Quarterly Newsletter of the Federal Planning Bureau

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

Economic activity in Belgium increased strongly during the second half of last year thanks to the net improvement in export growth as well as sustained internal demand. On average, GDP growth reached 2.5% in 1999, confirming the scenario of a short-lived slowdown between mid-98 and mid-99.

The upward trend in nearly all demand components will result in a positive carry-over effect for the year 2000. Moreover, leading indicators are so far pointing towards a further improvement in economic growth in the first half of the current year, with growth stabilising at a high level in the third quarter. This year, Belgian GDP growth should reach 3.2%. Internal demand will be boosted by sustained growth in private consumption, thanks among other things to a high job creation rate (+1.4%), and also by a positive contribution from stockbuilding towards economic growth (+0.3%). The contribution of external trade (+0.4%) will be favoured by the dynamism of world trade and the improvement in price competitiveness. The public sector borrowing requirement should diminish and nearly reach equilibrium (-0.1% of GDP), thanks to the fall in interest payments and the increase in the primary surplus.

The medium-term outlook for Belgium is pointing towards a GDP growth rate of 2.6% per year during the 2001-2005 period, mostly supported by exports and business investment. The economic fundamentals of the euro area should be the main driving force behind those prospects: fiscal consolidation should not require new measures and the slightly accelerated pace of inflation (around 2% in the medium term) in Europe should not threaten price stability and the low level of real interest rates. Despite the further significant decrease of the unemployment rate in the euro area, acceleration in wage inflation should be limited.

Annual employment growth in Belgium should be around 0.8% between 2001 and 2005. The labour force will still increase in spite of unfavourable demographic developments (the baby-boom generation is entering the 55-60 age range), thanks to higher participation rates among females and over-50s. The acceleration of wage inflation in Belgium should be broadly in line with the average of our three main trading partners. The pace of growth in consumer prices should be around 1.5% on average between 2000 and 2005. On the basis of a "no change in policy" scenario, the general government financing capacity should become positive from 2001 onwards. Compared to the budgetary target set out in the 2000-2003 stability program (surplus of 0.2% GDP in 2003), "cumulative budgetary margins" will reach 2.2% GDP in 2005.

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The Federal Planning Bureau (FPB) is a public agency under the authority of the Prime Minister and the Minister of Economic Affairs. The FPB has a legal status that gives it an autonomy and intellectual independence within the Belgian Federal public sector.

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).

Ageing population, migration and budgetary margins

The Population Division of the United Nations has presented its report "Replacement migrations" (published on 21st March, 2000). This report relies on demographic scenarios that imply significant ageing and diminution of population in most European countries. By advising European countries to resort to massive immigration to prevent the demographic structure from experiencing a dramatic increase in old-age dependency rates, the international organisation has in fact questioned the future of labour force resources and the sustainability of public pension schemes.

The significance of the demographic factor in assessing the long-term financial sustainability of public pension schemes is open to question. In the case of Belgium, every three years the FPB makes projections on the long-term budgetary implications of an ageing population. These projections are based on a much broader framework than the influence of demography alone, and they provide more reasonable results: the problems associated with the shortage in the labour force and the sustainability of legal pension schemes in the twenty-first century could be less acute than the United Nations suggests.

The FPB projections concerning the long-term sustainability of public finances as a whole are also based on demographic prospects, with the basic assumptions concerning the evolution of fertility rates, life expectancy and migrations being prepared by different national expert groups specializing in each of those fields. In the baseline scenario used in the last published demographic projections[1], net immigration flows sustained the Belgian population figures for the next 50 years, remaining at around 10,000 each year in the short-to-medium term and declining smoothly thereafter. This hypothesis contrasts with the unrealistically low net migration rates (even a nil rate in 2020) assumed in the baseline projections in the United Nations report. But, perhaps more importantly, the FPB long-term projections also take into account the following factors: socio-economic and macroeconomic variables, social policy and budgetary policy, as well as the regulatory parameters of the various social security schemes.

Five important non-demographic factors influencing the long-term sustainability of Belgian's public finances have been put forward. Four factors refer to the budgetary costs of ageing - that is the increase in age-related social expenditure in GDP terms during a definite period - and the remaining factor refers to the dynamics of public deficit and debt.

Firstly, the budgetary cost of ageing has to be estimated by taking total social security expenditure into account - including family allowances, unemployment benefits, early retirement, health care, and disability benefits. There are three main reasons for this:

- First, the changing demographic pattern affects virtually all social security schemes, sometimes in opposite ways. If ageing inflates pension and health care expenditure, other social security expenditure might be reduced;

- Second, according to the "overall management of social security", it is pointless to consider income from pension schemes in isolation and,

- Third, reforms relating to the age of retirement are tending to shift some benefits from one scheme to another.

Secondly, average benefits in the different social security schemes - in particular, the average individual pension - are not expected to grow at the same rate as the average income of the population, when projected on the basis of the present legislation. In fact, in the baseline scenario, average benefits increase more slowly than the average income of the population. This is due not only to the partial adaptation of real benefits to the change in real wages, but also to specific regulatory parameters. For example, in the general pension scheme for wage earners, the effect of ceilings will (slowly) become stronger; the past and the future increase of female participation rates will reduce the proportion of pension supplements for the dependent spouse.

1. INS-BFP, Perspectives de population - Bevolkingsvooruitzichten 1995-2050 NIS-FPB, 1997.

Thirdly, the overall increase in participation rates prevents the projected decrease in the working age population from being fully reflected in an equivalent reduction in the labour force: the rising trend in school attendance is more than offset by ever-increasing female participation rates and also by the effects of recent reforms raising the retirement age and restricting the eligibility conditions for early retirement.

Fourthly, the unemployment rate should at least decrease slowly when the labour force falls: in the Belgian case, there is still scope for reducing the unemployment rate in order to counteract labour shortage problems.

These four elements result in a smaller than expected assessment of the budgetary cost of ageing for the period 2000-2030: for an old-age demographic dependency ratio[1] that increases from 40% in 2000 to 62% in 2030 (i.e. more than doubling the dependency ratio), the budgetary cost of ageing for the whole of social security (including civil servants) would be between 2.6% and 3.1% of GDP[2], depending on assumptions concerning real economic growth (i.e. 2.25% or 1.75% annual real growth rate - see Table 1).

Table 1 - The budgetary cost of ageing (increase between 2000 and 2030; as a per cent of GDP)

Scenario	2.25% growth	1.75% growth
Pensions	2.3	2.8
Health care	1.7	1.7
Disability	-0.1	-0.1
Unemployment	-0.8	-0.8
Early retirement	0.1	0.1
Family allowances	-0.6	-0.6
Total	2.6	3.1

Source: FPB

It is worth noting that the situation is not the same in other European countries. The "overall management of social security" is not a very widespread system. Some countries have a much less centralized pension system, which makes controlling the dynamics of expenditure much more difficult and often leads to benefits being fully indexed to wages. Given the relatively low employment rate in Belgium, the labour shortage will probably appear later.

Of course, the question is how to finance this increase in public expenditure. In a "no change in policy" long-term scenario, revenues and primary expenditure other than social expenditure are kept constant relative to GDP. Interest payments are computed assuming that the Growth and Stability Pact will lead to a balancing of the budget over the cycle and that the real implicit interest rate on debt is 4%: in this case, the interest burden would decrease by 4.3% to 4.8% of GDP during the period 2000-2030 – this also depends on assumptions relating to economic growth.

The strong downward trend in debt and interest payments in the first half of the twenty-first century is explained by the specific situation of Belgian's public finances, with its very high debt ratio and virtually no more deficit: this could allow the budgetary cost of ageing to be financed by the reduction of the interest burden, and would even leave some additional budgetary margins (see Table 2).

Table 2 - Budgetary margins* in a long term zero-deficit scenario (increase between 2000 and 2030;as a per cent of GDP)

Scenario	2.25% growth	1.75% growth
-Cost of ageing	2.6	3.1
-Reduction of interest burden	4.8	4.3
-Budgetary margins	2.2	1.2

* The increase of the primary surplus in the medium-term in a "no change in policy" scenario is not taken into account.

Nevertheless, those additional budgetary margins are not evenly spread over the period: they should be very significant in the first decade of the twenty-first century (see the medium-term outlook 2000-2005 of the FPB in our section entitled "economic forecasts") and very limited during the second and the third decades, when the ageing takes effect. Therefore, when using the margins, a difficult trade-off between three priorities will have to be examined:

- First, increasing the employment rate and enhancing productivity - by investing in physical and human capital-, in order to realize the required long-term economic growth;
- Second, speeding up the decrease in the debt ratio before the "grandpa-boom" (or, equivalently, the settlement of a so-called "demographic reserve"), which implies not using all the margins, and instead triggering a budgetary surplus; and,
- Third, meeting social needs, reducing the tax burden and other demands from society.

Hence the appropriate way to use the margins between 2000 and 2010 will be the political challenge for the years to come.

1. Population of 60 to 99 years related to the population of 20 to 59 years.
2. Last available calculations. An updating is being prepared.

Economic forecasts 2000-2005

The FPB medium-term economic outlook for April 2000 covers the period from 2000 to 2005. Detailed analyses of macroeconomic, sectoral and labour market developments are presented. Detailed results concerning the public finances of the federal government, regions and communities, local authorities and social security departments are also commented on. A special chapter is devoted to the evolution of energy consumption and CO_2 emissions. The baseline is an unchanged policy scenario, notably with regard to fiscal and social policies as well as institutional arrangements. In this scenario, a positive financing capacity for General Government is expected to appear in 2001 and to exceed 2% of GDP in 2005. In this context, budgetary margins (computed on the basis of the "Stability Program for Belgium 2000-2003" and of the "European Pact for Stability and Growth") should also exceed 2% of GDP in 2005.

