fairly small extent between 1994 and 1996, namely by about 1 p.c. of GDP per year. In 1997 and 1998 the fall was much more pronounced, reaching 3.6 and 4.4 p.c. of GDP respectively, thanks to the stronger economic growth, the sharp increase in the primary surplus and the slight decline in the real implicit interest rate.

Although, as at the end of the 1980s, the debt reduction was boosted by the favourable economic situation, the endogenous reduction in the debt is nevertheless much more soundly based, because the primary surplus is considerably greater. While a return to a rate of economic expansion closer to the trend growth rate may slow down the automatic debt reduction in the future, on the other hand the real implicit interest rate will continue to decline unless real market rates rise, as a result of the gradual replacement of high-interest debts by new liabilities at lower rates. If the primary surplus is kept at 6 p.c. of GDP, in accordance with the aim which the government has set itself, the virtuous circle of debt reduction resulting from the consolidation efforts will continue as a structural process.

At the beginning of the 1980s exogenous factors, too, had played a part in bringing about a significant increase in the debt ratio of general government. The depreciation of the franc had thus led to a revaluation of the debt denominated in foreign currencies. Furthermore, the debt had increased owing to substantial credits granted for the restructuring of the national sectors.

In recent years, on the other hand, the debt reduction process has been assisted by specific operations, such as privatisations, reduction of the outstanding amount of the financial assets of general government with credit institutions and, especially in 1996 and also in 1998, the use, for repaying the foreign currency debt, of the capital gains made by the Bank on arbitrage transactions of gold against foreign currencies.

In 1998 the influence of these exogenous factors amounted to 1.7 percentage points of GDP, whereas the endogenous dynamism accounted for about three quarters of the debt reduction, of 6.1 p.c. of GDP.

4.2 MEDIUM-TERM BUDGETARY POLICY

In the stability programme which it submitted to the European authorities at the end of 1998, the government undertook to keep the primary surplus of general government, in the medium term, at a level of about 6 p.c. of GDP. This policy is in line with the convergence programme presented in 1996 and is in accordance with the aims of the Stability and Growth Pact which was adopted by the Member States of the EU at the Amsterdam European Council of June 1997. By this pact the countries undertook to observe a medium-term public finance objective, namely a budgetary situation close to balance or in surplus, with a view to coping with normal cyclical fluctuations while at the same time keeping the public deficit within the limit of the reference value of 3 p.c. of GDP.

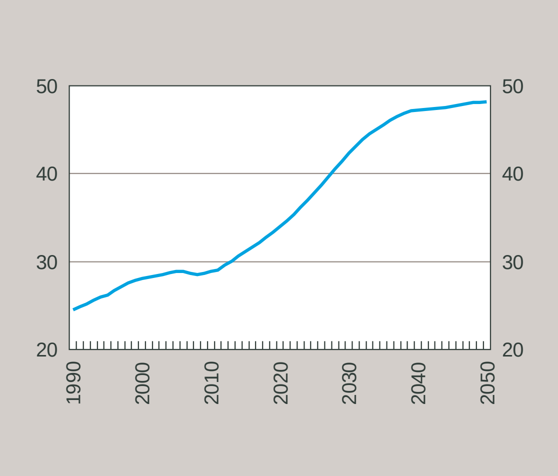
Under normal economic circumstances, the stabilisation of the primary surplus at the level of 6 p.c. maintains a process of automatic reduction of the ratio of the debt to GDP. Given the fall in interest charges generated by this debt reduction, the deficit will thus be brought down to a level close to budgetary balance in 2002.

If economic growth rises above its trend rate, the programme provides for a larger primary surplus, making it possible to create a safety margin enabling the negative incidence of a slackening of economic activity to be more easily withstood.

In order to give practical shape to the objective of stabilisation of the primary surplus set for general government as a whole, norms have been proposed for various public entities. These norms consist, for the entity composed of the federal government and the social security system, in the maintenance of the primary surplus at the level planned for 1999 and, for the entity composed of the communities, regions and local authorities, in budgetary balance.

Adherence to strict budgetary discipline is necessary not only in order to prevent the resurgence of excessive deficits but also to enable the public finances to cope with the increase in the needs

CHART 32 — PROJECTION OF THE ELDERLY DEPENDENCY RATE[1]



Source : NSI.

[1] Number of persons aged 65 and over as a percentage of the number of persons aged 20 to 64.

connected in particular with the ageing of the population.

The extent of this long-term budgetary challenge is difficult to estimate, because it depends on demographic assumptions, such as those in respect of migration flows, and sociological assumptions, such as those connected with the movement of the female activity rate. Long-term projections also depend on the socio-economic policy and, in particular, on the assumptions concerning the retirement or early retirement age.

The latest available projections show that, with unchanged policies, the burdens connected with the ageing of the population will become considerably heavier after 2010. For this is the time when the large number of people born during the 1950s and the early 1960s will reach retirement age. Consequently, the ratio between the number of persons aged 65 and over and the number of persons of working age, that is, the elderly dependency rate, will increase sharply, from about 30 p.c. to about 45 p.c. in 2030. Such a development will make the burden of pension expenditure as a percentage of GDP considerably heavier during this period.

Furthermore the population of working age will probably decline as, owing to the lower birth rate, the number of younger persons reaching working age is not likely to counterbalance the number of the potential labour force. Unless there is a fundamental change in the trend of activity rates, the shrinkage of the population of working age might adversely affect employment, so that trend economic growth might slacken. Assuming that real average GDP growth thus declines to 1.75 p.c. between 2010 and 2030, that the present pension systems in both the public sector and the private sector remain unchanged, and that, in the latter sector, the pensions are adapted annually to prosperity to the extent of 0.5 p.c. of the latter, the pension burden would increase by about 3 p.c. of GDP during that period. Although this is high, it is still less than the OECD estimates for most other European countries.

The ageing of the population not only has an incidence on pension expenditure but can also influence health expenditure,

TABLE 20 — AGEING OF THE POPULATION AND HEALTH EXPENDITURE

(Annual averages)

	1980-1998	2010-2030
Real growth in health expenditure due to ageing[1]	0.50	0.58
Explanatory factors : *(percentage points)*		
Rise in the share of the over-60s in the total population	0.20	0.33
Rise in the share of the over-80s in the population aged over 60	0.12	0.01
Fall in the share of the under-20s in the total population	−0.25	−0.07
Rise in the average age	0.16	0.12

Sources : NSI, NBB.

[1] This is the incidence of the changes in the share of each age group in the total population, account being taken of current expenditure by age group.

because consumption of health care increases with age. However, unlike pension expenditure, which is expected to increase as a result of the considerable rise in the number of new pensioners between 2010 and 2030, the effect of ageing on the real growth in health expenditure is likely to be hardly more marked during this period than during the last twenty years, when it averaged around 0.5 p.c. per year. True, the annual average rate of increase in the proportion represented by the population aged over 60 years in the total population would speed up, from 0.2 percentage point for the period 1980-1998 to 0.3 percentage point between 2010 and 2030, but this movement would be offset by other changes of the composition of the population. On the one hand, within this population aged over 60, the proportion of persons aged over 80, for whom health expenditure is highest, would not rise any further, unlike the situation observed between 1980 and 1998. On the other hand, the fall in the proportion of young people aged under 20, whose medical consumption is low, would be appreciably less pronounced than during the last 20 years. Altogether, these movements as a whole would be reflected in a very similar annual rise in the average age of the population during these two periods.

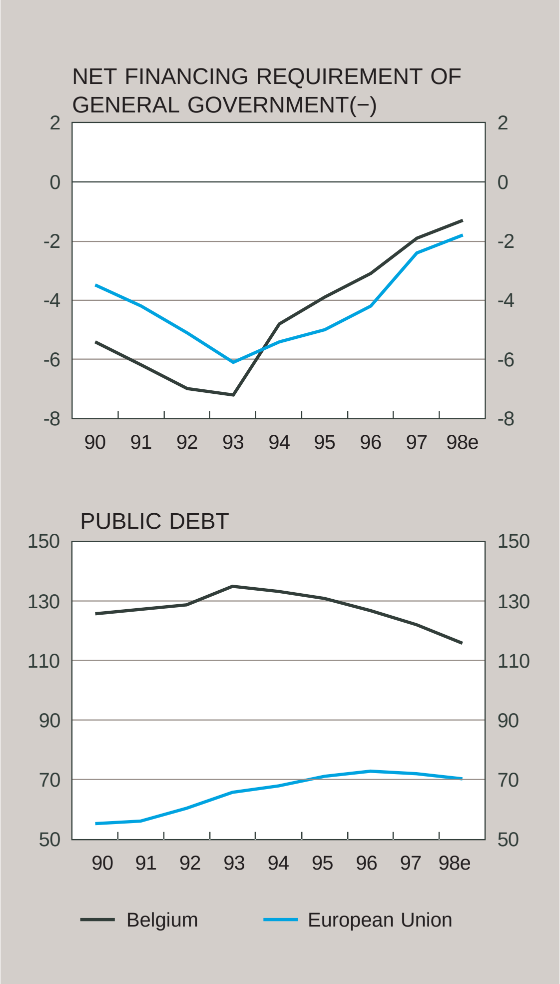
Even if the demographic prospects do not lead to any increase in the real growth in health care, financing problems would nevertheless arise in this sector if the incidence of the other determinants, such as technological progress and the movement of relative prices, remained comparable to that observed in the past. In such a scenario, the real rise in health expenditure would fluctuate around 3 p.c. per year. Given an annual average economic growth of 1.75 p.c., the weight of this expenditure in relation to GDP would increase by about 2.5 points between 2010 and 2030.

The rise in pension and health expenditure as a percentage of GDP would, however, be partly counterbalanced by the fall in expenditure relating to the youngest age groups in the population (family allowances and education expenditure), and also by that in unemployment expenditure. Altogether, with unchanged policies, i.e. especially with no change in the present pension schemes, the net cost of the ageing of the population and the incidence of the movement of health expenditure would thus amount to about 4.5 percentage points of GDP between 2010 and 2030.

The extent of this burden might be lessened by the overall economic policy,

CHART 33 — NET FINANCING REQUIREMENT AND PUBLIC DEBT IN BELGIUM AND IN THE EUROPEAN UNION

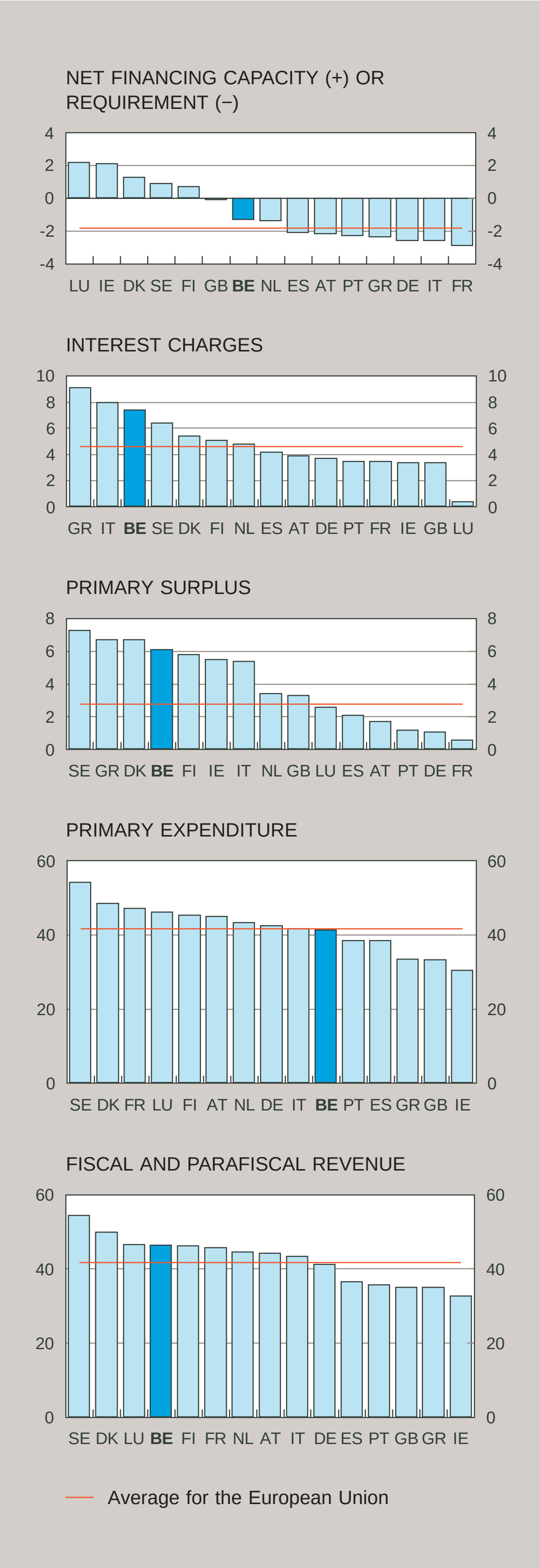
(Percentages of GDP)



Sources : EC, NBB.

CHART 34 — GENERAL GOVERNMENT ACCOUNTS IN BELGIUM AND IN THE EUROPEAN UNION IN 1998

(Percentages of GDP)



Sources : EC, NBB.

especially if it favours employment and growth. Furthermore, a strict budgetary policy will enable financing problems to be limited in the future.

4.3 INTERNATIONAL COMPARISONS

The consolidation of the public finances during the last five years forms part of the convergence process embarked upon at European level since the adoption, in 1992, of the Treaty of Maastricht.

The net financing requirements in Belgium and in the European Union as a whole, which had been increasing since the beginning of the 1990s, rose even further during the 1993 recession. They have declined continuously since then, but more markedly in Belgium. Since 1994 the Belgian deficit has been below the European average. During the year under review it reached 1.3 p.c. of GDP, against 1.8 p.c. on average in the EU, and is therefore well below the limit of 3 p.c. which, under the Stability and Growth Pact, must not be exceeded save under exceptional circumstances. This situation contrasts with those recorded in other countries, where the net financing requirement is only marginally below that limit.

While the level of the Belgian public debt expressed as a percentage of GDP is admittedly considerably higher than the European average, it has been decreasing steadily for five years, and the cumulative fall between 1993 and 1998 amounted to about 19 p.c. of GDP. This reduction is greater than anywhere else, except in Ireland, where it has been favoured by the exceptional growth in GDP, and in Denmark. The public debt of the countries of the European Union as a whole actually did not begin to decline until 1997.

Although Belgium's net financing requirement is below the European average, the interest charges resulting from a much greater degree of indebtedness exceed the average by over 2.5 p.c. of GDP. Consequently, the primary surplus, which reached 6.1 p.c. of GDP in 1998, is one of the highest in the Union. The extent of this surplus is due not to primary expenditure, the level of which is practically the same as that observed on average in the Union, but to higher fiscal and parafiscal revenue.

The greater part of this revenue comes from the levies on earned income and expenditure on consumption. As the distribution and allocation of GDP vary considerably from country to country, the comparison of the implicit rates, i.e. the ratio between the levies and their respective tax base, is the best way of assessing the fiscal burden.

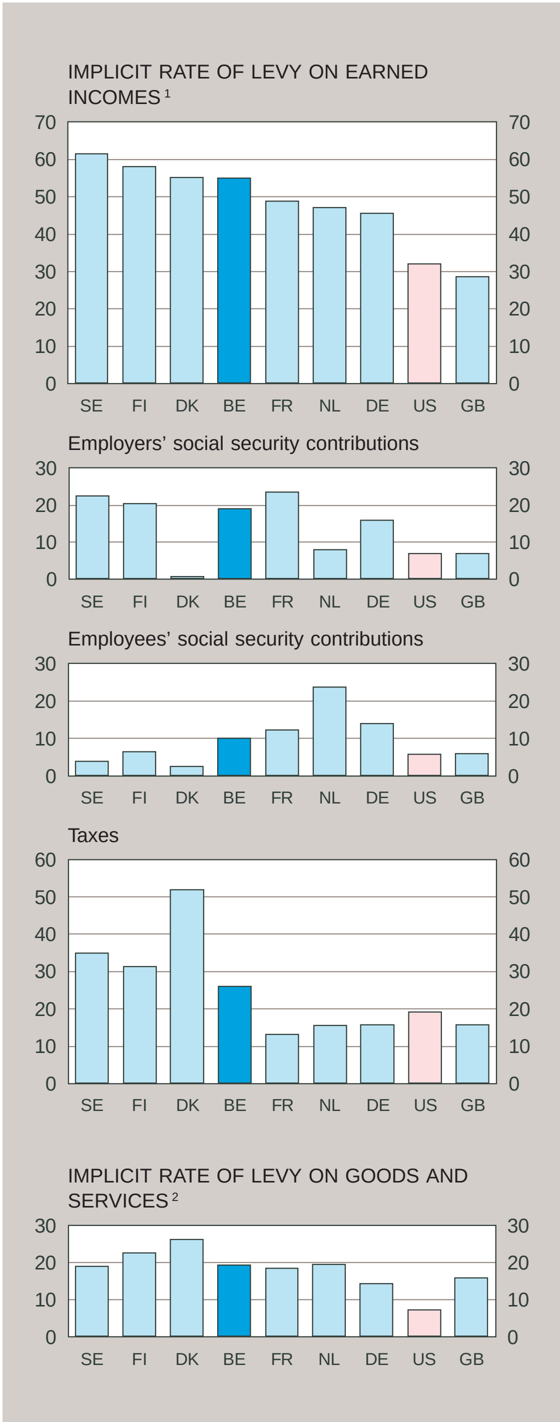
However, the rate of levy on earned incomes thus obtained is overestimated, because, for lack of comparable data concerning the incomes of self-employed persons and of a breakdown of taxes between self-employed persons and employees, the rate of levy has to be calculated as an approximation by comparing the levies on total earned incomes to the incomes of employees alone. This approximation leads, for Belgium, to an overestimate of around 2 to 3 percentage points, which, owing to the relatively larger number of self-employed persons, is probably greater than in the three neighbouring countries.

Account being taken of these reservations, the figures show that, in Belgium, fiscal and parafiscal pressure on earned incomes is less than that in Sweden and Finland, but at least 5 percentage points greater than the average for the three neighbouring countries, and considerably greater than in the Anglo-Saxon countries.

The fiscal and parafiscal pressure on earned incomes consists of three components : employers' and employees' social security contributions, taxes the proportion

CHART 35 — IMPLICIT RATES OF LEVY ON LABOUR AND ON GOODS AND SERVICES IN 1996

(Percentages of the tax base)



Sources : EC, OECD, NBB.

[1] In the economy as a whole. For lack of sufficiently detailed data, this rate is roughly estimated by comparing total levies on earned incomes to the incomes of employees alone. The resultant overestimation of the rate of levy varies from country to country depending on the weight of incomes of self-employed persons.

[2] Percentages of taxable expenditure, i.e. the sum of private consumption on the national territory (excluding health care), purchases of goods and services by general government, house building and public investment.

of which varies very greatly from country to country owing to the institutional framework or to characteristics specific to each type of levy. For instance, taxes are progressive, while social contributions are largely proportional. Furthermore, while employers' contributions have to be paid by enterprises and therefore have a direct effect on labour cost, the other levies are payable by employees, but may indirectly affect the labour costs of enterprises if changes in these levies are passed on in gross wages. The respective weight of the components may thus serve different economic policy aims. An international comparison of the pressure on labour must therefore preferably be focused on the total « tax wedge », that is, the differential between the labour cost payable by enterprises and the net income of workers. The diversity in the structure of levies is illustrated by the latest comparable detailed data, relating to the year 1996. Thus, in Denmark the high level of the pressure on earned incomes is almost exclusively due to taxes, whereas in the Netherlands it is employees' contributions that constitute the bulk of levies on labour, and in France the most important element is the employers' contributions. In Belgium, about half of the overall rate of levy is accounted for by taxes, one third by employers' contributions and the remainder by employees' contributions.

An international comparison of levies for the enterprise sector alone is possible only for employers' contributions. The implicit rate of employers' contributions in the private sector in Belgium in 1997 was 22 p.c. of total wages and salaries, i.e. about 3 percentage points above the average rate for the three neighbouring countries, or about Fr. 100 billion. In order to get down to the level of the three neighbouring countries and reduce the total « tax wedge », the government undertook, in the action plan for employment, to reduce employers' contributions at a rate of Fr. 18 billion per year for six years. This decision represents the continuation of the policy of reduction of employers' contributions started upon by the Maribel operation and stepped up by various other programmes implemented since 1994.

The countries where the pressure on earned incomes is heavy generally also have high implicit rates of levy on consumption expenditure. However, the fiscal pressure on these types of expenditure is more uniform than that on earned incomes, partly owing to the greater mobility of goods and services as compared to labour, especially between adjacent countries, and partly because, with regard to taxation of goods and services, there is a certain degree of harmonisation at European level. While in Belgium the pressure on earned incomes is greater than in the three neighbouring countries, the level of the rate of levy on goods and services is similar to that in France and the Netherlands ; only in relation to Germany, where the standard VAT rate was, until April 1998, equal to the lowest rate agreed upon at the European level, of only 15 p.c., is the Belgian rate appreciably higher.

5. BALANCE OF PAYMENTS AND EXCHANGE RATES

5.1 CURRENT TRANSACTIONS OF BELGIUM

At the end of the first nine months of the year under review, Belgium's current account showed a surplus of Fr. 252 billion, or Fr. 29 billion less than in the corresponding period of 1997. This fall was partly due to a slight decline in the balance in respect of goods, which generates the greater part of Belgium's current surplus. The surplus on transactions in services also shrank, to an even greater extent, while current transfers showed a larger deficit. Only in the case of incomes did the surplus increase. For 1998 as a whole the current account surplus is estimated to have declined slightly, namely from 4.7 p.c. of GDP in 1997 to 4.4 p.c.

Goods

The surplus in respect of goods fell during the first nine months of 1998 by Fr. 5 billion compared to the corresponding period of 1997, the value of goods imports having grown somewhat faster than that of exports.

The trend towards an acceleration of the growth in both imports and exports which began at the start of 1996 was markedly reversed : the rate of increase of exports in value, after having reached a peak of — according to the balance of payments data — 17 p.c. during the third quarter of 1997, slowed to about 10 p.c. in the first quarter of 1998 and 7 p.c. in the second quarter, and actually declined by about 1 p.c. in the third quarter.

TABLE 21 — THE CURRENT ACCOUNT OF BELGIUM

(Balances, billions of francs)

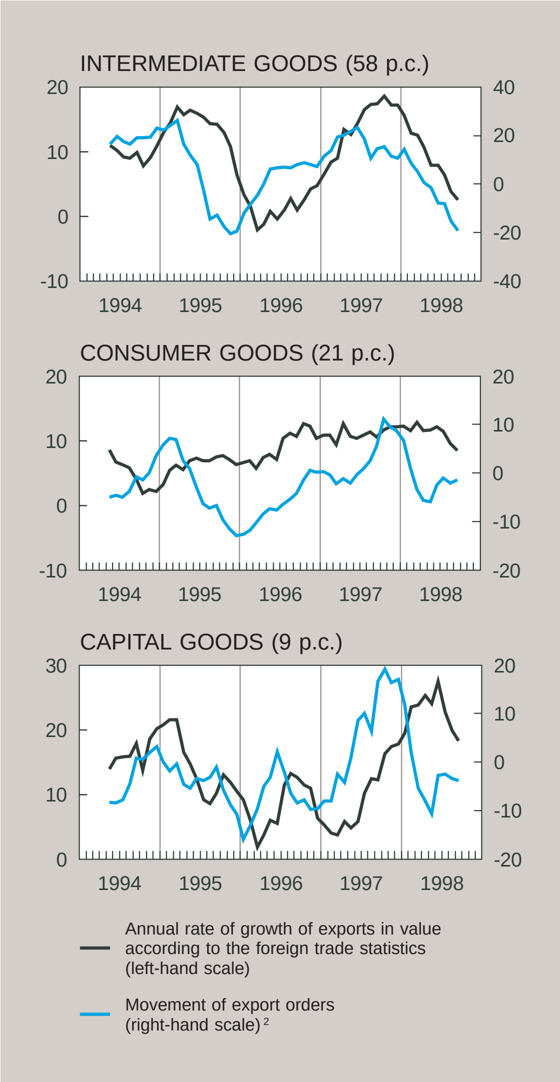
			First nine months	
	1996	1997	1997	1998
Goods and services	335	383	287	270
Goods	323	340	264	259
Services	12	42	23	11
Transport	60	67	48	55
Travel	−116	−119	−96	−108
Other services	68	94	70	64
Income	141	150	101	105
Compensation of employees	108	107	79	79
Income from direct and portfolio investment	33	44	22	26
Current transfers	−126	−125	−107	−123
General government	−93	−102	−87	−97
Other sectors	−33	−23	−19	−26
Current transactions	350	409	281	252
p.m. Percentages of GDP	4.2	4.7		

Source : NBB.

This trend reversal is indissolubly linked with the events on the international markets : the widening of the crisis which had broken out around the middle of 1997 in certain Asian countries, the worsening of the recession in Japan, the sharp deterioration of the situation in Russia and, albeit to a smaller extent, in various Latin American countries. These events influenced the course of both volumes and prices of international trade. Measured in terms of value, Belgium's exports to the Asian countries hit by the crisis dropped by more than a third in the first nine months of 1998, while exports to Japan shrank by 18 p.c. Exports to Russia, too, fell off sharply from June onwards. The direct repercussions of the decrease in trade with these regions on the movement of total exports were, however, minor, because these areas account for only a small percentage — about 4 p.c. in 1997 — of Belgium's total foreign trade. However, the crisis in these regions also had an indirect influence on the growth in Belgian exports, namely via the final demand from countries which maintain particularly intensive trade relations with these regions. Especially in the United States and the United Kingdom, which in 1997 accounted for about 15 p.c. of Belgium's exports in terms of value, the worsening of the crisis and its influence on developments in Latin America came on top of the fact that the business cycle had already peaked there. Belgium's trading partners in EMU, which take around 60 p.c. of its exports, also felt, during the year under review, the effects of the fall in their sales to the crisis countries, owing to, among other things, their greater openness to Russia and Eastern Europe.

The direct and indirect trade relations with the affected regions were not, however, the only transmission channel. The decline in the confidence of European entrepreneurs, which became apparent from May 1998 onwards, also made them somewhat more reluctant to place orders for intermediate inputs.

CHART 36 — EXPORTS [1]



Sources : NAI, NBB.

[1] The percentages in brackets represent the shares in total exports. Passenger motor vehicles and fuel, which together constitute about 11 p.c. of Belgium's goods exports, are not included in the chart because it is difficult to allocate them to one of the three sectors recorded.

[2] Balances of the answers to the question about the development of export orders in the monthly business survey in manufacturing industry.

Intermediate goods, which represent about 58 p.c. of Belgium's exports and are most strongly influenced by the stockbuilding cycle, were the first to be affected by the cyclical reversal. Orders showed a less favourable movement from the second half of 1997 onwards and the growth in exports in terms of value slackened from November 1997 onwards. In the case of consumer and capital goods the growth did not start to slow down until the second half of 1998, although the course of orders was also judged to be less good from the last quarter of 1997 onwards.

As mentioned above, this slackening in export growth, and also the fact that it was sharper in the case of intermediate goods, is attributable to the movement of both prices and volumes.

While export prices had still increased on average by 6.5 p.c. in the third quarter of 1997, the rate of growth gradually slowed down, to 1.3 p.c. in the second quarter of 1998; in the third quarter prices actually fell by 1.9 p.c. This trend was clearest in the case of intermediate goods, for which the price rise of 8.4 p.c. recorded in the third quarter of 1997 gradually turned into a fall of 4 p.c. a year later. Prices were under downward pressure particularly in two important sectors for the Belgian economy, chemicals and non-ferrous metals. During the first nine months as a whole, export prices therefore went up by only 0.9 p.c., whereas in 1997 they had still risen by over 5 p.c. Exporters were faced, as a result of the crisis, with the weak or even declining price trend on the world markets. On the other hand, however, they benefited from the fact that the cost of their imported inputs fell, and also from the still moderate course of domestic costs, especially unit labour costs.

The development of the volume of exports was influenced by the slowing of the growth in world trade, which was particularly marked for manufactured goods : according to OECD figures, the growth in the latter in fact slackened from 11.4 p.c. in 1997 to 5.1 p.c. in 1998. The imports of Belgium's trading partners fell off less. In particular, in the euro area imports appeared to have risen on average at about the same pace as in 1997, private consumption and capital investment having increased faster there, while enterprises appear to have taken advantage of the falls in the prices of crude oil and various commodities to replenish their stocks. Owing, however, to the composition of its exports, Belgium was unable to benefit fully from the still rapid rise in the imports of its trading partners, because it specialises less in exporting consumer and capital goods and also produces few basic materials. Furthermore, the shrinkage of its markets abroad was more marked during the year under review. The expansion in the volume of exports, which had still amounted to 10 p.c. in the third quarter of 1997, thus gradually dwindled to as little as 1 p.c. in the third quarter of 1998. In the first nine months of the year under review the volume of exports rose by only 4.4 p.c., against 6.6 p.c. in 1997. For mineral fuels, certain non-food basic products and diamonds the volume actually decreased. World demand for diamonds, and particularly that from Asia, in fact contracted appreciably in 1998.

As in the case of exports, the growth in the value of imports, after having reached a peak in the third quarter of 1997, slackened markedly in the year under review. Import prices fell sharply in the course of 1998, while the increase in the volume of imports slowed down.

The pronounced fall in world market prices for raw materials in general, and for oil in particular, led to a substantial drop in import prices. On the world markets the dollar price of oil fell during the first nine months of the year under review by nearly 30 p.c. compared to the corresponding period of 1997. However, as the dollar appreciated during the same period, the fall in the price of oil expressed in francs finally came to about 27 p.c. The import prices of energy products therefore fell by 19 p.c. Quotations for industrial raw materials also fell, but only by around 10 p.c. in terms of francs. Lastly, the prices of manufactured products, which had risen by 6 p.c. in 1997, remained stable. All in all, import prices fell on average by about 1 p.c., whereas they had still risen by 6 p.c. in 1997.

Unlike the growth in the volume of exports, that in the volume of imports slowed down only gradually during the year under review. As in the case of the trading partners in the euro area, the rise in household consumption and private-sector investment quickened, while enterprises took advantage of the much lower import prices to replenish their stocks. These developments largely counterbalanced the incidence of the reduction in imports for use in the production of export goods, for which the prospects became gloomier. For certain product categories, especially basic chemical products, the growth in imports actually quickened in the first and third quarters of 1998. Over the first nine months as a whole the volume of imports grew by 6.8 p.c.

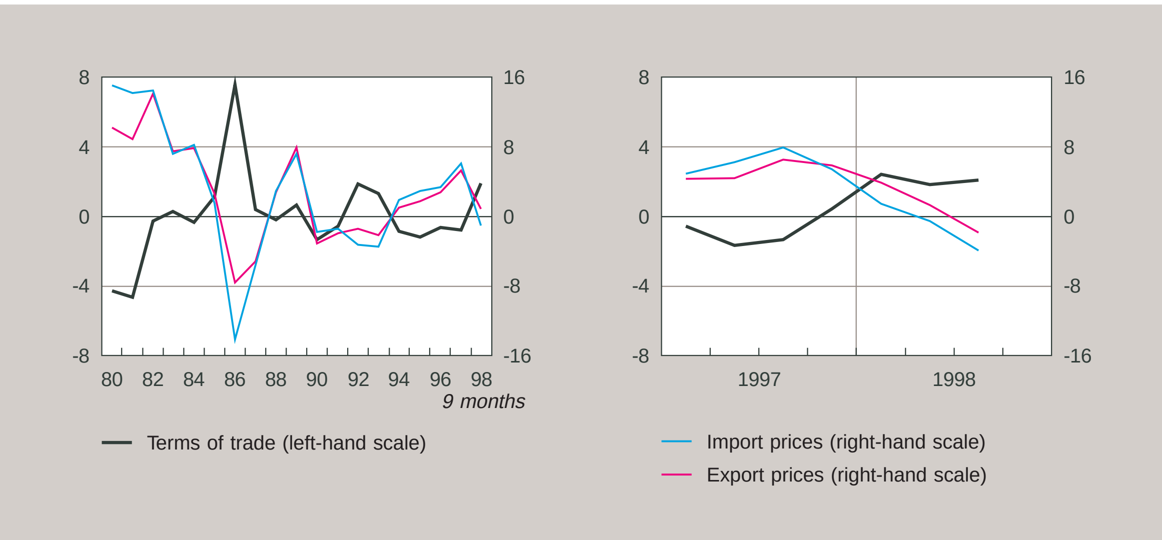
Overall, the small fall in the goods surplus is thus due to opposite movements of prices and volumes, a pronounced improvement, of 1.9 p.c., in the terms of trade having been coupled with a slightly greater worsening, of 2.3 p.c., in the rate of coverage in volume.

The development of the terms of trade is generally closely linked to that of world market dollar prices of oil and to the course of the dollar itself. In 1998 the gain through the terms of trade, which can be estimated for the first nine months at about Fr. 75 billion, was due to the marked fall in the dollar price of crude oil, although this effect was lessened somewhat by the appreciation of the dollar. Only in 1986 had the terms of trade improved more, because the fall in the dollar price of oil had not only been more marked then but had also been coupled with an appreciable depreciation of the dollar itself.

The year-on-year changes in the terms of trade are generally limited, since the movements of import and export prices are usually similar, although the former are somewhat more pronounced

CHART 37 — TERMS OF TRADE, EXPORT AND IMPORT PRICES

(Percentage changes compared to the corresponding period of the previous year)



Sources : NAI, NSI.

than the latter, because export prices are also influenced by the movement of domestic costs, which are less volatile. Whether the terms of trade improve or worsen is therefore mainly determined by the downward or upward movement of import prices.

Services

Although the services account is made up of very heterogeneous transaction categories, total exports and imports of services follow the general trends of international trade. Thus, as in the case of merchandise trade, the increase in Belgium's service exports and imports alike slowed down from the third quarter of 1997 onwards, and imports grew slightly more quickly than exports. Furthermore, the net balance of service transactions was also influenced by certain specific factors.

The structural growth in air traffic and an increase in resident airlines' market shares led to a rise in their turnover achieved abroad. Furthermore, sea transport transactions and allied port activities generated a larger surplus than in 1997. Overall, this led to a rise in the surplus on transport of Fr. 7 billion during the first nine months of 1998. The surplus under the heading « Other services » fell by Fr. 6 billion during the same period owing both to an increase in research and development expenditure and to a rise in spending on the chartering of aircraft abroad as a result of the abovementioned expansion in the activity of airlines. Lastly, the structural growth in expenditure on foreign travel led to an increase of Fr. 12 billion in the deficit under the heading « Travel ».

The total value of imports of services rose during the first nine months of the year under review by 7.9 p.c., as a result of an increase in the volume of imports of 6 p.c. and a price rise of 1.8 p.c. Exports, for their part, increased by only 6.2 p.c., both volumes and prices having risen, by 4.5 and 1.6 p.c. respectively. The surplus on services therefore fell from Fr. 23 billion for the first nine months of 1997 to Fr. 11 billion in the corresponding period of 1998.

Incomes and transfers

The net factor incomes received by Belgium from the rest of the world amounted to Fr. 105 billion during the first nine months of 1998.

During that period the net receipts resulting from compensation of employees remained unchanged compared to the corresponding period of the previous year. These receipts are partly derived from the positive balance of the incomes of frontier-zone workers, but are chiefly attributable to the fact that some international, especially European institutions, are situated in Belgium. This is because, in the balance of payments, these institutions are regarded as non-residents, which means that the wages which they pay to their personnel resident in Belgium are recorded in the balance of payments as receipts from earned income.

The surplus in respect of investment income amounted to Fr. 26 billion for the first nine months of 1998, against Fr. 22 billion in 1997. For one thing, thanks to the successive current account surpluses, recorded year by year, Belgium's net external creditor position has improved steadily since 1988 and has thus generated every year additional incomes which have helped to increase the current account surplus. Furthermore, the balance in respect of investment income has been positively influenced by the appreciation of the dollar and the movement of interest rates, since a fall in interest rates affects short-term assets and liabilities first; as

Belgium has more short-term liabilities than assets, a fall in interest rates thus leads to a larger decrease in expenditure than in receipts.

The increase in the deficit in respect of current transfers is chiefly attributable to the rise in Belgium's net payments to the EU. With regard to expenditure, the contribution to the European budget rose further in 1998, in line with the growth in the latter. Receipts, consisting mainly of refunds and interventions by the European Agricultural Guidance and Guarantee Fund within the framework of the common agricultural policy, shrank, partly owing to the developments on the beef market. The fall in Belgian beef exports as a result of the fact that new cases of bovine spongiform encephalitis, or mad cow disease, were detected in 1997, led in 1998 to a decrease in export refunds. Furthermore, as it was judged that the epidemic was under control, the support interventions for the eradication of this disease were discontinued.

5.2 CURRENT TRANSACTIONS OF THE BLEU

As in 1997, the movement of the current account of the Belgian-Luxembourg Economic Union during the first nine months of the year under review was virtually parallel to that of Belgium. The BLEU's current account surplus in fact also decreased, by about Fr. 27 billion, to Fr. 314 billion. The BLEU's surplus which, apart from statistical deviations, is the sum of the balances of Belgium and Luxembourg declined slightly less than that of Belgium, because of the increase, albeit very small, in Luxembourg's surplus owing to a reduction in the deficit on transactions in goods.

5.3 CAPITAL AND FINANCIAL TRANSACTIONS OF THE BLEU

The BLEU's financial account shows how the current account surplus together

TABLE 22 — CURRENT ACCOUNT OF THE BLEU

(Balances, billions of francs)

	1996	1997	First nine months 1997	First nine months 1998
Goods and services	360	397	302	289
Goods	269	269	211	211
Services	91	128	92	79
Transport	62	71	50	61
Travel	−104	−109	−88	−100
Other services	133	167	130	118
Incomes	218	226	159	160
Compensation of employees	59	52	41	37
Income from direct and portfolio investment	159	173	118	123
Current transfers	−142	−139	−120	−135
General government	−98	−105	−90	−101
Other sectors	−45	−35	−29	−34
Current transactions	435	484	341	314
p.m. Percentages of GDP	4.9	5.2		

Source : NBB.

with the balance on the capital account is used for financing the rest of the world. During the first nine months of 1998, portfolio investment led, in net terms, to the formation of substantial claims on foreign countries, whereas new assets and liabilities under this head had been virtually in equal during the same period of 1997. Other financial transactions resulted in the formation of net debts vis-à-vis foreign countries ; substantial net claims had still been recorded the previous year. True to tradition, direct investment transactions resulted in the formation of net liabilities to foreign countries.

Capital account

At the end of the first nine months of 1998 the capital account showed a slightly negative balance as a result of a small deficit in respect of both capital transfers and acquisitions and sales of non-financial non-produced assets. The last-mentioned item covers transactions in respect of tangible assets which can be used for the production of goods and services but which are not produced themselves, for instance land, as well as transactions in respect of intangible assets such as patents and licences. In the previous year on the other hand, when the Netherlands had

TABLE 23 — BALANCE OF PAYMENTS OF THE BLEU ACCORDING TO THE IMF LAYOUT [1]

(Balances, billions of francs)

	1996	1997	1998			1997	1998
			1st quarter	2nd quarter	3rd quarter	First nine months	
Current account	435	484	97	115	102	341	314
Capital account	6	14	1	−3	−1	13	−2
Capital transfers	6	16	...	−1	−1	16	−1
Purchase and sale of non-financial non-produced assets	...	−2	1	−2	...	−2	−1
Financial account	−398	−477	−78	−132	−123	−364	−333
Direct investment	186	145	−23	45	40	133	62
Of the BLEU in foreign countries	−250	−286	−316	−143	−104	−178	−564
By foreign countries in the BLEU	435	431	293	188	144	310	626
Portfolio investment	−384	−233	−223	−163	−238	2	−624
Assets	−1,527	−2,208	−1,044	−887	−505	−1,567	−2,436
Equity securities	−110	−754	−324	−339	−41	−635	−704
Bonds, money market instruments and derivatives	−1,417	−1,454	−719	−549	−464	−932	−1,732
Liabilities	1,143	1,976	820	725	267	1,569	1,812
Equity securities	1,057	1,711	681	610	431	1,361	1,722
of which units of UCIs	988	1,565	595	625	377	1,270	1,597
Bonds, money market instruments and derivatives	86	264	139	114	−164	209	90
Other financial transactions	−182	−353	177	−2	81	−453	256
Assets	−435	−1,697	−396	−477	−224	−1,889	−1,098
Liabilities	253	1,344	573	475	306	1,436	1,354
The NBB's reserve assets	−18	−36	−9	−12	−6	−46	−26
Errors and omissions	−43	−21	−20	20	21	9	21

Source : NBB.

[1] Minus sign : current account deficit, increase in the assets or decrease in the liabilities of residents.

made a compensation payment connected with the HST project, capital transfers had still shown a substantial surplus.

Direct investment

In accordance with the IMF methodology, the balance of payments item « Direct investment » records the financial flows between the BLEU and foreign countries in respect of the contribution of equity capital for the formation or expansion of companies, for equity investment or for takeovers, in so far as the investment represents more than 10 p.c. of the capital of the company in which the investment is made. Direct investment also embraces all other financial transactions, of whatever nature, between enterprises with a direct investment relationship. The concept used in the balance of payments is thus rather narrow and does not take account either of foreign investment by residents financed abroad or of investment by residents in the BLEU financed with loans obtained from a BLEU bank or via a BLEU subsidiary of the foreign parent company. The balance of payments data do, however, provide useful information concerning cross-border capital transactions relating to mergers, takeovers or formation of enterprises. They are in fact the only source which regularly provides internationally comparable numerical data. They are therefore often used for analysis, including by the United Nations, the OECD and Eurostat.

The interpretation of the BLEU data concerning direct investment in the broad sense of the term is however complicated by various kinds of financial transactions which often merely pass through Luxem-

TABLE 24 — SECTORAL BREAKDOWN OF BELGIUM'S DIRECT EQUITY INVESTMENT [1 2]

(Billions of francs)

	Direct investment from foreign countries					Direct investment to foreign countries				
				First nine months					First nine months	
	1995	1996	1997	1997	1998	1995	1996	1997	1997	1998
Extractive and manufacturing industry, and building	23	22	20	11	12	– 32	– 54	– 43	– 37	– 21
Services	109	133	55	22	155	– 57	– 39	– 20	– 3	– 84
Transport, storage and communication	7	82	2	2	21	– 1	– 5	...	...	– 25
Financial institutions [3]	8	17	13	4	40	– 47	– 11	– 42	– 31	– 47
Real estate, renting and services to enterprises	7	9	– 41	– 42	26	– 10	– 5	23	28	– 4
Coordination centres [4]	66	20	79	57	61	—	—	—	—	—
Other services	21	5	3	3	7	1	– 17	– 1	...	– 9
Indeterminate sector	17	35	14	9	12	– 4	– 9	8	...	– 7
Total direct investment [5]	149	191	89	42	179	– 93	– 101	– 55	– 41	– 112
Investment	166	341	181	126	199	– 147	– 143	– 178	– 133	– 140
Disinvestment	– 17	– 150	– 92	– 84	– 20	54	42	123	92	28

Source : NBB.

[1] Foreign countries excluding Luxembourg. Minus sign : Belgium's direct investment in foreign countries or foreign countries' direct disinvestment in Belgium.

[2] According to the resident sector which is the counterparty in the transaction.

[3] Including holding companies, insurance companies and financial auxiliaries.

[4] The equity investment in foreign countries which was recorded as investment by coordination centres has been reclassified on the basis of the activity of the parent company.

[5] Excluding investment in real estate.

TABLE 25 — GEOGRAPHICAL STRUCTURE OF BELGIUM'S DIRECT EQUITY INVESTMENT [1]

(Billions of francs)

	Direct investment by foreign countries					Direct investment from foreign countries				
				First nine months					First nine months	
	1995	1996	1997	1997	1998	1995	1996	1997	1997	1998
European Union	115	114	35	− 4	135	− 69	− 72	− 9	− 11	− 50
of which :										
euro area countries	94	58	57	18	120	− 70	− 69	6	...	− 25
of which :										
Germany	11	10	25	1	20	− 15	− 2	35	40	− 7
France	27	3	− 10	− 12	53	− 22	− 42	6	− 7	− 22
Netherlands	47	35	23	19	39	− 32	− 24	− 19	− 15	− 2
Italy	2	8	...	...	8	...	2	− 17	− 16	5
United Kingdom	20	27	− 23	− 23	13	1	− 2	− 13	− 10	− 23
Central and eastern Europe	...	...	...	...	...	− 5	− 3	− 7	− 4	− 2
Other European countries	8	14	4	2	18	− 2	− 10	− 1	...	− 2
of which Switzerland	8	6	1	...	14	− 2	− 9	− 1	...	− 2
United States	13	37	18	11	18	3	− 3	− 25	− 17	− 14
Canada	9	1	13	13	1	− 19	− 2	− 1	1	...
Japan	2	1	2	2	2	1	...	...	...	− 1
Central and South America	1	...	...	...	5	...	− 6	− 7	− 6	− 3
Emerging Asian economies [2]	1	20	15	14	...	− 1	− 5	− 1	− 1	− 11
Other countries	1	4	3	3	...	− 1	− 2	− 3	− 2	− 29
Total direct investment [3]	149	191	89	42	179	− 93	− 101	− 55	− 41	− 112

Source : NBB.

[1] Foreign countries excluding Luxembourg. Minus sign : Belgium's direct investment in foreign countries or foreign countries' direct disinvestment in Belgium.

[2] South Korea, China, Singapore, Taiwan, Hong Kong, Thailand, Malaysia, Indonesia and Philippines.

[3] Excluding investment in real estate.

bourg. It was therefore considered more relevant, for the analysis of direct investment, to consider only the direct investment flows between Belgium and foreign countries, excluding, for lack of data, transactions with Luxembourg. Furthermore, the discussion is confined to equity investment. This is because loans between associated enterprises may involve very large amounts — since financial intermediation between the members of multinational groups represents the main activity of many resident enterprises — and furthermore often show erratic fluctuation without having any effect on the real economy.

In the first nine months of 1998 direct investment by foreign countries in Belgium exceeded that of Belgium in foreign countries by Fr. 67 billion, against Fr. 1 billion during the corresponding period of the previous year. Both direct investment from foreign countries and that by residents in foreign countries expanded sharply. In net terms it amounted, respectively, to Fr. 179 and 112 billion during the first nine months of the year under review, against Fr. 42 and 41 billion during the corresponding period of the previous year. The results recorded in 1998 are thus comparable to the 1996 figures and are in line with the strong rise in direct investment recorded at world level during the 1990s. According to the United Nations data, the outstanding amount of this investment rose from 7.9 p.c. of world GDP in 1990 to 10.7 p.c. in 1996. This upsurge is connected with the wave of mergers and takeovers resulting from the greater worldwide opening up and deregulation and, more recently, with the increase in direct investment in the developing countries, which represents a steadily growing proportion of total direct investment.

Foreign direct investment in Belgium increased exclusively in the services sector, chiefly in the branches of communication, financial institutions and services to enterprises — precisely the activities in which the bulk of mergers and takeovers at the world level have recently taken place. In the telecommunication sector there was a very strong trend towards liberalisation, while direct investment in the financial sector was given a further boost owing to the endeavour to achieve economies of scale in connection with monetary union, as evidenced by the sharp expansion in direct investment flows from the euro area. The balance of payments data do not yet show the full extent of this development in the financial sector, because the takeover of Générale de Banque by the Belgian subsidiary of a foreign company did not give rise to a cross-border financial transaction.

The United Kingdom and the United States also stepped up their investment in Belgium. On the other hand, the investment flows from the Asian emerging economies, which had been relatively substantial in 1996 and 1997, declined owing to the economic crisis in that region.

That crisis did not, however, constitute an obstacle to the investment projects of Belgian enterprises in Asia. In the first nine months of the year under review they invested a net amount of Fr. 11 billion, against an average of Fr. 2 billion per year in the period 1995-1997. The adverse effect of an uncertain investment climate and the weakening of domestic demand was offset by the positive effect of the collapse of asset prices and the improvement in the competitive position due to the depreciation of the currencies of these countries. The last-mentioned factor operated primarily for investment in export-oriented sectors. Investment by Belgian enterprises in the countries of the euro area and the United Kingdom also rose sharply.

The sectoral breakdown of Belgium's direct investment abroad shows distinct similarities with that of investment by foreign countries in Belgium, namely a decrease in the share of industry and an increase in that of services, especially the above-mentioned three branches.

Portfolio investment

A certain degree of caution is called for in interpreting the financial flows connected with the BLEU's portfolio transactions. Owing to the growing internationalisation of capital flows and the expansion of the activity of many collective investment undertakings, financial transactions with foreign countries have become more complex. Furthermore, the compilation of the balance of payments is complicated by the presence of major financial centres and clearing institutions on the territory of the BLEU.

Portfolio investment was influenced during the year under review by the repercussions of the economic and financial crisis which affected a large proportion of the world. The international financial markets came under acute strain during the summer, when the seriousness of the economic situation in Japan was more clearly perceived and when there were fears of a worsening of the crisis in the region. In August, on top of this, the crisis broke out in Russia.

In the third quarter of the year under review these events led to a reversal in portfolio investment behaviour. Net purchases of BLEU shares — mainly investments in units of Luxembourg collective investment undertakings — decreased then, and this led to a fall in investments by residents, especially collective investment undertakings, in foreign shares and bonds. Over the first nine months of 1998 as a whole, however, foreign investors again displayed considerable interest in BLEU shares, net purchases having risen to Fr. 1,722 billion, against Fr. 1,361 billion in the corresponding period of 1997.

There was also a certain amount of interest in the BLEU's short-term paper, and especially Treasury certificates, which, from January to August 1998, still displayed an average interest rate premium of 6 basis points vis-à-vis the German mark. In the case of long-term securities, net redemptions were recorded in the first nine months of 1998, as investors, reacting to the crisis, gave preference in their search for safe investments to the more liquid German bunds, rather than the securities of the other euro area countries.

Investment in foreign equity securities by residents, including those by UCIs, remained substantial until July 1998. From August onwards, the fears of the adverse impact which the crisis in a large part of the world might have on the profits of enterprises caused a flight from the shares of enterprises in the regions hit by the crisis and from those of the western countries. The fall in equity investments affected both direct purchases by residents and investment in Belgian and Luxembourg UCIs.

