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December 7, 1994

To: Members of the Executive Board

From: The Secretary

Subject: Belgium - Selected Background Issues

This paper provides background information to the staff report on the 1994 Article IV consultation discussions with Belgium, which was circulated as SM/94/286 on November 29, 1994.

Mr. Baras (ext. 36355), Mr. Huybrechts (ext. 34544), or Mr. Lakwijk (ext. 38819) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

BELGIUM

Selected Background Issues

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Approved by the European I Department

December 2, 1994

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I. Competitiveness Issues 1/

The question of competitiveness has received considerable attention in Belgium in recent years. Twice a year, an official report is issued that examines the competitive position of Belgium on the basis of the evolution, relative to partner countries, of a number of indicators. Recent reports have found that Belgium has begun to lag behind in terms of export market shares and has experienced relatively high wage growth. In response, the government has taken measures aimed at improving competitiveness.

This section explores several aspects of the question. It explains in what sense competitiveness is important for a country, and it summarizes the approach followed in Belgium to measure developments in this respect. The section discusses alternative indicators, including the current account of the balance of payments, and concludes that competitiveness is not currently a problem in Belgium. However, the possibility is raised of abolishing indexation aa well as the competitiveness law, which no other industrial countries have, in order to allow market forces increased freedom to set wages at competitive levels and thereby help avoid excessive wage growth. Finally, the section devotes separate attention to the rise in the current account surplus, linking it to the saving-investment balance.

1. Concept of competitiveness

The ultimate concern when questions about competitiveness arise is whether Belgium will be able to maintain a standard of living similar to that in nearby countries. One of the first areas in which deterioration of the ability to compete would become visible is international trade. For example, if the cost of production in Belgium were to begin exceeding that in competitor countries, goods produced in Belgium would begin to generate lower profits than similar goods produced in other places. At first, such a development might not affect the current account of the balance of payments, but over time the volume of exports would tend to decline and of imports increase, while production facilities would move abroad. In the end, the production base would have narrowed and employment declined, so that the standard of living would have suffered, unless there were countervailing forces.

Competitiveness may thus be thought of (narrowly) as the ability of a country to sell its goods and services on international markets. To maintain competitiveness the country's products would need to be similarly priced to those of competitors in order to sell. It is thus necessary for a country to identify ways in which its prices can follow international trends profitably and viable export and import-competing industries can be maintained. Belgium has chosen--for good reasons--to forego the possibility of changing the exchange rate, which implies that prices in Belgian franc of internationally traded products are essentially a given. To allow Belgian

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1/ Prepared by Frank Lakwijk.

industry to produce profitably at these prices, whatever they are, flexibility in managing the cost of production is a requirement. If cost increases were higher than justified by international price developments, it would become difficult for Belgian enterprises to compete internationally.

In principle, there exist feedback mechanisms that lead economic agents to react to a high-cost situation by making adjustments that return costs to a satisfactory level. Idled capacity, be it in the form of land, labor, or physical capital, would put downward pressure on prices of inputs that were in excess supply so that cost developments would moderate, and Belgium would again become able to use its productive capacity (in particular all those willing and able to work) to a fuller extent. However, in the presence of rigidities the market mechanism may not work properly and downward adjustment of relatively high wages may be slow or nonexistent, thereby contributing to high unemployment, at least during a transition period.

To mitigate the effect on total costs of relatively high wage growth, firms would tend to substitute capital for labor. However, this process could never completely eliminate the cost disadvantage of producing in Belgium, and would still lead to a deterioration in the external position, only more gradually than without changes in the input mix. The effect on output per capita would also have been mitigated, but not negated.

2. Competitiveness Law

In Belgium, downward flexibility of real wages is limited by indexation, which imposes a floor on wage growth as negotiated declines in real wages are rare. Wages (and other incomes such as social benefits and rents) are indexed and, as a result, price changes are fully incorporated into wages within a year. For several years in the mid 1980s, indexation and collective bargaining were restricted in various ways by the government, but full indexation and collective wage bargaining were resumed in 1987. At the same time, the Law on Safeguarding Competitiveness was designed (and passed in early 1989) to counterbalance any resulting high wage growth. The law allows the government to take certain types of measures if the Central Economic Council (CEC) has found that competitiveness is threatened. The CEC, which is composed of representatives of the social partners (labor unions and employers) and the government as well as independents, is required to evaluate indicators of competitiveness and issue a report before the end of March (and an interim report before the end of September) each year.

Under the law, social partners are given one month to undertake or propose corrective measures if, in the CEC's judgement on the basis of the indicators, competitiveness appears to be threatened. After this time, the law essentially allows the government to intervene directly, taking into account any measures that might have been taken by the social partners, the recent evolution of the trade balance and of exports, and the criteria examined by the CEC. The measures that can be taken by the government under the law include modifying indexation for wages and other sources of income, limiting real wage increases in the economy, and lowering social charges and taxes for enterprises.

The law lists five specific indicators to be used for the evaluation, but the Council is not restricted by this and always computes other indicators as well. 1/ Competitiveness is deemed by the law to be threatened whenever: (1) the export market share of the BLEU declines vis-à-vis its five major European partners, relative to 1987, and (2) at least one of the following four indicators of competitiveness deteriorates vis-à-vis Belgium's seven 2/ major trading partners, relative to 1987: wages (per worker rather than per unit of output) in the private sector in a common currency, interest rates, energy prices, and expenditure on fixed investment and on research and development relative to GDP. The CEC takes data from the OECD or EU which, where appropriate, are converted to common currency using exchange rates of the first working day of the month in which the report is issued.

The indicators examined by the CEC may be seen as having two purposes. First, changes in export market share are intended to measure the effect of (past) changes in competitiveness. Competitiveness could not be found to have deteriorated if this indicator were performing well. Second, the other variables are intended as leading indicators, and poor performance of these indicators would eventually lead to a deterioration in the external position if the situation were left uncorrected.

In its (interim) report of September 1993, the CEC found that competitiveness had deteriorated in recent years. The decline in market share for the BLEU was greater than for the five or seven main competitor countries, as it had been in previous years, but for the first time wages were observed to have risen more since 1987 in Belgium than in the other countries. In addition, the cost of borrowing had fallen less, and a deterioration in profitability relative to competitor countries was observed. These findings were confirmed in March and September 1994. The reports noted that for some of the indicators the use of alternative data could make a difference. For example, using data on wage developments for Germany as a whole instead of only western Germany for the comparison suggested a more equal rise of wages in Belgium and competitor countries. Specifically, in its latest report (September 1994) the CEC estimated that between 1987 and 1994 wages in the private sector had risen by 6.5 percent more in Belgium than in its seven main partner countries (but by 8.7 percent more if western Germany was substituted for all of Germany).

In the fall of 1993, the government undertook action in response to the findings of the CEC. It included in its "global plan" a change in the price index used for indexation of incomes, an economy-wide real wage freeze for

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1/ For example, profitability, and variations on indicators specified in the law.

2/ Five for the last two indicators.

1995-96, and a reduction in labor costs for companies in the open sector of the economy, based on an assessment that the ability to compete internationally had deteriorated significantly. The change in indexation involved the introduction of the "health index," 1/ which lowered the base for indexation and thereby reduced the pass-through to wages--at least through indexation--of price increases in 1994.

3. Competitiveness evaluated

The list of indicators prescribed by the Competitiveness Law is by no means exhaustive, and in this section the evolution of others is explored. Data are taken from the IMF's World Economic Outlook (WEO) database. In addition, developments in some of the law's indicators are re-examined in the light of these data.

Three alternative indicators are introduced here. 2/ During the last several decades, per capita GNP has evolved similarly in Belgium and its three main neighbor countries (Chart 1). Belgium has thus been competitive in the sense that it has produced roughly the same output per head of the population as economies with which it has close ties; indeed, its position has improved somewhat relative to Germany and the Netherlands. A measure of the degree of import penetration, as a counterpart to export market share, indicates that since 1987 imports have grown faster relative to domestic demand in Belgium's neighbor countries than in Belgium (Chart 2). The relatively low rise in import penetration in recent years suggests that Belgian products have had no difficulty competing in the home market. A third alternative indicator is the current account of the balance of payments. The current account balance combines all external developments into one figure and may be seen as an aggregate indicator of the ability of the Belgian economy to compete internationally. 3/ The current account of the BLEU, and the estimated current account of Belgium on a national accounts basis, 4/ have shown a surplus of some 2 percent of GDP since the

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1/ This index does not include tobacco, alcohol, and gasoline, and is to be used from 1994 onwards in the calculation of wages and other incomes.

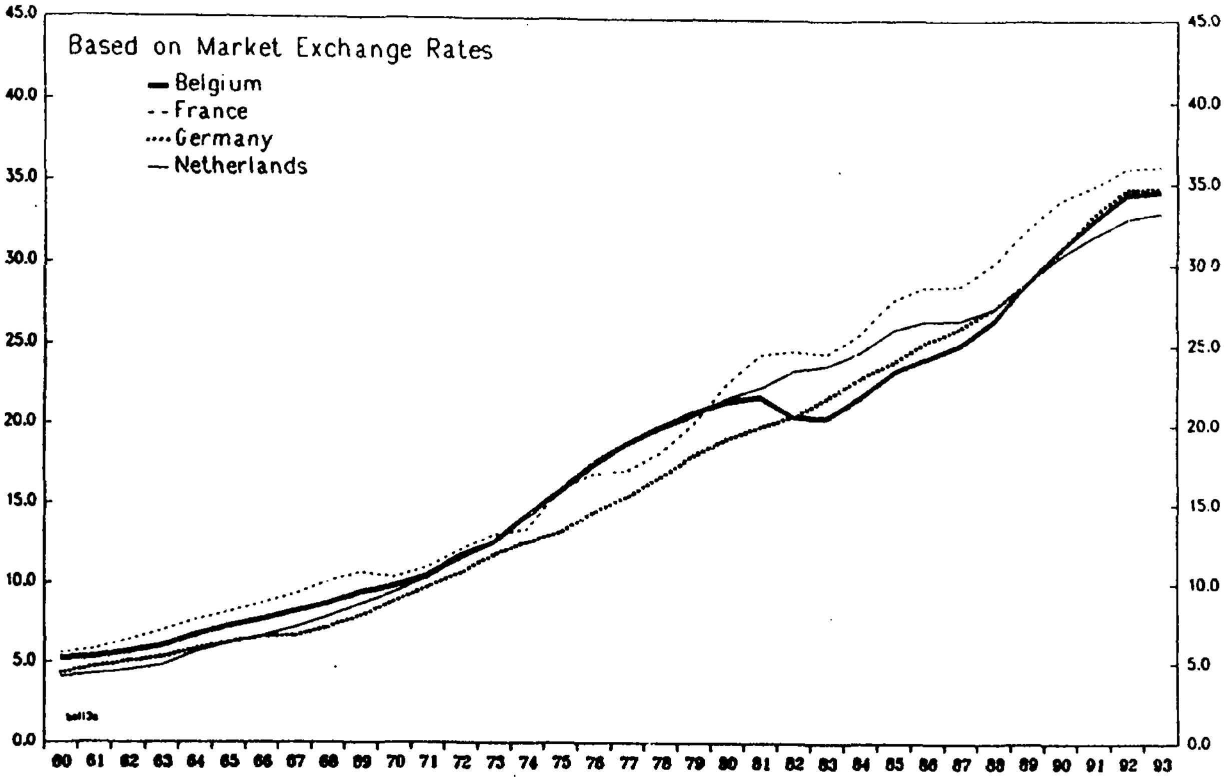
2/ A fourth possible indicator could be changes in the fiscal burden, but only to the probably very small extent that its incidence does not fall solely on labor but also on capital income.

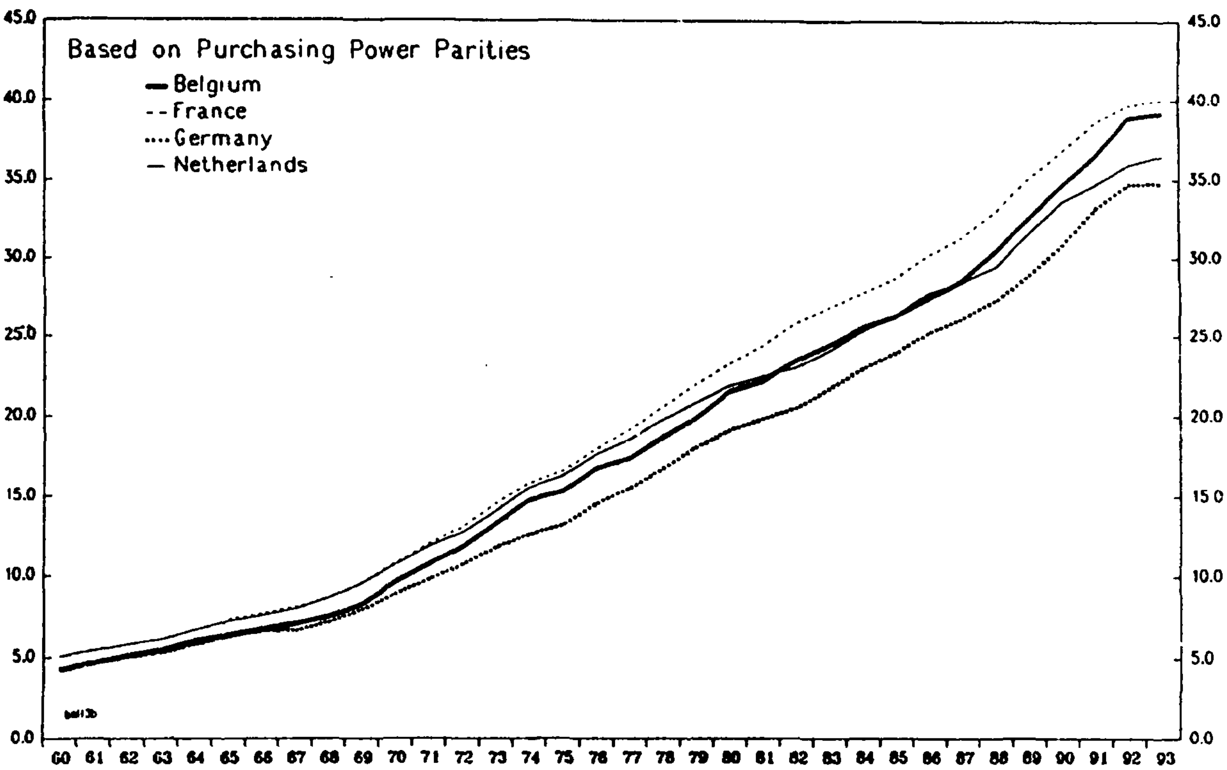
3/ However, it also has to be interpreted carefully, as is detailed below.

4/ Note that developments in the BLEU and Belgian current account surplus have been similar, as the estimated current account surplus of Luxembourg as a percent of Belgian GDP (i.e., the difference between the BLEU and Belgian surplus) has been relatively small and stable. Belgium's current account is estimated by adding net foreign investment derived from the national accounts for Belgium to Belgian net transfers abroad. The latter are in turn estimated as the difference between BLEU and Luxembourg net transfers abroad (using Luxembourg official data).

CHART 1
BELGIUM

GNP Per Capita
(In Thousands of DM)





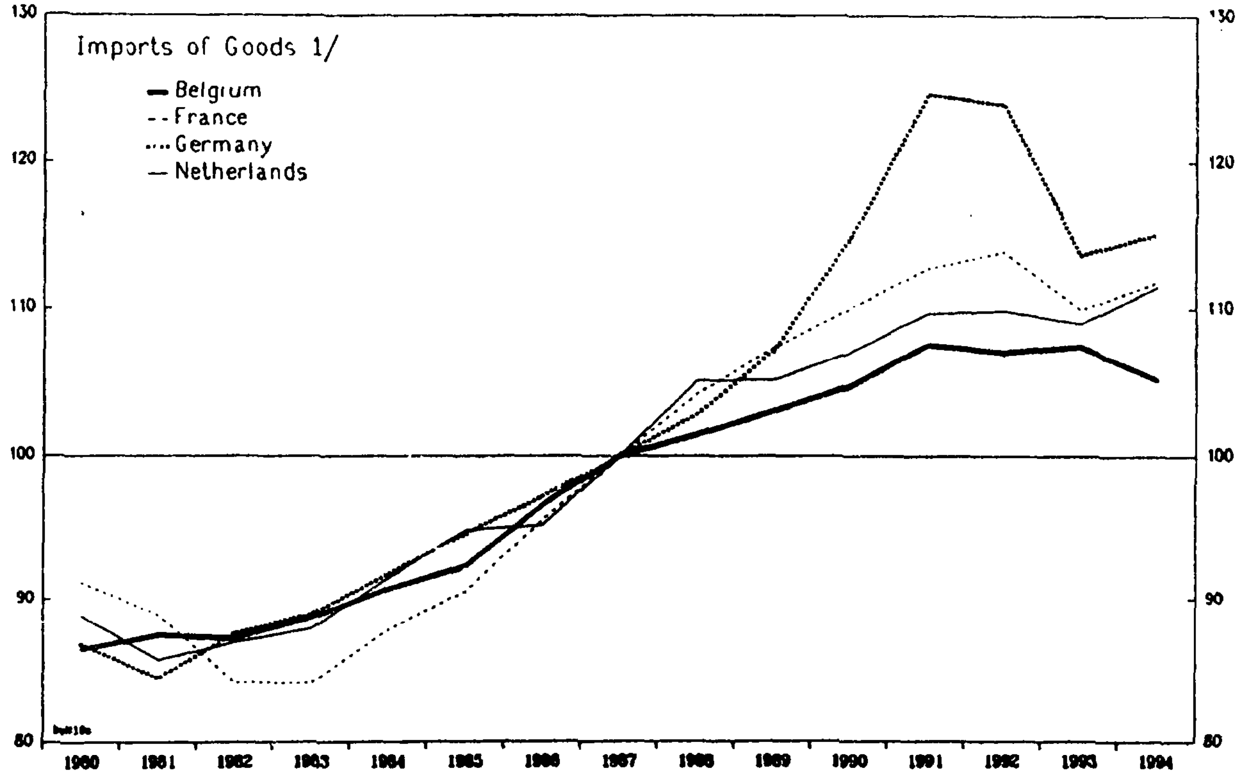
Sources: IMF, International Financial Statistics and World Economic Outlook.

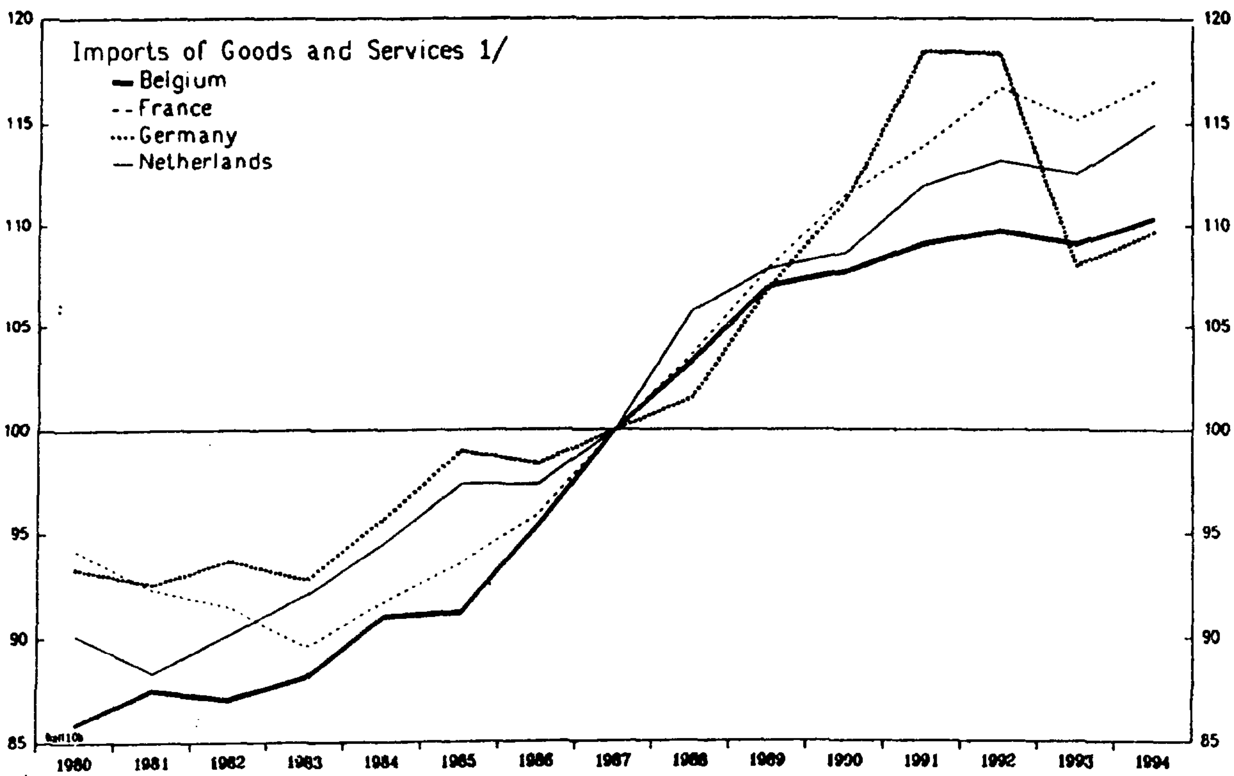
CHART 2

BELGIUM

Import Penetration

(1987=100)





Source: IMF, World Economic Outlook.

