SHORT TERM UPDATE

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Quarterly Newsletter
December 2012

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Federal Planning Bureau
Economic analyses and forecasts

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Quarterly Newsletter of the Federal Planning Bureau

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

HEADLINES BELGIAN ECONOMY

The FPB's latest forecast dates from September and predicted, conditional on our traditional assumption of unchanged budgetary policy, a GDP growth rate of -0.1% in 2012 and 0.7% in 2013 for the Belgian economy. This forecast was established against a background of euro area GDP growth amounting to -0.5% and 0.3% for those years respectively.

The Belgian GDP flash estimate matched our forecast of zero qoq GDP growth in 2012Q3, and recent forecasts of the European Commission (October) and the OECD (November) were in line with the FPB forecast. National as well as international leading indicators (such as the Ifo, PMI, and the NBB business cycle indicators) are tentatively stabilising, implying that a modest recovery for the euro area as a whole and for Belgium in the course of 2013 remains plausible.

We have not yet estimated the economic impact of the Belgian government's decisions taken in November (which are summarised in the "policy measures" section on page 21), but expect it to be quite small. The federal government's effort to reduce the budget deficit to 2.15% of GDP in 2013 focuses on measures of which the impact on economic activity should be limited.

Important risks to the international scenario still remain. These encompass a new intensification of the European sovereign debt crisis, the possibility that the US economy will fall back into recession if the fiscal cliff materialises, and a surge in oil prices because of turmoil in the Middle East. Finally, additional fiscal consolidation efforts in the euro area could have adverse effects on short-term aggregate demand as there is evidence that fiscal multipliers are currently higher than in normal economic conditions.

Our next short-term forecast will be published in February 2013.

STU 04-12 was finalised on 4 December 2012.

Editorial Board
stu@plan.be

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The Federal Planning Bureau (FPB) is a public agency under the authority of the Prime Minister and the Minister of Economy. 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

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

Long-term care organisation at the regional level: similar systems, different futures?

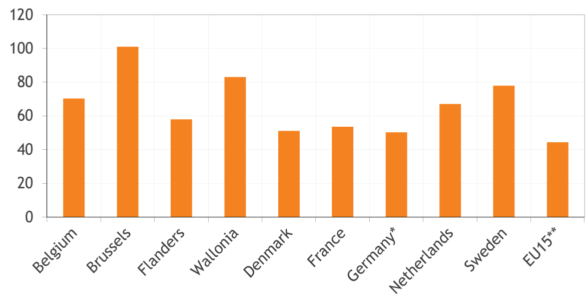
Long-term care (LTC) refers to a variety of services to people who are limited in their ability to function independently for long periods of time. Within Belgium, responsibility for LTC is shared between the federal government and regional authorities. The current federal government has committed itself to a transfer of residential care and other parts of LTC to the regional authorities. This transfer will take place on the eve of large expected increases in LTC expenditure as a consequence of the ageing of the population. Given this backdrop, we compare the LTC situation in the Belgian regions with those in some of the neighbouring countries in the EU. We also consider whether the budget transferred to each regional authority is likely to be adequate to cover the expected future increases in demand for LTC.

LTC organization in the Belgian regions

Long-term care comprises a mix of both health care and social components, can be delivered by public and private providers, includes benefits both in kind and in cash, and is used by persons of all ages. This contribution is limited to care in kind for older persons, who are by far the greatest consumers of LTC. Currently in Belgium, care in residential settings and home nursing care is largely paid for by the federal public health care insurance scheme. The regional authorities[1] finance a range of other home care services, which includes personal care (e.g. washing, dressing) and household care (e.g. cleaning, cooking), and also regulate most LTC services.[2] As a result, Belgium is a country with an extensive system of LTC services, and the same is true for each of its regions. Graph 1 shows that the supply of residential care in Belgium is larger – relative to the population of older persons – than in almost all other EU countries, including Denmark, and not much below that of even Sweden. Brussels and Wallonia offer the most extensive supply, but in Flanders it is still higher than in France or Germany. A partial explanation of these differences between the regions is that while all authorities have agreed on the goal of making it possible for older persons to stay at home as long as possible through the provision of home care, this policy goal may have been pursued more vigorously in Flanders than elsewhere. Alternatives to residential care, such as service flats, may be more numerous in Flanders. A clear regulatory difference is that in Flanders persons can, in principle, enter residential care only if they are aged 65 or more, while in Wallonia the minimum age is 60.

By contrast, older persons in Flanders are greater users of long-term home nursing care, paid for by the national public health insurance scheme.[3] In 2009, for every 100 older persons in Flanders who received long-term nursing care at home, there were only 70 users in Wallonia and 38 in Brussels (relative to the total population of older persons).

Graph 1 - Number of beds in nursing and residential care facilities, 2010

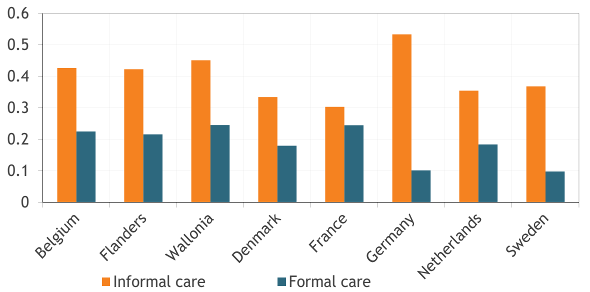


Notes: Number per 1 000 persons aged 65 and over.
* Germany and EU15 data refer to 2009; ** EU15 without Greece and Portugal.
Source: OECD Health statistics; NIHDI statistics

Unfortunately, there is less administrative information about home care services provided by regional authorities, especially for Brussels and Wallonia. Results from the Survey of Health Ageing and Retirement in Europe (SHARE) indicate that older persons living at home in Belgium are among the most frequent users of formal home care (nursing care, personal care, and home help) in Europe, even when compared to their peers living in the well-developed welfare states of Denmark and Sweden (Graph 2). Other studies suggest that the slightly higher proportion of users in Wallonia, compared to Flanders, may be compensated by lower intensity (fewer hours per week) and shorter duration (smaller number of weeks) of use per person. They also show that home care is much less developed in Brussels than in the other regions. We also observe that high use of formal care in Belgium does not entail a low reliance on informal care. Note that informal care is not costless: apart from personal costs for the informal caregiver in terms of reduced well-being, it may also reduce labour market participation, especially among women aged 50-64.

1. The term 'regional authorities' comprises both the Regions and the Communities.
2. Programming of supply of LTC (including that financed by federal health care insurance), certification of facilities such as nursing homes and day care centres, integration and coordination of services at the local level, quality monitoring systems, and so on.
3. Note that LTC for older persons is only a subset of all activities performed by home nurses.

Graph 2 - Proportion of the non-institutionalized population aged 65 and over using formal and informal care, 2006/07



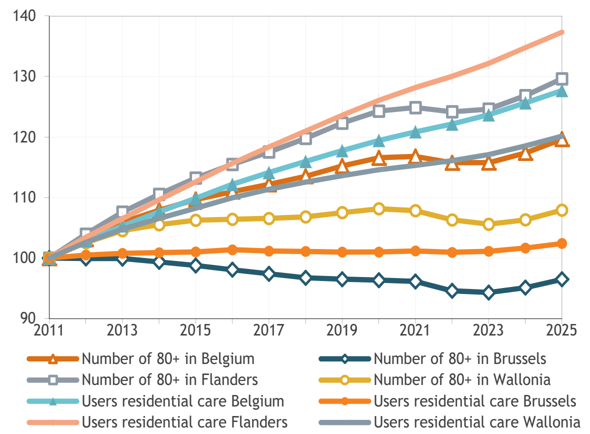
Note: No results are shown for Brussels due to the small number of cases in the SHARE survey.

Source: Survey of Health Ageing and Retirement in Europe (SHARE), wave 2

Financial implications of the transfer of residential care to the Communities

Together with the transfer of residential care for older persons to the regional authorities, the total available budget will be divided in proportion to the number of persons aged 80 or more. Moreover, in coming years, the size of the transfer will follow the evolution of this simple demographic figure as well as inflation and 82.5% of the real growth in GDP per person.[1] However, the number of persons aged 80+ is actually not a very good indicator of current use of and future demand for residential care. In 2011, while 9% of all Belgian residents aged 80+ were living in Brussels, 59% in Flanders, and 32% in Wallonia, the corresponding figures for users of residential care were 10% for Brussels, 54% for Flanders, and 35% for Wallonia. However, driven by demographic trends, in the near future demand for residential care will increase much faster in Flanders than in Wallonia and Brussels (Graph 3).[2] We also find that in Belgium and for all regions, the projected evolution of the number of persons aged 80 and over falls short of the projected trend in the number of users of residential care. In Brussels and Wallonia this is the case during the whole period, in Flanders from 2020 on. As a consequence, the ratio of residential care users to the number of persons aged 80 and more is expected to increase from 23.3% in 2011 to 24.8% for Belgium as a whole, from 25.9% to 27.5% for Brussels, and from 21.5% to 22.8% for Flanders. The ratio should grow a little more strongly in Wallonia, from 25.8% to 28.7%. During the period 2010-2025, only the relatively small cohorts born between 1930 and 1945 are expected to pass the 80 mark, which explains the relatively moderate increase in the number of persons aged 80+. At the same time, the number of persons aged 85 and more should increase quite strongly, probably because of greater longevity. Use of residential care is much more common among the latter group than among those aged 80-84, which explains the stronger growth in the projected number of users of residential care.

Graph 3 - Projection of the number of persons aged 80+ and the number of users of residential care 2011-2025, by region (2011=100)



Source: Federal Planning Bureau

Conclusion

From a European comparative perspective, Belgium is a country with an extensive system of long-term care (LTC) services, and the same is true for each of its regions. The current federal government has committed itself to a transfer of residential care and other parts of LTC to the regional authorities, who already govern many forms of formal home care. While all authorities concerned share the same broad goals in LTC policy, the Flemish community appears to have expanded home care more vigorously, while residential care is relatively more common in Brussels and Wallonia. In the coming decades, the ageing of the population will greatly increase demand for LTC. As the number of older persons will increase much faster in Flanders than in Wallonia and Brussels, some regional authorities face much bigger challenges than others. It is not clear whether these challenges will lead to a convergence of LTC policies across regions, or whether existing differences in emphasis will be maintained. More immediately and concretely, the demographic indicator used in the allocation and updating of the budgets transferred to the regional authorities may need to be adapted in order to achieve a more appropriate distribution of resources.

