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.*

H E A D L I N E S   B E L G I A N   E C O N O M Y

Last year, the global economic recovery after the 2009 recession turned out to be stronger than initially expected. The phasing out of stimulus measures, a deceleration of world trade growth, and public deficit reduction measures are expected to weigh on economic growth in the euro area this year. However, the German economy should continue to grow noticeably faster than the euro area average and impact positively its neighbouring countries (including Belgium). The international economic context remains highly uncertain, among other factors with regard to the future evolution of oil and other raw material prices.

In the wake of the Germany's strong growth performance, combined with a catch-up in construction activity after the cold winter, Belgian GDP *increased sharply in 2010Q2 (1.1%). The growth deceleration in 2010Q3 (0.4%) was therefore hardly surprising, all the more so because export market growth was already expected to slow down in the second semester. In the course of 2011, Belgian export growth should pick up again and domestic demand growth should strengthen, owing to investment especially. As a result,* GDP *growth should gradually improve from 0.5% in 2011Q1 to 0.6% in 2011Q4. On an annual basis, Belgian* GDP *growth is estimated at 2% both for 2010 and for 2011.*

Despite the rise in labour productivity and working time, the number of jobs has been increasing again since the beginning of 2010. During the first half of this year, employment growth should weaken slightly owing to an acceleration of productivity growth, but should regain momentum thereafter. The number of employed persons is expected to increase by 28 500 on average in 2010 and by 37 600 in 2011. Considering the evolution of the labour force, the number of unemployed should fall by 4 600 on average this year. Therefore, the harmonised unemployment rate (Eurostat definition) should stabilise at 8.4%.

Measured by the yoy growth rate of the monthly consumer price index, Belgian inflation was on the rise in the course of 2010 as a result of a steady increase in commodity prices. Underlying inflation was also on an uptrend as from May 2010 and should increase further as the recent rise in commodity prices feeds into prices of other goods and services. According to our most recent inflation forecasts, finalised at the end of February, the inflation rate should increase from 2.2% in 2010 to 3.3% in 2011.

STU 01-11 was finalised on 2 March 2011.

Editorial Board
stu@plan.be

Henri Bogaert
Michel Englert
Bart Hertveldt
Igor Lebrun
Jan van der Linden
Filip Vanhorebeek
Joost Verlinden

DTP & Web Publishing

Adinda De Saeger
Geert Bryon
Dominique van der Wal

Printed by

FPS Economy, S.M.E.s,
Self-employed and Energy

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.

Contents

The impact of road pricing for heavy goods vehicles

In October 2010, the EU transport ministers reached a political agreement on the revision of the *Eurovignette* Directive. This Directive on charging heavy goods vehicles for the use of infrastructure was originally adopted in 1999. The new proposal, called *Eurovignette III*, will enable Member States to levy an additional charge to cover the cost of air pollution and noise and to better manage congestion through a possible differentiation of tariffs for peak and off-peak periods. In order to have an insight into the likely impact of the *Eurovignette III* proposal on the Belgian transport system, the Federal Planning Bureau, in collaboration with the FPS Mobility and Transport, has analysed different road pricing schemes for heavy goods vehicles using the PLANET model. The effects studied concern the consequences for transport activity, the speed on the road, the environment, and tax revenues. As the impact on passenger transport is almost zero, we focus on freight transport. The results are presented as percentage changes with respect to a reference scenario for the year 2030.

The reference scenario in a nutshell

The reference scenario assumes a continuation of current transport policies and the implementation of currently approved European policies such as new emissions standards for motor vehicles and the introduction of biofuels[1]. The total number of tonne-kilometres (tkm) is projected to increase by 60% between 2005 and 2030. National transport – which accounted for 45% of tkm in 2005 – should increase by 40% in the same period. International transport (i.e. transport from and to Belgium and transit without transhipment) was responsible for 55% of tkm in 2005 and is projected to rise by 77% by 2030. The PLANET model considers four modes for freight transport: trucks, vans, rail and inland navigation. The reference scenario projects a shift from trucks to the non-road modes, which are expected to increase their share in tkm from 25% in 2005 to 29% in 2030. The share of vans in tkm remains constant over the projection period. As to the evolution of freight transport emissions, the reference scenario projects a decrease in emissions of major local pollutants (particulate matters, NO_x, etc.) but a rise in the emissions of greenhouse gases (+25% between 2005 and 2030).

Road pricing scenarios for trucks in accordance with the "Eurovignette III" proposal

The *Eurovignette III* provides a common regulatory

framework for charging heavy duty vehicles in the European Union. The concrete implementation of the forthcoming directive is left to the Member States. In Belgium, the Regions are the relevant authorities for that matter. At the end of last year, the three Regions confirmed their willingness to introduce, among other transport pricing reforms, a road pricing system for trucks by 2013.

In the above context, policy scenarios have been elaborated and analysed using the PLANET model. They all assume road pricing for trucks only (> 3.5 tonnes). They differ only with regard to the toll rates for peak and off-peak periods (see Table 1).

Table 1 - **Toll charges in the reference scenario and two policy scenarios, period 2013-2030 (euro/vkm)**

Scenario	Peak[(*)]	Off-peak
Reference	0.02[(**)]	0.02[(**)]
Road Pricing scenario 1 (RP_1)	0.15	0.15
Road Pricing scenario 2 (RP_2)	0.45	0.05

Source: FBP

(*): for an average day, the peak period is 3.57 hours long. Correspondingly, the off-peak period is 20.43 hours long.

(**): present Eurovignette. It represents 4% of the monetary cost of a truck.

Moreover, the policy scenarios assume that (1) road pricing is implemented by 2013 on all road transport networks, irrespective of trucks' emissions standards, (2) the tariffs remain constant in real terms until 2030, (3) the circulation and registration taxes remain unchanged with respect to the current situation, (4) the present Eurovignette is abolished (and replaced by the *Eurovignette III*) on the territory of Belgium but maintained in the neighbouring countries[2].

Impact on freight transport activity

The impact on freight transport of road charging for trucks is presented in Table 2. The impact depends on the level of and on the differentiation (or not) of the charges according to the period of the day[3].

In policy scenario RP_1, toll rates are assumed to be the

---

1. The macroeconomic, demographic, and energy prices projections underlying the reference scenario are described in FPB Planning Paper 107.

2. The PLANET model allows the level of the Eurovignette to be changed in the neighbouring countries but not to be differentiated according to the period of the day. However a change in the Eurovignette abroad will only affect transport from and to Belgium. As far as transit is concerned, the tkm realised abroad are not modelled.

3. The impact of road charging also varies over time. This is due to the dynamics of the model: in the short run, the generalised cost of road transport - which drives the changes in transport activity - is only affected by the increase in monetary cost; in the long run, the generalised cost also adjusts to changes in time costs, which depend on the evolution of the average road speed. If road speed improves (or deteriorates) in the policy scenario, the impact increases (or decreases) over the projection period.

same during peak and off-peak periods. Consequently, there is no monetary incentive to shift from one period to another. There is however a decrease in total freight transport activity (tkm) by 1.4% compared to the reference scenario. This decrease is mainly explained by the decrease in tkm transported for transit (-4.1%) due to a loss of competitiveness with respect to neighbouring countries. The introduction of the *Eurovignette III* leads also to a modal shift from HDV (-4.0%) towards light duty vehicles (+2.4%), barges (+4.8%), and trains (+3.5%). An increase in total vehicle-kilometres (vkm) (+0.6%) results from the lower load factor of LDV compared to HDV.

In scenario RP_2, the toll rate is lower during off-peak periods. On top of the modal shift, there is a monetary incentive for HDV to shift transport activity towards the off-peak periods. The number of tkm transported by HDV decreases by 11.9% in peak periods but increases by 2.0% in off-peak periods, compared to the reference scenario. Of course, this trend does not cancel out the overall modal shift from HDV towards the other transport modes and towards LDV in particular (which again explains the increase in vkm).

Table 2 - **Impact of the Eurovignette III proposal on freight transport according to different policy scenarios, year 2030 (difference in % w.r.t. the reference scenario)**

Scenarios		RP_1	RP_2
Tonne-km (tkm)			
Total		-1.4	0.3
	National	-1.6	-0.3
	In	-0.5	1.3
	Out	-0.3	1.1
	Transit	-4.1	-1.0
	HDV	-4.0	-0.9
	LDV	2.4	2.2
	Inland Navigation	4.8	3.5
	Rail	3.5	2.2
Vehicle-km (vkm)			
Total		0.6	1.3
	Peak - HDV	-0.6	-11.9
	Peak - LDV	2.2	2.6
	Peak	1.4	-1.3
	Off-peak HDV	-4.8	2.0
	Off-peak LDV	2.5	2.1
	Off-peak	0.3	2.1

Source: PLANET v2.0 (FPB).
HDV = heavy duty vehicles
LDV = light duty vehicles

Impact on road speed, tax revenues and the environment

The impact of road pricing on road speed, tax revenues and pollutant emissions is summarised in Table 3.

Table 3 - **Impact of the Eurovignette III proposal on road speed, yearly tax revenues, and the environment according to different policy scenarios, year 2030 (difference in % w.r.t. the reference scenario)**

Scenarios	RP_1	RP_2
Average speed on the road		
Peak	-0.5	0.9
Off-peak	0.0	-0.3
External marginal cost of congestion (euro per car equivalent-km)		
Peak	1.0	-3.4
Off-peak	-0.7	1.0
Yearly tax revenues on road freight transport		
Total	49.5	43.5
HDV	83.3	73.2
LDV	1.7	1.5
Direct emissions of CO_2	-0.3	0.2
Direct emissions of PM2_5	0.4	0.5

Source: PLANET v2.0 (FPB).

The introduction of toll charges on HDV, without differentiation of the tariff according to the period of the day (policy scenario RP_1), leads to an increase in the number of vkm on the road, which is mainly explained by the shift from HDV to LDV. This effect puts a downward pressure on the average road speed (-0.5% in the peak period compared to the reference scenario) and causes a rise in the external marginal cost of congestion (+1% in the peak period). A differentiation of toll rates for peak and off-peak periods (policy scenarios RP_2) leads to an increase (or decrease) in the average speed on the road during the peak (or off-peak) period. This change is explained by the shift of HDV transport from peak to off-peak periods. This result shows that a differentiation of toll charges according to the period of the day allows the use of road infrastructure to be better optimised.

As far as tax revenues are concerned, the introduction of the *Eurovignette III* on HDV increases the yearly tax revenues from freight transport (from 44% to 50% depending on the scenario) significantly. This effect is mainly due to the increase in tax revenues generated by HDV. Additional explanatory factors are the increase in the use of LDV and trains. The increase in public revenues represents about 0.1% of GDP in 2030.

The impact of the introduction of the *Eurovignette III* on (direct) pollutant emissions is not significant. It depends on the size of the modal shift from HDV to LDV, trains, and barges and on the relative emissions factors associated to freight transport modes. To illustrate this point, the impact on direct emissions of CO_2 and PM2_5 is shown in Table 3.

Economic forecasts 2010-2011

Steady yet fragile economic growth in the euro area

Last year, the global economy, backed by vast monetary and budgetary measures, recovered faster than expected from the 2009 recession. Nevertheless, economic growth in the euro area was restrained during the second semester by, among other things, the phasing out of stimulus measures, a deceleration of the growth of global trade, and the public deficit reduction measures decided upon by several Member States. Although these factors should continue to weigh on euro area economic growth this year, growth should become less reliant on external demand due to an upturn in domestic demand. Against this background, economic growth in the euro area should remain modest and slow down slightly from 1.7% in 2010 to 1.5% in 2011. The growth performances of the individual euro countries, however, will continue to diverge considerably. Whereas the German economy should grow noticeably faster than the euro area average and impact positively its neighbouring countries (including Belgium), GDP growth in some other countries is expected to remain weak.

The international economic context remains highly uncertain, especially with regard to the future evolution of oil and other raw material prices. Based on the mid-January futures rates, Brent oil should average USD 97 per barrel this year. Moreover, the European debt crisis, which up to now has mainly affected Greece and Ireland, has clearly not yet come to an end. A spreading of the crisis throughout the euro area constitutes an important threat to this outlook, since it might create a confidence crisis, which would cause interest rate increases and negative wealth effects for both the financial sector and households.

