

Quarterly Newsletter of the Federal Planning Bureau

Short Term Update (STU) is the quarterly newsletter of the Federal Planning Bureau. It is published four times a year in English. It contains 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 FPB expects GDP to grow by 2.1% in 1997 and 2.5% in 1998.

The stronger growth in 98 should primarily come from the domestic side. While exports and investment are the principal forces for growth, private consumption should gradually contribute more to growth in 98.

Employment is the key factor in the improvement of disposable income. While growth in employment was moderate in the 1995-97 period, it should become stronger next year and improve consumer confidence. Moderate wage cost increases and specific government programs should enhance the labour intensity of growth. The unemployment rate, whether in narrow or broad definition, should fall by about 0.5%-points in 98..

Expectations of consumer price inflation are revised downwards to 1.6% for both 97 and 98, as the result of moderate labour cost increases and reduced profit margins. Index-linking of public wages and social benefits should be postponed to October 97 and November 98.

The government deficit figures announced last April by the FPB for 1997 (2.5% of GDP) and 1998 (2.3% of GDP) are confirmed and might even be somewhat lower.

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

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



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The Stability and Growth Pact implications for conducting fiscal policy in Belgium

Last June the European Council approved a resolution for the implementation of the so-called "Stability and Growth Pact". Two resolutions were also adopted to ensure a monitoring and penalty system which is intended to prevent countries participating in stage three of EMU from allowing the PSBR to overshoot the 3% (in GDP terms) limit. The participants also undertook to maintain "the medium term budgetary position close to balance or in surplus".

The gradual reduction of the PSBR which the FPB indicated for the Belgian economy in its recent "Medium Term Economic Outlook 1997-2001" is fully in line with the provisions of the Pact. Nevertheless the Pact could have some implications for fiscal policy in Belgium if the basic assumptions of the "Medium Term Outlook 1997-2001" about economic growth or interest rates are not fulfilled.

The Stability and Growth Pact aims to prevent "excessive deficits" in countries participating in the Monetary Union. Recent economic research provides some theoretical background to specific problems and consequences related to fiscal policy carried out autonomously in one Member State participating in monetary union. First, the research shows that the efficiency of such policies as regards the European Union as a whole is problematic if not negative. Furthermore, the research addresses the impact of those policies on the financial markets of the European Union. In particular, in the case of systemic risk, the other states in the zone would probably be forced to support the ailing participant which could, in turn, encourage expansive fiscal laxism and increase the risk of unsustainable deficits.

The monitoring and penalty system implemented by the pact relies mainly on two provisions:

- Member States are requested to submit "a multi-annual stability program" to the Council each year concerning the medium term fiscal and debt-ratio targets;
- heavy financial penalties are imposed on a Member State whose PSBR overshoots the 3% (in GDP terms) limit, except if this is due to "exceptional circumstances" such as a severe economic recession.

When is an economic slowdown considered as "exceptional"? The Pact has been very restrictive in answering this question: the rate of economic growth must be equal to or lower than -2%. Belgium has never experienced such a recession since comprehensive national accounts were established, that is, for nearly fifty years. The probability that Belgium could ever argue "exceptional circumstances" seems very small.

It is therefore interesting to imagine an economic slowdown which pushes the deficit beyond 3% (unless new fiscal measures are taken) in the medium-term. Those calculations are computed starting from the reference scenario of the "Medium Term Economic Outlook 1997-2001".

Economic growth and the PSBR in this scenario are shown in Table 1.

Table 1 - Economic growth and PSBR, 1997-2001. Baseline of the "Economic Outlook 1997-2001"(*)

	1997	1998	1999	2000	2001	Average 1997- 2001
GDP (real terms, growth rate, %)	2.1	2.6	2.6	2.4	2.4	2.4
PSBR (% of GDP)	2.5	2.3	2.2	1.8	1.1	

Source: FPB, "Perspectives économiques 1997-2001 - Economische verkenningen 1997-2001", April 1997.

(*) These estimates do not include the most recent national accounts.

Table 2 - Minimal economic growth 1997-2001 compatible with a 3% PSBR (*)

	1997	1998	1999	2000	2001	Average 1997- 2001
GDP (real terms, growth rate, %)	1.1	2.3	2.2	1.8	1.1	1.7
PSBR (% of GDP)	3.0	3.0	3.0	3.0	3.0	

Source: idem. Assumptions of the baseline except for the growth of world trade.

(*)These estimates do not include the most recent national accounts.

Assuming unchanged policies, the minimal economic growth needed to stabilize the PSBR at a level of 3% is given in Table 2.

It is obvious that the macroeconomic performance of 1997, or, conversely, the extent to which the public deficit will be below 3% is crucial for fiscal policy in 1998 and 1999. In the scenario of table 2, the economic growth rates required in 1998 and 1999 are relatively high (2.3% and 2.2%) and the risk of having to take new measures is far from negligible.

If economic growth actually reaches in 1997 (in 1997 and 1998) the level forecast by the FPB; the minimal economic growth in 1998 (in 1999) required to avoid exceeding the 3% deficit in 1998 (in 1999) is (much) smaller, as indicated in table 3.

In the first scenario set out in Table 3 the required economic growth in 1998 is 1.1%; in the second scenario of table 3 the required economic growth in 1999 is only 0.6%.

Those calculations lead to three conclusions:

- short term macroeconomic performance (mainly 1997-1998) is especially important for generating a gap between the PSBR and the 3% deficit large enough to absorb a potential economic slowdown;
- the risk of overshooting the 3% deficit in 1998 and 1999 is not ruled out;
- the deficit scenario, presented as part of the Medium-term Economic Outlook, practically rules out any risk of overshooting the 3% deficit from the year 2000.

It is in any case obvious that the commitments made by Belgium in the context of the Stability and Growth Pact could have serious consequences on fiscal policy in the event of a severe economic slowdown, at least for the next three years.

Table 3 - Minimal economic growth 1997-2001 compatible with a 3% PSBR if targets forecasts are met for 1997 (1998). (*)

	1997	1998	1999	2000	2001
1. Target forecasts realized in 1997					
• GDP (real terms, growth rate, %)	2.1	1.1	2.2	1.8	1.1
• PSBR (% of GDP)	2.5	3.0	3.0	3.0	3.0
2. Target forecasts realized until 1998					
• GDP (real terms, growth rate, %)	2.1	2.6	0.6	1.8	1.1
• PSBR (% of GDP)	2.5	2.3	3.0	3.0	3.0

Source: idem. Baseline scenario assumptions except for the growth of world trade.

(*)These estimates do not include the most recent national accounts.

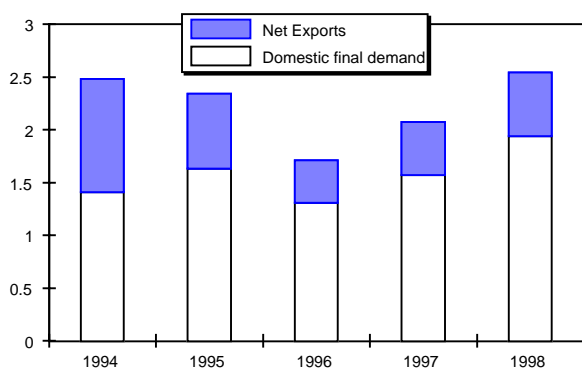
The FPB prepares the Economic forecasts for the Institute of National Accounts. In accordance with its mission, the Institute adopts the final figures. A scientific committee has issued a favourable opinion on the Economic forecasts. The figures are used in the preparation of the Federal Budget. The forecasts for 1998 were completed on 4 July 1997. Available data up to this date have been incorporated in the following text.

Activity during the past year developed very much in line with the forecasts made in July 1996, which were confirmed last February. Foreign demand and the depreciation of the BEF helped to stimulate the economy after a "pause" in activity in 1995. Business investment also underpinned the recovery relatively early in the cycle, contrary to the scenario observed in Germany and France. Building on this basis, the recovery is set to continue in 1998. GDP growth is estimated to be 2.1% this year and 2.5% in 1998. Inflation remains subdued at an annual figure well below 2%.

Composition of growth in 1997-98

In 1995 and 1996, net exports and business investment contributed most to growth. Household and government demand, on the other hand, remained sluggish. Private consumption grew at an almost constant rate of 1.25% over the past 3 years. Over the same period, real disposable income decreased by 1.5%. The household saving rate dropped 4%-points from 93 to 96.

Graph 1 - Composition of GDP-growth



For 1997-98, this picture should change. The contribution of net exports and business investment should remain positive. But the growing household expenditure should gradually contribute more to growth. Private consumption should not benefit much longer from a drop in the saving rate but should be stimulated, albeit to a small extent, by an increase in real wages and employment. Real disposable income should increase

by 1.2% in 1997 and 2% in 1998. Investment in housing has increased since the second half of 1996. The very low (nominal) mortgage interest rates and the rise in real disposable income should be two factors leading to higher household investment.

Overall, the growth rate of business investment remains good. The investment rate (business investment in proportion to GDP) should further increase from 10.5% at the end of 1994 to 11.3% in 1998. Good business profitability and high rates of capacity utilisation are the main sources of growth in business investment. The output gap should be reduced from -1.6% at the end of 1995 to +0.1% in 1998. Potential output is estimated to grow by 1.75% towards the end of the forecast horizon.

Exports should further benefit from buoyant foreign demand. Imports from non-European countries are expanding the most rapidly. The effects of the appreciation of the USD, UKP and the ITL are partially indirect. Indeed, exports to the USA, the UK and Italy have only a limited weight in Belgian exports. The importance of exports of France and Germany (our main trading partners) to the USA, the UK or Italy, however, is higher. The full impact of the appreciation of these currencies will only be felt in 1998 due to the extra growth in France and Germany. The contribution of net exports will not be more important in 1998 than in 1997 because imports should also increase due to higher domestic demand.

The contribution of public expenditure (public consumption and investment) should remain marginal. Wages and salaries account for 80% of government consumption. Employment in administration and in education is slightly decreasing. Only somewhat higher wages are providing some impetus to government consumption.

Prices and interest rates

International oil prices, the dollar exchange rate, indirect taxes and prices of fresh fruit and vegetables, explain the rather erratic inflation behaviour of the last nine months. The underlying inflation rate (i.e. excluding oil prices, fresh fruit and vegetables and indirect taxes) has been almost stable at 1.25% for the past 6 months.

