

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 2004, economic growth in Belgium amounted to 2.7% (GDP at constant prices), which is higher than the euro area average due to the strength of Belgian domestic demand. The economic recovery, triggered by an improvement in the international business climate from mid-2003 onwards, resulted in quarter-on-quarter growth rates between 0.7% and 0.8%, but weakened to 0.4% in the last quarter of 2004.

Economic growth should gain momentum during the course of this year, which is mainly due to the quarterly profile of exports. In fact, export growth should temporarily weaken during the first half of this year due to lower foreign demand growth and the appreciation of the euro during the last two quarters of 2004, which hampers competitiveness with respect to the other currency areas. Private consumption (+1.8%) should increase at a faster pace than purchasing power (+1.4%) for the third consecutive year. Stimulated by the ongoing recovery of business profitability, low interest rates and gradually improving demand prospects, real business investment growth should strengthen to 3.3% this year. All in all, GDP growth at constant prices should reach 2.2% in 2005. Inflation should remain rather stable at 2.0%.

Employment should increase by 34,400 units this year, as compared to 28,600 in 2004. As the labour force should increase at about the same pace in 2005, the unemployment rate should stabilise this year. The employment rate should rise slightly from 61.8% in 2004 to 62.1% in 2005.

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FPB activities are primarily focused on macro-economic forecasting, analysing and assessing policies in the economic, social and environmental fields.



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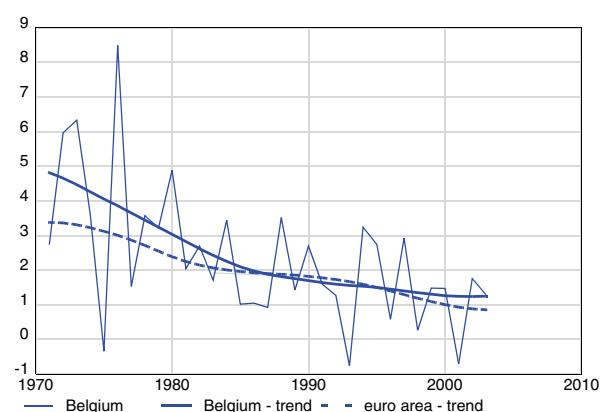
Why is Belgian productivity growth declining?

In its annual review of the EU Economy¹, the European Commission expressed its concern about the deterioration in the EU's productivity performance. It has been hotly debated in academic and policy-oriented circles whether this phenomenon is temporary or permanent and what its causes are. In this special topic we take rather a different approach by analysing long-term productivity growth in Belgium in terms of its main macroeconomic determinants. Using a theoretical model based on a production function, we are able to isolate the contributions of real wages, working time and labour efficiency. In this framework we show that the structural employment shift from manufacturing to the service industry plays a key role in explaining declining labour efficiency gains.

Belgian and euro area productivity trends

We will begin by putting recent productivity trends in perspective. The graph below shows productivity growth per worker for the private sector since the early seventies. Trends are computed using a Hodrick-Prescott filter. First of all, it is noteworthy that declining productivity growth is nothing new, either in Belgium or in the euro area. A second feature that catches the eye is the higher growth rates recorded in Belgium up to the mid-eighties.

Graph 1 - Productivity per head in the private sector
growth rates in %



Source: FPB

Trend productivity growth rates decreased by an average of some 0.11 percentage points annually in Belgium, while euro area rates declined by 0.08 points per year. The other side of the coin is that, while employment failed to contribute to value added growth in the seven-

ties, it was able to do so thereafter, especially during the last decade. Table 1 shows annual value added growth rates in the private sector for each decade and the contribution of productivity and employment.

Table 1 - Contributions to value added growth in the private sector

	Belgium			euro area		
	1971-1980	1981-1990	1991-2000	1971-1980	1981-1990	1991-2000
Value added growth rate (in %)	3.7	2.3	2.1	3.3	2.4	2.2
Contribution of productivity per worker	4.0	2.1	1.5	3.3	1.9	1.5
Contribution of employment	-0.3	0.3	0.6	-0.0	0.5	0.6

Source: FPB

Indeed, the declining productivity growth has been partly compensated by additional jobs, both in Belgium and in the euro area as a whole. To some observers - although this is still a controversial issue - this increase in the employment content of growth indicates that labour market reforms have been successful in effectively encouraging the hiring of low-skilled workers.

The macroeconomic determinants of productivity

Traditionally, macroeconomic productivity gains are analysed by applying a growth accounting method which makes it possible to break down productivity growth into a number of factors such as the quality of factor inputs, capital stock per worker and a residual called total factor productivity. Here we use a slightly different method by going one step backwards and looking at the determinants of factor inputs, namely factor prices and technological progress. Evaluating their respective contributions to productivity growth calls for an econometric approach. We follow the methodology proposed by INSEE² which states that in a framework of monopolistic competition where firms face a CES (constant elasticity of substitution) production function with labour augmented technological progress, productivity per head is determined by real wages, working time and labour efficiency. The latter is captured by an exogenous time trend and measures long-term productivity linked to technological progress.

Table 2 shows a breakdown of productivity growth into its various determinants. The second row shows that working time contributed less and less to the decrease in

1. "The EU Economy: 2004 Review", *European Economy*, No. 6, October 2004.

2. "Le ralentissement de la productivité du travail au cours des années 1990", *Document de travail*, G 2003/07, novembre 2003.

productivity per worker, with a contribution that was close to zero during the last decade. The main driving force behind the decline in productivity growth in the eighties was real wages. The contribution of this factor fell from more than two percentage points in the seventies to less than half a percentage point during the following decade. It remained at almost the same level, however, during the nineties. The last row gives the contribution of the “unexplained” component which is attributed to the improvement in labour efficiency. It is worrisome to note that this contribution is decreasing significantly from decade to decade. Extrapolating this trend into the future would lead to efficiency gains close to zero for the current decade. Without any economic interpretation for this decline, however, there is a huge uncertainty for medium-term forecasting.

Table 2 - Contributions to productivity growth per worker in the private sector

	1971-1980	1981-1990	1991-2000
Productivity growth rate (in %)	4.0	2.1	1.5
Contribution of working time	-0.8	-0.3	-0.1
Contribution of real wages	2.0	0.4	0.5
Contribution of labour efficiency	2.7	2.0	1.1

Source: FPB

An analysis by industry

We will now examine whether structural changes in the Belgian economy can help explain the declining trend in labour efficiency. We will therefore conduct a separate analysis for the manufacturing and market service industries. The first row in Table 3 clearly indicates that a dramatic change has taken place as the employment share of manufacturing industry has fallen by 12 percentage points over two decades, while the employment share of the service industry has increased by almost 17 percentage points during the same period. The next row shows that productivity growth rates have also been very different. Growth rates in manufacturing industry have declined in every decade, but have been stable, albeit at a very low level, for market services since the eighties.

Table 3 - Comparing manufacturing and service industry

	Manufacturing industry			Market service industry		
	1971-1980	1981-1990	1991-2000	1971-1980	1981-1990	1991-2000
Employment (in % of total private sector)	34.0	27.2	21.9	49.3	59.4	66.1
Productivity growth rate (in %)	5.7	4.8	3.5	2.0	0.5	0.5
Contribution of working time	-0.4	-0.1	-0.1	-0.5	-0.2	-0.1
Contribution of real wages	5.1	2.6	2.2	2.4	0.1	0.3
Contribution of labour efficiency	1.0	2.3	1.4	0.1	0.6	0.3

Source: FPB

The breakdown into the various determinants reveals, as it was the case at the aggregate level, that for both industries the contribution of real wages accounts for the decrease in productivity growth rates in the eighties and that the contribution of working time is becoming less and less important. The big difference with the macro results lies in the contribution of labour efficiency, for which no clear decreasing trend is emerging, either in manufacturing industry or in market services. This leads us to the conclusion that it is precisely the structural shift in employment from manufacturing (with greater productivity gains) to market service industries (with lower productivity gains) that is responsible for the decreasing trend in labour efficiency at the macro level.

This means that, in the context of medium-term projections, relying exclusively on macroeconomic results could lead to biased forecasts. Of course it would be advisable to disaggregate even further than what is done here, particularly in market services where internal shifts between heterogeneous industries could similarly have an influence on aggregate productivity gains. This is exactly why the FPB's HERMES model, which is used for medium-term projections, distinguishes between eight service industries.

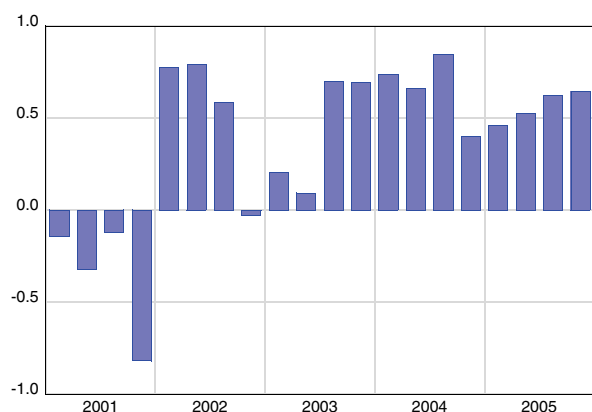
Another way of showing the effects of structural changes is to compute theoretical productivity growth rates with an unchanged labour structure by industry, fixed at the situation as it stood in 1970. In this hypothetical case, macroeconomic productivity growth rates should have remained almost unchanged during the nineties as compared with the eighties.

These conclusions do, of course, leave some essential questions unsolved. Why are productivity gains so low in services? Is there a link with employment policies? Is there a trade-off between employment and productivity? More research will be needed to completely untangle “the productivity puzzle”.

Economic forecasts 2005

In 2004, economic growth in Belgium amounted to 2.7% (GDP at constant prices). The economic recovery, triggered by an improvement in the international business climate from mid-2003 onwards, resulted in quarter-on-quarter growth rates between 0.7% and 0.8%, but weakened to 0.4% in the last quarter of 2004. In 2005, economic growth should gain momentum (from 0.5% in the first to 0.6% in the fourth quarter). That upward profile is mainly due to export growth, which increases gradually as the impact of the recent oil price rises and of the appreciation of the euro fades out. All in all, GDP growth at constant prices should slow down to 2.2% in 2005.

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



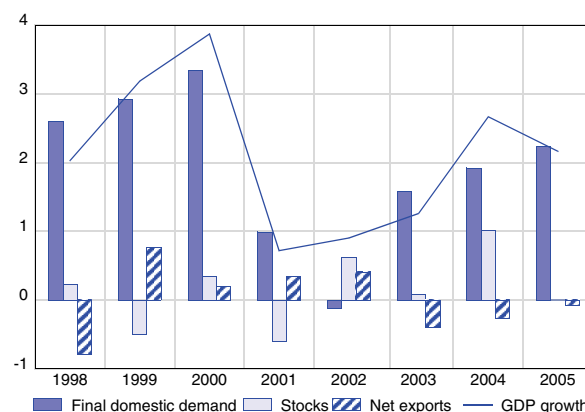
Appreciation of the euro and high oil prices negatively affect foreign trade

At the end of last year, growth of potential export markets shifted into a lower gear due to the weakening of economic growth in the United States, Asia, and the euro area. During the first half of 2005 Belgian exports should be burdened by less favourable foreign demand and the appreciation of the euro during the last two quarters of 2004, which hampered competitiveness with respect to the other currency areas. During the course of this year, export opportunities should increase due to a gradual strengthening of the worldwide business cycle and fading of the negative impact of exchange rate fluctuations on price competitiveness, leading to a somewhat smaller loss of market share. In 2005, export growth should reach only 5.3%, as compared to 5.5% in 2004. As was the case last year, imports should increase faster than exports, leading to a negative contribution from net exports towards economic growth of -0.1 percentage point. Nevertheless, the surplus on the current account balance should stabilise, thanks to the improvement in the terms of trade.

Private consumption and investment further support economic growth

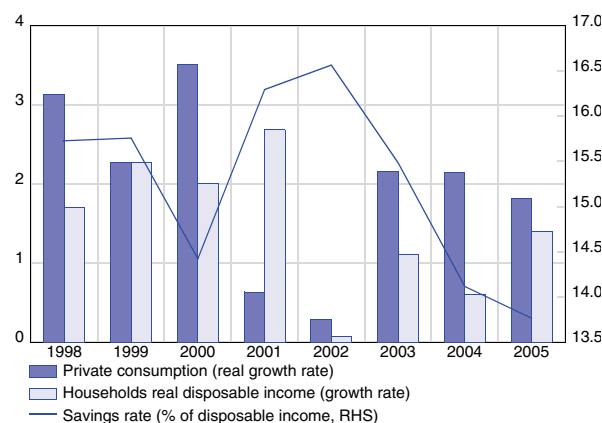
In 2005, growth in domestic demand should fall to 2.3%, as compared with 3% in 2004. This is due to the huge increase in stock building last year (positive contribution to GDP growth of 1 percentage point), which should not recur in 2005.

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



Meanwhile, economic activity should receive rather less support from private consumption. With a growth rate of more than 2% over the last two years, private consumption grew substantially faster than disposable income. This led to a significant reduction in the savings rate by 2.5 percentage points (to 14.1% in 2004). In 2005, private consumption (+1.8%) should increase at a faster pace than purchasing power (+1.4%) for the third consecutive year, thus resulting in a further, though more limited, decline in the savings rate.

