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

In contrast with strong global economic growth in 1998, Belgian exports declined substantially during the third and fourth quarter, as the crisis in South-East Asia and in some other emerging economies progressively affected intra-European trade. Even given a scenario of fairly strong Belgian export recovery during the second half of the current year, the low level reached in the first quarter of 1999 implies a low annual growth rate for exports in 1999.

Employment creation should remain significant in 1999 (about 1.1%); domestic demand (2.1%) should keep driving economic growth, although at a much slower pace than in 1998.

The implications of the dioxin crisis remain largely uncertain. Assuming that most detrimental effects would progressively disappear after three months, it should reduce exports in 1999 by 0.3% and GDP by 0.2%. In this scenario, GDP growth in 1999 should be 1.7%; net exports contribution to GDP growth would be negative by 0.2%.

Economic growth in 2000 should attain 2.5% and be supported by better export performance (5.1%): the depreciation of the Euro in 1999 should increase the competitiveness of the Euro-zone, boosting our main export markets. Belgian exports should also take advantage from the decrease in employer's contributions to social security, and from a moderate recovery in our agricultural and agro-industrial exports.

Private consumption growth (1.8%) should remain moderate as no further impulse is expected from households' savings. Business gross capital formation should remain weak. Profits and related revenues should suffer from, among others, the deterioration in the terms of trade due to higher energy prices and the depreciation in the BEF effective exchange rate during the first half of 1999, as well as from the financial consequences of the dioxin crisis.

The pace of economic growth, the different measures limiting wage increases, and the active labour market policy measures should allow employment to keep growing in 2000 (1.0%). Inflation should remain subdued at 1.3%.

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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
- Determinants of Belgium's export performance

Economic Forecasts 5
- Economic forecasts

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
- Fiscal indicators

Recent Publications 19
- The FPB system of leading indicators. A new tool for business cycle analysis
- Evolution of the corporate tax and the withholding tax on interests and dividends of households: statistical evidence
- On the way towards sustainable development ?
- http://www.plan.be a new look and feel

News 22
- Other Recent Publications
- Forthcoming Publications

Economic Policy Measures 23
- Recent history of major economic policy measures

Abbreviations 24

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Determinants of Belgium's export performance

The crisis that started two years ago in the Asian NICs, the financial and economic turmoil in Russia and the contagion to other emerging countries have had an important impact on the world economy. Trade flows in Belgium have also been affected. A general overview of the structural trade patterns of Belgium and its main trading partners in the period immediately preceding the crisis allows us to provide some insights into the specific issue of trade channel transmission.

Belgium's geographic trade pattern reflects its high degree of economic integration with the other industrial countries, especially with EU members. Imports from and exports to the EU countries account for about 75% of Belgium's total external trade.

Among other regions of the world, the group of the Asian NICs and the group of the European countries in transition represent relatively small markets for the Belgian economy, despite the rapid trade growth experienced by these countries in the recent period.

In fact, the trade links of Belgium with these two groups of countries are less important than the trade links of the EU countries with the latter. If we compare Belgium with its main trading partners, i.e. Germany, France, the Netherlands, United Kingdom, Italy, these countries all show closer trade links with both groups.

Constant Market Share Analysis (CMSA)

In order to answer the question of whether Belgium's pattern of specialisation played any significant role in determining its relative export performance during the period 1991-1996, a constant market share analysis is carried out. This analysis is an accounting method for decomposing ex-post, a country's aggregated export share development.

The methodology developed by Milana (1988)[1] has been followed because it aims at finding a satisfactory solution to the problems encountered by the traditional approaches to CMSA. According to this new formulation 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. It is calculated by aggregating the export share changes of a country for each market and for each product, weighted by the relative import shares of the partner countries in total world trade.
- A « market effect », which measures the effect stemming from the geographical breakdown of a country's exports. It is calculated by aggregating the individual market share changes in total world trade, weighted by the export shares of the country concerned on these geographical markets.
- A « product effect », which defines the influence of the product composition of a country's exports. It is calculated by aggregating the individual product share changes in total world trade, weighted by the export shares of the country concerned for these product markets.
- A « residual effect », which embodies all the second-order factors. It represents the positive or negative impact of particular market-product combinations 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 at the most disaggregated level available using the CHELEM database (i.e. 72 products and 52 countries or areas) in order to get the best information to evaluate the four different effects. The results for Belgium are compared to those of its main trading partners, as well as the United States, Japan and the Asian NICs.

Results of the CMSA (1991-1996)

In the period under review, Belgium's export market share decreased from 3.6% in 1991 to 3.2% in 1996 (data covering Belgium-Luxembourg Economic Union area). As shown in Table 1, this 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. By contrast, in the case of Germany, competitiveness and market effects have cumulated their negative influence, while the positive effect of its commodity specialisation was not sufficient to compensate these

1. Milana C. (1988), Constant Market Share Analysis and Index Number Theory, European Journal of Political Economy, Vol.4, N°4, pp. 453-478.

adverse effects. This resulted in a fall of Germany's export market share from 12.9% in 1991 to 11.2% in 1996. In the case of France, the negative contribution of the market specialisation was accompanied by a negative contribution of the competitiveness effect, explaining the reduction of its export market share from 6.8% in 1991 to 6.0% in 1996. In the case of the Netherlands and, to a lesser extent the United Kingdom, the main driving force behind the fall in the export market share was the negative influence of the market specialisation effect. In the case of Italy, the rather stable market share was the result of two opposing forces : the positive contribution of the competitiveness effect was offset by the negative contribution of Italy's market specialisation effect. In the United States, the combination of positive market and product specialisation effects more than compensated for the negative impact from the competitiveness effect, while in Japan these positive effects were insufficient to compensate for the substantial loss in competitiveness. In the Asian NICs, competitiveness, market and product effects have cumulated their positive influence.

For the next stage in analysis, the overall change in export market shares has been disaggregated further to take account of the geographic trade patterns of the countries considered. Concerning the market effect (column 5), it appeared that Belgium's main trading partners, the European countries, in particular Germany and France, gave rise to a negative market effect, whereas the Asian NICs and the European countries in transition produced positive market effects. For the other European countries under review, a rather similar analysis can be undertaken. The results demonstrated that Germany benefited most from a positive market effect from the Asian NICs and the European countries in transition. In all the European countries concerned, the contribution of the market effect in the CMSA analysis was negative. This result is linked to the high share of intra-EU trade in a period during which EU economic growth was lower than total world growth. In the case of the United States and especially Japan, the substantial positive contribution of the Asian NICs resulted in a positive global market effect for both countries. This was also the case for the Asian NICs, which were characterised by a large share of intra-area trade.

The overall change in export market shares has also been disaggregated to take account of commodity trade patterns. Concerning the product effect (column 6), the products of the chemical, electric and electronic sectors have had a positive product effect in Belgium, but this effect was more than offset by the negative contribution of the products of the main traditional industries (notably, textile and steel industry). In the case of Germany, the global positive product effect was due to the substantial positive effects from the chemical, electric and electronic sectors. The greatest positive product effect among the countries under review was registered in Japan and this was mainly due to a huge positive contribution from the electronic sector.

In conclusion, 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 presented above have to be taken with extreme caution. The recent crises in the Asian NICs and in Russia have shown that the orientation of Belgium's geographical trade pattern has served to limit the direct effects of the crises on Belgium's export performance. The main impact of the crises 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 of the Asian NICs, the European countries in transition and the other emerging economies.

Table 1 - CMSA Results (1991-1996)

	(1) Export market share in 1996 (% of world trade)	(2) Export market share in 1991 (% of world trade)	(1)-(2)=(3) ≅(4)+(5)+(6)+(7) Total effect	(4) Competitiveness effect	(5) Market effect	(6) Product effect	(7) Residual effect
BLEU	3.176	3.613	-0.437	-0.049	-0.370	-0.064	0.046
Germany	11.244	12.908	-1.664	-1.243	-0.795	0.268	0.105
France	5.992	6.758	-0.766	-0.171	-0.632	-0.033	0.063
Netherlands	3.341	3.775	-0.434	0.059	-0.429	-0.064	0.003
United Kingdom	5.497	5.744	-0.247	0.024	-0.355	0.039	0.039
Italy	5.230	5.232	-0.002	0.344	-0.394	-0.002	0.054
USA	13.837	13.704	0.133	-0.723	0.675	0.235	-0.067
Japan	8.881	9.942	-1.060	-2.627	1.052	0.604	-0.091
Asian NICs	11.327	9.441	1.887	0.128	1.110	0.631	0.036

Source: Own calculations based on CHELEM database, Centre d'Etudes Prospectives et d'Informations Internationales, Paris.
Notes: BLEU=Belgium-Luxembourg Economic Union;
Asian NICS=Hong-Kong, Singapore, South Korea, Taiwan, Malaysia, Thailand, Philippines, Indonesia.

Economic forecasts

The FPB has prepared Economic forecasts for the Institute of National Accounts. After approval by the Board of Directors and the Scientific Committee of the INA, these forecasts are prepared for the Federal Budget 2000.The forecasts were completed on July 2nd 1999.

Growth slowing down in 1999 due to a double crisis in exports

Economic activity in Belgium, and throughout the euro zone, was affected during the second half of last year by the impact of the crisis in emerging markets on intra-European trade. The recovery observed in the Belgian manufacturing industry in the first half of 1999 is expected to continue during the remaining quarters of the current year, encouraged by the improvement in world growth. Even given a scenario of fairly strong Belgian export recovery during the second half of 1999, the low level reached in the first quarter implies a low annual growth rate for exports in 1999.

The second crisis relates to the impact of the dioxin crisis on the Belgian economy. The implications of this crisis still remain largely uncertain but it seems obvious that the export performance of some sectors will be affected during the coming months. It is estimated that the dioxin crisis will reduce exports by 0.3% in 1999.

The net contribution of exports to economic growth should therefore be slightly negative this year (-0.2%) whereas domestic demand (both private and public consumption and company and public investment) should continue to drive economic growth in 1999, although at a slower pace than in 1998 (2.1% as against 4.6%). Due to a smaller fall in the household savings ratio than in preceding years and to a smaller income increase, private consumption is indeed not likely to grow at the same vigorous pace as in 1998 (1.9% against 3.4%).

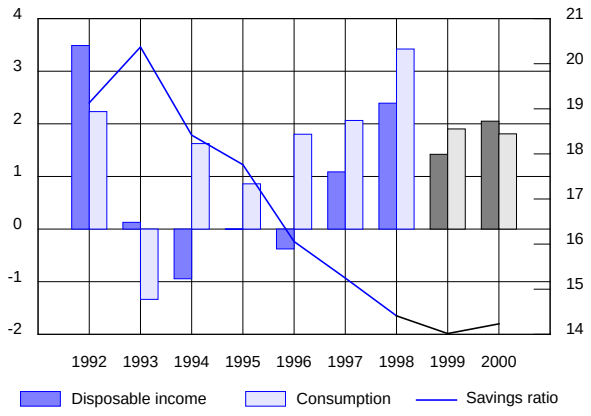
If most of the detrimental effects of the dioxin crisis will gradually disappear in 1999, GDP should be reduced by 0.2% in 1999. In this scenario, GDP growth should be 1.7% in 1999, almost half the economic growth rate seen in the two preceding years.