The depreciation of the effective exchange rate of the BEF was 2% in 1996 and is expected to reach 3.8% in 1997 if bilateral rates do not change any further. Some indicators show increasing import prices since the BEF has started to depreciate. Given that consumer price

increases remain very moderate, margins for importers and/or retailers are squeezed. For the second semester of this year and next year, import prices are expected to increase further and this should lead to a rise in the underlying consumption price inflation to about 1.5% at the end of 1997 and 2% at the end of 1998. This upturn is consistent with the pass-through effects of the exchange rate. It should result in an annual inflation rate of 1.6% in both 1997 and 1998. The 'health'-index (used for price-linking of rent and wages) should rise by 1.3% in 1997 and 1.7% in 1998.

Interest rates in continental Europe increased slightly in March-April 1997 but since then have been declining again. Interest differentials with Germany remain historically very low both at the short and long term. As the financial markets expect the EMU-project to be implemented, no real change in this picture is forecast. Short term rates should start increasing in Continental Europe in 1998, linked to higher activity.

The labour market

The evolution of employment over the next 18 months is of paramount importance for the forecasts described above. If employment does not increase, the recovery might end in the same way as in 1994. The third phase of the recovery (i.e. a recovery fuelled by exports and gradually leading to higher investment, resulting finally in higher employment and private consumption) depends totally on the evolution of employment.

Administrative changes in unemployment statistics (e.g. "easier" conditions applied to the classification of "older" unemployed have increased their number by over 40,000 in the past 18 months) have made the analysis of the labour market more difficult. Leaving aside these changes, overall unemployment has been rather stable since the beginning of 1996. An increase in the number of exclusions in the second half of 1996 and a subsequent decrease made the number rather erratic but the underlying trend is stable. With the labour force increasing slightly, the number of workers is also growing. After taking into account the growing percentage of part-time labour, the volume of labour is estimated to have been stable over the past year.

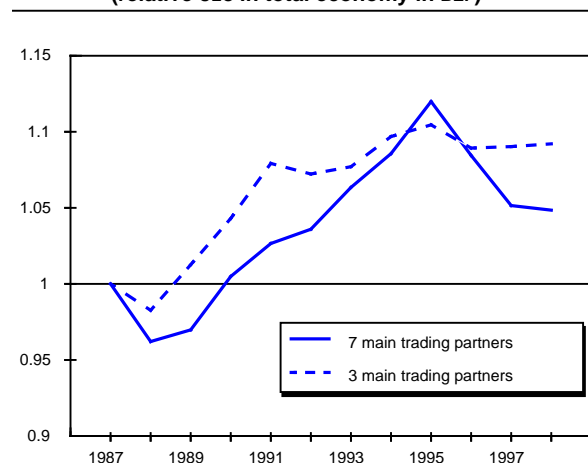
For the second half of 1997 and for 1998, this picture should gradually change. Employers are reluctant to increase their workforce at the beginning of the cycle but they should become more confident about future activity. While total employment should increase only marginally in 1997 (+7,000 between June 96 and June 97, +0.3% for the number of hours of worked in enterprises), the forecasts for 1998 are better. Public sector employment should increase somewhat, due to more

people involved in special programs. In addition, the number of people employed in the private sector should increase by 30,000. The overall increase of employment in 1998 (+38,600) is partly explained by an increase in economic activity but also by an increase in the number of people working in special programs (+14,500) and an increase in part-time labour.

Competitiveness

From 1997 onwards, the system to set wages became subject to the framework Law of July 96. This Law lays down that the maximum wage cost increase per hour should not be higher than the average increase in the three neighbouring countries. The government has set the combined increase for the 1997-98 period at 6.1% in nominal terms. The intersectoral and sectoral stages of the wage negotiations for 1997-98 are finished. Mrs. M. Smet, the Federal Minister of Employment and Labour has announced that all agreements propose wage increases below the 6.1% maximum norm. The last stage of the agreements - which take place at company level - are not expected to change the picture much.

Graph 2 - Real Effective Exchange Rate
(relative ULC in total economy in BEF)



Compared to 1987, the real effective exchange rate (using ULC to deflate) has appreciated less than 5% compared to the 7 main trading partners but over 8% compared to the 3 main partner countries. In the past two years, Belgian competitiveness has improved remarkably vis-à-vis the USA, the UK and Italy due to the appreciation of the currencies of these countries. With the exchange rate vis-à-vis Germany, France and the Netherlands being stable overall, the gain in competitiveness vis-à-vis these countries has been much more modest. Using the (technical) hypothesis of unchanged exchange rates, competitiveness in 1998 should only improve marginally.

Economic Forecasts by the Federal Planning Bureau

Changes in volume (unless otherwise specified)				
	1995	1996	1997	1998
Private consumption	1.1	1.3	1.0	1.9
Public consumption	0.9	1.8	0.7	1.2
Gross fixed capital formation	3.2	0.6	3.8	3.1
Final national demand	1.4	1.1	1.6	2.0
Exports of goods and services [1]	6.8	3.2	4.9	5.7
Imports of goods and services [1]	6.1	2.8	4.5	5.2
Net-exports (contribution to growth)	0.7	0.4	0.5	0.6
Gross Domestic Product	2.1	1.5	2.1	2.5
p.m. Gross Domestic Product - in current prices (bn BEF)	8056	8305	8607	8967
Traditional consumer price index	1.5	2.1	1.6	1.6
Consumer prices: "health" index	1.6	1.7	1.3	1.7
Real disposable income households	0.1	-0.4	1.2	2.0
Households saving rate (as % of disposable income)	17.7	16.3	16.4	16.5
Domestic employment (change in '000, situation on June 30th)	18.8	2.1	7.2	38.6
Unemployment (Eurostat standardised rate, yearly average)	9.9	9.8	9.8	9.4
Current account balance BLEU/UEBL (as % of GDP)	5.1	5.0	5.4	5.8
Short term interest rate (3 m.)	4.8	3.2	3.1	3.4
Long term interest rate (10 y.)	7.5	6.5	5.9	6.0

[1] The 1995 growth rate should be interpreted with care due to a break in the series between 1994 and 1995

Economic forecasts for Belgium by different institutions

	GDP-growth		Inflation		Government deficit		Date of update
	1997	1998	1997	1998	1997	1998	
Federal Planning Bureau	2.1	2.5	1.6	1.6	2.5(*)	2.3(*)	08/07/97
INR/ICN	2.1	2.5	1.6	1.6	.	.	08/07/97
NBB/BNB	2.0	.	1.6	.	2.8	.	27/06/97
European Commission	2.3	2.9	1.9	1.9	2.7	2.3	23/04/97
OECD	2.2	2.6	1.6	1.7	2.8	2.7	13/06/97
IMF	2.3	2.2	.	.	2.9	2.6	01/04/97
BBL	2.2	2.4	1.7	2.0	3.0	2.6	18/06/97
Generale Bank/Générale de Banque	1.9	2.4	1.8	2.2	2.9	2.5	01/06/97
Gemeentekrediet/Crédit Communal	2.1	2.5	1.8	1.7	2.9	2.7	27/06/97
Kredietbank	2.2	2.6	1.9	1.8	2.9	2.5	20/06/97
J.P. Morgan	2.2	2.6	1.5	2.0	3.0	3.0	27/06/97
Morgan Stanley	2.3	2.5	1.7	1.9	.	.	27/06/97
Paribas	2.2	2.4	2.0	2.3	2.7	2.3	20/05/97
Petercam	1.8	2.1	1.7	1.9	3.0	2.7	20/05/97
IRES	2.2	2.5	1.6	2.0	2.9	.	01/07/97
DULBEA	2.3	3.0	2.0	2.0	3.0	2.5	06/06/97
Averages							
All institutions	2.1	2.5	1.7	1.9			
International institutions	2.3	2.6	1.8	1.8			
Credit institutions	2.1	2.4	1.8	2.0			
Consensus The Economist	2.2	2.6	1.8	2.1			12/07/97

Collaborating institutions for The Economist: BZW, Daiwa Institute of Research, Economist Intelligence Unit, Goldman Sachs, Hoare Govett, IBI, James Capel, Kredietbank, Lehman Brothers, Merrill Lynch, J.P. Morgan, Morgan Stanley, Nordbanken, Paribas, Royal Bank of Canada, Solomon Brothers, UBS, Long-Term Credit Bank, Scotiabank

(*) See FPB "Medium Term Economic Outlook 1997-2001", April 1997

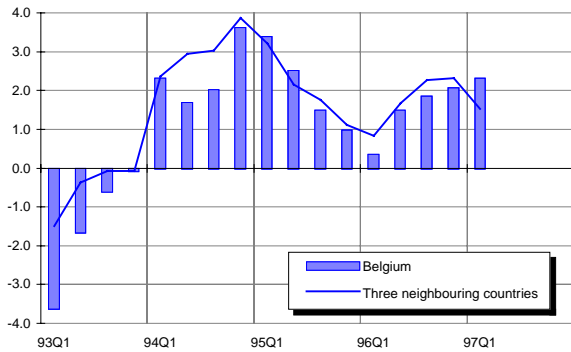
General economic activity

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

	94	95	96	95Q1	95Q2	95Q3	95Q4	96Q1	96Q2	96Q3	96Q4	97Q1
Germany	2.9	1.9	1.4	2.7	2.2	1.6	1.1	0.2	1.0	2.2	2.0	1.4
France	2.8	2.1	1.4	4.0	2.6	2.0	0.4	1.1	0.8	1.4	2.1	1.0
Netherlands	3.4	2.1	2.7	3.2	1.8	1.9	1.7	1.6	3.2	3.1	3.0	2.1
Belgium	2.4	2.1	1.5	3.4	2.5	1.5	1.0	0.4	1.5	1.9	2.1	2.3

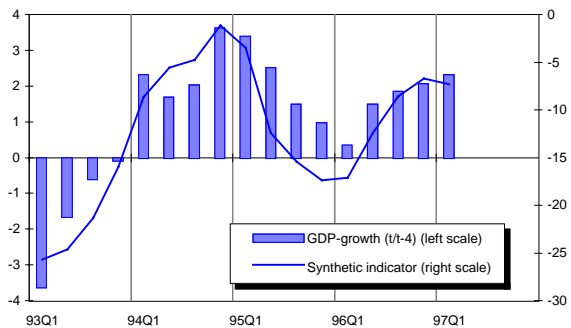
Source: National sources, NBB/BNB

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



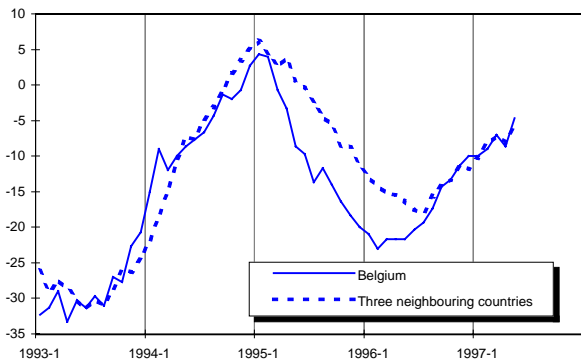
Source: NBB/BNB, National sources

Graph 2 - Belgian GDP-growth and synthetic indicator



Source: NBB/BNB

Graph 3 - Industrial confidence: international comparison



Source: European Commission

The annual GDP-growth rate in 1996 turned out to be on average 1.8% in our neighbouring countries and 1.5% in Belgium. A gradual strengthening of activity in 1996 was observed both in Belgium and in the surrounding countries.

