

# SHORT TERM UPDATE

# 2-01

Quarterly Newsletter  
May 2001

Headlines Belgian Economy



Special Topic in this issue  
Wage cost reduction in the  
Belgian labour market

# 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

*Belgian GDP growth is expected to decelerate from 3.9% in 2000 to 2.8% this year and to be less export-led than last year. Even when taking into account a recovery in world trade during the last few months of 2001, growth in Belgian exports should ease back significantly on average this year, due to the deceleration in world economic growth and the appreciation of the euro. Domestic demand should, however, remain robust in 2001 (2.5%). Private consumption growth (2.5%) should almost equal the average for the last three years, while business investment should do even better. Employment growth should remain strong this year (1.1%), although lower than the exceptional figure seen last year (1.8%). The decrease in inflation seems to be slower than was expected earlier. The general government financing capacity should move from 0% in 2000 to 0.7% of GDP in 2001.*

*The medium-term outlook for Belgium is pointing towards a GDP growth rate of 2.7% during the period from 2002 to 2006. This favourable development can be largely accounted for by domestic demand. The role of exports should be more limited. Private consumption should be more dynamic during the period covered by the forecast than it was during the 1996-2000 period thanks to a favourable development in households' disposable income (stimulated in particular by an important fiscal reform). Gross fixed capital formation should also increase rapidly, reflecting the increase in business investment. Export growth, on the other hand, should not exceed 5.9% on average: the loss in export market share should be confirmed and the contribution to GDP growth from net exports is expected to decline.*

*The inflation rate should be kept below 2% in the medium term. Wage increases compatible with productivity gains, cuts in social security contributions and the extension of production capacity are the main domestic factors behind this more moderate inflation.*

*Annual employment growth should be around 1% between 2002 and 2006, but a large proportion of this expansion should be absorbed by an increase in the labour force. The unemployment rate in the broad sense (including long-term older unemployed) should decline more modestly (from 12.9% of the labour force in 2000 to 11.3% in 2006) than the official unemployment rate (from 10% to 7.5%).*

*Assuming an unchanged policy, but taking into account the measures decided upon recently, the financing capacity of the public administrations should improve up to the equivalent of 1.3% of GDP in 2006. Given the ambitious budgetary targets of Belgium's stability program for 2001-2005, this means that the remaining budgetary margins should be, at most, very limited.*

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## Wage cost reduction in the Belgian labour market

In an effort to promote the labour intensity of economic growth and to reduce the number in long-term unemployment and hence to increase the employment rate, the Belgian federal government has embarked on a strategy of labour cost reduction since the early 1990s, either by reducing the level of social security contributions of employers in general or by stimulating low-wage employment and/or subsidizing the hiring of specific categories of labour in particular. A new development in labour market policy is to merge a number of existing wage cost reduction measures into a single 'structural measure'. The main effect is that white-collar and high-wage market sectors will gradually enjoy larger cost reductions, shifting labour demand away from low-wage and blue-collar sectors. In response to these developments in labour market policy, the FPB has upgraded HERMES, its macroeconomic model for medium-term forecasts and policy assessment, allowing the analysis of both general and selective labour market policies.

### The structural measure

The government has been establishing the *Structural measure (Structurele maatregel/Mesure structurelle)* since 1999, which streamlines and expands separate schemes for wage cost reduction previously mainly aimed at low-wage workers in the profit sector (*Lageloonmaatregel/Mesure bas salaires*) and/or blue-collar workers in the profit sector (*Maribel*). A methodology that combines the conditions for wage cost reductions spelled out in legislation, labour market data provided by the RSZ/ONSS and projections of sectoral wages and employment enables the FPB to compute accurate medium-term projections of the structural reduction by sector and wage category and its impact on employment.

By its nature, the structural measure favours low-wage, part-time employment in the profit sector and discriminates against high-wage workers, full-time employment and the non-profit sector. Interestingly, the differential between blue-collar workers (*arbeiders/ouvriers*) - who used to benefit more from reductions in social security contributions prior to the structural measure - and white-collar workers (*bedienden/employés*) will be reduced by the time the structural measure is implemented fully in 2004. As opposed to the earlier social contribution reduction programmes, the structural measure covers the non-profit market sector, mainly health care, as well, but at less generous terms than in the profit sector.

Moreover, because the structural measure is not inflation-adjusted, inflation-led wages increases reduce the share of reductions allotted to low-wage labour while the total amount of reductions tends to level off (see Table 1). Even so, the reduction in wage cost remains stronger for low-wage labour. Also, not all sectors benefit from the structural measure to the same extent. There is a distinct shift away from manufacturing to services due to the decline of manufacturing and the more equal treatment of white-collar workers.

**Table 1 - Main characteristics of the structural reduction ex ante in the market sector (billions of BEF unless indicated otherwise)**

	2000	2001	2002	2006
Ex ante structural reduction	91.4	106.4	115.4	135.3
low wages (excl. health care) <sup>a</sup>	34.8	36.5	36.9	36.6
high wages (excl. health care) <sup>a</sup>	51.5	64.5	73.2	93.3
health care <sup>a</sup>	5.2	5.3	5.3	5.4
% of total (incl. health care)				
agriculture	1.1	1.0	1.0	1.0
manufacturing and energy	32.6	32.6	32.1	30.7
services and construction	66.3	66.4	67.0	68.2
Percentage fall in wage cost (in %) <sup>b</sup>				
high wages (excl. health care and agriculture)	1.7	2.0	2.2	2.3
low wages (excl. health care and agriculture)	6.5	6.4	6.2	5.0
Effect of non indexation on total reduction	0.0	-3.8	-4.2	-7.2

a. Because health care jobs are mainly *Sociale maribel/Maribel social* jobs (see later), only an aggregate figure for health care is presented here

b. The FPB does not model labour-specific wage bills for agriculture

### The targeting of specific unemployment categories

Throughout the 1990s, the Belgian federal government has been proactive in the labour market, introducing a variety of labour market policies, ranging from subsidizing additional jobs in the non-profit market sector (*Sociale maribel/Maribel social*) to relief jobs aimed at the long-term unemployed and/or the low-skilled unemployed (of which the *Dienstenbanen/Emplois service*, the *Plan-plus-1-plus-2-plus-3*, and the *Voordeelbanenplan/Plan avantage à l'embauche* are the best-known), which largely use wage subsidies or social security contribution exemptions. These subsidies and contribution exemptions are conditional on creating additional employment or meeting other regulatory conditions.

The wage subsidy in the non-profit market sector (*Sociale maribel/Maribel social*) dates back to 1997 and equals a fixed amount per employee employed in a reference year and subsidises the wage bill of additional employment. The budget allocated to this measure has been allowed to grow in time by varying the fixed amount per

employee in the reference year<sup>1</sup>.

The *Dienstenbanen/Emplois service*-programme has been in effect since 1998 and is restricted to activities that do not belong to the normal business practices of a firm. Employees are exempt from employers' social security contributions altogether and also receive a wage subsidy per head. *Plan-plus-1-plus-2-plus-3* is restricted to the first three additional employees in start-up firms for up to 3 years. Employees are entitled to sizeable reductions in social security contributions (between 25% and 100%). *Voordeelbanen/Emplois plan avantage à l'embauche* has been in effect since 1995. Employees are entitled to reductions similar in size as the *Plan-plus-1-2-3*-jobs but may also receive a wage subsidy per head as from 2002.

The four special programmes discussed above account for more than 2% of full-time equivalent employment in the market sector, excluding agriculture and health care (Table 2). Because these labour market policies have basically remain unchanged, the FPB holds the special (implicit) social security contribution rates constant in the 2001 medium-term macroeconomic projection for 2001-2006. Because of the nature of the wage subsidies, the special subsidy rates are allowed to vary over time.

**Table 2 - Importance of special programmes in the market sector**

	2000	2001	2002	2006
Number of special jobs <sup>a</sup>	69537	74121	77838	87691
Full-time equivalent wage earning labour <sup>b</sup>				
high wages (% of total)	74.7	74.5	74.3	73.6
low wages (% of total)	23.2	23.3	23.5	23.9
special programmes (% of total) <sup>b</sup>	2.1	2.1	2.2	2.5

a. incl. health care, excl. agriculture, *Sociale maribel/Maribel social* in the narrow sense

b. excl. agriculture and health care, *Sociale maribel/Maribel social* in the broad sense; Health care jobs are excluded because they are mainly *Sociale maribel/Maribel social* jobs anyway.

### Substitution in the labour market

As from 2001, the FPB uses a macroeconomic model - an update of HERMES - that distinguishes three types of endogenous labour in the market sector: regular low-wage labour (as a proxy for low-productive labour), regular high-wage labour (as a proxy for high-productive labour) and special labour categories entitled to conditional labour cost reductions (i.e. an aggregate of *Dienstenbanen/Emplois service*, *Plan-plus-1-plus-2-plus-3*, *Voordeelbanen/Emplois plan avantage à l'embauche* and *Sociale-maribel-banen/Emplois maribel social* - see above)<sup>2</sup>.

1. One should distinguish *Sociale maribel/Maribel social* in a broad sense and a narrow sense. The broad concept refers to the total number of employed in the non-profit market sector which receive *Sociale maribel/Maribel social* subsidies, accounting for about 400,000 jobs in 2000, mainly in health care. The narrow concept, amounting to 11,623 jobs in 2000, only includes that part of employment which is created relative to a reference year and which is fully subsidized with the wage subsidy.

In the 2001-2006 forecast, the same government-sanctioned benchmark (*loonnorm/norme salaire*) is imposed on the gross wage rate of all labour categories, implying that changes in relative wage cost rates are due to different patterns in social security contribution rates and wage subsidy rates over time<sup>3</sup>. This is illustrated in Table 3, showing the year to year percentage changes in the relative wage cost and the factor proportions for manufacturing (including energy) and services (excluding health care) in 2001-2006. Low-wage labour is becoming more expensive relative to the special employment categories, producing an increase in special employment relative to low-wage labour. High-wage labour in manufacturing is becoming cheaper, triggering - by and large - an increase in high-wage employment relative to low-wage employment as well. The picture is more complicated in the service sector: the decrease in the high-wage cost ratio fails to raise high-wage employment relative to low-wage employment<sup>4</sup>.

**Table 3 - Year-to-year percentage changes in the full-time equivalent wage cost ratios and factor ratios (low-wage labour is the numéraire)**

	2001	2002	2006
Full-time equivalent wage cost ratios in manufacturing and energy			
high-wage labour	-0.0025	-0.0052	-0.0023
special programmes	-0.0067	-0.0108	-0.0116
Full-time equivalent factor ratios in manufacturing and energy			
high-wage labour	-0.0041	-0.0044	0.0039
special programmes	0.0035	0.0039	0.0007
Full-time equivalent wage cost ratios in services (excl. health care) and construction			
high-wage labour	-0.0007	-0.0019	-0.0011
special programmes	-0.0103	-0.0118	-0.0113
Full-time equivalent factor ratios in services (excl. health care) and construction			
high-wage labour	-0.0072	-0.0062	-0.0050
special programmes	0.0138	0.0203	0.0243

- HERMES is an aggregate demand driven model which - in line with common modelling practice in other countries - determines labour-specific demand in each sector in two stages: through a sectoral aggregate and translog-based allocation among low-wage labour, high-wage labour and special employment programmes (quarterly gross wages less than 189,000 BEF (in 2000 prices) are considered low wage). Firstly, aggregate demand and the average cost of labour relative to other factor prices determine total demand for labour. Secondly, total demand for labour is allocated among the three sub categories of labour (see main text), pending on relative wage costs. The composition of labour demand affects the average wage cost, which in turn feeds back into total demand for labour.
- Each labour-specific gross wage rate may either reflect an exogenous, government-sanctioned wage growth benchmark or may be subjected to macro-economic feedback (through mainly a Philips curve effect, via the unemployment rate, and sectoral and macro-economic productivity).
- A technical feature of translog substitution is that a small increase in relative cost does not necessarily translate into an increase in relative demand if total employment is not kept constant. This phenomenon does not affect all sectors to the same extent. In the case of more substantial changes in relative cost, intuitively normal substitution effects do appear.

