SHORT TERM UPDATE

1-15

Quarterly Newsletter
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Federal Planning Bureau
Economic analyses and forecasts

.be

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

By the end of March, the FPB published a medium term outlook (2015-2020) that should serve as the macroeconomic input for the Belgian Stability programme and the National Reform Programme (see www.plan.be). That outlook contains a few revisions for 2015 as compared to our short-term forecasts published in February (and described on pages 5-6). A summary of the March forecast for 2015 is provided below.

Following two years of meagre economic growth, Belgian GDP growth accelerated to 1% in 2014 due to a strengthening of both domestic demand and exports. Against the background of the recovery of the European economy (GDP growth in the euro area should accelerate to 1.3% in 2015, following 0.8% in 2014), Belgian economic growth should continue to pick up and reach 1.2% on an annual basis in 2015.

Domestic employment (+0.3% in 2014 and +0.5% in 2015) is not increasing to the same extent as economic activity, as both labour productivity and hours worked per person are catching up. The number of unemployed (broad administrative definition) should decrease only slightly in 2015, which is partly due to the fact that new entrants in an early retirement scheme should from now on remain available for the labour market.

According to our most recent inflation forecasts, finalised at the beginning of March, Belgian inflation, as measured by the national index of consumer prices, should amount to only 0.2% on average in 2015. This is due to the disinflationary impact of the weakness in demand growth in the euro area as well as to the decline in oil prices in dollar terms, which is only partially compensated for by the depreciation of the euro.

The general government's deficit should decrease to 2.7% of GDP in 2015 (from 3.2% of GDP in 2014), driven by consolidation measures at all levels of government.

STU 1-15 was finalised on 24 March 2015.

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).

A decomposition analysis of Belgium's world export market share loss between 1995 and 2012

Belgium's world export market share fell from 3.74% in 1995 to 2.58% in 2012. More than half of this market share loss occurred during the recent period, from 2007 to 2012, when international trade was strongly influenced by the 2008 financial and economic crisis. According to the results of a Constant Market Shares Analysis, more than 40% of the market share loss between 1995 and 2012 can be attributed to the unfavourable structure of Belgium's exports, in particular in terms of destination markets. For the years 2007-2012, this share rises to almost 60%.

A country's world export market share is an indicator of the capacity of its exporters to meet global demand and to open up new markets. In short, it is an indicator of the country's external competitiveness. Compared to the size of its economy, Belgium has traditionally had a high world export market share. In 1995, it stood at 3.74%, not much lower than the world export market shares of bigger countries such as the UK (4.94%) and Italy (5.01%).[1] However, over the years 1995-2012, Belgium's exports grew at a much slower pace than world exports (6.0% against 7.5% on average per year) and the country's export market share fell substantially. In 2012, it stood at 2.58%, i.e. the export market share loss over 1995-2012 amounts to 1.16 %-points. Most other industrialised countries have suffered similar or even bigger world export market share losses. The export market shares of the main neighbouring countries trended as follows over 1995-2012: from 4.16% to 3.61% for the Netherlands, from 6.04% to 3.73% for France and from 12.14% to 10.09% for Germany.

Constant Market Shares Analysis

Contributions to the change in the world export market share can be identified through Constant Market Shares Analysis (CMSA). This is an algebraic method for decomposing the change in a country's world export market share into several effects that indicate to what extent the change can be attributed to competitiveness or to structural factors. Here, four effects contributing to the country's aggregate market share gain or loss are distinguished:

- The *geographic effect* measures the contribution of changes in the shares of destination markets in world trade given the country's export structure by destination market, i.e. whether on average the country exports to growing or declining markets.

- The *product effect* measures the contribution of changes in the composition of world trade by product categories given the country's export structure in terms of product categories, i.e. whether the country's product specialisation is adapted to trends in the product structure of world trade.

- The *combined effect* measures the contribution of changes in world trade shares for individual destination market and product category combinations given the country's export structure, i.e. whether the country's export specialisation allows it to benefit from niches in world markets.

- The *competitiveness effect* measures the contribution of changes in the country's individual market shares for specific products on specific destination markets under a given world trade structure.[2]

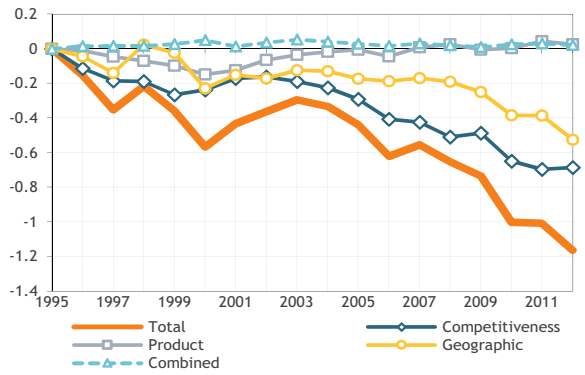
Results for Belgium

Year-on-year changes in Belgium's world export market share are reported in cumulative form in Graph 1 (thick orange line) for the period 1995-2012. As mentioned before, Belgium's total export market share loss over 1995-2012 amounts to 1.16 %-points. After a substantial loss in the second half of the nineties, there is a slight recovery of the share between 2000 and 2003. Subsequently, the share falls almost continuously until 2012. It is noteworthy that half of the market share loss of the years 1995-2012 occurs in the recent years 2007-2012, when trade was affected by the 2008 financial and economic crisis.

1. All export market shares reported here are calculated based on merchandise trade data of the United Nations Commission on Trade and Development (UNCTAD) in current US dollars for the years 1995-2012. Trade in mineral fuels and confidential product categories have been excluded. For Belgium, an additional correction for transit trade in pharmaceutical products has been introduced.

2. The underlying causes of market share gains or losses are not identified by the CMSA. Competitiveness-related factors such as export prices, exchange rates or the quality of exported products are likely to exert a major influence on the so-called *competitiveness effect*. However, non-competitiveness-related factors such as differences in production capacities may also play a role.

Graph 1 - Cumulative CMSA results for the change in Belgium's world export market share, 1995-2012 (percentage points)



Graph 1 also contains the cumulative year-on-year decomposition results. For each year, the four CMSA effects sum to the total change (see also Table 1). Over the entire period 1995-2012, most of Belgium's export market share loss can be attributed to individual market share losses, i.e. the *competitiveness effect*. It amounts to 0.69 %-points, which corresponds to almost 60% of the total export market share loss. The remainder is due to the structure of Belgium's exports. The *geographic effect* dominates with -0.52 %-points or 45% of the total market share loss. This does not come as a surprise since Belgium's exports predominantly go to the European market, in particular the slow growing old Member States of the European Union. They make up more than two-thirds of Belgium's exports in all years, while the shares of the fast growing Asian export markets - mainly China and the Middle East - in Belgium's exports are relatively small. Both the *product effect* and the *combined effect* turn out to be rather small (0.02 %-points each). Regarding the *product effect*, the low overall value hides offsetting trends: Belgium gained export market shares in the category of chemical products - especially pharmaceuticals and organic chemicals - which makes up a growing share of world exports, and lost market shares in the categories of motor vehicles and steel, which have a falling share of world exports. Furthermore, during the short period of market share gains for Belgium between 2000 and 2003, the main contribution to the gains comes from the export structure (product and geographic specialisation); however, the competitiveness effect is also positive.

Table 1 - CMSA results for the change in Belgium's world export market share (percentage points)

	Total	Competitiveness	Product	Geographic	Combined
95-12	-1.16	-0.69	0.02	-0.52	0.02
07-12	-0.61	-0.26	0.02	-0.35	-0.01

The recent period from 2007 to 2012 is of particular interest as it covers the years when trade flows were strongly influenced by the 2008 financial and economic crisis and Belgium's world export market share fell sharply (by 0.61 %-points). According to the CMSA results, the *competitiveness effect* was less important during this specific period. It accounted for a fall of 0.26 %-points in the market share or almost 43% of the total loss. It is now the *geographic effect* that dominates, with -0.35 %-points corresponding to more than 57% of the total market share loss. Previous trends in the destination market structure of world exports were intensified with the emergence of Asian markets at the expense of Europe and North America progressing at an even faster pace. Hence, the unfavourable geographic specialisation of Belgium's exports had a larger effect during this period. Finally, the *product effect* and the *combined effect* are also small, and of opposite signs for the years 2007-2012.

In summary, the main lesson to be learned from this analysis are that Belgium lost about a third of its world export market share between 1995 and 2012, with losses being particularly substantial in the years from 2007 onwards. The loss is essentially due to an unfavourable geographic specialisation and lesser competitiveness, while product specialisation has proved neutral for the export market share.

Economic forecasts 2015

Cautious economic recovery in the euro area…

Helped by the beneficial effects of the steep slide in oil prices, world economic growth should accelerate somewhat in 2015. The US economy posted a strong growth performance in the past few quarters and should be the engine of a worldwide business cycle recovery. The upturn has so far proved challenging in the euro area and is running into difficulties in Japan, while a host of emerging economies are coping with a slowdown in economic growth.

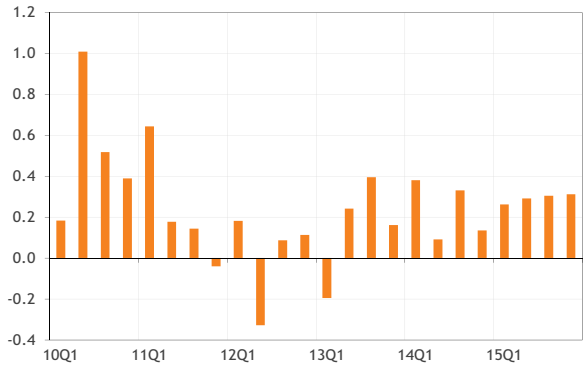
Helped by the firming of exports - under the impulse of the euro depreciation - and domestic demand - supported by the further loosening of monetary policy and even more so by the considerable decline in the energy bill for households and firms - GDP growth in the euro area should accelerate to 1.1% in 2015 (following 0.8% in 2014). Growth dynamics in the euro area are, however, limited by the trade conflict with Russia (which depressed business confidence somewhat in the second half of 2014) and by the fact that a number of Member States are still heavily indebted and facing high unemployment rates.

The risks to this outlook remain large, however. Inflation in the euro area is currently negative and so far mainly a consequence of the decline in energy prices, but a new unfavourable demand shock could result in a general decline in consumer prices (deflation). This could thwart the reduction of debt rates in several euro Member States. While these risks are fairly high, one cannot exclude that the depreciation of the euro exchange rate and the lower oil prices could lead to a stronger than expected recovery in economic activity.

…makes the Belgian economy grow at same pace as in 2014

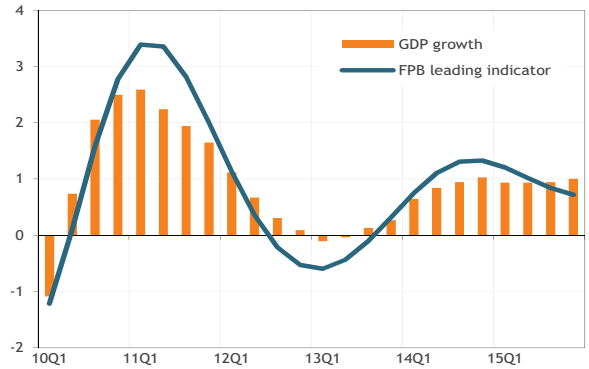
Following two years of meagre economic growth, Belgian GDP growth accelerated to 1% in 2014. Export growth strengthened under the impulse of the economic recovery in the euro area, while domestic demand picked up pace. Economic growth should also amount to 1% this year. Foreign demand and outlays by consumers and firms should strengthen, while government expenditures should be rolled back.

Graph 1 - Quarterly Belgian GDP growth (qoq growth rates, corrected for seasonal and calendar effect)



Source: INR/ICN, FPB

Graph 2 - Quarterly GDP growth (yoy growth rates, 4-quarter moving averages)



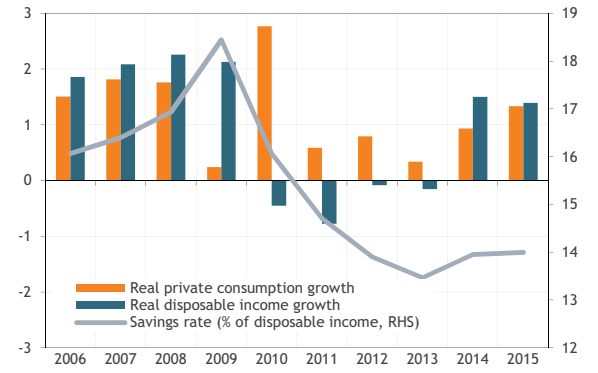
Source: INR/ICN, FPB

In spite of weak economic growth in the euro area, Belgian exports proved to be remarkably dynamic in the second and third quarter of 2014. As a result, on an annual basis, export growth should be as strong in 2014 as in 2015 (3.7%) when exports are backed by the international economic recovery and the depreciation of the euro. Net exports should contribute positively to economic growth in both years. Along with lower oil prices, this should lead to a substantial increase in the current account surplus of the balance of payments.

Due to the increase in households' real disposable income, private consumption ought to increase by 1.3% (following 0.9% in 2014). In 2015, purchasing power should be mainly supported by the rise in employment. Moreover, the strong decline in oil prices and the wage indexations implemented until the beginning of 2015 in some sectors should lead to a slight increase in real hourly wages. Furthermore, some measures, such as the increase in flat-rate professional expenses allowances in the calculation of personal income taxes, mitigate the negative impact of some other government savings. As

the health index is expected to increase only barely in the course of 2015, the planned index jump will mainly have an impact beyond 2015.

Graph 3 - Private consumption, disposable income and savings rate



Source: INR/ICN, FPB

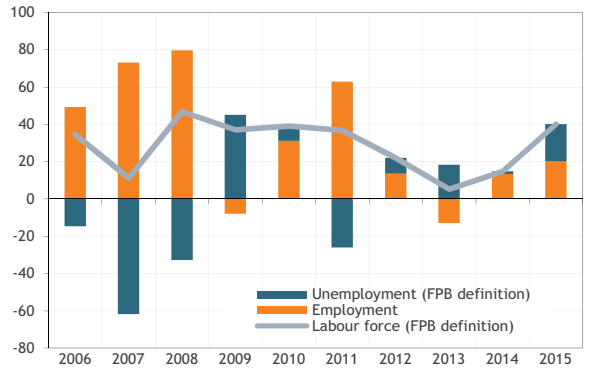
Government consumption growth (in volume), on the contrary, should come to a standstill (-0.1% against 0.7% in 2014), while growth in government investment should remain slightly negative (-0.6%) as a consequence of several savings measures.