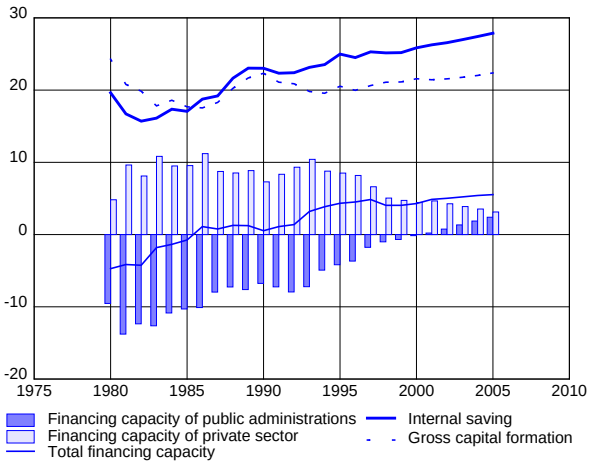
Based on forecasts from international organizations, the outlook for Europe suggests sustained growth from 2000 onwards. Economic growth should be stimulated by strong economic fundamentals as well as by stabilization in world growth. The increase in nominal interest rates should also be limited in spite of a slight acceleration in European inflation.

The baseline forecast indicates that, after a slowdown between mid-1998 and mid-1999, Belgian GDP growth should attain an average of 2.7% for the period from 2000 to 2005. This favourable development can be largely accounted for by exports and domestic demand.

Gross fixed capital formation should increase rapidly during the period covered by the forecast, reflecting the favourable development in business investment. The growth in private consumption should be dynamic in the short term (2000 and 2001). Private consumption should then increase at a more moderate pace, notably due to a slight increase in the savings rate. Exports should be boosted by the favourable evolution of the world economy as well as by the sustained competitiveness of the Belgian economy. Consequently the contribution of net exports towards growth should be significant, boosting the external surplus over 5% of GDP. The increase in the external surplus also reflects abundant domestic savings, against the background of a increasing financing capacity for the General Government.

Limited wage increases (accelerating but still compatible with productivity gains), cuts in social security contributions, particularly in 2000, and the extension of production capacity are the main domestic factors behind a low inflation rate in the medium term (the rate of inflation is no more than 1.5% on average for the period 2000-2005. The easing of energy prices from the second half of 2000 onwards is also significant in the moderate level of inflation as compared with the current level.

Graph 1 - Financing capacities, domestic saving and capital formation (% of GDP)



Another crucial result of the forecast concerns employment. Employment figures should show a gradual improvement, with 52,000 jobs created in 2000 and 34,000 more every year on average during the 2001-2005 period (compared to 31,000 jobs created on average during the 1995-1999 period). This result can be explained by the following factors:

- the favourable macroeconomic context, with average GDP growth of 2.7% for the period 2000-2005;
- limited wage increases (introduced as a hypothesis within the context of the 1996 law on the promotion of employment and on the safeguarding of competitiveness) and an extension of the reduction in employers' social security contributions; the nominal increase in unit labour costs will not exceed 1.2% per year on average over the 2000-2005 period;
- the various measures taken in favour of employment (mainly activation and insertion programs).

The decline in industrial employment is likely to continue, but the number of jobs lost in manufacturing industry between 2000 and 2005 should be limited to 16,000 (compared with 29,000 during the 1994-1999 period). The number of jobs created in market services, on the other hand, should exceed 182,000, bringing the share of employment in market services to about 55% of total employment (compared with only 45% in 1980 and 53.2% in 1999).

The rise in the participation rates among women and people over 50 will result in growth in the labour force. Nevertheless, thanks to the stronger growth in employment, unemployment will fall. The rate of unemploy-

ment in a broad sense should decrease from 13.6% in 1999 to 11.2% in 2005. However, if older unemployed people (whose number is likely to increase by 57,000 persons) are excluded from the computation, the unemployment rate should decrease from 10.9% in 1999 to only 7.3% in 2005. The employment rate (as a percentage of the working age population) should increase from 58.1% in 1999 to 60.7% in 2005 (compared with the peak value of 61.3% in 1974).

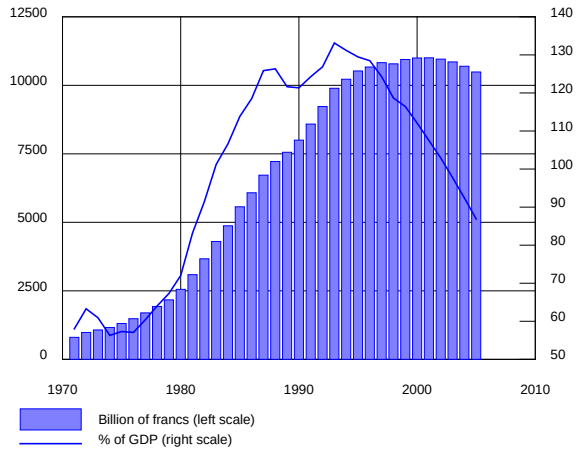
Graph 2 - Employment and unemployment

Assuming an unchanged policy but taking the recently decided measures into account, public expenditure is forecast to grow more slowly than GDP. Due to the further reduction of social security contributions, the overall burden of tax should decrease slightly until 2001 and subsequently stabilize.

As a result, the primary surplus for General Government should increase again (rising from 6.4% of GDP in 1999 to 7.5% of GDP in 2005) and interest payments should shrink considerably (from 7.1% of GDP in 1999 to 5.1% of GDP in 2005), reinforcing the so-called reverse snowball effect. The budget for General Government should be balanced in 2001 (i.e. one year before the date forecast in Belgium's Stability Program). A substantial budget surplus should appear in the medium term, rising from 0.8% of GDP in 2002 to 2.4% of GDP in 2005. The total public debt to GDP ratio should continue its decline, with a fall of about 30% between 1999 and 2005. Even in nominal terms, the debt should start declining from 2002 onwards. These changes will, of course, be different if the budgetary margins are used to reduce taxes or increase expenditure, instead of accelerating the pace of reduction of the debt ratio.

A variant simulation evaluates the effect of lower compulsory levies from 2002 onwards (reaching progressively -0.6% of GDP ex ante by 2005), namely the lifting of the complementary crisis contribution on household income, together with additional cuts in employers' social security contributions. In this scenario, the remaining budget surplus will still be 2% of GDP in 2005.

Graph 3 - Total public debt



Perspectives économiques 2000-2005 , Bureau fédéral du Plan, avril 2000. Economische vooruitzichten 2000-2005, Federaal Planbureau, april 2000.

Table 1 - Key figures of the medium term economic outlook (period averages- changes in volume unless otherwise stated)

	1991-1995	1996- 1999	2000-2005
Potential export market	5.7	6.3	6.1
Private consumption	1.4	2.2	2.1
Public consumption	1.5	1.5	1.3
Gross fixed capital formation	-0.1	4.4	3.6
Stock building (contribution to GDP growth)	0.1	-0.2	0.1
Final internal demand	1.2	2.4	2.4
Exports	4.1	3.8	5.7
Imports	3.8	3.8	5.6
Net exports (contribution to GDP growth)	0.3	0.1	0.3
GDP	1.5	2.4	2.7
Private consumption prices	2.4	1.4	1.5
Real disposable income households	1.7	1.3	2.3
Domestic Employment (annual changes in '000)	-10.4	32.7	36.8
Unemployment rate (level, in percent of labour force, end of period)			
-including older unemployed people	14.3	13.6	11.2
-excluding older unemployed people	12.9	10.9	7.3
Current account balance (% of GDP, end of period)	4.4	4.1	5.5
General Government financing capacity (% of GDP, end of period)	-4.2	-0.7	2.4

Economic Forecasts by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (data in ESA-95) [1]

	1999 (est)	2000	2001
Private consumption	2.0	2.1	2.5
Public consumption	2.1	0.9	1.2
Gross fixed capital formation	6.4	5.1	2.2
Final national demand	1.8	2.9	2.3
Exports of goods and services	2.9	6.7	5.9
Imports of goods and services	2.2	6.4	5.7
Net-exports (contribution to growth)	0.6	0.4	0.4
Gross Domestic Product	2.3	3.2	2.6
p.m. Gross Domestic Product - in current prices (bn BEF)	9398	9811	10237
Traditional consumer price index [2]	1.1	1.5	1.3
Consumer prices: health index [2]	0.9	1.3	1.4
Real disposable income households	1.9	2.2	2.9
Household savings ratio (as % of disposable income)	16.6	16.7	16.9
Domestic employment (change in '000, situation on June 30th)	44.0	52.4	37.5
Unemployment (Eurostat standardised rate, yearly average) [3]	9.0	8.6	8.4
Current account balance (as % of GDP)	4.0	4.2	4.8
General government financial balance (as % of GDP)	-0.7	-0.1	0.2
Short term interbank interest rate (3 m.)	2.9	3.9	4.4
Long term interest rate (10 y.)	4.8	5.8	5.8

[1] Forecasts finalised by the end of March, before publication of National Accounts 1999

[2] More recent inflation forecasts can be found on page 15; [3] Other unemployment definitions can be found on page 14 (table 6)

Economic forecasts for Belgium by different institutions

	GDP-growth		Inflation		Government balance		Date of update
	2000	2001	2000	2001	2000	2001	
Federal Planning Bureau	3.2	2.6	1.5	1.3	-0.1	0.2	4/00
INR/ICN	3.2	.	1.5	.	.	.	2/00
National Bank of Belgium	.	.	.	.	.	.	.
European Commission	3.5	3.3	1.3	1.4	-0.5	-0.2	4/00
OECD	2.8	2.7	1.7	1.7	-0.9	-0.9	12/99
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	3.4	.	1.3	.	-0.5	.	2/00
Fortis Bank	3.4	2.8	1.6	2.0	-0.7	-0.3	2/00
Gemeentekrediet/Crédit Communal	3.0	3.0	1.6	1.8	-0.9	-0.6	3/00
KBC Bank	3.3	2.9	2.0	1.7	-0.2	0.2	II/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	1.7	1.5	-0.7	-0.3	3/00
IRES	3.4	.	1.7	.	-0.5	.	4/00
DULBEA	3.5	.	1.5	.	-0.6	.	3/00
Averages							
All institutions	3.3	3.0	1.6	1.6	-0.5	-0.2	
International public institutions	3.2	3.0	1.6	1.5	-0.6	-0.4	
Credit institutions	3.4	3.0	1.7	1.6	-0.5	-0.1	
Consensus The Economist	3.3	3.0	1.6	1.6			4/00