1. We assume that the latter two indicators reflect expected increases in wage and other costs per user, while the first figure should be a proxy of the number of users.
2. Apart from the future evolution of the population by age, sex, and province, the projections also take account of the household living situation and certain chronic diseases which are important predictors of disability and therefore of LTC use. Important assumptions are that in future the prevalence of disability by age and sex will remain unchanged and that the likelihood of using various forms of LTC, given the background variables mentioned, will stay constant.

Summary of Economic Forecasts

Economic forecasts for Belgium by different institutions

	GDP-growth		Inflation		Government balance		Date of update
	2012	2013	2012	2013	2012	2013	
Federal Planning Bureau	-0.1	0.7	2.9	1.8 [1]	.	.	09/12
INR/ICN	-0.1	0.7	2.9	1.8	.	.	09/12
National Bank of Belgium	-0.2	0.0	2.6	1.6	-2.8	.	12/12
European Commission	-0.2	0.7	2.6	1.8	-3.0	-3.4	11/12
OECD	-0.1	0.5	2.6	1.8	-2.8	-2.3	11/12
IMF	0.0	0.3	2.8	1.9	-3.0	-2.3	10/12
ING	-0.2	0.3	2.8	2.0	-3.0	-2.2	11/12
BNP Paribas Fortis	-0.2	0.0	2.6	1.9	-2.9	-2.3	11/12
Belfius	0.0	1.0	2.6	1.9	.	.	09/12
KBC	-0.2	0.6	2.9	1.5	-2.8	-2.2	11/12
Deutsche Bank	-0.2	0.1	2.6	1.7	-3.6	-3.5	11/12
Oxford Economics	-0.2	0.1	2.9	2.0	-3.7	-3.1	11/12
IRES	-0.2	0.8	2.8	1.6	-2.8	-3.4	10/12
Belgian Prime News	-0.2	0.6	2.6	1.8	-2.9	-2.3	09/12
Consensus Economics	-0.2	0.4	2.7	2.0	.	.	11/12
Consensus The Economist	-0.2	0.3	2.8	2.1	.	.	12/12
Consensus Wirtschaftsinstitute	-0.3	0.1	2.5	1.7	-3.2	-2.7	10/12
Averages							
All institutions	-0.2	0.4	2.7	1.8	-3.0	-2.7	
International public institutions	-0.1	0.5	2.7	1.8	-2.9	-2.7	
Credit institutions	-0.2	0.4	2.7	1.8	-3.0	-2.5	

[1] Inflation forecasts were recently revised downwards for 2013. See page 13 for further information.

Economic forecasts for the euro area by different institutions

	GDP-growth		Inflation		Government balance		Date of update
	2012	2013	2012	2013	2012	2013	
European Commission	-0.4	0.1	2.5	1.8	-3.3	-2.6	11/12
OECD	-0.4	-0.1	2.4	1.6	-3.3	-2.8	11/12
IMF	-0.4	0.2	2.3	1.6	-3.3	-2.6	10/12
ING	-0.5	0.0	2.6	1.9	-3.4	-2.6	11/12
BNP Paribas Fortis	-0.4	-0.4	2.5	1.8	-3.4	-2.6	11/12
Belfius	-0.5	0.1	2.4	2.1	.	.	9/12
KBC	-0.4	0.1	2.6	2.0	.	.	11/12
Deutsche Bank	-0.4	-0.2	2.5	1.8	-3.2	-2.6	11/12
Morgan Stanley	-0.5	-0.5	2.5	1.9	-3.4	-2.8	11/12
Oxford Economics	-0.5	-0.1	2.5	1.9	-3.1	-2.4	11/12
Consensus AIECE	-0.4	0.3	2.4	1.8	.	.	11/12
Consensus Economics	-0.5	0.0	2.5	1.9	.	.	11/12
Consensus The Economist	-0.4	-0.2	2.5	1.9	.	.	12/12
Consensus Wirtschaftsinstitute	-0.5	0.1	2.4	1.8	-3.3	-2.6	10/12
Averages							
All institutions	-0.4	0.0	2.5	1.8	-3.3	-2.6	
International public institutions	-0.4	0.1	2.4	1.7	-3.3	-2.7	
Credit institutions	-0.4	-0.2	2.5	1.9	-3.4	-2.7	

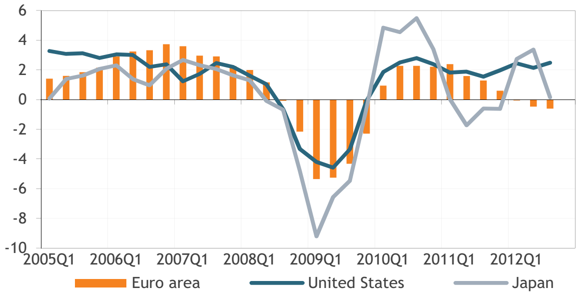
General economic activity

Table 1 - GDP growth rates (in %) [1]

	2010	2011	YoY growth rates, in % 2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	QoQ growth rates, in % 2011Q3	2011Q4	2012Q1	2012Q2	2012Q3
Germany	4.0	3.1	2.7	1.9	1.2	1.0	0.9	0.4	-0.1	0.5	0.3	0.2
France	1.6	1.7	1.5	1.1	0.2	0.1	0.1	0.2	0.0	0.0	-0.1	0.2
Netherlands	1.6	1.1	1.1	-0.4	-0.8	-0.6	-1.4	-0.2	-0.7	0.1	0.1	-1.1
Belgium	2.4	1.8	1.4	0.9	0.4	-0.3	-0.3	0.0	-0.1	0.2	-0.5	0.0
Euro area	1.9	1.5	1.3	0.6	-0.1	-0.5	-0.6	0.1	-0.3	0.0	-0.2	-0.1
United States	2.4	1.8	1.6	2.0	2.4	2.1	2.5	0.3	1.0	0.5	0.3	0.7
Japan	4.6	-0.7	-0.6	-0.6	2.7	3.4	0.2	2.3	-0.3	1.3	0.1	-0.9

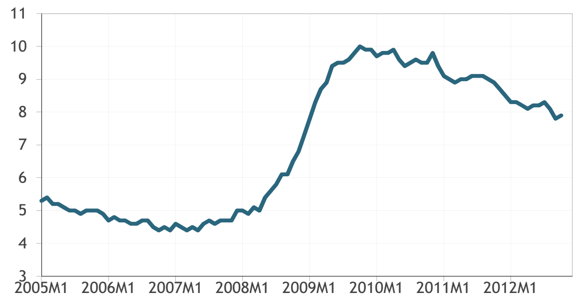
[1] Adjusted for seasonal and calendar effects
Source: INR/ICN, National sources, Eurostat

Graph 1 - GDP-growth (YoY growth rates in %)



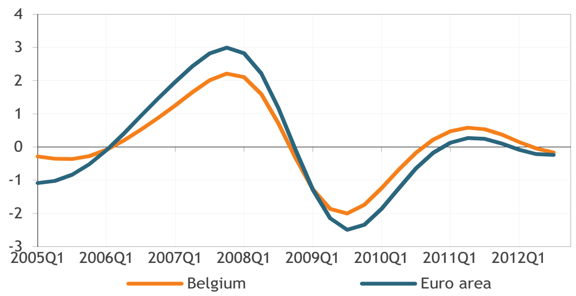
Source: Eurostat, National sources

Graph 2 - US unemplyment rate (in % of labour force)



Source: US Bureau of Labor Statistics

Graph 3 - GDP business cycle (deviation from trend in %)



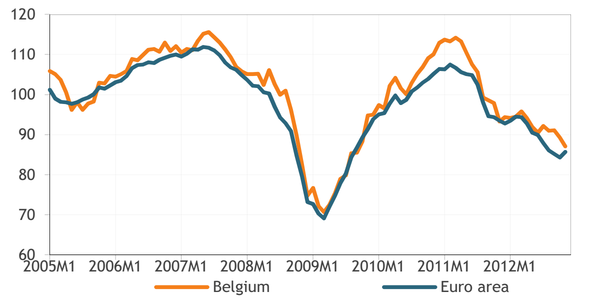
Source: INR/ICN, Eurostat, FPB

The US economy expanded at a rate of 0.7% qoq in 2012Q3, following 0.3% in the previous quarter. The rise was due to a healthy rise in private consumption and a large increase in government spending. Residential investment contributed positively to GDP growth for the sixth consecutive quarter while business investment came to a standstill. Economic growth would have been higher still if the US had not suffered from its worst drought in 50 years, which cut farm output. The US economy has now been growing for more than three years, but the recovery remains subpar compared to pre-crisis expansions. This is also shown by the unemployment rate, which has only declined by some 2 %-points since reaching a high at the end of 2009. Much uncertainty remains with regard to the development of US GDP in 2013 as the so-called fiscal cliff - a host of automatic tax hikes and government spending cuts worth USD 600bn - is likely to tank the economy if no agreement is reached in Congress on fiscal consolidation.

Japanese quarterly growth, a volatile series prone to large revisions, proved to be very negative in 2012Q3 (-0.9%), following a near stagnation in the previous quarter. The main reason for the dismal figure was a huge drop in exports, the traditional mainstay of Japanese economic growth. Exports were hampered by a slowdown in the eurozone and China and the strengthening of the Japanese currency, which makes Japanese goods more expensive for foreign consumers and companies. Furthermore, private consumption and capital expenditure were also weak.

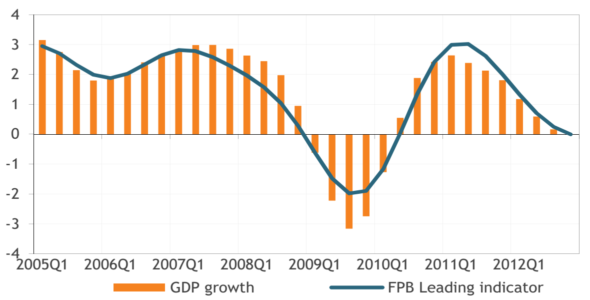
The economy of the euro area stopped growing in the second half of 2011. In 2012Q3, GDP shrank by 0.1%, following a 0.2% decline in the previous quarter. While the contraction was modest and less than expected, it is becoming ever clearer that the debt crisis in the periphery is affecting economic growth in the core economies. German economic growth slowed to 0.2% (also the rate of expansion in France), while economic activity declined in the Netherlands (-1.1%) and in Austria (-0.1%).

