

OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

BELGIUM
LUXEMBOURG

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

MARCH 1981

I 22/27 P 3

BASIC STATISTICS BELGIUM

THE LAND

Area (1 000 sq. km)	30.5	Main urban areas (1-1-1980)	
Agricultural area (1 000 sq. km) 1977	15.2	inhabitants:	
Tillage and temporary grassland (1 000 sq. km) 1977	8.1	Brussels	1 008 715
		Antwerp	925 066
		Liège	611 963
		Ghent	486 078

THE PEOPLE

Population (1-1-1980), thousands	9 855	Net migration (1979)	1 954
Number of inhabitants per sq. km	323	Total labour force (30-6-1979, thousands)	4 145
Population, net natural increase per 1 000 inhabitants in 1979	1.2	Total employment	3 801
		Agriculture	110
		Manufacturing and construction	1 409
		Other	2 282

PRODUCTION

Gross domestic product (1979) billions of Belgian francs	3 251.9	National expenditure (1979) billions of Belgians francs:	
Gross domestic product per head (1979) US \$	9 673	Private consumption	2 052.7
Gross fixed investment: Per cent of GDP (1979)	20.5	Public consumption	593.4
Per head (1979) US \$	1 986	Gross fixed capital formation	667.8
		Net exports (including factor income)	-75.3

THE GOVERNMENT

Current government expenditure on goods and services (1979) percentage of GDP	18.2	Composition of the House of Representatives:	%
Current government revenue (1979) per cent of GDP	43.2	Christian-Social Party	39
Government debt, 31-12-1980, billions of Belgians francs	1 957	Belgian Socialist Party	27
		Freedom and Progress Party	17
		Fédération des francophones et rassemblement wallon	7
		Voksunie	7
		Communist Party	4
		Others	2
		Last elections : 17-12-1978	
		Next elections : 1982	

FOREIGN TRADE

Exports:		Imports:	
Main exports in 1979		Main imports in 1979	
per cent of total exports, SITC (BLEU):		per cent of total imports, SITC (BLEU):	
Iron and steel products (67 + 68)	15.3	Iron and steel products (67 + 68)	6.4
Chemicals products (5)	11.8	Chemicals products (5)	8.9
Machinery and apparatus (71 to 77)	11.0	Machinery and apparatus (71 to 77)	12.3
Textile products (65)	5.8	Textile products (65)	3.5
Transport equipment (78 + 79)	12.1	Transport equipment (78 + 79)	12.2

THE CURRENCY

Monetary unit: Belgian franc		Currency units per US \$, average of daily figures:	
		Year 1980	29.253
		February 1981	32.279

Note An international comparison of certain basic statistics is given in an annex table.

BASIC STATISTICS LUXEMBOURG

THE LAND

Area (sq. km)	2 586	Major city, inhabitants:	
Agriculture area, 1979 (sq. km)	1 304	Luxembourg (15-10-1978)	79 600
Woodland, 1979 (sq. km)	820		

THE PEOPLE

Population (1-1-1980)	363 700	Total employment (1979, thousands)	158.2
Number of inhabitants per sq. km	141	Agriculture	9.3
Population, net natural increase per 1 000 inhabitants in 1979	0.0	Industry	61.5
Net migration 1979	1 400	Services	87.5
		Dependent employees	135.6
		Employers, self-employed persons and domestic help	22.6

PRODUCTION

Gross domestic product (1979) billions of francs	121.1	Gross domestic product by origin, at market prices (1978):	%
Gross domestic product per head, US \$ (1979)	9 762	Agriculture	3.2
Gross fixed investments: Per cent of GDP (1979)	26.6	Energy	2.4
Per head, US \$ (1979)	2 592	Manufacturing	30.7
		Construction	9.8
		Other	53.9

THE GOVERNMENT

Public consumption (1979), per cent of GDP	15.6	Composition of the Chamber:	%
Current government revenue (general government) (1979) per cent of GDP	56.5	Christian Social Party	40.7
Central government debt (December 31st, 1979) billion Frs	24.6	Democratic Party	25.4
		Workers Socialist Party	23.7
		Communist Party	3.4
		Social Democrat Party	3.4
		Others	3.4
		Last election: 10-6-1979	

THE CURRENCY

Monetary unit: Luxembourg franc		Currency units per US \$, average of daily figures:	
		Year 1980	29.253
		February 1981	32.279

Note An international comparison of certain basic statistics is given in an annex table.

OECD ECONOMIC SURVEYS

**BELGIUM-
LUXEMBOURG**

MARCH 1981

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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* *

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THE BELGIAN ECONOMY

INTRODUCTION

The Belgian economy currently shows pronounced disequilibrium in three areas: employment, the balance of payments and public finance. After the first oil-price shock, the years 1974-76 saw inflation accelerate sharply, largely as a result of higher wage costs, and this caused external competitiveness to deteriorate. The adverse effects on the trade balance and consequently on activity were made worse by the importance of the traditional sectors in Belgian industry, and unemployment rose very rapidly. The pick-up in activity between the second half of 1978 and the first quarter of 1980, together with the effects of the government's employment policy, enabled the unemployment rate to stabilize at the beginning of last year, but as from the spring the situation deteriorated again as production fell and by December 1980 the number of unemployed was more than 9 per cent of the labour force. The rise in oil prices pushed the foreign trade account further out of balance in 1979 and 1980, and for 1980 the BLEU current payments deficit may have been as much as B.Frs. 170 billion or about 5 per cent of GNP. Sluggish growth and rising unemployment caused public spending to grow considerably, and the general government borrowing requirement strongly expanded during the 1970s, attaining the equivalent of 9½ per cent of GNP in 1980.

The Belgian authorities have introduced a number of reforms, notably since 1977, with the aim of bringing down unemployment by means of employment-support measures, improving firms' competitiveness by encouraging investment and trying to slow real wage growth, and reducing the budget deficit through public spending curbs. These policies, the aims of which were difficult to reconcile in the short term, were unable to check the growing disequilibrium, except in the area of inflation, where price and wage growth has been relatively moderate since the second oil shock. So in the summer of 1980 the authorities produced an economic recovery plan which was approved by Parliament at the beginning of February 1981 and supplemented by a collective agreement envisaging a moderation in the growth of real wages in 1981 and 1982. This plan, which sets out to bring the social security accounts back into overall balance and reduce the budget deficit, might have a deflationary impact on the economy in the very short term. Given the general assumptions concerning the international environment in 1981, GNP growth might be negative, around -½ per cent, as against 1.4 per cent in 1980 and the year-on-year inflation rate might show no change (6½ per cent for consumer prices). The current account deficit might widen again but by less than in the last two years.

Part I of this survey analyses some of the disequilibria in the private sector during the last few years and their effects on the public sector. Part II examines the recent economic policy responses. Part III describes the recent trends in the economy and presents the short-term prospects; the economic policy conclusions are in Part IV.

I MEDIUM-TERM ISSUES

One of the major problems facing the Belgian economy today is unemployment. With approximately 9 per cent of the labour force out of work at the end of 1980, the unemployment rate in Belgium is one of the highest among the industrialised OECD countries. This is partly due to the difficulties which Belgian industry is having in adjusting to the changes in the pattern of demand and the new conditions of international competition, with a consequent loss of external competitiveness for the economy. These factors have undoubtedly had the effect of increasing the weight of the public sector and enlarging its deficit. This part of the survey analyses the following four main problem areas:

- unemployment, employment and productivity
- the productive sector
- the deterioration of the foreign balance
- the problems of the public sector.

Table I Comparison between Belgium and some other OECD countries

	GDP growth 1980/1973	Unemployment rate ¹		General government net lending/GDP		Current balance ² /GDP	
		1973	1980	1973	1979	1973	1980
Belgium	2.3	2.2	7.8	-3.3	-7.0	2.8	-5.1
Germany	2.3	1.0	3.9	1.2	-3.0	1.3	-2.1
Austria	3.0	1.6	1.9	0.1	-3.4	-1.3	-5.6
Denmark	1.8	1.1	6.7	0.8 ³	-8.1 ³	-1.6	-4.4
France	2.8	2.6	6.8	0.9	-0.8	-0.3	-1.2
Netherlands	2.1	2.9	6.3	1.1	-3.1	3.9	-1.8
Sweden	1.9	2.4	2.0	4.2	-2.7	2.4	-4.1
Switzerland	0	0	0.2	..	..	0.7	-0.8

1 These rates can only be compared with caution because of differences in definitions.

2 Goods, services and transfer payments.

3 Excluding net capital transfers.

Sources: OECD, *National Accounts, Main Economic Indicators, Economic Outlook* of December 1980.

Unemployment, employment and productivity

The recent rise in unemployment is part of a trend which has been going on for some ten years in Belgium, gathering momentum with the crisis of 1974-75. The number of wholly unemployed drawing benefits, which had risen by 50 per cent between 1971 and 1974, has more than trebled since then. The jobless total would have been even higher but for the measures taken by the authorities¹. For instance, firms with over 50 employees were required to take on a number of trainees equivalent to 2 per cent of their workforce, with smaller businesses receiving a premium for each trainee taken on. In addition, government services and certain private non-profit institutions have recruited jobless persons, who either retain their unemployed status and draw an increased benefit (the "mise au travail des chômeurs" scheme) or are given a limited-term contract (the "cadre spécial temporaire" scheme). Finally, the early

1 The various measures were described in detail in the 1979 economic survey of Belgium-Luxembourg.

retirement system² has been considerably developed since 1974 in a number of different ways, one of them being early retirement for a worker who will be replaced, at times, by a person under 30 years of age; the outgoing worker draws a supplementary benefit which is paid by the State ("prépension légale"). These programmes produced their full effects in 1979 and 1980 and by November of that year applied to 180 000 persons (i.e. over 4 per cent of the labour force, half of whom were employed and the remainder were elderly persons going on early retirement).

The increasing number of jobless women has been the main reason for the rise in the unemployment rate since 1971, except in 1975 when the crisis affected mainly males. Since 1975 the gap between male and female unemployment rates has further widened: in 1975 the female unemployment rate was twice as high as the rate for males and now it is three times as high. The rise in unemployment among the under-25s was more rapid during the last decade than in the other age groups. The number of jobless aged under 25 increased eightfold (with a comparable trend for both sexes) between 1971 and 1979; this compares with a fourfold increase in the total number of wholly unemployed drawing benefit. As a result of their special employment measures, the authorities have succeeded since 1975 in stabilizing the proportion of youth unemployment (one-third of total unemployment in 1980, as in 1975), whereas over the four previous years it had doubled. At the same time, the early retirement schemes have had the effect of reducing the proportion of older unemployed persons (aged 45 and over), so that the 25-45 age group today accounts for about half the jobless total. Meanwhile the average period of unemployment has lengthened. The proportion of persons out of work for more than six months rose from 60 per cent in 1972 to 75 per cent in 1975. This is comparable with the

Table 2 **Labour market**

	1968/1960	Annual change 1974/1968	1980/1974	Thousands 1980
Labour force				
Males	0	0.3	0	2 590
Females	0.9	2.6	2.5	1 530
Employment				
Males	0.1	0.5	-0.5	2 470
Females	0.8	2.5	0.5	1 330
	1960	1968	1974	1980
Unemployment rate				
Total	2.7	2.5	2.2	7.8
Males	2.9	2.3	1.5	4.6
Females	2.3	2.8	3.5	13.2
Participation rate ¹				
Males	84.7	83.6	81.9	78.6 ²
Females	36.4	39.4	43.6	47.7 ²

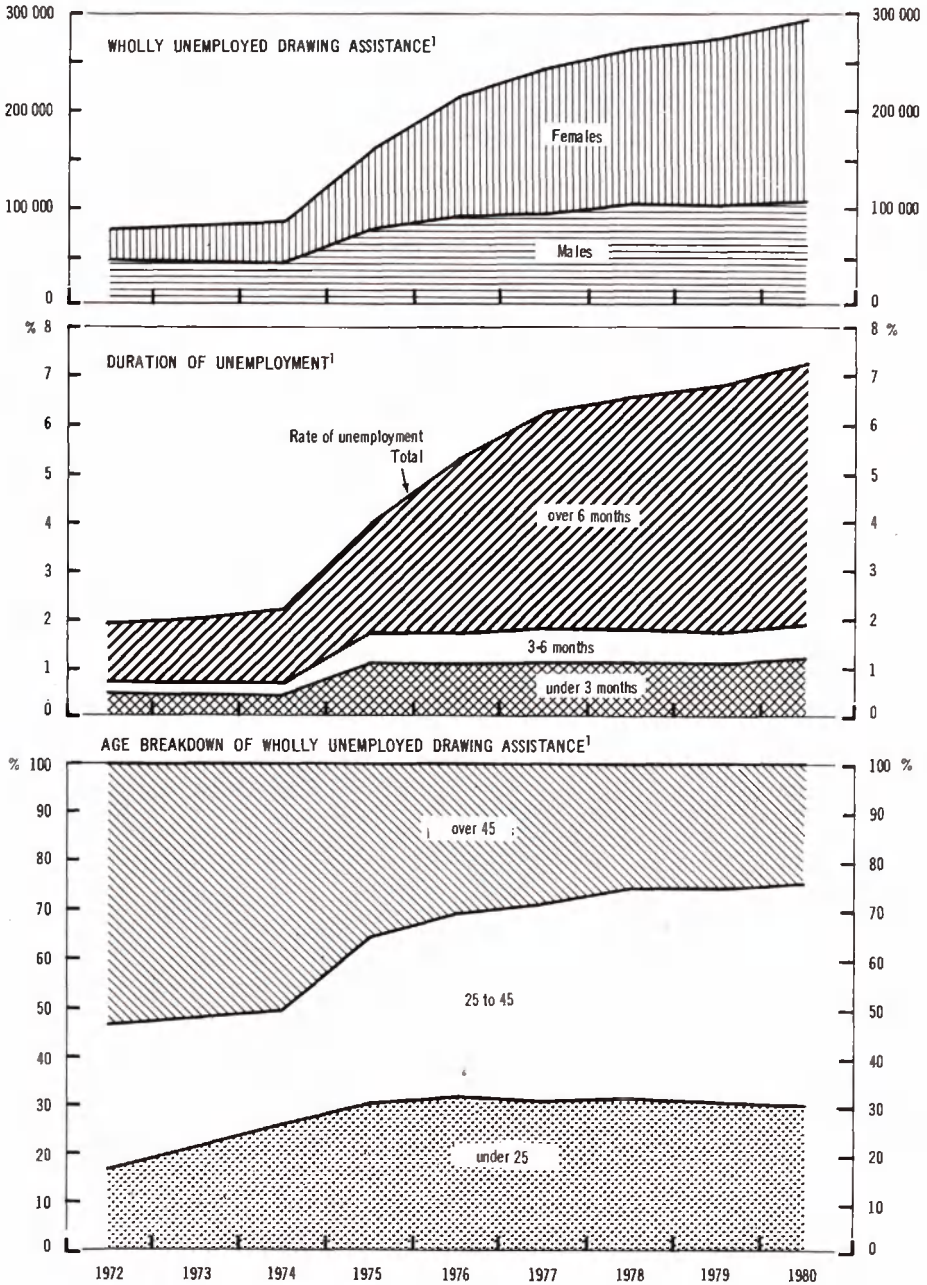
¹ Ratio of the civilian labour force to the population of working age (15 to 64 years).

² 1979.

Sources: Bureau du Plan; OECD, *Labour Force Statistics*.

² There are three early retirement schemes. The first of these, the "prépension conventionnelle" (conventional early retirement pension), was introduced in 1975 and applies, except in special circumstances, to workers aged over 60; the allowance over and above unemployment benefit is paid by the employer. The second, the "prépension légale" (statutory early retirement pension), was introduced in 1976 and is applied at the request of a worker (aged at least 60 in the case of men and 55 in the case of women), provided that worker is replaced by a person aged under 30; the supplementary allowance is paid by the State. The third scheme, the "prépension spéciale" (special early retirement pension), enables elderly persons out of work for more than a year to go on early retirement.

Diagram 1 Trend of unemployment



¹ Registered unemployed at 30th June.

Source: National Employment Office, *Monthly Bulletin*.

trends in France and the Netherlands. On the other hand, in some of the countries where the unemployment rate stabilized between 1975 and 1979 (e.g. Germany and the United States), prolonged unemployment has declined, which would seem to show that it is cyclical.

Between 1960 and 1968 the labour force hardly grew at all, whereas between 1969 and 1975 it increased by 1 per cent per year. Since then it has increased, on the average, by 0.6 per cent a year. The main factor of labour force growth has been the steep rise in female participation rates, more than offsetting the fall in male participation rates. Meanwhile employment, after climbing steadily between 1968 and 1974, declined until 1978 and then picked up slightly in 1979 to regain its 1974 level. This overall stability since the first oil crisis is due to the tertiary sector's expansion (nearly 220 000 jobs created between 1974 and 1979) which offset an equivalent loss of jobs in industry.

The basic differences in sectoral trends were accentuated by the effects of the first oil crisis. In the industrial sector, activity slowed down in the very industries (steel, metal processing, chemicals, transport equipment) which had been the mainstay of employment and had offset the impact of declining industries. In those sectors where the workforce had been falling prior to 1974 (non-metallic minerals, textiles) the downtrend became steeper. This sectoral trend of employment is common to all the EEC countries, where since the early 1970s only the tertiary sector has been a net creator of jobs. Between 1974 and 1977 the loss of jobs in industry was nearly 2 million in the EEC (-1.5 per cent a year), which was four times as much as in the period from 1970 to 1973. In Belgium's case the adjustment has been twice as rapid as the EEC average.