The available data for the first quarter of 1997 for the neighbouring countries point to a considerable weakening in economic growth: GDP increased by only 1.6% from 96Q1 to 97Q1. The first quarter of 1997, however, had about three working days less than the first quarter of 96. The Dutch and German statistical institutes estimate this effect to be around 1%. This would indicate that the dynamic of the 97Q1 growth rate is slightly higher than that observed in the second half of 1996.

The industrial confidence indicators also point to this conclusion. The trend has been upward, although over the past few months the movements have been rather erratic. The pace of the recovery, however, has been slower than in the previous upturn in 1993-94.

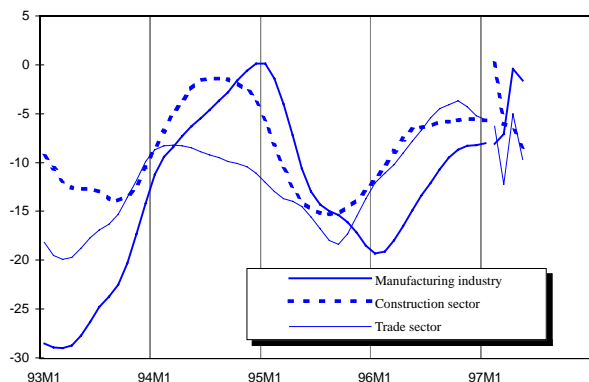
Table 2 - Monthly business surveys [1]

	95	96	96Q2	96Q3	96Q4	97Q1	96M12	97M1	97M2	97M3	97M4	97M5
Synthetic indicator	-12.2	-11.2	-12.4	-8.6	-6.7	-7.3	-8.6	-7.6	-6.6	-7.7	-2.0	-3.8
Manufacturing industry	-11.3	-13.3	-14.7	-10.4	-7.9	-7.8	-10.0	-8.1	-8.1	-7.1	-0.4	-1.6
Construction sector	-13.1	-7.0	-5.9	-5.7	-5.0	-4.8	-3.3	-8.4	0.1	-6.0	-6.4	-8.4
Trade sector	-15.1	-5.8	-8.1	-2.8	-2.8	-7.6	-7.3	-4.3	-6.3	-12.2	-5.0	-9.7

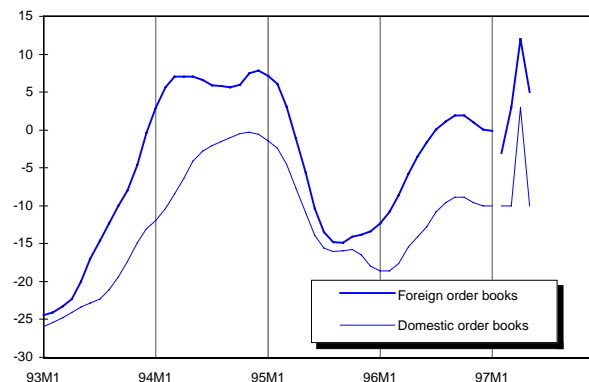
[1] Qualitative data

Source: NBB/BNB, FPB

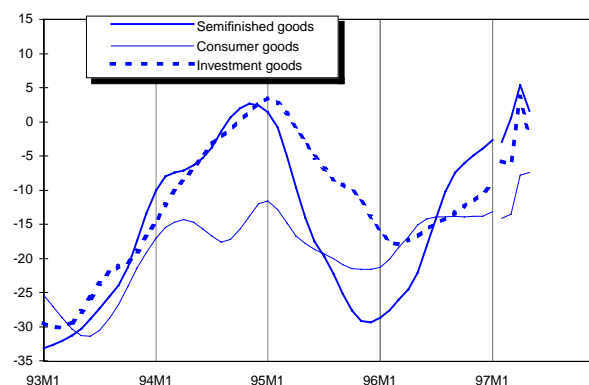
Graph 4 - Business cycle: sectoral evolution



Graph 5 - Manufacturing industry: order books



Graph 6 - Manufacturing industry: different types of goods



Source: Business cycle survey NBB/BNB

The recovery is mainly fuelled by the manufacturing sector, and especially foreign orders in this sector. The strong improvement by the NBB Survey indicators in April - and more or less confirmed in May - eliminate some of the doubts on the strength of the recovery which were recently raised. Indicators in the manufacturing sector continue to show relatively high levels, approaching the highs of the previous cycle.

Within the manufacturing sector, semifinished goods continue their remarkable recovery. While it has been observed in the past that exports of semifinished goods perform particularly well in Belgium very early in the cycle, their recovery has already lasted 6 quarters. Investment goods have picked up more. This is another confirmation of a recovery mainly fuelled by exports and investment.

While both foreign and domestic orders have dropped recently, they picked up again in the second quarter. The pick-up in the manufacturing of consumer goods is one of the first indications that private consumption might start accelerating. Detailed information concerning private consumption can be found on page 10.

Private consumption

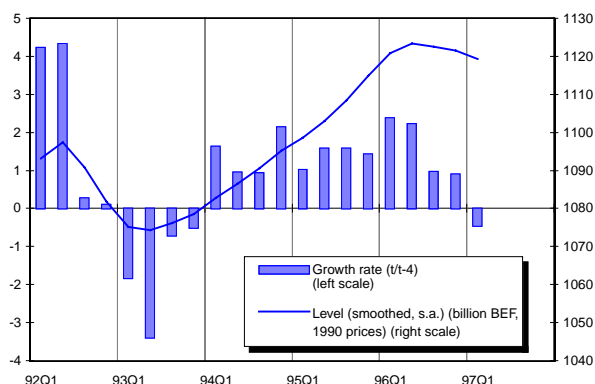
Table 3 - Private consumption indicators

	95	96	96Q3	96Q4	97Q1	97Q2	97M1	97M2	97M3	97M4	97M5	97M6
Turnover (VAT) - retail trade [1]	1.3	3.5	2.7	3.4	1.4	.	6.8	-2.1	-0.4	.	.	.
New car registrations [1]	-8.0	7.8	3.6	-3.1	-12.2	-6.4	-1.5	-16.0	-18.6	-5.2	-15.5	2.1
Consumer confidence indicator [2]	-13.8	-22.5	-23.7	-20.7	-23.3	-25.7	-21.0	-22.0	-27.0	-26.0	-26.0	-25.0

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

Source: NIS/INS, Eurostat, NBB/BNB, Febiac, FPB

Graph 7 - Private consumption at constant prices



Source: Estimation FPB

Despite a drop in households' real disposable income, consumption has been growing at a rate of almost 1.25% on an annual basis since the second half of 1993.

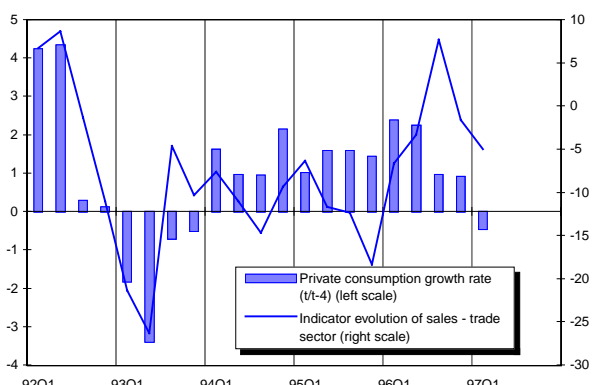
In the first quarter of 1996, twice this growth rate was observed (Graph 7). This sudden revival in consumption was largely due to the biennial Motor Show, which took place at the beginning of 1996. The Motor Show effect also influenced the growth rate of the second quarter. As was forecast, the growth rate of new car registrations eased in the second half of the year. For 1996 as a whole, new car sales increased by almost 8% compared to 1995, catching up the 1994 level. The contribution of increased car sales to the annual real growth of private consumption can be estimated at approximately 0.3%.

In the second half of 1996, growth in consumption declined to less than 1% compared to the corresponding period in 1995. This evolution was expected after the buoyant growth in consumption during the first two quarters.

All in all, private consumption grew by 1.3% in volume in 1996, while real disposable income decreased by 0.4%. So growth in consumption was totally fuelled by a fall of the saving rate (from 17.7% in 1995 to 16.3% in 1996). The fall in the saving rate is not surprising in the light of the stabilization of consumer confidence (after the drop during 1995), the end of increases in unemployment and developments in the financial markets (most notably the fall in long term interest rates and the boom in share prices).

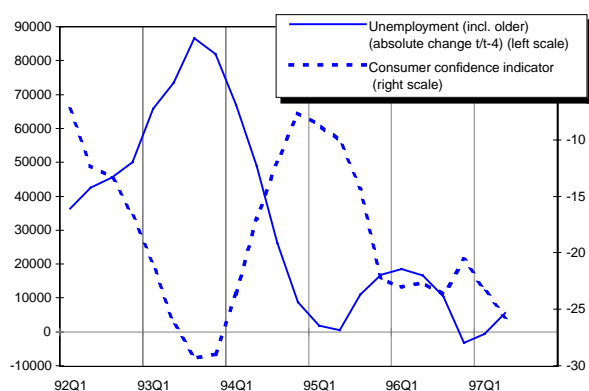
The quarterly profile of private consumption in 1996 (strong beginning, weakening towards the end of the year) results in a negative level-effect for 1997. It follows that in the first quarter of 1997 the consumption level was below the high level of the first quarter of 1996.

