

# Quarterly Newsletter of the Federal Planning Bureau

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*Short Term Update (STU) is the quarterly newsletter of the Belgian Federal Planning Bureau. It contains, in English, the main conclusions from the publications of the FPB, as well as information on new publications, together with an analysis of the most recent economic indicators.*

## HEADLINES BELGIAN ECONOMY

*The Belgian economy has entered a period of strong cyclical growth since activity accelerated strongly in the second half of last year. Benefiting from an important positive carry-over effect, the increase in GDP should be 3.8% this year. Next year economic growth should be 3.1%.*

*Despite two consecutive years of strong growth, pressure on the goods and labour market should remain limited. The sustained growth in business investment and a rise in the labour supply could raise potential growth in Belgium. In the special topic of this issue, it is shown that this increase in the labour supply should result from higher participation rates.*

*Moreover, the acceleration in the general consumer price index seen in recent months and the rise in our inflation forecast for the year 2000 are only marginally influenced by domestic cost components in general, and by wage costs in particular, but can principally be explained by the increase in import prices, especially oil prices, whose effect was strengthened by the fall in the effective euro exchange rate.*

*As in 2000, economic growth in 2001 will be broadly based. It will be stimulated by a positive contribution from foreign trade and a still vigorous domestic demand, despite a slowdown following the very dynamic expansion of domestic demand this year. Growth of private employment will hardly weaken in 2001. The improvement in employment during the 2000-2001 period will lead to a further increase in the employment rate. From 1995 to 2001, the employment rate should gain 3.4 percentage points in all.*

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FPB activities are primarily focused on macro-economic forecasting, analysing and assessing policies in the economic, social and environmental fields.



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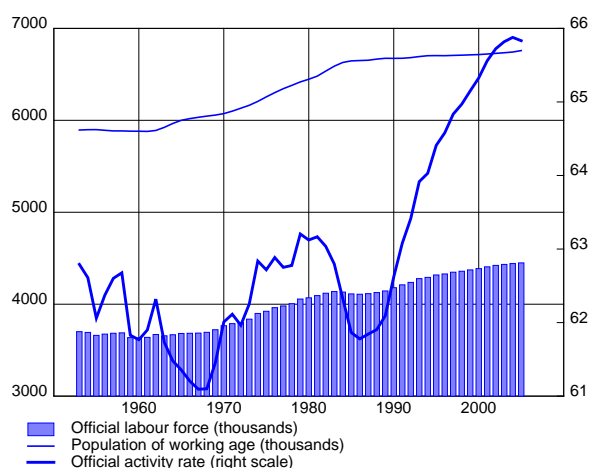
All FPB publications, mentioned in this STU, can be obtained either by sending a fax (+32 2 5077373) or by filling in the necessary form on our Internet site (<http://www.plan.be>).

## Trends in Belgian labour supply

The past decades have seen special attention to the question of how to foster job creation and increase the labour intensity of growth, so as to absorb the high level of unemployment. We are now witnessing a shift in focus: increasingly, there is concern about how to mobilise the non-occupied potential labour force, so as to accommodate expected job growth. This special topic analyses the past long-term evolution of the potential and actual labour supply, and presents the expected outlook for the years to come, based on the latest FPB medium-term economic outlook<sup>1</sup>.

Graph 1 depicts the observed evolution of the labour force (official FMTA/MfET concept: head count of register-based employment plus register-based job seekers) for the post-war period and its expected evolution for the next five years. The evolution of the total population of working age (15-64 years) on the one hand and the evolution of the official participation rate<sup>2</sup> on the other hand provide for a first rough-and-ready decomposition of the underlying demographic and socio-economic explanatory factors.

**Graph 1 - Labour force and determining factors: the long run**



The rate of participation has been characterised by a number of temporary ups and downs, but has, on the whole, remained remarkably stable at around 62% up to the end of the 1980s. During this period the increase in the labour force may be attributed largely to the growth of the population of working age. Since the end of the 1980s, however, the participation rate has increased persistently, and has since then been the driving force be-

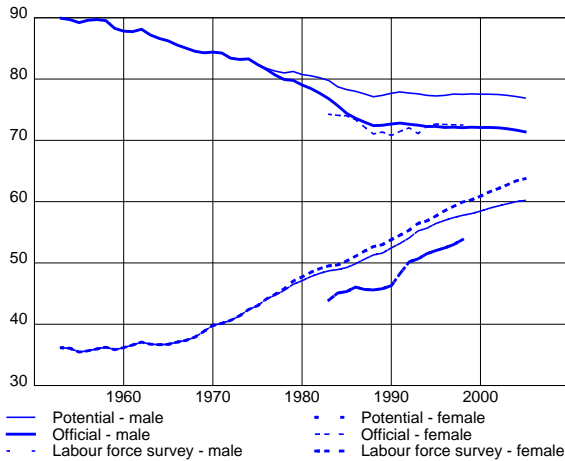
hind the further growth of the labour force. The official participation rate increased from 62.1% in 1989 to 65% in 1998 (the last observation), and is expected to increase further to nearly 66% by 2005.

Improved explanation (and forecasting) of participation behaviour in the labour market would ideally require analysis based on a broad concept of “potential labour force”, which includes people that are out of the labour force in International Labour Organisation (ILO)-terms, but are sufficiently close to the labour market to qualify for possible entry or re-entry. We have tentatively constructed a broader measure by adding to the official labour force, benefit-receivers belonging to two different schemes that organise early withdrawal from the labour force: people in pre-retirement and unemployed benefit receivers above 50 that are exempt from active job search. Although for those now present in these early withdrawal schemes, re-entry into the labour force seems rather unlikely, in dynamic terms their inclusion makes much more sense. These people have moved into inactivity out of actual employment; in the future, entry-rates into these schemes for generations arriving at early-withdrawal ages may significantly fall, because labour market conditions have improved and/or because policy measures to discourage early withdrawal have been taken.

Graph 2 shows that until the late 1980s, the strong increase in female participation rates has been offset by a decrease in male participation rates, and this accounts for the relative stability observed in the overall official participation rate (graph 1). It may also be seen that during the 1980s the decline in the male rate of “potential participation” (as defined above) has been much less marked than the decline in the official participation rate, on account of the massive absorption of unused potential labour supply in the early withdrawal schemes. In the past decade, the decrease in male participation rates has ceased, whereas the upward trend in the overall female participation rate persists and is expected to persist into the future, for two reasons. First, the older age groups will witness the advent of female generations that participate more in the labour market. Second, the gradual increase in the official female retirement age will intensify this development. Graph 2 also compares official register-based participation rates with Labour Force Survey-based participation rates, which are traditionally used for international comparisons. From the graph it appears that the well-known positive differential between register-based and survey-based measures of participation rates may be attributed to lower survey-based female participation rates.

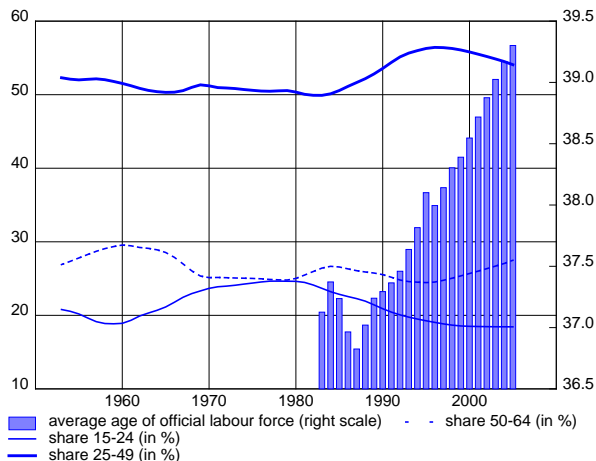
1. Economische vooruitzichten 2000-2005, Federaal Planbureau, april 2000. Perspectives économiques 2000-2005, Bureau fédéral du Plan, avril 2000.  
2. Participation rate: total labour supply divided by population of working age (15-64 years).

**Graph 2 - Activity rates by gender**



It was somewhat misleading to take the overall increase in the population of working age (graph 1) as the sole indicator of all demographic influences on the evolution of labour supply. Graph 3 presents a breakdown of the population of working age into broad age categories. Much has been made out of the expected ageing of the population and particularly the increase in the number of pensioners from 2010 onwards, when the baby-boom generations start to retire. However, graph 3 shows that the ageing of the population of working age – and, consequently, the ageing of the labour force – precedes the ageing of the population, as the baby-boom generations move into the age categories above 50 years. The average age of the official labour force already increased from 36.8 years in 1987 to 38.3 years in 1998, and is expected to increase further to 39.3 years by 2005.

**Graph 3 - Age structure of population of working age**

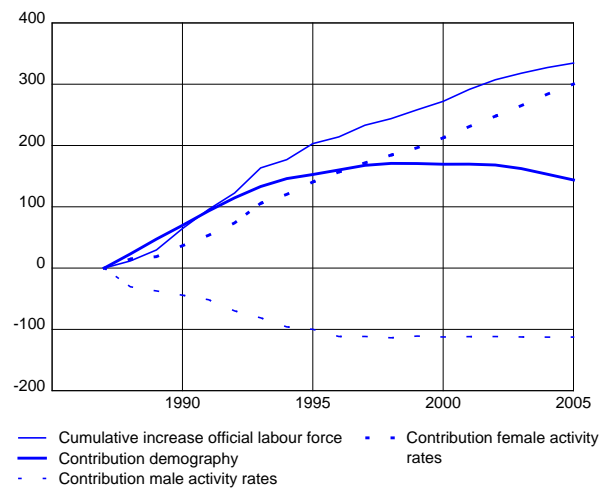


For this reason, in graph 4 an attempt is made to make a more accurate decomposition of the demographic and the socio-economic factors that together account for the recent evolution of the overall labour supply, and the projected evolution in the near future. The cumulative increase in the labour supply since 1987 has in this graph been decomposed into contributions that may be attributed respectively to demographic changes, to

changes in male participation rates per age class, and to changes in female participation rates per age class.

Although the population of working age continues to increase modestly (graph 1), the overall contribution of demographic changes starts to decrease in 1999, due to the growing weight within the population of working age of the older age categories (graph 3), for which participation rates are traditionally substantially lower than for prime-age groups. In 1998, the official participation rate stood at 93% (80.1%) on average for males (females) aged 25 to 49, compared to only 50.1% (26.3%) on average for males (females) aged 50 to 64.

**Graph 4 - Contributing factors to total change in labour force since 1987 (thousands)**



The increase in female participation rates contributes positively to the evolution of labour supply during the whole period, accounting for a steady increase of about 16,500 persons per year. Changes in male participation rates induced an average yearly decrease of some 12,500 persons during the period 1987-1996, but have had a neutral impact since that time, and are expected to remain neutral in the near future.

In view of the expected negative contribution of demography to the evolution of labour supply (graph 4), a further increase in the labour force will require an increase in participation rates. Apart from the expected further rise in female rates of potential participation, much will depend on the future evolution of early withdrawals. The projection of participation rates in graphs 1 and 2 and the decomposition into contributing factors in graph 3, have been based on two conservative assumptions: first, constant rates of exit out of employment into early withdrawal; and second, no re-entry into the labour market out of early withdrawal. The gradual tightening of the labour market and the shift towards labour market policies that encourage the lengthening of professional careers are likely to put upward pressure on the participation rates for the age categories above 50.

## Economic forecasts 2000-2001

The FPB has prepared economic forecasts until 2001 for the Institute of National Accounts (INR/ICN). After approval by the Board of Directors and the Scientific Committee of the INR/ICN, those forecasts will be used by the Federal Government for the making of its budget for the year 2001. The present forecasts were completed on July 3th.

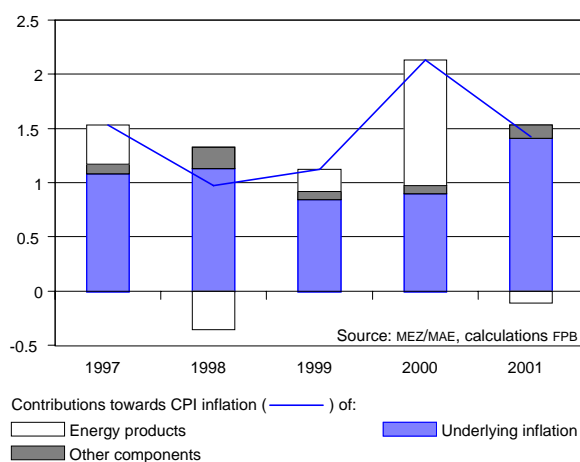
*Despite two consecutive years of strong growth, pressure on the goods and labour market remains limited*

The Belgian economy has entered a period of strong cyclical growth since activity accelerated in the second half of last year. Benefiting from an important positive carry-over effect, the increase in GDP should be 3.8% this year. Next year economic growth should be 3.1%. In spite of two consecutive years of growth in economic activity appearing to be stronger than the trend growth rate, a number of factors should ease any pressures.