Graph 4 - Economic sentiment indicator (indices, average 1990-2011=100)



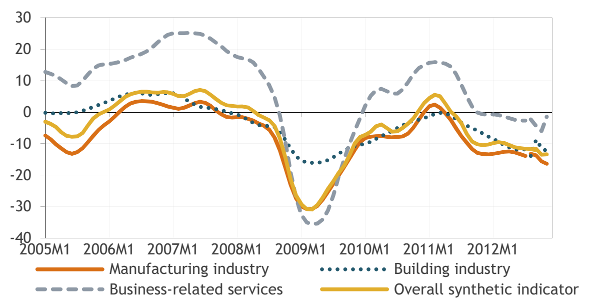
Source: European Commission

Graph 5 - Belgian GDP growth and leading indicator (YoY growth rates of 4-quarter moving averages)



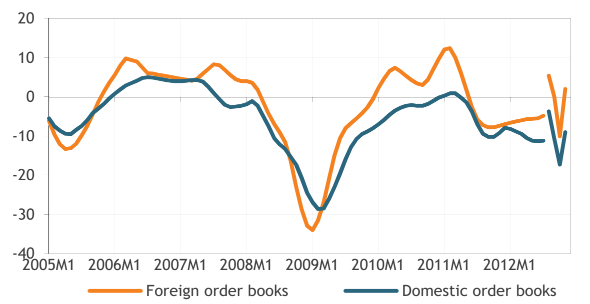
Source: INR/ICN, FPB

Graph 6 - Belgian business cycle indicator (indices)



Source: NBB

Graph 7 - Manufacturing industry: order books (business survey indices)



Source: NBB

Italy (-0.2%), Spain (-0.3%), and Portugal (-0.8%) remain mired in recession in 2012Q3, but the pace of contraction slowed. Leading indicators suggest, however, that the downturn will intensify in 2012Q4. This lack of growth makes it very difficult to reduce budget deficits substantially and stabilise the public debt ratio. Against this background, the effectiveness of additional front-loaded fiscal consolidation (at least in depressed economies) could be doubtful. This policy might even be self-defeating, as a number of studies (on the level of fiscal multipliers in the current economic environment) have recently shown.

The Belgian economy stagnated in 2012Q3, following a surprisingly large contraction in the previous quarter (-0.5%). In year on year terms, Belgian economic growth (-0.3%) is falling short compared to Germany (0.9%) and France (0.1%), but is faring considerably less badly than in the Netherlands (-1.4%), which has been hit by a housing crisis.

Economic sentiment indicators (ESI, Graph 4) were roughly at the same level in Belgium and the euro area during 2012Q1. However, the ESI has declined considerably more in the euro area than in Belgium in the course of the year. Germany has played an important role in the development of the euro area indicator: in the beginning of 2012 it was one of the few European countries for which the ESI was at more than 100 (i.e. the long-term average). However, since then the ESI has declined more in Germany than in most other countries. That decline is mainly explained by a worsening of sentiment in industry (due to fewer orders) and services. During the last few months, the downward momentum of most ESI has weakened, which fuels the hope that the euro area will benefit from a cautious recovery in 2013.

The overall synthetic indicator from the Belgian business survey virtually stabilised in the course of 2012 after a downturn that started in 2011Q2. This development was seen in all industries covered by the survey, except for the building sector, where the downturn was less pronounced in 2011 but continued up to mid-2012. The stabilisation of the manufacturing industry indicator hides some diverging developments in recent months. While employment expectations have significantly worsened, indicators related to demand have bottomed out or improved somewhat. A possible explanation is that company directors are no longer willing to hoard labour because economic activity growth has disappointed for too long. Graph 7 also shows that the order books of Belgian companies mainly benefited from foreign demand, which probably originates from the US and Asia as euro area economic activity has not registered positive growth rates since 2011Q4.

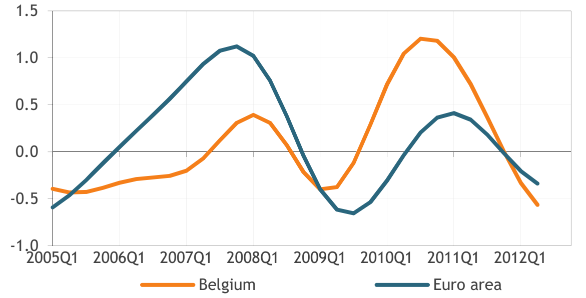
Private consumption

Table 2 - Private consumption indicators

	2010	2011	2011Q4	2012Q1	2012Q2	2012Q3	2012M6	2012M7	2012M8	2012M9	2012M10	2012M11
New car registrations [1]	14.9	4.5	16.2	-12.7	-12.6	-10.9	-1.5	5.2	-17.3	-18.7	-1.5	-11.4
Consumer confidence indicator [2]	-7.7	-5.2	-11.0	-16.0	-10.7	-14.3	-10.0	-13.0	-16.0	-14.0	-17.0	-24.0

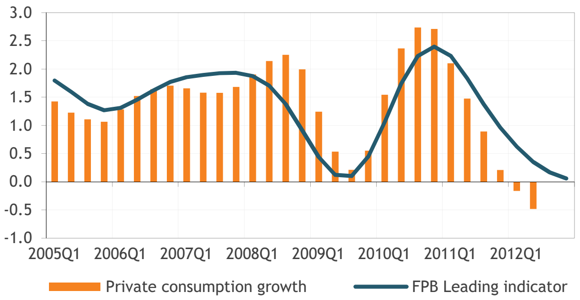
[1] Change (%) compared to same period previous year; [2] Qualitative data
Source: NBB, Febiac

Graph 8 - Private consumption cycle (deviation from trend in %)



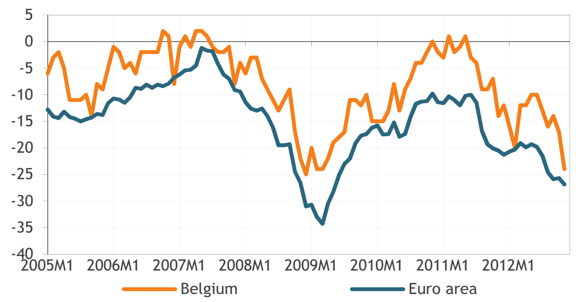
Source: INR/ICN, Eurostat, FPB

Graph 9 - Private consumption growth and leading indicator (YoY growth rates of 4-quarter moving averages)



Source: INR/ICN, FPB

Graph 10 - Consumer confidence: international comparison (indices)



Source: NBB, European Commission

During the period 2008-2010, private consumption growth was significantly stronger in Belgium (cumulated increase of more than 5%) than in the euro area (quasi-stabilisation). As the household saving rate developed in a very similar way in Belgium and the euro area during this period, the largest part of the private consumption growth differential is attributable to the development of households' real disposable income. A better labour market performance in Belgium than in the euro area as a whole (as can be seen from the development of the unemployment rate in Graph 21) certainly helped to raise disposable income.

Since the beginning of 2011, Belgian private consumption has decreased continuously on a quarterly basis. Nevertheless private consumption was 0.2% higher in 2011 on average than in 2010 due to a positive carry over. The limited increase in consumption on a yearly basis was accompanied by a decline of 0.8% in households' real disposable income, leading to a fall in the saving rate of 1%-point. Consumers were probably less interested in saving during the first half of 2011 as consumer confidence rose to its highest level since 2007.

Since mid-2011, consumer confidence has weakened because of increased pessimism regarding the development of unemployment and the general economic situation. In November 2012, Belgian consumer confidence reached its lowest level since 2009 due to the announcement of an important number of lay-offs in several industries, such as car assembly. Although the downward impact of this factor might weaken somewhat during the coming months, consumer confidence is not expected to improve substantially without a general economic recovery. Car sales also weighed on private consumption growth in 2012. During the first three quarters of 2012, car registrations were 12% below their level in the corresponding period in 2011. Little improvement should be expected during 2012Q4 as car sales were exceptionally high during 2011Q4 as a result of the abolition of the price reduction for cars with low carbon dioxide emissions from January 2012 onwards. All in all, Belgian private consumption is expected to be 0.5% lower in 2012 than in 2011.

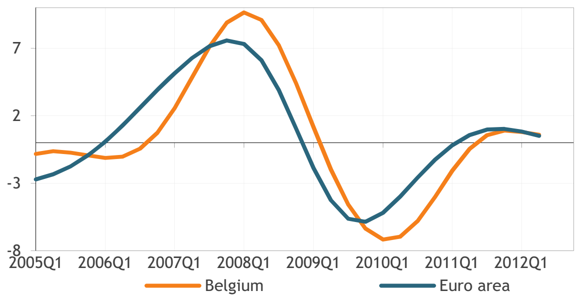
Business investment

Table 3 - Business investment indicators

	2010	2011	2012	2011Q4	2012Q1	2012Q2	2012Q3	2012M7	2012M8	2012M9	2012M10	2012M11
Business survey, capital goods [2]												
Synthetic indicator	-5.6	-2.5	.	-10.8	-5.6	-4.4	-9.4	-7.9	-4.2	-16.0	-18.1	-15.6
Order book appraisal	-34.6	-13.2	.	-25.7	-20.3	-24.3	-19.7	-19.0	-14.0	-26.0	-36.0	-28.0
Demand forecasts	2.7	-1.8	.	-10.7	-10.3	-5.0	-10.0	-14.0	-2.0	-14.0	-15.0	-19.0
Investment survey [1]	0.8	10.1	16.8									
Capacity utilisation rate (s.a.) (%)	79.0	79.3	.	78.4	78.1	77.3	75.9					