Exports are driving growth in 2000

Assuming that the dioxin crisis will not continue to affect the brand image of Belgian products abroad, exports should once again become the main engine of economic growth in 2000 with a 5.1% rise in volume. Growth in markets outside Europe should accelerate next year, and the depreciation of the euro which took place during the first half of 1999, should increase the competitiveness of the euro zone, boosting our main export markets. As a result Belgium's relevant export market growth should be 1.5 percentage points higher than in 1999. Belgian export performance should also benefit from the impact of reduced employer's social security contributions on wage costs, leading to an improvement in Belgium's relative price competitiveness against competing countries.

The increase in private consumption should remain moderate (1.8%) as no further impulse is to be expected from the household savings ratio, which has already been in continuous decline since 1994. Nevertheless, the expected small rise in the savings ratio should be balanced by more pronounced growth in household real disposable income (2.1% as against 1.4% in 1999).

Graph 1 - Consumption, disposable income and savings ratio (1992-2000)



In 2000, a slight increase is only expected in business investment (1.3%) as a result of the deterioration in business profitability observed in 1998 and 1999. Last year business profitability was affected by the slackening business cycle. In 1999, profits and related revenues suffer, among other things, from the deterioration in the terms of trade due to the higher energy prices and the depreciation of the effective BEF exchange rate, as well as from the financial consequences of the dioxin crisis.

Investment in housing was supported during 1997 and the first part of last year by long-term interest rates at a historic low and by VAT rate reductions, before losing its edge during the course of 1998. This weakening led to a downward revision in growth forecast for housing investment in 1999. If job creation and real increases in income could still sustain this demand, the recent rise in the price of building land and construction projects as well as in mortgage rates may hold back the growth rate in the residential sector in 2000.

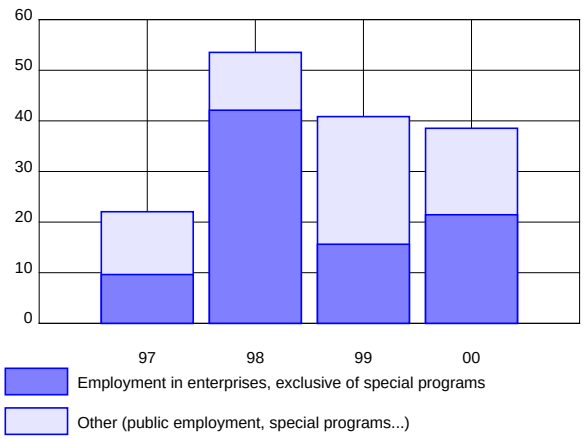
A decrease of nearly 5% is expected in public investment in 2000, resulting from the assumption of sales of public buildings which are recorded in the National Accounts as negative public investments.

GDP is therefore expected to grow by 2.5% overall in 2000. Net exports of goods and services should contribute to this result by 1%, whereas growth in domestic demand should be limited to 1.6%.

Job creation should be more dynamic in 2000 than in 1999

Since the economic slowdown is considered to be only temporary, growth in employment should continue to be significant in 1999 and in 2000: about 40,000 both years (compared to 53,500 in 1998). In 1999, however, about 60% of these jobs are expected to be created by the public sector and various special labour market programs ("social Maribel", local employment agencies, "Smet" jobs etc.). In 2000 this ratio should be lower (40%) as the accelerating pace of economic growth and the various measures limiting wage cost increases should result in a more pronounced rise in traditional employment in the private sector.

Graph 2 - Annual changes in employment (June/June)



The consequences of the dioxin crisis on the labour market are expected to be very moderate in 1999, assuming that the drop in employment in working hours is absorbed by an increase in temporary unemployment.

From June 1998 to June 2000, unemployment is expected to decrease by about two thirds of the job creation (-55,300) since an increase in the size of the labour force is expected during this period. When taking also into account the number of older unemployed people, which number should continue to increase during this period, the reduction should be less pronounced (-37,700 over both years). The unemployment rate (as defined by Eurostat) is expected to fall from 9.5% in 1998 to 9% in 2000.

Wages and prices remain under control

The rise in the unit labour cost will be moderate in 1999-2000 as the interprofessional agreement between the social partners stipulates a maximum growth rate in nominal labour costs per hour of 5.9% over this period. This implies that, despite higher energy prices and the appreciation of the US dollar during the first half of the current year, consumer price inflation should remain subdued (1.2% in 1999 and 1.3% in 2000).

The pivotal index used for wage indexation in the public sector should only be reached in September 2000. This implies that public wages will be adjusted (by 2%) in November 2000. Social benefits should be indexed one month later.

Dioxin crisis: uncertain effects on export performance in 2000

The present forecasts are based on the assumption that the impact of the dioxin crisis on Belgian exports will mainly be felt in 1999. This assumption implies a virtual normalisation in external trade in 2000.

Table 1 - Main macroeconomic effects of the dioxin crisis (divergence in % from the reference scenario)

	1999	2000
Private consumption	-0.1	-0.1
Gross fixed capital formation	-0.1	-0.4
Exports	-0.3	-0.1
Imports	-0.1	-0.1
Gross Domestic Product	-0.2	-0.1
Employment in enterprises		
in working hours	-0.1	-0.1
in number of people	-0.0	-0.1

The consequences of the dioxin crisis could, however, be more extensive than currently anticipated. On the one hand, the loss of market share by the products affected by the crisis could be hard to regain (particularly if administrative impediments to imports of Belgian products remain in place for longer than expected in some countries). On the other hand the brand image of all Belgian products abroad could be weakened in comparison with our competitors. In this case, the strong export recovery expected for next year could be more cautious.

There are also many uncertainties remaining, for example concerning possible changes in the behaviour of consumers and businesses, and the impact of these changes on the pace of Belgian imports. Price effects of the dioxin crisis during the current year, which have not been taken into account in the present simulation, also remain uncertain.

Budget Economique 2000, ICN, juillet 1999.
Economische Begroting 2000, INR, juli 1999.

Economic Forecasts by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (data in ESA-79)

	1997	1998 (est)	1999	2000
Private consumption	2.1	3.4	1.9	1.8
Public consumption	0.8	1.4	2.3	1.7
Gross fixed capital formation	5.4	3.9	3.8	0.7
Final national demand	2.2	4.6	2.1	1.6
Exports of goods and services	7.1	3.1	2.0	5.1
Imports of goods and services	6.3	5.4	2.4	4.0
Net-exports (contribution to growth)	0.9	-1.6	-0.2	1.0
Gross Domestic Product	3.0	2.8	1.7	2.5
p.m. Gross Domestic Product - in current prices (bn BEF)	8675	9020	9229	9550
Traditional consumer price index	1.6	1.0	1.2	1.3
Consumer prices: "health" index	1.3	1.3	1.1	1.3
Real disposable income households	1.1	2.4	1.4	2.1
Household savings ratio (as % of disposable income)	15.2	14.4	14.0	14.2
Domestic employment (change in '000, situation on June 30th)	22.0	53.5	40.8	38.5
Unemployment (Eurostat standardised rate, yearly average) [1]	9.4	9.5	9.3	9.0
Current account balance (as % of GDP)	4.9	4.0	3.4	4.0
Short term interest rate (3 m.)	3.5	3.6	2.7	2.6
Long term interest rate (10 y.)	5.8	4.8	4.4	4.5

[1] Other unemployment definitions can be found on page 14 (table 6).

Economic forecasts for Belgium by different institutions

	GDP-growth		Inflation		Government deficit		Date of update
	1999	2000	1999	2000	1999	2000	
Federal Planning Bureau (*)	1.7	2.5	1.2	1.3	0.7	0.4	6/7/99
INR/ICN	1.7	2.5	1.2	1.3	.	.	6/7/99
National Bank of Belgium	1.9	.	.	.	1.0	.	28/5/99
European Commission	1.9	2.5	1.0	1.3	0.9	0.6	30/3/99
OECD	1.9	2.2	1.3	1.4	1.0	0.8	5/99
IMF	1.9	2.2	1.1	1.4	.	.	21/4/99
BBL	2.1	2.7	1.4	1.6	1.2	.	14/6/99
Generale Bank/Générale de Banque	1.9	3.1	1.2	1.6	1.2	0.6	6/99
Gemeentekrediet/Crédit Communal	1.7	2.8	1.0	1.5	1.2	0.9	6/99
KBC	1.6	3.0	1.3	1.6	1.4	0.9	18/6/99
J.P. Morgan	1.9	2.7	1.6	1.7	1.4	1.3	25/6/99
Morgan Stanley Dean Witter	2.0	2.9	0.7	1.1	1.7	1.5	19/5/99
Artesia Bank	2.0	2.3	1.0	1.3	1.0	0.8	7/6/99
Petercam	2.0	3.3	1.4	1.5	1.0	0.6	II/99
IRES	1.7	2.7	1.2	1.6	1.0	.	8/7/99
DULBEA	2.3	2.8	1.0	1.25	1.0	0.7	II/99
Averages							
All institutions	1.9	2.7	1.2	1.4	1.1	0.8	
International institutions	1.9	2.3	1.1	1.4	1.0	0.7	
Credit institutions	1.9	2.9	1.2	1.5	1.3	1.0	
Consensus The Economist	1.8	2.5	1.2	1.5			9/7/99

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

(*) The source for the government deficit forecasts is: FPB, "Medium Term Economic Outlook 1999-2004", April 1999. Accordingly, these figures do not yet take into account the effect of the dioxin crisis on public finance.

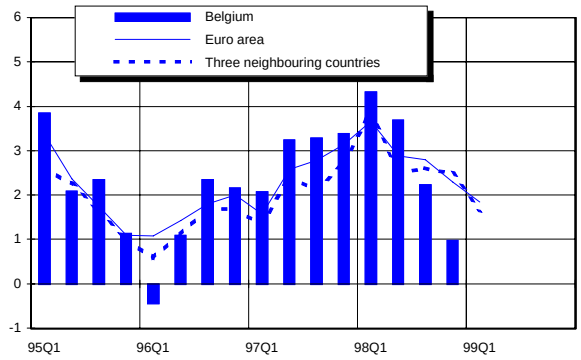
General economic activity

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

	96	*97*	*98*	*97Q1*	*97Q2*	*97Q3*	*97Q4*	*98Q1*	*98Q2*	*98Q3*	*98Q4*	*99Q1*
Germany	0.8	1.8	2.3	0.8	2.6	1.8	1.9	3.9	1.2	2.0	2.0	0.7
France	1.1	2.0	3.2	1.1	1.8	2.0	3.1	3.5	3.6	3.1	2.7	2.3
Netherlands	3.1	3.6	3.8	3.4	3.5	3.4	4.3	4.9	3.7	3.2	3.3	3.0
Belgium	1.3	3.0	2.8	2.1	3.2	3.3	3.4	4.3	3.7	2.2	1.0	.