Belgian GDP growth supported by both foreign and domestic demand in 2011

The Belgian economy started to recover during the second half of 2009, driven by an upturn in exports and an acceleration of private consumption growth. In the wake of Germany's strong growth performance, combined with a catch-up in construction activity after the cold winter, Belgian GDP increased sharply in 2010Q2 (1.1%). The growth deceleration in 2010Q3 (0.4%) was therefore hardly surprising, all the more so since export market growth was already expected to slow down in the second semester. In the course of 2011, export growth should pick up again and domestic demand growth should strengthen, especially due to investment growth. As a result, GDP growth should gradually im-

prove from 0.5% in 2011Q1 to 0.6% in 2011Q4. On an annual basis, GDP growth is estimated at 2% both for 2010 and for 2011.

Graph 1 - Quarterly GDP growth
qoq growth rates, corrected for seasonal and calendar effects
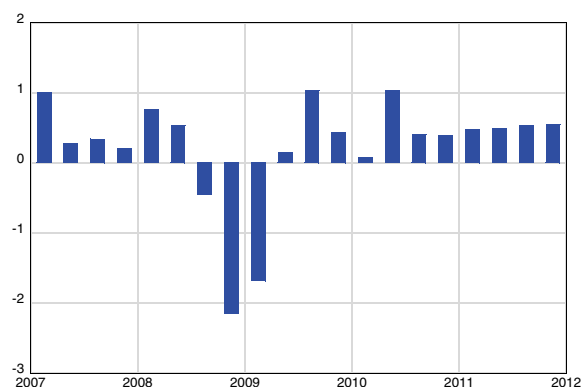
Belgian exports increased sharply from mid-2009 due to the international economic recovery. Although export growth slowed down in the second half of 2010, it should regain momentum throughout this year in the wake of growth in foreign markets. Backed by a favourable starting point, annual export growth in 2010 (9.8%) greatly exceeds the estimate for 2011 (4.7%). Belgian exports should continue to grow more slowly than foreign export markets, thus consolidating market share losses.

As consumer confidence suffered from the recession, the household savings rate rose to 18.3% in 2009, its highest level since 1996. Consequently, consumption decreased slightly (0.3%), in spite of a 1.6% rise in real disposable income. While the indexation of wages and social benefits largely exceeded consumer price inflation in 2009, indexation will show itself to be lower than accelerating inflation in 2010 and 2011. Together with the expiry of some tax cuts and roughly stabilised hourly wages before indexation, this has resulted in a slight decline in real disposable income in 2010 (-0.5%). In 2011, purchasing power should grow at the same pace as the number of hours worked (1.1%). Because of increased confidence and an improved financial position, households should save a smaller part of their disposable income than in 2009 (16.6% in 2010 and 16.2% in 2011), causing private consumption to grow by 1.4% and 1.6% respectively.

Housing investment was systematically scaled back from 2008 until mid-2010. Supported by low mortgage rates and a temporary VAT-rate reduction for new construction and renovation projects, housing investment

has recovered somewhat since mid-2010. Nonetheless, this still means an annual decline of 3.4% in 2010. 2011 should mark a moderate recovery of 1%.

In the course of 2010, business investment started to pick up, albeit insufficiently to compensate for the strong decline in the course of 2009. As a result, average annual business investment growth was still slightly negative in 2010 (-1.1%), after a slump in 2009 (-8.1%). Considering the moderate economic activity growth in 2011 and an industrial capacity utilisation rate that did not reach its long-term average until 2010Q3, annual business investment growth should remain limited to 3% in 2011.

The volume growth in public consumption should only amount to 1.3% in 2011. After a stabilisation in 2010, public investment, on the other hand, should increase by 17.2% in 2011, due to an acceleration of local authorities' investment in the run-up to the 2012 local elections.

Current account balance remains positive

In line with the economic recovery, imports are also increasing but to a lesser extent than exports. Consequently, the current-account surplus (balance of payments definition) rose to 1.2% of GDP in 2010, but should slightly contract to 0.9% of GDP in 2011 as a result of rising oil prices.

Employment increases further; number of unemployed falls slightly

The previous recession had a smaller impact on domestic employment (in number of persons) than initially expected. Indeed, the sharp decline in hourly labour productivity and working time, due to, among other things, the use of the 'temporary unemployment scheme', restricted the fall in employment. As a result, the average net decrease in employment in 2009 remained limited to 15 900 persons (-0.4%), while the number of hours worked fell by 1.8%.

Despite the rise in labour productivity and working time, the number of jobs has been increasing again since 2010. During the first half of this year, employment growth should slightly weaken owing to an acceleration of productivity growth, but should regain momentum thereafter. The number of employed persons is expected to increase by 28 500 on average in 2010 and by 37 600 in 2011. Nevertheless, the number of jobs should continue to grow more slowly (resp. 0.6% and 0.8%) than the number of hours worked (resp. 1% and 1.1%). After dropping to 63.4% in 2009 and 2010, the employment rate should recover to 63.7% this year.

Graph 2 - Evolution of employment and employment rate annual averages

Employment (differences, thousands of persons)
Employment rate (in % of population of working age, RHS)
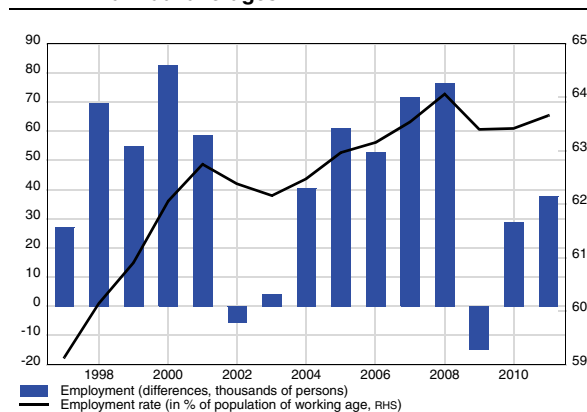
Having increased by 45 000 units in 2009, the number of unemployed (broad administrative definition) rose by only 8 100 in 2010. Regarding the evolution of the labour force, the number of unemployed should fall by approximately 4 600 this year. Therefore, the harmonised unemployment rate (Eurostat definition) should stabilise at 8.4%.

Inflation should reach 2.7%

Measured by the yoy growth rate of the monthly consumer price index, Belgian inflation was on the rise in the course of 2010 as a result of a steady increase in commodity prices. Underlying inflation was also on an uptrend as from May 2010.

This year, underlying inflation should increase further as the recent rise in commodity prices is feeding into prices of other goods and services. Nevertheless, global inflation should progressively slow down from over 3% in January to 2.2% in December. Future market quotations indicate that commodity prices should almost maintain their current level, as a result of which their yoy growth should slow in the course of the year. However, in average annual terms, the inflation rate should increase from 2.2% in 2010 to 2.7% in 2011, due to rising commodity prices during previous months.

The health index, which is not affected by the price developments of petrol and diesel, should rise from 1.7% in 2010 to 2.4% in 2011. The pivotal index of public wages and social benefits was crossed in August 2010. In accordance with the monthly forecasts for the health index, the current pivotal index (114.97) should be exceeded in June 2011.

"Economische begroting 2011 – Budget économique 2011", INR/ICN January 2011.

Summary of Economic Forecasts

Economic forecasts for Belgium by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (cut-off date of forecasts: 25 January 2011)

	2008	2009	2010	2011
Private consumption	1.5	-0.3	1.4	1.6
Public consumption	2.3	0.6	0.9	1.3
Gross fixed capital formation	2.9	-5.3	-1.7	3.7
Final national demand	2.1	-2.2	0.6	1.7
Exports of goods and services	1.7	-11.6	9.8	4.7
Imports of goods and services	3.0	-11.1	8.4	4.4
Net-exports (contribution to growth)	-1.1	-0.5	1.1	0.3
Gross domestic product	1.0	-2.8	2.0	2.0
p.m. Gross domestic product - in current prices (bn euro)	345.01	339.16	351.32	365.30
National consumer price index	4.5	-0.1	2.2	2.7
Consumer prices: health index	4.2	0.6	1.7	2.4
Real disposable income households	2.1	1.6	-0.5	1.1
Household savings ratio (as % of disposable income)	17.0	18.3	16.6	16.2
Domestic employment (change in '000, yearly average)	75.9	-15.9	28.5	37.6
Unemployment (Eurostat standardised rate, yearly average) [1]	7.0	7.9	8.4	8.4
Current account balance (BoP definition, as % of GDP)	-1.9	0.8	1.2	0.9
Short term interbank interest rate (3 m.)	4.6	1.2	0.8	1.2
Long term interest rate (10 y.)	4.4	3.9	3.4	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
	2011	2012	2011	2012	2011	2012	
Federal Planning Bureau [1]	2.0	.	2.7 *	.	.	.	01/11
INR/ICN [1]	2.0	.	2.7	.	.	.	01/11
National Bank of Belgium [2]	1.8	.	2.1	.	-4.7	.	12/10
European Commission [2]	1.8	2.0	1.9	1.9	-4.6	-4.7	11/10
OECD [2]	1.8	1.8	1.6	1.8	-4.5	-3.6	11/10
IMF [2]	1.7	.	1.9	.	-5.1	.	10/10
ING [1]	1.9	1.8	2.9	1.9	-4.0	-3.0	03/11
Dexia [1]	1.6	1.6	2.9	1.8	.	.	02/11
KBC Bank [1]	1.7	.	1.8	.	-4.5	.	12/10
Deutsche Bank	1.6	1.5	2.3	1.9	-3.9	-3.2	02/11
IRES [1]	2.4	.	2.4	.	-4.3	.	01/11
Consensus Belgian Prime News [2]	1.8	.	2.0	.	-4.3	.	01/11
Consensus Economics [2]	1.6	1.8	1.9	2.1	.	.	02/11
Consensus The Economist [2]	1.7	1.8	2.2	2.0	.	.	03/11
Consensus Wirtschaftsinstitute [2]	1.5	.	1.5	.	-5.1	.	10/10
Averages							
All institutions	1.8	1.8	2.3	1.9	-4.4	-3.5	
International public institutions	1.8	1.9	1.8	1.9	-4.7	-4.2	
Credit institutions	1.8	1.7	2.5	1.9	-4.1	-3.1	

[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 2011. See page 15 for more information.

General economic activity

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

|	2009	2010	YoY growth rates, in %					QoQ growth rates, in %				
			2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4
Germany	-4.7	3.5	-2.0	2.1	3.9	3.9	4.0	0.3	0.6	2.2	0.7	0.4
France	-2.5	1.5	-0.5	1.2	1.6	1.7	1.5	0.6	0.3	0.6	0.3	0.3
Netherlands	-3.9	1.7	-2.4	0.3	2.7	1.9	2.1	0.4	0.4	1.0	0.1	0.6
Belgium	-2.7	2.0	-0.1	1.7	2.7	2.0	1.8	0.4	0.1	1.1	0.4	0.3
Euro area	-4.0	1.7	-2.0	0.8	1.9	1.9	2.0	0.2	0.4	1.0	0.3	0.3
United States	-2.6	2.8	0.2	2.4	3.0	3.2	2.7	1.2	0.9	0.4	0.6	0.7
Japan	-6.3	4.0	-1.8	5.4	3.3	4.7	2.6	1.8	1.5	0.5	0.8	-0.3

[1] Adjusted for seasonal and calendar effects

Source: INR/ICN, National sources, Eurostat
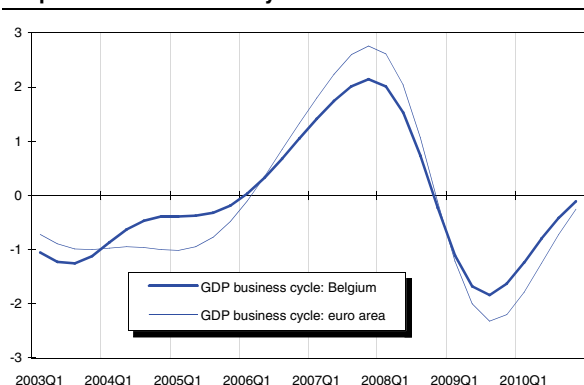
Graph 1 - GDP-growth (t/t-4), in %
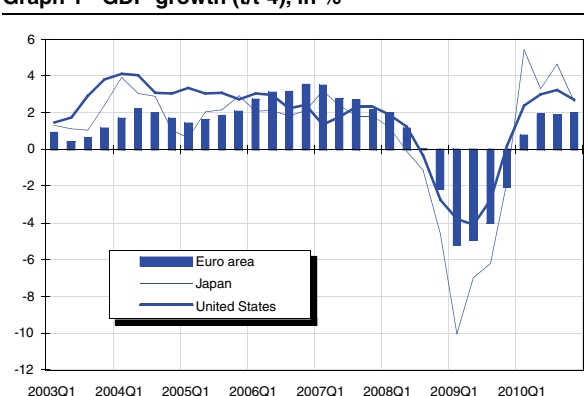
Source: Eurostat, National sources

