Quarterly Newsletter of the Federal Planning Bureau

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

HEADLINES BELGIAN ECONOMY

In the wake of the economic recovery in Europe, Belgian GDP growth rose gradually from 0.1% in the first quarter to 0.6% in the last quarter of 2005. Quarterly growth should stabilise at 0.6% during the first half of 2006 and remain higher than 0.5% during the second half of the year. On a yearly basis, GDP growth should strengthen from 1.5% last year to 2.2% in 2006.

This year, net exports as well as domestic demand should contribute positively to economic growth. Due to the European recovery, Belgian export growth will strengthen to 4.7%. The current account surplus, however, will increase very little as a result of the high oil prices, which will lead to a negative evolution in the terms of trade. Domestic demand will grow at a slower pace as business investment will weaken somewhat after a significant catch-up and some exceptional purchases in 2005. This slowdown will be partially compensated for by stronger public expenditure – in consumption and investment – as well as stronger private consumption. Consumer expenditure should accelerate to 1.6% as household disposable income is underpinned by employment growth and personal income tax cuts.

After a net gain of 38,600 persons last year, employment is expected to record an average annual rise of 41,100 persons in 2006. The number of jobs is growing faster than the labour force, which should slightly reduce the unemployment rate (broad administrative statistics) from 14.3% last year to 14.1% in 2006. The 'harmonised' unemployment rate (Eurostat definition) should decline from 8.4% last year to 8.3% in 2006.

Inflation should fall markedly in 2006 compared to 2005 due to a limited rise in unit wage costs and the fading of the effects of higher oil prices. The inflation picture is somewhat blurred by the persistent deterioration in the terms of trade and by the introduction of a new price index. The private consumption deflator should increase by 2.3%, the GDP deflator by 1.9% and the national index of consumer prices by 1.8%.

STU 1-06 was finalised on 13 March 2006.

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

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Fiscal Councils, independent forecasts and the budgetary process

On 1 February 2006, the Belgian Federal Planning Bureau (FPB) and CPB Netherlands Bureau for Economic Policy Analysis jointly organised a seminar entitled "Economic and fiscal forecasts and the budgetary process within the framework of the Stability and Growth Pact (SGP)". The joint seminar brought together speakers from European and international organisations as well as representatives of the FPB and CPB. During these presentations the emphasis was put on countries' ownership of the SGP and the responsibility of the Member States for their fiscal framework. Several principles of good governance were evoked and the function that national institutions could have in these regards was highlighted. In this special study we describe the role of Fiscal Councils in the budgetary planning process in Belgium and underline the part taken by the FPB in producing independent macroeconomic forecasts.

The role of Fiscal Councils

Based on the model of independent central banks, a number of economists have recently suggested that fiscal policy should be entrusted to a new Independent Fiscal Authority (IFA) to avoid the injudicious use of discretion by politicians. A less drastic and more realistic option lies in the setup of Fiscal Councils (FC), defined by the IMF as institutions which "would not receive any specific authority over fiscal policy but would undertake analysis and assessment of fiscal developments and policies"[1]. In particular they would provide:

- independent macroeconomic forecasts for evaluating tax revenues and expenditure;
- public finance forecasts and especially fiscal balances;
- impact analyses of shocks or policies;
- policy recommendations such as rules, targets and strategies;
- an assessment of fiscal performance in comparison with the targets or rules adopted by the government or Parliament.

The first three items are in the domain of what has been called 'positive economics'. It requires sound statistical and econometric expertise. It also entails large investment in methods, data collection and computer programs. The last two items are in the domain of 'normative economics'. It requires other types of resources: especially, experts in economics and public finances, who also have a very good knowledge of politics. They have to take into account not only the political options and preferences but also what is feasible as first best or second best solutions. This is a complicated and subtle task, which includes the capacity to convince the government and public opinion. Positive and normative economics are closely related, with normative economics requesting information and analysis from positive economics, but they have very different roles.

The complex institutional framework of the Belgian state and the dramatic deterioration of the fiscal stance in the seventies and eighties forced the country to put in place FC-type institutions.

A progressive build up of Belgian Fiscal Councils

There are two main institutions which have to be considered in the Belgian budgetary process: the High Council of Finance (HCF) and the National Accounts Institute (NAI). They are the result of a progressive and maturing process. The starting point was the regionalisation of the Belgian State at the end of the eighties, when the country became a federal state with three Regions and three Communities. Most of Belgium's sources of revenue are nevertheless still collected at the federal level, and part of these tax receipts is then transferred to the regional level. With a very high public debt, Belgium could not afford to run the risk of further government overspending arising from independent regional governments. In 1989, the HCF was reformed in depth. One of its new tasks was to follow the fiscal policy of the regional governments and to recommend, each year, a coordinated fiscal plan for each government.

At the beginning of the nineties, the entry into the European Monetary Union was another challenge: in 1993 Belgium had a deficit at 7.5% of GDP and a debt ratio at 137%. As the Maastricht targets were set in national accounts concepts, the NAI was created in order to improve the quality of these statistics and of the macroeconomic forecasts upon which the budget was based. The issue of the long-term sustainability of public finances emerged in the public debate in the nineties which followed various reports on the impacts of the ageing population. In 2001, a Study Committee on Ageing was created within the HCF in order to analyse the budgetary and social consequences of ageing.

Institutional separation between positive and normative economics

The positive economics level of the Belgian budgetary process can be described as follows. The NAI is a public agency that takes responsibility for the national accounts, for the public sector accounts and for the macroeconomic forecasts. It has no staff and no resources but delegates its tasks to three institutions: Belgian Statis-

1. IMF, "Promoting Fiscal Discipline: Is There a Role for Fiscal Agencies?", Board Paper, Fiscal Affairs Department, July 2005.

tics, the NBB and the FPB. The latter is responsible for producing the macroeconomic forecasts (called the economic budget) and the input-output tables that fall under the NAI duties. It is worth mentioning here that under its own name the FPB publishes a medium-term economic outlook annually in Spring. This report is a very detailed macroeconomic projection. It is the only occasion when the FPB publishes an assessment and a forecast of public accounts and a detailed and comprehensive analysis of public finances. These forecasts are updated in Autumn as a starting point for the elaboration of the stability programme. The FPB also holds the secretariat of the Study Committee on Ageing and produces its long-term projections. The Report on Ageing is transmitted to the government and to the HCF which is then expected to take these projections into account in its fiscal policy recommendations.

This brings us to the level of normative economics. The HCF is composed of high level experts: academics, members of the NBB and representatives of the administration. The secretariat is held by the research department of the FPS Finance. The "Public sector borrowing requirement" section of the HCF publishes two yearly reports. The first analyses the borrowing requirements of each government and makes recommendations on fiscal targets for the general government and the different entities, as well as on the amount to pay to the Silver Fund[1]. The second report makes an assessment of the stability programme over the previous year.

The importance of independent institutions and forecasts

According to a recent paper by Jonung and Larch "the bias of official growth forecasts can partly explain the dismal performance of fiscal consolidation observed in recent years in the euro area"[2]. These conclusions led the authors to plead for the establishment of independent forecasting authorities in all EU Member States. The usefulness of their proposal is supported by empirical evidence showing that in the few Member States, among them Belgium and the Netherlands, where official forecasts are produced by independent agencies, these forecasts show no statistically significant bias. This outcome is in strong contrast with the results for countries where the Ministry of Finance relies on 'in-house' macroeconomic forecasts for its budgetary plans.

In Belgium the independence of the forecasting authority is guaranteed by the legal status of the institutions involved. The FPB is a public institution and, as any other public institution, has ministers who oversee it and set a budget. However, because of its specific tasks, it is independent in fulfilling them. To earn this independence, the FPB has a policy of being very transparent: it publishes its forecasts, methods, models and data. It also assesses its own forecasting performance[3]. Besides the federal government, the Central Economic Council, the National Labour Council and the legislative chambers may apply to the FPB to assess policy measures. It should be noted that the role of the FPB is limited to positive economics, it does not make recommendations.

The figures contained in the economic budget are discussed and approved by the Board of the NAI and by a scientific committee, and are therefore considered as the official forecasts. The endorsement of the forecasts by the various independent institutions represented in the Board and the scientific committee makes political intervention very difficult. Whether the Law of 1994 (which created the NAI) imposes a formal obligation for the government to use these forecasts is a question for jurists. However, up to now, the forecasts have always been followed. Because the NAI has achieved high credibility, not following the forecasts would entail a loss of reputation for the government. In times of uncertainty, the government can be more cautious and include safety margins in the budget.

Lessons from the Belgian experience

For the purpose of designing Fiscal Councils, three main lessons can be drawn from the Belgian experience:

- The institutions dealing with positive economics should enjoy a fully independent status but due to the specific knowledge required to fulfil their tasks they should remain public.
- Since normative economics are linked to preferences, it is much more difficult for public opinion to accept a complete transfer of this kind of responsibility to an independent institution. This justifies the necessity for complete institutional separation between positive and normative issues.
- One way to make the budgetary process successful is to share responsibility between several strong independent institutions and experts.

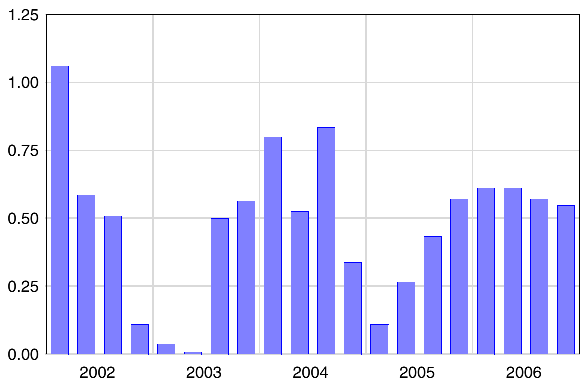
Finally, a recommendation from the European Council, saying that everyone gains in the long term with independent national forecasting authorities, would be very welcome. This would also be a good signal for new and acceding Member States which are in the process of reforming their institutions. Besides, if independent institutions were to be generally implemented, it could pave the way for working groups at EU level, which would have a mandate to advise on shared methodologies and to discuss assumptions and scenarios.

1. This fund was set up to finance the additional expenses resulting from ageing of the various statutory pension schemes between 2010 and 2030.
2. Jonung J. and Larch M., "Improving fiscal policy in the EU. The case for independent forecasts", EC, DG ECFIN, forthcoming.
3. See for instance: Dobbelaere L. en Hertveldt B., "10 jaar Economische Begroting: een terugblik op de kwaliteit van de vooruitzichten", Federaal Planbureau, Working Paper 13-04, April 2004.

Economic forecasts 2006

In 2005, Belgian economic growth amounted to 1.5% (GDP at constant prices). In the wake of the economic recovery in Europe, Belgian GDP growth gradually rose from 0.1% in the first quarter to 0.6% in the last quarter of 2005. During the first half of 2006, quarterly growth should stabilise at 0.6% and remain above 0.5% during the second half of the year. On a yearly basis, GDP growth at constant prices should reach 2.2% in 2006.

Graph 1 - Quarterly GDP at constant prices
qoq growth rates, seasonally adjusted and corrected for calendar effects



World economy gradually shifts into a lower gear

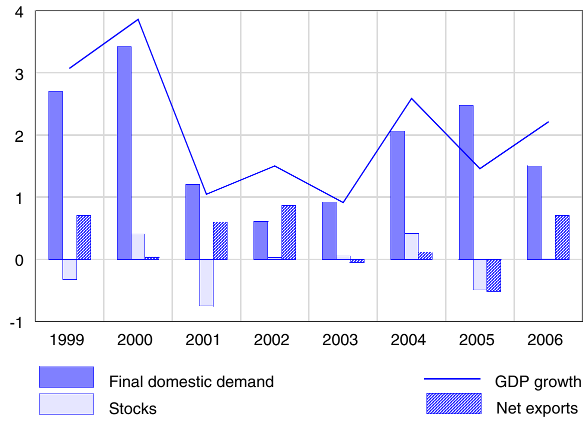
During the course of 2006, both the American and the Asian economies are expected to experience a slight slowdown in growth, whereas GDP growth in the euro area should gain momentum. In the second half of 2006, the European recovery, which is currently sustained by domestic demand and by exports, should become somewhat less dynamic due to less favourable foreign demand prospects. As a result, the growth pace of Belgian export markets should accelerate in the first quarter, but is anticipated to be somewhat weaker afterwards.

