

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: The Responsiveness of Demand Policies to Balance of Payments Postwar Patterns

Volume Author/Editor: Michael Michaely

Volume Publisher: UMI

Volume ISBN: 0-870-14221-6

Volume URL: <http://www.nber.org/books/mich71-1>

Publication Date: 1971

Chapter Title: BELGIUM

Chapter Author: Michael Michaely

Chapter URL: <http://www.nber.org/chapters/c3438>

Chapter pages in book: (p. 76 - 94)



## 1. Policy Instruments

### MONETARY POLICY

The management of monetary policy in Belgium is formally more decentralized than in most other countries. Three separate institutions are in charge of the three "classical" monetary instruments. The National Bank of Belgium, the central bank, is responsible for setting the discount rates and for discounting bills and granting advances to commercial banks, although the discounting is done partly through a separate, intermediary institution. Open market operations are conducted by an autonomous institution, the *Fonds des Rentes*, and minimum reserve ratios are under the jurisdiction of still another agency, the Banking Commission. The latter two organizations are, however, heavily influenced by the National Bank and, as will be seen shortly, the areas in their charge are of a subsidiary nature in the conduct of over-all monetary policy. However, because of various checks limiting its operations, the Bank in turn cannot deviate materially from the policy of the government, particularly the Ministry of Finance.

*The Discount Rate.* The discount rate is by far the most important instrument in the conduct of monetary policy in Belgium. The basic discount rate applies to the discounting of most domestic bills. Other rates—some lower (for bills originating in foreign trade) and some higher—apply to the discounting of other bills and to advances made by the National Bank. As a rule, the whole schedule of rates is changed at once, with constant spreads maintained between the various rates, so that the position of the basic discount rate is representative of the whole rate schedule.

The discount rate is significant in more than one way. First, it affects the cost of borrowing from the central bank: National Bank lending to

commercial banks, by rediscounting or by advances, is substantial and is subject to large variations. Second, and even more important, the schedule of rates charged by commercial banks on their lending (or paid to their depositors) changes almost automatically with changes in the discount rate; this relationship was particularly rigid until 1961. Lastly, as in many other countries, changes in the discount rate are taken as a signal of restrictive or expansionary intentions of the monetary authorities.

*Open-Market Operations.* These operations are not, as a rule, intended to affect over-all monetary conditions. The function of the *Fonds des Rentes*, the agency in charge of the operations, is primarily to regulate the market for government securities. Its dealings in that market are intended to prevent undue fluctuations and to lead to the conformity of movements of long-term rates with those of the discount rate, rather than to have an independent effect on interest rates. Since 1957, the *Fonds* has also been heavily engaged in transactions in its own certificates. But, again, these operations are intended to smooth movements in the money market rather than to change basic monetary circumstances. Open-market operations are thus not a relevant variable for the purpose of this study.

*Minimum Liquidity Ratios.* The Banking Commission supervises a wide schedule of liquidity ratios, starting from a "cash ratio" of 4 per cent and ending with a "cover ratio" of, at the extreme, 65 per cent. But this schedule has remained unchanged throughout the period, except for the abolition of the cover ratio at the end of 1962. It is intended to secure bank solvency and banks' holdings of government securities rather than to affect their lending capacity. In recent years, a system of minimum reserve ratios was introduced. In principle, this system is flexible and is intended to affect banks' lending capacity; however, its actual operation began only in 1963, so it is practically immaterial for purposes of the present study.

Other potential instruments are of even less importance. Quantitative control of credit existed for a short time—from early 1964 to mid-1965 and during most of 1966. The National Bank sets maximum quotas for its lending to each bank, but these quotas are rarely reached, and are thus ineffective. Among the direct instruments available for monetary policy, the discount rate is thus by far the most important, and is in practice the only instrument generally relied upon to effect monetary changes.

## BUDGETARY AND DEBT POLICY

The Belgian government's budget consists of two parts, one for ordinary, and one for extraordinary, items although the criteria of division between the two parts are not clear and are subject to frequent changes. The extraordinary budget includes primarily investment expenditures, either made directly by the government or through lending for the purpose of capital outlays. Extraordinary expenditures are financed overwhelmingly by borrowing, so that the size of the deficit in the extraordinary budget approaches the size of the budget itself. But the ordinary budget too shows deficits more often than surpluses. The net result has thus been a practically uninterrupted deficit of substantial proportions in the over-all budget. The deficit is financed by borrowing from all sources: the central bank, commercial banks, the capital market and foreign lenders.

As a source of long-term lending, the National Bank is of only minor significance. By an agreement dating from 1948, total outstanding lending from the Bank to the Treasury cannot exceed 44 billion francs, of which 34 billion is a consolidated loan originating in the war years, while the remainder is a revolving fund.<sup>1</sup> Over the period as a whole, the outstanding amount of Treasury indebtedness to the Bank has been quite stable, although for some short periods its fluctuations are substantial. The outstanding amount of Treasury deposits in the Bank, and fluctuations in this amount, are insignificant in relation to the size of the debt; movements of the government's net indebtedness to the Bank are thus practically identical with those of the gross indebtedness.