1/ Share of imports in domestic demand, in volume terms.

mid 1980s (Chart 3). The current account surplus more than doubles in 1993-94, while the trade surplus also widens further.

These alternative indicators suggest that so far Belgium has not fallen behind neighboring countries when considering its standard of living in general and its performance in the home market for traded goods in particular. Moreover, returning to the CEC's indicators, WEO data on the export market share for manufactured goods indicate that the BLEU has performed very similarly to Germany and France since 1987, with only a slightly greater drop in market share (Chart 4). This suggests, contrary to the CEC's conclusion, that there does not appear to be a significant problem of competitiveness in terms of export market shares. Furthermore, the choice of base year makes a difference, as developments since 1980 show France or Germany to have lost more export market share than the BLEU.

The CEC gives marginal attention to unit labor cost developments in its reports as this is not an indicator specified by the law. However, unit labor cost developments relative to other countries are a more comprehensive indicator of current changes in competitiveness than wage developments, because increases in labor productivity may compensate for high wage increases. The Fund's real effective exchange rate computed on the basis of (normalized) unit labor costs in manufacturing suggests that the fluctuations over time in Belgium's unit labor costs relative to partner countries lie within a relatively narrow band. The advantage of restricting this indicator to manufacturing is that it represents the open sector more closely. The real effective exchange rate was unchanged on average in the early 1990s compared to 1986-87 (Chart 5). However, an appreciation did occur in 1994.

The most recent CEC report found that between 1987 and 1994 unit labor costs in the private sector had risen 7.1 percent more in Belgium than in its seven main partner countries (7.7 percent if western Germany was substituted for all of Germany). On the other hand, IMF data relating to developments in the manufacturing sector and comparing Belgium to 16 partner countries, indicate that between 1987 and 1994 (so far) normalized unit labor costs rose by only 1.8 percent more in Belgium than in partner countries. Developments in relative unit labor costs in Belgium are less unfavorable than in wages, at least in manufacturing, suggesting that manufacturing firms are raising labor productivity more in Belgium than in partner countries by reducing the labor intensity of production in response to stronger wage growth. As noted above, there is still likely to be some loss of profitability for enterprises because of a rise in total costs, but less than if the mix of capital and labor were left unchanged (note that the CEC has also observed a slight deterioration in relative profitability for recent years). As a result, the slide in the ability of enterprises to produce cost-competitive products is to some extent stemmed.

To summarize, the charts suggest that there may be little problem of competitiveness. The decline in the BLEU's export market share is similar to that of the two main neighboring countries, import penetration has risen less, and the (rising) current account surplus is also a positive sign. Even though unit labor costs have risen recently, the deterioration has been relatively small. However, if the recent trends in wage growth and relative unit labor costs were to continue over the medium- and long-term, the gradual erosion in business profitability would be worrisome for the competitive position of Belgium. 1/

Given that there does not appear to be an immediate problem of competitiveness, what effect will the real wage freeze decided by the government for 1995-96 have? This will first of all depend on actual wage developments. If the underlying forces that normally determine wage developments are little changed, the decree may be partly circumvented (through bonuses, promotions, etc.), and a catch up could occur once it expires. Under those circumstances, the freeze would in the end be a stopgap measure perhaps causing only a slight temporary interruption in the compression of employment. To the extent that the freeze were effective, it would reduce the gap in wage growth between Belgium and neighboring countries. It would also tend to improve profitability and favor employment growth, although it would add to structural rigidities in the labor market as it would prevent changes in wage differentials.

The relatively high wage growth in recent years is related to the system of indexation, as this system prevents a fall in real wages even when unemployment is high and rising and even when in other countries (where the floor for nominal wage growth is effectively zero) wage developments are more moderate. It has been argued that the indexation system contributes to social peace, but this should be weighed against its cost in terms of lost employment through delayed adjustment to real shocks. The Law on Safeguarding Competitiveness attempts to provide a mechanism to reduce excessive wage growth, but does not attack the underlying causes, and instead leads to the introduction of other constraints such as a real wage freeze. The new constraint ameliorates the perceived symptom of relatively high wage growth but is only a temporary measure and exacerbates distortions (i.e., preventing changes in wage differentials). Abolishing indexation would remove a system that imposes a relatively high floor on wage growth, while application of the competitiveness law would become superfluous to the extent the removal of indexation reduced excessive wage growth.

4. The rise in the current account surplus

An examination of the various available indicators suggests that Belgian competitiveness has not deteriorated. The recent rise in the current account surplus is consistent with that conclusion, but so would be a stable surplus. To improve the use of the current account as an indicator of competitiveness, allowance should be made for the influence of cyclical

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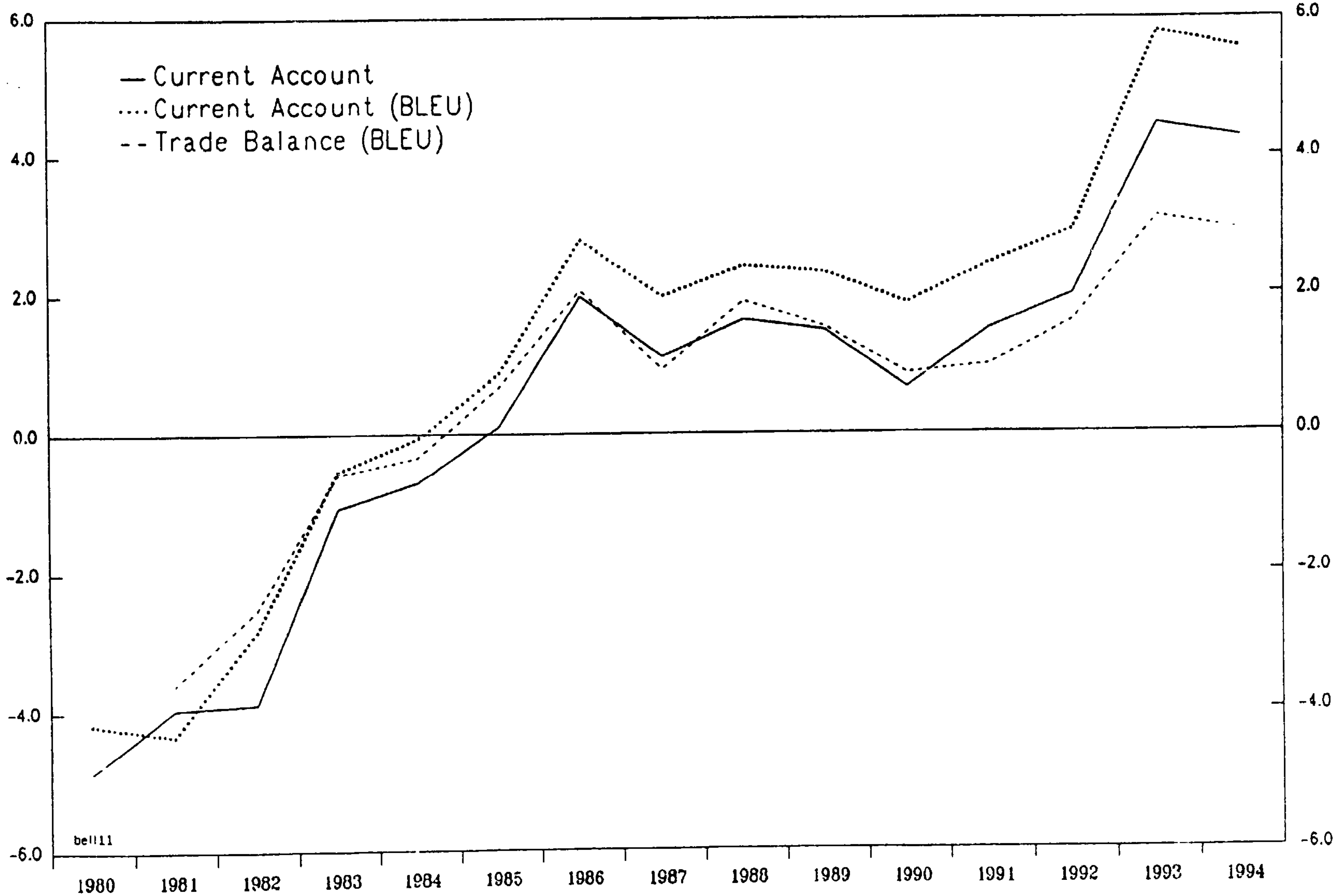
1/ High wage growth has a more immediate effect on employment growth in the private sector, which has been negligible for the last 25 years.

CHART 3
BELGIUM

Current Account

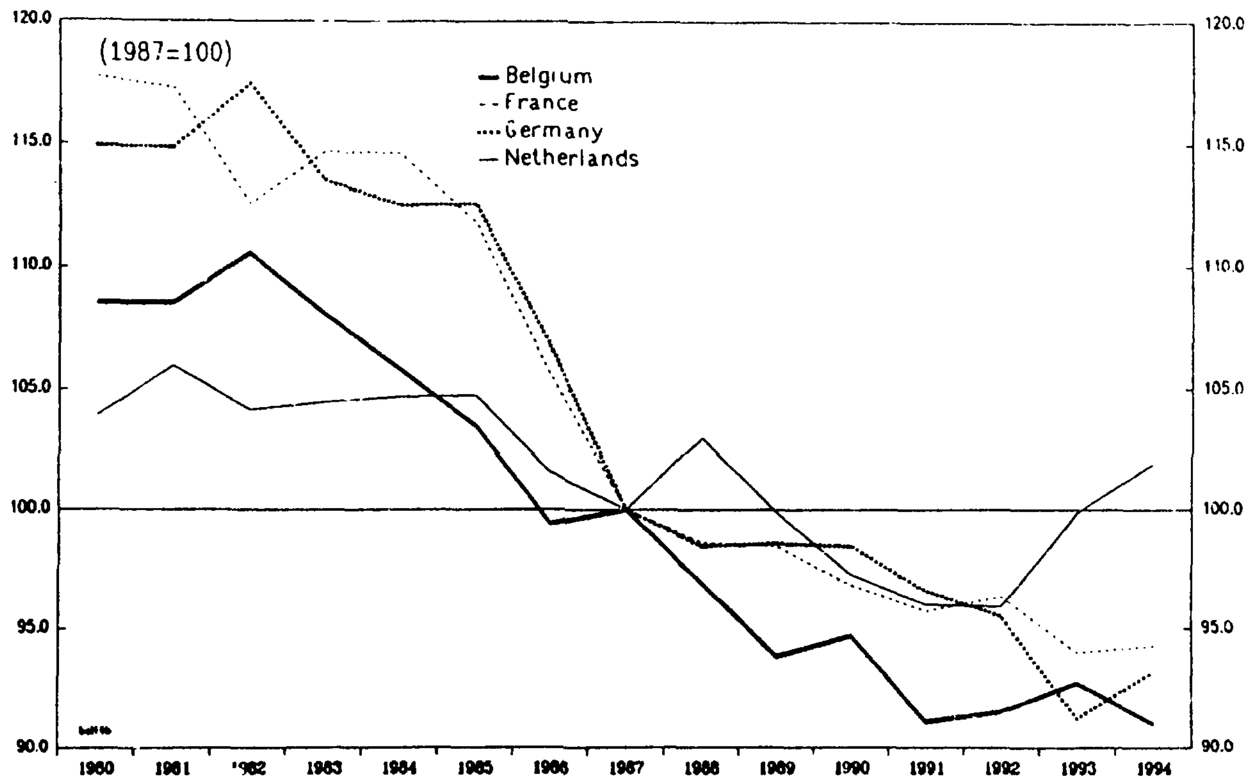
(In Percent of GDP)

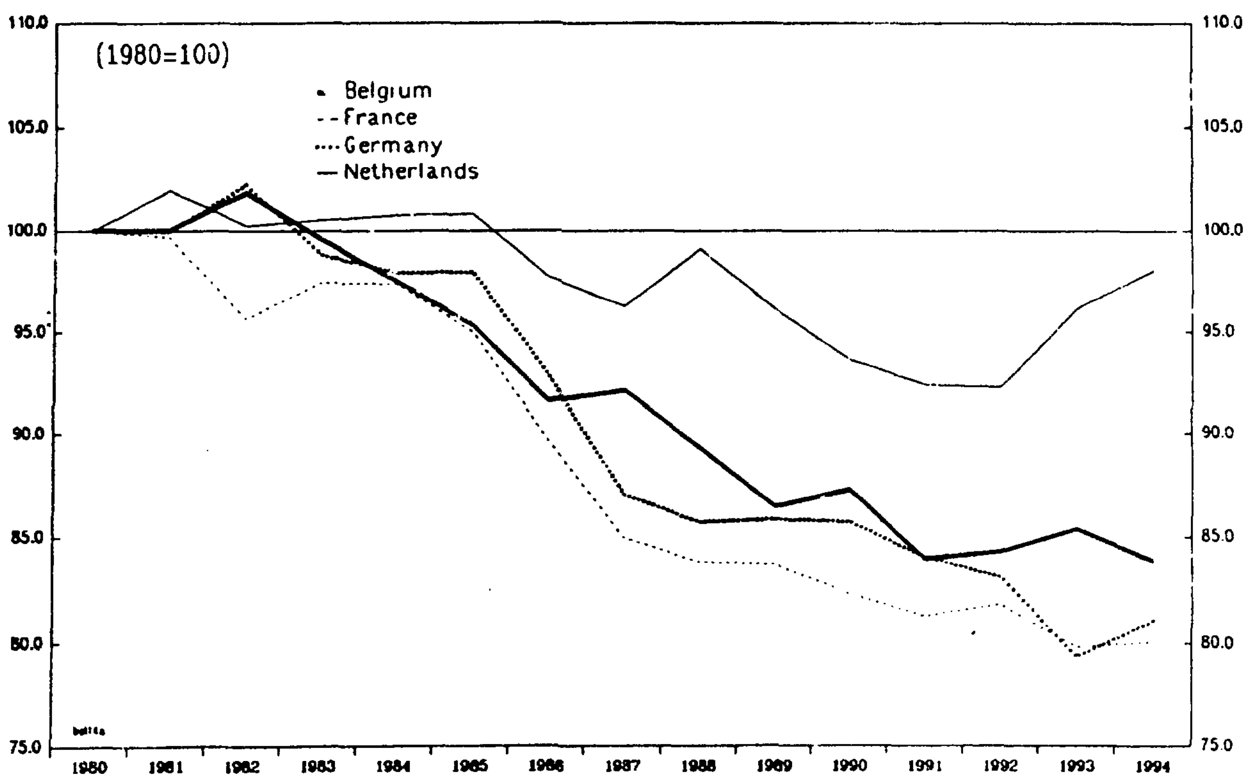


Sources: NBB, Report 1993; data provided by the Authorities; and staff estimates

CHART 4
BELGIUM

Export Market Shares



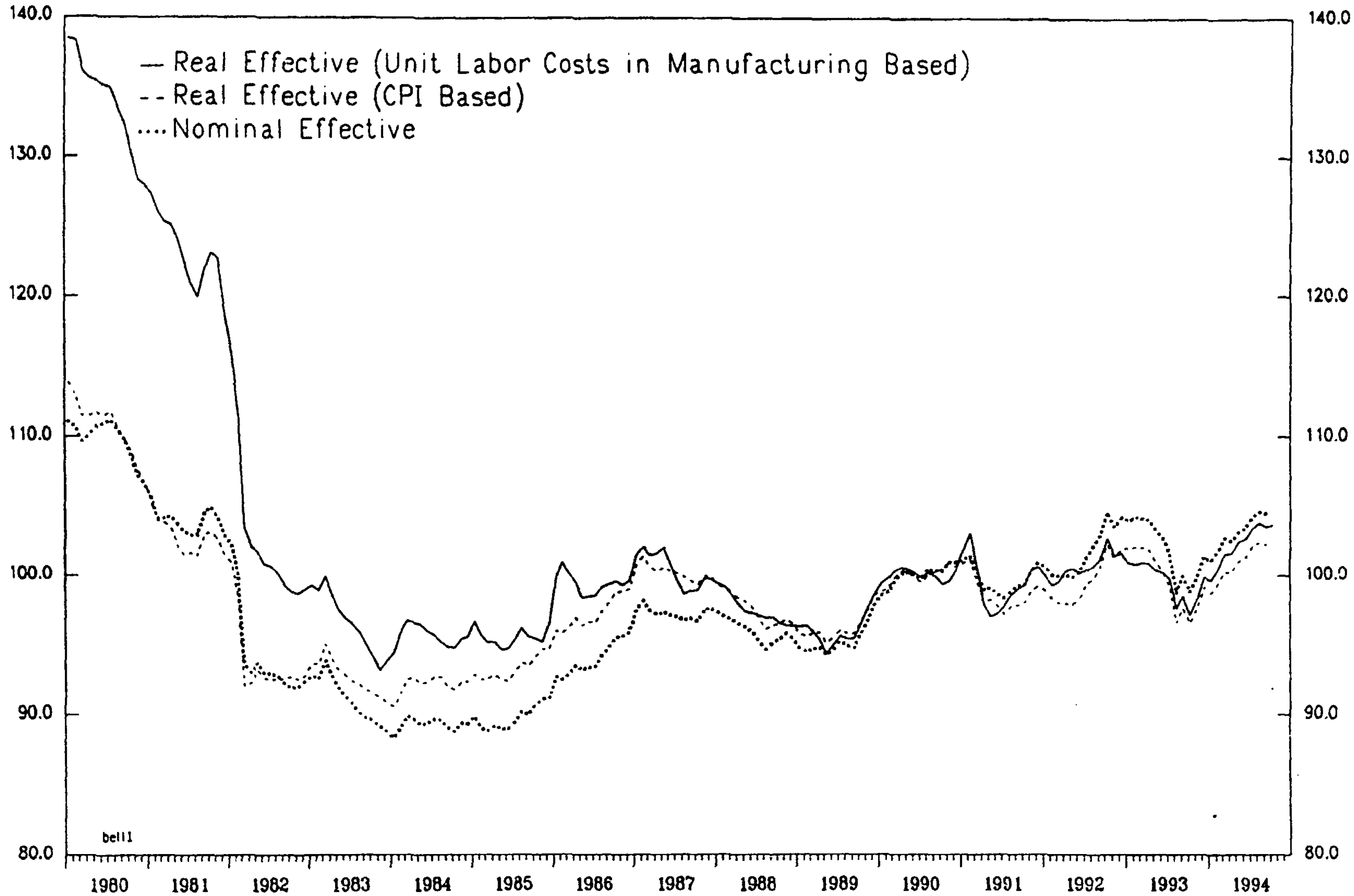


Sources: IMF, World Economic Outlook.

CHART 5
BELGIUM

Effective Exchange Rates 1/

(1990=100)



Source: IMF, International Financial Statistics.
1/ An increase indicates an appreciation.

factors, in particular when the cycle in Belgium differs from that in partner countries. Indicative calculations suggest that about half of the increase in the trade balance in 1993 may be due to the recession in Belgium having been deeper than in its trading partners. 1/ The other half of the increase may be attributable to structural factors. This approach suggests that there has been an underlying improvement in the trade and current account balance, but of a smaller size than the actual change.

Nonetheless, the rise in the BLEU surplus during 1993-94, even corrected for cyclical factors, has been remarkable and due largely to developments in Belgium and not Luxembourg. The rise could be taken as evidence that competitiveness has not deteriorated, because otherwise export growth would have been low and import growth high, resulting in a falling current account. However, it is also consistent with a situation where higher wage growth than in competitor countries only resulted in a very mild deterioration in profitability (as described above), with little effect on the volume of trade in the short run.

Alternatively, the current account surplus may be seen as resulting from a rising propensity to save and falling inclination to invest, in particular in 1993 (Chart 6). Household saving has risen by nearly 7 percentage points of disposable income since 1987 and reached more than 21 percent of disposable household income in 1993. Compared to other countries, private saving is relatively high in Belgium, although private investment is not particularly low (Chart 7). The rise in saving may be taken as an indication of declining confidence in future (after-tax) income developments, reflecting possibly the expectation--prompted by a continued rise in the public debt ratio--of higher future taxes. Similarly, a slowdown in investment, which initially has a positive effect on the current account balance, may indicate reduced interest in expanding production facilities in Belgium. From this perspective, the high current account surplus suggests a lack of confidence by residents in domestic investment opportunities (in addition to the negative effects of high interest rates). Therefore, although the surplus suggests that competitiveness is currently not a problem, it may be a symptom of other problems. In particular, the interpretation given above reinforces the need for fiscal and structural reforms.

1/ In 1993, domestic demand fell by 2.0 percent in Belgium and 1.1 percent in its partner countries (WEO data). Assuming, for example, an elasticity of 2 for import demand, this difference would *ceteris paribus* have been responsible for a rise in the balance of goods and services by BF 79 billion, compared to an actual increase of BF 148 billion. On the other hand, the estimated output gap (of 1 3/4 percent of potential output in 1994) is relatively small, suggesting that less of the rise in the current account surplus may be explained by cyclical factors.