In 2006 Belgian growth achieves a sounder basis

In 2006, the Belgian economy should experience not only stronger, but also more balanced growth. Both net exports and domestic demand should positively contribute to growth.

Due to the European recovery, Belgian exports should grow by 4.7% on an annual basis, compared to 2.2% last year. However, export dynamics should slightly slacken in the second half of the year in line with the international economic situation. The current account surplus, however, should only slightly increase (to 2.6% of GDP) as a result of high oil prices, which will lead to a negative evolution of terms of trade.

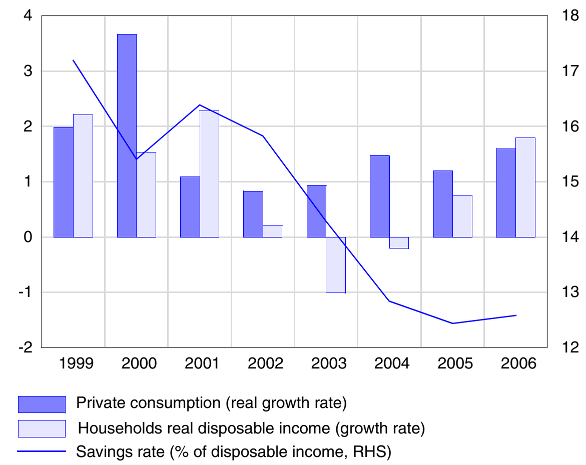
Graph 2 - Decomposition of real GDP growth
contributions to GDP growth in percentage points



This year, domestic demand should increase by 1.6%, compared to 2.1% in 2005. That drop is due to business investment. Although it remains at a high level because of increased profitability, favourable financing conditions and benign demand prospects, it should grow at a slower pace after the substantial recovery in 2005 (+8.9%), which was mainly due to a catching-up after several years of subdued growth. It is also assumed that some exceptional investment projects carried out during the last two years (naval transport) would not recur in 2006. Those exceptional investments had no impact on economic growth as they went together with an increase in imports.

Households' real disposable income should increase by 1.8% this year – compared to barely 0.8% in 2005 – as a result, among other reasons, of the tax reform and the rise in employment. Private consumption growth should speed up to 1.6%, leading to a slight recovery in the household savings ratio.

Graph 3 - Private consumption and savings rate

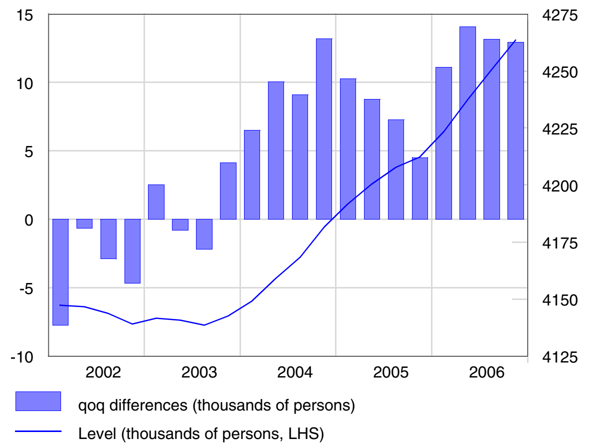


In 2006, growth of public investment at constant prices (15%) will be determined, amongst other reasons, by local authorities' infrastructure works, which will strongly increase in view of the local elections in October.

Net creation of 41,000 jobs leads to a fall in the unemployment rate

In 2005, the number of jobs increased by an annual average of 39,000 units. This increase in employment was just enough to compensate for the growth of the labour force, thus stabilising the number of unemployed people.

Graph 4 - Quarterly development of domestic employment
seasonally adjusted

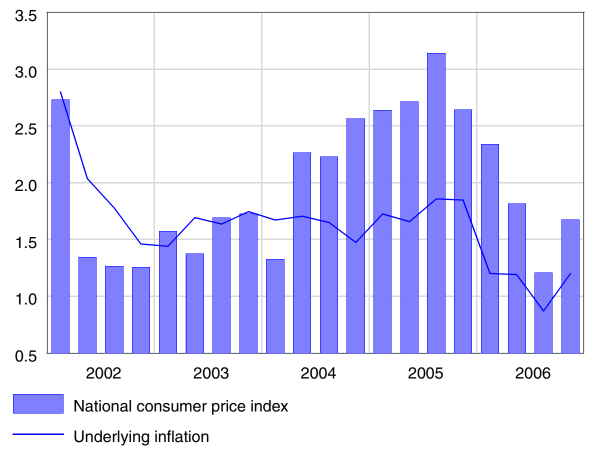


This year, quarterly employment growth should accelerate, which should give rise to an annual average creation of 41,000 jobs. As a result, the employment rate should slightly increase from 61.9% in 2005 to 62.2% in 2006. The number of jobs is growing faster than the labour force, which should slightly reduce the unemployment rate (broad administrative definition) from 14.3% last year to 14.1% in 2006. The 'harmonised' unemployment rate (Eurostat definition) should decline from 8.4% last year to 8.3% in 2006.

Inflation falls to 1.8%

In 2006, headline inflation, as measured by the national consumer price index, should amount to 1.8%, compared to 2.8% in 2005. The decline in inflation is mainly the result of a limited rise in unit wage costs, a quasi-stabilisation of oil prices in the course of the year and the introduction of a new price index. Since January 2006, inflation has been measured by means of a new basket of products, which was composed on the basis of the Household Budget Survey conducted in 2004. Until December 2005, the household consumption pattern registered in 1996 was taken as reference. As the price of some new products in the basket has increased at a much slower pace, or has even gone down, the price increase measured by means of the new index (base year 2004) is lower than that measured by the consumer price index (base year 1996). In 2005, the general index increased much faster than the health index (2.2%) which is not affected by changes in the price of fuel, alcoholic beverages and tobacco products. In 2006, the increases in both indexes should be more in line with each other (1.8% for the national consumer price index and 1.7% for the health index) as oil prices should almost stabilise in the course of the year.

Graph 5 - Quarterly development of inflation
yoy growth rates



The pivotal index for the public sector was crossed in July 2005. According to our monthly forecasts for the health index, the pivotal index (currently standing at 104.14) should be exceeded in November 2006. As a result, social benefits and public wages should be adjusted by 2% to the higher cost of living in December 2006 and January 2007 respectively.

"Economische begroting 2006 - Budget économique 2006", INR/ICN, February 2006.

Economic forecasts for Belgium by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (cut-off date of forecasts: 24 February 2006)

	2003	2004	2005	2006
Private consumption	0.9	1.5	1.2	1.6
Public consumption	2.5	2.0	1.1	1.8
Gross fixed capital formation	-0.7	4.2	8.0	1.3
Final national demand	1.0	2.6	2.1	1.6
Exports of goods and services	2.9	6.2	2.2	4.7
Imports of goods and services	3.1	6.4	2.9	4.1
Net-exports (contribution to growth)	-0.1	0.1	-0.5	0.7
Gross Domestic Product	0.9	2.6	1.5	2.2
p.m. Gross Domestic Product - in current prices (bn euro)	274.58	288.09	298.46	310.74
National consumer price index	1.6	2.1	2.8	1.8
Consumer prices: health index	1.5	1.6	2.2	1.7
Real disposable income households	-1.0	-0.2	0.8	1.8
Household savings ratio (as % of disposable income)	14.3	12.8	12.4	12.6
Domestic employment (change in '000, yearly average)	-3.3	23.7	38.6	41.1
Unemployment (Eurostat standardised rate, yearly average) [1]	8.2	8.4	8.4	8.3
Current account balance (BoP definition, as % of GDP)	4.1	3.3	2.4	2.6
Short term interbank interest rate (3 m.)	2.3	2.1	2.2	2.9
Long term interest rate (10 y.)	4.1	4.1	3.4	3.6

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

Economic forecasts for Belgium by different institutions

	GDP-growth		Inflation		Government balance		Date of update
	2005	2006	2005	2006	2005	2006	
Federal Planning Bureau	1.5	2.2	2.8	1.8	.	.	02/06
INR/ICN	1.5	2.2	2.8	1.8	.	.	02/06
National Bank of Belgium	1.5	.	2.8	.	0.0	.	02/06
European Commission	1.4	2.1	2.7	2.6	0.0	-0.3	11/05
OECD	1.4	2.0	2.6	2.4	0.0	-0.4	11/05
IMF	1.5	2.1	2.5	2.4	0.0	-0.4	02/06
ING	1.5	2.4	2.8	2.0	0.0	-0.2	03/06
Fortis Bank	1.5	2.3	2.4	2.2	0.0	0.0	03/06
Dexia	1.4	2.3	2.8	1.9	0.0	-0.4	03/06
KBC Bank	1.5	2.1	2.8	2.1	0.0	0.0	03/06
Morgan Stanley	1.4	2.1	2.8	1.9	0.0	-0.2	03/06
Petercam	1.5	2.25	2.5	1.75	-0.25	-0.9	03/06
IRES	1.5	2.5	2.8	2.1	0.0	-0.5	01/06
Consensus Belgian Prime News	1.4	2.1	2.5	2.1	-0.1	-0.4	01/06
Consensus Economics	1.5	2.1	2.4	2.2	.	.	02/06
Consensus The Economist	1.4	2.1	2.7	2.2	.	.	03/06
Consensus Wirtschaftsinstitute	1.4	2.1	2.7	2.2	.	.	10/05
Averages							
All institutions	1.5	2.2	2.7	2.1	-0.1	-0.3	
International public institutions	1.4	2.1	2.6	2.5	0.0	-0.4	
Credit institutions	1.5	2.2	2.7	2.0	-0.1	-0.3	

Collaborating institutions for The Economist: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS.
Wirtschaftforshungsinstitute: DIW (Berlin), Ifo (München), HWWA (Hamburg), IfW (Kiel), IWH (Halle), RWI (Essen)

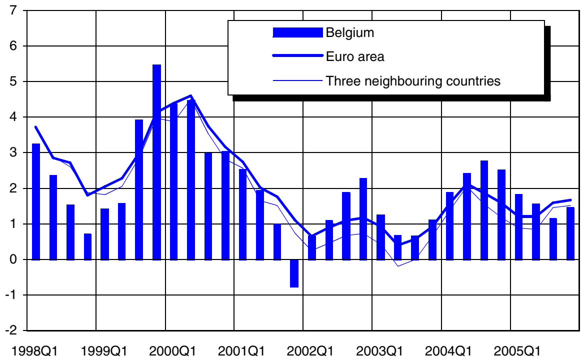
General economic activity

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

			YoY growth rates, in %					QoQ growth rates, in %				
	2004	*2005*	*2004Q4*	*2005Q1*	*2005Q2*	*2005Q3*	*2005Q4*	*2004Q4*	*2005Q1*	*2005Q2*	*2005Q3*	*2005Q4*
Germany	1.1	1.1	0.5	0.6	0.8	1.5	1.6	-0.1	0.6	0.3	0.6	0.0
France	2.1	1.4	2.0	1.7	1.0	1.7	1.2	0.7	0.3	0.0	0.7	0.2
Netherlands	1.7	0.9	1.6	-0.1	0.8	1.0	2.1	-0.1	-0.8	1.2	0.7	1.0
Belgium	2.4	1.5	2.5	1.8	1.6	1.1	1.5	0.3	0.1	0.3	0.4	0.6
Euro area	1.8	1.4	1.6	1.2	1.2	1.6	1.7	0.2	0.3	0.4	0.7	0.3
United States	4.2	3.5	3.8	3.6	3.6	3.6	3.2	0.8	0.9	0.8	1.0	0.4
Japan	2.3	2.7	0.5	1.1	2.7	2.8	4.3	-0.2	1.3	1.4	0.2	1.3

