

Quarterly Newsletter of the Federal Planning Bureau

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

HEADLINES BELGIAN ECONOMY

The medium-term outlook for Belgium points towards an average GDP growth rate of 2.1% during the period 2007-2012, which is slightly higher than the potential rate (2.0%) and similar to the average growth rate of the euro area. This pace of growth follows a strong rebound in 2006 (3.0%), mainly driven by domestic demand, in a context of an improvement in international economic activity.

The average yearly growth rate for private consumption should reach 1.8% during the period 2007-2012, which is slightly lower than the increase in households' disposable income. Purchasing power will especially be underpinned by employment growth in 2007 and 2008 and by higher increases in wages and social benefits at the end of the projection period. Investment growth should reach 2.7% during the period 2007-2012, reflecting the path of business investment growth (supported by high business profitability and stable demand prospects), but also an acceleration in public investment at the end of the projection period. Growth in exports should reach 5.7% on average and the contribution of net exports to GDP growth should amount to 0.2%-points. The external surplus, which was strongly reduced between 2002 and 2005, should (slowly) increase from 2007 onwards and attain 3.1% of GDP in 2012. The combination of moderate increases in domestic costs and limited rises in imported costs should allow the inflation rate to remain below 2% in the medium term.

The expected evolution of employment reflects a favourable macroeconomic context, limited wage increases (mainly at the start of the period) and various measures taken to promote employment. After a particularly high number of new jobs created in 2006 (44,000), employment growth should remain sustained: about 38,000 units should be created every year during the period 2007-2012. Between 2006 and 2012, manufacturing industrial employment should fall by 41,000 units but the number of jobs created in market services should exceed 256,000. As the number of newly created jobs is growing faster than the labour force, the unemployment rate (broad administrative statistics) should fall from 13.9% in 2006 to 12.0% in 2012.

Under the assumption of constant policy, public accounts are expected to present a net public financing surplus in 2007 (+0.1% of GDP) and to deteriorate in 2008 (-0.5% of GDP). During the following years, the net public financing requirement should gradually decline and the equilibrium should be restored at the end of the projection period, mainly thanks to a decrease in interest charges on the public debt. Consequently, the total public debt to GDP ratio is expected to decline from 87.5% in 2006 to 69.5% in 2012.

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

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Generating medium-term budget surpluses to finance the budgetary cost of ageing

In the Belgian Stability Programme, which was submitted to the Commission at the end of 2006, the government outlines its budgetary targets for the period 2007-2010: after an additional year of budget balance in 2006, the overall surplus to be reached by the authorities in 2007 is 0.3% of GDP. That surplus will then have to increase gradually by 0.2% of GDP annually so as to reach 0.9% by 2010. The 'ageing fund law' prescribes a budget surplus of 1.3% of GDP by 2012. If those objectives are not met, both the sustainability of Belgian public finances and the funding of future ageing-related expenditure will be undermined.

The budget surpluses planned by the Belgian government were set within the framework of a strategy which aims at enabling Belgian public finances to cope with the long-term budgetary effects of ageing. The targets were set by the government on the basis of an assessment of the budgetary cost of ageing that was carried out by the Study Committee on Ageing. Starting from this assessment, the "Public Sector Borrowing Requirement" section within the High Council of Finance (HCF) sketched a budgetary guideline for the middle and long term.

According to the "Economic Outlook 2007-2012" published by the Federal Planning Bureau (FPB), if policies are unchanged (and if no other one-off measures are taken from 2008 onwards), the objectives set within the Stability Programme will not be met (see Table 1).

Table 1 - Budget Forecasts and Objectives of the Stability Programme (2007-2010, in % of GDP)

	2006	2007	2008	2009	2010
Budget balance ^a					
-FPB's Economic Outlook 2007-2012	0.2	0.1	-0.5	-0.3	-0.1
-Objectives of the Stability Programme	0.0	0.3	0.5	0.7	0.9
-Gap	0.2	-0.2	-1.0	-1.0	-1.0

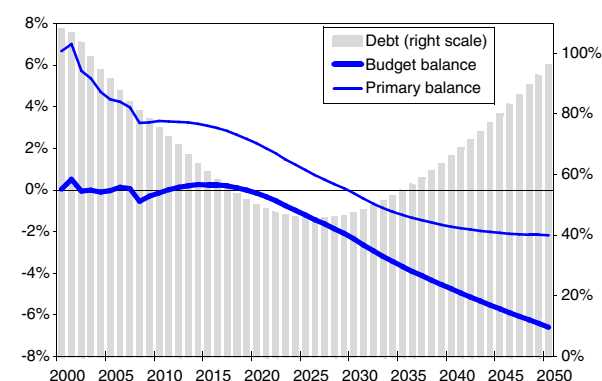
a. The budget balance is defined according to the Excessive Deficit Procedure.

Within a constant policy scenario, long-term prospects for public finances can be computed by supposing that, beyond 2012, the primary surplus is eroded by the budgetary cost of ageing¹. In such a scenario, the primary surplus, which is approximately stable in the middle term, gradually loses as much as 5.4% of GDP over the period 2013-2050. Fuelled by declining interest expenses, the budget balance improves up until 2014 when it

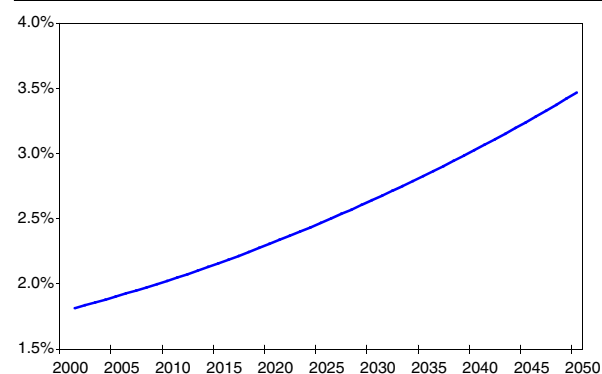
reaches its highest level at 0.3% of GDP. As a consequence of the erosion of primary surplus, a deficit appears in 2019 and gradually increases thereafter. As a result, the declining debt ratio stops falling as of 2027 and a new snowball effect begins, which sends interest expenses, deficit and public debt spiralling in a most unsustainable way (see Graph 1).

In order to evaluate the sustainability problem, and, above all, to assess the efforts needed to mitigate it, it is possible to calculate – as the European Commission does – an indicator called the "sustainability gap". The sustainability gap² measures the immediate and permanent efforts that need to be made in terms of primary surplus in order to avoid a debt that explodes in the long term. If the necessary adjustment is carried out and maintained permanently, the Belgian debt then tends to stabilise towards 2050³. At the stationary state (i.e. with primary surplus, economic growth and interest rates stabilised around their 2050 value), budget balance, interest expense and public debt all remain unchanged in terms of percentage of GDP.

Graph 1 - Unchanged policy scenario (in % of GDP)



Graph 2 - Evolution in time of the sustainability gap in the unchanged policy scenario (in % of GDP)



1. As defined and quantified in the last yearly report (May 2006) published by the HCF's Study Committee on Ageing. Growth hypotheses are taken from the same source. The long-term assumption for the real interest rate is 3%.

2. "S2" in the jargon of the European Commission.

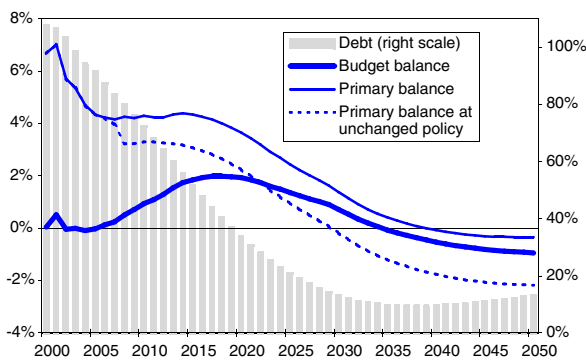
3. At any level, as the definition of the sustainability gap is not based on any specific level of debt.

Taking this unchanged policy scenario as a baseline, it is possible to calculate the adjustment rate that needs to be applied to the primary surplus at any given time. If carried out as of 2008, the necessary adjustment is estimated at 2.0% of GDP. As Graph 2 clearly shows, the longer one waits, the more strenuous the required effort will be. For example, if the adjustment is postponed until 2015, it will no longer be 2.0 but 2.2% of GDP. The cost of waiting may seem pretty low, but one has to keep in mind that we are talking about a permanent adjustment. Therefore, when cumulated year on year over several decades, an extra 0.2% of GDP effectively amounts to a considerable effort.

In its March 2007 report, the “Public Sector Borrowing Requirement” department within the HCF makes new recommendations for securing budgetary sustainability.

Those recommendations endorse the objectives included in the Stability Programme and in the “ageing fund law”, while they also recommend stepping up efforts by aiming at a budgetary surplus of 2% of GDP by 2017-2019. After this period it might start to erode, although at a sufficiently slow pace to prevent the deficit from exceeding 1% of GDP by 2050. Graph 3 outlines the recommended evolution of the budget balance, as well as of the corresponding primary surplus and debt ratio.

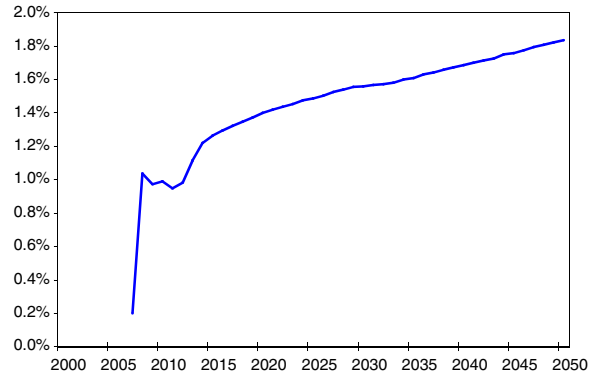
Graph 3 - Budget balance evolution as recommended by the HCF (in % of GDP)



Source: HCF (resimulated by FPB) and FPB.

The effort entailed by the curve recommended by the HCF corresponds to the gap between the primary balance in this scenario and the primary balance in the unchanged policy scenario. The gap is shown in Graph 4. In the HCF scenario, an effort representing 1% of GDP should be achieved immediately (in 2008) while the 0.8-0.9% remaining should be reached progressively.

Graph 4 - Effort entailed to reach the path recommended by the HCF (in % of GDP)



All in all, the effort remains below the sustainability gap of 2.0% of GDP. Nevertheless, we see in Graph 3 that the HCF scenario does maintain the public debt at a low level in the long term. Hence, respecting the HCF recommendations proves to be essential to address the sustainability issue of Belgian public finances.

References

Useful related information can be found in:

- *Belgium's Stability Programme (2007-2010) - update 2006*, Brussels, 2006.
- European Commission, Directorate-general For Economic And Financial Affairs, *The Long-Term Sustainability of Public Finances in the European Union (Annex I: Deriving the sustainability Indicators)*, European economy no. 4/2006, Office for Official Publications of the EC, 2006
- Federaal Planbureau/Bureau Federal du Plan, *Economische vooruitzichten 2007-2012/Perspectives économiques 2007-2012*, Brussels, May 2007.
- Hoge Raad van Financiën/Conseil Supérieur des Finances, *Studiecommissie voor de vergrijzing/Comite d'etude sur le vieillissement, Jaarlijks verslag/Rapport annuel*, Brussels, May 2006.
- Hoge Raad van Financiën/Conseil Supérieur des Finances, Afdeling "Financieringsbehoeften van de overheid"/Section "Besoins de financement des pouvoirs publics", *Naar houdbare en intertemporeel neutrale overheidsfinanciën in het licht van de vergrijzing/Vers des finances soutenables et neutres sur le plan intertemporel dans le contexte du vieillissement*, Brussels, March 2007.
- Loi du 20 décembre 2005 modifiant la loi du 5 septembre 2001 portant garantie d'une réduction continue de la dette publique et création d'un Fonds de vieillissement/Wet van 20 december 2005 tot wijziging van de wet van 5 september 2001 tot waarborging van een voortdurende vermindering van de overheidsschuld en tot oprichting van een Zilverfonds, Belgisch Staatsblad/Moniteur belge, 14 March 2006.