Graph 2 - US industrial production and business confidence
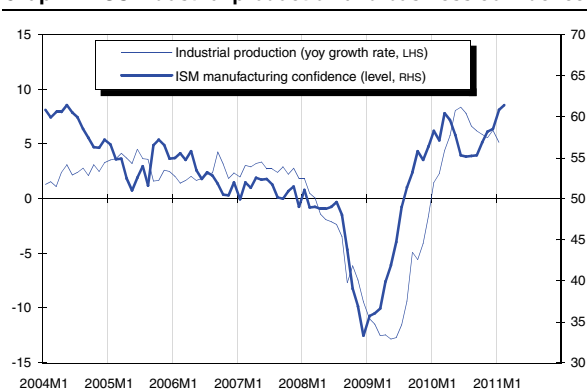
Source: Federal Reserve, Institute for Supply Management

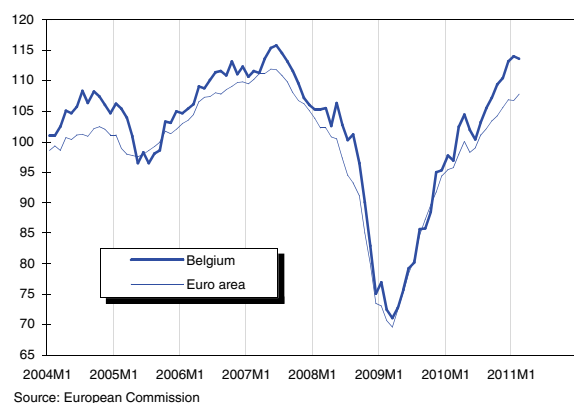**Graph 3 - GDP business cycle**

Source: INR/ICN, Eurostat, FPB

US economic growth accelerated to 0.7% in 2010Q4, compared to 0.6% in the previous quarter. This (limited) acceleration was mainly due to a surge in private consumption fuelled by a drop in the savings rate. As exports rose and imports declined, external trade added strongly to economic growth but this was cancelled out by a huge drop in inventory building. The decline in inventories could provide a lift to growth in 2011Q1 when companies need to restock. Over the last four months *The Economist*'s consensus forecast for US economic growth in 2011 has improved markedly (from 2.3% to 3.1%) on the back of an expansionary federal budget (including a cut in payroll taxes). The Federal Reserve put its 2011 forecast substantially higher still (3.4-3.9%). This optimism is also visible in a host of confidence indicators such as the manufacturing ISM (see Graph 2), which is at levels not seen for many years. In spite of a renewed decline in house prices and lacklustre job growth even consumer confidence has continued to improve.

The Japanese economy shrank by 0.3% in 2010Q4, the first contraction in five quarters. The main culprits for the poor figure were private consumption, which was hit by an expiry of government incentives for car purchases, and weak exports, which were hampered by the appreciation of the yen. Recent monthly indicators appear to be pointing to a positive growth figure for 2011Q1. Throughout 2011, Japanese economic activity will be mainly driven by exports (demand from the Asian economies remains strong) and, to a lesser degree, by business investment.
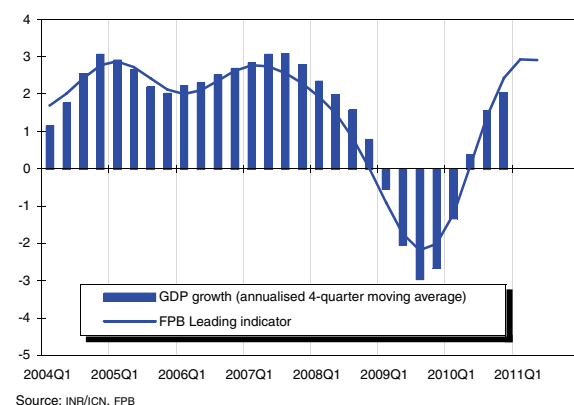
In the first three quarters of 2010 economic growth in the euro area (0.6% on average) was mainly driven by private consumption and inventory building. In 2010Q4 economic growth amounted to only 0.3%, but this reflected the impact of exceptionally severe winter conditions (in Germany construction activity declined by a quarter in December).

Graph 4 - Economic sentiment indicator: international comparison

Source: European Commission

Graph 5 - GDP growth and leading indicator

Source: INR/ICN, FPB

Graph 6 - Belgian business cycle indicator

Source: NBB

Graph 7 - Manufacturing industry: order books
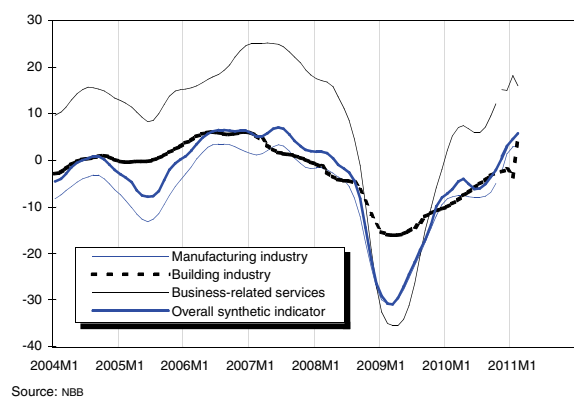

Source: NBB

Economic growth ought to bounce back strongly in 2011Q1 after the cold winter spell, all the more so as many leading indicators are at very high levels. Nevertheless, economic growth is expected to be relatively moderate in 2011 as it will be dampened by fiscal austerity measures. Divergences within the euro area are expected to remain substantial in 2011. Germany continues to roar ahead, while the peripheral countries will experience feeble or negative economic growth.

Belgian GDP growth was slightly above the euro average in 2010Q4 (0.4%) and the Belgian business cycle continues to lead that of the euro area (Graph 3). For the whole of 2010, Belgian economic growth amounted to 2% compared to 1.7% for the euro area.

The economic sentiment indicator for Belgium and the euro area have more or less followed the same path coming out of the recession in the second half of 2009. Since the beginning of 2010, however, the Belgian indicator has performed much better than that of the euro area. When splitting up the economic sentiment indicator into its components (sentiment in manufacturing, services, construction and the retail trade sector, and consumer confidence) it seems that the stronger rise of the Belgian indicator is mainly attributable to a better performance of construction and the services sector, while the upturn in the manufacturing industry was a little less vigorous in Belgium than in the euro area on average. These differences are not really surprising. In fact Belgium, unlike other European countries, did not suffer from a housing market bubble, while the weaker performance of the Belgian manufacturing sector is due to the spectacular rise in confidence in Germany that has pushed up the euro average.
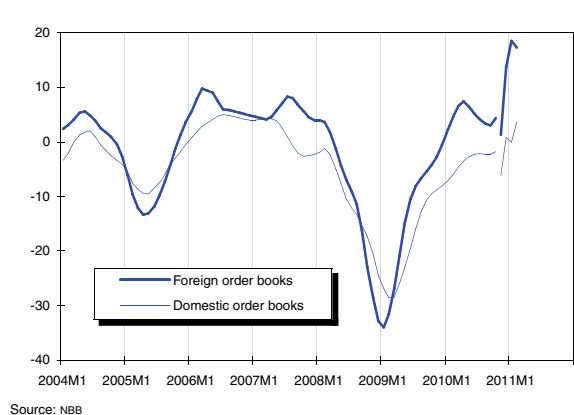
Around mid-2010, indicators for almost all sectors covered by the NBB business survey (see Graph 6) went through a soft spot. This was mainly related to a weakening of foreign demand growth. Domestic demand resisted somewhat better, but also weighed on sentiment indicators (see Graph 7). Not surprisingly, the building sector, which is most oriented to the domestic market, performed best during this period. Moreover, it also benefited from temporarily lower VAT rates on construction and renovation projects. Since 2010Q4, however, confidence indicators in all sectors have been increasing again as export orders have speeded up. It also seems that harsh winter conditions in December and January have not had large adverse effects on activity in most sectors. Only the building sector recorded a spectacular increase in February, indicating that activity caught up after a period in which activity was hampered by external factors.
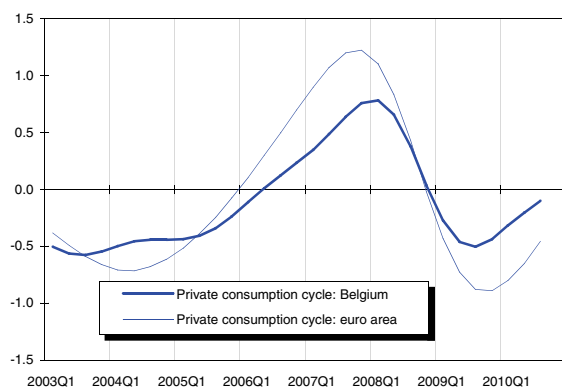
Private consumption

Table 2 - Private consumption indicators

|	2009	2010	2010Q1	2010Q2	2010Q3	2010Q4	2010M9	2010M10	2010M11	2010M12	2011M1	2011M2
New car registrations [1]	-11.1	14.9	12.1	22.8	11.9	11.9	3.5	9.7	15.4	10.6	7.8	11.7
Consumer confidence indicator [2]	-16.9	-7.7	-14.3	-10.0	-5.0	-1.3	-4.0	-2.0	0.0	-2.0	-3.0	1.0

[1] Change (%) compared to same period previous year; [2] Qualitative data
Source: NBB, Febiac
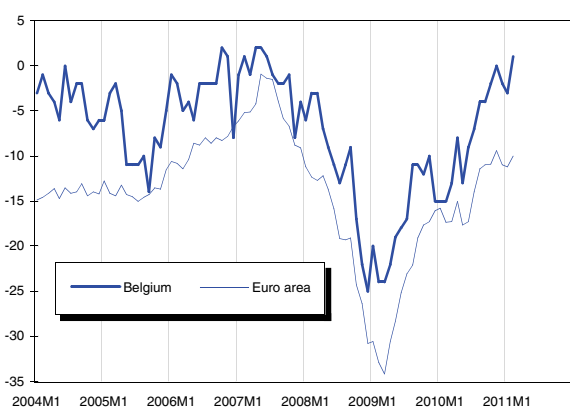
Graph 8 - Private consumption cycle

Source: INR/ICN, Eurostat, FPB

Graph 9 - Private consumption growth and leading indicator
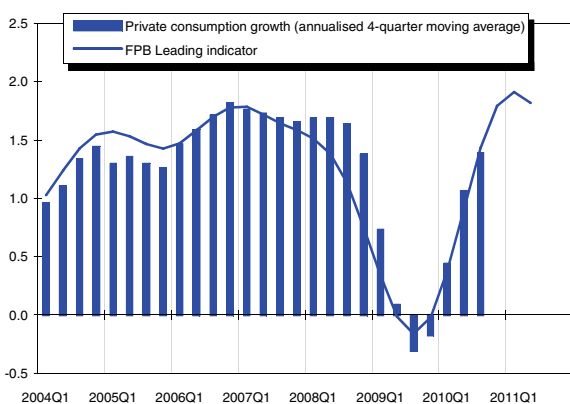
Source: INR/ICN, FPB

Graph 10 - Consumer confidence: international comparison

Source: NBB, European Commission

Average yoy growth of private consumption amounted to 1.5% in Belgium during the first three quarters of 2010, compared to 0.7% in the euro area. When looking at the expenditure side of the economy, private consumption has been the main contributor to the GDP-growth differential between Belgium and the euro area since mid-2009. In fact, the increase in GDP between 2009Q2 and 2010Q3 was 0.7 %-points higher in Belgium than in the euro area, which corresponds approximately to the difference in the contributions of private consumption to GDP growth during this period. The stronger performance of Belgian private consumption is also visible in the development of the cycles: the consumption cycle in Belgium declined less and started to recover somewhat faster than in the euro area.

An important factor behind the private consumption growth differential is the development of car sales over the last two years. After a meagre performance in 2009 related to the recession, Belgian car sales rose by 15% last year and reached an all time high. However, some large euro area countries (such as Germany, France, and Italy) introduced car scrapping schemes in 2009 as part of their recovery plan. These schemes resulted in a "frontloading" of car purchases with a detrimental effect on car purchases (and thus private consumption) in 2010.