During the first nine months of 1998 residents increased their net assets in foreign fixed-interest securities by Fr. 1,732 billion. The data of the Bank for International Settlements relating to the issuing of debt instruments on the international financial markets suggest that preference was given to investments in dollars, partly owing to the higher yield of securities denominated in that currency, and also to securities in ecus or denominated in currencies which were automatically converted into euros on 1 January 1999.

Other financial transactions

Net capital inflows amounting to Fr. 256 billion were recorded in respect of other financial transactions during the first nine months of 1998, against net capital outflows of Fr. 453 billion during the same period of 1997. This capital inflow was attributable to the transactions of credit institutions relating to deposits, the granting and obtaining of credit and other assets and liabilities. Transactions which are basically influenced by interest rate and exchange rate policy thus formed a good counterpoise to the overall deficit resulting from current transactions, direct investment and portfolio investment.

The NBB's reserve assets

The Bank's reserve assets increased in the first nine months of 1998 by Fr. 26 billion. Furthermore, the Bank decided to change the composition of its external reserves in view of its future reserve asset requirements in the new environment created by the introduction of the euro. It therefore carried out arbitrage transactions of part of its gold assets against foreign currency assets. The capital gains made by the Bank on these gold sales, amounting to Fr. 92 billion, were paid to the State, after deduction of the share accruing to Luxembourg. In December they were used for redeeming part of the Treasury's foreign currency debt. Thus, over the year as a whole, the foreign exchange reserves fell by Fr. 72 billion. Expressed in terms of outstanding amounts, they still amounted to Fr. 702 billion, or 8 p.c. of GDP, at the end of 1998. They form part of Belgium's net external assets, which represent more than 20 p.c. of GDP. Belgium thus entered the monetary union without debts, but with considerable claims on foreign countries. Belgium's net assets are, however, the resultant of positions which differ greatly from sector to sector. Thus, credit institutions and general government are debtors vis-à-vis foreign countries, while the monetary authorities and, especially, the sector of individuals and non-bank institutions occupy a creditor position. The last-mentioned sector has in fact built up substantial net claims on foreign countries owing to the fact that it has diversified its portfolio in reaction to the prevailing market conditions.

Upon the changeover to the single currency, on 1 January 1999, the Bank transferred part of its reserve assets, to the value of Fr. 58 billion, to the ECB. That amount corresponds to the Bank's share — of 2.8658 p.c. — in the total amount of reserve assets which, under the Treaty on European Union, the ECB may have at its disposal, namely 50 billion euros. The contributions of the central banks were fixed pro rata of their share in the ECB's capital, which is determined on the basis of the average of the shares of each Member State in the population and total GDP of the EU. As the United Kingdom, Sweden, Denmark and Greece are not part of the euro area, the reserve assets transferred to the ECB finally amounted to 39.5 billion euros. Furthermore, those of the Bank's foreign currency assets that were invested in countries of the euro area, amounting to Fr. 179 billion, ceased to qualify as reserve assets ; they are henceforth denominated in euros.

In this new context, the changes in the financial flows between the BLEU and the other countries of the euro area become less important for monetary policy. The switching of financial resources of economic agents with a savings surplus to economic agents with a deficit is no longer determined in the euro area by expectations concerning exchange rates or by interest rate differentials due to the coexistence of a number of currencies for which autonomous monetary and foreign exchange policies are pursued. Investors will henceforth be guided by other criteria, for instance considerations regarding the quality of the debtor, which may be reflected — especially in the long-term segment — in interest rate differentials, or by other market conditions which are of importance for them.

The financial market operating in the national currencies of the respective Member States will, except for institutional and fiscal differences, merge into a single euro market. Savers who do not wish to run any exchange rate risk thus no longer need to confine themselves to the national market. They will thus be able to choose from a range of bonds denominated in euros and issued by the various countries of the euro area. As monetary union is likely to give a boost to the market for private bonds, savers will moreover be able to choose between public securities and a wider range of paper issued by the private sector. The introduction of the single currency will probably have a smaller impact on the composition of share portfolios, for which the intrinsic risk of the investment is the predominant factor.

The intensification of financial transactions between the countries of the euro area resulting from the changeover to the single currency will affect a number of items of the financial account of the balance of payments of the BLEU, particularly portfolio investment and other financial transactions. However, only the balance of payments of the euro area, which combines all the financial flows of the euro area countries with the rest of the world, will be relevant for monetary policy and for the determination of the exchange rate for the euro. These financial flows will in fact continue to be mainly influenced by the exchange rate anticipations for the euro and by interest rate differentials between the euro and the other currencies.

5.4 EXCHANGE RATES

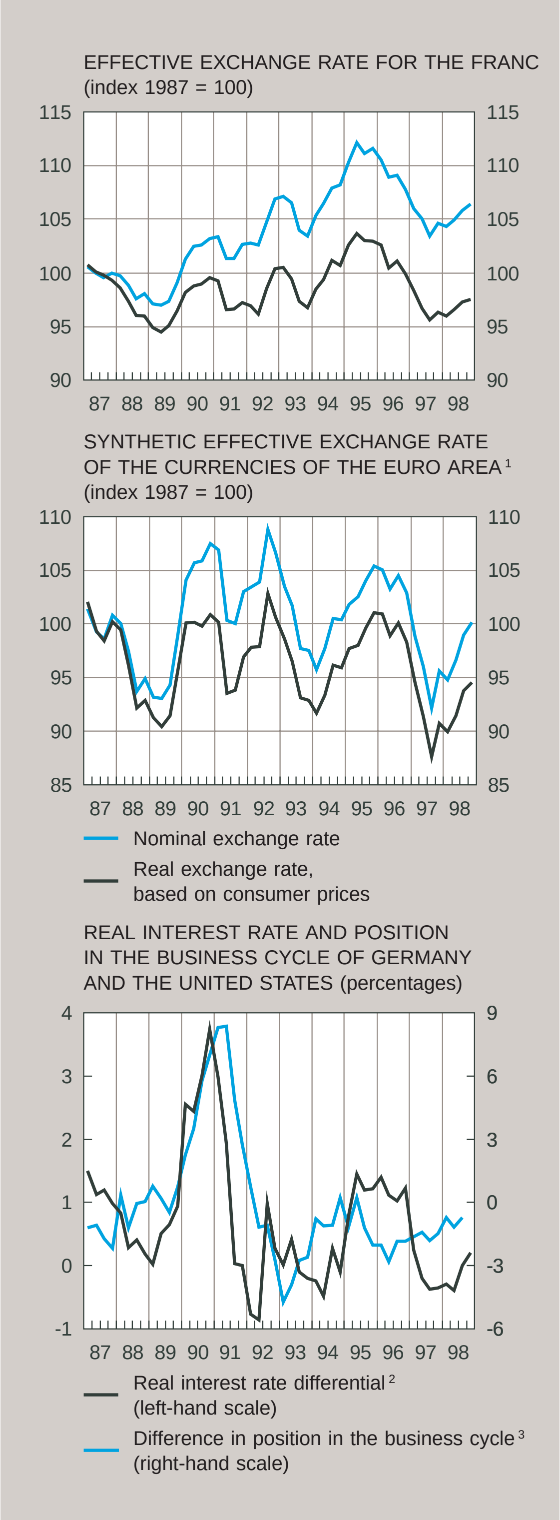
The slight appreciation, of 0.6 p.c., of the weighted average exchange rate for the franc in 1998 followed the depreciations, of 2 and 4 p.c. respectively, recorded in

1996 and 1997. The movements, during the year under review, of this synthetic indicator of the course of the franc vis-à-vis the currencies of the 25 main countries which are competitors of resident producers primarily reflected the movement of the franc vis-à-vis the dollar, since, owing to the weight of the United States in international trade, this currency is, together with the German mark and the other European currencies for which the latter is regarded as a stability anchor, the main determinant of the movement of the weighted average exchange rate for the franc. Furthermore, the weighted average exchange rate was influenced by the strengthening of the franc against the yen and the currencies of some EU Member States, namely the Greek drachma, the Irish punt, the Swedish krona, the Finnish markka, the Portuguese escudo and, to a lesser extent, the Spanish peseta, the Italian lira and the Dutch guilder.

The reversal of the movement of the effective exchange rate for the franc took place in the third quarter of 1997, when the depreciation which had started in the third quarter of 1995 came to an end. The rise of the US dollar against the German mark was replaced by a fall in September 1997, except for a sudden and temporary rise in the first quarter of 1998. Compared to the 1997 low, the appreciation of the effective exchange rate for the franc nevertheless remained fairly limited, so that in the fourth quarter of 1998 the franc was only 6.4 p.c. above the average for 1987, the year in which the ERM central rates were realigned for the last time and when the exchange rates of the currencies of the world's major economic areas were generally regarded as being in accordance with their economic fundamentals.

The change in the external value of a given currency can however be better assessed on the basis of the real effective exchange rate, that is, the nominal effective exchange rate adjusted to take account of the differences in the movement

CHART 38 — EFFECTIVE EXCHANGE RATE



Sources : BIS, EC, OECD.

[1] Effective exchange rate calculated by the Bank for International Settlements as the average of the effective exchange rates of the individual countries of the euro area, weighted on the basis of their share in trade in the products of manufacturing industry with 15 trading partners outside the euro area in 1990.

[2] Real long-term interest rate differential between Germany and the United States.

[3] Difference between the growth rate of GDP at constant prices compared to the corresponding quarter of the previous year in Germany and in the United States.

of prices or costs. According to the index compiled by the Bank for International Settlements on the basis of the movement of consumer prices in Belgium and in the 25 main trading partner countries, the franc was still 2.5 p.c. below the 1987 average during the fourth quarter of 1998.

The fluctuations in the nominal effective exchange rate adjusted for inflation are attributable to, among other factors, the real interest rate differential : when this is rising, it leads to an appreciation of the currency. For the real exchange rate for the franc, the interest rate differential between Germany and the United States is the determining factor, as Belgian monetary policy is centred on maintaining the stability of the franc against the German mark. Thus the change of trend in the real effective exchange rate for the franc from the fourth quarter of 1997 onwards is connected with the reversal of the movement of the real interest rate differential at the expense of the German mark, and with the fact that the German growth rate has increasingly caught up with that of the United States.

Since the beginning of 1999 the franc has been replaced by the euro. Domestic producers are consequently confronted much less than hitherto by variations in exchange rates. Belgium's total exports and imports amount on average to around 47 p.c. of the total final sales of enterprises. The average of exports to and imports from the countries which do not belong to the euro area amounts to only 19 p.c. of these sales. Although, in the past, the fluctuations in the synthetic exchange rate for the currencies of the euro area were greater than those in the effective exchange rate for the franc, they give no indication for the future, because the autonomous monetary policy of the eleven countries is replaced by a single policy. Furthermore, despite these pronounced fluctuations, the index number for the nominal effective exchange rate of the euro area has continued to move around a fairly flat trend line, and has remained within a margin of 10 p.c. This was also the case for the real effective exchange rate until the beginning of 1997, after which a marked depreciation took place. During the year under review the appreciation which started at the end of 1997 continued. In the fourth quarter of 1998 the real effective exchange rate of the euro area was, however, still 5.5 p.c. below the 1987 average level.

6. FINANCIAL ACCOUNTS AND FINANCIAL MARKETS

6.1 OVERALL VIEW

For more than ten years the Belgian economy has been recording financial surpluses vis-à-vis the rest of the world. These capital flows, whose level remains high compared to the situation observed in other countries, declined by 0.3 percentage point in 1998, to 4.6 p.c. of GDP. This slight decrease is mainly due to the development of the financial situation of individuals.

The fairly steady growth in household expenditure on consumption was in fact accompanied by a reduction in the savings ratio and, owing to a stabilisation of investment in housing, an equivalent fall in this sector's financial surplus, which amounted to only 4.6 p.c. of GDP in 1998, 0.8 point down compared to 1997.

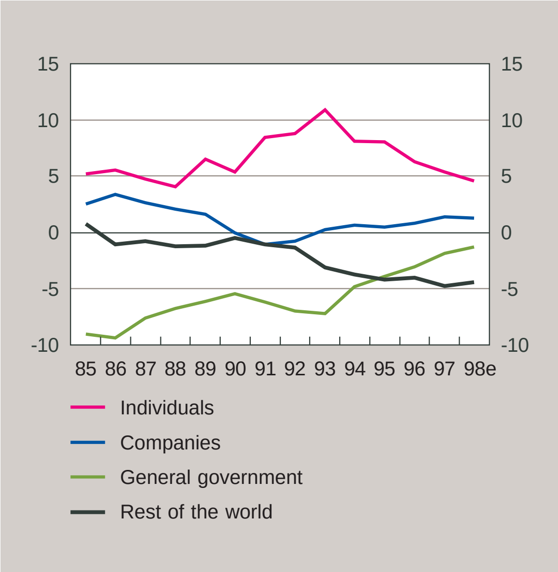
The financing capacity of companies remained more or less unchanged, at 1.3 p.c., undistributed profits having risen at about the same rate as investment. On the other hand, the financing requirement of general government fell further, to 1.3 p.c. of GDP.

Over a period of ten years the allocation of funds between the two main borrowing sectors was completely reversed : in 1988 the resources generated by individuals and companies were, as a percentage of GDP, of the same order of magnitude as in 1998, but net borrowing by the rest of the world then represented only 1.2 p.c. of GDP, or a level approximately equivalent to the deficit recorded by general government in 1998.

The contribution of funds by the domestic sectors to the rest of the world can take place via many channels. In the past it has largely occurred in the form of direct purchases of foreign currency bonds or investments with foreign banks.

CHART 39 — NET FINANCING REQUIREMENT (–) OR CAPACITY OF THE MAJOR SECTORS

(Percentages of GDP)



Sources : NAI, NBB.

More recently, residents have reoriented their assets in favour of shares. This change has been accompanied by a certain reintermediation of financial flows, as individuals prefer, for this type of investment, to resort to institutional investors rather than making direct purchases. This tendency was very marked in 1998. During the first nine months of the year alone, the domestic sectors thus formed Fr. 931 billion of additional financial assets with institutional investors, whereas their direct holdings of securities decreased by Fr. 283 billion.

The effects of this redeployment were not confined to the domestic financial markets but also extended to transactions

TABLE 26 — FORMATION OF ASSETS BY AND NEW FINANCIAL LIABILITIES OF THE DOMESTIC SECTORS

(Billions of francs)

	First nine months of 1997			First nine months of 1998		
	Formation of financial assets	New financial liabilities	Net financial position	Formation of financial assets	New financial liabilities	Net financial position
According to channels						
Belgian credit institutions	390	365	25	330	365	−34
Institutional investors operating on the Belgian market [1]	506	207	299	931	412	518
Securities markets [2]	197	197	...	−283	77	−360
Other channels [3]	48	86	−39	260	128	132
Total	1,141	855	286 [4]	1,238	982	256 [4]
According to sectors [5]						
Individuals	672	173	499	575	240	335
Companies	501	427	74	705	590	116
General government	−32	255	−288	−42	153	−194
Total	1,141	855	286 [4]	1,238	982	256 [4]

Source : NBB.

[1] Units and other securities of collective investment undertakings and technical reserves of Belgian insurance companies and pension funds.

[2] Securities issued and purchased by economic agents other than financial intermediaries.

[3] Assets and liabilities with foreign credit institutions, as well as the direct financing transactions which it has been possible to record between domestic sectors or with the rest of the world in forms other than securities.

[4] Corresponds to the Belgian economy's net contribution of funds to the rest of the world.

[5] The balances of the financial accounts do not correspond to the financing capacities or requirements as recorded in the real accounts owing to the differences between the dates of recording of the transactions in these two accounts, statistical adjustments or errors and omissions. Thus, for example, the financial accounts cannot, for lack of data, record most commercial claims and debts.

with the rest of the world. Thus, from January to September, institutional investors reinvested in Belgium only Fr. 412 billion out of the Fr. 931 billion that they collected. On balance they therefore invested Fr. 518 billion abroad, against only Fr. 299 billion in 1997.

This growth in the role of institutional investors was accompanied by a net reduction of Fr. 360 billion in financing of the rest of the world through direct transactions in securities. The balance of the transactions of Belgian credit institutions with the rest of the world, for its part, remained approximately in equilibrium during the first three quarters of 1998, as was in fact already the case in 1997. Lastly, financing via channels other than the three traditional ones was relatively substantial, having reached Fr. 132 billion in the first nine months of 1998. It consisted mainly of loans by Belgian entities of multinational corporations to other enterprises in their group.

Since 1 January 1999 financial transactions between Belgium and foreign countries have been taking place in a new environment. The introduction of the single currency has in fact led to the disappearance of the segmentation and protection of the national financial markets caused by the coexistence of national currencies. The already considerable degree of openness of the Belgian financial system to the rest of the euro area will increase considerably, making competition keener. This will affect all financial operators, whether they be banks, institutional investors or stock market intermediaries.

The adaptations to the new environment created by EMU are not only strategic in nature. For several years the authorities have been devising more technical provisions, in close consultation with the representatives of the financial sector and under the auspices of the General Commission for the Euro. A legal framework has been put in place to permit the introduction of the euro in Belgium in accordance with European rules and regulations. The law of 30 October 1998 concerning the euro thus laid down precise rules concerning, among other things, conversion and rounding, the definition of reference interest rates for legal, regulatory or contractual purposes, the continuity of contracts and the denominating of public and private debt securities in euros.

Another important legal provision concerning all financial markets was introduced during the year under review. This was the law of 17 December 1998 creating a fund for the protection of deposits and financial instruments. This fund takes over from the RGI the management of the deposit protection system and from the Stock Exchange Members' Intervention Fund that of the compensation granted to investors in the event of failure of stock exchange members.

6.2 FINANCIAL ACCOUNTS

Individuals

The formation of financial assets by individuals during the first nine months of 1998 was marked by three major trends.

The first is indisputably the success encountered by the investment formulas offered by institutional investors. This appeal, though not new, strengthened markedly during the year under review. During the first three quarters individuals increased their investments with collective investment undertakings, insurance companies or pension funds by Fr. 845 billion. This amount greatly exceeded the total formation of financial assets during this period, namely Fr. 575 billion.

TABLE 27 — STRUCTURE OF THE FORMATION OF FINANCIAL ASSETS BY INDIVIDUALS

(Billions of francs)

	1995	1996	1997	First nine months 1997	First nine months 1998	p.m. Outstanding amount at the end of September 1998
Investments with Belgian credit institutions	167	300	130	139	9	8,530
Investments with institutional investors operating on the Belgian market	244	407	629	442	845	6,177
Share and index UCIs	−7	102	226	139	436	1,220
Other UCIs	10	52	63	49	167	2,053
Insurance companies and pension funds	241	253	341	254	242	2,904
Direct purchases of securities	467	299	246	218	−276	8,111
Shares	19	94	47	47	69	5,249
Securities issued by general government	74	−155	−28	34	47	320
Other fixed-interest securities	373	359	227	137	−392	2,541
Investments with foreign credit institutions	7	49	−95	−127	−4	1,033
Total	884	1,055	911	672	575	23,850

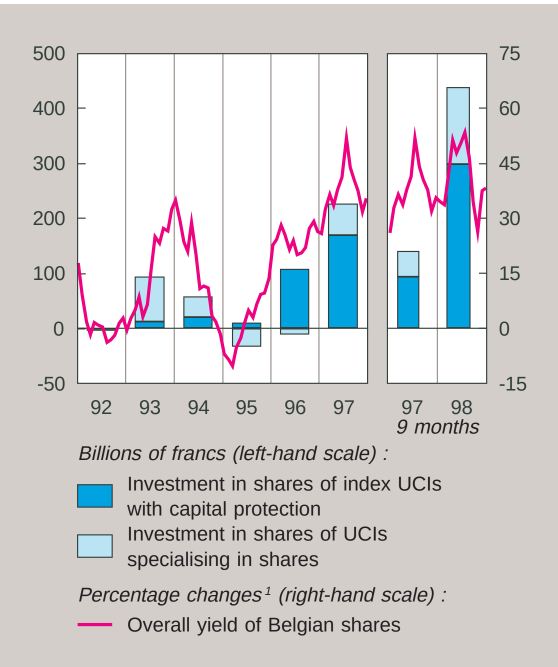
Source : NBB.

The interest shown in investment with institutional investors is largely attributable to a second development : owing to the combined effect of the low level of interest rates and the rise in stock market prices, households have turned against fixed-income assets in favour of investments in equities.

There is in fact a very strong link between the development of the overall yield on shares and investments with UCIs whose performance is connected with stock market prices. During the last few years households have invested massively in this form while prices have been rising, but have limited their purchases or even disposed of their holdings when yields have fallen.

For investments of this type individuals have had extensive recourse to index UCIs, because these make it possible to benefit by the rising prices while at the same time enjoying protection of the capital and sometimes even safeguarding of the results obtained, thanks to ratchet mechanisms.

CHART 40 — OVERALL YIELD OF BELGIAN SHARES AND INVESTMENT BY INDIVIDUALS IN UNITS OF SHARE AND INDEX UCIs



Sources : Bussels Stock Exchange, Banking and Finance Commission, Belgian Association of Collective Investment Undertakings, NBB.

[1] Percentage changes compared to the corresponding month of the previous year.

On top of the Fr. 436 billion of transactions carried out between January and September 1998 via share and index UCIs, there were direct purchases of shares totalling Fr. 69 billion. Furthermore, individuals made indirect investments in shares via insurance companies, pension funds and other UCIs, such as pension-saving funds.

The third major development is the pronounced reversal of the flows relating to direct investment abroad. The new financial assets formed with institutional investors in fact seem to have chiefly replaced euro bonds in foreign currencies. The latter constitute the bulk of the portfolio of fixed-interest securities issued by issuers other than general government, the value of which fell by Fr. 392 billion during the first nine month of 1998. On the other hand, the outstanding amount of the investments made with Belgian credit institutions remained stable, while that of public debt securities held directly by households rose at the same rate as during the first three quarters of 1997.

This change in the structure of portfolios does not mean that the repatriated funds are necessarily made available to Belgian borrowers, as a large proportion of investments via UCIs are made abroad. However, this shift towards institutional investors represents a source of additional income and activity for the Belgian economy.

While financial intermediaries established in Belgium thus seem to be recovering, via UCIs, some market shares which they had lost in the collection of savings of individuals, they have on the other hand always continued to play a leading role in the granting of credit to households.

TABLE 28 — NEW FINANCIAL LIABILITIES OF INDIVIDUALS

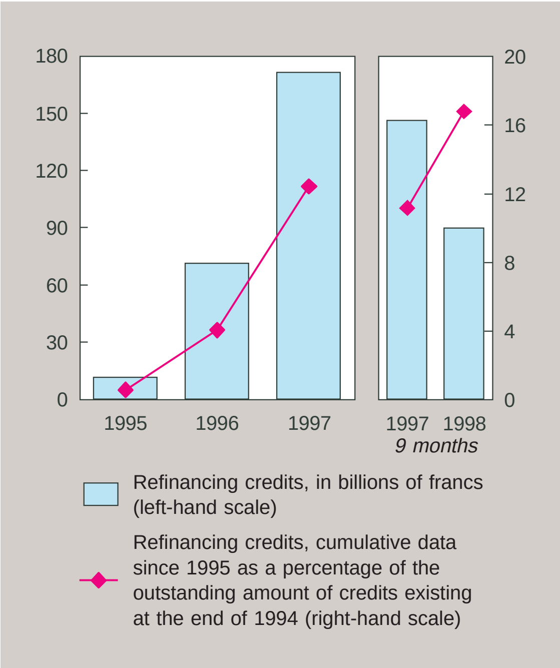
(Billions of francs)

	1995	1996	1997	First nine months 1997	First nine months 1998	p.m. Outstanding amount at the end of September 1998
Liabilities at up to one year and instalment loans	– 19	29	20	7	32	659
Other liabilities at over one year	91	148	197	166	208	3,073
Total	71	177	217	173	240	3,733

Source : NBB.

This type of lending increased sharply in 1998, the expansion in household spending having been one of the mainstays of economic growth. The new liabilities of individuals increased by Fr. 240 billion during the first three quarters of 1998, against Fr. 173 billion in 1997. This acceleration related both to short-term and instalment loans and to other lendings at over one year.

CHART 41 — REFINANCING OF MORTGAGE LOANS



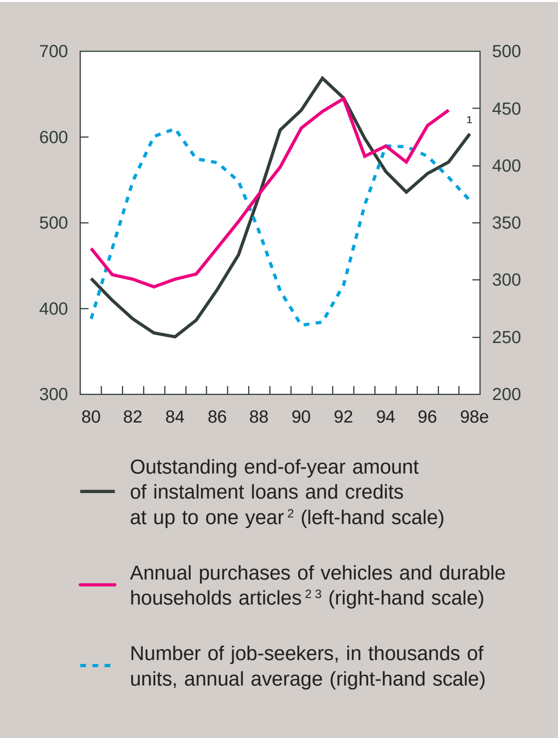
Sources : Professional Credit Association, NBB.

The latter, which consists mainly of mortgage loans, rose, between January and September 1998, by Fr. 208 billion, against Fr. 166 billion the previous year. A fairly large proportion of these new lendings were used to finance the purchase of existing buildings, as is shown by the upsurge in the registration fees collected by general government during the first nine months of the year.

While the expansion of the mortgage market has for several years been assisted by the fall in interest rates, this fall has also had the effect of increasing the number of loan-refinancing arrangements. There were still not very many of these transactions in 1995. They subsequently increased considerably, reaching Fr. 71 billion in 1996 and a peak of Fr. 172 billion in 1997. In 1998 contract renegotiations fell off, although still reaching Fr. 90 billion during the first nine months of the year. The total amount of mortgage loans renegotiated between January 1995 and September 1998 is thus equivalent to about 17 p.c. of the outstanding amount at the end of 1994.

Although, in absolute terms, individuals contracted more mortgage loans than credits at up to one year and instalment loans, the last-mentioned two types of operations nevertheless showed, in relative terms, a fairly pronounced rise during the first nine months of 1998. These

CHART 42 — CREDIT AT UP TO ONE YEAR AND INSTALMENT LOANS



Sources : EC, NAI, NBB.

[1] Outstanding amount of credit at the end of the third quarter of 1998.

[2] Billions of francs at 1997 prices.

[3] Furniture, electrical household appliances and radio and television sets.

credit categories keep closely in line with the course of consumption of durable goods. Like the latter, they appear to be very sensitive to the cyclical environment and, in particular, to the greater or lesser degree of confidence displayed by individuals. Thus, in the long term, the movement of these credits, expressed in constant francs, appears to be inversely proportional to the number of job-seekers. At the beginning of the 1980s, when this number was increasing, the outstanding amount declined; subsequently it rose markedly, from 1985 onwards, parallel with the fall in unemployment. A comparable cycle was recorded again during the 1990s, with a decline followed by a recovery in short-term credits and instalment loans.

Companies

As a result of the improvement in their results, companies generated more financial resources of their own, which represented Fr. 715 billion for the first nine months of 1998 against Fr. 652 billion in 1997. This amount exceeded that of gross fixed capital formation, which itself increased, so that enterprises as a whole were able to cover the whole of their investment by self-financing.

TABLE 29 — FINANCING STRUCTURE OF COMPANIES [1]

(Billions of francs)

				First nine months	
	1995	1996	1997	1997	1998
Own resources	621	547	705	652	715
Gross fixed capital formation	774	814	845	578	599
Financial balance [2]	−153	−267	−140	74	116
Formation of financial assets	332	472	528	501	705
New liabilities	485	740	668	427	590
Share issues	250	254	228	197	236
Credits granted by Belgian credit institutions	64	140	78	13	15
Other liabilities	171	346	362	217	339

Sources : NAI, NBB.

[1] Credit institutions and institutional investors are excluded from the companies sector, because they are treated as pure financial intermediaries whose financial assets are identical to their financial liabilities.

[2] See note 5 to Table 26.

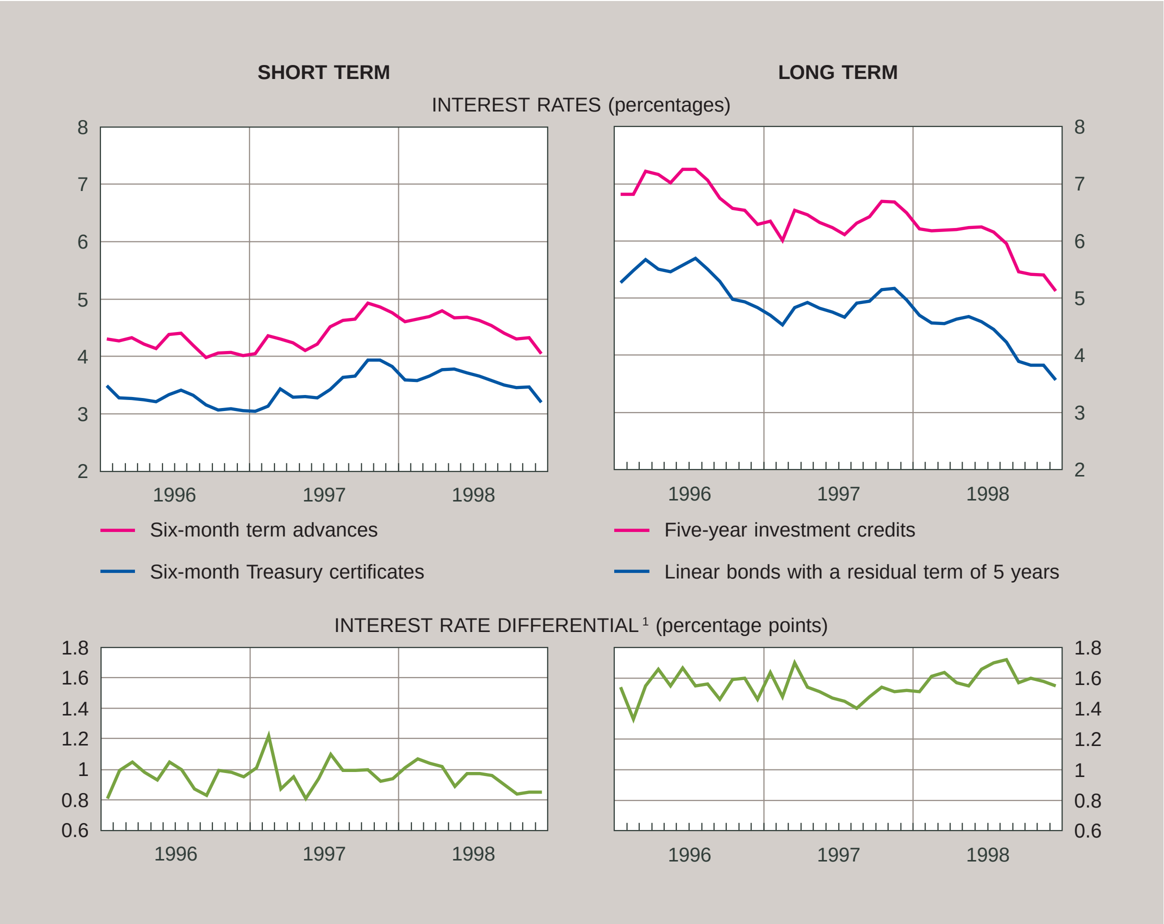
In addition to acquiring real assets, companies also formed financial assets to the extent of Fr. 705 billion during the first three quarters of 1998, against Fr. 501 billion in 1997. These consist not only of cash-flow investments but particularly of financial fixed assets in the form both of equity investment and of loans to associated enterprises. These loans between enterprises belonging to the same group have their counterpart, on the liabilities side, in « Other liabilities », which also increased more than in 1997.

The outstanding amount of credit granted by Belgian banks underwent hardly any change, having risen by only Fr. 15 billion during the first nine months of 1998. But this stagnation does not mean that Belgian credit institutions wished, in reaction to the crisis in the emerging economies, to cut down their lending to enterprises, as appears to have been the case in the United States. Such a contraction of the market ought in fact to have been reflected in a widening of the differential between the rates for lending to enterprises and the rates in force for public debt securities. However, such a development was not observed for either short-term or long-term transactions.

The smallness of the rise in bank lending is partly due to greater recourse to

CHART 43 — INTEREST RATES ON PUBLIC DEBT SECURITIES AND ON COMPANY LOANS

(Monthly averages)



Sources : Securities Regulation Fund, NBB.

[1] Difference between the rate for company loans and the rate on public debt securities.

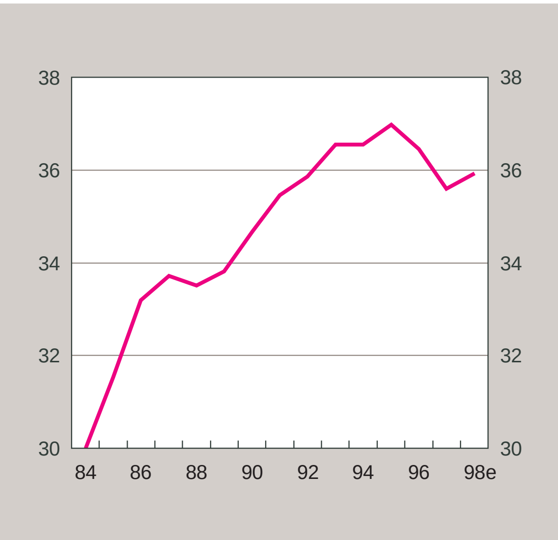
equity capital, as the rise in stock market prices made this financing source cheaper. Enterprises thus made share issues totalling Fr. 236 billion during the first nine months of 1998, against Fr. 197 billion in 1997.

These capital increases, coming on top of the resources obtained by the placing of profits to reserve, helped to increase the relative size of enterprises' own funds. The solvency of companies therefore increased again, as had already been the case almost uninterruptedly between 1984 and 1995. Capital and reserves thus represented 36 p.c. of the balance sheet total in 1998, whereas this proportion had been only 30 p.c. in 1984.

In order to encourage the financing of enterprises with their own funds, it is important to have rules for safeguarding the interests of shareholders. Following initiatives taken in several other European countries, three bodies in Belgium have recently formulated a set of recommendations concerning corporate governance.

CHART 44 — SOLVENCY RATIO OF NON-FINANCIAL COMPANIES [1]

(Percentages)



Source : NBB.

[1] Capital and reserves as a percentage of the balance sheet total.

While they have the common purpose of ensuring a better distribution of responsibilities within companies and improving the organisation of relations between shareholders, directors and the managing board, these recommendations relate to specific fields or are aimed at different groups of companies. Thus the code of the Fédération des entreprises de Belgique applies to all companies, while the recommendations of the Belgian Commission for Corporate Governance, set up by the Brussels Stock Exchange, applies only to listed companies. The Banking and Finance Commission deals more specifically with requirements concerning the disclosure of information.

Measures have also been taken to facilitate transfers of ownership of small and medium-sized enterprises. To this end, the law of 15 July 1998 concerning the certification of securities issued by trading companies permits a corporate body to issue certificates in exchange for securities of a company which it owns. This technique makes it possible to separate the economic ownership of an enterprise from the exercise of decision-making power within it. The issuer of the certificate in fact exercises the voting right appertaining to the enterprise's shares, but pays the dividends in full to the holders of the certificates.

General government

The development of the financial deficit of general government bears witness to the extent of the rehabilitation effort made in recent years. Whereas this deficit was still Fr. 555 billion, or 7.5 p.c. of GDP, in 1993, it amounted to Fr. 139 billion in 1997. In the year under review this favourable trend continued during the first nine months, the period in which the Treasury's requirements are usually greatest. From January to September 1998 the financial deficit of general government amounted to only Fr. 194 billion, against Fr. 288 billion in 1997.

TABLE 30 — FORMATION OF FINANCIAL ASSETS BY AND NEW FINANCIAL LIABILITIES OF GENERAL GOVERNMENT

(Billions of francs)

						First nine months	
	1993	1994	1995	1996	1997	1997	1998
Formation of financial assets [1]	120	−80	−79	−151	−11	−32	−42
New financial liabilities	675	314	241	124	128	255	153
By maturity							
At up to one year	221	265	−682	−23	−5	300	46
At over one year	454	49	923	147	132	−45	107
By currency							
In francs	226	466	503	458	129	256	148
In foreign currencies	449	−152	−262	−334	−1	−1	5
Financial balance [2]	−555	−394	−320	−275	−139	−288	−194

Source : NBB.
[1] Including lending and equity investment.
[2] See note 5 to Table 26.

During this period the deficit was almost exclusively financed in francs, only Fr. 5 billion having been covered by net issues in foreign currencies. The smallness of this amount is attributable to the maturing of long-term loans in German marks and to a reduction in the floating debt in marks and in guilders, as these redemptions almost entirely counterbalanced the amount of the allocations by tender of 1997-2008 linear bonds in French francs and in marks made by the Treasury in February, April and June. At the beginning of 1999 these bonds were combined with the linear bond line in francs with the same maturity date and nominal interest rate, as part of a more general operation aimed at denominating all linear bonds and Treasury certificates in euros.

The introduction of the euro had the effect of reducing the share of foreign currencies in general government's debt. A substantial reduction was also recorded at the end of December, when the government redeemed a large amount of securities in currencies of non-EMU countries. The Treasury used for this purpose the proceeds of the transfer by the Bank of Fr. 89 billion of capital gains made by the latter by means of arbitrage transactions of assets in gold against foreign currencies. Altogether, the share in the public debt of currencies other than the euro represented only 3.7 p.c. at the beginning of 1999.

The new liabilities contracted during the first three quarters were more in the form of long-term loans than of securities at up to one year, reflecting the desire of general government to lengthen the average duration of its liabilities. Furthermore, within the debt at over one year, a shift took place towards more distant maturities. Wishing to promote in Belgium a category of securities already used in other countries of the euro area, the Treasury issued a 30-year linear bond line. Altogether, 25 allocations were made from this line in 1998, bringing in Fr. 177 billion. These very-long-term loans led to a lengthening of the average maturity of the debt denominated in francs and in the other currencies of the euro area, from 3.44 years in December 1997 to 3.88 years in December 1998.

With the object of managing the structure of the debt by maturity and by currency, the Treasury fixes for itself a risk level, for which it then endeavours to minimise its financing costs. In order to optimise this management method, which makes use of a reference portfolio called the « benchmark debt portfolio », the Treasury established a Debt Agency, which has been operational since October.

6.3 FINANCIAL MARKETS

Credit institutions

During the last three years the structure by counterparty of the financial assets of Belgian credit institutions has been marked by a fairly pronounced decrease in the share of assets built up vis-à-vis general government. This fell from 28.3 p.c. at the end of September 1995 to 24.8 p.c. at the end of September 1998.

Despite this recent fall, claims on general government still amounted to 70 p.c. of GDP at the end of 1997, whereas this percentage represented, on average, only 27 p.c. of GDP in Germany, France and the Netherlands. This difference is attributable not only to the large outstanding amount of the public debt in Belgium but also to the important function of intermediation between individuals and general government which the Belgian banks traditionally perform through their issues of notes.

However, the reduction in the public deficit forces credit institutions gradually to change the structure of their assets. Hitherto, only a very small proportion of this shift has taken place towards individuals and companies, whose share in the banks' assets has risen by only 1 percentage point to 27.5 p.c.

Belgian individuals have a high structural financing capacity, so that their debt ratio remains low. Consequently, loans to households and self-employed persons, which correspond on average to 22 p.c. of banks' assets in Germany, France and the Netherlands, represent only 11 p.c. of the lending of Belgian banks. The same contrast is to be found in lending to companies. Whereas the latter mobilise, on average, nearly a quarter of the financial resources of foreign banks, this proportion is only around 15 p.c. in Belgium. Belgian enterprises traditionally prefer to self-finance their activities and investments. They have been able all the more to limit their recourse to bank credit in recent years because, taking advantage of favourable business conditions, they have succeeded in increasing their gross saving, which has enabled them to achieve a net financing surplus again.

Altogether, at the end of 1997, the outstanding liabilities of individuals and companies to banks were equivalent to GDP in the three main neighbouring countries, but represented only 77 p.c. of GDP in Belgium. This discrepancy largely offset the difference in the opposite direction recorded for loans to general government, so that the claims held by Belgian banks on the domestic sectors as a whole amounted to 181 p.c. of GDP, a percentage which approximately corresponds to the 171 p.c. observed on average in the three neighbouring countries.

Furthermore, the loans granted by credit institutions to the rest of the world amounted, at the end of 1997, to 112 p.c. in Belgium, against 49 p.c. in the three partner countries. This difference is attributable to the following two factors. On the one hand, the high degree of openness of the Belgian economy induces the banks to carry out many forward foreign exchange transactions with their customers, entailing the building up of substantial amounts of assets in foreign currencies. On the other hand, the presence in Belgium of a large number of subsidiaries and branches of foreign banks which maintain close links with their parent companies is reflected in

TABLE 31 — STRUCTURE BY COUNTERPARTY OF THE FINANCIAL ASSETS OF CREDIT INSTITUTIONS

(End-of-period data, on a territorial basis)

	Belgium		Comparison of the situation at the end of 1997 with that of the three main partners[1]			
	Percentages of total financial assets		Percentages of total financial assets		Percentages of GDP	
	September 1995	September 1998	Belgium	Three partners	Belgium	Three partners
Domestic sectors	65.2	62.6	61.9	77.2	181.1	170.7
Individuals[2]	10.8	12.1	11.2	22.4	32.8	48.8
Companies[3]	15.7	15.4	15.2	23.6	44.4	51.1
Credit institutions	10.4	10.3	11.5	19.1	33.8	44.1
General government	28.3	24.8	24.0	12.1	70.1	26.8
Rest of the world	34.8	37.4	38.1	22.8	111.5	48.8

Sources : Deutsche Bundesbank, Banque de France, De Nederlandsche Bank, NBB.
[1] Unweighted average of the data for Germany, France and the Netherlands.
[2] Including self-employed persons.
[3] Including non-bank financial service companies and institutional investors.

intense interbank activity with the rest of the world.

The proportion represented by the claims of Belgian banks on foreign countries has risen during the last few years from 34.8 to 37.4 p.c. of their total assets. While this increase is partly attributable to variations in exchange rates, especially the appreciation of the dollar vis-à-vis the Belgian franc, it also reflects the desire of some credit institutions to expand their international activity, especially with the emerging economies.

TABLE 32 — CLAIMS OF BELGIAN CREDIT INSTITUTIONS ON THE REST OF THE WORLD

(End-of-period data, on a territorial basis)

	Billions of francs			Percentages of the total		
	December 1995	June 1997	September 1998	December 1995	June 1997	September 1998
Western Europe	5,068	5,606	6,647	60.9	54.1	66.5
Asia	1,485	2,386	1,203	17.9	23.0	12.0
North America	666	843	881	8.0	8.1	8.8
Latin America	228	397	521	2.7	3.8	5.2
Africa	58	52	48	0.7	0.5	0.5
Oceania	27	26	38	0.3	0.3	0.4
Eastern Europe and former Soviet Union	22	34	37	0.3	0.3	0.4
Other[1]	763	1,024	613	9.2	9.9	6.1
Total	8,318	10,368	9,989	100.0	100.0	100.0

Source : NBB.
[1] International institutions and unidentified counterparties.

As at 30 September 1998 the claims of credit institutions on the rest of the world were valued at Fr. 9,989 billion. Of these claims, 66.5 p.c. were held on Western Europe, which was thus by far the Belgian banking sector's most important foreign market, far ahead of Asia or North America, which accounted for 12 and 8.8 p.c. of claims on foreign countries respectively. The share of those on Latin America was even smaller — about 5 p.c. — while claims on Africa, Oceania and Eastern Europe, at less than 1 p.c. of the total, were marginal. The concentration of banking activities on Europe broadly corresponds to the geographical structure of Belgium's trade relations, as that area is the primary target for the development of the activities of many credit institutions.

Several Belgian banks have however tried to exploit new, more dynamic markets, mainly in Asia. The share of claims on this region thus rose from 17.9 p.c. at the end of 1995 to 23 p.c. in 1997, representing an outstanding amount of Fr. 2,386 billion. The financial crisis which then developed in several Asian countries reversed this movement. As most credits had been granted within the framework of short-term interbank transactions, their non-renewal enabled the banks to reduce their positions very quickly. At the end of September 1998, claims on Asia were down to 12 p.c. of claims on foreign countries, representing an outstanding amount of Fr. 1,203 billion. This fall was accompanied by a rearrangement of the international activity of credit institutions. Thus, claims on Western Europe, whose share had decreased to only 54.1 p.c. of foreign assets in June 1997, rose substantially during the last months.

While recent developments in Asia, Eastern Europe or Latin America have caused the development of bank lending to the emerging countries to be more closely watched, the risks for Belgian credit institutions must be placed in a wider perspective. On the one hand, these claims now represent, as stated above, only a fraction of assets vis-à-vis the rest of the world, the latter being mainly held in the form of interbank loans granted to credit institutions in Western Europe and the United States. On the other hand, financing granted to the domestic sectors is characterised by a lower overall risk level than in the other countries, owing to the large proportion of claims on general government.

The Belgian banks therefore have a fairly sound asset structure. However, their profitability is relatively low, the return on assets having averaged only 0.28 p.c. between 1994 and 1997. Nevertheless, the large proportion of claims on general government and interbank claims on the assets side has enabled Belgian banks to observe the solvency ratios imposed by the European directives with rather small equity capital. Such a structure offers the advantage of compensating for the low profitability of assets, as credit institutions governed by Belgian law obtained, on average during the same period, a return on equity of 9.57 p.c. It can however also constitute a handicap to the pursuit of a policy of diversification towards more profitable activities, as these require more equity.

The profitability of credit institutions, which had already improved in 1996 and 1997, rose further. The improvement was proportionally greater for the return on assets, which went up from 0.30 p.c. in 1997 to 0.35 p.c. during the first three quarters of 1998, than for the return on equity, which rose over this period from 10.87 to 11.45 p.c. The ratio between total assets and equity capital in fact declined from 35.9 to 32.7 as a result of a decrease in interbank assets. This reduction was attributable on the Belgian market to the mergers and acquisitions undertaken by several large credit institutions during the year and on the international markets to the aforementioned sharp reduction in the positions previously built up on Asian banks.

TABLE 33 — PROFITABILITY OF CREDIT INSTITUTIONS GOVERNED BY BELGIAN LAW

(Data on a company basis)

	1994	1995	1996	1997	First nine months of 1998	Average 1994-1997
Return on assets [1]	0.26	0.24	0.29	0.30	0.35	0.28
Financial leverage [2]	33.3	34.3	35.3	35.9	32.7	34.6
Return on equity [1]	8.68	8.37	10.38	10.87	11.45	9.57
p.m.						
Return on equity of small institutions [1 3]	4.36	2.00	5.40	4.33	n.	4.02

Source : NBB.
[1] Percentage yield after tax.
[2] Ratio between total assets and equity capital.
[3] Credit institutions with a balance sheet total of less than Fr. 30 billion.

The overall improvement in the profitability of the banks is attributable to the strong growth in the commissions charged on sales of units of collective investment undertakings and on transactions in securities carried out on behalf of customers, and also to the capital gains which banks have continued to make on their security portfolios owing to the continuance of the downward movement of long-term rates. It is however far from certain that this combination of favourable factors can last. The level of interest rates is at present historically low, so that the possibilities of generating further capital gains are becoming exhausted, while the margin offered by the collection of non-interest bearing sight deposits is dwindling. Furthermore, the additional profits which the banks make on their activity of maturity transformation during a period of general decline in interest rates are shrinking in line with the renewal, at lower rates, of the portfolio of long-term assets. A reversal on the stock market might, furthermore, affect transactions in securities and the marketing of the units of UCIs specialising in shares.

Moreover, while the profitability of the equity capital of Belgian credit institutions has, generally speaking, improved greatly in recent years, it must also be stated that developments have differed considerably from one group of institutions to another. Small banks, in particular, have on average achieved a much lower degree of profitability than the big financial intermediaries. These small institutions, which often specialise in relatively traditional activities, are thus having to contend with difficult conditions for making the adjustments necessitated by disintermediation, the internationalisation of financial flows, technological developments and the introduction of the euro. Several of them have also been taken over, as is evidenced by the fall in the number of banks with a Belgian majority interest, which dropped from 79 in 1992 to 56 in September 1998. During the same period, the number of subsidiaries and branches of foreign banks established in Belgium fell from 78 to 71.

These regroupings, which, until 1996, had involved only small and medium-sized institutions, have since then changed scale. In two years the shareholdership structure of the eleven biggest banks governed by Belgian law has been radically altered. The CGER, the SNCI and Générale de Banque have been regrouped under the aegis of Fortis. The Crédit Communal de Belgique has merged with Crédit Local de France to form the Dexia group. BBL has been taken over by the Dutch bank ING. The banking groups Cera and KB, and also ABB Insurance, have merged to form the KBC group. The Bacob bank has taken over the activities of the banks Paribas Belgium and Paribas Netherlands to form the Artesia group. The Belgian subsidiary of Crédit Lyonnais has been taken over by Deutsche Bank. Lastly, the Anhyp bank has been taken over by the insurance group Axa-Royale belge, which already controlled the Ippa bank.

As these operations are so recent, it is not yet possible to assess their results. A priori, the increase in scale should offer the possibility of achieving a more far-reaching division of labour and of spreading the depreciation of the investments necessary for incorporating the new technologies over a larger number of transactions. Furthermore, offering a wider range of services makes it possible to benefit from the potential synergies and generate customer loyalty. The regroupings might also facilitate the diversification of the activities of the big Belgian banks, through the resultant widening of the capital base.

In order to obtain a general measure of the development of concentration in the Belgian banking sector it is obviously necessary to consider all banks so as to take account of the trend reduction in the number of institutions. The Herfindahl index meets this requirement. In the United States, for instance, the Department of Justice refers to this index in particular in order to assess the degree of competition. Thus, a sector is regarded as being slightly, moderately or strongly concentrated depending on whether the Herfindahl index is below 1,000, between 1,000 and 1,800 or above the last-mentioned threshold.