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

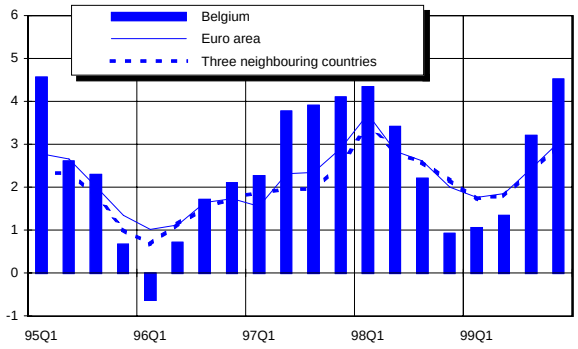
General economic activity

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

	97	*98*	*99*	*97Q4*	*98Q1*	*98Q2*	*98Q3*	*98Q4*	*99Q1*	*99Q2*	*99Q3*	*99Q4*
Germany	1.5	1.9	1.4	1.5	3.0	1.8	1.8	1.2	0.8	0.9	1.5	2.3
France	2.0	3.4	2.7	3.0	3.5	3.7	3.4	2.9	2.4	2.4	2.9	3.2
Netherlands	3.8	3.7	3.6	4.4	4.9	3.6	3.0	3.3	3.0	3.1	3.6	4.6
Belgium	3.5	2.7	2.5	4.1	4.3	3.4	2.2	0.9	1.1	1.3	3.2	4.5

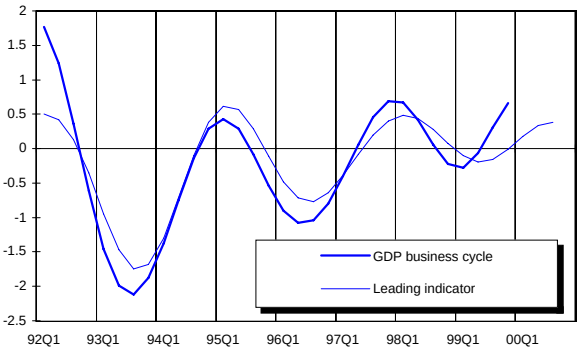
Source: INR/ICN, National sources, Eurostat

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



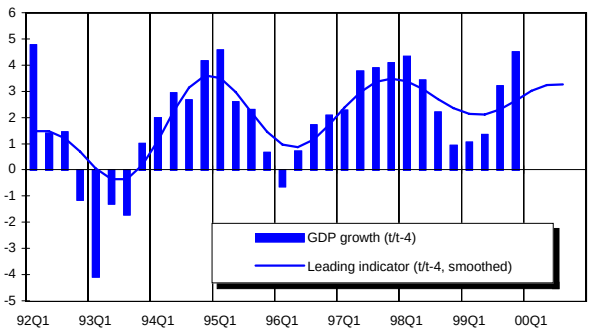
Source: INR/ICN, National sources, Eurostat

Graph 2 - GDP business cycle and leading indicator



Source: INR/ICN, FPB

Graph 3 - GDP growth and leading indicator



Source: INR/ICN, FPB

The economic recovery in the euro area began in the third quarter of last year and has been consolidated during the last quarter of 1999. In the same period, Belgian yoy GDP growth even reached 4.5%, a higher rate than its three main trading partners. Growth in Germany, although still far lower than in the Netherlands and in France, was also rising at the end of the year, thanks to the net improvement in the non-building industry following the strong revival in exports.

A common feature shared by Belgium and the euro area relates to the positive contribution of all demand components towards the recovery registered in the second half of last year. Both have indeed benefited, on the one hand, from the dynamic increase in world trade and the improvement in price competitiveness due to the depreciation of the euro, and on the other hand from strong consumer and business confidence. Among our trading partners, this was particularly the case in France and in the Netherlands, where consumer spending has been stimulated by job creation.

The accelerated quarterly pattern of Belgian GDP at the end of 1999 mainly comes from the very strong contribution of stockbuilding towards economic growth (almost 2% yoy), which far more than offsets the slight negative contribution from net external trade (-0.2%), itself resulting from the revival in imports. One might mention that the spread, in the GDP business cycle and the FPB's leading indicator in 1999 can partly be explained by the fact that the Belgian business cycle has been exacerbated by the changes in stockbuilding which, for statistical and data reasons, are not taken into account in the leading indicator system.

The FPB's leading indicator points to a further improvement in the economic cycle in the first half of the current year and to a stabilisation in the GDP business cycle in the third quarter of 2000. Smoothed yoy growth rates derived from this leading indicator suggest that the expansion should be sustained, with GDP growth of around 3% on average during the first three quarters of the year, which is in line with our forecast of 3.2% GDP growth for the whole of the year 2000.

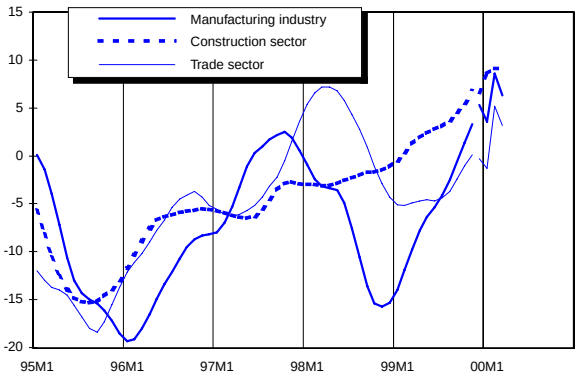
Table 2 - Monthly business surveys [1]

	98	*99*	*99Q2*	*99Q3*	*99Q4*	*00Q1*	*99M10*	*99M11*	*99M12*	*00M1*	*00M2*	*00M3*
Synthetic indicator	-6.1	-2.9	-5.0	-1.9	4.3	6.0	1.8	6.4	4.7	3.6	8.2	6.3
Manufacturing industry	-8.8	-4.1	-6.5	-2.6	4.7	6.2	1.6	7.1	5.3	3.6	8.6	6.3
Construction sector	-2.5	2.9	2.1	4.3	5.9	8.9	3.6	7.6	6.6	8.6	9.1	9.1
Trade sector	3.0	-3.0	-4.9	-4.9	0.9	2.4	1.2	1.7	-0.3	-1.3	5.2	3.2

[1] Qualitative data

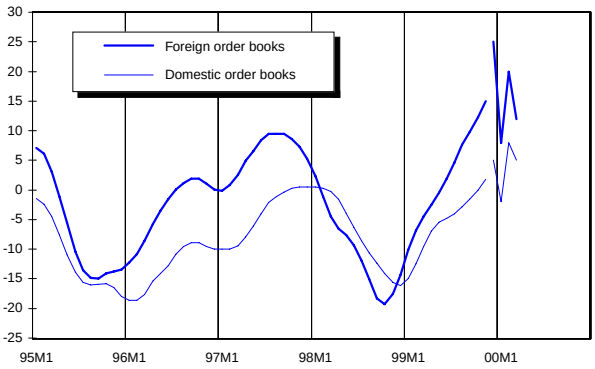
Source: NBB, FPB

Graph 4 - Business cycle: sectoral evolution



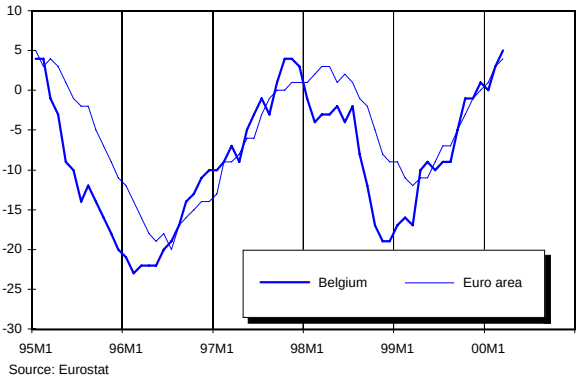
Source: NBB

Graph 5 - Manufacturing industry: order books



Source: NBB

Graph 6 - Industrial confidence: international comparison



Source: Eurostat

The overall synthetic indicator resulting from the NBB's surveys also reflects the ongoing upswing. Indeed, after a change of direction over two months, the February and March surveys results more than offset the falls in December and January. This recovery was seen in all three sectoral components of this indicator, and particularly in the industrial and trade sectors. In the construction industry, the upward trend has been almost unbroken for more than two years and also for about one year for the residential part of this sector. The pattern of the trade sector indicator benefits from the rising path in sales and orders, mainly reflecting sustained growth in private consumer spending.

Belgium's industrial production weakened in January 2000 as was also the case in the euro area. This reduction (in comparison with the same period of last year) probably reflects a correction after the Y2K-related stock-building seen at the end of last year, rather than a slowdown in growth, as the February results reveal a rebound in industrial production.

In manufacturing industry, the NBB's survey points to a deterioration in production and also in domestic and foreign order books in January 2000 and also to a strong improvement in these three components in February and in orders in March. This result seems to confirm the temporary slowdown in industrial production in the early part of the year 2000.

The industrial confidence indicator has still been rising in the euro area as also in Belgium, throughout the first quarter of 2000, and has nearly reached the historically high levels seen at the beginning of 1995 and 1989. Most components of this survey, such as the production trend and expectations, domestic and foreign order books and selling price expectations, point to sustained growth.