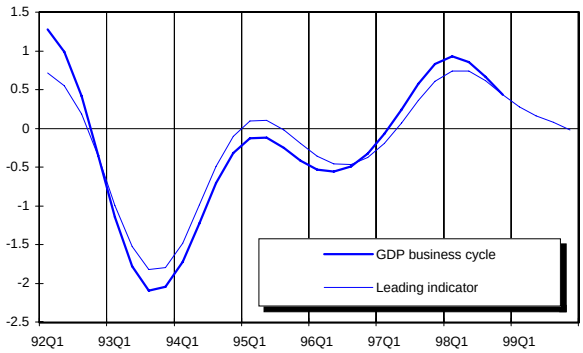
Source: National sources, INR/ICN (for Belgium: data in ESA-79)

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



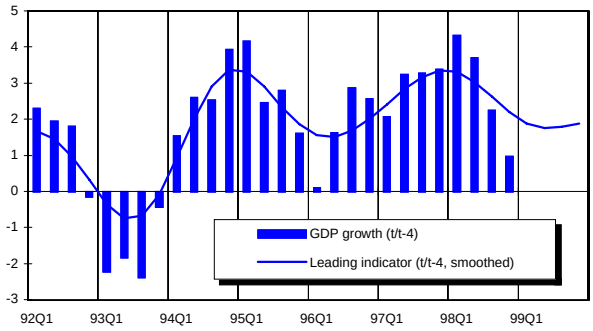
Source: INR/ICN, National sources

Graph 2 - GDP business cycle and leading indicator



Source: INR/ICN, FPB

Graph 3 - GDP growth and leading indicator



Source: INR/ICN, FPB

As described in the special topic in the last Short Term Update, leading indicators have been used to build a composite indicator that can provide a clear picture of the current state of the business cycle of the series and to anticipate their turning points. Year-on-year growth rates derived from this composite indicator (which are also influenced by the quarterly pattern during the preceding year) provide an indication of the evolution in the smoothed GDP series (i.e. without irregular components). It must be stressed, however, that the evolution of this composite indicator during the unobserved quarters of 1999 cannot be considered as a "real" forecast of GDP.

A marked GDP slowdown has been observed in Belgium during the second half of 1998. Throughout the euro zone, economic activity, which has been affected by the crisis in emerging markets, has also slowed during the course of last year due to the downturn in exports.

According to the first Eurostat estimate of GDP growth in the euro zone for the first quarter 1999, activity remained rather sluggish in the euro zone at the beginning of the year. A net slowdown has been seen in Germany during this period, accompanied by a slight slackening in France and the Netherlands.

On basis of the FPB composite indicator, which does not yet take the impact of the dioxin crisis into account, we can expect a return of the GDP to its trend path in the course of 1999 (see graph 2).

Growth rates derived from this composite indicator indicate that an upturn in GDP growth (in terms of smoothed series) is only likely to materialise in the second half of this year and that this upturn should be rather moderate (see graph 3).

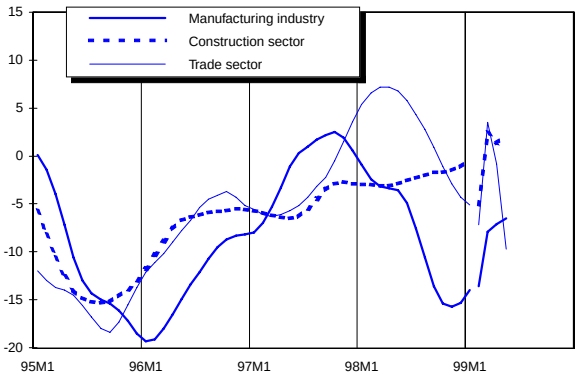
However, the expected detrimental effects of the dioxin crisis on Belgian economic activity will probably affect this estimated pattern for the second and third quarter of the current year.

Table 2 - Monthly business surveys [1]

	97	*98*	*98Q2*	*98Q3*	*98Q4*	*99Q1*	*98M12*	*99M1*	*99M2*	*99M3*	*99M4*	*99M5*
Synthetic indicator	-1.6	-6.1	-1.8	-7.3	-13.4	-8.9	-12.9	-10.8	-11.4	-4.6	-4.9	-5.7
Manufacturing industry	-0.3	-8.8	-3.5	-10.5	-17.8	-12.0	-16.0	-14.4	-13.6	-7.9	-7.1	-6.5
Construction sector	-5.1	-2.5	-3.5	-2.4	-1.5	-0.7	-0.7	0.7	-5.1	2.4	1.4	2.1
Trade sector	-4.0	3.0	7.7	2.8	-5.0	-3.0	-10.8	-5.3	-7.2	3.5	-0.8	-9.7

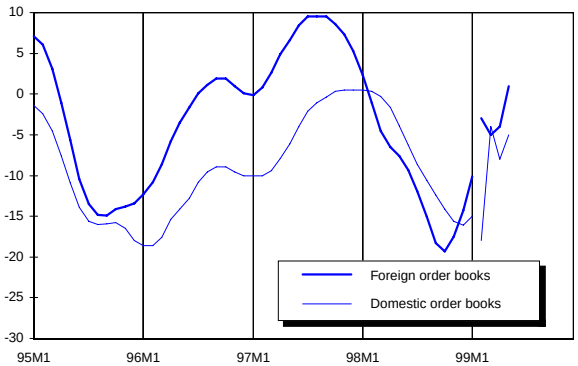
[1] Qualitative data
Source: NBB, FPB

Graph 4 - Business cycle: sectoral evolution



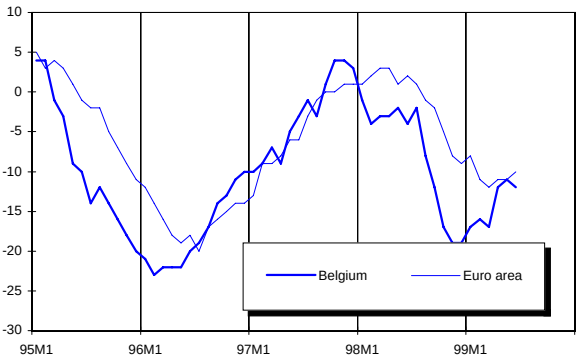
Source: NBB

Graph 5 - Manufacturing industry: order books



Source: NBB

Graph 6 - Industrial confidence: international comparison



Source: Eurostat

Since the strong upturn in March, the latest results from the NBB's surveys indicators show the overall synthetic indicator stable in April and declining very slightly in May. Only a very small part of this last result may have been influenced by the dioxin crisis already (as companies' responses were returned to the NBB during the first three weeks of June). We can then expect a further deterioration during the coming months as this crisis may well hamper further improvements in the export-linked indicators, particularly in industry and distribution. Based on the information currently available, this deterioration in survey results should only be temporary and be reversed during the last months of the year.

Sectoral analysis of these latest survey results reveals that the trade sector declined sharply, after a strong improvement in March, probably reflecting the slowdown in consumer spending. At the opposite end of the scale, the level of activity in the construction sector seems to be still pointing in a favourable direction, if the fall in February due to very bad weather conditions is excluded. The synthetic indicator for the manufacturing industry, which reached its lowest point at the end of last year, has continued with its gradual improvement since the beginning of the current year. This pattern can largely be explained by the recovery in foreign order books.

It is noticeable that the upturn in Belgian industrial confidence (see graph 6) occurred sooner and was also more pronounced than in the euro zone as a whole. For the euro zone, there are signs that point to a moderate pick up in manufacturing industry, based on the upward movement in the euro industrial confidence indicator since April. This slight upturn has largely been caused by the improvement of companies' perception of their foreign order books and production expectations. This development, as well as the slight fall in consumer confidence, has led to a narrowing in the divergence between industrial and consumer confidence in the euro zone.

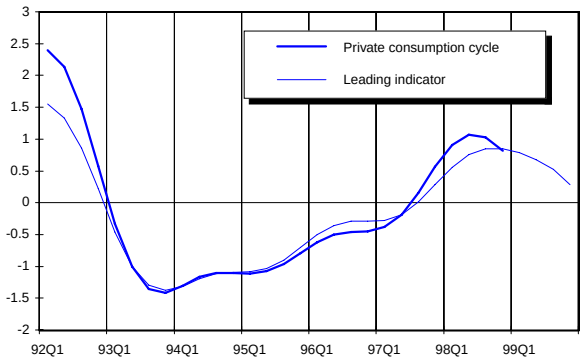
Private consumption

Table 3 - Private consumption indicators

	97	98	98Q3	98Q4	99Q1	99Q2	99M1	99M2	99M3	99M4	99M5	99M6
Turnover (VAT) - retail trade [1]	3.5	5.9	5.3	5.4	4.0	.	1.0	-0.6	10.9	.	.	.
New car registrations [1]	-0.3	14.1	14.1	17.1	15.7	6.2	23.5	2.7	19.8	-0.9	4.9	15.7
Consumer confidence indicator [2]	-21.7	-5.6	-5.0	-5.7	0.0	-4.0	1.0	-1.0	0.0	-2.0	-1.0	-9.0

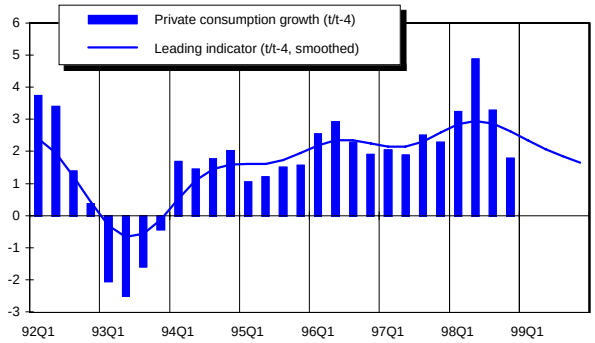
[1] Change (%) compared to same period previous year; [2] Qualitative data
Source: NIS/INS, Eurostat, Febiac, FPB

Graph 7 - Private consumption cycle and leading indicator



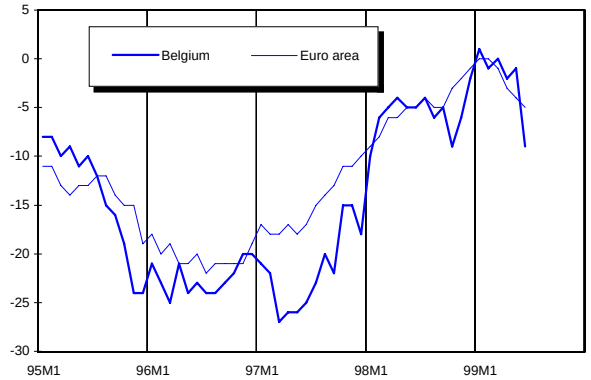
Source: INR/ICN, FPB

Graph 8 - Private consumption growth and leading indicator



Source: INR/ICN, FPB

Graph 9 - Consumer confidence: international comparison



Source: Eurostat

A number of significant conclusions can be drawn from an analysis of the cyclical behaviour of private consumption, as shown in graph 7. First of all, private consumption has been on a continuously upward cyclical path for the past five years (from 1994 onwards), which is a long period. Furthermore, this upward path has been relatively stable, particularly in comparison with the very marked fluctuations in 1992-93.

