

# 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

*The recovery in world economic growth in 1999 led to a strong acceleration in economic growth in Belgium during the second half of 1999. Faced with improved prospects, the manufacturing sector is expected to build up stocks again from the fourth quarter of 1999 onwards, after having strongly reduced their stocks during the recent economic slowdown (mid-1998 to mid-1999).*

*Fixed capital formation in non-industrial sectors increased strongly in 1999, private consumption grew at a relatively sustained pace, and the contribution from external trade was positive. For 1999 as a whole, economic growth in Belgium reached 2.3%. The upward trend of all demand components in the course of 1999, if confirmed, will lead to a positive carry-over effect for the year 2000.*

*Economic activity in Europe should accelerate in 2000, US economic growth should be sustained and the emerging economies should continue their recovery. Belgian export markets should then grow faster in 2000 than in 1999. Moreover, the depreciation of the euro during the 1999-2000 period and the new cuts in non-wage costs should boost the price competitiveness of the Belgian economy. For the first time for more than 10 years, Belgium should even slightly increase its market shares.*

*The contribution of stockbuilding towards economic growth should be largely positive, the rate of investment by companies should rise again and household investment should recover. The growth in household disposable income should reach 2.3% in real terms in 2000 (1.4% in 1999), thanks to a new strong creation in employment, a slightly higher growth in real wages and an increase in capital income. Private consumption should rise by 2.1% leaving the savings rate quasi unchanged.*

*All in all, Belgian GDP growth should reach 3.2% in 2000, thanks to dynamic domestic demand (2.9%) and a net contribution from exports (0.4%).*

*Oil prices more than doubled between December 1998 and December 1999. Energy prices are not, however, expected to continue rising in 2000, while underlying inflation should accelerate somewhat in the course of the year. The consumption price index should increase by 1.5% in 2000 (compared with 1.1% in 1999) and the health index by 1.3%.*

*Growth prospects for 2000 should allow a further reduction of the public deficit.*

*STU 1-00 was finalised on February 21, 2000.*

### *Editorial Board*

Henri Bogaert  
Michel Englert  
Bart Hertveldt  
Evelyne Hespel  
Dominique Simonis  
Joost Verlinden

### *DTP & Web Publishing*

Geert Bryon  
Dominique van der Wal  
Brenda Breugelmans

### *Printed by*

Ministry of  
Economic Affairs

---

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.



# Table of Contents

---

Special Topic.....	3
• Government participation in Belgian companies	
Economic Forecasts.....	5
• Economic forecasts 2000	
Summary of Economic Forecasts .....	7
• Economic Forecasts by the Federal Planning Bureau	
• Economic forecasts for Belgium by different institutions	
Recent Economic Developments .....	8
• General economic activity	
• Private consumption	
• Business investment	
• Housing investment	
• Stockbuilding	
• Foreign Trade	
• Labour market	
• Prices	
• Interest rates	
• Exchange rates	
• Tax indicators	
Recent publications.....	19
• Determinants of Belgium's export performance	
• Report of the Belgian government on economic reform of the products, services and capital markets	
• FPB's contribution to the Federal Plan for Sustainable Development	
News .....	22
• Other Recent Publications	
• Research in progress	
Economic Policy Measures .....	23
• Recent history of major economic policy measures	
Abbreviations .....	24

---

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>).

## Government participations in Belgian companies

This study reviews the ownership of the Belgian authorities in public and private companies in 1997.

### A multitude of institutions and market driven interventions

A multitude of statutory differences exist in classifying public organisations. One can distinguish quoted and unquoted public limited corporations, institutions of public utility, specific public corporations for railway, postal and telephone services, intercommunales and mixed intercommunales (public/private joint owners), social dwellings corporations and others.

The whole picture has recently been formalised in law by the establishment of management agreements between the government and institutions or companies whereby the latter receive autonomy to contractual obligations laid down by regulations and a system of control. These agreements were necessary in order to clarify the duality of control and corporate governance. According to the new definitions in the national accounting system, the government has control over a company whenever its share is more than 50%, but in practice there are exceptions to this general principle.

The first exception to this principle occurs when public corporations are limited (and certainly when they are quoted); in this case, the Board of Directors, even when appointed by the government, must decide in the interest of the company what limits the potential for full governmental control. On the other side, extra governmental control can be given by means of issuing a golden share, and also recently by creating an autonomous public corporation ruled by the management contracts.

The study takes into account the general principle of more than 50% participation, and distinguishes participations of more than 10% of the capital, special minority participations permitting a change of the Board of Directors, majority-ownership, and finally a 100% ownership. The number of corporations as well as their economic importance is also given.

### Overview of public intervention in the market

The study takes into account all the companies that have submitted their accounts to the Central Balance Sheet Office for the year 1997, of which the Belgian government (including the federal, regional and local authorities) is a shareholder. Banks and insurance companies are not considered, since these companies have different obligations concerning their accounts. Additional data sources were required because public authorities as

such are not mentioned in the accounts as shareholder. Another problem is that not all public corporations are required to deposit their accounts; for example, public hospitals and public welfare organisations are exempted, and for this reason most of them were not considered in this investigation. As regards the intercommunales, 200 out of a total of 243 publish their accounts. The main intercommunales – whose activity is in the area of energy and water supply, garbage-collection and handling, and other services – are considered.

In 1997, the government participated in 1400 companies (banks and insurance companies not included). This is only 0.6% of all Belgian companies that submitted their accounts. The table on the next page illustrates that almost half of these participations (529) allow control of the companies in the sense of the national accounts definition (>50% participation) and almost half of those 529 (250) are 100% government owned. Most of those controlled companies are situated in the service sector, such as holding companies (100) and companies engaged in the financing, building and renting of social dwellings (300). This explains why local authorities are involved in 69% of all government controlled companies, the regional authorities are involved in 21%, and the federal government is only involved in 10%; but the latter covers the biggest companies such as the public railway company and the post office.

The venture capital (VC) companies controlled by government have more involvement particularly in start-ups, than the private sector. The higher number of start-ups in Belgium, when compared to other European countries, might be attributed to the greater involvement of government owned VC companies.

### The debate on public intervention in Belgium.

The classic reasons why governments intervene in the market sector or prefer public ownership are: social utility, the existence of natural monopolies, public goods and other market failures. However, business conditions and competition in markets of goods and services have changed: the main explanation for this is clearly the setting up of the EU single market with its principle of free competition. Also, the globalisation of the economy with its mergers and acquisitions and increased cross border activity cannot be ignored by the government. Moreover the information and communication technology – such as mobile telephones, e-commerce, e-mail and express courier services – introduces competition in the traditional monopolies of telecommunications and postal services.

The two main reasons for privatisation of public corporations in Belgium were the desire to reduce public debt and the fact that European free competition forced public corporations into price and quality competition that could only be achieved with corporate governance and modern management. As a result, private firms or public-private partnerships carry out more and more traditional public tasks.

#### About the accounts of public participations

The government has direct involvement in 907 companies. In the other 493 companies, the government controls through direct ownership of subsidiaries. One out of three companies (465) in which the government participates is a parent company. The net weighted<sup>1</sup> book value of all the participations of these companies doubled in the past three years, which shows that public corporations are also moving into group structures.

An approximation of the value of government interests is the shareholders equity. For 97%<sup>2</sup> of the 1400 companies this (weighted) value is 905 billion BEF.

Corporations in which local authorities participate generate most of the profits largely because of the energy-distribution intercommunales. The federal government also scores well with four companies – Federal Participation Company, telephone, lottery and railway – realising a profit of more than 2 billion BEF each (1997).

Notwithstanding the fact that the legal Belgian corporate tax rate is 40.17% and that all active Belgian companies that submitted accounts paid on average 14.6% of profit-taxes, the corporate tax rate for companies with government participation amounted to 7.5% in 1997. However, one should bear in mind that some companies are exempted from paying corporate taxes, such as those companies specialising in social dwellings, water supply, etc.

Across all the government's shareholdings, the Return on Equity (ROE) measured as the ratio of the net result over shareholder equity, was 9.3%, whereas this figure amounted to 10.1% for all Belgian companies. This ROE is positively influenced by the local energy and water supply intercommunales. In 1997, on average 27% of the government's interests have a negative return, but this percentage is equal to that of the whole economy.

The weighted share of companies with government shares in the total value added of the non-financial market sector is 9.8 percent, or 426 billion BEF. Only sixteen of the 1400 corporations realise 70% of this value added;

they are involved in the transport, communication, energy, and water supply sectors. The railway company on its own creates 2.3 percent of total value added of the non-financial market sector.

**Table 1 - Key indicators of companies in which the government participates (weighted, last book year)**

	All Participations			Total number	Controlled number (>50%)
	Federal	Region	Local		
Total number	9%	46%	45%	1400	
Number of controlled	10%	21%	69%		529
Shareholder Equity (consolidated)	31%	24%	45%	905.2 billion	829.4 billion
Profits	35%	11%	54%	104.0 billion	80.4 billion
Return on Equity	11.0%	3.5%	12.1%	9.3%	8.4%
Corporate taxes	66%	13%	21%	8.4 billion	7.0 billion

With respect to productivity in 1997, measured as value added over employment, it was slightly higher in the companies where the government participates than for the total economy. Indeed total average value added per person amounted to 3.0 million bef for all companies in which the government participate and this contrasts with an economy-wide total of 2.5 million.

#### Conclusion

The role of the Belgian government in the market sector is not particularly high when compared to other European countries (it is significantly lower than in France, but higher than in the UK or the Netherlands).

Governments world-wide are operating in a constantly changing environment. They are bound to adapt their interventions into goods and services markets in order to meet the EU requirements for free competition, and to maximise the benefits of new technologies. Moreover, the EU issues new directives on the gas and electricity markets and the postal offices, and promotes more attention to market reform through structural changes (cf. Cardiff report, see page 20).

As a consequence more and more public corporations are reformed, diminishing the direct intervention of governments in the production of goods and services and giving greater room to indirect intervention via regulation and specific provisions within management contracts. In this changing environment, we plead for more transparency in the legal status and in the accompanying obligations of government-controlled companies. Moreover, an overall investigation into the assignments of the governments as majority shareholders would appear necessary.

*H. Spinnewyn, Overheidsparticipaties in de marktsector in België, Participations publiques dans le secteur marchand en Belgique, Planning Paper No. 87, February 2000.*

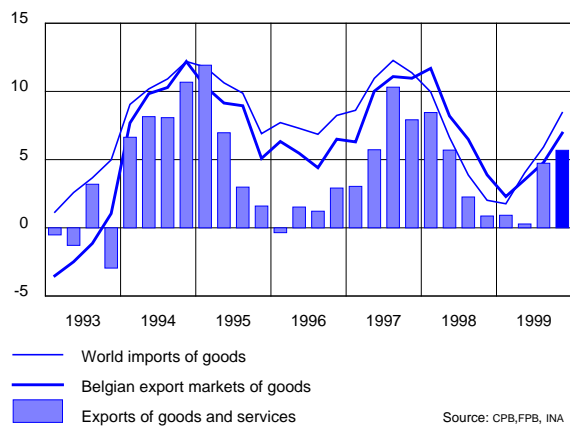
1. Weighted in the sense that the book-value is multiplied by the share the government owns in the capital of the company.  
2. 3% of the companies publish no figures on equity.