Private consumption

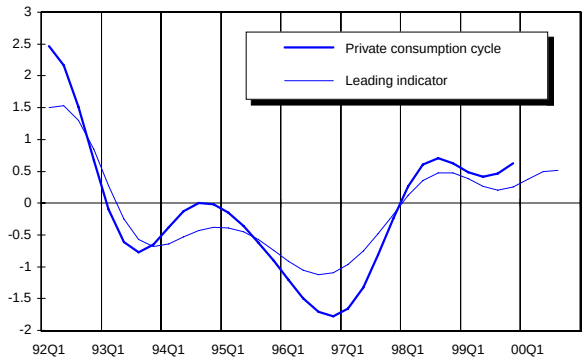
Table 3 - Private consumption indicators

	98	99	99Q2	99Q3	99Q4	00Q1	99M10	99M11	99M12	00M1	00M2	00M3
Turnover (VAT) - retail trade [1]	5.9	3.1	2.1	2.6	2.8	.	0.7	5.6	2.3	7.3	.	.
New car registrations [1]	14.1	8.3	6.2	6.6	2.0	12.6	-3.1	3.5	8.9	-1.7	29.1	14.6
Consumer confidence indicator [2]	-5.6	-1.9	-4.0	-4.7	1.0	4.0	-1.0	2.0	2.0	3.0	4.0	5.0

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

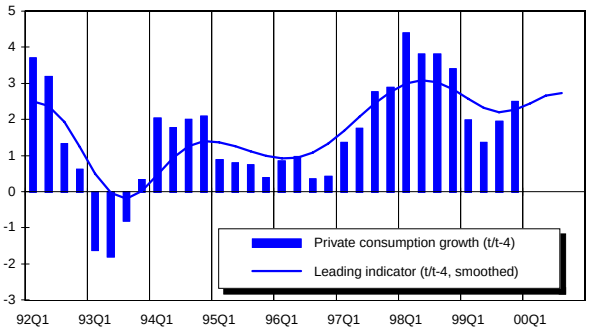
Source: NIS/INS, Eurostat, Febiac, FPB

Graph 7 - Private consumption cycle and leading indicator



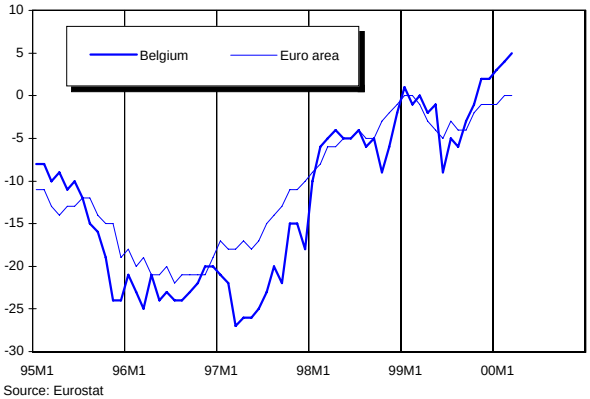
Source: INR/ICN, FPB

Graph 8 - Private consumption growth and leading indicator



Source: INR/ICN, FPB

Graph 9 - Consumer confidence: international comparison



Source: Eurostat

The current cycle of private consumption spending has been less pronounced than for overall economic activity. After exceptional quarterly growth rates in 1998, private consumption growth has been on a declining trend from the end of 1998 onwards. The turning point of this cycle was reached by the middle of last year with a moderate yoy increase of 1.4% in the second quarter of 1999 before accelerating to 2.5% during the last quarter of the year.

After the boom in car sales during the first half of 1999 thanks to massive replacement of cars and to the Motor Show for special leisure vehicles - there was a deceleration in the fourth quarter of last year. However, thanks to the effect on car sales of the Motor Show that took place in January, new car registrations still increased by 12.6% (yoy) in the first quarter of 2000. The question still remains open as to whether the underlying trend will continue upwards or will cool off.

The leading indicator for private consumption suggests that a further improvement in private consumption could still be observed during the first half of 2000. Smoothed yoy growth rates derived from this indicator indicate that private consumption growth might come to around 2.5% in the first three quarters of 2000. Up to now, this pattern does not contradict our yearly growth forecast of 2.1% in 2000, a rise at almost the same rate as real disposable income. This means that after several years of decline, the household savings rate will remain almost unchanged in the current year.

Surveys carried out among Belgian consumers during the first quarter of 2000 certainly indicate that they are not intending to reduce their savings any further over the next 12 months, despite their rising optimism about the general economic situation and their own financial situation during this period. The current level of consumer confidence in Belgium is reaching the same level as the previous high reached at the end of the 1980s, and is higher than in the euro area. This rising path in Belgium is mainly linked to the net improvement in households' assessment of the development of unemployment, which is closely correlated to the positive situation in the labour market. Indeed, the reduction in unemployment, which has been observed since mid-97, has even accelerated during the first quarter of 2000.

Business investment

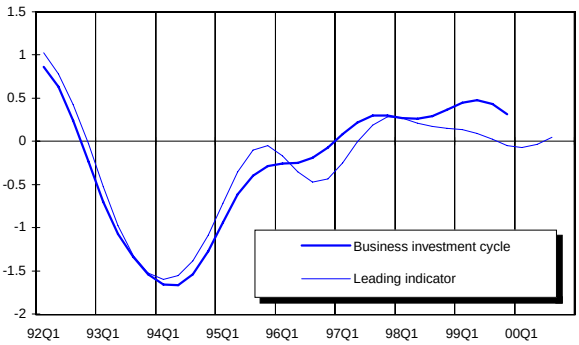
Table 4 - Business investment indicators

	98	*99*	*0*	*99Q2*	*99Q3*	*99Q4*	00Q1	*99M9*	*99M10*	*99M11*	*99M12*	*00M1*
Investment (VAT) [1]												
Industrial companies	3.0	4.6	.	-2.1	3.7	6.0	.	-5.7	5.1	6.2	6.4	5.9
Non-industrial companies	6.2	8.5	.	16.9	9.6	0.2	.	-11.3	16.0	3.9	-9.1	11.4
Total companies	5.0	7.0	.	9.7	7.4	2.3	.	-8.8	11.2	4.7	-3.4	9.2
Investment survey [1]	9.4	-4.4	17.6									
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

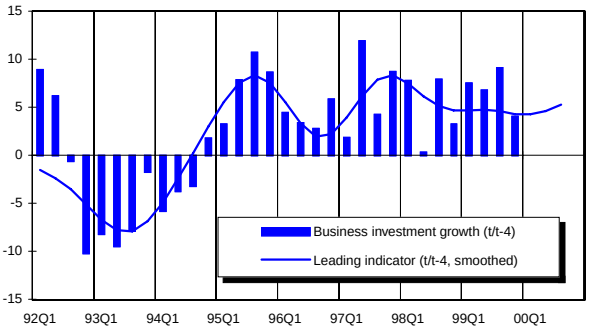
Source: NIS/INS, NBB, FPB

Graph 10 - Business investment cycle and leading indicator



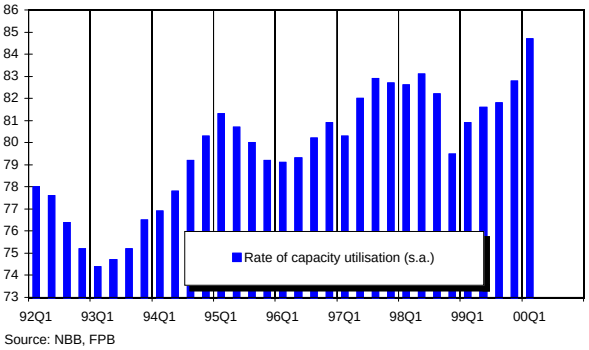
Source: INR/ICN, FPB

Graph 11 - Business investment growth and leading indicator



Source: INR/ICN, FPB

Graph 12 - Capacity utilisation in manufacturing industry



Source: NBB, FPB

Growth in business investment was following a very dynamic path throughout 1999, with a real increase of 6.6% for the whole of 1999. The analysis of the business investment cycle indicates that the turning point may have been reached in about the middle of 1999. However, the leading indicator for this demand component suggests that the downturn in the cycle occurred sooner. This discrepancy can probably be explained by the fact that business investment, and more specifically non-industrial investment, was inflated in the first three quarters of 1999 by one-off Y2K - related investment in software and hardware, which has not been picked up by the leading indicator.

Indeed, according to VAT statistics, the growth in investment by non-industrial companies, during this period, was far more dynamic than by industrial companies. The spread between the industrial and non-industrial investment pattern in 1999 is also partly related to the fact that investment in public transport and telecommunications has apparently been less sensitive to the business cycle.

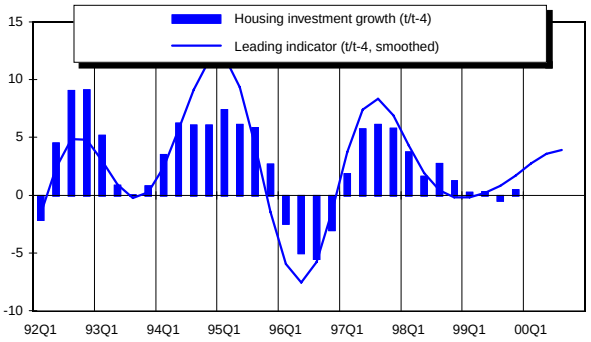
Business investment only increased by about 4% (yoy) in real terms during the last quarter of 1999. This deceleration is exclusively linked to the poorer performance of non-industrial companies, whereas, at the same time, investment by industrial companies was stimulated by the recovery in manufacturing industry.

The leading indicator suggests that business investment should return to its trend path during the first half of 2000 and that a very slight recovery could be observed after that. Smoothed yoy total business investment growth could be around 5% in the first three quarters of 2000.

As suggested by the upward trend in the degree of capacity utilisation and the investment projects in manufacturing industry, industrial investment should pick up in 2000 and a continuation of non-industrial investment growth is expected, albeit at a lower rate than last year.

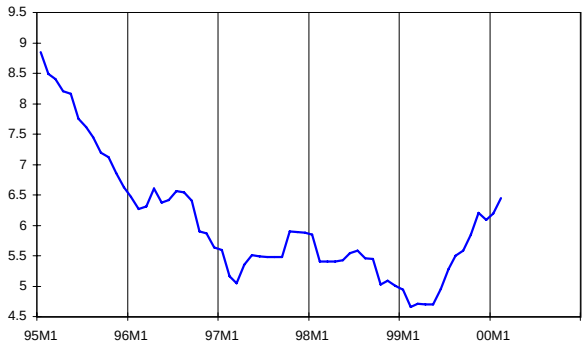
Housing investment

Graph 13 - Housing investment growth and leading indicator



Source: INR/ICN, NBB, FPB

Graph 14 - Mortgage rate (in%)



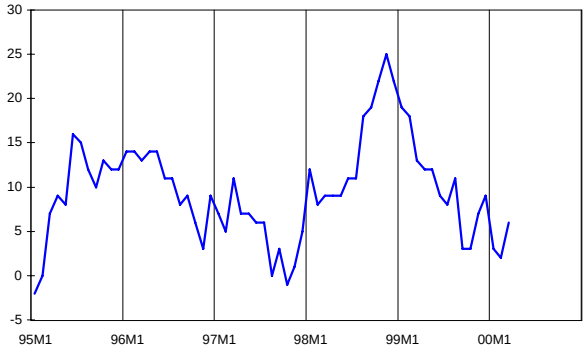
Source: NBB

According to the quarterly national accounts, investment in housing lagged far behind the general economic upswing. Residential investment growth was indeed sluggish throughout last year, and for the whole year 1999 this component of internal demand remained at its 1998 level in volume terms, whereas prices were rising. The revival in prices observed in the second half of last year, largely based on construction costs, combined with an improvement in the results of the survey among architects, seems to indicate that the recovery has been underway since the second half of 1999 and should continue at least until the third quarter of 2000.