Despite the many recent regroupings, the last-mentioned level has not been reached in the Belgian banking sector, this being indicative of the presence of a still large number of small or medium-sized institutions. Furthermore, unlike on the American market, the Belgian banking market can hardly be regarded as a relevant reference basis for assessing the degree of concentration. Most regrouping operations carried out in Belgium have been undertaken in order to integrate better in a much wider market, unified by the introduction of the single currency in eleven European countries. Measured at this level, the market share of the largest Belgian credit institutions is still limited.

TABLE 34 — CONCENTRATION OF THE BELGIAN BANKING SECTOR

	Herfindahl index [1]	
	December 1992	September 1998
Balance sheet total	578	1,235
Claims on customers	791	1,597
Deposits of customers	835	1,369

Source : NBB.

[1] The Herfindahl index corresponds to the sum of the squares of the market shares, expressed as percentages, of each credit institution. The index can thus theoretically vary between 0 and 10,000. This upper limit is reached in a monopoly situation. For a duopoly, whose members are of equal size, the Herfindahl index number is 5,000.

Institutional investors

The position of institutional investors has continued to strengthen on the Belgian financial market. At the end of September 1998 insurance companies, pension funds and collective investment undertakings operating in Belgium were managing 16.9 p.c. of the financial assets formed by residents, against 15.3 p.c. nine months earlier. At the end of 1980 and 1990 this percentage was, respectively, only 6 and 9.8 p.c.

This growth is admittedly partly due to the rapid rise in both share and bond prices, leading to an increase in the market value of the securities held by institutional investors. This upward influence, which has also made itself felt in the securities portfolios held directly by resi-

TABLE 35 — INVESTMENT CHANNELS OF THE DOMESTIC SECTORS

(Outstanding end-of-period amounts, percentages of total financial assets)

	1980	1990	1997	September 1998
Institutional investors	6.0	9.8	15.3	16.9
Collective investment undertakings	0.3	3.7	7.3	8.7
Insurance companies : life branches	3.3	3.9	5.4	5.7
Insurance companies : other branches	1.7	1.5	1.3	1.3
Pension funds	0.7	0.7	1.2	1.2
Other investment channels	94.0	90.2	84.7	83.1
Belgian credit institutions	52.9	39.1	34.4	32.8
Direct holding of securities	28.6	38.5	38.9	38.9
Other [1]	12.5	12.6	11.5	11.4

Source : NBB.

[1] Assets held with foreign credit institutions, and also direct financing transactions which it has been possible to record between the domestic sectors or with the rest of the world in forms other than securities.

dents, has not operated for the assets formed with credit institutions, whose market share has shrunk greatly, from 52.9 p.c. in 1980 to 32.8 p.c. in September 1998.

A decline of this size is not however attributable to a mere price effect. It mainly reflects a change in investment habits and, in particular, a desire to diversify assets which were previously concentrated in the form of deposits or of notes issued by credit institutions. This development has chiefly favoured UCIs. Still marginal at the beginning of the 1980s, these bodies now hold more assets than insurance companies and pension funds combined.

The relative fall in assets collected by the banks by no means signifies that the actual role of these institutions in asset management has decreased to the same extent. The Belgian banks are in fact closely involved in the creation, promotion and management of UCIs marketed in Belgium. They are therefore able, in this way, to benefit from the process of concentration of savings with institutional investors by increasing activities which generate commission.

UCIs have made it all the more possible to meet the diversified requirements of investors because the successive adjustments of the financial regulatory framework have gradually enabled them to offer a very varied product range.

Some of these new categories of UCIs have already existed for some years. Thus, index UCIs providing capital protection, the yield of which is usually linked to the movement of stock exchange indices, were introduced as far back as 1993. This type of investment has, as mentioned in section 6.2, proved very successful in recent years.

The formation of investment companies with fixed capital dealing in real estate has been permitted under Belgian law since 1995. These so-called SICAFIs, which enjoy a special tax regime, expanded greatly in 1998, five new companies having been added to the three already in existence. SICAFIs operate chiefly in the financing of office-building, old people's homes, shopping centres and semi-industrial buildings.

The year 1996 saw the creation of the first companies specialising in the securitisation of bank loans. At the end of 1998 six such companies, chiefly aiming at a clientele of institutional investors and financial companies, were listed on the Brussels Stock Exchange. On that date they had gathered, via eleven programmes, over Fr. 100 billion devoted to the securitisation of mortgage loans and of lendings for the financing of social housing or purchases of motor vehicles.

So-called RDT SICAVs, introduced in 1997, have helped to stimulate the attractiveness of the UCIs market to customers. On the basis of the tax measures provided for in a royal decree of 20 December 1996, these bodies in fact make it possible for enterprises to take advantage, on their investments in UCIs which invest exclusively in shares, of the status of finally taxed incomes which was previously confined to direct equity investments. At the end of 1998, about twenty UCIs were offering such a formula.

Lastly, the first « pricaf », specialising in investment in unlisted companies and growth companies, was set up during the year under review under the provisions of a royal decree of 18 April 1997.

The development of these new types of UCIs and, more generally, the success encountered by UCIs specialising in shares have led to far-reaching changes in the structure of the market.

Thus, the share of undertakings investing in variable-income assets rose from 24 p.c. at the end of 1993 to 57 p.c. at the end of September 1998. On that date, index UCIs alone, which were virtually non-existent at the end of 1993, were managing over 18 p.c. of total assets.

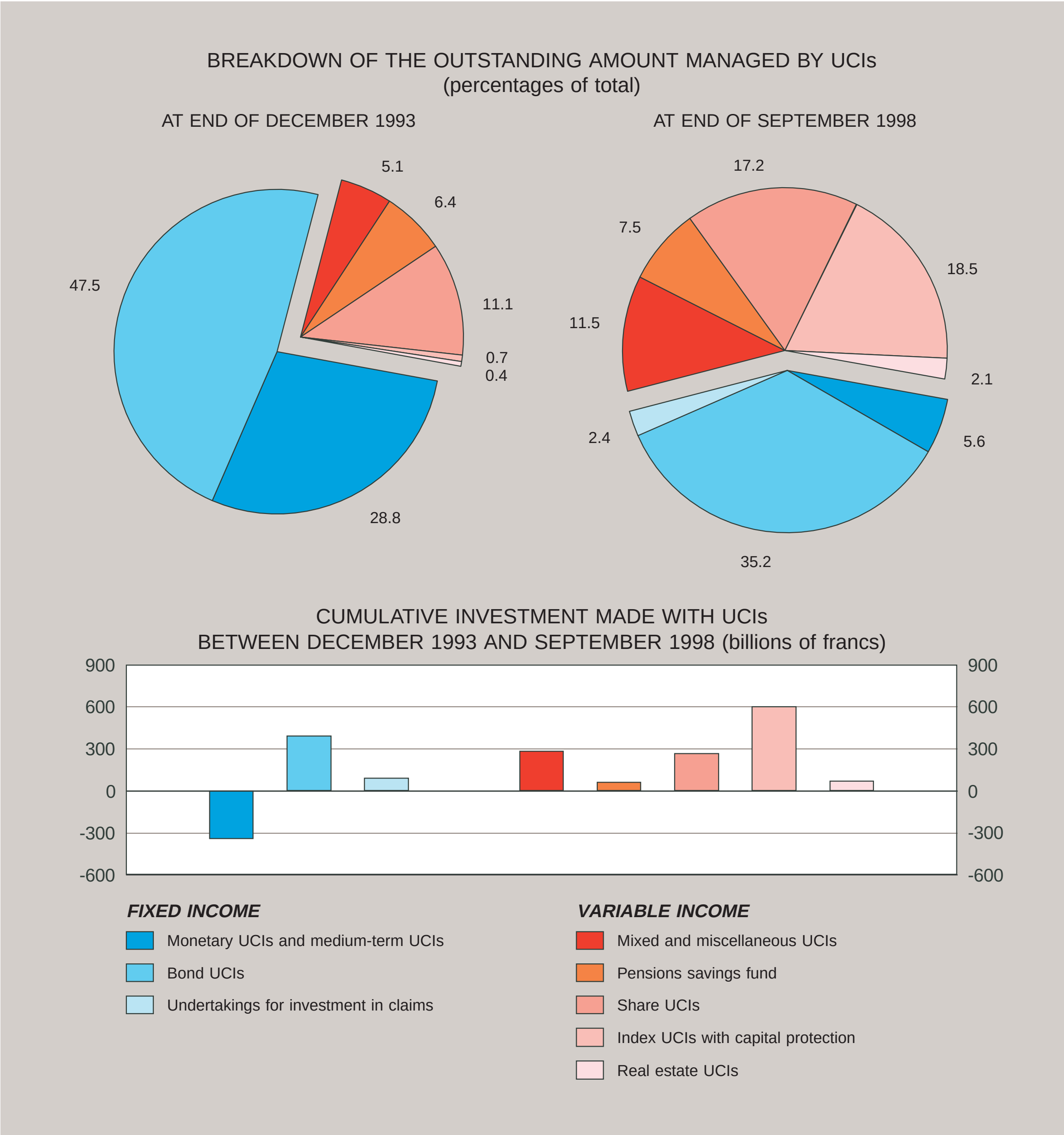
While this growth partly reflects the mechanical effect of the rise in prices, which, as mentioned above, has the effect of swelling the value of the stock of shares held by UCIs, it is chiefly due to shifts in investment flows. Between December 1993 and September 1998 the cumulative investments made with UCIs in the form either of net purchases or of the capitalisation of interest or dividend incomes represented a total of Fr. 1,424 billion. This amount was almost entirely devoted to variable-income assets, only Fr. 139 billion, in net terms, having been allocated to UCIs investing in fixed-income assets. During this period, acquisitions of units of undertakings investing in bonds or in securitised loans, amounting to Fr. 485 billion, were in fact largely counterbalanced by the reduction, by a net amount of Fr. 346 billion, in investments with monetary UCIs.

The possibilities offered by UCIs are also taken advantage of by other categories of institutional investors. Thus, pension funds have substantial recourse to this type of investment, which enables them, provided they opt for the capitalisation formula, to enjoy exemption from the withholding tax on income from movable assets. More than a third of the total assets of pension funds are at present invested with UCIs.

Insurance companies offer variable-capital contracts which are similar in many ways to the units of UCIs marketed by the banks. These are so-called « branch 23 » contracts, the premiums on which are paid to internal funds akin to investment undertakings. Unlike traditional insurance contracts, this formula does not guarantee a predetermined result level but offers a yield which depends directly on that of the assets acquired by the fund.

Life insurances linked to internal investment funds have been permitted on the Belgian market since 1993. Their success remained limited, however, between 1994 and 1996. During that period insurance companies concentrated more on developing the marketing, via, in particular, Luxembourg subsidiaries, of insurance notes akin to the medium-term notes offered by credit institutions. During the last two years, however, the fall in long-term interest rates has greatly reduced the attractiveness of these insurance notes and

CHART 45 — MARKET SHARES OF THE VARIOUS UCIs SEGMENTS



Sources : Banking and Finance Commission, Belgian Association of Collective Investment Undertakings, NBB.

thus boosted the development of contracts linked with investment funds. At the end of September 1998 these new products represented about 8 p.c. of the total of the technical reserves of life branches. This growth might foreshadow a shift, already taking place markedly in several Anglo-Saxon countries, from life insurance policies with result commitment to policies with resources commitment.

Security market

Issues of securities in francs by general government and companies amounted in the first nine months of 1998 to Fr. 554 billion, against Fr. 538 billion in 1997. This increase is solely due to enterprises, as recourse by general government to the market fell, over the first nine

TABLE 36 — NET ISSUES OF SECURITIES IN FRANCS BY COMPANIES AND GENERAL GOVERNMENT

(Billions of francs)

	1994	1995	1996	1997	First nine months 1997	First nine months 1998 e
General government [1]	328	584	469	235	320	219
Treasury certificates	431	−354	175	41	267	53
Bonds	−103	938	293	195	53	166
Companies	246	312	362	286	218	335
Fixed-interest securities	−23	55	88	12	20	43
Listed shares [2 3]	45	10	100	95	74	80
Unlisted shares [2]	224	246	173	178	125	212
Total	574	896	830	521	538	554

Sources : Banking and Finance Commission, NBB.

[1] Including Treasury bills and also the commercial paper issued by the communities and regions and the social security system.

[2] Including shares issued by credit institutions.

[3] Including the exercise of warrants and issues of real estate certificates.

months of the year, from Fr. 320 billion to Fr. 219 billion.

The seasonal profile of the Treasury's financing requirements, which was marked by the fairly high level of issues during the first three quarters compared with those for the year 1997 as a whole, induced the government to introduce a new category of securities, Treasury bills in francs. These securities, which have been issued in euros since January 1999, represent an extension of foreign currency Treasury bills, which have already existed for many years. They take the form of Treasury bills representing government loans with a period to maturity of up to one year. By helping to smooth out the short-term fluctuations in financing requirements, these securities make it easier to regularise the amounts of the allocations of Treasury certificates by tender and thus to increase their standardisation and transparency. In order to stimulate interest in Belgian public debt securities in the enlarged euro market, the Treasury also accredited seven new primary dealers in Belgian public securities. At the end of 1998, eighteen institutions, the majority of which were foreign, had this status.

The Treasury furthermore reduced the number of existing linear bond lines and limited the interest payment dates to two maturities, 28 March and 28 September. It also increased the attractiveness of the procedures for exchanging old linear bonds for new ones by offering a wider choice of lines upon each exchange.

In order to strengthen the liquidity of the whole market for both private and public security issues, measures of a more technical nature were also introduced by the law of 15 July 1998 amending various legal provisions concerning financial instruments and securities clearing systems.

This law regulates, in particular, the coexistence of two major securities clearing systems on the Belgian security market. The Bank's system will be made responsible for holding public debt certificates, while the Securities Deposit and Clearing Office will deal with private-sector issues. To this end, the law henceforth provides the possibility of giving that Office the authorisation, hitherto exclusively given to the Bank, to apply a system distinguishing between the so-called

X accounts assigned to investors exempt from the withholding tax on income from financial assets and the so-called N accounts intended for other investors.

There are also plans for merging the Securities Deposit and Clearing Office with the Brussels Stock Exchange and the Belfox derivatives market to form a new integrated stock exchange. The preliminary draft law governing this merger, which was adopted in the Council of Ministers at the end of December, provides for the setting up, in the longer term, of a common settlement and clearing system for all private-sector securities. For this purpose, the tax treatment of securities lending transactions will be simplified. The new integrated market will also have an independent market authority and a disciplinary committee.

The aim of this project is to strengthen the competitive position of the Brussels financial centre in view of the prospect of the departitioning of the financial markets and the closer international relations between stock exchange centres which are at present being negotiated. Thus the Brussels, Amsterdam and Luxembourg stock exchanges announced, at the end of November, a regrouping agreement providing, in particular, for the establishment of a common transaction system. Since the beginning of 1999 each of the members of one of the three stock exchanges has in fact already been able to intervene in the other two centres without an intermediary and without additional charges.

The growing role played by the security market in the financing of companies was confirmed in 1998. During the first nine months of the year, Belgian enterprises thus made issues totalling Fr. 335 billion, against only Fr. 218 billion in 1997.

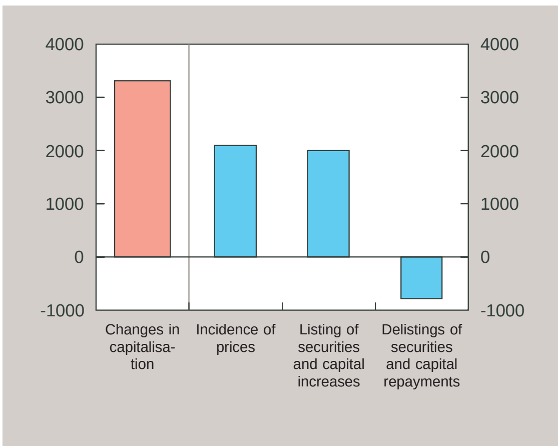
Recourse by enterprises to the market in fixed-income securities increased compared to the previous year. As in 1997 it consisted of issues of commercial paper at up to one year. Companies also greatly stepped up their capital increases, which enabled them to raise Fr. 292 billion during the first nine months of 1998 against Fr. 199 billion in 1997. This strong growth is due solely to issues of unlisted shares, because the funds raised on the stock exchange rose only slightly, from Fr. 74 billion during the first three quarters of 1997 to Fr. 80 billion in 1998.

The last-mentioned amount relates, however, only to new cash issues. It does not give any idea of the very large number of transactions in the form of exchanges of shares carried out in connection with takeovers or acquisitions of controlling interests in companies. These transactions, which were mainly concentrated in the financial sector, radically changed the list of enterprises listed on the Brussels Stock Exchange. While some securities were struck off, others were introduced, in some cases as a result of the regrouping of companies some of which were previously unlisted.

While capitalisation on the Brussels Stock Exchange increased by Fr. 3,305 bil-

CHART 46 — DETERMINANCE OF THE CHANGE IN THE STOCK EXCHANGE CAPITALISATION OF BELGIAN COMPANIES IN 1998

(Billions of francs)



Source : Brussels Stock Exchange.

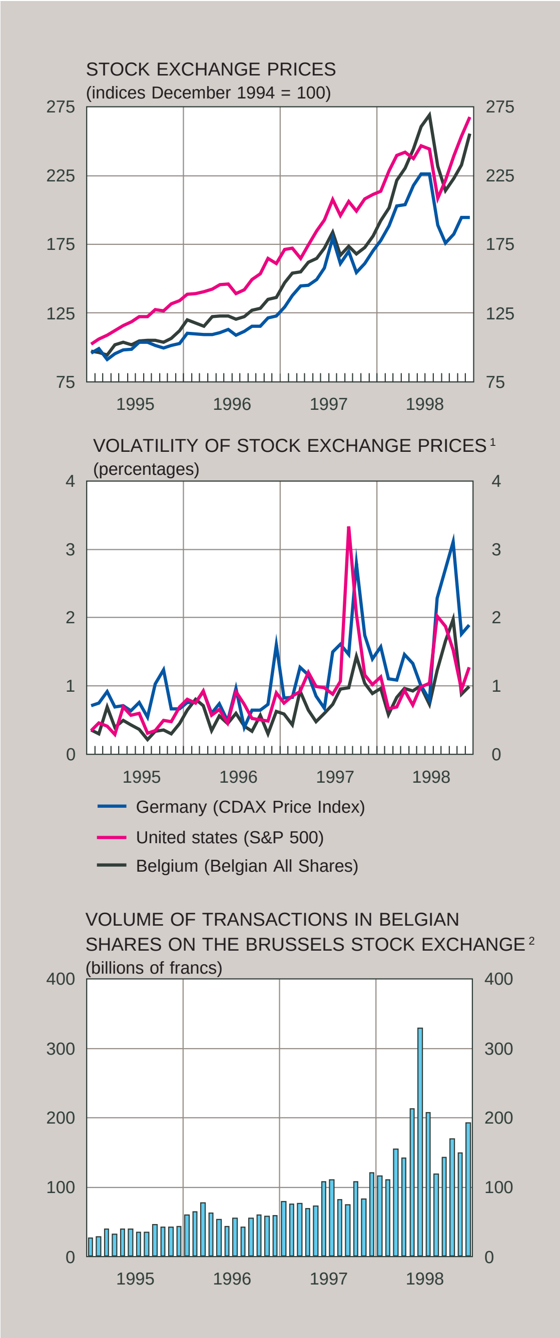
lion in 1998, from Fr. 5,102 billion to Fr. 8,408 billion, only Fr. 2,097 billion of this increase is attributable to price changes. The listing of nineteen new companies, together with the capital increases, led to a growth in capitalisation of Fr. 2,006 billion, which was partly offset, to the extent of Fr. 798 billion, by repayments and by the striking-off of fifteen securities. The last-mentioned figure does not yet, however, include a series of withdrawals which should take place at the beginning of 1999, following the takeover of some large companies listed on the Brussels Stock Exchange.

At the same time the success, with Belgian companies, of markets specialising in enterprises of smaller size but with great growth potential continued to strengthen. Thus, issues made by these companies on EASDAQ and Euro NM exceeded Fr. 5 billion in 1998, bringing the capital which they have raised on these two markets since their creation up to more than Fr. 18 billion. This amount furthermore hardly reflects the actual importance of the enterprises in question, as their owners generally introduced on the stock exchange only a fraction of their capital, averaging 25 p.c. The overall stock exchange capitalisation, on the listing date, of the various Belgian shares listed on EASDAQ and Euro NM thus represented Fr. 72 billion. The rise in stock market prices obviously had the effect of inflating these outstanding amounts, which reached nearly Fr. 150 billion at the end of the year.

Share prices also increased substantially over the year 1998 as a whole on the main market of the Brussels Stock Exchange, despite a slight dip during the third quarter. The general index, which had already risen by 32.9 p.c. in 1997, went up by a further 53.5 p.c. between 1 January and 20 July 1998. It fell back by 29.4 p.c. during the subsequent eleven weeks, and then recovered from 6 October onwards. At the end of December it was practically back to its July level.

Such fluctuations are attributable less to factors specific to Belgium than to developments which are common to all the international markets. This assertion seems to be corroborated by the fairly close correlation existing between the indices of

CHART 47 — STOCK MARKETS



Sources : National stock markets, NBB.
[1] Monthly standard deviations of the change in prices.
[2] Monthly total, spot market and forward market.

the Belgian, German and American stock markets, and also by the concomitant increase in volatility on these three markets.

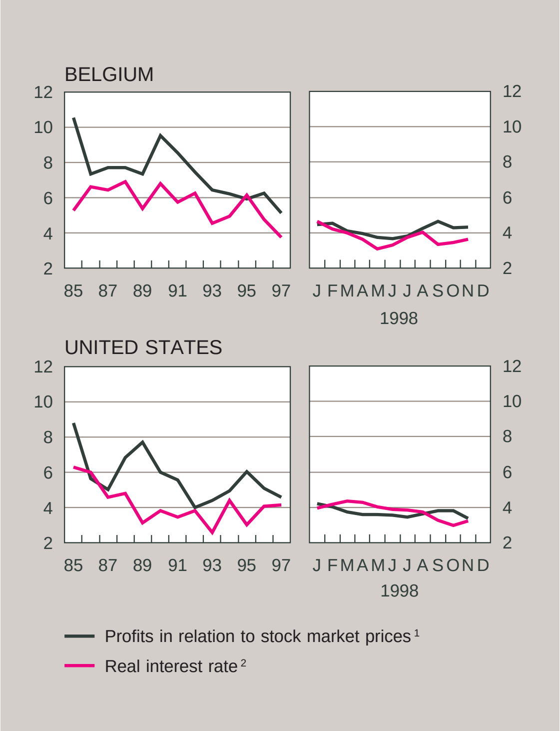
Thus, the upward movement at the beginning of the year may have been stimulated by the initial developments of the financial crisis in the emerging countries. This induced investors to repatriate their capital to the European and American markets, bringing about a reduction in long-term interest rates which favoured stock markets. However, from the summer onwards, the continuation of the economic slowdown in the Asian countries led to fears of a contagion effect and a worsening of the profit prospects of western companies. Furthermore, the deterioration of Russia's economic situation, the continuing vulnerability of the Japanese financial system and the difficulties experienced by certain American hedge funds revived the fears of a systemic crisis. This led to an appreciable fall in the prices of shares of banks, but also of all other companies. This reversal was accentuated by the first signs of a cyclical downturn, and by the interruption of the fall in long-term interest rates, since, in an environment which had become very uncertain, investors temporarily abandoned bonds in favour of very-short-term investments. The interest rate reductions decided upon by the American Federal Reserve in September and October subsequently made it possible to reverse this downward movement. The new rise was fairly strong, with the result that at the end of the year prices were again approaching to the maximum levels reached in July and even exceeding them on some markets.

These various developments were coupled with a resurgence of activity on the secondary market. This was reflected in an increase in the volume of transactions in Belgian francs on the Brussels Stock Exchange, which reached an average of Fr. 171 billion in 1998, or nearly twice the 1997 figure and three times that for 1996. It also heightened the attractiveness of warrants on Belgian, foreign or international shares and stock market indices. Transactions in warrants listed on the Brussels Stock Exchange thus amounted to Fr. 68 billion in 1998, against Fr. 40 billion the previous year. Most of these warrants are not linked to potential share issues, being so-called covered warrants issued by financial institutions and akin to derivatives. These warrants were bought not only by companies and institutional investors but also by individuals.

The number of contracts in derivatives relating to shares and stock market indices traded by Belfox also increased. This rise was however accompanied by a fairly

CHART 48 — RATIO OF PROFITS TO STOCK MARKET PRICES AND REAL INTEREST RATES IN BELGIUM AND THE UNITED STATES

(Percentages)



Sources : National stock markets, KBC, NBB.

1 The ratio of profits to stock market prices corresponds to the converse of the price earnings ratio. The annual data are recorded at the end of June, because nearly all the profit and loss accounts for the previous accounting year are available by then.

2 Real interest rates calculated by subtracting the inflation rate for the last twelve months from the nominal rates. The nominal rates are yield rates on the secondary market for bonds issued by general government. For Belgium these are bonds with a residual period to maturity of over five years. For the United States they are seven-year Treasury bonds.

sharp contraction in activity in products relating to interest rates and exchange rates on the eve of the introduction of the euro.

The substantial rises recorded on the stock markets have caused the ratios between profits and share prices to return to historically very low levels not only in absolute terms but also compared to the real yield of riskless investments, measured in the conventional way by correcting the rates on long-term government loans by the change in the consumer price index during the last twelve months. The risk premium calculated, using the dividend discount mode, on the basis of the level of the prices reached in Belgium at the end of November, did in fact become very low compared to the levels observed in the past. On the assumption of a real growth rate in dividends identical to the real long-term interest rate, the premium comes to only 1.8 p.c.

The movements of the real interest rate and the ratio of profits to stock market prices are not, however, parallel, because the divergence between these two variables may decrease if the market anticipates either a quickening of the growth rate of profits or a continuance of the fall in the real rates serving as the basis for updating future profits. The disappearance of the differential during a large part of 1998 suggests that these anticipations remain strong. This will continue to be the case, however, only if they are confirmed by events. This explains why operators have become particularly sensitive to, on the one hand, changes in monetary policies and their repercussions on the bond market and, on the other hand, the development of profit prospects.

7. MONETARY AND EXCHANGE RATE POLICY

7.1 MONETARY POLICY IN 1998

Main monetary and financial developments

The year 1998 was a transition period for monetary policy, its most outstanding event having been the decisions of the European Council of 2 May, which fixed the composition of the euro area and announced the bilateral conversion rates between the participating currencies.

These decisions enabled financial operators to be sure of two things : on the eve of 1999 the short-term interest rate differentials between the currencies of the euro area would disappear, along with the differentials between the exchange rates and the bilateral central rates chosen as conversion rates. Convergence therefore became inevitable. Furthermore, the announcement of the bilateral conversion rates locked the exchange rates for forward transactions with 31 December 1998 as the value date to the level of the central rates, thus reversing the usual sequence of cause and effect : previously, the interest rate differentials between the currencies of the European exchange rate mechanism could usually be explained by the way in which the central banks reacted to pressures on the foreign exchange market, with a depreciation giving rise to a raising of interest rates ; from 2 May 1998 onwards, the spot exchange rate differentials in relation to the central rates were very largely determined by the interest rate differentials for deposits maturing at the end of the year, differentials which themselves mainly depended on expectations concerning the rate of convergence of the official rates.

The decisions of the European Council did not, however, appreciably change the exchange rate or short-term interest rate differentials for the Belgian franc vis-à-vis the German mark, as these had already been minimal for several years.

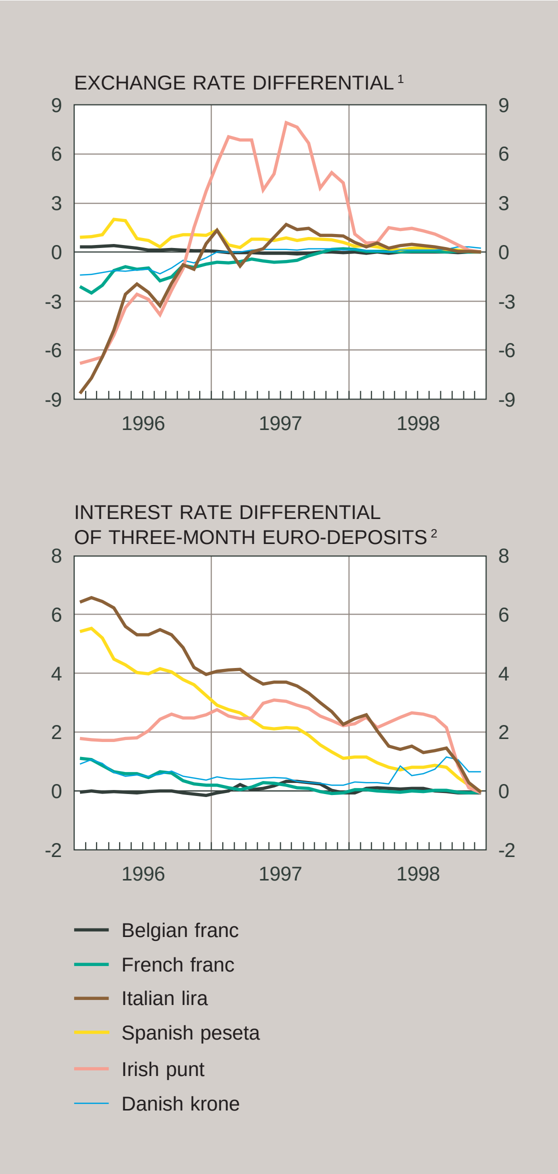
On the other hand, other currencies which were destined to merge in the euro — the Italian lira and the Irish punt, as well as the Spanish peseta and the Portuguese escudo — had, at the end of 1997, shown three-month interest rate differentials of 100 to 250 basis points vis-à-vis the German mark. Indeed, in order to enhance the credibility of their policies aimed at combating inflation, the central banks of Italy, Spain and Portugal had reduced the interest rate differentials with Germany only very gradually after the tensions of 1995, while the central bank of Ireland, in view of the rapid economic growth there, had actually raised its interest rates slightly further in 1997. On the foreign exchange market these currencies had begun to show a premium in relation to the central rates in German marks, in most cases at the end of 1996.

During the first four months of 1998, i.e. before the European summit, the exchange rate and interest rate differentials vis-à-vis the German mark narrowed, except for the interest rate differential for the Irish punt. Financial operators anticipated the decisions of the European Council, as is also indicated by the virtual disappearance, from March onwards, of the differentials for three-month futures for the end of 1998.

During the first months following these decisions, market operators realised that the convergence of the official interest rates might be less rapid than they had previously expected, and therefore the short-term differentials stopped diminishing. Not until the autumn were the remaining differentials for the Irish punt, the Italian lira, the Portuguese escudo and the Spanish peseta gradually eliminated. As a

CHART 49 — EXCHANGE RATE AND SHORT-TERM INTEREST RATE DIFFERENTIALS VIS-A-VIS THE GERMAN MARK

(Monthly averages)



Source : NBB.

[1] Percentages of the central rate vis-à-vis the German mark.

[2] Vis-à-vis the rate for three-month Euro-deposits in German marks.

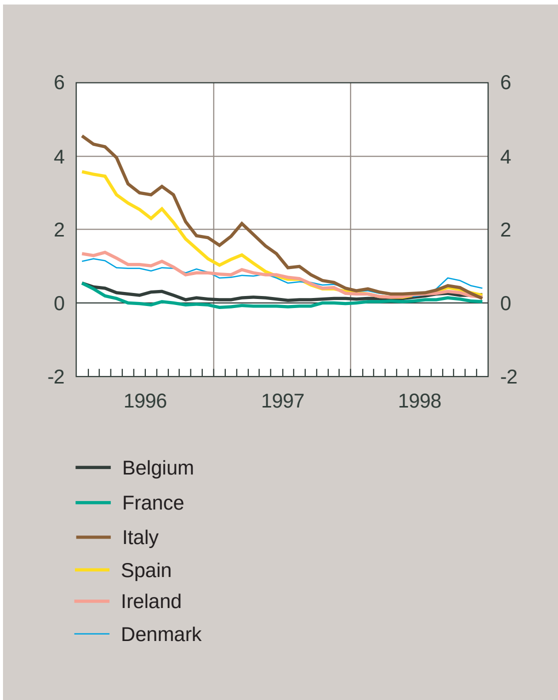
result of the reductions in the official rates in these countries, they had almost completely disappeared by the end of November. That was also the case, therefore, for the exchange rate differentials.

This convergence within the euro area contrasts with the widening of the short-term interest rate differential between Denmark and Germany, even though the exchange rate for the Danish krone remained very close to its central rate vis-à-vis the German mark from the end of 1996 onwards. The Danish central bank had to raise interest rates in May and September 1998 in order to combat tensions on the foreign exchange market.

The convergence of short-term interest rates in the euro area took place downwards. Furthermore, on 3 December 1998 the central banks decided on a coordinated lowering of their guideline rates to 3 p.c., except for the Banca d'Italia, which only lowered its discount rate to 3.5 p.c., before bringing it down to 3 p.c. on 23 December. The coordinated decision was taken in the context of satisfactory prospects regarding price stability, lower growth forecasts for the euro area and an international environment

CHART 50 — TEN-YEAR INTEREST RATE DIFFERENTIALS VIS-A-VIS GERMANY [1]

(Monthly averages)



Source : BIS.

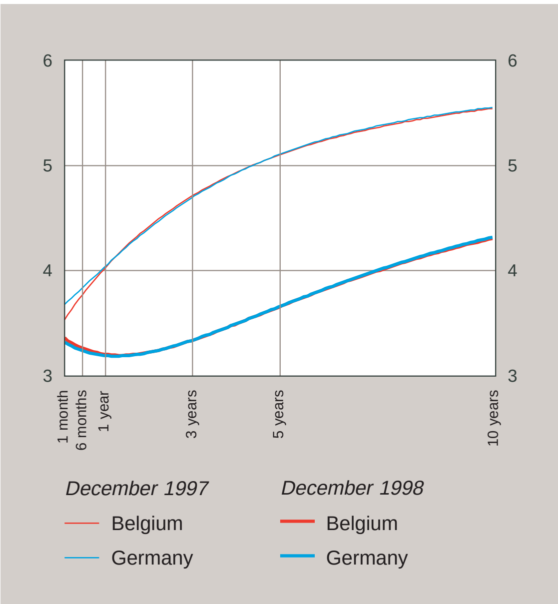
[1] Benchmark loans.

dominated by uncertainty, while the central banks assumed that budgetary policies and wage developments will help to maintain price stability in the euro area.

Long-term interest rates, for their part, had already converged to a great extent by the end of 1997. During the first five months of 1998 the yield differentials of the bonds of the euro area countries in relation to Germany decreased further or stabilised. Between June and September 1998, however, they increased by 10 to 25 basis points. In the case of Belgium the ten-year interest rate differential widened from 16 to 28 basis points. This movement is mainly attributable to the « flight to quality », which chiefly pushed up the price of German benchmark bonds, whose liquidity attracted investors. Although long-term rates fell considerably in the other countries of the euro area, German rates fell even more. However, their forthcoming participation in the future monetary union helped the countries in question to limit the divergences, whereas the differential between Denmark and Germany, increased further. From October onwards the differentials with Germany lessened again. In Belgium the ten-year interest rate differential shrank to 23 basis points, on average, in December.

CHART 51 — YIELD CURVES [1]

(Monthly averages)



Source : NBB.

[1] Continuous spot yield curves calculated on the basis of the interest rates for Euro-deposits at up to one year and of those for interest rate swaps at over one year.

Calculated on the basis of interbank rates, however, the yield curve for Belgium remained very close to the German curve. Unlike in the bond market, liquidity differences do not play a major role on the interbank market. Between December 1997 and December 1998 the yield curve continued to flatten out, but, in contrast to the previous year, this movement was not due to a rise in short-term interest rates.

While the rate for the ten-year Belgian government benchmark loan had still averaged 5.5 p.c. in December 1997, it fell to 4.1 p.c. in December 1998, a level without precedents since the mid-1940s. This historically low level is not solely attributable to the « flight to quality »; it is also partly due to the prospects of a slight slowing of growth, but perhaps chiefly to the favourable expectations of financial operators concerning longer-term price developments and the public finances.

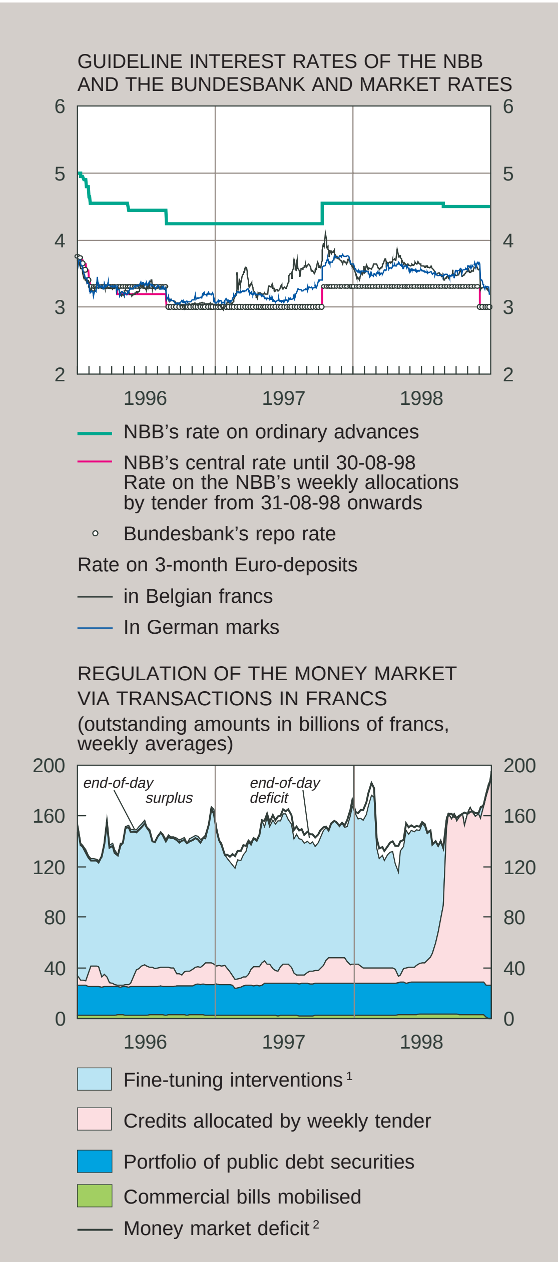
Use of the instruments of monetary policy

As during the previous years, the Bank influenced short-term interest rates by announcing its own rates and by its management of money market liquidity.

It made use of the former of these instruments in 1998 only on 3 December, when, in close cooperation with the other central banks of the euro area, it decided to lower the rates for its weekly allocations of credit from 3.30 to 3 p.c.

The second instrument was used only in the first half of the year, in order to exert a certain pressure on interest rates :

CHART 52 — CONDUCT OF MONETARY POLICY



Source : NBB.

[1] Very-short-term repurchase agreements and net interbank loans.

[2] After foreign currency swaps and the issuing of Bank certificates and including the average monetary reserves from 1 September to 30 December 1998 and the reserve assets actually formed as at 31 December 1998.

the Bank then created end-of-day deficits, first with the object of preventing Belgian money market rates from falling too far below the German rates, and subsequently in order to counter the slight tensions which developed before the European Council at the beginning of May.

Since the monetary reform of January 1991 such a liquidity policy had been an integral part of Belgian monetary policy : via daily fine-tuning money market transactions — mainly in the form of repurchase agreements — the credit institutions were provided with funds, the amount of these being set, bearing in mind a desirable residual end-of-day balance, on the basis of the expected course of the factors which autonomously determine money market liquidity.

In Stage Three of EMU the management of the money market of the euro area takes place along different lines, as the obligation to build up reserves is an important component of the ESCB's range of monetary policy instruments. This reserve system operates on the basis of averaging provisions, so that credit institutions do not have to meet their reserve obligations every day but only on average over the whole reserve maintenance period. The reserve assets are thus a flexible instrument in the daily cash management of credit institutions, making it possible to absorb temporary liquidity shocks.

The introduction of reserve requirements based on such averaging provisions therefore has important implications for the use of the other instruments of monetary policy. As the reserve requirements serve as an automatic stabiliser, the central bank needs to resort much less to the daily fine-tuning transactions and can provide the credit institutions with liquidity primarily via periodical allotments of credit by tender.

The fact that neither the resident credit institutions nor the Bank itself were familiar with such an operational framework induced the Bank to adjust its policy instruments before the beginning of the third stage, in order to start a learning process in good time. Belgian and Luxembourg credit institutions were therefore invited to participate voluntarily in a transitional monetary reserve system. This system, which was implemented during the last four months of 1998, largely corresponded to the system which the ESCB subsequently introduced. In the Belgian context a reserve coefficient of 0.3 p.c. was however sufficient to ensure the proper operation of the averaging provisions, whereas the ECB set a coefficient of 2 p.c. Furthermore, for reasons of availability of data, the basis for the reserves was defined rather more restrictively than in the ESBC system.

During the transition phase the Bank also adapted its money market management and the use of its other instruments of monetary policy to the new operational framework. In doing so, it adopted as far as possible the characteristics of the ESCB's instruments. Thus, the credits granted by weekly allotments became the main means of providing the money market with liquidity and their duration was increased from one to two weeks. Furthermore, these allotments took place according to a timetable which made it possible to react quickly to the decisions of the Board of the Bundesbank concerning interest rates : announcement on Thursday and allotment on Friday with Monday as the settlement date.

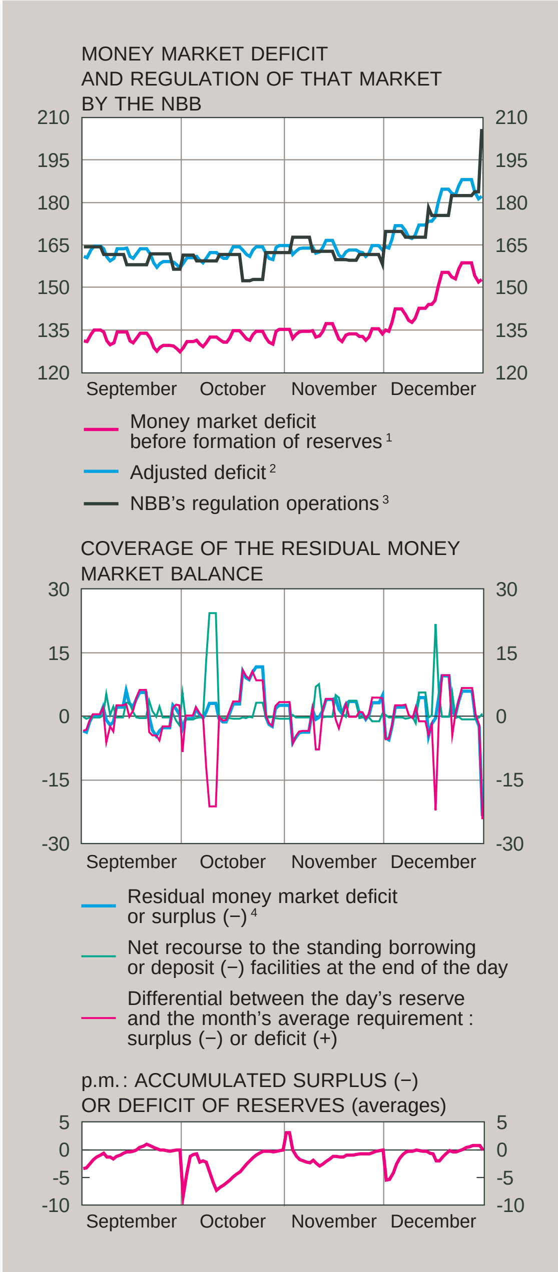
In the new operational framework, fine-tuning money market interventions were undertaken only from time to time, when they were felt to be necessary in view of specific circumstances.

The standing end-of-day facilities were also adjusted to the ESCB system. This system provides for a marginal lending facility and a deposit facility. Unlimited use can be made of these facilities ; the interest rates do not differ according to the counterparty or the extent of the recourse.

The special facility for primary dealers whereby the latter were able to obtain advances or make deposits at the central rate up to the extent of Fr. 350 million was therefore abolished in the transitional system. The role of the central rate as the steering rate for Belgian monetary policy was taken over by the rate on the weekly

CHART 53 — REGULATION OF THE MONEY MARKET FROM 1 SEPTEMBER TO 30 DECEMBER 1998

(Daily outstanding amounts, billions of francs)



Source : NBB.

[1] After spot purchases of foreign currencies against francs coupled with their forward repurchase and issuing of the Bank's certificates.

[2] Money market deficit including the average monetary reserves.

[3] Credits granted by weekly allotments by tender, portfolio of public debt securities, mobilised commercial paper and fine-tuning interventions.

[4] Adjusted money market deficit less the NBB's money market management transactions.

allocations of credit by tender. Provided there is sufficient collateral, recourse to the advance facility is henceforth unlimited. The credit lines for the end-of-day advances were therefore abolished, as was the specific rate applicable to advances beyond these lines. The single rate for advances was set at the level of the German lombard rate of 4.50 p.c., i.e. 5 basis points below the rate previously applied for advances within the credit lines. The system of deposit facilities was also simplified : the distinction between an ordinary tranche and an overstepping tranche was abolished, so that all deposits bore interest at a single rate, 100 basis points below the rate for allocations of credit by tender. Lastly, the discount facility was abolished on 15 December.

In practice some seventy resident credit institutions, including the largest ones, participated in the transitional system, enabling the latter to operate smoothly. Thus, the averaging provisions did play their role as the automatic stabiliser of money market liquidity properly. The amount of the credits provided via the weekly allotments by tender was fixed on the basis of the estimates concerning the autonomous liquidity-determining factors and of the credit institutions' needs as regards reserve formation. The fine-tuning interventions were confined to three transactions : at the end of September and the end of November the interventions were aimed at adjusting the provision of liquidity to the context of the transition between two reserve maintenance periods ; at the end of December the purpose was to enable the credit institutions to meet their obligations despite an unexpectedly strong demand for banknotes. Fluctuations in the money market's residual balance, which are inevitable owing to the characteristic pattern of the note circulation within each one-week period, were generally absorbed by movements in the reserve assets. Save for a few exceptions, net recourse to the end-of-day facilities remained modest.

Towards the end of the year the Bank restructured its balance sheet in order to enable the transition to the third stage of EMU to proceed smoothly. Thus, it allowed the credit institutions already to increase their reserve assets on 31 December on the basis of the ECB's reserve requirements for the first reserve maintenance period in 1999. For the Belgian credit institutions the reserves imposed by the ECB are in fact about eleven times greater than those under the Bank's transitional system, owing to the raising of the coefficient and the widening of the base, which henceforth also includes liabilities to banks established outside the euro area. Credit institutions were in particular able to allocate to their reserve account the proceeds of the Bank's certificates, totalling Fr. 230 billion, which had been issued at the end of 1996 and were reaching maturity.

The start of Stage Three of EMU also entailed a change in the composition of the Bank's assets. As mentioned in Chapter 5, the foreign exchange reserves were reduced in 1998. Furthermore, on 1 January 1999 all reserves denominated in currencies of the euro area — in practice almost exclusively claims in German marks — became euro assets, largely in the form of a securities portfolio. This is a portfolio held mainly for investment purposes. The portfolio of public debt securities in Belgian francs built up with a view to the regulation of the money market, which has been composed of linear bonds since October 1998, is held for the same reason.

7.2 SPECIFICATION OF THE FRAMEWORK OF THE ESCB'S MONETARY POLICY

During the first months of the year under review, the preparations for the single monetary policy continued within the framework of the European Monetary

Institute. After the creation of the ECB, the Governing Council defined the policy framework in greater detail.

Thus, it decided in July that the reserve requirements would in fact be imposed in Stage Three of EMU, and it also specified their main characteristics. Among the financial institutions established in the euro area, only credit institutions are required to hold minimum reserves on accounts with the national central banks. The reserve base is calculated on the basis of the reports which are used for compiling the monetary and banking statistics and comprises debts in the form of « deposits », « debt securities issued » and « money market paper », irrespective of the currency in which they are denominated. Liabilities vis-à-vis other institutions subject to the compulsory reserve system and vis-à-vis the ESCB are exempt from the reserve requirements. Furthermore, a zero reserve coefficient is applicable to repos and to deposits and securities whose original maturity or period of notice is more than two years. The reserve coefficient applicable to the debts in question was set at 2 p.c. in October. Credit institutions may deduct an amount of 100,000 euros from their compulsory reserves, which means that those with a small reserve base do not have to hold any minimum reserves. Reserve assets are remunerated by the ESCB at the same interest rate as that for its main refinancing transactions, which should eliminate the risk of relocation and disintermediation.

The main characteristics of the reserve requirement system were incorporated in September in the definitive version of the document entitled : « The single monetary policy in Stage III : general documentation on ESCB monetary policy instruments and procedures ». Furthermore, the list of the assets eligible as collateral for the granting of ESCB credits and that of the counterparties for monetary policy transactions were made known, and the final touches were put to the system which enables credit institutions to obtain funds from their central banks by providing as collateral eligible assets lodged in another country.

Furthermore, the last elements of the conceptual framework of the single monetary policy were also specified. First, the final objective of price stability was defined in quantitative terms as a rise of 2 p.c., on an annual basis, in the harmonised consumer price index for the whole of the euro area. This objective is pursued as a medium-term aim, as the ESCB has hardly any control over the short-term volatility of prices and its policies must be forward-looking.

The strategy adopted for maintaining price stability was also specified in greater detail. Two factors play a key role in this respect : a reference value for the growth in a monetary aggregate and a complete assessment of the prospects concerning price movements.

The crucial role assigned to monetary factors is highlighted by the announcement of a reference value for the growth in a broad monetary aggregate, called M3. Variations of the actual growth in M3 from its reference value should, under normal circumstances, indicate dangers to price stability. However, brief deviations do not need to be automatically corrected. The ECB's Governing Council will regularly examine the movement of the money supply in comparison to the reference value ; the results of this analysis and its implications for monetary policy will be made available to the public.

Mindful of the final objective, the trend growth of the GDP of the euro area and the downward trend of the velocity of circulation of M3, while not losing sight of the uncertainties concerning the estimation of the latter, the Governing Council, in December, fixed the reference value for the growth in M3 at 4 1/2 p.c. The movement of the aggregate will be watched with the aid of three-month moving averages of the growth rates compared to the corresponding months of the previous year.