Between 1970 and 1979 annual hours worked in industry shortened by 2 per cent a year on average, most of the reduction occurring in 1974 and 1975. This may have curbed the downtrend in employment somewhat. Shortening of hours has slowed over the last three years, but in October 1979 incentives were introduced to encourage industrial

Table 3 Employment and productivity: structure and changes by sector

	Employment				Productivity	
	As a percentage of total employment		Average annual rate of growth		Average annual rate of growth	
	1968	1979	1974 1968	1979 1974	1974 1968	1979 1974
1. Agriculture	5.2	2.9	-5.8	-3.3	7.9	1.5
2. Energy	2.7	1.8	-4.6	-1.9	4.5	-2.1
3. Manufacturing	33.5	27.4	1.0	-4.0	7.0	5.4
<i>of which :</i>						
Iron and steel	1.7	1.3	2.2	-5.8	3.6	4.3
Non-metallic minerals	1.8	1.3	-0.3	-5.6	7.6	5.5
Chemicals	2.1	2.1	1.6	-1.0	14.1	4.6
Metal products	9.2	8.9	3.0	-2.9	8.4	5.4
Food, beverages and tobacco	4.7	3.6	-1.0	-2.6	6.1	4.1
Paper and printing	1.9	1.6	1.3	-3.9	3.3	1.6
Leather and footwear	0.8	0.3	-6.4	-8.9	-1.3	-7.3
Textiles	3.6	2.0	-2.3	-7.7	6.4	5.6
Clothing	2.4	1.6	1.6	-9.0	2.4	5.2
4. Construction	8.4	7.9	-0.2	0.4	4.8	1.1
5. Transport and communications	6.2	6.7	2.2	0.3	2.3	-0.2
6. Marketable services	27.4	33.9	2.7	2.2	2.4	0.6
Distributive trades	12.8	12.9	0.6	0.5	4.6	1.7
7. Non-marketable services	13.3	16.7	1.9	3.4	3.6	0
General government	4.4	5.5	3.6	1.7	1.9	3.0
Education	5.9	7.1	2.3	2.1	4.5	0.8
Total	100.0	100.0	1.1	-0.2	4.5	2.2

and commercial enterprises to shorten hours and increase their workforce. These measures may have had beneficial effects on employment in early 1980. However, it is difficult to quantify the overall rate of substitution between man-hours and employment³. There is a limit (between 36 and 38 hours according to a survey of firms)⁴ below which an extra worker has to be hired in order to maintain output. This recruitment threshold is mobile, however, and depends in particular on the possibilities of increasing productivity. For instance, in the industrial sector which is exposed to foreign competition, shortening of the working week does not appear to have been accompanied by additional recruitment.

Gains in apparent labour productivity (GNP per employee) have followed the same trend in Belgium as in the European OECD countries as a whole: while remaining higher than those in North America, they have slowed somewhat since the first oil crisis. In industry, nevertheless, productivity gains have remained relatively high with the sharp workforce cutbacks observed in some industries. At the time of the economic upturn in 1976, in particular, productivity gains in industry were nearly 12 per cent, representing a 7.7 per cent increase in value added and a 3.7 per cent reduction of the workforce. It seems that the relation between productivity and output growth has not changed since 1973 and that the slowdown in apparent labour productivity has been of an order of magnitude consistent with that relation. In particular, productivity/output elasticity in the business sector showed little change, according to the Secretariat's estimates, between the periods 1960-73 and 1974-79 (from 1 to 1¼), whereas in Germany it increased (from ¾ to 1¾) and in the United States it decreased (from ½ to 0). If, however, the shortening of working hours is taken into account, the slowdown in productivity since 1973 becomes less marked and hourly productivity/output elasticity rises steeply (higher than 2 for the period 1974-79). This relatively marked rise in productivity might be due to wage growth causing businessmen to make staff cuts, thus increasing productivity.

According to the figures of the national planning authorities, productivity and the capital/labour ratio followed parallel trends in most sectors over the periods 1953-73 and 1974-78⁵. In industry, and more especially in iron and steel, textiles and clothing, gross fixed investment declined between 1974 and 1978 as did value added, whilst capital/labour substitution increased; this process was accompanied by job losses since

3 The positive effect on employment, which is greatest in certain industries where continuous shift-working is very extensive, is virtually nil in businesses which are temporarily over-employing labour (either because business is at a low point or because they are in a phase of rationalisation).

4 Preparatory report for the "Troisième Commission du Quatrième Congrès des économistes belges de langue française", November 1980.

5 Annual rate of growth in value added (V), investment (I), productivity (V/L) and the capital/labour ratio (K/L) in certain sectors of manufacturing industry:

	1973/1953				1978/1973			
	V	I	V/L	K/L	V	I	V/L	K/L
Iron and steel	6.6	4.4	6.1	4.7	-2.5	-33.6	4.2	6.0
Non-ferrous metals	4.3	4.4	4.2	3.0				
Chemicals	10.4	8.8	8.7	5.2	0.5	-1.8	1.5	5.6
Textiles	3.6	4.1	5.8	4.2	-4.6	-19.0	3.7	5.2
Clothing	4.1	6.9	4.8	5.8	-5.4	-14.6	4.6	5.8
Construction	3.3	6.2	2.3	6.0	2.0	7.3	1.9	2.5
Transport	4.4	5.4	3.9	4.4	-1.2	-0.1	-1.1	4.5
Total private sector	4.7	5.3	4.3	5.3	1.1	-1.9	2.0	3.9

investment was mainly rationalisation-oriented, thus helping productivity to rise. In the other sectors, namely construction and non-market services other than distribution and transport, job losses were insignificant and productivity gains virtually nil, in relation with stagnating demand. Capital/labour substitution increased less than in industry, except in the transport sector where large-scale infrastructure projects were carried out in the ports and in urban transport. Furthermore, whereas in the 1960s productivity gains had been encouraged by employment shifts between sectors, from agriculture to industry and even within the non-farm sector to expanding or high-productivity industries⁶, it seems that since 1973 the impact of the "shift" factor has been practically nil.

Productive sector

Because of the economy's high foreign trade ratio (exports accounted for nearly 55 per cent of GNP in 1980), Belgium is particularly vulnerable to cyclical fluctuations in the economies of its trading partners and to foreign competition. The industrial countries, which provide the main outlet for Belgian exports, have all been affected by the crisis, albeit to differing degrees. Moreover, the emergence of the newly industrialising countries, which have rapidly developed their production of certain products (steel, textiles, basic chemicals, civil engineering), has further reduced the outlets for these products, provided by the industrialised countries and, in addition, is creating competition on the markets of the non-industrialised developing countries and on the markets of some developed countries, too. The Belgian economy has been harder hit than the OECD area as a whole since the products in question account for a large share of its exports.

Belgium's industrial difficulties are also partly due to the pattern of production. Prior to the first oil crisis the traditional slow-expanding sectors like textiles and clothing were prominent. The fast-expanding industries (metal manufactures and chemicals), on the other hand, accounted for a smaller share of industrial output than the OECD-area average. Finally, the iron and steel sector, which grew rapidly up until 1974 and was particularly hard-hit by the change in the pattern of demand and by international competition, held a relatively important place in Belgian industry. By comparison with other Member countries, Belgium's iron and steel sector has experienced a particularly sharp fall in activity, but its share of total production is still higher than the OECD-area average.

Another factor that might explain these difficulties is the trend of wages and production costs. The nominal rise in hourly earnings was of the order of 16½ per cent a year from 1970 to 1975 and then 8½ per cent a year on average between 1975 and 1980. This slowdown is partly due to the trend of consumer prices. But over and above the

6 Overall growth of output per person employed can be broken down into three factors: a "shift factor" reflecting the contribution of changes in the distribution of employment among the different sectors, a "growth factor" reflecting the contribution of productivity growth in each sector, and a residual representing the interactions between the first two factors (regarding this concept, see "The recent productivity slowdown", W.H. Nordhaus, *Brookings Papers on Economic Activity*, 1972-73). According to the OECD Secretariat's estimates for the period 1960-77, the change in visible productivity can be broken down as follows:

	Economy as a whole			Non-farm economy		
	Actual change	Shift factor	Growth factor	Actual change	Shift factor	Growth factor
1960-73	4.5	0.4	4.1	4.3	0.3	4.0
1973-77	2.3	0.1	2.2	2.3	-0.1	2.4

Table 4 Structure of industrial production

	OCDE			Belgium			Luxembourg		
	1963	1970	1975	1963	1970	1975	1963	1970	1975
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which:									
Manufacturing	86.9	87.2	88.8	84.3	89.2	87.7	90.1	93.5	91.4
Basic metals	8.0	7.9	6.2	11.7	15.3	10.1	55.3	59.2	40.5
Iron and steel	5.8	5.8	..	..	13.2	..	..	..	..
Non-ferrous metals	2.2	2.1	..	..	2.1	..	..	..	..
Metal products	31.2	32.6	35.1	25.1	27.8	31.8	9.9	10.4	16.6
Non-electrical machinery	7.9	9.3	..	5.2	6.6	..	..	..	..
Transport equipment	8.3	8.3	..	5.3	6.0	..	..	..	..
Food, beverages and tobacco	10.5	9.4	10.8	10.8	9.0	10.5	5.9	3.8	6.2
Textiles, clothing and leather	10.0	7.8	7.6	13.9	11.3	10.1	..	..	0.8
Chemicals	11.3	14.3	14.4	9.6	12.3	13.3	11.1	15.0	18.8

Source: OECD, *Industrial Production, Historical Statistics*.

Table 5 Comparison of wages¹ and consumer prices

Annual percentage change

	1973	1980	From previous year						
	1963	1973	1974	1975	1976	1977	1978	1979	1980
Belgium									
Hourly earnings ²	10.4	11.8	20.8	20.1	11.1	9.2	6.9	7.9	7.5
Consumer prices	4.2	8.1	12.7	12.8	9.2	7.1	4.5	4.5	6.7
Austria									
Monthly earnings	9.7	9.3	15.7	13.4	9.0	8.6	5.7	5.8	7.0
Consumer prices	4.4	6.3	9.5	8.4	7.3	5.5	3.6	3.7	6.4
Denmark									
Hourly earnings	12.1	13.8	21.4	19.2	12.7	10.3	10.4	11.2	12.0
Consumer prices	6.4	11.0	15.3	9.6	9.0	11.1	10.0	9.6	12.3
Netherlands									
Hourly rates	10.9	8.8	17.7	13.5	8.6	7.3	5.7	4.3	5.0
Consumer prices	5.7	7.1	9.6	10.2	8.8	6.4	4.1	4.2	6.5
Sweden									
Hourly earnings	10.3 ³	11.4	11.1	14.8	17.9	6.7	8.6	7.7	13.8
Consumer prices	5.0	10.3	9.9	9.8	10.3	11.4	10.0	7.2	13.7
Switzerland									
Monthly earnings	6.4	5.0	13.8	7.4	1.6	1.7	3.4	2.2	5.0
Consumer prices	4.6	4.0	9.8	6.7	1.7	1.3	1.1	3.6	4.0

1 Earnings in manufacturing.

2 Earnings in mining and manufacturing, and transport.

3 1973/1968.

Source: OECD, *Main Economic Indicators*.

effects of indexation there was a steep rise in real earnings up until 1975 (8½ per cent a year in manufacturing industry) followed, as in most OECD countries, by a marked slowdown (2 per cent a year from 1975 to 1980). But productivity gains remained insufficient (except during the 1976 recovery) to absorb this rise in real wages. The gap between real wage growth and productivity growth averaged 2½ per cent a year up until 1975, and then a little under 1 per cent between 1976 and 1980. In addition to this purely internal trend, which caused a shift in the pattern of national income distribution

in Belgium and in other OECD countries

Austria			Denmark	Netherlands			Sweden			Switzerland		
1963	1970	1975	1975	1963	1970	1975	1963	1970	1975	1963	1970	1975
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
90.4	88.9	87.8	99.9	88.6	87.0	77.2	96.8	97.2	97.3	92.6	92.2	90.3
10.5	9.1	7.6	2.0	3.9	4.6	3.2	7.1	7.4	6.9	..	..	10.0
8.2	7.9	..	..	..	..	..	5.9	6.2	..	..	..	..
2.3	1.1	..	..	..	..	..	1.2	1.2	..	..	..	..
24.1	29.5	31.1	30.4	32.1	31.6	29.2	37.2	39.9	45.0	38.8	38.9	35.3
8.7	10.5	..	..	..	14.3	..	12.0	13.2	..	..	..	..
3.4	4.0	..	..	..	5.7	..	10.2	10.6	..	..	..	..
11.9	10.4	10.0	22.8	14.3	14.6	13.9	11.2	9.6	9.0	7.1	6.7	7.0
14.0	12.1	10.8	7.8	11.5	6.5	4.2	8.7	5.8	4.6	11.2	8.6	7.8
14.1	12.9	14.6	12.4	12.0	14.8	13.6	6.6	9.2	9.5	10.8	12.9	16.7

away from profits and towards wages, there was a sharp deterioration in the terms of trade in 1974 and 1980. National income grew less rapidly than real output, and as a result, the warranted productivity gains to be distributed to national factors were reduced commensurately. Consequently, the real wage gap⁷ in Belgium widened appreciably more than in the majority of competitor countries, where the real wage gap narrowed between 1976 and 1979. The second oil crisis did not bring such a marked change in the pattern of income distribution as the first⁸, but Belgium's relative position has probably continued to deteriorate.

While the share of wages in national income has increased during the last ten years (from 62 per cent in 1970 to 72 per cent in 1979), net real wages have grown less rapidly than total wages because of the more than proportionate rise in social security

Table 6 Components of the real wage gap, 1973-1980
Percentage change from previous year

	1973	1974	1975	1976	1977	1978	1979	1980
1. Real wages ¹	6.6	4.8	4.0	6.2	2.3	2.8	3.3	1.9
2. Productivity ²	4.9	3.2	-0.4	6.1	1.4	2.5	2.1	1.3
3. Terms of trade ³	0.4	-1.4	-0.6	-0.5	-0.1	-0.1	0.1	-1.3
4. "Justified" real wages (2 + 3)	5.3	1.8	-0.9	5.6	1.2	2.4	2.2	0
5. Real wage gap ⁴ (1 - 4)	1.3	3.0	4.9	0.6	1.1	0.4	1.2	1.9

1 Compensation per employee deflated by the private consumption deflator.

2 GNP in constant prices divided by total employment.

3 Income effect of changes in the terms of trade.

4 Positive sign indicates a shift in income distribution towards wages.

Source: OECD, National Accounts and Secretariat estimates.

7 The real wage gap is calculated here as the difference between the change in real wages per employee (for Belgium, only the figure for aggregate wages is available) and the change in real GDP per employee adjusted for the change in the terms of trade (this is equivalent to deflating GDP by the change in domestic demand prices). Another method is to calculate the difference between the change in real wages per employee and the change in real national income per employee. The first method has been preferred in order to facilitate inter-country comparisons.

8 The share of the wage bill of dependent employment in current price national income rose from 66 to 72 per cent between 1973 and 1977 and has since stabilised at this level, in part due to the fall in employment.

Table 7 Real wage gaps in Belgium and its main OECD trading partners, 1973-1980¹

	1973	1974	1975	1976	1977	1978	1979	1980 ²	Level in 1980 ² 1972 = 100
Belgium	1.3	3.0	4.9	0.6	1.1	0.4	1.2	1.9	115
Germany	0.7	2.9	-1.7	-3.2	-0.3	-1.2	-1.1	1.7	97
France	1.4	3.4	2.7	-0.7	0.2	-1.5	-1.0	1.5	107
Netherlands	-1.8	3.4	2.1	-4.1	0.1	0.5	1.9	0	102
United Kingdom	0.1	7.2	3.2	-5.8	-5.3	-0.2	2.1	2.9	104
Italy	2.0	0.1	4.1	-3.2	5.0	-0.9	-1.2	0.7	107

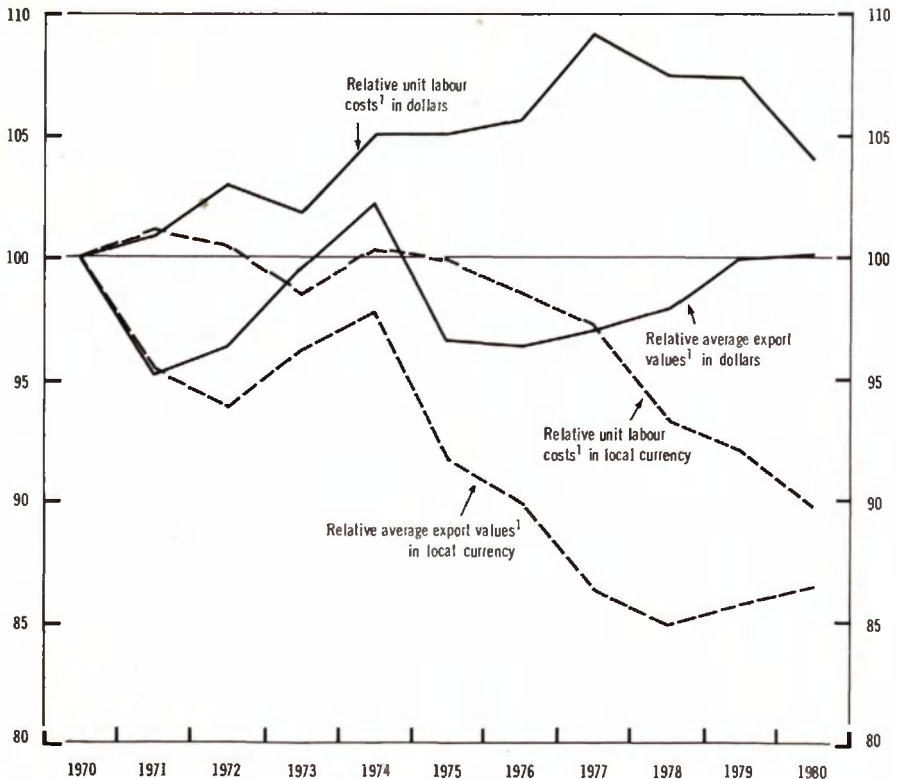
1 BLEU exports to Germany, France, the Netherlands, the United Kingdom and Italy account for over 70 per cent of total BLEU exports.