The size of commercial banks' lending to the government was partly dictated, until 1962, by the "cover" regulations, which require the banks to hold liquid assets primarily in the form of Treasury Certificates. This lending, together with the acquisition of government securities in the capital market, are the main source for financing the large budgetary deficit. As will be recalled, the *Fonds des Rentes* seeks to regulate the sale of government securities so as not to disrupt existing market conditions. An excess of supply of these securities, at current market rates, is directed primarily to the National Bank; while an excess of demand is met by sales from the Bank's portfolio. Net changes in the Bank's lending to the government are thus determined

<sup>1</sup> The revolving fund has recently been increased to 16 billion francs.

as the difference between the government's deficit and the amount of financing obtained from other sources at existing market rates.

## 2. Statistical Analysis

For purposes of this analysis, turning points in Belgium's balance-of-payments position have been determined by the movements of the country's external reserves (shown in Chart 4-1) and, since 1958, by the series of over-all surpluses or deficits (not shown); both series give mostly similar indications.<sup>2</sup> The subperiods of imbalances are identified in Table 4-1, where the movement of external reserves (column 1) indicates the direction of the imbalance.

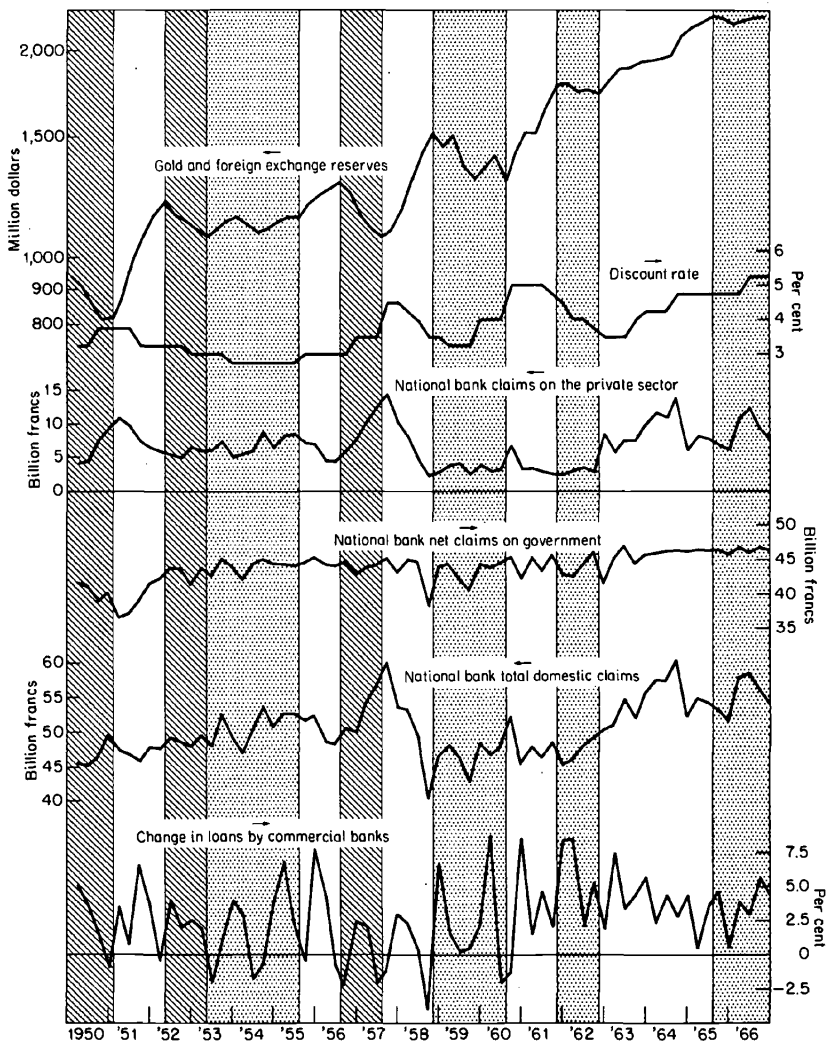
In column 2 of the table, movements of the discount rate during subperiods of imbalances are described. It is immediately apparent that until the end of 1961, movements of the discount rate generally conformed to what would be expected had they been taken in response to the balance-of-payments position. The only exception is the movement of the discount rate during II 1952 – II 1953, when the rate was lowered at a period of a downward imbalance of payments; but, as a glance at Chart 4-1 will show, the fall of reserves and the reduction of the discount rate were very slight, so that the rule was not seriously violated. From 1962 on, however, movements of the discount rate do not seem to be generally related to the needs of the balance of payments.