Apart from being guided by this analysis of monetary growth, the ESCB's strategy will be determined to a great extent by a broader assessment of the prospects concerning the movement of prices and of the factors which are liable to jeopardise price stability in the euro area. This assessment must be made on the basis of a broad range of economic and financial variables.

Lastly, the Governing Council of the ECB already announced on 22 December 1998 that in the third stage of EMU the first weekly allotment of two-week credits would be a volume tender at a fixed interest rate of 3 p.c. Furthermore, the interest rates for the marginal lending facility and for the deposit facility were set at 4.5 and 2 p.c. respectively, and it was at the same time decided that, in order to make it easier for market operators to adapt to the unified money market, these rates would be 3.25 and 2.75 p.c. between 4 and 21 January 1999, thus making a narrower band applicable during a short transition period.

7.3 SUMMARY OF THE HISTORY OF THE BELGIAN FRANC

Since 1 January 1999 the Belgian franc has no longer been an autonomous monetary unit, but a national denomination of the euro. In 2002 it will finally disappear. These facts are sufficient reason for taking a look back over the history of the Belgian franc, which was introduced by the Mint Act of 1832. This section presents a brief summary of the outstanding events during these 167 years.

The statistical data contained in the charts of this section must, as they are long series, be interpreted with the customary caution. First, the statistical apparatus has developed only gradually, so that series from long ago suffer from greater inaccuracies than those of more recent date. Second, it is impossible to guarantee the homogeneity of the series over such a long period : for most of them, breaks are therefore unavoidable ; furthermore, it is generally well known how difficult it is to measure accurately the price and volume components of the movement of a set of transactions in goods and services whose composition and quality vary as time goes on.

Monetary regimes

During the first half of the nineteenth century currencies were based on the gold standard, the silver standard or silver-gold bimetallism. In Belgium the law of 5 June 1832 introducing the Belgian franc created a monetary system modelled on the French system of bimetallism. The Belgian franc was defined as a certain weight of silver. At the same time the law laid the foundation for the minting of gold coins, so that the gold value of the franc could also be deduced from it.

In practice, both the minting and the circulation of the coins was determined by « Gresham's Law »[1]. Thus, silver coins were at first predominantly in circulation. When, however, from 1850 onwards the relative value of gold on the market depreciated as a result of the discovery of new veins, the circulation was swamped by gold coins, including French ones. In reaction to this, the legislator introduced silver monometallism.

[1] In the monetary system based on silver-gold bimetallism, the two metals, linked by a fixed parity, were used for minting the coins which were legal tender. Such a system was potentially unstable because, according to « Gresham's Law », « bad money drives out good ». As precious metals were discovered, the relative market value of gold and silver diverged from the fixed parity. Consequently the coins which were minted in the metal which appreciated tended to be hoarded, so that the coins minted in the depreciated metal were practically the only ones remaining in circulation.

TABLE 37 — PRINCIPAL EVENTS IN THE HISTORY OF THE BELGIAN FRANC

1832	law defining the Belgian franc; bimetallism
1848	compulsory legal tender of the banknotes issued by Société Générale and Banque de Belgique
1850	foundation of the National Bank; silver monometallism
1861	return to bimetallism
1865	creation of the Latin Union
1873	the National Bank's banknotes become legal tender
1878	end of silver minting in the Latin Union
1914	suspension of the convertibility of banknotes
1921	treaty on economic union between Belgium and Luxembourg
1925	Belgium gives notice of withdrawal from the Latin Union
1926	stabilisation of the franc at 1/7th of its pre-war value; introduction of a new unit of account, the belga; changeover to the gold exchange standard; re-establishment of the convertibility of banknotes
1931	suspension of the convertibility of the pound sterling into gold
1933	Belgium's participation in the gold bloc
1935	devaluation by 28 p.c. of the gold parity of the franc; the NBB's banknotes become legal tender in Luxembourg
1940	suspension of the convertibility of banknotes
1944	creation of the Bretton Woods system, based on the gold exchange standard; Gutt operation
1949	devaluation of the franc by 12.345 p.c. vis-à-vis the US dollar
1951	creation of the free foreign exchange market
1957	redefinition of the legal status of the franc
1958	restoration of the external convertibility of the franc
1971	suspension of the convertibility of the US dollar into gold; monetary agreement between the Benelux countries; « Smithsonian agreement »
1972	creation of the « European monetary snake »
1973	worldwide system of floating exchange rates
1979	creation of the European Monetary System
1982	devaluation of the franc by 8.5 p.c. within the EMS
1988	redefinition of the legal status of the franc
1990	the franc is pegged to the German mark; abolition of the two-tier foreign exchange market
1999	Stage Three of Economic and Monetary Union; introduction of the euro
2002	*introduction of euro banknotes and coins; withdrawal from circulation of banknotes and coins denominated in francs*

During the first twenty years of Belgium's independence, banknotes, unlike metal coins, represented only a marginal proportion of means of payment. They were issued exclusively by private banks, which were exposed to the risks connected with lending to trade and industry. In 1848 a banking crisis induced the legislator to grant compulsory legal tender status to the banknotes issued by the two main issuing banks, Société Générale and Banque de Belgique. The desire to unify the note circulation and to guarantee the convertibility of banknotes into precious metal was one of the reasons for the creation of the National Bank in 1850.

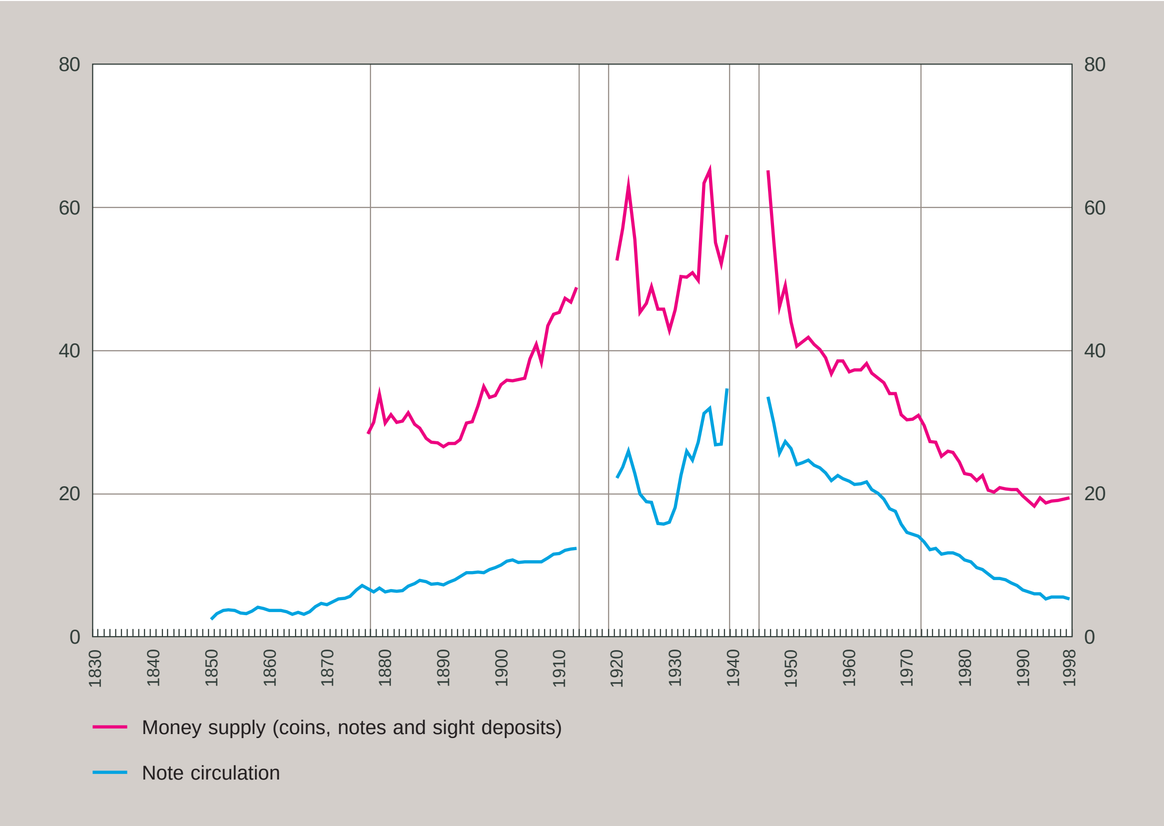
In 1861 the Belgian monetary system returned to bimetallism, partly owing to the close links with the French monetary system. This choice was confirmed in 1865 when Belgium, together with

France, Italy and Switzerland, established the Latin Union with the object of re-creating the former monetary union, which had been eroded because these countries had assigned a different metal content to their lower-value coins.

Bimetallism remained a source of tension throughout the existence of the Latin Union. The decline in the value of silver from the beginning of the 1870s onwards led to the limitation of the minting of silver coins and finally to its suspension in 1878, but also caused the Bank to convert notes only into silver coins. At the end of the nineteenth century silver was practically the only metal in circulation, as gold was being hoarded. It was via the French silver coins and the French banknotes that Belgian banknotes retained a link with gold, that is, the Banque de France's gold. The continuity of this link therefore depended on the latter's willingness to supply gold, which it did more readily when the gold was intended for foreign countries and not for domestic circulation. Another link with gold was due to the possibility of buying bills of exchange payable in London, though often at an unfavourable exchange rate.

CHART 54 — MONEY SUPPLY [1]

(Percentages of GDP)



Sources : NBB ; J. Delbeke, *Geld en bankkrediet in België, 1877-1983*, Koninklijke Academie voor Wetenschappen, Letteren en Schone Kunsten van België – Klasse der Letteren, Verhandelingen 1988, Jrg. 50, nr. 129 ; E. Buyst, New GNP estimates for the Belgian economy during the inter-war period, *Review of Income and Wealth*, n° 3, Sept. 1997 ; Werkgroep Economische Geschiedenis, CES, KULeuven, unpublished provisional data, 1998.

[1] In all the charts in section 7.3 a distinction is made between several periods corresponding to different monetary regimes, although this characterisation is a simplification and it is often difficult to draw a clear dividing line between the periods :
1832-1878 : silver-gold bimetallism (except 1850-1861 : silver monometallism).
1878-1914 : international gold standard system.
Inter-war period : return to the gold standard ; then collapse of that system.
1944-1973 : Bretton Woods system (gold exchange standard).
1973-1998 : floating exchange rates, but European exchange rate agreements.

Gold in fact chiefly played an international role, because the gold standard dominated the international monetary system from the late 1870s until 1914. In most countries the monetary unit was legally defined as a certain quantity of gold and paper money was convertible at the legal rate. The creation of banknotes was linked with the gold stock by a total or partial coverage obligation. Economic agents were able to hold gold in the form of coins or lingots and to change over from one form to the other. Gold, as it constituted a large proportion of the reserves of central and private banks, served as an international currency. The gradual introduction of the gold standard in the western countries therefore led to a system of fixed exchange rates.

In comparison with other countries, Belgium had a relatively large note circulation at the end of the nineteenth century. The main factor behind this state of affairs was the demand from the public, which was stimulated by the technical guarantees attaching to banknotes and by the Bank's prudent discount policy. During the first two decades following the creation of the Bank, the note circulation fluctuated within a margin of 3 to 4 p.c. of GDP, but from the early 1870s onwards it expanded steadily to reach more than 12 p.c. of GDP on the eve of the First World War. The fact that the banknotes issued by the Bank became legal tender in 1873 contributed to this expansion. Over time, conversions of banknotes into gold and silver became increasingly rare, making it possible to apply a relatively low coverage coefficient. The attractiveness of banknotes was moreover for quite a long time one of the main factors hampering the development of sight deposits, even though the monetary nature of the latter was recognised very early on. At the beginning of the twentieth century, however, the growth in money of account was even greater than that of paper money.

At the start of the First World War the convertibility of banknotes was suspended. The mark was recognised as legal tender and flooded the Belgian economy.

At the end of the war, the many marks then in circulation were exchanged against Belgian francs at a favourable rate, pending German war reparations, which were in the end only partly honoured. Expressed as a percentage of GDP, the note circulation therefore doubled compared to its pre-war level, fuelling inflation. During the following years the government clung to the hope that the franc would return to its pre-1914 gold parity; but it continued to depreciate against the two leading post-war currencies, namely the pound sterling and the US dollar. In order to make a clear distinction between the Belgian monetary unit and the French franc, a new unit of account, the belga, was introduced in 1926 for transactions with foreign countries. The Belgian franc was then stabilised at one seventh of its former gold parity and became convertible. The Bank could use not only gold but also gold currencies to meet its liabilities.

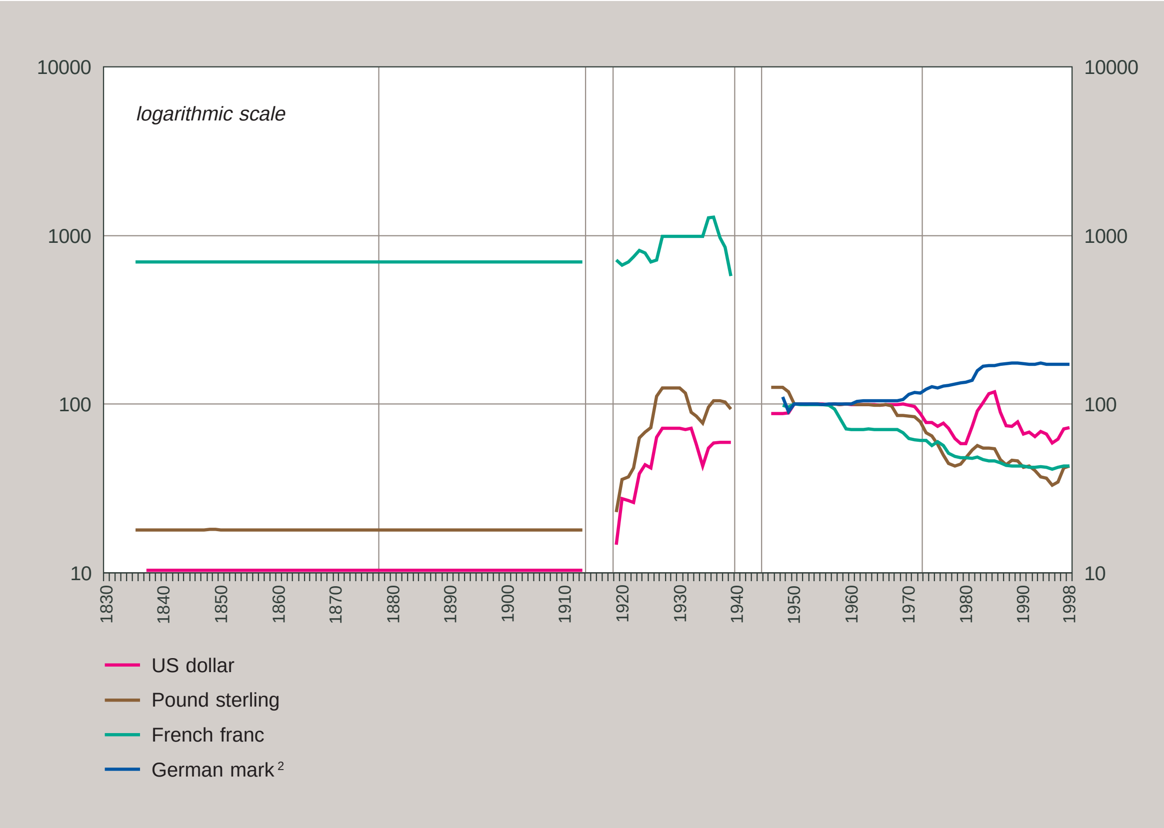
In the meantime, Belgium had concluded in 1921 a treaty of economic union with Luxembourg, facilitating the circulation of Belgian banknotes in that country and limiting the issuing of Luxembourg banknotes. However, Belgian banknotes did not become legal tender in Luxembourg until 1935. Between 1935 and the Second World War the Luxembourg franc had a parity of 1.25 Belgian francs, but the unit parity was restored from 1944 onwards.

On the international scene the British government suspended the gold standard for the pound sterling in 1931. Two years later the same was done with the US dollar. Belgium nevertheless remained attached to the gold standard, as was apparent from its participation in the gold bloc. However, the appreciation of the franc, which had changed from being an undervalued currency into an overvalued currency, undermined the competitiveness of the Belgian economy, and the government was obliged to devalue the franc by 28 p.c. in 1935. The 1930s were also marked by a revival of interest in banknotes as a result of the bank crisis at the beginning of that decade and subsequently owing to the threat of a new world conflict. On the eve of that conflict the Belgian franc was the last Western European currency still convertible into gold.

In the Second World War, unlike during the previous war, few marks were in circulation. Nevertheless, the financing of deliveries to Germany caused a swelling of the money circulation in Belgium, while the volume of domestic transactions shrank. After the liberation, in October 1944, a large-scale monetary rehabilitation operation, the so-called « Gutt reform », named after the then Minister of Finance, began. As part of this operation, the legal tender status of the Bank's banknotes then in circulation was abolished. These could only be exchanged for new banknotes up to a limited amount, while the remainder had to be declared. Part of this was temporarily frozen and gradually released during the subsequent years. The balance was finally frozen and was converted in 1945 into a forced loan. Similar measures were adopted for sight deposits and other, less liquid assets. The Gutt operation made it possible to mop up the excess liquidity in the Belgian economy and thus prevent it from serving as a breeding ground for runaway inflation, as in the years following the First World War. After that the money supply grew further, but much more slowly than GDP.

CHART 55 — EXCHANGE RATE FOR CERTAIN CURRENCIES IN BELGIAN FRANCS[1]

(Indices, September 1949 parities = 100)



Sources : NBB ; IMF ; V. Janssens, *Le franc belge : un siècle et demi d'histoire monétaire*, Services interbancaires, Brussels, 1976.

[1] Parities up till 1913.

[2] From 1948 onwards.

The money supply in the narrow sense of the term — coins, banknotes and sight deposits — thus tended after the Second World War to shrink in relation to GDP, whereas it had expanded previously. The increase in the velocity of this aggregate was coupled with the development of other financial assets, some of which, such as savings deposits and time deposits with credit institutions, had a high degree of liquidity. Moreover the share of banknotes in the narrow money supply tended to decrease. In 1998 central bank money as a percentage of GDP had fallen to the level at which it stood in 1873, the year when it became legal tender.

In 1944 Belgium joined the new international monetary order, the rules of which were fixed in July of that year at the Bretton Woods Conference. The Belgian franc was then, via its parities against gold and the US dollar, incorporated in the gold exchange standard, a worldwide system of fixed exchange rates. These were less stable than in the nineteenth century, as various parity realignments took place over the years. However, the gold parity of the Belgian franc was changed only once during the period 1944-1971, namely as part of the general revision of parities in September 1949. Although the franc was then devalued against gold and the US dollar, most other currencies, including the pound sterling, suffered a greater devaluation.

The European Payments Union was designed to smooth the way to making the European currencies externally convertible again, and this did take place in December 1958 for many countries, including Belgium. Within this framework the Belgian-Luxembourg Economic Union had already introduced a two-tier foreign exchange market in 1951 : in addition to a regulated market for current transactions, on which the Bank intervened in order to stabilise exchange rates, there was a free market for capital transactions, on which exchange rates were formed without intervention by the central bank. The two-tier foreign exchange market proved particularly useful as a means of gradually liberalising foreign exchange transactions. Subsequently its importance gradually dwindled and it was formally abolished in 1990.

In 1957 a new legal status for the Belgian franc still stipulated that the latter consisted of a certain quantity of gold and re-established a coverage coefficient in gold for the Bank's liabilities. The temporary suspension of the franc's convertibility into gold was, however, maintained. Not until much later, namely in 1988, was the reference to gold in the law dropped.

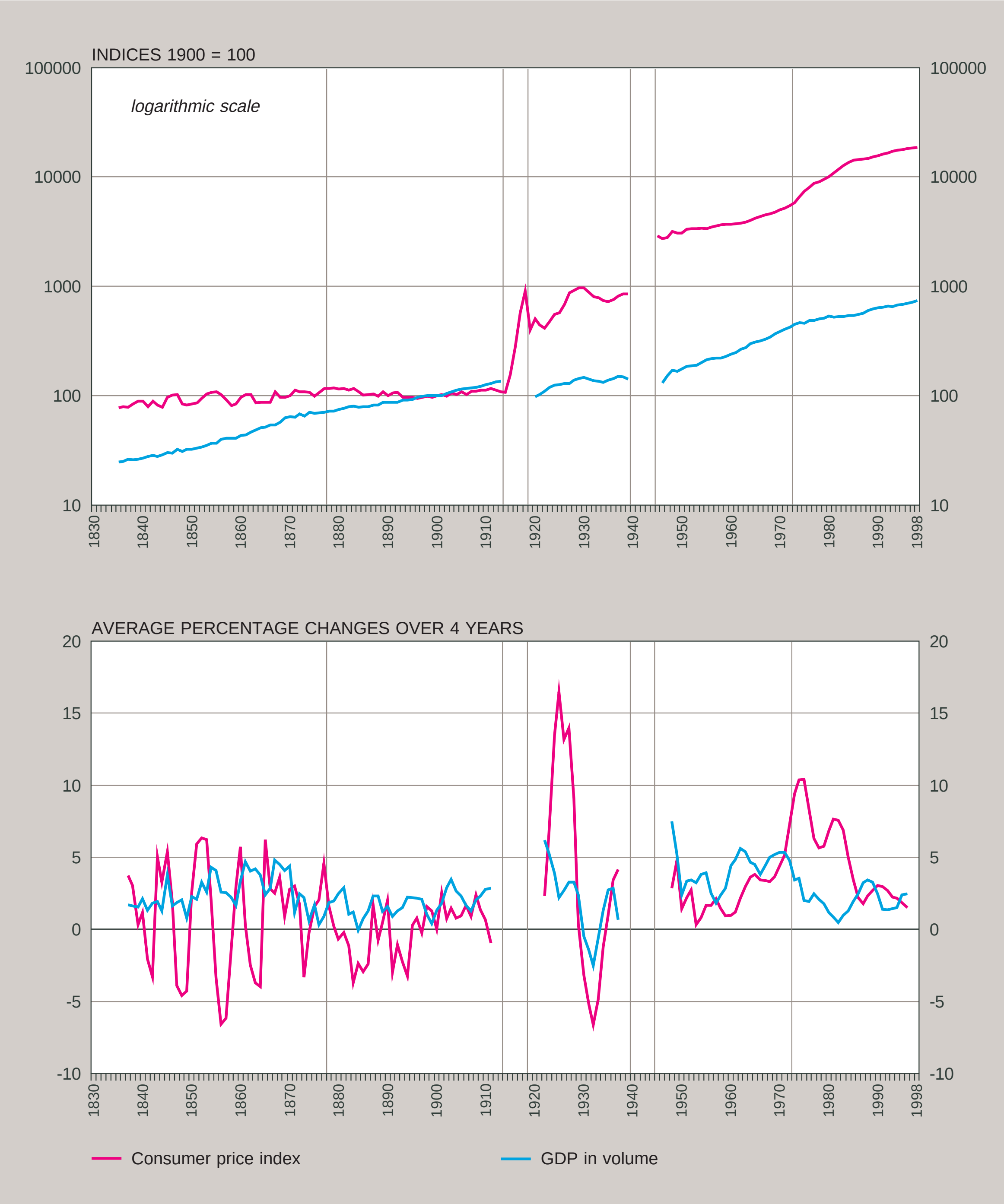
The Bretton Woods system ensured relatively stable exchange rates until the end of the 1960s, when the worldwide surplus of US dollars gave rise to acute tensions on the foreign exchange markets. In August 1971 the United States decided to abolish the convertibility of the dollar into gold. Despite the « Smithsonian agreement » concluded in December of the same year, the system of fixed parities disappeared in 1973 and was replaced by floating exchange rates.

The Benelux monetary agreement in 1971 and the « Basle agreement » in 1972 — the latter introduced a European exchange rate system called the « snake » — nevertheless enabled Belgium to keep the exchange rate for the franc fairly stable vis-à-vis other European currencies. In 1979 the « snake » was replaced by the exchange rate mechanism of the European Monetary System. After the 1982 devaluation the Belgian franc gradually joined the group of the strongest EU currencies, and this was confirmed by the decision in 1990 to peg it to the German mark.

Development of prices and other macroeconomic variables

The purchasing power of the Belgian franc has not remained constant over the

CHART 56 — CONSUMER PRICES AND GROSS DOMESTIC PRODUCT AT CONSTANT PRICES



Sources : NBB ; E. Buyst (op.cit.) ; Werkgroep Economische Geschiedenis (op.cit.) ; P. Scholliers, A century of real industrial wages in Belgium, 1840-1939, in P. Scholliers and V. Zamagni (eds), *Labour's reward : real wages and economic change in 19th and 20th century Europe*, Edward Elgar, Cheltenham, Glos, 1995.

years. Like exchange rates, prices have undergone contrasting movements, the First World War having brought about a significant break.

Before the First World War the price level remained remarkably stable in the longer term, although prices both rose and fell sharply in the short term.

Between 1835 and 1914, for instance, the trend rise in consumer prices was only 0.3 p.c. per year. The short-term price fluctuations were due to the flexibility of the markets for goods and labour, the small degree of development of the service sector and the lack of stabilising economic policies. Until the mid-1870s these price movements were much sharper than after that; economic activity, too, fluctuated more widely in the first period, although average GDP growth was somewhat stronger.

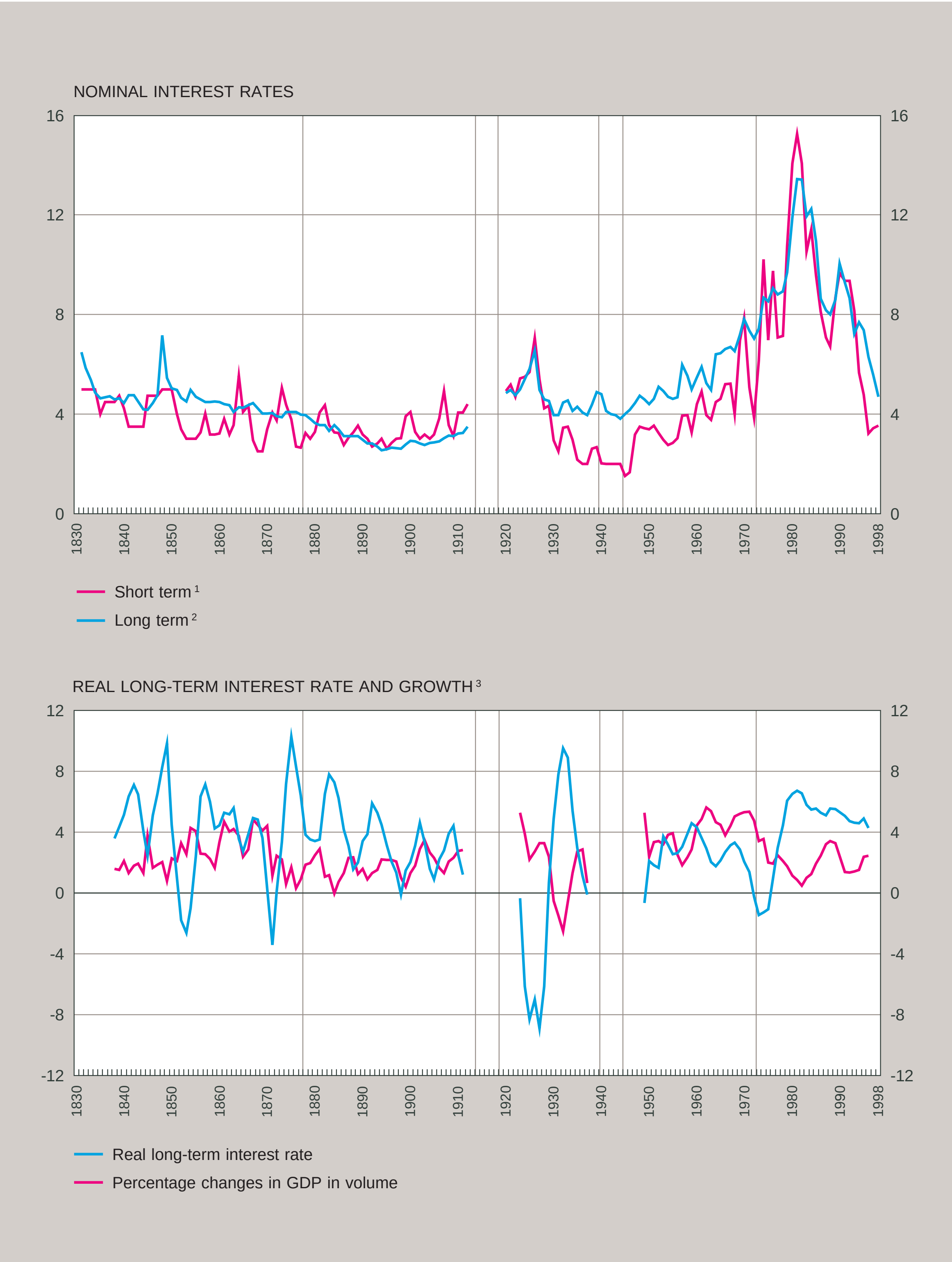
In the inter-war period the fluctuations in both prices and output were greater because they were more persistent. The upsurge of prices which occurred during the First World War was to a great extent transferred to the peace economy. The abundant liquidity resulting from the changing of the very large number of German marks in circulation stimulated a demand for goods which could not possibly be satisfied because stocks were exhausted and the production apparatus had been damaged by the war. The inflation of the 1920s was subsequently replaced by the deflation and recession due to the international crisis at the end of 1929.

After the Second World War the level of consumer prices hardly ever fell again. At first, during the period of the Bretton Woods system, inflation remained fairly moderate. During the 1960s, however, the inflationary pressures became stronger. The peak was reached at the beginning of the following period, owing to the effect of the first oil shock. The economic expansion, which had previously been very buoyant, slowed down sharply, showing that inflation was harmful to growth. The second oil shock, in 1979, led, in Belgium as in the rest of the world, to economic policy reactions which took account of the experience gained in connection with the first oil shock, with the result that inflation was more successfully curbed. The oil « counter-shock » of 1986 helped to slow down inflation. Since then the year-on-year rise in consumer prices has remained below 3.5 p.c.

The price movement naturally also affected the trend of interest rates. In the nineteenth century the stability of parities and the absence of long-term price fluctuations typical of that period were coupled with relatively low nominal interest rates. A few years after the creation of the Bank, the official discount rate was lowered to 3.5 p.c., a level around which it continued to move until the end of the century. Long-term interest rates tended to decline during the second half of the century, owing to the Belgian State's improved standing and the efficiency-promoting development of organised markets. The pronounced short-term fluctuations in the general price level were reflected only to a very small extent in nominal interest rates, the rigidity of which led to periods of rationing on the financial market. The long-term real interest rate, calculated in the conventional manner on the basis of current inflation, thus fluctuated considerably, around an average level of just under 4 p.c.

During the inter-war period nominal interest rates fluctuated more, albeit much less than the general price level. During the period of the Bretton Woods system, on the other hand, nominal rates tended to rise parallel with inflation. Conventional real interest rates remained relatively stable, usually below the GDP growth rate, which had not generally been the case before that. In Belgium, as in most other countries, the upsurge of inflation resulting from the first oil shock was not proportionally reflected in nominal interest rates. On the other hand, the second oil shock provoked a more vigorous reaction both from the monetary authorities, especially the US Federal Reserve, and from financial operators, so that real interest rates were pushed up to high levels despite the increase in inflation. The persistence of high real interest rates which characterised the 1980s and the early 1990s was probably due to the greater sensitivity to inflation risks and to the

CHART 57 — INTEREST RATES



Sources : NBB ; E. Buyst (op.cit.) ; Werkgroep Economische Geschiedenis (op.cit.) ; J.M. Drappier, La conjoncture des cours des valeurs mobilières, de leurs dividendes et des taux d'intérêt en Belgique de 1830 à 1913, *Bulletin de l'Institut des Sciences Economiques*, UCL, August 1937.

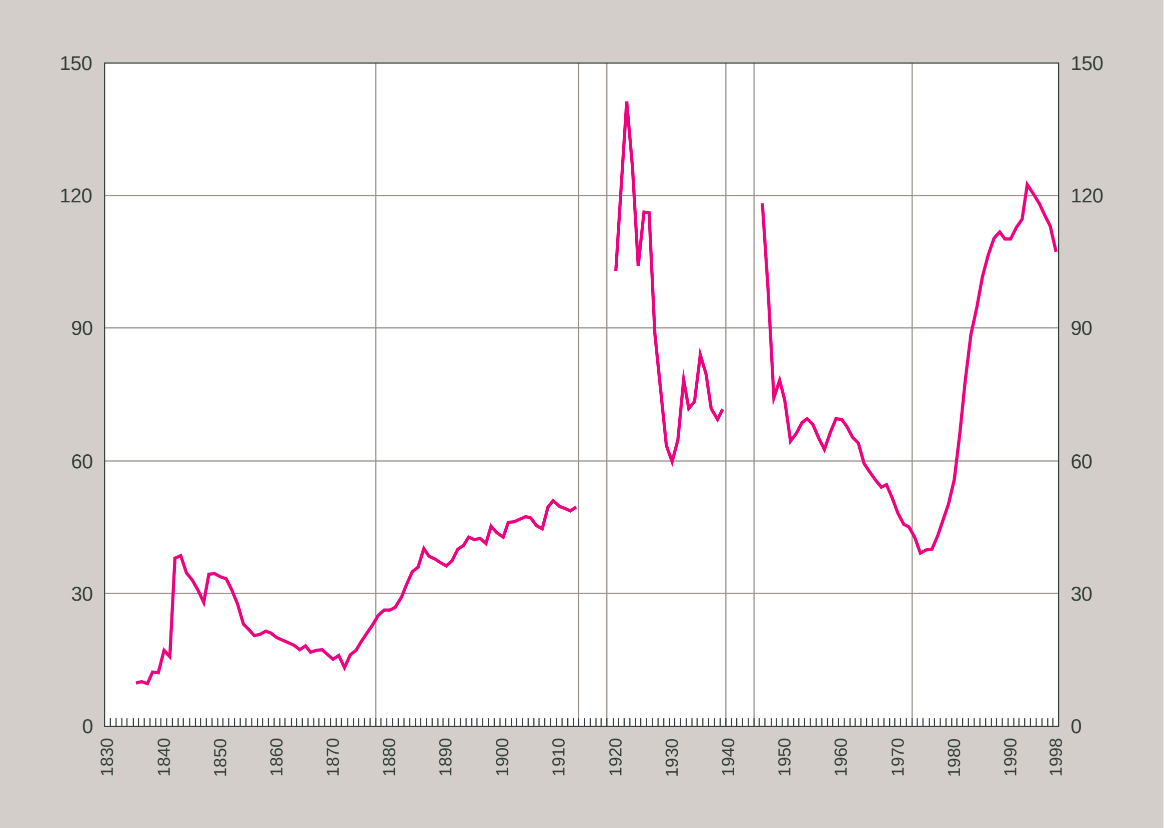
[1] Discount rate of Société Générale up to 1850, discount rate of the National Bank from 1851 to 1964, and interest rate on three-month Treasury certificates after that.

[2] Yield rate of the active debt (perpetual-maturity government bond) of 2.5 p.c. until 1912 ; yield on the government debt at six years and over from 1920 onwards.

[3] Averages over four years. The real interest rate is calculated in the conventional manner by deducting current inflation, measured by the change in the deflator of GDP, from the nominal interest rate.

CHART 58 — TREASURY DEBT

(Percentages of GDP)



Sources : NBB ; E. Buyst (op.cit.) ; Werkgroep Economische Geschiedenis (op. cit.) ; P. Clement, *De Belgische overheidsfinanciën en het ontstaan van een sociale welvaartsstaat, 1830-1940,* unpublished doctorate thesis, KULeuven, 1995.

pressure exerted by the public deficits. The stability-oriented monetary policies and the fiscal consolidation efforts made in Belgium and abroad ultimately led, however, to a fall in these rates. In 1998 the conventional real long-term interest rate was down to about 3 p.c.

The high real interest rates which prevailed from 1979 to 1995, considerably exceeding the growth in GDP, which were partly due to the budgetary imbalances, at the same time made the public finances more difficult to manage. The budgetary excesses of the 1970s, due to the inappropriate reaction to the first oil shock and the slowing of growth, were subsequently accentuated by the increase in interest charges. At the beginning of the 1990s the Treasury's debt, in relation to GDP, rose to a level which had previously been reached only just after the world wars. A radical rehabilitation operation was therefore necessary in order to reverse the self-fuelling rise in the debt and the interest charges on it. The measures adopted did in fact make possible the achievement of a primary surplus large enough to turn that process into a virtuous circle from 1994 onwards.

Thanks to this budgetary consolidation, which followed the monetary stabilisation achieved via the exchange rate objective, Belgium was able to participate in the European Monetary Union.

Statistical Annex

TABLE I — SUMMARY OF MACROECONOMIC DEVELOPMENTS IN SOME EU COUNTRIES

	Belgium		Germany		France		Italy		United Kingdom		Spain		Netherlands	
	1997	1998 e	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
Expenditure at constant prices	*(Percentage contributions to the change in GDP)*													
Private consumption	1.4 [1]	2.3 [1]	0.3	0.9	0.5	2.0	1.4	0.8	2.7	1.9	1.9	2.2	1.8	2.2
Public expenditure	0.4	0.3	−0.3	0.2	0.2	0.3	...	0.3	−0.1	0.4	0.3	0.4	0.2	0.5
Gross fixed capital formation of the private sector	0.8 [1]	0.8 [1]	0.2	0.5	...	0.9	...	0.5	1.2	1.2	1.1	1.9	1.4	0.7
of which gross formation of non-residential fixed capital	0.5 [1]	0.6 [1]	0.3	0.6	...	0.8	0.2	0.3	1.0	1.1	1.0	1.6	1.0	0.5
Total domestic expenditure	2.2 [1]	4.2 [1]	1.4	2.6	0.8	3.8	2.4	2.1	3.9	3.9	3.0	4.5	3.4	3.4
Exports	5.6	2.6	3.0	2.0	3.8	1.9	1.6	1.3	2.5	0.9	4.7	3.6	4.2	4.8
Imports	−4.7	−3.9	−2.2	−1.9	−2.3	−2.5	−2.5	−1.9	−2.9	−2.2	−4.2	−4.3	−3.8	−4.4
Foreign balance	0.9	−1.2	0.8	0.1	1.5	−0.6	−0.9	−0.6	−0.4	−1.3	0.5	−0.7	0.3	0.4
GDP	3.0	2.9	2.2	2.7	2.3	3.1	1.5	1.5	3.5	2.7	3.5	3.8	3.6	3.8
Inflation [2]	*(Percentage changes compared to the previous year)*													
Harmonised consumer price index	1.5	0.9	1.5	0.8	1.3	0.7	1.9	2.0	1.8	1.5	1.9	1.8	1.9	1.8
Unemployment [3]	*(Percentages of the labour force)*													
Number of unemployed (EC data)	9.2	8.8	10.0	9.7	12.4	11.9	12.1	12.2	7.0	6.3	20.8	18.9	5.2	4.0
Public finance	*(Percentages of GDP)*													
Net financing requirement (−) of general government	−1.9	−1.3	−2.7	−2.6	−3.0	−2.9	−2.7	−2.6	−2.1	−0.1	−2.6	−2.1	−0.9	−1.4
Balance of payments	*(Percentages of GDP)*													
Balance of current transactions	4.7	4.4	−0.2	0.4	2.7	2.6	2.9	3.2	0.6	−0.6	0.4	0.3	6.1	5.8

Sources : NAI, EC, NBB for Belgium ; OECD and EC for other countries.

[1] Data excluding statistical adjustments.

[2] Average for 11 months for 1998.

[3] Average for 11 months for 1998, except for Italy and the Netherlands : 10 months, United Kingdom : 9 months.

TABLE II — GNP AND MAIN CATEGORIES OF EXPENDITURE AT 1990 PRICES

(Percentage changes compared to the previous year)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 e
Private consumption [1]	3.1	3.7	2.5	2.2	−1.6	1.7	1.3	2.4	2.2	3.6
Public expenditure	−3.8	−0.9	2.7	0.8	2.0	2.1	−0.1	−0.2	2.3	1.8
Public consumption	−1.0	−0.5	2.2	0.4	1.3	1.7	0.7	1.4	0.8	1.7
Public investment	−26.0	−4.7	8.6	5.3	9.3	5.9	−6.6	−14.9	19.1	2.9
Housing	17.6	8.2	−9.1	5.0	1.7	5.5	5.5	−4.0	4.9	3.2
Gross fixed capital formation by enterprises [1]	15.3	11.8	−4.2	−0.5	−7.1	−3.3	5.1	4.6	4.2	5.4
p.m. Total gross fixed capital formation [1 2]	11.4	9.6	−4.7	1.3	−3.6	−0.1	4.2	0.5	5.4	4.6
Change in stocks [1 3]	−0.3	−0.2	0.1	0.1	−0.2	0.3	...	−0.1	−0.3	0.7
Total domestic expenditure [1]	3.7	4.0	1.0	1.8	−1.8	1.7	1.8	1.8	2.3	4.4
Exports of goods and services	8.2	4.3	3.1	3.5	−0.7	8.4	[4]	2.2	7.1	3.2
Total final expenditure [1]	5.5	4.1	1.9	2.5	−1.3	4.5	[4]	2.0	4.5	3.8
Imports of goods and services	9.4	4.9	2.8	4.1	−0.7	7.2	[4]	2.2	6.3	5.1
p.m. Net exports of goods and services [3]	−0.5	−0.3	0.3	−0.3	...	1.0	1.0	0.1	0.9	−1.2
GDP before statistical adjustments	3.1	3.6	1.3	1.5	−1.7	2.7	2.7	1.8	3.1	2.9
Statistical adjustments [3]	0.5	−0.6	0.3	...	0.2	−0.1	−0.4	−0.5	−0.1	...
GDP	3.6	3.0	1.6	1.5	−1.5	2.6	2.3	1.3	3.0	2.9
Net factor incomes [3]	0.1	−0.4	0.5	−0.2	1.0	0.2	0.4	0.2	0.2	0.1
GNP	3.7	2.7	2.1	1.3	−0.5	2.8	2.7	1.5	3.1	3.0

Sources : NAI, NBB.

[1] Data excluding statistical adjustments. The latter are shown as a separate item.

[2] Public investment, housing and gross fixed capital formation by enterprises.

[3] Contribution to the change in GNP.

[4] Owing to breaks in the gross flows of exports and imports between 1994 and 1995, caused by the introduction of a new data-collection system in the compilation of the balance of payments and by the application of the recommendations contained in the fifth edition of the IMF's Balance of Payments Manual, the percentage change in 1995 is of little significance.

TABLE III — DEFLATORS OF GNP AND OF THE MAIN CATEGORIES OF EXPENDITURE

(Percentage changes compared to the previous year)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 e
Private consumption [1]	3.1	3.4	3.3	2.7	2.9	2.6	1.6	2.0	1.5	1.0
Public expenditure	4.2	4.2	5.0	3.7	4.3	2.9	3.0	0.7	2.7	1.3
Public consumption	4.1	4.3	5.3	3.7	4.6	3.0	3.1	0.6	3.0	1.3
Public investment	4.8	2.3	1.5	3.3	1.8	3.0	1.9	0.6	1.5	0.9
Housing	5.2	2.9	1.7	4.3	2.5	3.0	2.2	1.6	1.4	0.7
Gross fixed capital formation by enterprises [1]	4.0	2.7	2.3	2.4	1.2	1.6	1.5	0.7	0.3	0.1
p.m. Total gross fixed capital formation [1 2]	4.4	2.8	2.1	2.9	1.6	2.2	1.8	0.9	0.8	0.3
Total domestic expenditure [1 3]	3.5	3.4	3.4	2.9	3.0	2.6	1.8	1.6	1.5	0.9
Exports of goods and services	6.9	−1.5	−0.7	−1.2	−1.2	1.3	0.9	2.5	4.5	0.3
Total final expenditure [1 3]	4.9	1.3	1.7	1.2	1.3	1.9	1.3	1.9	2.7	0.7
Imports of goods and services	6.5	−1.5	−0.6	−2.9	−2.6	1.9	2.1	2.9	5.2	−1.4
p.m. Terms of trade	(0.4)	(...)	(−0.1)	(1.8)	(1.5)	(−0.6)	(−1.1)	(−0.4)	(−0.7)	(1.8)
GDP before statistical adjustments	3.9	3.3	3.2	4.0	3.7	2.1	1.0	1.4	1.2	1.9
GDP = GNP	4.6	3.1	3.1	3.7	4.0	2.3	1.5	1.6	1.4	1.9

Sources : NAI, NBB.

[1] Data excluding statistical adjustments.

[2] Public investment, housing and gross fixed capital formation by enterprises.

[3] Excluding the change in stocks.

TABLE IV — GNP AND MAIN CATEGORIES OF EXPENDITURE AT CURRENT PRICES

(Billions of francs)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 e
Private consumption [1]	3,892	4,173	4,417	4,637	4,696	4,900	5,044	5,268	5,464	5,721
Public expenditure	970	1,002	1,080	1,128	1,200	1,262	1,298	1,305	1,372	1,415
Public consumption	884	918	987	1,028	1,088	1,139	1,182	1,205	1,252	1,290
Public investment	86	84	92	101	112	122	116	100	120	125
Housing	317	353	327	358	373	405	437	426	453	471
Gross fixed capital formation by enterprises [1]	776	891	874	890	836	822	877	924	966	1,019
p.m. Total gross fixed capital formation [1 2]	1,179	1,328	1,293	1,348	1,321	1,349	1,430	1,450	1,540	1,616
Change in stocks [1]	11	−1	4	10	−4	17	25	18	−4	31
Total domestic expenditure [1]	5,967	6,417	6,701	7,022	7,101	7,406	7,681	7,941	8,252	8,658
Exports of goods and services	4,348	4,464	4,573	4,678	4,592	5,043	5,395	5,649	6,326	6,554
Total final expenditure [1]	10,314	10,882	11,274	11,700	11,693	12,448	13,075	13,591	14,578	15,212
Imports of goods and services	4,182	4,319	4,413	4,462	4,312	4,710	5,042	5,303	5,933	6,146
p.m. Net exports of goods and services	166	146	160	216	280	332	352	346	393	408
GDP before statistical adjustments	6,133	6,563	6,860	7,239	7,380	7,738	8,033	8,288	8,645	9,066
Statistical adjustments	35	−9	9	−10	25	31	35	17	30	32
GDP	6,167	6,554	6,869	7,229	7,405	7,769	8,068	8,305	8,675	9,097
Net factor incomes	−11	−34	−1	−14	58	76	107	126	141	149
GNP	6,156	6,520	6,868	7,214	7,464	7,845	8,175	8,431	8,817	9,246

Sources : NAI, NBB.

[1] Data excluding statistical adjustments. The latter are shown as a separate item.

[2] Public investment, housing and gross fixed capital formation by enterprises.

TABLE V — VALUE ADDED OF THE VARIOUS BRANCHES OF ACTIVITY AT 1990 PRICES

(Percentage changes compared to the previous year)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	p.m. Percentages of 1997 GDP
Agriculture, forestry and fisheries	1.6	−2.8	6.0	9.9	4.6	−6.2	2.7	−2.0	−0.3	2.0
Industry	5.6	2.1	0.1	−0.4	−2.8	4.3	3.0	0.5	4.2	24.2
Mineral-extracting industry	8.2	8.9	−0.2	13.8	−14.5	12.9	10.8	−0.9	5.5	0.3
Electricity, gas, water	0.7	3.3	4.3	0.6	−0.1	1.4	4.6	4.5	1.0	2.7
Manufacturing industry [1]	6.2	1.9	−0.4	−0.7	−3.0	4.5	2.7	...	4.6	21.3
of which :										
Non-metallic minerals	8.9	−0.7	−6.7	9.6	0.3	4.4	4.0	−4.1	4.2	0.9
Wood and furniture	7.9	3.3	1.5	−6.1	−4.7	0.1	2.8	−1.5	1.3	0.8
Iron and steel	−0.8	−0.3	−0.9	−8.7	−4.7	6.7	2.9	−7.0	−3.0	0.9
Non-ferrous metals	6.9	3.0	−7.8	−1.7	−4.6	9.4	11.1	1.8	2.6	0.6
Metal-working industry	8.1	3.0	−3.4	−4.0	−5.6	5.5	0.2	...	4.0	5.9
Paper, printing, publishing	8.6	2.2	−2.7	0.9	4.5	4.5	0.6	−1.6	2.5	1.4
Chemicals and rubber	5.0	1.2	3.7	5.1	−3.8	7.6	7.2	4.3	10.9	4.1
Textiles, clothing and footwear	13.5	6.6	−3.3	2.0	...	0.9	−5.4	−4.7	3.7	1.3
Food, beverages, tobacco	4.2	−2.5	3.5	−1.0	−0.4	2.5	2.4	1.1	3.1	4.0
Building industry	4.1	5.7	1.5	2.9	−4.1	2.2	2.3	−2.3	5.9	5.0
Market services [2]	4.1	1.9	3.3	2.0	−0.1	2.5	2.1	1.9	2.6	52.9
of which :										
Wholesale and retail trade	−1.1	2.4	3.9	0.6	−0.5	0.6	−1.1	−1.9	1.7	9.2
Distribution of petroleum products	−3.3	0.9	4.9	3.4	0.1	3.0	1.0	4.8	−1.3	2.4
Financial services	5.0	−8.2	5.5	5.0	6.6	3.2	4.0	11.4	3.8	5.3
Rents	2.5	2.4	2.5	1.4	1.4	1.5	1.5	1.5	1.5	7.4
Transport and communications	4.8	6.3	3.1	1.6	−0.8	3.5	1.0	−0.4	3.9	7.8
Other services to enterprises	17.9	0.9	3.0	4.3	0.4	2.6	8.4	2.2	6.8	6.4
Medical professions	7.5	4.9	0.9	3.8	−2.8	−1.5	3.6	1.8	−0.4	2.6
Hotels and catering and various services to households	5.4	3.7	1.2	−0.6	−1.3	3.5	1.3	3.4	1.7	7.8
Non-market services	1.0	0.7	1.7	2.3	1.0	2.1	1.2	1.5	−0.1	11.6
GDP before statistical adjustments [3]	4.1	2.4	1.9	1.5	−1.2	2.5	1.9	0.8	2.9	
Statistical adjustments [4]	−0.5	0.6	−0.3	...	−0.2	0.1	0.4	0.5	0.1	
GDP after statistical adjustments [3]	3.6	3.0	1.6	1.5	−1.5	2.6	2.3	1.3	3.0	100.0

Sources : NAI, NBB.