The FPB's medium-term economic outlook for April 2001 covers the period from 2001 to 2006. Detailed analyses of macroeconomic, sectoral and labour market developments are presented. There is also detailed comment on the public finance results of the federal government, regions and communities, local authorities and social security departments. A special chapter is devoted to the evolution of energy consumption and greenhouse gas emissions. The baseline is an unchanged policy scenario, notably with regard to fiscal and social policies as well as institutional arrangements. Based on this scenario, the financing capacity of the General Government will reach 1.3% of GDP by 2006. Given the ambitious budgetary targets of Belgium's Stability program 2001-2005, this means that the remaining budgetary margins should be, at most, very limited.

Based on forecasts from international organizations, the outlook for Europe suggests that, after GDP growth significantly above 3% in 2000, European expansion will stabilize at around 2.8% per year during the period 2001-2006. The economy will be stimulated by favourable economic fundamentals and also by the stabilization of world growth, after the recovery expected during the second half of 2001. The increase in nominal interest rates will be only limited in spite of a slight acceleration in inflation.

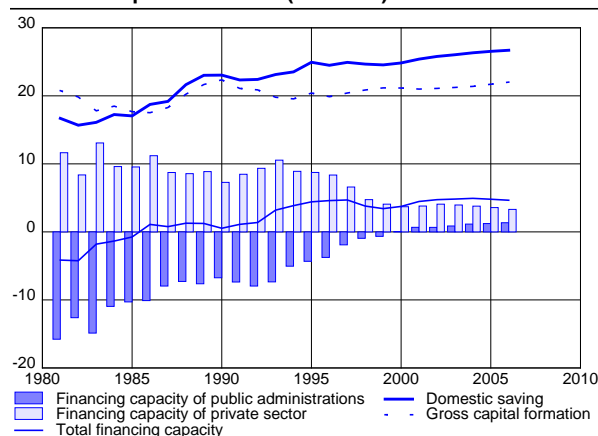
The baseline forecast indicates that, after very sustained expansion at a rate approaching 4% in 2000, Belgian GDP growth should attain an average of 2.7% for the period from 2001 to 2006. This favourable development can be largely accounted for by domestic demand. The role of exports is expected to be more limited.

Private consumption should be more dynamic from 2001-2006 than during the period 1996-2000, thanks to the favourable development of household disposable income. Gross fixed capital formation should also increase rapidly during the period of the forecast, reflecting the increase in business investment. Exports' growth is expected to be slower in 2001 than in 2000, due to the less favourable international context and a decreasing export market share. Afterwards, exports' growth should not exceed 5.9% on average: the loss in export market share should be confirmed and the contribution of net exports to GDP growth should decline. Nevertheless, the external surplus should reach nearly 5% of GDP in 2006. The level of the external surplus also reflects abundant domestic savings, against the background of the increasing public financing capacity.

Limited wage increases (accelerating but still compatible with productivity gains), cuts in social security con-

tributions and the extension of production capacities are the main domestic factors behind an inflation rate that will remain below 2% in the medium term (1.8% on average). The easing of energy prices, after their strong increase in 2000, will also help to moderate the level of inflation during the forecasting period.

Graph 1 - Financing capacities, domestic saving and capital formation (% of GDP)



Employment figures should show a gradual improvement, with about 39,000 jobs created every year on average during the 2001-2006 period (as compared with 40,000 jobs created on average during 1996-2000). This result can be explained by the following factors:

- the favourable macroeconomic context, with average GDP growth of 2.7% during the period of the forecast;
- limited wage increases (introduced as a hypothesis within the framework of the 1996 law on the promotion of employment and the safeguarding of competitiveness) should be backed by cuts in social security contributions and by fiscal reform; the nominal increase in unit labour costs will not exceed 1.8% per year on average over the 2001-2006 period;
- the various measures taken to promote employment (mainly activation and insertion programs).

The decline in industrial employment should continue, but the number of jobs lost in manufacturing industry between 2001 and 2006 should be limited to 13,000 (22,000 during 1995-2000). The number of jobs created by market services should exceed 230,000, bringing the share of employment in market services to about 56% of total employment (42% in 1980).

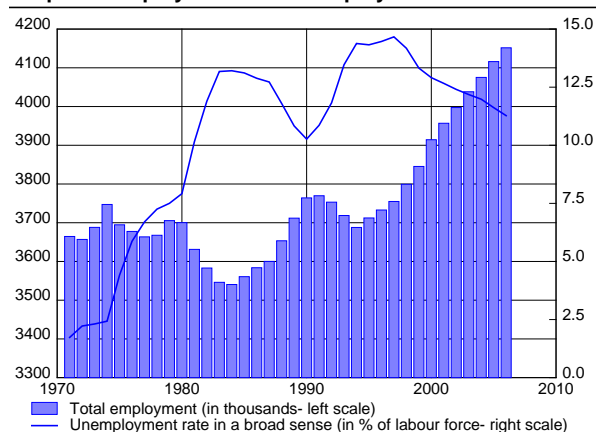
The population of working age, fuelled in particular by immigration flows, will increase considerably during the period 2001-2006. Consequently the employment rate (as a percentage of the population of working age) will rise less rapidly (from 59.0% in 2000 to 61.3% in 2006) than in recent years. The overall activity rate (in a broad sense) will be influenced favourably by the in-



crease in female participation rates, but suffers from demographic ageing within the population of working age. On the whole, the increase is rather modest.

Since the increase in the labour force will absorb a large part of the growth in employment, unemployment in a broad sense will only decrease from 12.9% in 2000 to 11.3% in 2006. The ageing of the labour force, however, will boost the proportion of older unemployed people within the broad unemployment figure. Accordingly, the official unemployment rate (excluding older unemployed people) will fall more rapidly, from 10.0% in 2000 to 7.5% in 2006.

**Graph 2 - Employment and unemployment**



Assuming an unchanged policy but taking into account the measures recently decided upon, public expenditure is forecast to grow more slowly than GDP. Due to the further reduction of social security contributions and the introduction of a major fiscal reform, the global tax burden should also decrease until 2006.

The financing capacity of public administrations becomes positive in 2001 and improves up to the equivalent of 1.3% of GDP in 2006. This improvement, however, is only based on a substantial reduction in interest payments (2% of GDP during the forecasting period). Indeed the General Government primary surplus should reach

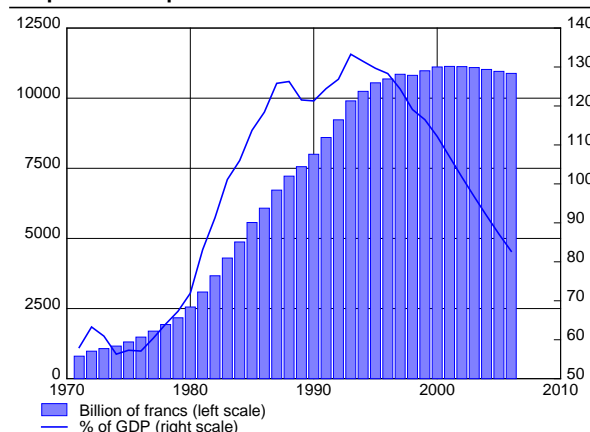
a peak in 2001 and then fall slowly.

The financing capacity of public administrations will be distributed very unequally between the public entities. Before the introduction of the so-called Lambermont agreement, entity I (federal authorities and social security) would have a very large surplus (equivalent to 2.0% of GDP in 2006), with entity II (Communities, Regions and Local authorities) showing a significant deficit (equivalent to 0.7% of GDP). After the application of the Lambermont agreement, the surplus from entity I should be reduced by 0.3% of GDP in 2006 in favour of entity II.

The total public debt to GDP ratio should continue its decline, with a decrease of about 30% between 2000 and 2006. Even in nominal terms, the amount of the debt should begin to fall from 2002 onwards.

In accordance with the Stability Program presented by Belgium, the results of the forecast suggest that budgetary margins will be, at most, very limited in 2005.

**Graph 3 - Total public debt**



“*Perspectives économiques 2001-2006*”,  
 Bureau fédéral du Plan, avril 2001.  
 “*Economische vooruitzichten 2001-2006*”,  
 Federaal Planbureau, april 2001.

**Table 1 - Key figures from the medium-term economic outlook (period averages- changes in volume unless otherwise stated)**

	1991-1995	1996-2000	2001-2006
Potential export market	5.7	7.4	6.4
Private consumption	1.4	2.2	2.6
Public consumption	1.5	1.9	1.6
Gross fixed capital formation	-0.1	4.2	3.5
Stock building (contribution to GDP growth)	0.1	-0.1	0.0
Final internal demand	1.2	2.5	2.6
Exports	4.1	5.6	5.9
Imports	3.8	5.5	5.9
Net exports (contribution to GDP growth)	0.3	0.3	0.2
GDP	1.5	2.7	2.7
Private consumption prices	2.4	1.7	1.8
Real disposable income households	1.7	1.3	2.7
Domestic Employment (annual changes in '000)	-10.4	40.4	39.6
Unemployment rate (level, as percentage of labour force, end of period)			
including older unemployed people	14.3	12.9	11.3
excluding older unemployed people	12.9	10.0	7.5
Current account balance (% of GDP, end of period, national accounts definition)	4.5	3.7	4.7
General Government financing capacity (% of GDP, end of period)	-4.3	0.0	1.3

## Economic Forecasts by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (data in ESA-95) [1]

	1999	2000 (est.)	2001	2002
Private consumption	1.9	2.9	2.5	2.6
Public consumption	3.4	2.1	1.6	1.3
Gross fixed capital formation	4.8	4.1	3.4	3.4
Final national demand	2.1	3.1	2.5	2.6
Exports of goods and services	5.2	10.6	5.5	6.5
Imports of goods and services	4.5	9.9	5.3	6.4
Net-exports (contribution to growth)	0.7	1.0	0.4	0.4
Gross Domestic Product	2.7	3.9	2.8	2.9
p.m. Gross Domestic Product - in current prices (bn BEF)	9423	9905	10407	10934
National consumer price index [2]	1.1	2.5	1.5	1.7
Consumer prices: health index [2]	0.9	1.9	1.7	1.8
Real disposable income households	1.6	2.5	3.2	2.8
Household savings ratio (as % of disposable income)	16.3	15.9	16.5	16.7
Domestic employment (change in '000, situation on June 30th)	46.1	69.0	42.5	40.5
Unemployment (Eurostat standardised rate, yearly average) [3]	8.8	7.0	6.9	6.7
Current account balance (BoP definition, as % of GDP)	4.4	4.6	5.4	5.7
General government financial balance (as % of GDP)	-0.7	0.0	0.7	0.7
Short term interbank interest rate (3 m.)	2.9	4.4	4.5	4.6
Long term interest rate (10 y.)	4.8	5.6	5.0	5.2

[1] Forecasts finalised by the end of March, before publication of National Accounts 2000

[2] More recent inflation forecasts for 2001 can be found on page 15; [3] Other unemployment definitions can be found on page 14