The increase in households' purchasing power and the low level of mortgage rates should allow for a further modest recovery of investment in dwellings (0.5% in 2015, after 0.6% last year). Business investment proved to be markedly strong last year (6.8%) and should decline by 1% in 2015, but these growth figures are heavily influenced by a few major purchases in the course of 2014 that were mirrored by an equivalent rise in Belgian imports (and hence had no effect on GDP). Excluding these transactions, business investment increased by 2.6% in 2014 and should rise by 2.9% this year, supported by firms' rising profitability and an increasing rate of industrial capacity utilisation.

Employment increases further

Last year, economic growth resulted in an increase in employment of about 0.3% (a net increase of 13 000 jobs). For 2015, a rise of 0.4% (20 000 extra jobs) is expected. While employment is positively influenced by the limited increase in labour costs, it is not expected to increase to the same extent as economic activity as both labour productivity and hours worked per person are catching up. Both declined previously and limited the number of job losses during the period of economic slump. Moreover, since 2014, the evolution of employment has been less supported by the expansion in service voucher employment than in previous years.

Graph 4 - Evolution of employment and unemployment (changes in thousands)



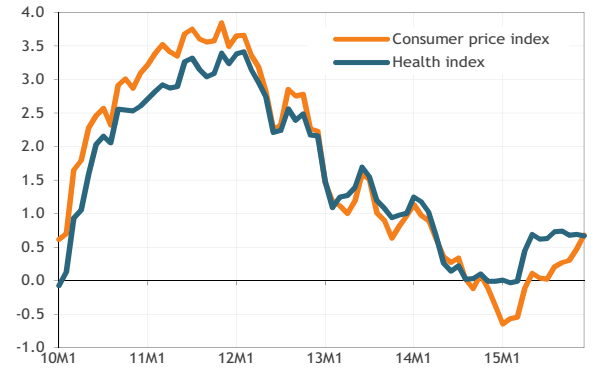
Source: INR/ICN, RVA/ONEM, FPB

The number of unemployed (broad administrative definition) increased by merely 1 500 units in 2014. In 2015 their number should increase by 20 000, albeit mainly because a share of the persons in early retirement schemes should from now on remain available for the labour market. This measure amplifies the category of non-active job seekers and consequently the number of unemployed and the labour force. The harmonised Eurostat unemployment rate should hence rise from 8.5% in 2014 to 8.6% in 2015.

Zero inflation in 2015

Belgian inflation, as measured by the national index of consumer prices, weakened considerably last year (to 0.3%), especially because of the decline in the prices of fresh food and the lowering of the VAT rate on electricity used by households. In 2015, inflation should amount to 0% as a consequence of the steep slide in oil prices in dollar terms. Its impact on Belgian prices is only partially compensated for by the depreciation of the euro. The health index, which is not influenced by the evolution of petrol and diesel prices, should increase by 0.5% (against 0.4% in 2014). The current pivotal index for government wages and social allowances (101.02) is not expected to be crossed this year.

Graph 5 - Monthly evolution of inflation (yoy growth rates in %)



Source: FPS Economy, INR/ICN, FPB

"Economische vooruitzichten 2015 - Prévisions économiques 2015", INR/ICN, February 2015.

Summary of Economic Forecasts

Economic forecasts for Belgium by the different institutions

	GDP growth		Inflation		Government balance		Date of update
	2015	2016	2015	2016	2015	2016	
Federal Planning Bureau	1.2	1.5	0.2	1.2	-2.7	-2.5	03/15
INR/ICN	1.0	.	0.0	.	.	.	02/15
National Bank of Belgium	0.9	.	0.8	.	-2.5	.	12/14
European Commission	1.1	1.4	0.1	1.1	-2.6	-2.4	02/15
OECD	1.4	1.7	0.7	1.2	-2.1	-1.3	11/14
IMF	1.4	1.5	1.0	1.3	-2.2	-1.6	10/14
ING	1.2	1.7	0.2	1.6	-2.8	-2.1	03/15
BNP Paribas Fortis	1.4	1.7	0.0	1.5	-2.5	-2.1	03/15
Belfius	1.3	1.5	0.0	0.9	.	.	02/15
KBC	1.3	1.6	-0.1	0.9	.	.	02/15
Deutsche Bank	1.3	1.6	0.2	1.5	-2.8	-2.5	02/15
Oxford Economics	1.2	1.6	-0.3	2.0	-1.5	-0.9	02/15
IRES	1.3	.	-0.1	.	-2.2	.	01/15
Belgian Prime News	1.1	.	0.7	.	-2.4	.	01/15
Consensus Economics	1.3	1.7	0.3	1.6	.	.	03/15
Consensus The Economist	1.2	1.5	0.4	1.5	.	.	03/15
Consensus Wirtschaftsinstitute	1.3	.	0.8	.	-2.8	.	10/14
Averages							
All institutions	1.2	1.6	0.3	1.4	-2.4	-1.9	
International public institutions	1.3	1.5	0.6	1.2	-2.3	-1.8	
Credit institutions	1.3	1.6	0.2	1.3	-2.6	-2.2	

Economic forecasts for the euro area by different institutes

	GDP-growth		Inflation		Government balance		Date of update
	2015	2016	2015	2016	2015	2016	
European Commission	1.3	1.9	-0.1	1.3	-2.2	-1.9	02/15
OECD	1.4	2.0	.	.	.	.	03/15
IMF	1.2	1.4	.	.	.	.	01/15
ING	1.4	1.7	0.1	1.5	-2.3	-2.0	03/15
BNP Paribas Fortis	1.7	1.9	-0.1	1.2	.	.	03/15
Belfius	1.3	1.9	-0.1	0.9	.	.	02/15
KBC	1.4	1.8	0.1	1.4	.	.	02/15
Deutsche Bank	1.4	1.6	-0.3	1.2	-2.5	-2.3	02/15
Morgan Stanley	1.0	1.7	-0.1	1.5	.	.	01/15
Oxford Economics	1.6	1.8	-0.2	1.1	-2.1	-1.7	02/15
Consensus AIECE	1.4	.	1.1	.	-2.2	.	11/14
Consensus Economics	1.4	1.7	0.0	1.2	.	.	03/15
Consensus The Economist	1.3	1.6	0.0	1.2	.	.	03/15
Consensus Wirtschaftsinstitute	1.1	.	0.7	.	-2.5	.	10/14
Averages							
All institutions	1.4	1.8	0.1	1.3	-2.3	-2.0	
International public institutions	1.3	1.8	-0.1	1.3	-2.2	-1.9	
Credit institutions	1.4	1.7	-0.1	1.3	-2.4	-2.2	

The European Semester

In the European Semester, the European Council provides policy advice on macroeconomic and structural policy matters. In the following pages, the different components of the European Semester are explained briefly with an emphasis on structural policy matters. The most important indicators used in this process are presented for Belgium and its main trading partners.

At the end of 2011, the European Union defined the different components of the European Semester as follows: the broad economic policy guidelines, the employment guidelines, the stability and convergence programmes (SCP), the national reform programmes (NRP) and the monitoring of macroeconomic imbalances (MIP). These components all aim to ensure closer coordination of economic policies and the sustained convergence of the economic performance of the EU Member States. The European Council assesses these programmes and provides policy advice on macrofiscal and macrostructural issues. The advice takes the form of country-specific recommendations.

The Europe 2020 strategy started at the beginning of the dacade and will continue until 2020, so that in 2015 the strategy is halfway. The European Commission is undertaking a mid-term review with a possible change in emphasis that could be decided shortly.

In April of each year, each Member State must submit two programmes: an NRP and an SCP. The first one is on macrostructural issues and the second one on macrofiscal issues. These programmes are integrated to the extent that they use the same macroeconomic projections and are consistent with respect to the measures that are taken into account.

The Belgian NRP contains an overview of the main macrostructural measures that the governments in Belgium have taken over a 12-month period (from April to March) in the areas that are covered by the Europe 2020 strategy (employment, R&D and innovation, climate and energy, education and social inclusion). This overview includes progress towards the targets set by the Belgian governments. In addition, it provides an overview of the main measures taken in response to the country-specific recommendations (CSR) that Belgium has received the previous year in all the areas, except on the budget. The areas covered require a strong collaboration of the federal government with the governments of the Regions. The advice of social partners and civil society is also taken into account.

Apart from a macroeconomic scenario and a list of budgetary measures, the Belgian SCP contains a medium-term budgetary projection that assumes unchanged policies, a projection of public finances that is consistent with the medium-term objective (MTO) set by the European Council and the measures to obtain this objective. Moreover, the budgetary strategy contains objectives for the different entities (the federal level, the Regions and the Communities).

The macroeconomic imbalances procedure aims to identify, prevent and, if necessary, correct macroeconomic imbalances. This is a relatively new procedure and follows from the large imbalances observed over past years in many Member States. Further on in this article, more information about the procedure is given and its application in 2014 is described. The indicators included in the scoreboard on which the procedure is based are presented for Belgium and its three neighbouring countries.

The results for Belgium for the 2014 cycle are described below. The six CSRs that Belgium received in 2014 are summarised in Table 1.

Table 1 - Main points of the country-specific recommendations for Belgium, July 2013

1	Budget	Reinforce the budgetary measures for 2014 in the light of the emerging gap of 0.5% of GDP based on the Commission services 2014 spring forecast, In 2015, significantly strengthen the budgetary strategy to ensure the required adjustment of 0.6% of GDP towards the medium-term objective. Thereafter, pursue the planned annual structural adjustment towards the medium-term objective.
2	Tax system	Improve the balance and fairness of the overall tax system and prepare a comprehensive tax reform that will allow shifting taxes away from labour towards more growth-friendly bases, simplifying the tax system, closing loopholes, increasing VAT efficiency, broadening tax bases, reducing tax expenditures and phasing out environmentally harmful subsidies.
3	Sustainability of public finances	Contain future public expenditure growth relating to ageing, in particular from pensions and long-term care, by stepping up efforts to reduce the gap between the effective and statutory retirement age, bringing forward the reduction of early-exit possibilities, promoting active ageing, aligning the retirement age to changes in life expectancy and improving the cost-effectiveness of public spending on long-term care.
4	Labour market	Increase labour market participation, in particular by reducing financial disincentives to work, increasing labour market access for disadvantaged groups, improving professional mobility and addressing skills shortages and mismatches as well as early school leaving.
5	Competitiveness and competition	Restore competitiveness by: continuing the reform of the wage-setting system, including wage indexation, to ensure that wage evolutions reflect productivity developments at sectorial and/or company levels; strengthening competition in the retail sectors and removing excessive restrictions in services; promoting innovation through streamlined incentive schemes and reduced administrative barriers; and pursuing coordinated education and training policies addressing pervasive skills mismatches and regional disparities in early school leaving.
6	Climate policies	Ensure that the 2020 targets for reducing greenhouse gas emissions from non-ETS activities are met, in particular as regards buildings and transport. Make sure that the contribution of transport is aligned with the objective of reducing road congestion. Agree on a clear distribution of efforts and burdens between the federal and regional entities.

Pursuing the Europe 2020 strategy in Belgium

The European strategy for "smart, sustainable and inclusive growth" sets out objectives in the areas of employment, research & development and innovation, education, climate and energy and social inclusion. For each of these five areas, targets for 2020 are set for pre-defined indicators for the EU as a whole and for each Member State. In the next few pages, progress towards these targets in Belgium is analysed.

Table 2 gives the EU and Belgian targets for each of the indicators in the five areas. When the Belgian governments set their objectives, they were presented in the NRP as "ambitious" at the time. Indeed, the projected improvements were often in contrast with the observed trend over previous years. Moreover, the economic situation is not making matters easier: the evolution of many indicators is at least partly dependent on the evolution of the economy. Therefore, because observations are often showing a deterioration, the level of ambition of the targets has even increased.

To judge the observed evolution, one can compare the recent evolution with the trajectory needed to obtain the target. Alternatively, one can compare the observed evolution with the trend over a longer-term period. It is also possible to compare the observed evolution in Belgium with the observed evolution in other European countries that are also subject to a similar economic environment.

In the next few pages, all the headline indicators used in the Europe 2020 strategy are presented for Belgium and the EU28 with a comparison to their targets. In many cases, only a few values for the indicators have been observed since the targets were set. Nevertheless, some general conclusions can already be given.

For some indicators, the observed evolution is "on track" with regard to the targets, or even surpassing the trajectory. This is the case for R&D spending, greenhouse gas emissions, energy consumption from renewable sources and the indicator that measures tertiary education.

For some other indicators, the observed evolution remains within the trend that was observed over past years, or its improvement is limited and therefore falls short of the trajectory towards the targets. This is the case for the employment rate, early-school leavers and the indicator on energy consumption.

Finally, some indicators show a deteriorating situation, even though an improvement was targeted. This is observed for the indicator on poverty (the share of the population facing a risk of poverty or social inclusion). It comes as no surprise that this indicator is particularly sensitive to the economic cycle.

Table 2 - Targets to be reached by 2020 in the Europe 2020 strategy

		EU target	Belgian target
Employment	Share of population aged 20-64 that should be employed	75%	73.2%
R&D and innovation	Share of GDP that is invested in R&D	3%	2.82%[a]
Climate and energy	Non-ETS emissions with 2005 as the base year		-15%
	Share of gross final energy consumption from renewable sources	20%	13%
	Maximum level of primary energy consumption (Mtoe)[b]	1474	43.6
Education	Share of early school leavers	10%	9.5%
	Share of population aged 30-34 with tertiary level education	40%	47%
Social inclusion	Share of population at risk of poverty and exclusion	18.7%	15.8%

a. Including fiscal incentives the target is 3%
b. This target is indicative

Table 3 shows the recent evolution in Belgium of the Europe 2020 indicators and its comparison to the targets.