[1] Garages are recorded under market services.

[2] Services which are not provided by general government.

[3] Including various items which cannot be broken down among the branches of activity.

[4] Contribution to the change in GDP.

TABLE VI — DEMAND FOR AND SUPPLY OF EMPLOYMENT

(Thousands of units on 30 June)

	1989	1990	1991	1992	1993	1994	1995	1996	1997 e	1998 e
1. Population of working age[1] (potential demand for jobs)	6,674	6,674	6,675	6,682	6,694	6,703	6,704	6,703	6,706	6,708
Men	3,357	3,358	3,360	3,365	3,372	3,378	3,377	3,376	3,378	3,379
Women	3,318	3,316	3,315	3,316	3,321	3,325	3,326	3,327	3,328	3,329
2. Employment										
2.1 Domestic employment	3,712	3,764	3,770	3,753	3,713	3,676	3,695	3,710	3,722	3,761
Breakdown by status										
Employees	3,046	3,089	3,085	3,068	3,014	2,982	2,996	3,007	3,016	3,052
Self-employed persons	666	675	684	685	699	695	699	704	706	709
Breakdown by sector										
General government[2]	655	661	650	648	644	631	629	628	628	628
Non-market institutions[3]	384	394	406	416	417	418	425	432	438	453
Households	88	86	87	87	86	86	88	94	98	102
Market enterprises	2,585	2,623	2,626	2,602	2,567	2,542	2,554	2,557	2,558	2,577
Agriculture	101	100	98	95	93	92	91	89	88	86
Industry	786	787	775	755	727	705	700	688	667	659
Energy and water	30	30	29	29	29	29	28	28	28	28
Building	225	236	243	245	253	257	253	251	253	255
Market services	1,442	1,471	1,481	1,478	1,464	1,460	1,482	1,502	1,523	1,549
2.2 Frontier-zone workers (balance)	48	50	50	48	48	50	50	51	51	51
2.3 Grand total	3,760	3,815	3,819	3,802	3,761	3,726	3,746	3,761	3,773	3,812
Men	2,283	2,298	2,288	2,263	2,225	2,197	2,196	2,193	2,181	2,188
Women	1,478	1,517	1,531	1,538	1,536	1,529	1,549	1,568	1,592	1,624
3. Employment rate (2.3 as percentage of 1)	56.3	57.2	57.2	56.9	56.2	55.6	55.9	56.1	56.3	56.8
Men	68.0	68.4	68.1	67.2	66.0	65.0	65.0	65.0	64.6	64.8
Women	44.5	45.7	46.2	46.4	46.3	46.0	46.6	47.1	47.8	48.8

Sources : MEL, NSI, NBB.

[1] Men and women aged 15 to 64.

[2] Persons employed in government departments, teaching, the armed forces including persons doing national service and persons given employment under special job-creation schemes : unemployed persons given work by general government, special temporary staff, third labour circuit, subsidised persons under contract, occupational transition programmes and PRIME employment programme (regional projects for insertion in the labour market) of the Walloon region.

[3] Including unemployed persons in the health and welfare sectors.

TABLE VII — CONSUMER PRICES

(Percentage changes compared to the previous year)

	National index [1]						Health index [1]	Underlying inflation [2]
		Energy products	Food products	Other goods	Services	Rents		
1988	1.2	−3.4	...	2.5	1.5	3.6	—	1.9
1989	3.1	6.5	3.1	2.5	2.6	3.7	—	2.7
1990	3.5	6.8	3.7	2.6	3.2	3.2	—	2.9
1991	3.2	2.6	2.0	3.0	4.4	3.0	—	3.3
1992	2.4	−1.1	−0.1	2.4	4.2	5.9	—	3.2
1993	2.8	3.6	−0.8	2.8	3.8	5.3	—	2.9
1994	2.4	0.9	1.8	2.4	2.6	4.6	—	2.4
1995	1.5	−0.6	1.2	1.3	2.0	2.9	1.6	1.6
1996	2.1	6.1	0.6	1.2	2.3	2.5	1.7	1.7
1997	1.6	4.0	2.2	0.7	1.5	1.7	1.3	1.3
1998	1.0	−4.4	1.8	0.8	2.3	1.2	1.3	1.4

Sources : MEA, NBB.

[1] The breakdown of the national index differs somewhat from that of the HICP which was presented in Chapter 3 of the Report.

[2] Inflation after exclusion of the repercussions of the rises in the prices of products which are considered to be harmful to health (namely tobacco, alcoholic beverages, petrol and diesel), of the energy contribution introduced by the law of 22 July 1993 and of the excise-duty-compensating tax on diesel-engined vehicles introduced in January 1996.

[3] Inflation after exclusion of the influence of energy products, potatoes, and fruit and vegetables. This definition of underlying inflation differs somewhat from that given in Table 10 of Chapter 3 of the Report.

TABLE VIII — INCOMES OF THE VARIOUS SECTORS AT CURRENT PRICES

(Billions of francs)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 e
Individuals [1]										
Primary income	5,164	5,537	5,954	6,303	6,548	6,709	6,865	6,981	7,189	7,433
Wages and salaries [2]	3,209	3,450	3,721	3,912	4,037	4,149	4,284	4,355	4,489	4,651
Income from one-man businesses	721	751	778	803	819	857	886	930	961	1,003
Income from property	1,234	1,337	1,455	1,587	1,693	1,704	1,695	1,696	1,739	1,780
Net current transfers [3]	−487	−586	−565	−596	−607	−716	−733	−738	−768	−784
To (−) general government [3]	−462	−545	−524	−559	−566	−663	−668	−655	−700	−708
Transfers received	1,437	1,522	1,657	1,769	1,835	1,890	1,974	2,039	2,107	2,174
Social benefits	1,098	1,164	1,269	1,356	1,409	1,439	1,501	1,555	1,587	1,634
Other transfers	339	358	389	412	426	451	473	483	520	540
Transfers paid	1,899	2,067	2,182	2,327	2,401	2,554	2,642	2,693	2,807	2,883
Social contributions	916	985	1,066	1,140	1,190	1,210	1,241	1,257	1,301	1,341
Direct taxes	848	938	957	1,020	1,028	1,154	1,202	1,227	1,289	1,316
Other transfers	135	144	158	167	183	190	199	210	216	225
To (−) other sectors [3]	−26	−41	−41	−37	−41	−53	−65	−83	−68	−76
Disposable income	4,676	4,951	5,389	5,706	5,940	5,993	6,133	6,243	6,421	6,649
p.m. At constant prices (percentage changes compared to the previous year) [4]	(7.8)	(2.3)	(5.5)	(3.4)	(1.3)	(−1.5)	(0.8)	(−0.3)	(1.2)	(2.6)
Companies [1]										
Primary income	952	921	857	883	914	1,002	1,128	1,174	1,259	1,379
Current transfers to (−) other sectors [3]	−147	−126	−135	−137	−158	−181	−216	−221	−260	−309
Disposable income	806	795	722	746	756	822	912	953	1,000	1,070
General government [1]										
Primary income	54	29	52	21	37	114	176	261	349	415
Current transfers from other sectors [3]	564	649	628	643	672	791	842	822	893	940
Disposable income	617	678	680	664	709	905	1,018	1,083	1,242	1,355
Rest of the world										
Disposable income	70	63	72	90	94	106	107	137	135	153
GNP before statistical adjustments	6,170	6,488	6,864	7,206	7,499	7,826	8,169	8,416	8,798	9,227
Statistical adjustments	−13	32	4	8	−36	19	6	15	19	20
GNP after statistical adjustments	6,156	6,520	6,868	7,214	7,464	7,845	8,175	8,431	8,817	9,246

Sources : NAI, NBB.

[1] Including depreciation, but excluding the statistical adjustments whereby the three national accounts approaches are reconciled.

[2] Remunerations, including employers' social security contributions paid by enterprises and general government and civil service pensions.

[3] These are net amounts, i.e. the difference between transfers received from other sectors and transfers paid to other sectors.

[4] Data deflated by the national index of consumer prices.

TABLE IX — SUMMARY OF THE TRANSACTIONS OF THE MAJOR SECTORS OF THE ECONOMY AT CURRENT PRICES

(Billions of francs)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 e
1. Individuals										
1.1 Disposable income	4,676	4,951	5,389	5,706	5,940	5,993	6,133	6,243	6,421	6,649
1.2 Change in mathematical retirement pension reserves	15	13	15	11	15	24	28	35	37	37
1.3 Consumption	3,892	4,173	4,417	4,637	4,696	4,900	5,044	5,268	5,464	5,721
1.4 Gross saving (1.1 + 1.2 − 1.3)	799	792	987	1,080	1,260	1,117	1,116	1,010	993	965
p.m. Percentage of disposable income	17.1	16.0	18.3	18.9	21.2	18.6	18.2	16.2	15.5	14.5
1.5 Capital transfers [1]	...	−3	−5	−2	−4	−7	44	16	13	9
1.6 Gross capital formation	398	438	401	438	449	480	511	504	536	558
1.7 Net financing capacity (1.4 + 1.5 − 1.6)	401	351	581	639	807	630	650	522	470	416
2. Companies										
2.1 Disposable income	806	795	722	746	756	822	912	953	1,000	1,070
2.2 Change in mathematical retirement pension reserves	−15	−13	−15	−11	−15	−24	−28	−35	−37	−37
2.3 Gross saving (2.1 + 2.2)	790	782	707	735	741	798	885	918	963	1,033
2.4 Capital transfers [1]	16	21	21	27	33	15	−20	17	35	48
2.5 Gross capital formation	706	805	803	819	756	765	828	864	880	964
2.6 Net financing requirement (−) or capacity (2.3 + 2.4 − 2.5)	101	−3	−75	−57	17	49	37	71	118	117
3. General government										
3.1 Disposable income	617	678	680	664	709	905	1,018	1,083	1,242	1,355
3.2 Consumption	884	918	987	1,028	1,088	1,139	1,182	1,205	1,252	1,290
3.3 Gross saving (3.1 − 3.2)	−267	−239	−307	−363	−379	−235	−164	−123	−9	65
3.4 Capital transfers [1]	−26	−32	−28	−40	−43	−19	−36	−33	−32	−57
3.5 Gross capital formation	86	84	92	101	112	122	116	99	121	125
3.6 Net financing requirement (−) (3.3 + 3.4 − 3.5)	−379	−355	−428	−503	−534	−376	−317	−255	−162	−118
4. Statistical adjustments	−48	41	−4	18	−60	−12	−29	−3	−12	−11
5. Total of domestic sectors										
5.1 Net financing capacity (1.7 + 2.6 + 3.6 + 4)	75	34	74	97	230	291	341	335	415	404

Sources : NAI, NBB.

N.B. Excluding general government's lending and equity investment. The data relating to the transactions of individuals and companies are considered excluding any statistical adjustments. The total of these various adjustments is recorded in item 4.

[1] These are net amounts, i.e. the difference between transfers received from other sectors and transfers paid to other sectors, including net acquisitions of land.

TABLE X — REVENUE, EXPENDITURE AND NET FINANCING REQUIREMENT OF GENERAL GOVERNMENT

(Billions of francs)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 e
Revenue	2,750	2,951	3,102	3,275	3,405	3,657	3,760	3,892	4,091	4,256
Fiscal and parafiscal revenue	2,658	2,853	2,992	3,170	3,297	3,542	3,658	3,775	3,978	4,161
Levies weighing chiefly on earned incomes	1,578	1,706	1,816	1,967	2,034	2,141	2,201	2,250	2,346	2,415
Personal income tax [1]	700	763	794	872	893	974	1,005	1,035	1,085	1,115
Social security contributions [2]	879	944	1,023	1,095	1,141	1,167	1,196	1,215	1,261	1,300
Taxes on profits of companies [3]	153	139	141	129	155	182	215	231	266	320
Levies on other income and in respect of property [4]	223	252	241	230	222	266	279	269	290	296
Taxes on goods and services	704	755	793	845	886	953	963	1,024	1,076	1,130
Non-fiscal and non-parafiscal revenue	92	98	110	105	108	115	102	118	114	96
Expenditure excluding interest charges	2,500	2,620	2,838	3,007	3,146	3,255	3,358	3,443	3,573	3,705
Current transfers to individuals	1,437	1,522	1,657	1,769	1,835	1,890	1,974	2,039	2,107	2,174
Replacement incomes	819	863	936	984	1,036	1,064	1,092	1,122	1,163	1,191
Pensions	508	538	582	616	651	674	700	721	751	774
Private sector pensions	380	403	433	459	480	495	513	530	543	559
Civil service pensions	128	135	149	157	171	180	186	191	207	215
Old persons' guaranteed income	9	9	10	10	10	10	9	9	9	9
Early retirement pensions	45	48	51	53	51	52	52	53	51	49
Unemployment benefits	122	125	143	152	170	174	173	182	186	188
Career interruptions	4	5	6	6	7	5	5	5	6	6
Sickness and disability insurance benefits	84	89	95	97	98	98	100	103	104	108
Industrial accidents	22	23	25	25	24	24	24	25	25	24
Occupational diseases	15	15	15	15	15	15	15	15	15	14
Subsistence allowance	10	10	11	11	11	12	14	16	17	18
Other transfers to individuals [5]	618	659	722	785	799	826	882	911	944	984
of which : Health care	303	330	373	412	426	438	477	506	507	533
Family allowances	136	137	143	148	153	156	160	166	167	170
Other primary expenditure	1,062	1,098	1,181	1,238	1,311	1,364	1,384	1,404	1,467	1,530
Compensations	544	573	614	648	687	722	752	762	786	807
Net current purchases of goods and services	153	147	159	163	168	171	169	172	185	194
Subsidies to enterprises	133	144	151	150	156	147	155	166	143	148
Current transfers to the rest of the world	98	99	114	114	118	128	123	137	150	158
Gross fixed capital formation	86	84	92	101	112	122	116	99	121	125
Other capital expenditure	49	51	50	64	71	74	69	69	82	99
Net amount excluding interest charges	250	330	263	268	259	402	402	450	518	551
Interest charges	629	686	692	771	794	779	719	704	679	669
Net financing requirement (−)	−379	−355	−428	−503	−534	−376	−317	−255	−162	−118

Sources : NAI, NBB.

[1] Mainly withholding tax on earned income, advance payments, assessments and additional centimes on personal income tax.

[2] Total social contributions, including the special social security contribution.

[3] Mainly advance payments, assessments and withholding tax on income from movable property.

[4] Mainly withholding tax on income from movable property payable by individuals, the withholding tax on income from immovable property (including additional centimes). death duties, registration fees and the tax on stock exchange transactions.

[5] Apart from the two main sub-categories mentioned in the table, this item also includes mainly allowances to handicapped persons and transfers to the institutions accommodating them, subsidies to non-profit associations serving households, payments by subsistence funds and pensions to war victims.

TABLE XI — NET FINANCING REQUIREMENT (−) OR CAPACITY OF GENERAL GOVERNMENT AND OF ITS SUB-SECTORS

(Billions of francs)

	Central government			Local authorities	Social security	General government		
	Total	Federal government	Communities and regions			Total[1]	Entity I[2]	Entity II[3]
	(a) = (b) + (c)	(b)	(c)	(d)	(e)	(f) = (a) + (d) + (e)	(g) = (b) + (e)	(h) = (c) + (d)
1989	−431	−447	16	4	48	−379	−399	20
1990	−397	−370	−27	11	31	−355	−339	−16
1991	−428	−370	−58	21	−21	−428	−390	−38
1992	−510	−442	−68	14	−7	−503	−450	−54
1993	−510	−463	−47	−15	−9	−534	−472	−62
1994	−427	−375	−53	−2	53	−376	−322	−55
1995	−372	−323	−49	36	19	−317	−304	−13
1996	−280	−255	−25	23	3	−255	−253	−2
1997	−209	−201	−8	13	35	−162	−166	4
1998 e	−153	−157	4	−4	39	−118	−118	...

Sources : NAI, NBB.

[1] Concept used for the implementation of the convergence criteria defined in the Treaty on the European Union.

[2] Entity I : federal government and social security.

[3] Entity II : communities and regions and local authorities.

TABLE XII — OUTSTANDING AMOUNT OF GENERAL GOVERNMENT'S DEBT

(End of period, billions of francs)

	Official debt of the Treasury					Gross consolidated debt of general government[1]
	In foreign currencies	In Belgian francs			Grand total	
		At up to one year	At over one year	Total		
	(a)	(b)	(c)	(d) = (b) + (c)	(e) = (a) + (d)	(f)
1989	1,131	1,830	3,827	5,657	6,788	7,749
1990	1,112	1,926	4,187	6,113	7,225	8,222
1991	1,107	1,912	4,732	6,644	7,751	8,738
1992	1,011	1,923	5,355	7,278	8,289	9,299
1993	1,520	1,702	5,852	7,553	9,073	9,999
1994	1,349	2,190	5,796	7,986	9,336	10,343
1995	1,085	1,738	6,706	8,444	9,530	10,555
1996	734	1,873	6,999	8,872	9,606	10,541
1997	784	1,932	7,089	9,021	9,806	10,574
1998	701	1,690	7,367	9,057	9,758	10,536 e

Sources : Ministry of Finance, NBB.

[1] Concept used for the implementation of the convergence criteria defined in the Treaty on European Union.

TABLE XIIIa — CURRENT TRANSACTIONS OF BELGIUM [1] ON A TRANSACTIONS BASIS

(Billions of francs)

	1996			1997			1998 First nine months		
	Credits	Debits	Balances	Credits	Debits	Balances	Credits	Debits	Balances
Goods and services	5,576	5,242	335	6,267	5,884	383	4,847	4,577	270
Goods	4,668	4,345	323	5,238	4,898	340	4,042	3,783	259
General merchandise	4,528	4,299	229	5,099	4,852	247	3,935	3,742	193
Commission processing	112	24	88	111	22	89	87	22	65
Repairs to goods	8	10	−2	6	10	−4	5	8	−3
Purchases of goods in ports	17	10	6	19	12	7	13	10	3
Non-monetary gold	3	1	1	3	2	1	2	1	1
Services	909	897	12	1,029	986	42	805	794	11
Transport	287	226	60	329	262	67	247	191	55
Travel	159	275	−116	162	281	−119	131	239	−108
Communications	26	13	13	31	18	13	23	14	10
Building	22	19	3	34	31	3	24	21	3
Insurance	15	16	−1	14	15	−1	11	12	−1
Financial services	46	45	2	58	53	5	51	48	2
Data-processing and information services	38	19	18	41	25	16	32	22	9
Fees and licence dues	20	36	−16	22	36	−14	16	28	−12
Other services to enterprises	248	216	32	286	244	41	232	200	32
of which merchanting (net)	—	—	...	—	—	11	—	—	15
Personal, cultural and leisure services	8	13	−4	10	13	−3	7	9	−2
Services provided or received by general government, not included elsewhere	42	20	22	42	8	34	32	8	23
Incomes	985	844	141	996	846	150	847	743	105
Compensation of employees	142	33	108	142	35	107	105	25	79
Income from direct and portfolio investment	843	811	33	854	811	44	743	717	26
Current transfers	188	314	−126	207	332	−125	142	265	−123
General government	68	161	−93	75	177	−102	43	141	−97
Other sectors	120	153	−33	132	155	−23	99	125	−26
Total current transactions on a transactions basis	6,749	6,400	350	7,470	7,061	409	5,837	5,585	252

Source : NBB.

[1] Belgium's transactions comprise transactions with third countries as well as those with Luxembourg. The difference between the balances of the BLEU and those of Belgium therefore correspond, apart from any statistical deviations, to Luxembourg's balances both vis-à-vis third countries and vis-à-vis Belgium. This reasoning is not applicable, however, to the gross flows, since, while the bilateral balances between Belgium and Luxembourg are equal except for the sign, this is not the case for the flows, as the credits of the one are equal to the debits of the other, and vice versa.

TABLE XIIIb — CURRENT TRANSACTIONS OF THE BLEU ON A TRANSACTIONS BASIS

(Billions of francs)

	1996			1997			First nine months 1998		
	Credits	Debits	Balances	Credits	Debits	Balances	Credits	Debits	Balances
Goods and services	5,898	5,538	360	6,647	6,250	397	5,183	4,894	289
Goods	4,790	4,521	269	5,380	5,112	269	4,177	3,967	211
General merchandise	4,636	4,456	180	5,225	5,038	187	4,054	3,908	147
Commission processing	114	32	81	112	35	77	87	26	61
Repairs to goods	8	10	−2	6	10	−4	5	9	−4
Purchases of goods in ports	19	11	9	23	14	9	16	12	5
Non-monetary gold	14	12	2	14	14	...	15	13	2
Services	1,107	1,017	91	1,266	1,138	128	1,006	927	79
Transport	296	234	62	342	272	71	257	196	61
Travel	185	289	−104	190	299	−109	156	256	−100
Communications	40	14	26	46	18	28	37	14	23
Building	21	22	...	34	33	1	23	23	1
Insurance	28	25	3	33	27	5	25	21	4
Financial services	130	76	54	167	101	66	147	98	49
Data-processing and information services	41	21	20	45	27	18	33	25	8
Fees and licence dues	21	37	−16	24	39	−15	18	30	−12
Other services to enterprises	282	255	27	320	289	32	259	237	22
of which merchanting (net)	—	—	9	—	—	20	—	—	19
Personal, cultural and leisure services	13	23	−10	14	24	−10	15	19	−4
Services provided or received by general government, not included elsewhere	51	20	31	51	8	43	37	9	28
Incomes	1,893	1,675	218	1,991	1,766	226	1,673	1,513	160
Compensation of employees	139	80	59	140	87	52	104	67	37
Income from direct and portfolio investment	1,754	1,595	159	1,852	1,678	173	1,569	1,446	123
Current transfers	231	374	−142	257	396	−139	176	311	−135
General government	83	180	−98	92	197	−105	55	157	−101
Other sectors	149	194	−45	165	199	−35	121	155	−34
Total current transactions on a transactions basis	8,022	7,587	435	8,895	8,411	484	7,032	6,718	314

Source : NBB.

TABLE XIV — CAPITAL AND FINANCIAL ACCOUNT OF THE BLEU ACCORDING TO THE STANDARD COMPONENTS OF THE IMF LAYOUT

(Balances, billions of francs)

	1995	1996	1997	First nine months 1997	First nine months 1998
Capital transactions	11	6	14	13	−2
Capital transfers	6	6	16	16	−1
Purchases and sales of non-financial non-produced assets	5	...	−2	−2	−1
Financial transactions	−386	−398	−477	−364	−333
Direct investment	−27	186	145	133	62
Of the BLEU abroad	−345	−250	−286	−178	−564
Of foreign countries in the BLEU	319	435	431	310	626
Portfolio investment	−675	−384	−233	2	−624
Assets	−820	−1,527	−2,208	−1,567	−2,436
Equity securities	−102	−110	−754	−635	−704
Credit institutions	34	6	−28	−43	−32
Other sectors	−135	−116	−727	−592	−672
Bonds, money market instruments and derivative products	−718	−1,417	−1,454	−932	−1,732
Credit institutions	−723	−757	−454	−261	−262
Other sectors	5	−660	−1,000	−671	−1,470
Liabilities	145	1,143	1,976	1,569	1,812
Equity securities	183	1,057	1,711	1,361	1,722
Bonds, money market instruments and derivative products	−39	86	264	209	90
General government	79	−84	5	31	20
Credit institutions	93	35	97	135	−8
Other sectors	−211	135	163	43	78
Other financial transactions	322	−182	−353	−453	256
Assets	−729	−435	−1,697	−1,889	−1,098
Trade credits	−4	−11	−62	−60	−24
Loans, deposits and other assets	−725	−424	−1,634	−1,828	−1,073
Monetary authorities	...	...	...	...	−5
General government	−2	−11	−11	−10	25
Credit institutions	−535	314	−935	−1,430	−899
Other sectors	−187	−727	−689	−388	−194
Liabilities	1,051	253	1,344	1,436	1,354
Trade credits	10	13	38	5	−5
Loans, deposits and other liabilities	1,041	240	1,306	1,431	1,359
Monetary authorities	6	−14	−2	−1	...
General government	9	−1	−5	13	10
Credit institutions	1,282	177	1,020	1,368	1,327
Other sectors	−255	78	293	51	22
The NBB's reserve assets	−7	−18	−36	−46	−26
Total capital and financial transactions	−375	−393	−463	−351	−335

Source : NBB.
Minus sign : increase in assets or decrease in liabilities of residents.

TABLE XV — INDICATIVE EXCHANGE RATES [1]

(Quotations in Belgian francs, annual averages)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
German mark	20.96	20.68	20.59	20.59	20.90	20.61	20.58	20.58	20.63	20.63
French franc	6.18	6.14	6.06	6.07	6.10	6.02	5.91	6.05	6.13	6.15
Dutch guilder	18.58	18.35	18.27	18.28	18.60	18.37	18.37	18.37	18.33	18.30
Pound sterling	64.55	59.47	60.23	56.64	51.90	51.15	46.56	48.35	58.59	60.13
US dollar	39.43	33.41	34.18	32.12	34.57	33.43	29.51	30.96	35.78	36.29
Italian lira (100)	2.87	2.79	2.75	2.62	2.20	2.07	1.81	2.01	2.10	2.09
Japanese yen (100)	28.63	23.14	25.40	25.36	31.24	32.70	31.48	28.47	29.64	27.84
Spanish peseta (100)	33.27	32.79	32.87	31.46	27.22	24.96	23.66	24.45	24.43	24.30
Swedish krona	6.11	5.64	5.65	5.53	4.44	4.33	4.14	4.62	4.69	4.56
Swiss franc	24.11	24.09	23.83	22.89	23.41	24.46	24.95	25.08	24.66	25.05
Austrian schilling	2.98	2.94	2.93	2.93	2.97	2.93	2.92	2.93	2.93	2.93
Irish punt	55.85	55.26	54.99	54.67	50.62	49.98	47.29	49.56	54.24	51.67
Danish krone	5.39	5.40	5.34	5.33	5.33	5.26	5.26	5.34	5.42	5.42
Finnish markka	9.18	8.73	8.45	7.19	6.05	6.41	6.75	6.74	6.89	6.79
Canadian dollar	33.30	28.63	29.84	26.60	26.79	24.50	21.50	22.70	25.85	24.52
Portuguese escudo (100)	25.02	23.44	23.64	23.81	21.53	20.14	19.66	20.07	20.41	20.14
Norwegian krone	5.71	5.34	5.27	5.17	4.87	4.74	4.65	4.79	5.06	4.80
Australian dollar	—	—	26.61	23.62	23.48	24.45	21.89	24.24	26.59	22.86
Greek drachma (100)	24.29	21.11	18.76	16.87	15.07	13.78	12.73	12.86	13.10	12.30
New Zealand dollar	—	—	19.76	17.28	18.72	19.83	19.35	21.29	23.69	19.50
Ecu	43.35	42.50	42.26	41.54	40.40	39.55	38.12	38.77	40.41	40.70
p.m. Effective exchange rate for the Belgian franc [2] (1985 = 100)	(105.8)	(110.9)	(110.6)	(112.8)	(113.6)	(115.5)	(120.1)	(117.9)	(113.2)	(113.4)

Source : NBB.

[1] Until 31 December 1990 : official exchange rates fixed by the bankers meeting at the Brussels Clearing House. Since 1991 : indicative exchange rates.

[2] Weighted by the importance of the OECD countries, except Iceland, Turkey, Mexico, Hungary, Poland, the Czech Republic and South Korea, as competitors of resident producers of manufactured goods on all markets combined.

TABLE XVI — INVESTMENT AND FINANCING CHANNELS OF THE BELGIAN ECONOMY

(Changes, billions of francs)

	1995					1996					1997				
	Individuals	Companies [1]	General government	Rest of the world	Total	Individuals	Companies [1]	General government	Rest of the world	Total	Individuals	Companies [1]	General government	Rest of the world	Total
Formation of financial assets	884	332	−79	835	1,973	1,055	472	−151	616	1,992	911	528	−11	769	2,197
With Belgian credit institutions [2 3]	162	88	−137	567	680	302	432	−280	274	728	141	216	−56	410	710
With institutional investors operating on the Belgian market [4]	244	4	5	8	260	407	45	−5	8	455	629	95	−5	21	740
In the form of securities acquired direct from the final borrowers	472	−3	70	203	741	298	−40	127	263	648	236	−20	...	142	358
Via other channels [5]	7	244	−16	57	292	49	35	6	72	162	−95	236	50	196	388
New financial liabilities	71	485	241	1,175	1,973	177	740	124	951	1,992	217	668	128	1,184	2,197
To Belgian institutions [2 3]	82	77	24	497	680	174	163	92	299	728	208	142	−106	467	710
To institutional investors operating on the Belgian market [4]	−3	58	229	−23	260	−1	131	106	218	455	22	183	145	391	740
In the form of securities placed direct with the final investors	—	201	106	434	741	—	276	−9	381	648	—	116	90	152	358
Via other channels [5]	−7	149	−118	268	292	4	170	−66	53	162	−12	228	−2	174	388
Financial balances [6]	813	−153	−320	−341		878	−267	−275	−335		694	−140	−139	−415	

Source : NBB.

[1] Credit institutions and institutional investors are eliminated from the companies sector because they are treated as pure financial intermediaries whose financial assets are identical with their financial liabilities. This treatment means, however, that the transactions of these institutions which are not directly linked with their role as financial intermediaries but are associated with their other entrepreneurial activities are recorded in the companies sector.

[2] Including the NBB, the Securities Regulation Fund, the Monetary Fund, the RGI and the Postal Cheque Office.

[3] For the interbank transactions which Belgian credit institutions carry out with their foreign correspondents, only the balance is shown in the table, in order to avoid exaggerating the size of the gross flows passing via this channel.

[4] Units and other securities of collective investment undertakings and also technical reserves of Belgian insurance companies and pension funds.

[5] The figures comprise assets and liabilities with foreign credit institutions, and also direct financing transactions which it has been possible to record between domestic sectors or with the rest of the world other than in the form of securities.

[6] The balances of the financial accounts of the domestic sectors do not correspond to the net financing capacities or requirements as recorded in the real accounts, owing to the differences between the dates of recording of the transactions in these two accounts, statistical adjustments or errors and omissions. Thus, for example, the financial accounts cannot, for lack of data, record most of the commercial claims and debts.

TABLE XVII — FORMATION OF FINANCIAL ASSETS BY AND NEW FINANCIAL LIABILITIES OF INDIVIDUALS

(Billions of francs)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	First nine months 1997	First nine months 1998	p.m. Outstanding amount at the end of September 1998
Formation of financial assets	1,023	953	1,189	1,027	921	1,072	884	1,055	911	672	575	23,850
With credit institutions or by direct purchase of securities	800	954	680	735	215	709	671	560	213	142	−276	17,916
Assets at up to one year	428	191	244	430	456	23	−15	318	240	114	308	6,861
Notes, coins and sight deposits	65	4	5	−22	101	12	24	11	52	86	74	1,202
Savings deposits	188	−255	−87	−32	37	446	403	432	318	204	74	3,591
Time deposits	93	353	157	400	67	−44	−292	−86	−120	−149	111	1,781
Securities	82	90	170	84	250	−391	−149	−39	−10	−27	50	287
Assets at over one year	372	762	436	304	−240	686	686	242	−27	28	−585	11,055
Time deposits	−12	...	7	−6	12	38	62	7	11	24	3	242
Fixed-interest securities	240	582	321	211	−239	605	605	142	−85	−42	−657	5,563
Shares	144	180	108	100	−14	43	19	94	47	47	69	5,249
Via institutional investors operating on the Belgian market	247	47	221	289	661	250	244	407	629	442	845	6,177
Collective investment undertakings	159	−47	105	187	545	108	3	154	288	188	603	3,273
Insurance companies and pension funds	88	94	116	102	116	141	241	253	341	254	242	2,904
Other assets [1]	−24	−48	288	3	45	113	−30	88	68	88	6	−243
New financial liabilities	273	194	165	156	84	181	71	177	217	173	240	3,733
Credits at up to one year	54	13	31	4	−33	4	−15	13	−4	−21	18	313
Instalment loans	29	28	22	19	2	3	−4	17	24	28	14	346
Other credits at over one year	190	153	111	133	115	173	91	148	197	166	208	3,073
Financial balances [2]	750	759	1,025	871	837	891	813	878	694	499	335	20,117

Source : NBB.

[1] Direct financing transactions which it has been possible to record between domestic sectors or with the rest of the world other than in the form of securities whose maturity is not known. Including, for the outstanding amounts, the statistical adjustments brought about by the methods of valuing share portfolios.

[2] See note 6 to Table XVI.

TABLE XVIII — FORMATION OF FINANCIAL ASSETS BY AND NEW FINANCIAL LIABILITIES OF COMPANIES [1]

(Billions of francs)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	First nine months 1997	First nine months 1998	p.m. Outstanding amount at the end of September 1998
Formation of financial assets	769	509	298	572	489	75	332	472	528	501	705	14,117
At up to one year	445	280	−245	76	268	−66	98	289	218	273	133	2,827
Notes, coins and sight deposits	47	9	24	12	28	−17	85	82	68	87	161	886
Other deposits	122	152	20	−24	283	14	41	171	131	128	−54	1,441
Other	276	119	−288	88	−43	−63	−28	36	19	58	26	500
At over one year	275	286	314	473	66	86	224	−1	132	98	306	10,416
Shares	165	178	124	113	−12	80	27	−46	−14	9	51	8,001
Fixed-interest securities	8	−19	41	76	−8	−5	−26	11	26	19	−6	197
Other	102	127	149	285	86	12	224	34	120	70	261	2,218
Other [2]	48	−57	229	24	155	55	10	184	178	130	266	874
New financial liabilities	1,020	840	795	828	542	281	485	740	668	427	590	22,189
At up to one year	291	111	215	129	15	67	97	178	68	40	145	2,387
Commercial paper	—	—	3	22	16	32	12	23	19	36	47	183
To credit institutions	250	68	135	43	−64	33	76	141	42	11	108	1,565
To other sectors	42	43	77	64	63	1	9	14	8	−7	−10	638
At over one year	589	674	614	603	416	265	429	494	504	337	311	18,854
Shares	324	457	403	443	263	258	250	254	228	197	236	14,320
Fixed-interest securities	14	−27	21	−9	2	−56	43	65	1	−9	−6	704
Other	251	245	189	169	151	63	136	176	275	149	81	3,830
Other [2]	140	55	−34	97	111	−51	−41	68	96	51	134	948
Financial balances [3]	−252	−331	−497	−256	−53	−206	−153	−267	−140	74	116	−8,072

Source : NBB.

[1] See note 1 to Table XVI.

[2] See note 1 to Table XVII.

[3] See note 6 to Table XVI.

TABLE XIX — FORMATION OF FINANCIAL ASSETS BY AND NEW FINANCIAL LIABILITIES OF GENERAL GOVERNMENT

(Billions of francs)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	First nine months 1997	First nine months 1998
Formation of financial assets[1]	72	91	142	58	120	−80	−79	−151	−11	−32	−42
At up to one year	45	50	68	3	104	−86	−100	42	39	−18	−78
At over one year	26	41	74	54	16	6	22	−194	−50	−14	36
New financial liabilities	496	485	595	576	675	314	241	124	128	255	153
In francs	428	507	609	688	226	466	503	458	129	256	148
At up to one year	211	92	13	−10	−218	488	−359	185	20	276	−3
At over one year	217	415	596	699	444	−22	862	272	109	−20	151
In foreign currencies	68	−22	−13	−113	449	−152	−262	−334	−1	−1	5
At up to one year	34	−27	−44	−96	439	−223	−323	−209	−24	24	49
At over one year	34	5	31	−17	10	71	61	−125	23	−25	−44
Financial balances[2]	−424	−394	−454	−518	−555	−394	−320	−275	−139	−288	−194

Source : NBB.

[1] Including lending and equity investment.

[2] See note 6 to Table XVI.

TABLE XX — BALANCE SHEET STRUCTURE OF BELGIAN CREDIT INSTITUTIONS [1]

(Changes, in billions of francs)

	1995		1996		1997		First nine months 1998		p.m. Outstanding amounts at the end of September 1998	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
By counterparty										
Individuals	82	162	174	302	208	141	209	23	3,043	9,205
Companies [2]	77	88	163	432	142	216	18	292	3,896	3,607
General government	24	−137	92	−280	−106	−56	138	16	6,371	121
Rest of the world [2]	885	954	250	225	494	436	66	100	10,223	10,599
of which foreign credit institutions	388	633	−49	−14	153	27	−246	−119	5,925	7,562
Sub-total	1,067	1,067	679	679	737	737	430	430	23,532	23,532
Belgian credit institutions	528	528	819	819	−269	−269	−348	−348	2,728	2,728
Total	1,596	1,596	1,498	1,498	469	469	82	82	26,260	26,260
By maturity										
At up to one year [3]	687	1,102	717	1,403	−12	628	−341	174	14,005	19,686
At over one year	909	494	781	95	481	−160	423	−92	12,255	6,575

Source : NBB.

[1] Including the NBB, the Securities Regulation Fund, the Monetary Fund, the RGI and the Postal Cheque Office.

[2] Transactions carried out with institutional investors operating in Belgium have been reclassified in the companies sector.

[3] Including fixed-term advances at over one year with a variable interest rate.

TABLE XXI — INVESTMENTS MADE BY RESIDENTS WITH INSTITUTIONAL INVESTORS OPERATING ON THE BELGIAN MARKET

(Changes, in billions of francs)

	Collective investment undertakings [1]	Pension funds	Insurance companies : life branches [2]	Insurance companies : other branches	Total [2]
1989	164	7	70	19	255
1990	−39	9	70	25	57
1991	133	19	82	25	231
1992	229	14	73	26	325
1993	560	13	89	24	664
1994	137	7	121	22	278
1995	15	19	215	12	261
1996	191	23	214	26	426
1997	387	21	302	30	681
First nine months					
1997	249		263		470
1998 e	694		251		881
p.m. Outstanding amount at the end of September 1998 e	3,765		3,106		6,523

Sources : Luxembourg Insurance Commissariat, Banking and Finance Commission, Insurance Supervision Office, Belgian Pension Funds Association, Belgian Association of Collective Investment Undertakings, NBB.

[1] Including collective investment undertakings governed by foreign law and operating in Belgium and undertakings for investment in claims.

[2] Excluding double counting resulting from liabities of institutional investors to other institutional investors.

TABLE XXII — NET ISSUES OF SECURITIES IN FRANCS BY COMPANIES AND GENERAL GOVERNMENT

(Billions of francs)

	Companies					General government			Grand total
	Fixed-interest securities	Shares [1 2]			Total	Treasury certificates [3]	Bonds [4]	Total	
		Listed shares	Unlisted shares	Total					
1989	14	110	262	372	386	149	94	243	629
1990	−27	18	447	465	438	112	361	472	910
1991	25	41	368	409	434	−14	523	508	942
1992	13	16	435	451	464	−37	661	625	1,088
1993	22	28	243	271	293	−217	294	76	369
1994	−23	45	224	269	246	431	−103	328	574
1995	55	10	246	257	312	−354	938	584	896
1996	88	100	173	274	362	175	293	469	830
1997	12	95	178	273	286	41	195	235	521
First nine months									
1997	20	74	125	199	218	267	53	320	538
1998	43	80	212	292	335	53	166	219	554
p.m. Outstanding amount at the end of September 1998	872	6,916	9,457	16,372	17,245	1,826	7,331	9,157	26,401

Sources : Banking and Finance Commission, NBB.

[1] Including shares issued by credit institutions, the exercise of warrants and issues of real estate certificates.

[2] Issues are valued on the basis of the recordings of the documents relating to the formation of companies or to capital increases or reductions published in the Moniteur belge.

[3] Including Treasury bills and commercial paper at up to one year issued by the communities and regions and the social security system.

[4] Including commercial paper issued by the communities and regions and the social security system.

TABLE XXIII — MAIN INTEREST RATES

(End-of-quarter rates)

		Three-month money market rates		Rates of the reference linear bond	Creditor rates [1]			Debtor rates [1]			
		Treasury certificates	Interbank market		Regulated savings deposits [2]	Three-month time deposits	Five-year notes	Overdrafts [3]	Six-month fixed-term advances [3]	Five-year investment credits [3]	Mortgage loans [3]
1994	I	6.12	6.13	7.19	4.48	5.55	5.85	9.91	7.53	7.64	6.97
	II	5.45	5.50	7.78	4.31	4.77	6.89	9.29	6.57	8.49	7.97
	III	5.26	5.33	8.50	4.61	4.50	7.54	9.26	6.55	9.42	8.74
	IV	5.23	5.25	8.34	4.62	4.52	7.50	8.79	6.26	9.24	8.81
1995	I	5.64	5.69	8.05	4.72	5.08	7.51	9.69	6.60	9.36	8.41
	II	4.65	4.69	7.55	4.07	4.08	6.01	8.29	5.60	8.07	7.75
	III	4.27	4.30	7.19	3.80	3.59	5.76	8.01	5.19	7.75	7.20
	IV	3.71	3.73	6.69	3.82	3.16	5.50	7.75	4.54	7.34	6.63
1996	I	3.28	3.33	6.80	3.12	2.71	5.73	7.30	4.32	7.22	6.31
	II	3.27	3.30	6.80	3.10	2.77	5.45	7.28	4.38	7.25	6.42
	III	3.04	3.06	6.23	3.13	2.55	5.02	7.00	3.98	6.75	6.41
	IV	3.04	3.04	5.86	2.84	2.51	4.72	7.02	4.01	6.29	5.64
1997	I	3.33	3.34	5.96	2.82	2.76	4.50	7.02	4.31	6.53	5.05
	II	3.27	3.30	5.75	2.83	2.77	4.51	7.02	4.22	6.23	5.49
	III	3.60	3.63	5.61	2.84	3.01	4.61	7.01	4.65	6.42	5.48
	IV	3.60	3.62	5.39	2.84	3.03	4.67	7.26	4.76	6.49	5.88
1998	I	3.68	3.70	5.07	2.83	3.03	4.32	7.29	4.70	6.19	5.41
	II	3.65	3.68	4.93	2.83	3.13	4.41	7.26	4.68	6.24	5.54
	III	3.45	3.49	4.19	2.86	2.97	3.72	7.26	4.41	5.46	5.45
	IV	3.08	3.20	4.06	2.65	2.75	3.38	7.27	4.05	5.12	5.01

Source : NBB.

Bibliographical references : *Bulletin statistique de la Banque Nationale de Belgium*, 2e trimestre 1996 : « *Modifications au chapitre 19 : Taux d'intérêt* ».
Bulletin de la Banque Nationale de Belgium, LXIXe année, n° 9, September 1994 : « *Nouveau Table relatif aux taux d'intérêt débiteurs et créditeurs appliqués par les établissements de crédit* ».
Bulletin de la Banque Nationale de Belgium, LXVIe année, n° 5, May 1991 : *Révision du chapitre XIX « Taux d'escompte, d'intérêt et de rendement » de la partie « Statistiques » du Bulletin*.

[1] Rates obtained by means of a survey conducted among the main credit institutions and weighted by the market share of each of these institutions.

[2] In 1994 and 1995 the figure shown is the basic interest rate plus either the fidelity bonus or the growth bonus, whichever is the higher, plus a cooperative member bonus, where appropriate. From the first quarter of 1996 onwards the figure is the basic rate plus the fidelity bonus.

[3] Owing to a redefinition of the reference contract, the interest rate shown from the first quarter of 1996 onwards is no longer fully comparable.

TABLE XXIV — OFFICIAL INTEREST RATES

(Percentages per annum)

a) Rates of the National Bank of Belgium and the Rediscount and Guarantee Institute until 31 August 1998

Date of application of change	Discount rate	The Bank's central rate [1]	Rate for granting of credits by tender [2]	Rate for current account advances		RGI's rate for daily closing surpluses	
				Within credit lines	Beyond credit lines	Ordinary tranche	Overstepping tranche [3]
1997 10 October	2.75	3.30	—	4.55	6.00	2.30	1.30
13 October	″	″	3.30	″	″	″	″

b) Rates of the National Bank of Belgium from 1 September 1998 to 31 December 1998

Date of application of change	Discount rate	Rate for granting of credits by tender [2]	Rate for current account advances	Rate for reserve shortfalls [4]	Deposit rate
1998 1 September	2.75	— [5]	4.50	6.00	2.30
4 December	″	3.00	″	″	″
7 December	″	—	″	″	2.00
15 December	—	—	″	″	″

Source : NBB.

Bibliographical references : *Bulletin de la Banque Nationale de Belgique*, LXVIe année, n° 5, mai 1991 : *Révision du chapitre XIX « Taux d'escompte, d'intérêt et de rendement » de la partie « Statistiques » du Bulletin*.
Revue économique de la Banque Nationale de Belgique, 4e année, août 1998 : *Réserves obligatoires : spécifications du système du SEBC et introduction d'un système transitoire au cours des derniers mois de 1998*.
Bulletin statistique de la Banque Nationale de Belgique, 1998-III : *Modifications apportées aux statistiques monétaires à la suite des adaptations des instruments de politique monétaire depuis le 1er septembre 1998*.

[1] Rate applicable to the RGI's current account advances to the primary dealers and to the latter's deposits with the RGI, up to Fr. 350 million per institution.

[2] One-week credits until 24 August 1998, one- and two-week credits on 31 August 1998, two-week credits from 4 September 1998 onwards. The dates shown correspond to the dates of the tenders (or transaction dates) and not to the settlement dates (or value dates). Save in exceptional cases, these are, until 24 August 1998, two days after the tender dates. Since 31 August 1998 settlement has normally taken place one working day after the tender date. If there are no data, this means that there was no tender on that date.

[3] This rate applies to surpluses exceeding 5 p.c. of the credit lines allocated individually to the financial intermediaries.

[4] This rate, which is equal to the rate for current account advances in force on the last working day of the holding period, plus 150 basis points, is applied to recorded shortfalls in compulsory reserves.

[5] This rate remained at 3.30 p.c.

TABLE XXV — TRANSACTIONS OF THE NATIONAL BANK OF BELGIUM

(Changes in billions of francs)

	1993	1994	1995	1996	1997	1998
Transactions apart from regulation of the money market	−86.2	38.4	−23.7	226.0	−3.6	13.5
Increase (−) or decrease in the note circulation [1]	−10.0	22.9	−33.4	−19.2	−13.0	−15.4
Increase or decrease (−) in the foreign exchange reserves [2]	−74.5	9.5	8.4	15.7	22.2	−72.2
Increase (−) or decrease in the deposit of the Belgian State [3]	−1.0	0.3	...	−0.2	0.6	−0.3
Increase (−) or decrease in the deposit of the Luxembourg State	−0.5	...	0.5	...	...	...
Miscellaneous net items	−0.2	5.7	0.8	229.7 [4]	−13.4	101.4 [4]
Issuing (−) or repayment of the Bank's certificates of deposit	—	—	—	−230.0	...	230.0
Adjusted balance	−86.2	38.4	−23.7	−4.0	−3.6	243.5
Regulation of the money market by other transactions in francs	87.7	−43.6	31.9	0.4	−2.8	38.2
Mobilisation of commercial bills	0.3	−1.6	−0.3	0.2	−0.1	−2.5
Granting of credits by tender	5.1	−0.1	−10.0	...	−5.0	169.9
Direct interventions on the money market	82.3	−41.9	42.2	0.2	2.3	−129.2
Purchases or sales (−) of securities on the market	15.0	−14.5	6.0	1.0	1.0	−0.2
Very-short-term repurchase agreements	65.3	−25.4	36.2	−4.8	5.3	−129.0
Interbank deposits or loans (−)	2.0	−2.0	...	4.0	−4.0	...
Net end-of-day recourse to permanent borrowing and deposit (−) facilities	−1.5	5.2	−8.2	3.6	6.4	−2.9
Formation of monetary reserve assets (−)	—	—	—	—	—	−278.8

Source : NBB.

[1] Including banknotes which are no longer legal tender.

[2] At market exchange rates and on the value date.

[3] Including, until their abolition on 1 July 1993, the increase or decrease (−) in advances to the State and the Securities Regulation Fund.

[4] Including the payment to the State of the capital gains on gold.

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CHARTS

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The National Bank of Belgium as an Enterprise

INTRODUCTION

The end of 1998 marked a turning-point in the history of the Bank. It henceforth constitutes an integral part of the European System of Central Banks (ESCB), which was established on 1 June 1998 and has been operational since 1 January 1999.

Preparations for this major event characterised the Bank's activities throughout the course of the past year.

On an institutional level, and supplementing initial adjustments made by the law of 22 March 1993, the Bank was given a new Organic Law, the law of 22 February 1998. All the clauses which were incompatible with the Treaty on Economic and Monetary Union were repealed. All the supervisory powers exercised by the Minister of Finance concerning the Bank's duties with regard to the ESCB were withdrawn. The Council of Regency lost its decision-making powers in the fields specific to the ESCB. The main task of the Board of Censors is henceforth to supervise the preparation and implementation of the budget. The General Council has been abolished.

In view of the fact that the ECB publishes a consolidated statement of the ESCB each week (recording the situation on Friday and published on Tuesday), the Bank will cease to publish its own weekly statement once its Organic Law has been adapted to this effect. It will therefore publish a monthly accounting statement in its Statistical Bulletin. Furthermore, the ECB publishes quarterly and annually the consolidated balance sheet of the ESCB.

With regard to monetary policy, the consequences of European integration have been explained elsewhere in this annual report.

The Bank is actively involved in the preparations, coordinated by the ECB, for the putting into circulation of the euro coins and banknotes at the beginning of January 2002. This will be a large-scale operation, since for Belgium it will mean building up an available stock of some 500 million new banknotes and 2.3 billion new coins, which will have to be put into circulation quickly in exchange for those denominated in Belgian francs.

In the meantime, the public can exchange banknotes of other countries of the euro area (in French francs, guilders, Italian lire, ...) for Belgian francs free of charge at the fixed conversion rate at the Bank's counters in Brussels, Antwerp and Liège.

The interbank payment and settlement systems managed by the Bank (CTEC, ELLIPS, securities clearing) made the changeover to the euro on 1 January 1999. On the same date, the TARGET system, which links the fifteen national gross payment systems with each other, came into operation. Via this system, transfers in euros between credit institutions of different countries can be carried out just as quickly and safely as within a single country.