The association of the discount rate with the balance of payments is tested by means of Table 4-2, in which all changes of the discount rate are recorded. In column 1, the trend of the country's external reserves just before each change in the discount rate is shown.<sup>3</sup> It is again immediately clear that, up to the beginning of 1962, practically all changes in the discount rate could be interpreted as responses in an adjusting direction to the balance-of-payments position. The only

<sup>2</sup> The subperiod IV 1958–III 1960 is an exception: the over-all balance fluctuates, showing only a slight cumulative deficit over the period, which is therefore designated as a subperiod of stability, whereas the loss of external reserves over this period is more substantial.

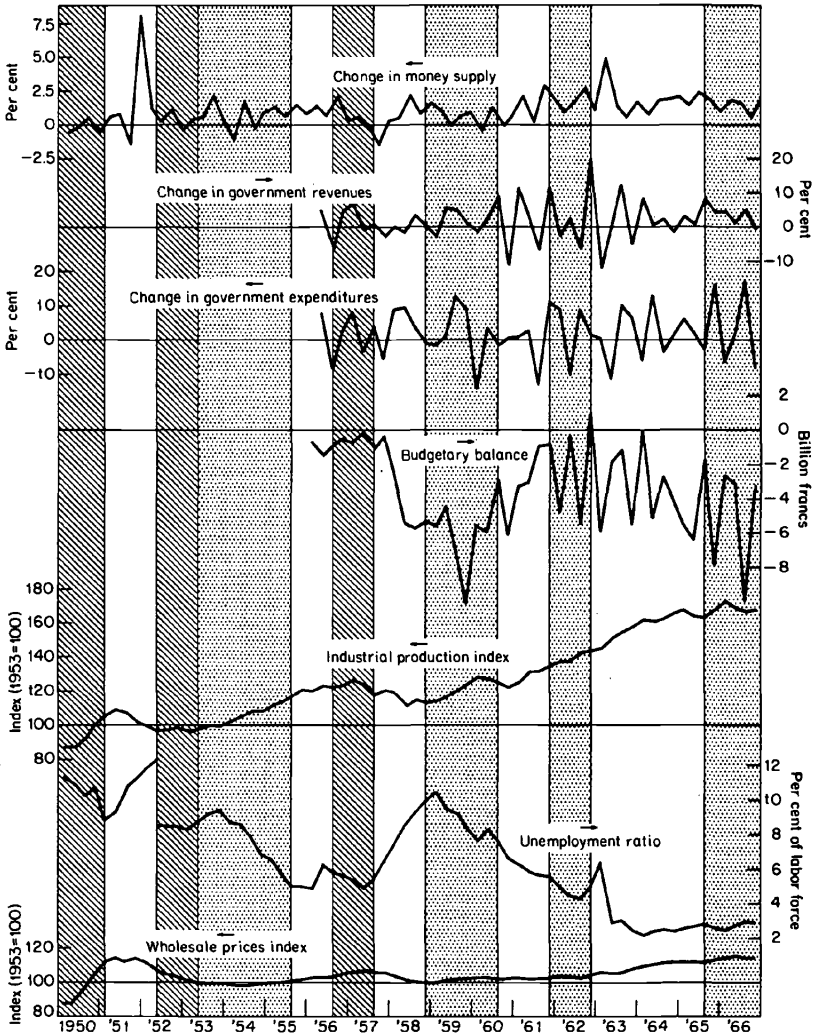
<sup>3</sup> This refers to the direction of change of reserves during the last quarter before the change in the discount rate, but almost the same results are indicated when the last two quarters are observed. This applies also to indications of movements of alternative target variables, discussed below.

CHART 4-1  
 BELGIUM: TIME SERIES OF SELECTED VARIABLES



NOTE: Diagonal-line areas represent period of downward imbalances;

CHART 4-1 (Concluded)



gray areas represent stability; white areas represent upward imbalances.

TABLE 4-1  
BELGIUM: MOVEMENTS OF POLICY VARIABLES DURING SUBPERIODS OF IMBALANCES

Subperiod	External Reserves	Discount Rate	National Bank Claims on Commercial Banks	National Bank Total Domestic Claims	Commercial Bank Lending to Public	Money Supply
	(1)	(2)	(3)	(4)	(5)	(6)
I 1950 - I 1951	fall	+ raised	- rise	- rise	+2.0	+2
I 1951 - II 1952	rise	+ lowered	- fall	+ rise	(+) +3.0	(+) +1.9
II 1952 - II 1953	fall	- lowered	* stable	* fluctuate	(+) +1.1	(+) +.5
II 1953 - III 1955	stable	stable	rise	rise	+2.0	+9
III 1955 - III 1956	rise	* stable	- fall	* fluctuate	(+) +2.5	(+) +1.3
III 1956 - III 1957	fall	+ raised	- rise	- rise	(+) +.6	(+) -1
III 1957 - IV 1958	rise	+ lowered	- fall	- fall	(+) +1.7	(+) +1.2
IV 1958 - III 1960	stable	raised	rise	rise	+1.5	+6
III 1960 - IV 1961	rise	+ lowered	- fall	- fall	(+) +5.3	(+) +1.6
IV 1961 - IV 1962	stable	lowered	rise	rise	+4.6	+1.7
IV 1962 - III 1965	rise	- raised	* fluctuate	* fluctuate	(*) +4.1	(*) +1.9
III 1965 - IV 1966	stable	raised	fluctuate	fluctuate	+3.6	+1.4

NOTE: For explanation of symbols, see Chapter 3, explanatory note.