Graph 3 - Private consumption and savings rate



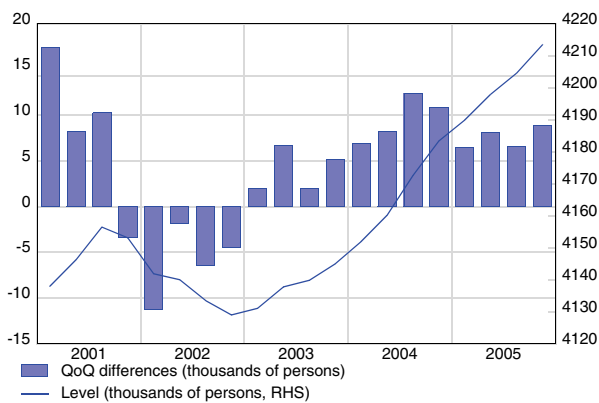
The fall in the savings rate is explained mainly by consumer confidence, which has generally been on an upward trend since April 2003, apart from a modest decline during the fourth quarter of last year. During the course of 2005, consumer confidence should be strengthened by favourable labour market developments.

Investment should perform better than in 2004. After two years of negative growth, business investment increased by 1.8% in 2004. Stimulated by the ongoing recovery of business profitability, low interest rates and gradually improving demand prospects, real business investment growth should reach 3.3% this year. It is also expected that local authorities will boost spending on public works in view of the local elections in 2006 and that sales of public buildings to the private sector will fall sharply (in the national accounts, sales of public buildings are treated as a shift from public investment to business investment). In 2005, both factors will result in a substantial rise of real public investment growth to 28%. Housing investment should also accelerate due to stronger growth of households' disposable income and low mortgage rates.

Employment increases by 34,400 units

Since the first quarter of 2003, domestic employment has been on a rising path. In 2003, job creation was still limited on average as employment responds to economic activity with a certain delay. In 2004, job creation accelerated due to the continuing economic recovery. On average, employment was almost 29,000 units higher compared to 2003. Employment should continue to rise in 2005, although at a slower pace as a result of weaker economic growth. Boosted by the favourable dynamics in 2004, employment should still exceed last year's average level by 34,400 units in 2005.

Graph 4 - Quarterly development of domestic employment
seasonally adjusted

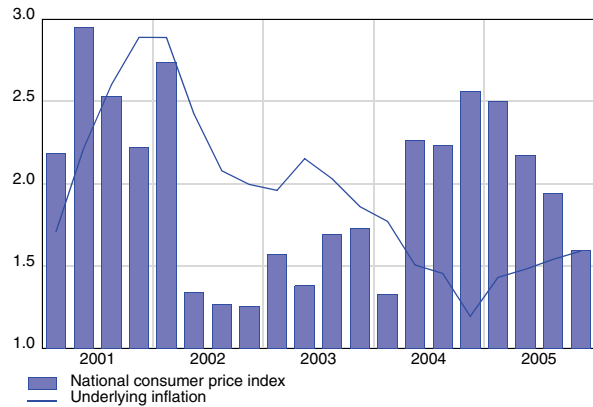


The employment rate should rise slightly from 61.8% in 2004 to 62.1% in 2005. The unemployment rate is being eroded slightly during the course of this year, thereby compensating for the increase during the second half of 2004. The annual average unemployment rate should therefore remain unchanged at 7.8% this year.

Consumer price inflation almost stable at 2%

In 2005, headline inflation, as measured by the yoy growth rate of the national consumer price index, should amount to 2%, having stood at 2.1% in 2004. The limited decline in inflation is mainly the result of a small drop in oil prices in the course of 2005, which reduces the contribution from energy products. Underlying inflation, which represents the fundamental trend in consumer prices, remains stable at 1.5% as a result of the recent appreciation of the euro and the moderate evolution of unit labour costs. This stabilization, however, hides a decline in underlying inflation in 2004, which should turn into a modest increase this year as higher oil prices are passed on to prices for other goods and services. As was the case last year, the 'health index', which is not affected by changes in the price of fuels, should increase at a slower pace than the national consumer price index (1.6% in 2004 and 1.8% in 2005).

Graph 5 - Quarterly development of inflation
yoy growth rates



The pivotal index for the public sector was crossed in September 2004. As a result, social benefits were adjusted by 2% to the higher cost of living in October 2004 and public wages in November 2004. According to our monthly forecasts for the 'health index', the pivotal index (currently standing at 116.15) should not be exceeded in 2005.

"Economische begroting 2005", "Budget économique 2005", INR/ICN, February 2005.

Economic forecasts for Belgium by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (cut-off date of forecasts: 23 February 2005)

	2002	2003	2004	2005
Private consumption	0.3	2.2	2.1	1.8
Public consumption	2.3	2.7	2.1	1.3
Gross fixed capital formation	-3.7	-0.9	1.5	5.0
Final national demand	0.5	1.7	3.0	2.3
Exports of goods and services	1.5	1.7	5.5	5.3
Imports of goods and services	1.0	2.3	6.1	5.6
Net-exports (contribution to growth)	0.4	-0.4	-0.3	-0.1
Gross Domestic Product	0.9	1.3	2.7	2.2
p.m. Gross Domestic Product - in current prices (bn euro)	261.12	269.55	282.97	295.74
National consumer price index	1.6	1.6	2.1	2.0
Consumer prices: health index	1.8	1.5	1.6	1.8
Real disposable income households	0.1	1.1	0.6	1.4
Household savings ratio (as % of disposable income)	16.6	15.5	14.1	13.8
Domestic employment (change in '000, yearly average)	-12.3	2.3	28.6	34.4
Unemployment (Eurostat standardised rate, yearly average) [1]	7.3	7.9	7.8	7.8
Current account balance (BoP definition, as % of GDP)	5.7	4.4	2.9	2.9
Short term interbank interest rate (3 m.)	3.3	2.3	2.1	2.3
Long term interest rate (10 y.)	5.0	4.1	4.1	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
	2004	2005	2004	2005	2004	2005	
Federal Planning Bureau	2.7	2.2	2.1	2.0	.	.	02/05
INR/ICN	2.7	2.2	2.1	2.0	.	.	02/05
National Bank of Belgium	2.7	.	2.1	.	-0.1	.	02/05
European Commission	2.5	2.5	2.0	1.9	-0.1	-0.3	11/04
OECD	2.7	2.4	1.9	2.2	-0.1	-0.4	11/04
IMF	2.5	2.3	1.8	1.6	-0.2	-0.4	09/04
ING	2.7	2.3	2.1	1.9	0.1	-0.2	02/05
Fortis Bank	2.6	2.2	2.2	2.0	0.0	-0.3	03/05
Dexia	2.6	2.1	2.1	1.6	-0.2	0.0	02/05
KBC Bank	2.7	1.9	2.1	1.8	-0.1	-0.2	03/05
Morgan Stanley	2.7	1.8	2.1	2.1	-0.1	-0.6	02/05
Petercam	2.7	1.75	2.1	2.0	0.0	-0.5	03/05
IRES	2.7	2.2	2.1	1.7	-0.2	-0.4	12/04
Consensus Belgian Prime News	2.7	2.3	2.0	1.8	-0.1	-0.3	01/05
Consensus Economics	2.7	2.2	2.1	1.8	.	.	02/05
Consensus The Economist	2.6	2.1	2.0	1.8	.	.	02/05
Consensus Wirtschaftsinstitute	1.9	2.1	2.0	1.8	.	.	10/04
Averages							
All institutions	2.6	2.2	2.0	1.9	-0.1	-0.3	
International public institutions	2.6	2.4	1.9	1.9	-0.1	-0.4	
Credit institutions	2.7	2.1	2.1	1.9	-0.1	-0.3	

Collaborating institutions for The Economist: ABN Amro, Deutsche Bank, EIU, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Nordea, Decision Economics, BNP Paribas, Royal Bank of Canada, Schroder Salomon Smith Barney, Scotiabank, UBS Warburg.

Wirtschaftsforschungsinstitute: DIW (Berlin), Ifo (München), HWWA (Hamburg), IfW (Kiel), IWH (Halle), RWI (Essen)

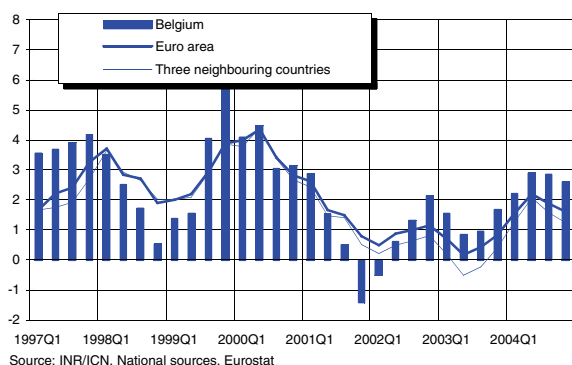
General economic activity

Table 1 - GDP growth rates, in %

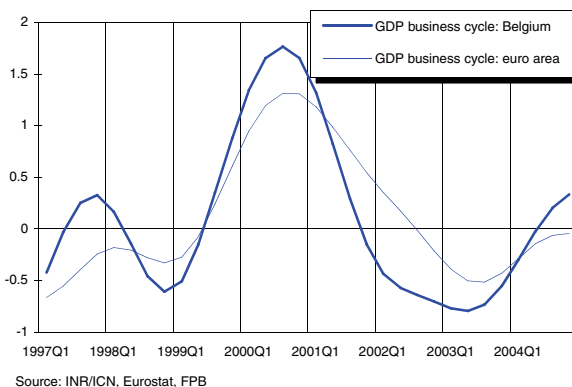
	2003		2004		YoY growth rates, in %					QoQ growth rates, in %				
	2003	2004	2003Q4	2004Q1	2004Q2	2004Q3	2004Q4	2003Q4	2004Q1	2004Q2	2004Q3	2004Q4		
Germany	-0.1	1.6	0.0	0.9	1.4	1.2	0.6	0.3	0.5	0.4	0.0	-0.2		
France	0.5	2.3	1.3	2.0	3.1	2.0	2.2	0.6	0.7	0.7	0.0	0.8		
Netherlands	-0.9	1.3	-0.4	1.0	1.6	1.8	1.0	0.7	0.9	-0.1	0.3	-0.1		
Belgium	1.3	2.7	1.7	2.2	2.9	2.9	2.6	0.7	0.7	0.8	0.7	0.4		
Euro area	0.5	2.0	0.8	1.6	2.2	1.9	1.6	0.4	0.7	0.5	0.2	0.2		
United States	3.0	4.4	4.4	5.0	4.8	4.0	3.9	1.0	1.1	0.8	1.0	0.9		
Japan	1.4	2.6	2.1	4.0	3.1	2.3	0.8	1.4	1.4	-0.2	-0.3	-0.1		

Source: INR/ICN, National sources, Eurostat

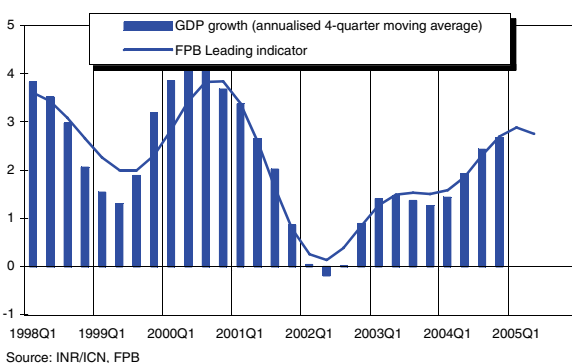
Graph 1 - GDP-growth (t/t-4), in %



Graph 2 - GDP business cycle



Graph 3 - GDP growth and leading indicator



With a growth rate of 0.9% qoq in 2004Q4, US GDP reached an annual growth rate of 4.4% last year. Strong private consumption and buoyant investment growth were the main drivers of this performance. With continued monetary tightening and less budgetary stimuli, however, (such as tax cuts and spending) the environment is becoming less supportive in 2005. Leading indicators from the Conference Board and the OECD, which have been declining since last summer, confirm this message. Economic growth is therefore expected to slow down to a rate of 3.5% in 2005.

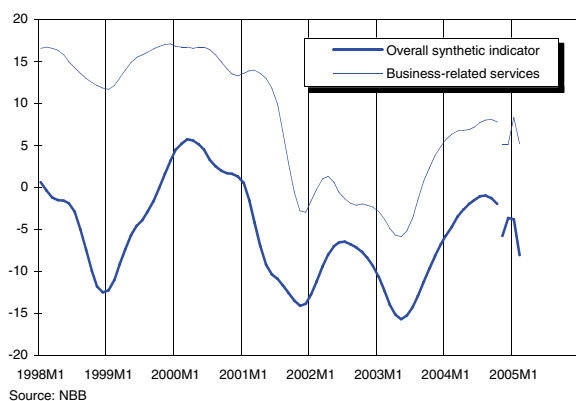
While only half a year ago the Japanese economy was expected to grow by 4 to 4.5% in 2004, a severe downward revision of quarterly growth rates has changed this picture completely. The latest release of Japanese national accounts revealed that economic growth has been in negative territory since 2004Q2, reaching an average annual growth rate of only 2.6%. Business investment and exports were quite strong during the last few quarters, but private consumption stayed in the doldrums. Leading indicators point to some improvement in the coming months, but all in all economic growth is expected to be pretty lacklustre in 2005.