## Economic forecasts for Belgium by different institutions

	GDP-growth		Inflation		Government balance		Date of update
	2001	2002	2001	2002	2001	2002	
Federal Planning Bureau	2.8	2.9	1.5 [1]	1.7	0.7	0.7	4/01
INR/ICN	2.8	.	1.5	.	.	.	2/01
National Bank of Belgium	.	.	.	.	.	.	.
European Commission	3.0	3.1	1.7	1.5	0.6	0.7	4/01
OECD	2.8	2.7	1.7	1.7	0.7	0.7	4/01
IMF	2.4	2.4	2.2	1.3	0.3	0.3	5/01
Artesia Bank	2.9	.	2.0	.	0.1	.	11/00
BBL	2.6	.	1.9	.	.	.	2/01
Fortis Bank	3.0	3.2	1.6	1.8	0.2	0.3	3/01
Dexia	2.9	2.3	1.9	1.8	0.2	0.4	4/01
KBC Bank	2.8	2.5	1.5	1.4	0.3	0.1	4/01
Morgan Stanley Dean Witter	2.4	3.2	2.1	1.7	0.2	0.5	12/00
Petercam	2.3	2.6	2.2	1.7	0.4	0.2	4/01
IRES	2.9	.	1.4	.	0.3	.	4/01
DULBEA	3.0	2.8	1.8	2.0	0.5	0.5	4/01
Consensus Wirtschaftsinstitute	2.8	2.7	2.3	1.9	0.3	0.6	4/01
<b>Averages</b>							
All institutions	2.8	2.8	1.8	1.7	0.4	0.5	
International public institutions	2.7	2.7	1.9	1.5	0.5	0.6	
Credit institutions	2.7	2.8	1.9	1.7	0.2	0.3	
Consensus The Economist	2.6	2.6	1.9	1.7			5/01

Collaborating institutions for The Economist: ABN Amro, Deutsche Bank, EIU, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan, Morgan Stanley Dean Witter, Nordbanken, Primark Decision Economics, Royal Bank of Canada, Salomon Smith Barney, Scotiabank, Shinsei Bank, Warburg Dillon Read  
 Wirtschaftsinstitute: DIW (Berlin), Ifo (München), HWWA (Hamburg), IfW (Kiel), IWH (Halle), RWI (Essen)

[1] More recent inflation forecasts for 2001 can be found on page 15



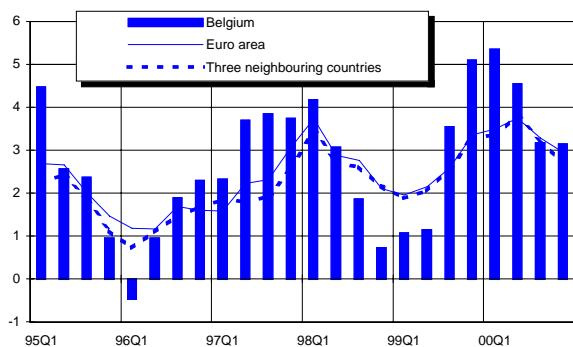
General economic activity

**Table 1 - GDP: change compared to the same period in the previous year, in %**

			YoY growth rates, in %					QoQ growth rates, in %				
	99	00	99Q4	00Q1	00Q2	00Q3	00Q4	99Q4	00Q1	00Q2	00Q3	00Q4
Germany	1.4	3.1	2.5	2.6	4.0	3.3	2.6	0.9	1.0	1.2	0.3	0.2
France	3.2	3.2	3.7	3.6	3.4	3.0	2.8	1.1	0.6	0.7	0.6	0.9
Netherlands	3.9	3.9	4.9	4.9	4.3	3.5	2.8	1.3	0.8	0.8	0.7	0.9
Belgium	2.7	4.0	5.1	5.4	4.6	3.2	3.1	1.4	1.1	0.2	0.6	1.2
Euro area	2.5	3.4	3.4	3.5	3.7	3.3	3.0	1.0	0.9	0.8	0.6	0.7
United States	4.2	5.0	5.0	5.3	6.1	5.2	3.4	2.0	1.2	1.4	0.5	0.3
Japan	0.8	1.7	0.4	2.4	1.1	0.5	2.8	-1.5	2.4	0.2	-0.6	0.7

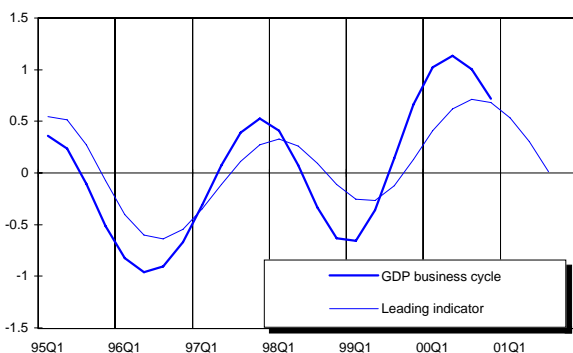
Source: INR/ICN, National sources, Eurostat

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



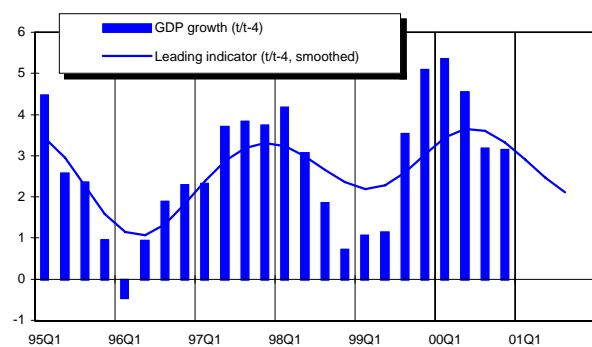
Source: INR/ICN, National sources, Eurostat

**Graph 2 - GDP business cycle and leading indicator**



Source: INR/ICN, FPB

**Graph 3 - GDP growth and leading indicator**



Source: INR/ICN, FPB

Economic activity in the main industrialised countries has been weakening since the autumn of 2000, as the sharp slow-down in the United States gave rise to significant spill-over effects amongst its trading partners and reinforced the weakness of the Japanese economy. In the euro area, however, activity remained rather robust at the end of last year, as the slowdown in the world economy did not yet have a major impact on European exports. Most important was the deceleration in domestic demand and particularly in private consumption, due to the loss in household purchasing power after the sharp rise in the energy prices. Despite the loss of growth momentum recorded in the second half of last year, GDP yoy growth was still slightly above 3% on average during the last two quarters of 2000.

In the last quarter of 2000, economic activity in Belgium still increased by more than 1% qoq. This was accounted for by private domestic demand. Nevertheless, the slowdown in cyclical momentum in Belgium throughout last year was far more pronounced than in its neighbouring countries. In contrast to the other European economies, this was due to the strength of the Belgian export cycle since mid-1999 and the consequently sharp cooling-off in exports.

The slowing pace of European activity, as in Belgium throughout last year, was mainly due to industrial activity. Although yoy growth in industrial production at the beginning of the current year remained on broadly the same path as in the second half of 2000, there is increasing evidence of a broader weakening in activity in Europe. The lost momentum in the German economic upswing is for example reflected by the continuing fall in the Ifo business indicator.

The FPB leading indicator of Belgian economic activity also suggests that the present weakening in the overall cycle could be seen until the third quarter of the current year. This indicator does not yet hint at the expected turning-point in this downward trend, since the cycle could still lose strength as it returns to its trend path.

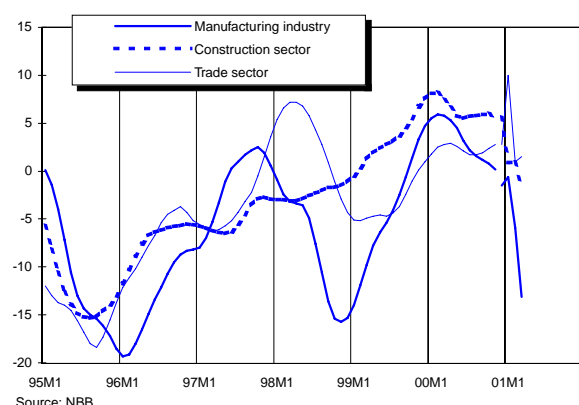
**Table 2 - Monthly business surveys [1]**

	99	00	00Q2	00Q3	00Q4	01Q1	00M10	00M11	00M12	01M1	01M2	01M3
Synthetic indicator	-2.9	3.8	4.6	2.8	1.9	-3.9	1.6	3.8	0.2	1.2	-3.8	-9.2
Manufacturing industry	-4.1	3.5	4.4	2.2	1.2	-6.5	1.6	3.5	-1.5	-0.6	-5.9	-13.1
Construction sector	2.9	6.5	4.9	6.1	5.9	0.0	6.1	6.0	5.6	0.9	0.9	-1.9
Trade sector	-3.0	2.7	4.9	2.3	1.1	4.2	-2.8	3.2	2.8	10.0	1.0	1.5

[1] Qualitative data

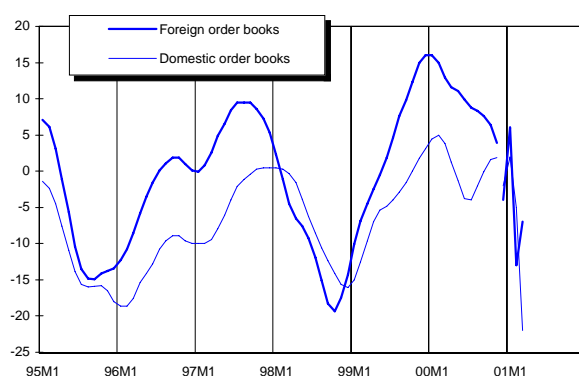
Source: NBB, FPB

**Graph 4 - Business cycle: sectoral evolution**



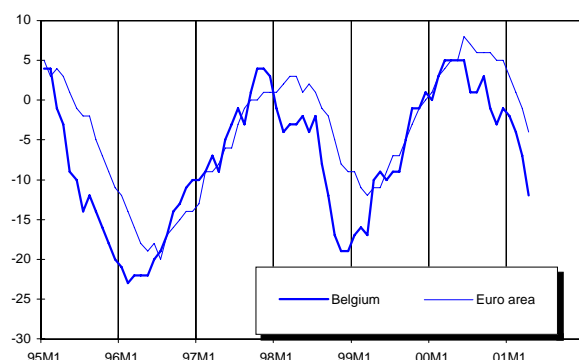
Source: NBB

**Graph 5 - Manufacturing industry: order books**



Source: NBB

**Graph 6 - Industrial confidence: international comparison**



Source: Eurostat

The NBB global synthetic indicator declined further during the first quarter of 2001, as a result of the sharp falls recorded during the months of February and March. This decline was mainly due to the deterioration in manufacturing industry as well as the slackening in the construction sector. The trade sector saw a more erratic development, as the strong recovery in January 2001 has been followed by two sluggish months.

All the components of the survey of manufacturing industry have showed a negative trend in recent months. There is concern not only over the decline in export order books, but also over the reduction in domestic order books. Firms' assessment of stocks of finished products are at historical high levels, as is demand forecast on the downside. The capacity utilisation rate in Belgian manufacturing industry has decreased by more than 2 points in the first quarter of 2001 in comparison to the previous quarter, thus testifying to the slow-down in activity in this sector.

According to the European Commission's Business Surveys, industrial confidence in the euro area fell significantly during the first quarter of the year (having remained broadly stable at a high level in the second half of 2000), contrasting with the overall robustness of manufacturing production in recent months. This decrease was due to a deterioration in production expectations and a lower level of order books, mainly from the external side. Moreover, European business survey data indicates that stockbuilding may have been increasingly involuntary since the end of last year, reflecting somewhat weaker than expected demand.

It is worth stressing that the decrease in industrial confidence in Belgium took place one quarter in advance of most of its trading partners, as the turning-point in Belgian industrial confidence became clear from the last quarter of 2000 onwards, and has been more significant than on the European level.