TABLE 4-2  
 BELGIUM: CHANGES IN THE DISCOUNT RATE  
 AND POSITION OF TARGET VARIABLES

<i>Discount Rate</i>	<i>External Reserves</i>	<i>Level of Unemployment</i>	<i>Industrial Production (rate of change)</i>	<i>Change in Wholesale Prices (compared with trend)</i>
	(1)	(2)	(3)	(4)
Raised:				
III 1950	+ fall	+ falls	+ rises	+ rises
III 1955	* stable	+ falls	+ rises	* stable
IV 1956	+ fall	+ low	- falls	+ rises
III 1957	+ fall	- rises	- falls	- falls
IV 1959	+ fall	- high	+ rises	* stable
III 1960	+ fall	- high	- falls	- falls
III 1963	- rise	+ falls	+ rises	- falls
IV 1963	- rise	+ falls	+ rises	+ rises
III 1964	* stable	+ low	* stable	+ rises
II 1966	* stable	+ low	- falls	+ rises
Lowered:				
III 1951	+ rise	* stable	- rises	* stable
IV 1952	- fall	+ rises	+ falls	+ falls
IV 1953	+ rise	+ rises	- rises	* stable
I 1958	+ rise	+ rises	+ falls	+ falls
II 1958	+ rise	+ rises	+ falls	+ falls
III 1958	+ rise	+ rises	+ falls	+ falls
I 1959	+ rise	+ rises	+ falls	* stable
III 1961	+ rise	- falls	- rises	* stable
IV 1961	+ rise	* stable	- rises	* stable
I 1962	+ rise	- falls	- rises	* stable
III 1962	* stable	- falls	+ falls	* stable
IV 1962	* stable	+ rises	- rises	* stable

NOTE: For explanation of symbols, see Chapter 3, explanatory note.

exceptions, out of a rather large number of observations, are a small reduction of the discount rate in December 1952 (which, as was noted before, was taken while reserves were slightly falling), and a slight increase of the rate in August 1955, which cannot be explained by the movement of reserves, then practically stable. Once more, no such association appears for the later years: starting with the lowering of the

rate in August 1962, movement of the discount rate can no longer be explained by the need for balance-of-payments adjustment.

Columns 2, 3, and 4 are designed to test the possibility that changes in the discount rate before 1962, which we have tentatively regarded as intended for balance-of-payments adjustment, could not in fact be interpreted as having been taken in response to the needs of other targets. In column 2, the unemployment position is described. The evidence of this column does not contradict the assumption that changes in the discount rate were intended to achieve the target of high employment. This is true in particular with regard to discount rate reductions, almost all of which were taken at a time of high and rising unemployment. It is less true when discount-rate increases are examined: some of these were taken when unemployment was either rising or, though falling, was high. Taking together movements of the discount rate in both directions, the association between them and the employment situation would appear to be somewhat weaker than their association with the balance of payments, but it is still rather strong. To only a slightly smaller extent, this applies also to the target of high industrial production, which is represented in column 3. Once more, it is in the cases of reductions of the discount rate where the association of the instrument with the target is strong, while increases of the discount rate do not appear to be generally related to the state of industrial production.

On this evidence, changes in the discount rate are more weakly associated with the targets of high employment and high production than with the balance of payments. It is not, however, so weak an association that it can be dismissed without further consideration of the possibility that it was really these two targets, and not the balance of payments, to which the discount rate responded. One further test which may be attempted is to isolate those episodes of change in the discount rate in which either the target of high employment or that of high production, or both, would indicate a policy different from that which the balance of payments would call for. We find a number of episodes (July 1957, December 1959, and August 1960) in which the discount rate was raised when reserves were falling, despite high unemployment or slack production; and a number of other episodes (July 1951, and a succession of changes from August 1961 to March 1962) in which a lowering of the discount rate could be explained by the rise of foreign-exchange reserves but not by the requirements of employment and production. Only in the episode of December 1952,

noted before, did the opposite occur: the rate was lowered while reserves were falling slightly, as would be required by rising unemployment and falling production at that time. These episodes cover only a minority of the movements of the discount rate; but, as far as they go, they indicate that preference was generally given to balance-of-payments requirements.