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

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

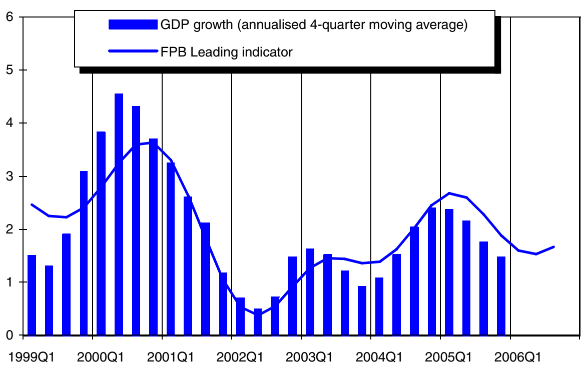


Source: INR/ICN, National sources, Eurostat

Graph 2 - GDP business cycle

Source: INR/ICN, Eurostat, FPB

Graph 3 - GDP growth and leading indicator



Source: INR/ICN, FPB

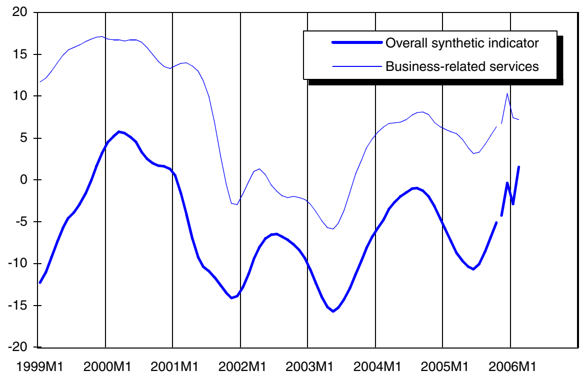
In the US, qoq GDP growth fell from an average of 0.9% in the first three quarters to 0.4% in 2005Q4, on the back of a slowdown in domestic demand. The low quarterly reading in 2005Q4 is probably influenced by hurricane Katrina and could be temporary. Although indicators point to a rebound in 2006Q1, economic growth will nevertheless decelerate somewhat in the course of 2006 as interest rate increases and a slowdown in the housing market will dampen consumer expenditure growth.

After a strong 2005H1 and a temporary slowdown in 2005Q3, the Japanese economy recorded a qoq growth rate of 1.3% in 2005Q4. Despite the negative carry-over from 2004, average annual growth still reached 2.7% in 2005. The current economic recovery appears to be more sustainable than previous ones as it is not merely driven by exports, but also by domestic demand. A decline in the unemployment rate, rising wages, strong business and consumer confidence and a return to positive inflation rates are boding well for the future.

Economic growth in the euro zone accelerated markedly in 2005Q3 (0.7% qoq), but slowed down again unexpectedly in 2005Q4 (0.3%). Private consumption remained the weak spot in 2005, while investment growth picked up in the second half of the year. Strong business confidence readings, an expected acceleration of employment growth and a deceleration of inflation should allow for an acceleration of GDP growth in 2006 (1.9% versus 1.4% in 2005).

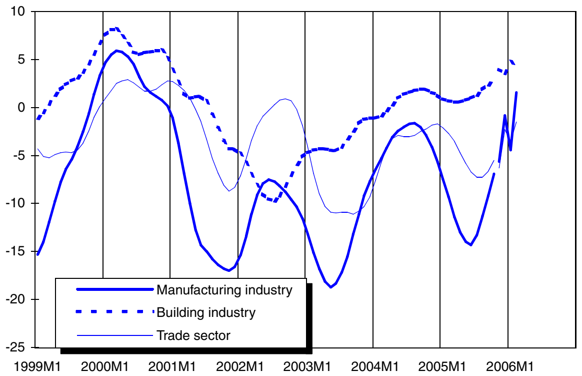
In Belgium, economic activity in 2005Q4 (+0.6%) was stronger than the average growth of its main trading partners, due to stagnation in Germany and weak economic growth in France (+0.2%). The Dutch GDP surged by 1% qoq in 2005Q4. The FPB leading indicator has declined for most of 2005, but seems to bottom out in 2006Q2, which should allow for stronger GDP growth in 2006 (2.2%) than for last year (1.5%).

Graph 4 - Business cycle: global evolution



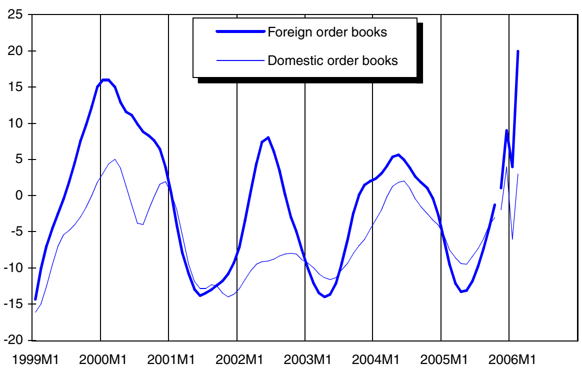
Source: NBB

Graph 5 - Business cycle: sectoral evolution



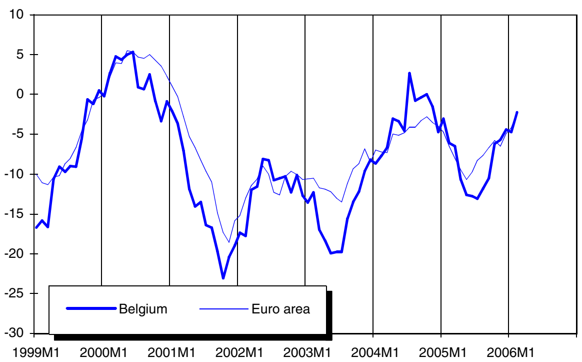
Source: NBB

Graph 6 - Manufacturing industry: order books



Source: NBB

Graph 7 - Industrial confidence: international comparison



Source: Eurostat

Between mid-2004 and mid-2005, business confidence (shown as the overall synthetic indicator in graph 4) deteriorated considerably due to a surge in oil prices, the appreciation of the euro, weaker world trade growth and a slowdown of the European economy. In 2005Q3 the indicator rose marginally, but the real improvement came in the fourth quarter. In the first two months of 2006 business confidence continued to improve and is now at its highest level since 2000 (apart from July 2004). This implies that the Belgian business climate is currently very optimistic, which points to strong economic growth in the first half of 2006.

The recovery in business confidence over the last half year was broadly-based as all four sectors covered by the NBB business survey (manufacturing, construction, trade and business-related services) improved. The biggest change in sentiment, however, was seen in the manufacturing sector. This improvement is the result of an acceleration of world trade growth, stronger economic growth in Belgium's main export destinations (i.e. our neighbouring countries) and a considerable depreciation of the euro . The euro had already started to slide in early 2005, but generally affects exports with a lag of several quarters.

The rise in *manufacturing* sentiment was particularly the result of a surge in foreign orders (see graph 6). Domestic order books also rose in the same period, but to a lesser extent.

The improvement of the indicator for the *trade sector* was more modest than for the manufacturing sector as the improvement seen in the foreign orders component was partially counterbalanced by a deterioration in domestic orders.

The indicator for the *building industry* has gradually improved, helped by continuing low mortgage rates. In the subcomponents especially the expectations for future demand and employment have turned around. However, the possibility of further gains seems to be limited as rising interest rates should curb activity in this sector somewhat.

The indicator for the *business-related services sector* (not taken into account in determining the synthetic indicator) rose in 2005Q4, but fell back slightly in 2006Q1, due to a weakening of employment prospects. On the whole, expectations for future activity have improved over the last months

While six months ago, industrial confidence in Belgium was lagging behind that for the euro zone, it has now caught up with the European cycle. The rise in business confidence in the euro area was driven by a surge of the German IFO-indicator, which is now at its highest level since the post-unification boom in 1991.

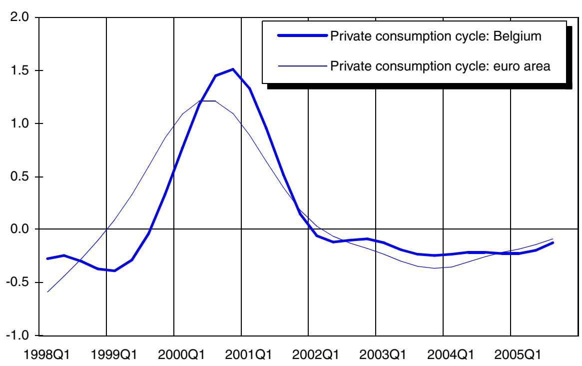
Private consumption

Table 2 - Private consumption indicators

	2004	*2005*	*2005Q1*	*2005Q2*	*2005Q3*	*2005Q4*	*2005M9*	*2005M10*	*2005M11*	*2005M12*	*2006M1*	*2006M2*
New car registrations [1]	5.7	-1.0	-6.1	2.1	6.9	-4.4	5.3	-5.5	5.9	-16.6	14.1	20.8
Consumer confidence indicator [2]	-3.3	-7.6	-3.2	-8.7	-11.8	-6.8	-14.1	-6.2	-8.6	-5.5	-3.5	-5.0

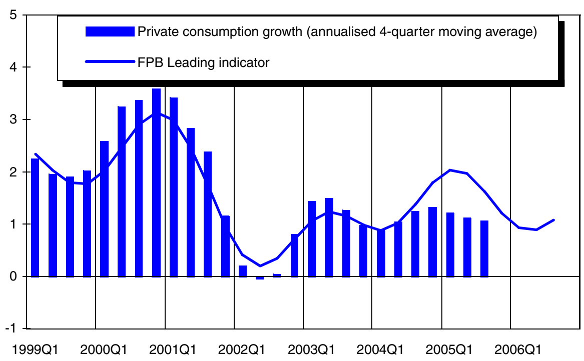
[1] Change (%) compared to same period previous year; [2] Qualitative data
Source: European Commission, Febiac, FPB

Graph 8 - Private consumption cycle



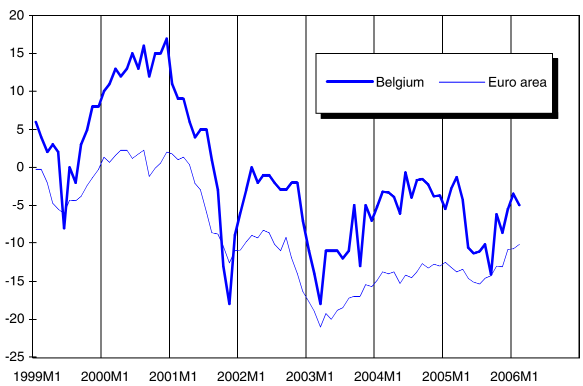
Source: INR/ICN, Eurostat, FPB

Graph 9 - Private consumption growth and leading indicator



Source: INR/ICN, FPB

Graph 10 - Consumer confidence: international comparison



Source: European Commission

Since 2003, the private consumption cycle in Belgium as well as in the euro area has been rather stable, which implies that private consumption growth in both areas has been in line with its trend growth rate.