## Private consumption

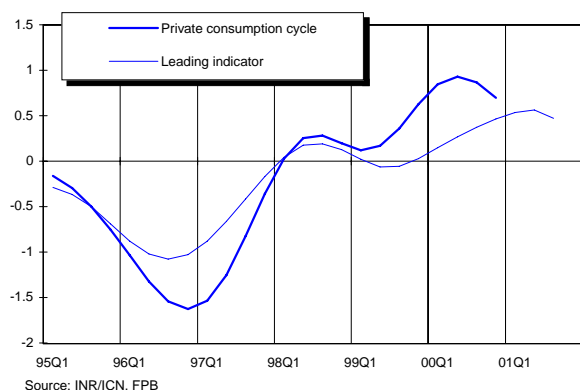
**Table 3 - Private consumption indicators**

	99	00	00Q2	00Q3	00Q4	01Q1	00M11	00M12	01M1	01M2	01M3	01M4
Turnover (VAT) - retail trade [1]	3.5	8.6	8.7	7.8	8.6	.	10.1	7.0	19.4	.	.	.
New car registrations [1]	8.3	5.2	8.3	-4.7	-0.7	-13.9	0.0	-11.2	-0.7	-20.8	-19.8	-13.7
Consumer confidence indicator [2]	-1.9	9.3	9.0	11.0	13.0	10.7	13.0	16.0	12.0	11.0	9.0	8.0

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

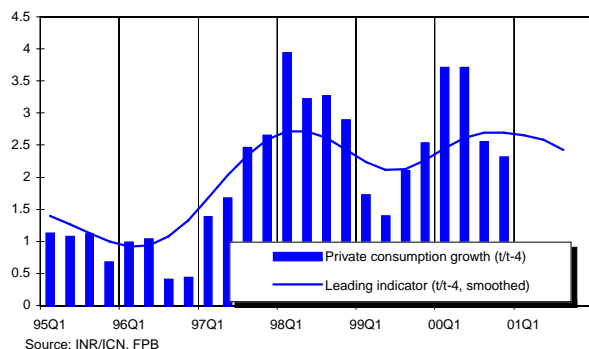
Source: NIS/INS, Eurostat, Febiac, FPB

**Graph 7 - Private consumption cycle and leading indicator**



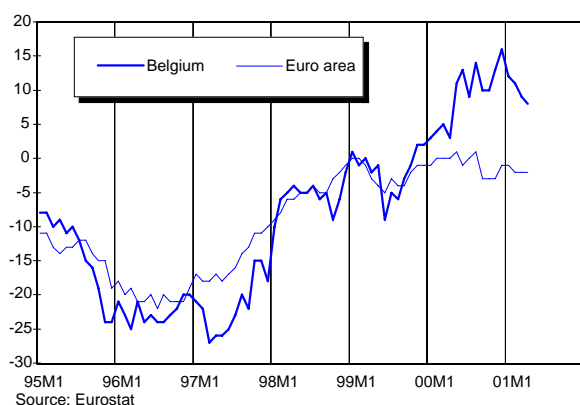
Source: INR/ICN, FPB

**Graph 8 - Private consumption growth and leading indicator**



Source: INR/ICN, FPB

**Graph 9 - Consumer confidence: international comparison**



Source: Eurostat

An upward revision over the first half of 2000 and a better than expected fourth quarter resulted in 3.1% growth in private consumption during the year 2000, as compared with 2.9% expected a few months ago. The continuation of the strong consumption dynamic (which had begun in the summer of 1999) during the first few months of 2000, led to yoy consumption growth of 3.7% during the first half of 2000. From the summer of last year onwards private consumption spending lost some momentum, with yoy growth returning to 2.5%. Recent indicators suggest that this slowdown should be seen as a return to a more normal growth path, rather than the beginning of a cyclical downturn. According to the FPB's leading indicator, the cyclical weakening in private spending expected in the next few quarters should be limited.

The biannual Motor Show in early 2000 boosted sales figures for the first two quarters of the year. As a result car sales were almost 14% lower in the first quarter of 2001 than they were a year earlier. They were, however, also some 3% lower than in the first quarter of 1999, the last year without a motor Show. Despite the decline in car sales, the overall turnover in the retail trade sector is so far showing no signs of weakening.

In April, consumer confidence fell for the fourth consecutive month, having reached a peak by the end of 2000. Most of this fall was due to the gloomier opinion among consumers concerning the general economic situation, whereas households have not become significantly more pessimistic about their own past and future financial situation. In Belgium and the euro area the decline in consumer confidence has so far been less important than the fall in the industrial confidence indicator. This was also the case during the 1998 downturn following the Asian crisis and it is an indication that domestic spending should not be very sensitive to the export-led slowdown in economic growth. Despite the recent fall, consumer confidence is still at a historical high level, as it is throughout the euro area. The future development of consumer confidence in both Belgium and the euro area will be highly dependent on the change in the labour market situation during the coming months.

## Business investment

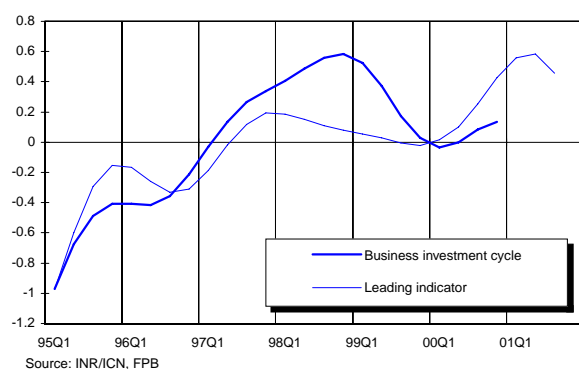
**Table 4 - Business investment indicators**

	99	00	01	00Q2	00Q3	00Q4	01Q1	00M9	00M10	00M11	00M12	01M1
Investment (VAT) [1]												
Industrial companies	4.6	3.2	.	4.4	-0.3	4.2	.	1.9	1.4	6.8	4.3	29.1
Non-industrial companies	8.7	8.3	.	5.5	3.2	9.9	.	2.7	11.1	19.2	3.9	21.9
Total companies	7.2	6.4	.	5.1	2.0	7.8	.	2.5	7.6	14.3	4.2	24.5
Investment survey [1]	2.3	-0.8	22.4									
Capacity utilisation rate (s.a.) (%)	81.9	84.5	.	84.2	84.3	84.7	82.4					

[1] Change (%) compared to same period previous year

Source: NIS/INS, NBB, FPB

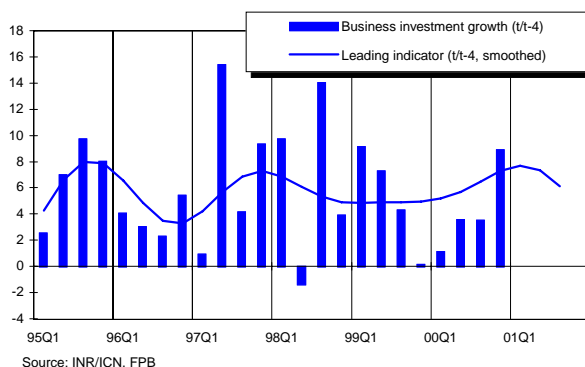
**Graph 10 - Business investment cycle and leading indicator**



As in the case of private consumption, business investment growth was higher than expected during the fourth quarter of last year. This led to a 4.6% average growth rate for business investment in 2000, as compared to the 4.1% expected three months ago.

This means that 2000 was the sixth consecutive year in which investment growth has exceeded GDP growth. Consequently, the investment rate in constant prices (real business investment as a percentage of real GDP) increased from 12.5% in 1994 to 14.8% in 2000.

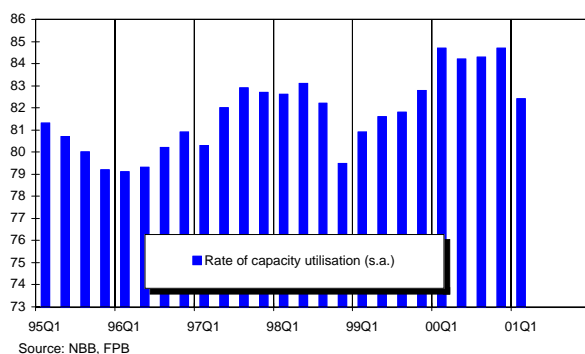
**Graph 11 - Business investment growth and leading indicator**



VAT statistics and the NBB investment survey of manufacturing industry (conducted in November 2000) reveal that industrial investment remained rather weak last year while non-industrial companies accounted for the greater part of business investment growth. This assessment reflects the squeeze in demand facing the industrial sector due to the deterioration in the external environment that was seen during the course of last year.

The weakness in industrial investment is expected to be short-lived, as is also suggested by the NBB investment survey. The survey result (an increase of more than 22% in value terms) should, however, be interpreted with caution. It is not yet certain that all investment projects, especially investments in expansion, will be realised, particularly since the degree of capacity utilisation in manufacturing industry seems to have reached a high by the end of 2000 and is now on a downward path.

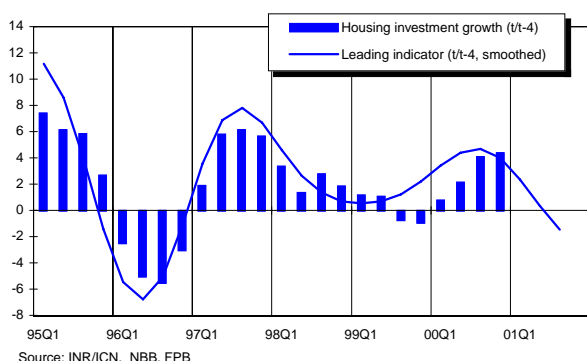
**Graph 12 - Capacity utilisation in manufacturing industry**



All in all the business investment picture for this year remains promising, which is also confirmed by the FPB's leading indicator. According to this indicator, the upward cyclical movement seen during the course of last year should continue during the first half of 2001. Due to the strength of business investment by the end of last year, the so called 'carry-over effect' for 2001 is significant and positive.

## Housing investment

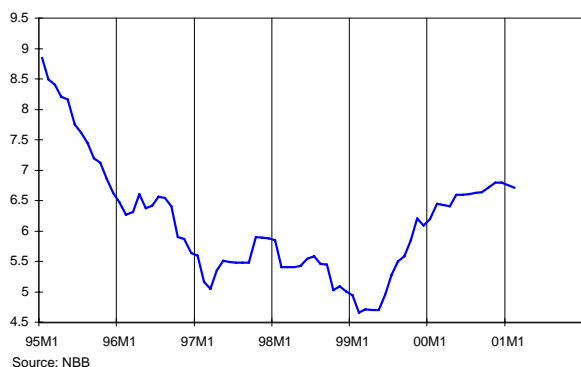
**Graph 13 - Housing investment growth and leading indicator**



After virtually zero growth in 1999, largely resulting from the end of the VAT reduction during the previous year, investment in housing recovered in 2000, with a growth rate reaching nearly 3%, despite the almost constant increase in mortgage interest rates. The favourable development in the relative prices of newly built homes and the secondary market seem to have contributed to this positive trend. Most of this recovery, however, took place in the 2000Q1-2000Q3 period, while the last quarter already pointed to a deceleration (qoq).

The cycle of residential investment is indeed levelling off at the end of 2000, while the FPB's leading indicator is pointing towards a slackening during the following few quarters.

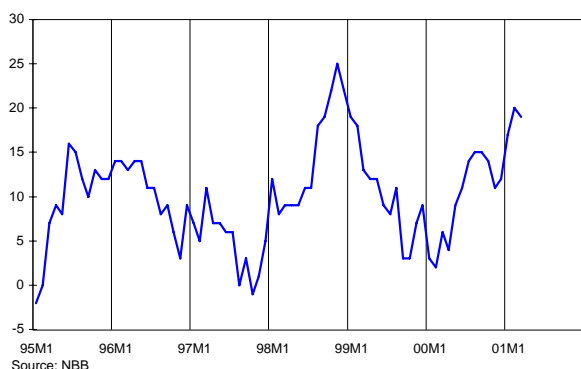
**Graph 14 - Mortgage rate (in%)**



The NBB' synthetic indicator for the residential sector does indeed point to a decrease in activity at the beginning of this year, while surveys conducted among architects showed a decrease in the number of projects and forecast projects in residential buildings during the first three quarters of the year 2000. Due to the delay of four quarters in the conversion of these projects into residential investment, this means that a positive turning point cannot be expected until the end of this year. The year 2001 could then be a year of transition before acceleration begins anew next year.