Looking at this in more detail, it is obvious that the private consumption cycle accelerated from mid-1997 to mid-1998, leading to a high average growth rate in private consumption in 1998. For the first time in the 1990s, growth in consumption was higher than 3% on an annual basis. On the other hand, some slackening was observed in the dynamics of consumption from the third quarter of 1998 onwards. The result of this weakening in the consumption cycle was that the starting-point for 1999 deteriorated and the so called "level effect" fell almost to zero.

The consumption cycle lost some momentum during the second half of 1998. In parallel, consumer confidence fell slightly from the high level reached by mid-1998 and in comparison with consumer confidence in the rest of the euro zone. By the end of 1998, Belgian consumer confidence had made up this deficit against consumer confidence in the euro zone. During the first half of 1999, a trend towards a slight fall in consumer confidence was seen in Belgium and in Europe. The sharp decrease in Belgian consumer confidence in June was mainly due to the dioxin crisis.

After the secondary Motor Show for special leisure vehicles which took place at the beginning of 1999, new car registrations continued to rise, resulting in a 15.7% year-on-year growth rate during the first quarter of 1999. During the second quarter, a markedly lower year-on-year growth rate for new car registrations was seen.

Massive purchases of new cars could somewhat flatter the growth rate for the first quarter of 1999. The underlying private consumption cycle for 1999 is, however, still on a slightly downward path. This should lead to a return to year-on-year growth rates of around 1.5% to 2% on average during the following quarters (graph 8).

Business investment

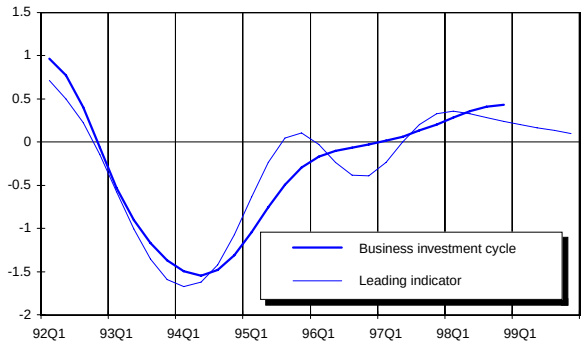
Table 4 - Business investment indicators

	97	*98*	*99*	*98Q2*	*98Q3*	*98Q4*	99Q1	*98M11*	*98M12*	*99M1*	*99M2*	*99M3*
Investment (VAT) [1]												
Industrial companies	1.7	3.0	.	3.6	9.6	-3.3	11.2	-9.8	-1.8	1.4	16.2	15.0
Non-industrial companies	11.2	6.2	.	-6.3	15.5	8.3	10.3	14.2	11.7	4.5	8.9	16.4
Total companies	7.4	5.0	.	-2.8	13.2	3.8	10.6	3.3	6.6	3.2	11.7	15.7
Investment survey [1]	5.6	6.5	3.2									
Capacity utilisation rate (s.a.) (%)	82.0	81.8	.	83.1	82.2	79.5	80.9					

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

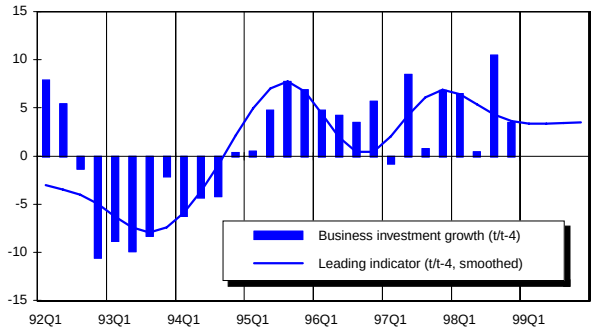
Source: NIS/INS, NBB, FPB

Graph 10 - Business investment cycle and leading indicator



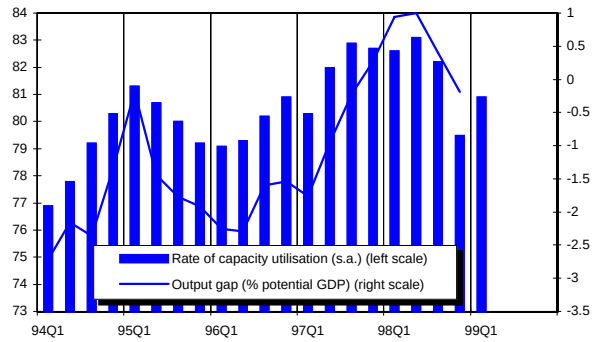
Source: INR/ICN, FPB

Graph 11 - Business investment growth and leading indicator



Source: INR/ICN, FPB

Graph 12 - Capacity utilisation and output gap



Source: NBB, INR/ICN, FPB

During the last two years business investment has been characterized by a very unstable pattern of year- on-year quarterly growth rates, and more particularly by an alternation of quarters with strong and weak growth. Smoothing out this erratic pattern and eliminating seasonal components and trend has resulted in the business investment cycle as shown in graph 10.

The quarterly evolution of the business investment cycle reveals that business investment followed the 1994 upturn in general economic activity with a time-lag of about two quarters. Since then the business investment cycle has shown a continuous rise. The slight slowdown in the business investment cycle in 1996 was not perceptible in the quarterly national accounts figures (ESA-79), probably because the latter were flattered by exceptional acquisitions of public buildings during that year.

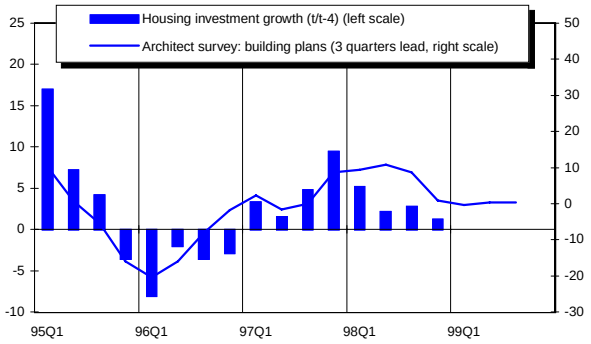
For 1999 the business investment cycle is expected to be flat or even to decline slightly. This will be partly due to the deterioration in company profitability in 1998, due to the general slackening in the business cycle during the course of the year. The dioxin crisis should also have a negative effect on business investment in 1999, although the main influence of this crisis on investment should only be in 2000.

The NBB investment survey of manufacturing industry dating from May of this year resulted in a downward revision of investment forecasts for 1999 compared to the November 1998 survey. At current prices, investment by industrial companies should increase by only 3% this year (against 9% forecast in November of last year). These results confirm the less optimistic investment prospects for 1999 stemming from the leading indicator of business investment.

On the other hand, as the degree of capacity utilisation picks up once again (from 79.5% in the last quarter of 1998 to 80.9% in the first quarter of 1999 and to an expected average of 81.6% this year), the loss of investment dynamism should be limited.

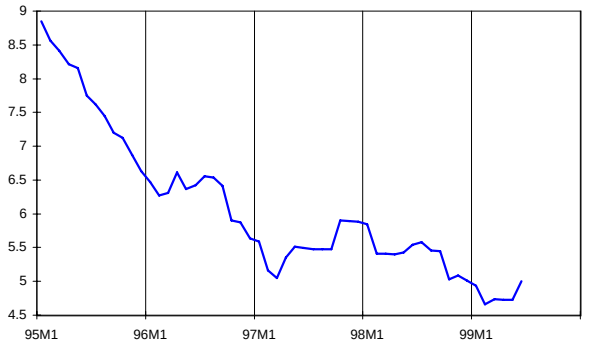
Housing investment

Graph 13 - Housing investment



Source: INR/ICN, NBB, FPB

Graph 14 - Mortgage rate (in %)



Source: NBB

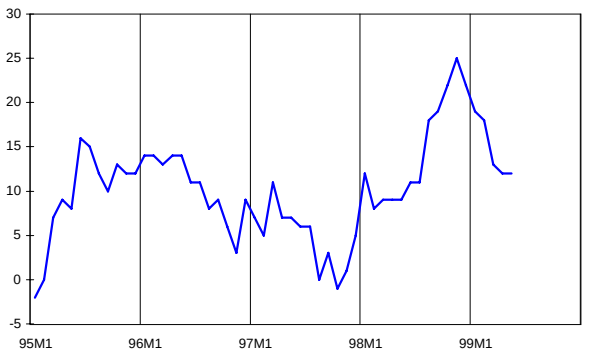
Growth in housing investment (t/t-4) has been decelerating during the course of 1998. Surveys of building plans conducted among architects, which can be taken as leading indicators for this demand component, also indicate a declining trend during 1998 (and probably also for the first quarter of 1999), which accounts for the revision of our growth forecast for housing investment in 1999.

Architects' forecasts concerning the volume of plans, and surveys carried out by the NBB among building companies, do seem to be pointing in a more positive direction at the beginning of this year. We can therefore expect housing investment to stabilise in the coming months, followed by a slight improvement from the end of the year onwards.

Some factors influencing household demand are certainly still favourable: consumer confidence is high and should, in spite of a temporary fall due to the dioxin crisis, probably remain so in view of the further improvement expected in the labour market. Households should also benefit from continuing increases in their real disposable income this year, although at a slower rate than last year. A number of other factors may, however, slow down the rate of growth in the residential sector. For example, prices of land and house building have recently increased, while mortgage interest rates seem to have reached their lowest level in the first quarter of 1999 as the increase in Belgian long-term yields in June has already spilled over into mortgage rates.

Stockbuilding

Graph 15 - Appreciation of stocks



Source: NBB

Stockbuilding contributed by more than 1% to Belgian economic growth in 1998; this was twice its average contribution in the euro zone. Belgium's quarterly national accounts indicate that the contribution of stockbuilding was negative during the last quarter. A negative contribution can still be expected for the first quarter of the current year with regard to the rising number of entrepreneurs in the manufacturing industry who considered, at the end of last year, that their stock was too high in relation to expected demand. This number of entrepreneurs was, however, on a declining trend in surveys made between March and May 1999. This fall can partly be interpreted as reflecting companies' adjustments in stocks to more suitable levels. The contribution of stockbuilding towards economic growth in Belgium is, therefore, expected to be only slightly negative for the whole of 1999.