The profile of the annualised 4-quarter moving average growth rates (graph 9) also shows that the volatility of Belgian private consumption growth has been very limited over the last few years. This smoothed profile hides, however, a more pronounced evolution of qoq growth rates. In fact, quarterly consumption growth has gradually declined from 0.6% in the beginning of 2004 to zero growth in the last quarter. In 2005, private consumption picked up again and registered an average growth of 0.4% per quarter. Although the increase in the fourth quarter is expected to be in line with this average, annual growth in 2005 should only amount to 1.2% due to the unfavourable quarterly growth profile in 2004.

Since 2002, private consumption has increased faster than real disposable income, which caused a decline in the saving rate from 16.4% in 2001 to 12.4% in 2005. Real disposable income declined in 2003 and 2004, and increased surprisingly slowly in 2005 in view of the significant pick-up in employment. This was mainly the consequence of the discrepancy between the evolution of the general price level and that of the health index, which is used for the indexation of wages and social benefits and is less affected by oil price changes.

The private consumption indicators summarised in the FPB leading indicator, point to an acceleration of growth in 2006. After a deceleration during the first half of 2005, the consumer confidence indicator and indicators for the trade sector coming from the monthly NBB business cycle survey have been on an upward path since October last year. After a limited decrease in 2005, car sales should be stimulated again by the biannual motor show held in Brussels in January. Moreover, disposable income should benefit this year from the last phase of the fiscal reform and a significant increase in employment.

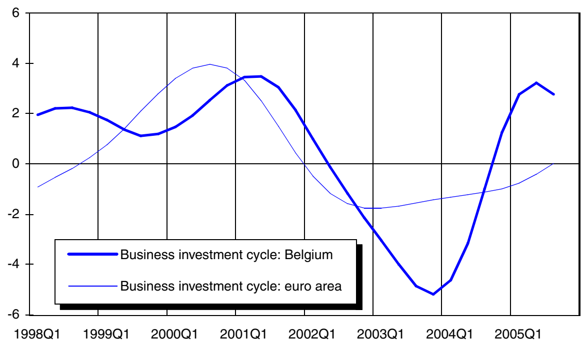
Business investment

Table 3 - Business investment indicators

	2004	2005	2006	2005Q1	2005Q2	2005Q3	2005Q4	2005M10	2005M11	2005M12	2006M1	2006M2
Business survey, capital goods [2]												
Synthetic indicator	-2.6	-2.9	.	-6.1	-5.5	-2.7	2.6	0.0	3.0	4.8	7.0	8.3
Order book appraisal	-16.3	-7.0	.	-13.0	-12.0	-3.7	0.7	-4.0	5.0	1.0	7.0	8.0
Demand forecasts	10.4	4.4	.	1.3	5.0	1.0	10.3	11.0	11.0	9.0	17.0	11.0
Investment survey [1]	-9.9	-6.7	21.6									
Capacity utilisation rate (s.a.) (%)	80.7	79.4	.	79.2	78.2	79.1	80.5					

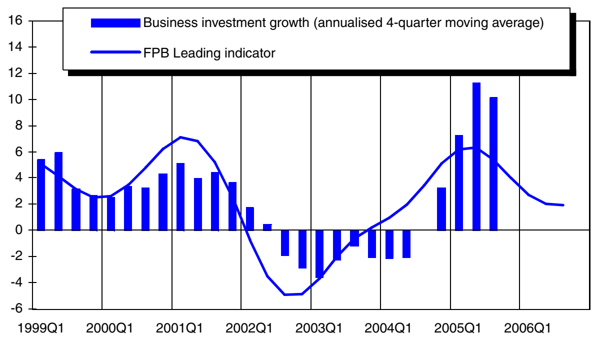
[1] Change (%) compared to same period previous year; [2] Qualitative data
Source: NBB, FPB

Graph 11 - Business investment cycle



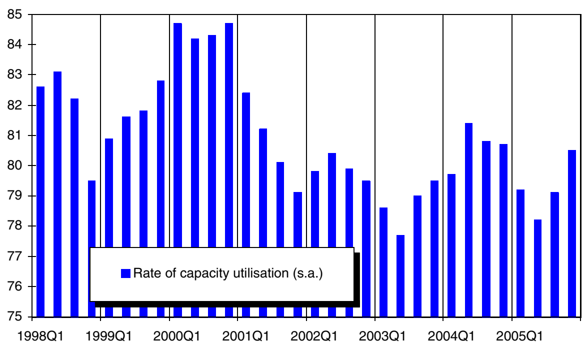
Source: INR/ICN, Eurostat, FPB

Graph 12 - Business investment growth and leading indicator



Source: INR/ICN, FPB

Graph 13 - Capacity utilisation in manufacturing industry



Source: NBB, FPB

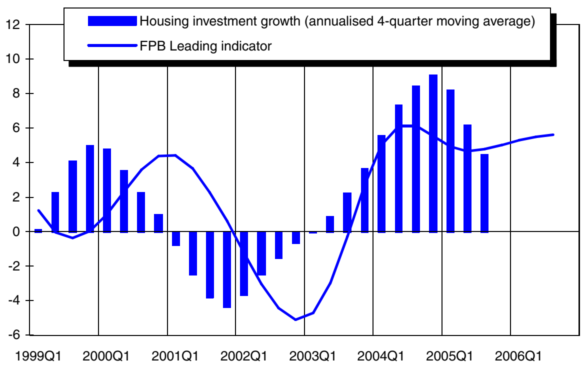
Over the last three years, the evolutions of the Belgian and the euro area investment cycles have been quite different. In the euro area, the investment cycle reached a trough by the beginning of 2003, followed by two years in which the investment cycle gained very little momentum. Euro area investment growth only accelerated substantially in the course of 2005. The Belgian business investment cycle still registered massive losses in the course of 2003 and reached a trough by the end of that year. This downturn was followed by a spectacular upturn, which brought Belgian business investment from 5% below to 3% above its trend level in only six quarters.

The explicit profile of the Belgian business investment cycle is also seen in the yearly growth rates. After a strong increase in 2000 and 2001 (4.7% per year on average), business investment growth became negative during the next two years (-2.7% per year on average). Despite benign financing conditions, an increase in the capacity utilisation rate and an improvement in demand prospects since the second half of 2003, the increase of 3.1% in 2004 was only registered because of exceptional purchases of sea vessels by some maritime companies. While business investment was clearly below the FPB leading indicator in 2004, it has been far above the indicator since the beginning of 2005. This indicates that many firms probably postponed investment projects between 2003Q3 and 2004Q4 and only carried them out during the first half of 2005. The negative growth rate in 2005 from the NBB investment survey, which is only held in the manufacturing sector, suggests that the investment boom mainly occurred in the services sector.

The rise in the capacity utilisation rate and the improvement of the indicators for the capital goods sector coming from the NBB business survey indicate that business investment growth should remain quite strong in 2006. Yearly growth will however be influenced downwards as the exceptional investment expenditure in the maritime transport sector during 2004 and 2005 will not be repeated this year.

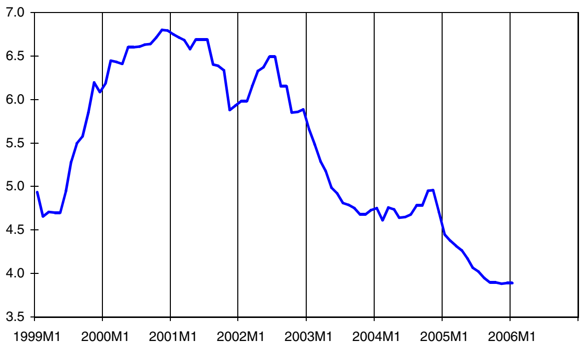
Housing investment

Graph 14 - Housing investment growth and leading indicator



Source: INR/ICN, FPB

Graph 15 - Mortgage rate (%)



Source: NBB

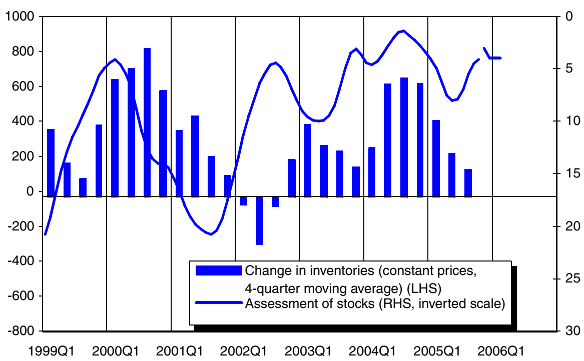
After two years of negative growth, housing investment accelerated strongly in 2003 and 2004, recording growth rates of 3.8% and 9% respectively. The impressive increase in 2004 was caused by high qoq growth rates during the first half of the year. In the second half of 2004, qoq growth returned to rates that were in line with the long run average. In the course of last year, qoq housing investment growth remained around 0.6%, which should result in an increase of 3% for the year as a whole.

The FPB leading indicator points to a stabilisation of housing investment growth in 2006. In fact, indicators from the survey of architects (which have a lead of around one year) improved markedly throughout 2004, stagnated in the first half of 2005 and improved again by the end of the year. The indicator for the building industry coming from the monthly NBB survey stabilised at a rather high level during the last few quarters, which also indicates that housing investment growth in 2006 will be in line with the performance seen last year.

The mortgage rate fell during the first three quarters of last year, but seemed to bottom out during the last quarter of 2005. Interest rates have been on an upward path since the beginning of 2006, which implies that mortgage rates probably reached a trough by the turn of the year and will become less supportive to housing investment in the next few quarters.

Stock building

Graph 16 - Stock building indicators



Source: INR/ICN, NBB

Recent developments in the assessment of the level of stocks went hand in hand with the business cycle stance. Due to the deceleration in GDP growth between 2004Q4 and 2005Q2 (average qoq growth of 0.2%, compared to 0.7% during the first three quarters of 2004), the number of entrepreneurs marking their level of stocks as 'too high' increased. This evolution was counterbalanced during the second half of 2005 together with a pick-up in economic activity.

Due to the significant deceleration in stock building in the course of 2005, their contribution to economic growth will be negative over the year as a whole. This development is a correction after the significant build-up of stocks in 2004, which was probably unintentional to a certain extent. This year, stocks are expected to be neutral for economic growth.

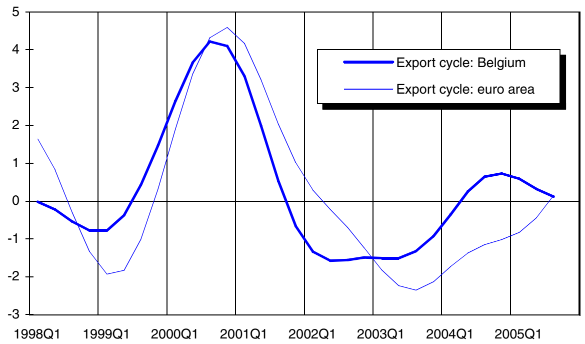
Foreign Trade

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

	2003	*2004*	*2004Q4*	*2005Q1*	*2005Q2*	*2005Q3*	*2005M6*	*2005M7*	*2005M8*	*2005M9*	*2005M10*	*2005M11*
Exports - value [1]	1.2	8.9	11.7	9.3	10.2	8.1	7.5	3.3	12.2	9.1	-0.6	11.3
Imports - value [1]	1.5	10.5	12.5	11.4	12.2	11.5	8.2	8.4	12.8	13.1	6.2	20.1
Exports - volume [1]	3.4	6.6	6.5	2.1	4.0	1.5	1.6	-2.2	5.1	2.1	-6.4	3.3
Imports - volume [1]	4.1	7.0	5.2	3.5	5.7	3.6	0.5	1.0	5.3	4.5	-2.2	12.6
Exports - price [1]	-2.0	2.1	4.9	7.1	5.9	6.4	5.9	5.7	6.7	6.8	6.3	7.8
Imports - price [1]	-2.4	3.2	6.8	7.5	6.1	7.5	7.6	7.3	7.2	8.1	8.6	6.6