In 2009, the household savings rate in Belgium rose to its highest level since 1996 due to a combination of a solid rise in disposable income and a collapse of consumer confidence, mainly related to a massive worsening of unemployment prospects. During the second half of 2009, however, consumers' expectations with respect to the economic situation improved as the world economy started to recover, and by the beginning of 2010, unemployment prospects also started to brighten as it became clear that the Belgian labour market had been hit less by the crisis than previously expected. As a result, private consumption largely outperformed disposable income and the savings rate returned to its pre-crisis level. As indicated by the FPB leading indicator, private consumption growth is expected to level off during the next quarters, which should bring it more in line with the evolution of disposable income.
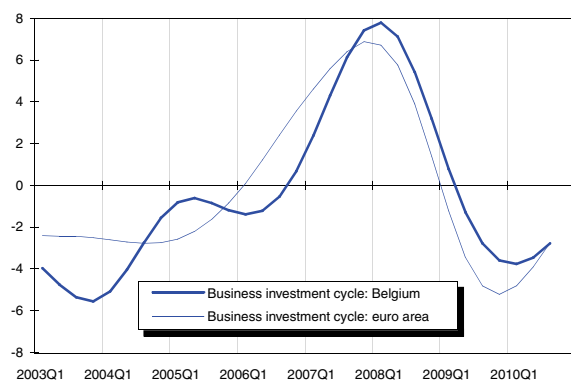
Business investment

Table 3 - Business investment indicators

	2009	*2010*	*2011*	*2010Q1*	*2010Q2*	*2010Q3*	*2010Q4*	*2010M10*	*2010M11*	*2010M12*	*2011M1*	*2011M2*
Business survey, capital goods [2]												
Synthetic indicator	-25.5	-5.6	.	-11.7	-7.1	-3.3	-0.1	-1.6	-1.8	3.0	3.7	5.5
Order book appraisal	-46.0	-34.6	.	-47.3	-40.7	-27.3	-23.0	-28.0	-26.0	-15.0	-14.0	-13.0
Demand forecasts	-28.0	2.7	.	-5.3	5.0	4.7	6.3	7.0	9.0	3.0	16.0	13.0
Investment survey [1]	-20.4	6.4	17.2									
Capacity utilisation rate (s.a.) (%)	72.5	79.0	.	77.2	78.8	79.9	80.0					

[1] Change (%) compared to same period previous year; [2] Qualitative data
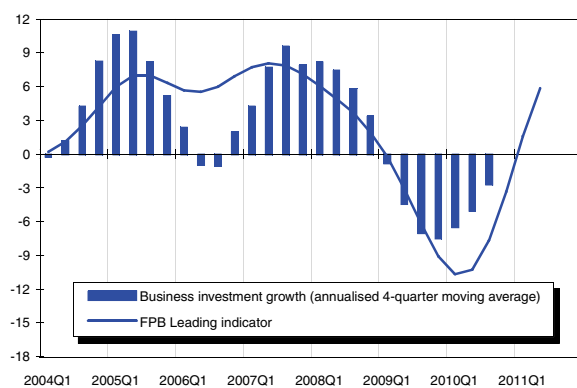
Source: NBB
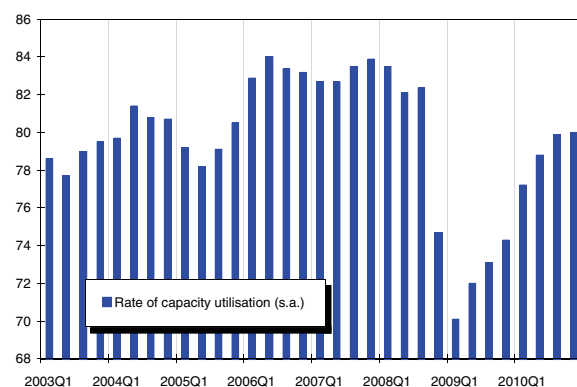
Graph 11 - Business investment cycle

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

As was expected, business investment is recovering much slower than GDP from the recent recession. While the GDP cycles in Belgium and the euro area almost reached their trend level by the end of 2010 (see Graph 3), business investment is still around 2% below its trend level. This means that investment has not contributed to the recovery since mid-2009.

Belgian business investment in volume terms was on a downward trend from 2008Q3 until 2010Q1, when it was more than 11% lower than in 2008Q2. Average qoq growth of 0.9% during the next two quarters implies that it will take some time before the losses incurred in the aftermath of the crisis will be recovered. The same holds for the investment rate (calculated as the share of business investment in GDP at current prices), which declined by 1 %-point (to 13.5%) in 2009 before reaching its lowest level since 2003 in 2010 (12.9%).

The fact that business investment did not start to recover at the same time as GDP is related to the historically low capacity utilisation rates seen between 2008Q4 and 2009Q4. In fact, capacity utilisation only reached its historical average (79%) in 2010Q3, which is still lower than the average utilisation rate between 2000 and the outbreak of the financial crisis (81.4%). It thus seems that it will still take some quarters before companies start to extend their capital stock.

Although Belgian business investment could remain quite weak in the near future, this does not mean that investment growth will remain negative. In the investment survey held in autumn last year, company directors were asked how much they plan to invest in 2011. On the basis of that survey, an increase in investment at current prices of around 17% can be expected in the manufacturing industry. It should be noted, however, that manufacturing industry accounted for only 16% of total business investment in 2009 and that manufacturing industry reacts stronger to business cycle movements than other sectors of the economy.
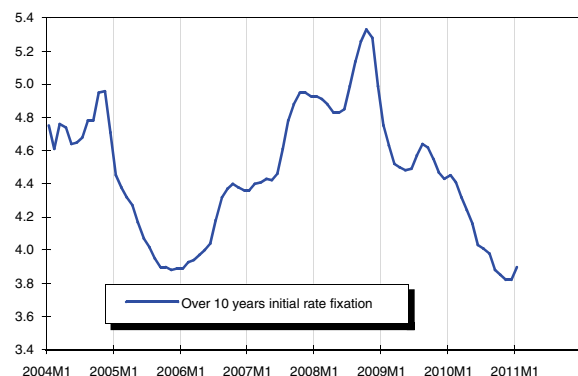
Housing investment

Graph 14 - Housing investment growth and leading indicator

Legend:
- Housing investment growth (annualised 4-quarter moving average)
- FPB Leading indicator
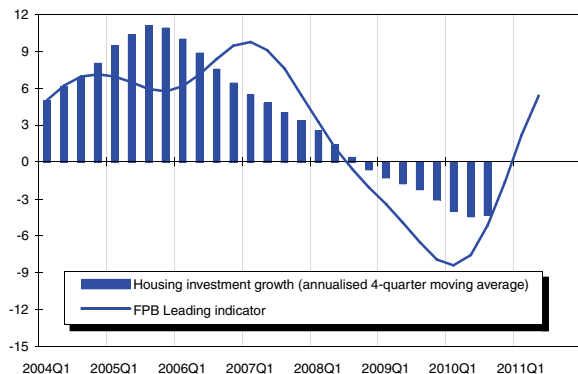
Source: INR/ICN, FPB

Graph 15 - Mortgage rate (%)

Legend:
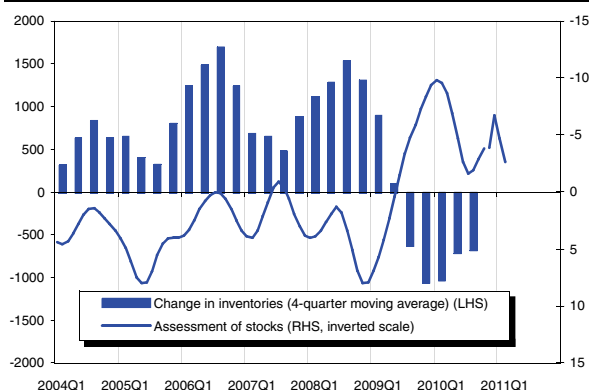- Over 10 years initial rate fixation

Source: NBB

Belgian residential investment started to contract in 2008. According to the latest quarterly national accounts, this decline continued until the first half of 2010, followed by a modest pick-up of only 0.2% in 2010Q3. As a result, housing investment is likely to have contracted by more than 3% in 2010 as a whole.

The upturn in housing investment is likely to gain strength, supported by the temporary VAT reduction for new buildings and renovation projects for which the building application was filed before April 2010. Moreover the mortgage rate declined continuously (from 5% and 4.6% in 2008 and 2009, respectively, to 4.1% on average in 2010).

The downturn in housing investment is also seen in the FPB leading indicator, which went down between the beginning of 2007 and the beginning of 2010. Most of the indicator's components reached a trough in the first half of 2009 (indicators from the architects' survey) or the second half of 2009 (total amount of mortgage applications). They generally lead the development of housing investment cycle by about four quarters, implying a pick-up in the residential investment growth cycle from the second semester of 2010 onwards.

Stock building

Graph 16 - Stock building indicators

Legend:
- Change in inventories (4-quarter moving average) (LHS)
- Assessment of stocks (RHS, inverted scale)

Source: INR/ICN, NBB

As changes in inventories can take on positive as well as negative values, the series that can be calculated using chain-linked volume indices does not provide any useful information and is no longer published in the quarterly national accounts. Therefore, the change in inventories is only shown at current prices (Figure 16). However, their contributions to GDP volume growth can be derived as residuals, given the contribution of the other demand components.

Stock building contributed negatively to economic growth by about 1 %-point in 2009. According to the latest quarterly national accounts, changes in inventories continued to contribute negatively to economic growth during the first three quarters of 2010. Inventories at current prices have fallen continuously since mid-2009, which could be due to a stronger than expected economic upturn, in which stocks have had to be used to satisfy demand.
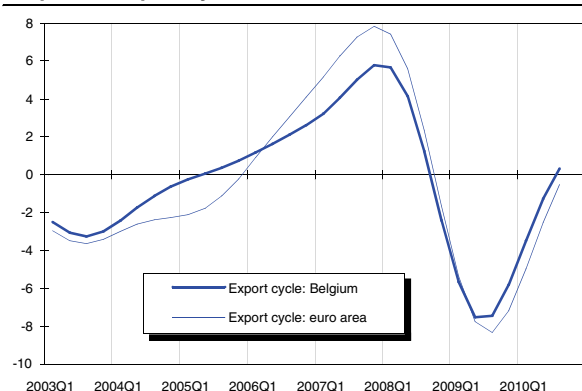
Foreign Trade

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

	2008	*2009*	*2009Q4*	*2010Q1*	*2010Q2*	*2010Q3*	*2010M6*	*2010M7*	*2010M8*	*2010M9*	*2010M10*	*2010M11*
Exports - value [1]	2.8	-20.6	-3.7	16.0	25.3	22.0	28.1	19.1	27.1	20.7	20.2	17.8
Imports - value [1]	8.3	-22.1	-7.2	11.4	23.3	19.4	23.7	20.7	22.1	16.1	15.0	21.6
Exports - volume [1]	-2.3	-14.7	1.8	11.8	14.3	13.2	15.8	10.5	17.8	12.2	12.8	5.3
Imports - volume [1]	-0.6	-13.3	0.8	5.6	9.8	8.8	8.6	8.8	12.1	6.1	3.7	4.8
Exports - price [1]	5.1	-6.8	-5.2	3.8	9.6	7.7	10.7	7.7	7.9	7.6	6.6	11.9
Imports - price [1]	9.0	-10.0	-7.7	5.4	12.3	9.8	13.9	10.9	9.0	9.5	10.9	16.0

[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)
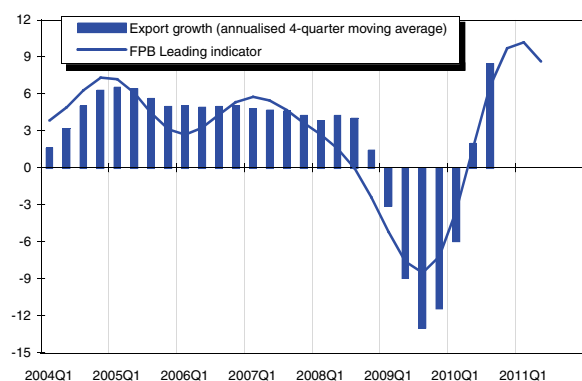

Source: INR/ICN, NBB, FPB

Although both Belgian and European export growth slowed down in 2010Q3, the vigorous rebound of the respective export cycles continues unabatedly (Graph 17). Yet the terrain lost during the financial and economic crisis in volume terms for both Belgian and European exports has still not been recovered. Germany is close to this feat as it continues to benefit from strong demand from emerging countries for its competitively-priced capital goods. Ireland is the only country that has clearly caught up with the terrain lost during the crisis, owing to the steep fall in its unit labour costs. The worst export performance is seen in Italy and Greece, which continue to lose market share at a rapid pace.
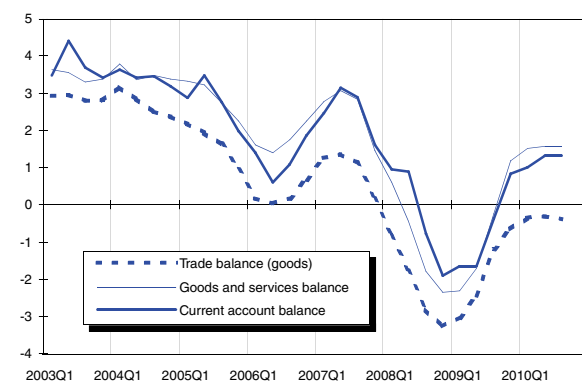
Owing to the recovery of the world economy, Belgian export growth took off strongly from mid-2009 onwards. It slowed down markedly in the second half of 2010, but ought to re-accelerate again in the course of this year as world trade growth gains speed. Belgium should benefit in particular from the robust recovery of demand in Germany, our main trading partner (20% of total Belgian exports). On an annual basis, export growth reached about 10% in 2010 and should slow down to about half that rate this year owing mainly to the unfavourable carry-over from last year.