5. Conclusions

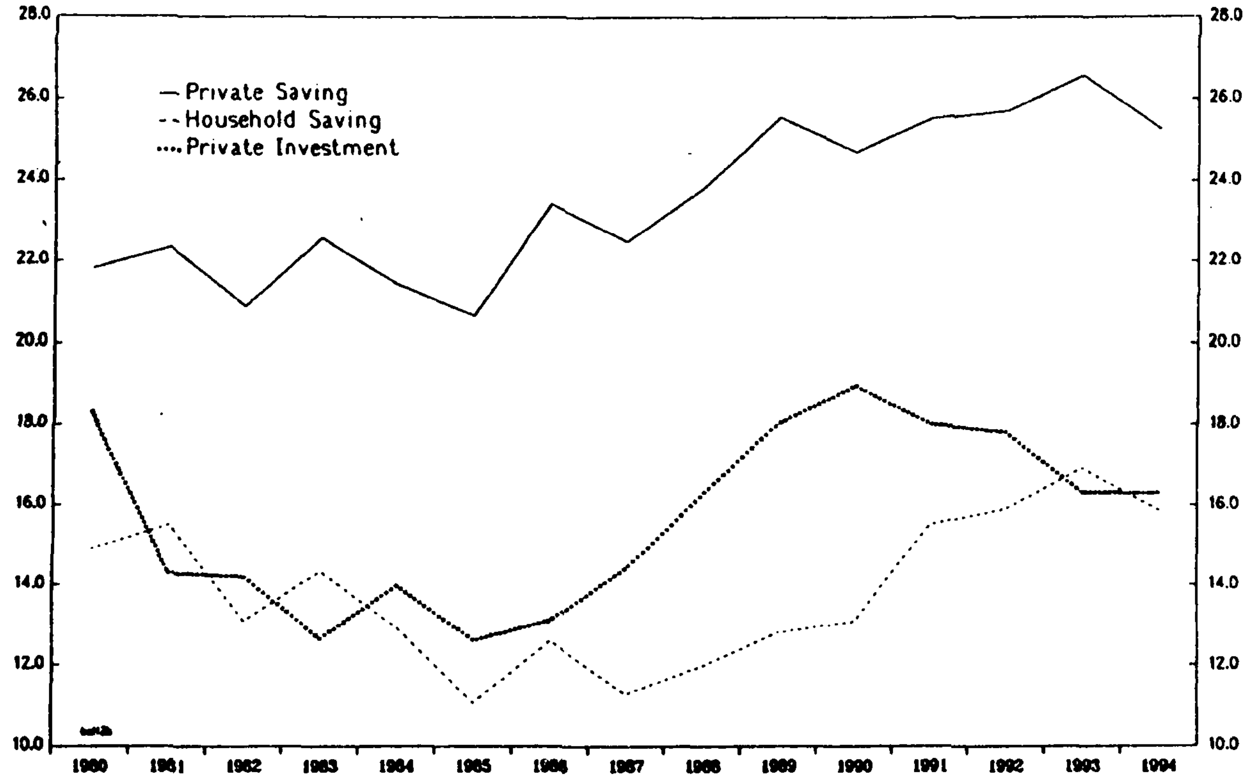
Wages have grown faster in Belgium than in main trading partners, but this deterioration has not shown up in the current account, which is in large surplus. Other indicators, such as the relative stability of the real effective exchange rate, also suggest that competitiveness is currently not a problem. The current account surplus seems to reflect a high structural saving rate and lack of domestic investment opportunities, suggesting the need for structural reforms.

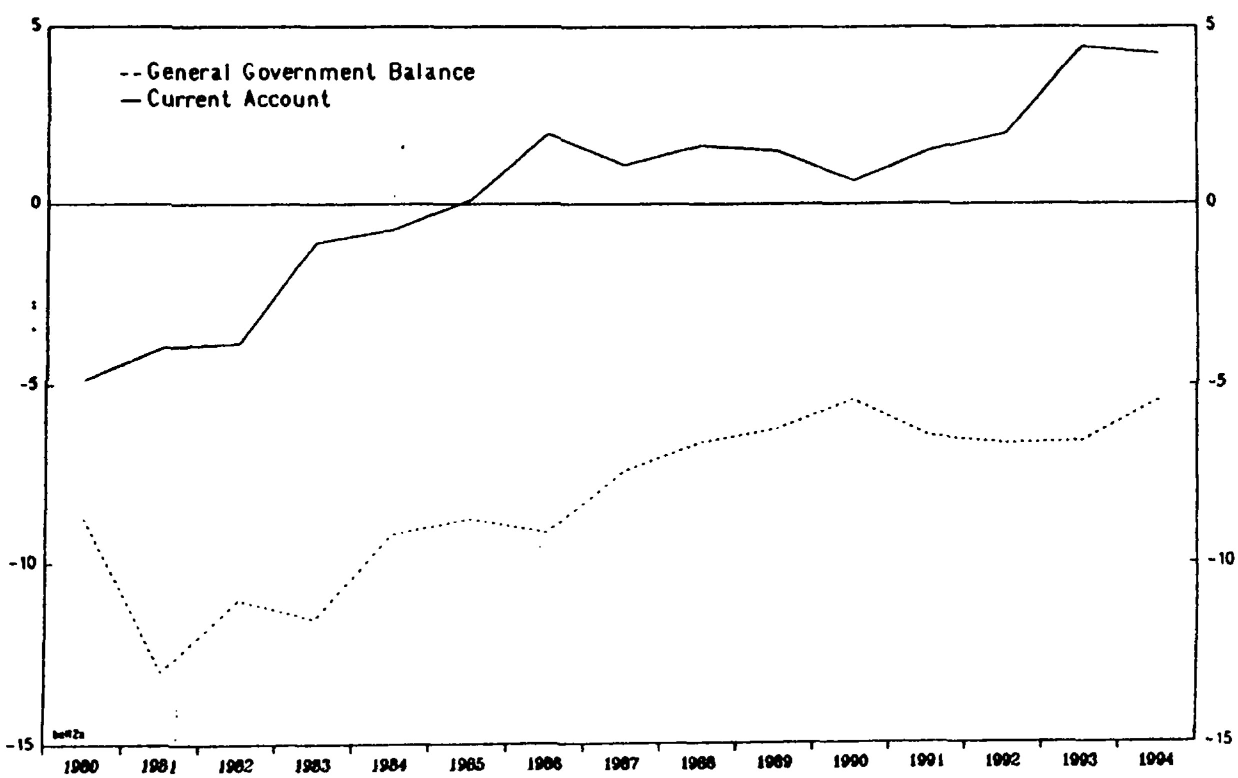
CHART 6

BELGIUM

Saving and Investment

(In Percent of GDP)



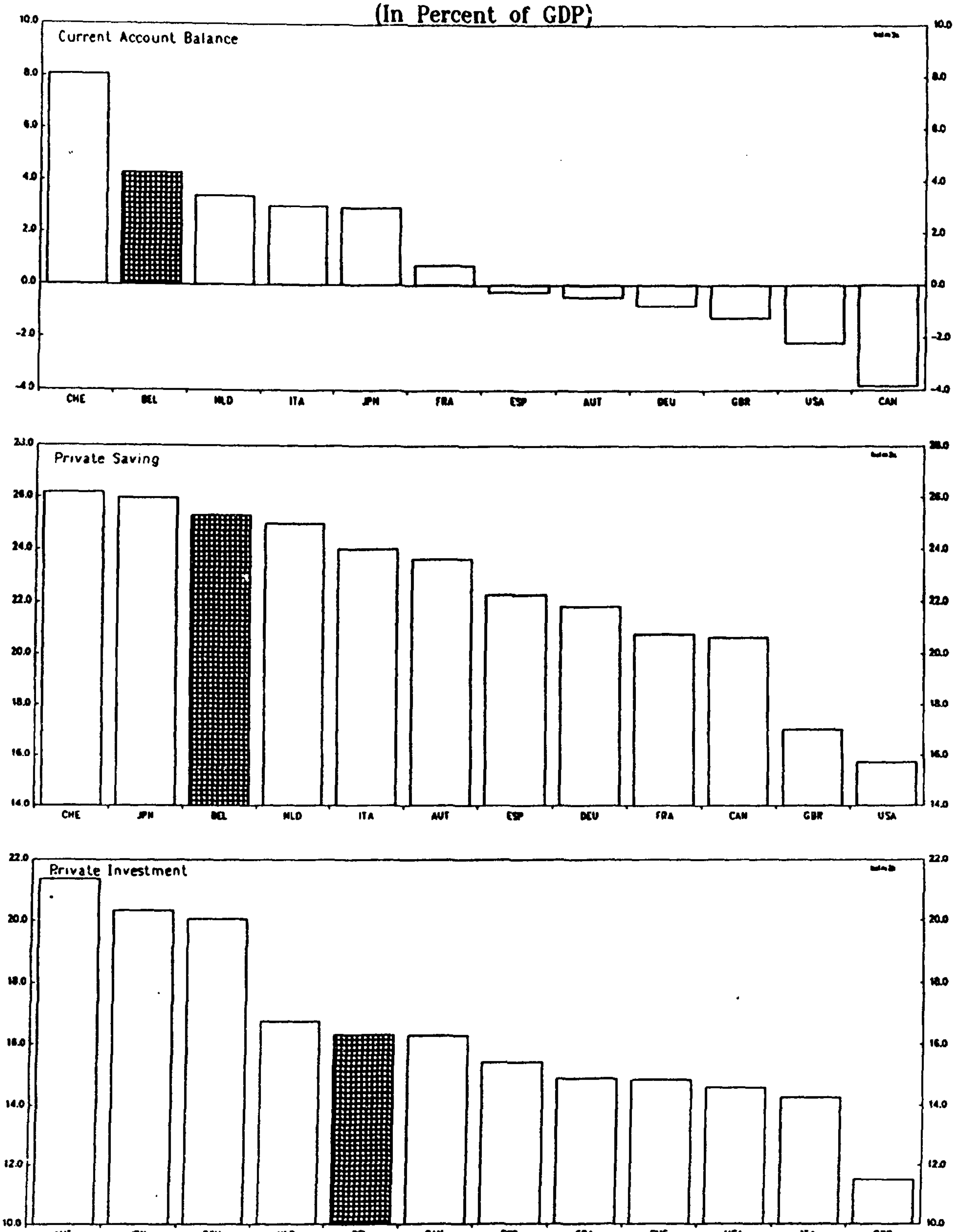


Sources: NBB, Report 1993; data provided by the Authorities; and staff estimates.

CHART 7
BELGIUM

Current Account, Saving and Investment of Selected Industrial Countries in 1994

(In Percent of GDP)



Sources: IMF, World Economic Outlook; and staff estimates.

Countries are: AUT=Austria, BEL=Belgium, CAN=Canada, FRA=France, DEU=Germany, ITA=Italy, JPN=Japan, NLD=Netherlands, ESP=Spain, CHE=Switzerland, GBR=United Kingdom, USA=United States.

II. Public Sector Employment in Belgium 1/

1. Introduction

The process of fiscal adjustment remains at the center of the public policy debate in Belgium. While there are many possible ways to proceed with fiscal adjustment this note's focus is only on one aspect, namely a possible reduction in public sector employment. It is not concerned with efficiency in the public sector, nor with the proper role of government in the economy, 2/ but rather seeks to illuminate questions about the size and structure of public sector employment in Belgium. In section 2, the size of government is placed in historical perspective. Section 3 provides information on the structure of the public sector by level of government, while section 4 illustrates the difficulties of delineation from the private sector. Finally, in section 5, the structure of the public sector is analyzed by way of comparison with five other European countries.

2. Historical perspective

Compared with many other countries, Belgium's overall population and labor force have been remarkably stable in the second half of this century, although some steady modest growth has occurred, particularly in the past two decades. Since 1970, the labor force has grown by about 13 percent, which was only marginally faster than the working age population. These developments reflect demographic factors, net migration, and an increase in the female participation rate, whereas the male and youth participation rates actually declined. 3/

Despite moderate growth in the labor force, total employment in the economy has barely changed over the past twenty years. After 1974 employment tended to decline, particularly during the recession in the early 1980s, but has recovered somewhat over the past decade. The widening gap between the employment and labor force trends (see Chart 1) is indicative of the sizable increase in structural unemployment that has occurred in Belgium.

Against this background of modest growth in the labor force and of little change in the overall employment level, there has been a dramatic increase in public sector employment (and, by implication, a significant absolute decrease in private sector employment). Most of this growth occurred in the 1970s when the authorities pursued a deliberate policy of increasing public sector employment, and the latter increased by close to

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1/ Prepared by Marc Huybrechts.

2/ For a review of shifting attitudes regarding the appropriate role of government and recent trends, see H. Oxley, M. Maher, J.P. Martin and G. Nicoletti, The Public Sector: Issues for the 1990s, OECD Working Paper No.90, December 1990.

3/ An analysis of the determinants of labor supply changes in Belgium in the 1980s can be found in Appendix I of SM/91/104.

40 percent over the decade as a whole. 1/ Subsequently, the process of fiscal adjustment was started in earnest in 1981 and, despite some fluctuations from year to year, since then no significant further increase in public sector employment has taken place. However, during the 1980s the share of general government expenditure on goods and services in GDP declined by about 4 percentage points, as part of the adjustment was achieved through wage restraint in the public sector. 2/

3. The structure of the public sector

In recent decades Belgium has gradually evolved from a unitary state into a complex federal one, and major shifts in responsibilities have occurred between various government levels. 3/ An important example was the transfer of responsibility for the education sector from the national (federal) level to the Communities in late 1988, which concerned close to one third of all public sector employees. These shifts in competencies present an obstacle to intertemporal comparison at disaggregated levels.

The distribution of public sector employment by level of government as of January 1, 1994 is presented in Table 1. These data provide a broad overview of the structure of the public sector, but a number of qualifications are in order. While special "corps" such as the judiciary and the military have significant autonomy with regard to the management of "their" public servants, they remain essentially within the federal sphere of government. So does the social security system, whose total expenditures (transfers) are equivalent to approximately one fifth of GDP. 4/ On the other hand, the Regions have obtained supervisory powers over local authorities.

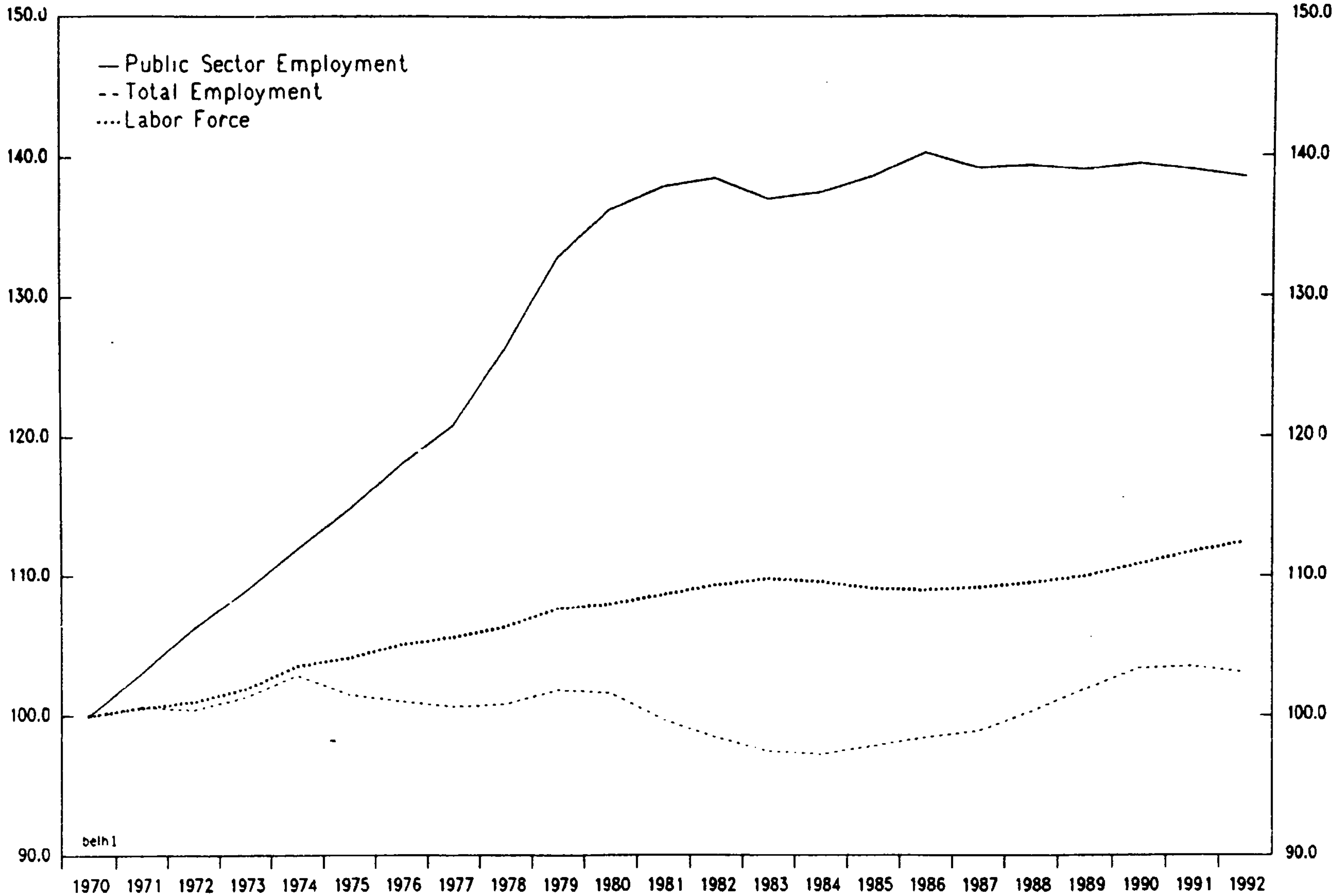
1/ This accounted for most of the 4 percentage points increase in the share of general government expenditure on goods and services in GDP in that period. The 1970s also witnessed policies aimed at widening and deepening a panoply of social benefit payments and, taken together, general government expenditure increased by about 20 percentage points to over 60 percent of GDP. For a more extensive discussion, see Appendix III of SM/90/85.

2/ The process of fiscal adjustment also involved a disproportionate decline in public sector investment. See Appendix III of SM/90/85.

3/ The process of devolution in Belgium was treated more extensively in Appendix II of SM/93/253.

4/ In terms of spending, the weight of regional government (i.e., Regions and Communities) is broadly comparable to that of the federal government, each spending about 12-13 percent of GDP, if social security and interest payments on the national debt are excluded. Local authorities account for close to 6 percent of GDP.

CHART 1
BELGIUM
Employment Trends, 1970-92
(1970=100)



Source: Ministry of Employment and Labor, La Population Active en Belgique, December 1993.

Table 1. Personnel by Level of Government

(In thousands of persons, as of 1/1/94)

I.	Federal government		214.2
	- Ministries	57.1	
	- Scientific establishments	3.1	
	- Other public establishments	154.0	
	(Public enterprises)	(120.3)	
II.	Regions and communities		353.1
	- Ministries	24.2	
	- Scientific establishments	0.2	
	- Other public establishments	48.7	
	- Education	280.0	
III.	Local authorities		237.4
	- Municipalities	119.4	
	- Social welfare centers (OCMW/CPAS)	79.4	
	- Municipal joint ventures	22.4	
	- Provinces	16.2	
IV.	Special bodies		79.6
	- Judiciary	9.9	
	- Military	49.6	
	- National police	17.1	
	- Legislative authorities	2.3	
	- Other 1/	0.7	
		Total	884.3

Source: *Adapted from Ministry of the Interior and the Public Service,* Apercu des Effectifs du Secteur Public.

1/ Council of State, provincial governors, etc.

Total public sector employment, at close to 900,000 persons, represents about one fifth of the labor force and one quarter of overall employment in the economy. 1/ Disaggregated data at the federal level show that of all personnel in the 14 federal ministries over half belong to the Ministry of Finance. Among "other public establishments," about 119,000 persons are employed by three autonomous public enterprises (the post office, the railways, and the telecommunications company). The remainder of personnel in "other public establishments" can be found largely in quasi-governmental

1/ According to a rather narrow definition of the Ministry of the Interior and the Public Service. As shown later, under a broader definition public sector employment amounts to close to a third of total employment.

organizations in the social security area and in public credit institutions. Examples of scientific establishments are national (and/or royal) libraries, museums, and research centers in the areas of agriculture and the environment. The bulk of public sector employment at the level of the Regions and Communities concerns the education sector (Flemish Community: 149,189 persons; French Community: 128,713 persons; and German Community: 2,106 persons). Employment in major "other public establishments" at this level tends to be concentrated in areas such as health care (hospitals), employment promotion, environment, and culture (television, radio, etc.).

4. A comparison of domestic data sources

In Belgium there are three major sources of published data on employment in the public sector: the Social Security Administration (SSA), the Ministry of Employment and Labor (MEL), and the Ministry of the Interior and the Public Service (MIPS). 1/ They use different methods of collection and manipulation of the data and, importantly, they apply different definitions to delineate the public from the private sector. The fact that on occasion (e.g., June 1992) the SSA and MEL arrive at similar totals for public sector employment is purely coincidental, as illustrated by the changes from 1991 totals in Table 2.

Table 2. A Comparison of Data on Public Sector Employment

(In persons)

	June 1991	June 1992	Difference
SSA	952,683	964,138	+11,455
MEL	967,431	964,462	-2,969
NBB	967,000	964,000	-3,000
MIPS	880,872	888,369	+7,497
PB	650,400	642,100	-8,300

Source: Ministry of the Interior and the Public Service.

The social security administration relies heavily, though not exclusively, on administrative declarations by employers. It counts jobs rather than employees, so that SSA data involve some double counting (e.g., individuals who have more than one employer). Other distinctive

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1/ Two other sources are the central bank (NBB) and the Plan Bureau (PB). The NBB publishes data on public sector employment in a statistical annex to its annual report; they are very aggregated and rounded data, based on MEL data but classified differently. The PB applies a narrow definition of government, limited to administration, education, national defense, and certain special employment programs for the unemployed.

features which can be easily discerned are the exclusion of the national railways personnel, but the inclusion of a wide variety of private training activities (e.g., driving schools, etc.) in the education sector. Also, the inclusion of SABENA airlines staff suggests that a broad definition of public sector is being applied.