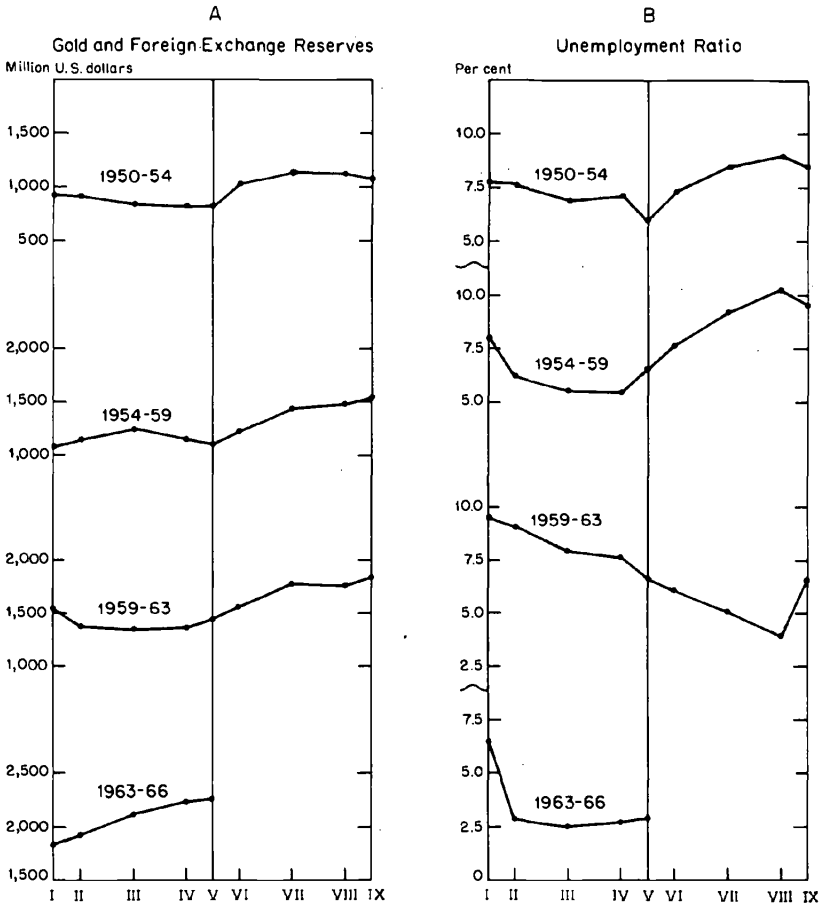
A similar test may be conducted by means of a reference cycle analysis, where the cycles are determined by movements of the discount rate: at the trough the discount rate is lowest; it rises towards the peak of the cycle, when it is highest; and falls again towards the next trough. The turning points of the discount rate cycles are as follows:

<i>Cycle</i>	<i>Trough</i>	<i>Peak</i>	<i>Trough</i>
1950-54	I 1950	I 1951	III 1954
1954-59	III 1954	IV 1957	II 1959
1959-63	II 1959	IV 1960	I 1963
1963-66	I 1963	IV 1966	—

Chart 4-2 describes this analysis. Parts A, B and C present, respectively, the movements of external reserves, the unemployment ratio and the rate of expansion of industrial production. The assumption that discount rate changes were made in response to these respective targets would require the patterns of movements of reserves and of the unemployment ratio to be V-shaped, while the industrial-production pattern should either have the reverse shape or show a relatively high average position during the trough-to-peak phases. In fact, no resemblance to the expected shape is found in the industrial-production pattern; some resemblance is apparent for the two other target variables during the three cycles up to 1963, though it is not perfect in either one. In view of these observations, the assumption that discount-rate changes were responses to the balance-of-payments position fares quite well, but again, alternative assumptions about the motivation of changes in the discount rate could not be entirely dismissed.

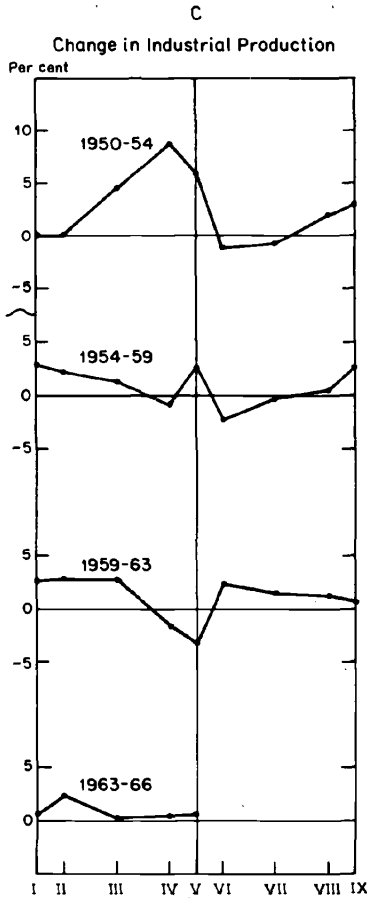
A final test of the possibility that the discount rate was manipulated in accordance with the needs of employment and production is made using a reference cycle analysis in which the cycles are determined by movements of these targets; this is done for the years 1950-60, in which two cycles can be clearly distinguished. The turning points in the cycles would be almost identical for both the unemployment ratio and the index of industrial production. It was therefore decided to select just one of those variables to represent both. Chart 4-3 thus presents