In terms of geographic orientation, the share of the euro area in Belgian exports declined in 2010, while the share of emerging markets continues to rise. India, Russia, and Turkey, especially, became more important export destinations last year.

While export volumes have systematically outpaced import volumes throughout 2010, the trade and current account balances have stabilised to the levels seen in the beginning of the year. This is entirely to do with the rise in energy prices in the course of the year. This year, so far, due to the political turmoil in some oil-producing countries, the increase in oil prices has accelerated, leading to a further deterioration in the terms of trade. As we expect export and import volumes to grow at about the same pace in 2011, a decline of the trade and current account balances seems to be in the offing.
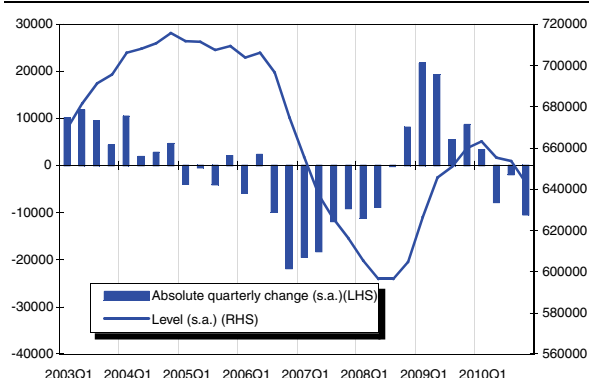
Labour market

Table 5 - Labour market indicators

	2009	2010	2010Q1	2010Q2	2010Q3	2010Q4	2010M9	2010M10	2010M11	2010M12	2011M1	2011M2
Unemployment [1][2]	645.7	653.7	663.1	655.3	653.4	643.1	651.3	647.7	643.8	637.8	636.5	633.7
Unemployment rate [2][3]	12.5	12.6	12.8	12.6	12.6	12.4	12.5	12.4	12.4	12.2	12.2	12.2
Unemployment rate-Eurostat [3][4]	7.9	8.4	8.4	8.4	8.4	8.2	8.3	8.3	8.2	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
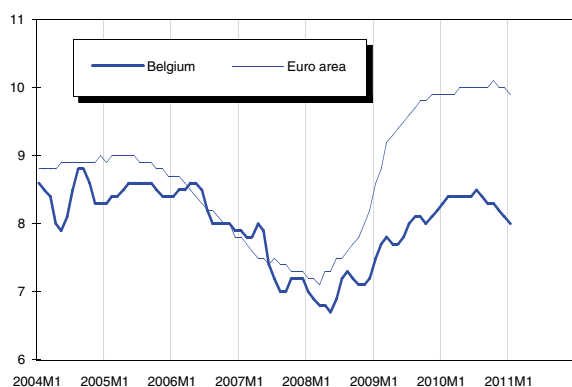
Source: RVA/ONEM, FPS Employment, Eurostat, FPB

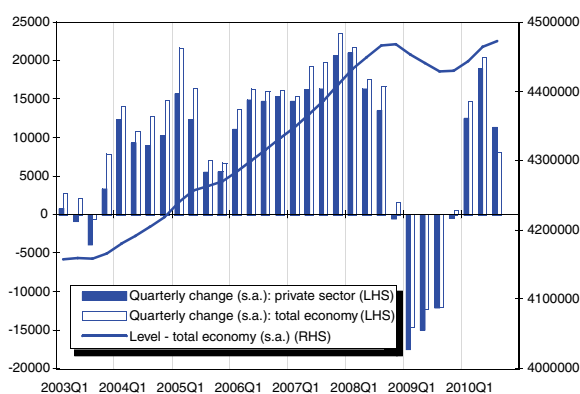**Graph 20 - Evolution of unemployment (incl. older)**

Source: RVA/ONEM

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

Source: Eurostat

Graph 22 - Evolution of domestic employment

Source: INR/ICN

It has now been firmly established that the impact on the labour market of the economic recession that originated from the financial crisis has been much weaker, in the short run at least, than originally feared. Private sector employment shrank during the first three quarters of 2009 (growth of -0.4% per quarter on average), but already started to recover in 2010Q1 and has grown at a robust 0.4% per quarter since. In view of the size of the downward shock on economic activity (value added decreased by 3.2% in 2009), both the relatively limited extent of the original fall in employment and the precocity and strength of the subsequent recovery are noteworthy. Whereas the former may be explained by firms having recourse to cuts in average hours worked and accepting temporary drops in hourly labour productivity, the latter seems more difficult to come to grips with.

Broad administrative unemployment increased during six successive quarters after the outbreak of the crisis, but reached a turning point in 2010Q2, and continued to decline afterwards, modestly in the third quarter, more vigorously in the fourth quarter. All in all, the administrative unemployment rate has risen much less than initially expected, increasing from 11.6% in 2008Q2 to 12.8% in 2010Q1, but is already down again to 12.2% currently. This less adverse outcome for unemployment is entirely due to the positive revisions for economic growth and employment, since the negative impact of the crisis on the labour force was less strong than previously assumed.

It should be mentioned, however, that the labour-survey-based harmonised unemployment rate has increased somewhat more than the administrative rate during this period (from 6.8% to 8.4%, and down again to 8.1%). Still, the harmonised unemployment rate has risen substantially less in Belgium than on average in the euro area (see Graph 21).

Prices

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

	2009	2010	2010Q1	2010Q2	2010Q3	2010Q4	2010M9	2010M10	2010M11	2010M12	2011M1	2011M2
Consumer prices: all items	-0.05	2.19	0.99	2.18	2.60	2.99	2.91	3.01	2.86	3.10	3.22	3.39
Food prices	1.06	1.54	0.23	1.07	2.31	2.56	2.84	2.57	2.41	2.68	2.09	2.21
Non food prices	-2.72	3.17	1.08	3.47	3.74	4.40	4.17	4.47	3.98	4.76	4.50	5.10
Services	2.85	1.43	1.28	1.26	1.50	1.67	1.54	1.64	1.94	1.43	2.57	2.18
Rent	2.01	1.11	1.43	1.10	0.93	0.98	0.88	0.90	0.99	1.04	0.92	1.04
Health index	0.59	1.67	0.33	1.55	2.26	2.56	2.56	2.55	2.53	2.60	2.71	2.82
Brent oil price in USD (level)	61.5	79.5	76.3	78.4	76.8	86.5	77.8	82.8	85.3	91.5	96.5	103.7

Source: FPS Economy, Datastream

Table 7 - Monthly inflation forecasts

	2010M1	2010M2	2010M3	2010M4	2010M5	2010M6	2010M7	2010M8	2010M9	2010M10	2010M11	2010M12
Consumer prices: all items	112.05	112.52	112.94	113.33	113.78	113.77	113.82	113.89	114.25	114.41	114.55	115.00
Consumer prices: health index	111.36	111.90	112.11	112.34	112.72	112.74	112.86	112.94	113.29	113.46	113.55	113.84
Moving average health index	110.93	111.24	111.58	111.93	112.27	112.48	112.67	112.82	112.96	113.14	113.31	113.54
	2011M1	2011M2	2011M3	2011M4	2011M5	2011M6	2011M7	2011M8	2011M9	2011M10	2011M11	2011M12
Consumer prices: all items	115.66	116.33	116.71	117.13	117.32	117.55	117.75	117.70	118.00	118.13	118.20	118.32
Consumer prices: health index	114.38	115.05	115.24	115.59	115.76	116.00	116.20	116.15	116.45	116.61	116.69	116.83
Moving average health index	113.81	114.21	114.63	115.07	115.41	115.65	115.89	116.03	116.20	116.35	116.48	116.65

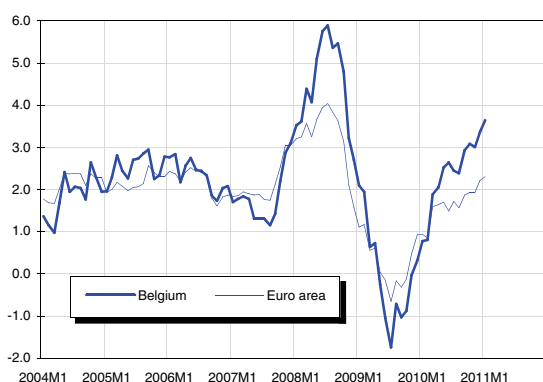Source: Observations (up to 11M2): FPS Economy; forecasts: FPB

Graph 23 - Monthly inflation evolution in % (t/t-12)
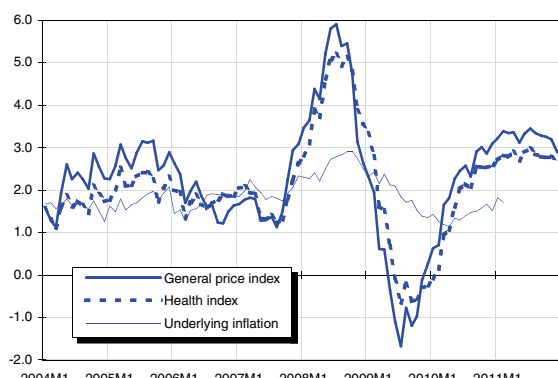
Source: FPS Economy, from 11M3 on: forecasts FPB

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

Source: Eurostat

The increase in inflation since mid-2009 has been shaped mainly by the development of energy prices. Oil prices went up from USD 43 in February 2009 to somewhat more than USD 75 by the beginning of 2010. They then stabilised around that level during the first three quarters of 2010 before increasing again due to higher demand related to the cold winter in the Western Hemisphere and the strength of economic growth in emerging markets. Recently, the oil price increase intensified due to political instability in the Middle East. Despite the contemporaneous appreciation of the EUR against the USD, future market quotations point to yoy growth rates of oil prices in EUR of above 30% until October 2011.

Underlying inflation typically reacts with a lag to oil price developments and only started to rise during 2010Q2. This lag is explained by the time it takes before higher energy prices are reflected in higher wages and in prices of other goods and services. Moreover, the increase in underlying inflation was also fuelled by the reaction of processed food prices to the increase in prices of so-called "soft commodities".