Foreign Trade

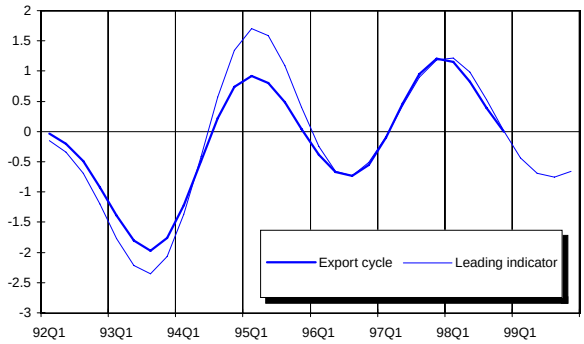
Table 5 - Belgium - Trade statistics (goods, intra/extrastat)

	97	*98*	*98Q2*	*98Q3*	*98Q4*	*99Q1*	*98M10*	*98M11*	*98M12*	*99M1*	*99M2*	*99M3*
Exports - value [1]	13.1	5.4	7.9	2.9	0.6	-2.8	-2.6	2.2	2.6	-5.0	-8.0	3.7
Imports - value [1]	10.9	5.7	6.2	6.9	0.1	-6.8	-0.7	5.8	-4.5	-9.0	-10.4	-1.7
Exports - volume [1]	7.4	5.5	6.6	4.7	4.1	2.2	0.4	6.0	6.6	0.1	-2.3	8.0
Imports - volume [1]	4.5	7.9	6.8	11.1	5.3	-1.4	4.2	11.3	0.9	-2.2	-4.4	2.0
Exports - price [1]	5.3	-0.1	1.2	-1.7	-3.4	-5.0	-2.9	-3.6	-3.7	-5.1	-5.8	-4.0
Imports - price [1]	6.1	-2.0	-0.6	-3.8	-5.0	-5.6	-4.6	-5.0	-5.4	-6.9	-6.3	-3.6

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

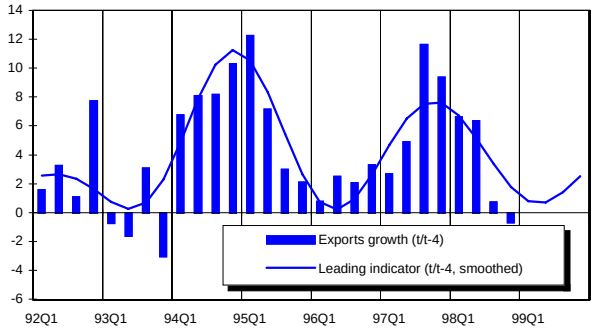
Source: INR/ICN, FPB

Graph 16 - Export cycle and leading indicator



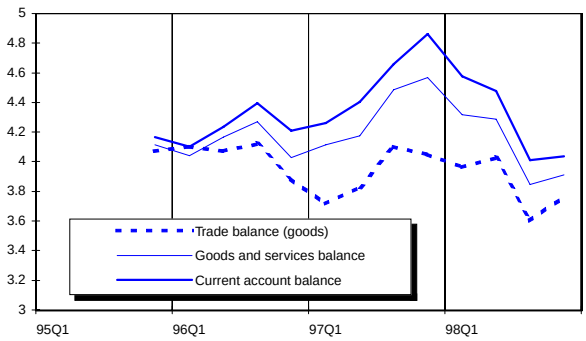
Source: INR/ICN, FPB

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 preliminary results of foreign trade statistics for goods during the first quarter of 1999 indicate some recovery in the volume of exports while export growth in value terms continued to decline (+1.4% and -4.2% respectively in comparison to the first quarter of 1998), due to the still sharp fall in export prices (-5.6%). It must be remembered, however, that the corresponding increase in exports in real terms was due exclusively to the strong growth in exports recorded in March (notably to the United States and, to a lesser extent, to Europe).

The change in the composite indicator for exports of goods and services suggests that exports growth, in terms of smoothed figures[1] (see graph 17), could deteriorate further during the second quarter and could pick up slightly during the third and fourth quarters of 1999. The pace of this composite indicator (which takes into account foreign export orders as well as confidence indicators for our main trading partners) shows that the probability of a very strong upturn in exports has decreased. Moreover, if we take into account the expected impact of the dioxin crisis on Belgian export performance (which is not yet recorded in the indicators), real export growth in 1999 should only be at about 2% this year.

According to the trade statistics, the slowdown in imports of goods, that was already seen in the fourth quarter of 1998, has intensified in the first quarter of the current year with a negative growth rate for imports in both value and volume terms. At the end of the first quarter of 1999, the terms of trade did not improve any more, as a result of the depreciation in the nominal effective BEF exchange rate and the beginning of the increase in energy prices. As terms of trade only began to deteriorate in March and import volumes started to decline more than export volume during the first quarter, the current account balance should not yet fall back in the first quarter of this year. A deterioration is in fact expected during the following quarters.

1. It must be noted that this expected pattern might be far more volatile for the non-smoothed series.

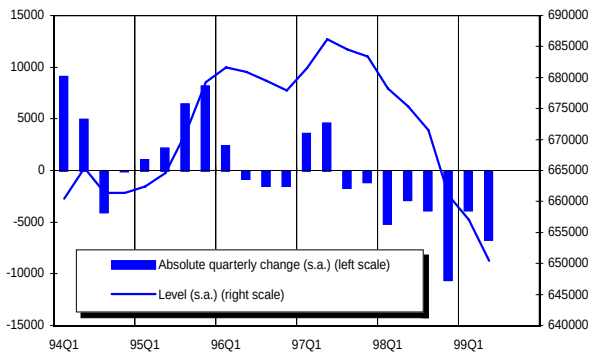
Labour market

Table 6 - Labour market indicators

	97	98	98Q3	98Q4	99Q1	99Q2	99M1	99M2	99M3	99M4	99M5	99M6
Unemployment (excl. older) [1]	570.0	541.0	569.1	528.9	515.2	481.1	526.5	515.7	503.5	489.3	479.0	475.1
Unemployment (incl. older) [1]	683.9	671.5	701.9	664.7	653.9	620.5	664.0	654.3	643.3	629.7	617.4	614.4
Unemployment rate-FMTA/MfET[2]	13.1	12.4	13.1	12.2	11.9	11.1	12.1	11.9	11.6	11.3	11.0	10.9
Unemployment rate-Eurostat [3]	9.4	9.5	9.5	9.2	9.1	9.0	9.2	9.1	9.1	9.0	9.0	9.0

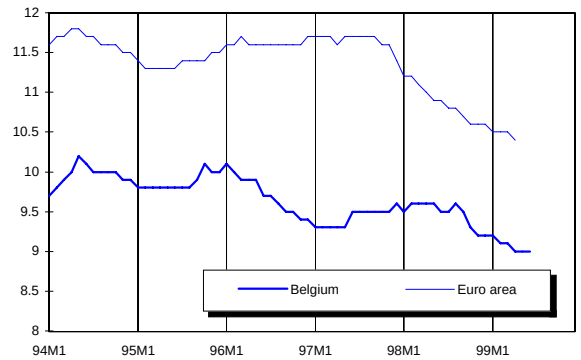
[1] Level in thousands;
[2] In % of labour force of June 1997, not seasonally adjusted
[3] Seasonally adjusted, in % of labour force (Eurostat standard); recent figures of unemployment rate are based on administrative data and can be revised.
Source: RVA/ONEm, FMTA/MfET, Eurostat, FPB

Graph 19 - Evolution of unemployment (incl. older)



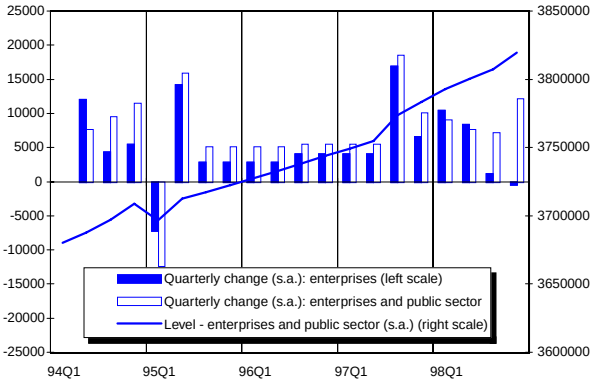
Source: RVA/ONEm, FPB

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



Source: Eurostat

Graph 21 - Evolution of employment



Source: INR/ICN, FPB

For the eighth successive quarter, unemployment (broad definition, i.e. including "older" people with unemployment benefits who are no longer required to actively search for a job) declined. In seasonally adjusted terms, the decrease in unemployment even continued with renewed vigour: unemployment fell by some 7,000 during the second quarter of 1999, compared to a reduction of 4,000 persons during the first quarter.

With the number of "older" unemployed people increasing by 2,500 during the first half of 1999, official unemployment figures (excluding the "older" unemployed) dropped at a slightly faster rate still. The official unemployment rate averaged 11.5% during the first half of 1999, down from 12.3% during the first half of 1998.

Robust growth in 1997 and 1998 was initially accompanied by increases in productivity growth per hour and actual hours worked per full time equivalent, but eventually gave way to strong employment growth. Both the quarterly employment statistics produced by the INR/ICN (graph 21) and RSZ/ONSS estimates point towards a strong increase in the number of wage and salary earners in the enterprise sector between mid-1997 and mid-1998, ranging from a lower estimate of some 42,500 to an upper limit of 55,000. Since then, and despite the temporary slowdown in economic activity, total domestic employment has continued its upward trend at a pace that may even prove to be slightly higher than previously expected.

Somewhat surprisingly then, strong (registered-based) employment growth between mid-1997 and mid-1998 has made rather a poor impression on the unemployment rate as defined by Eurostat (based on survey data), which actually increased (in seasonally adjusted terms) from 9.3% in April 1997 to 9.6% in April 1998. For the time being, one can only conjecture as to the underlying reasons for this paradox. Possibly the survey results are better able to capture an inverse discouraged worker effect on the labour force (caused by the favourable macroeconomic environment), but fail to capture part of the increase in part-time job growth coming from the various activation programmes.