Graph 8 - Private consumption and related survey indicator



Source: FPB, Business cycle survey NBB/BNB

Graph 9 - Consumer confidence and unemployment



Source: RVA/ONEm, Eurostat, FPB

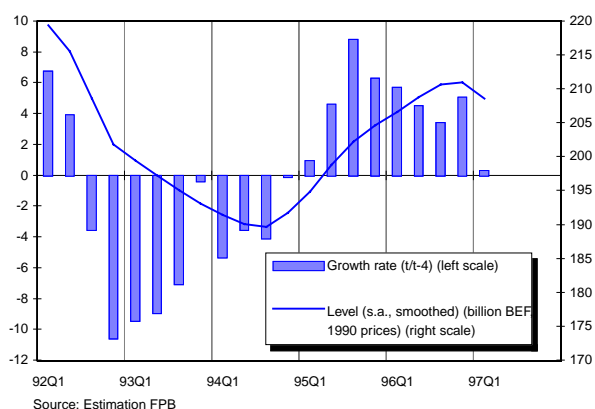
Business investment

Table 4 - Business investment indicators

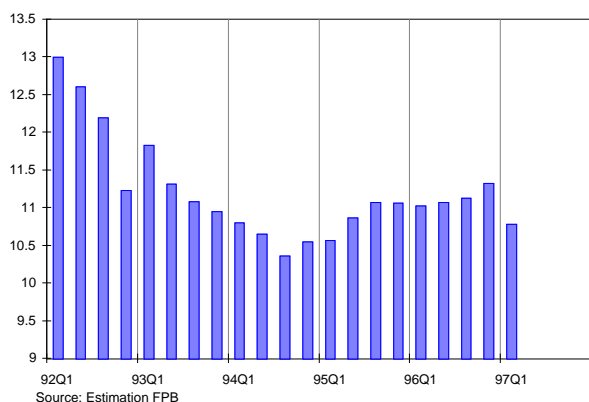
	95	96	97	96Q2	96Q3	96Q4	97Q1	96M11	96M12	97M1	97M2	97M3
Investment (VAT) [1]												
Industrial companies	11.0	9.3	.	10.6	10.3	6.4	-5.4	3.1	3.7	6.2	-2.7	-15.6
Non-industrial companies	5.5	3.1	.	1.4	0.2	7.1	5.7	-2.1	9.8	4.2	5.9	6.6
Total companies	7.6	5.5	.	4.9	4.0	6.8	1.2	0.2	7.2	5.7	2.7	-3.3
Investment survey [1]	3.6	4.6	7.5									
Capacity utilisation rate (s.a.) (%)	80.4	79.9	.	79.4	80.0	80.6	80.6					

[1] Change (%) compared to same period previous year
 Source: NIS/INS, NBB/BNB, FPB

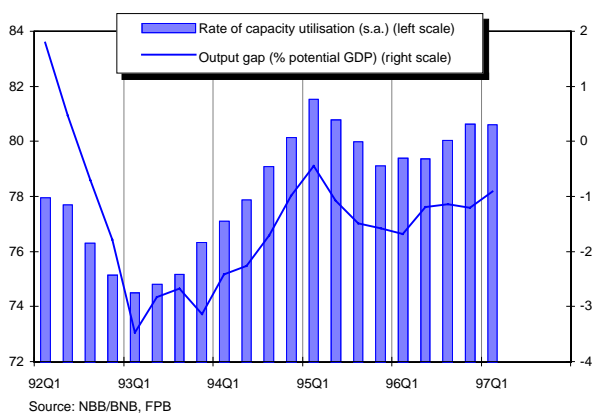
Graph 10 - Business investment at constant prices



Graph 11 - Business investment rate (in % of GDP)



Graph 12 - Business investment indicators



Business investment lags the economic business cycle. Graph 12 for instance shows that the output-gap and the capacity utilisation rate started to climb from mid-1993, while business investment (graph 10) only picked up from the second half of 1994.

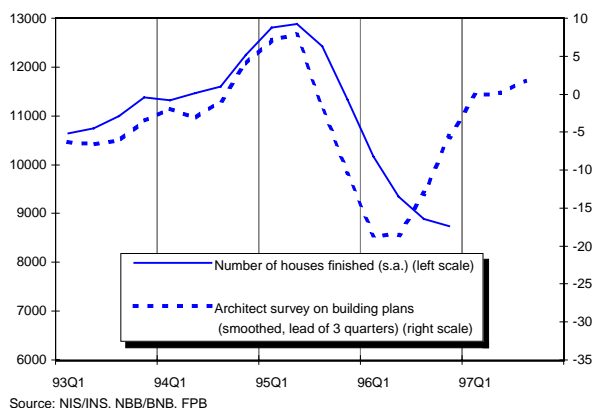
In 1996 business investment grew by 4.7% in real terms, against 5.1% in 1995. The beginning of 1996 was not very promising. In the course of 1995, the output-gap had fallen from -0.4% to -1.6%. The rate of utilisation of production capacity in manufacturing industry decreased (in seasonally adjusted terms) from almost 82% in the first quarter of 1995 to 79% in the last quarter. Based on these indicators and the aforementioned earlier lag, the stagnation of the investment rate at the beginning of 1996 was not surprising. In the second half of 1996, business investment strengthened.

All in all, the investment climate was favourable in 1996. The factors which contributed to this climate were low interest rates, the upward trend in corporate profitability, the high level of capacity utilisation and the shrinking of the negative output-gap.

The results of the most recent investment survey in the manufacturing industry suggest that business investment will continue to contribute significantly to economic growth in 1997. The fall in investment noted in the first quarter of 1997 (particularly in the industrial sector) is expected to be a temporary phenomenon. Finally, business investment in the non-industrial sector seems to be more vigorous than last year.

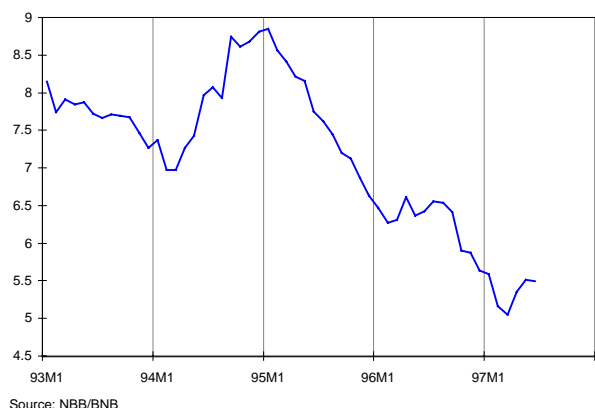
Housing investment

Graph 13 - Activity in the residential housing sector



Housing investment is recovering after the decline recorded in the second half of 1995. The number of houses built remained low during the first two quarters of 1996 (1). The results of the survey among architects (2) suggest that building activity gradually picked up in the second half of 1996. Undoubtedly the fall in mortgage interest rates in the course of 1995 has played a large part in this recovery. The improvement in the second half of 1996, however, turned out to be insufficient to offset the low level of activity during the first two quarters of 1996. Consequently housing investment showed a negative real growth rate for 1996 as a whole (-4%). The architect survey suggests that by the end of 1997 residential building activity should again reach the level of the first half of 1995.

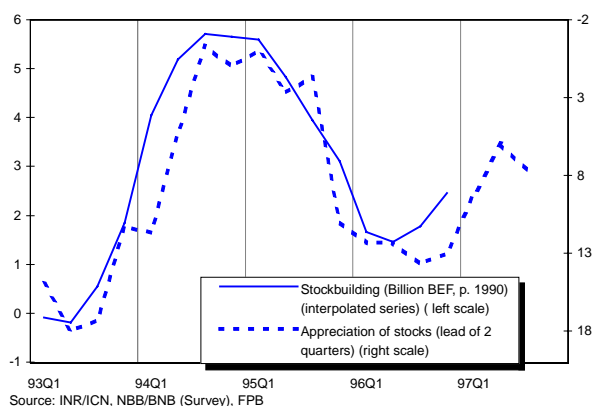
Graph 14 - Mortgage rate (in %)



1. The most recent quarterly figures for the number of houses finished in Graph 13 are still incomplete and should be revised upwards.
2. Survey on the volume of building starts. The result of this survey is a leading indicator (three quarters lead) for the activity in the residential construction sector.

Stockbuilding

Graph 15 - Stockbuilding and related indicator



In the context of the 1995 economic slow-down, a growing number of entrepreneurs considered their stock levels excessive. During 1995 stockbuilding was consequently reduced and stayed at a low level till the end of 1996. The contribution of stockbuilding to economic growth was therefore negative in 1996 (-0.1%). An inverse trend can be expected for 1997. However, compared to previous recoveries, the current fluctuations in stockbuilding do not appear to be very important at this stage.

Table 5 - BLEU/UEBL Trade statistics (intra/extrastat) [*]

	95	96	96Q2	96Q3	96Q4	97Q1	96M11	96M12	97M1	97M2	97M3	97M4
Exports - value [1]	8.6	4.4	3.5	7.7	7.9	7.3	2.7	9.1	7.3	6.1	8.3	14.5
Imports - value [1]	6.9	6.4	5.7	8.4	7.6	5.6	-1.4	11.9	4.5	7.6	4.7	13.6
Exports - volume [1]	8.6	2.4	0.5	6.3	5.3	3.5	1.4	5.3	3.8	1.9	4.7	10.3
Imports - volume [1]	4.7	4.0	4.1	5.8	4.2	1.7	-4.1	9.1	3.7	1.8	-0.2	8.7
Exports - price [1]	0.0	2.0	3.0	1.5	2.5	3.7	1.3	3.7	3.5	4.1	3.5	3.7
Imports - price [1]	2.1	2.3	1.6	2.5	3.2	3.8	2.7	2.6	0.8	5.6	5.0	4.6

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

[*] Methodological changes in the beginning of 1997 make comparisons with the past difficult. This table shows estimates to facilitate the analysis.
Source: INR/ICN, FPB

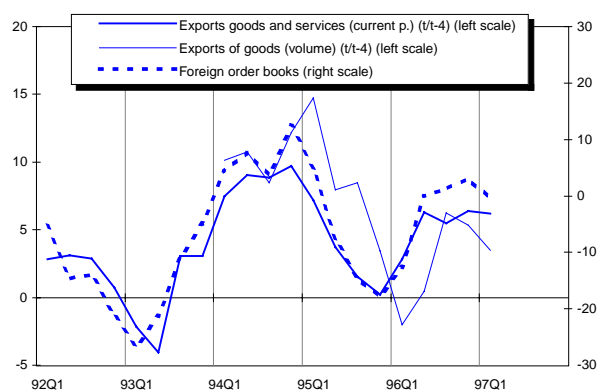
Table 6 - BLEU/UEBL Balance of payments statistics

	95	96	96Q2	96Q3	96Q4	97Q1	96M10	96M11	96M12	97M1	97M2	97M3
Exports - goods [1]	11.8	4.9	5.4	5.0	6.8	5.1	15.6	-2.1	7.0	5.7	5.2	4.5
Imports - goods [1]	10.6	5.5	5.7	5.4	8.9	5.4	14.3	4.9	7.6	6.6	6.6	3.1
Trade balance [2]	296	283	69	62	72	82	40	20	12	38	18	27
Exports - goods and services [1]	3.1	5.2	6.3	5.5	6.4	6.2	13.5	-2.2	7.9	6.3	5.8	6.6
Imports - goods and services [1]	3.3	5.6	5.4	5.1	8.6	5.8	14.0	3.8	7.7	5.8	6.8	5.0
Goods and services balance [2]	360	361	96	70	86	121	41	27	19	57	31	33
Exports - current transactions [1]	-6.9	0.3	2.0	1.0	-1.3	5.0	4.2	-6.8	-1.4	5.0	4.6	5.3
Imports - current transactions [1]	-7.4	0.1	1.3	0.3	-0.4	4.9	3.9	-2.8	-2.4	5.6	5.3	3.8
Current account [2]	433	445	114	102	112	126	49	33	30	55	28	43