The FPB has prepared Economic Forecasts for the Institute of National Accounts (INA). After approval by the Board of Directors and the Scientific Committee of the INA, these forecasts will be used by the Federal Government for its budgetary control in 2000. The present forecasts are reported in ESA95 and were completed on 21 February 2000.

**Strong recovery in economic growth during 1999**

Thanks to rapid recovery in the world economy leading to an improvement in world trade and a recovery in Belgian exports (see graph 1), economic growth in Belgium accelerated strongly during the second half of last year. Facing better demand prospects, the manufacturing sector is expected to have built up stocks again from the fourth quarter of 1999 onwards, after having strongly reduced their stocks during the recent economic slowdown (mid-1998 to mid-1999). For 1999 as a whole, Belgian GDP growth reached 2.3%, favoured by a dynamic increase in fixed capital formation in the non-industrial sector, a relatively sustained pace of private consumption and a positive contribution from external trade. The upward revision of GDP growth in 1999 is largely due to the stronger expansion of our export markets, while the impact of the dioxin crisis on economic activity last year is in line with earlier FPB evaluations (-0.2%). The upward trend in GDP and all demand components in the course of 1999, if confirmed, should lead to a positive carry-over effect for the year 2000.

**Graph 1 - Export indicators (in constant prices, t/t-4,%)**



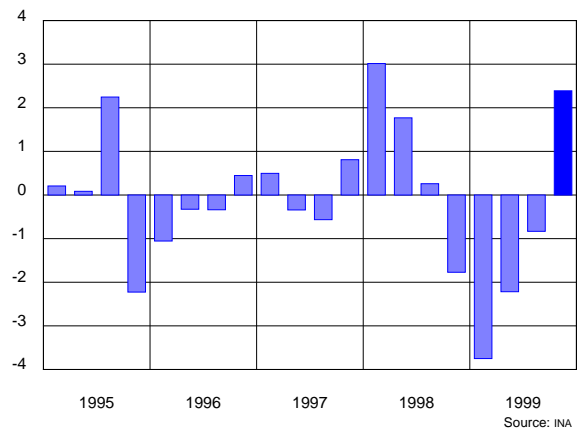
**Economic growth in 2000 will be stimulated by exports and domestic demand**

Prospects for the international economy and world trade growth improved strongly during the past six months. Economic activity in Europe should still accelerate in 2000, US economic growth, although decelerat-

ing, should be sustained and the emerging economies should continue to recover. Belgian export markets should then grow faster in 2000 (6.5%) than in 1999 (4.3%). For the first time in more than 10 years, Belgium's export growth is even expected to be slightly higher than growth in its export markets. The price competitiveness of the Belgian economy will indeed be boosted by the depreciation of the effective euro exchange rate during the period 1999-2000 as well as by the reduction in Belgian unit labour costs relative to our main trading partners. Indeed the euro exchange rate vis-à-vis the US dollar is expected (as reflected by forward exchange rates) to be 1.025 on average in 2000 against 1.067 in 1999 (and 1.168 at the beginning of the monetary union). New cuts in non-wage costs (reductions in social security contributions) in 2000, limited wage increases due to compliance with the wage norm in the private sector, and the rise in hourly productivity linked to the economic upturn, are the main factors accounting for the improvement in the relative unit labour cost in Belgium.

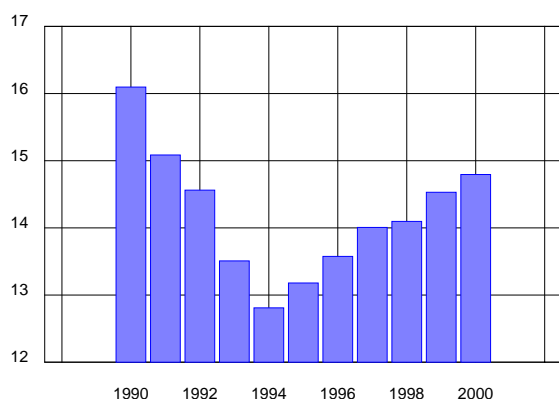
Growth in final domestic demand should accelerate this year. Favoured by strongly increasing demand prospects, the contribution of stockbuilding towards economic growth will become largely positive (+0.4% in 2000 against -1.1% in 1999, see graph 2).

**Graph 2 - Contribution of stockbuilding towards growth**



Business investment will slow down slightly after the stimulating effect of the so called "y2k-bug" on investment in software and hardware. The business investment rate (as a percentage of GDP, see graph 3) should nevertheless rise again this year, although not by as much as in 1999. After virtually stabilising last year, housing investment should recover and grow by about 2.8% in 2000.

Graph 3 - Business investment rate (% of GDP)



Source: FPB

Real household disposable income should increase by 2.3% in 2000 (1.4% in 1999), thanks to a new strong improvement in employment, slightly higher growth in real wages and an increase in capital income resulting from higher interest rates and benefits received. Growth in private consumption should improve in comparison with the second and third quarter of 1999, reaching, for the whole year 2000, the same rate as real disposable income and leaving the savings rate quasi unchanged after several years of decline.

All in all, Belgian GDP growth should be 3.2% in 2000, thanks to dynamic domestic demand (2.9%) and a positive contribution from net exports (0.4%).

After the inflation upsurge in recent months, inflation should cool down gradually in the course of the year

In 99, crude oil prices rose by about 40% compared to their average level in 98. Year-on-year inflation reached a level of almost 2% by the end of 99. From the second quarter of this year, inflation should cool down. The upward impact of energy prices should diminish gradually, more than offsetting the rise in underlying inflation. The latter should react, with a certain time-lag, to the past rise in import prices expressed in BEF.

All in all, overall consumer price inflation is expected to be 1.5% on average in 2000. The "health price index" (which, amongst other things, excludes most of the energy products) should rise by 1.3% in 2000. The pivotal index for the public sector (currently 105.20) should next be reached at the beginning of 2001.

Economic growth in 2000 should be very favourable for employment

Total domestic employment should increase by more than 53,000 persons in 2000 (figures as on June 30), following an increase of 44,000 in 1999. This larger increase is mainly due to more job creation by private firms (+47,500 in 2000, against +32,000 in 1999). In particular,

regular job creation (i.e. not induced by special employment programmes) in the private sector should be higher in 2000 than in 1999. This can be explained both by the acceleration in economic activity and the supplementary reductions in social security contributions. The share of job creation through various special programmes in total private employment growth should fall from more than 40% in 1999 to about 20% this year.

Total domestic employment growth in 1999-2000 should lead to a rise in the employment rate (total employment in proportion of the working age population) from 57.4% in 1998 to 58.9% in 2000. From 1994 till 2000, the employment rate would expand by 3 percentage points or about 0.5 percentage points in average per year.

Uncertainties linked to the forecasts for 2000

The downside risks linked to the forecasts for 2000 have reduced considerably during recent months. Due, among other things, to a tight monetary policy, the US economy is once again expected to experience a soft landing although the risk still persists that the growing imbalances that characterise this economy (increasing stock prices resulting in strong wealth effects leading to negative private savings rate, growing private indebtedness, and rising current account deficit) could dampen investors' confidence and lead to exchange rate and interest rate turbulence.

On the other hand, US GDP growth and import demand could remain stronger than forecast. More generally, the current strengthening in the international environment and world trade growth potential could be underestimated by the present forecasts. In this case, Belgium would then face higher growth in export markets while the US dollar could remain stronger than forecast against the euro, further improving Europe's competitiveness.

However, the risk of inflation linked to a lower effective exchange rate of the euro should remain limited. As the EC has stated: "the eventual pass through of higher import prices to consumer prices should be muted by the reform and deregulation aimed at enhancing competition". Moreover, short-term interest rates assumptions, based on futures' rate, already take into account a further strengthening of the ECB's monetary policy in the course of 2000 which should prevent a further rise of inflationary fears and bond yield increases.

Nevertheless, a continuous rise of the oil price (which has so far not given any clear indications of a declining trend) could harm the expected fall in inflation in the course of 2000 and, through second-round effects, hamper the economic growth worldwide.

*Budget Economique 2000, ICN, février 2000.*

*Economische Begroting 2000, INR, februari 2000.*

## Economic Forecasts by the Federal Planning Bureau

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

	1997	1998	1999	2000
Private consumption	2.2	3.8	2.0	2.1
Public consumption	0.0	1.4	2.3	1.0
Gross fixed capital formation	6.5	3.7	6.0	4.5
Final national demand	2.7	4.1	1.8	2.9
Exports of goods and services	6.7	4.2	2.9	6.8
Imports of goods and services	5.8	6.3	2.2	6.6
Net-exports (contribution to growth)	0.9	-1.2	0.6	0.4
Gross Domestic Product	3.5	2.7	2.3	3.2
p.m. Gross Domestic Product - in current prices (bn BEF)	8712	9089	9395	9811
Traditional consumer price index	1.6	1.0	1.1	1.5
Consumer prices: health index	1.3	1.3	0.9	1.3
Real disposable income households	1.0	2.9	1.4	2.3
Household savings ratio (as % of disposable income)	17.6	16.6	16.0	16.1
Domestic employment (change in '000, situation on June 30th)	22.1	44.4	43.9	53.4
Unemployment (Eurostat standardised rate, yearly average)[1]	9.4	9.5	9.0	8.5
Current account balance (as % of GDP)	4.8	4.1	4.1	4.3
Short term interbank interest rate (3 m.)	3.5	3.6	2.9	3.9
Long term interest rate (10 y.)	5.8	4.8	4.8	5.7

[1] 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
	1999	2000	1999	2000	1999	2000	
Federal Planning Bureau	2.3	3.2	1.1	1.5	.	.	2/00
INR/ICN	2.3	3.2	1.1	1.5	.	.	2/00
National Bank of Belgium	2.3	.	1.1	.	-0.9	.	2/00
European Commission	1.8	2.7	1.2	1.2	-1.0	-0.7	11/99
OECD	1.8	2.8	1.3	1.7	-1.0	-0.9	12/99
IMF	1.4	2.5	1.1	1.2	.	.	9/99
Artesia Bank	1.8	2.8	1.1	1.5	-1.0	-0.9	11/99
BBL	2.3	3.4	1.1	1.3	-0.9	-0.5	2/00
Fortis Bank	2.2	3.2	1.1	1.5	-0.9	-0.8	1/00
Gemeentekrediet/Crédit Communal	2.4	3.1	1.1	1.6	.	.	1/00
KBC Bank	2.2	3.4	1.1	1.9	-0.9	-0.2	1/00
Petercam	2.2	3.3	1.1	1.4	-0.9	-0.6	1/00
J.P. Morgan	2.5	3.6	.	.	-1.2	-0.4	12/99
Morgan Stanley Dean Witter	2.2	3.3	1.1	1.4	-0.5	0.3	12/99
IRES	2.2	3.4	1.1	1.6	-0.7	-0.5	1/00
DULBEA	2.0	3.5	1.2	1.5	-0.9	-0.6	IV/99
<b>Averages</b>							
All institutions	2.1	3.2	1.1	1.5	-0.9	-0.5	
International public institutions	1.7	2.7	1.2	1.4	-1.0	-0.8	
Credit institutions	2.2	3.3	1.1	1.5	-0.9	-0.4	
Consensus The Economist	2.1	3.1	1.1	1.4			1/00