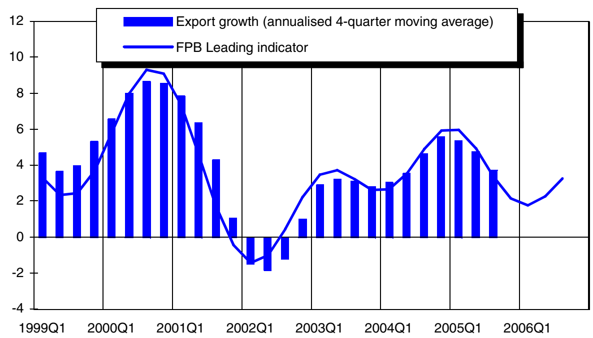
[1] Change (%) compared to same period previous year
Source: INR/ICN, FPB

Graph 17 - Export cycle



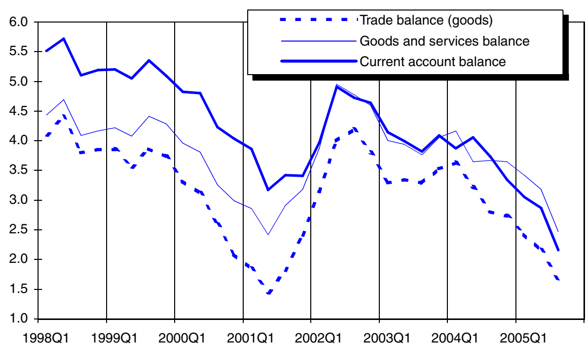
Source: INR/ICN, Eurostat, FPB

Graph 18 - Export growth and leading indicator



Source: INR/ICN, FPB

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



Source: INR/ICN, NBB, FPB

Because of negative quarterly growth rates in the first and the second quarter of 2005, the Belgian export cycle started levelling off. In spite of a surge in exports in 2005Q3, the export cycle continued its decline, but is still in above-trend territory. The European cycle has greatly improved over the last few quarters, due to an excellent export performance in 2005Q2 and 2005Q3, but remains just below its trend.

In the first half of 2005 Belgian export growth fell due to a serious slowdown in world trade and the negative effects on competitiveness from the appreciation of the euro exchange rate (in 2004). As the euro depreciated considerably in the course of 2005, these negative effects began to fade and together with renewed vigour in worldwide economic activity this has allowed a strong recovery of Belgian exports in the second half of 2005. As the Dutch CPB forecasts strong world trade growth in first half of 2006, and as the economic growth of Belgium's main trading partners is expected to accelerate, Belgian export growth should be quite strong in 2006. On an annual basis, export growth is expected to rise from 2.2% in 2005 to 4.7% this year.

This is confirmed by the FPB composite leading indicator, which is also pointing to an acceleration in economic growth in at least the first two quarters of 2006. In the second half of the year, export growth could slow down slightly as the beneficial effects of the euro depreciation in 2005 will start to fade and as quarterly world trade growth should slow down somewhat.

The Belgian current account surplus, expressed as a percentage of GDP, declined for the third consecutive year in 2005 to just 2.4% (following 3.3% in 2004). Terms of trade losses due to oil price increases played a major role in this deterioration, but the composition of our exports (specialisation in semimanufactured products for which competition from emerging countries is strong) and their destination (not very orientated towards the fast-growing Asian economies) are also part of the explanation.

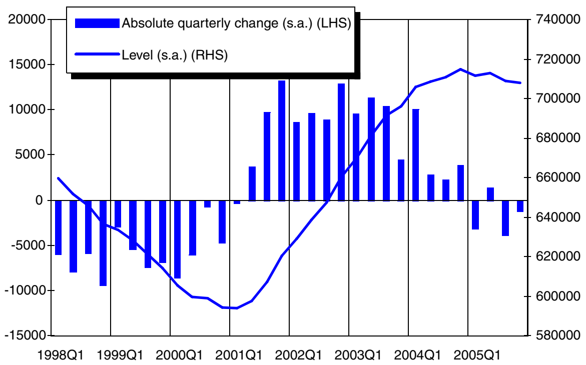
Labour market

Table 5 - Labour market indicators

	2004	2005	2005Q1	2005Q2	2005Q3	2005Q4	2005M8	2005M9	2005M10	2005M11	2005M12	2006M1
Unemployment [1][2]	710.1	710.4	711.6	712.9	709.1	707.8	707.7	708.0	708.1	707.7	707.7	.
Unemployment rate [2][3]	14.4	14.3	14.4	14.4	14.3	14.2	14.2	14.2	14.2	14.2	14.2	.
Unemployment rate-Eurostat [3][4]	8.4	8.4	8.4	8.5	8.4	8.4	8.4	8.4	8.4	8.3	8.3	8.3

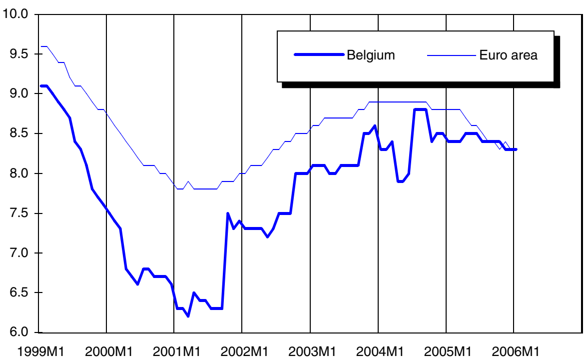
[1] Level in thousands, s.a.; [2] Broad administrative definition; [3] In % of labour force, s.a.
[4] Recent figures are based on administrative data and may be subject to revision
Source: RVA/ONEM, FPS Employment, Eurostat, FPB

Graph 20 - Evolution of unemployment (incl. older)



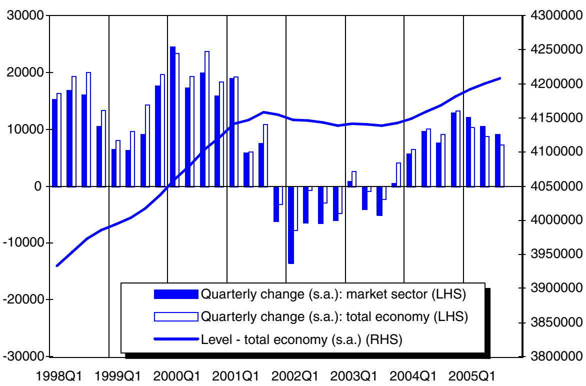
Source: RVA/ONEM

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



Source: Eurostat

Graph 22 - Evolution of domestic employment



Source: INR/ICN

Quarter-to-quarter growth of value added in the market sector decreased sharply at the outset of last year (from 0.4% in the last quarter of 2004 to -0.3% in the first quarter of 2005). The slowdown in activity was, however, of a very short nature: value added growth recovered in the second quarter to 0.6%, remained at that level during the second half of last year and is expected to increase slightly further in the course of this year.

According to the statistical indicators that are available at this stage (employment figures up to the third quarter of 2005; unemployment figures for all quarters of 2005), this sudden but transitory dip in activity failed to have a substantial negative impact on the evolution of the labour market. Growth in market sector employment decelerated only marginally during the first three quarters of 2005 (consecutive qoq growth figures of 0.36%, 0.32% and 0.27%), and is not expected to have fallen significantly during the fourth quarter, given the rather favourable observed evolution of unemployment.

On a yearly-average basis, market sector employment growth accelerated from only 0.5% in 2004 to an estimated 1.3% in 2005, whereas at the same time growth in value added fell from 2.1% in 2004 to 1.4% in 2005. This sharp decrease in apparent productivity growth may be explained largely by the quarterly dynamics at hand, with the 2005 yearly average figure for employment being boosted substantially by a positive spill-over effect from significant job creation during 2004, and the 2005 yearly average figure for value added fully bearing the consequences of the negative first quarter growth in activity.

It should be noted that quarter-to-quarter growth in total domestic employment has decelerated somewhat further during the last year in view of the government-subsidised transfer of a number of domestic services formerly located in the household sector towards the market sector. As a consequence, yearly average growth in total domestic employment accelerated less than market sector employment, from 0.6% in 2004 to 0.9% in 2005, implying a rise in the employment rate from 61.7% in 2004 to 61.9% in 2005.

Prices

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

	2004	2005	2005Q1	2005Q2	2005Q3	2005Q4	2005M9	2005M10	2005M11	2005M12	2006M1	2006M2
Consumer prices: all items	2.10	2.78	2.64	2.71	3.14	2.64	3.16	2.48	2.57	2.88	2.63	2.38
Food prices	1.53	1.93	2.08	2.28	1.67	1.71	1.26	1.52	1.75	1.86	1.65	1.48
Non food prices	2.23	3.60	3.01	3.41	4.62	3.33	4.98	3.15	3.10	3.74	3.66	3.06
Services	2.36	2.35	2.64	2.17	2.20	2.39	2.01	2.23	2.44	2.49	1.46	1.68
Rent	1.88	1.99	1.79	1.84	2.06	2.25	2.17	2.18	2.22	2.34	3.79	3.57
Health index	1.63	2.17	2.10	2.18	2.36	2.03	2.25	1.72	2.04	2.32	2.00	1.95
Brent oil price in USD (level)	38.2	54.4	47.5	51.7	61.5	56.9	62.9	58.6	55.2	56.8	62.9	60.2

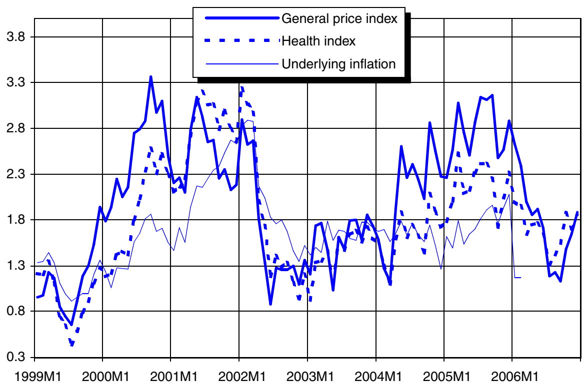
Source: FPS Economy, Datastream

Table 7 - Monthly inflation forecasts

	2005M1	2005M2	2005M3	2005M4	2005M5	2005M6	2005M7	2005M8	2005M9	2005M10	2005M11	2005M12
Consumer prices: all items	100.83	101.51	102.16	102.39	102.54	102.85	103.47	103.57	103.69	103.50	103.47	103.45
Consumer prices: health index	100.80	101.33	101.88	101.85	102.04	102.22	102.63	102.65	102.54	102.37	102.68	102.76
Moving average health index	100.63	100.80	101.11	101.47	101.78	102.00	102.19	102.39	102.51	102.55	102.56	102.59
	2006M1	2006M2	2006M3	2006M4	2006M5	2006M6	2006M7	2006M8	2006M9	2006M10	2006M11	2006M12
Consumer prices: all items	103.48	103.93	104.20	104.29	104.51	104.61	104.70	104.84	104.86	105.04	105.18	105.40
Consumer prices: health index	102.82	103.31	103.56	103.63	103.84	103.90	103.98	104.11	104.12	104.29	104.42	104.66
Moving average health index	102.66	102.89	103.11	103.33	103.59	103.73	103.84	103.96	104.03	104.13	104.24	104.37

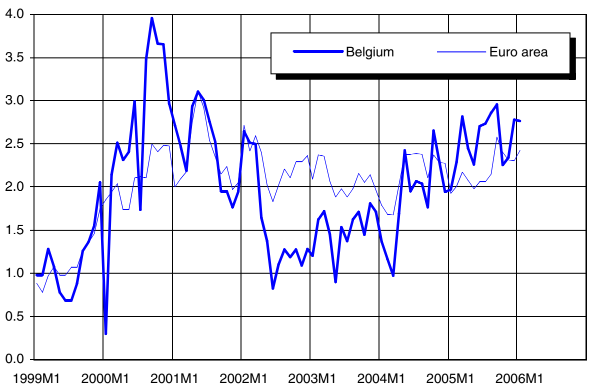
Source: Observations (up to 06M2): FPS Economy; forecasts: FPB

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



Source: FPS Economy, from 06M3 on: forecasts FPB

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



Source: Eurostat

During the last quarter of 2005, inflation (measured as the yoy growth rate of the national index of consumer prices, NICP) slowed down considerably to 2.6%, compared to 3.1% in the third quarter. This decline was partly due to the decrease in oil prices, but also to the exceptional reimbursement of part of the VAT paid on fuel for domestic heating. Despite the abolition of this measure and the new rise in oil prices, inflation did not accelerate in January 2006, which is explained by the introduction of a new index to measure consumer price inflation. Technically speaking, the base year of the index has shifted from 1996 to 2004. In practice, this means that from January 2006 onwards, the basket of goods taken into account to calculate the national consumer price index is based on the consumer expenditure pattern of 2004. Prices of some of the new products in the basket increase very slowly or even decline. This implies lower inflation rates if the new index is used as price indicator.