### *Higher inflation in the short term only*

The acceleration in the general consumer price index seen in recent months and the rise in our inflation forecast for the whole of the year 2000 are marginally influenced by domestic cost components. Thanks to productivity gains generated by economic growth and the cut in Social security contributions, the contribution of wage costs per unit of product towards domestic inflation will remain moderate during the two years under review.

**Graph 1 - Breakdown of inflation**



The growth in inflation can therefore be explained principally by the increase in import prices, especially oil prices, whose effect was strengthened by the fall in the effective euro exchange rate. Considering the delayed impact of the increase in import prices on underlying inflation, the latter should rise gradually from 1% in the

first half of the year, to 1.25% at the end of the year and 1.7% on average in 2001. Thanks to the gradual fall in oil prices, global inflation should not reach more than 1.4% next year, as compared with 2.1% this year.

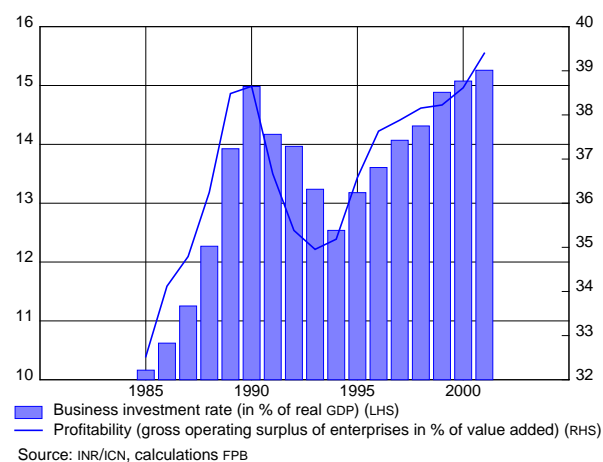
The "health price index", which is less influenced by the evolution of energy prices, should rise by 1.5% in both 2000 and 2001. The pivotal index for wages in the public sector and for social benefits should be reached in July 2000. This would lead to a rise by 2% in the above-mentioned wages and social benefits in September 2000. No index-linking is expected in 2001.

The further tightening in monetary policy which financial markets participants expect to take place during the second half of this year and, as a result, the relative stability of long-term interest rates also prove the absence of any growing inflationary expectations in the medium term.

### *Potential growth likely to increase due to sustained growth in business investment and rise in labour supply*

The increased production capacity utilisation rate since the end of 1999 could reflect some strain on the production system. However, in a context of domestic and foreign demand expectations remaining favourable and further improvements in business profitability, coupled with historically low real long-term interest rates, business investment should continue the steady growth seen since 1995 into both 2000 and 2001.

**Graph 2 - Business investment rate**



Thanks to an average annual expansion of 5% in real terms, the rate of investment in the market sector, expressed as a percentage of real GDP, should gain 2.7 percentage points between 1994 and 2001 (from 12.5 to 15.3%) and exceed the all-time high reached at the beginning of the nineties. Such a development in the level

of private investment should contribute towards the growth of the capital stock. It will create a lever that could, in the long run, add to the growth potential of the Belgian economy.

The rise in employment seen since 1995 should continue during the two years under review, leading to a relatively significant fall in the unemployment rate. While skilled labour shortages already appear in a few segments of the labour market, the expected increase in the participation rate, partly due to an improved economic situation, will sustain the labour supply and help to limit pressures in the labour market. The increase in the overall participation rate should come from the further growth in the female participation rate, partly resulting from the 1996 pension reform, coupled with the end of the decline in the male participation rate.

#### Economic growth in 2001 will again be broadly based

The strong economic growth seen in Belgium during the 2000-2001 period will have a broad base, as it will be stimulated by a positive contribution from foreign trade and vigorous domestic demand.

Next year Belgian exports will continue to be sustained by expansion in the world and European economy, leading to an increase of about 7% in our export markets. However, the price competitiveness of the Belgian economy will, unlike this year, no longer be boosted by further depreciation of the effective euro exchange rate, but Belgian exporters will only benefit from the delayed impact of the depreciation in 1999-2000. Total exports of goods and services would then expand by 6.3% in 2001 compared to 8.1% in 2000. This increase, however, is still higher than its historical average and it will be the main factor contributing towards GDP growth in 2001.

Following particularly dynamic expansion this year, domestic demand should experience a slowdown next year (from 3.2 to 2.3%), explained by three factors:

- The contribution of stockbuilding towards economic growth should fall to zero, following a large positive contribution this year.
- The anticipated set-back of public investment after the boom linked to local elections to be held in October 2000.
- A slight decrease in private consumption growth in comparison with this year, from 2.8 to 2.5%. This set-back is accounted for not by a less favourable evolution of real household disposable income, but by an increase in the savings rate to its 1998 level (which represents 16.5% of disposable income) after seven consecutive years of decline.

Real household disposable income should indeed continue to rise significantly during 2001 and in fact the figure increased at its strongest in recent years, by around 3.1%. This increase is explained by the conjunction of several favourable factors. Hourly gross wages before indexation should rise, as in 2000, by about 2% and the number of jobs created should again exceed 50,000. Moreover, the "health index", which is used as a reference for wage and rent indexation, should increase at a pace close to the rate of inflation (which is not the case in 2000). Finally, property income, which is associated with a lower propensity to consume, should, as this year, benefit from increasing interest rates and dividends. This strong increase in household purchasing power should also sustain the upswing in housing investment during the two years under review.

#### Growth of private employment will hardly weaken in 2001

Total domestic employment should grow by more than 50,000 jobs in 2000 as well as in 2001. In the private sector, jobs created outside special programs ('programme for vocational re-integration' and 'local employment agencies') should account for more than 99% of new employment in 2001 as against 94% in 2000 and 84% in 1999. This can be accounted for by strong economic growth, the cut in Social security contributions to be made during the 2000-2001 period and declining job creation within the framework of special programmes.

The improvement in employment during the 2000-2001 period will lead to an increase in the employment rate (defined as total employment as a percentage of the working age population) from 58.2% in 1999 to 59.0% in 2000 and 59.6% in 2001. From 1995 to 2001, the employment rate should gain 3.4 percentage points in all, which is 0.6 percentage point per year on average.

Nevertheless, the rise in employment will not lead to a similar fall in the number of people unemployed because it should partly absorb the expected growth in the labour supply during the course of those two years. The number of people unemployed (definition of the Federal Ministry of Labour and Employment) should fall by 36,000 this year and by 31,000 next year. When taking also into account the older unemployed people, of which the number should continue to increase during this period, the reduction should be less pronounced. According to this broad definition, the number of people unemployment should fall by 26,000 this year and by 21,000 next year.

*"Budget Economique 2001", ICN, juillet 2000.*

*"Economische Begroting 2001", INR, juli 2000.*

## Economic Forecasts by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (data in ESA-95)

	1998	1999	2000	2001
Private consumption	3.8	2.0	2.8	2.5
Public consumption	1.4	2.4	0.8	1.4
Gross fixed capital formation	3.7	5.6	4.7	2.9
Final national demand	4.1	1.8	3.2	2.3
Exports of goods and services	4.2	5.0	8.1	6.3
Imports of goods and services	6.3	4.1	7.5	5.5
Net-exports (contribution to growth)	-1.2	0.8	0.8	0.9
Gross Domestic Product	2.7	2.5	3.8	3.1
p.m. Gross Domestic Product - in current prices (bn BEF)	9089	9406	9909	10407
Traditional consumer price index	1.0	1.1	2.1	1.4
Consumer prices: health index	1.3	0.9	1.5	1.5
Real disposable income households	2.9	1.7	2.5	3.1
Household savings ratio (as % of disposable income)	16.6	16.3	16.1	16.5
Domestic employment (change in '000, situation on June 30th)	44.4	51.8	54.2	52.9
Unemployment (Eurostat standardised rate, yearly average)	9.5	9.0	8.5	8.1
Current account balance (as % of GDP)	4.1	4.2	4.1	5.0
Short term interbank interest rate (3 m.)	3.6	2.9	4.4	5.2
Long term interest rate (10 y.)	4.8	4.8	5.8	5.8

## Economic forecasts for Belgium by different institutions

	GDP-growth		Inflation		Government balance		Date of update
	2000	2001	2000	2001	2000	2001	
Federal Planning Bureau	3.8	3.1	2.1	1.4	.	.	7/00
INR/ICN	3.8	3.1	2.1	1.4	.	.	7/00
National Bank of Belgium	3.8	.	2.2	.	-0.5	.	5/00
European Commission	3.5	3.3	1.3	1.4	-0.5	-0.2	4/00
OECD	3.6	3.2	1.9	1.7	0.0	0.5	5/00
IMF	3.3	2.9	1.7	1.4	-0.5	-0.1	4/00
Artesia Bank	3.2	.	1.8	.	-0.5	.	3/00
BBL	3.9	2.9	2.1	1.8	-0.3	0.4	7/00
Fortis Bank	3.4	2.8	1.8	2.0	-0.5	-0.2	5/00
Dexia	3.6	3.1	1.9	1.8	-0.4	-0.1	6/00
KBC Bank	4.0	3.5	2.3	1.1	0.2	0.5	7/00
Petercam	3.3	2.9	1.7	1.2	-0.4	0.1	5/00
J.P. Morgan	3.7	3.4	.	.	-0.3	0.1	2/00
Morgan Stanley Dean Witter	3.5	3.1	2.0	1.6	-0.7	-0.3	6/00
IRES	3.4	.	1.7	.	-0.5	.	4/00
DULBEA	3.8	3.3	1.5	1.8	-0.5	0.0	5/00
<b>Averages</b>							
All institutions	3.6	3.1	1.9	1.6	-0.4	0.1	
International public institutions	3.5	3.1	1.6	1.5	-0.3	0.1	
Credit institutions	3.6	3.1	1.9	1.6	-0.4	0.1	
Consensus The Economist	3.6	3.1	2.0	1.7			7/00

Collaborating institutions for The Economist: ABN Amro, Deutsche Morgan Grenfell, EIU, Goldman Sachs, HSBC Securities, IBJ, KBC Bank, Long-Term Credit Bank of Japan, Merrill Lynch, J.P. Morgan, Morgan Stanley, Nordbanken, Paribas, Primark Decision Economics, Royal Bank of Canada, Salomon Smith Barney, Warburg Dillon Read, Scotiabank

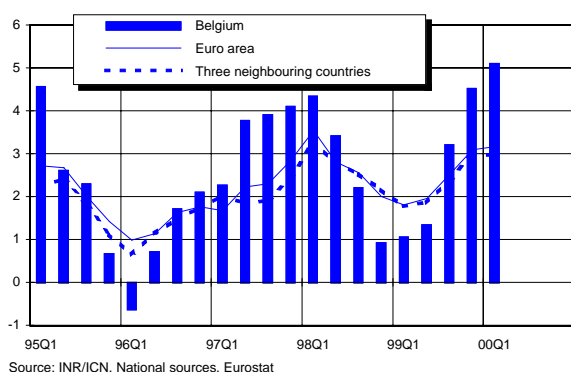
## General economic activity

**Table 1 - GDP: change compared to the same period in the previous year, in %**

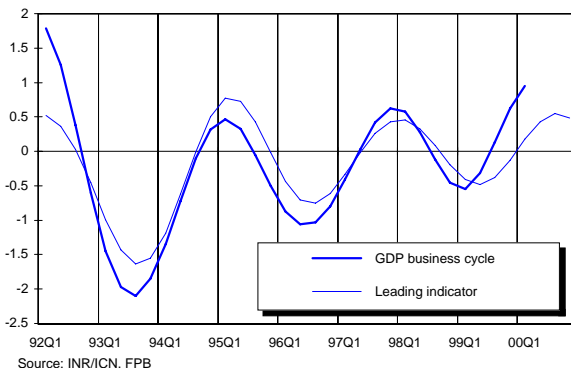
	97	98	99	98Q1	98Q2	98Q3	98Q4	99Q1	99Q2	99Q3	99Q4	00Q1
Germany	1.6	1.9	1.3	2.8	1.9	1.8	1.1	0.7	0.9	1.4	2.3	2.3
France	1.9	3.2	2.9	3.2	3.5	3.3	3.0	2.7	2.6	3.1	3.2	3.3
Netherlands	3.8	3.7	3.6	4.9	3.6	3.0	3.3	3.0	3.1	3.6	4.6	4.2
Belgium	3.5	2.7	2.5	4.3	3.4	2.2	0.9	1.1	1.3	3.2	4.5	5.1