2 Provisional data based on the estimates published in the *OECD Economic Outlook* of December 1980.

Source: OECD Secretariat.

contributions. In 1979 and 1980, furthermore, the terms-of-trade deterioration caused an increase in domestic prices, this external factor serving to widen the divergence between real labour costs of entrepreneurs and real wage incomes. Although its real labour costs have risen by more than the OECD-area average since 1978, Belgium is still

Diagram 2 Competitive position of manufacturing industry
Index 1970 = 100



1 Index calculated relative to the 15 major OECD countries.

Source: OECD Secretariat.

one of the low-inflation countries, with a 5½ per cent average rise in consumer prices between 1978 and 1980 as compared with an area average of 11 per cent. This was probably due to a narrowing of profit margins in response to competition from imports.

Thanks to the moderate pace of inflation and a relatively satisfactory level of productivity, unit labour costs in the manufacturing industry, measured in national currency terms, have risen by 4 per cent on average since 1975, as against 6 per cent between 1970 and 1973, and after a rapid acceleration in 1974-75. This means that Belgium has been relatively well-placed in relation to the main industrial OECD countries, during the last five years⁹. However, if changes in effective exchange rates are taken into account, Belgium's position probably deteriorated up until 1977. But over the last three years the competitive position, as measured by relative unit costs in dollar terms, has gradually improved, but nonetheless has remained higher than its 1973 level. To keep their products competitive on foreign markets, Belgian exporters have had to hold their prices down in line with those of foreign competitors. It was all the more difficult to pass on the rise in costs inasmuch as these were probably already at high levels at the beginning of the 1970s. Up until 1979, despite the Belgian franc's effective appreciation, relative unit export values estimated on a common currency basis remained below their 1970 level, except in 1974. However, it seems that businessmen have shifted their profits stance during the last few years and Belgium's price competitiveness has slightly deteriorated even though the trend of relative costs has improved. But the fact remains that since 1973, on average, manufacturing firms exposed to foreign competition have seen their profitability decline and so have had to cut back their investment, at a time when the general slowdown in activity made it even more necessary to adapt the productive sector.

Deterioration of the foreign balance

The trend of relative costs and prices and the increase in the price of oil, which resulted in a substantial worsening of the terms of trade in 1974-75, had a damaging effect on the trade balance, but these factors do not suffice to explain the widening of the deficit since 1975¹⁰. It would appear, rather, that the supply of Belgian industrial products has been unable to move in step with world demand, this being partly due to the structure of Belgian industry. Volume growth of BLEU exports of manufactures since 1973 (a 3 per cent annual rate) has consistently fallen short of the estimated growth of markets (approximately 6 per cent). The resulting loss in market shares (3 per cent on average) was particularly marked in 1975 (7½ per cent), due to a drop in BLEU exports of some 10 per cent, while the estimated contraction of markets was 2 to 3 per cent. The external performance of the BLEU over the last three years shows a further appreciable deterioration: according to OECD estimates, markets expanded substantially (6½ per cent a year on average), while BLEU exports grew by less than 4 per cent per year.

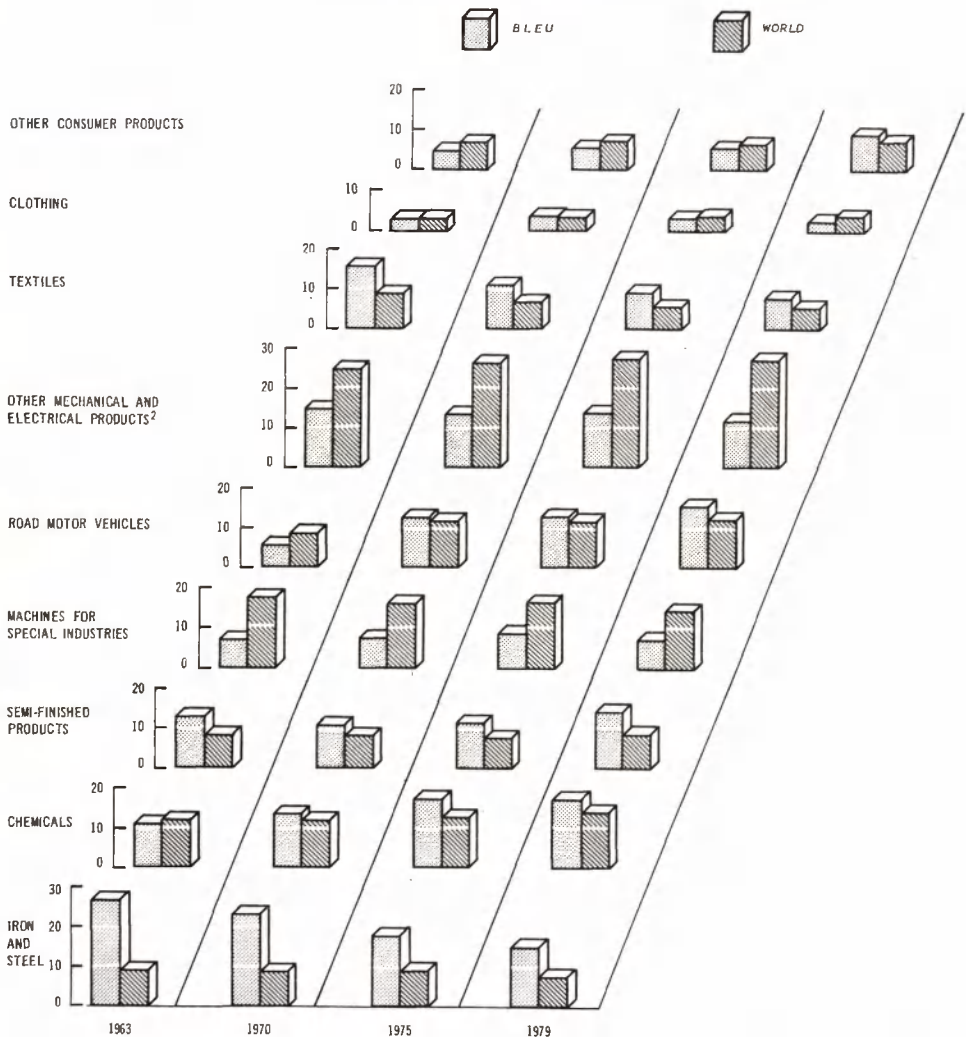
Export results vary according to product category. Comparison of the trend of world demand¹¹ with that of Belgian exports by product confirms that exports are somewhat out of line with demand (cf. Diagram 3). The share of certain products (iron and steel, textiles) in world trade fell between 1963 and 1979; the share of these products in BLEU exports also declined, but was still greater than the same products' share in

9 Calculations of relative unit costs are only indicators of tendency to the extent that the comparability of the underlying statistics should only be made with caution.

10 For the price/volume breakdown of the trade balance, see footnote 31 of Part III, Recent trends: balance of payments.

11 World demand is calculated as the total of world exports. The analysis that follows is based on data in value terms, with the result that trends in shares of BLEU and world exports may be affected by the differences between Belgian and world prices for these products.

Diagram 3 Structure of BLEU and world exports of manufactured goods¹
As percentage of total exports of manufactures.



1 Calculations based on dollar values.

2 Office and telecommunications equipment, transport equipment other than road motor vehicles, and domestic appliances.

Sources: OECD, *Statistics of Foreign Trade*; GATT, *Networks of World Trade by Area and Commodity Classes*.

world demand in 1979. For certain other products (machinery for specialised industries, mechanical and electrical engineering products) the share of exports in world trade has changed very little. The share of these products in Belgian exports fell short of world demand in 1963, did not grow during the period in question and was well below world demand in 1979, which would suggest that no adjustment took place. A third case is that of chemicals and automobiles, whose share in Belgian exports rose during the period and showed some buoyancy; however, the downturn in demand could well restrict growth of these sectors. The pattern of exports by geographic area has also had an unfavourable

effect. Although it has fallen slightly over the last ten years, the OECD countries' share in BLEU markets for manufactures is still very predominant (86 ½ per cent of the total) and much larger than the share of the OECD area in the OECD countries' total trade. On the other hand, the BLEU share of rapidly expanding markets such as OPEC is still small; despite having doubled since 1972, it accounted for only 4.2 per cent of total exports in 1980. The growth of BLEU exports to the OPEC countries measured in dollars, quickened recently and has now reached a rate comparable to that recorded for the exports of the main OECD countries.

The trend of imports has contributed to the worsening of the BLEU trade balance over the last few years. In relation to aggregate demand, the average propensity to import goods and services, measured at constant prices on a national accounts basis, rose from 25 per cent in 1965 to 30 per cent in 1970 and then to 37.5 per cent in 1980. Although the growth of aggregate demand slowed after 1973, the average elasticity of imports of goods and services remained stable (1.5). The trend of imports by product largely reflects the change in the pattern of demand since 1974; the proportion of imports of consumer goods has grown in conjunction with the increased weight of household consumption in GNP, while at the same time imports of capital goods have fallen. This latter trend could stabilize, however, since productive investment began to pick up again in 1979 and 1980. The share of stockbuilding in GNP is negligible, but the big build-up of inventories in 1973-1974 and 1976 was probably responsible for the substantial imports of industrial raw materials at those times. It should be noted that the analysis of the Belgian economy's import dependence is uncertain because of the large proportion of processing activities for re-export which have a high import content.

In the absence of homogeneous data on industrial import prices and non-oil domestic prices, the average values of imports of capital goods and consumer durables¹² can be compared with the industrial wholesale prices of semi-products and finished products. Between 1973 and 1978, import prices rose faster than domestic prices, but since 1978 they have risen more slowly than the latter. Allowing for time lags, this factor could have begun by 1979 to encourage imports of capital goods and consumer durables as substitutes for domestic production.

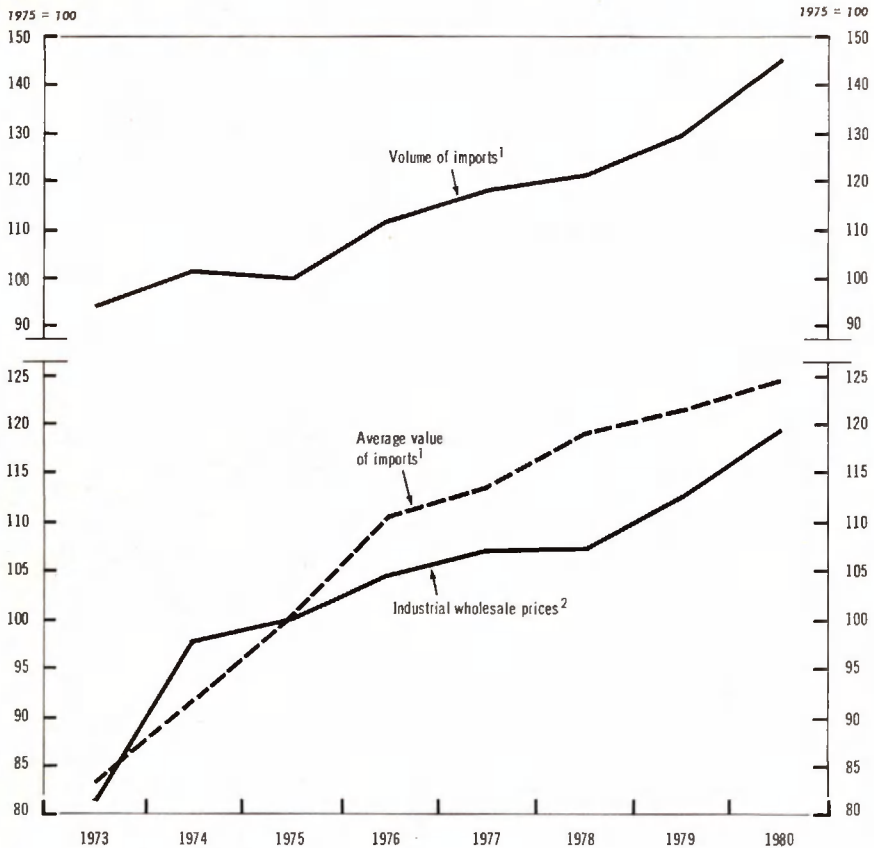
The structural disequilibria of foreign trade have reversed the medium-term trend of the BLEU trade balance (cf. Table J in the Statistical annex). The trade surplus rose steadily from 1966 to 1973, when it reached \$13 billion, but began to decline the following year and gave way to a deficit in 1976. This deficit has since grown uninterruptedly, reaching some \$4 ¾ billion by 1980. Up until 1977, the increase in the surplus on services – due in particular to rising expenditure by the international organisations based in the BLEU and to income from investment – offset the deterioration in the trade balance, but in 1978 this trend was also reversed owing to the rise in interest charges linked with growth of borrowing, in particular by the public sector. If service transactions are broken down between Luxembourg and Belgium, the latter's deficit is seen to be appreciably larger¹³. While public transfers have always been structurally in deficit, the balance on private transfers began to deteriorate in the early 1970s and showed a shortfall in 1975, largely because of increased outward remittances by foreign workers. Because of all these factors, the BLEU surplus on current account, which had grown steadily up until 1972 when it accounted for 3.8 per cent of GNP,

12 Data for the BLEU.

13 According to the estimates of the Luxembourg authorities, the trend of Luxembourg's balance on services from 1970 to 1979 was as follows (in L.Frs. billion):

1970	1974	1975	1976	1977	1978	1979
3.4	15.8	22.4	26.9	33.0	37.2	44.0

Diagram 4 Import volumes and prices of industrial products



- 1 Imports of capital goods and consumer durables.
2 Semi-finished and finished products.

Sources: National Bank of Belgium, *Monthly Bulletin*; INS, *Statistical Bulletin*; OECD Secretariat.

began to shrink and gave way to a deficit in 1977. This deficit widened substantially in 1979 and 1980, when it was equivalent to approximately 5 per cent of GNP.

Problems of the public sector

As in the majority of OECD countries, falling growth rates and rising unemployment have had a serious impact on public finance. The Government has attempted simultaneously to lighten the social costs of the economic crisis, provide direct support to economic activity by increasing public demand, and assist in the conversion and adjustment of the productive sector. As a result, the share of public expenditure, which in 1973 was already amongst the highest in the OECD area, increased by almost 13 points between 1973 and 1980 to more than 50 per cent of GNP, putting Belgium in fifth place among the OECD countries (behind Scandinavian countries and the Netherlands), whereas it had been in eight place at the start of the 1970s. Despite a very rapid increase in direct taxation, the rise in overall tax pressure lagged behind the growth of expenditure and the borrowing requirement of general government, which was already appreciable in the early 1970s, reached 9.5 per cent of GNP in 1980. The

Table 8 International comparison of public expenditure trends
As a percentage of GDP/GNP at current prices

	1970			1973			1979		
	Goods and services ¹	Transfers ²	Total ³	Goods and services ¹	Transfers ²	Total ³	Goods and services ¹	Transfers ²	Total ³
Belgium	17.2	19.3	36.5	18.1	21.0	39.1	22.1	27.6	49.7
Netherlands	21.1	23.3	44.4	20.1	23.8	44.5	21.5	34.8	56.3
Sweden	27.4	15.7	43.1	28.2	17.9	46.1	33.2	28.7	62.9
Denmark	25.2	16.5	41.7	24.9	16.6	41.5	27.9	25.1	53.0
Norway ⁴	21.4	19.6	41.0	23.0	21.7	44.7	26.6	30.5	57.1
France	17.2	21.3	38.5	16.5	21.6	38.1	17.8	27.4	45.2
United Kingdom	22.6	15.5	38.1	23.5	16.1	39.6	22.9	19.1	42.0
Austria	19.4	18.3	37.7	20.3	18.5	38.8	23.2	24.6	47.8 ⁵
Germany	20.2	15.7	35.9	21.7	17.0	38.7	23.5	20.8	44.3
Canada	22.9	12.9	35.8	21.9	14.0	35.9	22.7	16.9	39.6
Italy	16.8	17.9	34.7	18.1	20.5	38.6	19.6	25.6	45.2
United States	21.7	11.2	32.9	20.0	12.2	32.3	20.1	11.9	32.0
Luxembourg	13.3	18.8	32.1	15.5	19.2	34.7	22.0	29.1	51.1 ⁵

1 Public consumption and gross fixed asset formation.

2 Current transfers, subsidies and interest payments.

3 Excluding purchases of land and net capital transfers.

4 GDP excluding oil sector.

5 1978.

Source: OECD, *National Accounts*.

problem of the public sector deficit and its financing has been of increasing concern to the authorities, who have endeavoured in the course of the past two years to keep better control over the growth of public expenditure, though without any very significant results to date.

The increased weight of public sector expenditure is part of a long-term trend which has been considerably intensified by the economic crisis, either as a result of the policies introduced in order to alleviate its effects or, more importantly, through the action of automatic stabilizing mechanisms. The Government has endeavoured to prop up economic activity by granting tax reductions on investment and aid for restructuring enterprises or sectors in difficulty¹⁴. Employment policy has had the two-fold objective of improving training and reducing growth of the labour force, while at the same time increasing civil service recruitment (see section on Unemployment, employment and productivity). These different measures have been a growing burden on the central government budget, representing 1¾ per cent of GNP in 1980. Despite their scale, the discretionary measures accounted for only a relatively small proportion of the budget cost of the slowdown in growth by comparison with the automatic effects. Unemployment benefits alone, for example, were equivalent to 2 per cent of GNP in 1980, to which must be added substantial shortfalls on both tax revenue and social security contributions. It is difficult to assess the overall impact of these different types of measures, but according to an estimate by the Belgian experts, on average, almost three-quarters of the Treasury's cash deficit over the period 1975-1980 can be attributed to the effects of the economic crisis¹⁵.

The gradual implementation of the regional reform may also have a significant effect on public expenditure. Even before the regionalisation process had been fully defined in statutory terms in August 1980 (see Annex II), the role of the local authorities, alongside central government, had developed. As a result, consumption by local authorities since 1975 has increased at a consistently higher rate than that of central government, reflecting in particular an almost 60 per cent increase in the number of employees from 1974 to 1977, whereas central government employment increased by only 16 per cent during the same period.