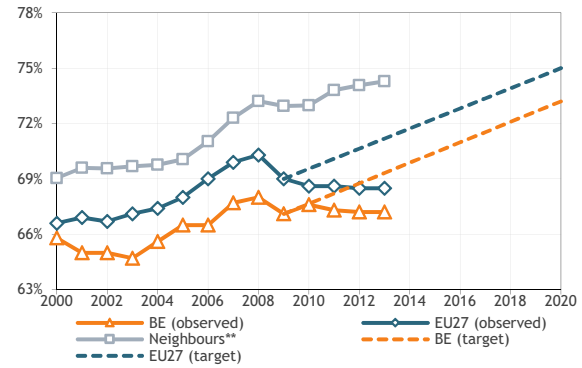
Table 3 - Europe 2020 indicators for Belgium

	Belgian target	Observed figure in 2012	Observed figure in 2013
Share of population aged 20-64 that should be employed	73.2%	67.2%	67.2%
Share of GDP that is invested in R&D	2.82%[a]	2.24%	2.28%
Non-ETS emissions with 2005 as the base year	-15%	-7.9%	
Share of gross final energy consumption from renewable sources	13%	7.4%	7.9%
Maximum level of primary energy consumption (Mtoe)[b]	43.6	46.2	48.6
Share of early school leavers	9.5%	12.0%	11.0%
Share of population aged 30-34 with tertiary level education	47%	43.9%	42.7%
Share of population at risk of poverty and exclusion	15.8%	21.6%	20.8%

a. Including fiscal incentives the target is 3%
b. This target is indicative

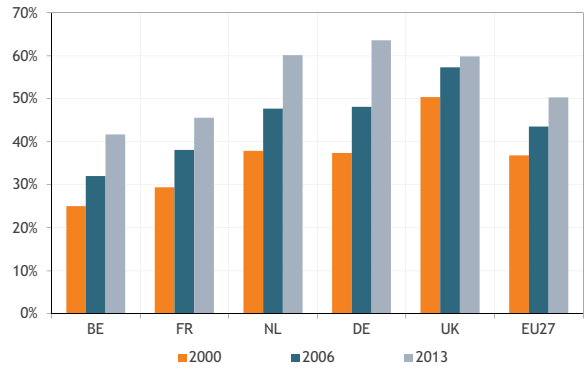
Employment

Graph 1 - Total employment rate*



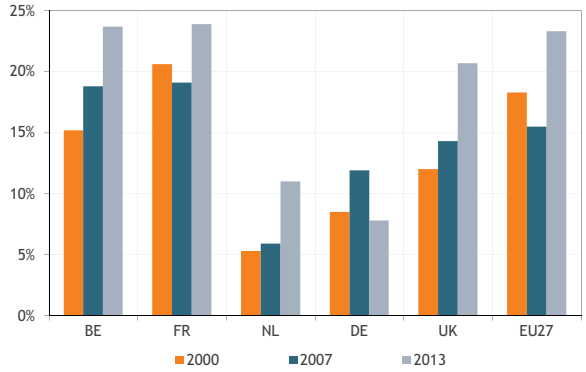
Source: Eurostat (Labour Force Survey)
* The number of persons aged 20 to 64 in employment, divided by the total population of the same age group.
** Average of Germany, France and the Netherlands, weighted by GDP shares.

Graph 2 - Employment rate of older workers*



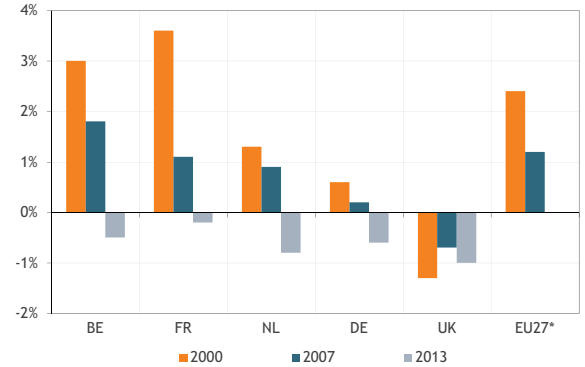
Source: Eurostat (Labour Force Survey)
* The number of persons aged 55 to 64 in employment, divided by the total population of the same age group.

Graph 3 - Youth unemployment rate (-25 years)



Source: Eurostat (Labour Force Survey)

Graph 4 - Unemployment rate, gender gap females-males (in %-points)



Source: Eurostat (Labour Force Survey)
* 2013: 0%

In spite of the clear increase in the employment rate over the last two decades, the Belgian labour market indicators remain far from European targets. After rising sharply during the second half of the nineties, the Belgian employment rate remained stable at around 65% until 2004. In 2008, it peaked at 68%, only to slide back to 67.1% in 2009 as a result of the recession. Although Belgium's employment rate rose more than the EU27 rate between 1997 and 2013, it still stood 1.3 %-points below the European average in 2013. Belgium's target for the EU 2020 strategy is 73.2%.

While the Belgian male employment rate has remained stable at around 74% over the last decade, but around 73% since 2009, the Belgian female employment rate has been increasing continuously since the beginning of the nineties and is catching up with the European average. In 2013, it amounted to 62.1%, which is still 0.5 %-points below the European average.

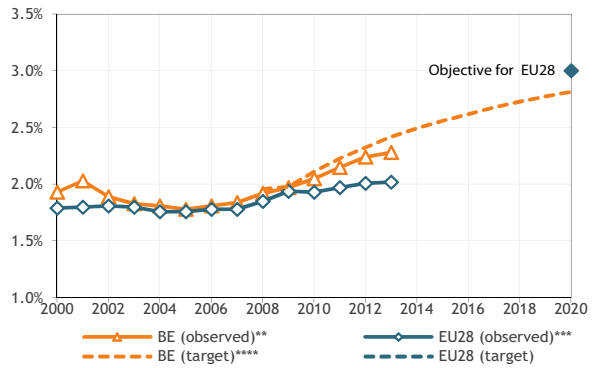
The Belgian employment rate for older workers has been rising continuously since the mid-nineties and converging gradually to the EU27 average. However, at 41.7% in 2013, as against 50.3% in the EU27, it is still one of the lowest in Europe.

At the end of the nineties, youth unemployment increased in many European countries. This increase can be explained by weak economic growth. Although the Belgian youth unemployment rate fell between 2004 and 2008 (to 18%), it went up again to 22.4% in 2010 (matching the trend in most European countries). At 23.7% in 2013, it was 0.4 %-points higher than the EU27 average.

As far as the gap between the male and female unemployment rates is concerned, a downward trend can be noted across Europe. The gender-linked difference in Belgian unemployment rates decreased clearly from the end of the nineties. In 2004, it went up again and stabilised at about 1.8%. It decreased to 1.1% in 2008 and even became negative (-0.5%) in 2013, while it was at zero for the EU27.

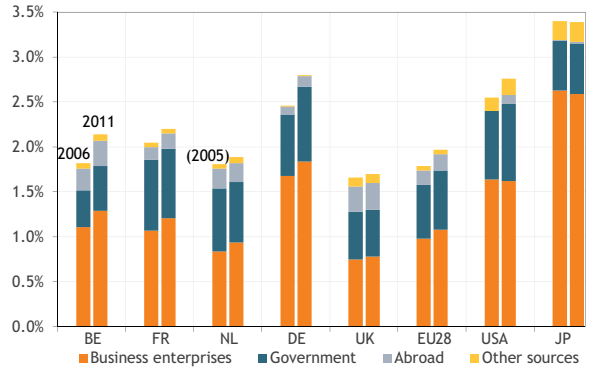
Innovation

Graph 5 - Gross domestic expenditure on R&D* (in % of GDP)



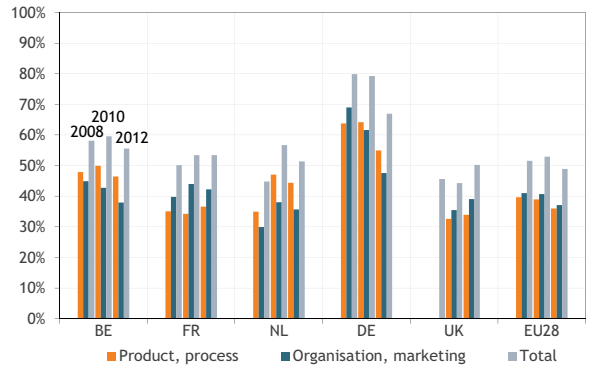
Source: Eurostat (Europe 2020 Indicators)
* This usual measure of R&D expenditure does not include the cost of fiscal incentives for R&D investments.
** 2012: estimated; 2013: provisional
*** 2013: estimated
**** When the Belgian target and the path to reach it were etablished in 2011, the latest available official data on R&D expenditure dated from 2007.

Graph 6 - R&D expenditure by source of funds (in % of GDP)



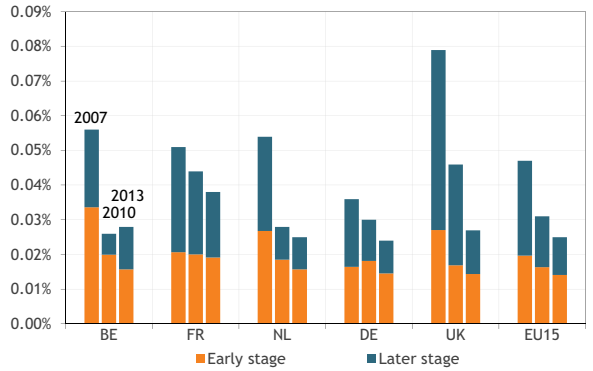
Source: Eurostat (Research and Development)
* No source of funds available for 2012 and 2013.

Graph 7 - Rate of innovation by type (% of enterprises with innovation activities*)



Source: Eurostat (Community Innovation Survey)
* Including ongoing and abandoned innovation.

Graph 8 - Venture capital investment (in % of GDP)



Source: Eurostat (Venture Capital Statistics)

Innovation, as a major source of productivity growth, plays an important role in economic growth. It also helps to address social challenges such as health problems and environmental degradation. Inside the Europe 2020 framework, the quantitative objective assigned to the EU is an R&D intensity of at least 3% at the 2020 horizon. Each Member State has to announce an objective compatible with the European Union target. Belgium set the objective of raising R&D expenditure to 3% of GDP in 2020, including the budgetary costs of federal tax measures in favour of R&D staff. The budgetary cost is estimated at 0.18% of GDP in 2020, which means an objective of 2.82% of GDP for R&D expenditure (Graph 5).

Despite the continuous increase in its R&D intensity, Belgium has remained under the target projection since 2010. The R&D intensity of Belgium in 2012 (2.24%) is, however, largely above the EU28 average (2.01%), the intensity of the Netherlands (1.97%) and that of the United Kingdom (1.63%).

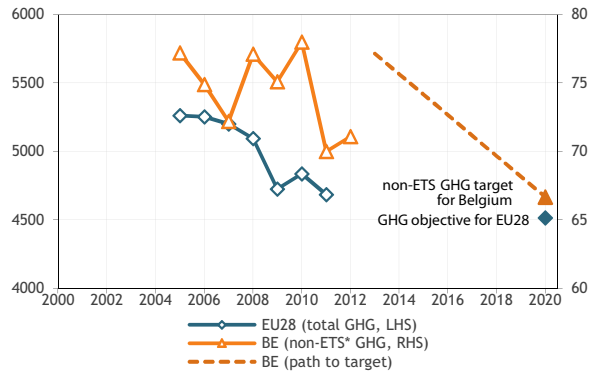
After two years of stagnation due to the crisis, R&D financing by Belgian firms increased in 2011 to reach 1.29% of GDP. This intensity is higher than the European average and the intensity of all neighbouring countries, with the exception of Germany. R&D intensity financed by the public authorities reached 0.5% of GDP, which is significantly below the European average (0.66%) and below the intensity in all neighbouring countries. Finally, funds from abroad constitute an important source of financing of R&D activities in Belgium, as illustrated in Graph 6.

The innovation rate is an output indicator of the innovation process. It measures the results of research activities and of all other activities contributing to the development of technological and non-technological innovations. As shown in Graph 7, Belgium is well-positioned in terms of innovation with, in 2012, an innovation rate (55.6%) higher than on average in Europe (48.9%) and in all neighbouring countries, with the exception of Germany. The good performance of Belgium relative to the EU average is more marked for product and/or process innovations.

The availability of venture capital is crucial for the creation and development of innovative firms. After a fall in venture capital investment due to the crisis, a slight increase is observed in Belgium for 2011 and 2012, followed by a decrease in 2013. For 2013, the performance of Belgium is slightly above the EU15 average for early and later stages, as illustrated in Graph 8.