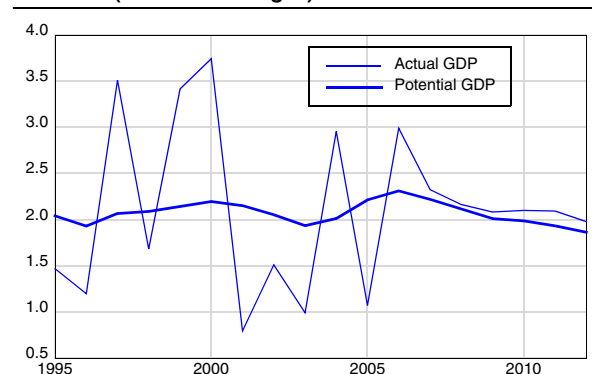
Economic forecasts 2007-2012

The FPB medium-term economic outlook of May 2007 covers the period 2007-2012 and presents detailed analyses of macroeconomic, sectoral and labour market developments. There is also detailed comment on the public finance performance of the federal government, regions and communities, local authorities and social security departments. A special chapter is devoted to the evolution of energy consumption and greenhouse gas emissions. This projection is an unchanged policy scenario, particularly with regard to fiscal and social policies and institutional arrangements, taking into account all currently known decisions. Based on this scenario, the general government financing capacity is expected to be negative from 2008 onwards and an imbalance should persist until 2010. As a result, the objective of a financing capacity of 0.3% of GDP in 2007, increasing thereafter by 0.2% yearly until reaching 0.9% of GDP in 2010 (as set out in the Stability Programme) will not be reached without additional measures.

After a strong acceleration of growth in the euro area in 2006 (2.8%), a less buoyant, but still solid expansion of GDP is expected for 2007. After this (period 2008-2012), euro area GDP growth should stabilise at a rhythm close to its potential (2% per year). Inflation should gradually decrease below 2%, particularly due to wage increases that are expected to remain below productivity gains. Moreover, a recovery in nominal interest rates is also being considered. This increase in interest rates would be consistent with inflation remaining under control.

Belgian economic activity has gradually accelerated since 2005 and GDP growth reached 3% in 2006. Output growth is expected to decelerate slightly in 2007 (2.3%). This improved performance on the years 2006-2007 can be accounted for by domestic demand, as well as by an acceleration of exports (as a result of sustained growth in Belgium's main trading partners). From 2008 onwards, Belgian GDP growth should stabilise slightly above its potential (equal to 2% on average).

Graph 1 - Actual and potential GDP growth (annual % changes)



After moderate growth in 2005, private consumption has become more dynamic in 2006, particularly thanks to favourable development of household disposable income (stimulated especially by reductions in personal income tax and by the rise in employment). From 2007 onwards, growth in household demand should stabilise at a rate equal to 1.8% on average. Gross fixed capital formation, which was particularly dynamic in 2006, should still perform favourably in the future: the rate of increase in investment should be 2.7% for the period 2007-2012, mainly reflecting an increase in business investment, but also an acceleration of public investment at the end of the projection.

Growth in exports should be 5.7% on average and the contribution of net exports to GDP growth is expected to be 0.2%. The external surplus, which was strongly reduced between 2002 and 2005, should grow again and attain 3.1% of GDP in 2012. The level of the external surplus also reflects a high level of domestic savings, compared to European standards.

Limited wage increases (lower than productivity gains), the increase in interest rates, a negative output gap until 2012 and a moderate increase in imported costs are the main factors accounting for an inflation rate that will remain below 2% in the medium term.

In a context of a favourable macroeconomic environment (GDP growth equalling 2.1% per year on average) and persistently modest labour productivity growth (1.4% per year), employment will increase substantially (0.9% growth per year; 226,000 extra jobs between 2006 and 2012). This increase will be accompanied by ongoing structural shifts in the sectoral composition of employment, with manufacturing incurring a further loss of 41,000 jobs and market services gaining 256,000 jobs to bring its share in total employment to 61.6% in 2012 (43.2% in 1980 and 58.8% in 2006).

Labour productivity growth has been falling dramatically since the eighties, but is now stabilizing at a historically low rate. It will even strengthen slightly after 2008, when wage demands are expected to gradually increase - in line with anticipated wage growth in Belgium's main trading partners - and the moderating impact of government measures aimed at decreasing non-wage labour costs will gradually erode. Still, real unit labour costs will fall by a further 0.3% on average, with the share of wages in value added diminishing from 60.9% in 2006 to 60% in 2012.

With value added growth slightly falling and productivity growth slightly increasing over the next

years, employment growth will gradually level off (from 1.1% in 2007 to 0.7% in 2012). However, based on current official population forecasts, the growth in the working-age population will diminish even faster (from 0.5% in 2007 to -0.1% in 2012). Hence, the employment rate will increase from 62.2% in 2006 to 64.8% in 2012, at an accelerating pace.

Because the age structure of the population of working age is shifting in favour of the older age groups - whose participation rates tend to be lower than average - the overall contribution of demographic factors to labour force growth is turning negative. On the other hand, labour force growth will be supported by the structural rise in the female activity rate and by policy measures designed to boost activity at the top of the age scale. On balance, the labour force will still grow in the medium run (0.5% on average per year; increase of 147,000 persons), but by far less than employment. Unemployment will hence diminish substantially over the period (80,000 persons) and the unemployment rate will fall from 13.9% in 2006 to 12.0% in 2012. This labour market scenario implies a considerable decrease in the structural unemployment rate. The underlying assumption is that the upward pressure on the latter from an ageing and regionally unevenly growing labour supply will be sufficiently countered by the various measures in place that are aimed at enhancing an active search of the labour market and increasing the pay-off of job seeking.

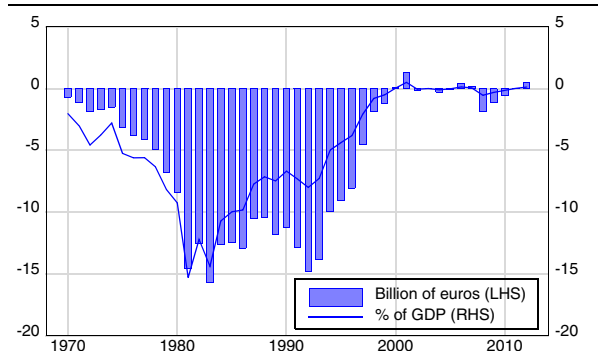
As usual, the exercise assumes that policy will remain constant. The projection takes into account the measures decided within the framework of the 2007 budget control. The finances of the general government will remain balanced or even slightly positive until 2007 (a surplus of 0.1% of GDP in 2007). In 2008, a deficit of 0.5% of GDP should be recorded if no new measures are taken by the government. The deficit should then reduce gradually and finally turn into a slight surplus by 2012 (0.1% of GDP).

The objectives set out in the Stability Programme (a financing capacity of 0.3% of GDP in 2007, increasing thereafter by 0.2% yearly until reaching 0.9% of GDP in 2010) will not be reached without additional measures for about 1% of GDP. Nevertheless, the total public debt to GDP ratio will continue to decline, from 83.8% in 2007 to 69.5% in 2012.

Since 2000, although the primary surplus has been constantly deteriorating (-2.4% of GDP in total between 2000 and 2006), the budget balance has been able to be preserved due to a drop in interest charges (-0.4% of GDP on average each year). One-shot measures have constantly contributed to balancing the budget. In 2007 and 2008, the primary surplus will deteriorate further and the budget will go into deficit in 2008 if no new

measures are taken. As from 2008, the primary surplus should finally stabilise at roughly 3.2% of GDP but the fall in interest charges, limited to -0.2% of GDP a year, will not leave as much room for manoeuvre as in the past.

Graph 2 - Net lending (+) or net borrowing (-), general government



The last chapter discusses the evolution of energy consumption and greenhouse gas emissions. Due to high energy prices (which stimulate the penetration of energy-efficient technologies) and structural changes in the economy, final energy consumption should grow moderately by 0.7% per year on average, whereas the energy-intensity of GDP should decrease yearly by 1.4% on average. Total greenhouse gas emissions (CO₂, CH₄, N₂O, HFC, PFC, SF₆) should decrease slightly due to moderate energy consumption and to structural changes in the energy consumption mix. However, in the period 2008-2012 total emissions should still be 4.3% higher than the objective defined by the Kyoto Protocol. Further efforts should be made in order to reach this target.

Key figures for the medium-term economic outlook
period averages - changes in volume unless otherwise stated

	1991- 2000	2001- 2006	2007- 2012
Potential export market	6.7	5.4	6.9
Private consumption	2.0	1.3	1.8
Public consumption	1.8	1.6	2.1
Gross fixed capital formation	1.8	2.2	2.7
Stock building (contribution to GDP growth)	0.1	0.1	0.0
Final domestic demand	2.0	1.6	2.0
Exports	4.9	2.9	5.7
Imports	4.6	2.8	5.7
Net exports (contribution to GDP growth)	0.4	0.2	0.2
GDP	2.1	1.7	2.1
Private consumption prices	1.8	2.1	1.9
Real disposable income households	1.6	0.8	1.9
Domestic employment (annual changes in '000)	22.6	27.5	37.7
Unemployment, FPB definition ^a			
- thousands	599.5	695.4	615.7
- % of labour force	12.6	13.9	12.0
Current account balance (% of GDP) ^a	4.2	2.4	3.1
General government financing capacity (% of GDP) ^a	0.0	0.1	0.1

a. End of period.

"Perspectives économiques 2007-2012 / Economische vooruitzichten 2007-2012", FPB, May 2007.

Economic forecasts for Belgium by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (cut-off date of forecasts: 15 April 2007)

	2005	2006	2007	2008
Private consumption	0.9	2.4	2.0	1.5
Public consumption	-0.6	0.9	2.3	2.7
Gross fixed capital formation	4.0	4.1	2.9	2.8
Final national demand	1.5	3.2	2.2	2.0
Exports of goods and services	2.8	3.7	6.4	5.7
Imports of goods and services	3.5	3.8	6.4	5.7
Net-exports (contribution to growth)	-0.5	0.0	0.2	0.2
Gross Domestic Product	1.1	3.0	2.3	2.2
p.m. Gross Domestic Product - in current prices (bn euro)	298.54	313.15	327.62	341.35
National consumer price index	2.8	1.8	1.8	1.9
Consumer prices: health index	2.2	1.8	1.9	1.9
Real disposable income households	0.9	2.5	2.0	1.8
Household savings ratio (as % of disposable income)	13.2	13.3	13.3	13.4
Domestic employment (change in '000, yearly average)	40.8	44.1	47.1	40.2
Unemployment (Eurostat standardised rate, yearly average) [1]	8.4	8.3	8.0	7.9
Current account balance (BoP definition, as % of GDP)	2.6	2.0	2.3	2.4
Short term interbank interest rate (3 m.)	2.2	3.1	4.0	4.0
Long term interest rate (10 y.)	3.4	3.8	4.2	4.3