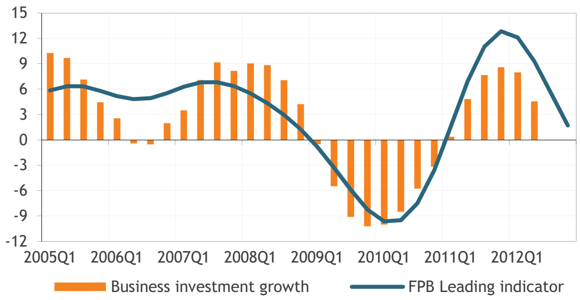
[1] Change (%) compared to same period previous year; [2] Qualitative data
Source: NBB

Graph 11 - Business investment cycle (deviation from trend in %)



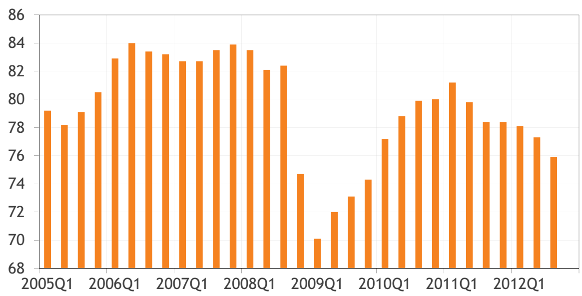
Source: INR/ICN, Eurostat, FPB

Graph 12 - Business investment growth and leading indicator (YoY growth rate of 4-quarter moving averages)



Source: INR/ICN, FPB

Graph 13 - Capacity utilisation in manufacturing industry (rate of capacity utilisation in %)



Source: NBB

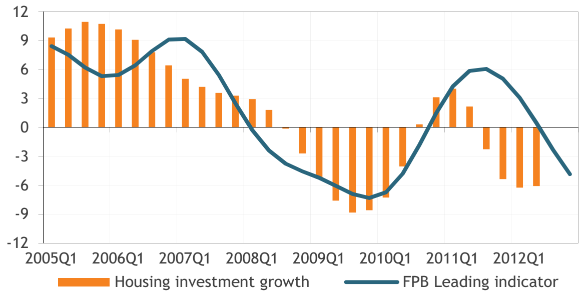
The negative impact of the financial crisis on economic activity and financial conditions caused a 16% contraction of Belgian business investment during the period 2008Q3-2010Q1. That episode was followed by a remarkably strong recovery in business investment (increase of 12% from 2010Q2 to 2011Q2), but the weakening in economic activity growth made investment decline again in the second half of 2011. Investment in the euro area underwent a similar decline during the financial crisis, but was not followed by a recovery. In 2012Q2, euro area investment was even lower than in 2010Q1.

Belgian business investment increased by 8.6% in 2011. This raised the investment rate (share of business investment in GDP at current prices) from 12.4% in 2010 to 13.3% in 2011, which is equal to the average rate from 1995 to 2010. According to our latest forecasts, business investment growth should be close to zero in 2012. This is confirmed by the FPB leading indicator (Graph 12), which registered a steep decline in the course of this year.

Most investment indicators do not point to an imminent recovery in business investment. Firstly, indicators for the capital goods sector from the NBB business survey (Table 3) exhibit a significant worsening of sentiment, which started during the second half of 2011. Although the synthetic indicator seems to be bottoming out, company directors remain very pessimistic with respect to current as well as future demand for their products. Secondly, the capacity utilisation rate in the manufacturing industry has registered an uninterrupted decline since 2011Q2 and was slightly below 76% in 2012Q3, while its average level since 1995 is situated around 80%. This signals that written-off capital goods can be replaced but that the need for expanding production capacity is very limited. Only the investment survey held in the manufacturing industry during the spring points to relatively strong investment growth, but past experience shows that company directors tend to scale down their investment plans during the year.

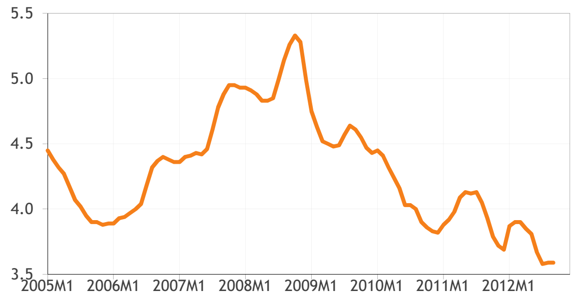
Housing investment

Graph 14 - Housing investment growth and leading indicator (YoY growth rates of 4-quarter moving averages)



Source: INR/ICN, FPB

Graph 15 - Mortgage rate (over 10 years initial rate fixation, in %)



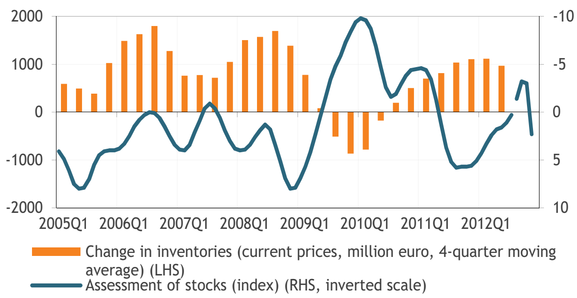
Source: NBB

Belgian residential investment contracted substantially in the course of 2008 and the first half of 2009. This resulted in annual growth rates of -2.7% in 2008 and -8.6% in 2009. The recovery that started in 2009Q4 was supported by a declining mortgage rate and by the temporary VAT rate reduction for new buildings and renovation projects for which the building application was filed before April 2010. As a result, residential investment growth rebounded in 2010 (3.1%). However, housing investment started to decline again in 2010Q4 as the favourable effects of the VAT reduction dissipated and consumer confidence weakened, which resulted in a drop of 5.3% in 2011. Residential investment remained depressed in the first half of 2012, acting as a drag on economic growth.

This decline pushed down the (nominal) residential investment-to-GDP ratio from 6% in 2009 and 2010 to 5.7% in 2011, which is close to its average of the preceding 20 years (5.5%). The picture for the near future is mixed. On the one hand, housing investment should be supported by the historically low mortgage rate. On the other hand, the FPB leading indicator points to a further decline in housing investment. Its components (information from the architects' survey and the total amount of mortgage applications) lead the development of housing investment by three to four quarters.

Stock building

Graph 16 - Stock building indicators



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 (Graph 16). However, its contribution to real GDP growth can be derived as a residual, taking the contribution of the other demand components into account.

Stock building contributed positively to economic growth for the second consecutive year in 2011 (0.6 %-point, after 0.3 %-point in 2010). However, the number of entrepreneurs considering their stock levels as excessive increased sharply in the second half of last year, due to weak demand. Against this background, changes in inventories exerted a drag on economic growth in the first half of 2012.

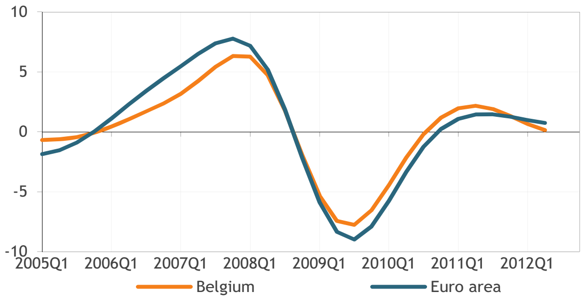
Foreign trade

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

	2010	2011	2011Q3	2011Q4	2012Q1	2012Q2	2012M3	2012M4	2012M5	2012M6	2012M7	2012M8
Exports - value [1]	18.2	13.4	9.0	5.4	2.5	-1.2	-0.1	0.7	-4.0	-0.2	2.3	2.2
Imports - value [1]	17.0	15.7	15.0	6.2	3.5	-2.6	0.4	1.6	-6.4	-2.4	1.1	-4.6
Exports - volume [1]	10.0	3.1	-1.1	-3.0	-2.5	-4.6	-4.1	-4.3	-6.4	-3.1	-1.0	0.5
Imports - volume [1]	6.7	3.7	2.6	-3.4	-4.0	-6.9	-6.9	-4.4	-10.4	-5.5	-3.1	-9.3
Exports - price [1]	7.4	10.1	10.2	8.6	5.2	3.6	4.2	5.3	2.6	3.0	3.3	1.8
Imports - price [1]	9.6	11.7	12.1	9.9	7.8	4.6	7.9	6.3	4.4	3.3	4.4	5.2

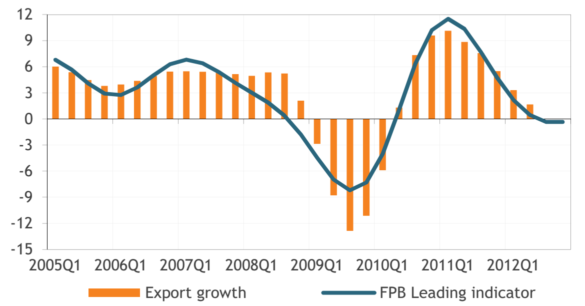
[1] Change (%) compared to same period previous year
Source: INR/ICN

Graph 17 - Export cycle (deviation from trend in %)



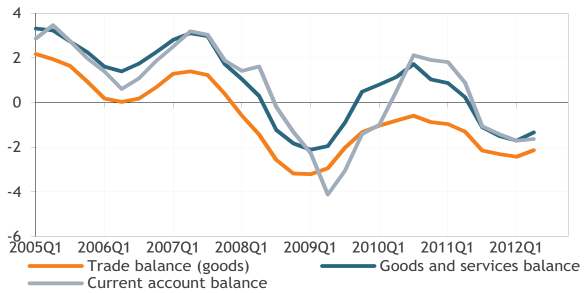
Source: INR/ICN, Eurostat, FPB

Graph 18 - Export growth and leading indicator (YoY growth rate of 4-quarter moving averages)



Source: INR/ICN, FPB

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



Source: INR/ICN, NBB, FPB

The rebound in the Belgian and European export cycles, which started in 2009Q4, came to a halt in 2011Q2. Since then, export cycles have declined in line with the deceleration in world trade growth. Within the euro area, Germany's exports have fared tremendously well since the start of the crisis, but over the last two years, the deep cut in unit labour costs in Spain, Portugal, and Ireland has also led to a relatively robust rebound in export growth of these countries. Combined with a steep drop in imports, this has led to a substantial reduction in these countries' current account deficits.