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

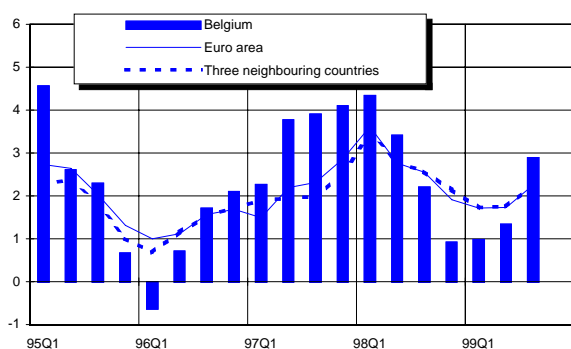
General economic activity

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

	96	97	98	97Q3	97Q4	98Q1	98Q2	98Q3	98Q4	99Q1	99Q2	99Q3
Germany	0.8	1.5	1.9	1.5	1.4	3.0	1.8	1.8	1.2	0.8	0.8	1.3
France	1.1	2.0	3.4	2.0	3.1	3.5	3.7	3.3	2.9	2.4	2.4	2.9
Netherlands	3.0	3.8	3.7	3.4	4.4	4.9	3.6	3.0	3.3	3.0	3.1	3.6
Belgium	1.0	3.5	2.7	3.9	4.1	4.3	3.4	2.2	0.9	1.0	1.3	2.9

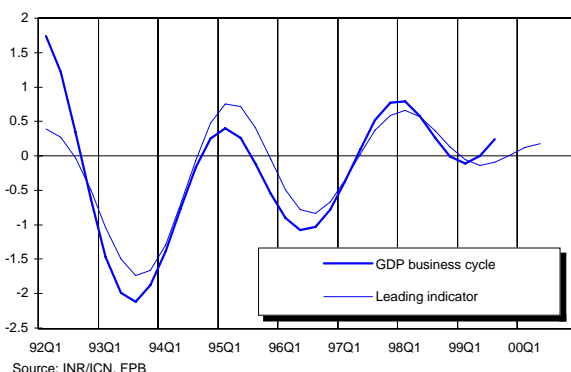
Source: INR/ICN, National sources, Eurostat

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



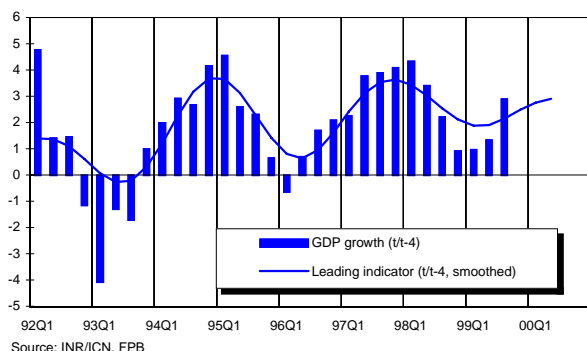
Source: INR/ICN, National sources, Eurostat

Graph 2 - GDP business cycle and leading indicator



Source: INR/ICN, FPB

Graph 3 - GDP growth and leading indicator



Source: INR/ICN, FPB

Belgian GDP growth during the first half of 1999 has recently been revised downwards in the quarterly national accounts from about 1.7% to 1.1% (yoy), a lower rate than the one seen in the euro area and in our main trading partners. However, the Belgian GDP quarterly pattern indicates a strong acceleration in the third quarter of 1999, even stronger than in the euro area and the average of our neighbouring countries. In those areas, the yoy increase in GDP was also consolidated, although the acceleration was somewhat dampened by low growth still being seen in Germany, which accounts for about one-third of the GDP of the euro area.

This result confirms the scenario of a short-lived slow-down between mid-98 and mid-99 initiated by the crisis in the emerging economies. The same story applies to our trading partners, although their downturns have been less pronounced than in Belgium, due to sustained dynamism in the Netherlands and in France, and due to the fact that the Belgian business cycle has been exacerbated by the evolution in stock buildings.

Another feature shared by Belgium and the euro area relates to the fact that export growth (yoy) in the third quarter of last year benefited from the world trade recovery and the depreciation of the effective exchange rate of the euro, and also from the recovery of intra-European trade. However, the contribution of external trade towards economic growth shows a different pattern; in Belgium its positive contribution is offset by the negative contribution from stockbuilding. In the euro area, the contributions of both net exports and stockbuilding were close to zero.

The FPB's leading indicator points to a further improvement in Belgian GDP in the last quarter of 1999 and the first part of the current year. Smoothed growth rates (yoy) derived from this leading indicator suggest that GDP growth could be close to or higher than 3% during this period. For the whole year 1999, GDP growth is expected to come out at 2.3%. The rising trend in all demand components leads to a positive carry-over effect for the year 2000.

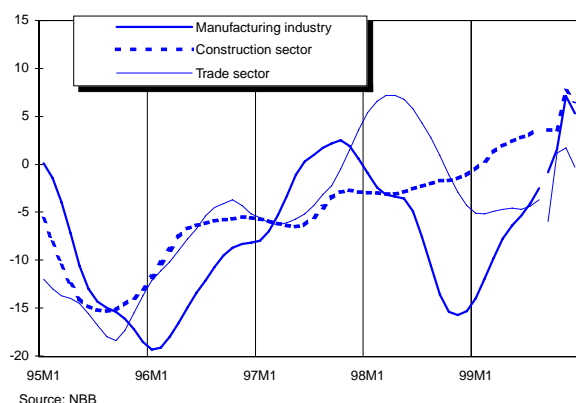


**Table 2 - Monthly business surveys [1]**

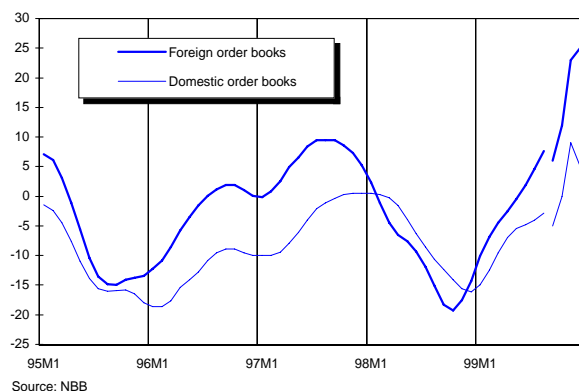
	98	99	99Q1	99Q2	99Q3	99Q4	99M7	99M8	99M9	99M10	99M11	99M12
Synthetic indicator	-6.1	-2.9	-8.9	-5.0	-1.9	4.3	-3.4	-1.3	-0.9	1.8	6.4	4.7
Manufacturing industry	-8.8	-4.1	-12.0	-6.5	-2.6	4.7	-4.1	-2.8	-0.8	1.6	7.1	5.3
Construction sector	-2.5	2.9	-0.7	2.1	4.3	5.9	2.9	6.3	3.6	3.6	7.6	6.6
Trade sector	3.0	-3.0	-3.0	-4.9	-4.9	0.9	-6.7	-2.0	-6.0	1.2	1.7	-0.3

[1] Qualitative data  
Source: NBB, FPB

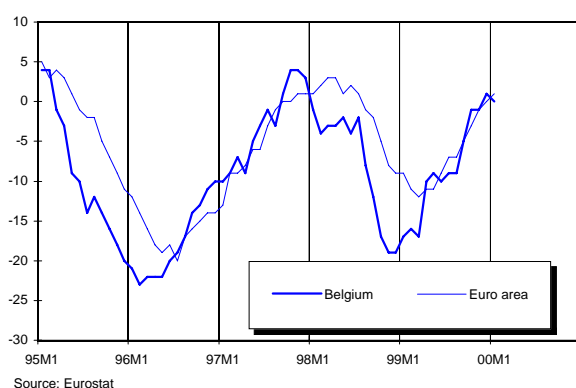
**Graph 4 - Business cycle: sectoral evolution**



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



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



The expected acceleration in Belgian GDP growth during the last quarter of 1999 is also reflected by the net improvement (despite a small downturn in December 1999) in the overall synthetic indicator resulting from the NBB's survey indicators, and also in its sectoral components.

Once again this improvement was more pronounced in the manufacturing industry but this is due to the fact that the industrial cycle had been more pronounced and took place earlier than in the construction and trade sectors. The trade sector also recovered from the decline registered during the previous quarters, probably reflecting an acceleration in consumer spending. The upward trend followed by the indicator in the construction sector has been going on during the last quarter 1999, although at a lower rate than in the two previous quarters. The cycle in this indicator was indeed less pronounced than in the two other sectors mentioned, due to the fact that the virtually unbroken rising trend observed since mid-1997 in the non-residential sector has offset the more pronounced cycle in the residential sector.

The recovery in manufacturing industry is largely due to the improvement in production and price expectations resulting from the recovery in foreign order books and, although to a lesser extent, to the increase in domestic order books.

In Belgium, as in the whole euro area, entrepreneurs have benefited from the international upswing registered in mid-1999. Indeed, the improvement in industrial confidence in the euro area has continued (almost at the same rate as in Belgium) during the third quarter 1999 as a result, among other things, of rising foreign order books and recent production trends and expectations.