CHART 4-2  
 BELGIUM: PATTERNS OF TARGET VARIABLES DURING  
 DISCOUNT-RATE CYCLES



an analysis of cycles of industrial production, but it should also be understood to represent, in effect, patterns relating to cycles of unemployment. In the trough-to-peak phase of this cycle, the rate of expansion of production is high, and unemployment is low, whereas during the peak-to-trough phase the rate of expansion is low—sometimes even negative—and unemployment is high. The turning points are as follows:

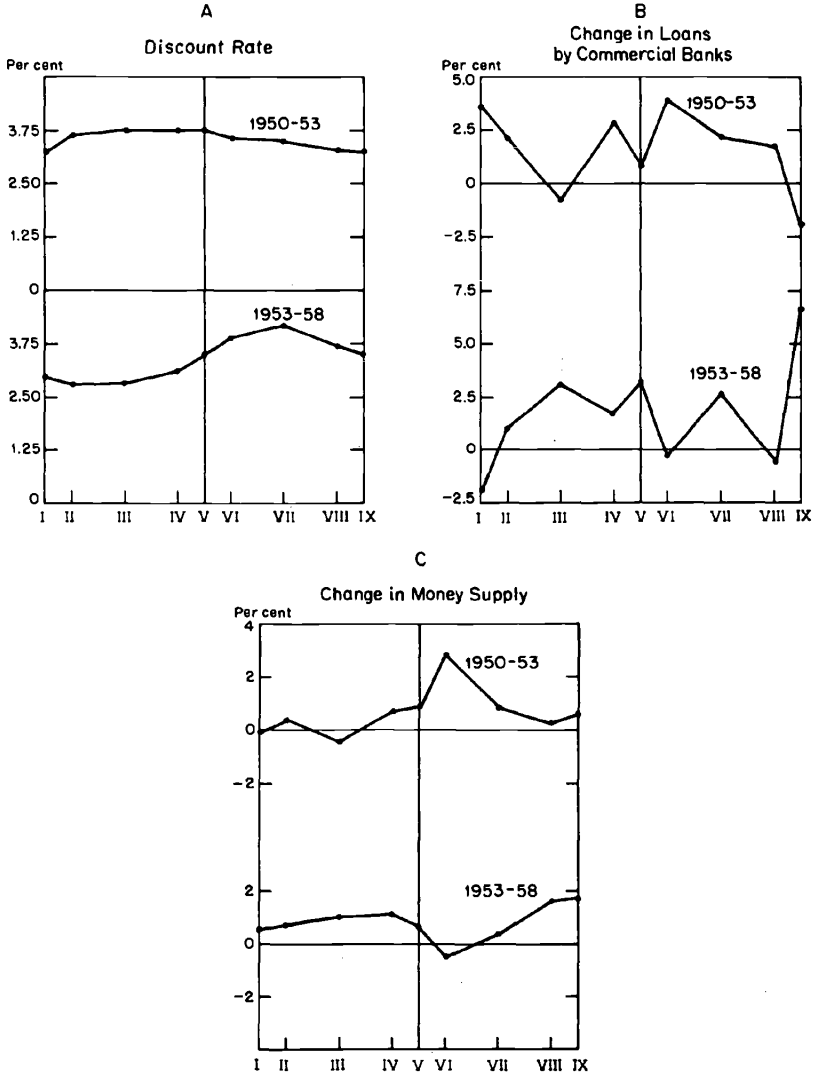
CHART 4-2 (Concluded)



<i>Cycle</i>	<i>Trough</i>	<i>Peak</i>	<i>Trough</i>
1950-53	II 1950	II 1951	II 1953
1953-58	II 1953	I 1957	IV 1958

Part A of Chart 4-3 describes the pattern of movements of the discount rate along the two cycles. A conformity of these movements to the needs of production and of employment would result in inverted V-shaped patterns. Some resemblance to this pattern does appear for the cycle of 1950-53; in the cycle of 1953-58, on the other hand, no such pattern is revealed. Thus, the association of the discount rate with

CHART 4-3  
 BELGIUM: PATTERNS OF POLICY VARIABLES DURING  
 INDUSTRIAL-PRODUCTION CYCLE



movements of the domestic targets of production and employment is rather weak.<sup>4</sup>

From the combined evidence of these tests we cannot categorically reject the possibility that discount rate policy was determined primarily in relation to the domestic targets of employment and production, but it seems more likely that, until 1962, the balance of payments was the main consideration and was given preference in the event of conflict with the requirements of employment and production. It must be emphasized, however, that such conflicts were rare and of minor significance. Most of the time, both the domestic targets and balance-of-payments developments required the same direction of policy action.