Belgian yoy export growth declined strongly from 10.1% in 2011Q1 to -0.2% in 2012Q2 as the economic recovery in the euro area first petered out and then turned into an outright recession. Belgian exports were particularly hit by the fact that the German economy (our main export destination) lost momentum and is now close to stagnation. Next year, exports ought to strengthen gradually, in line with the expected tepid pick-up in economic activity in the euro area. Due to the negative carry-over, however, annual export growth is expected to remain limited to 2% in 2013. This scenario is confirmed by our leading indicator (Graph 18).

Over the past 20 years, Belgium has suffered from a considerable slide in its export market shares. This has to do with a decline in price competitiveness, not being sufficiently present in fast-growing markets, and an unfavourable product mix. Belgian exports are overspecialised in products for which demand has been subdued and are underspecialised in innovative activities, such as ICT, for which demand and value added have been much higher (see also Planning Paper 112, which is summarised in the Recent publications section).

Higher oil prices and less dynamic exports have pushed the current account into negative territory since 2011. Recently, some tentative signs of improvement have been emerging, in spite of further worsening in the terms of trade, as import volumes have declined faster than export volumes.

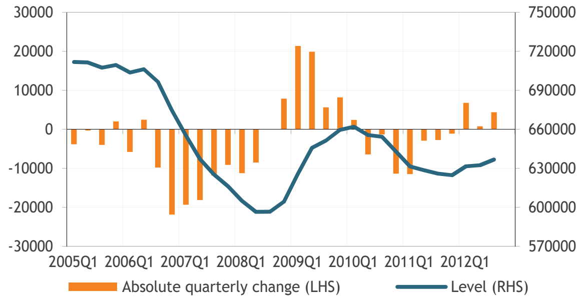
Labour market

Table 5 - Labour market indicators

	2010	2011	2011Q4	2012Q1	2012Q2	2012Q3	2012M5	2012M6	2012M7	2012M8	2012M9	2012M10
Unemployment [1][2]	653.8	627.7	624.8	631.6	632.4	636.8	632.7	633.7	633.1	637.8	639.6	642.6
Unemployment rate [2][3]	12.5	12.0	11.9	12.0	12.0	12.1	12.0	12.0	12.0	12.1	12.1	12.2
Unemployment rate-Eurostat [3][4]	8.3	7.2	7.2	7.1	7.4	7.6	7.4	7.5	7.6	7.6	7.5	7.5

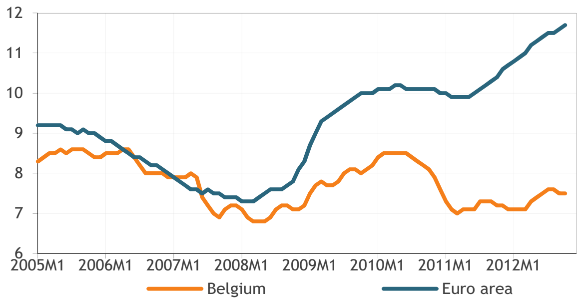
[1] Level in thousands, s.a.; [2] Broad administrative definition; [3] In % of labour force, s.a.; [4] Recent figures are based on administrative data and may be subject to revision
Source: RVA/ONEM, FPS Employment, Eurostat, FPB

Graph 20 - Evolution of unemployment (incl. older) (number of persons, seasonally adjusted figures)



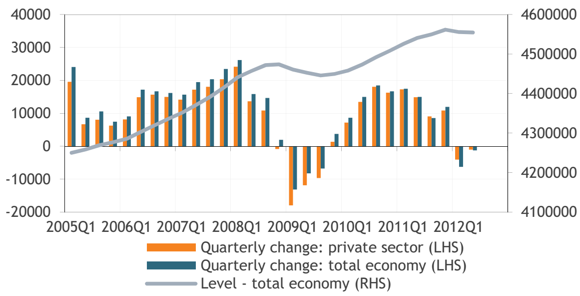
Source: RVA/ONEM

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



Source: Eurostat

Graph 22 - Evolution of domestic employment (number of persons, seasonally adjusted figures)



Source: INR/ICN

Following the significant worsening of the macro-economic environment, Belgian private sector employment growth turned slightly negative during the first half of the year. Besides, fiscal consolidation measures are leading to a decrease in public sector employment. Hence, total domestic employment shrank by almost 0.1% per quarter during this period. Nevertheless, the Belgium unemployment rate (broad administrative measure) has risen only modestly over the last three quarters. Moreover, half of this increase should be attributed to an upward shock to measured unemployment following a change in the registration procedures that took effect in January. This adds to a broader picture in which the Belgian unemployment rate decreased very rapidly in the years preceding the financial crisis and increased much less than expected in its aftermath.

Hence, the gap between the euro area harmonized unemployment rate and the Belgian harmonized rate has widened from 1 %-point (late 2008) to 4 %-points currently. The changes that were introduced in the 2011 Belgian LFS questionnaire account for, at most, 1 %-point of this increase. Economic growth was higher in Belgium than in the euro area on average during this period, but two additional factors seem to have contributed to the resilience in the labour market as well. First, Belgium has witnessed extremely slow productivity growth over the entire period. Second, growth in the Belgian labour force has been less vigorous than might have been expected in view of the considerable - immigration-led - growth in the population of working age.

Regarding the labour force, substantial increases of activity rates in the 50+ age bands have been partly offset by reduced participation rates in the other age bands. The slow productivity growth may be explained in part by the vast expansion in the number of additional jobs that have been created within the government-subsidized voucher programme for domestic-type services. Moreover, firms have been able to rely heavily on the system of temporary unemployment to reduce average working time. Up to now, they have also been willing to accept a substantial amount of non-subsidized labour hoarding over a considerable stretch of time. However, it may be expected that this will become ever more difficult the longer the current slow growth spell perseveres.

Prices

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

	2010	2011	2011Q4	2012Q1	2012Q2	2012Q3	2012M6	2012M7	2012M8	2012M9	2012M10	2012M11
Consumer prices: all items	2.19	3.53	3.63	3.56	2.75	2.64	2.26	2.32	2.86	2.76	2.79	2.26
Food prices	1.54	2.43	2.95	3.09	2.64	2.85	2.37	2.28	3.08	3.18	3.75	3.18
Non food prices	3.17	5.26	5.28	4.48	2.67	2.21	1.58	1.75	2.53	2.36	2.21	1.39
Services	1.43	2.23	2.16	2.93	3.19	3.38	3.37	3.35	3.45	3.32	3.27	3.11
Rent	1.11	1.08	1.15	1.42	1.50	1.60	1.51	1.60	1.58	1.64	1.51	1.55
Health index	1.67	3.06	3.24	3.31	2.63	2.39	2.21	2.23	2.56	2.39	2.49	2.17
Brent oil price in USD (level)	79.5	111.3	109.3	118.4	108.4	109.7	95.1	102.6	113.5	113.1	111.7	109.2

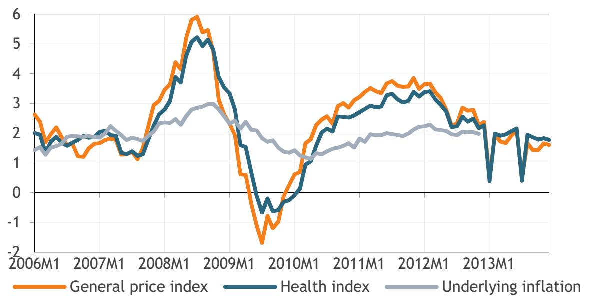
Source: FPS Economy, Datastream

Table 7 - Monthly inflation forecasts

	2012M1	2012M2	2012M3	2012M4	2012M5	2012M6	2012M7	2012M8	2012M9	2012M10	2012M11	2012M12
Consumer prices: all items	119.88	120.59	120.85	120.93	120.89	120.61	120.83	121.36	121.57	121.79	121.65	121.84
Consumer prices: health index	118.25	118.97	119.01	118.99	119.15	119.00	119.21	119.47	119.52	119.87	119.95	120.18
Moving average health index	117.53	118.04	118.44	118.81	119.03	119.04	119.09	119.21	119.30	119.52	119.70	119.88
	2013M1	2013M2	2013M3	2013M4	2013M5	2013M6	2013M7	2013M8	2013M9	2013M10	2013M11	2013M12
Consumer prices: all items	120.47	122.94	122.93	122.95	123.20	123.16	121.42	123.37	123.32	123.54	123.67	123.80
Consumer prices: health index	118.71	121.33	121.29	121.32	121.61	121.57	119.69	121.80	121.75	122.01	122.15	122.31
Moving average health index	119.68	120.04	120.38	120.66	121.39	121.45	121.05	121.17	121.20	121.31	121.93	122.06

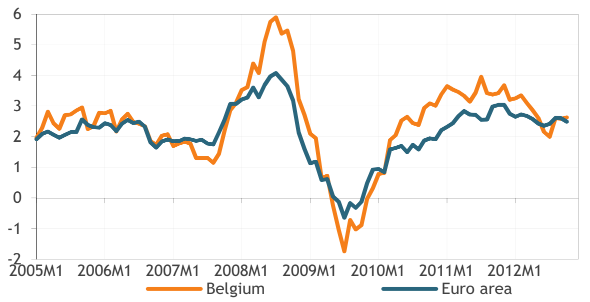
Source: Observations (up to 12M11): FPS Economy; forecasts: FPB

Graph 23 - Monthly inflation evolution (YoY growth rates in %)



Source: FPS Economy, from 12M12 on: forecasts FPB

Graph 24 - Harmonised inflation rates (YoY growth rates in %)



Source: Eurostat

Headline inflation, as measured by the yoy growth rate of the national consumer price index, gradually decreased from 3.6% on average during the second half of 2011 to 2.3% in November 2012. This evolution is mainly explained by the yoy growth rate of oil prices in euro declining from over 30% during the second half of 2011 to merely 4% in November 2012. Moreover, the Belgian government prohibited electricity and natural gas suppliers from raising prices above the March price level during the last three quarters of 2012. During this period, a substantial number of consumers also switched to a cheaper supplier, lowering somewhat the average consumer price for gas and electricity.