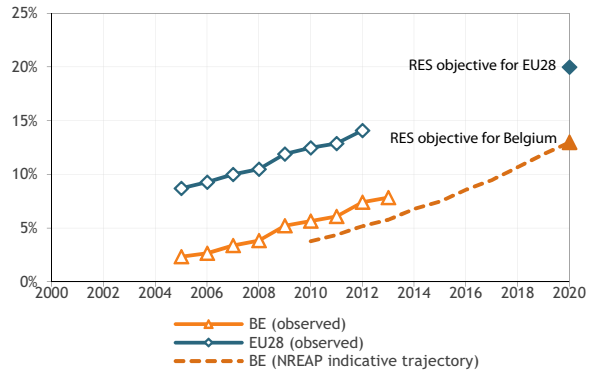
Climate and energy

Graph 9 - Greenhouse gas emissions (GHG) (in Mt)



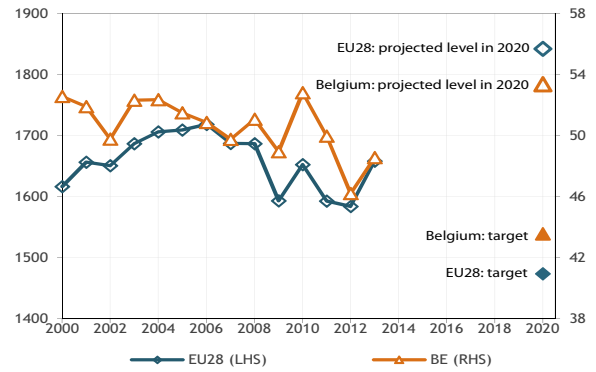
Sources: Eurostat (Europe 2020 Indicators) and the Belgian Regions (GHG inventories)
* ETS = Emissions Trading Scheme

Graph 10 - Share of renewables (RES) in gross final energy consumption



Sources: - Eurostat: observed trajectories (BE: preliminary)
- National renewable energy action plan of Belgium (NREAP): indicative trajectory

Graph 11 - Primary energy consumption (in Mtoe)



Sources: Eurostat (Energy statistics), Belgium's NRP 2013, Energy Efficiency Directive (2012/27/EU) and EC (DG Energy, PRIMES baseline 2007)

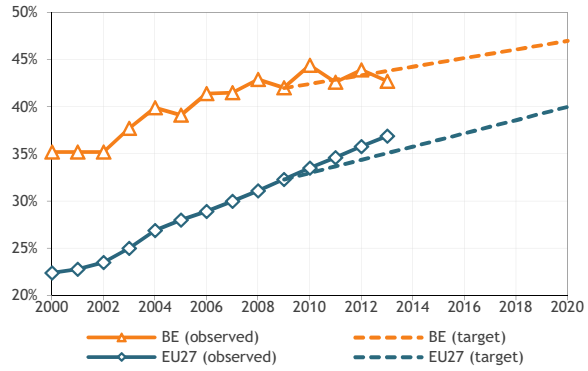
In order to achieve the EU's target of a 20% reduction in greenhouse gas (GHG) emissions by 2020 compared to 1990, the climate-energy legislative package includes two main elements: the revised EU Emissions Trading System (ETS) Directive and a decision setting a binding GHG emission target for each Member State in sectors not covered by the EU ETS. For ETS sectors, there is no national target but there is a cap on EU GHG emissions. For non-ETS sectors, Belgium's target is a 15% reduction in GHG emissions by 2020 compared to 2005. Total GHG emissions in the EU were below the 1990 level by 17% in 2011 whereas Belgium's GHG emissions in the non-ETS sectors were 8% below the 2005 level in 2012. In Graph 9, the dotted line shows the path towards the reduction target.

Directive 2009/28/EC on renewable energy sets targets for each Member State such that the EU will reach a share of gross final energy consumption from renewable energy sources of 20% by 2020 and a share from renewable energy of 10% in the transport sector specifically. The overall target for the share of energy from renewable energy sources for Belgium is 13%. The share of gross final energy consumption from renewable energy sources increased steadily: from 8.7% to 14.1% in the EU over the period 2005-2012, and from 2.3% to 7.8% in Belgium over the period 2005-2013. The recent development of renewables has been faster than indicated in Belgium's national renewable energy action plan, which provides an indicative path towards the target (shown by a dotted line in Graph 10).

Reducing energy consumption is another main goal of the European Union. In this respect, the EU agreed on the target of saving 20% of its primary energy consumption compared to projections for 2020. For Belgium, the objective is 18%, as indicated in the National Reform Programme of 2013 and confirmed in June 2014 according to the requirements of the Energy Efficiency Directive 2012/27/EU. The Belgian objective has also been translated into a maximum level of 43.7 Mtoe for primary energy consumption in 2020. Graph 11 shows the progress towards the objectives in terms of primary energy consumption for 2020. After the drop recorded in Belgium and in the EU in 2011-2012, primary energy consumption increased in 2013. In 2013, both the EU and Belgium were halfway to their energy efficiency target.

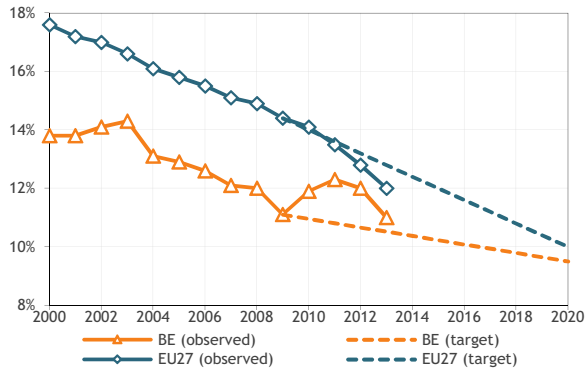
Education

Graph 12 - Tertiary educational attainment*



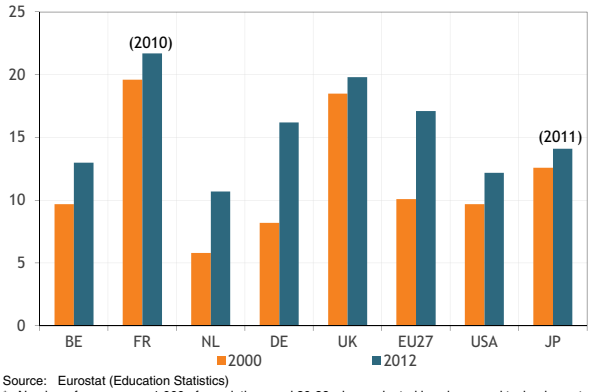
Source: Eurostat (Europe 2020 Indicators)
* Share of the population aged 30-34 years who have successfully completed tertiary-level education (ISCED 1997: level 5-6)

Graph 13 - Early leavers from education and training*



Source: Eurostat (Europe 2020 Indicators)
* Share of the respondents aged 18-24 who attained a low level of education or training, and who have declared that they have not received any education or training in the four weeks preceding the survey (ISCED 1997: level 0-2 or 3c-short)

Graph 14 - Graduates in science and technology*



Source: Eurostat (Education Statistics)
* Number of persons per 1 000 of population aged 20-29 who graduated in science and technology at post-secondary level during the given year (ISCED 1997: level 5 and above)

Human capital is generally considered to be an important determinant of innovation, productivity, economic growth and well-being. Investing in education is essential in view of the rising demand for high-skilled workers, e.g. due to globalisation and technological change. Matching the rising demand with an increase in the relative supply of high-skilled workers permits opportunities and challenges to be addressed, employability to be improved, and avoidance of the surge in wage inequality witnessed in countries where the number of university graduates has fallen short of the number required by the labour market.

Education takes a prominent position in the Europe 2020 strategy. The European Commission recommends increasing the proportion of young people with a tertiary degree from less than a third to 40% and cutting the school dropout rate from the current 15% to 10%. The targets concern the EU as a whole and Member States have been asked to set their own targets in line with past experience and the overall EU targets.

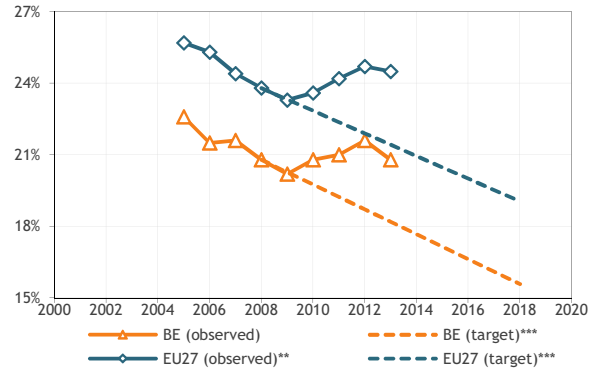
The share of the population aged between 30 and 34 that has completed tertiary or equivalent education has increased considerably in Belgium since 2000, reaching 42.7% in 2013, i.e. above the EU target for 2020, well above the EU27 average of 36.9% (see Graph 12). In 2013, Belgium ranked 12th out of all EU Member States. For 2020, the Belgian government has set its target at 47%. As shown in Graph 12, Belgium dropped below the 2020 target line in 2013.

The dropout rate, i.e. the share of the population aged between 18 and 24 years leaving school without having finished secondary education, was 11.0% in Belgium in 2013 (see Graph 13). Though below the EU27 average of 12.0%, Belgium held only 19th position in 2013. The 2020 target for Belgium has been set at 9.5%.

Because of their important role in R&D and innovation, graduates in science and engineering are of great interest. The availability of qualified researchers is often cited as an important driver for companies in the location of their R&D facilities. Failing to educate a sufficient number of researchers could seriously hamper ambitions to reach the R&D target. The number of graduates in mathematics, science and technology per 1 000 inhabitants aged between 20 and 29 years increased in Belgium from 9.7 in 2000 to 13.0 in 2012 (Graph 14). However, this number is still substantially below the EU27 average of 17.1 and below the number in France, Germany and the UK.

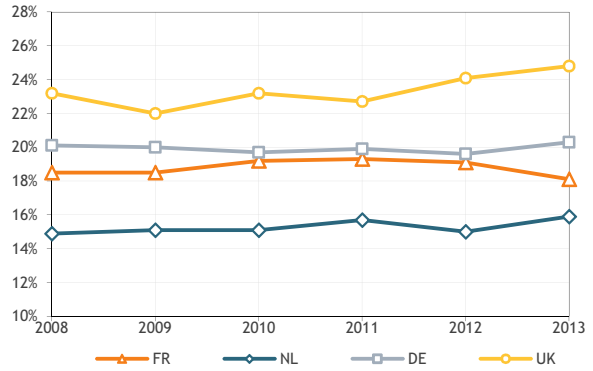
Poverty and exclusion

Graph 15 - Share of the population at risk of poverty and exclusion*



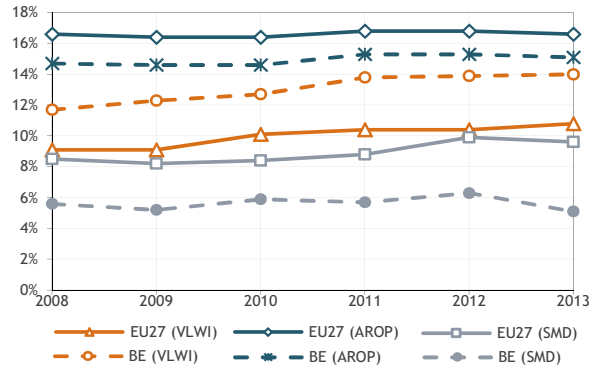
Source: Eurostat (Europe 2020 Indicators)
* These indicators are usually available with a one- to two-year time lag.
** 2005-2006 and 2011: estimates
*** Based on the Eurostat population projection Europop 2013 (main scenario)

Graph 16 - Share of the population at risk of poverty or social exclusion in neighbouring countries



Source: Eurostat (Europe 2020 indicators)

Graph 17 - Share of the population living in very low work intensity households (VLWI), suffering from severe material deprivation (SMD) or having a disposable income below the poverty threshold (AROP)



Source: Eurostat (Europe 2020 Indicators)

The Europe 2020 strategy aims to reduce the population facing risk of poverty or social exclusion, defined as living in very low work intensity households, having a disposable income below the poverty threshold or suffering from severe material deprivation. The objective is to reduce this population in the EU by at least 20 million compared to the situation in 2008. Member States translated this objective into national targets: Belgium is aiming at a reduction of 380 000 compared to the situation in 2008.

The EU average of the share of the targeted population dropped from 25.7% to 23.3% between 2005 and 2009 and increased to around 24.6% by 2012/2013 (Graph 15). Belgium follows the same trend but at a lower level. Between 2012 and 2013, however, the Belgian targeted population decreased statistically significantly according to Eurostat calculations from 21.6% to 20.8%. According to the agreed reductions and using recent Eurostat population projections, the targeted population should equal by 2018 to 19.1% for the EU27 and 15.6% for Belgium. So, the above mentioned trends remain off track from the hypothetical path to these objectives.

Halfway in the Europe 2020 strategy, the share of the targeted population in the EU is stagnating at a level higher than that of the reference year 2008. In Belgium it is back at the 2008 level. Between 2008 and 2013, the share of the targeted population remained fairly stable in Germany, France and also the Netherlands, however here at a lower level. In the UK it increased and is the highest of all countries here considered (Graph 16).

The trend of the targeted population since 2008 in the EU and certainly Belgium is mainly characterized by an increase of the persons living in very low work intensity households (Graph 17). Their share rose till 10.8% in the EU and 14% in Belgium by 2013. The share of persons having a disposable income below the poverty threshold, however, remained more stable, around 16.6% in the EU and 15% in Belgium. So, whereas in 2008 there was a clear difference in the EU and Belgium between the share of these two populations, this difference was less pronounced in 2012 and 2013 in Belgium, which points to the impact of Belgian labour market evolutions. Finally, the share of the population suffering from severe material deprivation rose in the EU between 2008 and 2013 from 8.5% to 9.6%. In Belgium, it fluctuated around 5.6%.

The Belgian National Reform Programme of 2014 announced different measures to reduce the targeted population. They relate to the social protection of the population, the reduction of child poverty, the active inclusion of people excluded from the labour market and the fight against inadequate housing and homelessness.

The procedure on the prevention and correction of macroeconomic imbalances

The Macroeconomic Imbalances Procedure (MIP), based on Article 121.6 of the Treaty, aims to identify and address imbalances that hinder the smooth functioning of the economies of Member States and the economy of the EU and may jeopardise the proper functioning of the economic and monetary union. The Alert Mechanism Report (AMR) is the starting point of the annual cycle of the MIP. The AMR uses a scoreboard of eleven indicators, plus a wider set of auxiliary indicators, to screen Member States for potential economic imbalances in need of policy action. Member States identified by the AMR are then given an in-depth review (IDR) by the Commission to assess how macroeconomic risks in the Member States are accumulating or winding down, and to conclude whether imbalances, or excessive imbalances exist. At the end of the IDR, the Commission concludes on the nature of the detected imbalances, classifying them on a scale from benign to harmful. If the imbalances are considered harmful, the Commission informs the Council. The Council may then, on the recommendation of the Commission, launch the second step of the procedure and recommend that the country take corrective action. The Commission monitors the implementation of the corrective action plan. If a country fails to respond correctly twice, the Council imposes an interest-bearing deposit and an annual fine.