It remains to examine the possibility that, during the period up to 1962, discount rate changes were directed toward the target of price stability. As column 4 in Table 4-2 shows, such a possibility cannot be refuted altogether. Discount rate changes were often in the direction indicated by the need to maintain price stability and rarely in the opposite direction; but often also there seemed to be no association between rate changes and price movements, and the discount rate was raised or lowered while prices were stable. It should be noted that, although the price level did fluctuate during the period under consideration, the changes were not very large most of the time. Aside from a large rise from mid-1950 to mid-1951 (the Korean War period) and a considerable decline from then to mid-1953, the wholesale price level remained almost stable until late 1962. One may assume that price fluctuations could not have been a major reason for manipulations of the discount rate during these years.

It seems more likely, on the other hand, that from early 1963 to the end of 1966 it was, indeed, the movement of the price level to which the discount rate responded. As has been noted earlier, the discount rate during this period does not appear to be related to the balance-of-payments position. Over the period as a whole, it even moved in a disadjusting direction: it was continuously raised while external reserves were generally increasing, even though mildly. As can be seen from Table 4-2, this tendency of the discount rate does not appear to be associated with changes in the rate of expansion of production and probably not with changes in unemployment. Price movements, how-

<sup>4</sup> A direct comparison of the regularity of the pattern under consideration with the pattern followed by the discount rate during cycles in the balance of payments would have been helpful. It is unfortunate, for this purpose, that no meaningful "cycles" of the latter can be found.

ever, provide an easy explanation: after many years of stability, prices were rising continuously and substantially. It is plausible that during this period of rising prices and rising external reserves—two phenomena with conflicting requirements for policy direction—the target of price stability assumed preference over the target of balance-of-payments adjustment. The discount rate, the major direct instrument of monetary policy in Belgium, then began to be used more for the purpose of stabilizing prices than to achieve balance-of-payments equilibrium.

As for some other monetary variables, column 3 in Table 4-1 describes the behavior of the National Bank's lending to the commercial banking system. This variable generally moved in a disadjusting direction, i.e., in a direction opposite to the movements of the country's external reserves. Until about the middle of 1962, this inverse relationship was almost perfect, as may be seen from both column 3 and Chart 4-1. Since then, fluctuations in the amount of lending to the banks do not seem to correspond to any fluctuations in the amount of external reserves.

The amount of lending from the National Bank to the government does not seem to have any relationship to the balance-of-payments position. During nearly all of the subperiods of imbalance of payments, lending to the government was either quite stable or fluctuating with no general trend. While the outstanding amount of this lending was always substantially higher than the amount of National Bank lending to the banks, fluctuations in the latter were usually greater than fluctuations in the former. As a result, the direction of change in the National Bank's total domestic assets, which are made up primarily of these two categories, tended to be determined by the movements in its loans to the commercial banks. From column 4 in Table 4-1, it also appears that the total domestic assets of the National Bank generally moved in a disadjusting direction, although not quite with the same consistency as its lending to the banks.

The amount of commercial bank credit to the public, on the other hand, certainly seemed to move in an adjusting direction. This may be seen from column 5 in Table 4-1, where the rate of expansion of credit (positive throughout) is described. Without exception, this rate appears to have responded in an adjusting manner to the balance-of-payments position: it was higher in times of surplus, and lower when deficits appeared.

Practically identical conclusions may be derived for the rate of



change of money supply (column 6 of Table 4-1). Once more, in almost all subperiods of imbalances of payments, movements of this variable appear to have been positively associated with movements of external reserves, that is, to move in an adjusting direction.

It seems very unlikely that these movements of credit and money supply were in fact intended to meet the needs of other major targets. This may be seen from Parts B and C of Chart 4-3, where the movements of the two variables during the cycles of industrial production (and unemployment) are described. If the two variables responded to the needs of these domestic targets, the resulting pattern would be V-shaped, or at least each line would be in a lower position during the trough-to-peak phase than during its opposite. In fact, however, no such patterns emerge.

Neither could it be assumed that the rates of expansion of credit and of money responded, as a rule, to the needs of price stability. It will be recalled that prices were practically stable until 1962, when a trend of price increases appeared. The high rates of expansion of money and credit since 1962, which may have been the source of the price rise, definitely cannot be interpreted as having been maintained in response to the need for price stability.

Unfortunately, it is difficult to evaluate the movements of the budgetary variables: quarterly data on revenues, expenditures, and the budgetary balance are available only from 1957. This limitation of the data not only shortens the period of observation, but also makes it impossible to examine reactions of these variables to balance-of-payments deficits. Evaluation of the available data, as far as they go, does not reveal any general relationship between the fiscal variables and the position of the balance of payments. The budgetary deficit appears to have been particularly large from about early 1958 to mid-1961. At the beginning of this period external reserves rose markedly, but during most of the period they were rather stable. The deficits increased once more from late 1964 to late 1966, the end of the period covered by the data—again mostly a time of stable reserves. Thus, there is no evidence to justify an assumption that movements of the budgetary deficit corresponded with movements of the balance of payments; nor do these data indicate a general responsiveness of the budgetary deficit to the requirements of high production, high employment, or price stability. It should, however, be emphasized again that any conclusions about the budgetary variables are very tentative at best, given the lack of data for the earlier years.

