Quarterly Newsletter of the Federal Planning Bureau

Short Term Update (STU) is the quarterly newsletter of the Belgian Federal Planning Bureau. 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

According to our February forecast, quarterly GDP growth should remain limited to 0.3% on average in the course of 2010, which is about half of the quarterly growth in the second half of 2009. This slowdown is in line with the international business cycle, which should temporarily lose momentum to the extent that monetary and budgetary stimuli fade and restocking comes to an end. In the course of 2011, exports should pick up and domestic demand should gain momentum, resulting in average quarterly GDP growth of 0.6%. On a yearly basis, Belgian GDP should increase by 1.4% in 2010 and 1.7% in 2011, after a drop of 3% last year. This means that real GDP should remain below its pre-crisis level until late 2011.

Net job losses reached 23 200 persons on average in 2009 and should add up to 46 100 this year. This trend should reverse in 2011, with a net creation of 8 600 jobs. Given the evolution of the labour force, the number of unemployed (broad administrative definition) should increase by 52 900 persons this year (after going up by 45 000 persons in 2009) and by almost 29 000 persons in 2011. As a result, the harmonised Eurostat unemployment rate (which is based on labour force surveys) is expected to reach 8.8% in 2011, compared to 7% in 2008.

Headline inflation in Belgium, as measured by yoy growth of the national index of consumer prices, was negative from May to November 2009, which was mainly due to the negative impact of energy prices. As a result, overall inflation remained just below zero in 2009. At the end of last year, the base effect of the drop in energy prices had disappeared. Combined with a gradual increase in oil prices, headline inflation should rise to 1.7% in 2010 according to our inflation forecast of March.

STU 1-10 was finalised on 1 March 2010.

The Federal Planning Bureau (FPB) is a public agency under the authority of the Prime Minister and the Minister of Economy and Reform. 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 macroeconomic forecasting, analysing and assessing policies in the economic, social and environmental fields.

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Contents

All FPB publications, mentioned in this STU, can be obtained either by sending a fax (+32 2 5077373) or by filling in the necessary form on our Internet site (http://www.plan.be).

The financial health of Belgian companies before the recent economic downturn

With real GDP increasing by 2.9%, 2007 ended a four-year period of substantial economic growth in Belgium, before - as in most other countries - the global financial crisis of 2008 resulted in a dramatic economic downturn in 2009. The year 2007 therefore seems a good benchmark year for assessing the financial health of industries in good times, on the eve of a period of economic recession. Using data from the annual accounts of Belgian companies, the financial health or fragility of industries can be analysed through indicators that reflect the *profitability*, *solvency* and *liquidity* of companies. This has been done for manufacturing industries and non-financial market services (i.e. excluding insurance and financial companies). In 2007, some 10% of companies were performing poorly on the three indicators of financial health. These companies accounted for 2.7% of employment or 47 605 employees, indicating that, by and large, financially fragile companies are small. The financial fragility of some industries in 2007 may have foreshadowed the problems that they were to face with the economic recession in 2009, although this should be confirmed through future analysis, based on data for more recent years.

Profitability, solvency and liquidity

The ability of companies to make profits on a structural basis determines their long-term financial health and probability of survival as it reflects the degree to which they succeed in selling goods or providing services with a margin over costs that justifies the risk of the capital invested in the company.

As shareholders expect a premium for the risk they incur by investing their money in a company, equity is more expensive than debt financing at a fixed market rate. Leveraging through debt permits companies to increase their return on equity. However, debts imply costs and repayment, irrespective of the profitability of a company. If a company is overleveraged, it may no longer be able to repay its debts - even if it is profitable - and may thereby risk bankruptcy. It is therefore important to strike the right balance between profit-enhancing leveraging and financial independence and solvency.

The liquidity of a company reflects its ability to meet short-term obligations through its available income, e.g. cash flow or assets that can be sold on short notice. It can be considered as a solvency measure with regard to short-term debts. A company that is profitable and solvent can face liquidity problems, although under normal circumstances it should then be able to attract additional financing to repay its short-term debt. If companies fail to attract the money necessary to solve liquidity problems, as has been the case as a consequence of the global financial crisis, a liquidity problem may turn into a more severe solvency problem.

Financial health

Annual accounts for the year 2007 have been considered for a total of 275 839 Belgian companies (accounting for 1 738 163 employees): 8% in manufacturing industries, 14% in construction and utilities (water and energy) and 78% in services. On average, companies performed rather well in terms of profitability (75% of the companies were profitable in 2007[1]) and solvency (63% of the companies met the norm of long-term solvency[2]). Liquidity was somewhat more of a concern, especially for large companies[3], which faced a net current assets shortage of EUR 35.5 billion.

In Table 1 the financial health of 25 industries is summarised, based on the performance of companies with regard to profitability, solvency and liquidity.

The second column shows the percentage of companies in a given industry that performed well on the three indicators of financial strength (good), the third column the percentage of companies that did not meet the norm for one or two of the indicators (average) and the fourth column the percentage of companies that underperform on all three indicators (bad). The percentage of total employment in a given industry that was accounted for by companies in poor financial health (as given in the fourth column) is shown in the fifth column. This can be considered as an indicator of the extent to which industry employment was fragile. The last column shows total employment in financially fragile companies. The percentage of companies in poor financial health exceeds the percentage of fragile employment in all industries, which reflects the fact that fragile companies are predominantly small and therefore do not account for a large share of total employment.

Accommodation and food services activities, retail trade (except motor vehicles and motorcycles), transport equipment, administrative and support service activities and *wholesale and retail trade and repair of motor vehicles and motorcycles* are, in decreasing order, the five industries with the highest percentage of financially fragile companies. The percentage of employment accounted for by these companies is high in *accommodation and food service activities*. According to the data, in *accommodation and food service*

1. Net return on total assets before taxes, 67% when profits after taxes are considered.
2. More than half of long-term financing should be covered by equity.
3. Companies with an obligation to lodge annual accounts in full form.

activities, some 16% of employment could be considered as fragile in 2007[1].

Machinery and equipment, *basic metals and fabricated metal products*, *electrical machinery*, *rubber and plastic products and other non-metallic mineral products* and *construction* were the five industries with the highest percentage of companies that performed well on the three criteria of financial health.

For the entire group of industries that are considered, 2.7% of employment was provided by companies that were in poor financial health in 2007. This implies that 47 605 employees were working in companies with a substantial probability of bankruptcy, a relatively modest number that has undoubtedly risen in more recent years, with the global financial crisis of 2008 and the ensuing economic downturn. To some extent, the overall financial health or fragility of industries in 2007 can be seen as a forewarning of those industries that would be most hit by the economic recession in 2009. However, the rise in unemployment following the recent economic slowdown, can - in addition to jobs lost due to companies that went bankrupt – also be explained by companies in fairly good financial health shedding jobs or not creating jobs due to falling demand for their goods or services.

1. As from 1 January 2010, the VAT rate for restaurants and catering was reduced from 21% to 12%, due to concerns about employment.

Caveat

A high number of firms that exit due to bankruptcy or poor financial health may be an indication of the overall fragility of a given industry, e.g. due to foreign competition. However, it may also reflect strong competition or the highly dynamic nature and innovativeness of the industry. Industries that perform well in terms of growth in value added or employment are often industries that witness a high entry rate as well as a high exit rate. Future analysis, based on more recent data, should permit assessment of the extent to which indicators of the financial fragility of industries in 2007 can be linked to problems faced by industries in the later period of economic slowdown.

More details on the indicators that were used and on the analysis carried out, can be found in the forthcoming working paper "Fragiliteit van de financiële structuur van de industrie en bepaalde niet-financiële diensten in België anno 2007 ".

Table 1 - Distribution of companies in terms of overall financial health (2007)

	% Companies			Fragile employment	
	Good	Average	Bad	%	
Manufacturing	**54.3**	**38.1**	**7.6**	**1.9**	**9 343**
Food products, beverages and tobacco	42.3	47.4	10.3	2.1	1 524
Textiles, textile products, leather and leather products	48.4	41.8	9.8	5.8	1 960
Wood and wood products, pulp, paper and paper products; publishing and printing	51.2	40.9	7.9	2.2	915
Coke and refined petroleum products	40.9	50.0	9.1	-	-
Chemical products	55.6	37.0	7.4	0.3	111
Basic pharmaceutical products and pharmaceutical preparations	43.9	46.9	9.2	2.1	414
Rubber and plastic products and other non-metallic mineral products	60.0	34.5	5.5	3.4	1 806
Basic metals and fabricated metal products	63.4	32.2	4.4	0.8	774
Electrical and optical equipment	57.6	35.8	6.6	0.8	139
Electrical machinery	62.0	31.2	6.8	0.5	87
Machinery and equipment	64.4	29.8	5.8	1.1	386
Transport equipment	50.6	38.2	11.2	1.8	763
Furniture; manufacturing n.e.c.	54.8	36.0	9.2	1.7	464
Electricity, gas, steam and air conditioning supply	**49.2**	**42.9**	**7.9**	**0.6**	**114**
Water supply, sewerage, waste management and remediation activities	**54.5**	**39.8**	**5.7**	**1.4**	**288**
Construction	**58.5**	**35.0**	**6.5**	**2.1**	**3 868**
Services	**56.2**	**32.8**	**11.0**	**3.4**	**33 992**
Wholesale and retail trade, repair of motor vehicles and motorcycles	51.2	38.1	10.7	2.7	1 383
Wholesale trade and commission trade, except motor vehicles and motorcycles	53.7	36.3	10.0	2.4	4 250
Retail trade, except motor vehicles and motorcycles	47.8	39.6	12.6	4.4	7 444
Transport and storage	47.6	43.4	9.0	2.1	3 103
Accommodation and food services activities	25.4	51.4	23.2	16.2	9 904
Information and communication	52.7	37.0	10.3	3.0	2 501
Real estate	29.8	60.7	9.5	5.8	753
Professional, scientific and technical activities	50.8	41.6	7.6	2.2	2 214
Administrative and support service activities	44.9	44.2	10.9	1.2	2 440
Total	**47.7**	**42.2**	**10.1**	**2.7**	**47 605**

5 industries with highest percentage of companies that perform well with respect to the three indicators

5 industries with highest percentage of companies that perform badly with respect to the three indicators

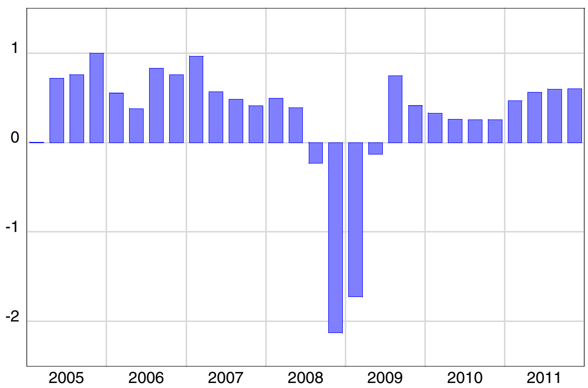
Source: Federal Planning Bureau, Central Balance Sheet Office and Bureau Van Dijk.

Economic forecasts 2010-2011

A slow economic recovery in the euro area...

Having contracted for five quarters, economic activity in the euro area as a whole picked up in the second half of 2009. The US and Japan also came out of recession. The recovery was driven by a loose monetary policy, an expansionary budgetary policy and restocking. Moreover, the dynamism of emerging economies such as China provided an important impetus for worldwide recovery.

Graph 1 - Quarterly GDP growth
qoq growth rates, corrected for seasonal and calendar effects



In the euro area, economic activity is projected to register positive but modest quarterly growth figures in the course of 2010 and 2011. As a result, real GDP will not have entirely compensated the losses incurred during the crisis by the end of 2011. The upsurge in private consumption is indeed hampered by the rise in unemployment, whereas investment growth is curbed by considerable excess production capacity and continuing tight credit conditions. Moreover, monetary and fiscal stimulus measures and the turnaround in the inventory cycle are giving only temporary support to economic growth. Consequently, quarterly GDP growth should slightly weaken in the course of 2010, but is likely to regain momentum in the course of 2011. On a yearly basis, GDP growth in the euro area should amount to 1.3% in 2010 and 1.6% in 2011, after a drop of nearly 4% last year.

The exchange rate and oil price hypotheses are based on futures market quotations at the end of January. On average, the exchange rate of the euro should amount to USD 1.40 per EUR in 2010 and 2011. The average crude oil price should rise from USD 61 per barrel in 2009 to USD 80 in 2011. As a result, headline inflation in the euro area should slightly increase, whereas underlying inflation should remain low due to moderate economic growth and limited wage cost increases.

...that leads to a moderate growth rate for the Belgian economy...

Helped by the increase in exports and the slowdown in destocking, the Belgian economy also returned to positive quarterly growth rates in the second half of 2009 (0.6% on average). In line with the international business cycle, export growth is expected to slow down temporarily in the course of 2010. As domestic demand growth remains limited, quarterly economic growth should amount to barely 0.3% on average in 2010. In the course of 2011, exports should pick up and domestic demand regain momentum, which should result in quarterly GDP growth of 0.6%, on average. On a yearly basis, GDP growth should total 1.4% in 2010 and 1.7% in 2011.