Household investment should therefore show positive and rising growth figures throughout the current year. As was the case in the preceding year, all factors conditioning this demand will remain favourable: sound economic prospects, a sustained increase in purchasing power, falling unemployment, high consumer confidence, rising prices on the secondary market. Housing renovation should be stimulated by the reduced VAT rate on houses more than 5 years old (instead of 15 years) since the beginning of this year. Moreover, the strong upward trend in mortgage interest rates seems to have slowed down since the end of 1999 and is limited in real terms. Nevertheless, the sharp speculative increase in land prices in Flanders and the attractiveness of financial assets as an alternative capital investment to real estate could still dampen the recovery in housing investment.

Stockbuilding

Graph 15 - Appreciation of stocks



Source: NBB

As expected, the contribution (yoy) from stockbuilding towards economic growth became positive in the last quarter of 1999. With a yoy contribution of almost 2% during the last quarter, the total negative contribution over 1999 only reached 1%, after a strongly negative contribution of 2.8% in the first half of the year.

Just as the downturn in the Belgian business cycle between mid-98 and mid-99 has been exacerbated by the negative contribution of stockbuilding, the current upswing is leading to the rebuilding of stocks. This should not be surprising in the light of the current low stock levels and the bright demand prospects. The NBB monthly survey shows that the number of entrepreneurs who consider their stocks to be excessive has been following a downward trend since the beginning of 1999 and is now heading for its previous low reached in the second half of 1997. In accordance with those indicators, a positive contribution towards economic growth from stockbuilding is expected for 2000.

Foreign Trade

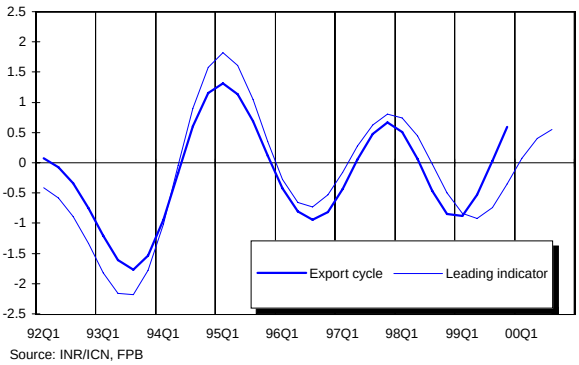
Table 5 - Belgium - Trade statistics (goods, intra/extrastat)

	98	*99*	*99Q1*	*99Q2*	*99Q3*	*99Q4*	*99M8*	*99M9*	*99M10*	*99M11*	*99M12*	*00M1*
Exports - value [1]	5.7	2.7	-1.8	-2.0	4.2	10.7	6.1	6.6	7.8	12.9	11.6	16.4
Imports - value [1]	6.2	1.8	-2.0	-2.3	0.6	11.1	0.8	2.7	6.6	11.9	15.1	15.8
Exports - volume [1]	5.8	3.2	3.2	0.5	3.3	5.7	5.0	5.2	4.7	7.3	5.2	7.3
Imports - volume [1]	8.3	0.3	1.8	-1.5	-2.1	2.6	-1.4	-0.6	0.3	2.9	4.8	5.5
Exports - price [1]	-0.1	-0.5	-4.9	-2.5	0.9	4.8	1.0	1.4	3.0	5.2	6.1	8.5
Imports - price [1]	-1.9	1.5	-3.9	-0.8	2.7	8.3	2.2	3.4	6.2	8.8	9.9	9.8

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

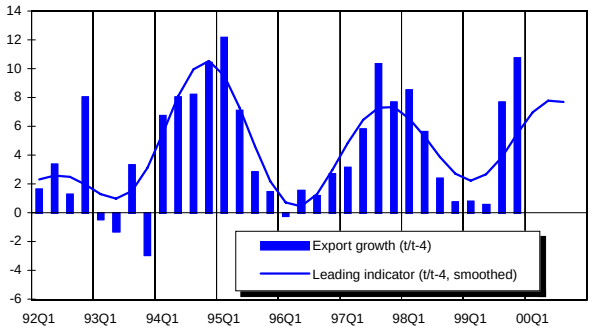
Source: INR/ICN, FPB

Graph 16 - Export cycle and leading indicator



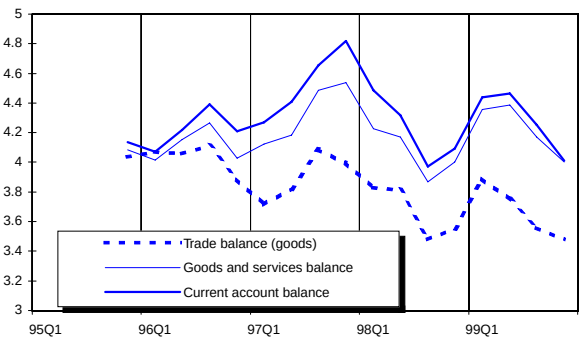
Source: INR/ICN, FPB

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 rapid recovery in the global economy during the second half of 1999, coupled with a revival in world trade, has led to a clear upturn in the Belgian export cycle. In the most recent quarterly accounts (published by the INR/ICN mid April), growth (yoy) in export volume in the third quarter of last year was revised upwards (from an initial estimate of 4.7% to 7.7%). In the fourth quarter of 1999, exports were even 10.7% higher than one year earlier.

Expressed as qoq growth rates, exports grew vigorously in volume terms, by 6.6% in the third and 2.3% in the last quarter of 1999, after a declining trend during the previous six quarters. The recovery in exports in the second half of last year was stronger than indicated by the leading indicator (see graph 16). Quarterly accounts suggest that the export cycle was back at its previous (end 1997) peak level by the end of 1999, whereas, according to the leading indicator, this level should only be reached in the second half of 2000. As both series are still subject to future revisions, the final outcome should probably be somewhere between the two.

For the first three quarters of 2000, the leading indicator suggests average yoy growth rates for exports of around 7%. Due to so called 'statistical base effects' (in this case the weak export performance in the first half of last year), non-smoothed observed yoy growth rates should be higher than this average during the first half of 2000. For the first quarter of 2000, this seems to be confirmed by trade figures (goods only) for January and by partial provisional figures for February.

Last year, the deterioration in the terms of trade (primarily due to the sharp rise in energy prices and the revival of other (mainly industrial) raw material prices) more than offset the positive contribution from real net exports. As a result, the current account surplus fell slightly to 4.0% of GDP in 1999, as compared with 4.1% in 1998. This resulted from a slight deterioration in the trade balance, while the services and transfer balance with the rest of the world remained at its 1998 level (all in% GDP).

Labour market

Table 6 - Labour market indicators

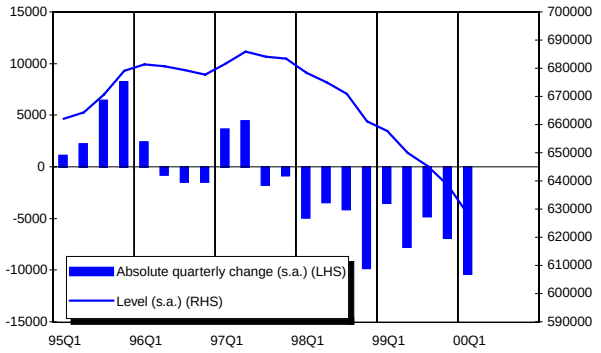
	98	99	99Q2	99Q3	99Q4	00Q1	99M10	99M11	99M12	00M1	00M2	00M3
Unemployment (excl. older) [1]	541.0	507.6	481.1	535.6	498.5	478.6	511.0	492.4	492.2	492.9	481.0	461.9
Unemployment (incl. older) [1]	671.5	647.8	620.5	675.7	641.2	623.9	653.3	635.1	635.3	637.0	626.2	608.7
Unemployment rate-FMTA/MfET[2]	12.4	11.6	11.0	12.3	11.4	11.0	11.7	11.3	11.3	11.3	11.0	10.6
Unemployment rate-Eurostat [3]	9.5	9.0	9.0	9.0	8.7	8.5	8.8	8.7	8.7	8.6	8.6	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

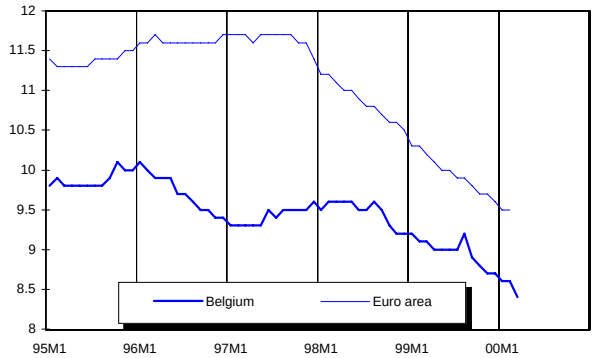
Graph 19 - Evolution of unemployment (incl. older)



Source: RVA/ONEm, FPB

Quarterly employment statistics (graph 21; MTA / MET observations until 98Q2; estimates based on RSZ / ONSS figures from 98Q3 onwards) suggest that private sector job growth (in seasonally adjusted terms) has slackened considerably in the aftermath of the temporary slowdown in activity. Whereas job creation was still extremely vigorous during the third and fourth quarters of 1998, employment stabilized during the first half of 1999. As the slowdown in economic activity has been only temporary, job growth resumed with renewed strength in the last two quarters of 1999.