[1] Change (%) compared to same period previous year; [2] Level in Billion BEF

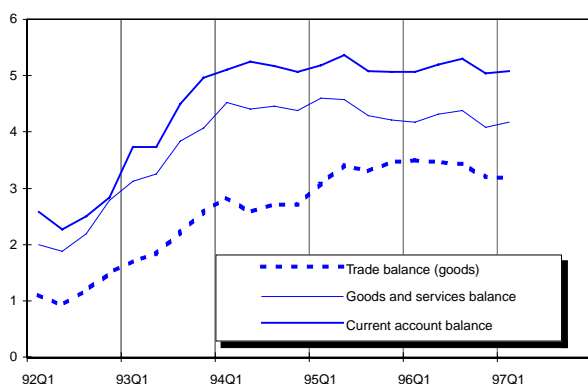
Source: NBB/BNB, FPB

Graph 16 - Growth of exports and related indicator



Source: NBB/BNB (BoP, Survey), INR/ICN (Trade Stat.), FPB

Graph 17 - Foreign balances (4 quarters cumulated, % of GDP)



Source: NBB/BNB (BoP), FPB

After a decrease at the beginning of 1996, real exports expanded in the second half of the year by almost 6% according to the trade statistics. Given the stabilisation of foreign orders, a similar growth rate can be expected over the next one or two quarters. Exports to non EU countries were much more dynamic than exports to European countries during 1996 and this tendency seems to have carried through to the beginning of 1997.

As the Belgian effective exchange rate has depreciated, import prices increased somewhat faster than export prices on average for 1996 and the beginning of 1997.

According to the balance of payments statistics, exports and imports experienced a very similar growth in value in 1996, so that the trade balance remained almost constant in the course of 1996 in comparison with the previous year.

Table 7 - Labour market indicators

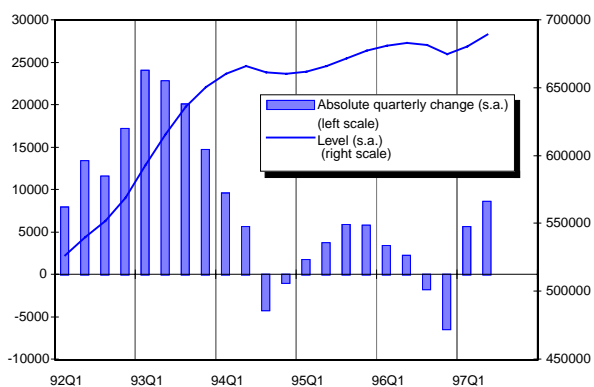
	95	96	96Q3	96Q4	97Q1	97Q2	97M1	97M2	97M3	97M4	97M5	97M6
Unemployment (excl. older) [1]	596.9	588.3	608.9	582.9	570.5	542.9	579.5	571.6	560.5	551.4	536.8	540.6
Unemployment (incl. older) [1]	669.3	679.9	707.2	684.6	678.4	654.5	685.8	679.5	669.9	661.4	647.9	654.3
Unemployment rate-FMTA/MFET[2]	13.9	13.7	14.2	13.6	13.3	12.6	13.5	13.3	13.0	12.8	12.5	12.6
Unemployment rate-Eurostat [3]	9.9	9.8	9.7	9.5	9.5	9.6	9.5	9.5	9.6	9.6	9.6	9.6

[1] Level in thousands; [2] In % of labour force of June 1995, 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 18 - Evolution of unemployment (incl. older)



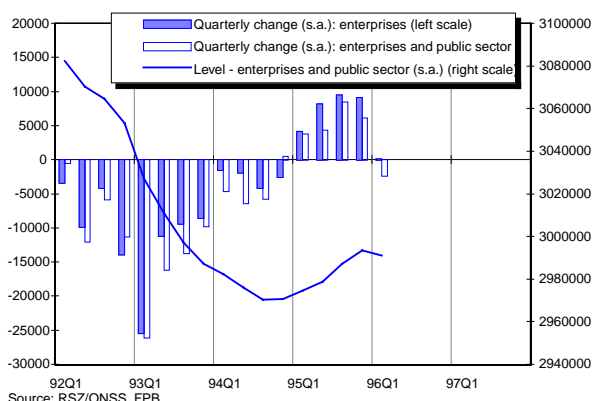
Source: RVA/ONEm, FPB

An analysis of the figures relating to the labour market has been made more complex since 1996 by changes in the administrative treatment of various categories of workers and unemployed persons. No definitive conclusions can therefore be drawn from the monthly figures.

New data on the number of unemployed from RVA/ONEm and employed from RSZ/ONSS will be released from 1997 onwards and these should facilitate the analysis of the labour market.

Despite the changes in the administrative treatment of figures, some tentative conclusions can be made.

Graph 19 - Evolution of employment



Source: RSZ/ONSS, FPB

Graph 18 shows the seasonally adjusted level of unemployment, inclusive of the 'older unemployed'. This level has been relatively constant over the past three years. More recently, in 1996 and early 1997, movements were rather erratic. The (small) decline in the second half of 1996 and the subsequent rise in the first half of 1997 might be attributable to the evolution of the number of exclusions.

The underlying reality may be that the labour market is able to absorb the increase in the labour force, leaving the number of unemployed little changed. This could result in an annualised increase in employment of about 0.3%.

Prices

Table 8 - Inflation rates: change compared to the same period in the previous year, in %

	95	96	96Q3	96Q4	97Q1	97Q2	97M1	97M2	97M3	97M4	97M5	97M6
Consumer prices: all items	1.47	2.06	1.94	2.45	1.91	1.53	2.31	1.98	1.46	1.26	1.58	1.74
Food prices	1.21	0.62	0.55	0.81	0.97	1.26	2.17	0.93	-0.19	0.33	1.36	2.10
Non food prices	0.81	2.37	2.50	3.25	2.47	1.55	2.91	2.59	1.93	1.26	1.64	1.76
Services	2.01	2.35	1.90	2.45	1.78	1.59	1.83	1.88	1.64	1.62	1.59	1.56
Rent	2.88	2.48	2.46	2.13	1.80	1.71	1.80	1.77	1.84	1.65	1.74	1.73
"Health" index	1.56	1.65	1.52	1.88	1.44	1.22	1.86	1.49	0.98	0.98	1.29	1.39
Brent oil price in USD (level)	17.1	20.6	21.0	23.6	21.6	19.1	23.8	21.1	19.9	18.6	20.1	18.7

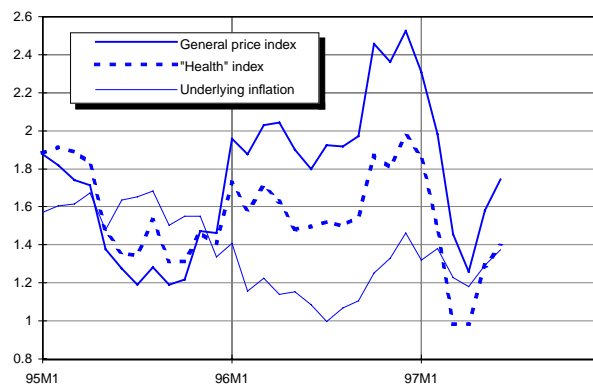
Source: MEZ/MAE, IWH

Table 9 - Monthly inflation forecasts

	97M1	97M2	97M3	97M4	97M5	97M6	97M7	97M8	97M9	97M10	97M11	97M12
Consumer prices: all items	124.65	124.50	123.94	123.91	124.09	124.30	125.09	125.40	124.88	125.00	125.26	125.42
Consumer prices: "health" index	122.09	121.88	121.31	121.33	121.45	121.67	122.51	122.84	122.27	122.40	122.68	122.84
Moving average "health" index	121.38	121.60	121.64	121.65	121.49	121.44	121.74	122.12	122.32	122.51	122.55	122.55
	98M1	98M2	98M3	98M4	98M5	98M6	98M7	98M8	98M9	98M10	98M11	98M12
Consumer prices: all items	126.11	126.13	125.83	125.95	126.14	126.39	127.23	127.58	127.08	127.24	127.54	127.72
Consumer prices: "health" index	123.58	123.60	123.26	123.33	123.52	123.78	124.69	125.06	124.52	124.68	125.00	125.20
Moving average "health" index	122.88	123.17	123.32	123.44	123.43	123.47	123.83	124.26	124.51	124.74	124.81	124.85

Source: Observations (up to 97M6): MEZ/MAE; forecasts: FPB

Graph 20 - Monthly inflation evolution in % (t/t-12)

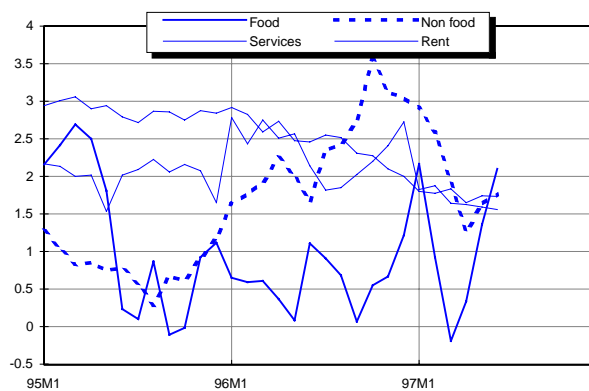


Source: MEZ/MAE

The notable rise in inflation at the end of 1996 was followed by an equally marked drop in inflation during the first quarter of 1997. This can be explained only in part by the evolution of the underlying inflation. Other factors, e.g. international oil prices, the dollar exchange rate, indirect taxes and prices of fresh fruit and vegetables, explain the rather erratic inflation behaviour of the last nine months.

Underlying inflation, which can be estimated at 1.3% at the moment, is expected to increase slightly in the course of 1997 and 1998, especially as a result of the effective depreciation of the currencies of the DEM-zone and hence higher import costs.

Graph 21 - Inflation rates in % (t/t-12): decomposition



Source: MEZ/MAE

The inflation forecasts presented in table 9 are based on observations till June 1997. Underlying inflation is expected to reach 1.5% at the end of 1997 and 2.0% at the end of 1998. Based on these monthly inflation forecasts, average consumer price inflation should be 1.6% in 1997 and in 1998, compared to 2.06% in 1996. The average growth rate of the so-called "health price index", used for the index-linking of wages, social benefits and residential-rents, should be 1.3% in 1997, 1.7% in 1998, compared to 1.65% in 1996.