The rapid growth of public sector expenditure results from the acceleration of transfers and, to a lesser extent, from consumption. It may be noted in this connection that, as in the majority of OECD countries, the rise in the ratio of public consumption to GNP is due to the effect of relative prices, and also to a very appreciable increase in civil service employment; this has grown by 3.4 per cent per year since 1974 (as against 2.4 per cent per year in the early 1970s) and accounted for 28.5 per cent of total dependent employment in 1979, compared with 24 per cent in 1974. The growth of the deficit since 1975 in particular and, more recently, the steep rise in interest rates have increased the cost of debt servicing. This trend became even more marked in 1980 with the increase in interest payments over 1979 alone having been equivalent to some 1.5 per cent of GNP, the payments themselves amounting to more than 12 per cent of total public expenditure. In all, the weight of current expenditure in GNP has risen by more

14 This aid is disbursed through various special funds, the most important is the Fonds d'Expansion et de Reconversion Régionale. A new Fonds de Rénovation Industrielle was set up in 1978, and given an important role in industrial policy. It is financed largely by borrowing, with principal and interest paid by the State, and its expenditure will only gradually figure in the central government budget.

15 This is a mechanical estimate which, as far as the discretionary measures are concerned, considers the loss of tax revenue through investment incentives, aid measures for enterprises and expenditure on schemes to reduce unemployment. With regard to the automatic effects, account is taken of revenue losses due to GNP growth lower than the trend forecast in the Plan, transfers to social security – in particular those designed to offset the social security contributions lost through unemployment – and the increased cost of interest on the debt by comparison with a "normal" trend calculated on the basis of the increase in the debt during the period 1971-74.

Table 9 General government transactions on a national accounts basis

	Annual percentage change				As a percentage of GNP		
	1973	1979	1980 ¹	1981 ²	1965	1973	1980 ¹
	1961	1973	1979	1980			
Current receipts	11.8	13.7	6.4	8.2	30.4	36.2	43.0
<i>of which :</i>							
Direct taxes	14.6	17.0	3.6	9.4	8.6	13.3	18.1
Indirect taxes	9.0	10.8	7.8	4.5	12.0	11.5	11.9
Social security contributions	13.4	12.1	10.4	9.4	9.1	11.3	12.8
Current expenditure	11.9	15.4	10.4	7.1	29.5	35.6	47.8
<i>of which :</i>							
Public consumption	11.3	14.4	6.8	6.8	13.0	14.8	18.3
Subsidies	11.7	12.0	7.6	5.0	1.1	1.4	1.6
Transfers	12.9	15.7	7.9	8.0	12.5	16.2	21.5
Interest payments	10.1	18.9	33.7	5.7	2.9	3.3	6.4
Net saving					0.9	0.6	-4.8
Capital expenditure, net	..	10.8	24.9	7.6	..	3.9	4.6
<i>of which :</i>							
Investment	13.8	10.8	24.0	10.1	2.5	3.3	3.9
Net borrowing					1.6	3.3	9.4
<i>Memorandum item:</i>							
GNP at current prices	9.4	10.5	6.7	7.5	100	100	100

1 Provisional estimates.

2 Forecasts.

Sources: OECD, *National Accounts*; Ministère des Finances.

than 12 points since 1973. After gradually declining up to 1978, the relative share of public investment rose in 1979-1980 in response to the reflationary measures taken by the authorities, with the result that the weight of public investment in overall gross fixed asset formation rose from 14.5 per cent in 1978 to 18.5 per cent in 1980. Even so, it represented less than 4 per cent of GNP last year.

According to the breakdown of public expenditure by purpose (partially estimated by the Secretariat for 1977 and 1978), total social insurance expenditure rose by 17.5 per cent per year in value from 1973 to 1978, as against 13.5 per cent from 1960 to 1973, i.e. a slight increase in its elasticity in relation to GNP between the two periods, so that by 1978 it accounted for 75 per cent of aggregate expenditure by general government and 36 per cent of GNP. By far the biggest single item is income guarantee expenditure, which in 1978 represented almost 23 per cent of GNP. This expenditure has been inflated by the extremely rapid growth of unemployment benefits, the nominal amount of which has increased sevenfold since 1973, mainly (almost two-thirds) because of the higher number of unemployed, but also because benefits have been indexed to wages¹⁶. Against this, the growth of pensions¹⁷ and, above all, family allowances, has been relatively moderate, with the result that the GNP elasticity of overall income guarantee expenditure has remained virtually unchanged. On the other

16 The unemployment benefit is equal to 60 per cent of the wage received, with a ceiling at present of B.Frs. 33 000 per month for an indefinite period for heads of household. For other categories, it is reduced to 40 per cent after 1 year. From 1st of April, the ceiling was raised to 34 500 F. Heads of household will continue to receive 60 per cent, whilst non heads of households will receive 40 per cent from the start of a second year. From the beginning of a third year (plus three months for each year of contribution), the benefit will be brought back to 50 or 40 per cent (depending on civil status) of the minimum average monthly guaranteed income, presently equal to around 23 500 F.

17 The average level of pensions has risen less rapidly than GNP, but the number of recipients under the wage-earners scheme increased by more than 20 per cent between 1972 and 1978.

hand, the GNP elasticity of health expenditure has risen very sharply (from 1.2 to almost 1.8), indicating an increase in the average benefit per recipient at constant prices. In contrast with the growth in social insurance expenditure, the relative share of general administrative expenditure in the central government budget has steadily declined. Furthermore, there has been a distinct break in the trend of expenditure of an economic nature. This rose briskly during the second half of the 1960s in conjunction with the development of infrastructures in the communications sector, but its relative weight declined in the 1970s.

The growth of public expenditure has been accompanied by a rise in tax pressure, one of the most rapid in the OECD area. This has been due mainly to direct taxation which has grown all the faster in that the Belgian scales are not totally inflation linked. On the other hand, the ratio of indirect taxation and social security contributions to GNP has remained more or less stable. The raising of rates or flat taxes, which has affected private consumption, has been partially compensated by reductions in other

Table 10 Breakdown of central government expenditure by purpose
As a percentage of total expenditure

	1960	1965	1970	1973	1979 ¹
General administration	11.1	8.4	7.0	7.9	5.6
Defence and law and order	17.0	15.5	12.5	11.7	10.6
Communications	10.9	13.8	17.3	17.4	15.9
Trade and industry	2.6	2.7	3.6	4.2	3.7
Agriculture and fishing	2.3	2.7	4.5	1.4	1.2
Education, culture and recreation	18.2	21.7	21.3	21.9	20.7
Welfare and health	22.0	19.2	18.6	21.1	26.8
Housing and community amenities	1.8	1.8	1.4	1.5	1.8
Other	14.1	14.2	13.8	12.9	13.7

¹ Initial appropriations.

Source: *Les lignes de force du plan national, 1981-1985.*

Table 11 Total tax burden in certain OECD countries
As a percentage of GNP

	1970	1973	1979
Belgium	35.4	37.4	44.5
Sweden	41.0	43.5	52.9
Denmark	40.3	42.3	45.0
Netherlands	39.9	43.7	47.2
Norway	39.3	45.3	46.7
United Kingdom	37.6	32.0	33.8
Austria	35.7	37.6	41.2
France	35.6	35.7	41.0
Germany	32.8	36.3	37.2
Luxembourg	32.3	35.6	49.9 ¹
Canada	32.0	31.3	31.2
United States	30.1	29.7	31.3
Italy	27.9	26.3	32.8
OECD average	30.6	31.8	35.8 ¹

¹ 1978.

Source: OECD, *Revenue Statistics of OECD Member Countries, 1965-1979.*

sectors, notably investment. The structure of tax and quasi-tax revenue has therefore changed appreciably, the share of direct taxation rising from 32 per cent of the total in 1970 to almost 44 per cent in 1979, with households having to pay an increasingly large share (from 78 to 85 per cent of direct taxation).

Receipts have not kept pace with expenditure, however, and the general government borrowing requirement (as a percentage of GNP) widened by 3½ points between 1973 and 1979. This trend is no different from developments in many OECD countries, but the level of the public sector deficit is among the highest. Also, whereas the general trend in the main Member countries in 1979-80 was towards stabilization, or even a decline, in the public deficit as a percentage of GNP, the deficit continued to grow in Belgium. As for the breakdown by institution, the public deficit stems mainly from central government transactions, whereas there was a small surplus on social security account up until 1978. In fact, the proportion of social security expenditure covered by receipts has declined rapidly, from 84 per cent in 1974 to 63 per cent in 1979, and the shortfall has had to be financed to an increasing degree by central government.

During the first half of the 1970s, the Treasury deficit was covered almost entirely by security issues on the domestic market, mainly medium- and long-term maturities. Since 1977 an as yet modest proportion of the deficit has been financed by the National Bank and, over the last three years, by increased external borrowing. This amounted in 1980 to B.Frs. 95 billion or more than 30 per cent of the total debt. Belgium's recourse to external financing is due very largely to the need to finance the growing current balance-of-payments deficit. However, it also reflects the growing strain on the financial

Table 12 Net borrowing requirements and public debt

B. Frs. Billion

	1973	1974	1975	1976	1977	1978	1979	1980 ¹
I. General government net borrowing requirement								
Total ¹	-95	-91	-158	-202	-219	-248	-305	-409
Central government	-71	-78	-133	-154	-186	-193	-241	-319
Local authorities	-16	-20	-23	-29	-19	-27	-29	-45
Social security	17	18	20	12	16	3	-6	-16
II. Financing of treasury net borrowing requirement								
Direct and indirect financing by the National Bank of Belgium	-7	3	1	16	15	25	79	119
of which:								
Liabilities in foreign currency	-4	-2	-1	-1	-1	12	42	92
Other financing in Belgian francs	58	54	109	117	153	158	133	180
of which:								
Short-term	-4	3	14	35	18	14	7	110
III. Public debt								
Outstanding debt ²	1 069	1 162	1 314	1 495	1 709	1 933	2 214	2 700
Interest payments	59	73	83	98	118	139	167	212
Memorandum item: GNP at current prices	1 791	2 104	2 326	2 642	2 854	3 064	3 254	3 473

¹ Because of differences in recording methods, the components do not sum to the total. The statistical adjustment is of about B.Frs. 30 billion for each of the past five years.

² Central government and local authorities.

³ Provisional estimates.

Source: National Bank of Belgium, 1980 Annual report.

balances of domestic transactors¹⁸. Thus, the authorities' *ex post* net financial deficit alone has exceeded households' lending capacity since 1979, whereas it accounted for only half of that capacity in 1973 (and some 30 per cent in 1970). Increased borrowing on the domestic market would have resulted in excessive pressure on the capital market. Moreover, even if financing the public deficit is not a serious problem in the present circumstances, the outstanding public debt is reaching a disquieting level because of the interest payments involved. At the end of 1980, the central government's direct debt amounted to B.Frs. 1 900 billion (i.e. almost 55 per cent of GNP compared with under 40 per cent in 1974), and that of general government to B.Frs. 2 700 billion.

The rapid increase in general government expenditure and the widening deficit would suggest that, on the whole, public sector transactions since the mid-1970s have had a stimulating effect on growth and employment. But apart from the direct impact that the rise in the number of civil service employees has had on the labour market, it is not certain that the effects have been very substantial. In the first place, the most dynamic component of public expenditure has been transfers (including interest payments), part of which are saved; also, the import content of both public and private demand is quite high and "leakages" abroad limits the effect on activity of public expenditure. The redistribution effects, on the other hand, have been considerable. The net resources drawn from households by the public sector (transfers received less direct taxation and social security contributions paid), which accounted for less than 4 per cent of households' primary income in the early 1960s, amounted to 7¾ per cent in 1973 and 9¼ per cent in 1980. On the other hand, judging from the trends in company taxation and subsidies, the net resources drawn from firms by the public sector probably fell slightly between 1973 and 1979 as a percentage of GNP which does not however imply that enterprises' fiscal pressure has been reduced.

The acceleration in public expenditure after the first oil crisis was considered initially to be very closely related to the slowdown in activity and hence of a temporary nature, which is why it was accepted by the authorities. It now appears that its causes, especially unemployment, will not be eradicated in the near future, while the public finance disequilibrium is tending to be self-sustaining because of the mounting burden of interest payments. According to preliminary projections drawn up by the planning authorities in preparing the 1981-1985 National Plan, it is possible that GNP growth will not exceed 2 to 2.5 per cent per year on spontaneous trends, while the number of wholly unemployed could reach 500 000 in 1985 (approximately 11 per cent of the labour force). In this context and on the government's assumption of zero real growth in public expenditure categories that can be compressed, the central government net borrowing requirement would still amount to 10 per cent of GNP in 1985, despite relatively favourable demographic trends during that period with an appreciable improvement in the ratio of population of working age to total population.

18 Net lending (+) and borrowing (-) by agent (in B.Frs. billion):

	1973	1979	1980 (estimates)
Government	-95	-305	-409
Households	175	256	325
Corporations	-49	-80	-111

Source: National Bank of Belgium.

II RECENT ECONOMIC POLICY RESPONSES

In view of the growth of the public sector deficit, the authorities have endeavoured, for the last two years to curb government spending while maintaining the public sector's support of activity. Provisional figures for 1980 show that the official targets were by no means met, with the general government borrowing requirement increasing by nearly 2½ per cent of GNP between 1979 and 1980. This prompted the authorities to devise a much more ambitious recovery plan for 1981 aiming to tackle all the structural imbalances in the Belgian economy. Based on an active incomes policy, the plan is designed to bring about a redistribution of national income towards the public sector, especially social security, and to the business sector. Meanwhile, the present industrial policy and employment-support measures are to be continued. In spite of the loss of export competitiveness and the increasing external deficit, the policy of exchange-rate stability is being maintained: the authorities take the view that in a very open and extensively indexed economy, the benefits of a parity adjustment would be very short-lived and soon absorbed by higher inflation. In this context, monetary policy has essentially been shaped to the exterior constraint and the financing of the public deficit; it has not been used for purposes of domestic demand management.

Fiscal policy

The policy guidelines laid down in the second half of 1978 stipulated that government current expenditure should grow no faster than GNP; this was to be achieved by means of stability (at constant prices) for all categories of expenditure except those regarded as incompressible (mainly spending associated with unemployment and public debt servicing). In return, overall tax pressure was to be stabilised. It was on this basis, and assuming an 8½ per cent nominal increase in GNP¹⁹, that the central government budget for 1980 was drawn up. Revenue was to increase more rapidly than current expenditure, permitting a reduction in the nominal current deficit compared with the 1979 outturn. Capital expenditure was to continue to increase rapidly because of commitments made in previous years, but the rate of commitment in 1980 would be appreciably curbed. The total central government borrowing requirement was budgeted at B.Frs. 232 billion, representing the same proportion of GNP (6.2 per cent) as in 1979.

The figures for 1980 indicate some substantial deviations from the forecasts. Considerable shortfalls were recorded for tax revenues, up only 4½ per cent on 1979, partly because activity did not grow as strongly as anticipated, and partly because of the relief measures²⁰ introduced during 1980 to support demand and distribute the tax burden more evenly among households. On the other hand, current expenditure grew by 2 per cent more than budgeted, with the result that the current deficit was nearly twice the initial forecast, representing close to 4½ per cent of GNP. Capital expenditure appears to have been slightly lower than budgeted, but still well up on 1979 (about 5 per cent in volume for investment). Thus the central government deficit, including treasury operations, probably exceeded B.Frs. 300 billion.

The imbalance on central government account would have been even more marked had the budget not made provision for a sharp slowdown in transfers to local authorities

19 Belgian tax revenues are forecast on the assumption of an elasticity of 1.2 in relation to GNP.

20 The main measures were the abolition of VAT on investment, progressive disaggregation of total family income for households with more than one source of earnings, and splitting of incomes for one-income households. Another reason for the small increase in 1980 tax revenues was the refund of over-payments by firms for 1979.

Table 13 **Central government budget: forecasts and outturns**
B. Frs. billion

	1979		1980			1981
	Voted	Outturn	Voted	Amended	Outturn	Proposal
Current transactions						
Receipts	942	942	1 022	1 010	992	1 104
<i>of which:</i>						
Tax revenue	915	906	992	972	946	1 065
Expenditure	1 023	1 033	1 104	1 111	1 139	1 195
Balance	- 81	- 91	- 82	- 101	- 147	- 91
Capital transactions						
Receipts	13	13	14	14	13	14
Expenditure	141	126	162	165	157	166
<i>of which:</i>						
Investment	94	84	99	102	102	109
Balance	- 128	- 114	- 148	- 151	- 145	- 151
Cash transactions	- 2	- 7	- 2	- 2	- 9	-
Net borrowing requirement	- 211	- 212	- 232	- 254	- 301	- 242
Debt repayment	- 105	- 121	- 119	- 119	- 120	- 96
Gross borrowing requirement	- 316	- 333	- 350	- 373	- 421	- 338

Sources: Chamber of Representatives, Receipts and Expenditure Budget for 1981; Ministère des Finances.

and, especially, to social security. In the event, the social security account appears from available estimates to have deteriorated perceptibly in 1980. The growth rate of benefits (+9 per cent) remained practically unchanged compared with the previous two years, but the higher rate of increase in contributions was more than offset by the virtual levelling-off in transfers from central government. The local authority deficit also increased. In all, current government transactions on a national accounts basis probably showed a deficit equivalent to 4¾ per cent of GNP (compared with just over 3 per cent in 1979) while the borrowing requirement was probably close on 9½ per cent of GNP (7 per cent in 1979). Taking financial transactions into account, the net borrowing requirement of general government was higher still, amounting to 11.8 per cent of GNP as against 9.4 per cent in 1979.