Source: INR/ICN, National sources, Eurostat

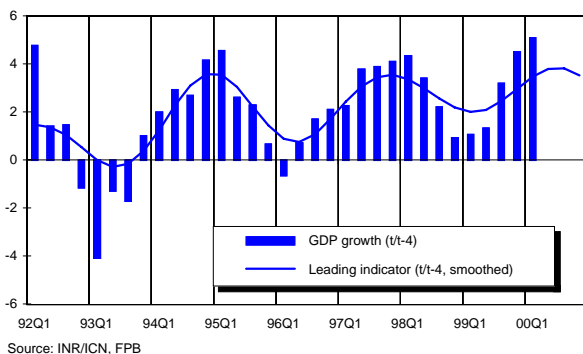
**Graph 1 - GDP-growth (t/t-4), in %**



**Graph 2 - GDP business cycle and leading indicator**



**Graph 3 - GDP growth and leading indicator**



The upswing in economic activity seen during the second half of last year, in Belgium as in the whole of the euro area, continued during the first quarter of the current year. Compared to the previous year, Belgium's GDP growth should have accelerated to 5.1% in the first quarter of 2000 (according to the first provisional estimates of the quarterly national accounts), while economic growth in the euro area only consolidated to around 3.2% and even stabilised in our three neighbouring countries (at around 2.9%). It is also worth mentioning that in comparison with the previous quarter, GDP qoq growth accelerated in Belgium (from 1.1 to 1.3%), whereas a slight deceleration was registered in the whole euro area and in our three main commercial partners. This slowdown was mainly the result of some cooling off in the Netherlands (and, to a much lesser extent, to disappointing results in France).

In Belgium, if the provisional GDP estimate for the first quarter of 2000 is confirmed, this improvement in the economic cycle will lead to a positive carry-over effect of about 3.2%. The strong GDP growth path in the first quarter of 2000 is broadly based, as nearly all components of final demand have accelerated, and net exports are expected to have contributed positively towards economic growth. Smoothed year-on-year growth rates derived from the FPB's leading indicator somewhat underestimate the strength of GDP growth at the beginning of the current year. This is mainly due to unexpected dynamism in exports and private consumption. In the euro area, private consumption remained surprisingly flat as compared to the record level of consumer confidence reached since the beginning of the year.

Most of the leading indicators for industrial production and final demand in the euro area suggest that economic activity may continue to pick up until the middle of the current year. The same is true for Belgium since, according to the FPB's leading indicator, a further improvement in the economic cycle is expected until the third quarter of this year, while a slight inflection can then be seen in the last quarter. This quarterly pattern is in line with our upward revised forecast of GDP growth reaching 3.8% on average for the whole of the year 2000.



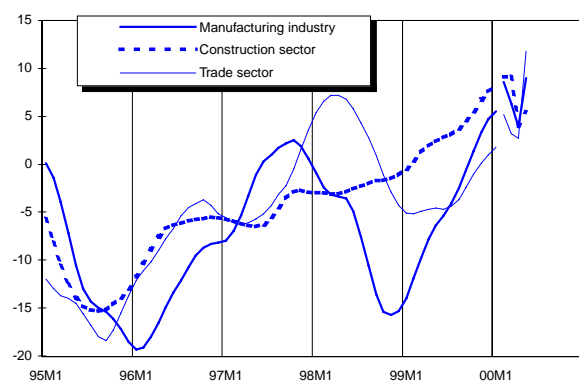
**Table 2 - Monthly business surveys [1]**

	98	99	99Q2	99Q3	99Q4	00Q1	99M12	00M1	00M2	00M3	00M4	00M5
Synthetic indicator	-6.1	-2.9	-5.0	-1.9	4.3	6.0	4.7	3.6	8.2	6.3	3.7	8.9
Manufacturing industry	-8.8	-4.1	-6.5	-2.6	4.7	6.2	5.3	3.6	8.6	6.3	3.9	9.0
Construction sector	-2.5	2.9	2.1	4.3	5.9	8.9	6.6	8.6	9.1	9.1	4.0	5.4
Trade sector	3.0	-3.0	-4.9	-4.9	0.9	2.4	-0.3	-1.3	5.2	3.2	2.7	11.8

[1] Qualitative data

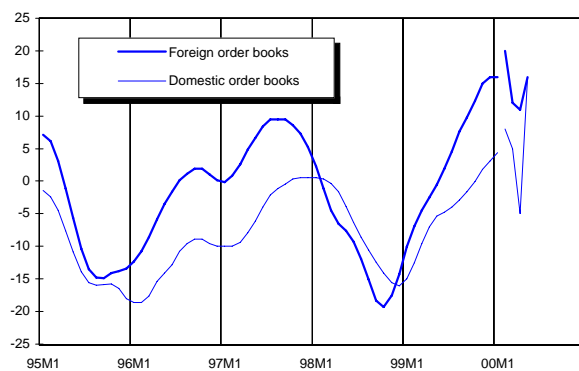
Source: NBB, FPB

**Graph 4 - Business cycle: sectoral evolution**



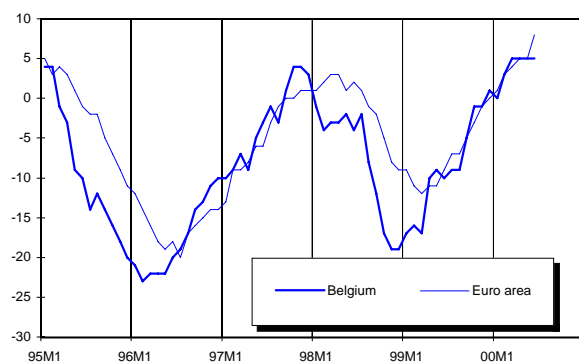
Source: NBB

**Graph 5 - Manufacturing industry: order books**



Source: NBB

**Graph 6 - Industrial confidence: international comparison**



Source: Eurostat

While the industry accounts for one-fifth of total value added, the current Belgian business cycle has mainly been determined by manufacturing industry. Belgium's relative specialisation in the production and export of goods which are especially sensitive to cyclical economic variations, may be one explanation for this. Another explanation could be due to the current high correlation between value added in manufacturing industry and the evolution of stocks, which has exacerbated this business cycle.

The strong increase in Belgian value added during the first quarter of the year 2000 was broadly based, since it was sustained by the three main sectors of the Belgian economy: manufacturing industry, market services and construction. This is confirmed by the ongoing upswing in the three sectoral synthetic indicators revealed by the NBB's surveys over the same period. Moreover, after the inflexion in April, the global synthetic indicator saw a marked improvement in May to a level not seen during the last two decades. All the sectoral components of the survey contributed to this rebound, although it was less pronounced in construction industry than in the trade sector and manufacturing industry.

Whereas in April 2000 the fall in the synthetic indicator for manufacturing industry was mainly due to a decrease in domestic orders, the rebound in May benefited from a vigorous recovery in domestic orders and a more modest improvement in foreign orders.

After some weakness in January 2000, a rebound in Belgium's industrial production was registered in the following months. This upward trend is also reflected by the upswing in the industrial confidence indicator in Belgium during the first quarter and its stabilisation at a record high level in the second quarter 2000.

In the euro area, the industrial confidence indicator has been rising continuously since the beginning of the year and also reached a historic level in June 2000. The momentum in total order books continues to be one of the main impulses towards confidence among entrepreneurs but production prospects are also on an upward trend. This suggests that an acceleration in industrial production could also be seen in the euro area after the slowdown registered in the first quarter of 2000.

## Private consumption

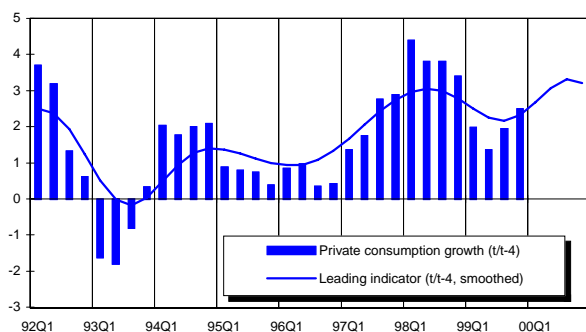
**Table 3 - Private consumption indicators**

	98	99	99Q3	99Q4	00Q1	00Q2	00M1	00M2	00M3	00M4	00M5	00M6
Turnover (VAT) - retail trade [1]	5.9	3.5	2.6	4.1	9.0	.	3.4	16.6	7.7	.	.	.
New car registrations [1]	14.1	8.3	6.6	2.0	12.6	8.3	-1.7	29.1	14.6	10.5	28.2	-10.4
Consumer confidence indicator [2]	-5.6	-1.9	-4.7	1.0	4.0	.	3.0	4.0	5.0	3.0	.	.

[1] Change (%) compared to same period previous year; [2] Qualitative data

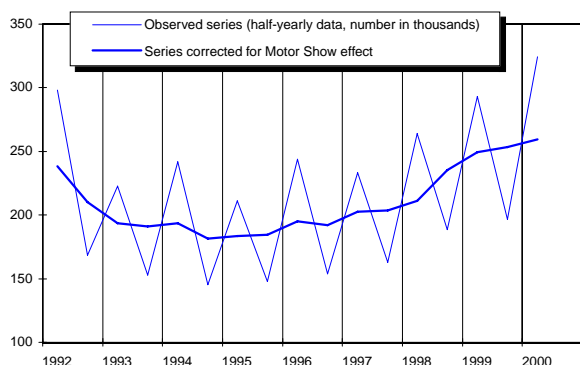
Source: NIS/INS, Eurostat, Febiac, FPB

**Graph 7 - Private consumption growth and leading indicator**



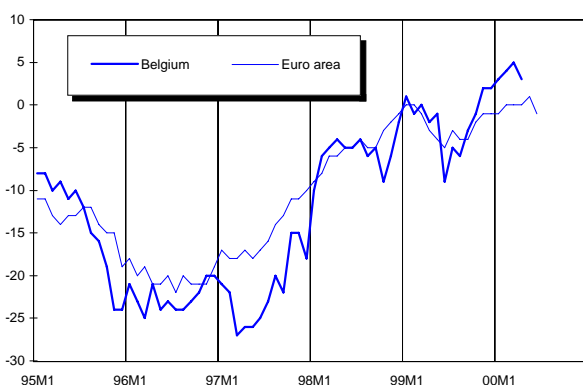
Source: INR/ICN, FPB

**Graph 8 - New car registrations**



Source: Calculations FPB based on Febiac data

**Graph 9 - Consumer confidence: international comparison**



Source: Eurostat

As for general economic activity, the upward trend in the private consumption cycle, which has been seen since the second half of last year, should have continued at the beginning of the year.

New car registrations increased by about 11% in the first half of 2000 (yoy). As already observed during the past decade, the biannual pattern of Motor Shows has had a significant influence on these results. Indeed, not only are car sales systematically higher in the first half of each year than in the second half, but in a year with a Motor show, the difference is bigger and, other things being equal, car sales are systematically higher (by an estimated 5% on average) compared to a year without a Motor Show. The net effect on private consumption remains uncertain, however, since especially in years with a Motor Show, there can be a shift from other durable consumer goods to car purchases.

Despite the yoy reduction in June, the estimated underlying trend in the evolution of new car registrations (i.e. corrected for this biannual systematic pattern) remains on an upward trend, which suggests accelerating private spending. The net improvement in consumer spending is also confirmed by the strong increase in turnover in the retail trade sector in the first quarter of 2000.

According to the FPB's leading indicator, this positive trend should not show any inflection point before the last quarter of 2000. This quarterly pattern is in line with our yearly growth forecast of slightly less than 3%. This forecast is an upward revision since household purchasing power is expected to increase more rapidly than had been anticipated previously, thanks to higher property incomes and a sharper increase in employment. Moreover, the improvement in the labour market situation has helped to stimulate household confidence and should favour a further decrease in the household savings rate.