Inflation will be influenced by several factors in 2013. Firstly, in the 2013 government budget, it was decided to raise excise duties on tobacco products and alcoholic beverages. Secondly, as the prohibition from raising electricity and gas prices comes to an end, it is expected that most suppliers will increase prices slightly in January. Thirdly, prices for some energy products will be registered as a 12-month moving average price from January onwards, while prices during the current month have been taken into account up to present. Finally, price reductions during sales periods (January and July) will be taken into account to calculate the national CPI from 2013 onwards. This explains why the CPI and the health index decline in these months. All in all, inflation should fall from 2.9% in 2012 to 1.5% in 2013 and health index growth from 2.7% to 1.7% respectively. The current pivotal threshold for public wages and social benefits (122.01) should be crossed by the 4-month moving average of the health index in December 2013.

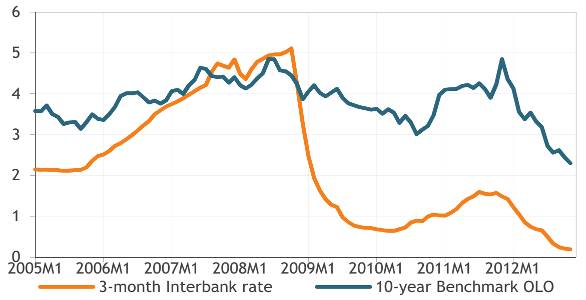
Interest rates

Table 8 - Interest rates

	2010	2011	2011Q4	2012Q1	2012Q2	2012Q3	2012M6	2012M7	2012M8	2012M9	2012M10	2012M11
Short-term money market rates (3 months)												
Euro area (Euribor)	0.81	1.39	1.50	1.04	0.70	0.36	0.66	0.50	0.33	0.25	0.21	0.19
United States	0.34	0.34	0.48	0.51	0.47	0.42	0.47	0.45	0.43	0.39	0.33	0.31
Japan	0.23	0.19	0.20	0.20	0.20	0.19	0.20	0.20	0.19	0.19	0.19	0.19
Long-term government bond rates (10 years)												
Belgium	3.43	4.22	4.48	3.69	3.35	2.63	3.18	2.72	2.56	2.62	2.44	2.30
Germany	2.77	2.65	1.98	1.88	1.50	1.42	1.43	1.31	1.42	1.52	1.52	1.39
Euro area	3.34	3.86	3.84	3.54	3.38	3.16	3.35	3.26	3.18	3.03	2.91	2.83
United States	3.20	2.77	2.03	2.02	1.81	1.62	1.61	1.50	1.66	1.70	1.72	1.61
Japan	1.17	1.11	1.00	0.98	0.88	0.79	0.83	0.77	0.80	0.79	0.77	0.74

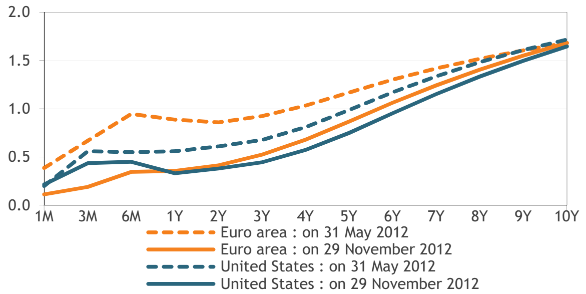
Source: Datastream

Graph 25 - Interest rate levels in Belgium (in %)



Source: NBB

Graph 26 - Yield curves for the euro area and the US (interest rate swap yields, in %)



Source: Datastream

The weakening in economic activity led the ECB to lower its policy rate by 25 basis points to 0.75% in July. To alleviate tensions in the sovereign bond market, it furthermore signalled that it is ready to buy peripheral-country government bonds on the secondary market under certain conditions (OMT or outright monetary transactions). A further interest rate cut in the near future seems likely, although it is doubtful whether it would do much to spur economic activity.

The US Federal Reserve has launched a new quantitative easing programme (the third one) whereby it would buy mortgage-backed securities until the labour market improves, while continuing the previous Operation Twist (exchanging shorter-dated bonds for longer-dated alternatives). Furthermore, it announced that it will leave the policy rate at rock bottom until mid-2015 at least.

In spite of rising debt rates, government bond yields have sunk to new historical lows in the course of this year because the demand for safe assets has overwhelmed supply. This has to do with the worldwide slowdown in economic activity and the corresponding decline in (upward) inflation risks: new regulation for banks and pension funds is pushing them to the safety of government bonds and the deliberate aim of many central banks is to push interest rates as low as possible via massive liquidity injections and QE operations.

Since the Belgian government took office at the end of 2011, important measures have been taken to reduce the budget deficit. These have led to a spectacular improvement in investor confidence in Belgian government paper. Belgium now borrows for free for short-term maturities and long-term interest rates have declined to a historical low of 2.3%. After having reached a high in July, government bond spreads against German Bunds have also narrowed for peripheral countries owing to the OMT announcement of the ECB.

Exchange rates

Table 9 - Bilateral exchange rates

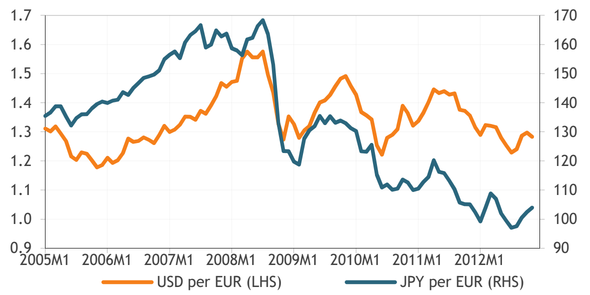
	2010	2011	2011Q4	2012Q1	2012Q2	2012Q3	2012M6	2012M7	2012M8	2012M9	2012M10	2012M11
USD per EUR	1.326	1.392	1.348	1.311	1.283	1.252	1.254	1.229	1.241	1.287	1.297	1.283
UKP per EUR	0.858	0.868	0.857	0.834	0.811	0.792	0.806	0.788	0.789	0.799	0.807	0.804
JPY per EUR	116.4	111.0	104.2	104.0	102.8	98.4	99.4	97.0	97.6	100.6	102.5	103.9

Table 10 - Nominal effective exchange rates (2010=100)

	2010	2011	2011Q4	2012Q1	2012Q2	2012Q3	2012M5	2012M6	2012M7	2012M8	2012M9	2012M10
Euro	100.0	99.2	97.3	94.9	93.4	90.9	93.1	92.1	90.2	90.3	92.4	93.2
Growth rate [1]	-7.2	-0.8	-1.9	-2.5	-1.5	-2.7	-2.0	-1.1	-2.1	0.1	2.3	0.9
US dollar	100.0	94.2	96.2	96.7	98.0	98.1	98.0	99.4	99.4	98.3	96.3	96.2
Growth rate [1]	-3.3	-5.8	3.8	0.6	1.3	0.1	1.5	1.4	0.1	-1.1	-2.0	-0.1
Japanese yen	100.0	105.7	111.0	108.6	108.5	111.0	109.2	111.0	111.5	111.2	110.3	108.6
Growth rate [1]	5.2	5.7	3.7	-2.2	0.0	2.2	3.4	1.7	0.5	-0.3	-0.8	-1.5

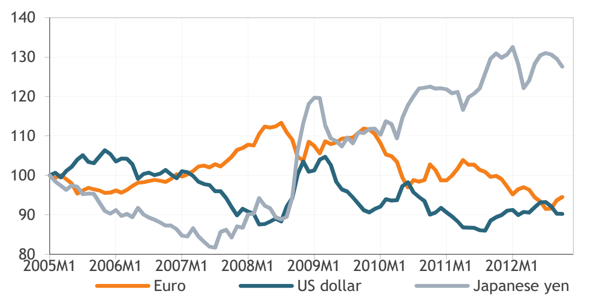
[1] Change (%) compared to previous period
Source: BIS, NBB

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



Source: NBB

Graph 28 - Nominal effective exchange rates (indices, 2005M1=100)



Source: NBB, BIS

When the beneficial effect of the massive long-term financing operations of the ECB (a monetary tool to help pump liquidity into the banking sector and ease tensions in the sovereign bond market) started to fade in March, the euro depreciated considerably against the dollar in the ensuing months.

The downward move was stopped at the end of July, by which time a low of just over 1.20 dollars per euro was reached, when ECB president Draghi declared he would do whatever it takes to preserve the single currency. The latter implied that the ECB would start large-scale purchases of Spanish and Italian government bonds in order to reduce these countries' government bond spreads. Since then, the euro has been on an upward trend against the dollar, which was reinforced by the third round of quantitative easing in the US.

The depreciation of the euro was broad-based as it also declined considerably against the currencies of the dollar bloc (Australian, Canadian and New-Zealand dollar), Scandinavia, and Asia this year. The biggest declines were registered, however, vis-à-vis the Turkish lira, the Polish zloty, and the Hungarian forint on the back of these countries' better growth prospects and/or attractive yields. The main exceptions were the Brazilian real and the Argentine peso, against which the euro appreciated by almost 10%.

All in all, this leaves the nominal effective euro 2-3% lower compared to the end of last year, thereby continuing the downward trend which started when the financial crisis erupted in the summer of 2008.