## Private consumption

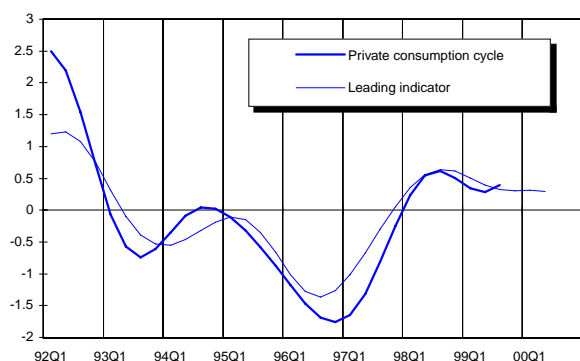
**Table 3 - Private consumption indicators**

	98	99	99Q1	99Q2	99Q3	99Q4	99M8	99M9	99M10	99M11	99M12	00M1
Turnover (VAT) - retail trade [1]	5.9	--	5.1	2.1	1.5	--	0.1	2.6	0.5	5.5	--	--
New car registrations [1]	14.1	8.3	15.7	6.2	6.6	2.0	5.8	8.9	-3.1	3.5	8.9	-1.7
Consumer confidence indicator [2]	-5.6	-1.9	0.0	-4.0	-4.7	1.0	-6.0	-3.0	-1.0	2.0	2.0	--

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

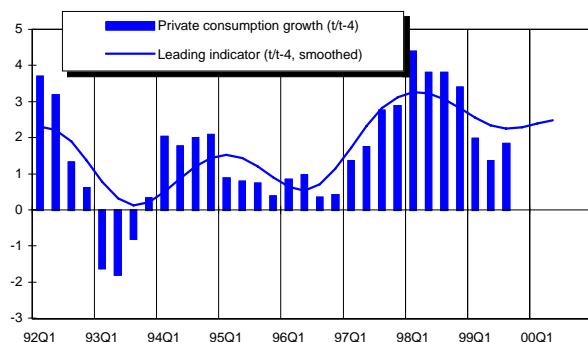
Source: NIS/INS, Eurostat, Febiac, FPB

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



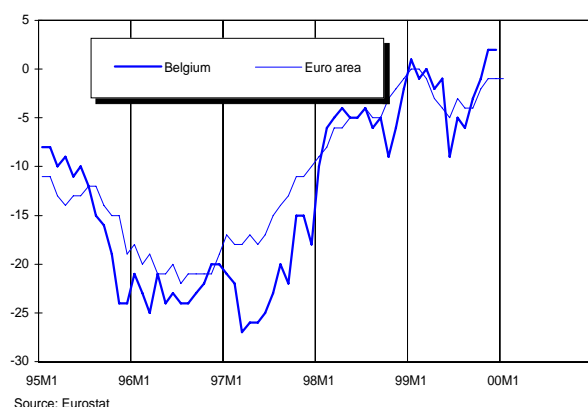
Source: INR/ICN, FPB

**Graph 8 - Private consumption growth and leading indicator**



Source: INR/ICN, FPB

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



Source: Eurostat

The most striking feature as regards private consumption in 1999 was the boom in purchases of cars. A growth rate of more than 8% in a year without a Motor Show (to put this in perspective it should be added that a secondary Motor Show for special leisure vehicles took place at the beginning of 1999) is rather unusual, particularly after a year with already an extremely high increase (14% growth in 1998).

During the past decade, the bi-annual pattern of years with and without Motor Shows has had a significant influence on the sales of cars. The fact that the Motor Show takes place during the early months of the year, boosts the sales figures for the first semester. This period is systematically followed by a second half with low car sales. Nevertheless, our analysis of the monthly figures for new car registrations reveals that the overall impact on the whole year is significantly positive. We estimate that the isolated positive effect on car sales of a Motor Show is about 5% over the whole year. Assuming that the special 1999 Motor Show had half of this effect, it follows that the underlying growth of car purchases was even more dynamic in 1999 than in 1998. This should be seen in the light of the massive replacement of the 1990-92 generation of cars in a period with a high level of consumer confidence.

The current level of consumer confidence both in Belgium and in the euro area is close to the previous high reached in 1989-90. As far as Belgium is concerned, it is highly correlated to the labour market situation. Since the middle of 1997, unemployment has been on a constant downward path. Unemployment (defined broadly) fell by more than 45,000 persons over the last ten quarters.

All in all, private consumption is expected to follow its trend growth path during the next few quarters (growth rate slightly above 2%). The extremely high quarterly growth rates from the middle of 1997 to the end of 1998 (between 3 and 4%) should be considered as exceptional and to some extent as offsetting several years (1993-96) of relatively moderate consumption and real disposable income growth.

## Business investment

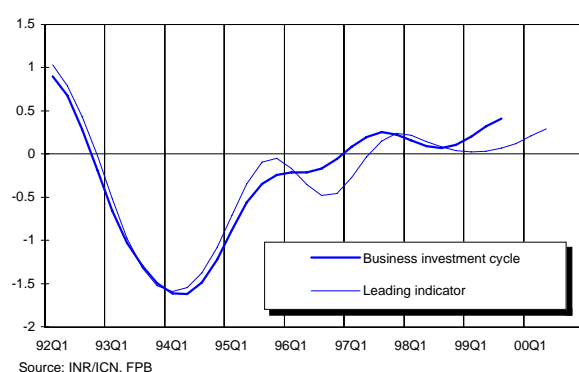
**Table 4 - Business investment indicators**

	98	99	00	99Q1	99Q2	99Q3	99Q4	99M7	99M8	99M9	99M10	99M11
Investment (VAT) [1]												
Industrial companies	3.0	--	--	11.5	-2.1	3.1	--	0.4	18.8	-6.2	4.3	5.8
Non-industrial companies	6.2	--	--	10.3	16.9	10.1	--	21.1	30.3	-10.9	17.8	7.9
Total companies	5.0	--	--	10.7	9.7	7.5	--	13.1	25.6	-8.7	12.2	7.2
Investment survey [1]	9.4	-4.4	17.6									
Capacity utilisation rate (s.a.) (%)	81.8	81.9	--	80.9	81.6	81.8	82.8					

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

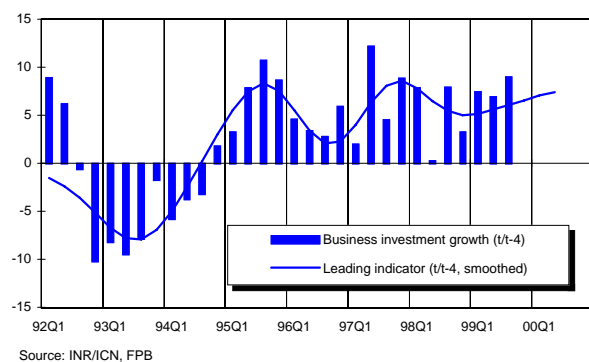
Source: NIS/INS, NBB, FPB

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



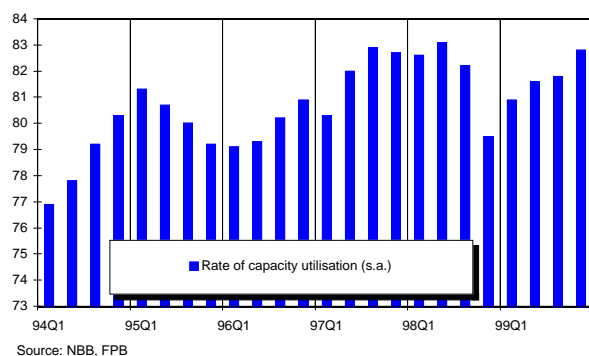
Growth in business investment was very buoyant in 1999. The quarterly national accounts show, for the first three quarters of 1999, an average volume growth of almost 8% (yoy). VAT statistics (at current prices) point to a 9.3% growth rate over the first eleven months of the year. This strong performance can be largely attributed to investment by non-industrial companies. According to VAT statistics, investment by non-industrial companies grew over the first eleven months by 12.6%, whereas investment by industrial companies during the same period increased by only 4%.

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



The NBB investment survey of manufacturing industry dating from November last year points even to a negative growth rate for industrial investment in 1999 (-4.4% in current prices), which means a clear downward revision of the 1999 results of earlier investment surveys (3% in the May 1999 survey and almost 9% in the November 1998 survey). The short-lived dip in the business cycle between the middle of 1998 and the middle of 1999, resulting in a temporary lowering of capacity utilisation in the manufacturing industry and profitability can undoubtedly help to account for this downward revision in investment growth.

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

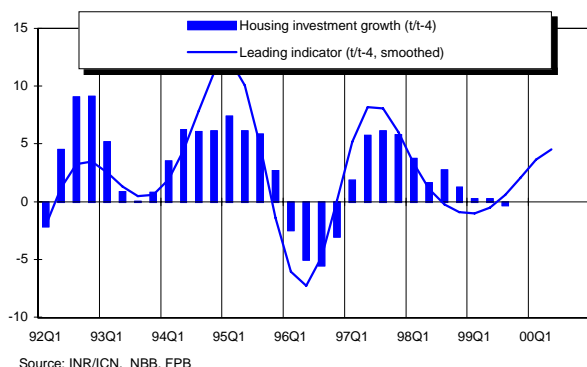


The strong investment performance of non-industrial companies in 1999 suggests that these investments (e.g. in public transport and the telecommunications sector) have apparently been less sensitive to the business cycle slackening and have probably been inflated by one-off investments aimed at prevention of the Y2K problem.

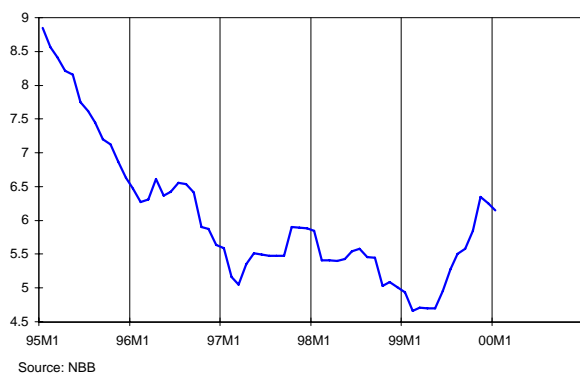
As the degree of capacity utilisation in manufacturing industry is once again on an upward trend (picking up from 79.5% in the last quarter of 1998 to almost 83% by the end of 1999), the weakness of industrial investments should be short-lived. According to the November 1999 survey, investment projects in manufacturing industry have to some extent been postponed until 2000 (18% growth). This, combined with an expected continuation of non-industrial investment growth, points to a promising investment picture in 2000, which is indeed confirmed by the leading business investment indicator.

## Housing investment

**Graph 13 - Housing investment growth and leading indicator**



**Graph 14 - Mortgage rate (in%)**

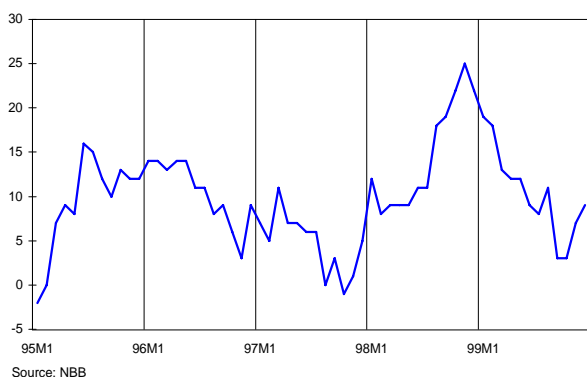


Even despite a slight upwards revision in the quarterly national accounts, year-on-year growth in housing investment was rather sluggish during the first part of 1999, and was even negative in the third quarter. However, the leading indicator for housing investment indicates that the slowdown in this sector came to an end in the third quarter and that a recovery should have been taken place from the fourth quarter of 1999 onwards. Household investment should then register positive growth figures in subsequent quarters.

After a stabilisation in this component of final demand in 1999, we expect an acceleration to 2.8% in 2000. On the one hand, a strong improvement in the labour market, an accelerating increase in real disposable income and high consumer confidence should sustain this recovery, what seems to be confirmed by the increase in the number of mortgage loans granted in 1999. On the other hand, the upward trend in mortgage interest rates seen since the end of the first quarter of 1999 (from 4.8% on average in the first quarter 1999 to more than 6% in the fourth quarter), as well as sharply increasing land prices and, to a lesser extent, rising prices for new residential construction, are the main factors accounting for the relative moderate rate of growth in housing investment in comparison to what had been observed in previous business cycle upturns.