[1] Other unemployment definitions can be found on page 14

Economic forecasts for Belgium by different institutions

	GDP-growth		Inflation		Government balance		Date of update
	2007	2008	2007	2008	2007	2008	
Federal Planning Bureau [1]	2.3	2.2	1.8	1.9	0.1	-0.5	05/07
INR/ICN [1]	2.2	.	1.8	.	.	.	02/07
National Bank of Belgium [2]
European Commission [2]	2.3	2.2	1.8	1.8	-0.1	-0.2	05/07
OECD [2]	2.3	2.1	1.7	1.8	-0.2	-0.2	11/06
IMF [2]	2.2	2.0	1.9	1.8	0.0	0.0	04/07
ING [1]	2.4	1.9	1.8	1.9	0.1	-0.5	05/07
Fortis Bank [2]	2.3	.	2.1	.	-0.5	.	03/07
Dexia [1]	2.4	2.4	1.8	1.9	.	.	04/07
KBC Bank [1]	2.7	2.0	1.8	2.0	-0.3	-0.1	05/07
Petercam [1]	2.3	.	1.9	.	-0.3	.	05/07
IRES [1]	2.2	.	1.7	.	0.3	.	04/07
Consensus Belgian Prime News [2]	2.3	2.2	1.9	1.9	-0.1	0.0	03/07
Consensus Economics [2]	2.3	2.2	1.7	1.8	.	.	03/07
Consensus The Economist [2]	2.4	2.2	1.8	1.9	.	.	05/07
Consensus Wirtschaftsinstitute [2]	2.5	2.4	1.7	1.7	-0.2	-0.3	04/07
Averages							
All institutions	2.3	2.2	1.8	1.9	-0.1	-0.2	
International public institutions	2.3	2.1	1.8	1.8	-0.1	-0.1	
Credit institutions	2.4	2.1	1.9	1.9	-0.2	-0.2	

[1] Inflation forecasts based on the evolution of the national index of consumer prices

[2] Inflation forecasts based on the evolution of the harmonised index of consumer prices

General economic activity

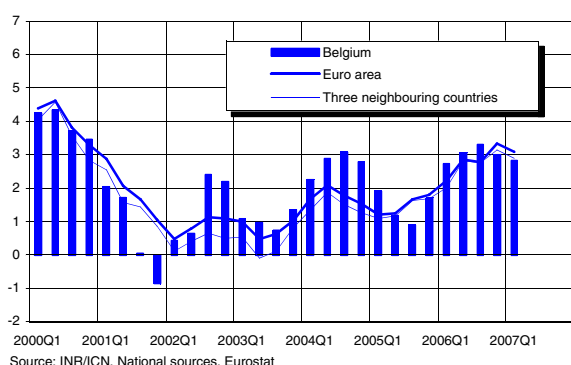
Table 1 - GDP growth rates, in % [1]

	2005		2006		YoY growth rates, in %					QoQ growth rates, in %				
	2005	2006	2006Q1	2006Q2	2006Q3	2006Q4	2007Q1	2006Q1	2006Q2	2006Q3	2006Q4	2007Q1		
Germany	1.1	3.0	1.9	2.9	3.2	3.9	3.6	0.8	1.2	0.8	1.0	0.5		
France	1.7	2.2	1.9	2.7	2.1	2.2	2.0	0.7	0.9	0.1	0.5	0.5		
Netherlands	1.5	2.9	2.6	3.0	2.9	2.9	2.8	0.6	0.9	0.7	0.6	0.6		
Belgium	1.4	3.0	2.7	3.1	3.3	3.0	2.8	0.8	0.7	0.8	0.7	0.6		
Euro area	1.5	2.8	2.2	2.8	2.8	3.3	3.1	0.8	1.0	0.6	0.9	0.6		
United States	3.2	3.3	3.7	3.5	3.0	3.1	2.1	1.4	0.6	0.5	0.6	0.3		
Japan	1.9	2.2	2.7	2.1	1.5	2.4	2.2	0.8	0.3	0.1	1.2	0.6		

[1] Adjusted for seasonal and calendar effects

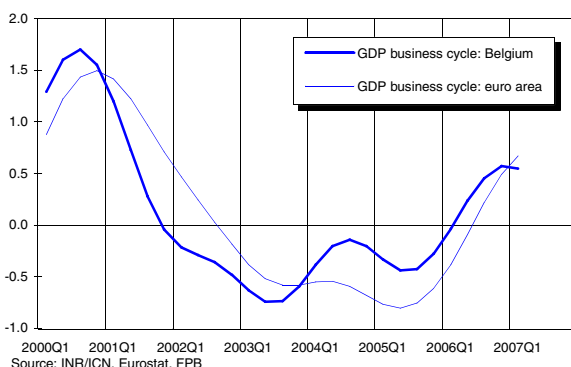
Source: INR/ICN, National sources, Eurostat

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



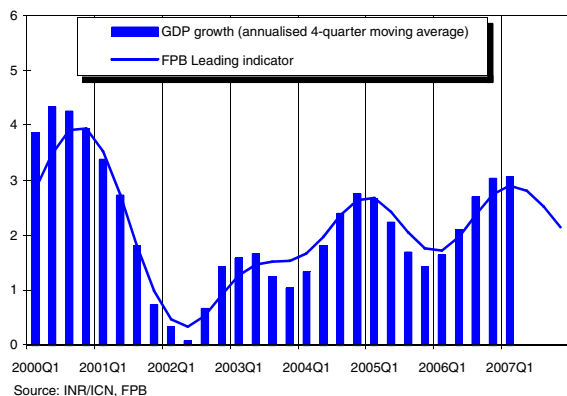
Source: INR/ICN, National sources, Eurostat

Graph 2 - GDP business cycle



Source: INR/ICN, Eurostat, FPB

Graph 3 - GDP growth and leading indicator



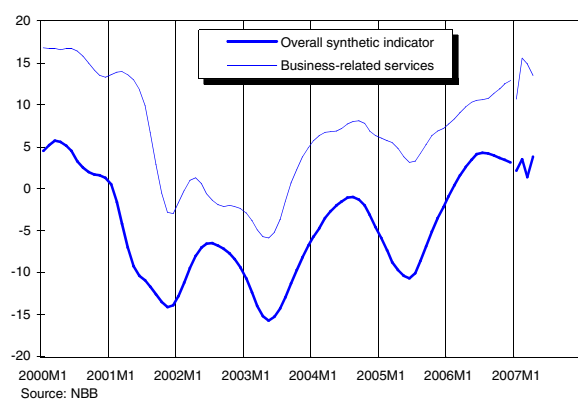
Source: INR/ICN, FPB

US qoq economic growth cooled down in the course of 2006 and slowed further to only 0.3% in 2007Q1, the weakest growth rate in four years. This profile is largely due to the fall in residential investment, which is likely to continue to weigh on economic growth throughout 2007. Its impact on economic activity will also depend on the extent to which the cooling of the housing market will affect the rest of the economy. Consumer spending has been resilient up to 2007Q1, but will probably moderate somewhat, partly due to wealth effects from falling house prices. As a result, economic growth should slow down from 3.3% in 2006 to about 2.2% in 2007.

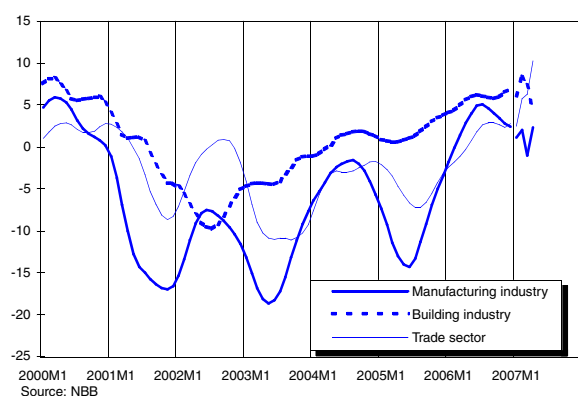
Japan recorded a robust GDP growth of 2.2% in 2006, but qoq growth has been highly volatile in recent quarters. Business investment was the main engine of GDP growth in 2006. This is expected to remain so throughout 2007, although private consumption growth should also accelerate in response to the improved situation in the labour market. GDP should continue to grow at a rate of around 2%.

Euro area GDP growth almost doubled from 1.5% in 2005 to 2.8% in 2006. Growth was broadly based (buoyant domestic demand as well as vigorous export performance). Euro area qoq growth cooled down to 0.6% in 2007Q1 (from 0.9% in 2006Q4), but outperformed the US for the fourth consecutive quarter. Moreover, the negative impact of the German VAT hike appears to be weaker than earlier assumed. Although no significant pick-up in qoq growth is expected, euro area growth should remain close to 2.5% for 2007 as a whole, thanks to the substantial carry-over from 2006. Among Belgium's main trading partners, Germany was the fastest grower in 2006Q4 (1% qoq), which was partly due to a carry forward of demand at the expense of 2007Q1 (0.5% qoq) in response to the VAT hike. Compared to France, Belgian qoq economic growth has been very stable throughout the course of 2006 (0.7-0.8%). The FPB leading indicator has clearly reached a turning point in 2007Q1 and points to less buoyant, but still solid GDP growth in 2007 as a whole (exceeding 2%).

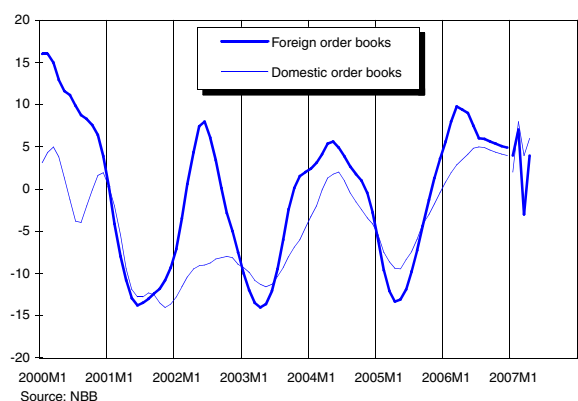
Graph 4 - Business cycle: global evolution



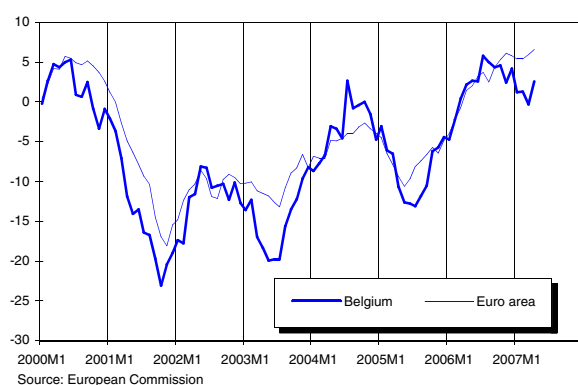
Graph 5 - Business cycle: sectoral evolution



Graph 6 - Manufacturing industry: order books



Graph 7 - Industrial confidence: international comparison



Business confidence (shown as the overall synthetic indicator in Graph 4) peaked by mid-2006 and has declined somewhat since then. This downturn is mainly due to developments in the manufacturing industry, while confidence in the other sectors covered by the NBB business survey does not yet provide any clear signs of a downturn. Sentiment in the trade sector and the building industry levelled off during the second half of last year, but the smoothed indicators of these sectors (shown in Graph 5) have remained rather stable so far. At the same time, business-related services' confidence, which is not taken into account in calculating the overall synthetic indicator, continued its upturn that had started by mid-2005.

As the current downturn in overall sentiment originates from the evolution in one sector, it is a lot less vigorous than previous downturns.

Graph 6 indicates that the worsening in *manufacturing industry* sentiment mainly stems from a weakening of export orders while domestic order books remain relatively well-filled (without improving any further, however). In fact, exports suffered from the decline in economic growth in the US, whereas economic activity in other economic areas remained moderately vigorous up to 2007Q1. As the manufacturing industry is the most export-oriented sector covered by the NBB survey, the downturn mainly affects that sector. Although demand prospects have continued their downward path, employment prospects have remained more or less stable since mid-2006. This is probably due to businesses' uncertainty about the strength of the downturn, which prevents them from laying-off employed persons. Sentiment in the *trade sector* improved considerably during the first months of this year. This is almost exclusively due to an acceleration in turnover and more optimistic demand prospects. The *building industry* indicator tended to improve in February and March because of an increase in current activity. The rise proved to be temporary as the indicator returned in April to a level consistent with the stable path it has registered since mid-2006. During the first few months of this year, the indicator for *business related services* remained upwardly-oriented. This was mainly due to an improvement in observed activity, while activity and employment expectations remained rather stable.