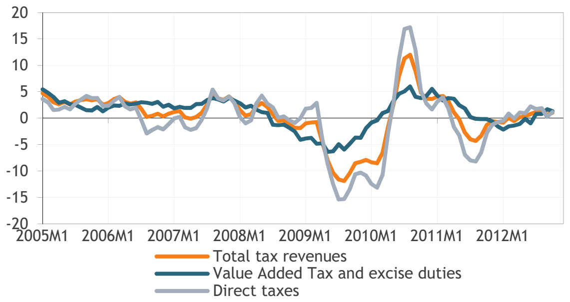
Tax indicators

Table 11 - Tax revenues [1]

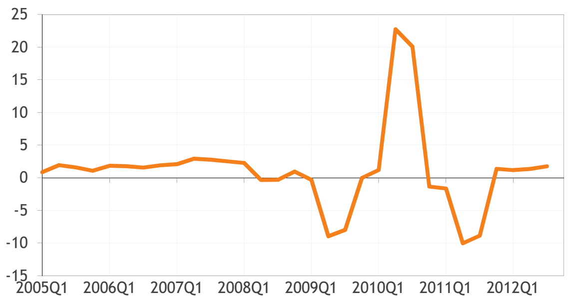
	2010	2011	2011Q4	2012Q1	2012Q2	2012Q3	2012M5	2012M6	2012M7	2012M8	2012M9	2012M10
Total [2], of which:	5.9	2.8	1.2	6.1	7.7	0.2	8.6	5.6	5.8	2.8	-13.4	6.1
Direct taxes, of which:	3.9	2.8	-3.0	8.7	10.8	-3.0	11.4	10.4	3.9	4.3	-24.1	7.5
Withholding earned income tax (PAYE)	0.8	5.0	6.9	3.0	3.9	6.1	2.4	-4.4	6.5	9.2	2.3	-0.3
Prepayments	11.0	0.7	6.3	.	-0.9	1.8	.	.	2.6	.	.	-7.3
Value Added Tax and excise duties	7.9	1.9	6.0	3.8	4.1	5.2	6.5	-0.5	10.4	0.9	2.5	3.5

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

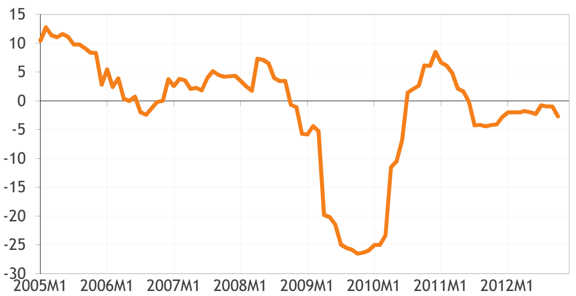
Graph 29 - Real tax revenues [3]



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



Graph 31 - Real prepayments [3]



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

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

The growth rate of the different tax bases slowed down sharply as a result of the deceleration in economic activity as from the second half of 2011, and remains depressed at present. However, the package of fiscal measures decided for the 2012 Budget is likely to boost tax revenue as compared to what it would have been without these measures. These tax measures include, inter alia: increased withholding tax on dividends and interest revenues (the 15% tax rate being raised to 21% or 25%); adjustments to the corporate tax system (a 3% cap on the notional interest used for the risk capital deduction and removal of the possibility to carry forward that deduction, taxation of capital gains on assets held for less than one year); increased taxation of company cars; selective increases in VAT rates (on notarial acts), excise duties (on tobacco), and other indirect taxes (on insurance premiums, on stock exchange transactions); a strengthened fight against tax fraud.

VAT revenues were particularly affected by the economic downturn. The progression in gross receipts has been low in the past 15 months and growth in VAT refunds (mainly related to exports) has constantly decelerated since the beginning of 2012.

Job creation has slowed down in 2012, thus being less supportive to growth in payroll taxes (the largest part of PAYE). Moreover, the brackets of the progressive PAYE scale have been indexed on the basis of the previous year's (2011) inflation, which was very high.

The real growth rate in CIT prepayments has been, for about one year, negative on a yoy 12-month moving average basis (Graph 31), reflecting the gloomy business climate. In contrast, growth in CIT collected through assessment has been very high in 2012. It seems that companies have been less inclined to pay taxes through advance payments in recent years.

Registration duties have suffered from the flat real estate market, both in volume and price, as from mid 2011. However, receipts for October rebounded significantly in all three Regions without any particular administrative reason being evident.

Competitiveness of Belgium: challenges and tracks to growth

Despite relatively good economic performance in Belgium compared to its main neighbouring countries, one needs to question whether this evolution has not been obtained at the expense of Belgian external competitiveness, particularly of the manufacturing sector. What are the main determinants of competitiveness evolution? What are the economic policy measures proposed and possible in Belgium to response to this evolution? These are the main questions that this publication addresses by synthesizing different studies realised by the FPB on this topic. This publication was finalised on 26 October 2012 and has served as technical input for the stimulus plan of the federal government.

Findings

The geographical orientation and the product specialisation of Belgian exports have played a role in explaining the deterioration of competitiveness measured by smaller export market shares or a deteriorating trend in the current account. Cost and price competitiveness have also deteriorated: since 2005, growth in labour costs has been too fast, not only in comparison to the three neighbouring countries but also in comparison to weak labour productivity growth.

The 1996 Law governing wage negotiations has been respected as far as the maximum real wage increases, set for a period of two years by the successive Inter-professional Agreements (IPA), are concerned. But forecasts have systematically overestimated the maximum increase and, in particular, German wage developments. In addition, the unanticipated increase in oil prices since 2005 has contributed to inflation and therefore to wage indexation. However, the corrective arm of the law has not been fully implemented and, in any case, not automatically, leading to stronger wage growth in Belgium, estimated by the Central Economic Council in its September 2011 Report at 4.6% in 2012.

The relative weakness of labour productivity growth is only due to a weakness in total factor productivity (TFP), which is related to the ability to innovate and to improve the efficiency of the economy. This evolution is, itself, related to the Belgian under-specialization in innovative activities such as Information and Communication Technologies (ICT). The quality of infrastructure and, in particular, of public infrastructure, is also an important determinant of TFP, the evolution of which has not been favourable in Belgium. This is particularly the case for public investment in transport and ICT for education.

Higher Belgian inflation also contributes to a loss in competitiveness. Higher inflation mechanically translates into wage increases through indexation. Moreover, price increases in intermediate inputs increase production costs for exporters.

Despite this increase in production costs, the macroeconomic profit margin of Belgian companies has performed well without a drastic reduction in the wage share. This adjustment has been made possible by the rapid expansion, since 2005, of wage subsidies, which, of course, has a counterpart in the cost of public finances.

An important effort has been made to improve structural competitiveness by attempting to tackle all factors other than prices and costs related to competitiveness. However, the ability to develop and export products for which global demand is more quality-related and to conquer new markets where demand is dynamic has not sufficiently improved.

Policies

To guarantee growth in the purchasing power of households through improved competitiveness, priority should be given to innovation through technical progress, quality improvements, and efficient private and public production processes. Regional governments have made a priority of this. However, as these policies are structural, their impact takes time. Therefore, in the short- and medium-term, it would also be useful to influence the labour cost by progressively correcting the existing gap vis-à-vis the average of the three neighbouring countries, and by adopting a mechanism that automatically corrects any future deviation.

Given the size of the wage gap that needs to be corrected, a range of measures could be considered. Moreover, any government intervention should be neutral for public finances. Possibilities are: a tax shift designed to reduce the tax burden on labour and in particular on low-skilled workers, a reform of price formation - especially of network industries, and an improvement in the indexation mechanism. In addition, the adjustment could provide for real wage growth that is weaker than the maximum given by the evolution within the three neighbouring countries over a certain number of years.

The forecasts used to define the maximum real wage increases have to be improved as they are the main source of error. If, despite this improvement, a wage gap is recorded, it has to be corrected automatically according to an ex-ante approved mechanism.

In the longer term, the necessity to improve productivity growth without compromising the recovery of the labour market calls for accelerating the pace of structural reforms. This lengthy process must particularly involve an effective innovation strategy, the development of human capital, and the reorganisation of product markets. Investment in R&D and innovation in new products which are less subject to international price competition requires that all stakeholders take ownership of an inclusive strategy. It is particularly important to implement an active policy of developing the skills of the workforce, improve the efficiency of public intervention both as producer of public services and as regulator of markets, and develop the quality of the public infrastructure and a wide-scale integration of ICT.

"Compétitivité de la Belgique : défi et pistes de croissance - Concurrentievermogen van België: uitdagingen en groeipistes",
H. Bogaert and Ch. Kegels,
Planning Paper 112, November 2012

Consumer prices in Belgium and its neighbouring countries

The prices of many goods and services in Belgium are higher and/or rising faster than in its neighbouring countries. This Working Paper assesses the extent of the price disadvantage and examines its possible causes. It shows that it is not simple to point clearly to one or several decisive elements, since a variety of factors play a role. A consequence is that each policy initiative requires nuancing. The study gives special attention to the food branch.

Besides the unfavourable price evolutions themselves, the context of the study is the attention the European Commission has asked for this matter in the recommendations of the European Semester. From data on purchasing power parities, it is shown that, over the period 2005-2010, prices of consumer goods and services were nearly 3% higher than the average of the three largest neighbouring countries. For food, the difference amounted to almost 6%, while in the past (1999-2004) there was an advantage of nearly 2%. Out of some tens of thousands of individual food products, about two thirds proved to be more expensive in Belgium than in a neighbouring country. Price increases also compare unfavourably with those in the neighbouring countries. Between 2005 and 2011, the HICP rose by 2.4% annually on average in Belgium, compared to 1.8% in the three largest neighbouring countries. For food, the increase amounted to 3.0% and 2.0% respectively.

Several institutions, both at home and abroad, studied the factors that influence pricing of food and other consumer goods. Some of these factors can be influenced directly by government, while others can only be affected indirectly or not at all. From those studies, the following outline has been drawn up.

As concerns retail trade as a whole, the economic-geographic scale, wholesale prices, wage costs, and VAT rates are all highly important to pricing and unfavourable in Belgium. From an economic-geographic perspective, the relatively small size of the country, combined with its multilingualism, plays a part. For wholesale prices, the industry is suspected of maintaining a certain market segmentation between European countries, with Belgium being at a disadvantage. Compared to the neighbouring countries, Belgian wage costs present handicaps for several reasons and the standard VAT rate is higher. In all these cases, however, policy has only limited room for manoeuvre: geography is an established fact; wholesale trade is part of free enterprise; wages can be subject to interference only in so far as it remains fair from a welfare perspective; VAT rates and fiscal as well as parafiscal charges imposed on labour cannot be considered separately from the whole fiscal system.

The reduced VAT rate and labour market regulation are also highly important to pricing, but in this respect Belgium's score is average compared to that of its neighbouring countries. For population density and labour productivity, Belgium even scores reasonably. There is uncertainty on the impact of price-cost margins and automatic wage indexation. For the former, calculations diverge; for the latter, the social dialogue in other countries could lead to a similar effect on prices.

On the influence of Belgian market regulation, opinions are divided. More flexible opening hours for stores can be both favourable and unfavourable. The ban on sales below cost could safeguard competition, but creates the risk of jacked up wholesale prices. Contrary to the findings of certain economic studies, the Ikea Law would barely impede entry. The complexity of Belgian legislation, though, could repel entry.