Due to the harsh international recession, Belgian exports fell sharply, but these recovered slightly in the second half of 2009. On a yearly basis, however, this resulted in a strong decrease of nearly 11% in 2009. This year, quarterly export growth should weaken somewhat, but regain strength in line with foreign export markets in the course of 2011. Thanks to a favourable starting point, annual export growth should nevertheless be higher in 2010 (4.7%) than in 2011 (3.9%). Since Belgian exports should continue to grow at a slower pace than foreign markets, the loss of export market shares will persist.

The drop in both domestic demand and exports reduced the volume of imports last year by more than 11%. In 2010 and 2011, import needs should gradually increase in the wake of the economic upturn. This year, net exports should contribute 0.6%-points to economic growth. Together with the expected evolution in the terms of trade, this contribution will raise the external surplus from a mere 0.3% of GDP in 2009 to 1.4% and 1.1% of GDP in 2010 and 2011, respectively.

In 2009, the indexation of wages and social benefits largely exceeded inflation. Together with a temporary decline in the total amount of personal income taxes (due to a number of tax reductions and a faster processing of tax assessments), this resulted in an increase in real disposable income of 2.8%, despite a decrease in employment and losses on other components of income. In 2010, real disposable income should drop by 0.3% due to the further deterioration of the labour market situation and higher inflation. In 2011, purchasing power, supported by the growth in employment and the increase in property income, should increase by 1.5%.

The outbreak of the banking crisis and the decline in household wealth undermined consumer confidence from 2008Q4 onwards. As a result, private consumption was cut back sharply. In the second half of 2009, the confidence indicator improved and household spending showed a modest recovery, but the decline in volume amounted to 1.6% in average annual terms last year. The household saving rate peaked at 20.2%, its highest level since the first half of the nineties. In 2010 and 2011, the propensity to save should decrease slightly, allowing private consumption to increase by 0.7% and 1.5%, respectively. Nevertheless, the saving rate is still expected to exceed 19% and stay well above its pre-recession level as high unemployment curbs the further recovery of consumer confidence.

From 2007 onwards, housing investment has been on a downward path. In spite of a temporary VAT reduction, negative growth of 2.8% was seen in 2009 and this trend should continue in 2010 (-1.9%) due to the unfavourable evolution of employment. Only in 2011 is housing investment expected to regain momentum, but in annual terms its growth will probably remain limited to 0.1% due to the low starting point at the beginning of 2011.

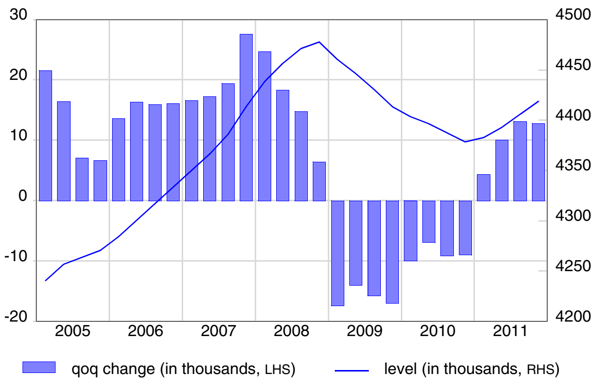
From mid-2008 onwards, business investment has been scaled back. In 2009, it fell by 6% on average. In 2009Q1, capacity utilisation rates reached a historical low (70%). Despite the weak economic recovery, capacity utilisation rates should remain very low. The decline in business profitability and tight credit conditions are expected to hamper a pick-up in investment. The weak increase in investment that should be recorded in the second semester of 2010 will not sufficiently compensate for the fall in 2009. Consequently, investment activity should again record a negative annual growth rate (-1.2%) in 2010. A positive annual growth rate (2.4%) is not to be expected until 2011.

In 2009, public consumption and public investment slightly compensated for the reduction in household and business expenditure. In 2010 and 2011, the growth of public consumption should be less robust than in 2009. Nevertheless, public investment growth should accelerate to 6.6% in 2010 and 13.6% in 2011, thus supporting economic growth. The dynamism is largely due to local authorities' investments in anticipation of the municipal elections of 2012.

... leading to a further increase in the unemployment rate...

Domestic employment always reacts with a time lag to the business cycle, so it only began to contract as from 2009Q1. In a deteriorating economic climate, many employers initially prefer a reduction in working hours, e.g. by calling upon the temporary unemployment scheme. Given the limited intensity of the economic recovery and a modest increase in average hours worked per employee as from mid-2009, employment should not go up before early 2011. Net job losses reached 23 200 persons on average in 2009 and should add up to 46 100 this year. This trend should reverse in 2011, with a net creation of 8 600 jobs.

Graph 2 - Quarterly evolution of domestic employment
corrected for seasonal effects



As a result, the employment rate should drop from 63.5% in 2009 to 62.3% in 2011. Given the evolution of the labour force, the number of unemployed (broad administrative definition) should increase by 52 900 persons this year (after going up by 45 000 persons in 2009) and by almost 29 000 persons in 2011. The harmonised Eurostat unemployment rate is expected to reach 8.8% in 2011, compared to 7% in 2008.

.... within a context of limited inflation

Headline inflation in Belgium, as measured by yoy growth of the national index of consumer prices (NICP), was negative from May to November 2009. To a large extent this was due to the reaction of energy prices to the sharp fall in crude oil prices in the second semester of 2008. Moreover, underlying inflation should cool down as a reaction to the cyclical downturn but remain clearly positive. As a result, overall inflation remained just below zero in 2009. At the end of the year, the base effect of the drop in energy prices had faded out. In 2010 and 2011, inflation should amount to 1.6% and 1.7%, respectively, as a result of increasing oil prices. The health index is not influenced by developments in petrol and diesel prices and therefore has a less pronounced profile than the NICP. The increase in the health index should amount to 1.2% in 2010 and to 1.6% in 2011. The current pivotal index (112.72) should be exceeded in January 2011. The next pivotal index (114.97) will not be reached in 2011.

"Economische begroting 2010-2011 – Budget économique 2010-2011", February 2010.

Summary of Economic Forecasts

Economic forecasts for Belgium by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (cut-off date of forecasts: 10 February 2010)

	2008	2009	2010	2011
Private consumption	1.1	-1.6	0.7	1.5
Public consumption	3.3	2.4	1.2	1.6
Gross fixed capital formation	4.3	-4.6	-0.8	2.8
Final national demand	2.3	-3.0	0.7	1.8
Exports of goods and services	1.5	-10.9	4.7	3.9
Imports of goods and services	3.1	-11.1	4.0	4.1
Net-exports (contribution to growth)	-1.2	-0.2	0.6	0.0
Gross domestic product	1.0	-3.0	1.4	1.7
p.m. Gross domestic product - in current prices (bn euro)	344.68	338.31	348.33	359.64
National consumer price index	4.5	-0.1	1.6	1.7
Consumer prices: health index	4.2	0.6	1.2	1.6
Real disposable income households	1.3	2.8	-0.3	1.5
Household savings ratio (as % of disposable income)	16.6	20.2	19.3	19.2
Domestic employment (change in '000, yearly average)	82.1	-23.2	-46.1	8.6
Unemployment (Eurostat standardised rate, yearly average) [1]	7.0	7.9	8.6	8.8
Current account balance (BoP definition, as % of GDP)	-2.4	0.3	1.4	1.1
Short term interbank interest rate (3 m.)	4.6	1.2	1.0	2.0
Long term interest rate (10 y.)	4.4	3.9	3.8	4.2

[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
	2010	2011	2010	2011	2010	2011	
Federal Planning Bureau [1]	1.4	1.7	1.6*	1.7	.	.	02/10
INR/ICN [1]	1.4	1.7	1.6	1.7	.	.	02/10
National Bank of Belgium [2]	1.0	.	1.6	.	-5.4	.	12/09
European Commission [2]	0.6	1.5	1.3	1.5	-5.8	-5.8	10/09
OECD [2]	0.8	1.7	1.0	0.9	-5.6	-5.2	11/09
IMF [2]	0.0	1.6	1.0	1.2	-6.3	.	10/09
BNP Paribas [2]	1.2	1.5	1.2	1.3	-6.5	-5.5	11/09
ING [1]	1.6	1.8	1.5	1.9	-4.8	-4.1	02/10
Dexia [1]	1.5	2.1	1.4	1.8	.	.	02/10
KBC Bank [1]	1.7	1.8	1.8	2.0	-5.4	-4.7	12/09
Deutsche Bank	1.6	1.2	1.3	1.5	-5.9	-5.2	02/10
IRES [1]	1.5	.	1.5	.	-5.5	.	01/10
Consensus Belgian Prime News [2]	1.5	.	1.3	.	-5.4	.	01/10
Consensus Economics [2]	1.1	1.7	0.9	1.6	.	.	02/10
Consensus The Economist [2]	1.3	.	1.2	.	.	.	02/10
Consensus Wirtschaftsinstitute [2]	0.8	.	1.0	.	-5.8	.	10/09
Averages							
All institutions	1.2	1.7	1.3	1.6	-5.7	-5.1	
International public institutions	0.5	1.6	1.1	1.2	-5.9	-5.5	
Credit institutions	1.5	1.7	1.4	1.7	-5.6	-4.9	

[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

** Inflation forecasts were recently revised upwards for 2010. See page 15 for more information.*

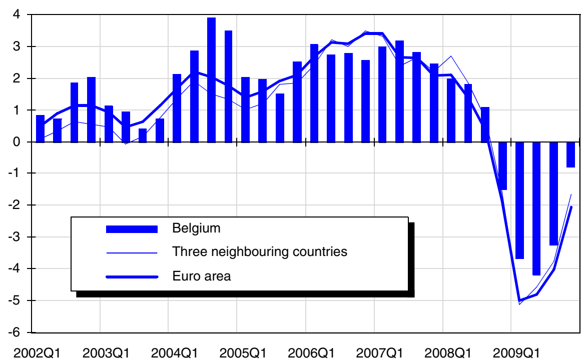
General economic activity

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

	2008	2009	YoY growth rates, in % 2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	QoQ growth rates, in % 2008Q4	2009Q1	2009Q2	2009Q3	2009Q4
Germany	1.0	-4.9	-1.8	-6.7	-5.8	-4.8	-2.4	-2.4	-3.5	0.4	0.7	0.0
France	0.3	-2.2	-1.7	-3.5	-2.7	-2.3	-0.3	-1.5	-1.4	0.3	0.2	0.6
Netherlands	2.0	-4.0	-0.9	-4.1	-5.2	-4.0	-2.6	-1.2	-2.3	-1.1	0.5	0.3
Belgium	0.8	-3.0	-1.5	-3.7	-4.2	-3.2	-0.8	-2.1	-1.7	-0.1	0.7	0.3
Euro area	0.5	-4.0	-1.9	-5.0	-4.8	-4.0	-2.0	-1.9	-2.4	-0.1	0.4	0.1
United States	0.4	-2.4	-1.9	-3.3	-3.8	-2.6	0.1	-1.4	-1.6	-0.2	0.6	1.4
Japan	-1.2	-5.1	-4.4	-8.4	-5.9	-4.9	-0.9	-3.0	-3.2	1.3	0.0	1.1

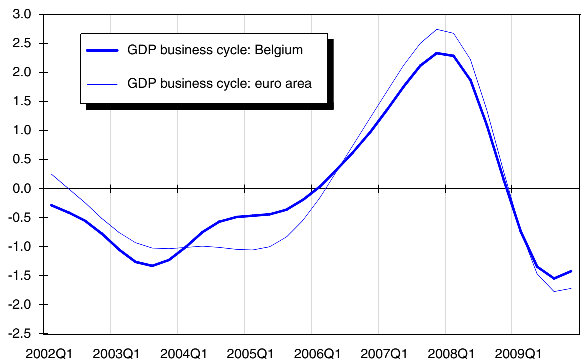
[1] Adjusted for seasonal and calendar effects
Source: INR/ICN, National sources, Eurostat

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



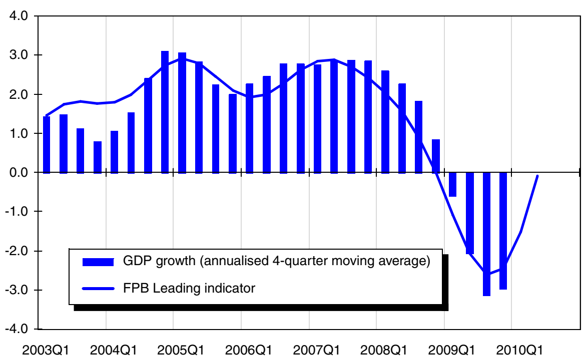
Source: INR/ICN, National sources, Eurostat

Graph 2 - GDP business cycle



Source: INR/ICN, Eurostat, FPB

Graph 3 - GDP growth and leading indicator



Source: INR/ICN, FPB

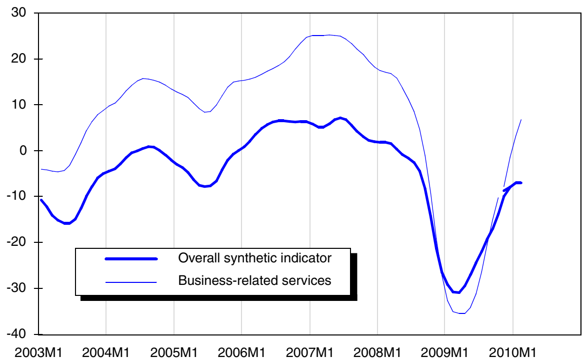
Following four quarters of negative growth, the US economy grew by 0.6% and 1.4% in the two last quarters of 2009 on the back of rising private consumption and a hefty positive contribution by inventories. Economic growth is expected to slow down again this year as the temporary beneficial effect of the government stimulus measures and inventory rebuilding fades away.