The 1981 budget forms part of the government's "Recovery Plan" and sets ambitious targets for both revenue and expenditure. On the assumption of a 7½ per cent increase in nominal GNP, tax revenues are budgeted to rise by 9½ per cent compared with the adjusted budget for 1980. Since the budget was drawn up the estimates have been scaled down by nearly B.Frs. 50 billion to allow for the 1980 shortfalls and the relief measures²¹ in the recovery plan (about B.Frs. 16 billion), bringing the increase down to 7½ per cent over the 1980 outturn, though this still represents a marked acceleration. Nevertheless, these forecasts will probably be again revised, taking into account a stronger slowing of activity than that initially forecast. The expenditure forecasts are very tentative since sufficiently reliable estimates for 1980 are not yet available. According to the budget figures, current expenditure ought to increase by 7½ per cent over the adjusted 1980 budget, by only ¾ per cent on the 1980 outturn²², while capital expenditure in value will remain flat. But the first results for the start of the 1981 fiscal year seem to indicate that current expenditure estimates ought to be revised

21 The adjustment also takes account of the ten point reduction in the VAT rate applicable to house building started prior to 31st December 1981, a measure introduced at the end of 1980 to support activity.

22 According to recent estimates, current expenditure should be revised upwards by Frs. 40 to 45 billion.

up. On this basis, and taking account of the adjustment of revenue figures after the budget vote, the overall net deficit would exceed B.Frs. 300 billion, as in 1980. The Recovery Plan will probably have a bigger impact on the social security account, which should be nearly in balance in 1981. On the other hand, the local authorities' account is expected to deteriorate, mainly because of a further slowdown in central government transfers and a significant increase in interest charges. In all, the general government borrowing requirement on a national accounts basis may represent some 9 per cent of GNP. This aim will, however, be difficult to reach. For this reason, the government announced at the end of March additional measures, which should reduce budgetary expenditure (or increase receipts) by B.Frs. 100 billion over the next three years, one third being obtained in 1981.

Monetary policy

The margin for manoeuvre in monetary policy has been unusually narrow since the spring of 1979. This is because interest rates, the main monetary regulation instrument in Belgium, have been very much conditioned by the international uptrend in rates and by recurrent pressure on the Belgian franc, while the current balance deficit and the public sector borrowing requirement have increased significantly. These factors caused a general rise in Belgian rates between May 1979 and May 1980; subsequently, short-term rates eased up to January 1981, though they were still high, while long-term rates continued to climb. Since the end of January, the exchange rate constraint brought about adjustments of short-term rates, which were particularly marked at the end of March. This trend has been a definite constraint as regards short-term demand management, given that the weakness of demand and the fairly moderate rate of inflation might have justified lower interest rates.

The acceleration of Eurodollar rates during the first quarter of 1980 pulled up the Belgian Eurofranc rate, and then domestic rates. Consequently, the discount rate, which had begun to rise rapidly in May 1979, climbed even more steeply during the first half of 1980 with a resulting adjustment of all National Bank of Belgium rates, so that the weighted average rate²³ rose by 2½ points between December 1979 and April 1980. The easier trend which followed on the Eurodollar market, lasting until July, influenced the Belgian Eurofranc and all domestic interest rates²⁴. These did not follow the subsequent upturn in Euromarket rates and in January 1981 the National Bank's weighted average rate was practically the same (12 per cent) as in July 1980. Following strong tensions on the Belgium franc, the discount rate was raised at the end of March from 12 to 13 per cent, then to 16 per cent. Money market rates fluctuated in parallel with Eurofranc rates. Short-term deposit rates fluctuated more widely than lending rates and with big differences according to the type of investment. Thus the rates for large time deposits²⁵ with the bank rose by over three points (from 14 per cent to 17¼ per cent) between January and March 1980 and then gradually eased back to 12¼ per cent at year's end, while savings-account interest remained unchanged throughout the year at 6½ per cent, which explains in fact why savers lost enthusiasm for that type of investment.

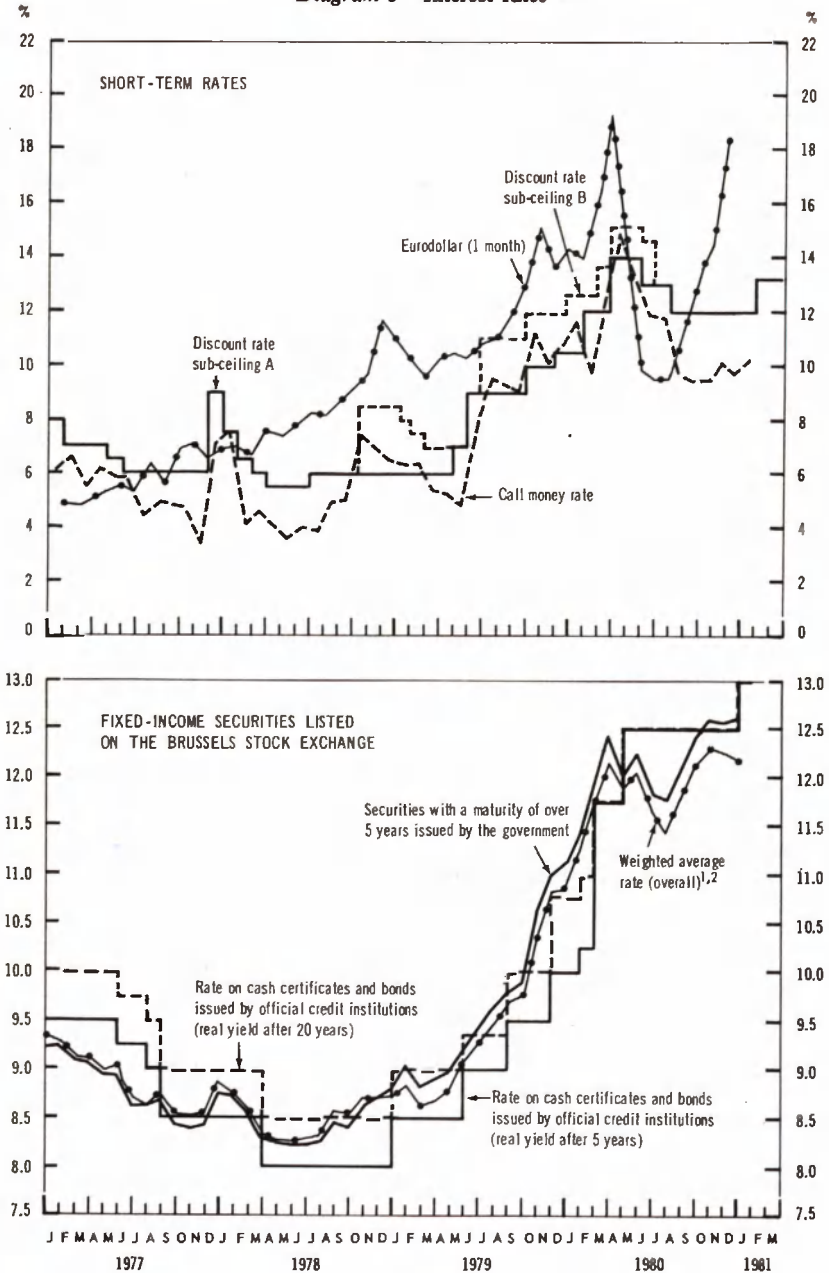
Long-term interest rates experienced a rapid and uninterrupted rise between mid-1978 and the second quarter of 1980, when they increased by about four points. Most long-term rates, especially those of investment credit and mortgage loans, stabilized at around 13 per cent between May 1980 and January 1981, but those on public sector loans continued to rise up to January 1981.

23 Weighted by the amounts refinanced by the National Bank of Belgium at the various rates.

24 The two-tier rediscount ceiling was reintroduced between 23rd June 1979 and 25th June 1980.

25 From B.Frs. 5 million to 20 million.

Diagram 5 Interest rates

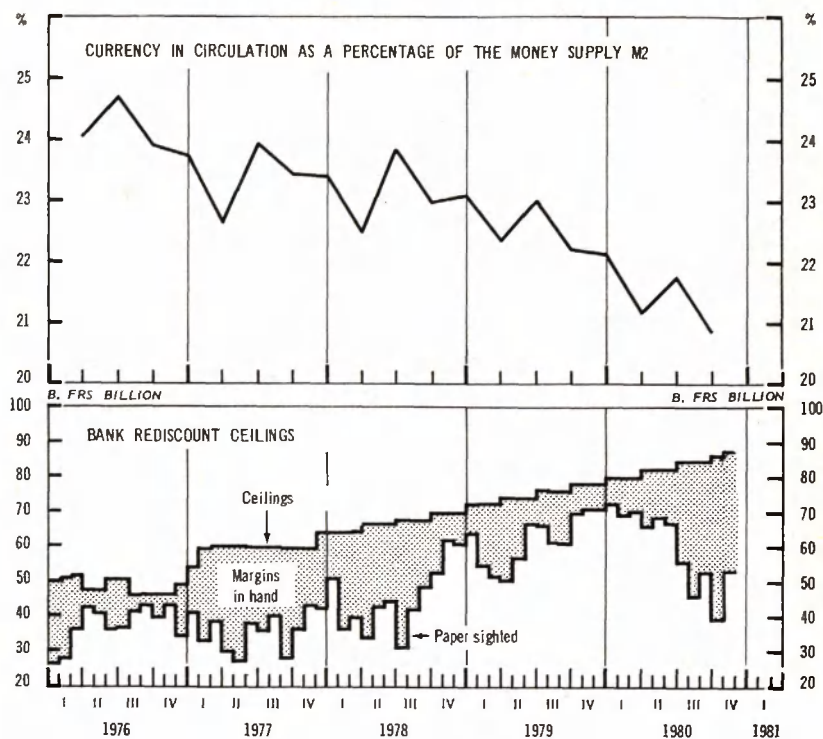


1 Listed on the stock exchange.

2 Yield after 2 to 5 years, and yield after 5 years, government securities.

Sources: National Bank of Belgium, *Monthly Bulletin*; *Bulletin* of the Morgan Guaranty Trust.

Diagram 6 Monetary indicators



Source: National Bank of Belgium, *Monthly Bulletin*.

During 1980 the money market experienced some periods of marked strain, especially at the beginning of the year when the National Bank intervened heavily in the foreign exchange market; this was reflected in the very narrow rediscount margins available and the recourse of banks to advances from the National Bank. The market then eased following central bank financing of Treasury requirements, to the extent of B.Frs. 173 billion for the whole year. The widening of margins available for rediscount under the ceiling system after the second quarter shows how pressure eased, particularly for the financial intermediaries, which could unwind their positions with the National Bank.

Private sector indebtedness grew moderately in 1980, as it had in 1979. This reflected both the general slowdown in business activities and the restrictive effect of higher interest rates. This slowdown affected both short-term credit, notably because of slacker demand for cars, and mortgage loans, reflecting the depressed position of the housebuilding sector. Credit to enterprises seems to have followed a similar trend, increasing by some B.Frs. 89 billion in the first nine months of 1980, compared with B.Frs. 104 billion a year earlier. Here, too, it was short-term credit which decelerated more sharply owing to the higher interest rates, while long-term borrowing, stimulated by the continuing firmness of productive investment, increased by the same amount as in the first nine months of 1979. All told, private sector borrowing increased by 5.5 per cent over the first three-quarters of 1980; this compares with an increase of 7.3 per cent a year earlier. As in 1979, it was public sector indebtedness which increased most rapidly. On the basis of provisional figures from the National Bank of Belgium, the gross public

Table 14 Money supply and counterparts¹

	Outstandings end-1977	Change in outstandings (B. Frs billion)				Percentage change (annual rates)			
		1978	1979	1979 10 months	1980 ² 10 months	<u>Dec. 78</u> <u>Dec. 77</u>	<u>Dec. 79</u> <u>Dec. 78</u>	<u>Oct. 79</u> <u>Dec. 78</u>	<u>Oct. 80²</u> <u>Dec. 79</u>
Money supply (M2)	1 442.0	121.6	116.3	51.5	23.7	8.4	7.4	4.0	1.7
Money	741.5	43.4	19.8	-35.7	-38.3	5.9	2.5	-5.4	-5.7
Liabilities of up to 1 year	529.4	58.9	70.8	66.0	23.2	12.3	10.6	13.5	4.3
Other	171.1	19.3	25.7	21.2	38.8	7.8	18.2	14.0	21.7
Counterparts									
External assets	122.8	-63.2	-168.2	-136.0	-164.6				
Claims on government	582.6	103.1	146.8	117.0	176.6	10.6	14.1	22.2	29.5
Credit to enterprises and households	711.3	77.8	142.3	101.2	61.5	12.2	17.3	15.4	7.9
Miscellaneous	25.3	3.9	-4.6	-30.7	-49.8				

1 Monetary institutions only.

2 Provisional data.

Source: National Bank of Belgium.

borrowing requirement was B.Frs. 405 billion for the year, up nearly B.Frs. 105 billion on 1979, and the total gross borrowing requirement of the Belgian economy is estimated to have increased by 10 per cent between 1979 and 1980.

In 1980, as in 1979, the flow of private sector funds to the Belgian financial markets was insufficient to match the rise in gross requirements. Overall, according to National Bank of Belgium estimates, households' net lending probably increased in 1980 to B.Frs. 325 billion, as against 256 billion in 1979. The increase in households' financial assets in 1980 was mainly in maturities of more than one year and short-term foreign currency investments due to interest rate differentials. Furthermore, there was a marked shift out of short-term savings deposits and cash holdings into time deposits²⁶. During the first ten months on 1980, households' total financial asset formation in Belgian francs advanced by nearly 6 per cent. On the other hand, as a result of the increase in their gross fixed investment and the consequent reduction of their internal funds, corporations appreciably reduced their financial asset formation in 1980. For the year as a whole, the formation of private sector financial assets available on the Belgian market probably amounted to B.Frs. 395 billion, up 4.5 per cent on 1979. Imports of private sector capital amounted to some B.Frs. 125 billion in 1980 and the remainder of the borrowing requirement was funded by the National Bank of Belgium to the extent of B.Frs. 126 billion as against B.Frs. 116 billion in 1979, an 8.6 per cent increase. This marks a definite deceleration from 1978/1979, when National Bank funding more than doubled.

Money supply growth slowed perceptibly in 1980. For the first ten months of the year the increase was 1.7 per cent at an annual rate, as compared with 4 per cent a year earlier. This was due to the very marked contraction in net foreign assets estimated at B.Frs. 165 billion, while money creation against claims on government grew very rapidly, as in the two previous years. The credit to enterprises and households counterpart decelerated sharply in 1980. Although the results of the first ten months cannot be extrapolated for the whole of the year, because of the year-end statistical adjustments, the economy's overall liquidity ratio does seem to have declined again in 1980.

The social and economic recovery plan

This programme, approved by Parliament in early February 1981, is designed to bring about a substantial transfer from households (B.Frs. 60 billion, 1.7 per cent of GNP and 2.3 per cent of their disposal income in 1980) both to enterprises (B.Frs. 28 billion) and institutions (B.Frs. 32 billion). The plan for enterprises is largely based on a two-year freeze on real earnings in excess of B.Frs. 35 000 per month (i.e. more than three-quarters of the total wage bill). The same norm applies to civil service pay. The impact of this increase may have been significantly reduced, at least for 1981, by a private sector interprofessional agreement, Collective agreements signed before 31st December 1980 will be actioned, then followed after their expiration by a freeze on real wages during twelve months. In sectors with no renewals of wage contracts, the agreement provides for a one hour reduction in weekly worktime (when this exceeds 39 hours) without a corresponding reduction in pay. In sectors where the work week is less than or equal to 38 hours, the agreement permits the negotiation of either a 1 per cent increase in real wages between now and 1982 or a one hour reduction in weekly worktime. The programme also provides for various forms of tax relief in favour of small and medium companies (lower social security contributions), investment (exemption from corporate taxation of 5 per cent of taxable profit if reinvested), and energy saving

²⁶ It should also be noted (see Diagram 6) that the share of currency in circulation in the monetary base continued to fall.

expenditures by enterprises and households. All these measures are in addition to those already taken, especially the abolition of VAT on investment.

The recovery in social security accounts, which should be in balance in 1981, is to be achieved partly through savings in various areas, and partly through an increase in contributions. The latter will be obtained by raising the earnings ceiling for contributions, as well as increased contributions by the self-employed. Also to be introduced in a special programme "solidarity" contribution (from 0.9 per cent to 2.7 per cent of earnings above B.Frs. 40 000) applicable to public service salaries, in return for the employment stability civil servants enjoy. This contribution has been introduced for two years, but could be extended if the number of unemployed exceeds 300 000. Savings are to be obtained in the areas of pensions (by "trimming" the highest pensions and abolishing certain combinations of pensions), unemployment benefit (young unemployed persons will have to wait six months instead of three before they can draw assistance; persons out of work for more than a year but not heads of households will receive a lower rate of benefit) and sickness insurance payments. Finally, the central government will pay off the debts of sickness, disablement insurance and the self-employed pensions.