Prices

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

	97	*98*	*98Q3*	*98Q4*	*99Q1*	*99Q2*	*99M1*	*99M2*	*99M3*	*99M4*	*99M5*	*99M6*
Consumer prices: all items	1.63	0.95	0.76	0.68	1.05	0.92	0.95	0.98	1.23	1.17	0.84	0.74
Food prices	2.20	1.83	0.49	0.27	1.52	0.26	1.46	1.56	1.54	0.63	0.28	-0.13
Non food prices	1.50	-0.45	-0.41	-0.50	0.41	0.78	0.22	0.22	0.81	1.21	0.56	0.58
Services	1.48	2.34	2.50	2.50	1.58	1.53	1.58	1.60	1.57	1.47	1.59	1.51
Rent	1.69	1.15	1.09	1.09	1.43	1.49	1.49	1.35	1.46	1.49	1.49	1.48
"Health" index	1.32	1.27	1.12	1.02	1.26	0.83	1.22	1.20	1.34	1.10	0.73	0.65
Brent oil price in USD (level)	19.3	13.4	13.0	11.8	11.5	15.8	11.1	10.5	12.9	15.4	15.8	16.3

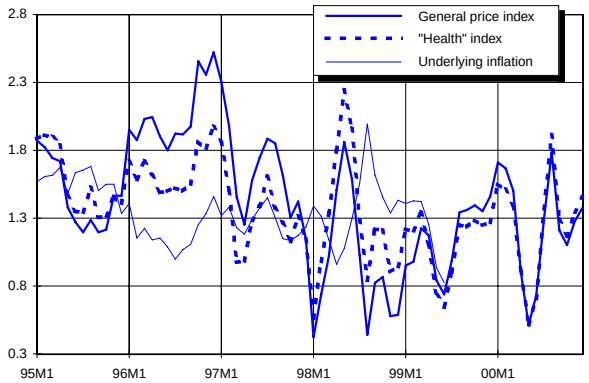
Source: MEZ/MAE

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	104.16	104.13	104.10	104.15	104.09	104.12
Consumer prices: "health" index	103.07	103.31	103.32	103.57	103.74	103.56	104.07	104.02	103.98	104.04	103.98	104.01
Moving average "health" index	102.80	102.95	103.10	103.32	103.49	103.55	103.74	103.85	103.91	104.03	104.01	104.00
	00M1	*00M2*	*00M3*	*00M4*	*00M5*	*00M6*	*00M7*	*00M8*	*00M9*	*00M10*	*00M11*	*00M12*
Consumer prices: all items	104.72	104.91	104.82	104.61	104.39	104.41	105.51	105.99	105.36	105.30	105.42	105.55
Consumer prices: "health" index	104.67	104.87	104.75	104.51	104.27	104.29	105.49	106.01	105.32	105.25	105.38	105.52
Moving average "health" index	104.18	104.38	104.58	104.70	104.60	104.46	104.64	105.02	105.28	105.52	105.49	105.37

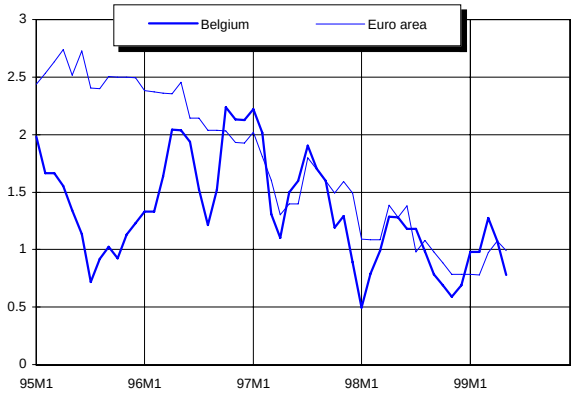
Source: Observations (up to 99M6): MEZ/MAE; forecasts: FPB

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



Source: MEZ/MAE, from 99M7 on: forecasts FPB

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



Source: Eurostat

During the second quarter of 1999, year-on-year inflation as measured by the overall CPI was at 0.92%, as compared with 1.05% during the first quarter. This fall in overall inflation was mainly the result of lower underlying inflation and a fall in year-on-year price inflation in fresh food products which more than compensated for the effect of higher energy prices. Since the two factors that led to the fall in inflation are not expected to stay at the low levels seen during the second quarter of 1999 and oil prices should remain higher than 15 US dollar per barrel during the next six months, inflation is expected to pick up slightly in the second half of 1999, leading to an average inflation rate of 1.2% in 1999 (as compared with 1.0% in the first half of the year).

As substantial oil price increases and the appreciation of the US dollar during the first six months of 1999 should, with a certain time-lag, affect underlying inflation, CPI inflation is expected to amount to 1.3% in 2000. This inflation is higher than in 1998 and 1999, but well below the price stability target of the ECB.

The pivotal index for the public sector was reached in April of this year. Public sector wages and social benefits were consequently adjusted (by 2%) for price changes in June. According to our monthly forecasts for the "health index", the pivotal index for public sector wages (currently 105.20) should next be reached in September 2000, and the pivotal index for social benefits in October 2000.

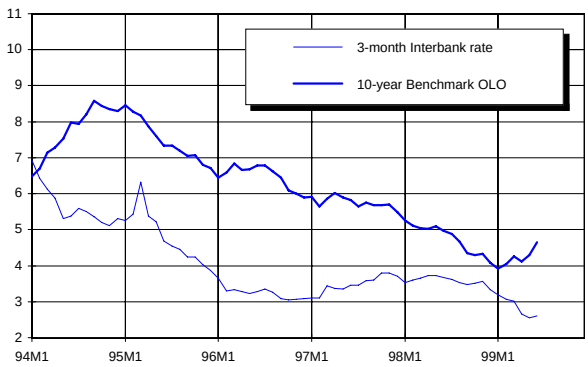
Interest rates

Table 9 - Interest rates

	97	98	98Q3	98Q4	99Q1	99Q2	99M1	99M2	99M3	99M4	99M5	99M6
Short-term rates (3 months)												
Belgium	3.48	3.58	3.54	3.47	3.09	2.60	3.20	3.06	3.01	2.66	2.55	2.60
Euro area (Euribor)	.	.	.	.	3.09	2.63	3.14	3.09	3.05	2.70	2.58	2.63
United States	5.74	5.56	5.62	5.28	5.00	5.05	5.01	5.00	5.01	5.00	5.01	5.14
Japan	0.57	0.60	0.59	0.43	0.36	0.12	0.51	0.38	0.20	0.15	0.11	0.10
Long-term rates (10 years)												
Belgium	5.76	4.76	4.63	4.24	4.07	4.35	3.92	4.04	4.25	4.12	4.29	4.64
Germany	5.65	4.57	4.38	4.00	3.86	4.08	3.72	3.83	4.02	3.87	4.04	4.34
Euro area	5.97	4.71	4.56	4.15	3.97	4.22	3.82	3.94	4.15	4.00	4.18	4.49
United States	6.35	5.26	5.19	4.67	4.98	5.55	4.71	5.00	5.22	5.18	5.58	5.89
Japan	2.30	1.46	1.36	1.05	1.90	1.55	1.87	2.05	1.77	1.62	1.37	1.66

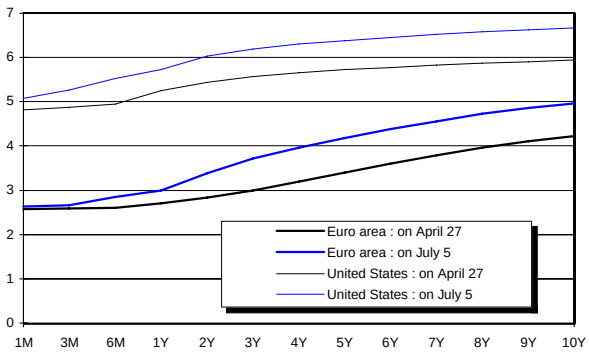
Source: NBB, ECB

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

After the ECB cut interest rates in April, the Euribor remained unchanged at around 2.6%, reflecting expectations in financial markets that European monetary policy will be unchanged in the following months as medium-term prospects for price stability remain strong. The US short-term interest rates on the monetary markets, however, went up by more than 10 basis points in June, reflecting market expectations of a more restrictive monetary policy stance that could be adopted by the Federal Reserve (FED) in order to prevent medium-term inflationary pressure. As expected by financial markets, the FED cut its official short-term interest rate by 25 basis points on June 30.

Interest rates in Japan declined during the second quarter of 1999 due to the lack of economic recovery and the absence of inflationary pressures. Japanese 10-year bond yields did, however, increase somewhat in June, reflecting the first signs of economic stabilisation. US long-term interest rates have risen sharply during the last two months, reflecting the above-mentioned change in market expectations regarding short-term interest rates. The upward pressure on US 10-year bond yields has spilled over to the average long-term interest rates in the euro zone in May and June.

These developments have led to an upward shift in the euro zone yield curve for maturities longer than 2 years and also to an upward shift for all maturities in the US yield curve. It also led to a widening of the spread between US and euro zone long-term interest rates. The spread was the highest with German 10-year bond yields. In Belgium, the spread with German long-term interest rates also widened in the second quarter of the year and particularly in June, a month which saw both elections to the legislature and the dioxin crisis.

Exchange rates

Table 10 - Bilateral exchange rates

	97	98	98Q3	98Q4	99Q1	99Q2	99M1	99M2	99M3	99M4	99M5	99M6
BEF per USD	35.78	36.31	36.36	34.32	35.95	38.17	34.76	36.02	37.06	37.68	37.97	38.88
USD per EUR	.	.	.	.	1.12	1.06	1.16	1.12	1.09	1.07	1.06	1.04
UKP per EUR	.	.	.	.	0.69	0.66	0.70	0.69	0.67	0.67	0.66	0.65
JPY per EUR	.	.	.	.	130.68	127.70	131.45	130.52	130.07	128.21	129.61	125.28

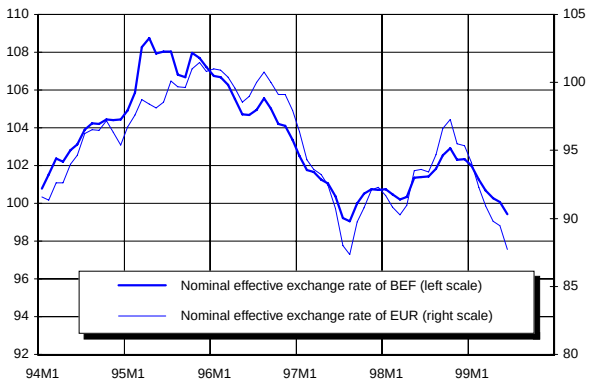
Table 11 - Nominal effective exchange rates (Jan. 92 =100)

	97	98	99	98Q3	98Q4	99Q1	99Q2	99M2	99M3	99M4	99M5	99M6
Effective exchange rate BEF	100.7	101.5		101.9	102.5	101.3	99.9	101.3	100.7	100.3	100.1	99.4
Growth rate [1]	-4.2	0.7		0.9	0.6	-1.2	-1.4	-0.7	-0.6	-0.4	-0.2	-0.6
Id. with constant rate till year end			-1.4									
Effective exchange rate EUR	91.8	93.6		94.9	96.0	92.4	89.0	92.3	90.9	89.8	89.5	87.7
Growth rate [1]	-8.0	2.1		2.4	1.2	-3.7	-3.7	-2.0	-1.5	-1.2	-0.4	-2.0

[1] Change (%) compared to previous period

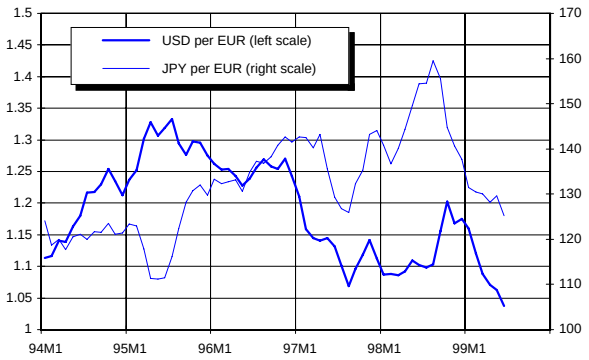
Source: NBB, BIS, FPB

Graph 26 - Effective exchange rates (Jan. 92=100)



Source: NBB, BIS, FPB

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



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

During the past two months, the euro exchange rate has further depreciated against the US dollar, although less than in previous months. The increase in insecurity linked to the Balkan war has probably increased the volatility of the euro during this period. Confidence in the euro currency may also have been affected by the financial markets' doubts about fiscal consolidation in Italy. However, the main factor contributing to the weakening of the euro remains the difference between continuing strong growth in the US and sluggish economic activity in the euro area during the first quarter of the year. Moreover, the widening in the long-term-interest rate spread between the two areas further exacerbated this development.