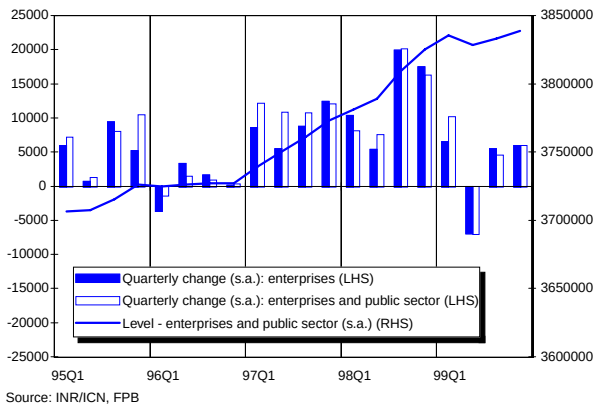
Graph 20 - Harmonised unemployment rates (% of labour force)



Source: Eurostat

The slowdown in net employment growth during the first half of 1999 has - somewhat surprisingly - not been mirrored by a less rapid decrease in unemployment. Unemployment (broad register-based definition, i.e. including “older” people with unemployment benefits who are no longer required to actively search for a job) has decreased by some further 6,900 persons on average during the fourth quarter of 1999 (graph 19), bringing the total decline for the whole of 1999 to some 23,000 persons, comparable to the decrease that was observed during 1998. The very significant decrease in unemployment during the first quarter of 2000 (-10,400, the largest fall since the last quarter of 1988) confirms the impression that job creation has been taking place with renewed vigour.

Graph 21 - Evolution of domestic employment



Source: INR/ICN, FPB

Prices

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

	98	*99*	*99Q2*	*99Q3*	*99Q4*	*00Q1*	*99M11*	*99M12*	*00M1*	*00M2*	*00M3*	*00M4*
Consumer prices: all items	0.95	1.12	0.92	0.92	1.59	2.00	1.53	1.94	1.79	1.95	2.26	2.04
Food prices	1.83	0.20	0.26	-0.79	-0.19	-0.89	-0.29	-0.58	-1.07	-0.80	-0.81	0.01
Non food prices	-0.45	1.24	0.78	1.42	2.35	3.62	2.13	3.14	3.12	3.72	4.01	3.00
Services	2.34	1.57	1.53	1.34	1.83	1.89	1.98	2.14	2.03	1.50	2.13	2.29
Rent	1.15	1.43	1.49	1.45	1.36	1.30	1.38	1.32	1.28	1.31	1.31	1.35
Health index	1.27	0.94	0.83	0.60	1.09	1.27	1.10	1.28	1.18	1.21	1.42	1.46
Brent oil price in USD (level)	12.8	17.8	15.5	20.6	24.0	26.8	24.6	25.6	25.5	27.8	27.3	22.7

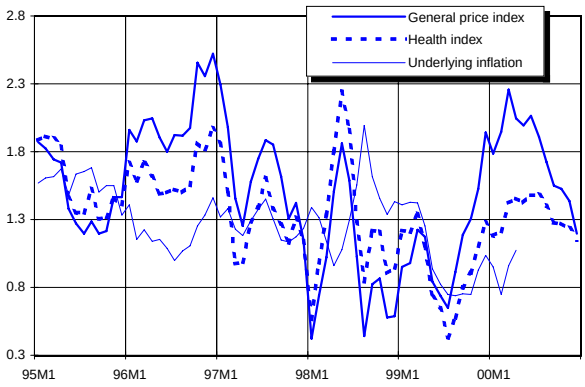
Source: MEZ/MAE

Table 8 - Monthly inflation forecasts

	99M1	*99M2*	*99M3*	*99M4*	*99M5*	*99M6*	*99M7*	*99M8*	*99M9*	*99M10*	*99M11*	*99M12*
Consumer prices: all items	102.96	103.19	103.27	103.68	103.86	103.65	103.81	103.69	103.92	104.06	104.27	104.61
Consumer prices: health index	103.07	103.31	103.32	103.57	103.74	103.56	103.58	103.33	103.53	103.65	103.83	104.02
Moving average health index	102.80	102.95	103.10	103.32	103.49	103.55	103.61	103.55	103.50	103.52	103.59	103.76
	00M1	*00M2*	*00M3*	*00M4*	*00M5*	*00M6*	*00M7*	*00M8*	*00M9*	*00M10*	*00M11*	*00M12*
Consumer prices: all items	104.80	105.20	105.60	105.80	105.93	105.79	105.79	105.48	105.53	105.65	105.77	105.86
Consumer prices: health index	104.29	104.56	104.79	105.08	105.22	105.09	105.11	104.78	104.85	104.97	105.11	105.22
Moving average health index	103.95	104.18	104.42	104.68	104.91	105.05	105.12	105.05	104.96	104.93	104.93	105.04

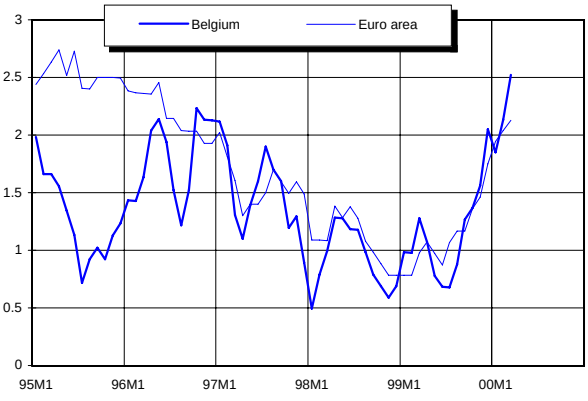
Source: Observations (up to 00M4): MEZ/MAE; forecasts: FPB

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



Source: MEZ/MAE, from 00M5 on: forecasts FPB

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



Source: Eurostat

As expected, inflation as measured by the yoy change in overall CPI, remained close to 2% during the first quarter of this year. During the same period underlying inflation (excluding components which often have an erratic price pattern, such as energy products, fresh food products and indirect taxes) was at 0.9%. The difference was mainly due to the rise in the price of energy products, stemming both from a more expensive dollar (the dollar appreciated by almost 14% between the first quarter of 1999 and the first quarter of 2000) and higher world oil prices (these were, in dollar terms, almost one and a half times as high as in the first quarter of 1999).

March CPI inflation marked a peak at 2.3%. In April CPI inflation fell to 2.0%. As OPEC agreed to boost production by 1.45 million barrels a day, the Brent oil price has fallen more than 25 percent since its peak of 30 USD per barrel at the beginning of March. The decline in oil prices, together with the negative base effect from last year's increase, should further reduce inflation in the second half of 2000, leading to average CPI inflation of 1.8% over 2000. The "health price index" (which excludes most energy products, among other things) should hardly show this declining trend in the course of 2000 and should rise by 1.3% on average over the year, identical to the growth rate of the first quarter. According to our monthly forecasts for the "health index", the pivotal index for the public sector (currently 105.20) should next be reached at the beginning of 2001.

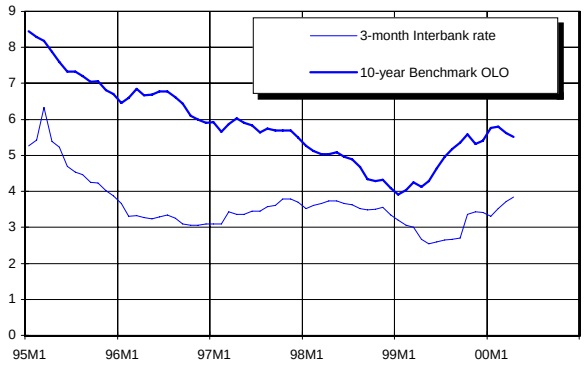
Interest rates

Table 9 - Interest rates

	98	99	99Q2	99Q3	99Q4	00Q1	99M11	99M12	00M1	00M2	00M3	00M4
Short-term rates (3 months)												
Belgium	3.58	2.94	2.60	2.67	3.40	3.52	3.43	3.42	3.32	3.52	3.72	3.84
Euro area (Euribor)	.	2.96	2.63	2.70	3.43	3.54	3.47	3.44	3.34	3.54	3.75	3.93
United States	5.56	5.41	5.07	5.44	6.14	6.11	6.10	6.13	6.04	6.10	6.20	6.31
Japan	0.60	0.22	0.12	0.10	0.29	0.14	0.30	0.31	0.15	0.13	0.14	0.12
Long-term rates (10 years)												
Belgium	4.76	4.76	4.35	5.16	5.43	5.73	5.31	5.41	5.77	5.80	5.62	5.52
Germany	4.57	4.50	4.08	4.87	5.18	5.46	5.05	5.17	5.54	5.51	5.33	5.23
Euro area	4.71	4.63	4.22	5.01	5.31	5.60	5.18	5.30	5.68	5.65	5.46	5.37
United States	5.26	5.63	5.55	5.87	6.13	6.49	6.02	6.27	6.65	6.56	6.25	5.99
Japan	1.46	1.76	1.55	1.81	1.75	1.77	1.83	1.75	1.69	1.81	1.82	1.82

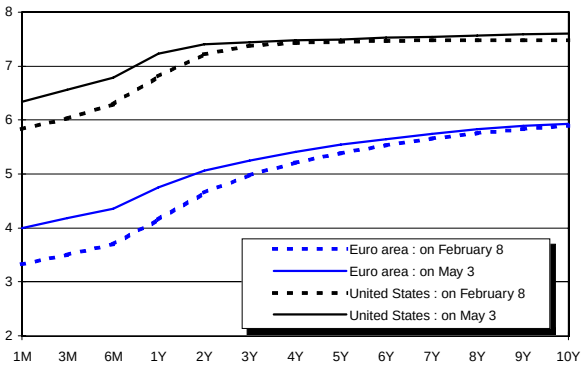
Source: NBB, ECB

Graph 24 - Interest rate levels in Belgium, in%



Source: NBB

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



Source: Datastream, data based on interest rate swaps

Since early November the ECB has already raised its central rates four times. The benchmark refinancing rate on two-week loans was raised by 1.25 percentage point in all (from 2.5% in November to 3.75% since April 27).

In recent weeks, inflationary risks in the euro area have diminished, due to the development of oil prices and growing evidence that wage increases will remain moderate. Wage agreements in the German metal-mechanical, chemical and construction sector, for instance, do not exceed expected productivity growth. However, two remaining inflationary threats in the euro area should be kept in mind. The depreciation of the euro is putting upward pressure on import prices; and the impact of higher oil prices on prices of other goods and services is not yet complete and may still have a delayed upward effect on underlying inflation in the coming months.