Due to the sharp rise in oil prices in 2005, the increase in the 'health index' (2.2%) - which is not influenced by price changes in oil products for transport purposes - was 0.6%-points lower than headline inflation (2.8%). In the course of 2006 oil prices should roughly stabilise and the gap between the average annual growth rate of the health index (1.7%) and the NICP (1.8%) should narrow significantly. The pivotal index for public wages and social benefits (currently 104.14) should be exceeded by the moving average of the health index in November 2006.

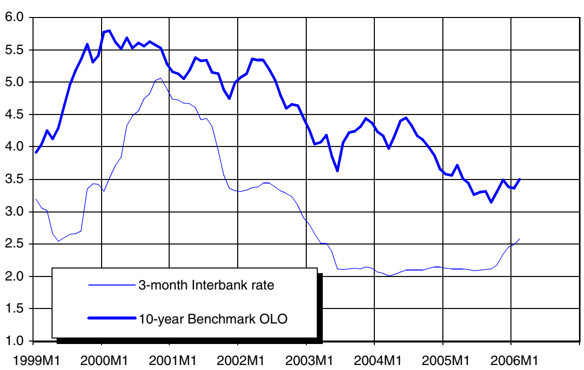
Interest rates

Table 8 - Interest rates

	2004	2005	2005Q1	2005Q2	2005Q3	2005Q4	2005M9	2005M10	2005M11	2005M12	2006M1	2006M2
Short-term money market rates (3 months)												
Belgium	2.08	2.16	2.12	2.10	2.11	2.33	2.12	2.18	2.35	2.46	2.49	2.58
Euro area (Euribor)	2.11	2.18	2.14	2.12	2.13	2.34	2.14	2.20	2.36	2.47	2.51	2.60
United States	1.56	3.51	2.78	3.23	3.74	4.30	3.87	4.13	4.31	4.45	4.56	4.72
Japan	-0.03	0.01	0.00	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.03
Long-term government bond rates (10 years)												
Belgium	4.13	3.42	3.62	3.40	3.25	3.39	3.14	3.30	3.49	3.39	3.36	3.50
Germany	4.06	3.38	3.62	3.34	3.19	3.36	3.09	3.26	3.46	3.37	3.34	3.48
Euro area	4.10	3.42	3.64	3.38	3.23	3.41	3.14	3.31	3.51	3.40	3.38	3.53
United States	4.26	4.29	4.29	4.16	4.21	4.49	4.18	4.45	4.55	4.46	4.41	4.60
Japan	1.49	1.37	1.38	1.25	1.34	1.52	1.35	1.53	1.52	1.51	1.46	1.57

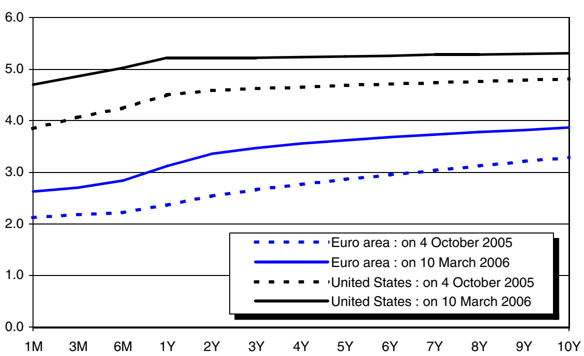
Source: NBB, ECB

Graph 25 - Interest rate levels in Belgium, %



Source: NBB

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



Source: Datastream, data based on interest rate swaps

Having raised interest rates by 2%-points in total in 2005, the Federal Reserve raised the Federal Funds rate by another 25 base points in January to bring it to 4.5%. Since the newly-appointed Fed chairman Bernanke has signalled that interest rates might have to rise further to prevent the US economy from overheating, one or two more interest rate hikes of 0.25%-points seem to be in the offing this year.

The ECB had been uncomfortable with a negative real refinancing rate for some time as it was fuelling credit growth and risked creating a bubble on the housing market. However, as economic growth was disappointing in the first half of the year and core inflation remained well under control in the face of high oil prices, a rate rise would not have been expedient. When GDP growth (in 2005Q3) turned out to be quite strong (0.6% qoq), the ECB promptly raised its refi rate by 25 base points (the first change in monetary policy in 2.5 years). More interest rate hikes are expected in the course of 2006.

After it was clear that the impact of hurricane Katrina on the US economy was less significant than initially feared, US long-term interest rates jumped by 60 base points in September and October. Euro zone long rates followed this upward move, but to a lesser extent (+40 base points), further widening the spread between US and euro zone long rates. Since the beginning of November both US and euro zone long rates have been fairly stable. In 2006 the spread between US and euro zone long rates should decline somewhat as the outlook for the euro zone economy has brightened, while a mild slowdown is expected for the US economy. In the euro zone, the yield curve's slope has hardly changed over the last five months, while in the US, the yield curve has flattened further.

Exchange rates

Table 9 - Bilateral exchange rates

	2004	2005	2005Q1	2005Q2	2005Q3	2005Q4	2005M9	2005M10	2005M11	2005M12	2006M1	2006M2
USD per EUR	1.244	1.244	1.310	1.259	1.219	1.189	1.225	1.202	1.178	1.186	1.211	1.194
UKP per EUR	0.679	0.684	0.693	0.678	0.683	0.680	0.677	0.681	0.679	0.680	0.686	0.683
JPY per EUR	134.4	136.8	137.0	135.4	135.6	139.3	136.1	138.1	139.6	140.4	139.9	140.7

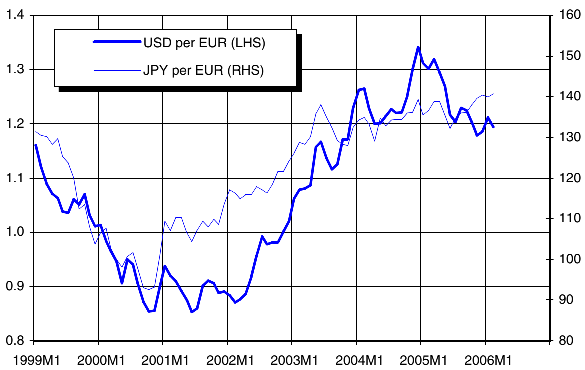
Table 10 - Nominal effective exchange rates (1990=100)

	2004	2005	2005Q1	2005Q2	2005Q3	2005Q4	2005M9	2005M10	2005M11	2005M12	2006M1	2006M2
Euro	93.8	93.7	95.7	93.6	93.0	92.5	92.9	92.8	92.3	92.5	92.9	92.5
Growth rate [1]	3.2	-0.2	0.1	-2.2	-0.7	-0.5	-0.3	-0.2	-0.5	0.1	0.5	-0.4
US dollar	99.7	97.8	94.7	97.0	98.7	100.8	98.1	99.9	101.6	100.8	98.9	99.7
Growth rate [1]	-7.3	-1.9	-1.3	2.4	1.7	2.1	-0.1	1.9	1.6	-0.8	-1.9	0.8
Japanese yen	142.8	138.3	142.4	140.4	138.0	132.5	137.9	134.7	131.8	130.9	132.5	130.5
Growth rate [1]	2.0	-3.1	-0.1	-1.4	-1.7	-4.0	-0.1	-2.3	-2.2	-0.7	1.2	-1.6

[1] Change (%) compared to previous period

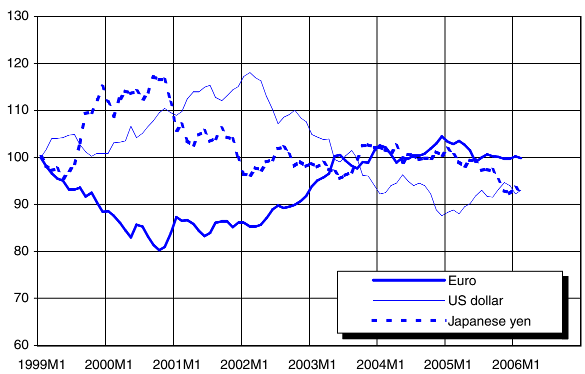
Source: BIS, NBB

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



Source: NBB

Graph 28 - Nominal effective exchange rates (Jan. 99=100)



Source: NBB, BIS

For most of 2005 the euro was on a downward trend versus the dollar. This depreciation was driven by the increasing divergence between US and European interest rates. Moreover, the massive buying of US government bonds by Asian central banks and the OPEC, and the Homeland Investment Act, which allowed US companies to repatriate accumulated profits abroad at a favourable fiscal tariff, also raised demand for US dollars. Furthermore, the euro was not helped by either the rejection of the draft of the European constitution in France and the Netherlands or the French riots. The euro only gained ground against the dollar in December 2005, when economic growth seemed to accelerate and the ECB hiked interest rates. The strengthening of the euro lasted until February, when growth figures for 2005Q4 in the euro zone were disappointing and the hawkish tone by the new Federal Reserve chairman made it clear that the expected narrowing of the interest rate divergence between the US and the euro zone might not materialise.

After the initial depreciation of the euro versus the British pound in the first half of 2005, the euro jumped back in July, making up for most of the losses since the beginning of the year. Since then, the pound/euro exchange rate has been fairly stable (between 0.67 and 0.69 euro per pound). On an annual basis the euro appreciated about 1% against the pound in 2005, following a 2% loss in 2004.

The nominal effective euro exchange rate depreciated marginally in 2005 (-0.2%), following four years of continuous appreciation.