Economic growth in the euro zone slowed down considerably over 2004 and reached a disappointingly low 0.2% qoq growth in 2004Q4. European growth is still largely driven by exports, while private consumption remains weak because of the slow improvement in employment and of ongoing structural reforms (especially in Germany).

In Belgium, economic activity in 2004Q4 (+0.4%) again outpaced the average growth of its main trading partners, due to a substantial weakening in Germany (-0.2%) and the Netherlands (-0.1%), while French economic growth turned stronger (+0.8%).

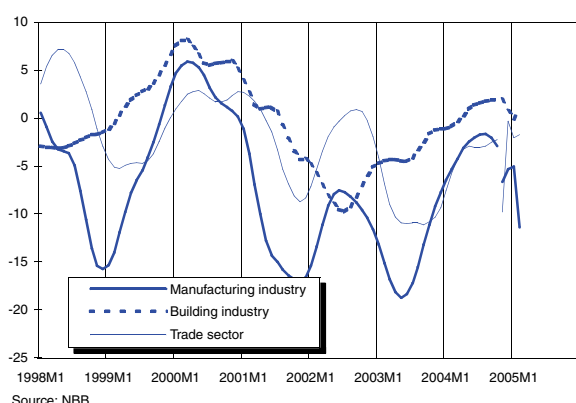
The FPB's leading indicator has peaked, pointing to somewhat slower growth this year. On average, economic growth for 2005 is expected to reach 2.2% compared to 2.7% in 2004.

Graph 4 - Business cycle: global evolution



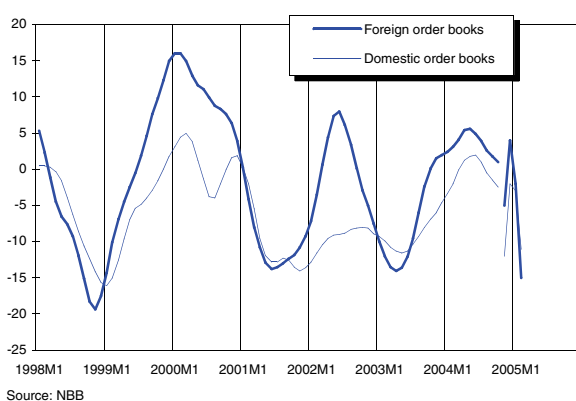
Between the middle of 2003 and the third quarter of 2004, business confidence was on a clear rising path, as is shown by the seasonally adjusted and smoothed synthetic indicator on graph 4. Stimulated by strong demand, the indicator reached its highest level seen in the last four years by the summer of 2004. At around that time, however, fluctuations in the raw indicator intensified, indicating that entrepreneurs had growing doubts about the strength of the recovery. By September 2004, the smoothed synthetic indicator started to decline and has not yet shown any signs of improvement. In this respect, the considerable worsening of the indicator in February, which eliminated the weak improvement seen in December last year, was particularly disappointing.

Graph 5 - Business cycle: sectoral evolution

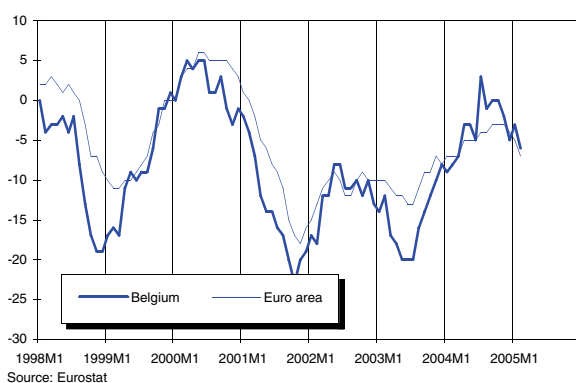


While the business cycle upturn was seen in almost all sectors of the economy, the current downswing is being driven almost entirely by developments in the *manufacturing sector*, which is particularly sensitive to the current decline in world trade growth due to its export-oriented character. In 2003, activity in the manufacturing industry was mainly driven by a pick-up in exports, as is illustrated by the indicator of foreign order books in graph 6. Last year, export orders started to flatten out, but until the middle of the year, growth of domestic demand compensated for that. During the summer, however, entrepreneurs became less optimistic about both foreign and domestic order books and this triggered the turnaround in industrial confidence. During recent months, both indicators moved in tandem: after an improvement in December, they plummeted during the first two months of 2005. Although the smoothed indicator for the *business-related services sector* (not taken into account to determine the synthetic indicator) had already begun to level off by the beginning of 2004, it has not yet shown any clear signs of weakening. It thus seems that the services sector will attenuate the current cyclical swing, which was also seen during the years before 2001. Until February, the *trade sector* was hardly influenced at all by the economic downturn as the raw indicator is still slightly higher than the smoothed indicator. Less encouraging is that the indicator is held up by the assessment of the current situation while expectations have become more pessimistic during recent months. This will probably lead to falling confidence in the trade sector during the coming months. The business climate in the *building industry*, which has witnessed an upturn lasting more than two years, is now showing some signs of saturation. This is mainly a consequence of the assessment of the current situation, while demand prospects stabilised at a high level since November.

Graph 6 - Manufacturing industry: order books



Graph 7 - Industrial confidence: international comparison



As was generally seen in the past, Belgian industrial confidence began to decline some months earlier than in the euro area, while the downturn has also been more pronounced in Belgium.

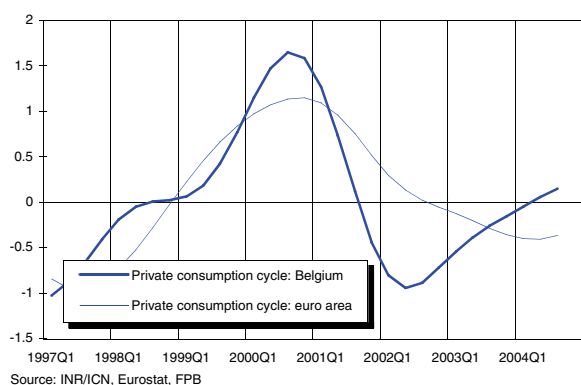
Private consumption

Table 2 - Private consumption indicators

	2003	2004	2004Q1	2004Q2	2004Q3	2004Q4	2004M9	2004M10	2004M11	2004M12	2005M1	2005M2
New car registrations [1]	-1.9	5.7	11.2	12.7	-3.9	-1.5	-1.9	-8.1	11.3	-5.4	8.4	-9.1
Consumer confidence indicator [2]	-10.8	-3.3	-3.7	-3.7	-2.7	-3.3	-2.0	-2.0	-4.0	-4.0	-6.0	-3.0

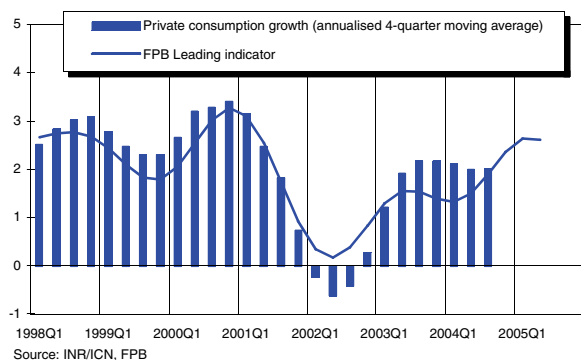
[1] Change (%) compared to same period previous year; [2] Qualitative data
Source: NIS/INS, Eurostat, Febiac, FPB

Graph 8 - Private consumption cycle



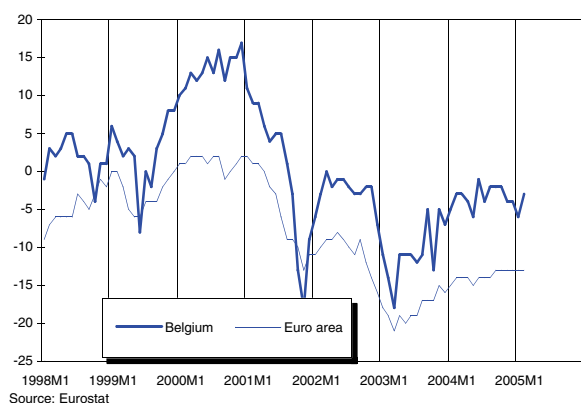
In contrast to the euro area, Belgian private consumption has increased faster than its trend over the last two years. Following a severe slowdown, the consumption cycle in Belgium had already reached a trough in 2002Q2, while the euro area cycle only bottomed out after the beginning of 2004 to reach its low during the second quarter. Consequently, Belgian private consumption was higher than its trend level in the third quarter of 2004, whereas it was still below trend in the euro area. This picture is confirmed by the path of consumer confidence in both areas. It is striking that, even though they both underwent the same evolution since the beginning of 2003, consumer confidence increased much more quickly in Belgium than in the euro area.

Graph 9 - Private consumption growth and leading indicator



Although qoq private consumption growth did not fall below 0.5% during the first three quarters of last year, its annualised 4-quarter moving average growth (graph 9) saw a muted decline. This means that consumption growth was marginally lower last year than in 2003.

Graph 10 - Consumer confidence: international comparison



It should be noted, however, that private consumption has increased much more quickly than disposable income during the last two years due to strong consumer confidence. Indeed, since the second quarter of 2003, consumer optimism has increased markedly thanks to better economic and employment prospects. More recently consumers' assessment of their own financial situation has also brightened up. Since June 2004 some stabilisation was observed in consumer confidence as doubts about the strength of the economic recovery gained ground. The February 2005 results were encouraging, but still remain to be confirmed. Car sales in 2004 confirmed consumers' eagerness to spend. After declining by 1.9% in 2003, they went up by nearly 6% last year, which can be accounted for exclusively by the high growth rates during the first two quarters as yoy increases were negative during the second half of 2004. This a normal situation for years in which the biannual motor show is held in January in Brussels. Due to the high level reached one year earlier, the poor growth in car sales in February 2005 is expected to continue throughout the coming months. It is worth noting, however, that yoy growth in car sales since January 2004 has been markedly higher than during the period 2002-2003.

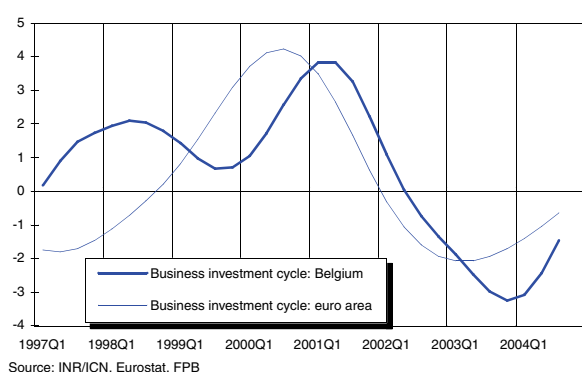
Business investment

Table 3 - Business investment indicators

	2003	2004	2005	2004Q1	2004Q2	2004Q3	2004Q4	2004M3	2004M4	2004M5	2004M6	2004M7
Investment (VAT) [1]												
Industrial companies	-5.1	.	.	-2.1	-9.0	.	.	6.4	-3.7	-13.8	-9.3	4.7
Non-industrial companies	-1.1	.	.	3.9	-11.1	.	.	-10.9	-13.8	-6.6	-12.6	11.7
Total companies	-2.6	.	.	2.4	-9.4	.	.	-4.4	-9.5	-7.8	-10.7	11.3
Investment survey [1]	-4.2	-13.1	21.9									
Capacity utilisation rate (s.a.) (%)	78.8	80.7	.	79.7	81.4	80.8	80.7					

[1] Change (%) compared to same period previous year
 Source: NIS/INS, NBB, FPB

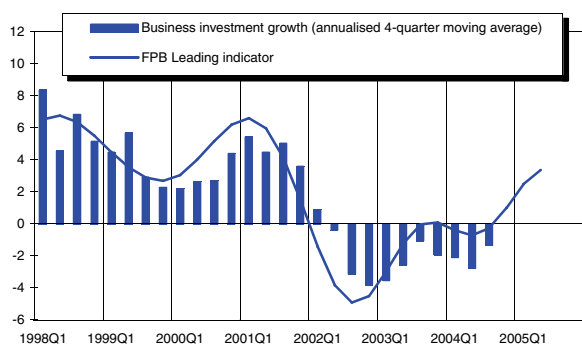
Graph 11 - Business investment cycle



Source: INR/ICN, Eurostat, FPB

In the euro area, business investment reached its trough in the first quarter of 2003, two quarters ahead of the GDP cycle. The Belgian investment cycle only bottomed out by the end of 2003 and began to increase with a lag of two quarters vis-à-vis the overall business cycle. The upturn in the investment cycle last year has been stronger in Belgium than in the euro area, bringing both investment cycles close to their trend value by the third quarter of 2004.