## Stockbuilding

**Graph 15 - Appreciation of stocks**



According to the national accounts, stockbuilding did contribute towards real economic growth by 0.3% on average for the whole of the year 2000. The quarterly pattern, however, has been far more erratic for this demand component. Starting from a strong positive contribution in the first two quarters of last year, the contribution of stockbuilding became significantly negative in the last two quarters, as the economic downturn led to the reduction of stocks.

The survey of manufacturing industry shows that since the end of 2000, manufacturers are increasingly considering their level of stocks to be excessive in a context of slowing demand and lower demand prospects. This evolution allows us to assume that the contribution of stockbuilding towards economic growth may continue to be negative at least during the first quarter of 2001.

## Foreign Trade

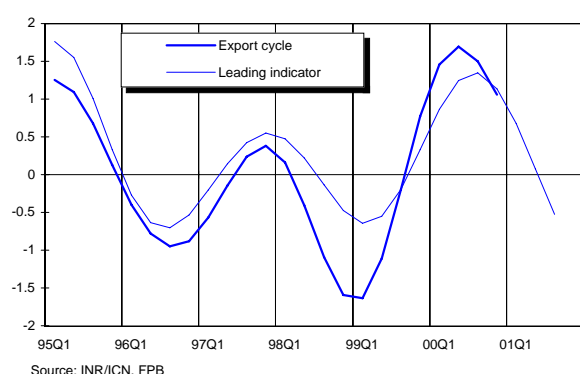
**Table 5 - Belgium - Trade statistics (goods, intra/extrastat)**

	99	00	00Q1	00Q2	00Q3	00Q4	00M8	00M9	00M10	00M11	00M12	01M1
Exports - value [1]	4.5	19.9	22.9	21.4	17.3	18.0	19.5	16.8	22.3	20.8	11.0	19.9
Imports - value [1]	4.5	21.0	24.2	21.4	21.2	17.9	26.9	16.9	19.0	25.3	9.5	25.5
Exports - volume [1]	5.0	9.0	13.0	10.6	6.2	6.3	7.9	4.0	8.5	9.7	0.7	13.1
Imports - volume [1]	3.2	7.6	11.2	8.2	7.2	4.0	10.4	2.7	4.8	9.2	-1.9	15.7
Exports - price [1]	-0.6	10.0	8.7	9.8	10.4	11.0	10.7	12.3	12.6	10.1	10.3	6.0
Imports - price [1]	1.2	12.6	11.7	12.2	13.1	13.3	14.9	13.8	13.6	14.7	11.7	8.5

[1] Change (%) compared to same period previous year

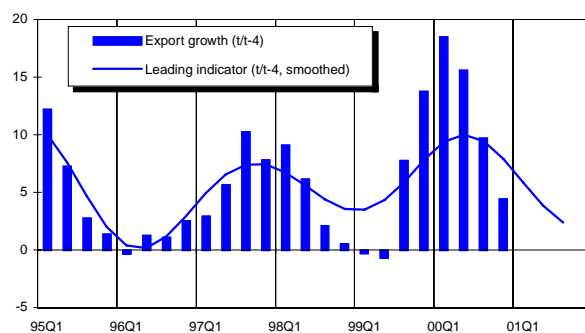
Source: INR/ICN, FPB

**Graph 16 - Export cycle and leading indicator**



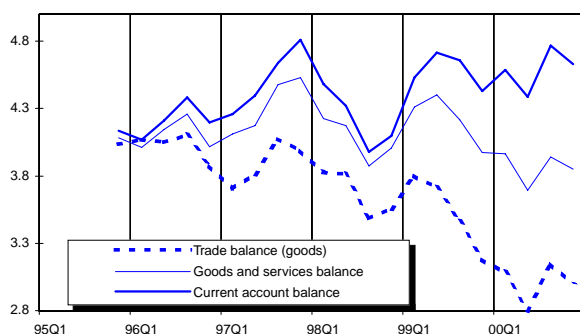
Source: INR/ICN, FPB

**Graph 17 - Export growth and leading indicator**



Source: INR/ICN, FPB

**Graph 18 - Belgium foreign balances (4 quarters cumul,% of GDP)**



Source: INR/ICN, NBB, FPB

Growth rates for both exports and imports in 2000 were revised upwards due to data revisions for the first three quarters and higher than expected growth in the fourth quarter. The contribution of net exports towards real GDP growth was largely positive in 2000 (0.7%), although it was somewhat lower than was thought three months ago (1%).

Since the mid-1990s, most of the cyclical pattern in GDP has been due to the development of exports, whereas private consumption and business investment, at least for the last three years, has followed a more stable growth path. An almost perfect correlation can be seen between the export cycle (graph 16) and the GDP cycle (graph 2), with cyclical lows by mid-1996 and the beginning of 1999 and highs at the beginning of 1995, by the end of 1997 and by mid-2000.

The past six years have been characterised by a succession of clear but rather short-lived export cycles (only 4 to 6 quarters between two turning points). If this should be repeated in the current cycle, a turning-point for exports and GDP could be reached in the final months of this year. According to the FPB's leading indicator for exports, however, no turning-point is expected during the first three quarters of this year.

The balance of trade (goods) and the balance for goods and services (expressed as percentage of GDP) have fallen somewhat in 2000 as compared to the level of 1999. As in 1999, the increase in the volume of net exports has been marginally insufficient to compensate for the losses in the terms of trade. The current account balance nevertheless showed a net improvement last year, from 4.4% of GDP in 1999, to 4.6% in 2000, mainly stemming from increasing income from capital investment abroad.



Labour market

Table 6 - Labour market indicators

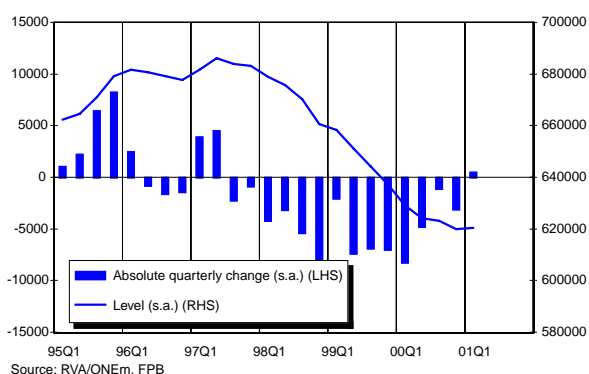
	99	0	00Q2	00Q3	00Q4	01Q1	00M11	00M12	01M1	01M2	01M3	01M4
Unemployment (excl. older) [1]	507.6	474.4	445.9	503.4	469.8	458.4	464.2	460.2	467.0	460.1	448.0	442.9
Unemployment (incl. older) [1]	647.8	624.1	594.5	654.3	623.9	615.1	618.4	615.2	623.0	616.7	605.6	601.3
Unemployment rate-FMTA/MfET[2]	11.6	10.9	10.2	11.5	10.8	10.5	10.7	10.6	10.7	10.6	10.3	10.2
Unemployment rate-Eurostat [3]	8.8	7.0	6.9	7.0	6.9	6.8	6.9	6.8	6.8	6.8	6.8	6.8

[1] Level in thousands; [2] In % of labour force of June 1998, not seasonally adjusted

[3] Seasonally adjusted, in % of labour force (Eurostat standard); recent figures of unemployment rate are based on administrative data and can be revised

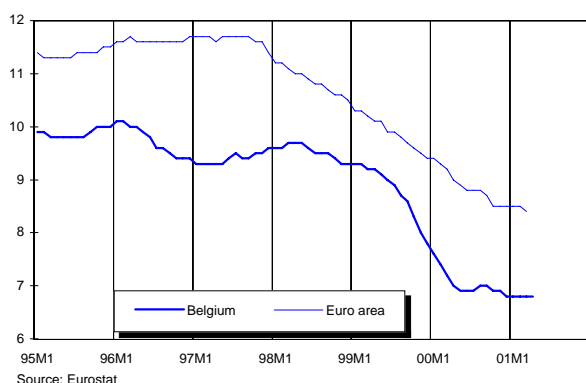
Source: RVA/ONEm, FMTA/MfET, Eurostat, FPB

Graph 19 - Evolution of unemployment (incl. older)



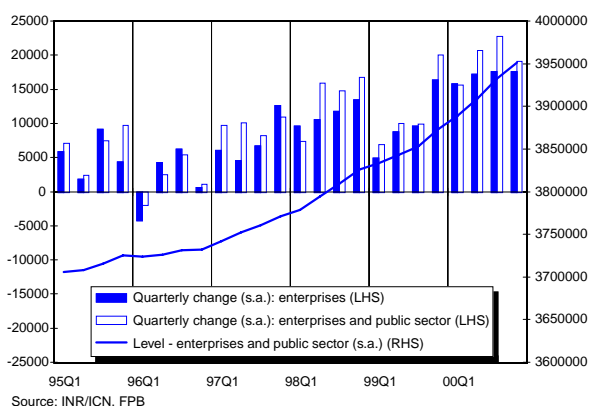
Source: RVA/ONEm, FPB

Graph 20 - Harmonised unemployment rates (% of labour force)



Source: Eurostat

Graph 21 - Evolution of domestic employment



Source: INR/ICN, FPB

Revised figures for domestic employment covering the third quarter and tentative figures for the fourth quarter from the quarterly national accounts (graph 21) indicate that job growth has remained vigorous throughout 2000. According to these figures private sector employment increased by approximately 17,500, in seasonally adjusted terms, in each of the two quarters. On average, private sector employment would have increased by as much as 2.0% (61,000 persons) during 2000. Job growth remained extremely strong in construction (3.1%), accelerated most in 'business services' (from 1.5% in 1999 to 3.2% in 2000) and turned positive in manufacturing (from -0.9% in 1999 to 0.5% in 2000). Total domestic employment growth in 2000 amounted to 1.8% (nearly 70,000 persons) according to the national accounts. The Belgian Labour Force Survey (which has been fundamentally revised in 1999) puts the growth in the number of employed residents at no less than 2.2% (85,000 persons) for the year 2000.

The average decrease in broad unemployment (including "older unemployed" people) amounted to 23,650 persons in 2000, exactly the same decrease as in 1999. Nevertheless, the decline in broad unemployment had slackened considerably during the second and third quarters of 2000, before picking up again during the last quarter. This suggests that the increase in the (broad) labour force has absorbed a considerable proportion of the total number of jobs created in 2000. To an important extent, however, the lower fall in broad unemployment is due to a statistical artifice caused by the arrival in the (measured) labour force of people who have submitted a request to the Belgian authorities to have their status "regularised". If due account is taken of this phenomenon, the rise in the labour force is somewhat smaller than these figures suggest. During the first quarter of 2001, broad unemployment hardly decreased at all on a seasonally adjusted basis. Even when allowance is made for the statistical impact of the regularization process (a further average increase in the number of registered job seekers who are not eligible for unemployment benefits of almost 5,000 persons, on a seasonally adjusted basis), it must be concluded that during the first months of the current year the decrease in unemployment has again slowed down considerably.