Graph 7 shows that business confidence in the euro area has levelled off during the last few months, without showing any signs of a downturn. This profile is also seen in German industrial confidence. Belgian economic activity thus seems to be moving ahead of developments in the euro area as whole.

Private consumption

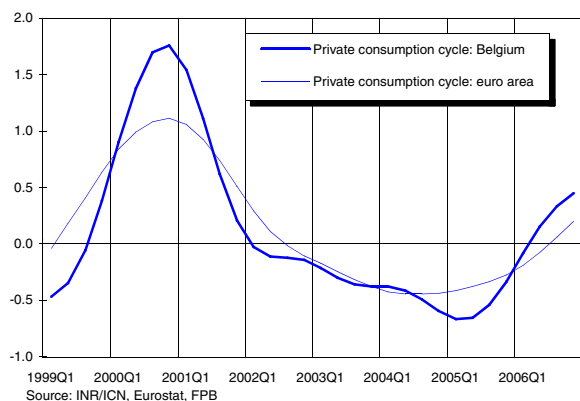
Table 2 - Private consumption indicators

	2005	2006	2006Q2	2006Q3	2006Q4	2007Q1	2006M11	2006M12	2007M1	2007M2	2007M3	2007M4
Turnover (VAT) - retail trade [1]	3.5	3.2	4.1	3.9	1.1	.	1.3	-1.3	5.9	5.4	.	.
New car registrations [1]	-1.0	9.6	6.9	2.5	4.6	-7.8	-2.0	1.2	-3.9	-10.4	-8.9	-6.7
Consumer confidence indicator [2]	-7.6	-2.7	-4.4	-1.6	-0.1	-1.0	1.8	-6.0	-2.2	-0.7	-0.2	1.3

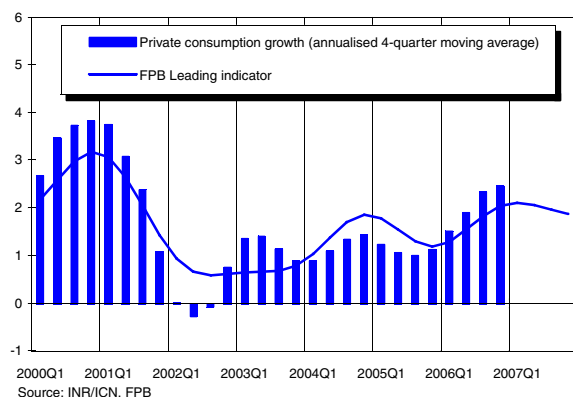
[1] Change (%) compared to same period previous year; [2] Qualitative data

Source: DGSD, European Commission, Febiac

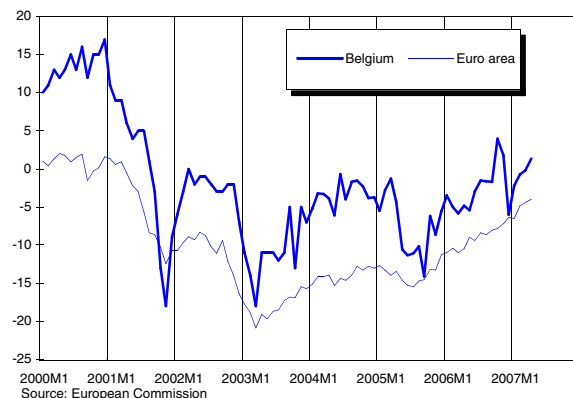
Graph 8 - Private consumption cycle



Graph 9 - Private consumption growth and leading indicator



Graph 10 - Consumer confidence: international comparison



The private consumption cycles in Belgium as well as in the euro area continued their upward path throughout 2006. While both cycles were in negative territory from 2003 to 2005, they became positive in the course of last year. This means that private consumption is exceeding its trend level.

Between 2002 and 2005, the real disposable income of Belgian households more or less stabilised, on average. Although private consumption growth was rather subdued during these years (around 1% on average), the savings rate fell by more than 3%-points. In 2006, real disposable income growth (2.5%) benefited from completion of the personal income tax reform and a significant rise in employment. As private consumption grew at the same pace, the savings rate stabilised. From 2007 onwards, disposable income growth should slow down as it is no longer fuelled by the fiscal reform.

The image given by private consumption indicators is rather mixed. Consumer confidence has recovered from the dip seen at the end of 2006, which was due to the announcement of massive job losses in the motor vehicle industry. As another major company in that industry recently announced lay-offs, consumer confidence risks declining again in May. Retail trade registered higher yoy growth rates in January and February 2007 than in 2006 on average, which points to strong private consumption growth in 2007Q1. From January to April, new car registrations have been lower this year than in 2006. This should not come as a surprise as car sales in 2006 were boosted by the motor show held in Brussels once every two years. The FPB leading indicator, which summarises these various evolutions, points to a slight cooling of private consumption growth in the course of this year.

Euro area consumer confidence continued its upward trend during the first few months of this year. This benign evolution is mainly due the optimism of German consumers as consumer confidence in most other euro area countries stabilised or even declined slightly.

Business investment

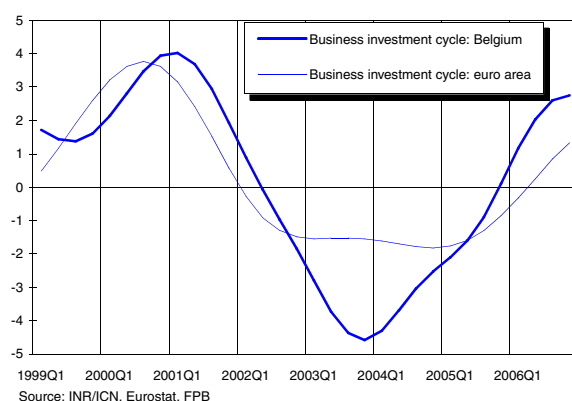
Table 3 - Business investment indicators

	2005	2006	2007	2006Q2	2006Q3	2006Q4	2007Q1	2006M10	2006M11	2006M12	2007M1	2007M2
Investment (VAT) [1]												
Industrial companies	4.5	6.9	.	7.7	4.2	6.9	.	5.9	19.8	-0.6	26.8	5.6
Non-industrial companies	8.4	1.8	.	-17.0	13.3	14.8	.	15.2	8.7	19.1	12.7	20.4
Total companies	7.1	3.9	.	-9.8	10.6	12.5	.	12.4	13.1	12.1	17.2	15.1
Investment survey [1]	-1.7	3.2	19.6									
Capacity utilisation rate (s.a.) (%)	79.4	83.4	.	84.0	83.4	83.2	82.7					

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

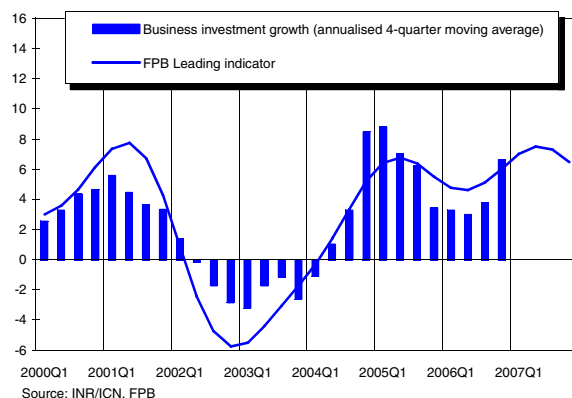
Source: DGSB, NBB

Graph 11 - Business investment cycle



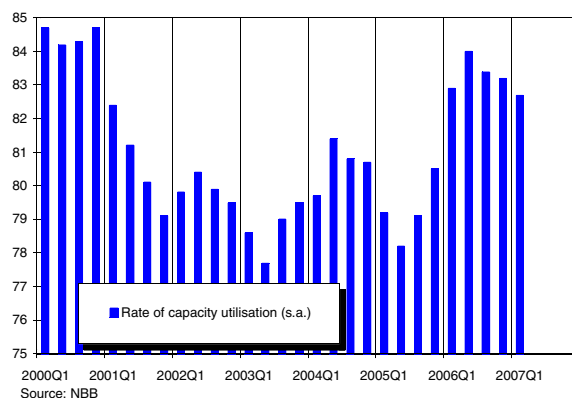
From 2001 to 2003, the Belgian business investment cycle experienced an uninterrupted decline, as did the Belgian business cycle (see page 8, Graph 2). This period of sub-trend growth was followed by three years in which business investment grew faster than its trend. Recently, however, the Belgian investment cycle has showed some signs of levelling off. This is probably caused by a slight weakening in economic growth, as can be seen in the Belgian GDP cycle that peaked in 2006Q4. The latest downturn and upturn in the euro area investment cycle have been much less pronounced than in Belgium. There were no signs of deterioration in the euro area cycle by the end of last year.

Graph 12 - Business investment growth and leading indicator



In 2006, Belgian business investment recorded a positive growth rate (6.6%) for the third consecutive year. As business investment also grew faster than GDP during these three years, the investment rate (business investment as a percentage of GDP at current prices) rose from 12.6% in 2003 to 13.8% in 2006. Graph 12 shows that business investment growth accelerated heavily in 2004, decelerated in 2005 and improved again in 2006. These movements include, however, considerable amounts of sales of public buildings to the private sector and exceptional purchases of (imported) sea vessels. Without taking these factors into account (as in Graph 11) yearly business investment growth was lower in 2004 and 2005, and higher in 2006.

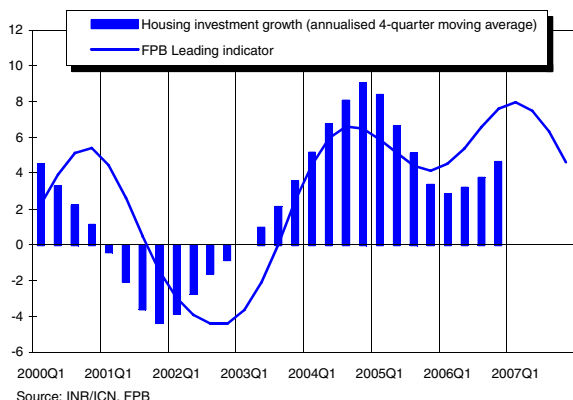
Graph 13 - Capacity utilisation in manufacturing industry



In the course of 2006, capacity utilisation rates were at their highest level since 2000. From mid-2006 onwards they have eroded, although they have remained at a high level. As economic growth should moderate somewhat during the next few quarters, the decline in capacity utilisation is expected to continue, which should bring about a deceleration in business investment growth. VAT-based investment statistics point, however, to strong growth during 2007Q1 as yoy growth rates continued to rise during the first two months of this year. This confirms the image drawn by the FPB leading indicator that points to a slowdown in business investment during the second half of this year.

Housing investment

Graph 14 - Housing investment growth and leading indicator

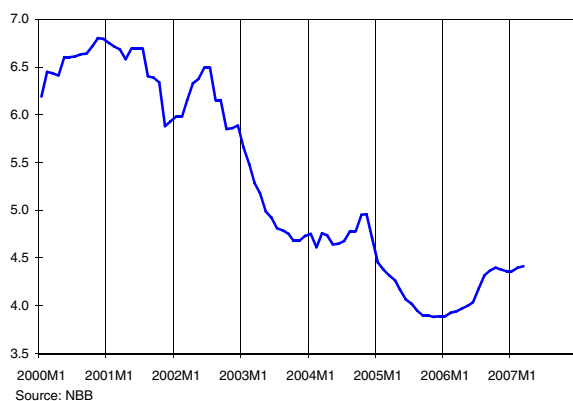


After an impressive increase in housing investment in 2004 (9%), its growth rate fell to less than 3.5% in 2005. During the first three quarters of 2006, however, qoq housing investment growth accelerated to 1.9% in 2006Q3, which resulted in an average annual increase of 4.7%.