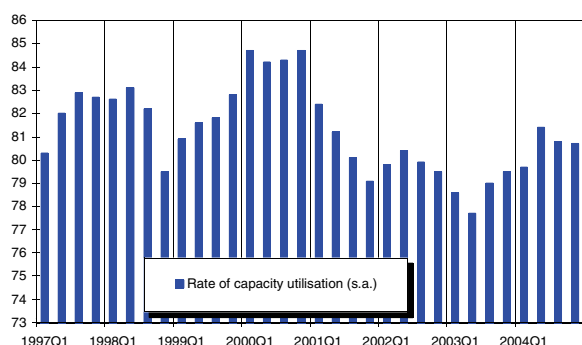
Graph 12 - Business investment growth and leading indicator



Source: INR/ICN, FPB

After two years of negative growth, Belgian business investment rose again in 2004. This is confirmed by the FPB's leading indicator, which is clearly pointing to a positive growth rate for 2004. As 2004 was the third consecutive year in which business investment grew more slowly than GDP, the investment rate at constant prices (real business investment as a percentage of GDP) fell from 14.7% in 2001 to 13.3% in 2004.

Graph 13 - Capacity utilisation in manufacturing industry



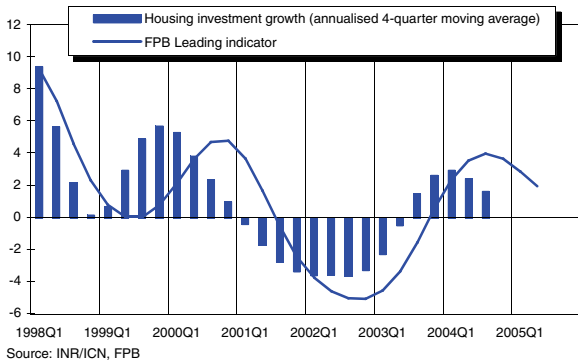
Source: NBB, FPB

The FPB's leading indicator shows a further acceleration of investment growth during this year, which is also the scenario of our latest projection. In fact, financing conditions remain benign due to low interest rates, while business profitability has been improving since 2002 due to the appreciation of the euro and limited unit labour cost increases which have dampened the price of input factors. Moreover, the latest survey on investment in manufacturing industry showed that many investment projects were postponed until 2005, which explains the negative growth rate in 2004 and the huge increase expected for this year (figures in current prices). It should be kept in mind, however, that the results of the November survey on investment for the coming year (in this case 2005) are usually revised downwards later on as entrepreneurs are generally too ambitious about future investment.

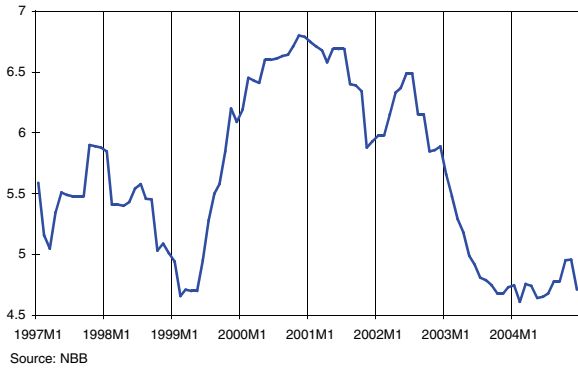
The Belgian capacity utilisation rate in manufacturing industry reached its lowest level since 1994 in the second quarter of 2003, but increased substantially in the following four quarters. During the second half of last year it stabilised at its average level over the last ten years.

Housing investment

Graph 14 - Housing investment growth and leading indicator



Graph 15 - Mortgage rate (%)



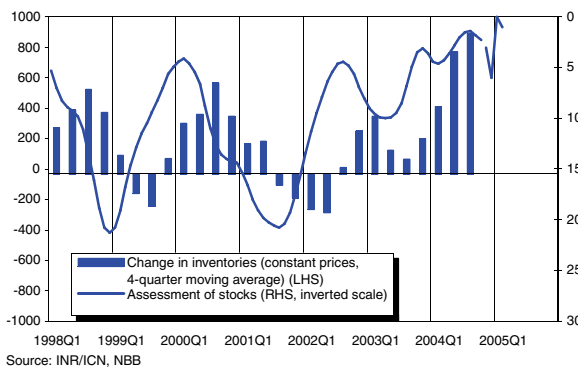
Although housing investment has generally been on a rising track since the fourth quarter of 2002, the qoq declines in 2003Q4 and 2004Q3 triggered a turning point in the evolution of its annualised 4-quarter moving average by the beginning of last year (graph 14). Consequently, housing investment growth will come out lower in 2004 than in 2003, when it increased by 2.7%.

This turning point was also seen in the FPB leading indicator, although with a delay of two quarters. Indicators taken from the survey among architects, which have a lead of about one year with respect to housing investment, fluctuated somewhat between mid-2003 and mid-2004, but regained some strength by the end of last year. The same development was seen in the evolution of mortgage applications, which began to increase again in the course of 2004, after a short-lived period of deterioration.

Since the downswing during 2003, the mortgage rate remained at historically low levels in the course of last year. Despite a minor upsurge between August and November, the mortgage rate fell back by December to the level seen at the end of 2003. Moreover, from January 2005 onwards, new mortgage loans will be subject to a different fiscal regime which lowers the financing cost of housing investment projects. These benign financing conditions and an acceleration of disposable income growth are expected to fuel housing investment in the course of 2005.

Stock building

Graph 16 - Stock building indicators



Together with the start of the economic recovery around mid-2003, a massive stock rebuilding process took off. It currently seems that stocks added around one percentage point to economic growth in 2004. During the second half of 2003, the number of entrepreneurs considering their stocks to be excessive fell markedly. This indicates that at least part of the restocking was intentional.

Notwithstanding a limited increase during the second and the third quarter of 2004, the number of entrepreneurs with an excessive level of stocks stabilised over the year. Up to now, this has not led to any slowdown in stock rebuilding. An important part of the change in inventories last year can probably be accounted for by the accumulation of oil-related products. This has no net impact on economic growth since these products are imported. The stabilisation of the NBB inventories indicator confirms that stocks should be neutral for economic growth in 2005.

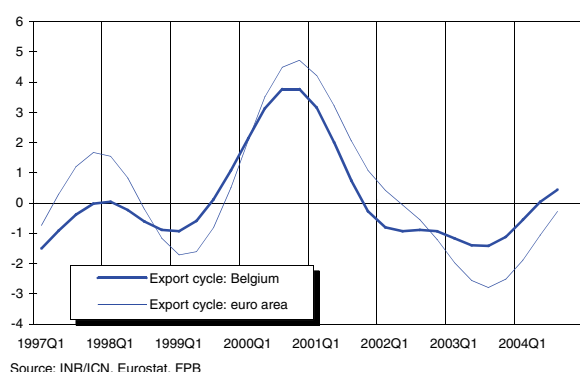
Foreign Trade

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

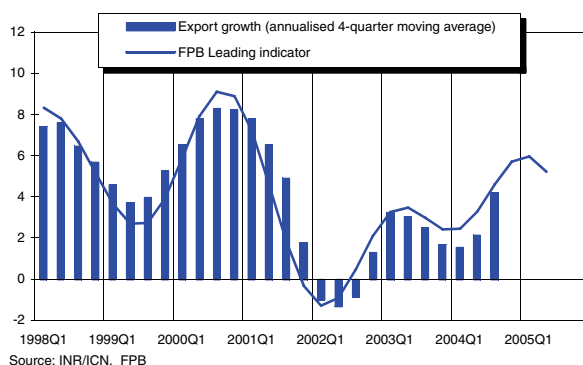
	2002	2003	2003Q4	2004Q1	2004Q2	2004Q3	2004M6	2004M7	2004M8	2004M9	2004M10	2004M11
Exports - value [1]	0.2	1.2	1.9	4.4	7.7	13.1	14.2	3.9	25.5	12.7	9.7	20.1
Imports - value [1]	-1.6	1.4	0.2	3.5	9.9	17.2	19.4	6.2	28.2	18.5	9.5	22.6
Exports - volume [1]	1.0	3.4	4.5	7.0	5.3	8.7	10.9	0.6	19.5	8.4	2.9	15.2
Imports - volume [1]	0.5	3.9	3.8	6.2	6.7	10.5	15.6	0.0	20.3	12.3	0.5	14.8
Exports - price [1]	-0.9	-2.1	-2.5	-2.4	2.4	4.1	3.1	3.4	5.1	4.0	6.5	4.2
Imports - price [1]	-2.1	-2.4	-3.5	-2.8	3.0	6.1	3.3	6.2	6.5	5.6	8.9	6.7

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

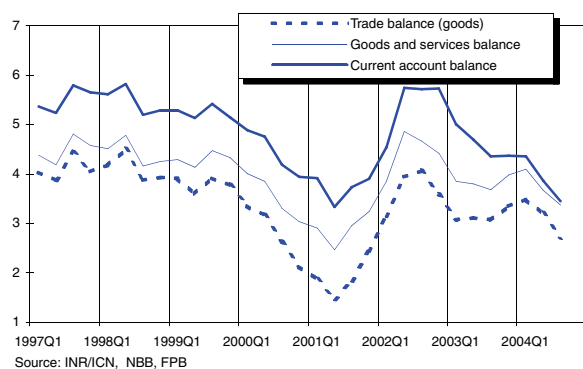
Graph 17 - Export cycle



Graph 18 - Export growth and leading indicator



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



The Belgian export cycle, which started accelerating towards the end of 2003, continued its rise in 2004Q3 (+5.1% qoq) and is now in above-trend territory. The European cycle experienced a faster recovery than the Belgian cycle (especially due to strong German export performance) and is close to its long-term trend.

Strong Belgian export growth was seen despite the appreciation of the euro exchange rate and is mainly the result of a vigorous expansion in world trade in the first half of 2004. World trade slowed down considerably in the second half of 2004, due to the strong rises in oil and other commodity prices. According to forecasts from the Dutch Centraal Planbureau, world trade growth should pick up quite vigorously in 2005Q1 and should only flatten out by the end of 2005 as the downward effect on world growth and world trade of high oil prices begin to subside.

This is confirmed by the FPB composite leading indicator, which is also pointing to somewhat slower export growth in the first two quarters of this year. From mid-2005 onwards, the resumed acceleration of world trade and the diminished effect of past euro appreciation on Belgian competitiveness should allow for stronger growth rates again.

In 2004, the appreciation of the euro was insufficient to compensate for the hike in oil prices, resulting in a 6.1% yoy growth of import prices in 2004Q3. Export prices rose less strongly (4.1% yoy) as Belgian exporters chose not to raise their dollar prices by the same percentage as the euro appreciation, instead preferring to eat into their profit margins. The terms of trade therefore deteriorated in 2004.

The Belgian current account surplus, expressed as a percentage of GDP, has declined considerably over the last few years. While the surplus was still at 5.7% in 2002, it declined to 4.4% in 2003 and slid again in 2004 to 2.9%. In 2005 the surplus as a percentage of GDP is expected to stabilize.

Labour market

Table 5 - Labour market indicators

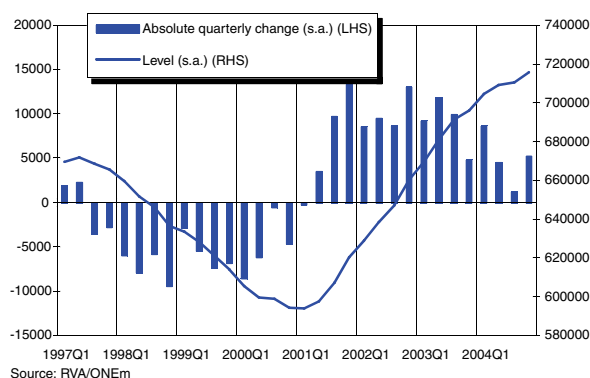
	2003	2004	2004Q1	2004Q2	2004Q3	2004Q4	2004M8	2004M9	2004M10	2004M11	2004M12	2005M1
Unemployment [1][2]	684.6	710.1	704.8	709.3	710.5	715.7	711.1	713.2	713.6	714.7	713.3	709.9
Unemployment rate [2][3]	14.0	14.4	14.4	14.4	14.4	14.5	14.4	14.4	14.4	14.4	14.4	14.3
Unemployment rate-Eurostat [3][4]	8.0	7.8	7.8	7.7	7.7	8.0	7.7	7.8	7.9	8.0	8.0	8.0

[1] Level in thousands, s.a.; [2] Broad administrative definition; [3] In % of labour force, s.a.

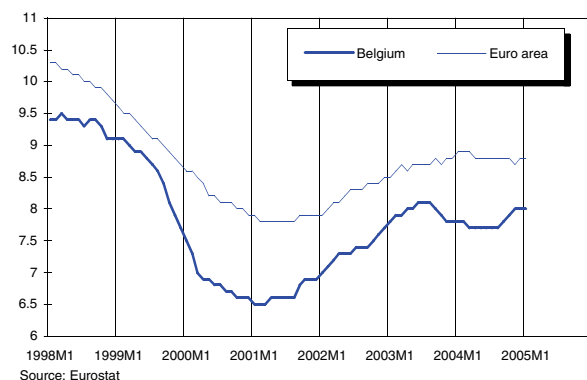
[4] Recent figures are based on administrative data and may be subject to revision

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

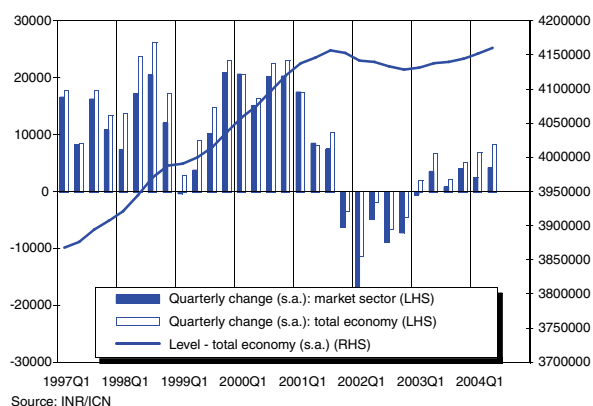
Graph 20 - Evolution of unemployment (incl. older)



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



Graph 22 - Evolution of domestic employment



Year-on-year value added growth in the market sector has picked up since the third quarter of 2003, reached a high of around 3% during the last quarter of 2004 and is expected to fall gradually during the current year.