Prices

**Table 7 - Inflation rates: change compared to the same period in the previous year, in%**

	99	00	00Q2	00Q3	00Q4	01Q1	00M11	00M12	01M1	01M2	01M3	01M4
Consumer prices: all items	1.12	2.55	2.32	3.01	2.85	2.18	3.10	2.49	2.20	2.25	2.09	2.79
Food prices	0.20	0.86	0.17	2.23	1.98	2.71	2.39	1.97	2.48	2.35	3.30	3.79
Non food prices	1.24	3.87	3.63	4.02	4.19	2.31	4.60	3.31	2.48	2.50	1.95	3.05
Services	1.57	2.01	2.14	2.31	1.69	1.66	1.62	1.77	1.66	1.86	1.47	1.82
Rent	1.43	1.45	1.38	1.53	1.61	1.78	1.61	1.68	1.72	1.81	1.80	1.85
Health index	0.94	1.88	1.56	2.32	2.37	2.17	2.52	2.29	2.10	2.17	2.24	2.72
Brent oil price in USD (level)	17.8	28.4	26.7	30.4	29.4	25.8	32.5	25.0	25.5	27.4	24.4	25.7

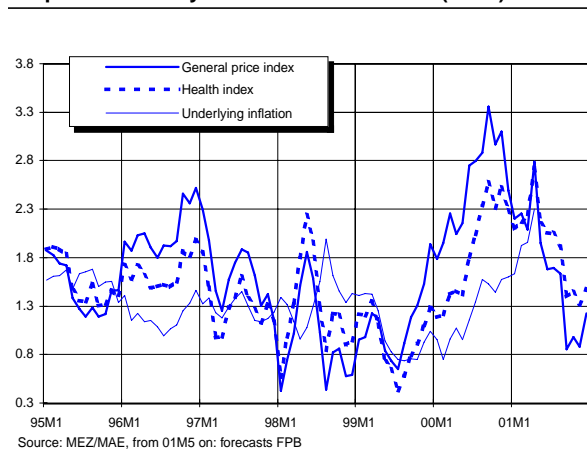
Source: MEZ/MAE

**Table 8 - Monthly inflation forecasts**

	00M1	00M2	00M3	00M4	00M5	00M6	00M7	00M8	00M9	00M10	00M11	00M12
Consumer prices: all items	104.80	105.20	105.60	105.80	106.10	106.50	106.71	106.68	107.41	107.15	107.50	107.22
Consumer prices: health index	104.29	104.56	104.79	105.08	105.21	105.43	105.69	105.74	106.20	106.04	106.45	106.40
Moving average health index	103.95	104.18	104.42	104.68	104.91	105.13	105.35	105.52	105.77	105.92	106.11	106.27
	01M1	01M2	01M3	01M4	01M5	01M6	01M7	01M8	01M9	01M10	01M11	01M12
Consumer prices: all items	107.11	107.57	107.81	108.75	108.17	108.29	108.52	108.42	108.33	108.20	108.45	108.53
Consumer prices: health index	106.48	106.83	107.14	107.94	107.47	107.60	107.86	107.77	107.68	107.57	107.85	107.97
Moving average health index	106.34	106.54	106.71	107.10	107.35	107.54	107.72	107.68	107.73	107.72	107.72	107.77

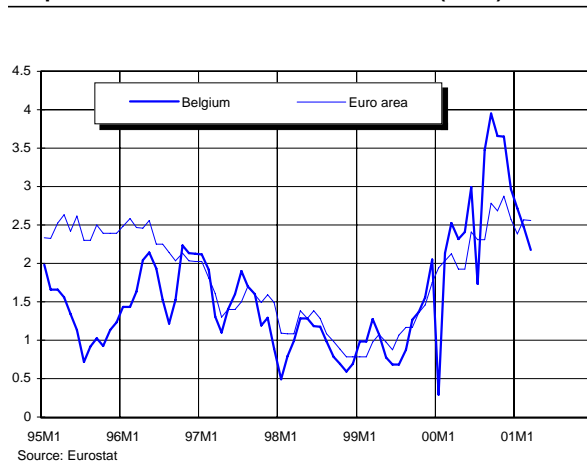
Source: Observations (up to 01M4): MEZ/MAE; forecasts: FPB

**Graph 22 - Monthly inflation evolution in% (t/t-12)**



Source: MEZ/MAE, from 01M5 on: forecasts FPB

**Graph 23 - Harmonised inflation rates in% (t/t-12)**



Source: Eurostat

Headline inflation, as measured by the yoy change in the national CPI, fell to 2.2% in the first quarter of 2001, having reached a maximum of 3.0% in the third quarter of 2000. This fall in CPI inflation was completely due to energy prices. The contribution of energy products towards domestic consumer inflation fell from 1.5 percentage points in the third quarter of last year to only 0.5 percentage points in the first three months of this year. At the same time, underlying inflation (excluding, among other things, energy products, fresh food and indirect taxes) continued its upward trend, which started before the end of 1999. During the last six quarters, underlying inflation has crept up, from 0.75% yoy in the third quarter of 1999, to 1.8% in the first quarter of 2001.

In April headline inflation rose again to an unexpectedly high level of 2.8% yoy. This was due to the combined effect of higher oil prices and a further rise in underlying inflation to above 2%. From June onwards, CPI inflation is expected to fall well below 2% yoy. This should result in average CPI inflation (national definition) of 1.7% this year. The 'health price index' should rise by an average of 1.9% in 2001.

Due to higher than expected inflation during the first few months of this year, the pivotal index for public wages and social benefits (currently 107.30) should already be reached in May 2001, three months earlier than was initially thought.

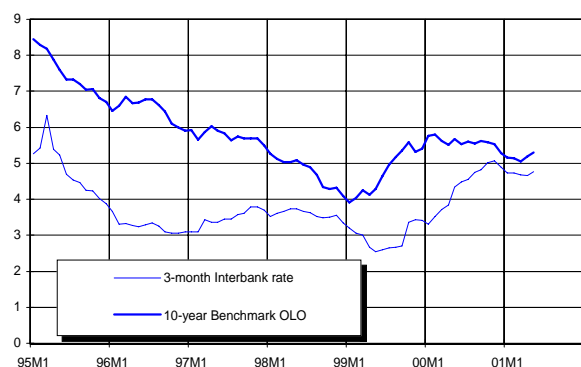
Interest rates

Table 9 - Interest rates

	99	00	00Q2	00Q3	00Q4	01Q1	00M11	00M12	01M1	01M2	01M3	01M4
<b>Short-term money market rates (3 months)</b>												
Belgium	2.94	4.36	4.22	4.71	4.99	4.71	5.06	4.89	4.74	4.73	4.67	4.66
Euro area (Euribor)	2.96	4.39	4.26	4.74	5.02	4.75	5.09	4.93	4.77	4.76	4.71	4.69
United States	5.33	6.46	6.57	6.63	6.59	5.26	6.65	6.45	5.62	5.26	4.89	4.53
Japan	0.13	0.25	0.09	0.27	0.55	0.33	0.52	0.63	0.46	0.37	0.16	0.07
<b>Long-term government bond rates (10 years)</b>												
Belgium	4.76	5.59	5.58	5.59	5.46	5.12	5.53	5.28	5.16	5.14	5.05	5.19
Germany	4.50	5.26	5.25	5.24	5.09	4.76	5.16	4.90	4.80	4.79	4.69	4.84
Euro area	4.63	5.43	5.42	5.43	5.28	4.95	5.35	5.08	4.98	4.98	4.89	5.04
United States	5.63	6.03	6.17	5.89	5.55	5.05	5.70	5.22	5.15	5.13	4.88	5.14
Japan	1.76	1.77	1.71	1.86	1.72	1.35	1.74	1.61	1.50	1.40	1.14	1.33

Source: NBB, ECB

Graph 24 - Interest rate levels in Belgium, in%

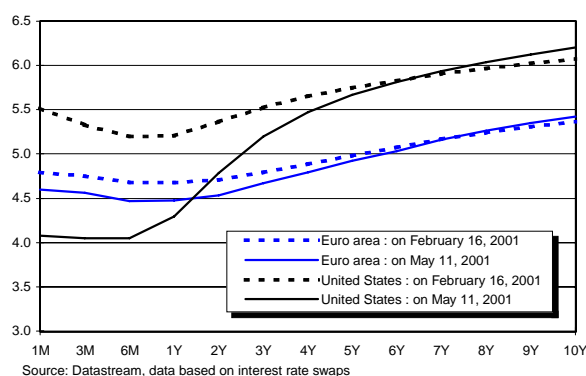


Source: NBB

During the past two months, increasing uncertainty about US economic weakness has persuaded the US monetary authorities to reduce their federal funds rate by a further 100 basis points, after a similar move in January 2001. Since the beginning of the current year, the federal funds rate has therefore been lowered by 200 basis points, from 6.5% to 4.5%. In the euro area, however, despite rising pressures for an immediate interest rate action, the ECB has not changed its main refinancing rate until the reduction by 25 basis points on 10th May. The ECB now considers the actual refi rate of 4.5% as more adapted to the new evaluation of M3 (without taking into account the non residents) and the actual level of the economy.

For the first time since the launch of the euro, money market short-term interest rates are higher in the euro area than in the United States.

Graph 25 - Yield curves for the euro area and the US



Source: Datastream, data based on interest rate swaps

The substantial easing of US monetary policy, the credible containment of US inflation and some weakening in the demand for capital, have all reinforced the downward trend in long-term interest rates that had already begun when the US economic slowdown appeared in the middle of last year, despite some pressure in April. In the euro area long-term interest rates have been rather stable in recent months, as the business climate has remained more positive than in the US. In April, ten-year government bond yields were nearly at the same levels on average in both areas.

As a consequence, the yield curve for the euro area has remained relatively stable since February, despite some flattening at the beginning of the curve due to the recent rate move, while the US yield curve has become much steeper due to the fall of short-term maturities.

## Exchange rates

**Table 10 - Bilateral exchange rates**

	99	00	00Q2	00Q3	00Q4	01Q1	00M11	00M12	01M1	01M2	01M3	01M4
BEF per USD	37.82	43.65	43.18	44.55	46.37	43.73	47.15	44.81	43.03	43.81	44.37	45.22
USD per EUR	1.067	0.924	0.934	0.905	0.870	0.923	0.855	0.900	0.938	0.921	0.909	0.892
UKP per EUR	0.659	0.609	0.609	0.612	0.601	0.632	0.600	0.615	0.634	0.634	0.629	0.621
JPY per EUR	121.38	99.58	99.61	97.47	95.63	108.92	93.23	101.01	109.41	107.02	110.34	110.36

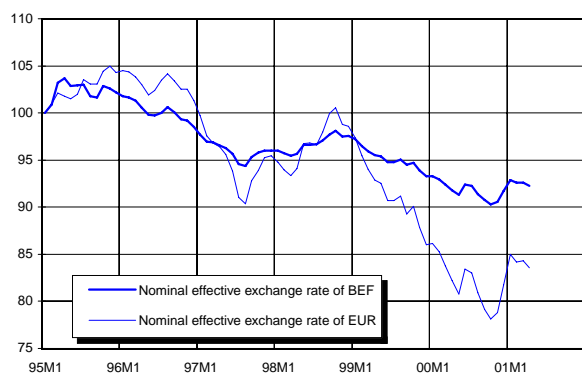
**Table 11 - Nominal effective exchange rates (Jan. 95 =100)**

	99	00	01	00Q2	00Q3	00Q4	01Q1	00M12	01M1	01M2	01M3	01M4
Effective exchange rate BEF	95.1	91.8		91.8	91.5	90.9	92.7	91.7	92.9	92.6	92.6	92.3
Growth rate [1]	-1.7	-3.5		-1.1	-0.4	-0.7	2.0	1.3	1.3	-0.3	0.0	-0.3
Id. with constant rate till year end			0.7									
Effective exchange rate EUR	91.5	82.0		82.1	81.0	79.6	84.5	81.7	85.0	84.2	84.3	83.6
Growth rate [1]	-5.5	-10.4		-3.5	-1.3	-1.8	6.2	3.7	4.0	-1.0	0.2	-0.9

[1] Change (%) compared to previous period

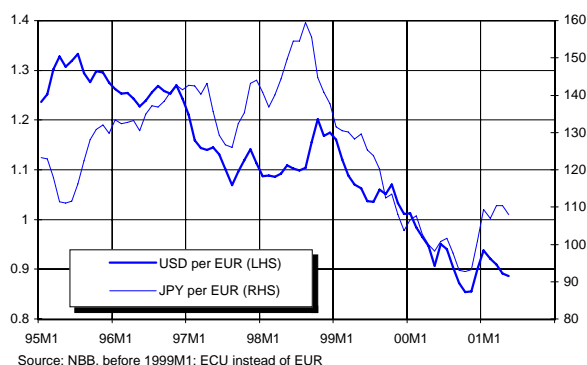
Source: NBB, BIS, FPB

**Graph 26 - Effective exchange rates (Jan. 95=100)**



Source: NBB, BIS, FPB

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



Source: NBB, before 1999M1: ECU instead of EUR

The recovery of the euro exchange rate against the US dollar seen in December 2000 and January 2001 has not been long lasting, as the euro has again depreciated by about 5% during the past three months (February to April). Some recovery took place at the beginning of April, probably due to the decline in the US equity markets. This weakening occurred despite the reduction in the spread between both areas in terms of real economic growth and interest rates, two factors that are usually considered as the main reasons for major speculative capital flows towards the United States.