Surveys carried out among Belgian consumers during the January-April 2000 period do indeed indicate that, despite a slight inflection in April, the current level of consumer confidence remains at a historic high, above the level of confidence in the whole euro area.

## Business investment

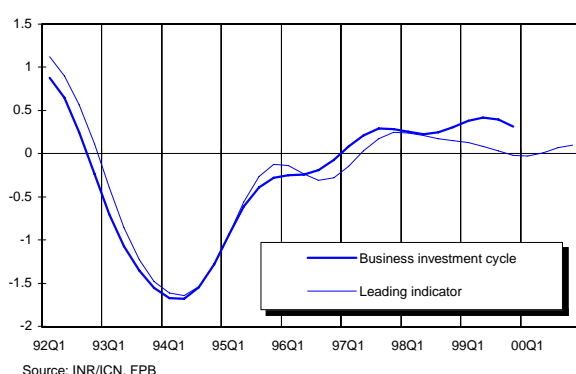
**Table 4 - Business investment indicators**

	98	99	0	99Q2	99Q3	99Q4	00Q1	99M11	99M12	00M1	00M2	00M3
Investment (VAT) [1]												
Industrial companies	3.0	4.6	.	-2.1	3.7	6.2	4.3	6.4	6.6	7.0	-0.1	6.0
Non-industrial companies	6.2	8.7	.	16.9	9.6	1.0	15.0	4.7	-8.4	10.6	12.0	21.0
Total companies	5.0	7.2	.	9.7	7.4	2.9	11.0	5.3	-2.8	9.5	7.5	15.1
Investment survey [1]	9.4	4.8	9.1									
Capacity utilisation rate (s.a.) (%)	81.8	81.9	.	81.6	81.8	82.8	84.7					

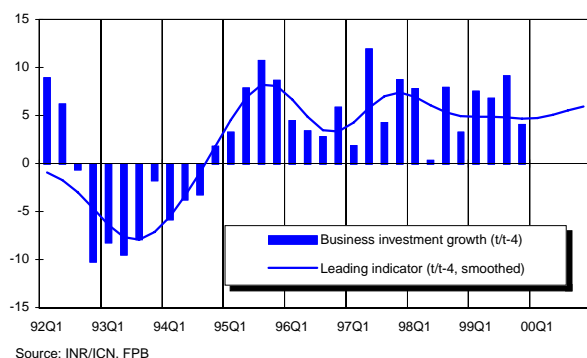
[1] Change (%) compared to same period previous year

Source: NIS/INS, NBB, FPB

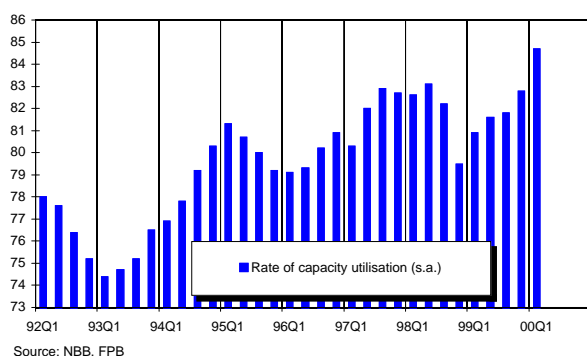
**Graph 10 - Business investment cycle and leading indicator**



**Graph 11 - Business investment growth and leading indicator**



**Graph 12 - Capacity utilisation in manufacturing industry**



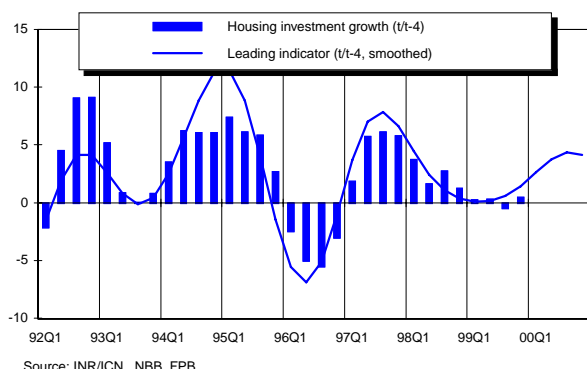
Unlike GDP, the business investment cycle has followed an almost steady upward trend since the middle of 1994. While the first three quarters of 1999 were inflated by one-off Y2K-related investment, mostly in non-industrial companies, industrial investment was influenced by the short-lived export-induced dip in the business cycle between the middle of 1998 and the middle of 1999.

Real growth in business investment should have regained some momentum in the first quarter of 2000, following the deceleration registered in the previous quarter. This pattern is almost exclusively the result of the evolution among non-industrial companies. Indeed, after very poor performance at the end of last year (probably due to the end of Y2K-related investment), nominal VAT statistics indicate that investment by non-industrial companies has increased sharply during the first few months of the current year while industrial companies showed a more moderate but continuous growth path. Combined with the historically high degree of capacity utilisation in manufacturing industry during the first quarter of 2000, positive demand forecasts and the NBB investment survey dating from May 2000, which points to a positive growth rate for industrial investment in 2000 (+9% based on current prices compared to +4.8% for 1999), prospects for industrial investment during the current year are favourable.

Those prospects, as well as the rebound in non-industrial investment, are in line with the information given by the FPB's leading indicator for total business investment. Indeed, while the analysis of the business cycle indicates that a minor turning-point may have been reached in about the middle of 1999, the leading indicator suggests that business investment could remain at its trend path in the first half of 2000, and could even be above the trend in the second half. For the whole of the year 2000, business investment is expected to increase by 5.1% (after 6.6% in 1999).

Housing investment

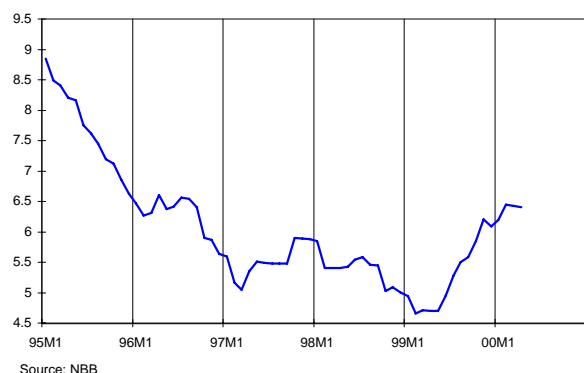
Graph 13 - Housing investment growth and leading indicator



While residential investment growth was sluggish throughout last year, the expected revival should have taken place in the first quarter of 2000. Analysis of the total residential investment cycle shows that the turning point was indeed reached in the second half of 1999.

The new residential construction market seems to be on a two-speed growth path. Some recovery has been seen in the southern part of the country, whereas the sharp increase in land prices in Flanders is having a negative impact on new housing, but is benefiting the secondary market and renovation works, which are already stimulated by the reduced VAT rate on renovation material and work on houses more than 5 years old.

Graph 14 - Mortgage rate (in%)

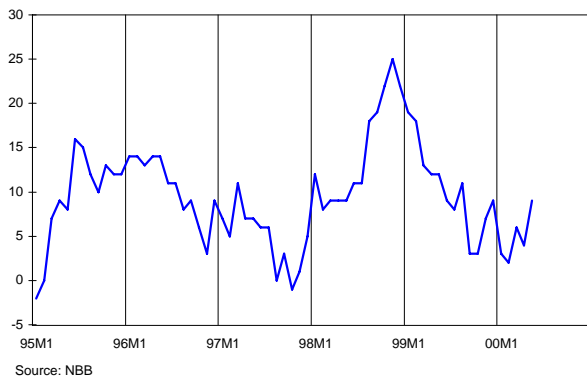


Mortgage rates, which have been on a strong upward trend from the second half of 1999 onwards, have stabilised in nominal terms since February 2000 and a decrease in real terms has even been observed during recent months.

The FPB's leading indicator shows that the recovery in total residential investment (renovation work and new construction) should strengthen further this year. In 2000, households are then expected to increase their level of investment by about 3%. This recovery should be favoured by the considerable increase in their purchasing power, the further improvement in the labour market and the "statistical base effect" due to the low level of investment seen in 1999.

Stockbuilding

Graph 15 - Appreciation of stocks



The current inventory cycle has been far more important than those seen in the 1990s, with increasing volatility from one quarter to another.

In 1999 as a whole, stockbuilding contributed strongly, but negatively, to real economic growth (-1%). Nevertheless, due to the improvement in companies' demand expectations, this negative contribution declined during the course of last year and even became positive in the last quarter (+2%) as the economic upswing led to the rebuilding of stocks.

The NBB monthly survey of manufacturing industry shows that the number of entrepreneurs who consider their stocks to be excessive has been declining throughout the year 1999, but increased somewhat during the first half of 2000, reflecting favourable demand prospects. For the whole of the year 2000, a positive but more moderate contribution towards economic growth from stockbuilding is then expected (+0.3%).

## Foreign Trade

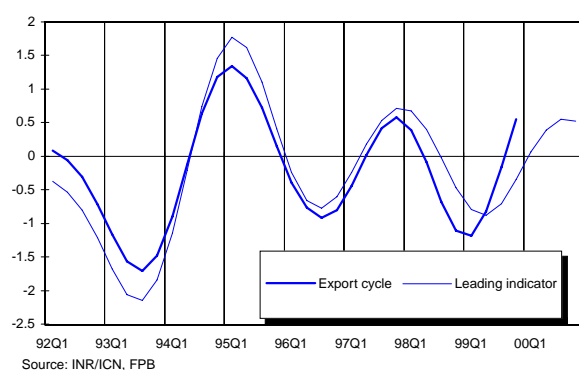
**Table 5 - Belgium - Trade statistics (goods, intra/extrastat)**

	98	99	99Q2	99Q3	99Q4	00Q1	99M10	99M11	99M12	00M1	00M2	00M3
Exports - value [1]	5.7	4.5	-1.1	7.3	13.9	20.7	10.3	15.8	16.1	17.7	27.4	17.6
Imports - value [1]	6.2	4.1	-0.5	4.2	14.1	19.4	9.6	14.6	18.4	16.4	24.9	17.0
Exports - volume [1]	5.8	4.9	1.3	6.5	8.6	10.9	7.0	9.7	9.2	8.7	16.4	8.0
Imports - volume [1]	8.3	2.6	0.5	1.8	5.3	6.7	3.3	5.3	7.5	5.1	10.8	4.6
Exports - price [1]	-0.1	-0.5	-2.4	0.7	5.0	8.9	3.1	5.5	6.3	8.3	9.5	8.9
Imports - price [1]	-1.9	1.3	-0.9	2.3	8.4	11.8	6.1	8.9	10.2	10.7	12.7	11.9

[1] Change (%) compared to same period previous year

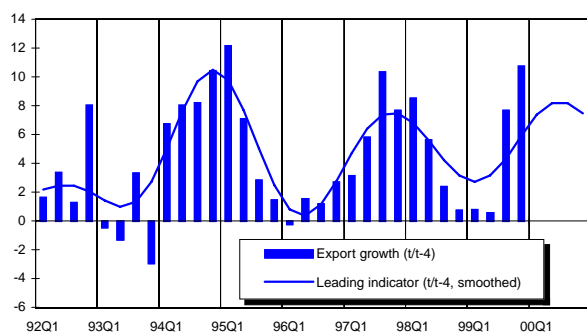
Source: INR/ICN, FPB

**Graph 16 - Export cycle and leading indicator**



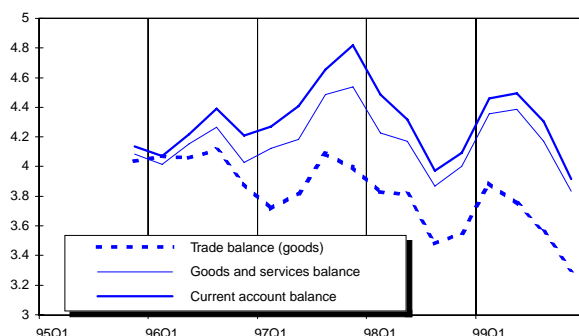
Source: INR/ICN, FPB

**Graph 17 - Export growth and leading indicator**



Source: INR/ICN, FPB

**Graph 18 - Belgium foreign balances (4 quarters cumul,% of GDP)**



Source: INR/ICN, NBB, FPB

The upturn in Belgian exports registered in the second half of last year has been surprisingly dynamic, and was even stronger and earlier than anticipated by the FPB's leading indicator. Most of the information currently available indicates that this rebound should have been continuing in the first months of the 2000. Indeed, according to trade statistics, Belgian exports increased by nearly 11% yoy in volume terms in the first quarter and the NBB's surveys show that foreign orders remained at a high level during the first five months of 2000.