In view of the large increase in jobs throughout the public sector, total domestic employment growth is estimated to have increased faster than private sector employment growth in 2004 (by 0.7%). With the population of working age still growing rapidly, however, (0.3%), the employment rate (administrative definition) increased only moderately (from 61.6% in 2003 to 61.8% in 2004). In the wake of this - and with the usual lag caused by the productivity cycle - year-on-year employment growth in the private sector has turned from negative to positive in the last quarter of 2003, risen by 0.3% and 0.4% respectively during the first and second quarter of 2004 (the last quarter that is currently available through the quarterly national accounts) and is expected to have accelerated further during the second half of last year. We currently estimate that private sector employment has increased by 0.5% on a yearly basis in 2004, with productivity growth increasing from 1.3% in 2003 to 2.3% in 2004. It should be noted, however, that the latest available figures from the social security bodies suggest an even stronger acceleration of employment growth during the second quarter of last year than was originally estimated.

Also, although year-on-year growth in unemployment (broad administrative definition) has fallen throughout 2004 (from 5.3% in the first quarter to 2.8% in the last quarter), the pace of this decrease has been slower than expected. Consequently, the unemployment rate increased further from 14.0% in 2003 to 14.4% in 2004. This implies that, for the second year in a row, the labour force has grown at a surprisingly fast rate (0.9% in 2003; 1.1% in 2004).

Prices

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

	2003	2004	2004Q1	2004Q2	2004Q3	2004Q4	2004M9	2004M10	2004M11	2004M12	2005M1	2005M2
Consumer prices: all items	1.59	2.10	1.33	2.26	2.23	2.56	2.03	2.86	2.55	2.27	2.26	2.57
Food prices	2.04	1.53	1.88	2.05	0.81	1.41	-0.11	1.06	1.40	1.78	1.23	1.92
Non food prices	1.18	2.23	0.26	2.45	2.82	3.39	2.78	4.01	3.35	2.79	2.49	3.12
Services	1.75	2.36	2.38	2.21	2.51	2.34	2.60	2.69	2.39	1.95	2.75	2.39
Rent	2.22	1.88	2.01	1.94	1.80	1.78	1.74	1.83	1.71	1.81	1.91	1.75
Health index	1.45	1.63	1.32	1.69	1.60	1.90	1.43	2.09	1.89	1.72	1.78	2.00
Brent oil price in USD (level)	28.8	38.2	31.9	35.4	41.5	44.1	43.3	49.7	42.9	39.6	44.2	45.4

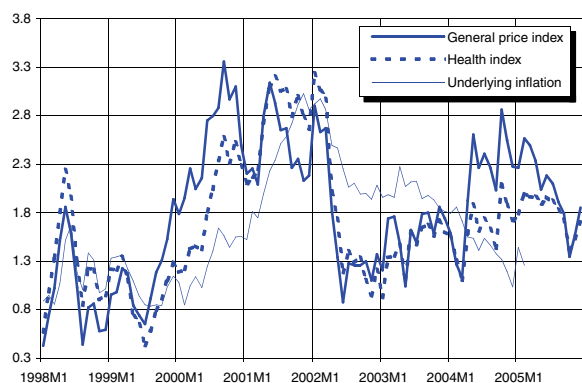
Source: FPS Economy, Datastream

Table 7 - Monthly inflation forecasts

	2004M1	2004M2	2004M3	2004M4	2004M5	2004M6	2004M7	2004M8	2004M9	2004M10	2004M11	2004M12
Consumer prices: all items	113.32	113.74	113.91	114.52	114.96	114.91	115.30	115.44	115.52	116.08	115.94	115.56
Consumer prices: health index	112.67	113.02	113.05	113.50	113.67	113.65	114.00	114.03	114.08	114.49	114.48	114.25
Moving average health index	112.38	112.59	112.77	113.06	113.31	113.47	113.71	113.84	113.94	114.15	114.27	114.33
	2005M1	2005M2	2005M3	2005M4	2005M5	2005M6	2005M7	2005M8	2005M9	2005M10	2005M11	2005M12
Consumer prices: all items	115.88	116.66	116.75	117.19	117.30	117.42	117.72	117.65	117.59	117.64	117.76	117.70
Consumer prices: health index	114.68	115.28	115.27	115.72	115.82	115.88	116.19	116.11	116.05	116.10	116.23	116.19
Moving average health index	114.48	114.67	114.87	115.24	115.52	115.67	115.90	116.00	116.06	116.11	116.12	116.14

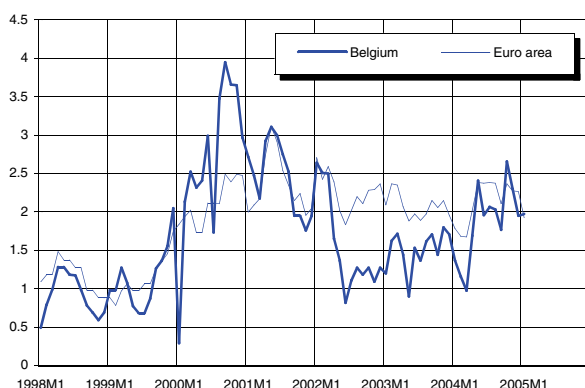
Source: Observations (up to 05M2): FPS Economy; forecasts: FPB

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



Source: FPS Economy, from 05M3 on: forecasts FPB

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



Source: Eurostat

Although oil prices increased throughout 2004, their impact on NICP inflation was only visible from the second quarter of the year onwards as yoy growth rates of the Brent price were negative during the first quarter due to a temporary rise one year earlier. Consequently, headline inflation rose from 1.1% in March to 2.9% in October and fell somewhat during the last two months of the year. In 2005, oil prices are expected to decline gradually, which accounts for the fall in inflation throughout the year. The 'health index', which is not influenced by price changes of oil products for transport purposes, reacted less heavily to Brent price fluctuations.

Underlying inflation decelerated from 1.8% in the first quarter to 1.2% in the last quarter of 2004. This can be explained mainly by the appreciation of the euro, which exerted a downward influence on non-energy import prices and the limited unit labour cost increases. During the first two months of this year, however, underlying inflation picked up again to around 1.3% in February. This increase is expected to continue as higher oil prices are passed on to prices of other goods.

All in all, average NICP inflation should be 2.0% this year. The pivotal index for public wages and social benefits was last crossed in September 2004. According to our monthly forecasts for the 'health index', the next pivotal index threshold (116.15) should not be exceeded during 2005.

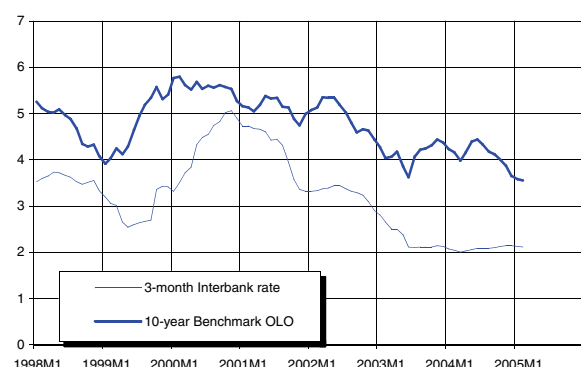
Interest rates

Table 8 - Interest rates

	2003	2004	2004Q1	2004Q2	2004Q3	2004Q4	2004M9	2004M10	2004M11	2004M12	2005M1	2005M2
Short-term money market rates (3 months)												
Belgium	2.31	2.08	2.04	2.06	2.09	2.14	2.10	2.13	2.15	2.15	2.13	2.12
Euro area (Euribor)	2.33	2.11	2.06	2.08	2.12	2.16	2.12	2.15	2.17	2.17	2.15	2.14
United States	1.15	1.56	1.05	1.25	1.70	2.25	1.86	2.03	2.26	2.45	2.61	2.77
Japan	-0.03	-0.03	-0.04	-0.04	-0.02	-0.01	-0.01	-0.01	-0.01	-0.01	0.00	0.00
Long-term government bond rates (10 years)												
Belgium	4.14	4.13	4.13	4.34	4.21	3.84	4.12	3.99	3.87	3.65	3.58	3.56
Germany	4.09	4.06	4.08	4.24	4.13	3.79	4.04	3.92	3.80	3.65	3.59	3.56
Euro area	4.13	4.10	4.12	4.30	4.18	3.82	4.08	3.96	3.84	3.67	3.59	3.59
United States	3.99	4.26	4.00	4.58	4.29	4.16	4.12	4.08	4.19	4.22	4.21	4.17
Japan	0.99	1.49	1.30	1.60	1.63	1.43	1.46	1.48	1.45	1.35	1.36	1.37

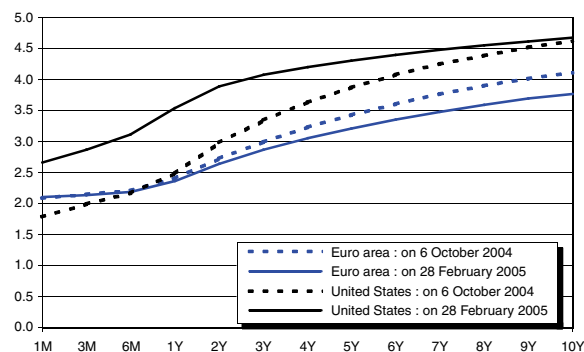
Source: NBB, ECB

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

The Federal Reserve has continued to raise interest rates at a measured pace in the last few months. The refinancing rate was raised from 1% in June 2004 to 2.5% in February. Real refinancing rates are still negative and therefore below levels that might reasonably be associated with maintaining a stable inflation rate. Therefore it seems very likely that the Fed will continue to increase rates gradually.

During the summer of 2004, the first rate hike from the ECB was expected towards the end of the year. Despite the fact that headline inflation has been above 2% for most of the year and still averaged 2.3% in 2004Q4, the first rate hike is only currently expected to come in the summer of 2005. The reason for the postponement of monetary tightening is the slowdown in economic activity in the euro zone in the second half of 2004 (average qoq growth of 0.25% versus 0.6% in the first half). Moreover, indicators are also pointing to sub-trend growth in 2005 and inflation is expected to fall below 2% as the effect of the rise in indirect taxes and the patient's share of medical costs (in Germany) will drop out of yoy inflation figures.

Euro zone long-term rates declined substantially during the last 2 quarters of 2004, due to the worsened economic outlook for the euro zone. The spread between euro zone and US long-term interest rates widened considerably as US interest rates remained more or less stable in this period. This divergence is not surprising as US economic activity did not slow down in the second half of 2004 and the outlook for the US economy is also more favourable. It is however surprising that US long-term interest rates have not risen despite strong economic growth, rising inflationary pressures and substantial monetary tightening. As a result, yield curves have flattened over the last 6 months, both in the euro area and in the US.

Exchange rates

Table 9 - Bilateral exchange rates

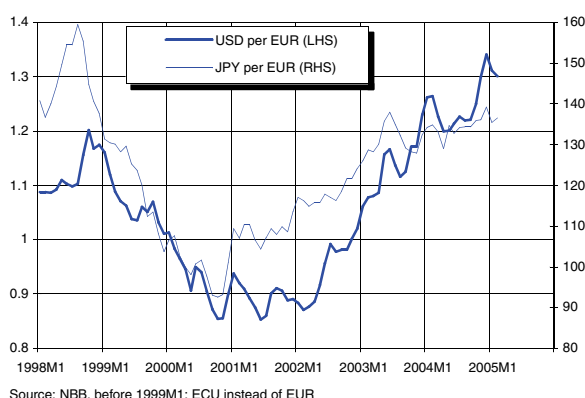
	2003	2004	2004Q1	2004Q2	2004Q3	2004Q4	2004M9	2004M10	2004M11	2004M12	2005M1	2005M2
USD per EUR	1.132	1.244	1.251	1.205	1.222	1.297	1.221	1.250	1.300	1.341	1.311	1.301
UKP per EUR	0.692	0.679	0.680	0.667	0.672	0.695	0.681	0.692	0.699	0.695	0.698	0.690
JPY per EUR	131.0	134.4	134.0	132.2	134.4	137.1	134.4	136.0	136.1	139.2	135.5	136.6

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

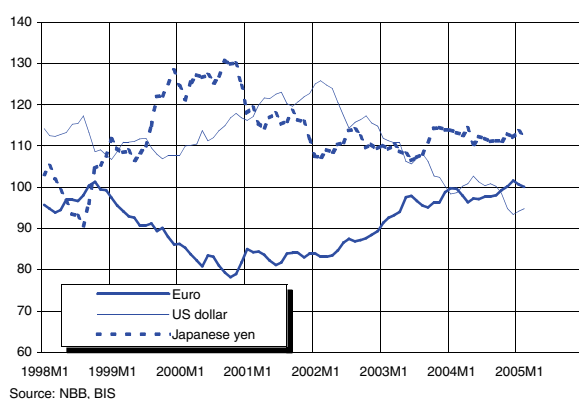
	2003	2004	2004Q1	2004Q2	2004Q3	2004Q4	2004M9	2004M10	2004M11	2004M12	2005M1	2005M2
Euro	90.9	93.8	94.3	92.2	93.1	95.6	93.4	94.4	95.4	96.8	95.7	95.3
Growth rate [1]	11.0	3.2	2.0	-2.2	1.0	2.6	0.4	1.1	1.1	1.4	-1.0	-0.5
US dollar	107.5	99.7	99.6	102.1	101.0	96.0	100.7	98.9	95.2	93.9	94.6	95.3
Growth rate [1]	-10.4	-7.3	-2.6	2.6	-1.1	-4.9	-0.6	-1.8	-3.8	-1.4	0.8	0.7
Japanese yen	140.1	142.8	144.1	142.9	141.7	142.6	141.5	141.5	143.6	142.6	144.3	142.3
Growth rate [1]	-0.1	2.0	-0.9	-0.8	-0.8	0.6	0.2	0.0	1.4	-0.6	1.2	-1.4

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

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



Graph 28 - Nominal effective exchange rates (Jan. 97=100)



After 2 years of depreciation, the dollar recovered against the euro by the end of 2004Q1 and hovered between 1.18 and 1.25 until September, as the easing of doubts about the sustainability of the US recovery created the expectation of a significant tightening of US monetary policy. In October 2004 however, some disappointing US growth indicators suggested a slower tightening than previously expected. Moreover, markets again began to focus on US structural deficits (current account and government budget), especially after Greenspan expressed his concerns. This brought the dollar to a new low of 1.36 dollar per euro by the end of last year. At the beginning of 2005, the increased growth divergence between the US and the euro zone made the euro depreciate, but this evolution was halted in mid-February, when rumours surfaced that Asian central banks are beginning to diversify their reserves out of the dollar.