Wages in the public sector should be adjusted for price changes in October 1997 as the pivot index, which is used to determine when these wages are adjusted (121.92 at the moment), should be reached in August 1997. In 1998, public wages should be adjusted for price changes in November.

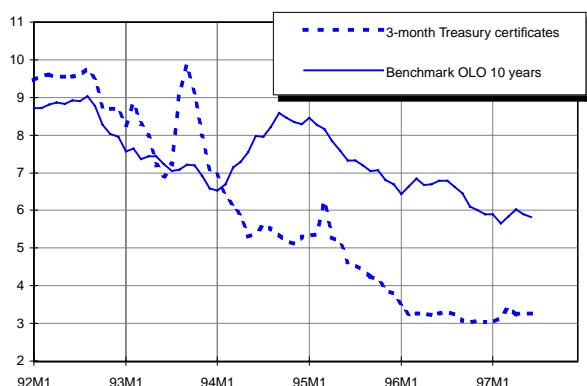
Interest Rates

Table 10 - Interest rates

	95	96	96Q3	96Q4	97Q1	97Q2	97M1	97M2	97M3	97M4	97M5	97M6
Short-term interest rates (3 months)												
Belgium	4.77	3.21	3.20	3.04	3.20	3.25	3.02	3.15	3.46	3.24	3.24	3.28
Germany	4.41	3.21	3.16	3.10	3.12	3.11	3.04	3.11	3.20	3.16	3.10	3.06
Long-term interest rates												
Belgium: traditional bonds (6+ y)	7.37	6.30	6.41	5.81	5.61	5.70	5.71	5.45	5.66	5.81	5.68	5.61
Belgium: 10 y benchmark OLO	7.48	6.49	6.62	6.00	5.80	5.92	5.89	5.65	5.85	6.02	5.90	5.83
Germany (7-15 y)	6.81	6.10	6.20	5.80	5.60	5.60	5.70	5.40	5.60	5.70	5.60	5.60
Germany: 10 y benchmark	6.85	6.22	6.34	5.89	5.69	5.78	5.82	5.55	5.71	5.87	5.76	5.72

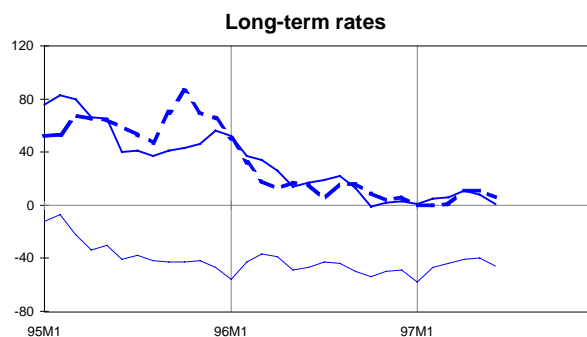
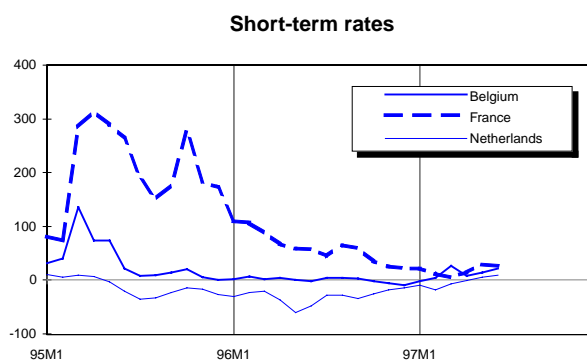
Source: NBB/BNB, Frankfurter Allgemeine Zeitung

Graph 22 - Interest rate levels in Belgium, in %



Source: NBB/BNB

Graph 23 - Interest rate differentials with Germany (in basis points)



Source: NBB/BNB, Frankfurter Allgemeine Zeitung, Crédit Lyonnais

Short and long term interest rates have fallen since the end of March, after increasing over a period of 6 weeks. Two reasons explain the rise of interest rates.

First, the economic recovery is gathering momentum in Germany and in Europe, leading to expectations of rises in official rates.

Secondly, as the dollar appreciated rapidly against the mark, financial markets expected imported price pressures could appear and lead to the Bundesbank tightening money market rates. In Belgium, political troubles resulted in temporary pressure on short term interest rates.

Since then short term rates have stabilized and long term rates have even declined. Financial operators are obviously convinced that there is no pressure to be expected. Wages growth should remain moderate as the unemployment rate is already at record high levels. The dollar's appreciation against the mark (1.75 DEM at the beginning of July) and European currencies is reflected in higher import prices but has had no impact on the underlying rate of inflation. Accordingly, financial analysts are not expecting any increase in inflation as the yield curve is relatively flat.

Money markets and capital markets even ignored the unexpected change of government in France. Short and long term interest rate differentials with Germany did not widen. Financial analysts are obviously convinced that the EURO will be introduced on time, with France participating and the French government continuing to pursue a restrictive budgetary policy.

Monetary and financial conditions are now favourable to investment and economic growth.

Exchange rates

Table 11 - Exchange rate (Belgian Francs per ...)

	95	96	96Q3	96Q4	97Q1	97Q2	97M1	97M2	97M3	97M4	97M5	97M6
German Mark	20.58	20.58	20.60	20.61	20.63	20.64	20.62	20.63	20.63	20.63	20.64	20.64
French Franc	5.91	6.05	6.05	6.09	6.11	6.12	6.11	6.11	6.12	6.13	6.12	6.11
Dutch Guilder	18.37	18.37	18.36	18.37	18.35	18.35	18.36	18.37	18.33	18.35	18.35	18.34
Italian Lira	1.81	2.01	2.03	2.07	2.09	2.09	2.11	2.09	2.07	2.08	2.09	2.10
British Pound	46.53	48.38	47.94	51.66	55.76	57.85	54.88	56.19	56.21	57.51	57.42	58.61
American Dollar	29.51	30.96	30.84	31.54	34.21	35.36	33.06	34.56	35.00	35.30	35.15	35.64
ECU	38.12	38.77	38.90	39.59	40.04	40.27	40.02	40.06	40.06	40.25	40.23	40.32

Source: NBB/BNB

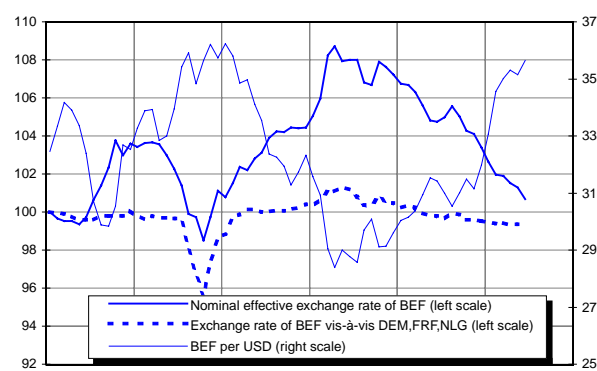
Table 12 - Nominal effective exchange rate of the Belgian Franc

	95	96	97	96Q3	96Q4	97Q1	97Q2	97M2	97M3	97M4	97M5	97M6
Level (Jan.92=100)	107.3	105.2		105.2	103.9	102.2	101.2	102.0	101.9	101.5	101.3	100.7
Growth rate [1]	4.0	-2.0		-1.8	-3.4	-4.1	-3.7	-4.4	-4.1	-3.8	-3.4	-3.9
Id. with constant rate till year end			-3.8									

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

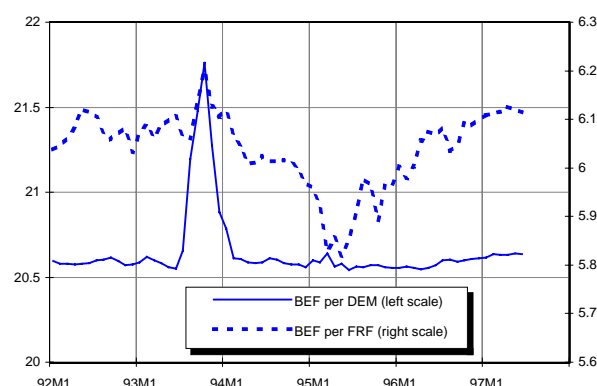
Source: NBB/BNB, FPB

Graph 24 - Effective exchange rate (jan. 92=100) and dollar rate



Source: NBB/BNB, FPB

Graph 25 - Belgian Francs per French Franc and Deutsche Mark



Source: NBB/BNB

As there is little doubt about the monetary policy target on inflation of the future European central bank, uncertainties surrounding EMU are no longer reflected in the money markets and capital markets. These uncertainties are seen in the evolution of exchange rates.

Recently, the dollar benefited from the uncertainties about the future value of the EURO. Analysts claim that an enlarged EURO including Southern European countries would weaken its value against the dollar.

The nominal effective exchange rate of the Belgian franc depreciated further in the first semester of 1997, as the result of the appreciation of the US dollar and the British pound. The US dollar was worth 37 BEF by mid July. If bilateral rates remain constant till the end of 1997, the effective exchange rate of the BEF should depreciate by 3.8%, against 2.4% in the beginning of the year. Overall, against the three neighbouring countries, however, effective exchange rate depreciation is limited.

Nevertheless, the change of government in France has not altered the bilateral exchange rate of the FRF against the European currencies, including the BEF.