According to the leading indicator, this rising trend should be observed till the third quarter of the current year and a slight inflection could take place in the last quarter. Smoothed yoy growth rates for exports could be between 7 and 8% on average. Non-smoothed exports could, however, grow at higher rates, at least during the first half of 2000. However, due to the strong export performance in the second part of 1999, this pace is expected to decline in the second half of 2000.

For the whole of the year 2000, thanks to their greater competitiveness, Belgian exports are expected to increase more rapidly than their potential market (8.1% as against 7.7%). As a result of the strong recovery in the final demand, real import growth also rebounded from the second half of last year onwards and should increase by about 7.5% in 2000. For the second consecutive year, a positive contribution towards economic growth coming from net exports is expected.

According to trade statistics, import prices have sharply accelerated since the last quarter of 1999. Rising energy prices and the recovery in prices of other raw materials (mainly industrial), itself due to the rising world demand, are the main factors accounting for the rebound in the two last quarters. The depreciation in the effective BEF exchange rate also contributed towards this increase in import prices, and probably also to the deterioration in the terms of trade. As in 1999, the deterioration in the terms of trade in 2000 should offset the positive contribution from real net exports. The current account surplus should then stabilise again at around 4% of GDP.

Labour market

Table 6 - Labour market indicators

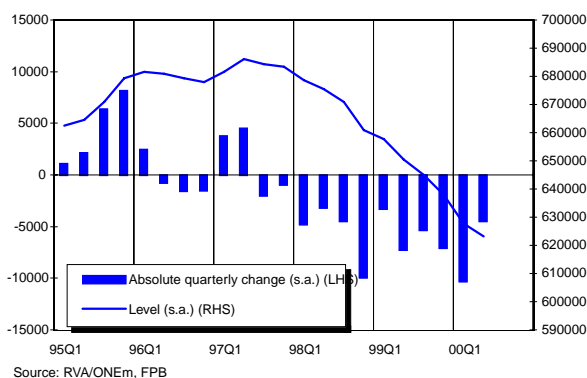
	98	99	99Q3	99Q4	00Q1	00Q2	00M1	00M2	00M3	00M4	00M5	00M6
Unemployment (excl. older) [1]	541.0	507.6	535.6	498.5	478.6	445.9	492.9	481.0	461.9	456.6	442.0	439.1
Unemployment (incl. older) [1]	671.5	647.8	675.7	641.2	623.9	594.5	637.0	626.2	608.7	604.2	590.6	588.6
Unemployment rate-FMTA/MfET[2]	12.4	11.6	12.3	11.4	11.0	10.2	11.3	11.0	10.6	10.5	10.1	10.1
Unemployment rate-Eurostat [3]	9.5	9.0	9.0	8.8	8.6	.	8.7	8.6	8.5	8.4	8.4	.

[1] Level in thousands; [2] In % of labour force of June 1998, not seasonally adjusted

[3] Seasonally adjusted, in % of labour force (Eurostat standard); recent figures of unemployment rate are based on administrative data and can be revised

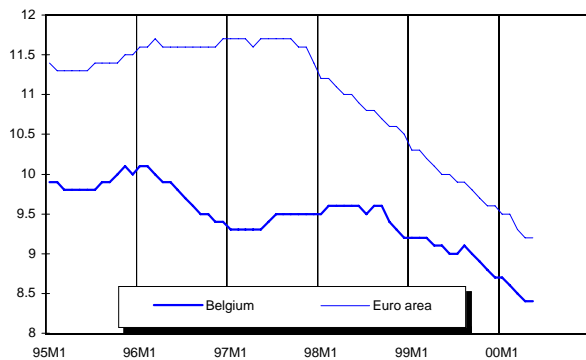
Source: RVA/ONEm, FMTA/MfET, Eurostat, FPB

Graph 19 - Evolution of unemployment (incl. older)



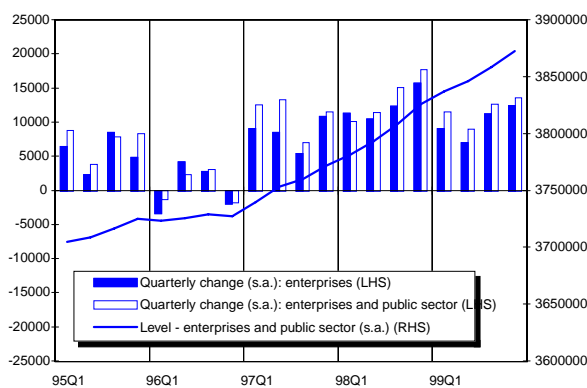
Source: RVA/ONEm, FPB

Graph 20 - Harmonised unemployment rates (% of labour force)



Source: Eurostat

Graph 21 - Evolution of domestic employment



Source: INR/ICN, FPB, RSZ/ONSS

Although the total population of working age (15-64 years) is still increasing, the increasing weighting of older age groups within this population implies that demographic factors are no longer contributing positively to the evolution of the labour supply (special topic in this STU). The further increase in the labour supply is fully accounted for by a rise in the participation rates per age class. For 1999 this increase may be estimated at 19,200 persons on a yearly average basis for the official FMTA/MfET concept and at 29,000 persons when (also including people on unemployment benefits who are no longer required to search actively for a job).

Latest RSZ/ONSS revised estimates concerning salaried employment for the early quarters of 1999 suggest that job creation in the private sector has been even less affected by the temporary slowdown in activity than was previously expected (graph 21). On a yearly average basis, private sector employment is estimated to have risen by 43,500 persons in 1999, whereas the total employed population may have increased even more (by 52,500 persons), due to the expansion in public sector employment. The underlying job creation potential of the economy seems strong, and it is expected that private sector job growth will accelerate further in the course of 2000.

This means that job growth has remained strong enough throughout 1999 to keep unemployment on a significant downward trend. Unemployment declined on average by 23,700 (33,400) persons in 1999, including (excluding) people on unemployment benefits who are no longer required to search actively for a job (table 6). On a seasonally adjusted basis, unemployment decreased further by 10,300 (13,000) persons during the first quarter of 2000 and by 6,200 (9,400) persons during the second quarter (graph 19). The slower decrease in the second quarter must be at least partly attributed to an increase in the number of registrations (estimated at 3,500) as active job seekers by people who have submitted a request to the Belgian authorities to have their status "regularised". Moreover, the number of school-leavers in search of a job has - in seasonally adjusted terms - also increased during the second quarter.

Prices

**Table 7 - Inflation rates: change compared to the same period in the previous year, in%**

	98	99	99Q3	99Q4	00Q1	00Q2	00M1	00M2	00M3	00M4	00M5	00M6
Consumer prices: all items	0.95	1.12	0.92	1.59	2.00	2.32	1.79	1.95	2.26	2.04	2.16	2.75
Food prices	1.83	0.20	-0.79	-0.19	-0.89	0.17	-1.07	-0.80	-0.81	0.01	-0.29	0.79
Non food prices	-0.45	1.24	1.42	2.35	3.62	3.63	3.12	3.72	4.01	3.00	3.58	4.32
Services	2.34	1.57	1.34	1.83	1.89	2.14	2.03	1.50	2.13	2.29	2.03	2.09
Rent	1.15	1.43	1.45	1.36	1.30	1.38	1.28	1.31	1.31	1.35	1.37	1.42
Health index	1.27	0.94	0.60	1.09	1.27	1.56	1.18	1.21	1.42	1.46	1.42	1.81
Brent oil price in USD (level)	12.8	17.8	20.6	24.0	26.8	26.7	25.5	27.8	27.3	22.7	27.7	29.8

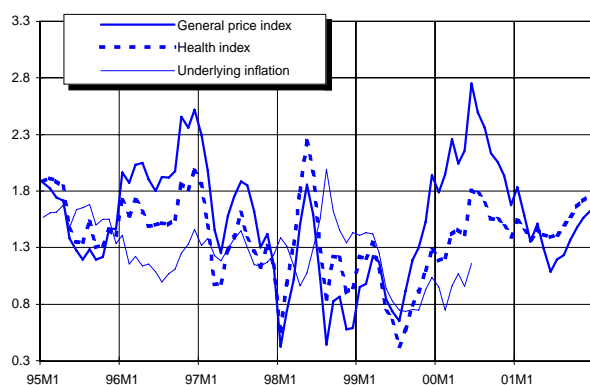
Source: MEZ/MAE

**Table 8 - Monthly inflation forecasts**

	00M1	00M2	00M3	00M4	00M5	00M6	00M7	00M8	00M9	00M10	00M11	00M12
Consumer prices: all items	104.80	105.20	105.60	105.80	106.10	106.50	106.40	106.14	106.14	106.20	106.29	106.36
Consumer prices: health index	104.29	104.56	104.79	105.08	105.21	105.43	105.42	105.08	105.14	105.25	105.37	105.47
Moving average health index	103.95	104.18	104.42	104.68	104.91	105.13	105.29	105.29	105.27	105.22	105.21	105.31
	01M1	01M2	01M3	01M4	01M5	01M6	01M7	01M8	01M9	01M10	01M11	01M12
Consumer prices: all items	106.72	106.87	107.03	107.40	107.47	107.66	107.67	107.45	107.59	107.77	107.95	108.09
Consumer prices: health index	105.89	106.07	106.23	106.62	106.70	106.90	106.91	106.66	106.80	107.00	107.18	107.33
Moving average health index	105.50	105.70	105.92	106.20	106.41	106.61	106.78	106.79	106.82	106.84	106.91	107.08

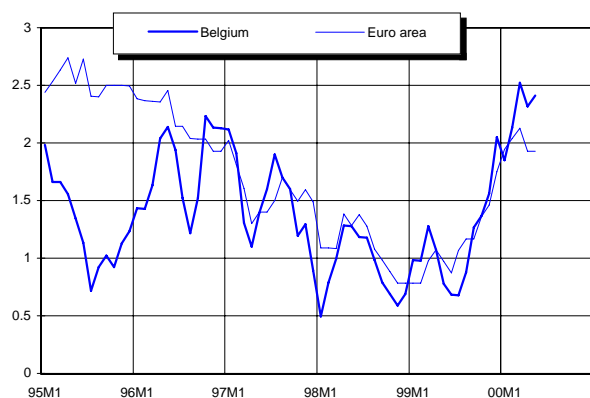
Source: Observations (up to 00M6): MEZ/MAE; forecasts: FPB

**Graph 22 - Monthly inflation evolution in% (t/t-12)**



Source: MEZ/MAE, from 00M7 on: forecasts FPB

**Graph 23 - Harmonised inflation rates in% (t/t-12)**



Source: Eurostat

During the last two months, inflation, as measured by the yoy change in overall CPI, turned out higher than the expected level of 2%, even peaking to 2.75% in June. The decline in oil prices in April, prompted by OPEC's production increase in early Spring, did not last. By the end of June, the Brent oil price was more than 30 USD per barrel, comparable to the level at its previous peak at the beginning of March. Oil prices are expected to remain close to 30 USD per barrel during the coming months. Demand for oil should remain high, due to the strong growth of economic activity worldwide and the current low levels of crude stocks in oil consuming countries (particularly in the US). A gradual fall in oil prices from the last quarter onwards should bring the Brent oil price back to 26 USD by the end of this year and 25 USD on average next year.

Underlying inflation has crept somewhat higher during recent months (from 0.9% in the first quarter to 1.1% in the second). As underlying inflation responds to past import prices with something of a time-lag, it is expected to increase further to 1.25% by the end of this year and to an average of 1.7% in 2001. This, combined with the expected gradual fall in oil prices, should result in average CPI inflation of 2.1% in 2000 and 1.4% in 2001. The "health price index" (which excludes most energy products, among other things) should rise by 1.5% this year and next. According to our monthly forecasts for the "health index", the pivotal index for the public sector (currently 105.20) should be reached in July 2000.