In 2004 the yen appreciated vis-à-vis the dollar (+4.5%) and depreciated relative to the euro in 2004 (-3%). At the end of February 2005, the EUR/JPY exchange rate stood at 138.8, close to its year-end value of 2004.

Against the British pound the euro initially lost value in 2004, but during the summer the trend was reversed as weaker economic growth and a slowdown in house price increases made financial markets drop their anticipation of monetary tightening in 2005. At year-end the GBP/EUR exchange rate was at the same level as in the beginning of the year. In the first two months of this year the euro has fallen by some 3% relative to the pound.

The nominal effective euro exchange rate appreciated by 3.2% in 2004, following a gain of 11% in the previous year.

Tax indicators

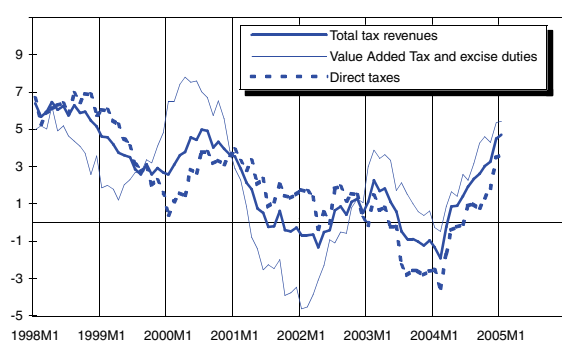
Table 11 - Tax revenues (1)

	2003	2004	2004Q1	2004Q2	2004Q3	2004Q4	2004M8	2004M9	2004M10	2004M11	2004M12	2005M1
Total [2], of which:	0.6	6.7	7.6	5.4	5.4	8.6	7.8	5.9	7.3	4.9	11.8	4.2
Direct taxes, of which:	-1.1	5.7	7.6	3.5	1.9	9.9	3.6	-1.5	8.7	6.1	12.7	4.3
Withholding earned income tax (PAYE)	0.5	3.9	3.9	0.7	6.1	5.3	11.0	1.7	8.6	-0.3	6.6	6.2
Prepayments	-0.8	13.8	.	9.5	22.2	16.6	.	.	11.6	.	21.9	.
Value Added Tax and excise duties	2.2	7.6	7.7	7.4	8.7	6.8	11.0	13.5	5.3	1.3	11.5	2.2

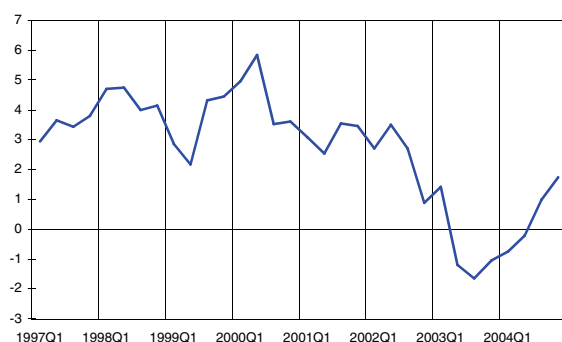
[1] Change (%) compared to same period previous year; [2] Total received by federal government, excl. of death-duties

Source: FPS Finance, FPB

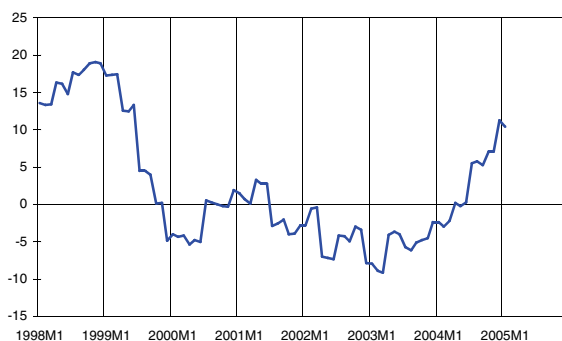
Graph 29 - Real tax revenues (3)



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

Total revenue from taxes in 2004 recorded a rather high nominal growth rate (+6.7%), after 2003 which was marked by a particularly slow increase (+0.6%). The pace of growth in 2004 is also higher than in 2002 and 2001 (+2.2% each), and close to that observed in the boom year 2000 (+6.3%).

On a yoy 12-month moving average basis, growth in both direct and indirect taxation turned upwards at the beginning of 2004 and appeared to be frankly positive during the year, reflecting both stronger economic growth and the impact of various measures.

In 2004 the rate of growth in direct tax revenues has accelerated to 5.7% in nominal terms after a decrease in 2003 (-0.5%). This is due both to PAYE revenue and to advance payments.

Growth in real PAYE revenue (mainly wage-related) in 2004 is mainly due to the positive evolution of employment, as the final impact on PAYE revenue of the fiscal reform introduced in 2001 is being offset by other measures (increase in the prefinancing rate for local administrations and submission to PAYE of additional categories of social benefits).

The two digit rate increase in prepayments in 2004 as compared to 2003 (exclusively due to businesses, since prepayments from self-employed people are affected by the personal income tax reform), as well as the upsurge showed by taxes on dividends, reflect the strong improvement in business profits.

In 2004, the rate of growth in indirect taxation revenues accelerated to 7.6% (2.2% in 2003). This is due to both excise duties (boosted by tax rate increases on energy products, tobacco and other products) and VAT (reflecting the dynamics of private consumption, higher oil prices and increased housing investment).

The dynamism of the real estate market is also reflected in the strong increase in registration duty in 2004.

Sustainable development: production patterns and the human capital

This Working Paper describes, with a sustainable development approach, the relationships between the production patterns' evolution and the state of the human capital in Belgium with an international perspective. Human capital is defined here as occupational and environmental health, as well as knowledge and capacities. The Driving forces-Pressure-State-Impact-Response framework is used to understand and analyse these relationships. The Paper also presents the political initiatives developed to promote more sustainable production patterns and to strengthen the human capital.

The originality of this Paper inside the sustainable development field is to look at the relationships between the production patterns and the human capital rather than the environment. The human capital is at the core of this work, because humans are crucial for enterprises' production activities: enterprises are made by humans and need labour force in order to provide goods and services for human needs. But sometimes this has unsustainable human's health cost. The Paper shows that, though some evolutions in the methods and techniques used by the enterprises promote sustainable development, other evolutions are worrying and degrade the human capital. They have consequences on personal development, public finances and enterprises' productivity, affecting thus the whole field of development.

Chapter 1 gives the definitions of production patterns and economic, human and environmental capitals. The importance of the production patterns in sustainable development is explained. It also explains the relevance for sustainable development of this paper and describes the *Driving forces-Pressure-State-Impact-Response* framework.

Chapter 2, dealing with the *driving forces* defines the concept of production model and describes the production model that is currently widespread. This model is based on the "just in time model". It has various characteristics influencing the use of production factors and the state of the human capital. These characteristics in-

clude the increase of the complexity of products and of the recourse to subcontracting networks as well as the increase in working at high speed and to tight deadlines.

Chapter 3 explains the *pressures* caused by these production model's characteristics on the capitals and shows various trends in the use of the capitals. First, the use of human capital is described through the trends in employment (rate of employment and types of contracts) and their effects on the social inequalities. Second, the use of various elements of the environmental capital such as energy and materials are summarized. Third, some trends in the use of economic (physical and financial) capital are described.

Chapter 4 describes changes in the *state* of the human capital, resulting from the pressures explained above. Three aspects of the human capital are examined: the environmental health, the occupational health and the knowledge and capacities. The paper explains which characteristics of the present production model influence these three elements and how they influence them.

Chapter 5 presents the *responses* brought to reverse the unsustainable trends described in the previous chapters. It presents the main policies acting on the sustainable production patterns and on the three examined aspects of the state of the human capital: environmental health, occupational health, knowledge and capacities. These policies are described at world, EU and Belgian levels.

Chapter 6, the conclusion, synthesizes some worrying trends in the state of the human capital due to our production patterns. It also makes some recommendations to improve policy-making dealing with the relationships between production patterns and human capital.

"Développement durable: modes de production et capital humain", N. Zuinen, S. Varlez.

Working Paper 22-04, December 2004

Sustainable development policy at the federal level in Belgium

In July 2003 the Belgian federal government's Policy Declaration expressed its intention to assess its sustainable development policy. This Working Paper aims to facilitating this, by delivering a timely evaluation of both the implementation of the first two Federal Plans for Sustainable Development and the Federal strategic policy process in which these plans are elaborated, implemented and monitored. The last part of the Paper

describes the strategies for sustainable development at other Belgian and international policy levels, including partnerships for sustainable development. The Belgian Federal Strategy for Sustainable Development is a learning process. The federal authorities have taken important steps to put sustainable development into practice. This paper shows that improvements are necessary and points out where they are possible.

The first chapter reports on the content of Sustainable Development Plans. It begins by describing the degree to which the first Federal Plan for Sustainable Development (2000-2004) has been implemented. The measures in the first Plan are categorised according to their features such as the actual degree of implementation, the themes covered and the policy instruments used. This shows that at least 56 % of all measures are being implemented. In this category of measures that are being implemented, most measures are being prepared (20 % of all measures) or being executed (32 % of all measures). Only a few measures are reported as not implemented. There are grounds to suppose, however, that most non-implemented measures end up in the rather large "without information" category (30% of all measures). The first chapter also contains a comparison between the first two Plans. The second Plan (2004-2008) has adopted a structure that is more in accordance with the requests of the major groups (pronounced through the Federal Advisory Council for Sustainable Development). This structure is unevenly implemented, however. For instance it shows a lack of quantifiable objectives. The analysis also reveals that 45% of all measures in the second Plan somehow reiterate measures from the first Plan. Moreover there is a risk of overlap between Sustainable Development Plans and existing theme-based federal policy plans. The second Sustainable Development Plan mentions federal theme-based plans but does not contain measures to improve their coherence and co-ordination.

The second chapter focuses on the policy process engendered by the Belgian Act of 5 May 1997 on the Co-ordination of Federal Sustainable Development Policy. This chapter reveals that more funding was allocated to the

public consultation for the second plan, but with less success than had been achieved for the first plan. One possible cause of this is that a large part of the second Plan overlaps with theme-based policy plans and with the government's Policy Declaration of 2003, which had to be executed in any case. The public therefore had reason to believe that their voice was not being heard. Moreover, the document submitted to the public was not easy to understand. The public also did not have sufficient information about the implementation of the first Plan. These flaws could be avoided in future. Another problem addressed by the second chapter is the sequence of Reports and Plans issued on the basis of the above-mentioned Act. This is important because the philosophy of the Act is to learn lessons in the Reports and improve the Plans on the basis of these lessons.

The third chapter deals with the sustainable development strategies of other public authorities in Belgium (the Regions, Communities etc.) and at the international level (the United Nations, the Organisation for Economic Co-operation and Development and the European Union). The chapter ends with a description of Partnerships for Sustainable Development. This third chapter does not evaluate the policies of these authorities but it describes them as carefully as possible. This will make it possible to improve multilevel governance in Belgium and provide information that can help to generate a Belgian national strategy on sustainable development in the future.

*"Het gevoerde beleid inzake duurzame ontwikkeling / La politique menée pour un développement durable",
P. Delbaere, P. Dresselaers, N. Gouzée.
Working Paper 1-05, February 2005,*

The NIME Economic Outlook for the World Economy 2005-2011

This Working Paper presents the 2005-2011 macroeconomic outlook for the major areas of the world. The outlook was produced using NIME, the Belgian Federal Planning Bureau's (FPB) macroeconomic world model and builds on the Autumn 2004 short-term Economic Forecasts made by the European Commission for the year 2004. The Working Paper also features an assessment of the progress made towards the Lisbon goals for growth and employment in the euro area. The major technical assumptions of this outlook as well as a description of the NIME model are presented in an appendix to the Working Paper.