III RECENT TRENDS AND SHORT-TERM FORECASTS

Domestic trends

The phase of economic expansion which began in the third quarter of 1978 lasted until early last year when domestic demand and output slowed sharply, and growth of volume GNP in 1980 is currently estimated at 1.4 per cent. Private consumption, which

Table 15 Demand and output

	1979 at current prices		Percentage change from previous year (volume)				
	B. Frs billion	As a % of GNP	1976	1977	1978	1979	1980 ⁴
Private consumption	2 052.7	63.1	5.5	2.0	2.7	4.6	1.8
Public consumption	593.4	18.2	4.1	3.3	6.5	2.7	1.1
Gross fixed asset formation	667.8	20.5	3.0	-0.3	1.9	-0.6	2.9
Residential construction	211.2	6.5	15.7	1.8	6.4	-12.5	-3.0
Productive investment	345.2	10.6	-3.8	-1.5	0.9	3.0	2.5
General government	111.4	3.4	5.0	-0.7	-3.9	14.9	14.9
Final domestic demand	3 313.9	101.8	4.7	1.7	3.2	3.2	1.9
Change in stock building ^{1 2}	14.9	0.5	1.0	0	-0.1	0.4	-0.1
Change in foreign balance ²	-75.3	-2.3	-0.2	-1.0	-0.1	-1.4	-0.4
Exports of goods and services ³	1 938.0	59.6	9.3	13.2	4.3	7.6	2.7
Imports of goods and services ³	2 013.3	61.9	9.7	15.3	4.4	10.0	3.3
GNP at market prices	3 253.5	100.0	5.5	0.7	3.0	2.1	1.4
GNP implicit price deflator	-	-	7.7	7.3	4.2	4.0	5.3
Industrial production (excluding construction)	-	--	8.8	-0.1	2.0	5.0	-0.3

1 Including statistical adjustment.

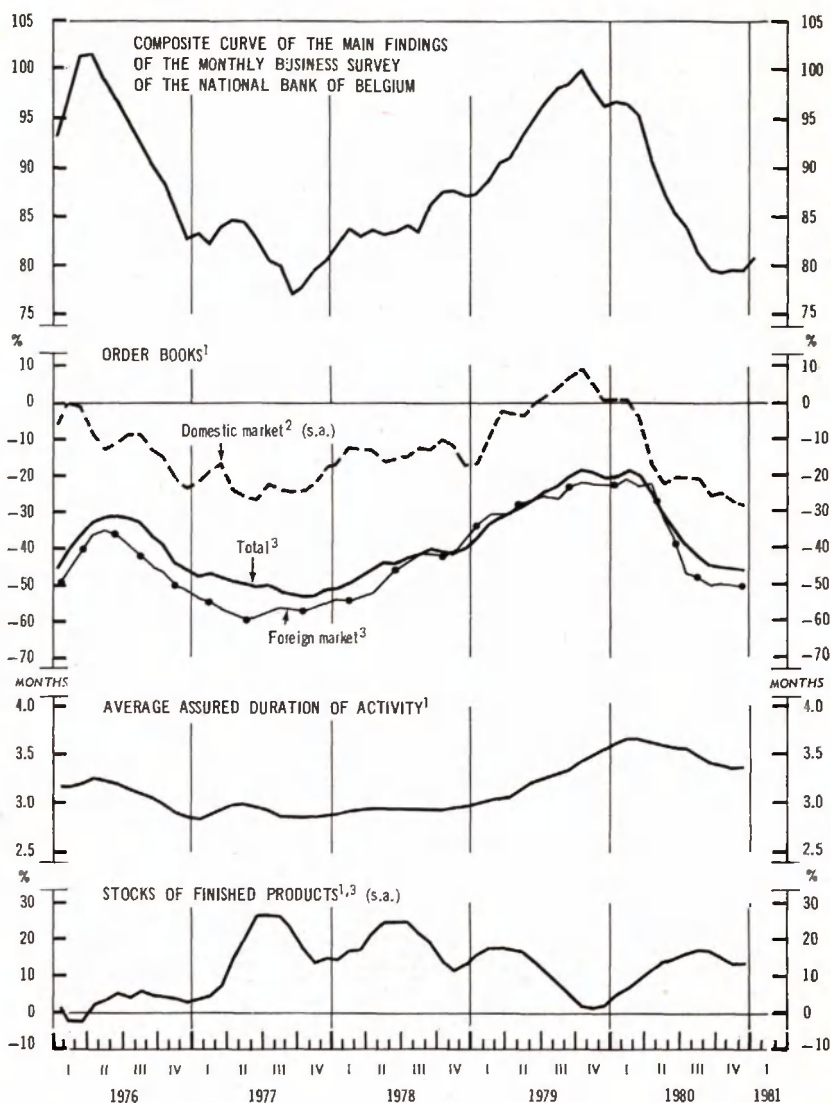
2 Changes expressed as percentages of GNP of preceding year.

3 Including factor incomes.

4 Secretariat estimates.

Sources: Institut National de Statistique : Ministère des Affaires Economiques : OECD Secretariat.

Diagram 7 Composite indicator and indicators of demand



1 Three-month moving averages.

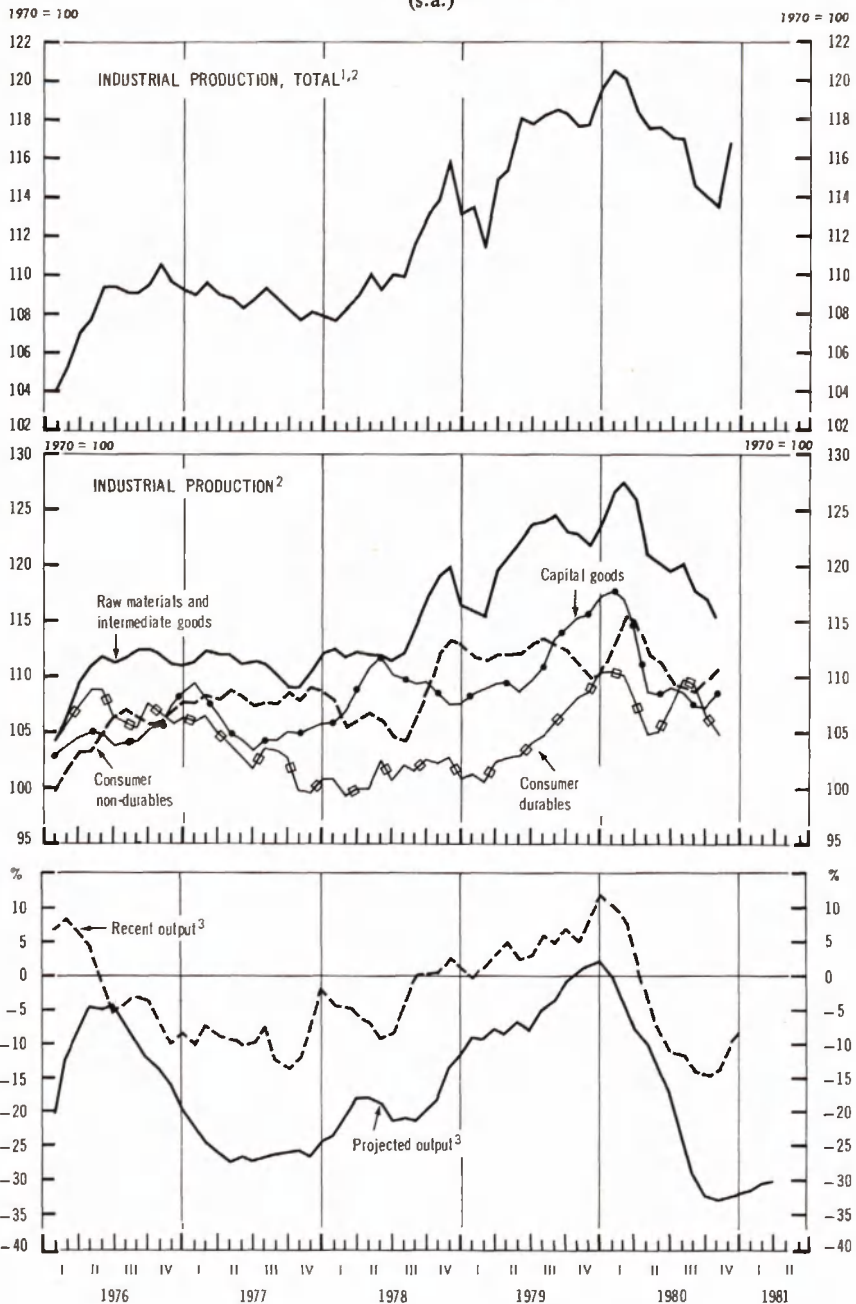
2 Change from previous month.

3 Difference between percentages of "higher than normal" and "lower than normal" answers.

Source: National Bank of Belgium, *Monthly Bulletin*.

had grown rapidly in 1979 (4.6 per cent in volume) mainly because of a fall in the savings ratio of about 1 point from 1978, lost momentum in 1980, and showed a real growth of only about 2 per cent, in spite of a further decline in the savings rate. As in many countries, new private car registrations fell back (about 5 per cent down from 1979). Nevertheless, retail sales probably rose by about 3 per cent during the first nine months, though with some quite wide fluctuations from quarter to quarter, and households' demand appears not to have fallen off to any marked extent until the last

Diagram 8 Indicators of supply
(s.a.)



1 Excluding construction.

2 Monthly index 1975 = 100, three-month moving averages.

3 Difference between "up" and "down" answers of businessmen.

Sources: OECD, *Main Economic Indicators*; National Bank of Belgium, *Enquêtes de conjoncture*.

quarter. As a result of the government's tighter fiscal policy, growth of public sector consumption slowed very sharply between 1978 and 1980, from 6.5 to 1 per cent in volume.

Private sector productive investment picked up noticeably at the beginning of 1980 but flagged in the second half of the year, though remaining above the 1979 level²⁷. For 1980 as a whole its volume growth was probably 2 ½ per cent (on a national accounts basis), as against 3 per cent in the previous year. This overall performance was aided by firms' somewhat improved financial position in 1979 and by the authorities' tax incentives (5 per cent reduction of VAT on investment), but there were very wide differences between sectors. In oil refining and gas distribution, for instance, investment more than doubled between the first halves of 1979 and 1980, whereas in building and chemicals the trend between the two periods was negative. There was very little foreign investment. Despite the rise in private non-residential investment over three consecutive years, its aggregate volume (1975 prices) was no higher in 1980 than it had been in 1974. During 1977 and 1978, implementation of public investment projects was held back partly by administrative delays and partly by commitment of less than the total budgeted expenditures, with the result that this investment declined in volume. However, in 1979 there was a very big catch-up which continued in 1980. In each of these two years gross fixed asset formation by general government grew by nearly 15 per cent in volume. Residential construction, which had expanded fairly rapidly from 1972 to 1978, at an annual average rate of about 9.5 per cent in volume, dropped very appreciably in 1979 (by 12.5 per cent in volume) and continued to do so in 1980, notably because of the unfavourable influence of higher interest rates²⁸, and building permits for the third quarter were 21.5 per cent down from a year earlier.

All in all, growth of final domestic demand was distinctly slower in 1980 than in the two previous years. Although stocks of finished goods increased as demand slowed down, the overall contribution of stocks to growth was probably negative in 1980, owing to a rundown of raw material stocks after a sharp increase in 1979. GNP growth in 1980 was about ½ per cent lower than that of total domestic demand. Industrial production peaked in the first quarter of 1980 and subsequently fell back sharply (by almost 10 per cent at an annual rate between January and October), all its components being affected. Nevertheless, because of its high level at the beginning of the year, the index showed an average rise of 1.2 per cent for the first ten months of 1980 compared with the same period of 1979. As a result the employment situation deteriorated further, falling by about 0.2 per cent²⁹. After levelling off in the first quarter of 1980, unemployment rose steeply again and by December, 9.1 per cent of the labour force were unemployed, as against 7.7 per cent a year earlier.

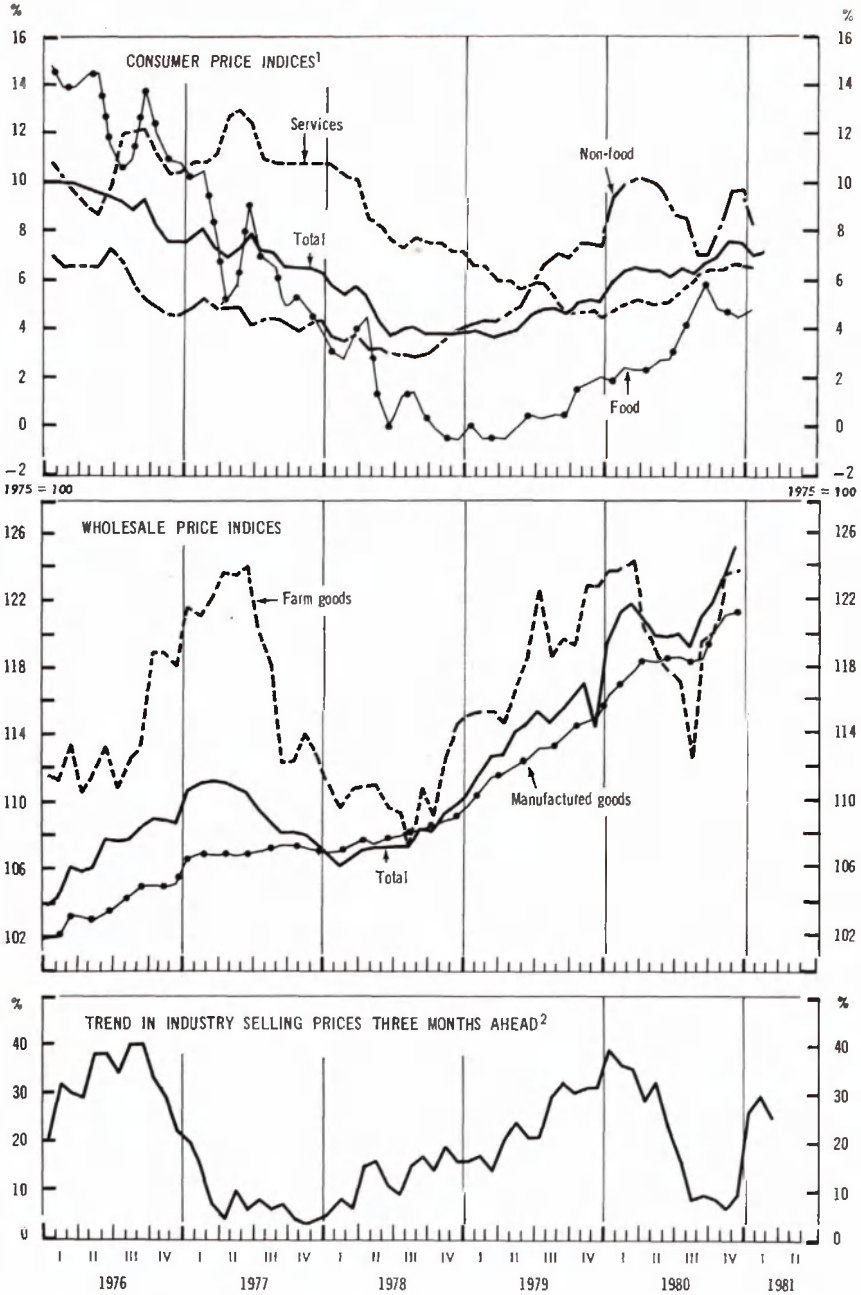
Inflation accelerated appreciably during 1980, but much less so than after the first oil shock. In 1974-75 inflation, as measured by both the GNP deflator and the consumer price index, had more than doubled by comparison with the 1971-1973 average, the rate for 1974-75 being 12.5 per cent. After a phase of very gradual deceleration, the rate of increase in consumer prices came down to an average of 4.5 per cent in 1978-79. At the end of 1979 there was another acceleration which continued in 1980, with consumer prices in the fourth quarter 7.4 per cent up from a year earlier; the rise for 1980 as a whole was 6.7 per cent. As a result of indexation, wage rates also accelerated in 1980 but here, too, the increase was fairly restrained because of the very marked slowdown in the

27 The National Bank of Belgium's half-yearly survey shows a nominal increase of about 20 per cent in industrial investment for the first nine months of 1980. This is well above national accounts estimates for private non-residential investment which cover a much wider field and include, in particular, investment in commerce and services.

28 Interest rates on building loans rose by about 3 percentage points between the end of 1978 and the fourth quarter of 1980.

29 Survey of 30th June 1980.

Diagram 9 Price trends



1 Percentage increase on same month of previous year.

2 Difference between percentages of "up" and "down" answers.

Source: OECD, Main Economic Indicators.

Table 16 **Households' appropriation account**
B. Frs billion and percentage changes

	1976	1977	1978	1979	1980
Compensation of employees	1 517.2 (14.7)	1 656.2 (9.2)	1 779.0 (7.4)	1 897.1 (6.6)	2 047.8 (7.9)
Transfers	520.8 (16.4)	584.7 (12.4)	640.4 (9.5)	698.2 (9.0)	756.4 (8.3)
Other income	630.8 (13.8)	669.7 (6.2)	720.5 (7.6)	773.4 (7.3)	839.3 (8.5)
Gross income	2 668.8 (14.8)	2 910.6 (9.1)	3 139.9 (7.9)	3 368.7 (7.3)	3 643.5 (8.2)
Direct taxes	343.5 (12.9)	406.0 (18.2)	471.9 (16.2)	513.0 (9.3)	554.9 (8.2)
Social security contributions and transfers	348.4 (13.3)	383.4 (10.0)	401.8 (4.8)	430.0 (7.0)	469.0 (9.1)
Disposable income	1 976.9 (15.4)	2 121.2 (7.3)	2 266.2 (6.8)	2 425.7 (7.0)	2 619.6 (8.0)
Households' consumption	1 621.6 (14.1)	1 770.7 (9.2)	1 895.2 (7.0)	2 052.7 (8.3)	2 223.2 (8.3)
Personal saving	355.3	350.5	371.0	373.0	396.4
Saving ratio (per cent of disposable income)	(18.0)	(16.5)	(16.4)	(15.4)	(15.1)

Source: Institut National de Statistique : Ministère des Affaires Economiques.

negotiated wage increases for manual workers³⁰. In 1980, wage rates for manual workers rose by 8.8 per cent. Given also the slower trend in public sector pay increases and the reduction in employment, compensation of employees increased by only some 8 per cent in 1980.