The Japanese economy was severely hit during the global recession and lost more than 8% of output due to its high reliance on external demand. It was one of the first economies to register positive growth again (in 2009Q2) thanks to a rebound in world trade. In 2009Q4, economic activity surged by 1.1%, but this first estimate could be subject to major revisions. The initially reported 1.3% surge in 2009Q3, for example, was finally revised down to 0%.

The economic recession in the euro area ended in 2009Q3 (GDP growth of 0.4%) owing to the huge and unprecedented fiscal and monetary stimuli, the turn in the inventory cycle and rising external demand (especially from emerging countries). In 2009Q4, economic activity increased by merely 0.1%, but no details are available yet.

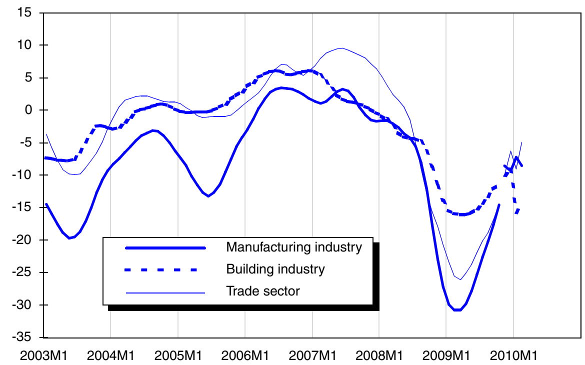
In the third quarter, euro area GDP growth was mainly supported by Germany (+0.7%), while three Member States were still mired in recession (Spain, Greece and Cyprus). Spain and Greece's economies also shrank in 2009Q4 and were joined by Italy which fell back after positive growth in the previous quarter. Belgium's economy did considerably better than the euro area average, growing by 0.7% and 0.3% in the last two quarters of the year, respectively. In line with the international business cycle, quarterly economic growth is expected to lose momentum in 2010. Only next year is quarterly GDP growth expected to accelerate to its average long-term growth rate.

Graph 4 - Business cycle: global evolution



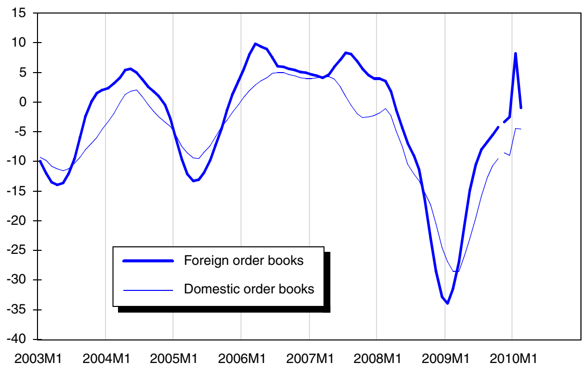
Source: NBB

Graph 5 - Business cycle: sectoral evolution



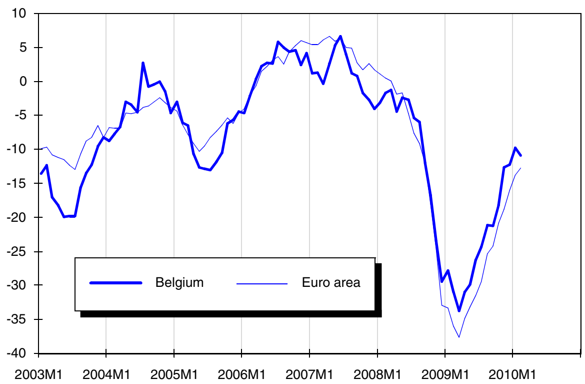
Source: NBB

Graph 6 - Manufacturing industry: order books



Source: NBB

Graph 7 - Industrial confidence: international comparison



The overall synthetic indicator, which encompasses sentiment in the manufacturing industry, the building industry, the trade sector and business-related services, has improved considerably since reaching its all-time low at the height of the financial and economic crisis (2009Q1). However, the rise of overall confidence in the last three months has come down to a trickle, which is why the overall synthetic indicator seems to be close to a levelling-off point now. Moreover, confidence levels in all four sectors remain below their long-term averages. This seems to be compatible with the evolution of Belgian GDP growth, which has come down to 0.3% in 2009Q4, following a strong rise of 0.7% in the previous quarter. This year quarterly growth is expected to register a further, slight deceleration.

The amelioration of overall confidence over the last six months and since its trough in 2009Q1 has been pretty broad-based as only one sector, the building industry, has not registered a meaningful rise in sentiment. The strongest rise in confidence has been seen in business-related services, but this sector only makes up for 15% of the overall indicator. The latter is mostly driven by what happens in the manufacturing sector, which constitutes 65% of it.

As has been the case since indicators started to improve in 2009Q2, the rise in confidence in all sectors remains mainly driven by their expectations component as the assessment of the current situation continues to lag.

Sentiment in the manufacturing industry was up across the board with both domestic and foreign components - both employment and production indicators - improving. Lately, foreign order books have receded somewhat, as can be seen in Graph 6, which probably has to do with the standstill in economic activity in Germany (our biggest trading partner) and rather meagre economic growth of our next biggest trading partners (France, the Netherlands and the UK). However, continued strength in world trade growth and the substantial fall in the euro exchange rate probably mean that this evolution will not continue.

As mentioned above, confidence in the building industry has barely improved over the last few quarters. On the other hand, the sector did not register the steep fall registered in other sectors during the economic recession. This probably was due to the Belgian government's temporary reduction of VAT rates (from 21% to 6%) on construction from the beginning of 2009 and the relatively low mortgage rates. The VAT rate reduction has been extended for building permits submitted before the end of March 2010, which should support building activity throughout this year.

Private consumption

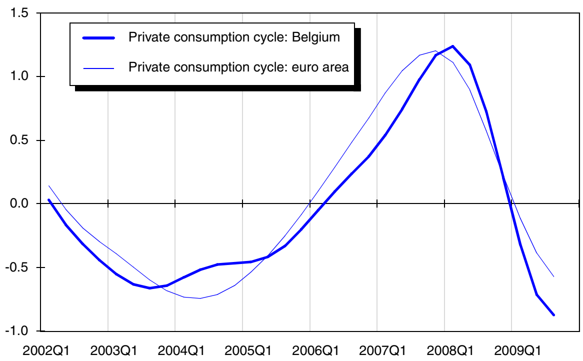
Table 2 - Private consumption indicators

	2008	2009	2009Q1	2009Q2	2009Q3	2009Q4	2009M9	2009M10	2009M11	2009M12	2010M1	2010M2
New car registrations [1]	2.1	-11.1	-15.3	-19.6	-7.6	6.4	-5.7	-7.6	15.7	21.1	3.5	.
Consumer confidence indicator [2]	-11.3	-16.9	-22.7	-19.7	-13.0	-12.3	-11.0	-12.0	-10.0	-15.0	-15.0	-15.0

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

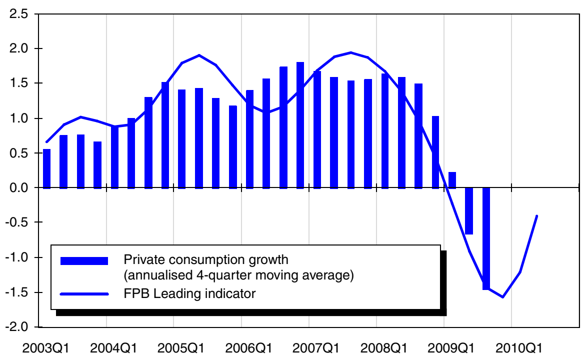
Source: NBB, Febiac

Graph 8 - Private consumption cycle



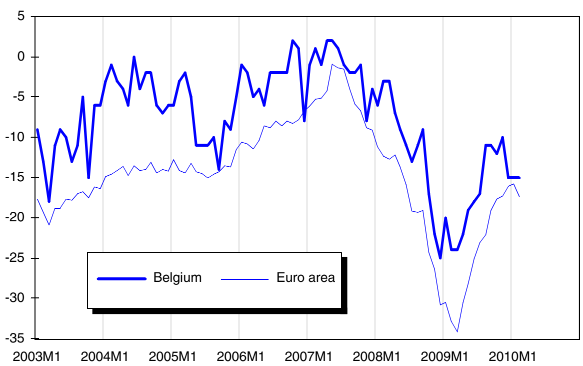
Source: INR/ICN, Eurostat, FPB

Graph 9 - Private consumption growth and leading indicator



Source: INR/ICN, FPB

Graph 10 - Consumer confidence: international comparison



Source: NBB, European Commission

From 2008Q2 onwards, both the Belgian and the euro area consumption cycle were on a declining path. In the euro area, private consumption started to decline in 2008Q2 and continued to do so until 2009Q3 (the latest available figures), with the exception of a quasi stabilisation in 2009Q2 and 2008Q3. The fall in Belgian consumption only lasted for three subsequent quarters (2008Q4-2009Q2) but was a lot stronger than in the euro area. In fact, the volume of private consumption in the euro area in 2009Q3 was 1.4% lower than in 2008Q1, while it declined by 1.7% in Belgium during that period. It should not come as a surprise that the biggest qoq declines were seen in 2008Q4 and 2009Q1, when the financial and economic crisis was at its peak and when consumer confidence reached historically low levels.

Belgian, as well as euro area, consumer confidence improved significantly from 2009Q2, mainly as a result of a more optimistic evaluation of the economic situation. Recently, however, confidence has decreased somewhat as the assessment of the economy and the labour market has worsened to some extent. In the case of Belgium, this has gone hand in hand with announcements of lay-offs in a few large companies.

After an average yoy decrease of 15% during the first three quarters of 2009, yoy growth rates in Belgian car sales have turned positive again since November. During the coming months, car registrations are expected to improve further following the biennial motor show in Brussels in January 2010. For the euro area as a whole, car sales performed better during the first three quarters of 2009 due to the success (especially in Germany) of the car scrapping schemes that were set up as part of the recovery plan of some European countries.

In 2009, the Belgian household saving rate increased to its highest level in 15 years. In the short term it is expected that private consumption growth will remain rather subdued as the ongoing increase in the unemployment rate should weigh on consumer confidence. This implies that the saving rate will remain at a high level for quite some time.

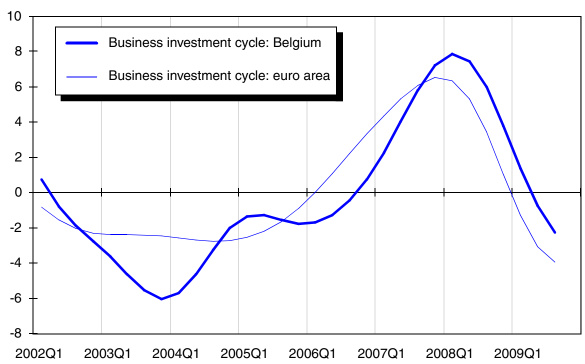
Business investment

Table 3 - Business investment indicators

	2008	2009	2010	2009Q1	2009Q2	2009Q3	2009Q4	2009M10	2009M11	2009M12	2010M1	2010M2
Business survey, capital goods [2]												
Synthetic indicator	-6.7	-25.5	.	-30.7	-29.8	-25.3	-16.0	-17.3	-16.1	-14.6	-13.4	-10.3
Order book appraisal	1.0	-46.0	.	-41.7	-47.3	-46.7	-48.3	-54.0	-48.0	-43.0	-49.0	-45.0
Demand forecasts	-3.7	-28.0	.	-42.3	-35.7	-18.7	-15.3	-17.0	-16.0	-13.0	-5.0	-4.0
Investment survey [1]	1.1	-22.4	11.2									
Capacity utilisation rate (s.a.) (%)	80.6	72.5	.	70.1	72.0	73.1	74.3					

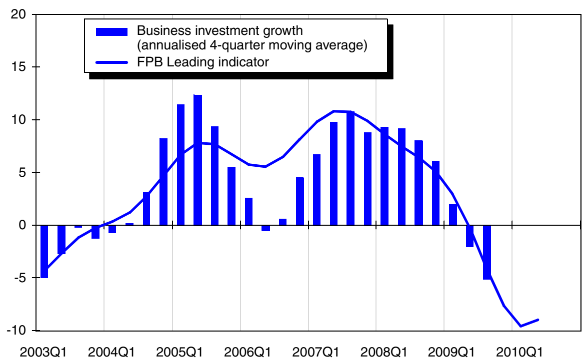
[1] Change (%) compared to same period previous year; [2] Qualitative data
Source: NBB

Graph 11 - Business investment cycle



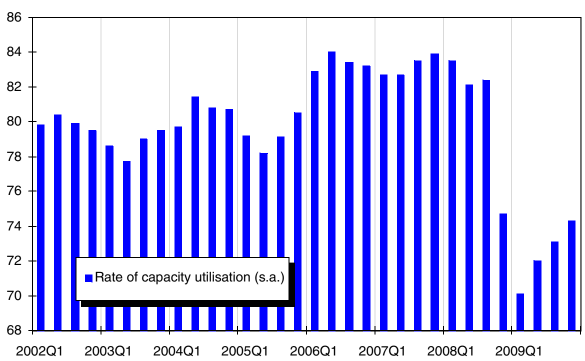
Source: INR/ICN, Eurostat, FPB

Graph 12 - Business investment growth and leading indicator



Source: INR/ICN, FPB

Graph 13 - Capacity utilisation in manufacturing industry



Source: NBB

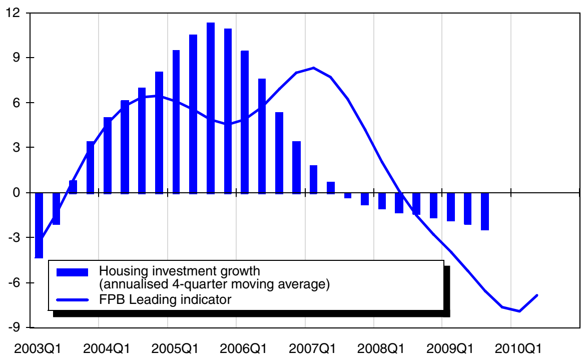
In line with the development of the business cycle, the Belgian and the euro area investment cycle started to decline in the first half of 2008. Since then, they have fallen from more than 6% above their trend level to more than 2% below trend. It should be noted, however, that when a series experiences large fluctuations, its trend-cycle decomposition can become quite tricky as the filters used to calculate the trend are generally subject to an end-point bias. As investment (and exports) are traditionally the most volatile expenditure components of GDP, their current trend level could be underestimated.