The (federal) ministry of employment and labor is primarily interested in estimating the Belgian labor force, and the public sector/private sector distinction is but a secondary issue. Initially starting from SSA data on the public sector, a number of corrections and verifications are undertaken based on other (partial) data sources, to arrive at the MEL data. Major additions concern the railways and the military, whereas substantial subtractions from SSA data involve the private education sector and the elimination of double-counting.

The (federal) ministry of the interior and the public service counts persons who have a statutory or contractual link with public service. It maintains a list of public institutions and relies on their personnel statistics. As such, it includes for example staff on long term leave for health reasons, but excludes a number of people working in the public sector who are not formally on personnel lists (e.g., trainees). On closer examination, the MIPS list of public institutions suggests a considerably narrower definition of the public sector relative to the MEL data. In particular, the MIPS data exclude military conscripts, a number of public enterprises (public credit institutions, the National Bank, SABENA), and those who are active in a variety of special employment programs aimed at creating jobs for the unemployed.

5. An international comparison

If it is not clear where exactly the boundary lies between the private and the public sectors within a given country, as was illustrated for Belgium in the preceding section, it follows that any international comparison--even among comparable countries--is fraught with great difficulties. 1/ From a theoretical perspective, the distinction between private goods and services and pure public goods may offer some guidance, but there are also numerous mixed and quasi-public (or merit) goods and services which preclude uniform treatment among different countries. To arrive at a meaningful international comparison of the public sector a common definition needs to be applied to the disparate national data of various countries. This procedure was followed in a large-scale empirical study recently commissioned by the Netherlands Ministry of Internal Affairs,

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1/ The OECD regularly publishes figures on employment in the public sector in several publications (e.g., Annual National Accounts, and Public Management: OECD Country Profiles), but it refers to the comparison of these data as "problematic" because they are based on a wide diversity of national definitions. Also, the ILO intends to set up a database, but a common definition applicable to all (or most) countries is considered feasible only in the long run.

and conducted by the Institute for Social Research of Tilburg University. 1/ Through the imposition of the Dutch sectoral model definition of the public sector, an arbitrary--but common--standard was used to compare the relative size and sectoral composition of the public sector in six Northwestern European countries. 2/ The main results of this investigation will be discussed below.

a. Relative size of the public sector

Distinction is made between the government sector and the SSI (subsidized and social insurance funded) sector which together form the public sector. The Dutch definition of government employment is a fairly narrow one, limited to employees who with respect to their terms of employment come under a political body. 3/ The SSI sector consists of a large number of organizations (or activities) created by law and largely dependent upon subsidies or premiums. It gives a broad indication of employment in the provision of quasi-public goods.

The data in Table 3 show that the imposition of the Dutch sectoral model brings about a remarkable convergence with respect to the proportion of total employment accounted for by government across the various countries. Particularly in Belgium, where the national statistics do not identify an SSI sector as such, a substantial share of government activities in the areas of health care, welfare and social services, was transferred to the SSI sector. It can be seen that, on the basis of the common Dutch definition, government employment in Belgium is the highest among the six countries surveyed, relative to total domestic employment. No doubt, this can be explained in large measure by the complicated quasi-federal structure of the country where no fewer than seven different administrative levels can be discerned: federal government, communities, regions, provinces,

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1/ Netherlands Ministry of Internal Affairs, Public Employment: A Comparison of Six European Countries, May 1994. Also, see H. Scholten and F. Van Dongen, De Publieke Sector in Internationaal Perspectief, Economisch Statistische Berichten, June 22, 1994.

2/ The research strategy involved three major steps. First, on the basis of the international classification of economic activities (ISIC), the Dutch definition of the public sector was transposed to other countries by means of a recoding system. Second, a questionnaire was used and additional information obtained from public sector experts in the respective countries. Third, a small number of "mixed" categories of the ISIC classification were "cleansed" (i.e., the private sector component removed).

3/ This excludes for example "public enterprises" because they have a private legal status (even when fully owned by the state).

Table 3. Public Sector Employment in Six Selected Countries, 1991

(In percent of total domestic employment)

	Belgium	Germany 1/	Denmark	Sweden	U.K.	Netherlands
(1) Government (National definition)	25.7 2/	17.2	30.1	35.5	19.7	13.6
(2) Government (Common definition)	18.5	13.3	17.6	11.7	12.7	13.6
(3) SSI sector 3/	11.2	5.9	17.6	19.9	11.3	10.7
(4) Public sector [=(2)+(3)]	29.7	19.2	35.2	31.6	24.0	24.3
(5) Public enterprises	2.3	3.3	3.9	10.4	3.7	1.8
(6) Broad public sector [=(4)+(5)]	32.0	22.5	39.1	42.0	27.7	26.1

Source: Netherlands Ministry of Internal Affairs.

1/ Excluding the former East Germany.
2/ For Belgium, the national definition used corresponds to the MEL data referred to in section 4, i.e., data published by the Belgian (federal) Ministry of Employment and Labor.
3/ Subsidized and social insurance funded sector, i.e., activities primarily financed by public authorities through subsidies or financed by law through compulsory social insurance premiums.

metropolitan areas 1/, municipal joint ventures and municipalities. After inclusion of the SSI sector, Belgium's public sector employment falls below the levels in Denmark and Sweden, but remains well above the levels in neighboring countries like the Netherlands, the United Kingdom and, especially, Germany. This picture does not change significantly if public enterprises 2/ are included and a broader definition of the public sector is applied.

b. Sectoral Composition

In the imposed Dutch sectoral model the classification of government services is approached from two different angles simultaneously: first, subdivision is made according to "key" government tasks (functional sectors) and, second, the remainder is classified according to administrative levels. As mentioned, of the latter no less than seven levels can be discerned in Belgium. For the purpose of this research the seven-way classification was reduced to a four-way classification by (a) joining the Regions and Communities, and (b) joining the metropolitan areas, municipal joint ventures and municipalities.

Comparative data on the sectoral composition of government employment are summarized in Table 4. These results of the investigation are especially revealing in two respects:

- First, education stands out as a labor intensive functional sector and this is particularly marked in Belgium which, among the six countries surveyed, has the highest share of government employees in that sector.

- Second, the weight of local authorities (i.e., provinces and municipalities) in public sector employment is the lowest in Belgium. It should be noted that Belgium and Germany are the only federal states among these countries, and that in the Belgian context the concept of Central Government includes the Regions and Communities as well as the Federal Government. For Belgium the classification of "Community" in Table 4 includes the Regions and Communities, and for Germany it involves the Länder.

c. Task intensity indicators

By linking functional tasks of government to potential users (or "clients") of government services various task indicators can be obtained.

1/ Technically, in 1991, there was only one metropolitan area administration left, which was merged with the Brussels Region in the following year.

2/ Enterprises which, regardless of legal status, are in majority owned and controlled by public authorities and which sell at least half of their output to the private sector.

Table 4. Sectoral Composition of Public Sector Employment: Six Countries, 1991

(In percent) 1/

	Belgium	Germany	Denmark	Sweden	U.K.	Netherlands
Defense	8.5	7.4	4.7	3.2	6.6	7.8
Judiciary	0.3	2.2	0.1	0.5	0.1	0.1
Police	3.3	3.9	1.4	1.9	3.2	2.5
Education	28.1	23.7	19.5	18.3	24.0	22.5
Administration (levels)	22.1	32.0	24.3	13.0	18.8	23.4
- Central (Federal)	10.0	2.4	5.1	4.4	9.4	7.8
- Community 2/	4.0	10.1	--	--	--	--
- Provinces	0.7	--	1.6	0.7	--	1.0
- Municipalities and other	7.4	19.5	17.6	7.9	9.4	14.6
Total government	62.3	69.2	50.0	36.9	52.8	56.0
SSI sector	37.7	30.8	50.0	63.1	47.2	44.0
Total public sector	100.0	100.0	100.0	100.0	100.0	100.0

Source: Netherlands Ministry of Internal Affairs.

1/ Based on a common (Dutch sector model) delineation in 1991.
2/ In Belgium: Regions and Communities. In Germany: Länder.

These indicators measure the number of potential users (in a given reference group) per public sector employee, and as such provide a rough indication of the labor intensity of the public sector. They do not provide any information on the range, quantity or quality of these public services. However, it is not unreasonable to assume that the selected countries do not differ substantially in those respects. Thus, while the absolute values of the indicators are perhaps not very important, the observed differences among countries provide useful information in the ongoing debate on "streamlining" in the public sector.

In Table 5 several task intensity indicators are shown for the six countries. To calculate the general public service intensity rate (GIR) the reference variable chosen is the total population which is divided by the total number of public sector employees. The education intensity rate (EIR) reflects the ratio of the population in the age category 5-30 and employees in the education sector. The safety provision intensity rate (SIR) is based on the rates of employees in the police, prisons and the judiciary system (according to the national definition) and the number of males in age group 15-50. The welfare service intensity rate (WIR) relates the number of employed in welfare, health care and social security services to a selected "high risk" population (people below age 15 and over age 65, plus the inactive potential work force in age group 15-65). Both the other tasks intensity rate (OIR) and the defense intensity rate (DIR) have been related to the size of the total population. The numbers in brackets in the table show the relative ranking of each country concerned.

The data show that high general intensity rates can be found in Sweden and Denmark, while intermediate levels prevail in Belgium, the U.K. and the Netherlands. Germany shows the lowest labor intensity rate for the overall provision of public goods and services in this particular group of countries. With regard to more specific task indicators, Belgium has a lower rate than the other countries (except Germany) for the provision of welfare services, but it shows relatively high intensity rates for the tasks of defense, education, and safety provision. However, the recent decision to abolish military conscription in Belgium will lead to a significant reduction in public sector employment in that particular area over the next few years. It follows that further efforts to trim overall public sector employment could usefully focus (but not exclusively) on the areas of education and public safety.

The above data should be kept in perspective. While Sweden, Denmark and Belgium have relatively large public sectors and relatively high labor intensity in the provision of public services, the two Scandinavian countries also have the lowest rates of inactivity of the potential labor force. This suggests that under the "Scandinavian model" potential inactivity in large measure tends to be absorbed by employment in the public

Table 5. General and Task-Specific Public Service Intensity Indicators: Six Countries, 1991 1/

	General (GIR)	Education (EIR)	Safety (SIR)	Welfare (WIR)	Defense (DIR)	Other (OIR)
Belgium	9.0 (3)	9.7 (2)	44.8 (3)	19.4 (5)	105 (1)	67.7 (4)
Germany	11.6 (6)	13.9 (6)	43.3 (2)	24.0 (6)	157 (5)	70.1 (5)
Denmark	5.5 (1)	7.9 (1)	60.1 (5)	6.1 (1)	116 (2)	58.9 (2)
Sweden	6.1 (2)	10.6 (4)	48.0 (4)	5.1 (2)	193 (6)	48.6 (1)
U.K.	9.3 (4)	11.9 (5)	67.1 (6)	12.5 (3)	141 (4)	112.6 (6)
Netherlands	9.7 (4)	10.6 (3)	42.6 (1)	14.7 (4)	125 (3)	61.1 (3)

Source: Netherlands Ministry of Internal Affairs.

1/ These indicators measure the number of potential users (in a given reference group) per public sector employee.

sector. 1/ In contrast, Belgium has the highest inactivity rate 2/ among the six countries surveyed, despite having a large public sector, which suggests a lesser role for the public sector in the provision of employment. Also, it doesn't follow that a relatively small public sector necessarily contributes to higher inactivity rates, as illustrated by Germany and the United Kingdom which have a relatively high degree of private sector employment.

6. Conclusions

The rapid increase in public sector employment that occurred in the 1970s in Belgium came to an end in the early 1980s, as the deteriorating fiscal position and rapidly rising public debt ratio forced adjustment. However, it was not followed by a decrease in the 1980s, and public sector employment has remained fairly stable over the past decade, as has total employment. Close to one third of total domestic employment in Belgium is in the public sector, which is significantly higher than in neighboring countries like the Netherlands, the United Kingdom and especially Germany. This cannot be attributed to public enterprises and the subsidized and social insurance funded sector, but rather reflects a larger government sector (in the narrow sense) in Belgium. While public sector employment is higher in Denmark and Sweden, the "burden" of government in those Scandinavian countries is mitigated by considerably higher activity rates of the potential labor force (so that government can be financed through taxes on a relatively larger private sector).

A comparison with neighboring countries also shows that employment at the local authorities level is relatively small in Belgium. At the Central Government level, the weight of the Regions and Communities in terms of public employment now exceeds that of the Federal government, mainly because the education sector has been transferred to the Communities.

Finally, Belgium has the highest public debt ratio to GDP among industrial countries and its fiscal deficit position remains unsustainably large. It is therefore imperative that fiscal adjustment be pursued vigorously. Comparative data on public service labor intensity rates in six northwestern European countries support the contention that a reduction in overall public sector employment in Belgium is an appropriate component of the fiscal adjustment process. Also, the data reveal that Belgium shows relatively high labor intensity rates in the provision of public goods in the areas of education and public safety.

1/ More specifically, the large share of part-time labor (especially at lower levels of government) not only enhances the size of the public sector considerably in those countries, but also creates more employment opportunities for women and the less-skilled.

2/ Inactivity rates of the potential labor force in 1991: Belgium (44%), Netherlands (37%), Germany (33%), U.K. (29%), Denmark (24%), Sweden (20%).

III. Federalization and Fiscal Targets in Stage II of EMU 1/

Since the signing of the Maastricht Treaty in 1991, Belgian fiscal policy targets have been set almost exclusively with a view to meeting the requirements for participation in European Monetary Union (EMU). Whereas the contracting party in the Treaty has been the Belgian federal government, a substantial part of fiscal--mainly spending--powers has been devolved in recent years to the Regions and Communities. 2/ An assessment of the ability of Belgium to meet deficit and debt targets formulated for general government will thus require looking not only at developments at the level of the federal government and of social security, but also at the institutional arrangements and performance at the regional and community level.

The first part of this section describes Belgium's convergence targets and fiscal policy in the context of stage II of EMU. The definition of Maastricht targets and the conversion to Belgian concepts is examined together with the policy responses by the Belgian government. The second part briefly reviews the financing of Regions and Communities since the 1989 devolution of powers, and its implications for fiscal consolidation. In the final part, some medium-term simulations are discussed which will allow for an evaluation of the effort needed to meet the overall fiscal targets based on assumptions with respect to the spending behavior of the Regions and Communities.

1. Fiscal targets in Stage II of EMU

The coming into force of the Maastricht Treaty in November 1993 implied that Belgium, together with the other member states, accepted a higher level of multilateral surveillance by the European institutions, in particular in the public finance field. It also implied acceptance of certain procedures to determine whether a country qualifies for participation in EMU.

Two procedures are important for the surveillance of fiscal policies at the European Union level. 3/ One relates to the broad economic guidelines for economic policy set by the Community, which will be used to monitor economic developments and policies in the member states. An initial set of

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1/ Prepared by Johan Baras.

2/ Belgium is a federal state composed of Regions (Flanders, the Walloon Region and Brussels Capital) and Communities (the Flemish, French-speaking and German-speaking Communities). Each entity has been granted specific powers (such as education for the Communities) and has its own institutions (an executive body and a legislative council); the Flemish Region and Community have decided to merge their institutions. All powers that have not been explicitly devolved remain with the federal government (such as taxation powers, defence, and debt service).

3/ A more detailed discussion can be found in SM/94/120 ("European Union - Common Policies and Recent Institutional Developments").

guidelines was published late 1993 and updated mid 1994. 1/ With respect to fiscal policies, the guidelines call for balanced budgets by the end of the decade, 2/ and, in the case of Belgium, for upfront measures to reduce the deficit to 3 percent of GDP in 1996.

More important, however, is the excessive deficit procedure, which exclusively focuses on fiscal policy issues. 3/ Under this procedure, governments of member states are required to avoid excessive deficits in the final stage of EMU, and are urged to do so in Stage II. The Commission will monitor budgetary developments on the basis of two criteria: first, the general government deficit may not exceed 3 percent of GDP, unless the excess is temporary and small, or unless the ratio has declined substantially and continuously and comes close to the reference value; second, the debt-to-GDP ratio should not exceed 60 percent, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace. 4/ The Council, on the basis of a report submitted by the Commission, will then determine whether an excessive deficit exists and will make recommendations to the member state on how to remedy the situation. If the member state fails to put these recommendations into practice the Council can decide to impose sanctions, including a requirement to publish additional information before bonds may be issued, and fines. The possibility of sanctions is, however, not available in Stage II of EMU.

The excessive deficit procedure is a major element in the process of determining whether a country will be eligible for participation in EMU. In particular, the Treaty stipulates that absence of an excessive deficit is one of four criteria on the basis of which the Commission and the European Monetary Institute will advise the Council as to which member states qualify for participation. A first report to that end is due in 1996, on the basis of which the Council of Ministers and the European Council will decide whether EMU will start and, if so, when. 5/

Over the last few years, ensuring participation in European Monetary Union when it materializes has been an overriding objective of Belgian medium-term fiscal policy. Belgium, as most other member states, set out the path towards achieving the fiscal criteria in a convergence plan, which was presented in June 1992 (Table 1). The Plan aimed at meeting the

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1/ Council Recommendations of December 22, 1993 (reprinted in SM/94/120, Sup. 1) and of July 11, 1994.

2/ A similar target (a community average deficit below 1 percent of GDP by the year 2000) appears in the 1993 White Paper on economic growth.

3/ Treaty on European Union, Article 104c.

4/ In what follows, meeting the numerical targets is referred to as the 'strong' version of each of the two criteria, while satisfying the qualitative conditions, the 'weak' version.

5/ Note that in this case the Treaty leaves the decision with respect to the starting date to the European Council.

3 percent target in 1996 by pursuing three intermediate norms: unit elasticity of general government revenue, zero real growth in primary

Table 1. Convergence Plan Deficit Targets and Privatization Receipts, 1992-96

(In percent of GDP)

	1992	1993	1994	1995	1996
General Government					
Targets June 1992	5.7	5.2	4.5	3.8	3.0
Targets April 1993	...	5.8	4.7	3.6	3.0
Targets June 1994	...	...	5.7	4.3	3.0
Of which:					
Exceptional receipts 1/	...	0.4	0.8	0.2	0.1
Actual deficit	6.7	6.6	5.5	...	...
Regions and Communities					
Targets June 1994	...	...	0.5	0.6	0.4
Actual deficit	0.7	0.7	0.6	...	...

Source: Data provided by the authorities.

1/ Proceeds of privatization operations and of sale of a concession to the National Lottery.

expenditure by the federal government, and balanced social security accounts after freezing the budgetary transfer to that system in nominal terms. The target path was subsequently complemented by a multi-annual program which contained measures amounting to some 2 percent of GDP. Major elements in the program were the suspension of the indexation of tax brackets and the planned sale of some BF 60 billion worth of state assets over the period 1993-1996. As it became increasingly clear that the unfavorable economic climate would prevent the 1993 target from being met, the Belgian authorities revised the target path upwards for the early years (while leaving the 1996 deficit number unchanged) and introduced a number of new measures, the majority of which were included in the global plan of November 1993. The global plan aimed in particular at controlling social security spending for health care and social allowances, while raising new revenues (through, among others, increased sales of state assets) and redirecting part of indirect tax receipts to the social security system. The global plan also included a recognition that meeting a general government target for Belgium would require subtargets to be set at different levels of government. The "Borrowing Needs" section of the High Finance Council was given responsibility to negotiate this burden sharing with the federal government (which also assumes responsibility for the social security system) and the different Regions and Communities, and to supervise compliance with the targets set.

A remarkable feature of the initial convergence plan is that it does not contain an explicit reference to the debt criterion contained in the Maastricht Treaty. While there was, of course, no scope for reaching the 60 percent debt target by 1996, the Belgian authorities seemed to assume that meeting the 1996 deficit target and the initial intermediate targets for the period 1992-1995 would result in a steady decline of the debt ratio. As the intermediate targets have not been met or were revised upwards, even the weak version of the debt criterion might be difficult to meet by 1996.

Furthermore, part of the fiscal effort needed to meet the convergence criteria is realized through sales of public assets (Table 1); while this will indeed lower gross debt, it is unconventional to include receipts from privatization transactions in the definition of general government deficit. The Belgian authorities have, however, used inventive accounting methods to take privatization receipts into account as non-fiscal revenues 1/. The European Commission has questioned this practice in the context of the excessive deficit procedure; an eventual rejection of the inclusion of privatization receipts will prevent any use of this method to meet the 1996 target, but will in addition substantially increase the observed deficit path over the period 1993-1995 (thereby reducing the possibility to satisfy the weak version of the deficit criterion if the 3 percent target is not met).

The Council of Ministers had a first discussion under the excessive deficit procedure in September 1994. The decision by the Commission not to include Ireland (with a debt-to-GDP ratio far in excess of 60 percent) among the countries not satisfying the criteria provided a first indication of how the weak version of the debt-to-GDP criterion will be interpreted. In the case of Belgium, the report noted that the country did, as expected, not meet the criteria; it furthermore referred to the ongoing discussion with respect to the accounting of proceeds of sales of public assets (Belgium being the only country that includes privatization receipts in government revenues). The Council subsequently discussed a set of recommendations to the member states in October 1994; with respect to Belgium, the Council recommended that the authorities should view the 3 percent deficit as a minimum target, and should use any stronger economic growth to further reduce the deficit.