Tax indicators

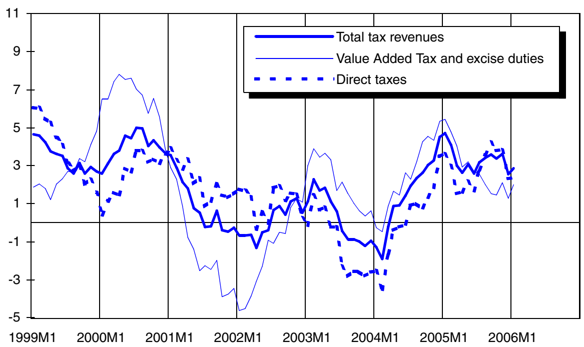
Table 11 - Tax revenues (1)

	2004	2005	2005Q1	2005Q2	2005Q3	2005Q4	2005M8	2005M9	2005M10	2005M11	2005M12	2006M1
Total [2], of which:	6.7	5.4	1.7	4.4	10.6	4.9	12.4	10.2	4.6	8.6	3.1	8.6
Direct taxes, of which:	5.7	5.2	-0.7	4.6	14.4	2.8	19.9	11.9	4.0	6.9	0.1	5.2
Withholding earned income tax (PAYE)	3.9	3.9	1.6	5.1	5.6	3.2	8.2	5.7	6.5	2.2	1.3	2.3
Prepayments	13.8	5.7	.	10.0	11.4	-2.3	.	.	6.3	.	-9.8	.
Value Added Tax and excise duties	7.6	4.1	2.5	2.5	4.8	6.1	5.0	6.3	3.7	10.7	4.9	12.4

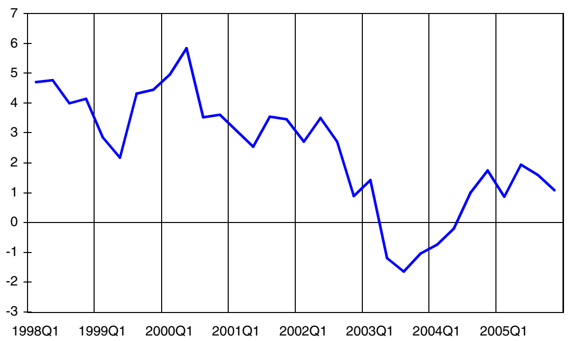
[1] Change (%) compared to same period previous year; [2] Total received by federal government, excl of death-duties

Source: FPS Finance, FPB

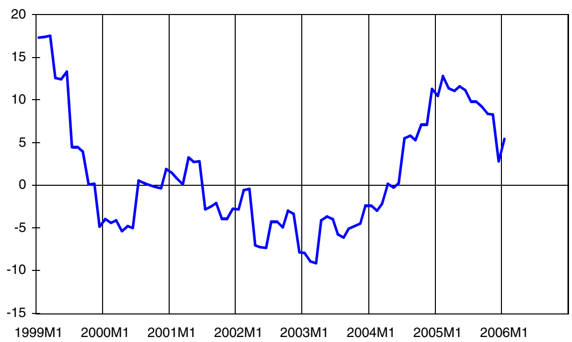
Graph 29 - Real tax revenues (3)



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



Graph 31 - Real prepayments (3)



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

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

Last year, total revenue from taxes recorded a nominal increase of 5.4%, slightly less than in 2004 (which was particularly high: 6.7% nominal, the highest growth rate since 1997). The nominal growth rate in 2005 was largely higher than in 2003 (0.6%), 2002 and 2001 (2.2% each).

However, growth in both direct and indirect taxation on a yoy 12-month moving average had diminished in the first half of 2005, reflecting the slowdown in economic growth. This deceleration was limited both in time and amplitude: in the second semester, the main categories of taxes maintained a relatively high growth profile.

As from the summer, the large rise in energy prices has been the main factor supporting the evolution of VAT receipts. Moreover, whereas VAT reimbursements grew faster than gross collections of VAT in both the first and second quarters of 2005, due to the deceleration of exports this was no longer the case in the last two quarters of 2005. In 2005 excise duties on both tobacco and energy products showed a growth rate below price inflation. The latter have been affected by the duty rate reductions on diesel which have been gradually introduced by the government from July onwards, in reaction to the boom in oil prices.

Real growth in PAYE revenue, mainly levied on wages, stayed on a moderate but positive trend throughout 2005, following a limited increase in employment. Growth in advance payments, though on a declining trend on a 12-month moving average basis, has remained strong over the year, reflecting continuing high business profitability.

Taxes on dividends and interests rose sharply in 2004. An upsurge was also noticed in registration duties, reflecting the dynamism of the real estate market in 2004, both in volume and in prices.

Administrative burdens in Belgium in 2004

In response to the Council of Ministers and in collaboration with the Dienst voor Administratieve Vereenvoudiging/Agence pour la Simplification Administrative, the FPB has estimated the cost of the administrative burden for companies and self-employed persons in 2004. The estimation of the administrative burden is based on a national survey and uses the same methodology as the one used in the surveys carried out for the years 2000 and 2002. Businesses are invited to make their own assessment of the administrative burden imposed by three areas of legislation: environmental, employment and tax legislation. The Planning Paper analyses the results of the 2004 survey and compares them with the results of the two previous surveys.

The administrative burden on companies, based on their responses, is estimated to cost EUR 4.9 billion, or 1.7% of GDP, and the estimate based on the responses from self-employed persons amounts to EUR 2.4 billion, or 0.8% of GDP. In comparison with the 2002 survey, the administrative burden is declining for both companies and self-employed persons and only because of lower in-house administrative burdens.

Tax legislation is perceived by companies and self-employed persons as creating the biggest share of the total estimated administrative burden. The share of the administrative burden associated with employment legislation has been rising between 2002 and 2004.

Concerning the most time-consuming forms, companies and self-employed persons indicate VAT as the number one for tax legislation and forms linked to regional competencies as the number one for environmental legislation. Among employment forms, companies underline wages and compensation forms as the most time-consuming.

As in previous surveys, small businesses (with less than 10 employees) face the highest administrative burden, expressed as a percentage of turnover and per employee. However, with an annual average cost per employee estimated to be a little less than EUR 6,000, small businesses have recorded the largest relative decrease in their administrative burden. In addition to this quantitative analysis, the survey also has a qualitative part in which business sentiment is analysed on issues relating to the quality of legislation, of contact with the administration and to the process of administrative simplification.

Companies and self-employed persons are generally more satisfied with their contact with the administration than with the quality of legislation. For all areas of legislation, companies and self-employed persons are relatively satisfied with the public information that accompanies legislation. Lack of adaptability of the legislation is the most criticised aspect of legislation, with the exception of tax legislation for companies. Indeed, for companies, tax legislation is perceived as constantly improving in terms of the quality of the legislation as well as the quality of contact with the administration. However, a general decrease in the quality of contact with the environmental administration is mentioned by self-employed persons.

The degree of knowledge of the administrative simplification initiatives follows a size effect: small firms know these initiatives less well than larger firms, and self-employed persons, particularly in the agricultural sector, know them less well than companies. The best-known initiative is the generalisation of the single business number and the Crossroads Bank for Enterprises (CBE). For companies, the second best-known initiative is Dimona and for self-employed persons it is Tax-on-web.

Dimona and the generalisation of the single business number and the CBE are the two initiatives used the most by companies, in particular by medium and large enterprises. The level of satisfaction associated with the use of these two initiatives is globally high even if companies express a higher level of satisfaction for two other initiatives: the withdrawal of visa and account books and the simplification of information requirements and rules for calling the shareholders assembly. Companies are usually less satisfied with electronic simplifications in the area of tax than in the area of employment.

Self-employed persons are very satisfied with the initiative of the generalisation of the single business number and the CBE. The levels of satisfaction reached with the other initiatives depend strongly on the sector of activity.

Finally, concerning the proposed administrative simplifications, enterprises firstly support the project of statistics simplification. Self-employed persons prefer the proposal for the simplification of permit requests.

"De administratieve lasten in België voor het jaar 2004", "Les charges administratives en Belgique pour l'année 2004",
L. Janssen, C. Kegels, F. Verschueren,
Planning Paper 100, February 2006.

Reforming network industries: Experiences in Europe and Belgium

In June 2005 a colloquium was organised by the European Economic and Social Council (EESC), the Belgian CRB/CCE and the FPB. This colloquium brought together researchers, social partners, representatives of the civil service and politicians to discuss the merits and concerns of network industry reform with both a European and a Belgian focus. This book contains the proceedings of the colloquium, consisting of the presented papers, comments, opinions and a reflection of the presentations and discussions held.

Network industry reform is a controversial issue. According to economic theory this should lead to improvements in efficiency and competitiveness. There is, however, a lot of concern about adverse effects. The participants highlighted in particular the quality of services provided, the level and quality of employment in the industries, and the functioning of the market.

As regards quality, there are concerns that competition and privatisation might lead to the erosion of essential public services. As regards employment, many jobs throughout the EU were hit by the reforms. Moreover, new entrants and incumbents are tempted to hire employees at lower wages and with less training and qualifications than before the reforms. As regards market functioning, opening up markets is not in itself a sufficient guarantee of a competitive market. Insufficient or inappropriate regulation may even lead to concentrated markets with monopolistic or oligopolistic behaviour.

Although the concerns are perceived and observed in reality, it cannot be denied that network industry reform also has a beneficial impact upon the economy. This impact, however, is felt more in the long run and is dispersed among all actors in the economy. The four papers presented at the colloquium and published in this book shed light on certain elements and conditions of reform.

The first paper discusses the periodical horizontal assessment of network industry performance made by the European Commission. It describes the Commission's motivation for this evaluation and summarises the outcomes of the 2005 edition. The evaluation shows that there have, in general, been favourable evolutions in competition, prices and productivity.

The second paper summarises the work done on network industries by the FPB. A survey of economic studies shows that there are beneficial impacts upon productivity, prices, quality and investments within the sectors concerned, whereas the impact on employment is ambiguous. At the macro-economic level, growth also benefits. A benchmarking analysis shows that the impact of reform depends on the quality of regulation.

The third paper analyses entry barriers, as applied to the Belgian electricity sector. When entry barriers are low, dominant market players are forced to behave competitively, even when the market is concentrated. The application shows that entry barriers lead to risk factors, raising the level of prices that will attract entry above the actual price set by the incumbent.

The fourth paper analyses universal services, as applied to the Swedish postal sector. It has been said that cream-skimming entry and a loss of public control would undermine universal service provision. The application, however, shows that universal services can be sustained in a liberalised market without operating subsidies. High volumes of mail per capita, an efficient conduct of business and the advantage of a countrywide network contribute to this result.

Two basic lessons are drawn. First, the impact of market reform in network industries depends on specific circumstances and the adequacy with which government policy addresses these circumstances. Second, organised civil society may serve as a significant medium of communication on such matters, for example by organising colloquia such as the one reported on in this book.

"Reforming network industries: Experiences in Europe and Belgium – Highlights of Conference "The Lisbon strategy: a motor for market reforms of the network industries"", EESC, CCE and FPB, April 2006.

A Medium-Term Outlook for the World Economy: 2006-2012

The January 2006 issue of the NIME Economic Outlook (NEO) for the World Economy presents a 2006-2012 macroeconomic outlook for the major areas of the world. The outlook was produced using NIME, the Federal Planning Bureau's macroeconometric world model. The January 2006 issue also features an assessment of the response of the euro area economy to a shift away from the direct taxation of labour towards the indirect taxation of final demand.

After a year of weak economic growth in 2005, euro area GDP growth should rebound in 2006 while the rise in the consumer price deflator is expected to remain well below the 2% mark. The pick-up in growth is largely based on a further strengthening of employment growth and continued favourable monetary conditions. Over the 2007-2012 period, the area's GDP will rise on average by 2% per annum, notwithstanding the declining growth rate of the working-age population. At the same time consumer price inflation will average 1.8%, edging up towards the end of the period. The short-term interest rate will rise from 2.2% in 2005 to 4.4% in 2012, bringing to bear inflationary pressures. Assuming no policy changes, the area's fiscal deficit will recede gradually, falling from 2.6% of GDP in 2006 to 1.6% of GDP in 2012.

Over the 2006-2012 period, GDP growth will average 2.8% per annum for the group of countries comprising the United Kingdom, Sweden and Denmark, and 3.6% for the group comprising the EU'S recently acceded Member States. Real GDP in the United States is expected to rise on average by 2.6% over the 2006-2012 period. However, growth will be uneven as, under current US laws and policies, the sunset of important tax cut provisions will significantly weaken domestic demand throughout the projection period. At the same time, significant fiscal and external imbalances should persist. Japanese real GDP is expected to rise on average by 1.7% per annum over the 2006-2012 period, although growth should weaken notably by the end of the projection period as the labour supply falls due to the ageing of the population.