Inflation is expected to amount to 3.3% on average this year. The health index should rise by 2.8% implying that the current pivotal index (114.97) will be crossed in April 2011. Accordingly, social contributions will be adjusted to the higher cost of living (i.e. raised by 2%) in May and public wages will follow suit in June.
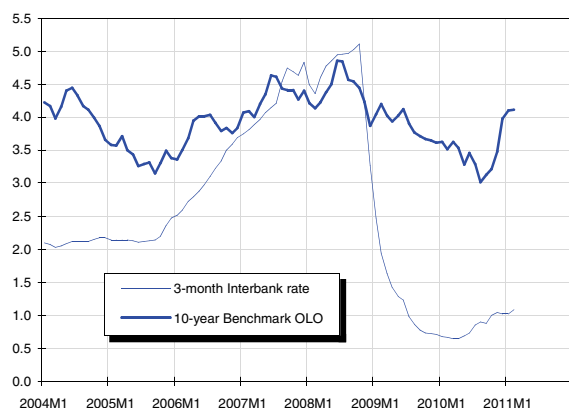
Interest rates

Table 8 - Interest rates

|	2009	2010	2010Q1	2010Q2	2010Q3	2010Q4	2010M9	2010M10	2010M11	2010M12	2011M1	2011M2
Short-term money market rates (3 months)												
Euro area (Euribor)	1.23	0.81	0.66	0.69	0.87	1.02	0.88	1.00	1.04	1.02	1.02	1.09
United States	0.56	0.31	0.21	0.42	0.34	0.28	0.28	0.27	0.27	0.30	0.29	0.28
Japan	0.52	0.29	0.29	0.29	0.33	0.27	0.31	0.20	0.23	0.37	0.36	0.33
Long-term government bond rates (10 years)												
Belgium	3.89	3.43	3.59	3.43	3.14	3.56	3.12	3.22	3.48	3.98	4.10	4.12
Germany	3.26	2.77	3.20	2.82	2.45	2.60	2.33	2.37	2.55	2.90	3.04	3.22
Euro area	3.71	3.34	3.53	3.37	3.10	3.37	3.03	3.03	3.34	3.73	3.84	3.98
United States	3.24	3.20	3.71	3.47	2.77	2.85	2.64	2.51	2.74	3.29	3.37	3.57
Japan	1.34	1.17	1.33	1.27	1.04	1.04	1.06	0.89	1.04	1.18	1.20	1.28

Source: Datastream

Graph 25 - Interest rate levels in Belgium, %

Source: NBB

Graph 26 - Yield curves for the euro area and the US
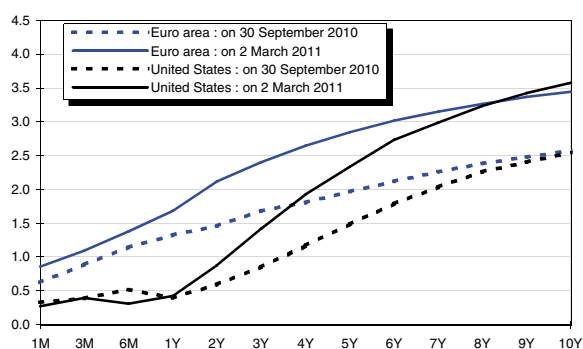
Source: Datastream, data based on interest rate swaps

The Federal Reserve has kept its policy rate between 0 and 0.25% since May 2008. To promote a stronger pace of economic recovery and to avoid deflation, the Fed launched a new round of quantitative easing in November 2010. Since then, GDP growth has regained strength, while the improvement in leading indicators and new fiscal stimulus measures bode well for GDP growth in 2011. As a result, financial markets expect the first interest rate hike towards the end of this year, far earlier than was expected a few months ago.

The ECB is still providing unlimited amounts of liquidity to the European banking system (for a maximum period of 3 months). Furthermore, the ECB has bought significant amounts of government bonds of peripheral countries over the last year to prevent these countries' borrowing costs spiralling to unsustainable levels. In spite of high funding costs and poor growth in the periphery, the ECB is contemplating a tightening of monetary policy as GDP growth in the rest of the euro area seems relatively firm and as headline inflation has been soaring recently under the influence of rising oil and other commodity prices.

Renewed confidence in the US recovery, a new fiscal stimulus package and the accompanying delay in making public finances healthy again has resulted in a significant rise in the US long-term interest rate since October last year. Average long-term interest rates in the euro area have followed this upward evolution quite closely, but discrepancies between the different countries remain wide. For Belgium the spread with German 10-year bond yields amounted to about 110 basis points in December last year. Worse off in terms of spread sizes were Italy (160), Spain (250), Portugal (350), and of course Ireland (550) and Greece (900), which were both already bailed out last year.

Exchange rates

Table 9 - Bilateral exchange rates

	2009	2010	2010Q1	2010Q2	2010Q3	2010Q4	2010M9	2010M10	2010M11	2010M12	2011M1	2011M2
USD per EUR	1.393	1.327	1.384	1.273	1.293	1.359	1.309	1.390	1.364	1.321	1.337	1.365
UKP per EUR	0.891	0.858	0.887	0.853	0.834	0.860	0.840	0.876	0.855	0.848	0.847	0.846
JPY per EUR	130.3	116.4	125.6	117.3	110.8	112.1	110.5	113.6	112.6	110.0	110.5	112.8

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

	2009	2010	2010Q1	2010Q2	2010Q3	2010Q4	2010M8	2010M9	2010M10	2010M11	2010M12	2011M1
Euro	112.8	104.9	109.7	103.4	102.1	104.4	101.7	102.2	106.4	104.8	102.2	102.2
Growth rate [1]	0.2	-7.0	-4.6	-5.7	-1.3	2.3	-0.4	0.5	4.1	-1.5	-2.5	0.0
US dollar	94.0	90.6	90.2	93.1	91.3	87.8	91.3	90.3	87.1	87.6	88.6	87.5
Growth rate [1]	4.4	-3.6	2.1	3.2	-1.9	-3.9	-1.2	-1.1	-3.5	0.5	1.2	-1.3
Japanese yen	116.9	122.9	117.6	119.1	127.0	128.0	127.6	127.9	128.4	127.8	127.8	127.6
Growth rate [1]	15.7	5.2	0.7	1.3	6.7	0.8	1.7	0.2	0.4	-0.5	0.1	-0.2

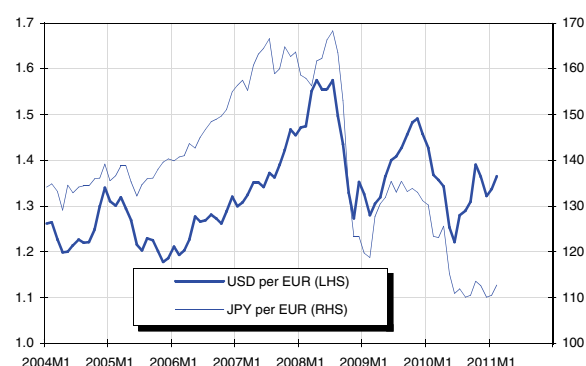[1] Change (%) compared to previous period

Source: BIS, NBB

Graph 27 - Euro-dollar and euro-yen bilateral exchange rates
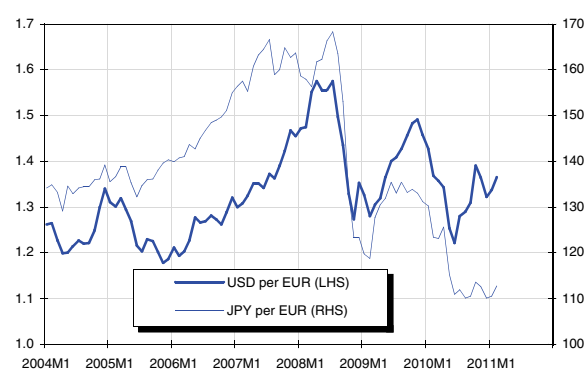
Source: NBB

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

Source: NBB

The euro exchange rate lost terrain against the US dollar in the first half of 2010 because of rising worries about the sustainability of public finances in some Member States (especially Greece). From mid-2010 onwards, this trend was reversed because of disappointing US macroeconomic figures and the anticipation of the Fed's second round of quantitative easing. The re-surfacing of the European sovereign debt crisis (centred on Ireland now) pushed the euro down again towards the end of last year.

This year so far, the euro has gained ground against the dollar as markets expect the ECB to tighten monetary policy earlier than the Fed. However, as long as no bold, credible measures are taken to address the sovereign debt crisis (such as new bank stress tests and possible re-capitalisations, and restructuring of Greek and Irish debt) the euro risks becoming weak again.

The USD/EUR-rate is also reflected in the evolution of the nominal effective euro exchange rate (the average euro exchange rate against the euro area's main trading partners' currencies, weighted according to their share in euro area exports). Last year, the effective exchange rate fell by 7% as the euro lost some 4% against the pound sterling, 5% against the US dollar and more than 8% vis-à-vis the Swiss franc. The largest depreciations were registered against the currencies of the commodity producers (such as Canada and Australia) and Latin-American countries.

The interventions of the Bank of Japan in the foreign exchange market apparently succeeded in stemming the rise of the yen in the second half of 2010, but still left the nominal effective yen almost 50% above its level of mid-2007, thus hampering Japanese exports.

Tax indicators

Table 11 - Tax revenues (1)

|	2009	2010	2010Q1	2010Q2	2010Q3	2010Q4	2010M8	2010M9	2010M10	2010M11	2010M12	2011M1
Total [2], of which:	-8.0	5.9	4.7	30.4	3.4	-8.2	5.5	-15.5	-17.4	-12.8	3.0	4.1
Direct taxes, of which:	-11.0	3.9	1.6	49.8	3.2	-21.1	5.2	-21.8	-30.6	-27.1	-7.6	5.5
Withholding earned income tax (PAYE)	-0.1	0.8	2.6	59.7	-1.5	-27.0	-9.1	-24.4	-37.1	-27.0	-17.0	-0.8
Prepayments	-26.1	11.0	.	11.3	20.0	0.8	.	.	1.4	.	0.2	.
Value Added Tax and excise duties	-2.0	7.9	8.9	9.9	2.4	10.9	4.1	-9.1	8.1	2.9	17.7	-0.8

[1] Change (%) compared to same period previous year; [2] Total received by federal government, excl.
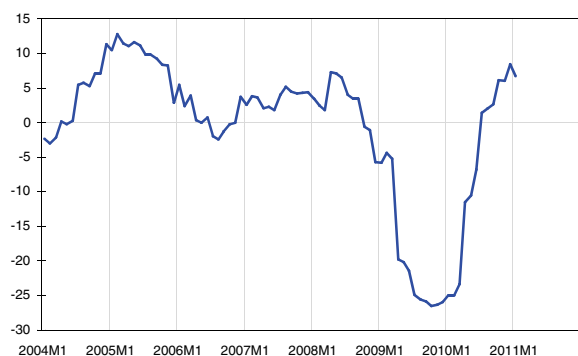
Source: FPS Finance

Graph 29 - Real tax revenues (3)
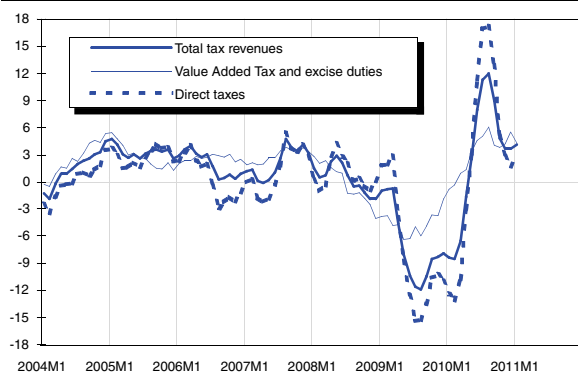
Graph 30 - Real withholding earned income tax (PAYE) (4)
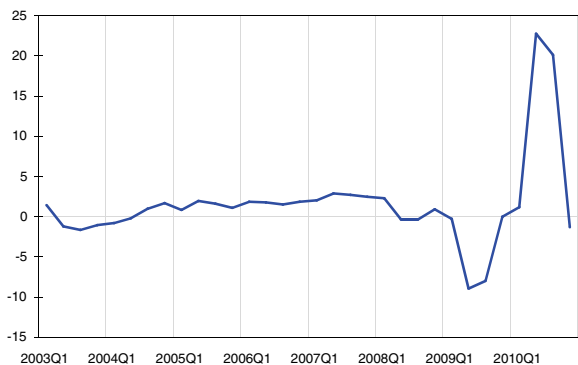
Graph 31 - Real prepayments (3)

[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 increase of 5.9% in 2010, recovering from a collapse of 8.3% in 2009, which was marked by the business cycle downturn and tax cutting decisions from the December 2008 stimulus package. The recovery in tax collection was noticeable from the end of 2009 onwards and accelerated during 2010. Most tax categories contributed to this positive evolution, reflecting the business cycle profile as well as administrative shifts in the tax collection calendar.

The annual increase in PAYE personal income tax collection was limited to 0.8% in nominal terms in 2010. PAYE is closely related to the evolution of employment, which has increased moderately as from the first half of 2010, and to the evolution of wage rate, which has been very moderate and even lower than general inflation. In 2010Q4, the decrease in PAYE as compared to 2009Q4 was due to an administrative effect affecting 2009Q4 (double collection due to a temporary deferral of tax payments during 2009).

After a severe decrease in 2009 (about a 25% loss compared to 2008), total prepayments grew by 11% in 2010 reflecting the recovery in business profitability. However, the increase in prepayments is attributable only to incorporated businesses, while advance payments from the self-employed did not progress in 2010.

Growth in indirect taxes (+7.9% as compared to 2009) was strong throughout the year. In VAT, refunds (related to a delayed reaction to export developments) were lower than in 2009, while gross revenue benefited from the business cycle upturn. Excise duty income was supported by increases in the duty rates on diesel.

In 2010, significant increases were also seen in registration duties (benefitting from the recovery in the real estate market), inheritance taxes (due to the rebound in asset prices) and customs duties (through the expansion of world trade). On the other hand, taxes on interest payments declined in 2010 for the second year in a row due to lower interest rates and households' preference for precautionary saving in untaxed savings accounts.