During the previous cycle (2000-2003), the FPB leading indicator had some problems in replicating the observed path of housing investment. In fact, it was not able to predict the turning points in the housing investment cycle and behaved more as a lagging than a leading indicator. From 2004 onwards, however, the turning points in the growth cycle have been correctly reproduced by the indicator. For 2007, the FPB indicator points to a slowdown in housing investment growth as mortgage applications and architects' expectations about future activity have been on a downward path during the past few quarters. Moreover, the indicator that captures activity in the residential construction sector (from the NBB business survey) has worsened considerably since the beginning of 2007.

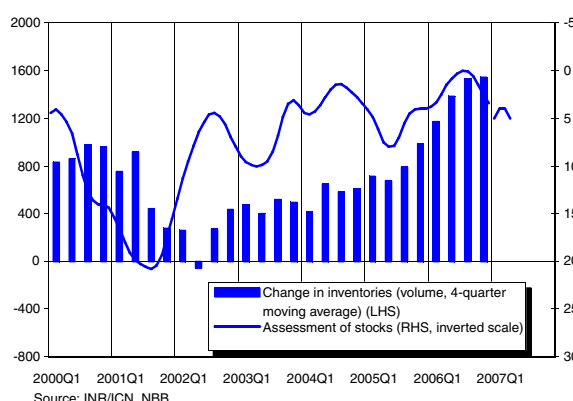
Housing investment also risks being mitigated by the rise in the mortgage rate since the beginning of 2006. Although the rate is still very low in nominal as well as in real terms, the recent mortgage rate rise implies a significant increase in financing costs.

Graph 15 - Mortgage rate (%)



Stock building

Graph 16 - Stock building indicators



Last year, stock building continued its upward trend and contributed positively to economic growth for the fifth consecutive year. During this period, stocks added, on average, 0.3%-points to economic growth, compared to a slightly negative contribution during the previous five years (1997-2001).

Together with the (limited) deceleration in economic growth, company owners' assessment of stocks has been on a declining path since 2006Q4 (Graph 16). This means that an increasing number of company owners consider their stocks as excessive, which should trigger a reversal in the upward trend in stock building. Consequently, stocks should be neutral to economic growth next year.

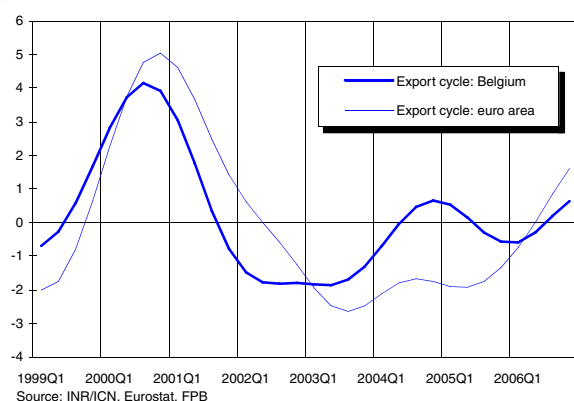
Foreign Trade

Table 4 - Belgium - Trade statistics (goods, intra/extrastat, national concept)

	2005	2006	2006Q1	2006Q2	2006Q3	2006Q4	2006M9	2006M10	2006M11	2006M12	2007M1	2007M2
Exports - value [1]	7.0	6.9	9.0	5.2	5.2	8.1	1.4	17.0	7.9	-0.5	10.4	4.6
Imports - value [1]	8.9	7.9	13.7	5.8	6.1	6.0	2.3	14.0	7.0	-2.1	5.3	2.6
Exports - volume [1]	0.4	1.7	1.6	0.1	0.3	4.8	-1.8	14.5	4.2	-4.0	9.0	3.7
Imports - volume [1]	1.2	3.0	4.3	-0.1	2.2	5.3	0.8	14.7	5.1	-2.6	10.0	5.2
Exports - price [1]	6.5	5.1	7.3	5.0	4.9	3.2	3.2	2.2	3.6	3.7	1.2	0.8
Imports - price [1]	7.6	4.8	9.1	5.9	3.9	0.6	1.6	-0.5	1.9	0.5	-4.3	-2.4

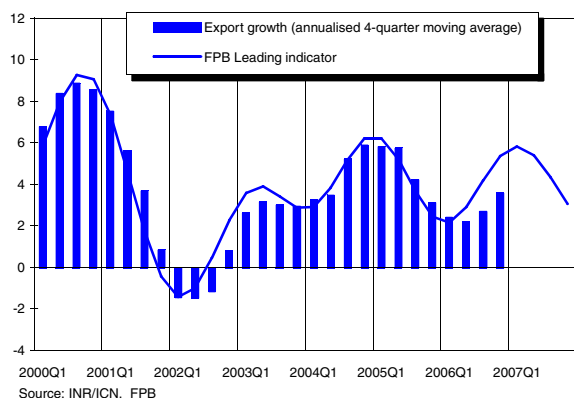
[1] Change (%) compared to same period previous year
Source: INR/ICN

Graph 17 - Export cycle



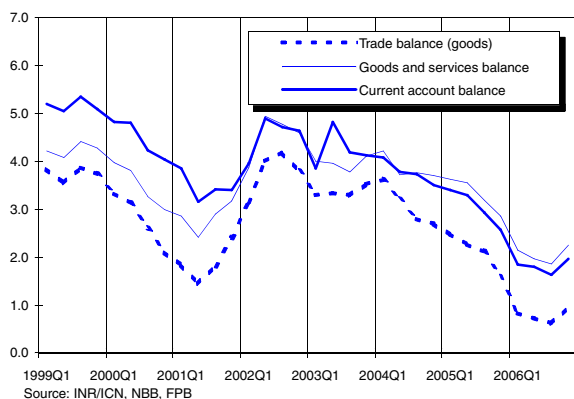
The Belgian export cycle peaked by the end of 2004, decreased slightly in the course of 2005 and bottomed out by the end of that year. Since mid-2006, Belgian exports have been above their trend level again. All in all, Belgian export growth has remained close to its trend growth over the last three years. Over the last two years Belgian exports grew by 3.4% per year on average, while euro area exports rose by 6.3% on average. This growth differential made the euro area cycle overtake the Belgian export cycle in the course of 2006. Within the euro area, exports were especially strong in Germany, Finland and Austria, while Spain and Italy posted weak export performances.

Graph 18 - Export growth and leading indicator



The revision of the Belgian quarterly national accounts turned the surprising weakness of exports in 2006H1 and the remarkable surge in 2006H2 into a more balanced quarterly export growth profile (0.9% per quarter on average in 2006H1 and slowed slightly to 0.8% in 2006H2). During the course of 2007 quarterly export growth should weaken again because of a slowdown in world economic growth (especially in the US). Furthermore, the continuous appreciation of the euro since the beginning of 2006 should hamper exports in 2007.

Graph 19 - Belgian foreign balances (4 quarters cumul,% of GDP)



This less favourable outlook for Belgian exports is confirmed by the FPB composite leading indicator, which also points to a deceleration in export growth in 2007.

Thanks to a substantial decrease in oil prices, resulting in negative yoy growth rates of Brent oil prices expressed in euro, import price growth has turned negative lately and has moved decisively below export price growth. These trends are expected to continue in the course of 2007, leading to an improvement in the terms of trade.

The Belgian current account surplus declined from 2.5% of GDP in 2005 to 2.2% of GDP in 2006 as export growth turned out lower than import volume growth. This year a small improvement of the surplus seems likely thanks to an improvement in terms of trade.

Labour market

Table 5 - Labour market indicators

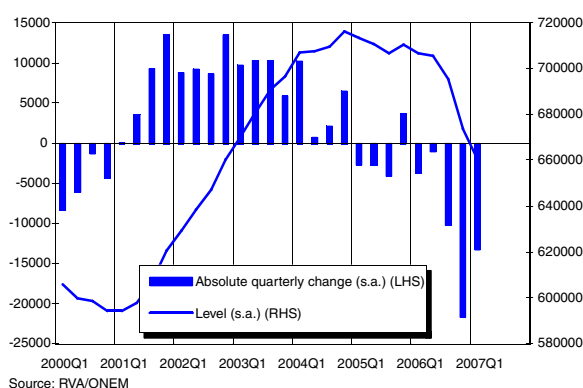
	2005	2006	2006Q2	2006Q3	2006Q4	2007Q1	2006M11	2006M12	2007M1	2007M2	2007M3	2007M4
Unemployment [1][2]	710.4	695.4	705.6	695.4	673.7	660.4	673.8	667.1	666.7	660.6	654.0	653.5
Unemployment rate [2][3]	14.3	13.9	14.1	13.9	13.5	13.2	13.5	13.3	13.3	13.2	13.0	13.0
Unemployment rate-Eurostat [3][4]	8.4	8.2	8.4	8.1	7.9	7.7	7.9	7.8	7.8	7.7	7.6	7.6

[1] Level in thousands, s.a.; [2] Broad administrative definition; [3] In % of labour force, s.a.

[4] Recent figures are based on administrative data and may be subject to revision

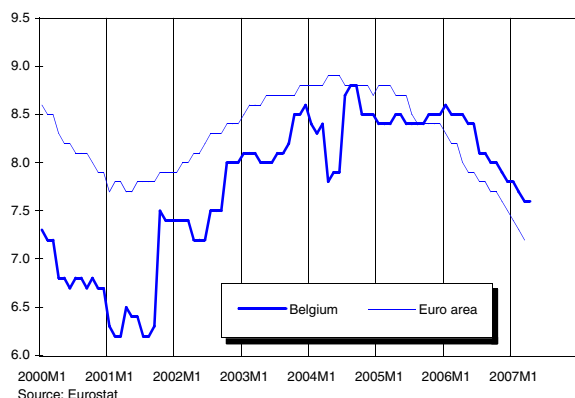
Source: RVA/ONEM, FPS Employment, Eurostat, FPB

Graph 20 - Evolution of unemployment (incl. older)



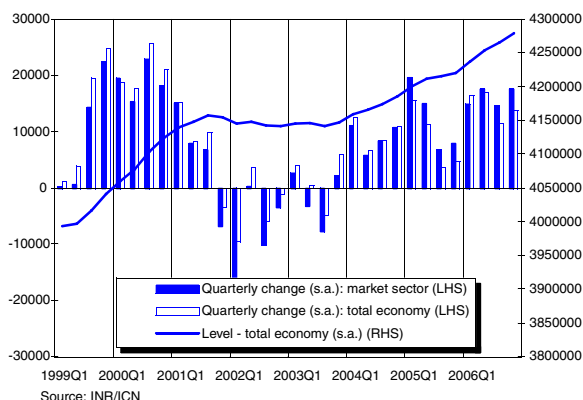
Source: RVA/ONEM

Graph 21 - Harmonised unemployment rates (% of labour force)



Source: Eurostat

Graph 22 - Evolution of domestic employment



Source: INR/ICN

Propelled by the rise in economic activity, market sector employment continued to grow at a sustained pace during the second half of last year (0.51% during the third quarter and 0.47% during the fourth). On a yearly-average basis, market sector employment grew by nearly 1.6% in 2006. Moreover, the latest information available from social security sources points to an appreciable increase in average hours worked (growth of 0.45%), so that labour volume in the market sector is even estimated to have grown by approximately 2% last year.

However, employment in the public sector is now estimated to have increased only marginally in 2006 (0.3% growth) and non-market employment in the household sector continued to suffer from the government-subsidised transfer of domestic services towards the market sector. Hence, domestic employment grew substantially less (1.1%) than market sector employment. Moreover, the rise in the employment rate (from 62.0% to 62.2%) was relatively modest, given the considerable further increase in the population of working age (growth of 0.7%). It should be noted that in recent years observed population growth has systematically outpaced projected population growth, essentially because of a stronger-than-expected incoming migration flow.