While qoq business investment growth in Belgium still amounted to 3.2% on average in 2007, it already fell to 1.3% during the first half of 2008 due to a weakening of demand growth affecting business confidence. From mid-2008 onwards, business investment started to plummet as the worldwide recession surfaced: in a time span of five quarters, it lost 8.4%. At the same time, the capacity utilisation rate in manufacturing industry nose-dived and reached a historically low level of 70.1% in 2009Q1. Although the limited pick-up in economic activity raised capacity utilisation somewhat, it remains well below its historical average of around 79%. Moreover, the financial crisis led to a tightening of credit conditions, making the financing of investment projects more difficult and more expensive.

Taking these factors into account, it is not expected that business investment will recover quickly. This is also seen in the order book appraisal of the capital goods industry, which remains close to its lowest level since the first half of the nineties, a period characterised by four consecutive years of negative investment growth. Nevertheless, company directors do expect some improvement: demand forecasts for capital goods have improved since mid-2009 and investment in manufacturing industry is expected to grow nominally by more than 10% in 2010, according to the latest investment survey. It should be noted, however, that figures from this survey are generally adjusted downwards in the course of the year.

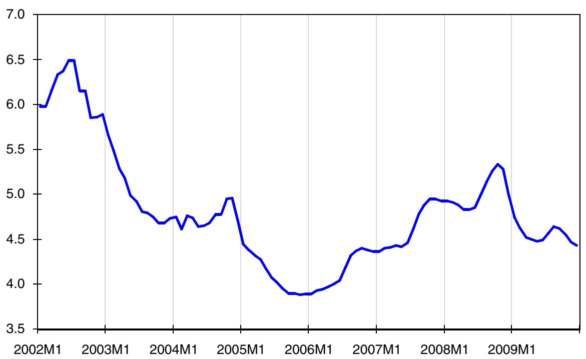
Housing investment

Graph 14 - Housing investment growth and leading indicator



Source: INR/ICN, FPB

Graph 15 - Mortgage rate (%)



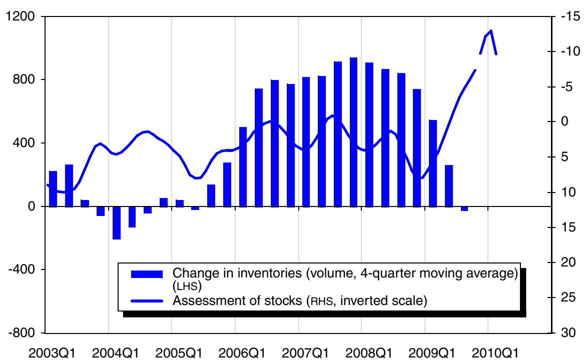
Source: NBB

After average annual growth of more than 6% during the period 2003-2006, housing investment became a drag on economic growth. In 2007 and 2008, Belgian housing activity contracted by 0.8% and 1.6%, respectively. According to the latest quarterly national accounts, this decline continued in 2009Q1-Q3, so that Belgian residential investment should have contracted even more in 2009 as a whole (-2.8%). However, this fall was cushioned somewhat by the temporary VAT reduction on residential construction (in 2009 and 2010Q1) and the decline in mortgage rates (from 5.2% in the second half of 2008 to 4.6% on average in 2009). Nevertheless, housing investment still represented 5.6% of GDP in 2009, relative to 5.3% on average over the past 15 years. The recent correction is also benign compared to countries with the most pronounced housing downturns (Ireland, Spain, the United States and the United Kingdom).

The downturn in housing investment is confirmed by the FPB leading indicator, which went down between the beginning of 2007 and the end of 2009. Most of the housing investment indicators, such as the total number of mortgage applications and indicators from the architects' survey, reached a trough by the beginning of 2009. They generally lead the development of the housing investment cycle by about four quarters, implying a pick-up in the residential investment growth cycle in the course of 2010.

Stock building

Graph 16 - Stock building indicators



Source: INR/ICN, NBB

The contribution of stocks to economic growth turned negative in 2008Q4 and the first half of 2009. This evolution went hand in hand with an increasing number of company directors willing to reduce their stock levels due to significantly worsened demand prospects. The upswing in industrial confidence during the second half of 2009 encouraged firms to replenish their stocks, which supported economic growth somewhat. For 2009 as a whole, the development in stocks dragged down economic growth by about 1.7%-points.

The recent upturn in the inventory cycle is expected to continue during the first half of this year, but its favourable impact on economic growth should fade thereafter.

Foreign Trade

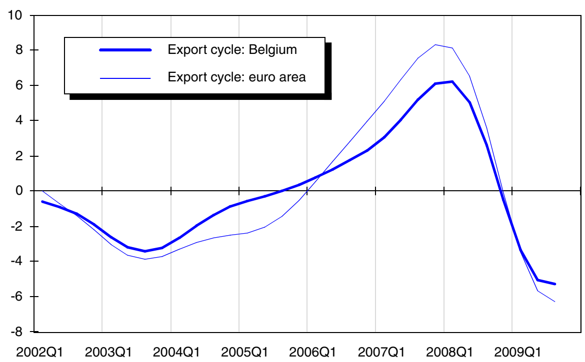
Table 4 - Belgium - Trade statistics (goods, intra/extrastat, national concept)

	2007	*2008*	*2008Q4*	*2009Q1*	*2009Q2*	*2009Q3*	*2009M6*	*2009M7*	*2009M8*	*2009M9*	*2009M10*	*2009M11*
Exports - value [1]	5.3	2.8	-11.1	-23.7	-27.4	-21.1	-23.9	-24.2	-20.8	-18.1	-13.4	3.0
Imports - value [1]	6.2	8.3	-7.6	-23.9	-29.8	-26.9	-26.5	-28.5	-25.8	-26.1	-21.5	-5.4
Exports - volume [1]	2.8	-2.3	-13.2	-19.8	-20.3	-13.9	-15.5	-16.6	-12.9	-11.8	-9.8	10.0
Imports - volume [1]	4.2	-0.6	-10.0	-17.0	-19.7	-17.1	-14.4	-18.2	-16.5	-16.5	-13.3	4.4
Exports - price [1]	2.5	5.1	2.2	-4.8	-8.9	-8.5	-9.9	-9.1	-9.1	-7.1	-4.1	-6.4
Imports - price [1]	1.9	9.0	2.4	-8.3	-12.6	-11.8	-14.2	-12.7	-11.2	-11.5	-9.4	-9.4

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

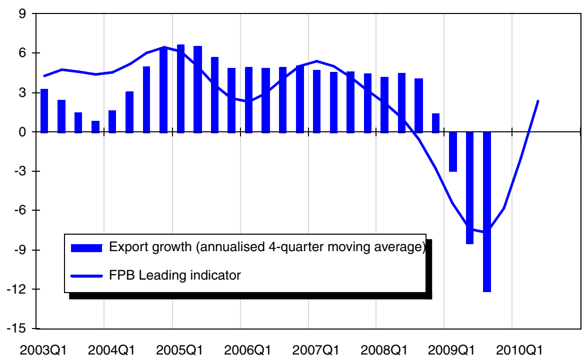
Source: INR/ICN

Graph 17 - Export cycle



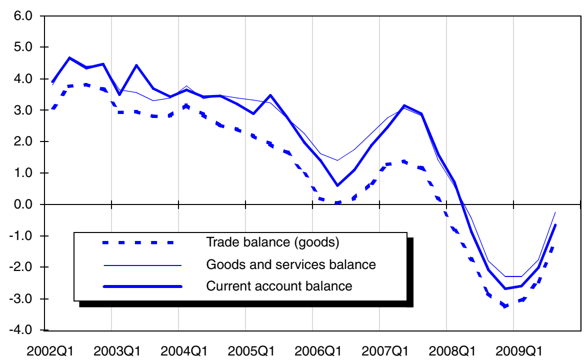
Source: INR/ICN, Eurostat, FPB

Graph 18 - Export growth and leading indicator



Source: INR/ICN, FPB

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



Source: INR/ICN, NBB, FPB

The decline in the Belgian and the European export cycle since the start of 2008 has been very steep, in line with the collapse of world trade and the deepest economic recession since the Second World War. Both export cycles are now bottoming out and appear to be close to their troughs. Some prudence in interpreting these cycles remains recommended as trend-cycle decomposition is rather tricky in view of the huge decline in exports. Following five quarters of negative growth, export growth in the euro area rose strongly in 2009Q3, driven by a surge in German exports, which are benefiting from the strong demand for investment goods from Asia. European export growth might have been hampered in 2009Q4 by the continuous appreciation of the euro in the first three quarters of the year. Since then, the euro has dropped significantly, which should be beneficial for exports in 2010.

Following the steep fall between 2008Q3 and 2009Q2 (cumulative decline of almost 17%), Belgian exports surged in 2009Q3 (+4.3%) in line with the strong acceleration of world trade and the ending of the economic recession in the euro area. For the whole year, Belgian exports probably declined by about 11%. Belgian export markets, a weighted average of our main trading partners' import growth, almost dropped by the same extent, resulting in a historically small loss in export market shares. Export growth is likely to slow down somewhat in the course of 2010 due to the fading of the temporary beneficial effects of the inventory cycle and the stimulus measures. It should accelerate again next year in line with the evolution of relevant world trade.

The current account balance moved back to surplus in 2009 thanks to the strong improvement in the terms of trade (export price growth compared to import price growth). This was mainly due to the fall in oil and other raw materials prices. This year, the current account surplus should rise again as the terms of trade should improve further, while export volume growth is also expected to outpace import volume growth.

Labour market

Table 5 - Labour market indicators

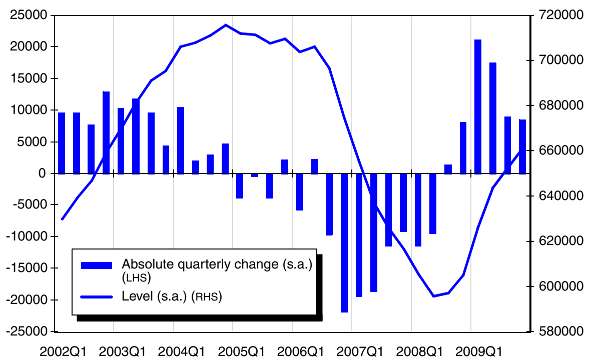
	2008	2009	2009Q1	2009Q2	2009Q3	2009Q4	2009M8	2009M9	2009M10	2009M11	2009M12	2010M1
Unemployment [1][2]	600.7	645.7	626.0	643.5	652.4	660.9	653.1	654.8	656.5	660.2	665.9	666.7
Unemployment rate [2][3]	11.7	12.5	12.1	12.5	12.6	12.8	12.7	12.7	12.7	12.8	12.9	12.9
Unemployment rate-Eurostat [3][4]	7.0	7.9	7.7	7.7	8.0	8.0	8.0	8.0	8.0	8.0	8.1	8.0

[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

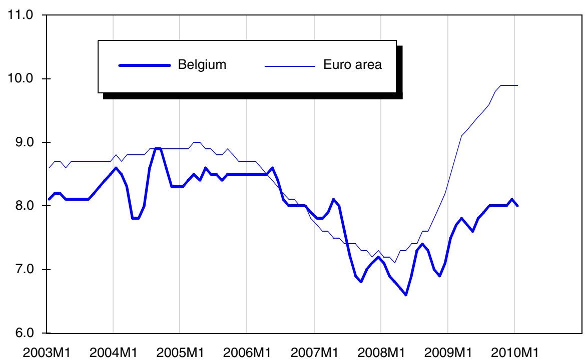
Source: RVA/ONEM, FPS Employment, Eurostat, FPB

Graph 20 - Evolution of unemployment (incl. older)



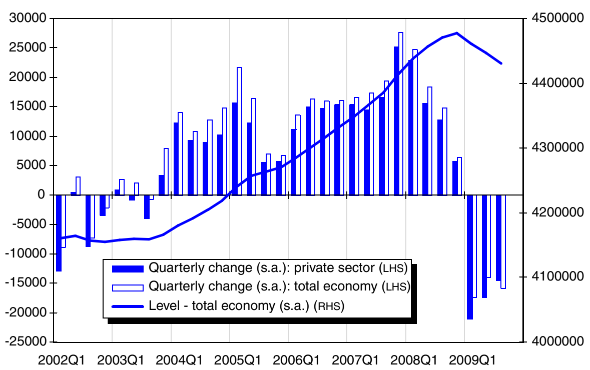
Source: RVA/ONEM

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



Source: Eurostat

Graph 22 - Evolution of domestic employment



Source: INR/ICN

Over the two quarters subsequent to the breaking out of the financial crisis (September 2008), activity in the market sector fell by as much as 4.5%, whereas market sector employment decreased by just 0.4%. Hence, in the short run, the fall in activity was almost entirely absorbed by a decrease in labour productivity. Part of this short-run adjustment occurred through reductions in average hours worked per employed person. These had already decreased substantially during the slowdown in growth that preceded the current crisis, but dropped by another 1.1%. Still, this means that the bulk of labour hoarding during this period has materialised through a sharp decline in hourly labour productivity.

