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SM/92/206
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

December 23, 1992

To: Members of the Executive Board
From: The Acting Secretary
Subject: Belgium - Staff Report for the 1992 Article IV Consultation

The following corrections have been made in SM/92/206 (11/24/92):

Page 10, para. 1, lines 10 and 11: for "This arrangement,
originally...costs, was
increasingly"

read "This arrangement was
increasingly"

para. 2, lines 1 and 2: for "foreign bonds and domestic
debt...costs, making"

read "foreign and domestic assets...costs
and rates on bank liabilities,
making"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

Table 3. Belgium: Fiscal Convergence Scenarios

(in percent of GNP; national accounts basis)

	1992	1993	1994	1995	1996
<hr/> Convergence Plan 1/ <hr/>					
Net financing requirement 2/	-5.7	-5.2	-4.5	-3.8	-3.0
Interest Expenditure	10.8	10.7	10.5	10.3	10.0
Primary balance	5.1	5.5	6.0	6.5	7.0
Primary Expenditure 2/	40.9	40.5	40.0	39.5	39.0
Revenue	46.0	46.0	46.0	46.0	46.0
Net Debt	124.1	123.5	122.1	120.0	117.2
<hr/> Baseline Scenario (with Stable Interest Rates) 3/ <hr/>					
Net financing requirement 2/	-5.9	-5.5	-5.3	-4.4	-3.6
Interest Expenditure	10.6	10.5	10.4	10.0	9.7
Primary balance	4.7	5.0	5.2	5.7	6.1
Primary Expenditure 2/	41.2	41.0	40.7	40.2	39.7
Revenue	45.8	46.0	45.9	45.9	45.9
Net Debt	124.9	126.2	125.9	124.3	122.0
<hr/> Baseline Scenario with Further Interest Rate Reductions 4/ <hr/>					
Net financing requirement 2/	-5.9	-5.3	-5.0	-4.0	-3.0
Interest Expenditure	10.6	10.3	10.2	9.6	9.2
Primary balance	4.7	5.0	5.2	5.6	6.1
Primary Expenditure 2/	41.2	41.0	40.7	40.2	39.7
Revenue	45.8	46.0	45.9	45.9	45.9
Net Debt	124.9	126.0	125.5	123.5	120.6

Sources: Data provided by the authorities and staff projections.

1/ Based on June 1992 assumptions.

2/ Excluding net lending.

3/ Based on revised projections for growth and inflation; interest rates are assumed to stabilize at end-October 1992 levels; incorporates supplementary measures agreed in October 1992; and includes expected expenditure overshooting in 1992.

4/ Average interest rates are lower than in the baseline scenario by 0.2 percentage points in 1993 and 1994, 0.3 percentage points in 1995, and 0.4 percentage points in 1996.

While Belgium has undergone extensive reforms and liberalization of the domestic financial system, a few restrictions on interest rates and constraints on competition among financial institutions remain. The authorities characterized these as anomalies that had survived from the earlier, controlled financial system. In particular, financial institutions offering one to five year time deposits have been sheltered from competition from the Treasury (which has not issued bonds in that maturity range) in return for a gentlemen's agreement whereby interest rates on these deposits would be kept at least 50 basis points below the rate on Treasury bonds issued to the public. This arrangement was increasingly difficult to maintain since some foreign banks were disregarding the gentlemen's agreement and offering higher rates. Another restriction was the ceiling on interest rates paid on savings deposits which are free of withholding tax.

The mission argued that arbitrage between foreign and domestic assets was likely to determine both the government's borrowing costs and rates on bank liabilities, making the interest rate ceilings unnecessary. The authorities agreed that such arbitrage was more and more important. Nevertheless, they thought that there was some evidence of market inefficiency; for instance, though the pricing of newly introduced subordinated savings deposits did not fully take into account their riskiness, the public seemed willing to acquire these deposits.

3. Structural policies

a. Labor market policies

As discussed above, the labor market has features that suggest a lack of flexibility and policy-induced distortions. The views of the authorities, however, reflected a new appreciation of the seriousness of the problem and a widespread desire to modify labor market policies in order to strengthen incentives for obtaining employment and to limit budgetary costs, in part due to numerous criticisms from international organizations that unemployment assistance in Belgium was not focused on training, that the duration of benefits was unlimited and that the system was used for long-term income support. As a result, major new initiatives were undertaken in 1992, in particular the plan d'accompagnement and stricter enforcement of regulations requiring those who draw unemployment benefits to be seeking work.

The plan d'accompagnement, which was approved by the national government and the regions and communities in September 1992, is a program for monitoring and training unemployed persons below age 46 who enter their 10th month of unemployment. This program will provide individual action plans, including counseling and training, as appropriate, with the objective of finding employment for those participating. It will also provide for monitoring to ensure that the unemployed person is fully cooperating and intent on obtaining employment. The assistance of the regions and communities (as well as local authorities) is necessary since unemployment