Analysis of the horeca industry in Belgium

This Working Paper gives an overall picture of the horeca industry in Belgium. The study focuses in particular on aspects of business demography, the importance of the sector for the Belgian economy, its development since the mid-nineties and the financial health of horeca companies. Since the provision of horeca services is a very labour-intensive activity, special attention is paid to employment features.

Several data sources have been used in this paper: the national accounts for 1995-2009, the input-output tables for 2005, companies' annual accounts for 2007, administrative (social security and VAT) databases, and surveys.

According to VAT figures for 2007, the horeca industry includes 56 600 businesses (representing 7.6% of all businesses in Belgium), of which the vast majority (94%) fall within the sub-sector of food and beverage service activities. The number of horeca businesses is on a downward trend. This decline has been particularly situated in the restaurants and cafés sub-sector; specifically, the number of cafés run by self-employed people has fallen significantly. In the sub-sector of hotels and similar accommodation, in contrast, the number of businesses was almost 20% higher in 2007 than in 1998 (mainly due to an increase in the number of Bed and Breakfasts). Horeca businesses are, on average, very small. More than 90% of all horeca enterprises employ fewer than five persons.

From the middle of the nineties onwards, value added (in volume terms) and employment in the horeca industry barely increased (the average yearly growth rate of both was only 0.2% over the period 1995-2009). Accordingly, its share in the total economy and in market services value added (in volume terms) and employment fell considerably over the period considered. Compared to the EU average and to its neighbouring countries, the importance of the horeca industry in Belgium (both in terms of value added and employment) is relatively low.

In contrast, horeca sector value added at current prices kept pace with market services value added over the period 1995-2009. One can conclude that the constancy of the horeca sector's share, at current prices, reflects the fact that over the past fifteen years prices have increased much more in the horeca sector than in the rest of the market services sector.

Taking into account direct and indirect effects (on the basis of the input-output tables for 2005), the total contribution of the production of horeca services accounts for 2.9% of GDP and 4.8% of total employment (corresponding to 205 000 persons in 2005, of which 51 000 were employed indirectly). The indirect effects stem mainly from deliveries from the food and beverage industry and agriculture, and various business services (amongst others, interim workers).

Based on companies' annual accounts for 2007 (on the eve of the financial crisis and dramatic economic downturn in 2008-09), the horeca sector comes out as the industry with the highest percentage of financially fragile companies among the non-financial market sub-sectors. Employment accounted for by these financially fragile companies is extremely high in the horeca sector (16% compared to less than 3% for the non-financial market sector).

In 2009, about 147 000 persons were employed by horeca businesses, 126 000 of which in restaurants and cafés and 21 000 in hotels and similar accommodation. The main characteristics of employment in the horeca industry can be summarised as follows: more than half of all employees in the horeca industry work part-time (as against less than one third in the whole market services sector), which is associated with its high share of female employment; the number of self-employed people in the horeca sector is following a steady downward trend - its share in total horeca employment declined from 37% in 1995 to 26% in 2009; young age classes and poorly-qualified blue collar workers have a large share in horeca employment; and the difference in qualification level with the rest of the market services sector has not decreased over the past ten years, while for other qualitative aspects of employment (gender, age structure, part time work and share of self-employed) horeca employment has converged somewhat towards the rest of the market services sector.

"Analyse du secteur Horeca en Belgique / Analyse van de horecasector in België",
C. Hambye, B. Hertveldt, Working Paper 1-11, February 2011.

Cost-benefit analysis of transport pricing policies in Belgium

The study aims to analyse the impact of two transport pricing policies: on the one hand, a harmonisation of excise duties on petrol and diesel, and on the other hand, road pricing for heavy goods vehicles in accordance with the recent EC proposal to revise the Eurovignette directive (the so-called "Eurovignette III" directive). The effects studied concern the consequences for transport activity for passengers and goods, the environmental impact and the impact on social welfare. Policies in the neighbouring countries are assumed to be unchanged. The model used for the assessment is the PLANET model, which has been developed under a convention with the FPS Mobility and Transport.

The first pricing policy is to reduce the gap between the excise duties on the two major transport fuels: petrol and diesel. In the current situation, excise duties on diesel (0.38 euro/litre) are lower than excise duties on petrol (0.61 euro/litre), whereas the environmental cost related to the consumption of diesel is often higher than that related to the use of petrol. Two scenarios and two variants are examined. The first scenario assumes that excise duties are the same for both fuels from 2015 on (at 0.50 euro/litre). In the second scenario, the evolution of excise duties on petrol remains unchanged but the gap with diesel is reduced through a steady increase in excise duties on diesel to reach 0.50 euro/litre in 2015. In both scenarios, excise duties are assumed to remain constant in real terms beyond 2015 and diesel used by heavy duty vehicles is assumed to be excluded from the measure. The aim of having two variants is to evaluate the sensitivity of scenario results to this latter assumption. The excise duties on diesel used in heavy duty vehicles are thus increased in the two variants but to a lesser extent than for diesel used in other vehicles, so as to limit the impact on the competitiveness of road haulage on Belgian territory.

The impact of such pricing policy on total transport activity is rather limited. However, this policy leads to modal shifts in favour of public transport modes, cars with at least 2 occupants, and motorcycles for passenger transport. In addition trucks for freight transport are favoured when excise duties on diesel for trucks remain unchanged. This policy leads to emissions reductions and therefore to a decrease in environmental costs. Overall, the impact on social welfare is positive: the decrease in environmental costs and the new tax revenues more than offset the decrease in consumer and producer surplus.

The second transport policy involves road pricing for heavy duty vehicles in line with the "Eurovignette III" proposal. This policy aims at reducing environmental costs as well congestion through a possible differentiation of toll rates between peak and off-peak periods. Four scenarios are looked at in detail. In the first scenario, the toll rate does not vary with the time period. In the last three scenarios, lower tariffs are applied during off-peak periods; the variation comes from the difference between the peak and off-peak toll rates.

The implementation of the "Eurovignette III" proposal leads to a shift from trucks to vans, rail, and inland navigation. This modal shift is softened when tariffs vary with the time period. The impact on pollutant emissions is rather small and depends on how large the modal shifts are. Public revenues rise in each scenario: the increase represents 0.11 to 0.18% of GDP in 2030. In the absence of any recycling of additional tax revenues, the impact on social welfare is however negative: the benefit from additional tax revenues does not compensate for the loss in producer surplus (deadweight loss). The impact on the consumer surplus and on environmental benefits is relatively small compared to the effect on tax revenues and producer surplus.

"Analyse de politiques de transport : rapprochement des accises sur les carburants et Eurovignette III",
D. Gusbin, M. Vandresse,
Working Paper 2-11, February 2011

Level of bargaining decentralisation and wage structure

This study aims to analyse the effects of collective wage bargaining on wage levels and wage dispersion in Belgium. For this purpose, we have constructed a composite indicator of collective bargaining decentralisation by industry, based on variables that determine collective bargaining. Our results indicate the presence of a significant wage bonus and wider wage disparity in industries where collective bargaining is decentralised.

In this study we analyse the effects of the level of collective bargaining decentralisation on the wage structure in Belgium for the year 2006. More precisely, based on an index of collective bargaining decentralisation we classify the joint committees into four levels (from

level 1 - high centralisation, to level 4 - high decentralisation) and compare the wage level and the wage dispersion of workers in these different groups. The decentralisation index is a composite indicator that is a weighted average of criteria that determine the level of decentralisation of collective bargaining by means of a principal component analysis (PCA). These criteria are: the percentage of workers covered by a firm's collective agreement, the wage cushion for young workers, the industry value added per full-time equivalent, the average firm size, and the index of conventional wage.

The percentage of workers covered by a firm's collective agreement gives a measure of the level of collective bargaining and its importance at the company level, while the conventional wage index reflects the dynamism of wage-setting at the industry level. In our database we also have the minimum conventional wages by joint committee and determine a wage cushion for young workers by joint committee. This is calculated by the difference between the average wage of workers aged 26 and under and the minimum conventional wage set by a joint committee. Young workers are those who are the most likely to be paid at a minimum conventional wage, given their characteristics. This measure shows how the average wage of young workers differs from the minimum wage set by the industry and therefore helps explain the total wage cushion in an industry. In addition, according to the literature on the determinants of collective bargaining, decentralised bargaining is more common in industries consisting of large, capital-intensive firms. The reason for this is that large firms face more specific problems, including in communication, coordination, and supervision of workers. In general, these firms can use organisational resources to solve these problems through collective bargaining. In addition, the decentralised industries are also those where the capital intensity is the greatest. This because the elasticity of demand for labour is generally negatively correlated with capital intensity, which favours collective bargaining at company level and wage increases in cases of a pay claim. Therefore, to determine the level of decentralisation, we also use the average firm size and the value added per full-time equivalent, which measures labour productivity.

Our results indicate the presence of a wage bonus and wider wage dispersion when collective bargaining is decentralised compared to centralised bargaining. In order to better understand these results, we conducted a decomposition of wage differentials. This decomposition divides wage gaps into two elements: 1) one part due to differences in observed worker characteristics (age, gender, industry, status, employment status, etc.) between decentralisation levels and 2), another part due to differences in wage rates for these observed characteristics between levels of decentralisation, all other things being equal. We found that workers whose wage is determined in the most decentralised manner, according to our index (levels 3 and 4), receive a wage bonus of 11% and 17%, respectively, compared to workers whose wage is determined in the most centralised manner (level 1). We also found that wage dispersion increases with the level of decentralisation. Our results indicate that part of these differentials can be explained by differences both in observed characteristics and in wage rates for these characteristics between workers, all other things being equal, in decentralised and centralised industries. It should be noted, however, that our database does not provide information on the educational attainment and the occupation level of workers. Keeping this remark in mind, we notice that wage rate differentials according to worker's characteristics, all other things being equal, seem to play an important role in wage differentials.

"Niveau de décentralisation de la négociation et structure des salaires",
S. Sissoko,
Working Paper 3-11, February 2011

Welfare adjustment of social benefits: available budget 2011-2012 and historical overview

The law of 23 December 2005 concerning the Solidarity Pact between the Generations established a structural mechanism of welfare adjustment for social benefits in the schemes for wage earners, the self-employed, and for social assistance. It offers a three-step process. In a first step the scale of the available budget envelope is determined. In the second step the social partners formulate proposals for the allocation of the available envelope, which may consist of different types of revaluations (raising of minima, of ceilings, etc.). In the third step the government decides on the definitive measures. The Federal Planning Bureau contributed to the first step of this process by estimating the financial means reserved for the social benefits adjustment for the period 2011-2012. Moreover, in order to clarify the debate on the relative generosity of social policy, the FPB deemed it appropriate to tackle the subject from a historical perspective by retracing the main policy turns and by analysing the evolution of the average amount of the main social benefits since 1980.

The 2005 law concerning the Solidarity Pact between the Generations established a structural mechanism of welfare adjustment for social benefits in the schemes for wage earners, the self-employed, and for social assistance. This mechanism involves three stages. In a first stage, an available budget envelope is calculated every two years for each scheme. The law indicates that for each scheme the available envelope should at least be equivalent to the amount of expenditure corresponding to an annual 1% adjustment of all lump-sum social benefits, a 1.25% adjustment of wage ceilings and of the minimum right per career year (in the scheme for the employees), and a 0.5% adjustment of other benefits. Although the law on the Solidarity Pact between the Generations is evidently inspired by hypotheses initially used by the Study Committee on Ageing (SCA), it differs from them on a number of elements. The main difference lies in the fact that the parameters in the law are fixed, regardless of wage evolution, which, in a context of decelerated wage and productivity growth, increases the budgetary cost of ageing or the weight of social expenditure in GDP.

The law also specifies that the available envelope for 2011-2012 must take into account the additional (or lower) cost resulting from decisions relating to previous envelopes. The Federal Planning Bureau and the social parastatals were charged with the calculation of those different elements ("gross" available envelope, additional cost, net available envelope) by the social partners brought together in the joint Committee on Welfare Adjustment. In the scheme for employees, assuming available envelopes for 2011 and 2012 of EUR 262.9 million and EUR 515.0 million, respectively, and an additional cost of EUR 29.1 million for 2011 and EUR 17.1 million for 2012, the net available envelope should amount to EUR 233.8 million in 2011 and EUR 497.9 million in 2012, as stated in the draft of the 2011-2012 Interprofessional Agreement. However, the draft also provides that only 60% of the net available envelope, or EUR 140.3 million in 2011 and EUR 298.7 million in 2012, should be used. In the scheme for the self-employed, the additional cost is estimated at EUR 12.6 million in 2011 and 2012, or a net envelope of EUR 19.2 million in 2011 and EUR 52.2 million in 2012. In the social assistance scheme[1] a EUR 3.4 million

margin will become available in 2011, followed by a minor additional cost of EUR 0.3 million in 2012, resulting in net available envelopes of EUR 34.8 million and EUR 64.8 million for 2011 and 2012, respectively.