BLEU balance of payments

At the beginning of the second quarter of 1980, the volume of BLEU foreign trade turned down. According to seasonally adjusted customs figures, the export volume index fell by 7.2 per cent between the first and third quarters of 1980. However, because of the substantial carryover from 1979, the index level for the first nine months of 1980 was

30 Negotiated pay increase for blue and white collar workers in industry as a whole were made up as flows:

Year		Indexation	Wage agreements	Shorter hours	Total
1974	Manual	16.6	7.8	1.3	25.7
	Non-manual	16.0	8.4	—	24.4
1975	Manual	11.8	3.2	0.9	15.9
	Non-manual	12.2	2.9	—	15.1
1976	Manual	8.6	1.6	0.2	10.4
	Non-manual	8.3	0.4	—	8.7
1977	Manual	6.7	2.2	—	8.9
	Non-manual	6.6	1.5	—	8.1
1978	Manual	3.9	1.5	—	5.4
	Non-manual	4.0	1.7	—	5.7
1979	Manual	4.9	2.1	0.6	7.6
	Non-manual	4.5	0.6	—	5.1
1980	Manual	7.1	1.1	0.6	8.8
	Non-manual	7.9	0.8	—	8.7

2.3 per cent up on the corresponding period of the previous year. Although the export downturn affected all categories of goods, apart from consumer durables, it was most marked in raw materials because of the fall in steel exports. According to provisional Secretariat calculations, exports probably continued to lose market shares in 1980, though perhaps to a lesser extent than over the two previous years ($-1\frac{1}{2}$ per cent or -2 per cent as against $-3\frac{1}{2}$ per cent). The trend of import volumes matched the export trend and reflected the slowdown in overall demand. Having grown rapidly in late 1979 and early 1980, imports fell back as from April and by the third quarter were 9 per cent down from their first-quarter level. Even so, import volumes for the first nine months were 2.2 per cent up from a year earlier. It was in raw material and capital goods imports that the deceleration was most marked; in the case of capital goods this is somewhat at variance with the reports of a strong investment trend in 1980.

The very marked acceleration in average foreign trade values for 1979 was even more pronounced in 1980 and in the first nine months of last year they rose by 17.1 per cent for imports and 13 per cent for exports. For the same period, the trade account (CIF/FOB on a customs basis) showed a deficit of about B.Frs. 155 billion, a deterioration of nearly B.Frs. 75 billion from the first nine months of 1979, of which about 85 per cent can be attributed to worsening of the terms of trade³¹. The higher oil bill contributed substantially to this trend: in the first nine months of the year, the energy deficit widened by B.Frs. 56 billion³². On a balance-of-payments basis, the trade deficit probably amounted to B.Frs. 122 billion for the first nine months. The deterioration in the invisibles account continued in 1980. Services showed a deficit of B.Frs. 3 billion for the first nine months of 1980, whereas until 1979 they had been in overall structural surplus. A number of factors were responsible. Net tourism debits advanced further and receipts from engineering projects abroad declined. However, the major element of disequilibrium was earnings from investment abroad, which have been declining by about B.Frs. 10 billion every year since 1978 and showed a deficit of B.Frs. 2 billion for the first nine months of 1980. This has been mainly due to heavier interest payments reflecting increased borrowing abroad by the Belgian public sector and also the rise in interest rates in 1980. As the deficit on public sector transfers also widened³³ the current balance deficit amounted to B.Frs. 136 billion for the first nine months and might be between B.Frs. 170 and 180 billion for the year as a whole, or about 5 per cent of GNP.

On the basis of provisional estimates by the *Luxembourg* authorities³⁴, it appears that the deterioration in the world steel market and the oil price rise caused Luxembourg's trade (CIF/FOB) deficit to widen to over L.Frs. 15 billion in 1980.

31 The respective impacts of the change in volume and the terms of trade on the BLEU trade balance (CIF/FOB on a customs basis) have been as follows: (B.Frs. billion, change on previous year).

	1970-1973	1974-1977	1978	1979	1980 ¹
Volume	-1.8	-12.0	-7.2	-19.2	-10.7
Terms of trade	4.8	-17.4	-6.0	13.2	-64.3
Overall change	3.0	-29.4	-13.2	-6.0	-85.0

1 January-September.

32 Imports of oil and oil products accounted for about 13 per cent of total imports in value for the first nine months of 1980, against 10.6 per cent in 1979; but it should be noted that Belgium re-exports a large proportion of refined oil products (nearly 6 per cent of total exports) which amount to more than half of oil imports.

33 The marked increase in the deficit on public sector transfers in 1980 ($-$ B.Frs. 22 billion for the first nine months as against $-$ B.Frs. 10 billion for the same period of 1979) was largely due to the decline in receipts from the European Agricultural Guarantee and Guidance Fund.

34 Luxembourg authorities have begun to estimate a current balance for Luxembourg as of 1979. Methodology and main results are reported in *Bulletin du Statec*, 1979, No. 8.

Table 17 **Trend of BLEU foreign trade by product category**
 Percentage change from previous year

	Importations							Exportations						
	1974	1975	1976	1977	1978	1979	1980	1974	1975	1976	1977	1978	1979	1980
VOLUME														
Raw materials and auxiliary products	2.3	-8.1	19.2	4.0	5.2	3.7	0.7 ¹	0	-13.9	16.9	5.8	6.2	3.9	-2.9 ¹
Capital goods	3.4	-0.7	4.7	5.8	0.6	5.4	0.7 ¹	10.9	1.8	10.8	0.5	0	7.0	5.4 ¹
Consumer durables	10.9	-1.2	16.8	5.3	3.5	8.8	7.5 ¹	-7.4	2.9	21.8	2.3	4.0	-0.5	2.9 ¹
Consumer non-durables	5.8	0.6	15.2	4.8	7.1	5.7	2.1 ¹	8.3	-5.7	7.4	5.7	3.0	9.8	5.2 ¹
Total	2.5	-5.6	13.4	3.9	3.8	5.5	2.9 ²	0.4	-7.0	14.3	4.6	3.8	4.8	2.2 ²
AVERAGE VALUES														
Raw materials and auxiliary products	32.6	-7.1	5.3	-0.7	2.2	13.6	18.7 ¹	34.0	-5.6	3.0	1.4	1.5	14.5	16.9 ¹
Capital goods	9.5	9.6	10.3	0.7	7.9	2.0	5.7 ¹	10.4	15.4	7.4	3.4	-0.7	4.0	6.3 ¹
Consumer durables	9.3	9.3	9.9	3.9	3.1	1.8	4.0 ¹	12.4	9.4	7.2	6.0	4.4	7.9	6.4 ¹
Consumer non-durables	12.7	12.1	5.0	6.2	1.3	4.5	7.4 ¹	11.5	9.5	5.1	1.4	0	2.0	13.3 ¹
Total	31.5	2.8	7.5	1.9	1.2	10.4	17.1 ²	25.6	2.9	5.0	1.4	0.7	12.0	13.0 ²

1 Rate of increase for the first eight months of 1980 on the first eight months of 1979.

2 Rate of increase for the first nine months of 1980 on the first nine months of 1979.

Source: Institut National de Statistique. *Bulletin de statistique*.

Table 18 **BLEU balance of payments**
B. Frs billion

	1978	1979	1979 ¹	1980 ¹
Exports, fob	1 293.6	1 552.8	1 133.8	1 297.7
Imports, fob	1 334.0	1 536.8	1 180.2	1 399.2
Trade balance	- 40.4	- 84.0	- 46.4	- 101.5
Services, net	30.0	10.2	3.0	- 3.3
Balance on goods and services	- 10.4	- 73.8	- 43.4	- 104.8
Private transfers, net	- 5.7	- 9.8	- 7.5	- 8.7
Government transfers, net	- 14.7	- 16.0	- 9.9	- 22.3
Current balance	- 30.8	- 99.6	- 60.8	- 135.8
Long-term capital movements (excluding special transactions)	- 14.9	3.7	11.6	80.9
a) Private	- 10.7	7.4	15.2	59.5
b) Official	- 4.2	- 3.7	- 3.6	21.4
Basic balance	- 45.7	- 95.9	- 49.2	- 54.9
Private short-term non-monetary capital	- 26.1	- 33.9	- 27.2	- 32.2
Official short-term non-monetary capital	16.8	8.0	5.4	10.8
Errors and omissions	10.9	- 10.0	- 6.6	2.4
Balance on non-monetary transactions	- 44.1	- 131.8	- 77.6	- 73.9
Short-term capital of private monetary institutions	28.2	100.3	53.5	107.0
Balance on official settlements	- 15.9	- 31.5	- 24.1	33.1

¹ First nine months.

Source: National bank of Belgium.

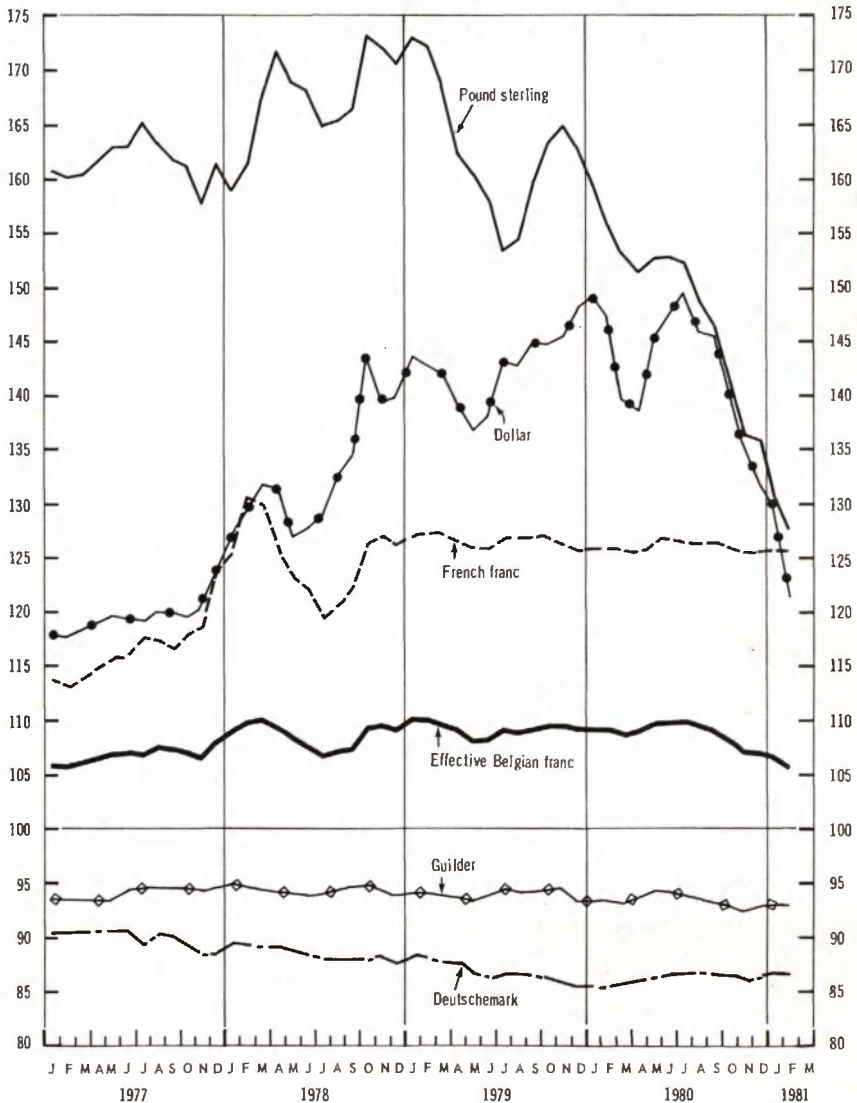
However, the services account again showed a comfortable surplus, due to net investment earnings and also to earnings from banking, airlines and Luxembourg Radio and Television. Furthermore the tendency for transfers to move back into balance continued in 1980 and Luxembourg probably had an overall current account surplus of about L.Frs. 25 billion for 1980 (against L.Frs. 34 billion in 1979).

For the BLEU, the public sector's foreign borrowing increased heavily in 1980, so that the capital transactions surplus amounted to Frs. 132 billion for the first nine months as compared with Frs. 60 billion a year earlier. For 1980 as a whole, net public sector capital inflows probably amounted to Frs. 150 billion. Private sector capital transactions showed net inflows of Frs. 35 billion for the first nine months; this compares with a net outflow of Frs. 23 billion for the same period of 1979. Net commercial credits were appreciably down from 1979, the reasons being the slowdown in foreign trade and smaller changes in leads and lags. As regards long-term capital, direct foreign investment accelerated, especially in Luxembourg, while investment abroad by BLEU residents levelled off. Short-term private-sector capital movements were affected by exchange-rate and interest-rate trends. Thus, short-term deposits by Belgian residents abroad increased sharply and foreign currency transfers improved. All told, as a result of the big increase in public sector borrowing, total foreign exchange reserves at the National Bank of Belgium probably rose by some B.Frs. 27 billion in 1980.

The pressures to which the Belgian franc was subjected in 1979 continued into the early part of 1980; after easing temporarily from April to July they continued until March 1981, when the currency's effective rate of exchange was 3 ¼ per cent down from its December 1979 level. This was largely due to fluctuations in the dollar exchange rate which appreciated by 18.5 per cent against the Belgian franc over the same period. As a result of continuous pressure from September 1979 to March 1980, the Belgian franc reached its divergence threshold in the European Monetary System.

The pressures then eased until the summer, but as from July 1980 the divergence indicator for the Belgian franc began to move up again. This tendency again reversed at the end of January 1981. This led the National Bank of Belgium to intervene importantly on the foreign exchange market in the first quarter and during the second half of 1980, the total of interventions amounting to B.Frs. 123 billion (of which 40 billion were in dollars). During the first quarter of 1981, the interventions of the National Bank on the foreign exchange market amounted to B.Frs. 90 billion.

Diagram 10 Effective exchange rate of the Belgian franc and exchange rate against other currencies
 Monthly averages of daily rates
 Index, 1st quarter 1973 = 100



Source : OECD Secretariat.

Short-term forecasts

The forecasts given below are marked by a number of uncertainties, to the extent that some of the underlying technical assumptions are particularly fragile. It has been assumed that oil prices will be stable in real terms through the year; furthermore, the forecasts are based on no modification from the average exchange rate for the month of February 1981. The economic policy assumptions include the measures set out in the recovery plan agreed in February and the interprofessional collective agreement on wage moderation. Since precise information on the number and extent of wage agreements signed for application in 1981 and 1982 is unavailable, the quantification of the effects of the agreements on the evolution of real wages is consequently uncertain. Moreover, the 1981 Budget may materialise differently from that initially forecast, notably concerning the deficit of current expenditure which may be appreciably larger. However, one can forecast that the phase of stagnation which the Belgian economy is now going through could continue during most of this year. Indeed, on the domestic front, business cycle indicators do not suggest that activity is about to pick up; at best, they suggest that the downward movement has diminished. Furthermore, economic policy might initially have a short-term deflationary effect on demand, and finally, exports may fall slightly.

The generally weak economic prospects in the principal trading partners of Belgium (Germany, France and the Netherlands) will heavily weigh on exports in 1981. In addition, the stimulus which might come from OPEC countries' demand would be fairly limited since these countries are still small markets for Belgium. Although the relative rate of inflation in the BLEU was moderate in 1980 and may remain roughly the same in 1981, the factors working against Belgium's overall competitiveness will persist and overall export performance will hardly improve. This being so, the volume growth rate of exports of goods and services may be -1 per cent, slightly less than the rate expected for markets. The elasticity of imports with respect to total demand may be reduced in 1981, because of less demand pressure and the dollar appreciation, which may result in a fall in import volumes of 1½ per cent. Consequently, the contribution of the real foreign balance to growth may be slightly positive.

Table 19 Forecasts for 1981
Percentage change (volume)

	1980 Estimates	1981 Forecasts
Private consumption	1.8	-½
Public consumption	1.1	½
Gross fixed asset formation	2.9	-1½
Residential construction	-3.0	-5
Productive investment	2.5	-1
General government	14.9	3
Final domestic demand	1.9	-½
Change in stockbuilding ¹	-0.1	-½
Change in foreign balance ¹	-0.4	¼
Exports of goods and services ²	2.7	-1
Imports of goods and services ²	3.3	-1½
GNP at market prices	1.4	-½
GNP implicit price deflator	5.3	6
Consumer price index	6.7	6½

1 Changes are expressed as percentages of GNP of the preceding year.

2 Including factor incomes.

Source: OECD Secretariat.

The real wage bill may fall in 1981 under the combined influence of the interprofessional collective agreement, which may lead to a growth of 1 per cent in real per capita wage rates and of the reduction in dependent employment. Moreover, there is likely to be a slowing of the growth of transfers, linked to the social security economy measures. The tax relief measures decided by the authorities will not offset the rise in social security contributions which may represent around $\frac{1}{2}$ per cent of disposable income; consequently, the purchasing power of disposable income may fall slightly. There is great uncertainty with regard to the likely evolution of household saving. It has been assumed that households will try to limit the effects on personal consumption of the fall in their real income by reducing their savings ratio; however, with employment continuing to deteriorate and the uncertainties of the economic situation, the reduction will probably be of the order of $\frac{1}{2}$ per cent at most ($1\frac{1}{2}$ per cent as against 15 per cent in 1980). Private consumption might therefore fall by $\frac{1}{2}$ per cent in volume terms compared with 1980.

The following of moderation of the growth of wage costs should lead to a stabilisation in firms' financial positions but despite the renewal and strengthening of fiscal support measures (abolition of VAT on investment, reduction in company tax), productive gross fixed investment might fall by 1 per cent this year because of the uncertain demand outlook, the special difficulties of some sectors, such as steel, and the recent raising of interest rates. Investment in residential construction might show a further decline in 1981: the tax incentives introduced (a 10 per cent reduction in VAT on residential construction started before 31st December) will probably not produce their full effects until 1982, while the low level of housing starts in 1980, and the high level of interest rates, will exercise negative effects during a large part of this year.

The rate of growth of public consumption in volume should continue to slow and, according to the budget estimates, might be no more than about $\frac{1}{2}$ per cent. It is difficult to predict the trend of public investment because of the long lead-times for the programmes; however, given the expenditure commitments from previous years and the budget forecasts for 1981, growth of general government gross fixed capital formation might be 3 per cent in real terms in 1981, which would be very much slower than in the two previous years when it was close to 15 per cent.

In total, gross fixed capital formation could see a volume fall of around $1\frac{1}{2}$ per cent in 1981. In view of the expected fall in households' consumption, final domestic demand may fall by around $\frac{1}{2}$ per cent. The sluggishness of activity might cause some rundown of stocks of raw materials and partly processed goods, which might be only partially offset by an increase in stocks of finished goods, so that all told, the contribution of stocks to growth is likely to be around $-\frac{1}{2}$ per cent. Consequently, the volume of GNP might fall by $\frac{1}{2}$ per cent compared with 1980. Industrial production can be expected to remain on a downward trend during most of the year and might decline, year-on-year, by about 5 per cent. This will affect total employment which might fall by 1 per cent, causing unemployment to rise, possibly to a year-on-year rate in excess of $9\frac{1}{2}$ per cent of the labour force, compared with 7.8 per cent in 1980.