## Stockbuilding

**Graph 15 - Appreciation of stocks**



In 98, stockbuilding contributed strongly to real economic growth in Belgium (+0.8%), as in the whole euro area (+0.4%). Since the end of 98, however, its contribution has been significantly negative, exacerbating the downswing in the Belgian business cycle. As far as this has not been observed in the rest of the euro area, part of this negative contribution from stockbuilding could be due to some statistical adjustments, while the remainder could result from the fact that stockbuilding is playing a smoothing role with regard to rising demand and industrial production since the second quarter of 99.

Nevertheless, due to the improvement in firms' anticipation of expected demand, this negative contribution from stockbuilding has been declining during the course of 99. This is partly confirmed by the reduction in the number of entrepreneurs in the manufacturing industry, who consider their stocks to be too high in relation to expected demand. The contribution from stockbuilding should then become positive from the last quarter of 99 onwards.

## Foreign Trade

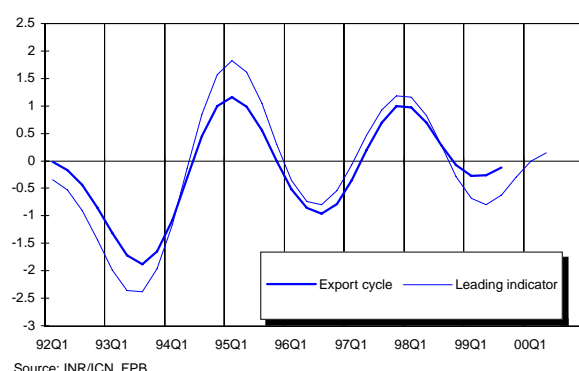
**Table 5 - Belgium - Trade statistics (goods, intra/extrastat)**

	97	98	98Q4	99Q1	99Q2	99Q3	99M6	99M7	99M8	99M9	99M10	99M11
Exports - value [1]	13.1	5.7	0.7	-1.8	-2.0	4.2	-0.5	0.2	6.1	6.6	7.3	13.4
Imports - value [1]	10.9	6.2	0.7	-2.0	-2.3	0.6	-1.9	-1.8	0.8	2.7	5.2	11.2
Exports - volume [1]	7.4	5.8	4.4	3.2	0.5	3.3	0.6	-0.2	5.0	5.2	3.9	7.9
Imports - volume [1]	4.5	8.3	5.9	1.8	-1.5	-2.1	-1.9	-4.3	-1.4	-0.6	-0.7	2.4
Exports - price [1]	5.3	-0.1	-3.6	-4.9	-2.5	0.9	-1.1	0.4	1.0	1.4	3.3	5.1
Imports - price [1]	6.1	-1.9	-4.9	-3.9	-0.8	2.7	0.0	2.6	2.2	3.4	5.9	8.6

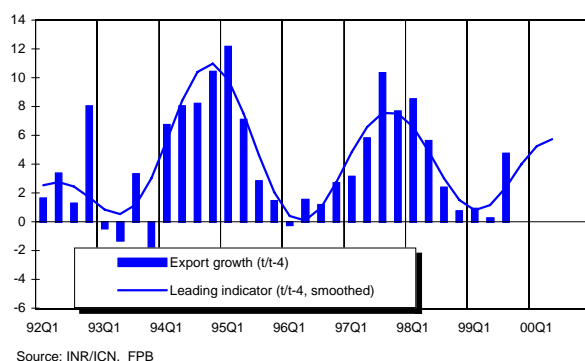
[1] Change (%) compared to same period previous year

Source: INR/ICN, FPB

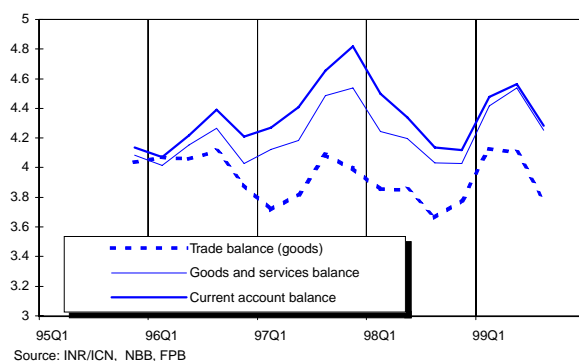
**Graph 16 - Export cycle and leading indicator**



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



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



On the back of the recovery in world trade and in Belgium's export markets observed halfway through last year, the slowdown in the volume of Belgian exports growth, registered since mid-1998, seems to have come to an end during the third quarter of 1999.

Indeed, according to the trade statistics, growth in Belgian exports of goods in volume terms accelerated during the second part of last year. As it was estimated by the FPB, this result indicates that the impact of the dioxin crisis on total exports of goods was rather limited.

The FPB's composite leading indicator for exports of goods and services also suggests that the turning point in export volumes was reached in the third quarter of 1999 and that real exports of goods and services should be on a dynamic upward trend from that time onwards. The change in this leading indicator points to export growth accelerating strongly from the last quarter of 1999 onwards.

The very low evolution in real imports of goods in 1999 (according to the trade statistics) is difficult to interpret when looking at the recovery in most of the components of final demand (excluding stockbuilding). It may be appropriate to mention the correlation with the negative evolution in stockbuilding during this period and raise questions related to some statistical problems concerning the share of the value of imports in price and volume terms.

After several quarters of decline, export prices have been showing a rising trend since the third quarter of 1999. Due to the sharp rise in energy prices, the improvement in other raw material prices and the depreciation in the nominal effective BEF, import prices rose rapidly during the second half of 1999, leading to a further deterioration in the terms of trade. This deterioration in the terms of trade is leading to a decline in the current account balance in the third quarter of 1999. For the whole year 1999, the Belgian current account is expected to reach the same level as in 1998 (4.1% of GDP).

Labour market

Table 6 - Labour market indicators

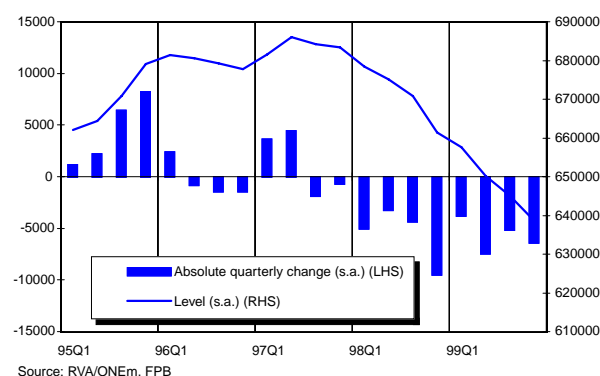
	98	99	99Q1	99Q2	99Q3	99Q4	99M8	99M9	99M10	99M11	99M12	00M1
Unemployment (excl. older) [1]	541.0	507.6	515.2	481.1	535.6	498.5	551.5	531.6	511.0	492.4	492.2	492.9
Unemployment (incl. older) [1]	671.5	647.8	653.9	620.5	675.7	641.2	691.2	672.6	653.3	635.1	635.3	637.0
Unemployment rate-FMTA/MfET[2]	12.4	11.7	11.9	11.1	12.3	11.5	12.7	12.2	11.8	11.3	11.3	11.3
Unemployment rate-Eurostat [3]	9.5	9.0	9.1	9.0	9.0	8.7	9.2	8.9	8.8	8.7	8.7	8.6

[1] Level in thousands; [2] In % of labour force of June 1997, 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

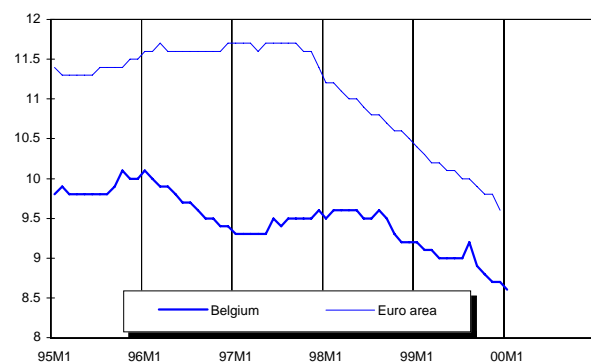
Source: RVA/ONEm, FMTA/MfET, Eurostat, FPB

Graph 19 - Evolution of unemployment (incl. older)



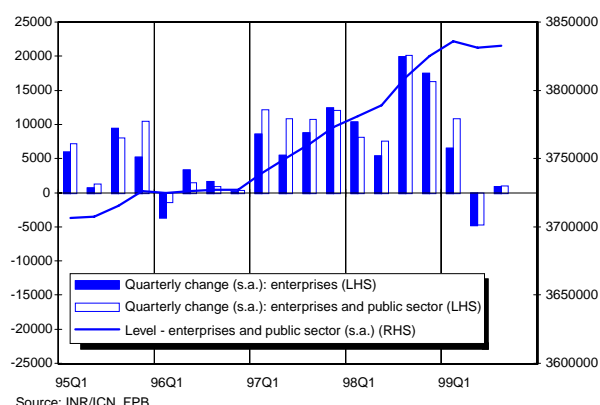
Source: RVA/ONEm, FPB

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



Source: Eurostat

Graph 21 - Evolution of domestic employment



Source: INR/ICN, FPB

The INR/ICN recently published revised quarterly employment statistics (graph 21; FMTA/MfET observations until 98Q2; estimates based on RSZ/ONSS figures from 98Q3 onwards). These estimates now 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 quarter of 1998, net job creation seems to have been extremely weak during the first three quarters of 1999. Since our conjecture of a short-lived slowdown in activity has been confirmed by the recently observed inflection in the business cycle, it is, however, expected that employment growth will resume with renewed strength, possibly accompanied by an increase in the number of hours worked per full-time equivalent.

This estimated slowdown in net employment growth during 1999 has - somewhat surprisingly - not been mirrored by a less rapid decrease in unemployment as compared to the previous year. Unemployment (broad register-based definition, i.e. including "older" people receiving unemployment benefits who are no longer required to actively search for a job) decreased by approximately a further 6,000 persons (on average) during the fourth quarter of 1999 (graph 19), bringing the total decline for the whole of 1999 to more than 22,000 persons, comparable to the decrease that was seen during 1998.

While it is true that, during the second half of 1999, the number of people receiving unemployment benefit decreased significantly less rapidly than during the previous period, this evolution has been compensated for by a much faster decrease in the number of unemployed people not receiving benefit, notably school-leavers in search of a job. The measures announced by the federal government to create financial incentives to recruitment of job seekers in this category are likely to further enhance this development.