The upward trend in short-term interest rates, aimed at and resulting in diminishing inflationary risks, resulted in a flattening of the yield curve in the euro area during recent weeks. The spread between 3-months and 10-year returns fell from 240 base points in early February to 175 base points in early May. However, this spread is still much higher than in the United States, where monetary tightening is used to avoid overheating of the economy.

As recent economic indicators in Japan (in particular industrial production and business investment) point on balance to a rebound in the first quarter of the year (following the slowdown recorded in the second half of 1999), monetary authorities may decide to abandon the zero interest rate policy which has been in place for more than a year. However, it is generally assumed that the 'normalization' of monetary policy will not take place before private consumption starts recovering.

Exchange rates

Table 10 - Bilateral exchange rates

	98	*99*	*99Q2*	*99Q3*	*99Q4*	*00Q1*	*99M11*	*99M12*	*00M1*	*00M2*	*00M3*	*00M4*
BEF per USD	36.31	37.87	38.17	38.46	38.90	40.88	39.08	39.90	39.82	41.02	41.81	42.63
USD per EUR	.	1.067	1.057	1.049	1.038	0.987	1.032	1.011	1.013	0.984	0.965	0.946
UKP per EUR	.	0.659	0.658	0.655	0.636	0.614	0.637	0.627	0.618	0.615	0.611	0.598
JPY per EUR	.	121.38	127.70	118.76	108.38	105.60	108.06	103.67	106.56	107.65	102.59	99.92

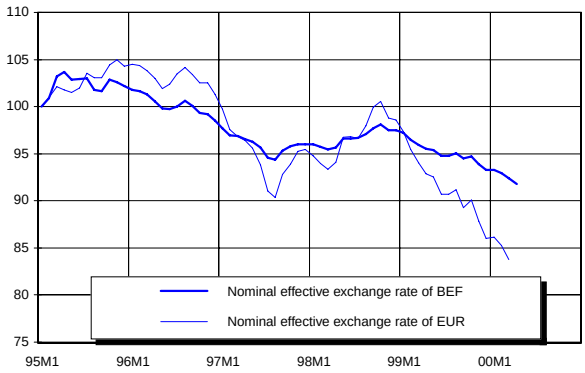
Table 11 - Nominal effective exchange rates (Jan. 95 =100)

	98	*99*	*0*	*99Q2*	*99Q3*	*99Q4*	00Q1	*99M12*	*00M1*	*00M2*	*00M3*	*00M4*
Effective exchange rate BEF	96.7	95.1		95.2	94.8	94.0	92.9	93.3	93.3	92.9	92.4	91.8
Growth rate [1]	0.7	-1.7		-1.4	-0.5	-0.9	-1.2	-0.6	0.0	-0.4	-0.5	-0.7
Id. with constant rate till year end			-3.2									
Effective exchange rate EUR	96.8	91.5		92.0	90.4	88.0	85.1	86.0	86.2	85.3	83.8	.
Growth rate [1]	2.1	-5.5		-3.7	-1.8	-2.7	-3.3	-2.1	0.2	-1.0	-1.8	.

[1] Change (%) compared to previous period

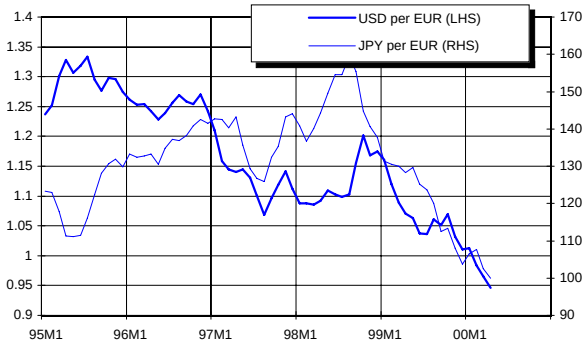
Source: NBB, BIS, FPB

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



Source: NBB, BIS, FPB

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



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

Between January and December 1999, the euro fell by 13% against the dollar and 21% against the yen. Four months into the year, the pattern seen in 1999 is so far being repeated. The depreciation of the euro against the dollar has continued (-6.4% between December 1999 and April 2000). After an appreciation of the euro against the yen during the first two months of 2000, it depreciated again and in April was 3.6% lower than by the end of 1999. The nominal effective exchange rate of the euro is today at its lowest level in almost 15 years.

The cyclical outperformance of the US economy, which has been the big market surprise of 1999 and which seems to be continuing, may to some extent account for the appreciation of the dollar. Higher real interest rates in the US compared to Europe have also contributed to the strengthening of the dollar. Nevertheless, the weakness of the euro over the past months seems exaggerated and out of line with economic fundamentals. This is also in particular the case for the yen, which has appreciated against both the euro and the dollar despite the slackening of the Japanese economy and actual and expected low interest rates.

Forward exchange rates, consensus exchange rate forecasts and calculations of equilibrium rates all point to a future appreciation of the euro. The question remains what will trigger the reversal of the appreciation of the dollar and when it will take place. Growing evidence of a broad economic recovery in Europe, recently extended to include Germany and Italy (two countries that have been lagging behind for some time); higher inflation in the US; and even the recent substantial correction on the US equity market (at least for the new economy stocks) have so far not led to a weaker dollar.

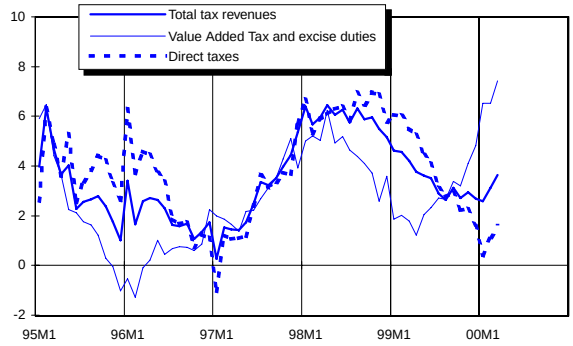
Tax indicators

Table 12 - Tax revenues (1)

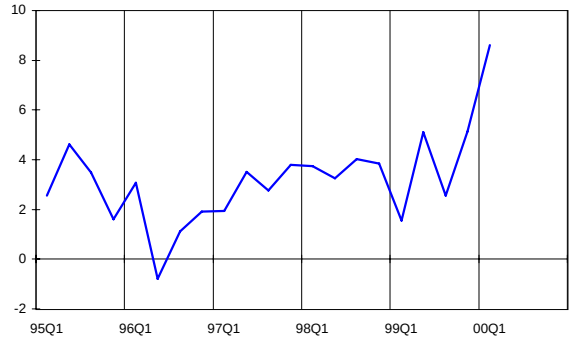
	98	*99*	*99Q2*	*99Q3*	*99Q4*	*00Q1*	*99M10*	*99M11*	*99M12*	*00M1*	*00M2*	*00M3*
Total [2], of which:	6.2	3.9	4.1	3.4	5.0	8.1	3.3	6.6	5.6	4.8	8.9	11.9
Direct taxes, of which:	6.8	2.7	2.9	0.8	2.8	5.6	3.2	4.5	1.6	-1.1	9.1	12.3
Withholding earned income tax	4.9	6.3	15.6	-3.8	15.8	12.7	35.4	2.8	9.5	14.3	-3.2	36.0
Prepayments	20.2	-3.7	2.9	-15.4	-4.0	21.2	-1.1	.	-8.1	.	.	.
Value Added Tax and excise duties	4.6	6.1	6.9	7.0	9.5	12.7	2.7	11.5	13.5	16.1	7.1	13.9

[1] Change (%) compared to same period previous year
[2] Total received by federal government, excl. of death-duties
Source: MvF/MdF, FPB

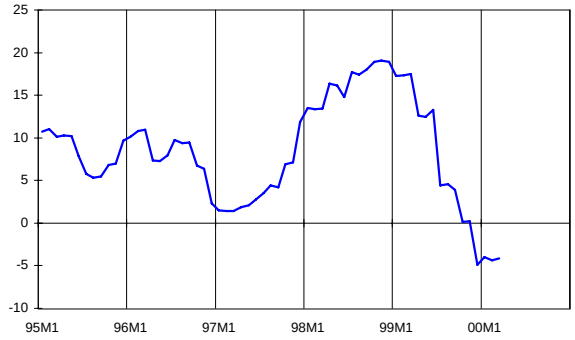
Graph 28 - Real tax revenues (3)



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

Total tax revenues were 8.1% higher in the first quarter of 2000 compared to the same period in 1999. However the beginning of 1999 was still low due to the slowdown in economic activity from mid-98. More significantly, the growth rate in the first quarter of 2000 is higher than the annual growth rate in 1999 (3.9%). This confirms the acceleration in economic activity which began in mid-99 and is still gradually strengthening. In March 2000, all main categories of taxes have contributed to this result.

The quarterly growth rate in direct taxes reached 5.6% in the first quarter of 2000, compared with the same quarter in 1999. Employment growth in recent months accounts for the progress in withholding earned income tax.

The growth rate in prepayments was again positive in the first quarter of 2000, after negative figures in the third and last quarters of 1999. However, prepayments are traditionally very low during the first quarter of the year and are therefore rather unimportant. Figures for April 2000 will be more meaningful (April is the first due date for advance payments), but these are not yet available.

High growth rates have been observed in indirect taxes since mid-99. This upward trend is even strengthening in the first quarter of 2000, with a growth rate of 12.7% compared with the same period in 1999. This growth rate, markedly higher than the annual growth rate in 1999 (6.1%), largely reflects the sustained acceleration in consumption, housing investment and (essentially) energy prices.

The economic impact of a VAT-reduction on private housing

At the request of the Finance Minister, the Federal Planning Bureau has made a study of the economic, sectoral, and budgetary impact of a VAT-reduction on the construction of new private dwellings.

The study shows that the price reduction, resulting from such a measure, would lead to an increase in the demand for new private housing. This, in turn, benefits building sector activity as well as the industry's suppliers (building-materials, such as timber and metals). Thanks to the additional work, these sectors are able to generate more income, thus accelerating private consumption and economic growth. The reduction of unemployment and the additional tax receipts (the "return effect") partially compensate for the a priori budgetary cost.