Paradoxically, the depreciation of the US dollar at the beginning of the year seems to have been reversed by the strong action in US monetary policy since January. In more general terms, any positive signs in the US economy have given strength to the US dollar, while the opposite is true for the euro. Increasing uncertainties over the impact of the world economic slowdown on European activity and the deterioration in the business climate in Germany, combined with the status quo of the monetary authorities have indeed depressed the European currency in recent weeks.

The Japanese yen has fallen against both the US dollar and the euro since the end of last year due to weaker business conditions in the Japanese economy and rising concerns about its recovery. During the past two months most other Asian currencies have also been depressed by this gloomier global climate. These developments account for the fact that the nominal effective euro exchange rate has depreciated only slightly during the February-April period. The nominal exchange rate of the BEF has followed the same trend although the fluctuations were less pronounced than for the euro.

**Tax indicators**

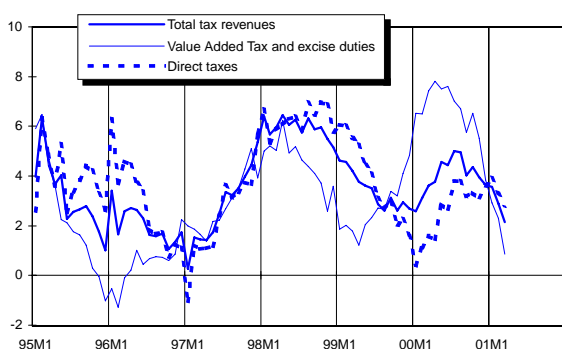
**Table 12 - Tax revenues (1)**

	99	00	00Q2	00Q3	00Q4	01Q1	00M10	00M11	00M12	01M1	01M2	01M3
Total [2], of which:	3.9	6.3	8.4	3.7	4.9	0.9	7.4	3.4	3.8	4.0	-2.0	-0.1
Direct taxes, of which:	2.7	6.2	8.0	5.3	5.5	1.9	4.5	6.3	6.0	2.8	-1.8	4.0
Withholding earned income tax	6.3	5.6	0.0	13.3	-1.0	5.3	-13.6	7.8	5.2	9.7	0.3	5.2
Prepayments	-3.7	4.4	1.5	12.6	2.0	.	-1.0	.	5.1	.	.	.
Value Added Tax and excise duties	6.1	6.5	9.1	2.0	4.0	-2.1	13.0	0.0	0.2	3.5	-3.2	-7.5

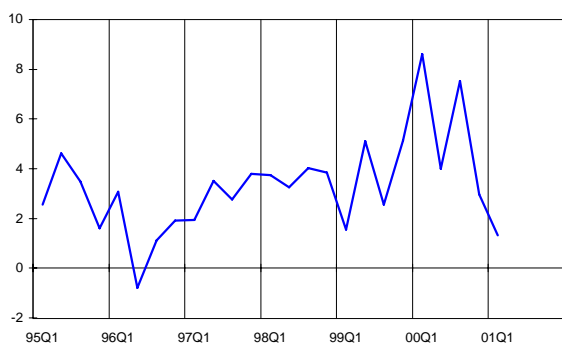
[1] Change (%) compared to same period previous year; [2] Total received by federal government, excl. of death-duties

Source: MvF/MdF, FPB

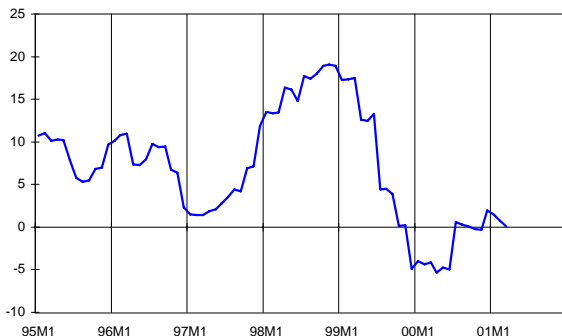
**Graph 28 - Real tax revenues (3)**



**Graph 29 - Real withholding earned income tax (4)**



**Graph 30 - Real prepayments (3)**



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

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

Total tax revenues were less than 1% higher in the first quarter of 2001 as compared with the same period in 2000. At the beginning of 2000, however, tax revenues were still high due to the acceleration in economic activity from mid-99 onwards. More significantly, the growth rate during the first quarter of 2001 was significantly lower than the annual growth rate in 2000 (6.3%). This confirms the slowdown in economic activity, which began in mid-2000 and is still gradually becoming more pronounced.

The quarterly growth rate for total direct taxation reached 1.9% in the first quarter of 2001, as compared with the same quarter in 2000. This poor result, despite employment growth in recent months, is due to cuts in the rates of withholding earned income taxes (June and October 2000, January 2001), to a decrease in prepayments by businesses and to technical factors affecting personal income tax.

The rate of growth in advance payments was negative in the first quarter of 2000, after positive figures during the last four quarters. However advance payments are traditionally very low during the first quarter of the year and the figure is therefore rather unimportant. Provisional figures for April 2001, which are more meaningful (April is the first due date for advance payments), show an increase in prepayments by corporate businesses.

Indirect taxation revenues have decelerated from mid-2000 onwards (following high growth rates in the first and second quarters of 2000) and show a negative nominal growth rate in the first quarter of 2001 (-2.1%). This slowdown partly reflects the evolution of the leading indicators for the GDP business cycle and GDP growth. It is due in particular to a decrease in car sales (no car show this year), to the stabilization of oil prices and to the stabilization of activity in the construction sector. There have also been significant VAT reimbursements, following higher exports and investments during the previous months.

## Benchmarking framework conditions from an international investor's point of view

This is the second report of the FPB concerning a general benchmarking of the framework conditions in Belgium. It is an update and a completion of the first Belgian benchmarking study published in July 1999 on the FPB's website.

In general, the identification and evaluation of key factors and structural conditions affecting the environment in which companies have to operate is called the "Benchmarking of the Framework Conditions". This study focuses, in particular, on the advantages and disadvantages of Belgium to attract foreign investment and compares these findings with those of Belgium's main trading partners (the Netherlands, Germany and France) and three economic areas (the United States, Japan and the European Union). The determinants of foreign investment that are taken into account in this study include not only economic growth and its determinants, but also social welfare factors, such as income distribution and the quality of life for citizens. In this way, the study gives an overview of the most important framework conditions. Although a foreign investor is also interested in more detailed questions – such as the availability of land, the level of taxation, the regulatory framework and the effectiveness of public administration – this study does not address these issues.

For the most important indicators, the report attempts to assign a score to Belgium in order to assess its relative position to other countries. In order to do this in the most consistent way, the indicators are evaluated from the view of the foreign investor. Note, however, that we do not make an in depth analysis of the data and do not examine the causes underlying "good or best practices" (contrary to some other benchmarking studies, e.g. the Netherlands in 2000). The report is aimed at the general reader since it consists of the collection, presentation and discussion of a wide range of information within ten areas: macroeconomic environment, taxation, the labour market, education, transport, energy, environment, innovation and R&D, information and communication technology, foreign trade, and foreign direct investment. The results of this comparison produce a mixed picture for Belgium's competitive position (when interpreted in a broad sense).

Belgium has a high standard of living, achieved through high macroeconomic labour productivity (measured by GDP per person employed or per hour worked), but with a low employment rate. Indeed, although employment growth was strong in Belgium during the 1990s, the Belgian employment rate as well as the participation rate is still relatively low. This is due, in part, to a very low employment rate for people aged between 55 and 64 years

(because of early retirement), to a low female participation rate, and to high unemployment generally.

After years of restrictive fiscal policy, Belgium now experiences a balanced budget, a high primary surplus, a fast decreasing public debt to GDP ratio, a low inflation rate, and interest rates that have converged to the level of its neighbouring countries. But spending restrictions have had an impact on the government's ability to encourage competitiveness through, for example, public expenditure on R&D. However, public expenditure remained high in education and labour market programmes. The tax burden in Belgium remains one of the highest and in particular direct taxation is high. This produces a large wedge between the wage cost for employers and the workers' wages. Recently, however, social security contributors have started to be reduced and personal income taxes are scheduled to fall.

In general, Belgium's performance in the field of R&D appears to be poor. It has one of the lowest gross domestic expenditures on R&D and the innovation of industrial research, as measured as the number of patent applications in a country by its residents was low. Although information and communication technology continues to have an increasing impact on economic and social conditions in Belgium, domestic take-up of this technology compared to other countries is poor. One of the main reasons for the poor performance of Belgium is the high access charge for ICT. However, recent price changes in the Belgian telecom market and the opening up of this market to competition should improve the use of new technologies.

For years, Belgium has been an important exporter. But export market shares remain under pressure because of the relatively small share that "high-tech." exports take in total exports and the intense competition from newly industrialised economies.

Due to its size and high population density, Belgium's environment is subject to many pressures from human activities. Air quality indicators show an average performance for Belgium. But much remains to be done in the area of protecting the environment.

Belgium is an attractive location for foreign direct investment. Besides the Netherlands, Belgium attracted the highest volume of direct investments from abroad as a percentage of GDP. This result is somewhat surprising since Belgium has only an average or low performance on most of the previous indicators. However, the skills of the labour force and labour productivity remain considerable strengths of the Belgian economy. Also, the en-



ergy cost for the industrial sector is one of the lowest among the countries compared. Transport infrastructure is highly developed. In terms of tons transported, the port of Antwerp is the second largest port in Europe and Brussels National airport is the fifth largest cargo airport in Europe. The road and railway network provides extensive coverage of Belgian territory.

### Collectively negotiated wages and effective wages in Belgium: an empirical and macroeconomic comparison

This study analyses the differences between collectively negotiated wages and effective wages, i.e. wage drift, at the macroeconomic level for Belgian's private sector. It is an empirical analysis where macroeconomic and socio-demographic factors are investigated in order to account for this phenomenon.

In Belgium, the collectively negotiated wage is the wage agreed upon during negotiations between employers' associations and trade unions at the industry level. The effective wage is the wage ultimately paid by the employer to the employee. Unlike the negotiated wage, the effective wage includes elements such as bonuses and overtime payments, which are part of the total wage paid to the employee according to the national accounts definition. In countries where wage formation is the result of collective bargaining (whether centralised or at the industry level), a disparity between increases in the collectively negotiated and in the effective wage is generally observed. First, effective wages involve additional increases (through collective or individual bargaining) granted at the firm level. Second, structural increases may also arise due to changes in the composition of the labour force or in the structure of employment. Because it is generally positive, the difference between increments in the effective wage and in the negotiated wage is called "wage drift".

This study aims to quantify wage drift and to identify its determinants in Belgian's private sector. For statistical reasons, the notion of wage drift refers both to the additional increases granted at the firm level and to those increases due to structural changes in the labour force.

Our primary data consist of two macroeconomic annual nominal indices of the hourly negotiated wage and the hourly gross wage. The ratio of these two indices is our measure of wage drift. However, these two indices are not entirely comparable. Contrary to the negotiated wage index, the effective wage index includes the earnings of managers and directors and also public firms such as Belgacom. Moreover, macroeconomic data on the effective working time duration for Belgium dates back to only 1986. The short time period means that the effective wage index does not take into account the ef-

*"Benchmarking the framework conditions: a systematic test for Belgium". C. Courcelle, G. De Vil. May 2001.*

*The study will soon be available on the FPB's website at <http://www.plan.be>. A printed publication will be available.*

fective duration, only the contractual or conventional working time duration.