As concerns food prices, there are several derogations and specific factors. The most important one is the business strategy of supermarket chains. Some chains have reasons not to lower their prices too much. This is also part of free enterprise and hard for public authorities to influence. Furthermore, productivity per m² of store surface is relatively low. Consumer preferences and central purchasing offices tend to have little impact. Concerning the former, in spite of the preference for national brands and small-scale stores, the discounters have a relatively strong position, and consumers visit stores of several chains. Price-cost margins, market-share dynamics, and distributor brands seem to function favourably: contrary to retail trade as a whole, margins are still low; during recent decades, the market shares of supermarket chains have not petrified; distributor brands hold a strong position, although the extent of their advantage is not (yet) clear.

"Consumptieprijzen in België en de buurlanden: Aandachtspunten voor het beleid - Consumer prices in Belgium and its neighbouring countries: Policy issues",
J. van der Linden, Working Paper 13-12, October 2012

Analysing the impact of measures aiming at delaying early retirement

Belgium is characterised by one of the lowest employment rates of elderly workers in the European Union. Since 1997, attempts have been made to discourage elderly workers from leaving the labour market before the age of 65. In particular, two measures aimed at reducing early retirement have been introduced. The first extends the number of career years required to enter early retirement. The second, called the "pension bonus", financially stimulates elderly workers to pursue employment after the age of 62. This paper provides an empirical evaluation of the impact of these two measures on the probability of remaining employed for a further year.

The labour market participation rate of older Belgian workers is one of the lowest in Europe. While the EU average was 46% in 2009, the employment rate of Belgian workers aged 55-64 was only 35.3%. At the same time, population ageing is causing an increase in the proportion of older individuals in relation to the working age population. Because these two factors together can generate important financial sustainability problems in the social security system, attempts have been made to discourage elderly workers from leaving the labour market before the age of 65. The 1997 pension reform increased progressively both the retirement age of women from 60 to 65 years by 2009 and the number of career years required to enter early retirement from 20 to 35 years by 2005 for both men and women. In 2005, the Generation Pact introduced the "pension bonus", a temporary measure covering the period 2007-2012 and which financially stimulates elderly workers to pursue employment after the age of 62 or beyond their 44th career year. Other measures included more restricted access to the "pre-pension" scheme.

In this paper, we investigate the impact of two of these measures: the extension of the number of career years required to enter early retirement and the "pension bonus". Our approach is empirical and makes use of population longitudinal employment data covering the period 2000-2009. We estimate the impact of these two measures on the probability of staying employed a year later using a difference-in-differences strategy. This approach, which has been extensively used in the evaluation literature on retirement measures, identifies the impact of a specific intervention by comparing the differences in outcomes between two periods (before and after the intervention) for two different groups, those affected by the intervention (treatment group) and those unaffected by it (control group). Finally, and because the introduction of the two measures under study coincides with the increase in the full retirement age for women, we restrict our analysis to male elderly workers.

The new career length requirement might not be fulfilled by all those willing to take early retirement, thereby directly affecting the employment probability of those elderly workers. Accordingly, our findings show a positive effect of the extension of the career length requirement on the probability of staying employed a year later. However, this is only significant for blue collar and low income white collar male elderly workers. Moreover, the extension of the career length requirement had a greater impact than the "pension bonus" on the probability of staying employed a year later. The "pension bonus" had, at best, a very limited impact on the employment rates of elderly workers. While the extension of the career length requirement is a relatively modest measure, it seems to have had a significant impact on discouraging early retirement. Although measures which tighten eligibility rules have a direct impact, financial incentive measures can only have a behavioural impact, which requires a longer period and well informed target groups in order to be attained. While the reasons for the restricted impact of the "pension bonus" are beyond the scope of this study, there are two obvious candidates worth mentioning: the "pension bonus" is little known by its target population; and its temporary character limits its impact, especially for "young" elderly workers, who are not sure it will still exist when they become eligible for it.

"Analysing the impact of eligibility and financial measures aiming at delaying early retirement in Belgium: a 'difference-in-differences' approach using panel data",
M. López Novella, Working Paper 14-12, November 2012

Other Recent Publications

Outlook, September 2012

"Economische vooruitzichten 2012-2013 / Prévisions économiques 2012-2013"

Outlook, September 2012

"Perspectives de l'évolution de la demande de transport en Belgique à l'horizon 2030 / Vooruitzichten van de transportvraag in België tegen 2030", D. Gusbin, B. Hertveldt, B. Hoornaert, M. Vandresse

Planning Paper 111, September 2012

"De Belgische milieurekeningen - Milieu-economische rekeningen 1990-2008 / Comptes de l'environnement pour la Belgique - Comptes économiques de l'environnement 1990-2008", G. Vandille, L. Janssen

Working Paper 12-12, September 2012

"Input-outputanalyse - Modellen, Multiplicatoren, Linkages / Analyse entrées-sorties - Modèles, Multiplicateurs, Linkages", C. Hambÿe

Research in progress

The long-term budgetary and social challenges of ageing

Different aspects of the long-term dynamics of acute health care, long-term care and pension expenditure are being scrutinized. A long-term model is being used to project the budgetary consequences of ageing, notably taking the new pension reform into account; the social dimension of pension benefits is being investigated using a microsimulation model.

contact: maltese@plan.be

Employment in the civil service

The question of whether the level and the structure of employment in government bodies in Belgium is appropriate has been raised frequently. A research project at FPB addresses this question, including the implications of public employment dynamics on public pensions.

contact: pubfin@plan.be

Macroeconomic, budgetary and GHG emissions prospects

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

contact: hermes@plan.be

Input-Output tables 2010

The FPB is preparing the Belgian Input-Output tables for 2010.These are compiled using the European System of National and Regional Accounts ESA95, and will incorporate the new NACE Rev. 2 - CPA 2008 nomenclature. The National Accounts Institute will transmit the data to Eurostat. The tables will be available in a 60-industry disaggregation by the end of 2013.

contact: io@plan.be

Offshoring

The FPB is continuing to work on offshoring. The project describes the level and evolution over time of offshoring of activities carried out in Belgium, as well as the impact on employment and productivity. The analysis is made on an industry-level, as well as on data for individual companies.

contact: bm@plan.be

Innovation

Innovation is a key determinant of productivity growth. A comprehensive publication on this subject is planned for Summer 2013. Particular attention will be given to public policy that will facilitate innovation leading to the creation of economic activity and jobs.

contact: ck@plan.be

Progress in economic modelling at the FPB

On-going projects aimed at incorporating new approaches in economic modelling are supported by different institutions. Partners from the three Regions (IBSA-BISA, SVR and IWEPS) support the development of a "bottom-up" approach in the regional/national medium-term model. The federal sickness and disability fund (RIZIV-INAMI) collaborates on modelling health care expenditure. The EC supports the development of a sectoral international model. A federal research fund (BELSPO) and the Federal Public Service Social Security support modelling migrations in the dynamic microsimulation model, which is managed using the LIAM2 software developed at the FPB with the support of Luxembourg partners (IGSS - the Ministry of Social Security - and CEPS/INSTEAD).

contact: contact@plan.be

Recent history of major economic policy measures

November 2012

The federal budget conclave decided on a budget for 2013 in line with the deficit targets set out in the April 2012 update of the Stability Program, thus moving Belgium a step further away from the excessive deficit threshold. The 2013 budget is based on assumptions of GDP and inflation growth rates of, respectively, 0.7% and 1.8%.

The deficit is to shrink to 2.15% of GDP for Entity I (the federal authority and social security administrations, and in fact for the federal authority alone since special federal transfers will ensure that the social security ESA account is balanced over the entire 2012-2014 period). This represents, according to government figures, an improvement of 1% of GDP as compared to the estimated 2013 outcome in an unchanged policy scenario. Assuming a balanced budget for Entity II (the regions, communities and local authorities), the general government deficit for 2013 should also be reduced to 2.15% of GDP.

The 2013 federal budget relies on higher receipts from tax measures, among which are: increased withholding tax on dividends and interest (the 21% tax rate being raised to 25%); changes to the tax amnesty regulations; adjustments to the corporate tax system (concerning the risk capital deduction and the taxation of capital gains); increased excise duties on tobacco and alcohol; and increased taxation on life insurance investment premiums. Savings on the expenditure side will come mainly from lower expenditure on development cooperation, a reduction in subsidies to state rail and post companies, savings in health care expenditure and fighting against social-security fraud.

These measures come on top of those already adopted by the end of 2011 for the 2013-2014 period, among which were: an increase in the consumer contribution in the service-voucher system; limitation of the budget available for real increases in social benefits to 60% of the amounts granted under the 2005 Generation Pact; limitation of the real growth rate norm for the financing of the health care budget to 2% in 2013 and to 3% as from 2014 (instead of 4.5%); and strict control of operating costs and public employment developments. These measures also add to the budgetary effects of the end-2011 labour market and pension system structural reforms.

A real wage freeze has been decided for 2013-2014: nominal wage growth will be limited to price indexation and wage-drift, except for low wages, which will be allowed to be increased, before indexation, by 0.9% over the next two years. The health index used for wage-indexation should be reduced by 0.4% by adjusting the composition of the reference basket of goods and services.

Pending the outcome of the negotiations between labour unions and employers starting in April 2013, and on top of the existing measures, EUR 400 million will be made available annually (EUR 300 million in 2013) for cuts in labour costs or increases in minimum-wage take-home pay.

Banking sector regulation will be reinforced by regulating bonuses, separating savings and investment activities and creating "long-term savings accounts" (for 5- or 10-year term deposits) that are set up for long-term projects and that will benefit from favourable tax treatment.

The levy imposed on the production of nuclear energy will be more than doubled. This so-called "nuclear rent" would normally amount to EUR 550 million, but has been limited to EUR 475 million for as long as the plants that were closed down in July are not restarted. The capacity of a third plant will be auctioned off. This is a condition imposed on the extension of its life from 2015 to 2022 and would make its production available to the market at reasonable prices.

September 2012

The Court of Appeals judged that the Flemish cable incumbent Telenet's objections against opening TV cable to competition are insufficiently strong to suspend the preparations for this opening. This judgement is not yet a final verdict, but is an obvious signal that the objections are not likely to be accepted. Hence, Telenet should continue its preparations.

The FPS Economy aims to make citizens more conscious of the opportunities given by the liberalised energy markets. During the second half of the month, 400 of its staff and several municipal public servants guided people through the process of choosing an energy supplier. The guidance was given at town halls and reached roughly 72 000 people.

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)