On 13 November 2013, the Commission released its 2014 AMR, in which 16 Member States were selected for an IDR. Moreover, the Commission identified different IDRs to be conducted according to the nature of the challenges faced by the selected Member State and the potential risks, including spillovers on their partners:

- For Spain and Slovenia, the IDRs will assess whether the excessive imbalances are persisting or unwinding.
- For France, Italy and Hungary, Member States with imbalances and for which the Commission has indicated the need to adopt decisive policy actions, the respective IDR will assess the persistence of imbalances.
- For the other Member States previously identified as experiencing imbalances (Belgium, Bulgaria, Denmark, Malta, the Netherlands, Finland, Sweden and the United Kingdom), the IDR will contribute to assessing which Member States continue to experience these imbalances and which have overcome them.
- IDRs will also be prepared for Germany and Luxembourg in order to assess whether either of these countries is experiencing imbalances.
- Finally, an IDR for Croatia will look into the nature and potential risks related to its external position, trade performance and competitiveness, as well as internal developments.

On 28 November 2014, the Commission released its fourth report, the 2015 AMR, in which 16 Member States were selected for an IDR and classified according to the severity of imbalances into 4 groups:

- For Croatia, Italy and Slovenia, IDRs will assess whether previously identified excessive imbalances are unwinding, persisting or aggravating.
- For Ireland, Spain, France and Hungary, Member States with imbalances in need of decisive policy action, IDRs will assess risks related to the persistence of imbalances.
- For the other Member States previously identified as experiencing imbalances (Belgium, Bulgaria, Germany, the Netherlands, Finland, Sweden and the United Kingdom), IDRs will assess in which Member States imbalances persist, and in which they have been overcome.
- For the first time, IDRs will also be prepared for Portugal and Romania.

Based on the scoreboard (Table 1), three indicators (change in export market shares, gross private sector debt and general government debt) exceeded their indicative thresholds in the case of Belgium. On the external side, in its economic reading, the Commission welcomed the recent positive developments in Belgian competitiveness. Concerning internal imbalances, public debt, above 100% of GDP, remains broadly stable and the increase in private sector debt mainly reflects the high level of corporate debt. Finally, "the Commission finds it useful, also taking into account the identification of imbalances in March 2014, to examine further the persistence of imbalances or their unwinding".

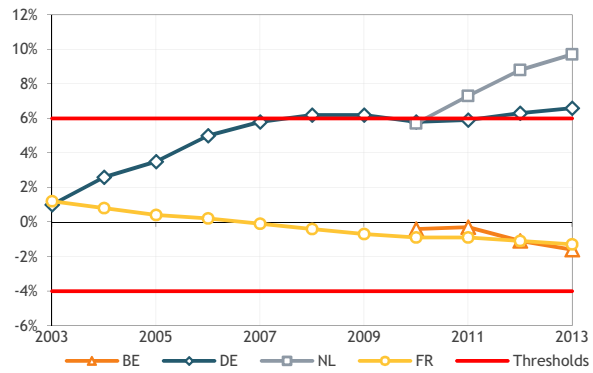
Table 1 - Scoreboard for Belgium, Germany, France and the Netherlands with values for 2013

	Thresholds	Belgium	Germany	France	Netherlands
Current account (3-year average, % GDP)	-4/+6%	-1.6	**6.7**	-1.3	**9.8**
Net international investment position (% GDP)	-35%	45.8	42.9	-15.6	31.3
Real effective exchange rate (%, 3-year change)	+/-5%	-0.3	-1.9	-2.3	0.4
Export market shares (%, 5-year change)	-6%	**-9.1**	**-10.7**	**-13.0**	**-9.2**
Unit labour cost (%, 3-year change)	+9%	8.6	6.4	3.9	6.3
House prices (%, year-on-year change)	+6%	0.0	1.8	-2.6	-7.8
Private sector credit flow (% GDP)	14%	1.1	1.2	1.8	2.1
Private sector debt (% GDP)	133%	**163.0**	103.5	**137.3**	**229.7**
Public sector debt (% GDP)	60%	**104.5**	**76.9**	**92.2**	**68.6**
Unemployment rate (%, 3-year average)	10%	7.7	5.6	9.8	5.5
Total financial sector liabilities (%, year-on-year change)	16.5%	-2.4	-6.3	-0.6	-3.2

Source: COM(2014), 904 final, Page 40.
Figures in bold: variable outside the thresholds

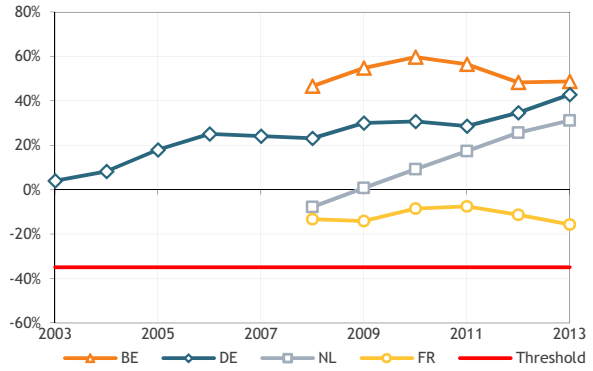
External imbalances and competitiveness

Graph 1 - Current account balance - 3-year average (in % of GDP)



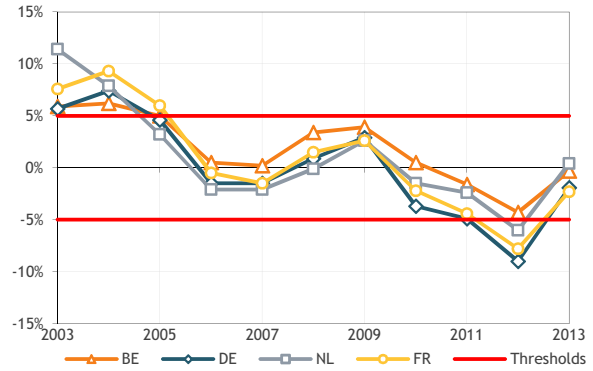
Source: Eurostat (Macroeconomic Imbalance Procedure)

Graph 2 - Net international investment position (in % of GDP)



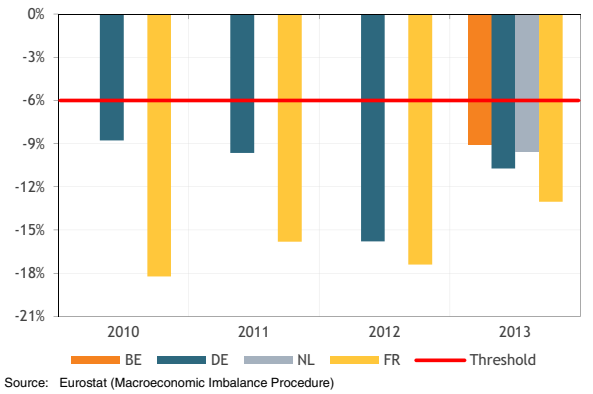
Source: Eurostat (Macroeconomic Imbalance Procedure)

Graph 3 - Real effective exchange rate based on HICP, relative to a panel of 42 countries (3-year change, in %)



Source: Eurostat (Macroeconomic Imbalance Procedure)

Graph 4 - Goods and services export market shares (5-year change, in %)



Source: Eurostat (Macroeconomic Imbalance Procedure)

Since last year, two important methodological improvements in statistics have been implemented: the introduction of ESA 2010 for the national accounts and of Manual 6 for the balance of payments. These two improvements have largely influenced the scoreboard's indicators. A major drawback of these changes is the lack of long time series for the new variables.

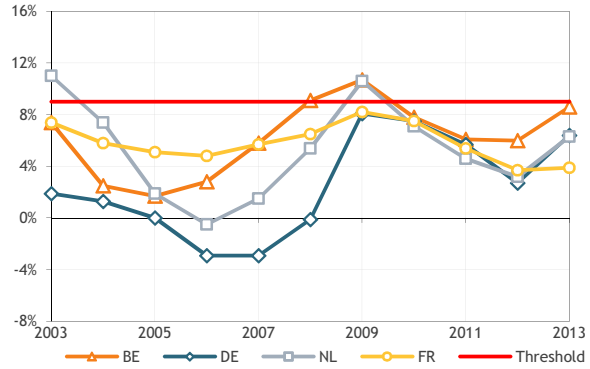
The current account balance as a percentage of GDP (3-year backward moving average) is the first external imbalances indicator. As shown in Graph 1, this indicator was slightly negative for Belgium in 2010 and 2011 but started declining in 2012 and 2013 to reach -1.6% of GDP. This evolution is similar to that observed for France. However, the current account balance became positive in 2013 for Belgium (0.1 % of GDP) although it remained negative for France (-1.4% of GDP).

The Commission also includes the net international investment position (NIIP), as a percentage of GDP (Graph 2). The NIIP is the value of financial assets held by residents abroad less the domestic assets owned by non-residents. The change in the NIIP from one period to another depends mainly on the current account balance and on the revaluation effect due to asset/liability prices and exchange rate movements. The Belgian NIIP remains strongly positive.

As a measure of persistent changes in price competitiveness relative to the major trading partners of the respective country, an indicator on the real effective exchange rate (REER) based on the harmonised index of consumer prices deflators (3-year change in %) is included. As shown in Graph 3, in the four euro area countries, the REER has followed a very similar evolution since 2005, remaining in the narrow band defined by the Commission for EA members (+/-5%) except in 2012. This year, the indicator for the three neighbouring countries crossed the lower threshold, while this was not the case for Belgium.

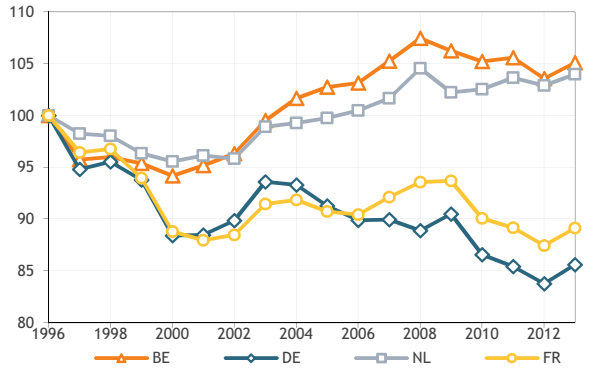
In order to identify slow and persistent losses in competitiveness, the Commission also considers an indicator on export market shares (5-year change in %), capturing components of competitiveness or the ability to exploit new sales opportunities due to rapid demand growth in emerging economies (Graph 4). According to this indicator, all four countries have recorded losses in their export market shares that are larger than the threshold (-6%). Part of this deterioration is structural and is linked to the increasing role played by the emerging countries in world trade. In 2013, Belgium had the best score for this indicator.

Graph 5 - Nominal unit labour cost (3-year change, in %)



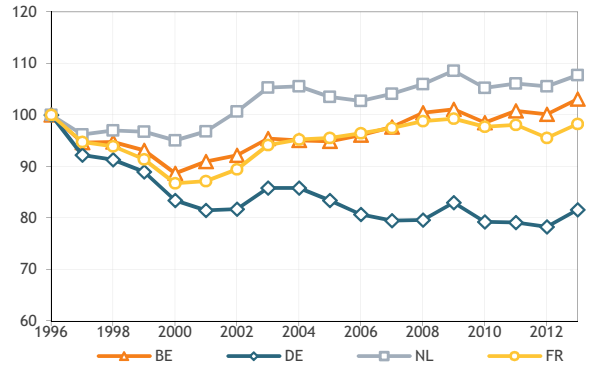
Source: Eurostat (Macroeconomic Imbalance Procedure)

Graph 6 - Real effective exchange rate, export prices deflators relative to 37 industrial countries (1996=100)



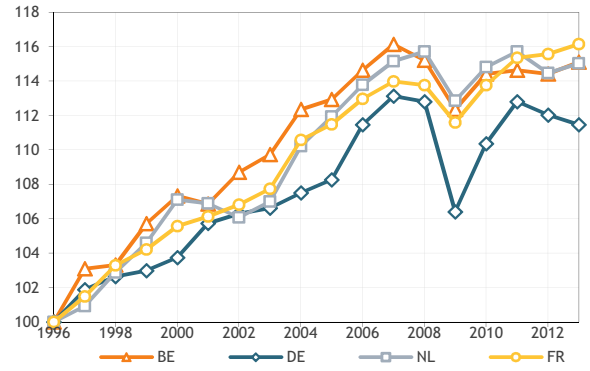
Source: DGECFIN, Prices ans cost competitiveness

Graph 7 - Real effective exchange rate, ULC deflators relative to 37 industrial countries (1996=100)



Source: Eurostat, Economic and finance data

Graph 8 - Real labour productivity per person employed (1996=100)



Source: Eurostat (Macroeconomic Imbalance Procedure)

As the 1-year percentage of change of the export market shares is taken into consideration, 2013 is the first year since 2010 during which the four countries recorded a gain of export market shares.

The last external imbalance indicator (Graph 5) is the 3-year percentage change in the ratio of nominal compensation per employee to real GDP per person employed (or unit labour costs (ULC)). The profile of the evolution of this indicator is similar in the four countries. However, the Belgian indicator has increased faster than ULC in neighbouring countries since 2007. In 2013, the indicator was close to the threshold in Belgium (8.6%) while it reached 6.4% in Germany, 6.3% in the Netherlands and only 3.9% in France.

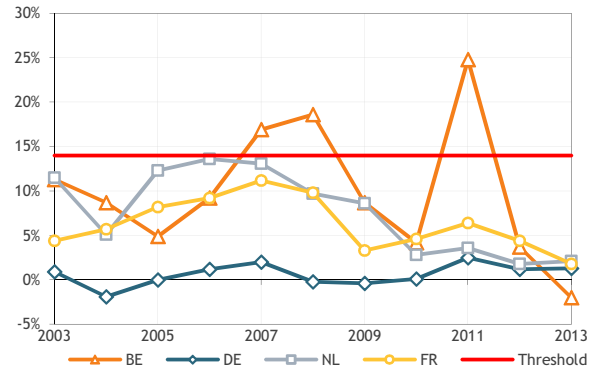
As price competitiveness is important for a small open economy such as Belgium, three other indicators have been taken into account to refine the analysis. Graph 6 shows the evolution of the real effective exchange rate index (1996 = 100), using export prices of goods and services as the deflator, vis-à-vis 37 other industrialised countries. The most striking element is the divergent evolutions of Germany and France, which succeeded in improving their REER, especially recently, and Belgium and the Netherlands, which recorded deteriorations in their REER, mainly over 2000-2008. This confirms a problem of external price competitiveness for Belgium before the crisis.