Market activity flattened out in 2009Q2 (slight drop of 0.2%) and resumed rather vigorously in the second half of the year (by 1.5%). Hourly productivity growth had already turned positive in the second quarter, and grew by 2.1% since. Average hours worked, however, resumed only one quarter later, and increased by just 0.4% over the last three quarters. Firms still relied heavily on a number of government-subsidised programmes for working time reduction: recourse to the ‘temporary unemployment schedule’ peaked during the second quarter, but diminished only slightly after that. This may help to explain why the rate of job destruction did not increase during the second and third quarter, and, according to the latest information, even seems to have declined somewhat.

However, the increase in broad administrative unemployment has come down quite dramatically during the last two quarters (its quarterly growth rate halved compared to the first quarter), implying a sharp contraction in the growth of the labour force. The latter may actually have decreased during the second half of last year. First evidence points to the conclusion that, in the younger age groups particularly, activity rates seem to have been under downward pressure lately.

Prices

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

	2008	2009	2009Q1	2009Q2	2009Q3	2009Q4	2009M9	2009M10	2009M11	2009M12	2010M1	2010M2
Consumer prices: all items	4.49	-0.05	1.62	-0.30	-1.22	-0.28	-1.19	-0.97	-0.12	0.26	0.62	0.70
Food prices	5.82	1.06	3.53	1.33	-0.33	-0.24	-0.36	-0.43	-0.05	-0.24	-0.26	0.13
Non food prices	5.95	-2.72	-0.39	-3.74	-4.59	-2.08	-4.54	-3.76	-1.72	-0.72	0.25	0.52
Services	2.01	2.85	3.29	3.46	2.69	1.97	2.75	2.30	1.86	1.74	1.59	1.18
Rent	1.90	2.01	2.09	2.10	2.08	1.77	2.06	1.95	1.69	1.68	1.50	1.43
Health index	4.22	0.59	2.57	0.70	-0.50	-0.38	-0.62	-0.58	-0.31	-0.25	-0.08	0.13
Brent oil price in USD (level)	96.9	61.5	44.3	58.8	68.2	74.6	67.5	72.8	76.6	74.4	76.2	73.5

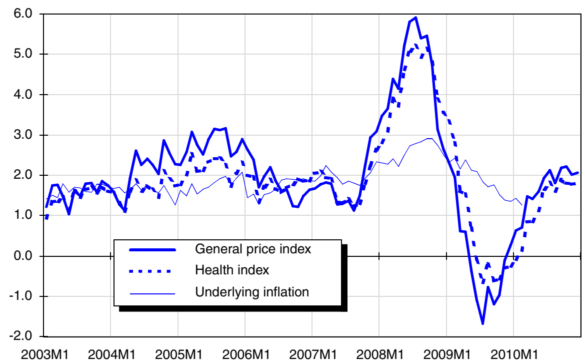
Source: FPS Economy, Datastream

Table 7 - Monthly inflation forecasts

	2009M1	2009M2	2009M3	2009M4	2009M5	2009M6	2009M7	2009M8	2009M9	2009M10	2009M11	2009M12
Consumer prices: all items	111.36	111.74	111.10	111.33	111.25	111.04	110.97	111.31	111.02	111.07	111.36	111.54
Consumer prices: health index	111.45	111.75	111.07	111.17	110.96	110.50	110.48	110.66	110.46	110.64	110.75	110.96
Moving average health index	111.27	111.38	111.38	111.36	111.24	110.93	110.78	110.65	110.53	110.56	110.63	110.70
	2010M1	2010M2	2010M3	2010M4	2010M5	2010M6	2010M7	2010M8	2010M9	2010M10	2010M11	2010M12
Consumer prices: all items	112.05	112.52	112.74	112.90	113.02	113.18	113.32	113.31	113.44	113.52	113.61	113.84
Consumer prices: health index	111.36	111.90	112.00	112.12	112.19	112.33	112.47	112.43	112.55	112.63	112.71	112.96
Moving average health index	110.93	111.24	111.56	111.85	112.05	112.16	112.28	112.36	112.45	112.52	112.58	112.71

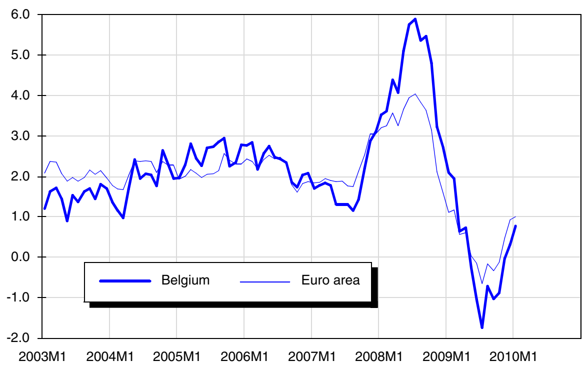
Source: Observations (up to 10M2): FPS Economy; forecasts: FPB

Graph 23 - Monthly inflation evolution in % (t/t-12)



Source: FPS Economy, from 10M3 on: forecasts FPB

Graph 24 - Harmonised inflation rates in % (t/t-12)



Source: Eurostat

Between December 2008 and July 2009, yoy growth rates for oil prices, expressed in euro, amounted to -48% on average. This heavily affected Belgian energy prices and led to a negative inflation rate from May until November 2009. From the end of 2009 onwards, the negative base effect in energy prices disappeared, bringing inflation rates into positive territory again. As electricity and gas prices react with a lag to oil price movements, inflation should be upward oriented until 2009Q3.

Underlying inflation reached a peak during the recession from 2008Q4 to 2009Q2 due to the increase in unit labour costs and the lagged effect of the oil price increase earlier in 2008 on prices of services. Since mid-2009, underlying inflation has declined and is expected to continue to do so, as economic growth and wage growth should remain subdued.

From January 2010 onwards, the VAT rate on restaurant and catering services (except for served drinks) fell from 21% to 12%. This does not seem to have had a downward impact on inflation, which does not come as a surprise as restaurant owners stated that they would use the extra income to increase employment.

All in all, Belgian headline inflation should rise from -0.1% on average in 2009 to 1.7% this year. The growth rate of the health index should be 1.3% in 2010, compared to 0.6% last year. The current pivotal index for public wages and social benefits (112.72) should not be exceeded this year.

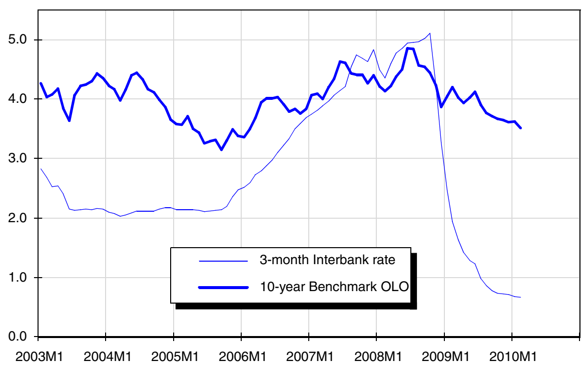
Interest rates

Table 8 - Interest rates

	2008	2009	2009Q1	2009Q2	2009Q3	2009Q4	2009M9	2009M10	2009M11	2009M12	2010M1	2010M2
Short-term money market rates (3 months)												
Euro area (Euribor)	4.63	1.23	2.02	1.31	0.87	0.72	0.77	0.74	0.72	0.71	0.68	0.66
United States	2.96	0.56	1.09	0.62	0.30	0.22	0.25	0.24	0.21	0.21	0.20	0.19
Japan	1.05	0.52	0.72	0.58	0.43	0.35	0.35	0.39	0.38	0.29	0.27	0.30
Long-term government bond rates (10 years)												
Belgium	4.40	3.89	4.09	4.03	3.80	3.64	3.72	3.67	3.65	3.61	3.63	3.51
Germany	3.99	3.26	3.10	3.37	3.33	3.23	3.29	3.23	3.24	3.22	3.29	3.19
Euro area	4.24	3.71	3.72	3.86	3.69	3.56	3.64	3.58	3.56	3.53	3.59	3.52
United States	3.65	3.24	2.71	3.30	3.50	3.45	3.39	3.36	3.39	3.59	3.72	3.68
Japan	1.48	1.34	1.27	1.44	1.34	1.31	1.31	1.32	1.35	1.26	1.32	1.33

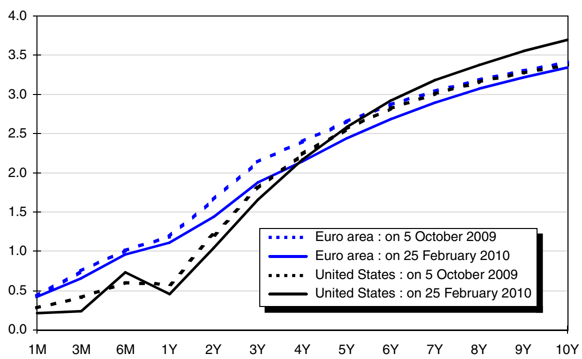
Source: Datastream

Graph 25 - Interest rate levels in Belgium, %



Source: NBB

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



Source: Datastream, data based on interest rate swaps

The US Federal Reserve has kept the target federal funds rate (the rate at which banks borrow reserves from each other) within a range of 0-0.25% since the end of 2008. The programme of massive liquidity provision and quantitative easing (buying of government and corporate debt and of asset-backed securities) is expected to be scaled back in the course of 2010. Financial markets are anticipating a series of increases in the federal funds rate in the next two years. In a first step towards genuine monetary tightening, the Fed has raised the discount rate (the rate at which banks can borrow reserves directly from the Fed) from 0.5% to 0.75% and shortened the loan maturity back to a maximum of overnight.

Since its last rate cut, in May 2009, the ECB's main policy rate has remained at 1%. As in the US, markets are anticipating a tightening of monetary policy, but to a lesser extent than in the US. The ECB is unlikely to be in a hurry to hike rates as economic growth proved to be quite meagre in 2009Q4 and core inflation remains very subdued (around 1%).

The ebbing fear of a global depression, the accompanying rising risk appetite and worries about the high budget deficit resulted in a rise in US long-term interest rates in the course of 2009. This year, so far, US long-term interest rates have remained fairly stable. In the euro area, long-term interest rates have remained in a narrow trading range of 3.5-4% (on a monthly basis) since the start of 2009. Divergence between the Member States has, however, again widened substantially. The countries with the highest deficits have seen their government bond yields soar against the German bund. Greece, considered the most troubled country, has seen its spread rise to about 300 basis points. Worries have, however, also spread to Portugal, Spain and Italy. Ireland's spread has not really risen recently, but remains at a high level.