In this outlook, the *euro area* economy is projected to grow by 2.1 per cent in 2005, compared to 1.6 per cent in the FPB's current Economic Budget which integrates information for 2005 from the latest business cycle indicators. Euro area growth is driven by a further rise in private consumption, sustained growth in enterprise sector

investment and net export growth. In 2006, employment and net exports continue to underpin overall GDP growth, which comes out at 2.5 per cent. On average, the euro area economy grows by 2.2 per cent per annum during the projection period, while the unemployment rate falls to 7.5 per cent in 2011. Inflation remains below the European Central Bank's 2 per cent ceiling until 2009, but then picks up to come out at 2.1 per cent in 2011. Short-term interest rates rise from 2.4 per cent in 2005 to 4.3 per cent in 2011. Overall fiscal deficits fall from 2.9 per cent of GDP in 2005 to 1.8 per cent of GDP in 2011, while the area's debt-to-GDP ratio declines from 71.6 per cent to 68.8 per cent over the same period. The euro's nominal effective exchange rate appreciates by an average 2.4 per cent per annum between 2005 and 2011.

During the 2005-2011 period, GDP growth averages 2.9 per cent for the group of countries comprising the *United Kingdom, Sweden and Denmark*. Over the same period,

the area's GDP deflator increases by 1.7 per cent on average, while nominal short-term interest rates are raised from 4 per cent in 2004 to 4.9 per cent in 2011. In the *New EU Member States*, GDP growth remains strong between 2005 and 2011 as it rises by an annual average rate of 3.3 per cent. Robust domestic demand, however, fuels consumer price inflation, which picks up in 2004 and 2005 before levelling off at 2 per cent in 2011. The *United States* economy expands by an average rate of 3.1 per cent, although fiscal and external imbalances persist. GDP growth in *Japan* comes out at an average of 2 per cent per annum, as the Japanese economy moves out of deflation in 2006. The *rest of the world's* output rises at an average rate of 4.6 per cent, while its prices rise by 5.5 per cent per annum during the 2005-2011 period.

This Working Paper also features an assessment of the progress made by the euro area regarding the EU's *Lisbon Objectives* for growth and employment. The outlook

highlights that without an acceleration of structural reforms, the euro area will fail to reach the Lisbon Objectives by 2010. Simulations with the NIME model illustrate the opportunities and limitations of different policy measures that might be considered in view of reaching the Lisbon objectives. When considering the possible budgetary implications of the new measures, however, the simulations underline the difficulty of reconciling the goals of higher growth and full employment with short-term fiscal adjustment.

Finally the reader should be aware that this outlook has not been used for the FPB's 2005 economic forecast for Belgium (February 2005).

"The NIME Economic Outlook for the World Economy: 2005-2011. Also in this issue: The Lisbon Strategy", E. Meyermans, P. Van Brusselen, Working Paper 02-05, February 2005

European R&D Strategy: impact and feasibility study for Belgium

The Barcelona Summit set the objective to increase R&D investment in Europe by 2010 to 3% of the European GDP. This working paper analyses the macroeconomic and sectoral consequences on the economy of reaching this objective at the European and Belgian levels. The issue of feasibility in Belgium and its three regions is then addressed in terms of human and financial resources.

Following the Lisbon strategy, designed to transform the European economy into the most competitive and dynamic knowledge-based society, the Barcelona Summit quantified one of the instruments which is available in order to reach this ambitious objective by fixing the amount of resources which have to be devoted to R&D by 2010, at 3% of the European GDP. This target is considered to be the major step to fill the gap in R&D investment between the EU and its main competitors, principally the US and Japan. The working paper describes the implications of the Barcelona objective in terms of the main economic variables for Belgium and the EU15, the needs for human capital to reach this objective and the way these needs are covered by the current trends in the supply of qualified labour in Belgium.

After a brief overview of the theoretical links between R&D, innovation, productivity and growth, the "3% policy" is simulated using the NEMESIS model (this new policy was introduced in the model by the Erasme laboratory in France and the Paris Chamber of Commerce and Industry). This simulation allows to quantify the impact of intensifying R&D efforts on the main econom-

ic variables. At the macroeconomic level, it demonstrates an important positive impact on long-term economic growth, foreign trade and employment, as well as on productivity. This positive impact occurs in every European country and its extent depends positively on that country's investment in R&D. At the sectoral level, however, structural changes take place: R&D intensive sectors such as chemistry or transport equipment become more competitive and more efficient but sectors with rather low R&D intensity such as ferrous and non-ferrous metals or rubber and plastic sectors, do not show higher productivity gains and end up as net losers from this European common strategy. An important challenge for the public authorities will therefore be to implement policies designed to facilitate the sectoral mobility of capital and labour and, within the sector, to promote mobility from low qualified jobs towards knowledge-based activities. This conclusion underlines the growing importance of lifelong training and the unavoidable development of public support for such training. Furthermore, countries that have to make relatively smaller increases in their R&D efforts will lose market share at the intra-European level after 2010. Even if this loss is compensated for by extra-European trade, Belgium should try to remain, not only in line with the 3% objective, but also above the average intensity for Europe.

The accounting exercise based on economic forecasts from the Federal Planning Bureau model HERMES, reveals that the 3% objective seems feasible in Belgium. The results show that the current efforts in the area of

R&D investment have to be at least maintained and at best intensified until 2010. Indeed, the necessary annual average growth rates in R&D expenditure and in R&D personnel are slightly higher than those recorded between 1993 and 2001 but equivalent to those seen during the past few years. Furthermore, the trends observed in the supply of human resources do not seem to be problematic. The analysis at the regional level, however, is less positive. The Walloon and Flemish regions recently individually adopted the 3% objective. This target seems attainable for these two regions. The regional estimates do, however, indicate that this could be more difficult to achieve for the Brussels-Capital Region,

which records a level of R&D expenditure lower than in the two other regions. As a consequence, it is a major concern that the regional and federal authorities should plan their future efforts in close consultation, in order to achieve the Barcelona objective at the national level. The federal and regional authorities also have an important role to play to meet the increasing demand for skilled human capital.

*"European R&D Strategy: impact and feasibility study for Belgium",
B. Biatour, J. Fiers, S. Gilis, C. Kegels, F. Thiery,
Working Paper 03-05, February 2005.*

A comparative analysis of the input-output tables of 1995 and 2000

The Belgian input-output table for 2000 has been submitted to a traditional input-output analysis. This analysis includes a comparison with the table of 1995 in order to examine economic changes. This research is easier than a similar comparison of the tables for 1995 and 1990 carried out in a former paper because the tables for 2000 and 1995 are both based on the ESA 95 system of national accounts.

Both the descriptive and analytical form of the input-output tables are examined and compared. Descriptive forms give the observed cost structure of the industries: the value created within each industry and the purchases of intermediary products (goods and services consumed or transformed at short notice by the production process) from other industries or foreign producers. The share of domestic output and imports delivered in the components of so-called final demand (consumption, investment, exports) is also given. The value added created within each industry is its so-called observed (or apparent) contribution to GDP.

Analytic forms of input-output tables reproduce so-called cumulated cost structures of industries. They give the direct and indirect value added created in and intermediary imports by all industries engendered by deliveries that meet final demand from one particular industry. These indirect effects are the result of a chain of intermediary deliveries engendered by an initial final demand. Total value added engendered by the deliveries to meet final demand in a particular industry can be considered as its so-called analytical contribution towards GDP.

The fact that the tables of 1995 and 2000 are both based on the ESA95 system of national accounts facilitates comparisons between these tables. There remains, however, one major handicap when comparing the tables

due to the fact that they are only calculated at current prices (and not at constant prices). This means that price effects cannot be distinguished from technological or structural changes.


One striking difference between 2000 and 1995 is the increase in the share of imports: the share of imports in final demand and the share of intermediary imports in total observed or cumulated costs of the industries has risen. In 1995 18% of total final demand was imported, in 2000 the share was 21%. The increase of the share of intermediate imports is generally stronger in manufacturing industry, construction and the distribution sector than in business and other services. The content of this increase in intermediary imports varies from one industry to another. In general, however, higher intermediary use of imported crude petroleum, refined petroleum products, chemical products (all three largely due to price effects) and business services is seen. The latter is a new phenomenon. While the increase of the intermediary use of business services is a long-term phenomenon, for the first time a large part of the increase is caused by imported services.

On the basis of the descriptive form of the input-output table the apparent contributions to GDP from the broad categories of industries in 2000 are: agriculture (1%), manufacturing industry (25%), construction (7%), distribution sector (20%), business services (24%) and other services (23%). The analytical contributions are: agriculture (1%), manufacturing industry (30%), construction (7%), distribution sector (20%), business services (17%) and other services (25%). The differences between these two points of view are largest for manufacturing industry and business services. The analytical contribution of manufacturing industry is much higher than its apparent one. The opposite is true in the case of business services. The reason for this is the high intermediary use of

business services by manufacturing industry. This intermediary use is higher than the converse measure: the intermediary use of manufacturing goods by the business services sector. This is the so-called “intermediary gap”.

In comparison with 1995 the apparent GDP contribution of manufacturing industry has declined (from 26% to 25%), while that of business services has increased (from 22% to 24%). The analytical contribution of manufacturing industry, however, has remained unchanged. This is

due to a widening of the intermediary gap in terms of GDP. Similar results are obtained when the contributions to GDP are translated into contributions to total domestic employment.

 *“Een vergelijkende analyse van de Input-Outputtabellen van 1995 en 2000”*,
L. Avonds, Working Paper 4-05, February 2005.

Projections of regional emissions of pollutants in Belgium

This Working Paper addresses a set of different methodologies to calculate future emissions of pollutants for each of the three Belgian regions separately. It focuses on emissions to the air and compares the results for greenhouse gas emissions obtained by the various methods.

Three types of methods are presented. The first is based on the application of constant emission coefficients (emissions/unit of energy) to regionalised energy use. The second method is based on the National Accounting Matrix including Environmental Accounts (NAMEA). It makes use of regional pollution coefficients (emissions/unit of value added) applied to regionalised activity. Unlike the emission coefficients, these pollution coefficients are not kept constant over the projection period. They evolve according to different scenarios. The third method is a mixture of the energy balance method and the NAMEA-based method.

The energy balance method and the mixed method can only be applied to greenhouse gases. In contrast, the NAMEA-based method can be applied to any type of emission (air, water, waste etc.). In this paper the method was applied to three types of air pollution: greenhouse gases, acidifying emissions, and photochemical emissions.

All three methods make use of the medium term economic projections calculated using the HERMES model to generate projections for emissions. Two sets of regional economic projections compatible with the national projection were generated. The first scenario assumes equal growth rates for each industry in each of the regions, while the second scenario uses differentiated growth rates. Emission projections were calculated for both of these scenarios with the energy balance method for the period 2002-2009. For the NAMEA-based projections only the second scenario was used, and this was

done for the period from 2002 to 2015.

As regards the evolution of the pollution coefficients in the NAMEA method, five different scenarios were elaborated. The first assumes constant 2001 coefficients. The second scenario assumes that the fall in the pollution coefficients achieved in the recent past will continue in the future, albeit at a slower pace. In the third scenario the industries are assumed to target the lowest pollution coefficients among the three Belgian regions in 2001 for their coefficients in 2015. This is called the national best available technology (BAT) method. The fourth scenario combines this national BAT method with the slowed down extrapolation from the past. Industries are therefore assumed to be aiming at the lowest pollution coefficients among the three Belgian regions in 2015 for their own 2015 coefficients. The last scenario is called the international BAT method. In this scenario the industries are assumed to target the lowest pollution coefficients among the three Belgian regions, Germany, the Netherlands, and the United Kingdom in 2001 for their 2015 coefficients.

The mixed energy balance-NAMEA method starts from the splitting up of the NAMEA pollution coefficients into an energy-related pollution coefficient and a non energy-related pollution coefficient. The evolution of energy related emissions calculated on the basis of the energy balance method is applied to the energy related pollution coefficients, while the NAMEA-based projection methods are applied to the non-energy related pollution coefficients.

Comparison of the results for greenhouse gas emissions obtained using the various methods for the period 2002-2009 shows that the evolution of energy related CO₂-emissions for Belgium calculated on the basis of the energy balances corresponds to an adjustment of the pollution coefficients for the industries in the three Bel-

gian regions to the lowest international 2001 pollution coefficients. In the case of N₂O emissions, the results for Belgium based on the energy balance method correspond to the adjustment of the pollution coefficients to the lowest national 2001 pollution coefficients. For CH₄-emissions, the results for Belgium based on the energy balance method correspond most closely to the results obtained by means of a slowed down extrapolation

of the evolution in the recent past. These correspondences are not, however, true for each of the three regions separately.

*“Regionale emissievooruitzichten”,
I. Bracke, G. Vandille,
Working Paper 5-05, March 2005.*

The Macroeconomic Effects of an Oil Price Shock on the World Economy

In this Working Paper, the NIME model is used to examine the effects of a permanent 25 per cent increase in the price of oil, under the assumption that the shock is caused by an increase in the mark-up of the oil price.

