

OFFICE MEMORANDUM

TO: Walter Hill
FROM: J. M. Penton
SUBJECT: Report on Belgium

DATE: 2/5/48

I have circulated my report on Belgium to the members of the Staff Loan Committee. I should be grateful if a Committee Meeting could be called to discuss it early next week -- preferably on Monday.

If the decision is that a mission from the Bank should return to Belgium, it should leave in the fairly near future, but a few days must necessarily elapse between the time when the decision is taken and the departure of the mission.

JmP

Handwritten notes at top left: "The country is in the hands of..."

Handwritten note at top center: "9-11"

Handwritten note in right margin: "Since the complete report has been widely circulated, it seems hardly worth while at this stage to publish the summary with..."

BELGIUM -- General Conditions

As a part of a wider tour to gain an impression of certain Western European countries on the eve of the Marshall Plan, Mr. J. M. Penton, of the Loan Department visited Belgium in January. Mr. Penton had conversations with many prominent personalities in Belgium including the Minister of Finance, the Governor of the National Bank, the Secretary-General of the Ministry of Economic Affairs, private bankers and businessmen. The following is a summary of his impressions.

Belgian Post-War Position

It is now a matter of history that, with her industries, transportation, and the port of Antwerp virtually intact, Belgium enjoyed a favorable position after Liberation, and was able to accumulate considerable sterling and dollar credits for her services to the Allied forces, and was enabled thereby to start production of industrial and other peacetime goods.

Belgian post-war governments were coalition with an active Liberal influence, and therefore had fewer restrictions than other European countries. Mr. Gutt's deflationary policy was beneficial because it decreased the amount of money in circulation, but it did little to reduce prices. It is probable that these measures contributed to a certain amount of distrust with which the population in general regards the currency, although this distrust is not nearly so pronounced as in France.

Present Policy

M. Spaak's cabinet is a coalition of moderates, with the Liberals now in opposition. There has been a general mild tightening of rationing and import restrictions.

In the past six months Belgium's trading position has deteriorated. The Gutt reform aroused distrust in the currency, prompted hoarding. Tightening of restrictions in other European countries precipitated a maximum of imports

lest similar measures be taken in Belgium, and the imminence of the BENELUX tariff, on January 1, 1948, also contributed to this excessive importation. In August and September average imports from all sources amounted to \$160 million while in December they had risen to \$239 million. The resulting net loss of gold has brought about a change of policy. This policy is to some extent a compromise which takes into account the point of view of the National Bank which insists that equilibrium must be maintained between the volume of goods on the market and that of the currency in circulation, and the fears of those who foresee the possible reduction to an embarrassingly low level of Belgium gold and dollar reserves in future. Restrictions have been introduced on the importation of goods from the dollar area. Import licenses in future will be granted by the Exchange Control on the basis of three categories of goods: Licenses for essential manufactured goods and raw materials will be granted automatically. Licenses for luxuries and inessential consumption goods will be rejected, but there is a large class of goods in respect of which application for licenses will be reviewed individually and granted or rejected on their merits and in accordance with the prevailing situation.

The Government believes that very large stocks of consumption goods are held in Belgium, partly as a hedge against inflation, and that the reduction of imports from America will bring about the liquidation of some of these stocks. In order to prevent speculation in stocks, details of these restrictions have not been published in Brussels, although the complete lists of goods covered by the restrictions are already in the hands of many big stores and merchants in Brussels.

Belgium is also endeavoring to switch imports from America to Europe, with which a large proportion of her export trade is done. She has negotiated

a commercial agreement with Russia under which she hopes to obtain grain in exchange for manufactures and raw materials from the Congo. Belgium has been importing on an average of 230 thousand tons of coal a month from the USA, but it is hoped to reduce this amount in future through the import of coal from Poland and the UK. A price limit of \$1400 has been placed on cars imported from the US, but British cars will be accepted at higher prices.

An Anglo-Belgian agreement which was on the point of conclusion sets for 1948 the figure of £98 million for exports from the sterling area to Belgium and the Congo, and of £75 million for imports from Belgium and the Congo. Transfers of sterling from third countries to Belgium are limited to £6 million for 1948.

It seems unlikely, however, that a greatly increased quantity of goods can be obtained from Europe in the immediate future, nor is it likely that Belgian exports to the US will be increased materially at once. Moreover, the devaluation of the French franc may cause competition on world markets for certain lines of Belgian goods. It is also unlikely that other European countries who have a deficit on current trade with Belgium will be able to continue indefinitely to buy Belgian goods with gold and dollars once the credit margins in their payments agreements with Belgium have been exceeded. It is, therefore, a fair assumption that the Belgian dollar position will continue to deteriorate - at least until the effects of Marshall Aid begin to be felt in Europe, and that there is a greater likelihood of the restrictions being applied with gradually increasing energy.

There is today a certain amount of unemployment, mostly so far in the textile, leather and furniture industries. The worst hit at present is the shoe industry. The total number of wholly unemployed in Belgium has risen

from 26,500 last June, to 67,000 in January. The number of partially unemployed in December was 40,000, and it is said that these figures are greater than normal, even when allowance is made for a temporary seasonal increase in the unemployment figures. The Government hope that unemployment may only be a symptom of a general economic readjustment within the country, but if prices are not soon brought down and unemployment increases, it is likely that there will be a renewal of social agitation and renewed clamor for wage increases.

The budget for 1948 is balanced but at a very high level and taxation is heavy. Public and private reconstruction was financed in 1947 to the tune of BF 24 milliards. An effort is being made to encourage savings by high interest rates, etc., but the tendency to stock goods and the general lack of confidence in the international situation has resulted in an apathetic capital market. The general stock exchange index is now about 168, whereas, when the Bourse opened in Brussels in August 1945, it stood at somewhere around 280 (1938 = 100). The Minister of National Reequipment has talked publicly about a reconstruction program extending over ten years and calling for a total expenditure of BF 370 milliards. On the other hand, it is not expected that the capital market can make an annual contribution greater than about BF 25 milliards, which leaves a large sum each year to be financed by external loans, to which it is hoped that the International Bank and the Export-Import Bank will contribute.