The euro also depreciated against the Japanese yen during this second quarter of 1999, although less than against the US dollar. In June, however, the ECB was asked to intervene by selling the yen against the euro, in order to avoid too sharp an appreciation of the Japanese yen, since the first signs of economic stabilisation were sustaining that currency. Financial international markets and the development of exchange rates in emerging countries tended to remain stable during the second quarter.

The nominal effective BEF exchange rate fell by about 1.4% during the second quarter of 1999 in comparison with the first quarter, reaching about the same level as in the third quarter of 1997. Under the assumption that current observed rates could be extrapolated for the rest of the year, the nominal effective BEF exchange rate should depreciate by 1.4% in 1999.

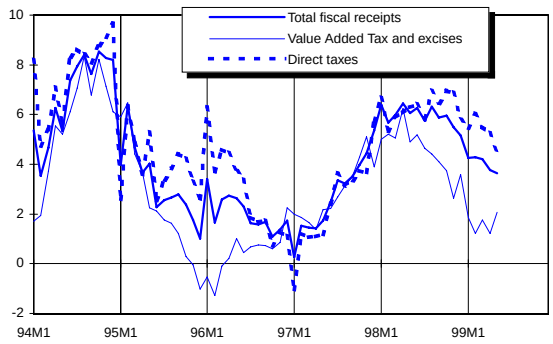
Fiscal indicators

Table 12 - Fiscal receipts (1)

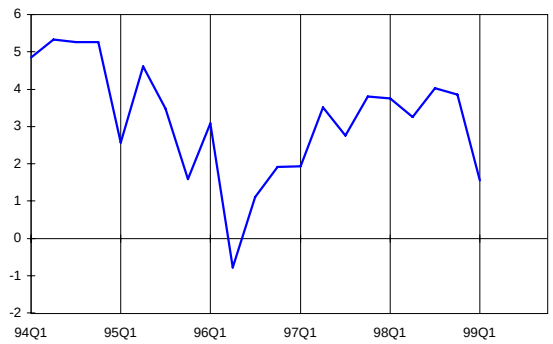
	97	98	98Q2	98Q3	98Q4	99Q1	98M12	99M1	99M2	99M3	99M4	99M5
Total, of which:	7.0	6.2	7.4	4.9	5.7	2.6	6.3	0.8	0.3	7.0	4.8	0.4
Direct taxes, of which:	7.4	6.8	8.3	5.9	6.9	4.8	6.1	5.4	5.1	3.5	5.1	-6.0
Withholding earned income tax	5.5	4.9	2.7	6.2	4.3	-2.6	-0.5	-3.2	12.3	-19.1	28.4	-9.3
Advance payments	13.5	20.2	12.5	30.0	22.2	-2.2	23.3	-19.3	30.0	18.5	2.5	.
Value Added Tax and excises	5.6	4.6	5.6	2.6	3.4	-0.9	5.8	-6.1	-7.2	10.5	5.6	9.0

[1] Change (%) compared to same period previous year
Source: MvF/MdF, FPB

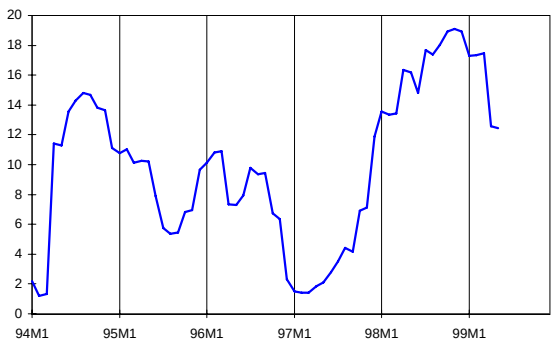
Graph 28 - Real total fiscal receipts (2)



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 slowdown in economic activity has affected the growth in total tax revenues, mainly from mid-1998 onwards. The effect of the slowdown on indirect taxes was observed several months earlier than on direct taxes.

After a lower growth rate in the first quarter of 1999, VAT and excise duties are again rising faster during the last three months for which records are available, as compared to the same period in 1998. The lower growth rate in the first quarter of 1999 was mainly due to lower levels of economic activity. The rise from April 1999 was partly due to a rise in the price of petroleum products and the effect of the weakness of the construction sector due to bad weather conditions in early 1999 which slowed down activity and related invoicing.

The profile of monthly direct tax revenues also reflects a slowdown in the growth of the tax base from the last quarter of 1998 onwards. Withholding tax revenues on earned income fell in the first quarter of 1999 compared to the same period of 1998, due partly to temporary factors but also partly to a somewhat slower growth of employment. The erratic evolution of revenues in April and June are difficult to interpret due to changes in accounting rules.

Figures for the first major for advance payments of 1999 (April) are now available. It shows a moderate increase compared to the same month in the previous year (which is exclusively from companies, as advance payments from self-employed people are still in decline). The profile of advance payments in real terms does, however, show a significant decrease in the rate of revenue growth, reflecting an expected slowdown in profits. Based on our macroeconomic forecasts, a strong increase in fiscal receipts is not expected in the second part of the year.

The FPB system of leading indicators. A new tool for business cycle analysis

This Working Paper describes the recently developed FPB system of leading indicators. The system's main objective is to provide a clear picture of the current state of the business cycle, GDP and its components, and to anticipate the turning points of these series.

The National Bureau of Economic Research originally developed the methodology of leading indicators in the United States during the 1930s and 1940s. Since then, this approach has been used widely by other national institutes as well as by international organisations. One of the main advantages of this approach is that quantitative as well as qualitative data can be used. Qualitative data are based on consumer and business survey results, while quantitative data rely mainly on turnover and production figures.

The procedure adopted by the FPB to construct a leading composite indicator for the cyclical component of a reference series is reported in the details of the Working Paper. Initially, a set of potential indicators has to be selected. Candidate indicators must possess a certain link with the reference series and be available at an earlier stage than that of the reference series. From then on, a procedure is run which can be separated into four stages.

In step 1, the different databases are prepared and any series with negative values are transformed. During step 2, these series are extended four quarters into the future using ARIMA models. This treatment of the data has a double objective. First, it generates an ARIMA forecast of the reference series. Second, it extends the forecasting horizon of the indicator, and it also tries to deal with the end-of-sample-bias problem caused by the Hodrick-Prescott filter, which is used in step 3.

The composite leading indicator is constructed during step 3. In order to display the link between the cyclical component of the reference series and the indicators, the irregular component, the seasonal component, and the trend have all to be eliminated. All series are then normalised to avoid indicators with large fluctuations from having too much influence. Afterwards, a statistical test is run to examine whether or not the past values of the indicator help explain the present value of the reference series. On the basis of these test results, a final selection of indicators is made. These indicators then have to be synchronised with the reference series; this means that for every indicator the lead possessing the highest correlation with the contemporaneous reference series is retained. All possible combinations are generated and the average of each combination is then calculated. Finally, the set of combinations with the lowest root-mean-square error, compared to the reference series, is selected. The last stage requires judgement: the composite indicator that best fits the reference series (especially with respect to the coincidence of turning points) is chosen.

The methodology of leading indicators is currently used at the FPB in combination with an annual econometric model to produce a complete annual macroeconomic forecast. More precisely, the system of leading indicators is used to check the consistency of our annual model forecasts with the composite indicators containing the latest available information. As a result, we are not only interested in the overall business cycle, but also in the different expenditure categories and the performance of the various sectors of the economy. The leading indicator technique is therefore applied for each private expenditure component (private consumption, business investment, housing investment and exports) and also for each market sector (manufacturing industry, construction and market services). By calculating weighted averages of the composite indicators for these individual series, a composite indicator for the cyclical component of GDP is then constructed for each approach (expenditure and production). Finally, these two series are combined to obtain a composite indicator for the overall business cycle.

For each macroeconomic aggregate, this Working Paper presents the composition of the leading indicator, as well as its historical performance during the period 1986-1998. From ex post analysis of the two indicators making up GDP (expenditure and production) it cannot be deduced that one of the two approaches is superior to the other. This empirically justifies the use of an arithmetic mean as an overall business cycle leading indicator.

In a final chapter, the usefulness of leading indicators for the purpose of making numerical forecasts of the reference series is addressed. We conclude that a system of leading indicators must be used in conjunction with other tools to produce a complete macroeconomic forecast.

"Le système d'indicateurs avancés du BfP - un nouvel outil pour l'analyse conjoncturelle". Igor Lebrun, Working Paper 2-99, June 1999.

Evolution of the corporate tax and the withholding tax on interests and dividends of households: statistical evidence

This Working Paper contains a brief statistical outline of the evolution of the corporate tax and the withholding tax on interests and dividends of households, over the last three decades.

This Working Paper presents the evolution of tax receipts, the evolution of the macroeconomic tax base, according to different concepts, and the implicit rates of taxation of the two analysed levies (the ratio between the tax receipt and the macroeconomic tax base). The data sources used are the National Accounts until 1997 and, for 1998 and 1999, the projections carried out by the FPB for the 1999 Economic Forecasts.

During the 30 years under consideration, the average growth rate of the corporate tax receipts equals the average growth rate of the macroeconomic tax base. However, this long-term unit elasticity conceals very significant variations in the medium term. During the 1970s, the implicit rate of the corporate tax was rising, following successive increases in the statutory tax rate. However, this rate moved downwards in the 1980s, due in particular to the greater possibility of tax deductions and tax engineering. Since 1990, the implicit rate has been rising again as a result of the corporate tax reforms, introduced between 1989 and 1992, which in particular reduced the unfair uses of the tax legislation. Today, the implicit rate of the corporate tax is at its highest value for 15 years.

The liberalisation of the European capital markets led to downwards pressures on the taxation of financial incomes to prevent increased possibilities of international tax evasion. The Belgian statutory tax rate on interests was reduced from 25% to 10% in 1990. In 1992, the full effect of that measure brought the implicit rate of the withholding tax on financial revenues of households to its lowest historical value. In spite of successive slight increases in the statutory tax rate on interest income between 1993 and 1996, the implicit rate of the withholding tax on financial revenues of households is today almost again at its lowest value of 1992.

"Évolution de l'Isoc et des précomptes mobiliers des ménages: aperçu statistique succinct". Working Paper 3-99, April 1999.

On the way towards sustainable development ?