Exchange rates

Table 9 - Bilateral exchange rates

	2008	2009	2009Q1	2009Q2	2009Q3	2009Q4	2009M9	2009M10	2009M11	2009M12	2010M1	2010M2
USD per EUR	1.471	1.393	1.304	1.362	1.430	1.477	1.457	1.482	1.492	1.458	1.427	1.368
UKP per EUR	0.797	0.891	0.909	0.879	0.872	0.904	0.892	0.915	0.899	0.899	0.883	0.876
JPY per EUR	152.3	130.3	122.1	132.6	133.8	132.7	133.1	133.9	133.0	131.3	130.2	123.3

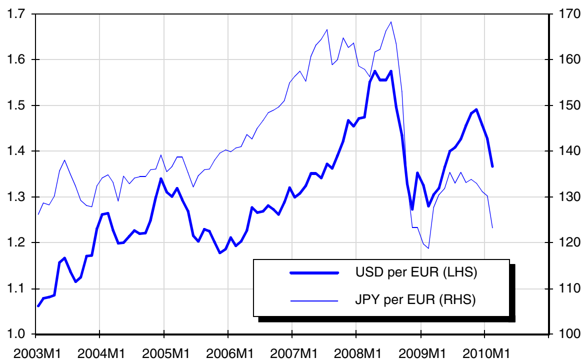
Table 10 - Nominal effective exchange rates (2005=100)

	2008	2009	2009Q1	2009Q2	2009Q3	2009Q4	2009M8	2009M9	2009M10	2009M11	2009M12	2010M1
Euro	112.6	112.8	111.0	112.0	113.5	115.0	113.1	114.3	115.6	115.3	114.1	111.7
Growth rate [1]	6.6	0.2	1.6	1.0	1.3	1.3	0.1	1.1	1.1	-0.3	-1.0	-2.1
US dollar	90.0	94.0	100.0	96.1	91.5	88.3	91.5	90.0	88.4	87.9	88.7	89.2
Growth rate [1]	-3.7	4.4	1.9	-3.8	-4.8	-3.5	-1.5	-1.7	-1.8	-0.6	0.9	0.6
Japanese yen	101.0	116.9	122.5	113.4	114.7	116.8	113.2	116.1	116.0	117.1	117.1	115.5
Growth rate [1]	14.0	15.7	4.1	-7.4	1.1	1.8	-1.3	2.6	-0.1	0.9	0.0	-1.4

[1] Change (%) compared to previous period

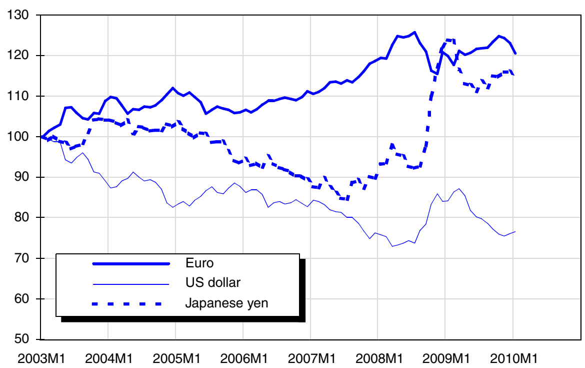
Source: BIS, NBB

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



Source: NBB

Graph 28 - Nominal effective exchange rates (2003M1=100)



Source: NBB, BIS

The dollar appreciated against the euro and many other currencies throughout most of 2009 with the fading of the fear of a worldwide depression and collapse of the financial system (reduced importance of its safe haven status). Moreover, the dollar became the main funding currency of choice for carry trades, in which money is lent at ultra-low interest rates to buy securities of higher-yielding currencies (hereby selling the dollar). Since the end of last year, the dollar has been gaining ground again fast. Several reasons apply. The worries about Europe's public finances (which weighed on the euro) have spilled over into a broad-based flight from risk, benefiting the dollar. The Federal Reserve is expected to tighten monetary policy sooner and to a greater extent than the ECB. This might in turn also lead to an unwinding of the massive dollar carry-trade positions.

The main reason for the euro's depreciation against the dollar, the British pound and virtually every other currency is the mounting fear for the public finances of Greece and other countries at the periphery of the euro area. A default of Greece (a very unlikely scenario) would result in further selling pressure on the euro. The alternative, a bailout by other euro area countries, could also result in euro depreciation as it would put at risk one of the mainstays of the strength of the euro and its status as a reserve currency: the credibility of its fiscal policy. The Greek crisis points to the difficulty of binding a group of countries together in a currency zone with no mechanism, such as a central fiscal authority, to address its imbalances.

The broad depreciation of the euro is reflected in its nominal effective exchange rate, which has dropped strongly for three consecutive months.

Tax indicators

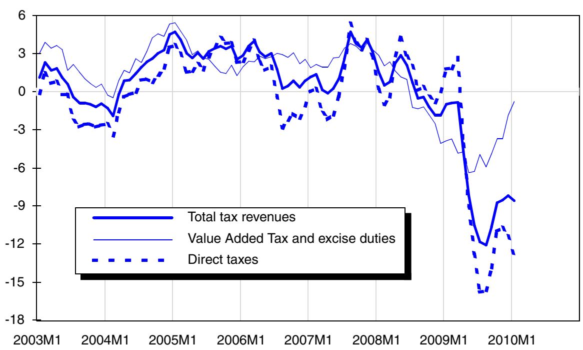
Table 11 - Tax revenues (1)

	2008	2009	2009Q1	2009Q2	2009Q3	2009Q4	2009M8	2009M9	2009M10	2009M11	2009M12	2010M1
Total [2], of which:	2.5	-8.3	-2.6	-28.9	-4.1	5.3	-5.9	19.3	14.6	0.3	0.4	-3.3
Direct taxes, of which:	4.5	-11.5	1.1	-41.3	-6.4	8.4	-2.9	26.1	22.8	4.2	-2.0	-11.6
Withholding earned income tax (PAYE)	5.5	-0.1	-1.9	-36.8	3.7	35.8	9.9	38.1	54.7	36.6	20.7	4.0
Prepayments	-1.7	-26.1	.	-33.0	-29.1	-15.2	.	.	-17.7	.	-13.2	.
Value Added Tax and excise duties	0.2	-2.0	-4.9	-6.7	0.5	2.3	-8.2	14.6	7.2	-5.0	3.6	12.9

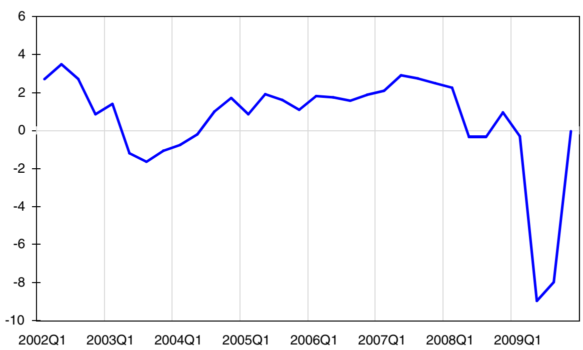
[1] Change (%) compared to same period previous year; [2] Total received by federal government, excl. of death-duties

Source: FPS Finance

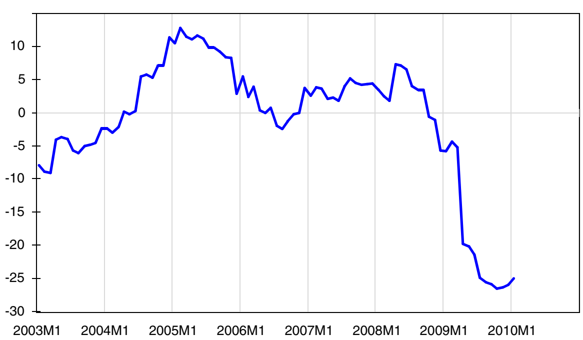
Graph 29 - Real tax revenues (3)



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 revenues recorded an annual decrease of 8.3% in 2009. Most tax categories contributed to the negative evolution, reflecting mainly the context of a severe business cycle downturn. The fall was reinforced by tax cut decisions from the December 2008 stimulus package. The quarterly profile shows a large yoy decrease in 2009Q2 and a moderate recovery towards the end of 2009. This reflects to some extent the business cycle profile, but also administrative shifts in the tax collection calendar.

PAYE personal income tax collection has been artificially low as from 2009Q2 due to the possibility (from the December 2008 stimulus package) for temporary deferral by employers of withholding taxes on wages. This effect has thus been offset by stronger receipts in Q4 (Graph 30). This shift aside, PAYE revenue has been relatively preserved due to the time lag in the relation between business cycle developments and employment. Due to this effect, employment is also not expected to underpin tax receipts in the two coming quarters.

The largest decrease in 2009 was observed in corporate income taxes and taxes on dividends. Corporate income tax prepayments were about 25% lower than in 2008. This directly reflects the worsening of business profitability. It should be noted that the notional interest deduction introduced in 2006 may cause corporate income tax revenues to be more volatile than the cycle. Tax receipts on interests are also lower than in 2008. The reason lies in lower interest rates and households' preference in 2009 for untaxed savings accounts.

VAT receipts in 2009 also suffered from the recession (in addition to rate cuts for the housing sector decided in the stimulus package). However, the evolution of receipts became less negative in the second semester due to a decrease in VAT reimbursements (delayed). Customs duties were strongly affected by slumping world trade in 2009. Registration duties faced the contraction of the real estate market, whose recovery will affect revenue only after a delay, given the time between the registration of deeds and fee collection.

Administrative burdens in Belgium in 2008

In response to the Council of Ministers and in collaboration with the Dienst voor Administratieve Vereenvoudiging/Agence pour la Simplification Administrative, the FPB has estimated the cost of the administrative burden for companies and self-employed persons in 2008. Planning Paper 108 analyses the quantitative and qualitative results of the 2008 survey.

The estimation of the administrative burden is based on a national survey and uses the same methodology as that used in the surveys carried out for the years 2000, 2002, 2004 and 2006. Companies, as well as self-employed persons, are invited to assess the administrative burden imposed by three areas of legislation: environmental, employment and tax legislation.

The administrative burden on companies and self-employed persons is estimated to equal EUR 5.9 billion, or 1.7% of GDP. In comparison with the 2006 survey, the administrative burden on companies has decreased in nominal terms by 29%, reaching 1.3% of GDP after 2.1% in 2006, 1.7 % in 2004 and 2.4% in 2002. This decrease is due to lower administrative burdens in the three areas studied. By contrast, the administrative burden has slightly increased in nominal terms for self-employed persons for both of the administrative areas studied in their case: fiscal and environmental regulation. It is estimated at EUR 1.3 billion or 0.4% of GDP in 2008, after EUR 1.2 or 0.4% of GDP in 2006, EUR 2.4 billion or 0.8% of GDP in 2004 and EUR 2.7 billion or 1% of GDP in 2002.

As in previous surveys, small businesses (with less than 10 employees) face the highest administrative burden, expressed per employee or in percentage of turnover. However all businesses have benefited from a decrease in their average administrative cost expressed per employee. Moreover, expressed as a percentage of turnover, the average administrative cost has continued to decrease for all companies, regardless of size. This average cost has reached 3.5% for small businesses, 0.9% for medium-sized firms and 0.3% for large companies in 2008, against 3.9%, 1.2% and 0.6%, respectively, in 2006.

The average cost, per employee, for small companies is systematically higher than the average cost for self-employed persons. However, the difference decreased in 2008, contrary to the observation in the previous surveys.

In addition to this quantitative analysis, the survey also has a qualitative part in which business sentiment is analysed on issues relating to the quality of legislation and contact with the administration.

In 2008, as had already been observed in the previous surveys, companies and self-employed persons were generally more satisfied with their contact with the administration than with the quality of legislation. For all areas of legislation, companies and self-employed persons were relatively satisfied with the information available to the public that accompanied legislation and the quality of responses obtained from the administration. Lack of flexibility of the legislation with regard to specific situations is the most criticised aspect of legislation, with the exception of employment and environmental legislation for companies, for which the main criticism concerns, respectively, the lack of consistency and the difficulty in understanding legislation. For companies, improvement in the quality of legislation was mainly visible concerning employment regulation and improvement in contact with the administration concerning environmental regulation, while the opinion of self-employed persons on the quality of legislation and contact with the administration was mainly driven by fiscal regulation, with increasing scores for all proposals submitted to their judgement.

"De administratieve lasten in België voor het jaar 2008", "Les charges administratives en Belgique pour l'année 2008", C. Kegels, Planning Paper 108, January 2010.

Qualitative Employment Multipliers for the Belgian Environmental Industry

The paper computes cumulative employment generated by the Belgian environmental industry, relying on Belgian input-output tables for the year 2000 and on detailed employment data (SAM sub-matrix). It investigates the pattern of the employment generated by the environmental industry by considering types of worker, differentiated by gender and educational attainment.

"The environmental industry" commonly refers to activities aimed at protecting the environment. This includes all goods and services used to measure, prevent, limit, minimise or correct environmental damage to water, air and soil, as well as problems related to waste, noise and ecosystems. Interpreting this definition in a restrictive way, by excluding activities that help prevent environmental damage but that have a different main purpose, such as public transport, Janssen and Vandille (Working Paper 07-09) found that the environmental industry directly employed 67 000 persons (in full-time equivalents) in 2000. This is 1.8% of total employment in full-time equivalents.

Between 2000 and 2005, environmental employment (+15.1%) grew more strongly than overall economy employment (+3.4%). This is remarkable, given that manufacturing industries, which generally saw their employment decline, had a larger share in environmental employment (28.5%) than in total employment (15.5%). Traditional environmental activities such as recycling and Sewage and Refuse disposal activities only generated 15% of environmental employment

Recent developments in the field of environmental protection and regulation have triggered increasing interest since new job opportunities may be created and new skills may be required. Our analysis aims at improving our knowledge about the employment generated by the Belgian environmental industry and at providing a qualitative analysis of it.

Relying on Belgian input-output tables for the year 2000, *relative employment multipliers* were computed. At 1.8, the relative employment multiplier for the environmental industry is higher than that for the overall economy (1.5). This implies that 1 job created in the environmental industry leads to another 0.8 jobs created in the chain of suppliers to the initial employer. The latter jobs are called indirect employment. Consequently, the cumulative employment generated by the Belgian environmental industry can be estimated at 120 000 persons in 2000 (in full-time equivalents). The cumulative employment is the sum of the direct and indirect employment generated by the environmental industry.

The qualitative analysis is based on employment multipliers in which workers are differentiated by gender and educational attainment level. We highlight some differences between total employment and environmentally-linked employment.