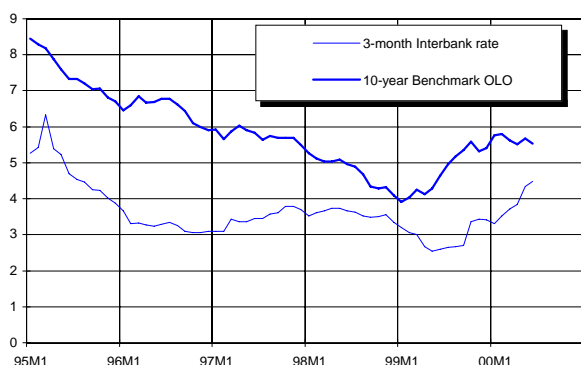
Interest rates

Table 9 - Interest rates

	98	99	99Q3	99Q4	00Q1	00Q2	00M1	00M2	00M3	00M4	00M5	00M6
<b>Short-term rates (3 months)</b>												
Belgium	3.58	2.94	2.67	3.40	3.52	4.22	3.32	3.52	3.72	3.84	4.33	4.48
Euro area (Euribor)	.	2.96	2.70	3.43	3.54	4.26	3.34	3.54	3.75	3.93	4.35	4.50
United States	5.56	5.41	5.44	6.14	6.11	6.62	6.04	6.10	6.20	6.31	6.75	6.79
Japan	0.60	0.22	0.10	0.29	0.14	0.12	0.15	0.13	0.14	0.12	0.10	0.13
<b>Long-term rates (10 years)</b>												
Belgium	4.76	4.76	5.16	5.43	5.73	5.58	5.77	5.80	5.62	5.52	5.68	5.53
Germany	4.57	4.50	4.87	5.18	5.46	5.25	5.54	5.51	5.33	5.23	5.36	5.16
Euro area	4.71	4.63	5.01	5.31	5.60	5.42	5.68	5.65	5.46	5.37	5.53	5.36
United States	5.26	5.63	5.87	6.13	6.49	6.17	6.65	6.56	6.25	5.99	6.43	6.09
Japan	1.46	1.76	1.81	1.75	1.77	1.71	1.68	1.81	1.83	1.75	1.71	1.68

Source: NBB, ECB

Graph 24 - Interest rate levels in Belgium, in%

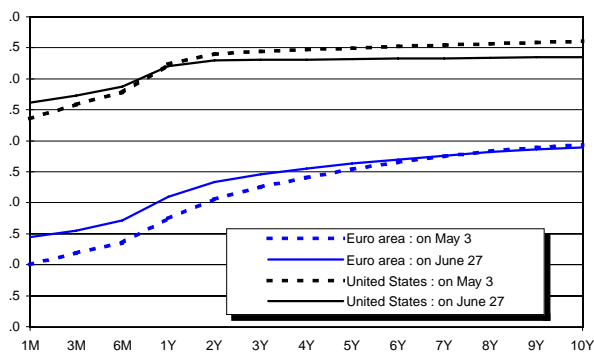


Source: NBB

In four stages, the ECB has raised its central repo rate from 2.5% in November 1999 to 3.75% by the end of April 2000. After that, the ECB stated that monetary policy would continue to be vigilant in addressing the upside risks to price stability in a forward-looking manner, to ensure price stability over the medium term. It said that those risks come from the combination of the delayed impact of higher import prices (expressed in euro) and rapid monetary and credit growth in the context of a strong economic upswing in the euro area.

Accordingly, the repo rate was raised by another 50 basis points (bp), to 4.25%, on June 8th. At the same meeting it was decided, for technical reasons, to introduce a system of variable repo tenders. The first tender under this new system was allotted on June 28th, at an average rate of 4.32%, marginally above the minimum bid rate set at 4.25%.

Graph 25 - Yield curves for the euro area and the us



Source: Datastream, data based on interest rate swaps

Graph 25 shows that the rise of interest rates at the lower end of the yield curve, beginning in the last quarter of 1999 in the euro area and some months earlier in the US, has continued in both areas during last weeks. A new phenomenon seen recently is the fall in the yield curve in the US for maturities longer than 1 year. This was probably due to the first signs of a slowing US economy and downward reviewed inflation expectations for the medium term. In the euro area, yields at the higher end of the curve have been virtually unchanged during the last few weeks. Higher short-term interest rates combined with constant long-term rates have led to a further flattening of the yield curve in the euro area. The spread between 3-month and 10-year returns fell to about 135 bp by the end of June, as compared to 175 bp in early May and 260 bp in January. This low spread at the current stage in the European business cycle could be seen as an indication that markets expect that there is room for lasting non-inflationary growth.



## Exchange rates

**Table 10 - Bilateral exchange rates**

	98	99	99Q3	99Q4	00Q1	00Q2	00M1	00M2	00M3	00M4	00M5	00M6
BEF per USD	36.31	37.87	38.46	38.90	40.88	43.20	39.82	41.02	41.81	42.63	44.50	42.46
USD per EUR	.	1.067	1.049	1.038	0.987	0.934	1.013	0.984	0.965	0.946	0.907	0.950
UKP per EUR	.	0.659	0.655	0.636	0.614	0.609	0.618	0.615	0.611	0.598	0.601	0.630
JPY per EUR	.	121.38	118.76	108.38	105.60	99.61	106.56	107.65	102.59	99.92	98.13	100.78

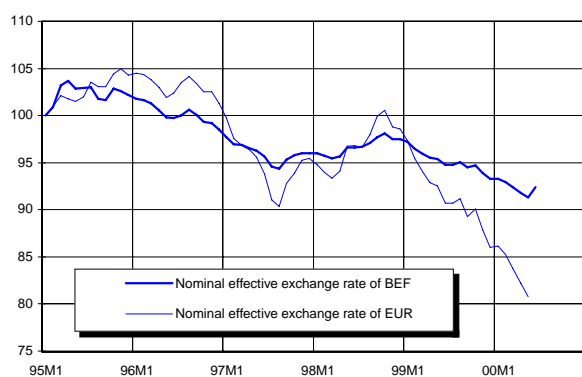
**Table 11 - Nominal effective exchange rates (Jan. 95 =100)**

	98	99	00	99Q3	99Q4	00Q1	00Q2	00M2	00M3	00M4	00M5	00M6
Effective exchange rate BEF	96.7	95.1		94.8	94.0	92.9	91.8	92.9	92.4	91.8	91.3	92.4
Growth rate [1]	0.7	-1.7		-0.5	-0.9	-1.2	-1.1	-0.4	-0.5	-0.7	-0.5	1.2
Id. with constant rate till year end			-2.9									
Effective exchange rate EUR	96.8	91.5		90.4	88.0	85.1	.	85.3	83.8	82.2	80.8	.
Growth rate [1]	2.1	-5.5		-1.8	-2.7	-3.3	.	-1.0	-1.8	-1.9	-1.7	.

[1] Change (%) compared to previous period

Source: NBB, BIS, FPB

**Graph 26 - Effective exchange rates (Jan. 95=100)**



Source: NBB, BIS, FPB

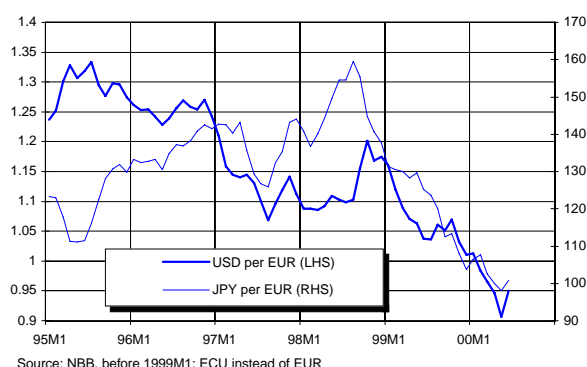
Between mid-April and the end of May the euro fell from 0.96 USD to 0.88 USD. On average in May, the euro had fallen 6% on a trade-weighted basis against its level in January 2000, and was down 17% since the start of EMU.

During the last few weeks the euro has appreciated against the US dollar, as well as against the British pound and the Japanese yen. By the end of June the euro had settled in a range of 0.94-0.97 against the dollar, which means that the April-May fall of the euro has been corrected.

The reversal of the trend towards depreciation of the euro is based on a number of factors. Recently, signs of a slowdown in the US economy - after a very strong first quarter this year - have become increasingly clear. US inflation, although creeping higher, remains relatively benign. Both elements have reduced, at least for the time being, the need for further monetary tightening in the US. Increased volatility on the US stock market (particularly in the new economy sectors) has probably also had a downward impact on the dollar. At the same time there has been increasing evidence of a strong and broad economic upswing in Europe, recently extended to include Germany and Italy.

Future developments depend on the outlook for the growth/inflation mix in both the euro area and the US. A further strengthening of the euro is possible if the slowing of US growth in the second quarter of this year turns out to be the start of a protracted slowdown. Upside inflation surprises in the US could also lead to higher levels for the EUR/USD exchange rate via the negative impact on asset prices of further monetary tightening.

**Graph 27 - Euro-dollar and euro-yen bilateral exchange rates**



Source: NBB, before 1999M1: ECU instead of EUR

Tax indicators

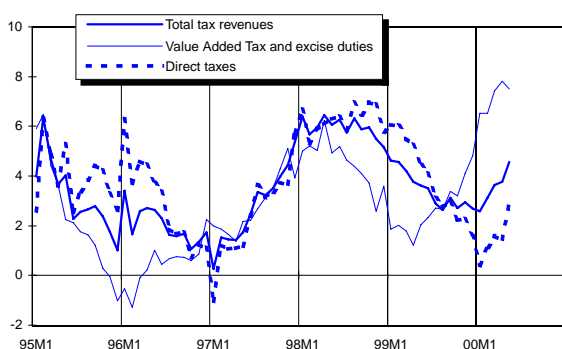
Table 12 - Tax revenues (1)

	98	99	99Q2	99Q3	99Q4	00Q1	99M12	00M1	00M2	00M3	00M4	00M5
Total [2], of which:	6.2	3.9	4.1	3.4	5.0	8.1	5.6	4.8	8.9	11.9	6.8	14.4
Direct taxes, of which:	6.8	2.7	2.9	0.8	2.8	5.6	1.6	-1.1	9.1	12.3	5.1	20.1
Withholding earned income tax	4.9	6.3	15.6	-3.8	15.8	12.7	9.5	14.3	-3.2	36.0	-42.6	67.5
Prepayments	20.2	-3.7	2.9	-15.4	-4.0	21.2	-8.1	.	.	.	0.0	.
Value Added Tax and excise duties	4.6	6.1	6.9	7.0	9.5	12.7	13.5	16.1	7.1	13.9	10.0	6.1

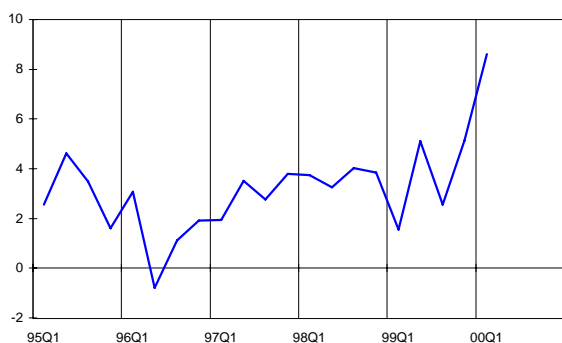
[1] Change (%) compared to same period previous year; [2] Total received by federal government, excl. of death-duties

Source: MvF/MdF, FPB

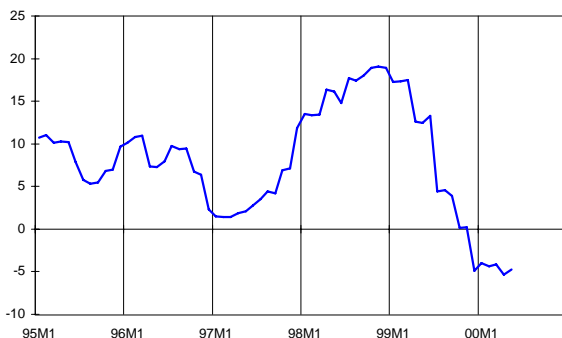
Graph 28 - Real tax revenues (3)



Graph 29 - Real withholding earned income tax (4)



Graph 30 - Real prepayments (3)



[3] Change (%) over past 12 months, compared to previous 12 month period, deflated by consumer price index

[4] Change (%) over past 4 quarters, compared to previous 4 quarter period, deflated by consumer price index

The acceleration in economic activity from mid-1999 onwards has affected tax revenues. On a year-on-year basis, growth in total tax revenues has been on a rising trend since the beginning of 2000. However, the effect of the economic upturn on indirect taxes was observed several months earlier than on direct taxes.