In order to shed light on the debate about the relative generosity of social policy, the Federal Planning Bureau has retraced the evolution of the benefit ratios of the main social benefits since 1980 (the average benefits in proportion to a welfare indicator). In the wage earners' pension scheme, most benefit ratios by category of beneficiaries improved between 1980 and 2009. Furthermore, the profile of pension distribution by age has become increasingly flat (due to the freeze on wage ceilings from 1982 until 1998 and to the gradual suppression of the revaluation coefficient between 1997 and 2005). This evolution reflects the weakening of the insurance character of this pension scheme. The welfare situation of male pensioners in the self-employed scheme largely improved between 1980 and 2009, owing to the introduction of the minimum pension in 1983 and to the integration of real income into the pension calculation, whereas the welfare situation of self-employed women remained stable. In contrast, the relative welfare situation of the disabled (except for the self-employed scheme) and the unemployed deteriorated strongly because the wage ceilings and most minimum allowances were not adjusted in real terms between 1980 and the early 2000s. Moreover, the unemployed are sometimes granted less favourable compensation conditions. Within the social assistance schemes, beneficiaries of a guaranteed income for the elderly have seen their relative standard of living improve significantly due to recent major revaluations, while the welfare situation of beneficiaries of a social integration minimum income or an allowance for handicapped persons remained stable during the periods under review.

"Liaison au bien-être des prestations sociales et des allocations d'assistance / Welvaartsbinding van sociale en bijstandsuitkeringen",
G. De Vil, N. Fasquelle, M.-J. Festjens, Ch. Joyeux,
Working Paper 4-11, March 2011

1.   temporary estimation

Productivity gains and spillovers from offshoring

Offshoring is generally believed to be productivity-enhancing and this belief is underpinned by economic theory. A firm's productivity gains from offshoring may come through several channels: a greater focus on the more productive core business, cost savings through offshoring being used for productivity-enhancing investment or restructuring, and higher quality of the offshored

inputs. This article contributes to the growing literature that tests empirically whether offshoring does indeed help to improve productivity. The impact of materials and business services offshoring on productivity growth is estimated using industry-level data for Belgium over the period 1995-2004. We find no productivity effect of materials offshoring, while business services offshoring

leads to productivity gains in manufacturing. In addition, we look at the possibility of rent spillovers from offshoring. Productivity gains from offshoring in one industry may feed through to other industries that purchase its output for intermediate use if, due to offshoring, the user value exceeds the price of the output. The lack of evidence of such rent spillovers from either materials or business services offshoring in the data leads us to conclude that firms manage to internalise all efficiency gains from offshoring.

The shift abroad of economic activities is a major issue for the empirical research on the risks and opportunities of an ever more integrated global economy. It has become common practice to measure the offshoring intensity through the share of imported intermediates in total non-energy inputs as trade in intermediates mostly results from the transfer abroad of parts of an economic activity and hence reflects to a large extent the growing international fragmentation of production processes. This measure is mostly computed separately for materials and business services using data on intermediates from input-output tables or supply-and-use tables.

The overall welfare-enhancing character of offshoring is essentially driven by an improvement in productivity and, on theoretical grounds, there is little doubt regarding the productivity gains from offshoring. Nevertheless, given some practical caveats (underestimation of the costs of offshoring, reversal of the offshoring decision) it remains an empirical question whether productivity gains from offshoring do effectively materialise. A growing body of literature is attempting to answer this question.

This article presents industry-level evidence on the impact of materials and business services offshoring on productivity for Belgium over 1995-2004 based on a constant price offshoring measure computed from a time series of supply-and-use tables. This is of particular interest as previous work has shown that offshoring has no impact on total industry-level employment in Belgium. Furthermore, it is one of the first articles to investigate this issue separately for market service industries.

The results from including the offshoring intensities in production function estimations show that between 1995 and 2004 materials offshoring had no impact on productivity growth in either manufacturing or market services, while business services offshoring brought significant productivity gains in manufacturing. This is due to business services offshoring being an expanding phenomenon, whereas materials offshoring is mature and stagnating. We also split the offshoring intensities by region of origin of the imports. Introducing those splits in the estimations shows that the productivity gains from business services offshoring are due to offshoring to OECD countries rather than to low-wage countries.

Moreover, indirect productivity gains or spillovers from offshoring are taken into consideration. Indeed, productivity improvements through offshoring in a supplier firm or industry may feed through to buyer firms or industries that use the output of the former as input in their production process. There is scope for rent spillovers when the user value of the good or service exceeds its price, i.e. when firms fail to reap the full gains from offshoring. However, the evidence on spillovers from offshoring in the data is so scarce and weak that we conclude that firms do indeed manage to internalise all efficiency gains from offshoring. In other words, rent spillovers are effectively prevented.

"Productivity gains and spillovers from offshoring",
B. Michel,
Working Paper 5-11, March 2011

Homogenising detailed employment data

In the national accounts labour inputs are collected by industry. "Homogenising" means transforming labour inputs by industry into labour inputs by activity, where each activity corresponds to only one product, which can be a good or a service. This homogenisation is done using mathematical techniques. The paper compares the results for two well-known techniques (product technology and industry technology) and discusses the effects of homogenisation on Belgian data for the years 2000 and 2005.

In the national accounts (NA) a firm is allocated to the industry that most corresponds to its main activity. Because firms often carry out more than one activity, the industries in the NA are not homogeneous. Besides their main activity, most industries have secondary activities. Typical secondary activities are wholesale, software development, R&D, real estate & rental services, or restaurant services. These activities have their own industry but are also performed outside it.

The provision of a homogenised series for labour inputs (in persons) is a part of the obligatory programme for the transmission of the NA to Eurostat. It provides information that is supplementary to the input-output table, which is also expressed in terms of products or "homogenised industries". In addition to this, workers have been subdivided by gender and education level and into self-employed workers and employees. These subdivisions are not trivial since they lead to a multiplication of cells to be homogenised. In theory this can worsen the negatives problem that goes with the (theoretically superior) product technology model.

Both homogenisation methods lead to a fairly similar stable ranking of industries with respect to the use of highly-skilled labour and value added and output per head. The product technology model tends to increase the differences between activities, while the industry technology model tends to reduce them. Thus activities that employ many (fewer) highly educated workers or more (fewer) female workers, do so even more (less) after being homogenised by the product technology model.

A similar result is obtained for the ratio of value added per worker and that of wage costs per employee. Thus, the activities with the highest value added per worker (e.g. Electrical energy, gas, steam and water; Real estate and rental services; and Refineries, pharmaceutical & chemicals) have an even higher ratio after homogenising with the product technology model.

When compared to their non-homogenised industry, some activities "gain" workers, others "lose" workers. The activities that "gain" the most workers are Wholesale trade, Computer & related activities, and R&D, Machinery, Electrical & equipment, as well as Other community, social and personal services. Activities that "lose" workers are Retail trade and Public administration. This means that, in 2000 and 2005, the latter industries engaged workers to perform secondary activities.

When workers are detailed only by gender and education level, applying product technology leads to almost no negatives problem. Still, its results in terms of employment per activity are almost as far from the results for industry technology as the original employment per industry data. The industry technology model results are judged implausible because they draw too many workers away from retail trade towards wholesale trade.

If a distinction between employees and the self-employed is introduced, using product technology leads to a negatives problem in the group of the self-employed, while industry technology results are implausible. Some of these negatives are caused by the presence of secondary market activities in non-market industries. When performing these market activities, these industries do not use self-employed workers; however, the product technology model does not recognise this.

To solve this problem, self-employed workers and employees with the same levels of education and same gender have been treated as perfect substitutes. When replacing negative values for self-employed workers with appropriate positive ones or zeroes, the results for employees are obtained as the difference between the homogenised series for all workers and that for self-employed workers. This approach yields plausible employment figures and plausible wages per head for employees.

*"Homogenising detailed employment data",
B. Van den Cruyce,
Working Paper 6-11, March 2011*

Other Recent Publications

Economic forecasts, January 2011
"Prévisions économiques 2011 / Economische vooruitzichten 2011"

Working Paper 22-10, December 2010
"Toereikendheid van het pensioen en budgettaire kosten van de vergrijzing: evaluatie van beleidsmaatregelen en van alternatieve scenario's / Adéquation des pensions et coûts budgétaire du vieillissement: impacts de réformes et de scénario's alternatifs", G. De Vil, G. Dekkers, R. Desmet, M.-J. Festjens, Equipe 'Sociale bescherming, demografie en verkenning'

Working Paper 21-10, December 2010
"Een economische analyse van de productie en distributie van alcoholische dranken in België", L. Avonds, B. Van den Cruyce

Working Paper 20-10, October 2010
"Lissabon 10 jaar later: de evolutie van de uitgaven voor onderzoek en ontwikkeling in België vergeleken met andere EU-landen", M. Dumont, P. Teirlinck

Working Paper 19-10, October 2010
"Structure et évolution de l'emploi public belge", L. Laloy

Recent history of major economic policy measures

February 2011

The draft of the 2011-2012 Interprofessional Agreement was not ratified by all social partners (management and labour). Nevertheless, a mediatory Interprofessional Agreement (11 February 2011) proposed by the government will be implemented. The Agreement includes the following measures:

- Wages: the real growth rate of wages is not to exceed 0.3% in 2011-2012; taxes on low-wage labour will be reduced, either by making the existing employee SSC cuts more generous or by lowering personal income taxes.

- Social benefits: the entire available envelope for welfare adjustments was allocated, i.e. 233.8 million in 2011 and 497.9 million in 2012.

- Temporary crisis measures have become permanent: the unemployment benefits paid during temporary unemployment, the white-collar temporary unemployment facility, the redundancy bonus.

- Redundancy: a total tax exemption is to be granted for payments made for the first two weeks of the notice period; as to future labour contracts, the redundancy payments for blue-collar workers will be made more generous whereas redundancy payments for white-collar workers earning more than average wages will be reduced (the latter depends on the consent of the employer and employee federations).

- Other: extension of various existing agreements to 2011 and 2012 (e.g. the special early retirement schemes).

January 2011

A new Postal Act came into force, completing the market opening prescribed by the Third Postal Directive. Under this Act, entrants must fulfil certain conditions to safeguard Universal Service. Within two years after starting their operations, they must make at least two deliveries per week. Within five years, their operations must cover at least 80% of each of the three Belgian regions' territory. Furthermore, the Act contains strong protection against social dumping. In 2010 the incumbent, bPost, had already been assigned as the Universal Service Provider until at least 2018. Later during the month, bPost announced that it would further modernise and centralise the sorting process.

The mobile termination rates were reduced to about €0.04 per minute.

December 2010

The range of products and services that can be purchased with the income-tax exempt and SSC-exempt eco-friendly wage vouchers introduced by the 2009-2010 central wage agreement was broadened by the 98bis amendment to collective labour agreement 98.

Following the National Labour Council's memo of advice (nr. 1759), the rates for the employers' contributions to the Fund for Firm Closures were raised as from 2011.

The Flemish Region's rebate on personal income taxes charged on labour income will be phased out for labour revenue earned in 2011 or later (Articles 86 & 87 of the 2011 Budget).

Under the acronym FABEC, the Benelux countries, France, Germany, and Switzerland agreed upon a common control of their airspace. This is a significant first step in the EU endeavour to create a common EU airspace. The agreement should be ratified within two years.

September 2010

The eligibility for the Flemish Region's wage subsidy for hiring unemployed workers aged 50 or older was restricted to jobs for which no federal government or Social Security wage subsidies are claimed.

The European Commission approved the take-over of electricity exchange Belpex by energy exchange APX. It also approved the transaction that would give electricity TSO Elia and Dutch TenneT and Gasunie joint control over APX. These transactions will not hamper competition within the European Economic Area (EEA) or a significant part of it.

June 2010

Gas TSO Fluxys announced that it will be financially reorganised. This will make network management more independent of other activities in the gas production chain. It will also make Fluxys more ready to enter foreign markets. The European Commission approved the take-over of the German electricity TSO 50 Hertz (covering only part of the country) by electricity TSO Elia and Australian investment fund IFM.

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)