This publication provides a summary of the first Federal Report on sustainable development required by the law of 5 May 1997 on the Co-ordination of the Federal policy on Sustainable Development.

The Federal Report and its Executive Summary provide an overview of the current situation, and the progress and failures met on the way towards sustainable development in Belgium between 1992 and 1998. It refers to the implementation of the Rio agreement (1992) and it is based along the lines set out in « Agenda 21 » (see Planning Paper 85 described in the previous STU).

Part I provides a conceptual and institutional framework for the operationalisation of a sustainable development approach. Its economic, social, and environmental components are focused on major sustainable development themes: changing consumption patterns, combating poverty and social exclusion, and the protection of the atmosphere and marine environment. It also introduces an outline of five criteria to be used in the assessment of projects or policies aimed at sustainable development: global awareness, long term concern, integration, uncertainty and precaution and, last but not least, participation of major groups and the responsibility of citizens. The functioning of specific international, European and Belgian institutions, which are needed for the implementation of sustainable development agreements and decisions, is also explained.

A first set of indicators for keeping track of the evolution of these issues, both at the international and national levels, is presented in Part II. These indicators are classified into the following groups : Driving force, Pressure, State, Impact and Response indicators (their interlinkages being represented by a DPSIR model).

Part III provides a detailed analysis of the objectives, policies and measures adopted by the federal government during the period 1992-98 and classifies policies into two groups. The first group contains the federal policies « focused » on the major sustainable development themes chosen for the Report (see above). The second group includes other internal federal policies which can support the goals of the former group (e.g. fiscal, finance, science and transportation policies). The Report stresses the need for strategies encompassing both these « focused » and « supporting » policies and measures,

as well as the importance of interdepartmental and interdisciplinary co-ordination. It concludes that the policy regarding poverty and social exclusion during the 1992-98 period has been focused on the detection of problems experienced by resourceless people and on the co-ordination of new measures directly aimed at solving these problems. These measures, however, remained in the margin of mainstream socio-economic decision making. Regarding sustainable consumption, measures have also been taken, but their coherence suffers from a lack of integration within a co-ordinated sustainable consumption strategy. As for atmosphere and marine environment, the case is somewhat different. Some integrated strategies have been developed in the past, but they mostly experienced a lack of co-ordination at the European level and a lack of financial resources and implementation at the Belgian level.

The existence of a considerable amount of scientific uncertainty, with respect to the functioning of environmental, social and economic systems (and with respect to their interaction), is taken as the starting point for the prospective analysis in Part IV of the Report. Due to this uncertainty, risks regarding future developments of these systems is perceived in different ways within society, depending on a number of factors such as how high, or low one considers the resilience of the environment, the capacity of society to adapt to changes, the capacity to provide well timed adequate technological solutions, and so on. A long term prospective analysis should take these attitudes into account and show their impact on important indicators in the long term. However, the required elements for long term prospective analysis are mostly lacking in Belgium. Nevertheless, the Report briefly outlines three scenarios that each use different risk perceptions within the environmental, social and economic fields. This approach is a useful input to the debate within society as a whole on possible future courses of action.

Views and actions of the major groups (such as non-governmental organisations, local authorities, business and industry, workers and their trade unions) are also reported in Part V. A summary is given covering the advice of the federal advisory councils including these groups and whose mandate includes issues selected in this Report : the Federal Council for Sustainable Development, the National Labour Council, the Central Council for Economy and the Council for Consumption. An analysis of the situation in Belgium in this regard also reveals a lack of integration at this level.

Finally, Part VI offers an answer to the question raised in the title of the Report. The decision making during the period 1992-98, related to the sustainable development issues selected in the Report, appears to have been insufficient in meeting the five criteria outlined in Part I (not withstanding the achievements made in the conceptual and institutional fields).

"Sur la voie d'un développement durable?
Rapport fédéral Développement Durable"."
Op weg naar duurzame ontwikkeling?
Federaal Rapport Duurzame Ontwikkeling".
Task Force Sustainable Development, 1999.
Summaries in Dutch and French are available. From August onwards, the full Report will be obtainable.

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Other Recent Publications

Perspectives Economiques 1999-2004; Economische Vooruitzichten 1999-2004, April 1999 .

Budget Economique 2000 (ICN); Economische Begroting 2000 (INR), July 1999.

"Tableau entrées-sorties 1990. Une analyse des structures économiques de la Belgique"; "De input-output tabel van 1990. Een analyse van de economische structuur van België", May 1999. L. Avonds, J. Floridor, A. Gilot, C. Hambye, D. Rase.

Benchmarking: the framework conditions: a systematic test for Belgium. The study is available on the FPB's website at http://www.plan.be.

Forthcoming Publications

The capital stock in the Belgian economy. Since 1987, the FPB has estimated the capital stock in the Belgian economy by branch and by type of capital good. The aim of this study is to present the formal framework of the calculation of the capital stock that is the perpetual inventory method, and to present the time series of the breakdown of capital stock by branch and by type of capital good (1970-1997) together with the basic developments in terms of size and structure.

Budgetary margins in the long term

Recently, it has become clear that budgetary margins will appear following the tight control on the Belgian public finances. This research attempts to see if there are margins in the long run in the light of the strains of an ageing population on the financing of social security. New indicators of financial sustainability will be looked at. Ways to use these budgetary margins will also be discussed.

SPOT: A general equilibrium model of the Belgian economy

SPOT (Sustainable Policy Tool) is a new medium-scale model developed for analysing fiscal policy in the long-run, especially in the field of energy and the environment. As an applied general equilibrium model, the model is complementary to the neokeynesian models used by the FPB. The complete specification of the model is presented as well as databases and model building procedures (the model combines both econometric estimation and calibration). The simulation properties are described with many technical simulations and sensitivity analyses. The SPOT model has already been used for analysing the macro-sectoral impacts of tradable permits to cope with environmental problems (see Working Paper 10-98).

The implementation of a general social contribution

The report focuses on the macroeconomic and budgetary effects of implementing a general social contribution (GSC). This is levied on several income categories, i.e. professional income and social benefits, financial and real estate income and corporate income. This tax replaces a number of existing taxes and generates positive net revenue. This net revenue can be used to finance for example a reduction in employers' or workers' social contributions or an increased GSC exemption for households. The results of some possible policy combinations are presented in detail.

Belgian multinational enterprises

The number of Belgian enterprises that can be considered as multinationals is limited, in comparison to other countries of the European Union. The paper looks at the reasons behind this phenomenon and at possible measures of economic policy to enhance the globalisation of Belgian enterprises.

Structural adjustment, trade and employment

The paper investigates the relation between the short and medium term evolution of trade flows and employment. Special attention is given to the effects of stuctural adjustments of firms. These structural adjustments are captured by data on collective layoffs, which, for the period 1990-95, can be subdivided into layoffs with and without relocation. The paper investigates the effect of relocation on import and export flows at the firm and sectoral level, as well as the effects of increased import and export at the sectoral level at a firms value added, its employment and its probability of collective dismissal.

Recent history of major economic policy measures

May 99

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 reduced its refinancing rate to 2.50 percent, which is 50 basis points lower than the rate existing from the beginning of January 1999.

March 1999

The Federal Govenment has reviewed its 1999 Budget. Measures for around 10 Billion BEF have been taken. These can be divided in three areas: the price-linking of tax brackets for personal taxation and the reduction of social security contributions will start in April, rather than July 1999. Social transfers to households will also be increased.

December 1998

The EU Ministers of Finance fixed the conversion rates between the euro and the currencies of the countries adopting the euro.

The Belgian Government presented its Stability Programme for 1999-2002. The deficit should attain 0.3% of GDP by 2002; the primary surplus should remain constant at 6% and the debt ratio should fall from 117.5% in 1998 to 106.8% in 2002.

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.

October 1998

The Federal Government presented its 1999 Budget. The primary surplus for the overall government should remain 6%. Tax brackets will be price-linked. Most of the supplementary reductions of employers' contributions to Social security for 1999 (see April 1998) should only start in July.

September 1998

The social partners agreed on the CRB/CCE report that defined the maximum growth rate for nominal labour costs per hour at 5.9% over 1999-2000 combined.

May 1998

The EU-Brussels Summit has decided that 11 countries will participate in European Monetary Union from January 1999 onwards.
Part of the agreement was that the Belgian primary surplus should remain close to 6% of GDP in the medium term.

April 1998

The Belgian Government has presented the National Action Plan for Employment to the European Union. Particular attention is given to: (i) an extension of the reduction in employers contribution to social security (an additional 18 Billion BEF per year from 1999 to 2004); (ii) more pronounced active labour market policies and (iii) further measures in the area of training and learning.

July 1997

- Changes in the pension system for the private sector were introduced.
- The EU-Amsterdam Summit extended the "Stability and Growth Pact" to include an employment chapter.
- The Federal Government extended and changed the criteria for Maribel: reduction of employers' social security contributions are based on the ´blue-collar intensity' of each company.

December 1996

The Federal Government decided that the maximum increase of the wage cost rate (per hour) would be 6.1% over 1997-98, as the Social partners were unable to reach an agreement earlier.

October 1996

The Federal budget 1997 was presented to Parliament. The major measures were:

- Increase in excise taxes on petroleum and tobacco products and alcohol;
- Non-indexation of tax brackets in 97 and 98.

August 1996

Three framework laws gave the Government extensive powers to encourage employment and competitiveness, as well as in the area of budgetary policy with a view to joining EMU and modernising the social security system. One of the laws defined a wage norm providing for a minimum and maximum increase of the hourly compensation.

October 1995

Federal Budget 1996 was presented with the main measures as follows:

- Excise taxes on petroleum products were increased, "tax" on diesel cars
- The 20.5% VAT rate was increased to 21% from January 96 onwards;
- The withholding tax rate was increased to 15% from January 1996 onwards (after increases from 10% to 10.3% in July 1993 and 13.39% in the beginning of 1994);
- Extension of the number of "low paid workers" entitled to benefit from lower social security contributions to workers with a gross wage of up to 60,000 BEF per month (applied from April 96 onwards).

November 1993

The Federal Government presented its 'Global plan'. The main measures were as follows:

- A new price-index was defined (the so-called 'health-index') as the CPI excluding: petroleum and tobacco products, alcohol and a new tax on household energy consumption. This price index would be used to link wages, house rents and social expenditure to prices;
- A real wage-freeze in 1995-96;
- Increase in indirect taxes (see January 1994);
- Reduction of social security contributions.

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

ATS	Austrian schilling
BEF	Belgian franc
BoP	Balance of Payments
CPI	Consumer Price Index
DEM	Deutschemark
ECU	European Currency Unit
EMU	Economic and Monetary Union
ESP	Spanish peseta
EUR	Euro
FIM	Finnish markka
FRF	French franc
IEP	Irish pound
ITL	Italian lira
JPY	Japanese yen
LUF	Luxembourg franc
OLO	Obligations linéaires / Lineaire obligaties
PTE	Portuguese escudo
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