Inflation, which accelerated slightly in late 1980 and early 1981, might ease during the second half of the year on the technical assumptions concerning the real oil price and the exchange rate and in view of the expected slowing of wage costs. Year-on-year, the rise in the private consumption price deflator might be of the same order as in 1980 ($6\frac{1}{2}$ per cent), whereas the GNP deflator might rise slightly less (around 6 per cent). The trade deficit might grow less quickly in 1981 than last year because of a slight improvement in the real foreign balance. The invisibles balance might deteriorate by some B.Frs. 10 to 15 billion mainly as a result of heavier interest payments due to increased foreign borrowing. All told, the current account is likely to deteriorate again, but less than in recent years, and its deficit will probably be in the region of US\$ 6-7 billion, or $5\frac{1}{4}$ per cent of GNP.

IV ECONOMIC POLICY CONCLUSIONS

Three major problems have developed in Belgium in recent years: unemployment, which reached 9 per cent of the labour force by the end of 1980; the public sector deficit which currently represents about 9 ½ per cent of GNP; and, finally, the current balance shortfall which represents 5 per cent of GNP. On the other hand, performance on the inflation front is still good, particularly when compared with the figures recorded after the first oil shock. Given the current prospects for the world economy and in spite of the recovery measures taken by the government, it is unlikely that there will be any appreciable improvement in the situation in 1981. Admittedly, Belgium is not alone in experiencing serious difficulties, but its dependence on foreign trade makes it particularly vulnerable to loss of competitiveness.

Extensive index-linking of incomes to prices is considered, both by the government and by employers and workers, as one of the guarantees of good industrial relations. But it has held back the necessary adjustment of households' incomes to the strong deteriorations of the terms of trade and to the slowdown of productivity. Since the first oil shock, the shift in the pattern of national income distribution towards wages and away from profits has been one of the most pronounced in the OECD area. This situation is all the more prejudicial in that the initial level of wage costs was already high. The deterioration of profits has forced out unprofitable activities and compelled the most dynamic enterprises to streamline rapidly. While this adjustment seems desirable and likely to restore industry's competitiveness in the longer run, its immediate consequences for employment have been particularly serious.

At first the authorities tried to reduce the social costs of unemployment by expanding direct aids and increasing public service jobs. But the emergence of a vicious circle – of the type being experienced by certain other Member countries – was encouraged thereby: there was a rise in taxes and social insurance charges which amount to 45 % of GNP and heavier domestic borrowing by the public sector. As a result, profitability of the productive sector was affected and unemployment rose, thereby putting additional pressure on the public sector. This is why the authorities' priority aim from now on is to establish the basic conditions for readjustment by restoring firms' profitability and gradually bringing public finance back into balance. The recovery programme that has just been approved by Parliament provides for a redistribution of the national income in favour of business and for rebalancing of the social security accounts. The improvement in competitiveness ought to have favourable effects on the balance of payments and ultimately enable activity and investment to expand more rapidly so that unemployment could be reduced and the public sector deficit narrowed. This seems a thoroughly appropriate course: if competitiveness is a major problem, then any policy designed to restore it will be a key factor of recovery. On the other hand, any reaction of a protectionist kind, which would be a bound to have counter-productive effects, particularly in a country where processing activities are very important and the import content of exports is high, would be extremely damaging.

However, the policy's limitations and the short- and medium-term risks involved should not be underestimated. The reduction in wage costs seems small in view of the deterioration in competitiveness to date, particularly since part of the reduction will be offset by higher employers' social security contributions. Furthermore, as a result of the latest collective agreements between the social partners real wage growth in 1981 may be of the same order (about 1 ½ per cent) as in 1980. The question therefore arises as to whether a more ambitious strategy, aimed at rebuilding profits and improving external competitiveness more quickly and more fully, might not be implemented. One course

would be to make a substantial reduction in employers' social security contributions and finance this through higher taxation. This kind of option was examined in the context of the preparatory work for the 1981-1985 Plan. An adjustment of the Belgian franc exchange rate might also be envisaged. However, in such an economy with a very extensive indexation system and a high dependence on foreign trade, the perverse effects of a depreciation could be particularly large in the short term. In the long term, however such a measure could bring about a lasting improvement in competitiveness only if an effective transfer of resources to the business sector took place. Judging that the risks resulting from a depreciation would be too high, the Belgian authorities have followed the line of exchange rate stability and intend to ensure the recovery of the economy by existing policies. The adjustment may however take some time.

A number of the present problems will persist during the next few years: demand prospects will not encourage businessmen to invest, so that efforts to rationalise and adjust supply to the pattern of world demand may be delayed accordingly. The scope for monetary policy action will remain limited in view of the external constraints. Public sector investment could provide a useful stimulus if a reduction in the relative weight of current expenditure allowed the authorities more room for intervention. In this connection, it is still too early to try to gauge what the medium-term impact of the regional reforms currently in progress will be. The level of unemployment will certainly remain high in the coming years. A solution might lie in a reduction of working hours with some loss of pay: indeed, in view of the relatively high average level of wage incomes in Belgium, a change in the apportionment of productivity gains between wages and working time is a possibility. In any case, it will still be necessary to continue with the policy of labour market support through selective measures such as aid for the creation of jobs for young people, early retirement, and so on. If the public sector deficit is to be reduced, while maintaining unemployment benefits in their present form, other transfers will have to be cut.

The adjustment process of Belgian industry is under way. A reorientation of the industrial policy aimed at encouraging the productive system to adapt better to demand should be able to facilitate the process while at the same time continuing to organise the restructuring of sectors like steel at the least possible cost. A major effort will also have to be made to ease the external constraint in the field of energy, where the objectives could be more ambitious than those the government has set itself. The fact remains that a return to sufficiently strong growth depends above all on a larger share of the national income being allocated to investment. In a context of slow growth and keener international competition, this reallocation can only be made by drawing durably on households' purchasing power, and probably more heavily than provided for in the recovery plan. This demand would have to be scaled – and the recovery plan provides for this – according to the level of income and unemployment risk of the different categories of household. But the implementation of such a policy implies the keeping of a social consensus and the awareness that some sacrifice is necessary.

ADDENDUM

(8th of April 1981)

A certain number of economic policy measures were decided in Belgium after the finalisation of the short-term forecasts contained in this survey and have therefore not been incorporated:

- Interest rates were raised twice, with the discount rate being raised from 12 to 13 per cent at the end of March and then to 16 per cent on the 1st April.
- On the 1st April, prices were frozen for a month.

A new government team took office at the beginning of April. The main options which it presented to Parliament (maintenance of the exchange rate, reduction of the budget deficit, implementation of measures aiming to provide employment) are roughly in line with the policy followed by the previous government.

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Reference period	Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia ¹
POPULATION	Mid-1979	Thousands	14 417	7 503	9 849	23 691	5 117	4 764	53 478	61 359	9 450	226	3 370	56 888 ³	115 880	364	14 030	3 124	4 074	9 867	37 108	8 296	6 348	44 089	55 946	220 584	22 160
	»	Number	2	89	323	2	119	16	97	247	72	2	48	189	307	141	415	12	13	107	74	18	154	56	229	24	87
	Mid-1969 to Mid-1979	%	1.6	0.1	0.2	1.2	0.4	0.3	0.6	0.2	0.7	1.1	1.4	0.7	1.3	0.7	0.9	1.2	0.6	0.8	1.1	0.4	0.2	2.5	0.1	0.9	0.9
EMPLOYMENT	1979	Thousands	6 064	3 051	3 754	10 369	2 498	2 124	21 114	25 017	3 312	(101)	1 130	20 287	54 790	158	4 617	(1 261)	1 872	3 852	11 706	4 180	2 962	14 806	24 711	96 945	9 324 ³
	»	% of total	6.5	10.7	3.2	5.7	8.3	11.8	9.0	6.2	30.8	(13.3)	19.7	14.8	11.2	5.9	6.0	(10.2)	8.6	30.6	19.4	5.8	7.4	61.3	2.6	3.6	35.8
	»	»	31.3	40.5	35.5	28.9	30.0	34.4	36.3	44.9	30.0	(37.7)	32.3	37.7	34.9	39.0	32.1	(33.7)	30.1	35.0	36.4	32.5	39.3	16.2	39.0	31.4	22.5
	»	»	62.2	48.8	61.3	65.4	61.7	53.8	54.7	48.9	39.2	(49.0)	48.0	47.5	53.9	55.1	61.9	(56.1)	61.3	34.4	44.2	61.7	53.3	22.5	58.4	65.0	41.7
GROSS DOMESTIC PRODUCT at market prices	1979	US \$ billion ¹¹	120.7	68.4	108.3	227.0	66.2	41.4	571.3	763.9	38.4	2.5	14.8	323.6	1 010.6	4.2	149.0	21.2	46.3	20.4	197.0	106.4	95.0	68.9	400.9	2 349.9	61.2 ⁵
	»	%	2.6	2.9	1.9	3.2	2.7	2.1	3.0	2.8	5.2	3.3	3.6	2.3	5.0	0.3	2.2	0.6	4.5	3.0	2.2	1.4	-0.8	5.0	1.8	3.3	5.8
	»	US \$ ¹¹	8 370	9 120	11 000	9 580	12 940	8 690	10 680	12 450	4 060	10 980	4 390	5 690	8 720	11 640	10 620	6 790	11 360	2 070	5 310	12 820	14 970	1 560	7 170	10 650	2 760
GROSS FIXED CAPITAL FORMATION	1978	% of GDP	22.7 ¹⁰	26.3	21.2	22.2	22.3	23.3	21.5	21.5	23.8 ⁹	25.5	26.7	18.8	30.2	25.8	21.2	20.5 ⁹	31.1	20.7	18.4	19.3	21.1	20.5	18.1	18.1	35.6
	»	»	10.0	9.7	6.5	7.6	7.4	7.8	9.1	8.9	8.1	6.8	(12.4)	7.8	10.9	9.2 ²³	8.2	..	11.0	7.0	..	7.2	7.0	..	9.2	7.3	..
	»	»	4.0	16.5	7.3	5.7	7.5	7.0	6.9	6.0	8.4	5.8	..	5.0	7.3	6.6 ²²	5.9	..	5.1	3.6	..	5.0	..	3.8	3.2	5.0	..
	»	%	0.4	1.7	2.1	2.2	-1.8	-3.1	0.4	0.0	-2.1	0.4	2.0	-1.7	1.2	-1.8	0.4	..	2.7	-2.9	-0.8	-1.5	-4.7	5.7	-0.7	0.5	9.8
NATIONAL SAVINGS RATIO ¹²	1978	% of GNP	23.1 ¹⁰	26.7	20.3	20.6	19.0	23.9	23.7	25.1	21.1	26.6	17.7	22.2	32.6	36.2	22.5	24.3	25.1	11.5	20.8	17.4	26.8	19.8	21.1	18.5	17.3
GENERAL GOVERNMENT	1978	% of GDP	16.8 ¹⁰	17.8	17.9	20.5	23.7	19.0	15.1	20.0	16.0	11.6	18.3	16.4	9.6	15.5	18.3	16.3	18.5	14.7	10.5	28.9	12.9	12.7	20.3	18.2	25.1
	»	»	10.6 ¹⁰	19.1	22.5	12.6	16.3	16.1	25.6	19.6	12.3	..	..	17.0	11.1	29.3 ²³	31.7	..	25.9	9.1	12.7 ²³	29.2	15.4	10.5	15.5	11.2	..
	»	»	31.9 ¹⁰	44.5	42.7	35.8	49.0	40.2	42.3	43.3	30.2	..	..	37.0	24.3	37.9	54.4	..	52.1	27.1	26.6 ²³	60.3	34.0	25.9	38.8	32.6	44.0
NET OFFICIAL DEVELOPMENT ASSISTANCE	1979	% of GNP	0.5	0.2	0.6	0.5	0.8	0.2	0.6	0.4	..	..	..	0.1	0.3	..	0.9	0.3	0.9	..	..	0.9	0.2	..	0.5	0.2	..
INDICATORS OF LIVING STANDARDS	1979	US \$ ¹¹	5 050	5 090	6 920	5 360	7 280	4 810	6 620	6 810	2 610	6 700	2 760	3 480	5 100	6 510	6 330	4 060	5 560	1 500	3 650	6 770	9 560	1 120	4 320	6 860	..
	»	Number	392	248	292	389 ¹⁴	271	227	314	326	66	315	180	289	173	398	277	385	273	1 071 ¹⁴	161	350 ¹⁴	307	11 ¹⁴	255 ¹⁴	505 ¹⁴	88
	»	»	404	325	315	618	493	429	329	374	250	429	161	285	424	523	418	533	386	120	261	717	657	28 ¹⁴	415	744	71
	»	»	351 ¹⁴	247 ¹⁶	286	428 ¹⁴	338	363 ¹⁴	274 ¹⁴	308	127 ¹⁴	214 ¹⁴	193	224	239 ²⁰	293 ¹⁴	279	259 ¹⁴	270 ¹⁴	76 ¹⁴	185 ¹⁴	363 ¹⁴	285 ¹⁴	44 ¹⁴	324	571 ²⁰	161 ¹⁴
	»	»	1.4 ¹³	2.3	2.0	1.7	1.9	1.5	2.0	2.1	1.1	1.7 ¹⁶	1.2	2.2	1.2	1.1	1.7	1.3 ¹⁴	1.8	1.2	1.8	1.7 ²⁰	1.9	0.6	1.3	1.6	1.4
	»	% of age group	45.0	32.0	61.3 ²⁰	64.9	57.4	60.8 ²⁰	54.6	41.5	45.4 ²⁰	..	50.0 ¹⁴	43.9 ¹⁴	70.9	33.5 ²⁰	62.7	44.8	63.6	33.4 ¹⁴	35.5 ¹⁴	56.3 ¹⁴	70.1	12.7 ²⁰	44.6 ²⁰	73.7	..
	»	Number	14.3	16.9	14.0	14.3	8.9	12.0	11.4	15.5	20.3	10.1	15.7	17.6	8.9	10.6	9.5	13.9	10.5	38.9 ¹⁴	15.6	8.0	10.7 ¹⁴	..	14.0	14.0	36.7 ¹⁴
WAGES AND PRICES	Average annual increase	%	11.9	8.5	10.9	11.2	12.7	12.9	14.0	6.5	23.6	36.7	17.7	22.0	9.1	..	7.8	14.8	11.4	20.1	26.5 ²¹	11.1	3.2	27.5 ²³	16.6	8.6	19.6
	»	%	11.5	5.7	7.5	8.9	9.8	11.9	10.1	4.2	14.1	40.0	14.5	15.8	7.3	6.9	6.7	14.3	8.5	20.0	18.9	9.7	2.9	36.6	15.5	8.1	16.7
FOREIGN TRADE	1979	US \$ million ¹¹	18 636	15 432	55 428 ⁷	55 932	14 616	11 148	97 980	171 516	3 852	792	7 164	72 120	103 032	—	63 624	4 709	13 452	3 480	18 192	27 528	26 472	2 472	90 816	181 800	6 240
	»	%	15.4	22.6	51.2	24.6	22.1	26.9	17.2	22.5	10.0	31.7	48.4	22.3	10.2	—	42.7	22.2	29.1	17.1	9.2	25.9	27.9	3.6	22.7	7.7	10.2
	»	%	4.7	6.5	3.5	4.9	4.1	4.5	5.1	3.0	8.4	10.6	9.7	8.1	5.9	—	3.6	5.1	8.5	6.8	10.3 ²¹	0.0	4.2	-2.7	4.4	4.1	3.8
	»	%	13.7	29.5	55.7	23.6	27.9	27.3	18.7	20.7	25.1	33.1	66.6	24.0	11.0	—	45.1	21.5	29.7	32.1	12.9	26.8	30.8	8.3	25.6	8.8	20.2
	»	%	1.7	6.6	3.2	3.2	3.6	-0.2	5.8	7.0	4.9	0.7	8.4	4.7	3.1	—	4.4	-3.2	2.3	0.8	0.5 ²¹	0.2	4.4	-2.8	3.6	5.8	2.1
TOTAL OFFICIAL RESERVES ²⁴	End-1979	US \$ million	1 790	5 048	6 991 ⁷	3 887	3 312	1 586	21 357	56 940	1 126	165	2 230	21 239	20 327	—	9 619	453	4 269	1 962	13 898	3 583	20 275	941	20 694	19 956	1 336
	»	%	10.8	25.0	11.6	7.3	17.9	14.0	20.0	36.1	11.7	19.9	22.6	27.3	18.4	—	14.3	9.9	31.1	30.0	54.8	12.6	69.2	16.5	20.1	9.6	10.8

1 Partly from national sources.
2 Total resident population.
3 Private and socialised sector.
4 According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
5 Social product.
6 At constant prices.
7 Including Luxembourg.

8 Excluding ships operating overseas.
9 Fiscal year beginning April 1st.
10 Year ended 30th June.
11 At current prices and exchange rates.
12 $\left[\frac{\text{GNP} - (\text{Priv. cons.} + \text{Pub. cons.})}{\text{GNP}} \right] \times 100$.
13 1972.
14 1976.

15 Children aged 15-19.
16 1974.
17 Deaths in first year per 1 000 live births.
18 Figures are not strictly comparable due to differences in coverage.
19 1973.
20 1975.
21 1973 to 1978.
22 1977.
23 1972 to 1977.

24 Gold included in reserves is valued at 35 SDR per ounce (see IMF, International Financial Statistics, series Total Reserves).

NOTE: Figures within brackets are estimates by the OECD Secretariat.

Sources: Common to all subjects and countries: OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Observer, Statistics of Foreign Trade (Series A); Statistical Office of the European Communities, Basic Statistics of the Community; IMF, International Financial Statistics; UN, Statistical Yearbook.

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