As labour costs are usually one of the main determinants of prices, Graph 7 shows the evolution of the real effective exchange rate index (1996 = 100), using ULC as the deflator, vis-à-vis 37 trading partners. In this case, divergences appear between Germany on the one hand and France, the Netherlands and Belgium on the other hand. Over 1996-2013, the German REER improved by 18.4% while the French one was quasi stable (-1.7%), the Belgian one deteriorated by 3.0% and the Dutch one by 7.7%.

It is also interesting to compare the evolution of productivity to see if the roots of the divergences are in productivity or wage developments. Graph 8 shows real labour productivity per person employed (index, 1996 = 100). The evolutions of productivity in the four countries appear to be much closer to each other than those observed in terms of ULC-based REER. The divergences in cost competitiveness therefore seem to be mainly due to divergences in nominal wage increases. Until 2007, labour productivity growth was higher in Belgium than in the three neighbouring countries. However, the productivity rebound after the crisis was less marked in Belgium than in France and in the Netherlands. Over 1996-2013, the labour productivity growth rate reached 15.1% in Belgium against 16.2% in France, 15.0% in the Netherlands and 11.5% in Germany.

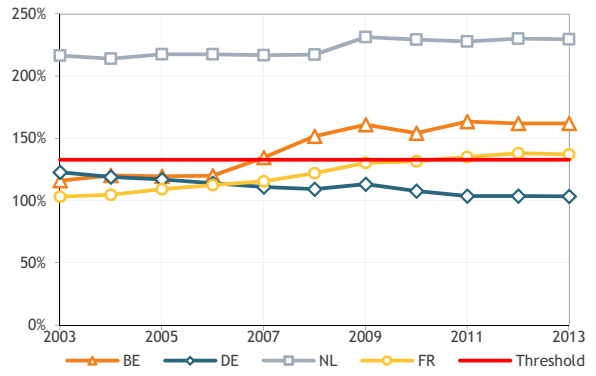
Internal imbalances indicators

Graph 9 - Private sector credit flow consolidated (in % of GDP)



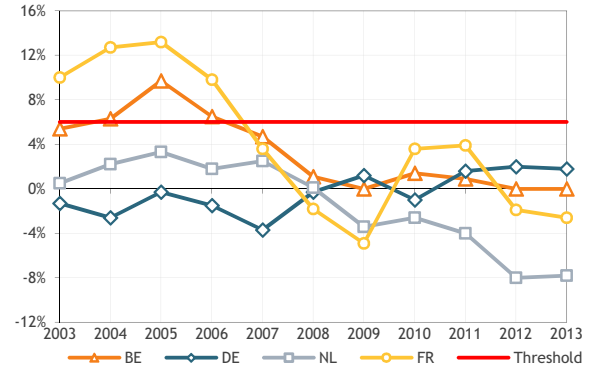
Source: Eurostat (Macroeconomic Imbalance Procedure)

Graph 10 - Private sector debt consolidated (in % of GDP)



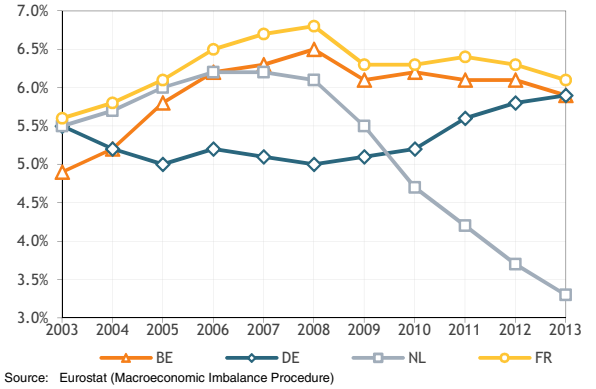
Source: Eurostat (Macroeconomic Imbalance Procedure)

Graph 11 - Real house price (yoy change, in %)



Source: Eurostat (Macroeconomic Imbalance Procedure)

Graph 12 - Residential construction (in % of GDP)



Source: Eurostat (Macroeconomic Imbalance Procedure)

Graph 9 presents an indicator for credit flows to the private sector, defined as securities other than shares, and loans to non-financial corporations, households and non-profit institutions serving households on a domestically consolidated basis and expressed as a percentage of GDP. Contrary to the three neighbouring countries, the flow of credit to the private Belgian sector has recently been large, passing the threshold in 2007, 2008 and 2011. However, because of its domestically consolidated nature, this indicator has to be interpreted with caution for Belgium. The presence of many centres of multinational firms usually entails large flows of cross border intra-group loans that are linked to the optimisation of firms' treasury management rather than the emergence of an asset bubble.

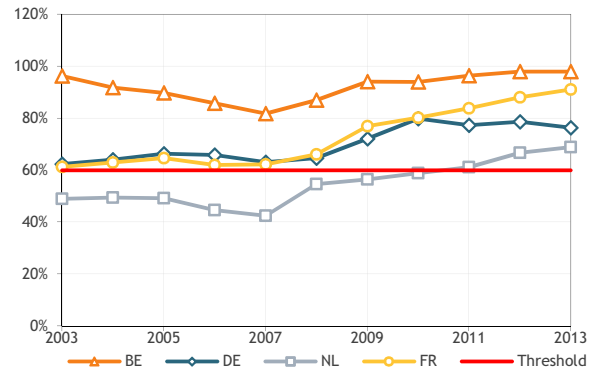
The Commission also includes in the scoreboard a stock indicator in the form of the domestically consolidated private sector debt level as a percentage of GDP. According to this indicator (Graph 10), Belgium has been above the threshold since 2008. However, since then, the level of private sector debt as a percentage of GDP has remained relatively stable in Belgium.

Finally, these two indicators also have to be interpreted with caution because they are established on a gross and not a net basis. Private sector debt is generally used to accumulate assets (houses, financial assets, etc.). The amount and the nature of the accumulated assets are also important in judging the potential disequilibrium nature of the level of private sector debt.

As housing market developments have figured prominently in many of the previous financial crises, the Commission has decided to include the year-on-year change in real house prices, defined as the house price indicator deflated by the national accounts deflator for private final consumption expenditure (households and NPIs). According to this indicator (Graph 11), the Belgian real house price rate of change increased relatively rapidly at the beginning of the period to reach a peak in 2005. However, during subsequent years, the growth rate decreased and has been close to zero since 2009.

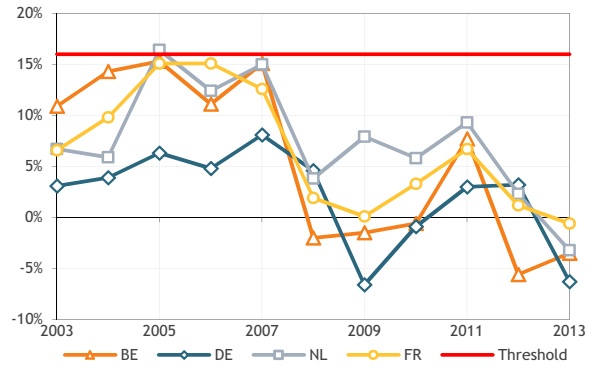
In the economic reading of the scoreboard, the Commission also considers an auxiliary indicator of the relative importance of the construction industry. As shown in Graph 12, the share of construction in GDP has declined in Belgium since 2009, after a continuous increase between 2003 and 2008. The Netherlands is the country with the largest adjustment of its construction industry. This industry accounted for more than 6% of GDP in 2008 and for only 3.3% in 2013.

Graph 13 - Public sector debt (in % of GDP)



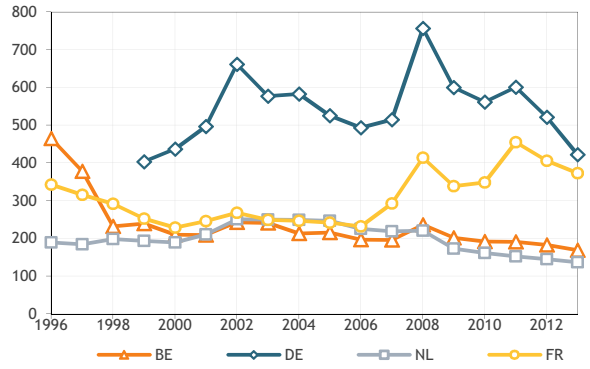
Source: Eurostat (Macroeconomic Imbalance Procedure)

Graph 14 - Financial sector liabilities (change, in %)



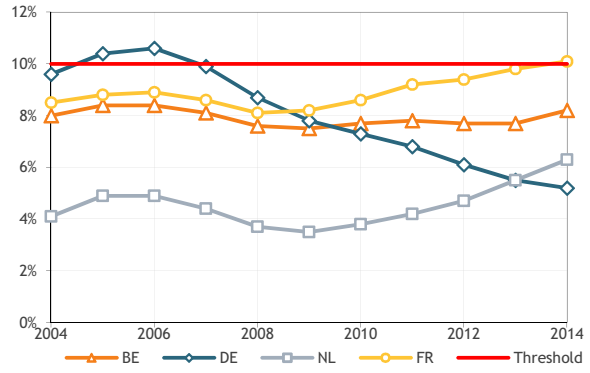
Source: Eurostat (Macroeconomic Imbalance Procedure)

Graph 15 - Financial sector leverage (debt to equity ratio, non-consolidated, in %)



Source: Eurostat (Macroeconomic Imbalance Procedure)

Graph 16 - Unemployment rate (3-year average, in %)



Source: Eurostat (Macroeconomic Imbalance Procedure)

To consider the potential contribution of public debt to macroeconomic imbalances, the Commission has also included in the scoreboard a complementary indicator: the general government consolidated gross debt, as defined in the Excessive Deficit Procedure as a percentage of GDP (Graph 13). As is well-known, Belgium has a large public sector debt, which exceeds the threshold of 60% of GDP. However, this ratio was on a clear downward trend between 1994 and 2007. Since 2008 and the resurgence of public deficits, as a consequence of the financial and economic crisis and the public financial intervention to save the banking systems, the public debt ratio has again increased.

The annual growth rate of total financial sector liabilities, measures the evolution of the sum of all liabilities (which includes currency and deposits, securities other than shares, loans, shares and other equity, insurance technical reserves and other accounts payable) of the total financial sector. This indicator is aimed at better capturing the interlinkages between the real economy and the financial sector. The growth rate of financial sector liabilities in Belgium, as in the three neighbouring countries, remains largely below the thresholds since the emergence of the financial crisis (Graph 14). In 2013, for the first time over the considered period, the growth rate of the financial sector liabilities was negative in the four countries taken into consideration.

In the auxiliary indicators set, the Commission also considers the debt-to-equity ratio to judge the health of the financial sector. The financial sector leverage (debt-to-equity ratio) indicator shows the relative proportion of debt used to finance assets to shareholders' equity. As illustrated by Graph 15, this ratio strongly increased between 2007 and 2008 in Germany and in France and, to a lesser extent, in Belgium. But it remained relatively stable in the Netherlands. In all four countries, this ratio is currently on a decreasing trend. In 2013, it was below 200% in Belgium and in the Netherlands but still close to 400% in France and in Germany.

The Commission also takes into consideration the real economy potential imbalances through an indicator on the unemployment rate (3-year average in %) that is designed to monitor high and persistent rates of unemployment. Such rates point towards a potential misallocation of resources and a general lack of further adjustment capacity in the economy. As illustrated by Graph 16, this indicator is not considered problematic for Belgium as it remains relatively stable over the period considered. It started at 8.0% in 2014 then declined to 7.5% in 2009 before increasing again to reach 8.2% in 2014.

Population and household projections 2014-2060

Population Projections 2014-2060 revise upwards the previous long-term demographic trends (April 2014) for Belgium: in particular, in the long run, the projected world population growth, the increasing mobility of individuals and globalisation should maintain migration flow at a sustained level. In the short run, the projections take into account the current migration policy, which has a decreasing effect on immigration, in particular from countries outside the European Union, and also take into account the current trend on immigration related to the economic crisis from the southern countries of the EU15. The number of households is growing even faster than the population, due to an ageing population and the emergence of new forms of living arrangements, which leads to households of a smaller size.

Since 2008, population projections for Belgium have been prepared jointly by Statistics Belgium and the Federal Planning Bureau and are updated annually. This current update relies on the official figures for the Belgian population on 1 January 2014. Since 2013, population projections have been extended to household projections.

Life expectancy at birth for men and women is projected to keep increasing, in line with the trends of the last 20 years, although at a slower pace. It increases from 77.9 years and 82.9 years in 2013 to 86.3 years and 88.4 years in 2060 for men and women respectively, confirming the on-going convergence of the life expectancies of men and women.

The total fertility rate increased from 1.55 children per woman in 1995 to 1.86 children in 2008. During the financial crisis however, fertility rates declined for women aged below 30. It is assumed that in the short term fertility will still be affected by the economic crisis. Between 2016 and 2020 it should recover to the pre-crisis level, and remain constant thereafter (above 1.8 children per woman).

The external migration balance (immigration minus emigration) should fluctuate between 25 and 30 000 individuals per year in the long run. It remains the main source of population growth (at the national level).

All in all, the total population in Belgium is expected to climb from 11.2 million in 2014 to 11.9 million in 2030 and 13.1 million in 2060.

The number of private households should grow from 4.8 million in 2014 to 5.9 million in 2060. The average size of the private households should decrease from 2.26 in 2014 to 2.19 in 2030 and 2.13 in 2060. This is explained by an increasing share of one-person households (34% of households in 2014 and 41.4% in 2060) and of one-parent families to a lesser extent (9.8% of the households in 2014 and 10.2% in 2060). Households composed of married couples with children face a decreasing trend (except in the Brussels-Capital Region), among others in favour of households composed of couples living in a consensual union. In 2060, the number of households composed of married couples with children is expected to decrease by 22% compared to 2014, and the number of households composed of couples living in a consensual union with children should increase by 63%.