Furthermore, in accordance with the ECB rules, the operation of the securities clearing system was adapted in June 1998 to enable transactions to be settled straight *away, without having to wait for the close of business. The dematerialised securities issued by the State were converted to euros at the beginning of January 1999.*

Statistical operations were also brought into line with the requirements of Economic and Monetary Union.

The Bank's adaptation to the euro is by no means confined to the activities carried out by the ESCB, but concerns practically all its departments and services. The Bank in fact decided two years ago to make the complete changeover to the euro at the beginning of the third stage of Economic and Monetary Union, i.e. on 1 January 1999, as regards both its accounting operations and its transactions with the Belgian financial system, as well as its relations with fiscal and social public departments. However, in accordance with the principle of « no prohibition, no compulsion », the Bank will equally continue to accept data in Belgian francs until the end of 2001.

All current accounts opened with the Bank were converted to euros free of charge on 1 January 1999. Their holders can still make payments in Belgian francs.

Until the end of December 2001, banking institutions can choose to record the data which they supply to the two central credit institutions managed by the Bank in Belgian francs or euros. The files of these central institutions will be converted to euros once the number of lines reported in euros has crossed the 45 p.c. threshold.

Similarly the charges for filing annual accounts, as well as for the various products sold by the Central Balance Sheet Office, can henceforth be paid in Belgian francs or in euros. The annual accounts and the consolidated accounts can be expressed in euros if they relate to a financial year ended from 1 January 1999 onwards. Those which relate to a financial year ended after 31 December 2001 must be expressed in euros. The file of the Central Balance Sheet Office will be converted to euros at the end of April 2000.

Independently of the adjustments required within the framework of monetary union, the Bank has also introduced certain innovations such as the creation of an Internet information site, the setting up of new facilities for banking institutions with regard to the withdrawal and deposit of banknotes, the development and launch of a new CD-ROM for the Central Balance Sheet Office and the start of a project for the optical reading of statistical data gathered. A new emergency plan for the computing systems has come into operation. Finally, the tests aimed at guaranteeing the compatibility of the data-processing environment by the year 2000 are already under way, and are being closely watched by the Board of Directors.

On 1 January 1999, the Bank took over the activities of the Rediscount and Guarantee Institute (RGI) with regard to the processing of commercial bills. Furthermore, in the course of 1999, the management of the legal deposit guarantee system will be entrusted to a fund for the protection of deposits and financial instruments whose day-to-day running will be looked after by the Bank. The staff of the RGI were transferred to the Bank on 1 January 1999.

I. ACTIVITIES

1. NOTE CIRCULATION

1.1 ISSUING POLICY

The final addition to the range of Belgian banknotes was made in 1998 with the launch on 16 April of the Fr. 500 banknote dedicated to René Magritte. In parallel with this, the corresponding denomination of the older series (Fr. 500, Meunier type) was gradually withdrawn from circulation and ceased to be legal tender on 15 December.

The public therefore has at its disposal a uniform series of six banknotes possessing state of the art security features. These will be in circulation until they are replaced by the euro in 2002. The presentation leaflets which are distributed widely, especially upon the launch of each new banknote, give a brief description of the security features, thus enabling cashiers and, more generally, the public itself to check the authenticity of the banknotes which they use.

The Bank has played an active role in the work of developing the euro banknotes. In the autumn of 1998 it successfully carried out a test production of banknotes in the European currency. In the course of 1999 it will commence industrial production of these new banknotes in order to build up the stocks necessary for putting them into circulation from 1 January 2002.

1.2 DEVELOPMENT OF THE NOTE CIRCULATION

The start of 1998 was marked by a six-week strike on the part of security firms, launched after the series of violent attacks which had been made on them. During this period the outstanding amount of banknotes in circulation increased by more than Fr. 30 billion, then dropped by Fr. 50 billion during the fortnight following the resumption of activities. After that, the note circulation returned to its normal pattern, showing the usual seasonal fluctuations.

However, for most of the year, the note circulation remained below the 1997 level. Only over the long weekend at the end of December 1998 did the circulation exceed that of the previous year.

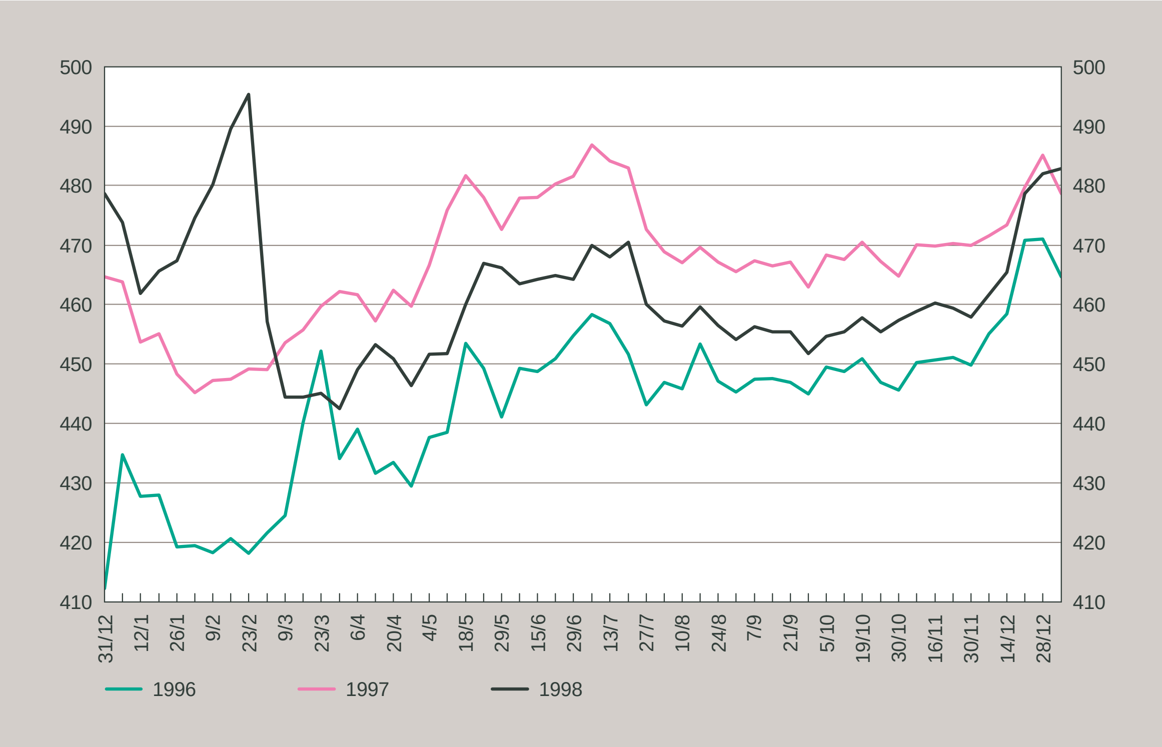
At the end of 1998 the note circulation reached Fr. 482.9 billion, i.e. 0.9 p.c. more than at the same time the previous year. This growth, which is ap-

NEW ISSUES SINCE 1994

Date of issue	Denomination	Type
22.04.94	Fr. 2,000	Horta
15.06.95	Fr. 100	Ensor
25.01.96	Fr. 200	Sax
24.04.97	Fr. 1,000	Permeke
19.06.97	Fr. 10,000	Albert II-Paola
16.04.98	Fr. 500	Magritte

CHART 1 — NOTES IN CIRCULATION

(Weekly outstanding amounts, in billions of francs)



preciably lower than that in the two previous years, is probably influenced by measures taken by large-scale distributors and the banking sector to encourage electronic payment. In the light of this, the number of banknotes in circulation, for its part, fell from 334.8 to 330.9 million, which represents a contraction of 1.2 p.c.

NOTES IN CIRCULATION [1]

(End-of-year figures)

	Value in billions of francs		Number in millions of notes	
	1997	1998	1997	1998
Fr. 10,000	220.1	230.4	22.0	23.0
Fr. 2,000	159.2	155.6	79.6	77.8
Fr. 1,000	68.6	65.7	68.6	65.7
Fr. 500	14.3	14.7	28.6	29.4
Fr. 200	5.6	6.0	28.0	30.0
Fr. 100	10.8	10.5	108.0	105.0
Total	478.6	482.9	334.8	330.9

[1] Including the notes in the financial intermediaries' cash holdings.

CHART 2 — COMPOSITION OF THE NOTE CIRCULATION BY DENOMINATION

(End-of-year figures, as percentages of the total amount)

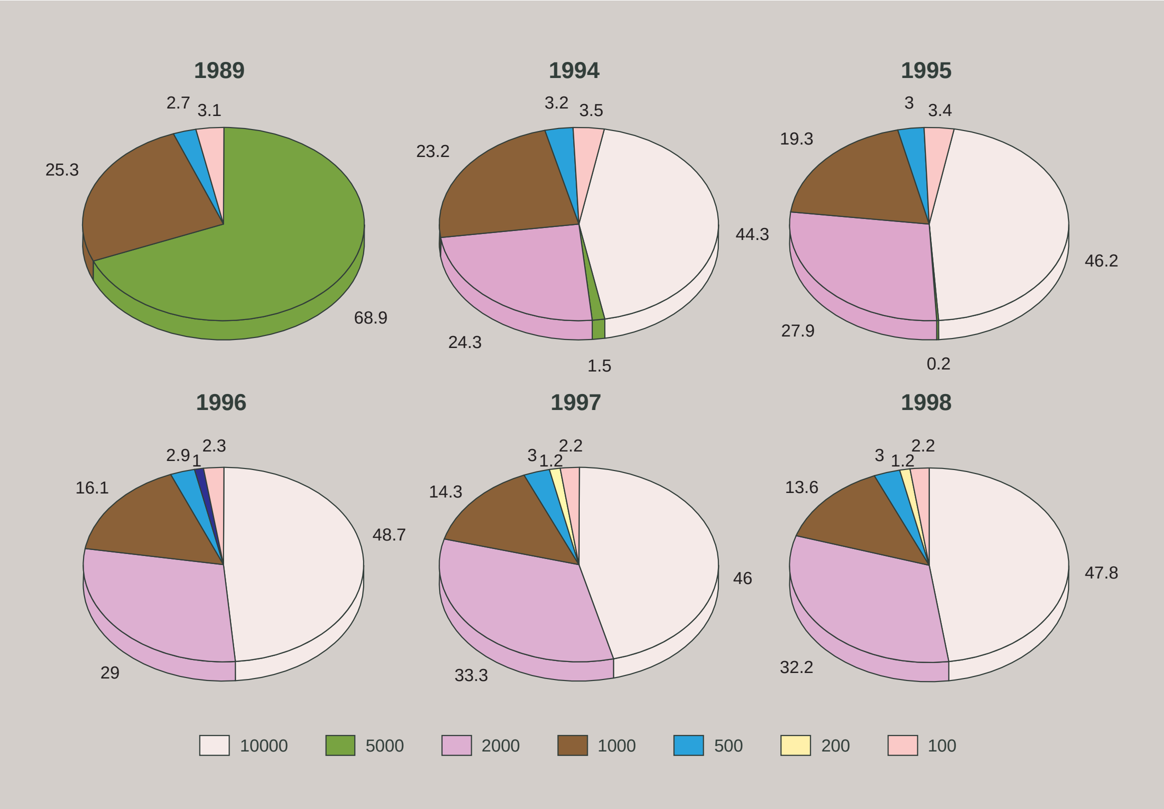
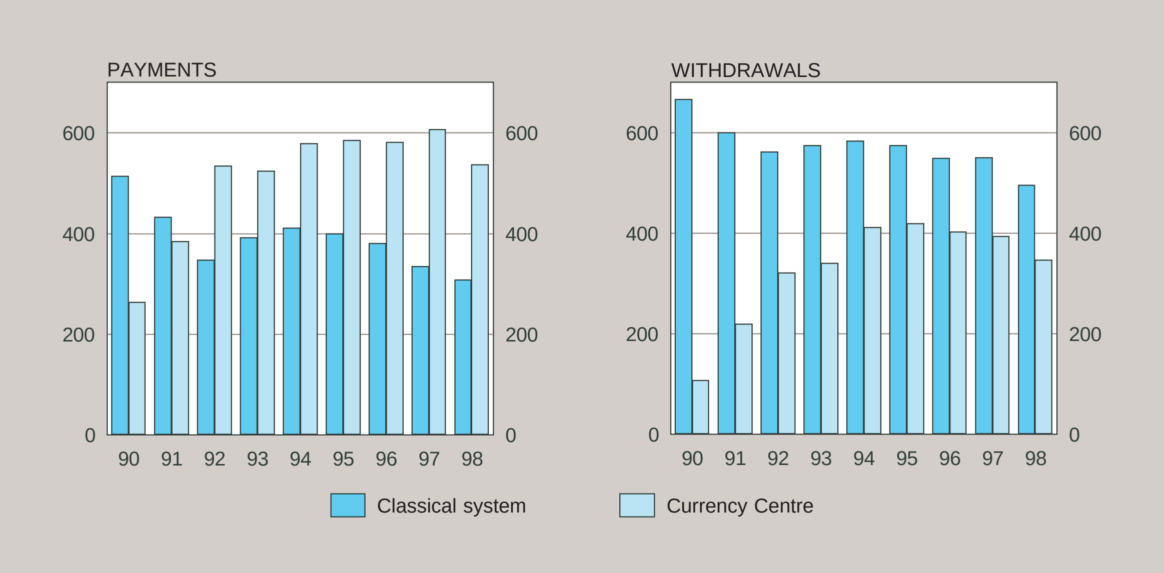


CHART 3 — PAYMENTS AND WITHDRAWALS OF NOTES (PROVINCES + BRUSSELS) MADE AT THE CURRENCY CENTRES [1] AND BY THE CLASSICAL SYSTEM

(Millions of notes)



[1] Including « Cash centres » from 1 November 1998.

1.3 MAINTENANCE OF BANKNOTE CIRCULATION

Banknotes paid in at the Bank's counters, chiefly by financial intermediaries and to a lesser degree by private individuals and enterprises, are verified and sorted by means of very high-technology machines which check at the same time the authenticity of the notes and their degree of deterioration.

1.4 METHODS OF WITHDRAWING AND PAYING IN BANKNOTES

In 1998, for all the Bank's establishments combined, notes withdrawn or paid numbered 1,687 million, representing a contraction of more than 10 p.c. on the previous year.

In order to reduce transportation of funds, new facilities for withdrawal and payment (known as « cash centres ») were introduced, to supplement those which are already in existence (classical system and currency centres [1]).

1.5 EXCHANGING OF BANKNOTES OF COUNTRIES IN THE EURO AREA

Since the beginning of 1999, in implementation of Article 52 [2] of the Statutes of the ESCB, the Bank has been exchanging euroarea banknotes free of charge at the fixed conversion rate at its establishments in Brussels, Liège and Antwerp. The counters of the head office in Brussels, and those of the two branches named above which had hitherto been accessible to the public only from 9 a.m. to 1 p.m., are now open until 3 p.m. Exchanges will only be carried out in one direction : the public can exchange notes of the other ten countries concerned (French francs, guilders, ...) for Belgian francs, but not the reverse. This transaction, which does not apply to coinage, is limited to the equivalent of 10,000 euros (i.e. Fr. 403,399) per person per day.

With regard to exchanges of euro-area banknotes carried out by credit institutions or bureaux de change, most of these have agreed to set a limit on the changes made for purchases and sales. They furthermore receive a contribution from the Bank towards meeting their costs for the repatriation of exchanged notes. Those institutions which have not signed the agreement can deposit their surplus euro-area banknotes at the Bank's branch at Aalst for forwarding to the issuing central bank.

2. INTERBANK PAYMENT SYSTEMS

With regard to payment systems, the year 1998 was chiefly characterised by the completion of the technical, legal and organisational preparations for the TARGET (Trans-European Automated Real-time Gross settlement Express Transfer) system. TARGET consists of the linking of the gross settlement systems of the Member States of the European Union, and is the payment system of the ESCB for the EMU. After the project had been developed, the emphasis was placed primarily on the testing and simulation of the system to ensure that it would be fully operational on the first working day of 1999.

Thanks to its rapid and high processing capacity, the TARGET system carries out payments in euros between nearly all

[1] In the classical system, withdrawals and payments are made in standardised packets. In its currency centres they are carried out as « tailor-made » transactions, so that funds can be deposited or drawn by the local branches of credit institutions without having to be centralised at another branch.

[2] Article 52 — Exchange of banknotes denominated in community currencies : « Following the irrevocable fixing of exchange rates, the Governing Council shall take the necessary measures to ensure that banknotes denominated in currencies with irrevocably fixed exchange rates are exchanged by the national central banks at their respective par values ».

AMOUNT AND NUMBER OF TRANSACTIONS PROCESSED* [1]

(Daily averages)

	Amount (in billions of francs)				Number (in billions of transactions)			
	ELLIPS	CTEC	Clearing house	Total	ELLIPS	CTEC	Clearing house	Total
1995	0	107	1,342	1,449	0	3,318	52	3,370
1996 (a)	0	123	1,253	1,376	0	3,412	45	3,457
1996 (b)	1,170	72	24	1,266	3.4	3,412	31	3,446.4
1997	1,376	74	22	1,472	3.8	3,537	28	3,568.8
1998	1,509	78	19 [2]	1,606	4.0	3,711	23 [2]	3,738.0

[1] Account being taken of the starting of ELLIPS on 24 September 1996.
— 1996 (a) : period from January to September 1996.
— 1996 (b) : period from October to December 1996.
[2] Estimate based on the first 11 months of 1998.

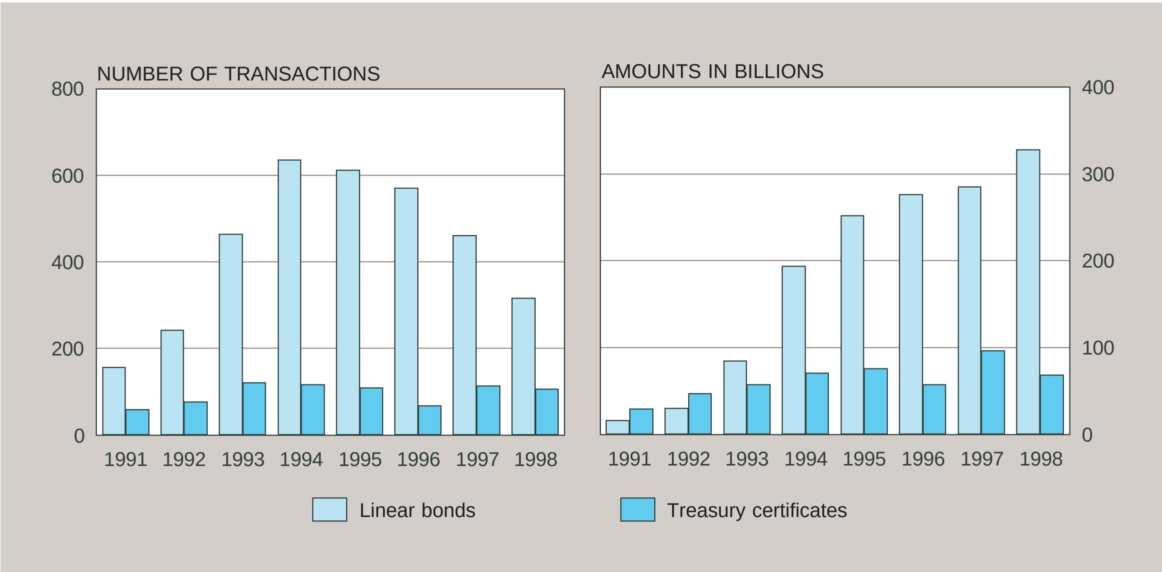
credit institutions within the European Union in real time. It thus helps to reduce system risks, mainly with regard to large payments relating to transactions carried out on money and exchange risks.

In Belgium, the automated systems CTEC and ELLIPS process the majority of interbank payments.

ELLIPS, the Belgian gross settlement system which is linked to TARGET, has been operational for large sums for more than two years. The average number of transactions and amounts processed each day by this system increased slightly compared to last year, from 3,800 to 4,000 respectively, and from Fr. 1,376 billion to Fr. 1,509 billion.

CHART 4 — SECONDARY MARKET TRANSACTIONS SETTLED BY THE CLEARING SYSTEM [1]

(Daily averages)



[1] Purchases, sales, repurchase agreements – except for those carried out by the National Bank as part of its monetary policy – and free transfers.

The second major pillar in Belgian interbank payment systems, the CTEC, designed for retail payments, recorded an increase in the number of transactions of around 4.9 p.c. in the year under review, and of 5.4 p.c. in the funds exchanged. The CTEC carried out, on average, 3.7 million transactions per day, averaging Fr. 78 billion.

In readiness for the introduction of the euro, the Belgian banking sector opted to use the euro exclusively in all interbank payment systems from the beginning of 1999.

3. SECURITIES CLEARING

The clearing system is a system organised by the Bank for the purpose of settling transactions on the primary and secondary securities markets. It basically enables transactions in dematerialised securities to be settled completely safely.

Its operation is based on both the principle of double notification together with that of delivery against payment. Furthermore, an automatic securities borrowing mechanism with provision of a guarantee enables participants to meet their delivery obligations.

With regard to the activities carried out in the clearing system, 1998 saw :

— the integration of new securities issued by the State, namely Treasury bills in Belgian francs, with an outstanding amount of around Fr. 51 billion at the end of December 1998 ;
— the transformation of the system itself through the adoption of gross settlement in place of settlement by clearing. The transactions are henceforth settled and entered in the accounts transaction by transaction, in securities and cash, at the end of each of the different cycles which take place in the course of the day. In this way, the direct participants in the system are free to use both securities and cash for those transactions which have been settled one by one, without having to wait for the close of business.

Chart 4 shows the development until the end of 1998 of transactions in the secondary market for linear bonds and Treasury certificates, both in nominal value as well as in the number of transactions. In the case of linear bonds the number of transactions has decreased since 1995, while the overall amounts processed continue to increase, reflecting an upward trend in amounts per transaction.

Within the framework of Stage Three of Economic and Monetary Union, the dematerialised securities issued by the Belgian State, namely linear bonds, Treasury certificates and split bonds, were converted into euros on 2 January 1999.

All transactions completed subsequently by the clearing system are settled in euros, whether or not the securities are denominated in this currency.

4. SURVEILLANCE OF PAYMENT AND SECURITIES SETTLEMENT SYSTEMS

Surveillance of payment and securities settlement systems stems from the fundamental functions of a central bank : on the one hand, an efficient and safe payment system guarantees the swift transmission of monetary policy signals ; on the other hand, the prevention and controlling of the system risk are essential in view of its role as lender of last resort.

The Bank has formalised the control of the payment and securities settlement systems in Belgium by establishing an « oversight » unit.

5. ECONOMIC STUDIES AND STATISTICS

5.1 ECONOMIC STUDIES

The Bank's administrative bodies conduct monetary policy and perform an advisory function for the government authorities. These tasks call for a coherent macroeconomic examination. For this purpose, the Bank makes an ongoing and in-depth study of economic activity, and analyses a large amount of statistical material. The econometric results of the Bank's quarterly model, which is regularly updated, are also useful in this connection.

The Bank gave detailed answers to questions concerning economic developments in Belgium and the conduct of monetary policy. These questions were asked, particularly, in connection with :

— the collection of information by the ECB ;
— the examination of the Belgian economy by international institutions, such as the IMF, the OECD and the EU ;
— the collection of economic information by international rating agencies wishing to assess Belgium's solvency.

The Bank delegates representatives to attend various economic councils or permanent working parties in Belgium, such as the Superior Finance Council, the Superior Employment Council, the Central Economic Council, the Banking and Finance Commission and the Public Debt Cell.

5.2 FINANCIAL STATISTICS

A new version of the layouts for reporting by credit institutions was implemented in May. This version incorporates the decisions regarding European harmonisation taken by the ECB. The statistics gathered serve to support the ECB's monetary policy.

A series of financial statistics in the Statistical Bulletin were adapted. The most important adaptations are attributable to the adjustments made to the instruments of monetary policy since 1 September 1998.

5.3 BUSINESS SURVEYS

A project for optical reading (OCR [1]) in connection with business surveys was launched, and the tests will be evaluated at the beginning of 1999.

In order to improve the quality and representativeness of the results of business surveys, market surveys were carried out in sectors such as the footwear industry, the footwear trade, the leather goods sector and also among galvanising firms, with particular attention being paid to the Brussels region.

In conjunction with the trade association Fabrimetal, initial work was carried out in preparation for a thorough revision of the classification of the products and sectors included in the surveys.

5.4 NATIONAL ACCOUNTS

In April the Bank published, on behalf of the National Accounts Institute (NAI), the main aggregates and accounts for 1997. The annual figures for 1997 were derived from the quarterly accounts. These were published for the first time in 1998 and appear in the course of the fourth month after the end of the quarter.

In September the detailed accounts and tables for 1997, together with a re-

[1] Optical Character Recognition.

trospective report from 1970 to the present, were recalculated on the basis of the most recent information available.

The regional accounts, up to and including 1996, were also published in April 1998. All the publications mentioned above have followed the ESA 79 methodology, as previously.

However, the most important task concerned the continuation of preparations for the introduction of the new European System of National and Regional Accounts, ESA 95. According to European regulations, the main aggregates for 1998 calculated by this new method should be available by the end of April 1999.

5.5 FOREIGN TRADE

Several major methodological chnages were made on 1 January 1998 with regard to foreign trade ; however these did not cause any interruption of the time series.

The principal changes were as follows :

— for the Intrastat system, the threshold for declarations was raised from Fr. 4.2 million to Fr. 10 million, so that more than a quarter of previous declarants were no longer obliged to submit a declaration, without this entailing any notable loss of information ;
— furthermore, in accordance with the Community regulations, some statistical variables were simplified, or even dispensed with completely ;
— finally, trade between Belgium and the Grand-Duchy of Luxemburg (which, up to 1997, was recorded only by the Luxemburg Statistics Institute) was recorded for the first time. Since then all foreign trade publications have related only to Belgium, although it is always possible to provide BLEU results on request.

All these changes have been recalculated retrospectively to 1993.

Thanks to the continuation of advertising campaigns, the number of declarations made electronically has increased considerably. Consultations were held with the Customs and Excise authorities with a view to extending this method of declaration to extra-Community trade from 1999. The Optical Character Recognition system has also been introduced. These activities are all designed to bring about a considerable reduction in manual documentation operations.

The range of data published has been widened to include general trade, which, apart from importing and exporting, includes extra-Community transit.

Declarants received the information necessary to enable them, from January 1999 onwards, to choose whether to submit their declarations in euros or in national currency. The processing operation is carried out completely in euros. The results will be available in both currencies.

5.6 BALANCE OF PAYMENTS

With regard to the balance of payments statistics, the following points are particularly worthy of note :

— the completion of the compilation of the regulatory texts of the BLEI. They were approved by ministerial decree and published in the Moniteur belge (13 October 1998). In these texts, account was taken of the adaptations to be applied following the introduction of the euro, and the new statistical obligations to the European Central Bank ;
— keeping Belgian credit institutions informed about the changes in the provision of data resulting from the introduction of the euro. From 1 January 1999 onwards, Belgian credit institu-

tions have to submit their declarations in euros for all foreign transactions carried out in euros or in the national currencies of the countries participating in European and Monetary Union. Enterprises which settle their foreign debts and claims via accounts abroad or by offsetting can, up to the end of 2001, choose to submit the monthly return for these transactions in the national currencies or in euros ;
— the listing of investments made by residents in securities issued by non-residents : this is being done by means of a survey carried out for the first time in Belgium, at the request of the International Monetary Fund, relating to the situation at the close of 1997. The data from this survey are also used in the statistics regarding Belgium's « overall external position » ;
— the in-depth comparison of the foreign trade statistics with those of the balance of payments concerning goods transactions, with a view to the possible integration of the former in the balance of payments statistics.

5.7 PUBLICATIONS

Apart from its annual report, the Bank's main regular publications are the following :

— the « Economic Review », which appears three times per year and supplies information on important economic, financial and monetary developments. Several articles published in the Economic Review in 1998 dealt with the integration of Belgium into the European Economic and Monetary Union and, more specifically, with the Bank's new Organic Law, the system of compulsory monetary reserves and the Belgian financial market. The other articles were devoted to the balance of payments in 1997, the financial situation of companies, also in 1997, and the Belgian economy in 1998 ;
— the « Statistical Bulletin », published quarterly, which is supplemented by a monthly update of a series of tables, the data of which are available more frequently. The English version is available as from this year ;
— the « Economic Indicators for Belgium », published weekly ;
— the publications concerning the national accounts and foreign trade produced on behalf of the NAI.

Statistical data are also made available through other channels. Thus, since as far back as 1990, a vast quantity of economic and financial statistics have been accessible directly via the Belgostat database. Since 1998, Belgostat on-line has been supplemented by a quarterly CD-ROM with the same name.

Moreover, the Bank has made available to users its Internet site (http ://www.nbb.be) which gives access to an ever-increasing number of statistical tables. The site is updated on a daily basis. Apart from the statistical data, it also provides general information about the Bank's activities, financial information (exchange rates, ...) and instructions for the filing of annual accounts at the Central Balance Sheet Office.

Furthermore, the Bank has assisted in the translation into French and Dutch of the reports of the European Monetary Institute and the European Central Bank, as well as in their distribution in Belgium.

5.8 SCIENTIFIC LIBRARY

The developments which the world of information has seen in recent years owing to the progress of communication technology were reflected in the activities of the Bank's scientific library in 1998. For instance, visits to the reading room by the public dropped sharply. This is probably due to the propensity of international institutions, central banks, statistical offices and public authorities, which form a not inconsiderable part of the publishers listed in the catalogue, to make their publications directly available in electronic form. Nevertheless, the scientific library continues to offer in situ an up-to-date and wide-ranging collection of works and periodicals, both Belgian and foreign, in their traditional form.

Numerous requests for documentation continue to be made by letter, telephone or fax, and those by E-mail (documentation@bnbb.be) have increased markedly. Although replies have consisted in sending out traditional lists of bibliographies, it is increasingly the case that information is communicated directly. The documentalists also direct readers to consult current sources of information, notably on the Internet, and consequently adapt their working methods to include these.

6. STATE CASHIER

The State Cashier centralises the State's revenue and expenditure items by passing them through the current account which it holds with the Bank. This account also records the transactions carried out by the Bank on behalf of the State, the balance of the transactions performed by the Post Office and the Postal Giro system, as well as transactions concerning the issue and redemption of government loans and the payment of interest on them.

7. SECURITIES REGULATION FUND

The Securities Regulation Fund guarantees the liquidity of public loans when the daily fixing takes place at the Brussels Stock Exchange. The turnover on the fixing market increased from Fr. 16.2 billion in 1997 to more than Fr. 18 billion in 1998. The number of transactions rose to approximately 41,500, against 40,000 in 1997. Around 90 p.c. of the transactions were in respect of classical and similar loans. The remainder related to linear bonds.

The Securities Regulation Fund also supervises the institutions which hold dematerialised public debt securities. Within the framework of the conversion of linear bonds, split securities and Treasury certificates into euros, the Fund is acting as counterparty, during the first half of 1999, for the « odd lots » of converted loans, i.e. non-standard amounts between 0 and 999.99 euros.

Finally, as the market authority for the secondary off-exchange market in linear bonds, split securities and Treasury certificates, the Fund has started to make periodical on-the-spot checks on financial operators established in Belgium.

8. CENTRAL OFFICE FOR CREDITS TO ENTERPRISES

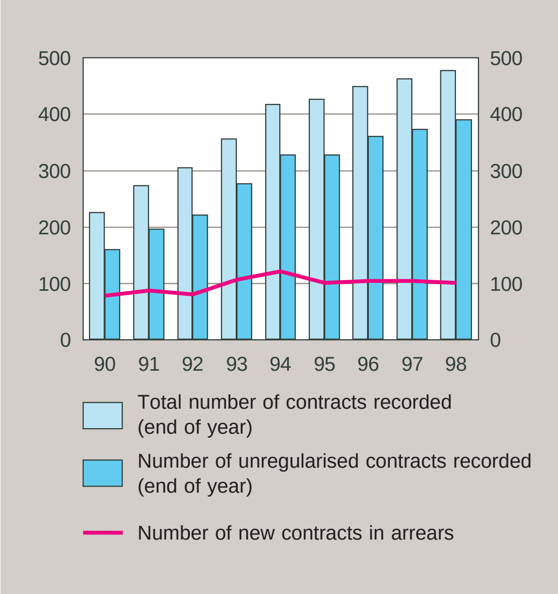
The Central Office for Credits to Enterprises records, by beneficiary, the information concerning credits of Fr. 1 million and over granted by credit institutions. By offering participating institutions the possibility of consulting the data recorded, the Central Office represents an important aid for assessing credit risks at the time of the granting of credit and during its subsequent management.

During the year under review, the development of the programmes necessary for the drawing-up of statistics for participating institutions and the Banking and Finance Commission was completed. These statistics relate in particular to the sectoral breakdown of the amounts of credits opened for and drawn by resident enterprises and to the geographical distribution of credits opened abroad.

The exchanging of information between European central risk offices, which was begun in 1993 exclusively for the purpose of prudential supervision, has enabled the supervisory authorities concerned to gain access to the data recorded in the central credit offices of the participating countries and thereby to improve their knowledge of the credit risks incurred by the institutions which they supervise. The purpose of a working party consisting of representatives of the European central credit offices is to allow credit institutions access to the information which concerns them. In the first instance, it was agreed that after a number of legal and practical problems had been resolved, the data recorded in the name of resident credit institutions would be supplemented by information recorded in the name of these beneficiaries in the other European central credit institutions by means of systematic and regular exchanges of data.

CHART 5 — DEVELOPMENT OF THE NUMBER OF CONTRACTS RECORDED BY THE CENTRAL OFFICE FOR CREDITS TO INDIVIDUALS

(In thousands)



9. CENTRAL OFFICE FOR CREDITS TO INDIVIDUALS

The purpose of the Central Office for Credits to Individuals is to restrain any excessive growth in the indebtedness of individuals by providing the participating institutions with information about repayment difficulties relating to consumer credit and mortgage loans granted for private purposes.

During the year under review, the number of contracts recorded increased by some 15,000 units, to 478,000 units. At the end of 1998, 368,000 persons were recorded at the Central Office, compared with 363,000 at the end of the preceding year. The number of persons for whom more than one contract was recorded, amounted, at the end of 1998, to 132,000, i.e. 35.7 p.c. of the total number of persons recorded.

The substantial growth, of 15,000 units, in the number of contracts recorded, is the result of 101,000 new recordings and the deletion of 86,000 regularised contracts. The information relating to these regularised contracts is in fact deleted from the file once the regulation holding period has expired. Around 18 p.c. of the total number of recorded contracts have been « regularised ».

During last year the number of consultations of these data per working day rose to 14,530 (against 13,666 in 1997). Nearly all these consultations are made « on-line ». In 1998 an affirmative answer was given for some 6.3 p.c. of the total number of consultations. « Affirmative answer » means that details were found on record for the person in question.

During the year under review the Central Office received on average 162 requests each day from persons recorded in the files, in the exercise of the right to consultation which they have in accordance with the legal and regulatory provisions.

10. CENTRAL BALANCE SHEET OFFICE

The coordinated laws on trading companies entrust the Bank with the task of gathering and publishing the annual accounts of limited liability companies. This task was extended, by the law of 22 December 1995 on the implementation of the multiannual plan for employment, to include the social balance sheets which have now become an integral part of the annual accounts which have to be filed at the Bank.

A social balance sheet must also be compiled by enterprises which are not required to deposit their annual accounts at the Bank (such as hospitals, large non-profit-making institutions, ...).

In 1998 around 242,000 annual accounts were filed at the Bank and slightly more than one thousand social balance sheets were submitted to it by enterprises not required to file annual accounts. The proportion of accounts filed on diskettes represented approximately 72 p.c. of the total number of filings made.

Furthermore, since October 1998 the Bank itself has produced a CD-ROM replacing the one distributed since 1987. This new product, which, together with the three most recent annual accounts filed by enterprises, also comprises the social balance sheets, is user-friendly, efficient and inexpensive.

Since 1 January 1999, filing costs as well as the cost of the various products sold by the Central Balance Sheet Office have been payable in Belgian francs or in euros, at the choice of the party concerned.

The annual accounts can be expressed in euros if they refer to a financial year ended from 1 January 1999 onwards. The standard presentation of the financial accounts has been adapted accordingly. The Bank's software for drawing up and validating the annual accounts to be filed on diskette will be adapted very shortly.

11. ACTIVITIES ON THE EUROPEAN AND INTERNATIONAL PLANE

The Bank continued to figure prominently in the field of international monetary and financial cooperation.

It participated very actively in the work of the IMF, the OECD, the BIS and the Group of Ten. The subjects covered and the action taken have, for the most part, been briefly described in other sections of this annual report (see in particular the report presented by the Governor on behalf of the Council of Regency).

At European level, the Bank's activities were principally characterised by its integration into the ESCB and its participation in the various committees and working parties of the ECB.

With regard to the internal adaptations which this situation requires, the Bank opted as far back as January 1997 for the complete changeover to the euro at the beginning of the Stage Three of Economic and Monetary Union, i.e. from 1 January 1999, as regards both its own accounts and for its transactions with the Belgian financial system as well as its relations with the fiscal and social public authorities. Therefore, as emerges clearly from the various chapters and sections of this report on the Bank as an enterprise, the internal adaptations are by means confined to activities of the Bank which are the concern of the ESCB, but relate to nearly all its departments. The coordination and supervision of the adaptations are performed by a « Steering Committee » under the chairmanship of the Vice-Governor.

A brochure containing information on the various aspects of the Bank's transition to the euro has been produced for the staff. It comprises four sections : the first is devoted to the euro and to the Belgium's preparations for European Monetary Union ; the second describes the European System of Central Banks ; the third section examines the impact of the introduction of the euro on the various activities of the Bank. Finally, the fourth section which includes a selective bibliography and other sources of information, together with annexes providing further information, enable the reader to study the topics in greater detail.

The brochure has been distributed to every member of the Bank's staff.

12. THE INTRODUCTION OF THE EURO IN BELGIUM

Created at the end of 1996 to coordinate the preparatory work for the introduction of the euro in Belgium and presided over by Director Quaden, the General Commission for the Euro continued its work in 1998 in four central groups composed of general government, the financial sector, non-financial enterprises and consumers, as well as communication. As in previous years, the Bank placed at the Commission's disposal the necessary staff and logistical equipment.

After the publication in July 1997 of the « Guidelines for the transition of public departments to the euro », the ADMI EURO group drew up more specific plans at the level of the departments concerned and of the local and regional authorities. The recommendations concerning the transition of the social sector to the euro were published in June 1998, with the aim of harmonising the transition to the euro of ministerial departments and semi-governmental institutions and offering guidance to employers and workers in the field of labour relations, social security and social welfare.

The draft law prepared by the Commission was approved by the Government on 20 February 1998. After its adoption by Parliament, the law of 30 October 1998 was published in the Moniteur belge of 10 November 1998. The « Euro law » deals with the transition period (from 1 January 1999 to 31 December 2001) and establishes the legal framework enabling the euro to be introduced in Belgium, in accordance with the European regulations and recommendations and with the options of the national transition plan.

The preparation of the financial sector, directly concerned with the introduction of the single currency on 1 January 1999, is coordinated by the FIN EURO group. The analysis of the problems specific to the introduction of the euro in various areas — the banking sector, the financial markets, the adaptation of means of payment and the introduction of the coins and notes — continued and resulted in a republication of the recommendations of FIN EURO in September 1998. Various tests and simulations took place in order to prepare for the transition to the euro on the part of the banks and financial markets.

The organisation of the changeover to the euro by the non-financial enterprise and consumer sector was entrusted to the ECO EURO group. This group published a document entitled « Economic guidelines of the national changeover plan » which was approved in February 1998 by the Council of Ministers. These guidelines comprise a number of the recommendations which were drawn off in collaboration with the various consultative bodies concerned (the Central Economic Council, National Council for Employment, ...) and also include the opinions expressed by the Accounting Standards Commission and the recommendations published by the technical working party set up within the General Commission on the problem of conversions and roundings. A code of good conduct was drawn up with the representatives of the consumer associations and trade organisations. Observation centres for the euro were established in each province to monitor closely the changeover to the single currency.

Finally, the COM EURO COM group is responsible for coordinating information relating to the changeover to the euro. Amongst the initiatives taken by the authorities and launched or supported by the Federal Information Service, the following are worthy of note : more than 1.5 million copies of three leaflets were printed, leading to information campaigns in the media, the Internet site (http ://euro.fgov.be), the « Go for the euro » campaign and the publication « Eurotribe », aimed at young people and prepared by the Ministry of Economic Affairs, as well as the « Eurochallenger » of the Ministry for SMEs.

The General Commission called two plenary meetings in June and December 1998 and published two new issues of its newsletter in that connection.

II. THE MEANS EMPLOYED

1. HUMAN RESOURCES

Staff numbers continued to fall in 1998. The workforce has decreased by 403 units since 1991, chiefly on the basis of natural departures. Part-time working (under schemes varying from 90 to 50 p.c.) has proven particularly popular at the Bank : 23.5 p.c. of staff make use of this opportunity.

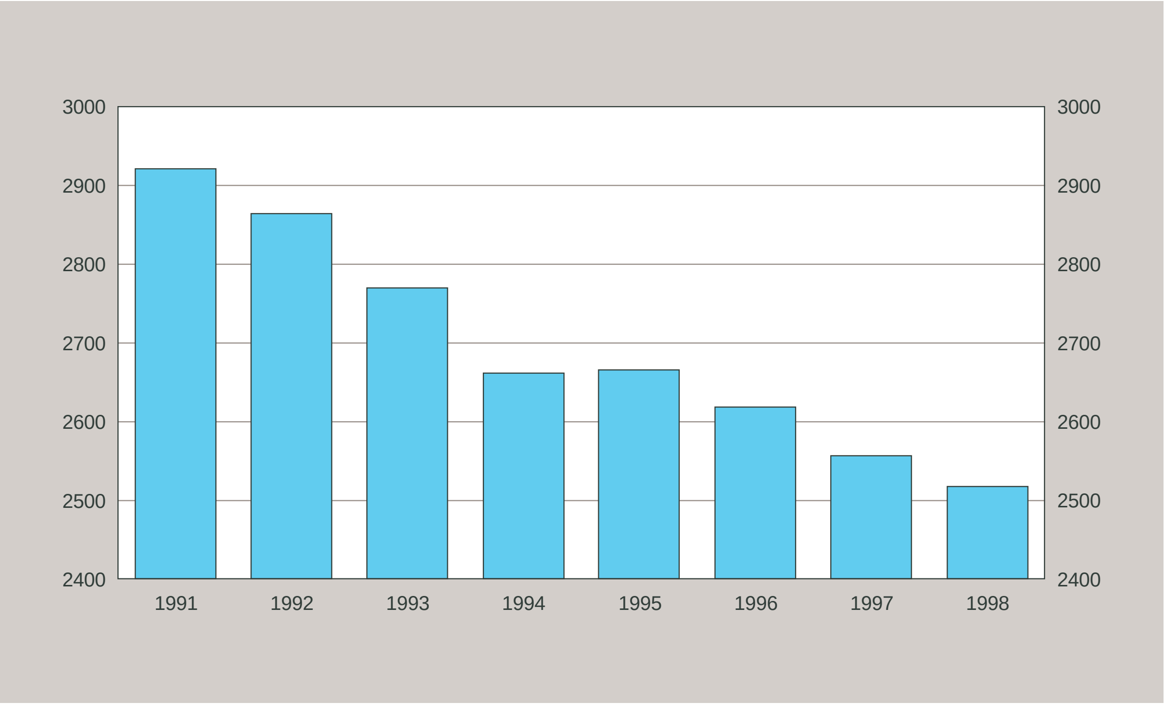
At the end of 1998 the staff, expressed in terms of full-time equivalent, numbered 2,518 units, a drop of 39 units compared to the previous year. The decrease in the number of staff occurred solely in the provincial establishments. At the head office staff numbers rose slightly, mainly owing to the decision to take over the staff from the Rediscount and Guarantee Institute. Over the course of the past year, nine members of the staff of the RGI have already been integrated. In total, the Bank is taking over some forty units from the staff of that institute.

As the accompanying chart shows, the workforce has been decreasing since 1991. The slight rise in 1995 is attributable to the taking over of certain activities from the National Statistical Institute, specifically the real accounts and the foreign trade statistics.

Generally speaking, the level of qualifications and skills required is on the increase. For this reason the Bank is making great efforts to retrain its workforce on a permanent basis. Owing to the disappearance of many low-skill functions, retraining and further training are essential

CHART 6 — STAFF NUMBERS AT THE END OF THE YEAR

(Expressed in full-time equivalents)



primarily for the lower categories, to enable these members of staff to be assigned to other tasks. The Bank is in fact continuing to rationalise and reorganise these tasks as much as possible.

A particular training effort was made in implementation of the collective labour agreement mentioned below.

In 1998 approximately 58,000 hours of training were given. Data-processing still remains the chief field involved, representing 32 p.c. of the training courses followed. Next in order are banking and financial training courses (23 p.c.) and language coures (17 p.c.). Two thirds of the programmes are organised within the enterprise ; the other training courses are entrusted to external companies.

The transition to the euro on 1 January 1999 also involves the administrational wages and social affairs. Since this date the Bank has been using the euro in place of the franc in all communications with staff. All the Bank's payments to staff have since then been made in euros.

The collective labour agreement of 15 September 1997, in which the emphasis was placed on measures for employment promotion and redistribution of work, such as the encouragement of part-time working and career breaks by means of financial incentives, and early retirement, produced its full effect in 1998.

The Works Council met nine times during the past year. During these meetings, the employer provided the economic, financial and social information relating to the Bank, as required by law. Furthermore, the workers' representatives were regularly informed at these meetings of the major reorganisations taking place at the Bank, including those resulting from the preparation for European Monetary Union (EMU). Social consultation will also have a major role to play in discussions, over the next few years, about the consequences for the NBB of the creation of the European Central Bank and EM. The question of increasing the flexibility of working hours will be settled in a collective labour agreement.

2. ORGANISATION AND DATA-PROCESSING WORK

As in 1997, work done in data-processing was chiefly marked by the preparations for the conversion to the euro, the setting-up of the ESCB infrastructure and the adaptation of programmes for the year 2000.

With regard to the transition to the euro of the various activities indicated in Chapter I, the project teams adapted the existing programs or wrote new modules where it proved necessary and tested all the modifications.

The data-processing infrastructure for the ESCB was ready for 1 July 1998, allowing tests to be carried out in the pre-production phase throughout the second half of the year.

An overall plan (covering hardware, system software, application software and infrastructure) was drawn up to ensure the compatibility of the Bank's computing environment for the year 2000. The greater part of this plan has already been carried out. All the applications will be compatible by the end of the second quarter of 1999 at the latest. The Bank shows the progress made in the implementation of this plan on its Internet site.

Since March 1998 a new computer emergency plan has been in operation. This plan provides on the one hand for a back-up for the internal computing centre, so that if one of the two computing centres is no available, it can take over the production activities, without loss of data, within, at most, four hours. On the other hand, to enable critical applications to continue if the head office becomes inaccessible, the necessary infrastructure and space have been made available at another establishment in the provinces.

The computer network at the Bank's establisments has also been modernised.

In 1998, the calculation and storage capacity of the mainframe environment was increased by 23 and 63 p.c. respectively.

The organisational studies aimed at rationalisation and improving productivity were continued. The main projects concerned the investigation of the activities of the Foreign Trade Statistics and Secretariat services.

The Protocols Secretariat of the financial sector finalised the agreements concerning transfers and bills of exchange in euros.

III. ADMINISTRATION AND SUPERVISION

By a Royal Decree of 13 January 1998, the term of office as Governor of Mr Alfons Verplaetse was extended for a second period of one year, starting on 19 February 1998.

The term of office as director of Mr William Fraeys, as well as his post as Vice-Governor, were extended with effect from 1 May 1998 by a Royal Decree of 29 April 1998.

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The Bank was saddened by the death on 27 August 1998 of Honorary Director Jean Brat.

Our Institution will always remember Mr Brat as a tolerant and amiable man with a great sense of duty. He served as a censor from 1944 to 1954 and was appointed director by a Royal Decree of 21 January 1957. He performed this latter function until 21 January 1969. For more than twenty years, the Bank had the benefit of his abilities, hard work and dedication.

The Bank will always remember the qualities of its honorary director with gratitude.

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The Bank was saddened by the death in 1998 of four members of its staff : Mrs Nadine Cambier, Mr Wilfried De Pril, Mrs Geneviève Timmermans and Mr Jean Viaene.

The Bank will always remember them.

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The Bank wishes to express its gratitude to the members of the managerial and supervisory staff who reached the end of their careers :

Mr Wilfried Van der Perre, Assistant Director and Head of Department, and Mr Walter Pluym, Assistant Director and Head of Department.

It also thanks the following members of the clerical staff whose careers came to an end during the past year :

Mr Omer Anné, Mrs Lydie Bauwens, Mrs Maria-Theresia Becqué, Mrs Celine Claessens, Mr Jean Cornelis, Mr Robert Cornelis, Mrs Annie De Cock, Mrs Maria De Leeuw, Mr Hubert Demets, Mrs Jeannine De Pril, Mr Raymond Devleesschauwer, Mrs Paula D'Hollander, Mr Walter Gerin, Mr Herman Gibens, Mr Léon Gyselinck, Mr Hendrik Heirman, Mrs Christiane Kalmes, Mr Guy Lahaye, Mrs Josephina Leysen, Mr Gilbert Menten, Mr Carolus Michiels, Mr Johannes Monard, Mrs Fernande Nollevaux, Mr Alfons Peelman, Mrs Monique Petit, Mr Roland Rayez, Mrs Anne-Marie Ruelens, Mr Pierre Sabel, Mrs Eliane Schepens, Mrs Nicole Serkeyn, Mr José Simoulin, Miss Francine Tonglet, Mr Gilbert Vanbegin, Mrs Philomène Van Berkel, Mr Sylvain Van den Bossche, Mrs Josiane Vandersande, Mrs Christiane Van Rossen, Mr Joseph Van Velthoven, Mrs France Vreux, Mr Jean-Baptiste Walin, Mrs Maria-Josephine Wauters.

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In accordance with Article 83 of the Statutes, the ordinary general meeting of shareholders was held on Monday 23 February 1998.

After having reported on the activities of the financial year 1997, the Governor answered questions posed by the shareholders. He then read out the report on the meeting of the Bank's Works Council, which had examined the annual information on 13 February 1998.