Prices

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

	98	99	99Q1	99Q2	99Q3	99Q4	99M8	99M9	99M10	99M11	99M12	00M1
Consumer prices: all items	0.95	1.12	1.05	0.92	0.92	1.59	0.91	1.19	1.30	1.53	1.94	1.79
Food prices	1.83	0.20	1.52	0.26	-0.79	-0.19	-0.82	-0.35	0.29	-0.29	-0.58	-1.07
Non food prices	-0.45	1.24	0.41	0.78	1.42	2.35	1.50	1.68	1.77	2.13	3.14	3.12
Services	2.34	1.57	1.58	1.53	1.34	1.83	1.25	1.56	1.36	1.98	2.14	2.03
Rent	1.15	1.43	1.43	1.49	1.45	1.36	1.45	1.43	1.38	1.38	1.32	1.28
Health index	1.27	0.94	1.26	0.83	0.60	1.09	0.57	0.80	0.91	1.10	1.28	1.18
Brent oil price in USD (level)	12.8	17.8	11.3	15.5	20.6	24.0	20.3	22.4	21.9	24.6	25.6	25.5

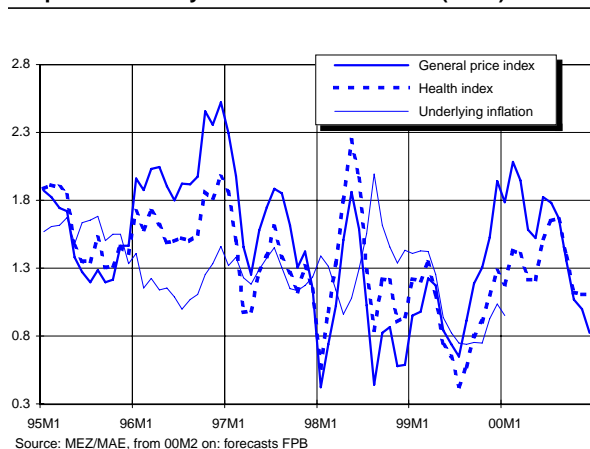
Source: MEZ/MAE

**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	105.34	105.28	105.32	105.44	105.54	105.66	105.42	105.33	105.17	105.31	105.47
Consumer prices: health index	104.29	104.79	104.77	104.83	105.00	105.13	105.29	105.05	104.97	104.81	104.98	105.17
Moving average health index	103.95	104.23	104.47	104.67	104.85	104.93	105.06	105.12	105.11	105.03	104.95	104.98

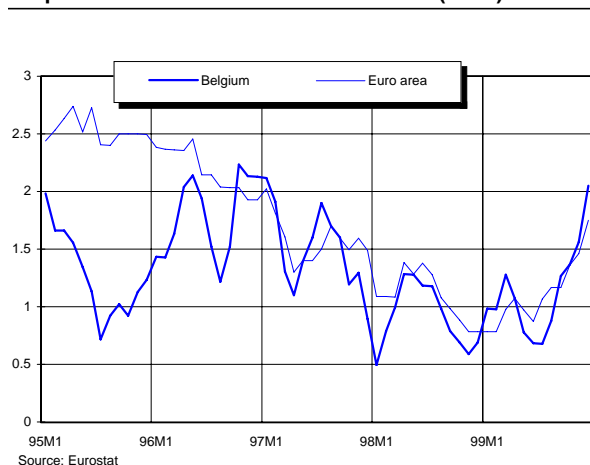
Source: Observations (up to 00M1): MEZ/MAE; forecasts: FPB

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



During the last two months of 1999, inflation, as measured by the yoy change in overall CPI, continued to rise (from 1.3% in October to 1.9% in December). This rise was in line with the increased contribution from energy prices. Between October and December, crude oil prices in BEF increased by almost 25%, due to the combined effect of a more expensive dollar and higher world oil prices. At the same time, underlying inflation (excluding components which often have an erratic price pattern, such as energy products, fresh food products and indirect taxes) rose from 0.75% during the third quarter of 1999 to 1% by the end of 1999, but this upward effect was offset by lower prices of fresh food products.

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



For the first quarter of 2000, CPI inflation is, on average, expected to remain close to 2%. In the course of 2000, two opposite movements should appear. First, the upward impact of energy prices should diminish gradually, as the rise in the Brent oil price and the appreciation of the dollar is expected to come to an end. Second, in response with a certain time-lag to the past import prices rise and the effective exchange rate depreciation of the BEF, underlying inflation should climb somewhat to an expected level of 1.25% by the end of the year. All in all, CPI inflation should cool down gradually, resulting in an average inflation rate of 1.5% in 2000. The “health price index” (which excludes most energy products, among other things) should rise by 1.3%. 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.

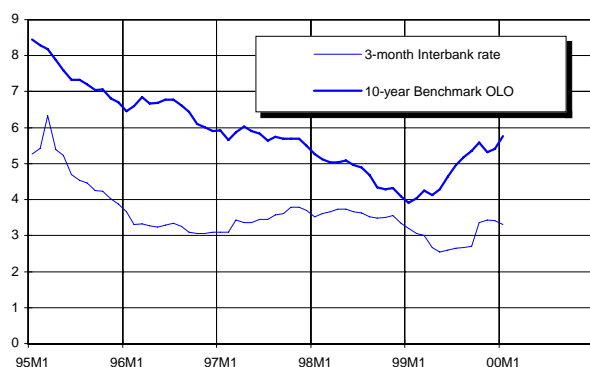
Interest rates

Table 9 - Interest rates

	98	99	99Q1	99Q2	99Q3	99Q4	99M8	99M9	99M10	99M11	99M12	00M1
<b>Short-term rates (3 months)</b>												
Belgium	3.58	2.94	3.09	2.60	2.67	3.40	2.66	2.70	3.36	3.43	3.42	3.32
Euro area (Euribor)	--	2.96	3.09	2.63	2.70	3.43	2.70	2.73	3.38	3.47	3.44	3.34
United States	5.56	5.41	5.00	5.07	5.44	6.14	5.45	5.57	6.18	6.10	6.13	6.04
Japan	0.60	0.22	0.36	0.12	0.10	0.29	0.09	0.10	0.25	0.30	0.31	0.15
<b>Long-term rates (10 years)</b>												
Belgium	4.76	4.76	4.07	4.35	5.16	5.43	5.18	5.35	5.58	5.31	5.41	5.77
Germany	4.57	4.50	3.86	4.08	4.87	5.18	4.89	5.05	5.31	5.05	5.17	5.54
Euro area	4.71	4.63	3.97	4.22	5.01	5.31	5.02	5.19	5.44	5.18	5.30	5.68
United States	5.26	5.63	4.98	5.55	5.87	6.13	5.93	5.90	6.10	6.02	6.27	6.65
Japan	1.46	1.76	1.90	1.55	1.82	1.75	1.89	1.83	1.68	1.83	1.75	1.69

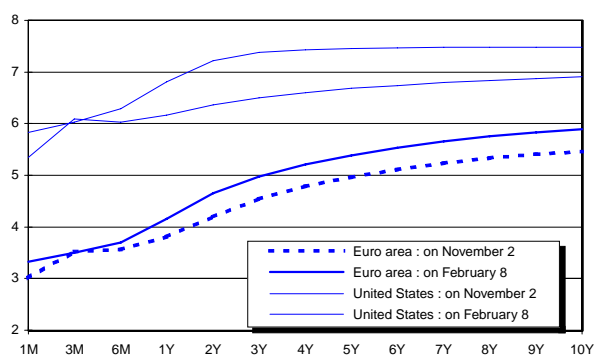
Source: NBB, ECB

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

In the second half of 99, inflationary pressure rose steadily in both the US and the euro area. In the US, this pressure was mainly caused by increasing tensions in the labour market as well as by the value effect of rising stock and bond prices boosting private consumption and economic growth. In Europe, inflationary pressure was mainly due to the effective exchange rate depreciation of the euro and increasing crude oil prices. As a result, the Federal Reserve Bank and the European Central Bank increased their main interest rates in November 1999 and in February 2000.

Anticipating and resulting from these measures, short-term interest rates on the money markets increased in Europe and in the US during the last months of 99. In January 2000, both short-term interest rates decreased by ten basis points due to the disappearing risk premium associated with the so-called Y2K bug.

Since the last quarter of 99 increased fears of inflationary pressure led to a further rise in US long-term interest rates. In the euro area, although long-term rates eased after the ECB raised its main refinancing rate in November, European 10-year bond yields rose again since December 99. A brighter outlook for the European economy and the diffused influence of the US bond market are probably the main factors accounting for this development. Between early November 99 and February 2000, the yield curve in both areas became sharper at the lower end of the curve, which could reflect the anticipation of a further tightening of the monetary policy in Europe and in the US. This sharpening is nevertheless stronger in the US leading to an increase in the differential between US and European long-term interest rates.

The spread between Belgian and German long-term interest rates has remained almost unchanged during the second half of 99 (about 30 basis points).



## Exchange rates

Table 10 - Bilateral exchange rates

	98	99	99Q1	99Q2	99Q3	99Q4	99M8	99M9	99M10	99M11	99M12	00M1
BEF per USD	36.31	37.87	35.95	38.17	38.46	38.90	38.04	38.39	37.71	39.08	39.90	39.80
USD per EUR	--	1.067	1.123	1.057	1.049	1.038	1.061	1.051	1.070	1.032	1.011	1.013
UKP per EUR	--	0.659	0.687	0.658	0.655	0.636	0.660	0.647	0.646	0.637	0.627	0.618
JPY per EUR	--	121.38	130.68	127.70	118.76	108.38	120.12	112.45	113.42	108.06	103.67	106.56

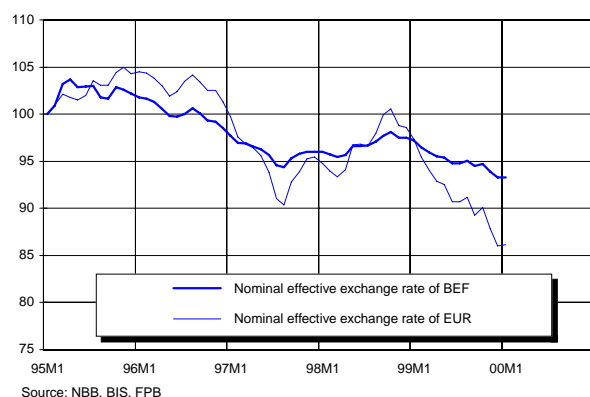
Table 11 - Nominal effective exchange rates (Jan. 95 =100)

	98	99	00	99Q1	99Q2	99Q3	99Q4	99M9	99M10	99M11	99M12	00M1
Effective exchange rate BEF	96.7	95.1		96.6	95.2	94.8	94.0	94.5	94.7	93.9	93.3	93.3
Growth rate [1]	0.7	-1.7		-1.2	-1.4	-0.5	-0.9	-0.6	0.2	-0.8	-0.6	0.0
Id. with constant rate till year end			-1.8									
Effective exchange rate EUR	96.8	91.5		95.6	92.0	90.4	88.0	89.3	90.1	87.8	86.0	86.1
Growth rate [1]	2.1	-5.5		-3.7	-3.7	-1.8	-2.7	-2.0	0.9	-2.5	-2.1	0.1

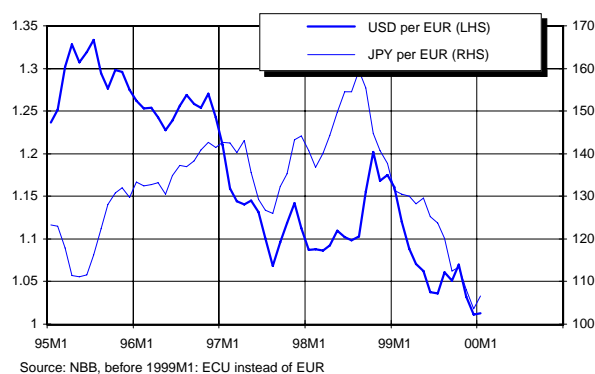
[1] Change (%) compared to previous period

Source: NBB, BIS, FPB

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



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



During the last quarter of 1999, the euro depreciated strongly against the US dollar. The weakness in December was explained by fears of liquidity problems on the euro market at the end of 1999. In the course of January 2000, however, the euro exchange rate did not improve against the US dollar and the bilateral exchange rate even decreased to below parity from the end of this month onwards. Two factors can be mentioned: on the one hand the increasing differential in long-term interest rates between the United States and the euro area and on the other hand the still stronger growth of the US economy, which offset the depressing factor resulting from the increasing US external trade deficit.