"Demografische vooruitzichten 2014-2060, bevolking, huishoudens en prospectieve sterftekansen / Perspectives démographiques 2014-2060, population, ménages et quotients de mortalité prospectifs",
J. Duyck, L. Masure, J.-M. Paul, P. Van Brusselen, M. Vandresse (FPB) and Statistics Belgium
Outlook, March 2015

The role of individual and job characteristics in the wage evolution in Belgium between 2000 and 2010

This paper studies increases in real hourly gross wages in Belgium over the period 2000-2010. It specifically aims to determine the extent to which the evolution of a large number of characteristics of the workforce has affected those increases. Examining all sectors together, the increase in the average age of employees and in their education level and the growing number of better paid professional categories have contributed the most to the wage increases during this period. On the other hand, the sectoral distribution of employment, the expansion of part-time work and the higher participation rate of women in employment have, though to a lesser extent, brought about wage decreases.

This paper analyses real hourly gross wage increases in Belgium during the period 2000-2010 using individual data. By analysing differences between workers and jobs, it aims to determine the extent to which the evolution of characteristics of the workforce such as age or education has affected wage increases. Differences in characteristics can generate wage evolutions through a quantity and a price effect. The quantity effect reflects

the change in the presence of a characteristic, for example, the increase in the share of high-skilled workers during the period under consideration. The price effect reflects the change in returns to those characteristics in the labour market, for example, the increase in wage premium provided by ageing or seniority.

Using individual data from the Structure and Distribution of Earnings Survey, we studied the average real wage increases in 28 industries. Together with data from the National Social Security Office, this survey offers detailed information on wages and on a large number of labour force characteristics. Our analysis is mainly based on the wage decomposition method introduced by Oaxaca (1973) and Blinder (1973). This technique allows us to decompose mean wage increases into the share due to the evolution of the characteristics of the labour force (quantity effect) and a residual share (price effect).

In this paper, we concentrate on quantity effects, which we call composition effects. Our results reveal substantial composition effects during the period under review. Examining all sectors together, composition effects account for almost half of wage increases between 2000 and 2010. The increase in the average age of employees and in their education level and the growing number of some better paid professional categories have contributed the most to the wage increases during this period. On the other hand, the sectoral distribution of employment, the expansion of part-time work and the higher participation rate of women in the labour market have, though to a lesser extent, brought about decreases in hourly wages.

Our results also show differences between industries and types of workers. Composition effects play a decisive role in the wage increases of white collar workers, but the contribution of these effects is on average negative and very limited for blue collar workers. Moreover, while composition effects are relatively constant through the wage distribution for white collar workers, they are negative for low wage and positive for median and higher wage blue collar workers. Differences between white and blue collar workers reflect the different ways these two categories of workers are compensated in Belgium. The stronger relationship for white collar workers between wages, on the one hand, and characteristics such as age, seniority and education level, on the other hand, generates wage increases "automatically" when these characteristics rise.

In some service sectors, and for white and blue collar workers together, composition effects can be very important in generating wage increases of up to 10% for some individual characteristics. Although more limited, composition effects also generate wage increases in the manufacturing sector. The industries with the largest composition effects are: 'Advertising and market research', 'Computer programming, consulting and related activities' and 'Manufacture of computers'. The analysis by industry also reveals that the decrease in recruitment and the increase in employment in larger firms constitute important sources of wage increases in some industries during this period.

"Évolution salariale en Belgique entre 2000 et 2010 : importance des effets de composition de la main-d'œuvre",
M. López Novella
Working Paper 11-14, December 2014

Decomposition of the hourly wage cost rise in Belgium 2000-2010

This paper presents a shift-share decomposition applied to industry-level data to identify contributions to the rise in the hourly wage cost in Belgium between 2000 and 2010. According to the results, individual wage increases account for the largest part of the economy-wide hourly wage cost increase (87%). The contribution of changes in the gender, age and skill structure of industry-level employment amounts to 16%, while changes in the industry composition of hours worked even have a negative effect on the hourly wage cost (-3%).

The 2013 report of the Expert Group on Competitiveness and Employment has highlighted major differences in hourly wage cost levels between industries for Belgium. Thus, changes in industry shares in total employment may have affected the economy-wide increase in the hourly wage cost. Moreover, trends in the hourly wage cost have also varied substantially between industries. This may have been influenced by industry-level differences in the gender, age and skill structure of the workforce. The aim of this article is to shed some light on both these issues using a traditional shift-share decomposition to identify contributions of three effects to the rise in the hourly wage cost in Belgium: changes in the industry composition of total hours worked (*composition effect*), changes in the structure of employment in terms of categories of workers (*employment structure effect*), and increases in the hourly wage cost of these individual categories (*wage effect*). The decomposition effects are calculated for the years 2000-2010 with industry-level data (A38) from the national accounts published in October 2014 according to the ESA 2010 and with EUKLEMS data for 18 categories of workers according to three criteria (gender, age and skill-level). Note that the Federal Planning Bureau Working Paper 11-14 investigated

the issue of whether worker characteristics affect wage cost increases in Belgium with data for individual workers. Differences in the methodology and their influence on the results are discussed in the introduction section of this paper.

In the results of the decomposition, the wage effect largely dominates, accounting for 87% of the hourly wage cost rise. The composition effect is negative but small (-3%). This is mainly due to the fall in the share of manufacturing industries in total hours worked, which have a relatively high level of hourly wage cost, and the rise in the share of non-market service industries, which is the group of industries with the lowest hourly wage cost level, both in 2000 and 2010. Finally, the contribution of the employment structure amounts to 16% of the economy-wide rise in the hourly wage cost. This effect is closely related to the rise in the average skills and age of employees.

The shift-share decomposition has also been applied at the industry-level so as to determine to what extent changes in the gender, age and skill structure of the workforce have contributed to hourly wage cost rises in each industry. According to the results, the employment structure effect is below 50% for all industries. It is highest for the 'Manufacturing of computer, electronic and optical products' industry followed by four market service industries: 'Telecommunications', 'Computer and information service activities', 'Publishing, video and broadcasting activities' and 'Advertising and other specialised activities'. In all of these industries, the share of workers with tertiary education increased fast over the period 2000-2010. Hence, the industry-level employment structure effect seems to be influenced in particular by changing skill levels.

"Décompostion de l'évolution du coût salarial horaire de l'économie belge et de ses branches d'activité, 2000-2010"
Ch. Kegels, B. Michel,
Working Paper 1-15, January 2015

A methodology for the projection of international migration

This Working Paper presents the methodological progress achieved for the projection of international migration. A preliminary step aims at assessing the relevance of economic variables as determinants of migration, partly on the basis of an analysis of the official migration flows per nationality and on statistics on reasons for migrating. If relevant, the impact of economic determinants on immigration is estimated using econometric methods. The methodology also takes into account for the long-run trends a globalizing world, growing mobility and the expected increase in world population, which encourage international migration flows (immigration and emigration). In the short run, current migration policies are also taken into account. This methodology has been applied in the 2014-2060 population projections.

The approach that the Federal Planning Bureau (FPB) has been using for several years is aimed at introducing a link between some economic determinants of migration and the immigration of foreign-born people.

In one continuous process of improving its models, the FPB has done background work to develop in more detail the methodology related to the projection of international migration, taking into account the above-mentioned aspects. Assumptions about the future of international immigration of foreign-born individuals have been made for three groups of countries. This allows to be taken into account the fact that reasons for migration depend on the nationality of the individuals.

The projection of immigration from EU15 countries is based on constant emigration rates to Belgium rather than on constant numbers of immigrants (as was the case in the previous exercices). Nevertheless, for the EU15 countries hit by crisis, there appears to be a link in the short term with some economic variables, and especially with the unemployment rate. This link is estimated through an econometric approach and is used for short-term immigration projections only.

For several years, the assumption about immigration from the new Members States since 2004 (EU13) has taken into account an index of relative economic attractiveness of Belgium compared with the EU13 countries. The index is calculated on the basis of the GDP per head differential between Belgium and the EU13 countries. The model assumed unitary elasticity between the change in the index of relative economic attractiveness and the change in immigration from EU13 countries. To improve this approach, an econometric model has been specified to estimate the relationship between economic attractiveness and immigration.

As regards migration from the countries outside the EU, it should certainly not be overlooked that migrants from these countries come partly to find a higher level of "well-being", which is to a certain extent captured by the relative economic position of Belgium. Yet, "well-being" is a much broader concept than relative economic attractiveness. Moreover, it can be assumed that disparities in GDP are so large that a small relative decrease should not

significantly impact immigration levels. Finally, the large majority of immigration from these countries occurs within the context of the family reunification process or when applying for refugee status. Immigration based on these two grounds depends in particular on the (political, health and economic) situation in the country of origin and on the conditions (and procedures) laid down by Belgium to access these statuses.

In the given context, it does not seem obvious or even relevant to determine a long-term path for immigration from third countries on the basis of a past trend that possibly integrates economic determinants. The alternative solution that has been adopted is to set a long-term immigration level that should be reached progressively.

As concerns emigration from Belgium, the projected emigration rates are now in line with the expected evolution of international immigration.

"Une modélisation de l'évolution future de la migration internationale pour la Belgique",
M. Vandresse,
Working Paper 2-15, March 2015

Environmental economic accounts 2008-2012

Since 2013, Regulation (EU) No. 691/2011 obliges the Member States of the European Union to produce three environmental economic accounts. The accounts concerned are the Environmental Taxes by Economic Activity (ETEA), the Air Emissions Accounts (AEA) and the Economy-Wide Material Flow Accounts (EW-MFA). The 2014 publications of these accounts contain data for the period 2008-2012. In accordance with the Law of December 1994, the Federal Planning Bureau (FPB) is responsible, within the framework of the National Accounts Institute (NAI), for drawing up these accounts.

The ETEA distinguish four types of environmental taxes (taxes on energy, on transport, on pollution and on resources). The first three types are distributed across industries (NACE Rev.2 A64), households and non-residents. For taxes on resources, only the total is presented.

Total environmental taxes increased from EUR 7.4 billion in 2008 to EUR 8.3 billion in 2011. In 2012 receipts fell back to EUR 8.1 billion. As a consequence, the share of environmental taxes in total taxes receded from 7.7% in 2011 to its 2008 value, namely 7.2%. On average, energy taxes accounted for 59% of the environmental taxes during 2008-2012, transport taxes for 34%, taxes on pollution for 6% and taxes on resources for 1%. The share of households in environmental taxes was equal to 52%, the share of enterprises 47% and the share of non-residents 1%. When considering environmental taxes paid by enterprises separately, the land transport industry was by far the largest contributor, with a share of 19%.

The AEA present the emissions of CO_2, CH_4, N_2O, HFC, PFC, SF_6, SO_2, NO_X, NH_3, NMVOC, CO, PM_{10}, and $PM_{2.5}$, expressed in physical units by economic activity (NACE Rev.2 A64) and by three household consumption categories (heating, transport, other) of all Belgian residents.

On average over the years 2008-2012, 78% of all greenhouse gas (CO_2, CH_4, N_2O, HFC, PFC, SF_6) emissions were emitted by enterprises and 22% by the households. The share in total greenhouse gas emissions combined of the manufacturing, water, waste and construction industries dropped from 38% in 2008 to 35% in 2012. Concerning acidifying gases (SO_2, NO_X, NH_3), the share of enterprises in total emissions oscillated around 85% during the period 2008-2012. The largest contributor to this type of air emissions was the primary sector, followed closely by the combined manufacturing, water, waste and construction sector. However, the first experienced an increase in share of total emissions from 32% in 2008 to 39% in 2012, while the share of the latter dropped from 32% in 2008 to 26% in 2012. The share of enterprises in the emissions of photochemical gases (NO_X, CO, CH_4, NMVOC) decreased between 2008 and 2012, from 73% to 69%. This was due to the evolution of emissions from the combined manufacturing, water, waste and construction sector. Their share in total emissions declined from 41% in 2008 to 35% in 2012. Particulate matter (PM_{10}, $PM_{2.5}$,) was emitted most by households and their shares amounted to 45% of total PM_{10} emissions and 53% of total $PM_{2.5}$, emissions in 2008. The contribution of households to total emissions even expanded to 55% and 63% respectively in 2012.

The EW-MFA present the evolution of the domestic extraction of and the international trade in four types of materials (biomass, metal ores, non-metallic minerals and fossil energy materials/-carriers), expressed in physical units (tonnes). As far as international trade is concerned, it is not just materials that are taken into account, but rather all traded goods, the weight of which is attributed to the material constituting the largest share of each particular good.

Domestic extraction of materials in Belgium decreased from 161 million tonnes in 2008 to 132 million tonnes in 2010 as a consequence of the fall in extraction of

non-metallic minerals, the most important domestic material, which accounted for about three quarters of total domestic extraction. In 2011, domestic extraction rose to 145 million tonnes, only to recede slightly to 140 million tonnes in 2012. Trade slumped between 2008 and 2009 as a consequence of the economic crisis, but rebounded in the following years. Imports, equaling 251 million tonnes in 2012, were 5% below their 2008 level, falling back from 260 million tonnes in 2011. Exports of materials, standing at 188 million tonnes, were only 2% below their 2008 level. Fossil energy materials/-carriers were the material with by far the largest share in Belgian imports (45% on average) as well as in exports (40% on average).

"NAI/FPB, Milieubelastingen naar economische activiteit 2008-2012 / Taxes environnementales par activité économique 2008-2012", September 2014.

"NAI/FPB, Luchtemissierekeningen 2008-2012 / Comptes des émissions atmosphériques 2008-2012", September 2014.

"NAI/FPB, Materiaalstroomrekeningen voor de gehele economie 2008-2012 / Comptes des flux de matières à l'échelle de l'économie 2008-2012", December 2014.