Fiscal indicators

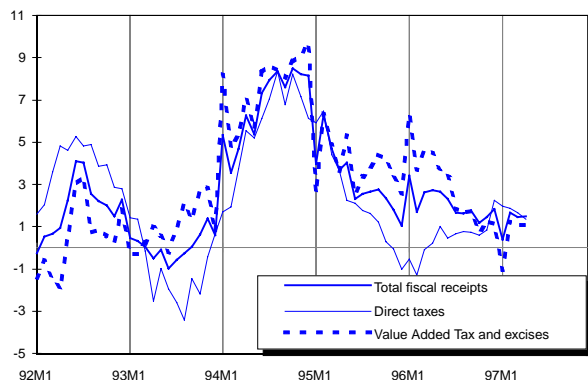
Table 13 - Fiscal receipts (1)

	95	96	96Q2	96Q3	96Q4	97Q1	96M11	96M12	97M1	97M2	97M3	97M4
Total	2.5	4.0	2.7	3.4	3.8	4.8	4.0	3.6	0.8	11.5	3.3	4.7
Direct taxes	4.1	3.2	2.2	2.5	2.5	6.1	6.1	0.1	-0.5	18.8	2.4	5.6
Withholding earned income tax	3.1	4.0	-1.0	7.5	2.5	7.9	-12.5	18.9	3.7	53.0	-18.7	-25.6
Advance payments	11.3	4.5	6.3	8.2	-1.0	-6.2	-33.3	-3.0	-22.6	200.0	0.0	6.6
Value Added Tax and excises	0.4	4.4	2.9	2.9	5.7	3.2	4.6	9.4	2.9	1.4	5.2	-0.1
Other	3.8	3.7	2.6	3.6	2.6	5.7	3.7	0.1	-0.2	17.1	2.1	6.7

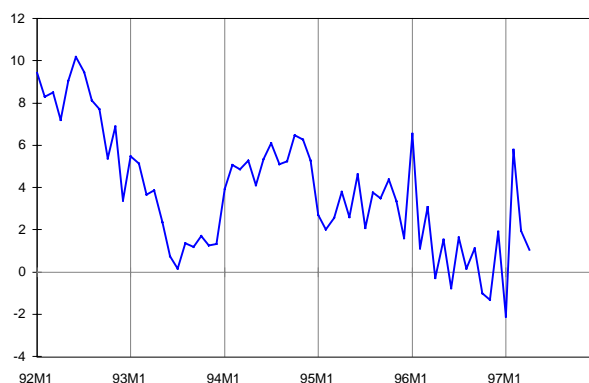
(1) Change (%) compared to same period previous year

Source: MVF/MdF, FPB

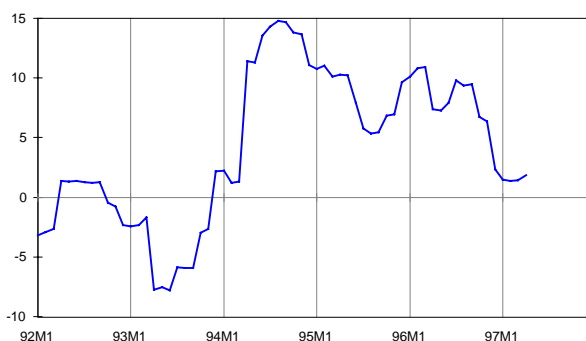
Graph 26 - Real total fiscal receipts (2)



Graph 27 - Real withholding earned income tax (2)



Graph 28 - Real advance payments (2)



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

In real terms, total fiscal receipts grew by 1.9% in 1996. This, of course, not only reflects economic activity but is also influenced by changes in tax rates. A higher VAT rate from January 96 onwards, increases in excise duties and the withholding tax rate and the non-indexation of tax brackets are the main changes which occurred in 1996. Taking this into account, activity remained modest in 1996.

Compared to a year earlier, tax receipts increased by 5.5% in nominal terms in the first five months of 1997, corresponding to a 3.8% real increase. Several increases in excise duties in 96 and early 97 and the payment of the end-of-year wage supplement for employees of the French Community (and the corresponding payment of income tax) explain part of this increase. Excluding these changes, increases in tax receipts remain in line with expectations. This partly reflects the fact that the structure of the recovery is not very beneficial for tax receipts. Export and investment led activity generate relatively little direct or indirect tax revenue. With the expectation of a more balanced growth, this should generally be more beneficial for tax receipts.

The FPB traditionally publishes a medium term projection in the spring. The latest projection covers the period 1997-2001. Detailed analyses of macroeconomic, sectorial and labour market developments are presented. Detailed results for the public finances for the federal government, regions and communities, local authorities and social security departments are presented. A special chapter is devoted to the evolution of energy consumption and carbon dioxide emissions; another chapter focuses on the consequences for fiscal policy of the Convergence Plan and the "Stability and Growth Pact" (see "Special Topic" in this publication).

Forecasts for the international environment correspond to a recent medium term projection of the European Commission; they also take into account the short term diagnosis by the FPB, the decisions taken during the last budgetary review (March 1997) and evolutions in the financial and exchange markets which occurred in the first months of this year. "Unchanged policy" assumptions are made concerning fiscal and social policy and institutional arrangements.

Results indicate that Belgian GDP growth should accelerate progressively to 2.4% on average in 1997-2001.

This favourable development is largely explained by exports and investment growth, with private consumption playing a relatively minor role. The depreciation of the Belgian Franc in 1996 and early 1997 should boost exports through improved competitiveness.

The acceleration of exports and the relatively modest evolution of domestic demand will boost the external

surplus. At the end of the projection period, the Belgian current account surplus should reach the equivalent of more than 5% of GDP, reflecting domestic saving, against a background of a declining public sector deficit.

The development of new production capacities and wage restraint are the main factors behind low inflation rates in the medium term.

Employment figures should show a gradual improvement with 20,000 jobs created each year on average in the projection period, thanks to the growing importance of the market services. The decline of industrial employment should slow down and would not be more than 23,000 over the next five years.

The increase in the labour force, however, should drastically limit the impact of job creations on unemployment: total unemployment (i.e. including "older" unemployed people) should still amount to about 600,000 people in 2001.

Public sector finances are expected to be rapidly consolidated. Increased primary surpluses and lower interest payments should lead to a significant fall in the public deficit: PSBR should decrease. The reduction of the public debt ratio should also continue.

Perspectives économiques 1997-2001 - Bureau fédéral du Plan - Avril 1997.
Economische Vooruitzichten - Federaal Planbureau - April 1997

Table - Key figures (period average - changes in volume unless otherwise specified).

	1981-1985	1986-1990	1991 - 1996	1997 - 2001
Potential export markets	2.3	6.5	4.0	6.1
GDP	0.8	3.1	1.2	2.4
Private consumption	0.5	2.8	1.4	1.5
Gross fixed capital formation	-4.3	9.9	-0.7	3.5
Private consumption prices	6.9	2.4	2.6	2.0
Unemployment rate (including 'older unemployed people')	12.3	11.7	13.3	14.0
Belgian current account balance (% of GDP)	1.8	1.4	3.4	4.9
PSBR (% of GDP)	10.8	7.2	5.6	2.2

Reduction of Social Security contributions: comparison of various alternatives taking into account changes in the “Maribel” aid system.

The setting-up of the Maribel aid system and its transformation into a scheme acceptable to the European Commission has taken considerable time. Various options were considered. At the request of the Belgian government, the FPB calculated the impact of a number of these options. The FPB has published a Working Paper summarising the results.

The so-called “Maribel” scheme came into place in 1981 and was set up mainly to safeguard the competitive position of the open sector of the economy through a reduction in employers’ social security contributions for blue-collar workers. From the third quarter of 1993 the Maribel scheme was extended: the lump-sum reduction per beneficiary was increased considerably, but only for firms either in manufacturing industry or in specific sub-sectors of agriculture or transport and communication.

This selective increase of the subsidy, based on the type of economic activity of the employer, was considered unacceptable by the European Commission. The Commission argued that this type of aid amounted to an implicit export subsidy for the employers concerned and therefore invited the Belgian government to re-define the Maribel scheme on a non-selective basis.

Broadly, two distinct types of alternatives were initially proposed. The first type granted a similar lump-sum amount per beneficiary to all employers, while in the latter case the amount granted depended on the proportion of blue-collar workers in the firm concerned. In addition to this distinction, both alternatives were further tested depending on the total amount of Maribel aid to be granted, and the way this aid would be financed.

The government finally adopted a scheme in which the total amount of aid was considerably increased and in which the amount granted per person depended on the “blue-collar intensity” in each firm.

In the Working Paper, the total cost and benefits per industry are compared for the various alternatives. One of the major conclusions to emerge from the paper was that the subsidy received by the open sector of the economy was reduced by the new broader subsidy rules based on the “blue-collar intensity” in each firm. To correct this unwanted effect, the government decided to increase the global amount of aid for the Maribel scheme.

Doorklichting van verscheidene alternatieven met het oog op een herformulering van de MARIBEL-bijdrageverminderingen - K. Hendrickx, B. Hertveldt en L. Masure - June 1997 - Working Paper 2/97.

Belgium’s First National Communication on Greenhouse Gases

On 31 January 1997, the Belgian government approved the text of the First National Communication on Greenhouse Gases. The document contains a detailed report of the objectives, policies and measures that Belgium has implemented in order to combat greenhouse gas emissions, as well as of the progress achieved in order to reach the objectives. It is part of the commitments Belgium made as a party to the Climate Convention, agreed in Rio de Janeiro in 1992.

The preparatory process of the First National Communication involved representatives from all the government departments concerned and from both federal and regional governments. In a preparatory phase, prior to the actual drafting of the Communication, the Federal Planning Bureau took part in the translation of the International Guidelines for the drafting of the Communication into a work plan, a document structure and a spec-

ification of its contents. The Federal Planning Bureau was furthermore “leading author” for three of the eight chapters of the Communication, namely for chapter 1 - “National Circumstances”, chapter 4 - “Projections and Assessment of the Effects of Policies and Measures” and chapter 8 - “Education, Training and Public Awareness”.

Together with chapters 2 (“Inventory of greenhouse gas emissions”) and 3 (“Policies and Measures”), chapter 4 represents the core of the Communication. In order to evaluate CO₂ emissions in Belgium, an evaluation was made of the measures that had played a role since 1990 in the reduction of those emissions. These measures are fiscal as well as non-fiscal in nature. The fiscal measures, changes in VAT rates and increases in excise duty rates on energy products, were not principally directed towards the reduction of CO₂ emissions, but had a non-

negligible impact on them. The non-fiscal measures are mainly part of the national CO₂ policy plan, the “Belgian National Policy Program for the Reduction of CO₂ Emissions”, that the Belgian government adopted in June 1994.

Against the background of a projected annual GDP growth of 2.4% over the period from 1995 to 2000, CO₂ emissions are projected at 125,2 million tons (Mt) in the year 2000, a 3.4% increase from their 1990 level of 121.1 Mt¹. If no measures had been taken since 1990, total CO₂ emissions would have increased by some 7% between 1990 and 2000, reaching 129.3 Mt in 2000. However, the results show that the measures implemented since 1990 are not sufficient to reduce Belgian CO₂ emissions to 5% below their 1990 level, the Belgian policy target. In order to reach this objective, a further emission reduction of some 10 Mt by the year 2000, above reductions already approved, would be necessary.

Projections made during the preparation of the Communication show that the introduction of a CO₂/energy tax, over and above the measures to which Belgium is already committed, would by and large enable CO₂ emissions to be reduced by some 4% from their 1990 level by the year 2000. On the basis of simulations, it has

1. Using temperature corrected CO₂ emissions for the base year 1990.

been demonstrated that if this tax were to be introduced in 1997 at a rate of \$3 per barrel and reaching \$10 in 2000, the gap with regard to the objective for the year 2000 would almost be closed. Belgium has not yet adopted such a tax measure, but has maintained the position that it can only reach its national CO₂ emission reduction objective if such a measure is implemented.