The effects only develop gradually: during the first year there is virtually no macro-economic impact and also no return effect. However, in the medium term the macro-economic impact becomes more important: for instance, a measure to reduce VAT-receipts by 10 billion BEF will a priori increase investment in housing by 4.3% after five years, raise employment by almost 4,000 units (2,500 of which would be created in the building sector), and lower the budgetary cost to 3.5 billion BEF.

However, for each measure to encourage new building, consideration should be given to the general objectives of housing policy, town and country planning, urbanization, etc. The High Council for Finance (the fiscal and parafiscal department), which had also been consulted by the Finance Minister, has given additional advice, examining all questions raised by this proposal. The advice adresses a number of different and important legal and practical problems:

- a measure which only modifies the VAT-rate for new buildings is probably not compatible with the European VAT-system,
- a VAT-reduction for new buildings is hardly compatible with a maintained 21% VAT-rate for renewal in buildings being less than 5 years old,
- a VAT-reduction to 6% for the construction of new private buildings would stand out if the VAT-rate for social housing remains at 12%.

If social policies are considered, it is possible to deviate from the normal European VAT-system. In illustration, we estimate the impact of a measure in which a 12% rate only applies to new buildings that do not exceed a surface of 190 m2 (or 100 m^2 for an apartment) with a maximum value of 2 million BEF (such a measure was already in force from 1/1/1996 to 30/6/1998).

"Impacts économiques d'une baisse de la TVA sur les nouvelles constructions résidentielles" -
"Economische effecten van een BTW-verlaging op nieuwe particuliere woningen",
Luc Avonds, Francis Bossier, Michel Englert, Evelyne Hespel, Filip Vanhorebeek, Joost Verlinden,
Working Paper 01-00, February 2000.

The simplification of administrative burdens

The administrative simplification analyses the form of public intervention required to minimize the administrative burdens on the private sector under the constraint of a well-functioning society. In this paper, there are three questions that elaborate on the simplification process. (i) How to quantify the paperwork burden on enterprises? (ii) How to organize an efficient process of simplification, taking into account the rapid technological progress? (iii) How to evaluate the simplification process itself?

The Federal Government agreement has scheduled a decrease in administrative burdens of 10% over the next 2 years, and a 25% decrease by the end of the legislature. This goal requires instruments to evaluate the current amount of administrative burdens.

Two main methodologies could be used to estimate administrative burdens: one method is based on a model that quantifies precisely the time needed and thus the cost by type of regulation, and the other method is based on the extrapolation of panel data. The first methodology gives a precise measurement while the second methodology gives a crude estimation of the true value of the burdens. However, the first methodology – which has been used in the Netherlands – requires more time and is thus more costly. In the case of Belgium, the time constraint is particularly binding as the simplification process is already on the way. Therefore we used the second, survey methodology to give a first estimate of the level of the administrative burdens on enterprises. For 1998 and only for the three main categories of administrative obligations (i.e. taxation, employment, and environment), the administrative burden on private enterprises is estimated at around 200 billion BEF, or 2.2% of GDP. The administrative obligations are in relative terms significantly greater for small enterprises (i.e. for enterprises with less than 20 employees).

The impact of a reduction of administrative obligations is generally positive for the economy. In the short-term transition costs, mainly for those enterprises in the business of performing the administration for other enterprises, are likely.

The total amount of administrative burden provides no indication of how to efficiently simplify the business environment. Moreover, the experience in other countries has shown the need for responsible administrations. It is therefore important to develop a system that allows each administration to know its own contribution to the global administrative burden. The Administration for Administrative Simplification (DAV / ASA) is working on such a system. The main difficulty is in developing quickly a weighting system for the different aspects of the simplification. Moreover, this system has to take into account of the rapid technological progress that allows the transfer of information.

The reduction in existing red tape is only one part of the problem; the other part is how to prevent new increases in these burdens. The Regulatory Impact Assessment (RIA) is one of the methodologies that allows evaluating implications of new rules on administrative burdens. The RIA includes many different techniques, which range from a simple list of potential consequences to very sophisticated economic analysis. In the most advanced countries, the RIA is performed by the administration introducing the new rule, according to a methodological guide common to all administrations. Subsequently, an independent body controls the quality of the performed RIA. As RIA is a progressive, learning-by-doing method, it is preferable to start this process with a limited field of application. In this regard, the systematic study of the impact of new rules on administrative burdens could be a good starting point to generate the required expertise.

"La simplification des procédures administratives pesant sur les entreprises", C. Kegels, Working Paper 03-00, May 2000.

Relocation, innovation and employment

This report gives a detailed account of the joint efforts of the UCL, the KUL and the Federal Planning Bureau in the context of the Federal Office for Scientific, Technical and Cultural Affairs research program on “Relocation, innovation and employment”. It is based on a survey carried out in 3000 Belgian corporations and on data on collective layoffs. It looks at the consequences and determining factors for relocation, exit and growth of Belgian firms. Particular attention is paid to the effects of innovation, firm age and size, and multinational group membership.

Relocation is defined in the study as a transfer of activities abroad organised by a Belgian firm or its (foreign) parent. This may imply that the Belgian firm or its group has invested in production facilities abroad, or that it has decided to outsource part of its activities to foreign firms. Such organised transfers often occur in the context of a reorganisation of production by multinational firms. These firms try to profit from scale and specialisation advantages, thereby reducing production costs, by decreasing the number of plants that produce the same good.

It is frequently claimed that high wage cost differentials with poorer countries are responsible for relocations. However, in the early 1990s, most organised transfers of industrial production – causing a collective layoff in Belgium – went in the direction of other European Union member states, particularly France, Italy, and the United Kingdom. Out of the 14,000 jobs lost through collective layoffs in industry, due to relocation in 1990-1995, 50% was lost to these countries. Another survey found that in the period 1990-1996, most investments of Belgian firms were abroad, and an even larger part of the outsourcing was done in neighbouring countries (France, Germany, Netherlands, and Luxembourg). This is explained by the success of the EU in reducing internal barriers.

A partial or complete relocation of activities is more likely in large firms and multinational firms. It is also more likely in industry than in commerce or services, and is more frequent in firms and industries with a relatively low capital (tangible fixed assets) to labour ratio. The study shows that multinational industrial firms, if compared with firms with the same age and size, have a higher average growth rate of value added in Belgium, despite their higher frequency of relocations. Such firms are also more likely to innovate. Amongst firms with a collective layoff, the larger firms have a larger probability to relocate, but also a smaller probability to stop activities (exit).

For a small national firm exit is a more common response to rising import competition than is relocation. It is only profitable firms with competitive advantages that relocate part of their activities by investing abroad.

In one chapter the evolution of the activities in Belgium of foreign controled multinationals is compared with those of national Belgian firms. It is shown that, in the period 1990-1996, foreign controled multinational firms have increased their share in value added in Belgian industry. At the same time, the number of such firms, and their weight in employment has decreased. Thus, the early 90ties have brought more restructuring and productivity gains in those firms that were already involved in international netwoks.

Using regression techniques, the study shows that combined product and process innovations – that is the marketing of new products that imply important changes in the production process – increased the annual growth rate of value added in industrial firms by 5% in the period 1990-1996. For firms that exported more than 50% of their turnover, these innovations increased the growth rate by 7.5%. The higher the schooling level of its personnel, the more likely a firm is to innovate. Another important finding is that, holding other factors constant and considering mainly surviving firms, younger and smaller firms have significantly higher growth rates of value added and employment, than larger and older firms. This is most likely to be explained by the low average productivity of labour in small, starting firms, which forces them to either increase productivity and grow, or to cease production entirely. More mature, larger firms can only increase growth by innovating or by forming part of a (multinational) group. Simulations of the life cycle of industrial firms illustrate that the activity level of non-innovating industrial firms starts declining after no more than 14 years of existence, while innovating and export intensive firms can continue to grow over at least 26 years.

The general conclusions are that relocation is not necessarily a reprehensible policy ; it is a part of industrial dynamics in a global economy whereby innovation and locational determinants are essential for competitive growth.

"Delokalisatie, innovatie en werkgelegenheid”,
KUL, UCL, Federaal Planbureau,
Onderzoeksrapport, May 2000.
This scientific report is published in Dutch, but a synthesis will come out in June in French and Dutch.

Other Recent Publications

Economic Forecasts 2000, February 2000 (available in Dutch and in French)

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

Planning Paper 87, February 2000, "Les participations publiques dans le secteur marchand en Belgique" - "Overheidsparticipaties in de marktsector in België", Hilde Spinnewyn.

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 Pieter Dresselaers)

Research in progress

Adapting macro-models to ESA95

HERMES II.1 is the second official version of a macroeconometric model developed by the FPB for use in medium-term forecasts, and simulations of economic policy alternatives and international shocks. Several adjustments and improvements have been made in recent years, among other things in the field of the environment (in order to analyse the evolution of CO_2 emissions per sector and per agent, and to test the effect of measures aimed at reducing these emissions), in the sectoral structure (a further disaggregation of market services), and in the allocation of private consumption. Finally the model has had to be adapted to ESA95. This adaptation required the revision of all basis data; moreover all regression parameters had to be estimated systematically.

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 realized fully, and where stock and flow variables are in equilibrium.

The NIME-model

Economists at the FPB are building 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.

Energy forecasts

The "Belgian energy outlook 2000-2020" is currently in progress and will present 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 requires the consultation of the Federal Planning Bureau 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 include, 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.

Recent history of major economic policy measures

April 2000	The ECB raises its benchmark refinancing rate by 25 basis points to 3.75%.
March 2000	The ECB raises its benchmark refinancing rate by 25 basis points to 3.5%.
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	The ECB raises its benchmark refinancing rate by 25 basis points to 3.25%.
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.
November 1999	The ECB increases its benchmark refinancing rate from 2.5% to 3%.
October 1999	The Federal Government presents its 2000 Budget. • 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). • The additional crisis contribution on personal taxes is gradually (up to 2003) phased out. • Fiscal rebates for children (both regimes with and without day-nursery) are increased. • The VAT rate is reduced from 21% to 6% on housing renovation (5-15 year-old buildings) and on repair works. • The maximum real growth rate for health insurance outlays is raised from 1.5% to 2.5%. • Low pensions (included those of the self-employed) are raised from July 2000 onwards. • 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).
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)