1/ Most privatization operations are accounted for as exceptional dividends paid by a holding company, formally the owner of the shares sold, to the government. In addition, some BF 15 billion has been transferred to the government by the National Lottery as payment for a long-term concession.

2. Federalization and fiscal consolidation

Regions and Communities have in recent years been able to limit their combined deficit well below 1 percent of GDP (Table 2). Although this might be a reflection of responsible expenditure behavior, it could also be an indication that the financing system of the Regions and Communities is not very restrictive. A proper assessment of the contribution of Regions and Communities to overall fiscal consolidation will thus require a more

Table 2. Regions and Communities: Receipts, Expenditure, and Balances, 1989-94

	1989	1990	1991	1992	1993	1994
	(In billions of Belgian francs)					
Receipts	601.4	622.1	674.8	717.2	768.7	813.2
Of which:						
Transfers 1/	509.5	559.8	603.6	635.1	672.8	720.6
Other transfers from federal government	57.4	14.1	16.9	17.0	17.2	15.5
Own resources	34.5	48.2	54.3	65.1	78.7	77.1
Expenditure	584.4	650.2	725.9	770.5	816.3	861.3
Balance	17.0	-28.1	-51.1	-53.2	-47.6	-48.2
	(In percent of GDP)					
Receipts	10.0	9.7	10.0	10.1	10.6	10.7
Of which:						
Transfers 1/	8.4	8.7	9.0	8.9	9.2	9.5
Other transfers from federal government	1.0	0.2	0.3	0.2	0.2	0.2
Own resources	0.6	0.7	0.8	0.9	1.1	1.0
Expenditure	9.7	10.1	10.8	10.8	11.2	11.4
Balance	0.3	-0.4	-0.8	-0.7	-0.7	-0.6

Source: National Bank of Belgium.

1/ Earmarked VAT and personal income tax.

detailed analysis of the mechanism through which these entities are financed out of centrally generated revenues. 1/ Under the transfer mechanism, two periods are effectively distinguished: the final period, which starts in 2000, and the eleven year transition period from 1989 to 1999. The evolution of the total amount available for the Regions and Communities as well as the definition of the distribution key used to allocate this total over the different entities will in what follows be examined for each period. 2/

In the final period, the share each Region or Community will receive out of the total will be determined by its contribution to personal income taxes. The total will increase in line with nominal GNP, except for the VAT based transfers to the Communities which will only be inflation adjusted and, because they are intended to finance education, will also be dependent on the number of people younger than eighteen.

The 1989-99 period is designed to achieve a gradual transition from the initial distribution, that is, the observed share of total spending on the powers devolved in each Region or Community in 1989, to the key envisaged in the final period which is based on relative shares in personal income tax. In the years following 1989, the total initial amount is inflation adjusted but reduced (the reduction being in the order of magnitude of 10 percent annually). Indeed, a rather complex mechanism has been set up to force the Regions and Communities to borrow part of the funds needed, and thus start accumulating debt. The federal government will, however, compensate the Regions and Communities for most of the increased debt service through a system of annuities (calculated on the basis of a 9 or 10 year repayment period). The induced deficits are thus relatively significant in the early years of the transition period; as more and more annuities (each associated with a different year) are added to the reduced transfers in subsequent years, the gap will diminish, and indeed be reversed, toward the end of the transition period. The amount of annuities accumulated in 1999 will be included in the total to be distributed to the Regions and Communities when the final period starts.

1/ Strictly speaking, the transfers are revenues collected by the federal administration on behalf of the Regions and Communities. As such, they do not enter the federal government accounts. The bulk of the transfers are formally considered to be earmarked shares of personal income taxes and of VAT.

2/ The transfer mechanism, which was set up at the time of the 1989 devolution of powers, covers about 90 percent of the total revenue of the Regions and Communities. It has been described at some length in SM/93/253. More detailed information can be found in Claeys and Famerée, "La Loi Spéciale du 16 janvier 1989 Relative au Financement des Communautés et des Regions", Banque Nationale de Belgique, 1989. The 1993 St. Michiels Agreement has resulted in a further small increase of funds to be transferred.

In addition, the gradual shift from the allocation of funds prevailing in 1989 to the one based on the final distribution key has an expansionary effect on the totals disbursed in the transition period. Because the observed initial share that each Region or Community receives out of the 1989 total is substantially different from the one envisaged at the start of the final period, the total increases gradually but substantially during the transition period. Indeed, it was deemed politically impossible that in the post-1989 system a Region or Community would get less than it would have received if the distribution key had remained unchanged at the 1989 level (again, however, with the exception of education related transfers). Such a potential shortfall is neutralized by an upward adjustment of the total available for distribution; as a consequence, transfers to the other entities (which would not have experienced a shortfall in funds when moving to the new distribution key) are also larger than what they would have been if the total had not been increased (the surpluses being named boni). The total amount of boni is estimated to increase from 0.1 percent of GNP in 1990 to around 0.7 percent of GNP in 1999.

The boni system is only one of several aspects of the Financing Law that are relevant from the point of view of overall fiscal consolidation. First, Regions and Communities do not contribute to the service of the existing debt stock at the federal level. They do provide the federal level some temporary relief through the system of induced deficits, but this is reversed at some point towards the end of the transition period as the federal level will increasingly be servicing the debt accumulated at the regional or community level under that system through the multiplication of annuities. More importantly, the zero debt record with which the Regions and Communities started in 1989 has facilitated deficit financing and promotes the creation of additional debt at the regional and community level.

Second, there is no mechanism through which the federal government can influence the amounts transferred to the Regions and Communities. The Financing Law can only be modified by the same majority needed to change the Belgian constitution; furthermore, the variables used in the calculation of the transfers (inflation, nominal GNP growth, interest rates and the number of people younger than 18) are objective parameters beyond the direct control of the authorities.

Third, the Regions and Communities cannot be subjected to any expenditure or deficit norm, though they can voluntarily accept them. The Financing Law provides for a consultation procedure among the different levels, and includes a possibility to limit public borrowing by a Region or Community for a maximum of two years. The procedure is, however, cumbersome and would be politically difficult to implement, in particular if only one Region or Community were to be cited. A prominent role is assigned to the "Borrowing Needs" section of the High Finance Council, on whose recommendation the borrowing limitation process can be initiated.

Lastly, the basic fact that the generation of revenues and the decision making on spending are divided between two policy levels itself does not promote an efficient allocation of resources. It does, however, compare favorably to the situation before the 1989 devolution, when considerations of interregional equity led to an extremely wasteful system of expenditure compensations.

The above considerations should help to understand the effects of the financing mechanism on overall fiscal consolidation. As can be seen from Chart 1, the boni system and the system of annuities have more than offset in the first half of the transition period the downward pressure on the ratio of transfers to GDP associated with the fact that most of the transfers are only inflation adjusted. Given that the initial amounts were based on the 1989 spending levels with respect to the devolved powers, the actual transfers to Regions and Communities have to be considered as rather generous.

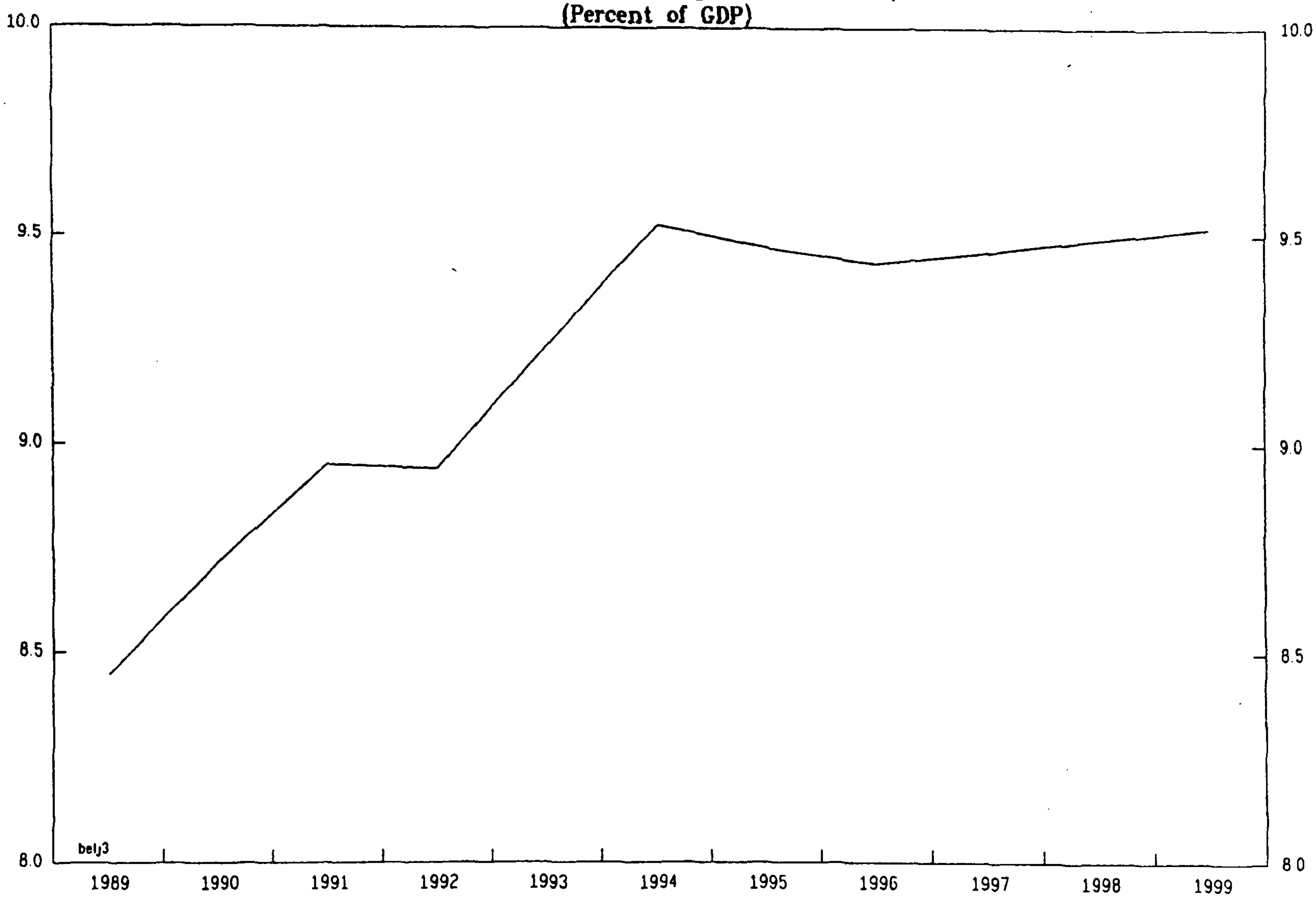
Furthermore, whereas the overall financing provided by the 1989 law does not seem to be restrictive, the amounts supplied to some entities, in particular to the Communities for education, are. As a result, the Financing Law was amended in 1993 in the context of the St. Michiels Agreement to allow for an additional earmarking of funds. The modified law also introduced a partial but increasing link to real GNP during the transition period for a number of transfer items (including those to the Regions). All in all, the additional sums transferred are estimated to amount to some BF 10 billion in 1993 and will increase to some BF 51 billion in 2000.

One could argue that the transfers, which amount to some 10 percent of GDP, constitute only a relatively small part of total government revenues. However, taken together with interest expenditure, which is of the same order of magnitude, this implies that over 40 percent of total government revenues can be considered as 'earmarked', and thus are unavailable for consolidation efforts.

Despite the financing available, Regions and Communities have not aimed for balanced budgets or surpluses. As mentioned earlier, the Financing Law explicitly suggested that Regions and Communities would run deficits in the transition period. As a result, Regions and Communities have accumulated debt over the last five years. The Law does not, however, contain provisions requiring Regions and Communities to decrease accumulated debt levels once the intended financing shortfall is reversed.

Within the framework of the High Council, Regions and Communities have agreed in 1993 to stabilize their debt-to-revenue ratios after 2000 (2010 for the Flemish Community). Consistent with this objective, they agreed in July 1994 to reduce their overall deficit position from 0.6 percent in 1995 to 0.3 percent in 1997. Although the debt stabilization objective constitutes a cap on the relative size of the overall debt burden of the

CHART 1
BELGIUM
Transfers To The Regions and Communities
In The Transition Stage 1989-1999 1/
(Percent of GDP)



Source: Data provided by the authorities and staff estimates.
1/ Transfers shown are earmarked VAT and personal income tax.

Regions and Communities, it does confirm that over the medium-term, deficits and rising debt levels will be considered normal. The next section will discuss in some detail the implications of future expenditure behavior of the Regions and Communities for fiscal consolidation.

3. Medium-term fiscal scenarios

As mentioned earlier, the devolution of fiscal powers over different policy levels in Belgium combined with the particularities of the associated financing mechanism, has implications for the medium-term fiscal strategy in Belgium. In this section, the evolution of the public finances over the period 1995-1999 is simulated under the assumption of moderate (near potential) medium-term real growth with low inflation. 1/ Interest rates are assumed to remain unchanged at current levels, and the expected effects on revenue and expenditure of the measures announced in the global plan are incorporated. In the baseline scenario, which assumes no new measures, the deficit decreases slowly over the period 1995-1996, with the Maastricht target in 1996 still overshot by some 1.5 percent of GDP (Chart 2). The drop is mainly explained by the gradual decline in interest charges (as a share of GDP) and the moderate real wage growth for civil servants (due to the real wage freeze), which is not completely offset by growth in health care expenditure which is assumed to exceed potential output growth. Beyond 1996, interest charges as a share of GDP still fall, but are more than compensated for by the growth in other expenditure items; as a result, the deficit begins creeping up again. Because the deficit to debt ratio is smaller than the nominal GDP growth rate, the debt to GDP ratio starts falling, be it at a moderate pace.

An alternative scenario assumes the implementation of additional policy measures aimed at meeting the declared targets: for 1995-1996, deficit objectives of 4.3 and 3 percent are assumed to be met, and a primary surplus target of 6 percent is assumed to be maintained beyond 1996 (Chart 2). The extent of the measures needed is plotted in Chart 3; all measures are assumed to be structural (i.e., recurrent) and take the form of expenditure cuts. The bulk of the adjustment needed is concentrated in the early years; beyond 1997, the accelerated drop in interest charges only requires expenditure to decrease slightly as a share of GDP. The projected expenditure path is thus consistent with the claim made by the Prime Minister in his September 1994 address to the Belgian Parliament: meeting a primary surplus target of 6 percent or above will allow for a gradual increase in real primary expenditure of general government.

It is, however, less clear at what level of government the adjustment will take place. As mentioned in the previous section, funds transferred to the Regions and Communities are a function of parameters that are beyond the

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1/ Real growth is assumed to be 2 1/2 percent annually in 1995-1996, and 2 1/4 afterwards; inflation is set at 2.3 percent in 1995 and at 2.5 percent in 1996-99.

control of the federal authorities; the distribution of the adjustment effort will thus crucially depend on spending behavior at the regional or community level. Two sets of assumptions will be used: in a first one, the Regions and Communities respect the deficit targets for 1995-1997 agreed upon in July 1994, implying a substantial reduction in real primary expenditure growth rates; for the period beyond 1997, a steadily declining deficit is assumed, resulting in a balanced combined budget in the year 2000. Under a less optimistic set of assumptions, the 1994 real growth rate of non-interest expenditure of the Regions and Communities is kept constant over the projection period, resulting in gradually widening balances. 1/ In both cases, unchanged policies are assumed at the local authorities level, allowing one to disregard this sector.

The results of both simulations are summarized in Chart 4. A first observation concerns the 1995-1996 period; for general government, meeting the 4.3 and 3 percent deficit targets requires almost zero growth of total primary expenditure (0.3 percent) in 1995, and a 0.4 percent contraction in 1996. Compared to the observed growth rates of real primary expenditure over the 1990-1994 period (never less than 1 percent, and averaging around 2.3 percent), the required adjustment effort seems very substantial. For the Regions and Communities, meeting their announced 1995-1996 deficit targets will require a substantial slowdown of real growth rates for non-interest expenditure: from 2.5 in 1994 to 1.2 percent in 1995 and 0.3 percent in 1996. As this effort compares unfavorably to what is required to meet the Maastricht criteria, the remaining effort for the federal government and social security combined will be more pronounced: it will require zero real growth in 1995 and a 0.7 percent drop in 1996. However, if the Regions and Communities did not meet their targets but instead let real non-interest expenditure grow at the 2.5 percent observed in 1994 (which was already the lowest growth rate over the period 1990-1994), the adjustment at the other two levels combined would have to be substantially stronger, implying a 0.5 and 1.4 percent contraction over the 1995-1996 period.

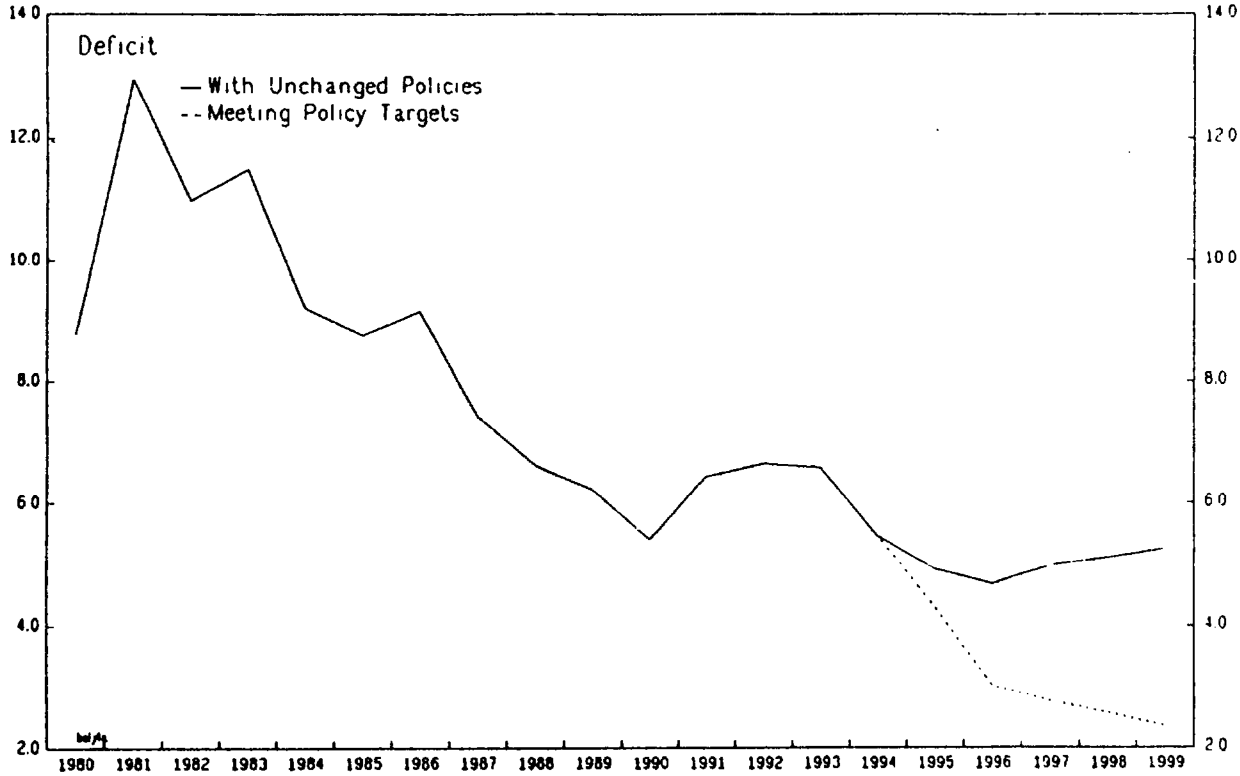
The implications of the primary balance target for the period 1997-1999 are less dramatic: some additional effort will be needed in 1997, allowing general government real non-interest expenditure to grow by 1.6 percent; for 1998-1999, real growth rates close to the GDP growth rate are feasible. The assumed expenditure behavior of Regions and Communities will have its implications for the federal level and social security: if the assumed path of deficit reduction at the regional and community level is maintained, real non-interest expenditure at the combined level of federal government and social security could be allowed to grow slightly more than needed at the level of general government; if the Regions and Communities maintain their 1994 real spending rate, stronger adjustment will be needed at the other levels, in particular in 1997.