First, at only 28% in 2000 and 29% in 2005, the share of women is much smaller in the environmental industry than in total employment (with, respectively, 43% and 44%). If indirect employment is included, the share of women in environmentally linked employment rises to 35% in 2000. As for the education level, the *upper secondary* educational level provides the larger part of employment in the environmental industry, with 37% and 39% in 2000 and 2005. These shares are comparable to the economy-wide shares of 36% and 38% in the corresponding years.

Tertiary short type education is, at 12% and 14% in 2000 and 2005, less represented in the environmental industry's employment than in total employment (with 16% and 19%). We also note that for the lowest education levels, which include primary and lower secondary education, the environmental industry has employment shares that are higher (37% in 2000 and 32% in 2005) than the overall economy (with 33% and 28%). The higher presence of the lowest education levels in the environmental industry is due to a difference for men only and is the consequence of the higher presence of men in general and low-skilled men in particular in traditional environmental industries such as refuse disposal and recycling, as well as in other manufacturing industries.

The lower share of women and of short-type tertiary education levels in the environmental industry can similarly be seen as the consequence of the small share of education, health and social work in the environmental industry. In 2000, these industries, representing 18% of general employment, only represented 4% of environmental industry employment.

"Qualitative Employment Multipliers for the Belgian Environmental Industry",
A. Sissoko, B. Van den Cruyce,
Working Paper 13-09, December 2009

Transport satellite accounts and the external costs of transport

The Transport Satellite Accounts (TSA) present total transport expenses and their structure for Belgium in 2000. The TSA have only been calculated for 2000, as for more recent years complete information is not yet available. The TSA give information on transport activities that complements the national accounts, as these activities are only partially described in the general framework. Moreover, transport generates externalities that are not accounted for in the total transport expenses reported in the TSA. This paper provides an estimate of the external costs of transport for the different transport modes and proposes a joint analysis of these externalities and the main TSA results for the year 2000. The analysis shows the significance of the expenses and externalities generated by transport, and, in particular, those resulting from road transport. The external costs that have been estimated are those related to air pollution, climate change, accidents, noise and congestion.

The TSA cover six transport modes: road transport, local public transport, rail transport, air transport, inland navigation and maritime transport. For each mode, total expenses are presented for each institutional sector (households, businesses and public authorities) and for the rest of the world. Total expenses are split into two main categories: current expenses and net capital expenses (i.e. gross capital expenses minus consumption of fixed capital). Expenses are also split according to the purpose of the transport expense: passenger transport, freight transport or infrastructure costs.

In 2020, total transport expenses amounted to EUR 54 billion, current expenses to EUR 40 billion, gross capital expenses to EUR 16 billion and consumption of fixed capital to EUR 2 billion. Between the institutional sectors, the total expense was split as follows: 39% for households, 42% for businesses and 17% for public authorities. Thus, Belgian public authorities spent EUR 9.3 billion on transport in 2000, even though taxes (excluding VAT) from transport amounted to EUR 5.7 billion in the same year. External costs generated by transport were estimated at EUR 19 billion. The main external costs are those related to accidents and air pollution.

Road transport alone accounted for nearly 80% of total transport expenditure and for 73% of public expenditures dedicated to transport. Road transport generates almost all of the public revenue related to transport and 96% of the external costs generated by transport. The external costs of road transport are estimated to be EUR 12.5 billion above road transport taxes.

"Les comptes satellites des transports et les externalités",
B. Hoornaert, I. Mayeres, M. Nautet,
(in collaboration with the FPS Mobility and Transport)
Working Paper 15-09, December 2009

EU Energy/Climate package and energy supply security in Belgium

In December 2008, the European Union adopted an integrated Energy/Climate package that steps up the Union's energy and climate policy ambitions to a new level and outlines how the effort will be shared among the Member States. This paper underlines the benefits of the EU Energy/Climate package in terms of energy supply security for Belgium, and more specifically the positive impacts that the twin target – on greenhouse gas (GHG) emissions reduction and on development of renewable energy sources (RES) – has on our dependence on fossil fuels.

The quantitative material presented in this paper originates from a study requested by the Belgian federal authority and three regional authorities in 2008 that later transformed into the FPB's WP21-08. That study presumes that all existing nuclear power plants will be decommissioned after 40 years of operation according to the law of 2003 on nuclear phase-out. In October 2009, however, the government decided to extend the operational lifetime of the three oldest nuclear reactors, totalling 1 800 MW, by 10 more years. An estimate of the impact of this recent decision on energy imports is added to the original analysis.

The study shows that substitutions in favour of renewables and a decrease in energy demand, including demand for electricity, which are the key responses of the Belgian energy system to the Energy/Climate package, should lead to a reduction in overall fossil fuel imports of 9%, relative to baseline projections, in 2020. In monetary terms, this effect translates into EUR 1.2 billion savings compared to the baseline in 2020.

However, while fossil fuel imports should shrink considerably, biomass imports are expected to rise, triggered by the RES development target, since the domestic production of biomass is rather limited in Belgium. According to the literature on the matter, about one half to two thirds of the biomass supply needed to fulfil the Energy/Climate package will have to be imported. Taking the uncertainty surrounding the future biomass prices into account, biomass imports will represent a supplementary import cost of between EUR 200 and 380 million in 2020, compared to the baseline. All in all, the Energy/Climate package will result in a net energy import gain in 2020 of EUR 0.83-1 billion compared to the baseline.

By extending the operational lifetime of the three oldest nuclear power plants, a further EUR 330 million could be saved in 2020 on the import side by avoiding fossil-fuel-based power generation.

The paper pays particular attention to the impact of the Energy/Climate package on natural gas imports and shows that concerns about the security of Belgian natural gas supply can be diluted, in 2020, by the twin GHG/RES target.

Unlike previous studies dealing only with the effect of GHG emissions reduction constraints (i.e. not including simultaneously a target on RES deployment) on the fuel mix in Belgium and showing a 'dash for gas' in the power generation sector, which may be problematic for the security of our future energy supply, this analysis leads to a more balanced fuel mix in power generation in 2020 and to a moderate growth in natural gas imports.

Further to the implementation of the Energy/Climate package, natural gas should cover no more than one third of the Belgian power generation, compared to almost 50% in the absence of a RES target. The reasonable penetration of natural gas in the power sector combined with a decrease in electricity consumption compared to the baseline should lead to a modest increase in natural gas imports of 11% between 2005 and 2020, against 21% in the baseline.

"EU Energy/Climate package and energy supply security in Belgium",
D. Devogelaer, D. Gusbin,
Working Paper 16-09, December 2009.

System of Innovation in Wallonia

This Working Paper evaluates the performance of the system of innovation in Wallonia for the most recent available period. This paper is based on the analysis of indicators reflecting the six main components of a system of innovation: knowledge development, human resources, valorisation of R&D, absorption capacity of innovation, entrepreneurship and innovation financing. A country's performance depends not only on the relative strength of each individual element but also on how effectively the components interact. These six components are evaluated from a European perspective: Wallonia is compared with European countries and European regions sharing the same industrial vintage.

These European comparisons allow the very good positioning of the Region in terms of knowledge development to be underlined, in particular concerning the capacity of the private sector to mobilise resources in favour of R&D. The only weak point is linked to the intensity of R&D public efforts, but this weak point has not prevented an increase in total R&D intensity, which was already high in comparison with the European average. The detailed analysis of this component also shows that since the beginning of 2000s, the concentration of R&D expenditure in high-tech sectors has increased, in particular in the pharmaceutical industry, which accounted for slightly less than the half of businesses R&D expenditures. This analysis also underlies another type of concentration linked to the previous one: R&D expenditures are more and more financed by large companies (more than 1 000 employees). This category of company financed more than the half of businesses' R&D expenditures in 2007.

In contrast, the human resources component shows important signs of weakness, mainly concerning the flux of competencies, with the proportion of new graduates in science and engineering remaining too low, despite the growing demand. This weak point is intensified by an insufficient participation of adults in lifelong learning. Moreover, this bad positioning is more pronounced in comparison with 2000.

The valorisation capacity component is at an intermediary position, with an increasing innovation rate already above the European average. However, this rate hides a divergence between manufacturing, with an excellent innovation rate, and services, which only exhibit a mitigated innovation performance. This relative weakness of innovation in services could also explain the intermediate positioning in terms of organisational and marketing innovations, as this kind of innovation is more in line with service activities.

Finally, the absorption capacity pillar shows that innovative Walloon companies, and in particular small businesses, are efficient at obtaining public funding whatever the source of financing (European, Federal or regional authorities). It also shows a weakness in knowledge diffusion between basic research and industrial research and in the collaboration between the different stakeholders in innovation. However, the available data covers the period before the effective implementation of the competitiveness poles promoting these transfers.

The lack of available statistics prevents the international comparison of performances in terms of entrepreneurship. However, the comparison with the other Belgian Regions underlines the improvement of the creation rate and the businesses net growth rate, which allowed Wallonia to reach the Belgian average in 2007. Walloon performance seems to be very good concerning business demography in high tech services but clearly weaker concerning business demography in high tech manufacturing.

Recent indicators of innovation financing are only available for Belgium as a whole. They show an improvement in venture capital use in Belgium in comparison with its low, reached in 2005, but this use remains below the EU15 average. The use of early-stage venture capital was more intensive in Belgium than in the EU15 in 2007 and 2008.

"Le système d'innovation en Wallonie",
B. Biatour, C. Chatelain, C. Kegels,
Working Paper 1-10, February 2010

Competition and Regulation in Belgium, 1997-2004

The aim of this paper is to describe product market competition in the Belgian economy for the period 1997-2004 and to illustrate some causality with market regulation. The analysis is made at the industry level, for selected manufacturing and services industries. Two indicators for the degree of competition have been applied: profit elasticity (PE) and average profitability (AP) - the former also known as the "Boone" indicator and the latter being an approximation of the price-cost mark-up. We applied the OECD Regimpact indicator (RI) as a proxy for regulation. We present some stylized facts for Belgium in comparison with selected EU countries, and through an econometric exercise we illustrate the potential of regulation as an explanatory variable for competition

Over the last two decades the European Union (EU) and its Member States have been engaged in implementing structural reforms aimed at strengthening the European economic environment. The Lisbon strategy, which is a comprehensive 10-year strategy (2000-2010), covers product, labour and capital market reforms aimed at increasing productivity growth rates, employment and overall economic efficiency. Policy makers, in accordance with economic theory, have appealed to competition-enhancing reforms as a way to boost economic activity and growth. In this paper, we first try to identify the changes in product market competition in the Belgian economy for the period 1997-2004. Second, we trace the impact of regulation on those changes by applying a tentative framework. Additionally, we compare the Belgian findings with some selected EU Member States and their average.

In particular, we report the findings of two distinct indicators of market competition, namely profit elasticity (PE) and average profitability (AP), for the Belgian economy. The two indicators are available for different time periods and are calculated from different data sets. We choose to present both indicators because of their complementarities, both in terms of time coverage and of theoretical background. PE, known in the literature as the "Boone" indicator, is estimated from firm-level data and covers the period 1997-2004; whereas the AP indicator (Lerner index, an approximation of the mark-up) is calculated from industry-level data and covers the 1985-2004 period. We find that in most cases the two indicators are positively correlated both over time and across industries. However, there are a number of cases where this is not the case, and the two measures seem to exhibit substantial independent variation. Without complete information about the dynamics of competition in an industry, it is difficult to say whether PE is empirically preferable to AP. We believe that each indicator serves as a useful empirical complement to the other for both analytical and policy purposes. AP represents a strategic variable (pricing), whereas PE represents a structural variable (interaction between cost structures and pricing). Both variables are needed for the understanding of the competition dynamics in an industry and for this reason they may be considered complementary. As a general result for the period 1997-2004, we may state that the degree of competition in Belgium is lower than in the average EU Member State, which is confirmed by both of our indicators, and that there is a tendency towards increasing competition in Belgian manufacturing, but that for the services industry we observe a decrease in competition, as proxied by increasing mark-ups.

In order to study the effect of regulation on the level of and changes in competition, we employ the 'knock-on' indicators of product market reform in non-manufacturing for other industries, provided by the OECD Regimpact (RI) database on regulation. These indicators measure the 'knock-on' effects of regulation in non-manufacturing industries on all industries of the economy. They cover the period 1997-2003 for all manufacturing, construction and services industries. We chose to use this indicator because of its time and industry coverage. At both the Belgian and European levels, regulation seems to be most restrictive for public utilities, communications and transport. Concerning the country dimension, Belgium seems to belong to the most restrictive cohort, together with Austria, Italy, France and Spain. An econometric exercise illustrates the potential of regulation as an explanatory variable for competition. The correlation of each of our competition indicators with the RI indicator was found to have the expected sign. The relationship with AP was statistically significant, whereas that with PE was statistically insignificant.

"Competition and Regulation, Belgium, 1997 to 2004",
C. Braila (FPB), G. Rayp (UGent), S. Sanyal (UGent),
Working Paper 3-10, March 2010

First pillar pensions in Belgium: current benefits, beneficiaries and adequacy

This paper examines the current legal pensions in Belgium in two ways. First, the average legal pension is broken down according to different criteria in order to get a better view of its distribution. Second, its adequacy is examined: are they sufficient to keep retirees out of poverty and to give them a decent income?