During the last quarter of 1999, the euro depreciated further against the Japanese yen as markets were very sensitive to any signs of improvement in the Japanese economy.

As a result, the nominal effective euro exchange rate decreased by 2.7% during the last quarter of 1999 (qoq) and by 5.5% for the whole year 1999. The average euro nominal effective exchange rate stabilized from December 1999 to January 2000, but behind this stabilisation, there was still a further deterioration in the course of this latest month. The nominal effective BEF exchange rate depreciation remained limited to 1.7% in 1999.

As reflected by forward exchange rates, markets are not expecting the bilateral exchange rate of the euro against the dollar to remain below parity in 2000. The growth rate of the European economy is indeed expected to converge towards that of the US economy, and market's expectation of inflationary pressures remains higher in the US than in Europe.

Tax indicators

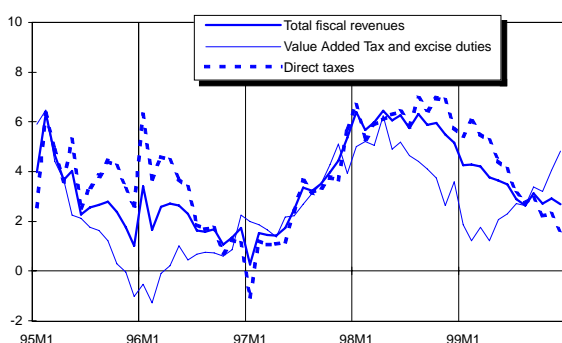
Table 12 - Fiscal revenues (1)

	98	99	99Q1	99Q2	99Q3	99Q4	99M7	99M8	99M9	99M10	99M11	99M12
Total, of which:	6.2	3.9	2.6	4.1	3.4	5.0	-0.1	4.4	9.1	3.3	6.4	5.7
Direct taxes, of which:	6.8	2.7	4.8	2.9	0.8	2.8	-2.5	4.4	5.3	3.2	4.5	1.6
Withholding earned income tax	4.9	6.3	-2.6	15.6	-3.8	15.8	49.7	-29.0	-27.0	35.4	2.8	9.5
Advance payments	20.2	-3.7	-2.2	2.9	-15.4	-4.0	-16.6	--	--	-1.1	--	-8.1
Value Added Tax and excise duties	4.6	6.1	-0.9	6.9	7.0	9.5	6.0	5.3	10.9	2.7	11.0	13.9

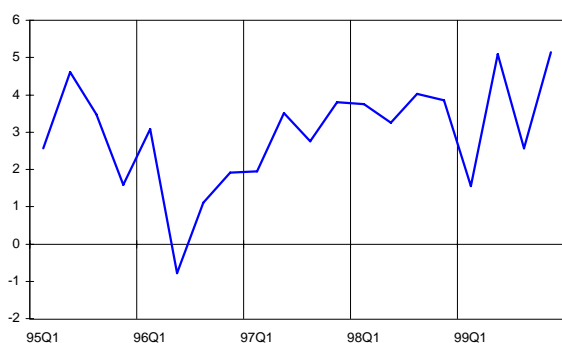
[1] Change (%) compared to same period previous year

Source: MvF/MdF, FPB

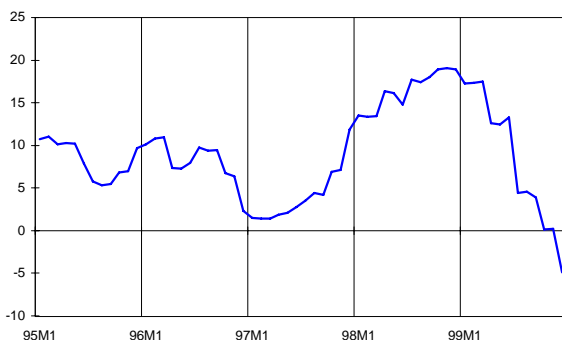
Graph 28 - Real fiscal revenues (2)



Graph 29 - Real withholding earned income tax (3)



Graph 30 - Real advance payments (2)



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

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

The acceleration in economic activity from mid-99 onwards occurs too late to provide a nominal growth rate of total taxation revenues (3.9% in 99) in line with the growth rate seen last year (6.2% in 98). This is mainly due to negative nominal growth in advance payments, while the rate of growth in withholding earned income taxation and indirect taxation revenues have been stronger in 99 than in 98.

Still slightly positive in April (first due date), the growth rate in advance payments was 16.6% lower in July 99 (second due date) than in the corresponding month in 98 (due partly to technical factors) and this decline continued in October and in December (third and fourth due dates) with negative growth rates of, respectively, -1.1 and -8.1%, both for companies and self-employed workers. The strong decrease in the year-on-year growth rate in advance payment revenues after 12 months of 99, -3.7% in nominal terms, follows several years of two digits growth rates (20.2% in 98, 13.5% in 97).

Despite the erratic monthly and quarterly profile of withholding earned income tax revenues, the strong growth rates observed in the second and the fourth quarters of 99 brought the annual nominal growth rate to 6.3% at the end of 99, which is higher than in 98 (4.9%).

The effect of economic activity generally influences indirect tax revenues faster than direct tax revenues. When nominal growth rate of indirect taxation revenues was still negative in the first quarter of 99, compared to the corresponding quarter of previous year, the upturn in economic activity observed from mid-99 onwards almost immediately pushed up the growth of indirect taxation revenues, especially for VAT. Indirect taxation revenues in quarters 2 and 3 of 99 are about 7% higher in nominal terms than in the corresponding quarters of 98, and 9.5% higher in the last quarter of 99. This rise is due to sustained growth in private consumption and housing investment, exceptionally dynamic sales of automobiles and rises in the prices of petroleum products.

## Belgium's export performance

This Working Paper presents a general overview of the structural trade patterns of Belgium and its main trading partners during the period 1991-1997. It allows us to provide some insights into the specific issue of the trade channel transmission of financial crises.

The recent crisis in the Asian NICs and its global contagion has had an important impact on the world economy. The trade linkages were an important channel of transmission<sup>1</sup>. In 1998, Belgian trade flows were also affected. Within this context, an interesting question was whether Belgium's pattern of specialisation played any significant role in determining its relative export performance.

In order to examine Belgium's relative export performance, we have carried out a constant market share analysis (CMSA). This analysis is an accounting method for decomposing ex-post a country's aggregated export share development. The methodology developed by Milana (1988)<sup>2</sup> has been followed because it aims to find a satisfactory solution to the problems encountered by the traditional approaches to CMSA.

According to this new specification of the methodology, percentage changes in the aggregated export market share of a country, defined as the percentage ratio between the country's exports and total world exports, have been disaggregated into four components :

- A « competitiveness effect », which reveals the capacity of a country to increase its market share due to competitiveness factors only, independently of structural developments in the market or in the product trade pattern.
- A « market effect », which measures the effect stemming from the geographical breakdown of a country's exports.
- A « product effect », which defines the influence from the product composition of a country's exports.
- A « residual effect », which embodies all the second-order factors. It represents the positive or negative impact of particular combination of market-product factors in comparison to the market and product mean distribution of a given country's exports.

The competitiveness effect summarises the changes in price competitiveness (assessed by the real effective exchange rate) as well as changes in non-price competitiveness (expressed by qualitative factors reflecting product differentiation) in the export performance. The


sum of the other three effects represents the "structural change" effect due mainly to changes in the market and in the product pattern of specialisation of a country.

The analysis was computed over the period 1991-1997 at the most disaggregated level available using the CHELEM database (i.e. 72 products and 62 countries or areas) in order to get the best information to evaluate the four different effects.

In the period under review, the decrease in Belgium's global export market share (data covering the Belgium-Luxembourg Economic Union area) was mainly the result of the negative contribution of Belgium's market specialisation. The contributions of the competitiveness effect and of the product specialisation effect were of lesser importance. These results for Belgium are compared to those of its main trading partners, as well as the United States, Japan and the Asian NICs. Then, the overall change in export market shares has been disaggregated further to take account of the geographic trade patterns and of the commodity trade patterns of the countries considered.

An interesting result of the study suggests that Belgium's overall export performance during the period under review has been mainly influenced by an unfavourable geographical specialisation, while the product specialisation has played a rather marginal role. However, because of rapidly changing conditions within the Asian NICs and within the European countries in transition, the results have to be taken with extreme caution.

The recent crisis in the Asian NICs and its global contagion have shown that the orientation of Belgium's geographical trade pattern has served to limit the direct effects of the crisis on Belgium's export performance. The main impact of the crisis on Belgium's trade performance came through indirect effects via its main trading partner Germany. In the long run, Belgium should nonetheless remain aware of the large trade growth potential associated with the Asian NICs, the European countries in transition and the other emerging economies.

 *"Belgium's Export Performance. A Constant Market Share Analysis", D. Simonis, Working Paper 02-00, March 2000.*

1. Reuven Glick, Andrew K. Rose (1999), "Contagion and trade", *Journal Of International Money And Finance*, (18) 4, pp. 603-617.  
2. Milana C. (1988), "Constant Market Share Analysis and Index Number Theory", *European Journal of Political Economy*, (4) 4, pp. 453-478.

## Report of the Belgian government on economic reform of the products, services and capital markets

The report on economic reform of the products, services, and capital markets is one of the instruments required by the European Union for the co-ordination of economic policies, as set out in the so-called Cardiff process. Last December, the Belgian government approved the report prepared by a team involving the Ministries of Economics and Finance, with the FPB making a substantial contribution.