Following a high growth rate in the first quarter of 2000, VAT and excise duties are still rising at a sustained pace during the last two months for which records are available, as compared to the same period in 1999 (which was, however, still very low due to the slowdown in economic activity from mid-1998). The current high rate of growth in indirect taxes largely reflects the sustained acceleration in private consumption and, to a lesser extent, housing investment, very dynamic car sales and higher energy prices.

On a year-on-year basis, real revenues from earned withholding income tax show a significant acceleration in the last quarter of 1999 and the first quarter of 2000, with employment growth in recent months accounting for most of that progress. Despite an erratic monthly and quarterly profile, revenues from earned withholding income tax are still expected to rise at a sustained pace in the following months.

In April 2000 (first due date for advance payments) prepayments were at the same level overall as in April 1999: advance payments from self-employed people increased significantly after two years of decline, but prepayments by companies were slightly lower in April 2000 than a year before. On a year-on-year basis, the decline in the profile of total advance payments in real terms seen from the beginning of 1999 onwards, may have reached a low by the end of 1999 and recover in 2000, as profits are expected to rise in 2000 and 2001, based on our macroeconomic forecasts.

## Growth and employment in the service economy: the Belgian case

As in other industrialised countries, the service sector (market and non market) is important in Belgium: it represents more than 70% of total value added and employment and has contributed to more than 75% of the economic growth rate since 1970. Services are recognised increasingly as a key sector for growth and employment prospects in the industrialised world. During recent years, structural changes have significantly modified the conditions for activities in these markets, creating new opportunities:

- Due partly to the internationalisation of companies, firms are outsourcing an increasing part of their activities, in particular those related to business services.
- The new information and communication technologies (ICT) are changing dramatically the way operations are conducted in various services sectors, intermediate and retail trade being the most striking examples of this.
- The current liberalisation of previously monopolistic public services is creating new business opportunities, as is the case of the telecommunication sector.

The FPB has focused its analysis on the relative importance of different branches of services on employment and value added, as compared to the US and other European countries. Specific attention was given to the contribution of these branches to recent economic performances, in particular those related to the ICT. The share of Belgian GDP accounted for by market services is one of the highest among industrialised countries. This is mainly explained by services related to consumption, goods and capital movement. Three branches of services are developed further in Belgium: the auxiliary transport services, the trade sector, and the financial sector. On average, the importance of market services to GDP is more or less similar in Europe and in the US. Nevertheless, as per capita GDP is significantly higher in the US, the development of market services compared to the population is correspondingly weaker in Europe. The Scandinavian countries show a different profile on non-market services (24.5% of GDP) being larger than in any other European country (e.g. in Belgium, non-market services reached 14.2% of GDP in 1996).

The analysis was also driven by the comparison of employment rates in the service sectors of Europe and the US. Employment rates are measured as the ratio of employment in each sector to population aged 15-64 years and are used to measure the gap between the US and Europe in terms of employment performance. As European levels still lag far behind what is observed in the US, some European experts argue that there is a large potential for new jobs in the service sectors. How far is it true?

**Table 1 - Importance of sectors to GDP (current prices 1996)**

As % of GDP - 1996	Belgium	EUR-8	Scandinavia	US
Market services	58.9	54.2	45.6	54.7
Related to consumption and goods	25.7	19.5	18.4	20.5
Trade	15.7	12.9	11.3	14.2
Lodging and catering services	3.4	2.6	1.5	3.0
Transport	6.6	4.0	5.6	3.3
Inland	2.2	2.3	3.2	1.8
Maritime and air	0.3	0.5	1.2	0.8
Auxiliary	4.1	1.2	1.2	0.7
Related to capital (credit and insurance institutions)	5.9	5.2	3.2	5.1
Related to knowledge and information <sup>a</sup> and other services	27.3	29.5	24	29.1
Communication	2.1	2.3	2.3	2.6
Other market services (renting, business services, ...)	25.2	27.2	21.7	26.5
Of which business services, research, interim agencies, ...	11.5			

a. We classified services in terms of types of use and demand. We tried to isolate those services related to knowledge and information. As the classification used is still based on the ESA 79, we were obliged to consider services that are primarily communications and other market services which are actually much larger including renting (and imputed rents), personal services, as well as some health services. This is far from an ideal solution. Further work needs to be done to find a better and more precise classification (see paragraph on ICT issue).

Source: Eurostat, National accounts  
EUR 8: Germany, Austria, Denmark, Italy, France, Sweden, Finland, United Kingdom.

The higher employment rate in the US<sup>1</sup> is partly explained by the higher level of per capita GDP and thus the economic performance recently observed in the US (see table 3). The annual US growth rate of GDP was 4.3% between 1994 and 1996<sup>2</sup> while employment has increased annually by 2.3% (in FTE) compared to 0.2% in Europe. More than 8 million jobs have been created in the US economy of which 6.8 million are in the service sector. One of the main differences between the US and Europe is the performance of the manufacturing sector and the high level of growth in all branches of services, whilst in Europe, only the branches directly related to new technologies were dynamic strong performers.

The employment rate in Belgium is one of the lowest in Europe, especially in the industrial sector. The problem in Belgium is clearly not restricted to the service sector. As far as services are concerned, an important part of the gap with the US is explained by the "Trade" and "Lodging-Catering" branches. On the other hand, the level of labour productivity in Belgium is higher than in the US in trade, catering, and transport sectors, which is an advantage. Compared to the Scandinavian countries, in Belgium several branches of services appear to employ a much lower proportion of the working age population, these services are: transport and communication, renting and business services, health and social services.

1. The comparison of employment rate should be done in FTE in order to take into account the number of part time jobs, which could be high in the US, for example in trade or catering services.
2. Detailed comparative data are not available after 1996.

On the other hand, in public administration, the employment rate is significantly higher in Belgium.

**Table 2 - Employment rate in the service sector (1997)**

	Belgium	EUR-15	Scandinavia	US
Total branches	57.5	61.6	69.9	74.1
Industry	15.7	18.1	18.6	17.7
Services	40.6	40.4	48.2	54.5
Trade	8.4	9.2	8.8	12.3
Lodging-catering	2.0	2.5	1.9	5.1
Transport and communication	4.0	3.7	5.0	4.1
Financial services	2.6	2.1	1.7	3.5
Renting and business services	4.1	4.8	6.4	7.7
Public administration	5.5	4.6	3.8	3.3
Education	5.1	4.2	5.1	5.7
Health and social services	6.2	5.8	12.0	8.5
Others social services	2.4	3.5	3.3	4.3

Source: Europe: LFS ; US: The Current Population Survey  
(Extract from "The Job Creation Potential of the Service Sector in Europe")

**Table 3 - Value added and employment (1994-1996)**

	Belgium	EUR-11	US
<b>Value added (% annual growth rate)</b>			
Total	2.1	2.0	4.3
Industry	2.2	2.3	9.6
Services	2.1	2.5	2.9
Market services	2.2	2.8	3.6
Trade	0.3	1.6	5.0
Lodging - catering	2.4	1.4	4.1
Transport	2.0	3.0	3.3
Communication	2.2	5.1	1.9
Financial services	6.0	2.2	3.4
Other market services	2.6	3.8	3.1
<b>Employment (% annual growth rate)</b>			
			(FTE)
Total	0.0	0.2	2.3
Industry	-1.8	-1.3	0.9
Services	0.6	1.1	2.5
Market services	1.1	1.6	3.0
Trade	-1.1	0.2	2.7
Lodging - catering	1.3	1.8	2.8
Transport	0.3	-0.6	3.6
Communication	1.6	-2.6	2.2
Financial services	-0.8	-0.7	0.4
Other market services	3.3	3.9	3.8

Source: Eurostat New Cronos - Market services by branches: EUR 8  
EUR 11: EUR 8 + Belgium, Netherlands, Spain

Compared to the respective averages of Europe and the US, the performances of the Belgian services sector since the recovery of the economy in 1994 look poor. Employment in market services has increased annually by 1.1%, while in Europe and the US the growth rate was respectively 1.6% and 3%. Overall, labour productivity has evolved in the same order of magnitude. There are nevertheless major differences between markets: the financial sector is growing rapidly while the communications sector and the other market services – which includes the business services sector – show less rapid growth than in the rest of Europe. These last two sectors, which include services related to knowledge and information technologies, already have a smaller share in the Belgian economy while the level of labour productivity appears to be much lower in Belgium. The respective performances of transport and trade services were also less favourable to Belgium.

At this stage, it seems important to understand the behaviour of the "new services", mainly those related to knowledge and information technology. How do they contribute directly and indirectly to growth and employment? How are they diffused in the economy? What are the positions of Belgian producers in respect of these new services?

The ICT sector seems to have become a major determinant of growth in the US. New activities with high growth prospects are emerging in the service sector as well as in the manufacturing sector. Beside the direct contribution of ICT to growth, the use and diffusion of these new technologies have a deep impact on the economy: they may imply higher long-run growth, a dampening of the business cycle, and may provide new sources of growth. They are especially important in the service sector, the main purchasers of ICT equipment. The apparently weaker position of Belgium in the ICT field needs closer examination.

**Table 4 - ICT activities - 1997**

	% of employment			% of GDP		
	Total	Services	Industry	Total	Services	Industry
Belgium	2.5	2.0	0.5	3.8	3.0	0.7
France	2.7	1.9	0.8	3.7	2.9	0.9
Ireland	4.2	2.1	2.1	7.8	3.4	4.4
Italy (1996)	2.1	1.5	0.6	3.2	2.5	0.7
Netherlands	3.6	2.7	0.9			1.1
Finland	3.6	2.1	1.5	5.8	3.1	2.8
Sweden			1.1			3.2
United Kingdom			0.8			1.2
Scandinavia	3.2	2.2	1.0			2.3
Europe (available data)	2.5	1.8	0.7	4.0	3.0	1.1

Source: Eurostat - New Cronos (SBS (annual statistics on enterprises), SEC 2)

The ICT sector is partly made up of services (telecommunications, business services and trade in computers) and of industrial activities (computer, radio and telecom equipment). Except in Ireland and in some Scandinavian countries, the direct contribution of the ICT sector to GDP and employment still remains low. The figures for Belgium show that ICT services are not lagging far behind the best performing European countries although at a more detailed level, it can be seen that only Portugal and Spain have a lower share of GDP in computer services. The ICT industry is relatively small in Belgium when compared to the Scandinavian countries. Comparative data are not available for the US in the New Cronos data bank. But, according to the figures published by the OECD<sup>1</sup>, the ICT industries represent 4.4% of GDP in the US compared to 3.8% in the Netherlands and 3.5% in France.

*"Développer la croissance et l'emploi dans le secteur des services". M. Van Overbeke. Working Paper 6-00, July 2000.*

1. The STAN databank used here does not cover Belgium.

## A description of the HERMES II model for Belgium

This working paper presents the most recent version of HERMES-Belgium, called HERMES II. This annual macro-econometric model is developed by the FPB. It is used for the FPB's medium term forecasts and scenario analyses.

At least once a year HERMES-Belgium is used to compute a medium term baseline for the Belgian economy, in order to publish (in April/May) medium term projections. Moreover, the model is regularly used to simulate the impact of policy adjustments (e.g. shifts in labour costs, wage moderation, indirect taxes, public investments or social transfers), or macroeconomic shocks (e.g. shocks to exchange rates, interest rates, energy prices).

HERMES-Belgium is a demand-oriented model. However, supply mechanisms are incorporated into the model of the demand for production factors in the manufacturing branches in order to determine marginal technical coefficients, production capacities and investments.

The first version of HERMES-Belgium was built during the period 1982-1986 in the context of a modelling project which originated at and was co-financed by the European Commission. From this time onwards, the model has been continuously maintained and developed by the HERMES team. Recent developments include the further disaggregation of the market services and the inclusion of the input-output table for 1990.

The current version of HERMES-Belgium, denoted as HERMES II, contains about 3100 equations and 380 exogenous variables. The model's size is mainly due to the level of disaggregation in various domains.

The supply side of the private sector is divided into 11 branches: agriculture, energy, intermediary goods, equipment goods, consumption goods, construction,

transports and communications, trade and horeca, credit and insurance, health-services and other market services. Four factors of production are distinguished: capital, labour, energy and other inputs (KLEM approach).