In January 2008, almost 2 million first pillar pensions were paid and the average amount was EUR 1 155. However, this average is based on a wide distribution. First, large pension differences appear by pension scheme. More than 50% of old age pensions are based on a pure career as an employee in the private sector and they are, on average, EUR 1 111 for men and EUR 634 for women. The lowest average pensions are those after a purely self-employed career, the highest are those after a career as a civil servant. Mixed career pensions are in between the amounts of the pure pensions. These differences are the result of specific characteristics within each scheme. The higher pensions of civil servants are explained by the pension calculation (based on the average wage over the last five years of work and with no distinction by marital status, which is especially favourable for women) and the automatic adjustment of these pensions to the real wage increases of working civil servants. Second, old age pensions for women are, on average, lower than those for men, which is, in the first place, due to careers being, on average, shorter and at a lower remuneration than those of men. Moreover, female pensioners are a very heterogeneous group. For instance, in the self-employed scheme, the large part of married women with very short careers - too short to be entitled to the minimum pension - brings down the average pension. Unmarried women have, on average, built up better careers and thus higher pensions; however, this can not be generalised.

The investigation into the adequacy of the pension system is based on pensions after a full career. A comparison for 2006 of the minimum pensions with the national poverty line, based on the EU Survey on Income and Living Conditions, reveals that they were below (self-employed) and close to (employees, private sector) sufficient levels to protect the beneficiaries from poverty risk. An estimate of the poverty line for 2009 indicates, however, that the recent re-evaluation of these minima brings them respectively near and above the estimated poverty line. The average pension after a full career as an employee is largely above the poverty line. However, this average also conceals smaller pensions that are insufficient to protect recipients from poverty risk.

The welfare position of first pillar pensions is approximated by the benefit rate, the rate between the pension benefit and the average gross wage of wage earners. This rate increased over the period 1985-2009 for minimum pensions after a full career in the self-employment scheme, but decreased for private sector employees. However, if only the period 2000-2009 is taken into consideration, the benefit rate increased by more than 30% for the self employed and 7% for employees, with the highest increase after 2005 (Generation Pact). The average pension after a full career as wage earner for the generation that was 65 years old in 1985 and 87 years old in 2007 lost about 20% compared with the average gross wage over that period. This is, however, the result of welfare losses before 2000; after that, their average pension follows welfare as the result of selective welfare adjustments oriented at the oldest pensions.

"De eerstepijlerpensioenen aan de vooravond van de vergrijzing: doorlichting van de bedragen, gerechtigden en doelmatigheid", G. De Vil, Working Paper 4-10, March 2010

Fragility of the financial structure of Belgian industries in 2007

The aim of this study is twofold: to assess the financial structure of companies at the industry level as well as the financial fragility of companies before the financial crisis.

Six financial ratios were calculated on the basis of the annual accounts of 275 839 companies in the market sector, of which 78% belong to services, 14% to construction and utilities (water and energy) and 8% to manufacturing industries.

The ratios relate to solvency, liquidity and profitability. We opted for the financial independence ratio, the long-term financial independence ratio, the current ratio, the acid test, the net treasury ratio and the net return on total assets before taxes. They were calculated both at the company level and at the industry level (11 sections divided into 62 branches). The ratios by industry were calculated in two ways: the proportion of the aggregate values of the total number of companies in a given industry on the one hand, and the non-weighted arithmetic average of the ratios of the companies in a given industry on the other hand. Now and then, substantial differences in outcome subsisted between the two calculation methods. Industry aggregation takes company size into account and assigns more weight to larger companies. If a large company performs well or poorly on the ratio, this usually results in a good or bad score for the industry. For the non-weighted average, the ratio of each company in the industry is as important.

Overall, non-financial market services have good financial autonomy: on average, shareholders' funds represent 30%, while a balanced financing is situated in the range between 27.5% and 40%. 48% of the companies meet the 33% standard of shareholders' funding. The long-term financial independence ratio performs still better: a ratio of 49% shareholders' funds in capital employed, of which 63% of companies meet the standard that more than half of long-term financing is covered by stakeholders' funds.

In 2007, the companies' liquidity positions performed less well. Mainly cash flow problems left too little breathing space for companies. Large companies, especially faced an assets shortage. In 2007, the large companies faced a net current assets shortage of EUR 35.5 billion, while small companies recorded a surplus of EUR 16.9 billion. Small companies performed worse than large companies on the current ratio and the acid test and faced an increased shortage of current assets to meet their short-term liabilities.

In 2007, the chosen profitability ratio amounted to 5.6% on average for each company. On average, a profit of EUR 5.6 was made on the use of assets amounting to EUR 100 . 75% of the companies recorded a positive net return on total assets before taxes.

Half of the 62 industries are highly concentrated: the three largest companies account for more than 40% of the balance sheet total for an industry. In 15 industries, more than 40% of the jobs are concentrated in the three largest companies.

We tried to classify the companies according to their financial health. Three different classifications were considered: one according to the financial strength of the ratios per industry and two according to the share of fragile companies and the share of weak jobs in fragile companies in an industry.

The industries with the best scores for financial ratios in 2007 belong to manufacturing industry. These are 'Basic pharmaceutical products and pharmaceutical preparations' at the aggregate industry level and 'Machinery and equipment' at the company level. In 2007, the eight best scores were gained by manufacturing industries.

In the classification of the 25 industries, '*Accommodation and food service activities*' is last. It is mainly the small companies that score badly. Accommodation performs better than food services, and cafés and bars rank better than restaurants.

The classification of the industries according to weak jobs in fragile companies is different from the classification according to fragile companies. Only 41% of companies hired employees.

Large industrial companies as well as most large service companies have weaker scores for liquidity within their industry and score better for solvency and profitability.

"Fragiliteit van de financiële structuur van de industrie en bepaalde niet-financiële diensten in België anno 2007", H. Spinnewyn, Working Paper 5-10, March 2010

Other Recent Publications

Working Paper 18-09, December 2009
"Quotients de mortalité prospectifs - Hommes, femmes et unisexe", J.M. Paul

Working Paper 17-09, December 2009
"Exploration de répartitions des objectifs et opportunités du paquet climat-énergie en Belgique / Verkenning van verdelingen van de doelstellingen en de opportuniteiten van het klimaat- en energiepakket in België", A. Henry, N. Gouzée

Book, December 2009
"De economische gevolgen van de Dienstenrichtlijn in België: een verkenning / Les effets économiques de la directive Services en Belgique: une évaluation ex ante", Ch. Piette (NBB), J. van der Linden (FPB)

Working Paper 12-09, November 2009
"Salaires et négociation collective en Belgique : une analyse microéconomique en panel", M. López Novella, S. Sissoko

EPE 2008-2017, November 2009
"Studie over de perspectieven van elektriciteitsbevoorrading 2008-2017"

Working Paper 11-09, November 2009
"Hausse de la fiscalité sur l'énergie et baisse d'autres formes de prélèvement : résultats macroéconomiques", D. Bassilière, F. Bossier, F. Verschueren

Sustainable development report, September 2009
"Indicateurs, objectifs et visions de développement durable, 5ème Rapport fédéral sur le développement durable - Indicatoren, doelstellingen en visies van duurzame ontwikkeling, 5de Federaal Rapport inzake duurzame ontwikkeling"
Task Force on Sustainable Development

Economic forecasts, September 2009
"Prévisions économiques 2010-2011 / Economische vooruitzichten 2010-2011"

Working Paper 10-09, September 2009
"Impact de la crise financière sur le PIB potentiel de la Belgique", I. Lebrun

Working Paper 9-09, September 2009
"Alternative assessment of Belgian competitiveness", Ch. Kegels

Regional economic forecasts, July 2009
"Regionale economische vooruitzichten 2008-2014 - Perspectives économiques régionales 2008-2014"

Working Paper 8-09, June 2009
"Vervoeremissies - Historische evolutie en vooruitzichten", B. Hoornaert

Working Paper 7-09, June 2009
"The Belgian environment industry (1995-2005)"
L. Janssen, G. Vandille

Economic outlook, May 2009
"Prévisions économiques 2009-2014 / Economische vooruitzichten 2009-2014"

Working Paper 6-09, May 2009
"Marktaandelen, concurrentievermogen en de lopende rekening", B. De Ketelbutter

The NIME Policy Brief, April 2009
"Fiscal Stabilisation Plans and the Outlook for the World Economy", P. Van Brusselen

Research in Progress

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

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

Input-output tables

The FPB is preparing Input-Output tables for 2005. These are compiled using the Economic System of Accounts ESA95, and will be methodologically comparable to the tables for 1995 and 2000. The National Accounts Institute will transmit the data to Eurostat. The tables should be available in a 60-commodity disaggregation by the spring of 2010.
contact: inputoutput@plan.be

Wage formation

New approaches based on detailed micro data are being developed to better understand determinants of wage formation in Belgium.
contact: labour@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 being scrutinized. A long-term model is being used to project the budgetary consequences of ageing; the social dimension of pension benefits is being investigated using a microsimulation model.
contact: maltese@plan.be

Employment in the civil service

The question of whether the level and the structure of employment in government bodies in Belgium is appropriate has been raised frequently. A research project at FPB addresses this question.
contact: pubfin@plan.be

Macroeconomic, budgetary and GHG emissions prospects

Using a consistent modelling approach, medium-term macroeconomic prospects and evolution of greenhouse gas (GHG) emissions are investigated. A consistent regional-national version of the model developed in collaboration with experts from the regional governments of Brussels, Flanders and Wallonia generates regional results.
contact: hermes@plan.be

Recent history of major economic policy measures

January 2010

In a 2009-2012 update of the Stability Programme, the Belgian authorities reaffirmed their commitment to balancing the general government budget by 2015. As an interim target, the 2012 deficit should be limited to the 3.0% of GDP Maastricht threshold (instead of a 4.4% of GDP deficit target for 2012 in the previous update of September 2009), of which a deficit of 2.6% of GDP is at the federal level (central government and social security) and a deficit of 0.4% of GDP is from the sub-federal public entities (Regions, Communities and local authorities together)

October 2009

The federal October budget conclave established a budget for 2010 and a tentative budget for 2011. These were based on assumptions of GDP growth rate of 0.4/1.9% and of inflation rates of 1.5/1.6%, respectively in 2010/2011.

The Government expects a deficit for entity I (the federal authority and social security) in 2010 of 4.2% of GDP. This represents, according to government figures, an improvement of 0.7% of GDP as compared to the 2009 deficit (4.9% of GDP) and a 0.5% of GDP adjustment as compared to the expected 2010 deficit with unchanged policy (4.7% of GDP). The deficit in entity I breaks down into a 3.7% of GDP deficit for the federal authority and 0.5% of GDP deficit for social security (taking into account an exceptional 0.7% of GDP transfer from the former to the latter). Assuming that entity II (the regions, communities and local authorities) meets its objectives in the September 2009 Stability program (1.5% of GDP deficit), the general government deficit for 2010 should stabilise, as compared to 2009, at 5.7% of GDP.

The 2010 budget relies on structural new tax and non-tax receipts, among which are increased excise duties on diesel, increased taxation of company cars, selective adjustments in the corporate tax system (regarding the interest rate for the risk capital deduction and the conditions for the deduction of definitief belaste inkomsten/revenus définitivement taxés), a contribution from the nuclear sector (in the context of extending the lifetime of nuclear plants), new fees from the financial sector for the state guarantee on deposits, and the fight against tax fraud.

On the other hand, a 12% reduced VAT rate will be introduced for the catering sector (on meals only) and the reduced VAT rate for the building sector in 2009 decided in the December 2008 stimulus package will be extended to 2010Q1. Other minor tax reliefs have also been decided, notably for environmental purposes.

Savings measures on the expenditure side mainly concern public employment, particularly in the Defence department. The 4.5% real growth rate norm for the health care budget has been maintained, but effective expenditure is expected to grow at a slightly slower pace. New health care initiatives have been decided (a wage increase for nurses and developments in preventive medicine, notably), but also savings (reduced prices of generic and older drugs, and others). Pensions in the self-employed scheme will be raised by an additional EUR 20/month (singles and survivors) or EUR 25/month (household rate) as from August 2010. Welfare increases in social allowances granted under the 2005 Generation Pact are confirmed for 2010 and 2011.

The October conclave also includes crisis measures to support employment. In 2010 and 2011, different groups of young workers (the low-skilled, "allochthonous", disabled and aged under 19) will be fully exempt from social security contributions, and "activation" wage subsides for young and older workers will be increased. Wage subsidies will also be increased for the non-profit sector. The additional employers' SSC cuts for temporary reductions in working time are likely to be extended to June 2010.

The sub-federal Governments also defined their 2010 budgets and medium-term targets. The Flemish Region plans to restore budgetary balance by 2011, while the non-Flemish entities are aiming at a 2015 horizon. Operating costs will be strictly controlled in all Regions. The tax rebate for working Flemish residents, increased in 2009, will be strongly reduced as from 2010.

September 2009

Complementing the 2009-2013 Stability Programme, the Belgian authorities reaffirmed their commitment to balancing the general government budget by 2015, which requires a (now revised) adjustment of 6.7% of GDP as compared to a constant policy scenario. As an interim target, the 2012 deficit should be limited to 4.4% of GDP, of which 3.7% is a GDP deficit at the federal level (central government and social security) and 0.7% is a GDP deficit for the other public entities (Regions, Communities and local authorities all together).

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)