The Broad Economic Policy Guidelines are the cornerstone of the co-ordination of European economic and structural policies. It is a document adopted by the European Council, at the end of an annual procedure carried out by the Commission and Member States aiming at monitoring progress and making recommendations on EU macro-economic policies as well as on economic reforms of the products, capital and labour markets. In the context of the co-ordination of economic policies, each member state has to present annually the following: a national employment action plan; a convergence programme; and since the 1998 Cardiff European Council, a progress report on products, services, and capital markets reforms.

At the Cardiff Council, European leaders underlined the important contribution of structural and economic reforms in the fight against unemployment. Structural reforms leading to more efficient markets appear to be essential in order to foster employment and growth within the EMU. The purpose of the work undertaken at the European level is to, first reinforce and accelerate the economic reforms necessary for the optimal working of the Single European Market and of EMU, and second to integrate economic reforms of products and capital markets with macro-economic and labour market issues.

The Belgian report features an assessment of the way these markets operate as well as the measures taken in 1998/99 in order to improve them. It also presents the government's priorities in these areas and the actions planned for the next year.

Economic reform of products and services markets centres on opening up markets and making them more flexible, whilst also promoting competition and improved regulation. A first set of measures is directly related to the functioning of markets and pursues the following objectives: making the single market work, adapting the regulatory framework, and opening markets to competition. The implementation of single market directives, the administrative simplification, the modernisation of competition policy, the growing openness of network

industries (mainly transport, energy and telecommunication), as well as the promotion of electronic commerce, are among the most important efforts to be made in that field.

A second set of policies aimed at improving the way the markets operate is targeted at direct support to business. State aids, policies for R&D and innovation, programmes in support of SMES, and new forms of public/private partnership, have been analysed as a means of strengthening the competitiveness of companies, as well as a means of support and encouragement to business activity. Finally, tax policy also plays an important role in encouraging integration and mobility within the markets, and stimulating the way markets work.

As far as capital markets are concerned, the measures taken are aimed on the one hand at making them operate more efficiently (e.g. stock market reform), and on the other hand at making them more attractive for investors and companies (e.g. the stimulation of pension funds, the better conditions for stock options, and the implementation of Corporate Governance Rules).

The report highlights the major efforts made by Belgium in the wake of the recommendations of last year's Broad Economic Policy Guidelines. As stated by the priorities given by the federal and regional governments from the beginning of this new legislature, these efforts will be maintained and reinforced in eight directions: the in-depth reform of public administrative bodies; the reform of taxation in favour of employment and the protection of the environment; the enhancement of the transport sector; the increasing pace of the electricity sector's opening; the modernisation of public corporations; the progression of reforms on the financial markets; a specific policy to encourage SMES; and the introduction of conditions for sustainable development.

The European co-ordination process has a tight time-scale: in February, each of the Member States presents its report and its future programme for reforming product and capital markets. In the meantime, an overview of measures undertaken in the labour markets has also to be produced. Based on these inputs and on the convergence programme, the next Broad Economic Policy Guidelines are expected in June 2000.

*"Economic Reform of the Products, Services and Capital Markets", Belgian Report for the European Union, December 1999. The document is also available in French and Dutch. <http://www.plan.be> or <http://mineco.fgov.be>.*

The Federal Plan for Sustainable Development is one of the instruments required by the law of 5 May 1997 on co-ordination of the Federal policy on Sustainable Development. The preparation of this policy document follows the procedure set by this law. As a first step in this procedure, a commission (called the Interdepartmental Commission for Sustainable Development or ICDO-CIDD<sup>1</sup>) has taken the responsibility for the publication of a proposal for this Plan. The Federal Planning Bureau has assisted the commission in the preparation of this proposal.

The document begins with an overview of the ultimate objectives of sustainable development and the basic principles (global awareness, long term concern, integration, uncertainty and precaution and, finally, participation of major groups and responsibility of citizens) used as criteria for the assessment of policies and measures aimed at sustainable development. About twenty themes of sustainable development have been integrated in the proposed strategy (such as changing consumption patterns, combating poverty and social exclusion, and protection of the marine environment, biodiversity and the atmosphere).

A short status question is provided for all these themes, as well as a set of action plans including objectives, policies and measures. Like the Federal Report on Sustainable Development, published by the Federal Planning Bureau in last August (STU 99-3), it classifies policies into two groups. The first contains the federal policies "focused" on major sustainable development (such as the ones quoted above). The second group includes other federal policies that can support the goals of the former group (such as fiscal, finance, science and foreign policies). This document is a proposal for a strategy encompassing both these «focused» and «supporting» policies and measures, while also stressing the importance of interdepartmental and interdisciplinary co-ordination.

This proposal suggests a variety of new objectives such as a 7.5% cut in the 1990 energy consumption by 2010, a 10% reduction in the energy consumption level of federal public buildings between 1999 and 2000, and a boost in the share of renewable energy in Belgium's primary energy consumption to 2% by 2010. Federal public administrations have also adopted significant reduction objectives in their consumption of water and their volume of unsorted waste. In agriculture, a 60% increase in organic farms between 2000 and 2004 is to be obtained

with a goal of 4% of agricultural surface to be converted to this form of farming. Last, but not least, the objective of adopting a quantitative objective for the reduction of poverty at the European level at the end of 2001 is proposed as a goal for the Belgian Presidency.

Reforming energy, transportation, and fiscal policy is high on the agenda of this proposed strategy. The policy strategy includes the promotion of public transportation, rail and water, as a viable alternative to road vehicle use. Measures proposed include the switch from labour taxation to energy taxation and from fixed car tax to taxation linked to the amount of energy consumed. Indeed, this new strategy proposal departs from other sustainable development strategies in its inclusion of policies regarding poverty and social exclusion, and of measures to improve the integration of views and actions of the major social groups in the implementation of this strategy.

As participation of citizens and major groups in the decision-making process is one of the basic principles of sustainable development, this proposal is the subject of a wide consultation process with the Belgian population. A public enquiry runs from the 1st of February until the end of March. Institutions that have received the proposal (the parliament, the governments of the regions and the communities, and the Federal Council for Sustainable Development) have 90 days to formulate their suggestions on the proposal. The advice of the Federal Council for Sustainable Development has a particular status because the above-mentioned law states explicitly that the Government has to justify explicitly when it does not follow the advice of this council. On the basis of this consultation, the ICDO-CIDD will prepare a new proposal, again with the support of the Federal Planning Bureau. The final stage of the procedure will be the approval by the Government of the final document submitted by the ICDO-CIDD and the publication of the Royal Decree containing this approval. The Plan will also be available to the public.

*"Avant-projet de Plan Fédéral pour un développement durable 2000-2003". "Voorontwerp van Federaal Plan inzake duurzame ontwikkeling 2000-2003".*

*These documents are available on the website of the ICDO-CIDD:*

<http://www.cidd.fgov.be> (in French)

<http://www.icdo.fgov.be> (in Dutch).

1. This commission is composed of civil servants each representing a member of the Federal Government. The regions and communities in Belgium have each a representative in this commission.

## Other Recent Publications

[Medium Term Economic Outlook 1999 - 2004](#), April 1999  
(available in Dutch and in French)

[Economic Forecasts 2000](#), July 1999  
(available in Dutch and in French)

[Federal Report Sustainable Development](#), "Sur la voie d'un développement durable?". "Op weg naar duurzame ontwikkeling?". Task Force on Sustainable Development. Summary, July 1999. Full text, August 1999.

[Working Paper 08-99](#), November 1999, "Survival and employment growth of Belgian firms with collective layoffs", B. Van den Cruyce.

[Working Paper 07-99](#), November 1999, "L'Étalonnage des performances compétitives en bref - Benchmarking in a nutshell", H. Van Sebroeck.

[Working Paper 06-99](#), August 1999, "Effets macroéconomiques et budgétaires de l'instauration d'une cotisation sociale généralisée - Macro-economische en budgettaire effecten van de invoering van een algemene sociale bijdrage", F. Bossier, M. Englert, F. Vanhorebeek.

[Working Paper 05-99](#), August 1999, "SPOT : un modèle d'équilibre général appliqué de l'économie belge", Th. Bréchet.)

## Research in progress

### [Adapting macro-models to ESA95](#)

The transition of the national accounts from ESA79 to ESA95 is now in progress in all EU countries. The FPB's macroeconomic models therefore need to be fundamentally revised. One specific problem is that macro-economic data is only currently available over a short period of time. The new short-term forecasts, produced in February using the MODTRIM model, and the next medium-term outlook produced using the HERMES II.1 model, expected in Spring 2000, will be presented in the ESA95 system.

The second version of the medium-term macrosectoral and macro-economic FPB model (HERMES II.1) will be presented in a future publication including the adaptation 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<sub>2</sub> emissions per sector and per agent and to test the effect of measures aimed at reducing these emissions), the sectoral structure (a further disaggregation of market services) and the allocation of private consumption.

### [Budgetary margins in the long term](#)

Recently it has seemed clear that there will be budgetary margins following the tight controls on the Belgian public finances. This research is intended to see whether there will be new margins remaining in the long term, when the strains of an ageing population on the financing of social security will be considerable. New indicators of financial sustainability will be researched, and the best way of using these budgetary margins will also be discussed.

### [Relocation, innovation and employment](#)

This report gives a complete and detailed account of the joint research efforts of the UCL, the KUL and the Federal Planning Bureau in the context of the Federal Office for scientific, technical & cultural affairs program of Prospective Social-Economic Research on . The research is based on a survey carried out in 3000 Belgian corporations and data on collective layoffs. It looks into the determining factors and the consequences of relocations, that is the transfer of activities abroad organised by Belgian firms or their foreign parents. As well as relocation, the study also examines the determinants and evolution of exit and entry, and makes a distinction between new foreign direct investment and internal entry, exit and growth. Finally, the study investigates the effects of innovation, age and size of firms and capital intensity on value added and employment growth in Belgian firms.

## Recent history of major economic policy measures

February 2000	The ECB raises its refinancing rate by 25 basis points to 3.25%.
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.
December 1999	The Federal Government adopts a "Convention" for young people in search of their first job.
December 1999	The Belgian Government adopts the "Dioxin Act" and the Royal Decrees enforcing that Act, which organise the compensation payable to the agricultural firms which have suffered economic damage due to the dioxin crisis.
November 1999	The ECB increases its refinancing rate from 2.5% to 3%.
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, one third of which had already been decided by the previous government. 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 government will work out the details of the implementation of these measures in consultation with the social partners.</li> <li>• The price-linking of tax brackets for personal taxation is reintroduced.</li> <li>• The additional crisis contribution on personal taxes is gradually phased out (the abolition will be completed in 2003).</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 (bicycles, clothing, shoes).</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>
September 1999	The Belgian Government adopts the draft of the so-called "Dioxin law", which realises the protocol concluded with the Belgian Association of Banks over the subsidization of loans to agricultural firms having suffered indirect damage from the dioxin crisis. The draft admits the principle of indemnisation for the damage sustained by agricultural firms.
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	Dioxin crisis: on 28 May, the Minister of Public Health advises that all chickens and eggs should be removed from the shelves.
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 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)