The broad administrative unemployment rate dropped substantially during the last half of last year (in seasonally adjusted terms, from 14.1% during the second quarter to 13.5% during the fourth quarter) and decreased further to 13.2% in the first quarter of this year. However, ongoing changes in the measurement of administrative unemployment in the course of last year may have seriously affected its evolution. Indeed, the magnitude of the decrease in administrative unemployment does not seem to be entirely justified by the current estimates concerning job creation and would imply a considerable deceleration in the growth of the labour force. As a consequence, the overall participation rate is even measured to have decreased slightly last year (from 72.3% in 2005 to 72.2% in 2006), notwithstanding relatively favourable labour market conditions and in spite of the fact that, on the whole, structural socio-demographic forces are still estimated to be boosting its evolution.

Prices

Table 6 - Inflation rates: change compared to the same period in the previous year, in %

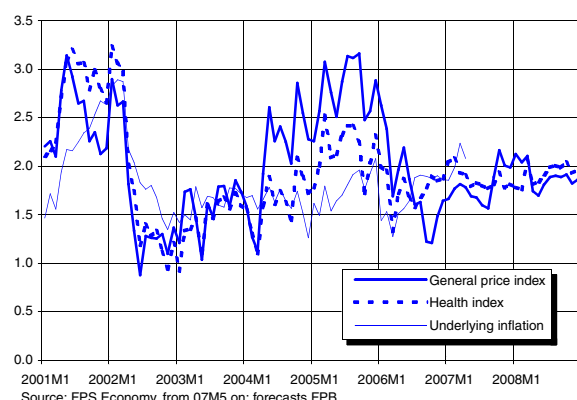
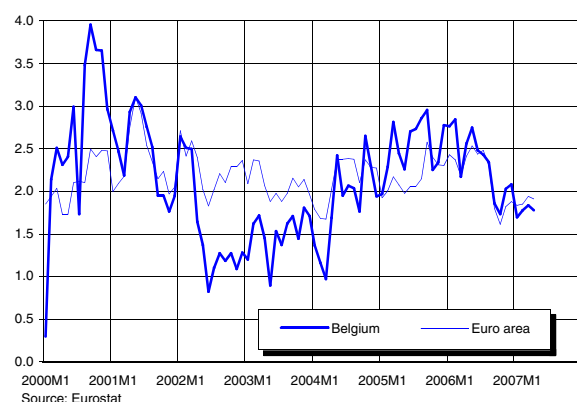
	2005	2006	2006Q2	2006Q3	2006Q4	2007Q1	2006M11	2006M12	2007M1	2007M2	2007M3	2007M4
Consumer prices: all items	2.78	1.79	2.01	1.49	1.45	1.75	1.49	1.64	1.66	1.77	1.82	1.78
Food prices	1.93	2.21	1.00	2.89	3.92	4.02	4.19	3.75	4.44	3.90	3.71	4.50
Non food prices	3.60	1.56	2.54	0.52	0.19	0.63	0.33	0.65	0.48	0.77	0.64	0.28
Services	2.35	1.47	1.65	1.53	1.22	1.99	0.99	1.29	1.68	1.93	2.36	2.27
Rent	1.99	3.50	3.50	3.51	3.34	1.80	3.37	3.32	1.75	1.78	1.86	1.86
Health index	2.17	1.77	1.75	1.68	1.87	2.02	1.85	1.87	2.04	2.08	1.94	1.91
Brent oil price in USD (level)	54.4	65.2	69.6	69.6	59.7	57.8	58.9	62.3	53.9	57.5	62.2	67.5

Source: FPS Economy, Datastream

Table 7 - Monthly inflation forecasts

	2007M1	2007M2	2007M3	2007M4	2007M5	2007M6	2007M7	2007M8	2007M9	2007M10	2007M11	2007M12
Consumer prices: all items	105.20	105.77	105.78	106.26	106.56	106.53	106.81	106.91	106.94	107.02	107.12	107.24
Consumer prices: health index	104.92	105.46	105.23	105.58	105.81	105.83	106.13	106.23	106.25	106.34	106.44	106.58
Moving average health index	104.63	104.91	105.07	105.30	105.52	105.61	105.84	106.00	106.11	106.24	106.32	106.40
	2008M1	2008M2	2008M3	2008M4	2008M5	2008M6	2008M7	2008M8	2008M9	2008M10	2008M11	2008M12
Consumer prices: all items	107.44	107.93	108.01	108.11	108.37	108.46	108.83	108.94	108.96	109.07	109.07	109.24
Consumer prices: health index	106.79	107.31	107.40	107.49	107.76	107.86	108.24	108.36	108.36	108.50	108.49	108.67
Moving average health index	106.54	106.78	107.02	107.25	107.49	107.63	107.84	108.06	108.21	108.37	108.43	108.51

Source: Observations (up to 07M4): FPS Economy; forecasts: FPB

Graph 23 - Monthly inflation evolution in % (t/t-12)**Graph 24 - Harmonised inflation rates in % (t/t-12)**

As the national index of consumer prices (NICP) experienced a downward shift in January 2006 due to the change in the base year (from 1996 to 2004), headline inflation, which is measured as the yoy growth rate of the NICP, was artificially low in the course of last year. This downward bias has disappeared from January 2007 onwards.

Between January and April 2007, headline inflation went up by 0.12%-points as a consequence of several factors. Firstly, underlying inflation rose somewhat due to the rise in Brent prices in 2006 (expressed in euro, by 18% on average). Secondly, the rise in oil prices between January and April 2007 pushed up inflation somewhat through its effect on petrol and diesel prices. Thirdly, excises on tobacco products increased in January, which raised their price by roughly 10%. The upward effect of these three factors on inflation was, however, partially compensated by the decrease in gas prices. Gas prices always react with a time-lag to Brent prices, which eased during the second half of 2006. The yoy growth rate of the health index is not influenced by tobacco and fuel prices and decreased somewhat between January and April.

All in all, headline inflation should amount to 1.8% this year and 1.9% in 2008, while the health index should rise by 1.9% in both years. The pivotal index for public wages and social benefits should be exceeded in October 2007 and the next pivotal threshold in October 2008.

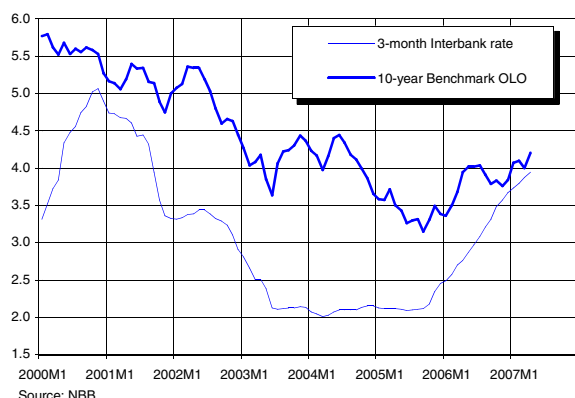
Interest rates

Table 8 - Interest rates

	2005	2006	2006Q2	2006Q3	2006Q4	2007Q1	2006M11	2006M12	2007M1	2007M2	2007M3	2007M4
Short-term money market rates (3 months)												
Belgium	2.16	3.06	2.86	3.20	3.58	3.80	3.58	3.67	3.73	3.80	3.87	3.95
Euro area (Euribor)	2.18	3.08	2.89	3.22	3.60	3.82	3.60	3.69	3.75	3.82	3.89	3.97
United States	3.51	5.15	5.18	5.39	5.32	5.31	5.32	5.32	5.32	5.31	5.30	5.31
Japan	0.01	0.27	0.19	0.39	0.46	0.59	0.45	0.54	0.53	0.55	0.67	0.64
Long-term government bond rates (10 years)												
Belgium	3.42	3.81	3.99	3.91	3.81	4.05	3.76	3.84	4.07	4.09	4.00	4.21
Germany	3.38	3.78	3.96	3.89	3.77	4.01	3.72	3.80	4.02	4.05	3.95	4.15
Euro area	3.42	3.84	4.02	3.95	3.83	4.07	3.78	3.86	4.08	4.11	4.01	4.21
United States	4.28	4.79	5.07	4.89	4.63	4.68	4.59	4.57	4.76	4.72	4.56	4.69
Japan	1.37	1.73	1.89	1.79	1.69	1.67	1.69	1.63	1.70	1.70	1.61	1.67

Source: NBB, ECB

Graph 25 - Interest rate levels in Belgium, %

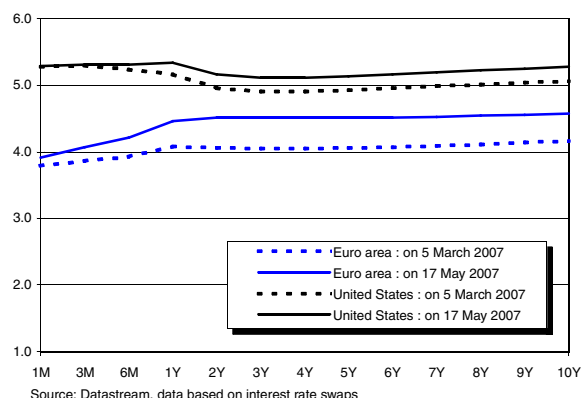


Source: NBB

The Federal Reserve has kept the Federal Funds rate unchanged (at 5.25%) for almost a year. Despite a considerable slowdown in economic growth and a deceleration in the pace of job creation, the Fed seems in no hurry to cut interest rates soon as the low unemployment rate and high capacity utilisation rates still pose a risk to inflation. Financial markets are counting on a first interest rate cut in the first quarter of next year.

In March, the ECB raised its refinancing rate by 25 base points for the seventh time since December 2005, bringing it to a level of 3.75%. Although inflation has remained below 2% for eight consecutive months, more monetary tightening is in the offing as the high level of business confidence points to robust growth ahead. Furthermore the ECB remains worried about strong credit growth (to enterprises) and a possible acceleration of wage growth. A rate hike in June is on the cards as ECB president Trichet cited "strong vigilance" with respect to medium term price stability. Financial markets expect a further rise of the refi rate to 4.25% after the summer.

Graph 26 - Yield curves for the euro area and the US



Source: Datastream, data based on interest rate swaps

Despite the economic slowdown, US long-term interest rates have risen slightly over the last three months, which is to do with the new rise in oil prices and the expectation of a strengthening of economic growth in the second half of the year. European long rates rose slightly faster as euro area economic growth outpaced US growth and as the ECB is expected to tighten monetary policy further. This resulted in a further narrowing of the spread between US and euro area long-term interest rates (from 100 base points on average in 2006 to 40 base points in May 2007). Over the last few months, the yield curve in the US became somewhat less inverted, while it steepened slightly in the euro area.