The Governor then announced the names of the candidates for the office of regent in order to fill the posts which had expired or would become vacant at the end of the meeting, and he called upon those present to vote.

The term of office as regent of Mr François Martou, presented by the Minister of Finance and of Mr Michel Nollet, presented by the most representative workers' organisations, were renewed.

Mr Gérald Frère, proposed by the Minister of Finance, was elected regent to succeed Baron Jacques Delruelle, who, having reached the age limit, was no longer eligible for re-election. Mr Frère was already a censor of the Bank. As a result of his election as regent, his term of office as censor therefore became vacant and a replacement had to be found.

The meeting renewed the terms of office of Messrs Maurice Charloteaux, Herman Verwilst and Baron Paul Buysse. Mr Paul-F. Smets was appointed censor to replace Mr Frère. In accordance with Article 55 of the statutes, he will complete the term of office of his predecessor.

The terms of office of regents Martou, Nollet and Frère, as well as those of the censors Charloteaux, Verwilst and Baron Paul Buysse, will expire at the end of the ordinary general meeting in February 2001. The term of office of Censor Smets will expire at the end of the annual meeting of 22 February 1999.

*
**

The Governor paid tribute to the departing regent, Baron Jacques Delru elle, for the valuable contribution which he made for 31 years to the operation of the Boards of our Institution. He was elected censor on 27 February 1967 and, in March 1983, was chosen to be secretary of the Board of Censors. Nine years later he was appointed chairman of that Board and performed this function until his election as regent on 27 February 1995. As a token of esteem and gratitude, the meeting authorised Baron Jacques Delruelle to bear the title of honorary regent.

*
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On 10 August 1998 regent Ramaekers reached the age limit of 67 years, but, in accordance with Article 56 of the Statutes, he was granted permission by the Minister of Finance to continue to serve in that capacity until the expiry of his current term of office, i.e. the end of the ordinary general meeting of 22 February 1999.

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The adaptation of the Bank's Organic Law in anticipation of monetary union, which was already discussed in previous annual reports[1], was carried out in 1998.

The law of 22 February 1998 establishing the Organic Statute of the National Bank of Belgium was published in the Moniteur belge of 28 March 1998.

Articles 15 and 37 of this law, concerning the issuing of coins by the Bank for numismatic and commemorative purposes, came into force on its publication in the Moniteur belge. They have subsequently been the subject of modifications contained in the law of 18 December 1998 derogating from Article 20bis of the law of 24 August 1939 concerning the National Bank of Belgium and modifying the above-mentioned law of 22 February 1998. This law of 18 December 1998, published in the Moniteur belge of 31 December 1998, also organised the payment to the State of the amount, existing on 1 April 1998, of the capital gain made on arbitrages of assets in gold against other external reserve elements, in order to allocate this amount for the redemption of part of the public foreign currency debt.

For the other articles of the new Organic Law of 22 February 1998, the King decides, after consultation with the Bank, the date of entry into force as well as the date for the repealing of the corresponding articles of the previous Organic Law of 24 August 1939. In this connection the various phases of the achievement of monetary union are followed as a chronological progression : the creation of the European System of Central Banks on 1 June 1998, the introduction of the single currency on 1 January 1999, and the disappearance of the Belgian franc as legal tender in 2002.

Two implementing decrees were published in the Moniteur belge : the Royal Decree of 24 April 1998, published on 13 May 1998, and the Royal Decree of 26 October 1998, published on 10 November 1998.

Pursuant to the Royal Decree of 24 April 1998, the provisions of the law of 22 February 1998 concerning the independence of the Bank vis-à-vis the government and the personal independence of the members of its Board of Directors entered into force on the day of the establishment of the ESCB, i.e. 1 June 1998.

The specific issues involved are the appointment and dismissal of the Governor and the directors, as well as the length of their terms of office, and the changes to the powers of Council of Regency and the representative of the Minister of Finance. The Council of Regency no longer has the authority to take decisions relating to the Bank's monetary policy.

The corresponding articles of the law of 24 August 1939 were repealed by the same decree.

Pursuant to the Royal Decree of 26 October 1998, the majority of the other provisions of the new Organic Law entered into force on 1 January 1999.

[1] See Annual Report 1996, pp. 171-172, and Annual Report 1997, p. 168.

Furthermore, this Royal Decree repealed not only the corresponding provisions of the law of 24 August 1939 but also provisions relating to monetary law contained in other laws, as these provisions are incompatible with the introduction of the single currency and with the single monetary policy.

The only provisions of the Organic Law of 1939 and of other texts concerning monetary legislation that remain valid are those relating to banknotes denominated in Belgian francs and their legal tender status. A third Royal Decree will repeal these last clauses when, in 2002, banknotes denominated in Belgian francs cease to be legal tender.

After the publication of each of the above-mentioned implementing decrees, the General Council brought the Bank's Statutes into line with the amended clauses of the Organic Law.

At its meeting of 1 July 1998, the General Council adopted an initial amendment to the Statutes, which was subsequently approved by the Royal Decree of 15 July 1998. This decree, published in the Moniteur belge of 8 September 1998, came into effect on 1 June 1998 (see Annex 5).

On 23 December 1998 the Statutes were amended a second time by the General Council and adapted to the organic provisions applicable with effect from 1 January 1999.

The Royal Decree of 10 January 1999 approving this last-mentioned amendment to the Statutes was signed by the King on 10 January 1999.

ADMINISTRATION AND SUPERVISION

Governor : M. Alfons VERPLAETSE.

Vice-Governor : Mr William FRAEYS.

Directors : Messrs Jean-Pierre PAUWELS,
Guy QUADEN,
Jean-Jacques REY,
Robert REYNDERS.

Regents :

Messrs Roger RAMAEKERS,
Willy PEIRENS,
Tony VANDEPUTTE,
Philippe WILMES,
Eddy WYMEERSCH,
Noël DEVISCH,
François MARTOU,
Michel NOLLET,
Christian DUMOLIN,
Gérald FRERE [1].

Censors :

Messrs Hubert DETREMMERIE, chairman,
Christian D'HOOGH, secretary,
Maurice CHARLOTEAUX,
Jacques FOREST,
Philippe GRULOIS,
Herman VERWILST,
Baron Paul BUYSSE,
Petrus THYS,
Baron Dominique COLLINET,
Paul-F. SMETS [2].

Secretary : Mrs Marcia DE WACHTER.

Treasurer : Mr Serge BERTHOLOME.

Government Commissioner : Mr Grégoire BROUHNS.

ADVISORS TO THE BOARD OF DIRECTORS

Messrs Jan MICHIELSEN,
Henri BARBE,
Jos LEEMANS.

*
**

AUDITORS [3]

M. Pierre BERGER,
Mrs Danielle JACOBS.

[1] Elected by the ordinary general meeting of 23 February 1998 to succeed Baron Jacques Delruelle, who was no longer eligible for re-election, having reached the age limit.

[2] Elected by the ordinary general meeting of 23 February 1998 to replace Mr Gérald Frère, elected regent.

[3] Appointed by the extraordinary general meeting of 20 November 1995 to assist the Works Council and entrusted since 1998 with the task of examining, on behalf of the Board of Directors, the annual accounts and various items of information which will be requested by the European Central Bank.

DEPARTMENTS AND SERVICES

Social Affairs Department — Mr J. LEEMANS, Advisor to the Board of Directors, Personnel manager.

Wages and Social Affairs Administration	
Head	Mr A. REITER, Inspector-General.
Training	
Head	Mr J.-L. LION, Head of Division,
Advisor	Mlle S. ZONIOS,
Heads of Division	Messrs L. LAGAE, Y. RANDAXHE.
Personnel Policy	
Head	Mr R. VAN KEYMEULEN, Inspector-General,
Heads of Division	Messrs R. THIRION, Mr DRION, G. VAN CAMP.
Medical Service	
Head Doctor	Mr A. DE LANDTSHEER,
Doctors	Messrs V. DONS, C. VAN LAETHEM.

Data Exchange Department — Mr P. TELLIER, Assistant Director.

Central Balance Sheet Office	
Head	Mr A. LENAERT, Head of Division,
Advisor	Mr C. RUBENS,
Heads of Division	Mrs E. DE GROOTE, Mrs C. BUYDENS.
Central Credit Offices	
Head	Mr R. TROGH, Head of Division,
Heads of Division	Messrs D. MURAILLE, P. BISSOT.
Cashless Payments	
Head	Mr A. VAES, Inspector-General,
Heads of Division	Messrs V. DECONINCK, B. BOURTEMBOURG.

Accounting and Budgetary Control Department — Mr C. DEKEYSER, Assistant Director.

Accounting	
Head	Mr J. TAVERNIER, Head of Division,
Heads of Division	Messrs M. HINCK, L. HENRY.
Budgetary Control	
Head	Mr J. VANDEUREN, Inspector-General,
Chef de division	Mr R. VAN KEYMEULEN.

Equipment and General Services Department — Mr K. VANDENEEDE, Assistant Director.

Equipment and Technical Services	
Head	Mr P. LAUWERS, Inspector-General,
Architects	Messrs J.-C. NAVEZ, J.-M. DE VOS,
Heads of Division	Messrs H. DE TROYER, D. VANDE PUTTE, R. VAN CAUWENBERGE.

General Services	
Head	Mr A. KOZYNS, Inspector-General,
Head of Division	Mr J.-M. BRAET.

Research Department — Mr J. SMETS, Assistant Director.

First advisor	Mrs A.-M. PEETERS.
Deputy Head of Department	Mr R. BEUTELS, Inspector-General.
Special Assignments	Mr W. VERTONGEN, Inspector-General.
Department Advisors	Messrs A. NYSSENS, J.-J. VANHAELEN, E. JACOBS, J. CLAEYS, Mrs F. DONKERS, Messrs V. PERILLEUX, M. DOMBRECHT, T. TIMMERMANS,
Economists	Messrs M. MARECHAL, D. GOSSET, P. DELHEZ, L. AUCREMANNE,
Advisor	Mr J. MONT.
Documentation	
Head	Mr G. DE RIDDER, Inspector-General,
Head of Division	Mrs G. VAN HOVE.

Printing Department — Mr M. SALADE, Assistant Director.

Administrative Service	
Head	Mr Y. TIMMERMANS, Head of Division.
Technical Service	
Head	Mr G. PONNET, Head of Division.

Financial Markets Department — Mrs A. VAN DEN BERGE, Inspector-General.

Department Advisors	Messrs H. BUSSERS, H. DEBREMAEKER,
Head of Division	Mr Y. PIRLET.
Back Office	
Head	Mr F. DEPUYDT, Inspector-General,
Senior Analyst	Mrs S. MASKENS,
Head of Division	Mr F. WITHOFS.
Government Cashier	
Head	Mr H. SMISSAERT, Head of Division,
Heads of Division	Messrs R. VAN HEMELRIJCK, M. RUBENS.
Security Accounts	
Head	Mr W. STEPPE, Inspector-General,
Heads of Division	Messrs R. ROOTHANS, L. EICHER.
Front Office	
Head of Division	Mr E. DE KOKER, Head of Division,
Advisors	Messrs N. VANDECAN, E. LAVIGNE,
Senior Systems Engineer	Mrs M. HUART.

Planning, Organisation and EDP Department — Mr H. BARBE, Advisor to the Board of Directors.

EDP Planning Unit	
Senior Analyst	Mrs A.-M. LEJEUNE.
Data Security Management	
Inspector-General	Mr A. HUET,
Advisor	Mr L. DELAISSE.
Electronic Centre	
Head	Mr L. DUFRESNE, Inspector-General,
Senior Systems Engineers	Messrs M. CHARLIER, L. ESPAGNET.
EDP Projects Development	
Head	Mr J.-P. HOYOS, Inspector-General,
Inspectors-General	Messrs P. LAUWERS, B. GROETEMBRIL,
Senior Analysts	Mrs H. VAN HECKE, Messrs J. FRANCOIS, J.-M. PLISNIER, E. DE SMET, M. DUCHATEAU,
Head of Division	Mr P. SAPART,
Senior Systems Engineer	Mr P. MARECHAL,
Advisors	Messrs M. ZWAENEPOEL, P. DEHOORNE.
EDP Systems Infrastructure	
Head	Mr J. MOERMAN, Inspector-General,
Inspector-General	Mr G. VANGHELUWE,
Senior Systems Engineers	Messrs G. DUMAY, U. MOMMEN.
Organisation	
Head	Mr H. DEVRIESE, Head of Division,
Head of Division	Mr P. MOUS.

General Secretariat Department

Inspector-General	Mr J. MAKART.
Collections staff unit	Mlle C. LOGIE, Inspector-General.
Secretariat	
Head	Mr M. VAN CAMPEN, Head of Division,
Heads of Division	Mrs D. CAPPUYNS, Mr J. CALLEBAUT.
Secretariat of the Board of Directors	
Head	Mr L. AELES, Head of Division.

General Statistics Department — Mr B. MEGANCK, Assistant Director.

Inspector-General	Mr G. POULLET.
Data Bank Unit	
Inspector-General	Mr A. WOUTERS,
Advisor	Mr J. PALATE.

Balance of Payments

Head	Mr G. MELIS, Inspector-General,
Heads of Division	Messrs M. EECKHOUT, P. LAMBOT, P. SARLET, R. DE BOECK, P. D'HAVE, B. VEREERTBRUGGHEN.

Foreign Trade Statistics

Head	Mr J. DAENEN, Head of Division,
Inspector-General	Mr P. BOBYR.

Financial and Economic Statistics

Head	Mr R. ACX, Inspector-General,
Advisors	Messrs H. SAUVENIERE, G. DETOMBE,
Heads of Division	Messrs J. WIELEMANS, G. VAN GASTEL.

Services directly subordinate to a member of the Board of Directors :

Internal Audit

Head	Mr L. JANSSENS, Inspector-General,
Inspector	Mr M. MATTENS,
Head of Division	Mr P. DE PICKER.

Euro Unit

Heads of Division	Messrs J. DELPEREE, P. QUINTIN.

International Co-operation

Head	Mr P. VAN DER HAEGEN, Chief Advisor,
Advisors	Mrs G. BIRON, Messrs D. SERVAIS, P. LEFEVRE, D. OOMS, J. PISSENS.

Inspection

Head	Mr D. VERMEIREN, Inspector-General,
Inspectors	Mrs J. SIMAR, Mr L. BODRANGHIEN.

Legal Service

Head	Mr J.-P. BRISE, Assistant Director,
Advisors	Mr J. DE WOLF, Mrs A. del MARMOL, Mr D. DEVOS.

Services subordinate to the Treasurer

Head of Division	Mr E. COLMAN.

Central Cash Office

Chief Cashier	Mr M. VAN BAELEN, Inspector-General,
Heads of Division	Messrs G. PIROT, M. VANVOOREN.

Safety, Hygiene and Embellishment of Working Environment

Head	Mr D. DENEE, Head of Division.

Security Supervision

Head	Mr J.-P. DE JONGE, Head of Division.

Personnel of the Rediscount and Guarantee Institute — Mr SIMAL, Assistant Director.

Heads of Division	Messrs A. BEVERNAGE, B. DEKEYSER.

Branches and Agencies Department — Mr SIMAL, Assistant Director.

Head of Division	Mr J. HELFGOTT.

Branches

Antwerpen	
Administrator	Mr L. VAN DER VEKEN,
Inspector-General	Mr F. SERCKX,
Heads of Division	Messrs F. VAN NIEUWENHOVE, D. VANDEN BROECK, J. LIBENS.
Liège	
Administrator	Mr Y. LEBLANC.

Agencies

Aalst	
Agent	Mr A. VERHELST.
Arlon	
Agent	Mr R. HAENECOUR.
Brugge	
Agent	Mr P. TACK,
Head of Division	Mr P. BOGAERT.
Charleroi	
Agent	Mrs J. DE BEER.
Kortrijk	
Agent	Mr L. MUYLAERT,
Head of Division	Mr J. PANNEEL.
Gent	
Agent	Mr J. VICTOR,
Head of Division	Mr P. VAN GYSEGEM.
Hasselt	
Agent	Mr T. DE ROOVER,
Head of Division	Mr R. MAES.
Leuven	
Agent	Mr L. GHEKIERE,
Head of Division	Mr M. JOOS.
Mons	
Agent	Mr R. COLSON.
Namur	
Agent	Mrs J. ROUMA.
Turnhout	
Agent	Mr M. DE GEYTER.

Representation Offices

Mechelen	
Manager	Mr G. MINNAERT.
Malmédy	
Manager	Mr J.-Y. BOULANGER.
Marche-en-Famenne	
Manager	Mr P. DENEUMOSTIER.
Oostende	
Manager	Mr J. BUSSCHE.
Roeselare	
Manager	Mr J. VANDERGUNST.
Sint-Niklaas	
Manager	Mr L. DE SAVEUR.
Tournai	
Manager	Mr J.-L. MALVOISIN.
Verviers	
Manager	Mr A. SMETS.
Wavre	
Manager	Mr P. DEGEMBE.

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Office of Mr Di Rupo, Vice-Prime Minister and Minister for the Economy and Telecommunications, responsible for Foreign Trade
Mrs F. MASAI, Inspector-General.

Office of Mr Van Rompuy, Vice-Prime Minister and Minister for the Budget,
Mr H. FAMEREE, Department Advisor.

Office of Mr Viseur, Minister of Finance,
Mr G. TEMMERMAN, Head of Division.

Belgian Permanent Representation with the European Union,
Mr P. VIGNERON, Inspector-General.

Belgian Permanent Representation with the Organisation for Economic Co-operation and Development, Paris,
Mr D. SLAATS, Advisor.

On mission on behalf of the International Monetary Fund at the Central Bank of Haiti,
Mr J.-C. PAUWELS, Inspector-General.

On mission at the National Bank of Cambodia,
Mr R. BEERENS, Head of Division.

Annual Accounts

BALANCE SHEET AS AT 31 DECEMBER 1998 (after distribution of profit)

ASSETS *(Thousands of francs)*

	1998	1997
Gold	**94,659,014**	164,497,473
Foreign currencies	**518,693,131**	461,995,428
Special Drawing Rights (SDRs)	**21,050,731**	18,067,367
Participation in the IMF	**58,727,566**	43,626,077
Loans to the IMF	**6,786,157**	—
Deposits with the IMF within the framework of the ESAF	**8,745,804**	8,966,574
Ecus		93,116,144
ECB : Very-short- and short-term financing	**—**	—
EC : Medium-term financial assistance	**—**	—
International agreements	**3,346,161**	3,350,381
Open-market transactions :		
Main refinancing transactions	***184,925,000***	*15,000,140*
Fine-tuning transactions on the basis of repurchase agreements and/or collateralised loans	**—**	*129,025,000*
Securities purchased in the market	***25,687,561***	*25,890,121*
Commercial bills		2,452,632
Marginal lending facility	**143,041**	3,993,173
Participation in the capital of the ECB	**5,780,304**	
Coins	**229,461**	517,153
Statutory investments (Art. 21)	**53,169,006**	50,817,726
Premises, equipment and furniture	**12,570,636**	12,627,299
Other assets	**1,926,123**	593,749
Regularisation accounts	**10,369,657**	7,600,339
TOTAL ASSETS	**1,006,809,353**	1,042,136,776

LIABILITIES

(Thousands of francs)

	1998	1997
Notes in circulation	**482,919,952**	478,637,986
Monetary reserve accounts	**278,762,708**	
Deposit facility	**242,830**	1,188,334
Deposit of the Belgian State	**430,438**	104,314
Deposit of the Luxembourg State		3,868
Other current accounts in francs	**13,183,923**	3,552,175
The Bank's certificates		230,000,000
Liabilities due to interventions in the money market	**—**	—
Current accounts in foreign currencies	**—**	—
Counterpart of allocations of SDRs	**23,577,036**	24,172,190
ECB : Very-short- and short-term financing	**—**	—
Unavailable reserve of capital gains on gold	**—**	—
Other liabilities	**32,830,797**	16,109,125
Regularisation accounts	**1,270,338**	2,020,919
Valuation differences on gold and foreign exchange	**92,710,793**	219,686,889
Provision for future exchange losses	**13,200,000**	
Provision for premises	**1,396,981**	1,248,981
Provision for contingencies	**12,700,000**	11,950,000
Capital	**400,000**	400,000
Reserve fund :	**53,183,557**	53,061,995
Statutory reserve	***3,613,644***	*3,463,737*
Extraordinary reserve	***37,621,631***	*37,621,631*
Account for depreciation of premises, equipment and furniture	***11,948,282***	*11,976,627*
TOTAL LIABILITIES	**1,006,809,353**	1,042,136,776

PROFIT AND LOSS ACCOUNT AS AT 31 DECEMBER 1998

(Thousands of francs)

	1998	1997
INCOME		
Proceeds of net interest-bearing assets	**26,932,235**	24,199,887
Interest proceeds	***36,165,671***	*33,029,024*
Interest charges	***−9,233,436***	*−8,829,137*
Foreign exchange difference gains	**19,411,318**	
Proceeds of statutory investments	**4,271,716**	3,854,770
Commission	**141,559**	171,797
Amounts recovered from third parties	**1,984,096**	2,007,089
Drawings on provisions	**1,312,000**	57,000
Other proceeds	**320,795**	313,667
	54,373,719	30,604,210
EXPENSES		
State share	**13,648,184**	11,862,483
General expenditure :	**8,746,478**	8,646,463
Remuneration and social costs	***6,958,092***	*6,939,561*
Other expenses	***1,788,386***	*1,706,902*
Exceptional costs	**2,121,083**	—
Depreciation of premises, equipment and furniture	**922,739**	808,360
Provision for future exchange losses	**13,200,000**	
Provision for premises	**260,000**	—
Provision for contingencies	**1,950,000**	1,600,000
Taxes and dues	**12,071,903**	3,835,207
Net profit for distribution	**1,453,332**	3,851,697
	54,373,719	30,604,210

DISTRIBUTION OF PROFIT

(Thousands of francs)

	1998	1997
Profit to be appropriated	**1,453,332**	3,851,697
The profit is distributed as follows :		
Appropriation to the extraordinary reserve	—	*2,421,000*
Distribution of the balance in accordance with Article 38 of the Statutes :		
1. To the shareholders a first dividend of 6 % of the nominal capital	***24,000***	*24,000*
2. Of the amount in excess of this :		
a) 10 % to the statutory reserve	***142,933***	*140,670*
b) 8 % to the staff	***114,347***	*112,536*
3. Of the amount in excess of this :		
a) to the State, one fifth	***234,410***	*230,698*
b) to the shareholders, a second dividend . .	***930,668***	*922,668*
c) the balance to the statutory reserve	***6,974***	*125*

As the distribution of the profit was approved by the Council of Regency on 27 January 1999, coupon No. 197 will be payable with effect from 1 March 1999 in the following manner :

		Gross amount per share before retention of the withholding tax	25 % withholding tax	Net amount
On the 400,000 shares	BEF	2,386.67	596.67	1,790
	EUR	59.16	14.79	44.37

OFF-BALANCE-SHEET ITEMS AS AT 31 DECEMBER 1998

(Thousands of francs)

	1998	1997
Forward transactions in foreign currencies		
Forward claims	**235,180,562**	340,901,104
Forward liabilities	**19,740,901**	106,753,060
Liabilities which could lead to a credit risk		
Firm undertakings to provide funds	**—**	59,893,668
Valuables and claims entrusted to the Institution		
For encashment	**5,074**	8,124
Assets managed on behalf of the Treasury	**4,401,852**	9,037,127
Assets managed on behalf of the ECB		89,056,032
Safe custody deposits	**9,818,012,684**	9,562,331,388

Explanatory notes to the annual accounts

BALANCE SHEET

(Thousands of francs)

ASSETS

GOLD

Gold is valued at a price derived from the quotation in USD established at the London fixing on 31 December 1998. The price of gold was thus fixed at Fr. 319,528.8838 per fine kilogram on 31 December 1998, against Fr. 345,216.2083 a year earlier. The difference between the value of gold at the market price and that at the average purchase price (Fr. 56,225.0046 per fine kilogram) is shown on the liabilities side of the balance sheet under the heading « Valuation differences on gold and foreign exchange ».

As at 31 December 1998 the gold holdings amount to 296 tonnes, a decrease of 180 tonnes compared to 31 December 1997. This movement in the gold stock is attributable to sales of about 299 tonnes and the returning of 119 tonnes by the ECB as a result of the unwinding on 31 December 1998, of the mechanism for the creation of ecus against gold and dollars.

The sale transactions relate to arbitrage transactions against foreign currencies totalling 299 tonnes and sales of 50 kg of gold to the Belgian Royal Mint.

The capital gains resulting from the arbitrage transactions amount to Fr. 92.5 billion. They correspond to the difference between the value of the gold arbitraged at the market price and that at the average purchase price. These capital gains have been recorded in a special unavailable reserve account on the liabilities side of the balance sheet, in accordance with Article 20bis of the Bank's Organic Law.

In implementation of the same article, the capital gains made on the sales of gold to the Belgian Royal Mint were paid to the State. Gold sales to this institution with a view to the issuing of coins by the State for numismatic or commemorative purposes may not exceed 2.75 p.c. of the weight of gold shown among the Bank's assets as at 1 January 1987. As at 31 December 1998, 0.73 p.c. of this weight of gold, or 9.7 tonnes, is still available.

Part of the gold holdings have been placed in the market, in the form of gold loans, with full observance of the safety criteria.

FOREIGN CURRENCIES

Holdings in foreign currencies appear in the balance sheet at their equivalent in francs calculated at the market rates on the last working day of the year. The translation differences, i.e., respectively, the differences between the value of these assets at the above-mentioned prices and that at the purchase price, are recorded under the liabilities heading « Valuation differences on gold and foreign exchange ».

The holdings in foreign currencies are invested in time deposits, in easily negotiable foreign securities and in the form of repurchase agreements, account being taken of the criteria of safety, liquidity and yield.

On purchase, securities in foreign currencies are recorded at purchase price. A portion of the difference between the latter and the maturity value is, each year, in the profit and loss account, added to or subtracted from the interest produced by the securities, pro rata temporis of the residual life of the securities and by a linear method. In the balance sheet the securities are valued at their purchase price plus or minus the portion of that difference which has been imputed in the profit and loss account since the purchase of the securities.

COMPOSITION OF FOREIGN CURRENCY HOLDINGS

(Millions)

	1998		1997	
	Foreign currency holdings	**Equivalent in Belgian francs**	Foreign currency holdings	Equivalent in Belgian francs
USD	**8,259**	**285,568**	4,610	170,193
JPY	**177,606**	**53,950**	412,869	117,152
DEM	**8,634**	**178,084**	8,006	165,137
CHF	**36**	**897**	25	623
OTHER		**194**		8,890
		518,693		461,995

Compared to the previous year, the foreign currency holdings increased, on balance, by nearly Fr. 57 billion. This upward movement is mainly attributable to the following factors :

— the returning of dollars by the ECB as a result of the unwinding on 31 December 1998 of the mechanism for the creation of ecus against gold and US dollars ;

— receipt of the proceeds of the investments made with the foreign currency holdings ;

— acquisition of the foreign currencies as a result of the gold sales ; in implementation of the Royal Decree of 18 December 1998, these foreign currency holdings were used for redemption of the State's foreign currency debt to the extent of the capital gains made up till 1 April 1998 on the arbitrages of gold holdings against other external reserve elements.

As at 31 December 1998 the Bank also held forward claims in DEM on resident credit institutions for an amount, calculated at the transaction exchange rate, of Fr. 216.4 billion.

These forward purchases were made against Belgian francs in connection with foreign exchange swaps carried out in order to tighten the liquidity of the money market.

At the end of the previous year, these claims amounted to Fr. 230.9 billion, of which Fr. 119.9 billion related to forward claims in DEM and the remainder to forward claims in USD.

In accordance with the agreement of 8 July 1998 between the Belgian State and the Bank, the foreign currency holdings are no longer covered by the State's guarantee. The Bank assumes, in addition to the credit risk, the exchange risk on all its transactions in external reserves — other than gold — for which no specific agreement has been concluded with the Minister of Finance.

SPECIAL DRAWING RIGHTS (SDRs)

Special Drawing Rights are reserve assets created ex nihilo by the IMF and allocated by it to its members. SDRs are used in transactions between official monetary authorities. The item undergoes changes as a result of the receipt and payment of interest and owing to transactions with other countries and with the Fund. The last allocation was made in 1981. In accordance with Article 6 of Decree-Law No. 5 of 1 May 1944 concerning the conditions of purchase and sale of gold and foreign currencies, as last amended by a law of 24 March 1978, the Bank shows Belgium's holdings of SDRs in its books as its own assets.

SDRs are valued in the balance sheet at the market rate as notified by the ECB on the last working day of the year. On the balance sheet date this rate was Fr. 48.5878 for one SDR (Fr. 49.8143 at the end of 1997). Translation differences in respect of assets and liabilities expressed in SDRs are recorded under the heading « Valuation differences on gold and foreign exchange ».

The holding of SDRs in the Special Drawing Rights account reached SDR 433.2 million on 31 December 1998, against SDR 362.7 million a year earlier. The net use of the holding of SDRs on the balance sheet date amounted to SDR 52 million.

PARTICIPATION IN THE IMF

The amount shown against this heading represents the equivalent in francs of Belgium's reserve tranche, that is, the rights possessed by the Belgian Government in its capacity as a member of the IMF, which the bank shows as its own assets by virtue of Article 6 of the aforementioned Decree-Law No. 5 of 1 May 1944. These rights correspond to the difference between Belgium's quota in the IMF, namely SDR 3,102.3 million, and the Fund's holdings of Belgian francs. They can be sold to the IMF at any time in order to obtain convertible currencies for financing a balance of payments deficit.

The change in these rights may also result from transactions carried out in Belgian francs, from the granting of credit by the IMF in favour of member countries faced with the same type of deficit or from the repayment of such credits by these countries, as well as from transactions in Belgian francs carried out by the Fund for its own account.

The reserve tranche is translated into francs at the same exchange rate as that used for holdings of SDRs. It amounted on the balance sheet date to SDR 1,208.7 million, against SDR 875.8 million a year earlier.

LOANS TO THE IMF

The purpose of this item is to record any claims held by the Bank on the Fund as a result of any loans granted to it on its own account, and also to record the Belgian State's claims on the IMF in the event of implementation of the General Arrangements to Borrow and the New Arrangements to Borrow. Belgium entered into the New Arrangements to Borrow during the year under review, under the law of 26 March 1998. On the balance sheet date, loans to the IMF within the framework of the General Arrangements to Borrow and the New Arrangements to Borrow amounted respectively to SDR 50.5 million and SDR 89.1 million. These claims are shown in the Bank's accounts as its own assets in accordance with Article 6 of the aforementioned Decree-Law No. 5 of 1 May 1944.

DEPOSITS WITH THE IMF WITHIN THE FRAMEWORK OF THE ESAF

The amount shown under this heading is the equivalent of the SDRs which the Bank has paid into a special deposit account with the IMF in respect of Belgium's participation in the Enhanced Structural Adjustment Facility (ESAF). The purpose of this credit facility is to support the efforts of low-income developing countries which undertake macroeconomic and structural adjustment programs.

The deposits are valued at the same exchange rate as that applied to holdings of SDRs. On the balance sheet date they amounted to SDR 180 million. It should be noted that two of the deposits in question, amounting together to SDR 65 million, matured during the year under review. They were however extended, provisionally and on the same conditions, pending decisions on the financing of an extension of the ESAF and the initiative for lightening the debt of heavily indebted poor countries.

ECUS

Unlike in the previous year, the Bank no longer has any holdings in ecus. This change is due to the unwinding on 31 December 1998, in accordance with Article 23.2 of the Statutes of the EMI, of the mechanism for the creation of ecus against gold and US dollars provided for in Article 17 of the EMS agreement.

ECB : VERY-SHORT- AND SHORT-TERM FINANCING

The figures shown under this heading represent, where appropriate, the Bank's claim, expressed in ecus, on the ECB in respect of the very-short-term financing of interventions carried out either at the exchange rates for compulsory intervention in the exchange rate mechanism of the European Monetary System or within the framework of special agreements concluded between participants in the EMS.

This item would also record any claims which the Bank may hold in respect of the short-term monetary support among the central banks of the Member States of the European Union.

The disappearance of the EMS on 31 December 1998 and its replacement by ERM II, which is financed by the ECB, have therefore led to the abolition of the instruments which were connected therewith and for which the Bank had a state guarantee.

INTERNATIONAL AGREEMENTS

This item is reserved for recording claims in francs on non-EU-countries with which Belgium has concluded payment agreements. The balances appearing under it represent the outstanding amount of the advances granted under these agreements, the execution of which is governed by the agreement of 15 June 1972 between the State and the Bank.

OPEN MARKET OPERATIONS

This main item is broken down into different sub-items according to the categories of monetary policy instruments used by the Bank to allocate liquidity to credit institutions :

	31-12-1998	31-12-1997
— *main refinancing operations :* this item records the amount of the credits with a duration of two weeks granted to credit institutions through weekly calls for tenders	**184,925,000**	15,000,140
— *fine-tuning operations in the form of repurchase agreements and/or collateralised loans :* the Bank shows under this head the amount of the credits which it occasionally grants to credit institutions on its own initiative, mainly in order to cope with unexpected liquidity fluctuations in the money market	**–**	129,025,000
— *securities purchased in the market :* this item records the amount of Treasury certificates and, where appropriate, bonds and other securities traded on the money or capital market which the Bank has acquired direct	**25,687,561**	25,890,121

As at 31 December 1998 the portfolio of securities bought on the market consists solely of linear bonds. When purchased the securities are recorded in the accounts at the purchase price. They are valued on the basis of their actuarial yield, calculated on purchase, account being taken of their redemption value at maturity. The difference (premium or discount) between the purchase price and the redemption value is carried to the profit and loss account pro rata temporis of the residual life of the securities as a constituent part of the interest produced by these securities. This difference is carried to the profit and loss account on a present-value basis, account being taken of the real yield on purchase. These securities are recorded in the balance sheet at their purchase price plus or minus the portion of the said difference carried to the profit and loss account.

COMMERCIAL BILLS

The item consisted of the commercial bills mobilised at the official discount rate and counted against the credit institutions' individual mobilisation ceilings.

Within the framework of the harmonisation of monetary policy instruments at the level of the ESCB, this rediscount facility was abolished at the end of 1998.

MARGINAL LENDING FACILITY

This item shows the amount of the end-of-day deficits which credit institutions cover by resorting to the Bank's overnight credit.

On 31 December 1998 the balance of this item was Fr. 0.1 billion, against Fr. 4 billion a year earlier.

PARTICIPATION IN THE CAPITAL OF THE EUROPEAN CENTRAL BANK

In accordance with Article 29 of the ESCB/ECB Statutes, the Bank's contribution amounts to 2.8658 p.c. of the ECB's capital (EUR 5 billion), or EUR 143,290,000. This capital participation was paid, in foreign currencies, on 1 July 1998.

COINS

Coins are put into circulation by the Bank on behalf of the Treasury. Under an agreement concluded between the Minister of Finance and the Bank, the ceiling on the Bank's holdings of coins was fixed at 10 p.c. of the coins in circulation on 31 December of the preceding year ; it amounted to Fr. 2,298 million for the year 1998.

The terms and conditions of repayment in the event of overstepping of the contractual limit are governed by special provisions ; these provisions did not have to be applied in 1998.

STATUTORY INVESTMENTS (ART. 21)

The securities which the Bank holds, under Article 21 of its Statutes, as the counterpart of its capital, reserves and depreciation accounts, are recorded under this heading. They consist of bills and securities referred to in Article 17, 1 of the Statutes and, subject to permission from the Minister of Finance, of securities representing the capital of financial institutions governed by special legal provisions or placed under the guarantee or supervision of the State, of shares of the BIS in Basle, and of all other securities necessary or useful for the performance of the Bank's functions.

On purchase, public securities are recorded in the accounts at their purchase price ; they are recorded on the basis of their actuarial yield, calculated on purchase, account being taken of their redemption value at maturity. The difference (premium or discount) between the purchase price and the redemption value is carried to the profit and loss account pro rata temporis of the residual life of the securities as a constituent part of the interest produced by these securities. This difference is carried to the profit and loss account on a present-value basis, account being taken of the real yield rate on purchase. These securities are recorded in the balance sheet at their purchase price plus or minus the portion of the said difference carried to the profit and loss account.

The shares are recorded in the balance sheet at their purchase price. The shares of the BIS are valued in francs on the basis of the exchange rate on the day of their purchase.

PREMISES, EQUIPMENT AND FURNITURE

Land, building, plant and tools, furniture and vehicles are shown in the accounts at their purchase value.

In 1998 the Bank's capital investments totalled Fr. 922.7 million, including ancillary costs. With the exception of land, they are written off in full in the year of purchase. An amount corresponding to the book value of the assets which were sold or whose use was discontinued was deducted from the « Premises, equipment and furniture » account.

OTHER ASSETS

The amounts recorded under this heading are commercial and other claims, stocks and work in progress in the Printing Works.

REGULARISATION ACCOUNTS

This item records expenses to be carried forward, accrued income and the other regularisation accounts.

BALANCE SHEET

(Thousands of francs)

LIABILITIES

NOTES IN CIRCULATION

The amount of notes in circulation, expressed as a daily average, was Fr. 460.7 billion in 1998, against Fr. 465.6 billion in 1997, corresponding to a decline of 1.05 p.c.

MONETARY RESERVE ACCOUNTS

Within the framework of the introduction of the reserve requirement system in the Bank, foreshadowing that of the ESCB, this new item records the reserve assets held by credit institutions participating in the transitional system and subject to reserve requirements.

At the end of the year, the reserve assets formed by credit institutions amounted to Fr. 278.8 billion.

DEPOSIT FACILITY

This item records the end-of-day surpluses which credit institutions place on an overnight deposit with the Bank.

The balance of the deposit facility amounted to Fr. 0.2 billion on 31 December 1998, against Fr. 1.2 billion a year earlier.

DEPOSIT OF THE BELGIAN STATE

By virtue of an agreement dated 17 June 1993 between the Belgian State and the Bank, the State deposit bears interest on the part which does not exceed Fr. 15 billion.

THE BANK'S CERTIFICATES

This heading recorded, at their nominal value, the dematerialised certificates of deposit which were issued by the Bank in 1996 under an agreement concluded with the primary dealers.

These certificates, to a nominal amount of Fr. 230 billion, were redeemed at par on 31 December 1998.

COUNTERPART OF ALLOCATIONS OF SDRs

The amount represents the equivalent of the SDRs, recorded at the same rate as holdings of SDRs, which would have to be returned to the IMF if SDRs were cancelled, if the IMF's SDR Department were abolished or if Belgium decided to withdraw from it. This liability, of indeterminate duration, amounts to SDR 485.2 million.

UNAVAILABLE RESERVE OF CAPITAL GAINS ON GOLD

This item records the capital gains obtained by the Bank in connection with arbitrage transactions in gold against other external reserve elements. Under Article 20bis of the law of 24 August 1939 concerning the National Bank of Belgium, the gains obtained are recorded in a special unavailable reserve account ; they are exempt from all taxes. In the event of liquidation of the Bank, the balance of this special account would be assigned to the State.

The law of 18 December 1998, making a derogation from Article 20bis of the aforementioned law of 22 February 1998 establishing the Bank's Organic Statutes, stipulates that the amount as at 1 April 1998 of the said capital gains is to be paid to the Belgian State, without prejudice to the rights which are recognised as being possessed by the Luxembourg State by virtue of the Protocol of 9 March 1981 concerning the monetary association between the two States, in order to allocate this amount for the redemption of part of the public debt in foreign currencies.

OTHER LIABILITIES

The amounts recorded under this heading are debts in respect of taxes and social contributions, the sums payable to the State for the year in question and the previous year in respect of its share in the Bank's proceeds and liabilities, the sums payable in respect of the distribution of the profit in accordance with Article 38 of the Bank's Statutes and the debts resulting from the application of the intergovernmental agreement of 23 November 1998 on a common interpretation of the protocols governing the monetary association between Belgium and Luxembourg after the changeover to Stage Three of Economic and Monetary Union.

The same item includes the provisions formed in 1996 by the State with a view to the implementation of its guarantee connected with the execution by the Bank of the payment agreements concluded with foreign States.

REGULARISATION ACCOUNTS

This item comprises the amounts to be charged in respect of interest and tax payable and also the receipts to be carried forward.

VALUATION DIFFERENCES ON GOLD AND FOREIGN EXCHANGE

This account is credited or debited with the translation differences corresponding to the difference between, on the one hand, the market value, on the balance sheet date, of the net external reserve positions and, on the other hand, the value at the average cost price of these. From the year 1998 onwards, realised exchange differences no longer appear in this item but are recorded in the profit and loss account.

	Balance at 31.12.1998	Balance at 31.12.1997	Movements
— Valuation difference on gold	**78,002,606**	172,134,226 [1]	−94,131,620
— Valuation differences on the spot and forward positions in foreign currencies (including SDRs and ecus)	**14,708,187**	41,256,192	−26,548,005
— Realised exchange differences . . .	**—**	6,296,471	−6,296,471
	92,710,793	219,686,889	−126,976,096

PROVISION FOR FUTURE EXCHANGE LOSSES

Under the agreement of 8 July 1998 between the State and the Bank, the latter henceforth assumes all risks in respect of its transactions in connection with the autonomous management of its external reserves — other than gold — for which a specific agreement has not been concluded with the Minister of Finance in accordance with Article 9 of the law of 22 February 1998 establishing the Bank's Organic Statutes.

In order to safeguard itself against possible future exchange losses, the Bank has created a « Provision for future exchange losses ». This constitutes, with the net positive valuation differences, the two sections of a reserve fund set up to cover such losses.

This fund will be increased as a matter of priority in future years.

Balance at the end of 1997	—
Appropriation	13,200,000
Balance at the end of 1998	13,200,000

PROVISION FOR PREMISES

The purpose of this provision is to enable the Bank to meet the expenses entailed by the execution of its programme of investment in new premises.

Balance at the end of 1997	1,248,981
Write-back	−112,000
Appropriation	260,000
Balance at the end of 1998	1,396,981

[1] Including the sum of Fr. 34.4 billion in respect of the valuation difference on gold sold spot to and repurchased forward from the ECB against ecus.

PROVISION FOR CONTINGENCIES

This item consists of the Provident Fund which was created at the end of 1957 in view of the risks inherent in the Bank's activity and of the fluctuations to which its results are subject. The write-back for 1998 of Fr. 1,200 million is intended to meet the exceptional expenses in respect of the application of the intergovernmental agreement of 23 November 1998 on a common interpretation of the protocols governing the monetary association between Belgium and Luxembourg from the time of the changeover to Stage Three of Economic and Monetary union.

The appropriation for 1998 comprises :

— compared to the previous year, an additional appropriation of Fr. 750 million for meeting the Bank's obligations resulting from the application of Article 52 of the ESCB/ECB Statutes, namely : the exchange and repatriation of the banknotes of the Member States of the euro area. The cumulative appropriations for this purpose therefore amount to Fr. 2,250 million ;

— an appropriation of Fr. 1,200 million for meeting the transport, storage and sorting costs connected with the exchanging of Belgian notes and coins against euros in 2002.

Balance as at 31 December 1997	11,950,000
Write-back	− 1,200,000
Appropriation	1,950,000
Balance as at 31 December 1998	12,700,000

CAPITAL

The capital of Fr. 400 million is divided into 400,000 registered or bearer shares of Fr. 1,000 each, of which 200,000 registered and untransferable shares are recorded in the name of the State.

RESERVE FUND

The reserve fund, provided for in Article 14 of the Bank's Statutes, consists of the Statutory Reserve, the Extraordinary Reserve and the Account for Depreciation of Premises, Equipment and Furniture.

The increase in the Statutory Reserve is the result of the distribution of the appropriated profit for the year just closed. The Account for Depreciation of Premises, Equipment and Furniture shows a decrease of Fr. 28.3 million, corresponding to the amount of the investments made in 1998, less an amount equivalent to the book value of assets sold or no longer used.

The tax-exempt part of the Extraordinary Reserve amounts to Fr. 575.8 million.

OFF-BALANCE-SHEET ITEMS

(Thousands of francs)

FORWARD TRANSACTIONS IN FOREIGN CURRENCIES

As at 31 December 1998 the breakdown of the forward position in foreign currencies is as follows :

	Amount in foreign currencies	Amount in Belgian francs
— forward claims in USD	544,908	18,839,993
— forward claims in DEM	10,488,985	216,340,569
— forward liabilities in JPY	64,987,625	19,740,901

The translation into Belgian francs of forward contracts in foreign currencies was carried out at the exchange rates used for the translation of foreign currencies on the last working day of the year.

The forward purchase transactions in DEM were entirely concluded against Belgian francs with resident credit institutions in connection with foreign exchange swaps carried out for reasons of monetary policy with a view to tightening liquidity.

The other forward transactions were concluded in connection with the management of the Bank's foreign currency holdings.

LIABILITIES WHICH MAY GIVE RISE TO A CREDIT RISK

Firm undertakings to make funds available

These are undertakings to make funds available in respect of open market operations with a value date later than the balance sheet date	—

VALUABLES AND CLAIMS ENTRUSTED TO THE INSTITUTION

For encashment	5,074
Assets administered on behalf of the Treasury	4,401,852
Assets administered on behalf of the ECB	—
Custody deposits	9,818,012,684

The securities (Treasury certificates, linear bonds, securities resulting from the splitting of linear bonds, Treasury bills, certificates of deposit, the Bank's certificates and certain classical loans) recorded under the securities clearing system and held on behalf of third parties appear under this heading.

PROFIT AND LOSS ACCOUNT

(Thousands of francs)

INCOME

PROCEEDS OF NET INTEREST-BEARING ASSETS

	31-12-1998	31-12-1997
— Interest proceeds	**36,165,671**	33,029,024
— Interest charges	**−9,233,436**	−8,829,137
Total	**26,932,235**	24,199,887

The net interest-bearing assets comprise the total amount of the assets and liabilities the income and expenses in respect of which are subject to distribution between the State and the Bank in accordance with the conditions set forth under the expenditure heading « State share ».

Interest proceeds consist of those from investments abroad and those from credit transactions. The increase in these proceeds compared with the previous year is mainly attributable to investments abroad, the average volume of which increased considerably as a result of the arbitrage transactions in gold against foreign currencies. Furthermore, the interest on these same investments was slightly influenced downwards by a decline in the average yield on the American and German markets and a slight depreciation of the exchange rate for the dollar in 1998. On the other hand, the increase in the volume of assets held as the counterpart to the carrying out of the transactions on behalf of the IMF had a positive impact on the interest proceeds on these assets. The interest proceeds in respect of credit transactions changed slightly compared to the previous year.

The interest charges relate to the net use of the holding of SDRs, to other transactions with foreign countries but also to the monetary reserve accounts, the deposit facility, the deposit of the Belgian State and the Bank's certificates. The latter had a negative impact on the movement of interest charges compared to 1997.

FOREIGN EXCHANGE DIFFERENCE GAINS

The amounts shown under this heading are the foreign exchange differences which have been obtained by the Bank on transactions in foreign currencies either within the framework of its autonomous management or within the framework of international agreements which are binding on Belgium or of international cooperation agreements to which, subject to the approval of the Belgian State, Belgium is a party.

In the former case the realised foreign exchange differences accrue to the Bank, while in the latter case they go to the State.

The balance of this account comprises not only the foreign exchange results of the financial year just closed (Fr. 13.1 billion) but also those of the previous year, as has been shown under the balance sheet heading « Valuation differences on gold and foreign currencies ».

These results have been obtained mainly on transactions in US dollars (Fr. 18.2 billion) and in German marks (Fr. 1 billion) as a result of the reallocation of the Bank's foreign currency holdings in 1997 and 1998 and on transactions in SDRs (Fr. 0.1 billion) within the framework of the implementation of international agreements on behalf of the State. Valuation differences in respect of euro-area foreign currencies, mainly those in respect of German marks (Fr. 0.5 billion) are also carried to the profit and loss account, as their translation into euros means that there is no longer any foreign exchange exposure.

PROCEEDS OF STATUTORY INVESTMENTS

The income from the statutory investments, acquired by the Bank under Article 21 of its Statutes, increased compared to the previous year. The fall in interest rates on the Belgian capital market made it possible, when the securities were sold, to obtain larger capital gains than during the previous year. The fall in interest income, for its part, was smaller than the effect of the enlargement of the portfolio following the transfers made to the reserve account at the close of the previous year.

COMMISSION

The commission received as remuneration for the Bank's services as financial intermediary and custodian of collateralised assets is recovered under this heading.

AMOUNTS RECOVERED FROM THIRD PARTIES

These are amounts recovered in respect of delivery of goods and rendering of services to third parties in various fields such as :

— the Central Balance Sheet Office, the Central Offices for Credit to Individuals and for Credit to Enterprises ;

— the currency and bond centres ;

— the securities clearing system ;

— the interbank payments systems : ELLIPS, the CTEC and the Clearing House ;

— work done by the Printing Works ;

— services rendered by the General Statistics Department.

DRAWINGS ON PROVISIONS

This item records the writing back of the « Provision for Contingencies » as well as the « Provision for Premises ».

OTHER PROCEEDS

Other proceeds for the year 1998 consist chiefly of the proceeds of the disposal of used equipment and furniture, the sale of premises and other exceptional proceeds.

PROFIT AND LOSS ACCOUNT

(Thousands of francs)

EXPENSES

STATE SHARE

This consists of the proceeds which accrue to the State before any imputation of costs (general expenses, exceptional costs, depreciation and taxes). These proceeds therefore do not include the funds which go to the Treasury in the distribution of the net profit.

By virtue of Article 20bis of the Organic Law the net income from the assets which form the counterpart to the capital gains obtained by the Bank through arbitrage transactions of assets in gold against other external reserve elements, entered in a special unavailable reserve account, is also assigned to the State.

The distribution between the State and the Bank of the proceeds of the interest-bearing Bank's transactions is governed by Article 3 of the agreement of 8 July 1998 between the State and the Bank. The proceeds of the Bank's interest-bearing assets and of its financial management transactions, less the costs relating to interest-bearing liabilities and to financial management transactions, in excess of 3 p.c. of the difference between the average amount of the interest-bearing assets and the interest-bearing liabilities, are assigned to the State.

Transactions in external reserves which the Bank carries out on behalf of the State or with its explicit consent, are still guaranteed by the State. Consequently, the realised exchange difference results on these transactions accrue in full to the State. The amount in question is Fr. 0.1 billion.