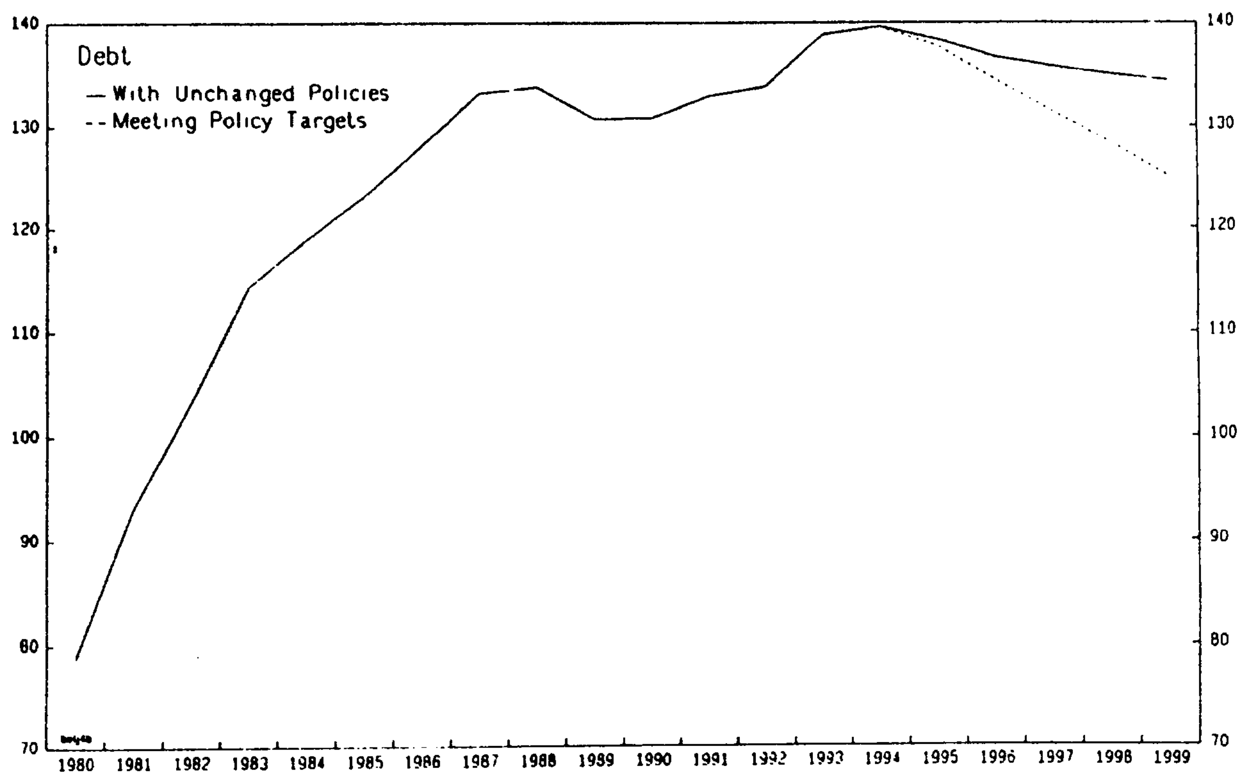
1/ Nominal expenditure is deflated by the consumer price index.

CHART 2
BELGIUM

General Government Deficit and Debt

(Percent of GDP)





Source: Staff estimates

CHART 3
BELGIUM

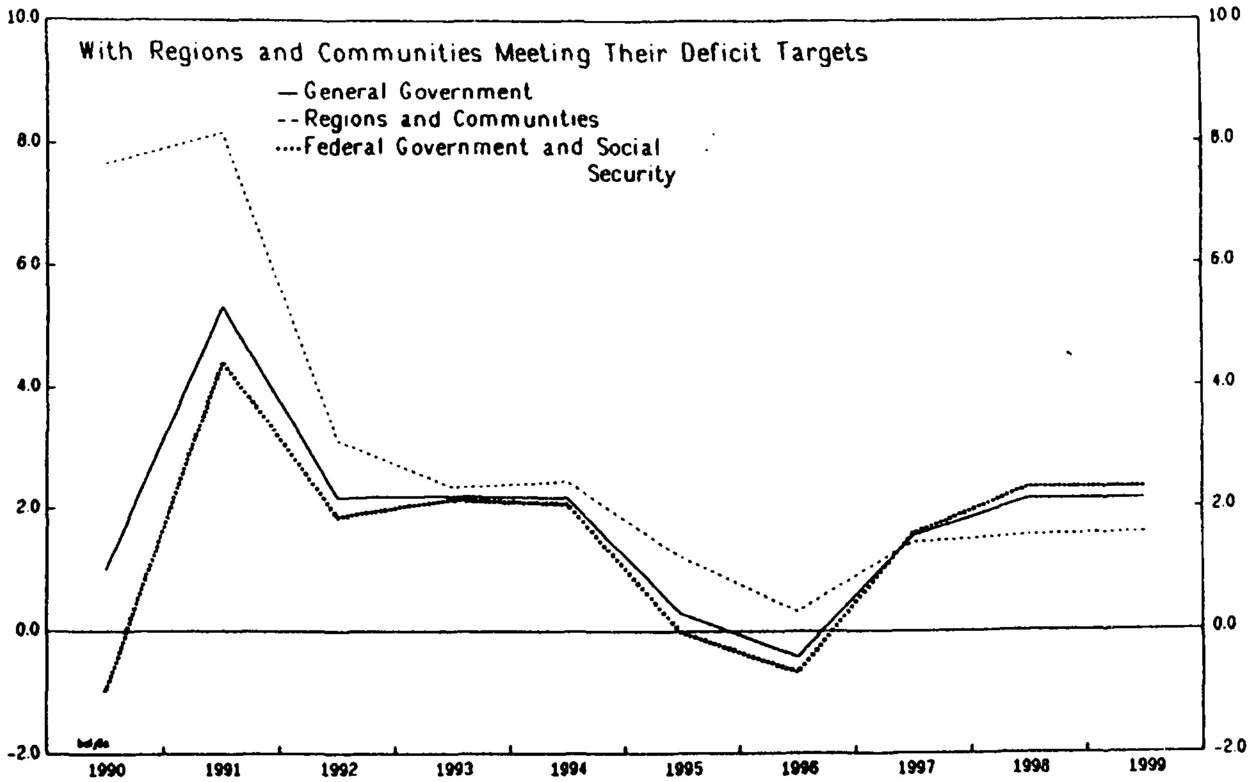
General Government Deficit Reduction Measures

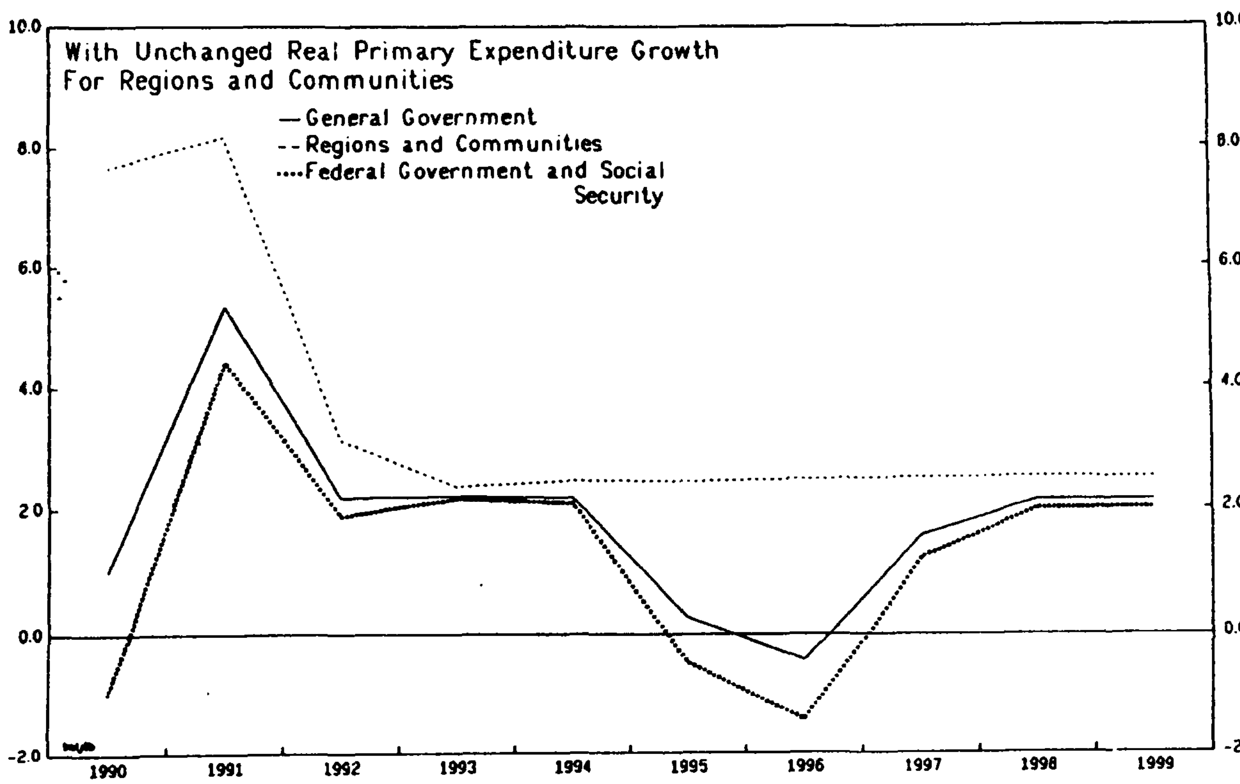
(Percent of GDP)

Source: Staff estimates.

CHART 4
BELGIUM

Growth Rates of Real Primary Expenditure 1/
(In Percent)





Source: Staff calculations and projections.
1/ Assuming government targets are met for 1995-99 by reducing expenditure; using CPI as deflator.

4. Conclusions

The preceding analysis was intended to highlight some characteristics of Belgian medium-term fiscal policy. First, while there remains a compelling need for fiscal adjustment for purely domestic reasons, it is clear that the perspective of European Monetary Union has induced the authorities for the first time to formulate fiscal policy in a medium-term framework, with well-defined targets and a strong commitment to meet them.

Second, the road to 1996 has proven to be more difficult than expected; meeting the 3 percent target for the general government deficit will require additional adjustment measures of the order of 1.5 percent of GDP. Assuming no new revenue measures, this will imply that there is no scope for an increase in real primary expenditure over the period 1995-1996.

Third, the rather unbalanced way in which the financing of the Regions and Communities has been organized has resulted in more expansionary policies at that level compared with the fiscal restraint imposed on the social security system and the federal government in recent years. Features of the 1989 Finance Law such as the incentive to create new debt at the level of Regions and Communities without providing an incentive to reduce that debt stock once the shortfall in financing is reversed are perverse from the point of view of fiscal consolidation, as are the boni system, the lack of participation of the Regions and Communities in servicing the national debt, and the unbalanced distribution of funds among the Regions on the one hand and the Communities on the other. Limiting or reversing the negative impact of the current financing system on overall fiscal consolidation will thus require responsible expenditure behavior by the Regions and Communities.

Fourth, whereas the adjustment effort needed to meet a 3 percent deficit in 1996 is substantial, maintaining a 6 percent primary surplus target for the period beyond 1996 would allow primary expenditure to grow almost in line with GDP, while reducing the debt ratio in a sustained fashion as well as gradually reducing the general government deficit below 3 percent of GDP. It is therefore essential to make the additional near-term effort, which would then allow some of the benefits of Belgium's long period of fiscal adjustment to be reaped.

Table A1. Belgium: Macroeconomic Performance in Comparison with European Partner Countries 1/

(Changes in percent)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994 2/
Real GDP										
Belgium	0.8	1.4	2.0	4.9	3.5	3.2	2.3	1.9	-1.7	2.0
Germany	2.0	2.3	1.5	3.7	3.6	5.7	2.9	2.2	-1.1	2.3
European Union	2.5	2.9	2.9	4.3	3.5	3.0	1.2	1.1	-0.3	2.1
Inflation 3/										
Belgium	4.9	1.3	1.6	1.2	3.1	3.5	3.2	2.4	2.8	2.5
Germany	2.1	-0.1	0.2	1.3	2.8	2.7	4.6	4.9	4.7	3.1
European Union	5.9	3.6	3.2	3.5	4.8	5.3	5.3	4.6	3.8	3.1
Employment										
Belgium	0.6	0.7	0.5	1.5	1.6	1.4	0.1	-0.5	-1.4	-0.7
Germany	0.7	1.4	0.7	0.8	1.5	3.0	-2.3	-1.7	-1.9	-1.2
European Union	0.4	0.9	1.1	1.7	1.7	1.6	-0.8	-1.4	-2.1	-0.6
Unemployment Rate 4/										
Belgium	11.3	11.2	11.0	9.7	8.0	7.2	7.2	8.0	9.6	10.3
Germany	8.2	7.9	7.9	7.8	6.8	6.2	6.7	7.7	8.9	9.8
European Union	11.0	11.0	10.9	10.2	9.2	8.6	9.1	10.0	11.2	11.8
Current account 5/										
Belgium	0.9	2.8	2.0	2.4	2.4	2.4	2.3	2.8	5.9	5.7
Germany	2.7	4.5	4.1	4.2	4.9	2.9	-1.1	-1.1	-1.0	-0.8
European Union	0.7	1.4	0.7	0.3	0.0	-0.3	-1.0	-0.9	0.1	0.6
General government deficit 6/										
Belgium	-8.8	-9.2	-7.4	-6.6	-6.2	-5.4	-6.5	-6.7	-6.6	-5.5
Germany	-0.2	-0.1	-0.2	-0.2	0.0	-0.1	-0.2	-0.1	-0.2	-0.1
European Union	-5.1	-4.7	-4.2	-3.6	-2.9	-4.1	-4.7	-5.3	-6.5	-5.9

Sources: IMF, World Economic Outlook; OECD, Historical Statistics and Economic Outlook; and staff estimates.

1/ Members of the European Union.
2/ Staff estimates.
3/ Consumer price index.
4/ Standardized OECD rate.
5/ In percent of GDP. For Belgium, refers to position of BLEU.
6/ National accounts basis, in percent of GNP/GDP, excluding net lending.

Table A2. Belgium: Aggregate Demand in Constant Prices 1/

	Shares in GNP in Current Prices				Changes in percent				
	1980	1985	1990	1993	1990	1991	1992	1993	1994 2/
Private consumption	63.8	66.5	63.3	62.3	3.7	2.9	2.2	-1.4	0.8
Public consumption	17.9	17.5	14.7	15.2	0.3	2.4	0.4	1.9	1.7
Gross fixed investment	21.3	15.9	20.5	17.8	10.2	-1.4	0.1	-5.9	2.4
Public	3.7	2.3	1.4	1.5	5.6	10.2	3.0	2.1	10.0
Residential	6.6	3.3	5.1	5.2	8.5	-0.8	12.5	-2.0	0.5
Private non-residential	11.0	10.3	14.1	11.0	11.3	-2.7	-4.5	-8.5	1.5
Exports of goods and services 4/	63.4	78.1	74.6	68.5	4.1	2.6	3.9	1.6	3.8
Imports of goods and services 4/	65.9	75.5	71.8	63.4	4.2	2.4	4.1	1.6	2.9
Total domestic demand	103.8	99.1	98.5	95.2	4.2	1.9	1.7	-2.0	1.1
Foreign balance 3/	-2.6	2.5	2.7	5.1	-0.0	0.2	-0.3	0.0	0.9
GDP	100.8	101.6	101.0	99.5	3.2	2.3	1.9	-1.7	2.0
Net factor income 3/	-0.8	-1.6	-1.0	0.5	-0.5	0.7	-0.2	1.0	-0.1
GNP	100.0	100.0	100.0	100.0	2.8	2.9	1.7	-0.7	1.9

Sources: Data supplied by the National Bank of Belgium; and staff estimates.

1/ 1985 (market) prices.
2/ Staff estimates.
3/ Ratios to GNP in the first four columns and contributions to growth in percent in the remaining five.
4/ Excluding factor incomes.

Table A3. Belgium: Growth of Output by Sector 1/

(Shares and changes in percent) 2/

	Shares			Changes in Percent				
	1985	1990	1992	1989	1990	1991	1992	1993
Gross domestic product	100.0	100.0	100.0	3.5	3.2	2.3	1.9	-1.7
Agriculture, horticulture and fishing	2.4	2.0	2.4	1.2	-3.3	6.8	12.0	3.4
Manufacturing	23.7	22.8	22.1	6.0	1.1	-0.4	-0.1	-3.5
Electricity, gas, and water	3.7	3.7	3.8	0.4	3.1	3.4	1.3	-1.3
Construction	5.3	6.2	6.4	6.5	6.8	2.8	3.2	-7.0
Market services 3/	50.6	51.5	53.5	4.0	2.2	3.6	2.9	-1.1
Nonmarket services 4/	14.4	12.7	13.0	0.7	1.6	1.3	2.9	2.0

Sources: National Bank of Belgium, Annual Report 1993; and data provided by the authorities.

1/ Measured in value added at constant prices.

2/ At constant prices.

3/ Trade, transport and communication, financial services, insurance and other services rendered to enterprises; and medical professions, home rental, domestic and other services rendered to individuals.

4/ Public services.

Table A4. Belgium: Household Income and Spending

(Changes in percent; current prices)

	1989	1990	1991	1992	1993
Compensation of employees	4.7	8.6	8.0	5.3	2.5
Income of self-employed	9.7	5.0	3.8	2.8	0.9
Property income	13.8	9.5	8.8	9.0	6.4
Current transfers	5.5	5.4	9.0	5.6	5.1
Personal income	7.0	7.6	7.9	5.8	3.7
Direct taxes	-0.8	10.3	1.7	7.6	2.3
Social security contributions	5.5	7.2	8.2	6.1	4.1
Disposable income	8.9	6.9	9.0	5.4	3.5
Consumption	6.4	7.3	6.2	5.1	1.6
Saving	16.1	8.5	24.6	7.9	11.3
Gross capital formation	20.0	16.5	-0.3	11.0	-1.2
Memorandum items: 1/					
Real disposable income	5.6	3.3	5.6	2.5	0.1
Real current transfers	2.3	1.8	5.6	3.1	2.3
Saving ratio 2/	17.1	17.4	19.9	20.3	21.5
Financial saving ratio 3/	8.8	8.3	11.5	11.7	13.7

Sources: Data provided by the authorities; and staff estimates.

1/ All real variables are deflated by the consumer price index.
2/ As a percentage of gross disposable income.
3/ Net financing capacity as a percentage of gross disposable income.

Table A5. Belgium: Enterprise Income and Spending 1/

(In percent of GNP)

	1980	1988	1989	1990	1991	1992	1993
Gross operating surplus before subsidies	8.3	14.8	16.2	15.3	13.8	13.7	13.3
Subsidies	4.0	3.3	2.8	3.0	3.1	2.8	2.7
Gross operating surplus (including subsidies)	12.4	18.1	19.0	18.2	16.9	16.5	16.0
Net property income paid	2.9	3.1	3.4	4.1	4.5	4.6	4.0
Gross primary income	9.5	15.0	15.6	14.2	12.4	11.9	11.9
Transfer to other sectors (including taxes)	2.3	2.8	2.6	2.2	2.1	1.8	1.9
Disposable income (gross savings)	7.0	11.9	12.8	11.8	10.0	9.8	9.8
Net capital transfers	1.1	0.6	0.6	0.4	0.5	0.6	0.5
Gross investment	10.8	10.4	11.7	12.3	11.7	10.9	9.8
Net financing capacity (+) or requirement (-)	-2.7	2.1	1.7	-0.2	-1.1	-0.5	0.5

Source: Data supplied by the authorities.

1/ SEC national accounts definitions.

Table A6. Belgium: Profitability of Enterprises

(In percent)

	1988	1989	1990	1991	1992	1993
Business sector						
Profit share 1/	35.0	35.1	33.1	32.3	32.6	31.7
Rate of return 2/	10.9	13.6	8.5	7.4	7.6	6.9
Memorandum items:						
Real GDP growth	4.9	3.5	3.2	2.3	1.9	-1.7
Industrial production growth	5.9	3.5	3.6	-2.0	-0.1	-4.9
Rate of capacity utilization	78.8	80.8	80.9	78.8	76.8	75.2
Real interest rate 3/	6.7	5.5	6.6	6.1	6.2	4.4

Sources: National Bank of Belgium, Economic Indicators for Belgium; IMF, International Financial Statistics; and data provided by the authorities.

1/ Gross operating surplus as a share of value added.
2/ Net result after taxes as a share of own capital.
3/ Government bond yield minus rate of change of consumer price index.

Table A7. Belgium: Sectoral Breakdown of Fixed Investment

(In percent; 1985 prices)

	Shares in total				Annual growth rates		
	1980	1985	1990	1993	1991	1992	1993
Agriculture	2.1	2.5	1.9	1.5	-27.2	5.7	-3.9
Mining	0.4	0.5	0.7	0.5	-0.4	-28.1	-9.5
Manufacturing	14.5	21.3	29.2	19.7	-2.7	-9.9	-27.3
Construction	1.7	1.7	2.3	1.8	-10.1	-3.2	-13.4
Utilities	5.5	6.4	3.3	4.9	5.3	20.4	10.1
Commerce, banking and insurance	11.0	15.3	16.5	15.1	-2.3	-4.0	-7.8
Transport and communication	12.1	12.5	7.7	10.2	-5.1	-2.0	34.6
Housing	29.4	20.5	23.3	25.9	-0.9	10.0	-4.0
Other 1/	23.4	19.2	15.0	20.2	17.5	1.9	6.6
Total	100.0	100.0	100.0	100.0	0.3	-0.5	-5.5

Source: Data provided by the authorities.

1/ Includes public sector investment.

Table A8. Belgium: Labor Force and Employment

(Changes in thousands) 1/

	1988	1989	1990	1991	1992	1993
Labor force	27	41	55	38	22	-1
Men	-7	13	11	5	-7	-7
Women	35	28	44	33	29	5
Of which:						
Incidence of early retirement, etc. 2/	16	23	21	7	-5	-24
Men	6	6	3	-2	-4	-4
Women	10	17	18	9	-1	-20
Employment	53	58	54	5	-18	-53
General government 3/	3	-2	4	-13	-2	-5
Of which:						
Employment programs	2	2	-0	-4	4	0
Enterprise sector	51	60	48	18	-15	-47
Agriculture, horticulture, fishing	-2	-1	-1	-2	-3	-3
Industry	-13	12	-1	-13	-20	-34
Construction	8	13	10	7	3	-3
Market services	58	37	39	26	7	-7
Memorandum items:						
Participation rates 4/						
Total	62	62	63	63	63	64
Men	72	72	73	73	73	72
Women	51	52	52	53	54	55

Source: National Bank of Belgium, Annual Report 1993; and data provided by the authorities.