Exchange rates

Table 9 - Bilateral exchange rates

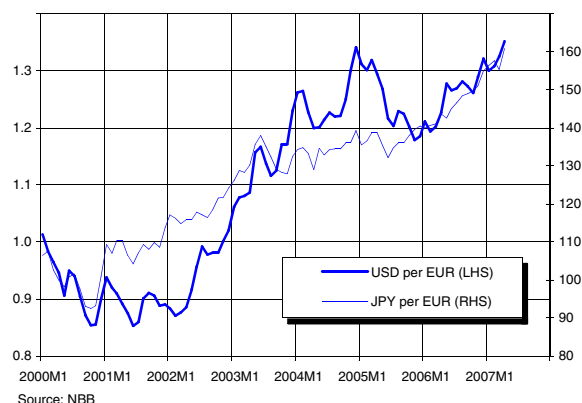
	2005	2006	2006Q2	2006Q3	2006Q4	2007Q1	2006M11	2006M12	2007M1	2007M2	2007M3	2007M4
USD per EUR	1.244	1.256	1.257	1.274	1.290	1.311	1.289	1.321	1.300	1.308	1.324	1.352
UKP per EUR	0.684	0.682	0.688	0.680	0.673	0.671	0.674	0.673	0.664	0.668	0.680	0.680
JPY per EUR	136.8	146.1	143.8	148.1	151.9	156.5	151.1	155.0	156.5	157.6	155.3	160.7

Table 10 - Nominal effective exchange rates (1990=100)

	2005	2006	2006Q2	2006Q3	2006Q4	2007Q1	2006M11	2006M12	2007M1	2007M2	2007M3	2007M4
Euro	120.8	121.7	121.6	122.6	123.4	124.8	123.2	124.7	124.0	124.7	125.7	127.3
Growth rate [1]	-0.5	0.8	2.0	0.9	0.6	1.2	0.8	1.3	-0.6	0.6	0.8	1.2
US dollar	84.9	83.9	83.4	83.1	83.1	83.3	83.0	82.2	83.7	83.5	82.7	81.6
Growth rate [1]	-2.3	-1.2	-3.0	-0.3	-0.1	0.3	-1.2	-0.9	1.8	-0.2	-1.0	-1.4
Japanese yen	86.0	80.3	81.5	79.9	78.3	76.8	78.6	77.7	76.3	76.1	78.0	76.1
Growth rate [1]	-3.5	-6.6	0.0	-1.9	-2.0	-1.9	0.0	-1.1	-1.9	-0.2	2.5	-2.4

[1] Change (%) compared to previous period
Source: BIS, NBB

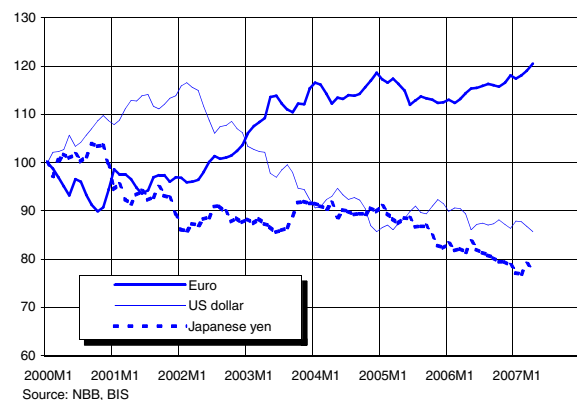
Graph 27 - Euro-dollar and euro-yen bilateral exchange rates



After a substantial appreciation in the course of 2006, the euro continued to appreciate against the dollar in the first months of 2007. By the end of April the euro even briefly surpassed the 1.36 threshold and thus reached the highest level since its introduction in 1999. The euro is being bolstered by the improved growth outlook and by the belief that euro area interest rates should rise further while US rates should stabilise or even start falling.

A weakening of economic growth, a resurgence of deflation and the resulting expectation of a slower pace of monetary tightening halted the initial appreciation of the Japanese yen against the dollar in 2007Q1. While monetary tightening in Japan is taking place very gradually, Japanese interest rates remain very low and continue to attract carry-traders, whereby investors borrow in yen at low interest rates to buy higher-yielding assets such as American or European bonds (thereby selling the borrowed yen). Since the beginning of 2006, the yen lost some 2.5% against the dollar and shed almost 15% against the euro.

Graph 28 - Nominal effective exchange rates (Jan. 00=100)



The euro continued to appreciate against most currencies so far this year, with the exception of the British pound, as was also the case in 2006. In nominal effective terms, the euro exchange rate is now more than 5% higher than one year ago. In this manner, the nominal effective euro is well under way for a substantial appreciation in 2007. The total effective appreciation of the euro since October 2000 amounts to almost 30%.

The appreciation of the British pound vis-à-vis the euro was driven by a slightly faster monetary tightening than in the euro area and by the expectation of future interest rate hikes.

Tax indicators

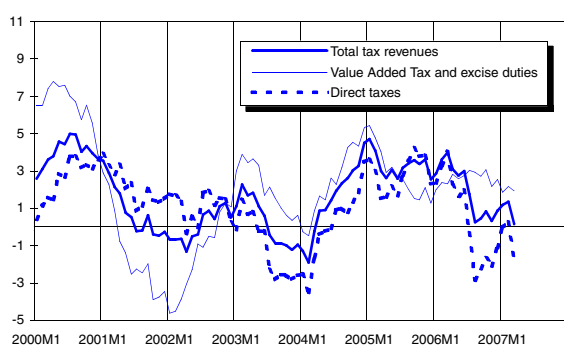
Table 11 - Tax revenues (1)

	2005	2006	2006Q2	2006Q3	2006Q4	2007Q1	2006M10	2006M11	2006M12	2007M1	2007M2	2007M3
Total [2], of which:	5.4	2.6	0.1	-1.9	5.1	4.1	7.6	-0.9	6.4	11.3	11.5	-12.4
Direct taxes, of which:	5.2	0.6	-3.1	-6.2	5.7	3.7	8.1	-2.1	7.4	17.3	13.8	-27.8
Withholding earned income tax (PAYE)	3.9	3.7	4.1	3.1	3.4	4.5	8.3	-7.7	6.5	7.4	-2.4	8.6
Prepayments	5.7	5.5	1.6	-1.7	12.1	.	11.8	.	11.6	.	.	.
Value Added Tax and excise duties	4.1	4.3	3.6	3.0	4.2	3.8	6.8	-2.3	6.5	2.2	9.4	0.9

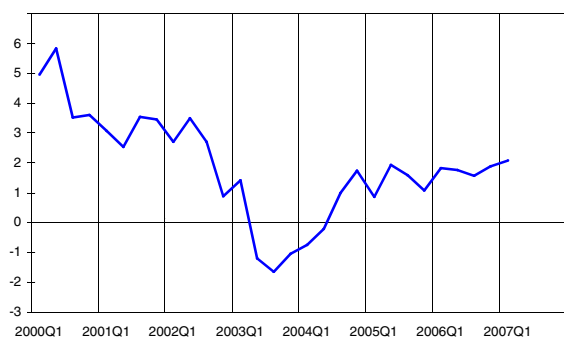
[1] Change (%) compared to same period previous year; [2] Total received by federal government, excl of death-duties

Source: FPS Finance

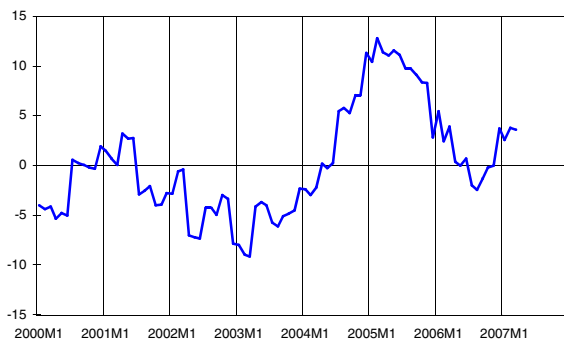
Graph 29 - Real tax revenues (3)



Graph 30 - Real withholding earned income tax (PAYE) (4)



Graph 31 - Real prepayments (3)



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

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

Total tax receipts in the first three months of 2007 were largely affected by an acceleration in the collection of direct taxes by means of assessment, organised by the authorities as from the autumn of 2006. As regards corporation taxes, this acceleration made it possible to collect taxes from the assessment for the fiscal year 2006 in January and February 2007, whereas collection normally begins in March. In the Belgian national accounts, established in accordance with the “ESA 95” (the European System of National and Regional Accounts), this will improve the administration’s budgetary outcome for 2006, because taxes collected from assessments in January and February are booked in the preceding year according to the time-adjusted cash method used to estimate accrued taxes. For personal income taxes, the acceleration in assessments has resulted in a larger volume of refunds in March 2007 as compared to the previous year.

PAYE revenue, mainly levied on wages, is still supported by the rise in employment. The 4-quarter moving average growth rate in real terms (Graph 30) has been constantly positive since mid-2004, and tends to increase over time.

As advance payments are traditionally very low during the first three months of the year (less than 5% of the annual total), the figure for the first quarter is not informative and is not reported in the table. Provisional figures for April 2007 (April is the first due date for advance payments, and represents about 40% of the annual total) show a slight decrease as compared to April 2006.

Concerning indirect taxes, 2007Q1 remains in line with the trend evolution observed in 2006: VAT receipts are still performing well thanks to buoyant household demand, including housing investment, and excise duty income is proving to be less dynamic than VAT income due to the weakness of, in particular, fuel and tobacco consumption.

Potential ICT-enabled Offshoring of Service Jobs in Belgium

The present paper follows up on the longstanding tradition of analysing trends in relocation or offshoring at the Federal Planning Bureau. Replicating and extending a method developed by the OECD, it provides a rough estimate for Belgium of the proportion of service jobs at risk of being offshored in the wake of information and communication technology (ICT) developments, and compares the results for Belgium with results for the EU15 and the US. Occupational employment data from the Labour Force Survey are used to produce this estimate by identifying service jobs that could possibly be offshored due to ICT-enabled tradability.

In practice, two types of occupations are distinguished on the basis of several characteristics: those that are at risk of being offshored and those that are not. The service jobs at risk of being offshored are identified through the following four characteristics: people in those jobs are likely to make intensive use of ICT in order to produce their output; their output can be traded/transmitted with the help of ICT (ICT-enabled trade in services); the work has a high information or “knowledge” content; and the work does not necessarily require face-to-face contact. This allows to draw up a list of service occupations, which can be considered as ICT-using and at risk of being offshored. The share of those occupations in total employment can then be estimated.

Before interpreting the results of the application of this method, it must be emphasised that this approach does not lead to an estimate of the actual magnitude of serv-

ice offshoring, but rather to an indicator of the offshoring potential in a country or industry, i.e. the number of jobs that could eventually be lost.

The results of applying this method show that the share of jobs at risk of being offshored due to ICT-developments is lower for Belgium than for the EU15 or the US. It stood at 17.5% in 2005. Nevertheless, there was an upward trend in this share over the period 1993-2005. This trend is most likely explained by a general increase in the importance of service activities. When conducting the analysis at the industry level it turns out that the highest ICT-enabled service offshoring potential can be found in financial and business services. Finally, a shift-and-share analysis provides evidence of a shift towards threatened service occupations within industries. This “within effect” dominates, whereas the “between effect”, i.e. the shift of employment towards industries with a high share of such threatened service jobs, turns out to be much smaller.

Further empirical investigation into the subject must focus on finding data for more direct measures of the magnitude of service offshoring and on determining the underlying causes of the rise or fall in ICT-enabled service offshoring potential.

*“Potential ICT-enabled Offshoring of Service Jobs in Belgium”, B. Michel,
Working Paper 6-07, March 2007.*

An accuracy assessment of FPB’s medium-term projections

The economic outlook for the Belgian economy is published each year by the Federal Planning Bureau in spring and presented to the representatives of the social partners within the Central Economic Council. This baseline is a no-policy-change scenario, notably with regard to fiscal and social policies, that is based upon an international environment founded on projections prepared by international institutions. In this working paper past projection errors are scrutinised to give users a broad idea of the precision of the projections and also to identify possible methodological weaknesses that should be improved.

The outlook is a very detailed macroeconomic projection that covers developments by industry, evolutions in the labour market, in public finances and, in recent years, even in energy consumption and associated greenhouse gas emissions. The prime objective of these projections is not to produce the forecasts that best antic-

ipate the most likely political decisions, but rather to provide, by extending underlying trends, a benchmark scenario pointing to possible future constraints and imbalances that may never materialise if measures are taken. As such, it lends itself less to traditional accuracy evaluation than the short-term forecasts published in the economic budget, which are regularly assessed. The overall coherence of the projection and the quality of the analysis offered to policy makers and to the public in general in terms of diagnosis are probably the main features for gauging its usefulness. Nevertheless, analysing past projection errors and understanding their origins should help improve the quality of future work.

A comparison between projected growth rates and outcome reveals that GDP growth and all its components (except housing investment) were on average overestimated over the period 1987-2005, but only exports exhibit a statistically significant optimistic bias. Growth in

domestic prices (deflator of private consumption and GDP) was predicted without systematic error, as was employment growth. Finally, labour force and productivity growth rates were undeniably under- and overestimated respectively. The absolute size of the errors is clearly larger for investment and exports than for consumption, while absolute errors on domestic prices are more limited.