Other recent publications

February 2015

"Les impacts économiques et budgétaires de long terme des réformes structurelles décidées par le gouvernement Michel"

Working Paper 10-14, December 2014

"De prijs van elektriciteit en aardgas voor ondernemingen in België: samenstelling, niveau en evolutie ten opzichte van de buurlanden",
J. van der Linden

Working Paper 9-14, November 2014

"Une méthodologie de projection des ménages: le modèle HPROM (Household PROjection Model)",
M. Vandresse

Working Paper 8-14, November 2014

"Public support for R&D and the educational mix of R&D employees",
M. Dumont, A. Spithoven and P. Teirlinck

Outlook, October 2014

"Het Belgisch energiesysteem in 2050: Waar naartoe? - Beschrijving van een Referentiescenario voor België / Le paysage énérgétique belge : perspectives et défis à l'horizon 2050 - Description d'un scénario de référence pour la Belgique"

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"Modal choice for travel to work and school - Recent trends and regional differences in Belgium",
K. Geurts

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"Structurele determinanten van de publieke gezondheidszorguitgaven",
P. Willemé

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Regionale economische vooruitzichten 2014-2019"

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"A new version of the MODTRIM II. An overview of the model for short-term forecasts",
B. De Ketelbutter, L. Dobbelaere, I. Lebrun,
F. Vanhorebeek

Outlook, June 2014

"Perspectives économiques 2014-2019 /
Economische vooruitzichten 2014-2019"

Working Paper 4-14, June 2014

"Analyse macro-sectorielle des effets d'une hausse de la TVA",
L. Masure

Outlook, March 2014

"Perspectives démographiques 2013-2060, population, ménages et quotients de mortalité prospectifs/
Demografische vooruitzichten 2013-2060, bevolking, huishoudens en prospectieve sterftekansen"

Working Paper 3-14, March 2014

"Belgische black-outs berekend. Een kwantitatieve evaluatie van stroompannes in België",
D. Devogelaer

Outlook, February 2014

"Economische vooruitzichten 2014/
Prévisions économiques 2014"

Research in progress

The long-term budgetary and social challenges of ageing

The long-term model is used to project the budgetary consequences of ageing. For acute health care and long-term care public expenditure, new models were introduced in 2014. The first, notably, takes into account explicitly the impact of technological progress. The social dimension of pension benefits is investigated using a microsimulation model.

Contact: maltese@plan.be

Employment and retirement 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, and the composition and dynamics of civil servant pensions.

Contact: pubfin@plan.be

Macroeconomic, budgetary and GHG emissions prospects

Using a consistent modelling approach, medium-term macroeconomic and budgetary prospects – taking the 6th State reform into account – as well as the evolution of greenhouse gas (GHG) emissions are being investigated. A consistent regional-national version of the model developed in collaboration with experts from the regional governments of Brussels, Flanders and Wallonia is generating regional results.

Contact: hermes@plan.be

Economic drivers of migration flows

Modelling migration flows in population projections is recognized as a challenge. Although economic theory demonstrates the importance of economic drivers for some migration flows, these results are barely used in population projections. An ongoing research project aims at including some econometric results about these drivers in the FPB demographic model.

Contact: demo@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

Offshoring

The FPB is continuing its work on offshoring. The aim of this work is to monitor trends in the relocation of activities carried out in Belgium as well as to determine their impact on employment and productivity. The analysis is done at the industry level, but also with firm-level data.

Contact: bm@plan.be

Innovation

Innovation is a key determinant of productivity growth. In the current FPB research on this topic, particular attention is given to the question to what extent public policy can facilitate innovation leading to the creation of economic activity and jobs.

Contact: ck@plan.be

Transport modelling

The FPB model on transport demand for passengers and goods PLANET will be further developed by introducing a regional dimension. As regional governments have the competence for major issues affecting transport demand, a more accurate modelling of transport demand requires the development of this regional dimension. The aim is to present the 2015 outlook for transport demand with a regional version of the model.

Contact: transport@plan.be

Long-term energy outlook

After the publication of the energy outlook for Belgium up to 2050 describing a reference scenario, alternative policy scenarios will be studied and published in 2015.

Contact: energy@plan.be

Indicators complementing GDP

The FPB received the mission to develop and publish indicators on quality of life, human development, social progress and sustainability of the economy (act of 14 March 2014). This set should consist of a limited number of indicators. As these indicators have to measure the evolution towards goals for society, the FPB's experience in sustainable development indicators will be useful in constructing the set of indicators complementing GDP.

Contact: sustdev@plan.be

Recent history of major economic policy measures

February 2015

On 1 April 2015, the minimum pension for the self-employed will be raised by EUR 10 for single people and by EUR 7.17 for survivors. As a result, the former will amount to EUR 1071.00 and the latter to EUR 1068.17. Complete assimilation with the wage-earners' scheme is scheduled for 1 August 2016.

January 2015

As from 1 January 2015, stricter career conditions will be required for the wage-earners' minimum pension calculation for careers longer than 30 years and the pension supplement for cross-border workers will be suppressed, after having been reduced.

In the Flemish Community, family allowance will not be indexed in 2015. The amount saved will be reinserted into the scheme. This is only a temporary savings measure.

There is a social agreement on measures that adjust social expenditures on welfare within the planned budget.

The outcome of the wage bargaining round is to allow a 0.5% increase in wage costs in real terms in 2015, equivalent to a 0.37% increase in gross wages before indexation, and a 0.3% tax free increase in gross wages before indexation in 2016. Gross wage before indexation will be frozen in 2015

The existing tax credit for low-wage earners will be increased.

The Walloon Region will lower the tax expenditure on household service vouchers by two thirds in 2016 and freeze the purchase price of household service vouchers.

The Flemish Region will reshuffle the targeted employers' SSC cuts towards older low-wage earners, young low-wage earners with low schooling and the disabled. The prevailing targeted SSC cuts will be phased out. The policy change will be submitted for consultation to the employers' federations and labour unions.

Because the country will still be prone to electricity shortages during the winter of 2015-2016, the federal Minister of Energy asked electricity TSO Elia to raise significantly the strategic reserve capacity of power plants. In order to safeguard power supply it should be lifted from 850 to 3 500 MW.

Having been frozen for almost three years, electricity distribution tariffs will rise significantly in the Flanders region. The increases may be between 10 and 40%, and will differ per DSO. The reason for the increase is that during the period that the tariffs were frozen, the cost of support for renewables rose significantly. In contrast, distribution tariffs for natural gas might fall during 2015.

The federal government approved an act that will transpose European railway Directives 2012/34 and 2014/38 into Belgian law. The former directive will establish the single European railway area; the latter is to control noise pollution by trains.

December 2014

The federal government extended the so-called safety-net mechanism for the prices of electricity and natural gas until the end of 2017. Under this mechanism, the energy components of these prices may not become higher than in the neighbouring countries, and must be approved by the federal market regulator CREG.

Federal market regulator CREG and its British counterpart Ofcom approved the construction of Nemo, a 1 000 MW electricity interconnection between Zeebrugge and Ramsgate.

The Flemish municipalities and electricity incumbent Electrabel swapped their stakes in energy supply and distribution. The DSOs thus became fully public and Electrabel's supply branch ECS fully private. This way, ownership separation was established four years earlier than required by law.

The federal government approved a bill that will strengthen the independence of the telecommunications market regulator BIPT. First, the government may no longer suspend decisions taken by BIPT. Second, the recurring strategy will no longer need to be approved by government.

October 2014

The new federal government released a government agreement together with a budget for 2015, after a "draft budgetary plan" was filed with the European Commission.

The budgetary targets for entity I (federal authority and social security), defined in structural terms, go from a deficit of 1.5% of potential GDP in 2015 (presented as an improvement of 0.7% w.r.t. 2014) to a balanced budget in 2018.

The package of measures developed to reach the budgetary targets amounts to 0.9% of GDP in 2015 and 2.2% of GDP in 2018, predominantly based (about three quarters) on spending cuts.

Operating costs and investments

Wages, intermediate consumption and investments are subject to linear cost savings of, respectively, 4%, 20% and 22% in 2015. As from 2016, these percentages are increased by 2 %-points each year. National defence, SNCB/NMBS, development cooperation and other bodies are subject to specific savings targets.

Recent history of major economic policy measures

Social expenditure

Pensions:

- The minimum early retirement age and the minimum number of career years required for eligibility will be increased in the three pension schemes (wage earners, self-employed, civil servants). Starting from 62 years (of age) and 40 (career) years in 2016, these requirements will be increased to 63 and 42 years in 2019 (there will be exceptions for long careers).
- As from 2015, the pension bonus will be removed and the service credit allocated to civil servants for degrees will be phased out in the career requirements for early retirement.

Unemployment, unemployment with company allowance and time credit:

- The minimum age of entry into the unemployment with company allowance scheme will be increased from 60 to 62 years in 2015 for new entrants into the general system (exceptions remain).
- Some allowances will be eliminated (the seniority supplement for unemployed elderly people for new entrants, the allowance for a non-justified time credit for new entrants) or reduced (the guaranteed income allowance, the allowance for new entrants, the allowance for temporary unemployment).
- The age limit will be increased for active and passive availability for the labour market (for new entrants) and for end of career jobs at the end of the career.
- The maximum age for demanding an 'insertion allowance' will be lowered to the age of 25 and under the age of 21 the allowance will be conditional on holding a diploma.
- The number of days for economic unemployment per employee will be limited.

Disability:

- From 2015 onwards, the allocation of allowances will be stricter; for example, surveillance and a reinstatement plan will be mandatory after 3 months of primary incapacity.
- Some allowances will be eliminated (the supplementary allowance for disabled unemployed people) or reduced (the allowance for new entrants).
- From 2016 onwards, the period with guaranteed salary will be increased from 1 to 2 months.

Healthcare:

- Over the period 2016-2019, growth in the federal healthcare budget will be capped at 1.5% annually in real terms. In addition to the limitations set by the budget norm, EUR 236 million will be saved structurally by 2018 through cost containment measures.

All social security benefits::

- The automatic indexation of social benefits to price evolution will be skipped once in 2015.
- The minimum social benefits and social assistance allowances will be raised to the level of the European poverty line.
- Family allowances will no longer be taken into account for the calculation of the living standards adjustment budget as from 2015. As from 2015, the adjustment to living standards will be translated into fiscal measures. In 2018, EUR 78 million of the welfare budget will not be spent.

Labour market

- There will be a one-off suspension of the automatic indexation of wages to prices in 2015.
- The 2013 competitiveness package (employers' SSC cuts for low-wage employment, wage subsidies for non-profit employment, wage subsidies for shift and night-time labour) will be rescheduled: the 2015 package will be postponed to 2016 while the 2017 package will be brought forward to 2016.

Taxation

- Increased tax revenues are expected in: personal income tax (anticipated and staggered taxation on private non-collective pension savings), taxes on capital income (taxation on international estate structures), corporate income tax (taxation of local public utilities, limited deduction of notional interest for the regulatory capital of banks), VAT (on plastic surgery, international e-services and housing renovation), excise duties (on tobacco and diesel, most specific duties becoming otherwise subject to indexation), tax on stock exchange operations (increased ceiling) and tax on the financial sector (the duty on deposit being extended to capital funds).
- These tax hikes are partially offset by a reduction in personal income tax implemented through an increase in the personal tax allowance.
- Furthermore, (corporate) tax provisions concerning secret commissions and liquidation surpluses are being revised.

Recent history of major economic policy measures

The government agreement plans structural reforms in different areas.

Pension reform:

- The government has announced the introduction of a points system by 2030 at the latest for calculating pensions. Meanwhile, the government will introduce an automatic adjustment of the conditions for early retirement or the statutory pension age that will take into account demographic and financial evolutions within the pension system and the increase in life expectancy.
- The statutory retirement age will be increased from 65 to 67 years in 2030 and the minimum age for being granted a survivor's pension will be 55 in 2025 (instead of 50), increasing by one year each year as from 2015.
- Continuing to work after reaching the minimum number of career years required to receive a pension will lead to supplementary pension rights; it will be possible to earn an additional income without limits in retirement after reaching the statutory retirement age or after 45 years of career.
- Justified career interruptions will be assimilated for the whole period and valued at the last earned income; unjustified career interruption will no longer be considered as assimilated periods.
- The minimum pension and the guaranteed income for the elderly will be increased.
- In the civil servants' scheme: the preferential so-called 'tantième' (career fraction) will be abolished (except for heavy work); future civil servants' pension will no longer take into account non-statutory periods worked before having the tenure (on condition that a second pillar pension is created); the 'health pension' will be replaced by a disability allowance in the social security system for wage earners.

Labour market policy measures:

- Unlike the 1996 law, the new competitiveness law will require that the social partners take into account past wage settlements that were in excess of the wage norm when negotiating new wage agreements and that past excessive settlements be compensated more automatically. Unlike the criteria set out in the 1996 law, international labour cost comparisons will take into account a range of wage subsidies, to be listed by the government, and the labour cost in state-owned enterprises.
- The automatic indexation of wages mechanism will be adjusted.
- Real wages will be frozen in 2015-2016 or beyond for as long competitiveness is not restored.
- A major overhaul of employers' SSCs will reduce the headline employers' SSC rate to 25% by 2018. The decrease in the headline rate will be partially funded by incorporating a number of existing labour cost reducing measures: the across-the-board wage subsidy (equal to 1% of gross wages), the across-the board SSC reductions (both the stipend predating the 2013 competitiveness package and the increases due to the 2013 competitiveness package) and the SSC cuts targeted at high-wage earnings.

Taxation:

- The government states it will implement a tax shift in order to reduce the tax burden on labour, with terms that remain to be defined.

September 2014

Electricity TSO Elia took two measures to avoid black-outs during winter. It did so because three out of Belgium's total of seven nuclear plants are inactive for several reasons, and two more should be closed permanently by February 2015. This has made the country prone to shortages during cold days. First and most important, Elia updated its three-year-old 'disconnection plan' that would guide the country through such periods of shortage. The plan determines the areas that will be disconnected when shortages occur. This way, brown-outs are controlled and their burden is shared equally among the population. Second, it announced an increase in the tariff for imbalances to 4 500 EUR per MWh. This very high price should give suppliers an incentive to adopt a policy to avoid shortages.

The ECB lowered its main refinancing rate by 10 basis points to 0.05%.

August 2014

The Flemish municipalities and electricity incumbent Electrabel agreed to swap their stakes in energy supply and distribution. DSOs will then be fully public and Electrabel's supply branch ECS fully private. This way, ownership separation will be established four years earlier than required by law.

July 2014

In July 2014, the federated authorities presented their government agreement for the period 2014-2019. The budget of the Flemish government and the Brussels Capital Region should be in balance from 2015. The Walloon Region and the French Community plan to reach budgetary equilibrium in 2018.

As part of the sixth State Reform, the competence for energy distribution tariffs was transferred from the federal market regulator CREG to the three regional regulators (VREG, CWaPE and Brugel).

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