1/ As of June 30 of each year.
2/ Includes also older unemployed who no longer register as unemployed and beneficiaries of career interruption and unemployment interruption schemes.
3/ Including public sector employment programs such as the *cadre special temporaire* (CST), the *troisieme circuit de travail* (TCT), and the subsidized employment of the local authorities, etc. Excluding public enterprises.
4/ Net labor force (excluding early and tempory withdrawals) as percent of working age population.

Table A9. Belgium: Incidence and Structure of Unemployment

(Period averages, in thousands and in percent)

	1980	1987	1988	1989	1990	1991	1992	1993
Insured unemployed 1/	321.9	434.7	397.9	363.9	347.9	368.7	410.7	475.9
Other registered unemployed 2/	46.9	66.1	61.6	55.4	54.9	60.8	62.2	73.9
Total	368.8	500.8	459.5	419.3	402.8	429.5	472.9	549.8
Unemployed aged, not seeking job	--	66.0	70.9	72.9	72.4	73.9	74.1	74.3
Total full-time unemployment	327.9	514.2	491.6	474.1	472.2	503.3	542.7	596.2
Part-time unemployed 3/	94.2	243.0	255.6	279.2	279.4	279.7	277.9	253.7
Total unemployment	422.1	757.2	747.2	753.3	751.6	783.0	820.6	849.9
Others receiving benefits	75.8	147.1	159.9	174.8	186.8	190.1	197.5	194.3
Total receiving unemployment benefits 4/	497.9	904.3	907.1	928.1	938.4	973.1	1,018.1	1,044.2
Unemployment rates								
Standardized rate (OECD)	8.8	11.0	9.7	8.0	7.2	7.2	8.0	9.6
National concept								
Total	9.1	12.2	11.1	10.1	9.6	10.2	11.2	13.0
Male	5.5	8.6	7.7	6.9	6.6	7.3	8.1	9.7
Female	15.0	17.4	16.0	14.7	13.9	14.3	15.3	17.4
Duration of unemployment 5/								
Less than one year	42.1	33.3	33.9	35.8	38.7	43.0	43.1	43.2
1-2 years	16.7	17.1	16.9	16.2	16.0	16.9	19.0	19.2
More than two years	41.2	49.7	49.1	48.0	45.3	40.1	37.9	37.6
Memorandum item:								
Unfilled vacancies 6/	5.9	14.7	21.5	23.2	18.8	16.2	16.9	14.6

Sources: Ministry of Labor and Employment, Evolution du marche du travail; Ministry of Finance, Note de Conjoncture; and data provided by the authorities.

1/ Combines unemployed who are insured on account of earlier contributions and school leavers who are considered insured unemployed after a waiting period of 75 to 150 days. Data exclude those unemployed, aged 50 and over, who are no longer registered as unemployed but still received unemployment compensation.
2/ Includes school leavers without job up to 150 days after leaving school.
3/ Includes temporarily unemployed.
4/ Includes early retirement and career breaks.
5/ In percent of insured unemployed.
6/ In thousands of persons.

Table A10. Belgium: Official Schemes for the Absorption of Unemployment 1/

(As of June 30, in thousands)

	1980	1988	1989	1990	1991	1992	1993
Special temporary employment scheme (cadre special temporaire) 2/	29.9	6.1	3.2	--	--	--	--
Third employment circuit (troisieme circuit de travail) 2/	--	20.1	22.8	23.3	14.1	13.3	12.7
Jobless employed in the public service (chomeurs mis au travail)	37.3	16.7	13.0	--	--	--	--
Vocational training (stage)	29.3	35.5	36.2	32.0	26.4	21.5	15.6
Subsidized government employment 3/	--	39.8	46.0	61.5	61.5	63.6	...
Employment schemes, total	96.5	121.1	132.4	128.2	118.9	118.1	...
Early retirement (prepension)	74.8	158.0	160.7	163.2	158.1	151.4	145.7
Interruption of career	--	13.1	17.9	27.1	28.8	29.0	26.6
Interruption of unemployment	--	8.3	21.4	36.3	44.1	41.0	24.6
Aged unemployed no longer registered	--	70.7	72.8	71.7	74.2	74.1	74.7
Retirement schemes, total	74.8	250.0	272.9	298.2	305.2	295.5	271.6
Total	171.3	371.1	405.3	426.4	424.1	413.6	...
As percentage of labor force	4.1	8.5	9.2	9.5	9.4	9.1	...

Sources: Ministry of Finance, Note de Conjoncture; Ministry of Labor and Employment, Chomage et Remise au Travail; and data supplied by the National Bank of Belgium.

1/ The schemes covered in this table are: (a) the promotion of early retirement (prepension); (b) incentives for the temporary retirement of an active worker from the labor force when replaced by an unemployed (interruption of career); (c) the temporary exoneration of an unemployed from job seeking requirements for family or social reasons (interruption of unemployment); (d) a requirement of firms to absorb a large part of school leavers into training schemes (stage); (e) the employment of eligible unemployed in special temporary employment schemes which provide public interest jobs in both government and in nongovernment profit organizations (cadre special temporaire); (f) the employment of jobless in the public service (chomeurs mis au travail); (g) a special employment support for the long-term unemployed (troisieme circuit de travail).

2/ Full-time and half-time.

3/ Contracts for subsidized employment in the public sector have since the beginning of 1987 increasingly replaced employment under the first three above employment schemes.

Table A11. Belgium: Indicators of Costs and Productivity 1/

(Changes in percent from same period of preceding year)

	1988	1989	1990	1991	1992	1993
Compensation per employee	1.5	4.1	7.2	8.1	6.8	4.4
Productivity	3.3	2.4	1.9	2.9	3.2	0.2
Unit labor costs	-1.7	1.7	5.2	5.0	3.5	4.2
Output prices	1.9	5.4	0.9	1.0	0.5	1.1
Domestic	1.4	3.5	3.3	2.9	2.7	2.5
Export	2.9	7.1	-1.7	-0.3	-1.0	-0.4
Gross operating surplus per unit sold	6.7	9.7	-3.5	-5.8	-1.1	-5.3

Source: National Bank of Belgium, Annual Report 1993.

1/ Enterprise sector.

Table A12. Belgium: Price Developments

(Changes in percent from preceding year)

	1989	1990	1991	1992	1993
GNP deflator	4.8	3.1	2.7	3.4	4.4
Total domestic demand deflator	3.6	3.4	3.3	3.0	3.0
Consumer price index	3.1	3.5	3.2	2.4	2.8
Energy	6.6	6.8	2.7	-1.1	3.6
Food	3.0	3.7	2.0	-0.1	-0.8
Services	2.5	3.2	4.4	4.2	3.8
Rents	3.0	3.2	3.0	5.9	5.3
Other products	2.5	2.5	3.0	2.4	2.8
Wholesale price index	6.5	-0.9	-1.1	-1.7	...
Industrial products	5.7	0.6	-1.1	0.2	-1.0
Agricultural products	10.3	-5.0	0.1	-2.5	-7.6

Sources: National Bank of Belgium, Annual Report 1993; Ministry of Finance, Note de Conjoncture; and International Monetary Fund, International Financial Statistics.

Table A13. Belgium: Selected Fiscal Indicators

(In percent of GDP, national accounts basis)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Central Government 1/										
Revenue 2/	31.7	30.5	30.6	29.4	28.6	28.8	28.2	28.0	28.8	30.3
Expenditure 3/	41.1	40.6	38.0	36.5	35.6	34.7	34.4	34.6	34.7	35.3
Overall balance 3/	-9.4	-10.2	-7.4	-7.1	-7.0	-5.9	-6.2	-6.6	-5.9	-5.0
Excluding interest payments	0.1	-0.0	2.3	2.2	2.7	4.3	3.6	3.6	4.2	4.8
Debt outstanding (net)	111.9	117.2	122.3	123.8	121.9	122.5	124.5	126.8	131.0	...
General Government										
Revenue	49.9	48.8	49.2	47.5	46.1	46.4	46.4	46.3	47.3	48.4
Of which:										
Direct taxes	19.8	19.3	19.0	18.2	16.9	17.1	16.7	16.5	16.6	17.5
Indirect taxes	12.3	11.9	12.4	12.1	12.2	12.2	12.2	12.3	12.4	12.8
Social security contributions	15.7	15.9	16.2	15.7	15.3	15.4	15.9	16.0	16.3	15.9
Expenditure 3/	58.7	58.0	56.6	54.2	52.4	51.8	52.9	53.0	53.9	53.9
Of which:										
Interest payments	10.7	11.3	10.7	10.2	10.5	10.7	10.3	10.7	10.5	10.2
Social transfers	22.9	22.6	22.8	21.8	21.3	21.1	21.9	21.9	22.4	22.6
Transfers to enterprises 4/	4.4	4.1	3.6	3.8	3.3	3.0	3.0	2.8	2.9	...
Gross fixed investment	2.2	2.0	1.8	1.8	1.4	1.4	1.5	1.5	1.5	1.6
Overall balance 3/	-8.8	-9.2	-7.4	-6.6	-6.2	-5.4	-6.5	-6.7	-6.6	-5.5
Excluding interest payments	1.9	2.1	3.3	3.6	4.2	5.3	3.8	4.0	3.9	4.7
Including net lending	-11.3	-11.2	-9.5	-7.9	-7.1	-6.8	-7.9	-7.6	...	...
Current balance	-5.4	-6.3	-4.8	-4.1	-4.2	-3.5	-4.3	-4.4	-4.3	-3.1
Capital balance 3/	-3.4	-2.9	-2.6	-2.6	-2.0	-2.0	-2.1	-2.2	-2.3	-2.3
Debt outstanding (net)	115.1	120.0	124.6	125.6	123.2	123.1	124.6	126.5	131.5	...

Sources: Data provided by the authorities; and staff estimates.

1/ Includes Federal Government, Regions and Communities, and debudgetized operations.

2/ Includes receipts from privatization operations for 1993-94.

3/ Excluding credit and equity participations in public enterprises (net lending).

4/ Current subsidies plus capital transfers.

Table A14. Belgium: Cross Country Comparisons of General Government Balances and Gross Debt

(In percent of GDP/GNP)

	1987	1988	1989	1990	1991	1992	1993	1994
Fiscal balance 1/								
Belgium	-7.4	-6.6	-6.2	-5.4	-6.5	-6.7	-6.6	-5.5
France	-1.9	-1.6	-1.3	-1.6	-2.3	-3.9	-5.8	-5.5
Germany	-1.9	-2.1	0.1	-1.9	-2.9	-2.4	-3.2	-2.6
Italy	-11.3	-11.0	-10.3	-11.4	-10.7	-10.0	-10.0	-9.6
United Kingdom	-1.4	1.0	0.9	-1.2	-3.1	-6.2	-8.1	-6.9
Gross Debt								
Belgium	133.2	133.8	130.7	130.8	132.9	133.8	138.9	139.5
France	33.6	33.7	34.4	35.4	35.4	39.4	44.4	49.2
Germany	42.6	43.1	41.8	39.9	41.1	43.7	47.3	51.2
Italy	96.3	98.8	102.1	104.9	106.6	116.3	123.2	125.8
United Kingdom	49.6	44.7	39.3	34.6	33.8	35.0	39.3	44.1

Sources: International Monetary Fund, World Economic Outlook; and staff calculations.

1/ National accounts basis, excluding net lending.

Table A15. Belgium: Consolidated Revenue, Expenditure, and Net Financing Requirement of General Government 1/

(In billions of Belgian francs; national accounts basis)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
1. Total revenue	2,366.8	2,438.2	2,562.2	2,644.3	2,781.2	2,980.4	3,131.0	3,290.5	3,444.0	3,664.3
Direct taxes	939.3	964.0	989.9	1,012.4	1,021.6	1,098.7	1,123.3	1,169.7	1,210.8	1,326.0
Indirect taxes	582.0	594.7	645.1	675.5	737.5	785.7	821.8	870.5	905.3	969.7
Social security contributions	747.2	794.4	842.0	876.1	924.6	991.1	1,072.3	1,137.8	1,184.4	1,200.3
Capital receipts	13.1	14.1	15.5	16.4	16.6	19.9	22.6	23.5	24.4	25.4
Nontax revenue	85.2	71.1	69.8	63.9	80.9	85.0	91.1	89.0	119.2	142.8
2. Total expenditure 2/	2,783.5	2,896.1	2,950.1	3,013.8	3,158.0	3,329.0	3,566.4	3,763.7	3,924.7	4,077.7
Of which:										
Noninterest expenditure	2,275.9	2,333.3	2,392.6	2,445.6	2,526.9	2,641.5	2,871.5	3,004.9	3,157.7	3,307.4
Current expenditure	2,610.7	2,738.2	2,797.7	2,853.5	3,018.0	3,182.7	3,401.6	3,580.5	3,735.6	3,876.0
Consumption	798.6	828.8	832.5	832.3	869.0	909.9	980.4	1,018.0	1,083.5	1,135.6
Interest payments	507.6	562.7	557.5	568.2	631.1	687.5	694.9	758.8	767.0	770.3
Transfers to households	1,088.8	1,129.4	1,186.5	1,210.3	1,286.9	1,353.8	1,474.8	1,557.9	1,634.4	1,708.5
Subsidies	148.5	146.2	136.2	151.4	139.2	141.0	144.0	140.0	145.8	146.5
Other current expenditure	67.2	71.0	85.1	91.3	91.8	90.5	107.6	105.9	104.8	115.2
Capital expenditure 2/	172.8	157.9	152.4	160.3	140.1	146.3	164.8	183.2	189.1	201.7
Gross fixed investment	106.0	100.2	93.4	100.2	81.8	88.7	98.9	105.6	109.5	123.7
Capital transfers 2/	66.8	57.7	59.0	60.1	58.3	57.6	65.9	77.6	79.6	78.0
3. Net financing capacity 2/ or requirement (-)	-416.7	-457.9	-387.9	-369.5	-376.9	-348.6	-435.4	-473.2	-480.7	-413.4
Of which:										
Central Government	-448.0	-507.1	-384.9	-394.7	-422.9	-378.5	-419.7	-471.8	-431.3	-376.3
Local authorities	-0.3	5.0	-7.2	-21.4	-4.1	-3.4	3.7	9.3	-13.4	-18.9
Social security system	31.7	44.1	4.2	46.6	50.2	33.4	-19.4	-10.7	-36.0	-18.2
Memorandum Item:										
Expenditure on:										
Net lending	117.8	101.2	107.1	69.3	52.2	85.3	96.3	63.6	...	...
Military 3/	128.7	134.1	133.3	129.6	125.8	130.7	135.1	...	...	...

Source: Data provided by the National Bank of Belgium.

1/ Central Government, local authorities and social security system.

2/ Excluding net lending.

3/ Including military pensions (BF 23 billion in 1991).

Table A16. Belgium: Trends in Real General Government Expenditure 1/

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
					(Percent changes at constant prices)					
Current expenditure	0.8	1.1	-0.2	0.2	1.0	2.3	4.2	1.9	-0.0	2.0
Goods and services	1.3	-0.0	-1.9	-1.8	-0.4	1.6	5.1	0.4	2.1	3.0
Interest payments	9.5	7.0	-3.3	0.1	6.3	5.8	-1.6	5.8	-3.3	-1.4
Social transfers	-1.5	-0.1	2.7	0.2	1.6	2.1	6.2	2.2	0.6	2.7
Subsidies to enterprises	-9.0	-5.3	-9.2	9.4	-12.8	-1.8	-0.6	-6.2	-0.2	-1.3
Net transfers to rest of world	-3.6	1.8	17.4	5.5	-4.2	-4.5	16.2	-5.0	-5.4	8.1
Capital expenditure 2/	-6.0	-12.5	-5.8	3.4	-17.4	1.4	9.9	7.8	-1.1	4.8
Fixed capital formation	-13.2	-9.3	-9.1	5.5	-23.1	5.3	8.8	3.4	-0.7	11.2
Capital transfers	8.0	-17.4	-0.1	0.1	-7.8	-4.2	11.6	14.4	-1.7	-3.9
Total expenditure 2/	0.4	0.2	-0.5	0.4	0.0	2.3	4.4	2.1	-0.1	2.1
Noninterest expenditure	-1.5	-1.3	0.2	0.4	-1.4	1.4	6.0	1.3	0.7	2.9
Noninterest current expenditure	-1.1	-0.4	0.6	0.2	-0.3	1.4	5.8	0.9	0.8	2.8

Source: Adapted from data provided by the National Bank of Belgium.

1/ Deflated with the GDP deflator.

2/ Excluding net lending.

Table A17. Belgium: Consolidated Revenue, Expenditure and Net Financing Requirement of Central Government 1/

(In billions of Belgian francs; national accounts basis)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total revenue	1,503.1	1,522.0	1,594.3	1,637.3	1,726.1	1,848.1	1,902.6	1,987.8	2,099.9	2,292.5
Direct taxes	847.5	869.3	893.2	913.9	924.9	1,000.9	1,008.7	1,045.0	1,095.7	1,199.2
Indirect taxes	563.5	575.7	623.2	654.4	715.1	759.2	794.2	841.1	873.2	936.3
Social security contributions	26.2	26.9	26.4	25.8	27.8	29.2	30.8	33.4	32.5	33.9
Capital receipts	13.1	14.1	15.5	16.4	16.6	19.9	22.6	23.5	24.4	25.4
Nontax revenue	52.8	36.0	36.0	26.7	41.7	38.9	46.3	44.8	74.2	97.6
Total expenditure 2/	1,951.1	2,029.1	1,979.2	2,032.0	2,149.0	2,226.6	2,322.3	2,459.6	2,531.2	2,668.7
Current expenditure	1,790.4	1,881.3	1,846.6	1,900.4	2,036.9	2,114.2	2,195.4	2,314.3	2,392.1	2,524.6
Consumption	528.7	545.7	549.8	543.7	569.9	599.8	649.4	673.1	710.7	744.4
Interest payments	452.9	506.7	505.5	519.8	587.3	654.9	664.9	729.0	738.1	738.4
Transfers to households	105.3	111.0	120.1	125.7	155.4	157.2	170.5	174.9	180.8	195.3
Subsidies	142.3	141.9	132.3	149.1	136.9	138.7	141.6	137.7	143.9	144.5
Transfers abroad	67.2	71.0	85.1	91.3	91.8	90.5	107.6	105.9	104.8	115.2
Transfers to local authorities	188.7	198.4	187.0	176.0	202.1	202.3	214.5	220.3	236.3	240.0
Transfers to social security	305.3	306.6	266.8	294.8	293.5	270.8	246.9	273.5	277.6	346.8
Capital expenditure 2/	160.7	147.8	132.6	131.6	112.1	112.5	126.9	145.3	139.1	144.1
Gross fixed investment	73.9	68.8	52.9	55.2	37.3	39.6	46.3	49.3	37.9	45.0
Capital transfers 2/	86.8	79.0	79.7	76.4	74.8	72.9	80.6	96.0	101.2	99.2
Net financing capacity or requirement (-) 2/	-448.0	-507.1	-384.9	-394.7	-422.9	-378.5	-419.7	-471.8	-431.3	-376.3
Memorandum Item:										
Expenditure										
Net lending	117.8	101.2	107.1	69.3	52.2	85.3	96.3	63.6	...	...

Source: Data provided by the National Bank of Belgium.

1/ Federal government and regions and communities.

2/ Excluding net lending.

Table A18. Belgium: Revenue, Expenditure and Net Financing Requirement of Federal Government

(In billions of Belgian francs; national accounts basis)

	1989	1990	1991	1992	1993	1994
Total revenue	1,182.1	1,240.1	1,244.7	1,287.6	1,348.4	1,494.8
Direct taxes	698.9	742.5	717.3	728.1	746.0	815.0
Indirect taxes	410.4	434.8	454.3	487.3	510.8	560.3
Social security contributions	27.8	29.2	30.8	33.4	32.5	33.9
Capital receipts	1.2	1.2	1.3	1.4	1.4	1.1
Nontax revenue	43.8	32.4	41.1	37.4	57.6	84.4
Total expenditure 1/	1,622.0	1,590.5	1,613.3	1,706.1	1,732.1	1,822.9
Current expenditure	1,543.4	1,540.1	1,570.1	1,659.2	1,685.9	1,780.8
Consumption	290.2	287.2	307.9	314.0	327.8	345.1
Interest payments	580.4	645.7	654.5	714.1	717.1	712.4
Transfers to households	114.1	114.7	115.4	118.6	121.8	129.6
Subsidies	97.3	94.7	96.5	92.4	95.4	92.5
Transfers abroad	91.8	90.5	107.6	105.9	104.8	115.2
Transfers to local authorities	35.6	23.3	24.4	23.7	24.3	23.7
Transfers to social security	293.5	270.8	246.9	273.5	277.6	346.8
Transfers to regions and communities	40.5	13.2	16.9	17.0	17.2	15.5
Capital expenditure 1/	78.6	50.4	43.2	46.9	46.2	42.1
Gross fixed investment	29.4	22.0	14.8	16.4	14.6	16.0
Capital transfers 1/	49.2	28.4	28.4	30.6	31.6	26.1
Net financing capacity or requirement (-) 1/	-439.9	-350.4	-368.6	-418.5	-383.7	-328.1

Source: Data provided by the National Bank of Belgium.

1/ Excluding net lending.

