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SM/83/255
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

January 16, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Belgium - Staff Report for the 1983 Article IV Consultation

The following corrections have been made in SM/83/255 (12/21/83):

Pages 18 and 19, Appendix II, Basic Data: Footnotes added

Corrected pages are attached.

Att: (2)

Other Distribution:
Department Heads

Fund Relations with Belgium

(As of October 31, 1983)

Date of membership:	December 27, 1945
Quota:	SDR 1,335.0 million. Belgium has consented to the proposed new quota of SDR 2,080.4 million.
Fund holdings of currency:	SDR 1,034.9 million (77.51 percent of quota)
Gold distribution:	556,289.958 fine ounces
SDR position:	Holdings amount to SDR 610.0 million, or 125.7 percent of net cumulative allocation.
Lending to the Fund:	Supplementary financing facility: Credit line: SDR 150 million Actual borrowing: SDR 12.33 million
Exchange system:	Belgium forms a monetary union with Luxembourg in which the Belgian and the Luxembourg franc are at par. The two countries have a dual exchange market. In the financial market, through which most capital and some current transactions are channeled, the franc is allowed to float freely. In the official market, a maximum margin of 2.25 percent is maintained between the Belgian and Luxembourg francs and the currencies of other countries participating in the European Monetary System (EMS).
Last Article IV consultation:	The staff report for the 1982 Article IV consultation with Belgium and Luxembourg (consultations for the two countries were combined at the time--SM/82/177, 8/25/82) was considered by the Executive Board (EBM/82/133, 10/8/82). No decision was taken at the time with regard to the dual exchange market arrangements.

Basic Data

Population (mid-1982): 9.85 million
GNP per capita (1982): US$8,670

National accounts (in BF and as a percentage of GNP)

	1975		1982	
	BF	Percent	BF	Percent
Private consumption	1,421.1	61.1	2,599.6	66.6
Public consumption	388.4	16.7	740.1	19.0
Gross fixed capital formation	512.1	22.0	666.9	17.1
Exports of goods and services	1,156.5	49.7	3,132.7	80.3
Imports of goods and services	1,139.7	49.0	3,226.6	82.7
GNP	2,325.8	100.0	3,902.9	100.0

	1980	1981	1982	1983 1/
Demand and supply (volumes)	(Changes in percent)			
Private consumption	2.1	1.4	1.1	-3.0
Public consumption	1.6	0.9	-1.6	-1.5
Gross fixed investment	5.0	-14.5	-2.6	-1.7
Final domestic demand	2.6	-3.7	-0.1	-2.5
Stockbuilding 2/	-0.9	-0.4	--	0.3
Total domestic demand	1.7	-4.1	-0.1	-1.2
Exports of goods and services	7.6	8.7	2.6	3.5
Imports of goods and services	5.9	4.1	1.6	-0.5
Foreign balance 2/	0.9	3.0	0.8	2.9
GNP	2.6	-1.2	0.7	0.7
Industrial production 3/	-0.9	-2.5	-0.5	1.5
Manufacturing output	-1.2	-2.5	-0.5	2.4
Employment and unemployment	(In thousands; mid-year)			
Labor force	4,172	4,189	4,220	...
Employment	3,837	3,757	3,708	...
Unemployment	336	432	512	...
(In percent of civilian labor force) 4/	9.1	11.2	13.1	14.5
Prices and incomes	(Changes in percent)			
GNP deflator	4.3	5.3	7.0	7.5
Consumer price index	6.7	7.6	8.7	7.8
Terms of trade 5/	-3.4	-3.2	0.1	...
Hourly compensation (manufacturing)	9.6	8.1	5.3	5.6
Unit labor costs (manufacturing)	6.1	2.6	0.5	2.4
Real disposable income (households)	2.4	0.6	-1.8	-2.1
Personal savings ratio (level)	15.4	16.2	14.8	15.0

	1980	1981	1982
Public finances	(In percent of GDP)		
General government 6/			
Expenditure	57.5	62.4	63.5
Revenue	45.7	46.3	47.9
Financial balance	-11.8	-16.1	-15.6
(In percent of gross private savings)	56.9	74.9	75.1
Central government financial balance 7/	-8.5	-12.5	-12.9
Balance of payments 8/	(In billions of Belgian francs)		
Trade balance 9/	-109	-109	-93
Services balance	3	2	27
Net private transfers	-11	-15	-11
Net official transfers	-27	-33	-45
Current account balance	-144	155	-122
(In percent of GDP)	(-3.9)	(-4.0)	(-3.0)
Net private capital flows	1	-201	-162
Net public capital flows	154	258	256
Change in net reserves of National Bank	27	-96	-38

1/ Staff projections and/or estimates.
2/ Contributions to growth.
3/ Excluding construction.
4/ Annual averages.
5/ Ratio of deflator of exports of goods and services to deflator of imports of goods and services; national accounts definition.
6/ National accounts definition.
7/ Administrative basis.
8/ Belgium/Luxembourg Economic Union (BLEU).
9/ Including third country trade.

Belgium: Illustrative Medium-Term Debt Projections

(Public and publicly guaranteed debt in foreign currencies)

	1983	1984	1985	1986	1987	1988	1989	1990
Current account (in percent of GDP)	-1.5	-1.0	--	1.0	1.0	1.0	1.0	1.0
External debt, gross 1/ (in percent of GDP)	26.0	26.9	26.7	25.6	24.6	23.7	22.8	22.0
Debt service ratio 2/	4.3	4.2	5.1	5.8	10.3	9.1	6.1	5.6

Source: Staff estimates and calculations.

1/ Public and publicly-guaranteed external debt.
2/ Interest payments on total debt plus amortization of medium- and long-term debt, as a percent of exports of goods and nonfactors services.

Note: These illustrative medium-term debt projections are based on the following main assumptions. Nominal GDP is assumed to rise by 7.5 percent in 1984 and by 8.5 percent a year thereafter. Export growth for goods and nonfactor services is projected at 5.4 percent in 1984 and at 8.5 percent a year thereafter, reflecting an assumption of constant market shares in 1985-90. The projections also use the standard assumption of unchanged exchange rates during the projection period, while implicit interest rates are assumed to decline by two points to 10 percent from 1984.

The projections embody the Government's policy to use interest rate management to contain net private capital outflows, which are assumed to be equivalent to 1.5 percent of GDP a year through the projection period. The authorities intend to discontinue net external borrowing by the Treasury after 1984. It is assumed however that non-governmental entities will continue borrowing with a public guarantee at a rate equivalent to 0.5 percent of GDP. These assumption require a current account surplus equivalent to 1 percent of GDP.

It is further assumed that the public sector borrowing requirement will decline by 2 percent of GDP a year beginning in 1985 in order to make room for the targeted improvement in the current account, as well as for a gradual pickup in investment by enterprises. This adjustment however would not be sufficient to allow a current account surplus in 1985, and net borrowing by the Treasury would only be discontinued from 1986. The calculations are sensitive to assumptions on investment behavior and the financial balance of enterprises. However, alternative developments in this respect can to some extent be offset by compensatory adjustments in fiscal policy.