Examination of the role played by the main exogenous variables shows the importance of potential export markets in explaining projection errors on GDP and components. If no error had been made on the future evolution of export markets, the mean absolute error on GDP growth would have been more than halved and large errors would have been absent. Interestingly, although the size of the errors is reduced considerably, the statistically significant bias for exports does not disappear. Losses in market shares, computed as the difference between growth of exports and of potential export markets, have

undoubtedly been underestimated in most economic outlooks. Concerning the labour force, the origin of the projection error changed over time. While errors were almost exclusively attributable to errors in the average participation rate at the beginning of the sample, from 1997 onwards the contribution of the latter decreased, while the errors on working-age population contributed relatively more and more to the overall error.

Finally, the paper makes a qualitative assessment of the latest editions of the economic outlook using the main conclusions described above. Methodological improvements made in recent years are stressed and some key future research topics are identified, such as a better understanding of factors driving the evolution of exports and the population.

*"An accuracy assessment of FPB's medium-term projections",
I. Lebrun,
Working Paper 8-07, May 2007.*

Release of the EU-KLEMS database

The first official release of the EU-KLEMS database took place on 15 March 2007. The database contains measurements of economic growth, productivity, employment creation, capital formation and technological change at industry level for all European Union Member States from 1970 onwards. This work provides important input to policy evaluation, in particular for the assessment

of the goals for competitiveness and economic growth potential as established at the Lisbon and Barcelona summits. An additional aim is that the database would allow analysis of the determinants of certain measures of productivity, in particular total factor productivity (TFP). The FPB is the Belgian partner in this project.

Other Recent Publications

Working Paper 5-07, March 2007

"Growth and Productivity in Belgium"
B. Biatour, J. Fiers, Ch. Kegels, B. Michel

Working Paper 4-07, March 2007

"Supply and Use Tables for Belgium 1995-2002: Methodology of Compilation"
L. Avonds, C. Hambye, B. Michel

Working Paper 3-07, March 2007

"Capital services and total factor productivity measurements: impact of various methodologies for Belgium"
B. Biatour, G. Bryon, Ch. Kegels

Working Paper 2-07, February 2007

"Kwalitatieve werkgelegenheidsdata voor België, een SAM-aanpak voor de periode 1999-2004"
V. Bresseleers, K. Hendrickx, B. Hertveldt, B. Van den Cruyce, J. Wera

Economic Forecasts 2007, February 2007
(available in Dutch and in French).

The NIME Outlook for the World Economy, January 2007

"A Medium-Term Outlook for the World Economy 2007-2013"

Working Paper 1-07, January 2007

"Eclairage sur des enjeux de la politique énergétique belge confrontée au défi climatique - Toelichting bij sommige uitdagingen voor het Belgische energiebeleid in het kader van klimaatdoelstellingen"
D. Gusbin, A. Henry

Working Paper 12-06, November 2006

"Beroepsopleiding en tewerkstellingsduur"
V. Bresseleers

Working Paper 11-06, November 2006

"De pensioenbonus in de werknemersregeling: simulatie met het model MEP"
G. Dekkers

Research in progress

Macroeconomic and budgetary implications of the "Solidarity Contract Between Generations"

The macroeconomic and budgetary implications of the policy measures included in the "Solidarity Contract Between Generations", in the medium term as much as in the long term, continue to be explored. These measures notably consist of incentives to work longer and adjustments of social welfare benefits.

contact: maltese@plan.be

Macroeconomic, budgetary and GHG emissions prospects

Using a consistent modelling approach, medium-term macroeconomic - including labour market - and budgetary prospects, as well as the future evolution of greenhouse gas (GHG) emissions, are investigated. Trends in the forces driving economic growth are analysed.

contact: hermes@plan.be

Consistent regional-national medium-term macroeconomic modelling

In collaboration with experts from the three regional governments, regional medium-term macroeconomic models are being built for Brussels, Flanders and Wallonia, on the basis of a breakdown of the FPB medium-term macroeconomic model for Belgium.

contact: hermes@plan.be

The long term budgetary and social challenges of ageing

Different aspects of the long term dynamics of acute health care, long term care and pension expenditure are scrutinised. Furthermore, the social dimension of pension benefits is investigated using micro approaches.

contact: maltese@plan.be

Demographic projections

New demographic projections for Belgium are prepared in collaboration with Statistics Belgium, a team of scientists, mostly demographers, and representatives of the regional administrations. Results are expected for March 2008.

contact: demo@plan.be

Transport and mobility

The FPB undertakes research in this area in cooperation with the federal "Transport and Mobility" administration. In particular, transport satellite accounts and a transport model are being constructed. The aim is to get a better understanding of the relationship between transport, mobility and the economy and to analyse the impact of transport and mobility policies on the Belgian economy.

contact: transport@plan.be

General equilibrium modelling

A general equilibrium model (GEM) for Belgium is under construction. The model will be a long-term model with a particular emphasis on the link between transport and the economy.

contact: transport@plan.be

Determinants of total factor productivity growth in Belgium

Research is under way to look into two specific determinants of total factor productivity (TFP) growth in Belgium: innovation through R&D and market competition.

contact: productivity@plan.be

Labour-oriented social accounting matrix applications

The FPB has constructed time series for employment (in number of persons and hours) and wages by industry according to a number of qualitative characteristics (e.g. age, gender and education level). Based on these series, the FPB is carrying out analyses of different types. One example is the linking of these employment data to input-output data to compute qualitative employment multipliers. Another example is the analysis of the gender wage gap.

contact: io@plan.be

Globalisation

Following up on a longstanding tradition, the FPB is currently working on assessing relocation and its consequences for the Belgian economy. This work is based on supply and use tables and trade and employment data. Furthermore, the BELMOFI database on foreign affiliates of Belgian firms will be updated this year.

contact: regulation@plan.be

Recent history of major economic policy measures

April 2007	In order to offset a rise in implicit employees' and employers' SSC rates on low-wage employment, more generous employees' and employers' SSC reduction parameters took effect on April 1st. The rise in the SSC rates follows a raise in the legally guaranteed minimum wage and the pay rises sanctioned by the latest Interprofessional Agreement.
March 2007	The federal government confirms its objective of achieving a budget surplus of 0.3% of GDP in 2007 (for the general administration) as stated in the December 2006 Stability program and in the so-called "ageing law". The ECB raised its main refinancing rate by a quarter of a point to 3.75%
February 2007	Some significant reductions in telecommunications tariffs were announced. In fixed services, the incumbent, Belgacom, and some competitors will reduce retail prices for calls to mobile networks, following reductions in wholesale prices in November 2006. In mobile services, the second largest operator, Mobistar, will reduce its tariffs for roaming services. The company expects to offset the incurred loss with an increasing use of mobile phones abroad by its customers.
January 2007	Full market opening for electricity and gas in Belgium was reached by allowing free choice of supplier to the remaining captive consumers: households in the Walloon and Brussels Capital regions. Meanwhile, to further spread demand (and noise), night tariffs were extended to the whole weekend throughout the country. Conforming to EU requirements, full market opening was also reached for freight services by rail by allowing free choice of supplier in domestic services. There are five entrants in this market now, who are essentially active in cross-border services. Meanwhile, the state took over the incumbent's pension fund. This will lead to more financial transparency and a better comparability with other transport companies.
December 2006	The ECB raised its main refinancing rate by a quarter of a point to 3.5%.
November 2006	The European Commission approved the merger of Suez and Gaz de France (GdF), but under several conditions. Suez will sell the gas trading company Distrigas and give up control of the gas transport network manager Fluxys. GdF will sell its share in the Belgian power generation company SPE. Under these conditions the new company's dominant position on the Belgian energy markets will be alleviated. Furthermore, the international gas hub at Zeebrugge will be operated independently from Suez and new network capacity will be developed. Independently of the approved merger, two other projects in the area of energy were implemented. Firstly, the Belpex day-ahead electricity market became operational. It works in close co-operation with the Dutch and French electricity exchanges, which allows for equal prices in the three countries. Secondly, the German company Wingas received permission to operate a gas pipeline from the Port of Antwerp to the nearby Dutch gas network. This allows competition in infrastructure management. The potential market share of the new pipeline is 9%. In the area of electronic communications the first stage of reducing mobile termination prices has been implemented. This is based on decisions of the European Commission and the Belgian market regulator BIPT/IBPT. The stepwise reduction will be finalised in mid 2008.
October 2006	At the October budget conclave, the federal government announced its objectives for public finances for 2007. These are based on assumptions of 2.2% economic growth (2.7% in 2006) and 1.9% inflation (1.9% in 2006 as well). After an expected budget balance in 2006, the finances of general government should record a surplus of 0.3% of GDP in 2007, in accordance with the target defined in the Stability Programme and in the revised Ageing-fund law. The primary surplus should increase by 0.2% of GDP as compared to 2006, after five years of decrease. The budget surplus of 0.3% of GDP should be located in the social security budget for 0.2% of GDP (as in 2006) and in state governments (communities and regions) for 0.1% of GDP (0.2% of GDP in 2006). The federal government finances should be almost balanced (-0.1% of GDP in 2006), as should local government finances (which are expected to recover from a 0.2% of GDP deficit in 2006, related to a temporary surge in infrastructure investment ahead of the municipal elections). The forecasted 0.2% of GDP surplus in the social security budget is expected to be achieved through increased 'alternative financing' (transfers from the federal government) and a change in the mode of collection of social contributions on anticipated holiday pay. The total state debt-to-GDP ratio should decrease from 90.6% at the end of 2006 to 83.9% at the end of 2007. The government intends to keep the growth of expenses strictly under control, both in the federal departments and in social security. However, the budget allows for welfare increases in social allowances as proposed by the social partners within the envelope defined in the 2006 Generation Pact. The budget for health care will remain within the 4.5% real growth rate boundary defined in the 2003 government's agreement. The price that firms receive for household services provided within the framework of service vouchers will be lowered from EUR 21 to EUR 20 per hour. The extension of targeted labour cost reductions for researchers, and for night-time and shift-organised labour has been confirmed; the measure aimed at easing the taxation of overtime work will be strengthened, via both an increase in wage subsidies and a specific decrease in personal income taxation. Other selected cuts in direct and indirect taxation have been decided upon to promote investment in social housing, housing investment in run-down buildings and energy-saving expenditure. Moreover, the level of taxation on professional income will be slightly reduced. As regards corporation tax, some elements of the tax system will be made more favourable to companies. On the other hand, selected taxes on products will be increased (taxes on packaging and on tobacco products).

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

Abbreviations for names of institutions used in this publication

BIS	Bank for International Settlements
CPB	Netherlands Bureau for Economic Policy Analysis
CRB/CCE	Centrale Raad voor het Bedrijfsleven / Conseil Central de l'Economie
DGSB	FPS Economy - Directorate-General Statistics Belgium
EC	European Commission
ECB	European Central Bank
EU	European Union
FEBIAC	Fédération Belge des Industries de l'Automobile et du Cycle "réunies"
FPB	Federal Planning Bureau
FPS Economy	Federal Public Service Economy, S.M.E.s, Self-employed and Energy
FPS Employment	Federal Public Service Employment, Labour and Social Dialogue
FPS Finance	Federal Public Service Finance
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
NBB	National Bank of Belgium
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

BoP	Balance of Payments
CPI	Consumer Price Index
EUR	Euro
GDP	Gross Domestic Product
JPY	Japanese yen
LHS	Left-hand scale
OLO	Linear obligations
qoq	Quarter-on-quarter, present quarter compared to previous quarter of s.a. series
RHS	Right-hand scale
s.a.	Seasonally adjusted
t/t-4	Present quarter compared to the corresponding quarter of the previous year
t/t-12	Present month compared to the corresponding month of the previous year
UKP	United Kingdom pound
USD	United States dollar
VAT	Value Added Tax
yoy	Year-on-year, i.e. t/t-4 (for quarters) or t/t-12 (for months)