Table A19. Belgium: Revenue, Expenditure and Net Financing Requirement of Regions and Communities

(In billions of Belgian francs; national accounts basis)

	1989	1990	1991	1992	1993	1994
Total revenue	601.4	622.1	674.8	717.2	768.7	813.2
Direct taxes	226.0	258.4	291.4	316.9	349.7	384.2
Earmarked personal income taxes	223.9	256.4	287.9	313.0	346.0	379.6
Other	2.1	2.0	3.5	4.0	3.6	4.6
Indirect taxes	304.8	324.4	339.9	353.8	362.3	376.0
Earmarked VAT	285.6	303.4	315.7	322.1	326.8	341.0
Other	19.2	21.0	24.2	31.7	35.6	35.0
Capital receipts	15.4	18.7	21.3	22.1	22.9	24.2
Nontax revenue	-2.1	6.4	5.2	7.4	16.6	13.2
Total expenditure 1/	584.4	650.2	725.9	770.5	816.3	861.3
Current expenditure	534.1	587.3	642.2	672.1	723.4	759.3
Consumption	279.8	312.6	341.5	359.0	382.9	399.3
Interest payments	6.9	9.2	10.3	14.8	21.0	26.0
Transfers to households	41.3	42.6	55.1	56.3	58.9	65.7
Subsidies	39.6	44.0	45.2	45.3	48.5	52.0
Transfers to local authorities	166.5	179.0	190.0	196.7	212.0	216.3
Capital expenditure 1/	50.3	63.0	83.7	98.3	92.9	102.1
Gross fixed investment	7.9	17.6	31.5	32.9	23.3	29.0
Capital transfers 1/	42.4	45.3	52.2	65.4	69.6	73.1
Net financing capacity or requirement (-) 1/	17.0	-28.1	-51.1	-53.2	-47.6	-48.2

Source: Data provided by the National Bank of Belgium.

1/ Excluding net lending.

Table A20. Belgium: Finances of the Social Security System

(In billions of Belgian francs; national accounts basis)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total revenue	1,038.5	1,086.4	1,093.0	1,153.0	1,198.6	1,246.4	1,299.9	1,387.8	1,438.2	1,518.7
(In percent of GDP)	21.9	21.8	21.0	20.7	19.9	19.4	19.3	19.5	19.7	20.1
Contributions	712.8	758.5	807.8	841.2	887.9	953.2	1,032.5	1,095.6	1,143.1	1,157.3
State subsidies	310.2	311.9	272.1	298.8	297.0	274.3	250.5	277.4	280.7	347.7
Other income	15.5	16.0	13.2	13.0	13.8	18.8	16.9	14.8	14.4	13.7
Total expenditure	1,006.9	1,042.3	1,088.8	1,106.3	1,148.5	1,213.0	1,319.3	1,398.4	1,474.2	1,536.9
(In percent of GDP)	21.2	20.9	20.9	19.9	19.0	18.9	19.6	19.7	20.2	20.3
Benefit payments	958.6	993.1	1,039.8	1,056.7	1,103.4	1,167.9	1,274.4	1,351.4	1,421.1	1,479.1
Operating expenses	50.3	51.7	53.0	54.3	50.3	51.2	54.0	56.8	64.6	67.4
Interest payments	-2.6	-3.1	-4.6	-5.4	-5.9	-6.8	-9.9	-10.5	-12.4	-10.4
Gross capital formation	0.5	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.9	0.9
Balance	31.7	44.1	4.2	46.6	50.2	33.4	-19.4	-10.7	-36.0	-18.2
(In percent of GDP)	0.7	0.9	0.1	0.8	0.8	0.5	-0.3	-0.2	-0.5	-0.2
Memorandum item:										
Balance, excluding state subsidies	-278.5	-267.7	-267.9	-252.2	-246.8	-240.9	-269.8	-288.0	-316.8	-365.9
(In percent of GDP)	-5.9	-5.4	-5.1	-4.5	-4.1	-3.8	-4.0	-4.1	-4.3	-4.8

Source: Data provided by the National Bank of Belgium.

Table A21. Belgium: Local Authorities' Accounts 1/

(In billions of Belgian francs, national accounts basis)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total revenue	342.0	358.6	352.7	346.2	371.3	378.0	407.4	431.8	444.5	464.8
(In percent of GDP)	7.2	7.2	6.8	6.2	6.2	5.9	6.0	6.1	6.1	6.1
Tax and parafiscal receipts	118.6	122.6	126.4	128.7	128.0	133.0	151.1	162.9	156.0	169.3
Nontax receipts	16.8	19.0	20.6	24.2	25.4	27.3	27.9	29.4	30.6	31.5
Transfers from the Central Government	206.6	217.0	205.7	193.3	217.9	217.8	228.4	239.5	257.9	264.0
Total expenditure	342.3	353.6	359.9	367.6	375.4	381.5	403.7	422.5	457.9	483.7
(In percent of GDP)	7.2	7.1	6.9	6.6	6.2	5.9	6.0	5.9	6.3	6.4
Goods and services	219.5	231.4	229.6	234.3	248.7	258.9	277.0	288.1	308.2	323.8
Interest payments	57.3	59.1	56.6	53.8	49.7	39.4	39.9	40.4	41.3	42.3
Transfers and subsidies 2/	31.1	29.7	30.5	30.2	30.4	31.0	32.2	33.8	34.5	36.1
Capital expenditure 3/	34.3	33.4	43.2	49.4	46.5	52.2	54.6	60.1	73.9	81.5
Net financing capacity or requirement (-)	-0.3	5.0	-7.2	-21.4	-4.1	-3.4	3.7	9.3	-13.4	-18.9
(In percent of GDP)	-0.0	0.1	-0.1	-0.4	-0.1	-0.1	0.1	0.1	-0.2	-0.2
Memorandum item:										
Net debt	473.7	488.9	489.6	494.3	525.7	525.1	474.8	438.9	461.8	...
(In percent of GDP)	10.0	9.8	9.4	8.9	8.7	8.2	7.0	6.2	6.3	...

Source: Data provided by the National Bank of Belgium.

1/ Covers the finances of provinces and municipalities.

2/ Covers employment promotion, household transfers, and subsidies to enterprises.

3/ Excluding credits and equity participations as data for these items are unavailable.

Table A22. Belgium: Total Public and Publicly-Guaranteed Debt in Domestic and in Foreign Currencies 1/

(In billions of Belgian francs; end of period)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Gross public debt	5,398.5	5,971.1	6,523.6	7,066.4	7,608.0	8,089.8	8,621.3	9,227.3	9,858.7	10,538.2
(In percent of GDP)	121.7	125.8	130.6	135.6	136.7	134.1	134.2	136.8	138.8	144.7
Federal government	4,264.9	4,914.6	5,418.3	5,872.5	6,362.3	6,788.2	7,224.6	7,751.0	8,288.7	9,073.0
Regions and communities	--	--	--	--	--	--	--	46.0	97.7	160.5
Social security	92.9	88.2	88.5	90.2	87.3	76.3	73.7	98.9	123.6	126.1
Local authorities	527.1	550.2	561.0	579.8	600.3	639.3	662.2	574.9	550.4	561.9
Debudgetized sector	513.7	418.2	455.9	524.0	558.2	586.0	660.8	756.6	798.3	616.7
Public sector assets 2/	451.7	510.6	531.1	573.1	617.4	655.3	713.9	828.3	872.9	957.2
Federal government	--	--	--	--	--	--	--	124.4	149.9	267.0
Regions and communities	--	--	--	--	--	--	--	11.3	2.8	13.5
Social security	365.3	410.5	438.7	460.2	481.0	520.9	559.8	567.5	580.4	550.3
Local authorities	63.4	76.5	72.1	90.2	106.0	113.6	137.1	100.1	111.6	100.1
Debudgetized sector	22.9	23.6	20.2	22.7	30.4	20.8	17.0	25.0	28.2	26.3
Net public debt	4,946.8	5,460.5	5,992.6	6,493.3	6,990.6	7,434.5	7,907.4	8,399.0	8,985.8	9,581.0
(In percent of GDP)	111.5	115.1	120.0	124.6	125.6	123.2	123.1	124.6	126.5	131.5
Memorandum item:										
Implicit interest rate 3/	8.6	8.9	9.0	8.2	7.7	8.0	8.2	7.8	8.0	7.5

Source: Data provided by the National Bank of Belgium.

1/ Includes liabilities to the IMF and liabilities held as assets within general government.

2/ By far the largest share of central government financial assets represents claims on the private sector in the form of tax arrears.

3/ On gross public debt. Derived as the ratio of total interest payments to the average of beginning and end-period gross public debt.

Table A23. Belgium: Exchange Rate of the Belgian Franc Against Selected Currencies 1/

(Indices, 1985=100)

	Deutsche mark		U.S. Dollar	ECU	Effective exchange rates		
	Nominal	Real 2/ (CPI)	Nominal	Rate	Nominal	Real 2/ (CPI)	Real 3/ (NULC)
1986	98.0	95.9	132.9	102.5	104.7	104.2	104.0
1987	97.1	96.2	159.0	104.4	108.3	107.4	105.1
1988	96.3	95.3	161.5	103.4	106.9	104.5	102.0
1989	96.2	95.5	150.7	103.5	106.1	103.1	100.5
1990	97.5	97.5	177.7	105.9	111.4	107.2	104.7
1991	98.0	97.8	173.9	106.4	111.1	105.8	104.1
1992	98.0	96.2	184.7	108.0	113.1	106.7	105.3
1993	96.4	93.5	171.6	111.0	113.5	106.8	104.3
1993 I	98.0	95.2	175.1	112.0	115.9	109.3	105.6
1993 II	98.1	94.8	177.2	111.8	115.1	108.3	105.2
1993 III	95.2	92.5	165.8	110.4	111.5	104.8	103.2
1993 IV	94.6	91.7	164.4	109.8	111.4	104.8	103.0
1994 I	97.6	94.0	165.5	112.1	113.4	106.6	105.2
1994 II	98.0	94.3	172.3	113.0	114.7	108.1	106.9
1994 III	97.9	94.7	183.2	113.8	116.3	109.6	108.4

Sources: International Monetary Fund, *International Financial Statistics*; and staff estimates.

1/ Increase indicates appreciation.
2/ Relative consumer prices.
3/ Relative normalized unit labor costs in manufacturing.

Table A24. Belgium: Key Interest Rates

(In percent per annum)

	1988	1989	1990	1991	1992	1993	1994 Q1	1994 Q2	1994 Q3
Official (end of period)									
Discount rate	7.75	10.25	10.50	8.50	7.75	5.25	5.00	4.50	4.50
Central advance rate 1/	...	...	...	9.30	8.60	7.25	6.05	4.95	4.85
Money market									
Three-month treasury bill rate 2/	6.61	8.45	9.62	9.23	9.36	8.52	6.60	5.45	5.19
Three-month interbank rate	6.77	8.73	9.82	9.39	9.39	8.21	6.54	5.56	...
Capital market									
Government bond yield	7.85	8.64	10.06	9.28	8.64	7.18	6.83	7.63	8.26
Lending									
Overdrafts with commercial banks	8.92	11.08	13.00	12.88	13.00	11.81	10.25	9.42	9.25
Deposit rates									
Three-month ordinary deposits	4.54	5.12	6.12	6.25	6.25	7.11	5.61	4.78	...
Savings bonds (Bons de Caisse) 3/	6.23	6.90	8.30	8.28	8.09	6.51	5.53	5.27	...
Memorandum item:									
Term structure (bond yield minus 3-month Treasury bill rate, in percent)	1.24	0.19	0.44	0.05	-0.72	-1.33	0.23	2.18	3.07

Sources: National Bank of Belgium, Bulletin; and IMF, International Financial Statistics.

1/ Introduced on January 29, 1991 at a rate of 9.75 percent.

2/ Secondary market rate from January 29, 1991.

3/ One-year maturity.

Table A25. Belgium: Monetary Aggregates

	1985	1986	1987	1988	1989	1990	1991	1992	1993
				(In billions of Belgian francs, end of period)					
M1	990.2	1,073.0	1,111.7	1,185.6	1,284.2	1,301.9	1,316.4	1,336.0	1,432.9
M3 1/	3,393.0	3,826.0	4,215.7	4,543.1	5,136.3	5,366.9	5,675.5	6,293.0	7,110.9
M4 2/	3,393.1	3,829.5	4,215.8	4,543.1	5,136.3	5,367.0	5,849.5	6,474.8	7,275.4
				(Percentage changes from a year earlier)					
M1	5.6	8.4	3.6	6.6	8.3	1.4	1.1	1.5	7.3
M3 1/	7.8	12.8	10.2	7.8	13.1	4.5	5.8	10.9	13.0
M4 2/	7.5	12.9	10.1	7.8	13.1	4.5	9.0	10.7	12.4

Sources: National Bank of Belgium, *Bulletin*.

1/ Includes M1 and deposits with an original maturity of 1 year or more.
2/ Includes M3 and Treasury bills and certificates.

Table A26. Belgium: Financing of General Government Borrowing Requirement

(In billions of Belgian francs and percent)

	1987	1988	1989	1990	1991	1992	1993
Net financing requirement 1/	388	369	377	349	435	473	481
(In percent of GDP)	7.4	6.6	6.2	5.4	6.5	6.7	6.6
Financed by:							
Monetary financing	-49	-1	29	-52	-120	-112	443
Borrowing in foreign currencies	33	20	69	-22	-13	-112	443
Domestic money creation	-82	-21	-40	-30	-107	--	--
Short-term borrowing in BF	220	25	271	144	126	-45	-178
Long-term borrowing in BF	381	497	204	448	667	746	360
Of which: OLO	--	--	82	273	935	963	1,122
Formation of financial assets 2/	-148	-107	-92	-146	-217	-93	-109
Other 3/	-16	-45	-35	-45	-21	-23	-35
Financing in percent of total new liabilities:							
Monetary financing	-13	-0	8	-15	-28	-24	92
External borrowing	9	5	18	-6	-3	-24	92
Domestic money creation	-21	-6	-11	-9	-25	--	--
Short-term borrowing in BF	57	7	72	41	29	-10	-37
Long-term borrowing in BF	98	135	54	129	153	158	75

Sources: National Bank of Belgium, Report and Bulletin.

1/ Excludes net lending.
2/ Includes lending and equity investment.
3/ Includes statistical discrepancy due in part to varying lags in recording of transactions.

Table A27. BLEU: Current Account on a Transaction Basis

(In billions of francs)

	1988	1989	1990	1991	1992	1993	First six months 1/ 1993	1994
Goods	106	92	55	66	114	226	59	56
General merchandise	...	...	−11	−10	43	150	19	16
Processing	...	...	66	75	70	77	39	41
Services	34	18	56	52	74	110	72	78
Transportation	42	41	43	38	50	55	28	33
Travel	−44	−49	−58	−67	−82	−79	−34	−39
Financial services	...	...	36	40	46	73	41	43
Third country trade	21	18	36	26	43	37	25	26
Government services, n.i.e	35	38	38	46	52	56	27	26
Other services 2/	−21	−29	−39	−32	−35	−32	−15	−11
Income	64	106	81	115	99	176	71	75
Compensation of employees	52	56	56	63	65	66	32	32
Investment income	12	50	25	52	34	110	39	43
Transfers	−70	−76	−72	−69	−79	−89	−46	−57
Private	2	2	−20	−10	−16	−21	−10	−8
Public	−72	−78	−52	−59	−63	−69	−36	−50
Current account	134	140	120	164	207	423	158	152
Memorandum item:								
Current account (payments basis)	122	147	152	156	198	435	155	152

Source: National Bank of Belgium, Report 1993; and data provided by the authorities.

1/ On a cash basis.
2/ Including financial services until 1989.

Table A28. BLEU: Export Performance and Export Pricing

(Annual percent change)

	1985	1986	1987	1988	1989	1990	1991	1992	1993
Volume performance									
Total trade									
(1) Market growth	5.2	7.5	8.1	7.8	6.9	6.3	4.9	1.4	-1.9
(2) Export growth	3.1	4.9	6.5	6.2	8.1	3.2	4.0	0.1	-2.3
(3) Export performance = (2)-(1)	-2.1	-2.6	-1.6	-1.6	1.2	-3.1	-0.9	-1.4	-0.4
Pricing behavior									
Total trade									
(1) Partner countries' export prices in dollars 1/	0.6	19.2	14.4	4.8	-0.6	13.8	-2.6	4.1	-6.7
(2) BF/dollar rate	2.8	-24.8	-16.4	-1.5	7.2	-15.2	2.2	-5.9	7.6
(3) Export prices of foreign producers in BF	3.3	-5.6	-2.0	3.3	6.5	-1.4	-0.4	-1.8	0.9
(4) Export prices of domestic producers in BF	2.7	-7.6	-5.2	2.7	7.9	-3.1	-1.9	-1.4	0.2
(5) Relative price of exports = (4)-(3)	-0.7	-2.0	-3.2	-0.6	1.3	-1.7	-1.5	0.3	-0.7
Memorandum item:									
Relative export unit values in common currency: manufacturing	-0.8	-0.4	-1.8	-1.6	1.8	1.6	-2.6	2.3	1.7

Sources: International Monetary Fund, International Financial Statistics and World Economic Outlook.

1/ Export weighted.

Table A29. BLEU: Direction of Foreign Trade

	1987	1988	1989	1990	1991	1992	1993
				(Percent of Total)			
EU countries							
Exports	74.4	74.3	73.6	75.3	75.3	75.1	70.6
Imports	72.3	73.2	71.5	73.5	72.8	73.9	70.9
Germany							
Exports	19.8	19.5	18.9	21.5	23.7	22.9	20.0
Imports	24.3	24.5	23.5	24.1	23.5	24.0	22.0
Netherlands							
Exports	15.0	14.7	13.6	13.4	13.7	13.7	11.9
Imports	17.2	17.8	17.6	17.6	17.2	17.6	15.2
France							
Exports	20.5	20.0	20.5	20.2	19.1	19.3	18.1
Imports	15.7	15.4	14.9	15.8	15.8	16.6	16.3
United Kingdom							
Exports	8.4	9.3	9.4	8.7	7.7	7.9	8.8
Imports	7.9	7.7	7.9	8.3	8.4	7.7	9.2
Italy							
Exports	6.4	6.2	6.4	6.6	6.0	5.9	6.3
Imports	4.3	4.3	4.3	4.5	4.5	4.5	4.7
United States							
Exports	5.2	5.0	4.8	4.3	3.8	3.9	5.0
Imports	4.7	4.2	4.5	4.4	4.8	4.4	7.0
Oil-exporting countries (OPEC)							
Exports	1.8	1.6	1.6	1.8	2.1	2.1	2.3
Imports	2.6	2.5	3.0	2.6	3.0	2.6	1.9
				(Billions of U.S. Dollars)			
Memorandum item:							
Balances							
EU countries	1.5	1.0	3.2	0.7	1.0	0.5	-7.6
Germany	-3.8	-4.7	-4.3	-3.6	-0.4	-1.7	-4.4
Netherlands	-1.8	-2.9	-3.8	-5.3	-4.6	-5.1	-5.0
France	3.9	4.2	5.7	4.9	3.5	3.2	0.3
United Kingdom	0.4	1.5	1.6	0.3	-1.0	0.1	-1.3
Italy	1.7	1.8	2.2	2.3	1.7	1.6	1.2
United States	0.4	0.7	0.3	-0.2	-1.4	-0.7	-2.9
Oil-exporting countries (OPEC)	-0.7	-0.8	-1.3	-1.0	-1.1	-0.7	0.3

Source: International Monetary Fund, Direction of Trade Statistics.

Table A30. BLEU: Balance of Payments

(In billions of francs)

	1989	1990	1991	1992	1993	First six months 1993	First six months 1994
Current account	140	120	164	207	423	158	152
Capital account	-167	-26	-112	-14	-1058	-222	1
Direct investment	43	75	82	68	211	82	88
Assets	-259	-207	-209	-340	-152	-85	8
Liabilities	303	282	291	409	363	167	80
Portfolio investment 1/	-207	50	119	35	-23	-12	-249
Shares	-48	47	13	18	38	36	-94
Debt securities	-159	3	106	17	-61	-48	-155
Trade credit	8	33	-8	-9	7	-4	0
Net assets in francs of non-residents with credit institutions	54	88	-344	91	-548	-26	479
Spot	57	18	-186	84	-162	8	23
Forward	-3	70	-158	7	-386	-34	456
Net assets of residents	-37	-236	131	-109	-640	-239	-253
In francs abroad	-21	-21	19	-29	-91	-17	-98
In foreign currencies	-16	-215	112	-79	-549	-221	-155
Spot	-93	57	109	-42	-288	-217	-19
Forward	77	-272	3	-38	-261	-4	-136
Capital transactions in foreign currencies of resident credit institutions	-25	-24	-77	-83	-54	-3	-59
Spot	48	-226	-237	-250	-562	28	207
Forward	-74	202	160	166	507	-31	-266
Other capital transactions 2/	-3	-12	-15	-7	-11	-21	-5
Errors and omissions 3/	-26	-54	-23	64	-25	-5	-37
Capital transactions in foreign currencies of general government 4/	73	-23	-6	-103	446	-3	-38
Movement of the net spot and forward gold and foreign exchange reserves of the NBB 5/	-19	-17	-23	-155	214	72	-78

Source: National Bank of Belgium; and data provided by the authorities.

1/ Excluding assets and liabilities of resident banks; they are included in item 3.4.
2/ Transactions of non-financial public enterprises and transactions in francs of general government.
3/ Including the counterpart of monetisation/demonetisation of gold.
4/ Minus sign: decrease in general government's liabilities in foreign currencies.
5/ Minus sign: increase in reserves.