The public sector is also extensively modelled, as various kinds of receipts and outlays (by different public subsectors, i.e. federal, regional and local authorities, as well as the social security sector) can be used as instruments of economic policy.

Household consumption also receives a detailed treatment, as 22 consumption categories are distinguished. The main categories are food, drinks and tobacco; clothing and footwear; gross rent; fuel for heating; power; domestic services; furniture and household equipment; personal transport equipment; fuels for personal transport; purchased transport; communication services; medical care and health services; recreation, education and culture; other goods and services; and tourism abroad.

Another important feature of the model is the energy module. Energy is considered both as a branch and a production factor. Eight energy products are identified, i.e. coal, coke, crude oil, petroleum products, natural gas, derived gases, electricity and other energy. For each of these, an annual balance between total resources and total expenditures is computed. The model also permits analysis of the evolution of CO<sub>2</sub> emissions by branch and by agent, and also permits testing the effect of the introduction of fiscal policies (and other measures) aimed at reducing the level of CO<sub>2</sub> emissions.

*"A description of the HERMES II model for Belgium", F. Bossier, I. Bracke, P. Stockman and F. Vanhorebeek, Working Paper 5-00, July 2000.*

## Other Recent Publications

*Economic Forecasts 2001*, July 2000  
(available in Dutch and in French)

*Medium Term Economic Outlook 2000 - 2005*, April 2000  
(available in Dutch and in French)

*Working Paper 02-00*, March 2000,  
"Belgium's export performance. A Constant Market Shares Analysis", D. Simonis

*Working Paper 03-00*, April 2000,  
"101 mots pour construire un développement durable", Textes de la Task Force Développement Durable, rassemblés par Pieter Dresselaers - "101 bouwstenen van een duurzame ontwikkeling" (Teksten van de Task Force Duurzame Ontwikkeling, samengebracht door P. Dresselaers)

*Working Paper 04-00*, May 2000.  
"La simplification des procédures administratives pesant sur les entreprises", C. Kegels.

#### The Modtrim II model

The team entitled 'Short term forecasts and business cycle analysis' is building a quarterly model for the Belgian economy to replace its current annual model. The decision to construct a new model, which would among other things make use of the quarterly national accounts, was motivated by several reasons. Business cycle dynamics are better described with high frequency data, and recent short-term information can be integrated more easily in model-based forecasting exercises. It also implies that carry-over effects are taken into account in a much more precise way than with annual data. Although the main purpose of the model is to generate short-term forecasts (six to eight quarters), it was decided to rely on long-run behavioural relations to ensure theoretical consistency. The short-run dynamics will be estimated using traditional econometrics and time series techniques. Attempts will be made to introduce forward-looking expectations into some key behavioural equations.

#### The NIME-model

The NIME-model is an econometric model to analyse the effects on the Belgian economy of major developments in the international economic environment, and to study economic policy variants. The NIME-model uses yearly annual data from Ameco and Eurostat. In the NIME-model, the world is divided into six separate country-blocks: an EMU-block, consisting of the EU countries that joined the EMU minus Belgium, a non-EMU European country block, the United States, Japan, Belgium, and the rest of the world. These blocks are linked to each other through trade and financial flows. In each block, except for the "rest of the world" block, a household sector, an enterprise sector, a government sector, and a monetary sector are defined. A set of behavioural relations and accounting identities is specified for each of these sectors. The long-run behavioural relations of the households and the enterprises are derived from an explicit optimisation problem. However, in the short-run, rigidities prevent immediate adjustment to these long-run plans. Error correction mechanisms and partial adjustment schemes are used to capture these sluggish adjustment processes. The monetary sector sets interest rates according to a Taylor rule, while fiscal policies are to a large extent determined outside the model. Finally, the overall modelling strategy is to build a model with a well-defined steady state, where unemployment and production are at their "natural rate", expectations are realised fully, and where stock and flow variables are in equilibrium.

#### Energy forecasts

The "Belgian energy outlook 2000-2020" presents forecasts of energy supply, demand, and prices until 2020. The projections are based on results from the PRIMES energy model, a partial equilibrium model developed for the European Commission. The forecasts are prepared in accordance with the Belgian electricity and gas laws of 29 April 1999, which require the consultation of the FPB in designing an electricity transmission and generation equipment plan (Art. 3 §1, Art. 13 §1 of the electricity law), and a natural gas provision plan (Art 15/13 §1 of the gas law). Apart from the forecasts, some issues are addressed that includes, among others, the consequences of the restructuring of the European electricity market for the Belgian energy market, the impact of emission constraints on energy consumption, and the consequences of adopting various strategies relating to nuclear power and renewable energy.

#### Financing of innovation

In 1997, the FPB co-ordinated the Belgian federal and regional contributions to a European Council pilot project concerning the benchmarking of "Financing of innovation". Twenty indicators – with their underlying rules – were grouped around 3 themes: market conditions, exit conditions for investors, and other framework conditions. At the Belgian level the results were not brought to the attention of the decision makers sufficiently. This was perhaps due to the rather poor comparability of data at that time. In this rapid changing environment of risk financing the need was felt to update the inputs.

#### Transition to a knowledge-based society

The Lisbon Council stressed the profound transformation of the European economies following the technological changes in communication and information. A comprehensive and prospective analysis of the impact of these changes in ICT will be carried out in the next few months. In a first stage, the importance of the ICT-sector, the diffusion of ICT changes in the Belgian economy and its determinants (e.g. regulatory mechanisms) will be analysed. Moreover, some estimates of the "digital divide" will be presented.

## Recent history of major economic policy measures

June 2000	The ECB raises its benchmark refinancing rate by 50 basis points to 4.25%, the fifth rise since November 1999 (totalling 175 basis points).
March 2000	The multi-annual plan in the sector of health care foresees the replacement of precarious jobs by regular contracts, a general wage increase and the possibility for employees to reduce their working time (from the age of 45 years on).
February 2000	On 4 February 2000, the Belgian government adopts a Law related to the creation of a Federal Agency for Food Chain Security. In order to protect customer's health, the new Agency has to implement control measures for the quality of goods throughout the whole food chain.
January 2000	Established by the Laws of 29th April 1999 related to the organisation of the gas and the electricity markets, the Commission for Electricity and Gas Regulation (CREG) began its activities on January 10th 2000.
January 2000	The Law concerning the regularisation of certain categories of foreigners staying on the Belgian territory (MB January 10, 2000) was adopted on 22 December 1999. For foreigners who have been residing in Belgium since 1 October 1999, the Law defines the criteria that foreigners must meet in order to be able to present a demand for regularisation to the mayor of their residence.
December 1999	The Federal Government adopts the new Belgian stability program for the period 2000-2003. The Government budget (general administration) will be balanced in 2002, which implies an increase in the primary surplus up to around 6.4% of GDP in 2002, while budgetary margins will be mainly used to reduce the deficit faster. The Federal Government adopts a "Convention" for young people in search of their first job.
October 1999	The Federal Government presents its 2000 Budget. <ul style="list-style-type: none"> <li>• An additional cut in social security contributions of BEF 50 billion is scheduled for 2000. The main new measures include: the further enhancement of the 'Maribel' reductions of employers' social contributions (as from the second quarter of 2000 and for a total amount of BEF 24 billion); reductions of employers' social contributions linked to a new plan targeted at the recruitment of young people who have just graduated (BEF 4 billion); additional reductions of employees' social security contributions for low wage earners and related measures to tackle unemployment or "unemployment traps" (BEF 4 billion).</li> <li>• The additional crisis contribution on personal taxes is gradually (up to 2003) phased out.</li> <li>• Fiscal rebates for children (both regimes with and without day-nursery) are increased.</li> <li>• The VAT rate is reduced from 21% to 6% on housing renovation (5-15 year-old buildings) and on repair works.</li> <li>• The maximum real growth rate for health insurance outlays is raised from 1.5% to 2.5%.</li> <li>• Low pensions (included those of the self-employed) are raised from July 2000 onwards.</li> <li>• Additional resources are placed at the disposal of the modernization and higher efficiency of public services and sustainable development (e.g. investment in public transport, free public transport for civil servants and elderly people, investment in the judicial system, reorganization of the police force and a larger budget for development aid and debt restructuring).</li> </ul>
June 1999	The Ministry of Public Health draws up a list of food products at risk. These products are removed from shop shelves. The European Commission imposes restrictions on the trade of chickens, eggs, pork, and beef, which might have been contaminated, and products derived from them, including dairy products.
June 1999	The cut in employers' social contributions will temporarily be reduced for firms that received Maribel bis and ter aid, which was condemned by the European Commission.
May 1999	The Belgian Government presents its 1999 National Action Plan for Employment to the European Union (NAP). New measures, in comparison with the NAP 98, include a reduction in employees' contributions to social security targeted at low wage earners (scheduled to take effect from January 2000 onwards) and a voucher scheme to stimulate demand for certain labour-intensive services (painting and papering, already in place since April 1999, on an experimental basis, for a two-year period).
April 1999	The ECB reduces its benchmark refinancing rate to 2.50 %, which is 50 basic points lower than the rate prevailing since the starting of the EMU on 1 January 1999.
March 1999	As provided for in the 1998 Belgian Action Plan for Employment, the Maribel reductions of employers' social security contributions will be gradually enhanced, extended to white-collar workers and combined with the reduction for low wage earners. The transitional period towards the fully-fledged integrated scheme is expected to last 6 years, with annual increases of 16.5 billion BEF starting from the second quarter of 1999. As from the second quarter of 1999, the 'blue-collar intensity' of the firm will no longer be taken into account as criteria for granting these reductions.
March 1999	The Federal Government reviews its 1999 Budget. Measures for around BEF 10 billion are taken. The three main measures are the following: the price-linking of tax brackets for personal income tax, the reduction of social security contributions will take effect in April instead of July 1999, increase in social transfers to households.
December 1998	Social partners conclude an interprofessional agreement for the period 1999-2000, incorporating a maximum growth rate for nominal labour costs per hour of 5.9% over the period. New elements further include a shift towards a more macroeconomic oriented follow-up and control of the respect of this wage growth ceiling and a promise to step up training efforts so as to catch up with neighbouring countries in this respect.

A more complete overview of "Recent history of major economic policy measures" is available on the FPB web site (<http://www.plan.be>)

Abbreviations for names of institutions used in this publication

BIS	Bank for International Settlements
CPB	Netherlands Bureau for Economic Policy Analysis
CRB/CCE	Centrale Raad voor het Bedrijfsleven / Conseil Central de l'Economie
DULBEA	Département d'Economie Appliquée de l'Université Libre de Bruxelles
EC	European Commission
ECB	European Central Bank
EU	European Union
FEBIAC	Fédération Belge des Industries de l'Automobile et du Cycle "réunies"
FMTA/MFET	Federaal Ministerie van Tewerkstelling en Arbeid / Ministère fédéral de l'Emploi et du Travail
FPB	Federal Planning Bureau
IMF	International Monetary Fund
INR/ICN	Instituut voor de Nationale Rekeningen / Institut des Comptes Nationaux
IRES	Université Catholique de Louvain - Institut de Recherches Economiques et Sociales
MEZ/MAE	Ministerie van Economische Zaken / Ministère des Affaires Economiques
MvF/MdF	Ministerie van Financiën / Ministère des Finances
NBB	National Bank of Belgium
NIS/INS	Nationaal Instituut voor de Statistiek / Institut National de Statistique
OECD	Organisation for Economic Cooperation and Development
RSZ/ONSS	Rijksdienst voor Sociale Zekerheid / Office national de la Sécurité Sociale
RVA/ONEm	Rijksdienst voor Arbeidsvoorziening / Office National de l'Emploi

Other Abbreviations

BEF	Belgian franc
BoP	Balance of Payments
CPI	Consumer Price Index
ECU	European Currency Unit
EMU	Economic and Monetary Union
EUR	Euro
JPY	Japanese yen
LHS	Left-hand scale
OLO	Obligations linéaires / Lineaire obligaties
qoq	Quarter-on-quarter, present quarter compared to previous quarter of s.a. series
RHS	Right-hand scale
s.a.	Seasonally adjusted
t/t-4	Present quarter compared to the corresponding quarter of the previous year
t/t-12	Present month compared to the corresponding month of the previous year
UKP	United Kingdom pound
USD	United States dollar
VAT	Value Added Tax
yoy	Year-on-year, i.e. t/t-4 (for quarters) or t/t-12 (for months)