The main assumptions underlying this exercise are that a shock is only applied to the price of oil and not to the prices of other energy carriers or sources, and that higher oil revenues earned by the oil-exporting countries are recycled through higher aggregate demand in these countries.

The simulation results show that, in the long run, such a shock reduces gross output by 0.27 per cent in the euro area, 0.30 per cent in the area covering Denmark, Sweden and the United Kingdom, 0.33 per cent in the United States, and 0.23 per cent in Japan. The long-run employment effects are negligible. Due to declining factor productivity, however, the real producer wage rate and the return on capital both fall in proportion to the decline in output. The long-run outcome for the general price level depends on monetary policy. In this paper we assume that the monetary authorities set short-term interest rates according to the Taylor principle, and the rise in prices is proportional to the decline in volumes.

In the medium term, various adjustment costs prevent demand from immediately adjusting to its new long-run equilibrium. In the euro area, the component of demand most severely affected is imports, which fall in the first year by 0.43 per cent and bottom out at 2.21 per cent below baseline in the third year, compared to 1.91 per cent below baseline in the new steady state. Private consumption in the euro area falls by 0.24 per cent in the first year, mainly due to a strong decrease in (expected) disposable income and household wealth, a 0.40 percentage point increase in the short-term interest rate and a 0.30 per cent increase in the consumer price. Private consumption bottoms out at 0.45 per cent below baseline in the third year and gradually converges to its

new equilibrium level at 0.32 per cent below baseline. Total gross fixed capital formation falls only moderately, by 0.14 per cent after four years, and by 0.06 per cent in the long run, mainly due to the small drop in business investment. The decline in enterprise investment is small as the relative price of capital falls in order to reflect the drop in the return on capital.

Results similar to those presented for the euro area can be found for the other oil-importing areas. In the area covering Denmark, Sweden and the United Kingdom, private sector output falls by 0.07 per cent in the first year, bottoms out at 0.43 per cent in the third year and reaches 0.30 per cent below baseline in the long run. In the United States, private sector output falls by 0.22 per cent in the first year and reaches a low of 0.55 per cent in the fourth year, before finally levelling out at 0.33 per cent below baseline in the long run. In Japan, private sector output falls by 0.24 per cent in the first year and stabilises at 0.23 per cent below baseline in the long run. In the rest of the world, output initially increases by 0.28 per cent, as the oil price shock leads to a temporary income transfer from oil-importing countries to oil-exporting countries. As the income transfer diminishes due to declining imports in the major economic areas, aggregate demand in the rest of the world also falls and output finally returns to its baseline level.

*“The Macroeconomic Effects of an Oil Price Shock on the World Economy. A Simulation with the NIME Model”,
E. Meyermans, P. Van Brusselen,
Working Paper 6-05, March 2005.*

Trends in Export Market Shares between 1991 and 2001

The aim of this working paper is to analyse the trends between 1991 and 2001 in the world export market shares of the BLEU and a sample of other countries including the Member States of the European Union (EU15). For this purpose we apply Constant Market Shares Analysis (CMSA) to changes in the world export market shares of those countries for the sub-periods 1991/1997 and 1997/2001.

CMSA is an accounting method that is applied ex post to a country's world export market share in order to link changes over time in this share to the country's export specialisation in terms of geographical markets and commodities. The total change is divided into a 'market share effect', a 'market distribution effect' and a 'commodity composition effect'. The 'market share effect' quantifies the impact on the country's world export market share of changes in its individual export market shares while keeping the commodity and market distribution of world exports constant. This effect is often also called 'competitiveness effect', but as our empirical analysis suggests that it captures more than simply changes in competitiveness, we prefer the term 'market share effect'. The 'market distribution effect' and the 'commodity composition effect' measure the impact on the country's world export market share of shifts in the market and commodity distributions of world exports. These two effects show whether a country is handicapped by the geographical or commodity specialisation of its exports.

The data come from the international trade database CHELEM of the 'Centre d'Etudes Prospectives et d'Informations Internationales' (CEPII), which provides data in current dollar value of all international trade flows in goods. The sectoral and geographical breakdown of the data covers 62 destination markets and 72 product groups.

We find that between 1991 and 1997 most European countries had to put up with a decline in their world export market share. CMSA reveals that this decline was caused either by a fall in individual market shares or by an unfavourable market specialisation of their exports. The commodity specialisation had a rather limited impact. For the non-European countries, the dominant pattern is that although they suffered losses due to the 'market share effect', they were able to increase their world export market shares thanks to both the market distribution and, albeit to a lesser extent, the commodity distribution of their exports.

Between 1997 and 2001, the decline in their world export market shares continued for most European countries. The respective increases and falls can essentially be explained by changes in individual market shares, whereas the structural factors have only little impact. As for the non-European countries, we find almost the same dominant pattern as before, but now the individual market share losses are no longer outweighed by gains through the market and commodity specialisations; hence they lose world export market shares.

Splitting up the global results of the CMSA into the contributions of nine geographical areas allows us to locate the origin of the increases and falls in the world export market shares. The main handicap of the European countries in the sample is that their exports are mainly directed towards the internal market of the EU15. Moreover, the results of the CMSA can also be analysed with respect to commodity groups. Here we can identify a clear trend over the whole decade for all countries. A specialisation in exports of the commodity group 'Electronics' proved very beneficial. To a lesser extent the same was also true of the 'Chemical' group. The 'Food industry', 'Textile', 'Mechanical' and 'Vehicles' groups contributed most to a fall in the world export market share.

The BLEU constitutes a special case. During the period 1991/1997, the BLEU was one of the countries with the most significant declines in their world export market share due to an unfavourable geographical specialisation. Indeed, most exports of the BLEU go to the EU15. By contrast, the BLEU experienced a sharp rise in its world export market share between 1997 and 2001, unlike almost all other European countries. This rise was caused by a surge in individual market shares. Moreover, it has ceased to lose world export market shares due to the market specialisation of its exports. As regards the commodity distribution of its exports, the BLEU is at a disadvantage because of the modest share of the commodity group 'Electronics' in its exports, although this is compensated by the considerable weight of 'Chemical' products.

*"Trends in Export Market Shares between 1991 and 2001
An international comparison with a focus on the Belgium
Luxembourg Economic Union",
B. Michel, Working Paper 7-05, March 2005*

Other Recent Publications

"Tableaux Entrées-Sorties de la Belgique pour 2000
Input-outputtabellen van België voor 2000",
December 2004

Planning Paper 97, January 2005

"Variantes de réduction des cotisations sociales et de modalités de financement alternatif - Socialezekerheidsbijdrageverminderingen en alternatieve financiering van de sociale zekerheid: simulaties van beleidsvarianten"

D. Bassilière, F. Bossier, I. Bracke, I. Lebrun,
L. Masure, P. Stockman

Working Paper 19-04, October 2004

"Demande maîtrisée d'électricité:
Elaboration d'une projection à l'horizon 2020"
D. Gusbin

Working Paper 20-04, November 2004

"Quotients de mortalité prospectifs -
Prospectieve sterftequotienten"
M. Lambrecht, J.-M. Paul

Working Paper 21-04, December 2004

"Analyse du secteur Horeca -
Analyse van de horecasector"
V. Deguel, C. Hambÿe, B. Hertveldt, J. Wera

Conference "The Lisbon strategy: an engine to market reforms of network industries in Belgium"

On the 1st and 2nd of June a conference on the reform of network industries will be held at the offices of the European Economic and Social Committee, Rue Bélliard 99, 1040 Brussels.

This conference is organised by the Federal Planning Bureau (FPB), Conseil Central de l'Économie (CCE) and European Economic and Social Committee (EESC).

The aim of the conference is to analyse and discuss the potential impact of network industry reforms in Belgium. On the first day, the European context and the macroeconomic and social impact will be discussed. Special attention will be given to the Belgian case. On the second day, some specific themes will be dealt with, followed by a discussion among several stakeholders. Further information can be obtained at jv@plan.be and jvdl@plan.be.

Research in Progress

Reforms in network industries

The FPB analyses the economic impact of reforms in network industries in Belgium. The aim is to get a better understanding of the main economic mechanisms at play, to benchmark the Belgian situation with other European countries and to quantify the economic impact of the reforms.

contact: jvdl@plan.be

Transport and mobility

The FPB undertakes research in this area in cooperation with the federal administration "Transport and Mobility". In particular transport satellite accounts and a transport model are constructed. The aim is to get a better grasp of the relationship between transport, mobility and the economy and to analyse the impact of transport and mobility policies on the Belgian economy.

contact: dg@plan.be

Health care expenditure

Different research projects concerning the determinants of health care expenditure are currently underway, in collaboration with various agencies and institutions.

contact : mln@plan.be

Special topics in the area of pensions

The FPB is investigating the impact of the 1996 pension reform and the dynamics of the pension benefits for self-employed and for civil servants.

contact : maltese@plan.be

Public finances and macroeconomic performance

FPB is updating its studies into the interactions between macroeconomic performance and different categories of public revenue and expenditure.

contact : fb@plan.be, db@plan.be

Recent history of major economic policy measures

February 2005	APX Gas has launched a gas exchange at the Zeebrugge Hub in close co-operation with Fluxys subsidiary Huberator. The exchange should give added boost to liquidity at the Zeebrugge Hub and foster competition in the context of the opening up of the European gas markets.
January 2005	<p>The federal government announces that the account for public administrations as a whole is in balance in 2004 for the fifth consecutive year.</p> <p>Representatives of the social partners reach a compromise concerning wage developments for the next two years. The main important decisions refer to:</p> <ul style="list-style-type: none"> • the wage norm: the increase in the nominal hourly wage cost would be limited to 4.5% cumulated over two years (2005-2006), allowing for a 1.2% increase in real terms given the assumed pace of inflation (3.3%); • maximum authorized overtime per employee is raised to 130 hours a year; • various additional reductions in taxes and contributions are provided, in order to decrease the labour cost of overtime, work organised in shifts and low-paid jobs. <p>The agreement was ultimately rejected by some of the social partners but will nevertheless be enforced by the federal government.</p> <p>The federal electricity and gas market regulator (CREG) submitted the 2005-2014 indicative programme for electricity generation for approval to the Ministry of Energy.</p> <p>The national railway company NMBS/SNCB has been split up into a holding company structure. Under this holding company are an operator for infrastructure and an operator for train services. This restructuring fulfills minimum requirements of EU legislation. At the same time the historical debt has been taken over by the federal government, and a supervisory body has been established within the transport ministry. The historic debt amounts to 7.4 billion euros, which is 2.8% of GDP.</p>
November 2004	Two measures were taken in the field of privatisation. Australian investment company Macquarie acquired a 70% share in Brussels airport operator BIAC, the remainder staying in public hands. Postal incumbent De Post/La Poste was allowed to raise private capital (but not to privatise its existing capital).
September 2004	Transport system operator ELIA announces to establish next year a short term electricity exchange. This exchange will cooperate with the Dutch and French electricity exchanges.
July 2004	<p>In accordance with EU legislation, the electricity and gas markets have been opened up for all business customers. This increases the total degree of market opening in both markets to 90%. The remaining captive customers are residential customers in Wallonia and Brussels, who make up less than half of the Belgian population.</p> <p>The federal government has approved a draft bill that will transpose the European package of directives on electronic communications into Belgian law.</p>
May 2004	There were two small but significant commercial developments in telecommunication. In mobile communications, a first commercial UMTS service was introduced, albeit on a limited scale. For the time being, this service will be available to professional customers and in the six largest cities only. In the area of broadband connections, Belgacom has followed Telenet in launching an offer for a light Internet service at a price of less than 30 euros per month and with a limit on the connection speed and download capacity.
April 2004	Two small but noticeable measures relating to renewable energy were taken: one was positive and the other was negative. The positive measure is the provision of a license to build a windmill site in the North Sea. From 2007 onwards this site may produce electricity for 400,000 households. The negative one is the decision by the Government of Flanders to suspend the exemption from network access fees for renewable electricity. It was warned by the European Commission because the exemption did not apply to imported electricity.
March 2004	<p>The telecommunications incumbent Belgacom has been floated on the Brussels stock exchange. The equity involved was already held by a private investment consortium. The federal government remains the majority shareholder (51.6%).</p> <p>The federal government has made significant progress in the development and financing of two important railway investment projects for the coming decade. One project is the creation of a high-capacity commuter network around Brussels (RER/GEN), while the other is the building of direct connections to the national airport from cities other than Brussels.</p> <p>Social policy measures are announced, mainly consisting in adjustments to the welfare system affecting certain benefits: in particular, a 2% increase for older pensioners and people with long-term disabilities (wage-earners scheme) in 2005, 2006 and 2007, and increases and wage indexation of ceilings in disability insurance.</p>
February 2004	The federal Council of Ministers speeds up the transposition of European directives into Belgian law. The transposition of at least half of 59 directives falling within the competence of the federal government is scheduled to take place before the end of March. The remainder will follow soon afterwards.

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
NIS/INS	Nationaal Instituut voor de Statistiek / Institut national de Statistique
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

BEF	Belgian franc
BoP	Balance of Payments
CPI	Consumer Price Index
ECU	European Currency Unit
EMU	Economic and Monetary Union
EUR	Euro
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)