Our measure of wage drift enables us to analyse the relationship between negotiated and effective wages for the period 1970-1998. Although generally positive, the wage drift has a negative value for some years. The 1970s is characterised by significant negotiated increases along with a moderate wage drift. But from the mid-1980s until 1998, wage moderation remains a significant element, and both the negotiated wage and the effective wage undergo only moderate increases. According to our econometric estimations, the factors explaining the wage drift are of two types: socio-demographic and macroeconomic. The average age of the working population influences the wage drift positively but its effect only materialises in the long run. Other socio-demographic factors, such as the proportion of female employment, the education level, and the rate of part-time employment, were also tested but were not statistically significant. Macroeconomic variables were quite influential on wage drift. Wage drift is negatively correlated with the unemployment rate and positively correlated with the worker productivity index. These effects are present both in the short- and long run. But, clearly, the use of conventional working time duration instead of the effective duration increases the cyclical character of the effective wage index and thus of the wage drift. Also, some of the additional components of the effective wage index (such as bonuses, earnings of managers and directors) could also be more sensitive to the business cycle.

To conclude, our results show that in addition to age, macroeconomic factors such as unemployment and productivity influence the formation of wages at the firm level and account for fluctuations in effective wages vis-à-vis negotiated wages. However, in the absence of data on the collective bargaining process at the firm level, our study cannot differentiate between increases due to collective rather than individual bargaining.

*"Salaires conventionnels et effectifs en Belgique: une analyse empirique et macroéconomique des écarts"*  
M. López Novella, Working Paper 02-01

## Other Recent Publications

[Economic Forecasts 2001](#), February 2001,  
(available in Dutch and in French).

[Medium Term Economic Outlook 2001 - 2006](#), April 2001,  
(available in Dutch and in French).

[Planning Paper 88](#), January 2001,  
“Perspectives énergétiques 2000-2020 - Scénarios exploratoires pour la Belgique”  
“Energievooruitzichten 2000-2020 - Verkennende scenario's voor België”,  
Ch. Courcelle, D. Gusbin.

[Working Paper 10-00](#), December 2000,  
“The NIME Model : Specification and Estimation of the Enterprise Sector”,  
E. Meyermans, P. Van Brusselen.

[Working Paper 11-00](#), December 2000,  
“Simulations with the HERMES II model for Belgium”,  
F. Bossier, F. Vanhorebeek.

[Working Paper 01-01](#), January 2001,  
“La réforme de l'impôt des personnes physiques - Effets macroéconomiques, budgétaires, et sur la pression fiscale”,  
M. Saintrain.

## Research in progress

### Administrative simplification

Following a convention with the Agency for Administrative Simplification (ASA/DAV), the FPB helps to perform a new survey in order to quantify the administrative burden on Belgian enterprises and self-employed people for the year 2000. Based on its previous analysis, the FPB has constructed a new questionnaire and has defined the stratification of a sample, which should allow us to obtain representative results. A short note containing the first results of the administrative burden, as well as a final detailed report will be published.

### Impact of ICT in Belgium

As a follow-up of its study on ICT take-up in the Belgian economy, the FPB has signed a research agreement for two years with the SSTC/DWTC in order to study the effects of ICT on the Belgian economy. This project analyses six components: macro-economic impact, micro-economic impact, digital divide and dualisation, ICT and the localisation of economic activities, e-government, and the internet and taxation. The results of the project are due to be published in 2003.

### The NIME model

Two earlier working papers described the household and enterprise sector of the NIME model see WP08-00 and WP10-00. In the next paper, we specify the monetary and fiscal sectors, and we examine the adjustment path of the model under alternative scenarios. The monetary authorities set the short run interest rates as a function of the deviation of the policy variables from their target. These policy targets are inflation, economic activity, and the exchange rate. The contemporaneous long run interest rate is modelled as an average of the short run interest rate and the steady state interest rate, while the spot exchange rate is determined by the equilibrium exchange rate, the interest rate differential, and the inflation rate differential. Most fiscal variables are assumed to move in line with the business cycle or steady state growth. However, the public sector has an explicit target for its debt to GDP ratio, and the level of direct taxation adjusts in order to meet this target.

### Climate change

This study aims to provide an insight into the complexity of implementing an efficient and effective climate policy. It attempts to enhance the quality of decision-making in this field and contribute to education within government, industry and society. The document targets a broad audience of policy makers, members of civil society, academics, journalists and other interested parties. The paper gives a thorough analysis of the evolution of international co-operation in combating climate change and discusses the use of different policy instruments. The first chapter introduces the general framework for international co-operation and the advances made in international negotiations. Each of the subsequent chapters discusses a specific policy instrument: tradable emission permits, fiscal, regulatory and communicative instruments, and voluntary agreements. For each instrument, the reader is introduced to the theoretical justification that underpins its application. This discussion is then used in an argument for change in climate policy. The analysis is centred on those instruments, which, according to the United Nations Framework Convention on Climate Change and the Kyoto Protocol, require important levels of international co-operation. A state of the art of the negotiations (August 2000) on principles, rules, modalities and guidelines for their implementation is also provided.

### Innovation

Recently, the FPB has been increasingly involved in the analysis of structural policies of which innovation policies are an important aspect. Research and innovation are crucial factors for growth at the micro level as well as at the macro level. Technical progress was treated by traditional growth theories as an exogenous factor determining steady state growth. But now economic theory considers research and development activities as endogenous, influenced by governmental policies. The objective of this work is to highlight the economic justifications for public expenditure on research and innovation as well as to identify the most efficient policy tools. This theoretical background offers an interesting framework in order to assess the new emphasis given by the federal Belgian Government and Regions to innovation and applied research policies. The paper focuses on Wallonia because over the last couple of years the FPB has been contributing to the Prometheus project, which aimed to develop a medium term strategy for innovation and research policies in Wallonia.

### Long-term sustainability of public pensions

The long-term sustainability of public pensions is a topical matter. We investigate the impact of ageing populations on public pension expenditure in particular, and on social security and public finances in general. This update of previously estimated long-term projections includes updated demographic projections, new medium-term macroeconomic developments, and new budgetary forecasts. A new methodology for computing the retirement rates is used. In addition, projections are produced and compared with international results (European Commission, OECD) in order to allow for international comparability.

### The MODTRIM II model

The 'Short term forecasts and business cycle analysis' team has recently built a quarterly model for the Belgian economy. At present, this new model is being tested, but it is anticipated that the model will be used for the first time in our July forecasts. These tests include dynamic historical simulations and *ex ante* simulations for the period 2000-2001. On the basis of these results, some equations are rewritten in a more suitable form. New routines are developed in order to run the model in forecasting mode, especially to deal with the most recent quarters where only some of the data is available. At a later stage, the simulation properties of the model will be analysed through the use of exogenous shocks and policy measures.

## Recent history of major economic policy measures

May 2001	The ECB decides to lower the interest rate on refinancing options by 25 base points, reaching as such 4.50%.
March 2001	The Walloon parliament adopts the decree, which completes the federal act of 29 <sup>th</sup> April 1999 concerning the opening of the Belgian electricity market. For the Flemish Region, the decree on the organization of the electricity market had already been adopted on 17 <sup>th</sup> July 2000.
February 2001	Responding to a request by the Council of Ministers of 22 November 2000, the CREG (Commission for the Regulation of Electricity and Gas) presents to the government a declaration of intent concerning its tariff policy. This document presents the main features of the tariff policy and the reasonable margin with respect to the manager of the national electricity-transporting network.
February 2001	Time to bid for a Belgian UMTS licence has come to an end. According to the Royal Decree (18 January 2001) providing for the terms, conditions and procedure for granting licences for the mobile telecommunication system of the third generation, contenders could submit their bids until 8 February 2001 at 5 p.m. While the law provided for 4 licences, the Belgian Telecommunication Regulatory Organism (IBPT) reported that only three companies have placed an offer: Belgacom-Proximus, France Telecom Mobistar and KPN-Orange.
February 2001	Euronext (the financial markets of Brussels, Paris and Amsterdam) becomes the sole partner of Amex (American Stock Exchange) for trade in so-called 'trackers', being index-funds.
January 2001	From January 2001 on, social benefits are adjusted (by 2%) for price changes one month after the month in which the smoothed (4-month moving average) 'health price index' reaches the pivotal index. For public wages, the indexation system remained unchanged, i.e. indexation by 2% two months after the month in which the smoothed (4-month moving average) 'health price index' reaches the pivotal index.
January 2001	As decided by the Council on basis of the conclusions of the 2000 Commission Convergence Report and the ECB report, Greece becomes the 12th Member of the euro zone. The conversion rate between the euro and the Greek drachma has been fixed on December 29 at 340.75 GRD per euro.
December 2000	Social partners reach a general inter professional agreement for the years 2001-2002. The agreement limits the maximum increase in nominal hourly labour costs to be negotiated at sectoral level. In principle, this should be 6.4% for the two years, extendable to 7% in well-performing sectors. Social partners also specify the outcomes of a collective agreement to be concluded with regard to the instalment of 'time credits', a generalised system of partial (one-fifth) career breaks and the introduction of flexible formulas of working time reduction at the end of the career.
December 2000	The government accepts the 'Stability Pact 2001-2005', which is essentially based upon the long-term program which was presented on 16 October 2000. Government budget will be in surplus from 2001 on and will increase up to 0.7 of GDP in 2005. This way, debt should reach 100% of GDP in 2003 and decrease to 88.7% GDP in 2005. These figures do not take the future revenues of the auction of the UMTS licences into account.
December 2000	The European Commission formally holds Belgium liable for not opening the electricity market to suppliers from other member states.
November 2000	The 15 member states of the European Union decide to harmonise the fiscal treatment of residents of other member countries. From 1 January 2003 on, member states can choose between letting fiscal authorities exchange information on interest payments made to residents of other member states, or implementing a levy on savings which are stilled within the Union but outside the own country.
November 2000	In the two first weeks of November, the ECB intervenes four consecutive times on foreign exchange markets by purchasing euros for dollars. These interventions were less coordinated than the joint intervention of September 2000.
October 2000	For the first time, the Federal Government presents a medium-term Budget. Most of the announced measures are spread over the period 2001-2006 and have little impact in 2001. The main policy measures are the following: <ol style="list-style-type: none"> <li>1. The organisation of a National Pensions Reserve Fund.</li> <li>2. The further elaboration of the Active Welfare State, which aims at an increase in the activity rate.</li> <li>3. The fiscal reform: a personal income tax reform would enter progressively in force from the fiscal year 2002 onwards. Its budget cost would reach 1.3% of GDP from 2006 onwards.</li> <li>4. The Community Pacification: a new consensus reconciles more fiscal autonomy for the regions with more financial support for the Communities.</li> <li>5. A solidary community with more social corrections, more financial support for health care.</li> <li>6. Better public services (e-government, an information society) and an integrated mobility policy.</li> <li>7. International Cooperation with more financial means.</li> </ol>
October 2000	The ECB raises its benchmark refinancing rate twice by 25 basis points to 4.75%, the sixth and seventh hike since November 1999 (totalling 225 basis points).
March 2000	The multi-annual plan in the sector of health care foresees the replacement of precarious jobs by regular contracts, a general wage increase and the possibility for older employees to reduce their working time.
January 2000	Established by the Laws of 29th April 1999 related to the organisation of the gas and the electricity markets, the Commission for Electricity and Gas Regulation (CREG) began its activities on January 10th 2000.

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"
FMTA/MFET	Federaal Ministerie van Tewerkstelling en Arbeid / Ministère fédéral de l'Emploi et du Travail
FPB	Federal Planning Bureau
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
MEZ/MAE	Ministerie van Economische Zaken / Ministère des Affaires Economiques
MvF/MdF	Ministerie van Financiën / Ministère des Finances
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	Obligations linéaires / Lineaire obligaties
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)