Furthermore, the Bank pays annually to the State, in accordance with the law of 2 January 1991, a sum of Fr. 986 million in order to compensate for the additional expenses resulting for the latter from the conversion of the State's consolidated debt to the Bank into freely negotiable securities.

GENERAL EXPENDITURE

	31-12-1998	31-12-1997
— Remuneration and social costs	**6,958,092**	6,939,561
— Other expenses	**1,788,386**	1,706,902
Total	**8,746,478**	8,646,463

Expenditure in respect of wages, salaries and social costs comprises the remuneration of the staff, the management, National Employment Office trainees, temporary staff and students, and also the pensions of former members of the management and the attendance fees of the members of the supervisory bodies. Expenditure in respect of staff hired from employment agencies appears under the sub-item « Other expenses ».

EXCEPTIONAL COSTS

The main costs recorded under this heading are those, amounting to Fr. 1,200 million, resulting from the implementation of the intergovernmental agreement of 23 November 1998 on a common interpretation of the protocols governing the monetary association between Belgium and Luxembourg following the changeover to Stage Three of Economic and Monetary Union.

Also included under this heading is the cost, of Fr. 921 million, resulting from the creation of a provision for the purpose of covering the Bank's social obligations to its staff.

DEPRECIATION OF PREMISES, EQUIPMENT AND FURNITURE

The depreciation applied as at 31 December 1998 covers the following expenses :

— New premises and technical installations	112,006
— Renovation of premises	222,588
— Software and hardware	284,802
— Equipment for the Printing Works, technical services and offices	257,012
— Office furniture	46,331
Total	922,739

TAXES AND DUES

This heading covers, in addition to corporation tax, the withholding tax on income from financial assets and the withholding tax on income from immovable assets, the non-deductible part of VAT and regional, provincial and municipal taxes.

The Bank shows in its accounts as costs relating to the year all taxes, whatever their nature, payable by it, less any tax repayments received during the same year. If, at the close of the year, the estimated amount of corporation tax shown under this heading exceeds imputable advance payments and withholding taxes, the additional amount due is recorded under the balance sheet heading « Other liabilities » ; in the opposite case, the surplus is shown under the heading « Other assets ».

Brussels, 27 January 1999.

The Council of Regency :

Messrs	Alfons	VERPLAETSE,	*Governor*
	William	FRAEYS,	*Vice-Governor*
	Jean-Pierre	PAUWELS,	*Director*
	Guy	QUADEN,	*Director*
	Jean-Jacques	REY,	*Director*
	Robert	REYNDERS,	*Director*
	Roger	RAMAEKERS,	*Regent*
	Willy	PEIRENS,	*Regent*
	Tony	VANDEPUTTE,	*Regent*
	Philippe	WILMES,	*Regent*
	Eddy	WYMEERSCH,	*Regent*
	Noël	DEVISCH,	*Regent*
	François	MARTOU,	*Regent*
	Michel	NOLLET,	*Regent*
	Christian	DUMOLIN,	*Regent*
	Gérald	FRERE,	*Regent*

REPORT OF THE BOARD OF CENSORS FOR 1998

During the Bank's ordinary general meeting of shareholders, which was held on Monday 23 February 1998, the terms of office of Messrs Maurice Charloteaux, Herman Verwilst, and Baron Paul Buysse were extended. Mr Paul-F. Smets was chosen as a censor to replace Mr Gérald Frère, appointed as a regent by the above-mentioned meeting ; on the basis of Article 55 of the Bank's Statutes, Mr Smets will complete his predecessor's term of office.

⁂

As a result of the entry into force on 1 January 1999 of Article 21 of the law of 22 February 1998 establishing the Bank's Organic Statutes, the Board's powers have been adapted with effect from the first-mentioned date. According to that law, « *the Board of Censors has the task of supervising the preparation and execution of the budget* » of the Bank (Article 21, point 2) and the censors are traditionally chosen from among « *persons particularly capable of performing monitoring functions* » (Article 23, point 4).

The former task of examining the accounts is taken over, from the 1998 accounting year onwards, by two approved auditors who have been appointed for this purpose by the Board of Directors. In accordance with Article 20, point 4, of the aforementioned law, the Council of Regency is henceforth responsible for approving the annual accounts.

This institutional change did not yet, of course, have any influence on the Board's activities during the year 1998. As previously, the censors performed their monitoring and supervisory activities in a variety of fields : monitoring of the quarterly accounting statements, the Bank's budget, checking various inventories, lists of securities and stocks of banknotes and exercising surveillance with regard to compliance with the internal control procedures designed to ensure the Bank's operational and physical security.

Every quarter, in accordance with tradition, the censors carried out a detailed examination of the Bank's accounting statement and profit and loss account. In this connection they analysed the factors underlying the movement of the various items of the balance sheet and that of the profit and loss account in comparison with the corresponding periods of the previous years. In addition to this quarterly examination of the balance sheet and profit and loss account in the course of 1998, the Board checked the accuracy of the accounting by obtaining the necessary supporting documents in the various departments. Two members are entrusted with this task in turn.

A second aspect of the censors' tasks is verification of the Bank's budget. The censors regularly — as a rule each quarter — compared the actual expenditure in the year under review with the corresponding budget estimates. The Board also approved the draft budget for the financial year 1999. The censors particularly appreciated the fact that the Bank's total expenditure was kept well under control, thanks, especially, to the small growth in personnel expenditure. With effect from the budget year 2000 the Council of Regency will have to approve the budget, after it has been prepared by the Board.

The censors also performed their supervisory and monitoring function during 1998 by following the performance of the assignments of the Audit and Inspection Services. At the beginning of the year under review they had the schedule of planned audits and inspections submitted to them. They were thus able to satisfy themselves that all the Bank's risk-sensitive activities would be supervised. In recent years, at their request, the emphasis in the drawing up of the annual programme has in fact been gradually shifted from specific checks towards the evaluation of internal control procedures by means of operational audits. Every quarter they have taken cognisance of the activities of the Audit and Inspection Services and have also been able to judge the follow-up of the programme. In the course of these quarterly explanatory talks, the Audit and Inspection Services have given a summary, by department and service, of the inspections and surveys as well as the completed audits and the main remarks and recommendations to which these activities have given rise.

The Board was furthermore, at its request, given a thorough explanation of the audit of a new computer program for the ledger of the Accounting Service.

The supervision of risk management is not exercised solely via the aforementioned quarterly comments and explanatory talks ; periodically the Board designates one of its members to accompany the Inspection Service in the exercise of one or other of its control functions. In this connection 12 inspections at the head office and 9 inspections at local establishments were attended.

The divergences noted in 1998 by the Audit and Inspection services were limited in extent ; appropriate measures were always taken without delay to rectify the errors and prevent their repetition.

Thanks to the explanatory talks mentioned above and the regular participation by its members in all kinds of inspection assignments, the Board has been able to gain a clear picture of the way in which the Bank's internal control is organised in a wide variety of processes. The censors came to the conclusion that this control functions well in the Bank and that the risks are adequately covered.

The Board of Censors :

The Chairman,
Hubert DETREMMERIE.

Christian D'HOOGH, *Secretary,*
Maurice CHARLOTEAUX,
Jacques FOREST,
Philippe GRULOIS,
Herman VERWILST,
Baron Paul BUYSSE,
Petrus THYS,
Baron Dominique COLLINET,
Paul-F. SMETS.

Annexes

COMPARISON OF BALANCE SHEETS

(After distribution of profit)

ASSETS

	1998	1997	1996	1995	1994
Gold	**94,659.0**	164,497.5	181,708.8	232,578.9	306,267.5
Foreign currencies	**518,693.1**	461,995.4	411,377.7	285,926.0	231,166.0
Special Drawing Rights (SDRs)	**21,050.7**	18,067.4	15,946.0	14,478.9	5,737.3
Participation in the IMF	**58,727.6**	43,626.1	34,390.4	29,547.5	25,856.6
Loans to the IMF	**6,786.2**	—	—	—	—
Deposit with the IMF within the framework of the ESAF	**8,745.8**	8,966.6	8,283.9	7,870.5	8,366.0
Ecus		93,116.1	86,466.4	118,874.2	148,081.3
ECB : Very-short- and short-term financing	**—**	—	—	—	—
EC : Medium-term financial assistance	**—**	—	—	—	—
International agreements	**3,346.2**	3,350.4	3,194.1	3,335.1	3,491.4
Open-market transactions :					
Main refinancing transactions	***184,925.0***	*15,000.2*	*20,000.0*	*20,025.4*	*29,999.4*
Fine-tuning transactions on the basis of repurchase agreements and/or collateralised loans	**—**	*129,025.0*	*127,733.1*	*128,472.6*	*92,330.6*
Securities purchased in the market	***25,687.6***	*25,890.1*	*24,912.0*	*23,855.3*	*17,860.9*
Commercial bills		2,452.6	2,628.5	2,379.0	2,724.2
Marginal lending facility	**143.0**	3,993.2	1,081.6	362.1	3,347.3
Participation in the capital of the ECB	**5,780.3**				
Coins	**229.5**	517.2	418.5	954.5	1,102.5
Statutory investments (Art. 21)	**53,169.0**	50,817.7	48,815.4	46,694.2	43,753.8
Premises, equipment and furniture	**12,570.6**	12,627.3	12,733.1	13,109.8	13,588.2
Other assets	**1,926.1**	593.7	1,392.6	397.4	3,339.3
Regularisation accounts	**10,369.7**	7,600.3	9,783.7	7,465.0	5,718.9
TOTAL ASSETS	**1,006,809.4**	1,042,136.8	990,865.8	936,326.4	942,731.2

AS AT 31 DECEMBER (Millions of francs)

LIABILITIES

	1998	1997	1996	1995	1994
Notes in circulation	**482,920.0**	478,638.0	464,675.4	445,836.7	412,189.7
Current accounts in francs	**278,762.7**				
Deposit facility	**242.8**	1,188.3	4,731.7	7,557.4	2,295.6
Deposit of the Belgian State	**430.4**	104.3	653.4	476.0	485.6
Deposit of the Luxembourg State . . .		3.9	3.8	1.0	503.2
Other current accounts in francs . . .	**13,183.9**	3,552.2	5,214.6	19,105.2	13,030.2
The Bank's certificates		230,000.0	230,000.0		
Liabilities due to interventions in the money market	**—**	—	—	—	—
Current accounts in foreign currencies .	**—**	—	7.4	0.4	9.6
Counterpart of allocations of SDRs . .	**23,577.0**	24,172.2	22,331.9	21,217.4	22,553.3
ECB : Very-short- and short-term financing	**—**	—	—	—	—
Unavailable reserve of capital gains on gold	**—**	—	1,133.6	166,531.7	116,310.9
Other liabilities	**32,830.9**	16,109.1	7,395.3	1,934.9	2,106.4
Regularisation accounts	**1,270.3**	2,020.9	1,511.5	200.6	372.5
Valuation differences on gold and foreign exchange	**92,710.8**	219,686.9	190,515.0	212,918.9	314,859.2
Provision for future exchange losses . .	**13,200.0**				
Provision for tax burdens			—	15.1	
Provision for premises	**1,397.0**	1,249.0	1,306.0	1,313.0	956.0
Provision for contingencies	**12,700.0**	11,950.0	10,350.0	10,250.0	10,150.0
Capital	**400.0**	400.0	400.0	400.0	400.0
Reserve fund :	**53,183.6**	53,062.0	50,636.2	48,568.1	46,509.0
Statutory reserve	***3,613.7***	*3,463.8*	*3,323.0*	*3,185.0*	*3,049.4*
Extraordinary reserve	***37,621.6***	*37,621.6*	*35,200.6*	*32,870.6*	*30,455.6*
Account for depreciation of premises, equipment and furniture	***11,948.3***	*11,976.6*	*12,112.6*	*12,512.5*	*13,004.0*
TOTAL LIABILITIES	**1,006,809.4**	1,042,136.8	990,865.8	936,326.4	942,731.2

COMPARISON OF PROFIT AND LOSS ACCOUNTS AS AT 31 DECEMBER

(Millions of francs)

	1998	1997	1996	1995	1994
INCOME					
Proceeds of net interest-bearing assets	**26,932.2**	24,199.9	28,767.8	27,595.3	22,144.9
Interest proceeds	***36,165.7***	*33,029.0*	*30,032.2*	*28,444.9*	*23,276.4*
Interest charges	***−9,233.5***	*−8,829.1*	*−1,264.4*	*−849.6*	*−1,131.5*
Foreign exchange difference gains	**19,411.3**				
Proceeds of statutory investments	**4,271.7**	3,854.8	4,001.4	3,608.5	3,778.7
Commission	**141.6**	171.8	170.5	262.9	163.1
Amounts recovered from third parties	**1,984.1**	2,007.1	1,768.1	1,907.5	1,958.3
Drawings on provisions	**1,312.0**	57.0	42.1	43.0	292.0
Other proceeds	**320.8**	313.6	380.3	192.4	83.2
	54,373.7	30,604.2	35,130.2	33,609.6	28,420.2
EXPENSES					
State share	**13,648.2**	11,862.5	17,456.6	17,554.9	11,954.3
General expenditure :	**8,746.5**	8,646.4	8,464.9	8,308.5	8,297.0
Remuneration and social costs	***6,958.1***	*6,939.5*	*6,885.0*	*6,853.5*	*6,784.7*
Other expenses	***1,788.4***	*1,706.9*	*1,579.9*	*1,455.0*	*1,512.3*
Exceptional costs	**2,121.1**	—	1,554.8		
Depreciation of premises, equipment and furniture	**922.7**	808.4	664.1	671.3	1,115.2
Provision for future exchange losses	**13,200.0**				
Provision for tax burdens			—	15.1	
Provision for premises	**260.0**	—	20.0	400.0	470.0
Provision for contingencies	**1,950.0**	1,600.0	100.0	100.0	100.0
Taxes and dues	**12,071.9**	3,835.2	3,137.5	2,770.5	2,657.5
Net profit for distribution	**1,453.3**	3,851.7	3,732.3	3,789.3	3,826.2
	54,373.7	30,604.2	35,130.2	33,609.6	28,420.2

DIVIDEND

	1998	1997	1996	1995	1994
Net dividend allocated per share . .	**1,790.00**	1,775.00	1,740.00	1,705.00	1,675.00
Withholding tax deducted per share .	**596.67**	591.67	580.00	568.33	580.89
Gross dividend allocated per share .	**2,386.67**	2,366.67	2,320.00	2,273.33	2,255.89

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBLAD — MONITEUR BELGE » DURING 1998

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBLAD - MONITEUR BELGE » DURING 1998 (Millions of francs)

ASSETS

DATES	Gold	Foreign currencies	Special Drawing Rights (SDRs)	Participation in the IMF	Loans to the IMF	Deposit with the IMF within the framework of the ESAF	Ecus	ECB : Very-short- and short-term financing	EC : Medium-term financial assistance
05 - 01 - 1998	164,497	463,121	18,067	43,626	—	8,967	93,116	—	—
12 - 01 - 1998	164,497	470,155	18,067	43,626	—	8,967	85,645	—	—
19 - 01 - 1998	164,497	466,395	18,067	48,608	—	8,967	85,645	—	—
26 - 01 - 1998	164,497	468,553	18,067	48,608	—	8,967	85,645	—	—
02 - 02 - 1998	164,497	468,901	18,071	48,608	—	8,967	85,645	—	—
09 - 02 - 1998	164,497	469,710	18,071	48,608	—	8,967	85,645	—	—
16 - 02 - 1998	164,497	470,095	18,071	48,608	—	8,967	85,645	—	—
23 - 02 - 1998	164,497	470,856	18,342	48,608	—	8,967	85,645	—	—
02 - 03 - 1998	164,497	471,666	18,342	48,608	—	8,967	85,645	—	—
09 - 03 - 1998	164,497	471,977	18,342	48,608	—	8,967	85,645	—	—
16 - 03 - 1998	61,155	582,220	18,342	48,608	—	8,967	85,645	—	—
23 - 03 - 1998	61,155	583,011	18,342	48,608	—	8,967	85,645	—	—
30 - 03 - 1998	61,155	583,354	18,342	48,608	—	8,967	85,645	—	—
06 - 04 - 1998	61,151	583,591	18,342	49,604	—	8,967	85,645	—	—
10 - 04 - 1998	81,820	579,418	18,342	49,604	—	8,967	70,607	—	—
20 - 04 - 1998	81,820	579,628	18,342	49,604	—	8,967	70,607	—	—
27 - 04 - 1998	81,820	579,721	18,342	49,604	—	8,967	70,607	—	—
04 - 05 - 1998	81,820	580,187	18,694	49,604	—	8,967	70,607	—	—
11 - 05 - 1998	81,820	579,922	18,694	49,604	—	8,967	70,607	—	—
18 - 05 - 1998	81,820	580,400	18,698	49,604	—	8,967	70,607	—	—
25 - 05 - 1998	81,820	579,092	18,698	51,348	—	8,967	70,607	—	—
29 - 05 - 1998	81,820	579,557	18,693	51,348	—	8,967	70,607	—	—
08 - 06 - 1998	81,820	580,739	18,693	51,348	—	8,967	70,607	—	—
15 - 06 - 1998	81,820	581,915	18,693	51,348	—	8,967	70,607	—	—
22 - 06 - 1998	81,820	583,042	18,693	51,348	—	8,967	70,607	—	—
29 - 06 - 1998	81,820	583,473	19,689	51,348	—	8,967	70,607	—	—
06 - 07 - 1998	81,820	579,085	19,698	53,241	—	8,967	70,607	—	—
13 - 07 - 1998	81,820	576,165	19,698	53,241	—	8,967	74,433	—	—
17 - 07 - 1998	81,820	576,642	19,698	53,241	—	8,967	74,433	—	—
27 - 07 - 1998	81,820	570,257	19,698	56,977	2,517	8,967	74,433	—	—
03 - 08 - 1998	81,820	572,283	19,701	56,980	2,517	8,967	74,433	—	—
10 - 08 - 1998	81,820	572,422	19,701	56,980	2,517	8,967	74,433	—	—
14 - 08 - 1998	81,820	572,524	20,157	56,980	2,517	8,967	74,433	—	—
24 - 08 - 1998	81,820	573,436	20,102	56,980	2,517	8,967	74,433	—	—
31 - 08 - 1998	81,820	574,870	20,102	56,980	2,517	8,967	74,433	—	—

DATES	Gold	Foreign currencies	Special Drawing Rights (SDRs)	Participation in the IMF	Loans to the IMF	Deposit with the IMF within the framework of the ESAF	Ecus	EMI : Very-short- and short-term financing	EC : Medium-term financial assistance
07 - 09 - 1998	81,820	575,346	20,102	56,902	2,517	8,967	74,433	—	—
14 - 09 - 1998	81,820	575,127	20,102	56,902	2,517	8,967	74,433	—	—
21 - 09 - 1998	81,820	574,930	20,102	56,902	2,517	8,967	74,433	—	—
28 - 09 - 1998	81,820	575,337	20,102	56,902	2,517	8,967	74,433	—	—
05 - 10 - 1998	81,820	574,226	21,099	58,646	2,517	8,967	74,433	—	—
12 - 10 - 1998	81,820	585,206	21,099	58,646	2,517	8,967	58,044	—	—
19 - 10 - 1998	81,820	585,964	21,099	58,646	2,517	8,967	58,044	—	—
26 - 10 - 1998	81,820	585,037	21,099	58,546	2,517	8,967	58,044	—	—
30 - 10 - 1998	81,820	585,912	21,099	58,546	2,517	8,967	58,044	—	—
09 - 11 - 1998	81,820	587,064	21,571	59,072	2,517	8,967	58,044	—	—
16 - 11 - 1998	81,820	586,045	21,573	59,072	2,517	8,967	58,044	—	—
23 - 11 - 1998	81,812	584,877	21,573	59,072	2,517	8,967	58,044	—	—
30 - 11 - 1998	81,812	585,095	21,573	59,072	2,517	8,967	58,044	—	—
07 - 12 - 1998	81,812	585,263	21,573	58,965	2,517	8,967	58,044	—	—
14 - 12 - 1998	81,812	586,712	21,573	58,865	2,517	8,967	58,044	—	—
21 - 12 - 1998	81,812	581,391	21,573	60,210	6,957	8,967	58,044	—	—
28 - 12 - 1998	81,812	492,426	21,573	60,210	6,957	8,967	58,044	—	—

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBLAD - MONITEUR BELGE » DURING 1998 (Millions of francs)

ASSETS (continuation and end)

DATES	International agreements	Advances against pledged security	Commercial bills	Securities purchased in the market	Claims due to other interventions in the money market	Coins	Statutory investments (Art. 21)	Miscellaneous accounts [1]		TOTAL ASSETS
05 - 01 - 1998	3,350	20,297	2,823	25,873	124,000	515	51,035	13,703		1,032,990
12 - 01 - 1998	3,323	18,663	2,825	25,857	112,975	558	51,035	13,591		1,019,784
19 - 01 - 1998	3,214	20,048	2,571	25,843	116,000	543	51,035	13,546		1,024,979
26 - 01 - 1998	3,214	19,889	2,971	25,831	116,000	545	51,035	13,481		1,027,303
02 - 02 - 1998	3,214	21,440	2,773	25,820	120,000	521	53,460	13,397		1,035,314
09 - 02 - 1998	3,214	22,885	2,767	25,810	122,000	501	53,461	13,409		1,039,545
16 - 02 - 1998	3,214	21,438	2,789	25,802	134,000	481	53,461	13,409		1,050,477
23 - 02 - 1998	3,221	21,330	2,844	25,794	141,050	461	53,459	13,415		1,058,489
02 - 03 - 1998	3,221	18,834	2,823	25,788	106,000	596	53,461	13,521		1,021,969
09 - 03 - 1998	3,339	20,620	2,823	25,783	87,000	556	53,461	13,570		1,005,188
16 - 03 - 1998	3,339	19,954	2,842	25,779	89,000	544	53,461	13,625		1,013,481
23 - 03 - 1998	3,339	18,624	2,850	25,777	89,025	567	53,461	13,685		1,013,056
30 - 03 - 1998	3,339	20,725	2,825	25,775	88,000	644	53,461	13,744		1,014,584
06 - 04 - 1998	3,344	20,244	2,819	25,774	92,000	658	53,462	13,636		1,019,237
10 - 04 - 1998	3,344	19,305	2,819	25,774	95,000	638	53,462	13,659		1,022,759
20 - 04 - 1998	3,349	22,913	2,750	25,772	88,025	624	53,461	13,699		1,019,561
27 - 04 - 1998	3,349	30,898	2,750	25,771	76,000	518	53,462	13,794		1,015,603
04 - 05 - 1998	3,349	10,999	3,046	25,771	102,000	479	53,460	13,804		1,022,787
11 - 05 - 1998	3,349	15,665	3,272	25,769	96,000	449	53,461	13,659		1,021,238
18 - 05 - 1998	3,349	17,032	3,322	25,769	103,000	457	53,461	13,686		1,030,172
25 - 05 - 1998	3,349	17,464	3,348	25,769	109,000	309	53,461	13,575		1,036,807
29 - 05 - 1998	3,349	15,564	3,323	25,769	109,000	260	53,462	13,659		1,035,378
08 - 06 - 1998	3,349	15,427	3,097	25,769	110,000	268	53,461	13,684		1,037,229
15 - 06 - 1998	3,304	17,222	3,322	25,768	109,000	217	53,461	13,731		1,039,375
22 - 06 - 1998	3,354	18,192	3,491	25,768	106,050	234	53,461	13,772		1,038,799
29 - 06 - 1998	3,354	15,965	3,516	25,768	110,000	202	53,462	13,717		1,041,888
06 - 07 - 1998	3,338	16,640	3,539	25,768	112,000	205	53,461	19,224		1,047,593
13 - 07 - 1998	3,354	17,296	3,516	25,769	102,000	191	53,461	19,084		1,038,995
17 - 07 - 1998	3,361	20,370	3,613	25,769	103,000	188	53,460	19,237		1,043,799
27 - 07 - 1998	3,320	20,013	3,478	25,770	92,000	171	53,462	19,315		1,032,198
03 - 08 - 1998	3,357	25,164	3,765	25,770	88,000	166	53,462	19,379		1,035,764
10 - 08 - 1998	3,357	35,578	3,644	25,771	72,025	156	53,462	19,571		1,030,404
14 - 08 - 1998	3,359	45,020	3,788	25,772	69,000	186	53,462	19,850		1,037,835
24 - 08 - 1998	3,359	55,056	4,108	25,772	55,000	191	53,462	20,006		1,035,209
31 - 08 - 1998	3,360	65,580	3,844	25,772	42,000	237	53,462	20,249		1,034,193

DATES	International agreements	Open-market transactions			Commercial bills	Marginal lending facility	Coins	Statutory investments (Art. 21)	Miscellaneous accounts [1]	TOTAL ASSETS
		Main refinancing transactions	Fine-tuning transactions on the basis of repurchase agreements and/or collateralised loans	Securities purchased in the market						
07 - 09 - 1998	3,360	132,675	—	25,773	3,068	502	289	53,462	20,354	1,059,570
14 - 09 - 1998	3,361	128,975	—	25,773	3,068	3,458	307	53,461	20,458	1,058,729
21 - 09 - 1998	3,356	133,000	—	25,775	3,068	4,109	331	53,462	20,756	1,063,528
28 - 09 - 1998	3,356	127,500	—	25,775	3,071	1,002	319	53,462	20,864	1,055,427
05 - 10 - 1998	3,359	130,500	—	25,776	3,047	—	329	53,459	20,945	1,059,123
12 - 10 - 1998	3,363	133,000	—	25,777	3,047	38	352	53,462	21,113	1,056,451
19 - 10 - 1998	3,322	124,000	—	25,546	3,045	93	302	53,462	21,392	1,048,219
26 - 10 - 1998	3,326	133,500	—	25,770	3,045	5	253	53,461	21,487	1,056,877
30 - 10 - 1998	3,356	133,500	—	25,770	3,038	2	228	53,462	21,698	1,057,959
09 - 11 - 1998	3,356	134,000	—	25,770	3,038	8	188	53,461	22,034	1,060,910
16 - 11 - 1998	3,358	131,025	—	25,770	3,039	5,377	182	53,461	22,430	1,062,680
23 - 11 - 1998	3,359	133,025	—	25,770	2,905	—	149	53,461	22,462	1,057,993
30 - 11 - 1998	3,359	129,575	—	25,770	2,867	2,120	138	53,462	22,830	1,057,201
07 - 12 - 1998	3,351	139,100	—	25,770	2,856	—	135	53,461	22,811	1,064,625
14 - 12 - 1998	3,355	149,525	—	25,770	2,846	20	71	53,462	23,123	1,076,662
21 - 12 - 1998	3,279	156,500	—	25,770	—	5,686	71	53,462	23,472	1,087,194
28 - 12 - 1998	3,340	157,975	—	25,770	—	2	52	53,462	23,390	993,980

[1] Including premises, equipment and furniture.

WEEKLY STATEMENTS PUBLISHED IN THE « BELGISCH STAATSBLAD - MONITEUR BELGE » DURING 1998 (Millions of francs)

LIABILITIES

DATES	Notes in circulation	Current accounts in francs	Deposit of the Belgian State	Deposit of the Luxembourg State	The Bank's certificates	Liabilities due to interventions in the money market	Current accounts in foreign currencies	Counterpart of allocations of SDRs	ECB : Very-short- and short-term financing	Unavailable reserve of surplus gains on gold	Valuation differences on gold and foreign exchange	Capital, reserves and depreciation accounts [1]	Miscellaneous accounts		TOTAL LIABILITIES
05 - 01 - 1998	473,793	2,955	77	4	230,000	3,435	—	24,172	—	—	220,750	51,036	26,768		1,032,990
12 - 01 - 1998	461,871	4,912	38	4	230,000	871	—	24,172	—	—	219,747	51,036	27,133		1,019,784
19 - 01 - 1998	465,663	4,614	24	4	230,000	1,040	—	24,172	—	—	220,404	51,036	28,022		1,024,979
26 - 01 - 1998	467,322	3,808	59	4	230,000	1,293	—	24,172	—	—	221,533	51,036	28,076		1,027,303
02 - 02 - 1998	474,567	4,631	69	4	230,000	1,273	82	24,172	—	—	220,933	53,462	26,121		1,035,314
09 - 02 - 1998	480,127	3,300	53	4	230,000	706	7	24,172	—	—	221,463	53,462	26,251		1,039,545
16 - 02 - 1998	489,508	3,847	195	4	230,000	1,033	—	24,172	—	—	221,594	53,462	26,662		1,050,477
23 - 02 - 1998	495,288	4,469	112	4	230,000	1,336	3	24,172	—	—	221,498	53,462	28,145		1,058,489
02 - 03 - 1998	457,125	4,160	65	4	230,000	1,279	1	24,172	—	—	221,195	53,462	30,506		1,021,969
09 - 03 - 1998	444,442	3,749	53	4	230,000	1,069	1	24,172	—	—	221,214	53,462	27,022		1,005,188
16 - 03 - 1998	444,385	4,264	51	4	230,000	1,853	—	24,172	—	92,454	135,169	53,462	27,667		1,013,481
23 - 03 - 1998	445,077	3,788	77	4	230,000	876	1	24,172	—	92,454	135,431	53,462	27,714		1,013,056
30 - 03 - 1998	442,443	4,517	1,108	4	230,000	2,224	13	24,172	—	92,454	135,515	53,462	28,672		1,014,584
06 - 04 - 1998	449,090	3,926	77	4	230,000	2,854	—	24,172	—	92,454	135,473	53,462	27,725		1,019,237
10 - 04 - 1998	453,253	3,334	59	4	230,000	2,239	—	24,172	—	92,454	136,633	53,462	27,149		1,022,759
20 - 04 - 1998	450,942	3,880	54	4	230,000	809	—	24,172	—	92,454	136,223	53,462	27,561		1,019,561
27 - 04 - 1998	446,385	3,924	52	4	230,000	1,132	—	24,172	—	92,454	135,950	53,462	28,068		1,015,603
04 - 05 - 1998	451,668	4,676	66	4	230,000	1,637	—	24,172	—	92,454	135,390	53,462	29,258		1,022,787
11 - 05 - 1998	451,826	4,433	33	4	230,000	920	—	24,172	—	92,454	134,676	53,462	29,258		1,021,238
18 - 05 - 1998	460,025	4,040	395	4	230,000	1,021	—	24,172	—	92,454	134,698	53,462	29,901		1,030,172
25 - 05 - 1998	466,914	4,218	152	—	230,000	1,112	—	24,172	—	92,454	134,780	53,462	29,543		1,036,807
29 - 05 - 1998	465,128	4,092	78	—	230,000	1,146	32	24,172	—	92,454	134,789	53,462	30,025		1,035,378
08 - 06 - 1998	463,493	6,481	77	—	230,000	1,129	—	24,172	—	92,454	135,132	53,462	30,829		1,037,229
15 - 06 - 1998	464,170	5,360	1,074	—	230,000	1,678	—	24,172	—	92,454	135,786	53,462	31,219		1,039,375
22 - 06 - 1998	464,833	3,707	72	—	230,000	1,864	3	24,172	—	92,454	136,383	53,462	31,849		1,038,799
29 - 06 - 1998	464,162	4,234	1,286	—	230,000	1,960	19	24,172	—	92,454	137,637	53,462	32,502		1,041,888
06 - 07 - 1998	469,968	3,766	317	—	230,000	1,415	1	24,172	—	92,454	139,162	53,462	32,876		1,047,593
13 - 07 - 1998	468,038	3,517	168	—	230,000	1,463	25	24,172	—	92,454	139,653	53,462	26,043		1,038,995
17 - 07 - 1998	470,488	3,971	2,086	—	230,000	1,524	—	24,172	—	92,454	139,924	53,462	25,718		1,043,799
27 - 07 - 1998	460,085	4,666	85	—	230,000	1,429	—	24,172	—	92,454	139,350	53,462	26,495		1,032,198
03 - 08 - 1998	457,179	7,068	91	—	230,000	3,345	14	24,172	—	92,454	140,473	53,462	27,506		1,035,764
10 - 08 - 1998	456,398	3,463	703	—	230,000	2,184	—	24,172	—	92,454	140,243	53,462	27,325		1,030,404
14 - 08 - 1998	459,589	5,703	1,492	—	230,000	2,606	4	24,172	—	92,454	140,245	53,462	28,108		1,037,835
24 - 08 - 1998	456,466	4,981	1,960	—	230,000	2,368	—	24,172	—	92,454	140,412	53,462	28,934		1,035,209
31 - 08 - 1998	454,157	4,459	96	—	230,000	4,657	—	24,172	—	92,454	140,969	53,462	29,767		1,034,193

DATES	Notes in circulation	Monetary reserve accounts	Deposit facility	Deposit of the Belgian State	Other current accounts in francs	The Bank's certificates	Liabilities due to interventions in the money market	Current accounts in foreign currencies	Counterpart of allocations of SDRs	ECB : Very-short- and short-term financing	Unavailable reserve of capital gains on gold	Valuation differences on gold and foreign exchange	Capital, reserves and depreciation accounts [1]	Miscellaneous accounts	TOTAL LIABILITIES
07 - 09 - 1998	456,309	27,563	285	88	4,501	230,000	—	—	24,172	—	92,454	141,089	53,462	29,647	1,059,570
14 - 09 - 1998	455,355	26,744	360	44	5,490	230,000	—	—	24,172	—	92,454	140,517	53,462	30,131	1,058,729
21 - 09 - 1998	455,358	33,398	414	33	4,698	230,000	—	12	24,172	—	92,454	139,554	53,462	29,973	1,063,528
28 - 09 - 1998	451,817	27,594	376	15	5,476	230,000	—	—	24,172	—	92,454	139,784	53,462	30,277	1,055,427
05 - 10 - 1998	454,670	27,508	436	54	4,476	230,000	—	2	24,172	—	92,454	140,215	53,462	31,674	1,059,123
12 - 10 - 1998	455,403	29,946	418	37	4,259	230,000	—	—	24,172	—	92,454	134,441	53,462	31,859	1,056,451
19 - 10 - 1998	457,766	18,844	378	48	4,150	230,000	—	118	24,172	—	92,454	134,721	53,462	32,106	1,048,219
26 - 10 - 1998	455,342	29,604	262	361	5,311	230,000	—	—	24,172	—	92,454	133,126	53,462	32,783	1,056,877
30 - 10 - 1998	457,341	26,363	669	67	6,664	230,000	—	9	24,172	—	92,454	133,525	53,462	33,233	1,057,959
09 - 11 - 1998	458,845	27,653	271	123	6,844	230,000	—	—	24,172	—	92,454	134,354	53,462	32,732	1,060,910
16 - 11 - 1998	460,274	30,323	351	47	5,549	230,000	—	91	24,172	—	92,454	133,267	53,462	32,690	1,062,680
23 - 11 - 1998	459,378	28,408	364	50	5,074	230,000	—	2	24,172	—	92,454	132,494	53,462	32,135	1,057,993
30 - 11 - 1998	457,861	25,313	1,370	56	7,820	230,000	—	2	24,172	—	92,454	132,326	53,462	32,365	1,057,201
07 - 12 - 1998	461,711	26,660	604	45	10,830	230,000	—	5	24,172	—	92,454	132,618	53,462	32,064	1,064,625
14 - 12 - 1998	465,491	33,725	346	165	10,613	230,000	—	2	24,172	—	92,454	133,830	53,462	32,402	1,076,662
21 - 12 - 1998	478,686	33,893	302	41	10,895	230,000	—	7	24,172	—	92,454	133,760	53,462	29,522	1,087,194
28 - 12 - 1998	482,039	28,717	807	189	11,040	230,000	—	—	24,172	—	—	133,752	53,462	29,802	993,980

[1] Of which capital : Fr. 400 million.

Royal Decree of 15 July 1998
approving the amendment to the Statutes
of the National Bank of Belgium

(Belgisch Staatsblad — Moniteur belge of 8 September 1998)

ALBERT II, King of the Belgians,

To all, present and to come, Greetings.

In view of the law of 24 August 1939 concerning the National Bank of Belgium, in particular Article 35, paragraphs 1 and 3 ;

In view of the law of 22 February 1998 establishing the Organic statute of the National Bank of Belgium, in particular Article 38, points 2 and 3 ;

In view of the Royal Decree of 24 April 1998, issued pursuant to Article 38, points 2 and 3 of the law of 22 February 1998 establishing the Organic statute of the National Bank of Belgium ;

In view of the drawing-up of authentic minutes dated 1 July 1998 by the notary Luc Possoz, Brussels, of the deliberations and decisions of the General Council of the National Bank of Belgium, public limited liability company, amending the Bank's Statutes ;

On the proposal of Our Minister of Finance,

We have decreed and do decree :

Article 1. The following amendments to the Statutes of the National Bank of Belgium, adopted by the General Council of the Bank at its meeting on 1 July 1998, are approved :

Article 1 (1) is replaced by the following provisions :

« The National Bank of Belgium, in Dutch « Nationale Bank van België », in French « Banque Nationale de Belgique », in German « Belgische Nationalbank », established by the law of 5 May 1850, shall form an integral part of the European System of Central Banks, hereinafter referred to as the ESCB, whose Statutes have been established by the Protocol relating thereto and annexed to the Treaty establishing the European Community.

Furthermore, the Bank shall be governed by this law, by its own Statutes and, additionally, by the provisions relating to public limited liability companies [sociétés anonymes — naamloze vennootschappen]. »

Article 44 is replaced by the following provision :

« The Governor shall be appointed by the King for a renewable term of five years. He may be relieved from office by the King only if he no longer fulfils the conditions required for the performance of his duties or if he has been guilty of serious misconduct. Regarding a decision to this effect he shall have the right of appeal provided for in Article 14.2 of the Statutes of the ESCB. »

Article 48 is replaced by the following provision :

« The Directors shall be appointed by the King, on the recommendation of the Council of Regency, for a renewable term of six years. They may be relieved from office by the King only if they no longer fulfil the conditions required for the performance of their duties or if they have been guilty of serious misconduct. »

Article 62 is repealed.

Article 63 (5) is repealed.

Article 64 (2) is replaced by the following provision :

« The Council shall exchange views concerning general questions relating to the Bank, monetary policy and the economic situation of the country and the European Community. It shall examine the situation of the institution every month. »

Article 64 (3) is repealed.

Articles 75 and 78 are replaced by the following provision :

« Art. 75.

1. Except with regard to the duties and transactions for which the ESCB is responsible, the Minister of Finance, through his representative, shall be entitled to supervise the Bank's transactions and to oppose the implementation of any measure which be contrary to the law, the statutes or the interests of the State.

2. The representative of the Minister of Finance shall, ex officio, attend the meetings of the Council of Regency and those of the Board of Censors. Except with regard to the duties and transactions for which to the ESCB is responsible, he shall supervise the Bank's transactions and shall suspend and bring to the notice of the Minister of Finance any decision which would be contrary to the law, the statutes or the interests of the State.

If the Minister of Finance has not given a ruling within eight days of the suspension, the decision may be implemented.

3. The salary of the representative of the Minister of Finance shall be fixed by the Minister of Finance in consultation with the Board of Directors of the Bank and shall be paid by the Bank.

The Minister's representative shall make a report each year to the Minister of Finance concerning his assignment. »

Art. 2. This decree shall become effective on 1 June 1998.

Art. 3. Our Minister of Finance is charged with the implementation of this decree.

Given in Brussels, 15 July 1998.

ALBERT

By the King :

The Minister of Finance,
J.-J. VISEUR.

SHAREHOLDER STRUCTURE
OF THE NATIONAL BANK OF BELGIUM AS AT 31.12.1998

(Pursuant to Article 4, § 2, paragraph 2, of the law of 2 March 1989 concerning the disclosure of major shareholdings in companies listed on the Stock Exchange)

Holder of voting rights :	Belgian State represented by the Minister of Finance
Number of securities representing the capital :	200,000
Proportion of capital :	50 p.c.

LIST OF NAMES AS USED IN THIS AND PREVIOUS REPORTS OF THE NATIONAL BANK

Agricultural Fund	Fonds Agricole
Agricultural Investment Fund	Fonds d'investissement agricole
Airways Board	Régie des voies aériennes
Antwerp Port Administration	Administration du Port d'Anvers
Assistance Fund for the Financial Recovery of Municipalities	Fonds d'aide au redressement financier des communes
Association of Flemish Chambers of Commerce and Industry	Association des Chambres flamandes de commerce et d'industrie
Association of Local Authorities for the Building of Motorways	Association intercommunale pour la construction d'Autoroutes
Autonomous Funds	Fonds autonomes
Autonomous War Damage Fund	Caisse Autonome des Dommages de Guerre
Banking and Finance Commission (formerly Banking Commission)	Commission bancaire et financière (précédemment Commission bancaire)
Belgian Air Navigation Company (Sabena)	Société Anonyme Belge d'Exploitation de la Navigation Aérienne (Sabena)
Belgian Aluminium Syndicate	Syndicat Belge de l'Aluminium
Belgian Association of Collective Investment Undertakings	Association belge des organismes de placement collectif
Belgian Bankers' Association	Association Belge des Banques
Belgian Coal Mines Re-equipment Fund	Fonds de Rééquipement des Charbonnages Belges
Belgian-Congolese Amortisation and Management Fund	Fonds Belgo-Congolais d'Amortissement et de Gestion
Belgian-Luxembourg Economic Union (BLEU)	Union Economique Belgo-Luxembourgeoise (UEBL)
Belgian-Luxembourg Exchange Institute (BLEI)	Institut Belgo-Luxembourgeois du Change
Belgian Municipal Credit Institution	Crédit Communal de Belgique
Belgian National Railways Company (BNRC)	Société Nationale des Chemins de fer belges (SNCB)
Belgian Office for Increasing Productivity	Office Belge pour l'Accroissement de la productivité
Belgian Pension Funds Association	Association Belge des Fonds de Pension
Belgian Petroleum Federation	Fédération pétrolière belge
Belgian Real Estate Credit Association	Association Belge du Crédit immobilier

Belgian Surveyors' Association	Association Belge des Experts
Belgian Trade Federation of Producers and Distributors of Electricity	Fédération Professionnelle des Producteurs et Distributeurs d'Electricité de Belgique
Benelux Economic Union	Union Economique Benelux
Board of Censors (of NBB)	Collège des censeurs (de la BNB)
Board of Directors (of NBB)	Comité de direction (de la BNB)
Bulletin of the National Bank of Belgium (formerly Information Bulletin of the National Bank of Belgium)	Bulletin de la Banque Nationale de Belgique (précédemment Bulletin d'Information et de Documentation de la Banque Nationale de Belgique)
Centenary Fund	Fonds du Centenaire
Central Balance Sheet Office	Centrale des Bilans
Central Consumer Credit Office	Centrale des crédits à la consommation
Central Economic Council	Conseil Central de l'Economie
Central Office for Credits to Enterprises	Centrale des Crédits aux Entreprises
Central Office for Credits to Individuals	Centrale des Crédits aux Particuliers
Central Office for Mortgage Credit	Office Central de Crédit Hypothécaire
Central Office for Small Savings	Office Central de la Petite Epargne
Central Credit Office	Centrales des Crédits
Clearing House (at Brussels)	Chambre de Compensation (à Bruxelles)
Clearing Transaction Exchange Centre of the Belgian Financial System (CTEC)	Centre d'Echange d'Opérations à compenser du Système financier belge (CEC)
Code of taxes payable by stamp or in similar ways	Code des taxes assimilées au timbre
Committee of Control for Electricity	Comité de Contrôle de l'Electricité
Committee of Management for Electricity	Comité de Gestion de l'Electricité
Committee of the Brussels Stock Exchange	Commission de la Bourse de Bruxelles
Consultation Committee for Creditor Interest Rates	Comité de concertation des taux d'intérêt créditeurs
Consultative Committee for Co-ordinating Medium-Term Export Financing (« Cofinex »)	Comité Consultatif de Coordination du Financement à Moyen Terme des Exportations (Cofinex)
Consultative Council for External Trade	Conseil Consultatif pour le Commerce Extérieur
Council of Public Credit Institutions	Conseil des Institutions Publiques de Crédit
Council of Regency (of NBB)	Conseil de Régence (de la BNB)
Council of State	Conseil d'Etat
Creditexport Association	Association Creditexport

Department of Applied Economics at the Free University of Brussels	Département d'Economie appliquée de l'Université Libre de Bruxelles (DULBEA)
Department of National Education	Département de l'Education Nationale
Deposit and Consignment Office	Caisse des Dépôts et Consignations
Direct Taxes Department	Administration des Contributions directes
Economic Expansion and Regional Reconversion Fund	Fonds d'Expansion Economique et de Reconversion Régionale
Economic Research Institute [formerly Economic, Social and Political Research Institute (of Louvain University)]	Institut de Recherches Economiques [précédemment Institut de Recherches Economiques, Sociales et Politiques (de l'Université de Louvain)]
Energy Board	Administration de l'Energie
Excise Department (Ministry of Finance)	Service des Accises (Ministère des Finances)
Export Credit	Creditexport
External Trade Fund	Fonds du Commerce Extérieur
Federal Participation Company (FPC)	Société fédérale de participation (SFP)
Federation of Belgian Enterprises (formerly Federation of Belgian Industries)	Fédération des Entreprises de Belgique (précédemment Fédération des Industries Belges)
Federation of Chemical Industries	Fédération des Industries chimiques
Federation of Enterprises in the Metal Manufacturing Industries	Fédération des entreprises de l'industrie des fabrications métalliques
Fund for the Financial Balancing of the Social Security System	Fonds pour l'équilibre financier de la Sécurité Sociale
General Budget Statement	Exposé Général du Budget
General Commission for the Euro	Commissariat Général à l'euro
General Savings and Pensions Fund (GSPF)	Caisse Générale d'Epargne et de Retraite (CGER)
Housing Fund of the Large Families League	Fonds du Logement de la Ligue des Familles Nombreuses
Housing Institute	Institut du Logement
Industrial Promotion Office	Office de Promotion Industrielle
Information Bulletin of the Ministry of Finance	Bulletin de Documentation du Ministère des Finances
Inland Water Transport Regulating Office	Office Régulateur de la Navigation Intérieure
Insurance Supervision Office	Office de contrôle des assurances
Joint Committee of Banks and Bank Employees	Commission paritaire des banques
Luxembourg Insurance Commissariat	Commissariat aux assurances du Luxembourg
Luxembourg Monetary Institute	Institut monétaire Luxembourgeois

Ministry of Economic Affairs (MEA)	Ministère des Affaires Economiques (MAE)
Ministry of Agriculture	Ministère de l'Agriculture
Ministry of Employment and Labour	Ministère de l'Emploi et du Travail
Ministry of Finance	Ministère des Finances
Ministry of National Defence	Ministère de la Défense Nationale
Ministry of National Education	Ministère de l'Education Nationale
Ministry of the Civil Service	Ministère de la Fonction Publique
Ministry of Public Works	Ministère des Travaux Publics
Ministry of Social Security	Ministère de la Prévoyance Sociale
Monetary Fund	Fonds Monétaire
National Coal Mines Council	Conseil National des Charbonnages
National Committee for Economic Expansion	Comité National d'Expansion Economique
National Del Credere Office	Office National du Ducroire
National Employment Office (NEMO)	Office National de l'Emploi (ONEM)
National Foundation for Financing Scientific Research	Fondation Nationale pour le Financement de la Recherche Scientifique
National Fund for Credit to Trade and Industry	Caisse Nationale de Crédit Professionnel
National Fund for the Rehabilitation of Handicapped Persons	Fonds National pour le Reclassement des Handicapés
National Housing Company	Société Nationale du Logement
National Housing Fund	Fonds National du Logement
National Industrial Credit Company (NICC)	Société Nationale de Crédit à l'Industrie (SNCI)
National Institute for Agricultural Credit	Institut National de Crédit Agricole
National Investment Company	Société Nationale d'Investissement
National Labour Council	Conseil National du Travail
National Land Company (formerly National Smallholders' Company)	Société Nationale Terrienne (précédemment Société Nationale de la Petite Propriété Terrienne)
National Local Railways Company	Société Nationale des Chemins de Fer Vicinaux
National Joint Mines Commission	Commission Nationale Mixte des Mines
National Register of Physical Persons	Registre national des personnes physiques
National Sickness and Disability Insurance Institute	Institut National d'Assurance Maladie-Invalidité
National Social Security Office (NSSO)	Office National de Sécurité Sociale
National Statistical Institute (NSI)	Institut National de Statistique (INS)

National Water Distribution Company	Société Nationale des Distributions d'Eau
Nuclear Energy Research Centre	Centre d'Etudes de l'Energie Nucléaire
Planning Bureau	Bureau du Plan
Post Administration	Administration des Postes
Post Board	Régie des Postes
« Postcheque »	« Postcheque »
Postal Cheque Account (PCA)	Compte de Chèques Postaux (CCP)
Postal Cheque Office (PCO)	Office des Chèques Postaux (OCP)
Public Debt Ledger	Grand-Livre de la dette publique
Public Social Assistance Centres	Centres publics d'aide sociale
Rediscount and Guarantee Institute (RGI)	Institut de Réescompte et de Garantie (IRG)
Research Department (of the NBB)	Département des Etudes (de la BNB)
Road Fund	Fonds des Routes
Royal Society for Political Economy	Société Royale d'Economie Politique
Sabena (see Belgian Air Navigation Company)	Sabena (cf. Société Anonyme Belge d'Exploitation de la Navigation Aérienne)
Savings Bank Section of the General Savings and Pensions Fund	Caisse d'Epargne de la Caisse Générale d'Epargne et de Retraite
Sea Transport Administration	Administration des transports maritimes
Sea Transport Board	Régie des transports maritimes
Securities Deposit and Clearing Office of the Financial Sector	Caisse interprofessionnelle de Dépôts et de Virements de Titres
Securities Regulation Fund	Fonds des Rentes
Sinking Fund	Caisse d'Amortissement
Social Programming Agreement	Accord de programmation sociale
Solidarity Fund for Financing Early-Retirement Pensions	Fonds de solidarité de financement de la prépension
Special Municipalities Fund	Fonds spécial des communes
Staff Pensions Fund	Caisse de Pensions du Personnel
Superior Finance Council	Conseil Supérieur des Finances
Telegraphs and Telephones Board	Régie des Télégraphes et des Téléphones
Textile Industry Federation	Fédération de l'Industrie Textile
Town Planning Board	Administration de l'Urbanisme
Treasury and Public Debt Administration	Administration de la Trésorerie et de la Dette Publique
Union of Non-Ferrous Metal Industries	Union des Industries des Métaux Non Ferreux

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