Concerning emission reductions over the long-term, after 2000, the European Council of Ministers only recently agreed to reduce greenhouse gas emissions by 15% in 2010 compared to their 1990 level. The agreement also includes confirmation that all Member States will contribute together to the effort to achieve at least a 10% reduction. How the extra 5% can be achieved is still under discussion. Belgium, for its part, will need to reduce its emissions, this time of the three greenhouse gases CO₂, CH₄ (methane) and N₂O (nitrous oxide), by 10% by the year 2010. As long term projections of CO₂ emissions suggest, Belgium, with its small open economy, depends on internationally coordinated measures, such as eco-taxes, in order to achieve such levels of emission reduction.

First national communication of Belgium in accordance with articles 4 and 12 of the United Nations Framework Convention on Climate Change, Ministry of Social Affairs, Public Health and Environment, January 1997.

The macroeconomic and public finance effects of the implementation of the “Loi de Robien” in Belgium

The Working Paper analyses the impact on the Belgian economy and public finances of what is known in France as “Loi de Robien”.

The Law aims at encouraging firms to reduce collective working hours by cutting employers’ social security contributions. In addition to the lowering of working hours, the firm must either increase the number of workers to a certain extent (this is known as the “offensive” case) or must maintain the number of employees to avoid layoffs (which is known as the “defensive” case). The extent of wage compensation is not determined by the Law but is left to the discretion of the social partners.

In order to estimate the macro-economic impact of the application of the Law in Belgium, a number of important questions have to be answered.

Of particular importance are the proportion of firms that will react to this Law, the amount of wage compensation agreed by the social partners and the possible effect on productivity following the changed environment. The hypothesis concerning the proportion of firms reacting to the Law used in the Paper is rather arbitrary. If the proportion of firms reacting positively to the Law is high, wage compensation partial and productivity gains observed, the overall impact on employment might be important. As growth, on the other hand, is little affected, this policy increases the labour content of growth. Compared to earlier studies of the FPB, the cost per additional worker should be relatively small, leading to relatively minor costs for the government.

“Loi de Robien: effets macroéconomiques et budgétaires d’une application en Belgique.”, Igor Lebrun et Luc Masure, Working Paper 1-97, février 1997

Recent Publications

Medium Term Economic Outlook 1997-2001, April 1997 (available in Dutch and in French).

Economic Forecasts 1998, July 1997 (available in Dutch and in French).

Planning Paper 78, September 1996.

BOSSIER F., ENGLERT M., STREEL C., "Effets macroéconomiques de diverses modalités d'accroissement des recettes et de réduction des dépenses des administrations publiques" - "De macro-economische impact van diverse modaliteiten betreffende de verhoging van de ontvangsten en de daling van de overheidsuitgaven".

Working Paper 1-97, February 1997.

LEBRUN I., MASURE L., "Loi de Robien" - Effets macroéconomiques et budgétaires d'une application en Belgique.

Working Paper 2-97, June 1997.

HENDRICKX K., HERTVELDT B., MASURE L.: "Doorlichting van verscheidene alternatieven ter herformulering van de MARIBEL - bijdrageverminderingen".

First national communication of Belgium in accordance with articles 4 and 12 of the United Nations Framework Convention on Climate Change, January 1997. Ministry of Social Affairs, Public Health and Environment.

Forthcoming Publications

Specification and Estimation of an Allocation System for Private Consumption in Europe, September 1997. Part of a European program aimed at building a macrosectoral model for Europe (E3ME model), the FPB is in charge of the allocation system for private consumption. The paper presents an empirical analysis of household consumption in 11 European countries.

Relocation and Internationalisation, October 1997. An update of the FPB-study (September 1994) on the effects of the global economy on Belgium with special reference to the effects on the labour market. Survey results are also presented.

Estimating the budgetary cost of an unemployed person, October 1997. Based on detailed data relating to unemployment allocations, income tax, consumer taxes and social security contributions, the direct budget-

ary cost attributed to unemployment is computed, taking into account the revenue losses for the state.

The evolution of working time during the last forty years: a statistical approach, October 1997. All available statistical data about working time in Belgium are provided and analysed, including some series prepared by the FPB, concerning working time arrangements in collective bargaining.

Modelling the Essen Employment Priorities, November 1997: (funded by the European Commission) Using the macrosectoral and international model HERMES-LINK, policy measures corresponding to the so-called "Essen Employment Priorities" are tested for Belgium, France and Germany. The analysis is focused on the macroeconomic consequences of labour cost reduction policies either in one country or in several countries simultaneously.

Forthcoming Events

The financing of social expenditure in the long run. The FPB is organising a two-day Conference on demographic changes and social expenditure in the long term. Calculations by the FPB have been made using new demo-

graphic projections and the pension reform. The Conference will take place December 2 and 3, 1997, in Brussels. Detailed program and practical information will be found in the STU of November.

Extension of the role of the FPB

The "Law on the co-ordination of the federal policies on sustainable development", published in the Moniteur of June 18 1997, extends the role of the FPB. The FPB will be responsible for the preparation of a four-year federal plan for sustainable development. The first report is expected by the end of 1999. Furthermore, the FPB will also undertake the drafting of a biannual report (to be

published from end 98 onwards) on an analysis and an assessment of the existing and future situation in Belgium. Finally, the FPB will coordinate an annual report on sustainable development policies and on the implementation of the plan in federal administrations and public institutions represented in the Interdepartmental Commission on Sustainable Development.

Recent history of major economic policy measures

July 1997	<ul style="list-style-type: none"> • The EU Amsterdam summit extended the “Stability and Growth Pact” to include an employment chapter. Countries with budget deficits above 3% of GDP could receive fines between 0.2% and 0.5% of GDP unless exceptional circumstances are recognised (e.g. an economic recession). • The Federal Government extended and changed the criteria for Maribel: reduction of employers' contributions to social security are based on the “blue-collar intensity” of each company; the total reduction of contributions is extended from 18 to 25 Billion.
May 1997	The Minister of Employment announced that the sectoral wage agreements for 97-98 provided for lower wage increases than the recommended maximum increase.
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	<p>The Federal budget 1997 was presented to Parliament. The major measures were:</p> <ul style="list-style-type: none"> • Increase in excise duties on petroleum and tobacco products and alcohol -expected impact (excises and VAT on excises included): 14 Billion; • Non-indexation of tax brackets in 97 and 98 -expected impact: 5.4 Billion BEF. • Taxes on the delivery of financial products -expected impact: 4 Billion BEF. • Other measures, including increases in company taxes - expected impact: 8.5 Billion BEF. • New pension system for the private sector to start in July 97 (among the measures: the same retirement age would gradually be applied for men and women).
August 1996	Three framework laws gave the Government extensive powers in the fields of: promoting employment and competitiveness, budgetary policy with a view to joining EMU, modernisation of the social security system. One of the laws defined a wage norm in which minimum and maximum increase of the remuneration for full time equivalent employees were defined. The maximum was to be the average increase in the three surrounding countries (Germany, France and the Netherlands); the minimum was to be the increase of the 'health index' and the increases in line with pay scales. This wage norm was to be applied from 1997 onwards.
October 1995	<p>The Federal Budget 1996 was presented with the main measures:</p> <ul style="list-style-type: none"> • Excises duties on petroleum products were increased (expected impact: 8.6 Billion, VAT included). • The 20.5% VAT rate was increased to 21% (expected impact: 12 Billion) from January 96 onwards. • "Tax" on diesel cars (impact: 6.7 Billion). • The withholding tax rate was increased to 15% from January 1996 onwards (after increases from 10% - see January 90 - to 10.3% in July 1993 and 13.39% in the beginning of 1994). • Application range of Art. 80 (exclusion of long unemployed) was to be further widened. • Extension of the number of "low paid workers" entitled to benefit from lower social security contributions to workers with a gross wage up to 60.000 BEF per month (applied from April 96 onwards).
December 1994	Inter-professional agreement 1995-96 was signed.
Januari 1994	The 19.5% VAT rate was increased to 20.5%. Excise duties on petroleum and tobacco products were also increased.
November 1993	<p>The Federal Government presented its 'Global plan'. The main measures were:</p> <ul style="list-style-type: none"> • A new price-index (the so-called 'health-index') was defined as the CPI excluding: petroleum and tobacco products, alcohol and a new energy tax (see September 1993). This price-index would be applied as a basis to link wages, house rent and social expenditures to prices. • A real wage-freeze in 1995-96. • Increase in indirect taxes (see January 1994). • Reduction of social security contributions, financed by “alternative” financing mechanisms (mainly by indirect taxes - see January 94).
September 1993	New energy tax on household consumption was introduced.
August 1993	<ul style="list-style-type: none"> • The EMS fluctuation bands were widened. • Reduction of employers contributions to social security in the "open sector" (so-called Maribel bis). • Several measures to encourage employment by reducing employers contributions to social security (e.g. the "Youth employment plan" - August 93 -, a measure aimed at low wage earners, leading to a reduction of labour costs by up to 12% for the lowest paid employees - April 94- and the “Advantage plan” - January 95 -.)
March 1993	The Social Partners concluded that competitiveness was endangered.
April 1992	VAT rates were aligned with EU norms
June 1990	The National Bank of Belgium announced that the BEF would be more closely linked with the stronger currencies of the EMS.
January 1990	The withholding tax rate on fixed income investments was reduced from 25% to 10% from March 90 onwards.

Abbreviations for names of institutions used in this publication

BLEU/UEBL	Belgisch-Luxemburgse Economische Unie / Union Economique Belgo-Luxembourgeoise
DULBEA	Département d'Economie Appliquée de l'Université Libre de Bruxelles
FEBIAC	Fédération Belge des Industries de l'Automobile et du Cycle "reunies"
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
IWH	Institut für Wirtschaftsforschung Hamburg
MEZ/MAE	Ministerie van Economische Zaken / Ministère des Affaires Economiques
MvF/MdF	Ministerie van Financiën / Ministère des Finances
NBB/BNB	Nationale Bank van België / Banque Nationale de Belgique
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
DEM	Deutsche Mark
ECU	European Currency Unit
EMS	European Monetary System
EMU	European Monetary Union
FRF	French Franc
GDP	Gross Domestic Product
ITL	Italian Lira
OLO	Obligations linéaires / Lineaire obligaties
PSBR	Public Sector Borrowing Requirement
s.a.	seasonally adjusted
t/t-4	growth rate between present quarter and the corresponding quarter previous year
t/t-12	growth rate between present month and the corresponding month previous year
USD	United States Dollar
VAT	Value Added Tax