### 3. Summary and Interpretation

Throughout most of the period, until about 1962, monetary policy and developments in Belgium appear to have been quite closely and regularly linked with the country's balance-of-payments position. The following is a typical sequence of events.

Assume a downward imbalance of payments with a decline in the country's external reserves. Normally the National Bank would react to this position by raising the discount rate, by far the most important direct monetary instrument. By convention, a rise in interest rates charged by the commercial banks will follow the increase in the discount rate. This movement of the interest rates is consistent with the development of credit supply, which may be traced as follows. The loss of external reserves reduces the reserves of the commercial banks with the National Bank. The commercial banks compensate part of this reduction by increasing their borrowing from the National Bank, despite the increase of the discount rate. Yet, at the end of the process, the commercial banking system does restrict its credit outstanding—that is, more precisely, it does reduce the rate of credit expansion. The rate of expansion of the money supply is also reduced. Of the three major components which create money—namely, the accumulation of foreign assets, bank credit and National Bank lending to the government—the first falls, the second falls more often than not, while the last normally fluctuates without a regular trend, so that it usually does not offset the movement of the first two components. As a result, the money supply moves in the same direction as the external reserves. When a surplus appears in the balance of payments, and external reserves start rising, all these processes are normally reversed.

By the Nurkse definition, the "rules of the game" were not obeyed in Belgium: a loss of foreign assets by the National Bank was almost consistently accompanied, as has just been mentioned, by a rise in the Bank's lending to commercial banks, which usually was not offset by a change in the Bank's lending to the government. The National Bank's domestic assets thus tended to move in the direction opposite to the Bank's foreign assets. By the alternative definition suggested in this study, however, in which movements of the discount rate and of money supply serve as yardsticks, the "rules of the game" of monetary policy

were indeed observed in Belgium more consistently than in most other countries. Judged by the behavior of these two variables, as well as credit supply, monetary policy was used regularly in Belgium for the purpose of balance-of-payments adjustment.

Most of the time the requirements of balance-of-payments adjustment were not in conflict, but rather in agreement, with the demands of the domestic targets of high employment and high production. A loss of reserves most often came at a time of fast expansion of production and low unemployment; that is, when the economy was characterized by high aggregate demand, although in Belgium during most of the period studied, this did not also mean rapid price increases. In the same way, balance-of-payments surpluses coincided as a rule with a slack in production and with high unemployment. This is a likely concurrence in a small country, where the effect of domestic policies on the balance-of-payments is presumably more important than developments in the world market. The cycle of developments might very well be as follows: with a balance-of-payments deficit, a restrictive monetary policy is followed, as indicated above. This leads, in time, to balance-of-payments surpluses accompanied by a domestic slack resulting from the contraction of domestic demand. And this, in turn, calls for an expansionary monetary policy, which would lead again to a deficit in the balance of payments.

During the last few years of the period covered—from about 1962 or 1963—a change in the policy pattern may be apparent. This is a period in which reserves accumulated most of the time, although at a mild pace, while the price level, which had been rather stable before, started to rise at a relatively fast rate. During these years, the discount rate appeared to be responsive to the target of price stability, rather than to the needs of the balance of payments. Yet movements of the money supply and bank credit still seemed to conform largely to the position of the balance of payments. It thus may be argued that monetary policy in Belgium in these years also acted partly to restore balance-of-payments equilibrium. By permitting a fast expansion of money and credit it allowed prices to increase as they did, which in turn prevented a still greater accumulation of external reserves. Yet, these adjusting movements were mitigated by the restrictive act of raising the discount rate.

Limitations of data—only the latter half of the period is well covered—restrict the possibility of deriving conclusions about the pattern of budgetary variables in Belgium. As far as the data go, they show no

evidence that the budgetary balance was generally responsive to the balance of payments. Neither is there any indication of policy "mix" by which budgetary policy is assigned the task of serving the domestic targets of employment and production, while monetary policy is engaged in balance-of-payments adjustment.

### *References*

Banque Nationale de Belgique, *Bulletin d'Information et de Documentation*, quarterly, Brussels, 1925-66.

Banque Nationale de Belgique, *Report Presented by the Governor*, annual, Brussels, 1949-66 (in French from 1870).

Ministère des Affaires Economiques, *L'Economie Belge*, annual, Brussels, 1947-66.

Organization for Economic Cooperation and Development, *Economic Surveys: Belgium-Luxemburg Economic Union*, annual, Paris. Reports for 1953-61 issued by the Organization for European Economic Cooperation.