The Focus in this issue of the NEO analyses the potential gains in output and employment from a tax shift away from social security contributions towards indirect taxes on final demand. Simulations with the NIME model indicate that the potential gains could be very limited for the euro area. Indeed, a shift from direct to indirect taxes equivalent to 1% of GDP throughout the 2006-2012 period would initially raise euro area real GDP by 0.11% above its baseline level, followed by further gains of up to 0.3% above baseline in 2007, but these positive effects would then level off at just 0.19% by 2012. The employment gain would be 0.06% in 2005 and 0.13% in 2012. The potential effects on output and employment are small as the gains from a general (non-targeted) reduction in the social contribution rate would be mitigated by the rise in the indirect tax rate, which would squeeze corporate profit margins and temper labour demand.

"A Medium-Term Outlook for the World Economy: 2006-2012. Focus: The Macroeconomic Effects of a Shift from Direct to Indirect Taxes in the Euro Area",
The NIME Economic Outlook for the World Economy, January 2006.

Price regulation in the sectors of over-the-counter medicines and old people's homes

Price regulation has for a long time existed in a limited number of sectors in Belgium. The paper gives an overview of the legislation in this area and looks in particular at the sectors of over-the-counter medicines and old people's homes. It describes the system and proposes a number of changes to the regulatory framework.

Market failure is a good reason for government intervention. Price regulation, on the other hand, can lead to cost inefficiencies and less competition through the formation of cartels. Optimal regulation is therefore necessary.

It is not possible to judge the appropriateness of the system for the economy as a whole because each industry is different. It is hence necessary to look at how each industry performs. If the price regulation system in a particular sector is inefficient or non-effective, alternatives to price regulation should be applied.

The market for over-the-counter (OTC) medicines (medicines that can be bought without a doctor's prescription and that are not reimbursed) is highly regulated, and this includes price regulation, more so in Belgium than in most other European countries. The reason for price regulation is to make sure that the prices of medicines remain affordable for all consumers. The OTC market is not homogenous: different medicines are not in competition with each other because they treat different illnesses. It is unclear if sufficient price competition exists between the different medicines. However, significant price differences between the same medicines are observed between different European countries. These differences are also observed between countries that do not regulate their prices. The impact of a liberalisation of price regulation is therefore uncertain. This uncertainty is the main reason for keeping the price regulatory system in place. Moreover, prices in Belgium are among the lowest in Europe.

However, several arguments in favour of reforming the present system can be put forward. First, administrative costs for the companies and for the regulating authorities are high. Second, it is unlikely that the regulating authorities are well-placed to decide if price increases are appropriate or not. They often lack the necessary information on consumer preferences and cost structure within pharmaceutical companies. Finally, keeping prices artificially low may be dangerous in the longer term. Companies are only interested in putting medicines on the market if they are sufficiently profitable. All in all, an abolition of the price regulation system is not sufficient to guarantee price decreases or moderate price increases. Other factors, such as effective competition in the different submarkets are as significant.

Control of prices in old people's homes is theoretically and socially well-defended. Just as for OTC-medicines, however, a danger exists that price control can lead to an insufficient supply in the sector. Given the ageing of society, a sufficient heterogeneous supply of old people's homes needs to be guaranteed.

The price regulation system in Belgium seems efficient (prices do not increase faster than the consumer price index) and supply is sufficient, except in particular areas where waiting lists exist. Consequently, there are enough arguments for keeping the current system. The way price increases are accepted, however, could be improved. In the present system, every old people's' home that would like to increase its price requires the approval of the minister, resulting in a huge administrative cost. One possible improvement of the system would be to provide a dual system: one in which increases are automatically approved if the increase is a fixed percentage that is lower than CPI-inflation, and another system in which a case-by-case approval is required for higher price increases.

"Prijsregulering in België met een toepassing op de markten van de rusthuizen en de OTC-geneesmiddelen",
C. Huveneers, C. Kegels, P. Mistiaen, J. van der Linden, J. Verlinden.
Working Paper 19-05, December 2005.

Economic impact of the oil shock on the Belgian economy

This working paper assesses the impact of the oil price shock on the Belgian economy and tries to explain why the impact has been very limited when compared to the oil price shocks in the seventies.

During the last two years, the economic situation has been marked by an upsurge in oil prices. If we refer to the oil crises in the seventies, the current energy prices should have serious effects on the economy: increased prices, a fall in profitability, declining purchasing power, unemployment and de-industrialisation. Nevertheless, the performances and forecasts for 2005 and 2006 show that the oil shock has indeed significant effects on growth and inflation but that these effects are far from disastrous.

This can be explained mainly by two factors. Firstly, the structural changes in energy use, stimulated by high oil prices during the seventies and the eighties, have led to increased energy efficiency, especially in the consumption of oil products by households and businesses. The ratio of gross energy consumption to GDP has decreased by 40 % between 1970 and 2003 and the ratio of oil consumption by 60 %. Secondly, the reform of wage negotiations with the adoption of the so-called health index, which excludes some energy prices from the national price index, and the monitoring of wages within the framework of the Competitiveness Act have strongly reduced the second-run effects on wages and inflation.

In this context, the drastic downward adjustment of wages decided on in Germany has had repercussions in Belgium, where average wages have been visibly constrained by the German wage restraint. In Germany, the main effect of the oil shock was a decline in the purchasing power of wages. This drop in purchasing power has gone together with a very limited rise in nominal wages. As a result, businesses are making high profits, export is thriving and the domestic market is depressed. Nevertheless, unlike in the seventies, businesses should be in a favourable position to kick-start their activity provided that no new shock occurs. This situation also applies to Belgium, but to a lesser extent since wages are not totally protected against the second-run effects of the oil price shock. Nevertheless, real wage increases have been very limited in Belgium: they have risen by 0.4 % during the period 2003-2004 and should even decrease by 0.4 % during the period 2005-2006.

From a macroeconomic point of view, unlike in the seventies, the low underlying inflation resulting from wage development has enabled the European Central Bank to pursue a loose monetary policy. Moreover, interest rates are relatively low at world level. The budgetary policy conducted by the large Member States was rather expansionary, but finally proved neutral for the whole euro area.

The paper shows that the effects of the oil price shock on the real economy, even if they are limited until now, have been sufficient to lead the Belgian economy on a slow trend growth, which causes pressures on the public finances and induces a restrictive budgetary policy.

The analysis of the economic history of the last 30 years reveals that high energy prices, more specifically high oil and gas prices, are the most efficient way to lower the energy intensity of economic growth. Reducing energy intensity has become a double priority, firstly, to achieve the necessary cut in greenhouse gases, and secondly, to control the increasing risks surrounding the security of energy supply.

"Les conséquences économiques du choc pétrolier sur l'économie belge" H. Bogaert, F. Bossier, I. Bracke, L. Dobbelaere, Working Paper 01-06, January 2006.

Recent history of major economic policy measures

March 2006

Starting in July 2006, the Flemish region will subsidize the hiring of elderly unemployed, aged 50 or older. The subsidy is temporary (4 quarters) and the number of beneficiaries will be limited by a strict budgetary ceiling (22 million euros in 2006).

The ECB raised its main refinancing rate by a quarter of a point to 2.5%.

January 2006

In accordance with EU legislation, two steps in the opening of the market for network industries were taken: the extension of free entry in rail traffic to all international freight services; and the extension of the threshold for free entry in postal services to all items above 50 grammes or charged at more than 2.5 times the basic tariff.

December 2005

The ECB raised its main refinancing rate by a quarter of a point to 2.25%

November 2005

The Danish Post and the British investment group CVC agreed with the federal government to acquire a 50%-1 stake in the postal incumbent De Post/La Poste. This will be done by investing fresh capital rather than taking over government shares.

October 2005

At the October conclave, the federal government announced its objectives for public finances for 2006. These are based on assumptions of 2.2% economic growth (1.4% in 2005) and 2.9% inflation (3.0% in 2005).

The finances of general government should remain balanced. The federal government and state governments (communities and regions) should each record a 0.1% of GDP surplus.These surpluses should compensate for the forecasted 0.3% GDP deficit in local government finances, related to a temporary surge in infrastructure investment ahead of the next municipal elections. A balance in the social security budget will be achieved through increased transfers from the federal government.

The total state debt-to-GDP ratio should decrease from 94.3 % at the end of 2005, to 90.7 % at the end of 2005.

The government intends to keep the growth of expenses strictly under control, both in the federal departments and in social security. However, the budget preserves room for manoeuvre for new initiatives in the areas of mobility, justice and security, in health care expenditure, and for selected increases in social allowances.

Additional cuts in social security contributions have been decided, targeted on those categories of workers with the lowest rates of activity: young low-wage earners and workers aged 50 or above. These wage-cost reductions are part of the "Solidarity Contract between Generations"proposed by the government, together with the 2006 budget, which also contains various regulatory proposals to discourage early retirement from the labour market. Furthermore, wage subsides for night-time labour and labour organised in shifts have been increased, as have wage subsides for researchers.

Taxation in the 2006 budget is marked by the introduction of new levies for households on the previously-exempt income from bond funds and insurance-related saving vehicles. On the other hand, the recently-decided corporate tax reform (the "notional interests" deduction) will encourage the financing of companies through risk capital rather than debt. This reform will reduce the corporate tax burden and thus make the Belgium tax system more attractive for foreign investors, compensating, through a general solution, for the planned dismantling of the special regime for coordination centers.

As was the case in previous years, the 2006 budget partly relies on non-structural corrective fiscal measures, notably the creation of a public/private investment trusts for the management of public real estate properties, new sales of real estate and a second wave of securitisation of future cash flows from tax arrears. A so-called "tax regularisation operation" is also envisaged, together with a reinforcement of the anti-fraud machinery.

September 2005

The federal government decided to contribute to the cost of fuel oil for heating for private consumers. It will pay the difference between the consumer price and 0.5 euros per litre, with a ceiling of 17.35% of the total price.

Furthermore, the so-called 'fuel oil fund' will help people in need to pay their bill.

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June 2005

The implementation of the EU package of directives on electronic communication was finalised by the publication of a new telecommunications act. The most significant element of this act is that telecom providers no longer need regulatory authorisation to enter the market. A notification to the regulator is sufficient.

As of tax year 2007, financing investments through equities can lead to a reduction in the tax base of corporate income tax, to the amount of the so-called "notional interests". This measure aims at reducing the gap in the tax incentives between different financing vehicles.

May 2005

In accordance with EU legislation, the Walloon government decides to open up the remaining parts of the regional electricity and gas markets in 2007.

April 2005

The federal government confirms the objective of keeping the budget in balance in 2005. To this end, various measures are taken and a very strict system for monitoring expenditure is put in place, particularly for the health care sector.

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

Abbreviations for names of institutions used in this publication

BIS	Bank for International Settlements
CPB	Netherlands Bureau for Economic Policy Analysis
CRB/CCE	Centrale Raad voor het Bedrijfsleven / Conseil Central de l’Economie
DULBEA	Département d’Economie Appliquée de l’Université Libre de Bruxelles
EC	European Commission
ECB	European Central Bank
EU	European Union
FEBIAC	Fédération Belge des Industries de l'Automobile et du Cycle "réunies"
FPB	Federal Planning Bureau
FPS Economy	Federal Public Service Economy, S.M.E.s, Self-employed and Energy
FPS Employment	Federal Public Service Employment, Labour and Social Dialogue
FPS Finance	Federal Public Service Finance
IMF	International Monetary Fund
INR/ICN	Instituut voor de Nationale Rekeningen / Institut des Comptes Nationaux
IRES	Université Catholique de Louvain - Institut de Recherches Economiques et Sociales
NBB	National Bank of Belgium
OECD	Organisation for Economic Cooperation and Development
RSZ/ONSS	Rijksdienst voor Sociale Zekerheid / Office national de la Sécurité Sociale
RVA/ONEM	Rijksdienst voor Arbeidsvoorziening / Office national de l’Emploi

Other Abbreviations

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